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Economic Outlook 2006/2007

Order books are almost full – shortage of resources is the biggest problem

The European engineering industry reached a growth in volume of production of 6.6 percent in 2006, the highest growth rate since the year 2000. European engineering expects another favourable year in 2007. Industry is expected to further expand and Orgalime's economists are forecasting that output in the European engineering industry, the largest EU manufacturing sector, will rise by 4.3 percent in 2007. Demand is strong at present, but lack of capacity and manpower are becoming a real problem and could result in a gradual slow-down of the industry's expansion in 2007.

In 2006 domestic demand accelerated briskly in most European economies thereby giving support to the European engineering industry. Overall demand for investment goods, a key factor for the engineering industry's success has strengthened on European domestic markets during 2006 and export demand has continued to be strong especially from Asia and other emerging markets.

In 2007 growth is expected to continue but at a lower rate: domestic demand in Europe will maintain its relatively strong momentum. Overall industrial and business investment will remain rather dynamic, benefiting from a period of favourable financing conditions and high capacity utilisation. Private consumption is forecast to further strengthen, as the employment markets improve.

However concerns still remain about European fiscal and monetary policies, the level of raw material prices and the development of the US economy in 2007: The ECB and other central banks are continuing to raise interest rates. While there are indications that some input prices for our industry have peaked, others such as aluminium, nickel and steel are still high and rising. The Euro is still comparatively strong and last but not least the US industry and the US economy have slowed somewhat, which could also impact the engineering industry's expansion.

"2006 was a year beyond expectations" summarised Adrian Harris, Orgalime Secretary General. "Production growth was well above average and investment in Orgalime industry showed a double digit growth of 12.9 percent last year and is forecast to grow by 5.7 percent in 2007. As a result employment, which grew by some 0.5% in 2006 and which is now standing at some 10.6 million people in the EU 27, should again increase slightly in 2007. Our major concern at the moment is not a lack of demand but rather lack of production capacity and a shortage of skilled personnel in many European countries" underlined Adrian Harris.

ENDS

NOTE TO THE EDITORS

An overview of sector performance & outlook 2007

Percentage change in volume year on year according to ORGALIME estimations

ORGALIME Sectors	2006 estimate	2007 forecast
Metal Products	+5.3	+ 3.5
Mechanical Engineering	+7.1	+ 4.5
Electrical/ Electronic Engineering and ICT*	+7.3	+ 5.1
Instruments	+5.4	+ 3.4
Total ORGALIME industries	+6.6	+ 4.3

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

The European engineering industry by major branch:

The metal articles industry's production is estimated to have reached a growth rate of 5.3 percent in 2006. The industry produces, to a large extent, inputs or products used in other sectors in engineering. Demand generated by other sectors of engineering increased throughout 2006 thereby giving support to the metal sector. Though the metal industry has limited dependence on exports, foreign trade picked up in 2006 and exports grew strongly by 6.8 percent in volume. At a sub sector level, metal containers and tanks performed very well as well as traditional treatment and coating of metals. Since activity is still high in many other sectors that are important for metal goods, such as machinery and motor car industry, the outlook remains favourable for 2007. The metal goods industry is forecast to grow by 3.5 percent this year.

The machinery and equipment industry registered an estimated production growth of 7.1 percent in 2006. Extra EU exports increased rather strongly by 13.1 percent, which positively contributed to the growth of the whole sector. Intra EU trade also developed very well in 2006 with a growth rate of 6.5 percent. All sub-sectors of the machinery industry are doing well at present, with the machine tools (Nace 294) and mechanical power machinery (Nace 291) performing particularly strongly.

The expansion of the sector is expected to only slow down gradually in 2007. Investment plans in the sector itself are less ambitious in 2007 than they were in 2006. Many key customers and key industries which are important for the sector have already heavily invested in the past two years. Therefore the production of the European machinery sector is forecast to expand slightly less in 2007 by a rate of 4.5 percent. It should be noted that this figure nevertheless is almost twice as high as the average growth rate of the past ten years.

ORGALIME THE EUROPEAN ENGINEERING INDUSTRIES ASSOCIATION

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The electrical-, instrument and ICT- engineering grew by an estimated rate of 7.3 percent in 2006. The ICT sub-sector (computers, electronics and telecommunication) performed particularly strongly after a temporary slowdown in 2005 with a production growth rate of about 15 percent. Within the ICT sub-sector electronic components (Nace 321) mainly contributed to the overall development of ICT with growth rates well above 25 percent. Other sectors of ICT grew moderately.

Growth of traditional electrical machinery and apparatus was lower than for the ICT sub-sector, but nevertheless considerably higher than in earlier years with a growth rate of 7 percent. Sub sectors in electrical machinery and apparatus such as wire and cable (Nace 313) and generators, motors and transformers (Nace 311) are also facing strong demand so far.

The outlook for 2007 is still rather positive for the electrical-, instrument and ICT- engineering sector as a whole which is forecast to expand further, but slightly lower than in 2006 by a rate of 5.1 percent. Export sales are also the main driver for the expansion in 2007. Exports as a whole are expected to grow by 6 percent while extra EU trade is even forecast to increase by 8 percent.

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Orgalime, the European Engineering Industries Association, speaks for 36 trade federations representing some 130.000 companies in the mechanical, electrical, electronic and metalworking industries of 24 European countries. The industry employs some 10.6 million people in the EU 27 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.

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