

Business Situation in 2017

Twice a year, Orgalime's economists compile and analyse the latest data and forecasts of the engineering industry – specifically analysing economic trends in metal products, mechanical engineering and electrical engineering, electronics, ICT and instruments (mainly chapters 25 to 28 and 32.5 of the NACE rev.2 business nomenclature), as well as the installation and repair services sector (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 €2,076 billion in 2017, while employment grew to over 11 million people [1].

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

Sector / year	2017 (estimate)	2018 (forecast)
Mechanical engineering	+5.0	+4.0
Electrical, electronics and instrument engineering	+3.5	+4.0
Fabricated metal goods	+3.0	+2.5
Total Orgalime industries	+4.0	+3.5

[1] All figures cited in this report are based on official data correct as of end 2017.

2017: RISE IN OUTPUT OF 4.0%

The activity in the European Orgalime sectors grew by 4.0% in 2017.

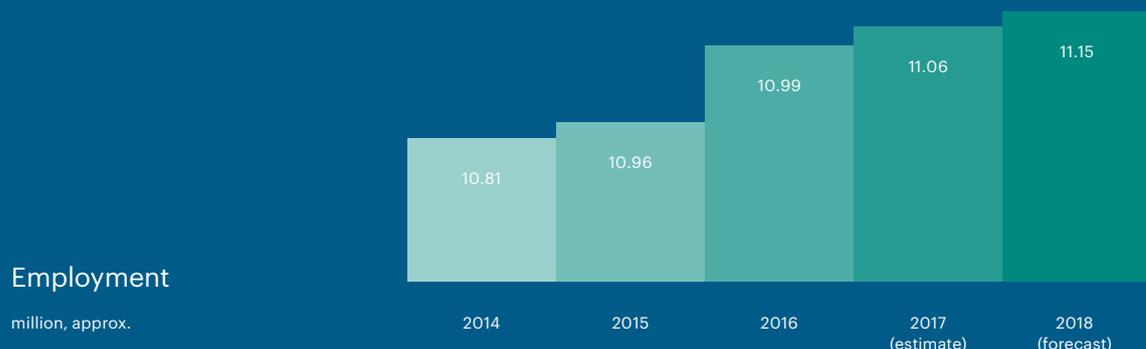
The main driver of this growth was the economic recovery in the world in general and in the European Union in particular. The output of European industry and of the construction sector increased heavily, and investment was again on the rise.

In the automotive industry, a major client of the engineering industry, there was a strong increase in the number of new passenger cars and commercial vehicle registrations, making the sector one of the motors of this European growth.

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

However, in some countries and industries the European engineering industry has also faced negative effects on its order books in 2017, stemming from two important economic issues:

1. The uncertainty generated by the prospect of Brexit and a substantial depreciation of the pound sterling in 2016-2017 has made exports to the United Kingdom more expensive. As a result, the United Kingdom has faced an increase in its input prices.
2. The depreciation of the US dollar in 2017 also resulted in EU engineering exports to the rest of the world becoming more expensive. (In 2014-2015, the appreciation of the US dollar was one of the drivers of growth.)



2018: OUTPUT FORECAST TO GROW BY 3.5%

In 2018, GDP growth is expected to decrease slightly in most industrialised countries. The first negative effects of the very good business cycle situation will gradually become visible: very high utilisation rates of production capacity, a growing lack of technical and digital skills affecting a large part of the industry and, last but not least, a higher upward pressure on wages which will have a negative impact on the global competitive position of our industry.

Therefore, we expect the engineering industry to grow by 3.5% in 2018: a little lower than the rate of growth in 2017.

Investment growth of European industry will continue to be positive. European industry was underinvesting in the period 2010-2015 compared to the period before the economic crisis of 2008-2009. Since 2016, we are seeing an upswing in European industrial investment figures.

Uncertainty surrounding certain risks has also had a negative effect on growth perspectives. The rise of populism and anti-globalisation sentiment in Western Europe seems to be diminishing, but continues to be a factor of uncertainty.

The effects of Brexit on the European integration project and uncertainty about the way the U.S. will continue to deal with trade issues is still putting a serious brake on the global and European growth motor.

EMPLOYMENT

Employment grew slightly by 0.3% in 2016, marking the third consecutive year of growth in the European engineering industry. The growth rate in 2015 was 0.7% and in 2014 we calculated 0.3% employment growth. Orgalime economists expect this to continue with an estimated rise in engineering industry employment of 0.7% in 2017 and a forecast 0.9% in 2018. In some parts of the industry, notably the fabricated metal goods industry, the increase could even reach 1.3%.

If we aggregate this data, then we end up with the observation that the European engineering industry will have created more than 300,000 jobs in the period 2014-2018.

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

Sector / year	2017 (estimate)	2018 (forecast)
Mechanical engineering	+0.9	+0.7
Electrical, electronics and instrument engineering	+0.1	+0.8
Fabricated metal goods	+1.3	+1.4
Total Orgalime industries	0.7	0.9

Mechanical engineering industry

The European mechanical engineering industry accounted for an annual turnover of almost €690 billion in 2017. Employment is estimated at a little over 2.9 million people.

Growth in mechanical engineering is again at above average rates (5.0% in 2017 and 4.0% in 2018), making it the strongest growth sector in the engineering industry.

Mechanical engineering is profiting from the wider recovery of European industry: since the beginning of 2013, European mechanical engineering output and investment figures have been rising strongly and this is good news for the European mechanical engineering industry.

Electrical, electronics, ICT and instrument industries

The electrical, electronics and instrument industry, including medical and dental industries, employs more than 3 million people. This branch of the engineering industry accounted for an annual turnover of some €698 billion in 2017.

In 2017 and 2018, this sector will grow steadily, after a few years with almost no growth: 3.5% in 2017 and 4.0% in 2018.

One challenge for this sector is the decreasing price evolution in the manufacture of computers and peripheral equipment sector; another is to take full advantage of technological and commercial evolutions in the energy sector (for example smart grids).

The electrical, electronics, ICT and instrument industries can certainly profit from the digitisation of European industry and from the worldwide 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 2017 is estimated to have been over €506 billion. In terms of employment this is the largest sector of the European engineering industry, employing more than 3.7 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 automotive.

In 2017 and 2018, the sector is expected to grow a little less than the average of the European engineering industry (3.0% growth in 2017 and 2.5% growth in 2018).

The fabricated metal goods industry is benefitting from the recoveries in the mechanical engineering and the construction industry and from the growth figures in automotive. ●





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