

The Business Situation in 2015

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. The latter, which is growing, is included in the total figures for the industry.

Based on official data available, we estimate that the engineering industry's total turnover value in the European Union reached more than €1900 billion in 2015. The number of employees stood at almost 10.9 million people.

2015: A strong second quarter makes output growth reach 1.3%

2014 ended with some slow growth, but it picked up during the first quarter and especially the second quarter of 2015 which showed a strong performance among most sectors. In the second half of the year the engineering industries could not maintain this high level, but continued to grow at a more moderate rate.

Overall, output of the European engineering industry grew by a fairly modest 1.3% in 2015.

Annual change in output of European engineering industries – growth in %

Sector / year	2015	2016
Mechanical engineering	0,8	1,0
Electrical, electronics and instrument engineering	2,6	1,7
Fabricated metal goods	0,5	1,0
Total Orgalime industries	1,3	1,2
Employment including repair and installation services	0,7	0,0

Mechanical engineering industry

The European mechanical engineering industry accounted for an annual turnover in 2015 of around €640 billion. Employment is estimated at more than 2.9 million people.

In 2014 the mechanical engineering industry was the strongest growing sector. In 2015, however, output grew at a below average rate by 0.8%.

Last year agricultural machinery was the only subsector that showed a decrease in production. This year the sector faced a further contraction with a decrease in output of 7.9%.

Electrical, electronics and instrument industries

The electrical, electronics and instrument industries employ more than 3 million people (includ-

European engineering snapshot



ing medical and dental industries). The industries accounted for an annual turnover in 2015 of around €660 billion.

The sector showed a weak performance in 2013, but returned to growth in 2014. In 2015 it has been the best performing sector of the Orgalime industries with an output growth of 2.6%.

Growth is expected to continue next year, although on a somewhat lower level of 1.7%. As the sector as a whole performed well, it is no surprise that most subsectors also showed a good performance in 2015. The best performing subsectors were the manufacturing of electromedical and electrotherapeutic equipment (+11.4% production growth) and the manufacturing of optical instruments and photographic equipment whose production grew by 11.9%.

Some subsectors however, experienced a contraction in production. Especially the consumer electronics subsector showed a strong decrease (-7.3%). This subsector was also the worst performing subsector in 2014.

Fabricated metals and metalworking industry

The fabricated metals and metalworking industry's turnover in 2015 is estimated at around €470 billion. In terms of employment this is the largest sector of the European engineering industry, employing more than 3.6 million people.

This sector produces, to a large extent, inputs and products used in other engineering sectors such as machinery. The performance of this industry normally follows the performance of the engi-

neering industry as a whole. However, in 2015, the growth of 0.5% in the fabricated metals and metalworking industry lagged behind the other sectors. In 2016, the sector is expected to grow faster (at 1.0%) than last year.

There were variations in performance among the subsectors in the fabricated metals and metalworking industry. Subsectors such as the manufacturing of cutlery, tools and general hardware showed an increase in production (+1.5%), whereas a subsector like the manufacturing of tanks, reservoirs and containers experienced a contraction in production (-1.1%).

Employment

It is estimated that employment grew by 0.7% in 2015, therewith improving on the 0.3% employment growth in 2014. For 2016, however, Orgalime economists expect that this performance will flatten out, without a further increase in employment as the number of staff stabilises (0.0% growth).

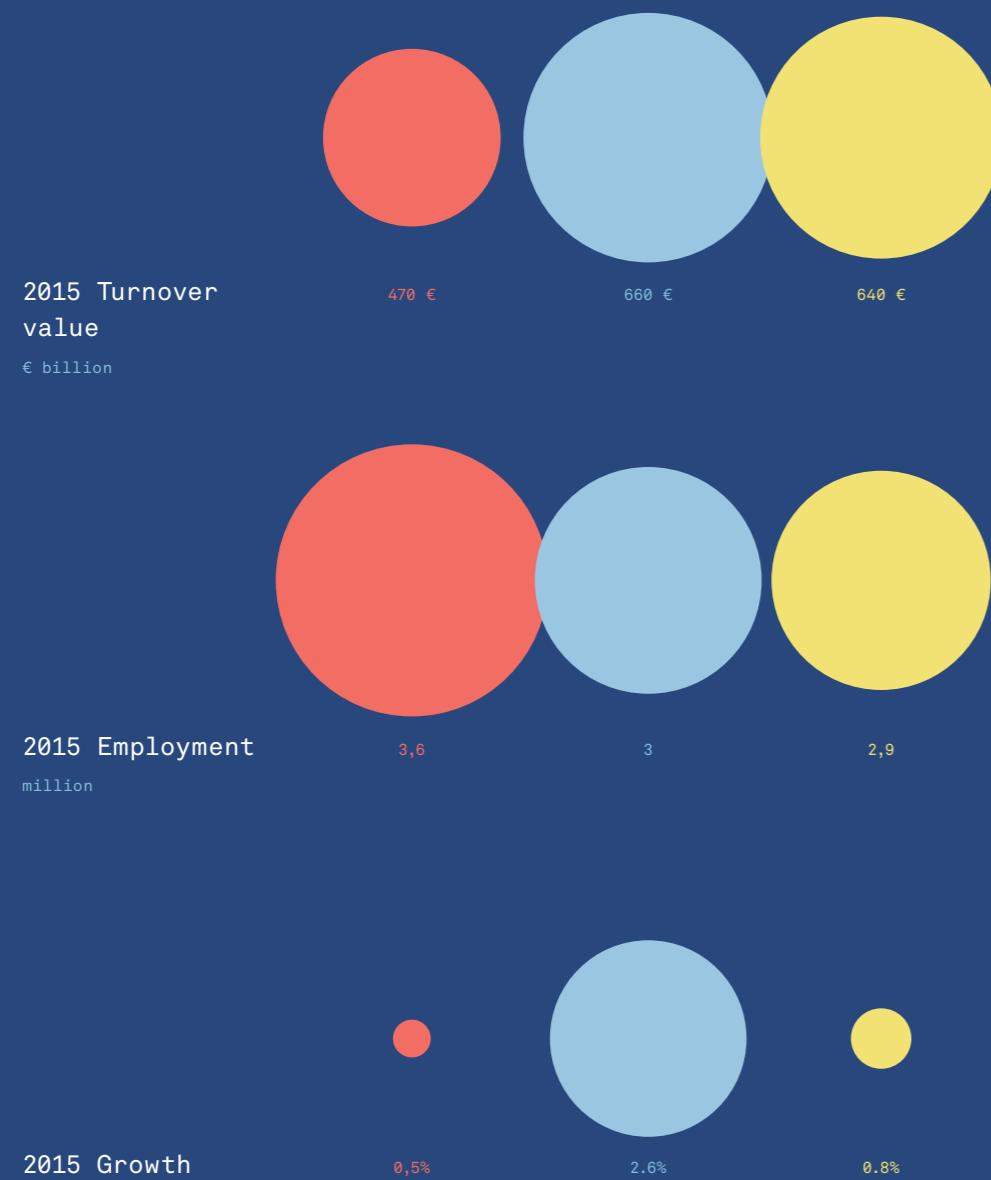
General outlook

According to the International Monetary Fund (IMF), global growth is expected to increase from 3.1% in 2015 to 3.4% in 2016 and even further increase in 2017 (3.4%). This pickup in growth however, is projected to be more gradual than in the October outlook as forecasts for both 2016 and 2017 have been revised downwards by 0.2%.

Fabricated metals and metalworking industry

Electrical, electronics and instrument industries

Mechanical engineering industry



These revisions reflect to a substantial degree the weaker pickup in emerging economies than was forecast in October. The IMF specifically mentions the diminishing prospects in Brazil and the Middle East as reason for the revisions.

The OECD projects that global growth in 2016 will not be higher than in 2016 (3.0%), which in itself the slowest pace in the past five years. The OECD also, has revised its forecast down in the light of disappointing recent data. There is a very modest growth in advanced economies but growth is slowing in many emerging economies. According to the OECD, trade and investment remain weak while sluggish demand is leading to low inflation and inadequate wage and employment growth.

The European Commission (EC) is a little more optimistic in tone, as its winter forecast states that "*the European economy is now entering its fourth year of recovery and growth continues at a moderate rate, driven mainly by consumption*". The economy of the European Union is expected to grow by 1.9% in 2016 and 2.0% in 2017.

All forecasts state that there are downward risks for the global (and European) economy, among which are:

- A sharper than expected slowdown in China
- Lower growth in emerging markets
- Financial stability risks: tighter global financing conditions (when the US exits their accommodative monetary policy), possible global risk aversion
- An escalation of on-going global tensions

The weak Euro is still considered an upward 'risk' as it is regarded as having a continuing positive influence on the exports of the engineering industry.

Therefore, Orgalime economists foresee a stabilisation in the overall business climate for the industry in 2016. Growth is at 1.2% and expected to remain on almost the same moderate level as in 2015 (1.3%).

There are differences in growth rates among the industry's most important sectors, although these differences contract. The electrical, electronics and instruments engineering will show the fastest output growth at 1.7%.

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 supportive approach to the manufacturing industry and particularly to the opportunities arising from digitisation, which in many cases is supportive of policy objectives, such as energy and resource efficiency, thereby limiting the need for command and control legislation which often undermines the innovation potential of companies. The policy approach will determine in many sectors whether the EU remains competitive as a manufacturing location and on a global level. ◊