

Lisbon, 29 October 2010

European engineering industry on the rebound - from recovery to solid growth?

After a severe drop in output of over 22% in 2009 The European engineering industry has bounced back after the severe recession in 2009. Output in the industry in terms of volume is expected to grow by just over 5 percent in 2010, driven to a significant extent by demand outside the EU.

The recovery is expected to continue at a more modest pace in 2011 since the aftermath of the financial crisis is not yet fully over in many European countries. In 2011, output in the European engineering industry is now expected to grow by 4.5 percent. Output growth is expected to decelerate somewhat in metal goods and for electrical, electronic and ICT sector. Positive factors are that capital formation and employment will start to grow after some years of contraction and that production of machinery will expand at a higher rate than in 2010.

Commented Orgalime President Richard Dick: *“After a chillingly difficult year, we are at last seeing the positive signs that we in industry have all been hoping for. The corner seems to have been turned and there are good grounds for optimism in 2011 as well. Europe needs to be thankful for the determination and resilience that our industry has shown in the face of the financial crisis. This is no mean feat in an industry where over 95% of the businesses are SMEs. Now our challenge – and this is a real challenge - is to get the funds we need to expand our businesses as the recovery picks up and of course we are once again beginning to face the issue of finding the skilled personnel our companies need to underpin their development. We also need to get politicians to understand that they must really work on framework conditions and on growth in the EU: as an industry with 80% of its output in capital goods, our future development will largely depend on where our clients are investing.”*

Growth resumed in 2010

The level of production in the engineering industry has fallen sharply in most European countries and the drop in production in 2009 was the highest since the first oil-shock at the beginning of the 1970s. Economic policy became supportive with low interest rates and an expansionary fiscal policy. In combination with rather high growth in some Asian economies, such as China, demand improved from the second half of 2009. After heavy losses in 2009, companies have started to show profit, confidence has returned to much of the industry and optimism concerning the business situation has risen.

The level of production has gradually increased in all sectors of engineering, from metal goods and consumer goods to traditional investment products, with, however, variations between markets and sectors. All in all the output for the engineering industry in Europe is expected to grow by 5.1 percent in 2010. This is clearly higher than initially forecast, but still well below other periods of recoveries. One reason for this rather moderate expansion is that the momentum in many European economies is still rather weak.

Looking ahead – 2011 prospects are also encouraging

Prospects for 2011 are good and there are many reasons to believe that the expansion will continue. Many business cycle indicators reflect a positive economic environment. Confidence is growing, capacity utilisation has risen, interest rates are still supportive for growth and the demand for capital goods has increased after several years of low demand. Export markets in Asia and other emerging markets are expected to grow at a higher rate than in Europe.

Orgalime, the European Engineering Industries Association, speaks for 33 trade federations representing some 130,000 companies in the mechanical, electrical, electronic, metalworking & metal articles industries of 22 European countries. The industry employs some 10.6 million people in the EU and in 2009 accounted for some €1,427 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.

Domestic demand in Europe is expected to improve somewhat, but will be below normal, mainly as a consequence of the problems with public debt in many countries. However, recent improvements in the economic situation of many European countries will in some cases contribute to limited growth.

It is important to note, however, that the level of engineering output in Europe will still be below that reached during 2008 despite the growth expected in both 2010 and 2011. As activity now resumes, the level of production and utilisation is rising and since profits are better, both investment and employment is expected to increase in Orgalime industries in Europe. Orgalime expects that production in Europe's engineering industry will grow by 4.5 percent in 2011, fixed investment by 5 percent and employment should start recovering, growing a moderate 0.2 percent.

Ends

Notes for Editors:

Engineering industry by major sector

The European **metal goods industry** is expected to reach a preliminary growth of production of 5 percent in 2010. The industry produces, to a large extent, inputs or products used in other engineering sectors. Demand for these has started to rise throughout 2010, thereby increasing activity and production for metal goods producers. Though the metal industry has limited dependence on exports, foreign demand has improved and contributed to the positive growth in 2010.

In sub sectors, high growth is seen especially in the areas of forming, pressing and stamping of metal, treatment and coating of metals, tools and general hardware. Activity in other sectors is still rather sluggish but on a moderate upward trend.

Since activity is expected to be high in many key client sectors of the metal goods industry, such as the machinery and car industries, the outlook for the industry is rather positive. In 2011 the growth in the volume of production is expected to continue, but at a more modest rate of some 3.7 percent.

The European mechanical engineering (machinery) industry has suffered an extended period of low demand. As profits, utilisation of equipment and production have improved, in combination with an ongoing implementation of new technology in investment goods, demand for machinery has risen. Strong extra-EU exports, especially to Asia and Latin America, have also contributed to growth. The volume of production is expected to grow by 4.3 percent in 2010.

A number of sectors of machinery are doing well at present, especially machinery supplied to other manufacturing industries, including special purpose machinery. This reflects an upward trend in growth and a willingness of client industries to start investing again. A rather sharp upswing can be seen in other sectors of machinery and equipment, such as machine tools, over the last two quarters, but this is rising from a rather low level. Since this surge in demand started rather late in 2010, some machinery sectors might show a contraction on average for the year.

Activity in the machinery sector is expected to continue to be favourable. Investment plans in the engineering industry itself are positive for 2010. Many key customers and key industries that are important for the sector have also started to invest. The indicators mentioned above, that are of importance to business activity, point to a rather strong market both in the EU and on major non EU markets. The volume of production for the European machinery sector is therefore expected to grow more strongly, with growth in output reaching some 5.3 percent in 2011.

The **electrical, instrument and ICT engineering** is expected to grow according to preliminary forecasts by 5.8 percent in 2010. The ICT sector was the first to come out of the recession and the level of production on a global scale is now higher than before the crisis even though the EU is lagging a bit. One of the most rapidly growing sectors this year has been the electronic components industry. The gap is closing quickly for instrument engineering, with output in optical instruments and electro-medical instruments now more or less at par with or even higher than before the recession began. Traditional electrical machinery such as generators, transformers and motors are also facing higher demand and this is expected to grow rather briskly.

Prospects for 2011 are still rather positive for the sector as a whole. The volume of production is expected to expand further with the growth rate reaching 3.7 percent, somewhat below that of 2010.

**Production in European engineering industry by sector:
Percentage change in volume year on year**

Sector	2010 estimate	2011 forecast
Metal goods	5.1	3.7
Mechanical engineering	4.3	5.3
Electrical, ICT, instrument engineering	5.8	3.7
Total European Engineering	5.1	4.5
Employment - total engineering industry	-1.8	0.2
Fixed investment - total engineering	1.0	5,0
Exports (total Intra and Extra)	8.2	5.9
Exports (Extra trade)	10	8
Intra trade	7.2	4.3

For further comments, please contact

Mr Adrian Harris, Director General ORGALIME Brussels +32 2 706 82 35 adrian.harris@orgalime.org

Mr Bengt Lindqvist, Senior Economist Association of Swedish engineering industries,
Stockholm +46 8 782 08 34 bengt.lindqvist@teknikforetagen.se



The European Engineering Industries Association

ORGALIME aisbl | Diamant Building | Boulevard A Reyers 80 | B1030 | Brussels | Belgium
Tel: +32 2 706 82 35 | Fax: +32 2 706 82 50 | e-mail: secretariat@orgalime.org
Ass. Intern. A.R. 12.7.74 | VAT BE 414341438