



Labour market records: what goes up must come down

Dutch Economy Chart Book

Introduction

A visual snapshot of the Dutch economy

In more than a hundred charts, the ING Dutch Economy Chart Book provides an overview of recent economic developments in the Netherlands as well as insights in structural characteristics of the Dutch economy. Our chart book covers a wide range of economics topics divided over eight chapters. This version mainly focuses on the chapters export and non-financial business, providing a visual snapshot for a broad audience.

Our updating cycle

To keep the publication up-to-date, we release a new version about every four to six months. Each time, a selected number of chapters – including our forecasts – is updated. In this chart book the chapters on GDP, consumers, labour market, inflation and government are updated (cut-off date for most data February 13th 2020). For the remaining chapters about exports, nonfinancial businesses, and the housing market, both the data and conclusions will be updated in later releases.

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* Chapters updated in January-February 2020. The bulk of the other chapters updated on June 24th 2019.

Highlights

- Dutch [GDP growth](#) is still close to potential, but business cycle momentum is fading in the market sector. This is most visible in the deceleration of private investment. Domestic demand is the main growth driver, in part due to tax relief in 2020. We [project](#) only a minor slowdown in GDP growth from 1.7% in 2019 to 1.5% in 2020. Without expansionary fiscal policy, the slowdown would have been more pronounced than currently projected.
- Employment growth has maintained a surprisingly high pace recently. The level of employment is at record highs, due to higher participation rates and ongoing demand growth. At the benefit of workers, recent employment developments involve fewer flexible contracts and fewer temping jobs and an acceleration of contractual wages in collective wage agreements to 3.2% year-on-year in January 2020.
- Despite the record numbers of vacancies and a near record low unemployment rate of 3.0%, the [labour market](#), however, seems to become a little less tight in the near future. Leading indicators point in that direction. The share of Dutch companies with sales limitations due to labour shortages has slowly started to decrease, yet still from a high level.
- The unemployment rate can only go up. This may happen if labour supply keeps its strong upward pace while employment starts to lose traction. If the participation rate of men would return to the precrisis peak and the younger cohorts of women would continue replacing the older cohorts with low participation rates, the labour supply could increase by 207,000 people in five years' time.
- For many years since the global financial crisis, [private consumption](#) was the main weakness of the Dutch economy, but strong labour market developments should benefit consumption growth for 2020. Still, households on average buy 4% (in 2018) fewer consumption goods and services on balance than in 2008. It may take somewhere up to 2025 before the average consumption level is fully recovered to the pre-crisis level. The share of household expenditures that was spent on basic needs (housing, health care, energy and food & beverages) is much higher than before the crisis.
- Confidence among consumers has fallen considerably since mid-2018 to a long-term average level, in part due to looming pension cuts and the VAT-hike of 1 January 2019. Yet, we forecast accelerating consumption for 2020. The main reasons for the expected rise in 2020 are falling inflation, accelerating collective wages and labour income tax relief.

Forecast table – The Netherlands

percent change unless otherwise noted	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Demand and output*											
Gross domestic product	1,5	-1,0	-0,1	1,4	2,0	2,2	2,9	2,6	1,7	1,5	1,3
Private consumption	0,1	-1,1	-1,0	0,4	2,0	1,1	2,1	2,3	1,4	1,7	1,2
Government spending	-0,4	-1,2	0,0	0,6	-0,1	1,3	0,9	1,6	1,3	1,9	1,7
Investment	4,9	-6,3	-1,6	-2,4	29,2	-7,3	4,2	3,2	5,3	0,0	0,9
of which private	6,5	-5,9	-1,1	-2,2	35,3	-8,8	4,8	4,1	5,8	-0,7	0,3
Net exports (%-point contribution to GDP)	1,2	1,0	0,4	1,3	-3,9	2,9	0,9	0,7	-0,2	0,1	0,2
Labour and housing market											
Employment (based on hours worked)	0,7	-0,6	-0,6	0,4	1,2	2,2	2,3	2,2	1,7	0,7	0,0
Unemployment (% of labour force)	5,0	5,8	7,3	7,4	6,9	6,0	4,9	3,8	3,4	3,2	3,7
House prices	-2,4	-6,5	-6,6	0,9	2,9	5,0	7,6	9,0	7,0	4,5	2,5
Existing home sales (in 000s)	121	117	110	154	178	215	242	218	220	210	200
Government finances											
Government budget (% of GDP)	-4,4	-3,9	-2,9	-2,2	-2,0	0,0	1,3	1,5	1,3	0,7	0,1
Government debt (% of GDP)	61,7	66,2	67,7	67,8	64,6	61,9	56,9	52,4	50,4	48,8	48,0
Prices and rates											
Inflation (HICP)	2,5	2,8	2,6	0,3	0,2	0,1	1,3	1,6	2,7	1,3	1,6
Euribor, 3 month (% eop)	1,4	0,2	0,3	0,1	-0,1	-0,3	-0,3	-0,3	-0,4	-0,4	-0,3
Dutch gov't bond yield, 10yr (% eop)	2,2	1,5	2,2	0,7	0,8	0,4	0,5	0,4	-0,1	-0,1	0,1

* Not adjusted for working days

Forecasts as of 22 February 2019, much in line with [written outlook published here](#).

GDP

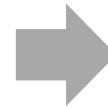
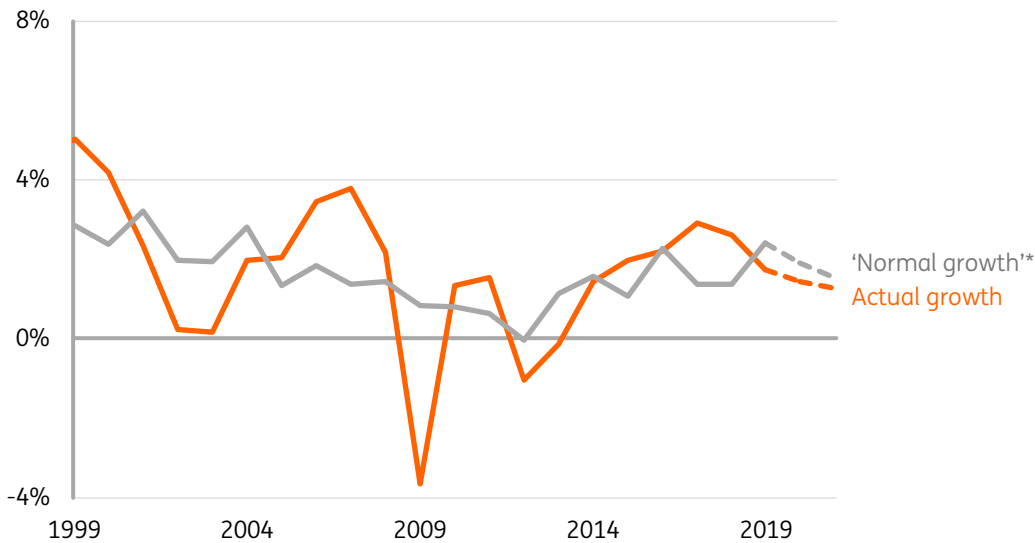
- Between 2013 and now, the Dutch economy has become the growth leader in comparison to euro area core economies, especially during the years when the fiscal drag faded and the housing market recovered. From 2008-2013, the Netherlands was the growth laggard in comparison to Belgium, Germany and France due to its severe housing market dip, large fiscal consolidation and the funded pension system.
- But now, Dutch GDP is 12% above the level seen in 2008 and GDP per capita 6% above. The economy is in a state of overheating, with a record low unemployment rate. Growth is currently still close to potential, but business cycle momentum is fading in the market sector. This is most visible in the deceleration of private investment.
- In recent years, both private and public domestic demand were the main growth drivers and are expected to continue to be so in 2020. We project a slowdown of GDP-growth from a high 2.6% in 2018 to a 'normal' 1.7% in 2019 and 1.5% in 2020. Without tax cuts and additional spending by the government, the slowdown would have been more pronounced this year than currently projected.

Chapter updated on February 17th 2020

Extent of overheating falling from 2019 onwards

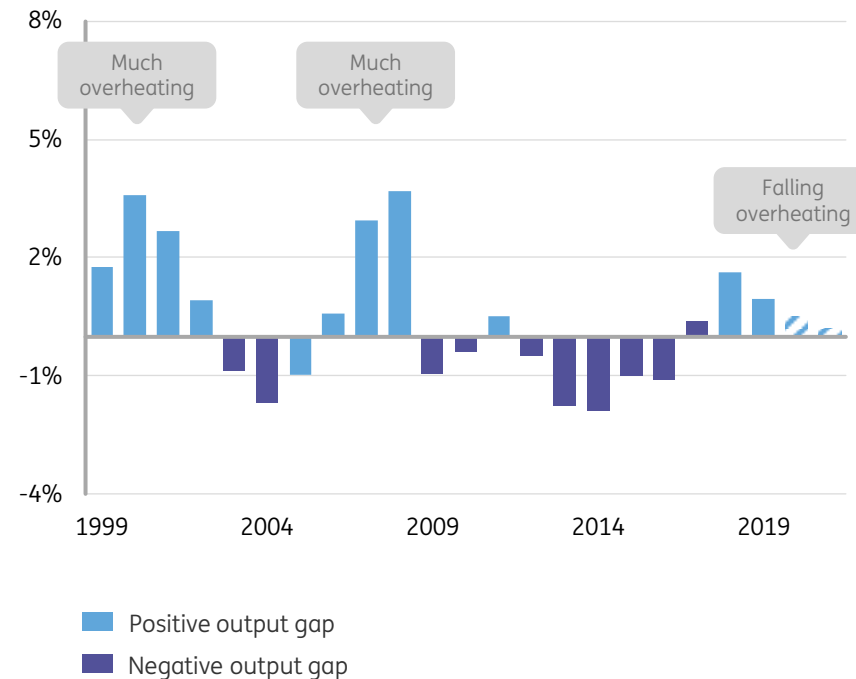
Growth rate falls slightly below the “normal” rate in 2019...

Growth of GDP, year-on-year



...which reduced extent of overheating

Difference between actual and potential GDP level, in % of potential GDP



* 'Normal growth' refers to model estimates of potential growth, which is the sustainable speed at which the economy can grow using labour and capital efficiently at the current level of technological development. This is consistent with a state of constant inflation. In the medium term, actual GDP converges to potential GDP. In the short run, it may deviate either positively or negatively.

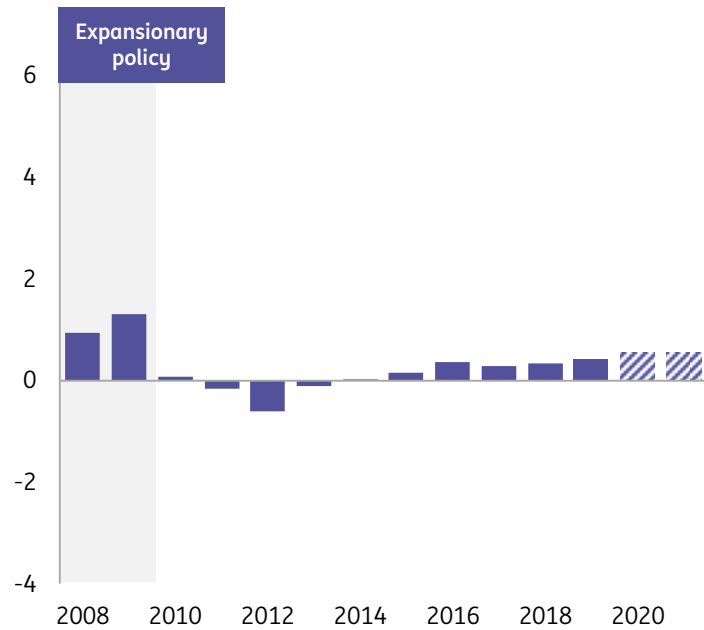
Source: CBS via Macrobond, CPB, ING forecasts

Source: CBS via Macrobond, CPB, ING estimates

Private domestic demand is currently the key growth engine

Government stimulus in 2008 and 2009

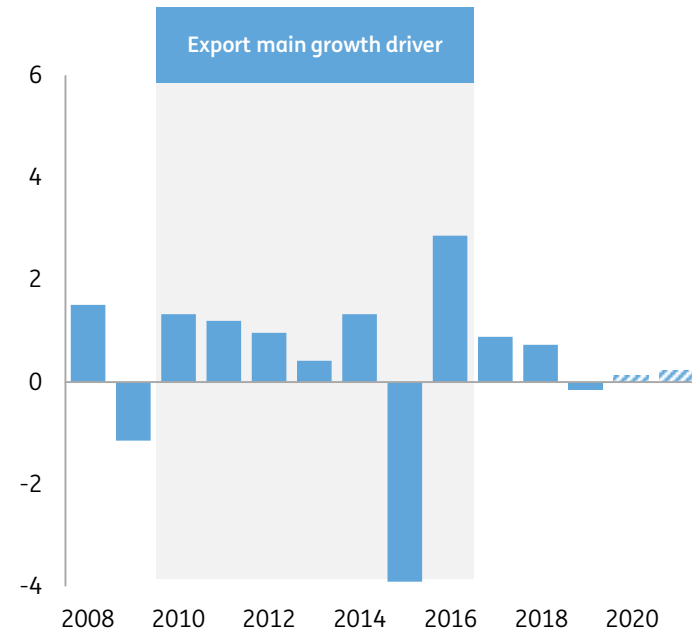
Contribution of government expenditures to GDP growth, in percentage points



Source: CBS via Macrobond, CPB, ING forecasts

Net export delivered a positive contribution from 2010

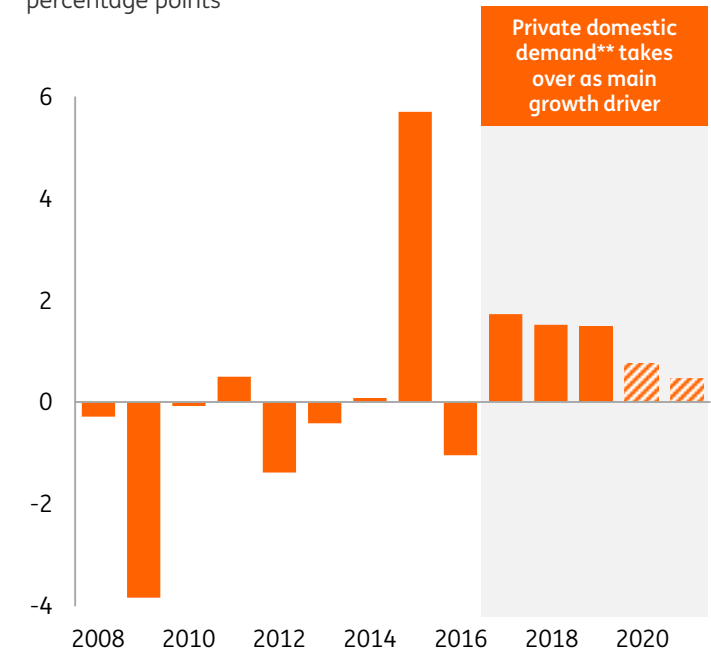
Contribution of net exports (exports - imports)* to GDP growth, in percentage points



*Extreme deviations in private investment and net exports in 2015 and 2016 are caused by a large one-off purchase of foreign intellectual property by a Dutch multinational in the commercial service sector

Private domestic demand took over from 2017

Contribution of private domestic demand** to GDP growth, in percentage points*

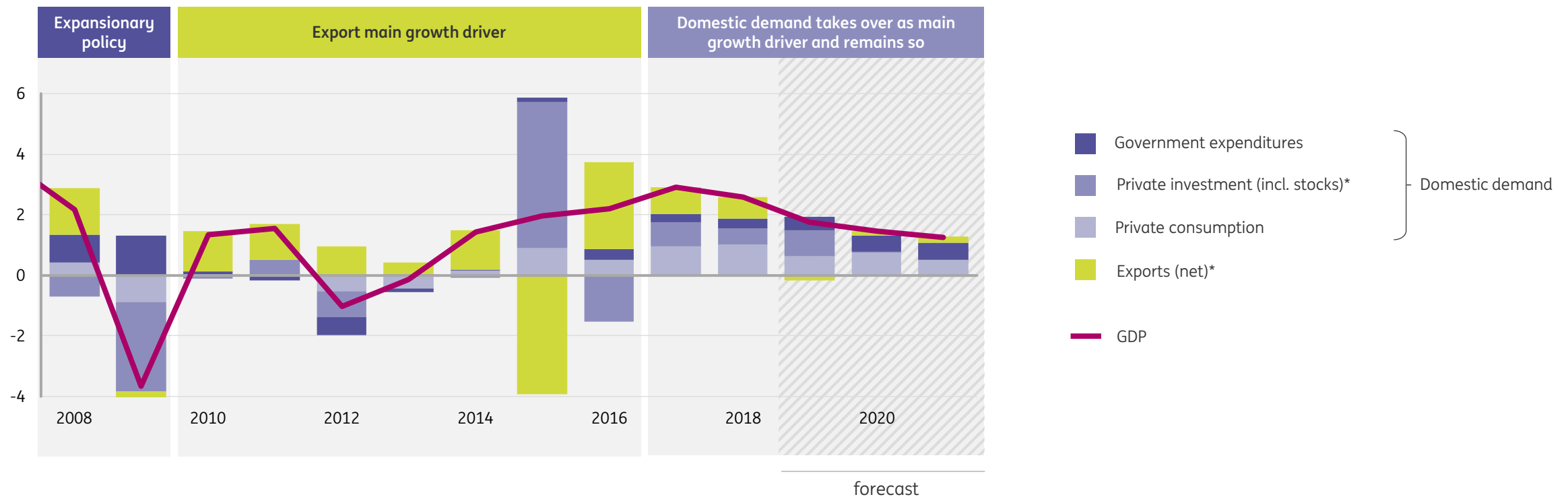


**Private consumption + private investment including inventories

Domestic demand is and remains the main growth engine

Domestic demand was the main growth engine in recent years and is forecast to remain so in the next years

GDP-volume growth (in %) and contributions to GDP-volume growth (in %-points)



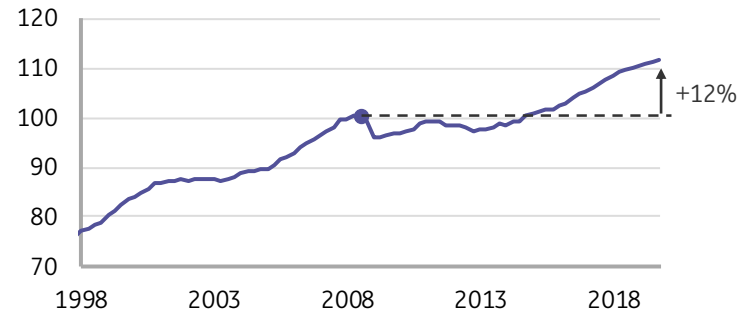
*Extreme deviations in private investment and net exports in 2015 and 2016 are caused by a large one-off purchase of foreign intellectual property by a Dutch multinational in the commercial service sector

Source: CBS via Macrobond, CPB, ING forecasts

GDP per capita left pre-crisis level behind

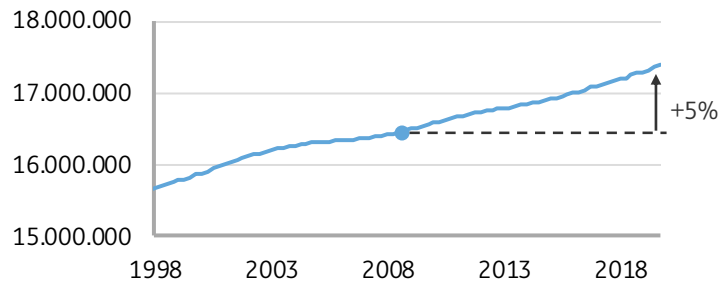
GDP almost 12% above 2008 level

GDP (index, 2008 = 100, seasonally adjusted)



While population grew by 5% since 2008

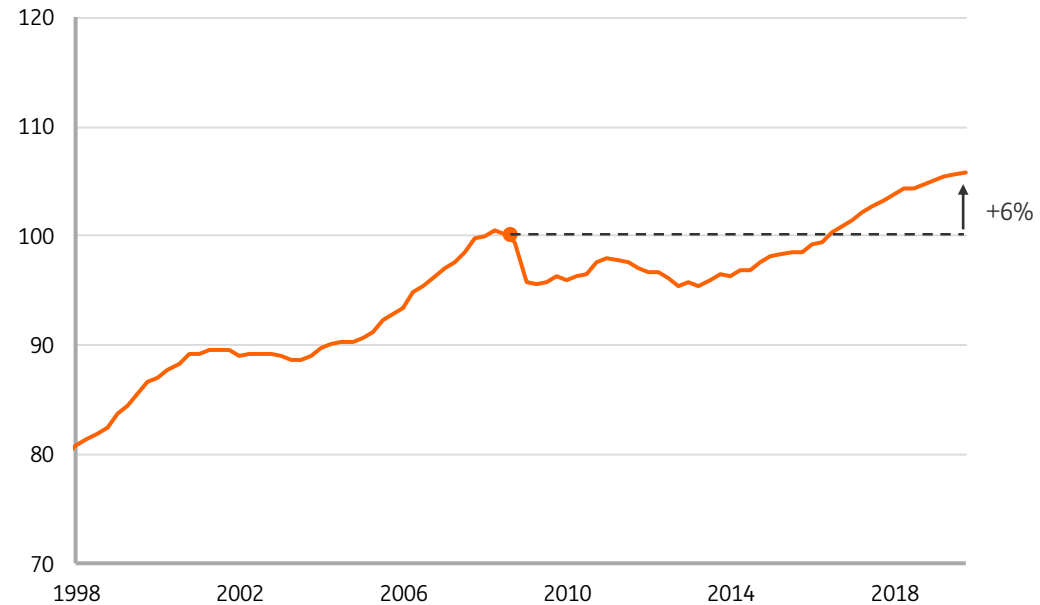
Population size



Source: CBS via Macrobond

Leaving GDP per capita 6% above 2008 level

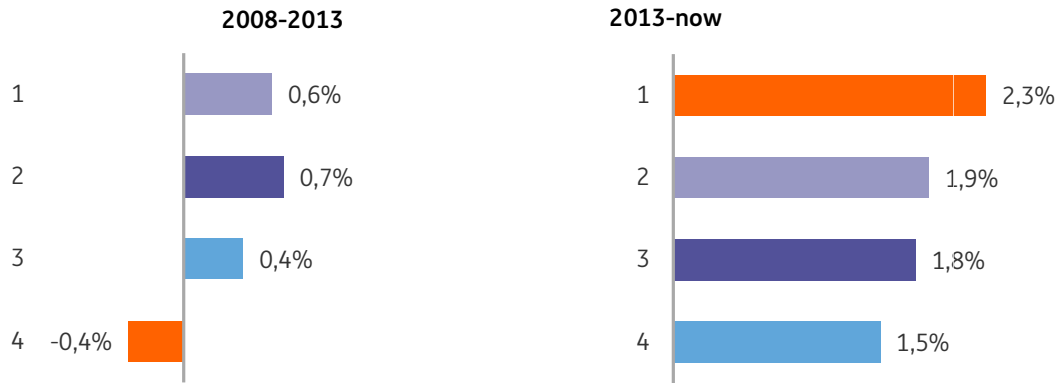
GDP per capita (index, 2008 = 100, seasonally adjusted)



Dutch economy outpaced euro area 'core' in recent years

The Netherlands from growth laggard to leader

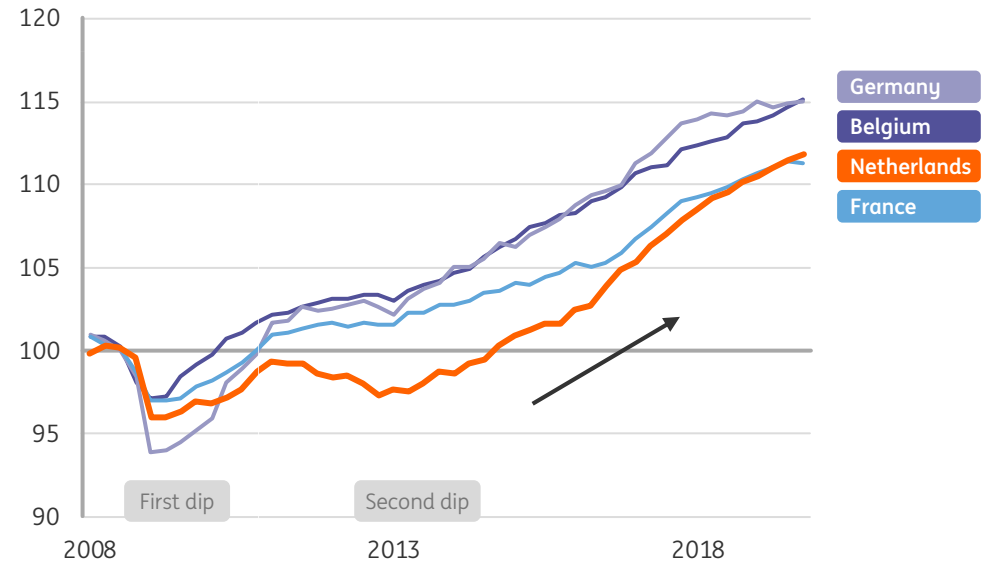
Average annual change of GDP (in constant prices, year-on-year, based on seasonally adjusted quarterly data)



Source: Eurostat and CBS via Macrobond

GDP development since 2008 of the Netherlands is catching up to the neighbours

GDP (index, 2008 = 100, in constant prices, seasonally adjusted)

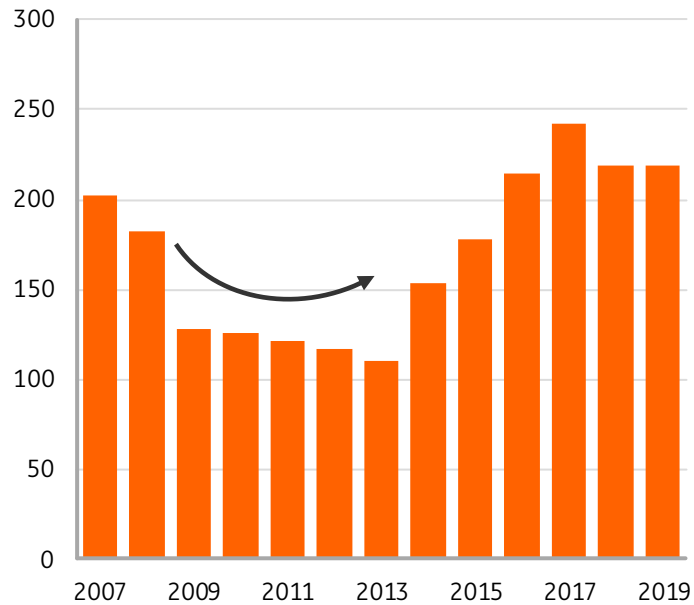


Source: Eurostat and CBS via Macrobond

Three factors contributed to second dip in economic growth and lag with peers

Factor 1: fewer home sales in 2009-2013

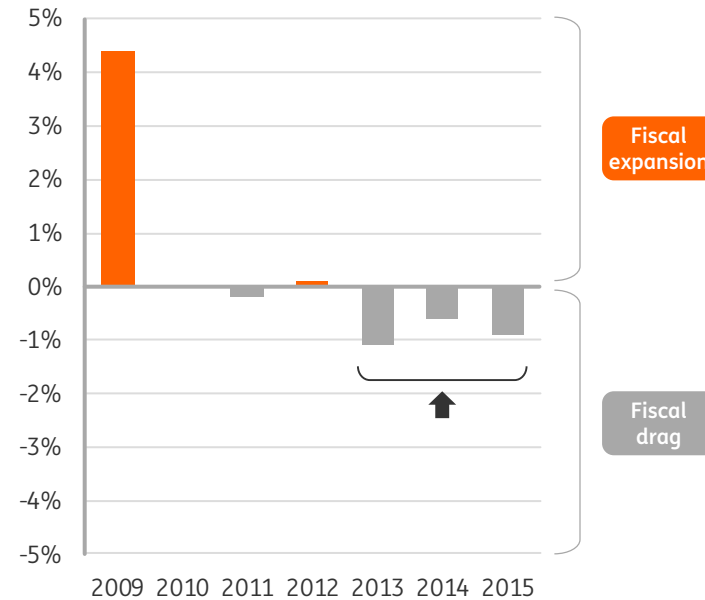
Existing housing sales in thousands



Source: CBS via Macrobond

Factor 2: fiscal drag especially in 2013-2015

Net fiscal expansion* as share of GDP

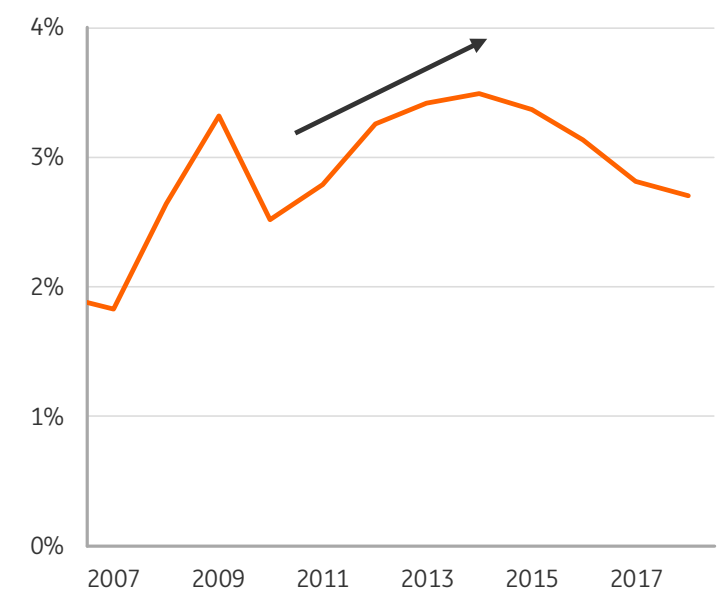


* Actual spending/revenue-to-GDP ratio – counterfactual with constant spending/revenue-to-GDP ratio

Source: CPB ([Van Es, Lukkezen & Van Tilburg, 2016](#))

Factor 3: higher net pension contribution in 2010-2014

Net pension contributions as share of GDP

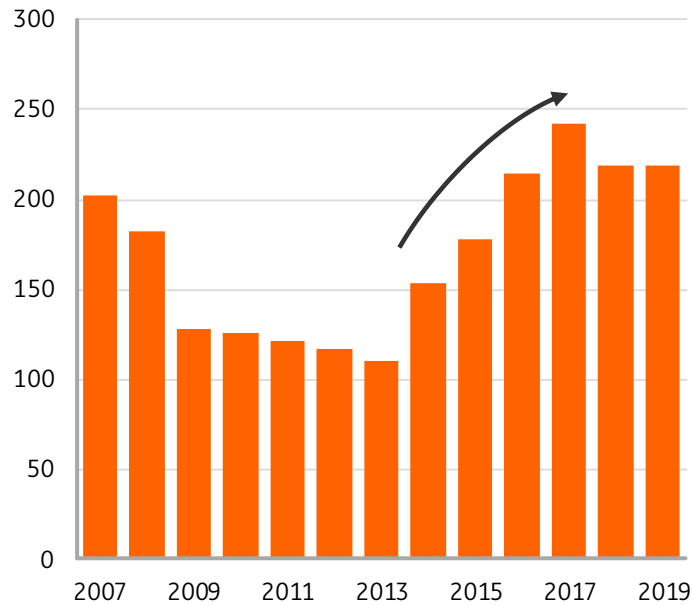


Source: CBS

Three factors contributing to catch up in GDP-development

Factor 1: more home sales from 2014

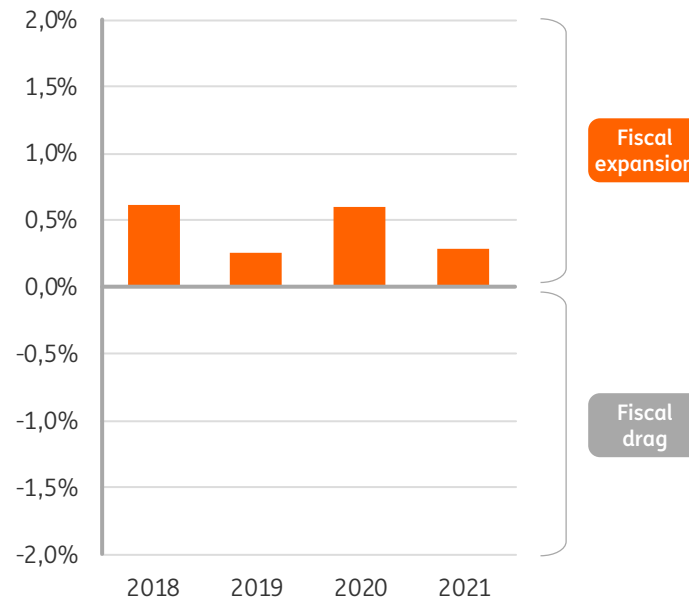
Existing home sales in thousands



Source: CBS via Macrobond

Factor 2: fiscal expansion in each year in 2018-2021

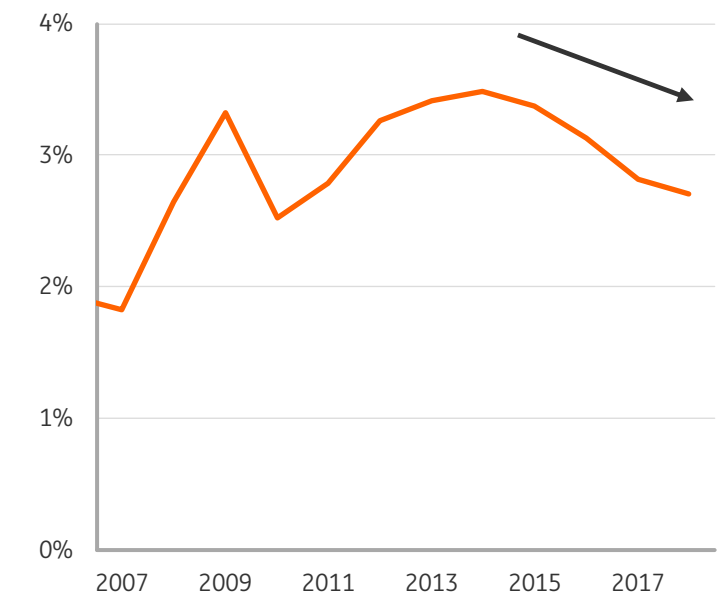
Intended net fiscal expansion of current coalition agreement, with respect to existing baseline, as share of GDP



Source: [CPB \(2017\) Actualisatie middellangetermijnverkenning 2018-2021 \(verwerking Regeerakkoord\)](#)

Factor 3: lower net pension contribution from 2014

Net pension contributions as share of GDP

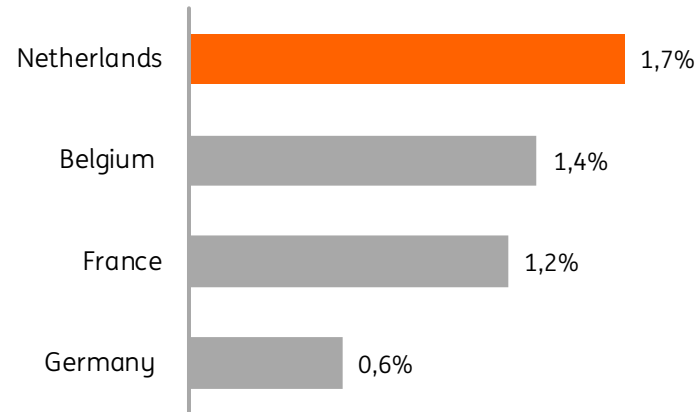


Source: CBS via Macrobond

Dutch economy continues to outpace euro area 'core' for 2 more years

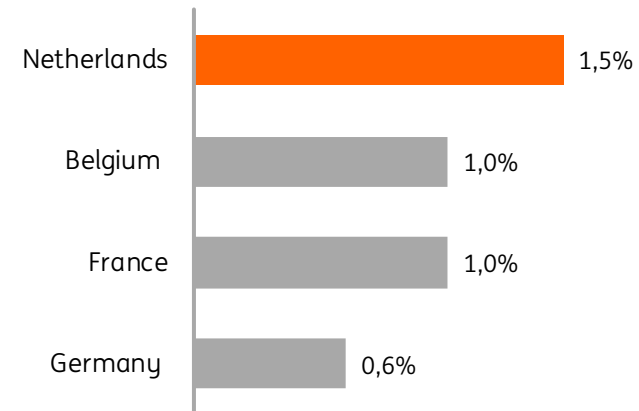
The Netherlands remains growth leader among euro area core in 2019

Projections of change of GDP in 2019 (in volumes, year-on-year)



The Netherlands' growth rate will remain highest in 2020

Projections of change of GDP in 2020 (in volumes, year-on-year)

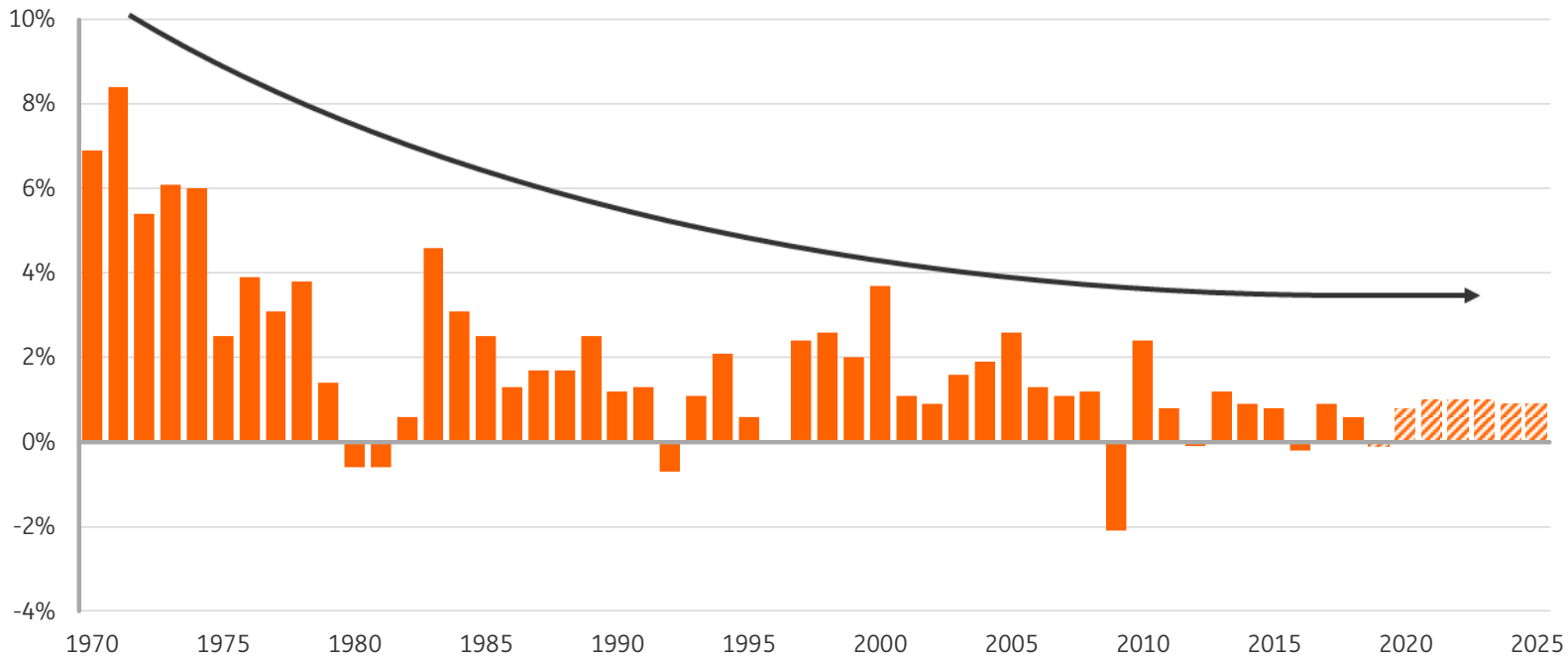


Source: ING Monthly Economic Update / ING Forecasts

Downward trend in labour productivity growth

Declining trend in labour productivity

Change in GDP volume per hour* year-on-year, in %



*GDP-volume per hour equals labour productivity growth
Source: CPB

Exports

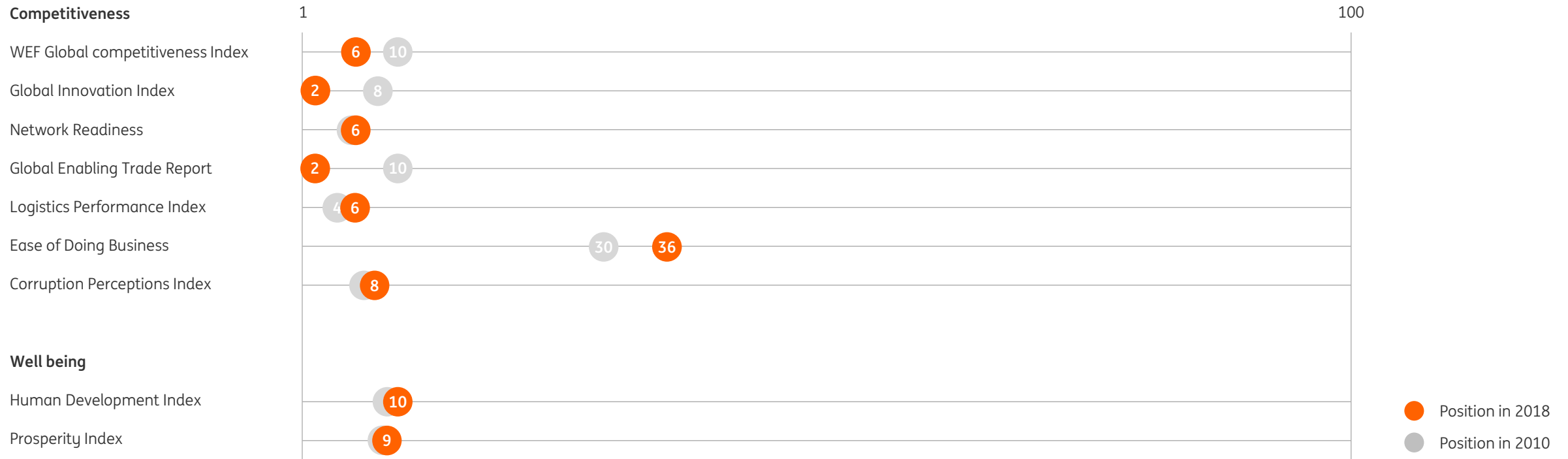
- A strong setback to trade growth at the end of 2018 and the damage from the trade war will make 2019 the [worst year for world trade](#) since the financial crisis, with only 0.4% growth projected by ING.
- The Netherlands mainly exports services and high-tech goods. As a result, and due to geographical proximity, exports from the Netherlands are mainly focused onto developed markets in Europe and the US. Given that European trading partners have shown a slowdown in growth (prospects), this has resulted in Dutch export volumes of domestically produced goods falling in recent quarters.
- Price competitiveness of the Netherlands was roughly stable in the last six months. In nominal terms, the export growth was a bit better than volume growth. While chemical and energy export were weak in recent months, agro, high- and medium tech were the better performing goods in terms of export growth.
- About one third of the Dutch economy depends on foreign demand, either directly or via inputs in the exports of other economies. Hence, the bleak world trade outlook worsened the export outlook for the Netherlands. Export order positions worsened, but on average businesses are still moderately optimistic for further growth in the coming months. Industry, however, judges order books to signal export stagnation rather than growth.
- For 2019, we forecast total Dutch export volume growth to be just 1.4%, far below historical averages. The main risk for the Dutch market is still a hard Brexit and an escalating trade war, especially if the US turns its attention to EU trade. This is partly incorporated in our projections. In fact, the depreciation of the Sterling has already affected Dutch nominal export to the UK considerably in the past two years. In value added terms, the UK accounts for 8% of Dutch exports and more than 3% of Dutch GDP. So, a further slowdown of the British economy will not go unnoticed. At the same time, demand from the US accounts for a small 4% of Dutch GDP.
- The Netherlands has recently become a natural net gas importer from a net gas exporter. However, the current account surplus is still expected to remain around 10% of GDP in the coming years. Imports (2.7% growth) are likely to outpace exports in 2019. All in all, we project the net contribution of foreign trade to be substantially negative this year.

Chapter updated on June 24th 2019

Dutch economy ranks consistently high on competitiveness

Dutch economy ranks high on competitiveness

Dutch economy rank on nine leading competitiveness indicators, among the first 100 economies



Sources: World Economic Forum, Global Innovation Index, World Bank, Transparency International, Human Development Index, The Legatum Prosperity Index

Goods: Germany main trading partner in two directions

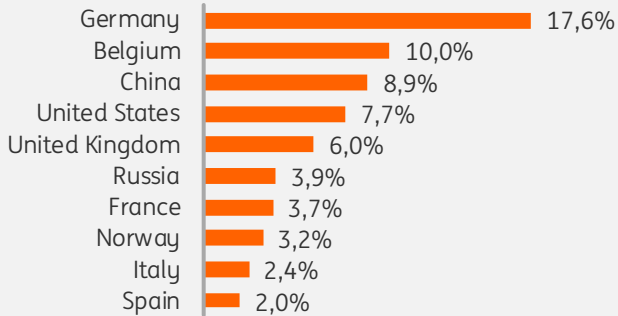
Imports

Exports

Goods

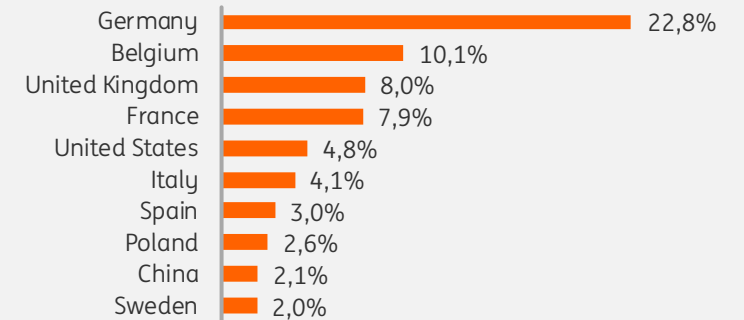
Good imports mainly from neighbouring countries

Share of Dutch imports of goods (based on turnover)



Germany most important export partner goods

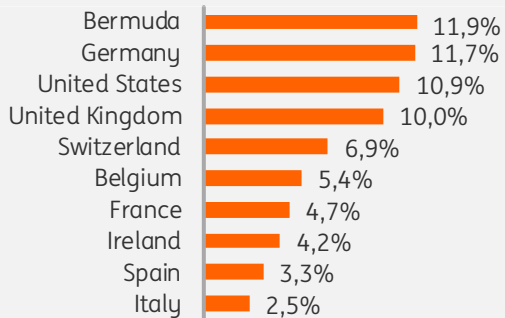
Share of Dutch exports of goods (based on turnover)



Services

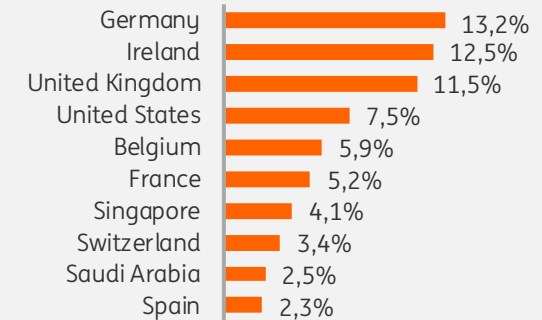
Service imports from all over the globe

Share of Dutch imports of services (based on turnover)



Germany most important export partner services

Share of Dutch exports of services (based on turnover)



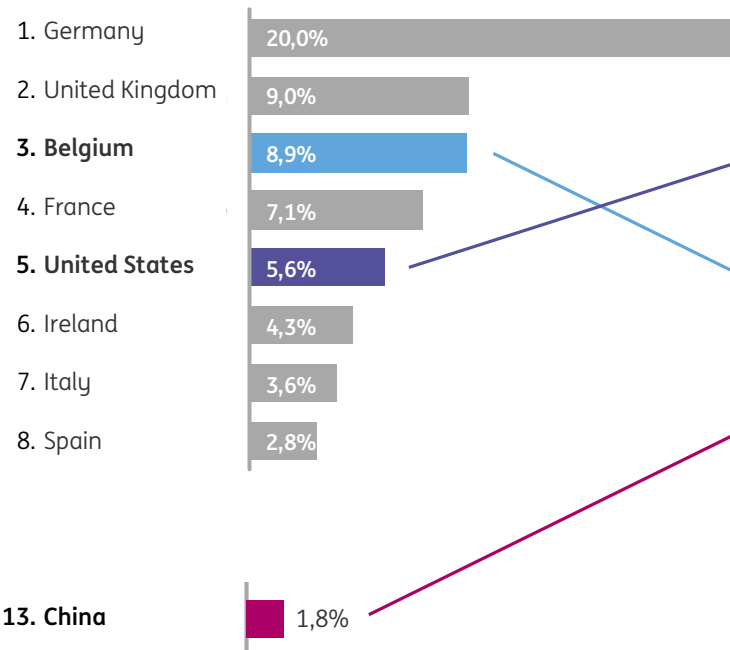
Source: CBS

Total exports: Value added view makes Belgium less important while US and China more

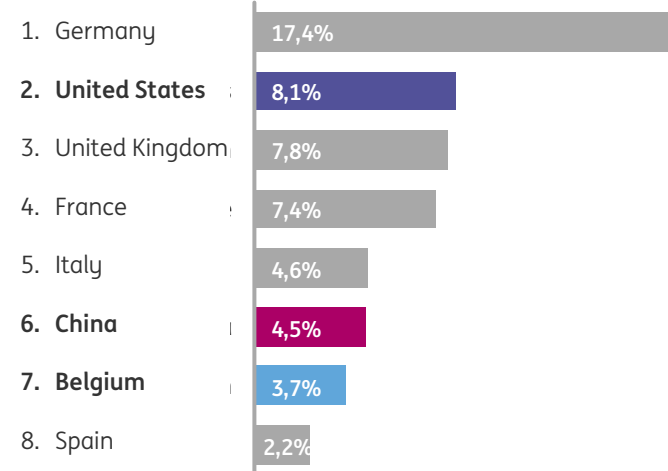
If we move from a traditional perspective on the importance of trade partners to a modern view, especially Belgium is less important for the Netherlands while the US and China become more relevant

Share of total Dutch exports in 2018 (turnover) and 2014 (value added)

Based on turnover



Based on value added



Source: CBS, WIOD

Dutch exports are mainly services and high tech goods

Most Dutch exports are services and hightech goods

Nominal export turnover in 2018, in billions of euro (based on seasonally adjusted monthly (goods) and quarterly (services) data)

Services (€207 billion)

Goods (€494 billion)



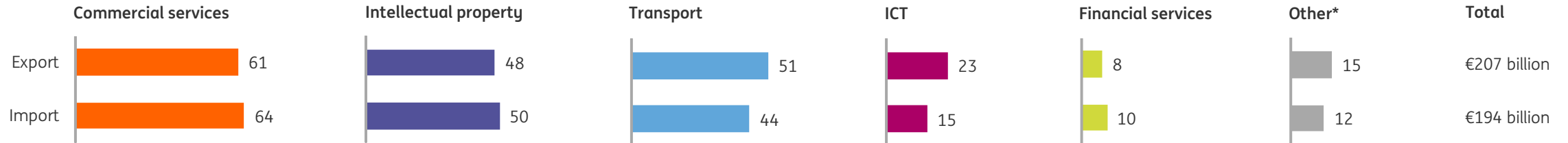
53%

Source: CBS

Services: exports and imports look alike

Composition of Dutch service exports and imports quite similar

Dutch export and import of services in 2018, in billions of euro



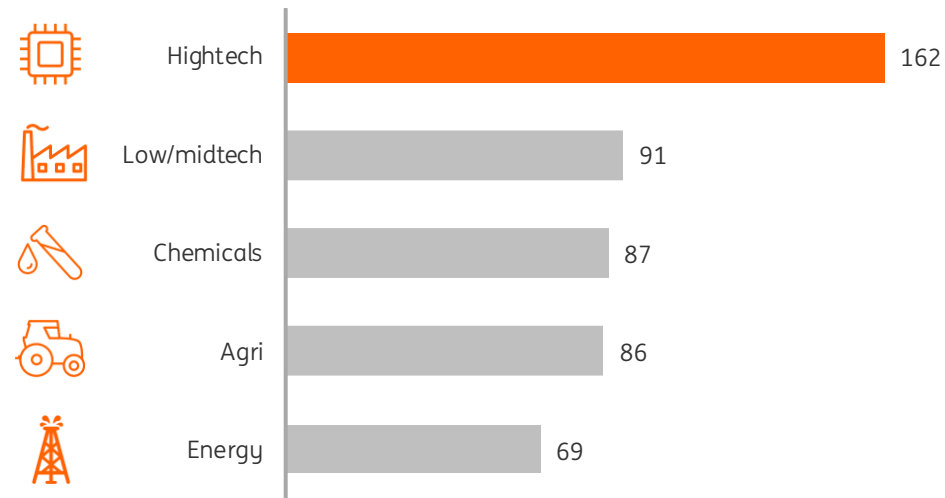
* Other (e.g. government services, construction, industry)

Source: CBS

High-tech most important export good, but much is re-exports

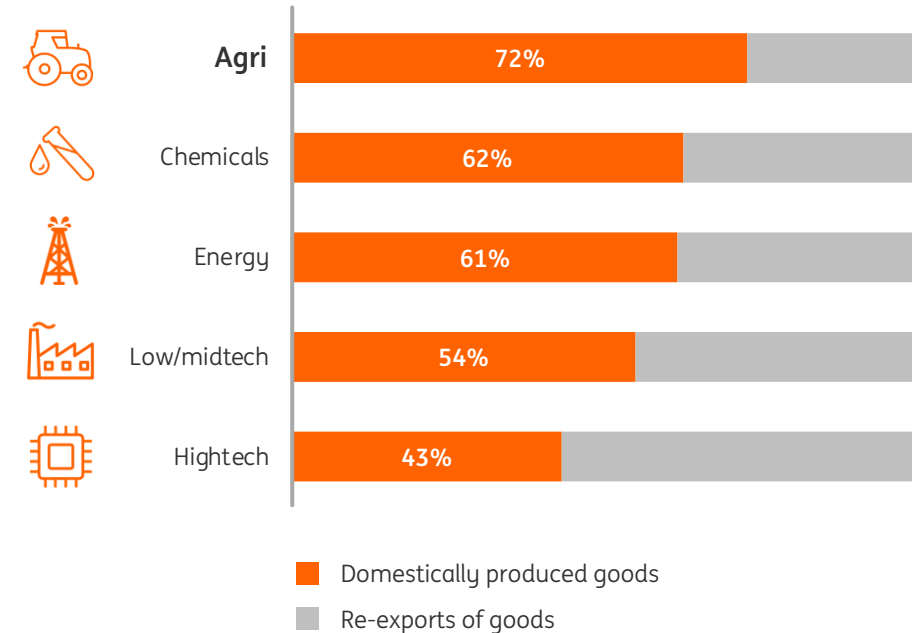
High-tech with 162 billion turnover largest share in Dutch goods export

Dutch export turnover in 2018, in billions of euro (based on seasonally adjusted monthly data)



Agricultural exports are dominated by domestically produced goods, while high-tech exports are mostly re-exports

Share in Dutch goods export turnover, 2018

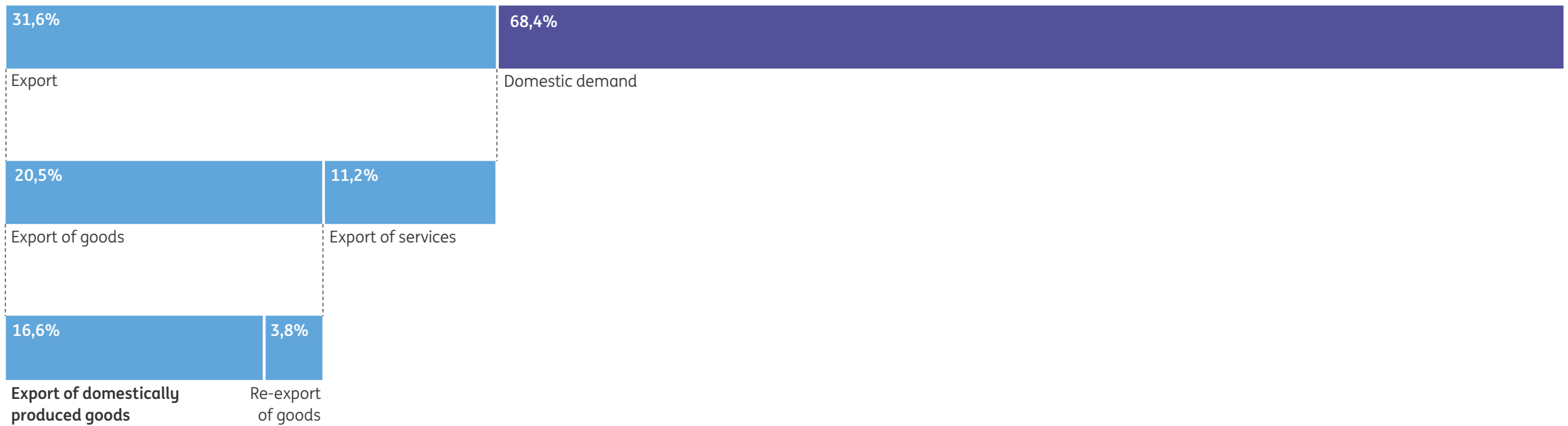


Source: CBS

One third of the Dutch economy depends on exports

One third of the Dutch economy depends on exports, of which domestically produced goods are still most important

Share of Dutch value added originating from foreign final demand, 2015

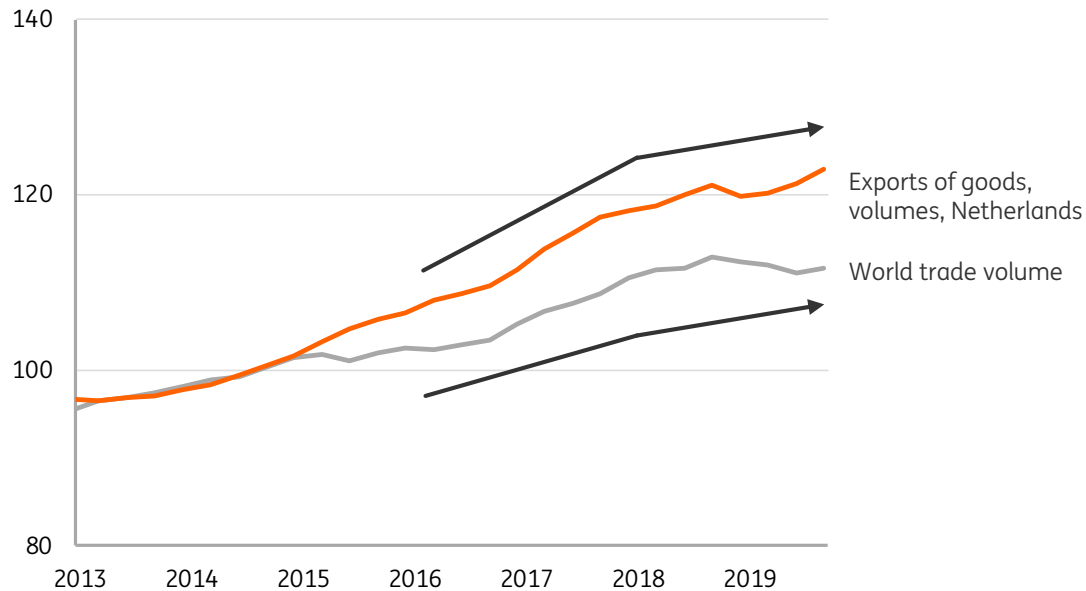


Source: CBS

Dutch exports are falling stronger than world trade

Dutch goods exports stopped growing faster than world trade volume

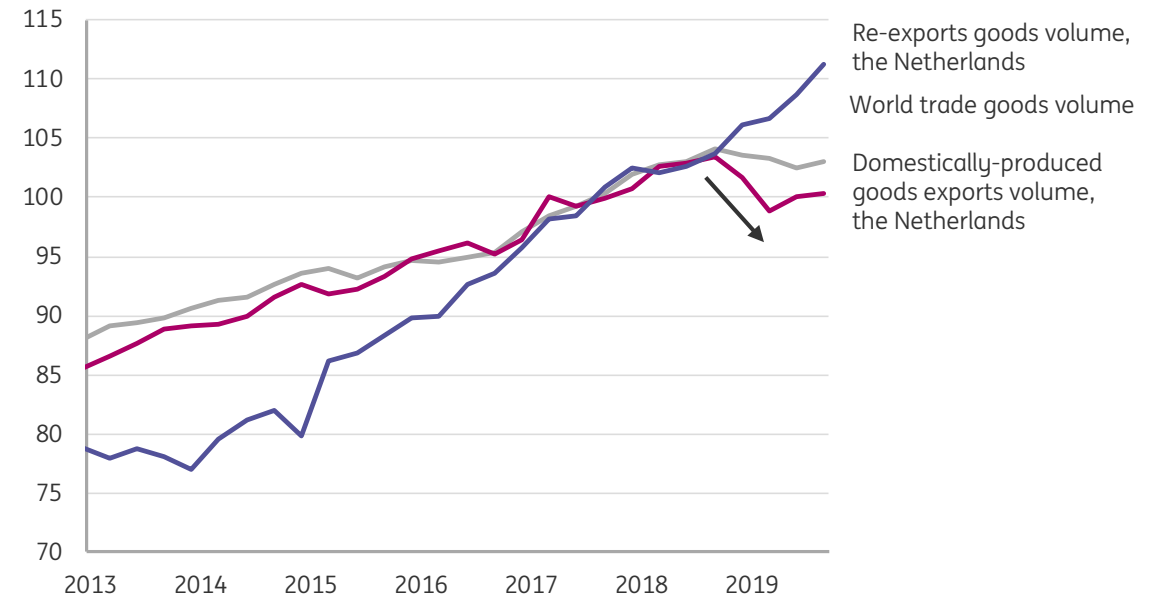
Merchandise trade volume-index, 2010 = 100, seasonally adjusted



Source: CPB World Trade Monitor, CBS, Macrobond

Because domestically produced goods exports fell strongly

Merchandise trade volume-index, 2017 = 100, seasonally adjusted

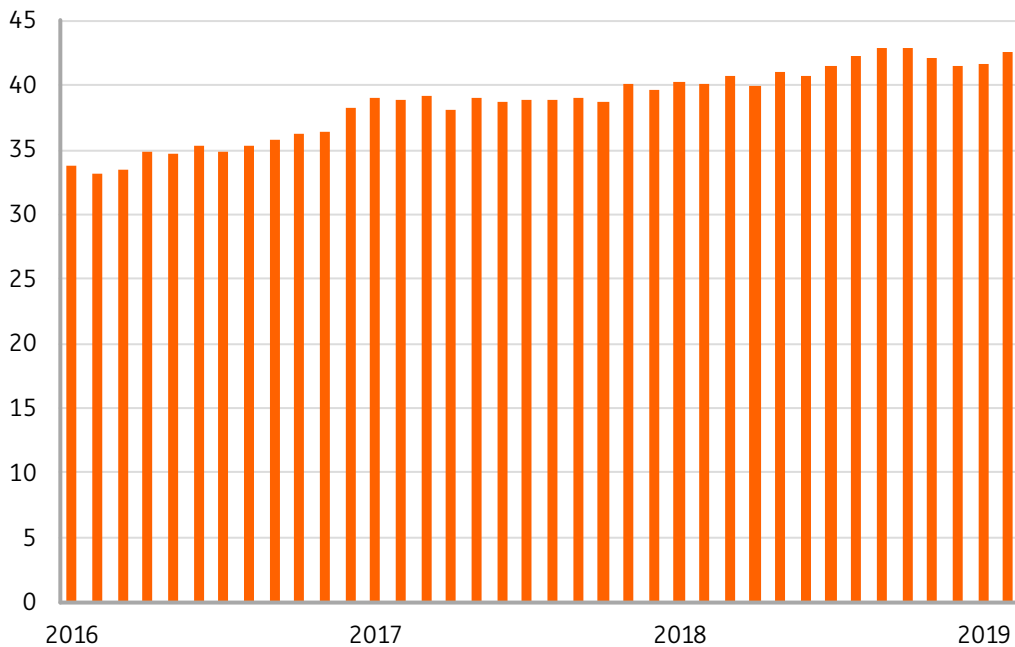


Source: CPB World Trade Monitor, CBS, Macrobond

Nominal exports growing with ups and minor downs

Nominal export growth continuing upward trajectory with ups and downs

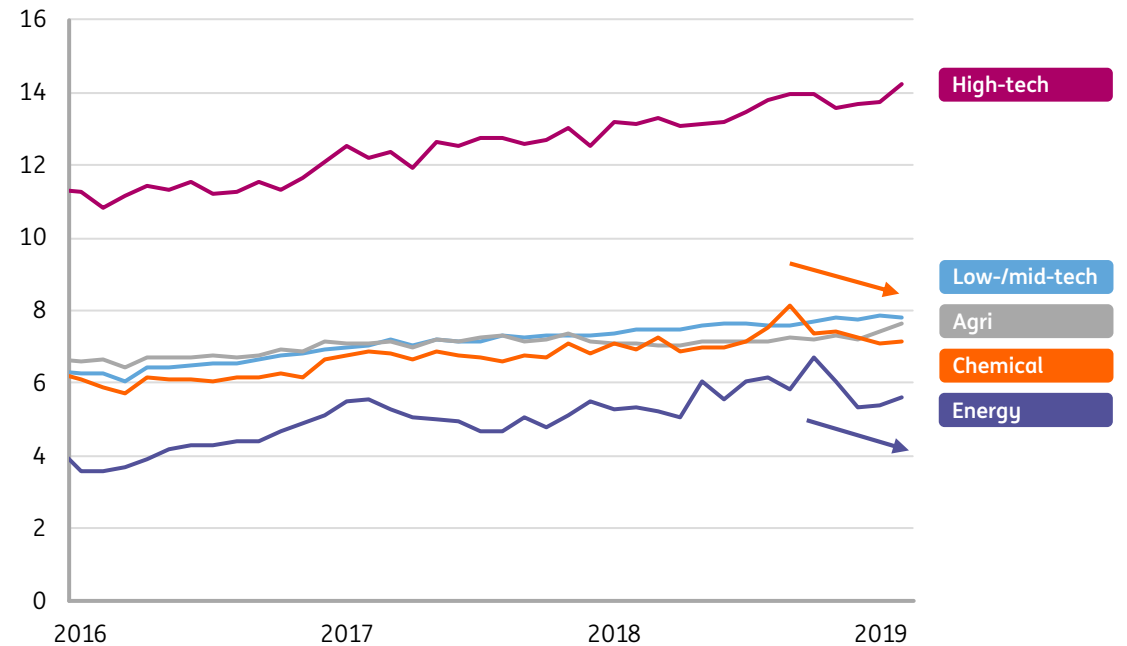
Nominal goods exports turnover per month, in billions of euro, seasonally adjusted



Source: CBS

... but some weakness in exports of chemicals and energy in recent months

Nominal goods export per month, in billions of euro, seasonally adjusted

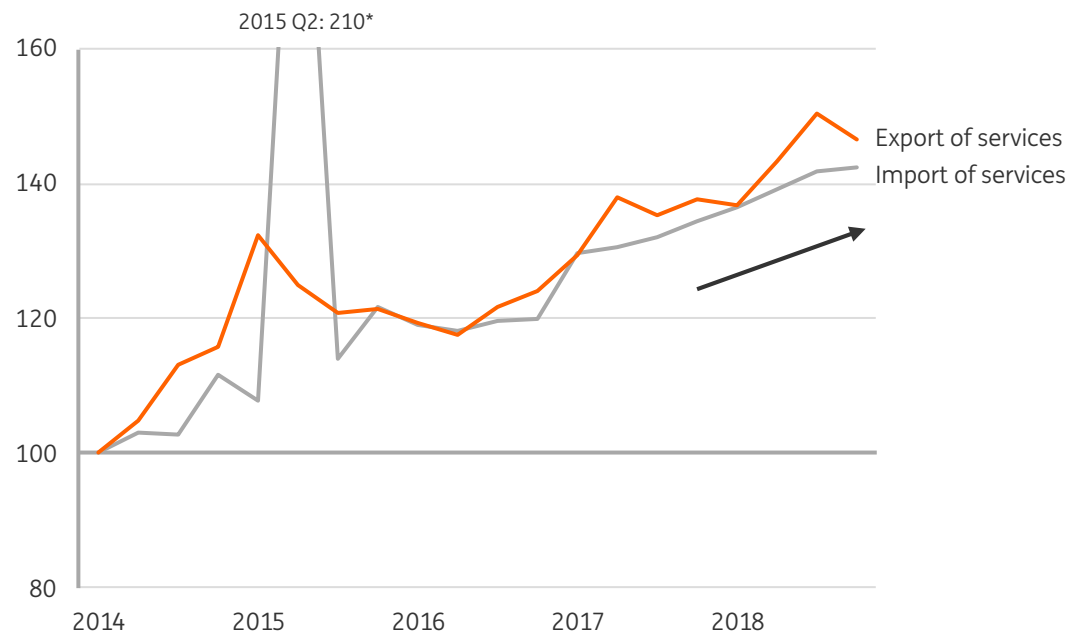


Source: CBS

Service trade is becoming more important with continuing growth

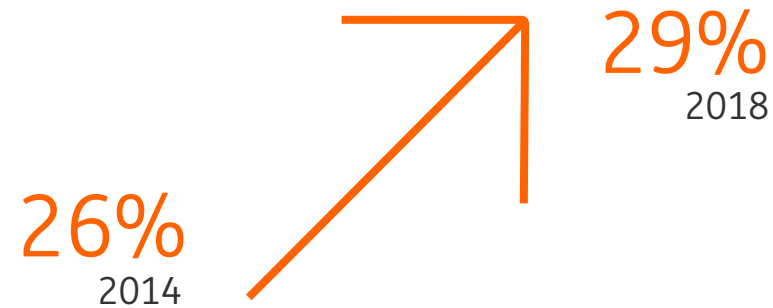
Upward trend in service trade

Dutch service import and export turnover (index, 2014 Q1 = 100, seasonally adjusted)



Share of services in export turnover increasing

Share of services in Dutch export turnover



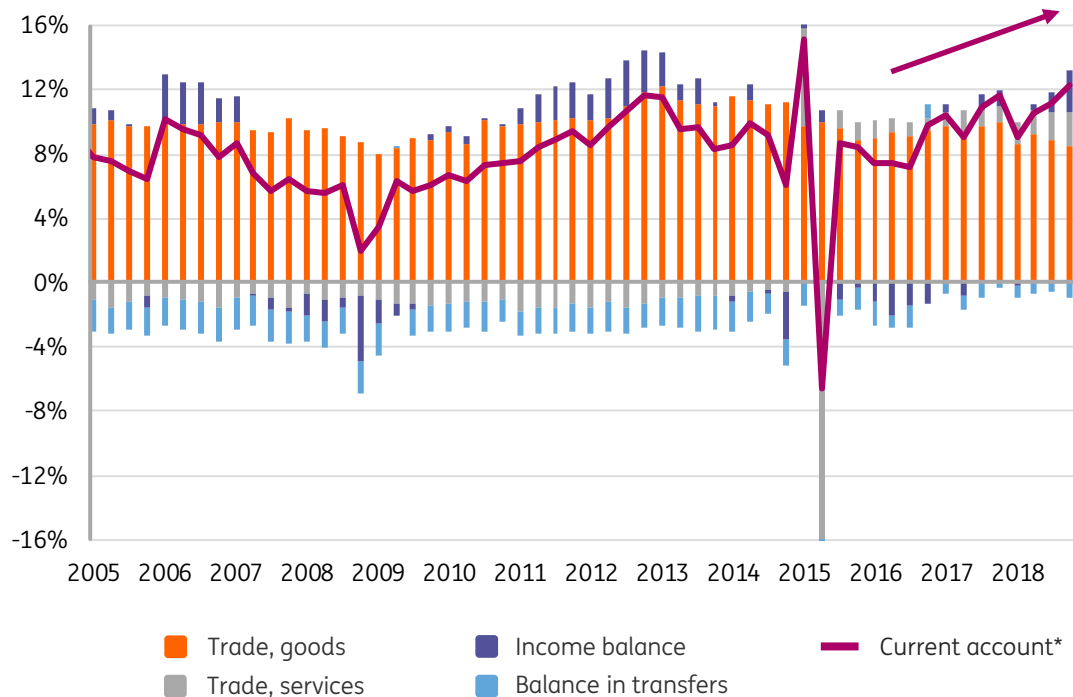
*Extreme deviation in import of services in 2Q2015 is caused by a large one-off purchase of foreign intellectual property by a Dutch multinational in the commercial service sector

Source: CBS

Large current account increasing due to services and income balance

Current account surplus larger and larger...

Share of GDP, seasonally adjusted



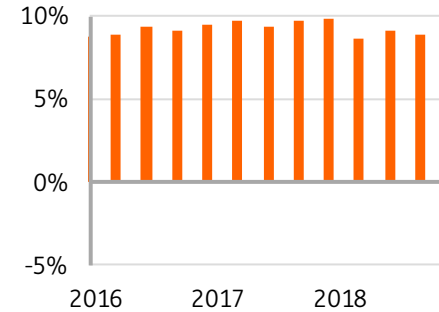
*Extreme spike in current account in 2015 is caused by a large one-off purchase of foreign intellectual property by a Dutch multinational in the commercial service sector

Source: DNB via Macrobond

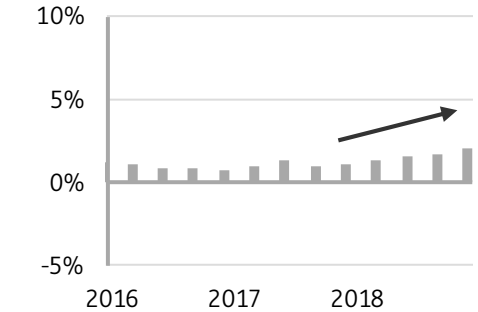
... because of increase in service trade and rising income balance

Share of GDP, seasonally adjusted volumes

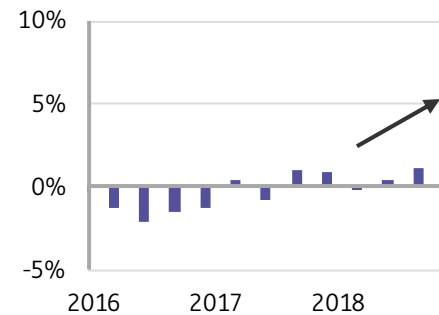
Trade, goods



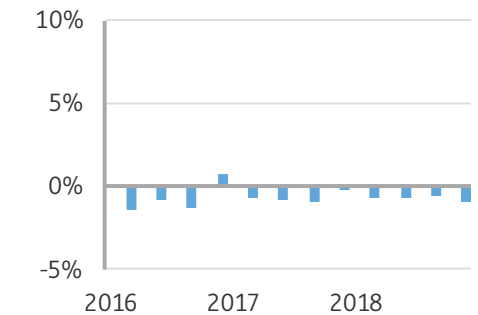
Trade, services



Income balance



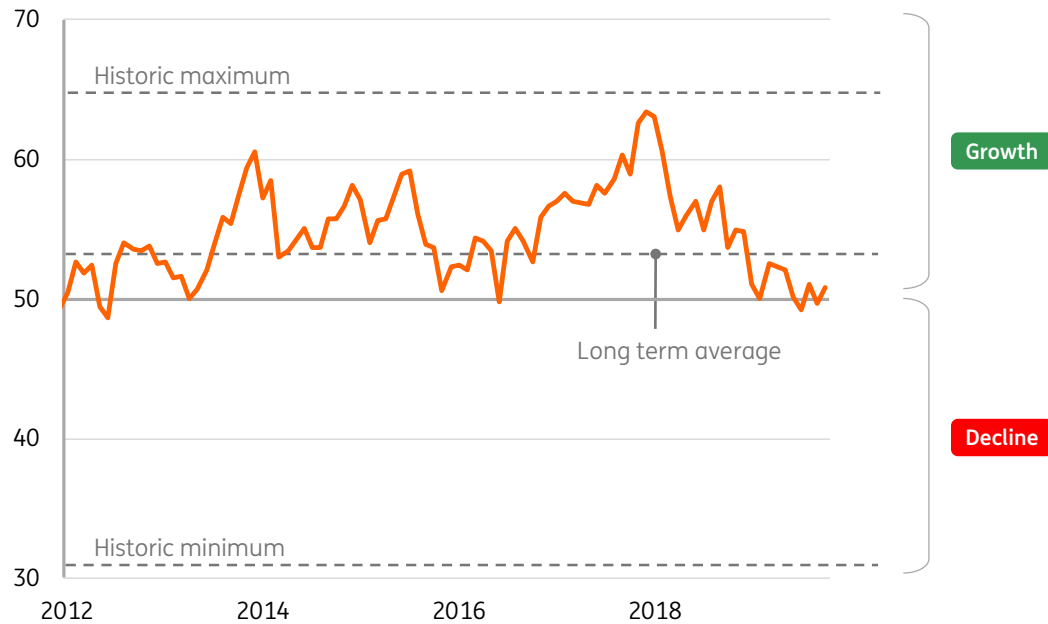
Balance in transfers



For now, exporters are still moderately positive on outlook

Industrial export order books are continuing to grow, but at slow pace

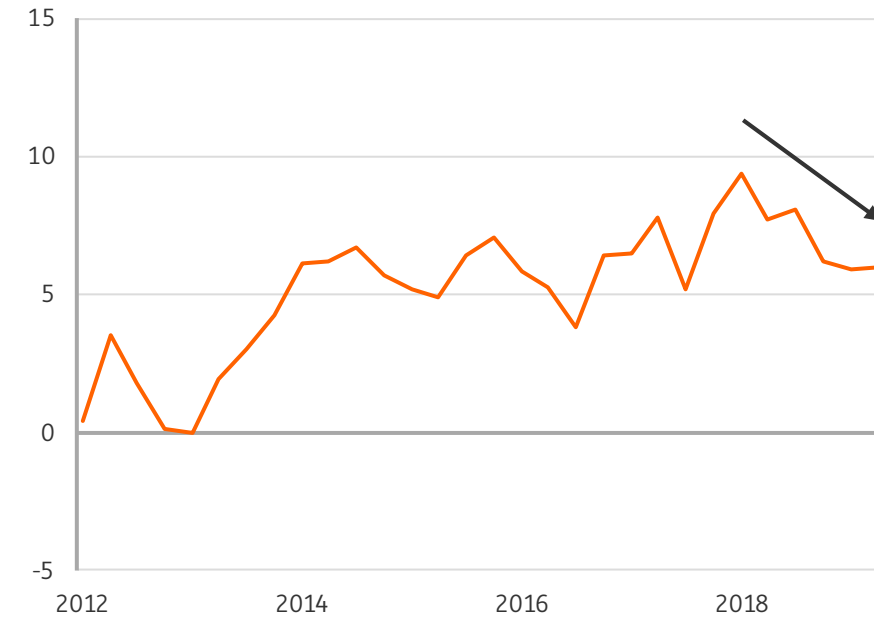
NEVI/Purchasing Managers' Index - new industrial export orders



Source: NEVI PMI

Businesses less optimistic about export orders in nearby future

Judgement about export orders next 3 months, net % non-financial businesses (excluding utilities) reporting increase minus decrease

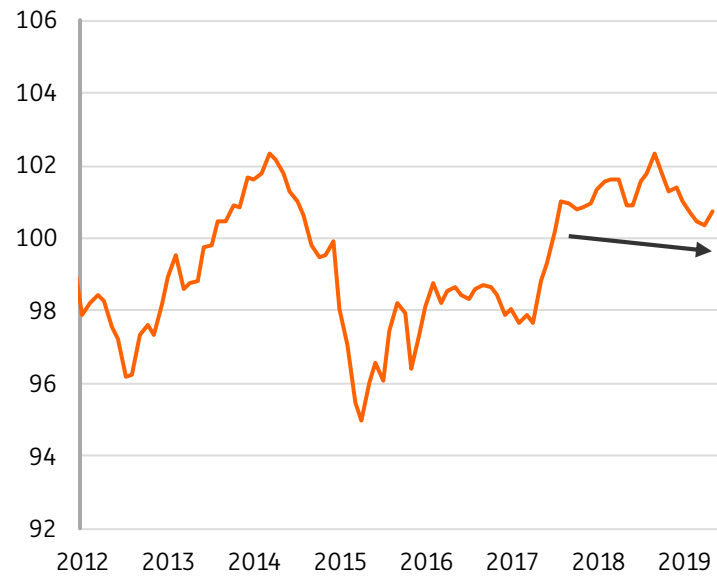


Source: CBS, EIB, KvK, MKB Nederland and VNO-NCW, (COEN survey)

Despite slightly weaker euro, price competitiveness recently stable

Slight depreciation of trade weighted euro

Nominal trade-weighted euro index for the Netherlands, 2010 = 100



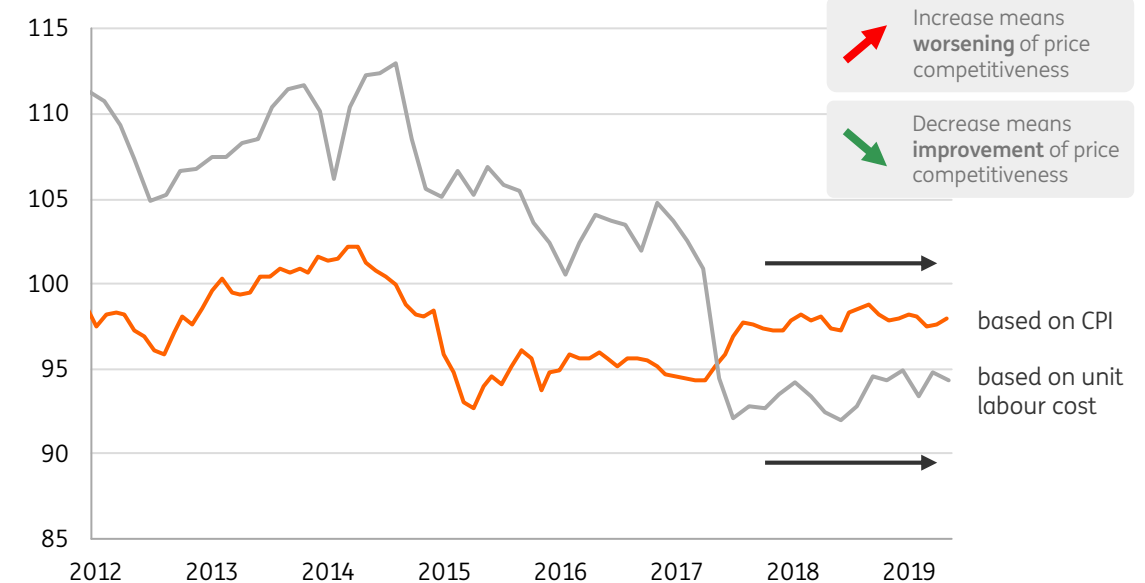
↗ Increase means **worsening** of price competitiveness
↘ Decrease means **improvement** of price competitiveness

*The indicator weights nominal euro exchange rates with Dutch export and import weights, where the time-varying weights are derived from manufacturing trade flows and capture both direct bilateral trade and third-market competition

Source: BIS via Macrobond

Dutch price competitiveness stable

Real ECB Harmonised Competitiveness Index** for the Netherlands (1999 Q1 = 100)



↗ Increase means **worsening** of price competitiveness
↘ Decrease means **improvement** of price competitiveness

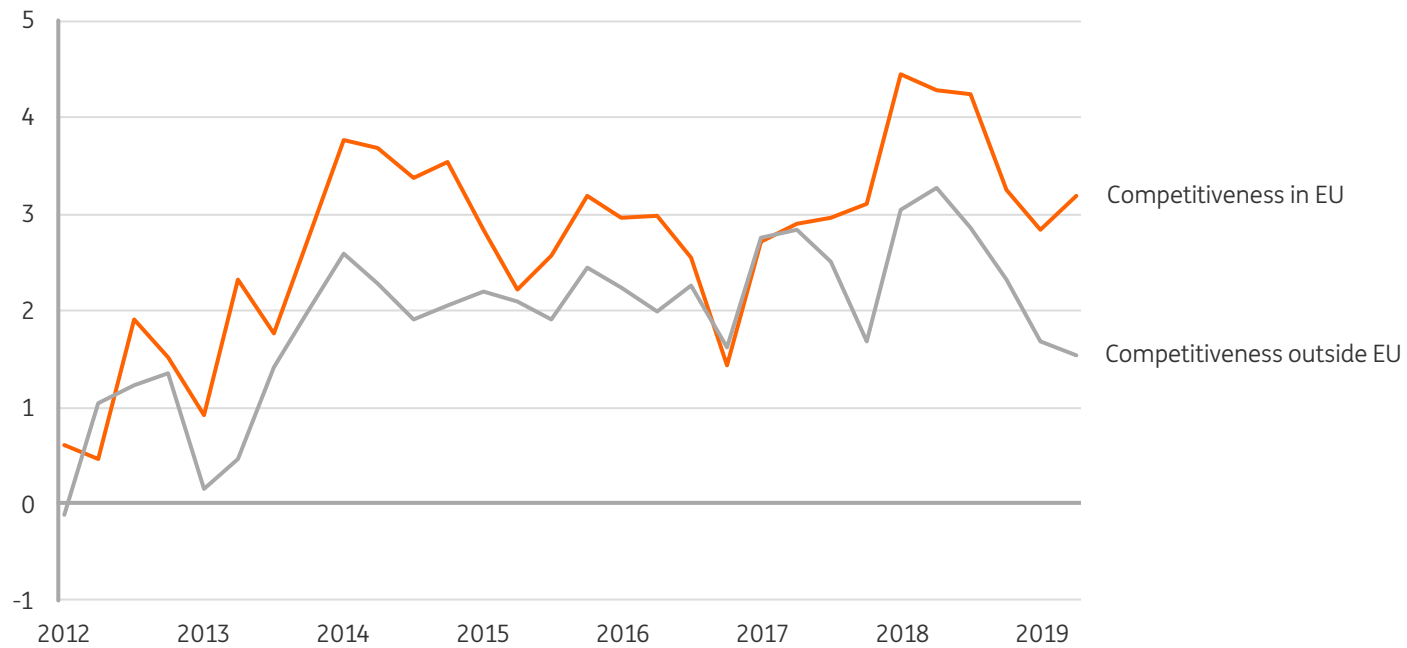
**The indicators use a similar methodology as the BIS nominal trade weighted index but add deflating by either the CPI or unit labour cost, in order to reflect a real competitiveness

Source: ECB via Macrobond

Businesses less confident about export position outside the EU

Non-financial businesses indicate more optimism about their competitiveness with respect to the EU than outside EU

Net % non-financial businesses (excluding utilities) reporting improvement minus worsening with respect to competitiveness

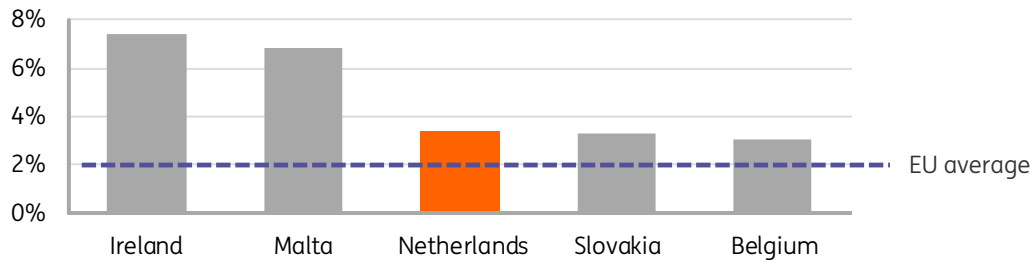


Source: CBS, EIB, KvK, MKB Nederland and VNO-NCW, (COEN survey)

Risk: NL could be hit relatively hard by Brexit

Sensitivity to UK: NL ranks third within EU

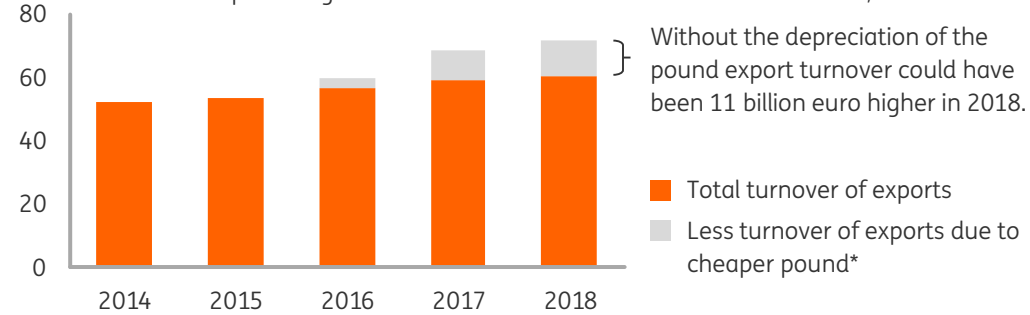
Share of total added value dependent on demand from UK



Source: WIOD

Brexit already had a substantial effect on export turnover via sterling depreciation

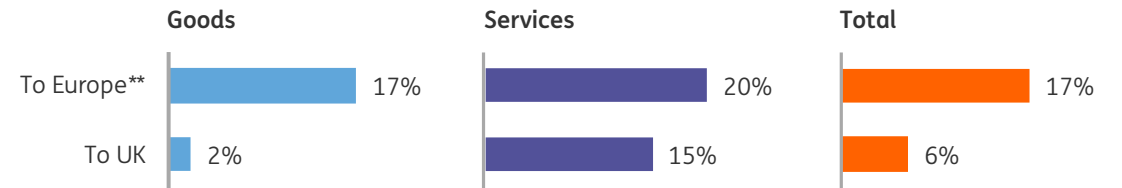
Turnover of direct exports of goods and services from the Netherlands to the UK, in billions of euro



Source: CBS, estimates ING Economics Department

Growth in Dutch exports to UK is lagging behind

Growth in turnover of Dutch exports, 2018 compared to 2016



Source: CBS, ** excluding UK

Agriculture, transport and industry are the Dutch sectors most exposed to the UK

1. Agriculture
2. Industry
3. Transport

Source: CBS, EIB, KvK, MKB Nederland and VNO-NCW, (COEN survey)

Non-financial businesses

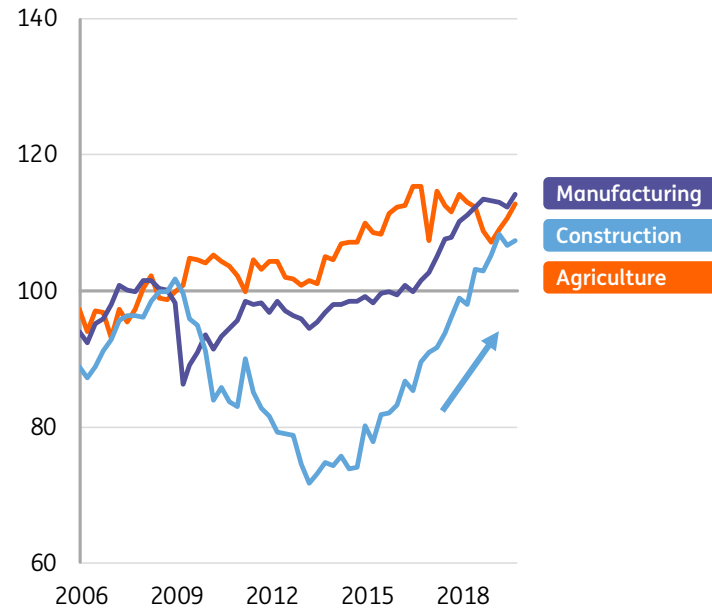
- Throughout 2018, all major Dutch market sectors increased their production levels further. Especially construction, industry and retail were growing at a fast speed in 2018. Most sectors are currently above pre-crisis levels but some policy-sensitive sectors lag in value added. Consequently, the number of bankruptcies is close to record lows
- Multiple earthquakes in the north of the Netherlands induced the Dutch government to phase out gas production at one of the largest gas fields of Europe by 2030, significantly reducing last years' mining/gas sector output. The maximum production for gas year 2018/2019 is set for 19.4 billion cubic meters compared to the recent maximum of 53 billion cubic meters in 2012/2013. As a result, the Netherlands turned from a structural net exporter of natural gas into a net importer in 2018.
- The financial situation of non-financial businesses is nominally still improving, but firms lowered their sentiment concerning future profits. While domestic nominal pre-tax profits of non-financial companies recently hit a record high in the first quarter of 2019, their total profit fell from a record high in the fourth quarter of 2018 due to lower profits from foreign affiliates. An alternative macro indicator for profitability, more related to production, is gross operating surplus as a percentage of valued added. This indicator has been stable in the last few quarters and is far below the boom levels seen in 2006-2008.
- Investment as a percentage of GDP is nearing the level seen in 2007-2008. The business investment rate is above the pre-crisis boom level. Given that we are into the late business cycle, investment in commercial property is accelerating. Investment in ICT & intangibles remains popular regardless of the phase of the business cycle.

Chapter updated on June 24th 2019

Size of almost all sectors back on pre-crisis level

Goods: construction catching up

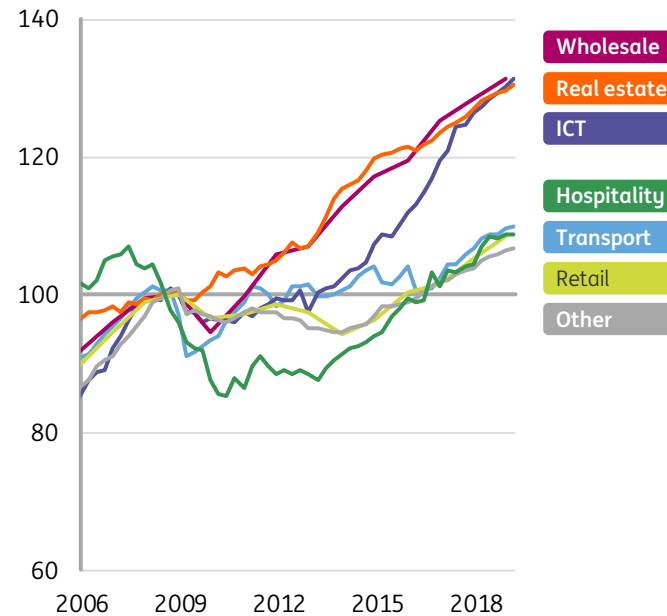
Value added (index, 2008 = 100, in volumes, at basic prices, seasonally adjusted)



Source: CBS via Macrobond

Commercial services: all trending up

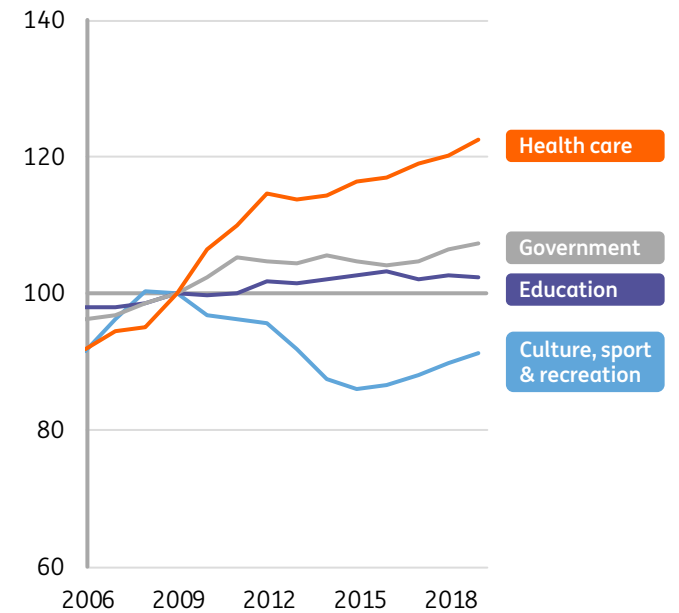
Value added (index, 2008 = 100, in volumes, at basic prices, seasonally adjusted)



Source: CBS via Macrobond

Public services: cultural services still below 2008 level

Value added (index, 2008 = 100, in volumes, at basic prices, seasonally adjusted)

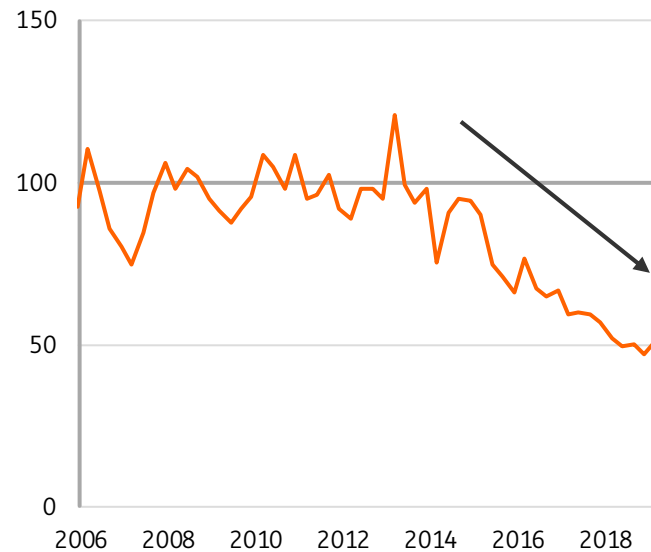


Source: CBS via Macrobond

Netherlands became net gas importer because production fell hard

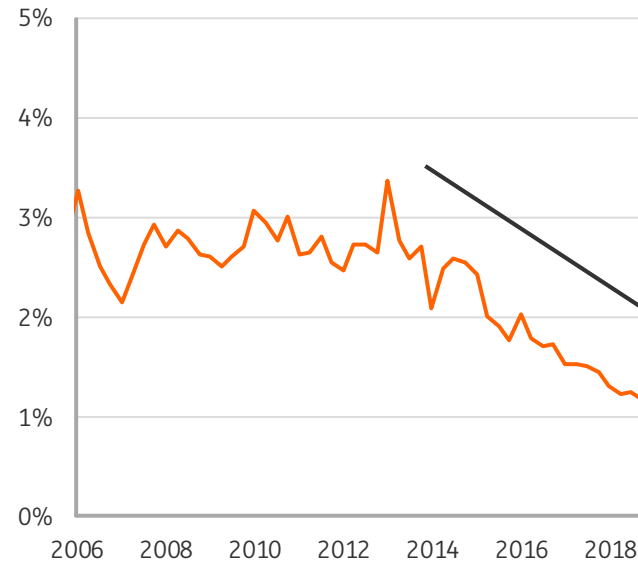
Gas production fell considerably

Value added mining* (index, 2008 = 100, in volumes, at basic prices, seasonally adjusted)



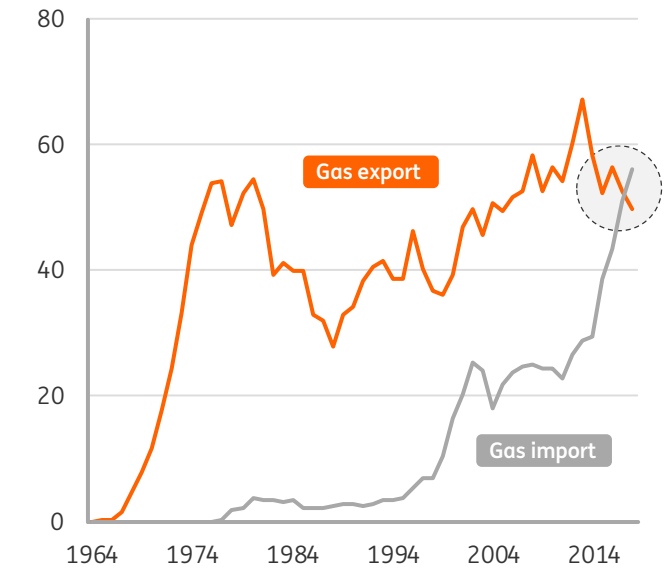
As a result, gas share in economy is much lower

Share of mining industry in value added (at basic prices, seasonally adjusted volumes)



After years of being a net exporter of gas, the Netherlands has become a net gas importer in 2018

Gas trade in billion m³ (both natural gas and lng)



*Mining includes production of oil and gas and the provision of related services. Quantitatively it mainly concerns gas production.

Source: CBS via Macrobond

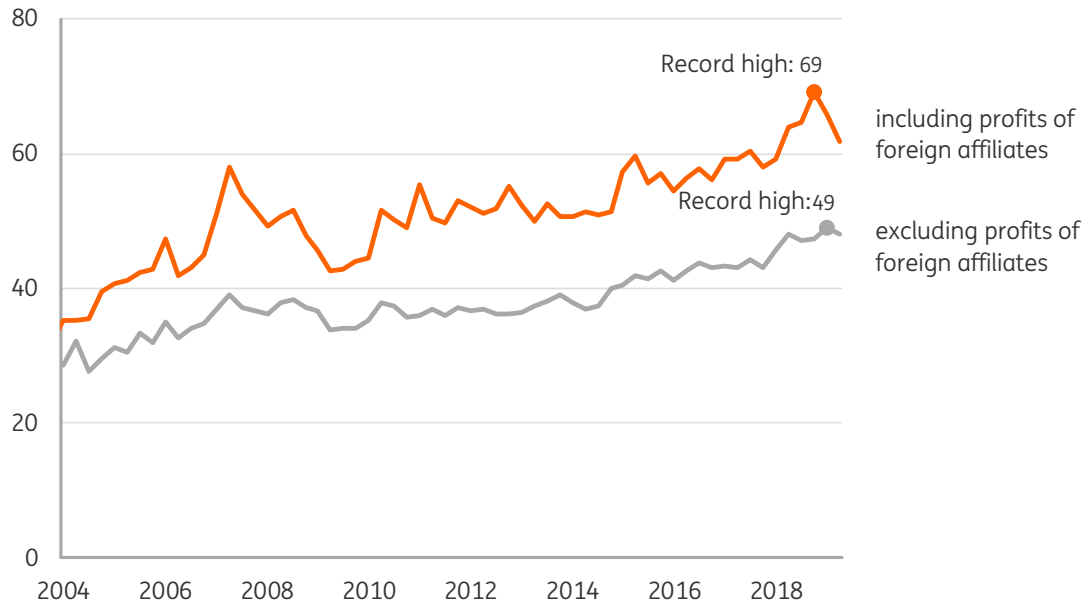
Source: CBS via Macrobond

Source: CBS

Profitability of non-financial companies at moderate level

While total nominal profits fell back strongly from record level, domestic profits are still close to all time high

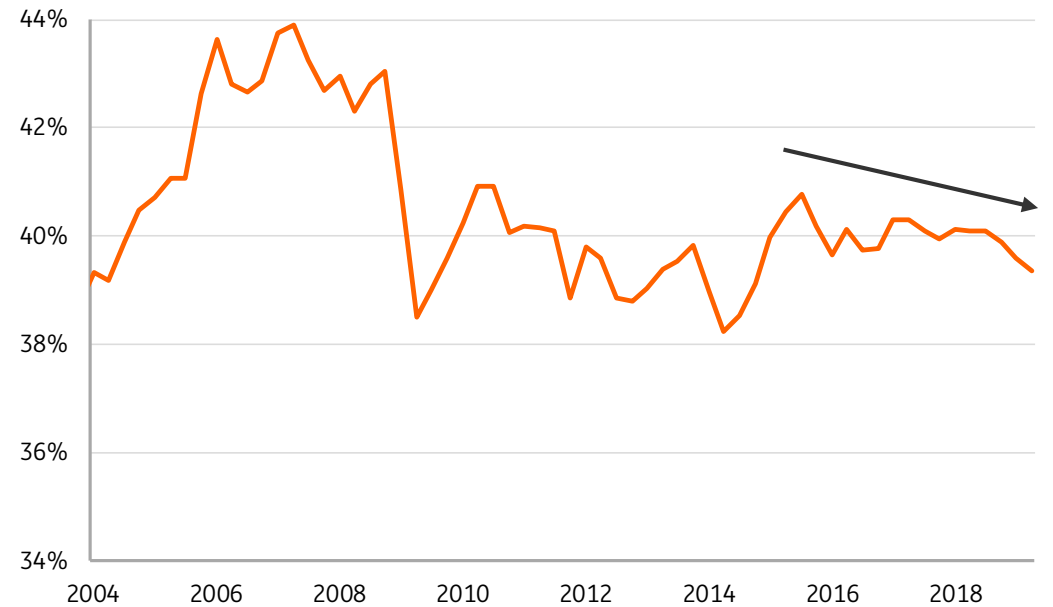
Nominal pre-tax profits of Dutch non-financial companies, in billion euros, seasonally adjusted



Source: CBS

Profit ratio remained moderate and starts to fall

Gross operating surplus as percentage of gross value added at basic prices*, seasonally adjusted



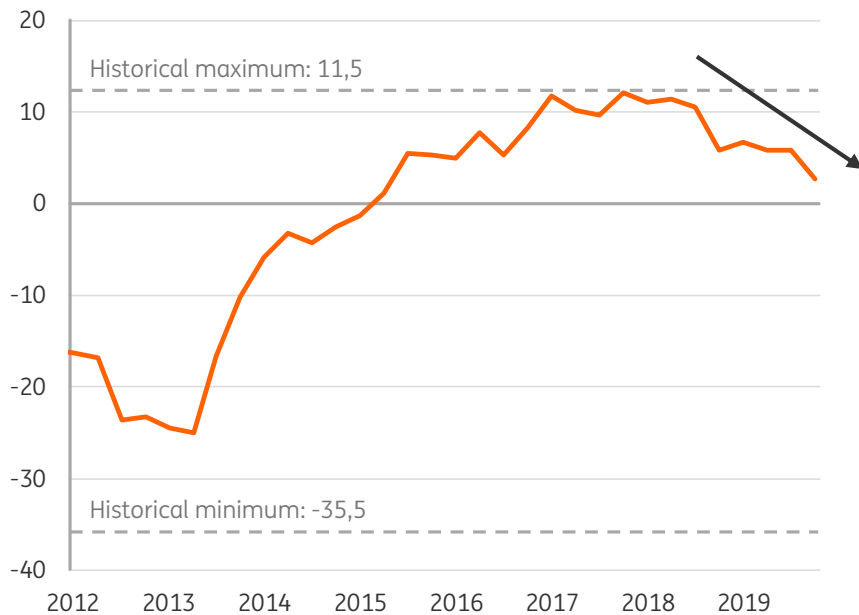
*Macro profitability indicator, non-financial corporations (excluding small unincorporated businesses)

Source: CBS

Firms still optimistic about profitability, but gradually less

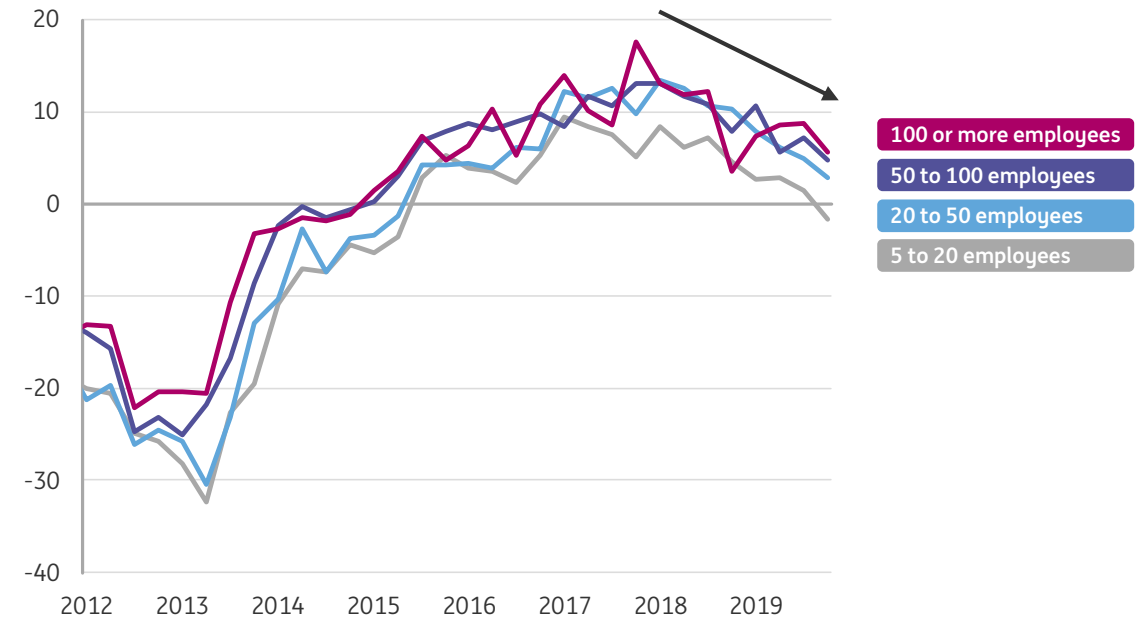
Decreasing trend in sentiment about profitability....

Net % of all firms with 5 or more employees reporting higher (+) or lower (-) profitability in last 3 months, seasonally adjusted



...visible among small, medium and large enterprises

Net % of firms reporting higher (+) or lower (-) profitability in last 3 months, seasonally adjusted

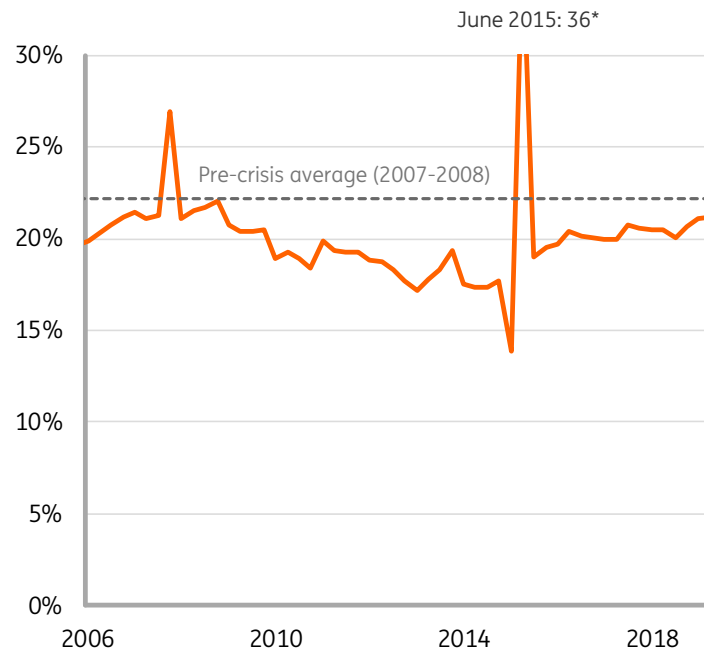


Source: CBS via Macrobond

Investment rate only slightly below pre-crisis level due to businesses

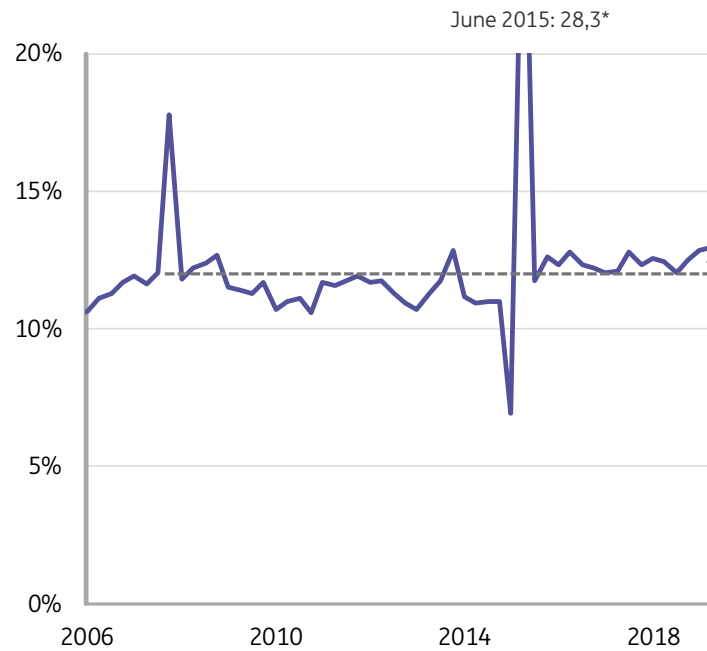
Total investment rate at considerable level...

Total investments as share of GDP, seasonally adjusted volumes



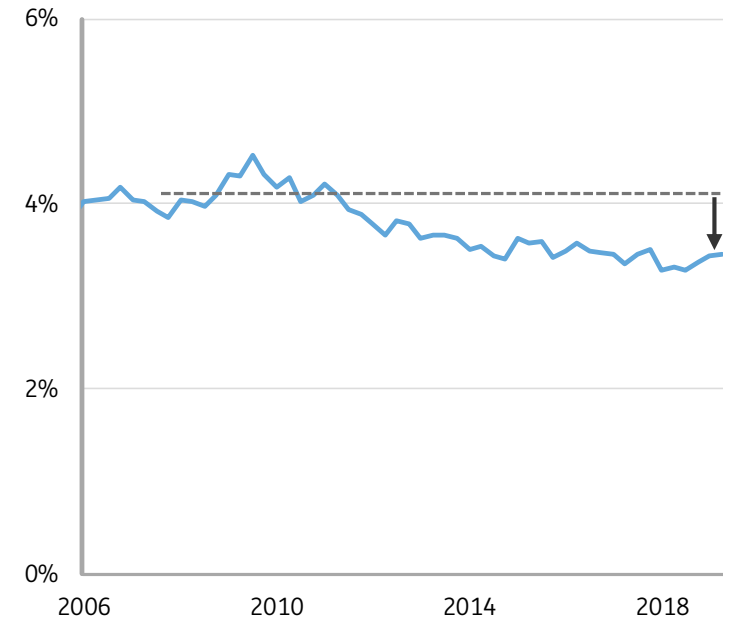
...thanks to strong business investment...

Business investment (private excluding dwellings) as share of GDP, seasonally adjusted volumes



...while public investment is below pre-crisis levels

Public investment as share of GDP, seasonally adjusted volumes



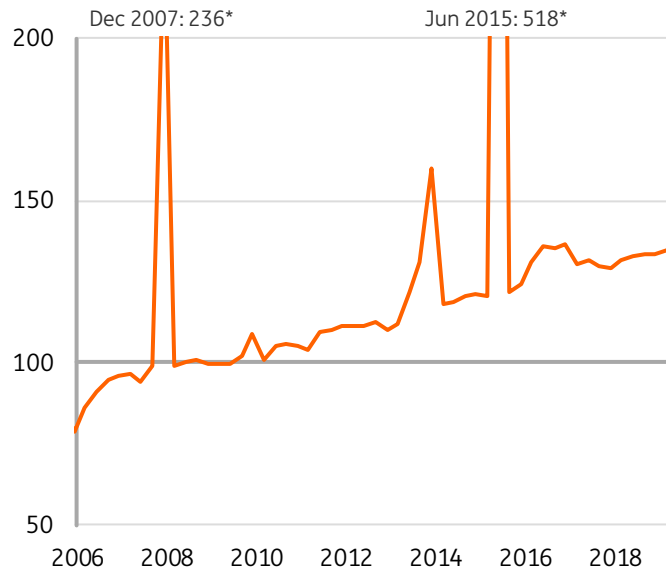
*Extreme spikes in investments in 2015 and 2016 are caused by a large one-off purchase of foreign intellectual property (and divestment) by a Dutch multinational in the commercial service sector

Source: CBS via Macrobond

Investment in commercial property accelerating, ICT & intangibles popular throughout the cycle

ICT & intangibles stubbornly continued growing during the crisis and seems nowhere done

Gross investment in ICT, R&D and other intellectual property

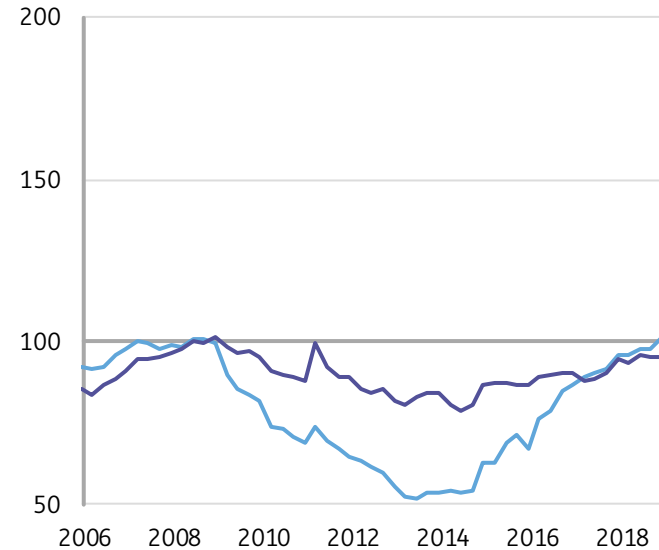


*Extreme spikes in investments in 2015 are caused by a large one-off purchase of foreign intellectual property by a Dutch multinational in the commercial service sector

Source: CBS via Macrobond

Housing investment only recently recovered back to pre-crisis level

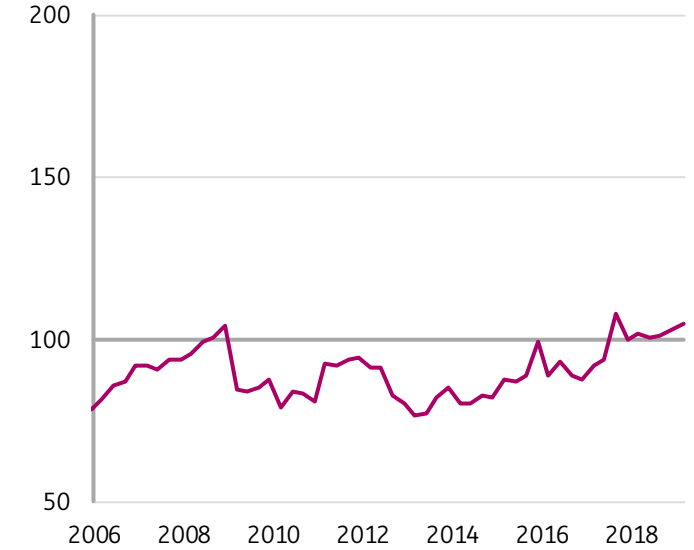
Gross investment (index, 2008 = 100, in volumes, seasonally adjusted)



- Dwellings
- Other buildings (including commercial property and infrastructure)

Machinery and transport equipment back at pre-crisis level after long period of flatness

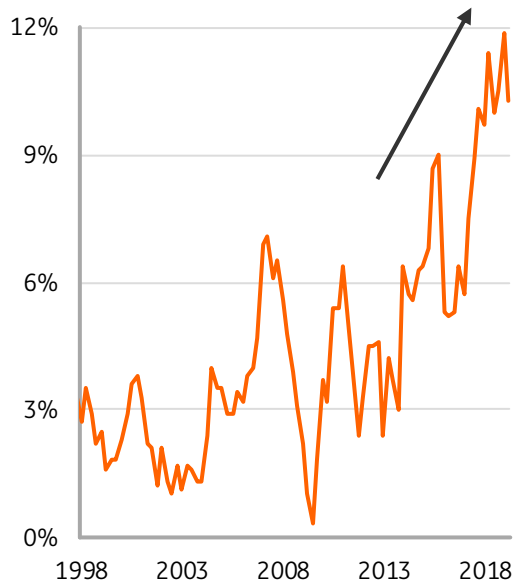
Gross investment in machines and transport vehicles, (index, 2008 = 100, in volumes, seasonally adjusted)



Further investment growth expected in industry and com. services

Because industry more often reports capacity constraints...

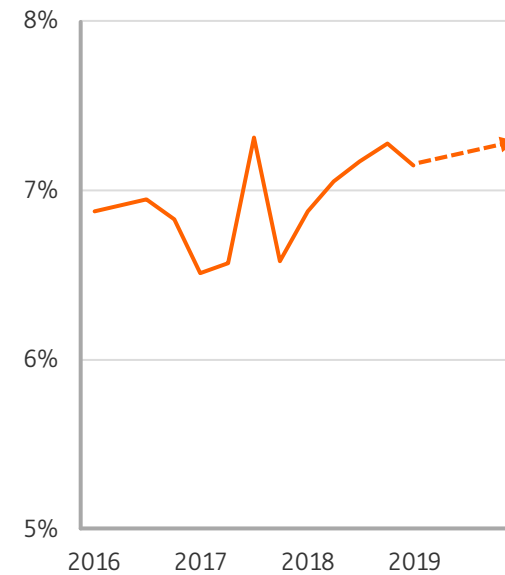
Share of industrial firms reporting shortage of materials and/or equipment as main factor limiting production, seasonally adjusted



Source: DG ECFIN via Macrobond

...we expect investment in industry to continue to grow moderately

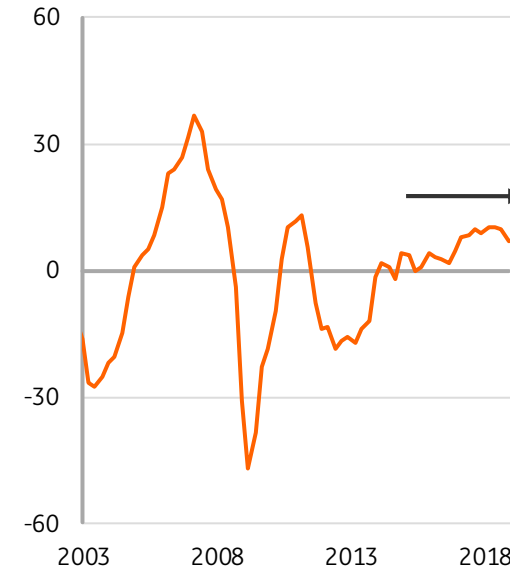
Gross investment in industry at 2015 prices, seasonally adjusted



Source: CBS via Macrobond

Because confidence is still solid in commercial service...

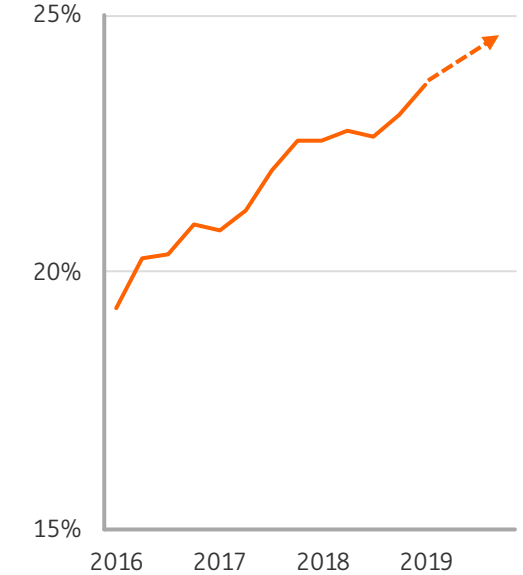
Confidence indicator of commercial services as deviation from LT-average



Source: DG ECFIN via Macrobond

...we expect decent investment growth in commercial service

Gross investment in commercial services at 2015 prices, seasonally adjusted

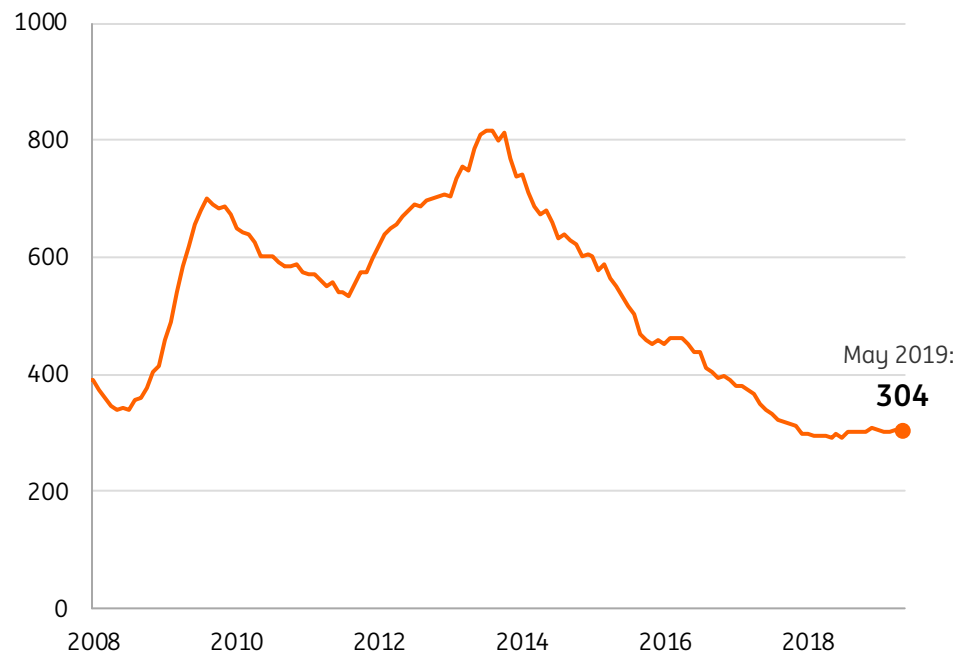


Source: CBS via Macrobond

Number of bankruptcies bottomed out

Number of bankruptcies bottomed out at multi-year lows

Number of bankruptcies per month, six month moving average, seasonally adjusted and adjusted for number of court days

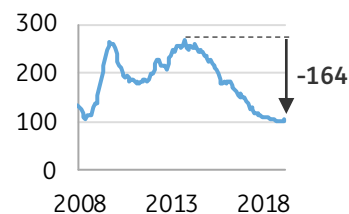


Source: CBS

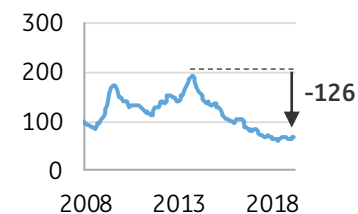
Bankruptcies declined in many sectors, most in commercial services and trade

Number of bankruptcies per month, six month moving average, seasonally adjusted and adjusted for number of court days

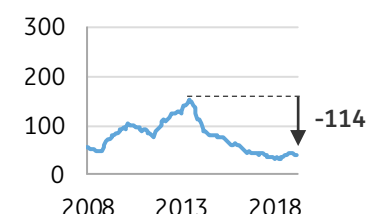
Commercial services



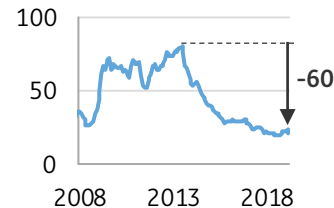
Trade



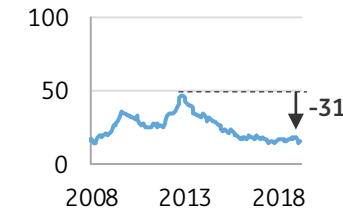
Construction



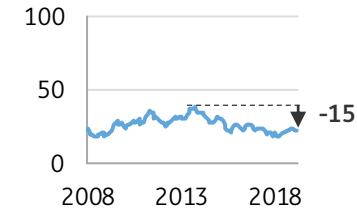
Industry



Transport



Hospitality

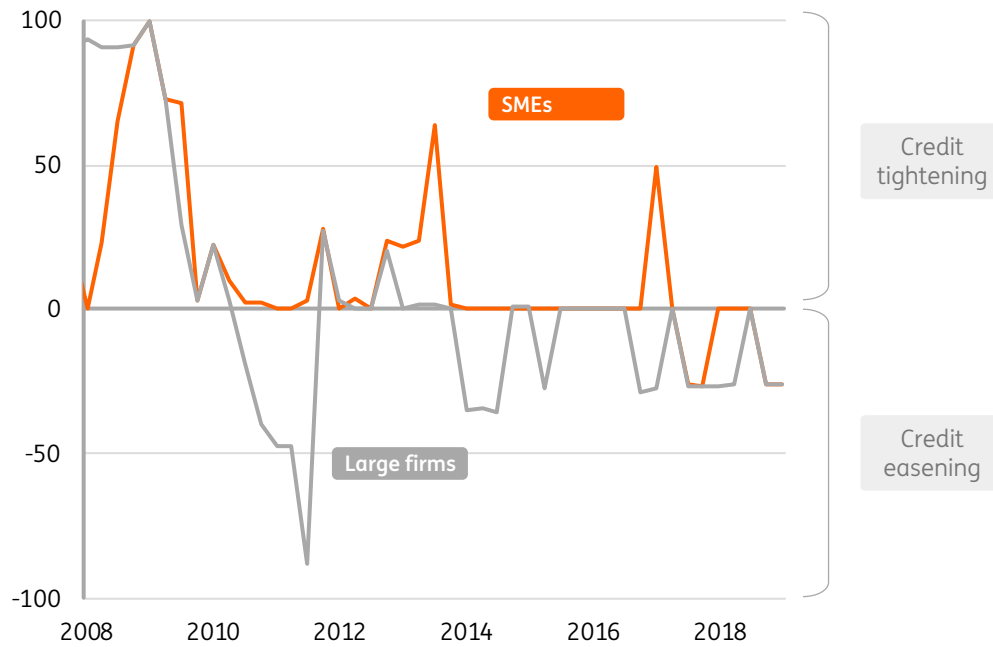


Source: CBS

Demand for bank credit is increasing further

Credit standards have eased for both SMEs and large firms

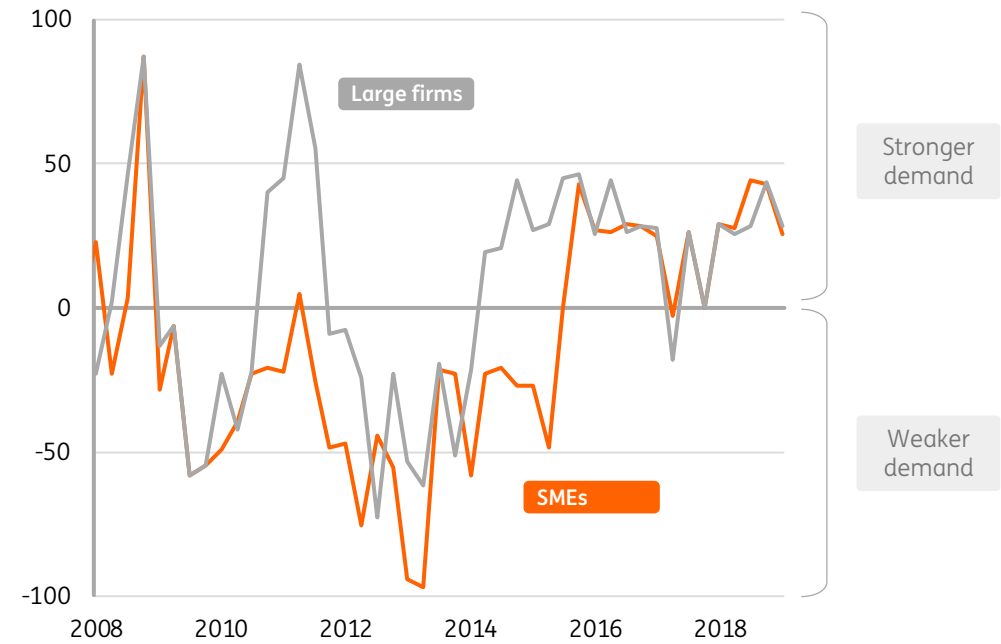
Net percentage of banks reporting tighter (+) or eased (-) standards



Source: DNB via Macrobond

Credit demand from both large firms and SMEs are continuing to grow

Net percentage of banks reporting stronger (+) or weaker (-) demand



Source: DNB via Macrobond

Consumers

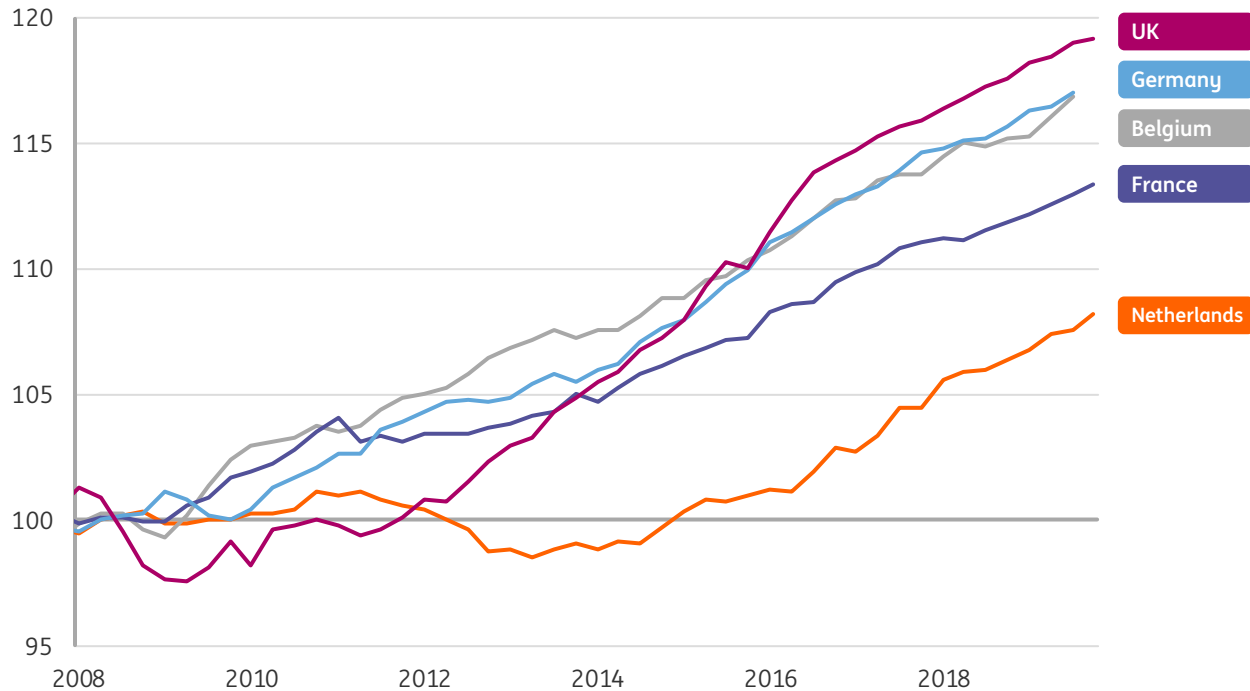
- During most years since the 2008 crisis, household consumption development in the Netherlands fell behind other eurozone economies. Yet, in recent years, Dutch households have been in the process of ‘catching up’.
- In any broad category, consumption expenditures even ten years after 2008 increased much less than in the ten years before the crisis. Households on average still buy 4% (in 2018) fewer consumption goods and services on balance than in 2008. It may take somewhere up to 2025 before the average consumption level is fully recovered to the pre-crisis level.
- The share of household expenditures that was spent on basic needs is much higher than before the crisis. While households already consumed mostly housing services in 2008, the share of housing in total consumption has risen even further. Also, food & beverages and health care took up an increasing chunk. Generally, services consumption growth has been stronger than the increase in goods consumption, with electronics being the major exception.
- Consumers are currently more upbeat about their willingness to buy than the economic climate, especially, concerning the twelve months ahead. Confidence among consumers has fallen considerably since mid-2018, in part due to looming pension cuts and a VAT-hike, although sentiment currently seems to have stabilised at a long-term average level. Accordingly, the propensity to consume has recently increased.
- Nevertheless, we forecast increasing consumption growth for 2020. For part of the population (illiquid) wealth increased and will continue to do so thanks to rising house prices. More importantly for consumption, with falling inflation, accelerating collective wages and labour income tax relief, (median) static purchasing power is considerably on the rise in 2020.
- Due to the lower interest rate environment, some (funded) pension funds are still struggling with their coverage ratios, which may affect current and/or future disposable income in some occupations and among retirees. This was a considerable risk for consumption in 2020, but this threat has largely been eliminated by the Minister of Social Affairs thanks to the use of his discretion to grant pension funds one more year to get their ratios in order. To a lesser extent, these looming real/nominal pension cuts or increasing pension premiums is still a risk for consumption in 2021.

Bulk of chapter updated on February 15th 2020

Dutch consumption has been weak for long compared to neighbours

Consumption development in the Netherlands since 2008 still lagging far behind progress in other core eurozone economies, but slowly catching up

Actual individual consumption of households*, seasonally adjusted volume index, 2008 = 100

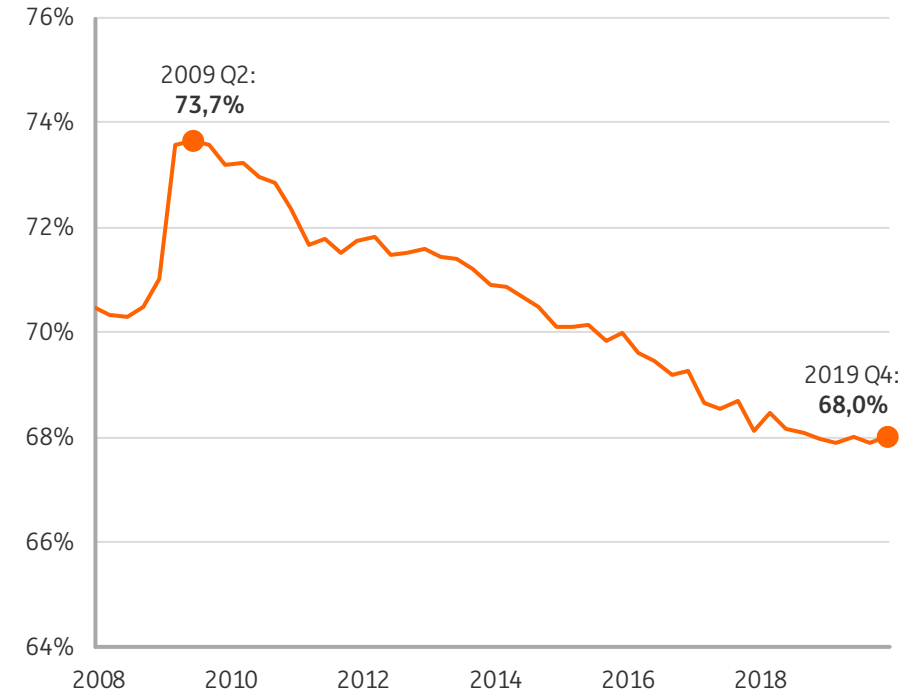


Source: CBS and Eurostat via Macrobond

*This includes publicly funded education and health care which specifically benefits the individual household.

Total consumption volumes as share of GDP stabilises below 2009 level

Consumption of households and government as share of GDP, seasonally adjusted volumes

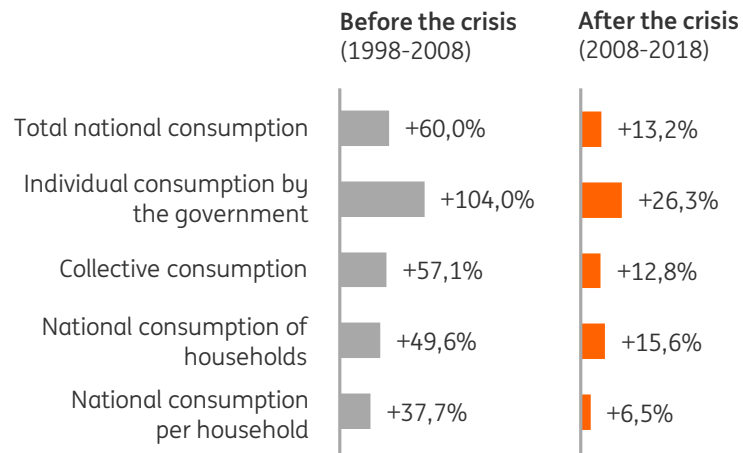


Source: CBS via Macrobond

Consumption of households still not recovered from the crisis

Consumption expenditures increased much less after than before the crisis

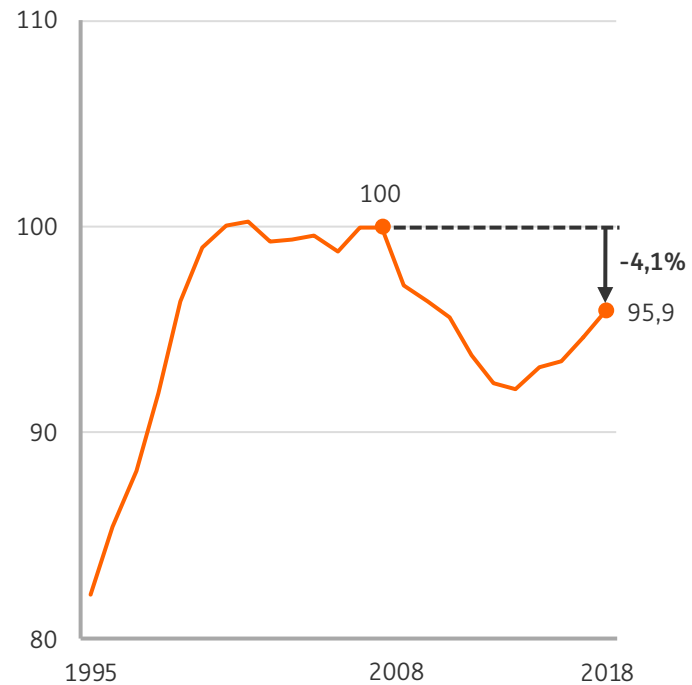
Increase in different types of nominal consumption expenditures



Source: CBS

Households in 2018 on average still buy 4% fewer consumption goods and services than in 2008

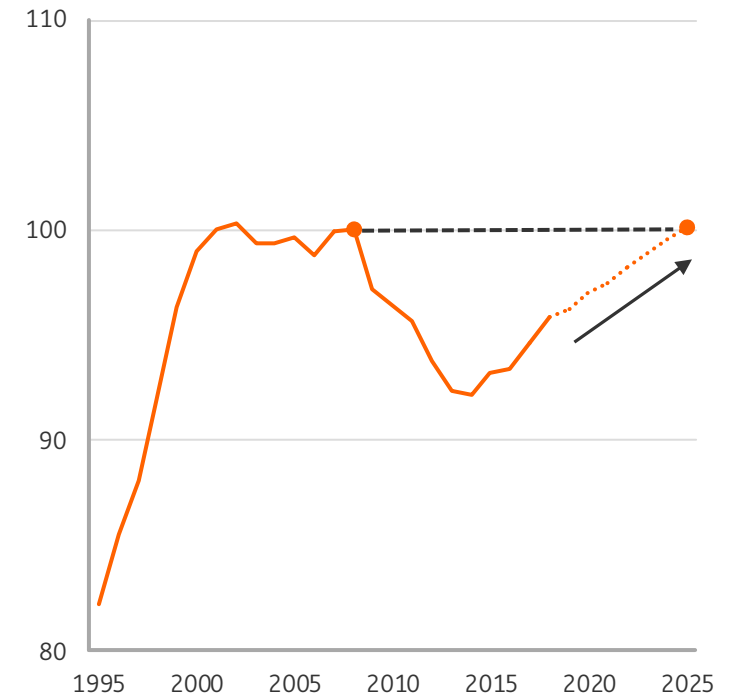
National own consumption expenditures of households in volumes, average per household, index 2008 =100



Source: CBS

It may take up to 2025 before the average consumption level is recovered to the pre-crisis level

National own consumption expenditures of households in volumes, average per household, index 2008 =100

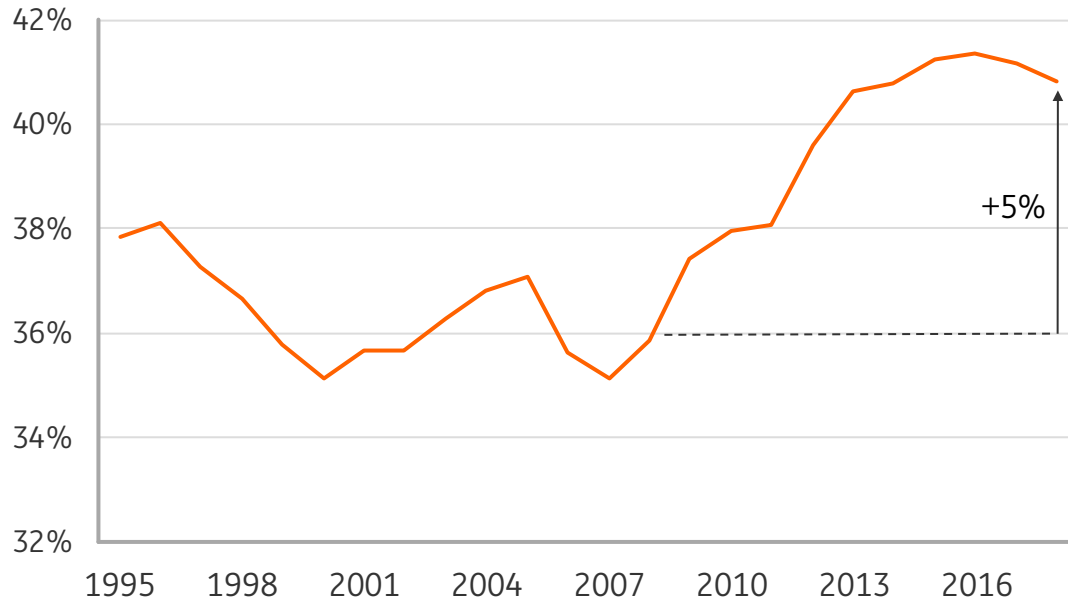


Source: CBS, ING forecasts

Larger share of household expenditures to basic needs

Share of household expenditures to basic needs in 2018 higher than before the crisis

Share of basic needs* in nominal national consumption expenditures of households

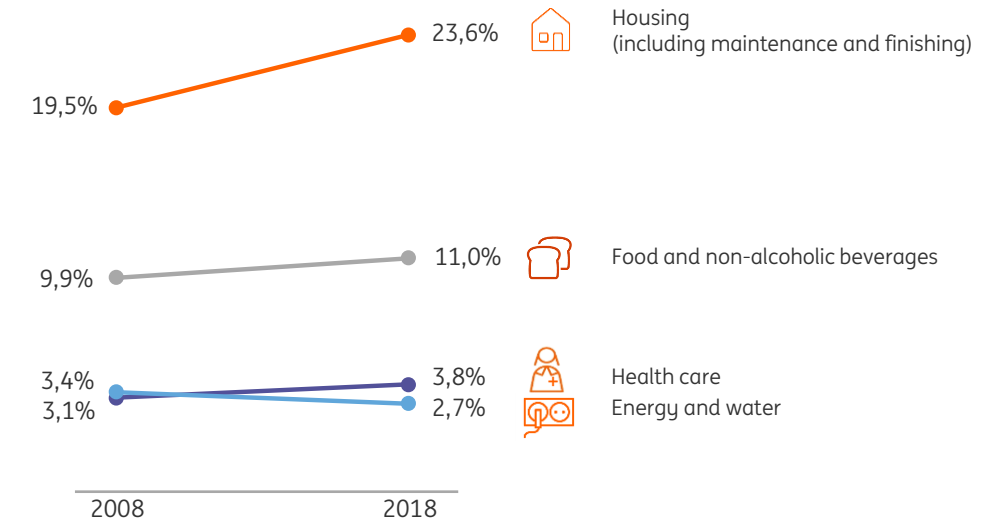


Source: CBS, ING estimates

*Basic needs consist of housing including maintenance and finishing, food and non-alcoholic beverages, health care and energy and water

Larger consumption share to housing, food and health care

Share of basic needs in nominal national consumption expenditures of households



Source: CBS, ING estimates

Private consumption spending mostly on housing

Breakdown of own consumer spending of households in 2018: mostly on housing and services

Share of total nominal domestic consumption spending of households (both domestic and foreign households)

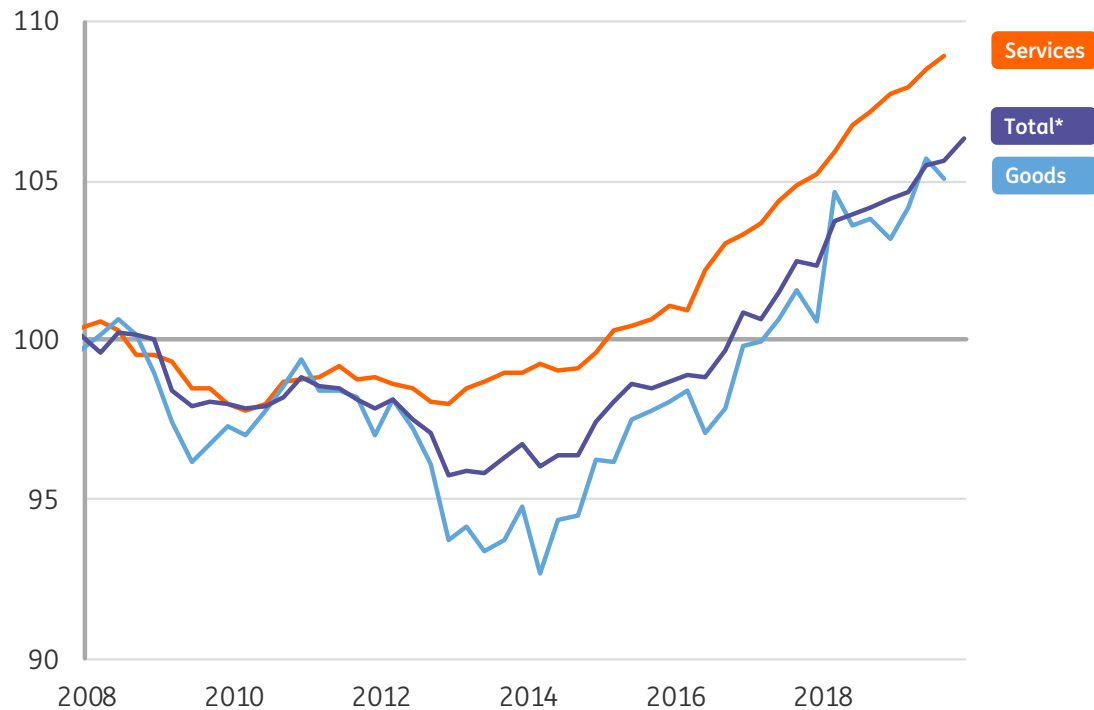
Other goods	4,4%	
Energy and fuel	2,9%	Energy & water
	3,5%	Fuel
Food, beverages and tobacco	3,1%	Beverages & tobacco
	11,2%	Food
Durable goods	2,3%	Other durable goods
	3,4%	Vehicles
	2,5%	Electronics
	4,3%	Furniture
Services	5,4%	Clothing
	6,9%	Other services
	8,0%	Financial
	3,7%	Health
	4,5%	Transport & communications
	12,8%	Hospitality & recreation
	21,1%	Housing

Source: CBS

Private consumption back on growth trajectory mostly due to services

Increasing household consumption mostly in services

Consumption of households, seasonally adjusted volume index, 2008 = 100

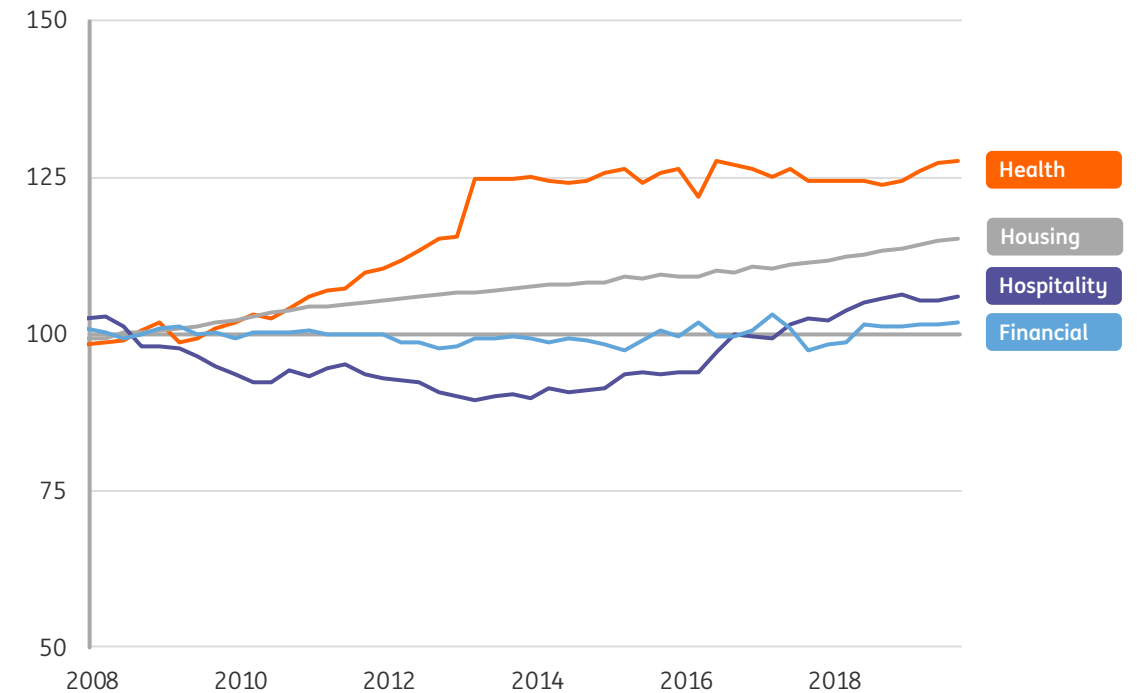


Source: CBS via Macrobond

* Total deviates from the sum of goods and services due to the seasonal adjustment

Among private service consumption strongest growth since 2008 in healthcare

Consumption of households by consumption type, seasonally adjusted volumes, index 2008 = 100

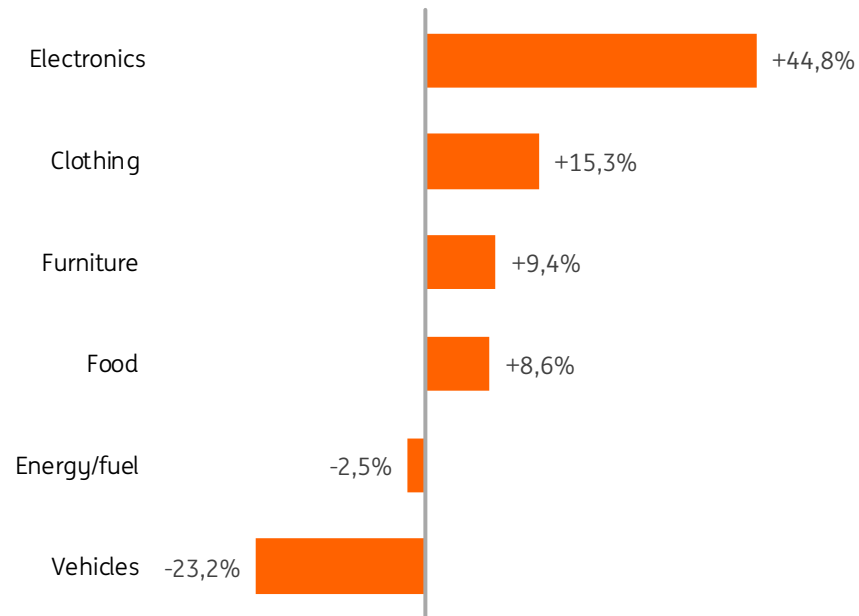


Source: CBS via Macrobond

Consumers buy more electronics, but still fewer cars than in 2008

Strong rise of private consumption of electronics

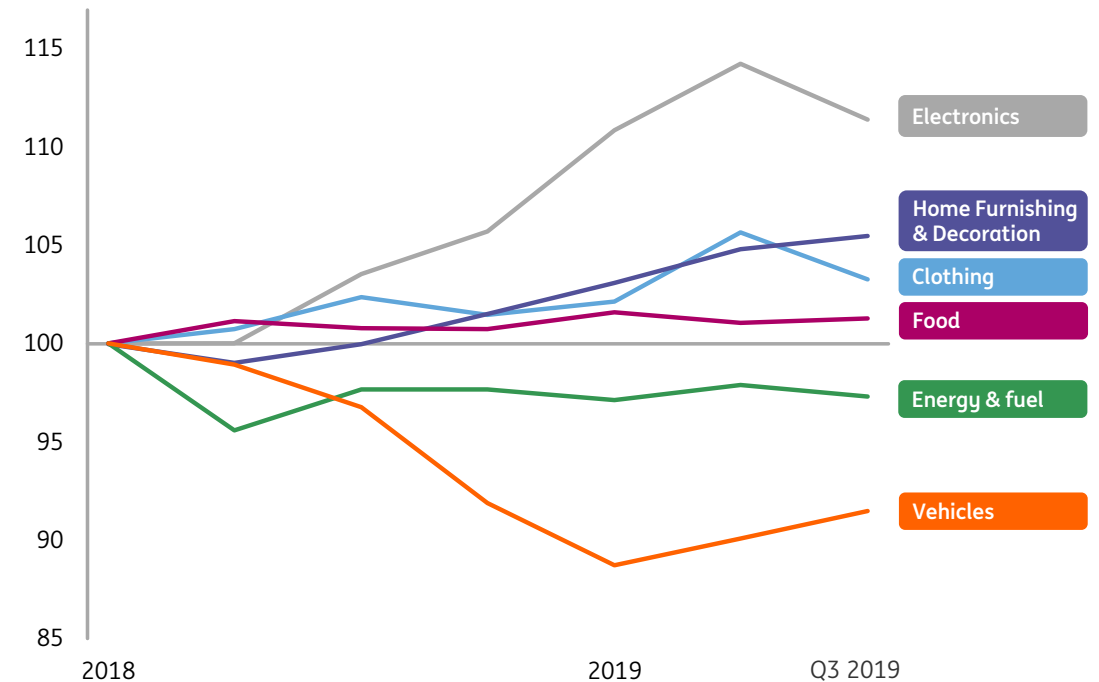
Change of household consumption by type between 2008 and Q3 2019, seasonally adjusted volumes



Source: CBS via Macrobond

Private consumption of vehicles still did not return to its pre-crisis level

Consumption of households by consumption type, seasonally adjusted volumes, index 2018 = 100

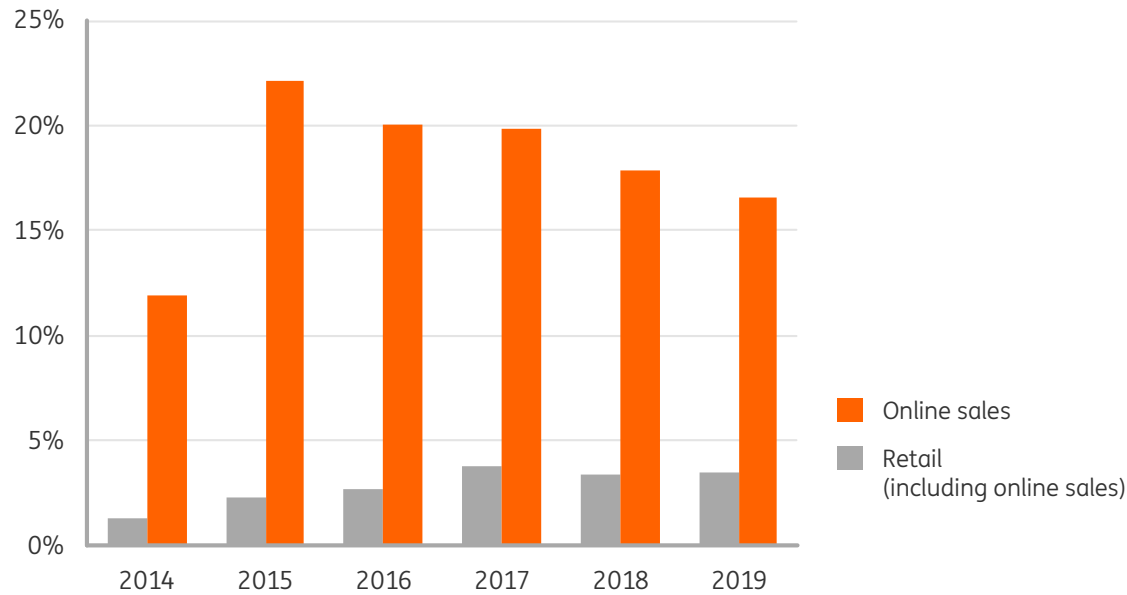


Source: CBS via Macrobond

Growing online sales causes decline in number of traditional shops

Rise in online sales outpaces average retail growth

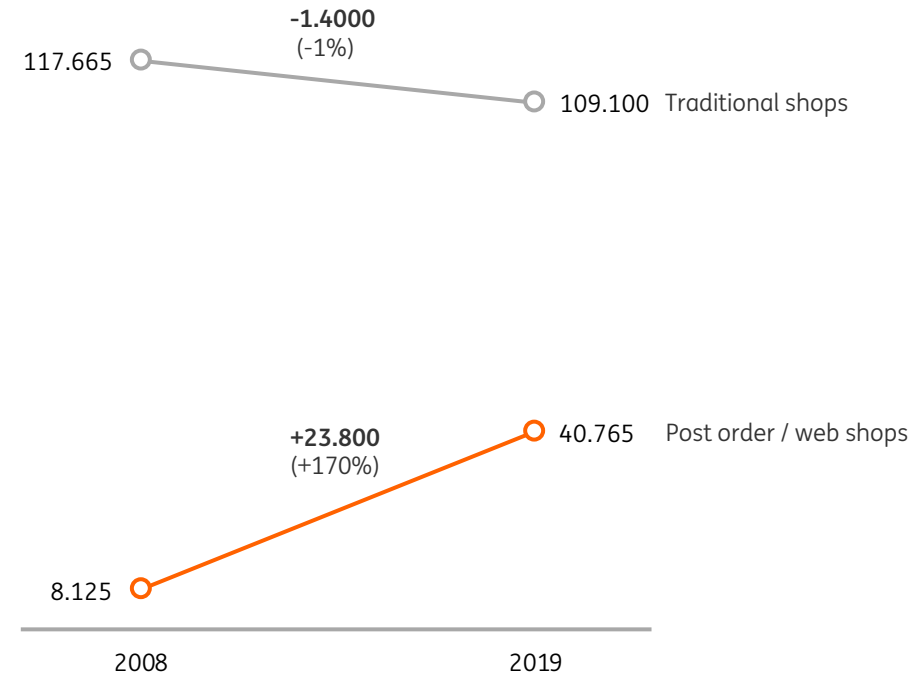
Change in retail sales value excluding pharmacies and petrol stations, year-on-year



Source: CBS

High growth in the number of online shops at the expense of main street

Number of shops at 1st of January



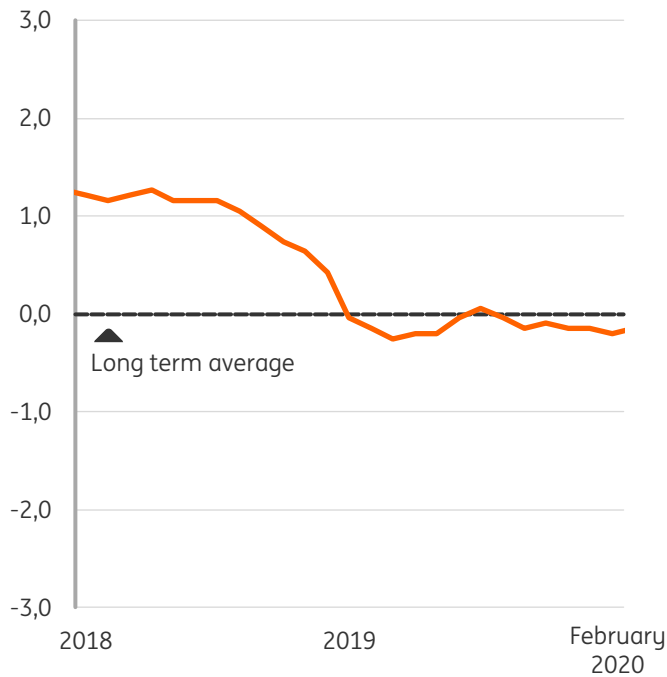
Source: CBS

Consumers most pessimistic about the economy in the near future

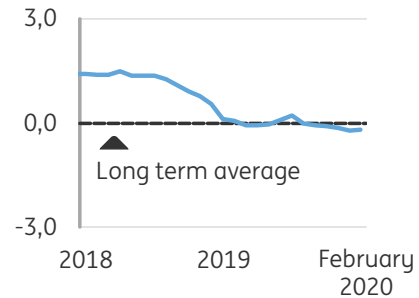
Consumer confidence declined since 2018 and stabilised around long term average

Consumer confidence standardised indices, net % of positive and negative answers, seasonally adjusted

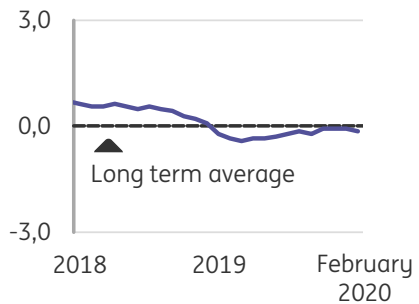
Consumer confidence composite index



Sub-indicator: economic climate



Sub-indicator: willingness to buy



Source: CBS via Macrobond

Consumers currently especially pessimistic about the economy in the near future

Consumer confidence, net % of positive and negative answers, seasonally adjusted data on January 2020

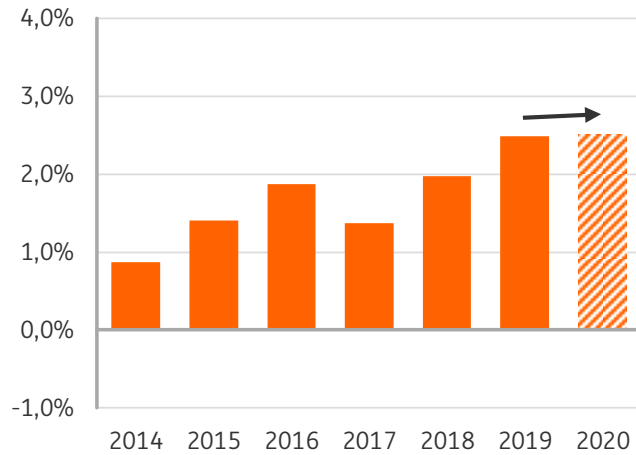


Source: CBS via Macrobond

Stronger real collective wage development

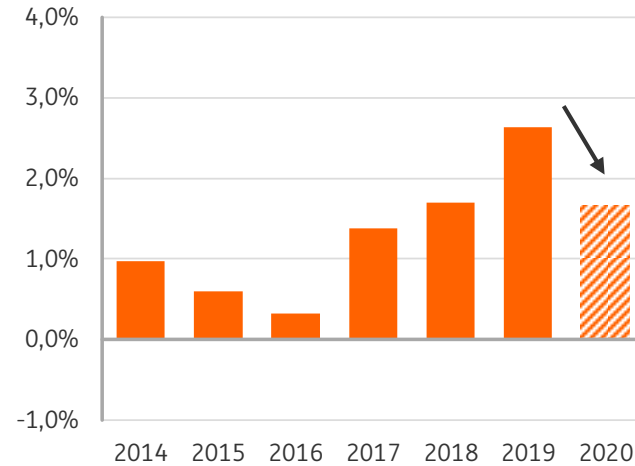
Increasing wage growth in collective labour agreements expected in 2020...

Change in nominal wages per hour as determined in collective labour agreements year on year



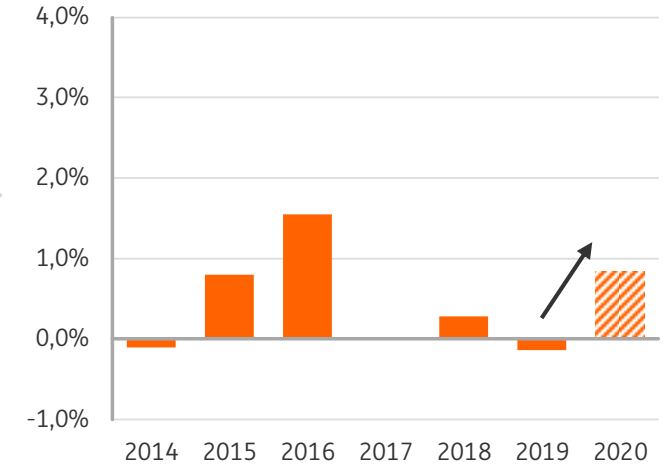
...while consumer price inflation falling...

Consumer price inflation year-on-year according to national definition



...therefore change in real collective wages goes from negative to substantially positive

Change in real wages per hour*, year on year



Source: CBS, ING projections

Source: CBS, ING projections

Source: CBS, ING projections

* Based on nominal wages as determined in collective labour agreements

Everything points to a strong increase in spending power in 2020

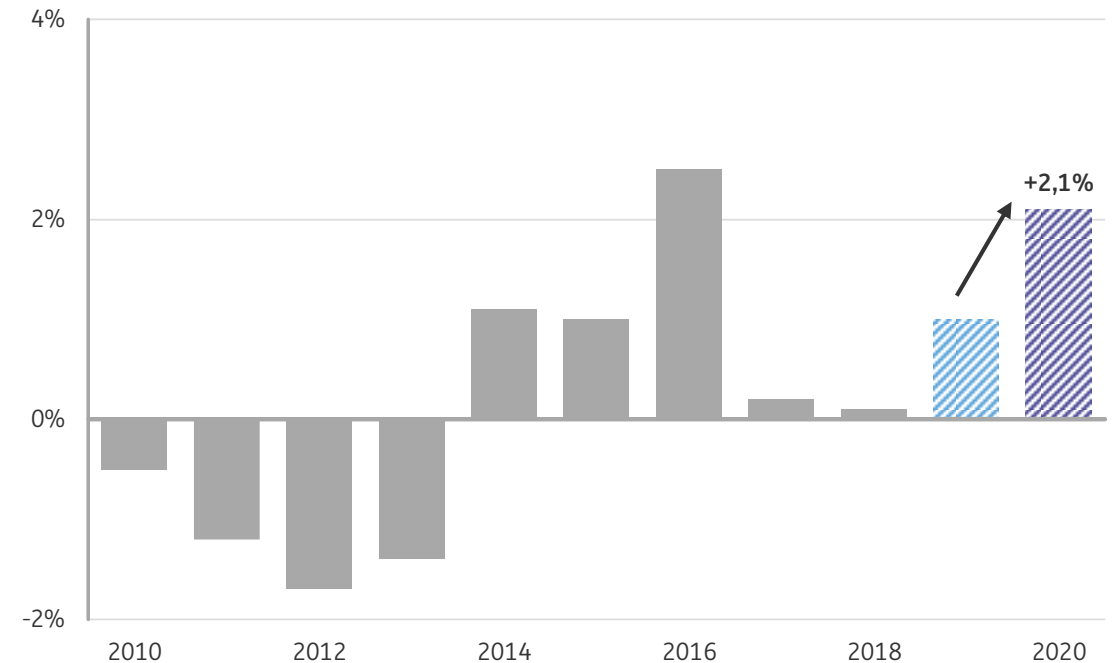
Stronger wage growth, lower inflation and tax relief in 2020...

Change year on year

	2019	2020
Wages As determined in collective labour agreements	+2,5%	+2,8%
Inflation Of consumer prices (CPI)	+2,6%	+1,6%
Taxes Labour income taxation	-3,7bln	-3,9bln

...make purchasing power rising faster in 2020

Change in static purchasing power of households, year on year



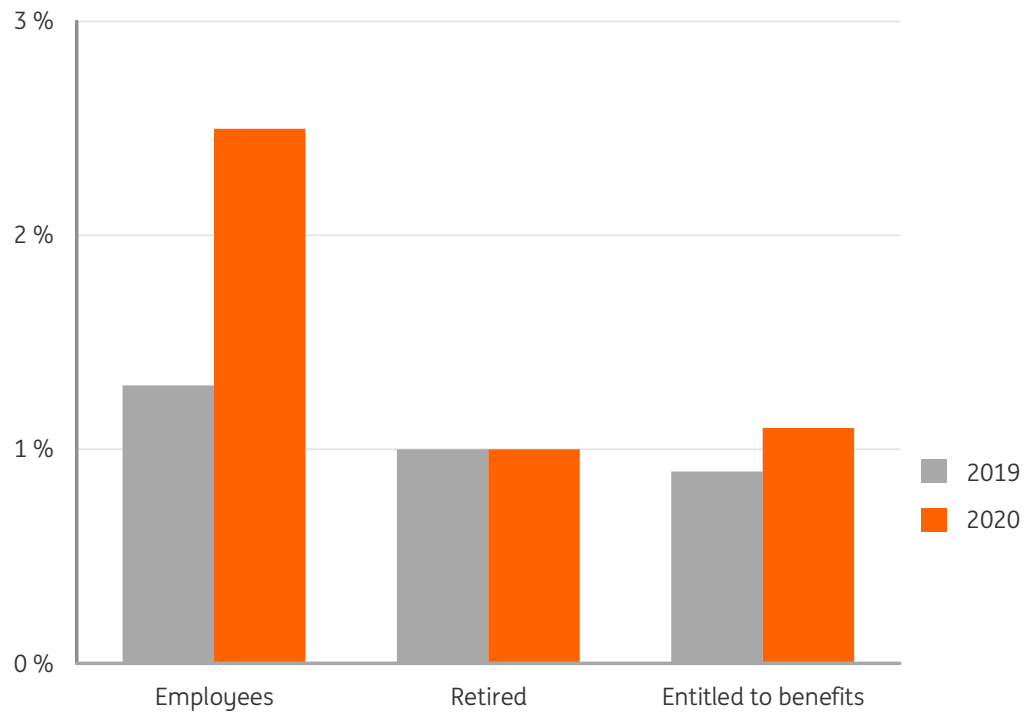
Source: CPB

Source: CPB

Increase in spending power in 2020 especially for employees

Employees expected to benefit most from increase in purchasing power

Average expected median change in static purchasing power of households in %

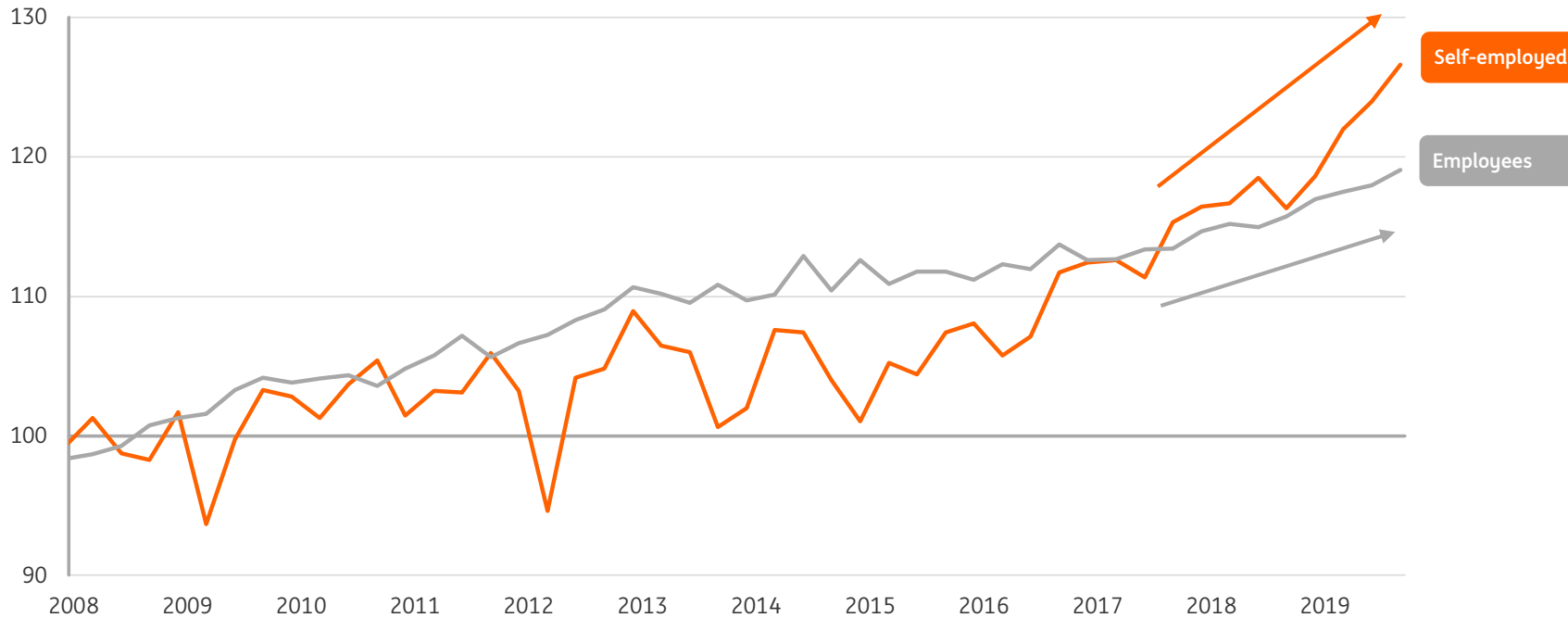


Source: CPB, ING estimates

Hourly income of self-employed is outpacing employee income

Hourly income of self-employed is rising faster compared to employees since mid-2017

Average gross remuneration per hour worked (mixed income for self-employed, seasonally adjusted index, 2008 = 100)

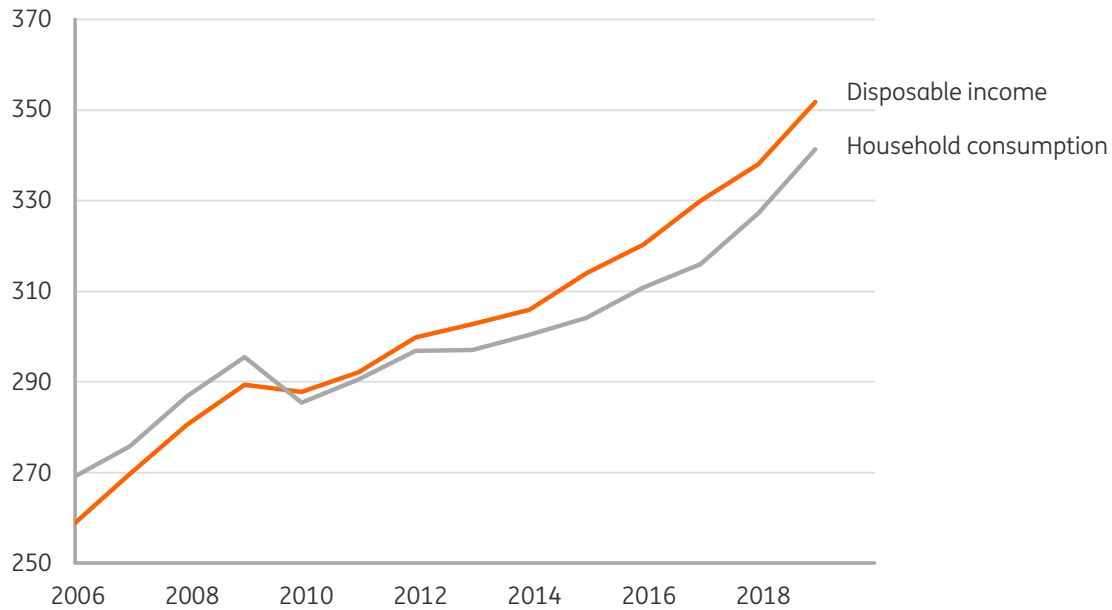


Source: CBS, ING

Savings of households at considerable level

Household consumption is significantly lower than disposable income

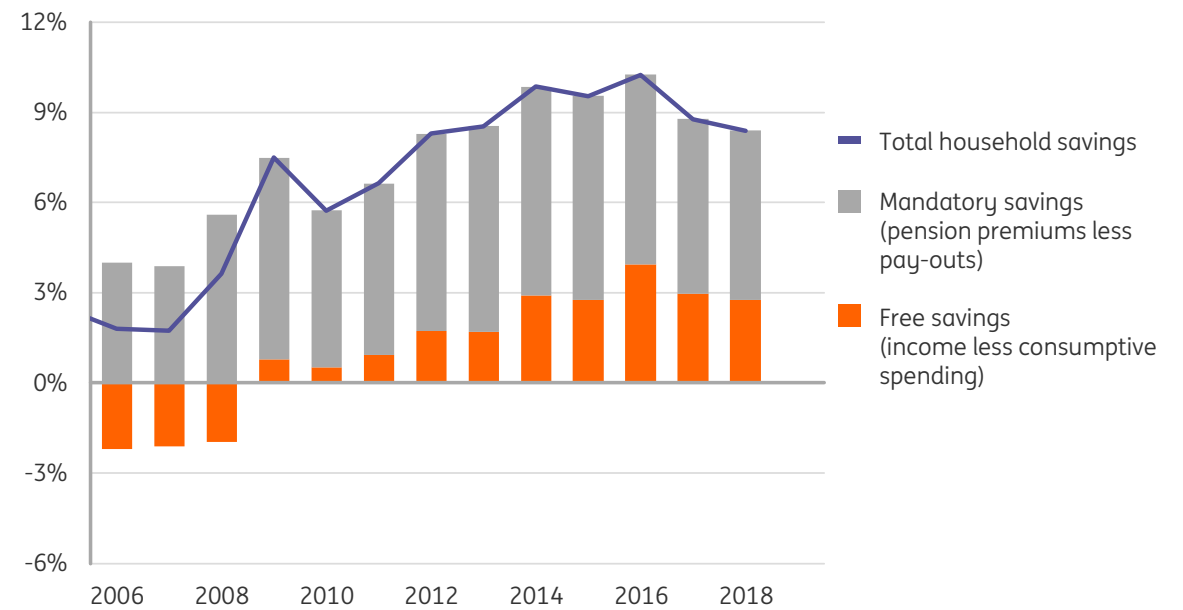
Household consumption in billions of euros, seasonally adjusted



Source: CBS via Macrobond

'Free' and mandatory savings rate of households still quite high

Savings as ratio to net disposable income of households (including pension premiums less pay-outs)

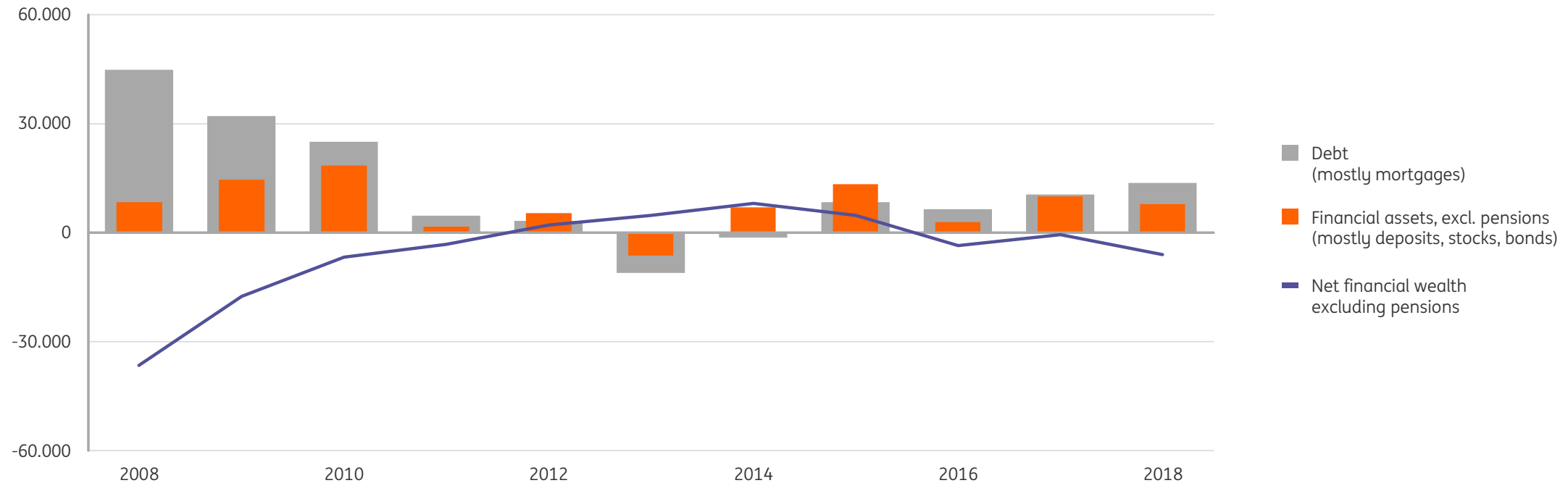


Source: CBS via Macrobond

Increase in household debt leads to lower net financial wealth

Debt of households increased faster than financial assets, resulting in net financial wealth decline

Changes due to financial transactions of households*, in billions of euros

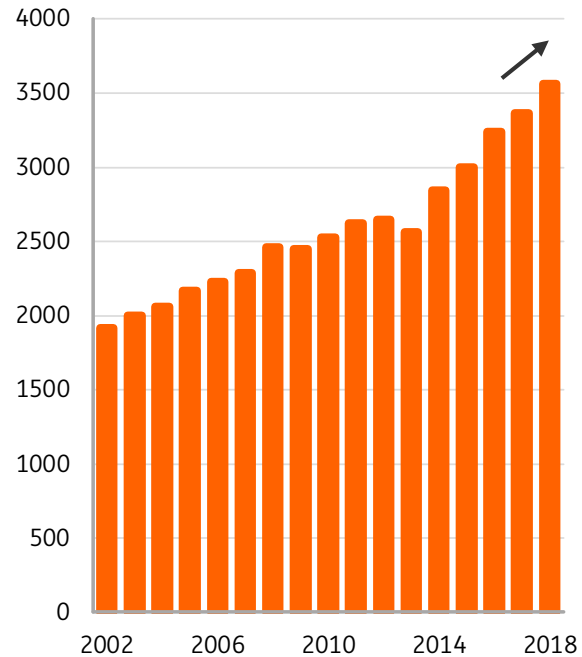


Source: CBS
* price and valuation effects are excluded

Net wealth increased thanks to rising house prices

Total net wealth increases further to new record high

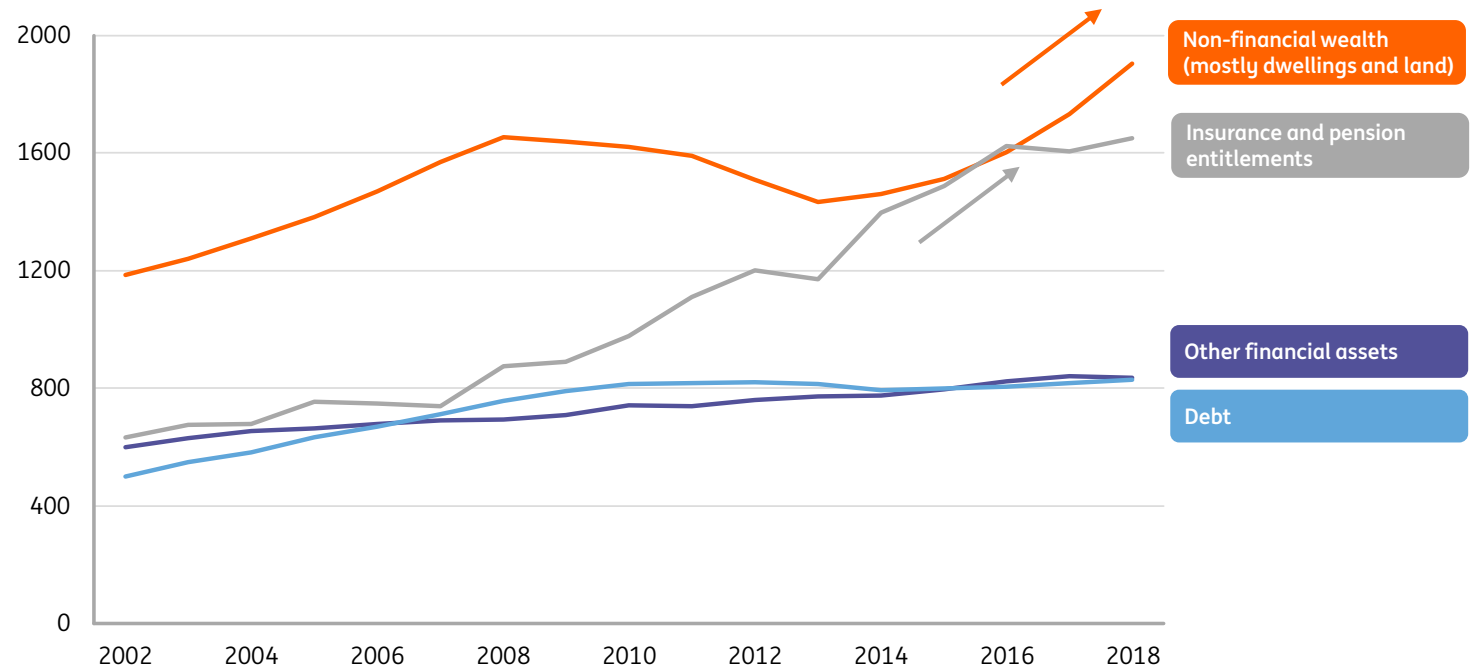
Financial and non-financial assets, in billions of euro



Source: CBS

While increase in net wealth initially primarily came from rising pension wealth, it recently was mainly the result of rise housing wealth

Wealth and debt components in billions of euros



Source: CBS

Labour market

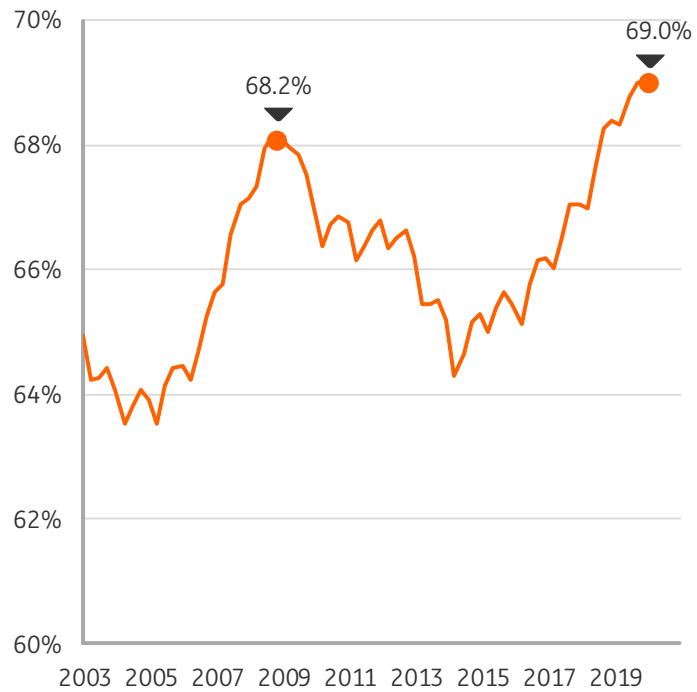
- Employment growth has maintained a surprisingly high pace in the last quarter of 2019. The level of employment in terms of number of jobs, the number of people employed and hours worked are all at record highs, due to higher participation rates and the business cycle. At the benefit of workers, recent employment development involves fewer flexible contracts and fewer temping jobs.
- While there are many vacancies and few unemployed people, the labour market might however start to become a little less tight in the near future. Leading indicators point in that direction. Consumers and firms both have somewhat less positive labour market expectations and the share of Dutch companies struggling to find suitable employees slowly started to decrease from a very high level.
- The unemployment rate is extremely low at 3.0% in January 2020, suggesting that it can only go up. This may happen if labour supply keeps its strong upward pace while employment starts to lose traction. Indeed, even though the share of the population that supplies its labour rose to a new record high, a realistically continuing upward trend in participation would unlock even 207,000 more people for the labour market. For that, men need to return to the precrisis peak of their participation rate and the younger cohorts of women need to continue replacing older cohorts that more rarely supply their labour.
- Noteworthy structural changes to the labour market are the increasing share of employment in (both commercial and public) service sectors and the increasing labour supply of elderly workers, in part driven by increases in the statutory pension age. The elderly are quite successful in finding a job. In fact, the unemployment rate of 45-75 old fell below 25-45 year olds.

Chapter updated on February 22nd 2020

Record highs in employment

Since net participation rate increased to a record high...

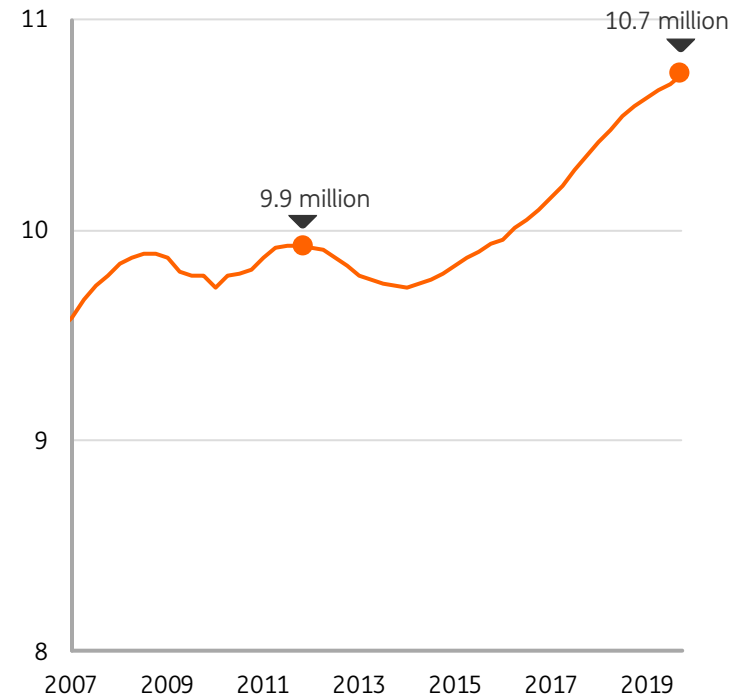
Net participation rate*, seasonally adjusted



Source: CBS

... and the number of jobs has never been higher...

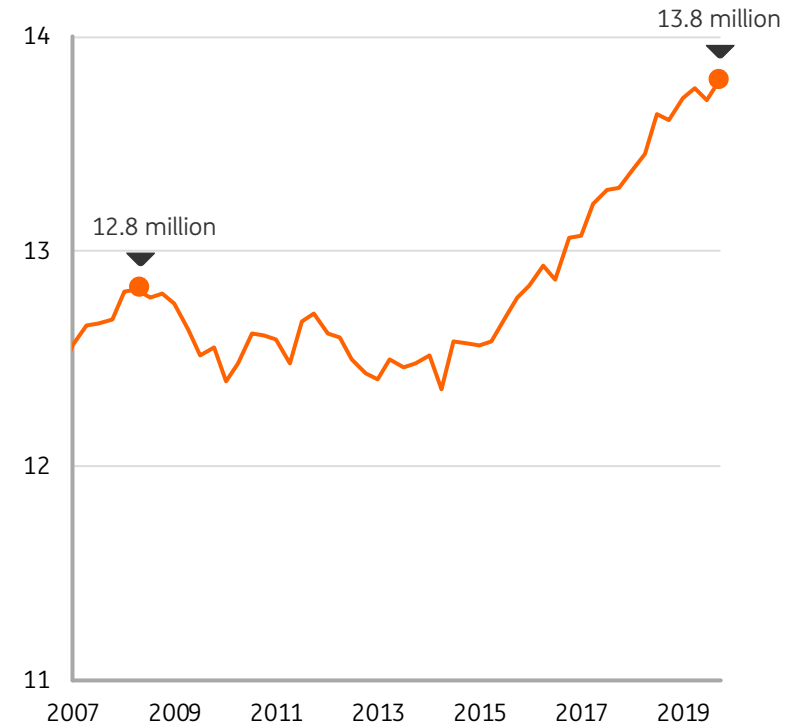
Number of jobs of employees and self-employed, in millions, seasonally adjusted



Source: CBS

... total hours worked reached a new record high

Number of quarterly hours worked by employees and self-employed, in millions, seasonally adjusted

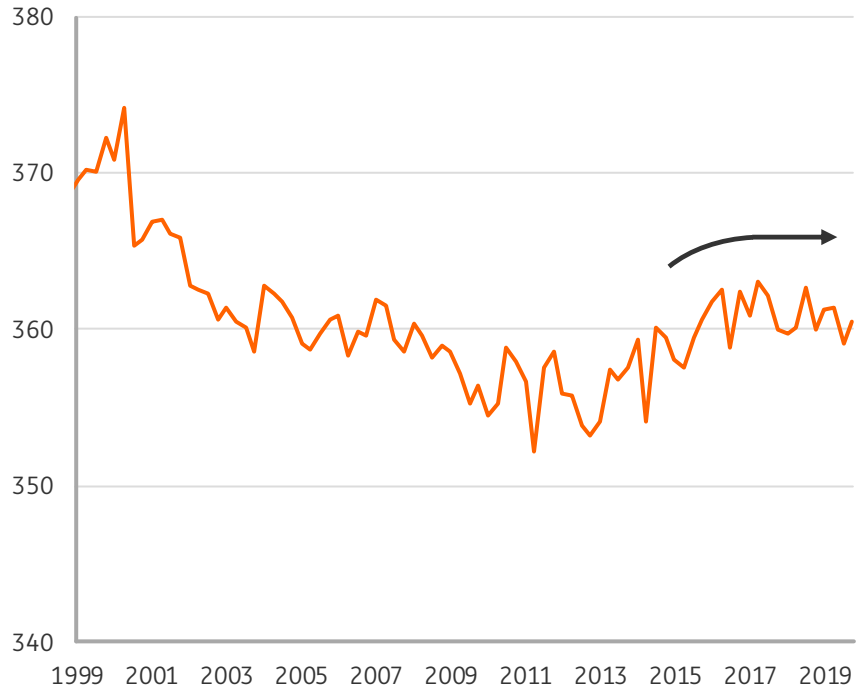


Source: CBS

Potential to work more hours not fully-utilised yet

While the number of hours worked per employed person stabilised after recovery...

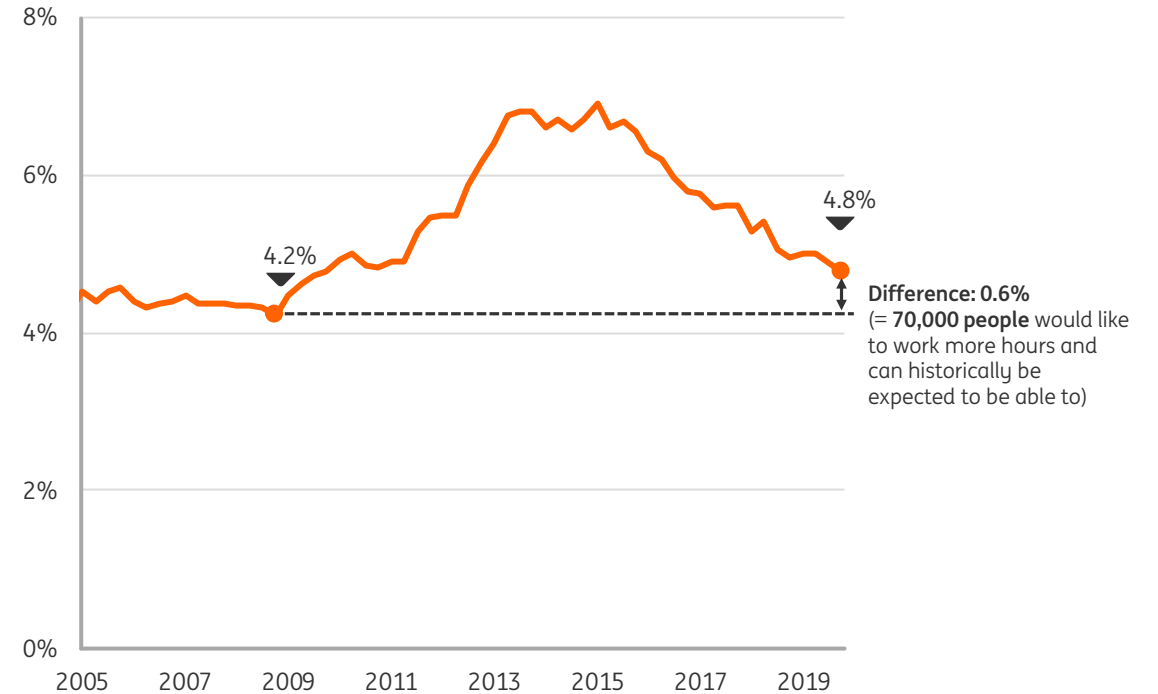
Average quarterly number of hours worked per worker, seasonally adjusted



Source: CBS

...there is still supply potential for more hours to be worked among 70K existing workers

Number of workers who want to work more hours as share of the total population of 15-74yrs, seasonally adjusted

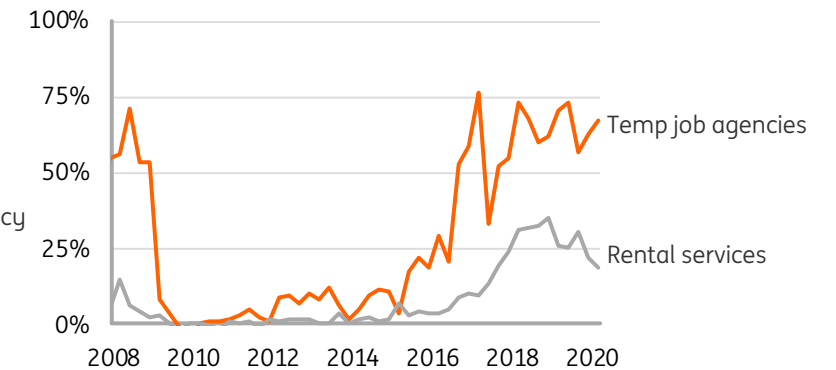
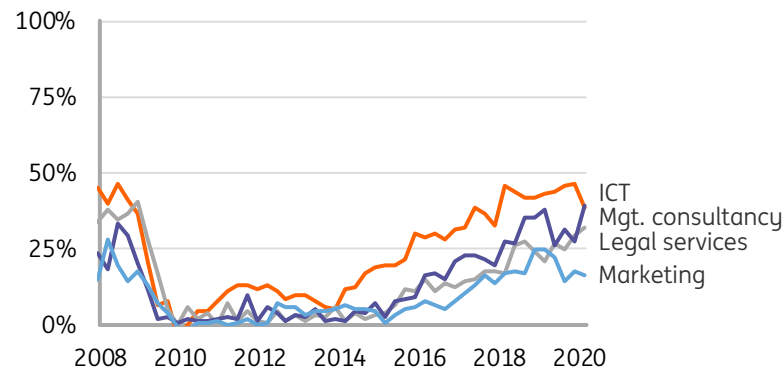
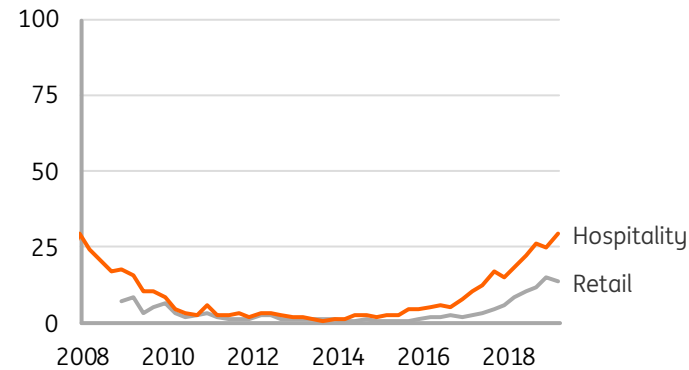
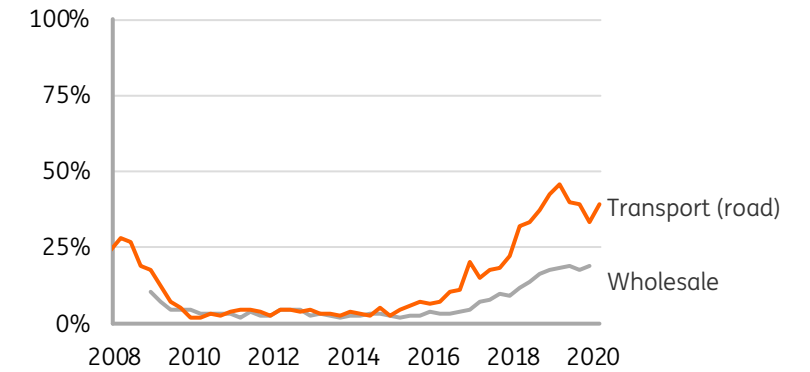
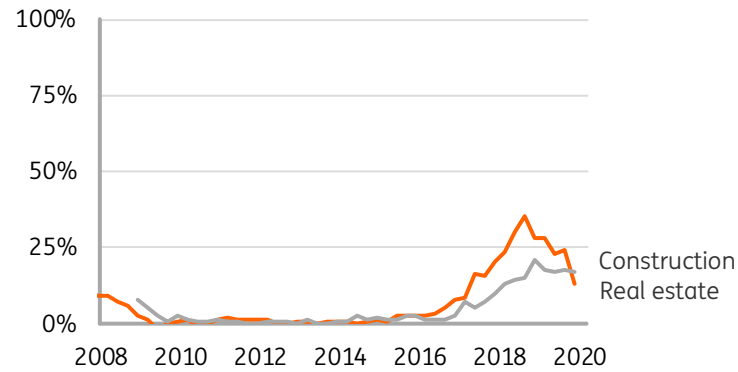
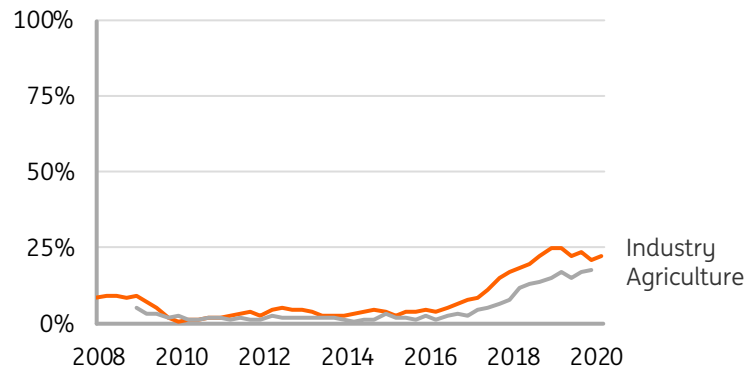


Source: CBS

Large share of firms in many industries experience labour shortages

Shortage of labour is limiting production in many industries

Percentage of firms reporting shortage of workers as a constraint to production or sales , seasonally adjusted

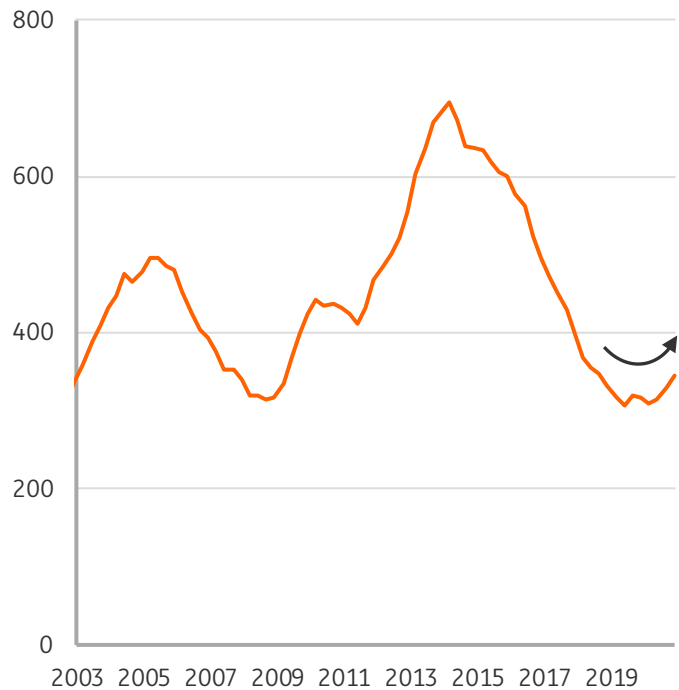


Source: CBS and European Commission DG ECFIN, Macrobond

Record number of vacancies has stopped adding additional strain to labour market since the number of unemployed increases

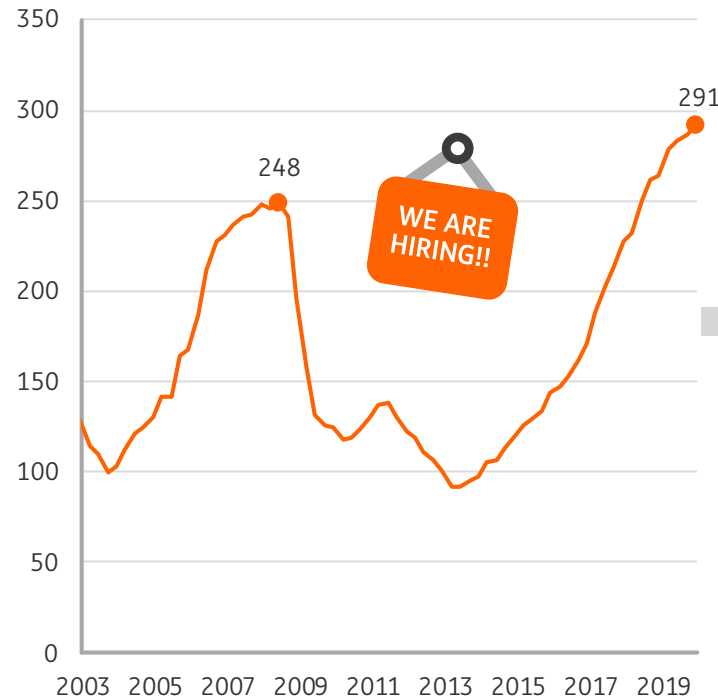
While the number of unemployed people started to increase from a historically low level...

Number of people unemployed aged 15-74 years, in thousands, seasonally adjusted



... the number of unfilled vacancies recently hit a record high level

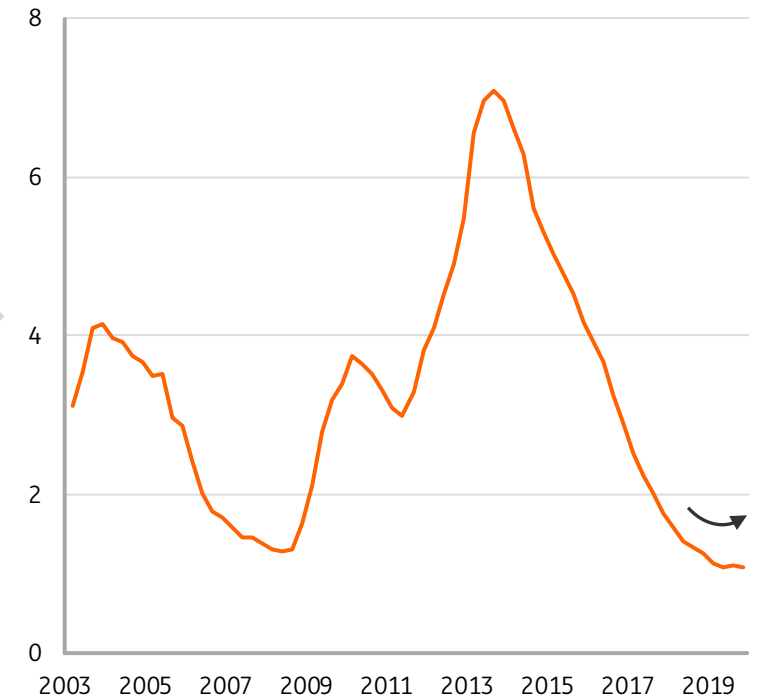
Number of unfilled vacancies, in thousands, seasonally adjusted



Source: CBS

... number of unemployed persons per open vacancy got past at lowest point

Ratio of number of unemployed persons and number of unfilled vacancies, seasonally adjusted

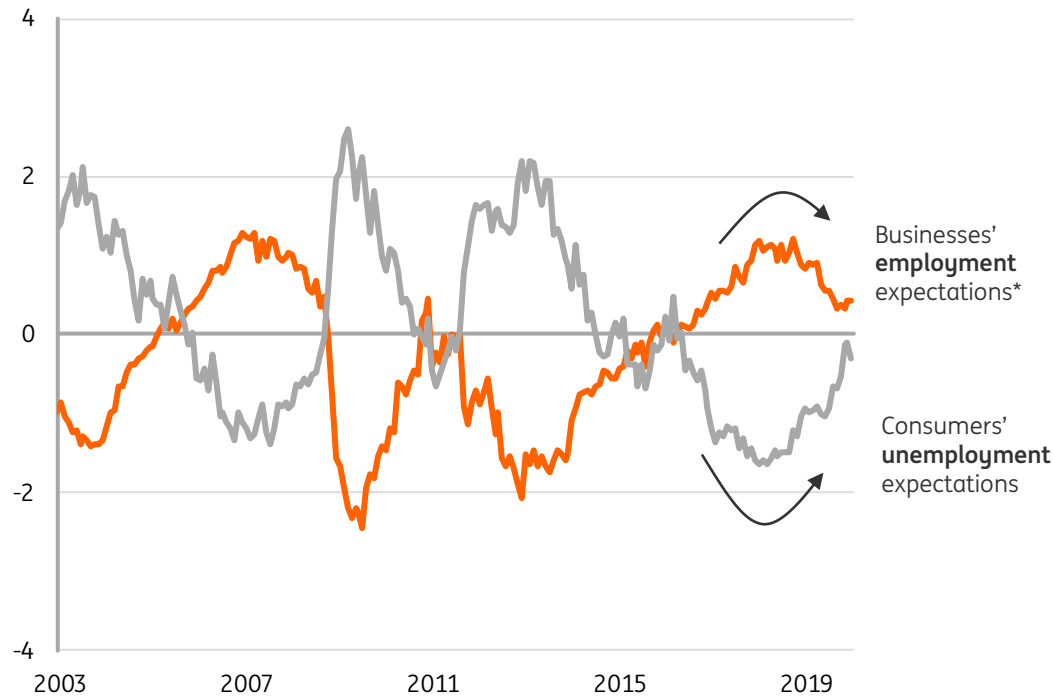


Source: CBS via Macrobond

Leading indicators suggest start of decreasing strain on labour market

Consumers and firms both have somewhat less positive labour market expectations

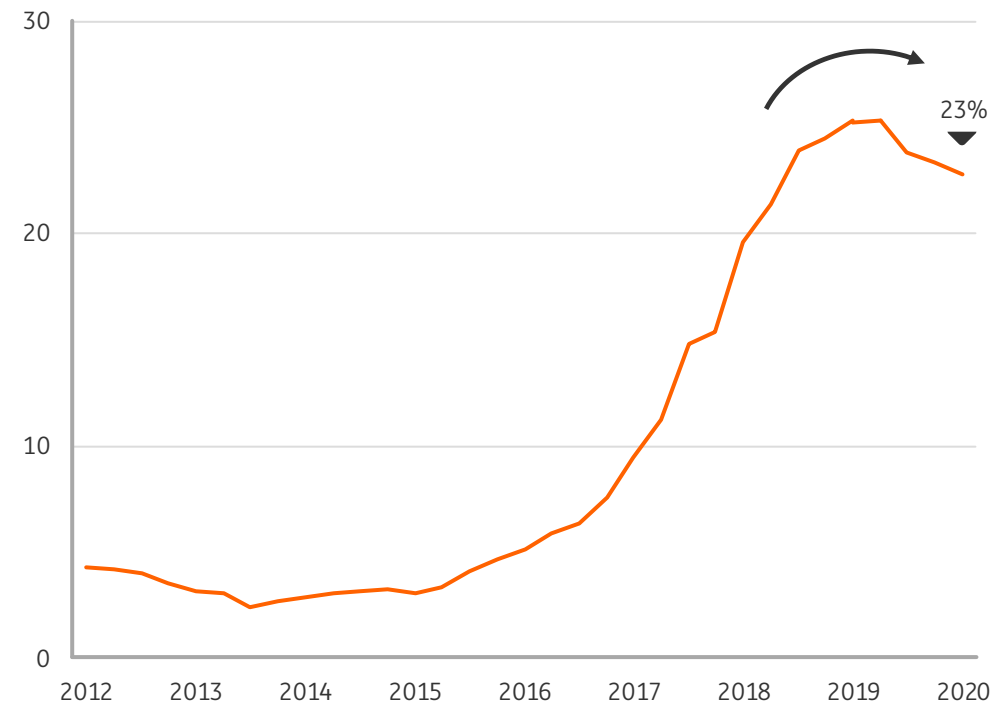
Indices about expectations on the labour market, standardised with long term average=0 and scale by standard deviation



* Weighted average of manufacturing, construction, retail and services
Source: DG ECFIN, Macrobond

Share of Dutch companies struggling to find suitable employees slowly started to decrease from a very high level

% of non-financial companies in the market sector indicating labour shortages as a factor limiting production, seasonally adjusted

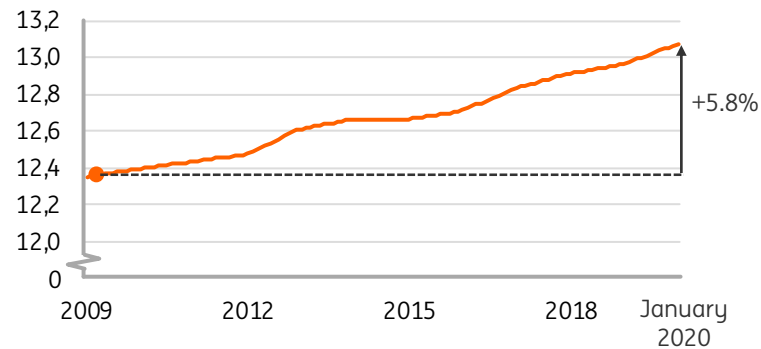


Source: CBS, EIB, KvK, MKB Nederland and VNO-NCW, (COEN survey)

Share of the population supplying labour rose to new record high

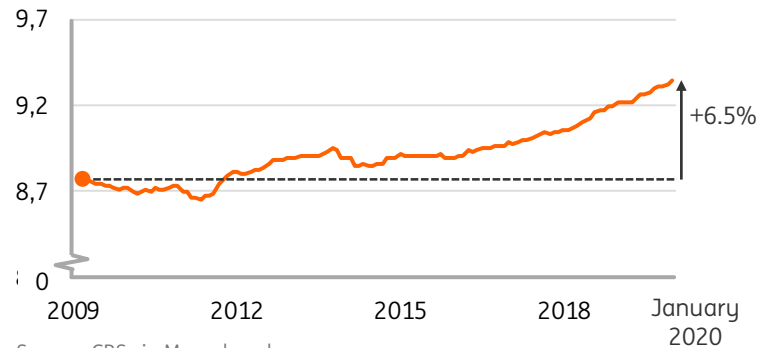
While potential labour force kept on growing steadily...

Population aged 15-74 years in millions of people, seasonally adjusted



...the actual labour force increased even stronger...

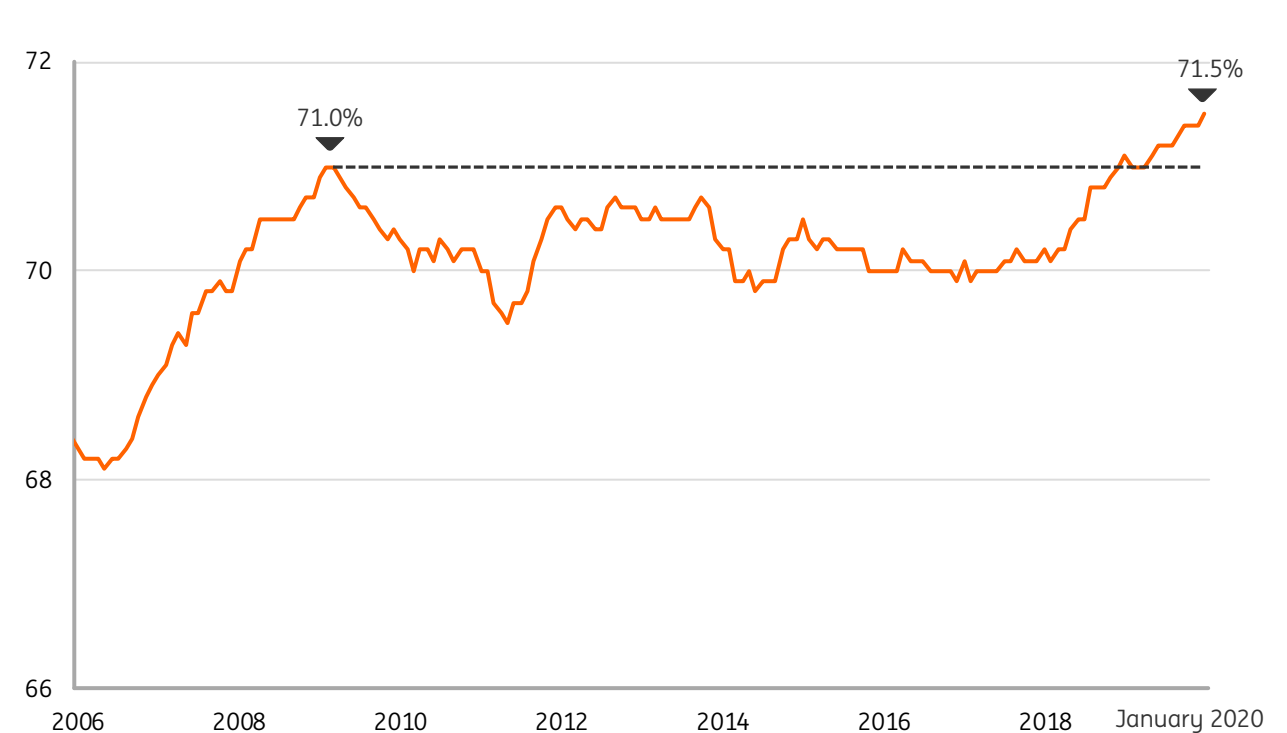
Labour force aged 15-74 years in millions of people, seasonally adjusted



Source: CBS via Macrobond

... hence the gross participation rate is above pre-crisis record

Actual labour force as percentage of potential labour force aged 15-74, seasonally adjusted



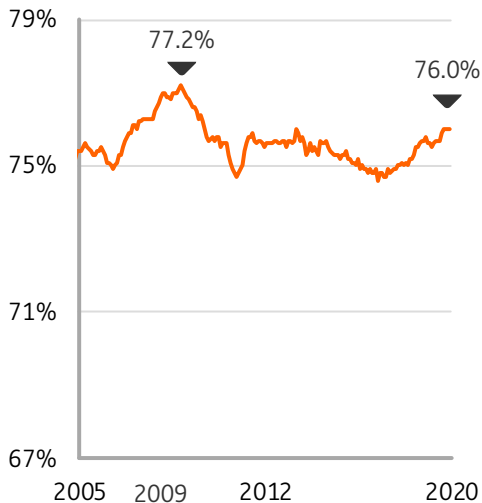
Source: CBS via Macrobond

Continuing upward trend in participation unlocks 207,000 people



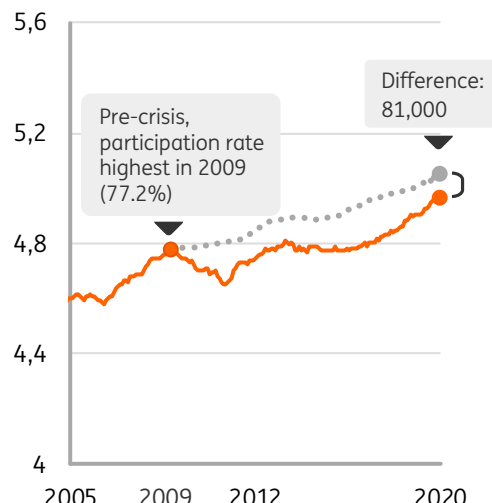
Male participation rate rising but still far below previous peak

Actual labour force as percentage of potential labour force aged 15-74, seasonally adjusted



81,000 extra men if participation returned to high level of 77.2%

Number of males (possible) active aged 15-74 on the labour market, in millions, seasonally adjusted



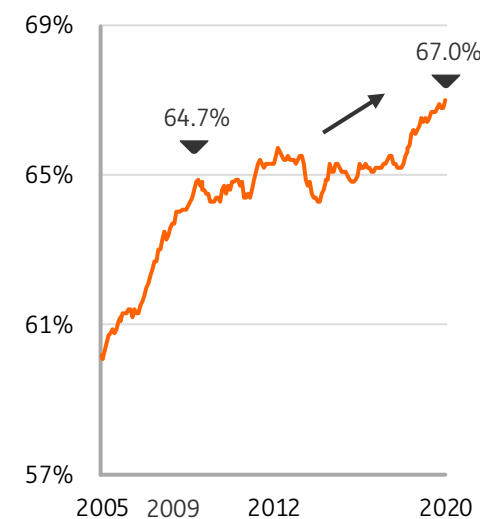
- Actual participating population
- Possible labour force if participation rate gets back at pre-crisis level of 77.2%

Source: CBS via Macrobond, ING estimates



Upward trend in female participation rate resumed

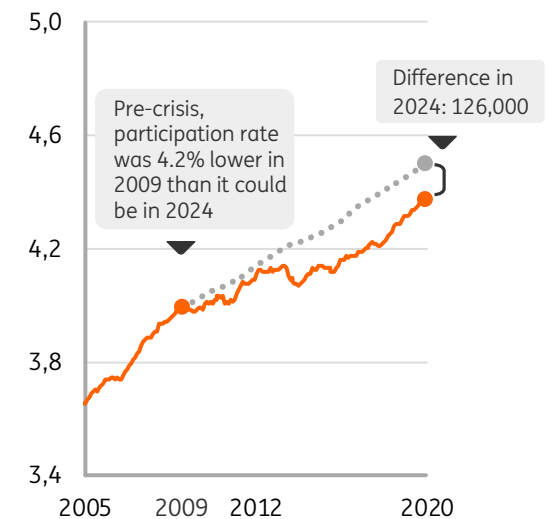
Actual labour force as percentage of potential labour force aged 15-74, seasonally adjusted



Source: CBS via Macrobond, ING estimates, with assumptions on the degree of trend extrapolation inspired upon [Ebregt, Jongen & Scheer \(2019\)](#)

126,000 extra females in next 5 years (2024) if participation continues trend

Number of females (potentially) active aged 15-74 on the labour market, in millions, seasonally adjusted



- Actual participating population
- Possible labour force if participation rate rises (1.9%-point up to 2024 w.r.t. January 2020) in line with continuing upward trend in 2003-2019

Unemployment so low that it can only go up

Labour supply forecast to outpace employment

Development of labour market variables in 2020 and drivers

++ Labour supply:

- Adaption to statutory pension age
- Migration

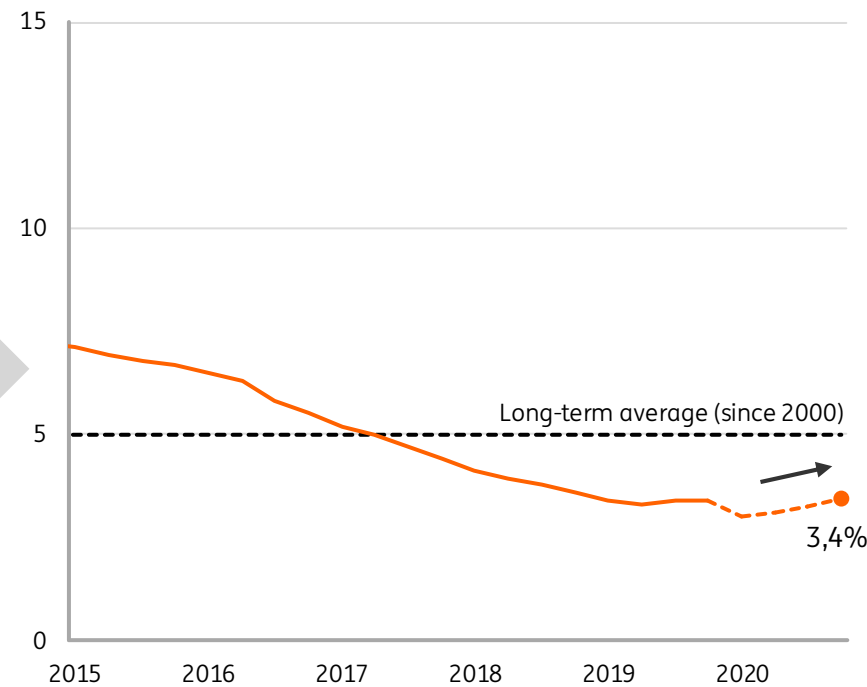


+ Employment (demand):

- Fading business cycle momentum in private sector
- Additional hiring in public sectors

Unemployment rate low but mild increase expected end of 2020

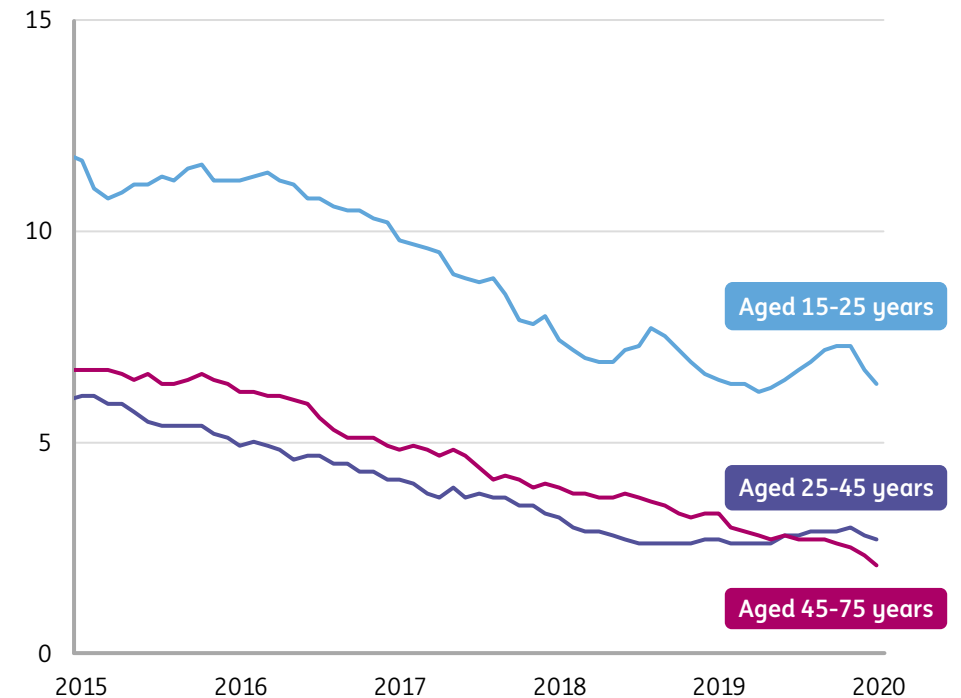
Share of unemployed (15-75 year) in labour force, seasonally adjusted



Source: CBS via Macrobond, ING forecasts

Unemployment rate of 45-75 old fell below 25-45 year olds

Share of unemployed in labour force by age, seasonally adjusted

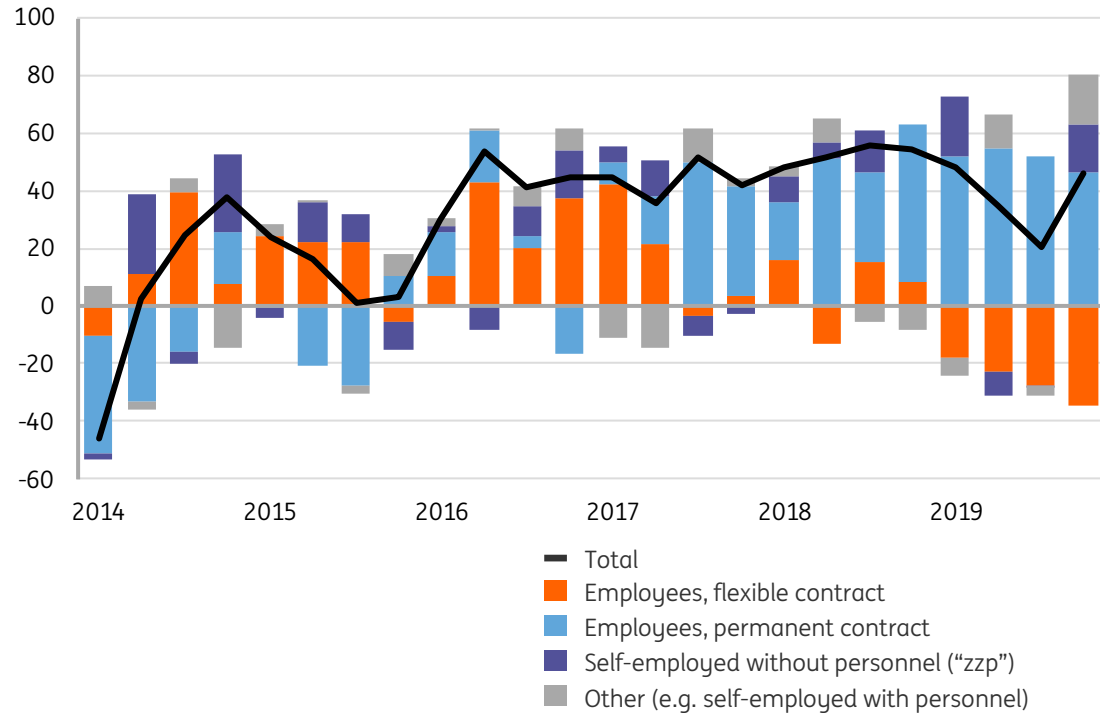


Source: CBS via Macrobond

Recent employment development involves fewer flexible contracts and fewer temping jobs

Number of flexible contracts falling and contributing negatively to growth in employed labour force

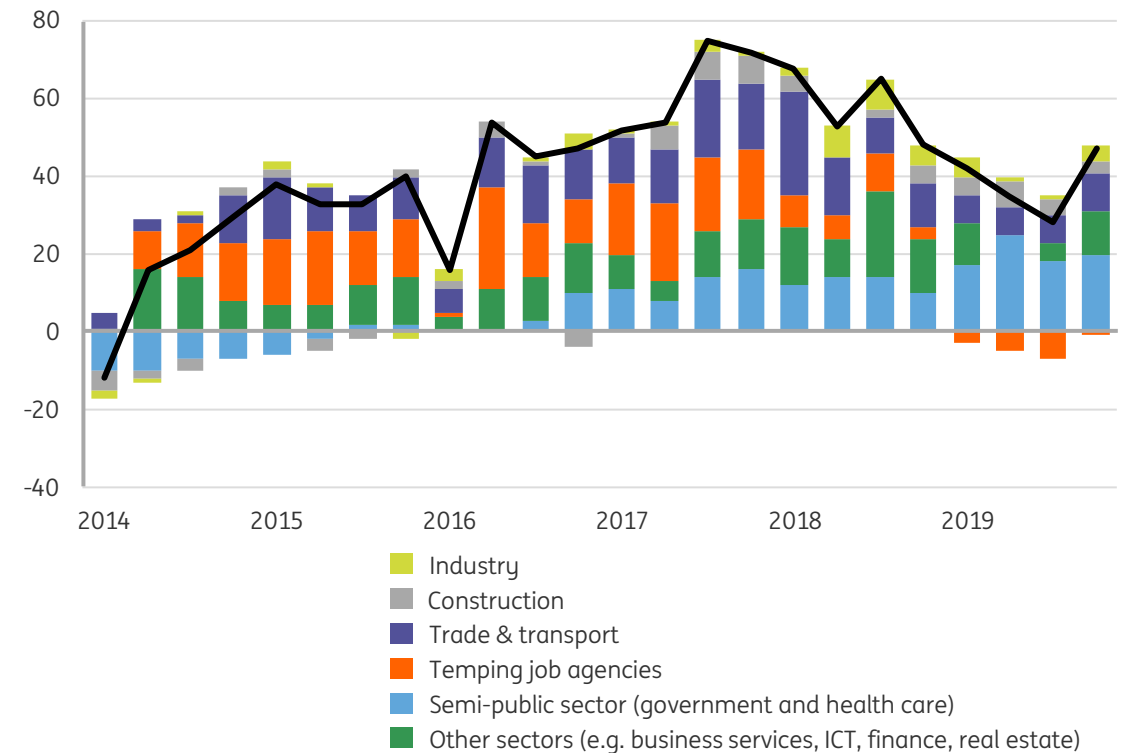
Contribution to quarterly change in the employed labour force in thousand persons, seasonally adjusted



Source: CBS, ING adjustments

Job growth decreasing due to lower contribution of temp jobs

Contribution to quarterly change in employment in thousand jobs, seasonally adjusted

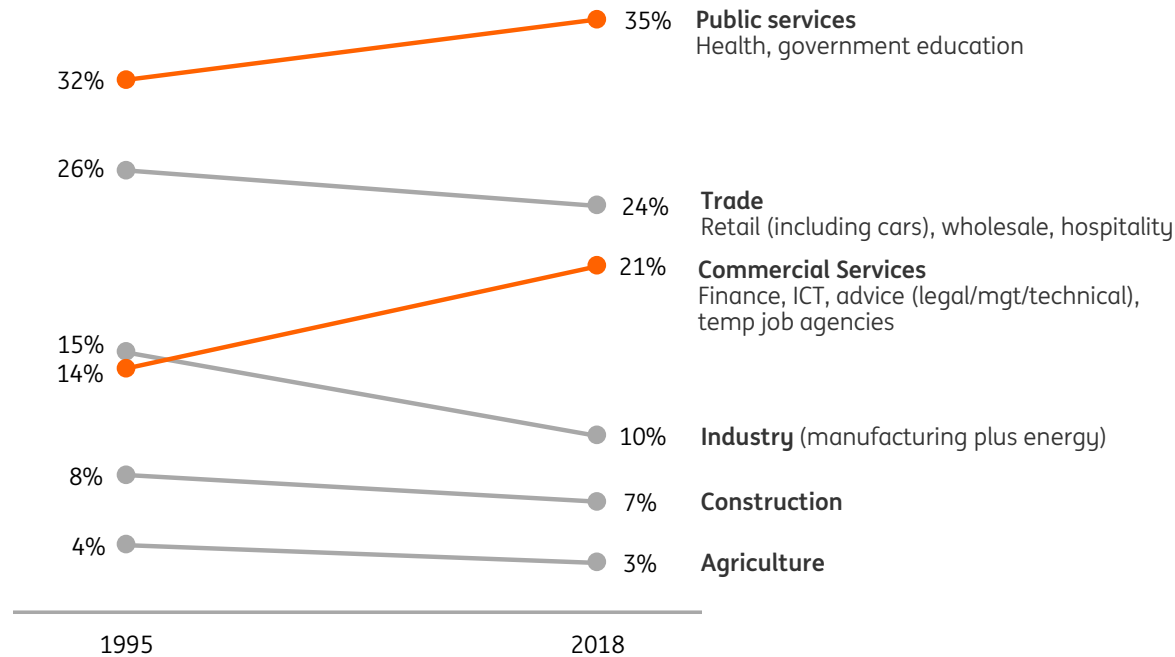


Source: CBS

Share of employment in service industries increases at the expense of the share of manufacturing and trade

Long term shift of work towards service industries at the relative 'expense' of manufacturing and trade

Share in total employment (hours worked), in %



Source: CBS

Inflation

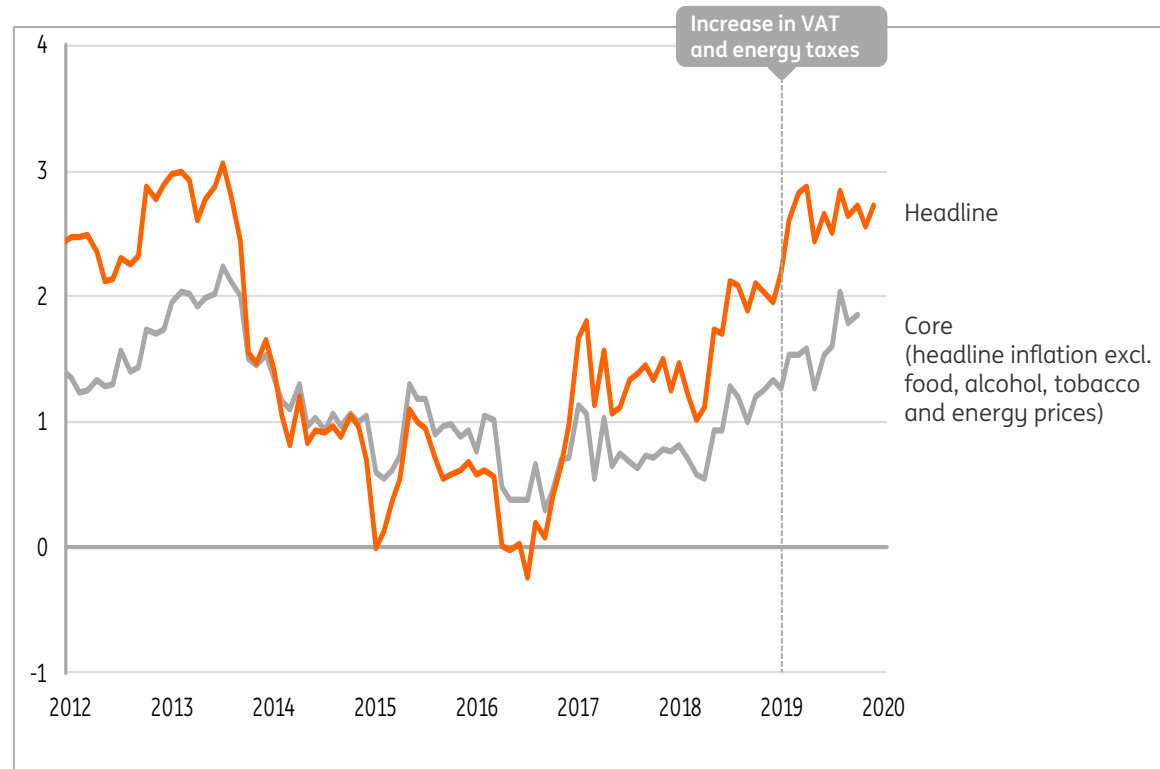
- Within the eurozone, headline consumer price to inflation was second highest in the Netherlands (2.7% HICP, 2.6% CPI) in 2019, due to an increase in the VAT and higher energy taxes. Due to the fading of this tax base effect, CPI-inflation is set to fall to 1.5% in 2020. Underlying inflationary pressures have been moderate for a long time, but are on the way up, since contractual wages in collective wage agreements have been accelerating to 3.2% year-on-year in January 2020.
- Both consumers' price expectations and selling price expectations of businesses fell strongly during the course of 2019, when more time passed since the increase of the low-VAT rate. Nevertheless, current inflation expectations of businesses have recently been on the way up again.
- We forecast core CPI inflation (excluding volatile energy and food prices) to decrease from a tax-inflated 1.6% in 2019 to a still moderate rate of 1.5% in 2020, which is more driven by capacity constraints on the labour market.
- Food, housing, hospitality services and energy were responsible for the bulk of the increase in 2019. In contrast to last year, energy might actually have a downward effect on inflation in 2020, while the positive contribution of hospitality services, transportation, and especially food prices will be lower.

Chapter updated on January 30th 2020

Actual inflation up to end of 2019 higher due to policy, but expectations for 2020 are lower

Consumer price inflation and core inflation both still high in end 2019 due to tax increases

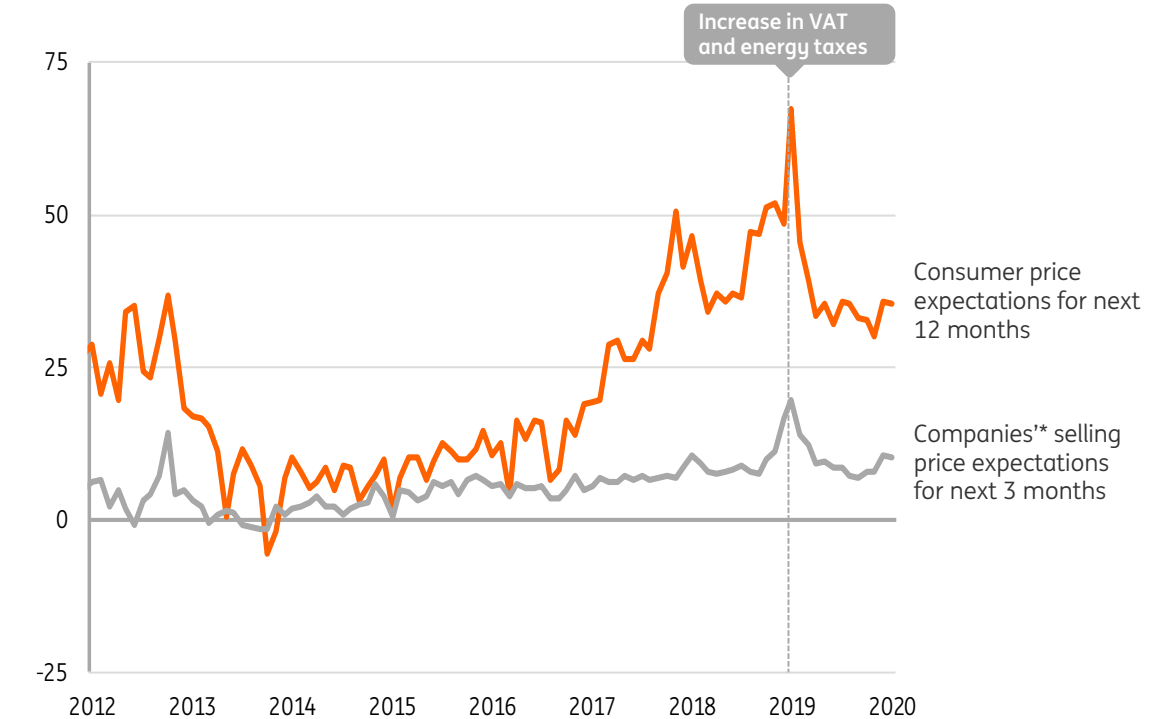
Consumer price inflation % year-on-year according to national definition



Source: CBS

Consumers inflation expectations quite stable at a lower level after VAT effect, while businesses a bit more often expect prices to increase further

Net % of respondents expecting higher prices



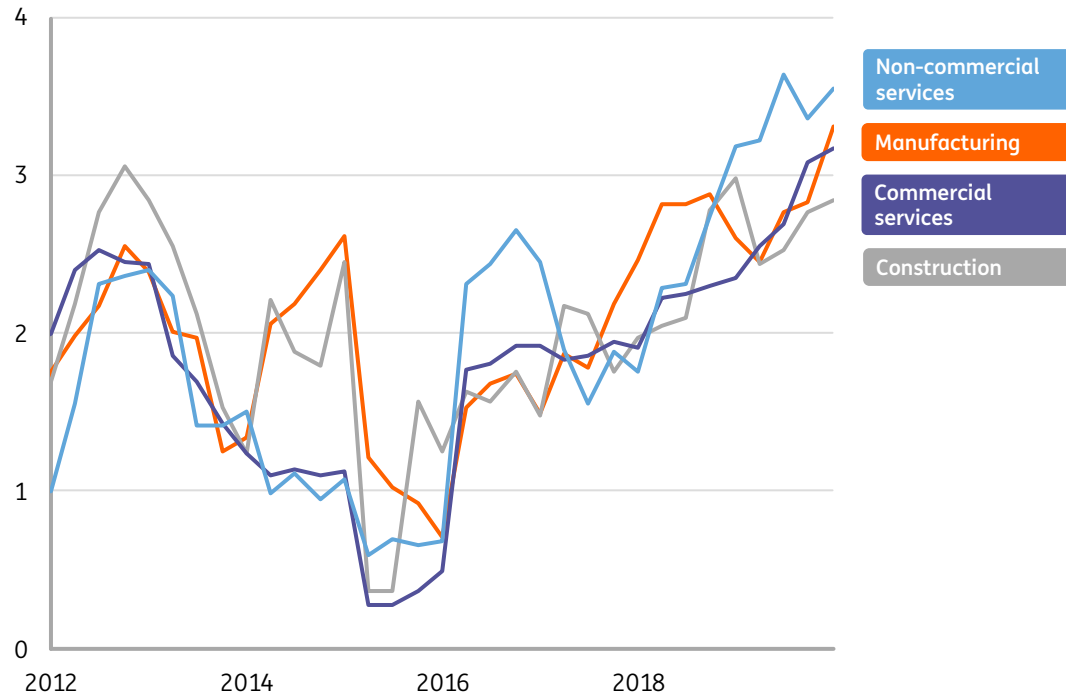
Source: DG ECCFIN via Macrobond

* weighed average of industry, retail and services sector

Inflationary pressure is building up via higher wage cost

Hourly wage costs rising at increasing pace across broad sectors

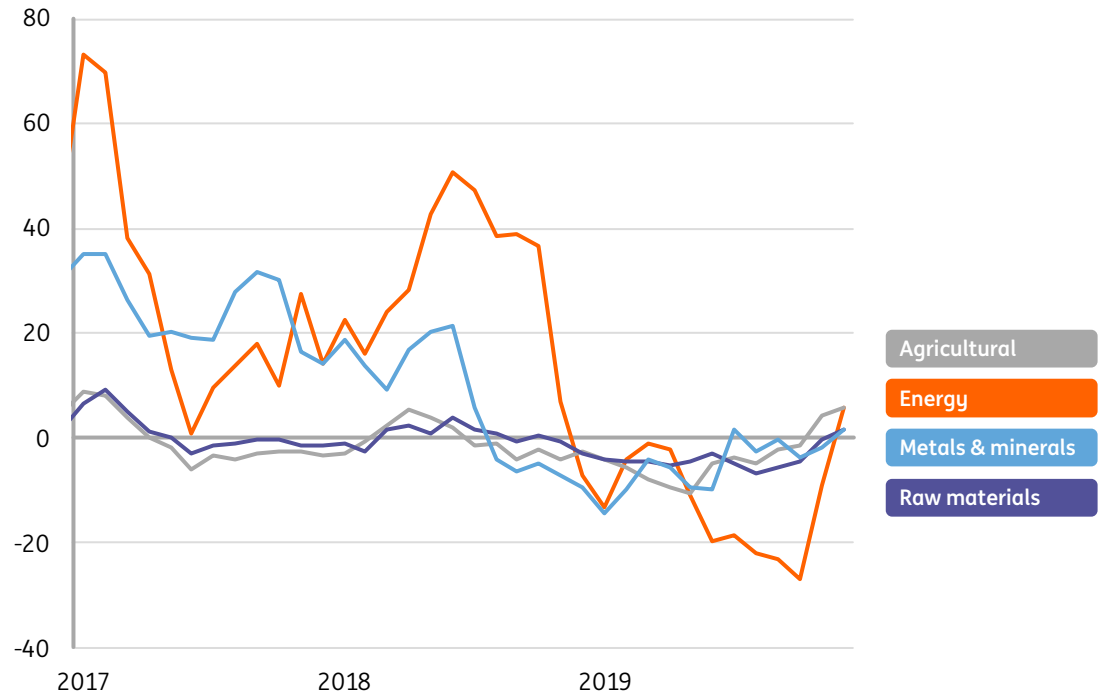
Change in hourly labour costs, year-on-year, in %



Source: CBS via Macrobond

Commodity prices could put upward pressure on inflation

Change in price indices of commodities, year-on-year, in %

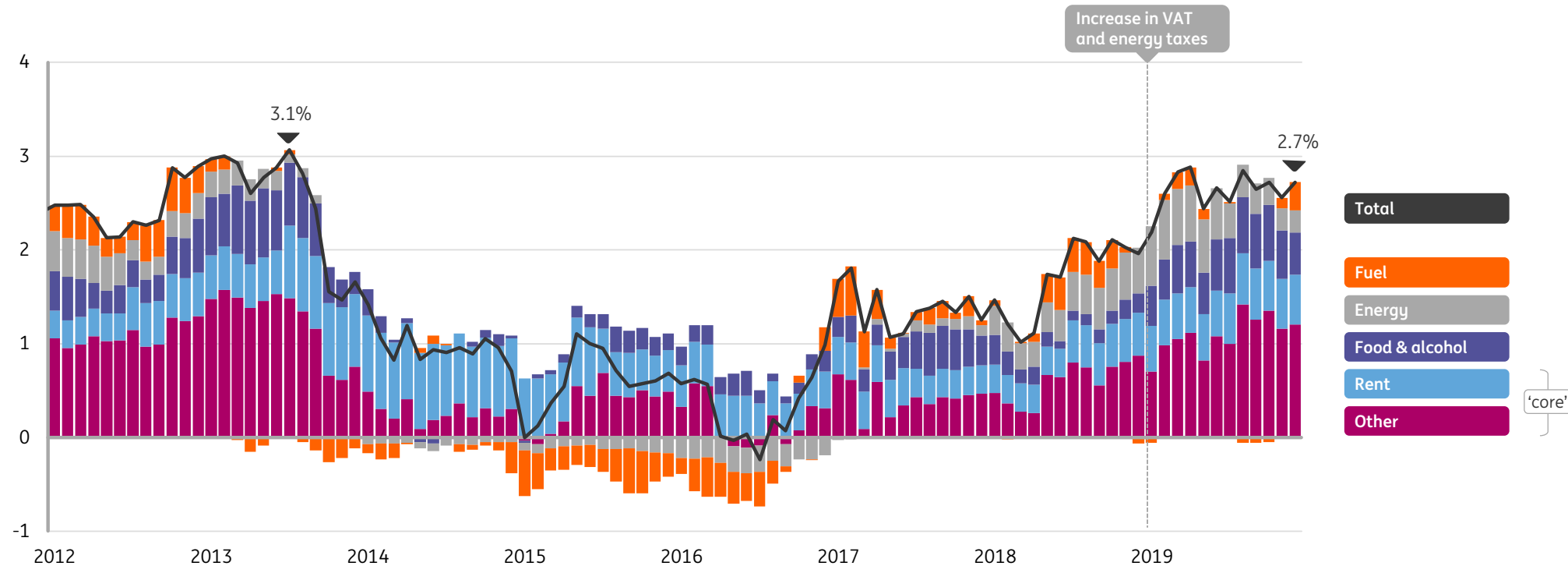


Source: Worldbank via Macrobond

Consumer price inflation months above 2.5% for first time in over 5 years

Rising core inflation pushes headline inflation above 2.5%, while VAT-affected energy and food also contribute positively

Contribution to consumer price inflation (CPI), in percentage points



Source: CBS via Macrobond

Housing market

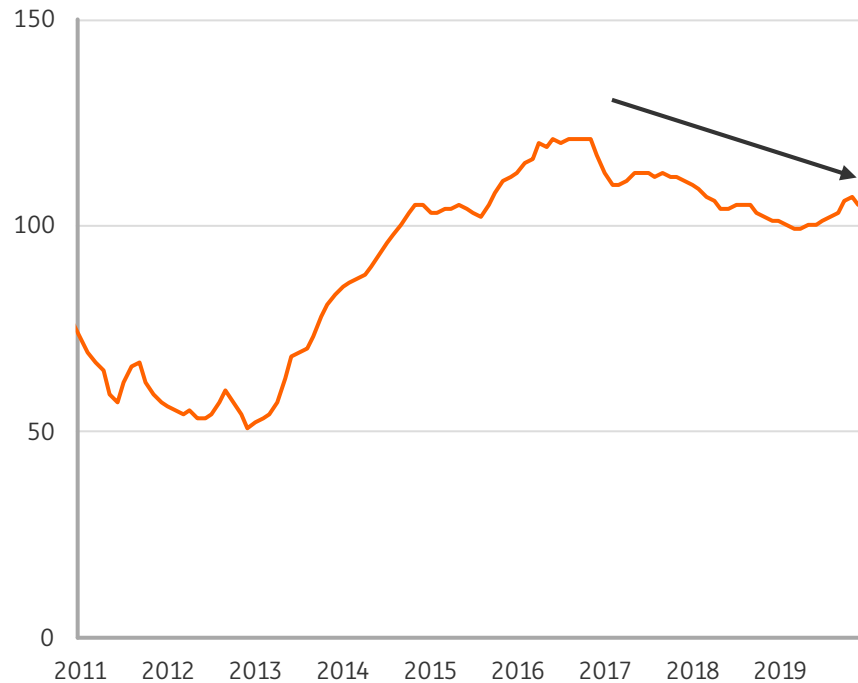
- The housing market has been an important driver of economic growth in recent years. Investment in dwellings has surged, benefiting builders, industry and DIY stores. Increasing home sales have favoured people like estate agents, surveyors and lenders. Furniture shops have experienced a substantial pick-up in sales.
- In 2017, home sales hit a record high of 242,000. After the crisis, buying activity was buoyed by households with postponed moving plans. This effect has now faded, leading to a less exuberant level of home sales in 2019 (219,000). ING expects home sales to ease further to 210,000 in 2020. Housing affordability has deteriorated, and very tight supply has become a bigger problem for potential buyers.
- House prices are rising at a slower rate. From 9.0% in 2018, average house price inflation decelerated to 6.9% last year. For 2020, ING pencils in further softening to 4.5%.
- Housing affordability has deteriorated since 2015. Lower mortgage rates since then no longer offset the surge in house prices. However, compared to 2008 levels, average housing affordability is still slightly better now. Tighter credit measures introduced in 2013 are putting home movers and investors ahead of first-time buyers.
- Regional differences compared to 2008 are large. In the West, where the four major cities (Amsterdam, Rotterdam, Utrecht and The Hague) are located, house prices are now 20% above the previous peak, versus about +5% for the rest of the country. Investors have played a role in pushing up prices in and around the large cities. Price developments in the major urban areas in recent months, however, are weaker than in the rest of the country.
- Residential construction has picked up slightly in recent years, but the pace is expected to remain historically low. After 2020, growth of the household stock is even projected to slow. However, household growth is expected to slow faster. Consequently, the housing shortage will fall gradually. Less strain on the housing market could flatten house price increases somewhat further after 2020.

Bulk of chapter updated on January 18th 2019

Home buying sentiment has weakened since 2017

Consumer confidence in the housing market has decreased, but the level is still relatively high

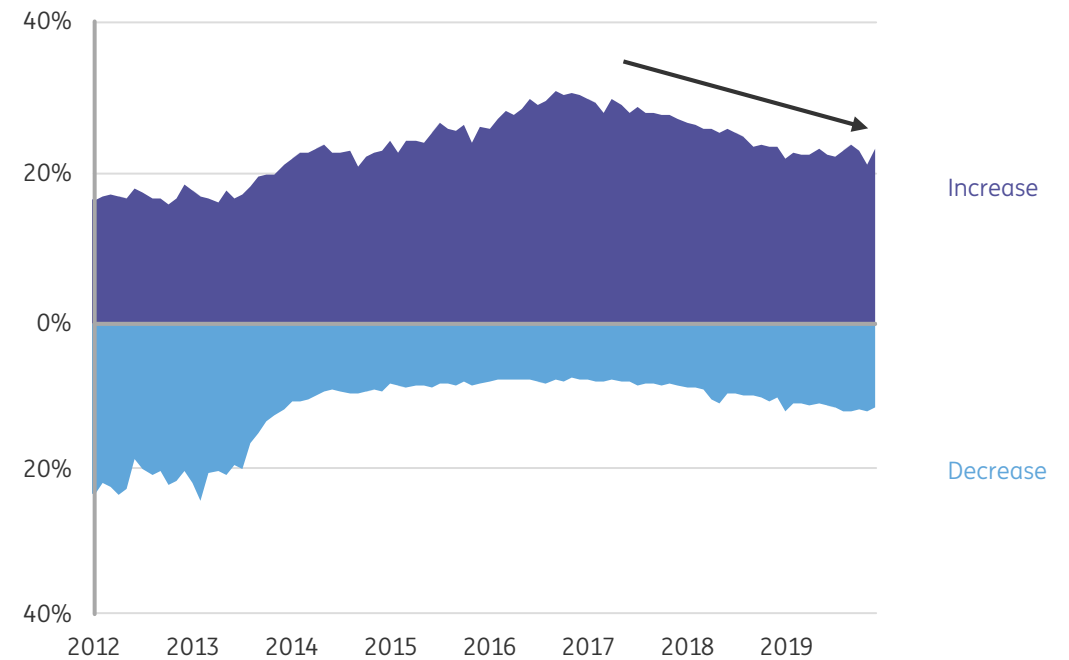
VEH Housing Market Indicator



Source: Vereniging Eigen Huis (homeowners' association)

Fewer people say the number of homes sold in their street has increased

Share of respondents reporting change in number of homes sold in their street in last 3 months

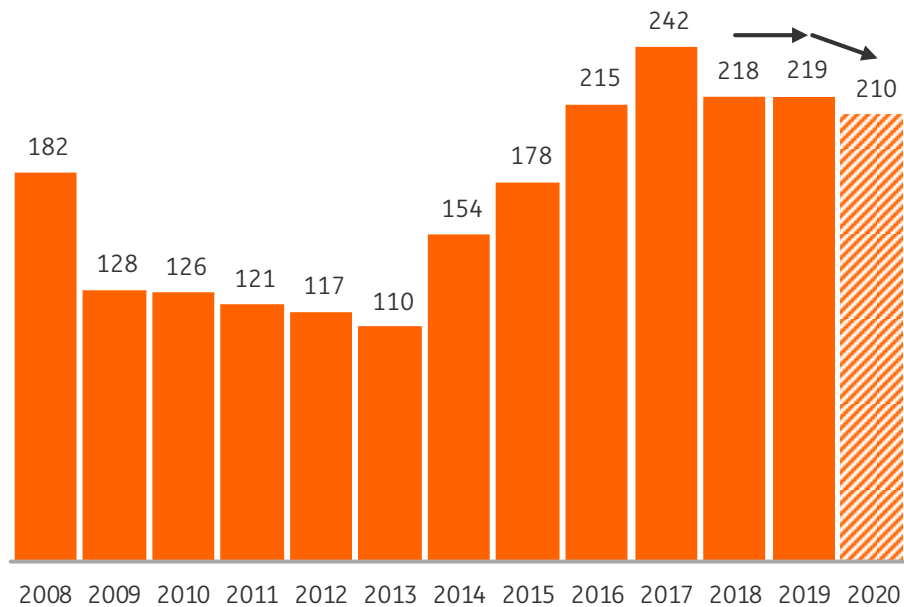


Source: ING Vraag van Vandaag (ING Question of the Day)

In 2020, home sales are forecast to decline further

After holding steady in 2019, existing home sales are projected to ease in 2020

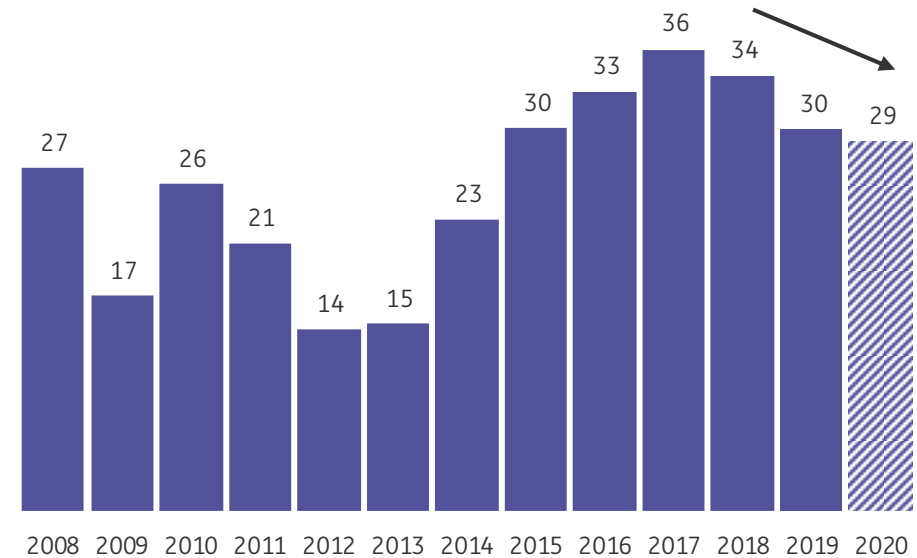
Number of existing home sales in thousands



Source: CBS/Kadaster, ING forecasts

In 2020, sales of new homes are projected to fall for the third year in a row

Number of new home sales in thousands

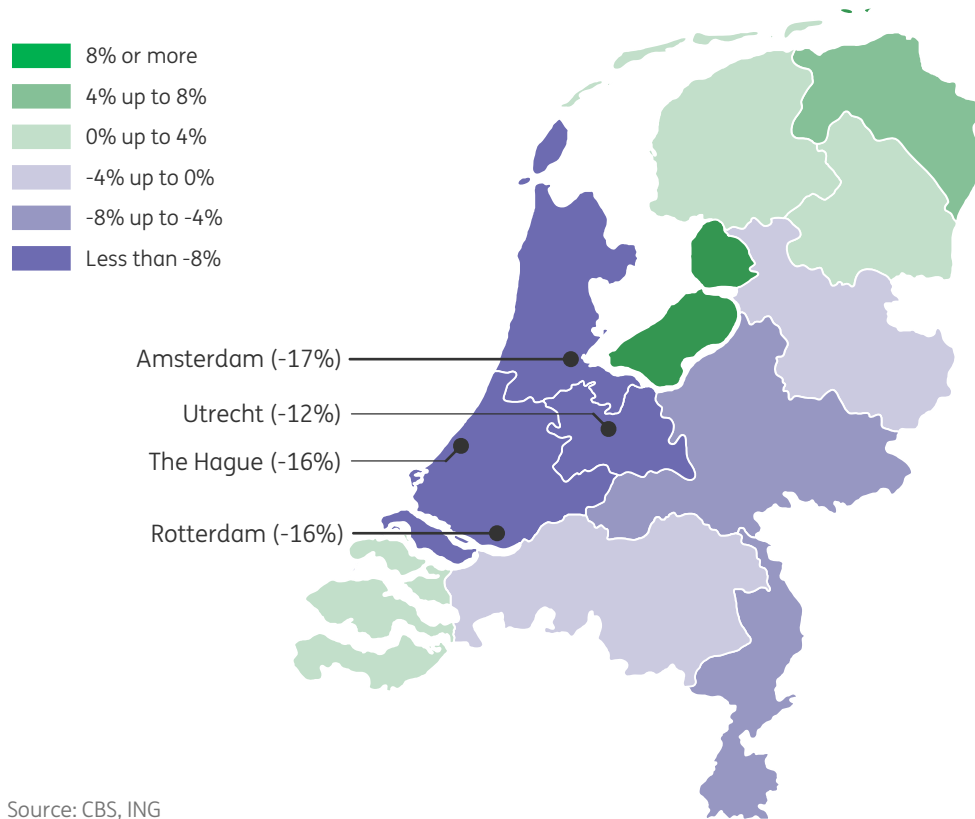


Source: NVB-Bouw, ING forecasts

Fall in home sales driven by major cities in West (Randstad)

West of the Netherlands shows largest fall in home sales, led by large cities

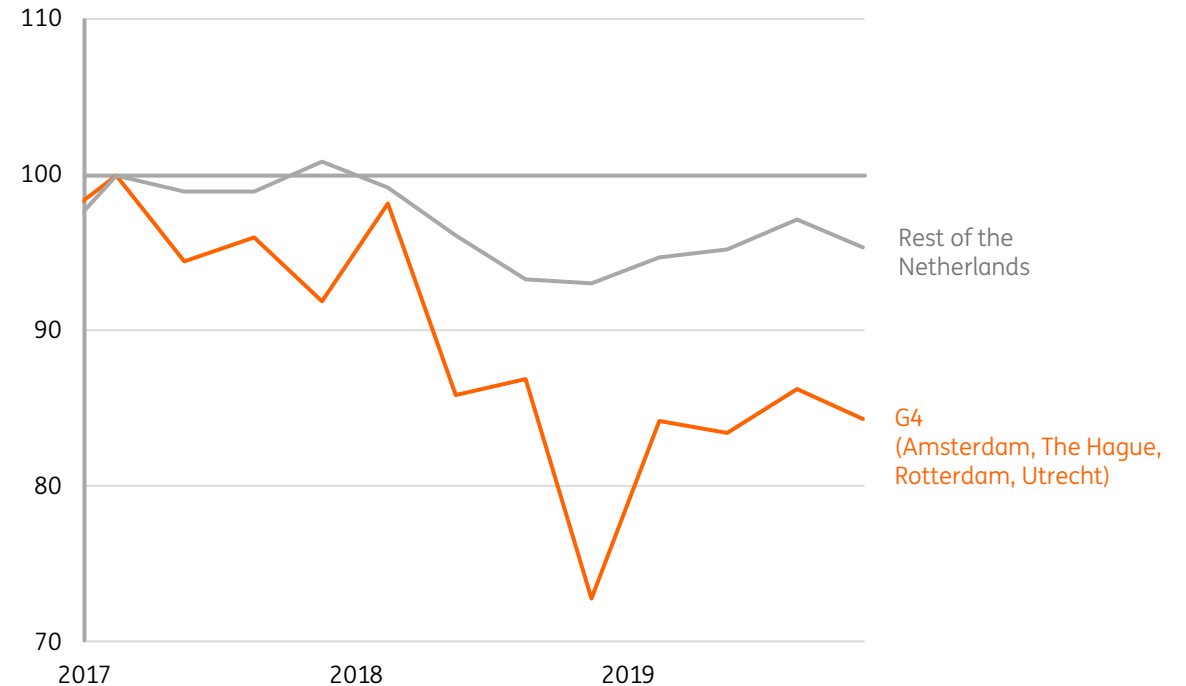
Current level of existing home sales (Q4 '19) compared with national peak (Q1 '17), seasonally adjusted



Source: CBS, ING

Excluding 4 major cities, homes sales in the rest of NL have declined much less

Existing homes sales, index, peak in national sales (Q1 2017) = 100

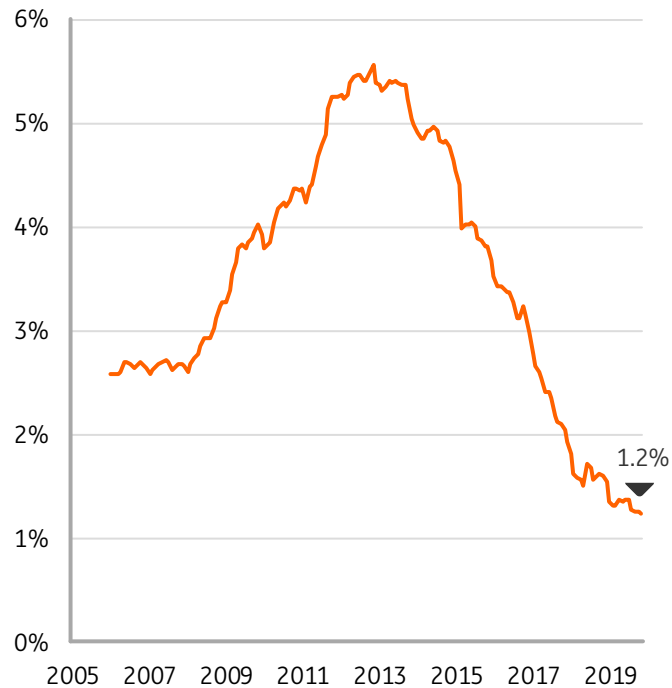


Source: CBS, ING

Very few existing homes for sale and stock grows only moderately

Number of existing homes put up for sale is very low...

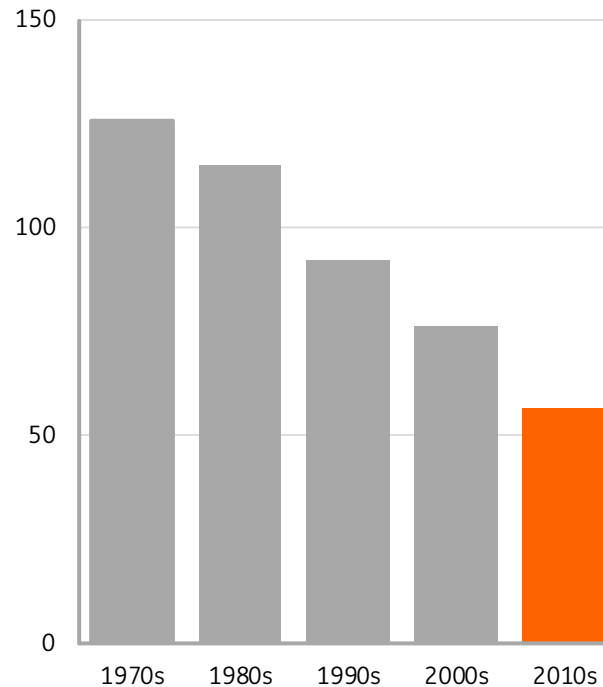
Share of owner-occupied housing stock put up for sale



Source: Huizenzoeker.nl, CBS, ING

...while housing stock is growing historically slow...

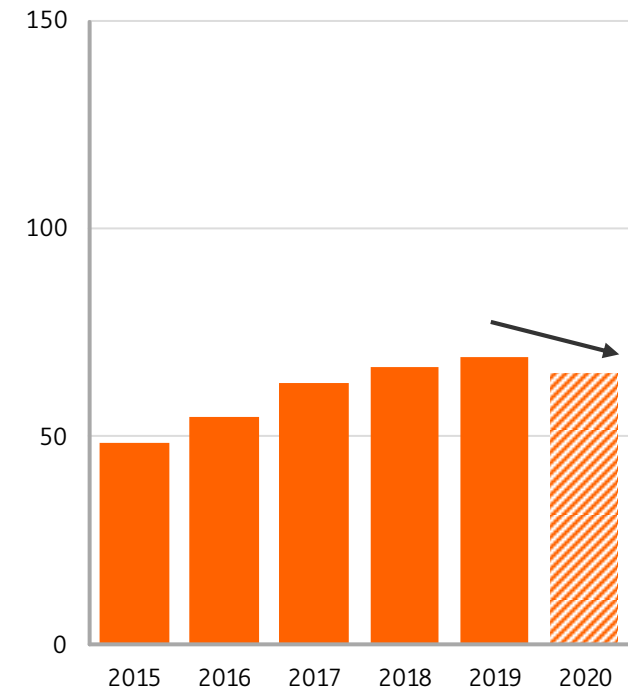
Number of newly constructed homes, in thousands, yearly average per decade



Source: CBS, ING

...and pace of stock expansion slows again in 2020

Number of newly constructed homes, in thousands

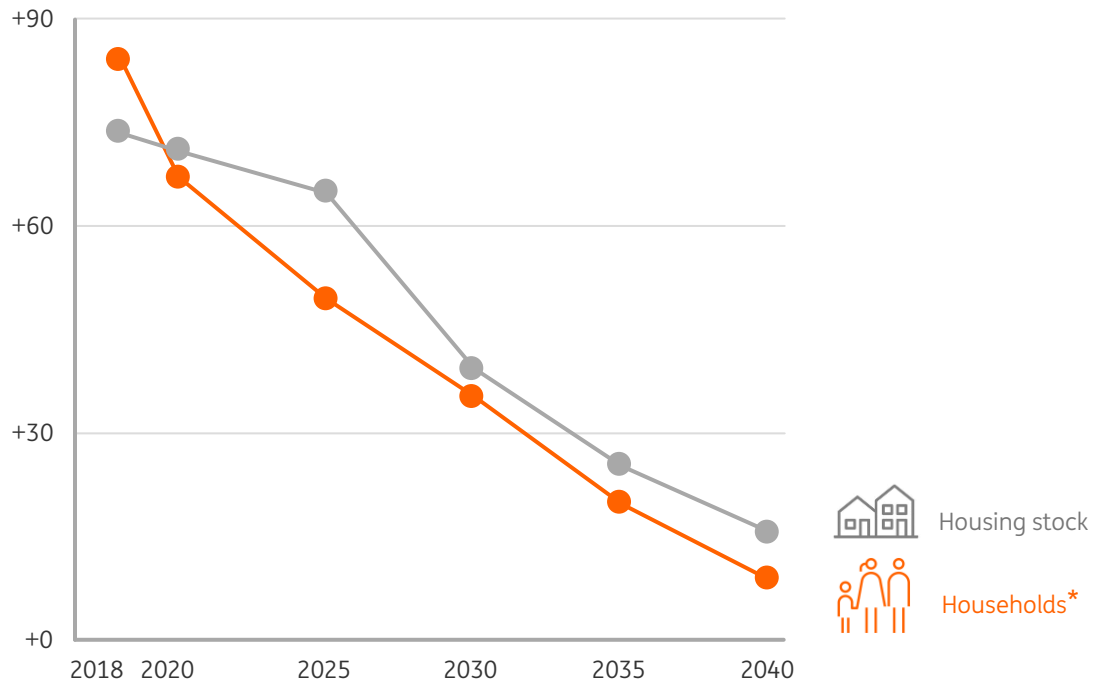


Source: CBS, ING

Housing shortage is projected to decline after 2020

Housing stock is projected to rise faster than the number of households

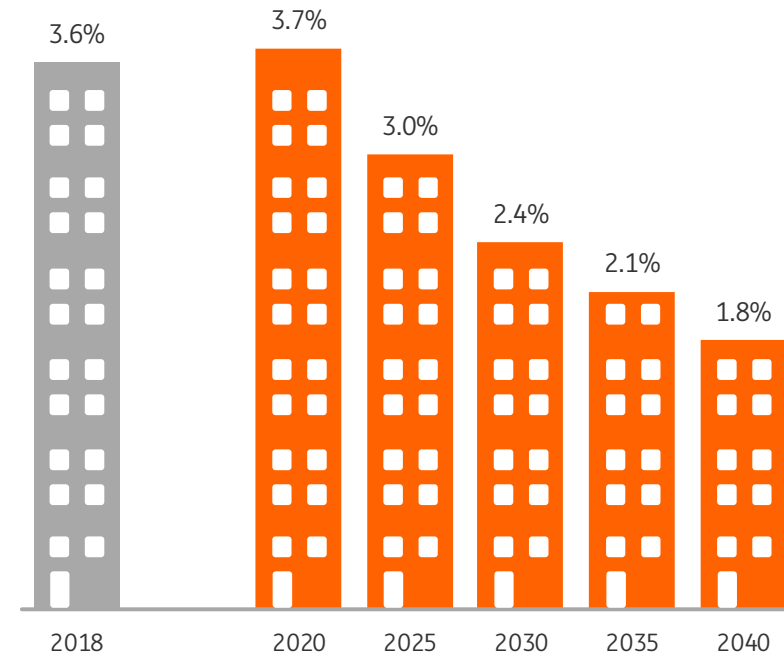
Change per year in thousands



Source: ABF Research, Primos prognosis 2019
 * Number of households wishing to have an own home

Housing shortage is projected to fall below 2% of the total stock

Difference between desired and expected housing stock, as % of the total housing stock

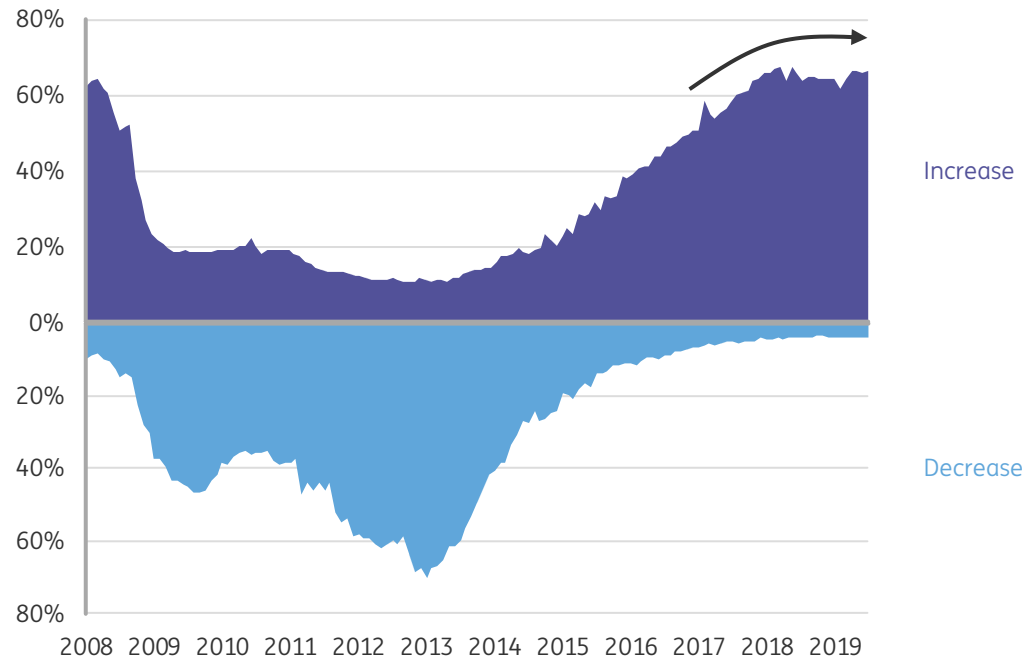


Source: ABF Research, Primos prognosis 2019

House prices have started to rise at a slower rate

Number of people seeing house prices increase in their street has stabilised

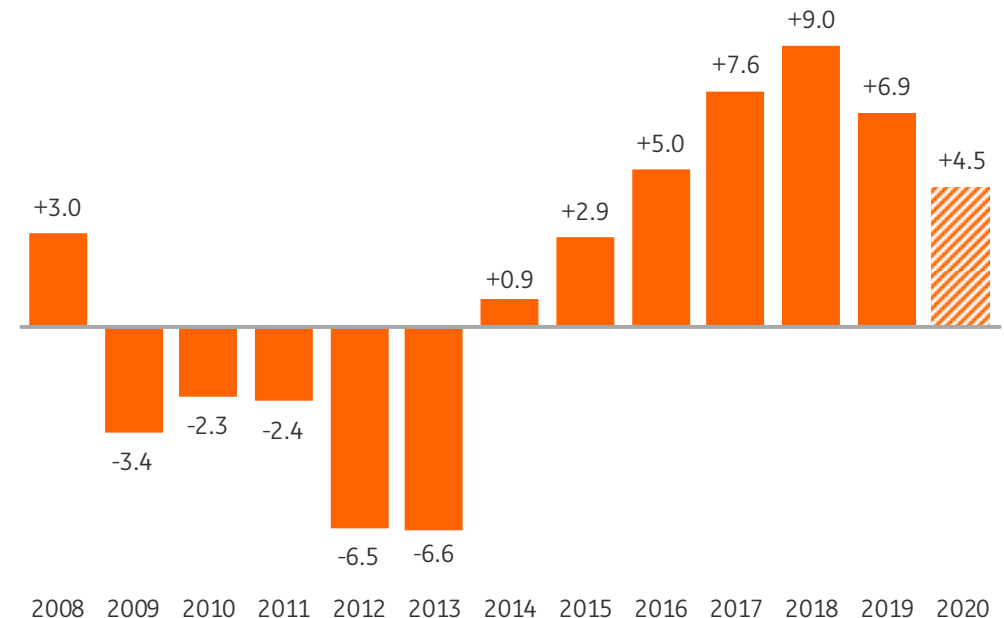
Share of respondents reporting change in house prices in their street in last 6 months



Source: ING Vraag van Vandaag (ING Question of the Day)

House price increase expected to slow down further

Average house price, change year-on-year (%)

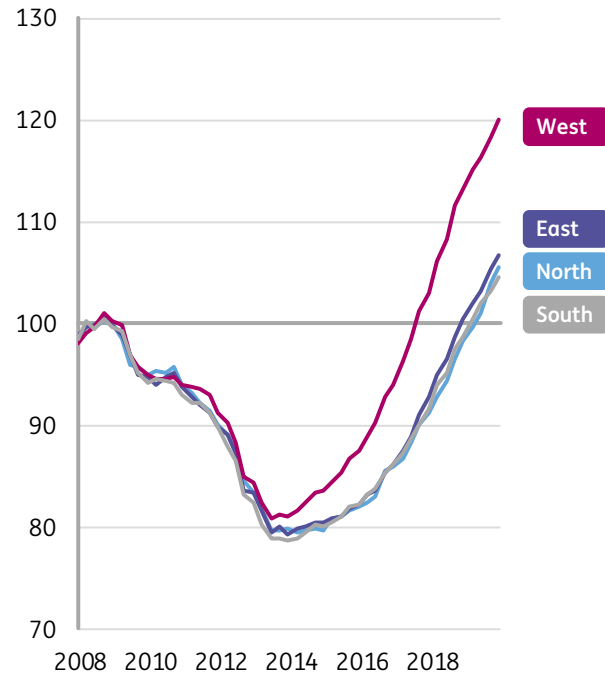


Source: CBS, ING forecasts

House prices in west have outpaced the rest

Western provinces have seen steepest house price recovery

House price index for existing properties, 2008 = 100



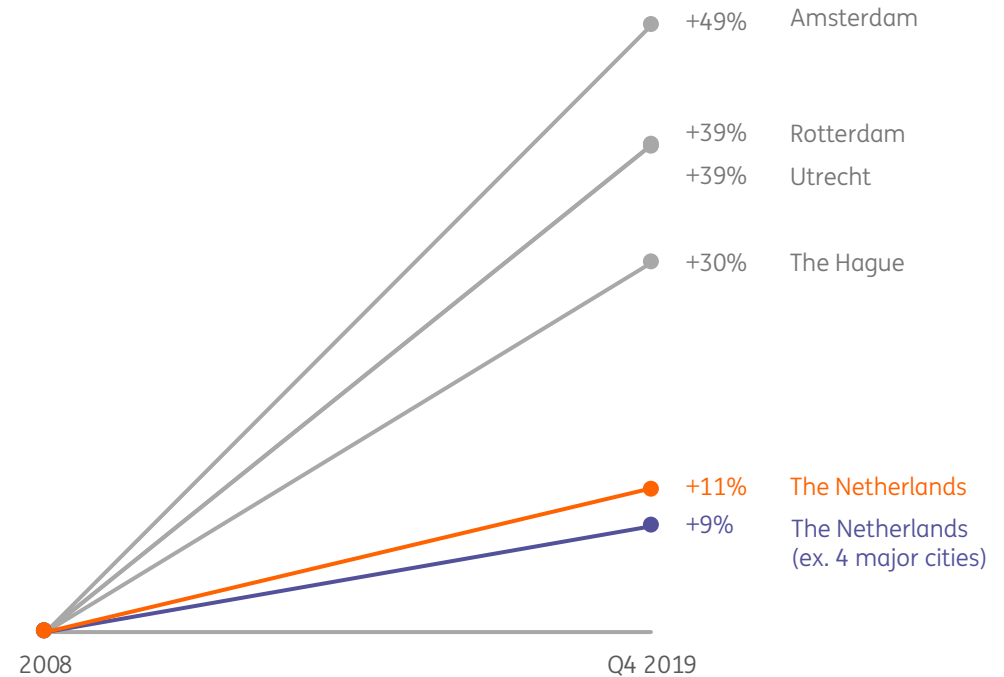
Current house price level (Q4 2019) compared to 2008 peak

Rank	Province	Change	W	E	N	S
1.	N-Holland	+24%	●			
2.	Flevoland	+18%		●		
3.	Z-Holland	+17%	●			
4.	Utrecht	+15%	●			
5.	Groningen	+8%			●	
6.	Overijssel	+7%		●		
7.	Zeeland	+6%	●			
8.	Limburg	+6%				●
9.	Gelderland	+4%		●		
10.	Drenthe	+4%			●	
11.	Friesland	+3%			●	
12.	N-Brabant	+3%				●

Source: CBS, ING

Outside four major cities, house prices have on average increased much slower

House prices difference with peak in 2008

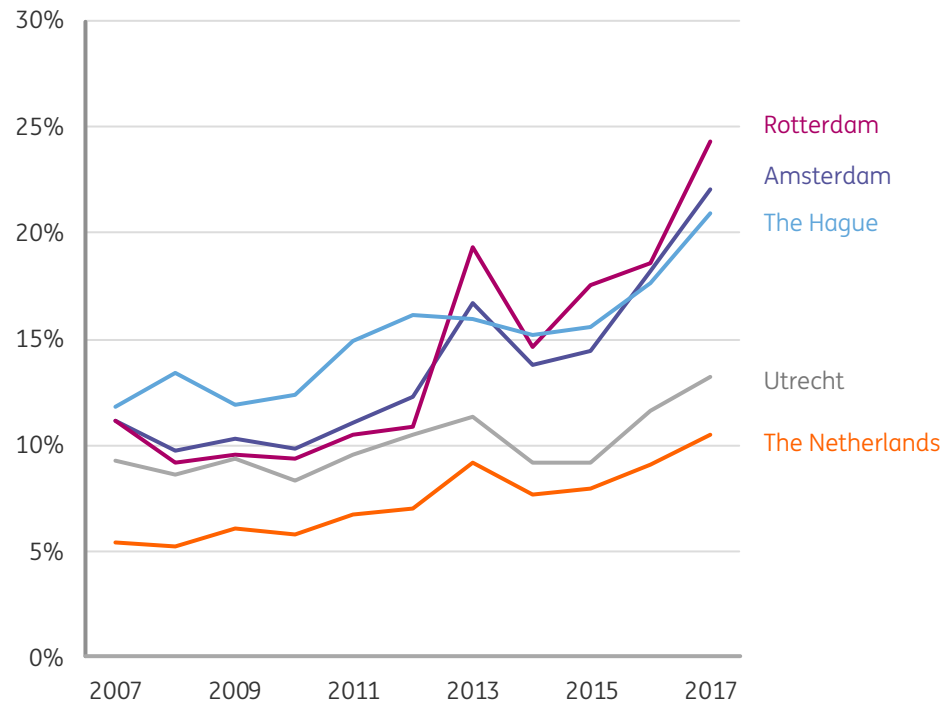


Source: CBS, ING

Investors have played a role in pushing up prices in large cities

In major cities, share of private investors in housing demand has surged

Estimated buy to let transactions as share in total home sales

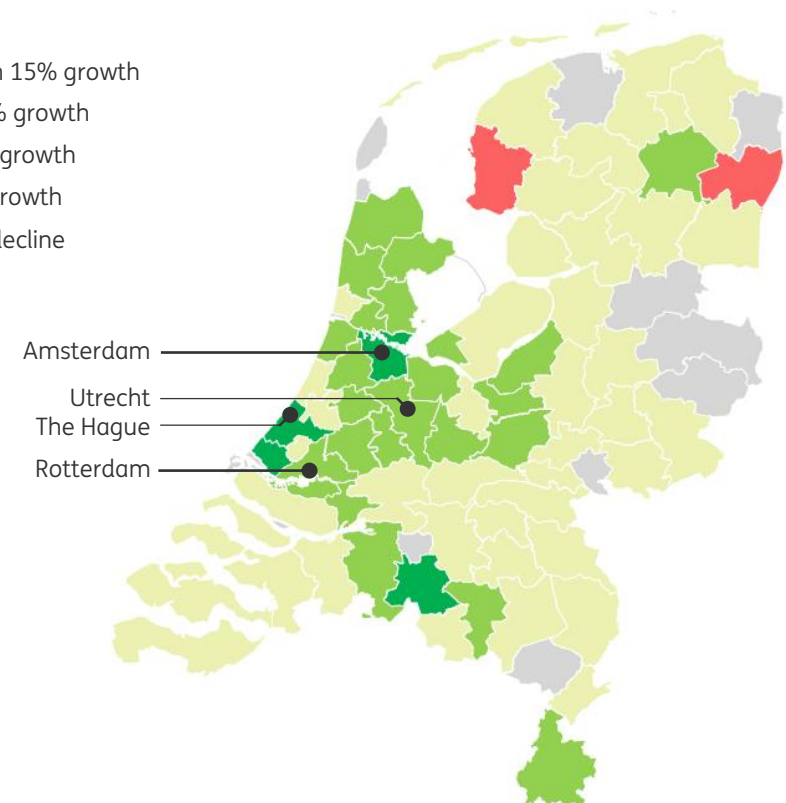


Source: Kadaster, Dynamis, ING

House prices rose strongest in 'Randstad' area, where four biggest cities are located

Median transaction price, difference between 2017Q2 - 2018Q2

- more than 15% growth
- 10% - 15% growth
- 5% - 10% growth
- 0% - 5% growth
- 5% - 0% decline

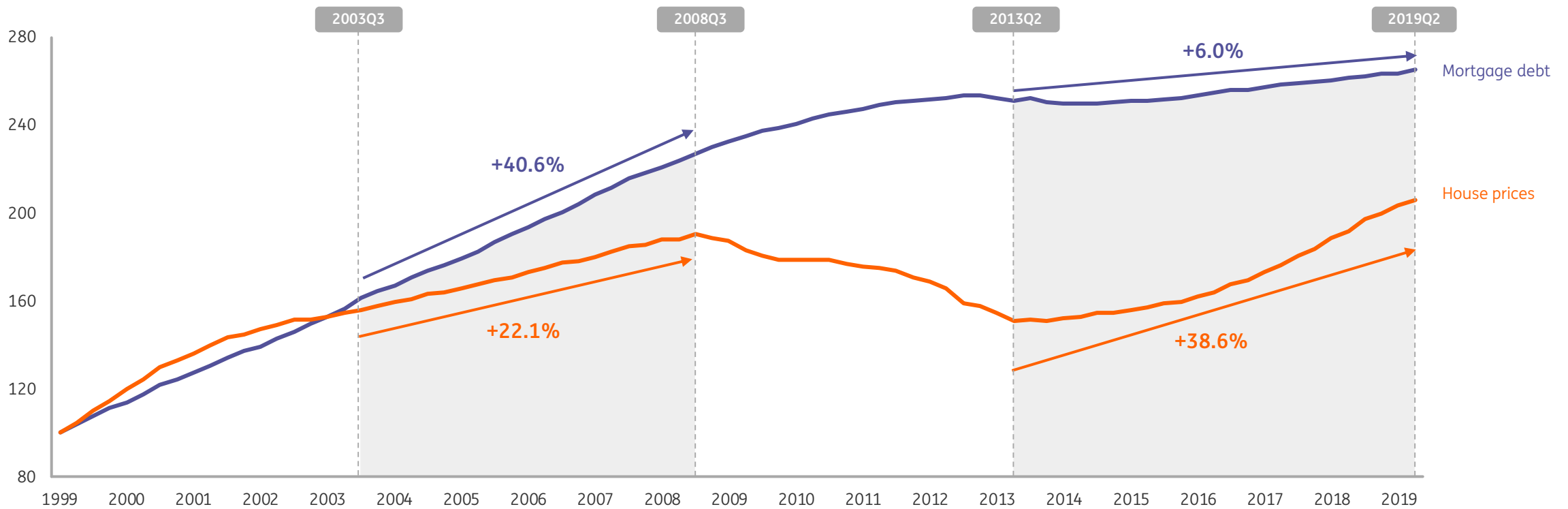


Source: NVM, ING calculations

Current price increase not driven by credit, unlike in 2003 - 2008

Previous sharp increase in house prices strongly credit-driven, but in the last five years, higher house prices accompanied by hardly any increase in mortgage debt

Mortgage debt stock and house prices, index, 1999 = 100

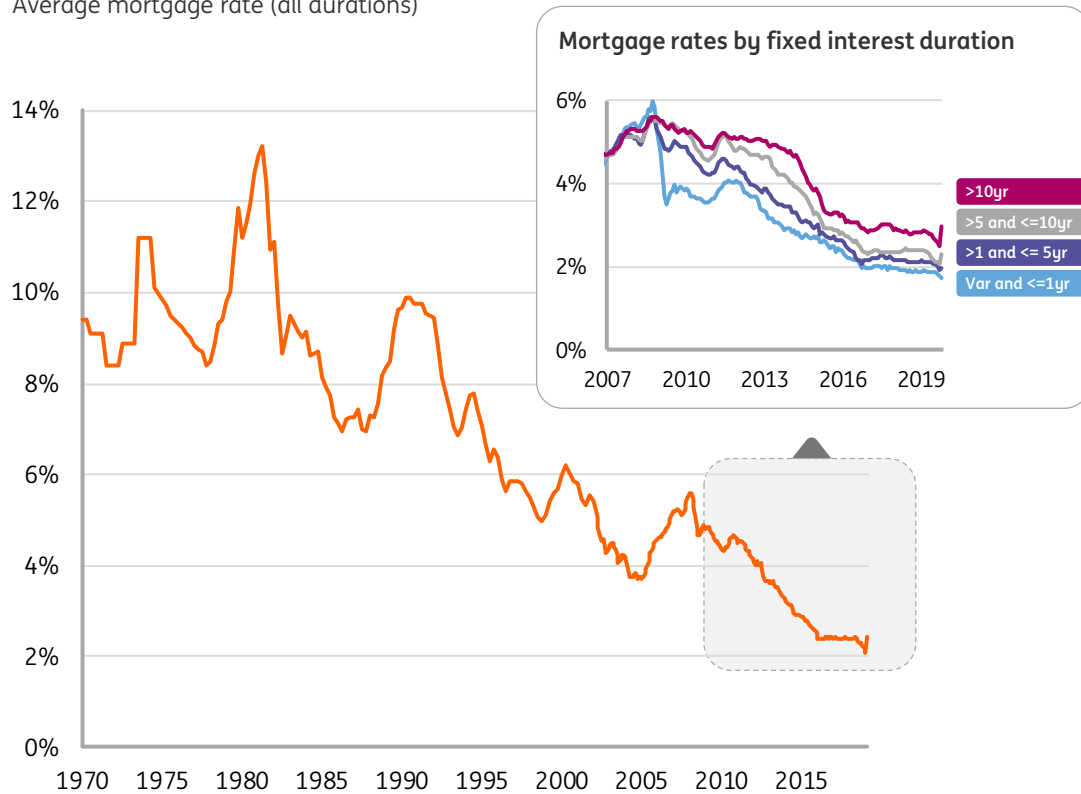


Source: CBS, DNB, ING

Mortgage rates are historically low, home buyers most often go 'long'

Mortgage rates are historically low

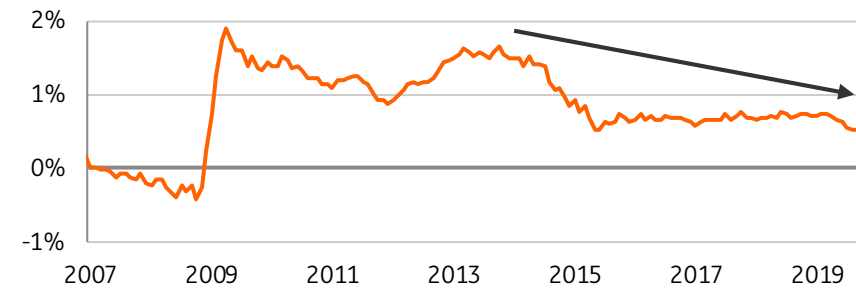
Average mortgage rate (all durations)



Source: DNB

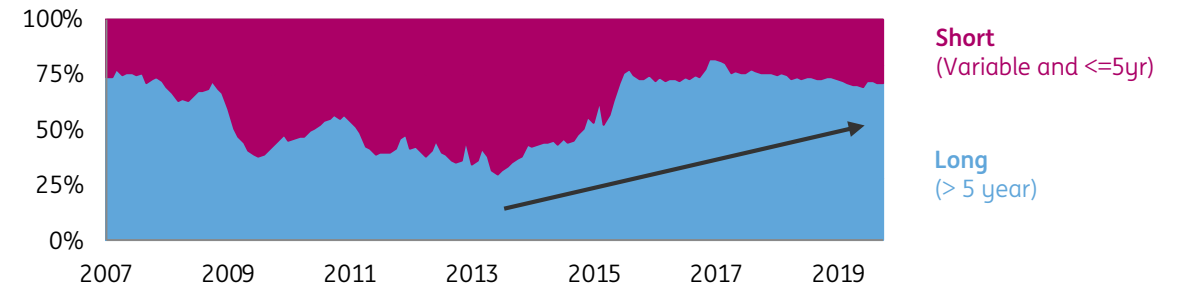
Spread between short and long term mortgage rates has tightened

Difference in average rate of mortgages with 'long' interest rate fixation (> 5yr) and 'short' (up to 1yr), production by banks only



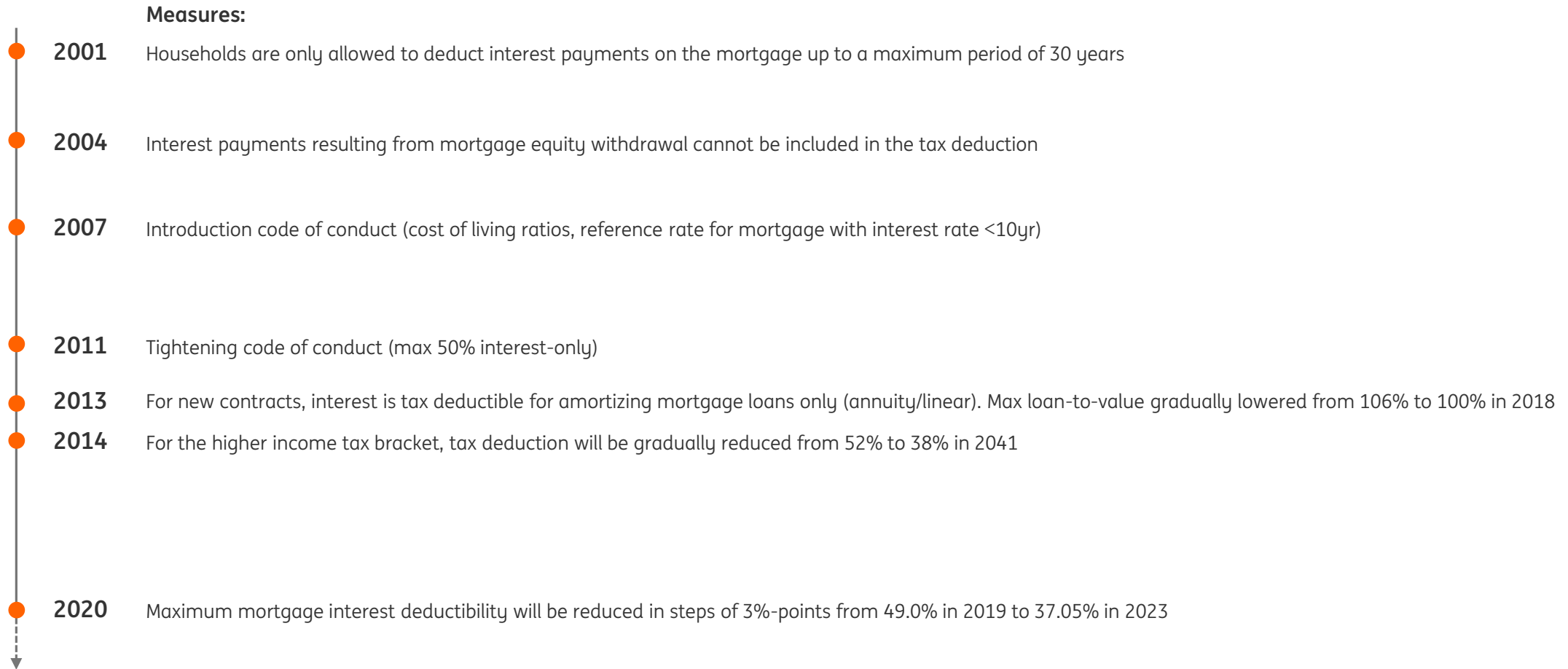
Home buyers choose long-term fixed interest rate periods

Share in total mortgage production (banks only) per fixed interest rate period



Source: DNB

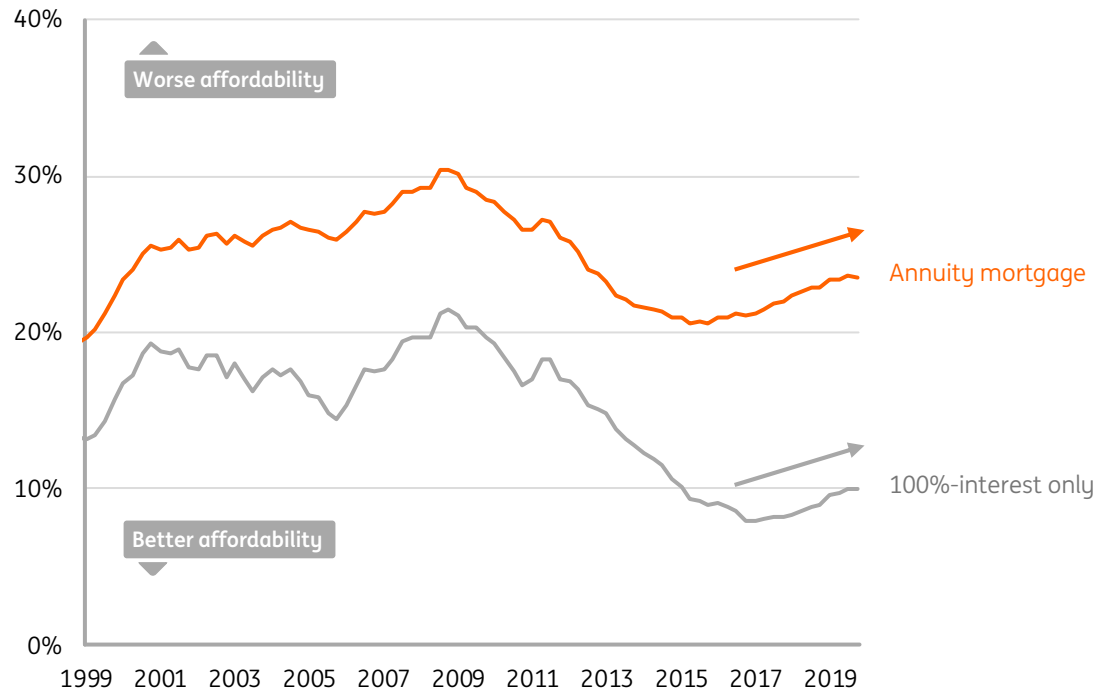
Measures have been taken to curtail mortgage debt growth



Affordability is under pressure, especially for first-time buyers

Despite a deterioration, housing affordability is still better than in 2008

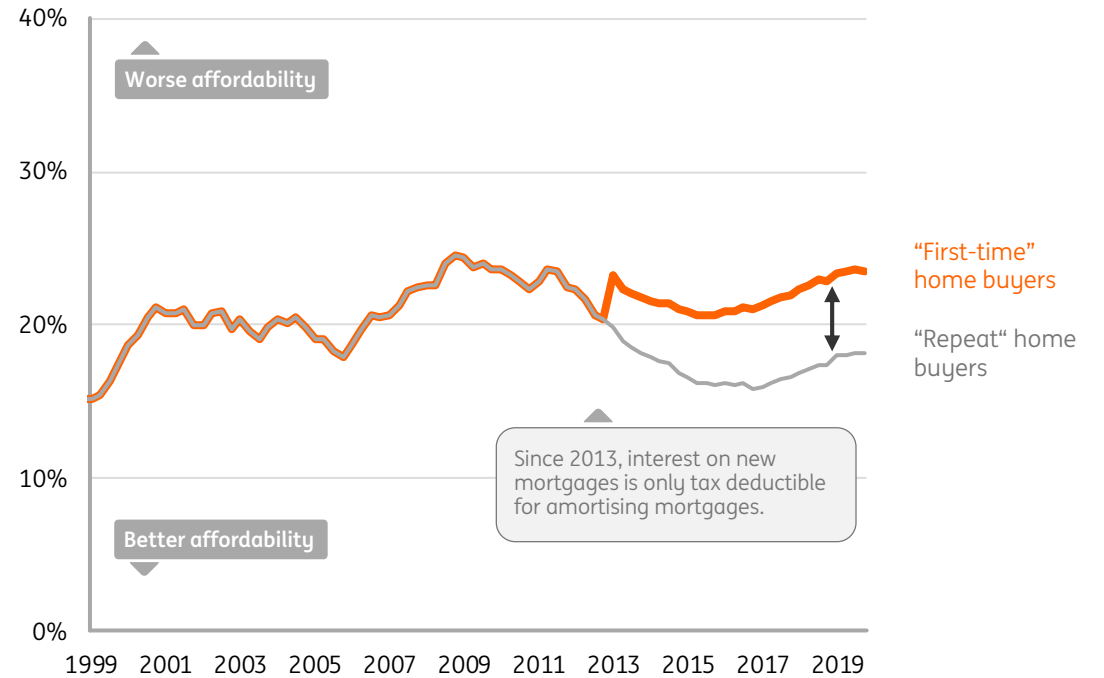
After-tax mortgage cost as % of income, directly after purchase*



Source: CBS via Macrobond, DNB, ING
* Using average house price and average household income

First-time home buyers have lower housing affordability than repeat buyers

After-tax mortgage cost as % of income, directly after purchase*

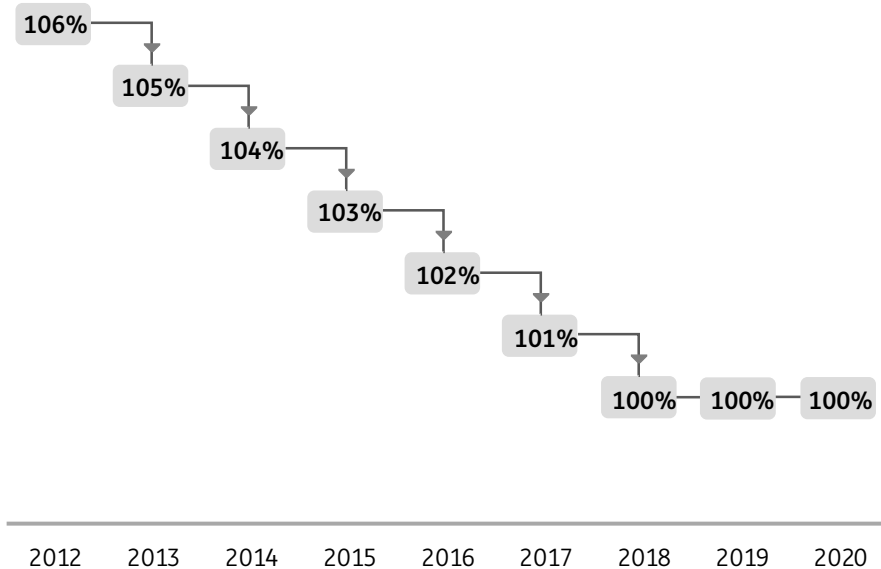


Source: CBS via Macrobond, DNB, ING
* Using average house price and average household income

Stricter LTV-policies made it more difficult for young people to buy a home

Maximum allowed loan-to-value (LTV) has been gradually lowered

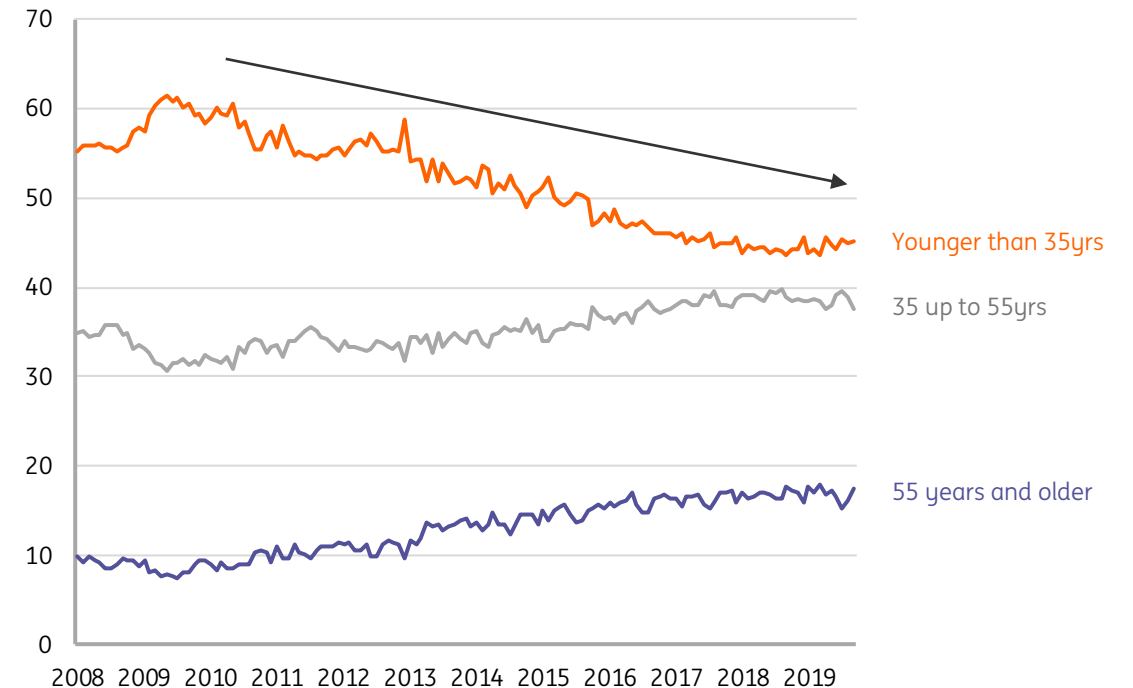
Maximum allowed mortgage amount as share of purchase price (including expenses to be paid for by buyer)



Source: Rijksoverheid.nl

Share of young buyers has declined in last ten years

Share of age group in home sales, as %



Source: Kadaster

Government

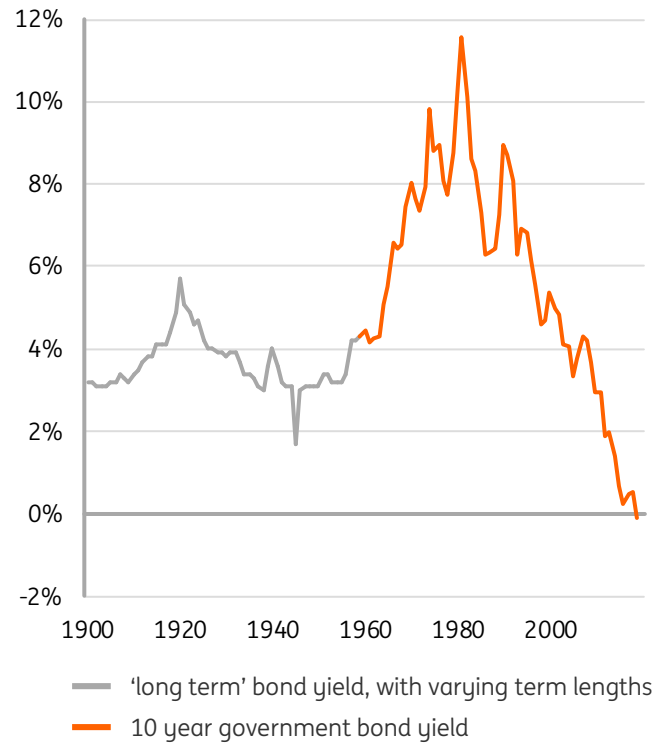
- As in 2018, the government seems to have failed to execute its spending plans in full again in 2019, due to the challenge of finding personnel in a tight labour market and delays with infrastructure projects. As a result, the fiscal surplus turns out (over 1% GDP in 2019) somewhat higher than intended, while it is expected to fall in 2020. The structural fiscal balance is expected to turn from mildly positive to slightly negative in 2020. Intended additional spending for 2020 is on civil service, defence, education, health care, infrastructure and R&D.
- Fiscal policy is expansionary, especially due to discretionary tax relief of 0.6% GDP in 2020. Continuing the direction started in 2019, labour income taxes were lowered substantially at the start of 2020. The net effect for households is much more favourable in 2020, since the tax relief is not accompanied by increases in the VAT, energy taxes (which fell in 2020) and healthcare premiums.
- Following a year with a significant increase in businesses taxes (higher unemployment premiums and energy taxes and broadening of the corporate income tax base), the net effect of changes to tax policies is more or less neutral for businesses in 2020. This is less favourable than announced for 2020 in the coalition agreement of 2017.
- Government debt stood at 48.8% of GDP in 3Q19, safely below the European norm of 60% and lower than the level of many other developed economies. As a ratio to GDP it will continue to drop given an increasing GDP and the continuation of the sale of shares of ABN AMRO Bank.
- While the interest rate differential with Germany faced by the Dutch government is at a normal limited level, the actual yield on ten-year government bonds is negative and at historical lows.
- When very strictly looking at the net present value of future revenues and expenditures and assuming constant net benefits for all generations, a fiscal sustainability deficit exists. This means that public finances are no longer robust in light of population ageing and that structural austerity of 1.6% GDP would be necessary to stabilise the public debt-to-GDP ratio (around 26% GDP). The sustainability deficit is the result the recent pension agreement (which means that one year of higher life expectancy automatically raises the statutory pension age by 8 months instead of 12), recent climate agreement, a less more favourable outlook for healthcare expenditures and a more favourable one for labour supply.

Chapter updated on January 30th 2020

Dutch government bond yield at historically low levels

Dutch government bond yield close to historically record low

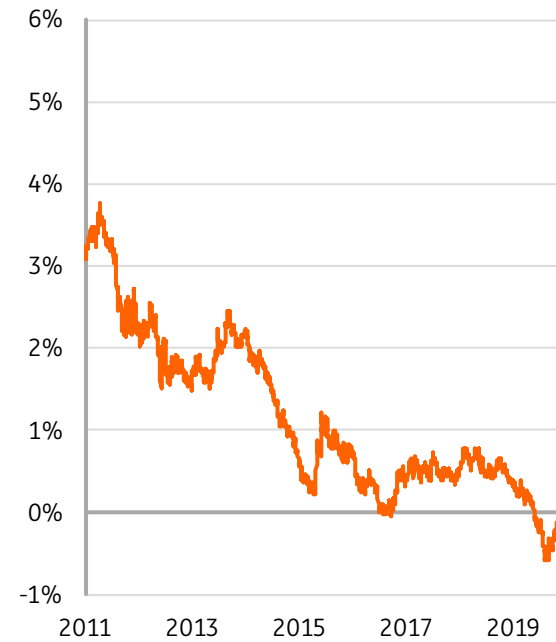
Average yield*, per year



Source: CBS via Macrobond

Bond yield currently negative

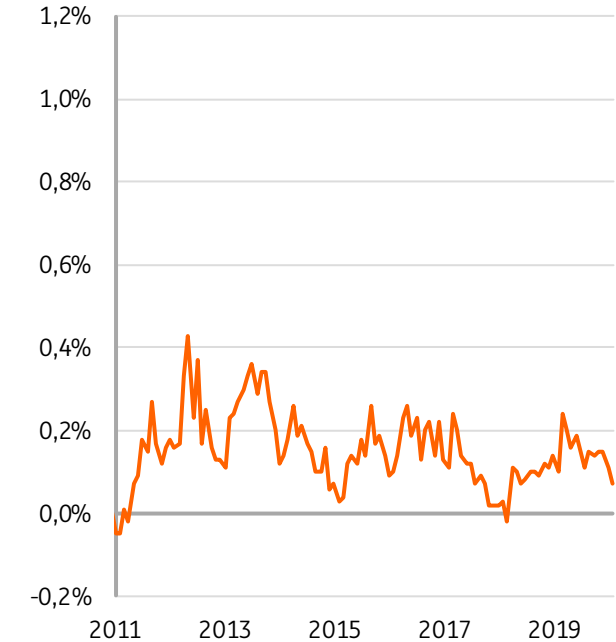
Yield on Dutch 10 year government bonds, monthly average



Source: Macrobond

Yield spread versus Germany at normal level

Difference between yield on Dutch and German 10 year government bond, in %-points monthly average

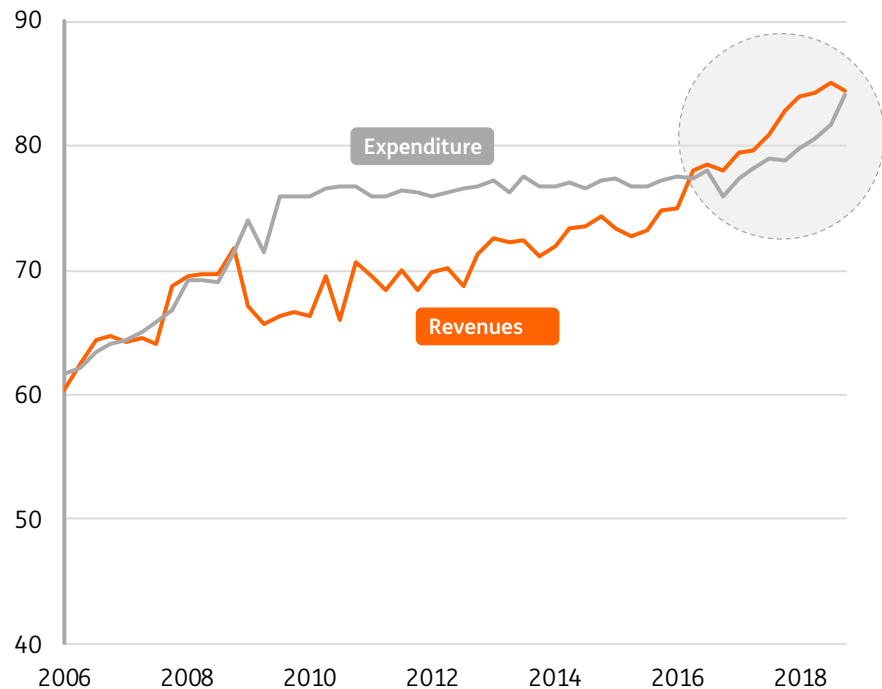


Source: Macrobond

Continuing budget surplus

Government revenues are exceeding expenditures since 2016...

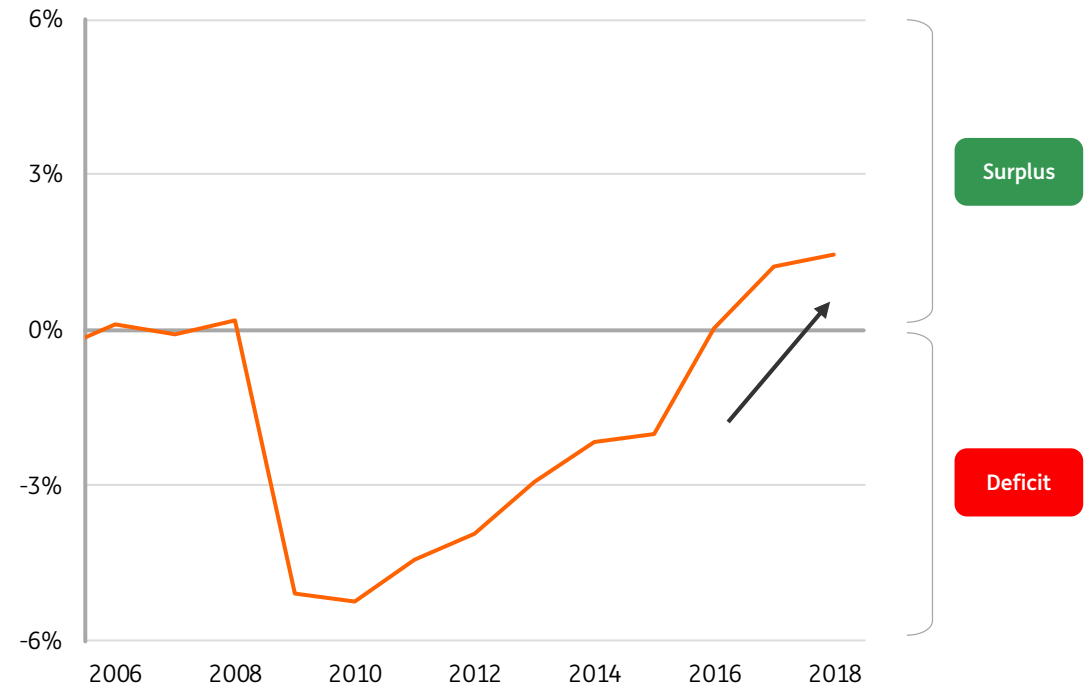
In billions of euro, per quarter, seasonally adjusted



Source: CBS

... which brought the fiscal balance in positive territory

Actual government budget balance (EMU-definition), share of GDP

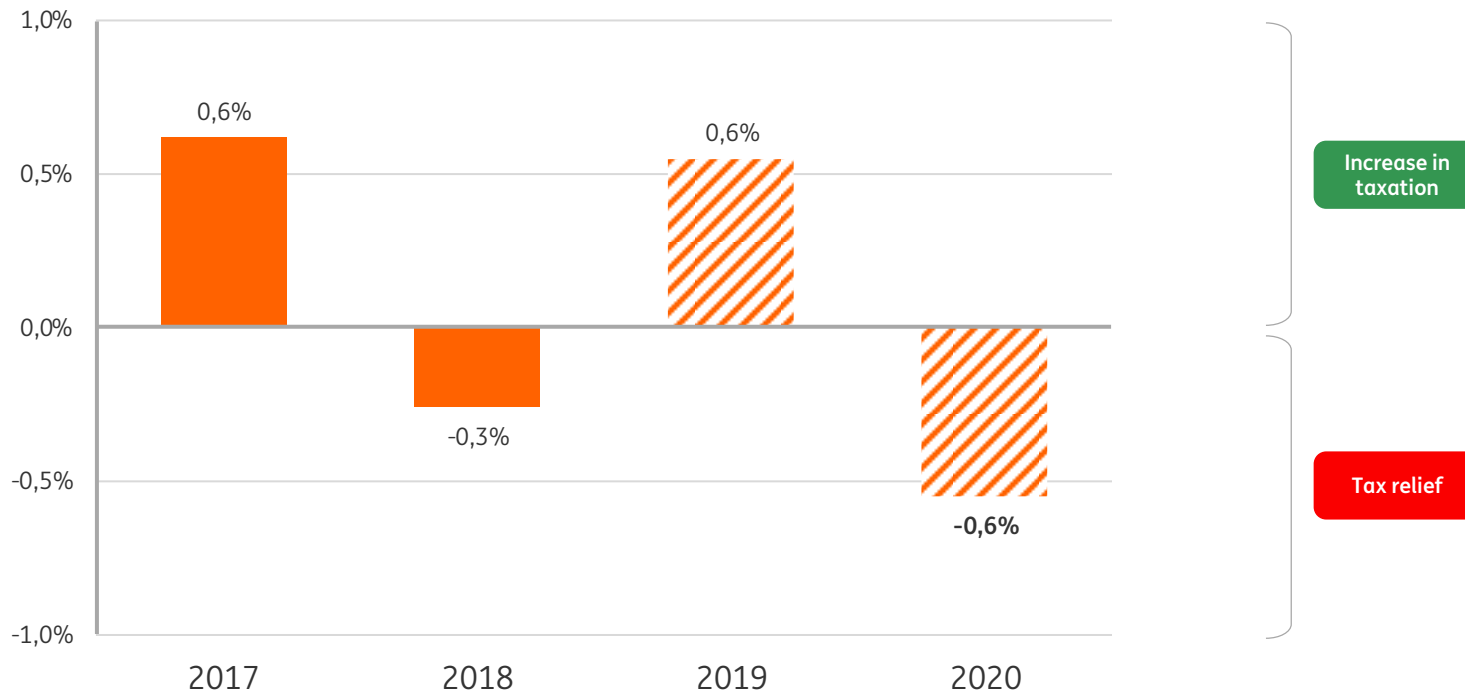


Source: CBS via Macrobond

Substantial tax relief in 2020

Substantial discretionary tax relief in 2020

Discretionary change in tax revenues as a ratio to gdp

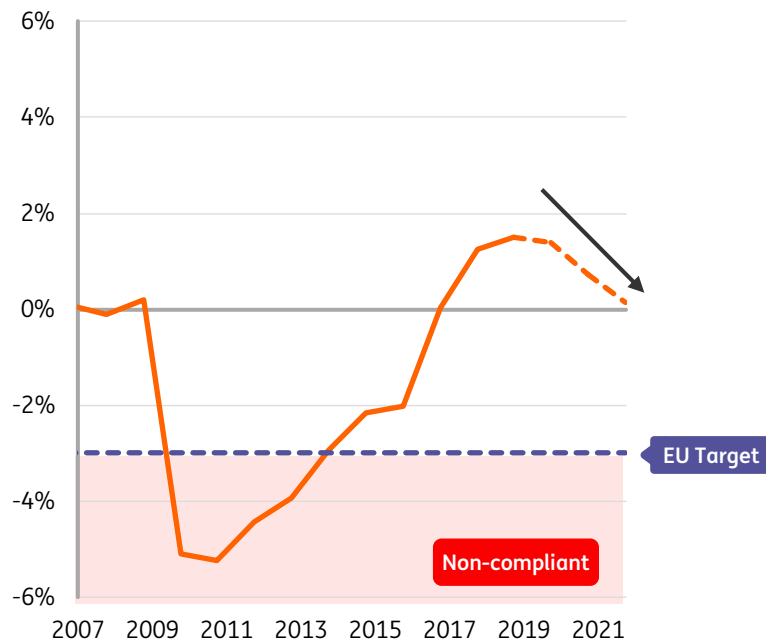


Source: CPB

Fiscal indicators compliant with the European rules

Headline balance remains safely above European target despite significant deterioration

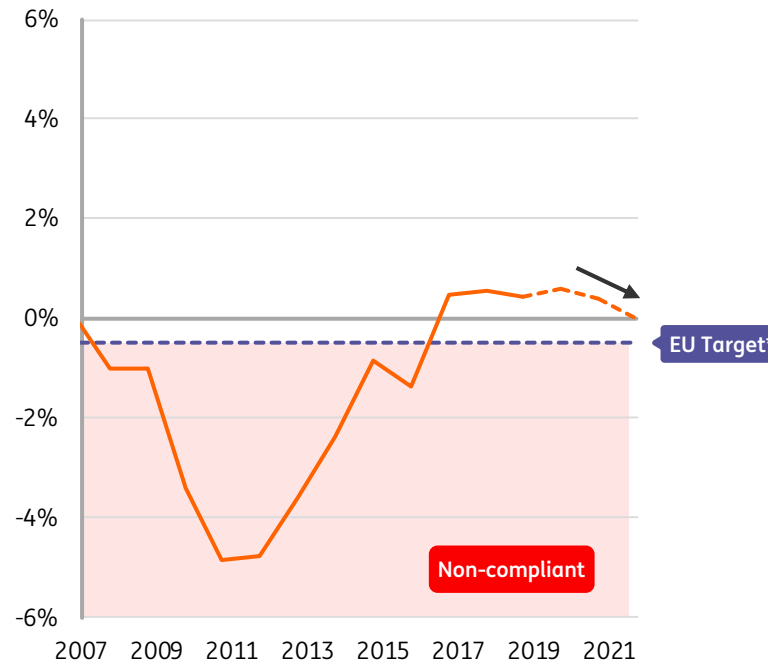
Headline government budget balance, ratio to GDP



Source: CBS via Macrobond, ING forecasts

Structural balance just above target

Government budget balance adjusted for economic cycle and one-off effects, ratio to GDP

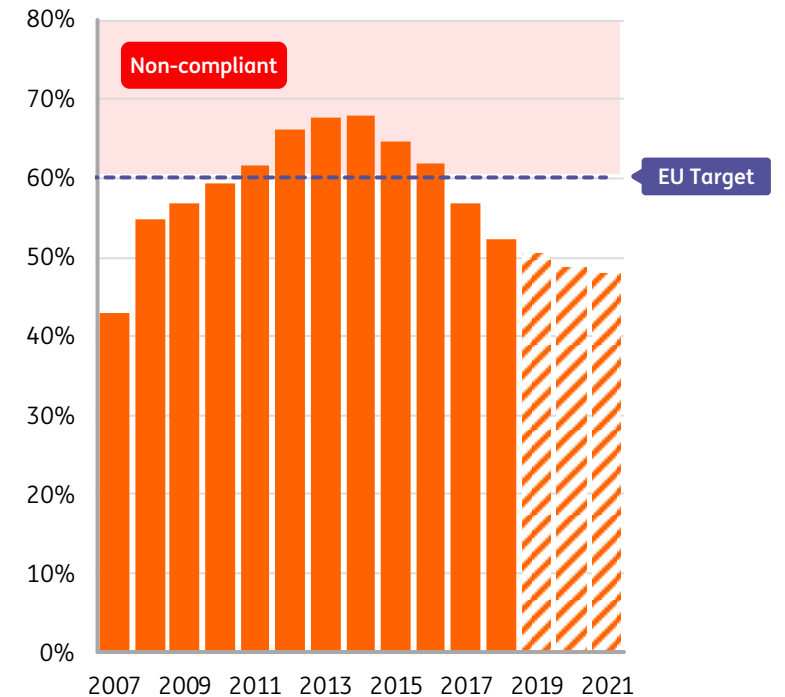


* Medium Term Objective (MTO)

Source: CBS, ING forecasts

Government debt moving further below 60%-target

Government debt, ratio to GDP

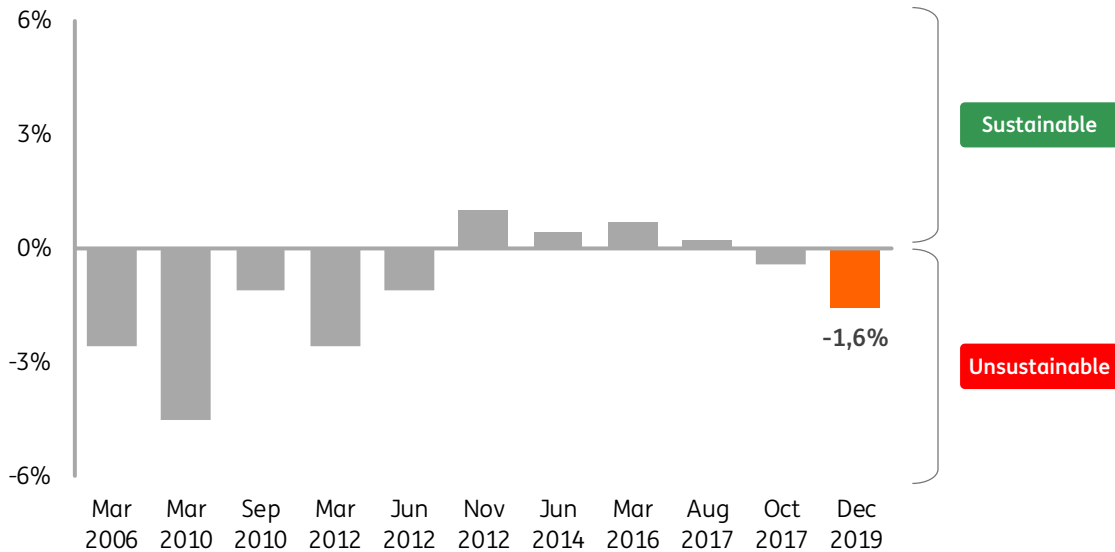


Source: CBS, ING forecasts

Long-term government finances no longer strictly sustainable

Present value of government expenditures and revenues negative: structural austerity of 1.6% GDP necessary for a stabilising public debt to GDP ratio

Sustainability balance* as share of GDP at moment of publication

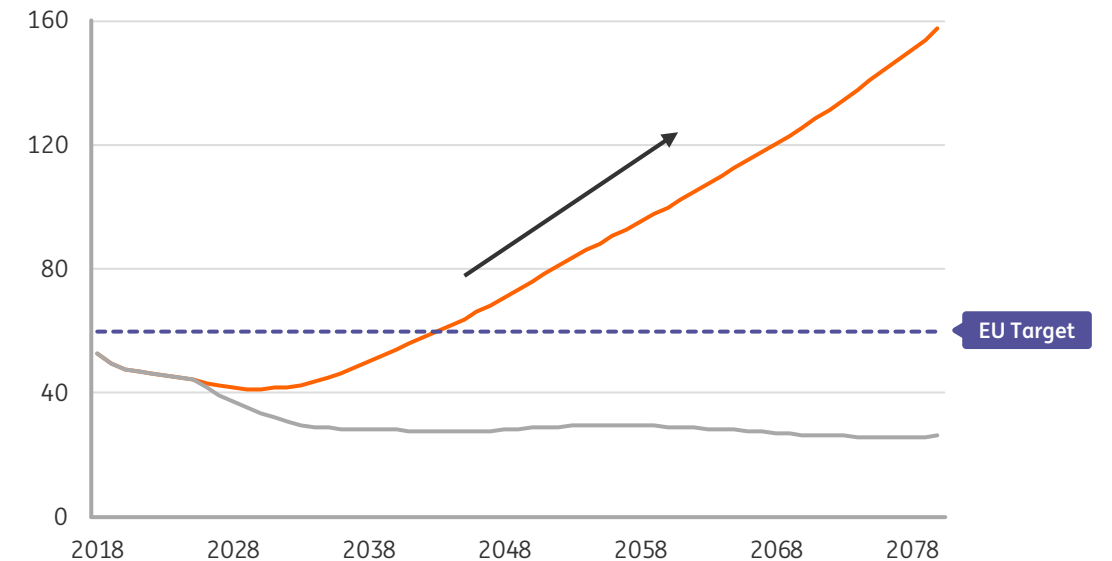


*The sustainability balance shows the size of policy measures that need to be taken (in % of GDP) to ensure that future generations can benefit to a similar degree from public services at a constant tax burden (as a percentage of GDP) as is faced by present generations. This balance shows whether future tax revenues are sufficient to cover future government expenditures. The current sustainability deficit means that the debt level will explode under the assumption of consistent arrangements.

Source: CPB

Without policy intervention the public debt to GDP ratio exploit, while austerity of 1.6% GDP would stabilise debt around 26% GDP well below EU norm

Government debt as share of GDP with and without policy adjustment



- Currently projected public debt trajectory, without structural austerity of 1.6% GDP
- Sustainable public debt trajectory, after structural austerity of 1.6% GDP

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