

The Business Situation in 2013

Orgalime's economists compile and analyse their latest data and forecasts for the engineering industry twice a year.

We analyse first and foremost 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 reached almost €1,800 billion in 2013. The number employees stood at some 10.3 million people.

The engineering industry counts for some 28% of the turnover and a third of the exports of the EU manufacturing industries.

FORECASTS 2014

**AVERAGE
GROWTH
ORGALIME
INDUSTRIES**
+ 2.1%



EXPORTS
+ 2.2%



INVESTMENTS
+ 7.1%



European engineering snapshot

	2013	2012
Turnover value	€1,800 billion	€1,840 billion
Employment	10.3 million	10.3 million

2013: Despite improving economic climate, slight turnover contraction

In the first quarter of 2013, the industry continued the contraction that started in the fourth quarter of 2012.

However, during 2013, several indicators showed a slightly positive upturn as the uncertainty of financial imbalances within the European Union became less and confidence indicators improved.

Unfortunately, this did not lead to achieving growth in the European engineering industry in 2013.

In the second quarter of the year, there were some signs of recovery taking place. However, the growth did not continue into the third quarter. Consequently, quarter on quarter-growth was negative for most subsectors in the fourth quarter of the year.

As a result, the European engineering industry in 2013, for the second year running, showed a slight contraction in turnover of approximately 1.8%.

Situation in sectors

Annual change of turnover of European Engineering Industries		
SECTOR / YEAR	2013	2014 (estimate)
Mechanical engineering	-1.4	2.8
Electrical, ICT, Instrument Engineering	-3.3	1.2
Fabricated metal goods	-1.6	1.9
Total Orgalime industries	-1.8	2.1
Employment including repair and installation services	-1.1	0.1

Electrical, electronics and instrument industries

The electrical, electronics, ICT and instrument industry is among the largest industrial sectors in Europe. Its 2013 turnover reached some €600 billion. The sector employed an estimated 2.5 million people.

In 2013 turnover decreased by 3.3%, by a similar percentage as in 2012.

For 2014, there should be a return to growth, with a growth of 1.2% for the whole sector expected.

The subsectors showed an uneven evolution. The production volume in the **electrical lighting subsector** increased by 1.6%, where **domestic appliances** production decreased by 2%.

Medical instruments, motors, generators and transformers all showed production contraction. The subsector **consumer electronics**, as for the previous year, was hardest hit.

Mechanical engineering industry

The European mechanical engineering industry accounted for an annual turnover in 2013 of around €620 billion. Employment is estimated at more than 2.9 million people.

In contrast to the other subsectors of the European engineering industry, the mechanical engineering industry still showed growth in 2012. However, in 2013 this sector also contracted by some 1.4%, and, as such, was the least affected engineering sector.

In 2014 it is expected that growth will return: Orgalime economists foresee a growth in turnover of around 2.8%.

Most subsectors had a decrease, although there was difference in the rate of contraction. Production in the subsector of **machine tools**, however, only contracted by 0.9%, while output for agricultural and forestry machinery rose by 0.3%.

Fabricated metals and metalworking industry

The fabricated metals and metalworking industry's turnover in 2013 is estimated at almost €460 billion. In terms of employment this is the largest subsector of the European engineering industry with around 3.6 million staff.

This subsector produces, to a large extent, inputs and products used in other engineering sectors such as machinery. As the performance of the engineering industry as a whole deteriorated, the turnover in the fabricated metals and metalworking industry contracted by 1.6%.

For 2014 a growth of 1.9% is expected.

Production decreased by 0.9% on average in this sector in 2013. There were, however, wide variations between different subsectors, ranging from a contraction of production of 3.6% for structural metal products to an increase of almost 4% for the manufacturers of tanks, reservoirs and metal containers.

Employment

It is estimated that, as output contracted, so employment too decreased in 2013 by 1.1%, not repeating the growth that had been seen the previous year. This decrease, nevertheless, is smaller than the decrease in production. The decrease can for a part be attributed to the necessity to keep up with the internationally determined productivity growth.

For 2014 a stabilisation of employment is expected.

2014 general outlook: modest growth expected

Economic forecasts and forward-looking surveys expect an upturn in worldwide and European economic performance.

According to the IMF, global growth will be around 3.7% and world trade will increase by 4.5%. The Eurozone should turn the corner from recession in 2013 to see a recovery by 1% in 2014.

The IFO Institute's expectations for the manufacturing industry in Germany have been gradually improving during 2013 and the first months of 2014. However, in



March confidence fell slightly. Still, business confidence remained positive.

The OECD's leading indicator showed improvement over the second half of 2013 and the leading indicator for Europe shows even stronger improvement.

There are, however, still uncertainties and downward risks for the European engineering industry, such as:

- high public and private debt levels in the Eurozone
- uncertainty about the Chinese economy and its possible slowdown
- low inflation and the possibility of a Japan-style deflation scenario

- concerns about the Ukraine crisis and its consequences on trade relations including with Russia, a significant trading partner for the engineering industries.

Orgalime economists foresee therefore a modest improvement in the overall business climate for industry in 2014. Growth is expected to return and to be modest at around 2.1%. This is still below the long-term average annual growth of around 3%.

The recovery will be unevenly distributed across sectors of the industry with, as we have seen, a growth of 1.2% in the turnover of the electrical, electronics and instrument industries, whereas the mechanical engineering industry is expected to show a 2.8% growth.

Growth is also expected to be unevenly distributed across countries; with some showing slow growth or even contraction. Exports (intra plus extra EU) will grow by an estimated 2.2%. Investment will pick up considerably and are expected to grow by an estimated 7.1%.

Major forecasts expect a further increase of global and European economic growth in 2015. Therefore further improvement of the economic performance of the European engineering industries is a clear possibility. As industry is the cornerstone for a sustainable long-term economic growth, it is to be hoped that politicians on the European and national stage continue their newfound supportive approach to the manufacturing industry and that we will see the political commitments made translated into action, with the resulting growth in the economy and jobs.



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