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Neve Netherlands Manufacturing PMI[®]

Business conditions deteriorate at sharpest rate for over three years in June

Key findings

Decline in new orders among the strongest in survey history

Fresh fall in employment

Sharpest drop in input prices since May 2009

The Dutch manufacturing sector continued to contract at the end of the second quarter, with downward pressure reportedly emanating from a worsening demand climate. Declines in output and new orders were both sustained, with the latter falling at one of the sharpest rates on record. Firms responded to the current lull in demand by readjusting their staff numbers, resulting in the first fall in employment levels since October 2020.

At the same time, ongoing demand weakness provided some further relief in terms of cost pressures. Input prices fell at the sharpest rate in just over 14 years, while firms lowered their output charges for the second month running.

The Neve 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. The PMI fell from 44.2 in May to 43.8 in June, to indicate a tenth consecutive monthly deterioration in operating conditions across the Dutch manufacturing sector. Notably, the rate of decline was substantial and the most pronounced in just over three years.

The worsening health of the sector reflected a broad-based weakening of demand, the survey showed. This was highlighted by a sustained and rapid reduction in new orders during June. Notably, the latest contraction in sales was among the sharpest in the survey history. International demand conditions were similarly weak. New export orders fell for an eleventh month straight and at a marked pace overall. Survey respondents frequently

Neve Netherlands Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Neve, ABN AMRO, S&P Global PMI.
Data were collected 12-22 June 2023.

commented on a drop in orders from key markets such as the US.

Softer client demand also placed pressure on Dutch manufacturing production at the end of the second quarter. Output declined for a fourth consecutive month and at a strong pace overall.

The sustained falls in output and new orders led to a fresh reduction in Dutch manufacturing employment during June. Albeit only marginal, the decline in staffing levels was the first since October 2020 and attributed by panel members to a combination of voluntary resignations and cuts to temporary staff numbers.

Despite the renewed decline in factory employment, evidence of spare capacity within the manufacturing sector persisted in June. Backlogs of work fell for the fifth month in a row and at a rate that was among the sharpest in the series history (which started in October 2002). The drop primarily reflected subdued order books, according to panellists.

Elsewhere, the lull in demand encouraged firms to scale back input buying and downwardly adjust their inventory levels. Purchasing activity fell markedly overall in June, while stocks of purchases contracted for a fifth consecutive month. Post-production inventories decreased for the ninth month in a row and solidly.

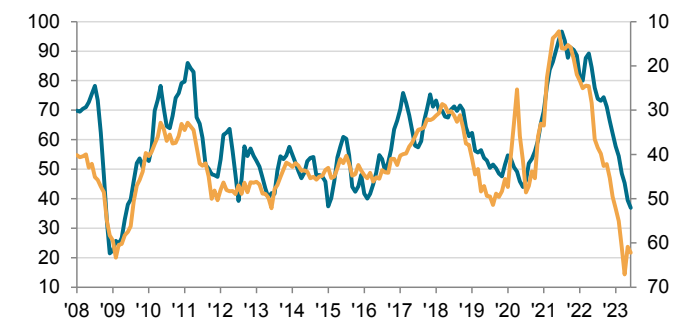
On the supply-side, latest data revealed a further easing of capacity pressures, with suppliers' delivery times improving for a sixth straight month and at a substantial rate. Panel members often attributed shorter lead

times to subdued demand for inputs and subsequent improvements in availability.

Muted demand conditions also fed through to a further easing of cost pressures in June. Input prices fell at a rate that was among the fastest on record, while there was a back-to-back decrease in factory gate charges. Reductions in raw material and energy prices were the principal factors pushing down costs, according to survey respondents.

Lastly, optimism among Dutch manufacturing firms regarding the year ahead moderated again in June. While still positive, the degree of confidence was the weakest since last November. Nevertheless, respondents listed several opportunities for growth over the coming year, including hopes for a recovery in client demand, investments in capacity and the development of new products.

■ PMI Input Prices Index ■ PMI Suppliers' Delivery Times Index
 sa, >50 = inflation since previous month sa, >50 = faster times since previous month



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

Comment

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

“The Nevi Netherlands Manufacturing PMI dropped further again, from 44.2 in May to 43.8 in June. Demand is still very weak. New orders continued to drop quickly while order backlogs declined at the fastest rate since 2009, during the Global Financial Crisis.

“The global economy seems to have lost momentum on the back of high inflation and rising interest rates. Last year, demand became weaker because firms started to unwind excess inventories. This is a temporary phenomenon, but the so-called ‘bullwhip effect’ is unusually strong because after the pandemic, excess inventories were abnormally large, and at the same time, interest rates started to rise unusually fast.

“Now, higher interest rates have clearly started to affect investments. Demand for building materials is dropping fast due to dwindling demand for new construction. Demand for machinery and appliances is

also weak. The combination of higher material costs, higher interest rates and slow economic growth has made investment much less attractive. Demand for energy-intensive materials, in particular, is weak, as customers struggle to cope with the higher prices and Dutch manufacturing firms face competition from abroad.

“Even though some industries still have strong order backlogs, such as the machinery industry and the truck manufacturing industry, firms are still reducing output, presumably because new orders are dropping fast. According to Statistics Netherlands, manufacturing output dropped by 3 percent in April. Preliminary figures suggest that the drop in output was particularly strong in the machinery industry. Unfortunately, the Nevi Netherlands Manufacturing PMI suggests that the downturn is far from over.”

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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](https://www.ihsmarkit.com/products/pmi.html).

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