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Resilience under pressure: EU engineering industry continues to grow at a moderate pace

The last year has been one of political turbulence and economic uncertainty, but the European engineering industry has emerged resilient and continues to grow. Across the sectors represented by Orgalime, the latest economic data and forecasts are encouraging – as the impact of developments such as digitisation and data-driven business models begins to reverberate throughout the industry.

Official data for 2015 puts turnover in the European engineering industry at around €1.977 billion, and headcount at almost 11 million. And estimates for 2016 tell a positive tale: activity in the sectors represented by Orgalime was up 1% year-on-year, primarily fuelled by a slight economic recovery in the EU and worldwide. “We have seen an upturn in output across European industry and in the construction sector,” explains Tomas Hedenborg, President of Orgalime, “and we have received a boost from the increase in new vehicle registrations in the automotive industry – a major client for engineering firms.” Moreover, key indices suggest that business confidence, too, is on the rise. However, the engineering industry has also faced its fair share of challenges over the last 12 months: from a continuing slump in the BRICS markets, to the substantial depreciation of the Pound Sterling in 2016, and the end of the appreciation of the US dollar.

Looking forward to the outlook for 2017, cautious optimism is warranted. GDP growth should again be rather moderate in most industrialised countries, with the IMF predicting a slightly higher growth rate than in 2016 for emerging markets. European industry is set to see a jump in investment following a period of underinvestment, and the rise in output in the engineering industry is forecast to reach 1.3%. “If this upswing is realised, 2017 will be the fourth consecutive year of positive growth in our sector,” comments Adrian Harris, Director General of Orgalime. Nevertheless, a number of risk factors remain on the horizon: the impact of Brexit negotiations and populist movements may dent investor confidence, geopolitical tensions remain in Ukraine and the Middle East, and the potential for a protectionist US trade policy under Donald Trump would be bad news for export-oriented engineering firms.

Yet for now there are many reasons to be cheerful – particularly when it comes to employment statistics, with 2017 set to mark the fourth consecutive year of positive growth in engineering industry jobs in Europe. While a slight dip is expected – from 0.3% growth in 2016 to a predicted 0.2% in 2017 – the onward upward trend is a reminder of the central importance of engineering firms in providing jobs to European citizens. “The figures are a testament to the resilience of our industry in uncertain times,” concludes Tomas Hedenborg. “Going forward, digitisation will offer even more opportunities to create skilled employment – provided the right framework is in place across the EU. And for this to happen we need to see policymakers clearly and visibly adopting a forward-looking and supportive approach to manufacturing.”

Ends

Orgalime, the European Engineering Industries Association, speaks for 40 trade federations representing the mechanical, electrical, electronic, metalworking & metal articles industries of 23 European countries. The industry employs some 10.9 million people in the EU and in 2015 accounted for more than €1,900 billion of annual output. The industry accounts for over a quarter of manufacturing output and a third of the manufactured exports of the European Union.

www.orgalime.org

Full report: European engineering industry will 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 in installation and repair services. The employment in the engineering industry was equal to 10.97 million people of which 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 %)

Sector / year	2016	2017 (forecast)
Mechanical engineering	1.0	2.1
Electrical, electronics and instrument engineering	0.1	0.4
Fabricated metal goods	1.9	1.7
Total Orgalime industries	1.0	1.3

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 industry, a major client of the industry, where the number of new passenger car and commercial vehicles 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 3 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, the 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. This made exports to the United Kingdom more expensive. The United Kingdom, as a result, faced an increase of its input prices.
3. The appreciation of the US Dollar also came to an end in 2016. The US 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: Output will grow by 1.3%

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

Investment growth of European industry will be positive. The 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 are seeing an upswing of the European industrial investment figures.

The 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, now counterbalanced by the outcome of the French Presidential elections, 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 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 %)

Sector / year	2016	2017 (forecast)
Mechanical engineering	-0.2	0.3
Electrical, electronics and instrument engineering	-0.3	-0.1
Fabricated metal goods	0.7	0.3
Total Orgalime industries	0.3	0.2

Mechanical engineering industry

European mechanical engineering accounted for an annual turnover in 2015 of around 650 billion euro. 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 sector in the engineering industry.

The mechanical engineering is profiting of 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 euro.

In 2016 and 2017, there will be 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 to pick up the technological and commercial evolutions in the energy sector. This sector can certainly profit from the digitisation of the European industry and of the evolution towards Industry 4.0 in the whole world, 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 euro. 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 average of the European engineering industry (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 and the construction industry and of the spectacular growth figures in automotive.



The European Engineering Industries Association