Press Information

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Digitisation beginning to pay dividends: EU engineering industry forecasts strong growth in 2017

The European engineering industry is on track for strong growth in 2017 and 2018, as the benefits of industrial digitisation and the rise of new data-driven business models begin to pay dividends across the sector.

Official figures for 2016 put the total turnover for the EU engineering industry at €1,997 billion, while employment stood at 11 million. The forecast growth in output of 4.0% for 2017 has been accompanied by a general economic recovery both within the EU and globally. This upward trend has been mirrored in investment figures, which are climbing again following a period of underinvestment between 2010 and 2015 – something that has been reflected in a positive upswing in business confidence indicators over the last twelve months.

Tomas Hedenborg, President of Orgalime, is clear on what is driving this impressive performance: digital innovation. "We have been talking for some time about how digitisation is boosting productivity in our factories, and how the data generated is fuelling innovative new business models and growth opportunities," he explains. "This year, the figures leave no doubt that these innovations are already making a difference to companies' bottom lines – and we are only at the beginning of this digital transformation." Looking ahead to 2018, the outlook remains positive with forecast growth only slightly lower at 3.5%. Employment is also set to rise by 0.9% next year: this will mean that between 2014 and 2018, the European engineering industry will have created a total of over 300,000 jobs.

However, a number of challenges continue to loom on the horizon. Uncertainty surrounding Brexit, and the persistence of populism and anti-globalisation sentiment remain a concern for investors, as does the tendency for lawmakers to move towards regulating the budding data economy. Moreover, engineering companies are facing skills shortages and upward pressure on wages, which could impact European industry's global competitiveness. In this context, a supportive industrial policy strategy will be key to safeguarding and building on recent gains. "What happens in the coming year, especially at the regulatory level, will be decisive in how far industry can develop the potential of digitisation and the use of data," points out Adrian Harris, Director General of Orgalime. "While we are seeing a welcome growth in investment in Europe right now, the recovery is still very fragile. We must ensure we nurture this new found growth with a stable framework that enables our companies to continue innovating and continue creating jobs and growth."

Ends

Notes for Editors:
Notes

Orgalime, the European Engineering Industries Association, speaks for 41 trade federations representing the mechanical, electrical, electronic, metalworking & metal articles industries of 23 European countries. The industry employs nearly 11 million people in the EU and in 2016 accounted for some €2,000 billion of output. The industry represents over a quarter of the output of manufactured products and over a third of the manufactured exports of the European Union.

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Full report: European engineering industry will create 300,000 jobs in the period 2014-2018

Orgalime's economists compile and analyse the latest data and forecasts of the engineering industry twice a year. We specifically analyse the economic trends of metal products, mechanical engineering and electrical engineering, electronics, ICT & instruments (mainly chapters 25 to 28 and 32.5 of the NACE rev.2 business nomenclature) as well as the installation and repair services sector (chapter 33 of the NACE rev.2 business nomenclature).

Based on official data available, we estimate that the engineering industry's total turnover value in the European Union reached about €1,997 billion in 2016, of which €172 billion in installation and repair services. Employment in the engineering industry grew to 11 million people, of whom 1.3 million were working in installation and repair services.

Annual change in output (current prices) of the European engineering industries (Year-on-year growth in %)

Sector / year	2017 (estimation)	2018 (forecast)
Mechanical engineering	+5.0	+4.0
Electrical, electronics and instrument engineering	+3.5	+4.0
Fabricated metal goods	+3.0	+2.5
Total Orgalime industries	**+4.0**	**+3.5**

2017: Output will grow by 4.0%

The activity in the European Orgalime sectors will grow by 4.0% in 2017.

The main driver of the growth in 2017 was the economic recovery in the world in general and in the European Union in particular. The output of European industry and of the construction sector increased heavily and investment was again on the rise.

In the automotive industry, a major client of the engineering industry, there was a strong increase in the number of new passenger cars and commercial vehicles registrations, making the sector one of the motors of this European growth.

Furthermore, the Purchasing Managers Indices and the Confidence Indicators for the European industry have increased significantly since the end of 2016. The optimism, expressed by our figures, is also based on these observations.

However, in some countries and industries the European engineering industry has also faced negative effects on its order books in 2017, because of two important economic issues:

1. The uncertainty generated by the prospect of Brexit and a substantial depreciation of the pound sterling in 2016-2017 has made exports to the United Kingdom more expensive. As a result, the United Kingdom has faced an increase of its input prices.
2. The depreciation of the U.S. dollar in 2017 also resulted in EU engineering exports to the rest of the world becoming more expensive. (In 2014-2015, the appreciation of the U.S. dollar was one of the drivers of growth.)

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2018: Output is forecast to grow by 3.5%

In 2018, GDP growth is expected to decrease slightly in most industrialised countries. The first negative effects of the very good business cycle situation will gradually become visible: very high utilisation rates of production capacity, a growing lack of technical and digital skills affecting a large part of the industry and, last but not least, a higher upward pressure on wages which will have a negative impact on the global competitive position of our industry.

Therefore, we expect the engineering industry to grow by 3.5% in 2018: a little lower than the rate of growth in 2017.

Investment growth of European industry will continue to be positive. European industry was underinvesting in the period 2010-2015 compared to the period before the economic crisis of 2008-2009. Since 2016, we are seeing an upswing of the European industrial investment figures.

Uncertainty surrounding certain risks has also had a negative effect on growth perspectives. The rise of populism and anti-globalisation sentiment in Western Europe seems to be diminishing, but continues to be a factor of uncertainty.

The effects of Brexit on the European integration project and uncertainty about the way U.S. President Donald Trump will continue to deal with trade issues (and/or protectionist measures) is still putting a serious brake on the global and European growth motor.

Employment

Employment grew slightly by 0.3% in 2016. It was the third consecutive year of growth in the European engineering industry. The growth rate in 2015 was 0.7% and in 2014 we calculated 0.3% employment growth. In 2017 and 2018, Orgalime economists expect this to continue with an estimated rise in engineering industry employment of 0.7% in 2017 and 0.9% in 2018. In some parts of the industry, notably the fabricated metal goods industry, the increase could even reach 1.3%.

If we aggregate this data, then we end up with the observation that the European engineering industry will have created more than 300,000 jobs in the period 2014-2018.

Annual change in employment of European engineering industries
(Year-on-year growth in %)

Sector / year	**2017 (estimate)**	**2018 (forecast)**
Mechanical engineering	0.9	0.7
Electrical, electronics and instrument engineering	0.1	0.8
Fabricated metal goods	1.3	1.4
Total Orgalime industries	0.7	0.9

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Mechanical engineering industry

The European mechanical engineering industry accounted for an annual turnover of around 657 billion euro in 2016. Employment is estimated at 2.9 million people.

In 2017 and 2018, we see that mechanical engineering will grow again at above average rates (5.0% in 2017 and 4.0% in 2018), the strongest growth sector in the engineering industry.

Mechanical engineering is profiting from the wider recovery of European industry: since the beginning of 2013, European mechanical engineering output and investment figures have been rising strongly and this is good news for the European mechanical engineering industry.

Electrical, electronics, ICT & instrument industries

The electrical, electronics and instrument industry, including medical and dental industries, employs more than 3 million people. This branch of the engineering industry accounted for an annual turnover of some 675 billion euro in 2016.

In 2017 and 2018, this sector will grow steadily, after a few years with almost no growth: 3.5% in 2017 and 4.0% in 2018.

One challenge for this sector is to deal with decreasing price evolution in the manufacture of computers and peripheral equipment sector; another is to pick up on the technological and commercial evolutions (for example smart grids) in the energy sector.

The electrical, electronics, ICT & instrument industries can certainly profit from the digitalisation of European industry and of the evolution towards an Industry 4.0 in the whole world, in particular if the EU regulatory framework enables this.

Fabricated metals and metalworking industry

The fabricated metals and metalworking industry's turnover in 2016 is estimated to have been around 492 billion euro. In terms of employment this is the largest sector of the European engineering industry, employing 3.7 million people. This sector produces, to a large extent, inputs and products used in the construction industry and in other engineering sectors, such as machinery and automotive.

In 2017 and 2018, the sector is expected to grow a little less than the average of the European engineering industry (3.0% growth in 2017 and 2.5% growth in 2018).

The fabricated metal goods industry is benefitting from the recoveries in the mechanical engineering and the construction industry and from the growth figures in automotive.

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