



Economic outlook

3/2016

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

Global and Finnish Economic Outlook

Global economic development
does not benefit Finnish exports

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Global economic development does not benefit Finnish exports



Even though the global growth rate is three per cent, Finnish exports have not returned to a growth track this year, either. In fact, exports have fallen short of the previous year. That said, looking beyond this overall weak trend, there are companies whose turnover and exports have been on the rise.

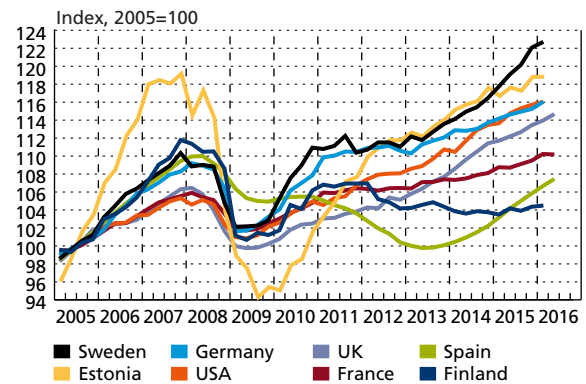
The outlook for exports is also muted. Growth prospects in different geographical areas around the world vary greatly. Rapid changes for the better are not on the horizon. Economic growth is continuing in the main geographical area for exports, Europe, but the UK's exit from the EU and the situation in Russia pose uncertainties. Growth prospects in Europe have gradually waned in recent months even though the Russian economy is showing signs of stabilising.

The United States is seeing further economic growth, but this has not benefited Finland. Finnish exports to the United States have actually declined this year. Growth in the USA has been driven particularly by private consumption and the recovery of the housing market.

China has a substantial impact on economic development in all of Asia. The trend in Chinese industry remains subdued, but the service industries are performing more successfully. On the whole, the growth prospects of Chinese companies for the upcoming year are weaker than at any point since 2009. A similar slowdown in growth prospects has spread among Indian companies.

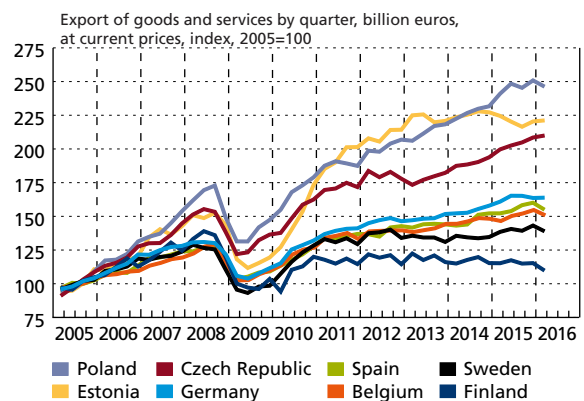
The economic outlook for Latin America in turn is shadowed by the deep recession in Brazil, as the country plays a great role in the development of the entire geographical area. In addition to Brazil, the GDPs of Argentina, Venezuela and Ecuador will contract this year.

GDP Has Grown in Europe and the USA, But Only Very Slightly in Finland



Source: Macrobond. Latest information: 2016 Q2

Finnish Exports Have Fallen Behind Competing Countries



Source: Macrobond, Eurostat. Latest information: 2016 Q1

Finland's economic growth relies on exports

The trend in Finland's GDP follows changes in exports. Tangible evidence of this dependency has been seen in recent years.

Finland's total goods and service exports have not grown since 2010. Compared with the beginning of 2008, export income is currently about 20 per cent lower.

GDP has also fallen substantially since 2008 and no real improvement has been seen recently. According to preliminary data, GDP contracted in May after several months of slight growth.

The level of exports has decreased particularly in the case of exports of goods by industry, but has also had a significant impact on the preconditions for growth in service exports. The major share of income from Finnish exports of services comprises foreign royalties and licence fees earned by the technology, forestry and chemical industries as well as software sales.

After 2008, Finnish exports of services have not declined, unlike exports of goods, but have not seen any growth, either. The value of service exports this year has been on a par with 2008. That said, there have been changes in the structure of service exports. Technology and other industries continue to generate about 60 per cent of income from Finnish service exports. The decline in income from service exports by the electronics industry has been offset by software income in the gaming industry. Without the recent growth in the gaming industry, Finnish service exports would also have dropped. It must be noted that annual industrial royalty and licence income from abroad has declined by 35 per cent since 2008, or almost five billion euros. The decline continued in 2015. This change tangibly demonstrates the significance of goods exports and the success of industry as a whole to Finland's GDP. It is vital to have production in Finland.

Investments and productivity are decisive for Finland's success

As the global growth rate does not help stimulate Finnish exports, the country must resort to domestic means of improving its situation. Better investment incentives and other measures to improve productivity are vital for boosting competitiveness. The productivity of the export sector is currently 10 per cent lower than in 2007–2008. At the level of the entire national economy – that is, GDP – the equivalent decline amounts to three per cent. The competitiveness pact in the labour market was an essential achievement, but its impacts on cost-competitiveness and productivity at the company level remain insufficient.

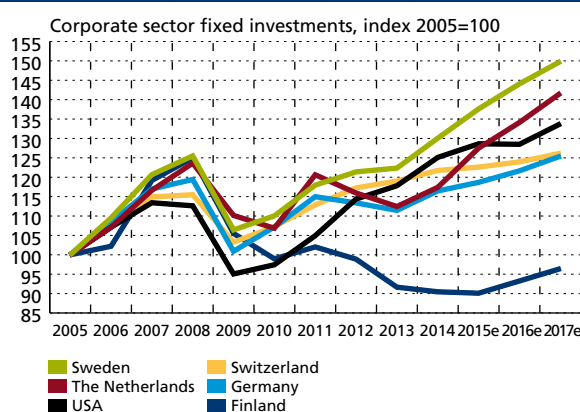
The low level of corporate investment in Finland is a cause for concern. Finland's investment trend is also weaker than in the key competing countries. Companies' productive investments in Finland are currently 22 per cent lower than in 2008, while R&D investments are down by as much as 27 per cent. The volume of investments falls below the reduction of fixed capital. The current level of investment is wholly inadequate for generating the necessary economic growth and productivity. Outlays should now be made particularly on the utilisation of digital technologies, automation, robotics and R&D. There is also a desperate need to expand production and produce new products.

Accordingly, the Finnish government should take all possible steps to promote corporate investment and productivity. In addition to other measures, corporate taxation should be reformed so as to substantially improve incentives for investment.

Finnish Goods Exports Have Declined and Service Exports Have Not Offset This Decrease



Strong Growth in Corporate Investments Must Be Achieved in Finland, as They Are Currently Entirely Inadequate



Slight contraction in order books

Two-thirds of new employees have been recruited by SMEs

The turnover of technology industry companies in Finland totalled EUR 68.2 billion in 2015. In 2008, prior to the financial crisis, the corresponding figure was EUR 86 billion. In the January-April period of this year, turnover saw a year-on-year decline of three per cent.

The level of new orders received by technology industry companies between April and June was significantly lower than in the corresponding period in 2015, and slightly lower than in January-March. The 2015 comparison period included a major ship order. Order books have contracted slightly throughout early 2016, but in June remained higher than in 2015.

Technology industry companies reported significant growth in the number of calls for tenders until spring. Since then, this growth has been slower than in the first months of the year.

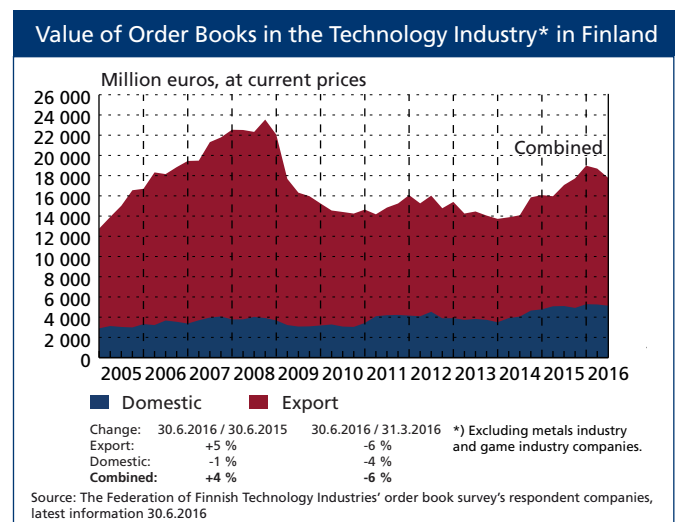
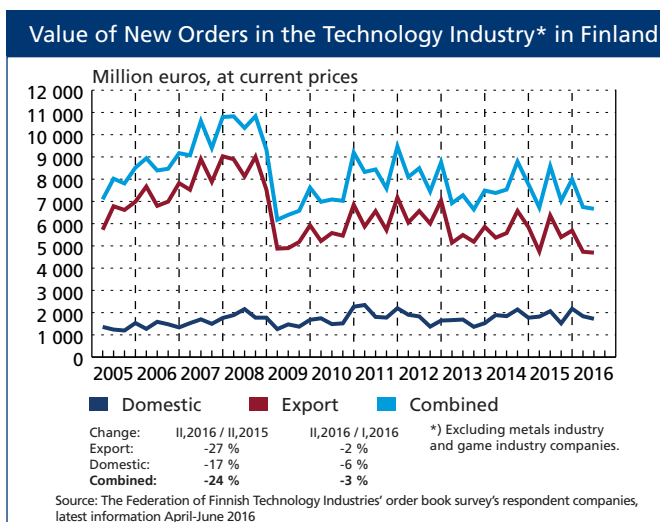
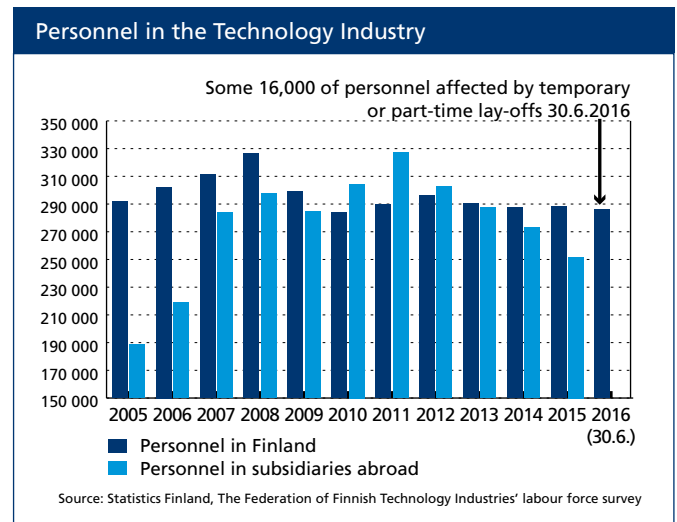
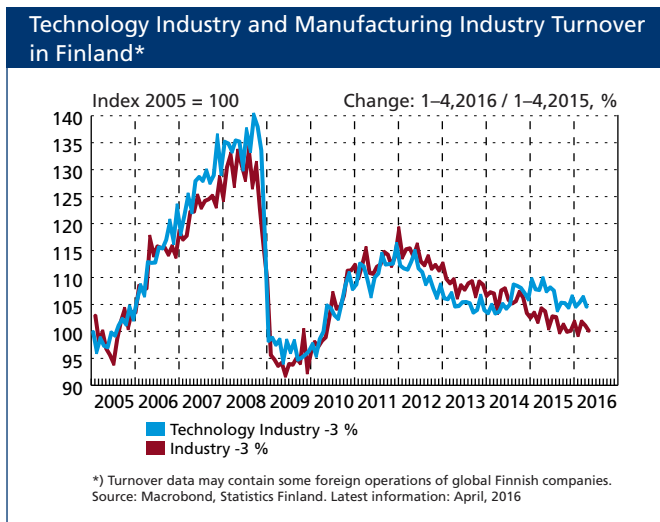
The companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was 24 per cent lower than in the corresponding period in 2015, and three per cent lower than in the preceding quarter. Of the respondents, 53 per cent said the number of new orders was up from January-March, 37 per cent said it was down and 10 per cent said it had remained stable.

At the end of June, the value of order books was up four per cent from the corresponding period last year, but six per cent below the value reported at the end of March. Fifty per cent of companies reported a decrease in their order books after March, while 36 per cent reported an increase and 14 per cent had seen no change.

Judging from order trends in recent months, the turnover of technology industry companies is expected to remain at the same or a slightly lower level in the autumn of 2016 than in the corresponding period last year.

The number of personnel employed by the technology industry in Finland fell slightly between January and June. Personnel declined by about one per cent, or slightly less than 3,000 from the average number in 2015. The total number of employees was 286,000 at the end of June. 16,000 employees were affected by temporary or part-time lay-offs. Technology industry companies had a total of 14,000 summer employees in the summer of 2016.

Despite the overall reduction in personnel strength, technology industry companies recruited more than 14,000 new employees in January-June. Two-thirds of these employees were hired by SMEs and a third by companies with at least 250 employees. Some companies were increasing their personnel, while others were hiring new employees due to retirements and employee turnover.





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Orders slightly up from the previous year

The turnover of companies in the electronics and electrotechnical industry (telecommunications equipment, electrical equipment and medical technology) in Finland totalled EUR 14.6 billion in 2015. In 2008, prior to the financial crisis, turnover was EUR 30.4 billion. In the January-April period of this year, turnover was seven per cent lower than twelve months earlier.

Both new orders and order books in the electronics and electrotechnical industry were slightly higher between April and June than in the corresponding period of the previous year.

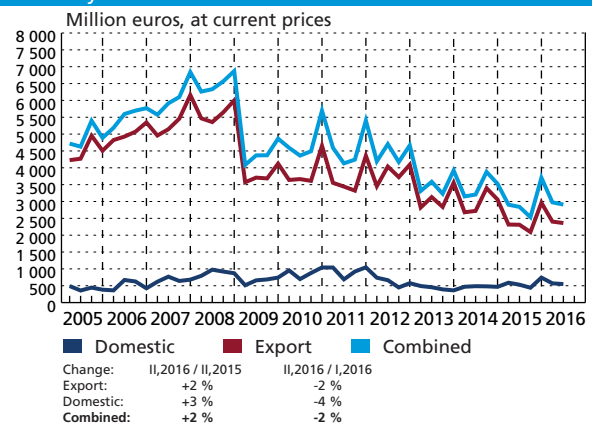
The electronics and electrotechnical industry companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders in the industry between April and June was two per cent higher than in the corresponding period in 2015, but two per cent lower than in the preceding quarter.

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

Judging from order trends in recent months, the turnover of electronics and electrotechnical industry companies is expected to remain at around the same level in the autumn as in the corresponding period last year.

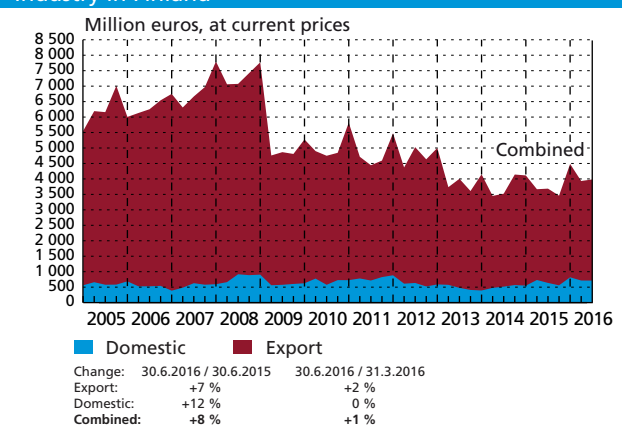
The number of personnel employed by companies in the electronics and electrotechnical industry in Finland continued to decline in January-June. Personnel declined by about eight per cent, or more than 3,000 compared with the 2015 average. The total number of personnel at the end of June was 37,000.

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 2016

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

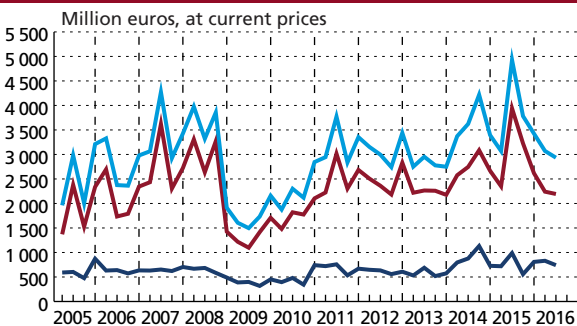


Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information 30.6.2016



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Value on New Orders in the Mechanical Engineering in Finland



Change:	II,2016 / II,2015	II,2016 / I,2016
Export:	-44 %	-2 %
Domestic:	-25 %	-11 %
Combined:	-40 %	-5 %

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information April-June 2016

Fewer new orders

The turnover of mechanical engineering companies (machinery, metal products and vehicles) in Finland totalled EUR 28 billion in 2015. In 2008, prior to the financial crisis, turnover was EUR 33.3 billion. In January-April of this year, turnover was slightly lower than in the corresponding period of the previous year.

The level of new orders received by mechanical engineering companies between April and June was clearly lower than a year earlier. The 2015 comparison period included a major ship order. In June, the order book was slightly higher than last year, but contracted somewhat after March.

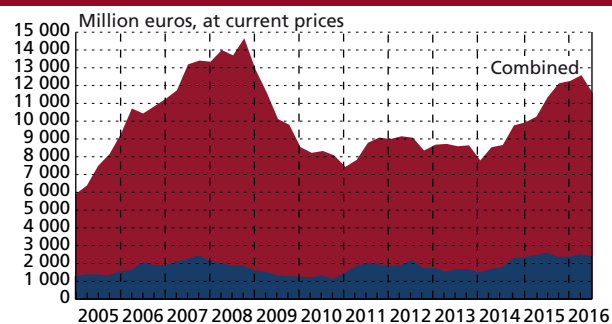
The mechanical engineering companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was 40 per cent lower than in the corresponding period in 2015, and five per cent less than in the preceding quarter.

At the end of June, the value of order books was two per cent higher year-on-year, but eight per cent smaller than at the end of March.

Judging from order trends in recent months, the turnover of mechanical engineering companies in the autumn is expected to remain on a par with the corresponding period last year.

The number of personnel employed by companies in the mechanical engineering industry in Finland continued to decline in January-June. Personnel declined by slightly more than one per cent, or almost 2,000 compared with the 2015 average. The total number of personnel at the end of June was slightly less than 123,000.

Value of Order Books in the Mechanical Engineering in Finland



Change:	30.6.2016 / 30.6.2015	30.6.2016 / 31.3.2016
Export:	+5 %	-9 %
Domestic:	-8 %	-5 %
Combined:	+2 %	-8 %

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information 30.6.2016



Metals Industry in Finland



Lower prices reduce turnover

The turnover of metals industry companies (steel products, non-ferrous metals, castings and metallic minerals) in Finland amounted to EUR 9.1 billion in 2015. The corresponding 2007 pre-crisis figure was EUR 11.2 billion. In January-April of this year, turnover was 13 per cent lower than twelve months earlier. Turnover contracted due to the year-on-year decline in prices. Producer prices in the industry were 14 per cent lower in Finland in the January-April period than a year earlier.

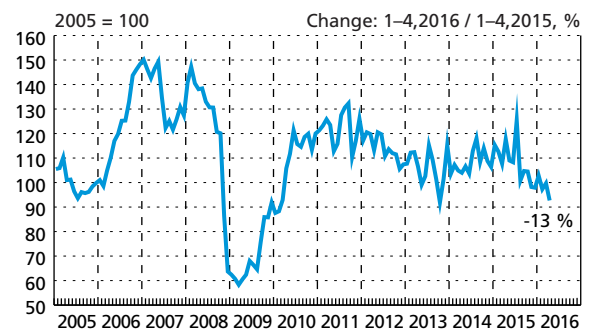
The total production of steel products, non-ferrous metals, castings and metallic minerals in Finland between January and May increased by 10 per cent year-on-year. Production of steel products, castings and metallic minerals increased, while production of non-ferrous metals remained more or less unchanged.

Global steel production shrank by two per cent between January and June from the corresponding period of 2015. Production fell by six per cent in the EU and by one per cent in Asia and North America.

China, Japan, India, the United States and Russia were the largest producers in June. China accounted for 51 per cent of global steel production.

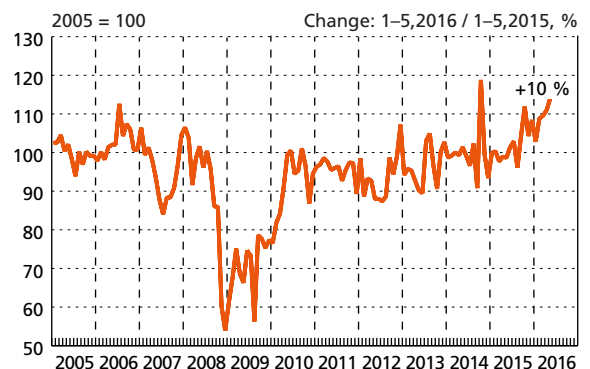
The number of personnel employed by companies in the metals industry in Finland continued to decrease in January-June. Personnel declined by slightly less than two per cent, or about 300 compared with the 2015 average. The total number of personnel at the end of June was around 15,500.

Turnover of the Metals Industry in Finland



Seasonally adjusted turnover index, latest information 4/2016
Source: Statistics Finland

Production Volume of the Metals Industry in Finland



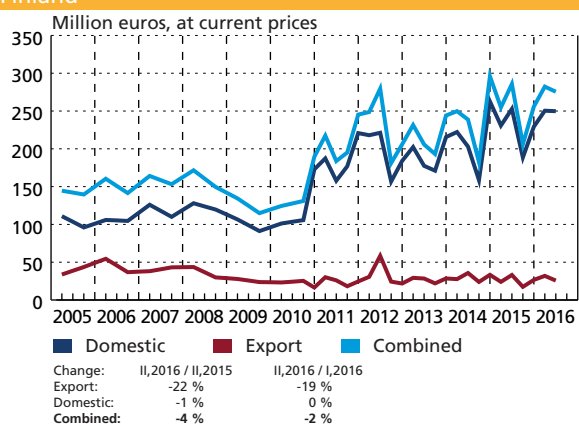
Seasonally adjusted volume index, latest information 5/2016
Source: Statistics Finland



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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 2016

Orders still at the good level

The turnover of consulting engineering companies (industrial, social and construction expert services) in Finland totalled EUR 5.5 billion in 2015. In 2008, prior to the financial crisis, the industry's turnover in Finland was the same, EUR 5.5 billion. In January-April 2016, turnover was 11 per cent higher than in the corresponding period of the previous year.

Both new orders and order books continued to stay at the good level in the consulting engineering sector in April-June. New order volumes tend to fluctuate strongly from one quarter to another in this sector.

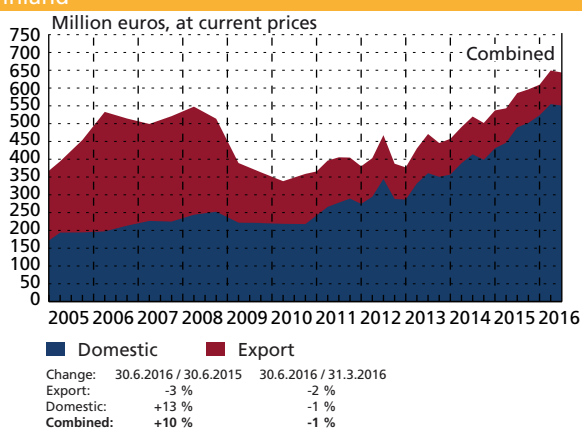
The consulting engineering companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was four per cent lower than in the corresponding period in 2015 and two per cent lower than in the preceding quarter.

At the end of June, the value of order books was 10 per cent higher year-on-year, but slightly lower than at the end of March.

Judging from order trends in recent months, the turnover of consulting engineering companies in the autumn is expected to exceed that of last year.

The number of personnel employed by consulting engineering companies in Finland continued to increase in January-June. Personnel increased by slightly more than three per cent, or 1,600 compared with the 2015 average. The total number of personnel at the end of June was slightly less than 50,000.

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 30.6.2016



Information Technology in Finland



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Order books up from last year

The turnover of information technology companies (IT services and software) in Finland totalled EUR 11 billion in 2015. Game industry software accounted for about EUR 2.4 billion of turnover. In 2008, prior to the financial crisis, the industry's turnover in Finland totalled EUR 6.7 billion. In January-April of this year, turnover was slightly higher than in the corresponding period of the previous year.

The level of new orders received by information technology companies between April and June was clearly lower than in the corresponding period of the previous year. Typically for the sector, new order volumes fluctuate strongly from one quarter to another. Order books also continued to shrink slightly, but were still higher than twelve months ago.

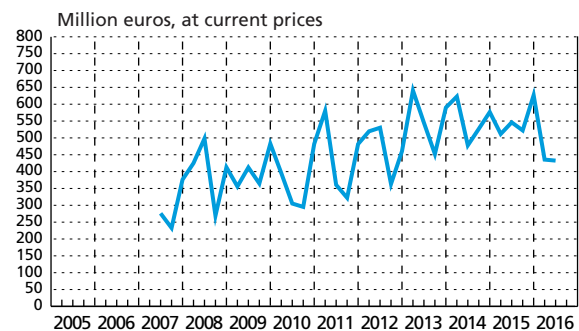
The information technology companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was 21 per cent lower than in the corresponding period of 2015, and slightly less than in the preceding quarter.

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

Judging from order trends in recent months, the turnover of information technology companies in the autumn is expected to remain at around the same level as in the corresponding period last year.

The number of personnel employed by information technology companies in Finland continued to increase in January-June. Personnel increased by almost two per cent, or slightly more than 1,000 compared with the 2015 average. The total number of personnel at the end of June was slightly more than 60,000.

Value of Order Books in the Consulting Engineering in Finland

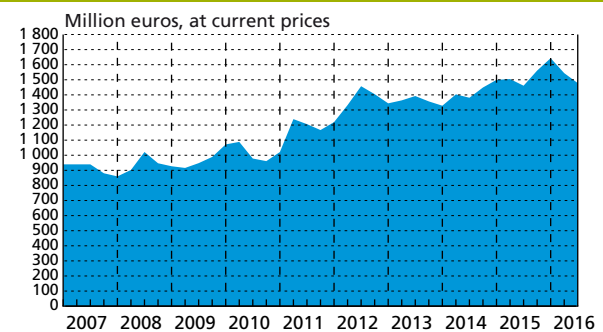


Change: II,2016 / II,2015 II,2016 / I,2016
Combined: -21 % -1 %

*) Excl. game industry companies

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information April-June 2016

Value of New Orders in the Information Technology in Finland



Change: 30.6.2016 / 30.6.2015 30.6.2016 / 31.3.2016
Combined: +1 % -4 %

*) Excl. game industry companies

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest information 30.6.2016



ECONOMIC OUTLOOK 3/2016

Information based on the situation on 2 August 2016

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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

