

Addressing challenges in a year of contraction

Summary

Europe's technology industries are expected to face another tough year in 2024, with initial forecasts indicating a 2.9% decrease in real turnover. This marks the second consecutive year of declining activity, driven by shrinking demand and order books. There is a pressing need for demand stimulation to avert further decline.

Although 2024 does present challenges, there is also cautious optimism for potential demand improvement later in the year, tied to expectations of interest rate cuts. However, concerns persist regarding Europe's lagging growth compared to the USA, with the IMF's forecast of 2.7% GDP growth for the USA contrasting with the Eurozone's modest 0.8% projection, highlighting issues of competitiveness and investment.

Labour market pressures have eased slightly, yet the persistent shortage of skilled workers remains a challenge.

Although current perspectives indicate that insufficient demand hampers growth more than labour shortages, this is seen as a temporary situation. The anticipated resurgence of growth is expected to once again emphasise Europe's need to address its chronic shortage of skilled labour.

Key findings:

- Confirmation of real turnover decline of 0.5% in 2023.
- Real turnover forecast to further decrease by 2.9% in 2024
- Concerns persist regarding Europe's diminishing competitiveness.
- Pressure on labour market eases but long-term issues remain.

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

2023 real turnover decline confirmed

In 2023, performance slightly exceeded expectations, largely due to robust order books sustaining production levels with a decline of 0.5%. However, as the backlog of orders cleared, companies were not able to maintain production levels due to a decline in new orders.

Certain pressures experienced in recent years eased: raw material availability improved, alleviating supply chain pressures, while the acute shortage of skilled labour had improved by the end of 2023. Although energy prices remained relatively high in some regions, they were of lower concern. Moreover, the adverse impact of Russia's military invasion of Ukraine diminished, no longer influencing year-on-year changes.

However, concerns regarding increased regulatory burdens in the EU and their substantial impact on operations, as well as regarding lack of progress in decreasing trade barriers, are deepening within the European technology industries.

Outlook for 2024

What happens in manufacturing as a whole has a significant impact on what happens to demand in Orgalim sectors and manufacturing production across Europe has been in decline for approximately a year. This trend is consistent across most European countries, with production volumes experiencing continuous contraction.

The Manufacturing Purchasing Managers' Indices (PMIs) for April 2024 indicate that the eurozone remains in a contraction phase for production, new orders and order backlog in total manufacturing. While the PMIs still signal a contraction, the rate of decline has slowed slightly compared to previous months. It remains uncertain whether this improvement signifies a shift towards a more favourable business cycle or is merely driven by optimism surrounding talks of potential interest rate cuts.

Our current projection anticipates real turnover in total technology industries will decrease by 2.9% in 2024. The weak performance in total manufacturing is impacting demand in the technology sector and it seems inevitable that the first half of 2024 will be a difficult one for the European technology sector.

There is optimism, linked to interest rate adjustments, that demand may gradually rebound in the latter half of 2024. However, uncertainty looms over the timing of the European Central Bank's interest rate adjustments and how swiftly consumers and industries will respond. If demand fails to respond as expected to lower interest rates and investment remains sluggish, our current forecast may prove overly optimistic.

Pressure on labour market eases but long-term issues remain

Over the course of 2023, employment in technology industries grew 1.8% to 11.7 million people in Europe. This high level of employment has remained relatively consistent over the medium term.

In 2024, we predict that, due to a decrease in real turnover, there will be low overall demand for new personnel in the technology industries. Our forecast for 2024 employment is -0.1%.

Personnel will likely not decrease as much as real turnover (-2.9%) because companies are holding on to employees if possible. This is because employers remember their recent struggles to find and hire skilled workers and are cautious about letting go of employees. There are also hopes of an upturn in the near future.

While a lack of skilled labour is less of an issue than it was during 2023, Orgalim economists advise against complacency. Markets can change rapidly and there is a severe structural lack of skilled labour in Europe. We must remain focused on attracting and training a skilled workforce even if there is temporarily less pressure on the labour market.

Key figures



2,835 billion EUR

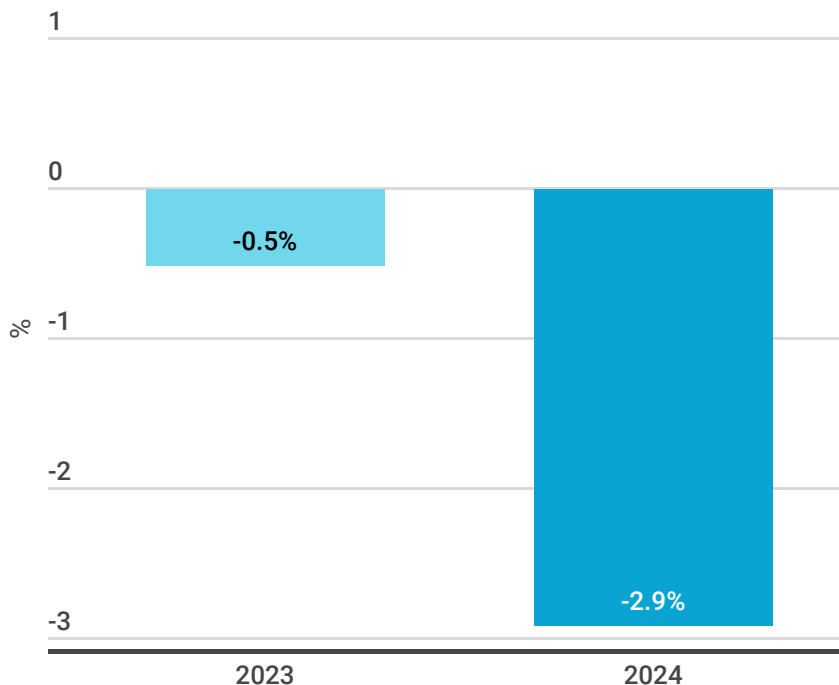
Nominal turnover value of Europe's technology industries in 2023



11.7 million

Direct employment of Europe's technology industries in 2023

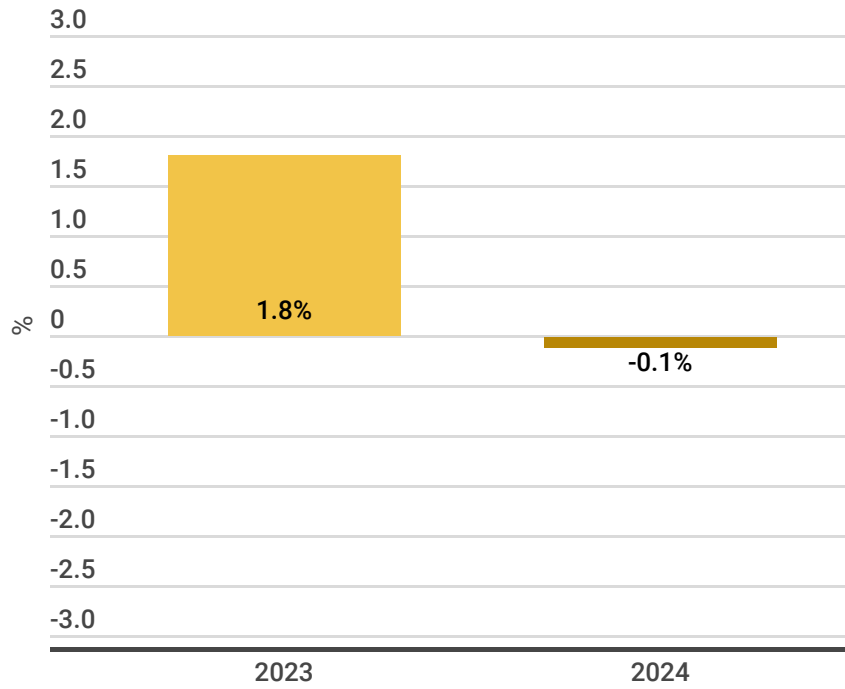
Orgalim forecasts for real turnover



Data source: Eurostat

Orgalim employment growth and forecast

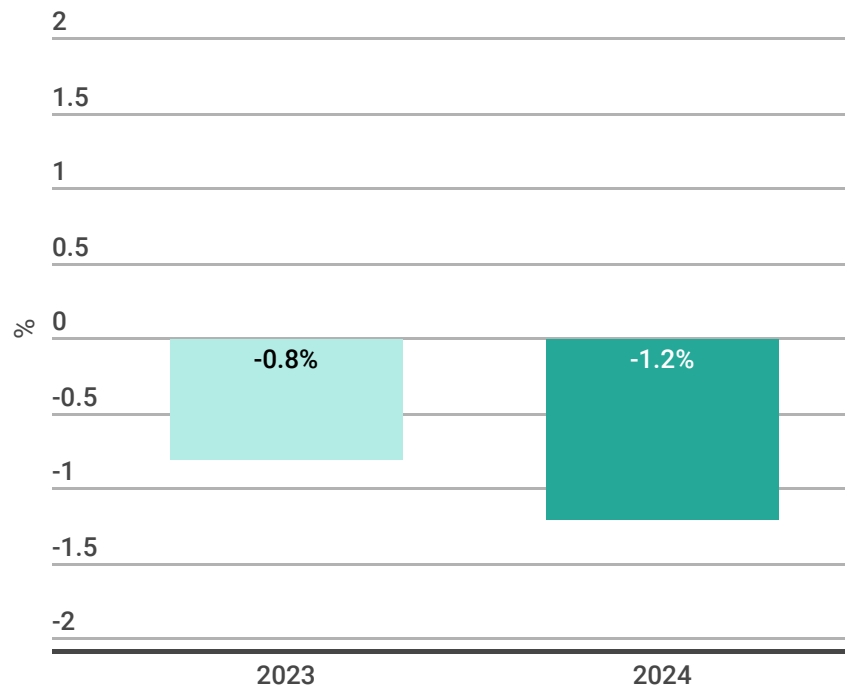
Total technology industries



Data source: Eurostat

Orgalim forecasts for real investments

Total technology industries



Data source: Eurostat

Highlights by sector

Metal technology sector – downturn continues

Real turnover decreased by 2.4% in 2023

In 2024, a 3.1% decrease is expected in real turnover

We expect another difficult year for the metal technology sector with a 3.1% decline in real turnover for 2024. This is due to weak demand overall in the manufacturing sector and especially in the automotive and mechanical engineering sectors. This trend follows a challenging few years, including a real turnover decline of 2.4% in 2023.

New orders in the German automotive industry have remained stable but at a relatively low level for the past few years, with much of the production volume coming from working through a backlog. As the backlog is rapidly decreasing, this means that if demand does not accelerate this year, production volumes will fall. This presents a serious risk for the metal technology sector. Additionally, we expect a decline in real turnover for the mechanical engineering sector this year, which will also impact the metal technology sector.

Electrical engineering, electronics and ICT – decrease in real turnover for 2024

Best performing sector in Orgalim scope in 2024

Real turnover decreased by 2.3% in 2023

Real turnover predicted to decrease by 1.6% in 2024

In 2023, real turnover decreased by 2.3% and is expected to decrease 1.6% in 2024. Although it is decreasing, it is still the best performing sector in the technology industries in 2024 as the decreases are smaller than other sectors. Digitalisation in industry, offices and the private sector, plus investment in green transformation from the energy sector, has driven demand for products in the electrical engineering sector.

Despite the decline in 2023 and 2024, we predict that in the longer term, this sector will return to robust growth.

Mechanical engineering sector – high order backlogs are beginning to expire

In 2023, real turnover rose by 2.4%

In 2024, a decline of 4.0% in real turnover is expected

High interest rates are still impacting demand

High order backlogs supported production levels almost to the end of 2023, meaning that the mechanical engineering sector held up relatively well, with real turnover increasing by 2.4%.

However, demand remains weak and the flow of new orders is modest, which will almost certainly lead to a reduction in production in 2024. We expect a 4.0% decline in real turnover, with hopes of the situation improving slightly towards the end of 2024. This expectation of improvement is closely linked to expected interest rate cuts. If they are postponed or demand does not react to lower interest rates as expected, 2024 might be even worse than we currently predict.

Orgalim represents Europe's technology industries, comprised of 770,000 companies that innovate at the crossroads of digital and physical technology. Our industries develop and manufacture the products, systems and services that enable a prosperous and sustainable future. Ranging from large globally active corporations to regionally anchored small and medium-sized enterprises, the companies we represent directly employ 11.7 million people across Europe and generate an annual turnover of over €2,8 billion. Orgalim is registered under the European Union Transparency Register – ID number: 20210641335-88.



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