

# ANNUAL ECONOMIC REPORT

**No.4**  
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## European construction equipment performs well in a global context

*Dear reader,*

**W**elcome to the new CECE Annual Economic Report, the third edition in the new format.

The report contains an overview of the macro economic situation in Europe, insights on the construction and mining industries, and then focusses on the construction equipment industry for an in-depth look at how the CECE sector is performing. For the first time, the report this year also includes information from the national CECE member associations, shedding more light on regional developments in the European construction equipment sector.

The CECE Annual Economic Report is publicly available at [www.cece.eu](http://www.cece.eu) to help promote the knowledge and understanding of the sector amongst a wider audience.

The European construction equipment industry is an important part of the European engineering sector, and plays a significant role in the economy of the European Union and its direct neighbours. The sector offers all kinds of “work tools” used in construction and related industries, and is instrumental in boosting economic development and societal improvement. It includes machines such as road making equipment, earthmoving machines, concrete equipment and tower cranes.

The sector’s durable and innovative machin-

ery, manufactured by thousands of employees and used and maintained by thousands of others, helps to build the houses, offices, schools, factories, railways, roads, bridges, tunnels and canals that connect people, boost economies and serve citizens across Europe and the world.

The European construction equipment industry represents about 5% of total EU engineering output and accounts for approximately 20% of worldwide production of construction equipment. Manufacturers are principally small and medium-sized companies, but there are also large European and multinational companies with production sites in Europe.

Small or big, the common denominators are the capacity to innovate, the high level of product diversity and the large complexity in the manufacturing supply chain. The sector is a key example of Europe’s engineering leadership and, in other words, is a fundamental asset in constructing the sustainable and competitive economy that Europe needs to be fit for the future.

This report is produced by a small group of people from the CECE member associations and the secretariat in Brussels. We hope it provides you with valuable new insights and wish you pleasant reading. Comments are always welcome and can be directed to [info@cece.eu](mailto:info@cece.eu).

*The CECE team*

## Executive Summary

### CONSTRUCTION INDUSTRY

Output in the European construction sector continued to grow in 2017, and for the first time, showed increases in all countries. In some countries, it reached its highest level in more than a decade in 2017, while in others, the level of activity still remains substantially lower than before the economic and financial crisis. The strongest driver of growth in the construction sector in 2017 was the housebuilding market.

### MINING INDUSTRY

Improving commodity prices and better financial results amongst global mining companies point towards improving demand for mining equipment.

### EQUIPMENT MARKET

After a very strong first quarter (+21%), growth slowed down in the second quarter (+4%), before taking off in Q3 and Q4 (17% and 23%, respectively). Current levels of sales are on par with the levels seen in 2006 and 2008, but the industry is still 20% below the 2007 peak.

### REGIONAL PERSPECTIVES

2017 was a year of growth for the European construction equipment markets. 2018 expects stable markets and further investments.

### OUTLOOK

Major markets in Northern and Western Europe that are experiencing historically high levels of sales, are unlikely to see further growth in the near future. Southern and Eastern Europe should again be the regions that contribute to overall growth. A 5% to 10% increase in the European market is a realistic forecast for 2018. This would mark the fifth consecutive year of expansion for the construction machinery industry, and may also be the final year before a downturn in the cycle in 2019.



## MACROECONOMIC VIEW

# Fastest expansion since the global economic crisis

The EU economy has continued to glide forward in 2017, with the help of a number of positive factors. Favourable financing conditions have persisted via helpful monetary policies, the employment market has continued to improve, general confidence has continued to rise, and there has been strong global growth and trade. EU country economies and the euro area performed well in the first half of 2017, and showed no signs of a slow-down during the second half. Domestic demand was a significant factor in this growth. The annual growth rate for 2017 reached 2.5% — the highest since 2007, and up from 1.8% in the previous year. The eurozone’s recovery turned into a fully-fledged expansion in 2017, as growth took root across the region and investment finally surpassed the high levels seen pre-crisis.

Investment gained momentum in the Eurozone last year, and showed growth of 3.9%. This was supported by a number of significant, and often interrelated factors, such as favourable financing conditions, increased overseas market demand and strong business confidence.

Corporate investment in the eurozone has risen to its highest level in a decade

because demand expectations have increased, uncertainty has diminished and no further obstacles to growth have arisen. Business sentiment is relatively strong, reflecting factors such as high capacity utilisation rates in both the industry and services sectors, increasing corporate profitability, and the need for modernization. A more favourable political climate has also helped confidence.

Overall, investment in equipment in the euro area rose by 3.8% in 2017, after showing 5.5% growth in 2016 (boosted by the 27.9% increase in Ireland). The forecast for 2018 is for investment to strengthen again to 4.5% in 2018, before slowing down again to 3.7% in 2019. The lower growth in 2019 reflects a maturing investment cycle amongst the largest euro-area countries.

	Gross Domestic Product growth in %				Gross Investment in equipment in %			
	2016	2017	2018	2019	2016	2017	2018	2019
<b>Germany</b>	+1.9%	+2.2%	+2.1%	+2.0%	+2.2%	+2.6%	+3.7%	+3.0%
<b>France</b>	+1.2%	+1.6%	+1.7%	+1.6%	+6.2%	+1.1%	+3.3%	+2.6%
<b>UK</b>	+1.8%	+1.5%	+1.3%	+1.1%	+1.7%	-0.4%	+1.3%	+1.0%
<b>Spain</b>	+3.3%	+3.1%	+2.5%	+2.1%	+5.0%	+5.1%	+4.5%	+4.1%
<b>Italy</b>	+0.9%	+1.5%	+1.3%	+1.0%	+7.1%	+4.5%	+5.3%	+2.8%
<b>EU28</b>	<b>+1.9%</b>	<b>+2.3%</b>	<b>+2.1%</b>	<b>+1.9%</b>	<b>+3.9%</b>	<b>+3.5%</b>	<b>+4.3%</b>	<b>+3.5%</b>

GDP and investment growth forecast for European countries, source: European Commission, European Economic Forecast, Autumn 2017





## CONSTRUCTION INDUSTRY

# The recovery in the construction sector that began in 2016, continued in 2017

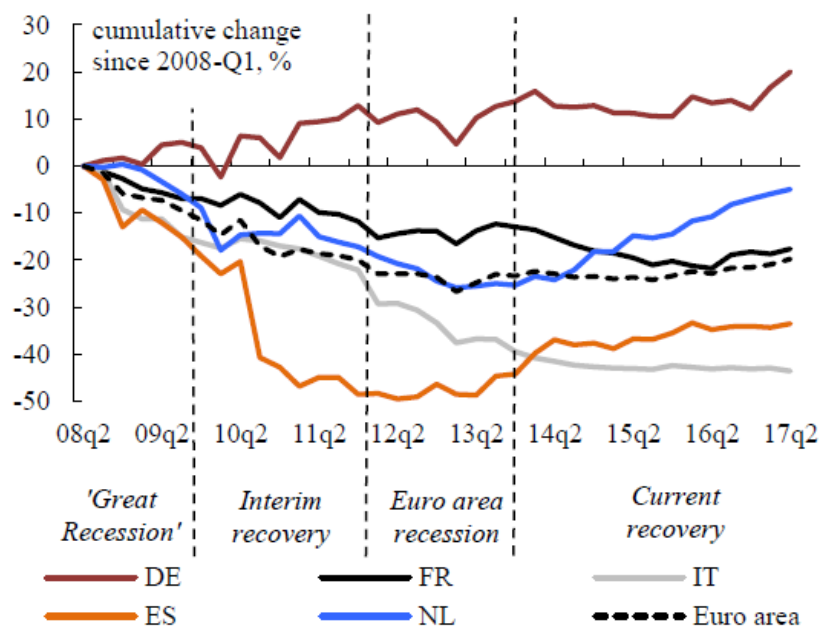
Output in the European construction sector continued to grow in 2017, and for the first time, showed increases in all countries. In some countries, it reached its highest level in more than a decade in 2017, while in others, the level of activity still remains substantially lower than before the economic and financial crisis. The strongest driver of growth in the construction sector in 2017 was the housebuilding market.

Improving demand in the construction sector is due to a range of factors. This includes more robust economic growth, and the beneficial impact on household incomes. In addition, corporate profits have improved, as well as the state of public finances. Also, low interest rates, immigration and internal migration flows, as well as the investment backlog that has accumulated in areas like infrastructure, is supporting the upswing in the construction sector.

Most short term indicators are providing positive signals for the outlook in the near future. Indicators of confidence within the construction industry have reached their highest levels in almost ten years. The number of building permits remain at a high level, and are at their highest since the end of 2011. This should continue to encourage investment in construction. Alongside this, the number of loans for house purchases continues to increase. Overall, investment in construction grew by 4.1% in the euro area in 2017. In many of the countries that joined the EU between 2004 and 2007, construction investment is set to expand further, driven by EU funding.

### THE RESIDENTIAL MARKET IN EUROPE REMAINS MORE DYNAMIC THAN NON-RESIDENTIAL AND CIVIL ENGINEERING

Construction production during recession and recovery (2008-2017)



Source: European Commission, European Economic Forecast, November 2017

Output in the residential sector was the driver of activity in the construction market in 2017. Despite this, the European residential sector is still below 2008 levels, and activity varies greatly from one country to another.

Residential permits in Germany started to decrease in 2017, and renovation has probably peaked, reaching a level of saturation. In the United Kingdom, there is still room for further growth. The improved performance of the housing sector in France can largely be explained by the success of the

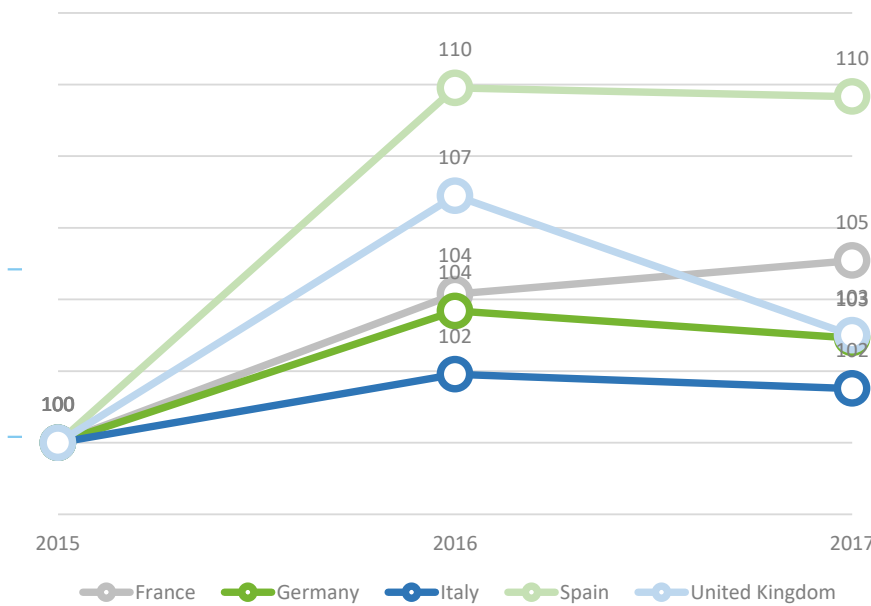
PTZ (zero interest loan) and Pinel (tax benefits) schemes, that have supported the sector. Also, some of these new initiatives are also stimulating housing renovation.

In Italy, the market remains weak, and activity is below 2007 levels. Residential output reached a low point as recently as 2015, and new house building is only expected to pick up in 2018. House prices have remained flat during recent years, albeit, some increases have begun to appear. Housing demand is still weak due to unfavourable demographics, and for any





### Total residential output (index 2015=100)



new demand, requirements can largely be satisfied either by a sizeable stock of unsold housing, or by renovating existing dwellings. However, while there are still public incentives for homeowners to renovate, activity does seem to be diminishing.

Any growth in housing demand in Spain in recent years has been related to specific market niches, and overall activity remains low. Renovation demand is still limited by the slow recovery in household incomes and unattractive subsidisation programmes. However, it is gathering some momentum thanks to the normalization of the real estate market.

increased rapidly compared with Western countries. This is due to the impact of EU subsidies, which are stimulating demand for agricultural construction and renovation of non-residential buildings, such as historic buildings and railway stations.

Some changing trends within the commercial sector are reducing the level of construction activity. This includes the impact of e-commerce (particularly online shopping), and more efficient use of space in office buildings. However, the growth of e-commerce is sustaining demand for warehousing and storage facilities.

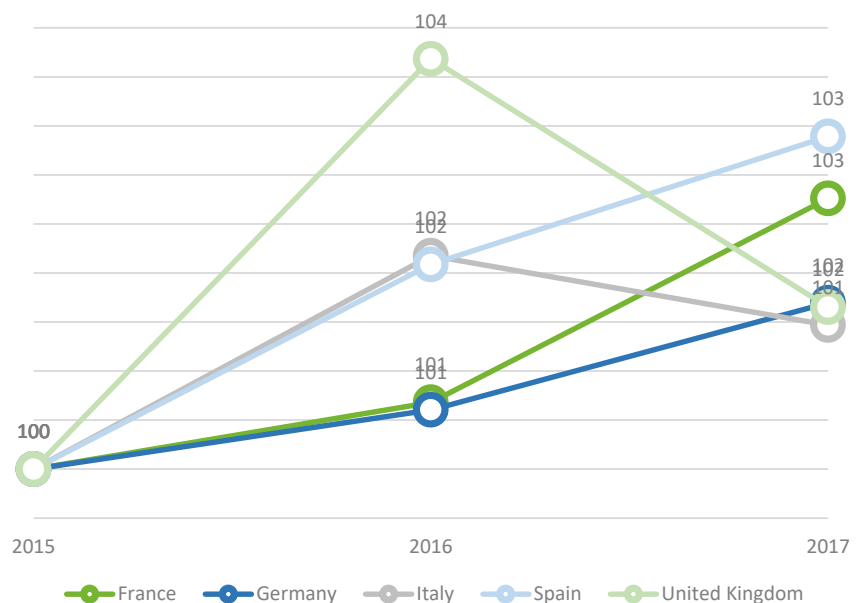
Increased confidence in the economy across a range of sectors is helping the current positive outlook. Indicators of confidence for consumers, the service sector and retail trade, have all shown an improving trend since autumn 2016. The strongest rise has been in the Industrial sector, which also started to pick up in autumn 2016, and continued into 2017. This is expected to carry on, and reach the record levels seen in 2007 and 2010.

Amongst the bigger non-residential construction markets in Europe, Spain and France have the most positive outlook. Industrial production is back on an upward trend in both countries. In France, lower levels of vacant office space, and improved levels of job creation in the service sector are helping to drive demand. Stricter energy laws are also helping non-residential renovation. However, Germany, the second largest non-residential construction market, seems to have reached a saturation point. In the UK, the outlook is poor due to expectations of a negative impact from Brexit. In Italy, the prospects are better, as the non-residential construction market seems to be recovering from its most difficult years.

### THE IMPROVING ECONOMY HAS BOOSTED NON-RESIDENTIAL CONSTRUCTION IN EUROPE

Non-residential construction in Europe accounts for 32% of total construction output. The UK is the largest non-residential market in Europe, followed by Germany, France, Italy and Spain. The current level of non-residential construction activity is relatively high, but is still 15% below the level of the last peak in 2008. The current view is that the market peaked in 2017, and will slow down in the coming years. In CEE countries, both non-residential construction and non-residential renovation activity have both

### Total non-residential output (index 2015=100)



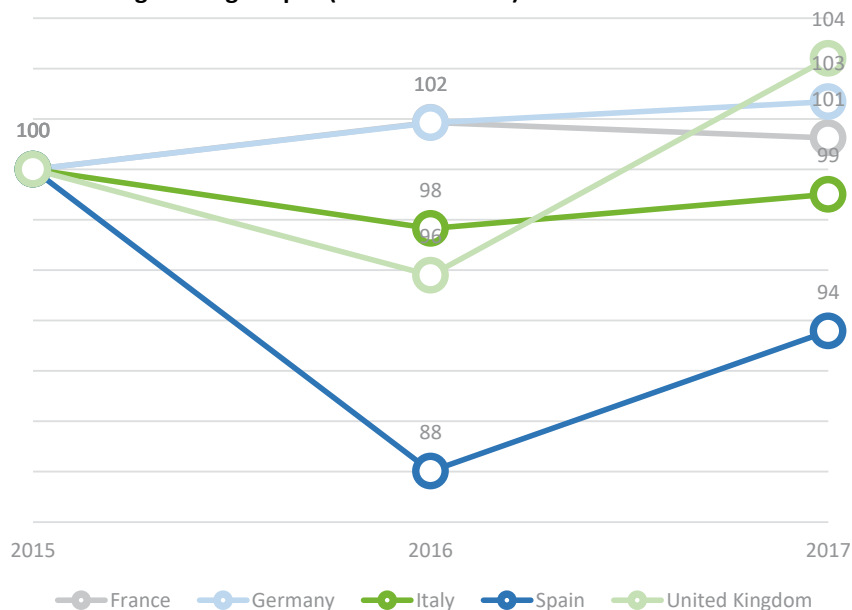
### THE EUROPEAN CIVIL ENGINEERING MARKET INCREASED BY 2.2% IN 2017

Civil engineering accounts for about 20% of total construction output, making it the smallest sector within the construction market by some distance. (Residential buildings account for 47%, and non-residential buildings for 33%). While a recovery has begun in the civil engineering sector, it remains fragile. The current level of activity is still significantly lower than the period just before the financial crisis in 2008. On average, 2.0% of GDP was spent on civil engineering work during 2017. Within this, civil engineering output in Central-Eastern Europe was 2.8% of GDP, and in Western Europe, it was 1.9%. The higher share in Eastern Europe can be explained by a greater need for both new and upgraded infrastructure. However, the highest level of spending on civil engineering work is found in Norway and Finland. This is due mainly to the mountainous landscape, and the large distances between populated areas.

In 2017, one third of the civil engineering sector was accounted for by road construction. Railways accounted for 15% and other modes of transport (mainly airports, waterways, and harbours) represented 7% of the civil engineering market. This means that non-transport infrastructure accounts for about 45% of the civil engineering market.

The strongest sub-sector within civil engi-

**Total civil engineering output (index 2015=100)**



neering in 2017 was construction of roads, railways and telecommunications. For example, the volume of railway passengers has grown by about 20% since 2006 and, according to Eurostat, the number of cars has increased by almost 10% during the same period. A challenge facing many countries has been the need to cut back on infrastructure spending due to ongoing financial deficits and public debt. However, growing problems with traffic congestion and bottlenecks on the railways have been forcing a growing number of European states to step up the level of

transport infrastructure investments.

In the major markets for civil engineering work in Europe, the emphasis has been different across the countries. The two biggest markets for railway construction in 2017 were Germany and Italy. Activity in the energy sector was significant in the UK market, due mainly to a couple of major power plant projects (Horizon, Hinkley Point). In France, telecommunication was the most significant area of activity.





## GLOBAL MINING INDUSTRY

# The global mining market continued to recover in 2017

*Improving commodity prices and better financial results amongst global mining companies point towards improving demand for mining equipment.*

**A**fter a number of years of decline, the global mining market began to stabilise in 2016. A review of 2017 shows that further progress was made, and the market was clearly on an upward trend, with commodity prices improving, and capital expenditure and exploration increasing. As overall profitability improves amongst the major global mining companies, prospects look much better for mining equipment demand.

The latest analysis from industry experts, including Parker Bay, suggest that 2017 was a year of recovery, and prospects for equipment sales should continue to improve in 2018. It is estimated that spending on equipment accounts for approximately 35% of total capital expenditure by mining companies, and will be influenced significantly by overall profitability and capital investment decisions.

### THE MARKET FOR SURFACE MINING EQUIPMENT

The Parker Bay Company monitors deliveries of surface mining equipment on a quarterly basis, as shown below. This shows how a low point was reached in Q2 2016, but since then has been on a steady upward trend. Parker Bay's analysis of surface equipment includes deliveries of excavators, wheel loaders and dump trucks, as well as more specialist mining equipment such as hydraulic shovels.

The latest update of the surface mining equipment index for Q4 2017 shows a 7% increase in shipments compared with Q3. For the full year, all equipment

types showed a year-on-year increase in 2017, except wheel loaders, which declined by 1%. Strongest demand was for excavators and bulldozers, showing a 27% increase. In regional terms, mines in Australasia and Russia/CIS led the expansion in 2017, while Africa and Latin America also showed solid increases.

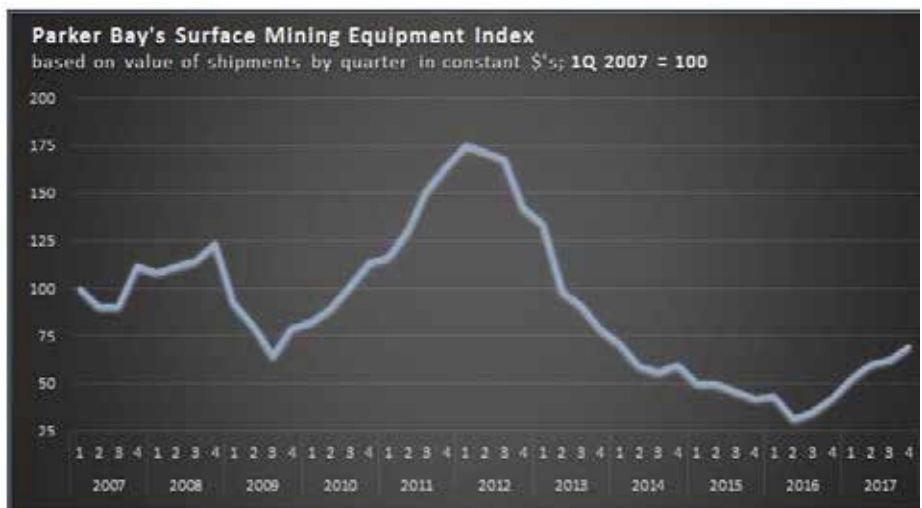
North America, Europe and the Middle East have shown the weakest recovery. Coal mines continued their surprisingly strong demand and accounted for 47% of all equipment shipped worldwide in 2017, on a unit basis. These increases in shipment levels in 2017 were accompanied by the first substantive increase since 2013 of the active machine population, which increased over the past year by 4.5% to nearly 74,000 machines in operation in the mines.

An assessment of mining and equipment markets has led Parker Bay to conclude that the market for surface equipment will continue to record strong gains in 2018.

Even after the increase in shipments last year, the overall market is still at least 50% below the peak levels seen in 2012. With favourable mineral pricing and demand expected to continue, miners are likely to continue stepping up capex plans, which will stimulate further demand for equipment.

It is difficult to assess how the European equipment and component manufacturing industry will benefit from the recovery in the global mining market. Estimates for the mining equipment market suggest that Western and Eastern Europe together account for approximately 10-15% of global demand for mining equipment (surface and underground), and approximately 15-20% of global production, with Germany being a leading global producer.

As Europe has a leading position as an equipment supplier to the mining industry, it is to be hoped that increasing capital expenditure by global mining companies will provide improving demand for European suppliers in 2018.





## EQUIPMENT MARKET

# Sales of construction equipment in Europe grew by 15% in 2017

After a very strong first quarter (+21%), growth slowed down in the second quarter (+4%), before taking off in Q3 and Q4 (17% and 23%, respectively). Current levels of sales are on par with the levels seen in 2006 and 2008, but the industry is still 20% below the 2007 peak. With the exception of Turkey, all countries and regions saw increasing sales in 2017. Most parts of Western Europe including the Nordic countries, the UK, Germany, Benelux, Austria, and Switzerland are at, or close to, historical record levels. The troubled markets in Southern Europe and Central and Eastern Europe showed growth at above average levels. As a result, the North-South disparity is gradually becoming less pronounced. The Russian market picked up significantly in 2017, but is recovering from a very low level of activity, and remains a long way below its pre-crisis levels.

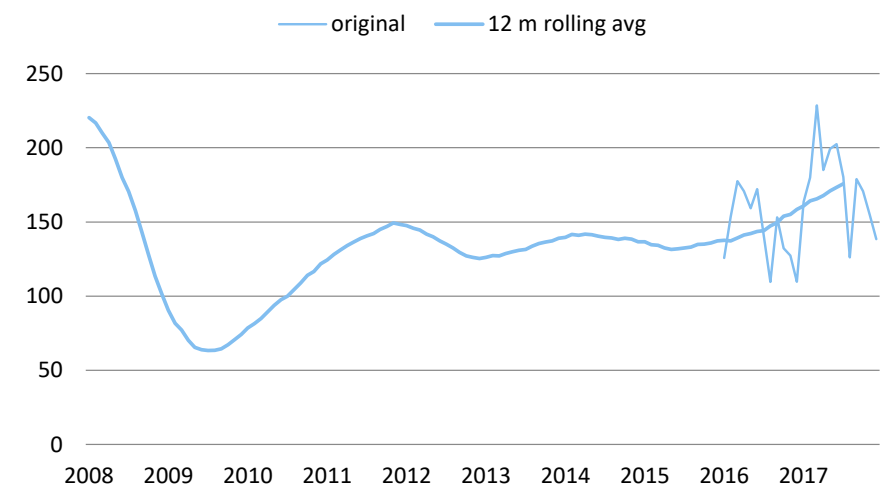
### EARTHMOVING EQUIPMENT

**S**ales of earthmoving equipment in Europe (including Russia and Turkey) grew by 18% in 2017, to reach a level of 170,000 units. This marked the highest sales volume since the economic crisis in 2008/09. The apparent slow-down in growth in the second quarter was more a statistical effect than a real market trend, as sales were being compared with Q2 2016, which was the strong “bauma quarter”.

The top three volume markets Germany, the UK, and France all recorded double-digit sales increases between 10% and 20%. Along with the Nordic countries (+14%), Benelux markets (+20%) and Austria/Switzerland (+9%), Western European equipment sales continued their positive development, and are all at very high levels. The Southern European market also showed very strong growth, reaching 35%, led by strong growth in Italy and Spain.

However, it is still clear that recovery to traditional levels of demand remains a long journey for these markets. CEE markets (+27%) found their way back to growth after a bad year in 2016.

Standard and heavy equipment (+22%)



Monthly construction equipment sales in Europe (index 2010=100)

saw slightly higher growth than light equipment (+16%) in 2017. All products, except backhoe loaders and motor graders – which showed minor declines due to the weak Turkish market – saw double digit increases in sales. In the large volume categories, sales of mini excavators grew by 23%, compact wheel loaders sales went up by 17%, and crawler excavators saw an 18% sales increase. In addition, sales of heavy wheel loaders grew by 26% and wheeled excavator sales went up by 24%. In the lower volume equipment ranges, the heavier

products of dozers, rigid dump trucks, and ADTs, showed the strongest sales. The main reasons for this were the recovery in the mining and quarrying sector, higher levels of road construction, and improved levels of investment by rental companies. Overall demand from the rental sector was very strong in 2017, with many companies renewing or expanding their fleets. As a result, the rental share of new earthmoving equipment sales in Europe went up further, and almost reached 40% across all markets and products.



## ROAD EQUIPMENT

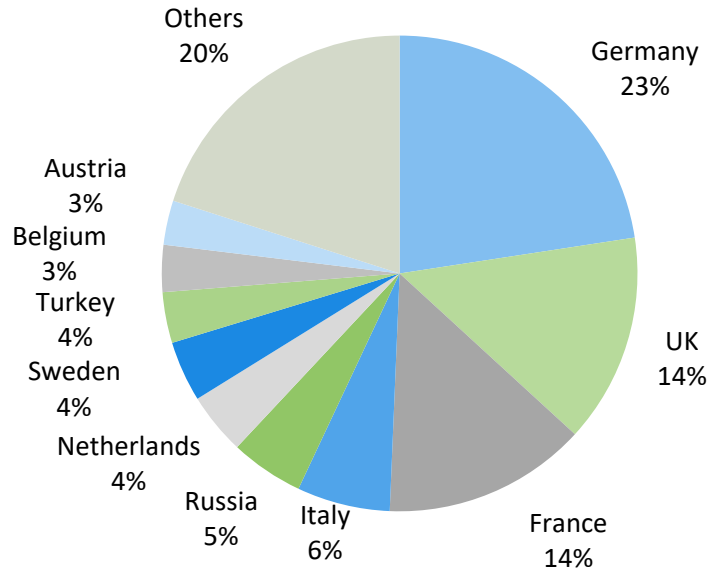
Sales of road equipment in Europe grew by 9% in 2017, and similar to earthmoving equipment, reached the highest market volume since the economic crisis. Road equipment is still the construction equipment sub-sector which has achieved the highest level of recovery in the post-crisis period.

In terms of individual countries within Europe, the largest road equipment market Germany, recorded a small decline in sales of 3% in 2017, following record-high levels the previous year. France (ranked second in Europe), and the UK (the third-largest market), saw solid growth of 17% and 11%, respectively. The strong performance of the Nordic markets continued in 2017, with road equipment sales growing by 18%. Austria/Switzerland (+10%) and Benelux markets (+3%), are also at very high levels of demand. The recovery in Southern Europe gained some momentum in 2017, with sales growing by 19%. However, the North-South disparity in this sector is more significant than it is in the earthmoving sector. In Central and Eastern Europe, the market grew by 15% and, finally, the Russian road equipment market recorded the highest level of growth in sales within Europe, at 32%.

Light compaction equipment is the largest segment from a volume perspective, and saw sales growth at slightly below average levels, at only 8% in 2017. This included vibratory plate sales at single-digit levels, and a decline in sales for pedestrian rollers. Performance in the heavy segment was stronger, with sales of self-propelled rollers expanding by 11%. Within this segment, single-drum rollers and trench rollers were the most dynamic products, while in contrast, sales of asphalt pavers were flat in 2017.

## CONCRETE EQUIPMENT

The trend of above-average growth in the building construction equipment industry which began in 2016 saw, a continuation in 2017. Fuelled by growth in the residential and non-residential building sectors, equipment manufacturers recorded a third consecutive year of growth. However, the sector still remains at an early stage of recovery, and many of



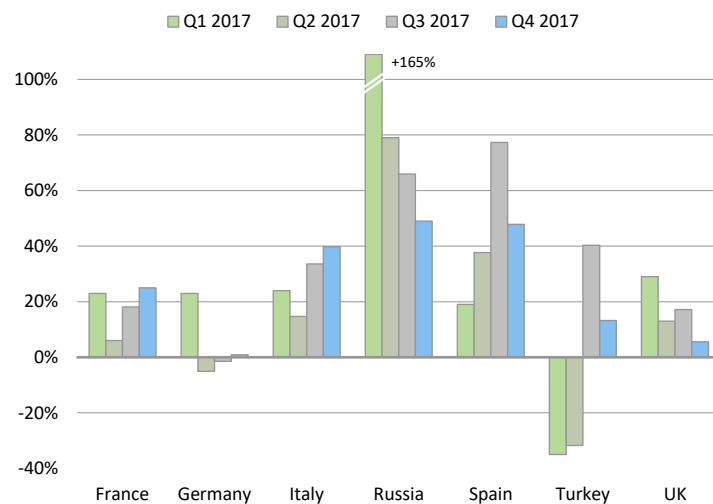
Shares of construction equipment sales in European countries, 2017

the markets that collapsed during the crisis are still at very low levels of demand. Sales of concrete equipment in Europe grew by 11% in 2017, with momentum growing during the year. After sales growth of only 5% in Q1, the market picked up and reached 18% growth in the last quarter.

However, volatility within the industry calmed down compared with 2016. Similar to 2016, the best performing product group was truck mixers, which showed an 11% increase in sales. Concrete pumps and light equipment (saws and vibrators) also saw improved sales, while mixer systems were flat. The number of batching plants sold in Eu-

rope did not manage to keep up with 2016 levels, and saw a decline in 2017. In terms of the major markets in Europe, France and Germany are at similar levels of sales after experiencing differing fortunes in 2017. This saw France growing by 11%, while Germany saw a small decline of 1%.

The recovery in Italy continued in 2017, and markets like Austria/Switzerland, Benelux, and Nordic countries all remained stable. The UK saw a slight decline, after a strong year in 2016. Russia and Spain had the highest growth rates in 2017, but despite beginning recoveries, both markets are still at extremely low levels.



Construction equipment sales in major European markets compared to previous year in %





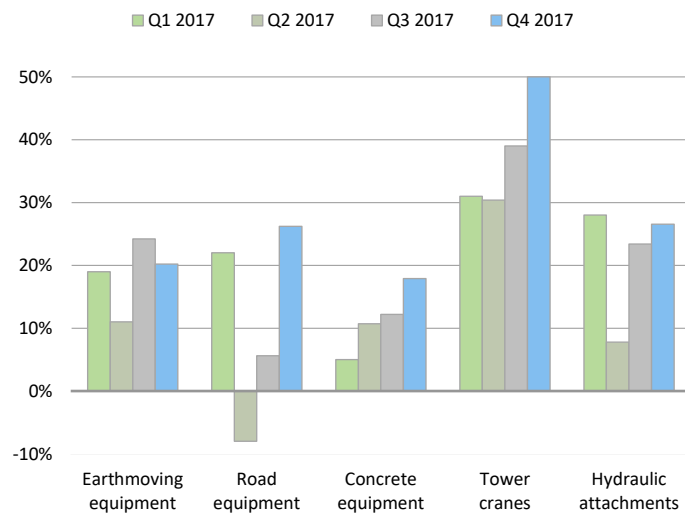
## TOWER CRANES

Lifting equipment is the second of the two segments within CECE's building construction machinery sector. In 2017, tower cranes showed a 36% increase in sales, which made it the fastest growing segment within Europe. Sales saw an increasing momentum during the year, with Q4 sales reaching 50% growth compared with the same quarter in 2016. It is not unusual to see higher percentage changes in this segment compared with earthmoving and road equipment, due to the lower level of unit sales volumes.

In 2016, France replaced Germany as the largest market, and retained this position in 2017, after growing by around 40%. However, the German market saw even higher growth rates of almost 60% in 2017. The other significant European markets saw very mixed results in 2017. The UK market was flat, while showing some signs of growth. Austria and Switzerland saw a continuation of growth at high market levels. Growth in the Nordic markets was extraordinarily strong, as were the Benelux markets. CEE countries continued their recovery, but so far, have not met growth expectations. Russia did see some momentum in 2017, but the market is still a long way from pre-crisis levels. In the Southern European markets, only Italy is showing a noticeable sign of growth in sales.

## SUMMARY AND OUTLOOK

After seeing modest growth in 2016, the European construction equipment industry saw a boom in growth in 2017, with momentum growing during the year. Disparities between the North and the South still persist, but thanks to above-average growth in Southern Europe, they are less significant than in recent years. Many parts of Northern and Western Europe are at, or close to, historically high levels of sales. The 15% sales increase in 2017 positioned Europe among the best-performing world regions for the third year in a row. China provided the "stand out" growth performance in a global context last year, after five extremely difficult years. Most parts of Asia, North America, Latin America, Oceania, and Africa all saw double-digit growth in construction equipment sales. Only the Middle-Eastern mar-

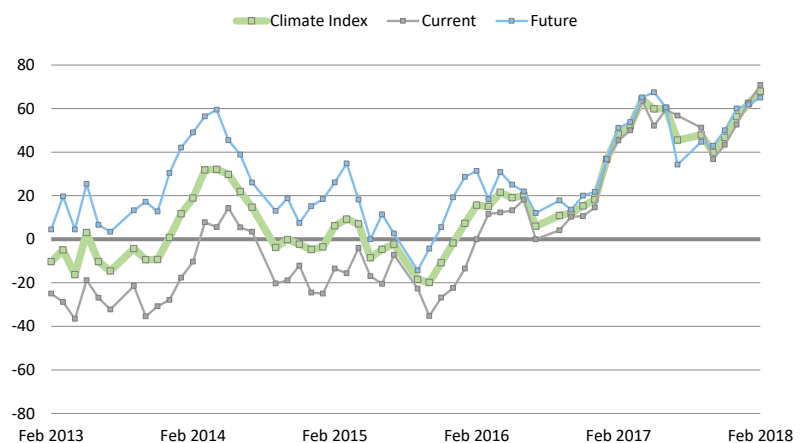


Product groups: construction equipment sales in Europe compared to previous year in %

ket recorded a decline in 2017, due mainly to the impact of weak oil and gas prices.

There are currently no signs of a slowdown in global growth in equipment sales on a cyclical basis, and a double-digit increase in sales in 2018 is a realistic scenario at a global level. There are a number of factors driving demand. The construction industry is in good shape in most markets, and improving commodity prices and a recovery in the mining sector is providing further support. However, the growing threat to free trade and the risk of a global trade war pose a severe risk to the world economy. It is not clear yet if this will have an impact on the equipment market, and possibly result in changes in competitiveness between different regions.

On the European market, there is widespread optimism. For example, the CECE Business Barometer reached new heights at the beginning of 2018. The February index value surpassed the previous record levels seen in the spring of 2017, with 75% of European manufacturers describing their current business as good or very good, and another 21% considering business to be satisfactory. This is the most positive opinion ever recorded by the monthly CECE survey. However, there were some differences between the product groups. While around 70% of earthmoving and road equipment manufacturers anticipate further sales growth (and nobody expects declines), only 40% of concrete equipment producers expect to see more growth. Furthermore, 20%



European business climate index, CECE Barometer February 2018



of concrete equipment producers believe their business may decline during the next six months. Component manufacturers were the most optimistic in the February survey, with almost 80% of companies anticipating additional growth.

Major markets in Northern and Western Europe that are experiencing historically high levels of sales, are unlikely to see further substantial growth in the near future. However, stabilization of demand at current market levels would be widely considered as good news, and the risk of any severe declines in sales is very low. These views are also reflected in recent CECE Barometer survey results, where a clear majority of manufacturers expect good business in Scandinavia, the UK, Germany, Benelux, and France.

Southern and Eastern Europe should again be the regions that contribute substantially to overall growth in Europe. Italy, Spain, and Portugal are all rated very positively by the manufacturers surveyed in the CECE Barometer. The Ital-

ian market has taken some significant steps on the road to recovery in 2016 and 2017, and any further substantial growth would start to have a noticeable impact on the overall market situation. For Spain, the challenge is to extend the recovery to a wider range of sub-sectors within the construction equipment industry.

Equipment demand in CEE countries is being driven by a strong upturn in the construction industry, and further growth should follow in 2018. A clear majority of manufacturers are expecting further positive momentum in the 12 youngest EU member states. At the Eastern tip of Europe, the recovery of Russia is set to continue with the erratic growth pattern seen last year, likely to turn into more modest and sustainable growth.

Factors that could result in a negative impact on the industry include the looming free trade crisis that has been mentioned already, as well as ongoing political and economic uncertainties, such as Brexit. However, machine delivery times could

also become a significant limiting factor to growth in sales in 2018. As equipment demand has picked up around the world, with many regions seeing growth improve at the same time, manufacturers' production capacities may prove insufficient to serve all markets at the same pace. A lot of manufacturers have already reported some difficulties in obtaining components from their suppliers at the rate required. An additional factor in the very strong markets in Western Europe, is the restricted availability of machine operators, which poses a natural limit to equipment sales. This can result in the genuine level of machine demand exceeding what is possible in terms of operational machine supply.

Considering the range of factors which both support and limit equipment sales, a 5% to 10% increase in the European market is a realistic forecast for 2018. This would mark the fifth consecutive year of growth for the construction machinery industry, and may also be the final year before a downturn in the cycle in 2019.

## SWEDEN

### How did the construction equipment market perform in 2017? What were the main drivers of the market?

The construction sector and business services in Sweden are both growing rapidly. Industrial production is gaining momentum, and is expected to show an increase of 3% during 2017, after more modest growth in 2016. The automotive industry is the most significant driving force within the Swedish industrial production sector. The market for construction equipment was also positive in Sweden in 2017. Domestic sales showed a notable increase compared with 2016, and exports showed even stronger growth. Amongst the different product groups, attachments and mining (including underground equipment) showed the most significant increase in exports. A key driver in the Swedish market is increased demand for modern, safe machines with good environmental performance, and low operating and maintenance costs. Within the con-

struction industry, demand for equipment has been driven by significant investment in infrastructure projects, such as roads and railways. Investment in the residential sector is also considered an important driver, although it is expected to show slower growth in the coming years. A further market driver has been the continued high demand for minerals from the mining industry.

### What is the forecast for 2018?

The Swedish economy has performed in a similar fashion to the overall European economy in recent years, showing strong growth. However, the question remains as to when the peak will be reached. After an increase in GDP of approximately 3.3% during 2016, last year showed a modest reduction to 3% growth. The forecast for 2018 anticipates a further reduction of the growth rate to 2.5%, but this can still be considered as a stable rate of development.

A factor which is limiting growth within

Sweden in recent years is a shortage of labour. Since late 2009, employment has increased at faster than average rates. As a result, in 2017 unemployment was only 6.6% compared with 6.9% in 2016. The forecast for 2018 is for unemployment to fall further to 6.4%. The main problem is to find labour with the appropriate skills to match the needs within industry. This is a problem that construction equipment manufacturers are experiencing.

Further investment in existing infrastructure projects is expected to be a core driver in the domestic market in 2018. Due to strong international demand, and existing order bookings at well above normal levels, industrial production is expected to grow briskly in 2018 at 4%. In conjunction with continued demand for modern, safe and flexible equipment, manufacturers of construction equipment across all product groups are expected to see production and sales at a slightly higher level during 2018, compared with last year.





## UK

### How did the construction equipment market perform in 2017 ? What were the main drivers of the market ?

The UK market showed a very strong recovery in 2017, following a 5% decline in 2016. Shipments of equipment recorded a 23% increase, based on strong growth in the first three quarters of the year, and reached over 27,000 units (excluding telehandlers). In the last quarter of the year, the momentum eased, and shipments were very similar to Q4 2016 levels. Overall, the UK market remains the second largest market in Europe, and demand was at its highest level since the market crash nearly 10 years ago. Amongst the most popular types of equipment, crawler excavators showed the strongest growth in sales at 25% above 2016 levels. Within this, growth was particularly strong for mini and midi excavators, which was driven by a strong housebuilding market during the year. Amongst loader equipment types, wheeled and skid steer loaders showed solid growth in 2017, while backhoe loaders showed a 5% reduction in sales. This reflects an on-going decline in popularity for this machine type in the UK. Amongst the heavier machine types, articulated dump trucks showed the strongest growth in 2017. These types of machines have been identified as a key requirement for the HS2

rail project, where initial enabling work for Phase One began on site in 2017. UK exports of equipment also showed strong growth in 2017, and reached £2,917 million, an increase of 22% on 2016 levels. This reflects improved demand in many major overseas markets, including Europe. Exports of equipment account for approximately 60% of machine production in the UK, and are very significant for industry activity levels. Official figures for construction output for 2017 from the Office for National Statistics (ONS) show that the market grew by 5.1%, which is an increasing rate of growth compared with 2016. However, activity was at its strongest in the first quarter of the year, and showed progressive declines in the following three quarters. Alternative measures of construction activity suggest that growth in 2017 was modest, and forecasts for 2018 expect activity to be relatively flat. Barbour ABI measure the value of contract awards, and these reached £71 billion in 2017, a modest increase of 0.6% on 2016 levels. However this was an improvement, following a 5% decline in 2016. The number of projects in 2017 recorded a 1.7% decline at 11,280, underlining that the market was relatively flat overall in 2017. Nearly two thirds of the value of new contracts awarded in 2017 were for housebuilding (35% of the total), and in-

frastructure projects (29%). These two sectors showed the strongest growth in 2017, at 2% each. Within the infrastructure sector, rail projects were significant, including the awarding of work for the TransPennine route and HS2. Measures of sentiment within the construction industry, based on the Purchasing Managers Index (PMI) published by IHS Markit, show that demand fell away in the second half of 2017, after showing growth in the first half of the year. The index showed some recovery in the closing months of the year, but overall, point towards a relatively flat market outlook continuing in 2018.

### What is the forecast for 2018 ?

Most industry experts are forecasting that construction activity in 2018 will be relatively flat. Major infrastructure projects for road, rail and energy have been identified as the strongest sector. However, a key dependency within this sector is the delivery of government projects in line with plan to meet forecast levels of activity. Against the background of a subdued construction market, and on-going uncertainty over the Brexit outcome, the equipment market is expected to show modest single-digit growth in 2018, at best. At the start of the year, sentiment within the industry remains positive after a strong performance within the industry in 2017.

## BELGIUM

### How did the construction equipment market perform in 2017 ? What were the main drivers of the market ?

2017 was another year of growth in the Belgian market. Sales increased by approximately 12%, to reach a total of 6645 units. Within this, there was a big increase in sales of larger machines,

with equipment of 8 tonnes and above showing growth of 26%. This illustrates that confidence in the growing economy has been strong enough to encourage investment in more expensive machines.

### What is the forecast for 2018 ?

The current expectation for 2018 is

for the positive trend in the market to continue, but it is too soon to make any clear forecasts. However, Sigma (Equipment Representatives for Public and Private Works, Building and Handling) expect that the market will still be growing until the summer period. We anticipate a slight slowdown after this in the second half of the year.



## GERMANY

### How did the construction equipment market perform in 2017? What were the main drivers of the market?

After experiencing very high levels of sales in recent years, the German market recorded another excellent year in 2017, and saw 4% growth in construction equipment sales. After four straight years of growth, the market is now on a par with the pre-crisis record levels of sales seen 10 years ago. The driving force in 2017 was standard and heavy equipment, with earthmoving machinery sales increasing by 11% and compaction equipment sales by 4%, compared with 2016. In contrast, compact equipment was unable to maintain the high level of sales seen in 2016, with compact earthmoving equipment declining by 1%, and light compaction equipment by 4% respectively. There are a number of reasons why the German equipment market has seen strong demand for more than six years: The general economic climate remains favourable, and low interest rates have encouraged investment activity. The building construction sector has experienced a real estate boom in metropolitan areas. Also, the civil engineering sector has benefited from infrastructure investments, particularly for road and bridge construction. As a

consequence, output in the construction sector is only 7% (in real terms) below the peak levels seen after the German reunification. As a result, equipment buyers have both the demand for machines, as well as having capital available to invest. Another positive feature has been the development of new customer segments in recent years by machine manufacturers. The most significant example is the gardening and landscaping sector, which has seen strong demand for a number of years, and has become one of the most important customer segments for compact machines. In 2017 alone, almost 4,000 earthmoving machines were consumed by the landscaping industry. In 2017, German equipment manufacturers gained more benefit from strong international demand than the domestic market. Thanks to strong export business, industry turnover increased by 19% in 2017. Earthmoving equipment suppliers saw the highest levels of growth (+21%), but manufacturers of building construction equipment (+11%) and road construction equipment (+9%), also saw solid increases in industry turnover.

### What is the forecast for 2018?

The absolute level of market demand

experienced in Germany in 2017 severely limits expectations of significant growth in the near future. However, a flat market, and stable demand at record high levels would still be very good news for the industry. The most realistic scenario for 2018 sales for the German market is a single-digit decline. The crawler excavator segment will probably see a continuation of the downward trend experienced in the second half of 2017. On the upside, wheeled excavators and compact wheel loaders could deliver more growth. However, many rental companies invested in fleet renewal last year, and so may buy fewer machines in 2018 as a result. General market conditions are expected to remain favourable in 2018, with the German construction sector forecast to see further growth of 0.9% (Euroconstruct Nov 2017 forecast), before seeing a small decline in 2019. Assuming there are no unexpected "external shocks", any significant declines in equipment sales can be ruled out. In 2018, German manufacturers expect their total industry turnover to increase by another 8%. This reflects a slowing domestic market, but still at a high level of demand, and international markets that are expected to show further significant improvements in demand in 2018.

## FINLAND

### How did the construction equipment market perform in 2017? What were the main drivers of the market?

The global economy grew in 2017, and this resulted in increased exports and imports of mining and construction equipment in Finland. Exports are estimated to have grown by 20% and imports by 8%. At the same time, the Finnish economy grew (+3% GDP), and there was a 4% increase in building construction activity (measured in added value). Both construction maintenance and repair work and civil engineering (excluding buildings) grew by 2%. As a result, demand for rental equipment saw a 7% increase during the year.

There were a number of key drivers in 2017, including low interest rates, and increased investment in real estate. There was also an increase in building of hospitals in preparation for social welfare and health care reform, and an increase in logistically ideal building sites, thanks to improvements in infrastructure. In particular, there was a big increase in high-rise building projects, especially in the capital area. Building maintenance and repair activity is still being driven by the need for repair work on buildings constructed in the 1970's and 1980's. In the mining sector, investment saw an increase due to improved global demand for raw materials, especially those need-



ed for electric cars and batteries.

### What is the forecast for 2018?

The Finnish economy is forecast to grow by 2.4% in 2018. Building construction is expected to grow at between 1 and 2%, maintaining a high level of activity, but not growing sharply. Civil engineering (excluding buildings) is not forecast to show any growth. Both foreign and domestic investment in the mining sector is expected to increase, including the start-up of new projects. The rental market is seeing some saturation, due to limits on machine capacity and the work force, but should still see growth of 5%.



## FRANCE

### How did the construction equipment market perform in 2017 ? What were the main drivers of the market ?

The French market for construction equipment showed significant growth again in 2017. Measured in unit sales, earthmoving equipment rose by 21%, and road equipment increased by 23%. In addition, lifting and handling equipment showed an increase of 20%, and sales of concrete equipment grew by 45%. A key feature in France during 2017 was the focus on stimulating industrial investment, which included an exceptional 40% depreciation of some industrial assets. The impact of this was to boost the market during the first quarter. Following this, the outcome of the presidential election in the spring had a beneficial effect on sentiment from the second quarter onwards. In addition to the impact of these “one off” events, the recovery of the construction sector is well underway and the demand for equipment is being maintained. Activity in the building sector was buoyant, particularly for housebuilding. The public works sector is also recovering, driven in particular by major projects, such as the Greater Paris, and major events like the Olympic Games. Finally,

both national and regional rental companies significantly increased their investment in equipment during the year. In the earthmoving equipment sector, compact machines and heavy equipment both performed well last year, with sales increasing by 22% and 16% respectively. The French road equipment market also performed very well, with sales growing by 23%. In this sector, sales of compactors was strong, while the market for asphalt finishers was stable. Concrete equipment saw the strongest sales in 2017, with nearly 1,200 units sold, recording growth of 45%. This consists of concrete plants, mixers and pumps, and saw order book lead times stretch to nearly 6 months. This sector has seen confidence return, and customers are investing again. 2017 was a very positive year for lifting and handling equipment, with tower cranes, mobile cranes, telescopic forklifts and mobile elevating work platforms all showing growth. In particular, telescopic forklifts saw a 9% increase in sales, thanks to increased demand from both the industrial and building sectors. Mobile elevating work platforms sales were up 12% in 2017, after an increase of 34% seen in 2016.

### What is the forecast for 2018?

2018 is expected to maintain a good rate of growth, and investment in equipment should continue to increase. Major projects, such as the Greater Paris will continue to stimulate demand. The outlook for Government support is encouraging for 2018 and 2019. This includes the national government promising more financial support for local authorities for public investment. As a result, local authorities should accelerate their investment, after hitting a low point in 2016. In addition, rental companies are expected to continue to renew their fleets, and also to increase fleet sizes where appropriate. In particular, this should support sales of compact machines. Building activity is forecast to increase by 2% in 2017, and the civil engineering sector is expected to show growth of at least 4%. Budgets allocated for road construction and maintenance will be higher in 2018 than last year. In summary, we are forecasting another excellent year for construction equipment manufacturers. Growth will continue to be supported primarily by infrastructure projects, particularly transportation and building work. We forecast a rate of growth of 12% in 2018 after 21% in 2017. This should push the market very close to the last peak levels seen in 2008.

## ITALY



### How did the construction equipment market perform in 2017 ? What were the main drivers of the market ?

In 2017, the market for construction equipment in Italy grew by 15%, reaching machine sales of 12,766. This consisted of 12,275 earth-moving machines (+15%) and 491 road machines (+5%). This was further confirmation of a market recovery, with growth continuing since 2014. However, most of this growth was not driven by the building sector, which remained flat in 2017, showing

a 0.1% reduction in investment, and only a 0.1% increase in output. Most of the new machines sold were to replace ageing equipment or to supplement equipment fleets, which have been reduced due to equipment being sold off overseas during the economic crisis.

### What is the forecast for 2018?

Growth in the equipment market is expected to continue in 2018, albeit most likely at a slower pace. The need to supplement and replace equipment

fleets will not stimulate equipment demand for very long. However, the Italian building industry association is forecasting an increase of 2.5% in construction output levels in 2018. If this is achieved, this could contribute to a more sustainable increase in demand for construction equipment. Finally, a negative factor to consider, is the uncertainty surrounding the parliamentary election in March, which is due to Eurosceptic tendencies, which have reached alarming levels in all the founding countries of the European Union.





## SPAIN

### How did the construction equipment market perform in 2017 ? What were the main drivers of the market ?

The healthy state of the Spanish Economy, alongside worldwide economic growth, provides a positive background for the market. GDP was above 3 % in 2017, and the construction industry experienced a rebound. Residential construction grew by 14%, and it is expected to continue, albeit at a more moderate rate of growth, as the market matures. The non-residential construction sector grew by 3.5% in 2017, and growth prospects are positive. Activity in the civil engineering sector was limited, due to having only a small number of major projects supported by the Government, and is expected to record a decline in activity. In contrast, regional work in this sector is progressing ahead of the local elections to be held in 2019. However, funding by Councils was insufficient to record growth overall in 2017, and showed a decline of 6.4%. Total sales of construction equipment showed a very significant increase of 49% in 2017, and registered the strongest growth so far in this decade. The main equipment types showed the following levels of growth: compaction equipment 16.1% , lifting equipment 18.6%, crushing and screening equipment 0.4%, heavy earthmoving

equipment 23.6% and small earthmoving equipment 41.2%. In terms of market drivers, the growth of the Spanish economy was stronger than forecast in 2017. This was due to growth in a number of key sectors, and was also helped by necessary reforms. Key sectors that became the growth pillars of the economy were exports, tourism, goods and services and in particular, real-estate and construction. The real-estate sector showed strong growth in 2017. Construction investment declined slightly in the first quarter of the year, but recovered after this, and showed growth overall for the residential and non-residential sectors. The level of permits for new buildings also increased, and as a result, employment rates increased in the second half of the year. So overall, the market benefitted from a combination of sectors that provided growth and supported demand. The recovery in the construction sector had a beneficial impact on manufacturing activity, the service sector, and even the transport industry.

### What is the forecast for 2018?

Forecasts for the construction sector in Spain are positive. The expected growth rate for the period between 2018 and 2020 is 3.5%. Two important features are worth highlighting:

- The Spanish construction sector has been growing since 2015, and growth is expected to continue in 2018
  - However, it is anticipated that the rate of growth will be at a more modest pace, due to the impact of a number of limiting factors
- Residential construction is expected to continue growing, but at a more modest rate than last year. The forecasts for non-residential building are more questionable, as recovery in this sector began later and is less intensive. Furthermore, if real-estate investors continue to question the “safe haven” status of Catalonia in general, and particularly for Barcelona, there could be a negative impact on growth. As a result of this uncertain “wait and see” situation, the forecast for residential construction in 2018 is for only 2.5% growth. In the civil engineering sector, it is expected that the impact of regional activity will peak in 2018, and is forecast to result in 3.6% growth for the sector. However, much of this work is expected to be completed in the first quarter of 2019, so following this, activity is expected to weaken. It is expected that construction equipment sales will follow a similar pattern to the construction industry, with growth continuing in 2018, but at a more modest pace than recent years.





# SNAPSHOT: CECE Economic Forum

## THE CONSTRUCTION EQUIPMENT INDUSTRY IN THE WORLD OF UNCERTAINTY

*Perhaps uncertainty should be considered as a new indicator of economic activity? The answer, according to the debate at the recent CECE Economic Forum held in Brussels in October seems to be “yes”. However, looking at the current market, and recent forecasts, the impact of uncertainty at this stage does not seem to be as damaging as might be expected.*

According to Chris Sleight from Off-Highway Research, the global market for construction equipment is expected to grow at a moderate pace between 2017 and 2021. In terms of the number of machines sold, this is forecast to grow from an average level of 799,000 per year between 2012 and 2017, to reach 865,000 over the following five years.

The European market seems to have recovered from difficult times. The level of machine demand is forecast to grow from an average level of 124,000 units per year between 2012 and 2016, to reach 145,000 machines per year between 2017 and 2021, which represents 17% growth. The biggest risk to the forecast is considered to be the unpredictable impact of Brexit, which is causing concern at many levels, including European governments, and across industry.

The election of Donald Trump generated great expectations for investment in construction and infrastructure in North America. The forecast of growth in sales in the equipment market are in line with these expectations, moving from 161,000 units per year between 2012 and 2016, to reach 191,000 units per year between 2017 and 2021. However, there are many uncertainties which may impact on investment policy, from international issues and conflicts, as well as domestic issues, which are seeing a return to isolationist policies in the USA.

China has experienced a severe fall in market demand for construction equipment in recent years, and this resulted in huge surplus stocks of machines in 2015 and 2016. The market is seeing a strong recovery in 2017, but according to Off-Highway Research, levels of growth in the next five years will not be enough to reach the levels seen prior to the “bubble demand” years. In fact, the average of 202,000 machines sold per year between 2012 and 2016, will show an 11% reduction to 179,000 units per year between 2017 and 2021. It is necessary now for China to respond to the new market situation, and adjust production levels and business behaviour, in its role as a major global player. Some of these changes will be influenced by the choices and behaviour of some of the other major players, particularly the EU and USA.

In contrast, India is emerging as the strongest growing market in the world for construction equipment, with sales expected to show a 50% increase over the next five years between 2017 and 2021. In terms of the number of machines, sales are expected to reach 66,000 units per year. However, this is still a relatively low level of annual sales compared with other major markets around the world.

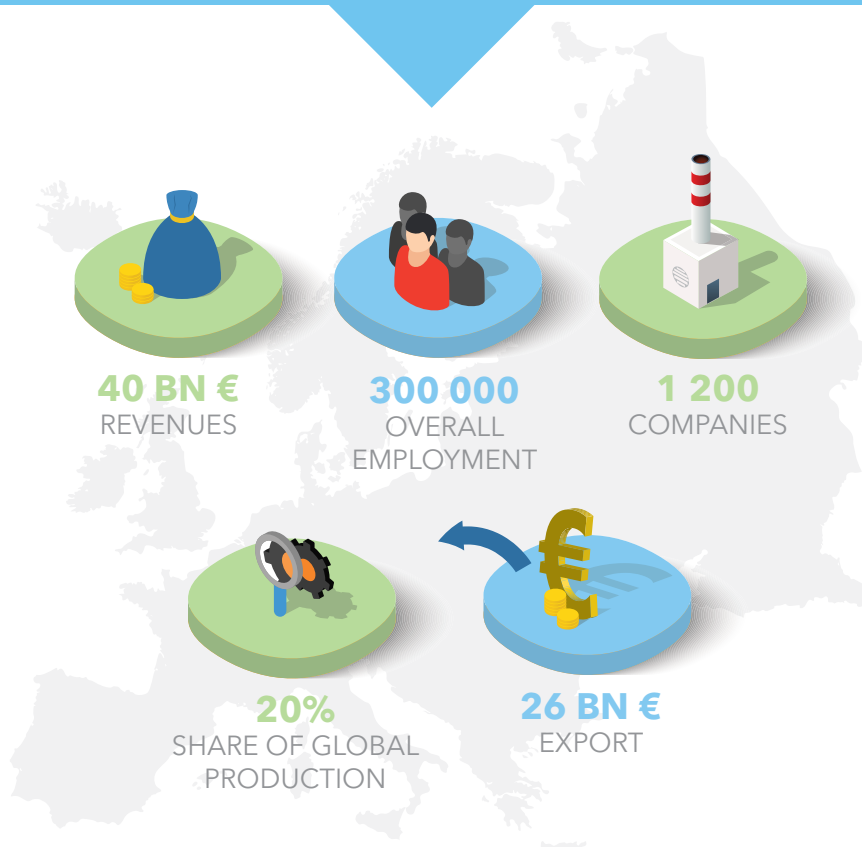
In summary, to what extent do we think uncertainty is affecting our business? What seems to be changing, are the relationships between many major countries,

leading to a different international scene. The impact of events such as Brexit, the rise of populism and the risk of large scale military conflicts are unpredictable. It is difficult to assess and measure what effect uncertainty is having on business and investments. However, according to Taco van Hoek, director at the IEB, the outlook for the European construction industry is better than the overall macro-economic situation. What may change in the medium term in Europe is the level of investment, which is likely to be affected by uncertainties caused by Brexit and the potential new role for the UK in the global economy.

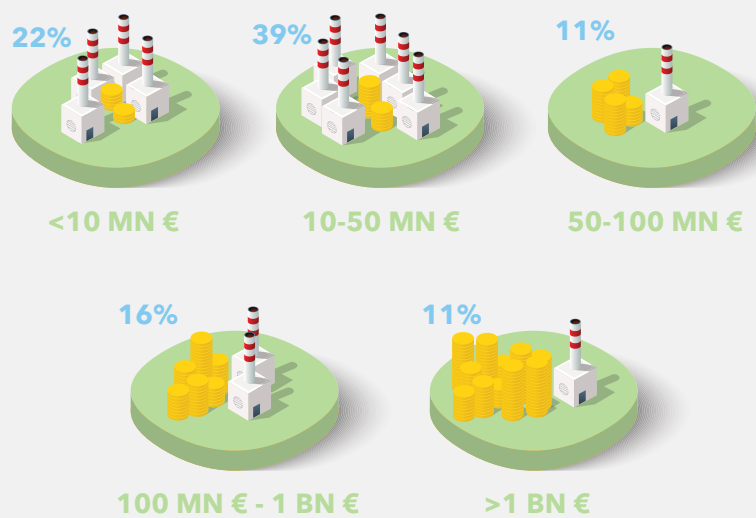
A further uncertainty in the current environment is the development of new information technology, which is gradually transforming industry and manufacturing processes. Taking a positive approach towards this is probably the best way to deal with the uncertainty that it introduces to industry. Changes in manufacturing processes and technological innovations have always been a stimulus for growth. So called “industry 4.0” follows the three previous industrial revolutions, and based on experience, there is not too much to be scared about. The coming years will see profound changes in areas such as production methods, labour forces and education. Treating these changes as new business opportunities is probably the best way to face the uncertainty that they introduce.



# CONSTRUCTION EQUIPMENT SECTOR IN EUROPE

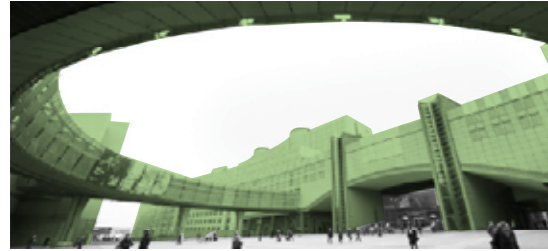


## MOST COMPANIES ARE SMEs



Source : McKinsey 2016





## What is the Committee for European Construction equipment?

CECE represents the European construction equipment industry towards the European Institutions, coordinating the views of its national member associations, and working with other organizations worldwide to achieve a fair competitive environment via harmonized standards and regulations.

### Our figures

- 13 COUNTRIES
- 1,200 COMPANIES EMPLOYING DIRECTLY AROUND 150,000 PEOPLE
- INDUSTRY REVENUES: 40 BN €
- 20% OF THE WORLDWIDE PRODUCTION

## WHAT WE DO

CECE is the acknowledged partner of the institutions of the European Union for all questions related to the construction equipment industry. Based in Brussels, CECE's work involves political representation and the monitoring of legislation and standardization on behalf of its member associations and their corporate members.

CECE also cooperates with CEN and ISO, the European and International Committees for Standardization. CECE furthermore delivers economic and statistical services to its members and partners.

### Representing the interests of the industry

New buildings and infrastructures connect people, boost economies and serve people all over the globe. Construction equipment manufacturers are highly innovative and have invested heavily in increasing the productivity of their machines, while reducing their environmental impact.

The European construction equipment industry forms an important, integral part of the European machinery sector. Manufacturers are predominantly small and medium-sized companies but also large European and multinational companies with production sites in Europe. The industry employs directly and indirectly up to 300.000 people directly, with a similar number being active in sales and services.

### Statistics and economic topics

CECE collects and provides up-to-date market data for many types of construction equipment, providing a leading indicator for the development of European construction equipment markets.

Since 2008 CECE runs a monthly business trend enquiry, the CECE Barometer. The companies taking part in the Barometer receive a report about the economic situation in Europe each month.

### Exhibitions

CECE gives patronage to a limited number of leading sector exhibitions, contributing to successful trade fairs around the globe.

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