

Chief Economists Report



The 2024 Economic Outlook for the MET industries

CONTENTS

Message from the Director General	3
Employment	5
Production	7
Exports	7
Productivity	8
Research & Development	9
Investment	10
Labour Cost	11
Working Hours	12
Message from the Chair of the Chief Economists Group	13



Message from the Director General Delphine Rudelli

Since our last publication in 2023, this period has been characterised by chronic challenges for companies. These are manifold and include lack of demand, labour shortages, competitiveness, and political uncertainty. Companies are currently fighting on multiple fronts with the economic landscape remaining a daunting battleground.

Challenging situation in the MET industries

We are experiencing challenges in MET production due to labour shortages, lack of materials, and weak demand. Broadly speaking, manufacturing performance has been disappointing in the countries which make up the MET sector. However, it must be acknowledged that it is a varied picture across the Ceemet membership. Despite growth being driven by some sectors, overall sentiment is cautious, with certain sub-sectors experiencing recession. Principle among these challenges is a lack of demand which is the key current challenge for the MET industries. Across many economies, consumer confidence has stalled, impacting purchasing behaviour, which is further compounded by rising interest rates. While this is more than likely a problem which will subside in time, the impact on our sector currently is real and acute. Those high interest rates affect companies also, creating a major concern for the supply of credit. Mix this with inflation that remains stubbornly above its long-term average, and we see a worrying financial environment for companies.

Labour market challenges

Despite having been superseded by weak demand in the short-term, labour shortages remain one of the key challenges for the MET industries, with vacancy rates continuing to cause issues. Having said that, there is a slight upward trend observed in employment in some Ceemet member countries. Despite the weak demand affecting employment, a stable employment trend is expected. As readers are undoubtedly aware, Europe is grappling with the effects of an aging population and declining birth rates, resulting in a shrinking workforce. This demographic shift presents a significant challenge for manufacturers as they struggle to find skilled labour. Compounding this issue is the retirement of experienced workers and difficulties in attracting younger individuals to pursue STEM and vocational education. These factors collectively exacerbate the already challenging situation faced by MET manufacturers.

A globally competitive MET sector

Geopolitical tensions and global competition continue to heavily influence business outlooks and decision making. Firms are understandably cautious about expansion and investment decisions due to their competitive position in a highly globalised world and the ongoing uncertainty globally. Despite having seen a 6% increase in exports in value terms in the MET sector in 2023, vis-a-vis 2022, exports are a mixed picture among the membership.

Following decades of over-regulation, we are beginning to witness an increase in the pressure to ensure competitiveness in the EU. It is imperative that we seize this opportunity to deliver tangible benefits for companies who have been inhibited by growth-hampering and inappropriate legislation.

For too long, Europe has lagged in the global race for innovation and investment. With the formation of the new European Parliament and Commission, we have a critical opportunity to shift this trajectory. We must prioritise policies that enhance business growth, foster innovation, and support digital transformation to maintain and advance our international competitiveness. Only through creating a business-friendly environment can we ensure the strategic investments that Europe needs to remain at the forefront of the global economy, providing prosperity and opportunities for employers and workers alike.

A future oriented MET industries

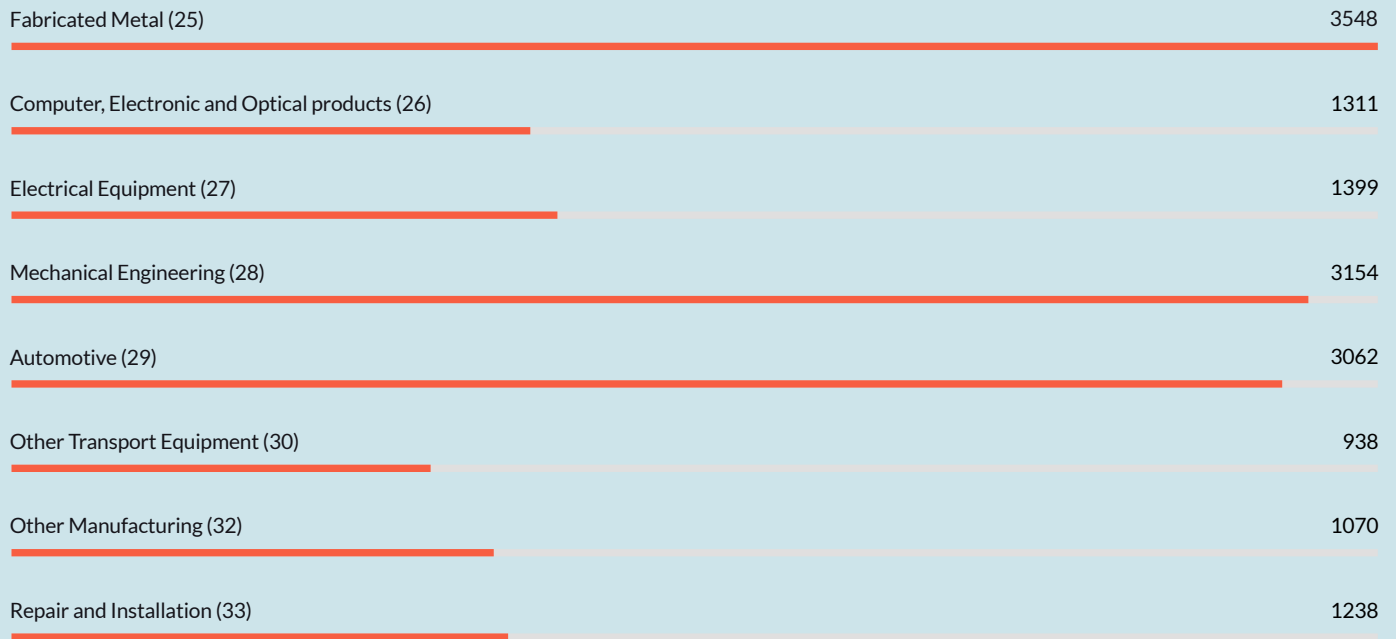
Nevertheless, despite the challenging scenario for companies, there are reasons for optimism. With some luck, weakened demand is a short-term issue and more positive financial conditions will return in the medium-term. Furthermore, European manufacturers are capable to adapt their strategies and turn challenges into opportunities. MET companies still contribute around half of the R&D spend for the whole economy and contribute the same amount to total manufacturing employment.

Europe's MET industries will continue their innovative endeavours to combat the challenges facing our societies today, and in the future, all the while providing the high-quality, well-paid, jobs that support our European social and economic model.

Employment

Heavy weights of the MET industries

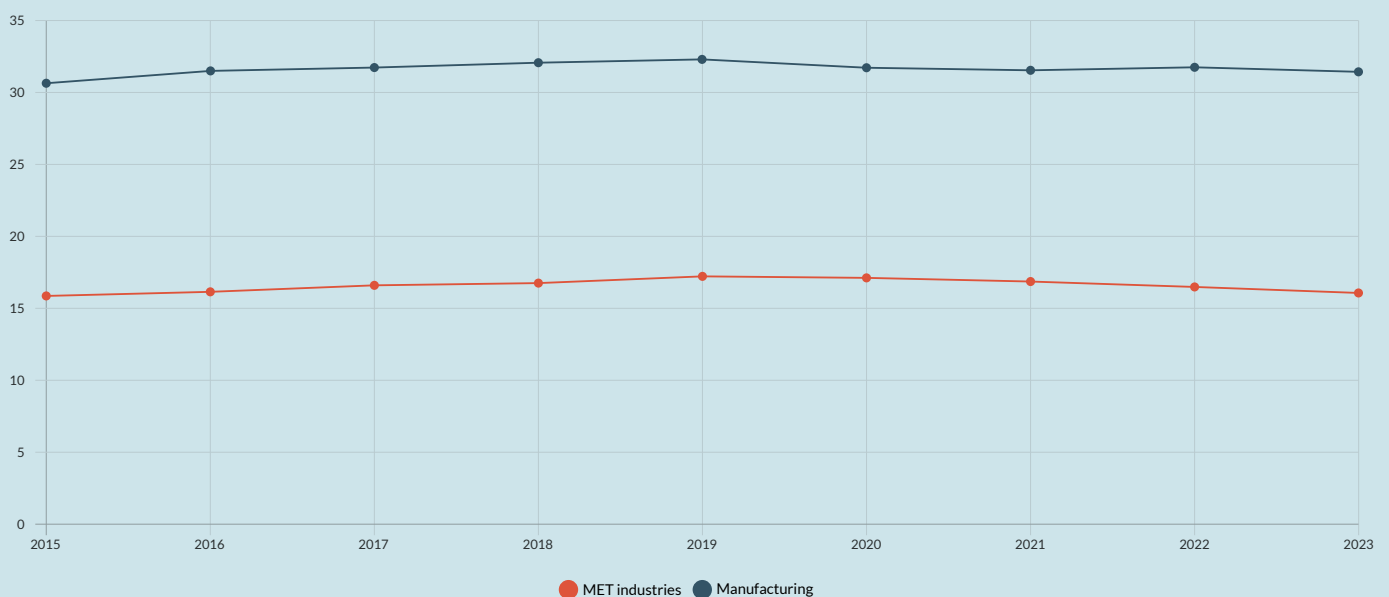
Manufacturing of fabricated metal products, mechanical engineering and the automotive industry are the heavy weights of the MET industries in Europe.



• Employment of the different Sectors (Sectors 25 – 30, 32&33*) • Age: 15-64 • in thousand • EU27 • Source: Eurostat

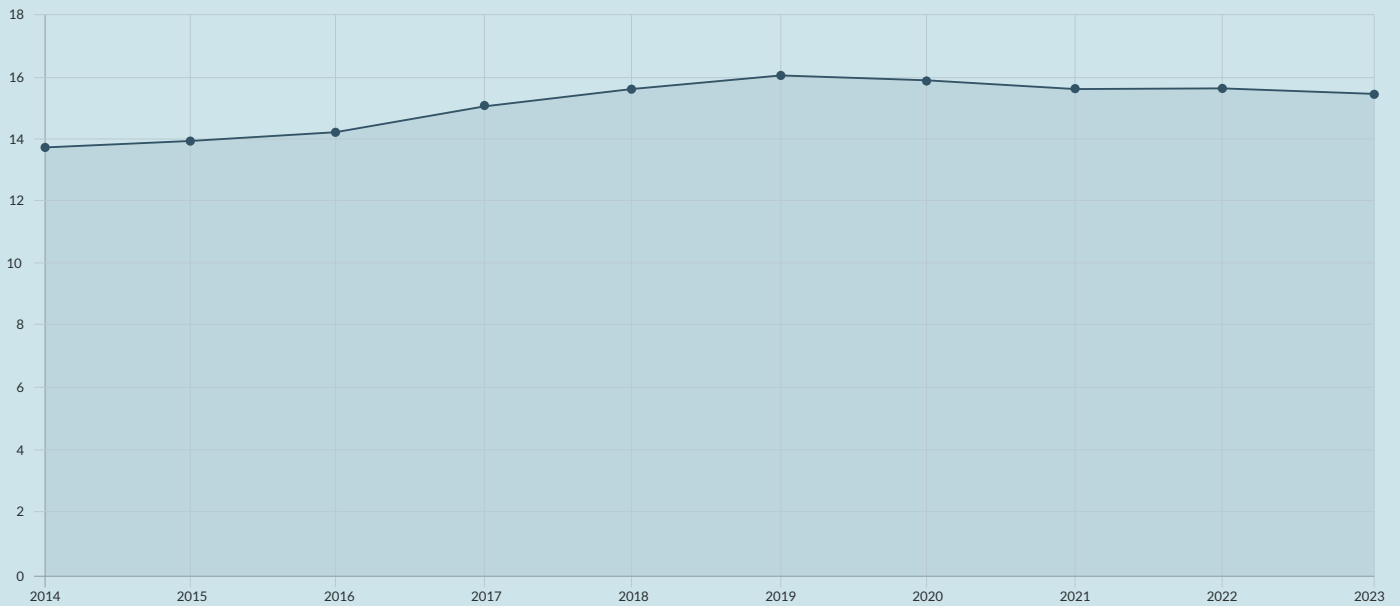
MET Share of Manufacturing Employment

The share of MET employment in total manufacturing employment has remained stable in recent years and in 2023 arrived at 50%.



• Employment in the MET Industries (Sectors 25 – 30, 32&33*) and in total Manufacturing • Age: 15-64 • in thousand • EU27 • Source Eurostat

MET Employment



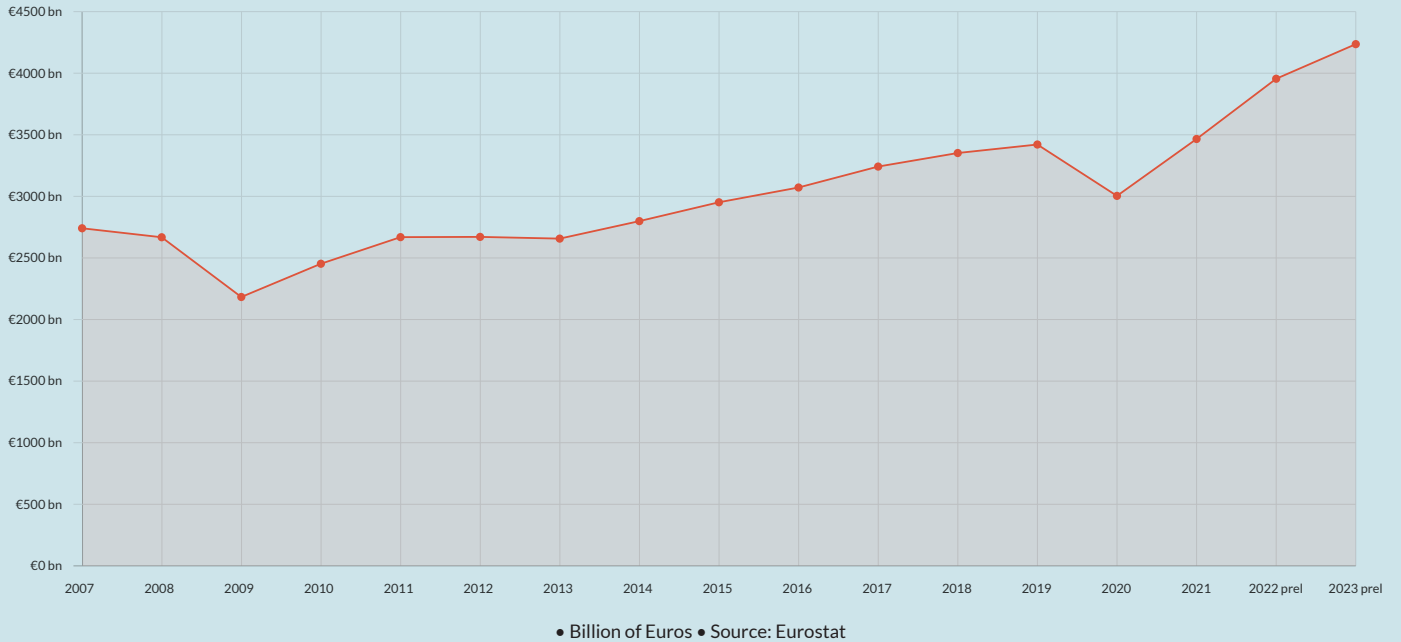
• Employees in the MET industries (Sectors 25 – 30, 32&33*) • Age: 15-64 • Million; EU27 • Source: Eurostat

- Employment has grown steadily in the MET industries since 2014, however this was interrupted in 2020 by the corona-crisis.
- In 2023, 245,000 fewer people were employed in the MET Industries than in 2019. This represents a reduction of 1.5% in the overall employment of our sector. Current employment levels stand at close to 15.8 million workers.
- The MET industries have managed to keep the number of employees stable relative to the sharp drop in production during the corona-crisis. Nevertheless, structural change and the corona-crisis are clearly reflected in the medium-term employment trends.



Production

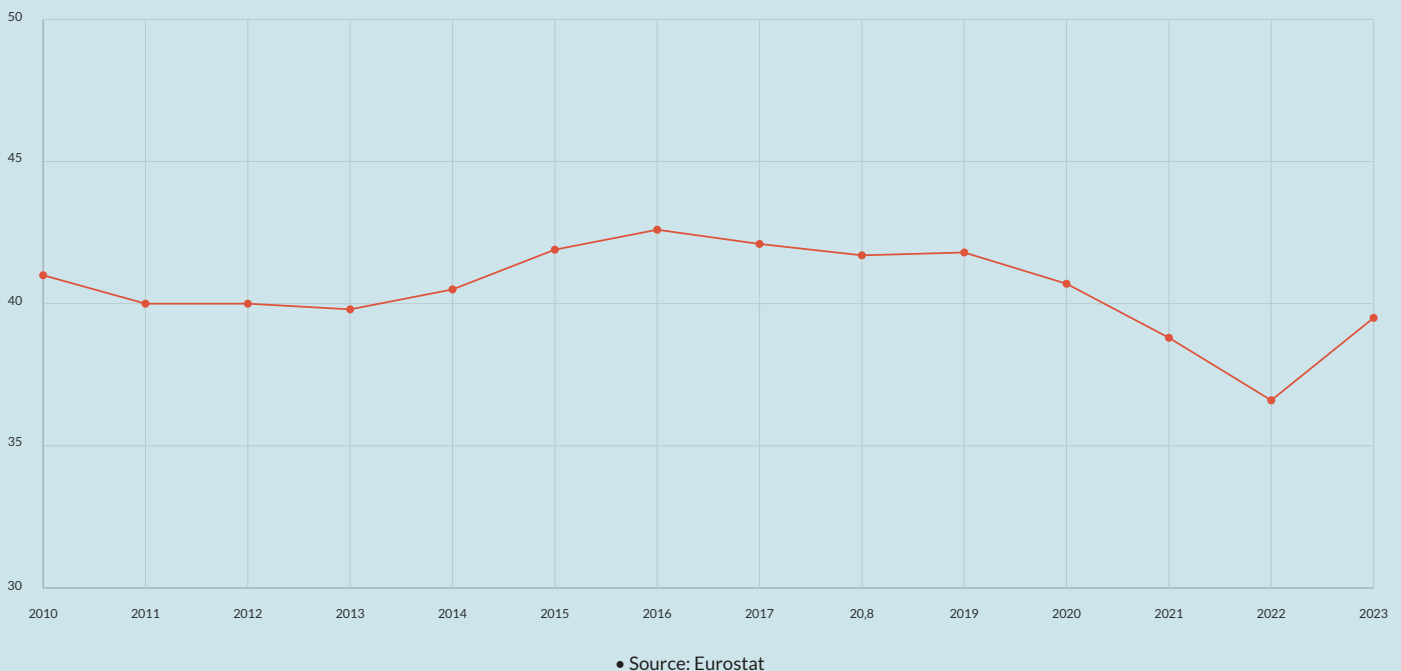
Value of Annual Production in the MET industries



- The preliminary value of production in the MET sector has thankfully turned a corner from its detrimental decrease of 12.4% in 2020.
- In our preliminary figures, we see an increase of 12.9% in 2022 and a more modest increase of 4.5% in 2023. However, policy makers should not take this as a prognosis for the future, as this recent upswing came from a low base caused by the covid-crisis.

Exports

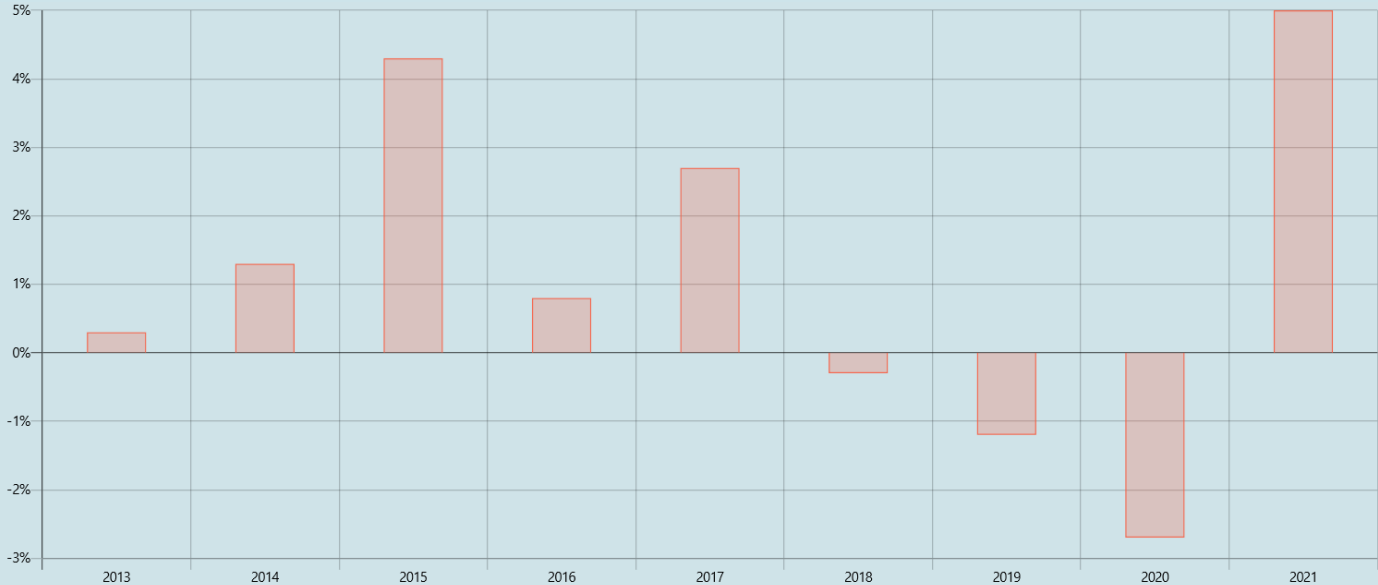
Exports of the MET industries



- In value terms, exports in our sector increased by 7.5% in 2023, reaching €2677 billion. This is a historically high level for MET exports. Both the trade inside and outside the EU increased by 7.5% in 2023.
- In relative terms, our sector's share in the total EU exports of goods increased from 36.6% to 39.5%. This is the consequence of the normalisation of energy and material prices in 2023 and potentially the start of a sustainable recovery. However, this should be taken with a note of caution, as our sector's export share in total EU exports decreased dramatically from 2016 to 2022 from 42.6% to 36.6%.

Productivity

Changes in productivity year-on-year of the MET industries

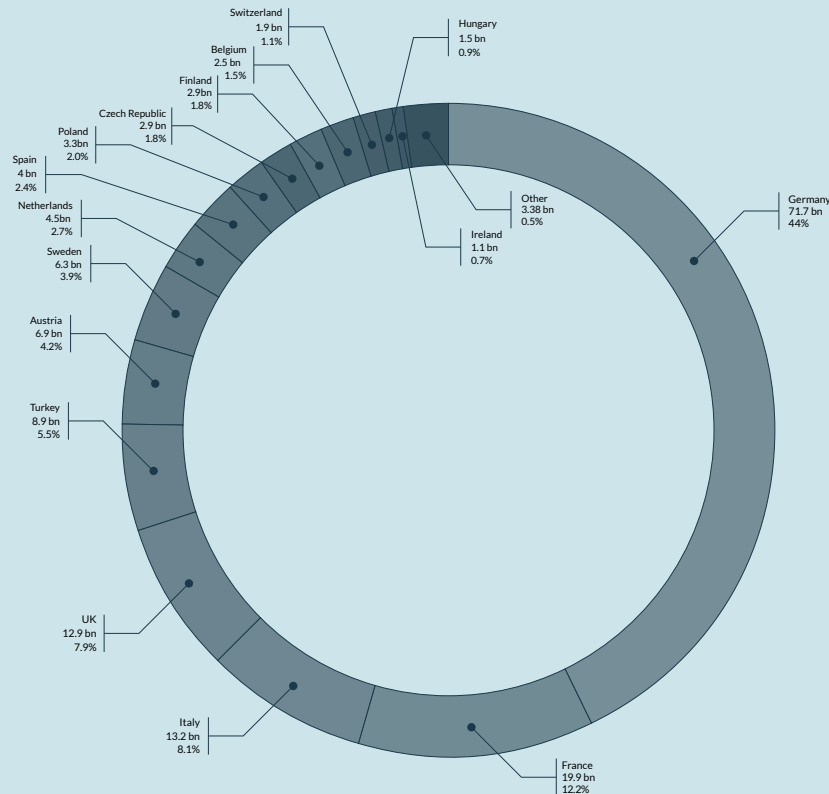


• Calculation based on annual change rates of production and annual change rates of hours worked
 • EU27 • Source: Eurostat

- We have seen a dramatic increase in productivity in 2021, with productivity in the MET industries recovering subsequent to the corona-crisis.
- However, the corona-crisis in 2020 has intensified the decline in MET productivity which was caused by a low level – and partly a decline – of MET production on the one hand and rising employment on the other hand. 2021 and 2022 productivity has recovered due to base effects.

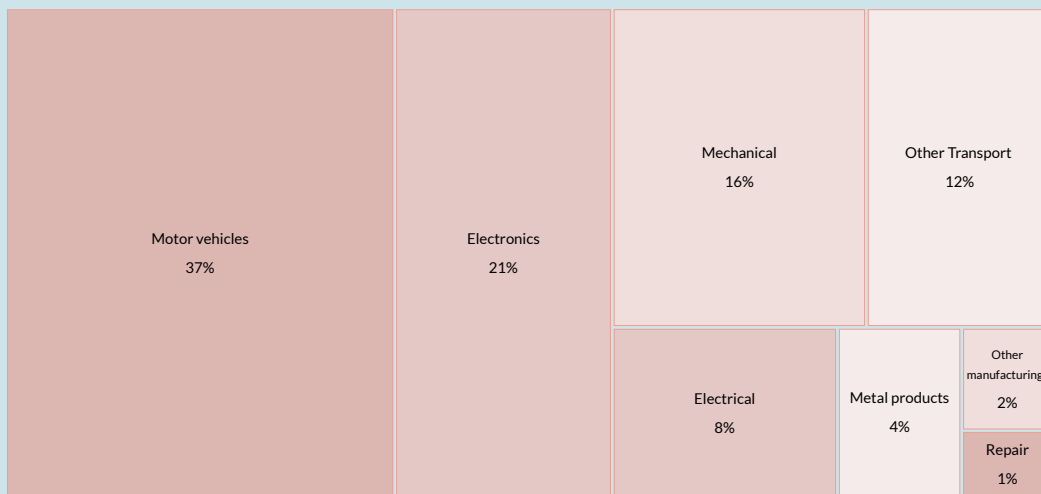
Research & Development

€167.5 billion R&D spent in the EU MET industries



• Exc: Croatia, Cyprus, Malta, Bulgaria, Latvia and Luxembourg; 'Other' includes countries with less than €1bn in R&D spend • Source: OECD

Breakdown by MET subsector (% of total spend)

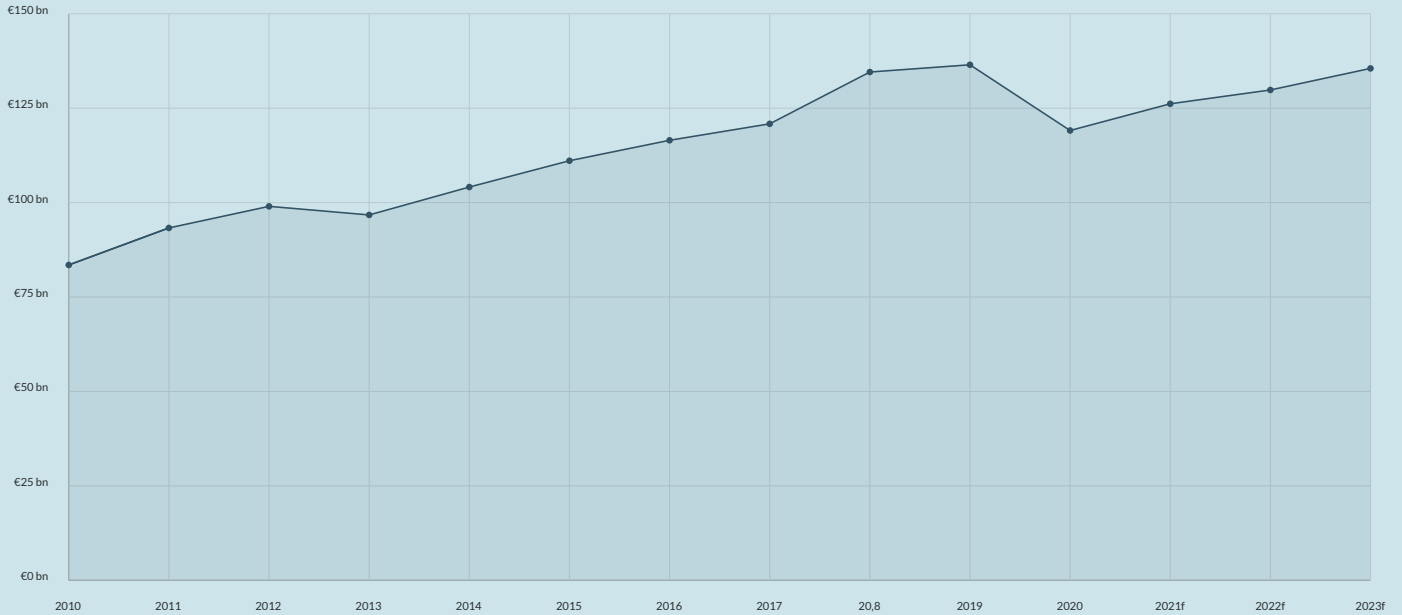


- In 2020, the MET industries in the EU-27 & UK spent €167.5 billion in R&D expenditure.
- Germany, France, UK and Italy accounted for nearly three quarters (72%) of total MET R&D expenditure. Motor Vehicles accounted for 37% of MET R&D spend, followed by Electronics at 21% and Mechanical Equipment at 16%.
- Biggest spend on subsectors by select countries: Germany (Motor Vehicles), France (Electronics), UK (Motor Vehicles), Italy (Mechanical), Netherlands (Mechanical), Finland (Electronics), Sweden (Motor Vehicles).
- Exc: Croatia, Cyprus, Malta, Bulgaria, Latvia and Luxembourg; 'Other' includes countries with less than €1bn in R&D spend

Investment

Investment level of the MET industries

Gross investment in tangible goods of the MET industries in the EU27 & UK



• Source: Eurostat, Structural Business Statistics

- Despite a relatively sharp drop in 2020 due to the COVID-19 pandemic, since 2010 the level of investment in tangible goods in the MET industries has increased slowly but steadily.
- In the preliminary figures for 2023 we have yet to surpass the investment levels of 2019.
- Measures to increase and stimulate investments in Europe are still needed. The Green Deal Industrial Plan goes some way to putting in place these measures. However, we must be cautious to ensure it strikes the right balance for industry.



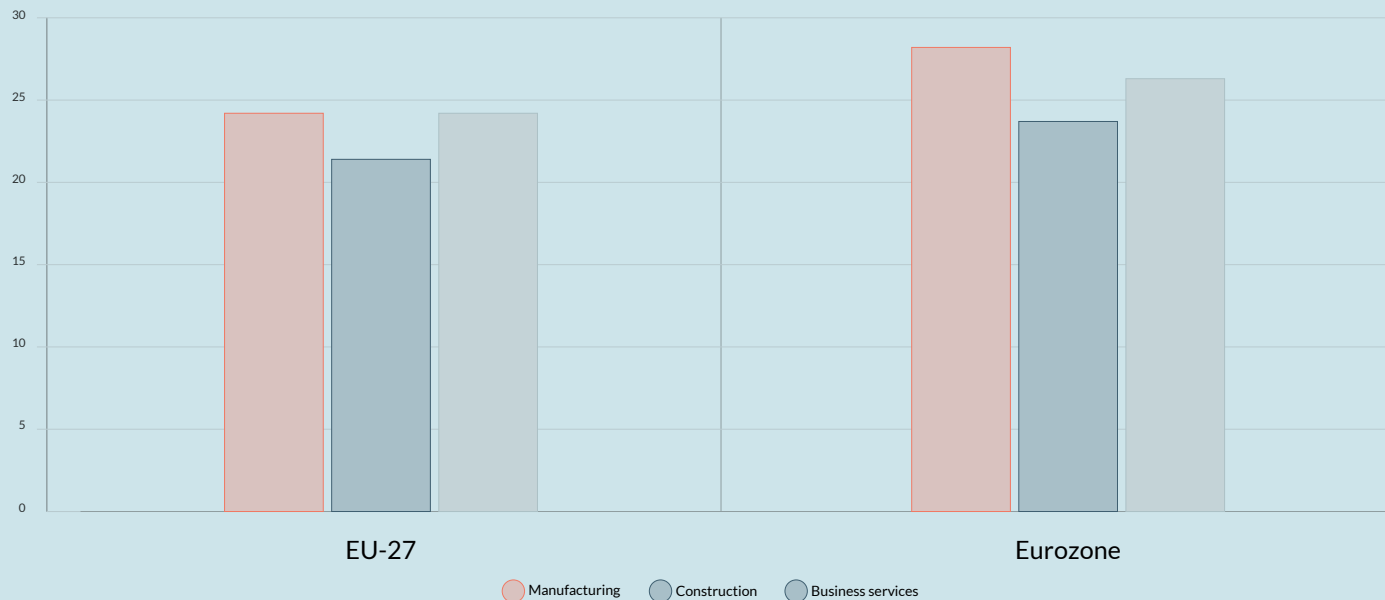
Labour Cost

Hourly labour costs in the manufacturing industries



•Source: Eurostat (labour cost surveys)

Hourly wages in the manufacturing industries in 2023

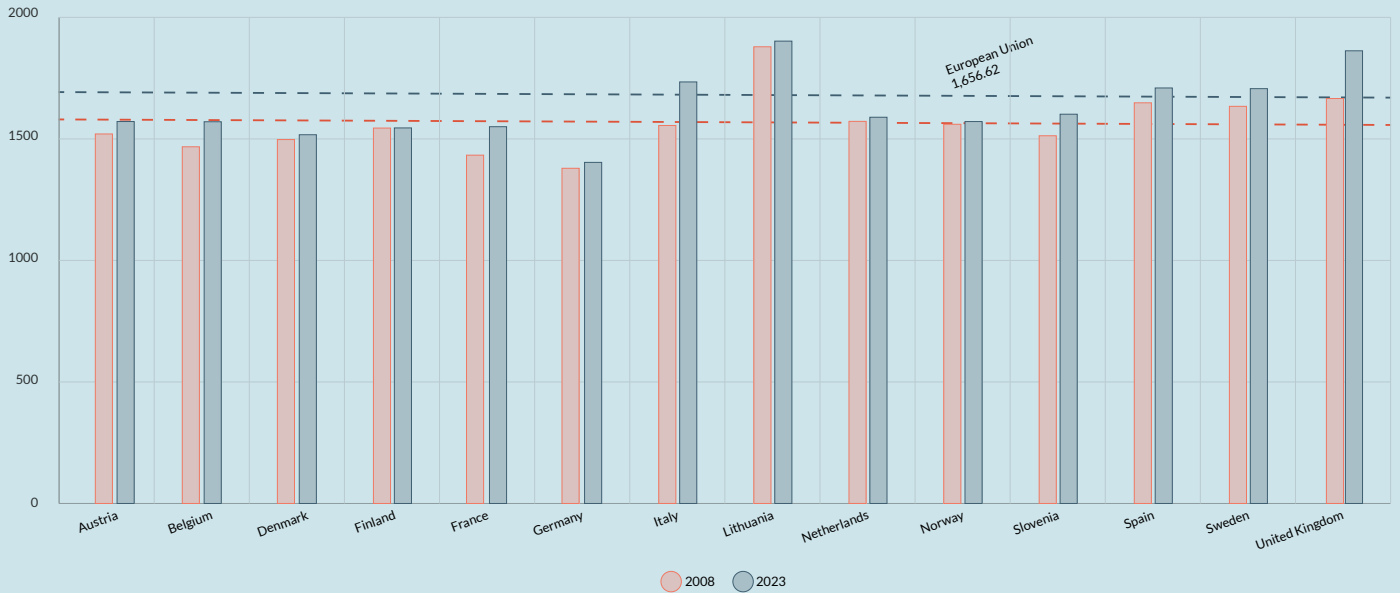


•Source: Eurostat (labour cost surveys)

- Labour cost within the EU manufacturing industries has been steadily increasing since 2017.
- The average hourly labour cost in the EU in 2023 was about €32, during the same period the per hour cost in the Eurozone was about €37,7.
- In 2023, EU manufacturing paid the same hourly wages as business services at €24,2, with construction continuing to pay lower hourly wages at €21,4 in the EU. While in the Eurozone manufacturing was a clear frontrunner paying €28,2, with business services and construction paying €26,3 and €23,7 respectively.

Working Hours

Average annual hours worked per capita Manufacturing



• Source: Eurostat

- In most member countries of Ceemet, the 2023 annual average hours worked per capita in the manufacturing industry increased in comparison to the 2020 pandemic period.
- With reference to this increase, in 2023 the hours worked per capita showed a widespread recovery in almost all countries, but with different intensities between them.
- In the MET industries, due to the covid-crisis in 2020, a wide decline was observed in the EU27 area, with significant differences between countries. In 2021, many countries noted a significant increase, but not always enough to recover the hours worked per capita lost during the previous year.



Message from the Chair of the Chief Economists Group

Patrick Slaets



The MET industries are currently experiencing a volatile global outlook, as our sector is expected to face into another challenging year characterised by decreasing demand. Having said that, there are some hints of optimism across the sector.

Geopolitical tensions and uncertainty around long-term developments on inflation and interest rates are weighing heavily on companies and are negatively influencing the global economic outlook. Across the globe, it is a mixed picture with the US showing strong growth and China continuing to grapple with an economic slowdown. Broadly, European economies have just about avoided recession, but growth – where it exists – is minimal.

Despite its inflation, which is likely to be more persistent than in Europe, the US is set to continue its economic expansion into 2024 and 2025. If these forecasts hold true, Europe will continue to lag behind the US in terms of growth. This situation raises legitimate concerns about Europe's ability to attract investment and remain competitive internationally.

In the second half of 2024, growth will be lower than expected in part also due to the sharp fall in consumer confidence. Despite these challenges, the sector might finish the year in a zero-growth environment, which showcases the resilience of our industries.

Sub-sector Analysis:

For the MET sector, it is a very mixed picture, with some sectors performing better than others.

- **Fabricated Metal Sector**

This sector has seen moderate growth driven by demand from other MET subsectors and the economy more broadly. The solutions necessary to achieve the green transition have also contributed to this growth. However, supply chain problems have created challenges with the sector being impacted by global supply chain disruptions, including shortages of raw materials and components. This has led to increased costs and delays in production.

- **Mechanical Engineering Sector:**

Similarly, a shortage of raw materials, including metals and electronic components, have led to increased costs and production delays. Demand remains a challenge in this sector, despite high order backlogs in 2023. High levels of investment in the mechanical engineering sector are crucial, and if interest rates remain high, then investments will suffer leading to a negative outlook.

- **Automotive Sector:**

The pace of electrification is still presenting challenges for this sector, including the need for significant capital investment and the need to ensure a stable supply of critical materials, particularly for batteries. If these investments do not materialise, this will lead to challenges in the long run. While the situation with the semiconductor shortage, has improved greatly compared to the peak of the crisis, the shortage is still well above historical averages. It has to be acknowledged that the EU has made great strides with the Chips Act; however we must ensure that long-term investments continue to bear fruit. Furthermore, the transition within the sector is impacting employment. While new job opportunities are emerging,

traditional roles are declining. There is a growing need for workforce reskilling and training to align with the new technological demands of the industry.

Cost of Doing Business

Investment activity has been subdued due to high financing costs and uncertainty in the sector, and the current tighter monetary conditions are affecting trade-intensive capital goods. Demand in the EU, which is already low, has been adversely affected by the post-pandemic supply chain reorientations and the change in purchasing demands from consumers. However, there is some optimism for a rebound in global trade, led by an increase in demand, which could support EU exports in the coming years.

Energy prices have increased significantly since 2020, however recent decreases have led to Europe's energy situation stabilising somewhat. Gas prices have fallen below their recent peak due to reduced consumption and diversified supply sources. Oil prices were affected due to the current geopolitical tensions, they are lower than the recent past but could not be considered to be providing a boost to manufacturing due to their current prices. Base metal prices are under their peak and are currently fluctuating around pre-corona levels. Prices continue to be affected by the usual factors such as supply, financial markets and the actions of large players in the industry.

Wages and Inflation

Inflation has been easing less quickly than anticipated in Europe. The European Central Bank's caution about reducing interest rates too soon is valid as it is important that inflation remains as much as possible under control. If not, there is the potential to see increasing wage tensions in Europe, potentially leading to a wage price spiral, in turn increasing inflation further. Upward pressure on wages affects the competitiveness of the MET industries, particularly compared to other global regions.

Future Prospects

Despite the mixed picture across our industries, we foresee a rather stable outlook for the sector. The sector should operate close to a zero-growth scenario. Despite labour market pressures easing in the short-term, the labour and skills shortage remains a persistent challenge. Orders are decreasing, due to lack of demand, and although insufficient demand is a greater challenge than labour shortages in the short-term, this situation is most likely temporary.

On a positive note, the current scenario of decreased demand is most likely a short-term phenomenon, and our sector will return to providing the societal solutions we are renowned for, not least the solutions to realise the green and digital transitions.