

# THE BUSINESS SITUATION IN 2011

## INTRODUCTION

Orgalime's economists compile and analyse their latest data and forecasts for the engineering industry twice a year. Economic trends for metal products, mechanical engineering, electrical engineering, electronics and ICT and instruments which are mainly in chapters 25 to 28 of the NACE rev. 2 nomenclature are analysed and commented upon. Figures for repair and installation services (Chapter 33) which are also provided by the industry are included in the totals.

Based on official data available up to the end of March 2012 we estimate the engineering industry's value of production in EU27 to have reached some €1,545 billion in 2010. The number employed stood at about 10.2 million people, of which some 1.2 million were in repair and installation services.

The engineering industry, which Orgalime represents as a whole at the level of the EU, counts for some 28% of the output and a third of the exports of the EU manufacturing industries. Total trade (intra + extra trade) of the Orgalime industry increased from €981 billion in 2009 to €1,150 billion in 2010.

## 2011: A GRADUAL DECELERATION THROUGHOUT THE YEAR AS A CONSEQUENCE OF EMU FINANCIAL WOES

As the industry entered 2011, it was against the background of a strong recovery during 2010 that followed the severe recession of 2009. Confidence indicators in the investment goods industry showed a high level of confidence in the EU. Order stocks were generally assessed as slightly above normal and production expanded at a double digit rate in some sub-sectors.

## UNTIL MID-2011: AS STRONG GROWTH RATES AS IN 2010

The first half year showed that the rate of expansion was particularly strong and at about the same high rate as in 2010, that is some 10.4%.

However, by mid-2011 economic turbulence started to shape economic activity: in some countries within the currency union the economy contracted, whereas in other countries the economy expanded way below potential. Therefore the level of production in the industry grew only modestly or even fell in some sectors and countries during the second half of 2011. Production in Orgalime industries decelerated to 5.3% in the second half of 2011 resulting in an overall average growth rate of 7.8% in 2011.

## DRIVEN BY EXPORTS

Growth in worldwide GDP and industrial production was relatively strong during 2011. According to the IMF, world GDP expanded by a healthy 3.8% in 2011. Whereas growth economies, such as some countries in Asia and Latin America, showed a rapid expansion of their economies, growth in the EU was relatively weak, with an estimated 1.6% increase of output. As in previous years the expansion of Orgalime industries' exports was mainly driven by sales to the growth economies in 2011.

## AN OVERVIEW OF SECTOR PERFORMANCE IN 2011

<b>ORGALIME Sectors</b>	<b>2011 Percentage change in volume of production</b>
Metal Products	+6.9
Mechanical Engineering	+11.7
Electrical/ Electronics, Instruments, ICT and installation*	+5.5
<b>Total Orgalime industries</b>	<b>+7.8</b>

Overall intra EU trade grew by a modest 5.1%, whereas extra EU exports increased by an impressive 12.5%.

## **ELECTRICAL, ELECTRONICS AND INSTRUMENT INDUSTRIES**

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The electrical, electronics, ICT and instrument industry is amongst the largest industrial sectors in Europe. The value of production in 2010 is estimated to have reached €500 billion and the sector employed an estimated 2.6 million people.

### **SITUATION IN ELECTRICAL ENGINEERING SUBSECTORS**

If this branch of the industry grew by an estimated 5.5% in 2011, there were significant variations between different subsectors.

The volume of production of electrical engineering equipment increased by 4.6% in 2011. This was a deceleration after the strong expansion of 11.4% in the year 2010. The sub sector of

motors, generators and transformers performed well, but at a considerably lower rate of expansion than in 2010. Growth rates fell in all other sub-sectors with the rate of growth turning negative in manufacturing of domestic appliances. This was a result of low consumer confidence, rising unemployment and housing expenditure at a very low level.

### **ICT ALSO SHOWED RECOVERY**

Business activity overall also decelerated in the ICT industry. But the business situation varied from one sector to the other. Production increased at a historically high rate of 20% in volume for electronic components. Production of computer hardware grew at a higher rate compared to 2010, whereas consumer electronics failed to grow and showed an unchanged production level.

Production in instrument engineering for testing and measuring, which is highly dependent on overall global

manufacturing activity increased at about the same rate as in 2010, that is by some 7.5%.

## **MECHANICAL ENGINEERING INDUSTRY**

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The European mechanical engineering industry's value of production is estimated to have reached €500 billion in 2010. Employment in the sector is estimated at 2.8 million employees.

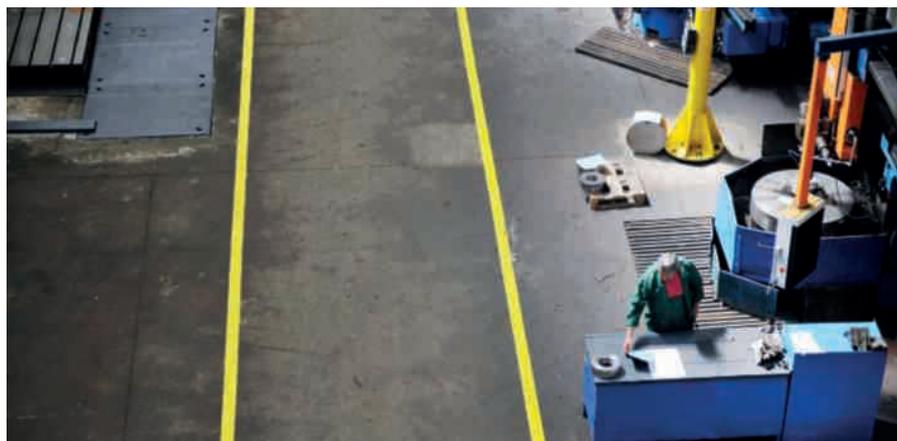
### **SECOND YEAR OF DOUBLE DIGIT GROWTH DESPITE A GRADUAL SLOWDOWN IN EU GROWTH**

The international recovery continued during 2011, with world GDP and world gross fixed investment both growing at a healthy rate. There was however a tendency for a slowdown in the second half of 2011.

Growth of fixed investment in the EU peaked already in the second quarter of 2011 and fell slightly thereafter. Due to sharp differences in demand between European countries, fixed investment in the EU grew only by a modest 3.2% in 2011.

Demand developed better on other markets, in particular emerging markets, the US and Japan, where the "technical recovery" after the natural disaster in the first half of the year created demand.

Although growth in overall fixed investment was only modest, demand for industrial machinery grew at a higher rate both in Europe and in the rest of the world. This is due to the fact that machinery and equipment industries produce, to a large extent, products for other manufacturing industries.



As a consequence, production in Europe's machinery and equipment industry grew by an impressive 11.7% in volume during 2011, a growth rate which topped the rise of 10.2% in 2010.

## **ACCELERATION IN ALL MAJOR SUB- SUBSECTORS**

All sub-sectors in mechanical engineering saw their business expand in 2011. Double digit growth rates were achieved in all major sectors apart from "other general purpose machinery". Business for machine-tools also picked up sharply, with production increasing by over 20%, which is a result of the severe slump in 2009 and the moderate pick up in 2010.

## **INDUSTRY OF FABRICATED METAL PRODUCTS**

The industry covers a wide range of final products including tools and finished metal goods (accounting for some 40% of production), castings, forgings, boilers and metal containers, as well as secondary transformation on contract basis, such as treatment and coating of metals. The value of production for the sector in the year 2010 is estimated at €420 billion. The number of employees is estimated at some 3.6 million.

The industry produces, to a large extent, inputs or products used in other sectors in engineering, such as machinery and the automotive industry. As stated above, demand from the machinery and the European automotive industries was strong in 2011. As a result, output for metal goods is estimated to have

increased by 6.9% overall during 2011 at the same rate as the year before. Heavy structural metal products grew modestly after two earlier years of contraction. The other major metal product sectors namely "forging, pressing, stamping" and "treatment & coating" grew by 14% and 7.5% respectively.

## **INVESTMENT AND EMPLOYMENT PICKED UP IN ORGALIME INDUSTRIES**

With higher utilisation of capacity, improved profits and solid growth of production, investment started to grow more substantially in 2011 compared to the modest expansion of 2.5% in volume in 2010. Overall fixed investment in the industry grew by 12% in volume in 2011.

After a decrease in 2010, notwithstanding substantial gains in productivity, employment started to grow again in 2011. It is estimated that employment increased overall by 1.8% in 2011, with variations between the different branches of the industry. . Companies in some countries started to report once again that finding sufficient skilled staff was once again proving to be a challenge.

## **THE GENERAL OUTLOOK FOR 2012**

### **A sharp deceleration of growth, but an improvement is expected in the second half of 2012**

Business activity in Orgalime's industry has gradually slowed in the last six months and the level of production has

stabilised since August 2011: indications are that this is due both to a slowdown in investment in some growth economies on which the industry depends heavily, as well as to rather limited investment by the industry's clients in Europe, both at the level of capital goods and consumer goods: it is becoming increasingly clear that the EU's "growth strategy" is not having the desired impact on industrial investment, with many companies worried that the investment climate in Europe is not supportive of industrial investment because of increasingly unstable and unpredictable framework conditions.

Based on official data and business cycle indicators for Orgalime's industry in early 2012, we expect that an improvement will take place during the second half of the year.

Short term indicators, such as the purchasing managers index or forward looking surveys such as IFO expectations and global leading indicator show a slightly stronger outcome than late last year. However, the heavily cyclical machinery industry will enter the ordinary period of slow expansion after two successful years.

Orgalime economists expect an increase in volume of production in 2012 by about 1.3%, a rate which almost achieves the long-term average growth in Orgalime industries. In order to keep up with international productivity growth, employment in the industry is forecast to remain unchanged.



*AN INDUSTRIAL POLICY FOR THE  
GLOBALISATION ERA PUTS MANUFACTURING  
AT THE CENTRE OF RECOVERY OF GROWTH  
AND JOBS IN THE EU.*



## THE EUROPEAN ENGINEERING INDUSTRIES ASSOCIATION

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“DIAMANT BUILDING”, BOULEVARD A. REYERS 80, B-1030 BRUSSELS  
TEL: (+32) 2 706 82 35, FAX: (+32) 2 706 82 50, SECRETARIAT@ORGALIME.ORG  
WWW.ORGALIME.ORG