



# THE BUSINESS SITUATION IN 2012

## INTRODUCTION

Orgalime's economists compile and analyse their latest data and forecasts for the engineering industry twice a year. In other words, we analyse mostly the economic trends for metal products, mechanical engineering, electrical engineering, electronics and ICT and instruments (mainly chapters 25 to 28 of the NACE rev.2 business nomenclature).

Based on official data available, we estimate that the engineering industry's turnover value in the European Union (EU) reached some €1,840 billion in 2012. The number employed stood about 10.3 million people.

The engineering industry 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 reached €1,290 billion in 2012.

## 2012: A POSITIVE START, BUT ACTIVITY DECELERATED OVER THE YEAR

The European engineering industry entered 2012 against the 2011's strong growth background. Moreover, our industry experienced a rising uncertainty due to the escalation of financial imbalances within the Economic Monetary Union. Confidence indicators in the investment goods industry deteriorated not only in the winter of 2011/2012, but also during 2012.

By mid-2012, order stocks were increasingly dissatisfying. This situation was clearly reflected in the monthly business surveys compiled by various institutes in Europe and presented by the Directorate General for Economic and Financial Affairs (DG ECFIN). By December 2012, this assessment gave its place to a clear negative balance.

## A SLIGHT OUTPUT CONTRACTION

The European engineering industry showed positive growth during 2012's first six months. By the third quarter, production was on 2011's third quarter's level. However, production fell slightly more by the final quarter of 2012. This resulted in an average 1% contraction for the year.

## GLOBAL MARKET

According to the International Monetary Fund (IMF), the world's Gross Domestic Product expanded by a healthy 3.8% in 2011, but preliminary growth rate fell to 3.3% in the 2012.

The EU's gross fixed investment growth contracted during 2012. It experienced a quarterly level peak of €588 billion in 2005 year's prices during the first quarter, but it only reached €575 billion in the final quarter. This evolution had a clear negative impact on Orgalime industries.

The construction sector's demand stayed at the low levels of past years.

The Orgalime capital goods sectors' growth was therefore negatively influenced, firstly by the lower capacity utilisation in total EU manufacturing industry and secondly by the subsequent reduced needs for manufacturing capacity expansion. In this framework, demand for capital goods mainly focused on rationalisation and on replacement equipment.

Demand on export (extra EU) markets was generally positive in 2012, compensating for the somewhat lower growth in the EU compared to 2011: the US market showed strength, along with a few markets in Asia and

Latin America. China was 2012's big disappointment, as many Orgalime sectors in numerous member states saw a downturn in exports towards this market.

## ELECTRICAL, ELECTRONICS AND INSTRUMENT INDUSTRIES

The electrical, electronics, ICT and instrument industry is amongst the largest industrial sectors in Europe. Its 2012 turnover value was about €740 billion. The sector employed an estimated 4.1 million people.

### Situation in electrical engineering subsectors

The volume of production of **electrical engineering machinery** contracted by 2% in 2012. This was a clear deceleration compared to the expansion of 4.5% in 2011.

The large manufacturing subsector of **motors, generators and transformers** contracted for the first time in two years. It is indicative that its production volume fell by 3%. Growth rates fell also for wiring and wiring devices.

Electrical machinery subsectors, which are more dependent on the construction sector, such as **electrical lighting and domestic appliances**, remained sluggish throughout 2012 with a reduced production level.

### ICT fell back but instruments expanded

Overall, business activity also decelerated in the ICT industry. All major subsectors recorded a contraction in output, with **consumer electronics** being hardest hit.

Sectors not so sensitive to the overall business cycle swings, such as **instrument engineering for testing and measuring**, as well as **medical instruments** continued their expansion in 2012 but at a slightly lower rate than in 2011.

### MECHANICAL ENGINEERING INDUSTRY

The European mechanical engineering industry reached an annual turnover value of about €630 billion in 2012. Employment is estimated at 2.9 million people.

Fixed investment growth in the EU experienced a peak in the second half of 2011. On the contrary, on average it contracted in 2012. Therefore, intra EU demand gave little support to the mechanical engineering industry's growth.

Demand developed better on other markets, although there too growth decelerated compared to 2011. Of particular concern was the contraction of EU machinery's export to China. Exports to the US picked up, but the overall EU machinery exports' external growth decelerated compared to 2011.

As a result, the mechanical engineering industry's production volume remained unchanged in 2012 after an expansion – well above the average – of 11.5% – in the year before.



### Uneven evolution among subsectors

A few sub-sectors in mechanical engineering continued to expand their business in 2012. In particular, sectors such as **material handling and power driven hand tools**, continued to grow.

Besides, the **metalworking machinery and machine tools' sectors** did rather well against the fading business confidence background.

On the contrary, output contracted in parts of the major subsector of special purpose machinery which consists mainly of machinery supplied to other manufacturing sectors and the mining and construction sectors.

### FABRICATED METALS AND METALWORKING INDUSTRY

The fabricated metals and metalworking industry's turnover value in 2012 is estimated at €470 billion. Employee numbers are estimated at 3.3 million.

This industry produces, to a large extent, inputs or products used in other engineering sectors, such as machinery and the motor car industry. As performance in these sectors deteriorated in 2012, metal goods' output is estimated to have contracted by 3%.

The export share in total turnover was considerably lower in this sector compared to other Orgalime sectors. Overall, exports grew by a modest 4% in 2012 compared to an increase of 13% in 2011.

The contraction was broad-based with a production drop in all major subsectors. The major subcontracting activities of forging, pressing and stamping were hit the most.

### EMPLOYMENT SLIGHTLY UP

It is estimated that employment actually increased in the European engineering industry during 2012 by about half a percentage point, thereby reaching a preliminary estimate of 10.3 million people.

This evolution is slightly surprising, since it reflects poor productivity performance in the light of a slight production output contraction. Nevertheless, according to short term employment indicators, most of the increase took place during the first half of the year. Employment indicators show some contraction during the final quarter of 2012. This can be attributed firstly to the efforts to reduce the rise of unit labour costs and secondly to the necessity to keep up with the internationally determined productivity growth.

### 2013'S GENERAL OUTLOOK: LIMITED GROWTH EXPECTED

Business activity in the European engineering industry has gradually slowed during the last six to nine months. Nevertheless, official data show that short term business indicators' outcome in early 2013 is not as negative as in the past year. On the contrary, they present a tendency towards stabilisation. Forward looking

surveys, such as Ifo Institute's expectations and global leading indicator, show a slight improvement.

The contribution of intra EU growth to the engineering industries is constrained due to several reasons such as the:

- Low business profitability
- Contraction in output in many manufacturing industry sectors
- The low probability of having the financial imbalances fixed in the short term
- The labour market's poor state.

Concerns of further high risks and global imbalances outside the EU area are also present.

Therefore, Orgalime economists expect a very modest improvement in the overall business climate for industry in 2013. They consider that no major acceleration will take place, but only a modest growth in production of around 1%.

Taking into account that the long term average annual growth is around 3%, such a growth is actually not as disappointing as it might appear.

What will also begin to have an impact, however, is whether the investment climate in Europe becomes more positive following, for the first time in many years, signs of a more supportive policy approach to manufacturing industry, which, however, still needs to be translated into real action by politicians.



*Attracting manufacturing industry to invest in Europe should be at the centre of the policy agenda.*



ORGALIME



## **THE EUROPEAN ENGINEERING INDUSTRIES ASSOCIATION**

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