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Europe needs manufacturing, manufacturing needs a better investment climate

“Europe needs manufacturing”, so said the President of the European Commission, Mr Barroso, at the Orgalime General Assembly last November. Now, Orgalime’s economists estimate that the engineering industries turnover value in the European Union (EU) reached some €1,840 billion in 2012. This represents some 28% of the total EU output. The number employed stood about 10.3 million people. Total trade (intra + extra trade) of the industry represented by Orgalime, reached €1,290 billion and the industry counts for a third of the exports of EU manufacturers.

Whilst Mr Barroso reminded us that *“Europe’s number of graduates in natural science and engineering, respectively account for 18% and 17% of the world’s total”*, one surprising statistic is that despite the contraction in output, it is estimated that employment actually increased in the European engineering industry during 2012, thereby reaching a preliminary estimate of 10.3 million people. After a brief glitch in 2009-10, employment has been steadily growing. Perhaps most importantly, all our sectors offer higher average gross wages and salaries in 2012 than in 2000. This can indeed be considered a great incentive for European graduates to stay in Europe.

“Manufacturing is at the very heart of Europe’s economy but despite these positive tones, the small and medium-sized enterprises which form the backbone of manufacturing output are still finding it difficult – if not impossible – in many countries to gain access to credit that is necessary for investment and the subsequent growth that investment would bring” commented Sandro Bonomi, President of Orgalime who added *“and besides, for many companies, who have a long term investment horizon, the EU has become too unpredictable at the level of its regulatory framework.”*

Indeed, whilst the output of European manufacturing has been in constant growth since 2000 (it grew from €1,528 billion in 2000 to €1,840 billion in 2012), we are not back to 2008 levels in all countries: in 2012 our industry experienced increasing uncertainty due to rising financial imbalances within the Economic Monetary Union. Confidence indicators in the investment goods industry deteriorated not only in the winter of 2011/2012, but also over the year. Judging from order stocks, Orgalime expects a very modest improvement in the overall business climate for the industry in 2013, leading to only a modest growth of production of some 1%.

EU engineering has been a highly exports-oriented sector. 2012’s exports’ value is 57% greater than in 2000. The value of our exports is steadily higher than of our imports, with the gap among these two to be widening, strengthening the argument made by Mr Barroso that *“Europe is a world-leader in many strategic sectors...”* Indeed, demand on export (Extra EU) markets was generally positive in 2012, compensating for the somewhat lower growth in the EU compared to 2011: the US market showed strength, along with a few markets in Asia and Latin America. China was the 2012’s big disappointment, as many Orgalime sectors in numerous Member States saw a downturn in exports towards this market. However, we must not delude ourselves by forgetting that the EU’s internal market is flat because many client sectors of our industry are not finding the EU an attractive manufacturing investment location due to increasingly high input costs and unstable framework conditions, both arising from over-regulation and continuous legislative change.

Finally, Mr Barroso was keen to highlight that *“Only industry can improve the energy and resource efficiency”*, the engineering industry has been able to grow its production levels while steadily reducing the amount of waste and so-called dangerous waste its end of life products generate. Waste production has fallen by approximately 20% and dangerous waste by approximately 18%. The industry is in parallel dealing with another challenge: to further reduce resource consumption, including energy consumption and through the technologies we provide are helping all other sectors of the economy to do the same.

Ends

Orgalime, the European Engineering Industries Association, speaks for 38 trade federations representing some 130,000 companies in the mechanical, electrical, electronic, metalworking & metal articles industries of 23 European countries. The industry employs some 10.3 million people in the EU and in 2012 accounted for some €1,840 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.

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Notes for Editors:

Engineering industry by sectors

Mechanical engineering industry

Fixed investment growth in the EU experienced a peak in the second half of 2011. On the contrary, on average it contracted in 2012. Therefore, intra EU demand gave little support to the mechanical engineering industry's growth. As a result, the mechanical engineering industry's production volume remained unchanged in 2012 after an expansion -well above the average - of 11.5% in the year before.

Demand developed better on other markets, although export growth decelerated compared to 2011. Exports to the US picked up, but the contraction of EU machinery's export to China created particular concerns. Overall, the European mechanical engineering industry reached an annual turnover value of about €630 billion in 2012.

While few sub-sectors such as material handling, power-driven hand tools, metalworking machinery and machine tools' sectors, did rather well against the fading business confidence background. On the contrary, output contracted in machinery supplied to other manufacturing sectors and the mining and construction sector.

Electrical, ICT and instrument engineering

The electrical, ICT and instrument industry is amongst the largest industrial sectors in Europe. Its 2012 turnover value was about €740 billion. The sector employed an estimated 4.1 million people.

The volume of production of electrical engineering machinery contracted by 2% in 2012. This was a clear deceleration compared to the expansion of 4.5% in 2011.

Motors, generators, and transformers contracted for the first time in two years, with an impressive 3% fall of production. Growth rates fell also for wiring and wiring devices.

Electrical machinery subsectors, which are more dependent on the construction sector, such as electrical lighting and domestic appliances, remained sluggish throughout 2012 with a reduced production level. Overall, business activity also decelerated in the ICT industry. All major subsectors recorded a contraction in output, but consumer electronics showed the smallest growth.

Sectors not so sensitive to the overall business cycle swings, such as instrument engineering for testing and measuring, as well as medical instruments continued their expansion in 2012 but at a slightly lower rate than in 2011.

Metal Goods

The fabricated metals and metalworking industry's turnover value in 2012 is estimated at €470 billion. Employee numbers are estimated at 3.3 million.

This industry produces, to a large extent, inputs or products used in other engineering sectors, such as machinery and the motor car industry. As these sectors deteriorated in 2012, metal goods' output is estimated to have contracted by 3%.

The export share in total turnover was considerably lower in this sector compared to other Orgalime sectors. Overall, exports grew by a modest 4% in 2012 compared to an increase of 13% in 2011.

The contraction was broad-based with a production drop in all major subsectors. The major subcontracting activities of forging, pressing and stamping were hit the most.

For further comments, please contact

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