Dutch manufacturing shifts from crisis to comeback mode after two-year contraction

We're expecting renewed growth for Dutch manufacturing in 2025 following a very weak couple of years. Growth remains moderate, but a turnaround is set to end the sector's two-year decline

Two years of contraction have left production levels in early 2025 about 5% lower than their June 2023 peak – but we're expecting demand for Dutch industrial products to pick up this year

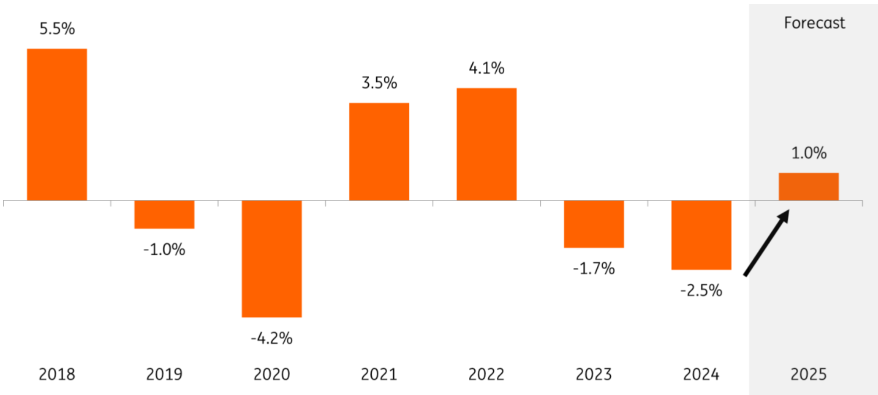
No fully fledged recovery just yet

A sobering two years of contraction in Dutch industry have left production levels in early 2025 about 5% lower than their June 2023 peak – but we're finally expecting to see a few green shoots for the year ahead. Higher purchasing power is prompting domestic and foreign consumers to spend more, while lower interest rates, gradually improving demand for chip machines and construction products and rising government defence spending are all contributing to industrial growth.

Saying that, we don't quite foresee a fully fledged recovery just yet, and that's mainly due to weak economic growth in Europe alongside persistently high energy prices. Apart from chip machines, which are mainly exported to markets outside Europe, industrial overcapacity will continue to curb demand for capital goods as a result of weak European – especially German – economic growth. US import tariffs are also adding yet another layer of uncertainty and are reinforcing hesitance surrounding investment among producers. It's still unclear what the scope and size of the tariffs will be, but about 7% of Dutch goods exports could be directly affected.

After two years of decline, industrial production will grow again in 2025

Volume development of output, Dutch manufacturing



Source: Statistics Netherlands

Revival of Dutch pharma structurally creates value

The Netherlands remains a popular country for international pharmaceutical companies due to its strong position in both the development and production of innovative medicines. It is precisely these activities with high added value in which the biotech sector also excels. The European Medicines Agency (EMA) in Amsterdam, the pandemic and the call for more strategic independence and better availability of medicines have strengthened the rebirth of Dutch pharma.

Over the past five years, pharmaceutical production has grown by 8% per year and sectoral added value by as much as 10% per year. We also see this subsector being able to count on strong growth in 2025. Pharmaceuticals now account for 8% of total industrial added value. Together with the metal products industry, the pharmaceutical industry is the third-largest industry in terms of earning capacity, surpassed only by the machinery and food industries.

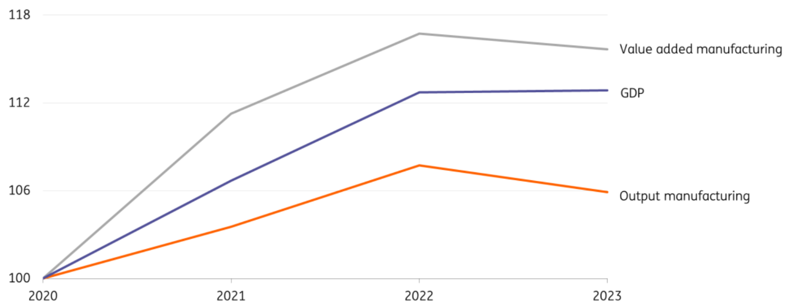
Share of manufacturing industry in economy increasing

Despite the cyclical headwinds, more productive subsectors such as technology and pharmaceuticals have been gaining importance within the Dutch manufacturing industry in recent years. High-quality technical knowledge and cross-pollination within industry clusters ensure valuable product innovations. As a result, industrial added value has not only been growing faster than industrial production for several years now but also the economy as a whole.

However, personnel shortages and declining expenditure on education and science are putting this growth under pressure.

Added value increased faster than production

Volume development of added value, Dutch manufacturing, index, 2020 = 100



Source: Statistics Netherlands

Exports are growing again despite potential disruptions

Despite all the geopolitical turmoil, exports, which are very important for Dutch manufacturing, are showing positive signs of development again. Medicines, ships, aircraft parts and inorganic chemical products are among the fast growers – just like weapons and ammunition, for example, but they only have a very small export share. Sales markets are growing reasonably, especially outside Europe, although import tariffs and a potential slowdown in the US economy could throw a spanner in the works. The Netherlands exported 6% more goods to the US in 2024, while total goods exports shrank by 1%.

International trade is highly adaptable

The impact of trade barriers could be more limited than expected – provided they don't escalate into a trade war, that is. International trade can often adjust quickly because exporters lower prices or shift trade flows. They will be more active in seeking new markets when existing trade becomes less lucrative. While they still have a long way to go, the EU's trade agreements with the South American Mercosur countries, Mexico, and negotiations with a number of Asian countries are encouraging for the industry in the longer term.

European and especially German demand remains weak

For the time being, Dutch manufacturing will continue to suffer from weak European demand and, in particular, the malaise among German car manufacturers and equipment and machine builders. Germany is the largest sales market, but its eastern neighbours are struggling with disappointing export demand. Germany's share in Dutch goods exports has fallen from over 20% to just under 19% in five years, making Dutch manufacturing only slightly less vulnerable to a drop in German demand.

Inventories more in line with expected growth, but still large

Sentiment among Dutch producers is gradually improving. Both producer confidence and the purchasing managers index are higher than they were a year ago, but neither points to a strong industrial recovery. However, several sub-indicators support the view of renewed – albeit limited – growth on its way. Order books are still thin, but the average order intake is approaching the turning point towards growth, and production expectations are still positive despite a slight dip recently. Even though sales inventories are still high, manufacturers generally still see finished product inventories not too far below the long-term average. In turn, an increase in demand later in the year should translate more quickly into production growth.

Technological industry set to stabilise in 2025

The technology industry is an growth industry par excellence. The increasing demand for products needed for further electrification and digitalisation and the rise of AI are causing an increasing demand for chips. The higher government spending on defense is also causing structural growth in demand, for example for Thales radars and Damen Naval frigates. However, the technology industry as a whole is still suffering from widespread overcapacity among customers, especially in the first half of 2024. The late-cyclical nature is causing producers of technological investment goods in particular to have a hard time. Truck manufacturers are seeing production under pressure this year. Their order intake is still thin and previous production backlogs have now been eliminated. Machine manufacturers are also suffering from weakened demand due to limited business investments. Some improvement is expected in the second half of the year.

The global semiconductor market is only slowly picking up, with major differences between the various segments. Advanced chips for AI applications are in high demand. However, Dutch chip production, with NXP and Nexperia, is largely dependent on demand from car manufacturers and other industrial customers that experience soft demand. However, we do expect renewed production growth of electric cars in Europe this year, which contain significantly more chips than fuel cars.

Upturn in construction positive for metals and plastics

Suppliers of metal and plastic products are benefiting from rising demand in the construction sector. But even so, metal companies in particular continue to suffer from weak demand from the automotive and machinery industries. The food packaging market, which is important for plastics processors, is experiencing stable demand – although the plastic product range is very broad, and plastics processors continue to suffer from demand and margin pressure. Major international competition, which has come about largely as a result of relatively high energy and raw material prices in the Netherlands, is reinforcing this.

Food industry grows, but contraction in dairy and meat segments

For the food industry, we expect the revival of production volumes that started in the second half of 2024 to continue in 2025. At the same time, production in dairy and meat processing – the two largest subsectors within the industry – is increasingly coming under pressure. Due to buy-out schemes, more farmers will halt operations in 2025 and the livestock population will shrink. Estimates on the speed and extent of this shrinkage in 2025 are varied; for processors, however, a drop in the milk supply of several percentage points and a decrease in the domestic supply of pigs of 10-15% at the end of 2025 both seem plausible.

You can find the full version of this outlook in Dutch here.

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