

Economic Outlook

Technology Industries of Finland

3 | 2020

**Global And Finnish
Economic Outlook**
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Even if we escape the worst,
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Global economy is on thin ice

The coronavirus crisis has caused unprecedented damage to the global economy this year, and many countries still continue to be battered by the first wave of the epidemic. In Europe, the situation looked clearly better after the first wave, but a second wave seems increasingly likely.

There are many other factors hampering economic growth, which unfortunately continue to have an impact, too. The trade war between the United States and China has escalated again, the situation in Hong Kong is challenging, Brexit is just around the corner and the domestic policy challenges in the United States are shaking the confidence of investors.

Fresh information on the effects of the coronavirus crisis became available in the last week of July when statistical authorities released preliminary information on GDP development during the second quarter of 2020. While it was to be expected, these figures paint a grim picture. In the United States, GDP shrank by approximately 10 per cent and in the eurozone by approximately 12 per cent from the preceding quarter.

It remains very hard to make predictions about future economic development. Most predictions made in the spring were based on the assumption that the epidemic would slowly wane, which now seems overly optimistic.

As a result of the coronavirus crisis, Purchase Managers' Indices for the eurozone plummeted to historically low levels. While the PMI figures for the June-July period indicate that the situation has improved somewhat, caution is required in the interpretation of the figures. A clear improvement would require the indices to be well over the 50-point mark. The most recent eurozone manufacturing and services PMI for July was 55. The situation has improved from the historically low levels in Europe, but only slightly. Based on the PMI figures, employment prospects in manufacturing remain very weak in Europe.

The situation on the financial markets should also be followed closely. Combined with the weak financial position of many banks in Europe, possible future credit losses will be a difficult equation.

As the epidemic and financial turmoil continue in the United States, its housing finance sector is under a significant strain. In the worst-case scenario, distrust will again spread from the housing finance sector to the financial markets in general.

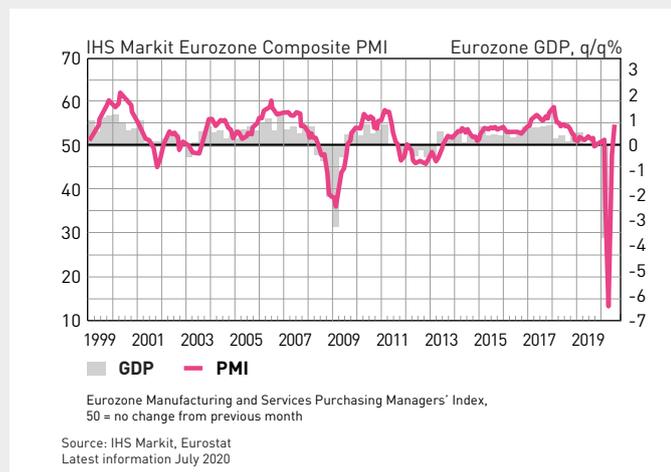
Finland's cost competitiveness is weakening again

As a result of the coronavirus crisis, the pace of economic growth in Finland will be substantially weaker than anticipated at the time of the technology industry negotiations at the turn of the year. For example, the wage increases in the technology industry collective agreements are clearly too high. This weighs on Finland's cost competitiveness.

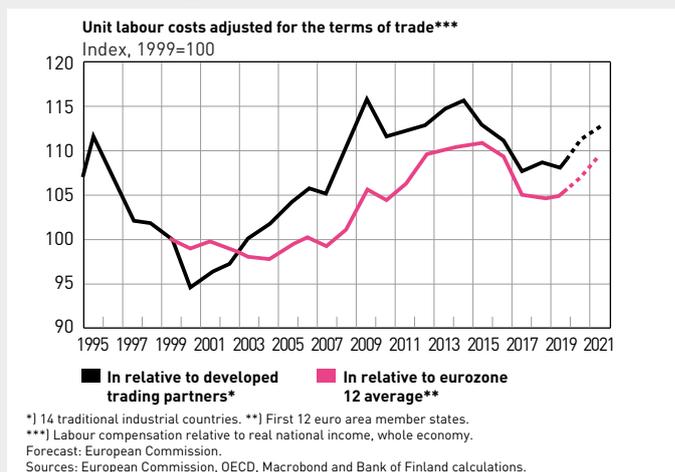
In Finland, there has traditionally been very little flexibility in terms of reducing wages from those collectively agreed, whereas in many competing countries wage formation is significantly more flexible when the economy faces sudden negative shocks.

According to current forecasts, Finland's cost competitiveness will weaken further in the coming years. This is due to the relative inflexibility of the wage formation system in Finland, which is based on top-level collective bargaining and general wage increases. Weaker cost competitiveness will have a negative impact on Finland's recovery from the coronavirus crisis.

Outlook in the Eurozone has improved, but only slightly



According to economic forecasts Finland's cost competitiveness will deteriorate again



Even if we escape the worst, the autumn will be difficult

At the moment it looks like the worst fears may not materialize for the technology industry companies in Finland. Nevertheless, most of them estimate that their production is yet to reach its lowest level or is reaching it at the moment. Redundancies will also increase.

During the summer, the outlook for the manufacturing and service sectors in technology industry have diverged somewhat. According to the pulse survey on the effects of the coronavirus among member companies during the last week of July, outlook for services improved during the summer, whereas outlook for manufacturing remained relatively unchanged.

As a whole, the impact of the coronavirus crisis on technology industries in Finland has not changed significantly during the summer. However, it looks like we may escape the worst-case scenarios. This can quickly change, though, as the second wave of the epidemic seems increasingly likely.

In comparison to the European average, technology industries in Finland have faced a somewhat different situation. Elsewhere in Europe, coronavirus-related reasons caused widespread cuts in production in the March-May period, while production in Finland continued mostly as planned during that period. As a result, manufacturing activity in Finland did not fall as sharply as in many other European countries.

For the technology industries in Finland, the reduction has been more gradual. However, there are significant differences between individual companies. As demand slows down, order books will shrink, which will have a negative impact on both production and turnover.

Demand remains weak

According to the technology industry member companies' corona pulse survey conducted in the last week of July, most of them expect their situation to deteriorate further. As many as 65 per cent of member companies in the manufacturing sector estimate that their production is yet to reach its lowest level or is reaching it at the moment. Only 17 per cent reported that production had already picked up.

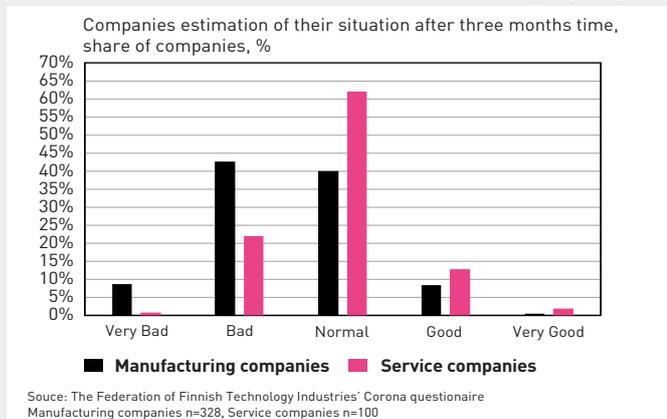
As many as 45 per cent of member companies expect their situation to be bad or very bad three months from now, which is essentially the same share of companies as before the summer vacation period.

Weak demand emerges as the central problem also in the July survey. As many as 85 per cent of member companies report that weak demand is having a negative impact on their operations. As many as 25 per cent report that weak demand is causing significant difficulties to their operations.

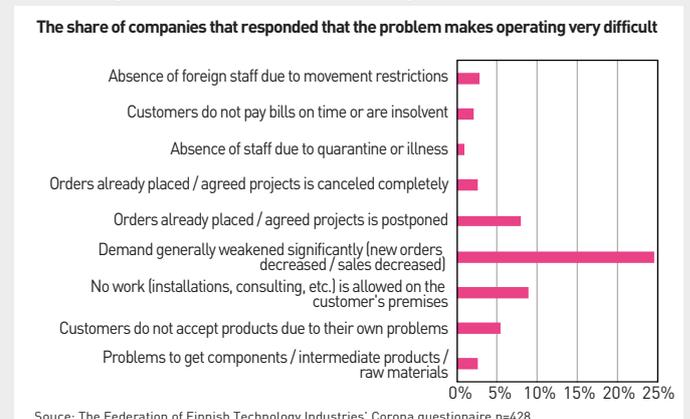
Redundancies have also increased. In previous pulse surveys, approximately 20 per cent of member companies reported that they had already laid off personnel or were preparing for redundancies. In the latest survey, this figure is almost 30 per cent. Redundancies are clearly more prevalent in manufacturing than services.

Judging from the results of the order book and personnel survey, as well as the corona pulse survey, technology industries in Finland should brace themselves for a tough autumn and winter. Only a significant rise in demand together with only minor impact of the possible second wave of the epidemic could brighten the outlook for the rest of the year.

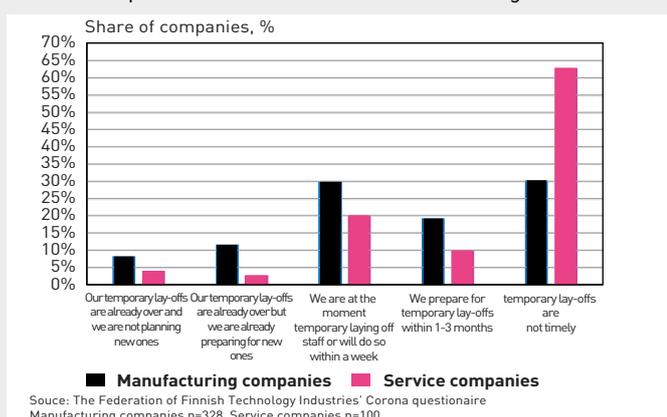
In the technology industries manufacturing sector the worst is yet to come, in the service sectors the outlook is slightly brighter



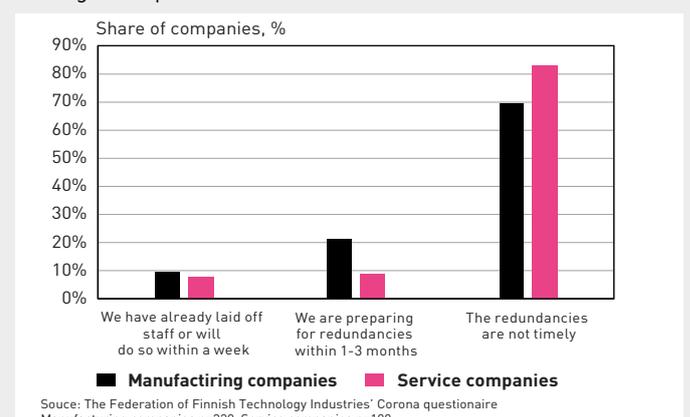
Corona crisis causes multiple difficulties to the companies, continuing weak demand is concerning



A large number of temporary lay-offs are still ahead. Situation in service companies is better than in manufacturing



In manufacturing companies almost one third of companies are cutting down personnel



Results of the order book and personnel survey Q2/2020

The turnover of technology industry companies in Finland grew by 7 per cent in 2019 from 2018. Turnover was up in all main sectors in 2019 except metals industry. In 2019, their turnover in Finland amounted to EUR 82 billion. In January-April 2020, their turnover was up 4 per cent year-on-year.

As expected, the weakened demand as a result of the coronavirus epidemic had a negative effect on the order books for the second quarter. 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 8 per cent lower than in the preceding quarter and 14 per cent lower than in the corresponding period of 2019.

In terms of the overall situation, the drop in the orders of large companies is of special concern. Of the 30 technology industry companies with the largest order books, as many as 28 reported that the value of order books for their operations in Finland between April and June had contracted year-on-year. Furthermore, the drop in the monetary value of orders was also greater than the overall average drop for the technology industry. The effect of the drop in new orders received by large companies is likely to trickle down to the subcontractor networks during the third quarter.

The weakened outlook is highlighted in the July survey on the number of requests for tender. The balance figure remained at a very low level of -44. This is a further indication of the fact that demand has not picked up significantly during the summer.

At the end of June, the value of order books was relatively unchanged from the end of March and 2 per cent lower than in June 2019. It is important to note that shipyards' share of the total value of books remains exceptionally large.

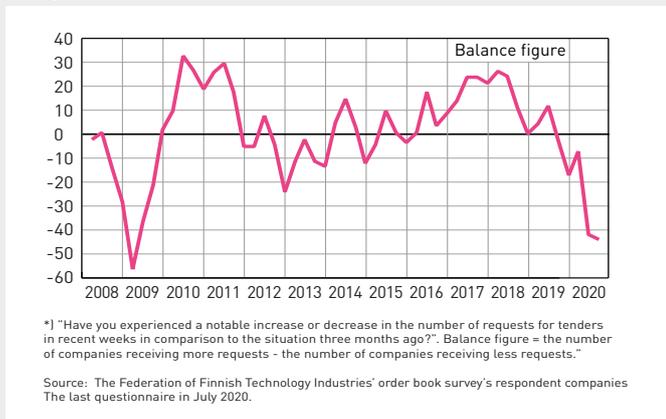
Judging from order trends in early 2020, the turnover of technology industry companies in the remainder of 2020 is expected to be lower than in the corresponding period last year.

The number of personnel employed by technology industry companies in Finland was down 0.7 per cent from the 2019 average. At the end of June, the industry employed 316,600 people, approximately 2,100 less than in 2019. The industry also provided some 13,000 summer jobs.

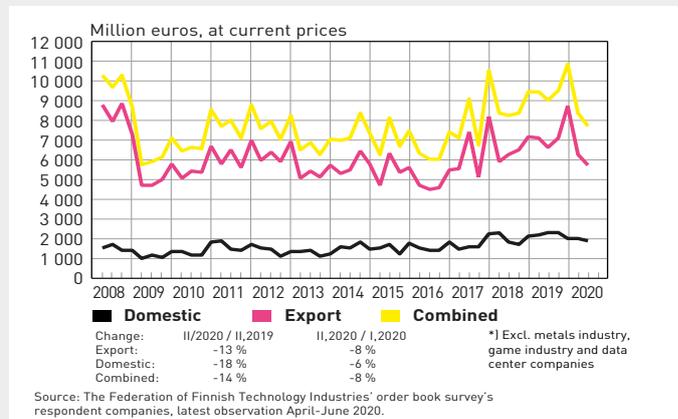
According to the corona pulse survey, 54 per cent of technology industry companies are laying off personnel or are preparing for redundancies, while 38 per cent report that redundancies are not required at the moment. The situation in manufacturing is more difficult than in services also in terms of redundancies. According to the personnel survey by the Federation of Finnish Technology Industries, the number of employees affected by lay-off procedures at the end of June was close to 50,000.

Recruitment of new employees dropped to a low level in the April-June period. In total, recruitments came to 5,900. Some companies were increasing their personnel, others were hiring new employees due to retirements and employee turnover.

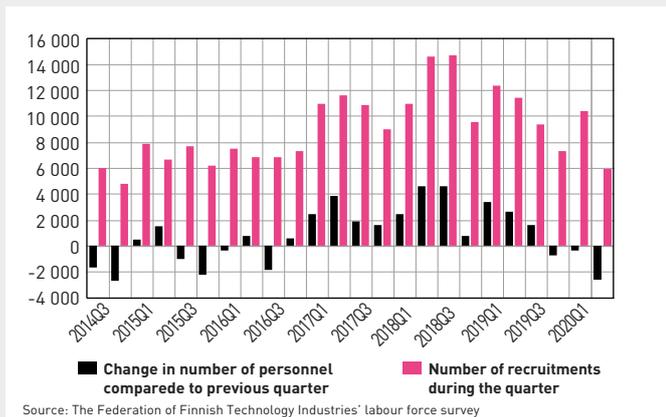
Tender Requests* Received by the Technology Industry Companies in Finland



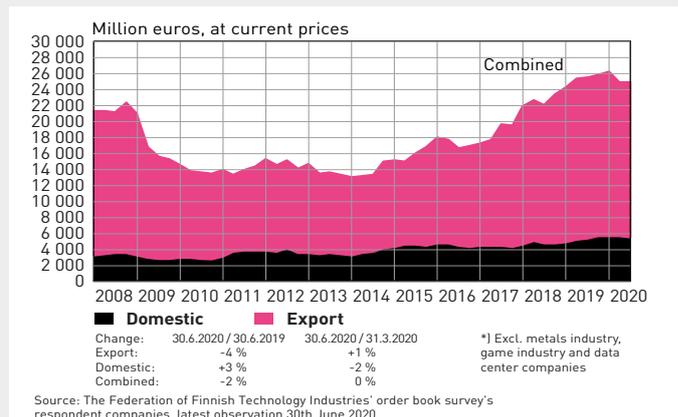
Value of New Orders in the Technology Industry* in Finland



Number of Personnel in Finnish Technology Industry Decreased clearly in Q2 2020



Value of Order Books in the Technology Industry* in Finland





Electronics and Electrotechnical Industry in Finland

Upward turn in the value of new orders

The turnover of companies in the electronics and electrotechnical industry (telecommunications equipment, electrical equipment and medical technology) in Finland grew by as much as 25 per cent in 2019 from 2018. In January-April 2020, their turnover was up 1 per cent year-on-year. In 2019, their turnover in Finland amounted to EUR 18.1 billion.

The value of both new orders and order books increased in the March-June period. Orders took an upward turn after the weak result in the previous quarter.

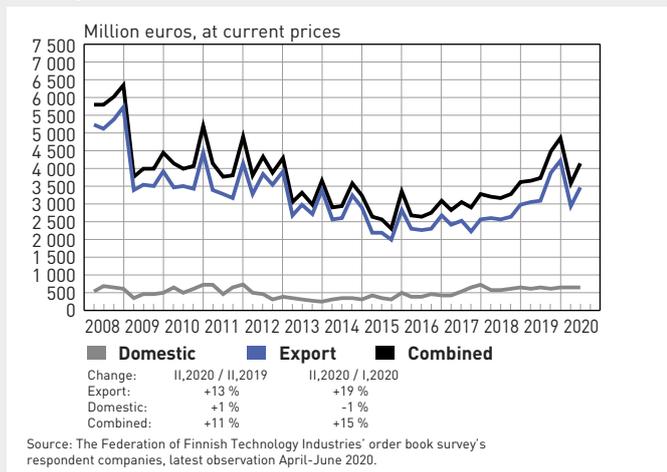
The electronics and electrotechnical companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was 15 per cent higher than in the preceding quarter and 11 per cent higher than in the corresponding period in 2019.

At the end of June, the value of order books was 13 per cent higher than at the end of March and 11 per cent higher than in June 2019.

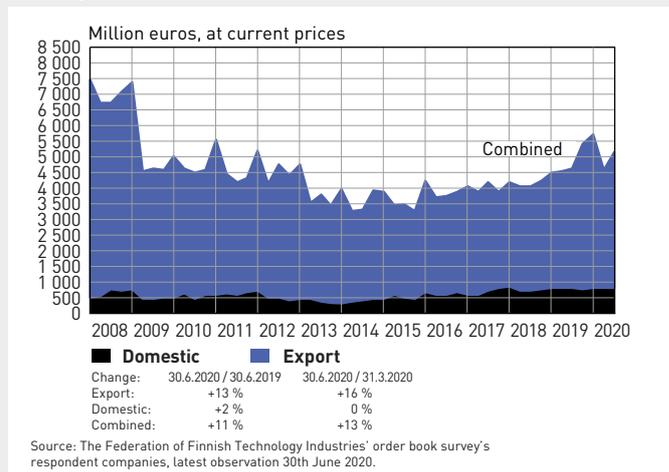
Judging from order trends in early 2020, the turnover of electronics and electrotechnical industry companies is expected to be higher in the remainder of 2020 than in the corresponding period in 2019.

The number of personnel employed by electronics and electrotechnical companies in Finland at the end of June was just over 1 per cent lower than the 2019 average. The industry employed 37,100 people, approximately 500 less than the 2019 average.

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



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





Mechanical Engineering in Finland

Sharp drop in new orders

The turnover of mechanical engineering companies (machinery, metal products and vehicles) in Finland increased by approximately 5 per cent in 2019 from 2018. In January-April 2020, their turnover was up 3 per cent year-on-year. In 2019, their turnover in Finland amounted to EUR 33.1 billion.

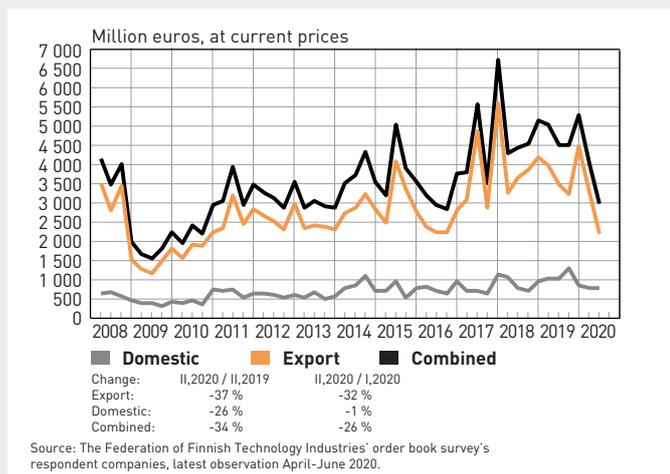
The value of new orders in mechanical engineering fell 26 per cent from the previous quarter in the April-June period. Year-on-year, the value of new orders decreased by 34 per cent.

At the end of June, the value of order books was 3 per cent lower than at the end of March and 5 per cent lower than in June 2019. Shipyards' share of the total value of order books is exceptionally large. Slightly less than 80 per cent of the strengthening of the order books since early 2014 is attributable to ship orders.

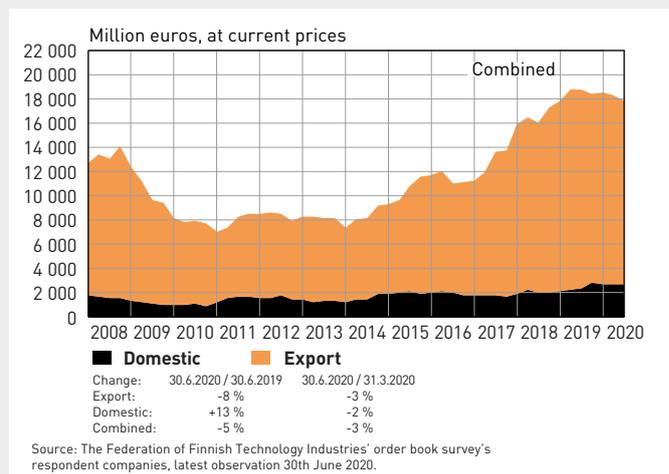
Judging from order trends in recent months, the turnover of mechanical engineering companies in the remainder of 2020 is expected to be lower than in the corresponding period last year.

The number of personnel employed by electronics and electrotechnical companies in Finland at the end of June was down 1.6 per cent from the 2019 average. The industry employed 133,900 people, approximately 2,200 less than the 2019 average.

Value of New Orders in the Mechanical Engineering in Finland



Value of Order Books in the Mechanical Engineering in Finland





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Metals Industry in Finland

Turnover and production dropped in 2019

The turnover of metals industry companies (steel products, non-ferrous metals, castings and metallic minerals) in Finland decreased by approximately 6 per cent in 2019 from 2018. In January-April 2020, their turnover was up 5 per cent year-on-year. In 2019, their turnover in Finland amounted to EUR 10.3 billion.

The total production of steel products, non-ferrous metals, castings and metallic minerals in Finland in the January-May period remained unchanged year-on-year.

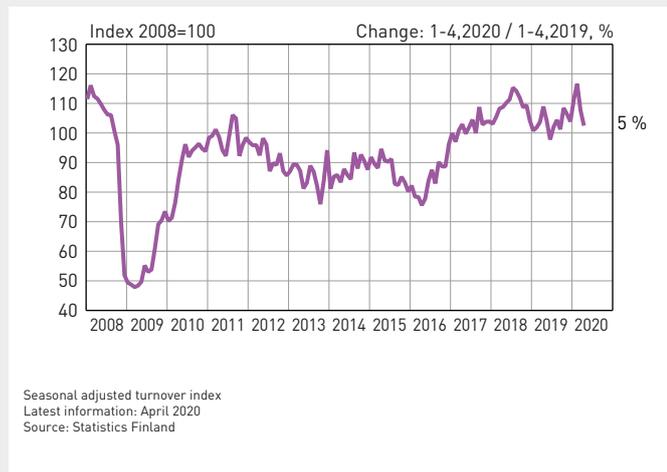
The number of personnel employed by metals industry in Finland at the end of June was 3.6 per cent lower than the 2019 average. The industry employed 16,100 people, approximately 600 less than the 2019 average.

In comparison to the corresponding period in 2019, global steel production decreased by 6.0 per cent between January and June.

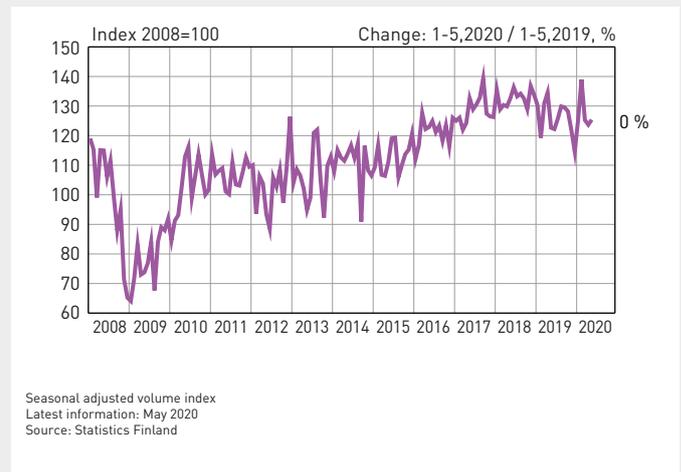
Production decreased by 3.0 per cent in Asia and by as much as 18.3 per cent in the United States. Production in Europe decreased by as much as 18.7 per cent. The coronavirus crisis has contributed to the significant fall of global steel production. The situation was already challenging because of the effects of the trade war and economic sanctions. In early 2020, production fell by 3 per cent in Russia, 4 per cent in Turkey, 15 per cent in Canada and more than 17 per cent in Japan.

China, India, Russia, Japan, South Korea and the United States were the largest producers in June. China accounted for 62 per cent of global steel production. In June 2019, the corresponding figure was 55 per cent.

Turnover of the Metals Industry in Finland



Production Volume of the Metals Industry in Finland





Consulting Engineering in Finland

Clear drop in new orders

The turnover of consulting engineering companies (industrial, social and construction expert services) in Finland grew by 4 per cent in 2019 from 2018. In January-April 2020, their turnover was up 4 per cent year-on-year. In 2019, their turnover in Finland amounted to EUR 6.7 billion.

The value of both new orders and order books in consulting engineering dropped significantly in the April-June period from the previous quarter.

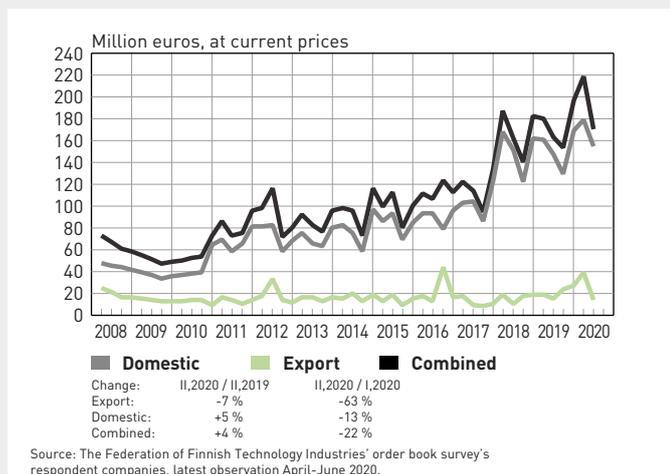
The consulting engineering companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was 22 per cent lower than in the preceding quarter, but 4 per cent higher than in the corresponding period in 2019.

At the end of June, the value of order books was 5 per cent lower than at the end of March, but 5 per cent higher than in June 2019.

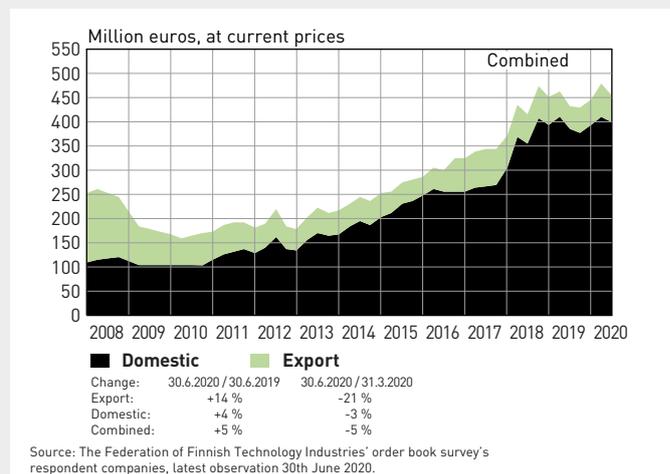
Judging from order trends in recent months, the turnover of consulting engineering companies in the remainder of 2020 is expected to remain the same or slightly lower than in the corresponding period in 2019.

The number of personnel employed by consulting engineering companies in Finland at the end of June was 0.4 per cent higher than the 2019 average. The industry employed 55,500 people, approximately 200 more than the 2019 average.

Value of New Orders in the Consulting Engineering in Finland



Value of Order Books in the Consulting Engineering in Finland





Information Technology in Finland

New orders drop

The turnover of information technology companies (IT services and software) in Finland grew by 4 per cent in 2019 from 2018. In January-April 2020, their turnover was up 7 per cent year-on-year. In 2019, their turnover in Finland amounted to EUR 14.1 billion.

New orders dropped significantly from the previous quarter in the April-June period. Order books shrank slightly. Typically for the sector, order volumes fluctuate strongly from one quarter to another.

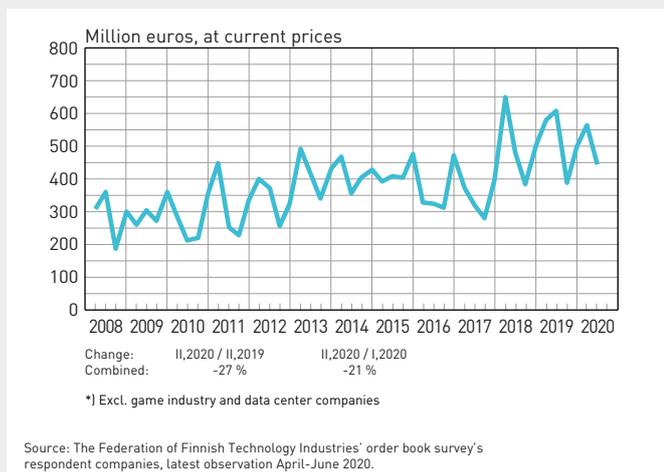
The companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between April and June was 21 per cent lower than in the preceding quarter and 27 per cent lower than in the corresponding period of 2019. Game industry and data centre companies are not included in the survey.

At the end of June, the value of order books was 2 per cent lower than at the end of March and 8 per cent lower than in June 2019.

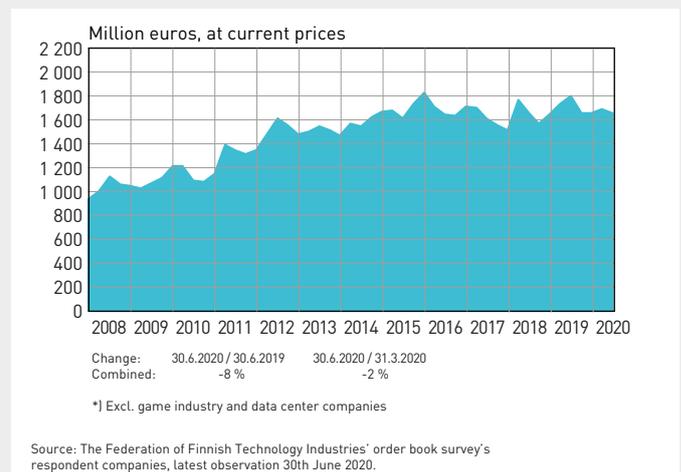
Judging from order trends in recent months, the turnover of information technology companies in the remainder of 2020 is expected to be the same or slightly higher than in the corresponding period last year.

The number of personnel employed by information technology companies in Finland at the end of June was 1.4 per cent higher than the 2019 average. The industry employed 74,500 people, approximately 1,000 more than the 2019 average.

Value of New Orders in the Information Technology* in Finland



Value of Order Books in the Information Technology* in Finland



ECONOMIC OUTLOOK 3 | 2020

Information based on the situation on 6 August 2020

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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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