European engineering industry set to grow by 1.3% in 2017

Orgalime’s economists compile and analyse the latest data and forecasts of the engineering industry twice a year. We specifically analyse the economic trends of metal products, mechanical engineering and electrical engineering, electronics, ICT & instruments (mainly chapters 25 to 28 and 32.5 of the NACE rev.2 business nomenclature), as well as the sector ‘Installation and repair services’ (chapter 33 of the NACE rev.2 business nomenclature).

Based on official data available, we estimate that the engineering industry’s total turnover value in the European Union reached about €1,977 billion in 2015, of which €170 billion is attributable to installation and repair services. The employment in the engineering industry was equal to 10.97 million people, of whom 1.30 million were working in installation and repair services.

Annual change in output (current prices) of European engineering industries (year-on-year growth in %)

<table>
<thead>
<tr>
<th>Sector / year</th>
<th>2016</th>
<th>2017 (forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mechanical engineering</td>
<td>1.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Electrical, electronics and instrument engineering</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Fabricated metal goods</td>
<td>1.9</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Total Orgalime industries</strong></td>
<td><strong>1.0</strong></td>
<td><strong>1.3</strong></td>
</tr>
</tbody>
</table>
**2016 AT A GLANCE**

**2016: Output grew by 1.0%**

The activity in the European Orgalime-sectors grew by 1.0% in 2016. In the last five years, the European economy in general and the engineering industry in particular seems to have lost its usual volatility and the evolution of the production growth was almost flat.

The main driver of the growth in 2016 was the slight economic recovery in the European Union and the rest of the world. The output of the European industry and of the construction sector increased slightly and investment was once more on the rise. The automotive sector, a major client of the industry, where the number of new passenger car and commercial vehicle registrations increased enormously, was certainly one of the motors of this European growth.

Furthermore, the Purchasing Managers Indices and the Confidence Indicators for the European industry increased significantly at the end of 2016. The slight optimism, expressed by the figures, is also based on these observations.

However, the European engineering industry also faced negative effects on its order books because of three important global economic evolutions:

1. The continuous decrease of the BRICS markets that started in 2012 has not stopped since then. The Russian economic crisis was due to the depreciation of the Rouble, low industrial demand (especially in the oil sector) and the economic sanctions due to the political situation in Ukraine.

2. A substantial depreciation of the Pound Sterling during 2016 made exports to the United Kingdom more expensive. As a result, the United Kingdom faced an increase of its input prices.

3. The appreciation of the US Dollar also came to an end in 2016. The American market was one of the drivers of growth in the period 2014-2015.

Moreover, notwithstanding mainly positive tendencies for incoming orders, many companies reported that margins were under pressure and becoming a major concern at company level.
2017 OUTLOOK
2017: Output set to grow by 1.3%

In 2017, GDP growth will again be very moderate in most industrialised countries. For emerging markets, the IMF predicts a slightly higher GDP growth rate than in 2016.

Investment growth of European industry will be positive. European industry was underinvesting in the period 2010-2015 compared to the period before the economic crisis of 2008-2009. In 2016 and 2017 we have been seeing an upswing in the European industrial investment figures.

Uncertainty and some risks could have a negative effect on these growth perspectives. The rise of populism and anti-globalisation sentiment in Western Europe is a first factor of uncertainty. Geopolitical tensions in Ukraine, Syria, Turkey and Iraq continue to have a negative impact on global business confidence. The effects of Brexit on the European integration project and, last but not least, the uncertainty about the way in which US President Donald Trump will deal with trade issues and/or protectionist measures puts an enormous brake on the global and European growth motor.
EMPLOYMENT

It is estimated that employment grew very slightly by 0.3% in 2016. It is the third consecutive year of growth here in the European engineering industry. The growth rate in 2015 was 0.7%, and in 2014 we calculated a 0.3% employment growth. In 2017, Orgalime economists expect this to continue with a forecast rise in engineering industry employment. In some parts of the industry, notably the mechanical engineering and metalworking industry, the increase could even be 0.3%. It is clear that the digitisation of industry and the way in which the European Commission facilitates data-driven growth developments will have an impact.

Annual change in employment of European engineering industries (year-on-year growth in %)

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<th>2017 (forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mechanical engineering</td>
<td>-0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Electrical, electronics and instrument engineering</td>
<td>-0.3</td>
<td>-0.1</td>
</tr>
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<td>0.2</td>
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SECTORS

Mechanical engineering industry

European mechanical engineering accounted for an annual turnover in 2015 of around €650 billion. Employment is estimated at more than 2.9 million people.

In 2016 output grew at average by 1% and in 2017 we see that mechanical engineering will grow again above average (2.1%), making it the strongest growing sector in the engineering industry.

The mechanical engineering sector is profiting from the small recovery of the European industry since the beginning of 2013. European industrial output and investment figures are slowly but steadily on the up, and this is good news for the European mechanical engineering industry.
Electrical, electronics, ICT & instrument industries

The electrical, electronics and instrument industries employ more than 3 million people (including medical and dental industries). This branch of the engineering industry accounted for an annual turnover in 2015 of around €675 billion.

In 2016 and 2017, there will somewhat low growth in this sector (0.1% in 2016 and 0.4% in 2017).

One challenge for this sector is to deal with decreasing price evolutions in the telecommunication sector, and another is to pick up the technological and commercial evolutions in the energy sector. This sector can certainly profit from the digitisation of European industry and the global evolution towards Industry 4.0, in particular if the EU regulatory framework enables this.

Fabricated metals and metalworking industry

The fabricated metals and metalworking industry’s turnover in 2015 is estimated to have been around €482 billion. In terms of employment this is the largest sector of the European engineering industry, employing 3.66 million people. This sector produces, to a large extent, inputs and products used in the construction industry and in other engineering sectors such as machinery and automobile.

In 2016 and 2017, the sector is expected to grow faster than the European engineering industry average (1.9% growth in 2016 and 1.7% growth in 2017).

The fabricated metal goods sector is growing faster, because it is benefitting from the small recoveries in the mechanical engineering sector and the construction industry and from the spectacular growth figures in automotive.
The Business Situation

2016 Turnover value

- Fabricated Metals and Metalworking Industry: €479 billion
- Electrical, Electronics and Instrument Industries: €661 billion
- Mechanical Engineering Industry: €646 billion

2016 Employment

- Fabricated Metals and Metalworking Industry: 3.6 million
- Electrical, Electronics and Instrument Industries: 3 million
- Mechanical Engineering Industry: 2.9 million

2016 Growth

- Fabricated Metals and Metalworking Industry: 1.9%
- Electrical, Electronics and Instrument Industries: 0.1%
- Mechanical Engineering Industry: 1.0%