



Manufacturing 2024 H1 Insights and 2024 Outlook

August 2024



**Bank of
Ireland**

Classification: **Green**

2024 – H1 Lookback – A cautious start as inflation eases, supply chain predictability improves, ESG goes mainstream, but global demand continues sluggish as a sustained upswing in new orders remains elusive.

Irish Manufacturing started 2024 on an asymmetric mix of optimism and caution. Optimism on the back of strong performance in 2023, but caution as demand slowed and manufacturing continued in contraction territory through H2 2023. Interest rate hikes across EU, US, and UK which have not been reversed, and have had the desired effect of constraining demand and slowing inflation. With that comes a correction and slowdown in manufacturing output.

However, Ireland's rate of contraction has been slower and lagging that of its peers with Purchasing Managers' Index (PMI)¹ averaging 49.4 for H1 2024 compared to 46.3 for the EU, our biggest trading partner. These numbers however tell a composite story and different sub sectors are performing differently during 2024 as follows:

- Global PC sales have recovered with 3 consecutive quarters of year-on-year growth.²
- EU Automotive registrations up YOY 4.5% H1 24 but down 18% on 2019. EVs volumes only grew by 1.3%.³ In Ireland year to end of July they have fallen by 24% compared to 2023.⁴
- Global sales of Semiconductor manufacturing equipment expected to grow in 2024 by 3.4% driven by AI.⁵
- Industrial construction equipment expected to fall in 2024 by 8%.⁶
- Agri equipment are forecasting falls of 20 to 25% for year end 2024.⁷
- Data centres, & Modular construction and sustainability retrofitting all continue strong.
- Continued growth in medical devices sales with CAGR forecasts of 6.1% to 2030.⁸
- Pharma sales also expected to grow by 5.1% in 2024.⁹

Irish Manufacturing is deeply anchored in all the above supply chains and so individual businesses will feel the pain differently.

Key Sector Trends

- **Purchasing Managers Index (PMI) data:** 2024 data has continued in contraction territory (<50) with June at 47.4, a 12-month low, but then a fragile recovery in July to 50.1. EU data remains stubbornly low at 45.8 for July, with an accelerated decline in contraction of orders, output, and employment. Sluggish orders, lower production output, higher risk adversity, tighter spending, elevated interest rates, unpredictable geopolitics, and cautious business confidence all serve to dampen manufacturing activity.
- **Supply Chain Resilience** remains a top priority for manufacturing to maintain business continuity and protect reputation. The Global Supply Chain Volatility Index GSCVI¹⁰ for July at -0.22 is a reversal of earlier positive improvement signs and signals underutilisation of global supply chains. Manufacturing would much rather be stretched but this continues to be elusive.
- **Inflation (HICP)** has eased to 1.5% in July 2024, down from 4.6% in 2023 but manufacturing input prices remain elevated.¹¹

- Container shipping costs are up 203% on this time last year from \$1,832 to \$5,551.¹²
- SMEs are passing on costs but not without pushback.
- Given higher price tags, lower spending capacity, consumers are delaying purchases or switching to service offerings e.g., holidays and leisure.

• 2024 Irish GDP, Exports, and Industrial Output:

- 2024 GDP grew 0.7% in Q1 and contracted 4% annually. Manufacturing which contributes c. 35% to GDP, contracted 5.7% quarter on quarter and 15.5% annually.¹³ This is largely driven by the MNC sector and represents a correction from elevated activity in 2022 and 2023 to more normal levels.
- Exports H1 2024 increased by 7% YOY dominated by exports to US +23%, and sectors Pharma +21% and Machinery +20%.¹⁴
- Production output June data is up 6.2% on a rolling 3mth. basis (Apr to June) but down 6.8% compared to same 3 mth. period in 2023, split between the modern sector -13.6% and the traditional sector +11.1%.¹⁵

- **Employment:** Economy is at full employment and shortages of key technical skillsets are still the case. However, given the softening of manufacturing data, there are cases of capacity reductions and associated employment impact in certain sectors such as construction/agri. equipment where inventory levels are high.

- **ESG, Digital and AI agendas gain momentum in 2024:** All driven by a combination of digital transformation, supply chain reconfiguration, ESG metrics, regulatory compliance awareness, and higher fuel costs improving payback periods for electrification and renewable sources. Ireland emissions reduced by 6.8% in 2023 to their lowest level in three decades.¹⁶ Solar energy has seen exponential growth and has passed the milestone of 1 Gigawatts (GW) in Ireland with a target of 8 GW for 2030.¹⁷ To put global solar growth in context, in 2004 it took one year to install 1 GW of solar. The forecast for 2024, is for 600GW installation of solar or 2GW per day.¹⁸

- **Geopolitics, Rise in Protectionism and Strategic Autonomy:** One of the lasting impacts of COVID-19 and accelerated by Russia Ukraine conflict has been the desire for major economies to have greater strategic autonomy and less reliance on global supply chains. It is a complex picture of economies moving away from mutual benefit to national gain and impossible to predict how it will play out. Irish manufacturing is in a strong position to navigate the impacts given the deep roots of both the MNC and SME manufacturing community.

- **Trade restrictions on the increase:** Globalisation is in reverse, with major economies retreating to protectionism mode. From 500 in 2015, trade restrictions have exponentially grown to nearly 3000 in 2023.¹⁹

- **EV Tariffs:** US and EU have imposed 100% and 37.6% respectively on Chinese EV imports.²⁰

- Global Elections:** Roughly half of the globe are headed to the polls in 2024.²¹ Expect the level of protectionist measures to increase with potential impacts, which are difficult to quantify for the Multinational and SME manufacturing community. Notwithstanding above, the reality is Irish Manufacturing enterprises have deep roots here, but nonetheless must plan for different outcome scenarios. In particular Government would be wise to model how corporation tax from manufacturing might be impacted. The Department of Finance has launched a major research project on the risks Ireland faces from deglobalisation, to be published after the summer.²²
- US Economy Slowdown Fears:** Manufacturing's second biggest market after Europe, defied most 2023 economic forecasts of a recession and delivered growth of 2.5%.²³ H1 2024 has continued strong with a bull stock market on steroids which has been just recently had the brakes applied on the back of fears of recession in the absence of Fed rate cuts. Add to this consumer debt hit new highs in Q1 2024 and a historically high debt to GDP ratio of 124.7%, all points to a potential correction. However, and on an optimistic note, while views are mixed, many fundamental data points including employment, output, inflation are positive and strong and suggest that fears of a downturn may be misplaced.²⁵

Key Trends and Metrics for Irish Manufacturing Sector

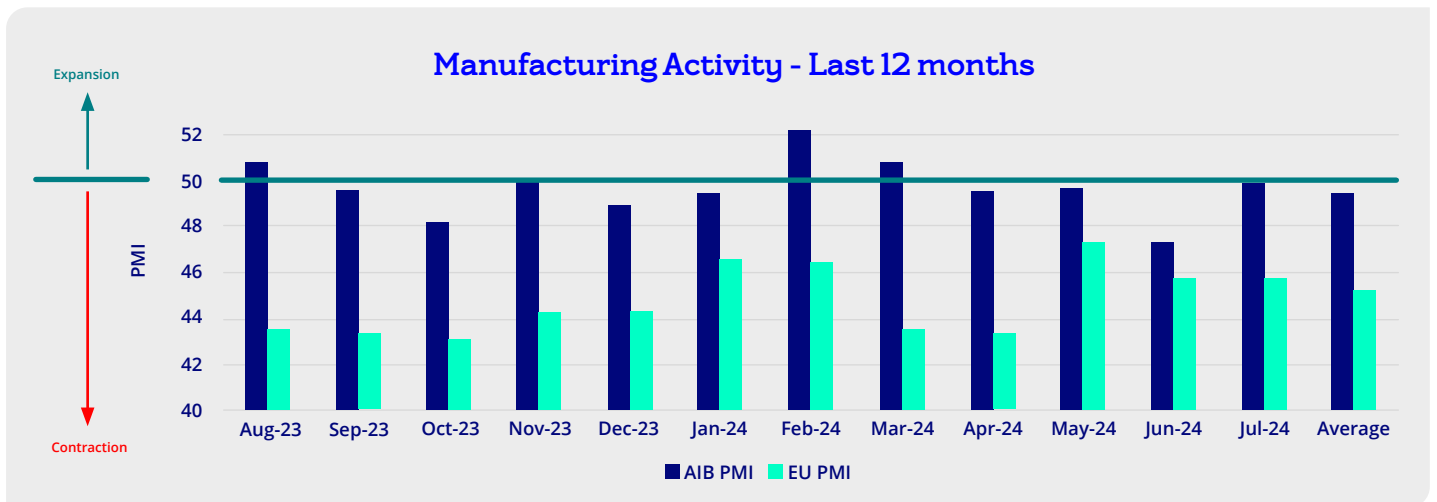


Table 1: Sources: PMI S&P Global

Irish Manufacturing PMI (Table 1)

PMI is a questionnaire sent to 250 manufacturing companies, and a result greater than 50 represents expansion. The last 12 months has been one of stubborn contraction with a return to steady growth in both Ireland and EU remaining elusive. Ireland is faring better with a 12-month average 49.5 compared to the EU averaging at 45.2. However, as our biggest trading partner, there is a risk of contagion with downward capacity and employment adjustments to match lower demand levels. Some sub sectors such as Industrial Equipment have already adjusted to match moderated demand levels post the inflated Covid 19 period where uncertainty peaked demand above real needs. As high inventories unwind, interest rates remain high, input costs remain elevated demand will continue sluggish in the short to medium term.

Global Supply Chain Volatility Index (GSCVI) (Table 2)

The Global Supply Chain Volatility Index, published by company GEP (a global leader in procurement and supply chain), based on data derived from a monthly survey of 27,000 businesses, has fallen from the dizzy heights of 6 in 2022 to below zero in July 2024 at -0.22.

Data for May and June pointed to tentative signs of demand strengthening in the supply chain and has now been reversed in July. Demand for raw materials and semi-manufactured goods weakened in July, falling at fastest rate this year, signalling slowing global economic growth. The key drivers are:

- Global supply chain capacity rises, amid calls for a reversal in interest rate hikes.
- Asian factory demand, particularly China, is at its weakest since December 2023.
- Suppliers to North America report underutilised capacity.
- European market continues to struggle, with region's manufacturing recession persisting.

In summary the latest data signals economic weakness as we head into the second half of 2024. We continue to see a combination of the other side of bullwhip effect i.e. gluts following oversupply, plus ongoing impact of dampened demand driven by inflation and high interest rates.

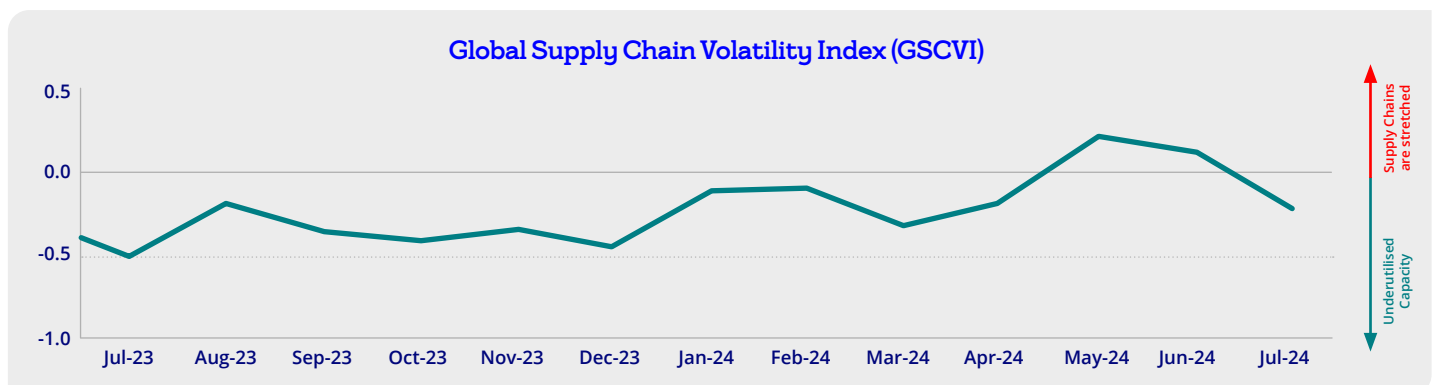


Table 2: Sources: GEP, S&P Global

Imports, Exports, Industrial Output and Turnover

Imports and exports performance are summarised in table 3 for period H1 2024. In totality, imports were down YOY by 7%, while exports were up by 7%. Increase in exports is driven by US +23% and the Pharma and Medical Devices sector + 21%. Machinery and transport sector also up 20%. Looking at June alone, exports were down 10% YOY and down 61% YOY for Great Britain.

For Manufacturing production and turnover summarised in table 4, production output is overall down 15% for H1 2024. This is made up of the modern sector which down by 18%, and by contrast the traditional sector which is up by 11%. The rolling 3-month comparison is positive for all metrics and suggests fragile improvement in activity overall.

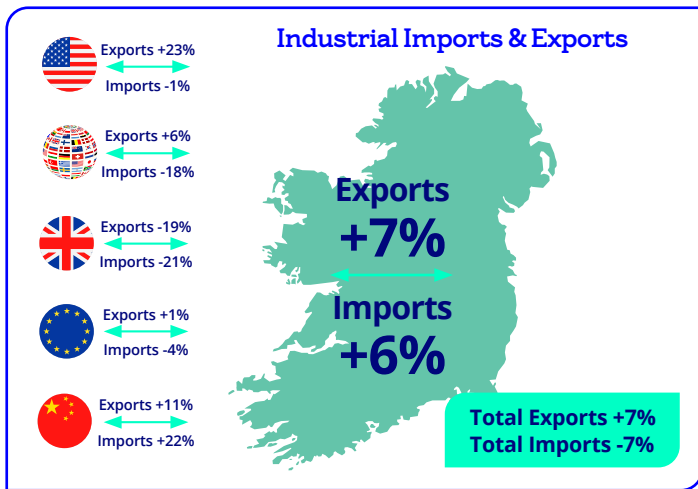


Table 3. Source : CSO

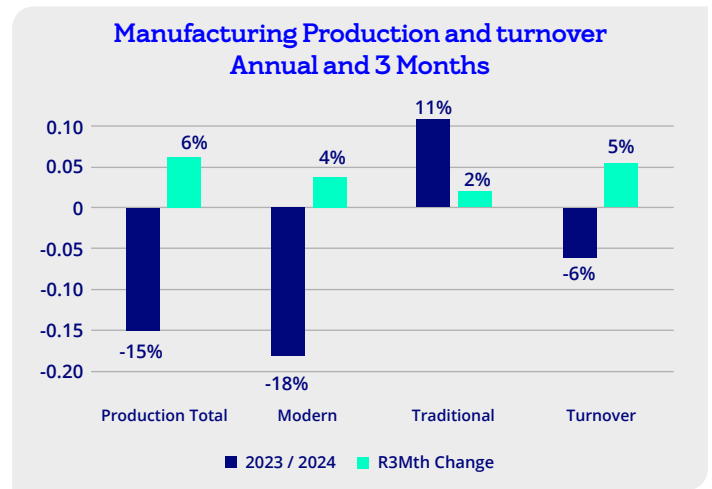


Table 4. Source: CSO

Manufacturing Input Price Inflation

Inflation (HICP) has dropped in 2024 to 1.5% in July down from 4.6% July 2023 and from 2.7% January 2024. The EU figure for July was 2.6%. While this is welcome news, it stems from the fact that the comparison period is now firmly in the elevated prices zone and the reality is that manufacturing input prices continue high when compared to pre Covid-19 levels. See tables 5 and 6 below.

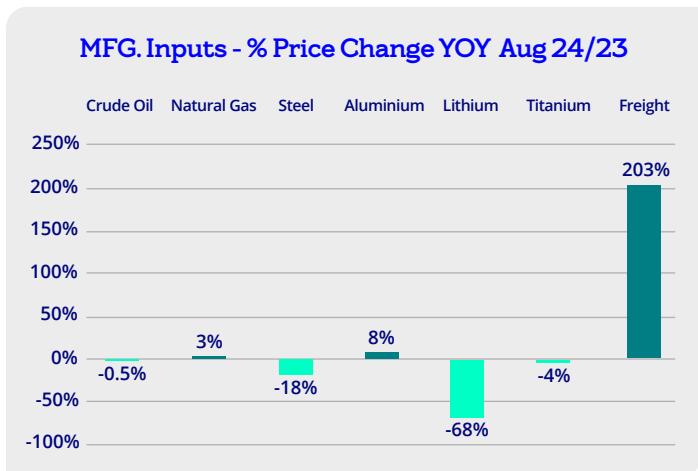


Table 5. Source: Tradingeconomics

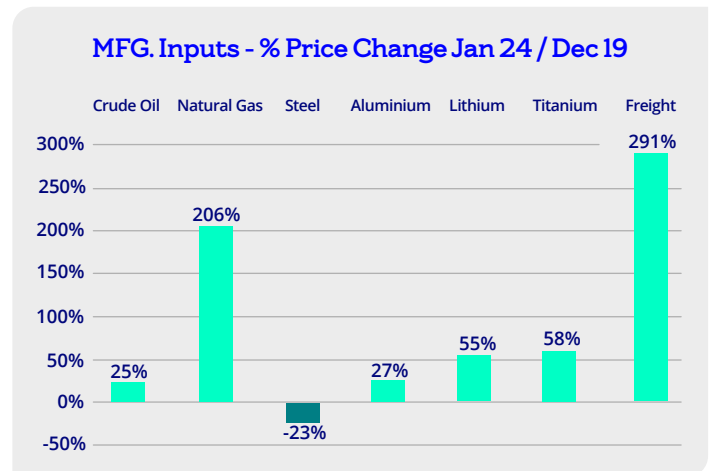


Table 6. Source: Tradingeconomics



Table 7. Source: CNN Jan 2024²⁶

Lithium pricing is significantly down due to higher supply levels and a drop in EV demand. Freight is significantly up and is attributed to longer routes by virtue of avoiding the Red Sea and adding up to 15 days in transit times (Table 7). In addition, availability of empty containers is reduced due to longer time been spent on water. Natural Gas pricing is contingent on mild winters and robust storage strategies. Steel is down significantly at -18% YOY and at its lowest level since 2016. Overcapacity in and demand drop due to construction crash in China are drivers here.

Wage inflation rose to 4.3% in June 2024, higher than 2.5% 2019 levels.²⁷ This is an ongoing concern for SMEs as they are confronted with an array of cost increases including minimum wage, sick pay, pension enrolment. A laser focus on costs and margins will continue and given the risk of continued slump in EU, a further interest rate reduction is widely anticipated in September.

Spotlight on Northern Ireland and Comparison to UK and ROI

Following a recent visit to our office in Belfast, I thought it would be useful to share some data on Manufacturing in Northern Ireland. Northern Ireland enjoys a thriving manufacturing sector supporting 88,000 direct jobs and contributing 14% of economic output.²⁸ Home to a range of indigenous and well-known multinational players, Northern Ireland manufacturing subsectors include Industrial Equipment, Transport Equipment, Aerospace, Pharmaceutical, Medical Devices. See top ten sectors below.

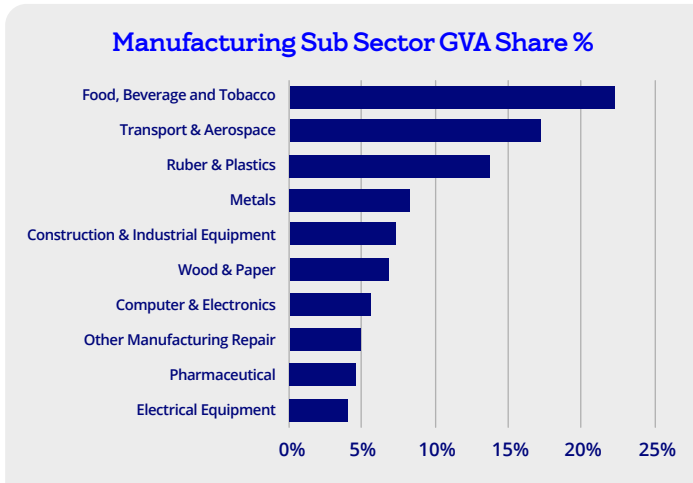
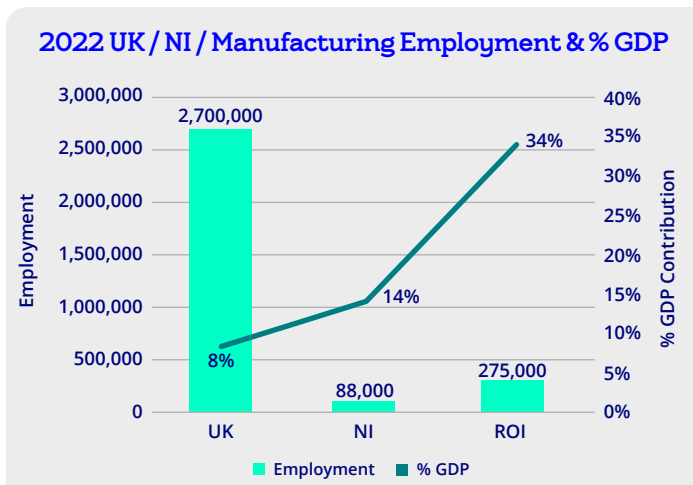
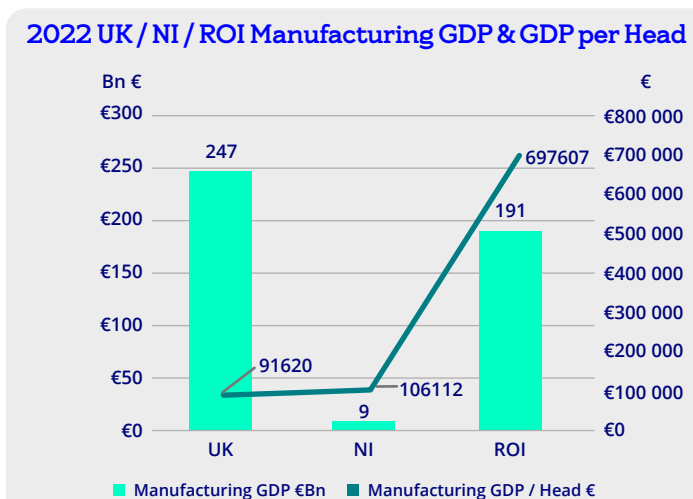


Table 8: Source: Manufacturing NI and Oxford Economics Report 2016²⁹

See tables 9,10 below which summarise and compare key metrics for Manufacturing in UK, NI and ROI.



Tables 9: Sources: Office for National Statistics and CSO³⁰



Tables 10: Sources: Office for National Statistics and CSO³¹

This comparison brings into stark focus how highly dependent the Irish Economy is on Manufacturing and indeed the contribution made from foreign direct investment (FDI) and our huge portfolio of multinationals in the technology and pharma spaces. At almost €700,000 contribution per employee, compared to €92K for UK, Ireland ranks the highest in productivity of OECD countries. This leadership position provokes considerable debate about our exposure here and in particular on the corporation tax front. Bottomline is our manufacturing eco system has deep roots and strong anchors here. We are the only English-speaking country in the EU, are highly educated, hardworking, and strong relationship builders.

However, with our strong lead and in the words of Shakespeare's Henry IV, "Uneasy lies the head that wears the crown" - there is no room for complacency.

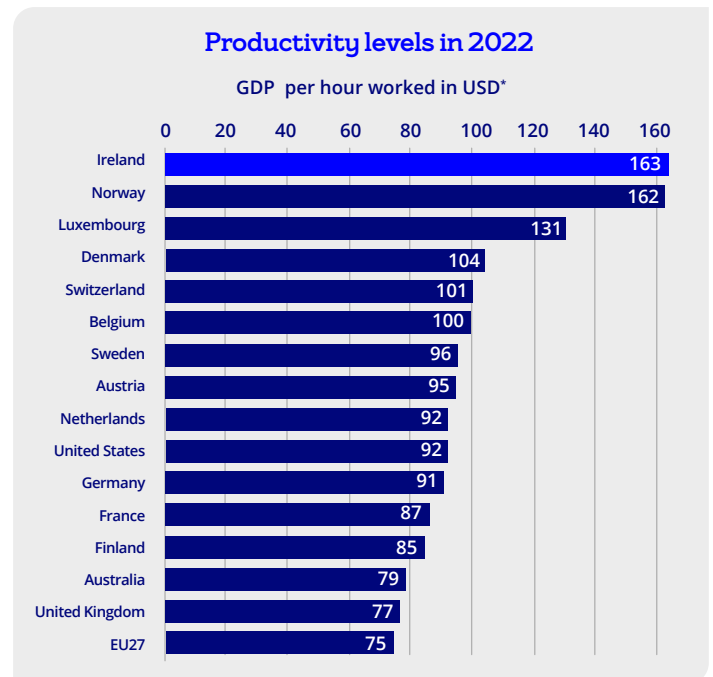


Table 11: Source: OECD³²

Funding Activity in the Sector

- Funding activity levels in the sector reflects a number of trends including:
 - Caution in the sector given the uncertain macro-economic environment and ongoing geopolitical risks
 - High and significantly increased deposit balances driven by a bumper years in 2022 & 2023
 - High interest rate environment prevails
 - Relief from higher working capital needs given improved supply chain dynamics
 - Demand for funding stagnant at 18% according to a survey of 1,500 SMEs that was released in April 2024³³
 - M&A deal volumes are up YOY from 195 to 207
- Funding was dominated by working capital followed by M&A, MBO transactions and capital expenditure
- BOI continue to support clients against supply interruptions and inflation
- There is a wait and see element on interest rates and for funding options which offer lower fixed rates and are green related

Manufacturing 2024 Outlook and Beyond – Optimism despite macroeconomic clouds with focus on costs and margins.

Tailwinds 2024

- Irish Manufacturing activity continues higher than pre Covid levels
- Irish Manufacturing activity higher than EU peers
- US Manufacturing continues to expand
- Further interest rate reductions in H2 2024
- Resilient to economic cycles
- SMEs continue to benefit from MNCs reconfiguring their supply chains to local and more secure partners
- Key sectors of Pharma, Medical Devices, Data Centres, Modular Construction all growing
- Generally strong balance sheets

Headwinds 2024

- PMI, Industrial output, and GDP data all point to a moderation in growth
- “Oversupply” during supply chain crisis has resulted in gluts in certain sectors and constrained new order activity
- Capacity adjustments will impact employment levels
- Complex Geopolitics with unintended and unpredicted consequences
- Input costs remain high, margins are under pressure and customers seeking reverse of increases
- Labour shortages and competition for certain talent in a tight market continues

Despite all the “unpredictability”, Irish Manufacturing is broadly positive for solid outcome in 2024. While overall growth may be on a knife edge, Irish Manufacturing is resilient and agile in navigating economic cycles. With a laser focus on costs and margins, combined with an eye for leveraging competitive advantage from green credentials, Irish manufacturing fundamentals are strong and well positioned for stronger growth in 2025.



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Conor joined Bank of Ireland in 2021. He is an accomplished senior executive and brings with him significant business and manufacturing experience gained both in Ireland and internationally. He has a strong track record of business plan delivery, scaling and turnaround and is an expert practitioner in Lean thinking, supply chain best practice and cost management in the Manufacturing sector.

Conor held various senior positions in Cargotec, a global manufacturer of Industrial Equipment for Cargo handling and transport having worked in Ireland, China and Finland.

Prior to Cargotec, Conor worked in the automotive sector with Iralco Automotive and Magna Donnelly in Ireland and Opel AG in Germany. He holds an MBA from Michael Smurfit School of Business, a Mechanical Engineering Degree from UCD, and a Diploma in Business Coaching from Smurfit Executive Development.

Sources: CSO, ONS, Gov.ie, IBEC, Bank of Ireland, The Economist, S&P Global, Irish Times, Guardian, Europa.eu, statista, SBTi, tradingeconomics, ACEA, ECB, SEAI, DETE, GEP, CNN, Renatus, OECD

¹ PMI Releases (spglobal.com) Aug 2024

² Gartner Says Worldwide PC Shipments Increased 1.9% in Second Quarter of 2024 July 2024

³ New car registrations: +4.3% in June 2024; battery electric 14.4% market share - ACEA - European Automobile Manufacturers' Association July 2024

⁴ Switch to electric motoring stalls as EV sales fail to pick up in July - The Irish Times August 2024

⁵ Global Total Semiconductor Equipment Sales Forecast to Reach Record \$109 Billion in 2024, SEMI Reports | SEMI July 2024

⁶ What's next for global construction equipment sales in 2024? - Construction Briefing March 2024

⁷ John Deere - Investor Relations May 2024

⁸ 8 Medical Device Trends and Outlook for 2024 (alpha-sense.com) April 2024

⁹ Pharmaceuticals Industry Trends January 2024 | Atradius January 2024

¹⁰ Global Supply Chain Volatility Index | GEP July 2024

¹¹ Consumer Price Index July 2024 - Central Statistics Office August 2024

¹² Drewry - Service Expertise - World Container Index - 08 Aug 2024

¹³ GDP by Sector Quarterly National Accounts Quarter 1 2024 Final - Central Statistics Office July 2024

¹⁴ Goods Exports and Imports June 2024 - Central Statistics Office August 2-24

¹⁵ Industrial Production and Turnover June 2024 - Central Statistics Office August 2024

¹⁶ Ireland's greenhouse gas emissions in 2023 lowest in three decades | Environmental Protection Agency (epa.ie) July 2024

¹⁷ Ireland's Solar Revolution (irishsolarenergy.org) June 2023

¹⁸ Sun Machines | The Economist June 2024

¹⁹ Global trade has nearly flatlined. Populism is taking a toll on growth (worldbank.org) February 2024

²⁰ The biggest casualty in the EU's China EV tariffs? The climate | Article | Hinrich Foundation July 2024

²¹ Half the World to Vote in 2024, With Global Ramifications (voanews.com) January 2024

²² Irish economic model at risk in global subsidy war, finance officials warn | Business Post June 2024

²³ Real GDP growth rate U.S. 2023 | Statista

²⁴ US Government Debt: % of GDP, 1969 - 2024 | CEIC Data

²⁵ A global recession is not in prospect (economist.com)

²⁶ How the Red Sea crisis could clobber the global economy | CNN Business January 2024

²⁷ Year-on-year wage growth in Ireland rose to 4.3% in June (rte.ie) July 2024

²⁸ Manufacturing in Northern Ireland - A Powerhouse of Economic - CPL UK

²⁹ Insights | Manufacturing NI

³⁰ Home - Office for National Statistics (ons.gov.uk)

³¹ Home - CSO - Central Statistics Office

³² Highest and Lowest Productivity Levels in OECD-countries in 2022 (qery.no) April 2024

³³ gov - SME Credit Demand Survey - January 2023 - December 2023 (www.gov.ie) April 2024

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Starting your Sustainability Journey



Reporting and Responsibility

A sustainability officer or team should be appointed with accountability and influence including access to senior management. To support this, a tracking and reporting framework is needed to manage greenhouse gas emissions, wider environmental measures and social pillar actions. Collective responsibility amongst all employees drives change across the business.



Energy Efficient Equipment

Assess the benefits of proactively installing energy efficient lighting, refrigeration, and air-conditioning equipment. Consider how costs can be managed by meeting your energy needs using lower-carbon renewable options such as solar panels.



Waste Management

The reduction of waste and in particular food waste is helpful from a cost and ESG (Environmental Social and Governance) perspective. Improved stock management processes and training and development of employees within the business can support this.



Packaging

Adopt a strategy or commitment to reduce the use of single-use plastic and disposable packaging. This signals to your customers that sustainability is important to you. Proactive engagement with suppliers at the outset is essential to deliver a smooth transition to alternative packaging materials.



Supply-Chain / Fleet Management





As part of your strategy, understand the options across your supply-chain model to reduce your carbon footprint. This may include onshoring of supplier base, use of energy efficient delivery vehicles, improved logistics management to reduce transit times/delivery footprint.



Equality, Diversity and Inclusion

Retailers need to nurture gender/ ethnic diversity within their business – apart from the long-term cultural benefits of attracting employees from a broader base; in a low unemployment environment – the business case is even more robust.

Online Resources:

-  [SEAI Energy Academy | SEAI](#)
-  [HSA Learning – free online training for you and your employees](#)
-  [Carbon Calculator | Carbon Toolkit 4 Business \(climatetoolkit4business.gov.ie\)](#)
-  [Enterprise Ireland \(enterprise-ireland.com\)](#)

We're here to support business customers to transition to net zero.

For more details check out our [Business Green Hub](#)

