

Europe's technology industries see growth stalling

The fall out of Russia's war against Ukraine is taking its toll on Europe's technology industries. After a good start to 2022, thanks to high demand and well-filled order books, the second half of the year is looking weaker. Rising prices of energy and of pre-materials, on top of – and because of – continuing supply shortages, are impacting demand and constraining production. Overall, the technology industries will stagnate across Europe this year, with turnover in real terms expected to be down 0.7% on last year. For next year, a more pessimistic outlook for the sector currently predominates. While prospects vary from country to country, overall, real turnover is projected to decline by 4.9% across the industries in 2023.

The key headlines are:

- Good start to 2022 gives way to stagnation and squeezed profits
- Recession is forecast for 2023 but mitigated by orders backlog
- Investment and thus the demand for capital goods will suffer
- Materials and labour shortages reach historic highs
- Employment expected to remain stable despite falling demand

Our report further details the outlook for each of the three technology industries sectors: mechanical engineering, electrical engineering, electronics and ICT, and metal technology.

Good start to 2022 gives way to stagnation and squeezed profits

A good start to 2022, with high demand and well-filled order books, has given way to a weak second half. While we see some variation by country and by sector, overall, the technology industries will stagnate across Europe this year, with turnover for the full year expected to be 0.7% down on 2021 in real terms.

Why? Businesses faced major supply problems for pre-materials across the board at the start of 2022 due to several factors that came together, including surprisingly high demand, continuing Covid measures notably in China, Russia's war against Ukraine, logistics problems, port closures and more. This affected industrial metals, metal products, chips, other electronic components, and plastic components, among others. While the problem has eased somewhat in the meantime due to falling demand in some areas, the lack of pre-materials remains the number one production barrier for Europe's technology industries.

In addition to the scarcity on the supply side, rising prices for pre-materials and energy are increasing production costs. Energy costs in Europe have risen much faster than in the USA or in Asia, partly because of the direct effect of dependence on Russian natural gas. Companies that are in international competition – which means most of the sectors in the technology industries – cannot pass the rising costs on to the market. The loss of competitiveness would be too great and would force companies and their goods out of the market. Those additional costs eat into profits.

The rising dollar against the euro also makes our companies' imports more expensive. On the other hand – and this brings a small glimmer of hope – the falling euro also leads to a relative improvement in the competitive situation compared to the dollar area in the export sector.

Recession is forecast for 2023 but mitigated by orders backlog

For 2023, we predict a further decline in demand and a recession in the technology industries in Europe as a whole. The current outlook is for a drop in turnover of 4.9% next year in real terms.

On the upside, the good order situation in some sectors could mitigate this: if the pre-materials shortage eases, accumulated orders could be carried out and limit the decline. The adverse demand effect of falling investments is thus delayed somewhat. On the downside, if the willingness to invest in the customer sectors decreases more quickly than expected, the cost pressures on companies could lead to production declines or even the closure of production facilities. This development would set off a considerable chain reaction, as our companies are typically strongly horizontally integrated. These downside risks could push a moderately pessimistic forecast down significantly.

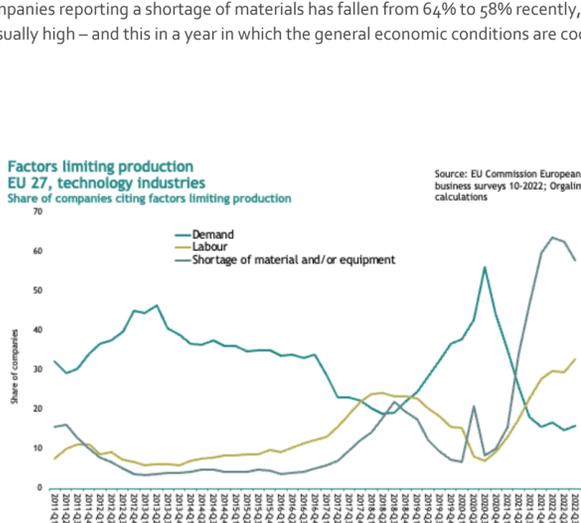
Investment and thus the demand for capital goods will suffer

Falling profits in customer industries lead to less investment in capital goods. This falling demand for capital goods will negatively impact the order books of the technology industries. In part, the decline in demand can already be observed in many sectors: the Eurostat production index shows a negative production development in the first eight months for the electrical engineering, electronics and ICT sector. Overall, investments in the technology industries should still increase by 1.5% in real terms in 2022, but for 2023 we expect a decline of 5.1%.

Materials and labour shortages reach historic highs

As already mentioned, companies in the technology industries are citing supply and labour shortages as the main constraints on production. In itself, this is not unusual: while lack of demand is usually the main limiting factor for production, there can also be short-term shortages of pre-materials and workers during upturns – for example, in 2018, as the chart below shows. However, the current highs are more than unusual. They indicate a structural imbalance in the global supply chains and on the labour market, where the skilled labour shortage that was briefly covered up by the Covid crisis is now fully manifesting itself again.

The proportion of companies reporting a shortage of materials has fallen from 64% to 58% recently, but this proportion is still unusually high – and this in a year in which the general economic conditions are cooling down significantly.



Employment is expected to remain stable despite falling demand

With companies doing everything they can to hold onto their qualified workforce in this tight labour market, we see employment remaining fairly stable, despite the falling demand. Currently we expect employment in the technology industries even to increase by 2.1% in 2022, before stabilising at this level in 2023. This, of course, is on condition that the recession does not get deeper than we are expecting today. An unexpectedly deep recession could tip over the labour market, and rising unemployment would then be back on the agenda.

Key figures



2,497 billion EUR

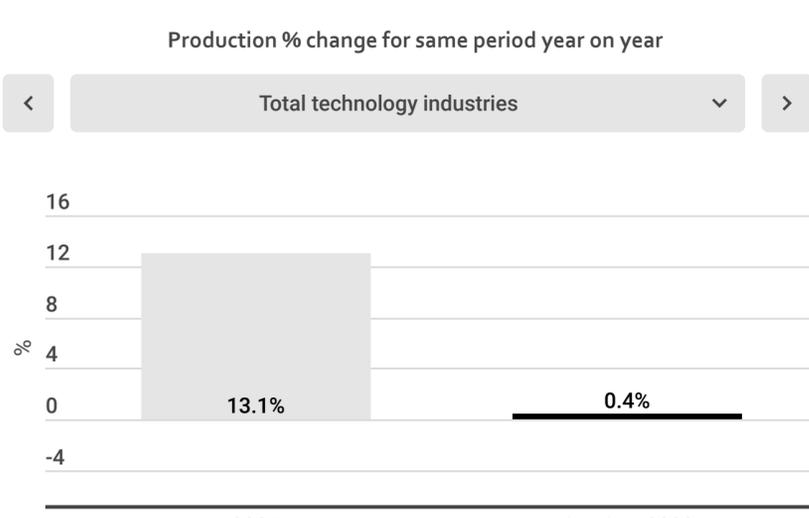
Turnover value of Europe's technology industries in 2021



10.974 million

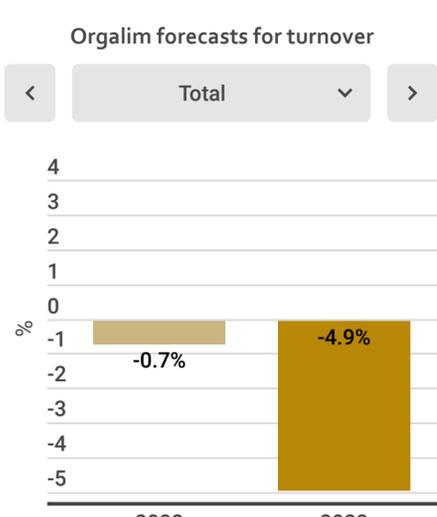
Direct employment of Europe's technology industries in 2021

Production % change for same period year on year

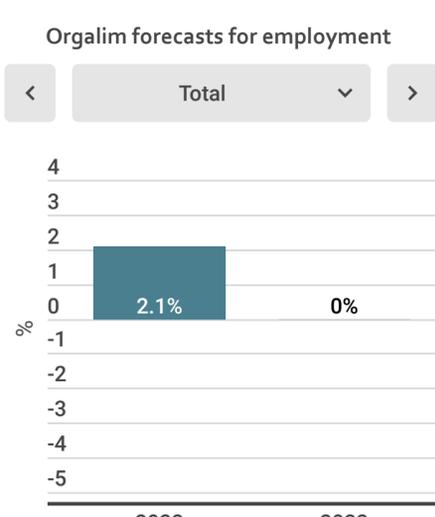


Data source: NACE 25/26/27/28/33 Eurostat production index EU 27; short term business statistics; Price adjusted, calendar and seasonally adjusted

Orgalim forecasts for turnover



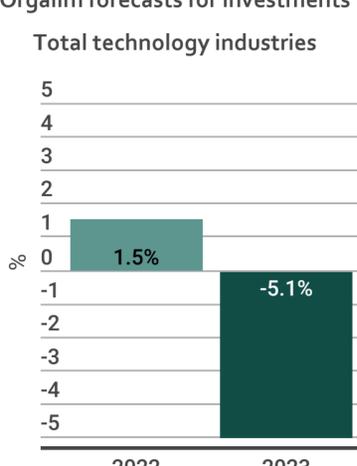
Orgalim forecasts for employment



Data source: E&S WG Forecasts year on year; NACE 25/26/27/28/, and Eurostat detailed enterprise statistics; technology industries 'total' also includes NACE 32.5 and 33

Orgalim forecasts for investments

Total technology industries



Data source: E&S WG Forecasts year on year; NACE 25/26/27/28/

Highlights by sector

Metal technology sector – shrinking demand as cost pressures intensify

Full year 2022 real turnover growth still positive (+1.1%)
Marked downturn (-4.7%) forecast for 2023
Automotive sector downturn is being felt

The demand and supply crisis that has been impacting the metal products and technology sector since the summer is intensifying. On the supply side, prices for industrial metals and the required semi-finished products remain high and it is not proving possible to pass these rising costs fully on to the customer. On the demand side, more and more buyer sectors – not least the automotive industry – are observing falling demand or are themselves facing production problems due to supply chain bottlenecks. For 2022, the European Automobile Manufacturers' Association (ACEA) expects car sales in the EU to be 26% below the pre-crisis level of 2019 and one percent below the level of 2021. This has a negative impact on the demand for metal products.

Thanks to the high pent-up demand seen in the first part of the year, we still expect turnover of the metal products and technology sector for the full year 2022 to grow 1.1% in real terms. This will, however, turn significantly negative in 2023: our forecast is for -4.7%. This outlook could worsen if the high energy prices – which affect not only the companies themselves, but above all their customers – force production cuts or even shutdowns.

Electrical engineering, electronics and ICT – surge held back by supply problems

Decline (-3.5%) expected in 2022 after strong 2021
Steeper forecast in 2023 (-4.6%)
Electronic components shortage is hitting hard

At the beginning of 2021, the electrical engineering, electronics and ICT sector experienced a sharp upswing, driven by a huge surge in digitalisation emerging from the Covid crisis. This upswing started slowing down already later in 2021 due to the lack of electronic components – in particular, the lack of chips. Even now, the effects of this shortage can still be felt in the industry.

We have already seen a turnover decline of more than 4.1% in real terms in the first eight months of 2022, albeit from a high starting position. We now expect real turnover for the full year 2022 to be down (-3.5%) and for that downturn to deepen in 2023 (-4.6%). The current weakness of the industrial economy in China also plays a dampening role here. In short, this sector that was the growth engine on the way out the Covid crisis is now experiencing a noticeable setback.

Mechanical engineering sector - still benefits from a solid order situation

2022 full year forecast to be just positive (+0.7%)
Downturn (-5.4%) expected in 2023
Longer lead times mean downturn is delayed

Like the other technology industry sectors, mechanical engineering struggled with supply chain problems in 2022, especially the lack of electronic components which caused massive delays in deliveries. The growing uncertainty and the possibility of gas shortages this winter is further dampening expectations.

That said, the typically longer order lead times in the mechanical engineering sector mean that both the order situation and the production have held up relatively well compared to the other sectors. In the first eight months of 2022, mechanical engineering was the strongest of the technology industries sectors, growing 4.6% in real terms. The decline is beginning to bite, however, and we expect turnover for the year as a whole to end up barely positive (0.7%). For 2023, this sector, too, is expected to fall into recession, with the forecast at -5.4% for the year.