

Positive signals but crisis not over for Europe's technology industries

Orgalim's economists compile and analyse the latest data and forecasts of the technology industries twice a year. Specifically, we analyse the economic trends of metal products, mechanical engineering and electrical engineering, electronics, ICT and instruments, as well as the sector installation and repair services.

Production % change for same period year on year

NACE 25/26/27/28/33 Eurostat production index EU 27; short term business statistics; calendar and seasonally adjusted



Total Technology industry

2020

2nd half year 2020



-8.6%



-4.7%



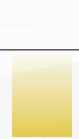
Metal Technology

2020

2nd half year 2020



-10.6%



-4.6%



Electrical Engineering, Electronics

2020

2nd half year 2020



-2.9%

0.7%



Mechanical Engineering

2020

2nd half year 2020



-12.3%



-9.3%

Strong signs of life in the technology industries after the summer of 2020, but the growth is losing momentum

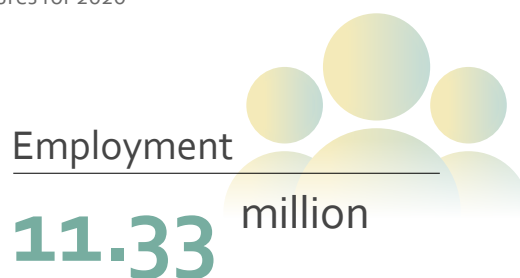
Compared to our Economic Report published in autumn 2020, the economic signs have improved somewhat. The economic recovery in industry was characterised by a steep, but brief, upward trend.

Industrial demand on a global level has increased more than expected, ensuring that the full year 8.6% drop in technology industries' production was less dramatic than originally feared. The starting position a year ago was a very special one. For the first time in recent history, we not only experienced a crisis that was triggered by a demand shock, but also saw this caused by the supply side, which was then massively affected.

The largely successful crisis management in the industry ensured a strong rebound effect, beginning in summer 2020. In contrast to the service sector, the industry was able to continue to keep its factories open to a large extent despite the COVID-19 crisis, albeit under strict conditions. This helped to better maintain the supply chains, and to quickly ramp up production again when demand increased.

Europe's technology industries 2020

Detailed business statistics Eurostat NACE 25/26/27/28/325/33;
EU 28 combined with Orgalim E&S WG figures for 2020



With catch-up effects and the maintenance of global industrial production, the technology industry showed strong signs of life, with positive effects on the economy as a whole. The second, and now the third wave of infections initially slowed this upswing. The upswing in the second half of 2020 has already brought the production level a big step closer to the 2019 level, but we are still seeing an incomplete recovery in Europe's technology industries with currently significantly slower growth (growth forecast for the technology industries 2021: 5.8%). There is hope of a resurgence in dynamism as the vaccination campaign progresses. We will see strong growth rates this year due to the base effect alone.

Currently however, we cannot yet assume a return to pre-crisis levels. The current situation is also characterised by a very heterogeneous development amongst Europe's countries. Countries with a higher focus on the automotive industry are more affected by very strong fluctuations in demand, whereas many northern European countries have had a relatively stable development in demand and have been much less affected.

Hard hit by the crisis: the metal technology sector

The forecast recovery (3.9% for 2021) is estimated to be the lowest in this sector, following a decline in 2020 expected to be -10.6%. From the current perspective, the metal technology sector will still be significantly below the sales value of 2019 at the end of 2021. However, the Orgalim economists point out that these assessments are extremely cautious. Last autumn there was a surprisingly high demand from the automotive sector, and it is possible that, with a strengthening of private consumption, demand in this sector will also rise faster than expected. This is especially true for demand from outside Europe. China's industrial sector is booming and is also supporting demand within Europe. The metal prices, and especially the price explosion on the steel market, are major factors of uncertainty. The possible slowing effect of this development will be highlighted below.

The electrical engineering and electronics sector is proving to be crisis-proof

When the COVID-19 crisis set in, it quickly became apparent that the electrical engineering and electronics sector would weather the crisis much better than the rest of the technology industries. The increased need for digital solutions in the world of work or in consumer behaviour led to a massive rebound as early as autumn 2020. This took place after an initial shock in demand at the beginning of the crisis. In the second half of the year, the sector was even up (+0.7%) compared to 2019, and it closed the year as a whole with a minus of 2.9%. We expect increased investments in this area together with an increase in sales of 5.8% this year. Ultimately, this value could also be higher if demand increases faster than expected. The sector is currently struggling with bottlenecks in component deliveries: the unavailability of semiconductors has already been widely reported in the media, and there are also price increases for copper and other industrial metals.

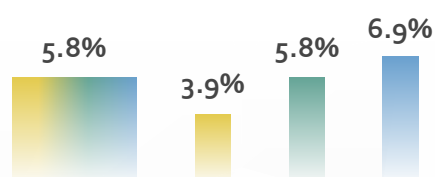
Cautious estimates for 2021 in mechanical engineering

The assessments for the mechanical engineering sector for 2021 vary widely. At the moment, the companies' investment plans are very limited due to the uncertain situation. This has a major impact on mechanical engineering - a classic capital goods industry. The sector was hit hard in 2020 by the fall in production in real terms, down 12.3%. Here too, however, at the beginning of the COVID-19 crisis, we expected a significantly worse result. For this year, we are expecting an increase in turnover nominal terms of 6.9% - that is, a clearly incomplete recovery. One reason for this initially cautious assessment is that, even with a decrease in the number of COVID-19 infections, we must not ignore the problems that existed before the crisis. These include, for example, the structural change in the automotive sector, which is having a major impact on mechanical engineering. On the trade side, there is Brexit and the ongoing discussions about the restrictions to global free trade. The current bottlenecks in industrial metals and electronic components are also putting a brake on the road to sustainable recovery due to both massive price increases and supply chain disruptions.

Orgalim Forecasts for Turnover

E&S WG Forecasts year on year 03-2021

2021



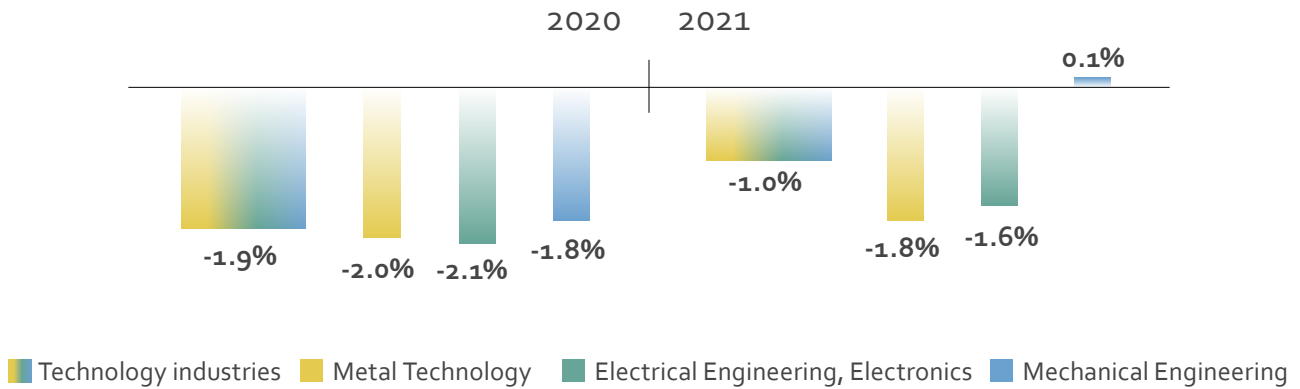
■ Technology industries ■ Metal Technology ■ Electrical Engineering, Electronics ■ Mechanical Engineering

The impact on the employment sector remains limited

An example of best practice can be seen by how politics reacted to the crisis on the employment side. Due to rapid and effective intervention through measures, such as publicly financed short-time work, the job cuts due to the decline in demand have so far been relatively small. In 2020, around 220,000 jobs were cut, with a drop of 1.9%. Even though any decrease is difficult for the workforce impacted, this could have definitely been worse, given the overall 8.6% decline in production. Although some employees are on short-time work, productivity has also hardly decreased, which is an important factor for the competitiveness of the industry. However, as the publicly-funded models expire, there could be a further decline in employment. This also represents a cyclical source of danger for the overall economy – unemployment may only have been postponed and could still endanger the overall economic recovery. The Orgalim economists are still expecting a further 1% reduction in employment this year.

Orgalim Forecasts for Employment

E&S WG Forecasts year on year 03-2021



The investments in 2021 do not yet compensate for the decline in 2020

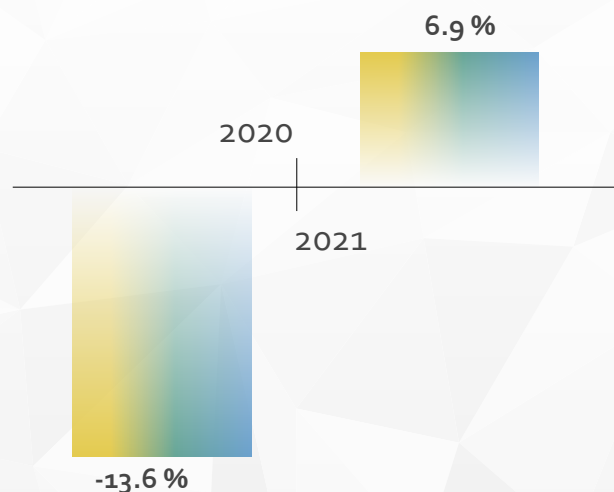
Investments in capital goods require a secure economic environment and this does not yet exist. We are therefore cautious with regard to the investment estimates for 2021. At the moment we are assuming a plus of 6.9% in 2021, after a minus of 13.6% in 2020.

It should also not be forgotten that we entered the crisis with relatively weak capacity utilisation. In 2019, towards the end of the year, there was a noticeable slowdown in industrial activity, and the need for new investments was not very high. This has of course increased due to the crisis; now we need a sustained recovery in order to trigger these investments again.

From the current perspective, a change could take place in the second half of the year, but this is heavily dependent on the global infection rate. Current estimates say that investments will not return to pre-crisis levels until 2022. Parts of the electrical engineering and electronics industry are experiencing a significantly more favourable investment cycle and investment in the digitalisation of industry is currently increasing.

Orgalim Investment Forecasts

E&S WG Forecasts year on year 03-2021



A toxic mixture of factors affecting the raw materials market

Pre-material procurement is becoming more and more of an obstacle to the future economic recovery of Europe's technology industries. The existing bottlenecks not only affect the steel market and the market for non-ferrous metals, but also electronic components. This scarcity extends the delivery times of the manufacturers and also increases the pressure on margins as the price increases cannot normally be passed on – price competition in international markets makes this impossible.

The shortages on the raw material markets have two consequences: rising prices and a potential lack of availability. Here we see the future course of the economic recovery in our sector threatened. On one hand, there is a real brake on growth due to the lack of availability of steel and other materials and longer delivery times; on the other hand, price increases are causing the pressure on margins already mentioned. This in turn reduces the willingness of companies to invest. How dramatic the situation is can be seen from the extreme price increases in steel prices. The contract price for Chinese hot rolled coil steel at the LME (London Metal Exchange) increased by around 50 % from November 2020 to March 2021. There are many reasons for this – probably due to a toxic mix of factors such as: capacity decreases due to the COVID-19 crisis, an unexpectedly strong increase in demand from the third quarter of 2020, a sharp rise in demand in China and, as a result, fewer exports to Europe, a shortage of containers on the international freight routes and an associated increase in freight prices.

Conclusion: An incomplete recovery with upside potential

What remains is the hope that the industrial environment will normalise soon. At the moment, the circumstances are even more unstable than usual. We have not yet reached the pre-crisis level, despite an upswing in the second half of 2020 compared to the beginning of the crisis. Many companies are still dependent on government support measures, which will probably have to be scaled back step by step. In addition the pandemic is far from over and the prospects are too uncertain to proclaim an end to economic uncertainty. All of this means that, after the crisis year 2020 with a loss in production of 8.6%, the prospects do not yet point to a full recovery in 2021 (+5.8%). In the autumn report of 2020 we referred to the year 2021 as still being a time of crisis. The signs have improved since then, but the main message is still true. The willingness to invest is not yet so apparent that we expect a significant improvement in the production situation in the short term. But that can change quickly, and it has seldom been so difficult to assess the prospects for the further course of the year. Should the pandemic situation improve, and the vaccination campaign progress successfully, there is potential for a significantly better second half of the year than we are currently anticipating.

Orgalim represents Europe's technology industries: companies that innovate at the crossroads of digital and physical technology. Our industries develop and manufacture the products, systems and services that enable a prosperous and sustainable future. Ranging from large globally active corporations to regionally anchored small and medium-sized enterprises, the companies we represent together comprise Europe's largest manufacturing branch, directly employing 11.55 million people across Europe, generating an annual turnover of €2,298 billion, and producing one-third of the EU's manufactured exports.

Orgalim commits to champion an EU policy agenda for sustainable growth; to support the industry in its transformation; and to advance dialogue between business, policymakers and citizens on the relationship of technology to society. We are shaping a future that's good.

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