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Economic Outlook 2007/2008 European engineering industry surges ahead

"Europe's engineering industry is expected to reach a growth in volume of production of 7.0 percent in 2007 with prospects for 2008 looking good" said outgoing Orgalime President Pr. Edward Krubasik, adding "we expect that the industry will continue to expand and output will only slow down gently. In terms of volume, we expect growth of 4.3 percent in 2008. Demand is still high and order books are close to full. Capacity constraints, higher cost of capital and slightly less favourable exports due to currency appreciation will all contribute to somewhat lower growth next year. Employment in our industry which stood at 10.6 million people in 2006, rose in 2007 and will continue to do so in 2008. As a major high technology industry and a major employer, this industry is really contributing to Europe's growth and jobs strategy. I feel that our work here in Brussels has contributed to shaping the EU's industrial policies which in turn will help to continue this excellent result in the future."

This is the major message of Brussels based ORGALIME that represents the European engineering industry as a whole. The organisation has just released its latest economic forecasts.

2007 will be the strongest year for European engineering industry since the recovery of 1994-1995. Output is expected to grow by 7 percent in volume, corresponding to a growth in turnover of 8.2 percent. This has led to expansion of employment by 1.6 percent in 2007, as growth of volume of production is well above average and above the normal rate of growth of productivity.

This favourable situation for engineering in Europe has been a result of particularly strong growth in the whole range of investment goods, particularly in Eastern Europe and in Asia. Strong growth of investment goods has given positive spin-off effects to suppliers and components manufacturers in all engineering sectors, but mainly so in the metal goods sector, which today is faced with increasing problems to source its raw materials at competitive conditions in the EU. Manufacturers of consumer goods have also faced rather strong demand as household consumption has held up well in spite of rising consumption taxes in a number of countries.

Business tendency surveys carried out all over Europe still reflect a positive outlook for European engineering. Order books are, in most industries, considered as above normal, demand is really not a constraint to future expansion and confidence is at the highest level since the late 1980s. Problems with capacity, shortage of labour and, in certain areas raw material inputs, are instead considered to be the major obstacles to growth for many companies at present. Capacity constraints do not only have negative effects: they have also contributed to a rather high growth of fixed capital formation, especially in the machinery sector, where growth of 6.8 percent is expected in 2007. A further increase in investment in the engineering sector by some 5.2 percent is expected in 2008.

See over

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 10.6 million people in the EU and in 2006 accounted for some €1,779 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.

Autumn this year has been affected by financial unrest and an appreciation of the euro. The euro is comparatively strong, which will impact export growth, if present foreign exchange parities are maintained. US industry and the US economy has slowed somewhat and this is a factor that should not be neglected. However, there are still positive factors giving a boost to the industry in 2008.

Domestic demand in Europe is expected to maintain its relatively strong momentum. Investment will remain rather dynamic since capacity utilisation is high. Household consumption should also strengthen slightly as employment conditions on European labour markets continue to improve. With lower export demand, growth of production of European Engineering industry will slow somewhat to 4.3 percent in 2008. This is still above the average for the past ten years. With output slowing and with difficulties in finding skilled personnel, employment growth will slow to 0.7 percent in 2008.

Ends

Notes for the editor:

Production in the European engineering by sector. Percentage change in volume year on year

Sector	2007 estimate	2008 forecast
Metal goods	7.5	4.1
Mechanical engineering	8.8	4.4
Electrical and ICT engineering	4.6	4.1
Total European Engineering	7.0	4.3
Employment growth total engineering	1.6	0.7
Fixed investment growth total engineering	6.8	5.2

Engineering industry 2007/8 by major sector.

The European **metal goods industry** is forecast to reach a growth of production of 7.5 percent in 2007. The industry produces, to a large extent, inputs or products used in other sectors in engineering. Demand generated by other sectors of engineering has been high throughout 2007 thereby giving impetus to the sector. Though the metal industry has limited dependence on exports, external demand has been strong and should grow by 10 percent in 2007. With activity still high in many major client sectors, such as the machinery and automotive industries, the outlook remains favourable for 2008, when the volume of production of this sector is expected to grow by 4.3 percent.

The European mechanical engineering industry has benefited for over two years of strong worldwide demand for investment goods. Production volumes are expected to grow by 8.8 percent in 2007, far outstripping initial forecasts. Strong extra-EU exports growth of 12 percent is expected in 2007, with intra trade volumes also growing briskly by some 9.2 percent. All sectors are doing well at present, among the best being machine tools.

Activity in the sector is expected to slow down only gradually. Capacity utilisation is high in many industry sectors, thereby stimulating further investment. However, many key customers and key industries have invested heavily in the past three years and here a certain slowdown is considered inevitable. Financial costs have risen over recent months as the price of risk has increased due to international financial turmoil. This normally affects the investment goods industry negatively. Orgalime also expects that negative exchange rate movements will enhance a cyclical slowdown in the industry. Production volume for Europe's machinery sector is nevertheless expected to expand rather briskly in 2008 by some 4.4 percent. It should be noted that this is 2 percentage points higher above the annual average for the past ten years.

Electrical, instrument and ICT engineering is forecast to grow by some 4.6 percent in 2007. This is lower than last year. The forecast for 2007 is well above the average for the past ten years (2.6 percent) and there are substantial differences between sub-sectors.

The apparent slowdown in the sector as a whole can be attributed mainly to the telecoms sector where output has been flat this year: with falling prices, turnover has been affected negatively. On the other hand has the sub-sector of electronic components has grown briskly, as have office equipment and computers. Growth of traditional electrical machinery and apparatus has continued on its high growth trend started in early 2006: electrical machinery such as generators, motors and transformers and distribution and control equipment are facing strong demand so far. Prospects for 2008 are still rather positive for the sector as a whole and production volumes are expected to expand further, with a growth rate of 4.1 percent. Export sales are still the main driver in 2007 and a growth rate of 6 percent is expected, with extra trade of a high 8 percent is foreseen.

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