More bright spots for Dutch industry in 2025

The Dutch manufacturing industry is set to grow moderately in 2025. After two years of declining production, foreign and domestic demand is set to gradually pick up. The growing demand for chips will add some momentum for Dutch factories, as will the new inventory build-up

An ASML 'cleanroom' - an ultraclean environment where the company assembles EUV and DUV lithography systems

The limited growth of European sales markets and relatively high energy prices should dampen industrial production growth to 2% in 2025. Nevertheless, this represents a clear turnaround from the contraction of 3% seen in 2024.

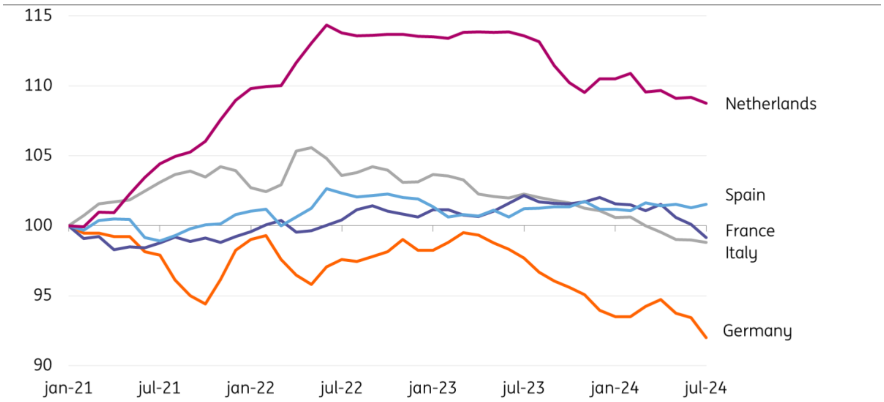
The Dutch manufacturing industry compares positively with European peers

While in 2021 and 2022 the Dutch manufacturing industry was still the growth leader within the eurozone, it has clearly underperformed peers like France and Spain over the past year and a half. Nevertheless, after a period of sharp contraction, production is still almost 9% higher than at the start of 2021. Of the other large euro area countries, only Spain has experienced net growth (of

1.5%) since the beginning of 2021. German industrial production has shrunk by 8%. The differences are mainly due to the different composition of the industry. Compared to Germany, the Netherlands has a large semiconductor cluster and a smaller automotive industry.

Production levels still high in the Netherlands, low in Germany

Development of production levels in the manufacturing industry, January 2021 = 100*



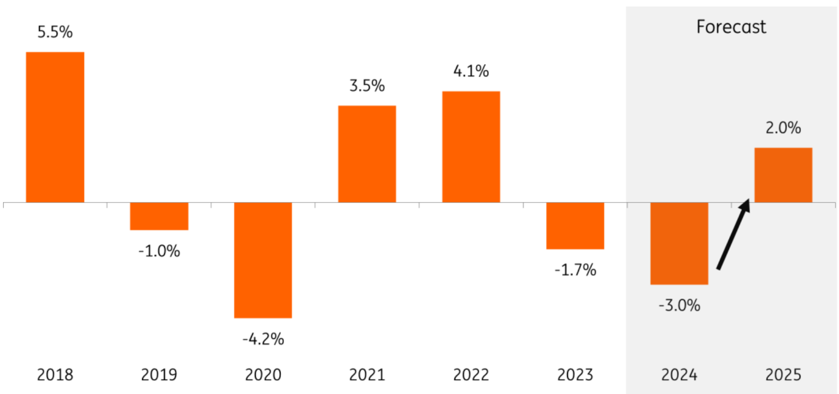
Source: Eurostat

Sector well positioned for renewed growth

Compared to Germany, the Netherlands also has a relatively large food industry, a sector that is not very sensitive to the economic cycle. Now that the chemical industry, which is relatively large in the Netherlands, is no longer shrinking in the short term and the semiconductor market is picking up further, numerous indicators are now pointing towards a positive outlook for 2025. However, geopolitical tensions and trade barriers may hold back growth. A full recovery to production comparable to levels seen in 2022 and the first half of 2023 is expected to take more time.

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

Volume development of Dutch manufacturing output



Source: Statistics Netherlands

Producers not yet very optimistic

Dutch industrial business sentiment is improving slowly but does not indicate a strong upturn in the short term. The producer confidence index has been rising since the end of 2023, and although it was still slightly negative on balance in August, it is at a level that is practically the same as the long-term average. The purchasing managers' index, which is a more leading indicator, has fallen back to 47.7 after a brief rebound, reflecting a slight contraction in activity.

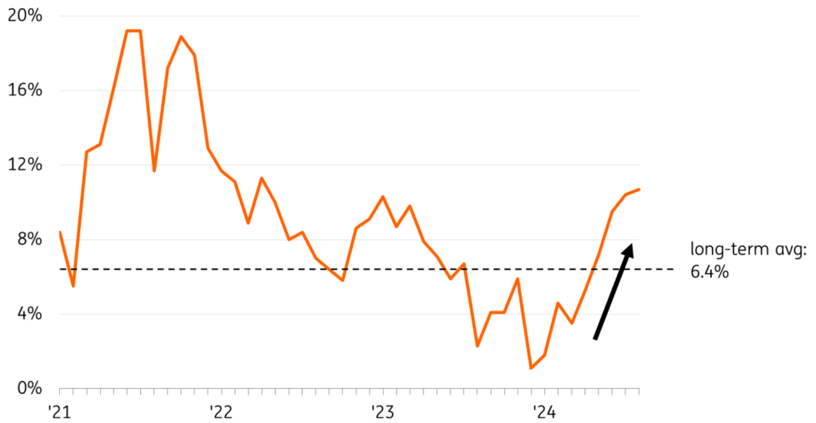
Reduction in stocks not yet over, but improvement beckons
Renewed stock build-up will not yet provide a strong production stimulus this year. Demand is not yet strong enough for that. Stocks of finished products are slightly higher than at the beginning of the year due to a temporary upturn in activity. Since August 2022, the majority of producers have rated their stocks of finished products as too high. Nevertheless, the underlying trend is positive and the assessment figure is only just below the long-term average (-4.9 versus -4.4), which means that a production stimulus from the inventory build-up is within reach.

Positive production expectations for the coming months

Expected activity has also been moving in a positive direction for some time now. The majority of producers expect to increase production in the near future. This indicator is well above its long-term average. Moreover, the order inflow seems to be picking up again. For the first time in a year and a half, new orders in the increasingly important machinery industry are above their long-term average, and the chemical industry, another major subsector, is also clearly on an upward trajectory.

Production growth expected by producers

Judgment of producers on expected business activity, manufacturing industry



Source: Statistics Netherlands

Slightly higher foreign demand expected in 2025

In 2023, global trade contracted and, in its wake, Dutch exports and industrial production. Despite high uncertainty due to rising protectionism, geopolitical turmoil and e]lections in the US, global trade is showing resilience this year. Dutch industry, which is strongly oriented towards foreign countries, benefits from this. Nevertheless, foreign demand is likely to be subdued in the near term. China's economic growth is disappointing and US growth is slowing. Growth in the eurozone and the UK may be slightly higher in 2025 than this year, but there is unlikely to be any exuberant growth here either.

Greater purchasing power and lower interest rates
As in neighbouring countries, the purchasing power of Dutch consumers is improving. This will counterbalance underwhelming investment growth in 2025. The utilisation of industrial production capacity in the Netherlands is at its lowest level in four years, which, together with a still relatively high interest rate, is leading to lower investment this year. Machine and equipment builders and manufacturers of transport equipment are particularly affected by this. In 2025, investments in the Netherlands are expected to pick up somewhat, partly due to lower interest rates, but the overall level of investment will remain low.

Energy-intensive basic industries slow to recover

After a prolonged period of contraction due to very high energy prices, energy-intensive industries have begun to emerge from the downturn. However, the road ahead is bumpy. A return to old production levels is a long way off. Producers of paper and, to a lesser extent, base metals and chemical products, in particular, have shown signs of recovery, while the building materials and plastics industry has yet to see the turnaround. In addition to the persistently high energy prices – which continue to affect chemical producers in the Netherlands – global overcapacity is also limiting the upside potential, especially in the base metals and petrochemical sectors. The building materials industry is the only energy-intensive industry that has significantly higher expectations for the near future.

The tech industry will grow again in 2025, led by chip machine makers

Within the technological industry, the transport equipment industry has been hit hardest this year by the loss of Nedcar production. Commercial vehicle manufacturers are also seeing production decline, now that the order intake has been declining for some time and backlogs have been cleared. On the other hand, the increasing demand for products needed for further electrification and digitalisation, and the rise of AI are driving an increase in global chip demand. Due to the high cyclicality of this market, demand for semiconductors has been under considerable pressure for some time. Although global demand will pick up again in 2024, domestic chip production with NXP and Nexperia is largely dependent on demand from automakers and other industrial customers whose sales are disappointing.

The recovery in the global chip market continues. The rise of AI, in particular, is driving demand. Makers of chip manufacturing machinery and equipment – the largest domestic semiconductor segment – are seeing demand gradually pick up again. Their customers are experiencing lower inventory levels and better machine utilisation, which is driving investment in expansion. Machine manufacturers ASML and ASM are also seeing more orders coming in. Metalworking suppliers and machine parts makers will also benefit, which will see the technological industry grow again in 2025. Due to the still low level of investment overall, machinery and equipment manufacturing aimed at end markets other than the semiconductor market will not grow strongly in 2025.

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