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European engineering industries outlook for 2012-3: modest expectations which depend on EU's economic policies

Orgalime economists estimate that the engineering industry's value of production in EU27 reached some €1666 billion in 2011. All major sub-sectors in the industry showed robust growth in 2011. The highest growth in output - 11.5% - was registered in the mechanical engineering sector. Output in the metal products and metalworking sector grew by an estimated 6.8% and, for electrical engineering and electronics including instruments and ICT, the growth in output reached 5.5%. Overall, the output of the industry increased by an estimated 5.9%, an important development given that the 2010 growth was already at 7.5%. However, this is not expected to continue in 2012.

Commented Orgalime President Richard Dick: *"Unresolved public and private financial imbalances within the EMU and the subsequent decline in business confidence are now leading to low demand for engineering products in the EU. After a successful 2011, our industry in the EU is today witnessing an unfortunate stagnation in production, which is forecast to continue in 2013. While credible fiscal consolidation as well as structural reforms are of the utmost importance for long-term prospects, short-term economic policies are required to support the recovery of European industry and restore confidence to European businesses and consumers"*.

The level of production in Europe's engineering industry has shown a slightly downward trend since the third quarter of 2011. The decline in the growth of Orgalime's industry in 2012 has been modest, mainly thanks to exports to areas such as North America, Russia and Australia/Oceania which have provided a positive momentum. The former "engine of growth", China, has however, performed poorly in 2012, with a rather sharp deceleration in demand; this is reflected in a drop of EU investment goods exports to the country.

Orgalime Director General, Adrian Harris underlined that *"a great number of business cycle indicators show deterioration. From experience, this will lead to a difficult situation for our industries in the next few quarters. We therefore do not expect to see grow in terms of value and production next year. However, if confidence can be restored - and that will depend essentially on how economic policies evolve - and industry perceives whether EU and national institutions are really once again making an attempt to attract industrial investment, rather than going on piling on more regulatory burdens and uncertainty, a gradual improvement may yet occur towards the end of 2013."*

For 2013, a slight contraction of employment is expected, whereas growth in fixed investment will remain unchanged. This can be attributed to the foreseen sluggish demand, as well as to the fact that the engineering industry has been investing and taking on new employment at a rather rapid pace for the past three years, factors that nevertheless improved international competitiveness and raised productivity.

Ends

Orgalime, the European Engineering Industries Association, speaks for 37 trade federations representing some 130,000 companies in the mechanical, electrical, electronic, metalworking & metal articles industries of 22 European countries. The industry employs some 10.2 million people in the EU and in 2011 accounted for some €1,666 billion of annual output. The industry not only represents some 28% of the output of manufactured products but also a third of the manufactured exports of the European Union.

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Notes for the editor:

Engineering industry by sectors

Mechanical engineering industry

Profits improved after the slump in 2009 and utilisation of production capacity increased. Thus, demand for mechanical and industrial machinery has been high during the past two years. Demand in 2012 has been rather satisfactory on extra EU markets, whereas demand for investment goods in Europe deteriorated gradually during 2012 after the pick-up in 2010 and 2011. Several demand indicators such as the level of capacity utilisation in manufacturing industries and profits in the business sector, which are important for the investment goods industries, deteriorated in late 2012. Contrary to this, monetary policies have been slightly supportive, but the net effect on future demand for investment goods is expected to be low at the beginning of 2013, especially taking into consideration the deterioration of business indicators.

The mechanical engineering industry is expected to grow by a modest 1% in 2012 and marginally by 0.5% in 2013. As few businesses are willing to take on new capacity, demand will mainly arise from products for non-cyclical rationalisation and for replacement equipment.

Electrical, ICT and instrument engineering

Output of electrical engineering equipment and systems is expected to show moderate expansion in 2012. In ICT and instrument engineering the situation is quite mixed, with electric components and instruments doing rather well. Contrary to this, electrical and electronic consumer goods and telecom equipment are negatively affected by the overall situation on the EU labour market and the exceptionally low consumer confidence.

Overall electrical, ICT and instrument engineering output in Europe is expected to grow marginally in 2012 - by 0.5 %, with a slightly higher growth of 0.8% in 2013.

Metal Goods

Output in the metal goods industry tends to show a strong correlation with activity in the mechanical engineering, electrical and automotive industries due to the high proportion of sub-contractors in these sectors. Consequently, with low growth or even a contraction in its main customer sectors in some countries, output will decrease in 2012. The outlook for the sector depends on the expected evolution in key customer sectors. As demand in these sectors is expected to remain poor, negative growth in metal goods is also forecast in 2013.

For further comments, please contact

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Statistical Annex

Volume of production per sector (in billions of euro)

Showing annual percentage change with 2010 as basis	2010	2011	2012	2013
Metal goods	420	6.8	-1.5	-1
Mechanical engineering	500	11.5	1	0.5
Electrical, ICT, instrument engineering	500	5.5	0.5	0.8

Total European Engineering **5.9** **0** **0**

Annual estimated percentage change of the engineering sector

	2012	2013
Employment total engineering	+0.4	-0.2
Volume of fixed investment in total engineering	+3.5	+0.0
Exports	+2.0	+2.5



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