The Netherlands | Q2 2023

Economy Quarterly Report

GDP growth forecasts remain positive even with elevated and sticky inflation

The GDP forecast has been revised slight downward, as inflation remains elevated and is expected to drop slower than initially thought. In Q1, GDP for 2023 was forecasted to grow by 1.2% but has now been revised slightly downward by Oxford Economics to 0.7%. GDP growth in 2024 has also been reduced from 1.8% to 1.4%. The industrial, construction and manufacturing sectors have all dropped sharply in Q2, dragging down the GDP forecast. **Construction has been hit by falling house prices**, and this is expected to continue through the end of the year, as house prices will likely fall further. Conversely, private consumption is expected to grow and thus keep the GDP growth positive.

After a relatively long period of improving (though still negative) consumer sentiment, a reversal was seen over Q2. Consumer confidence dropped in both May and June, albeit a small drop to the same level witnessed in March this year. The elevated and persistent inflation have led to tighter financial conditions for many, even with the witnessed wage increases, causing consumer confidence to fall.

Producer confidence fell sharply over Q2, reaching 1.0 in June, the lowest level since February 2021. The drop in confidence is due to doubts over expected activity in the coming months and further decreases in orders already witness is May and June.

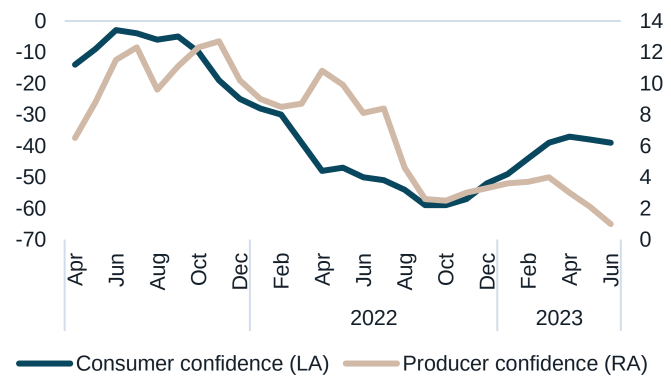
Market Fundamentals

GDP (% y-o-y change)	0.7% (2023)
CPI (% y-o-y change)	5.7% (June 2023)
Unemployment rate	3.5% (June 2023)

Figure 1: GDP growth

Source: Oxford Economics

Figure 2: Consumer- and producer confidence



Source: CBS

Balancing act for the ECB

There are positive signs in the economy as inflation is dropping across the EU. In the Netherlands, falls in transport and energy costs helped bring down inflation, while food and core inflation also slowed, though both remain very elevated.

The ECB has just announced another 25-bps rate hike to 3.75%, given that inflation remains stubbornly elevated across the EU. Whether or not an additional hike of 25 bps will occur remains unknown, as the ECB must try to balance inflation with fears of a recession.

5.7%

June inflation:
Though inflation continued to fall, it remains elevated beyond the ECB's target level, reaching 5.7% in June, thanks to slowdowns across most indicators. However, food and core inflation remain stubbornly high. The target inflation level of 2.0% remains unlikely to be reached by the end of this year. Core inflation, excluding energy and motor fuels, has remained sticky and currently is at 6.1%, dropping from 6.9% in May.

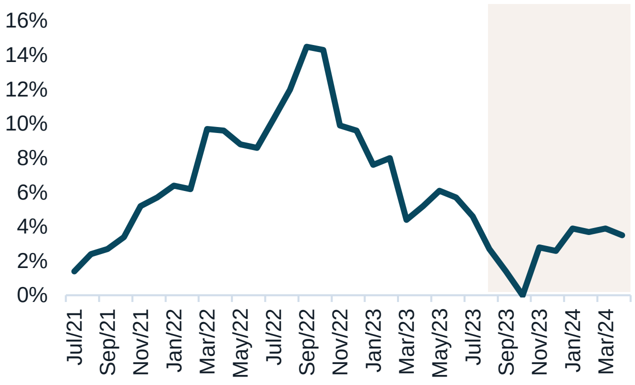
3.5%

June unemployment:
The labor market remains a bright spot within the unsteady economy. The unemployment rate has again remained consistent at 3.5%, similar to the previous 5 months of the year. The number of unemployed persons decreased each month from April to June by approx. 1,000 persons. The labor force continued to grow this period, with 6,000 persons on average joining the workforce per month.

Figure 3: Unemployment

Source: Oxford Economics

Figure 4: Netherlands inflation and forecasts (y-o-y)



Source: Consensus Forecast, April 2023

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