Economic Outlook

Technology Industries of Finland

3 | 2019

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Global economic uncertainty persists, but there are no signs of a downturn yet

Global economic uncertainty has persisted over the summer and growth forecasts have been downgraded throughout early 2019. Political risks remain, and it is very likely that the trade war will escalate further. Brexit-related uncertainties have intensified with the election of the new prime minister in the UK. Growing tensions in the Middle East also increase uncertainty, notably in relation to oil prices.

The International Monetary Fund IMF issued a revised world economic outlook in July, projecting a decline in growth for both 2019 and 2020. Global growth is now forecast at 3.2 per cent in 2019 and 3.5 per cent in 2020. IMF also warned about several downside risks, in relation to the 2020 forecast in particular.

Overall, world trade volume growth has stalled since the second half of 2018. Export volumes have even dropped in the first half of 2019. Development has been weak in both emerging and advanced market economies.

In the euro area, growth prospects have weakened further during the summer. Germany plays an essential role when it comes to growth in Finland and rest of the euro area, and its growth forecasts were revised down again in July. The largest economy in the euro area is now expected to expand by only 0.7 per cent in 2019. In 2020, growth is projected at 1.4 per cent. As a result of the prevailing uncertainties, the spread in the 2020 predictions is quite large.

Uncertainty has increased also in the United States in early 2019. According to preliminary data, growth slowed down considerably in the second quarter. Predictions for growth in manufacturing have also been revised down significantly during late spring.

Main central banks have reacted to the sluggish growth. After its meeting last week, the US Federal Reserve announced that it will cut its key benchmark interest rate by a quarter of a percentage point in the first reduction since the financial crisis. The European Central Bank has signalled that similar monetary easing is likely in Europe.

While global economic uncertainty persists and clouds the outlook, the good news is that forecasts remain positive for the most part. In other words, there are no signs of a downturn yet. However, higher level of uncertainty means that there is a greater risk of negative turns, which can happen quickly.

Manufacturing in particular affected by the global economic uncertainty

Outlook is weak for manufacturing in particular, both in the United States and the euro area. According to the latest predictions, Germany's industrial output is expected to shrink this year. This is also indicated by the German manufacturing industry's Purchasing Manager Index for July, which was at its lowest level in Germany in seven years.

Actual data also points to the prevailing challenges in the manufacturing sector in Europe: industrial production has practically stalled in the EU since the end of 2017.

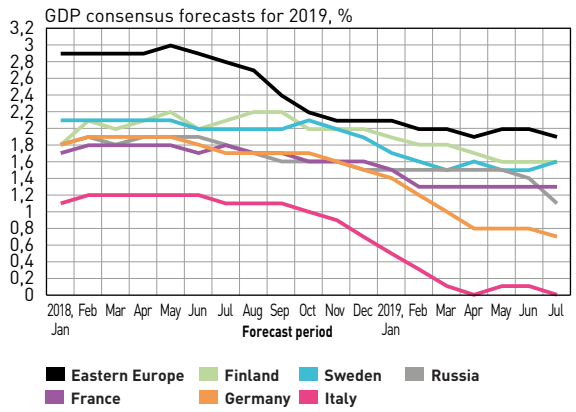
Growth slows down also in Finland

Following the global trend, growth has slowed down in Finland in early 2019, perhaps even more rapidly than expected. As a result, growth forecasts for 2019 and 2020 have been downgraded significantly. According to the June forecast, economic growth in Finland slowed down already last year as the rate of expansion was only 1.7 per cent. In the spring of 2018, growth was expected to reach 2.3 per cent.

The outlook for Finland differs from the rest of Europe: while other markets expect their growth rates to pick up slightly in 2020, forecasts for Finland indicate that the slowdown will continue.

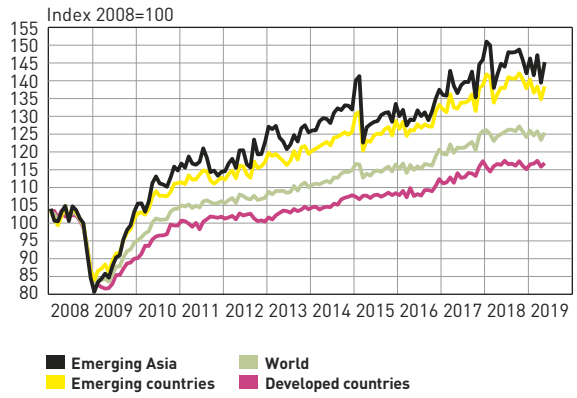
Growth in employment has practically stalled and consumer confidence has also weakened. The Confederation of Finnish Industries' (EK) Business Tendency Survey indicates that business cycle expectations have weakened in all the main sectors. Despite the dampened outlook, data collected to date indicates that growth will continue in Finland for the time being, albeit at a much slower pace.

GDP Growth Forecasts for 2019 Have Been Weakened in Recent Months



Source: Consensus Economics

Growth of World trade has Stagnated



Source: Macrobond, The CPB Netherlands Bureau for Economic Policy Analysis

Labour market agreements are key to achieving the employment target

For several months now, employment statistics have indicated that employment growth in Finland has slowed down significantly – or has stalled altogether. The new government has set its employment target to 75 per cent. Achieving this target is critical for the sustainable financing of Finland's public sector.

The fact that employment growth has stalled indicates that decision-makers need to consider structural changes. To date, the government has announced that it plans to renew the pay subsidy system and improve services for the unemployed. However, the employment effect of such measures is uncertain, which is true to any effect on public finances in particular. Strengthening the financial position of the public sector is an essential goal related to the employment target.

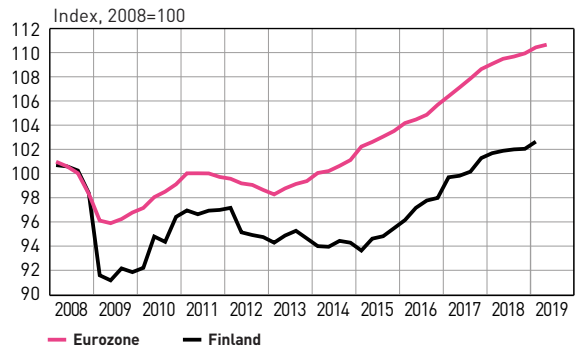
While different political measures can have important and significant employment effects, the labour market negotiations that will start in the autumn are key to the development of employment in Finland. As economic growth is slowing down, competitiveness becomes increasingly important.

Finland's cost-competitiveness has improved notably over the past few years. According to the Bank of Finland, further improvement is necessary to achieve a higher employment rate. As the global economy is slowing down, companies can maintain strong growth only by increasing their world market shares. This is turn requires stronger cost-competitiveness.

In the last year, the Finnish manufacturing sector has fared even better than the average for the euro area. The positive development is thanks to improved cost-competitiveness.

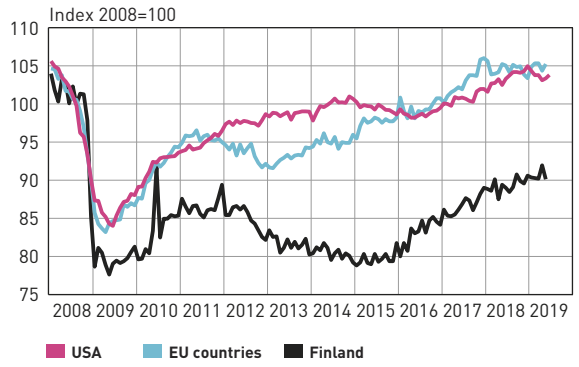
The export sectors will start the round of negotiations in the autumn and will also contribute to the preparation of other measures that will impact employment. These agreements and proposals will have a substantial impact on the future development of both employment and growth in Finland.

In Finland Growth of GDP Slowed Down already Last Year



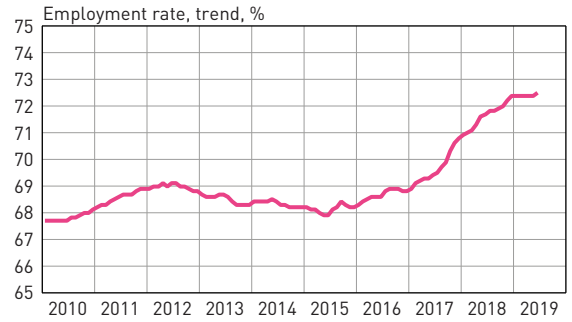
Source: Macrobond
Latest information: 2019 Q2

Performance at Industrial Production Sligthly better in Finland than on Average in EU



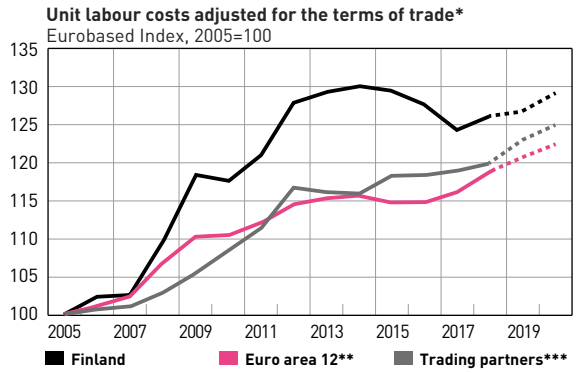
Latest information: June 2019
Source: Macrobond

Improvement in Employment rate has Stagnated



Source: Statistics Finland

Cost Competitiveness has Improved in Finland but We are Still Lagging Behind Competitors



*) Labour compensation relative to real national income.
) First 12 euro area member states. *) 14 traditional industrial countries.
Forecasts: Bank of Finland (Finland) and European Commission (other countries)
Sources: Statistics Finland, Bank of Finland and European Commission

Turnover and personnel continue to grow – new orders stall

The turnover of technology industry companies in Finland grew by 6 per cent in 2018 from 2017. In January-April 2019, their turnover was up 7 per cent year-on-year. Turnover was up in all main sectors except metals industry. Depending on the sector, about half of the increase has been attributable to volume growth and half to increase in sales due to rising world market prices of raw materials and components. In 2018, the turnover in Finland amounted to EUR 79 billion.

The continued deterioration of the global economic climate is also reflected in the value of technology industry companies' new orders. Order intake in the last quarter indicates that the growth of new orders has stalled. While the value of new orders dropped slightly from the previous quarter, it nevertheless remained at a relatively good level. Order books remained more or less at the same level as in the previous quarter. However, shipyards' order books contribute an exceptionally large share of the total value of orders. Some 60 per cent of the strengthening of the order books since early 2014 is attributable to ship orders. The last ship in the shipyards' order books is expected to be delivered in 2024. The strengthening of the ship building industry drives broad-based growth in many sectors.

The number of requests for tender received by technology industry companies dropped significantly from the level reported in the spring. The volume of requests in the June-July period was lower than in early 2019. The balance figure was negative for the first time since 2015.

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 4 per cent lower than in the preceding quarter, but 10 per cent higher than in the corresponding period in 2018.

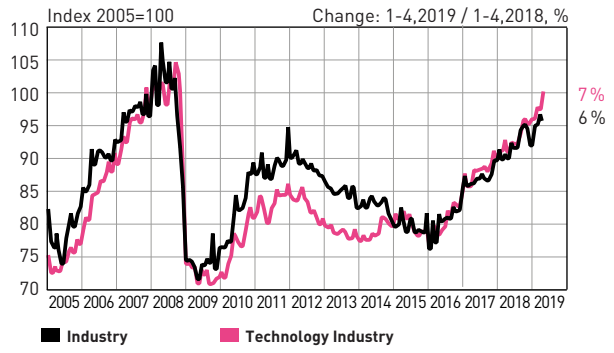
At the end of June, the value of order books was at the same level as at the end of March, but 15 per cent higher than in June 2018.

Judging from order trends in recent months, the turnover of technology industry companies is expected to be higher in the autumn of 2019 than in the corresponding period last year.

The number of personnel employed by technology industry companies in Finland grew by slightly more than 3 per cent between April and June from the 2018 average. At the end of June, the industry employed 319,200 people, up close to 10,000 from the 2018 average. The industry also provided some 17,000 summer jobs.

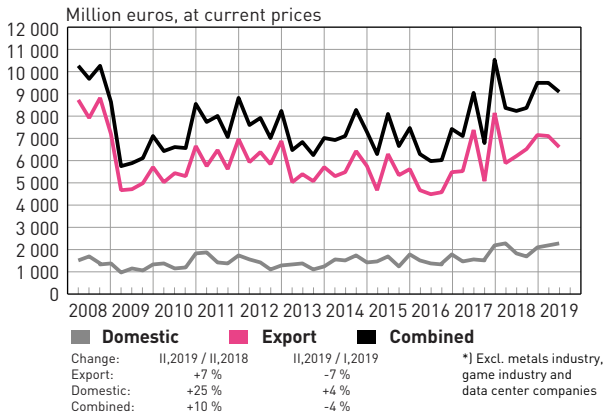
Recruitment of new employees remained at a good level in the April-June period. In total, recruitments came to 11,400. Sixty-three per cent of these employees were hired by SMEs. Some companies were increasing their personnel, others were hiring new employees due to retirements and employee turnover.

Turnover of Finnish Technology Industry was 79 billion Euros in Year 2018



Seasonally adjusted turnover index
Latest information: April 2019
Source: Macrobond, Statistics Finland

Value of New Orders in the Technology Industry* in Finland

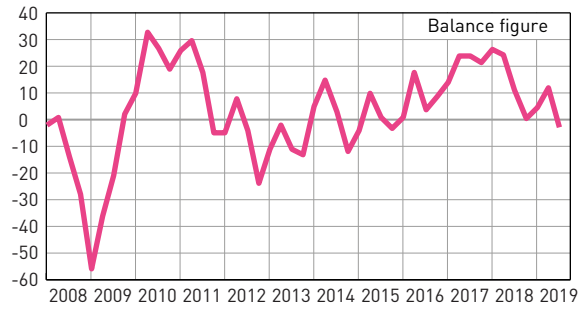


Change:	II,2019 / II,2018	II,2019 / I,2019
Export:	+7 %	-7 %
Domestic:	+25 %	+4 %
Combined:	+10 %	-4 %

*) Excl. metals industry, game industry and data center companies

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest observation April-June 2019.

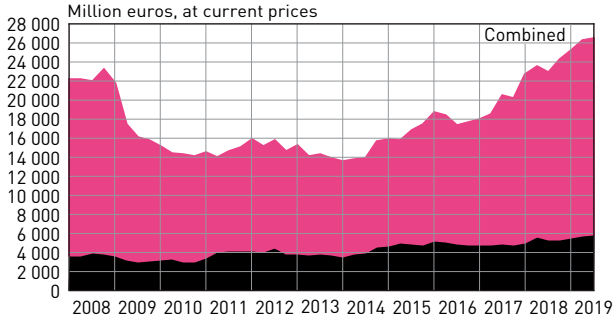
Tender Requests* Received by the Technology Industry Companies in Finland



*) "Have you experienced a notable increase or decrease in the number of requests for tenders in recent weeks in comparison to the situation three months ago?". Balance figure = the number of companies receiving more requests - the number of companies receiving less requests."

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, the last questionnaire in July 2019.

Value of Order Books in the Technology Industry* in Finland



Change:	30.6.2019 / 30.6.2018	30.6.2019 / 31.3.2019
Export:	+17 %	0 %
Domestic:	+11 %	+2 %
Combined:	+15 %	0 %

*) Excl. metals industry, game industry and data center companies

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest observation 30th June 2019.

Electronics and Electrotechnical Industry in Finland

New orders still on the rise

The turnover of companies in the electronics and electrotechnical industry (telecommunications equipment, electrical equipment and medical technology) in Finland grew by 4 per cent in 2018 from 2017. In January-April 2019, their turnover was up 11 per cent year-on-year. In 2018, their turnover in Finland amounted to EUR 15.6 billion.

Both new orders and order books continued to grow in the April-June period. Orders have grown moderately for almost three years now.

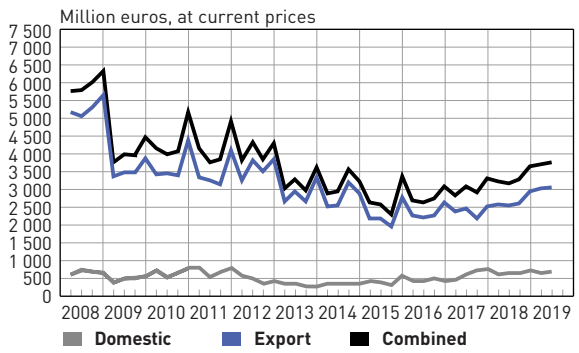
The electronics and electrotechnical companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was 2 per cent higher than in the preceding quarter and 18 per cent higher than in the corresponding period in 2018.

At the end of June, the value of order books was two per cent higher than at the end of March and 14 per cent higher than in June 2018.

Judging from order trends in recent months, the turnover of electronics and electrotechnical industry companies is expected to be higher in the autumn of 2019 than in the corresponding period in 2018.

The number of personnel employed by electronics and electrotechnical companies in Finland was up some 1.5 per cent from the 2018 average and at the end of June, the industry employed 38,500 people, up 500 from 2018.

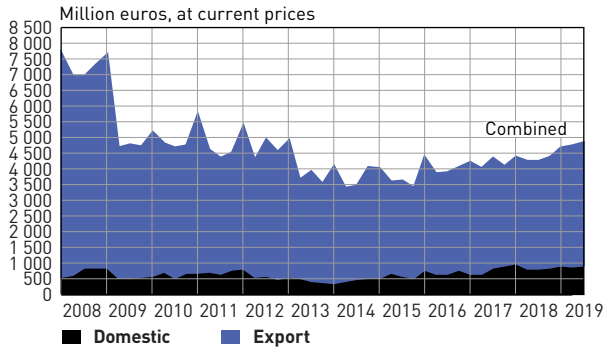
Value of New Orders in the Electronics and Electrotechnical Industry in Finland



Change:	II,2019 / II,2018	II,2019 / I,2019
Export:	+21 %	+1 %
Domestic:	+9 %	+4 %
Combined:	+18 %	+2 %

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest observation April-June 2019

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



Change:	30.6.2019 / 30.6.2018	30.6.2019 / 31.3.2019
Export:	+15 %	+2 %
Domestic:	+10 %	+2 %
Combined:	+14 %	+2 %

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest observation 30th June 2019.

Mechanical Engineering in Finland

New orders drop, but remain at a reasonable level

The turnover of mechanical engineering companies (machinery, metal products and vehicles) in Finland increased by 6 per cent in 2018 from 2017. In January-April 2019, their turnover was up 6 per cent year-on-year. In 2018, the turnover in Finland amounted to EUR 31.8 billion.

While the value of new orders in mechanical engineering decreased slightly from the previous quarter in the April-June period, the order volume remained at a reasonable level. The total value of order books remained more or less at the same level as in the previous quarter. Shipyards' order books contribute an exceptionally large share of the total value of orders. Some 75 per cent of the strengthening of the order books since early 2014 is attributable to ship orders. The last ship in the shipyards' order books is expected to be delivered in 2024. The strengthening of the ship building industry drives broad-based growth in many sectors.

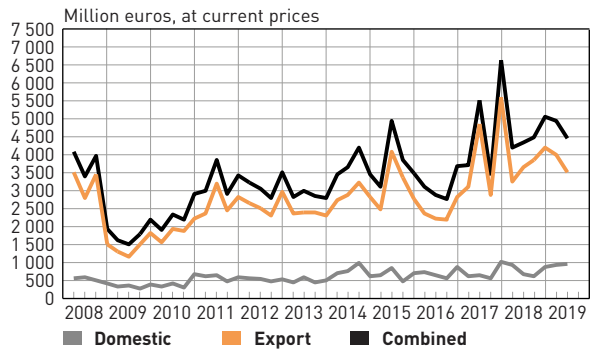
The mechanical engineering companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was 10 per cent lower than in the preceding quarter, but 3 per cent higher than in the corresponding period in 2018.

At the end of June, the value of order books was at the same level as at the end of March and 17 per cent higher than in June 2018.

Judging from order trends in recent months, the turnover of mechanical engineering companies in the autumn of 2019 is expected to be slightly higher than or the same as in the corresponding period last year.

The number of personnel in mechanical engineering companies in Finland was up some 2.5 per cent from the 2018 average and at the end of June, the industry employed 134,600 people, up 3,300 from 2018.

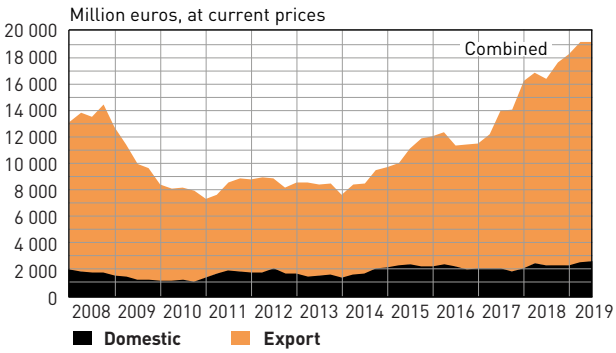
Value of New Orders in the Mechanical Engineering in Finland



Change:	II,2019 / II,2018	II,2019 / I,2019
Export:	-4 %	-12 %
Domestic:	+39 %	+1 %
Combined:	+3 %	-10 %

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest observation April-June 2019

Value of Order Books in the Mechanical Engineering in Finland



Change:	30.6.2019 / 30.6.2018	30.6.2019 / 31.3.2019
Export:	+17 %	-1 %
Domestic:	+14 %	+4 %
Combined:	+17 %	0 %

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest observation 30th June 2019.

Metals Industry in Finland

Turnover and production volumes fell in early 2019

The turnover of metals industry companies (steel products, non-ferrous metals, castings and metallic minerals) in Finland grew almost 10 per cent in 2018 from 2017. However, the turnover fell towards the end of 2018. In January-April 2019, turnover was 2 per cent lower than twelve months earlier. In 2018, their turnover in Finland amounted to EUR 11.2 billion.

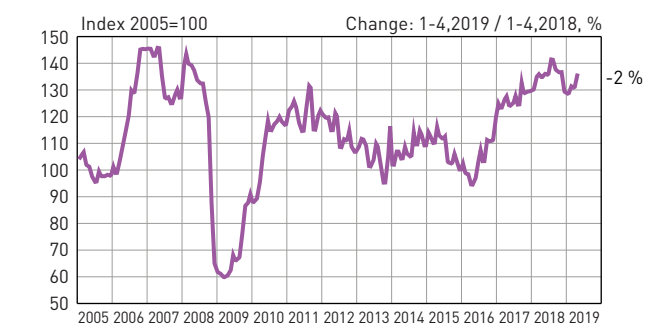
The total production of steel products, non-ferrous metals, castings and metallic minerals in Finland in the January-May period decreased by as much as 7 per cent year-on-year.

The number of personnel employed by metals industry companies in Finland was close to the 2018 average and at the end of June, the industry employed approximately 15,900 people.

In comparison to the corresponding period in 2018, global steel production increased by almost 5 per cent between January and June. Production increased by more than 7 per cent in Asia and by more than 5 per cent in the United States. Production in Europe decreased by 2.5 per cent. Many countries are feeling the effects of the trade war and economic sanctions. In early 2019, production was down by some 1 per cent in Russia, 10 per cent in Turkey, 11 per cent in Canada and 4 per cent in Japan.

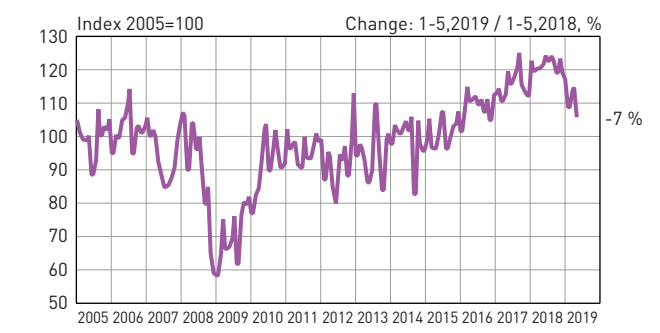
China, India, Japan, the United States, South Korea and Russia were the largest producers in June. China accounted for 55 per cent of global steel production.

Turnover of the Metals Industry in Finland



Seasonal adjusted turnover index
Latest information: April 2019
Source: Statistics Finland

Production Volume of the Metals Industry in Finland



Seasonal adjusted volume index
Latest information: May 2019
Source: Statistics Finland

Consulting Engineering in Finland

New orders and order books at a good level

The turnover of consulting engineering companies (industrial, social and construction expert services) in Finland grew by 6 per cent in 2018 from 2017. In January-April 2019, their turnover was up 7 per cent year-on-year. In 2018, the turnover in Finland amounted to EUR 6.3 billion.

While new orders and order-book volumes fell slightly from the previous quarter, they nevertheless remain at a good level.

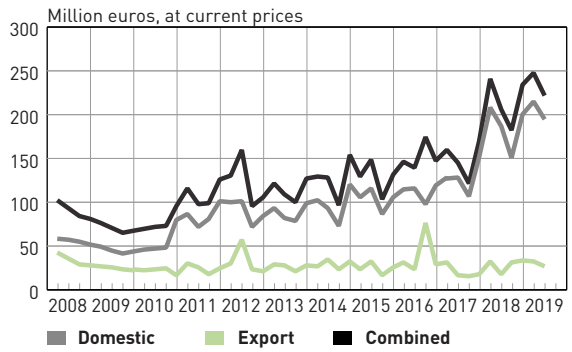
The consulting engineering companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was 11 per cent lower than in the preceding quarter, but 8 per cent higher than in the corresponding period in 2018.

At the end of June, the value of order books was 8 per cent lower than at the end of March, but 6 per cent higher than in June 2018.

Judging from order trends in recent months, the turnover of consulting engineering companies is expected to be higher in the autumn of 2019 than in the corresponding period last year.

The number of personnel employed by consulting engineering companies in Finland was up some 6 per cent from the 2018 average and at the end of June, the industry employed 56,300 people, up 3,000 from 2018.

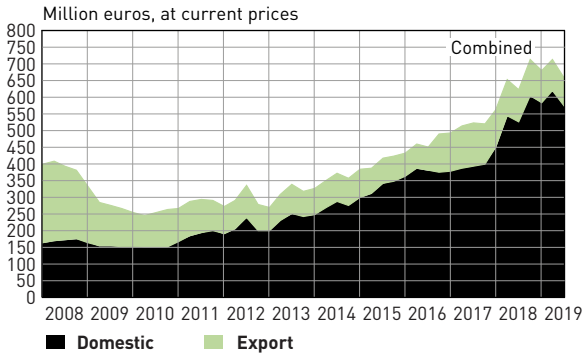
Value of New Orders in the Consulting Engineering in Finland



Change:	II,2019 / II,2018	II,2019 / I,2019
Export:	+49 %	-16 %
Domestic:	+4 %	-10 %
Combined:	+8 %	-11 %

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest observation April-June 2019.

Value of Order Books in the Consulting Engineering in Finland



Change:	30.6.2019 / 30.6.2018	30.6.2019 / 31.3.2019
Export:	-15 %	-9 %
Domestic:	+9 %	-7 %
Combined:	+6 %	-8 %

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest observation 30th June 2019.

Information Technology in Finland

Orders remain at a good level

The turnover of information technology companies (IT services and software) in Finland grew by 7 per cent in 2018 from 2017. In January-April 2019, their turnover was up 10 per cent year-on-year. In 2018, the turnover in Finland totalled EUR 13.9 billion.

Both new orders and order books remained at a good level in the April-June period. Typically for the sector, order volumes fluctuate strongly from one quarter to another.

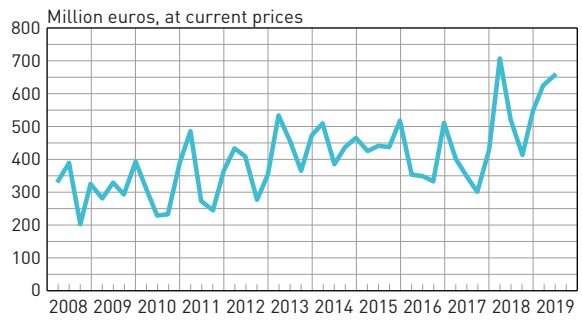
The information technology companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was 5 per cent higher than in the preceding quarter and 26 per cent higher than in the corresponding period in 2018. Game industry and data centre companies are not included in the survey.

At the end of June, the value of order books was 4 per cent higher than at the end of March and 10 per cent higher than in June 2018.

Judging from order trends in recent months, the turnover of information technology companies is expected to be higher in the autumn of 2019 than in the corresponding period last year.

The number of personnel employed by information technology companies in Finland was up 4.5 per cent from the 2018 average and at the end of June, the industry employed 73,900 people, up 3200 from 2018.

Value of New Orders in the Information Technology* in Finland

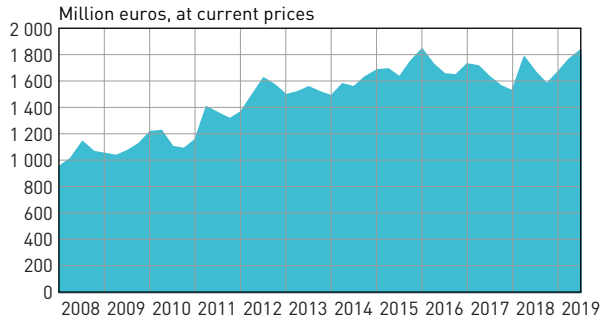


Change:	II,2019 / II,2018	II,2019 / I,2019
Combined:	+26 %	+5 %

*) Excl. game industry and data center companies

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest observation April-June 2019.

Value of Order Books in the Information Technology* in Finland



Change:	30.6.2019 / 30.6.2018	30.6.2019 / 31.3.2019
Combined:	+10 %	+4 %

*) Excl. game industry and data center companies

Source: The Federation of Finnish Technology Industries' order book survey's respondent companies, latest observation 30th June 2019.

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Information based on the situation on 7 August 2019

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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 prices: www.techind.fi.

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of Finland