COMMITTEE FOR EUROPEAN CONSTRUCTION EQUIPMENT

ANNUAL ECONOMIC REPORT

No.5
MARCH 2019

European construction equipment remains on the growth path

Dear reader,

Welcome to the new CECE Annual Economic Report, the fifth 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. The report also includes information from the national CECE member associations, shedding more light on regional developments in the European construction equipment sector.

In light of the collaboration between CECE and the European Rental Association (ERA), this Annual Economic Report features for the first time an overview of the European equipment rental market.

The CECE Annual Economic Report is publically available at 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 machinery, 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 experts 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.

The CECE team

Executive Summary

CONSTRUCTION INDUSTRY

After ten years of growth the construction industry cycle has reached a peak. Thanks to growth in construction output taking place across all the European countries for the first time in many years, 2017 recorded a peak level of growth at 4.1%. However, 2018 has been the turning point for the construction industry in Europe, beginning to cool down gradually to 2.8% growth, and forecast to fall further in 2019 to 2% growth.

MINING INDUSTRY

A review of the global mining market in 2018 shows that further recovery was made, following on from the progress made in 2017. However, many of the key measures of the mining market suggest that the rate of growth was slowing down in 2018.

NEW FEATURE: RENTAL INDUSTRY

Following a positive cycle in the construction industry, the equipment rental market in Europe grew by 4.4% in 2017, followed by positive estimates of +3.7% in 2018. Forecasts offered by the ERA Market Report shows a growth rate of 3.4% in 2019. In this positive environment, the report singles out special growth estimates for France (+5.7%), Poland (+7.5%) and Czech Republic (+6.7%) in the year 2018.

EQUIPMENT MARKET

2018 was the strongest year for the European construction equipment sector since the economic crisis of 2008/09. Sales on the European market grew by 11%, and the absolute market level is now only 10% below the 2007 peak. During 2018, there was considerable growth momentum during the whole year.

OUTLOOK

External effects like bauma in April 2019 and the introduction of EU Stage V emissions legislation is not expected to have a lasting effect on equipment sales, and current high levels of demand, along with manufacturers' capacity limitations, should limit any short term volatility.

The macroeconomic situation kept improving but at a slower pace

Economic activity in the EU and the euro area moderated last year due to a combination of internal and external factors. While growth began to moderate in the first half of the year, the slowdown in the second half of 2018 turned out to be more pronounced than expected. Over the next two years, the economy is expected to continue growing but at a slower pace.

The slowdown in 2018 reflects fading support from the external market. This includes increased uncertainty over trade policies, notably between the USA and China, and a declining trend in global manufacturing output.

Specific factors within the EU market also contributed to the slowing momentum in the second half of the year. This included the disruption of car production in the third quarter, as well as social tensions and uncertainty over fiscal policy in some Member States.

Despite these developments, Europe's economic fundamentals remain solid. Improving labour market conditions, low financing costs and some modest increases in fiscal policy this year should allow growth to continue, but at a more moderate pace.

Investment weakened in the euro area in the third quarter of 2018. This was due to a sharp drop in non-construction investment in Italy, a fall in construction spending in the Netherlands, and a slowdown in both France and Spain. Investment in the euro area, excluding Ireland, only increased by 0.2% during the quarter.

Consumer price inflation in the euro area fell towards the end of 2018 due to a sharp drop in energy prices and lower food price inflation. In 2018, inflation averaged 1.7%, up from 1.5% in 2017. Following this, inflation in the euro area is forecast to moderate to 1.4% in 2019.

Overall, risks to economic growth remain substantial. Trade tensions have alleviated somewhat, but still pose high risks for the global economy. In the USA, the risk of an abrupt fiscal tightening appears to have increased, especially for 2020. China's economy may be slowing more sharply than anticipated, and global financial markets and many emerging markets are vulnerable to abrupt changes in sentiment and growth expectations.

In some countries in the euro area, the risks of a resumption of the sovereign debt crisis still exist, even if it is not the most likely scenario. Temporary factors currently holding back growth could turn out to be more lasting than expected. Finally, large uncertainty still surrounds Brexit. On the positive side, a more extensive use of EU funds in recipient countries could trigger additional investments. In addition, favourable labour market conditions could result in stronger domestic demand.

	Gross Domestic Product growth in %				Gross Investment in equipment in %			
	2017	2018	2019	2020	2017	2018	2019	2020
Germany	+2.2%	+1.5%	+1.1%	+1.7%	+4.0%	+4.5%	+2.8%	+1.8%
France	+2.2%	+1.5%	+1.3%	+1.5%	+4.4%	+4.0%	+3.4%	+1.8%
UK	+1.8%	+1.4%	+1.3%	+1.3%	+1.8%	-0.5%	-0.1%	+1.0%
Spain	+3.0%	+2.5%	+2.1%	+1.9%	+5.7%	+3.0%	+3.9%	+2.4%
Italy	+1.6%	+1.0%	+0.2%	+0.8%	+1.8%	+4.9%	+1.8%	+1.7%
EU28	+2.4%	+1.9%	+1.5%	+1.7%	+2.9%	+3.0%	+2.5%	+1.8%

GDP forecast for European countries, source: European Commission, European Economic Forecast, February 2019
Investment growth forecast for European countries, source: REXECODE Forecasts, December 2018

CONSTRUCTION INDUSTRY

A soft landing for the construction industry but still on track for growth

After ten years of growth (2008-2018), the construction industry cycle has reached a peak. Thanks to growth in construction output taking place across all the European countries for the first time in many years, 2017 recorded a peak level of growth at 4.1%. However, 2018 has been the turning point for the construction industry in Europe, beginning to cool down gradually to 2.8% growth, and forecast to fall further in 2019 to 2% growth. This has been supported by slowing, but still positive growth in GDP. Over the past decade, the developed markets have still not reached their pre-crisis levels of activity. Going forward, slowing GDP growth and tighter financial and monetary conditions will result in a deceleration in the residential sector (forecast to grow by 3% in 2019, after 3.5% in 2018, and 4% in 2017). The necessity for fiscal discipline and the impetus in the e-commerce sector are the key factors which will result in limited growth in the infrastructure and non-residential sectors.

THE EUROPEAN CONSTRUCTION INDUSTRY PEAKED IN 2017, AND GROWTH SLOWED DOWN IN 2018

2017 saw the fastest growth rate in the construction industry during the current cycle since 2008, and has been at higher levels than the euro area economy. However, 2018 has been the turning point, and means that future years will see a gradual cooling down in construction activity, in line with global GDP growth.

The cyclical nature of the construction sector has been more pronounced in recent years, and suggests that growth will be dragged down by rising interest rates and tighter credit conditions in European economies, alongside slower economic growth. Typically, a growth cycle in the construction industry averages around eight years, and the current cycle is already beyond this length of time.

The slowdown in growth looks likely to impact on all the major sectors within the construction industry. The deceleration started in the residential sector in 2017. With the persistence of low interest rates, household credit growth has remained above GDP growth. However, there are growing constraints in terms of affordability, as house price growth has outpaced growth in incomes.

In addition, tighter credit conditions will also be a drag on housing demand. The residential sector recorded 2.8% growth in 2018, and will probably see less than 2% in 2019. In the coming years, the residential sectors in each country should follow the same pattern of growth as overall economic activity in each country.

ALL SEGMENTS WITHIN THE INDUSTRY ARE DECELERATING

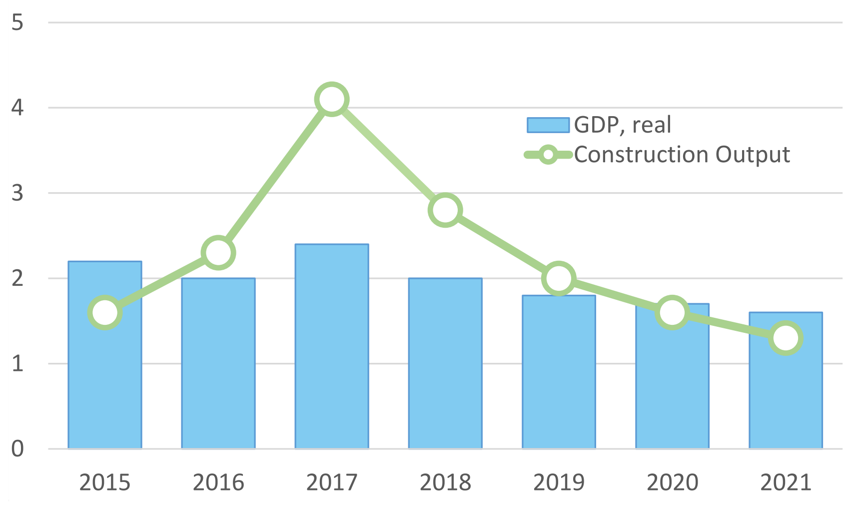
Overall, non-residential construction output (both new work and renovation activity) is growing at more than 1% in Europe. This sector started to decelerate following the residential sector. However, one area showing a different trend is increasing demand for public buildings and offices in the UK and Germany. This is mainly due to increases in public budget allocations, and the anticipated effect of Brexit.

A significant feature within the current construction cycle, has been the very poor performance within the infrastructure sector due to underinvestment by governments. After nine years of gradual slowdown, the infrastructure sector, with its dependence on political decision-making, started to accelerate from 2016 onwards. After a small lag, civil engineering has become the new driving force in recent years, with annual growth rates between 2.5% and 5%. Civil engineering benefits from the European Commission infrastructure's plans and from national plans supporting road and railway renovation. It also benefits from the healthy global economic situation. However, the pick-up in the infrastructure sector could be at risk due to public debt within Europe, which is currently at its highest level since 2008.

DEMAND IN GERMANY REMAINS STRONG

Growth in construction output in Germany decelerated to 2.9% in 2018, compared with 3.2% in 2017, and is forecast to slow down further to 2.8% in 2019. Demand in the construction sector has remained resilient during the current global construction cycle since 2008. An interesting feature is that growth in revenue amongst German construction companies has been driven more by increasing prices than by volumes. The latest data on construction permits is pointing towards a slowdown in the German construction market. However, positive factors supporting growth in the market are private consumption and investment activity. Private consumption is benefitting from favorable employment conditions and wage trends.

At the same time, investment activity is positive due to high capacity utilization, favorable financing conditions, and relatively low corporate debt. However, in contrast, economic sentiment has been clouded by the trade conflict with the USA, and this has had an impact on economic activity in Q3 2018.



GDP vs. Construction Output; y-o-y change, in %; source: Euroconstruct

THE CONSTRUCTION INDUSTRY IN FRANCE GREW BY 1.6% IN 2018, BUT WILL SLOW DOWN THIS YEAR

Growth in the French construction market slowed down from 2.5% in 2017 to 1.6% in 2018. The forecast for 2019 is a further slowdown to 1.5% growth. A weaker residential sector in 2018 was one of the reasons that activity fell compared with 2017, with a disappointing level of building permits and housing starts since autumn 2017.

At the end of 2018, the cumulative 12-month building permits data showed a 7.1% decrease year-on-year, and the housing starts data for the same period showed a 7.0% reduction. In contrast, a similar analysis up to August 2017 showed growth of 8.2% and 15.7%, respectively.

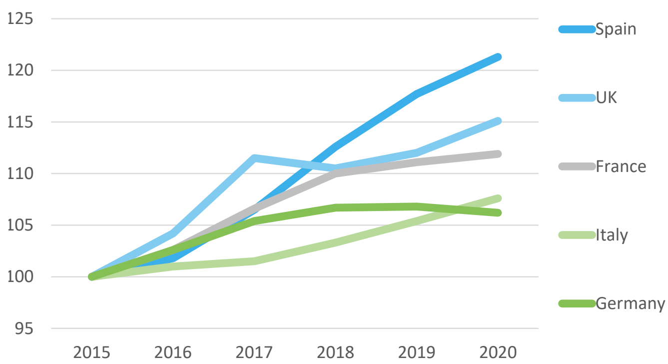
The 40 billion euro Grand Paris Express project is gaining momentum and will help to compensate for lackluster demand in the Paris region overall. New legislation known as "Loi ELAN" is expected to help reduce the barriers to construction activity, by lowering the cost and reducing the level of administration needed. Similarly, the "Loi PACTE" is an attempt to improve the business climate for SMEs by simplifying certain insolvency procedures, and introducing tax rate adjustments.

UNCERTAINTY OVER BREXIT CONTINUES TO WEIGH ON BUSINESS AND CONSUMER CONFIDENCE IN THE UK

Like many sectors, construction is awaiting the outcome of the Brexit negotiations in the UK. Uncertainty over the outcome for Brexit has continued to impact on business and consumer confidence in recent months. In addition, monetary and financial conditions are becoming tighter. However, despite this situation, data shows that Great Britain is still building. Mortgage approvals remain resilient, which suggests that the sector will not face a demand crisis. However, lower demand has reduced house price by a half since the pro-Brexit vote. Growth in construction output slowed down in 2018 to 0.7%, compared with 7.1% in 2017. Forecasts from industry experts for 2019 show a range of possible outcomes, from 0%, to a decline of -4%, representing "deal" and "no deal" scenarios for Brexit. In 2018, the non-residential sector in the UK was hit by the collapse of Carillion, which was a major source of revenue for thousands of small subcontractors in its value chain. In future, the outlook for infrastructure activity remains an area of uncertainty, as the European Investment Bank through the Juncker Plan, has been a significant provider of funding for major infrastructure projects in the UK in the past (2.7 billion euro).

THE ITALIAN CONSTRUCTION SECTOR IS ON A RECOVERY PATH

In Italy, construction investment is set to grow at a rate of 1.9% in 2018, driven by residential construction (+2.6%). This can be attributed to on-going growth in building renovation work, thanks to fiscal incentives, and to the first signs of recovery in the sector. In addition, non-residential construction is contributing to the recovery, boosted by investment in equipment. In contrast however, civil engineering is continuing to show weakness, due to further falls in investment which were estimated to be -2.2% in 2018. As a result, the outlook for infrastructure projects looks poor in the short term.



Total Construction Index; source: Euroconstruct

GLOBAL MINING INDUSTRY

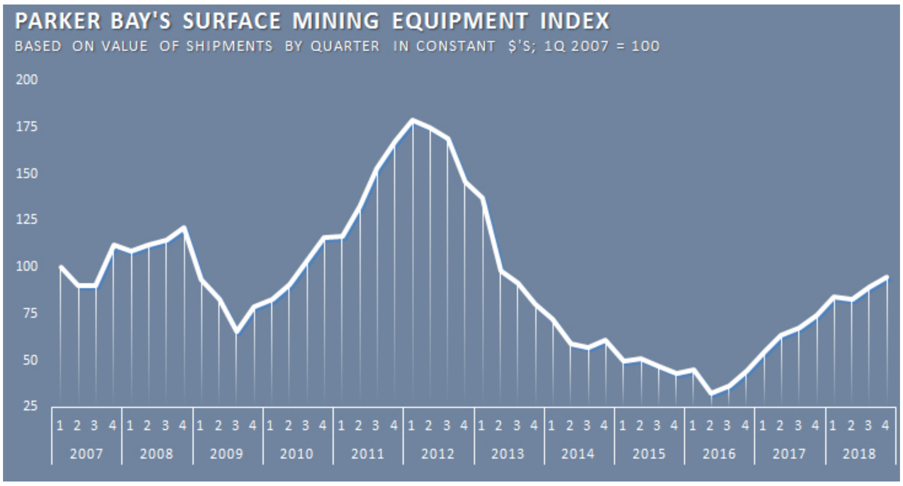
The global mining market continued to recover in 2018

A review of the global mining market in 2018 shows that further recovery was made, following on from the progress made in 2017. However, many of the key measures of the mining market suggest that the rate of growth was slowing down in 2018. For example, metals prices were strong in the early months, before slowing, and then stabilising in the second half of the year. Exploration activity showed a similar pattern, with some slow down as the year progressed. However, overall levels of exploration activity were high in 2018 compared with the previous five years.

The Parker Bay Company monitors deliveries of surface mining equipment to the global mining market on a quarterly basis. Their latest update to Q4 2018 is shown in the graph on the right.

This shows that shipments continued to recover in 2018, and for the whole year were 37% up on 2017 levels, in terms of the number of units shipped.

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 MARKET FOR SURFACE MINING EQUIPMENT

However, in their Q4 2018 report, Parker Bay highlight that the rate of growth in shipments of surface equipment showed signs of slowing down during the year.

Furthermore, while expectations for the mining market and demand for equipment are positive for 2019, they are tempered by projections of slowing global economic growth and the potential impact on mineral demand from international trade disputes.

Industry experts are also forecasting that investment levels across the European mining industry are likely to be sluggish in the first half of 2019.

This is because mining companies are expected to be conservative in financial terms, and look to improve balance sheets, rather than invest significantly against a background of wider macroeconomic risks.

NEW FEATURE

Rental Equipment Market shows good upward trend and positive forecast for 2019

Following a positive cycle in the construction industry, the equipment rental market in Europe grew by 4.4% in 2017, followed by positive estimates of +3.7% in 2018. Forecasts offered by the ERA Market Report shows a growth rate of 3.4% in 2019. In this positive environment, the report singles out special growth estimates for France (+5.7%), Poland (+7.5%) and Czech Republic (+6.7%) in the year 2018.

The ERA Market Report is drawn up every year through a coverage of 15 European countries that make up 95% of the overall European rental equipment sector. With 17,000 rental companies employing 140,000 people – operators excluded – the European rental industry generated € 25.7 billion in turnover in 2017.

With € 6.8 billion turnover, the UK is by far the largest national market; France and Germany both stand around the 4 billion mark, whereas Sweden Italy, Spain and The Netherlands range from 1.6 to 1 billion euros. The average rental penetration in regards to the construction industry stood at 1.5% in 2017 and investment in rental equipment grew by 1.7% compared with the previous year.

For the first time in 2018, ERA carried out an even more detailed research on the rental penetration of 6 common product categories, including 4 CECE-relevant machines: mini excavators, crawler excavators, tandem rollers and wheeled loaders.

This part of the report is the result of a newly launched collaboration with Off-Highway Research and is based on actual sales of equipment. The 15 key national markets in Europe are analysed over the 10-year period from 2007 to 2017 by calculating the percentage of equipment sold to rental companies over the total sale figures.

Equipment penetration rates	2007	2017
Mini excavators	51%	56%
Crawler excavators	36%	45%
Wheeled loaders	34%	32%
Tandem rollers	66%	69%

As can be seen in the above table – created by CECE using the main data found in the ERA Market Report, the evolution of the rental penetration is positive, albeit very modest overall.

All the figures confirm the leading role of the rental market in the UK, with 85% penetration for mini excavators and tandem rollers and 70% for crawler excavators. At the other end of the scale, Portugal has a 5% penetration rate for minis and no penetration when it comes to the other product groups.

Looking at the 10-year evolution, France keeps above-average rental penetration (60 to 70% in mini excavators, loaders and tandem rollers), but the trend is negative. A much more stable situation can be seen in Germany, where the rental sector stands at 1/3 market penetration for crawler excavators and loaders. Italy has seen a very positive evolution over the analysed period, but remains around the 25% penetration for the 4 product groups in question.

In light of the collaboration between CECE and the European Rental Association (ERA), this Annual Economic Report features an overview of the European equipment rental market.

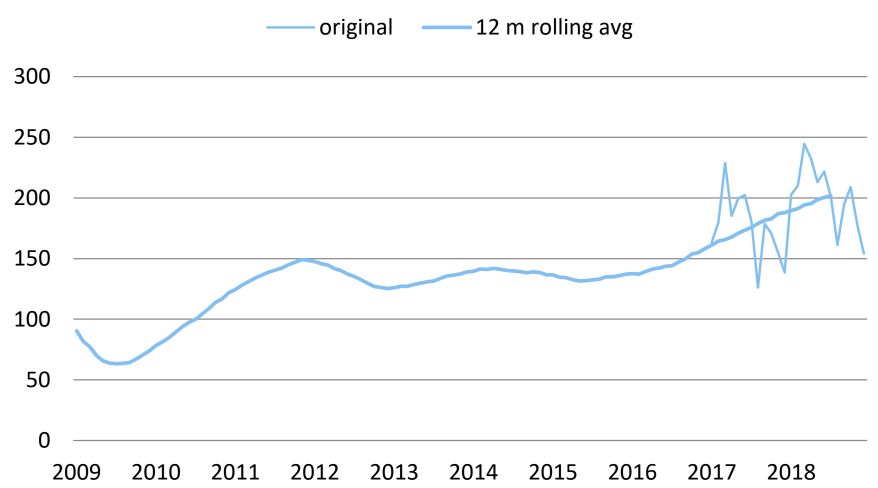
This quick recap of the main indicators and drivers of the sector is offered as a summary of the ERA Market Report 2018, which is available for purchase. The ERA Market Report is an annual publication by ERA and IHS Markit. The full ERA Market Report features all figures for the overall European sector as well as detailed national figures.

EUROPEAN RENTAL ASSOCIATION

European construction equipment sector sees another year of strong growth

2018 was the strongest year for the European construction equipment sector since the economic crisis of 2008/09. Sales on the European market grew by 11%, and the absolute market level is now only 10% below the 2007 peak. During 2018, there was considerable growth momentum during the whole year. After a 5% increase in sales in the first quarter (compared to Q1 2017), growth reached 8.5% and 9.4% in the second and third quarters, respectively. At the end of the year, the last quarter saw an unexpected boom with sales growing by 15% year-on-year. The Turkish market was the exception: after a stable start to the year, the turkish equipment market suffered from the poor economic climate in the country and saw a disastrous second half year.

Most regions in Western and Northern Europe saw steady growth. Having reached high levels of sales in recent years, many of these markets reached new historical record levels of sales in 2018. Southern Europe and Central and Eastern European markets continued their recovery and grew at above-average levels. The Russian market continued the positive growth trend seen in the previous year. However, the Turkish market was the exception. After a stable start to the year, the equipment market suffered from the poor economic climate in the country and saw a disastrous second half year.



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

EARTHMOVING EQUIPMENT

Sales of earthmoving equipment in Europe (including Russia and Turkey) grew by 9.6% in 2018, and surpassed the levels reached in 2008. This still leaves the level of sales some way below the peak levels seen in 2007 and it seems unlikely that the sector will return to these levels of demand in the short or medium term. This is because the inflated levels of sales seen in markets like Spain, Portugal, Ireland and other markets during 2007, is not expected to be repeated during this economic cycle. This should be seen as a positive feature, because it limits the risk of another market collapse that was experienced ten years ago.

The year began with modest growth in sales, with Q1 and Q2 at 2% and 8% above the previous year's levels. This was most probably due to limited availability of machines, as many European factories faced production capacity issues and supply constraints for components. The longer machine delivery times experienced in the first half of the year shifted some business in to the second half of the year. As a result, Q3 and Q4 both showed growth rates slightly above 10%, which boosted growth levels for the full year. It is worth nothing that the growth rate for the European market would have been 12% last year if the impact of the poor Turkish market was excluded.

The three largest markets in Europe all recorded single-digit increases in sales in 2018. This consisted of Germany (+8%), the UK (+4%), and France (+4%). A common feature amongst these markets is that they have all reached historically high levels of absolute sales. The same is true for Nordic markets (also recording 4% growth), Benelux (+10%) as well as Austria and Switzerland (+2%).

It is estimated that sales in Northern and Western Europe would have been even higher last year if the end-using industry had not experienced a lack of machine operators. The underlying level of demand would have justified even higher levels of machine sales.

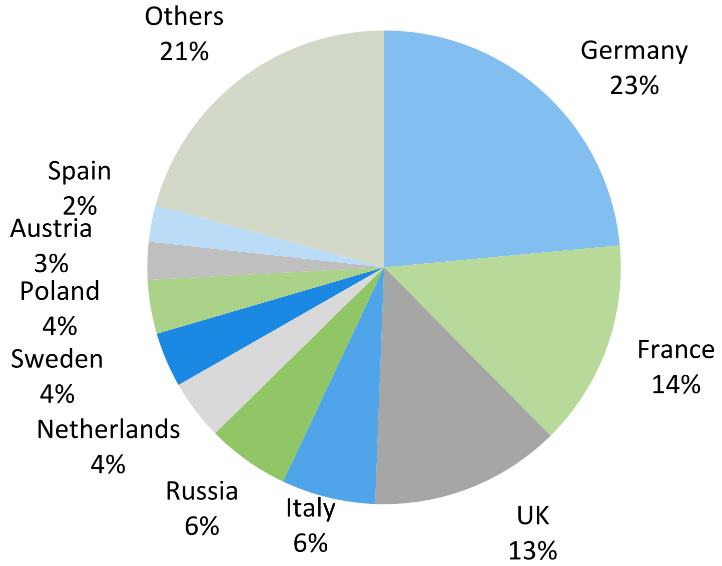
Southern Europe continued its recovery in 2018 with above-average levels of growth at 19%. It is encouraging to see that with the exception of Greece, all markets experienced reasonable levels of growth last year, and the North-South gap is gradually reducing.

Central and Eastern European countries were the best-performing region in 2018. This saw growth at 46%, and was due to a mix of market recovery and expansion fueled by EU-supported infrastructure programmes. The most significant growth was in Poland, the largest market in the region, which saw growth levels at almost two thirds compared with 2017. The Russian market saw sales grow by 31%. This is a lower level of growth than 2017, which reflects the fact that sales are returning to higher absolute levels, and as a result, the annual growth momentum is slowing.

As described above, the Turkish market had an extremely difficult year, and earthmoving equipment sales declined by 37% compared with 2017.

Sales of compact equipment (+9.4%) and heavy equipment (+9.8%) saw similar levels of growth in 2018. However, there were different patterns of growth within the regions. In Western Europe, the growth rates for compact machines were higher than those for heavy machinery. In contrast, in the Russian market, heavy equipment sales were stronger than sales of compact machinery.

For the European market overall, many compact products saw double-digit growth rates. This includes skid-steer loaders (+15%), compact wheel loaders (+14%), and backhoe loaders (+11%). Mini excavator sales were slightly lower, showing 8% growth in 2018. On the heavy equipment side, rigid haulers (+25%) and ADTs (+18%) saw the strongest growth last year. Sales of motor graders (+14%), dozers (+14%), wheel loaders (+11%), crawler excavators (+10%) and wheel excavators (+10%), also saw double-digit growth rates.

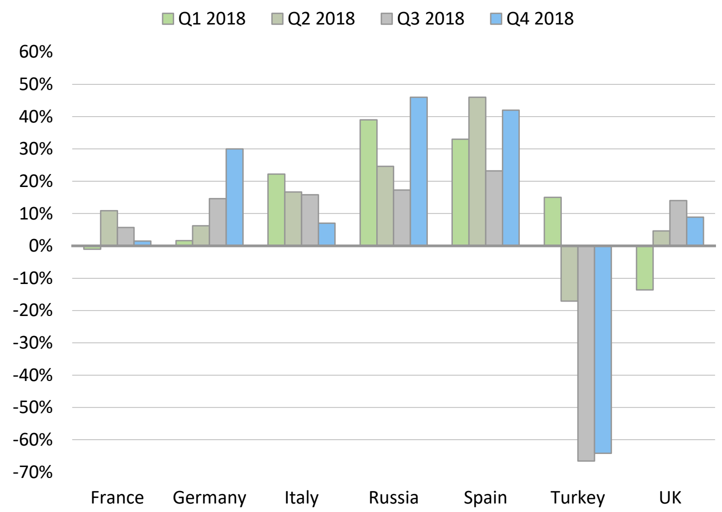


Shares of construction equipment sales in European countries, 2018

ROAD EQUIPMENT

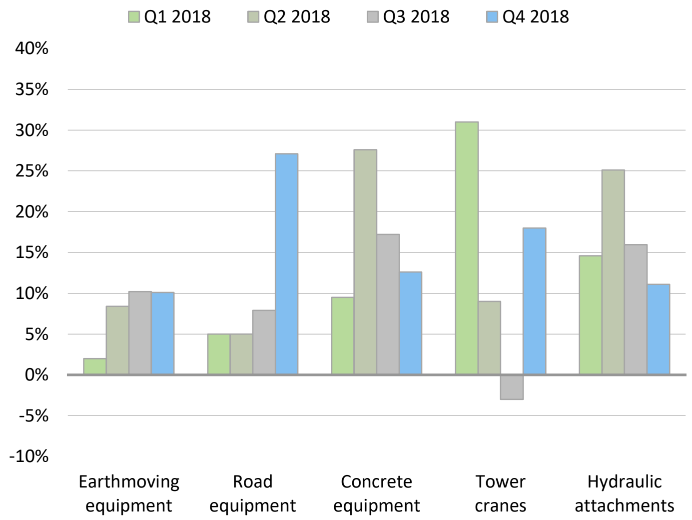
Sales of road equipment on the European market went up by 12% in 2018. Similar to earthmoving equipment, this saw sales reach their highest levels since the economic crisis ten years ago. After moderate growth rates in the first three quarters, at 5% each in Q1 and Q2, followed by 8% in Q3, the last quarter showed extraordinary growth, with sales increasing by 27% compared with Q4 2017. This very strong end to the year is believed to be for similar reasons to the earthmoving machinery sub-sector, with some deliveries being pushed back to the second half of the year due to capacity constraints in the first half of the year.

The two largest markets, Germany and France, both saw another strong year of sales at 13% above 2017 levels. This was contrary to expectations, as both markets were viewed as being close to saturation levels towards the end of the economic cycle. These two markets account for almost 43% of the European market. The UK market is the third largest in Europe, but recorded a small decline in sales of 4% in 2018. This is believed to be due more to the fact that sales in 2017 were very strong, rather than due to uncertainty caused by Brexit. The other Northern and Western Eu-



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

ropean markets saw mixed fortunes in 2018. The Nordic region, which is similar in size to the French market, saw a decline of 6% in 2018. This was due mainly to downturns in Sweden and Finland. In contrast, Benelux experienced a 20% increase in sales, and the Dutch market saw sales increase by a quarter. The markets in Austria and Switzerland are bigger than the Benelux market, and they saw growth of 9% in 2018. The Southern European markets continued their recovery in 2018, with growth of 17%, but fell short of the higher levels of growth seen in the earthmoving sector. The Spanish market was the most dynamic in the Southern region, achieving growth of 40% in 2018.



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

In Central and Eastern Europe, 2018 was a very good year for sales of road equipment. An overall increase in sales of 33% was mainly due to a boom in Poland, the largest market in the region, which grew by an exceptional 61%. Sales in Russia were also remarkable, with growth of 73% in 2018. As a result, Russia has moved up from 9th to 6th in the country ranking within the European market. At the Southeastern tip of Europe, the Turkish market had a very poor year within the road equipment segment, with sales declining by 28%.

Looking at product groups, the high-volume segment of light compaction equipment had the lowest growth in sales at 11%. Heavy compaction equipment, which is made up of self-propelled rollers and waste compactors, saw 15% growth in sales. Asphalt pavers saw the highest growth in 2018 at 43%, but this is the lowest volume product by some margin within the segment. For both light and heavy equipment, demand from the rental sector was strong again in 2018.

CONCRETE EQUIPMENT

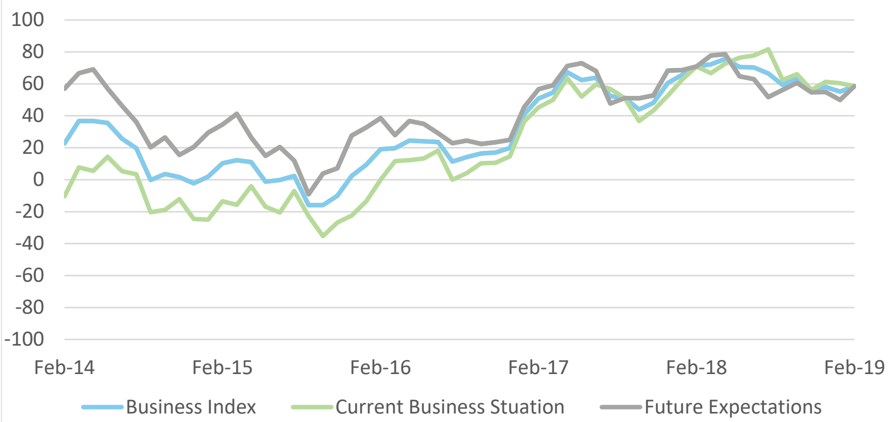
In 2018, building construction equipment was the best-performing of the equipment sub-sectors again. However, as recovery continues, the rate of growth in sales for concrete equipment and tower cranes is becoming less dynamic, similar to the road equipment and earthmoving equipment sectors. After four consecutive years of growth, recovery is at an advanced stage, albeit there remains a strong North-South disparity within the sector. Sales of concrete equipment in Europe grew by 17% in 2018. After 9% growth in the first quarter, the momentum accelerated in Q2 to 28%, and then saw growth in the second half of the year at 17% and 13% in Q3 and Q4 respectively. The trend of less volatile growth in sales seen in 2017 was confirmed again in 2018.

Looking at the major markets, France (+9%) and Germany (+14%) both had a very good year. Overall, Western European markets continued to be stable, while the Southern European markets saw a turnaround for the first time. Both Italy (+23%) and Spain (+60%) experienced very strong growth. The Russian concrete equipment market saw strong growth, similar to other equipment segments within the country. In contrast, CEE markets failed to meet expectations in 2018, and did not contribute significantly to overall growth.

Looking at products groups, truck mixer sales were the most dynamic within the segment, with growth of 18% in 2018. The market for mixer systems increased by a similar amount, while batching plants sales were up by 13%. Concrete pumps as well as light equipment (concrete compaction equipment and saws) also showed growth during the year.

TOWER CRANES

The tower cranes market was dynamic again in 2018, with sales on the European market growing by 15%. However, the pattern of growth during the year was different to the other construction equipment sub-sectors. After reaching a 30% increase in sales in the first quarter, growth slowed to 9% in Q2, before see-



European business climate index, CECE Barometer February 2019 a small decline of 3% in Q3 (all on a year-on-year basis). In the last quarter, strong growth returned, reaching 18% on a year-on-year basis. The high level of volatility in growth rates across the quarters is due mainly to low volumes of sales compared with other equipment segments.

France is the largest market in Europe, and showed above-average growth again, with a 30% increase in sales in 2018. Germany is the second largest market and achieved 9% growth in sales. These two countries dominate the tower crane segment and make up more than 50% of total sales in Europe. The United Kingdom is ranked third within the segment, but saw sales decline by a quarter in 2018. Sales increased in the first two quarters of the year, but saw a decline overall after a very weak second half year. This is a niche segment within the UK market, with very low volumes, and as such should not be interpreted as a market decline within the context of a looming Brexit.

The other major European markets saw mixed fortunes. Austria and Switzerland, which are significant markets in volume terms, saw growth of more than 30%. The Benelux market grew by 5%, while the Nordic markets experienced declines of almost 30%. In Southern Europe, tower crane volumes are still very low, but are showing some signs of recovering. CEE markets continue to see growth in sales, but at low absolute levels.

SUMMARY AND OUTLOOK

After strong growth in construction equipment sales in 2016 and 2017, a slowing momentum had been anticipated in 2018. However, strong economic growth, along with a widespread boom within the construction sector (alongside other end-using segments like landscaping and quarrying) led to another year of strong growth across Europe. The recovering markets in the South and in Central and Eastern Europe grew at above average levels, which continued the trend of a narrowing North–South gap within Europe. Turkey was the only exception, as construction equipment sector could not escape a damaging macroeconomic climate and resulted in a very challenging year within the country.

In a global market context, the European market slightly underperformed in 2018, as worldwide equipment sales grew by a fifth. This is not surprising, given the “return” of the emerging markets. China continued on a growth path and saw sales increase by a third. The Indian construction equipment market recorded the highest growth of all world regions at 45%, in 2018, although this is at much lower absolute levels of sales.

Latin America saw a recovery at 15% growth in sales, after some extremely difficult years, even though the largest market Brazil was not part of the upturn. Both North America and Oceania had growth rates of approximately 20%, and only Africa and the Middle East saw declining sales.

The outlook for the global construction equipment industry is not expected to change significantly in 2019, and is expected to remain on a growth path. This will be driven by expanding construction and mining sectors and further growth in commodity prices. However, the momentum is expected to slowdown, particularly because the largest market, China, will probably not see equipment sales growing at the same pace. If global developments are not overshadowed by further trade conflicts, a 5% to 10% increase in global equipment sale is a realistic outcome for 2019.

European manufacturers can expect to benefit from this global market growth, but they are also looking optimistically at their home market. In early 2019, the European business climate is still at levels close to the peak seen in spring of last year. Two thirds of the companies surveyed in CECE’s business barometer consider their current market outlook to be good or very good, and a majority of manufacturers expect further increases in the coming months. No downturn is anticipated, as a positive outlook is confirmed across all markets in Europe, except for the difficult Turkish market.

In the closing stages of a long upward growth cycle, it is not realistic to expect the same levels of growth as in 2018. Even if the big uncertainties – most prominently Brexit and the risk of a global trade war – do not result in a negative impact, a cyclical downturn in Europe in the second half of 2019 is still a realistic possibility. However, a significant decline can be ruled out, and the constraints experienced last year (long machine delivery times and scarcity of labour amongst contractors) should still have a positive impact. This should result in some sales being delayed from 2018 into 2019. The most likely scenario is that the large-volume markets of Northern and Western Europe will experience a slight downturn.

While Southern Europe and CEE countries will continue their recoveries, this will probably not be sufficient to compensate for the downturn in Northern and Western markets. As a result, the forecast for the European construction equipment market is for sales to be between 0% and -5% in 2019, and this would still represent a good year for the industry.

External effects like bauma in April 2019 and the introduction of EU Stage V emissions legislation is not expected to have a lasting effect on equipment sales, and current high levels of demand, along with manufacturers’ capacity limitations, should limit any short term volatility.

National perspectives

The national CECE member associations shed more light on regional developments in the European construction equipment sector, describing main drivers of growth and forecasting the year 2019.

	How did the market develop in 2018?	What were the main drivers?	What is the forecast for 2019?
Belgium AGORIA	• Sales of construction & earthmoving equipment rose by 7,5% • Sales of lifting equipment equaled the top year 2017	• Construction & earthmoving equipment: there was sufficient confidence in economic stability for companies to invest • Lifting equipment: e-commerce & automation is helping this booming sector. Belgium's economy is based on services and as a result is making a significant contribution to our sector's succes	• Sigma (Equipment Representatives for Public and Private Works, Building and Handling) is expecting that 2019 should show some growth. This is despite a forecast of an economic downturn, and the possibility that the elections in Belgium in May might cause some problems (absence of government for some time, and as a result, lack of public investment). The reason that Sigma expects a positive outturn in 2019 is due to a very high level of sales in 2018, some of which have not been delivered yet, and will be delayed until 2019
Finland Technology Industries of Finland	• Construction equipment exports grew by 8% • The building construction sector grew by approx. 3% • The rental market grew by 5%	• House building (especially blocks of flats) has been the biggest driver, showing 10% growth (measured in added value) • Low interest rates	• GDP in Finland is expected to grow by 2% • Construction equipment sales are expected to decline by between 5 and 10% • House building is still growing, but is reaching its peak, and civil engineering is receding. The Building construction sector is expected to decline by 1% • The rental market is expected to grow by 3%
France cisma	• Sales of construction equipment rose by 11% • Sales of earthmoving equipment were up by more than 3% • Heavy earthmoving equipment and compact equipment sales increased by 8.6% and +2% respectively • The best year since the market crash of 2008	• Spending boosted by the Grand Paris project • Local authorities have more funds for local civil engineering projects • Fleet renewal • Rental customers with strong fleet investments • Still positive effects from the fiscal law to encourage investment • Favorable economic environment • Building sector increased by +2,3%, civil engineering works up 7%	• Stable market in 2019 • +3% for heavy earthmoving equipment but slight decrease for compact earthmoving equipment • -7% for road works • +3% for concrete equipment and +1% for handling and lifting equipment
Germany VDMA	• 2018 marked the fifth consecutive growth year • Construction equipment sales went up by 9% to reach a new all time record high • The market is an astonishing 48% above the average level of the previous 25 years	• Very strong demand from all customer sectors (residential, non-residential construction, civil engineering, quarrying, landscaping) • Rental customers invested stronger than expected • Increased momentum in Q4 • Very positive investment climate (low interest rates)	• Slight sales declines of 2% expected • Customer industries remain stable • 2018's limiting factors – availability of machine operators, machine delivery times – could extend the boom over 2019

Italy	• Construction equipment sales increased by 16% • Earthmoving equipment sales were up by 16% • Road equipment sales were up by 2% • Exports increased by 6% (€2.7 billion) • Imports were up by 9% (€959 million) • The market is still 50% below pre crisis levels	• Growth in investment in the house building sector, especially renovation work • Antiseismic safety measures in infrastructure work (bridges, overpasses) • A high level of machine replacement due to the obsolescence of fleets	• Sales volumes to increase by between 5% and 10% • Turnover to increase by between 1% and 2%
Russia	• The market grew by 31% in 2018 • The market volume of 2018 is on the level of 76% of 2013 • The average machine price in Russian Rubles more than doubled during the last 5 years. And this is not only due to national currency devaluation. Dozens of billions of Rubles was paid to the budget as disposal fee (tax) for construction equipment in 2018. This is an extra burden for the customers, since manufacturers cannot get disposal fee subsidised due to the fact that it is impossible to meet localisation requirements set by the Government	• There was no single driver. Continuous market decline from 2013 till 2016 increased average age of machine population and overall machine population decreased. There is a pent up demand in all segments and it drives the growth despite all geopolitical and economic issues • Export oriented segments (mining, forestry, oil and gas) were ahead of others in the growth. However road construction segment was showing good level of activity as well • Due to very high disposal fee for used machines (older than 3 years) there is no inflow of such machines into Russia from outside	• As for 2019 – there is expectation that implementation of planned infrastructure development projects (investment of over 100BUSD into road construction and transport infrastructure by 2024) will drive market further up despite negative external factors. • In such a turbulent geopolitical situation it is impossible to provide any reliable forecast, however it can be assumed that we will see further growth of the market, provided that there will be no significant worsening of external factors
Spain	• The Spanish economy suffers the global slowdown starting a period of lower growth • It is expected a GDP soft deceleration from 2,6% in 2018 till 2,0% in 2021 • In spite of several economic indicators has shown a certain fatigue, the construction industry keeps growing more than other sectors • The sector is expected to slow down 3% (2020) and 1% (2021) • Equipment sales increased in 2018 34% with regard to 2017, but figures are still below those of 2007 • The higher growth is represented by mini equipment (41,85%), followed by production equipment (+29,62), lifting (+28,09%) and compacting equipment (+26,93%)	• The most important consequence of the positive figures in construction industry since 4 years is the recovery of residential building; in 2018 housing demand was important, being almost 80% for new building and 20% to restoration • The cement consumption increased 12% • 2018 reached a historic high in public investment in the last eight years, as it exceeded by 24% the previous year figure. Despite increasing, public works are still a long way from achieving this historic high reached just before the crisis, that was 46.700 million € in 2006 • Rental market also increased in 2018 but with some slowdown in its growth of 5,1%. Manufacturers are investing in Machinery fleet renovation and rental market is rising in a higher rate that the global economy level	• Forecast for 2019 is a positive development but with a declining pace. The foreseen rate is a growth of 4,5% for 2019 and it will go on falling in 2020. The average growth during the period 2019-2021 is 2,8% • The slowdown of the two years is due to the lack of available land for new projects, the rising prices and the end of investment opportunities period • 2019 is a key year for civil engineering. Council and regional election in April, suppose a temporary relief for this subsector by favoring a slight production recovery to be lower in 2019 (1,5%) and estimating that its effects will note in 2020 (3,5%) and 2021 (4,5%)

Sweden	• Earthmoving equipment: a moderate increase in domestic sales as well as exports • Attachments: almost status quo in domestic sales. A moderate increase in exports • Others: a moderate increase in domestic sales. Significant increase in exports	• An overall increase in the construction sector • A strong infrastructure pipeline in Europe, and growing demand for compact machines • Big domestic infrastructure projects • A favourable investment climate, low interest rates and a high-speed economy • Significant demand for raw materials	• Earthmoving equipment: a moderate increase in domestic sales as well as exports • Attachments: a stagnation in domestic sales, but further increase in exports • Others: a moderate decrease in domestic sales. A stagnation in exports
Turkey	• Total sales of construction equipment decreased by 41% • Earthmoving equipment sales were down by 68,1% • Mini equipment sales were down by 25% • The reason that the decline in sales of mini equipment is lower than other equipment is the on-going demand from municipalities for mini equipment	• A favorable investment climate in the first quarter of 2018 caused a growth of equipment sales until April, compared with 2017 • From July to the end of the year, production costs increased because of the weak position of the Turkish Lira against the USD • High interest rates and fluctuations in the exchange rate have caused declines in sectors relevant to equipment • Primary customer were the public authorities	• A decrease of 50% is expected • A considerable increase in rental activity and exports is expected in 2019
UK	• Sales of earthmoving equipment increased by 4% in 2018 • Sales were at their highest absolute level for 10 years since the market crash	• Construction output was relatively flat, showing only 0,7% growth • The house building sector showed strong growth (+6%). This stimulated demand for smaller equipment • Civil engineering also showed strong growth, particularly for major rail and other infrastructure projects (+6%) • Repair and maintenance work (excluding housing) was also strong (4%)	• Construction industry experts are offering a range of forecasts from 0% growth in output, if a Brexit deal is secured, to -4% if no deal is the result • A high dependence on infrastructure projects to offset poor demand in other sectors looks likely • In a climate of uncertainty, equipment sales are forecast to be fairly flat, in a range from 0% to -2%

SNAPSHOT: ECONOMIC FORUM

CONTRUCTION EQUIPMENT OUTLOOK, BUILDING INDUSTRY TRENDS AND A FOCUS ON CHINA

The international business climate has never been as uncertain as it is today. The pillars on which global free trade and free circulation of goods and services are built on, have never been so fragile, both within the EU and elsewhere. Continuous economic turmoil, disputes about international trade, the inflation rate and commodity price trends, are some of the main threats that companies across sectors are facing currently.

However, within the global construction equipment industry, prospects do not look too bad. This is one of the conclusions reached at the CECE Economic Forum, held during the CECE Congress in Rome in October. The Congress was moderated by Sandy Guthrie, Editor of KHL – Construction Europe, a media partner of the Congress. Chris Sleight from Off-Highway Research provided an update on the international construction equipment market at the event. This forecasts that the construction equipment market will continue on a growth trend through to 2022, after turning around in 2017. This may include a slowdown in 2020, but overall the market is expected to remain on an upward trend.

In 2017, 893,000 units of construction equipment were sold globally, generating a total value of $87.9 billion. According to Off-Highway Research, growth forecast for 2018 will result in the market reaching a record level of sales of over 1 million units in 2018. Alongside this, machine production within the major manufacturing countries has been on an upward trend since 2016, with China recording the highest growth rates. The Chinese market reached a peak of 500,000 units in 2011, but crashed after this to less than 150,000 units in 2015. Since then, production has recovered significantly in the last two years, and machine production reached 270,000 machines in 2017.

China was one of the key topics at the Economic Forum of the CECE Congress in 2018, including an interesting panel debate amongst experts, and enthusiastic participation from the audience. Jost Wüebbeke, (PhD) from Synolitics, introduced this session, with a presentation titled "China 2025: a global leadership industrial strategy". Wüebbeke explained the new approach of the Chinese government to industrial production. This is known as the "factory of the world", and involves the Made in China 2025 project, which plans to lead the country to become an industrial superpower by 2049, by taking a smart approach to manufacturing. Following significant public investment in the advanced manufacturing sector, involving $46 billion in the period May 2015 to April 2017, the new Made in China initiative should gradually substitute imports of foreign technology in all major industries and businesses. Within the construction industry, the smart approach will include investment in the benefits offered by 3D printing technology for construction. China aims to become one of the global leaders of technology and innovation, and with the benefit of improvements in international cooperation, the Chinese government has set the objectives of the 13th five year plan for the development of the construction equipment industry. In summary, the plan for China is to target 30% of national industry revenue from exports by 2020, to increase global market share to more than 20%, and to build 6 to 10 global brands.

Finally, Martin Seban, consulting principal at IHS Markit, presented his study on the outlook for the European construction market. According to the latest data, economic growth in Europe peaked in 2017 at 2.5%, and is forecast to show slower rates of growth in 2018 (+2.0%) and 2019 (+1.7%). The reason for the slowdown is due to uncertainty over both trade and political issues. Within the building industry in the EU, construction output is forecast to show growth in the next couple of years, with some significant differences between individual country members.

CONSTRUCTION EQUIPMENT SECTOR IN EUROPE

40 BN €
REVENUES

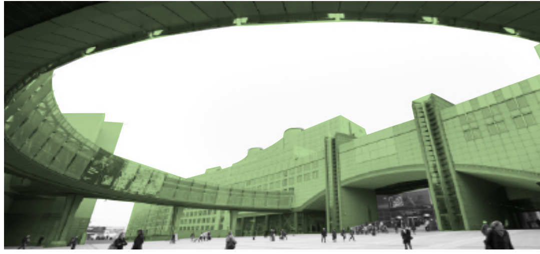
300 000
OVERALL EMPLOYMENT

1 200
COMPANIES

MOST COMPANIES **ARE SMEs**

22%	<10 MN €
39%	10-50 MN €
11%	50-100 MN €
16%	100 MN € - 1 BN €
11%	>1 BN €

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 AND INDIRECTLY AROUND 300,000 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 and 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.

Statistics and economic topics

CECE collects a 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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