COMMITTEE FOR EUROPEAN CONSTRUCTION EQUIPMENT

ANNUAL ECONOMIC REPORT

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A key example of engineering leadership

Dear reader,

Welcome to the new CECE Annual Economic Report, the second edition in the new format.

The report contains an overview of the macro economic situation in Europe, insight on the state of the construction industry, 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 covers the mining industry, reflecting the close linkage to construction equipment.

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 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.

The CECE team

Executive Summary

CONSTRUCTION INDUSTRY

The recovery of the European construction industry continued in 2015, and civil engineering took the lead when it comes to growth rates. Further growth is anticipated for 2016, but there won’t be “sky-rocketing” rates of growth. CEE countries are the markets with the best prospects.

MINING INDUSTRY

Against the backdrop of low commodity prices and declining profitability, the mining sector is still suffering from declining investment levels, and is in a bad shape. No recovery is expected in 2016. This has severe implications for demand for equipment types used in the mining industry.

EQUIPMENT MARKET

The construction equipment sector saw single-digit declines in 2015, primarily attributable to the bad Russian market. However, during the year there were encouraging signs of improvements in demand. Building construction equipment experienced better demand than civil engineering equipment, earthmoving and road construction machinery.

REGIONAL PERSPECTIVES

As anticipated, Russia was the “trouble spot” in 2015. France also had a very bad year, but showed clear signs of stabilization towards the last quarter. CEE countries and Southern Europe were the pillars of growth, though from very different start points. Germany, the UK, and the Nordic Countries remained the anchors of stability.

OUTLOOK

The recovery in Southern Europe and CEE countries is expected to continue in 2016. However, no significant change is anticipated for Russia. With most of the volume markets set for stability, a slight increase in growth is the likely scenario for Europe overall. However, this is expected to achieve little more than offset the declines experienced in 2015.

MACROECONOMIC VIEW

Moderate growth in Europe risks being offset by a slump elsewhere

Global economic growth further decelerated in 2015 to +3%, after +3.3% in 2014. Growth prospects have deteriorated sharply for countries in the Middle East, Northern Africa and Sub-Saharan Africa. The slowdown has also turned towards major recessions for a number of countries such as Brazil and Russia. Nevertheless, the US economy remains resilient. This was also the case for the European economy which is now entering its fourth year of recovery, and growth continues at a moderate rate, driven mainly by consumption. At the same time, much of the world economy is still grappling with major challenges, and as a result, risks remain to further growth in Europe.

Growth within the euro zone approached 1.5% in 2015, after 0.9% growth in 2014, following two years (2012 and 2013) of recession. All countries within the monetary union (except Greece) have seen growth in their economies, with the strongest expansion being observed in Ireland, Malta, Slovakia and Spain.

Private consumption recorded its strongest growth last year since 2007. It was supported by a rise in real disposable incomes attributable to a fall in headline inflation and improved labour market conditions. Government consumption in 2015 was more supportive towards growth than expected in the autumn, despite security measures and refugee-related expenditures in some countries, which resulted in additional fiscal expenditures.

2015 was also a year marked by falling oil prices, significantly increasing the purchasing power of household incomes. The price of Brent reached 36.5 dollars a barrel by the end of 2015, the lowest level since 2008. This major drop in oil prices explains the fragility of the situation in producing countries, including Saudi Arabia, Algeria, Nigeria, and also Venezuela and Russia, where massive public deficits have been recorded. A similar trend has been observed for almost all commodity prices in 2015 (for example, -59% for the price of scrap iron, -30% for zinc, and -42% for nickel).

So far, investment has failed to emerge as a strong driver of recovery, having been held back by the slowdown in growth outside of the EU, and a high level of economic and political uncertainty. Currently, investment levels are also not reflecting changes in financing conditions. The deterioration in markets outside of Europe started to have a visible impact on euro area exports in the second half of 2015, offsetting the positive impact of the euro's depreciation. However, foreign demand still contributed positively to growth. While imports grew faster than exports, the current account surplus within the euro area reached a new record, reflecting a combination of falling import prices, a depreciation of the exchange rate and subdued domestic demand.

With energy prices falling sharply, inflation in the euro area struggled to rise much above zero by the end of 2015. Overall, inflation has remained below expectations, with a risk of deflation setting in across the whole euro area. While the inflation rate reached a low of -0.6% in January 2015, the overall rate for the year stayed slightly positive. Consumer prices remained largely unchanged in 2015. In contrast, wages continued to rise and unemployment fell, reaching 10.5% in December 2015 compared with 11.5% a year earlier - a move in the right direction.

The European Central Bank decided to apply further easing of monetary policy in 2015, given subdued inflationary pressures, with the hope of stimulating the real economy. The combination of quantitative easing and credit easing by the ECB has successfully kept financing costs and yields at low levels, and as a result, has helped to reduce financial fragmentation and differences amongst Member States. Credit available in the private sector has been rising since early 2015. Within Europe, risks remain to further economic recovery. Any unexpected relapse into crisis in Greece could impact heavily on investment decisions and economic growth. Moreover, if major political challenges are not handled successfully within the EU (e.g. handling of migration flows), this could trigger developments that limit future growth.

	GDP growth in %				Growth of gross Investment in equipment			
	2014	2015	2016	2017	2014	2015	2016	2017
Germany	+1.6%	+1.5%	+1.7%	+1.5%	+4.3%	+3.2%	+1.1%	+1.4%
France	+0.2%	+1.2%	+1.3%	+1.2%	+2.0%	+2.0%	+2.9%	+2.9%
United Kingdom	+2.9%	+2.4%	+2.1%	+1.9%	+4.6%	+6.1%	+5.0%	+3.5%
Spain	+1.4%	+3.2%	+2.7%	+2.3%	+10.5%	+9.6%	+6.2%	+5.0%
Italy	-0.4%	+0.7%	+1.1%	+0.9%	-2.0%	-0.9%	+1.3%	+2.0%
EU28	**+1.4%**	**+1.9%**	**+1.9%**	**+2.0%**	**+4.1%**	**+4.4%**	**+4.8%**	**+5.6%**

GDP and investment growth forecast for European countries, source: CoeRexecode, European Commission

Civil engineering sector leads the growth in 2015

Following the severe recession in Europe, total construction output in 2015 was 24% below 2007. Residential output, the worst affected sub-sector, fell by 29%. In 2015, the residential sector grew by 1.5% on the previous year. Non-residential construction saw growth of 0.1%. Civil engineering led the growth last year with more than +3%. All Central and Eastern European countries experienced significant growth in 2015, as they tried to absorb all available EU funds from the previous planning period.

The European residential market showed 1.8% growth in 2015, confirming that a solid recovery is still some way off. However, new building is becoming the driving force for growth in the market, offsetting weaker renovation activity. This trend has been observed in almost all countries.

THE RESIDENTIAL SECTOR REMAINS FRAGILE

In Germany, residential construction grew by 2.7 percent in 2015. The biggest European residential market is experiencing some dynamism in new construction activity, and the recent influx of refugees will provide further stimulus to demand, especially in urban areas. Also, new investment is stimulated by the growing demand for new multi-family buildings, which reflects low interest rates, and the favourable income and employment situation. The rapidly increasing number of asylum-seekers in Germany also represents a challenge for residential construction activity. The high level of new residential construction activity in 2015, with 245,000 new apartments, is not expected to be sufficient.

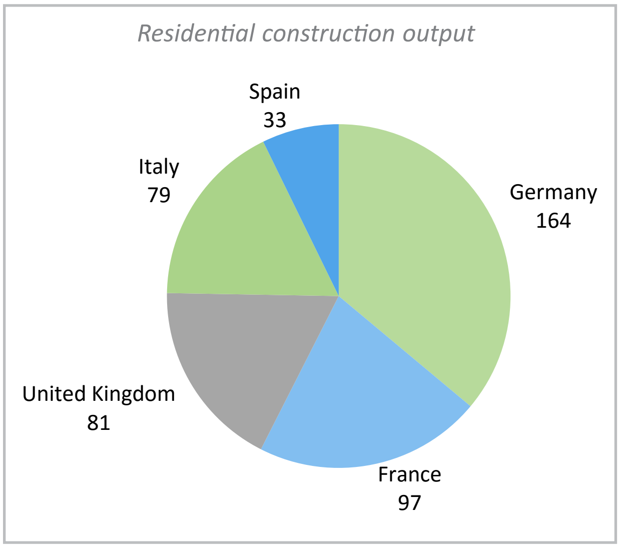
Moreover, renovation activity levels remain only stable. Also, energy-efficient refurbishment is especially weak due to reduced subsidies for photovoltaic systems, as well as the low oil price, which makes investment in energy efficiency unattractive compared with previous years.

The housing market in the United Kingdom is booming. In the three-year period 2013-2015, new investment increased on average by 12% p.a. Since 2015 public housing output has started to decline, but indicators from the private sector (such as the increasing number of mortgage approvals and residential property sales, as well as strong demand for the Help to Buy Scheme) suggest continuing growth in the market. As for renovation, the situation is positive for the private sector, due to strong real disposable incomes, despite the demise of the Green Deal, the programme to finance energy efficiency and renewable generation in the built environment.

In France, 2015 ended with a further decline of 3% in volume of building activity, marking another year of decline in production. New housing continues to decline, recording a downturn of 3.9% with only 345,000 housing starts. Renovation activity didn't improve as expected, due to only a small increase in energy efficiency renovation, despite the implementation of measures to support green renovation.

In Spain, new housing development has improved, linked to general economic improvement and job creation. The upturn in sales is beginning to reduce inventories in specific areas and segments. House prices have stopped falling, and the credit situation is improving.

In Italy, residential production continues to be the weakest segment within the construction sector, and in 2015 registered its eighth consecutive year of decline. This means that 2015 saw the lowest ever level of activity, with the completion of less than 80,000 new dwellings. Some policy

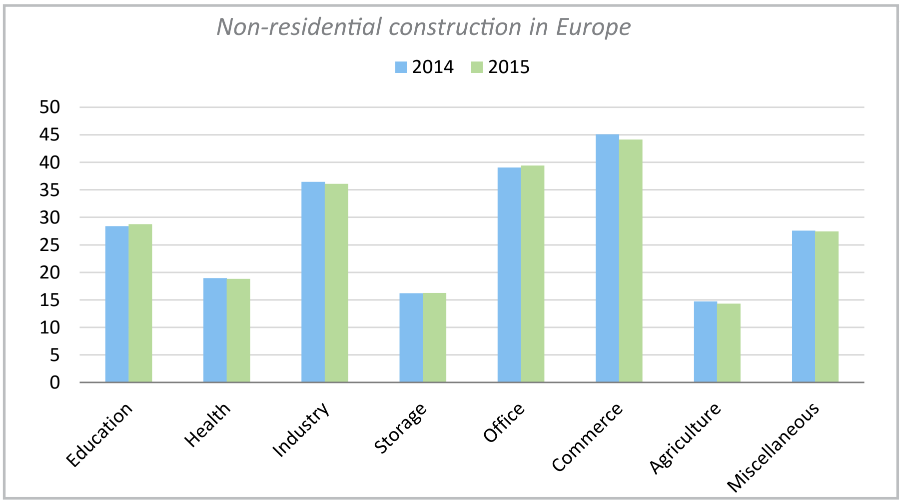


2015 in "Europe big five markets" in EUR bn, source: European Commission measures have been taken to try and stimulate development. This includes a tax deduction of 20% off the purchase price when buying a first home, and the cancellation of the property tax on the first home. Also, the guarantee Fund for the first home, introduced to support the purchase of the principle home as well as for renovation and energy efficiency improvements. In Italy, renovation represents 82% of total residential construction.

In 2015, the markets showing strongest growth for non-residential construction were Denmark (4.7%), Ireland (4.4%) and Poland (4.1%). Amongst the five major countries within Europe, the UK showed the best performance in non-residential construction, driven by commercial and office construction, as well as new warehousing and educational construction. Non-residential output in Italy has shrunk continuously since 2008, and in 2015 it is expected to grow for the first time after the crises. A decrease of non-residential construction in Germany was mainly due to a fall in activity in industrial construction. In Spain, non-residential construction is not expected to show any growth until 2016. Finally, in France, total non-residential activity decreased by almost 1% due to a weak economic climate, a lack of visibility within national economic policy and a low rate of utilization of production capacity.

TOTAL NON-RESIDENTIAL CONSTRUCTION OUTPUT STAGNATED IN 2015

By segment, commercial construction accounts for the largest share of non-residential construction at 20% of total volume. New office construction follows with a share of 17%, and Industrial construction is ranked third in output with a share of 16%. Germany and France are the two biggest markets for new non-residential construction, and both showed declining output in 2015, with Germany at -10% and France at -5%. Within the Nordic countries, Sweden (-8.7%) and Norway (-6.3%) are also facing a decline in new industrial construction. Overall, economic growth is not strong enough to boost construction activity in the industrial sector.



In Europe, in EUR bn, source: Euroconstruct

Office construction suffered from weak economic performance and low confidence in 2015, and showed only 0.9% growth. However, this subsector shows signs of recovery from the 2013 crises, while in contrast, the commercial sector showed a 2.1% decline in 2015. The UK is the largest market for commercial and office construction, with Germany in second place. The latter showed a decline of 2% in this segment in 2015 due to deteriorating consumer confidence.

Construction activity in the health sector reached a new low in 2015 after seven consecutive years of decline, with output of new work declining by 1%. New construction in educational buildings increased in 2015 with growth of more than 1%.

Since 2010, the drop in civil engineering output has been much more severe than in the other two construction sectors. Until 2013 production dropped by 15%. However, 2015 showed an increase of over 3% in output, but it is still 9% lower than in 2011. Low levels of activity are due mainly to Spain, which amongst the group of big 5 countries, used to be the biggest, accounting for almost 18% in 2009. In 2015, the share of Spain has stabilised at a low level just below 7%.

THE CIVIL ENGINEERING SECTOR IMPROVED BY MORE THAN 3% IN 2015

In 2015, the best performer was the Slovak Republic (+36.4%), due to the public investment in transport infrastructure

with contributions from EU funds. In 2015 all Central-Eastern European countries experienced significant growth. Poland, the seventh biggest market in 2015 in civil engineering, showed an acceleration of growth from 6% in 2014 to 8% in 2015. Several EU countries face strong headwinds in 2015, due to tight fiscal budgets, especially France and Italy. For example, in France, civil engineering activity decreased by almost 8%. This is the biggest contraction recorded in the last 30 years.

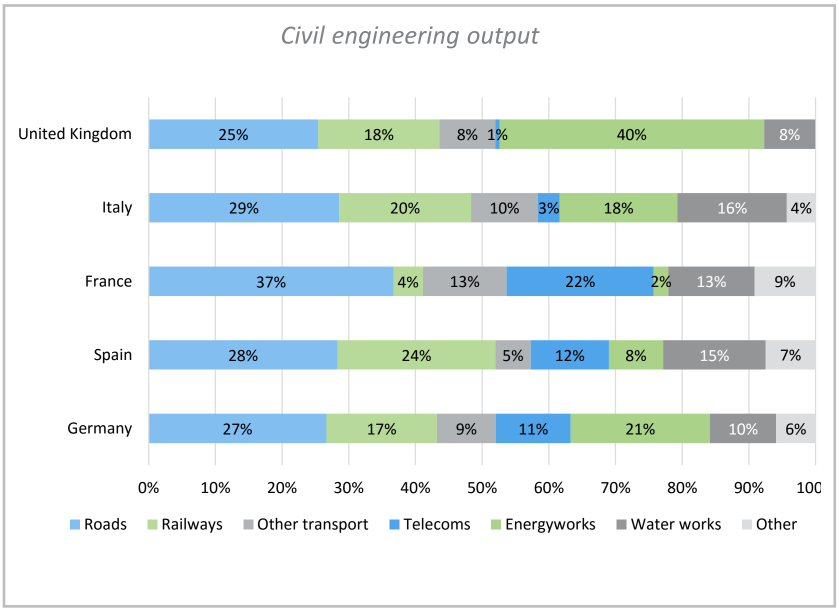
In the UK, development of the infrastructure has been the main driver in the civil engineering sector. This is across many segments including railway construction, growth of road construction, civil engineering work for energy (new nuclear power station at Hinkley Point) and water (Thames Tideway project).

Finally, Germany remains the largest civil engineering market in Europe. This country hasn't reduced its expenditure in this sector for fiscal reasons, like many other countries in Europe. Notably, the development of electricity production from renewable sources, especially wind mills, have been a big success in Germany.

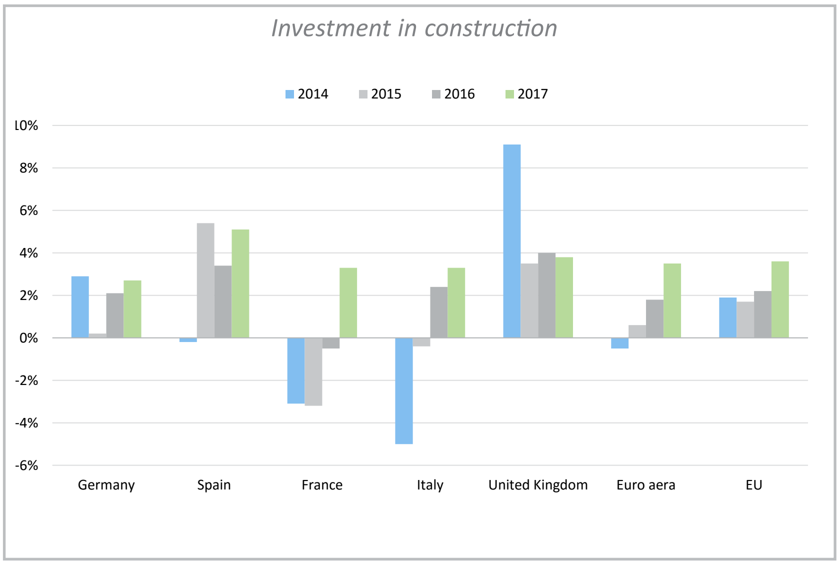
CONCLUSION

Overall construction investment is expected to benefit from rising real disposable incomes and very low mortgage rates. High levels of household debt in some European countries will continue to prevent a strong increase in construction investment in 2016, but this should be less of a constraint in 2017.

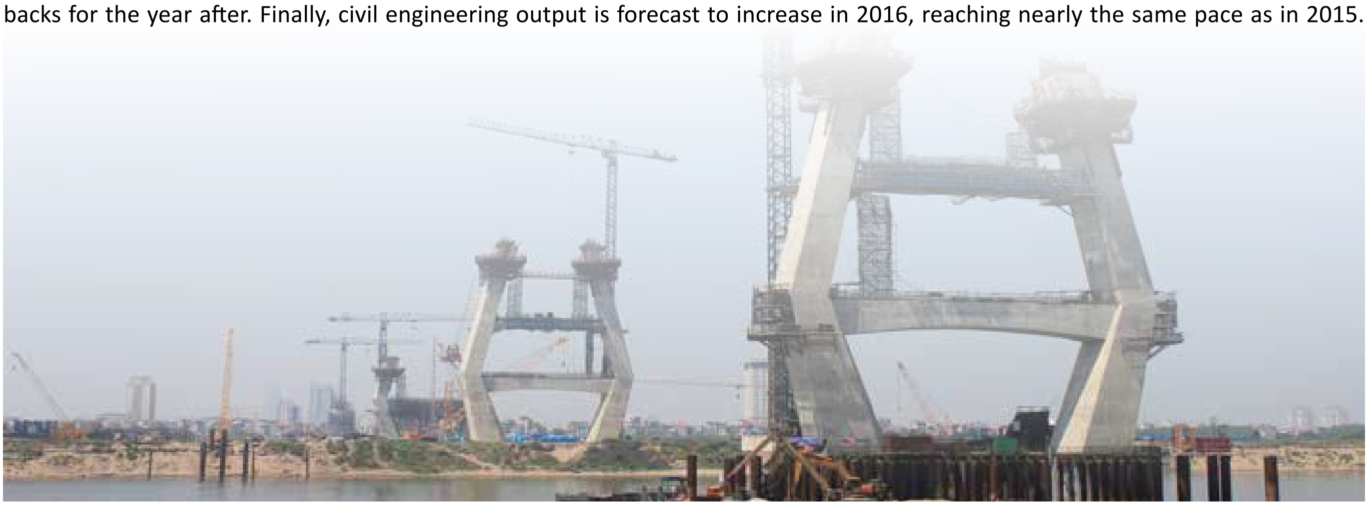
Increased demand for housing should be stimu- lated by the inflow of asylum seekers. New residential construction is forecast to increase substantially by 6.1% in 2016. Without exception, all countries are optimistic about their non-residential markets in 2016, and only two countries, Finland and Sweden, expect minimal setbacks for the year after. Finally, civil engineering output is forecast to increase in 2016, reaching nearly the same pace as in 2015.



In 2015, shares of sub-sectors, source: Euroconstruct



In Europe, percentage change on preceding year



No recovery in investment in the mining industry is forecast for 2016

On-going reductions in investment by global mining companies is continuing to limit demand for some types of construction and earth moving equipment that are used in the mining industry. Latest forecasts suggest no improvement in demand from the mining market in 2016, and the likelihood of further reductions.

Demand for equipment in the global mining industry has been declining since 2012, when commodity prices and capital expenditure peaked. Since 2012, profitability amongst mining companies has been declining due to lower commodity prices, and in response, cost cutting and reductions in capital expenditure budgets have been widespread. SNL Metals & Mining estimates that annual capital expenditure by mining companies will have declined by 30% by the end of 2015, compared with the 2012 peak, as illustrated below. It is estimated that investment in equipment accounts for c.30-40% of overall investment by mining companies, so as a result, demand for equipment has been reducing year on year due to reduced spending amongst mining companies.

DECLINING EQUIPMENT DEMAND SINCE 2012

The Parker Bay Company monitors deliveries of surface mining equipment on a quarterly basis, as shown below. This shows a consistent decline in equipment deliveries, consistent with reduced spending by mining companies. 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 second half of 2015 shows a continuing decline in the value of shipments to the mining industry. Q4 showed a 5% reduction on Q3 levels, and was 26% below Q4 2014 shipments. Overall, this means that current shipments are nearly 75% below the peak level reached in Q1 2012. The only positive news in the Q4 update is that the number of units shipped rose by 6%.

RECOVERY OF INVESTMENT LEVELS NOT FORESEEN BEFORE 2018

This reflects a pick up in shipments of smaller, lower value classes of equipment, while heavier classes of equipment declined. Parker Bay do not think that this improvement in demand is a sign of a recovering market, more a reflection of the need to replace ageing equipment fleets to maintain activity in the mines.

Citigroup conduct a quarterly survey of investment intentions amongst global mining companies, which includes spending on equipment, both surface and underground. The latest survey was published at the end of January, and this indicates a further 5% reduction (year on year) in spending on new equipment, as illustrated below. This is the third consecutive quarter that the survey has indicated a step down in expectations since the period in 2013 and 2014 when the survey showed some improvement, and provided hope that spending on equipment may stabilise.

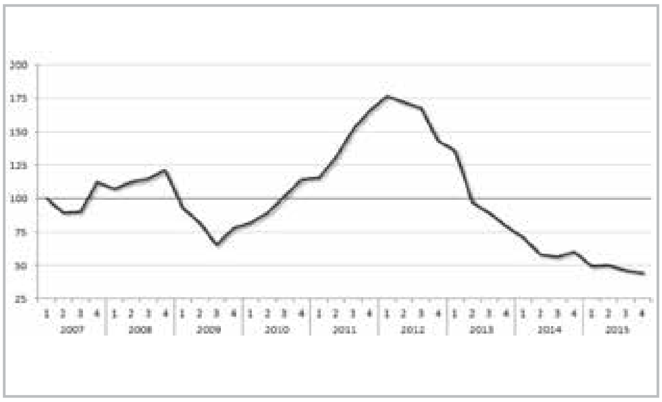
From their research and analysis work, Citigroup also publish a model which forecasts future capital investment spending by global mining companies. The latest update in January 2016 suggests that overall investment (including equipment) will show further reductions of 25% in 2016 and 9% in 2017.

The only encouraging news that can be gained from this gloomy forecast is that Citigroup anticipate that further reductions in mining company spending will be focused mainly on infrastructure, and that spending on equipment may have "bottomed". Significant recovery in investment levels by mining companies is not forecast until 2018.

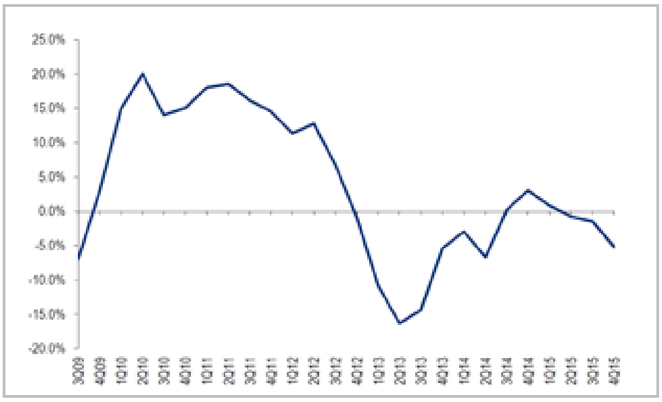
EUROPEANS LEAD IN EQUIPMENT SUPPLY TO MINING INDUSTRY

It is difficult to assess the impact on the equipment and component manufacturing industry within Europe of the global mining market downturn. Estimates of the mining equipment market suggest that Western and Eastern Europe together account for approximately 10-15% of global demand for mining equipment, 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, exposure to continued reductions in investment within the global mining industry will continue to be felt amongst European equipment manufacturers, and offset some of the improvements being experienced from improved demand from the construction industry.



Parker Bay's Surface Mining Equipment Index
based on value of shipments by quarter in constant $'s; ***1Q 2007 = 100***



Mining Companies Equipment Purchasing (CAPEX) Intentions Over the Next 12 Months Compared to the Last Year; Source: Citi Research

European market remains highly diverse in terms of market developments

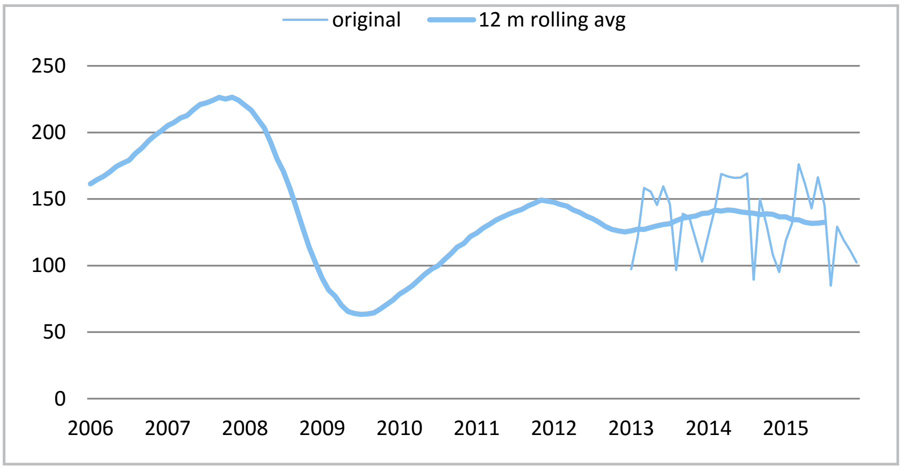
The growth of the European construction equipment sector seen in 2014 could not be sustained in 2015: Sales in Europe declined slightly by a moderate 2.5%. However, what looks like bad news needs to be interpreted carefully. The continued free fall in the Russian market was a decisive factor distorting the overall market statistics. In fact, sales in Europe excluding Russia saw growth of 3.5%. This illustrates well that the European market remains highly diverse in terms of market developments, a phenomenon which is apparent even in the large volume markets: We saw growth of almost 40% in Italy, but also declines of 25% in France. Over the year, the industry developed a pattern which was very similar to 2014. The first quarter almost kept up with the strong Q1 of 2014, but was followed by two very weak quarters, before Q4 brought back momentum with growth across all sub-sectors.

REVIEW OF COUNTRIES AND REGIONS

Germany was once again the largest market in Europe. Equipment demand remains very stable, and well above the long-term average. In fact, there has never been a higher level of sales volume over a five year period than 2011 to 2015. This has been partly attributable to the post-crisis recovery, and may also have been helped by the "pull-forward" effect on machine sales of the tightening of emissions standards (buy early when cheaper lower-stage machines are still available). Overall, the market is viewed as having reached a certain level of maturity, and as a result, there is not much growth potential left for the medium term. On the other hand, there is also little risk of a severe downturn either. The construction sector remains on track, and the integration of refugees could further stimulate building construction (both residential and non-residential). Therefore, the overall market outlook is stable.

The UK had been the shining star within the European construction equipment sector for more than two years. After the boom had set in from mid-2013, sales grew by more than 60% until the first half of 2015. This was fuelled by a strong recovery in the construction industry, and helped by relatively low equipment prices due to the strong Pound against the Euro, stimulating machine sales. In 2015, market saturation effects have become apparent. Growth rates have reversed, and in both Q3 and Q4 sales decreased compared to 2014. The outcome for 2015 was a marginal 1% increase in sales, and this could mark a peak for the foreseeable future. Similar to the German market, the overall outlook is for stability – market declines are not anticipated.

It had been anticipated towards the end of 2014 that France would be in trouble in 2015, and this actually materialized. Against the backdrop of a bad macroeconomic climate and an almost paralyzed construction sector, the year started as a disaster. After the first quarter, sales were down by 42% compared with the previous year. In particular, the rental sector – the key customer segment – did not show any substantial investment activity. The good news is that along with an improvement in industry sentiment, the sales situation has stabilised. The final outcome for 2015 saw construction

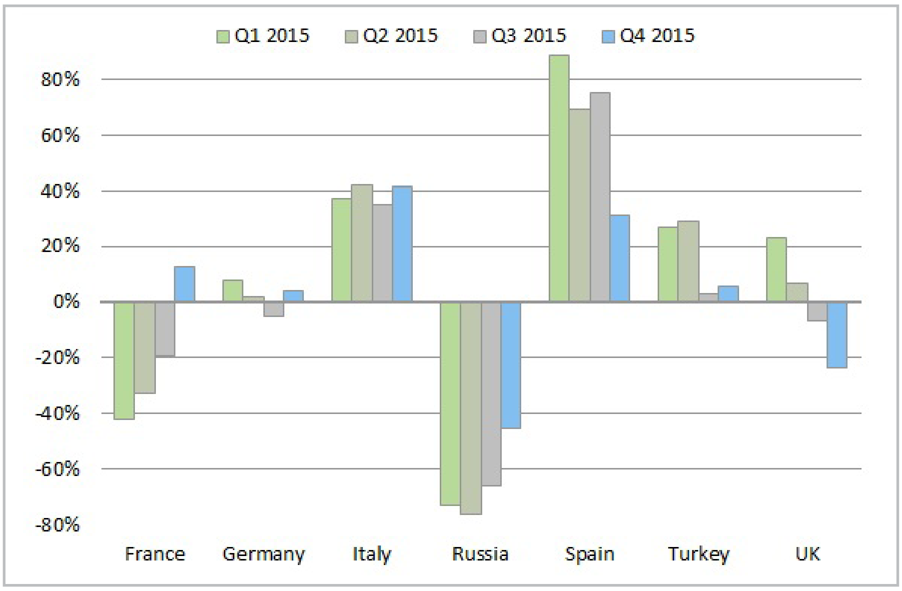


Monthly construction equipment sales in Europe (index 2010=100) equipment sales on the French market decline by 25%, but the momentum – Q4 marked the return to growth – suggests that the worst could be over now, and 2016 is expected to bring a recovery.

Italy, the fourth largest market in Europe, experienced a strong continuation of its recovery in 2015. With similar growth rates in each of the four quarters, construction equipment sales grew by 39%, which was most welcome in a troubled market. However, the current sales level is still well below the long term average, and there is still a lot of upside potential for growth. Recent political decisions to stimulate fleet renewal for ecologic considerations could help stimulate more growth. However, economic instability and financing difficulties are still present in the market.

The story of the Russian market has been told many times, yet the scale of market reductions are still alarming: From an already weak level, construction equipment sales dropped by a further 68% in 2015. It was a mix of political pressure, currency weakness, oil price reductions, and a domestic economic crisis which pushed the market down to a volume even lower than that of Poland. Russia now ranks no. 10 in Europe when it comes to market size, while only two years ago it had held second rank. It is cold comfort for European manufacturers that other markets are not able to compensate for loss of demand in Russia on a significant scale (including limited options for Asian manufacturers). It seems likely that the Russian market may have “hit the bottom” in 2015, but a quick recovery is unlikely, as long as political tensions remain.

2015 brought a continuation of the recovery in Central and Eastern European countries. Poland, fuelled by infrastructure investments, which are planned to be extended further in the coming years, saw good growth in equipment sales, as did the Czech Republic, Slovakia, Hungary, Romania, and the Baltic states. The recovery in Southern Europe speeded up in 2015; not only in Italy, as highlighted already, but also in Spain which was actually the European market with the highest growth rate (+68%), though from a very low absolute level. Only Portugal and Greece did not see any growth in equipment sales.



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

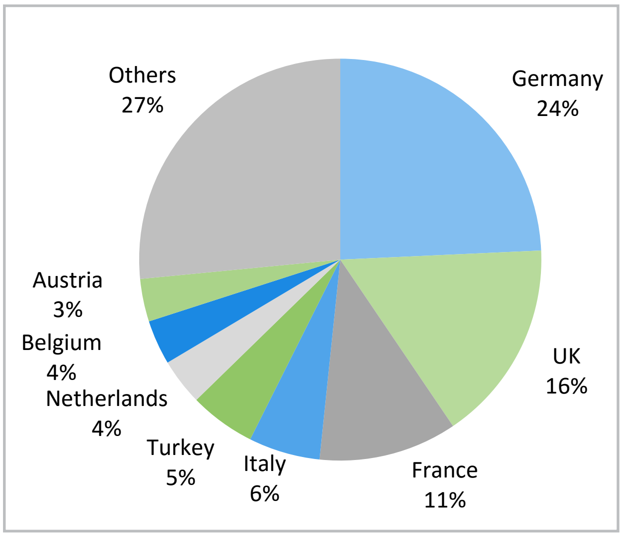
Further anchors of stability in 2015 were the Nordic countries, which saw a 6% sales increase. The weak oil price did not have a great influence on the Norwegian market yet, but there is still considerable risk for 2016. Benelux countries were also on a growth path (+8%), while Austria and Switzerland (-7%) saw slight declines but stayed at high levels.

EARTHMOVING EQUIPMENT

The 131,000 units of earthmoving equipment sold in Europe (including Russia and Turkey) in 2015, mark a modest decline of 3%. Again, the picture looks much more positive when excluding Russia – with sales showing a steady 4% growth. The pattern of sales through the year resembled 2014 to some extent: Q1 saw an encouraging start, with similar volumes to the same period in the previous year. Q2 and Q3 were weak periods with an extensive summer slump, and Q4 brought back growth to the sector.

Light equipment performed well in 2015. Sales of compact earthmoving machines in Europe were more or less stable at -1%. Growth was limited to mini excavators, which saw a sales increase of 8%. The other product categories saw moderate declines. Sales of compact wheel loaders decreased by 4%, mainly due to the difficulties experienced in the French market. Skid-steer loaders declined by 8%, and backhoe loaders even further, dropping by 13%. The weak performance of backhoe loaders is primarily attributable to the Russian market.

Against the backdrop of ongoing weakness in the mining and quarrying sectors, and troubles in the Russian market, sales of heavy equipment in Europe were down by 9% in 2015. The



Shares of construction equipment sales in European countries, 2015 worst affected product lines were dozers (-30%), crawler excavators (-16%), and wheeled excavators (-13%). Sales of wheeled loaders (-8%), rigid dumpers (-7%), and ADTs (-5%) also declined. Only graders saw sales growth (+13%), fuelled by strong demand in Turkey.

ROAD EQUIPMENT

In contrast with a rather weak post-crisis recovery in the construction equipment sector in Europe, road machinery marks an exception to some extent. After 2014, the sub-sector was 24% below record levels of sales. While this is still significant, the situation is much better than what was experienced in the construction and earthmoving equipment segments.

2015 overall saw moderate declines in sales of 7.7%. The pattern of sales through the year was similar to earthmoving equipment: Single digit declines seen in the first quarter became stronger in the second and third quarters, while Q4 marked a return to growth. The fourth quarter recovery came from Western European markets, and most notably from France, as the French market stabilized towards the end of a bad year.

Interestingly, light and heavy compaction equipment declined at the same rate of almost 8%. Again, there is a strong regional component within this: Excluding the French market, there was some growth in the light equipment subsector, and without the impact of the poor Russian market, the heavy compaction product group would have been much less severely affected. When it comes to products, single-drum rollers and tandem rollers saw declines of 18% and 42%, respectively. Asphalt pavers sales were 17% down, again as a result of the weak Russian market. Vibratory plates declined by 2%, while sales of vibratory tampers deteriorated by 14%.

CONCRETE EQUIPMENT

Building construction equipment is the sub-sector within construction machinery that still shows no sign of recovery. This is not overly surprising, considering that this sub-sector was the most badly affected during the economic crisis post 2007. We should not forget that the downturn was ignited by a real estate crisis, and building construction in general has benefitted less from stimulus programmes in Europe than the civil engineering sector.

The improving performance of building construction equipment in 2015 (compared to earthmoving and road equipment) can therefore be interpreted as a “belated recovery” to some extent. However, the year did not deliver a substantial and wide-spread upturn. Due to very small sales volumes, volatility is often high in the building construction machinery sector, and his was true once again in 2015.

EXPORTS FROM EUROPE TO THE WORLD GREW SLIGHTLY

For concrete equipment, the year started badly, with a continuation of the weak performance seen in late 2014. However, after a very weak Q1 2015 with a 27% sales decline, the following quarters all saw growth, with an accelerating momentum. This culminated in an exceptional fourth quarter that saw 51% growth in sales, albeit, this is a comparison with a very low level of sales in Q4 2014. Overall, concrete equipment sales in Europe grew by 10% in 2015, which is again a reflection of “low volume, high percentage changes”. The concrete equipment sector is still a long way from peak levels, and also below the 20-year average.

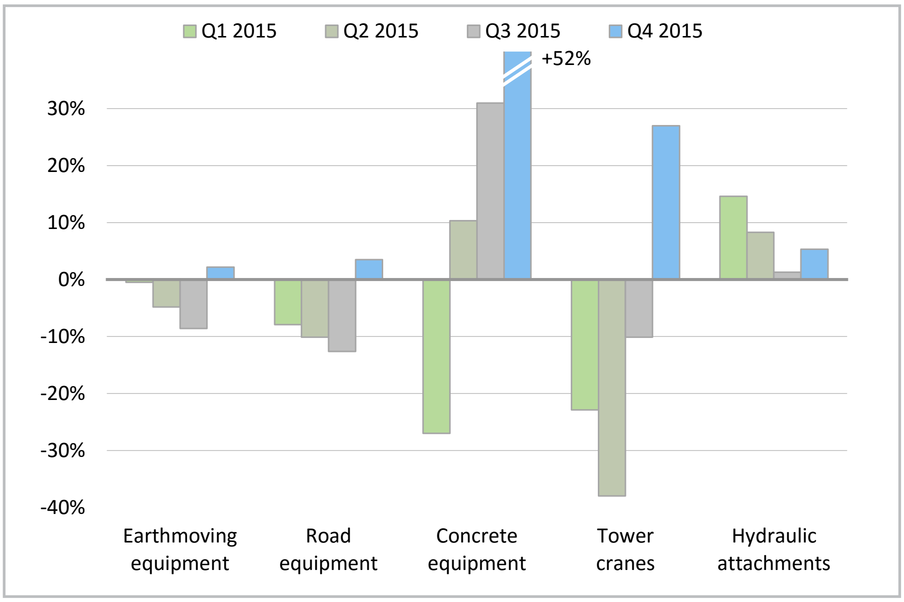
When it comes to products, truck mixers performed best with substantial growth of 14% in Europe, while sales of concrete pumps were flat. Least positive was stationary equipment, with batching plants, recycling plants, and mixer systems all suffering sales declines.

TOWER CRANES

Lifting equipment, the other part of the building construction machinery sub sector, performed similarly to concrete equipment in 2015, with a recovery setting in later in the year. Momentum improved during the year, but the first three quarters still saw double-digit sales declines, before Q4 brought back growth to the industry.

Overall, sales declined slightly by 2% in Europe, but the contrasting geographical performances were even more striking than for other equipment sectors. The collapse of the Russian tower crane market was the only significant decline, but this was almost a 90% reduction in sales from an already weak level. Without Russia, sales in Europe would have been up 18%, backed by a very strong performance of markets like Turkey, Germany, the UK, and even France, all of which saw double-digit increases.

From an overall perspective, even if



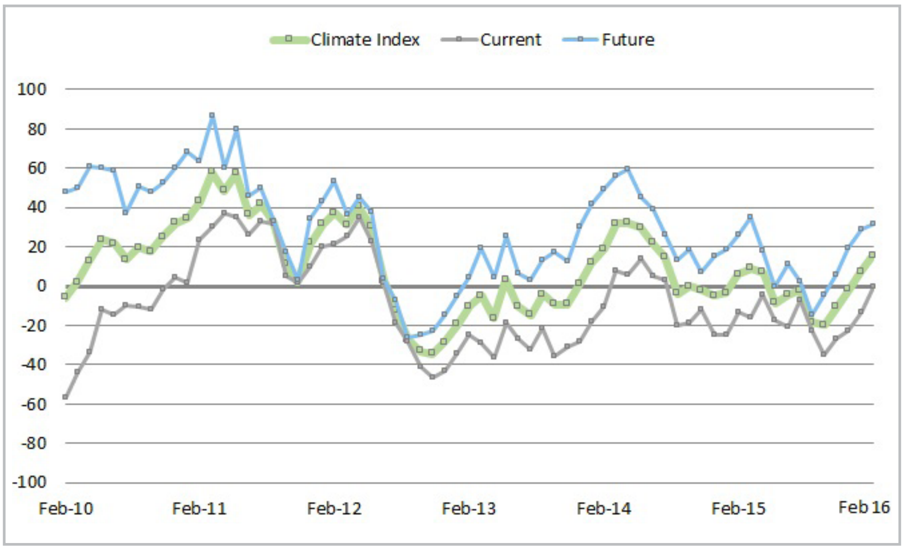
Product groups: construction Equipment sales in Europe compared to previous year in %

the Russian market was in much better shape, tower crane sales in Europe would still be well below levels seen in the past. Sales in Europe are well below the long-term average, and it is striking that the current market volume is still 80% below the peak levels of 2007, when Southern European sales alone were higher than total European sales today. In conclusion, any further recovery of the sector (which is feasible given the good prospects for the building construction sector) will probably be only a small step towards a return to historical levels of demand.

SUMMARY AND OUTLOOK

The story of disparities in the European construction equipment sector has been told many times. In the recent past, it was principally about the North-South gap. While this difference still remains, the most striking aspect at the moment is the desperate situation in the Russian market vs. a robust rest of Europe. In fact, Europe without Russia was amongst the top three performing regions in the world in 2015, behind only the Middle East and India. This contrasts with a clear loss of momentum in North America, where the market is almost back to the peak levels of 2006, but didn't see any more growth in 2015. Latin America, Africa, and most parts of Asia (in particular China which saw the fourth consecutive year of decline) suffered further decreases. In an environment that lacked any clear drivers of growth, and against a backdrop of declining world equipment sales (-11%), Europe should be seen as a positive example.

It remains extremely difficult to forecast 2016, as there are still immense risks on the table. Most notable are a number of political tensions and conflicts, the unsolved Euro crisis (which has escaped public attention recently), the weakness of oil and gas prices as well as commodity prices in general. In addition, problems continue in emerging markets, and the net effect in economic terms of refugee migration, remains unclear. It is a positive sign that the overall business climate seems to be less influenced by risks and uncertainties recently. The CECE Barometer, the most relevant leading indicator for the construction equipment industry in Europe, grew significantly in the last quarter of 2015 and the first quarter of 2016. The index is clearly in a positive zone, which suggests a positive first half of the year when it comes to equipment sales.



European business climate index, CECE Barometer February 2016

STARTING 2016, THE CECE BUSINESS BAROMETER IS CLEARLY IN A POSITIVE ZONE

Looking at the European market in 2016, it seems most likely that the recovery in Southern Europe will continue (particularly in Italy and Spain). Fuelled by infrastructure investments, Central and Eastern Europe should continue its growth. France could win back a portion of what was lost in 2015. The high volume markets like Germany, the UK, Nordic countries, Benelux, and Austria and Switzerland are not expected to see further growth, but a slump isn't expected either. Turkey has the potential to further accelerate growth, but political issues could limit investment activity. A quick pick up in the Russian market is unlikely, even if the political component of the crisis disappears. Overall, this translates into a modest single-digit growth rate as the most realistic scenario for sales in Europe.

What remains true, though, is that the European construction equipment sector is an exporting industry. Even in a difficult market in 2015 with declining worldwide sales, exports from Europe to the world grew slightly (by 4% in the first 10 months of the year, full year results were not available at the time of writing). The market will certainly not benefit from countries that rely on the mining and raw materials sectors (Africa, Latin America), and the low oil price will continue to take its toll in the Middle East, and most likely in North America as well. Further growth is anticipated for India, while a recovery of the Chinese market seems unlikely before 2017. Across all products and regions, flat world sales seems the most realistic forecast for 2016.

SNAPSHOT: CECE ECONOMIC FORUM 2015

Experts judge longer-term perspective as not too bad, though with challenges to profit margins

At the Economic Forum of the CECE Summit in September 2015, tides are changing, and markets that were shining just a few years ago are in deep trouble now. At the Economic Forum of the recently held CECE Summit, industry experts discussed why the world economy is not doing too well at the moment, where construction activity will be seen in the near future, and why the prospects for construction equipment manufacturers are not that bad after all.

In his introductory speech, Philippe Waechter, Head of Economic Research at Natixis Asset Management, pointed out that the world economy clearly lacks significant growth drivers. This has implications on commodity and oil prices, which can be expected to remain low in the foreseeable future. While this is good news for regions like Europe as purchasing power rises, it brings more troubles to emerging markets that rely on exports of these products. According to Waechter, we should not expect significant interest rate hikes in the near future, as long as the overall economic climate does not improve.

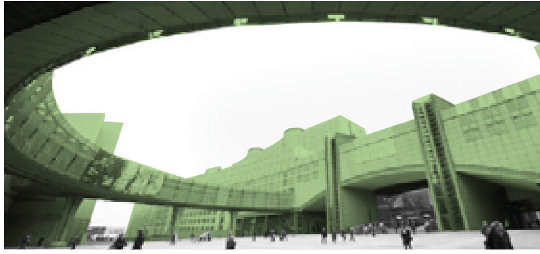
For the construction sector, things seem to look a little better. According to Antonio Mura, Director at CRESME Ricerche, the world construction industry is experiencing the worst year since 2009 in 2015, but this will be followed by significant growth of 17% until 2019. Growth in construction is usually concentrated in emerging economies and, despite the current emerging markets slowdown, this trend will be seen in future years as well: by 2019, two thirds of construction investment will take place in these regions. The good news, however, is that, with the exception of Japan, there will be substantial growth even in mature markets, though clearly on lower levels.

Therefore, demand for construction equipment should be back on track at least in the medium term, when emerging markets take up their role as engines of growth. Unfortunately, as highlighted by Erik Sjödin, Associate Principal at McKinsey, those regions are typically not the most profitable ones for equipment manufacturers. Highest margins are currently generated in the North American market, and it will clearly be one of the major future challenges for manufacturers to profitably participate in growing emerging markets.

At the moment, as the Chinese construction equipment market tumbles – David Phillips of Off-Highway Research explained that Chinese manufacturers run at a capacity utilization of below 20 percent – and headlines are made with crises and scandals from Russia to Brazil, we see the unusual situation that sales growth is concentrated in Europe and North America. Ann Duignan, equity analyst at JP Morgan, discussed with industry experts the short and medium term prospects of these markets, and how European manufacturers can remain competitive. Free trade agreements like TTIP may foster growth and competitiveness. The comparably weak European currency certainly helps in the short run, but the industry should look at staying competitive because of its core strengths like technological advancement and powerful distribution and after sales networks in the regions.

Presentations of the Economic Forum can be downloaded at www.cece-cema-summit.eu / received from CECE secretariat by sending an email to info@cece.eu.

COMMITTEE FOR EUROPEAN
CONSTRUCTION EQUIPMENT



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 NATIONAL ASSOCIATIONS
- 1,200 COMPANIES EMPLOYING DIRECTLY AROUND 130,000 PEOPLE.
- TOTAL TURNOVER: 25 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 organised within CECE employs around 130.000 people directly, with a similar number being active in sales and services, and had a turnover of 25 billion Euro from European production in 2013.

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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