News Release

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Nevi Netherlands Manufacturing PMI®

Downturn in the Dutch manufacturing sector softens aided by fresh growth in output

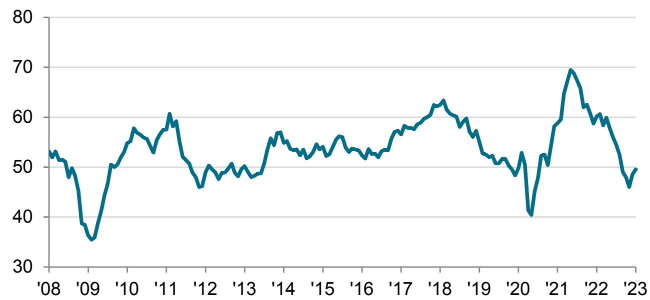
Key findings

Renewed expansion in manufacturing production

Weaker reductions in new orders, exports, and input buying

Vendor performance improves for the first time since August 2019

Nevi Netherlands Manufacturing PMI
sa, >50 = improvement since previous month



Sources: Nevi, ABN AMRO, S&P Global.
Data were collected 12-23 January 2023.

The downturn across the Dutch manufacturing sector softened in the first month of 2023 amid a renewed expansion in output and a weaker reduction in order book volumes. A notable feature of the January survey was the first improvement in suppliers' delivery times since August 2019. Inflationary pressures also displayed signs of easing, as indicated by rates of input cost and selling price inflation dipping to 27- and 23-month lows. As such, firms were more optimistic about their future and registered the strongest degree of confidence since February 2022.

The Nevi Netherlands Manufacturing PMI is a composite single-figure indicator of manufacturing performance derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. At 49.6 in January, up from 48.6 in December, the latest PMI reading was indicative of a sustained deterioration in the health of the Dutch manufacturing sector. That said, the pace of decline was the softest seen in the current five-month sequence and only slight.

The greatest influence on the headline index figure came from a renewed increase in manufacturing production in the Netherlands at the start of 2023. The upturn in output levels, though only mild, was the first in six months. According to panel members, an improvement in supply chains had helped firms to boost production capacities.

While January data was indicative of a sixth successive monthly reduction in order book volumes, the pace of decline was the weakest in five months. Anecdotal evidence suggested that, while demand conditions remain weak as a whole, there were tentative signs of improvement in some areas at the start of the year. A similar picture was painted in terms of international demand. New export orders fell for the sixth month in a row, but at the slowest pace over this period.

Mirroring the trends seen for demand, Dutch manufacturing firms trimmed back their purchasing activity again in January, but at the slowest rate in five months. By contrast, holdings of inputs and semi-finished goods increased slightly from December.

Meanwhile, following a five-month sequence of reduction, levels of outstanding work increased in January. Dutch goods producers reportedly focused their efforts on building up inventory levels in preparation for future demand. As such, the depletion of post-production inventory levels was only slight and the weakest since October 2022. Some firms, however, continued to reduce holdings of finished goods in line with muted demand conditions.

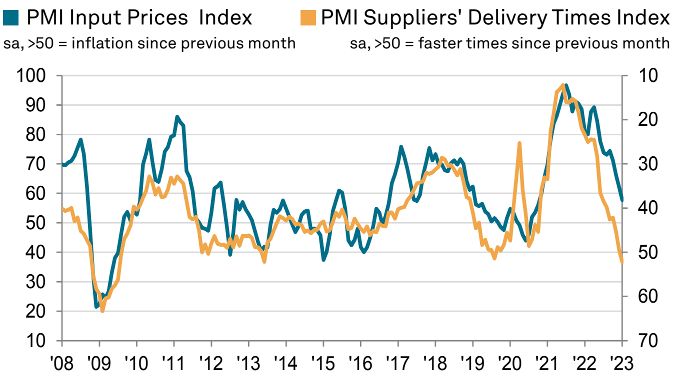
In terms of the year-ahead, an overall sense of optimism among manufacturing firms in the Netherlands was maintained in January. In fact, the degree of confidence regarding future output strengthened to an 11-month high. Anecdotal evidence suggested that, in spite of current challenges, companies were planning to expand their businesses, scale up production and develop new products. Some concerns about current inflationary pressures and relatively subdued global economic conditions did, however, persist.

Expectations of improved demand and output meant that

Dutch manufacturers continued to add to their workforces at the start of the year, extending the current sequence of job creation to 27 months.

One of the most notable developments of January's survey was the improvement in vendor performance. For just the second time since June 2013, average lead times in the Netherlands shortened. Notably, the rate of improvement was the most pronounced since July 2009 and solid overall.

Concurrently, average input costs and selling prices in the Dutch manufacturing sector continued to rise in January. That said, rates of inflation dipped to 27- and 23-month lows, respectively. Increased energy and raw material prices reportedly pushed up operating expense in the latest survey period.



Sources: Nevi, ABN AMRO, S&P Global.

Comment

Albert Jan Swart, Manufacturing Sector Economist at ABN AMRO, commented:

"The Dutch manufacturing sector can finally call victory on the worst disruption of global supply chains in history. For the first time since 2019, suppliers' delivery times shortened. For the first time since July last year, industrial output in the Netherlands increased slightly, in part thanks to better availability of materials. The headline score of the NEVI Netherlands Manufacturing PMI also improved, from 48.6 in December to 49.6 in January.

"The shorter suppliers' delivery times weigh heavy on the headline score. Usually, longer suppliers' delivery times are a sign of growth. Increasing business activity leads to increased demand for materials, which leads to longer delivery times. Under normal circumstances, shorter delivery times are a sign of weak demand for materials and thus weak business activity. This is why shorter delivery times lead to a lower headline PMI, which is calculated based on New orders (30% weight), Output (25% weight), Employment (20% weight), Suppliers' Delivery Times (15% weight) and Stocks of Purchases (10% weight).

"While the shorter delivery times are still a sign of weak business activity, recent circumstances have been far from normal. At the moment, shorter delivery times are actually good news. Excluding suppliers' delivery times, the NEVI Netherlands Manufacturing PMI for January would be 49.9. During the pandemic, dozens of millions of consumers - locked down, bored, and paid with government aid - purchased unusually large amounts of goods, which led to a sudden increase of demand for industrial goods. Lockdowns of factories and container terminals, and longer waiting times during loading and unloading increased amounts of cargo, disrupted production and logistics, making it impossible to meet the high demand, which led to the worst shortages of materials on record. High container shipping rates and material shortages spurred inflation, forcing central banks to step in and raise interest rates to cool inflation. Just when the global economic outlook turned bleak due to the energy crisis following the Russian invasion in Ukraine, fast rising interest rates made it more expensive to finance inventories, previously purchased materials finally arrived at the buyers, leading to large excess inventories. This perfect storm thus led to an extremely large 'bullwhip effect', the phenomenon that temporarily high demand, combined with long lead times, leads to excess inventories which firms then start to unwind.

"The unwinding of excess inventories explains a good part of the very weak demand last autumn. Even though the current 'bullwhip effect' is probably by far the most severe in history, it is still a temporary phenomenon. As soon as excess inventories are cleared, demand can improve. While new orders were still declining in January, the rate of decline was the slowest since August. Quantity of purchases and stocks of finished goods still declined too, but only marginally, and input and output prices are rising at slower rates, signalling cooling inflation. This suggests that firms have almost cleared their excess inventories, and the worst of the bullwhip is behind us.

"Unfortunately, two big names in the Dutch manufacturing sector filed for bankruptcy in January. In the paper industry, a sector hit hard by the energy crisis, Crown van Gelder suffered from a sudden stop of new orders and halted production. The car manufacturing start-up Lightyear, too, might have fallen victim to the pandemic bullwhip. The car industry has been hit very hard by material shortages, and weighed heavily on production, even at the established leaders of the industry, let alone a small new player.

"While the energy-intensive industries such as the paper industry, basic metal and basic chemical industry are not out of the woods yet, the energy crisis is much less severe than a few months ago. Some factories that have halted production last summer might even restart soon. At least, for most of the Dutch manufacturing sector, the outlook has clearly improved."

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Survey methodology

The Nevi Netherlands Manufacturing PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 350 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in March 2000.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.

About Nevi

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