

Brussels, 29 October 2013

Confidence up: will expectations become reality?

Orgalime is forecasting that the engineering industry's turnover in the European Union should reach in nominal terms some 1,840€ billion in 2013, slightly down on 2012.

The year started off rather poorly, with production remaining unchanged from the fourth quarter of 2012, which was already quite disappointing. However, since late in the third quarter of the year, there are signs of the beginning of a turnaround and we therefore expect the 2013 production of the European engineering industry to contract by around 1,7% on average in real terms.

Commented Sandro Bonomi, President of Orgalime, *"Both public and private EU-wide financial imbalances, combined with an investment cycle that has not yet improved, are the main reasons behind the difficult situation in 2013. Many EU governments have made progress on fiscal consolidation and structural reforms, but this is not enough to bring about an economic rebound: we need to see manufacturing investment pick up again in the EU and this is not yet happening. The EU has not yet managed to create the necessary conditions for Europe to become once again the attractive manufacturing location which resulted from the creation of the internal market. Politicians are doing too little to help, whether in Brussels or in many countries. Manufacturing as a percentage of GDP of the EU as a whole has in fact dropped from 15.9% a year ago to 15.1% and so, for our industry, demand in the EU is still this year the prime concern for most manufacturers."*

The gross fixed capital formation showed some stabilisation in 2013's second quarter compared to the first. Nevertheless, in annual terms there is still a contraction of 3.8%. It remains to be seen if capital formation will evolve positively during the rest of 2013 and into 2014.

The utilisation capacity in Orgalime industries is stabilising but is still, apart from the low level of 2009, well below the long-term average.

Order stocks are now better than in the first quarter of 2013, but, for many companies, they are still below normal levels. Nevertheless this positive trend is now reflected in some business cycle indicators of the industry. For example, the business climate index indicator has risen to around 100, indicating a more optimistic perspective for 2014.

Moreover, consumer confidence is on the rise in most countries, suggesting a positive impetus for Orgalime sectors producing consumer goods.

Concluded Orgalime Director General, Adrian Harris *"Despite the increased confidence for 2014, we should not expect any substantial improvement, as long as there is not a rebound in the internal market of the EU. In a number of sectors, our companies are doing well on export markets, but competition is extremely tough on international markets. Many companies are still struggling to make a profit. We should keep in mind that this is essential for investment to pick up again and, with investment will come growth and employment."*

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.

www.orgalime.org

Notes for the editor:**Engineering industry highlights**

The engineering industry accounts for some 28% of the output and a third of the exports of the EU manufacturing industries.

Total trade (intra + extra) of the Orgalime industry forecast to reach €1273 billion in 2013, with €553 billion coming from trade with third countries (extra) and €720 billion representing the internal market trade among Member States. Orgalime now expects that the worst of the downturn should be over and therefore business should improve, but the expansion is expected to be quite modest in 2014 with production increasing by 2.5% in volume. The growth in output will however be too low for industry to take on new employment in 2014 and the most positive scenario is for employment to remain stable in 2014 after a contraction in 2013.

Engineering industry by sectors***Mechanical Engineering Industry***

The global financial problems are limiting companies' investment. With production capacity utilisation in EU manufacturing industry at a low level, demand for mechanical and industrial machinery has been below normal during the past year. Only a few export-oriented countries have shown rather strong demand. Nevertheless, this has not proved enough to compensate for the contraction in fixed capital formation in the EU.

However, a number of factors point to an improvement in the EU investment cycle in the coming year. The machinery and equipment industry is, as a result, expected to grow by a modest 3% in 2014 after contracting some 2% in 2013.

With few businesses willing to invest in new capacity for the moment, demand in the EU will therefore mainly be based on products for non-cyclical rationalisation and on replacement equipment.

Electrical, ICT and Instrument Engineering

Electrical machinery production is expected to contract slightly in 2013.

The ICT and instrument engineering situation is slightly mixed, with instruments showing some expansion at the moment while, electronic consumer goods and telecommunications equipment are negatively affected by the overall situation on the EU labour market and on-going technological changes.

The overall electrical, ICT and instrument engineering output in Europe is expected to contract in 2013 by 2.1%. Prospects for 2014 are slightly better, with positive but limited growth of 2% forecast.

Fabricated Metal Goods

The metal goods industry's activity roughly mirrors that of its key customer sectors, among which the principal are the engineering industry itself and the automotive sector. Output is currently down in many countries and sectors. Nevertheless as activity has already improved in the European automotive industry, some metal goods suppliers are already seeing positive effects. Therefore, the metal goods industry's output should only marginally contract in 2013.

If the investment cycle turns around, metal goods suppliers will also benefit from the investment goods sector. Orgalime expects that business will improve and that production will expand in 2014 after two sluggish years by 2%.

Statistical annex

Annual change of production volume in European Engineering Industries

SECTOR / YEAR	2012	2013 (estimate)	2014 (forecast)
Mechanical engineering	+0,4	-2,0	3,0
Electrical, ICT, Instrument Engineering	-2,1	-2,1	2,0
Fabricated metal goods	-3,2	-1,5	2,0
Total European engineering	-1,2	-1,7	+2,5
Employment including repair and installation services	+0,6	-0,6	+0,2

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