News Release

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Nevi Netherlands Manufacturing PMI®

New orders plunge at fastest rate since May 2020

Key findings

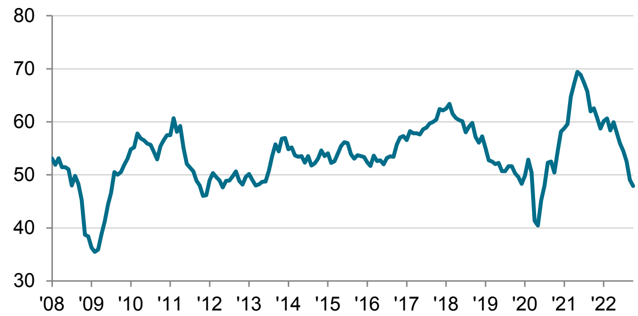
Sharper fall in Dutch manufacturing output

Inventories of finished goods decline for first time in 2022

Input price inflation eases to 21-month low despite energy crisis

Nevi Netherlands Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Nevi, S&P Global.
Data were collected 12-21 October 2022.

PMI® survey data for October signalled a worsening downturn in the Dutch manufacturing sector moving into the final quarter of 2022. New orders, exports, output and purchasing all fell at faster rates than in September, while backlogs continued to decline and final goods inventories contracted for the first time in 2022. Notably, new business dropped at the strongest rate since 2009 when excluding the pandemic lockdown months in the first half of 2020. Inflationary pressures remained historically strong, linked to the energy crisis and ongoing shortages, but eased further during the month.

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 fell for the sixth successive month to 47.9 in October, from 49.0 in September, signalling a second successive overall deterioration in business conditions. The headline figure matched the level seen in July 2020, at the end of a four-month downturn linked to the first pandemic lockdown. Excluding this period, the PMI signalled the sharpest downturn in the goods-producing sector since May 2012 during the eurozone sovereign debt crisis.

The downward movement in the PMI predominantly reflected the largest component, new orders, while small negative directional influences in the output and stocks of purchases components were mostly offset by stronger positive contributions from employment and suppliers' delivery times (the latter index is inverted in the PMI calculation). Overall, the 1.1-point fall in the PMI in October was the smallest in the current six-month sequence of decreases.

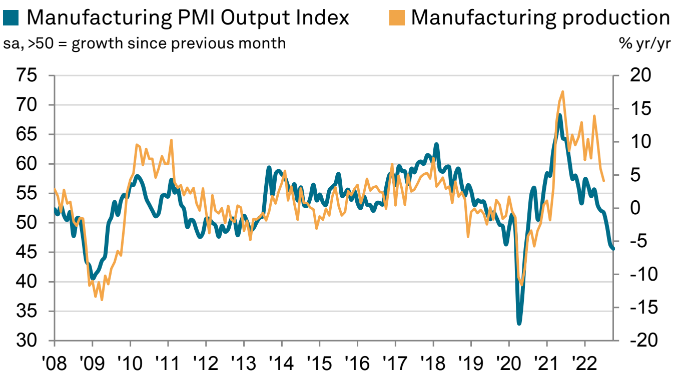
October data signalled a sharp fall in demand for Dutch manufactured goods, linked to postponed orders due to economic uncertainty and high energy prices restricting customer budgets. New orders fell for the third month running, and at the fastest rate since the pandemic-driven collapses in April-May 2020. Excluding these two months, October's fall in new work was the sharpest recorded since April 2009. Exports followed a similar trend, falling for the third month running and at the third-fastest pace in 13-and-a-half years.

Weak demand led to the fastest contraction in production since June 2020. Despite this decline, manufacturers were able to reduce their backlogs for the third month running. Meanwhile, the level of finished goods held in stock fell for the first time in 2022. The 12-month outlook for production was the weakest since June 2020. Recession risks, the war in Ukraine, inflation and the energy crisis all weighed on sentiment.

More positively, employment among Dutch manufacturers continued to increase in October as firms committed to filling vacancies and address backlogged work. The rate of workforce growth was the second-weakest since February 2021, but remained stronger than the long-run survey average.

With new orders falling sharply in October, manufacturers cut back on purchases of inputs for the second month running. The rate of decline did not accelerate appreciably, however, reflecting a desire among some firms to maintain safety stocks to guard against shortages. The late receipt of previously-ordered inputs led to another overall build-up of stocks, albeit at the slowest rate in the current two-year growth sequence.

Suppliers' delivery times continued to lengthen in October, although the extent to which lead times rose was little-changed from September's near-two year low. The recent easing of pressure on supply chains was reflected in the latest data on average input prices, which rose at the slowest rate since January 2021. Input cost inflation remained strong overall, however, reflecting the energy crisis and ongoing shortages of some inputs. Output price inflation eased to a three-month low but remained sharp overall.



Sources: Nevi, S&P Global, Eurostat.

Comment

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

“The NEVI Netherlands manufacturing PMI declined again, from 49.0 in September to 47.9 in October, indicating a deepening crisis in the Dutch manufacturing sector. The decline of output has accelerated. New orders and exports, too, fell even faster. Demand is now dropping faster than when the internet bubble burst in 2001. Since the beginning of the NEVI Netherlands manufacturing PMI in 2000, new orders have only declined even further in 2009, during the financial crisis, and during the lockdown months at the start of the Covid-19 pandemic.

"The crisis seems to be getting worse due to a massive ‘bullwhip effect’, a term coined by economist Jay Forrester in 1961 to describe wild fluctuations of demand and inventories in supply chains. At the start of the pandemic, industrial firms’ inventories were reduced. The forced shutdown of factories, for example in China, caused a ‘supply shock’ that led to shortages of products such as electronics. At the same time, a massive ‘demand shock’ occurred because purchasers, anticipating a deep economic crisis, stopped placing orders. Global demand for industrial goods recovered faster than expected, however, leading to the worst material shortages on record. This put a strain on many links in supply chains such as container shipping. Further lockdowns, most notably in Asia, made supply chain disruption worse. In order to keep up with demand and avoid material shortages, many firms built up additional stocks of purchases, leading to what has probably been the largest bullwhip in history.

"After two years, the bullwhip is not over just yet. Rather, it has started moving in the other direction: down. Now that demand is dropping fast due to the energy crisis and uncertainty about the economic outlook, material shortages are disappearing and firms have started to unwind their excess inventories. Particularly new orders for intermediate goods have dropped fast. After increasing inventories for 25 months in a row, industrial buyers have started to reduce purchases in September. Stocks of purchases still increased in October, probably because of the reduction of output and old purchases still coming in. Stocks of finished goods, however, declined for the first time since December last year. The reduction of inventories is probably amplified by the steep rise in interest rates, which makes financing inventories more expensive. Inventories are mostly financed with short-term debt at variable interest rates.

"While the bullwhip effect deepens the crisis in manufacturing, the effect is probably temporary. As soon as excess inventories are cleared, demand for intermediate goods might pick up somewhat. As serious as this crisis may be, it comes with several benefits, such as a declining rate of input costs, and better functioning supply chains. In October, investment goods output increased, probably because the car industry and machine builders finally receive more semiconductors and electronic parts. Order backlogs for investment goods still rose, however, indicating that there is further room for growth as material shortages are reduced further.

"The energy crisis might have severe consequences for energy-intensive firms, for example in basic metals and basic chemicals. The Dutch aluminium factory Damco, formerly known as Aldel, is on the verge of bankruptcy, and BASF of Germany, the largest chemical manufacturer in the world, has decided to scale down operations in Europe. The future for the Dutch manufacturing sector as a whole, however, seems bright. The headline PMI is already declining at a slower rate, indicating that it might soon reach the bottom. Moreover, firms still increased employment, a clear sign of trust."

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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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