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THE NETHERLANDS

Inflation falls in the Netherlands, but only for now

Headline inflation in the Netherlands fell to 2.8% year-on-year in August. Services inflation, in particular, eased, and food inflation even turned negative. Energy and fuel inflation, however, accelerated to double digits. Together with world food prices, this foreshadows a re-acceleration of overall inflation in the months to come

Dutch headline inflation slowed in August but double-digit energy inflation signals renewed price pressure ahead

While services inflation contributed 1.6% to the headline harmonised HICP inflation rate, and remains the main source of inflation in the Netherlands, it decelerated the most among the broad inflation aggregates that were released today, falling from 4.0% year-on-year in July to 3.4% in August. Details are not yet available, but earlier indications suggest that this deceleration may be due to ICT services, dental services, recreation, insurance and financial services. July figures also showed that the housing market provides a lower (but still considerable) contribution to inflation than in the first half of the year, with rental inflation (both actual and imputed rents) falling below 4.5%. Since these figures are only updated once a year, however, they cannot explain the drop in August. The trend of slowly falling wage growth might help explain why inflation is trending down for a broad range of services.

Food, beverage, alcohol, and tobacco inflation also contributed to the slowdown, exerting downward pressure on the headline HICP rate. Annual inflation in this category fell from 0.0% in July to -0.5% in August. Based on recent trends, food items such as oils and fats, juices and other non-alcoholic beverages, vegetables, fish and seafood, dairy products, and eggs were likely cheaper than a year earlier. This reflects a nine-month period of year-on-year deflation in food producer prices.

While this may initially suggest that consumer food prices could continue to fall for at least another month, more recent developments point in the opposite direction. Monthly price trends, tensions in the Black Sea region, extreme weather over recent months, and rising global prices for key agricultural commodities such as oils, grains, corn, and meat all suggest that domestic food inflation is likely to reaccelerate soon. El Niño also raises concerns about higher cocoa and sugar prices, posing an additional inflation risk, particularly for 2027.

Also, the decline in both headline inflation and core inflation, which fell from 3.0% year-on-year in July to 2.7% in August, does not appear to signal a sustained downward trend in Dutch inflation over the coming months. Inflation in the energy and fuels category accelerated from 9.7% in July to 11.8% in August, driven by elevated crude oil, refined fuel and natural gas prices. These higher energy costs also feed through to other parts of the consumption basket, including passenger transport and, potentially, food prices later on.

Moreover, because many households are on fixed-price energy contracts, the pass-through of higher wholesale energy prices to consumer bills tends to be gradual. As existing contracts expire, energy costs are therefore likely to add further upward pressure to inflation in the months ahead.

Combined with an unresolved situation in both the Gulf region and Black Sea, this suggests that a return to 2% inflation is still some way off. While uncertainty remains high, our base case assumes that the war in the Gulf will continue and that we will have to wait until after the US mid-term elections for some relief for energy and fuel. As a result, year-on-year inflation rates could approach, or even exceed, 3.5% towards the end of this year or in early 2027.

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