

Economic Update The Netherlands

3 June 2013

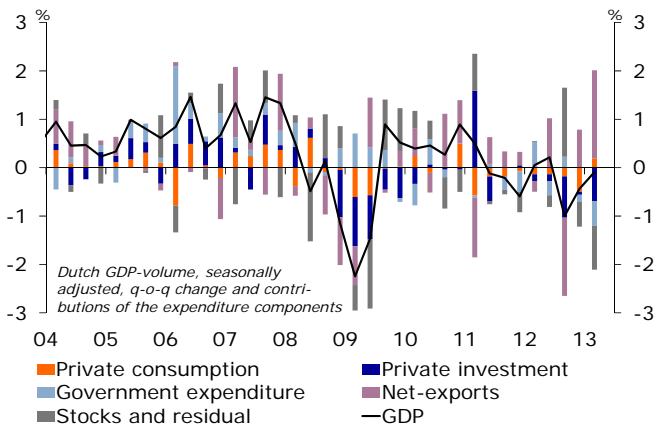
Recession continues

Year-on-year change (%)	'12	'13	'14
Gross Domestic Product	-1.0	-1	0
Private consumption	-1.4	-1½	-1¼
Government spending	-0.2	-1½	-¾
Private investment	-5.3	-8¼	1
Exports	3.3	2½	3½
Imports	3.1	-½	3
Inflation	2.8	2¼	1
Unemployment (%)	5.3	6¾	7½
Government budget (% GDP)	-4.0	-3¾	-3
Government debt (% GDP)	71.2	75½	78
Current account balance (% GDP)	9.6	10½	8½

The Dutch economy still finds itself in recession. In the first quarter, GDP volume contracted by 0.1% on a quarterly basis. Domestic economic activity is still disappointing. Economic sentiment indicators for the Netherlands and neighbouring countries do not yet point at a speedy recovery. Moreover, the government will likely implement additional austerity measures next year. Due to these developments our economic growth forecast has been revised downwards. For 2013 as a whole, we expect GDP volume to contract by 1%. In 2014 we expect the economy to stagnate.

Source: Statistics Netherlands

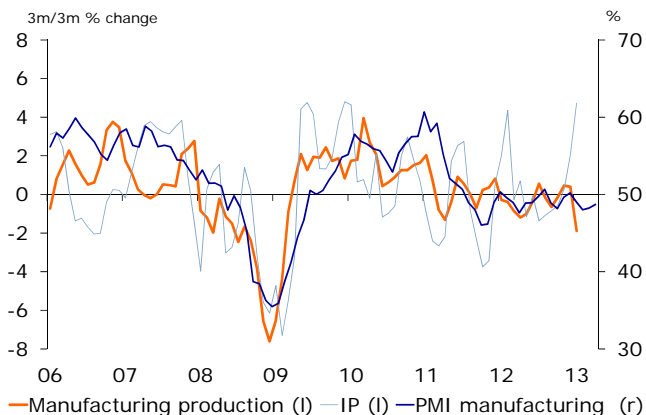
High growth contribution international trade



The investment volume shrank considerably across the board in the first quarter. Private investment subtracted 0.7%-point from GDP growth. Inventory reduction made a further negative contribution of 0.5%. Thanks to higher natural gas usage due to the cold weather, consumption rose by 0.4% q-o-q, limiting the contraction in GDP volume. The contribution of international trade to GDP volume was 1,8%-point. This was to a greater degree due to a contraction in imports than to export growth.

Source: Statistics Netherlands

Manufacturing industry has a tough time



The cold March weather pushed up total industrial output – which includes the energy sector – by 4.4% m-o-m. The average rise in the first quarter was 4.7%. Production in the manufacturing industry decreased by 1.9% in the first quarter. In May, the purchasing manager's index (PMI) of the manufacturing industry registered 48.7, a slight improvement on April. This still puts the PMI below the level of 50, the dividing line between growth and contraction. Thus we can expect to see a further contraction in the manufacturing industry in the months ahead.

Source: Statistics Netherlands, Markit

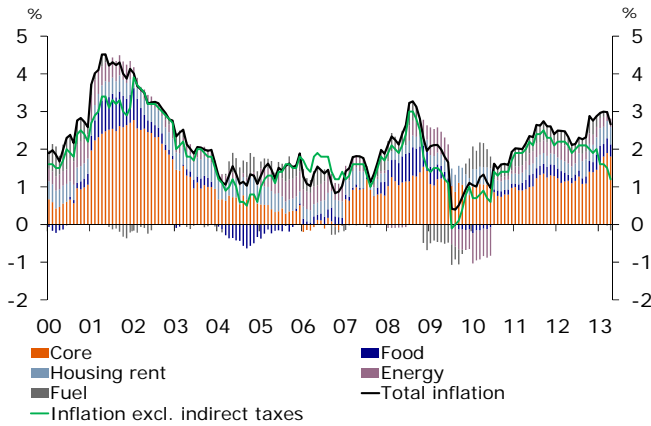
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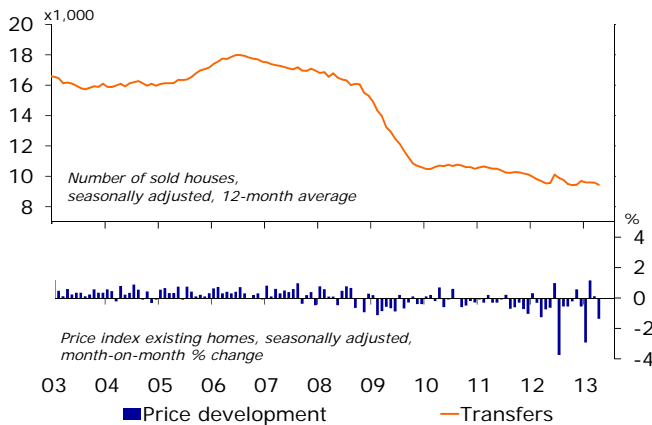
VAT increase keeps inflation high



Inflation fell to 2.6% in April, a drop of 0.3%-point compared to March. In January and February inflation was up at 3%, the highest level since 2008. In the past months inflation had surged as a result of the VAT hike in October 2012 and other indirect tax changes in January 2013. In April 1.4% of inflation was attributable to indirect taxation. The inflation index that excludes indirect taxes and subsidies, actually declined substantially at the start of the year. In October this year the upward effect of the VAT hike on inflation will disappear. As a result, inflation in 2014 will be considerably lower.

Source: Statistics Netherlands

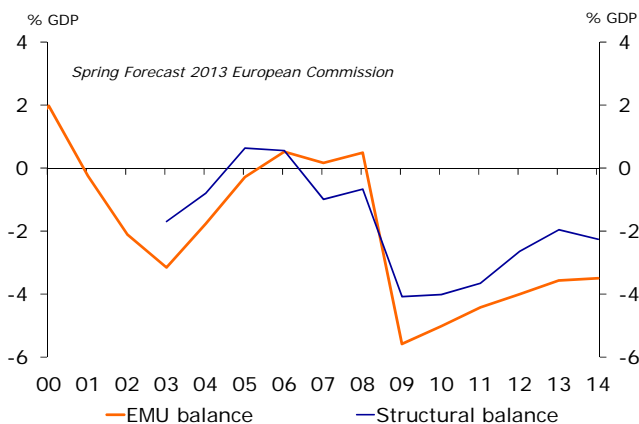
Home transfers seem to stabilise



The average price of existing homes declined by 1.4% m-o-m in April, after having risen by 1.2% and 0.1% respectively in February and March. The 12-month average of home sales dropped slightly in April to 9,500 transactions per month. Transaction numbers stabilised in recent months. However, there was an upward bias in home sales in the beginning of this year as many people bought a house towards the end of last year in anticipation of more strict mortgage rules per 1 January this year. The transfer of these homes partly occurred in 2013. In the next couple of months it will become clear whether the number of home sales can indeed hold ground.

Source: Statistics Netherlands

Brussels demands additional austerity



The European Commission in its Spring Forecast has estimated that the Dutch budget deficit is to reach 3.6% of GDP this year and 3.5% in 2014. The commission, however, requires the Dutch government to reduce the budget deficit to 2.8% GDP next year. This would require additional austerity measures worth around €6 bn. Additional spending cuts are necessary because economic growth has disappointed. The structural budget balance, which corrects for cyclicity in GDP, does show strong improvement. This indicates that serious austerity efforts have already been made. Because additional austerity measures are likely to be implemented, economic activity is expected to stagnate in 2014.

Source: European Commission

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