Manufacturing downturn eases further in July

The Dutch manufacturing sector contracted at a much slower pace during July, according to the latest PMI® survey from NEVI and IHS Markit. Operating conditions deteriorated for the fourth month running amid the ongoing coronavirus disease 2019 (COVID-19) pandemic, though the rate of decline eased further amid softer reductions in output and new orders. Nonetheless, staff numbers fell again, with the rate of job shedding remaining marked. On the prices front, deflationary pressures persisted as input costs fell solidly and firms reduced their charges for the third successive month.

Data were collected 13-23 July.

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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 registered 47.9 in July to signal a further deterioration in the health of the Dutch manufacturing economy. That said, the figure was up from 45.2 in June to indicate the slowest rate of contraction since April and one that was only modest.

The ascent of the headline figure primarily reflected upwards movements in the two largest components by weight: new orders (25%) and output (30%). Manufacturing production declined for the fifth successive month, but the latest fall was the softest in the aforementioned sequence and only marginal. Similarly, order book volumes declined only slightly, with the respective seasonally adjusted index rising nearly eight points from the previous month. At the same time, new export orders also fell at a reduced rate, albeit one that was solid.

There were indications that factories were not operating at full capacity and choosing to limit working hours due to subdued demand conditions. Subsequently, employment continued to decline in July, with the rate of job shedding remaining marked.

July data pointed to further caution with regards to purchasing and inventories. Buying activity and stocks of purchases both fell again in the latest survey period, with the latter declining at a slightly quicker rate than in June. Holdings of manufactured items were meanwhile broadly stable.

Dutch manufacturers reported further disruptions to supply chains in July amid ongoing COVID-19 restrictions. That said, lead times lengthened at the slowest rate since October 2019 and only modestly overall.

Deflationary pressures persisted, according to the latest data, as cost burdens fell for the fourth month running and firms continued to cut their selling prices as part of efforts to attract sales. However, the rates of decline eased from June in both cases.

Expectations regarding the 12-month outlook for output remained positive in July, with anecdotal evidence linking confidence to the loosening of COVID-19 related restrictions and hopes of an economic recovery.
COMMENT

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

“The NEVI Netherlands Manufacturing PMI® points to a much slower decline in July. The PMI score increased from 45.2 in June to 47.9 in July. This is still below the ‘neutral’ threshold of 50. However, the score of 47.9 does indicate an only modest decline. Thus, it seems that the Dutch manufacturing industry may be reaching the bottom. Output, new orders and backlogs decreased even further, but the rate of decline was slow. New export orders still declined markedly. However, since manufacturing in Germany and in the eurozone as a whole is already showing signs of slow growth, new export orders might increase slightly in August. “Several underlying indicators show that the Dutch manufacturing sector has shifted to a lower gear. Purchasing managers continued to reduce buying activity and jobs were still cut at a marked pace. The job shedding started in March, but so far, mostly temporary workers were sent home. In July, fixed contracts were also terminated. Redundancies, reorganizations and reduced working hours seem common these days. Producers of capital goods, in particular, shed many jobs. “If new orders increase again, industrial output might improve slightly. However, output will remain slow in the short term. Businesses are increasingly optimistic about output in twelve months. There seems to be good hope for economic recovery in 2021.”

Methodology
The NEVI Netherlands Manufacturing PMI® is compiled by IHS Markit 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.
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.
July 2020 data were collected 13-23 July 2020.
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.

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