

# Manufacturing

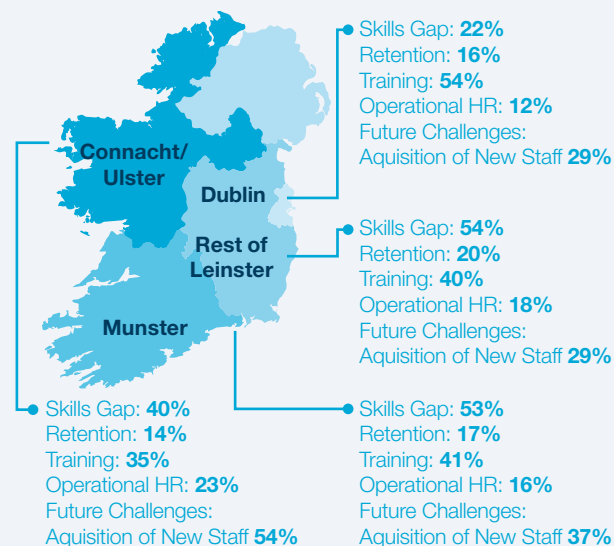
## 2018 Review

Manufacturing Sector continued to expand in 2018 with 67 consecutive months of growth. Bank of Ireland research shows significant staff retention and acquisition challenges in Irish Manufacturing SMEs.

### Summary

- ▶ **Continued Growth:** Continued positive growth trend in manufacturing output, turnover and employment numbers in 2018.
- ▶ **Funding Activity:** The pipeline of loan requests is very diverse and an analysis of our breakdown in approvals for 2018 shows factory purchases / extensions at 36% of our total approvals for the year which reflects growing positive long term thinking in the manufacturing sector.
- ▶ **Skills Gaps:** According to Bank of Ireland and HRM Recruitment research, acquisition of new staff is the largest future HR challenge with hiring a skilled workforce a key challenge for 4 out of 10 Irish Manufacturing SMEs.
- ▶ **Brexit and Trade Tensions:** Irish companies have increased their understanding of their exposure across the supply chain and route to market at a deeper level and there are an increased number of companies with Brexit action plans in place.

### Challenges as reported by Region



### Key Trends

- ▶ Investec Manufacturing Purchasing Managers' Index (PMI) Ireland shows the sector enjoyed a strong 2018, reflecting more than 5 and ½ years of month on month growth.
- ▶ Research, commissioned by Bank of Ireland and HRM (conducted by Red C), found that hiring a skilled workforce is a key challenge for 4 out of 10 Irish Manufacturing SMEs with skills gaps most apparent in marketing, production and sales. In larger SME's technical roles become the more significant skill gaps.
- ▶ Companies are investing at an accelerated rate in purchasing, constructing and upgrading factory premises.
- ▶ Based on CBRE's most recent update, rental costs for Dublin prime industrial properties have risen by 6.5% in 2018 to €106 p/sqm while "demand for industrial and logistics buildings in provincial locations is likely to remain muted for the foreseeable future".
- ▶ An increasing number of Irish manufacturing firms are implementing Brexit action plans, implementing new marketing strategies to develop non-UK markets and developing opportunities to acquire UK suppliers and manufacturers.
- ▶ Ireland ranks in 12th place in the IMD world competitiveness rankings out of 63 countries, Ireland's rank dropped from 6th place the previous year. Our National Competitiveness Council stated that global economic uncertainty, particularly in trade policy and international tax policy developments pose a threat to growth and the reliance of the economy on a small number of exporting companies and export markets and a narrow range of exported products and services is a significant concern. Ireland ranked 1st for flexibility and adaptability of its workforce.
- ▶ Data published by the OECD in Feb 2019 shows that Ireland had the highest rate of labour productivity (economic output per hour of work), of any advanced economy in 2017. Ireland's performance is greatly affected by the influence of a small cohort of large, highly-productive enterprises. This divergence is not uncommon in OECD countries but is more severe in Ireland according to the NCC.
- ▶ Sub-sectors of manufacturing are showing various levels of activities:
  - ▶ Engineering firms including mechanical engineering, plastics manufacturing, metal fabrication, materials handling and precision engineering are increasing in volume and turnover.
  - ▶ Year to date up to Nov 2018 UK Automotive production output was down 8% on 2017 output challenging the Irish automotive supply chain in H2 of 2018.
  - ▶ Construction industry related businesses including mechanical engineering firms and pre-cast concrete production firms continue to ramp-up production.
  - ▶ Food manufacturing companies are investing in new equipment, process efficiency and new product development while managing Brexit action plans.
  - ▶ The Medtech sector in Ireland is recognised as one of the five global emerging hubs employing over 38,000 people here and 60% of the 450 medtech companies based in Ireland are indigenous.

### Activity in the sector

- ▶ In H1 2018 we saw a high level of factory acquisitions, factory extensions and factory fit-outs while in H2 2018 working capital investments increased which we believe relates to companies growing their raw materials and finished goods inventories as we get closer to the UK's withdrawal from the EU.
- ▶ Capex funding to develop new technologies, processes and increase production capacity.
- ▶ Factory freehold purchases, factory extensions and business acquisitions locally and in the UK.
- ▶ Working capital to fund business expansion and new product development.
- ▶ Asset Finance to support new equipment purchases and fleet development.
- ▶ Invoice Discounting line extensions to facilitate business growth and new business models.

### Sector Development: Key numbers

- ▶ Over 5 ½ years of month on month growth in the sector according to the Investec Manufacturing PMI.
- ▶ 43% of Ireland's indigenous exports (€21bn), including food (€4.4bn) go to the UK annually.
- ▶ Ireland ranks in 12th place in the world competitiveness rankings from 63 countries, compiled by Lausanne IMD business school.
- ▶ Goods movements at the marine port increased by 4.7% in the first nine months of 2018.
- ▶ Monthly unemployment rate for Dec 2018 was 5.3% and the average hourly rate in the manufacturing sector was €22.63 up 1.2% on Q3 2017 and an 8.3% increase over the past 5 years.
- ▶ 75% of global orthopaedic knee production coming out of Ireland.

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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 an operational, 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.

# Manufacturing

## 2019 Outlook

Continued positive growth in the manufacturing sector with international market challenges related to Brexit, trade tensions, fluctuating commodity prices and political uncertainty.

### Market

- ▶ The outcome of the Brexit process combined with the possibility of increased international trade tensions could have significant implications for the sector's performance in 2019. This will present opportunities to displace UK products in our home market and in the EU as well as challenges supplying into UK.
- ▶ While EU car sales have remained constant through 2018, Irish companies in automotive supply chains will continue to monitor car manufacturing volumes, government policies on car emissions and related car design changes for hybrid and electric vehicles. Commercial vehicle manufacturing is expected to grow.
- ▶ Continued strong growth in the Medtech sector in areas such as 'Internet of Medical Things', Connected Health and Diagnostic solutions building on the growth of the past 10 years which has seen employment in the sector increase to more than 32,000.
- ▶ Demand for construction materials from mechanical engineering firms and pre-cast concrete firms will remain constant with Irish construction market continuing to expand however there continues to be contraction in the UK construction sector.
- ▶ With between 30% and 40% of our SMEs supplying to the Multi National Corporation (MNC) sector, the current €6.7bn spend by large MNCs will drive SME manufacturing growth opportunities.
- ▶ Cooperation with complimentary manufacturing and service companies will grow to enable competition in global markets.

### Challenges

- ▶ Brexit: The requirement to understand the route to market and supply chain implications of Brexit and the development of new markets in Europe for Irish companies exporting to the UK.
- ▶ Trade Tensions: Current trade sanctions between the US and China have affected automotive supply chains here and if EU increase trade sanctions on the US we can expect significant impacts to sectors like medicinal / pharmaceutical products, aeronautical and transport equipment.
- ▶ 37% of our manufacturing SMEs have a concern around ability to attract new staff according to Bank of Ireland research.
- ▶ Medium term and long term investments in efficiency and

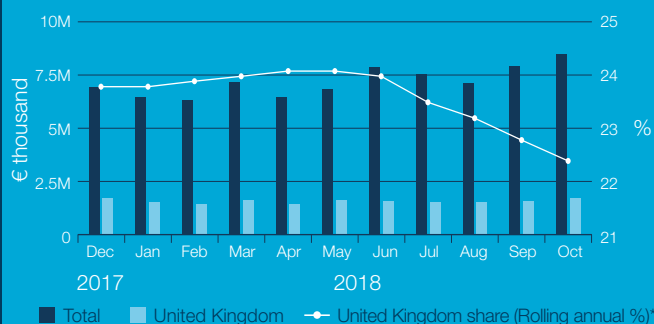
operational excellence to drive competitiveness.

- ▶ Availability and cost of industrial rental space will be a challenge in H1 2019 despite an expected acceleration in construction of industrial units.
- ▶ Increasing costs for transport, environmental and waste management including monitoring, treatment, disposal and regulation.

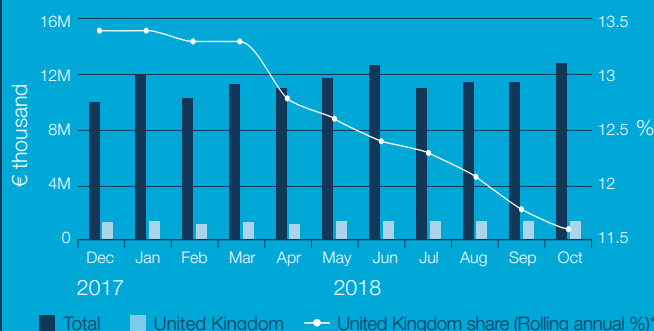
### Funding Activity

- ▶ Production Facility Development: We anticipate increasing numbers of requests for funding of factory expansion, new factory construction and leasing of industrial and logistics premises.
- ▶ Business Growth: Continued growth in manufacturing output requiring capex and working capital to fund the business.
- ▶ Re-Finance: We expect a lower level of re-finance of businesses linked to exiting banks and loan book purchasers deleveraging.
- ▶ Acquisitions: We anticipate continued consolidation and acquisition activity in the sector.
- ▶ SBCI: As the largest participant in the recently launched SBCI Brexit Loan Scheme, we can arrange loans for working capital to fund innovation, change or adaption of the business to mitigate the impact of Brexit.

#### Trade in Goods (Imports)



#### Trade in Goods (Exports)



### Bank of Ireland

- ▶ As Ireland's leading business bank, we recognise that we have a unique opportunity to support our customers and to enable Irish businesses and the communities we jointly serve to thrive.
- ▶ 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 2018.