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Economic Outlook 2007/2008

European engineering industry continues to ride the wave – Employment up by 250 000

Following the upbeat performance of 2007 by Orgalime's industries with the volume of production rising some 5.8 percent in the EU27, early official data sees the trend continuing during the early months of 2008. *"This is again a strong figure"* said Orgalime Secretary General, Adrian Harris *"Overall, order books are filled above average, confidence is rather high, employment is up by some 250 000 and investment plans are still positive. This means that 2008 has started off well for our industry, the largest manufacturing sector in Europe."*

With the EU's GDP up some 2.9 percent in 2007, most Orgalime members report that business has been strongly supported by demand arising from Asia and some other emerging markets. EU growth and intra trade were also high, especially in the Central and Eastern countries of the EU.

Vital for Orgalime industries is the demand for investment goods. Eurostat data shows that EU gross fixed capital formation grew by about 5.3 percent in 2007, a figure that was only slightly lower than in the year before. In a global context, demand for investment goods was also above the average growth trend. In some Orgalime member countries, shortage of resources is however affecting further expansion: many engineering companies still consider that the shortage of production capacity and skilled labour is a more important challenge than demand.

On the side of production inputs, the unstable situation, with high and volatile input prices, continued during 2007. However, the rise in some metal and steel prices showed signs of easing somewhat, especially in euro terms, as the US Dollar weakened gradually during 2007. As in previous years, profit margins are under pressure for many metal intensive engineering firms, since only a fraction of the rise in input prices can be passed on to customers.

With the financial sector in troubled times across the globe and credit is becoming tighter, investment will therefore inevitably be impacted. For 2008, Orgalime foresees a gradual easing of the positive business conditions and the volume of production growth for Orgalime industries will slow slightly from some 5.8 percent growth in 2007 to some 4 percent in 2008. Foreign trade in terms of exports will still play a central role, since exports are expected to grow by some 6 percent in 2008. Employment, it is expected, will continue to grow, but not at the same rate – some 0.7 percent for the year.

Nevertheless, if the forecasts of our economists are fulfilled, 2008 will be the third year in a row with above long term average growth for our industry. This can only be good news for Europe's economy as a whole.

Ends

Orgalime, the European Engineering Industries Association, speaks for 35 trade federations representing some 130,000 companies in the mechanical, electrical, electronic, metalworking & metal articles industries of 23 European countries. The industry employs some 10.9 million people in the EU and in 2007 accounted for some €1,813 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.

Notes for the editor:

An overview of sector performance

Orgalime Sectors	2007 percent change in volume of production y/y
Metal Products and metalworking	+5.4
Mechanical Engineering	+7.8
Electrical/ Electronic	+4.1
Engineering and ICT*	
Instruments	+4.4
Total Orgalime industries 2007	+5.8

* Incl. Computers & Office Machines, Telecommunication equipment and certain instruments

Electrical, electronics and instrument industries

The **electrical, electronics, ICT and instrument industry** is amongst the largest industrial sectors in Europe. Production in 2007 reached some 665 billion euro and employment is estimated at 3,545,000 million. Growth in output in 2007 turned out to be less strong than in the preceding year: the volume of production is estimated to have risen by 4.1 percent year on year. A reason behind this limited growth was considerably lower growth of exports. The Czech Republic, Finland, Denmark and Sweden showed double digit growth, whereas the larger countries appeared to have faced tougher market conditions, but also structural adjustments which affected growth negatively.

Situation in electrical engineering subsectors

Volume of production in **electrical engineering machinery** slowed down to about 6 percent in 2007 after a strong 2006. The sub sectors of motors, generators, distribution apparatus, accumulators and lighting equipment reported a very strong year with growth rates in production volumes of between 5 and 9 percent.. On the other hand, activity was flat for wire and cables and other electrical equipment.

Strong demand for electronic components

Business activity slowed in the **ICT industry** in 2007 after double digit growth in 2006. Output in volume is nevertheless estimated to have reached a healthy growth rate of some 6 percent. Growth was particularly strong in the Czech Republic and Sweden. However, the sector was weak in the larger economies and some of those countries were affected by restructuring and structural changes that affected the overall outcome for the ICT-industry negatively. Among sub sectors, the electronic components sector faced strong demand and output, in terms of volume, reached a growth rate of 17 percent. In contrast to this strong performance, output fell for telecom equipment and for radio and television apparatus.

Production in the sector of **instrument engineering** continued to increase for the fifth consecutive year with production volumes growing by 4.4 percent. Belgium, Sweden and the UK had the highest growth rates among Orgalime member countries in 2007. The sub sector of testing and measurement equipment showed strong growth, as did medical instruments.

Mechanical engineering industry

The European mechanical engineering industry had an annual value of production of about 646 billion Euros in the year 2007. Employment is estimated to have grown by 3 percent and thereby reaching a level of some 3,608,000 employees.

This sector of the engineering industry that represents almost 9 percent of the value of the EU's industrial production plays a key role in the evolution of both competitiveness and productivity of industry in general. It is a rather cyclical industry, whose performance depends on the investment cycles of its clients, many of whom are in the manufacturing and process industries. With the help of a very strong intra - EU trade

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growth of 10 percent, the sector did expand output at a historically high rate in 2007. Production volumes achieved 8 percent growth, a figure that was actually a few tenths of a percentage point higher than in the year before.

Apart from a healthy demand and high growth of investment formation in the EU, many Orgalime members also report strong demand from several Asian countries or other emerging markets. Austria, Germany, Netherlands, Norway and Sweden all reported double digit growth in 2007. But all other Orgalime members also reported a very satisfactory year for the sector.

High growth in all subsectors

For the second year running all sub-sectors showed healthy growth in volume of production in 2007 ranging between 7.5 and 10 percent. Activity was especially strong in machine tools and for manufacturers of mechanical power equipment.

Fabricated metals and metalworking

The industry covers a wide range of products, including tools and finished metal goods (accounting for some 40 percent of production), castings, forgings, boilers and metal containers, as well as secondary transformation on contract basis, such as treatment and coating of metals.

The turnover of the sector in 2007 reached an estimated 502.5 billion Euros. The number of employees is estimated to have grown by 2.8 percent to reach some 3,753,000. Activity continued to be high in 2007 building on the recovery that had already begun in 2006. Output is estimated to have grown 5.4 percent in 2007.

The industry produces, to a large extent, inputs or products used in other sectors in engineering and, as seen above, demand generated by other sectors of engineering was still high throughout 2007. Though the sector has limited dependence on exports, trade was strong in 2007: both intra trade and exports grew strongly by some 8 percent in volume. Activity in the sector was especially high in Denmark, Finland and Netherlands. Moreover growth was generally well above the long term average in nearly all European countries last year.

Sectors did not grow in a uniform manner

Expansion in the sector, however, was not as broad based in 2007 as in the preceding year. Manufacturing of steam generators showed double digit production growth, whereas growth for manufacturers of tanks and containers were only of about one percent. Production fell for the NACE 286 sector, which includes manufacturers of cutlery, hand tools and general hardware.

For further information please contact: Adrian Harris Tel +32 2 706 82 35, or e-mail to Adrian.harris@orgalime.org
or Mr Bengt Lindqvist Teknikföretagen, Stockholm +46 8 782 08 34 bengt.lindqvist@teknikforetagen.se



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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