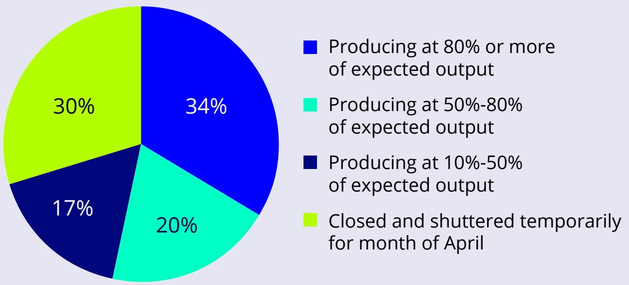
Manufacturing

2020 H1 Insights

After a promising start in January and February the first half of 2020 has been dominated by the impact of the Covid-19 pandemic on the manufacturing sector in Ireland with a significant deterioration in business conditions amid a collapse in global trade.

Survey conducted in early May with 193 of our larger non-food and drinks manufacturing customers



Summary

- **Covid-19 Pandemic:** The Covid-19 pandemic has affected every company in a very individual manner based on supply chain design, market demand dynamics, seasonality, market access and factory operations restrictions. Some factories ceased production completely for a period of time, some producers have decreased output and some essential goods manufacturers increased output and repurposed. All factories were phased into production by the end of June.
- **Factory Operations:** Compared to 2019, companies are operating very differently post Covid with resized businesses, work from home for indirect staff, increased process automation, new business models, re-organised supply chains and new factory operating and hygiene practices.
- **Funding Activity:** Early 2020 saw a high level of activity with approvals up 28% year on year by end February. Since the onset of Covid in March 2020 we have seen a decrease in overall funding requests and an increase in applications for Government supported schemes such as Strategic Bank Corporation of Ireland (SBCI) Covid-19 Working Capital Loan Scheme and SBCI Credit Guarantee Scheme.
- **Brexit and Trade Tensions:** A lack of progress in Brexit negotiations and the increasing likelihood of a hard Brexit combined with the implications of ongoing international trade tensions have added complexity and challenges to Covid recovery planning.

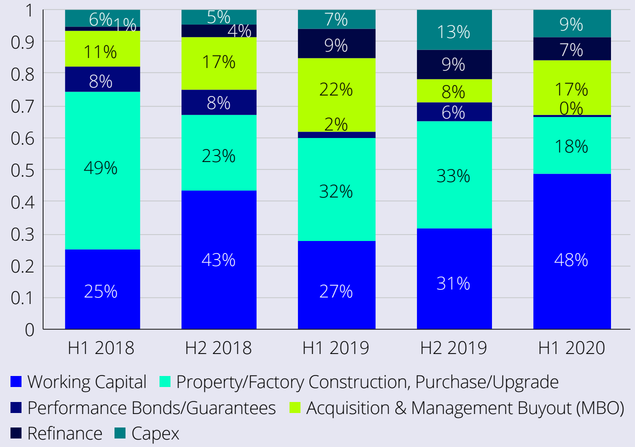
Key Trends

- Based on a Bank of Ireland survey of 193 large Small and Medium sized Enterprises (SME) non food and drinks manufacturing customers we established that 34% of companies were producing at 80% or greater of their expected output for April and 30% of large SMEs were closed and shuttered with no production output for the month of April.
- As per the AIB Irish Manufacturing Purchasing Manager's Index (PMI) the manufacturing sector started well with growth in January (51.4) and February (51.2). However, we have seen considerable contraction in March (45.1), April (36.0) and May (39.2) with growth commencing again in June (51.0) from the low base in May. Any figure greater than 50.0 indicates overall improvement of the sector.
- A total of 16% (36,900) of manufacturing employees claimed Pandemic Unemployment Payment (PUP) reducing to 24,300 in mid-June as more businesses reopened in May and June with many firms also availing of the Temporary Wage Subsidy Scheme (TWSS).
- Total Irish exports (Central Statistics Office (CSO) seasonally adjusted data) in the first four months of 2020 were €52.4 billion up 4.4% on the first four months of 2019. Total Irish imports in the first four months of 2020 were €28.4 billion down 4% on the first four months of 2019.
- The value of goods exports to Great Britain in the first four months of 2020 was €4.1 billion, a decrease of €340 million (-8%) on the first four months of 2019. The value of goods imports from Great Britain for January to April 2020 was €6.2 billion, a decrease of €204 million (-3%) on 2019.
- Both UK car and commercial vehicle production were down 41.7% and 29.8% respectively in the first 5 months of 2020 relative to the equivalent period in 2019 with a significant impact on Irish supply chains.
- The aeronautical and aviation industry has experienced a large Covid impact with Airbus announcing plans to cut around 15,000 employees, GE Aviation 13,000 and Rolls-Royce Holdings to cut at least 9,000 jobs.
- International airfreight capacity reduced by approximately 50% from March to May with the grounding of passenger planes removing the 'belly freight' capacity. As a result companies were experiencing up to a five-fold increase in air freight prices through May. Some Irish Roll-on-Roll-off (RoRo) sea freight routes were down by 30% year on year but some of that was due to Brexit stockpiling in Q1 2019.
- Many companies repurposed their manufacturing facilities to produce essential goods such as sanitizer liquid, plastic healthcare product containers, retail food packaging and Personal Protective Equipment (PPE).
- Covid demonstrated the global supply chain dependency on China with 30% of all components and materials involving Chinese manufactured goods.

Financing activity in the sector

- Total Bank of Ireland H1 2020 approvals for SME Manufacturing funding were down -5% and drawdowns were down -10%.
- We have seen an increase in applications for Government supported schemes such as SBCI's Covid-19 Working Capital Loan Scheme and Credit Guarantee Scheme.
- Capital Expenditure (Capex) funding, term debt for factory development and acquisitions as well as working capital to fund business expansion have continued through H1 2020.
- Asset Finance to support new equipment purchases and fleet development.
- Invoice Discounting line extensions to facilitate business growth and new business models.

Bank of Ireland Approvals Analysis – H1 2018 to H1 2020



Sector Development: Key numbers

- The Irish government proposed **€6.5bn** liquidity boost for SMEs to cope with Covid.
- **20%** of firms cut staff during June, down from **29%** in May and **41%** in April.
- Ireland is ranked **12th** (down from 7th) out of the 63 countries benchmarked in the 2020 IMD World Competitiveness Yearbook.
- According to CBRE prime industrial rents in the capital remained stable at **€110** per sq/M at the end of Q1 2020.
- According to IDA Ireland, **50%** of ventilators used in acute hospitals worldwide are made in Ireland.

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Manufacturing
2020 H2 Outlook

Bank of Ireland anticipates steady recovery from the impacts of Covid through H2 2020 however we expect SME manufacturing output to be lower in H2 2020 than for the equivalent period in 2019.

Markets

- Essential goods manufacturers will continue to flourish in 2020 only hampered by Covid related operational restrictions and some Covid related market access issues.
- The rate at which international markets recover will vary dependent on country specific lockdowns and companies producing non-essential consumer goods will see their markets return slowly as consumer spending power and confidence return through 2020.
- Automation companies dependent on large scale Multinational Corporations (MNCs) should see projects return in H2 as access to sites improves.
- Aeronautical/Aerospace industry has a particular challenge as we would not expect to see a full return to air travel until 2021. While some aircraft maintenance may increase in the short term new plane construction and new model development will slow for H2 2020.
- As we have seen a significant reduction in the automotive manufacturing sector in UK and the EU our SME automotive component suppliers will gradually ramp capacity through 2020
- Food retail packaging should remain a buoyant market while manufacturing for food service packaging material will remain depressed through the remainder of the year.
- Normal demand for construction materials from mechanical engineering firms and pre-cast concrete firms should return by year end with Irish construction market continuing to expand however contraction in the UK construction sector is expected to continue.
- While phase 1 of the trade negotiations between the US and China have been resolved in January we wait to see substantive outcomes and combined with the possibility of increased tariffs on EU exports to the US Irish manufacturers will have to deal with dynamic market changes and commodity material price fluctuations.

Brexit

- With the UK transition from the EU scheduled for end of year the lack of visible trade agreement progress is increasing the likelihood of a hard Brexit.
- On Wednesday 21st of May the UK Government published a proposed tariff list. It should be noted that this tariff list would only apply in the event of a no deal. It is proposed that 54% of non-food and drink Irish goods exported to the UK will incur a tariff with an average tariff of 2.8%.
- Companies will need to develop their knowledge and capability on customs duties, procedures, tariffs and revenue guarantees well in advance of the end of the year.

Challenges

- We can expect to see ongoing constrained international supply chains with some countries going in and out of lockdown combined with reduced air freight capacity and ocean freight logistics problems.
- Costs of international freight will remain high in the next couple of months however we would expect to see it normalise towards the end of the year.
- Reducing supply chain dependencies, particularly on China, and balancing cost versus reliability of supply is a real challenge being both complex and costly to source and qualify new suppliers.
- Commodity price fluctuations will be the norm through the remainder of 2020 however low commodity prices will benefit companies restocking after contraction in H1.
- Modified and cancelled trade shows as well as reduced travel will inhibit normal business development and customer relationship management practices.
- The re-hiring of staff post Covid lockdown as companies re-size may have implications later with companies facing issues of letting staff go in an inappropriate manner.
- Factory operation restrictions developed to respond to Covid will remain in place through remainder of 2020 however increasing costs for new work practices and hygiene provisions will challenge our smaller SME's.

Funding Activity

- Government supported schemes such as SBCI's Covid-19 Working Capital Loan Scheme and Credit Guarantee Scheme as well as the return of the Future Growth Loan scheme.
- **Production Facility Development:** We anticipate a lower level of requests for funding of factory expansion, new factory construction and leasing of industrial premises.
- **Business Growth:** Continued growth in manufacturing output requiring capex, asset finance and working capital to fund the business.
- **Working Capital:** We are supporting businesses with Invoice Discounting, Foreign Exchange management, Early Pay facilities and stocking loans.
- **Acquisitions:** We anticipate a lower level of consolidation and acquisitions in the sector.

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- Our proven financial capabilities and appetite, combined with comprehensive sectoral expertise, provides us with a strong platform to meet the funding requirements of Irish manufacturers.
- We understand the investment cycle, including the need for regular expenditure to maintain growth and profitability in this dynamic sector, and we are eager to support progressive, innovative manufacturing companies in the further development of their businesses in 2020.

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Brían joined the Bank in January 2016 having most recently worked as Operations Director for PCH International. Brían brings over 30 years of experience working in various manufacturing roles, creating, manufacturing and exporting a range of products from hardware to medical devices across Ireland, USA and China. He has extensive experience of operations process management, prototyping, product pricing, supply chain design, capex and cash-flow management from his various management roles in Hewlett Packard, NEC, Sennheiser and Amdahl Ireland. Brían also worked as a manufacturing operations, project management and product development consultant to SME manufacturing businesses.
Brían qualified in Electronics Engineering and completed an MBA with DCU. He lectured in Operations Management.

Sources: AIB Manufacturing PMI, CBRE, Davy, IDA, IMD World Competitiveness Yearbook., CSO Statistics, Society of Motor Manufacturers & Traders UK - SMMT Database, Central Bank of Ireland, Irish Exporters Association

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