

Significant decline in demand in 2024, outlook for 2025 also negative

Summary

In our Spring 2024 Economics and Statistics report, we were pessimistic on the outlook for the year, estimating a decline in real turnover of 2.9%. Unfortunately, even this was too optimistic and 2024 will likely see a turnover decline of 4.8% across all Orgalim industries combined, with metal technology down 3.3%, electrical engineering, electronics and ICT down 5.4% and mechanical engineering down 5.3%.

This is due to a range of factors. Cost competitiveness is a major issue for European technology sectors, due to challenges related to regulatory burden, energy and the rising cost of labour. This is sharply illustrated by the automotive sector, where overall vehicle production costs are approximately 30% higher in the EU compared to China.

In spring, we had expected that lower interest rates would lead to an improvement in demand and consequently a rise in turnover but that has not been the case, leading to worse than predicted outcomes.

Unfortunately, we do not expect the situation to improve in 2025. Although there are some glimmers of optimism in smaller EU economies, these are far outweighed by the pessimism from larger manufacturing economies in central Europe.

Key findings:

- Real turnover down by 4.8% on average across all Orgalim industries
- Employment down but only slightly at -1%
- Concerns over Europe's competitiveness continue to grow

Overall

2024 worse than predicted

2024 has been a bad year for the majority of Orgalim's sectors. One reason for the worse than anticipated figures is that the recovery that we expected to start at the end of this year has failed to materialise. In short, the predictions of a 2.9% decline in real turnover in our Spring Economics and Statistics report were too optimistic. However, even in these challenging times there are a few exceptions, for example, defence grew in 2024.

Weak demand in the automotive industry, especially for electric cars, is affecting the whole supply chain. Many of Orgalim's members are involved in making components used by the automotive industry – microchips, engines, batteries, electric chargers, metal components, etc. – consequently, they are directly affected.

It seems that demand from the USA also weakened during the second half of 2024, contributing to a postponed recovery. Demand from China is also contracting at the same time that competition from China is picking up speed.

We expected that the economy would react to lower interest rates with increased spending. This was not the case and as a result, this year is finishing worse than predicted and does not look set to improve in 2025.

Empty job vacancies signal a structural problem

Currently, there are still unfulfilled vacancies in industry, which is preventing a more dramatic contraction in employment figures. This points towards structural issues with matching employees to open posts.

These issues are most prevalent in high-skilled roles, illustrating that Europe is lacking skilled workers in certain areas. This must be addressed through education and training as a matter of urgency as it will take time for a pipeline of skilled workers to be ready to take on these high-level roles.

Interestingly, we also see an issue with unfilled roles at the other end of the spectrum, with lower-skilled posts staying empty. This is due to a general upskilling of workers across Europe, meaning that few people are willing to work in low-skilled jobs for low pay.

Investments hitting rock bottom

The forecast for real investments for 2024 is down from a decline of 1.2% in our spring report to 3.9% in this report. With the exception of the 9.7% decrease in 2020 due to the Covid pandemic, this is the worst forecast for investments since 2011. A decline in investments of this magnitude has potential structural effects on the economy. There is a notable lack of appetite for both domestic and foreign investments in Europe.

More contraction on the horizon in 2025

The outlook for 2025 is negative, with economists predicting a contraction in real turnover of 0.5%, meaning that 2025 is expected to be the third consecutive year of contraction.

Pessimism has gained ground, particularly in the large manufacturing countries of central Europe, such as Germany, which were notably less optimistic than smaller countries in this forecast. This is pulling down the overall predictions.

Although energy costs have begun to decrease, they remain higher than they were before 2022 and higher than those of competitors. This, coupled with a rising cost of living crisis and war on Europe's borders could be blamed for an overall pessimism.

Whatever the reason, we are most likely heading into a third consecutive year of production decline.

Employment will fall – but only slightly

The outlook for employment is much the same as in 2024, with predictions that it will shrink by 0.9%, with metal technology and mechanical engineering seeing the biggest losses at -1.4% and -1.2% and electrical engineering, electronics and ICT staying stable (+0.1%).

There could be dramatic job losses in the automotive sector. Volkswagen is considering closing plants in Germany, Stellantis has begun reducing its presence in Italy and Audi has already announced restructuring at an electric vehicle plant in Belgium. If these closures go ahead then they are likely to have knock-on effects on industries that supply components to the automotive sector.

Key figures



2,835 billion EUR

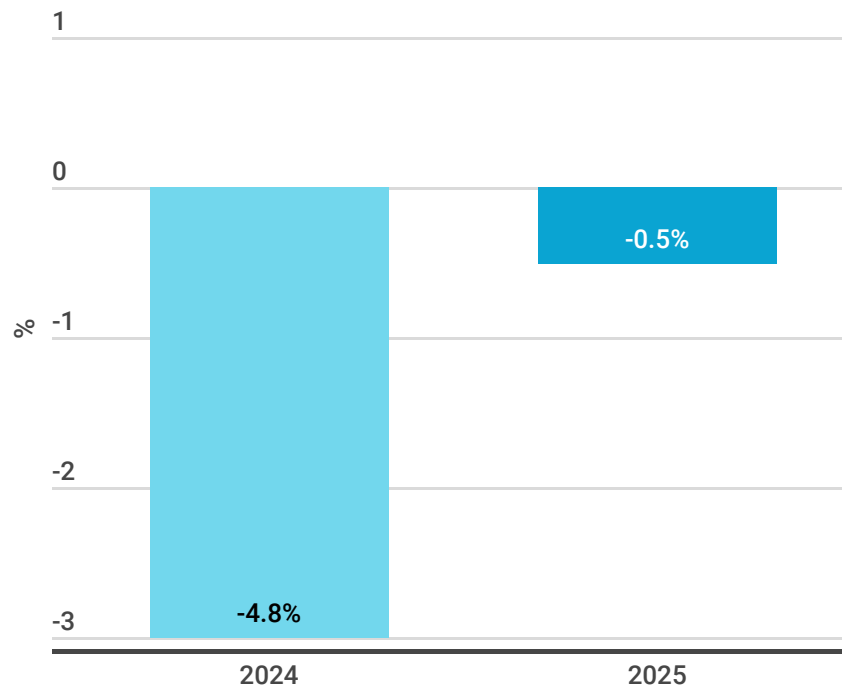
Nominal turnover value
of Europe's technology
industries in 2023



11.7 million

Direct employment
of Europe's technology
industries in 2023

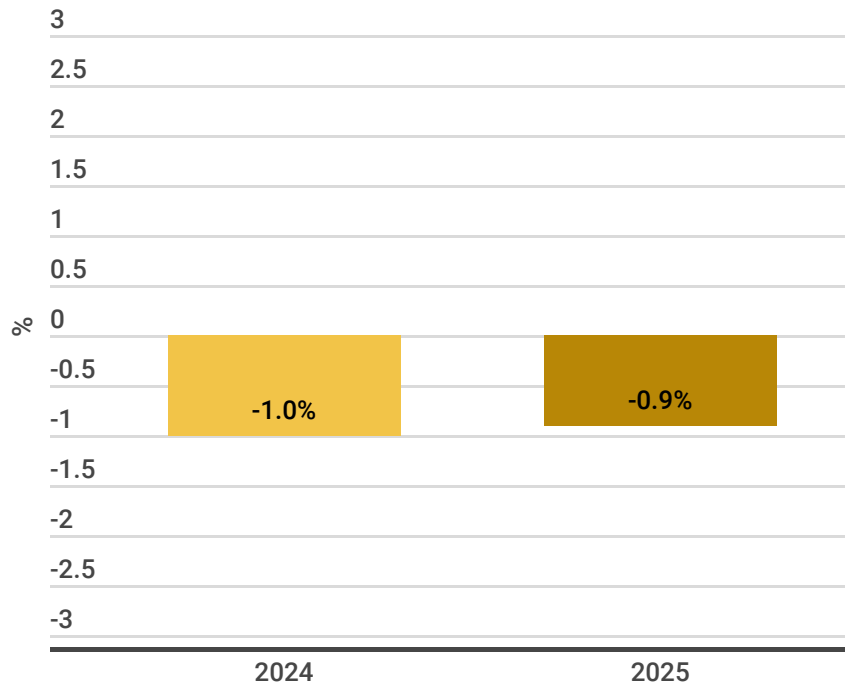
Orgalim forecasts for real turnover



Data source: Eurostat

Orgalim employment growth and forecast

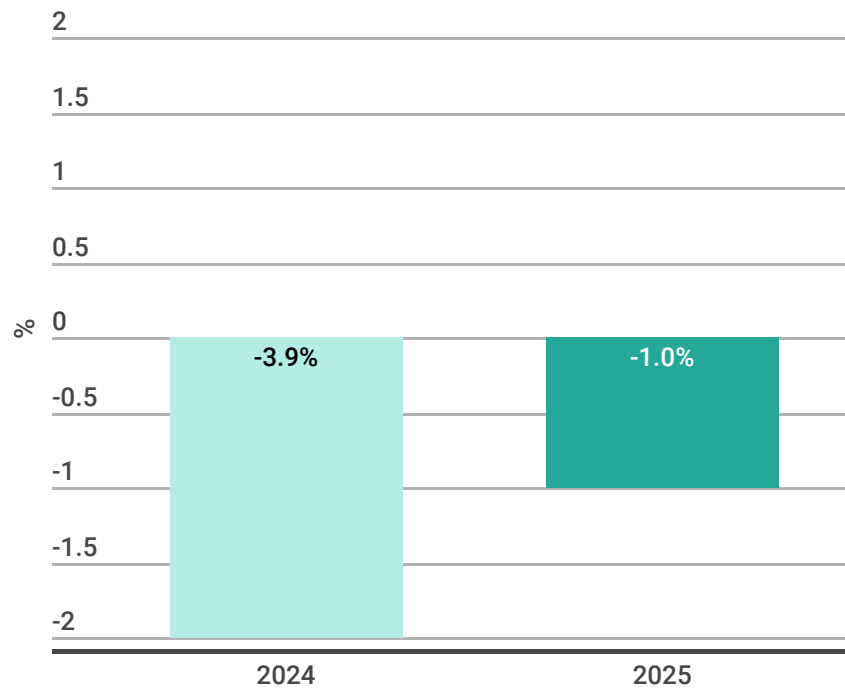
Total technology industries



Data source: Eurostat

Orgalim forecasts for real investments

Total technology industries



Data source: Eurostat

Highlights by sector

Metal technology

- Turnover 2024: -3.3%
- Employment 2024: -1.4%
- Turnover predictions 2025: -2.2%
- Employment predictions 2025: -1.4%

Companies in this sector have suffered the knock-on effects of lowered demand further along the production chain. They have also suffered from weaker than hoped demand in the automotive industry, especially for electric cars.

Figures in the metal technology sector would be even lower if it weren't for the increase in manufacturing connected to increased investments in European defence, which has pushed the figures higher than they would otherwise be. However, they are still negative, with a real turnover of -3.3%.

Electrical engineering, electronics and ICT

- Turnover 2024: -5.4%
- Employment 2024: -0.7%
- Turnover predictions 2025: 0.9%
- Employment predictions 2025: 0.1%

Like all the sectors Orgalim represents, electrical engineering, electronics and ICT experienced a downturn in 2024. 2025 is expected to be slightly better, with turnover increasing by 0.9% and employment by 0.1%. Factors such as the push for digitalisation and moving towards industry 4.0, plus investments in high-tech green solutions have protected this sector somewhat. This means that it has some of the more optimistic predictions for 2025, although they are still low.

Recruiting sufficient numbers of skilled workers has been a longstanding issue in this sector. This has led to companies being reluctant to let employees go, even when turnover is low, as they are afraid that they will be unable to recruit quickly once things look up. This is why employment has decreased at a much smaller rate than turnover.

Mechanical engineering sector

- Turnover 2024: -5.3%
- Employment 2024: -0.9%
- Turnover predictions 2025: -0.7%
- Employment predictions 2025: -1.2%

Mechanical engineering has been hit hard by trouble in the EU's automotive sector, which is struggling. Due in part to lagging technological capabilities, supply chain dependencies and a lack of charging infrastructure, Europe's automotive sector has fallen far behind other major economies on electric vehicles and is struggling to compete.

In contrast, China's focus on the full EV supply chain has given their automotive sector a strong competitive advantage. According to the Draghi report, "Chinese carmakers' market share for EVs in Europe rose from 5% in 2015 to almost 15% in 2023, while the share of European carmakers in the European EV market fell from 80% to 60%."

Additionally, demand in general has weakened in the US and China, affecting growth in Europe. The main issue is cost competitiveness compared to other economies, including energy prices and the cost of labor.

In summary

Weak demand, high energy prices and a lack of competitiveness have been a drag on the EU's economy and will continue to plague Europe's technology industries unless decisive action is taken by incoming policymakers. It is of particular importance to decrease the regulatory burden in Europe, ensure a competitive and secure energy supply and remove trade barriers with close EU partners.

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.



This work is licensed by Orgalim under CC BY-NC-SA 4.0. For more information, read our Terms of Use.