

Brussels, 19 November 2009

A gradual recovery after a severe recession

A gradual, but modest, recovery is expected in 2010 for the European engineering industry after the most severe contraction in 2009 since the 1970s. The volume of production is expected to fall by as much as 20% in 2009. Since financial markets are not yet functioning properly and capacity utilisation is at a record low, demand for investment goods, which represent 80% of the output of Orgalime industries will remain low. The volume of production at the level of EU 27 is therefore forecast to remain unchanged in 2010. This will inevitably have an impact on employment in the industry.

This is the main message from Orgalime, the European association representing the engineering industries, the EU's largest manufacturing and manufacturing export sector.

The EU economy is experiencing its deepest, longest and most broad-based recession in recent history, but Orgalime economists feel it has reached a turning point: EU GDP growth, including in the euro area, is set to turn positive again in the second half of this year. However for 2009 as a whole, GDP is still forecast to fall by some 4%. In its recent autumn forecast the European Commission expects a gradual recovery with GDP growing by 0.75% in 2010 and around 1.5 % in 2011.

Financial turbulence is especially affecting the investment goods industry negatively. In the EU, the US and Japan the volume of production of capital goods is expected to drop by 20 to 30% in 2009. This is the largest decline in production since the aftermath of the first oil crisis in the 1970s. China is the only country where activity in the industry is still high, mainly due to the domestic stimulus package. In the EU27, the level of production is now at the same level as in 1999. The capacity utilisation in the industry is also at a record low in the US and the EU: some Orgalime members report that capacity utilisation is at its lowest level since 60 years, with only 70% utilisation of the installed capacity).

“Orgalime industries have been especially affected by the worldwide financial and economic crisis but probably the worst is over and Orgalime industries should now be able to start a difficult climb up from the bottom,” stated Orgalime President Robert Mahler.

Hopes for stabilisation of production at low level, but uncertainty remains high

Since autumn 2009 a stabilisation of production at a very low level seems to be taking place. The outcome of business cycle indicators points to the end of the worst of the crisis; the assessment of order stocks is slightly better than in the first quarter of 2009, inventories of finished goods and risk premiums have been reduced and nominal interest rates are still very low. Expansionary economic policies and temporary fiscal stimulus packages, including car scrapping incentives, have resulted in positive short term effects for part of the engineering sector. Other factors such as the rising unemployment, low profitability, a record low utilisation of installed capacity and limited access to credit could turn out to be detrimental to a quick recovery. Moreover the engineering industries in the euro area are also, to a certain extent, affected by the strong currency.

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 some 11 million people in the EU and in 2008 accounted for some €1,885 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.

Added Mahler: *“we do not yet really know where we will be after the storm has subsided: we are reluctant to make a forecast for 2010 because it is hard to find data that supports a real turnaround in activity. There is a need for consolidation for companies to remain profitable, but at the same time our industries, which were affected for many years by a lack of skilled personnel and technicians are reluctant to lay off their skilled staff for fear of losing them. ” We are not being helped for the moment by the continuing stream of new legislation which is adding to our costs. Moreover, somewhat surprisingly, in spite of the opportunity afforded by the stimulus packages, most governments have done little to try to shift their economies at this time towards greener technologies and the jobs of tomorrow. This is a pity.”*

Restructuring will have an impact on employment

Inevitably the recession is having an impact on employment: in an industry where the vast majority of companies are family owned SMEs: many companies have held out for a long time in a bid to keep their skilled staff. As a result many have faced negative productivity and, given the slow pace of recovery, they are now faced with tough decisions in order to survive. Orgalime expects employment in the European Engineering Industries to be down by up to 5 % in 2009 and as the need for further adjustment is still significant, a further decrease of employment by 4 % is expected in 2010.

Outlook 2010: modest recovery during the course of 2010

In spite of improved business climate indicators, the analysis of order books, of new orders and production statistics do not suggest that a substantial turnaround will happen before the second half of 2010. The level of production in the industry continued to fall during the third quarter of 2009, although at a lower rate than before. Keeping in mind that historically long-term growth for Orgalime industries has been around 2% per year and analysing recent statistics, Orgalime's forecast points to little overall change in 2010, but there are hopes of some expansion in the second half of the year. As usual, there is expected to be a lag between the onset of economic recovery and a significant substantial improvement in orders for investment goods. New orders for investment goods are sensitive to the business climate and the future expectations of the clients of the investment goods industry.

“The engineering industry and particularly the investment goods sector provides the solutions for the challenges of tomorrow: climate change, energy security, growing urbanisation and demographic change in Europe. This is a key industry for the economy of Europe and the industry needs full support from policy makers now and in the years ahead: framework conditions in our internal market need to be improved and then stabilised, interest rates should be kept low since inflation will not be a threat and a new framework for the financial sector must be worked out in order not to repeat the same mistakes. And most important for an industry which depends so much on trade, we must fight against protectionism,” concluded Robert Mahler at the Orgalime General Assembly.

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Notes for the editor:

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At this time, Orgalime is not in a position to publish a reliable „overview of sector performance“, which gives the percentage change in volume year on year for different branches of the industry. This is partly due to the reshuffling of statistics (NACE codes) and partly to remaining uncertainty arising in the surroundings of the crisis. Among the factors that are leading to this uncertainty are:

Risks to economic recovery of engineering industries:

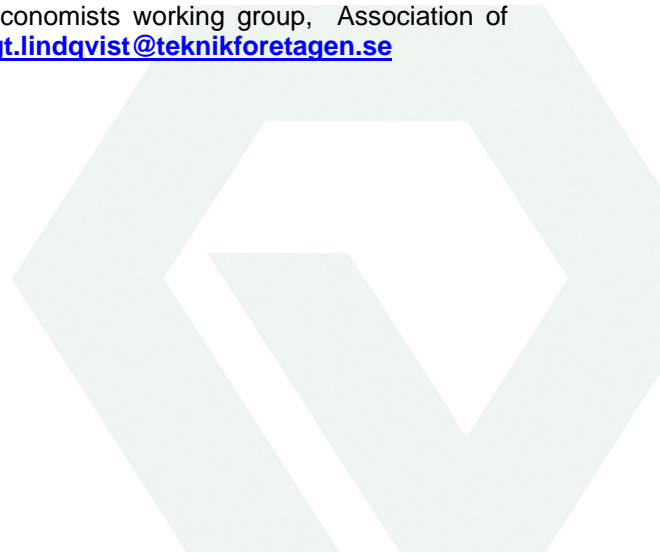
- financial markets not yet functioning properly
- credit and insurance crunch
- insolvencies leading to the breakup of supply chains
- customers' low capacity utilisation which is reducing their propensity to invest
- increasing pressure on prices and margins, payment behaviour of customers
- euro area industry affected by a strong currency
- monetary and fiscal policies which could suffer long-term damage
- growing protectionism

Prospects, chances, opportunities for the engineering industries:

- economic stimulus packages become effective globally
- resource and energy efficiency remain high on political agendas and a priority within companies
- worldwide development of trends towards higher energy efficiency, electric mobility, more efficient organization of health systems (medical engineering) and strong demand for infrastructure equipment (electrical rail vehicles)
- resilient private consumption within the EU

For further comments, please contact

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