

Engineering Outlook November 2009

A long way up from the bottom

The volume of production in Swedish engineering industry is expected to contract by 30 % in 2009. The outcome of several business cycle indicators suggests that we have the worst behind us. However, demand from export markets is nevertheless expected to be weak next year. The volume of production in engineering industry in Sweden is therefore expected to grow by modest 2 % in volume in 2010.

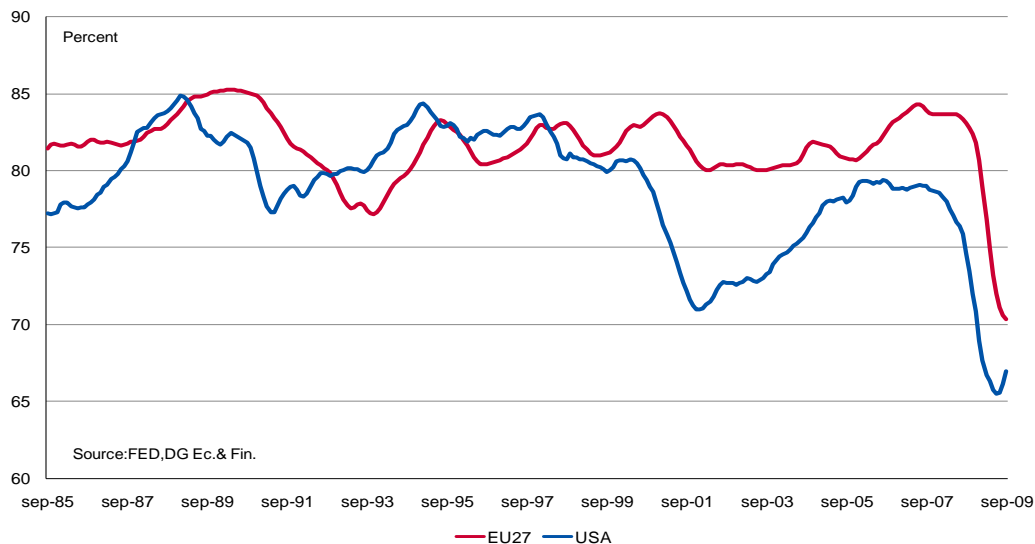
In 2009 the volume of production of engineering products is expected to fall in Sweden, in the EU, in the US and Japan by the largest numbers since the aftermath of the first oil crisis in the seventies or between 20-30 %. China is about the only country where we can spot high activity in industry, mainly due to domestic stimulus. Two sectors, investment goods and the motor car industry, have been hit particularly hard due to the financial turbulence. These two sectors are clearly overrepresented in the Swedish engineering industry and the volume of production for the overall Swedish engineering sector will drop by about 30 % in 2009.

Despite the fact that it is hard to find data that supports a substantial turnaround in activity, the outcome of business cycle indicators points to the fact that the worst is behind us. Assessment of order stocks are not as negative as during the first quarter, inventories of finished goods have been reduced, risk premiums have fallen and nominal interest rates are very low.

Some of the latest pickup in activity has unfortunately been a result of temporary factors such as stimulus packages targeting the motor car industry. These packages have, or will soon come to an end and will probably reverse the picture.

Capacity utilization is also at record low both in the US and in the EU, financial markets are not yet functioning properly and EMU industry is to a certain extent being affected by a strong currency. There are therefore still many obstacles to face before a more substantial recovery can set in and there are reasons to believe that we only will see a modest expansion next year.

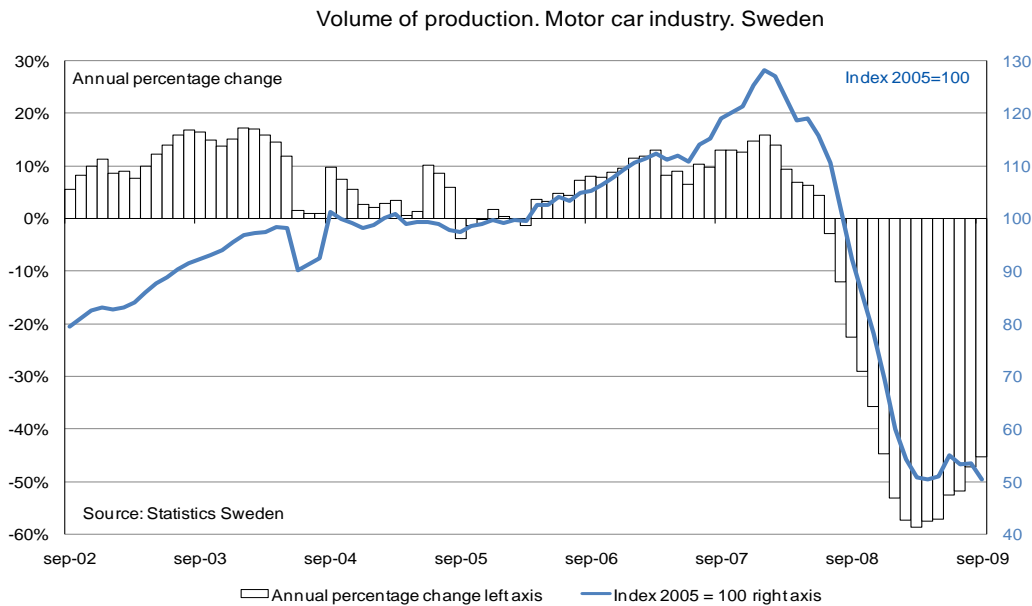
Capacity utilisation. Manufacturing industry. EU27 and USA



Swedish Engineering Industry

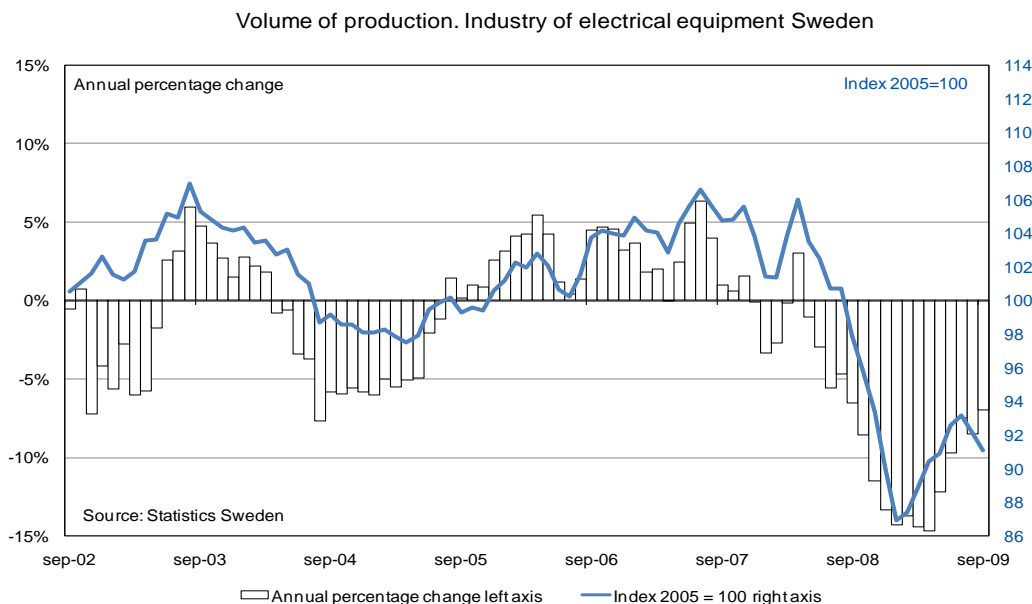
The business situation in the **transport equipment industry** has deteriorated sharply. We expect that production will fall by 50 % in 2009. The contraction is about the same for passenger cars and for heavy trucks.

We expect that the bottom will be reached by the end of 2009 and that we will see a gradual pickup during 2010. As new models are introduced and as overall economic activity in Europe and the US will improve slightly, we expect a limited increase of production by about 5 % next year.



Electrical engineering is no exception to the downturn. Output in the electrical machinery sector is falling but fortunately not as pronounced as in other sectors.

Consumer related goods such as lightning, domestic appliances and electrical parts for the motor car industry show a deep drop in volumes at present. A positive factor is that



energy equipment is doing very well, with an increase in exports by 25 % during 2009. However, this sector will not compensate for a contraction in other segments, so our forecast is a drop in volume of production for the total electrical machinery sector by 9 % in 2009. A slightly better outcome in 2010 is foreseen for the sector and output is expected to grow by 3 % in 2010.

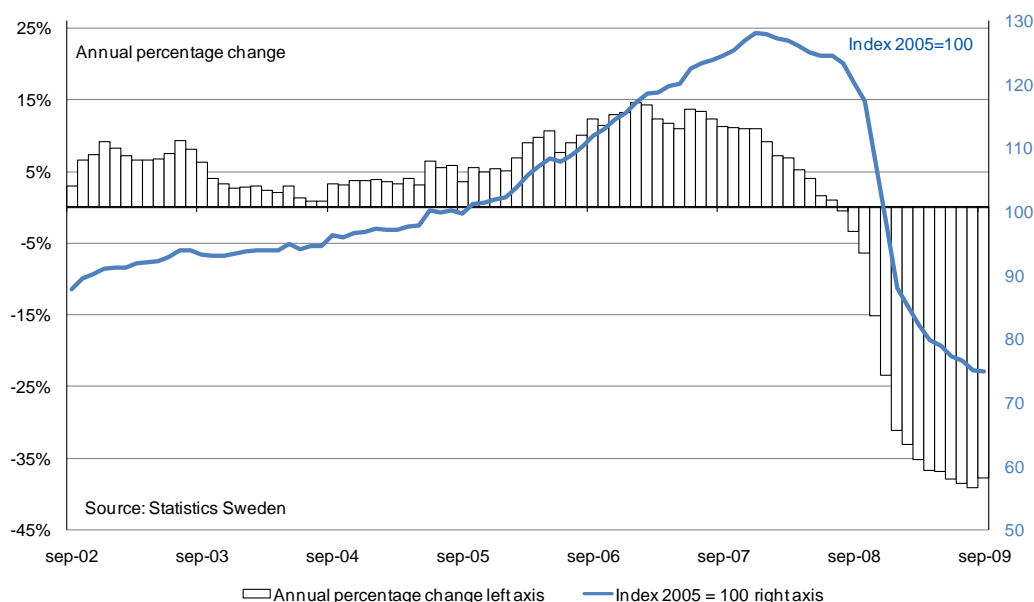
In **instrument** engineering, volumes are expanding rapidly for medical instruments. For other types of instruments, such as measuring or control process equipment, activity is lower and volumes are falling. We expect that the high expansion will ease a bit for medical instruments next year whereas instruments for measuring or control is expected to gain momentum as a consequence of higher expected industrial activity on key export markets.

Telecom industry contracts in 2009, but the outlook is more positive for 2010. All in all we expect that output of instruments, electronics and telecom will fall by 18 % in 2009, but is expected to grow by 4 % in 2010.

Industry of machinery and equipment is negatively affected during the present slump. The sector in Sweden is heavily dependent on exports and demand is falling quite rapidly at present. Output for the industry of machinery and equipment in Sweden is therefore expected to contract by 30 % in 2009.

70 % of the exports from Sweden are sold on the EU-market and in the US. Investment growth on these markets is expected to fall by at least 15 % each in 2009 and by about 5 % next year.

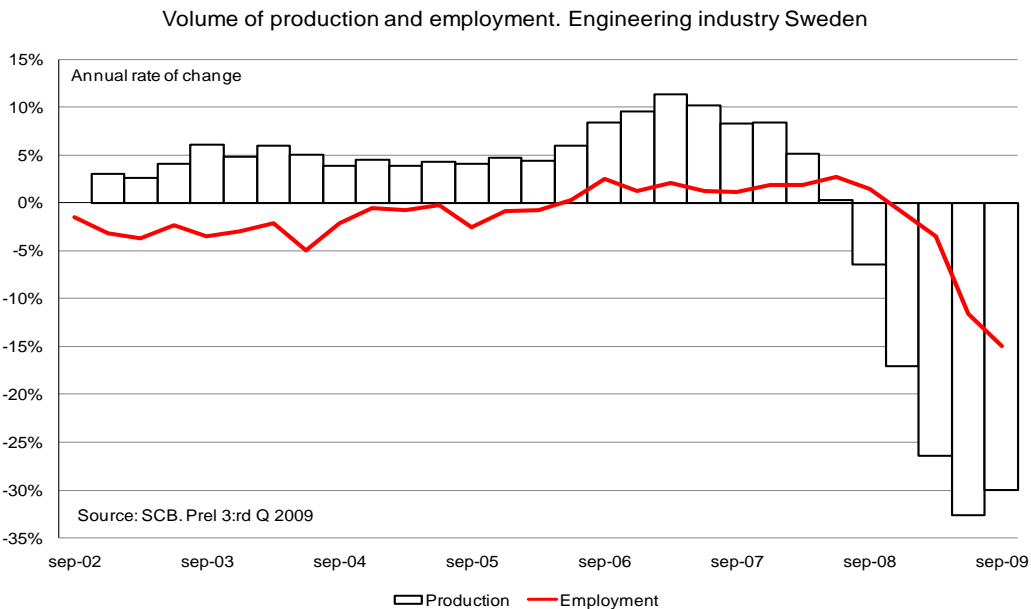
Volume of production. Industry of machinery and equipment Sweden



An investment cycle during “normal” business conditions lasts about 2-3 years. When financial crises are involved long lasting negative effects are normally the result, suggesting that a more substantial recovery is a long way ahead. Besides, capacity utilization is at record low in manufacturing industry around the world and thereby reducing demand. Some positive factors are low capital cost and that demand for machinery for rationalization and replacement is still high. We do not expect any improvement in the sector until late 2010 and the volume of production will contract by 2 % next year.

Industry of **fabricated metal** goods is also negatively affected by the sharp contraction in the engineering industry since the major part of production in the sector consists of input goods to other engineering companies. Other products in the metal goods industry are mainly for the construction sector where activity also is low both in Sweden and on key export markets. Output for the metal goods industry is expected to contract by 30 % in volume during 2009. A slight recovery is foreseen, given that the motor car industry picks up and since the contraction in industry of machinery and equipment is not expected to be as severe as in 2009. Volume of production is expected to grow by 2 % in 2010.

Due to the steep fall in production volumes, the number of **employees** given notice of lay off has reached historical high. We expect employment to fall by 12 % in 2009 compared to 2008 or equivalent to about 40 000 employees. All sectors will cut down on their work force, especially the motor car industry. In order to restore productivity, a further reduction in employment of 5 % is expected in 2010



Key data. Swedish engineering industries

Total engineering	Level	Annual rate of change		Volume of production by sector	Annual rate of change		
		2007	2009		2010	2009	2010
Value of production	885 Bill SEK		-26,0	+3,5	Metal goods	-30,0	+2,0
Volume of production			-30,0	-2,0	Machinery and equipment	-30,0	-2,0
Employees	345 000		-12,0	-5,0	Electrical machinery	-9,0	+3,0
Producer prices			+5,5	+1,5	Telecom,instruments	-18,0	+4,0
Exports	Bill SEK		450	467	Transport equipment	-50,0	+5,0