European Association of the Machine Tool Industries

Where manufacturing begins

CECIMO Statistical Toolbox

November 2013 Edition

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In this edition:

NB: only the highlighted indicators are available in this edition of the toolbox

Introduction

(Glossary at the end of the document)

In Europe, growth turned positive in the second quarter of 2013 and confidence has been rising supported by the positive flash estimate for the third quarter of the year. Domestic demand is gaining strength. In the second quarter of 2013, gross fixed capital formation increased by 0.3% in the euro area and by 0.4% in the EU27, increasing the outlook for European machine tool industry. Those statistics are in good correlation with the first results of the CECIMO Business Climate Barometer, that confirmed a stable business environment with cautious growth potential.

The European Commission published its regular economic forecast in November. It estimates that the GDP in annual terms is expected to remain unchanged in the EU and contract by 0.4% in the euro area in 2013. The negative growth rates at the end of 2012 and in the first quarter of this year pull the annual growth rates down in terms of average for 2013. In 2014, economic activity is projected to expand by 1.4% in the EU as a whole and 1.1% in the euro area. A further acceleration in 2015 to 1.9% in the EU and 1.7% in the euro area is expected. Together with strengthening private consumption and rebounding investment, improving overall financing conditions and economic sentiment will contribute to the acceleration of economic growth.

Most downside risks to European recovery are external. In the global economy, while the emerging market economies have grown fast in recent years, their growth is now expected to slow down, while advanced economies are becoming relatively stronger. Economic activity outside the EU is now expected to grow at 3.5% in 2013, clearly below normal average, accelerating to 4% in 2014 and 4.5% in 2015. Therefore, the external environment is somewhat less supportive to EU growth than previously foreseen.

In the light of a relatively positive outlook, the decision of the European Central Bank to cut the main policy rates came of surprise to many observers. European economies, specially the euro area, are facing low inflation or even deflation normal to a financial crisis when aggregate demand shrinks faster than supply, resulting in falling prices. While deflation can end up in deflationary spiral, low price level works at the moment rather as internal devaluation for the euro area periphery and increases the competitiveness of the region.

Next to monetary developments, European manufacturing plays an important role in the competitiveness of Europe in global markets. CECIMO estimates that the European machine tool industry shows a record level of trade surplus, 10.6 billion euro this year, proving high demand for advanced, state-of-the-art European machine tools. The results are not accidental, the sector's attention has been concentrated for years on energy efficiency, innovation, market access, skills & training, and market surveillance. The European Commission's Industrial Policy Communication's four pillars are very consistent with the views of the European machine tool industry and provide further ground for the development of the sector.

2.2 Interest rates – EURIBOR

In October, the 3-month Euribor monthly average increased by 1 basis point and 12-month Euribor monthly average remained stable compared to the levels observed in September. The average 3-month Euribor recorded 0.23% and 12-month Euribor 0.54%.

Low investment rates mirror the difficulty of European economies to gather pace. Moreover the euro area struggles with low inflation and threatening deflation, the annual rate recorded 0.7% in October based on harmonised consumer price index. Therefore, the Governing Council of the ECB decided to lower the interest rate on the main refinancing operations of the Euro-system by 25 basis points to 0.25% and the rate on the marginal lending facility by 25 basis points to 0.75%. The interest rate changes reflect the broad-based weakness in the economy and subdued monetary dynamics despite positive developments in the last survey-based confidence indicators.

See glossary for definitions

Introduction

2.3 Industrial production index

In September 2013 compared with August 2013, seasonally adjusted industrial production fell by 0.5% in the euro area (EA17) and by 0.2% in the EU28, according to estimates from Eurostat, the statistical office of the European Union. In August industrial production increased by 1.0% and 0.6% respectively.

The production of durable consumer goods fell by 2.6% in the euro area and by 1.6% in the EU28. The production of capital goods decreased by 1.0% and 0.2% respectively. The production of intermediate goods dropped by 0.8% in the euro area and by 0.5% in the EU28. The production of energy increased by 1.3% and 0.4% respectively.

Among the Member States for which data are available, industrial production fell in twelve and rose in thirteen. The largest decreases were registered in Portugal (-11.2%), Luxembourg (-4.1%), Croatia (-3.3%) and the Czech Republic (-2.8%), and the highest increases in Ireland (+2.9%), Romania (+2.4%), Hungary (+1.8%) and Poland (+1.4%).
In September 2013 compared with September 2012, industrial production rose by 1.1% in the euro area and by 1.2% in the EU28. The production of intermediate goods rose by 0.9% and 1.0% respectively. The production of capital goods increased by 0.8% in the euro area and by 1.9% in the EU28. The production of energy dropped by 0.5% and 1.1% respectively. The production of durable consumer goods fell by 1.3% in the euro area and by 1.1% in the EU28.

On yearly basis, among the Member States for which data are available, industrial production rose in sixteen and fell in nine. The highest increases were registered in Ireland (+11.7%), Romania (+8.9%), Slovakia (+7.5%) and Poland (+5.6%), and the largest decreases in Luxembourg (-4.0%), Croatia (-3.9%) and Italy (-3.0%).
See glossary for definitions

2.6 Bank lending survey

According to the October 2013 bank lending survey, the net percentage of banks in the euro area that tightened their credit standards on loans to enterprises stood at 5% in the third quarter of 2013, after 7% in the previous quarter. The overall net tightening of credit standards appears to have been broadly unchanged for both loans to large firms (5%, after 3% in the second quarter of 2013) and loans to small and medium-sized enterprises (SMEs) (4%, after 5%). Regarding loan maturity, the net tightening of credit standards remained broadly unchanged for short-term loans (3%, after 4% in the second quarter of 2013), but declined considerably for long-term loans (to 5%, from 10%). Looking ahead to the fourth quarter of 2013, euro area banks expect a net easing of credit standards on loans to enterprises (-5%), which is the first easing expectation on record since the fourth quarter of 2009.

Euro area banks continued to report a net decline in the demand for loans to enterprises in the third quarter of 2013, although to a lower degree than in the previous quarter, -12% compared with -18% in the second quarter of 2013, thereby approaching the historical average of this indicator since the start of the survey (-8%). The decline in demand for loans to enterprises continued to be mainly driven, according to reporting banks, by a still substantial though declining negative impact of fixed investment on the financing needs of firms (-21%, compared with -27% in the second quarter of 2013). For the fourth quarter of 2013, euro area banks expect an increase in demand for loans to enterprises.
See glossary for definitions

2.7 Foreign exchange rates

The euro appreciated against the Japanese yen, US dollar and the Swiss franc by 13%, 2.8% and 0.4% respectively in October. Based on the ECB calculated nominal effective exchange rate, reflecting the rate against 21of the euro area's most important trading partners, the euro stood on 6th November, 2013 0.1% below its level at the beginning of October and 5.4% above the level recorded a year earlier.

During October, the single currency has also weakened against the currencies of most major emerging economies in Asia as well as against the currencies of some commodity-exporting countries. Combined with the returning confidence and

Introduction

increasing growth, the European machine tool industry's outlook for export performance in the last quarter of 2013 has improved.

3.1 OECD Business Confidence Indicator (BCI) for Europe

Business Confidence Indicators (BCIs), designed to anticipate turning points in economic activity relative to trend, signal improvements in growth in most major OECD countries and also possibly in China.

The BCI points to economic growth above trend in Japan. In the United States, the BCI points to growth around trend. In the emerging economies, the BCIs point to a tentative positive change in momentum in China, and to growth around trend in Russia. In Brazil and in India, the BCIs continue to signal growth below trend rates.

In Europe as a whole, the BCI continues to indicate a gain in growth momentum. In Germany and in the United Kingdom, the BCIs point to growth firming, whereas the BCI for Italy and for France continue to signal positive changes in momentum.
See glossary for definitions

3.2 Purchasing Managers' Index (PMI)

The global manufacturing PMI increased to 52.1 in October, up from 51.8 in September, rising close to the highest value reached in the last two years. Growth continued to come from a broad base of nations in October. The U.S. factories are a source of strength for the economy at the start of the fourth quarter, the PMI climbed to 56.4, the highest since April 2011. Manufacturing strengthened from China to South Korea in October in a sign that growth risks are abating in Asia and expansion may pick up this quarter.

At 51.3 in October, edging higher from 51.1 in September, the euro zone PMI signalled an improvement in overall operating performance for the fourth straight month. Though modest and fragile overall, growth continued to come from a broad base with expansions signalled in all but two of the nations covered by the survey.

The index reached to a-half year peak in Austria and increased in Germany and Spain, but slowed slightly in Italy. In France, the rate of contraction was the sharpest for four and three months respectively.
"*While it is in some respects disappointing that the PMI has failed to show a steeper pick-up over the last two months, the recent growth revealed by the survey indicates a marked turnaround in the health of the manufacturing economy. While the survey was signalling a 2-3% annual rate of decline in industrial production earlier in the year, a 2-3% rate of expansion is now being indicated.*"
"*However, while the recovery goes on, it is by all measures frustratingly slow. In particular, the modest gains in output and new orders remain insufficient to encourage firms to take on more staff*," commented Markit.
See glossary for definitions

4 MT-IX

The MT-IX showed a marginal 0.5% decrease in October. The index lost 1 point compared to September's value, and posted at 196 points in October 2013.

Market value of machine tool companies decreased the most in Japan and South-Korea. American, Taiwanese and European companies showed stronger performance in their market capitalisation. European machine tool companies do not consider the euro crisis to be over but they expect no further big declines in demand. Companies remain cautious about investments in new capacity and would invest only where they see growth possibilities.

5.2 CECIMO Business Climate Barometer

The new CECIMO machine tool business climate survey has delivered its first results. The survey was distributed to the member companies of CECIMO National Associations between October 14 and November 14, 2013.

The sentiment of European machine tool sector reflects stability and gradual improvement of economic situation. The orders intake of companies confirms slow change towards modest growth, 60 % of respondents see the demand remaining at the same level and 27% expect more orders. Despite more sober outlook for emerging economies 42 % of companies estimate their export potential to increase. However most of machine tool builders have free production capacity that can be set into operation with more orders and hiring qualified employees.

Our respondents comment:
"*Export to Europe performs better than expected. Export to America is increasing and outlook is positive for next months. Exports to Asia, especially to China, are low and business in 2013 will be at best on same level as 2012.*"

"*High yen and dollar exchange rates are additional limiting and detrimental factors*."

6 European Commission economic forecast

The positive growth in the second quarter of 2013 indicates the first signs of economic recovery, but a weakened outlook for emerging market economies makes the return to solid growth a gradual process. Growth in the second half of 2013 is expected at 0.5 % compared to the same period in 2012 in the EU. On an annual basis, real GDP growth this year is estimated at 0.0 % in the EU and -0.4 % in the euro area. Looking ahead, economic growth is forecasted to gradually gather pace over the next two years, to 1.4 % in the EU and 1.1 % the euro area in 2014, reaching 1.9 % and 1.7 % in 2015, respectively.

The accumulated macroeconomic imbalances are diminishing, and growth is expected to moderately gain pace. However, the on-going balance-sheet adjustment in some countries continues to weigh on investment and consumption. While the financial market situation has improved significantly and interest rates have decreased for vulnerable countries, this has not yet fed through to the real economy as fragmentation in financial markets persists, with substantial differences across Member States and across firms of different sizes. Labour market developments typically lag those in GDP by half a year or more. That causes persisting high unemployment and declining employment in some countries, which weigh on further growth outlook of Europe.

See glossary for definitions

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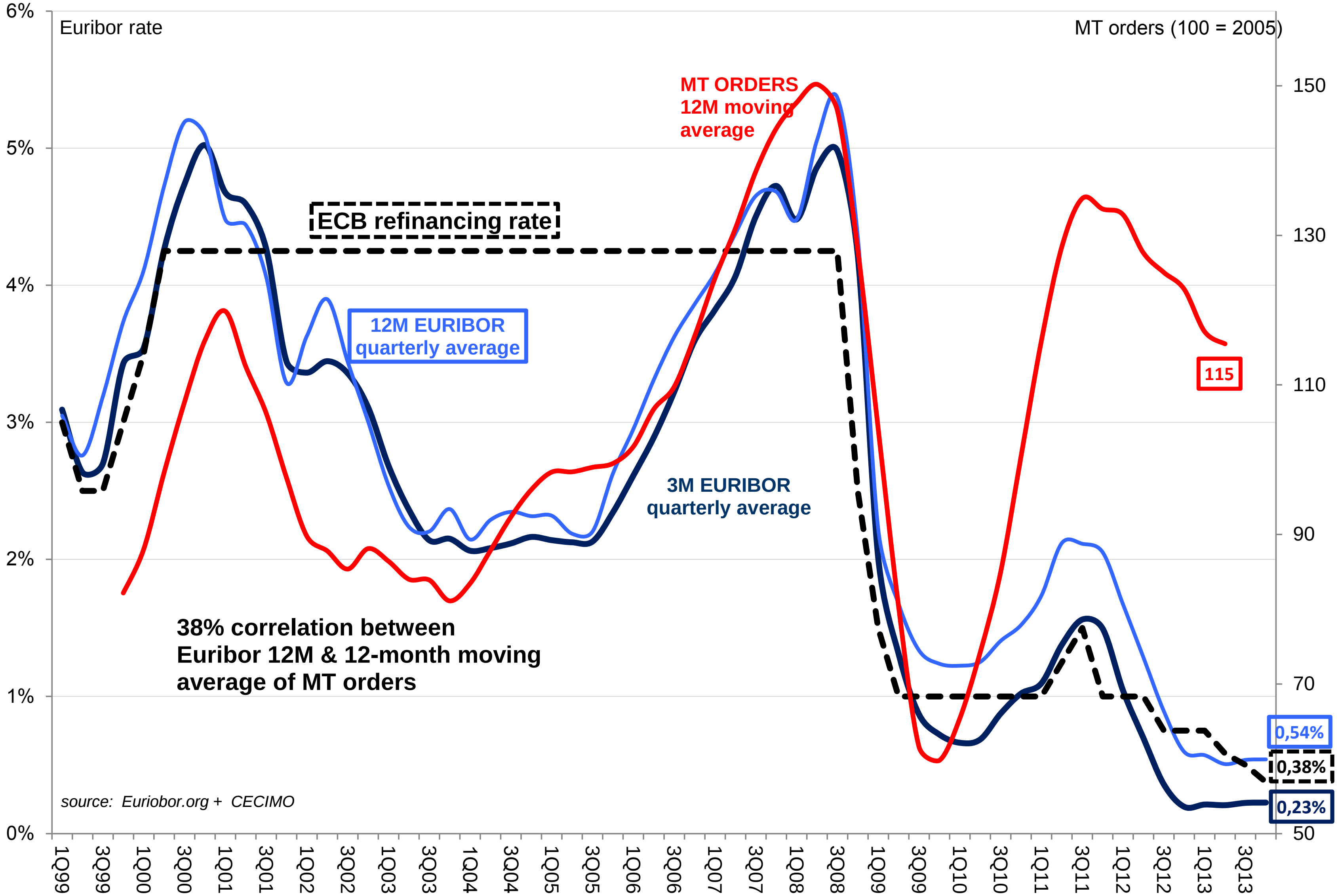
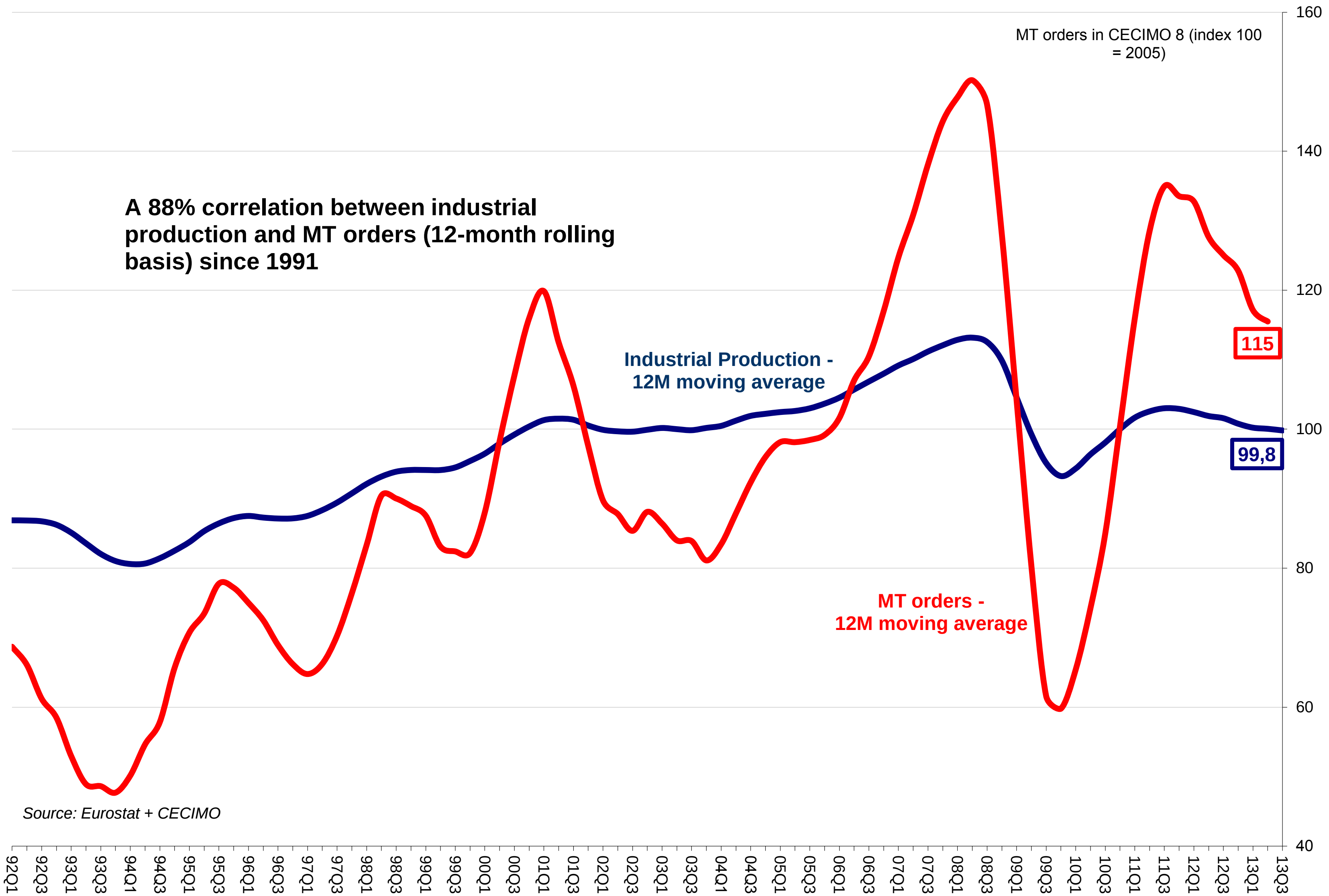
2.2 Interest rates - EURIBOR

see commentary



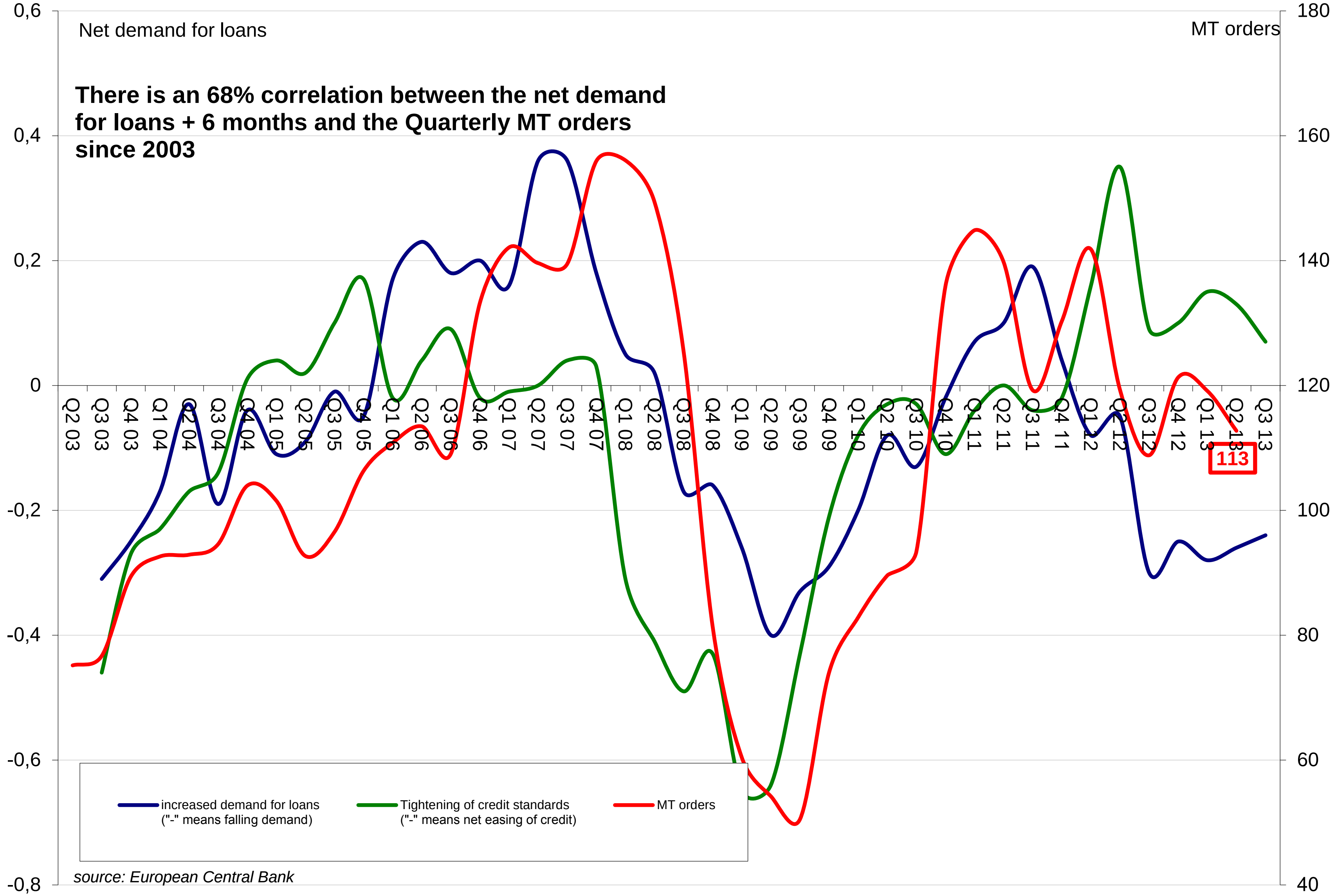
2.3 Industrial production index

see commentary



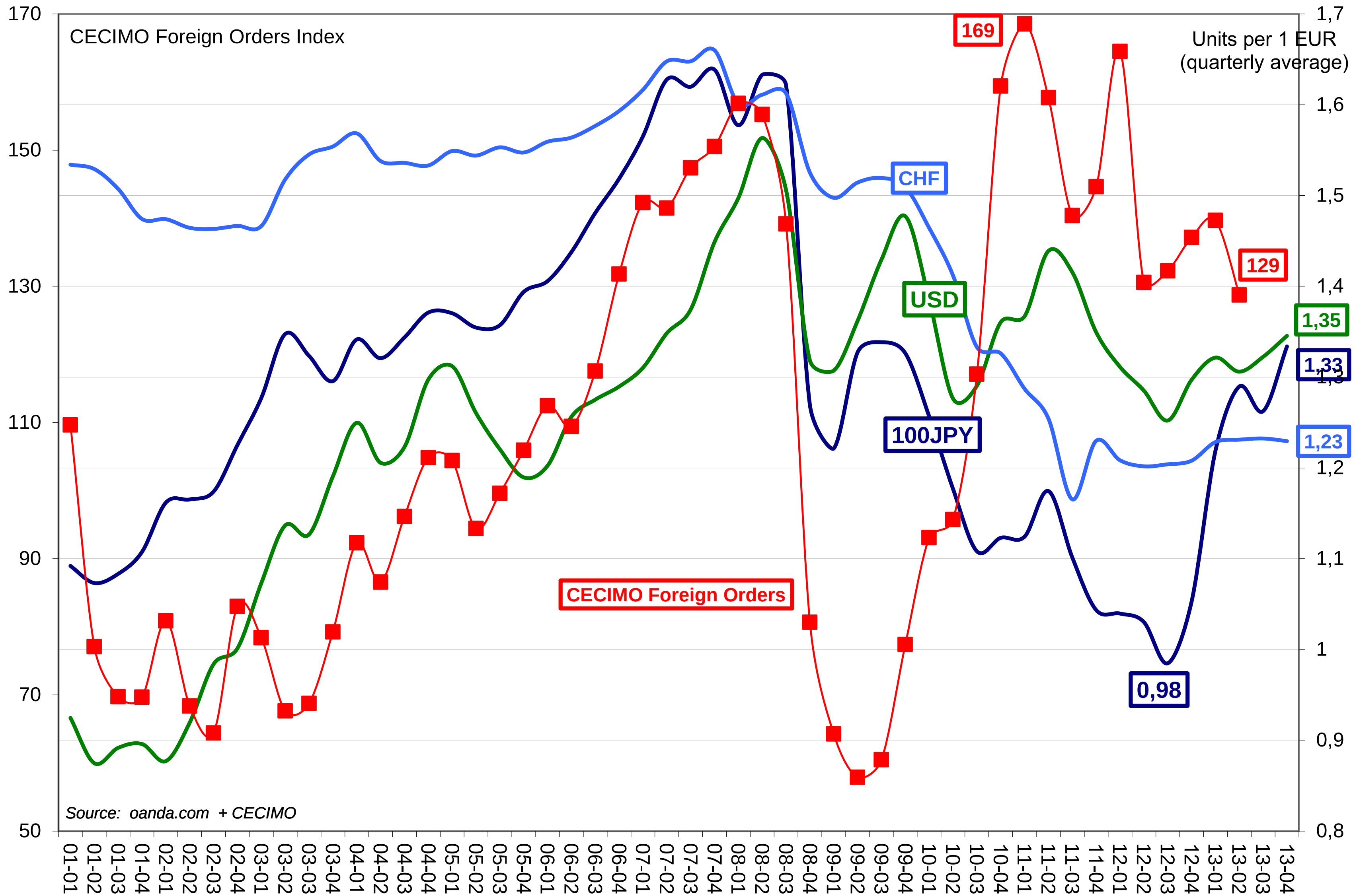
2.6 Bank lending survey

see commentary



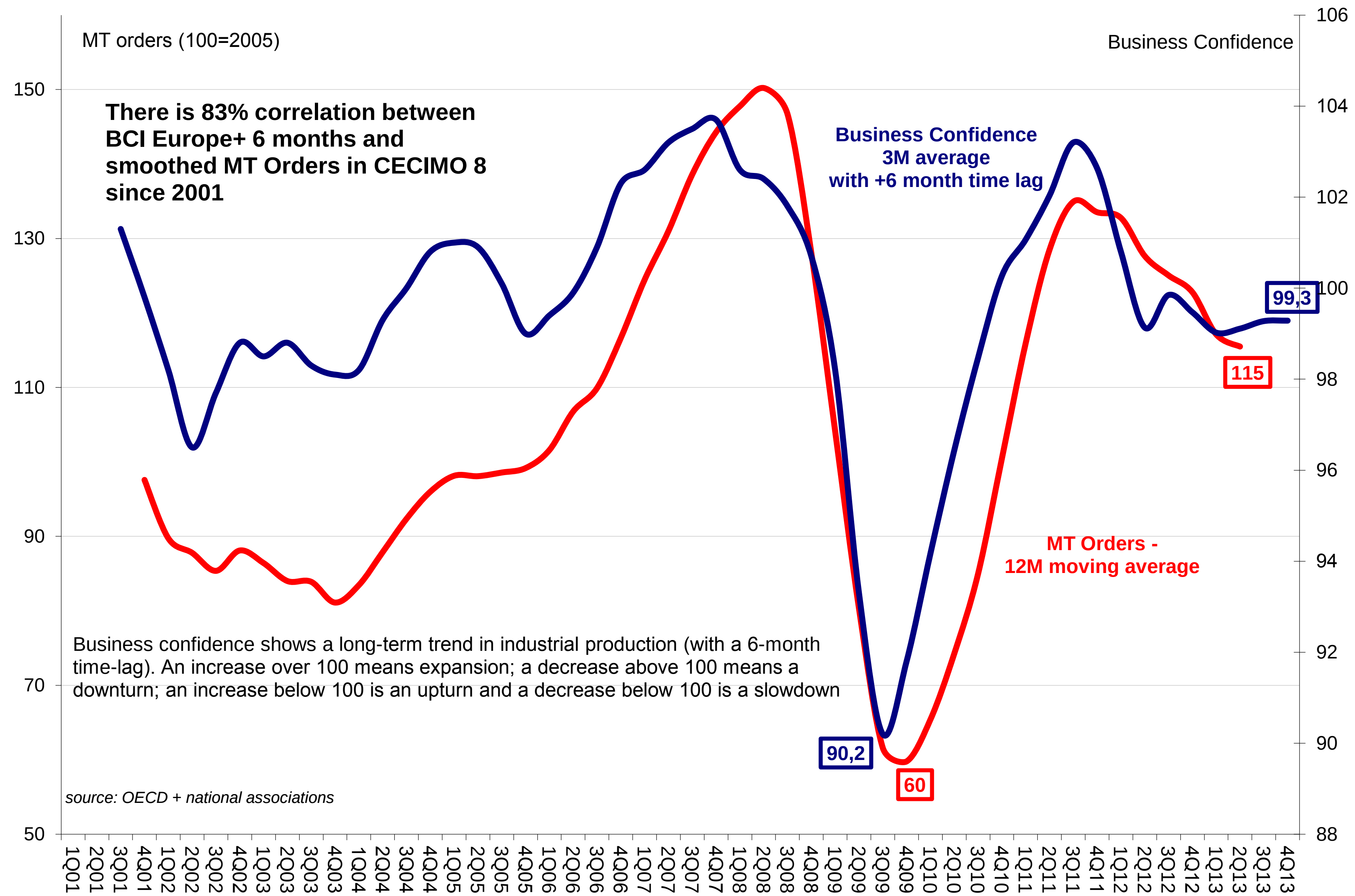
2.7 Foreign exchange rates

see commentary



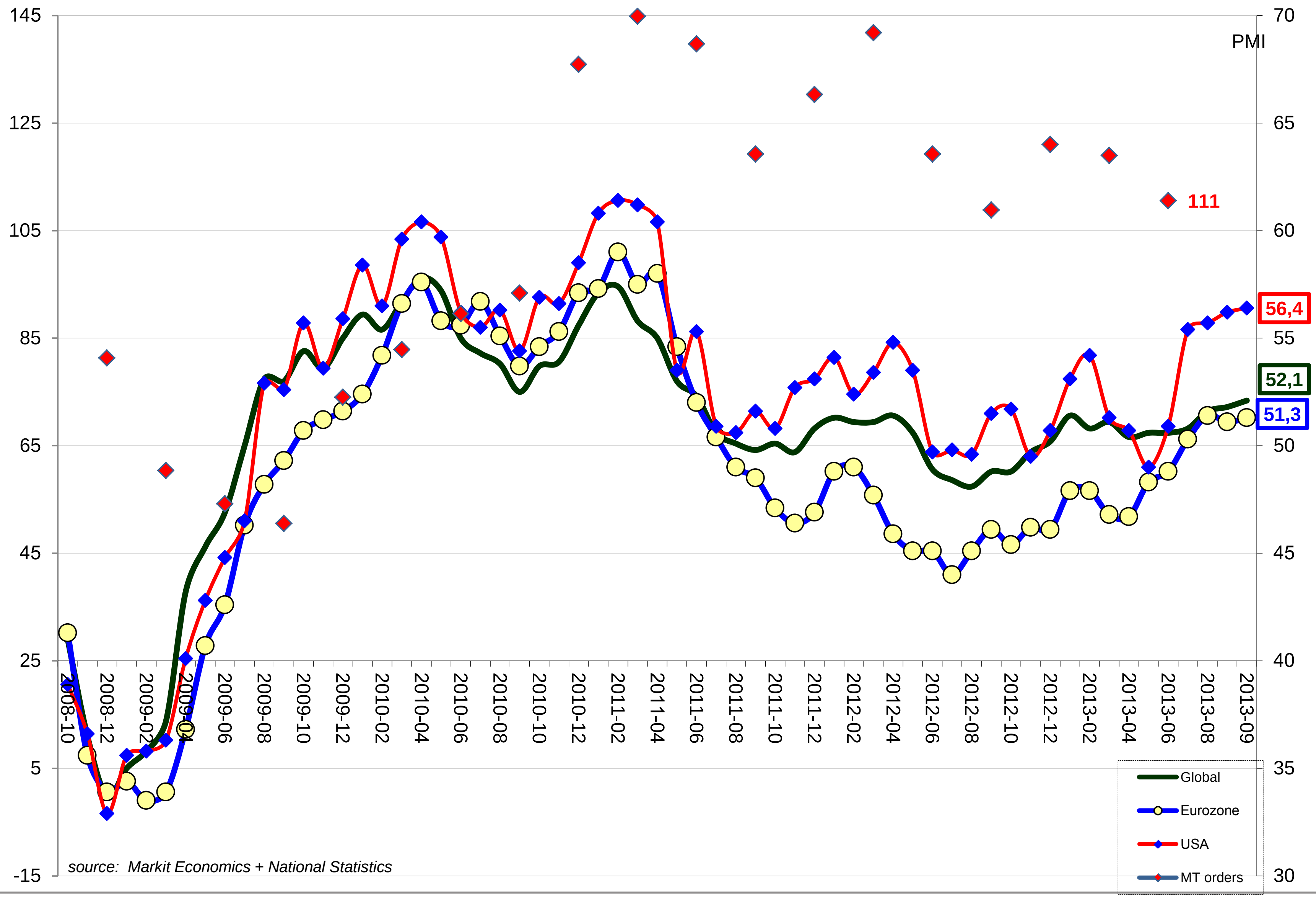
3.1 OECD Business Confidence Indicator (BCI) for Europe

see commentary



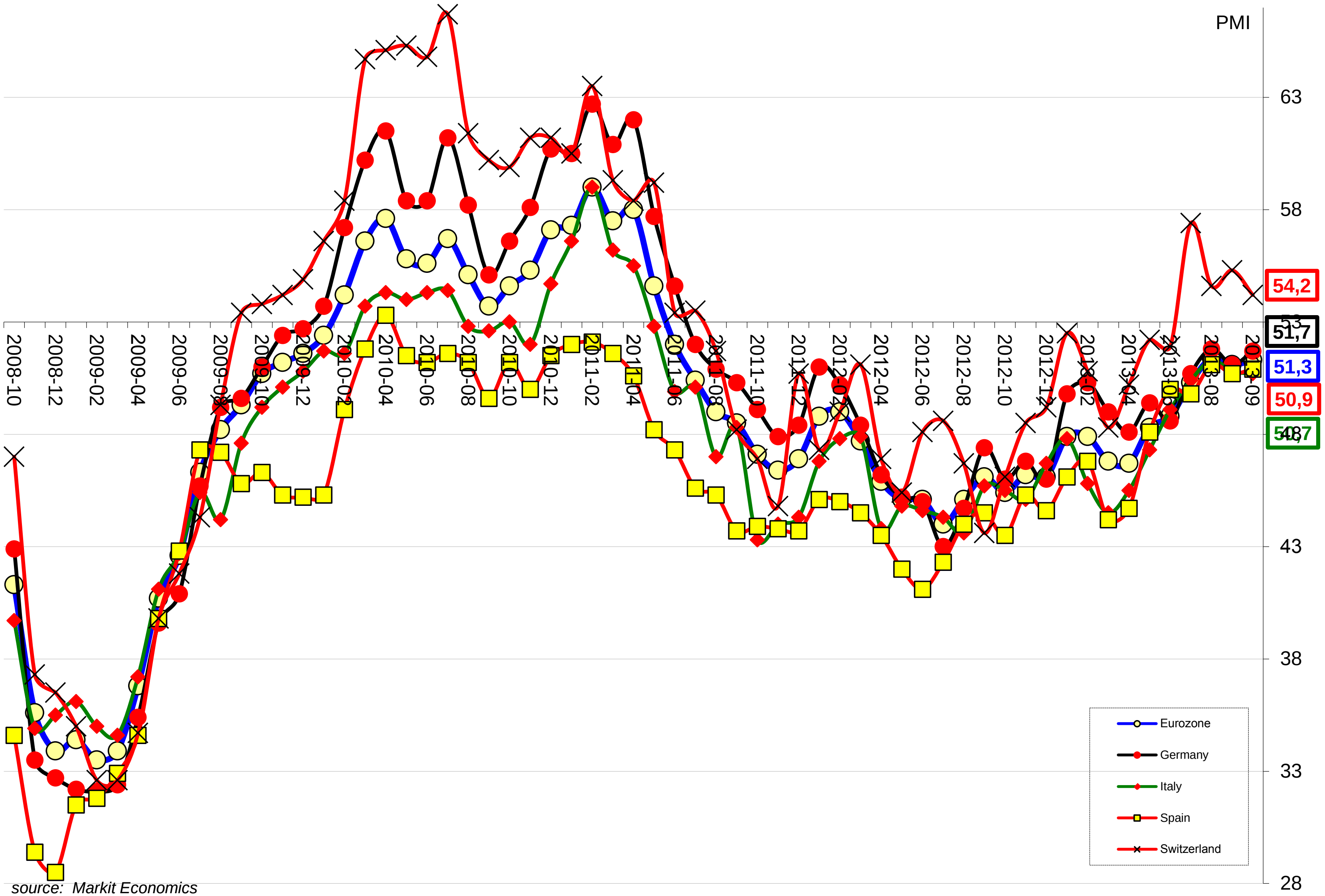
3.2 Purchasing Managers' Index (PMI) - Global

see commentary



3.2 Purchasing Managers' Index (PMI) - Europe

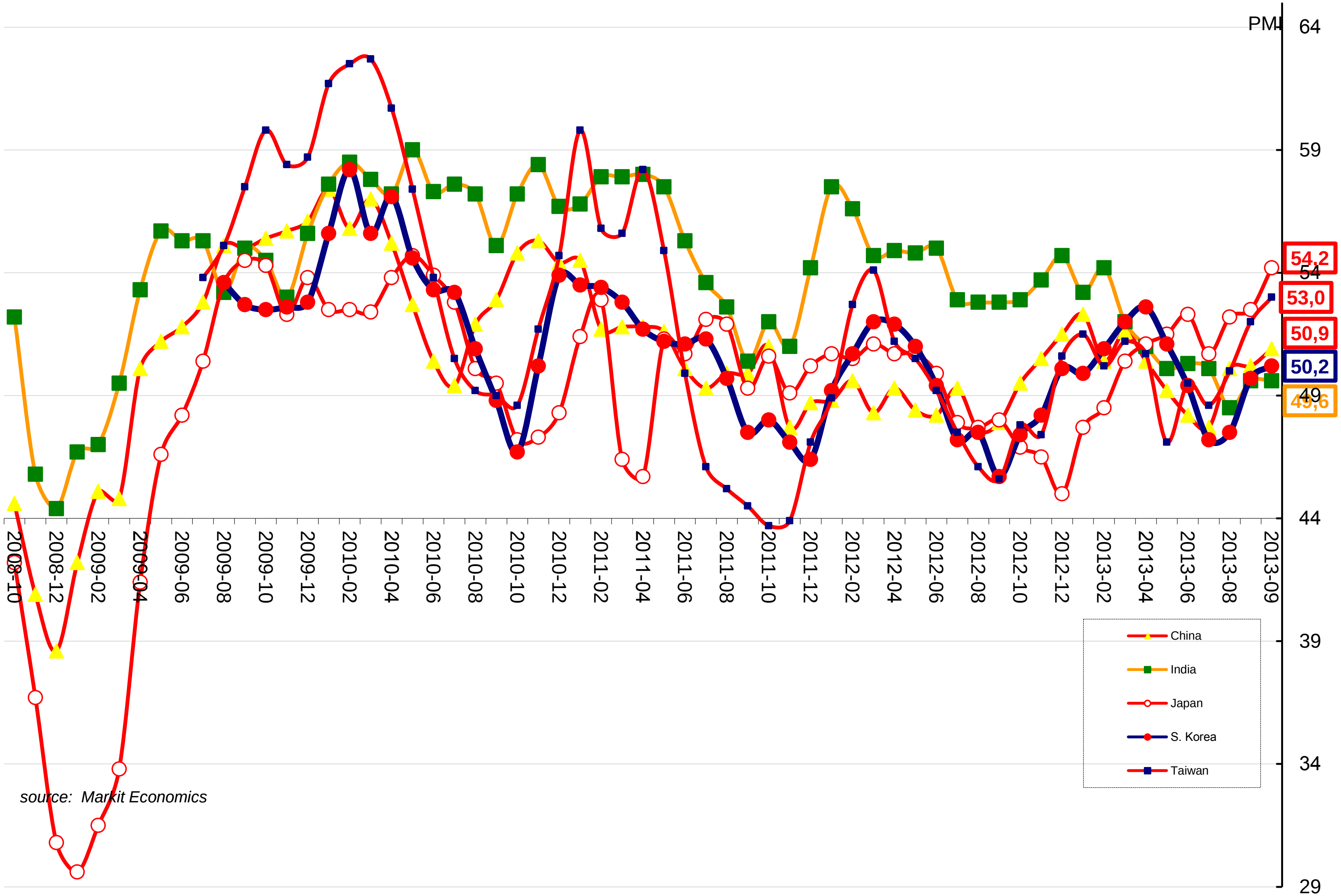
see commentary

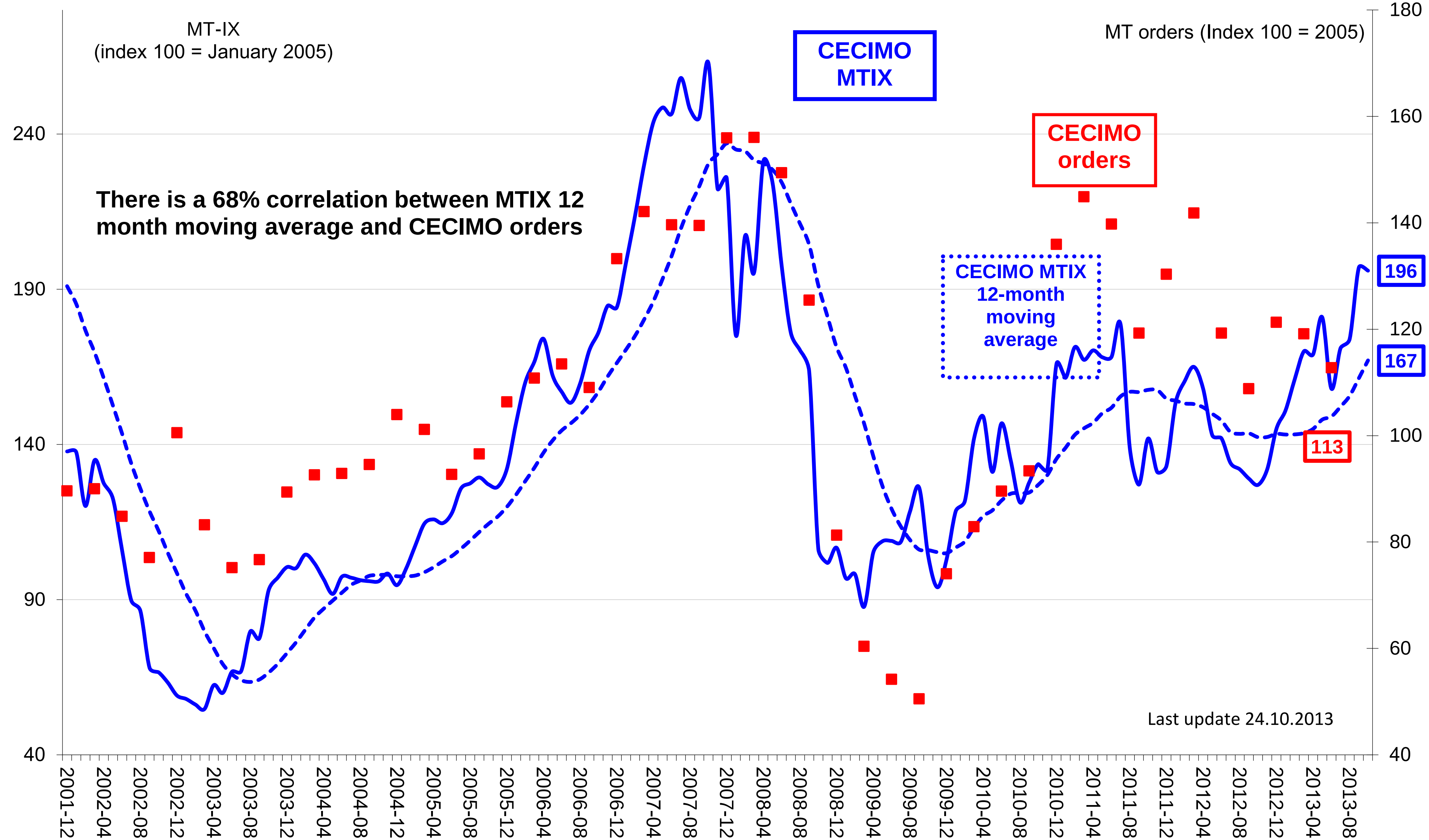


source: *Markit Economics*

3.2 Purchasing Managers' Index (PMI) - Asia

see commentary




MT-IX
(index 100 = January 2005)
MT orders (Index 100 = 2005)
CECIMO MTIX
CECIMO orders
There is a 68% correlation between MTIX 12 month moving average and CECIMO orders
CECIMO MTIX 12-month moving average
196
167
113
Last update 24.10.2013
240
190
140
90
40
180
160
140
120
100
80
60
40
2001-12
2002-04
2002-08
2002-12
2003-04
2003-08
2003-12
2004-04
2004-08
2004-12
2005-04
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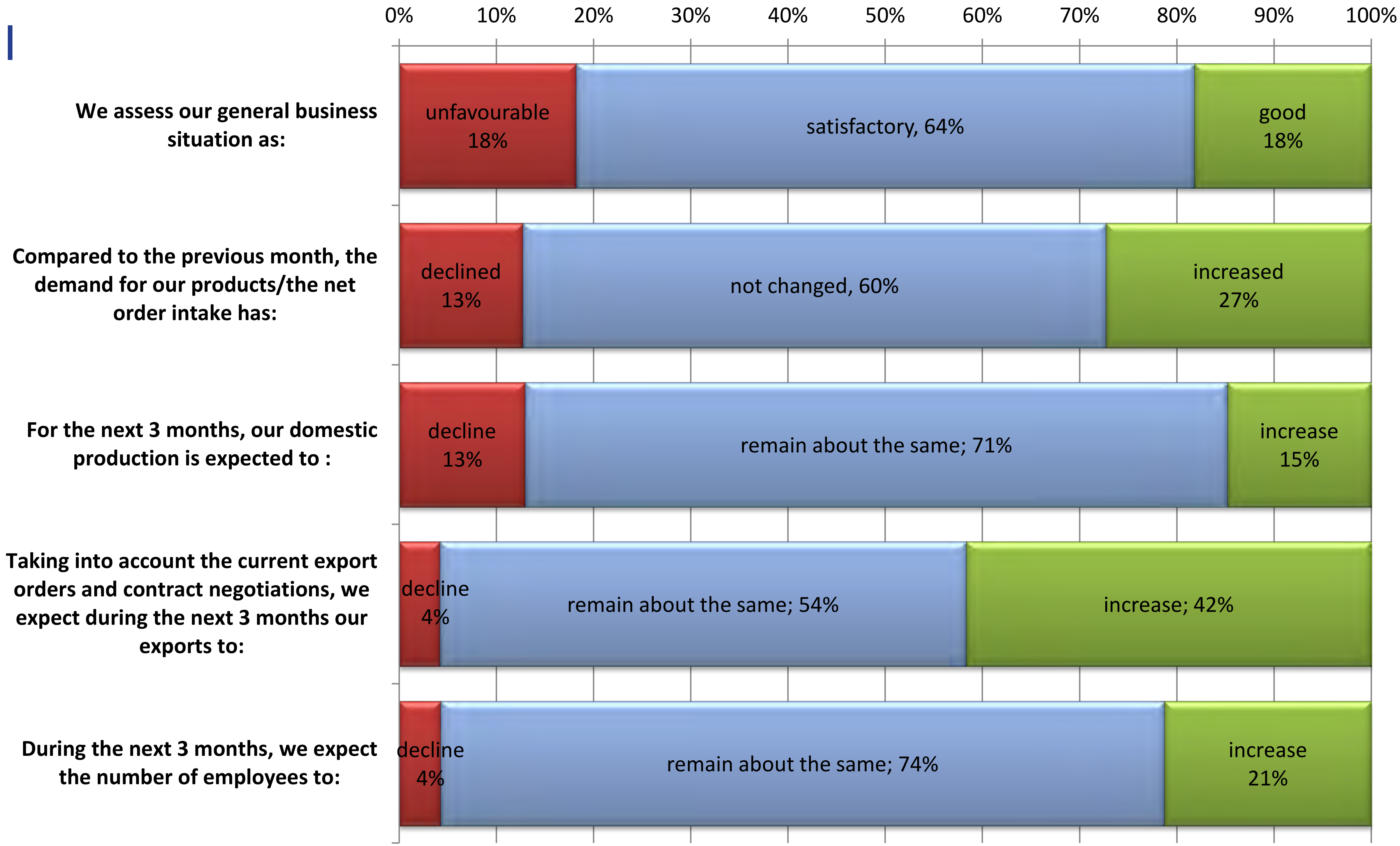
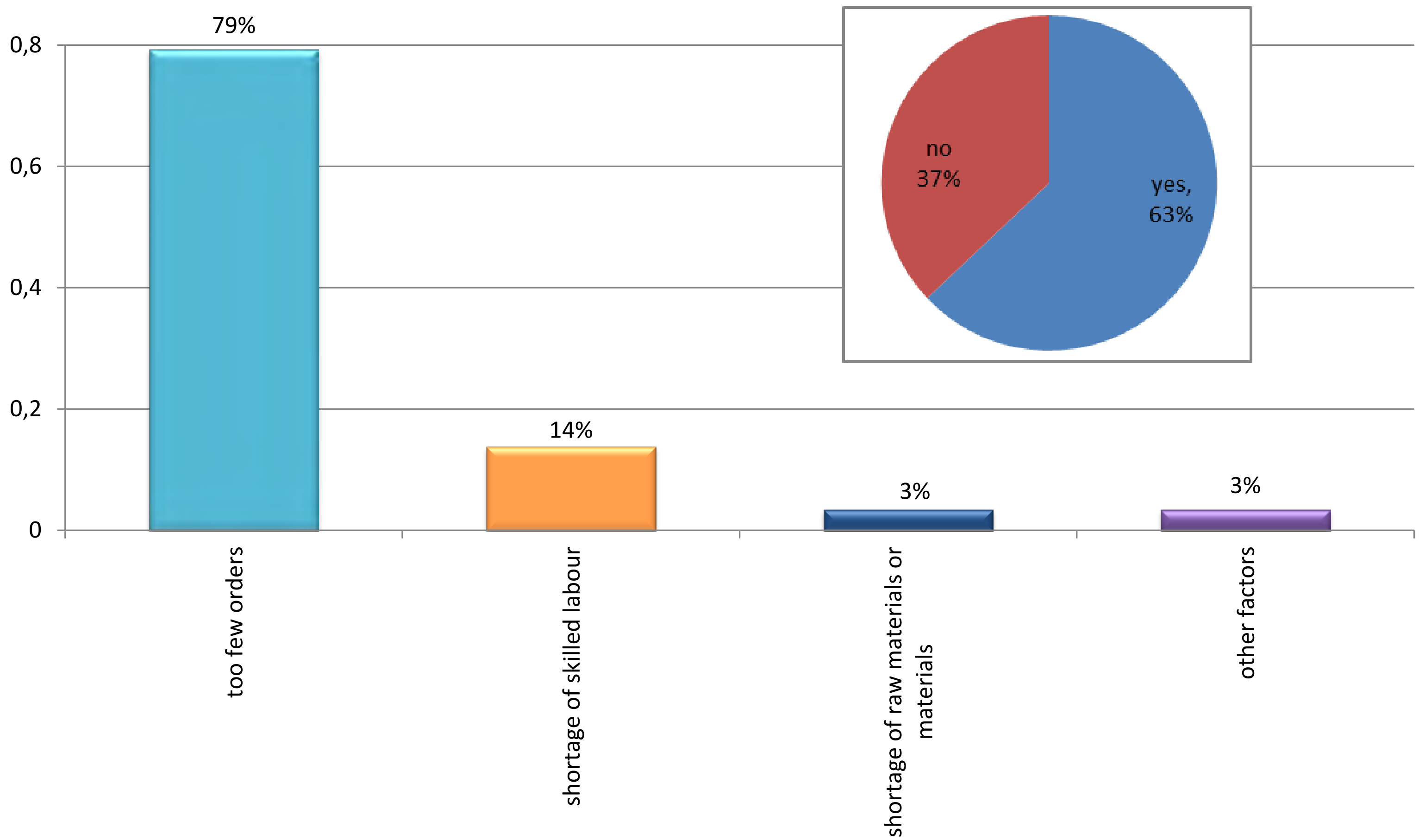
5.1 CECIMO Business Climate Barometer

see commentary



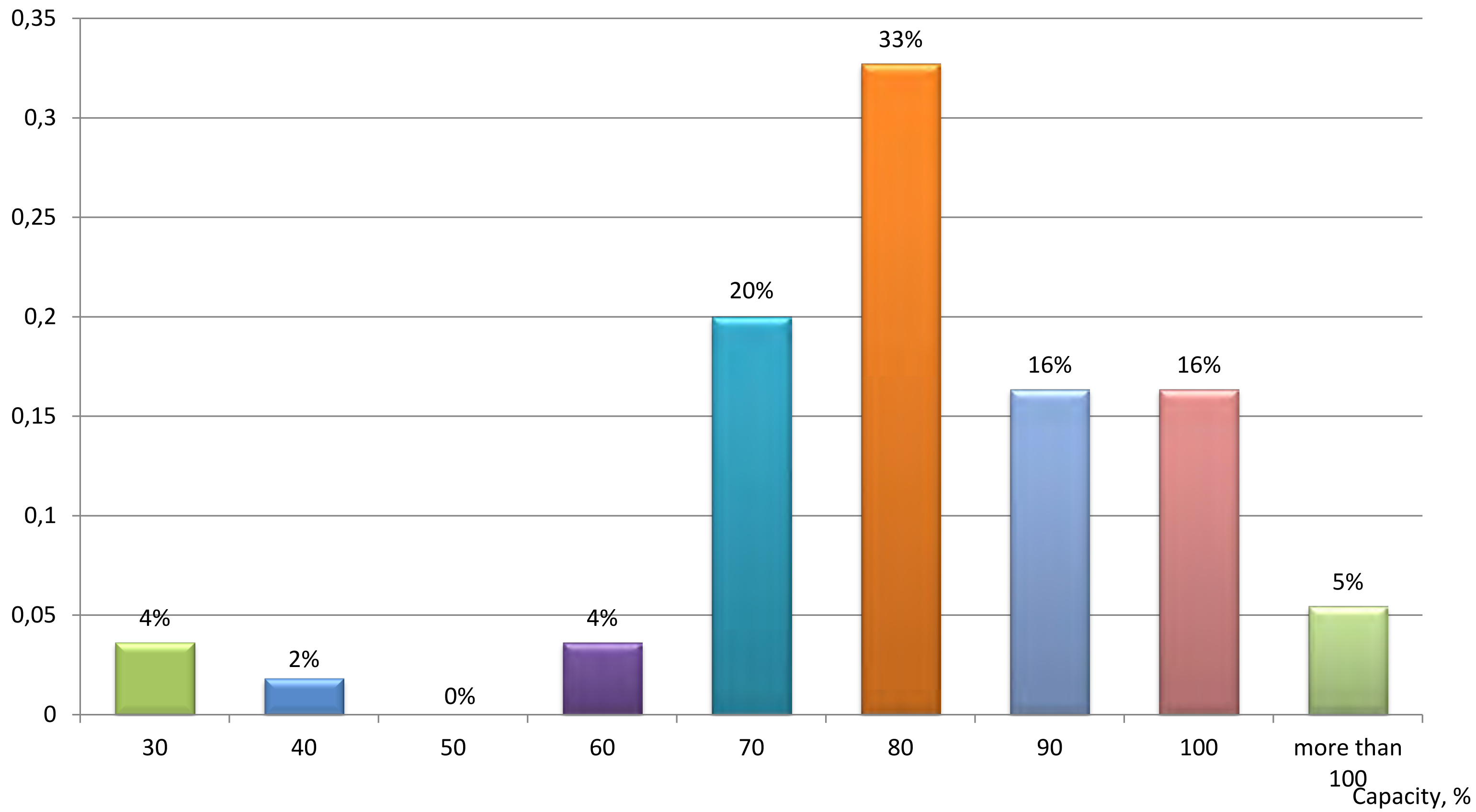
see commentary

Are there factors limiting your output? If yes, what factors:



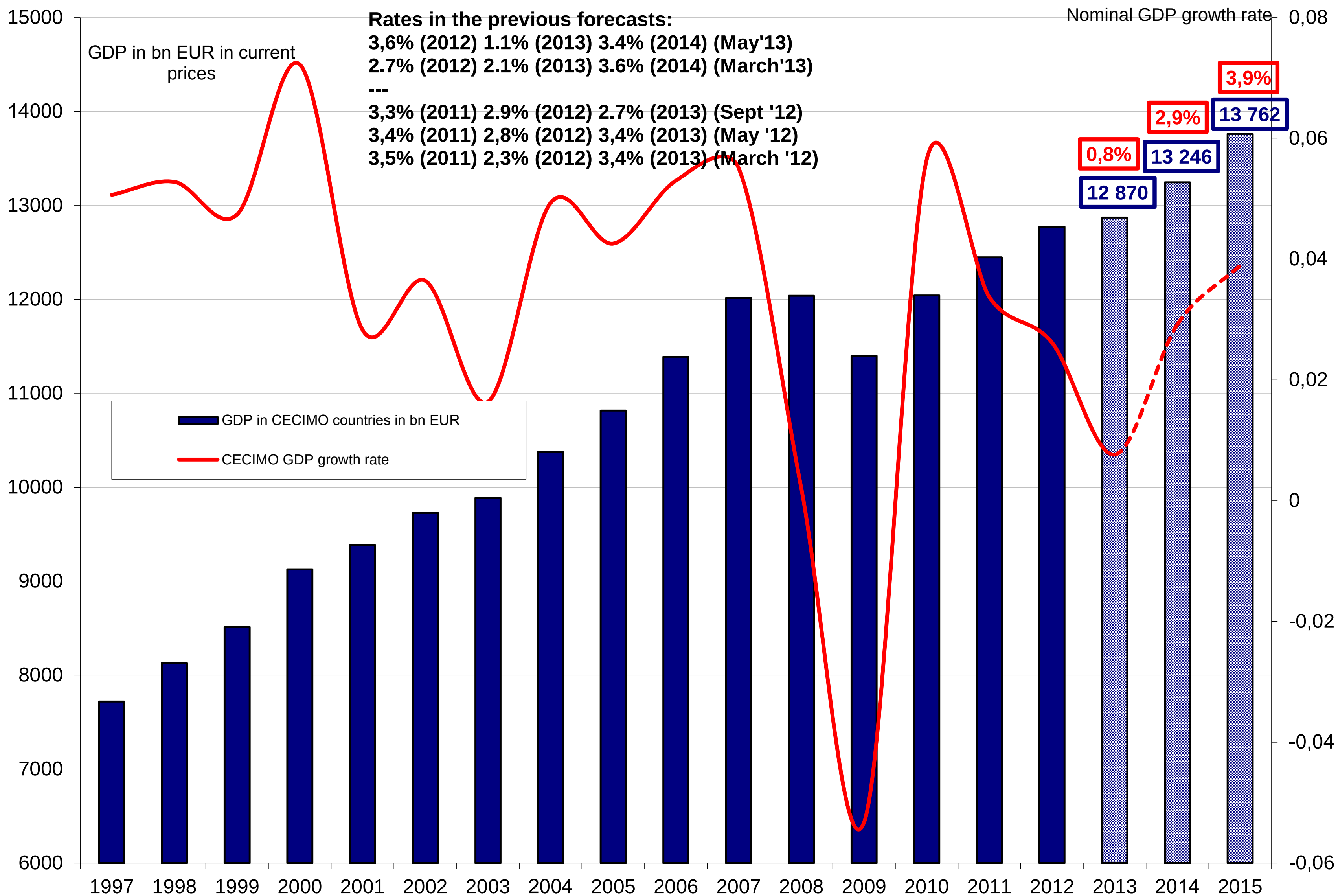
see commentary

What is your current rate of operation as a percentage of full (100%) capacity?



6 European Commission economic forecast - 1

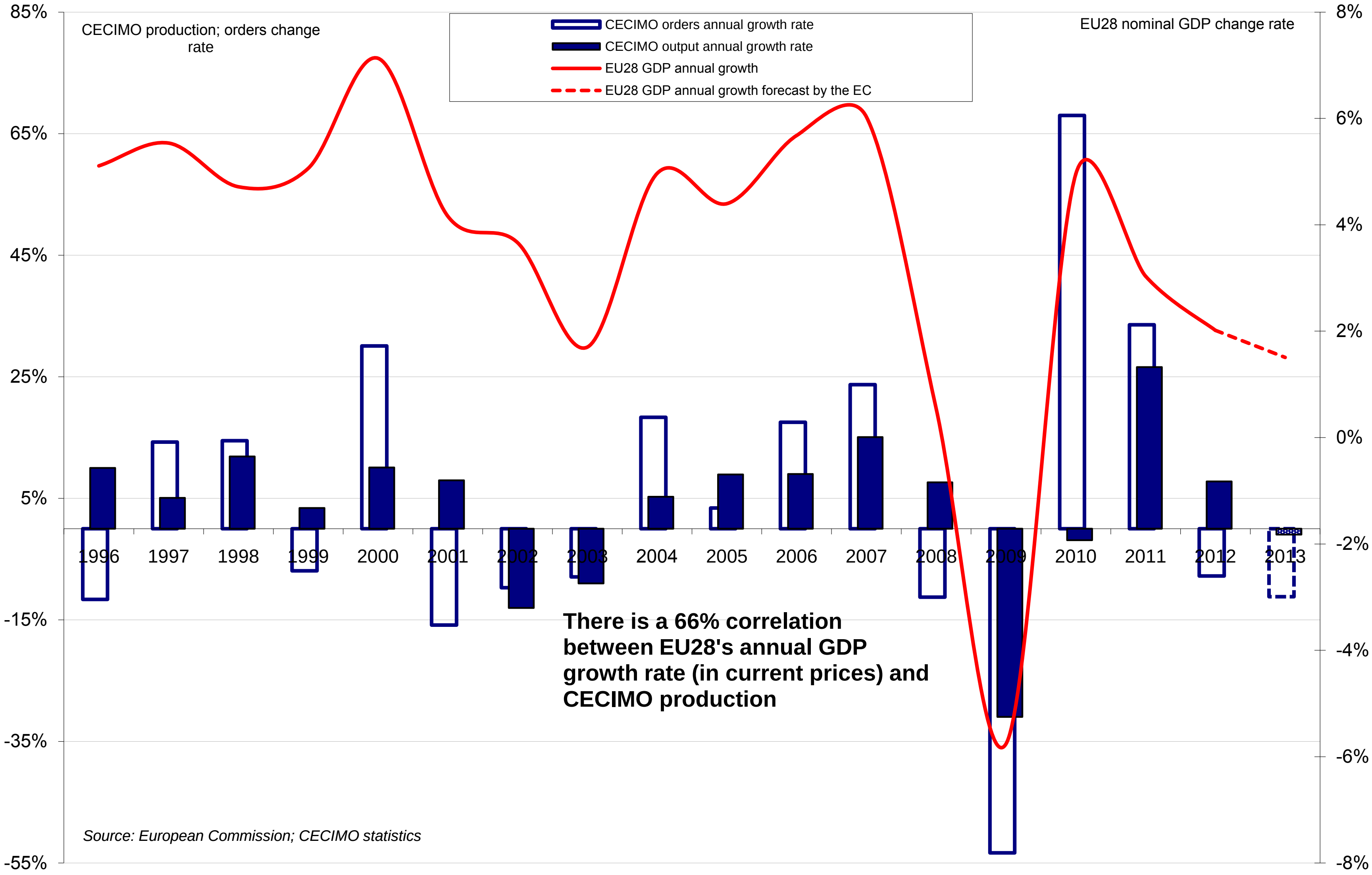
see commentary



Source: European Commission

6 European Commission economic forecast - 2

see commentary



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2.2 Interest rates - Euribor

Euribor® (Euro Interbank Offered Rate) is the rate at which euro interbank term deposits are being offered by one prime bank to another within the EMU zone.
http://www.euribor-ebf.eu/

2.3 Industrial production index

The objective of the production index is to measure changes in the volume of output at close and regular intervals, normally monthly. It provides a measure of the volume trend in value added over a given reference period. The production index is a theoretical measure that must be approximated by practical measures. Value added at basic prices can be calculated from turnover (excluding VAT and other similar deductible taxes directly linked to turnover), plus capitalised production, plus other operating income plus or minus the changes in stocks, minus the purchases of goods and services, minus taxes on products which are linked to turnover but not deductible plus any subsidies on products received. The division of production in construction between building construction and civil engineering is based on the classification of types of construction (CC). Statistical population: Production: sections B, C, D of NACE (D353 excluded); Base period: Year 2005 = 100.
http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/EN/is_esms.htm

2.6 Bank lending survey

The bank lending survey is addressed to senior loan officers of a representative sample of euro area banks. Its main purpose is to enhance the understanding of bank lending behaviour in the euro area. The questions distinguish between three categories of loan: loans or credit lines to enterprises; loans to households for house purchase; and consumer credit and other lending to households. For all three categories, questions are posed on credit standards for approving loans; credit terms and conditions; and credit demand and the factors affecting it.
The responses to questions related to credit standards are analysed in this report by focusing on the difference ("net percentage") between the share of banks reporting that credit standards have been tightened and the share of banks reporting that they have been eased. A positive net percentage indicates that a larger proportion of banks have tightened credit standards ("net tightening"), whereas a negative net percentage indicates that a larger proportion of banks have eased credit standards ("net easing"). Likewise, the term "net demand" refers to the difference between the share of banks
reporting an increase in loan demand and the share of banks reporting a decline. Net demand will therefore be positive if a larger proportion of banks have reported an increase in loan demand, whereas negative net demand indicates that a larger proportion of banks have reported a decline in loan demand.
http://www.ecb.eu/stats/money/surveys/lend/html/index.en.html

3.1 OECD Business Confidence Indicator (BCI) for Europe

The Composite leading indicators (CLI), which BCI is part of, comprises a set of component series selected from a wide range of key short-term economic indicators to ensure that the indicators will still be suitable when changes in economic structures occur in future. While theory says that a turning point in the CLI signals a turning point in the reference series, such turning points, in reality, are determined by a complicated process. Therefore, one often needs to wait for several periods to draw a more definite conclusion. A useful way to exploit the information in CLIs is to take their year-on-year growth rate.

The standardised BCIs represent only the manufacturing sector. BCI shows a long-term trend in industrial production (with a 6-month time-lag). An increase over 100 means expansion; a decrease above 100 means a downturn; an increase below 100 is an upturn and a decrease below 100 is a slowdown.
http://stats.oecd.org/mei/default.asp?lang=e&subject=5

3.2 Purchasing Managers' Index (PMI)

The Global Report on Manufacturing is compiled by Markit based on the results of surveys covering 9,000 purchasing executives in 30 countries. Together these countries account for an estimated 86% of global manufacturing output. Questions are asked about real events and are not opinion based. Data are presented in the form of diffusion indices, where an index reading above 50.0 indicates an increase in the variable since the previous month and below 50.0 a decrease.
http://www.markiteconomics.com/Survey/Page.mvc/AboutPMIData

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4 MT-IX

MTIX is and index based on the capitalization of 23 leading, publicly listed machine tool producing companies. The capitalization of the companies included is weighted by the share of machine tool turnover in total revenues. The total capitalization calculated in that way is weighted then by and estimated share of the European companies in the world total output in 2005.

6 European Commission economic forecast

European Commission Directorate General for Economic and Financial Affairs produces short-term macroeconomic forecasts twice a year, in the spring and autumn. These forecasts concentrate on the Member States, the euro area and the EU, but also include outlooks for candidate countries as well as some non-EU countries. Each forecast has at least a two-year time horizon (with an additional year added each autumn) covering the current year and the next. The forecasting process considers a total of 180 variables and is the result of several iterative rounds.
The forecasts are not based on a centralised econometric model. Instead, they result from analyses made by the DG ECFIN country desks, each of which uses statistical methods to varying degrees. The forecasts are checked for consistency, in particular as regards trade flows. The EU and euro-area variables are not a direct forecast, but are obtained by aggregating the individual Member State forecasts.
In between the fully-fledged spring and autumn forecasts, interim forecasts are produced in which an update of real GDP growth and inflation is estimated for the seven largest Member States and for the current year only. The interim forecasts are largely prepared using indicator-based models.
http://ec.europa.eu/economy_finance/eu/forecasts/index_en.htm

The weights of the Member States in the EU and euro area aggregates can be found through the link below.
http://circa.europa.eu/Public/irc/dsis/ebt/library?