



3 March 2011

Gradual economic recovery

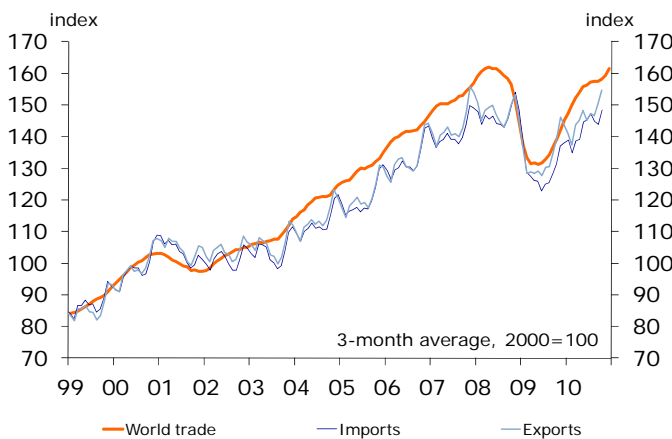
	2010	2011	2012
<i>Year-on-year % change</i>			
Gross domestic product	1.7	1½	1½
Private consumption	0.4	½	½
Government expenditures	1.0	0	-½
Private investment	-4.9	2%	3%
Exports of goods and services	10.9	4%	4½
Imports of goods and services	10.6	3¾	4
<hr/>			
Consumer price index	1.3	1¼	1½
Unemployment (% labour force)	5.4	5¼	5
Government budget (% GDP)	-5.2*	-3½	-2¼
Government debt (% GDP)	64*	66	66½

* Preliminary figures

Source: Rabobank

Economic growth for 2010 amounted to 1.7%. Although output has been growing for six quarters in succession, the hole in production created by the recession has only been about half filled. The recovery progressed in fits and starts last year, with quarter-on-quarter growth varying from 0.1% to 1.0%. These large fluctuations were mainly due to the inventory cycle. In the first half of the year companies were building up inventories, whereas in the latter half, stocks were being depleted. If inventory developments are left out of the picture, growth fluctuation was much less marked, amounting to some 0.5% each quarter.

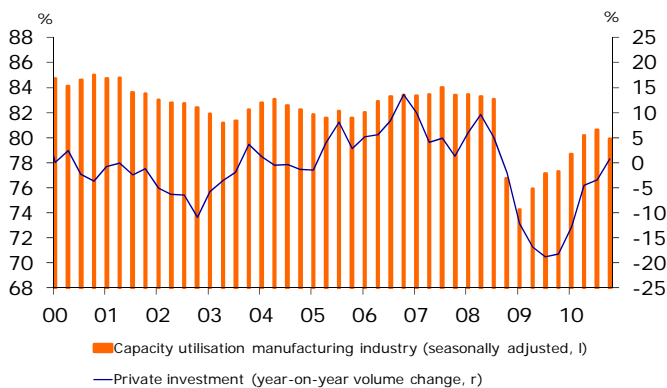
Trade driving the recovery



Source: Statistics Netherlands

World trade remained the driver of the economy through 2010, including the fourth quarter. Total exports, consisting of indigenous output, plus re-exports (imported goods that are re-exported after minor processing) grew by 2.1% (q-o-q). Interestingly, exports of indigenous products grew less rapidly than re-exports. This is regrettable, since the contribution of Dutch products to GDP is larger. In the last quarter, imports grew by 1.2% (q-o-q). Because import prices rose more markedly than export prices, this led to a deterioration in the terms of trade.

Still little incentive for investment



Source: Statistics Netherlands

Production rose by 0.6% in the fourth quarter of 2010. This was partly due to an increase in the volume of exports. Producer confidence also registered a marked improvement from 0.5 in October 2010 to 2.7 in the past month. However, despite the rise in production and improved confidence, industrial entrepreneurs remain reluctant to invest. The volume of investment rose by only 0.3% (q-o-q) during the last quarter. Low capacity utilisation is the reason for this. In January 2011, 79.6% of available production capacity was in use. While this represents a major improvement compared to the trough reached during the economic crisis, it remains lower than the long-term average.

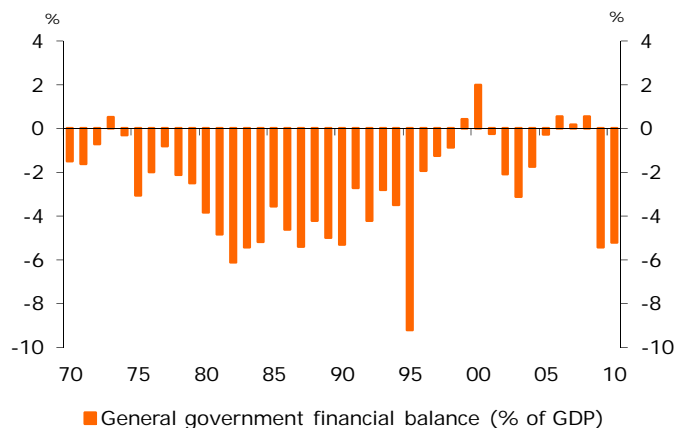
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Economic Update The Netherlands

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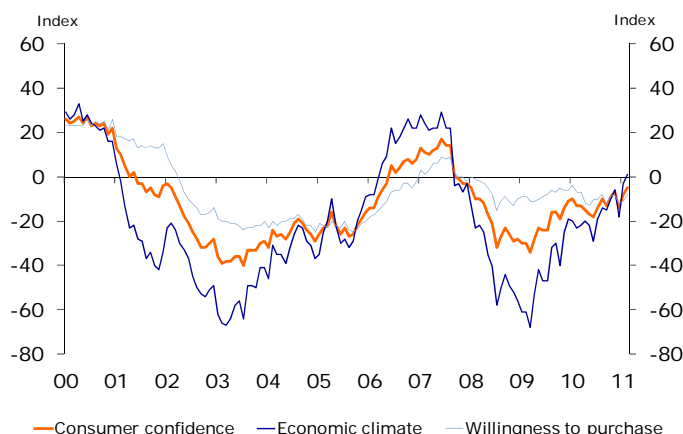
Windfall for the treasury



Source: CPB/Ministry of Finance

Preliminary figures on government finances show that the 2010 budgetary deficit may be smaller than originally expected (5.2% of GDP instead of 5.8%). However this will not make much difference to the wallets of ordinary citizens. The cabinet was quick to point out that the positive data will not affect the planned austerity measures in the coming years. Consolidation remains necessary to remove vulnerabilities and reaffirm the sound reputation of the Dutch government in the financial markets (i.e. ensuring that bond yields remain low).

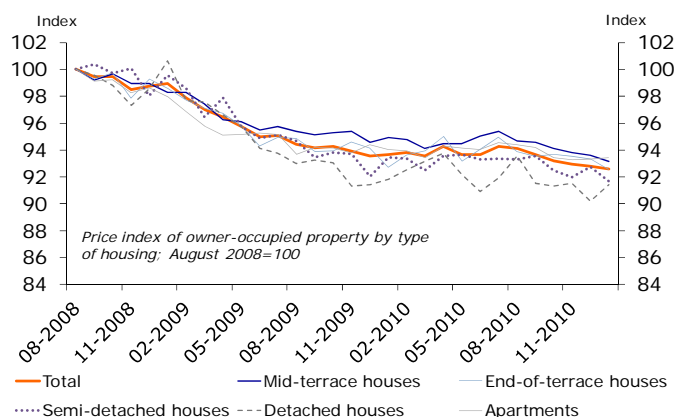
Consumers splashing out?



Source: Statistics Netherlands

Consumer spending made a positive contribution to growth in the fourth quarter of 2010 (0.6% q-o-q). Households spent more on gas, owing to the cold weather. They also spent more on durable consumer goods, on a quarterly basis. It is to be hoped that this trend will continue, as the economy needs a boost from consumer spending this year. For the past month, the consumer confidence index registered its highest rate (-5) in nearly three years. Households were more positive about the Dutch economy and expressed an increased willingness to spend. However, purchasing power is likely to deteriorate in the wake of the recent rise in food and oil prices, which put upward pressure on inflation.

Downward trend in house prices



Source: Statistics Netherlands

Since August 2010 the price of existing homes has dropped each month by between 0.2%- 0.5% (m-o-m). January showed a continuation of this trend with a decline of 0.2%. Despite considerable variation in the price development of the different house types, all show a downward slope on balance. During the past year, detached houses lost 0.5% of their value, while end-of-terrace houses were 2.5% cheaper. For the rest of this year we expect a continuation of the negative trend, since affordability is under pressure. On balance, a decline of 2% in 2011 is likely.

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