



Dutch Economy Chart Book

Domestic demand drives growth in a highly uncertain global environment

ING Economics Department

24 February 2016

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In short

- Despite mounting worries about the global economy, **the recovery of the Dutch economy has continued in 2015**. Last year, GDP rose 1.9%, almost double the pace in 2014. The Netherlands has, however, not been immune to last year's slowdown in world trade. In Q3, growth almost stagnated as industrial output contracted on the back of slower export growth, but this appears to have been a **soft patch**. In the final quarter of 2015, GDP growth bounced back (+0.3%QoQ).
- **Underlying, 2015 growth was stronger than the headline numbers suggest**. As a result of the government's decision to lower the maximum allowed gas production, as well as exceptionally warm weather, the gas sector knocked 0.4% points off GDP growth in 2015. Excluding gas, GDP growth was 2.3% in 2015.
- At the start of 2016, financial markets turbulence has continued to weigh on business and consumer sentiment. **Assuming no further significant deterioration, the Dutch economy is set for another year of solid economic growth**. GDP is forecast to grow by 2.3% in 2016, with domestic demand as main driver of growth.
- Up till now, market turmoil has been more than offset by a **stronger domestic economy**. Recently, there is been news about troubled retailer chains (V&D, Macintosh, drugstore DA, Perry Sport), but the economy is still adding jobs. Helped by tax cuts and low inflation, total household spending power is set to grow at the fastest pace in 15 years.
- Economic growth is further underpinned by the **continued revival of the housing market**. House prices rose over 4%YoY early 2016 and home sales have rebounded back towards pre-crisis levels, helped by, amongst others, historically low mortgage rates.
- Meanwhile, the economic recovery is filtering through to smaller, more domestically-focused firms. Investment intentions amongst **SME's** are picking up, as is profitability. Excess capacity is slowly declining, leaving room for **investment** in machines and software.
- The strong economic revival is having a **positive effect** on **government finances** too. That said, the improvement in revenues is limited by tax cuts as well as the government's decision to lower the gas production. The budget deficit is set to fall to 1.8% in 2016.
- **Main risks** to our Dutch macro view remain **external** (hard landing China, continued broad-based weakness in emerging markets, US recession, financial market stress due to low oil prices, 'Brexit'). A 'perfect storm' could derail the expected domestic recovery.

Forecast table

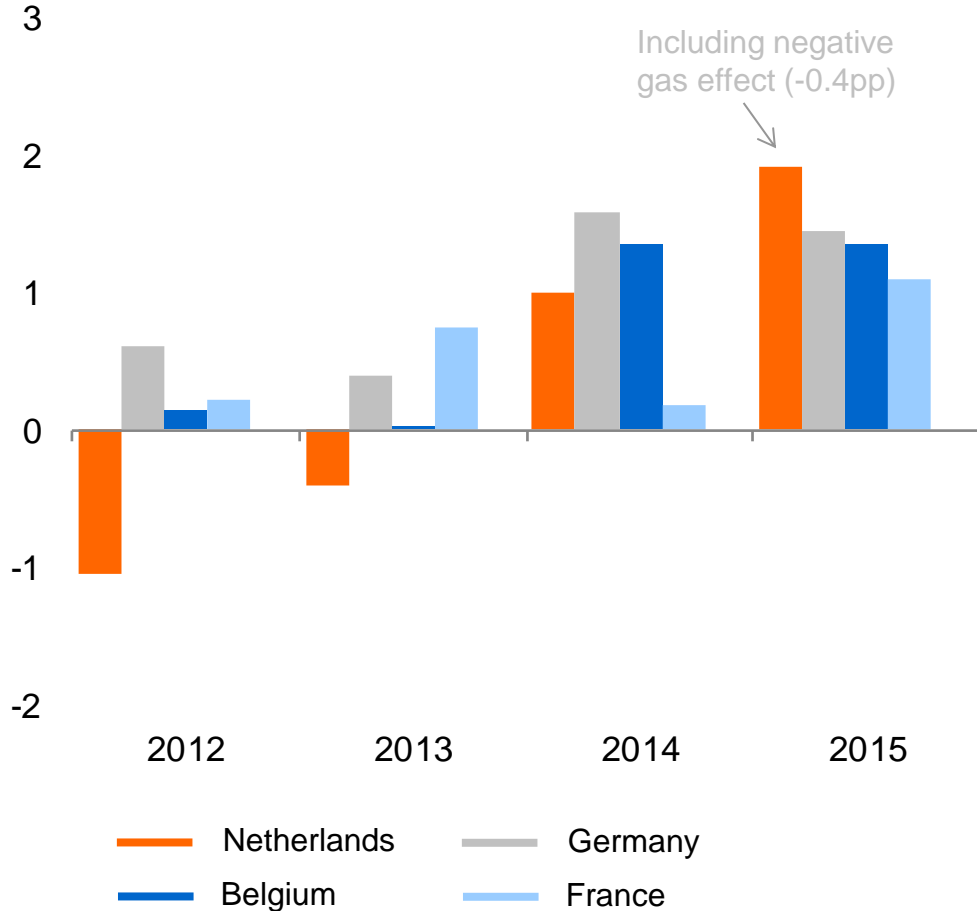
	2010	2011	2012	2013	2014	2015	2016	2017
Demand and output								
	per cent change unless otherwise noted							
Gross domestic product	0.5	-0.5	-1.4	-0.5	1.0	1.9	2.3	2.0
Private consumption	0.0	0.2	-1.2	-1.4	0.0	1.6	1.6	1.7
Government spending	1.0	-0.2	-1.3	0.1	0.3	0.0	0.3	0.6
Investment	-6.5	5.6	-6.3	-4.4	3.5	10.3	6.0	2.6
of which private	-8.2	8.4	-10.4	4.4	5.6	12.0	4.2	2.3
Net exports (%-point contribution to GDP)	1.4	1.0	1.1	1.1	0.5	0.0	-0.1	0.5
Labour and housing market								
Employed labour force	-1.0	0.0	0.6	-0.8	-0.7	1.0	0.8	1.2
Unemployment (% of labour force)	5.0	5.0	5.8	7.3	7.4	6.9	6.3	5.8
House prices	-2.3	-2.4	-6.5	-6.6	0.9	2.8	3.2	2.2
Existing home sales (in 000s)	126	121	117	110	154	178	192	198
Government finances								
Government budget (% of GDP)	-5.0	-4.3	-3.9	-2.4	-2.4	-2.1	-1.8	-1.4
Government debt (% of GDP)	59.0	61.3	66.1	67.6	67.9	66.2	64.3	63.9
Prices and rates								
Inflation (HICP)	0.9	2.5	2.8	2.6	0.3	0.2	0.8	1.5
Euribor, 3 month (% eop)	1.0	1.5	0.2	0.2	0.1	-0.1	-0.3	-0.2
Dutch gov't bond yield, 10yr (% eop)	3.0	2.5	1.6	2.1	0.8	0.6	0.9	1.4

Forecasts as of February 24, 2016 (interest rates as of February 5)

Dutch economy is starting to catch up with Euro area 'core'

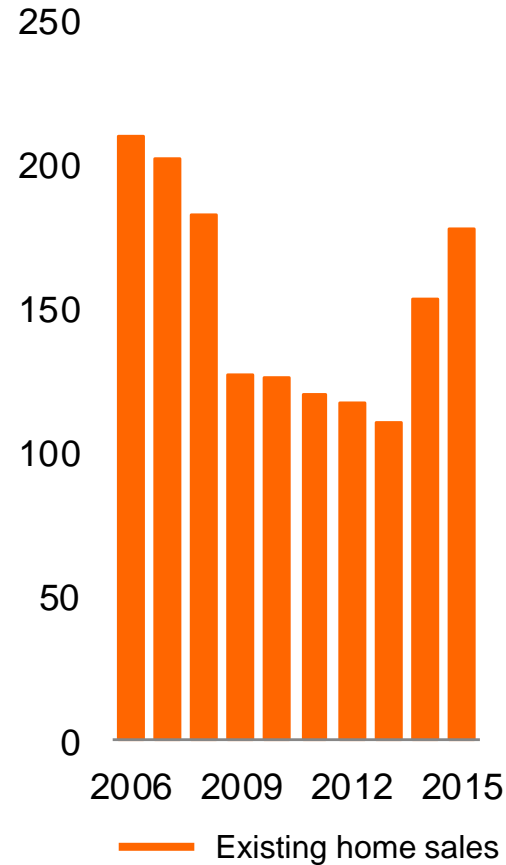
From growth laggard to leader...

(GDP, constant prices, % year-on-year)

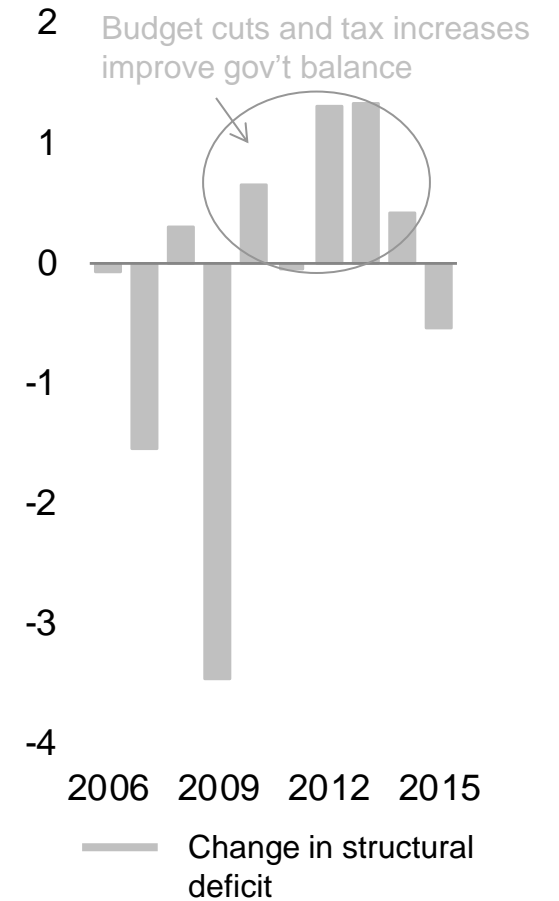


...as the drag from weak housing... and austerity has faded

(Existing home sales, in 000s)



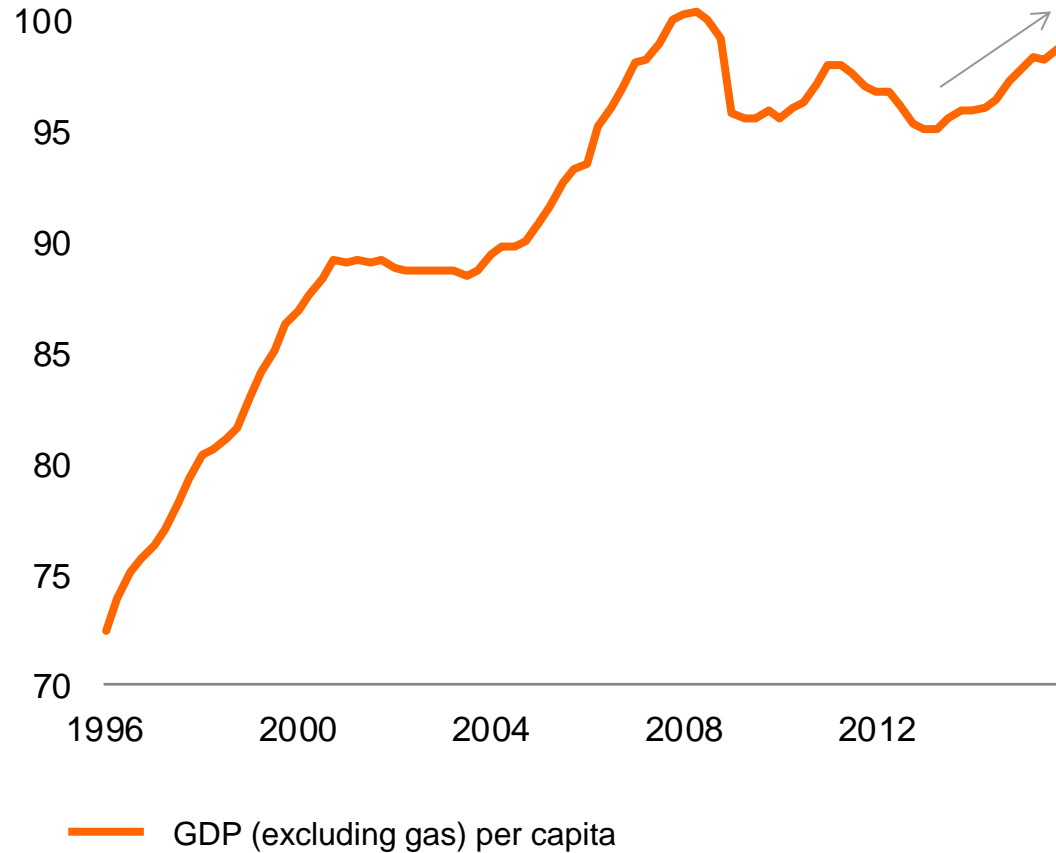
(% GDP)



Domestic demand is helping the economy to win back lost ground

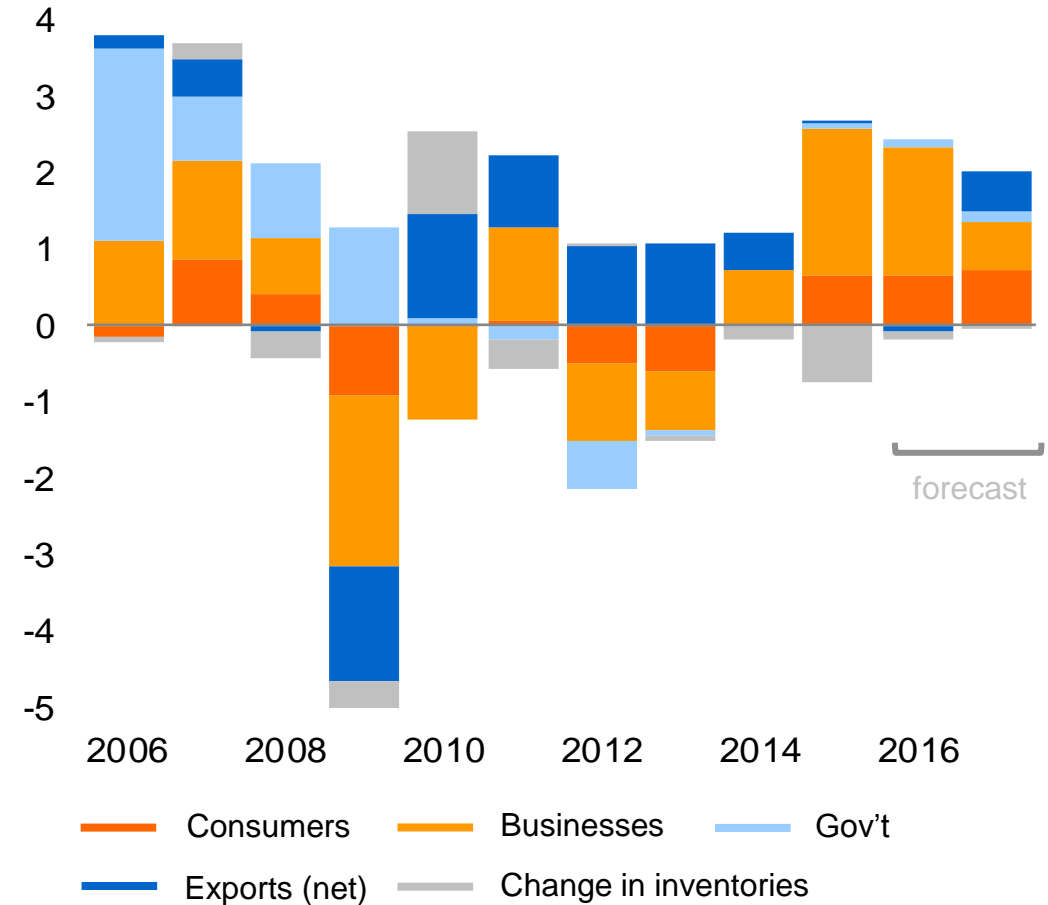
GDP/capita still below pre-crisis levels, but growth trend is strong

(Index, 2008 = 100)



Domestic demand takes over from exports as main growth engine

(contribution to GDP growth, in percent points)



Exports & competitiveness

- Despite a bout of emerging markets-led weakness in world trade in 2015, **Dutch exports increased 4.2%** last year.
- The Netherlands has, however, **not been immune**. Although exports of services and re-exports continued to expand, the export volume of domestically-produced goods remained flat throughout 2015. The decision to lower the maximum allowed gas production played a part too. Exports of energy declined 15% (imports surged some 30% to offset the lower domestic gas production)
- At the start of 2016, there are **signs that foreign demand for NL-made goods is picking up again**. Assessments of export order books improved in January. In Q4 2015 industry – one of the more export-orientated sectors – already experienced a broad-based rebound. A PMI export orders index above 50 supports the notion that export growth is not deteriorating further.
- The world trade volume which is relevant for the Netherlands is set to increase by 4% in 2016, helped by **stronger domestic demand in Germany, UK and the US** (the Dutch three main destinations for exports). Further stimulus comes from a **weaker euro** and **stronger competitiveness**.
- **Risks to this outlook** stem mainly from geopolitical uncertainties and unfavorable dynamics in developing countries.
- From a record high of 12.3% of GDP, the **balance on the current account has declined** to 7.5%. Lower income generated by Dutch non-financial companies abroad was the main driver for this. The sharply lower oil price has weighed significantly on Shell's profits.

Exports not immune to global growth slowdown

Import growth outstripped increase in exports in 2015...

(in %, year-on-year)



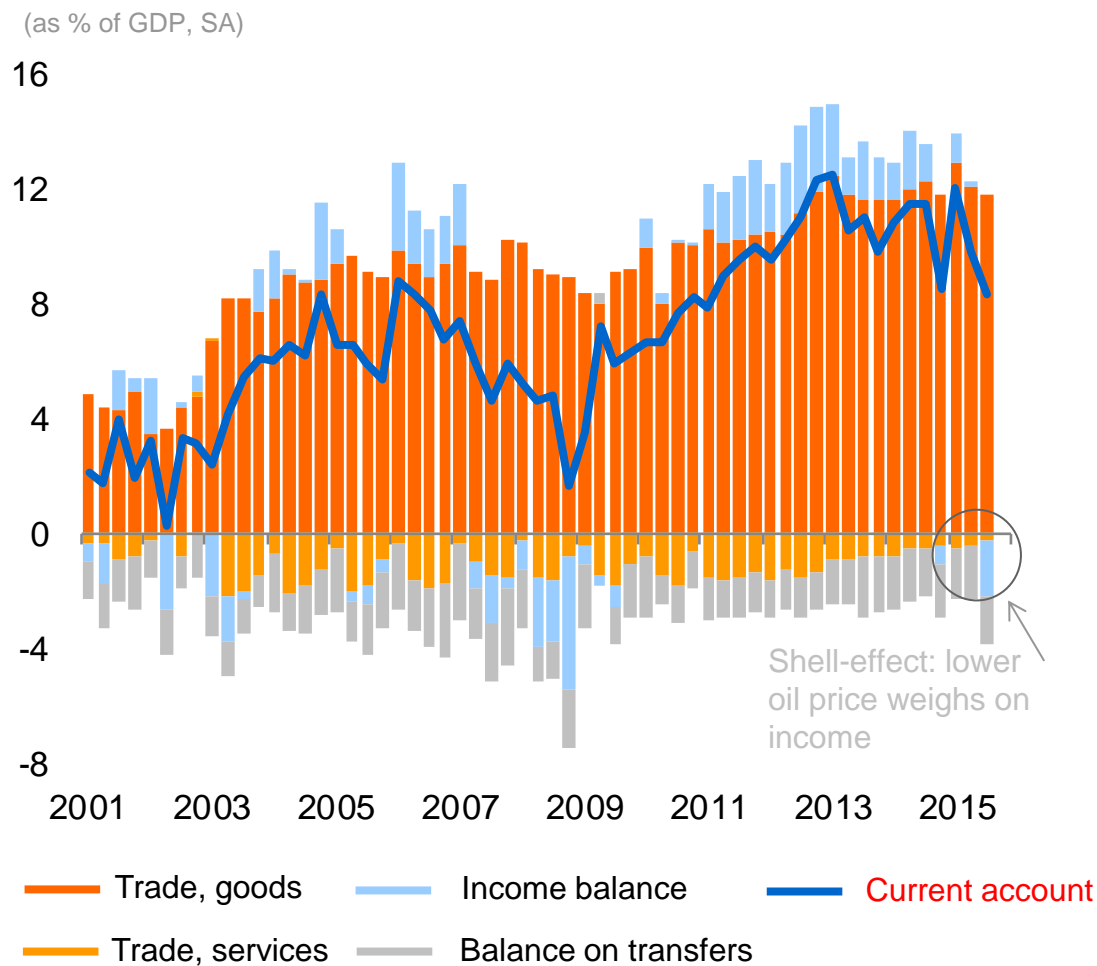
...as foreign demand for 'made in NL'-goods stagnated

(index, Q1 2013 = 100, constant prices)

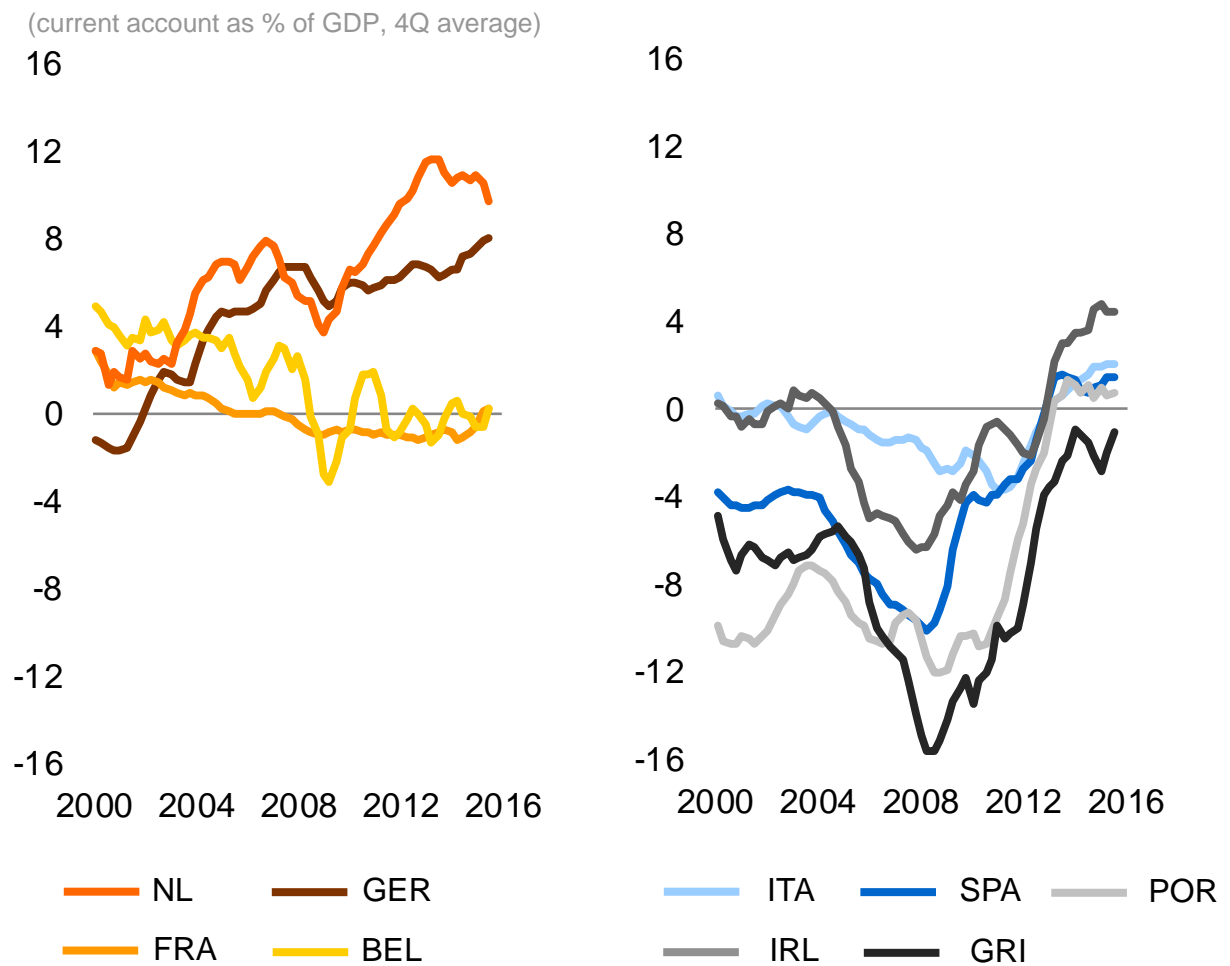


Dutch current account surplus down from record high

Income balance drives temporary deterioration of current account



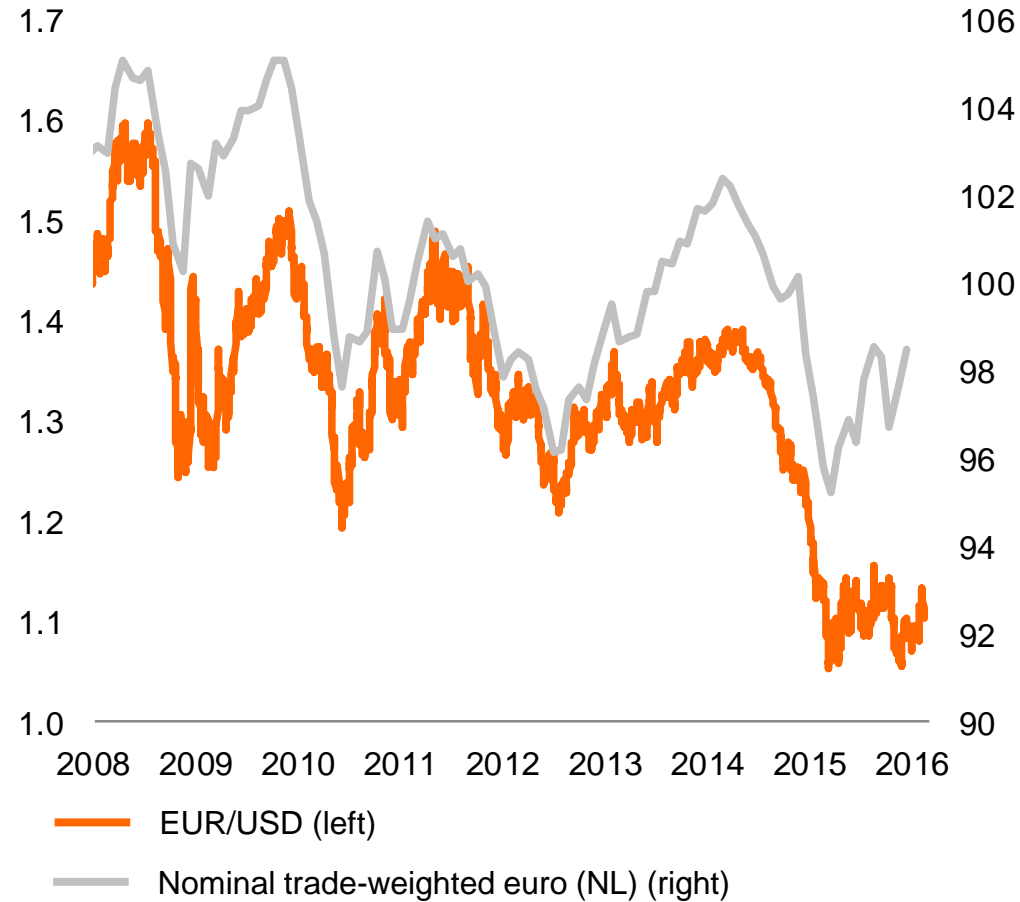
Rebalancing within eurozone mainly in the peripheral countries



Weaker euro supports international competitive position

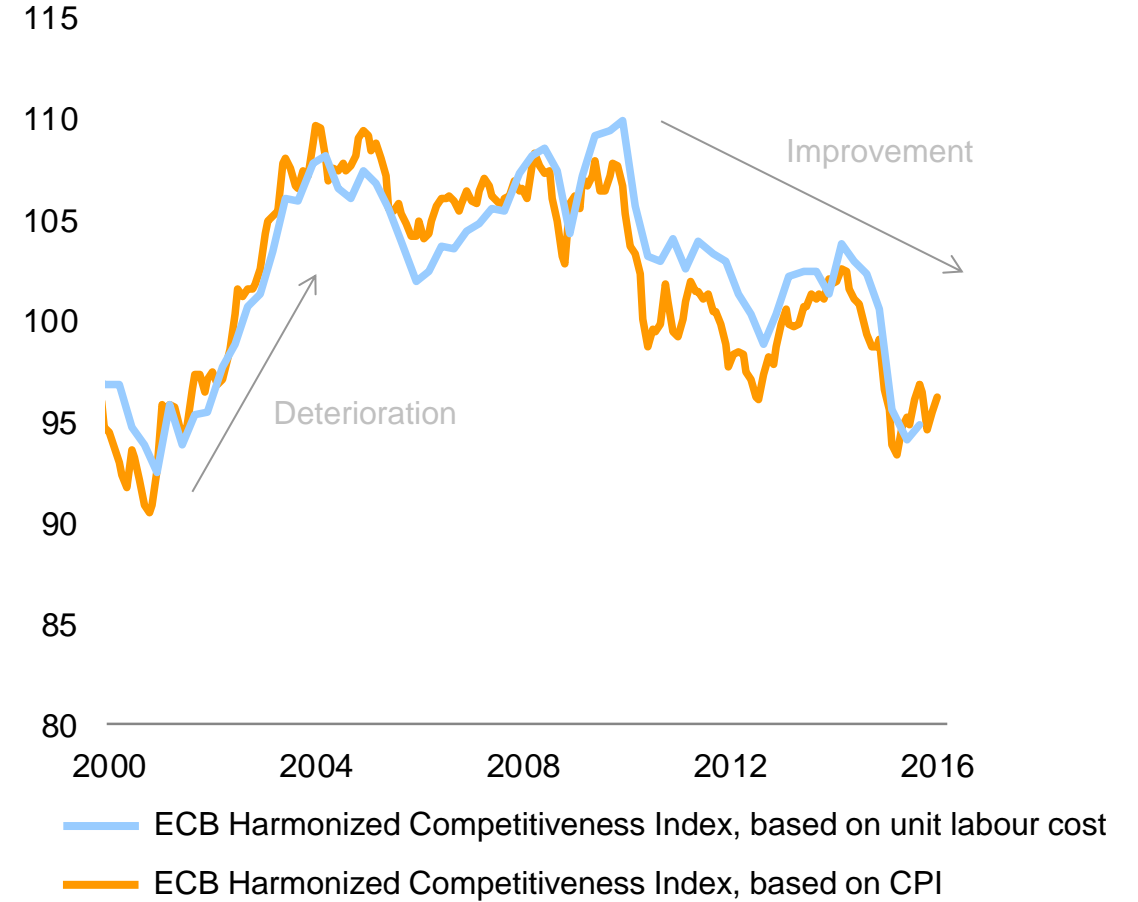
EUR/USD hovering around lowest point since 2003

(in USD per 1 euro and trade weighted euro as index (2010 = 100))



Dutch competitiveness has, on balance, improved since 2008

(Index, 1999 Q1 = 100)



A very competitive economy: Dutch are ranking high

WEF Global competitiveness Index



Global Innovation Index



KAM Knowledge Index



Global Enabling Trade Report



Logistics Performance Index



Ease of Doing Business



Corruption Perceptions




Human Development



Prosperity Index



 Position on previous ranking

All 2014 rankings, except WEF, Prosperity Index and Global Innovation Index 2015 en KAM Knowledge Index 2012

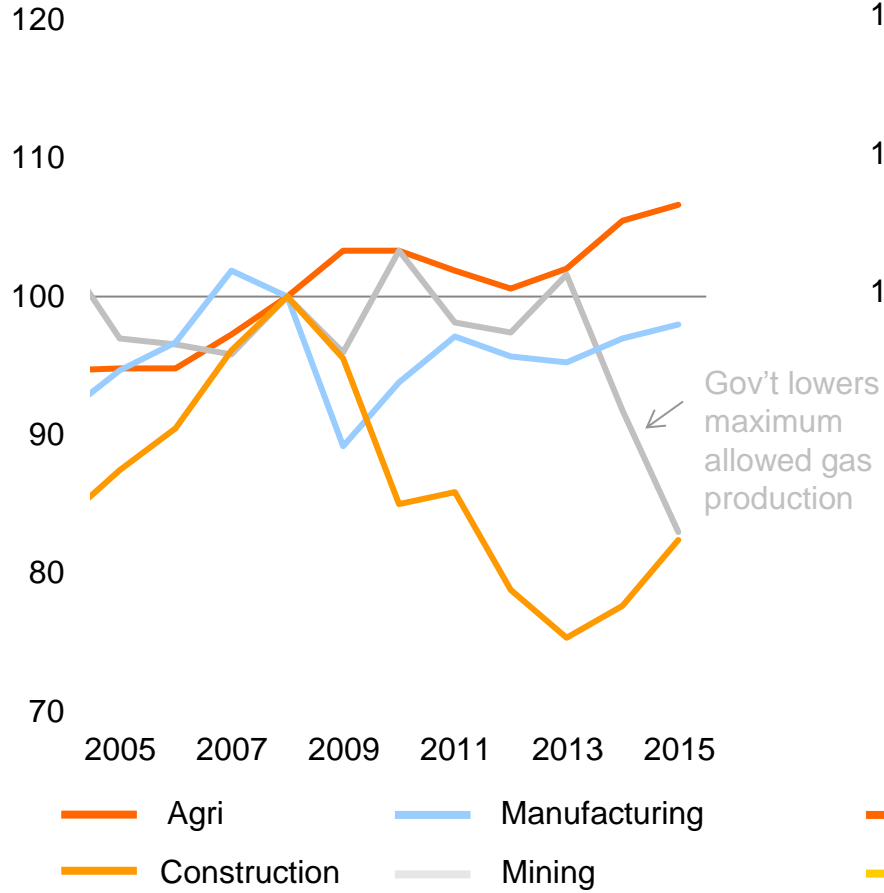
Non-financial businesses

- In 2015, **output of almost all main market sectors increased**. This year, the trend is likely to continue with business services and construction leading the pack. Meanwhile, hospitality and retail are benefitting from rising household purchasing power and more economic activity means more work for transporters.
- Industry is falling a bit behind in terms of growth, as the effects of slower growth in emerging markets are being felt, while austerity still prevents health care from growing. Another reduction in the maximum allowed gas production by 10% means a further contraction of gas sector in 2016.
- With consumers becoming more optimistic and stepping up spending, the economic **recovery is increasingly filtering through to smaller, more domestically-focused firms**. Sentiment and investment intentions amongst SME's have improved, as has profitability.
- Most firms still have ample production capacity, but compared to the economy's trough (2013) **reports of shortage of materials and equipment have, on balance, become more pronounced**. Firms have already **increased spending on machines, computers and software**. Assisted by the housing market recovery, construction has picked up too.
- Stronger investment incentives are also evident in the Bank Lending Survey, which points to **increased credit demand** from both large and smaller companies.
- The **number of bankruptcies declined** by over 20% in 2015. The fall was broad-based across sectors. Despite recent news about the bankruptcies of several large retailers, the overall trend is expected to remain down this year.

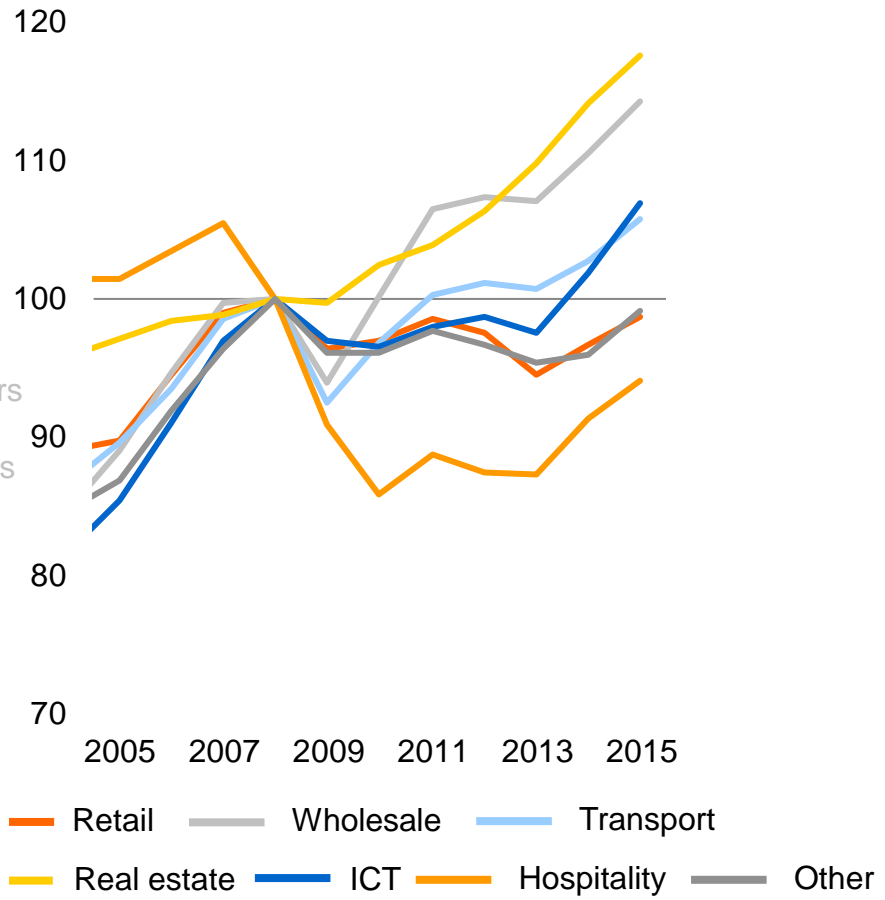
Output growth in most market sectors, but levels not fully recovered

Goods-producing sectors

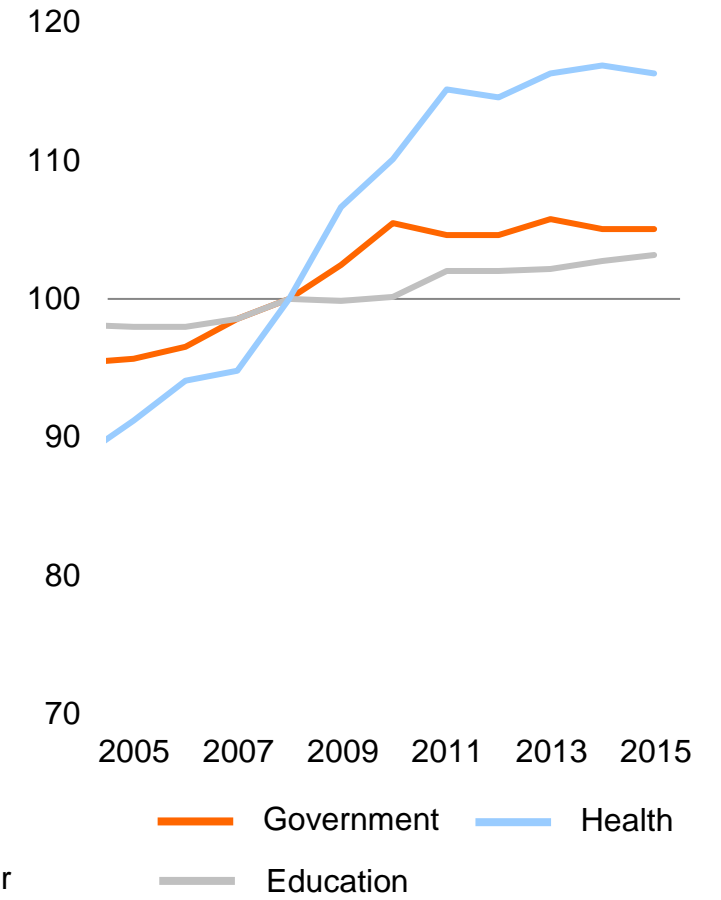
(output, index, 2008 = 100)



Commercial services

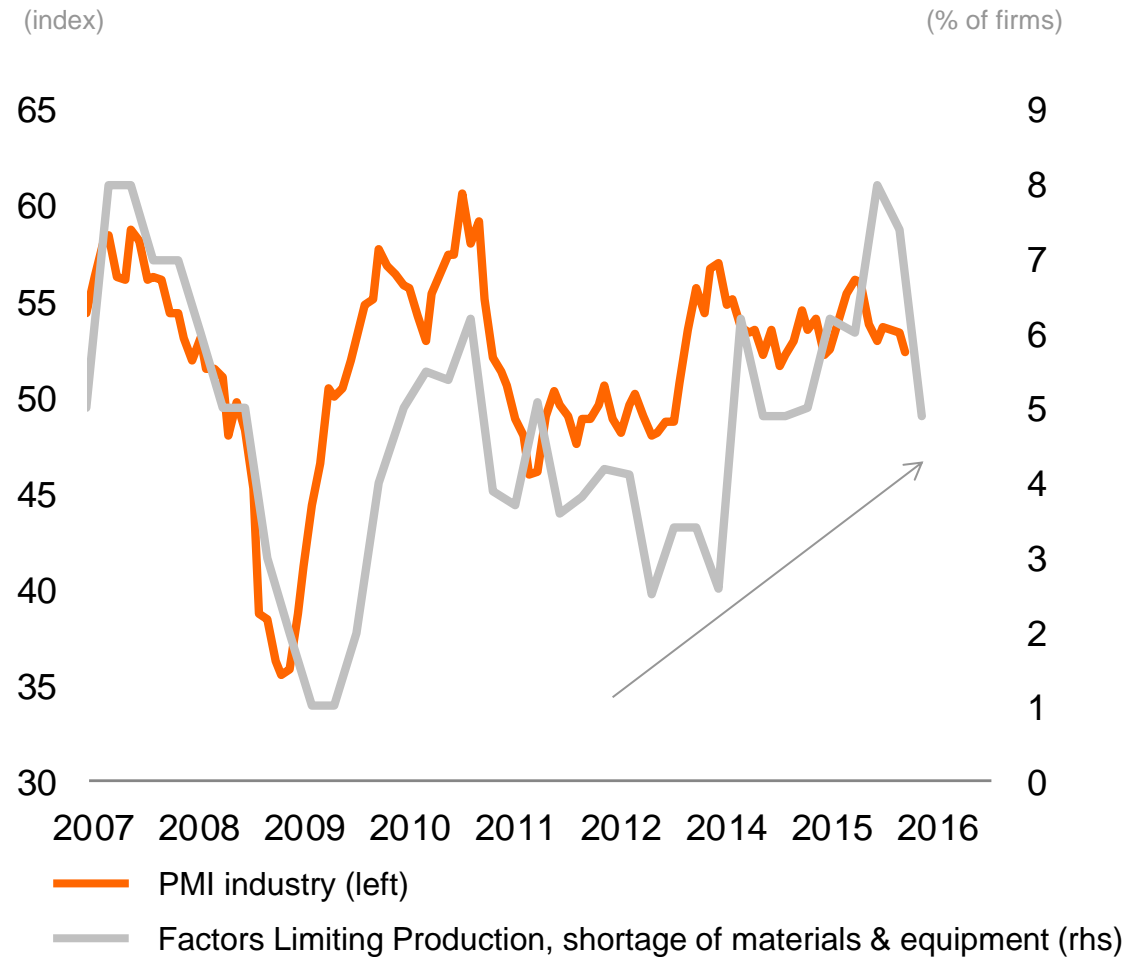


Public sector

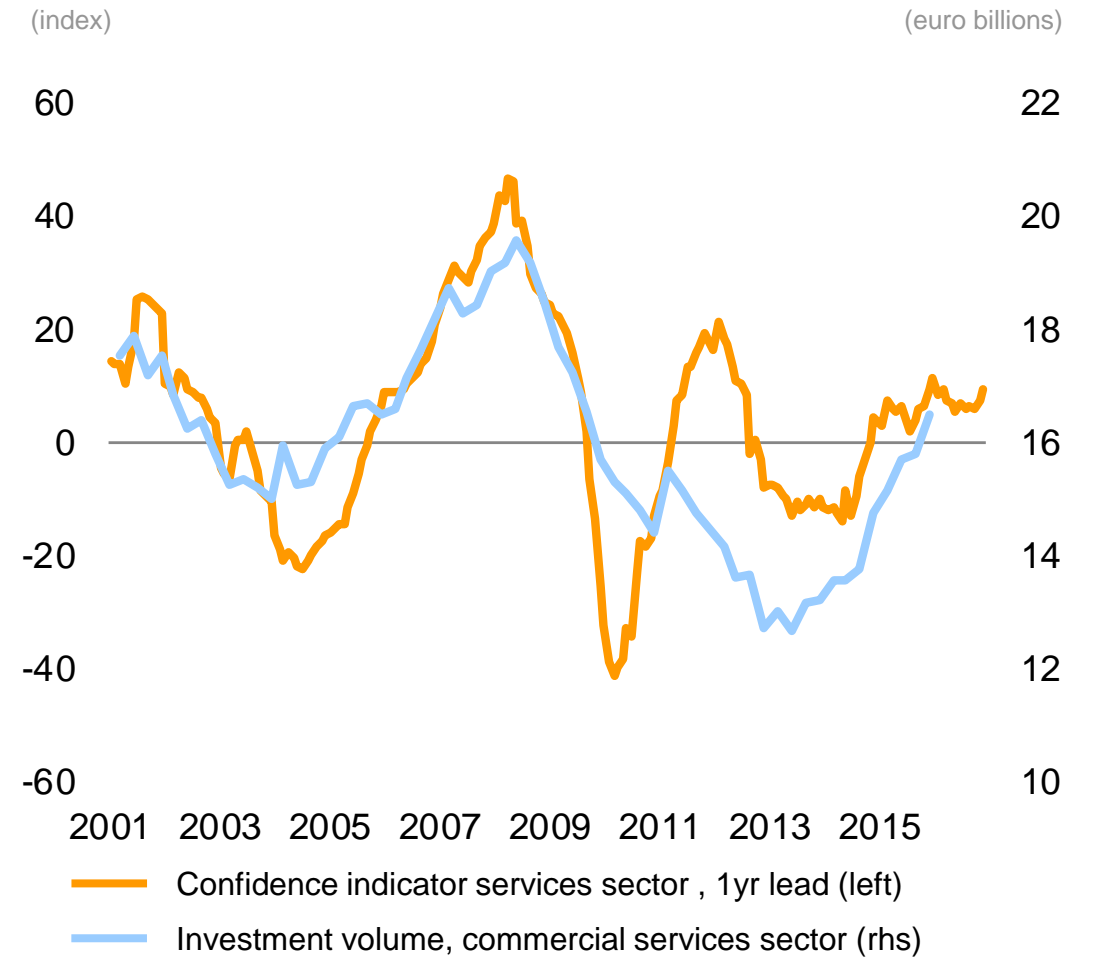


Investment outlook is improving

On balance, the need for extra capacity has increased



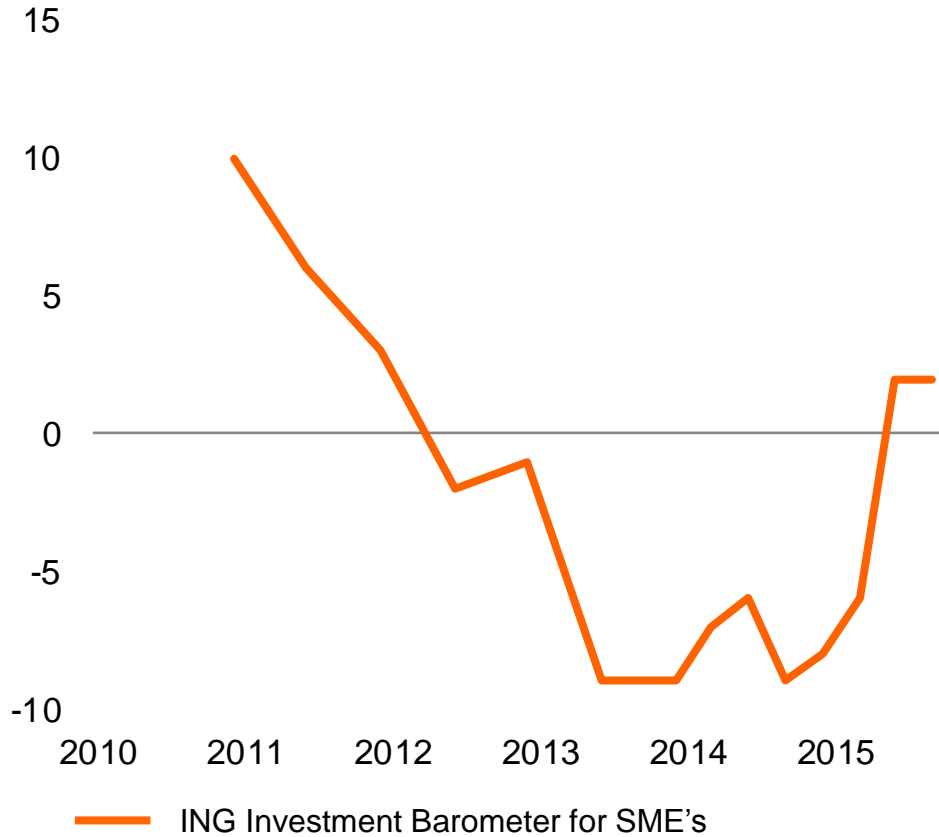
Stronger confidence in services sector



Recovery filtering through to smaller firms

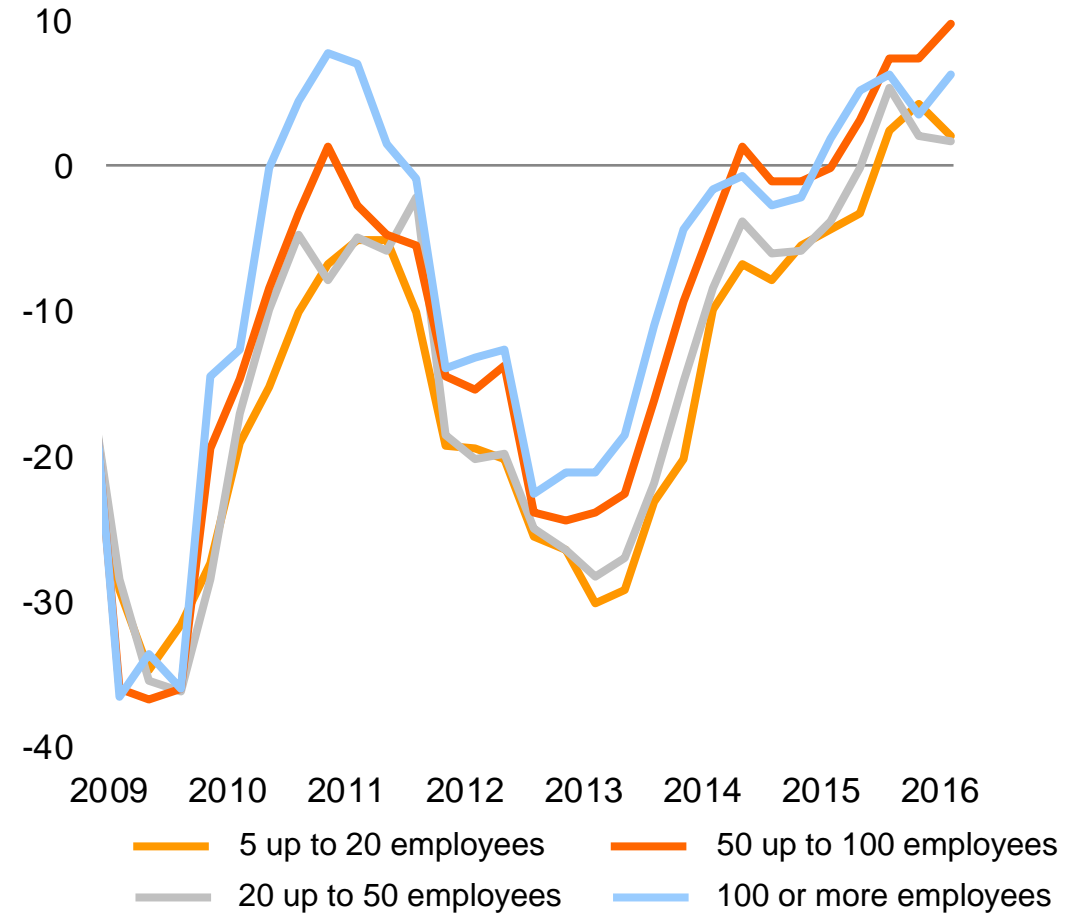
SME's investment intentions have improved

(net percentage of SME's planning to invest more (+) or less (-) in next 12 months)



Positive trend in profitability

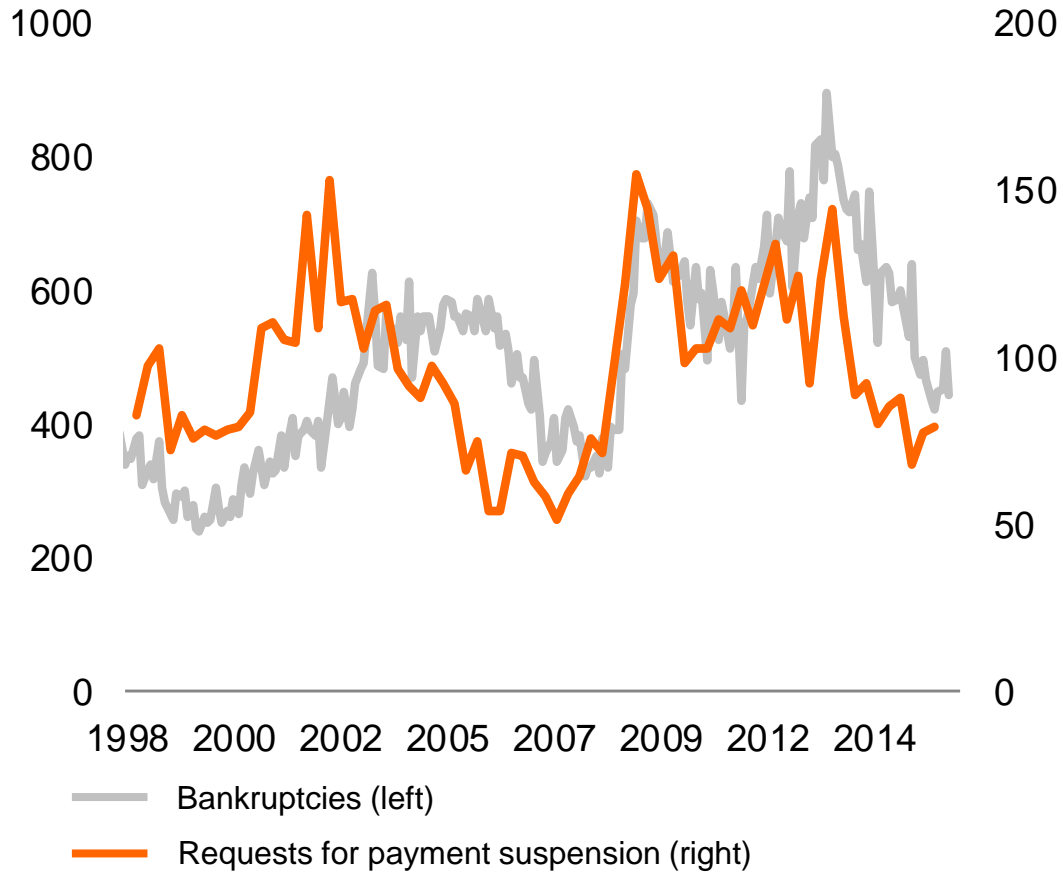
(net percentage of companies reporting higher (+) or lower (-) profitability in last 3 months)



Bankruptcies are falling

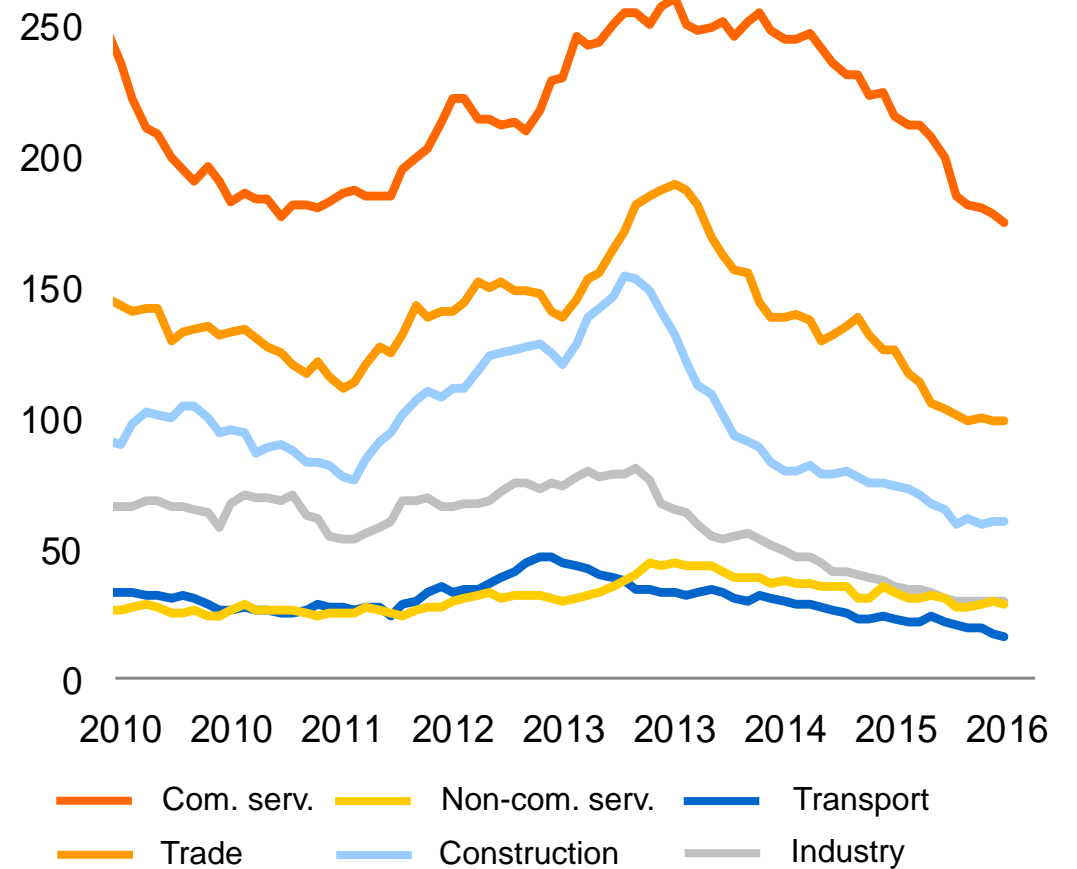
Number of businesses going bankrupt is falling rapidly

(number of bankruptcies and payment suspensions, SA)



Decline is evident in all major sectors

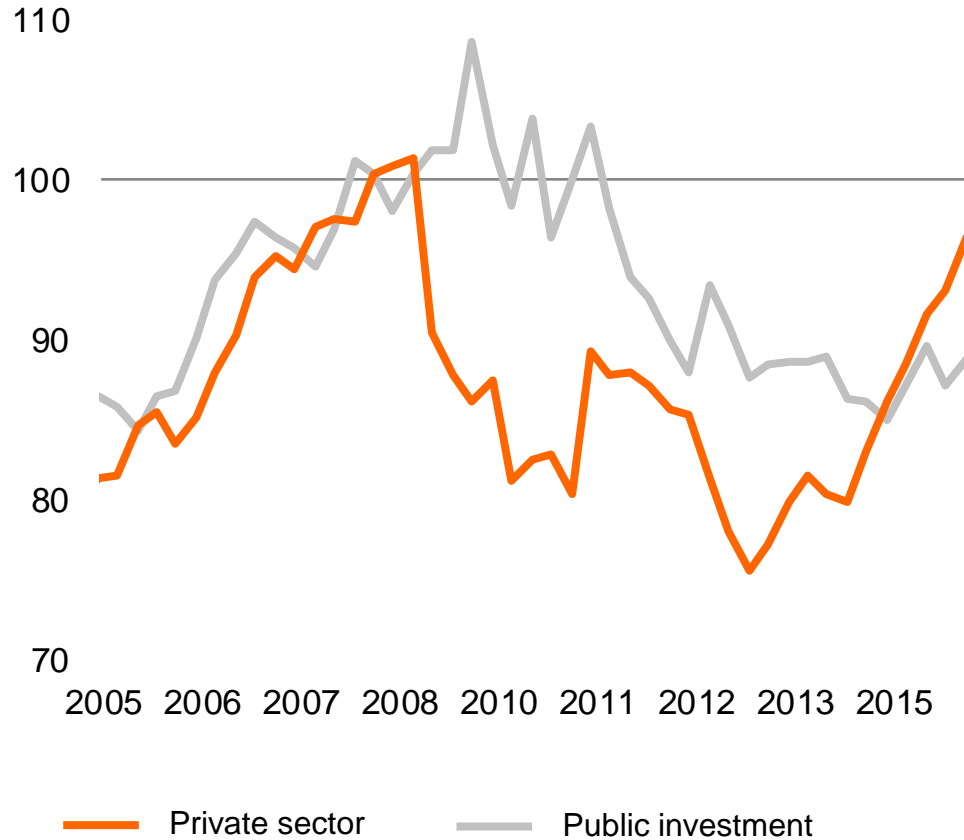
(number of bankruptcies, 6-month moving average)



Business investment has already picked up

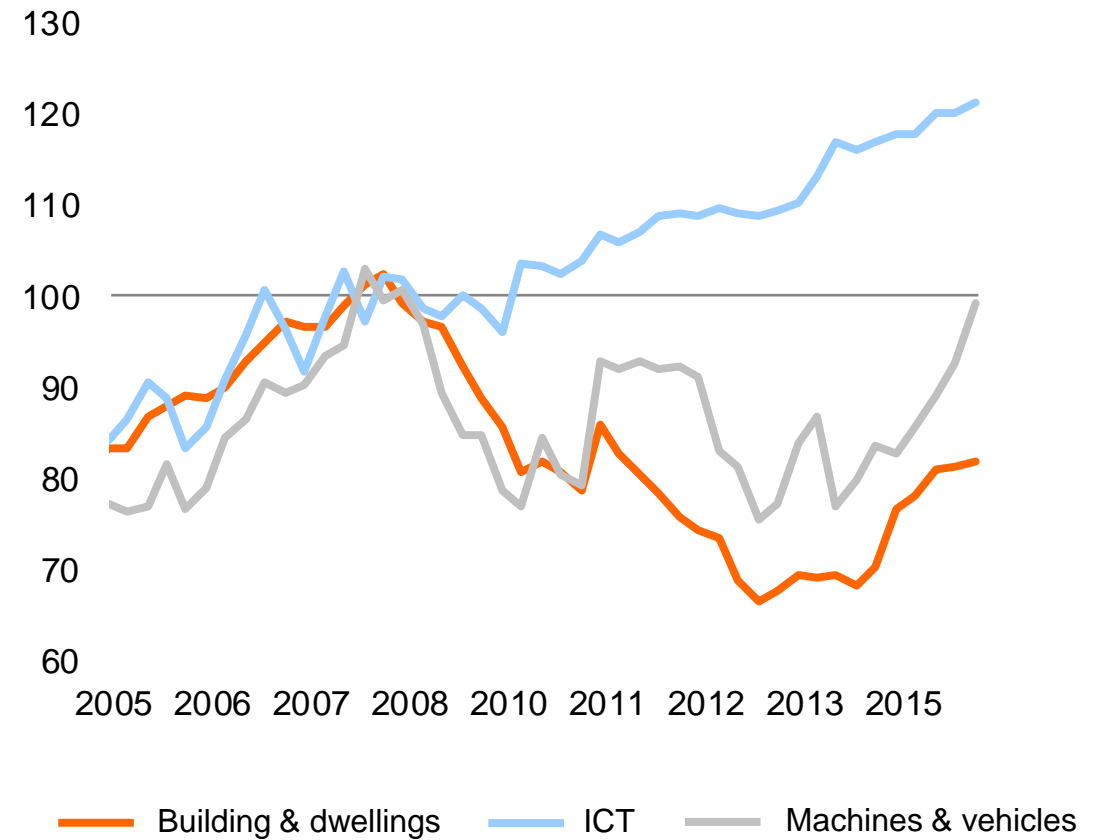
Private investment near 2008 peak, public investment not

(gross fixed capital formation, volume, in € billions per quarter)



Steady increase in ICT, sharp increase in 'classic' categories

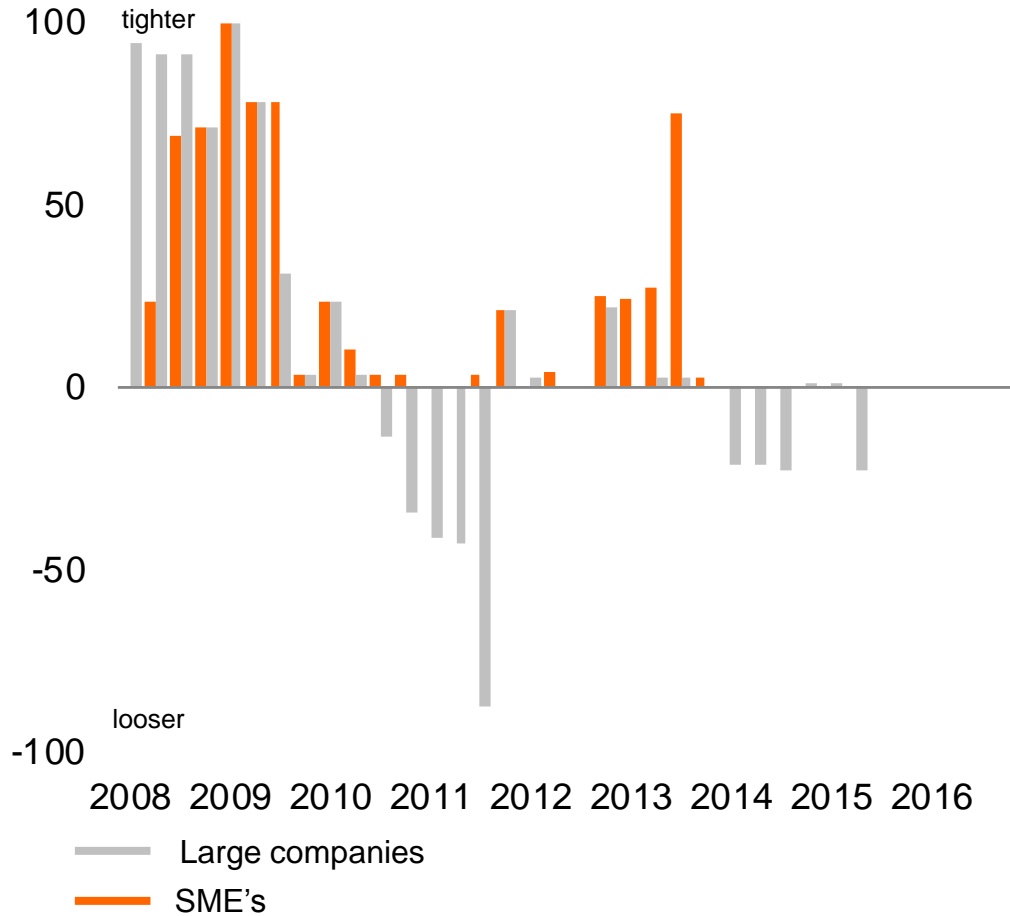
(gross fixed capital formation by type, volume index, 2008=100)



Stronger demand for credit

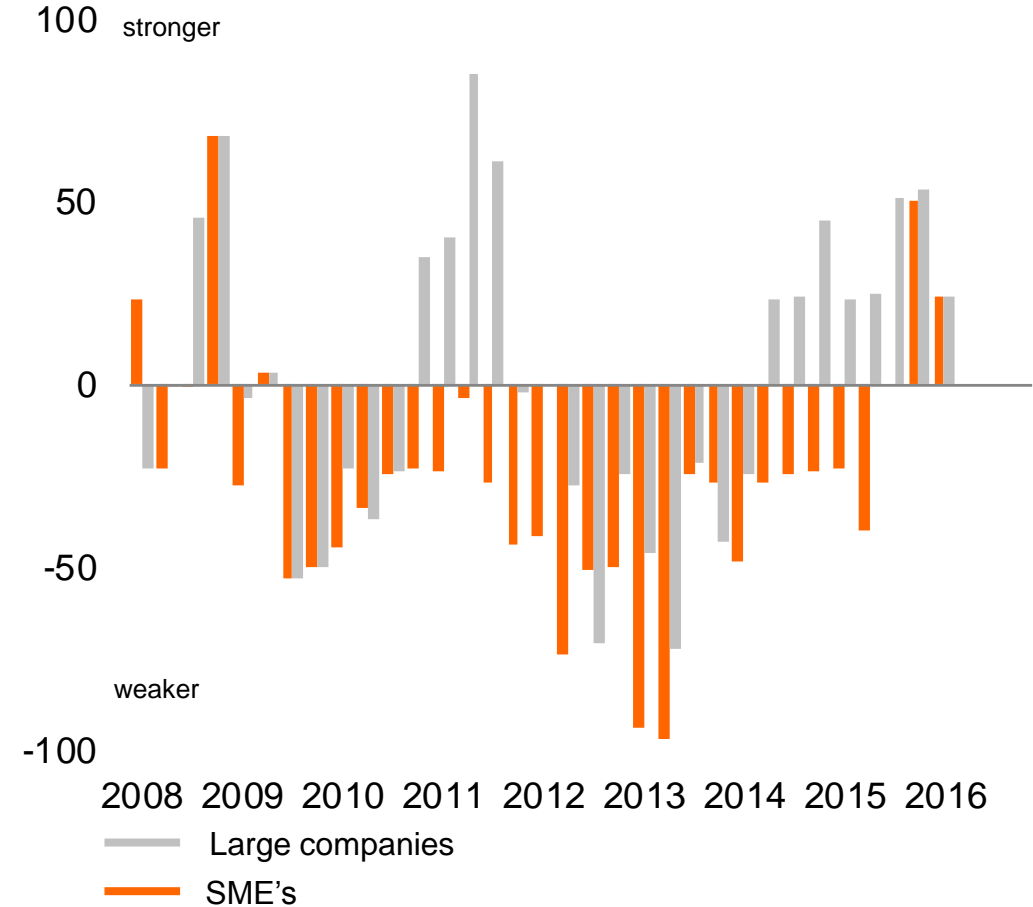
Loan standards have been unchanged in recent quarters

(net percentage of banks reporting tighter (+) or eased (-) credit standards)



Credit demand from SME's has started to increase

(net percentage of banks reporting higher (+) or lower (-) credit demand)



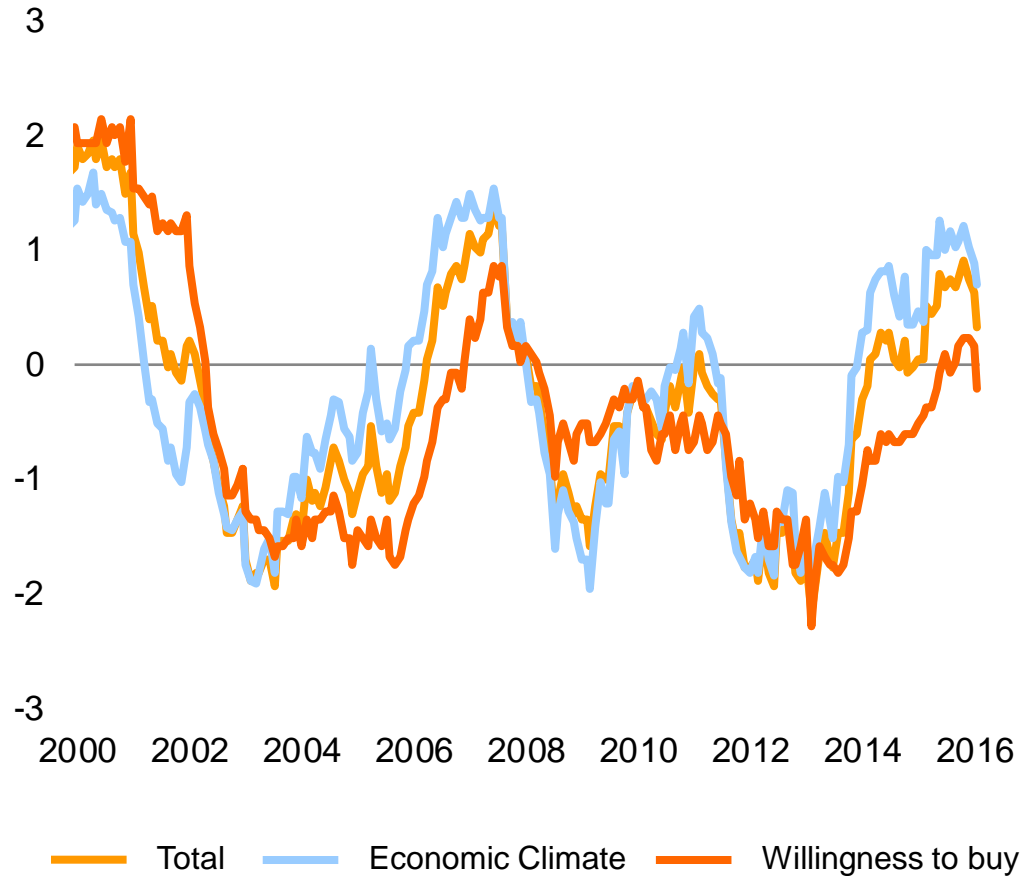
Consumers

- At the start of 2016, confidence indicators have taken a hit. Increased worries about the global economy and financial market turbulence have weighed on sentiment. Still, **confidence levels are above long-term averages**.
- Despite the fall in confidence, domestic demand is still expected to be the **main driver of growth in 2016**. In recent years, uncertainty about reforms in the labour market, pensions, the housing market and healthcare exerted additional pressure on private consumption. Consumer confidence even hit a record low early 2013.
- Weak consumption growth in 4Q15 was largely driven by **high temperatures**. November and December were the warmest in over 40 years. As a result of this, gas consumption declined some 10%QoQ. In the course of 2016, households purchasing power will get a boost when the yearly energy bill drops through the letterbox.
- **Spending fundamentals are favourable**. In 2016, real disposable income could rise at the fastest pace since 2001. **Hourly wages growth is increasing** and consumer price inflation is expected to remain low. *Real* wage growth should accelerate.
- **Tax cuts** worth 0.7% of GDP (or 5 billion euro) will provide additional stimulus to disposable income in 2016. About 90% of all households are forecast to see their purchasing power rise this year. The favorable spending outlook also reflects an **increase in the number of jobs**.
- The (free) **household savings rate is forecast to rise**. Income gains are initially not fully used to boost spending, but are also redirected towards savings and paying off debt. From a peak in 2011, debt-to-income has already fallen several percentage points.

Bad news about global economy weighs on consumer confidence

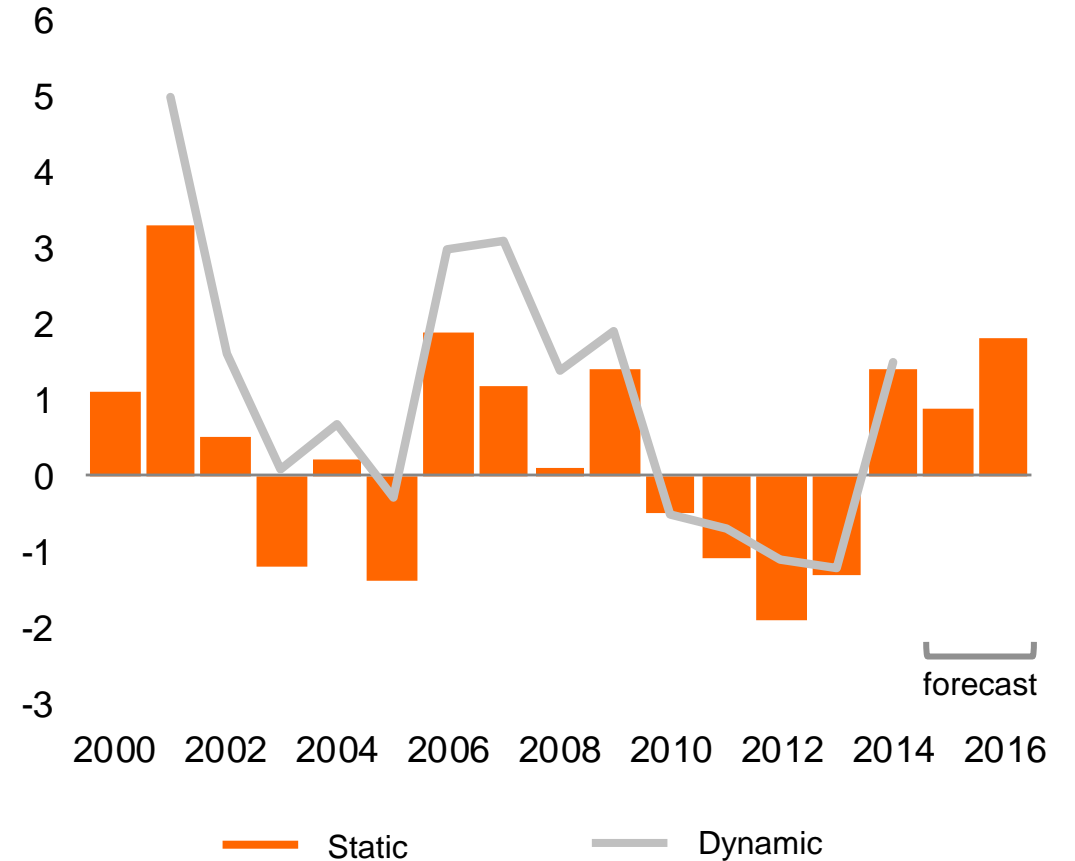
Despite the recent decline, confidence is still above average...

(confidence index expressed as deviation from historical average in standard deviations)



...helped by rise in household purchasing power

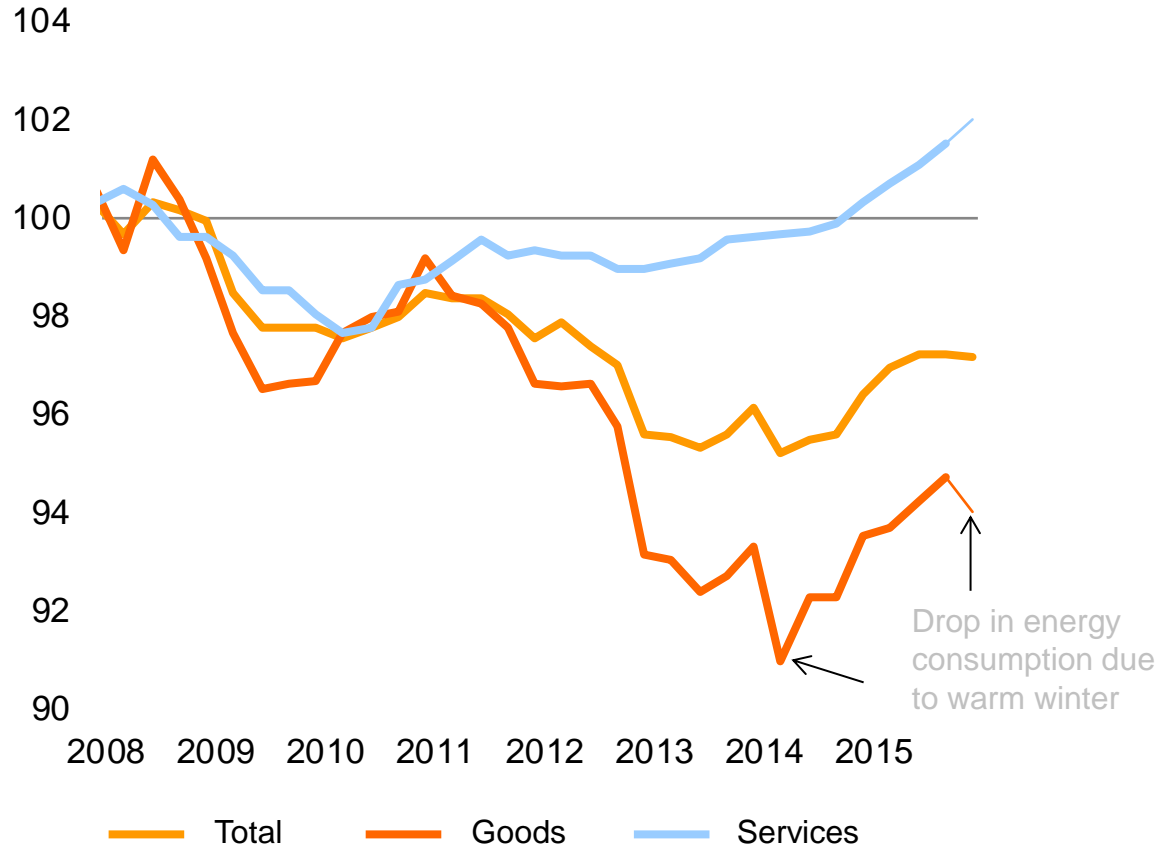
(yearly change in median purchasing power, in %)



Private consumption growth is gaining traction

Increased spending on both goods and services

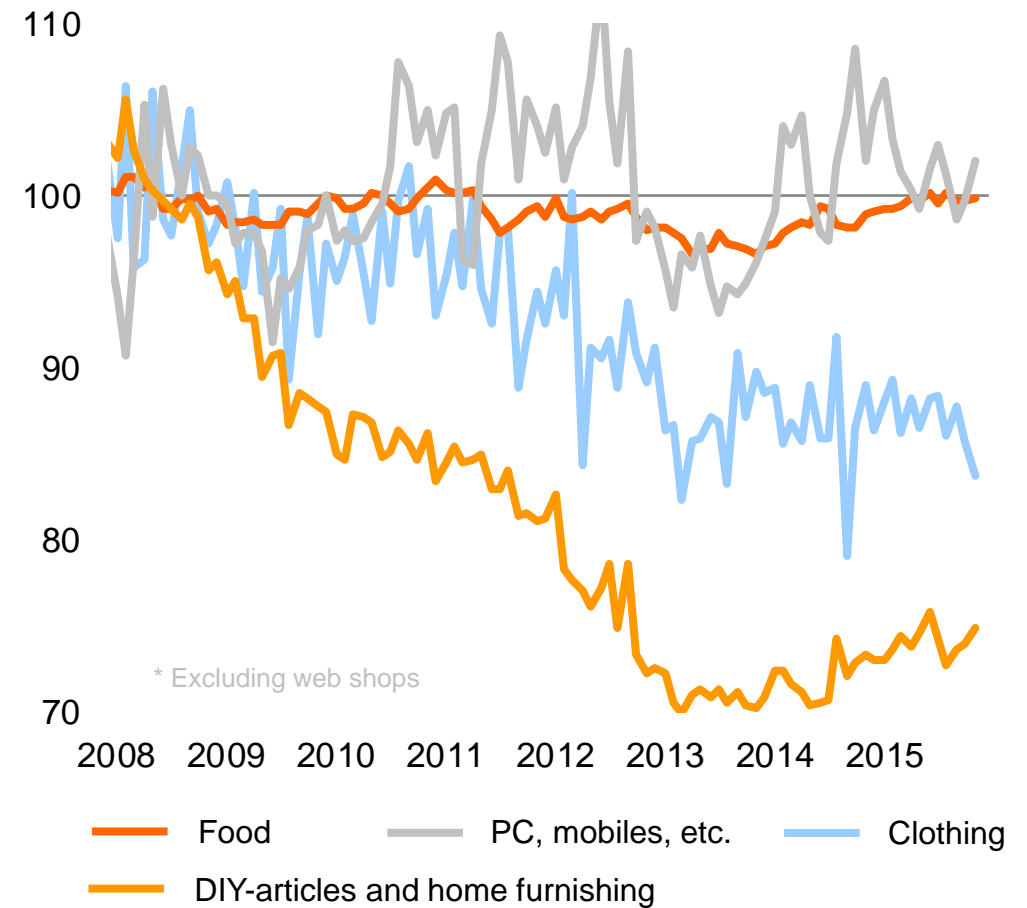
(private consumption by type, volume index, 2008 = 100)



Data points for goods and services in Q4 2015 are ING estimates

Housing market recovery drives non-food* retail spending higher

(retail sales, volume index, SA, 2008 = 100)

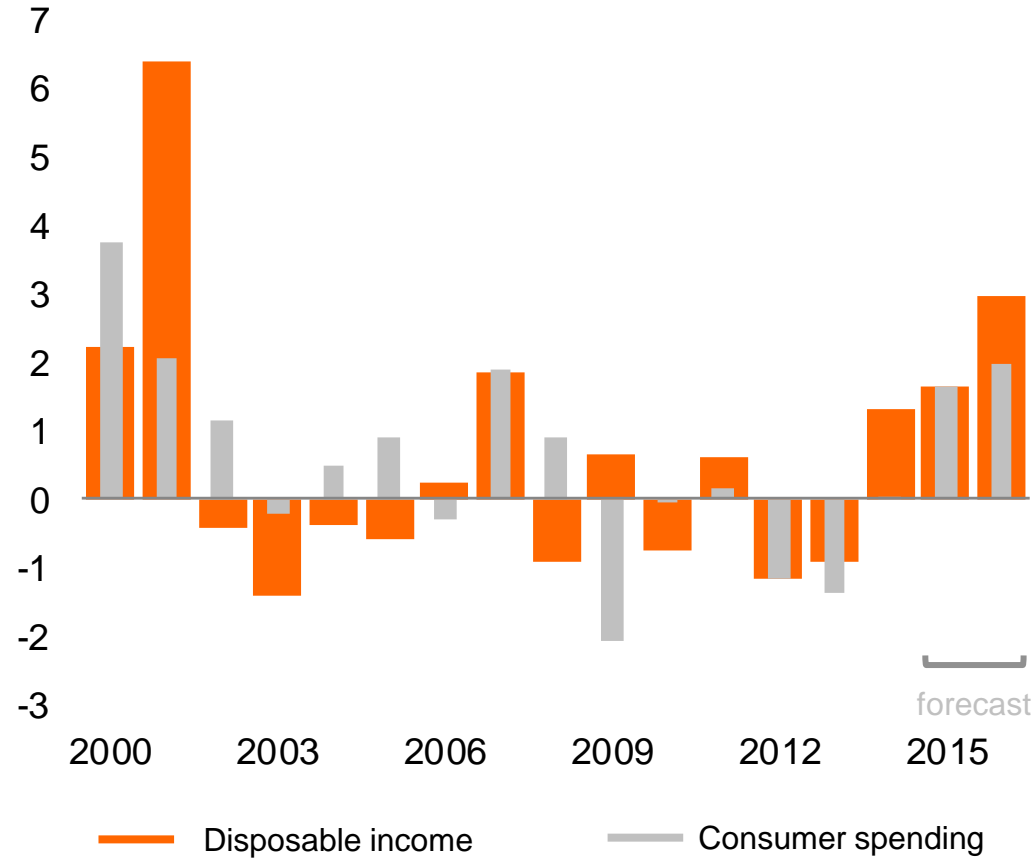


* Excluding web shops

High income growth leaves room for restoring household balance sheets

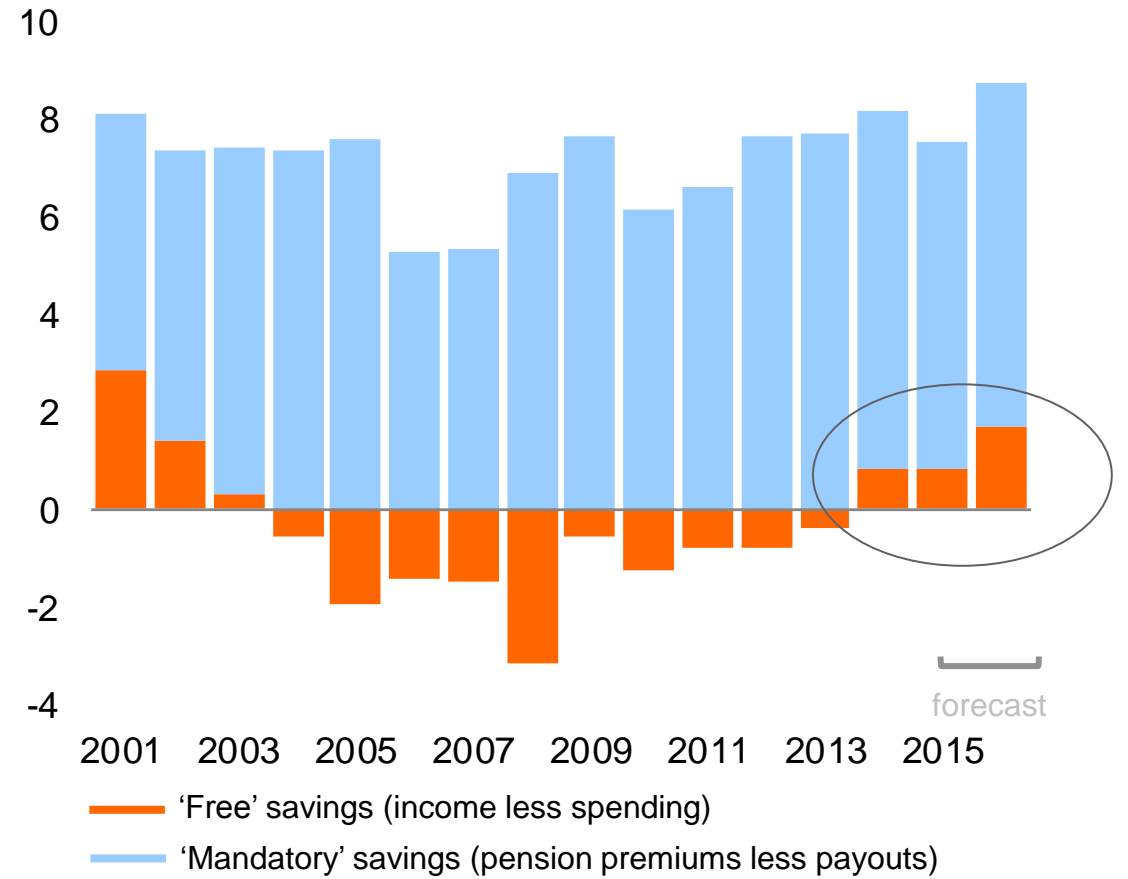
Disposable income to grow at fastest pace since 2001

(real growth, in % year-on-year)



Free savings ratio pushed back into positive territory

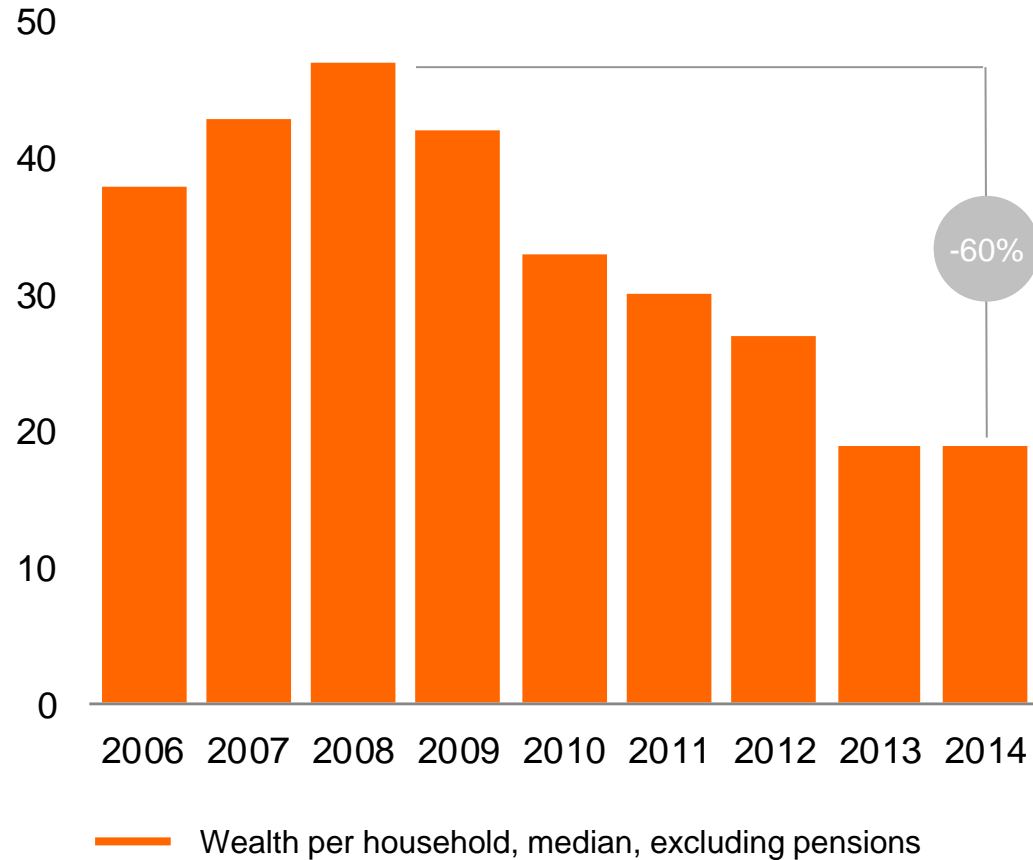
(savings rate as % of disposable income)



Household wealth declined strongly, but has remained high

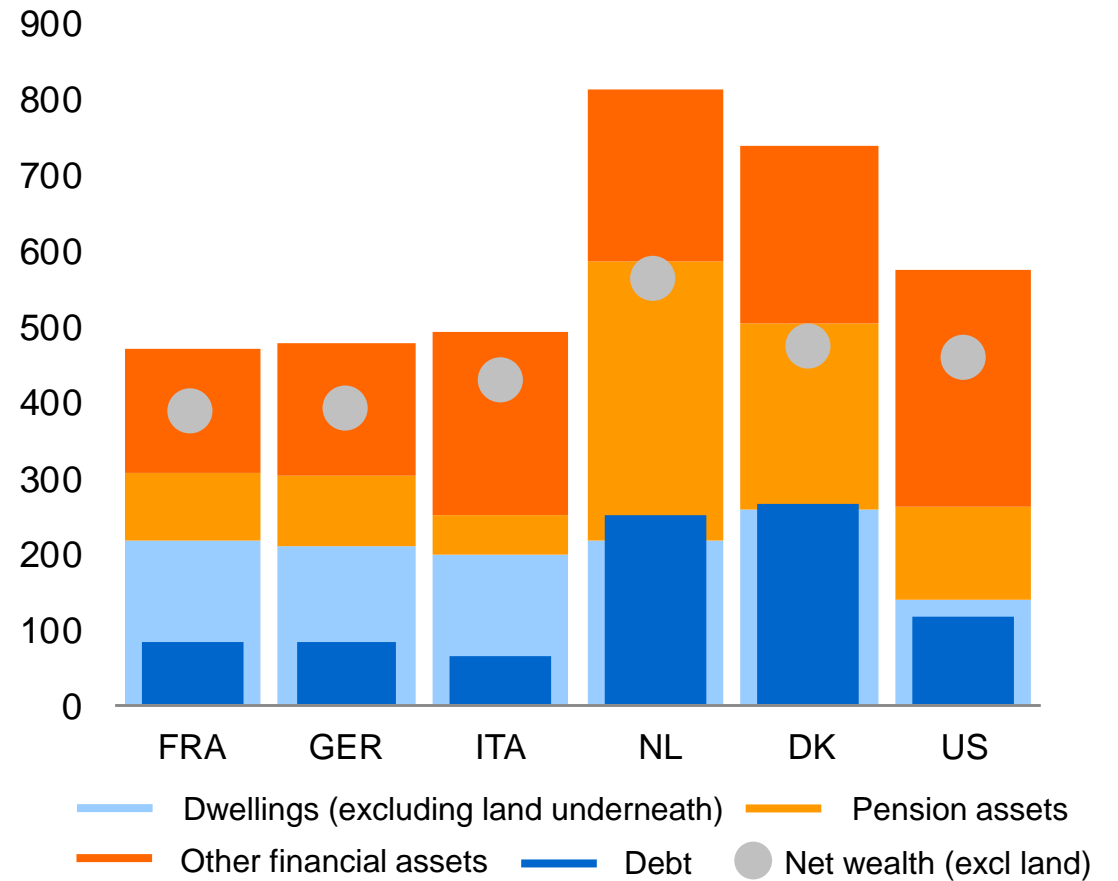
Decline in wealth has bottomed out

(per January 1st, in € 000s)



On a macro level, high net wealth, but stuck in stones and pensions

(assets and liabilities as a % of disposable income, 2012)



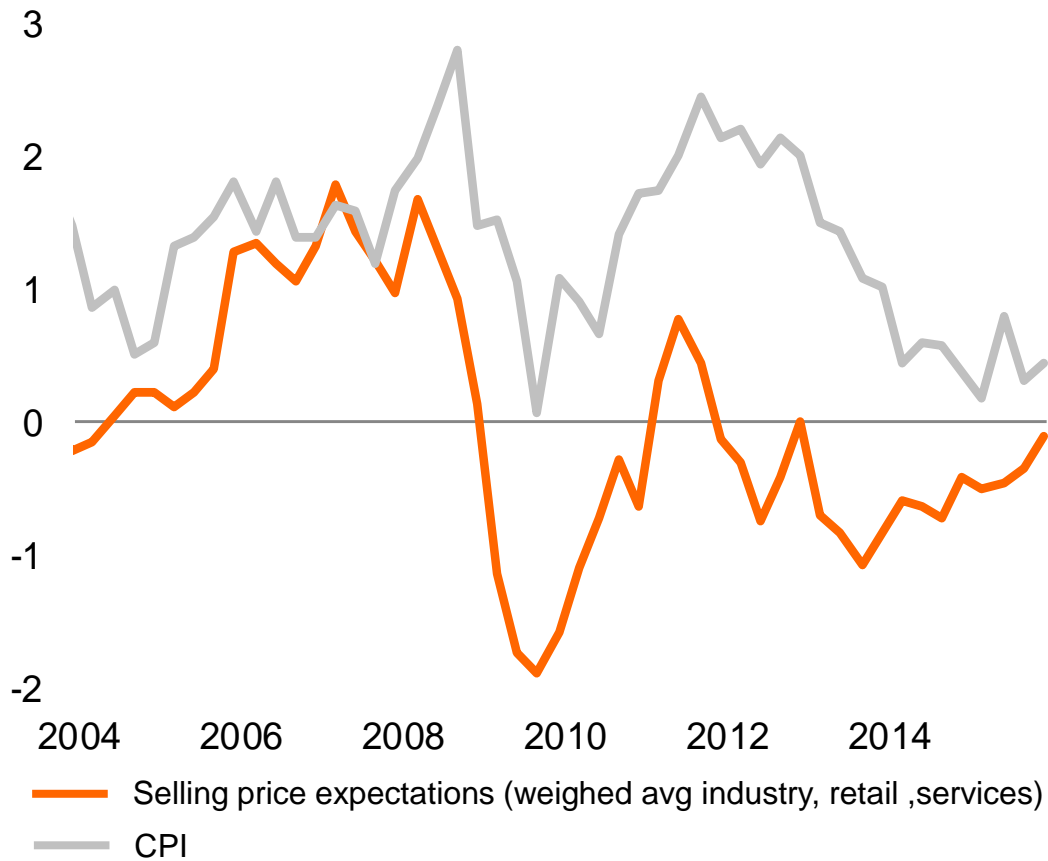
Inflation

- In 2015, consumer prices rose on average by 0.6%, down from 1.0% in previous year. This was the **lowest pace since 1987**. The harmonized inflation measures (HICP) was 0.2% in 2015 (2014: 0.3%). In the first half of the year, HICP-inflation was even **temporarily negative**.
- The **sharp fall in oil prices** was the main driver of lower inflation in the first half of 2015. In the course of the year, inflation picked up, largely because of higher food prices.
- **Inflation expectations** are very slowly creeping higher. The negative effect from lower energy prices should fade, pushing up headline inflation.
- While headline inflation has been volatile, **core inflation has been relatively stable** for the last two years, hovering around 1%. Rising prices of services have provided a floor.
- Going forward, higher wage growth is likely to push up core inflation, but the still very **large output gap** will keep a lid on the increase.

Inflation expectations are slowly increasing

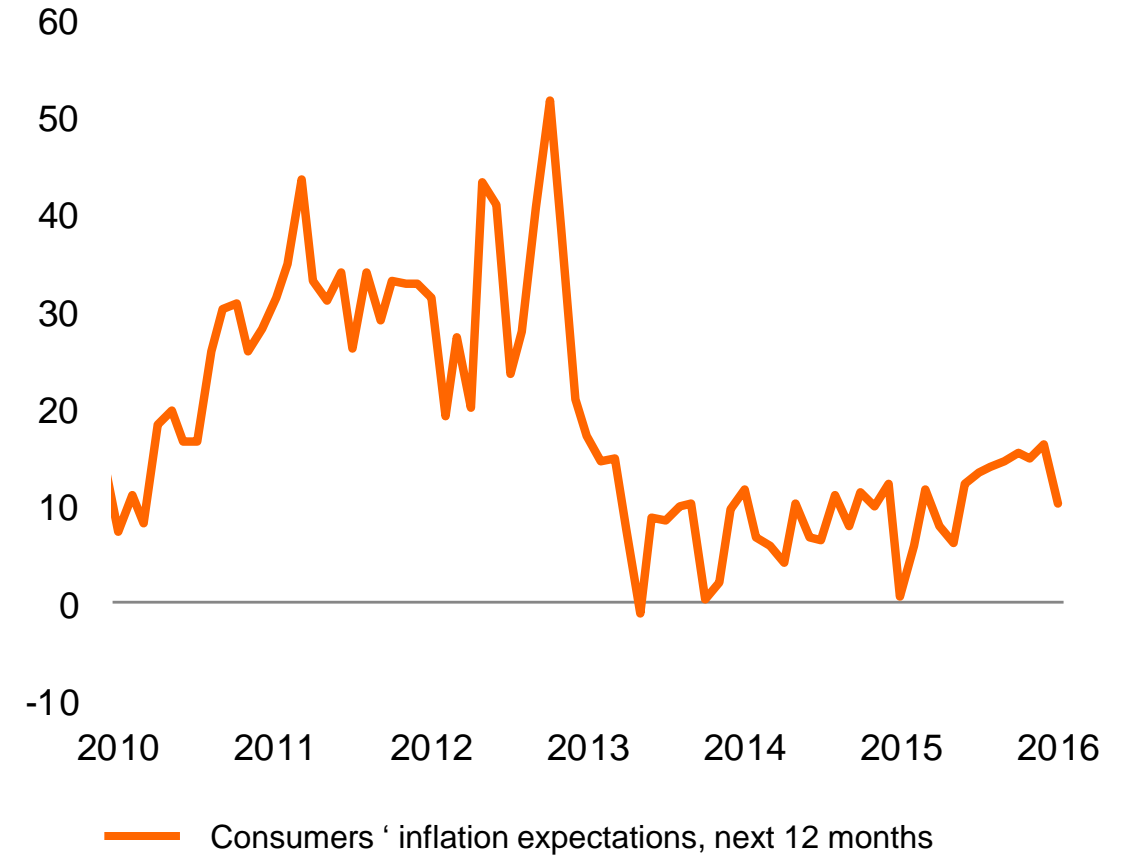
Selling prices expectations are creeping higher

(net % of firms expecting higher prices, normalized / % year-on-year)



Small majority of consumers expect inflation to rise in next 12 months

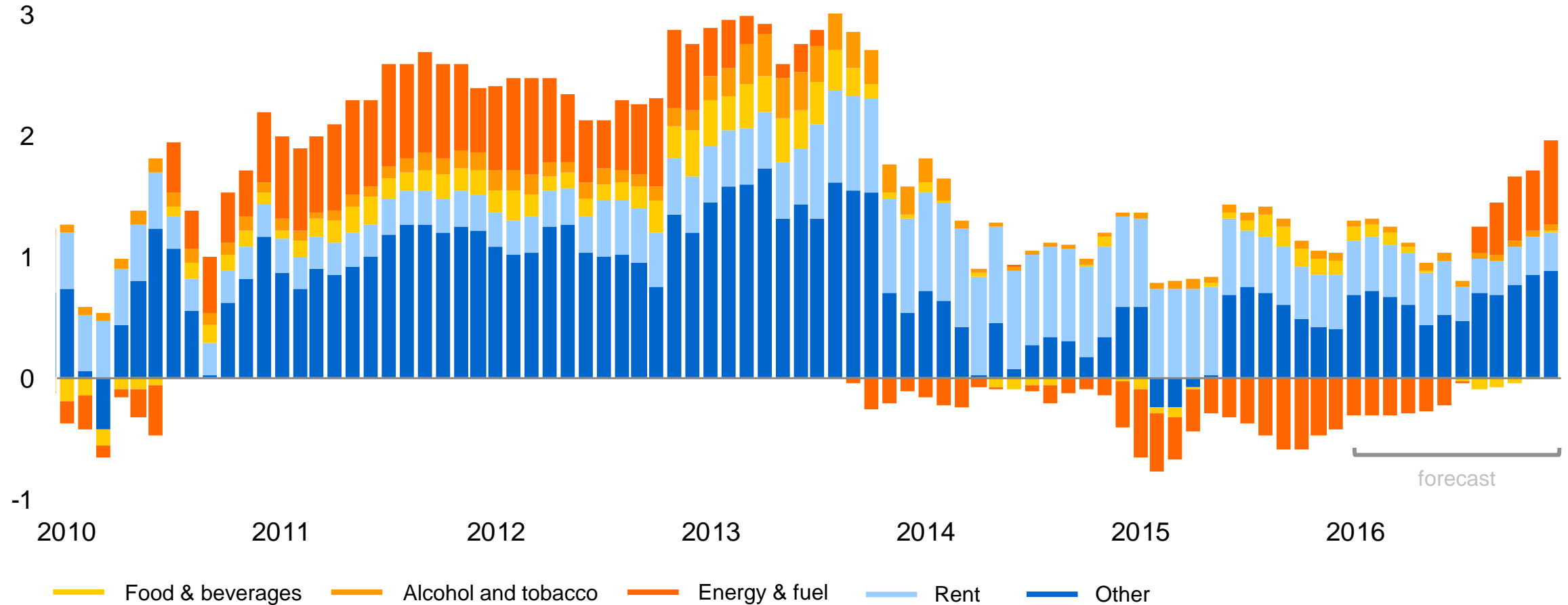
(net % of respondents expecting higher prices)



Headline inflation set to increase as negative energy effects fade

Drag on inflation from cheaper oil should ease in the course of 2016, while rent and other services provide floor in inflation

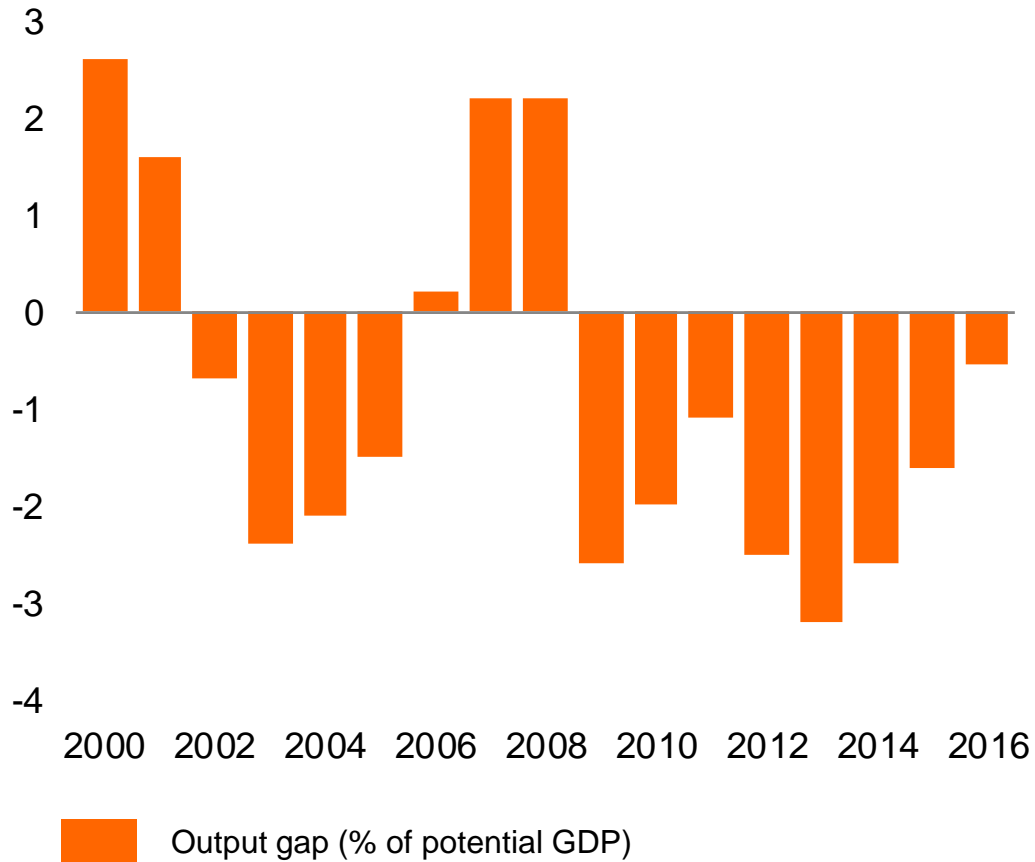
(contribution to year-on-year inflation, in %-points)



Output gap keeps a lid on rise in core inflation

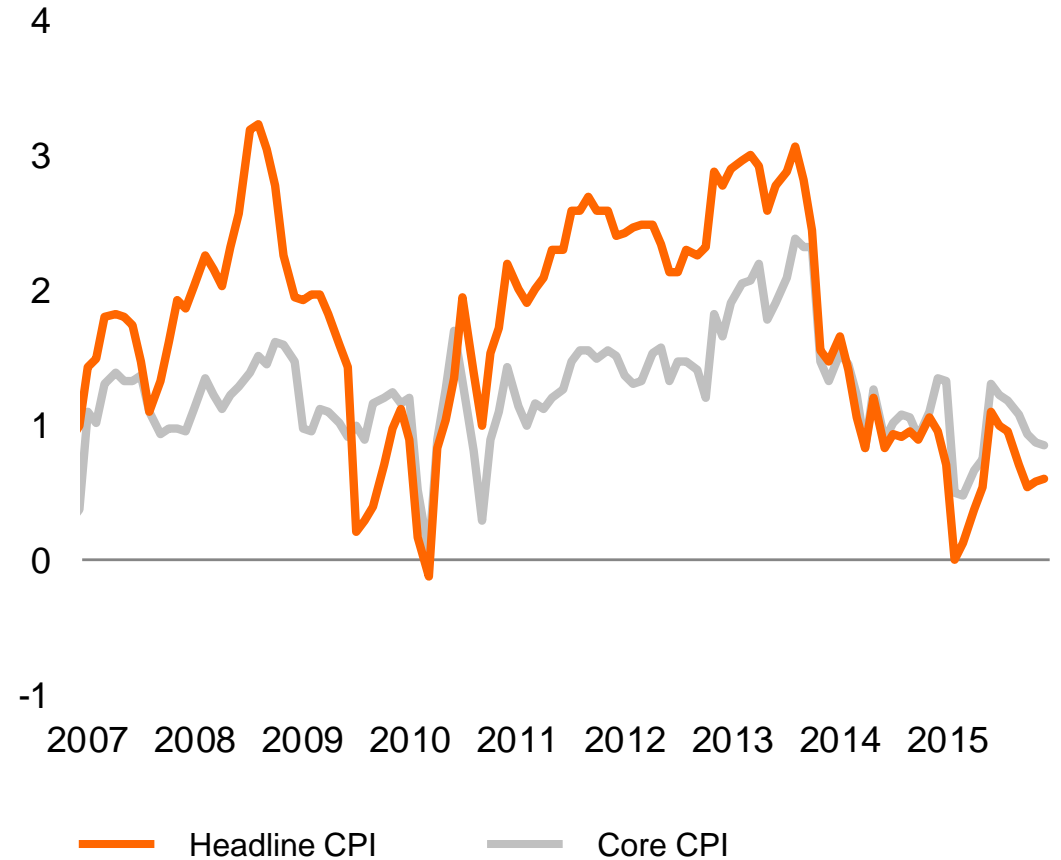
Underutilization of economy dampens rise in core inflation

(output gap as % of potential GDP, inflation in %YoY)



Inflation excluding food and energy hovering around 1%

(% year-on-year)

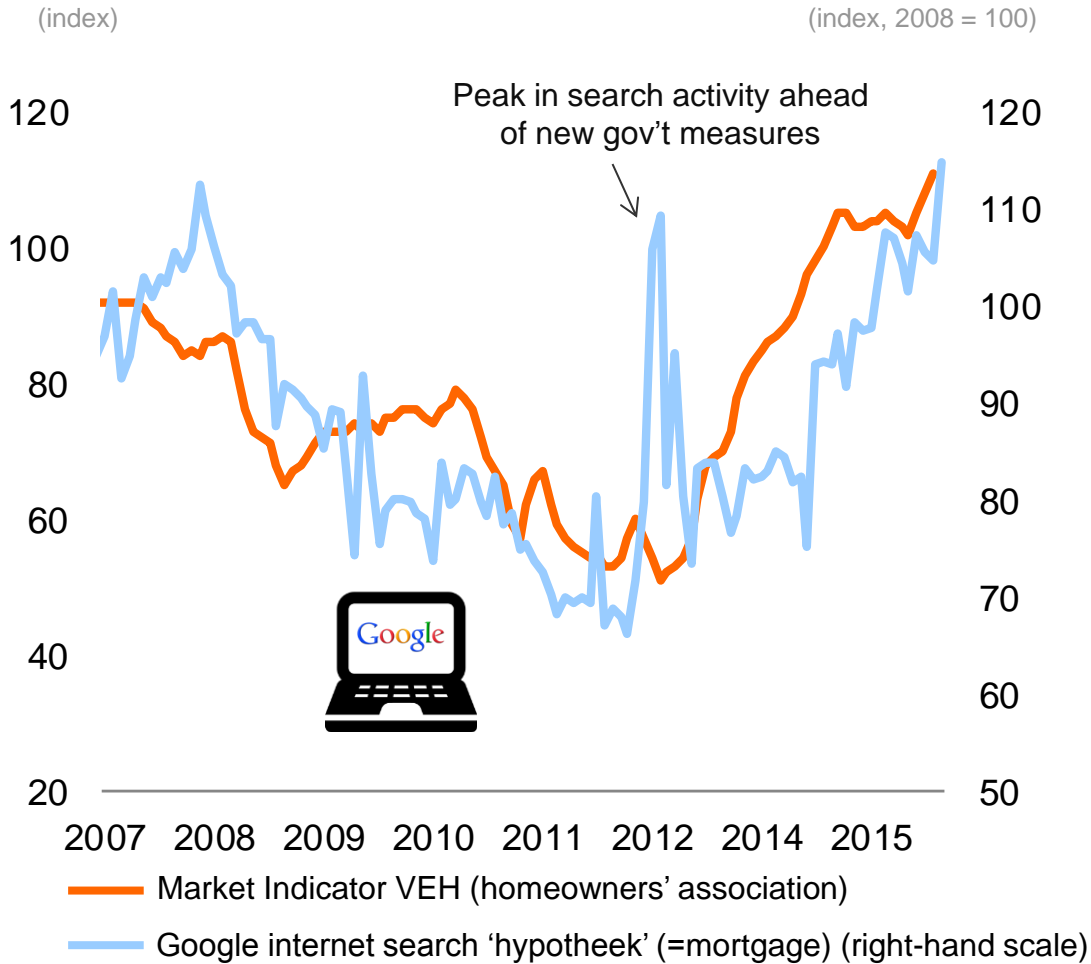


Housing and mortgage market

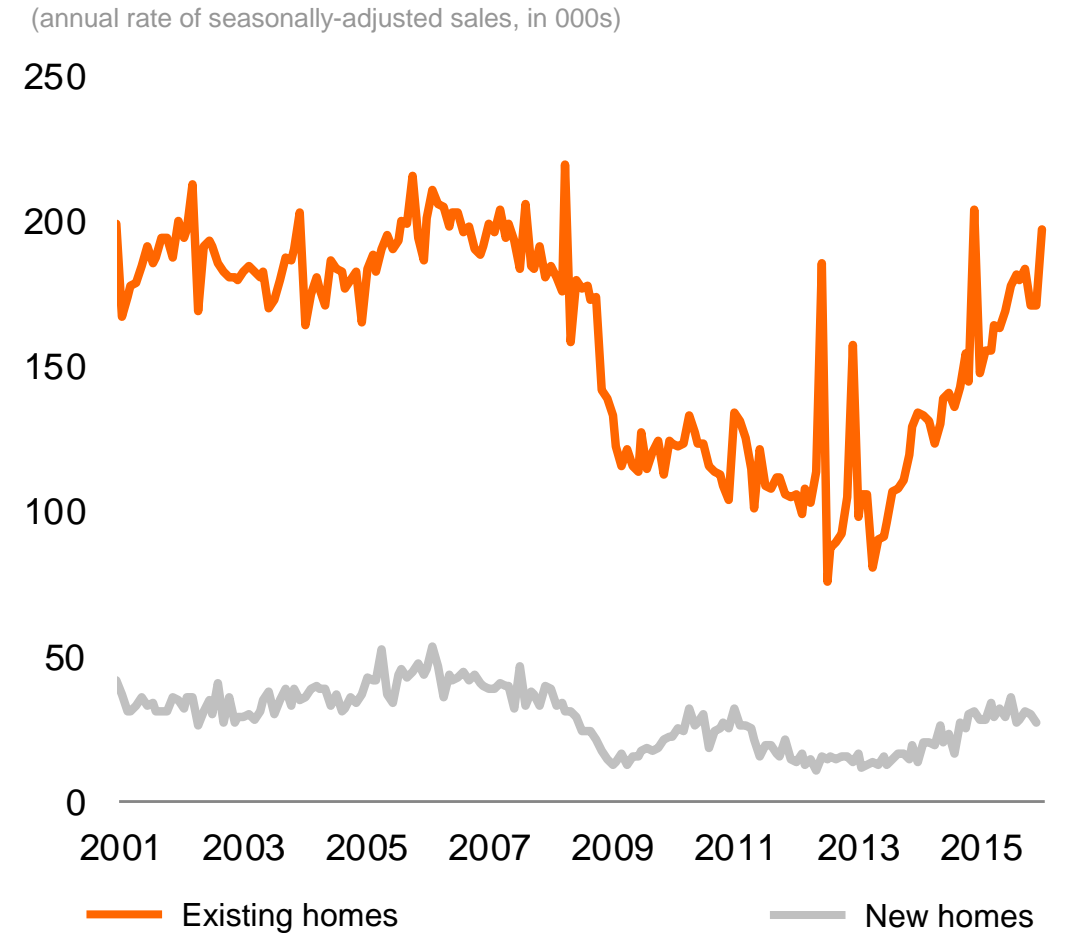
- **House prices have continued to move higher** in 2015. Last year, prices rose on average 3%, bringing the total increase since the trough (mid-2013) at 7%. On average, prices are still 16% below the peak (Aug 2008).
- **Regionally, there are still large differences.** While prices in and around Amsterdam have recovered to 2008 levels, in more rural areas they are still struggling. Given the ongoing drift to the city and a lack of newly built houses there, the uneven pattern is likely to persist.
- In line with housing market confidence indicators, **existing home sales have rebounded.** Historically low mortgage rates and rising income warrant further increases, but with buying activity near pre-crisis levels, the pace of increase is likely to soften.
- In the longer run, **house prices are unlikely to continue outpacing income growth**, mainly due to tighter regulation (lower loan-to-value, maximum tax deduction rate to 38%). Still, helped by demographics, house price are set to increase moderately at a pace of, on average, about 2% pa (2015-2025).
- After a temporary decline in 2013-2014 (triggered by temporary gift-tax exemption) nominal mortgage debt has increased again. However, as a **percentage of household disposable income, debt has continued its downward trend.** From a peak of 213% in 2011, debt has fallen to 200%.
- Going forward, debt is expected to fall further relative to income, because of **regulatory measures and more early redemptions** (triggered by a heightened risk perception, lower alternative yields and lower mortgage interest tax deductibility).

Home buying activity is picking up

Housing market sentiment is improving



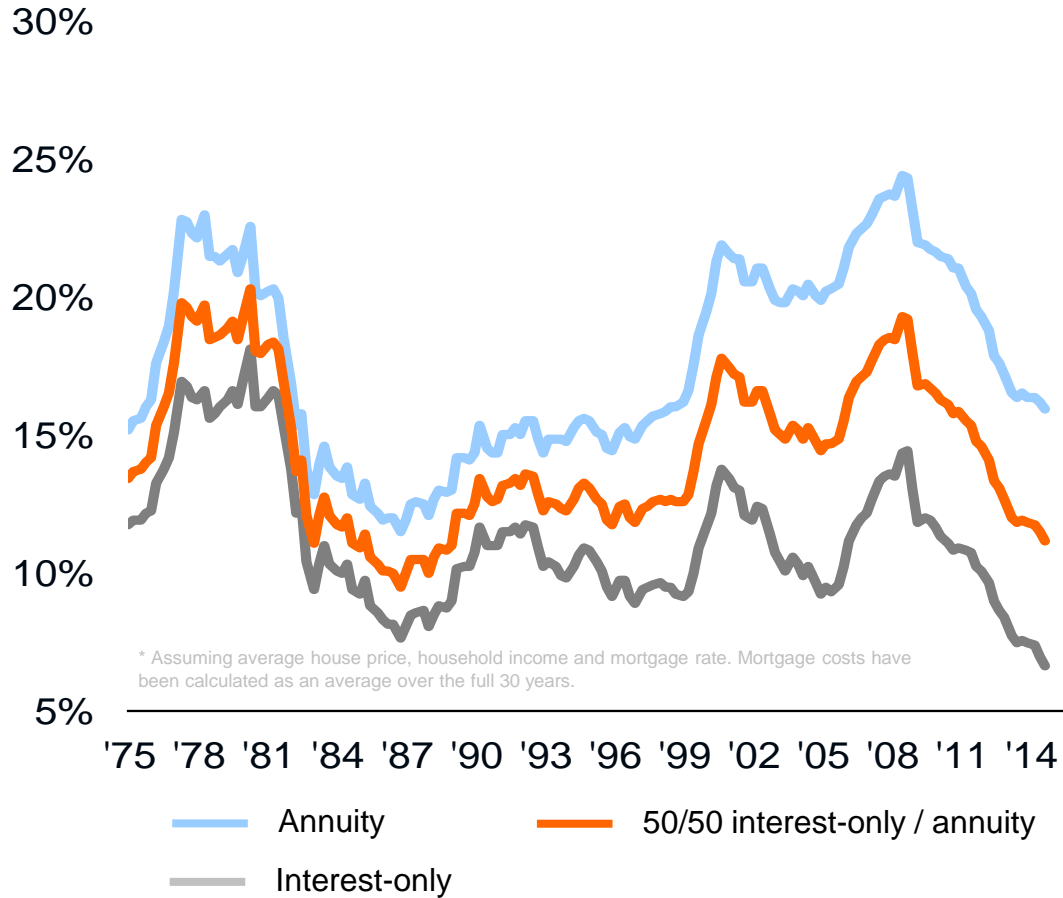
Number of home sales have surged



Affordability has improved significantly

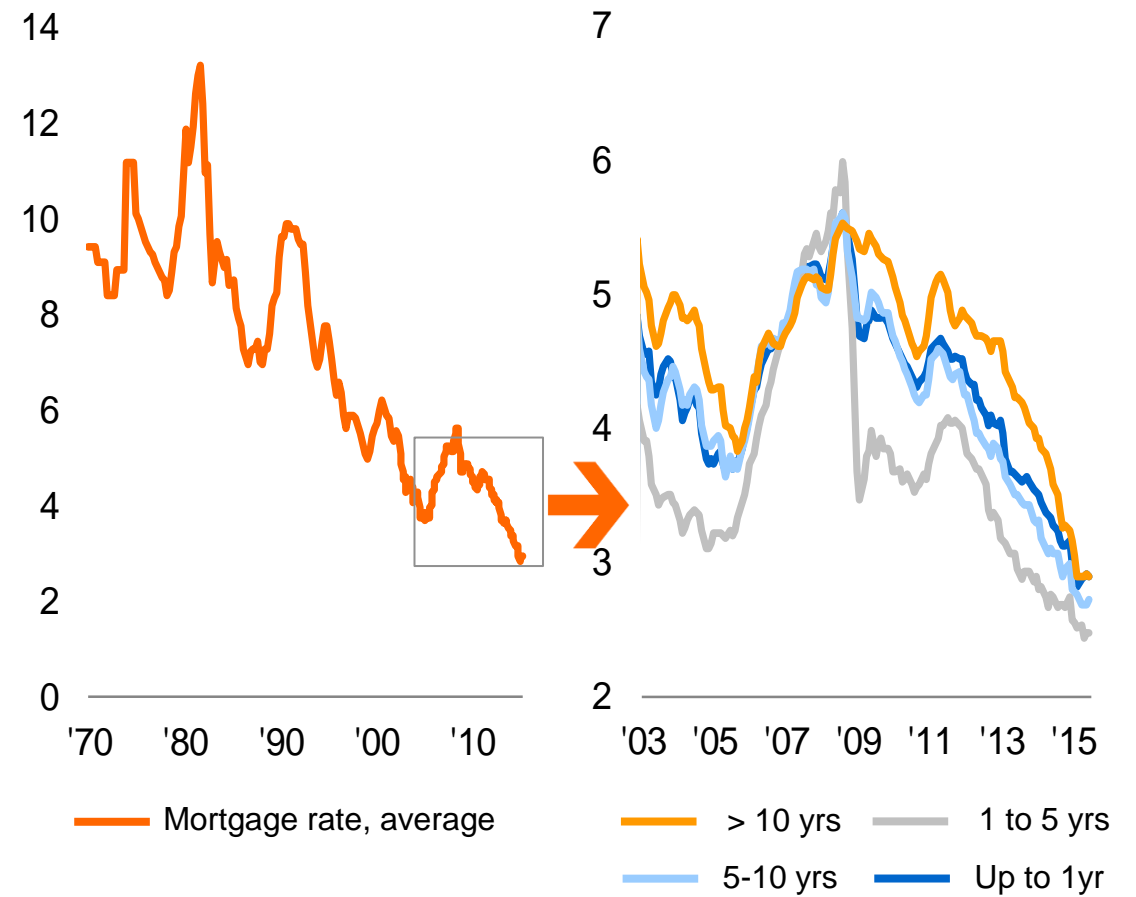
Homes have become much more affordable...

(average after-tax mortgage costs* as % of income, different mortgage types)



...as mortgage rates have dropped to historically low levels

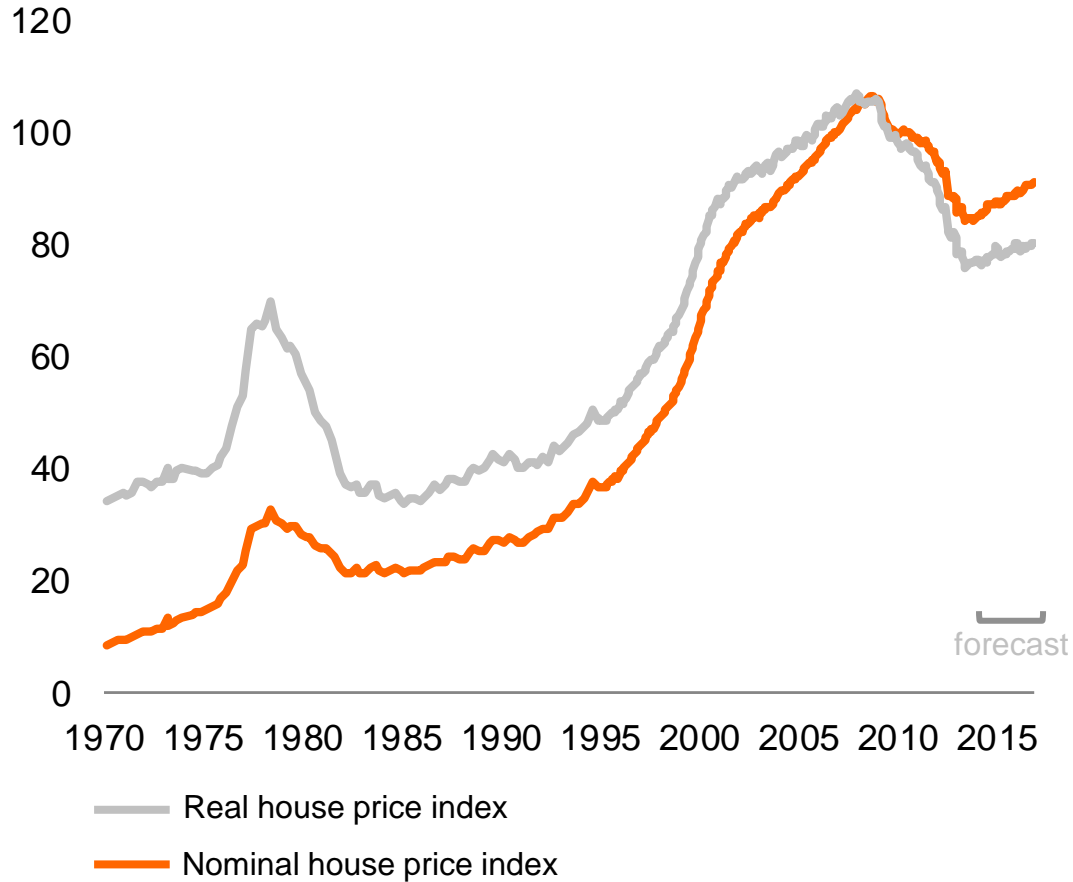
(mortgage rates, by fixed interest duration, in %)



House prices are recovering

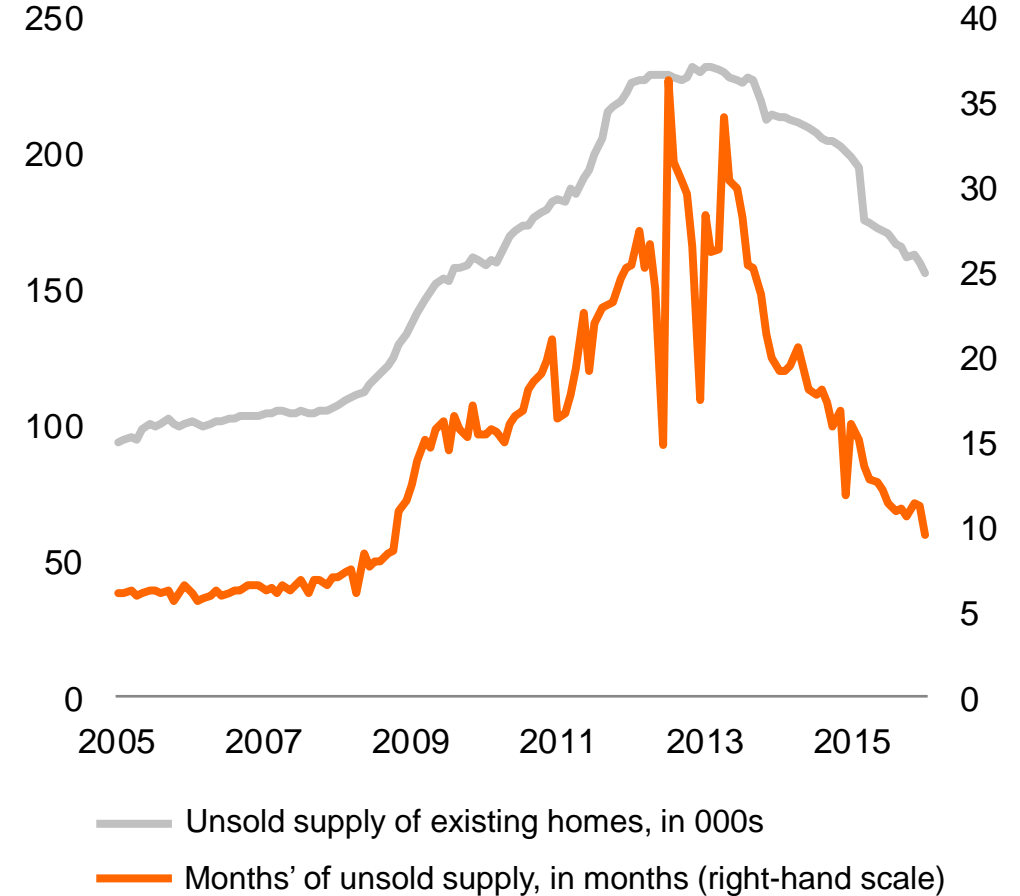
House prices have increased 7% from trough, still 16% below peak

(house price index, 2008 = 100)



Supply conditions are normalizing

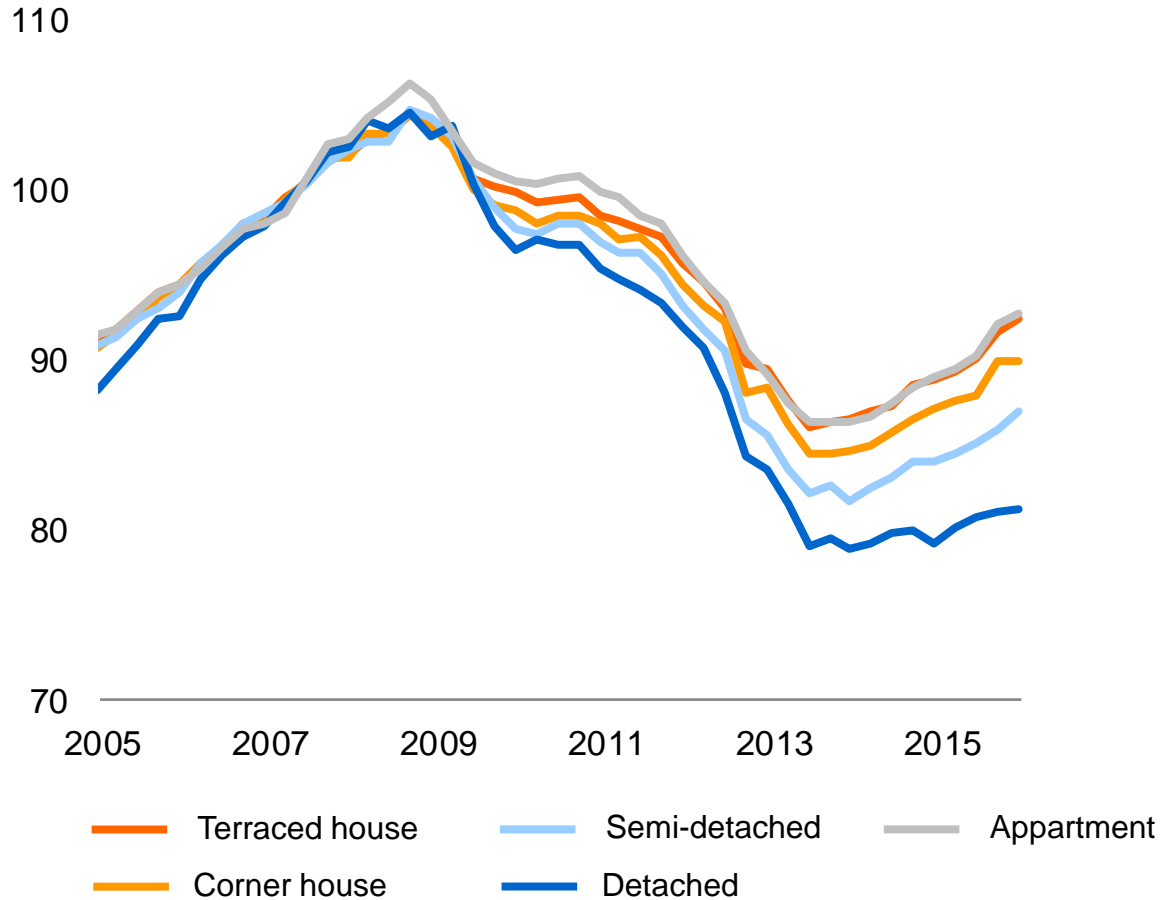
(sales in 000s, seasonally-adjusted)



Large cities lead house price recovery

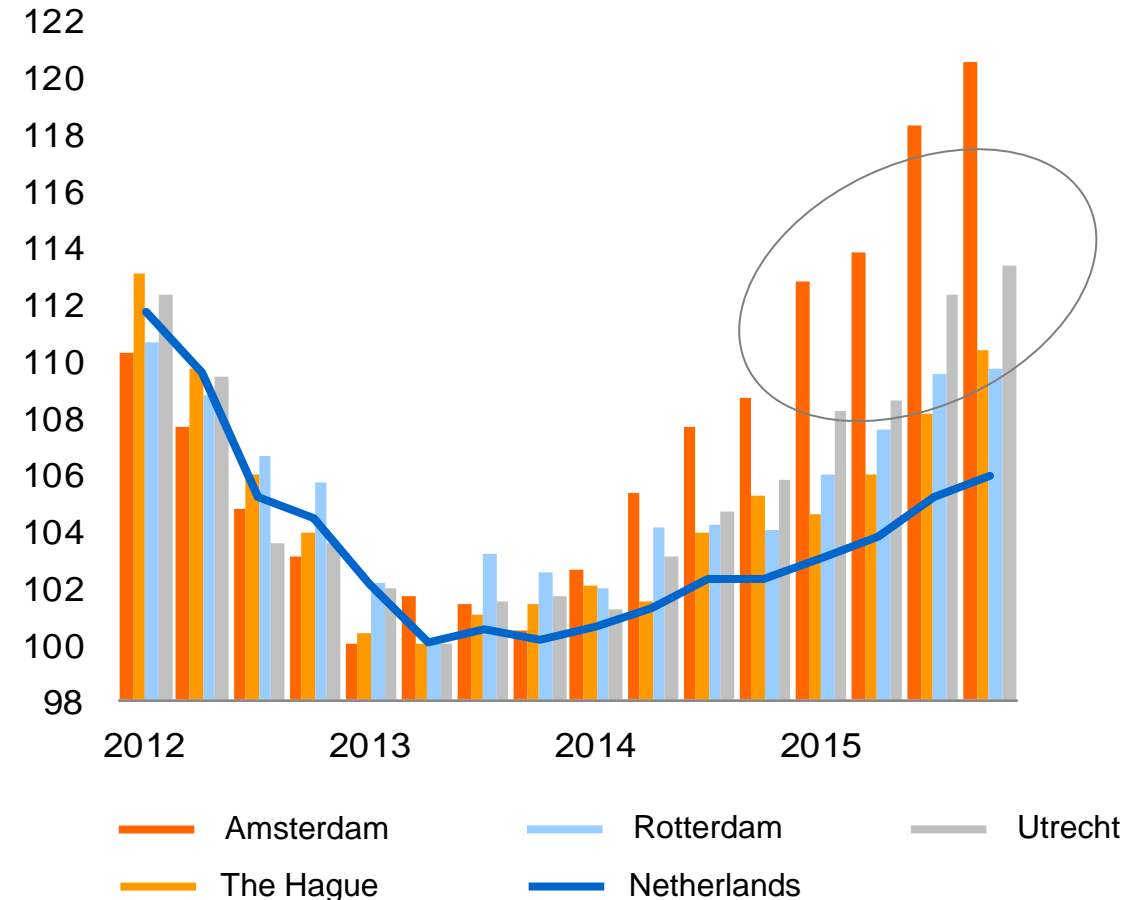
More expensive homes have dropped most in prices

(house price index, 2008=100)



House prices have picked up more strongly in larger cities

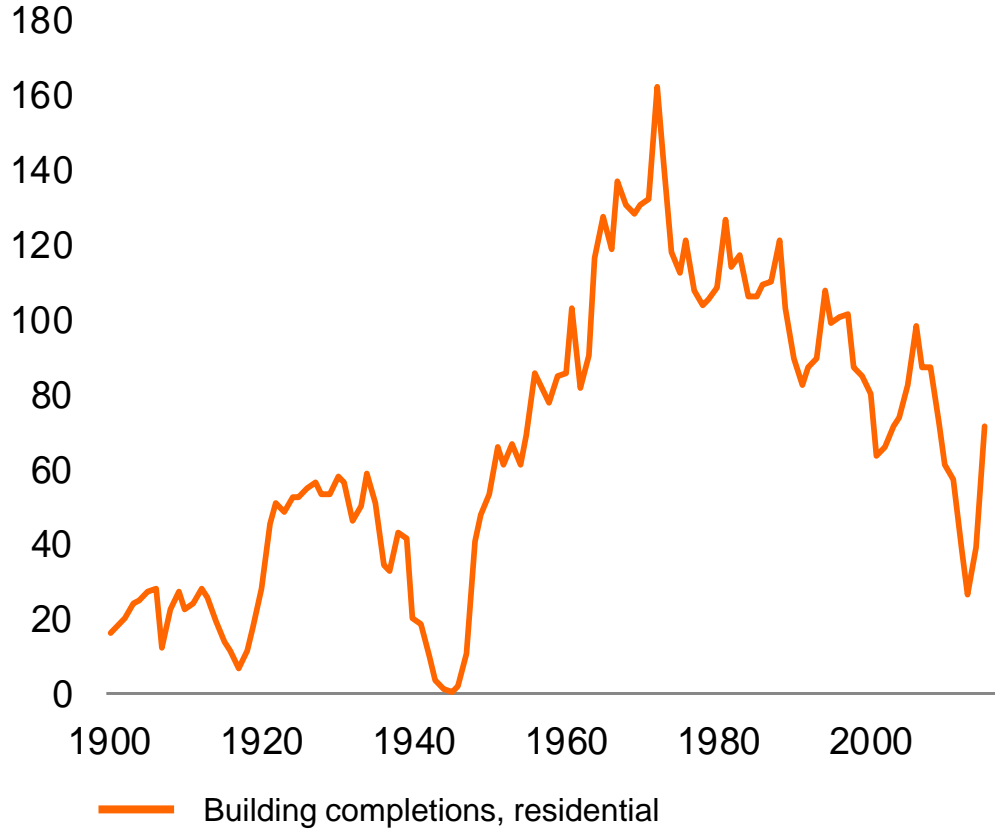
(house price index, trough = 100)



Risk of tight supply if demand recovers strongly

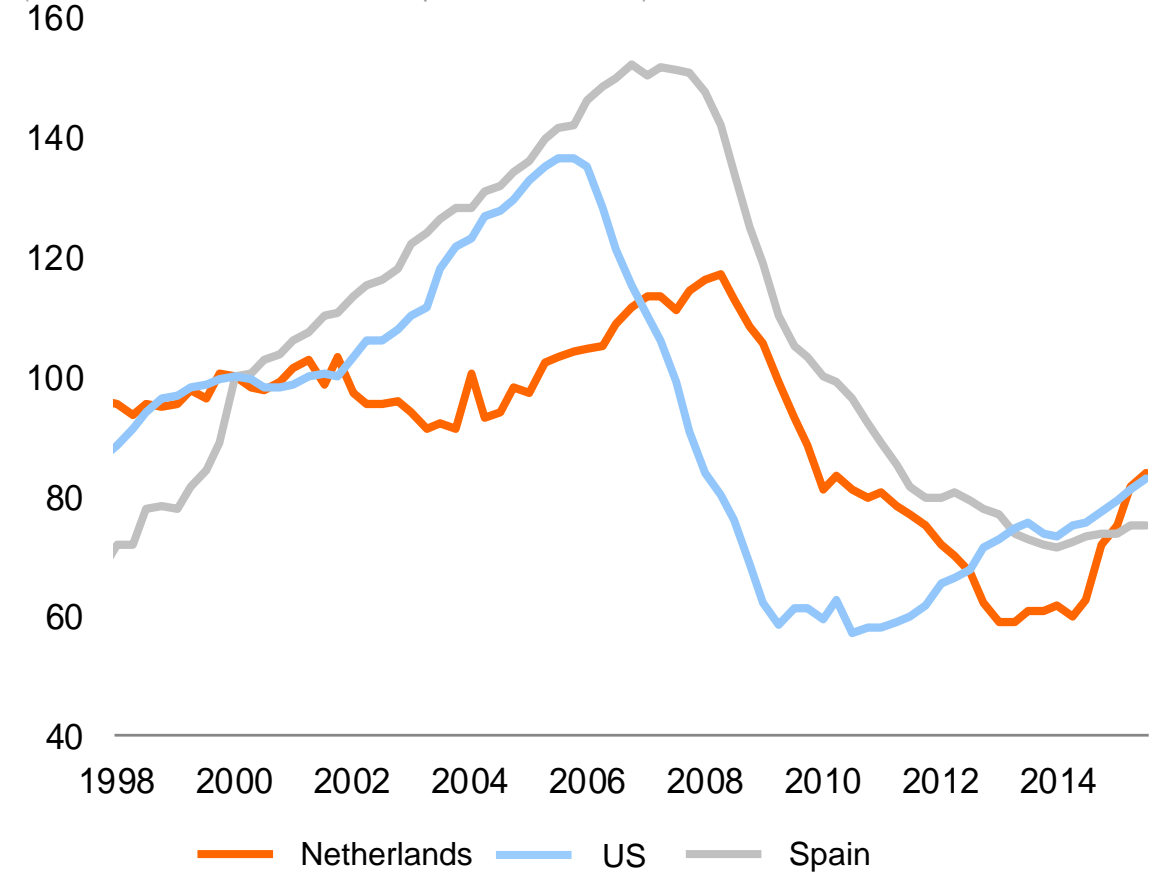
Residential construction has surged, but remains relatively low

(in 000s per year)

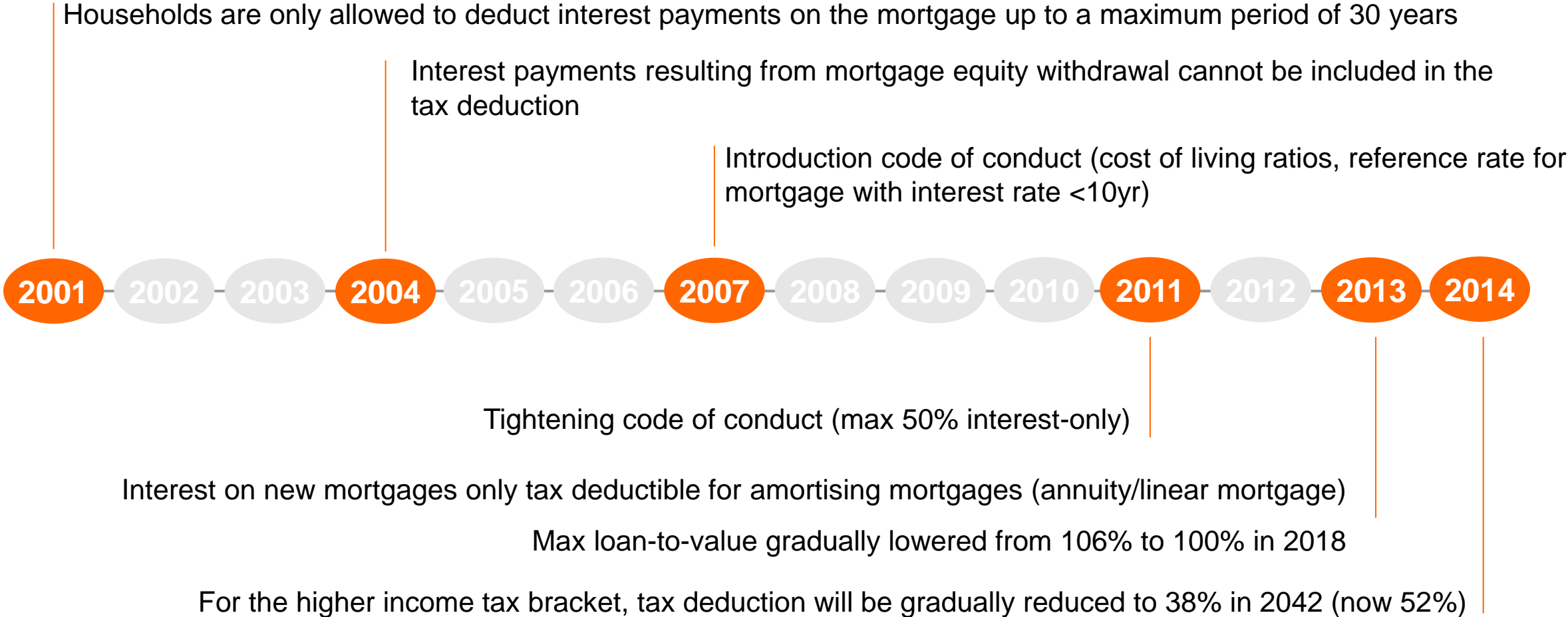


Unlike in US and Spain, no pre-crisis construction boom in NL

(residential construction, constant prices, 2000 = 100)



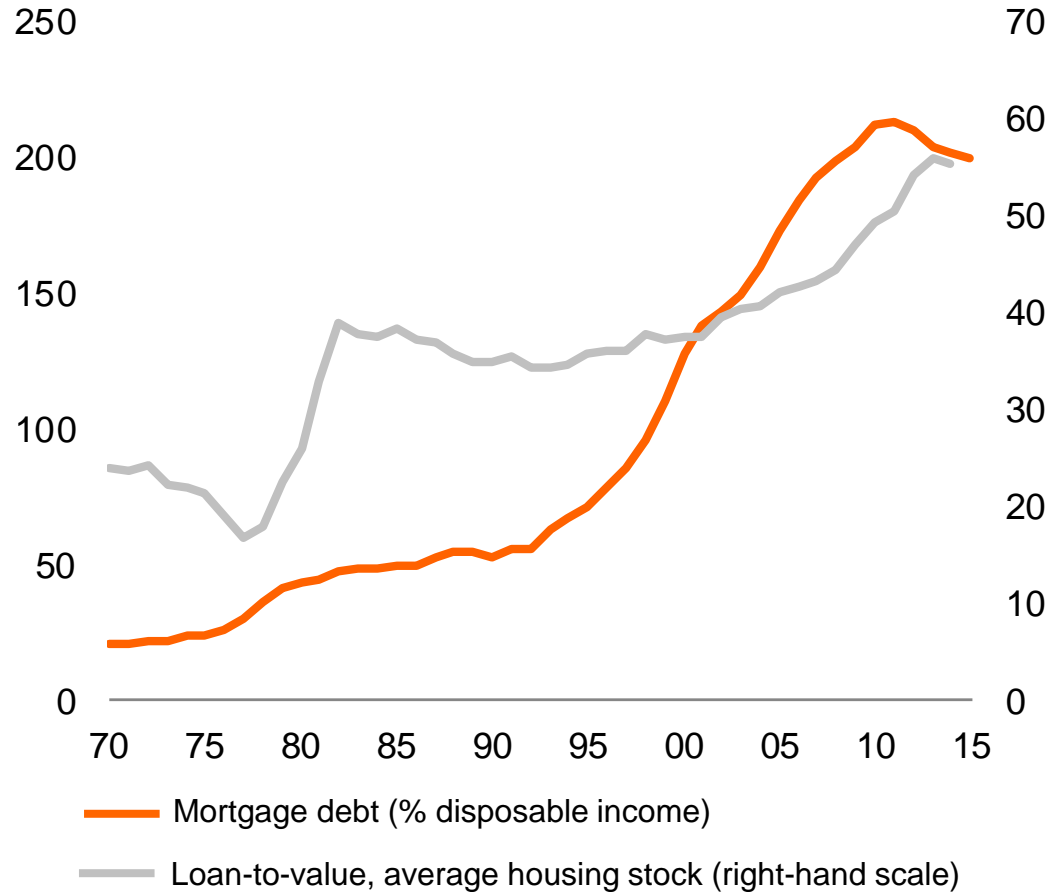
Measures have been taken to curtail debt growth



Mortgage debt has started to fall in relative terms

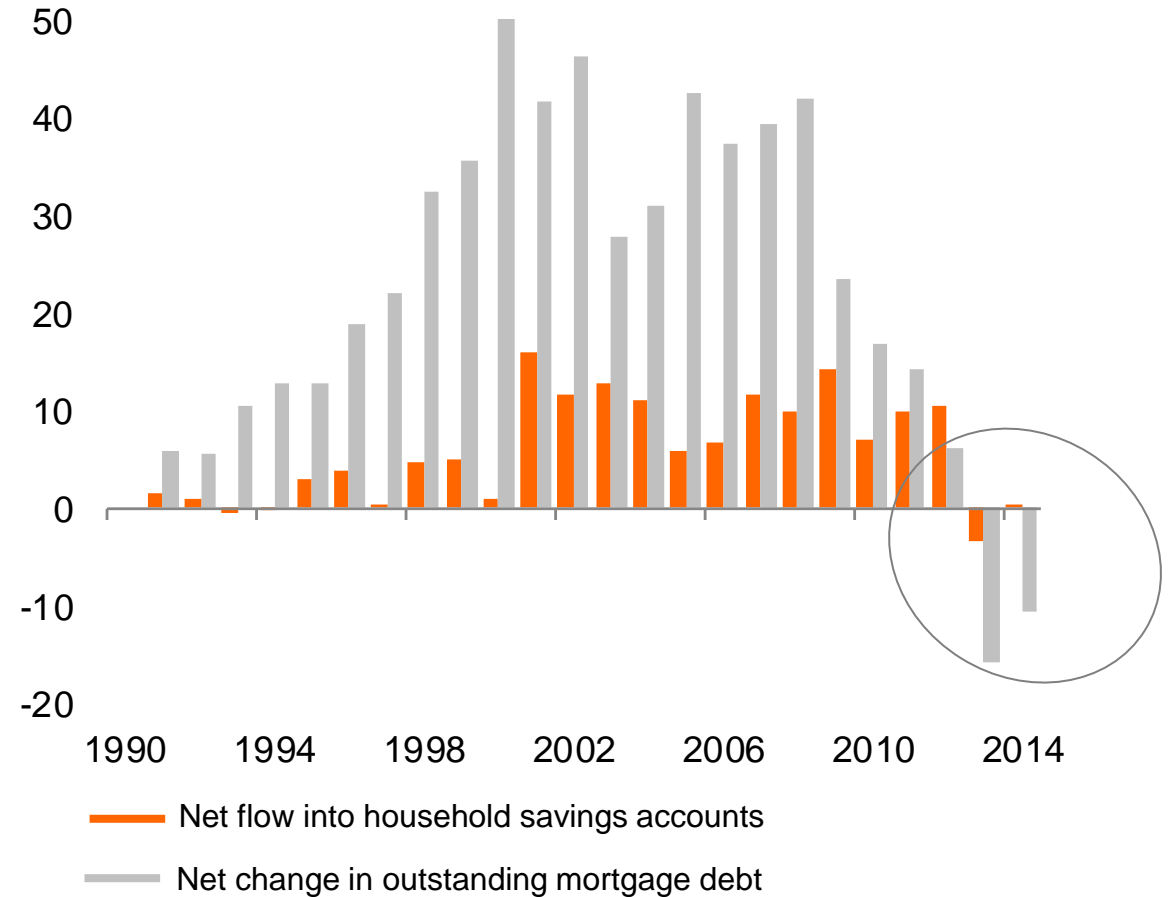
For the first time in decades, mortgage debt has decreased

(debt as % of income)



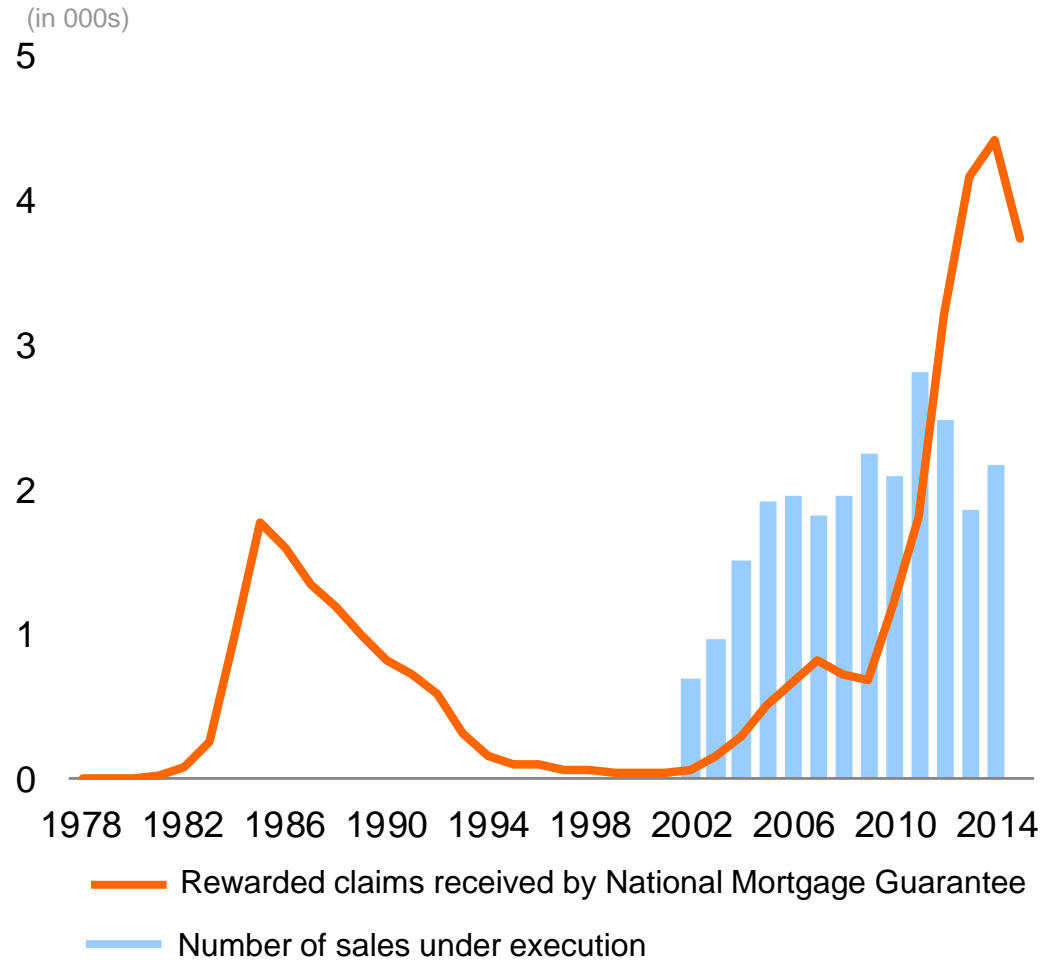
Households restructure balance sheets by debt redemptions

(in euro billions)



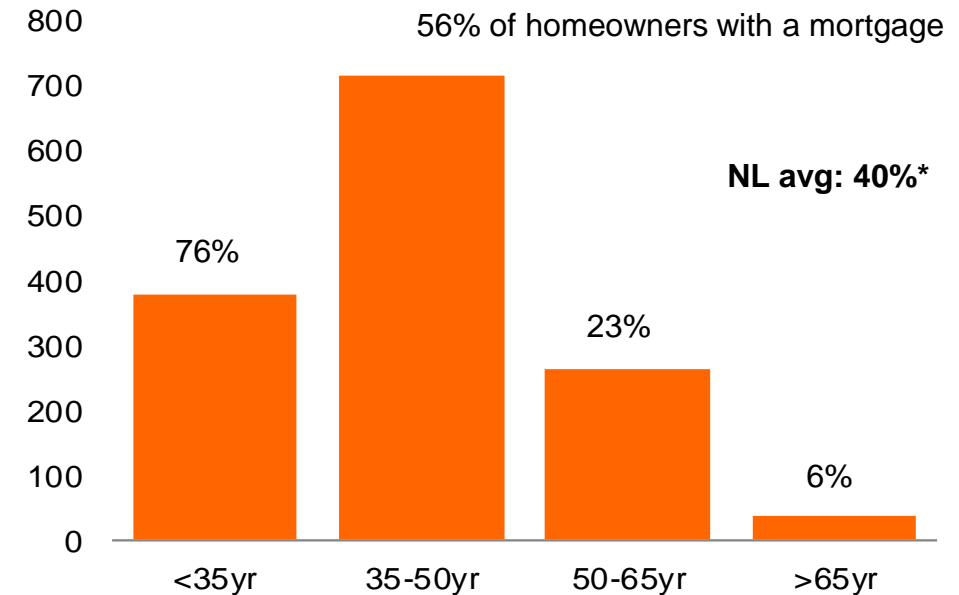
Despite high mortgage debt, relatively few payment problems

Defaults and foreclosures: relatively low...



...despite many homeowners with 'under water' mortgage

(number of households, by age group, in 000s, per Jan 1, 2014)



*Actual share currently closer to 20%, because:

- numbers are based on gross mortgage debt and do not take into account accumulated wealth
- the indicator to track home values (WOZ) lags actual market conditions by a year
- since 2014, the average house prices has increased by 7%.

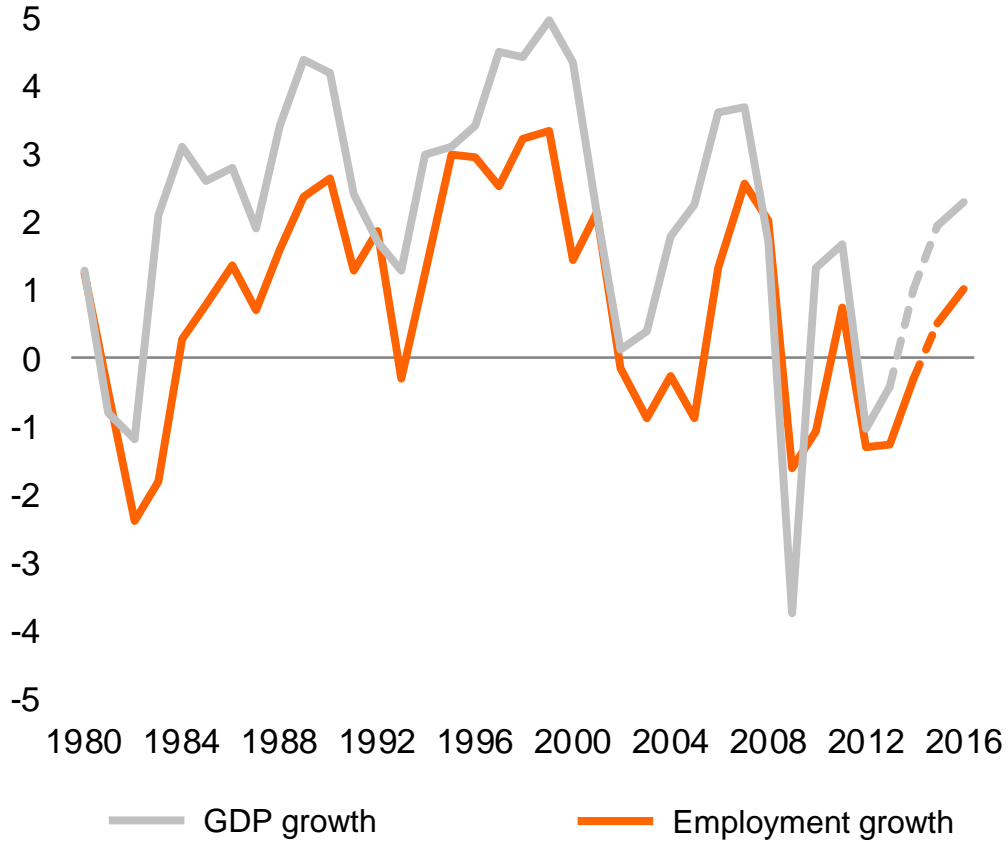
Labour market

- After three years of contraction, **employment expanded last year**. The number of employees increased by 0.9%, while self-employment surged 1.7%. In total, the number of jobs increased by 1.1%. Main driver of job growth were temp agencies and the trade sector (e-commerce, etc.). Health care dragged employment lower.
- While the number of jobs is back at pre-crisis level, the number of employed people is not. **Total hours worked is also still below the level of 2008**. This suggests that jobs that disappeared in recent years have been replaced by 'smaller' ones.
- **Leading indicators point to further employment growth**. The number of vacancies is currently at a four-year high and firms' employment expectations point to stronger labour demand, most notable in business services.
- **Cuts in the budgets of local governments** and within health care means employment growth in the public sector will be marginal at best.
- The **unemployment rate** has declined to the lowest level in almost three years. Most of the decline is caused by job creation, but there are also people who left the labour market (retired, discouraged). While unemployment in the 25-45 age bracket is trending down, for older people it has fallen only marginally.
- Wage growth is picking up.

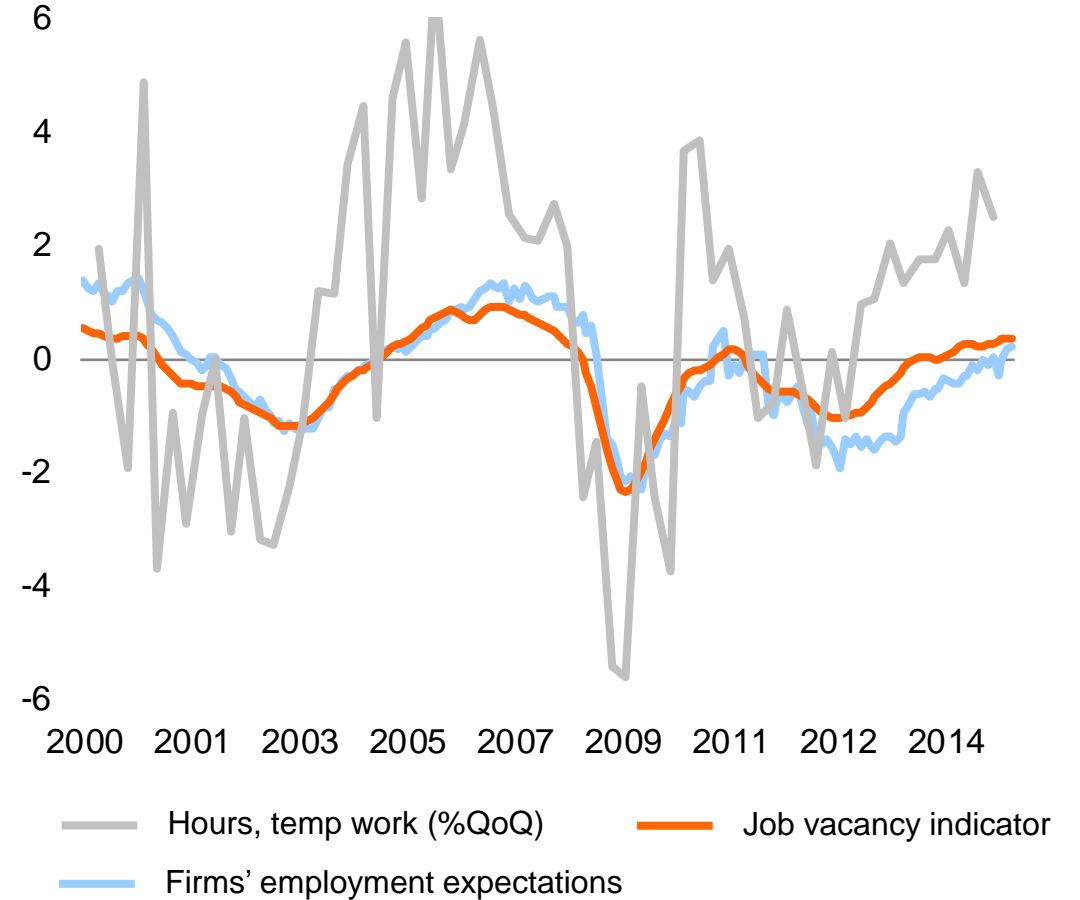
No jobless recovery

Labour market always lags behind economic growth

(contribution to quarterly employment growth, in %-points)

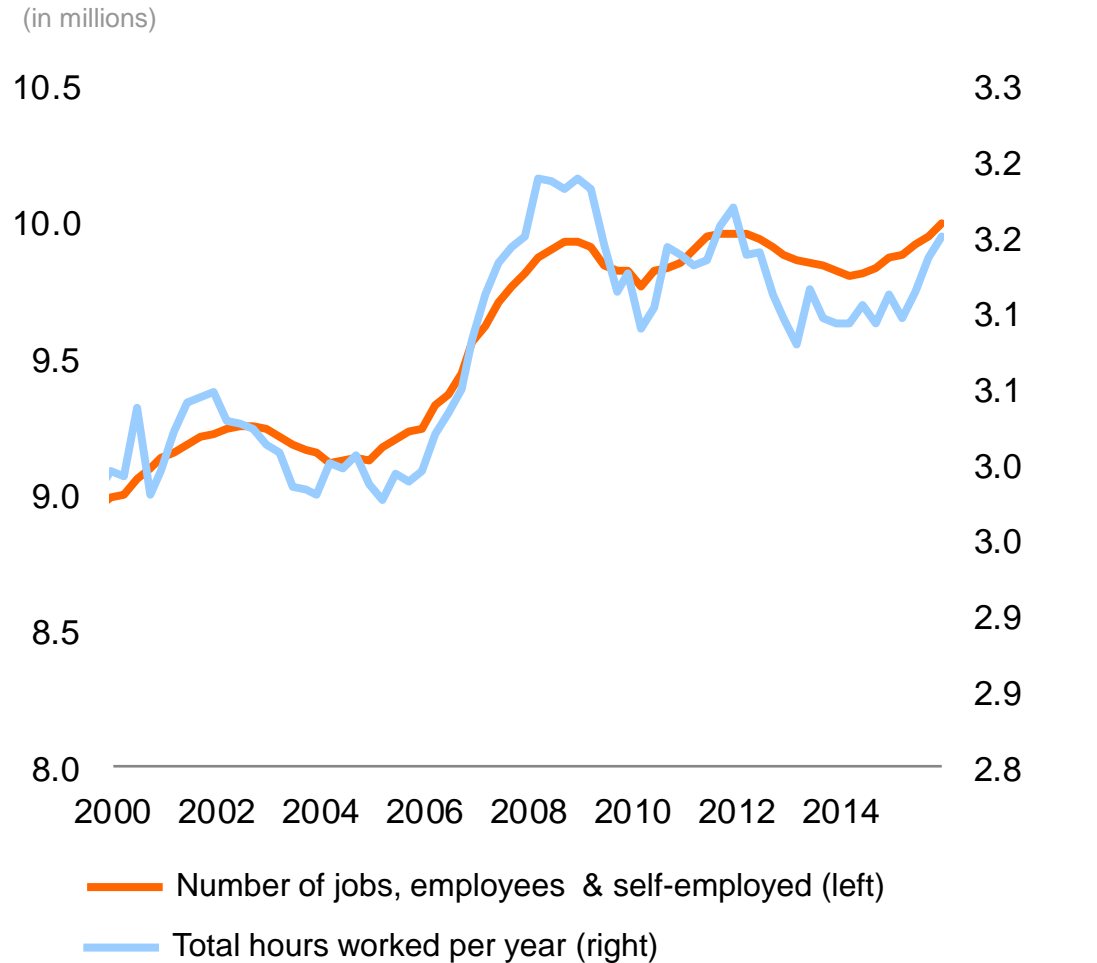


Leading indicators have turned positive

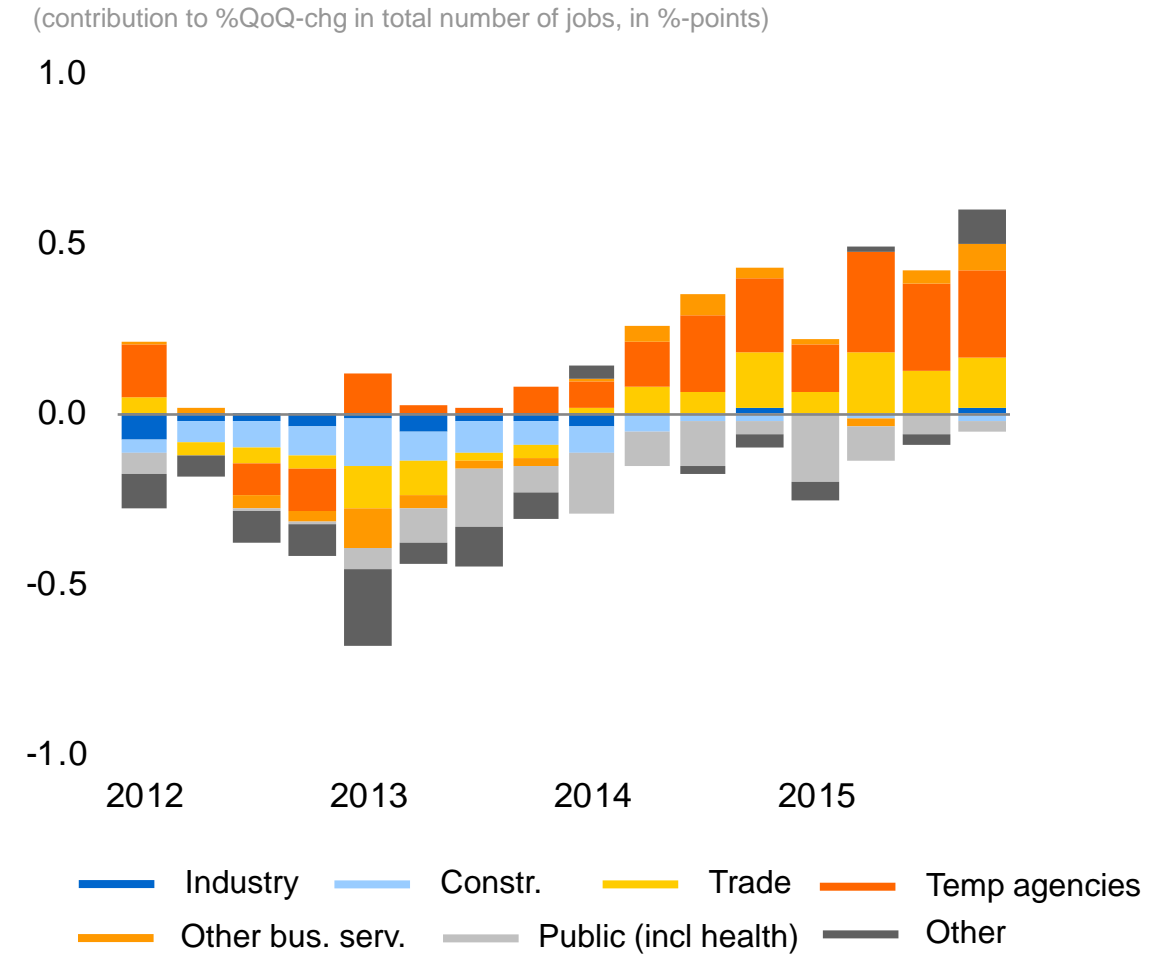


Employment rises again as market sector adds jobs

Number of jobs back at pre-crisis level, total hours worked not yet



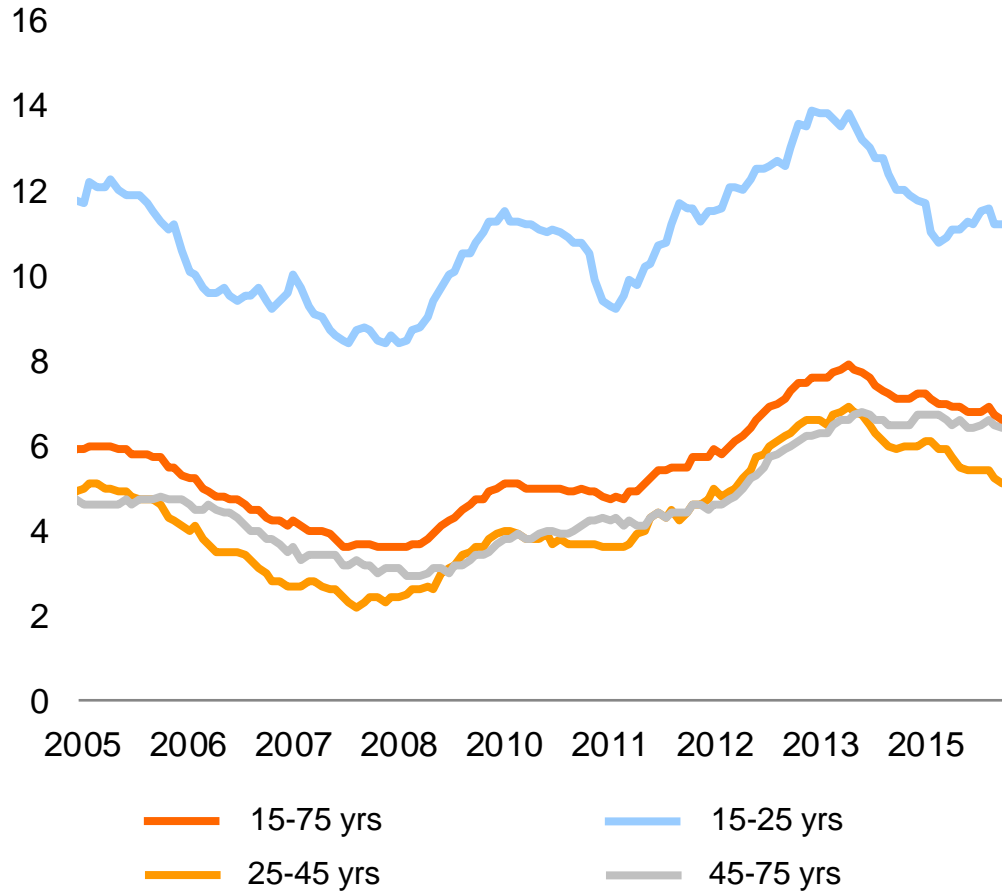
Trade and services sector main job creators



Unemployment is falling, but not for all age groups

Unemployment amongst 45+ remains stubbornly high

(unemployment as % of labour force)



Risk of 'hidden' jobless in self-employment boom

(in millions)

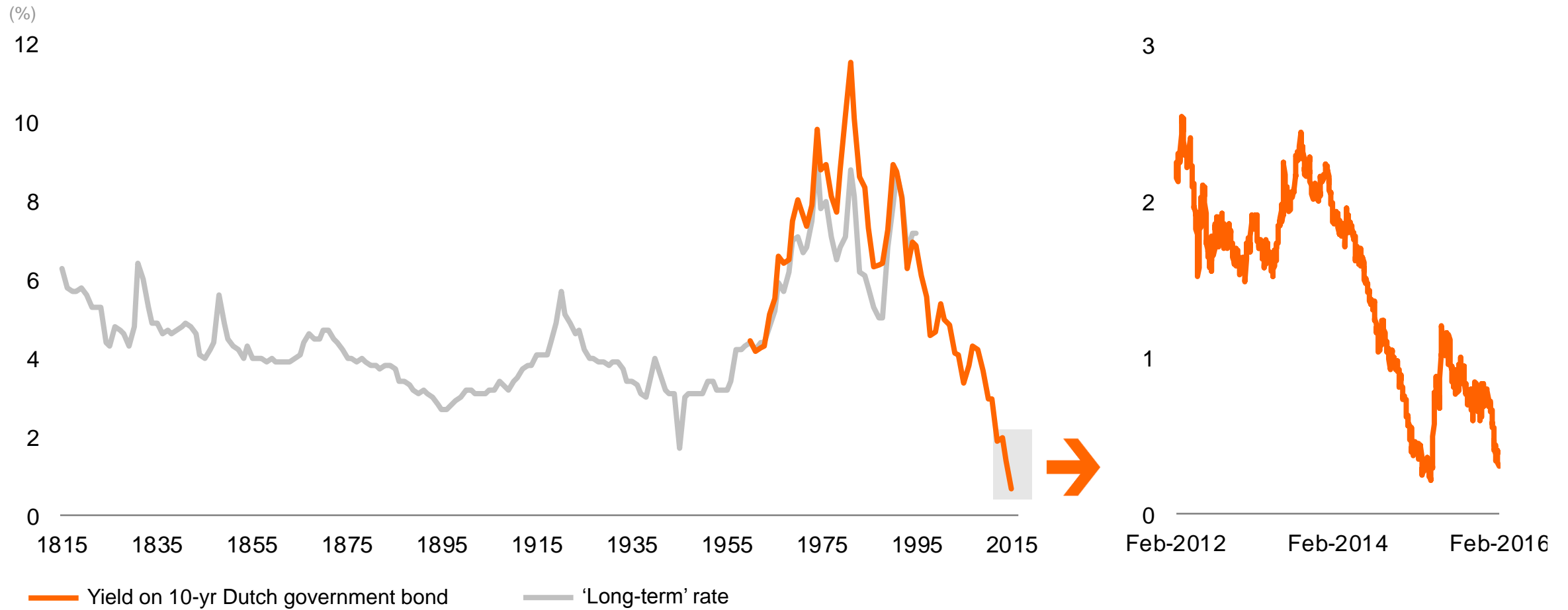


Government

- The strong economic revival is having a positive effect on government finances. In 2015, the **fiscal balance budget is forecast to have improved** to around -2.0% of GDP from -2.4% in the previous year.
- 2016 should see a further fall to around -1.8%. A stronger labour market results in fewer unemployment benefits and boosts tax revenues. In the first three quarters of 2015, income taxes were already up 14% on the year. In addition, cuts in healthcare and low interest rates lower expenditures.
- The **improvement in revenues is limited by tax cuts** (worth 5 billion euro) **as well as the government's decision to lower the gas production** in Groningen. Combined with low oil prices, this will result in a fall in gas revenues by some 5 to 6 billion euro (or 0.7% GDP). Going forward, costs attached to the rising inflow of refugees could have further budgetary ramifications.
- With the *headline* deficit now comfortably below the 3%-threshold, attention has shifted to the *structural* (or cyclically-adjusted) deficit. The tax cuts and lower gas income most likely will keep the **structural deficit above the EC's Medium-Term Budgetary Objective (MTO)** for the Netherlands of -0.5%.
- **Yield on Dutch government bonds have reached historically low levels.** Improving financial conditions, a solid economic outlook and the ECB's QE have been important drivers. Yields on shorter-dated government bonds – maturities of 5 years and lower – are still in negative territory.

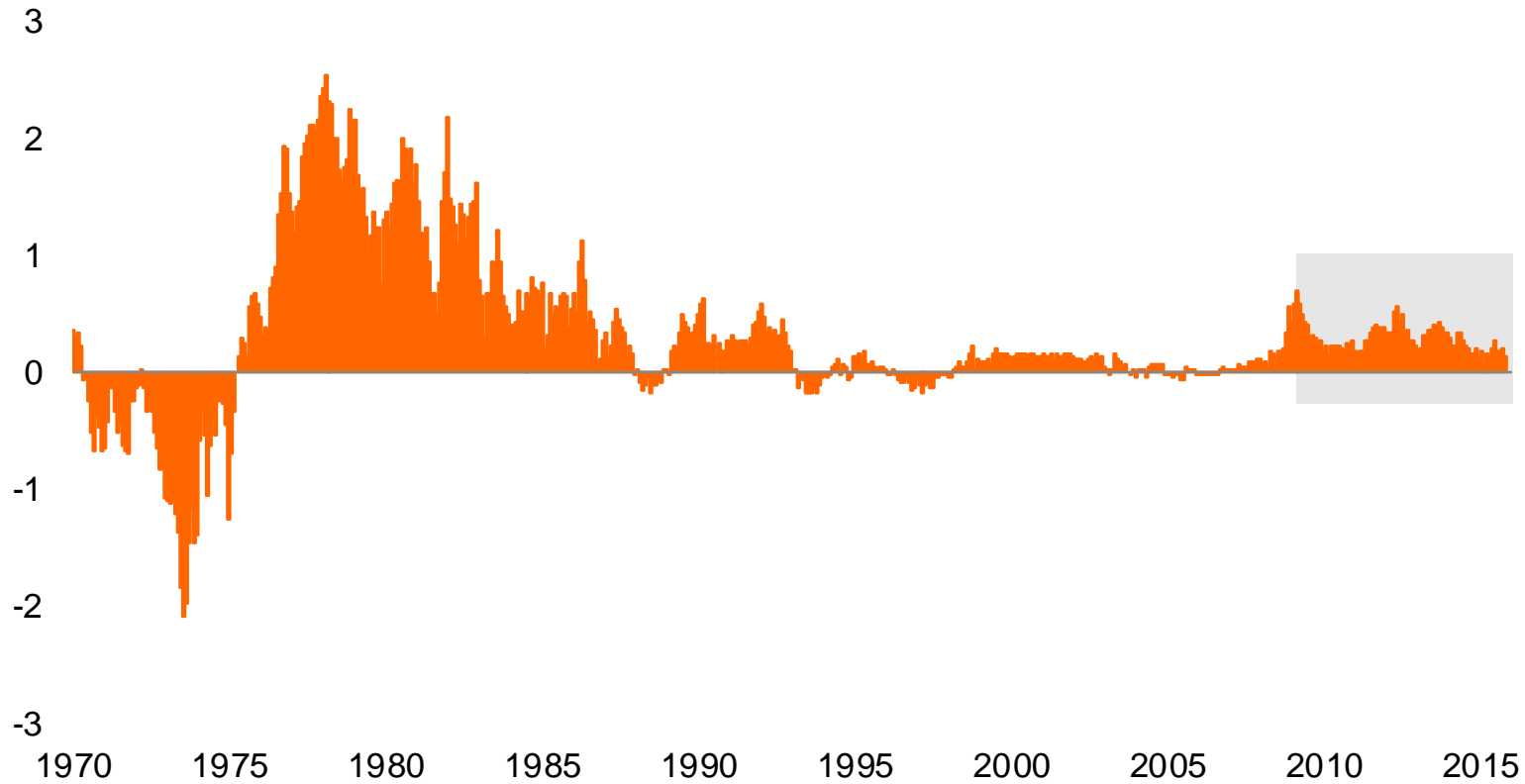
Dutch government bond yield at historically low levels

Yield on Dutch 10-yr government at very low levels

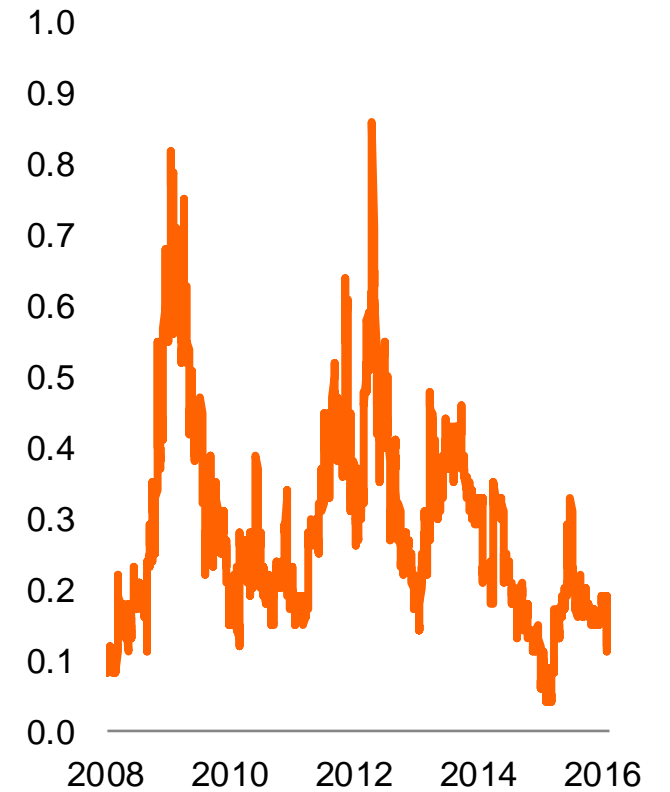


Dutch bond yield spread vs Germany has tightened

Spread has tightened since 2008....

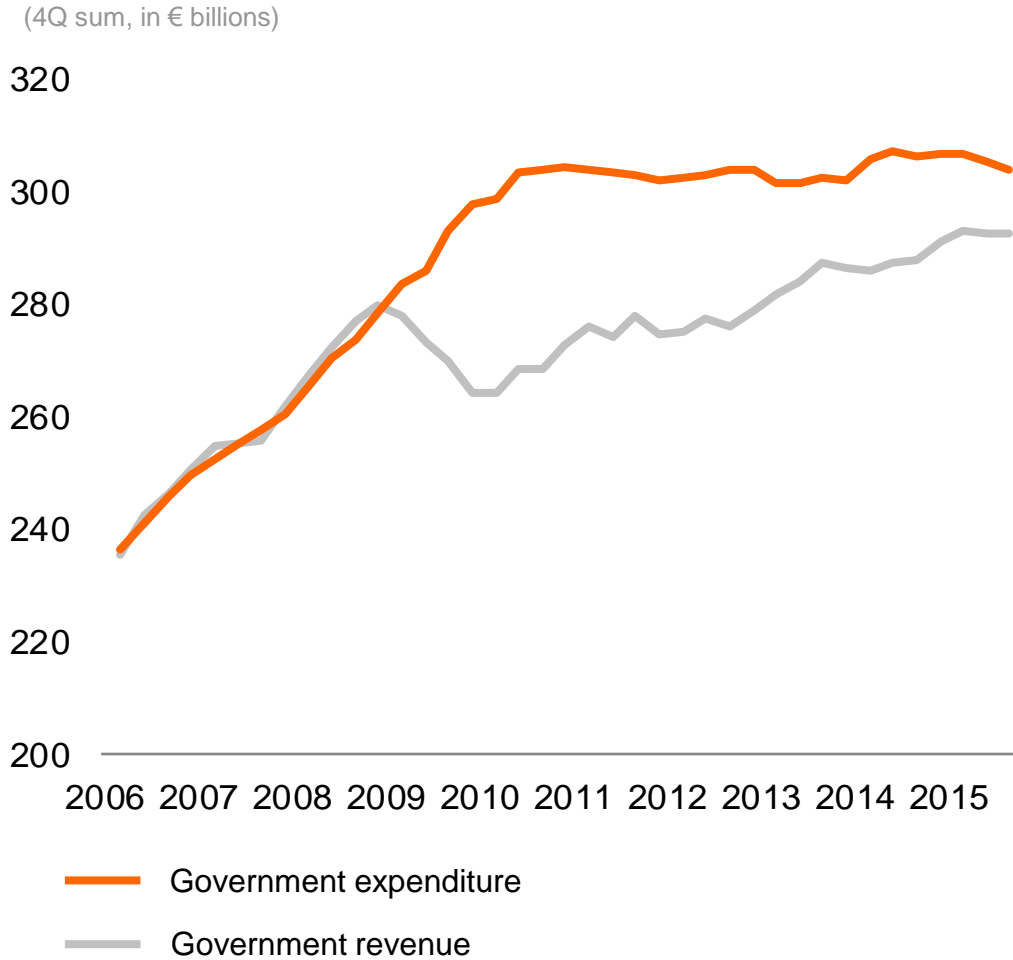


...and approaches pre-crisis level

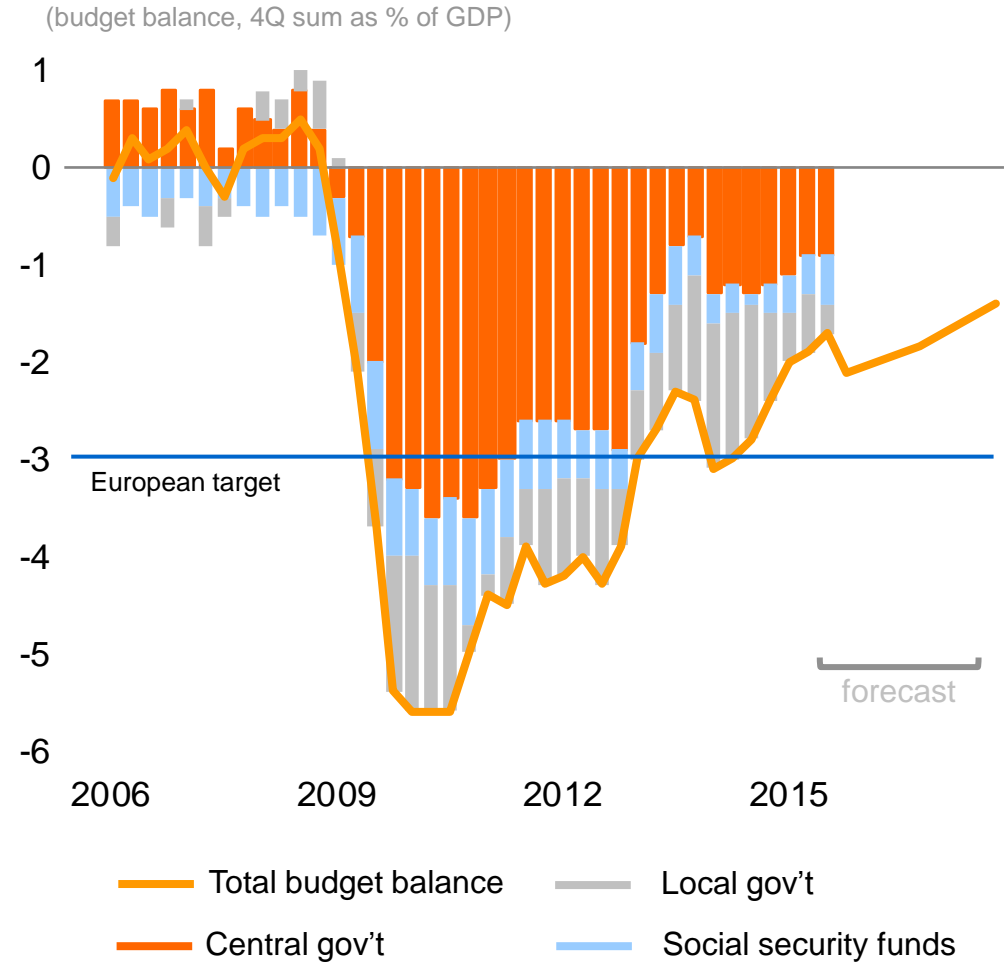


Off the European 'penalty bench'

The crisis has resulted in a large government budget deficit...

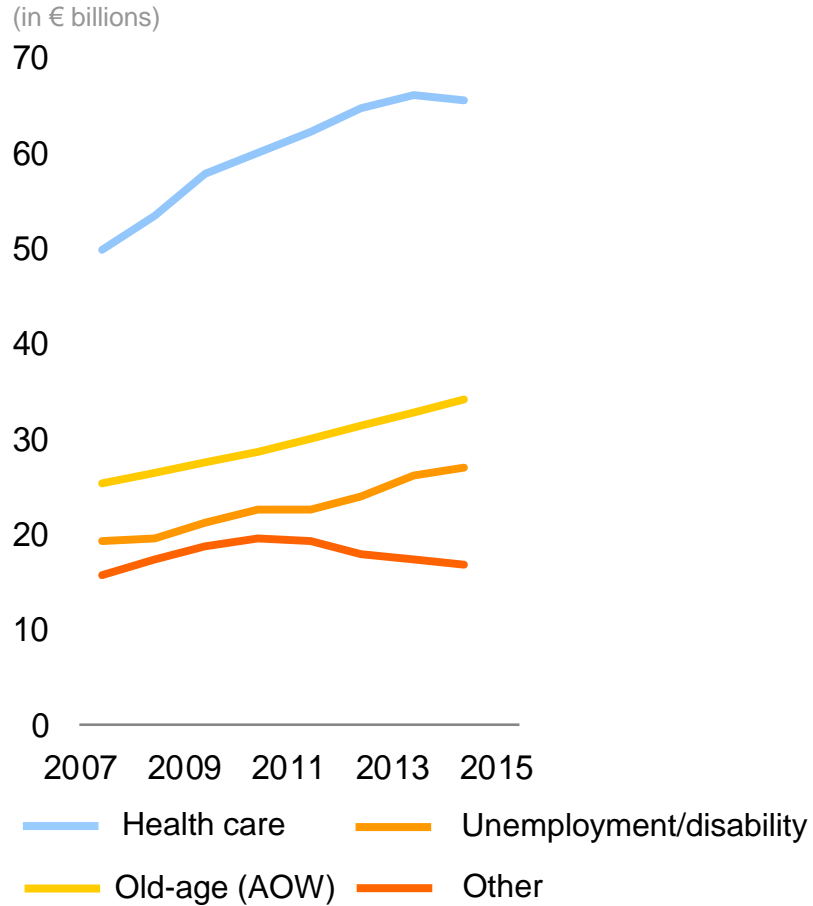


...but that gap is closing rapidly and has already shrunk to below 3%

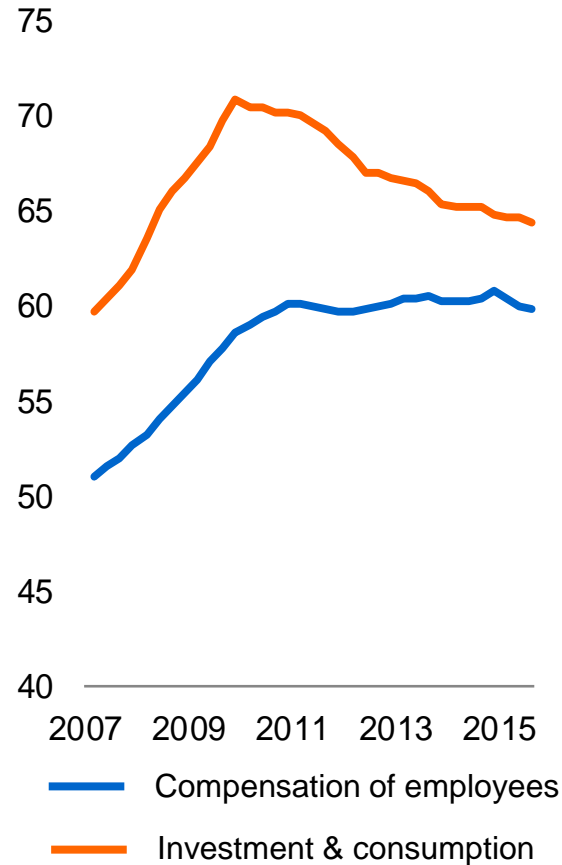


Government expenditures have, on balance, been stable since 2010

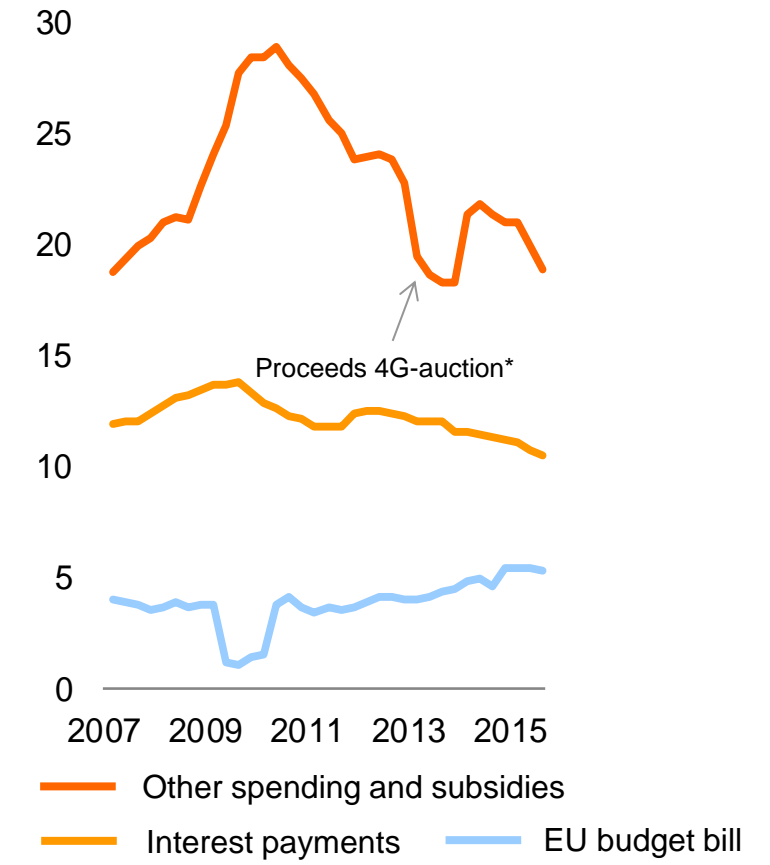
Rising social security cost...



...while wages have stabilized....



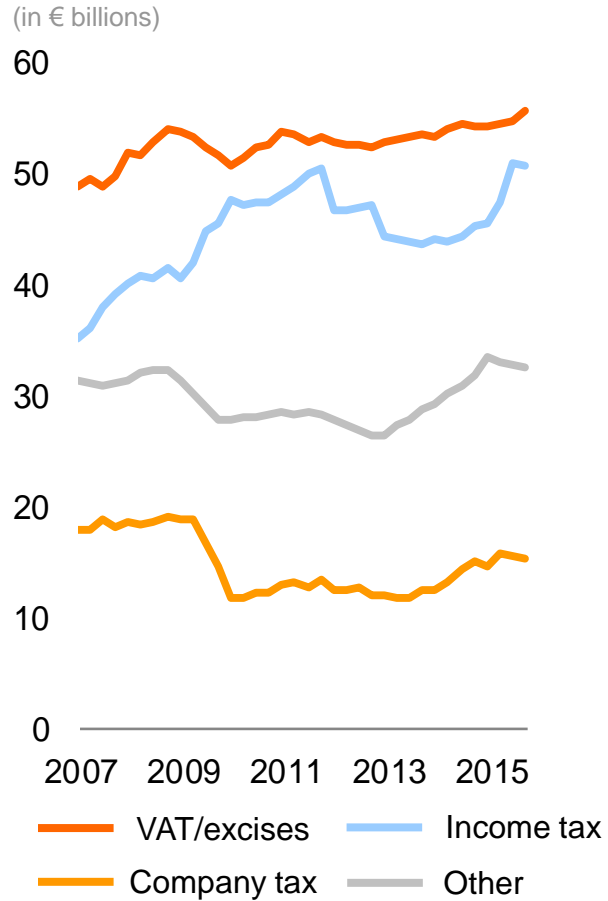
... and interest payments decline



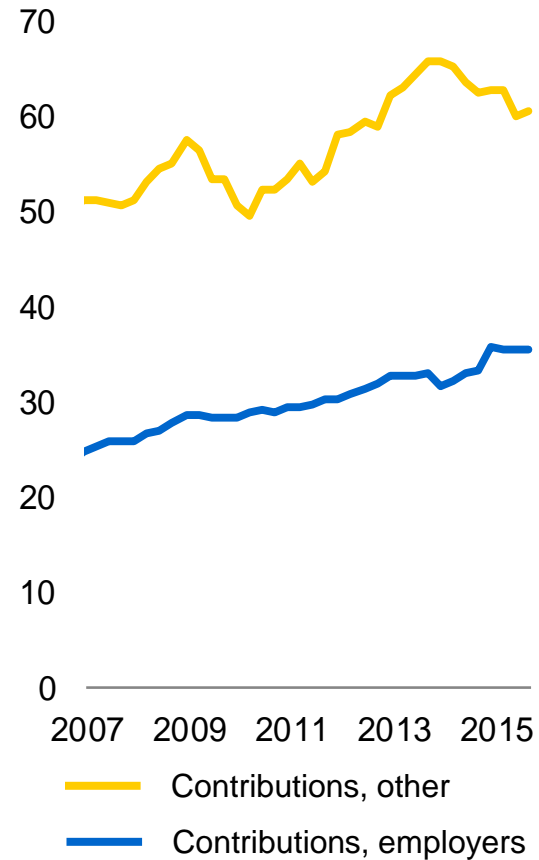
* In line with European guidelines booked as negative expenditure

Government revenues have increased

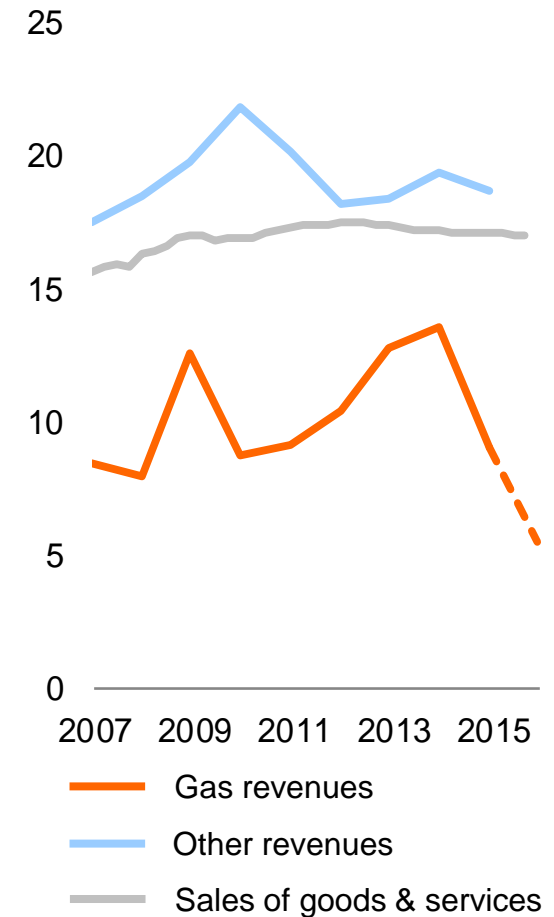
Income tax revenues have increased...



... as have social contributions...



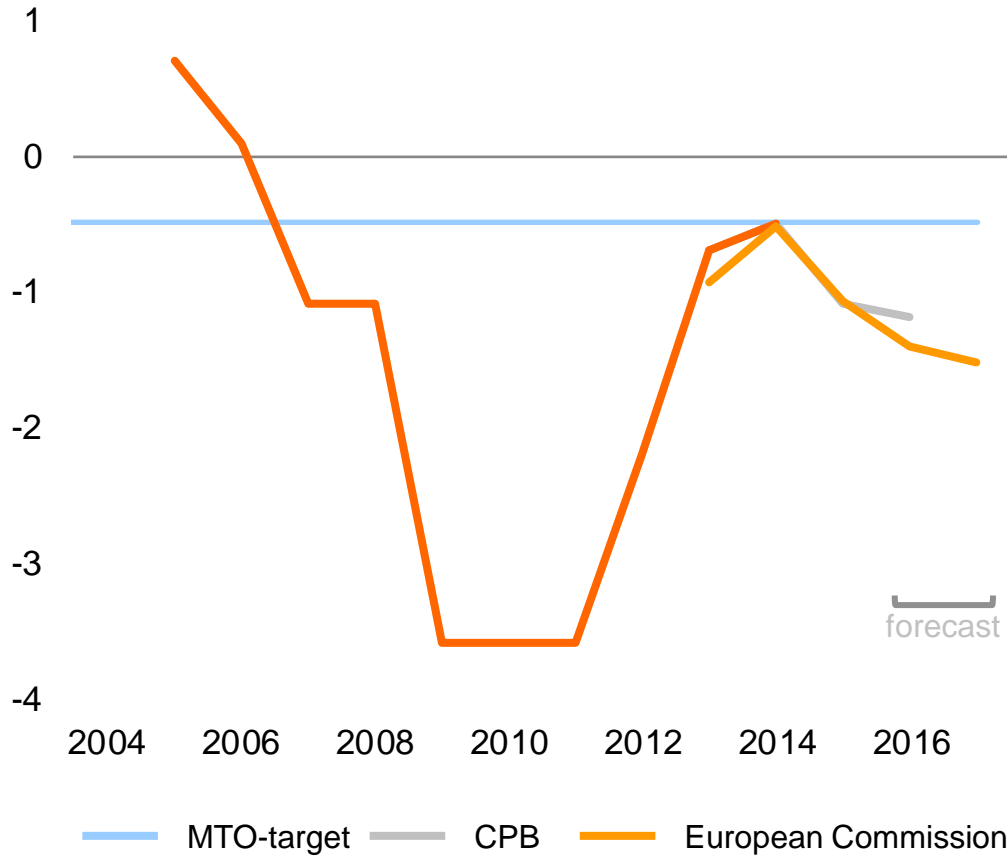
...but gas revenues are falling



Focus has shifted towards *structural* budget balance

Slippage in structural* government budget allowed?

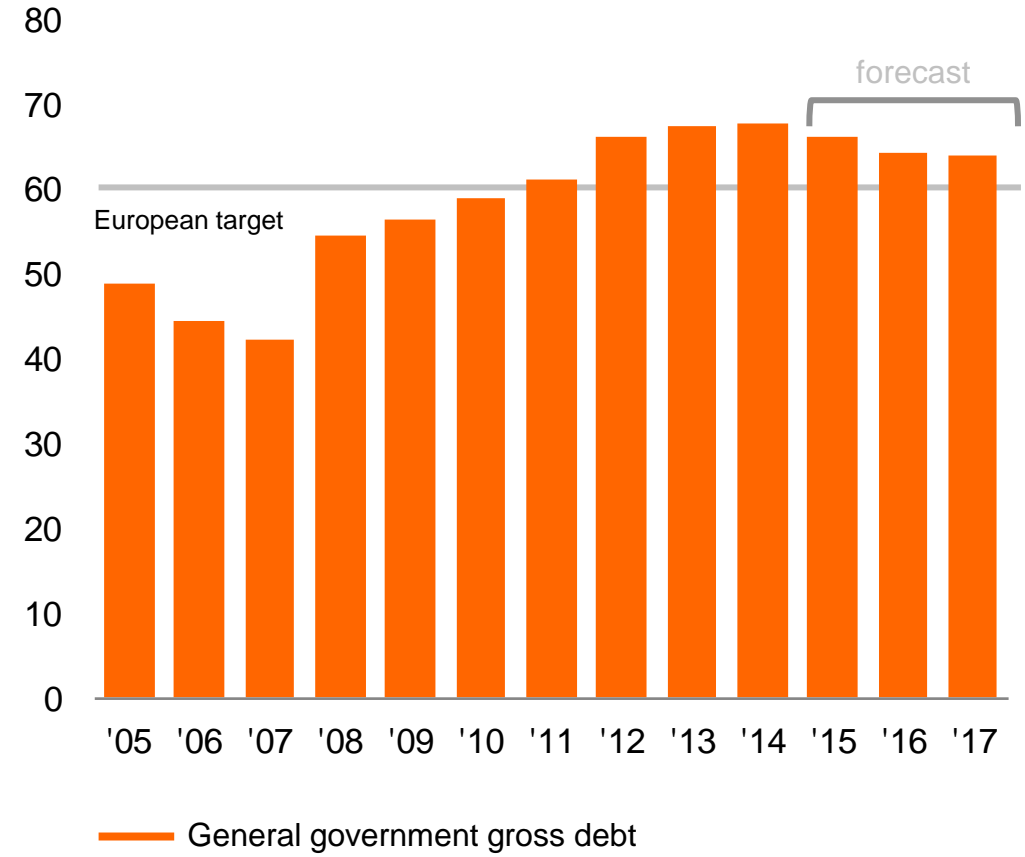
(government balance excl cyclical component and one-offs, in % of GDP)



* cyclically-adjusted headline balance excluding one-offs

Government debt falls, but remains above 60%-target

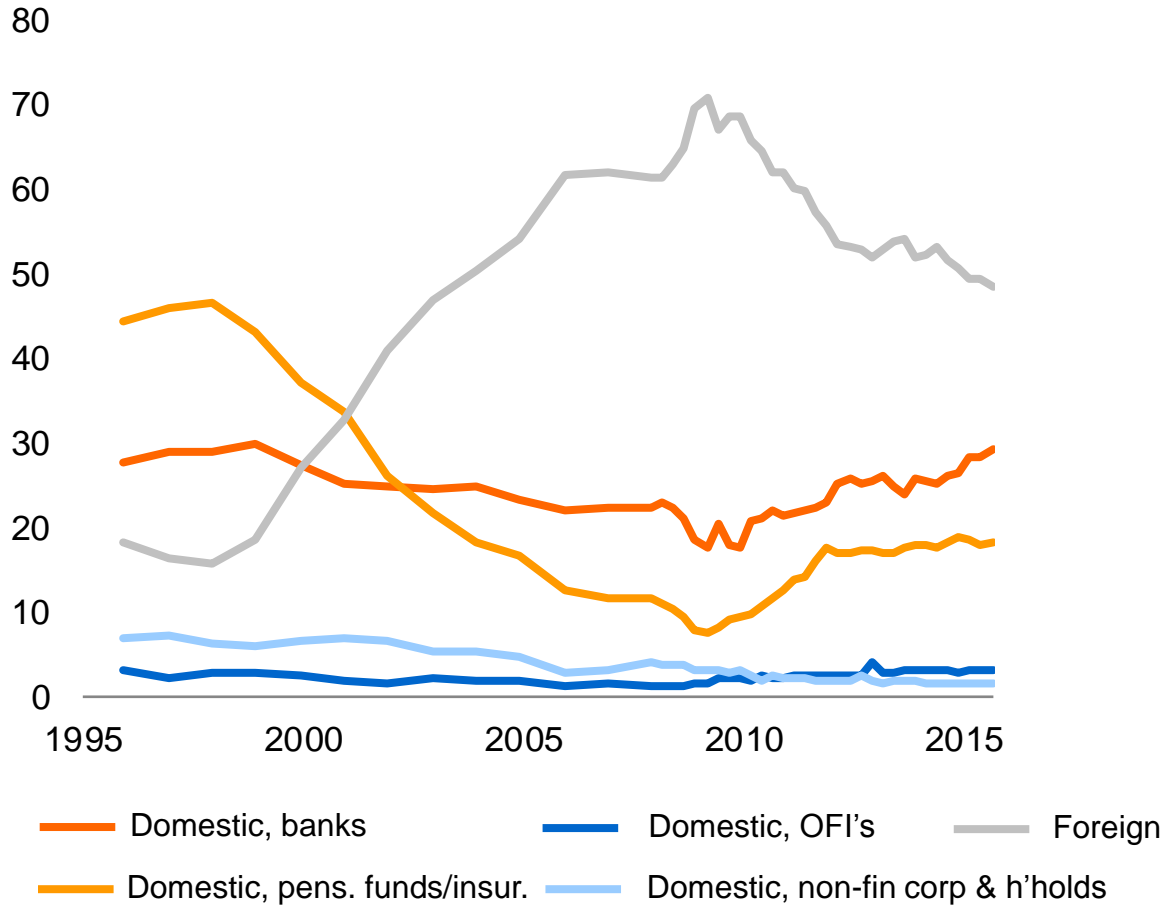
(debt as % of GDP)



More government debt in domestic hands, maturity increases

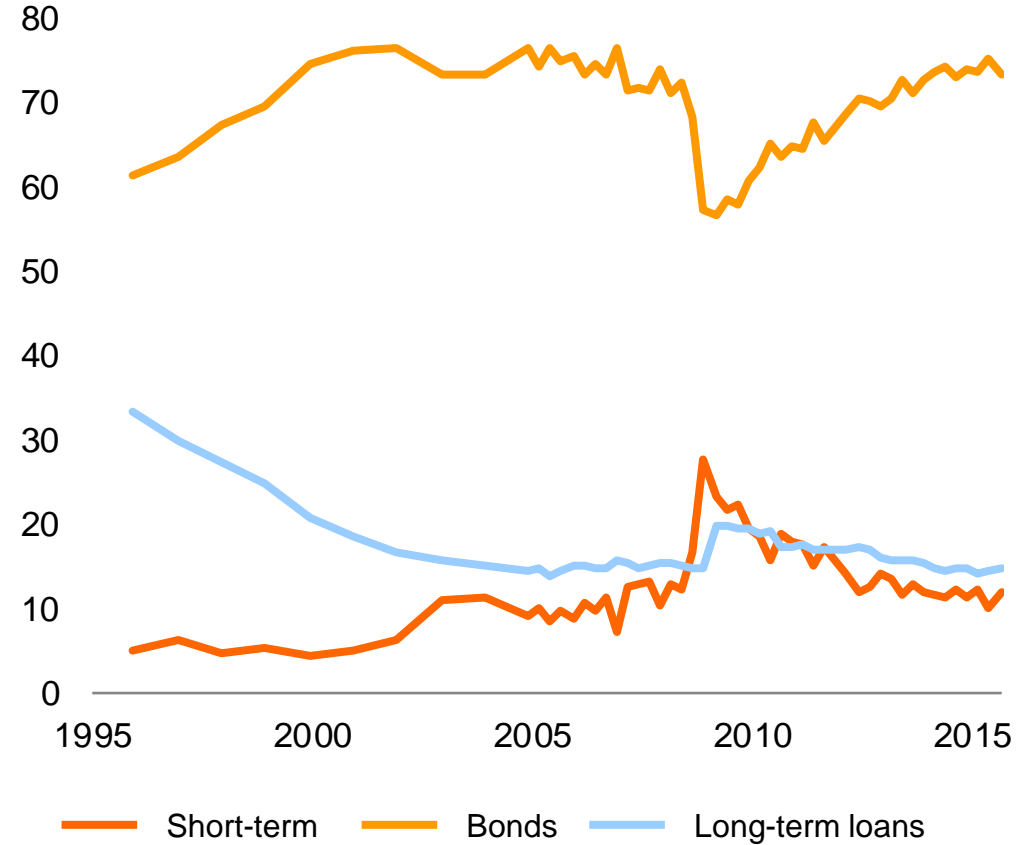
Foreign ownership government debt back at pre-crisis level

(share in total outstanding government debt, in %)



Debt maturity increases as bond yields drop

(debt as % of GD)



Data sources

Slide Sources

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2	
3	[Summary]
4	ING Forecasts
5	Macrobond, ING calculations
6	Macrobond, ING calculations, ING Forecasts
7	[International trade]
8	Macrobond
9	Macrobond
10	Macrobond
11	[see notes below chart]
12	[Sectors & investment]
13	Macrobond, ING calculations
14	NEVI/PMI, Macrobond
15	ING, Statistics Netherlands
16	DNB, Statistics Netherlands, Macrobond, ING calculations
17	Macrobond, ING calculations

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18	Macrobond
19	[Consumption]
20	Macrobond, CPB, Statistics Netherlands, ING forecasts
21	Macrobond, ING calculations
22	Statistics Netherlands, ING forecasts
23	Macrobond, Statistics Netherlands, ING calculations
24	[Inflation]
25	Macrobond
26	Macrobond, ING calculations and forecasts
27	Macrobond, ING forecasts
28	[Housing market]
29	VEH, Google, MNW, Macrobond, ING Calculations
30	BIS, NVM, Land Registry, Macrobond, ING Calculations
31	NVM, Macrobond, Huizenzoeker, Funda, ING Calculations
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33	Macrobond, Statistics Netherlands, ING calculations
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35	Macrobond, Statistics Netherlands, DNB, ING calculations
36	NHG, CPB, Land Registry, Statistics Netherlands
37	[Labour market]
38	Macrobond, Statistics Netherlands, ING forecasts
39	Macrobond, Statistics Netherlands, ING calculations
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41	[Government]
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