

The Business Situation in 2014

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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 as well as chapter 33 (installation and repair services) where reported by the industry.

Based on official data available, we estimate that the engineering industry's total turnover value in the European Union reached more than €1800 billion in 2014. The number of employees stood at more than 10.3 million people of which 1.25 million working in installation and repair services.

The engineering industry counts for over a quarter of the turnover and a third of the exports of the EU manufacturing industries.



FORECASTS 2015

**AVERAGE
GROWTH
ORGALIME
INDUSTRIES**
+ 2.1%



EXPORTS
+ 2.0%



INVESTMENT
+ 4.4%



European engineering snapshot

	2014	2013
Turnover value	€1825 billion	€1794 billion
Employment	10.3 million	10.2 million



2014: Ups-and-downs result in modest growth over the year

Whereas 2013 ended with negative turnover growth in the fourth quarter, 2014 started very well for the engineering industries. All subsectors showed strong growth in the first quarter of the year. However, the overall economic climate deteriorated, mainly due to geopolitical tensions.

This resulted in a poor performance in the second quarter. The third and fourth quarter of the year showed some recovery, but not near the growth of the first quarter.

In total, these developments resulted in a modest growth of 1.7% in 2014 as a whole for the European engineering industry.

Situation in sectors

Annual change of turnover of European Engineering Industries - Growth in %

SECTOR / YEAR	2014	2015 (estimate)
Mechanical engineering	2.1	2.2
Electrical, electronics and instrument engineering	1.6	1.9
Fabricated metal goods	1.4	2.4
Total Orgalime industries	1.7	2.1
<i>Employment including repair and installation services</i>	0.0	-0.1

Mechanical engineering industry

The European mechanical engineering industry accounted for an annual turnover in 2014 of around €675 billion. Employment is estimated at more than 2.9 million people.

The mechanical engineering industry was the strongest growing sector in the total engineering industry in 2014 which saw a rebound to 2.1% growth after a contraction in 2013. For 2015, it is expected that growth will continue at some 2.2%.

As the sector is steadily growing, most subsectors showed an increase in production in 2014. The only subsector with a contraction in production was that of agricultural machinery (-3.6%).

Electrical, electronics and Instrument industries

The electrical, electronics and instrument industry is among the largest industrial sectors in Europe. Its 2014 turnover reached more than €625 billion. The sector employs more than 2.5 million people.

After a decrease of 3.3% in 2013, the sector grew in 2014 by 1.6%. In 2015, it is expected that growth will continue and become stronger rising to 1.9%.

The subsectors showed a mixed picture. As in 2013, consumer electronics showed a strong decrease in production (-7.8%). The optical instruments, electrical lighting and domestic appliances subsectors all had a modest decrease in production. The manufacturing of electronic components and boards, however, performed well, showing strong growth (7.7%), whereas the measuring and testing, watches and clocks, battery accumulators and wiring subsectors grew at a more modest pace.

Fabricated metals and metalworking industry

The fabricated metals and metalworking industry's turnover in 2014 is estimated at around than €523 billion. In terms of employment this is the largest sector of the European engineering industry with around 3.6 million staff.

This sector 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 improved, so this sector also grew (1.4%). For 2015, it is expected that this sector of Orgalime's industry will grow the strongest by 2.4%.

There were wide variations in performance among the subsectors in the fabricated metals and metalworking industry. Subsectors such as forging, pressing and roll-forming, and coating and treatment of metals showed an increase in production, whereas the manufacturers of tanks, reservoirs and containers experienced a contraction in production.

Employment

It is estimated that employment grew by less than 0.1% in 2014, after a decrease of 1.1% in 2013. As turnover and production increased in 2014, the modest growth in employment can be attributed to the necessity to keep up with internationally determined productivity growth.

For 2015, the stabilisation of employment is expected to continue (-0.1%).



2015 General outlook: Modest growth expected

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

According to the IMF forecast of January 2015, global growth will be around 3.7% in 2015. However the IMF sees some downward (and upward) risks, which can influence global economic performance.

The OECD leading indicator pointed in March 2015 to a positive change in growth momentum in the euro area.

For 2015, the OECD expects the European economy to grow by 1.4%. There are, however, still risks and uncertainties for the European engineering industry, such as:

- prolonged low inflation in the euro area
- uncertainty about the Chinese economy and its slowdown
- geopolitical concerns, especially the situation in Ukraine and its consequences on trade relations with Russia, a significant trading partner for the engineering industry
- low oil prices which are beneficial for the industry as a whole, but for some sectors, will result in lower investment.

The weak euro can be considered as an upward risk, as it is expected to have a positive influence on the exports of the engineering industry.

Therefore, Orgalime economists foresee a modest improvement in the overall business climate for the industry in 2015. Growth is expected to continue and increase in strength at 2.1%. This is still below the long-term average growth of around 3%.

There will be no large differences in growth rates among the industry's most important sectors. Electrical, electronics and instruments engineering will grow the slowest at 1.9%, whereas the fabricated metal goods sector is expected to grow by 2.4%. Exports (intra and extra-European) will grow by an estimated 2.0%. Investment will grow at an estimated 4.4%

Growth is expected to be unevenly distributed amongst countries, although there are no countries where the engineering industry is expected to contract.

Major forecasts predict a further increase of global and European growth in 2016. The IMF's World Economic Outlook estimates a global growth of 3.7%.

The OECD expects for Europe a strong increase in growth in 2016 (2.0%). 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 labour market.



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