

Economic situation and outlook 3/2015

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

Global and Finnish Economic Outlook

Emerging countries are a cause for concern pg. 3

Technology Industries In Finland

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Emerging countries are a cause for concern

The growth forecast for the global economy in 2015 has been adjusted downwards in recent months. According to estimates made this summer, growth is lagging behind 2014. Economic trends in emerging countries, such as China, Russia and Brazil, pose particular uncertainty in the forecasts.

Turbulence in the Chinese stock market indicates that China's economic growth has slackened and the prospects for future economic development are unclear. Advance information on Chinese industry indicates that production contracted in July. Growth in industrial overproduction has a substantial impact on international raw material markets. The trend in the prices of raw materials has a great significance for most other emerging countries, whose exports rely largely on these products.

China plays a substantial role in the economic development of Asia as a whole. The country's economy, adjusted for purchasing power parity, accounts for more than 40 per cent of Asia's total production volume.

In recent months, industrial production has also shrunk in Russia and Brazil. During the summer, production fell particularly steeply in Brazil, affecting the services sector as well. Adjusted for purchasing power parity, Brazil accounts for 35 per cent of the GDP of Latin America as a whole.

China, Brazil and Russia represent almost a quarter of the global economy, adjusted for purchasing power parity. Due to the large share of these three countries, both European and American export companies are already encountering difficulties in acquiring new export orders.

New orders from the largest sector of German industry, mechanical engineering, were on the rise at the end of last year, but growth has petered out since then. In spring 2015, new orders were on a par with last year.

That said, growing uncertainty in emerging countries has not as yet had a great impact on the European and North American economies. Growth prospects in these countries remained positive,

at least in June and July. In Western Europe, economic growth of 1.7 per cent is forecast for the full year. If this holds, growth will be twice as fast as last year. The fastest pace of economic development is in Ireland, Spain, Sweden and the UK.

The U.S. economy is expected to see growth of 2.4 per cent this year, in line with 2014.

No turn for the better in Finnish unit labour costs

This year, Finland ranks among the weakest countries in Western Europe in terms of development, along with Greece, Italy, Austria and Switzerland. Even in the best-case estimates, only slight growth is forecast for total production volume.

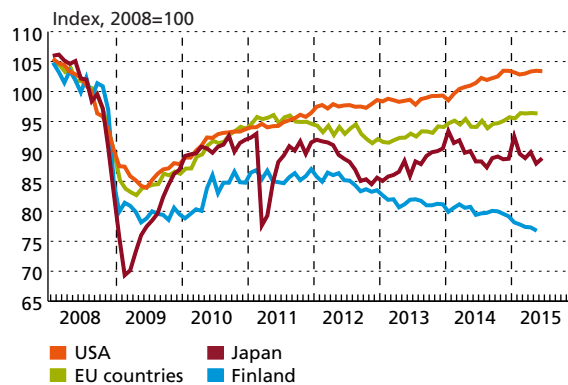
The production volume of Finland's key export sector – industry – has fallen short of the previous year. In the January-May period, production was as much as 25 per cent lower than in the corresponding period of 2008. Production has even fallen below its level in 2009.

The decline in industrial production and investments has significantly reduced the number of jobs in this sector in recent years. Since early 2008, almost 100,000 jobs have been lost.

According to the statistics of the European Central Bank, Finland's unit labour costs (labour costs / productivity) have increased by about 20 per cent since 2007 compared to the eurozone countries. No improvement in cost competitiveness has been seen this year, either.

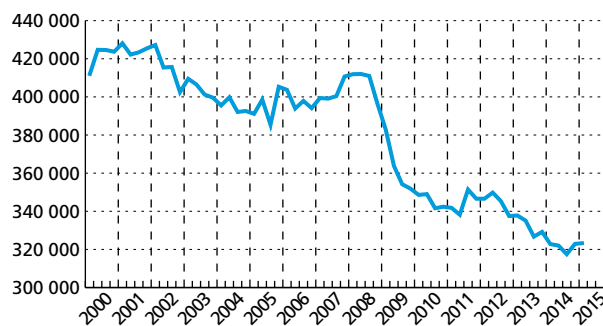
The Finnish government is seeking to decrease unit labour costs by about five per cent. In the light of the above information, that is the absolute minimum requirement for improving Finland's current cost competitiveness. Longer working hours can generate growth in total production, if no separate compensation is paid for them.

Industrial Production in Finland Has Fallen Behind the Level of Year 2009



Source: Macrobond. Latest information: June, 2015

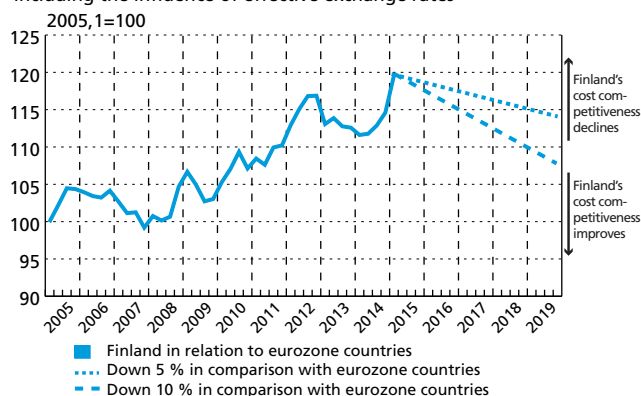
The Number of Technology Industry Personnel in Finland Has Declined by Almost 100,000 After 2008



Source: Macrobond, Eurostat / National Accounts. Latest information: 2015 Q1

Unit Labour Costs Must be Lowered

Unit labour costs for the total economy = labour costs / productivity, including the influence of effective exchange rates



*) In the ECB Harmonised Competitiveness Index, the average effective exchange rate of each country is calculated vis-à-vis 20 to 30 main trade partners, as well as the development of unit labour costs for the total economy. Latest information 2015Q1, Source: European Central Bank

Growth in new orders and order books, especially thanks to ship orders

The turnover of companies in the technology industries in Finland totalled EUR 67 billion in 2014. This represents a growth of some two per cent from the previous year. Turnover in the January-April period of 2015 was four per cent higher than in the corresponding period of the previous year. In 2008, prior to the financial crisis, the Finnish technology industry's turnover was EUR 86 billion.

Technology industry companies received higher levels of new orders between April and June, and their order books grew. Growth was driven particularly by ship orders, which are produced over a period of several years.

The slight improvement in calls for tenders in the industry in the first half of 2015 speaks to the modest improvement of the market situation.

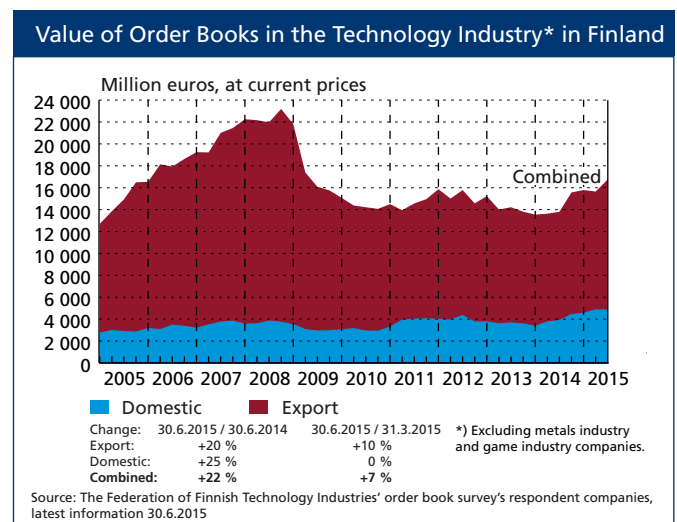
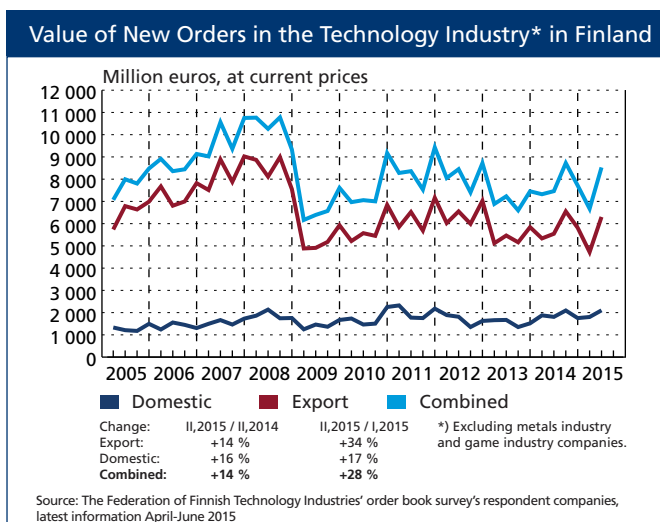
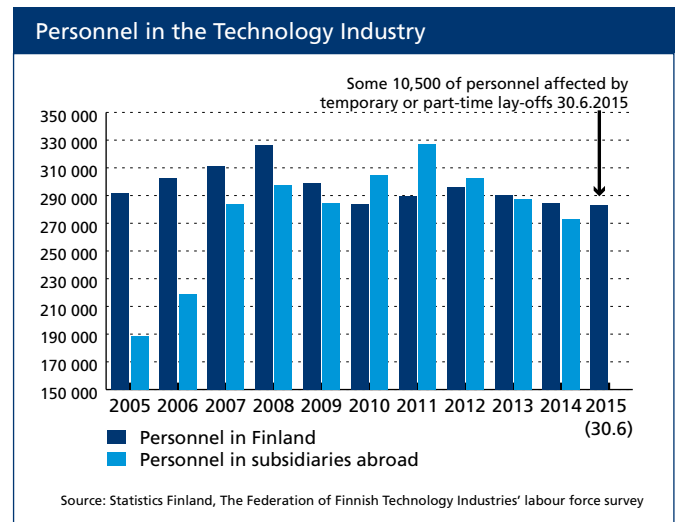
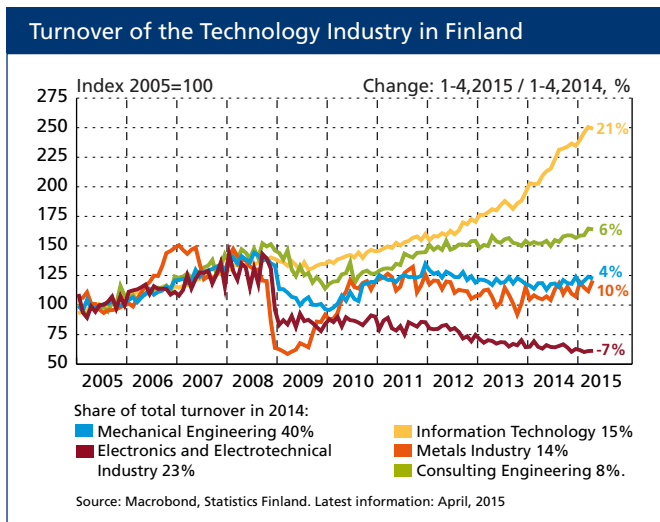
The companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was 14 per cent higher than in the corresponding period in 2014, and 28 per cent greater than in the preceding quarter. Of the respondents, 53 per cent said the number of new orders was up from January-March, 42 per cent said it was down and five per cent said it had remained stable.

At the end of June, the value of order books was up 22 per cent from the corresponding period last year, and seven per cent higher than the value reported at the end of March. Fifty per cent of companies reported an increase in the level of order books from March, while 41 per cent reported a drop and nine per cent had seen no change.

Judging from order trends in recent months, the turnover of technology industry companies is expected to be slightly higher in autumn 2015 than in the corresponding period last year.

Between January and June, the number of personnel employed by Finnish technology industry companies saw a slight year-on-year decrease. At the end of June, the industry had about 1,000 fewer employees than last year. On average, the industry had 284,000 employees. In addition, it had slightly more than 13,000 summer employees. In 2008, the industry employed a total of 326,000 people in Finland.

Despite the reductions, technology industry companies have recruited a total of almost 15,000 new employees in 2015. A total of 6,700 new recruitments took place in April-June. Some companies were increasing their personnel, while others were hiring new employees due to retirements and employee turnover.





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Fewer new orders than in 2014

The turnover of companies in the electronics and electrotechnical industry (telecommunications equipment, electrical equipment and medical technology) in Finland was EUR 15.3 billion in 2014, a year-on-year decline of four per cent. Turnover in the January-April period of 2015 fell seven per cent short of the corresponding period of the previous year. In 2008, prior to the financial crisis, the turnover of the Finnish electronics and electrotechnical industry totalled EUR 30.4 billion.

The level of new orders in the industry between April and June fell short of the previous year. New orders were driven by the telecommunications equipment industry. However, order books for the entire industry were up in June from the level reported one year previously.

The electronics and electrotechnical industry companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders in the industry between April and June was 12 per cent lower than in the corresponding period of 2014, and three per cent less than in the preceding quarter.

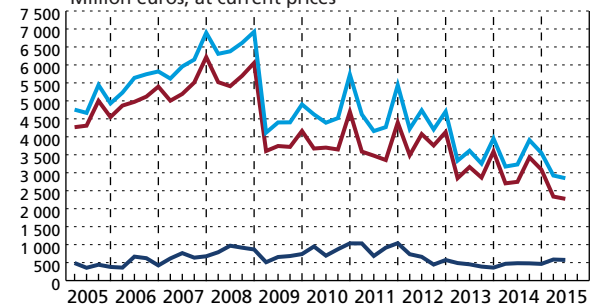
At the end of June, the value of order books was up four per cent from the corresponding period last year, and slightly larger than at the end of March.

Judging from order trends in recent months, the turnover of electronics and electrotechnical industry companies in the autumn is expected to be lower than in the corresponding period last year.

The number of electronics and electrotechnical personnel in Finland saw a slight year-on-year decline in the January-June period. At the end of June, the industry had about 800 fewer employees than last year, with an average of 41,300 employees. In 2008, the industry employed a total of 60,900 people in Finland.

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

Million euros, at current prices



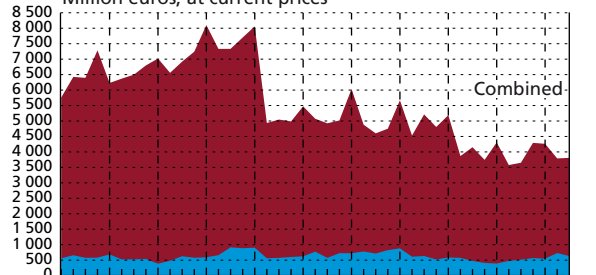
■ Domestic ■ Export ■ Combined

Change: II,2015 / II,2014 II,2015 / I,2015
Export: -17 % -3 %
Domestic: +19 % -2 %
Combined: -12 % -3 %

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information April-June 2015

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

Million euros, at current prices



■ Domestic ■ Export

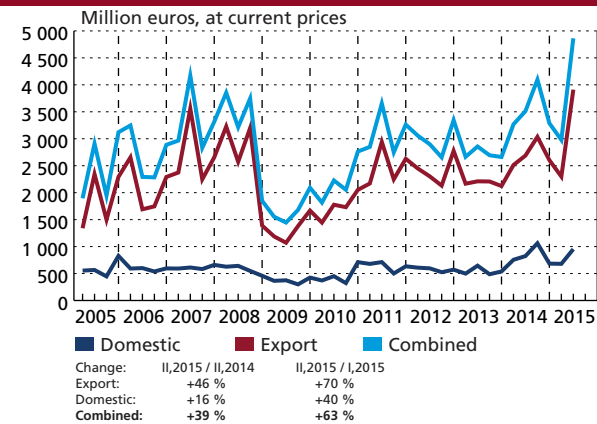
Change: 30.6.2015 / 30.6.2014 30.6.2015 / 31.3.2015
Export: +1 % +4 %
Domestic: +23 % -13 %
Combined: +4 % +1 %

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information 30.6.2015



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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 2015

Growth in new orders and order books, especially thanks to ship orders

The turnover of mechanical engineering companies (machinery, metal products and vehicles) in Finland was EUR 26.8 billion in 2014, on a par with the previous year. Turnover in the January-April period of 2015 was four per cent higher than in the corresponding period of the previous year. In 2008, prior to the financial crisis, the Finnish mechanical engineering sector accumulated a total turnover of EUR 33.3 billion.

The number of new orders received by mechanical engineering companies and their order books grew between April and June. Growth was driven particularly by ship orders, which are produced over a period of several years.

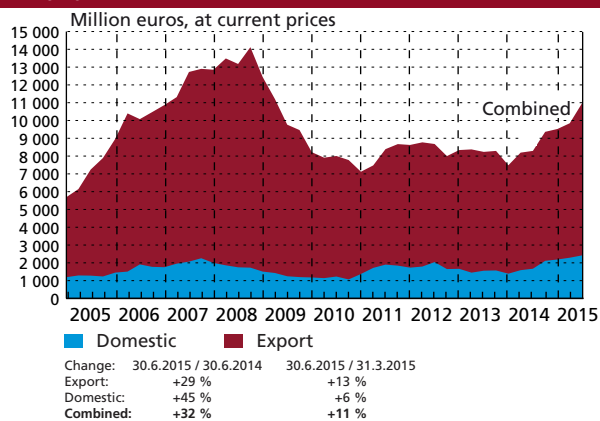
The mechanical engineering companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was 39 per cent higher than in the corresponding period in 2014, and 63 per cent more than in the preceding quarter.

At the end of June, the value of order books was up 32 per cent from the corresponding period last year, and 11 per cent higher than the value reported at the end of March.

Judging from order trends in recent months, the turnover of mechanical engineering companies in autumn 2015 is expected to be slightly higher than in the corresponding period last year.

The number of mechanical engineering personnel in Finland saw a slight year-on-year decline in the January-June period. At the end of June, the industry had about 500 fewer employees than last year. On average, the industry had 121,800 employees. 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 30.6.2015



Metals Industry in Finland



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Turnover up, production volumes flat

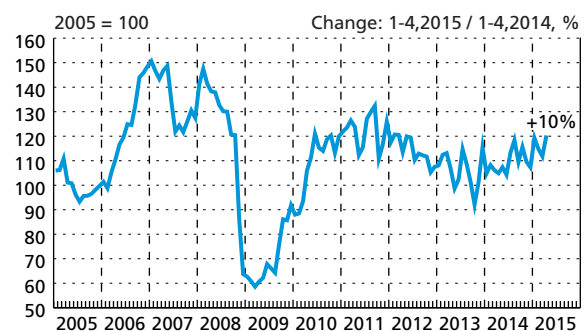
The turnover of metals industry companies (steel products, non-ferrous metals, castings and metallic minerals) in Finland was EUR 9.8 billion in 2014, up 10 per cent from 2013. Turnover in the January-April period of 2015 was likewise 10 per cent higher than in the corresponding period of the previous year. In 2007, prior to the financial crisis, the corresponding figure was EUR 11.2 billion.

The total production of steel products, non-ferrous metals, castings and metallic minerals in Finland increased by five per cent last year. However, production between January and May 2015 fell three per cent short of the corresponding period of the previous year.

Global steel production in January-June saw a year-on-year decrease of two per cent. Capacity utilisation in June was 72 per cent, as compared to 76 per cent a year earlier. In the first months of the year, production in North America fell by seven per cent and in Asia by two per cent. Production grew slightly in the EU. China, by far the largest production country, accounted for 51 per cent of global steel production in June.

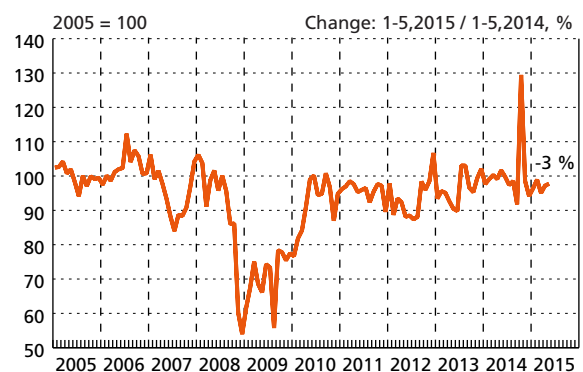
Between January and June, the number of personnel employed by Finnish metals industry companies decreased slightly compared with the previous year. At the end of June, the industry had about 600 fewer employees than last year. On average, the industry had 15,100 employees. In 2008, the industry employed a total of 18,100 people in Finland.

Turnover of the Metals Industry in Finland



Seasonally adjusted turnover index, latest information 4/2015
Source: Statistics Finland

Production Volume of the Metals Industry in Finland

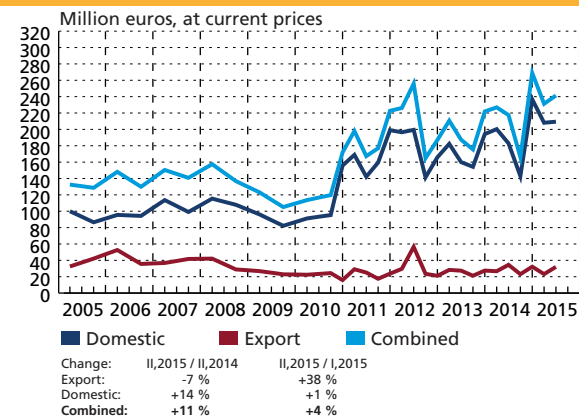


Seasonally adjusted volume index, latest information 5/2015
Source: Statistics Finland



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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 2015

Growth in new orders and order books

The turnover of consulting engineering companies (industrial, social and construction expert services) in Finland was EUR 5.3 billion in 2014, on a par with the previous year. Turnover in the January-April period of 2015 was six per cent higher than in the corresponding period of the previous year. In 2008, prior to the financial crisis, the industry's turnover in Finland was EUR 5.5 billion.

In the consulting engineering sector, both new orders and order books were up from April-June last year.

The consulting engineering companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders in the industry between April and June was 11 per cent higher than in the corresponding period last year, and four per cent more than in the preceding quarter.

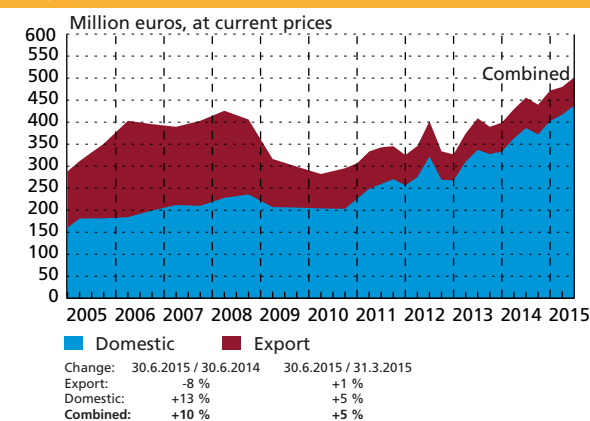
New orders saw growth compared with the previous year in expert services for both industry and building construction. On the other hand, orders declined slightly in infrastructure construction services.

At the end of June, the value of order books was up 10 per cent from the corresponding period last year, and five per cent higher than the value reported at the end of March. The order book was stronger than last year in all key expert sectors.

The turnover of consulting engineering companies is expected to be higher in autumn than in the corresponding period of 2014.

Between January and June, the number of personnel employed by the Finnish consulting engineering industry increased slightly compared with the previous year. At the end of June, the industry had about 1,200 more employees than last year. On average, the industry had 47,400 employees. 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 30.6.2015



Information Technology in Finland



Orders still on the rise

The turnover of companies in the information technology sector (IT services and software) in Finland totalled EUR 9.9 billion in 2014, up 17 per cent from 2013. Turnover in the January-April period of 2015 was 21 per cent higher than in the corresponding period of the previous year. This growth was driven by the software industry, particularly the gaming sector. In 2008, prior to the financial crisis, the Finnish information technology industry's turnover was EUR 6.7 billion.

New orders and order books in the information technology sector continued to rise between April and June. Nevertheless, there are major differences between individual companies. Typically for the sector, order volumes also fluctuate strongly from one quarter to another.

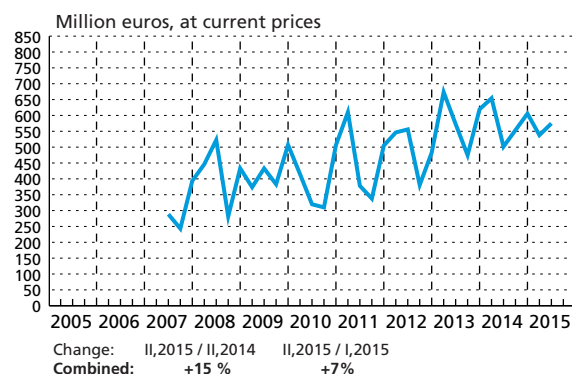
The information technology companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was 15 per cent higher than in the corresponding period in 2014, and seven per cent more than in the preceding quarter.

At the end of June, the value of order books was six per cent higher than in the corresponding period last year, but three per cent lower than at the end of March.

Judging from order trends in recent months, the turnover of information technology companies is expected to be higher in autumn 2015 than in the corresponding period last year.

Between January and June, the number of personnel employed by Finnish information technology companies saw a slight year-on-year decrease. At the end of June, the industry had about 600 fewer employees than last year. On average, the industry had 57,900 employees. In 2008, the industry employed a total of 51,700 people in Finland.

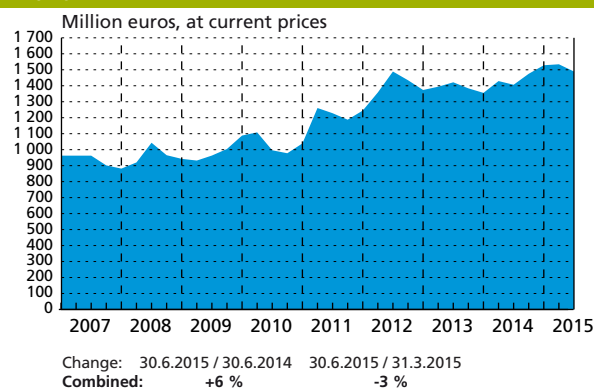
Value of New Orders in the Information Technology in Finland*



*) Excl. game industry companies

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information April-June 2015

Value of Order Books in the Information Technology in Finland*



*) Excl. game industry companies

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information 30.6.2015



ECONOMIC SITUATION AND OUTLOOK 3/2015

Information based on the situation on 4 August 2015

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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.



Itella Green

