

Brussels, 17 November 2008

## Now is really the time to take initiatives for growth and jobs

After several excellent years, with a strong expansion for European engineering, prospects for the coming year are somewhat bleak. Apart from the expected and usual cyclical slowdown that started in the last year, the recent global financial turbulence is beginning to have an impact on the demand of both capital goods and consumer durables manufactured by the industry.

On the basis of early September data, output in the European engineering industry in terms of volume is expected to grow by 3.0 percent in 2008. However, credit restrictions and financial uncertainty, a drop in incoming orders and rising unsold inventories, in combination with lower capacity utilisation are contributing to a negative sentiment in the industry, leading our economists to forecast a growth in the production volume of the European engineering industry of just 1.2 percent in 2009. Business indicators signal at the same time that a contraction cannot be ruled out at this stage, even if this is not the baseline assumption of our economists.

In this uncertain context, Orgalime calls upon European and national regulators to take into account the importance of this major manufacturing sector to the economy as a whole by ensuring that the framework conditions for the engineering industry and its customers in the EU are not allowed to deteriorate.

As Orgalime President, Robert Mahler, stated at Orgalime's annual General Assembly in Milan, *"It is high time that the European institutions & national governments appreciate the fundamental contribution that our industry - the EU's major manufacturing sector - provides to the European economy. The goods and services that our companies provide create real jobs and real wealth: this is particularly important at a time when the financial sector has shown its limitations and is no longer providing the support that the economy, including manufacturing industry, has come to expect of it. It is therefore particularly important at this time, that governments and the EU institutions should get their priorities right: they need to focus on helping our companies to keep our skilled manufacturing jobs here in Europe, rather than on pushing a dogmatic regulatory agenda which imposes significant short term investment requirements on EU manufacturers alone. This only increases the temptation of companies to redeploy investment outside the EU. And our figures show that this is happening, so now really is the time to take initiatives for growth and jobs."*

### Lower growth in 2008

A very favourable business cycle has provided strong support during the past couple of years to the European engineering industry. Output in ORGALIME's industry reached a preliminary 3 percent growth in 2008, which is about that of the long term average growth, but represents a deceleration compared with strong growth in both 2006 and 2007. As a consequence of the strong activity in the first half year of 2008, employment in the industry is estimated to have grown by some 1.3 percent bringing total jobs in the industry to over 11 million.

*Orgalime, the European Engineering Industries Association, speaks for 34 trade federations representing some 130,000 companies in the mechanical, electrical, electronic, metalworking & metal articles industries of 22 European countries. The industry employs over 11 million people in the EU and in 2007 accounted for some €1,813 billion of annual output. The industry not only represents more than one quarter of the output of manufactured products but also a third of the manufactured exports of the European Union.*

Fixed investment is expected to have increased at about 3.5 percent in 2008, as the industry entered 2008 with rather high capacity utilisation and high growth of production. This final growth rate for the year will, however, be likely to be only about half that reached in 2007.

For the past couple of years demand has been high on emerging markets where there has been a need for all types of investment goods. 2008 was no exception. Extra EU trade is estimated to have grown by 5.8 percent in 2008, whereas EU intra trade has grown slower or by 3.3 percent.

A normal weakening in the cycle for investment goods started about a year ago. However, financial unrest, that has characterised the global economy for the past couple of months, has turned what had been expected to be a soft landing into a sharp slowdown in activity during the second half of 2008.

Business tendency surveys carried out in EU-countries reflect a change in confidence in European engineering companies. Order books in most industries are now considered as below normal. Production capacity and shortage of labour are no longer considered as the major obstacles for future expansion. It is demand that has become the major issue for future expansion.

### **Looking into 2009**

Prospects for 2009 are not that optimistic. Domestic demand in Europe is expected to slow further. Demand for investment goods will contract, growing at a very low rate due to tighter access to credit and since production and capacity utilisation is expected to slow down.

Consumer confidence throughout Europe has also fallen rather dramatically during recent months: household consumption of durable goods is therefore expected to grow by just a few percentage points next year.

ORGALIME also expects intra-trade of engineering products to grow at a very low rate of some 1.3 percent in 2009.

There are, however, still a few bright spots contributing to expansion of the industry: the strong euro, that has been an obstacle for many exporters, has fallen to a more normal level and will contribute provide a boost to the industry. There are also export markets in Asia or on other emerging markets that are expected to grow at a higher rate than in Europe. This is reflected in the forecast of EU extra trade that is expected to grow by 3.4 percent in 2009. The expected fall in prices of raw material inputs, such as non ferrous metals and steel is also a positive factor.

Nevertheless, ORGALIME expects that a slowdown in volume of production is inevitable during 2009. Growth in production is expected to reach some 1.2 percent which is not enough to sustain employment growth in the industry: for 2009 it is expected that employment will contract by some 0.5 percent. Due to lower growth and to investment climate in many of the engineering industries client sectors, fixed investment is also expected to fall slightly or by some 0.3 percent.

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### **Notes for the editor:**

**See Over**

## An overview of sector performance

### Percentage change in volume year on year

Sector	2008 estimate	2009 forecast
Metal goods	0,8	1,2
Mechanical engineering	4,7	0,6
Electrical, ICT, instrument engineering	3,5	2,1
<b>Total European Engineering</b>	<b>3,0</b>	<b>1,2</b>
Employment total engineering	1,3	-0,5
Fixed investment total engineering	3,4	-0,3
Exports	4,3	2,2
EU Extra Trade Exports	5,9	3,4
EU Intra Trade Exports	3,4	1,4

### Engineering industry by sector.

Notwithstanding the somewhat poorer prospects for 2009, there are variations from sector to sector of the industry.

Initial production growth forecasts for the European **metal goods industry** in 2008 are set at 0.8 percent. This branch of the engineering industry produces, to a large extent, inputs or products used in other sectors in engineering. Demand from other sectors of engineering has been considerably lower throughout 2008, thereby leading to stagnation in growth. Though the metal industry has limited dependence on exports, foreign demand has been weak and contributed to the low growth in 2008. In sub sectors, manufacture of structural metal products will contract this year after a very strong 2007. High growth is expected for the steam generators industry and in forming, pressing and stamping metal.

Since activity is expected to be down in many of the industry's client sectors, such as the machinery and automotive industry, the outlook for the industry in 2009 is somewhat bleak, with a very moderate growth of volume of production of 1.2 percent expected for the year.

**The European machinery and equipment** industry has benefited from several years of strong worldwide demand of investment goods and as a result growth has been impressive. Unfortunately 2008 has seen a drop in this growth and in demand. The production volume is expected to grow by a "mere" 4.5 percent in 2008, a figure that is nearly half that of the year before. Strong extra-EU exports growth of 7.8 percent is expected in 2008, with intra trade volumes also growing briskly by about 6 percent.

A number of sectors of machinery are still doing well at present, especially agricultural machinery and machine tools. Lower growth or even contraction in 2008 has however affected other sectors of the machinery industry which is a reflection of low or even declining growth in other parts of manufacturing industry.

Activity in the machinery sector is expected to continue to slow down in 2009. The investment outlook in the engineering industry itself is not positive: many key customers and key industries that are important for the sector have invested heavily in the past three years and a cyclical slowdown is therefore considered as inevitable. Moreover the financial turbulence that has arisen over recent months is beginning to limit access to credit, with banks still showing signs of hesitation to provide credit in spite of the massive injections of liquidity into the financial system. The drop in stock prices, lower capacity utilisation in many customer industries and the uncertainties in the investment climate in Europe have led to undermining industrial confidence and therefore to the outlook for the investment goods industry. The volume of production for European machinery sector is therefore expected to grow at a very low rate in 2009 by some 0.6 percent. However a contraction in output next year cannot be ruled out completely, in spite of sustained demand outside the EU leading to an expected growth in Extra trade expected of some 4.8 percent.

Preliminary growth forecasts for **electrical, instrument and ICT engineering** in 2008 are expected to reach some 3.5 percent. This is lower than the year before. The reason for the slowdown in the sector as a whole is mainly the contribution from the telecommunication sector where growth of output is expected to decrease. With falling prices in this sector, turnover has been affected negatively. On the other hand has the sub-sector of electronic components (Nace 321) has grown briskly, as has the office equipment and computers sector (Nace 30).

Growth of traditional electrical machinery and apparatus has continued at the healthy pace that started in early 2006. Sub sectors in electrical machinery and apparatus such as traditional generators, motors and transformers (Nace 311) and distribution and control apparatus are showing signs of sustained growth. This is however not the case for the wire and cables, accumulators and lighting equipment which have seen signs of a sharp contraction in 2008.

Prospects for 2009 are still rather positive for the sector as a whole and volume of production is expected to expand further, but falling slightly compared to 2008 or to a growth rate of 2,1 percent.

**For further comments, please contact**

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