



This document contains the economic presentation given by Geoff Noon (CELIMO Secretary) to CELIMO members on Friday 4th December 2020.

Most of the slides have had notes added to show the comments made in these presentations.





The level of GDP in the European Union fell in both the 1st and 2nd quarters of 2020, triggering a recession (two consecutive quarters of non-positive change in GDP).

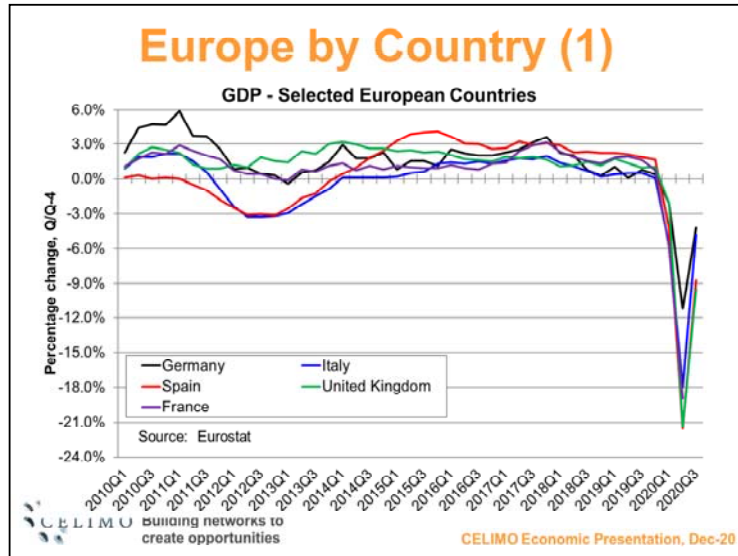
It is noticeable that this is both sharper and much deeper than the financial crisis in 2008-09; that recession lasted for 5 quarters.

The European Economy

- Economic activity collapsed in the face of Covid-19 ...
- ... in a pattern that was repeated Europe-wide but on different scales

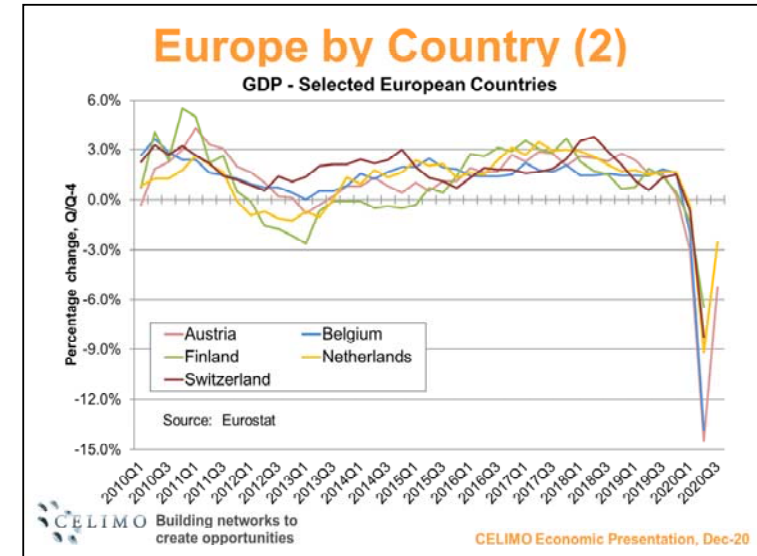
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Spain (-22.1%) and the UK (-21.8%) were the worst affected countries in Europe across the first two quarters of 2020.

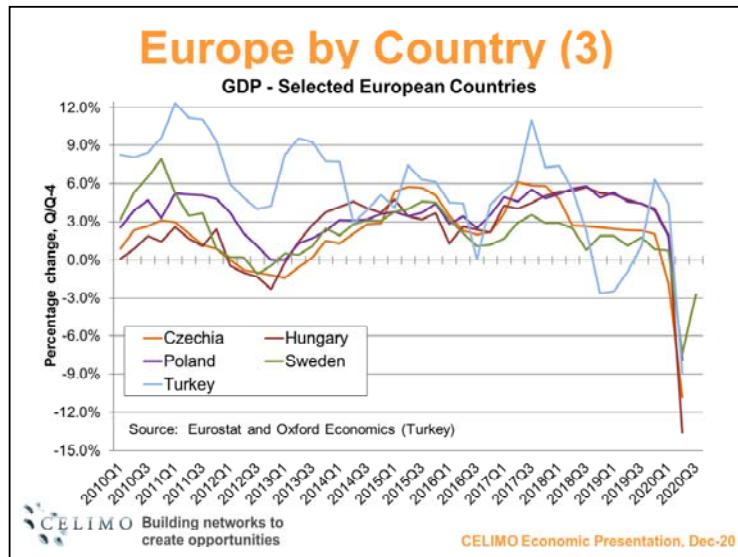
France (-18.9%) and Italy (-17.8%) were not far behind, but Germany saw a relatively small reduction (-11.5%).



Note: the scale on this chart runs from -15% while the previous chart was -24%.

Of the other CELIMO countries (Turkey is on the next chart) Belgium (-14.8%) had the largest reduction in GDP across the first two quarters of the year, although this is less than for any of the largest economies except Germany.

Austria (-14.3%) was not far behind while Turkey (-11.1%) also saw a double-digit percentage decline in GDP when combining the effect of the first two quarters of the year. Although not far behind, the Netherlands (-9.9%) just managed to avoid double digits and Finland (-5.8%) saw the smallest contraction in its economy across the countries we have covered here.



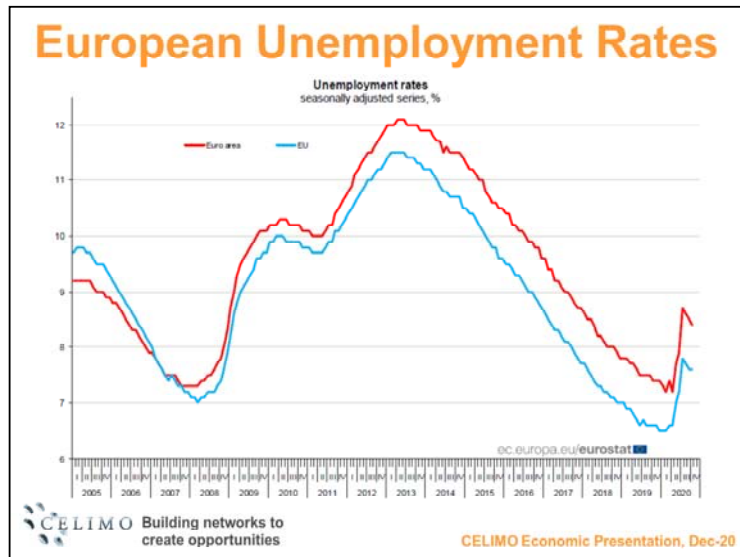
Looking at the other European countries (note on Turkey are on the previous page), we see a range of impacts. The worst affected of this group was Hungary (-14.9%), followed by Czechia (-11.7%) but, again, neither of these are on the scale of the falls we saw for Spain, the UK, France or Italy.

Poland (-9.2%) and Sweden (-7.6%) only saw a single-digit reduction in GDP in the first two quarters of 2020 - indeed, the Swedish economy was the only one to see any growth in the 1st period of the year and so, technically, avoided having a recession.

The European Economy

- Economic activity collapsed in the face of Covid-19 ...
- ... in a pattern that was repeated Europe-wide but which is likely to be short-lived
- Unemployment increased but is misleading

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The seasonally adjusted rate of unemployment increased from April to July but appears to have reversed this trend since August. The latest figures for October show unemployment in the Euro-zone at 8.4% and for the EU overall, the rate was 7.6%.

While the official unemployment figures have got nowhere near the levels that we saw from the financial crisis in 2008/09, let alone those reached in the Euro crisis in 2013, these figures are misleadingly low.

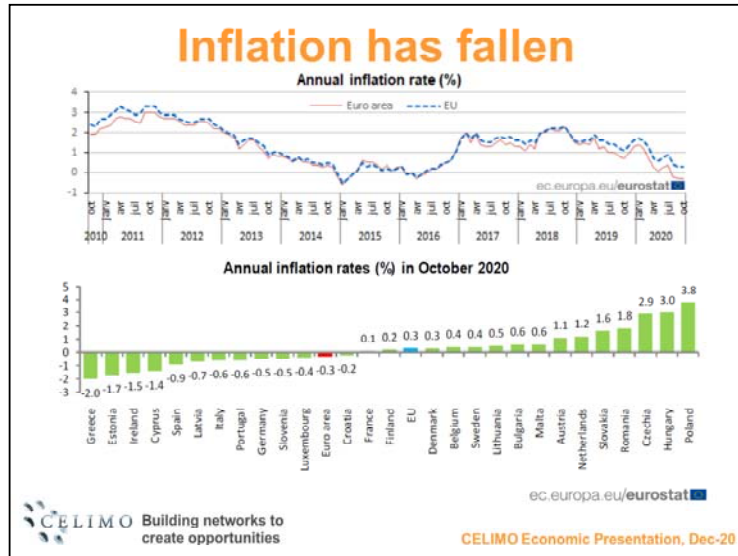
Many countries have support schemes that are aimed at preserving jobs in the short-term or have a specific policy that bans redundancies and this is keeping the official unemployment data artificially low.

The European Economy

- Economic activity collapsed in the face of Covid-19 ...
- ... in a pattern that was repeated Europe-wide but which is likely to be short-lived
- Unemployment increased but is misleading
- **Inflation has fallen (and is negative in some countries)**

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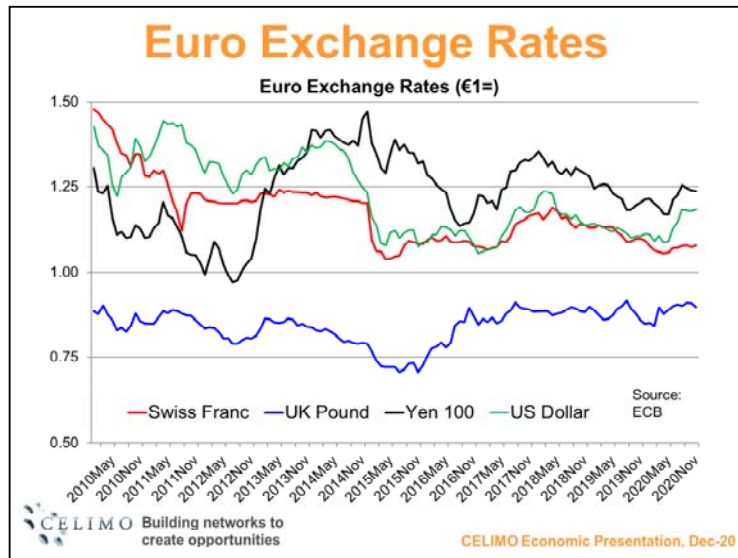
In September, inflation in the Euro-zone turned negative at -0.3% and remained at this rate in October. Higher rates in the major non-Euro countries means that the rate for the EU27 was +0.3% in both months.

The European Economy

- Economic activity collapsed in the face of Covid-19 ...
- ... in a pattern that was repeated Europe-wide but which is likely to be short-lived
- Unemployment increased but is misleading
- Inflation has fallen (and is negative in some countries)
- **The Euro strengthened against the US\$ and ¥en**

ec.europa.eu/eurostat

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The Euro strengthened against the US Dollar and the Japanese Yen over the summer; however, the rate against both the Swiss Franc and, perhaps surprisingly, the UK Pound (£) has been more stable. With the exception of the last of these currencies, the Euro remains below the most recent peak levels from around the end of 2017.

There are, of course, special factors behind the exchange rate vis-à-vis the UK Pound with the Brexit process underway. Following the depreciation of the UK£ following the UK referendum result (its announcement was actually the trigger), the exchange rate has been broadly stable, although we can expect movement in December (or early 2021) as a result of any trade deal being agreed (or not being agreed as the case may be).

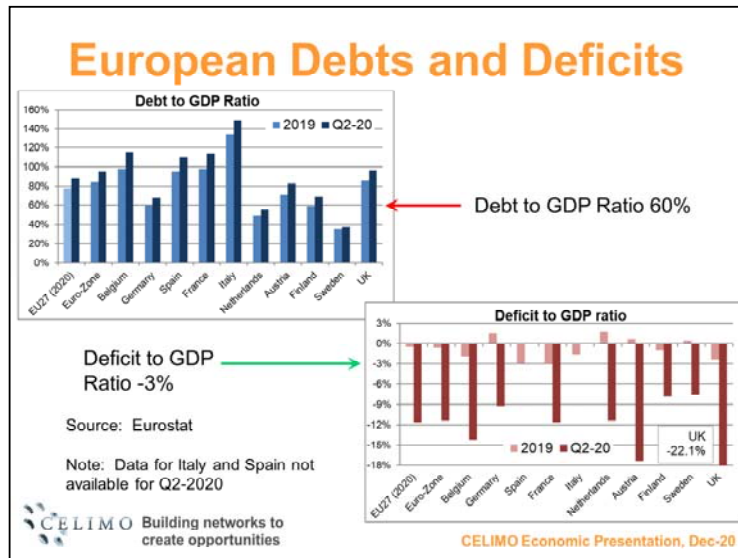
Note: a rising line implies that the Euro has strengthened against the currency concerned.

The European Economy

- Economic activity collapsed in the face of Covid-19 ...
- ... in a pattern that was repeated Europe-wide but which is likely to be short-lived
- Unemployment increased but is misleading
- Inflation has fallen (and is negative in some countries)
- The Euro has strengthened against the US\$ and ¥en
- **Government debt levels have risen sharply in the face of sharply increased spending to support the economy**

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European Business Climate

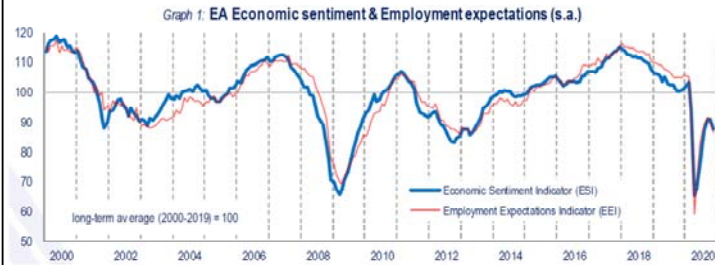
- The European Commission's Economic Sentiment Indicator is recovering ...

To illustrate the extent of Government spending in the current crisis, instead of looking at the last two years, we have included the provisional estimates for the 2nd quarter of 2020 alongside the pre-crisis reading for 2019.

In the face of increased debt and deficit levels everywhere, it is noticeable that Netherlands and Sweden are still below the 60% threshold for the debt to GDP ratio (and Finland is not far above it); however, no-one is below the -3% threshold for current spending as a ratio of GDP - data for Italy and Spain is not available, but will be high.

Note: according the Maastricht Treaty, Government debt was not supposed to exceed 60% of GDP, while the deficit on Government Spending was limited to -3%.

European Business Climate



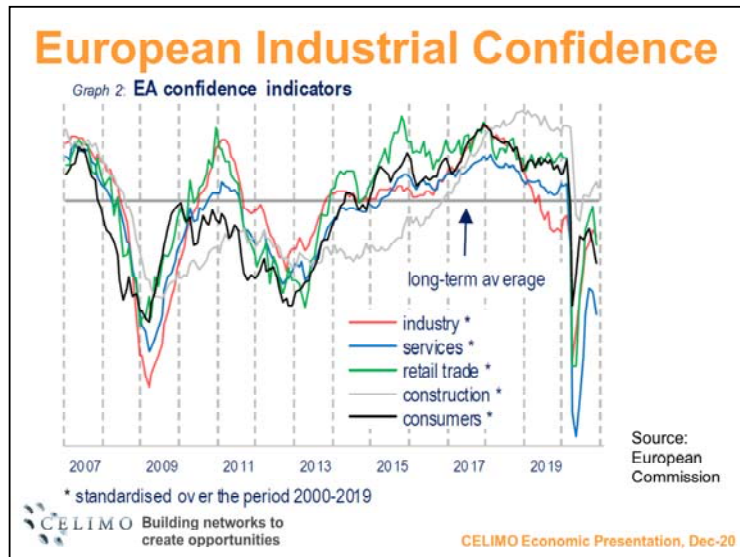
Source: European Commission

The Economic Sentiment Indicator (ESI), which reflects the situation across the whole economy) reversed its recent steady decline at the start of 2020 but then collapsed as the Coronavirus outbreak hit activity. The recovery, which started in May, paused in October and then reversed in November as the 2nd wave of Covid-19 infections spread across Europe.

Note that this chart is only for the Euro-zone.

European Business Climate

- The European Commission's Economic Sentiment Indicator is recovering ...
- ... but industry confidence remains weak



Within the Euro-zone, it was the industry sector that led the weakness in the overall ESI during 2019. However, at the height of the Covid-19 crisis, this sector was in the middle of the range of negative balances, perhaps because it was already weak.

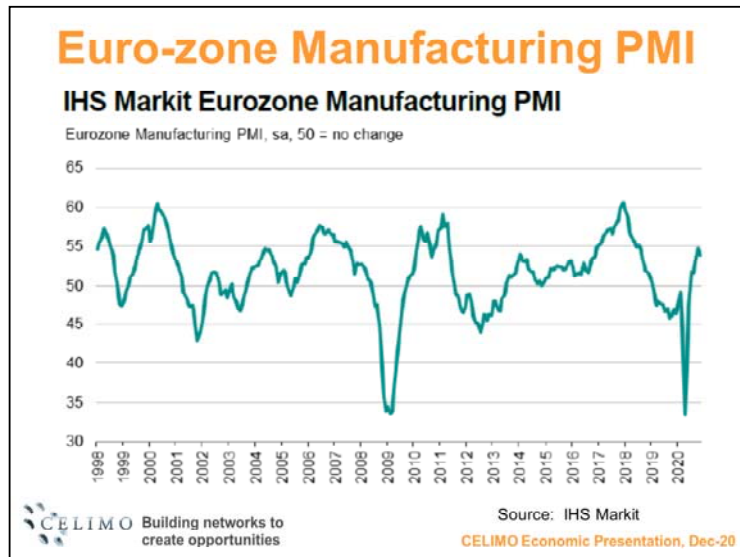
In the data for November (effectively October given the data collection period), all of the industries covered by the Commission's report have seen confidence fall compared to October, but industry and construction had the smallest reductions reflecting the impact on face-to-face economic activity on the other sectors.

European Business Climate

- The European Commission's Economic Sentiment Indicator is recovering ...
- ... but industry confidence remains weak
- **Euro-zone PMI weakened in November but other European countries improved**

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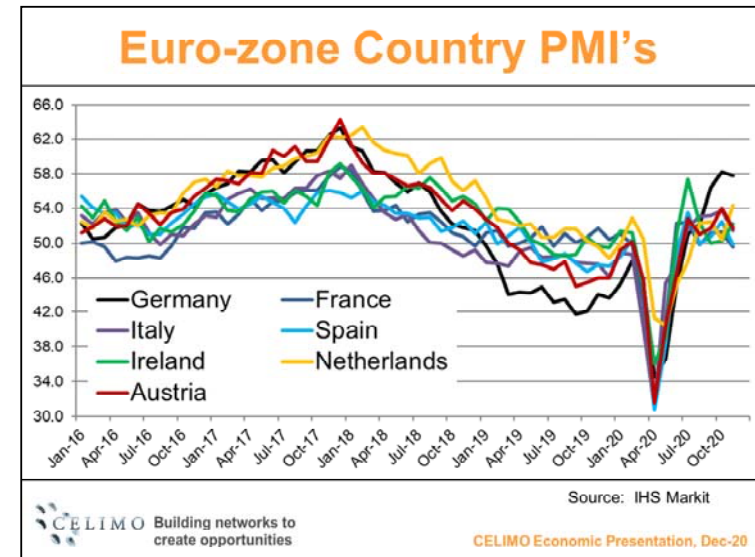
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The Purchasing Managers Index (PMI) for manufacturing in the Euro-zone had been below 50 (indicating a contraction in activity in the sector) since February 2019 before collapsing in March 2020 due to the Coronavirus outbreak.

The low point in April 2020 is similar to that reached in the financial crisis in 2008/09 but both the decline and recovery are much quicker resulting in a more marked “V” shape.

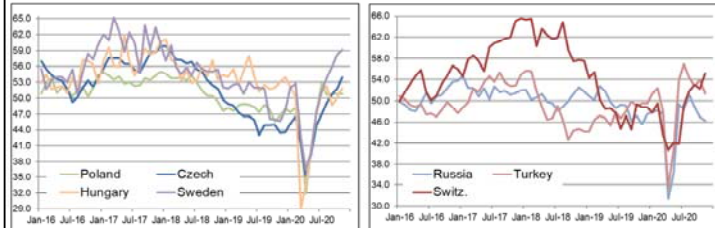
The PMI is a weighted composite index based on new orders (30%), output (25%), employment (20%), suppliers delivery times (15%) and stocks of purchases (10%). They survey around 3000 firms in the manufacturing sector across 8 countries in the Euro-zone.



The 7 largest manufacturing nations in the Euro-zone saw their PMI moving in parallel in the Covid-19 crisis but there has been some divergence since August. Most countries saw the manufacturing PMI dip in November although the Netherlands (along with Ireland) is an exception to this. In the latest reading, both France and Spain (and Greece) were below 50 indicating a contraction in activity in the manufacturing sector.

It is also noticeable how it was Germany that led the weakness in the Euro-zone PMI that we saw in the previous slide during 2019 but is now leading the way.

Other European PMI's



Source: IHS Markit

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Unlike the Euro-zone, most of the other European countries saw an improvement in November, although Russia and Turkey were the exceptions here.

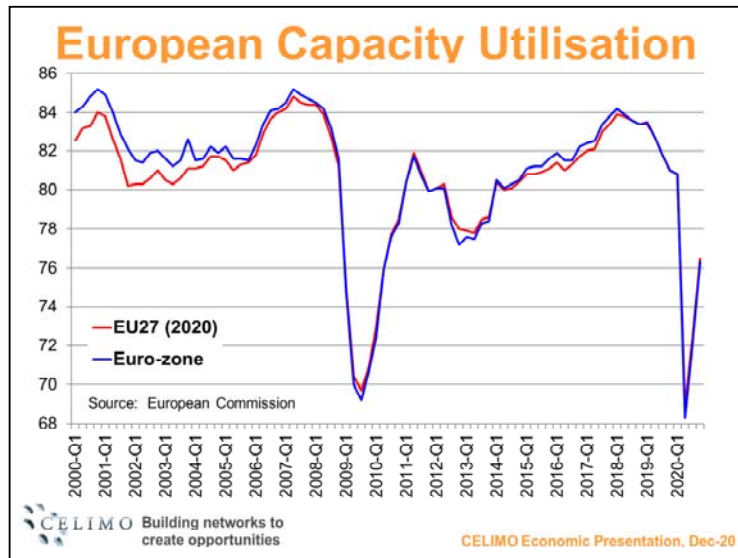
The PMI readings for Russia is the only one in this region where the manufacturing PMI is in negative territory.

European Business Climate

- The European Commission's Economic Sentiment Indicator is recovering ...
- ... but industry confidence remains weak
- Euro-zone PMI weakened in November but other European countries improved
- **Capacity utilisation has recovered some of the lost ground**

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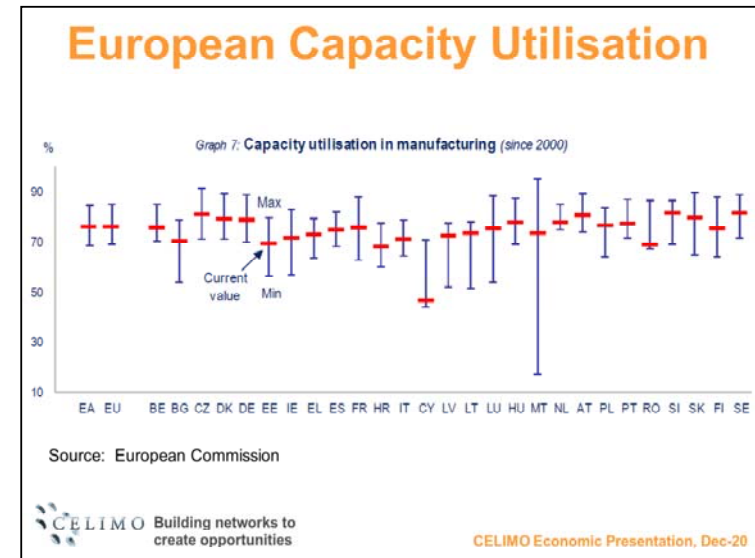
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Capacity utilisation rates fell sharply in the April survey (covering the situation at the end of Q1) but have recovered some of the lost ground in the following two reports.

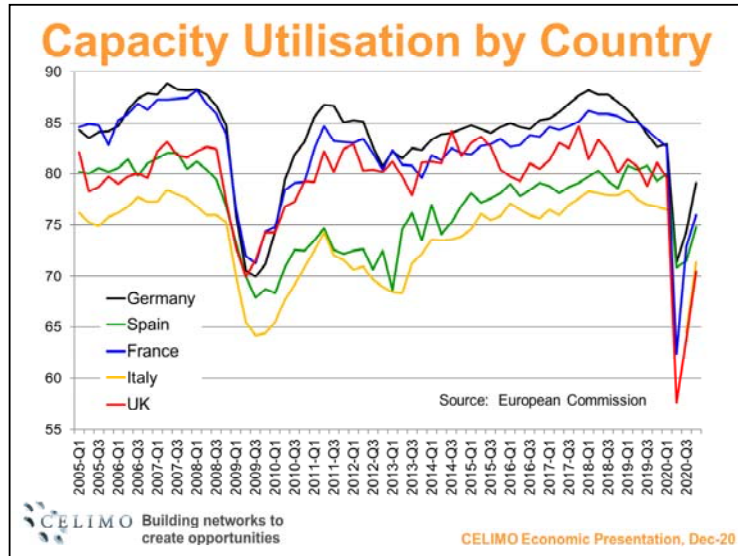
The rates fell to a point a little lower than in the financial crisis but – so far at least – the recovery has been quicker and sharper.

Note: Data for Q4 refers to the surveys published in October, but which was data collected about the situation in the 3rd quarter - the time periods are, in effect, moved on 1 quarter.



The capacity utilisation rates for most countries are in the lower part of the range for most countries despite two periods of recovery from the low point in the April 2020 surveys.

A reminder that direct comparisons between countries are not valid, but this overview does give a useful indication of where countries are in the cycle. It shows the maximum, minimum and current levels (Q4-19) – for example, while the absolute levels in Bulgaria look to be lower than in Belgium and Czechia (either side of Bulgaria in the chart), they are at a higher point in the scale of the historical range for Bulgaria while the other two are in the lower half of their range.



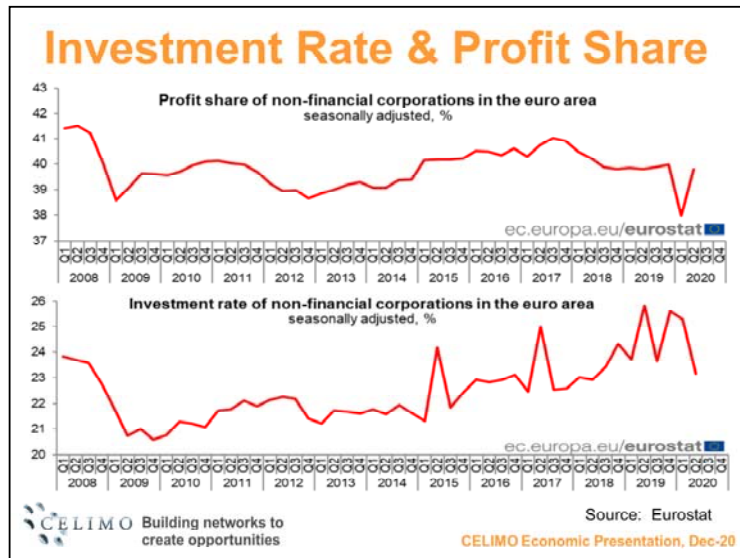
Similarly, the comparison on this chart only works horizontally within each country.

However, it is clear that the fall in the capacity utilisation rate in Germany and Spain was only to the same level as in the financial crisis while France, Italy and the UK saw utilisation fall to a much lower point than in the previous downturn.

European Business Climate

- The European Commission's Economic Sentiment Indicator is recovering ...
- ... but industry confidence remains weak
- Euro-zone PMI weakened in November but other European countries improved
- Capacity utilisation has recovered some of the lost ground
- **Investment and profits ratios have fallen in the Coronavirus crisis**

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Both of these series have been distorted in recent periods, so it is hard to separate the impact of Covid-19 from the unwinding of these special factors.

The spikes in the investment rate (gross fixed capital formation divided by gross value added) in Q2-2019, Q4-2019 and Q1-2020 (and the two earlier periods) were related to large imports of intellectual property reflecting globalisation effects.

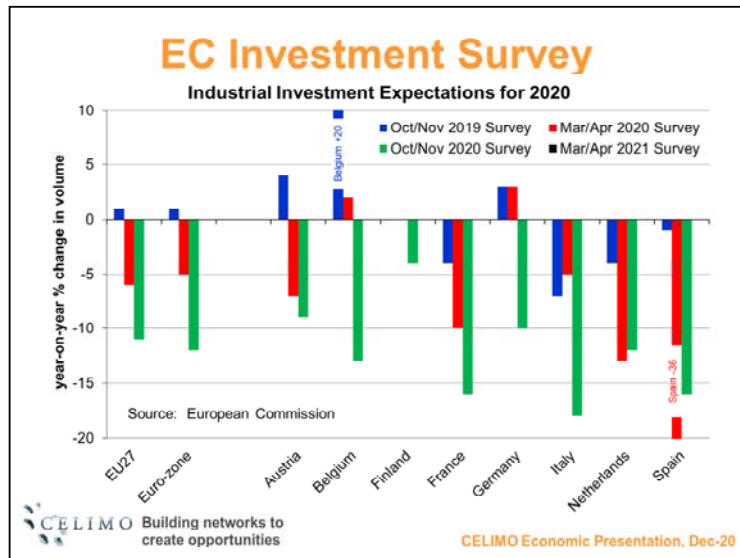
The recovery in data for the profit share (gross operating surplus divided by gross value added) in Q2-20 comes because compensation of employees fell faster than business value added.

Note: Eurostat only publish this data for the Euro-zone and Q2-20 is the latest data point

European Business Climate

- The European Commission's Economic Sentiment Indicator is recovering ...
- ... but industry confidence remains weak
- Euro-zone PMI weakened in November but other European countries improved
- Capacity utilisation has recovered some of the lost ground
- Investment and profits ratios have fallen in the Coronavirus crisis
- **Only a modest recovery in investment is expected in 2021**

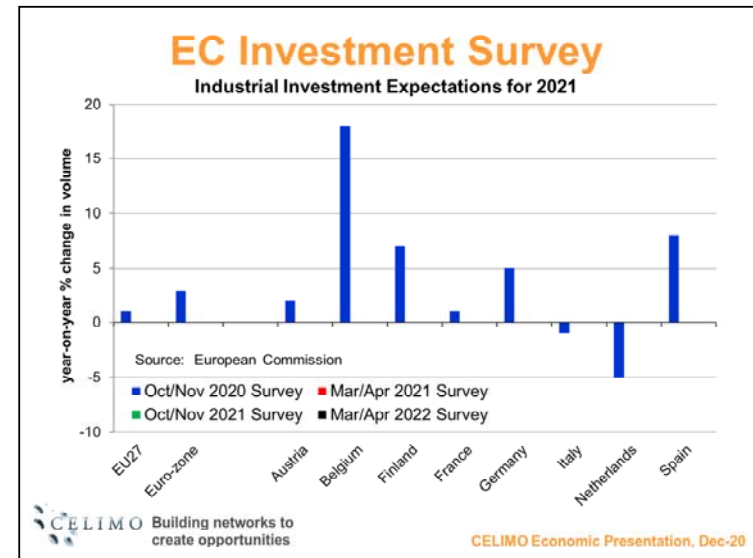
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According to the bi-annual investment survey carried out for the European Commission, the overall assessment of the investment trend for 2020 has weakened since the Spring survey - this is, perhaps, not surprising given the development of the current crisis.

The only exceptions to this were Spain and Netherlands where, although the expectations remain very weak, they are less so in the Spring - it is worth noting however that these were the two most pessimistic countries in the Spring survey.

As this is a European Commission project, we don't have any data for Switzerland or Turkey. Other EU countries have been excluded from the chart to make it easier to read.



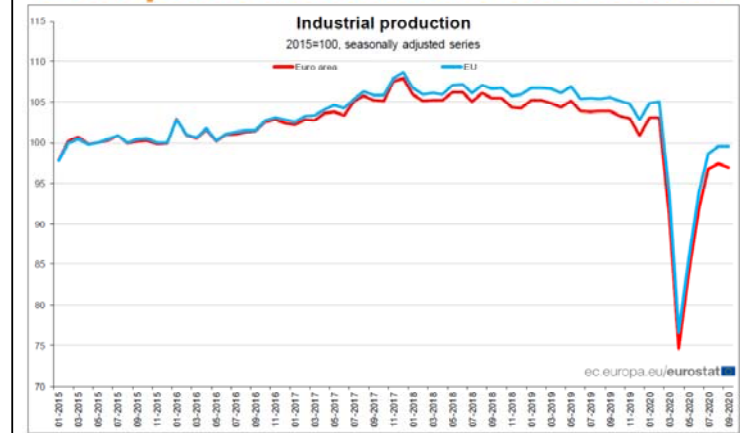
The Autumn survey is the first to give an indication for 2021 and while these are mostly positive, only the perhaps unrealistic expectations in Belgium even come close to reversing the declines we saw this year.

Investment expectations remain negative for 2021 in Italy and the Netherlands.

European Industrial Output

- Total industrial production fell sharply in March, April and May but has recovered some of the lost ground

European Industrial Production



Total industrial production fell sharply from March to May 2020 and although this was followed by a recovery, this appears to have petered out in the last month or two (the latest data is September). This levelling off (a small downturn for the Euro-zone) is at broadly the level we saw through 2015 and is some way below the pre-Covid crisis levels.

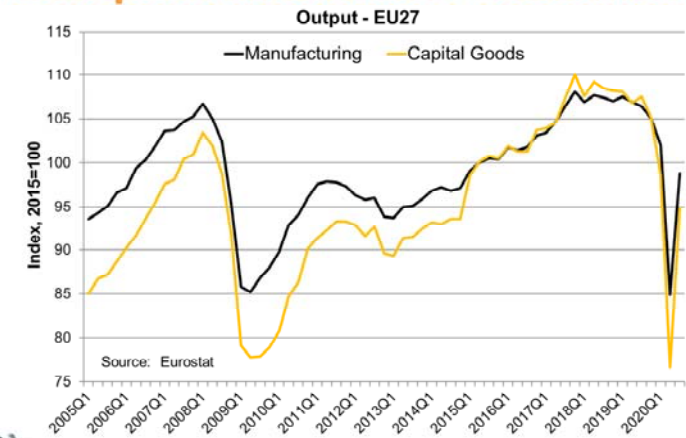
The recent data series, before and during the recovery shows a slightly better performance for the EU when compared to the Euro-zone.

Note: Industrial Production covers manufacturing (this is the largest part), utilities (electricity, water, etc.) and extraction (mining, oil & gas, etc.).

European Industrial Output

- Total industrial production fell sharply in March, April and May but has recovered some of the lost ground
- **The Capital Goods industries have a larger downturn than manufacturing overall**

European Industrial Production



Capital goods output had already been falling since the middle of 2018 and this sub-sector has seen a larger fall than for total manufacturing.

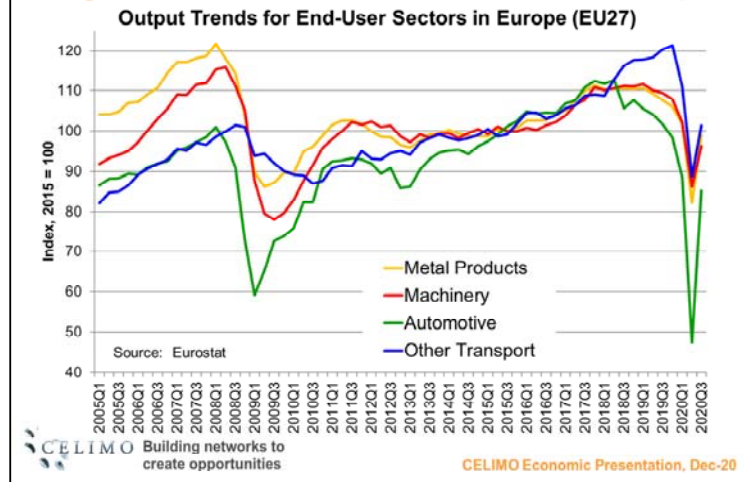
The low point of the cycle in the 2nd quarter of 2020 is at about the same level as in the financial crisis in 2009 for both manufacturing overall and the sub-set of capital goods.

It is equally noticeable, however, that the recovery has been much quicker than in that earlier crisis

European Industrial Output

- Total industrial production fell sharply in March, April and May but has recovered some of the lost ground
- The Capital Goods industries have a larger swing than manufacturing overall
- **The Automotive industry has taken the biggest hit and was well below the level in Q1-2009 ...**
- **... while the recovery for Aerospace is likely to be the weakest**

Key End-User Markets in Europe



The Automotive industry has been hit hardest in the current crisis, with output bottoming out well below the low point of the financial crisis in Q1-2009.

The largest part of the “Other Transport” industry is the Aerospace industry and output here was growing strongly up to the end of 2019. However, given the collapse in global air travel, the recovery for this industry is likely to take longer as we will see shortly.

The Machinery and Metal Products industries have taken a relatively small hit compared to the others in this analysis. However, the Machinery industry in particular is most affected by the investment trend, so recovery here is likely to be slow as well.

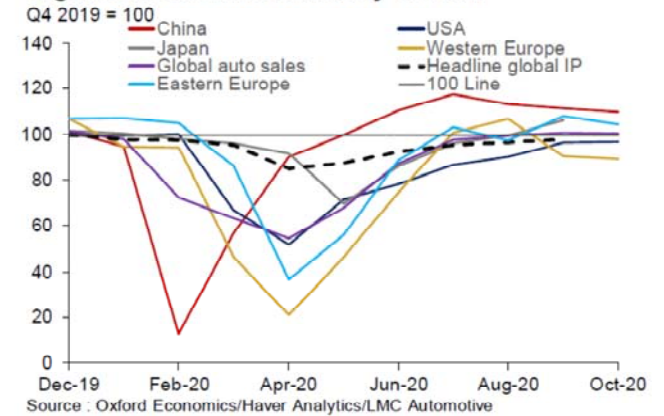
The Q2-20 output level for the Metal Products industry was the only other one that was also below the previous low point.

Key End-User Industries

- The automotive industry is recovering although this is still some way from being declared complete

Car sales are recovering (mostly) ...

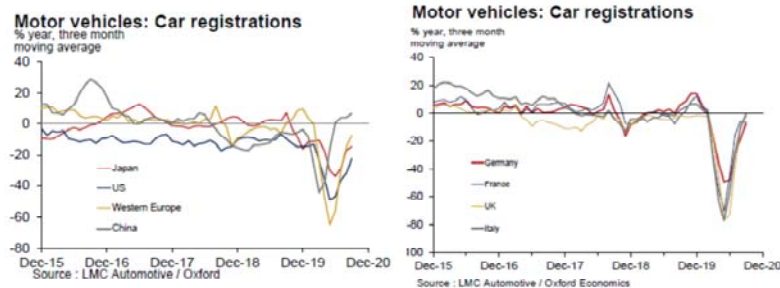
Light vehicle sales recovery tracker



Although car sales (the US definition is slightly different, hence the use of the term “light vehicles”) are recovering towards the level recorded in the final quarter of 2019, the total market figures for 2020 will be at low levels as none the countries/regions (even China) have seen the lost sales of earlier in the year made up.

From our perspective, there is also the question of a product shift towards “electric” vehicles. For example, in the UK, sales of diesel engine cars falling from one-quarter of the market in 2019 to only one-sixth in 2020 and petrol engine cars are down from 65% of the market to 58%. “Electric” vehicles of various types (but mostly hybrids) have gone from less than 10% of the market in 2019 to just over 25% in the first nine months of 2020.

... with Germany relatively strong but ...



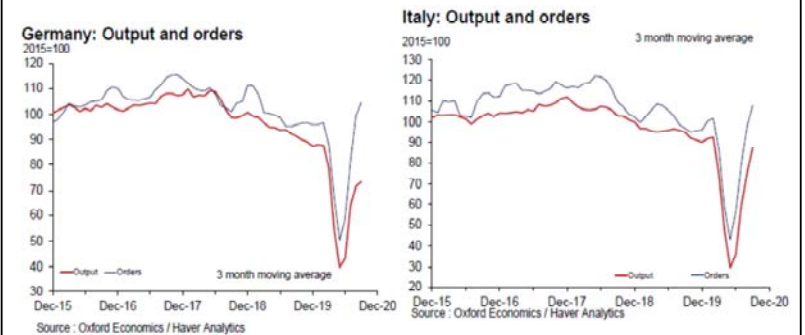
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Car registrations well by the largest percentage in Western Europe, although this partly reflects the strength in the market at the end of 2018.

Most of the major markets saw similar reductions, although the percentage fall in Germany was less than in the others.

... output still below pre-crisis levels



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For our industry, and especially tooling suppliers, it is output that is the most interesting trend.

These charts show that orders in the automotive industry in both Germany and Italy are back above pre-Covid levels (although not quite to the peaks we saw in 2017); however, some of this may be the natural bounce from the downturn.

Output levels still have some way to go in recovering the ground lost earlier in the year, especially in Germany

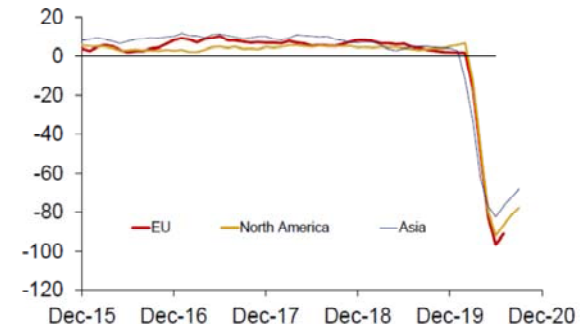
Key End-User Industries

- The automotive industry is recovering although this is still some way from being declared complete
- **The aerospace industry has met the perfect storm in Covid-19 to add to the problems at Boeing**
 - Global air travel has collapsed ...
 - ... and output will take a long time to recover

Air travel falls sharply ...

Global passenger traffic

% year, three month moving average

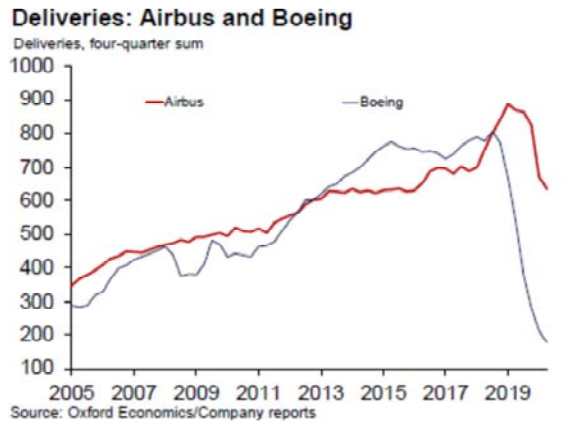


Source: IATA

Following a sustained period of growth, air passenger traffic fell off a cliff in the face of Covid-19.

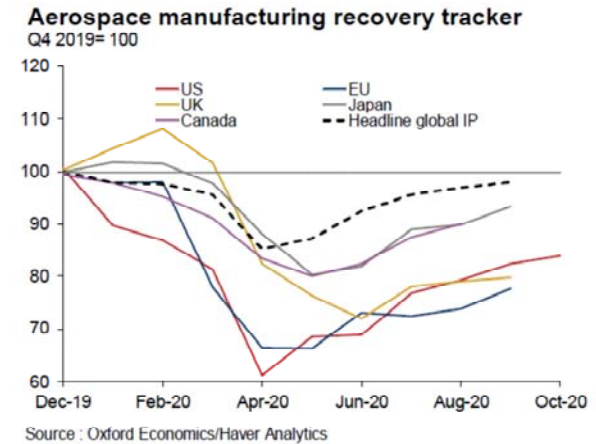
This has only partly been off-set by an increase in freight traffic, although even this was hit in the initial stages of the current crisis.

... on top of the problems at Boeing ...



The impact of the problems with the Boeing 737MAX aircraft are evident in the Boeing deliveries data – the single aisle, narrow-body aircraft have always made up the bulk of the business compared to long-haul, wide-body planes, in both unit numbers and value.

... so output is recovering slowly



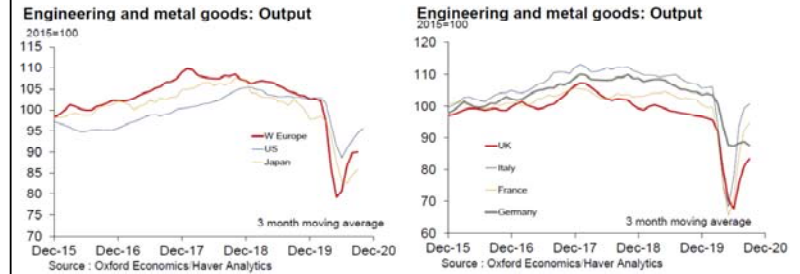
Compared to the equivalent chart we saw earlier for the automotive industry, none of the major manufacturing countries/regions are even close to being back to the levels of output that were recorded in the 4th quarter of 2019.

We are likely to see some odd numbers for the USA over the coming months now that the 737MAX has been cleared to fly again (at least in the USA); it will be interesting to see how quickly the completed but undelivered aircraft can be got off the ground and in the hands of the customers. However, this is something of a known-unknown, especially with regard to how it will be treated statistically.

Key End-User Industries

- The automotive industry is recovering although this is still some way from being declared complete
- The aerospace industry has met the perfect storm in Covid-19 to add to the problems at Boeing
 - Global air travel has collapsed ...
 - ... and output will take a long time to recover
- **The recovery in the Engineering and metal products industry is mixed with Germany noticeably weak**

Engineering output is down sharply ...



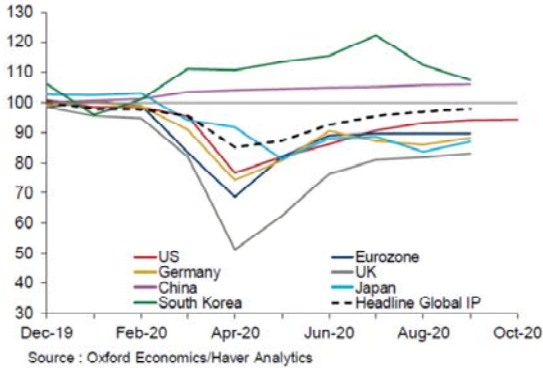
Output in the engineering (electrical and mechanical) and metal goods industries fell most sharply in Western Europe; The timing of this decline was also a little ahead of both Japan and the USA.

In Europe, the fall in output in Germany is less than for the other major producers, although it has yet to show and real signs of recovering there while the other countries, especially Italy, are not far short of pre-Covid levels.

... and the recovery is tailing off ...

Mechanical engineering recovery tracker

Q4 2019 = 100



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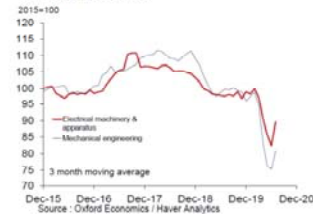
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Drilling down into some of the detail for the mechanical engineering (machinery) industry does show a sharp fall in output compared to the level at the end of 2019 and the latest figures suggest that the recovery has stalled.

For China, it is noticeable that there is a very different profile compared to the automotive industry, with almost no fall in output for mechanical engineering although, again, growth appears to have tailed off. South Korea is very much the “star” performer for this industry.

... with Italy seeing the best recovery

Germany: New orders



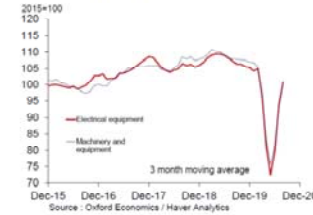
Source : Oxford Economics / Haver Analytics

Italy: New orders



Source : Oxford Economics / Haver Analytics

France: Industrial Turnover



Source : Oxford Economics / Haver Analytics

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The recovery in orders has been strongest in Italy and noticeably the weakest in Germany.

For France we only have turnover data, but this lies between the other two countries and given the time lags in these industries between orders and sales (turnover), it looks to be closer to the Italian experience of the recovery.

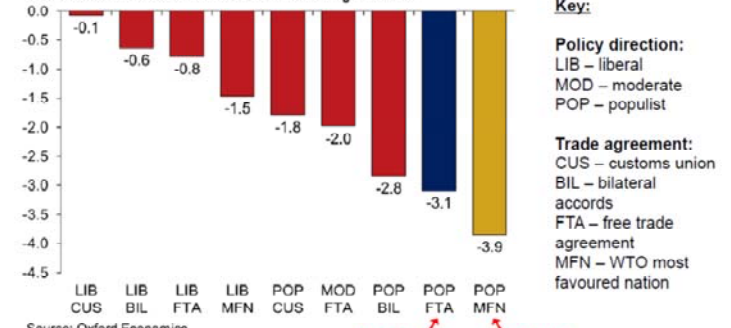
European Industrial Output

- Total industrial production fell sharply in March, April and May but has recovered some of the lost ground
- The Capital Goods industries have a larger swing than manufacturing overall
- The Automotive industry has taken the biggest hit and was well below the level in Q1-2009 ...
- ... while the recovery for Aerospace is likely to be the weakest
- **For the UK, the damage to its economy from Brexit is already “baked in” by the decision to leave the Single Market and the Customs Union**

The long-term damage is already donewhile most of the long-term damage is already done

UK: Long-term impact of Brexit on level of GDP

% difference in level of GDP relative to remaining in the EU



Source: Oxford Economics

In the after-math of the referendum, Oxford Economics developed nine scenarios for Brexit and looked at the impact they would have compared to the UK staying in the EU.

We are now at a point where only two options remain:

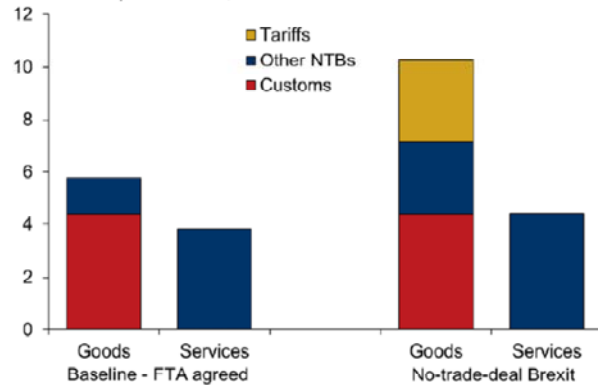
- a “thin” trade deal between the UK and the EU that while removing most tariff barriers would still leave some significant non-tariff barriers (NTBs)
- No trade deal, with trade on WTO terms

The decision to leave the single market and the customs union have left the UK facing the two worst options economically from the original list.

... and exporters face trade barriers ...

UK exports: EU tariff & NTB assumptions

Tariff/tariff-equivalent NTB, %



Source: Oxford Economics

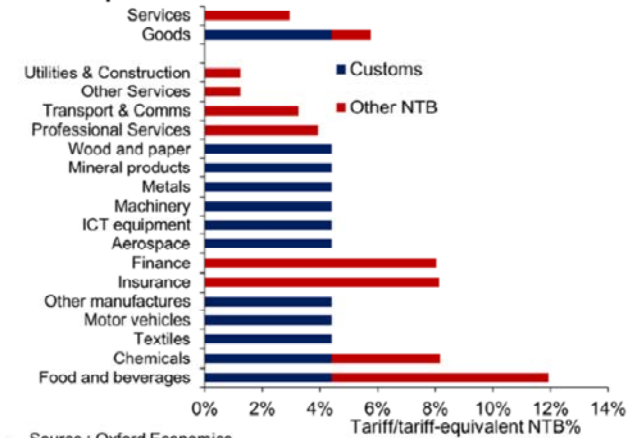
CELIMO Building networks to create opportunities

CELIMO Economic Presentation, Dec-20

Even with a trade deal, costs arising from customs requirements will increase for exporters of goods, although the other non-tariff barriers are a little less than for the services sector.

... to varying degrees

UK exports: Tariff and non-tariff barriers



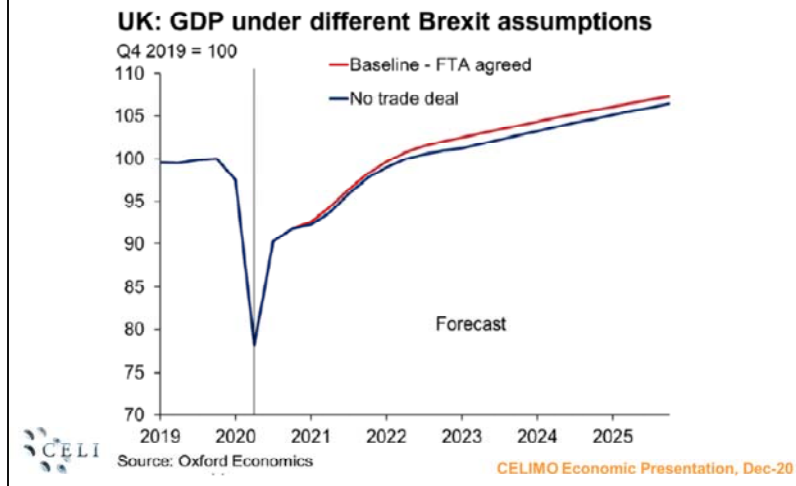
Source: Oxford Economics

CELIMO Building networks to create opportunities

CELIMO Economic Presentation, Dec-20

Generally, sectors which have higher degrees of regulation (such as chemicals for example) will face the highest costs from Brexit.

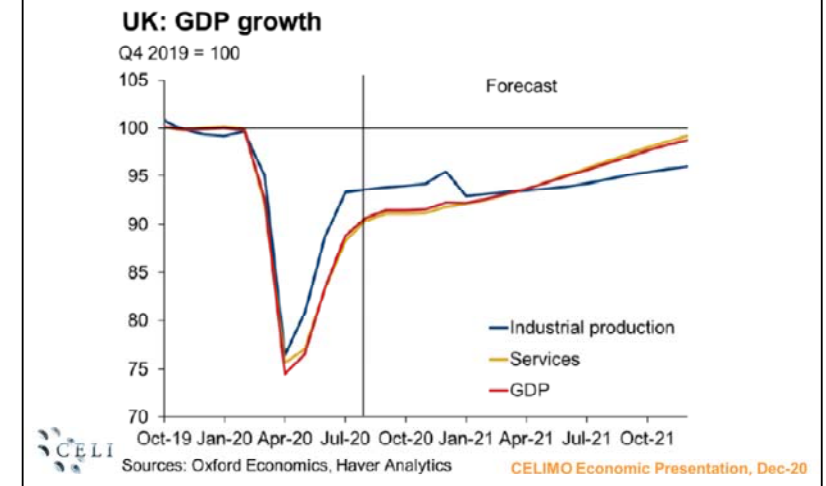
Brexit weakens the GDP recovery ...



The impact on the overall recovery is relatively limited but noticeable in the long-term - remember that the damage has already been done.

Note that these are only the comparisons between a deal or no-deal; all things being equal (which they never are of course) growth would be much stronger if the UK had not left the EU.

... and holds back manufacturing



Relative to the services sector, manufacturing in the UK has done less badly in the current crisis because it is less focused on social interaction which is the most affected by the Covid-19 outbreak.

However, that “advantage” will be eroded by the impact of Brexit and while the service sector and GDP overall will continue to grow modestly, industrial production (which includes extraction and utilities) is likely to be anaemic at best.

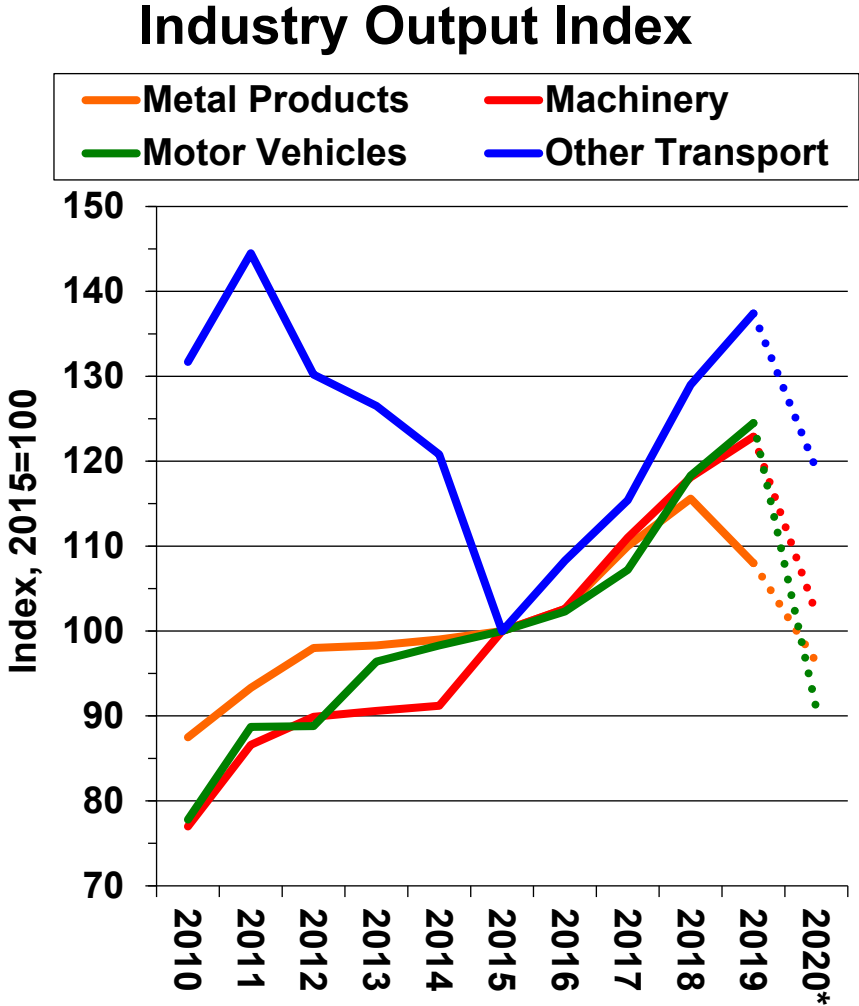
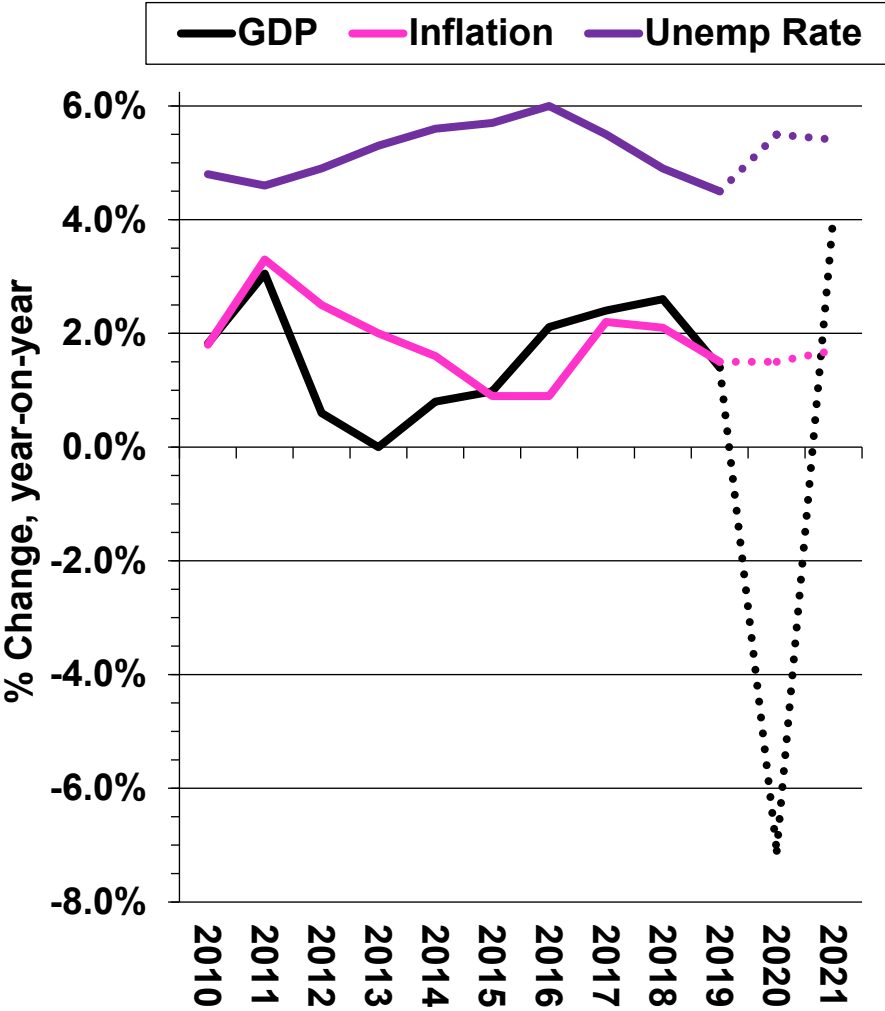
COUNTRY REPORTS

The introduction slide for each country shows macro-economic data and figures for output of 4 key industries.

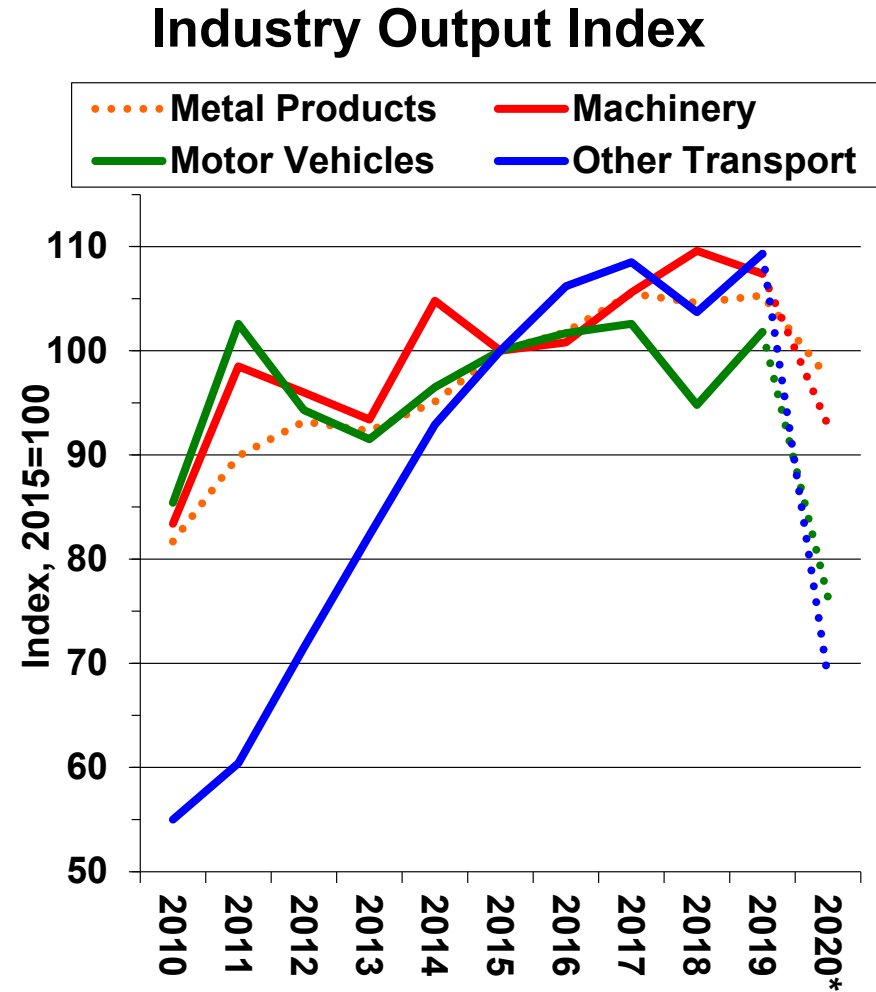
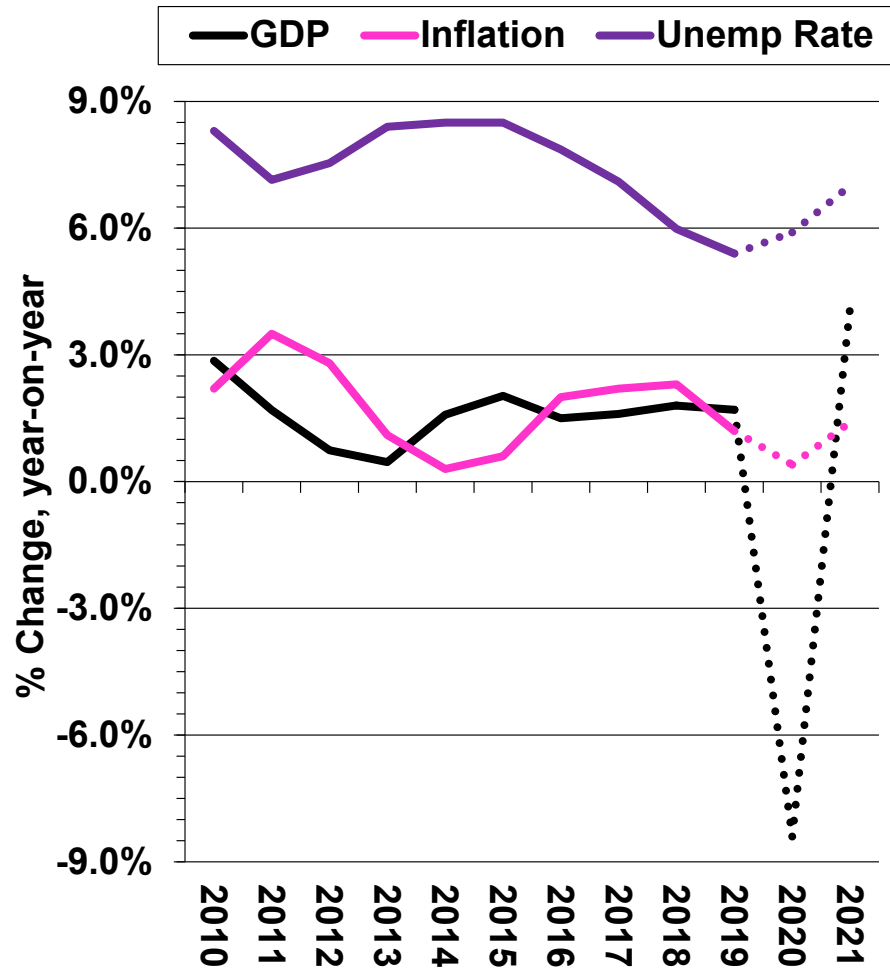
The industry data for 2020 refers to the average for the first 3 quarters of the year; the macro-economic figures for 2020 and 2021 are a forecast for the whole year published by the European Commission.



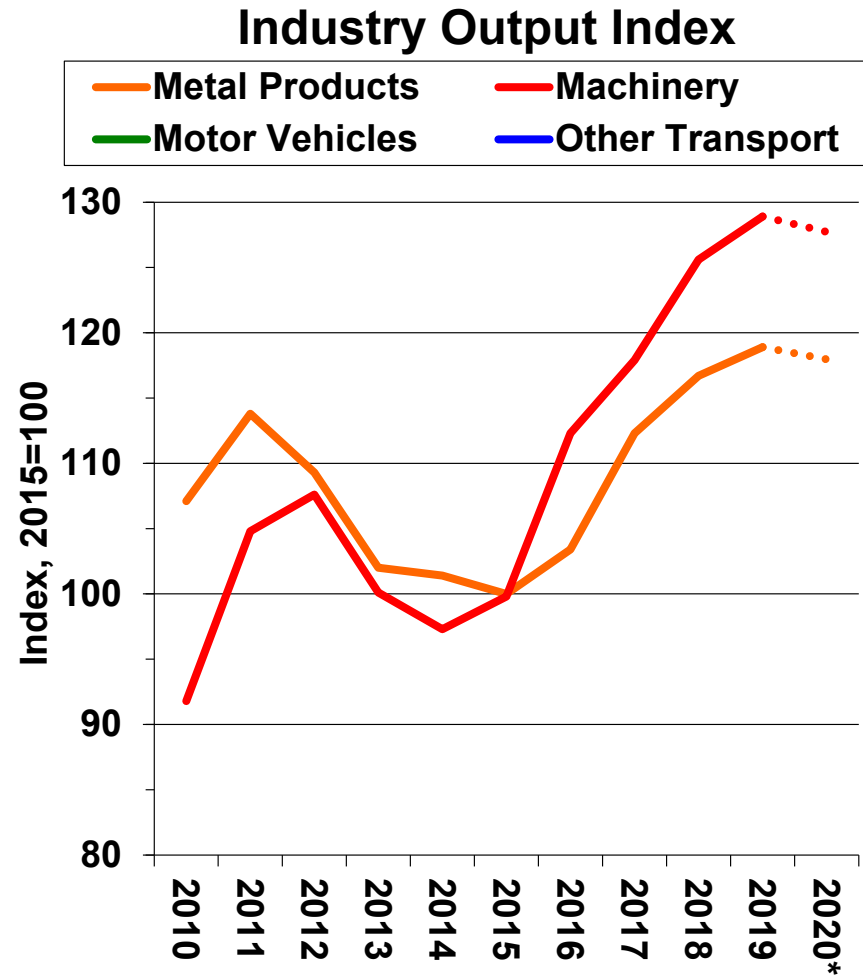
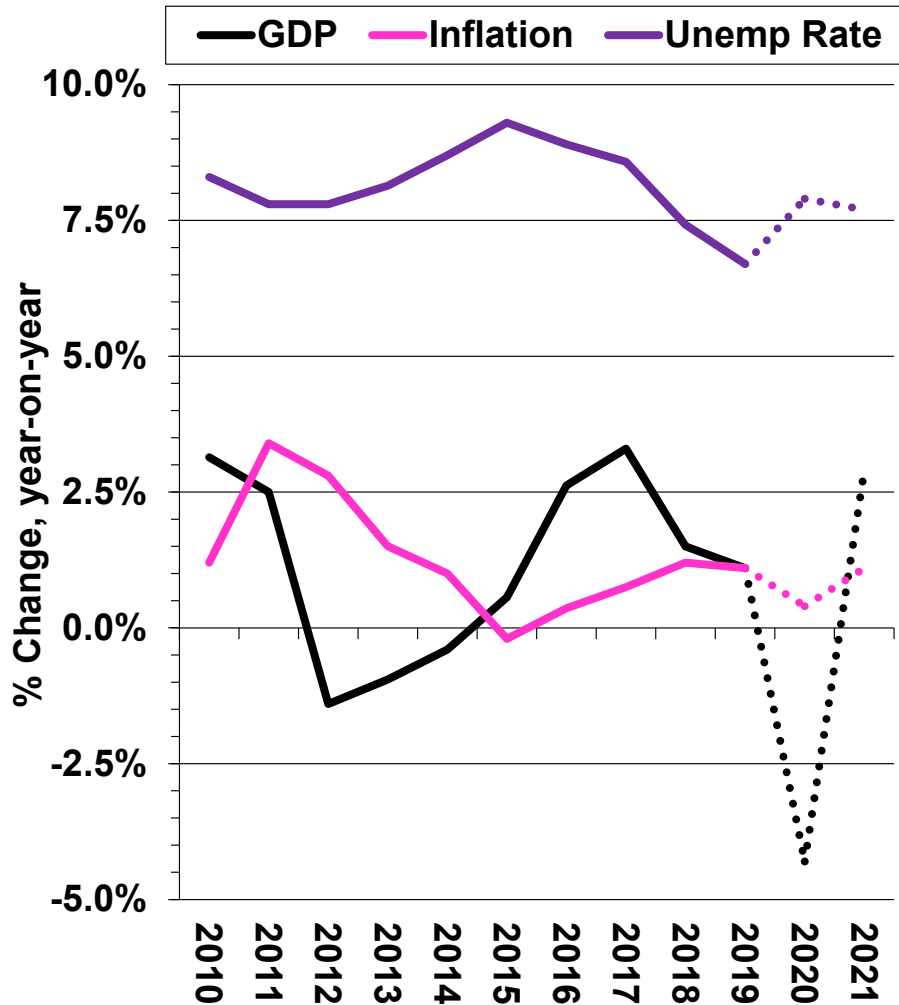
Austria



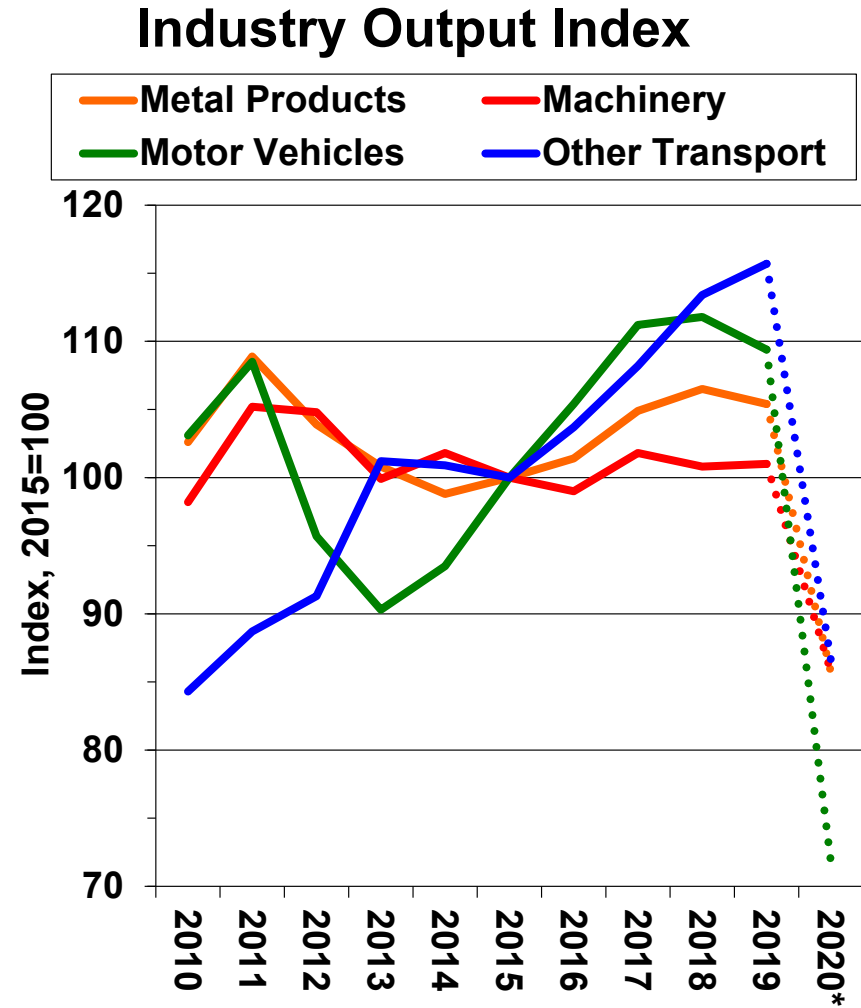
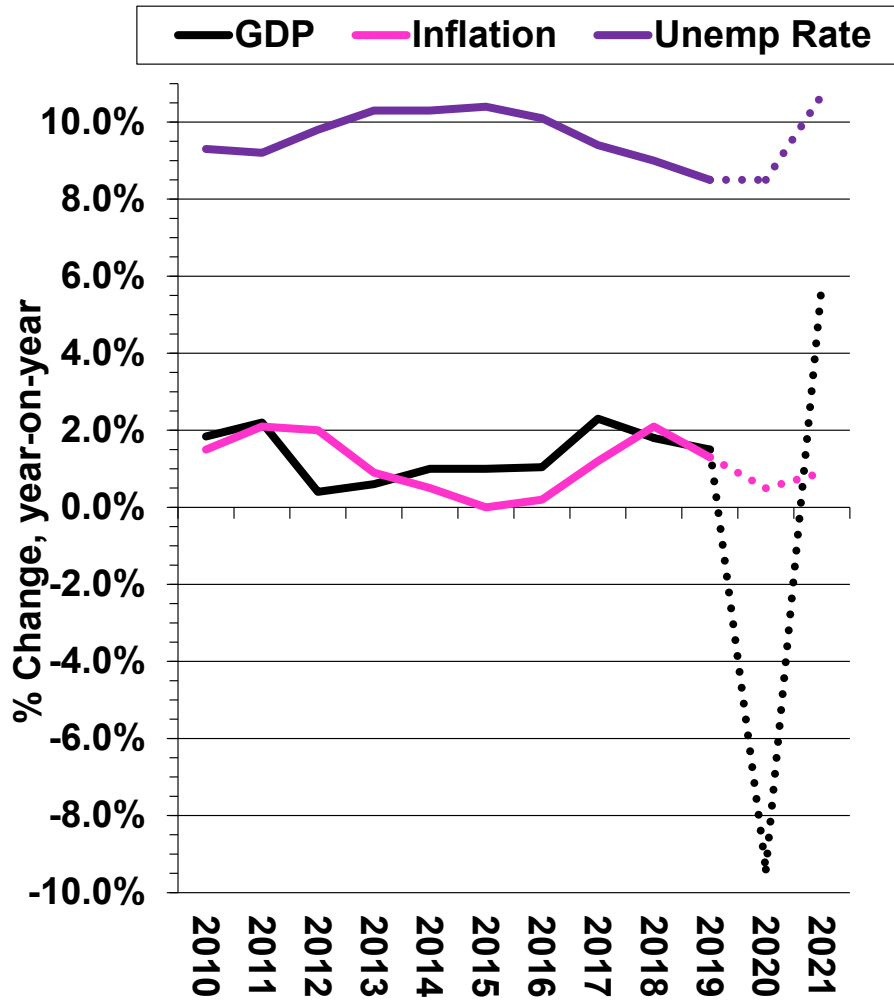
Belgium



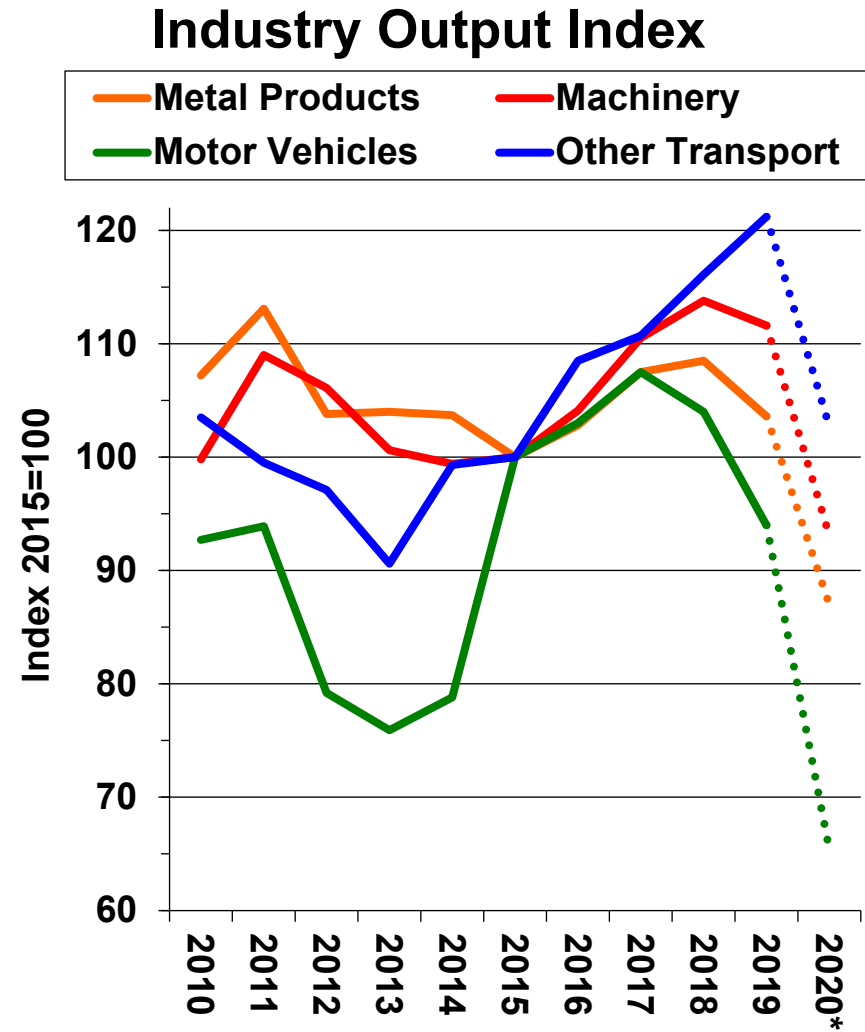
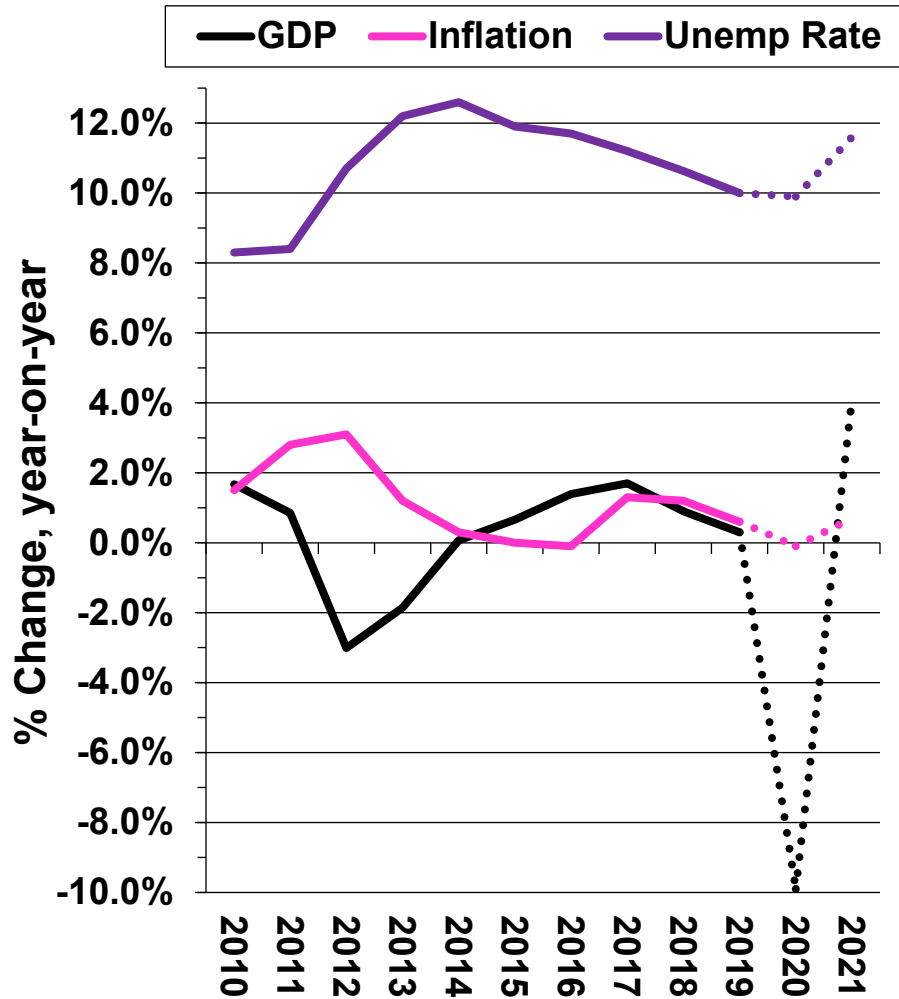
Finland



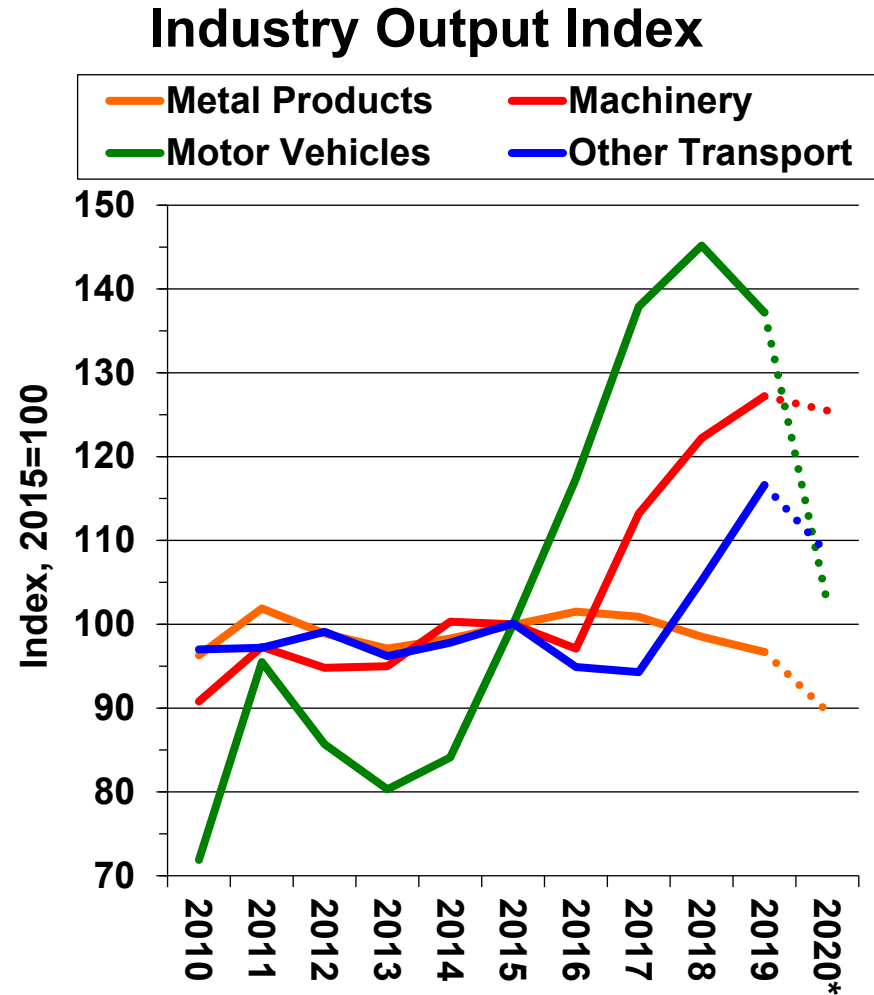
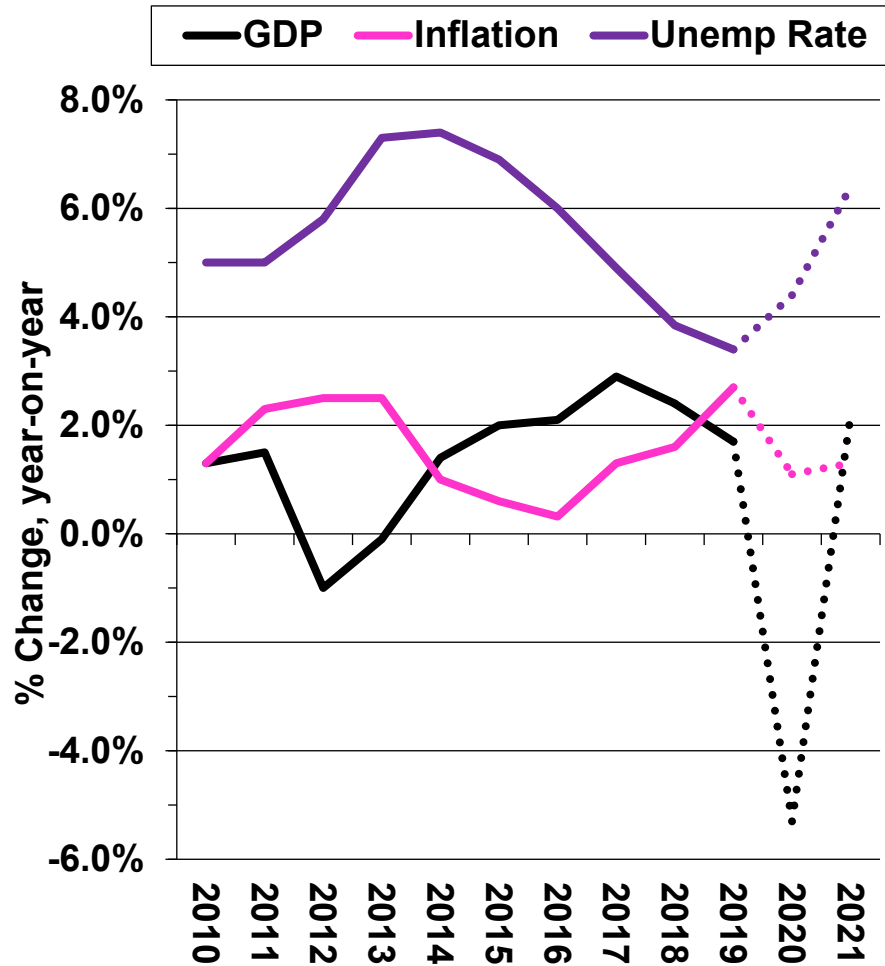
France



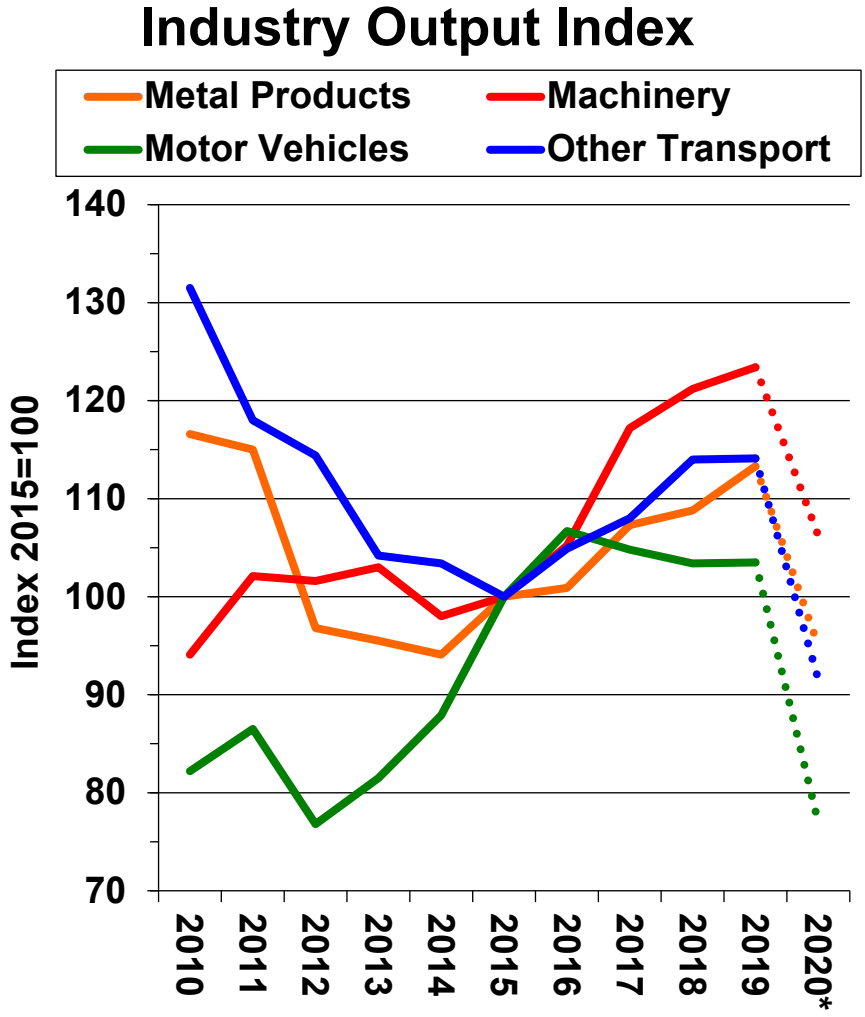
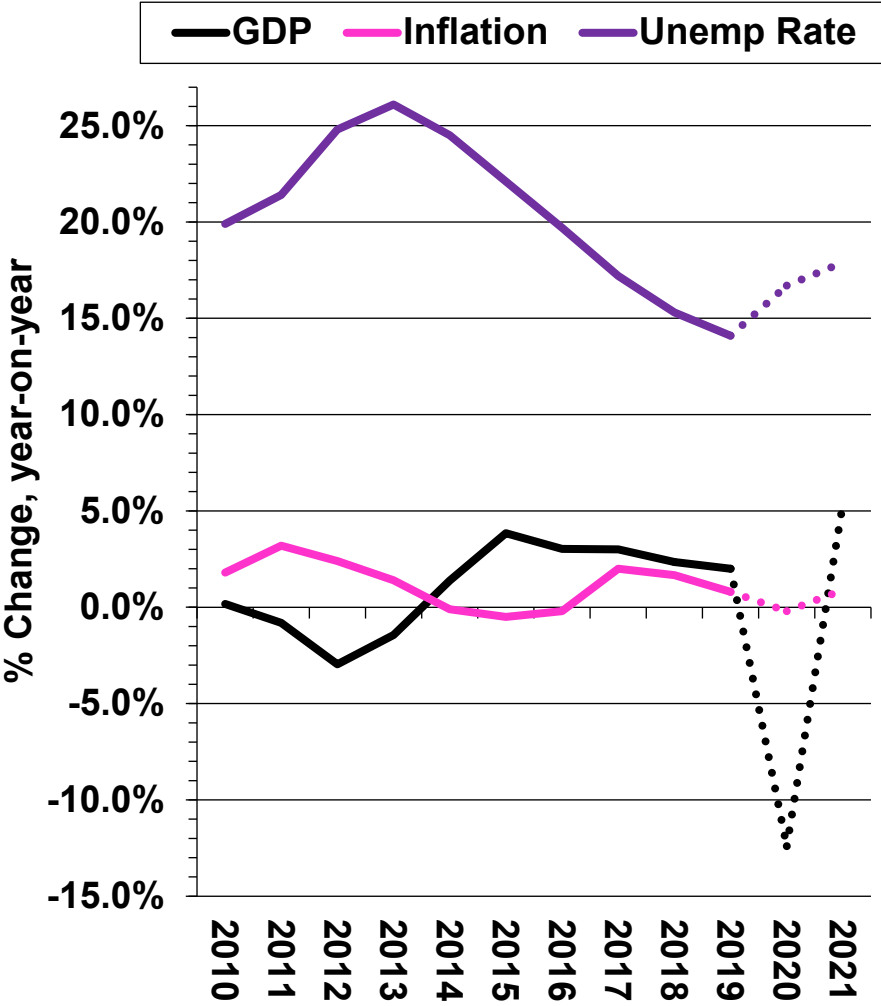
Italy



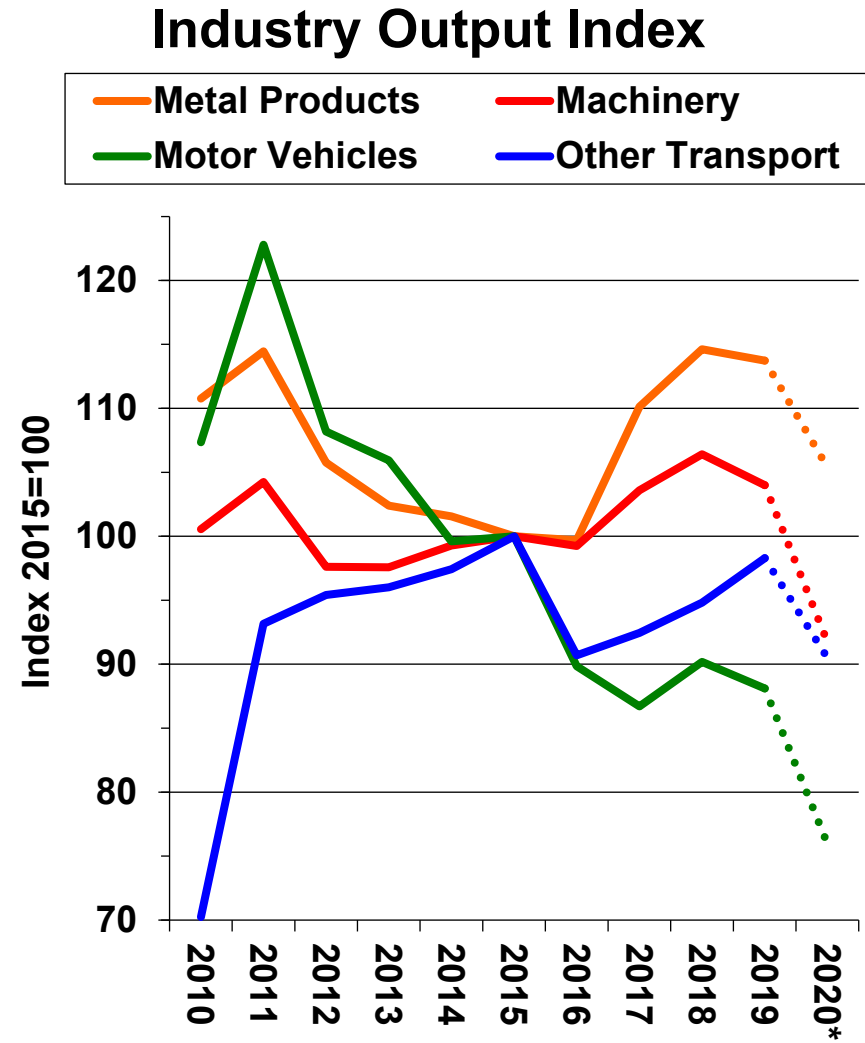
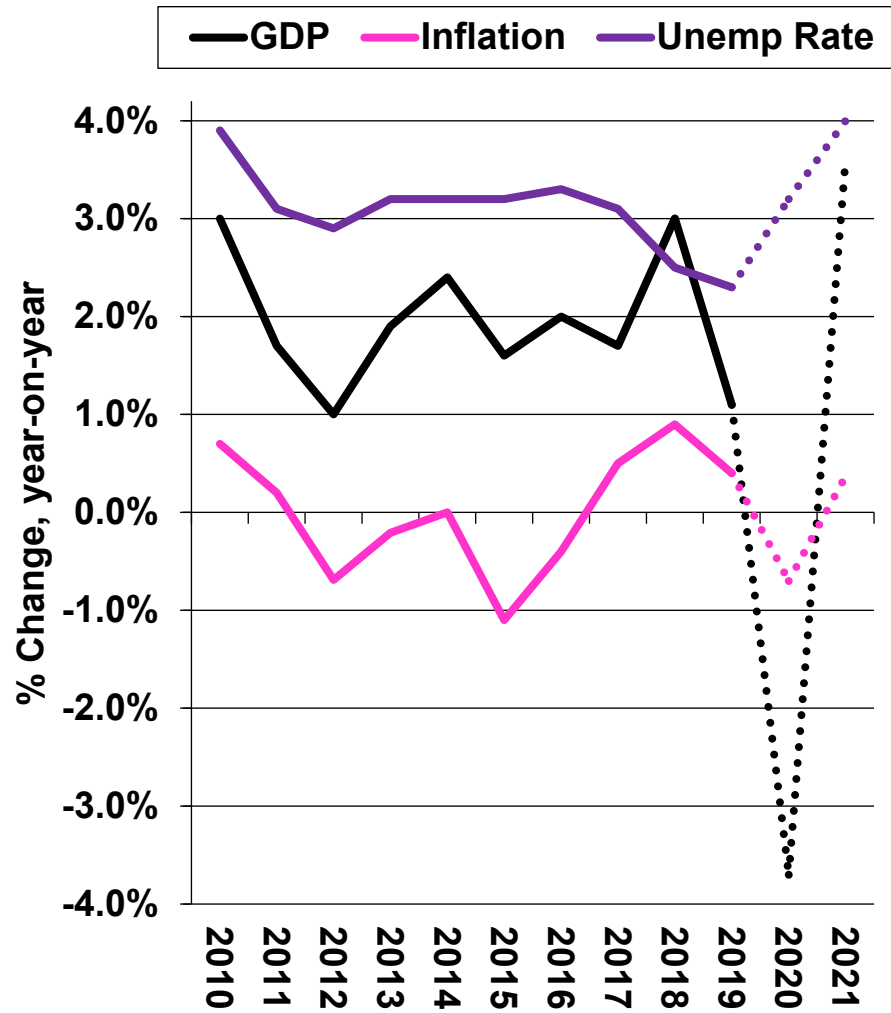
Netherlands



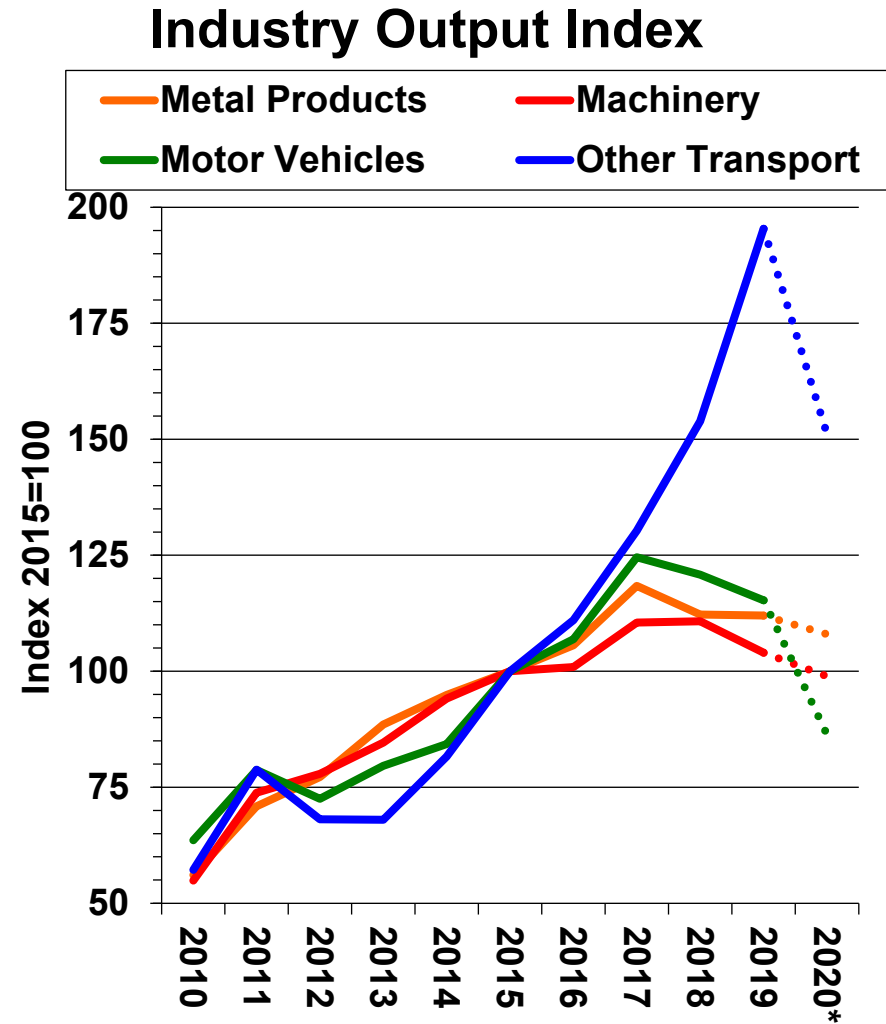
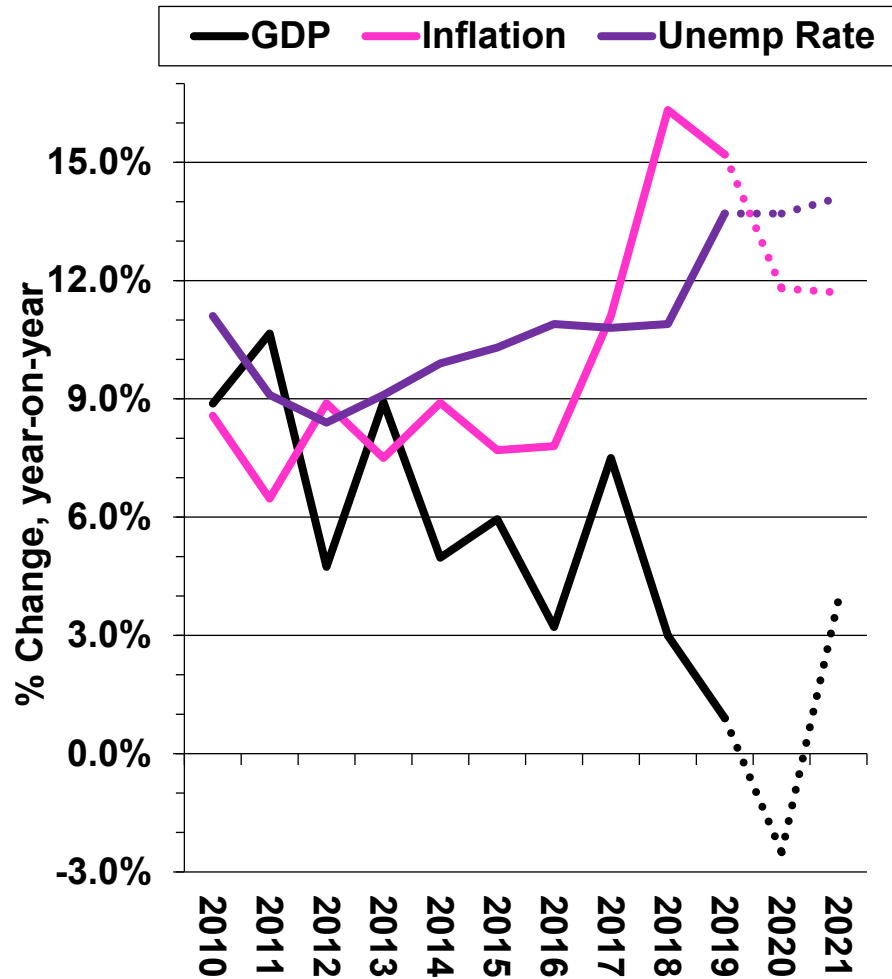
Spain



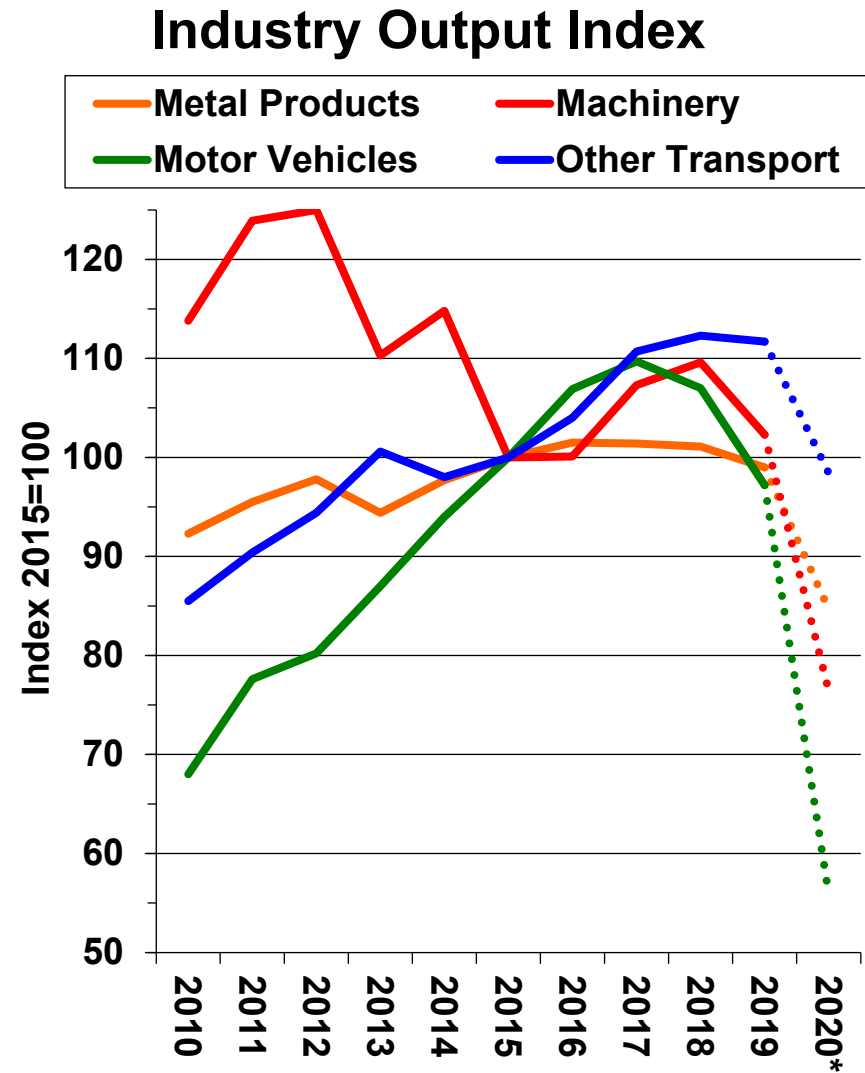
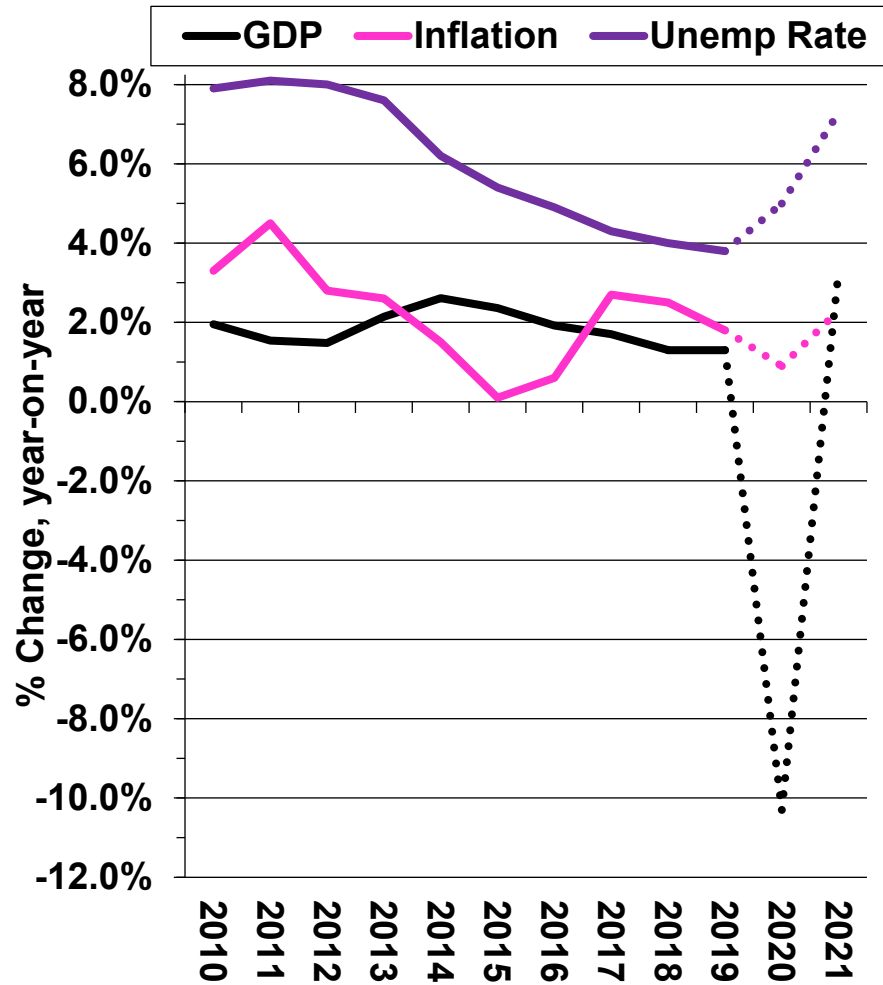
Switzerland



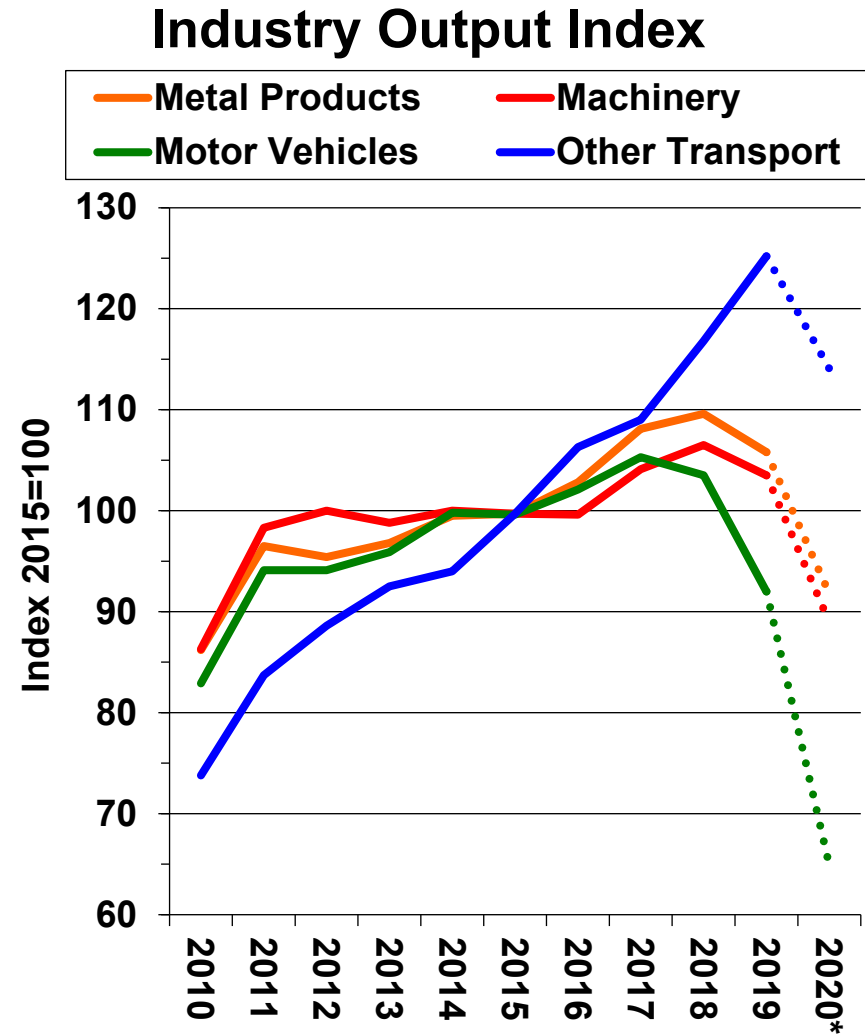
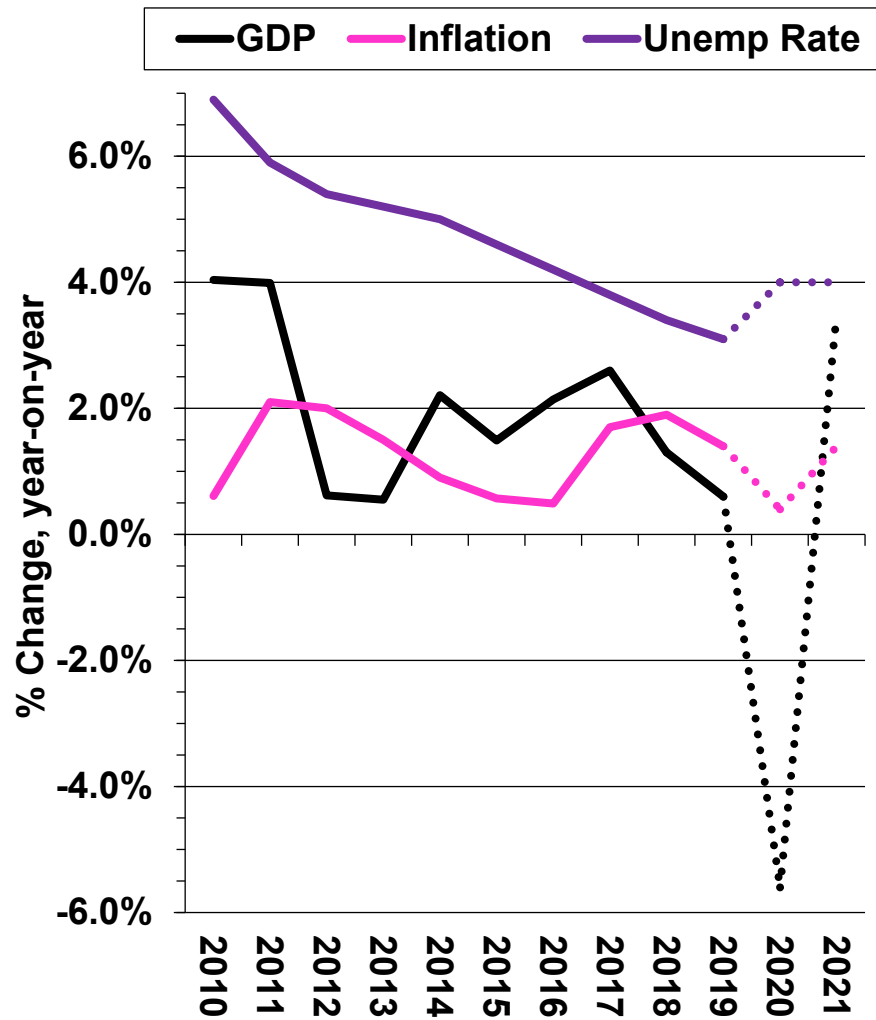
Turkey



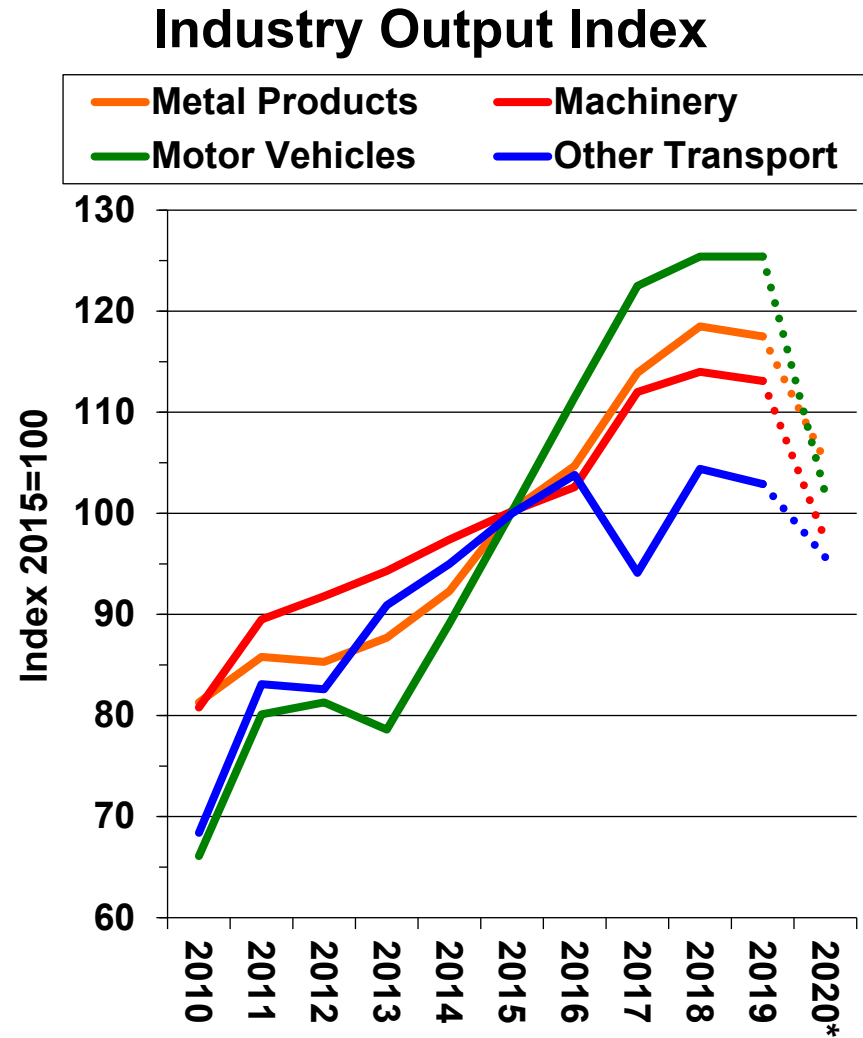
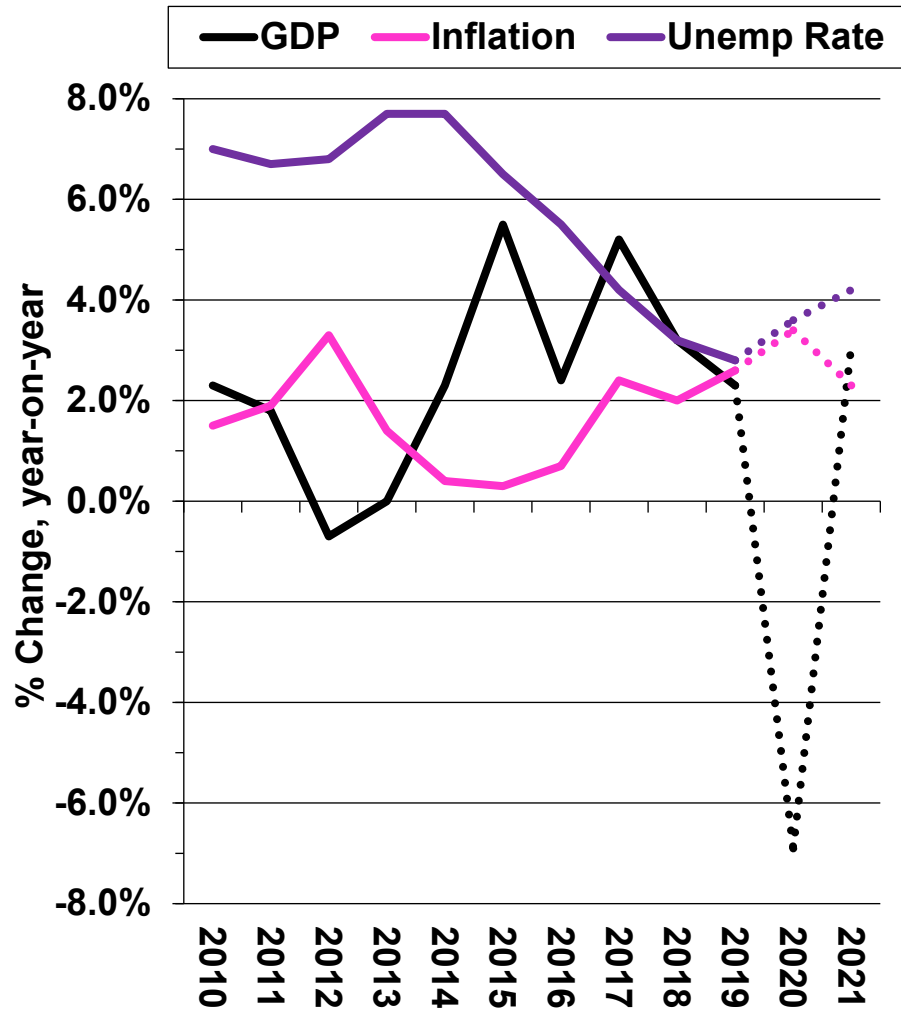
UK



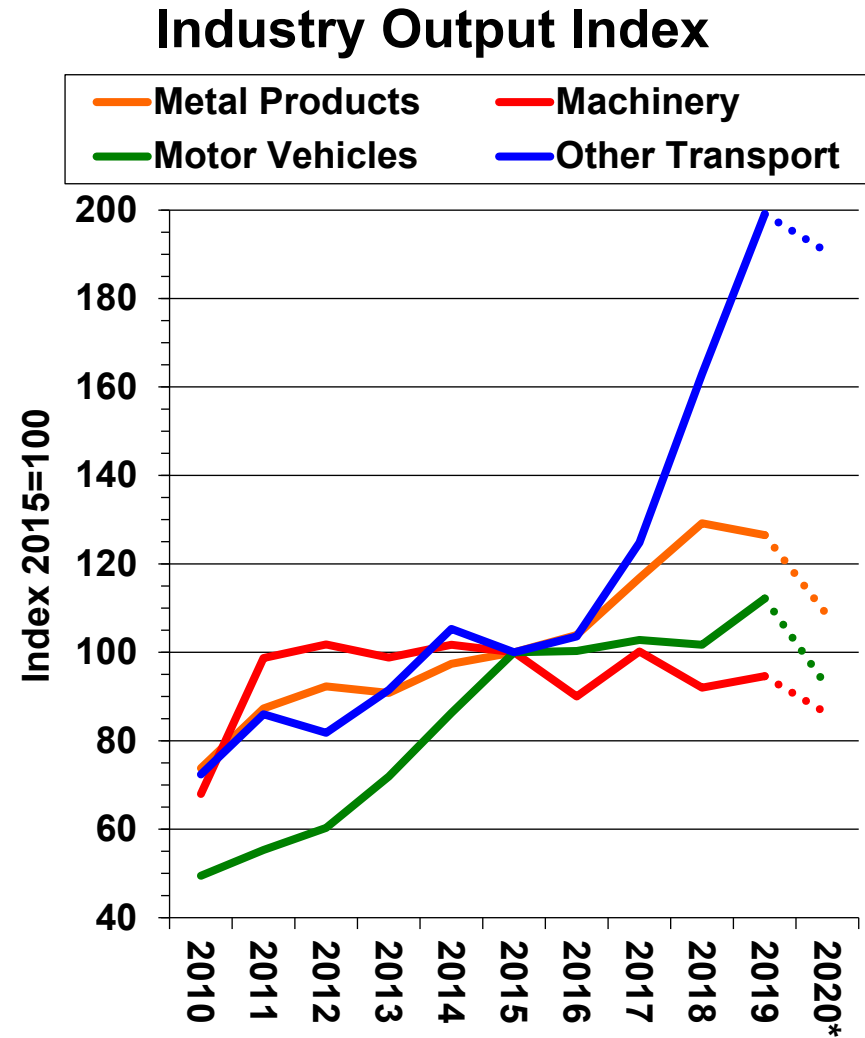
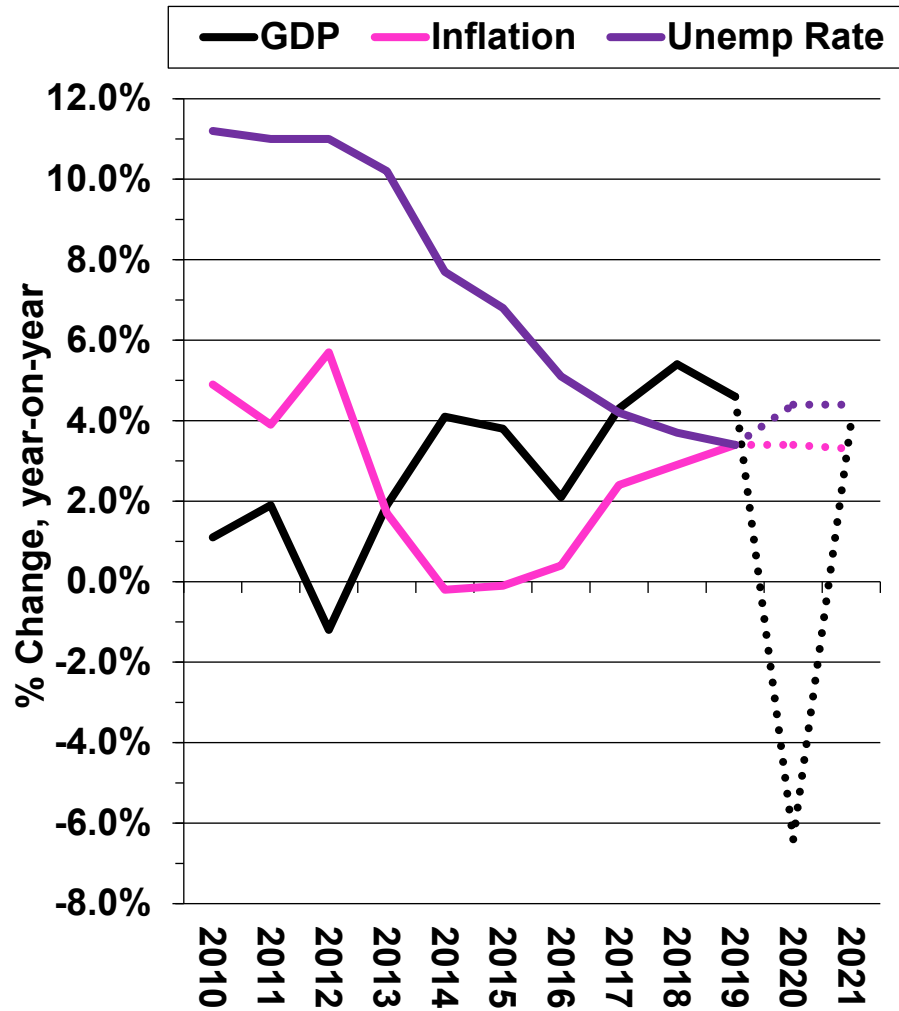
Germany



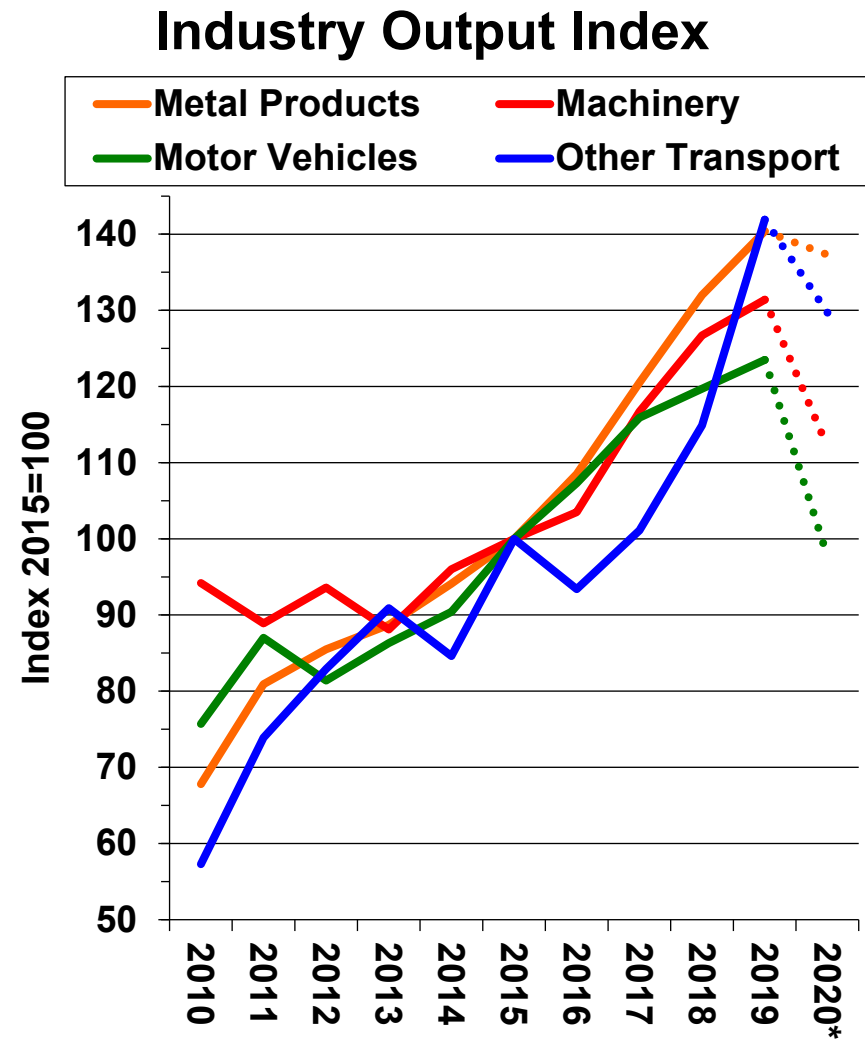
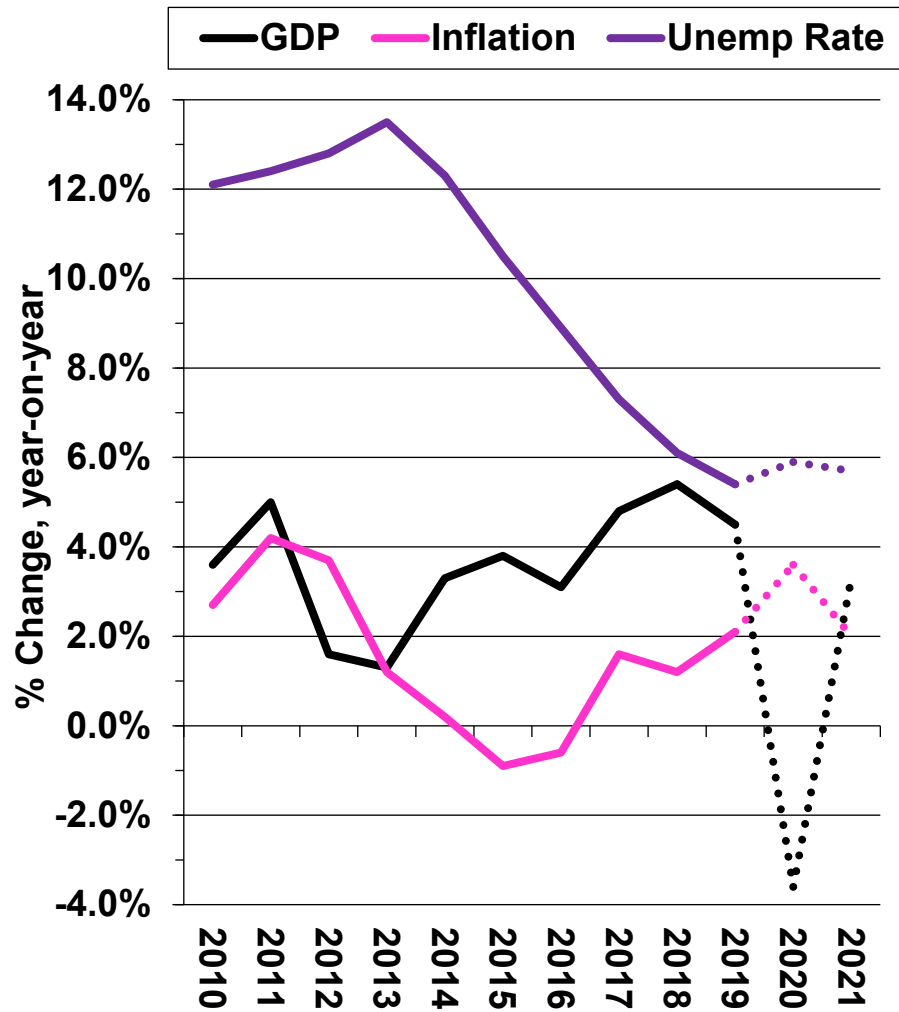
Czechia



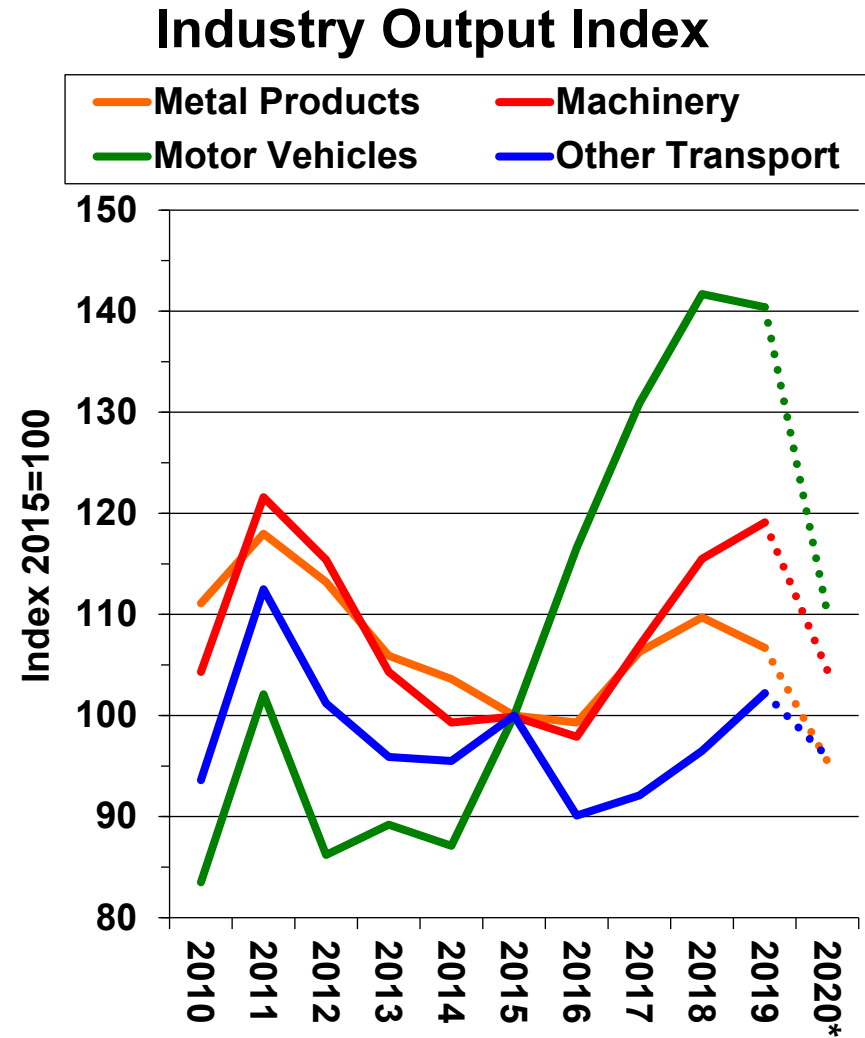
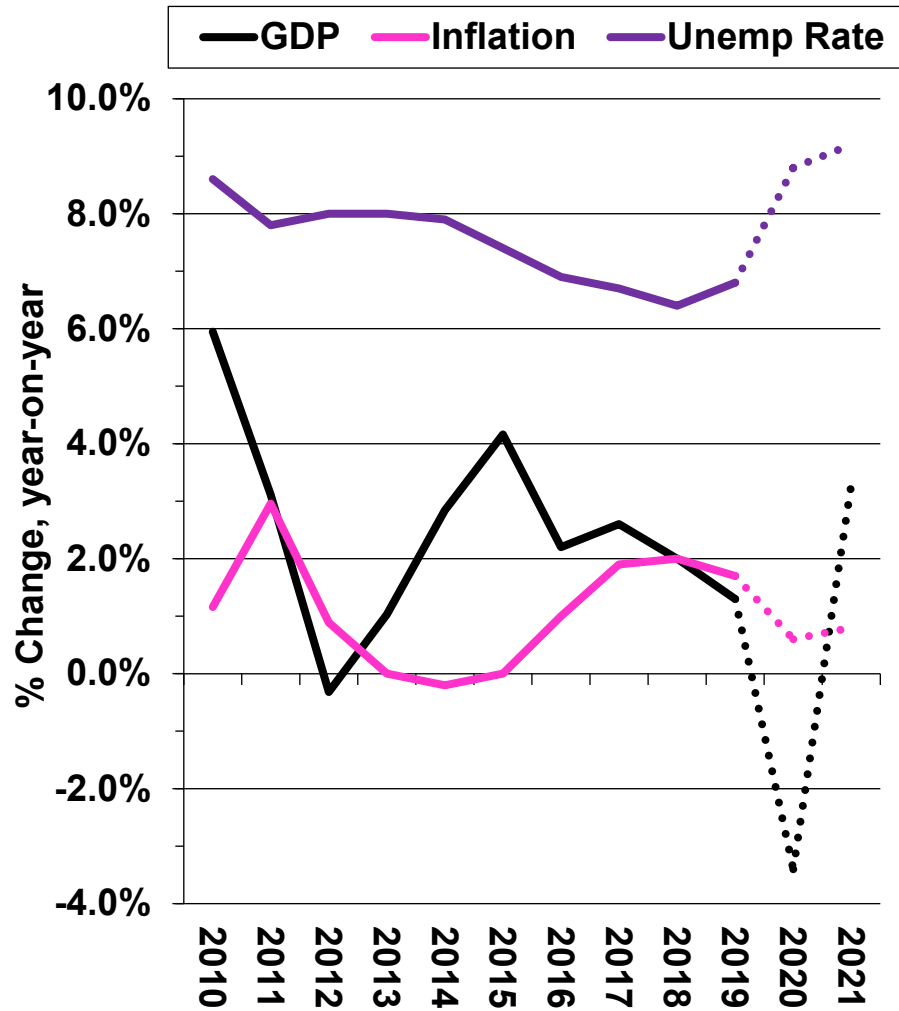
Hungary



Poland



Sweden





Questions & Discussion