

Economic Outlook

Technology Industries of Finland

4 | 2022

Global And Finnish Economic Outlook

Economic outlook deteriorates further – positive employment trend at risk in early 2023

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Technology Industries in Finland

Manufacturing and employment sustained by strong order books for the time being

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Economic outlook deteriorates further – positive employment trend at risk in early 2023

Economic development during the autumn has largely matched expectations. While the cycle remains moderate, the outlook has deteriorated further. Risks remain overwhelmingly tilted to the downside, and geopolitical turmoil seems to have increased.

In its October update, the International Monetary Fund IMF again revised down its global growth outlook. According to the latest forecast, global growth is projected to be 2.7 per cent in 2023, while in July, it was projected to be 2.9 per cent. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic. According to the IMF, the economic outlook for 2023 seems exceptionally weak.

The OECD September economic outlook painted an even gloomier picture with a global growth rate of 2.2 per cent in 2023.

The European Central Bank ECB continued to raise interest rates at its meeting at the end of October. However, the central bank's stance was a bit more cautious than before. It seems that the threat of recession has somewhat eroded the bank's resolve to tackle inflation, and future rate increases may be slightly lower than expected. On the other hand, if inflation remains high, the central bank will most likely have to continue its determined efforts to stabilise inflation to avoid damaging its credibility.

Trouble is also brewing in Italy. The new Italian government does not inspire confidence, and Italy will likely have to resort to some unconventional refinancing operations. Should the Italian government fail to agree or commit to the terms of the refinancing packets, the situation could, at minimum, escalate to a political crisis in the eurozone.

Europe to slip into recession by the end of the year

Based on advance indicators for October, the eurozone composite PMI for manufacturing and services continued to fall. The index has now contracted for six consecutive months. The index first fell below the 50 mark in July, signalling that the economy is facing a risk of contraction. The October figure is 47.1. This is an indication of weak economic development in the eurozone during the third quarter, and the area is likely to see a contraction in the last quarter of 2022.

The situation is particularly challenging in Germany, which is reporting the steepest contraction in output. This is a worry to both Finland and Europe as a whole. We are not accustomed to seeing Germany as the weakest link in the European economy. Germany's poor performance is a major challenge for the economic stability in Europe.

Manufacturing outlook has also deteriorated further. Figures for the third quarter indicated that output growth had stalled, but a downturn is expected during the fourth quarter and output will start shrinking.

Based on the PMIs, new orders faced their fastest decline in the eurozone since the financial crisis of 2009, excluding the pandemic. This has partly contributed to the better availability of materials, as companies are reducing the stocks of inventory they were busy building during the spring and price pressures are easing slightly.

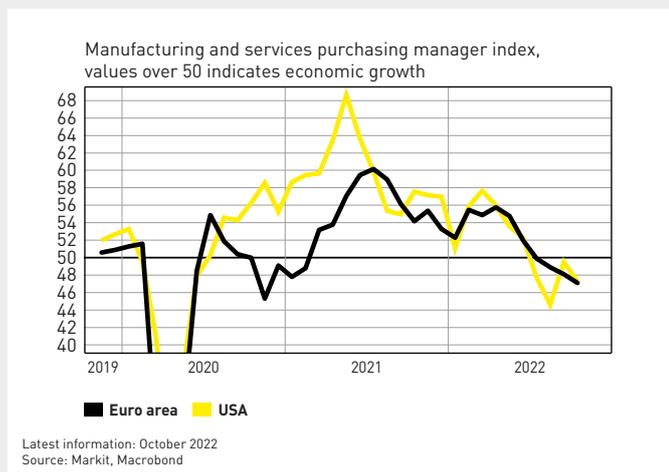
The PMIs give a clear and strong signal that the situation will deteriorate further in the future. However, instead of a sudden and fast deterioration, we are likely to see a slow and steady decline that largely matches current expectations.

Manufacturing companies are also reporting that their order books are shrinking as a result of weaker demand. On the other hand, for the most part, order books remain exceptionally strong. Barring any sizeable negative surprises, this points to a steady decrease rather than a sudden collapse.

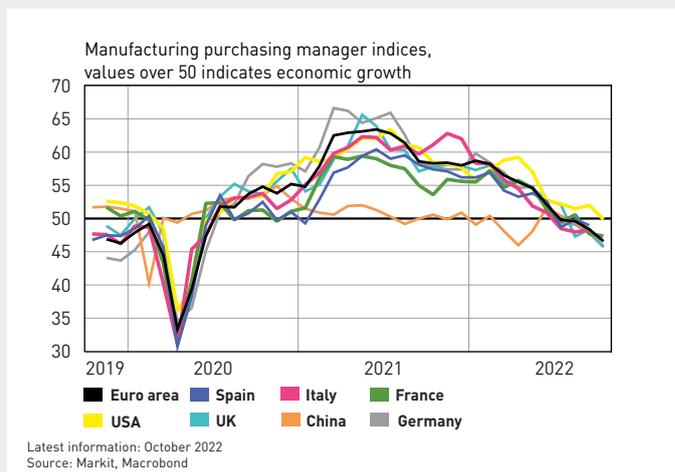
Finland is also heading for recession – increased risk of rise in unemployment in early 2023

With consumer confidence at a historic low, Finland's economic outlook for 2023 is grim. General uncertainty and concerns over energy prices make consumers even more cautious. For instance, their intentions to spend money on durable goods are exceptionally low. Weak consumer confidence is also affecting the housing market.

Europe in recession by the fourth quarter of the year at the latest



In manufacturing, output turned to decline



The Business Tendency Barometer published by the Confederation of Finnish Industries paints a similar picture to that of the eurozone PMIs: while the situation in Finland is good for now, it is expected to weaken significantly in the near future. The latest manufacturing confidence indicator was as low as during the acute phases of the financial and COVID crises.

It seems that output and employment figures in Finland will remain at a relatively good level for the remainder of the year. However, as the year turns, businesses are expecting a decline in output, which increases the risk of unemployment. At the moment, a drastic downturn does not seem likely in Finland either.

Strong employment figures have so far maintained private consumption despite the high rate of inflation. Under these circumstances, rising unemployment would be real poison for the economy.

Labour market risks are increasing

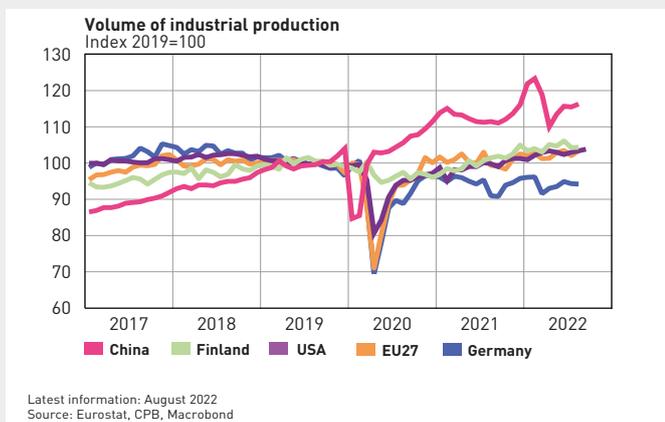
Technology Industry Employers of Finland and the trade unions did not reach a solution on the pay settlements for 2023 by the deadline. The parties hold very different views on the level of the pay settlement. As a result, the collective agreements that are valid until the end of November 2022 will have to be renegotiated.

Employees' concern over their purchasing power is justified. However, the situation is a diabolical challenge: the higher the inflation is expected to be, the higher their salary demands. At the same time, the higher the actual inflation, the weaker the economic growth. Simply put, the weaker the economic development, the higher the salary demands.

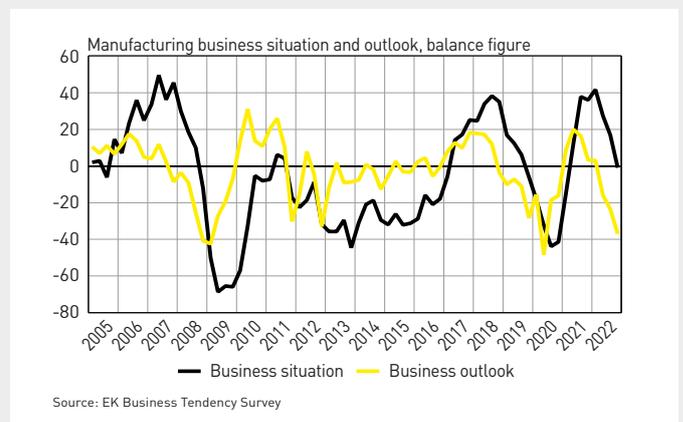
Risks to the economy are exceptionally high at the moment. Risk of a severe recession is becoming increasingly higher. This raises concerns over the development of Finland's cost competitiveness over the coming years. If cost of labour becomes too high and economic development weakens, Finland's cost competitiveness on the global markets is likely to suffer again.

Overall, the labour market situation in Finland is worryingly similar to what it was just before the financial crisis. However, this time around no one can claim that the recession came as a surprise, and we had no chance to prepare for it.

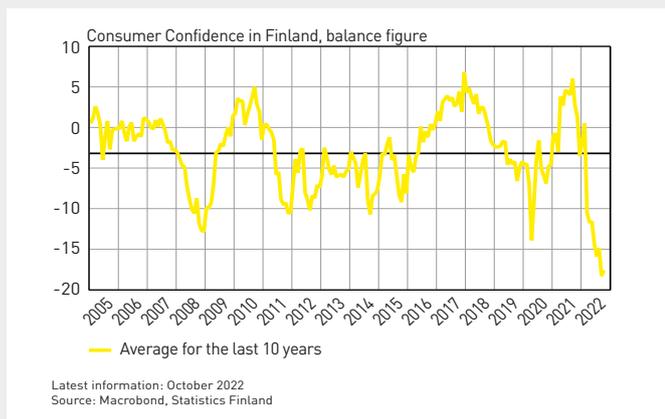
Development of the volume of industrial production



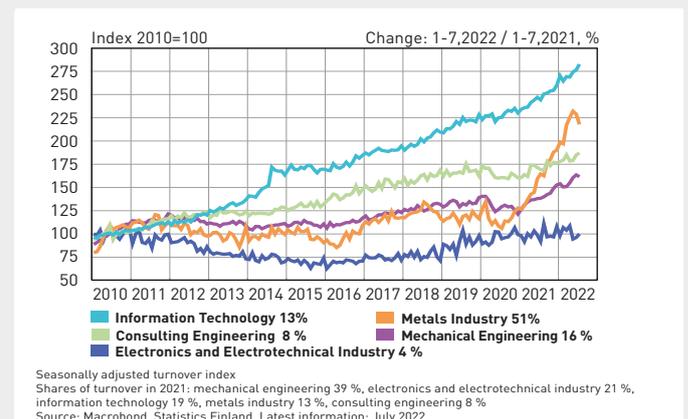
Manufacturing business outlook expectations at very weak level



Consumer confidence is at exceptionally weak levels



Turnover of the Technology Industry in Finland



Manufacturing and employment sustained by strong order books for the time being

The turnover of technology industry companies in Finland grew by approximately 11 per cent in 2021 from 2020. Turnover grew in all main sectors. The significantly higher level of costs contributed to turnover growth. In 2021, their turnover in Finland amounted to more than EUR 91 billion.

The order intake for the third quarter of the year was slightly higher than in the previous quarter. The monetary value of new orders in the July-September period was 4 per cent higher than in the previous quarter and 17 per cent higher year-on-year. The quick rise of producer prices has contributed to the increase in the value of order intake. In the third quarter, technology industry producer prices were approximately 15 per cent higher year-on-year, which means that in real terms, order intake has not increased as much as it seems.

The balance figure for tender requests in October was -7. The balance figure has now seen five consecutive quarters of decline. The data collected in October indicates that demand is starting to weaken. However, there are as of yet no signs of a dramatic drop in demand.

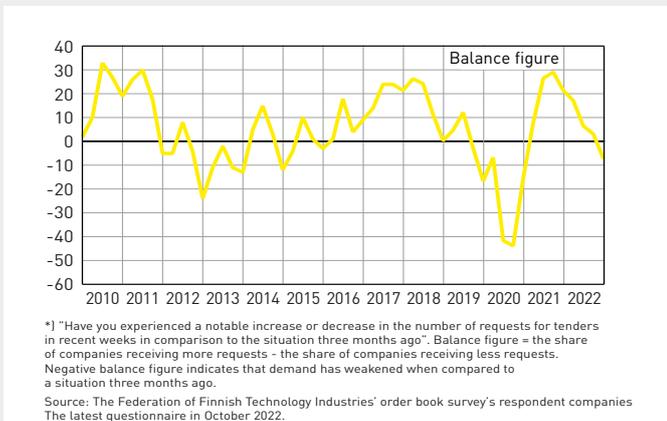
At the end of September, the value of order books was 6 per cent higher than at the end of June and 10 per cent higher than in September 2021.

Judging from order trends in the first three quarters of the year, the turnover of technology industry companies in the remainder of 2022 is expected to be higher than in the corresponding period last year.

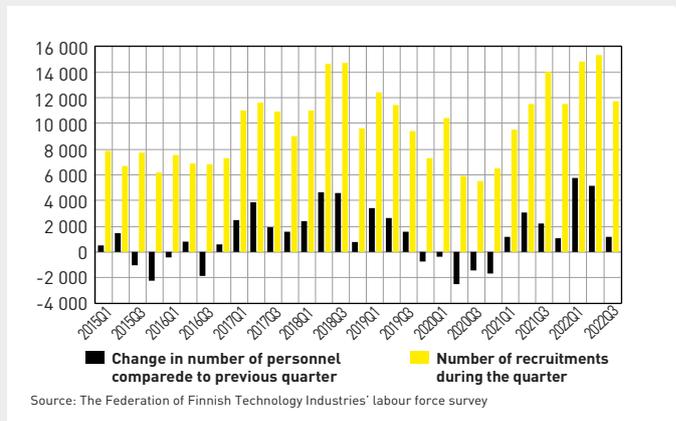
The number of personnel employed by technology industry companies in Finland at the end of September was 0.3 per cent higher than at the end of June. At the end of September, the industry employed approximately 337,600 people. According to the personnel survey by Technology Industries of Finland, the number of employees affected by lay-off procedures at the end of September was only approximately 2,500.

Recruitment of new employees returned closer to its normal level, totalling 11,700. Some companies were increasing their personnel, others were hiring new employees due to retirements and employee turnover.

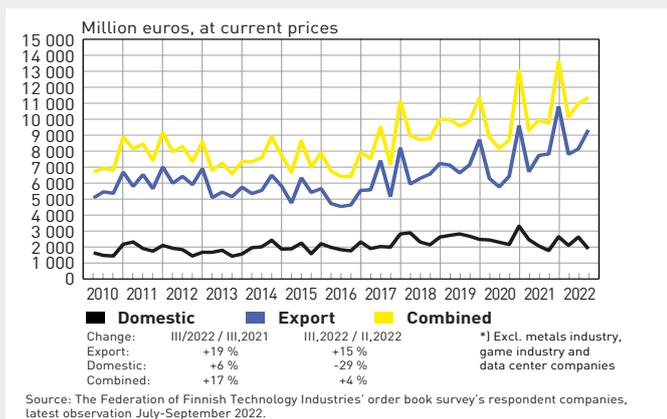
Tender requests* received by the technology industry companies in Finland



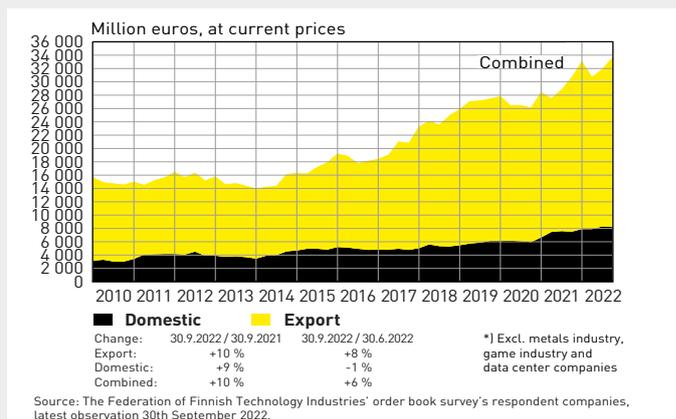
Technology industry headcount growth slowed down



Value of new orders in the technology industry* in Finland



Value of order books in the technology industry* in Finland





Electronics and Electrotechnical Industry in Finland

Value of new orders up year-on-year

The turnover of companies in the electronics and electrotechnical industry (telecommunications equipment, electrical equipment and medical technology) in Finland grew by approximately 5 per cent in 2021 from 2020. In 2021, their turnover in Finland amounted to more than EUR 18 billion.

The value of both new orders and order books increased in the July-September period from the previous quarter.

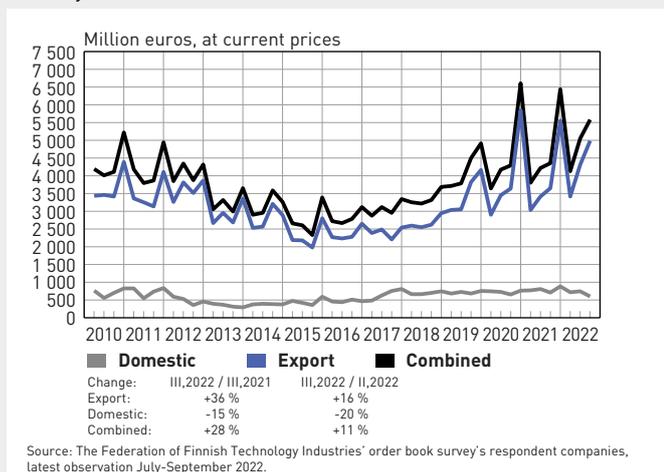
The electronics and electrotechnical companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between July and September was 11 per cent higher than in the preceding quarter and 28 per cent higher than in the corresponding period in 2021.

At the end of September, the value of order books was 12 per cent higher than at the end of June and 26 per cent higher than in September 2021.

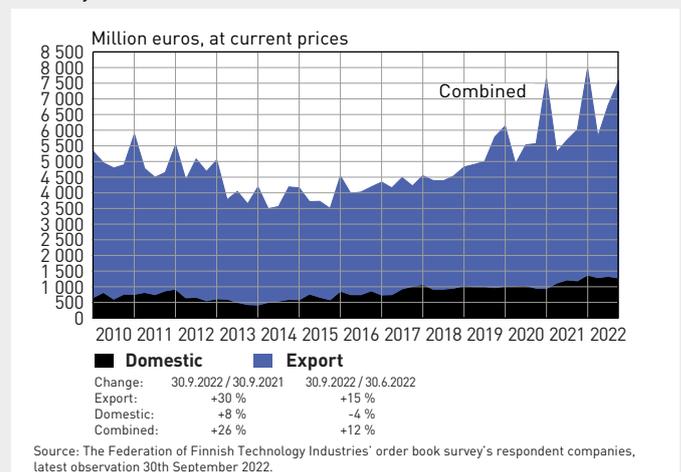
Judging from order trends in the first three quarters of the year, the turnover of electronics and electrotechnical companies in the remainder of 2022 is expected to be higher than in the corresponding period last year.

The number of personnel employed by electronics and electrotechnical companies in Finland at the end of September was 0.1 per cent higher than at the end of June, totalling 40,500 people.

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

Order intake stalled

The turnover of mechanical engineering companies (machinery, metal products and vehicles) in Finland increased by 10 per cent in 2021 from 2020. In 2021, their turnover in Finland amounted to EUR 35 billion.

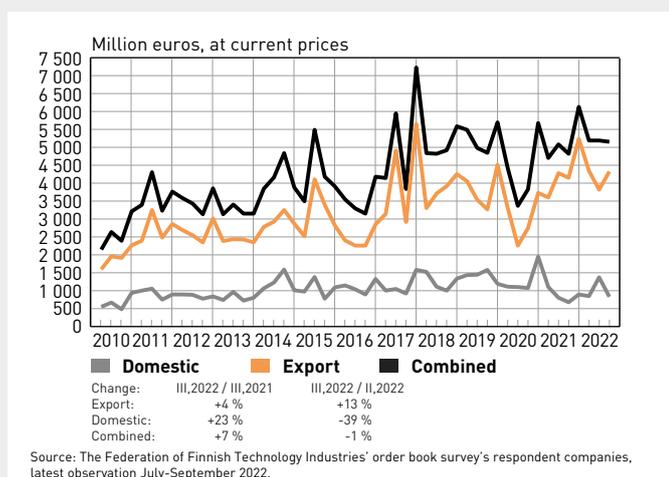
The value of new orders in mechanical engineering in the July-September period fell by 1 per cent from the previous quarter. Year-on-year, the value of new orders increased by 7 per cent. The quick rise of producer prices has contributed to the increase in the monetary value of order intake.

At the end of September, the value of order books was 4 per cent higher than at the end of June and 4 per cent higher than in September 2021. It remains necessary to consider that the shipyards' share of the total value of order books is exceptionally large.

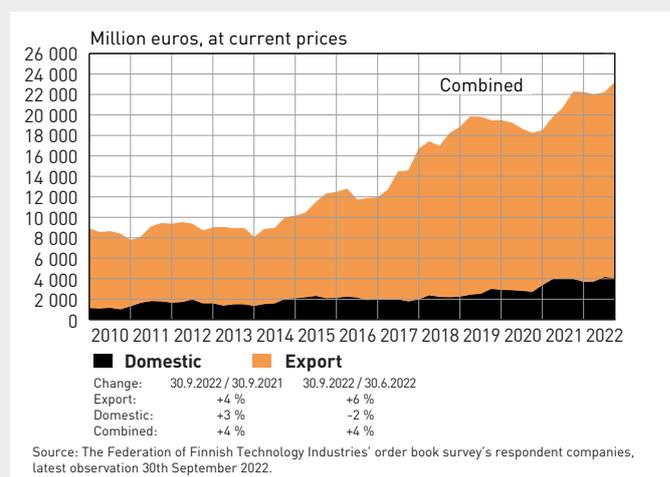
Judging from order trends in the first three quarters of the year, the turnover of mechanical engineering companies in the remainder of 2022 is expected to be higher than in the corresponding period last year. Turnover has been boosted by the sharp rise in costs.

The number of personnel employed by mechanical engineering companies in Finland at the end of September was 0.3 per cent lower than at the end of June, totalling 137,900.

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 growth may shift into reverse as raw material cost pressures ease

The turnover of metals industry companies (steel products, non-ferrous metals, castings and metallic minerals) in Finland increased by 36 per cent in 2021 from 2020. In January-July 2022, their turnover was up by as much as 51 per cent year-on-year. In 2021, their turnover in Finland amounted to more than EUR 14 billion. The sharp rise in producer prices has contributed significantly to the turnover growth in the metals industry in early 2022. However, during the remainder of the year, turnover is expected to start declining as a result of falling prices and waning demand. July 2022 was the first month in almost two years seeing a significant drop in metals industry turnover from the previous month.

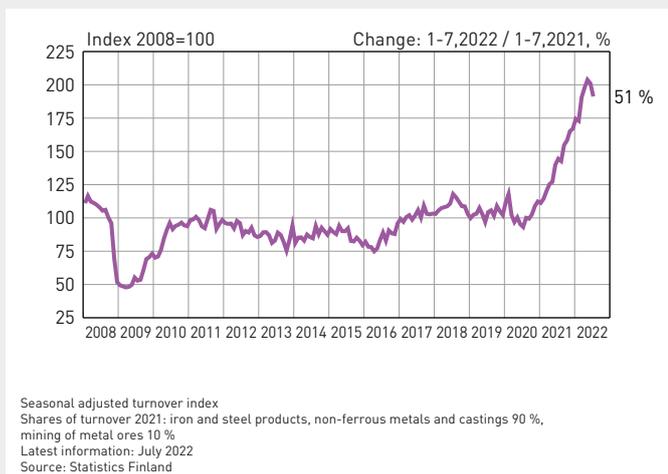
The total production of steel products, non-ferrous metals, castings and metallic minerals in Finland in the January-August period increased by approximately 8 per cent year-on-year.

The number of personnel employed by metals industry companies in Finland at the end of September was 1 per cent higher than at the end of June, totalling approximately 17,100.

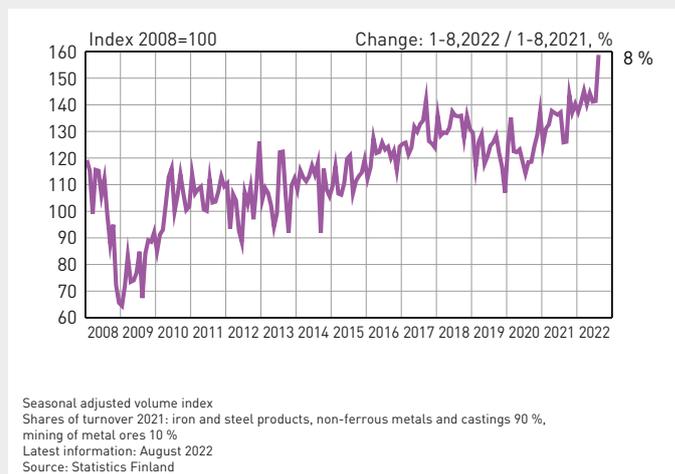
Year-on-year, global steel production decreased by 4.3 per cent between January and September. Production decreased by 2.9 per cent in Asia, by 8.2 per cent in the EU and by 4.2 per cent in North America.

China, India, Japan, the United States and Russia were the largest producers in the first half of 2022. China accounted for approximately 56 per cent of global steel production.

Turnover of the metals industry in Finland



Production volume of the metals industry in Finland





Consulting Engineering in Finland

Slight increase in new orders year-on-year

The turnover of consulting engineering companies (industrial, social and construction expert services) in Finland increased by more than 5 per cent in 2021 from 2020. In 2021, their turnover in Finland amounted to approximately EUR 7 billion.

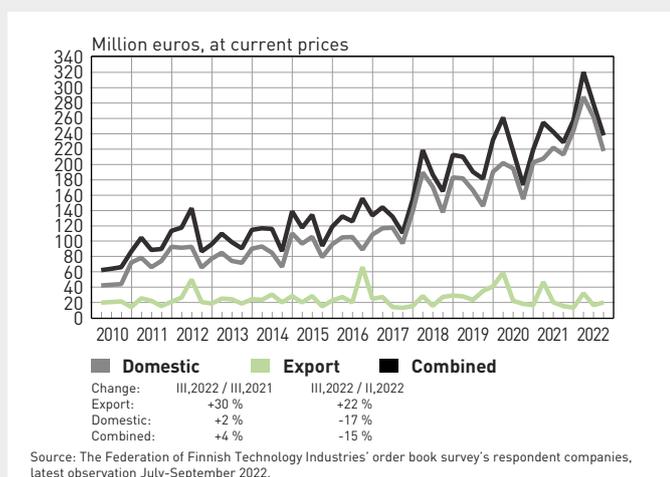
The consulting engineering companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between July and September was 15 per cent lower than in the preceding quarter, but 4 per cent higher than in the corresponding period in 2021.

At the end of September, the value of order books was 3 per cent higher than at the end of June and 14 per cent higher than in September 2021.

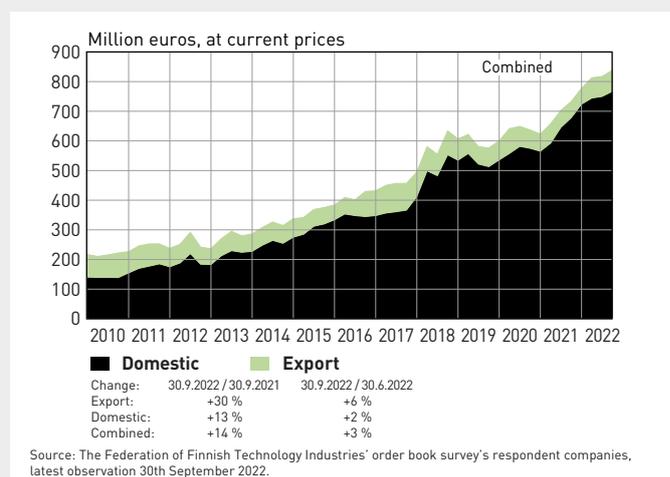
Judging from order trends in the first three quarters of the year, the turnover of consulting engineering companies in the remainder of 2022 is expected to be higher than in the corresponding period last year.

The number of personnel employed by consulting engineering companies in Finland at the end of September was 0.8 per cent higher than at the end of June, totalling 59,800.

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 fell from the previous quarter

The turnover of information technology companies (IT services and software) in Finland grew by 8 per cent in 2021 from 2020. In 2021, their turnover in Finland amounted to slightly less than EUR 17 billion.

Order intake for the July-September period was lower than in the previous quarter. Typically for the sector, order volumes can fluctuate strongly from one quarter to another.

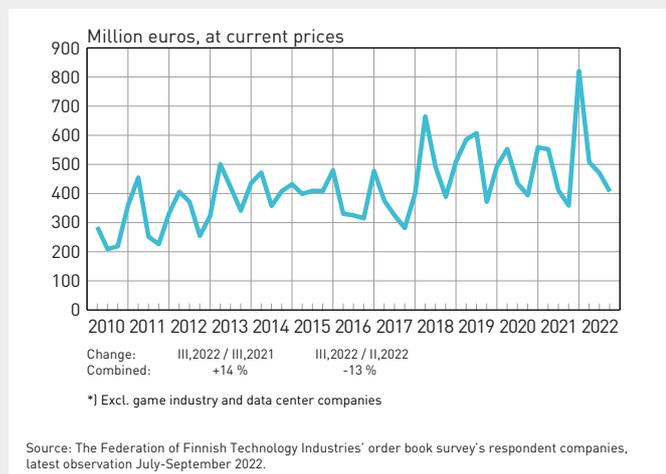
The information technology companies that took part in the Federation of Finnish Technology Industries' survey of order books reported that the monetary value of new orders between July and September was 13 per cent lower than in the preceding quarter, but 14 per cent higher than in the corresponding period in 2021. Game industry and data centre companies are not included in the survey.

At the end of September, the value of order books was at the same level as at the end of June, but 23 per cent higher than in September 2021.

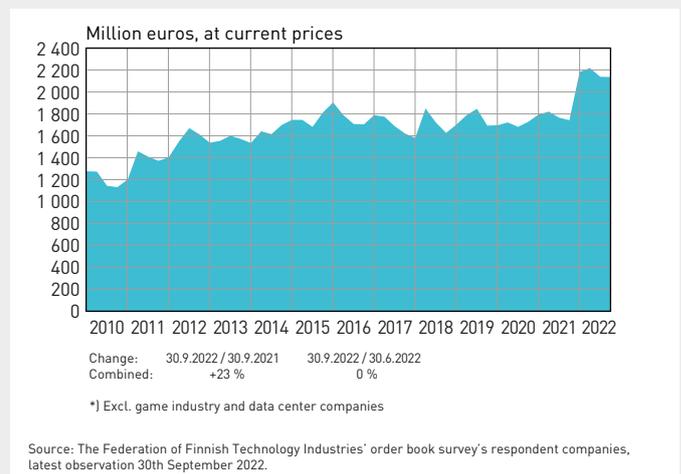
Judging from order trends in the first three quarters, the turnover of information technology companies in the remainder of 2022 is expected to be higher than in the corresponding period last year.

The number of personnel employed by information technology companies in Finland at the end of September was 1.1 per cent higher than at the end of June, totalling approximately 82,300.

Value of new orders in the information technology* in Finland



Value of Order Books in the Information Technology* in Finland



ECONOMIC OUTLOOK 4 | 2022

Information based on the situation on 3 November 2022

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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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