

Manufacturing

2019 H1 Review

Manufacturing Sector continued to expand in the first 5 months of 2019, however the first contraction in 6 years occurred in June amid a slowdown in global trade and Brexit uncertainties.

Summary

- ▶ **Continued Growth:** Continued positive growth trend in manufacturing output, turnover and employment numbers in H1 2019.
- ▶ **Funding Activity:** Bank of Ireland Business Banking lending into the Manufacturing sector in H1 2019 was up 26% on H1 2018 with increased investment in purchasing, constructing, upgrading factory premises and investment in working capital requirements to meet increased production orders in anticipation of Brexit at the end of Q1.
- ▶ **Headwinds:** Headwinds for the sector are the uncertainty over Brexit (impact on supply chain, route to market and tariffs), international trade tensions and staff recruitment and retention particularly for marketing and technical roles.
- ▶ **Brexit, Trade Tensions and Political Uncertainty:** Political uncertainty around Brexit and the selection of a new UK Prime Minister combined with Sterling trading at €0.89 in June has seen Irish Manufacturing business sentiment hit a 34-month low, though still positive.

Key Trends

- ▶ As per the AIB Irish Manufacturing PMI, the Manufacturing Sector continued to expand in 2019 reaching 72 consecutive months of growth in May, however the PMI has dipped to 49.8 in June 2019 from 50.4 in May signaling our first contraction in production activity for over 6 years.
- ▶ In June 2019 the UK manufacturing PMI read at its lowest level in six years and German manufacturing data was also disappointing and now 6 months in contraction since the start of 2019.
- ▶ Brexit: Central Statistics Office (CSO) figures show exports to Britain, the Republic's largest EU trading partner, rose

by €486 million to over €6 billion between January and the end of May. The value of goods imports from Britain for the period also rose by 12 per cent to €8.2 billion.

- ▶ Companies are investing at an accelerated rate in purchasing, constructing and upgrading factory premises.
- ▶ The CSO's latest trade numbers show the value of goods exports for the period January to May 2019 was €64 billion, an increase of nearly €7.5 billion or 13% when compared with the same period last year.
- ▶ According to recent CBRE data prime industrial rents in Dublin remained steady from Q1 through Q2.
- ▶ UK Automotive production output was down 21% in the first 5 months of 2019 relative to the equivalent period in 2018. This reduced production level in UK automotive sector has challenged the Irish automotive supply chain in H1 of 2019.
- ▶ Engineering firms including mechanical engineering, plastics manufacturing, metal fabrication, materials handling and precision engineering are increasing in volume and turnover and are compensating for the decline in the UK automotive market by winning business in MedTech, Pharma and Aeronautical markets.
- ▶ 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 including new market development.

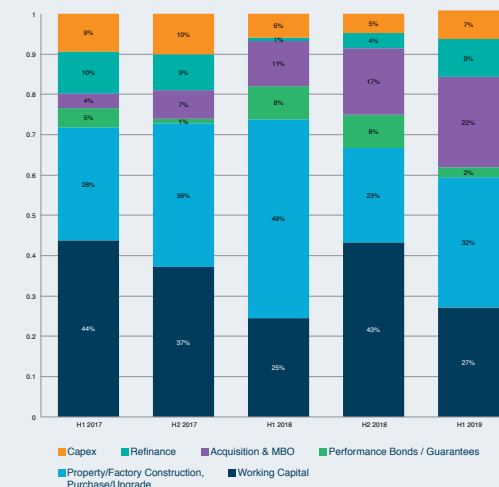
Sector Development; Key numbers

- ▶ Bank of Ireland H1 2019 Manufacturing Sector loan drawdowns increased **26%** on H1 2018.
- ▶ **6 years** of month on month growth in the sector came to an end in June 2019 according to the AIB Manufacturing PMI.
- ▶ At the end of June 2019 Sterling trading at its lowest level in over 2 years against the Dollar and EUR/GBP back above **90p**.
- ▶ In May 2019 Ireland ranked **7th** (up from 12th) out of the 63 countries benchmarked in the 2019 IMD World Competitiveness Yearbook.
- ▶ Prime industrial rents in the Dublin area standing at **€106 per sq/M** at the end of Q2.
- ▶ The seasonally adjusted unemployment rate for June

2019 was **4.5%** and the average earnings per week in the manufacturing sector was **€910.39**, up **2%** on Q1 2018.

- ▶ The State's export trade is dominated by pharmaceuticals, which account for more than **60%** of total goods exports because of the strong multinational pharma manufacturing base here.

Bank of Ireland Loan Approval Activity Value 2017, 2018 and 2019



Activity in the sector

- ▶ As the first bank to market with the recent SBCI Future Loan Growth Scheme, Bank of Ireland is actively providing SME's, with long term (8-10 years) funding (€800k - €3m) for investment in their business growth.
- ▶ Capex funding to develop new technologies, manufacturing 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.

Manufacturing

H2 2019 Outlook

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

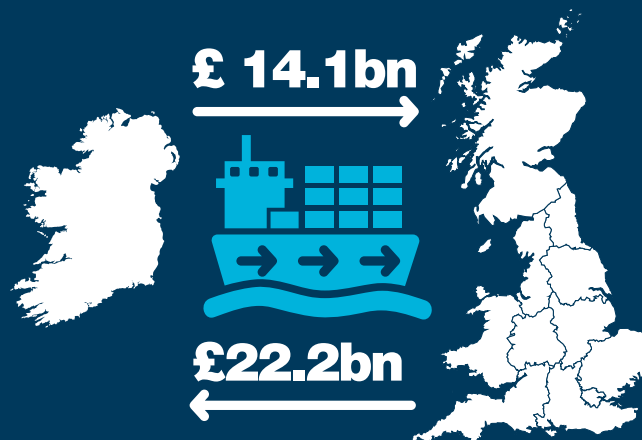
Market

- ▶ 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 H2 2019. This will present opportunities to displace the annual importation of £22bn of UK products in our home market as well as challenging our ability to retain or grow UK market share.
- ▶ Irish manufacturers selling into the Irish consumer market will be reassured by the Irish economic environment which remains positive according to the Central Bank, with growth projected to moderate to 4.2% in 2019 and 3.6% in 2020. Bol have nudged up our GDP growth forecast for this year to 4.8% and lifted our 2020 number to 3.8%.
- ▶ While EU Car production levels were stable at 16.5m in 2018, which is -1.38% on 2017, we expect volumes of production to continue to shift from traditional car manufacturing countries to evolving EU states. We anticipate further reductions in UK Automotive production volumes as already seen in H1 2019.
- ▶ 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 and many large site developments already underway around the country the planned €6.7bn investment by large MNCs will drive SME manufacturing growth opportunities.

Challenges

- ▶ Brexit: Political uncertainty around Brexit and the impact of new UK prime minister and his cabinet combined with Sterling trading at €0.89 in June has seen Irish Manufacturing business sentiment hit a 34-month low, though still positive. Irish firms will continue to invest in implementing Brexit action plans appropriate to their business and mitigate possible outcomes of a no-deal Brexit.

Sales of Goods to UK & Goods Imports from UK



- ▶ Based on a review of Manufacturing PMI's across Europe there are signs of an EU-wide slowdown and combined with rising US-China trade tensions we anticipate slower growth than in H1 2019.
- ▶ The majority of our SME Manufacturing customers have a concern around ability to attract new staff.
- ▶ Lower Business sentiment reducing confidence for medium and long term investments in efficiency and operational excellence to drive competitiveness.
- ▶ Dublin Prime industrial rents are expected to rise by as much as 6.5% by year-end. Availability and cost of industrial rental space will be a challenge.
- ▶ Increasing costs for transport, environmental and waste management including monitoring, treatment, disposal and regulation.

Funding Activity

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SME's, with long term (8-10 years) funding (€800k - €3m) for investment in their business growth.

- ▶ Production Facility Development: We anticipate increasing numbers of requests for funding of factory expansion, new factory construction and leasing of industrial 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.

Bank of Ireland

- ▶ 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 2019.

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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.