

# Economic situation and outlook 3/2014

• ELECTRONICS AND ELECTROTECHNICAL INDUSTRY • MECHANICAL ENGINEERING  
• METALS INDUSTRY • CONSULTING ENGINEERING • INFORMATION TECHNOLOGY

## **Global and Finnish Economic Outlook**

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# Situation in Russia and Ukraine hindering Europe's revival

The economic outlook in Europe has deteriorated somewhat over the spring and summer. The full impact of the crisis in Ukraine and recession in Russia, combined with the economic sanctions, will only be felt in Europe towards the end of the year.

Industrial production in the EU surpassed the previous year's level in the spring, although the rate of growth had declined. Growth was enjoyed over a broad range of sectors, with the technology industry's products and services exceeding the average rate of growth. The weakest results were reported by the chemicals and construction product industries. The unemployment rate in the EU decreased slightly in early 2014. In May, the average rate was 10.3 per cent, while the corresponding figure for 2013 was just under 11 per cent.

European growth may peter out in late summer and autumn, however. The euro area's purchasing managers' index, which illustrates the development of industrial and service sectors, continued growing in July, but only by a slight margin for industry. The economic development of the largest euro countries has been disjointed in recent months. Growth has continued in Germany, Italy and Spain, but at a slower pace, particularly in Germany. The French economy has not registered any growth at all. In the United Kingdom, outside the euro area, the economy will grow by up to three per cent this year. This is the fastest growth rate in Western Europe, even though the United Kingdom has cut back public expenditure with a heavy hand.

In the United States, the economy has continued its positive development in recent months. The country's industrial production has maintained a constant growth for five years now, with similar development in the service sector. The housing market is likewise continuing to rebound, as the numbers of sold homes, prices and construction volumes have all continued to grow. However, the activity level of the housing market is still far behind the situation of the early 2000s.

Asia is the global economy's engine of growth this year as well. The GDP of developing Asian countries will grow by approximately six per cent this year, while the growth rates forecast for Europe and North America are 1.5 and 1.7 per cent. In June, the fastest-growing industries in Asia were health care services, insurance services and the construction product industry. Production volumes dropped especially in the forest, paper, mining and steel industries in comparison to the previous month.

## Finland's GDP down by six per cent

The development of Finland's economy has ranked among the weakest in the EU since early 2008. In January–March this year, Finland's GDP was six per cent smaller than six years ago. Only Spain and Italy have experienced a similar decline in Western Europe. The worst is already behind in these two countries, whereas the Finnish economy threatens to continue declining.

The economic situation in Russia is exacerbating Finland's difficulties in turning the downhill trend. Russia accounted for approximately 10 per cent of Finnish exports in 2013. In January–April this year, this had decreased to eight per cent. In early 2014,

the export of goods to Russia declined by a total of 16 per cent, and by 18 per cent for products of the technology industry. The value of steel products and non-ferrous metals to Russia has been cut in half since 2013. With these rates of change, Finland's exports to Russia will decrease by a billion euros this year. Service exports to Russia are also falling due to the drop in tourism income.

The recession in and economic sanctions against Russia have affected the exports of Finnish companies in an uneven manner. It is likely that the whole impact has not been felt yet. It must also be noted that the export to Russia of products manufactured in Finland has decreased by a third from 2008.

## Finland's exports will not regain the level of 2008 without significant industrial investments

Industrial companies make up nearly 90 per cent of Finland's goods and service exports. The development of industrial production, production capacity and investments thus has a material impact on the development of exports.

The volume of industrial production in Finland today is roughly one-fifth less than at the beginning of 2008. Over the same period of time, Finland's total goods and service exports have declined by 18 per cent. Service exports have been unable to compensate for the decline in the export of goods. The export of services by industrial companies has been decreasing every year since 2008. In 2009–2013, the service exports of Finnish industry companies declined by a total of EUR 3.3 billion, or one quarter, being EUR 10.2 billion in 2013. In other sectors, on the other hand, the export of services has grown by EUR 1.4 billion, or 45 per cent, being EUR 4.4 billion in 2013. The service exports of industry companies also include the profit from overseas commission business and the sale of products manufactured abroad.

The drop in the level of Finland's exports and GDP will remain permanent unless Finland's industrial production capacity can be increased once more. In practice, this will require restoring the competitiveness of Finnish industry and increasing its production capacity. The calculated production capacity of Finland's industry, i.e. the maximum output possible at the current capacity, is only 80 per cent of that in early 2008. Even with a significant increase in global demand, the current production capacity will not enable a corresponding growth in production and exports to the level enjoyed by Finland six years ago.

However, the global economy will maintain an annual growth of 3–4 per cent, so the preconditions for overcoming Finland's economic crisis remain in place. Time is nevertheless running out. Achieving change will require a considerable increase in industrial investment. The current annual investments of Finnish industrial companies are at the level of EUR 6.5 billion, compared to EUR 8.9 billion in 2008. On the basis of data collected by the Confederation of Finnish Industries, industrial companies predict zero investment

growth in 2014. Investments in Finland are retarded by our country's high cost level, the weak profits of companies, the unpredictable nature of corporate taxation, and the poor investment incentives offered by the taxation system.

### Financial and tax policy as well as the labour market require bold renovation

Taxes and fees have increased significantly in Finland in recent years. Despite this, the public sector continues incurring debt at an alarming rate. Any further tightening will continue to weaken the competitiveness of companies and purchasing power of citizens.

This is a consequence of the decrease in the volume of Finnish exports and the inability of political decision-makers to prune down the public sector. For example, the service obligations of municipalities have not been touched at all. Our society is living beyond its means.

The private sector is no longer able to finance the public. Permanent cuts of at least EUR 10 billion, i.e. 10–15 per cent, are required in the public sector. Structural reform is unavoidable. The sufficiency of appropriations for training and competence development must be safeguarded, since these have a significant effect on Finland's competitiveness. The public sector can be cut back, if we simultaneously improve the incentives for work, entrepreneurship, ownership and investment.

From the perspective of Finland's largest export sector, the technology industry, the key concerns are the investment incentives offered for Finnish companies and the expectations for the development of the operating environment. The taxation system

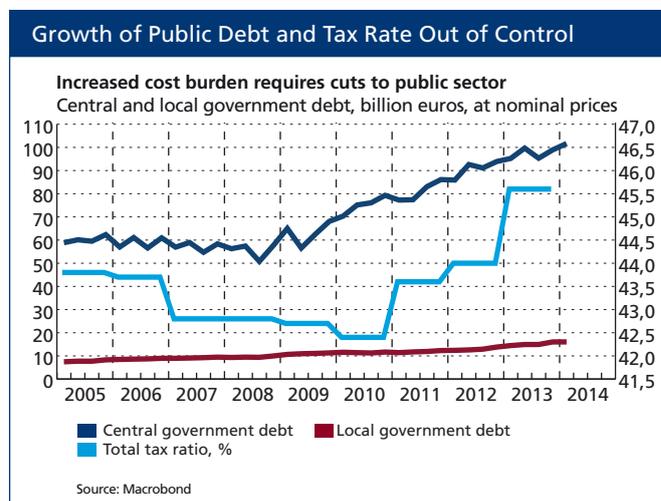
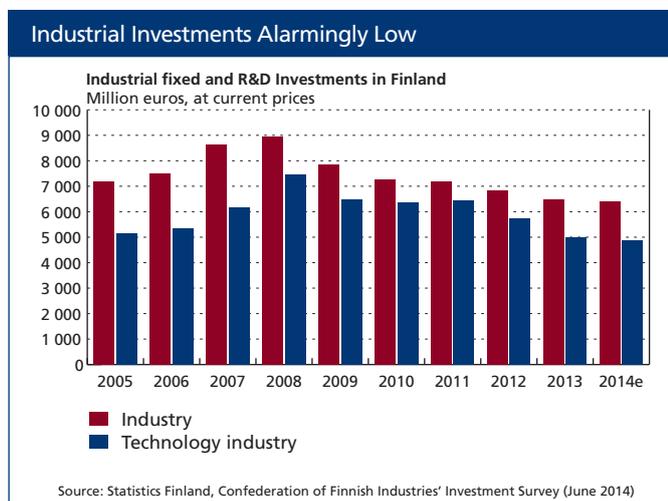
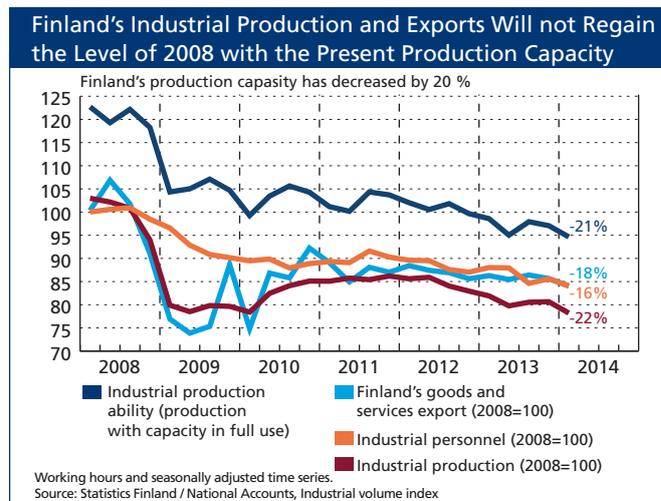
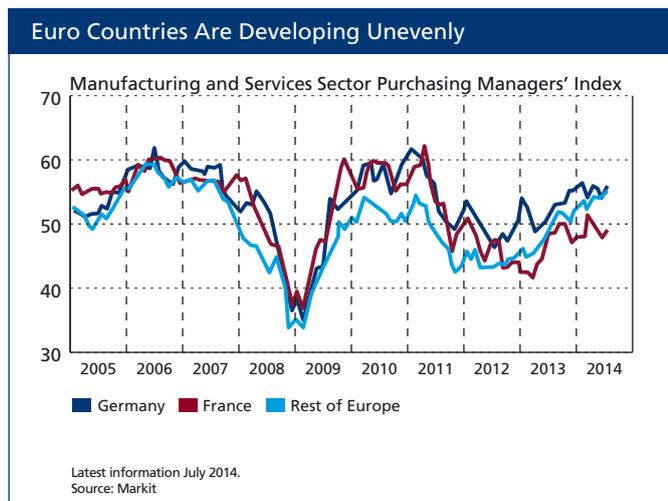
and functioning of the labour market play a key role in this.

Our corporate taxation system no longer serves the reinforcement of shareholders' equity, investments, growth and ownership in Finland. Different types of companies are treated unequally in terms of taxation. The impact of incentives on the behaviour of companies has been underestimated. The incentives for private investment in shares have also been weakened, which jeopardises the viability of the stock market as a source of corporate financing.

The greatest problems of our taxation system are the double taxation of profits, taxation of generation changes, and the tight progressive income taxation.

An update of our entire corporate taxation system should be made a priority. The tax system must be transparent and clear instead of confusing and contradictory, and it must encourage companies to make long-term investments and repatriate profits in Finland. All companies must be treated equally, regardless of their form of incorporation.

With regard to the labour market, an agreement on a pension policy that will increase the supply of labour by extending careers and reduce the sustainability deficit of the public economy is required urgently. The solution must increase the average age of retirement to at least 62.4 years by 2025. The need to renew the bargaining and agreement system is equally urgent. Solutions to the flaws and problems in the current industrial peace system must be found this autumn. At the same time, we need to create better preconditions for agreements that will improve the long-term competitiveness of Finland's industries.



# Growth of new orders has stopped, slower growth in calls for tenders

The turnover of companies in the technology industries in Finland totalled EUR 65.2 billion in 2013. Between January and April of this year, turnover was slightly lower than twelve months earlier. The largest decreases were experienced in the metals industry and electronics industry. The turnover of the information technology sector grew by 13 per cent. In 2008, prior to the financial crisis, the Finnish technology industry's turnover was EUR 85.7 billion.

The growth of new orders stopped during the spring and early summer in the technology industry. Order books shrank somewhat. There are nevertheless major differences between sectors and, especially, between individual companies. The positive development in the number of calls for tenders has continued, but at a slightly slower pace. The crisis in Ukraine and recession in Russia, in addition to the economic sanctions against it, are hindering the technology industry's potential for achieving growth.

According to the Federation of Finnish Technology Industries' survey of order books, the monetary value of new orders in the industry between April and June was remained unchanged from the corresponding period in 2013, but slightly lower than in the preceding quarter. Of the respondents, 50 per cent said the number of new

orders had increased since March, 43 per cent said it had decreased, while 7 per cent reported that the number had remained stable.

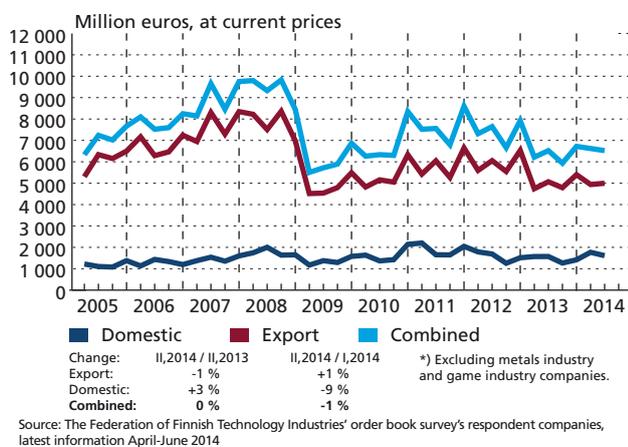
The value of order books at the end of June was seven per cent less year-on-year, and three per cent below the value reported at the end of March. Of the respondents, 47 per cent said their order books had grown since March, 39 per cent said they had shrunk, while 14 per cent reported no change.

Based on the order trends in recent months, the turnover of technology industry companies in the autumn is expected to be roughly equal in comparison with the corresponding period last year.

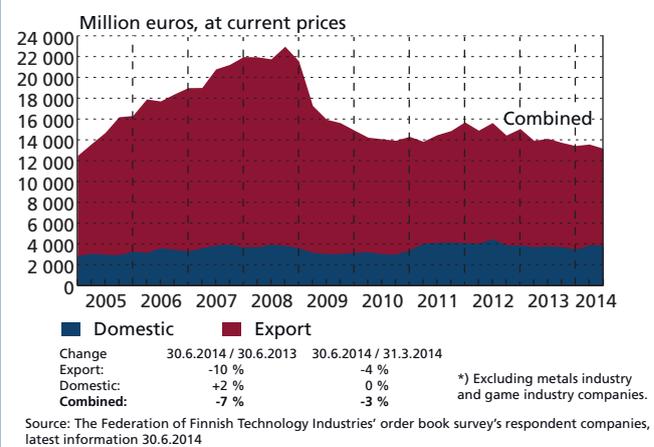
In 2013, the number of personnel employed by Finnish technology industry companies decreased by four per cent, or 11,000 employees. The total number of personnel was 285,000. The reduction in personnel has continued this year, and the number of employees was approximately 278,000 at the end of June. In 2008, the industry employed a total of 326,000 people in Finland.

The number of summer jobs in the technology industry increased by nearly one fifth from 2013. At the end of June, the industry employed approximately 15,000 summer workers.

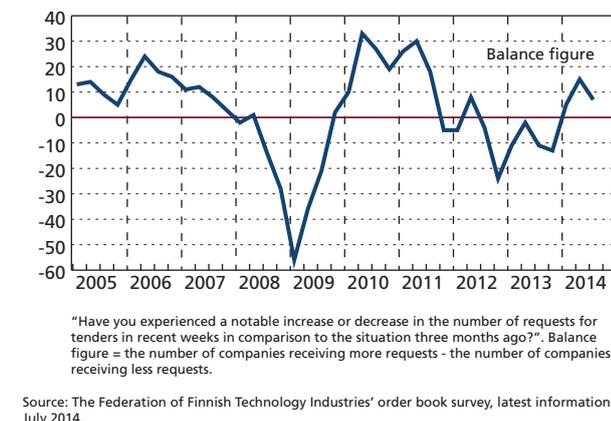
Value of New Orders in the Technology Industry\* in Finland



Value of Order Books in the Technology Industry\* in Finland



Tender Requests\* Received by Technology Industry Companies



Personnel in the Technology Industry





# Electronics and Electrotechnical Industry in Finland



## Decrease in new orders has continued

The turnover of companies in the electronics and electrotechnical industry (telecommunications equipment, electrical equipment and medical technology products) in Finland was EUR 15.8 billion in 2013. Between January and April of this year, turnover was 6 per cent lower than twelve months earlier. In 2008, prior to the financial crisis, the turnover of the Finnish electronics and electrotechnical industry was EUR 30.4 billion.

The situation in the telecommunications equipment sector remained challenging between April and June. As a result of this in particular, the declining trend in orders in the electronics and electrotechnical industry continued.

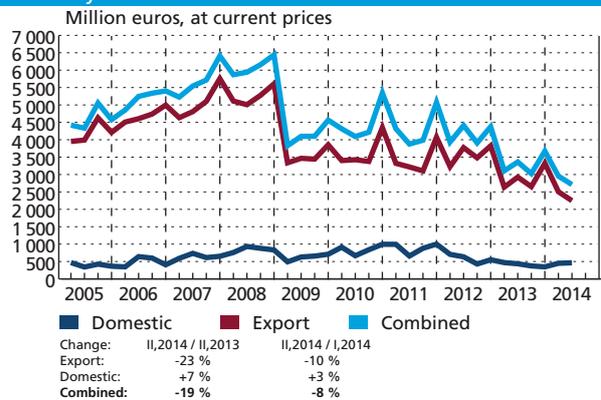
According to the Federation of Finnish Technology Industries' survey of order books, the monetary value of new orders in the electronics and electrotechnical industry in the period April–June was 19 per cent lower than in the corresponding period of 2013, and eight per cent lower than in the preceding quarter.

The value of order books at the end of June was 20 per cent less year-on-year, and seven per cent below the value reported at the end of March.

Based on order trends in recent months, the turnover of companies in the electronics and electrotechnical industry is expected to remain below last year's level in the autumn.

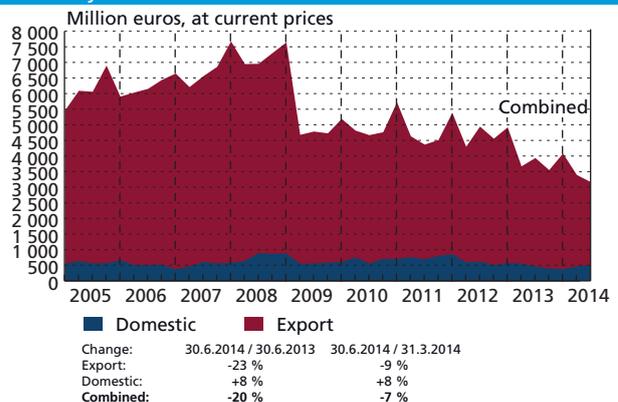
The number of electronics and electrotechnical personnel in Finland dropped by 5,600 people, or 11 per cent, in 2013. The total number of personnel was 43,200. The reduction in personnel has continued this year, and the number of employees was approximately 42,900 at the end of June. In 2008, the industry employed a total of 60,900 people in Finland.

### Value of New Orders in the Electronics and Electrotechnical Industry in Finland



Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information April-June 2014

### Value of Order Books in the Electronics and Electrotechnical Industry in Finland

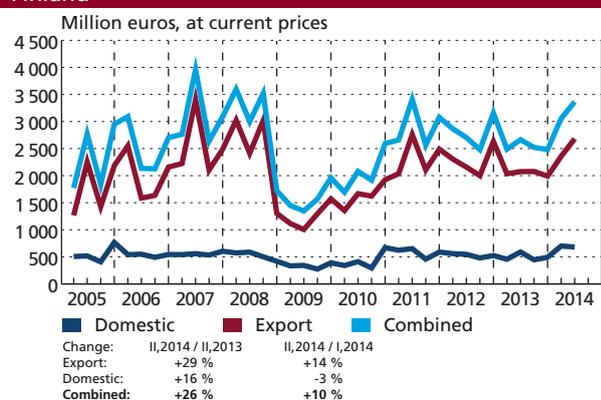


Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information 30.6.2014



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## Value of New Orders in the Mechanical Engineering in Finland



Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information April-June 2014

## Positive trend in new orders, order books declined slightly

The turnover of mechanical engineering companies (machinery, metal products, vehicles) in Finland was EUR 27.2 billion in 2013. Between January and April of this year, turnover was slightly lower than twelve months earlier. Turnover decreased in the manufacturing of machinery, but increased especially in the production of vehicles. In 2008, prior to the financial crisis, the Finnish mechanical engineering industry accumulated a total turnover of EUR 33.3 billion.

The number of new orders continued to increase in April-June. Due to major deliveries being made, however, order books did not grow, but rather declined by a few per cent in June when compared to March or the corresponding period in 2013.

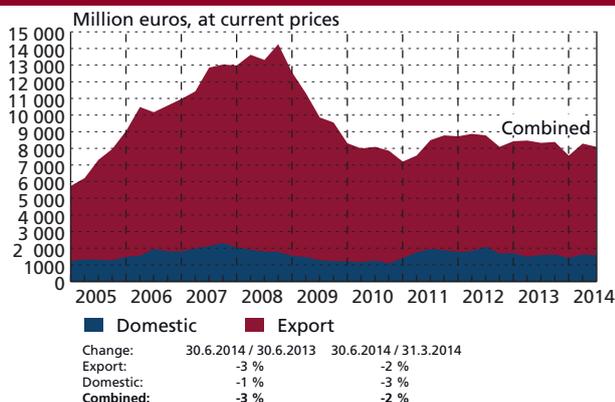
According to the Federation of Finnish Technology Industries' survey of order books, the monetary value of new orders in mechanical engineering between April and June was 26 per cent higher than in the corresponding period of 2013, and 10 per cent higher than in the preceding quarter.

The value of order books at the end of June was three per cent less year-on-year, and two per cent below the value reported at the end of March.

Judging from order trends in recent months, the turnover of mechanical engineering companies is expected to be slightly larger in the autumn than in the corresponding period last year.

The number of mechanical engineering personnel in Finland dropped by 5,000 people, or four per cent, in 2013. The total number of personnel was 125,500. The reduction in personnel has continued this year, and the number of employees was approximately 120,000 at the end of June. In 2008, the industry employed a total of 150,100 people in Finland.

## Value of Order Books in the Mechanical Engineering in Finland



Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information 30.6.2014



## Metals Industry in Finland



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### Price development has cut turnover

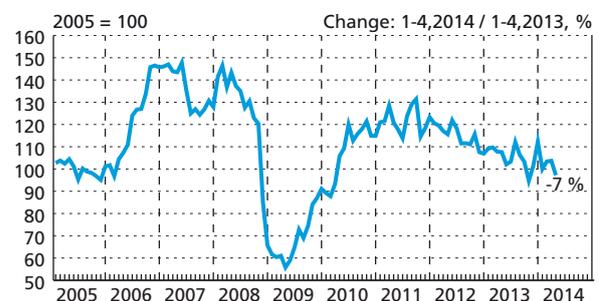
The turnover of metals industry companies (steel products, non-ferrous metals, castings, metallic minerals) in Finland was EUR 8.8 billion in 2013. Between January and April of this year, turnover was seven per cent lower than twelve months earlier. In 2007, prior to the financial crisis, the Finnish metals industry's turnover was EUR 11.2 billion.

Between January and May, the total production of steel products, non-ferrous metals, castings and metallic minerals in Finland increased by six per cent year-on-year. This included an increase in steel products, non-ferrous metals and castings but a decrease in metallic minerals.

In comparison to the corresponding period in 2013, global steel production increased by 2.5 per cent between January and June. In the EU, steel production grew by four per cent. The growth in North America and Asia amounted to three per cent. By far the largest production country, China, accounted for about 51 per cent of global steel production in June.

In 2013, the number of personnel employed by metals industry companies in Finland decreased by seven per cent, or 1,200 employees. The total number of personnel was 15,800. The reduction in personnel has continued this year, and the number of employees was approximately 15,200 at the end of June. In 2008, the industry employed a total of 18,100 people in Finland.

#### Turnover of the Metals Industry in Finland



Seasonally adjusted turnover index, latest information 4/2014.  
Source: Statistics Finland

#### Production Volume of the Metals Industry in Finland

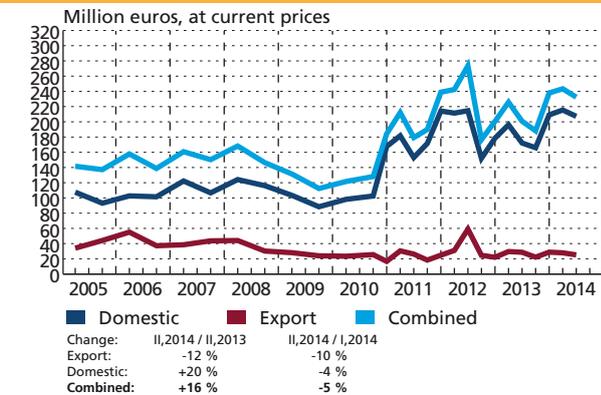


Seasonally adjusted volume index, latest information 5/2014.  
Source: Statistics Finland



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## Value of New Orders in the Consulting Engineering in Finland



Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information April-June 2014

## Positive development of order books continues

The turnover of consulting engineering companies (industrial, social and construction expert services) in Finland was EUR 5.0 billion in 2013. Between January and April of this year, turnover was roughly equal as twelve months earlier. In 2008, prior to the financial crisis, the industry's turnover in Finland was EUR 5.5 billion.

In the consulting engineering industry, order books continued to grow in April-June.

According to the Federation of Finnish Technology Industries' survey of order books, the monetary value of new orders in consulting engineering between April and June was 16 per cent higher than in the corresponding period of 2013, but five per cent lower than in the preceding quarter.

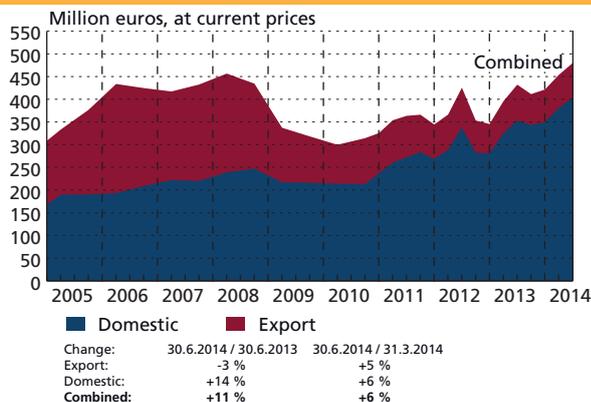
At the end of June, the value of order books was 11 per cent higher year-on-year, and six per cent above the value reported at the end of March.

The building design sector is slowing down. Both new orders and order books are declining, and the market forecast is negative. The market prospects are positive for industrial design and neutral in the infrastructure sector.

The turnover of consulting engineering companies in the autumn is expected to remain similar to last year's levels.

The number of personnel employed by the Finnish consulting engineering increased slightly in 2013, being 46,300. The increase in personnel has continued this year, and the number of employees was approximately 46,900 at the end of June. In 2008, the industry employed a total of 45,500 people in Finland.

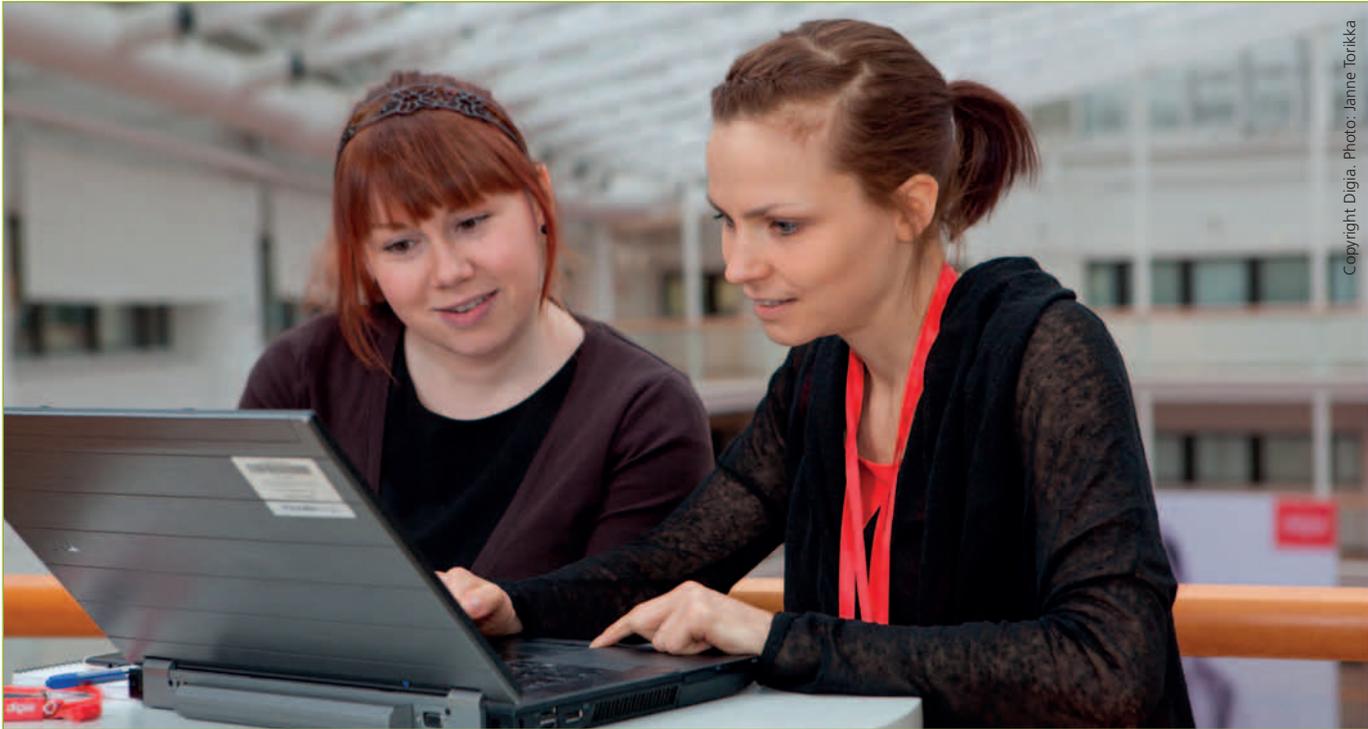
## Value of Order Books in the Consulting Engineering in Finland



Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information 30.6.2014



## Information Technology in Finland



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### Growth in turnover continues, but at a slower pace

The turnover of companies in the information technology sector (IT services and software) in Finland totalled EUR 8.3 billion in 2013. Between January and April of this year, turnover was 13 per cent higher than twelve months earlier. The turnover of game design software companies grew in particular. In 2008, prior to the financial crisis, the Finnish information technology industry's turnover was EUR 6.7 billion.

The growth in the number of orders showed signs of petering out in April–June, and the growth of order books levelled out.

According to the Federation of Finnish Technology Industries survey of order books, the monetary value of new orders in the information technology industry during April–June was 15 per cent lower than in the corresponding period of 2013 and 25 per cent lower than in the preceding quarter.

At the end of June, the value of order books was roughly equal year-on-year, but still below the value reported at the end of March.

Judging from order trends in recent months, the turnover of information technology companies is expected to be higher in the autumn than in the corresponding period last year.

The number of personnel employed by the Finnish information technology industry increased slightly in 2013, being 54,500. The number of personnel decreased somewhat between January and June of this year, being approximately 53,000 at the end of June. In 2008, the industry employed a total of 51,700 people in Finland.

### Value of New Orders in the Information Technology in Finland



Change: II,2014 / II,2013    II,2014 / I,2014  
Combined:        -15 %                -25 %

\*) Excl. game industry companies.

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information April-June 2014

### Value of Order Books in the Information Technology in Finland



Change: 30.6.2014 / 30.6.2013    30.6.2014 / 31.3.2014  
Combined:                        0 %                        -1 %

\*) Excl. game industry companies.

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information 30.6.2014



## ECONOMIC SITUATION AND OUTLOOK 3/2104

Information based on 30 July 2014

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Please visit the homepage of the Federation of Finnish Technology Industries for additional information on technology industry turnover, exports, investments, personnel and the development of producer and metal prices: [www.techind.fi](http://www.techind.fi).



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