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The Netherlands: Economic Update

Market Report

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Prepared by the New Zealand Embassy in The Hague

Summary

- The second quarter figures confirm that the Dutch economy has suffered its worst decline on record, with GDP down 9.3% compared to the same quarter in 2019.
- While some sectors, such as hospitality, culture and recreation, ground to an almost complete halt, others such as agriculture were barely affected. Consumer spending dropped 11.8% and both imports and exports dropped sharply.
- Although wages subsidies have softened the blow on the job market, unemployment continues to rise, reaching 4.5% in July. Major businesses like KLM, Booking.com and ABN AMRO have announced restructuring plans that will lead to further job losses over the coming months.
- The latest economic forecasts, which will be used by the Government in putting together the 2021 budget, paint a slightly less gloomy picture than the previous iteration. Nonetheless, significant budget deficits are forecast for 2020 and 2021.

Report

1 The Dutch economy has suffered its worst decline on record, with GDP dropping by 8.5% in the second quarter compared to the previous quarter, and 9.3% compared to the same period in 2019. The second quarter, which included the most restricted period of the “intelligent lockdown”, saw consumer spending down 11.8% on 2019. The effect on domestic production varied enormously between sectors, with the culture and recreation sectors dropping almost 40% compared to 2019 as a result of mandatory closures of museums, theatres and event venues for two months of the second quarter and only partial re-opening in June. Counterintuitively, there was a drop in activity in the health sector during the peak of the COVID-19 outbreak – while ICUs throughout the country were working at close to double capacity, almost all non-urgent healthcare ground to a halt. Purchases of clothing, fuel and vehicles plummeted, while housebound Dutch consumers increased their spending on foodstuffs, home accessories and electrical appliances. Government consumption dropped by 3.5%, a rare occurrence caused by the decline in the healthcare sector due to delayed or avoided treatments.

2 As well as domestic consumption, trade has been strongly impacted by the COVID-19 outbreak. Exports were down 10.9% and imports 9.5% compared to a year earlier. The collapse of tourism (both inbound and outbound) hit trade in services hard. Business confidence remains low, but at -19.3 has rebounded from an all-time low of -37.2 in April. July unemployment figures (4.5%, up from 4.3%in June) show a continued increase, but the rate of increase has slowed.

3 The number of people claiming benefits under the Netherlands’ universal social unemployment insurance has stabilised at 301,000, about 61,000 more than before the COVID-19 crisis began. The number of new applications (8,700 per week) is about 50% higher than July 2019, but lower than in April when 14,700 new applications were received each week. The number of jobs in the Netherlands reduced by 322,000 in the second

quarter (3% less than in the first quarter), essentially wiping two years of jobs growth away in three months. Meanwhile the number of hours worked fell by 6.1% compared to the previous quarter reflecting the significant number of workers who were still being paid under wage subsidies while unable to work.

4 While the wage subsidies have slowed the expected tidal wave of unemployment, large scale restructuring plans are being announced almost daily now, especially in the travel and tourism sector. Dutch flag carrier KLM has announced plans to shed up to 5,000 of its 33,000 staff. Travel booking site Booking.com has plans to make up to 25% of its staff redundant. Several theatres and entertainment venues have stopped renewing temporary contracts and are in discussions with unions on redundancies. Dutch shipbuilder Damen has announced more than 1,000 redundancies globally including 200 in the Netherlands. Major Dutch Bank ABN AMRO has announced it will retrench its operations, abandoning its global ambitions – including ending corporate finance outside Europe and exiting trade and commodity financing altogether – and shifting its focus to Europe, with 800 jobs to be scrapped.

5 The CPB Netherlands Bureau for Economic Policy Analysis (the government agency responsible for economic forecasting) has this week revised projected growth in 2020 and 2021. Whereas in June the CPB was forecasting a reduction in GDP of 6% in 2020 and 3% growth in 2021, they are now predicting a 5.1% decline this year and 3.2% growth next year. In line with the slightly rosier economic forecast, the CPB is now expecting unemployment to rise to 6.5% in 2021. The Netherlands is still going to be facing huge budget deficits over the coming years. Assuming a continuance of current policy settings, the CBP is forecasting a deficit of 7.2% of GDP in 2020 and 4.1% in 2021 with corresponding increases in debt.

6 The Government has started the inter-departmental negotiations on the 2021 budget, which must be presented to Parliament on the official opening of the Parliamentary year on 15 September. Usually an extravagant ceremonial event involving the King riding through the centre of The Hague in a golden carriage before delivering the Speech from the Throne in the oldest building of the Parliamentary complex, this year's speech has been relocated to a larger venue that can accommodate the 225 Members of Parliament and 25 Cabinet members while maintaining social distancing.

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