



Quarterly Economic Bulletin

February 2013

Executive Summary

■ Macro Economy

GDP dropped in 2012 – 2013 could bring small increase.

■ Construction Industry

No recovery of European construction before 2015. All areas of new construction are concerned. Especially infrastructure investments are hit by cuts in public budgets. Renovation activity much more stable.

■ European Regions

The strong gap between North and South remains the largest problem for construction equipment in Europe. CEE countries exhibit declines in demand.

■ Product snapshot

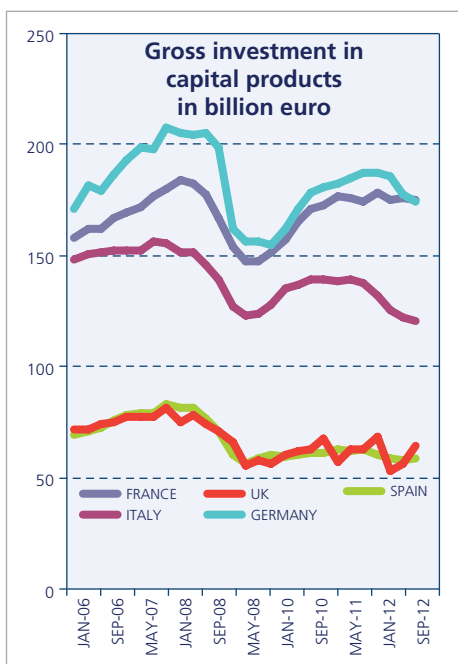
Building construction equipment still shows a good performance. For road equipment and earthmoving, growth has come to an end.

■ Equipment industry forecast

Western Europe and CEE are expected to further lose momentum. Southern European countries should finally bottom out. CECE Barometer shows improvements in the business evaluation over the past months, mainly based on non-EU markets.

Macroeconomic View

As in the United States, the European economy is facing the question of how to replace public intervention with private spending. However, the reduction of household debt has really difficulties in



	Gross Domestic Product growth in %		Gross Investment in %	
	2012	2013	2012	2013
Germany	0,9%	0,7%	-1,6%	0,4%
France	0,0%	-0,1%	0,3%	-1,9%
United Kingdom	-0,2%	0,8%	1,0%	-0,2%
Spain	-1,4%	-1,2%	-9,1%	-5,5%
Italy	-2,0%	-0,5%	-8,9%	-3,1%
EU27	-0,3%	0,2%	1,0%	4,0%

getting started. For several months now, investment from companies has been decreasing without any optimistic sign for the coming year. The demand from the rest of the world is also reducing month after month. In fact, for the moment, in the short term, there is no real spur to improve European economic growth.

Particularly, in the Euro zone, the interventions of the ECB has reduced the pressure on interest rates, which was important especially for the most fragile Member States. But, these measures have not solved the basic problem - which is the vital need for convergence of our economies to stabilize this economic zone.

Another fall in GDP during the second half-year 2012 has been observed in the Eurozone. In 2013, the Eurozone could have light growth, because the effects of austerity plans in several member countries would diminish. But, for the moment, it is not possible to speak about a real

resumption of the economy of this zone. The recovery of growth and of employment could be a long way off.

The GDP of the Eurozone, in fact, contracted in the 3rd quarter of 2012 (-0,2% annual rate) after a decrease in the previous quarter. Business surveys do not tell a good story. Since mid-2011, the PMI's (Purchasing Managers' Index) indicators for all sectors are under 50. This indicates a recession, both in industry and services. In the construction sector, which had previously been resilient, the business climate has also sharply deteriorated. Industrial's production, which had registered a slight jump during the summer of 2012, decreased strongly in the following quarter and the trend has continued.

In the short term, the scenario for the growth prospects of the Eurozone depends essentially on two factors : first, the impact of budgetary contraction and, second, the effects of the international environment.

Construction Activity

Trends in total residential construction

Europe is currently in a phase of adjustment and consolidation that will last for some time yet and which is having a massive negative impact on construction demand, among other things. In many places public budgets must be put in order and the way needs to be paved for lasting financial good practice in the public sector. The excesses of social spending must be contained, the dominance of the state as a redistributor and employer needs to be minimised, and the European economy must be made more competitive. It is also very important that the huge debts accumulated by states, companies and private households are brought back down to an acceptable level. The real-estate market and the banking sector must re-cover from the excesses of the years prior to 2008.

These adjustments, which will be more successful in some countries than others, will be accompanied by numerous negative consequences. These will also be felt in several countries outside Europe and will have a dampening effect on the world economy as a result. This will not make adjustment processes in Europe any easier.

Trends in new residential construction

Overall growth in new residential construction remains negative in 2013 – a decline of 1,1% is expected for 2013.

Only a limited number of countries will experience positive growth in light of the overall economic slowdown and uncertainties. Lacking consumer confidence is also a dampening factor for new construction activity.

However, demographic pressures and the improvement of the macroeconomic environment as well as catch-up effects will lead to a strong rebound in 2014 (+4.2%), which slightly accelerates in 2015 (+4.7%).

The development of new housing construction between 2012 and 2015 will be highest in the Nordic countries. The housing markets of the big five countries exhibits strong volatility – the downturn in 2012 and 2013 is particularly pronounced, and so is the upturn in 2014 and 2015.

After a relatively solid performance in 2012, housing market output will hit bottom in 2013 in Central and Eastern European countries before a moderate rebound in 2014.

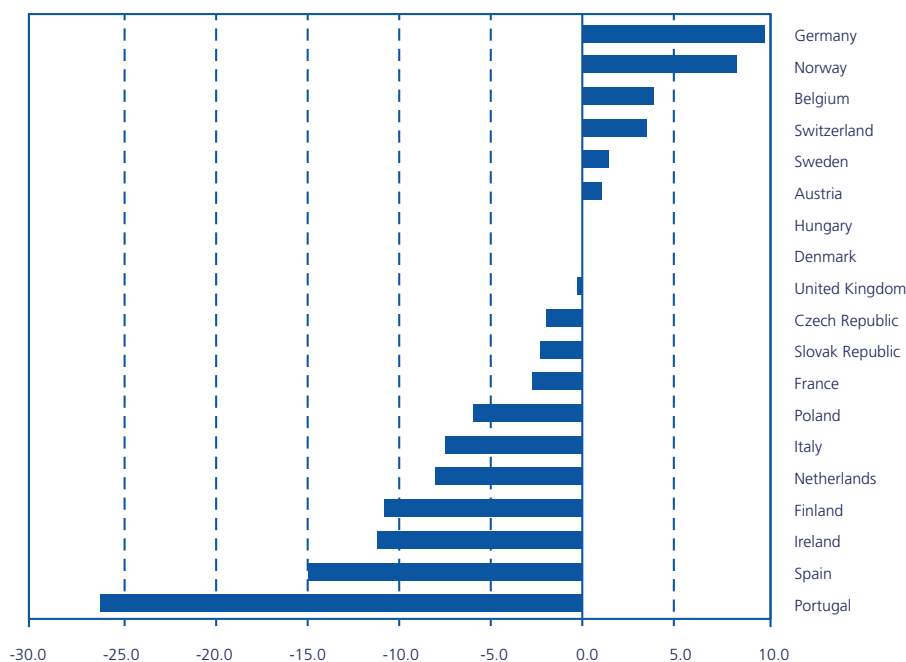
Even though housing construction output in the six smaller Western European countries will not decline as much in 2012 and 2013, the rebound in 2014 and 2015 will also only be relatively restrained.

Trends in residential renovation

Renovation activity remains much more stable than new construction over the forecast horizon until 2015.

In 2014 and 2015 low, but positive, growth is expected. On the one hand, the larger volume of renovation activities leads to some more stability.

On the other hand, demand for renovation works (which usually comprise smaller volumes and shorter time periods than new housing) are not affected by the same extent by the uncertain economic environment and the hesitant approach by households.



Source: EUROCONSTRUCT December 2012

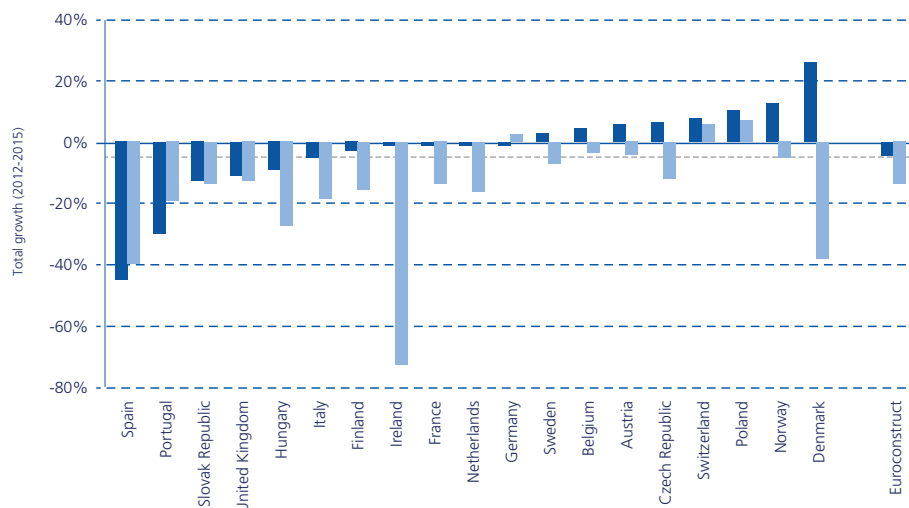
Forecast % change in new residential construction in 2013

Trends in non-residential construction

Non-residential construction will experience another decline in 2013. This will be partly magnified by the situation in Spain. A positive development is, for example, expected for only one of the „Big five“: France. The positive trends should then set the tone in 2014 but only very hesitantly. They are then expected to intensify in 2015.

The stabilisation previously forecast for investment in 2012 has not come about and today's estimates suggest a fall. The result of this is that the prospect of a more favorable growth in investment is delayed by a year.

The recovery of non-residential construction, forecast for the end of the period



Source: EUROCONSTRUCT (74th Conference)

Non-residential

2013-2015, looks like being too weak to offset the decline which is looming for the years 2012-2013. Consequently, non-res-

idential construction is expected to have declined by 4,7% at the end of the period 2012 to 2015.

Trends in European civil engineering

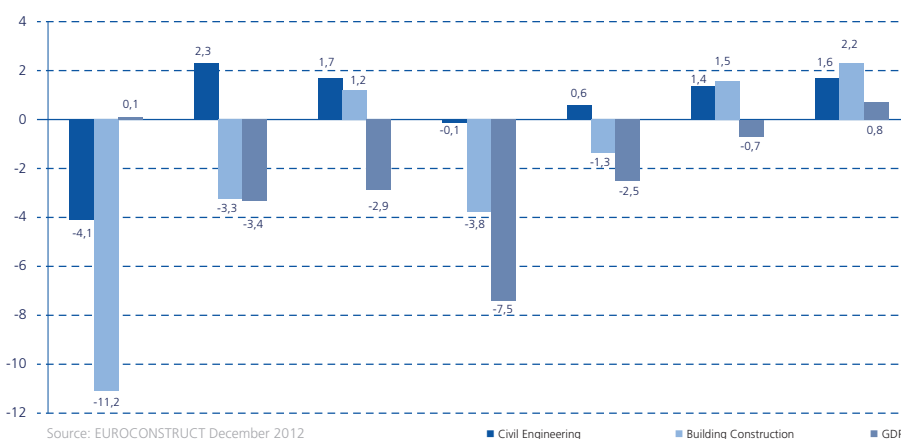
Decline is likely to continue in 2013 and 2014 although at a slower rate. The long period of civil engineering growth in the Eastern European countries will end, and their figures will deteriorate. EU funding has contracted and national investment funds are scarce. Tightening fiscal policy is threatening public expenditure which limits civil engineering.

It appears that civil engineering growth will remain low for an extended period in the difficult economic situation. The overall contraction of civil engineering in Europe has been drastic and return to the normal level will take time. The stability of the upturn is highly uncertain and depends strongly on global developments.

The need for civil engineering in many countries is undeniable. For instance, in Switzerland and many other countries rail capacity has been stretched to the limit. EU energy obligations increase the pressure to build renewable energy infrastructure. Central areas of cities are undergoing development involving much civil engineering construction. A large amount of infrastructure requires renovation and maintenance. European infrastructure is in many areas in poor condition and requires huge new investment.

Several European countries are burdened by large government deficits and debts. As a result they strive to cut public expenditure. This reduces new civil engineering investment which will be reflected in the volume of civil engineering in coming years. Fiscal policy that restricts demand, again, serves to deepen the recession. The situation may remain this way for some time. Government debts are so huge that only GDP growth and inflation can shrink them.

deficit caused by the financing of infrastructure investment is not a problem in the same sense as debt to finance services since the investments allow future generations to enjoy the benefits of a better infrastructure. High quality infrastructure provides a significant competitive advantage. A budget deficit is undeniably a problem as it shifts the burden to future generations. The return to a normal economy will be a very long process. Spain no longer has resources



Civil Engineering, Building Construction and economic growth in European Countries, %-change

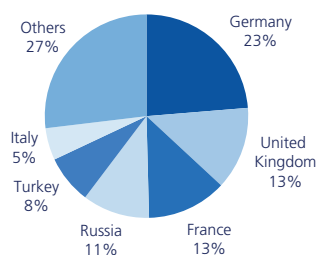
Debt reduction goals make strategic investments impossible, not counting various shorter term stimulation measures. That means that the timing of infrastructure investments cannot be properly planned. In a recession public investment should be increased to support employment – especially in civil engineering and renovation. A

to invest, or its available resources are earmarked for other purposes than civil engineering. In the medium term, assuming that the economy starts improving, the Spanish government should invest in infrastructure which could be a key driver of economic growth.

Earthmoving Equipment

In 2012, 105,000 units of equipment (excluding telehandlers) were sold in Europe, which corresponds to a three per cent decrease compared to the previous year. Decline accelerated over time: fourth quarter sales saw an 11 per cent drop year on year. This moderate change however, tells only part of the story. In fact, the contrast between Northern and Southern European regions has never been more obvious. Some countries in Southern Europe have seen the fifth consecutive year of decline. Spain is the most striking example, where equipment sales now are only a tiny 0.8% of total European demand.

Shares of earthmoving equipment sales in European countries, 2012



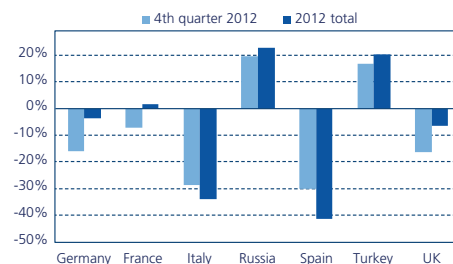
Considerable growth has been seen in Russia, Turkey, and Scandinavia with double-digit sales increases (attributable to good overall economic performance, with Russia soaring by some 25 per cent in sales). Though smaller markets, the the Baltic countries also performed well. The bigger volume markets of Germany, France, and the UK almost held their ground with minor decreases of between one and ten per cent. At the bottom end, Poland was down 29 per cent after the stimulus of investment related to Euro 2012, the Czech Republic and Italy lost one third and Spain's sales decrease amounted to another alarming 40 per cent.

The fear that investment by rental companies would come to a halt in 2012 did not materialized on a big scale. Unsurprisingly, however, public sector demand further decreased. The bad shape of housing

markets had limited effects on sales of earthmoving equipment; yet civil engineering and non-residential construction sectors - not being much better off - took their toll of equipment sales. The only good news for the worst affected Southern countries is that inventories are slowly getting back to normal levels.

Crawler excavators were the only product group to see sales growth in 2012 (a tiny 2%), yet this was only attributable to good sales in the first half of the year. While big-volume product groups such as wheeled loaders and wheeled excavators could limit their decline to single-digit numbers, products such as skid-steer loaders, backhoe loaders, dozers, dump trucks, and motor graders all recorded falls of more than 15 per cent. Over the year, standard and large equipment performed slightly better than compact equipment.

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



Road Equipment

Compaction equipment sales show a similar picture to earthmoving equipment. The big disparities across Europe are equally strong; and as is the case with earthmoving, growth has come to an end even in most of the well-performing markets over the year. Total sales in Europe have been down eight per cent in 2012. Light compaction equipment – tampers, vibratory plates, and pedestrian rollers – were less affected and recorded a marginal three per cent sales decline only whereas standard equipment (i.e. self-propelled rollers), lost 12 per cent across Europe.

Northern and Western European countries remained on the positive side; Germany keeps its position as the largest individual market with one third of all equipment sold there. Central and Eastern European countries have lost much of their dynamism after the phasing out of a number of EU structural funds.. This particularly applies to Poland which had been one of the fastest growing markets in past years, but dropped by a dramatic 57 per cent in 2012.

Sales of asphalt pavers decreased by seven per cent, according to CECE statistics. This is a result of an exceptionally bad fourth quarter (-44%) after a flat first nine months. Of the large markets, Germany and Turkey saw growth while Russia and the UK were flat and Italy and France recorded declines.

European road equipment manufacturers can still count on exporting activities to most emerging markets, the troubled Chinese market being the only major exception. However, for the European market there is not much light at the end of the tunnel. Given an even more pessimistic outlook for the civil engineering industry with austerity programmes and a general lack of road projects in most countries, the equipment industry will derive its growth only from replacement investment in the coming months. This is likely to imply further decreases, especially in Central and Eastern European countries where equipment fleets are younger and replacement sales are unlikely to be seen on a big scale.

Tower Cranes

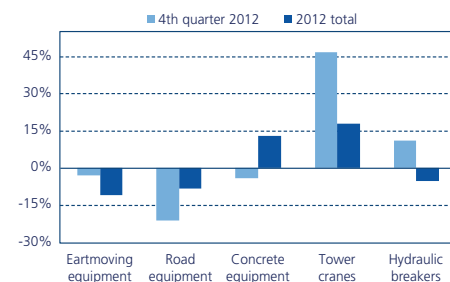
Building construction equipment was the sub-sector of the industry which recovered from its deep crisis only very late and, in a similar fashion to other sectors, recovery did not touch Southern Europe at all. In fact, tower cranes are now the most striking example for a 'North-South-gap' in Europe. Still, the process of catch-

ing up in some countries led to a good 18 per cent sales growth in Europe this year. Dynamism increased over the year and culminated in a fourth quarter growth of 47 per cent.

Witnessing 18 per cent sales decline, France lost its leading position to Russia where the market almost quadrupled in 2012, most probably driven by temporary demand out of individual projects. Other strong markets like Germany, Austria, and Switzerland remained on fair absolute levels.

Manufacturers currently benefit a lot from exports beyond Europe: Especially Asian markets like India and Singapore but also the Middle East contribute to a big increase in machine sales. Looking at 2013, the sustainability of this trend is questionable given the current slowdown of the construction industry in India and big uncertainties due to the fragile political situation in Middle East countries.

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



Concrete Equipment

The second major part of building construction equipment exhibited a similar development to tower cranes. The demand side remained on a recovery path in Europe, yet with huge differences amongst countries and regions. For truck mixers, CECE statistics recorded a solid 15 per cent sales increase in Europe in 2012. This positive scenario changed in the fourth quarter, however, when sales were down 6 per cent compared to the fourth quarter of 2011. Of the two dominant markets, Germany saw expansion for the ninth consecutive quarter (on a year-on-year basis) whilst in France growth has come to an end for the moment. Russia gained significantly whereas Italy and

Spain are still in dire straits. Batching plants and mixer systems exhibited similar results. Demand from beyond Europe remains on a growth path.

Despite the uncertain macroeconomic situation, prospects for concrete equipment are not too bad, after all. With a positive outlook for the building construction industry in some European countries, demand might exceed sheer replacement investment levels and, in turn, equipment market recovery is to continue. Even in markets where building construction is still down the equipment industry should have hit the bottom. Currently, incoming orders above last year's levels confirm this trend for the months ahead. Therefore, another year of slight sales growth on a European level appears a realistic scenario for 2013.

Summary and Outlook

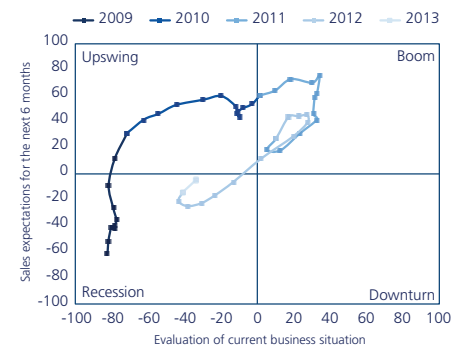
The gap between Southern Europe and most parts of Central, Western and Northern Europe remains a big issue for the equipment industry. While recent strong declines in the most affected markets could suggest that the bottom must have been hit, not many positive signals are actually observable. Recently well-performing markets showed clear signs of a slowdown in 2012. This is not necessarily an alarm signal, given that absolute levels of demand are still good in these regions. However, for most products, the overall European market is still below the long-term average which suggests that there should be a structural demand which has not yet materialized.

This potential can only be tapped if uncertainty about overall economic progress can be limited. After all, the danger of a further Euro crisis escalation remains a big threat to the European industry. Despite low interest rates, financing of equipment is often difficult and many investments which are not absolutely necessary are postponed or put aside.

Accordingly, prospects for 2013 are not overly optimistic: Off-Highway Research has forecast another five per cent sales decline for Western Europe. The market might finally end up a bit stronger than that, but modest incoming orders, and

to some extent a wait-and-see attitude before the Bauma exhibition, suggest that a dynamic move forward is unlikely, at least in the first quarter.

Business cycle of the European construction equipment industry, Feb 2013 (rolling three-months averages)



On a more positive note, the monthly CECE business barometer shows a continuous (yet still fragile) improvement of the business climate since last autumn. In February, a majority of surveyed manufacturers expected a better business situation for the coming six months which could be the first indicator for a turnaround.

At a glance: expected development of product groups / regions in the next quarter

At a glance: Expected development of product groups in the next 3 months

Road Equipment	↘
Concrete Equipment	↗
Tower cranes	→
Crushing and Screening	↗
Earthmoving Equipment	↘
Construction site Hoists	→
Hydraulic Tools and Attachments	→

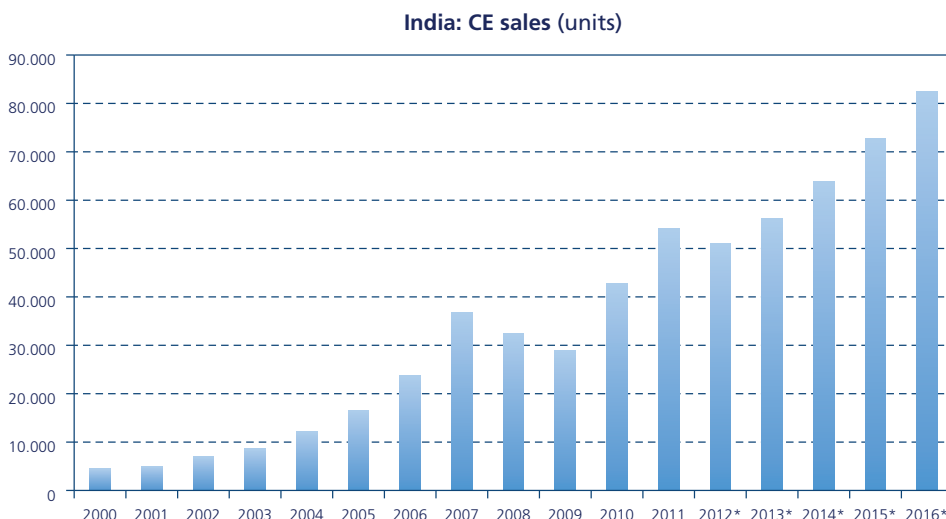
At a glance: Expected development of regions in the next 3 months

Northern Countries	→
Western Europe	↘
Central and Eastern Europe	↘
Russia	→
Southern Europe	→
Turkey	↗

India: slowing down to speed up

A GDP growth of 5 per cent would be welcomed in any European country as a godsend. The same cannot be said for a newly industrialized economy like that one of the Indian subcontinent in 2012. Here, after the rates of 8 to 9 per cent recorded before the global financial crisis of 2008, the economic growth seems to have reached its lowest point. Despite this and other typical problems of a developing economy which has hitherto had a chequered past (e.g. with corruption, poor infrastructure, shortage of skilled labour etc.), many analysts, among which the Investment bank Goldman Sachs, say that Indian GDP will pick up again by 6.5 per cent in 2013 – with a further 7.2 per cent in 2014 and remaining high through 2015-16.

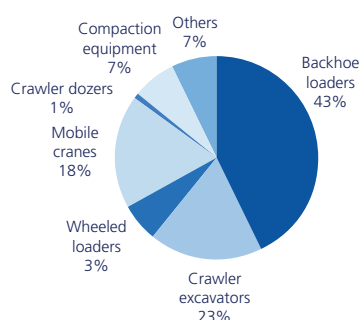
As far as the construction equipment market is concerned, it should have experienced in 2012 a loss between 6 and 10 per cent due to the general economic situation and more specifically to the halving of infrastructure spending. Nevertheless the forecasts for the future remain positive. According to Off-Highway Research



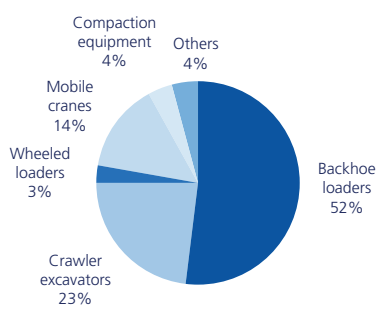
the rate of growth of the market during the next four years will be around 15 per cent per annum. It is also interesting to note that the backhoe loader, the 'Indian' machine par excellence in the past year reached its highest point, gaining more than 50% of the market, whereas in 2006 its share was 43 per cent. Moreover, in

the forecasts of Off-Highway Research the market share of this multitask machine could go down to 36% by 2016, following the trends experienced in the past in other growing markets. These saw compact and specialised equipment taking a greater share at the expense of the more traditional types of machines.

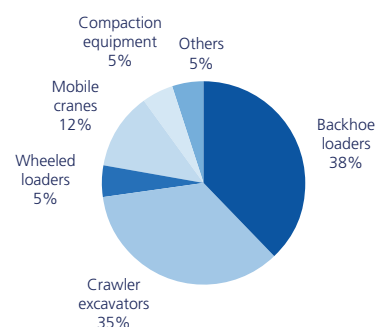
Sales 2006



Sales 2012 (estimate)



Sales 2016 (forecast)



This chapter is based on different sources, including CECE statistics, the CECE Business Barometer and information provided by Off-Highway Research (www.offhighway.co.uk)



What is the Committee for European Construction Equipment?

CECE is the recognized organization representing and promoting the European Construction Equipment and related industries. We work on the European/National and international legislation to achieve a fair competitive environment via harmonized standards and regulations.

Our figures

- 16 National Associations
- 14 countries
- 1,200 companies employing directly around 130,000 people.
- Total turnover: 23 bn €
- 20% of the worldwide production

What we do

CECE is a European network consisting of a Secretariat in Brussels and the National Association offices in the different countries. The Secretariat in Brussels represents the interests of the industry vis-à-vis the European institutions.

Within that framework CECE's work covers political representation, legislative and standardization monitoring, economic and statistical services.

■ Representing the interests of the industry

CECE is the acknowledged partner of the institutions of the European Union for all questions related to the construction equipment industry. It represents the views of its member associations and their companies in the legislative and political process. Furthermore CECE co-operates with CEN and ISO, the European and International Committees for standardization.

We work on technical legislation, environmental legislation, external trade issues, internal market.

■ Statistics and economic topics

CECE market data has become the leading indicator for the development of European construction equipment markets. CECE organizes a number of European statistics providing up-to-date market data for many types of construction equipment.

Since 2008 CECE organizes a monthly enquiry about the economic climate of the sector called CECE Barometer.

The objective is to obtain a regular business trend indicator of the European construction equipment industry. Every month the companies taking part in the Barometer receive a report about the economic situation in Europe.

■ Exhibitions

CECE gives patronage to a limited number of leading global and international exhibitions. The co-operation aims at contributing to successful exhibitions that meet the demands of the construction equipment industry.



CECE Committee for European Construction Equipment

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