News Release

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Nevi Netherlands Manufacturing PMI®

Contraction of Dutch manufacturing sector eases in December

Key findings

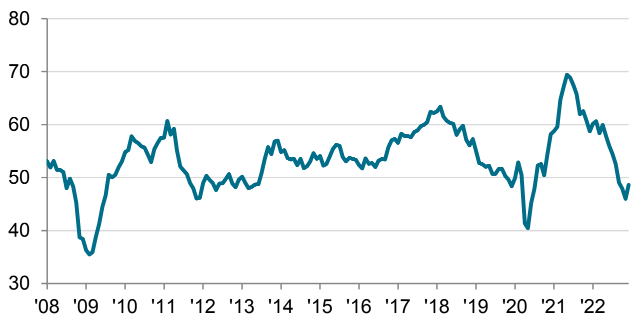
Softer falls in output, new orders, exports and backlogs

Suppliers' delivery times broadly stable since November

Price pressures ease for third straight month

Nevi Netherlands Manufacturing PMI

sa, >50 = improvement since previous month



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

Data were collected 6-15 December 2022.

The Dutch manufacturing sector continued to contract in December, but many variables exhibited weaker rates of decline, according to the final batch of PMI® survey data for 2022. New orders, output, exports and backlogs all decreased at slower rates than in November. In contrast, purchasing fell more quickly as firms aimed to achieve optimum stock levels in light of weaker demand and stabilising supply chains. Falling demand for inputs and more stable lead times resulted in a further easing of input price inflation to a 25-month low, despite ongoing reports of higher energy and labour costs. Finally, the 12-month outlook picked up since November but remained relatively weak, reflecting economic uncertainty, the energy crisis, high inflation and the war in Ukraine.

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. The PMI rose from 46.0 in November to 48.6 in December, signalling a fourth successive monthly deterioration in operating conditions but the weakest since September. The rise in the headline index was the first in eight months, and the 2.6-point increase was the largest observed since March 2021.

The uplift in the PMI in December was mainly driven by the new orders component, where a much slower fall was signalled. The output, employment and stocks of purchases components also had positive directional influences, while suppliers' delivery times weighed on the headline figure (this index is inverted in the PMI calculation).

Demand continued to weaken in December, with the volume of new orders falling for the fifth successive month. Manufacturers continued to report that customers had been deterred by high prices, while there remained a high degree of economic uncertainty. That said, the rate of contraction in new business slowed notably to the weakest in four months. The decline in new export orders also moderated, albeit to a lesser extent than total new orders.

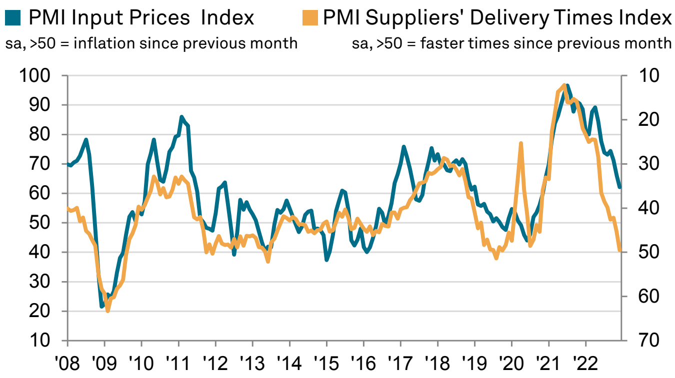
Dutch manufacturers continued to reduce output in December, matching the current five-month downturn in new work. The rate of decline in production remained weaker than that for new orders, however, as firms continued to catch up on backlogs. Outstanding work fell for the fifth month running. Matching the trend for new orders, the declines in output and backlogs both eased during December.

Manufacturers depleted their inventory holdings of finished goods for the third month running in December, in a further sign of weakening demand. The rate of destocking was the strongest since November 2021.

Purchases of new inputs also fell further in December as firms adjusted their output requirements. The contraction was the fourth in succession and the fastest since June 2020. Despite this, the level of inputs held in stock was broadly stable as output fell and delayed purchases arrived. A number of companies reported moving towards optimal stock levels as supply chains stabilised and there was less need for buffer stocks. Suppliers' delivery times lengthened only slightly in December, and by less than the survey's long-run average for the fourth month running.

Reduced demand for inputs and improving supply chains resulted in the slowest increase in average input prices since November 2020. Input price inflation was running only slightly above the long-run survey average despite further reports of increases in energy and labour prices. Output price inflation eased to a 21-month low but remained historically strong.

The 12-month outlook for production and rate of job creation both improved in December, as firms planned to raise capacity in 2023. The employment and future output indices both rose to four-month highs, although only the former was above its long-run trend as confidence was again weighed down by economic uncertainty, the energy crisis, high inflation and the war in Ukraine.



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

Comment

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

“The Dutch manufacturing PMI might have bottomed out. Industrial output, new orders and order backlogs have all decreased further in December, but at a much slower rate than during the past few months. The NEVI Dutch Manufacturing PMI increased from 46.0 in November to 48.6 in December. The score is still below 50, indicating a further drop in business activity. However, activity dropped at a slow rate.

"The New Orders Index improved from the very low number of 39.1 in November to 45.8 in December, the highest reading in four months. New orders are still decreasing, but to a much smaller extent than in November. Demand for investment goods, such as machinery, even increased slightly. Demand for intermediate goods, in particular, dropped. This might be caused by firms limiting inventories because of rising interest rates and the uncertain economic outlook. Firms also need less inventory because supply chains are working more reliably again. Shortages of goods such as semiconductors have become less severe, and suppliers’ delivery times have basically stopped increasing. Weak demand for intermediate goods is also caused by the energy crisis, which due to higher costs leads to less demand for energy-intensive products such as metals and chemicals.

"Apart from the most energy-intensive industries, most Dutch firms seem to hold positive expectations for 2023. The Future Output Index, that measures expectations for production in the coming twelve months, has improved further in December. Employment grew at the fastest pace since August."

Geopolitics

"In 2023, geopolitics will have a great impact on the manufacturing sector. The energy crisis, which is linked to the Russian invasion in Ukraine, is not over yet. For the next winter, Europe will have to refill natural gas storage with much less access to Russian gas. The high energy prices in Europe are making it difficult for energy-intensive industries, such as the basic metals and basic chemicals industries, to compete on the global market. For the semiconductor industry, too, 2023 will be a turbulent year. During the last few months, the United States has imposed export sanctions to keep new chip technology out of China’s hands. These export sanctions also have an impact on Dutch firms. The Biden administration has also granted tens of billions of dollars in subsidies for chip manufacturing on US soil. China countered by announcing the equivalent of some 135 billion euros in government support for its own semiconductor industry.

"Last summer, the Biden administration’s Inflation Reduction Act came as a big surprise. Based on this new law, the US will grant the equivalent of some 350 billion euros in government support for mostly industrial firms. The European Commission states that these subsidies put European firms at a disadvantage. The European Union (EU) itself is also criticized for its new Carbon Border Adjustment Mechanism (CBAM), which the European Council and the European Parliament agreed to in December. From 2026 onwards, firms outside the EU will have to purchase carbon certificates if they sell carbon-intensive products such as steel, aluminum and fertilizer on the European market. Thanks to CBAM, European firms that have to pay for emission rights will not be put at a disadvantage by low-cost competitors from countries with lower carbon taxes."

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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

With over 6500 purchasing professionals, Nevi® is the 3rd largest purchasing association in the world and has been the knowledge network for purchasing and supply management since 1956. Nevi makes purchasing knowhow accessible for everyone involved in the purchasing process by organising (inter)national conventions, networking events, certificated professional educational programmes and national and international customized (in-house) training. Nevi is the first purchasing association to have received the Global Standard for its educational programmes in purchasing. It has a research commission and supports university professors, lecturers and doctoral students. The Nevi code of conduct is ground-breaking in its field. For more information about Nevi activities and membership, please visit our website: www.nevi.nl.

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