

Business economy overview



At the time of writing, global, economic events were unfolding. Following the collapse of banks, and intense pressure on banking systems, falling stock market indices, and in many cases falling housing prices, there was evidence an economic downturn. This was apparent in terms of falling demand, waning business and consumer confidence, lower industrial output and reduced volumes of retail sales.

In this economic environment, the renewed Lisbon strategy (as reiterated in 2005), which seeks to foster economic dynamism and help create more and better jobs, faces greater challenges. The strategy undertakes to ensure that businesses can compete openly and fairly, while making Europe an attractive place to invest and work in. Enterprise policy within the EU aims to create an environment that encourages entrepreneurs and businesses to flourish. There are a wide range of initiatives intended to increase competitiveness or nurture European businesses, in particular, small and medium-sized enterprises (SMEs). Current enterprise policy (more details at: http://ec.europa.eu/enterprise/index_en.htm), aims to:

- promote entrepreneurship, competitiveness, productivity growth, innovation, access to funding, and support networks;
- implement a flexible and simplified regulatory and administrative framework;
- open-up markets;
- encourage businesses to adapt to structural change;
- ensure coordination and balance between industrial, energy and environmental policies.

In order to sustain its ambitions, many commentators argue that Europe needs to accelerate reform, becoming more entrepreneurial, making business easier to carry out, while at the same time promoting sustainability through protection of the environment and social values. Others would argue that in periods of economic recession, it is understandable that governments encourage the consumption of home-produced goods. Indeed, recent political debate has centred on evidence of a more protectionist stance: for example, moves to protect activities that are considered to be of particular national importance, threats to the free movement of workers, or non-compliance with Stability and Growth Pact rules. Support for failing sectors of the economy has been most notable within the banking sector, but subsequently

spread to other activities – such as, motor vehicle manufacturing and airlines. Alternatively, at the time of writing, several Member States have been permitted to introduce direct-aid schemes, whereby up to EUR 500 thousand could be given to businesses in financial difficulty.

1.1: Macro-economic outlook

Gross domestic product (GDP)

The most common indicator for measuring a nation's economic activity is gross domestic product (GDP). This indicator covers the production activity of resident producers, calculated as the sum of gross value added from all activities/industries within an economy.

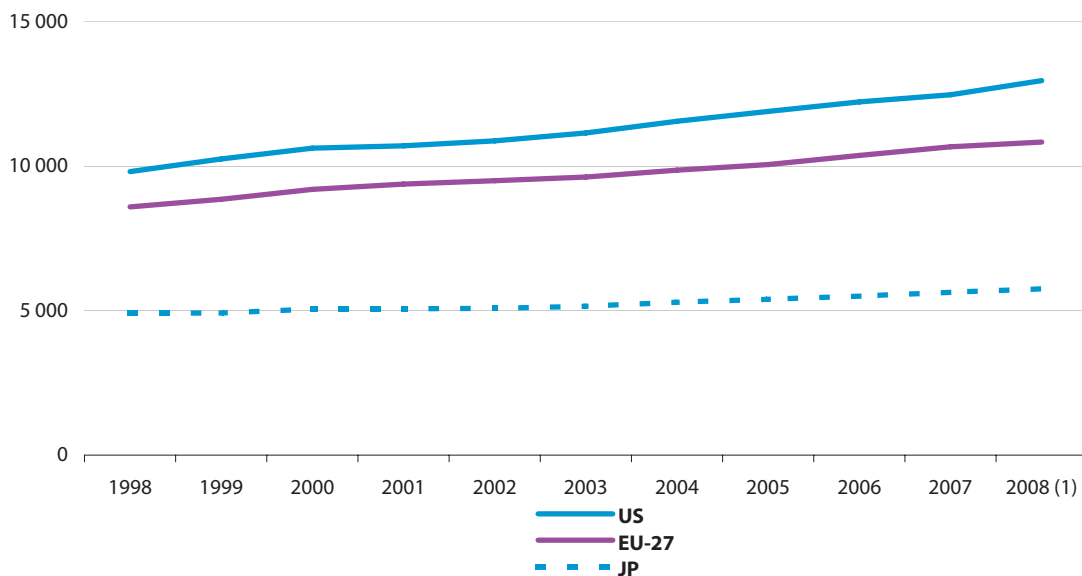
It is important to consider the cyclical changes in GDP over the past decade when reading the sectoral chapters that follow, as the evolution of output or sales in many activities follows closely the economic cycle of the whole economy. GDP growth in the EU-27 rose at a relatively fast pace during the late 1990s, with annual rates of growth peaking in 2000 at 3.9 %, after which there was a slowdown in the pace at which economic activity expanded, in particular for 2002 and 2003. The EU-27's GDP growth thereafter accelerated with rapid expansions in 2006 (3.1 %) and 2007 (2.9 %). At the time of writing, latest forecasts for 2008 show a considerable slowdown in activity, with the rate of GDP growth almost halving between 2007 and 2008, while forecasts for 2009 from a range of international organisations point to global growth rates close to zero.

Figure 1.1 shows the evolution of constant price GDP (at fixed 2000 exchange rates) between 1998 and 2008 in the Triad economies of the EU-27, Japan and the United States (forecasts are included for 2008). GDP rose on average by 2.3 % per annum in the EU-27 during the period concerned, which was below the rate recorded for the United States (2.8 % per annum), but higher than that for Japan (1.6 % per annum).

The level of GDP, per se, says little about the economic performance of a country. In order to normalise GDP, one of the most common approaches is to use GDP per capita (obtained by dividing GDP by the number of inhabitants in a country/region). This indicator is often used as a measure of living standards. For international comparisons, GDP per capita should ideally be calculated in terms of

Figure 1.1: Business economy overview

GDP at market prices in constant prices (EUR billion, chain-linked volumes, at 2000 exchange rates)



(1) Forecasts.

Source: Eurostat (Economy and finance)

purchasing power standards (PPS)⁽¹⁾. Figure 1.2 shows that Luxembourg had by far the highest level of GDP per capita in PPS terms in 2007, at just over three times the EU-27 average, well above the next highest figures that were recorded for Ireland and Denmark (where GDP per capita was 76 % and 67 % above the EU-27 average). At the other end of the range, the 12 Member States that joined the EU in 2004 or 2007, as well as Spain, Greece and Portugal, all reported GDP per capita below the EU-27 average. The lowest standard of living (using this measure) was recorded in Romania and in Bulgaria, where this ratio was less than a quarter of the EU-27 average.

Structure of the EU economy – an overview

According to national accounts, the group of activities covered by this publication – hereafter referred to as the business economy (NACE Sections C to K) – accounted for 75.8 % of the total value added generated in the EU-27 in 2007 (see Figure 1.3). This marked an increase of 0.9 percentage points when compared with the corresponding share of a decade before.

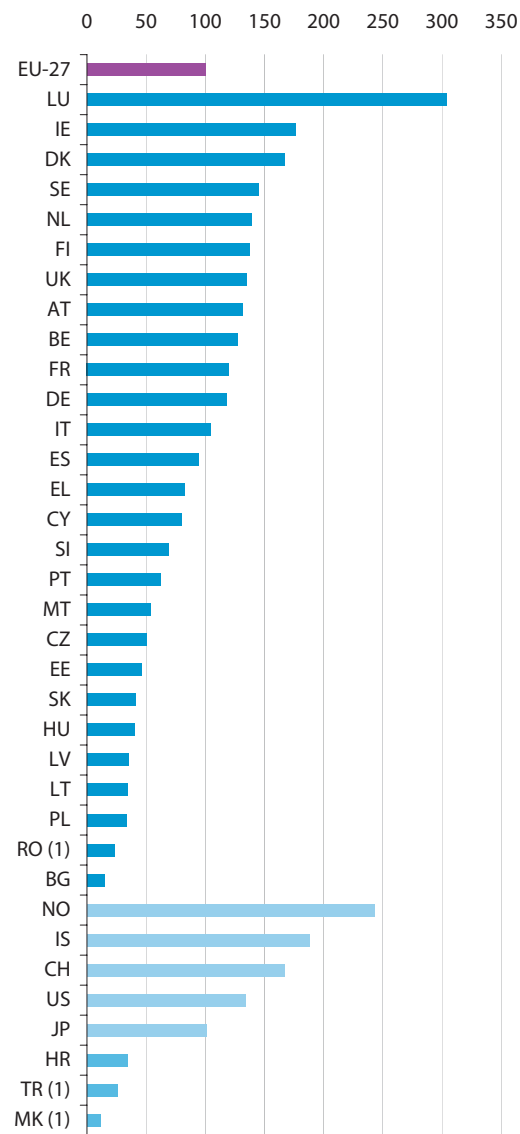
The largest sector (in terms of value added generated) was financial, real estate, renting and business activities (NACE Sections J and K), which

accounted for 28.1 % of the EU-27 total in 2007. Distribution, hotels, restaurants and catering (HORECA), communications and transport services (NACE Sections G to I) and industry (NACE Sections C to E) both accounted for slightly more than a fifth of the EU-27's economic output. Construction (NACE Section F) registered a 6.5 % share, while among those activities not covered within this publication, the lion's share of the remaining added value (22.4 % of the EU-27 total) was generated by public administration, health, education, other services and households (NACE Sections L to P); the outstanding 1.8 % of value added was attributed to agriculture, hunting, forestry and fishing (NACE Sections A and B).

The structure of economic output within the EU-27 has generally shifted away from traditional economic sectors such as agriculture or industry, towards services. This trend may, at least in part, be attributed to the outsourcing phenomenon, as supporting and ancillary operations which were previously done in-house are awarded to outside contractors (for example, transport services or logistics, information technology, accounting and payroll services, or industrial cleaning). International outsourcing implies that an enterprise contracts out work to external suppliers from another country, whereas off-shoring is when an enterprise maintains control/ownership of a

(1) A purchasing power parity is a currency conversion rate that allows indicators expressed in national currency to be converted to an artificial common currency while adjusting for different price levels between countries; this artificial common currency is called the purchasing power standard (note that EU-27 values are unchanged in euro and PPS terms).

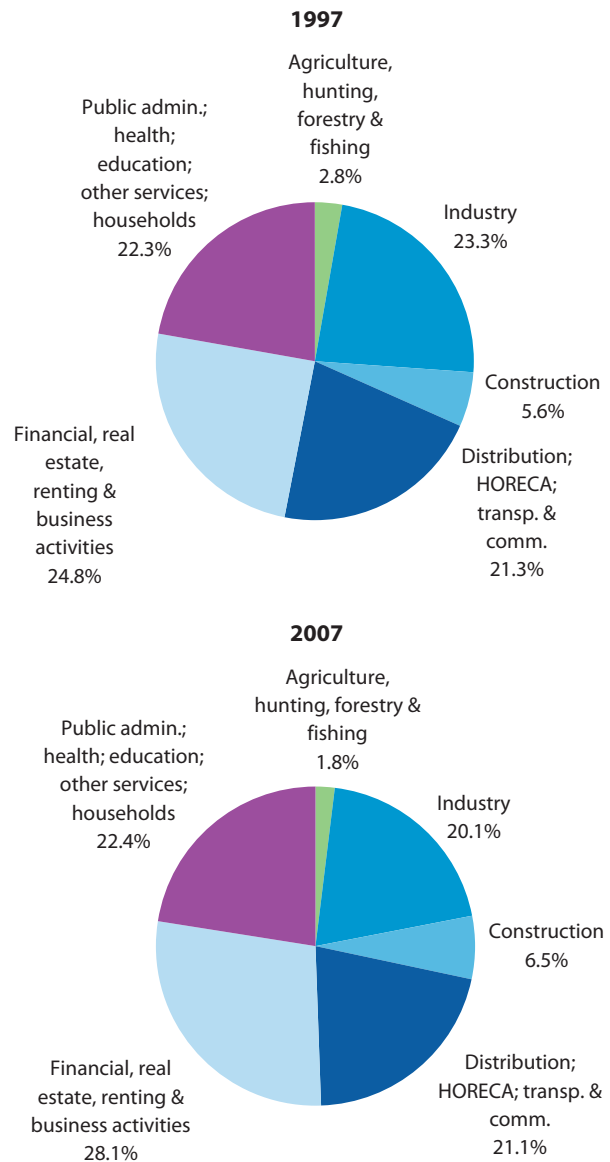
Figure 1.2: Business economy overview
GDP per capita at market prices, 2007
(EU-27=100, based on PPS)



(1) Forecasts.

Source: Eurostat (Economy and finance)

Figure 1.3: Business economy overview
Breakdown of value added in current prices, EU-27
(% of total value added)



Source: Eurostat (Economy and finance)

production/service facility that moves abroad. These phenomena are examples of how structural changes may take place in the European business economy, as enterprises relocate in the face of relatively high wages and increased global trade that have driven out (in particular) price sensitive segments of the EU-27 economy to lower labour cost regions. As such, some industrial enterprises have sought to invest in production facilities in emerging economies to benefit from relatively low unit labour costs and/or to improve their

chances of market entry in an untapped region. However, the process is not restricted to industrial activities, as several services have followed a similar pattern, for example, call centres, financial and computer services, or research and development activities. These changes in the way that enterprises do business may, at least in part, explain why the share of industry in EU-27 total value added declined by 3.2 percentage points between 1997 and 2007, while the largest relative gains were concentrated among financial, real

estate, renting and business activities, where a 3.3 percentage point increase was registered.

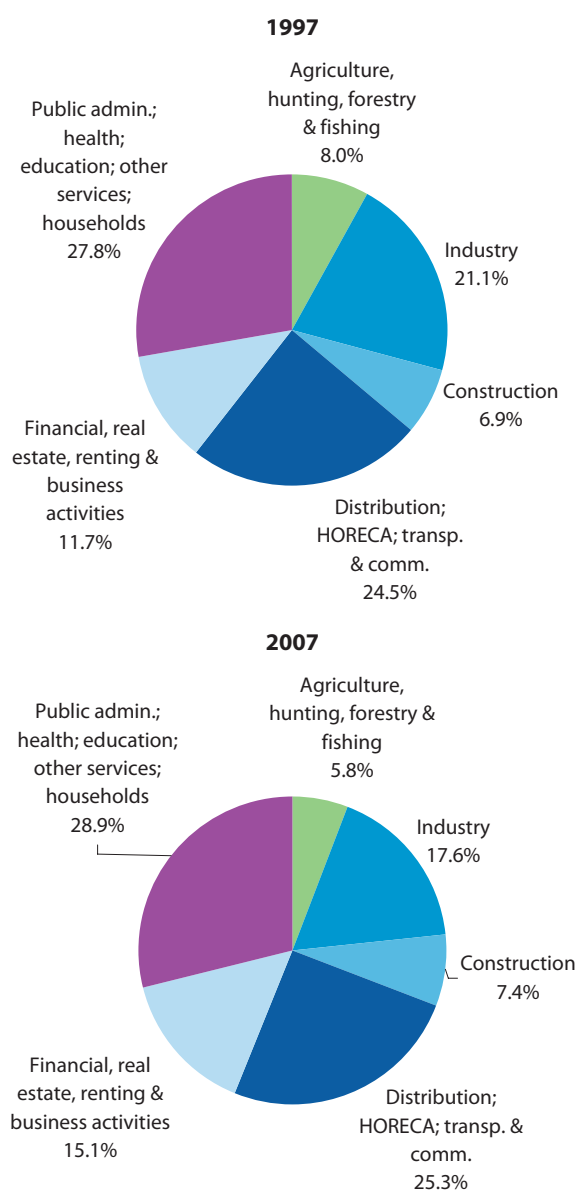
Just under two thirds (65.3 %) of the EU-27's workforce were employed within the business economy in 2007 (see Figure 1.4); this was more than 10 percentage points lower than the corresponding share of the business economy in total value added. The difference could be largely attributed to the relatively low share of persons employed in financial, real estate, renting and business activities (15.1 % of the total workforce, compared with a 28.1 % share of total value added). In contrast, agriculture, hunting, forestry and fishing; construction; distribution, HORECA, communications and transport services; as well as public administration, health, education, other services and households were all relatively labour-intensive. Indeed, the largest employer in the EU-27 in 2007 (on the basis of national accounts data) was public administration, health, education, other services and households, accounting for almost three out of every ten persons (28.9 %). Just over a quarter (25.3 %) of the EU-27's workforce was employed in distribution, HORECA, communications or transport services.

Structural differences between the Member States

Figure 1.5 shows the relative contribution of the six national accounts activity aggregates to total value added in 2007. The structural differences observed between the Member States should be borne in mind when reading the sectoral chapters of this publication. In particular, it is important to consider the relative weight of those sectors that are not included in the main body of the publication, as agriculture, hunting, forestry and fishing, and more particularly, public administration, health, education, other services and households can often account for a relatively high share of economic activity. However, the relative weight of these two activities does not have a direct impact on the calculation of shares and ratios that are presented throughout the publication as the non-financial business economy is often used as the denominator when creating indicators for analysis.

On average, agriculture, hunting, forestry and fishing and public administration, health, education, other services and households accounted for 24.2 % of total value added in the EU-27 in 2007. Their share of total value added peaked at

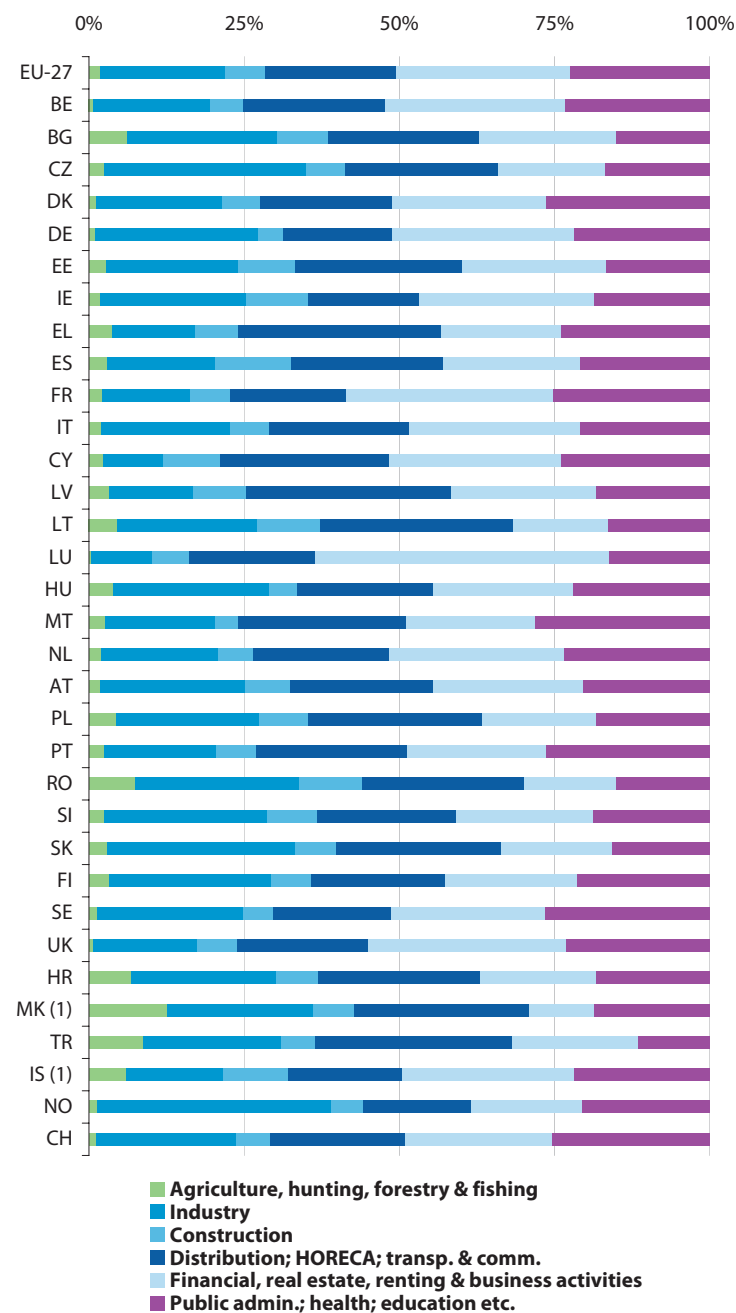
Figure 1.4: Business economy overview
Breakdown of employment, EU-27 (% of total employment)



Source: Eurostat (Economy and finance)

30.6 % in Malta, falling to almost half this level in Luxembourg (16.6 %). The relative importance of agriculture, hunting, forestry and fishing was particularly high in Romania and Bulgaria (7.5 % and 6.2 %), while upwards of 25 % of total value added was generated by public administration, health, education, other services and households in Malta, Denmark, Portugal, Sweden and France.

Figure 1.5: Business economy overview
Breakdown of gross value added at basic prices, 2007
(% share of total gross value added)



(1) 2006.

Source: Eurostat (Economy and finance)

Among the activities covered by the sectoral chapters of this publication, Luxembourg, France and the United Kingdom were all relatively specialised in financial, real estate, renting and business activities, as these activities accounted for upwards of 30 % of their total value added (rising to 47.3 % in Luxembourg). Industrial activities were particularly concentrated within central Europe, with the highest shares of industry in total value added being recorded in the Czech Republic, Slovakia, Germany, Romania and Slovenia. In contrast, the tourism-rich economies of Greece, Cyprus and Malta were joined by the Baltic States and Poland, where distribution activities accounted for a relatively high share of value added, as the Member States that displayed the highest degree of specialisation in distribution, HORECA, communications and transport services. The most specialised Member States within the construction sector were Spain (12.3 % of total value added), Romania (10.3 %) and Lithuania (10.2 %).

Figure 1.6 shows a similar breakdown for employment: the main difference is the striking number of persons employed within agriculture, hunting, forestry and fishing activities in Romania (2006), Bulgaria and Poland (2006), a share that rose to 30.6 % in Romania. The relative importance of public administration, health, education, other services and households was also generally higher in relation to employment when compared with value added. Indeed, as many as 39.0 % of the Swedish workforce were occupied in these activities in 2007, and upwards of one third of the total in France (2006), Denmark, Belgium and Finland.

Future challenges; information technology and climatic change

In its mid-term review of industrial policy (COM(2007) 374), the European Commission identified some key challenges facing European business, in particular, the intensified impact of globalisation and technological change, the challenges posed by climate change, and the possibilities for exploring opportunities relating to new low-energy and resource-saving processes and products.

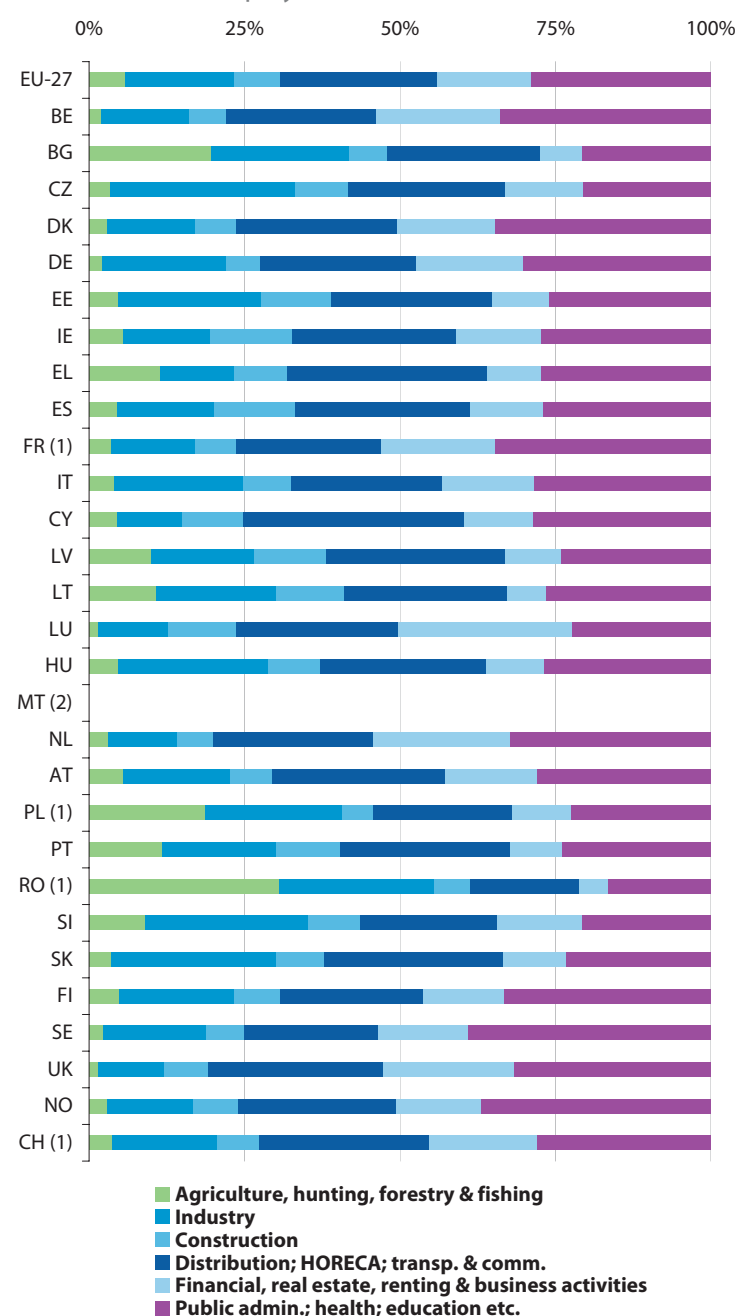
One basic indicator to measure the take-up of information technology is the Internet penetration rate. The proportion of EU-27 enterprises having access to the Internet in 2008 was 93 %⁽²⁾, while 81 % of all enterprises had a broadband connection (see Figure 1.8). This latter share ranged from 92 % in France, Spain and Finland, to less than two thirds of all enterprises in Bulgaria, Latvia, Poland, Lithuania and Romania (where the lowest share of 44 % was registered).

Aside from its potential for making business more productive and efficient, the Internet also offers a range of opportunities for e-commerce, both with other businesses (B2B), as well as final consumers (B2C). A relatively small proportion of enterprises (16 %) in the EU-27 received orders on-line in 2008, with this latest figure representing a gain of four percentage points in relation to 2005 (see Figure 1.9). The likelihood that an enterprise received orders on-line rose as a function of its average size, from 15 % for small enterprises to 33 % for large enterprises.

Some 28 % of enterprises in the EU-27 in 2008 made on-line purchases, which was also four percentage points higher than in 2005. As with sales through the Internet, the highest proportion of enterprises making purchases over the Internet was recorded among large enterprises (42 %). Note, however, that the pace at which Internet sales and purchases grew between 2005 and 2008 was fastest among small enterprises.

The EU has set ambitious environmental goals to increase energy efficiency, to reduce greenhouse gas emissions (by at least 20 % by 2020), to promote renewable energy sources, and to invest in a range of environmental industries. Figure 1.10 shows that there have been sizeable reductions in national emissions across the EU-27, on the basis of a comparison with 1990 – in particular for ozone precursors, particulate matter and acidifying pollutants. Figure 1.11 presents more detail in relation to the main sources of emissions, with fuel consumption for transport and within energy-producing industries generally accountable for the highest levels. Energy-producing industries and transport accounted for almost one third and one fifth (31 % and 19 %) of all greenhouse gas emissions in 2006. Between 1990 and 2006 there was a general trend for EU-27 emissions from energy-producing industries and from industrial and construction activities to fall (as a share of total emissions), while the share of emissions from transport tended to rise.

Figure 1.6: Business economy overview
Breakdown of employment, 2007
(% share of total employment)



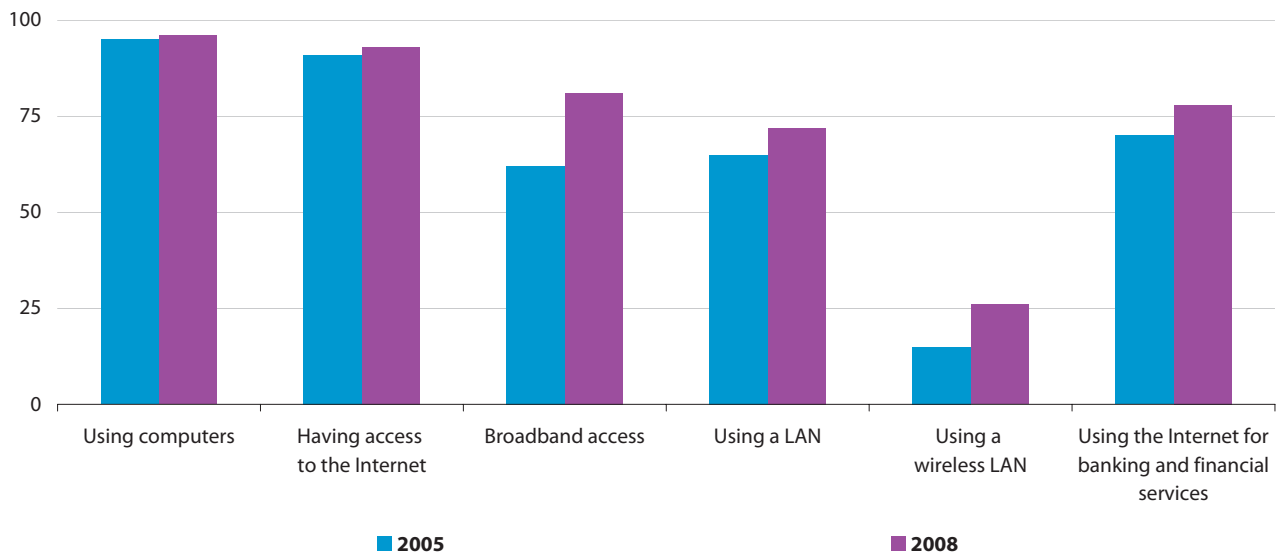
(1) 2006.

(2) Not available.

Source: Eurostat (Economy and finance)

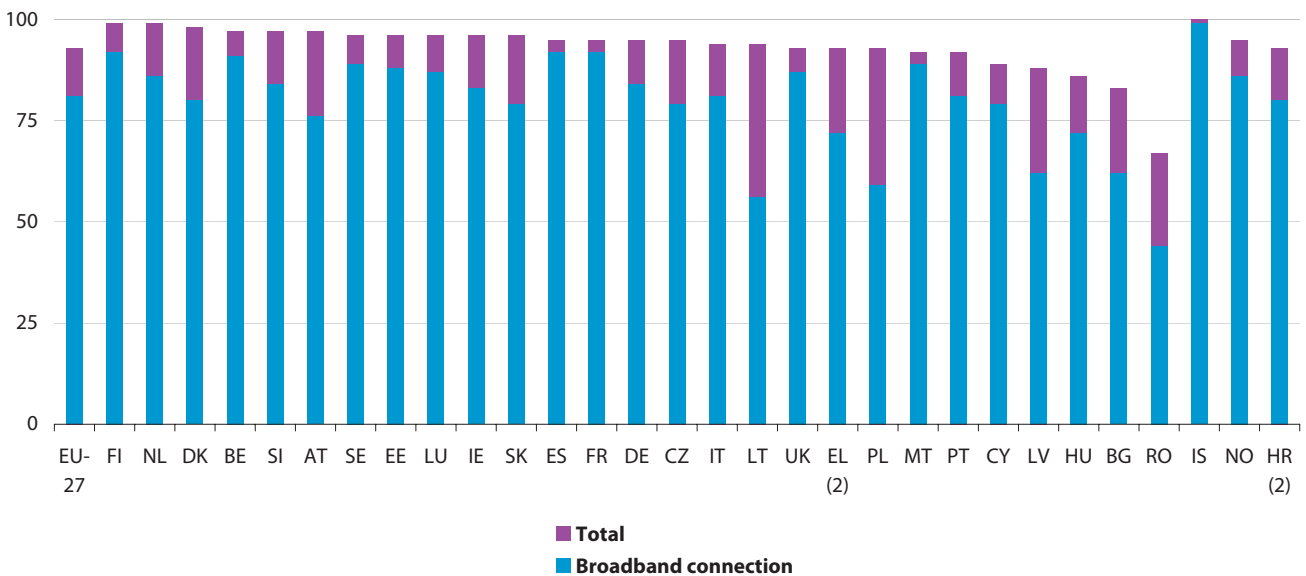
(2) Information covers enterprises with 10 or more persons employed in NACE Sections D, F, G, I and K, as well as Groups 55.1, 55.2, 92.1 and 92.2.

Figure 1.7: Business economy overview
Use of computers and the Internet by enterprises, EU-27 (%) (1)



(1) Information covers enterprises with 10 or more persons employed in NACE Rev. 1.1 Sections D, F, G, I and K, as well as Groups 55.1, 55.2, 92.1 and 92.2.
Source: Eurostat (Information society statistics)

Figure 1.8: Business economy overview
Proportion of enterprises having access to the Internet, 2008 (%) (1)

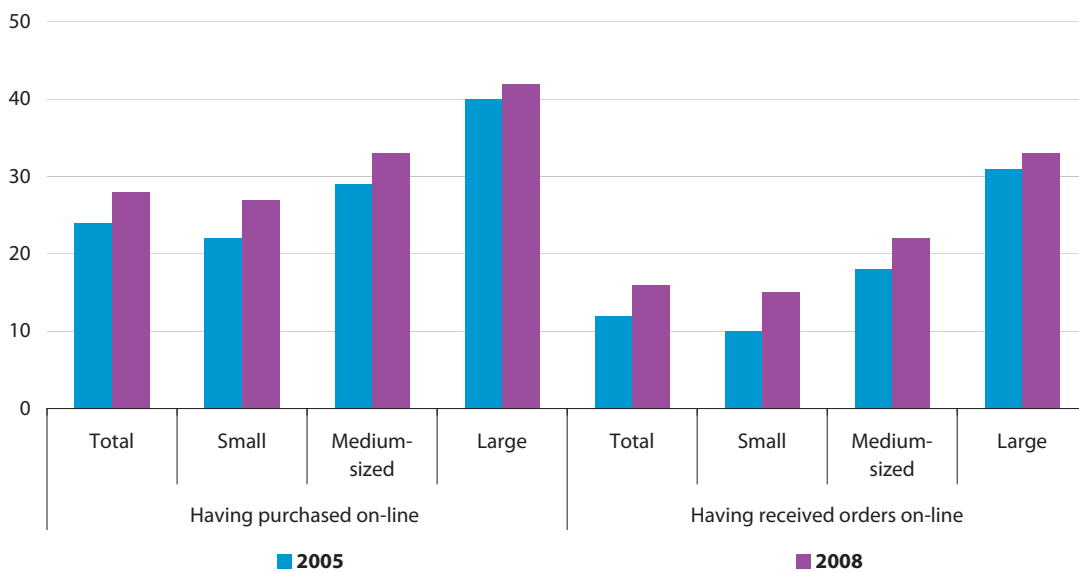


(1) Ranked on total proportion of enterprises with a connection; information covers enterprises with 10 or more persons employed in NACE Rev. 1.1 Sections D, F, G, I and K, as well as Groups 55.1, 55.2, 92.1 and 92.2.
(2) 2007.

Source: Eurostat (Information society statistics)

Figure 1.9: Business economy overview

Proportion of enterprises purchasing and selling on-line, EU-27 (%) (1)

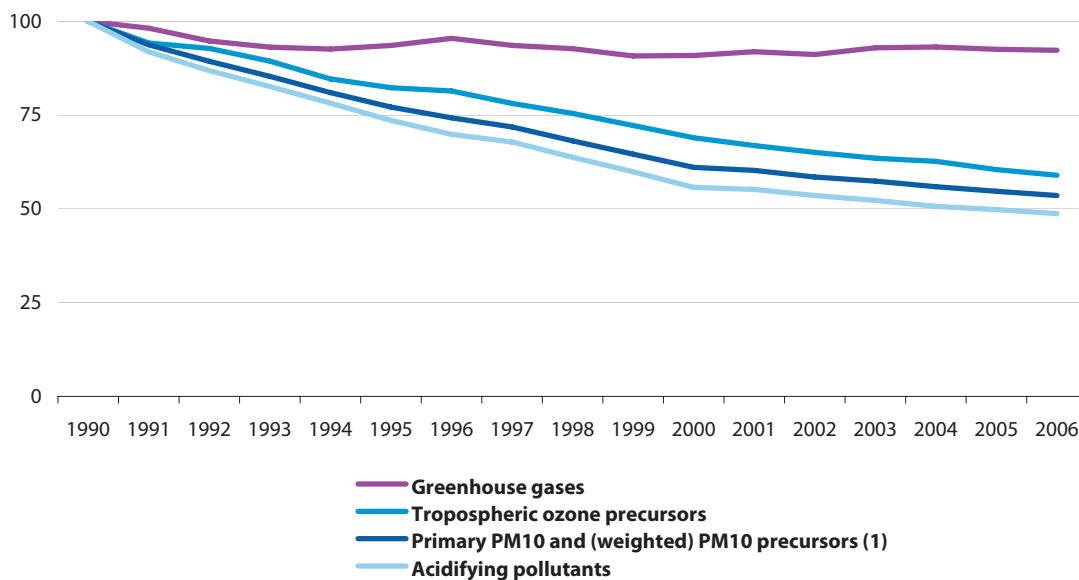


(1) Purchases or orders received of at least 1 % during the previous calendar year; information covers enterprises with 10 or more persons employed in NACE Rev. 1.1 Sections D, F, G, I and K, as well as Groups 55.1, 55.2, 92.1 and 92.2.

Source: Eurostat (Information society statistics)

Figure 1.10: Business economy overview

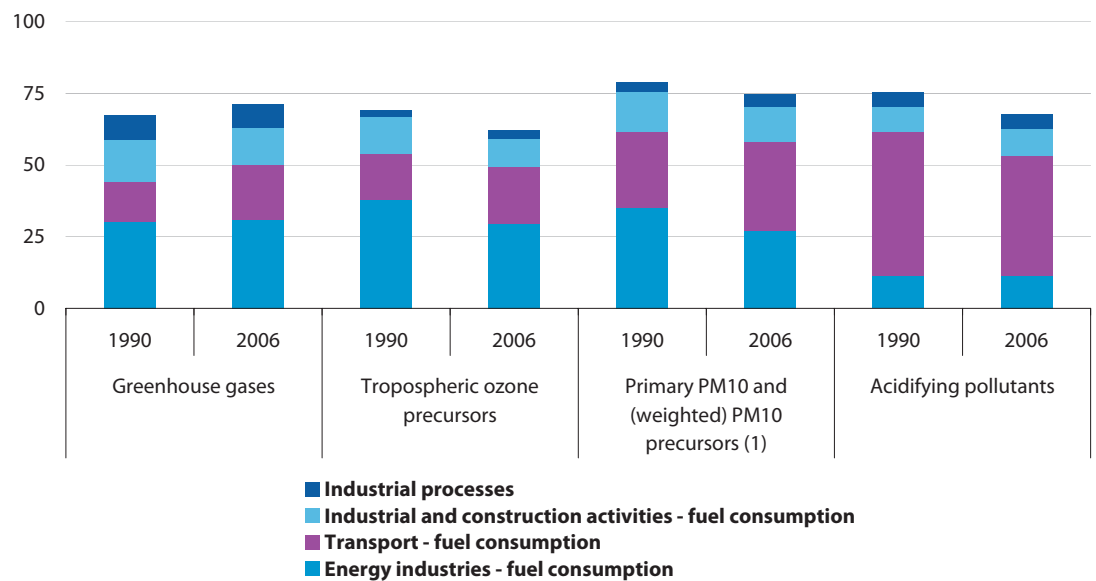
Development of total national emissions of selected air pollutants, EU-27 (1990=100)



(1) PM10 is particulate matter with an aerodynamic diameter less than or equal to 10 microns.

Source: Eurostat (Air pollution/climate change)

Figure 1.11: Business economy overview
Air emissions: share of selected sources in total emissions, EU-27 (%)



(1) PM10 is particulate matter with an aerodynamic diameter less than or equal to 10 microns.
Source: Eurostat (Air pollution/climate change)

1.2: Structural profile of the business economy

Regulation ((EC) No 58/1997) established a common framework for the collection, compilation, transmission and evaluation of Community statistics on the structure, activity, competitiveness and performance of businesses in the Community. These structural business statistics (SBS) constitute the principal source of information used in this publication. The main SBS aggregates, often referred to during the course of this publication, include:

- the non-financial business economy (NACE Rev. 1.1 Sections C to I and K);
- industry (NACE Sections Rev. 1.1 C to E);
- construction (NACE Rev. 1.1 Section F), and;
- non-financial services (NACE Rev. 1.1 Sections G to I and K).

Note that financial services (NACE Rev. 1.1 Section J) are kept separate (see Chapter 26) because of their specific nature and the limited availability of most standard business statistics in this area.

The legislation in respect to structural business statistics was modified in 2002 by a Decision (No 2367/2002/EC) of the European Parliament and the Council in order to ensure that the collection of statistics was guided by the principal Community policy priorities of economic and monetary union, enlargement and competitiveness, regional policy, sustainable development and the social agenda.

A recast structural business statistics Regulation ((EC) No 295/2008) came into force in February 2008 and provides ten modules for the production of business statistics. The regulation foresees that the first reference year for which statistics will generally be compiled is calendar year 2008; in addition the statistics should be collected according to the revised classification of economic activities (NACE Rev. 2). This recast Regulation should provide for the continuation of existing statistical support in current policy areas and satisfy additional requirements arising from new Community policy initiatives, as well as reviews of statistical priorities. The Member States will generally have 18 months to deliver these statistics to Eurostat and hence the data for 2008 is expected to be available by the summer of 2010. As such, this publication continues to present data using the NACE Rev. 1.1 classification of economic activities.

Table 1.1: Business economy overview

Main indicators for the non-financial business economy, EU-27, 2006 (1)

Chapter	Turnover		Value added		Persons employed	
	(EUR billion)	(% of non-financial business economy)	(EUR billion)	(% of non-financial business economy)	(thousands)	(% of non-financial business economy)
1 Non-financial business economy	22 311	100.0	5 650	100.0	129 773	100.0
Industry	7 984	35.8	2 004	35.5	36 744	28.3
2 Mining & quarrying	235	1.1	89	1.6	733	0.6
3 Food, beverages & tobacco	942	4.2	197	3.5	4 700	3.6
4 Textiles, clothing, leather & footwear	235	1.1	65	1.1	2 998	2.3
5 Wood & paper	300	1.3	78	1.4	1 984	1.5
6 Fuel processing & chemicals (2)	1 099	5.3	217	4.0	2 068	1.6
7 Rubber & plastics	275	1.2	78	1.4	1 750	1.3
8 Other non-metallic mineral products	242	1.1	80	1.4	1 587	1.2
9 Metals & metal products	864	3.9	244	4.3	5 081	3.9
10 Machinery & equipment	621	2.8	193	3.4	3 650	2.8
11 Electrical machinery & optical equipment	710	3.2	203	3.6	3 668	2.8
12 Transport equipment	945	4.2	195	3.5	3 152	2.4
13 Furniture & other manufacturing	175	0.8	53	0.9	1 800	1.4
14 Network supply of electricity, gas & steam	885	4.0	180	3.2	1 227	0.9
15 Recycling & water supply	91	0.4	31	0.6	521	0.4
16 Construction	1 553	7.0	510	9.0	14 093	10.9
Non-financial services	12 774	57.3	3 136	55.5	78 936	60.8
17 Motor trades	1 327	5.9	162	2.9	4 242	3.3
18 Wholesale trade	4 603	20.6	519	9.2	9 962	7.7
19 Retail trade & repair	2 272	10.2	418	7.4	17 472	13.5
20 Accommodation & food services	434	1.9	182	3.2	9 266	7.1
21 Transport and storage	1 209	5.4	400	7.1	8 847	6.8
22 Media & communications	792	3.6	350	6.2	4 857	3.7
23 Real estate, renting & leasing (3)	650	3.1	340	6.0	3 290	2.6
24 Research & development (2)	43	0.2	22	0.4	400	0.3
25 Business services	1 763	7.9	892	15.8	22 202	17.1

(1) Includes rounded estimates of non-confidential data.

(2) Turnover and value added, 2005.

(3) Turnover and number of persons employed, 2005.

Source: Eurostat (SBS)

Structural profile of the EU-27's non-financial business economy

There were just over 20 million active enterprises within the EU-27's non-financial business economy in 2006 (see Table 1.2). The vast majority of these (73.9 %) were operating within non-financial services, while a higher proportion of enterprises were active in the construction sector (14.4 % of the total) than within industry (11.7 %).

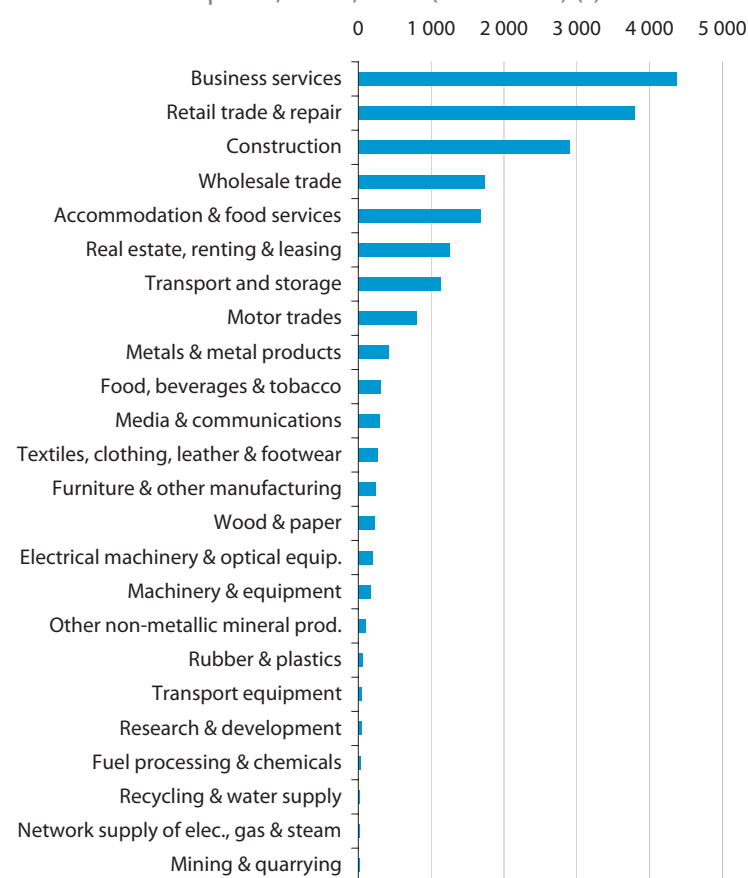
On the basis of the activity aggregates used for the sectoral chapters that follow in the remainder of this publication, the highest number of enterprises were often found in activities that are, to some degree, characterised as having relatively low barriers to entry, and large, proximity markets.

Business services, retail trade and repair, and the construction sector together accounted for almost 55 % of all enterprises active within the EU-27's non-financial business economy in 2006; almost 4.4 million enterprises were active within business services, and nearly 3.8 million within the retail trade and repair sector.

At the other end of the scale, there were often relatively few enterprises operating within activities characterised by high barriers to entry (such as, those with considerable start-up costs to reach a minimum efficient scale of production). These included capital-intensive activities such as mining and quarrying, transport equipment manufacturing, the network supply of electricity, gas and steam or recycling and water supply; none of these sectors

Figure 1.12: Business economy overview

Number of enterprises, EU-27, 2006 (thousands) (1)



(1) Includes some rounded estimates based on non-confidential data.

Source: Eurostat (SBS)

accounted for more than 0.2 % of the total number of enterprises active in the EU-27's non-financial business economy, with fewer than 25 thousand enterprises operating in mining and quarrying activities, the network supply of electricity, gas and steam or the recycling and water supply sector.

The distribution of enterprises across the EU-27 economy provides little information when analysing the relative economic importance of the different sectors. Economic weight is more generally measured in terms of value added. Non-financial services contributed a 55.5 % share of the total added value in the EU-27's non-financial business economy in 2006. The proportion accounted for by industrial activities (35.5 %) was 23.8 percentage points higher than the corresponding share of industry in the total number of enterprises. The construction sector accounted for the remaining 9.0 % of added value in the EU-27's non-financial business economy in 2006. Looking in more detail (using the aggregates defining each sectoral chapter in this publication), the three largest

sectors together contributed 34.0 % of the value added generated in the EU-27's non-financial business economy; they were business services, wholesale trade and construction.

Comparing two output measures, namely value added and turnover, the most noticeable difference concerned distributive trade activities (especially wholesale trade), where these activities reported a far higher share of sales. The relatively high proportion of turnover occurring within these activities is a direct consequence of the nature of these activities, whereby large volumes of products are purchased and resold, normally with a relatively small margin. For example, wholesale trade activities accounted for 20.6 % of EU-27 sales in the non-financial business economy in 2006, compared with a 9.2 % share of value added. In contrast, the added value of business services (15.8 % of the non-financial business economy total) was considerably higher than its share of turnover (7.9 %).

In employment terms, the importance of the relatively labour-intensive construction and non-financial services sectors was relatively high (when compared with value added). Non-financial services accounted for 60.8 % of the EU-27's non-financial business economy workforce, 28.3 % were employed in industrial activities and the remaining 10.9 % in the construction sector. At a sectoral level, none of the industrial activities represented more than 4 % of the employment total; the highest share being recorded for metals and metal products. Among the services, the largest workforces were found within the activities of business services (17.1 %) and retail trade and repair (13.5 %).

Differences between the relative shares of total value added and employment throw some light on productivity differentials between activities (see Figure 1.13). Apparent labour productivity (defined as value added divided by the number of persons employed) tended to be highest among those sectors characterised as being capital-intensive or high-tech. The most productive activities in the EU-27 (at the sectoral level used for chapters in this publication) included real estate, renting and leasing (2005), media and communications, fuel processing and chemicals manufacturing (2005) and the network supply of electricity, gas and steam. In contrast, the least productive areas of the EU-27's non-financial business economy in 2006 included labour-intensive activities, such as the manufacture of textiles, clothing, leather and footwear, the construction sector, accommodation and food services, or retail trade and repair.

Specialisation and concentration within the Member States

Table 1.2 shows that the economies of Germany, the United Kingdom, France, Italy and Spain together generated about three quarters (74.1 %) of the added value within the EU-27's non-financial business economy in 2006. They made 71.2 % of all sales and employed nearly two thirds (63.9 %) of the EU-27's workforce within 60.6 % of all enterprises. These aggregated figures hide considerable differences between Member States, as Italy and Spain had relatively large numbers of enterprises, while Germany, France and the United Kingdom tended to account for relatively high shares of value added and turnover.

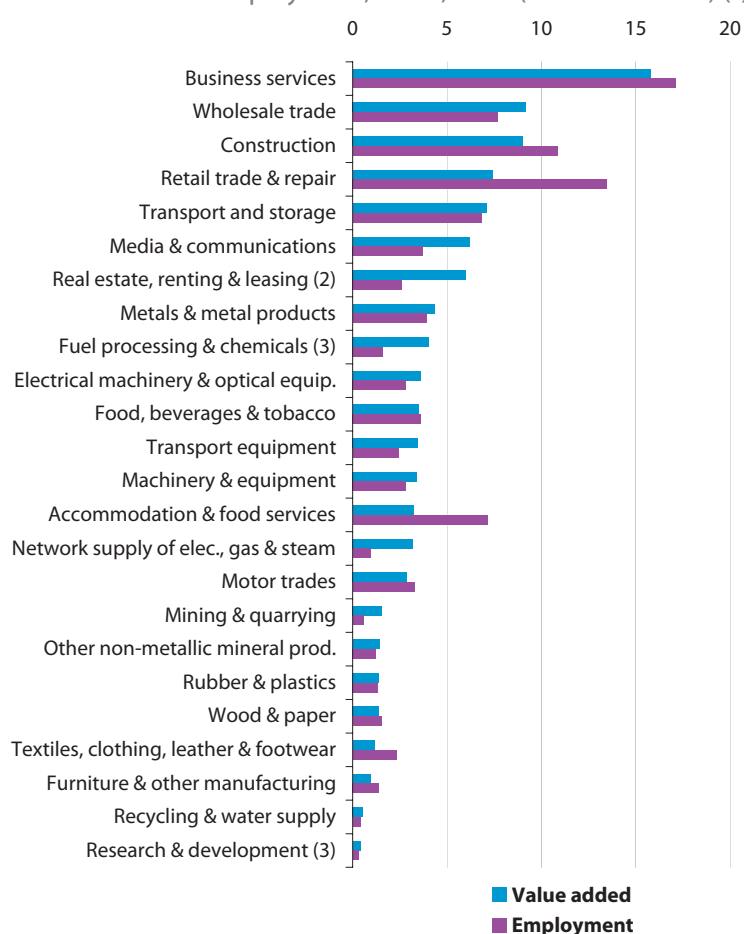
Poland was the next largest economy, accounting for more than 7 % of the enterprises in the EU-27's non-financial business economy, and 6 % of value added or employment. At the other end of the range, the smallest economies included Estonia, Cyprus, Latvia, Lithuania, Luxembourg, Malta (for which there is usually no recent information available), Slovenia and Slovakia. Each of these countries accounted for less than 1 % of the total number of enterprises, turnover, value added or employment in the EU-27.

Table 1.3 presents (for the activity aggregates used in the sectoral chapters of this publication) information on the two countries with the highest levels of value added. It shows that Germany was ranked either first or second for the vast majority of activities, with the only exceptions being mining and quarrying, construction, and accommodation and food services. With the exception of textiles, clothing, leather and footwear, where Italy was the largest producer within the EU-27 (on the basis of a breakdown of EU-27 value added), Germany was the biggest, single producer within each of the remaining manufacturing sectors. Italy was the second largest producer across five of the industrial headings used for the chapters, while France was the second largest producer for four industrial headings.

The relative importance of manufacturing activities in the German economy was mirrored with respect to other areas of the economy by the United Kingdom, which recorded the highest level of value added among the Member States for mining and quarrying, recycling and water supply, construction and each of the sectoral chapter headings used for non-financial services – except for motor trades and real estate, renting and leasing, where Germany had a higher level of added value. Germany was generally the second largest

Figure 1.13: Business economy overview

Value added and employment, EU-27, 2006 (% share of total) (1)



(1) Includes rounded estimates based on non-confidential data.
 (2) Value added, 2005
 (3) 2005.

Source: Eurostat (SBS)

contributor to EU-27 value added for these non-manufacturing activities, other than for mining and quarrying (Denmark), construction (Spain) or accommodation and food services (France).

Relative value added specialisation ratios are calculated for each Member State as the share of a particular activity in the non-financial business economy; this share is divided by the same ratio for the EU-27 to create an indicator that is expressed as a ratio in percentage terms (values above 100 % indicating a relative specialisation in relation to the EU-27). Table 1.3 also shows the two most specialised Member States for each activity. Germany was the most specialised Member State for the manufacture of machinery and equipment or transport equipment, Spain for construction, and the United Kingdom for research and development and business services. Nevertheless, particularly in industrial activities, several of the Member States that joined the EU in 2004 or 2007 were among

Table 1.2: Business economy overview
Main indicators for the non-financial business economy, 2006 (1)

	Enterprises		Turnover		Value added		Persons employed	
	(thousands)	(% of EU-27)	(EUR million)	(% of EU-27)	(EUR million)	(% of EU-27)	(thousands)	(% of EU-27)
EU-27	20 156	100.0	22 311 165	100.0	5 650 016	100.0	129 773	100.0
BE	402	2.0	796 132	3.6	153 621	2.7	2 446	1.9
BG (2)	240	1.2	61 857	0.3	9 845	1.4	1 816	1.4
CZ	857	4.2	324 538	1.5	67 605	1.2	3 539	2.7
DK	207	1.0	435 662	2.0	117 563	2.1	1 783	1.4
DE	1 774	8.8	4 322 906	19.4	1 152 541	20.4	21 501	16.6
EE	43	0.2	36 191	0.2	7 453	0.1	423	0.3
IE	93	0.5	330 514	1.5	90 911	1.6	1 089	0.8
EL	829	4.1	289 033	1.3	69 552	1.2	2 589	2.0
ES	2 632	13.1	2 053 175	9.2	536 808	9.5	13 908	10.7
FR	2 332	11.6	3 197 686	14.3	795 262	14.1	14 663	11.3
IT	3 847	19.1	2 773 486	12.4	631 343	11.2	15 177	11.7
CY (2)	43	0.2	20 770	0.1	6 960	0.2	211	0.2
LV	67	0.3	38 855	0.2	8 734	0.2	643	0.5
LT	126	0.6	48 179	0.2	10 016	0.2	932	0.7
LU	23	0.1	76 252	0.3	14 419	0.3	210	0.2
HU	543	2.7	239 036	1.1	42 005	0.7	2 536	2.0
MT	:	:	:	:	:	:	:	:
NL (3)	494	2.5	986 469	5.1	234 001	3.7	4 679	3.7
AT	283	1.4	506 149	2.3	137 648	2.4	2 434	1.9
PL (2)	1 407	7.2	514 471	2.5	121 985	6.0	7 576	6.0
PT	861	4.3	318 413	1.4	71 397	1.3	3 301	2.5
RO (2)	412	2.1	139 957	0.7	28 188	3.2	4 038	3.2
SI	96	0.5	67 831	0.3	15 758	0.3	597	0.5
SK	53	0.3	89 333	0.4	18 050	0.3	961	0.7
FI	204	1.0	340 696	1.5	82 469	1.5	1 268	1.0
SE	542	2.7	605 539	2.7	161 613	2.9	2 720	2.1
UK	1 621	8.0	3 547 762	15.9	1 072 552	19.0	17 737	13.7
NO	247	-	453 897	-	145 111	-	1 329	-

(1) Malta, not available; share of EU-27, 2005.

(2) 2005.

(3) Number of enterprises and number of persons employed, 2005; turnover and value added, 2004.

Source: Eurostat (SBS)

the most specialised countries, with Bulgaria, the Czech Republic, Estonia, Poland, Romania and Slovakia each appearing at least twice among the most or second most specialised countries. Across the construction and non-financial services sectors, Cyprus and Latvia tended to display high relative specialisation ratios.

The two largest activities (in terms of value added) in each Member State are shown in Table 1.4. In more than half (15 of the 26 Member States for which data are available, no data available for Malta), business services was the largest activity in 2006. Where this was not the case, construction or wholesale trade generally occupied the position of being the largest activity, except in Slovakia, where the network supply of electricity,

gas and steam generated the highest level of added value. As such, this was the only case of an industrial activity being the largest contributor to total value added. Industrial activities were also rare when expanding the criteria to include the second largest activity, although this position was occupied by fuel processing and chemicals manufacturing in Ireland, the manufacture of food, beverages and tobacco in Poland, or the manufacture of electrical machinery and optical equipment in Finland; media and communications was the second largest activity in Bulgaria which is a mixture of industrial and service activities.

Table 1.4 also presents information on those activities with the highest specialisation ratios. Several Baltic, Nordic and alpine Member States

Table 1.3: Business economy overview

Largest and most specialised Member States (on the basis of value added for sectoral chapter headings and value added specialisation ratios relative to the EU-27 for sectoral chapter headings), 2006 (1)

Chapter	Largest	Second largest	Most specialised	Second most specialised
2 Mining & quarrying	United Kingdom	Denmark	Romania	Denmark
3 Food, beverages & tobacco (2)	Germany	United Kingdom	Poland	Ireland
4 Textiles, clothing, leather & footwear (3)	Italy	Germany	Romania	Bulgaria
5 Wood & paper (4)	Germany	Italy	Finland	Estonia
6 Fuel processing & chemicals (5)	Germany	France	Belgium	Poland
7 Rubber & plastics (6)	Germany	France	Luxembourg	Czech Republic
8 Other non-metallic mineral products	Germany	Italy	Czech Republic	Cyprus
9 Metals & metal products	Germany	Italy	Slovakia	Slovenia
10 Machinery & equipment	Germany	Italy	Germany	Italy
11 Electrical machinery & optical equip.	Germany	France	Finland	Hungary
12 Transport equipment	Germany	France	Germany	Czech Republic
13 Furniture & other manufacturing (7)	Germany	Italy	Lithuania	Estonia
14 Network supply of elec., gas & steam (8)	Germany	United Kingdom	Slovakia	Bulgaria
15 Recycling & water supply (9)	United Kingdom	Germany	Slovakia	Romania
16 Construction	United Kingdom	Spain	Spain	Cyprus
17 Motor trades	Germany	United Kingdom	Latvia	Greece
18 Wholesale trade	United Kingdom	Germany	Greece	Latvia
19 Retail trade & repair	United Kingdom	Germany	Greece	Cyprus
20 Accommodation & food services	United Kingdom	France	Cyprus	Greece
21 Transport and storage	United Kingdom	Germany	Latvia	Lithuania
22 Media & communications	United Kingdom	Germany	Bulgaria	Ireland
23 Real estate, renting & leasing (10)	Germany	United Kingdom	Denmark	Latvia
24 Research & development (11)	United Kingdom	Germany	United Kingdom	Germany
25 Business services	United Kingdom	Germany	United Kingdom	Luxembourg

(1) Malta, not available; Bulgaria, Cyprus, Poland and Romania, 2005; the Netherlands, industrial activities, 2005; the Netherlands, specialisation ratio, not available; specialisation ratios may include rounded estimates based on non-confidential data.

(2) Latvia and Lithuania, not available.

(3) Austria and Slovenia, 2005; Denmark, Latvia, Portugal and Slovakia, not available.

(4) Luxembourg, not available.

(5) 2005; Bulgaria, Denmark, Ireland, Cyprus, Latvia, Lithuania, Portugal and Slovakia, not available.

(6) Cyprus, not available.

(7) Bulgaria, Ireland, Greece, not available.

(8) Ireland, Greece, Cyprus and the Netherlands, not available.

(9) Ireland, Greece and Cyprus, not available.

(10) Luxembourg and Sweden, not available.

(11) 2005; Luxembourg and Sweden, not available; Ireland, specialisation ratio, not available.

Source: Eurostat (SBS)

were relatively specialised in the manufacture of wood and paper products, while mining and quarrying was relatively important in countries with North Sea oil/gas or in central and eastern Europe, where coal mining still takes place. Indeed, trends in specialisation are often related to endowments of natural resources, although there are other factors that can play a role, such as the availability of skills and know-how, a breakdown of costs, or access to infrastructure. These may explain, for example, why the manufacture

of transport equipment (in particular, motor vehicles) and machinery and equipment is particularly concentrated in Germany, and electrical machinery and optical equipment in Finland and Sweden (mobile telephony). Furthermore, some of these factors (such as lower labour costs) may also explain why there has been a trend in recent years for the textiles, clothing, leather and footwear manufacturing sector to move away from the southern Member States of Italy, Portugal and Spain towards eastern Europe (and beyond).

Table 1.4: Business economy overview

Largest and most specialised activities (on the basis of value added for sectoral chapter headings and value added specialisation ratios relative to the EU-27 for sectoral chapter headings), 2006 (1)

	Largest	Second largest	Most specialised	Second most specialised
BE	Business services	Wholesale trade	Fuel processing & chemicals	Recycling & water supply
BG	Construction	Media & communications	Textiles, clothing, leather & footwear	Network supply of elec., gas & steam
CZ	Business services	Wholesale trade	Network supply of elec., gas & steam	Other non-metallic min. prod.
DK (2)	Business services	Real estate, renting & leasing	Mining and quarrying	Real estate, renting & leasing
DE	Business services	Wholesale trade	Transport equipment	Machinery & equipment
EE	Wholesale trade	Construction	Wood & paper	Textiles, clothing, leather & footwear
IE (3)	Business services	Fuel processing & chemicals	Elec. machinery & opt. equip	Food, beverages & tobacco
EL (4)	Wholesale trade	Retail trade & repair	Wholesale trade	Retail trade & repair
ES	Construction	Business services	Construction	Other non-metallic min. prod.
FR	Business services	Construction	Business services	Retail trade & repair
IT	Business services	Construction	Textiles, clothing, leather & footwear	Furniture & other manuf.
CY (5)	Construction	Accomm. & food services	Accomm. & food services	Other non-metallic min. prod.
LV (6)	Wholesale trade	Transport and storage	Wood & paper	Motor trades
LT (7)	Construction	Wholesale trade	Textiles, clothing, leather & footwear	Furniture & other manuf.
LU (8)	Business services	Construction	Rubber & plastics	Other non-metallic min. prod.
HU	Business services	Wholesale trade	Elec. machinery & opt. equip	Fuel processing & chemicals
MT	:	:	:	:
NL (9)	Business services	Wholesale trade	:	:
AT (10)	Business services	Wholesale trade	Wood & paper	Furniture & other manuf.
PL (11)	Wholesale trade	Food, beverages & tobacco	Mining & quarrying	Food, beverages & tobacco
PT (2)	Construction	Business services	Wood & paper	Other non-metallic min. prod.
RO (12)	Wholesale trade	Business services	Mining & quarrying	Textiles, clothing, leather & footwear
SI (10)	Business services	Wholesale trade	Textiles, clothing, leather & footwear	Recycling & water supply
SK (2)	Network supply of elec., gas & steam	Wholesale trade	Network supply of elec., gas & steam	Recycling & water supply
FI	Business services	Elec. machinery & opt. equip	Wood & paper	Elec. machinery & opt. equip
SE (13)	Business services	Wholesale trade	Wood & paper	Elec. machinery & opt. equip
UK	Business services	Construction	Mining and quarrying	Research & development

(1) Fuel processing and chemicals, research and development, specialisation ratios, 2005.

(2) Textiles, clothing, leather and footwear and fuel processing and chemicals, not available.

(3) Furniture and other manufacturing, network supply of electricity, gas and steam and recycling and water supply, not available; specialisation ratios for 2005, not available.

(4) Furniture and other manufacturing, network supply of electricity, gas and steam and recycling and water supply, not available.

(5) 2005; fuel processing and chemicals, rubber and plastics, network supply of electricity, gas and steam and recycling and water supply, not available.

(6) Food, beverages and tobacco, textiles, clothing, leather and footwear and fuel processing and chemicals, not available.

(7) Food, beverages and tobacco and fuel processing and chemicals, not available.

(8) Wood and paper, media and communications, real estate, renting and leasing and research and development, not available.

(9) Industrial activities, 2005; network supply of electricity, gas and steam, not available.

(10) Textiles, clothing, leather and footwear and fuel processing and chemicals, 2005.

(11) 2005.

(12) Mining and quarrying, 2005; specialisation ratios, 2005.

(13) Real estate, renting and leasing and research and development, not available.

Source: Eurostat (SBS)

Specialisation at a regional level

Regional structural business statistics allow this analysis to be taken a stage further and provide data which can be used to study the nature, characteristics and evolution of regional business economies.

Maps 1.1 and 1.2 show the proportion of the non-financial business economy workforce occupied within the industrial and non-financial services sectors in 2006 (note that a similar map for the construction sector is presented within Chapter 16). There is a clear pattern of industrial employment being concentrated within parts of Germany, as well as central and eastern Europe. There were a few regions where industrial employment accounted for around 50 % of the workforce in 2006: these were located in the Czech Republic, Romania and Slovakia (where all regions were highly industrialised, other than Bratislavský kraj, in which the capital city is found).

In contrast, employment within the non-financial services sector (see Map 1.2) was often concentrated around or in capital cities, for example, almost 90 % of those employed in Inner London in 2006, while upwards of 80 % of the workforce were employed in non-financial services in a number of other regions including Outer London, Berkshire, Buckinghamshire and Oxfordshire, and Surrey, East and West Sussex (all in the United Kingdom), Berlin, Hamburg and Köln (all in Germany), and the Région de Bruxelles-Capitale/Brussels Hoofdstedelijk Gewest (in Belgium).

A relatively high proportion of the workforce was often engaged in construction activities in rural areas and regions associated with being popular tourism destinations. The Province of Luxembourg (Belgium), every region in Spain (except Madrid), some mountainous, southern or island regions of France, Italy and Portugal, as well as Cyprus and Luxembourg, were the only areas where the construction sector accounted for upwards of 15 % of the regional workforce in 2006.

Table 1.5 shows, for each of the activity aggregates used for the sectoral chapters in this publication, the three most specialised NUTS 2 level regions – on the basis of employment specialisation. As mentioned above, geographical and geological factors may help explain why some regions are particularly specialised in mining and

quarrying or forest-based activities. For example, Śląskie (Poland) and Sud-Vest Oltenia (Romania) are centres for mining and quarrying activities, while the latter is also relatively specialised in the downstream activity of the network supply of electricity, gas and steam.

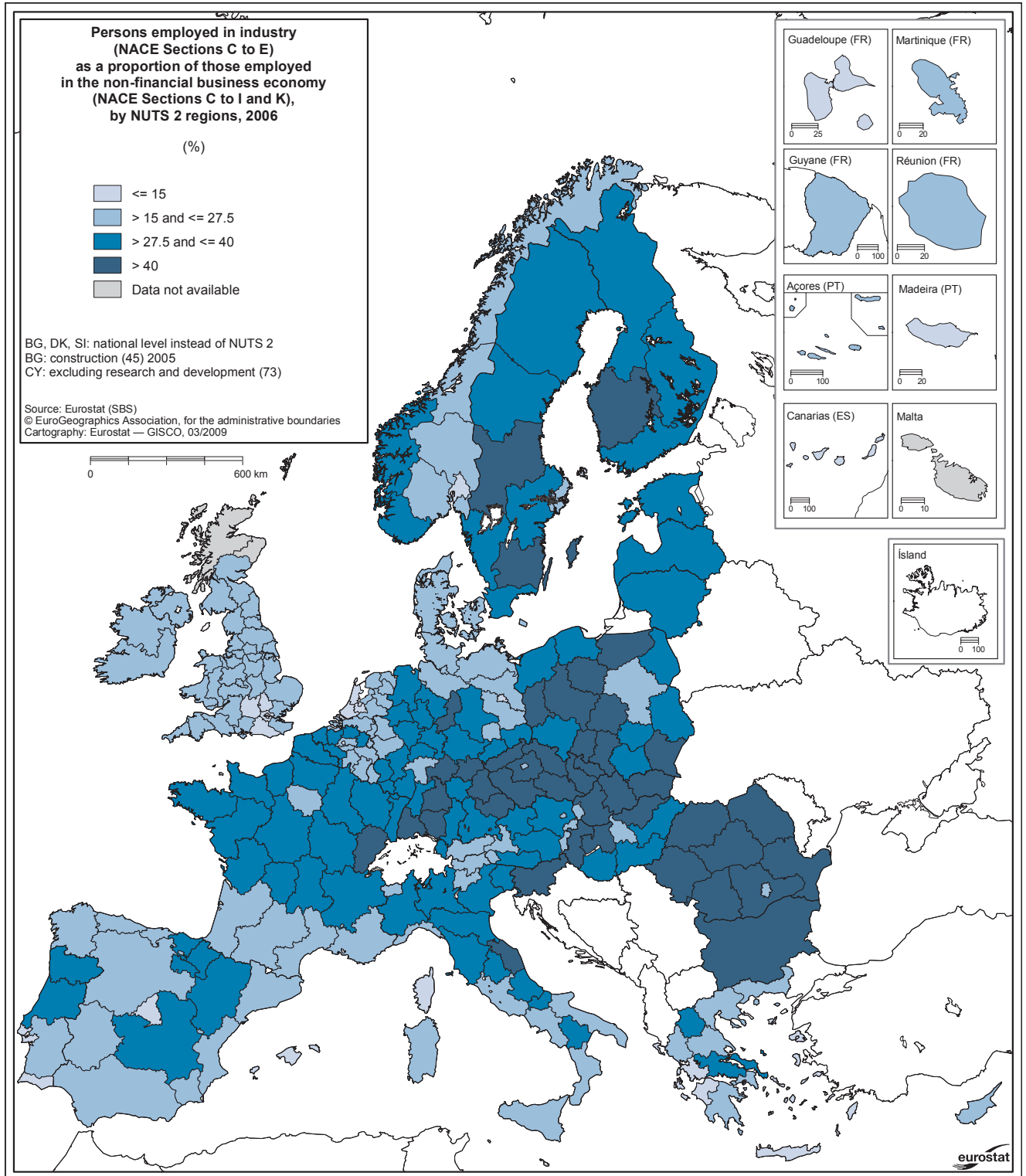
Other factors that can play a key role in driving regional specialisation include weather, landscape and location. It is perhaps not surprising that Bretagne (France), Podlaskie and Lubelskie (both Poland) are among the most specialised regions for food and beverage manufacturing, as they are largely rural, flat areas with ample precipitation and relatively low levels of population density. Equally, the concentration of textile, clothing, leather and footwear manufacturers in Norte (Portugal) would not be possible without a plentiful supply of water from local rivers, while in Norra Mellansverige (Sweden) the local economy is dominated by activities related to the exploitation of natural resources, such as mining, metal and metal products manufacturing, or paper and pulp industries. Within the field of services, natural landscapes and weather can also play an important role, for example, the most specialised regions for accommodation and food services include the Greek islands, Spanish islands, the Algarve (Portugal) and the Provincia Autonoma Bolzano/Bozen (northern Italy), all of which are popular destinations for tourists.

A critical mass of clients (from other enterprises or from households/consumers) within close proximity, or a supply of highly-skilled or low-cost labour can also drive specialisation trends. For example, research parks or computer services enterprises often develop near to universities, while media and communications, real estate, and other business services are often concentrated around capital cities or other densely populated regions – for example, business services around Inner London (the United Kingdom) and media and communications around Köln (Germany).

The concentration of enterprises within a particular region can also result from strategic clusters that provide upstream/downstream products and services to another activity – for example, suppliers of metals, electronics, rubber and plastics around motor vehicle manufacturers in regions like Stuttgart and Niederbayern (Germany) or Střední Čechy (the Czech Republic).

Map 1.1: Business economy overview

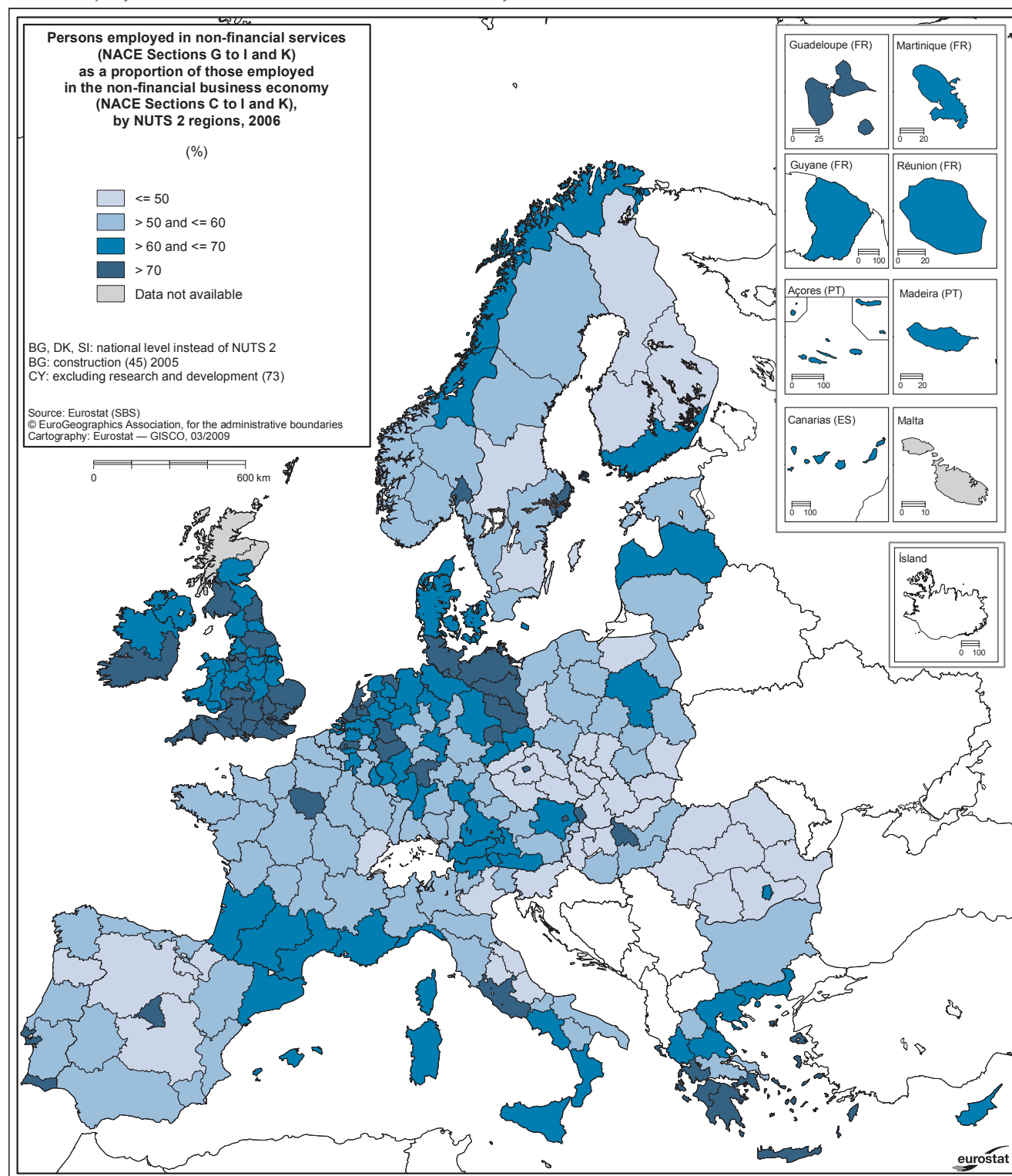
Persons employed in industry (NACE Sections C to E) as a proportion of those employed in the non-financial business economy (NACE Sections C to I and K) (%)



Source: Eurostat (SBS)

Map 1.2: Business economy overview

Persons employed in non-financial services (NACE Sections G to I and K) as a proportion of those employed in the non-financial business economy (NACE Sections C to I and K) (%)



Source: Eurostat (SBS)

Table 1.5: Business economy overview

Three most specialised regions (NUTS 2 for sectoral chapter headings), EU-27 and Norway, 2006

(% share of non-financial business economy employment) (1)

Chapter	Most	Second	Third
2 Mining & quarrying	Śląskie (PL)	Dytiki Makedonia (EL)	Sud-Vest Oltenia (RO)
3 Food, beverages & tobacco	Bretagne (FR)	Podlaskie (PL)	Lubelskie (PL)
4 Textiles, clothing, leather & footwear	Norte (PT)	Nord-Est (RO)	Nord-Vest (RO11)
5 Wood & paper	Detmold (DE)	Itä-Suomi (FI)	Norra Mellansverige (SE)
6 Fuel processing & chemicals	Köln (DE)	Münster (DE)	Prov. Antwerpen (BE)
7 Rubber & plastics	Auvergne (FR)	Oberfranken (DE)	Střední Morava (CZ)
8 Other non-metallic mineral products	Prov. Namur (BE)	Świętokrzyskie (PL)	Centro (P) (PT)
9 Metals & metal products	Norra Mellansverige (SE)	Arnsberg (DE)	Moravskoslezsko (CZ)
10 Machinery & equipment	Unterfranken (DE)	Tübingen (DE)	Stuttgart (DE)
11 Electrical machinery & optical equip.	Západné Slovensko (SK)	Oberpfalz (DE)	Közép-Dunántúl (HU)
12 Transport equipment	Stuttgart (DE)	Niederbayern (DE)	Střední Čechy (CZ)
13 Furniture & other manufacturing	Warmińsko-Mazurskie (PL)	Friuli-Venezia Giulia (IT)	Nord-Vest (RO)
14 Network supply of elec., gas & steam	Martinique (FR)	Sud-Vest Oltenia (RO)	Západné Slovensko (SK)
15 Recycling & water supply	Východné Slovensko (SK)	Sud-Est (RO)	Dél-Dunántúl (HU)
16 Construction	Andalucía (ES)	Extremadura (ES)	Castilla-La Mancha (ES)
17 Motor trades	Molise (IT)	Brandenburg - Südwest (DE)	Guyane (FR)
18 Wholesale trade	Kentriki Makedonia (EL)	Attiki (EL)	Flevoland (NL)
19 Retail trade & repair	Dytiki Ellada (EL)	Kriti (EL)	Ciudad Autónoma de Melilla (ES)
20 Accommodation & food services	Ionia Nisia (EL)	Notio Aigaio (EL)	Algarve (PT)
21 Transport and storage	Åland (FI)	Bratislavský kraj (SK)	Bremen (DE)
22 Media & communications	Köln (DE)	Île de France (FR)	Région de Bruxelles-Capitale/Brussels Hoofdstedelijk Gewest (BE)
23 Real estate, renting & leasing	Latvija (LV)	Algarve (PT)	Inner London (UK)
24 Research & development	Voreio Aigaio (EL)	Oberbayern (DE)	Berks., Bucks. and Oxfordshire (UK)
25 Business services	Inner London (UK)	Utrecht (NL)	Région de Bruxelles-Capitale/Brussels Hoofdstedelijk Gewest (BE)

(1) Malta, not available. Bulgaria and Romania: based on pre-accession NUTS. Bulgaria, the Netherlands and Slovenia, 2005. Greece: GR11 and GR25, 2005; GR3, 2004. Spain: ES61, 2005. France: FR3 and FR93, 2005. Netherlands: NL12 and NL22, 2004. Poland: PL52, 2005. Portugal: PT11 and PT15, 2005. Finland: F11A, 2004. Germany: excluding NACE Section E. Greece: GR41, excluding NACE Section E. Spain: ES3, ES62 and ES7, excluding NACE Section C; ES63 and ES64, excluding NACE Sections C and E. Netherlands: NL13, NL21 and NL23, excluding NACE Sections C and E; NL31, NL34, NL41 and NL42, excluding NACE Section C; Poland: PL11, PL31 and PL34, excluding NACE Section C.

Source: Eurostat (SBS)

Table 1.6: Business economy overview

Selected top/main manufacturing products sold in value terms, EU-27, 2007 (EUR million) (1)

	Prodcom code	Value	Rounding base
Motor vehicles with a petrol engine >1 500 cm ³ (including motor caravans of a capacity >3 000 cm ³)	34.10.22.30	126 193	-
Motor vehicles with a diesel or semi-diesel engine >1 500 cm ³ but <=2 500 cm ³	34.10.23.30	106 462	-
Platinum; palladium; rhodium; iridium; osmium and ruthenium; unwrought or in powder form	27.41.30.30	103 435	-
Newspapers; journals and periodicals; appearing less than four times a week	22.13.11.00	35 500	500
Preparations for animal feeds (excluding dog or cat food, p.r.s.)	15.70.10.Z3	34 500	500
Newspapers; journals and periodicals; appearing at least four times a week	22.12.11.00	32 000	8 000
Beer made from malt (excluding non-alcoholic beer, beer containing <=0.5% by volume of alcohol, alcohol duty)	15.96.10.00	30 421	-
Ready-mixed concrete	26.63.10.00	26 024	-
Fresh bread containing by weight in the dry matter state <=5% of sugars and <=5% of fat	15.81.11.00	24 792	-
Grated; powdered; blue-veined and other non-processed cheese (excluding fresh cheese; whey cheese and curd)	15.51.40.50	24 409	-
Cartons; boxes and cases of corrugated paper or paperboard	21.21.13.00	20 442	-
Goods vehicles with a diesel or semi-diesel engine, of a gross vehicle weight <=5 tonnes (excluding dumpers for off-highway use)	34.10.41.10	20 266	-
Plastic parts and accessories for all land vehicles (excluding for locomotives or rolling stock)	25.24.90.60	20 210	0.5
Parts for all types of aircraft excluding propellers, rotors, under carriages, for civil use	35.30.50.90	20 000	500
Sausages not of liver	15.13.12.15	18 323	-
Waters, with added sugar; other sweetening matter or flavoured, i.e. soft drinks (including mineral and aerated)	15.98.12.30	18 000	400
Vehicle compression-ignition internal combustion piston engines (diesel or semi-diesel) (excluding for railway or tramway rolling stock)	34.10.13.00	17 023	-
Grey Portland cement (including blended cement)	26.51.12.30	16 992	-
Motor vehicles with a diesel or semi-diesel engine <=1 500 cm ³ (excluding vehicles for transporting >=10 persons, snowmobiles, golf cars and similar vehicles)	34.10.23.10	16 642	-
Cake and pastry products; other baker's wares with added sweetening matter	15.81.12.00	16 583	-

(1) Excluding products of a generic nature (other), sales of services such as repair, maintenance and installation; estimates; the rounding base indicates the magnitude of the rounding employed to protect confidential cells (in the case of PRODCOM code 22.13.11.00, the confidential value lies within the range +/- EUR 500 million of the reported value).

Source: Eurostat (PRODCOM)

Most produced products

PRODCOM is a system for the collection and dissemination of statistics on the production of goods in the EU-27. Information provided in PRODCOM includes data for the value and volume of production, as sold by producers in a particular reference year. Commodities are specified in the PRODCOM list, which includes around 4.5 thousand products, and is updated on an annual basis. The products are listed according to an eight-digit code, of which the first six are directly aligned with the statistical classification of products by activity in the European Community (the CPA).

Table 1.6 shows a selection of the 20 products with the highest values of production sold in the EU-27 in 2007, excluding a few products of a generic nature, or sales of services (such as repair, maintenance and installation). Note that some of the values are presented with a rounding base. When reading the tables, the confidential values are disguised: in order to interpret the table correctly it is necessary to consider that the actual value lies somewhere in the range of the published value +/- the rounding base.

As can be seen, motor vehicles dominated the top of the ranking – as the value of production of motor vehicles with petrol and motor vehicles with diesel engines in excess of 1 500 cc exceeded EUR 100 billion. There was only one other product that reported production sold above this threshold – unwrought or powder forms of platinum; palladium; rhodium; iridium; osmium and ruthenium – while the next highest level for newspapers; journals and periodicals; appearing less than four times a week was approximately one third of this.

Table 1.7 provides an example of the type of information available within PRODCOM in volume terms. Note that the units used for these quantity measures can vary depending on the nature of the product (for example, data in quantity terms may be provided in kilograms, litres, square or cubic metres, or simply as a count of the number of units sold). The table is presented merely as an illustration of the detailed product statistics available from this source (and is not based on any particular ranking of products) – for example, there were just over 225 billion kilograms of grey Portland cement sold in the EU-27 in 2007, 10 million litres of perfumes or 27 million flat panel colour television receivers (plasmas or LCDs).

Table 1.7: Business economy overview

Selected manufacturing products sold in volume and value terms, EU-27, 2007 (1)

	Prodcom code	Volume (million)	Unit	Rounding base (thousand)	Value (EUR million)	Rounding base (thousand)
Grey Portland cement (including blended cement)	26.51.12.30	225 144	kg	-	16 992	-
Flat semi-finished products (slabs) (of stainless steel)	27.10.32.10	198	kg	-	598	-
Champagne (important: excluding alcohol duty)	15.93.11.30	254	litres	50	4 559	0.2
Perfumes	24.52.11.50	10	litres	-	877	-
Coniferous wood; sawn or chipped lengthwise; sliced or peeled; of a thickness > 6mm; planed (excluding end-jointed or sanded)	20.10.10.34	16	m ³	-	3 744	-
Oxygen	24.11.11.70	28 018	m ³	-	2 170	-
Cigarettes containing tobacco or mixtures of tobacco and tobacco substitutes (excluding tobacco duty)	16.00.11.50	768 703	units	-	13 316	-
Flat panel colour TV receivers, LCD/plasma, etc. excluding television projection equipment, apparatus with video recorder/player, video monitors, television receivers with integral tube	32.30.20.60	27	units	-	11 553	-

(1) Selection of products made in order to provide an example of the various volume measures available within the database; estimates; the rounding base indicates the magnitude of the rounding employed to protect confidential cells (in the case of PRODCOM code 15.93.11.30, the volume lies within the range +/- 50 000 litres of the reported value, while in monetary terms the confidential figure lies within the range +/- EUR 200 000 of the reported value).

Source: Eurostat (PRODCOM)

1.3: Expenditure, productivity and profitability

Competitiveness at the micro-economic or meso-economic (sectoral level) is often defined as the ability of a particular enterprise or activity to improve its position in (global) markets. Cost structures, investment, as well as productivity levels, may all play a role in determining competitiveness. A high degree of prominence is often given to productivity gains when trying to explain how particular activities or enterprises become more competitive. Productivity levels (or the added value generated by each unit of input) are likely to increase when production factors are re-organised and re-allocated, through the introduction of new processes (in particular those that make use of information and communication technologies (ICT)), increasing the quality of labour inputs (through renewed training and skills development), and making tangible investment in plant and machinery.

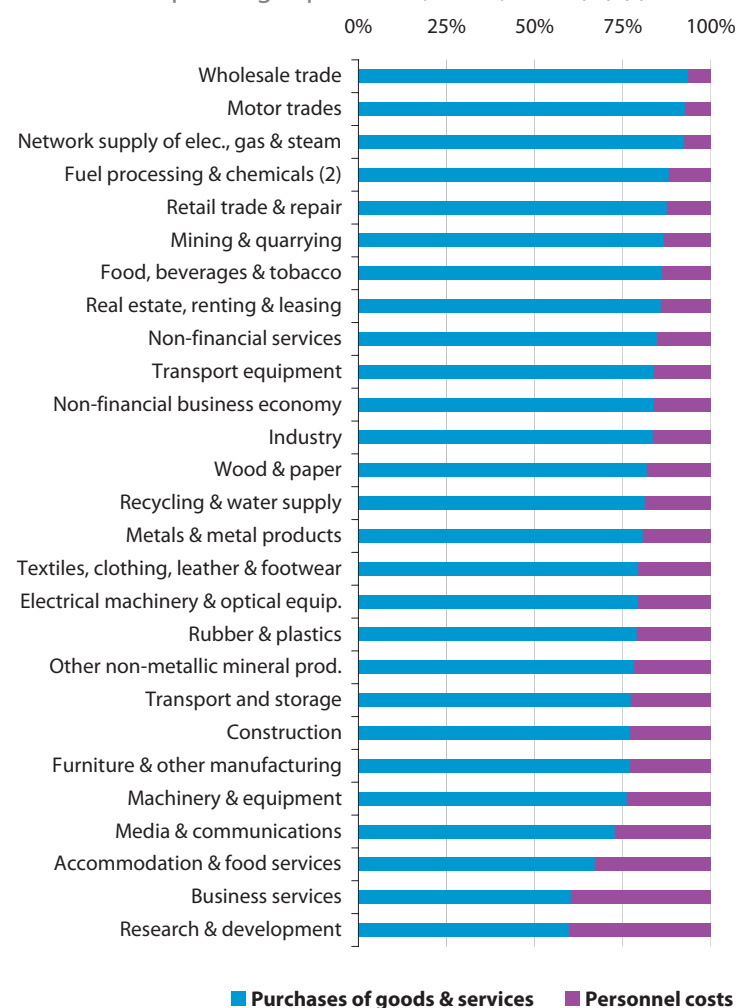
Operating expenditure

There are two components to operating expenditure which can provide an insight into the capital/labour intensities of different sectors and the extent to which they convert or distribute products. Figure 1.14 shows the expenditure structures of different activities, with a breakdown of operating expenditure into purchases of goods and services and personnel costs.

On average, some 83.9 % of EU-27 operating expenditure in the non-financial business economy was allocated to purchases of goods and services in 2006; the remaining 16.1 % was accounted for by personnel costs. Breakdowns for industry and non-financial services were both situated very close to these averages for the whole of the non-financial business economy, as 83.6 % of total operating expenditure within the industrial economy was devoted to purchases of goods and services, while the corresponding figure for non-financial services was 84.9 %. Construction was more labour-intensive, as 77.2 % of its total operating expenditure was accounted for by purchases of goods and services.

There were, however, considerable differences as regards the structure of operating expenditure between the aggregates used for the chapter headings in this publication. The three distribution activities of wholesale, motor and retail trade each reported that the proportion of operating expenditure allocated to purchases of goods and

Figure 1.14: Business economy overview
Structure of operating expenditure, EU-27, 2006 (%) (1)



(1) Includes rounded estimates based on non-confidential data.

(2) 2005.

Source: Eurostat (SBS)

services was relatively high (upwards of 92 % for both wholesale and motor trades), no surprise, given that these activities are characterised by purchases for resale without transformation.

In contrast, all of the remaining non-financial services aggregates – with the exception of real estate, renting and leasing – were relatively labour-intensive, with personnel costs accounting for a higher than average proportion of total operating expenditure (when compared with the non-financial business economy average). There were two activities that stood out as being particularly labour-intensive, namely, business services and research and development, where personnel costs accounted for around 40 % of total operating expenditure. In the latter case, the relatively

Table 1.8: Business economy overview
Operating expenditure, non-financial business economy, 2006

	Value (EUR million)		Share (% of operating expenditure)	
	Purchases of goods & services	Personnel costs	Purchases of goods & services	Personnel costs
EU-27	16 832 823	3 234 401	83.9	16.1
BE	646 993	89 686	87.8	12.2
BG (1)	53 580	4 149	92.8	7.2
CZ	270 031	32 768	89.2	10.8
DK	311 132	65 079	82.7	17.3
DE	3 144 281	701 428	81.8	18.2
EE	29 775	3 785	88.7	11.3
IE	244 832	:	:	:
EL	231 296	34 465	87.0	13.0
ES	1 633 391	302 846	84.4	15.6
FR	2 398 037	563 326	81.0	19.0
IT	2 179 291	320 510	87.2	12.8
CY (1)	14 046	3 968	78.0	22.0
LV	32 016	3 331	90.6	9.4
LT	40 249	5 095	88.8	11.2
LU	62 968	8 526	88.1	11.9
HU	199 995	21 379	90.3	9.7
MT	:	:	:	:
NL (2)	720 259	138 295	83.9	16.1
AT	376 564	81 995	82.1	17.9
PL (1)	398 018	45 198	89.8	10.2
PT	257 861	42 077	86.0	14.0
RO (1)	115 784	14 207	89.1	10.9
SI	52 625	9 677	84.5	15.5
SK	72 183	8 240	89.8	10.2
FI	267 614	47 828	84.8	15.2
SE	453 722	102 645	81.6	18.4
UK	2 417 460	561 034	81.2	18.8
NO	300 452	63 807	82.5	17.5

(1) 2005.

(2) 2004.

Source: Eurostat (SBS)

high share of personnel costs may, at least in part, be explained by the high costs associated with employing personnel with enough qualifications to carry out research and development.

Equally, the relative importance of personnel costs in total operating expenditure may, to some degree, reflect the average wages paid within each country. Many of the EU-15 Member States reported personnel costs accounting for a relatively high share of their total operating expenditure in 2006, with the highest proportion (19.0 %) recorded in France, while shares of 17 % or more were also recorded in the United Kingdom, Sweden, Germany, Austria and Denmark (see Table 1.8). This ratio was generally lower in the southern Member States where average personnel costs per employee were usually at lower levels. However, it was Cyprus that registered the highest proportion of total operating expenditure being devoted to personnel costs (22.0 % in 2005), largely reflecting the importance of the labour-intensive accommodation and food services sector in this popular tourist destination. Slovenia (15.5 % of operating expenditure accounted for by personnel costs) reported a cost structure that was similar to the EU-27 average (16.1 %), while the relative importance of personnel costs was considerably lower than average for the remaining Member States that joined the EU in 2004 or 2007 (no data for Malta).

Energy and raw material costs

For some activities a considerable proportion of purchases of goods and services are accounted for by energy and raw material costs, the EU displays a high degree of import dependency for many of these products.

The prices of energy and mineral products have fluctuated considerably in recent years – often as a reaction to market imbalances linked to increased demand from emerging economies (such as China, India or Brazil). Despite recent price reductions for products like petroleum, many raw material prices are still very high from a historical perspective. Relatively high oil prices are often used to explain fluctuations in gas prices, as the price of gas is often set in long-term contracts that are linked to the price of oil. Oil price increases are also generally passed down the production chain in the form of higher electricity prices, thus affecting a wide range of downstream activities, in particular, activities which are energy-intensive (such as the manufacture of iron and steel, aluminium, concrete or ceramics),

or those industries that use oil and its derivatives as inputs in their own manufacturing processes (for example, the manufacture of chemicals, synthetic rubber and plastics).

The uncertainty faced by European businesses with respect to price developments of key, raw materials has been further magnified by concerns relating to the security of supply. Reliable deliveries of key, raw materials (including energy) are considered to be essential for the competitiveness of the European economy, as many products cannot be sourced from indigenous supplies (they either do not exist or they exist in such small volumes that it is not economically viable to mine/extract them).

The distribution of some of these essential raw materials is often concentrated in a limited number of countries: for example, China produces 95 % of all rare earth concentrates (needed for the manufacture of LCD's), Brazil has 90 % of all niobium (needed for steel alloys in pipelines) and South Africa produces 79 % of all rhodium (used in car catalysis).

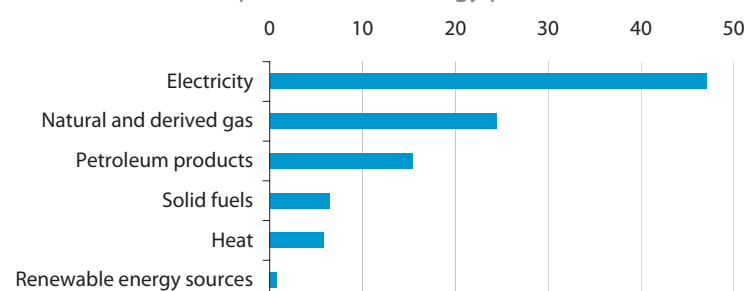
In November 2008, the European Commission proposed a new strategy – the Raw Materials Initiative⁽³⁾, which recommends that the EU defines a raw materials strategy based on three main pillars:

- access to raw materials on world markets at undistorted conditions;
- a framework to foster sustainable supply of raw materials from EU sources, and;
- the promotion of resource efficiency and recycling in the EU.

Figure 1.15 provides an insight into the main energy products that are purchased by EU-27 manufacturers. By far the most important energy product (in terms of its share of total energy expenditure) was electricity, accounting for 47.0 % of the total in the EU⁽⁴⁾ in 2005, while natural and derived gas accounted for a further quarter (24.4 %).

Figure 1.15: Business economy overview

Purchases of energy products by the manufacturing sector, EU, 2005 (% share of expenditure on energy products) (1)

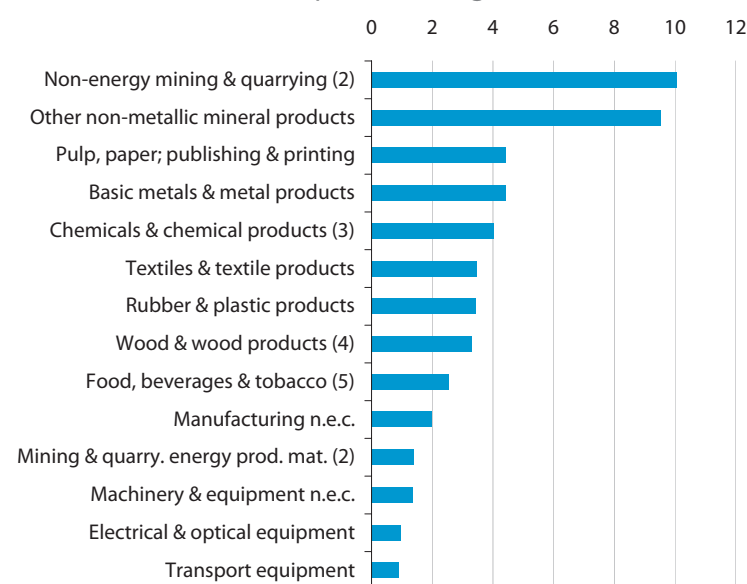


(1) Average for EU-27 Member States excluding Bulgaria, Belgium, Luxembourg, Malta, Poland and Slovenia; the Czech Republic, 2004; Italy, Latvia, the Netherlands and the United Kingdom, 2003.

Source: Eurostat (SBS)

Figure 1.16: Business economy overview

Purchases of energy products for selected industrial activities, EU, 2006 (% share of total purchases of goods and services) (1)



(1) Average for EU-27 Member States excluding Bulgaria, Malta, Poland and Slovenia; the Netherlands, 2005.

(2) Also excluding Belgium, Greece and Romania.

(3) Also excluding Portugal.

(4) Also excluding Cyprus.

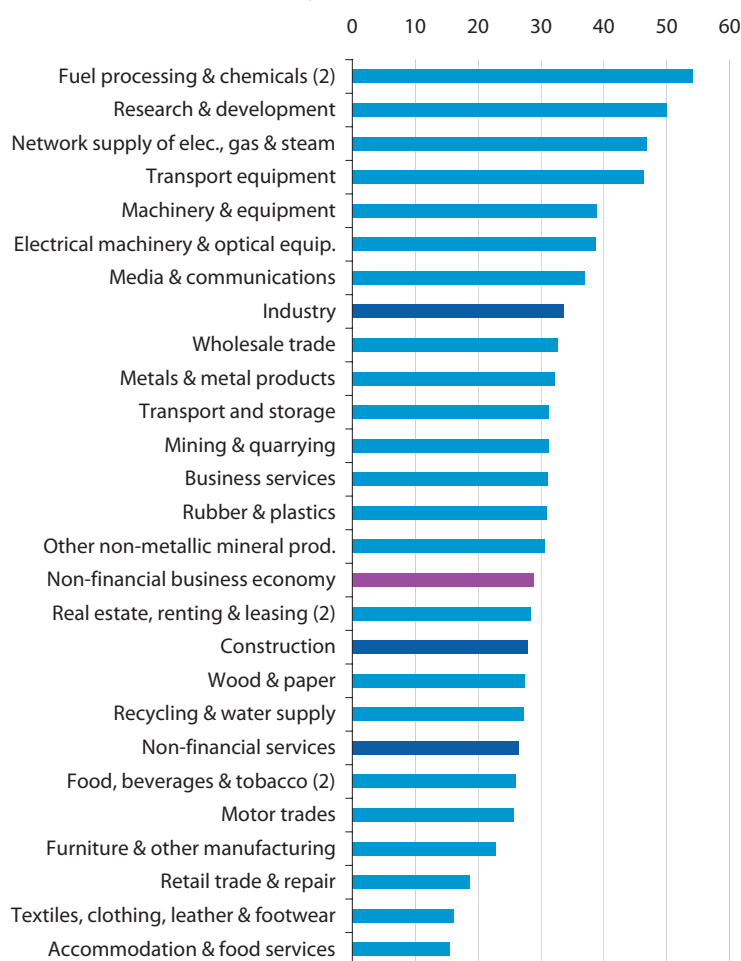
(5) Also excluding Latvia and Lithuania.

Source: Eurostat (SBS)

⁽³⁾ COM(2008) 699.

⁽⁴⁾ Average for EU-27 Member States excluding Bulgaria, Belgium, Luxembourg, Malta, Poland and Slovenia; the Czech Republic, 2004; Italy, Latvia, the Netherlands and the United Kingdom, 2003.

Figure 1.17: Business economy overview
Average personnel costs per employee, EU-27, 2006
(EUR thousand per employee) (1)



(1) Includes rounded estimates based on non-confidential data.
(2) 2005.

Source: Eurostat (SBS)

A breakdown of purchases of energy products by selected industrial activities gives an indication of the importance of these energy products with respect to total purchases of goods and services. The data shown are presented for averages that are constructed on the basis of available data for the EU⁽⁵⁾ in 2006. Figure 1.16 confirms that the most energy-intensive activities included non-energy mining and quarrying and the manufacture of other non-metallic mineral products, where energy costs accounted for around 10 % of all expenditure on goods and services. These ratios were more than double those recorded in the next most energy-intensive activities, namely, the production of pulp and paper, and the manufacture of basic metals.

Personnel costs

European personnel costs are generally quite high in relation to most other regions of the world. As some enterprises have switched their output to lower labour cost regions, those that remain based in Europe have tended to specialise in high value products, proximity services, niche markets, as well as integrated products and services. Some of these strategies often require a more educated workforce, which is more likely to raise the efficiency of labour, for example, through promoting the integration of new ideas and technologies, thus raising productivity. As such, many European governments have, in recent years, focused on investing in skills, training and education, with the hope that this investment in human capital can fill job vacancies in key areas of the economy.

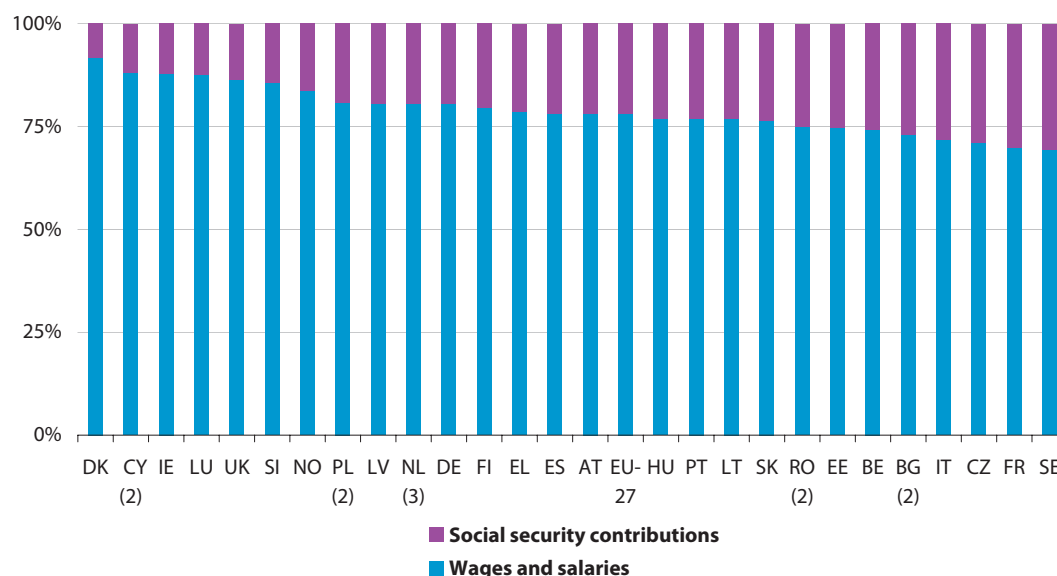
Personnel costs are defined as the total remuneration, in cash or in kind, payable by an employer to an employee (permanent and temporary employees as well as home workers) in return for work done by the latter, including taxes and employees' social security contributions that are retained by the unit, and employer's compulsory and voluntary social contributions. Note that there may be costs associated with employing staff that are not covered by personnel costs, for example, training, recruitment costs, or the provision of working clothes.

Personnel costs accounted for 16.1 % of the total operating expenditure of the EU-27's non-financial business economy in 2006. Average personnel costs per employee were EUR 28.8 thousand in the EU-27's non-financial business economy, rising somewhat higher for industrial activities (EUR 33.6 thousand per employee) than for construction (EUR 27.9 thousand) or non-financial services (EUR 26.4 thousand).

Across the aggregates that are used to define the sectoral chapters in this publication, average personnel costs per employee were relatively high for: fuel processing and chemicals manufacturing (2005); research and development activities; the network supply of electricity, gas and steam; and transport equipment manufacturing. They rose to over EUR 46.0 thousand per employee for each of these activities, peaking at EUR 54.1 thousand per employee for fuel processing and chemicals manufacturing (see Figure 1.17).

⁽⁵⁾ Average for EU-27 Member States excluding Bulgaria, Malta, Poland and Slovenia; the Netherlands, 2005.

Figure 1.18: Business economy overview
Breakdown of personnel costs, non-financial business economy, 2006
(% share of total personnel costs) (1)



(1) Malta, not available.

(2) 2005.

(3) 2004.

Source: Eurostat (SBS)

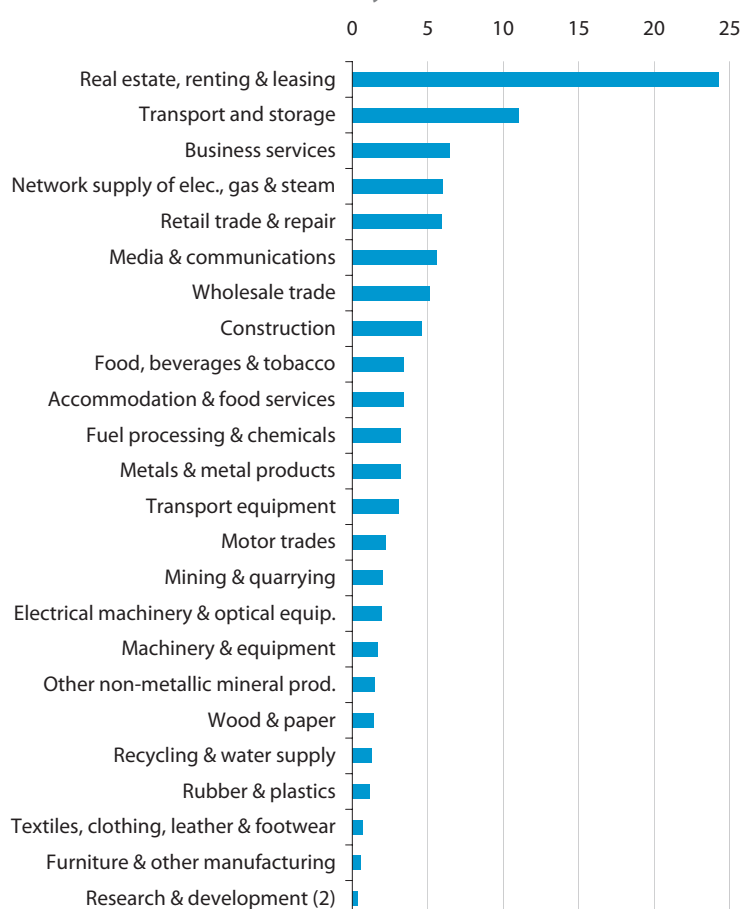
For most of the other activities, EU-27 average personnel costs remained within the range of +/-EUR 10 thousand of the non-financial business economy average. Below this threshold there were accommodation and food services as well as retail trade and repair (two activities that reported the highest proportions of part-time employment), as well as textiles, clothing, leather and footwear manufacturing. It is important to note that the ratio of average personnel costs per employee is calculated on the basis of headcounts for employees (as opposed to full-time equivalents), which is particularly important with respect to some services, where the propensity to employ persons on a part-time basis is often quite high (see Subchapter 1.5 for more details).

Figure 1.18 provides a breakdown of personnel costs. Wages and salaries represented 78.0 % of total personnel costs in the EU-27's non-financial business economy in 2006, leaving the remaining 22.0 % attributed to social security costs. These latter charges correspond to the costs incurred by

employers in order to secure for their employees entitlements to social benefits, including schemes for pensions, sickness, maternity, disability, unemployment, occupational accidents and diseases, and family allowances, regardless of whether these are statutory, collectively agreed, contractual or voluntary in nature.

The proportion of total personnel costs that is accounted for by social security costs tends to be relatively uniform across activities within a single Member State, as employers' contributions are often set on a statutory basis for the whole economy. As such, the main differences observed for this ratio tend to be across countries. Social security costs accounted for a low share of total personnel costs in Denmark (8.4 %), Cyprus (2005), Ireland, Luxembourg, the United Kingdom and Slovenia (all between 11.9 % and 14.5 %), while their relative importance rose to upwards of 30.0 % in France and Sweden. These costs are often cited (by employers) as impinging on the competitiveness of their enterprises.

Figure 1.19: Business economy overview
Sectoral share of gross tangible investment in the non-financial business economy total, EU-27, 2006 (%) (1)



(1) Includes rounded estimates based on non-confidential data.

(2) 2005.

Source: Eurostat (SBS)

Tangible investment

Aside from human capital, enterprises may choose to make other (non-human) tangible investments. Gross investment in tangible goods is defined as investment in new and existing tangible capital goods, whether bought from third parties or produced for own use, having a useful life of more than one year. It should be noted that the level of investment in a particular year is often a volatile measure, in particular at a detailed level, as one year with relatively high investment could be followed by a period with little or no investment.

Figure 1.19 shows a breakdown of EU-27 investment within the non-financial business economy in 2006 according to the sectoral chapter headings that are employed within this publication. Some of the activities at the top of the ranking are characterised by the fact that they rely on networks to function efficiently – for example, some of the transport services, pipelines, the network supply of electricity, gas and steam, or communications. However, the single largest contributor to total EU-27 investment was the real estate, renting and leasing sector (2005): this is perhaps not surprising as many enterprises within these activities are owners of the capital goods that they rent and lease to clients. The other end of the ranking was characterised by relatively small activities (in terms of their contributions to EU-27 value added in the non-financial business economy), in particular, the most labour-intensive manufacturing activities, such as textiles, clothing, leather and footwear as well as furniture and other manufacturing.

Table 1.9 shows that the highest level of investment in the non-financial business economy was made in France (15.4 % of the EU-27 total), slightly above the shares recorded for the United Kingdom (15.1 %) or Germany (14.4 %). Italy and Spain reported similar levels of investment (just over 10 % of the EU-27 total) and were the only other Member States to register double-digit shares. There was then a considerable gap before the next country in the ranking, namely, Sweden (3.7 %). Poland and Romania (latest data for both countries are for 2005) reported the highest levels of investment among the Member States that joined the EU in 2004 or 2007; both of these countries were over the threshold of 2 % of the EU-27 total.

The investment rate (which is defined as investment divided by value added at factor cost) can be used to identify activities and/or countries that invest relatively high proportions of their added value; this usually occurs when operating margins are relatively wide, perhaps as a result of personnel costs accounting for a relatively low proportion of operating expenditure. Table 1.10 shows that the average investment rate in the EU-27 in 2006 was 18.4 % for the whole of the

non-financial business economy, ranging from a high of 20.9 % for non-financial services, through 16.6 % for industrial activities, to 9.4 % for construction. Investment rates tended to be relatively high in the Member States that joined the EU in 2004 or 2007, in particular Romania (2005), Slovakia and Bulgaria (2005) – where rates rose to above 50 %. Among the EU-15 Member States the highest investment rates were recorded for Denmark and Portugal (just above 28 %).

Table 1.9: Business economy overview
Gross tangible investment,
non-financial business economy, 2006

	Value (EUR million)	Share (% of EU-27)
EU-27	1 037 188	100.0
BE	32 711	3.2
BG (1)	5 586	0.6
CZ	14 595	1.4
DK	33 447	3.2
DE	148 883	14.4
EE	2 630	0.3
IE	:	:
EL	15 727	1.5
ES	111 300	10.7
FR	159 622	15.4
IT	111 817	10.8
CY (1)	926	0.1
LV	4 116	0.4
LT	3 999	0.4
LU	1 669	0.2
HU	11 545	1.1
MT	:	:
NL (1)	34 116	3.5
AT	32 711	3.2
PL (1)	23 790	2.5
PT	20 222	1.9
RO (1)	20 063	2.1
SI	5 717	0.6
SK	10 435	1.0
FI	12 495	1.2
SE	38 442	3.7
UK	156 372	15.1
NO	35 211	-

(1) 2005.

Source: Eurostat (SBS)

Table 1.10: Business economy overview
Investment rate, 2006
(%)

	Non-financial business economy	Industry	Construction	Non-financial services
EU-27	18.4	16.6	9.4	20.9
BE	21.3	17.8	28.5	22.6
BG (1)	56.7	47.5	72.3	64.0
CZ	21.6	21.9	13.2	22.7
DK	28.5	18.9	12.4	36.0
DE	12.9	12.2	6.0	14.2
EE	35.3	33.9	15.5	40.0
IE (2)	:	12.6	7.5	22.0
EL	22.6	18.7	11.6	26.0
ES	20.7	20.4	11.4	23.9
FR	20.1	15.6	7.6	24.1
IT	17.7	16.6	15.9	18.9
CY (3)	13.3	25.9	6.5	12.4
LV	47.1	50.6	28.0	49.1
LT	39.9	41.1	21.6	43.5
LU	11.6	20.0	4.0	10.2
HU	27.5	25.0	19.5	30.8
MT	:	:	:	:
NL (4)	13.7	13.4	5.9	24.8
AT	23.8	14.6	6.4	33.0
PL	19.5	19.5	10.8	20.7
PT	28.3	16.6	15.4	37.8
RO (5)	71.2	53.6	73.5	76.1
SI	36.3	29.3	25.6	45.5
SK	57.8	71.0	23.8	44.6
FI	15.2	13.2	10.9	17.8
SE	23.8	19.0	12.6	28.8
UK	14.6	14.8	7.3	15.5
NO	24.3	21.8	9.2	29.4

(1) Data are for 2005, except for construction.

(2) Construction, 2005.

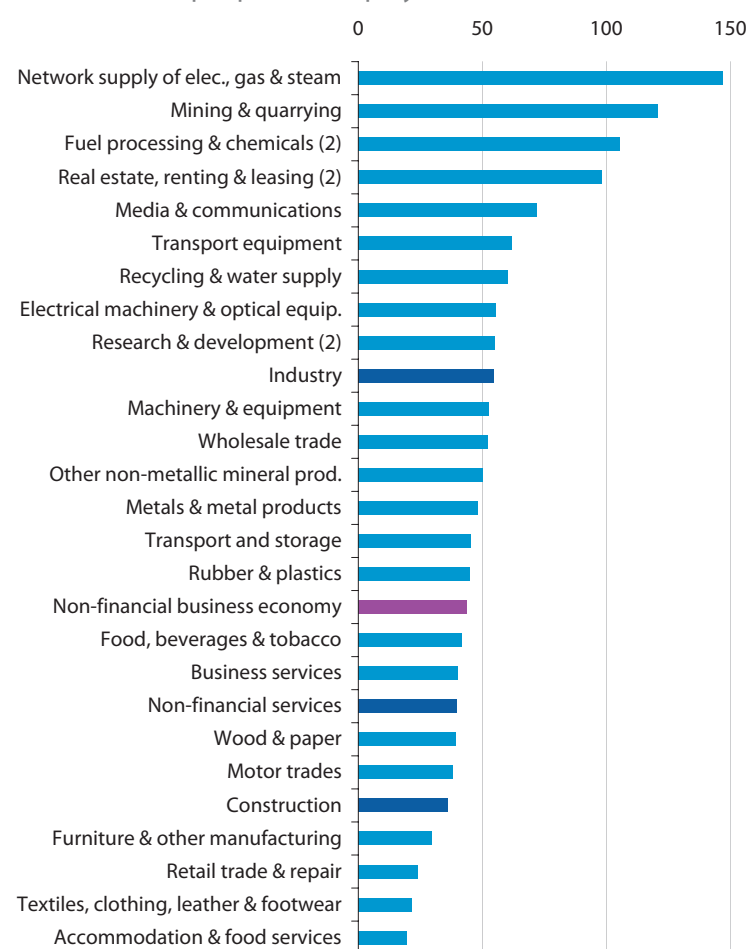
(3) Non-financial business economy and non-financial services, 2005.

(4) Non-financial business economy and industry, 2004; construction, 2005.

(5) Non-financial business economy and industry, 2005.

Source: Eurostat (SBS)

Figure 1.20: Business economy overview
Apparent labour productivity, EU-27, 2006
(EUR thousand per person employed) (1)



(1) Includes rounded estimates based on non-confidential data.
(2) 2005.

Source: Eurostat (SBS)

Productivity

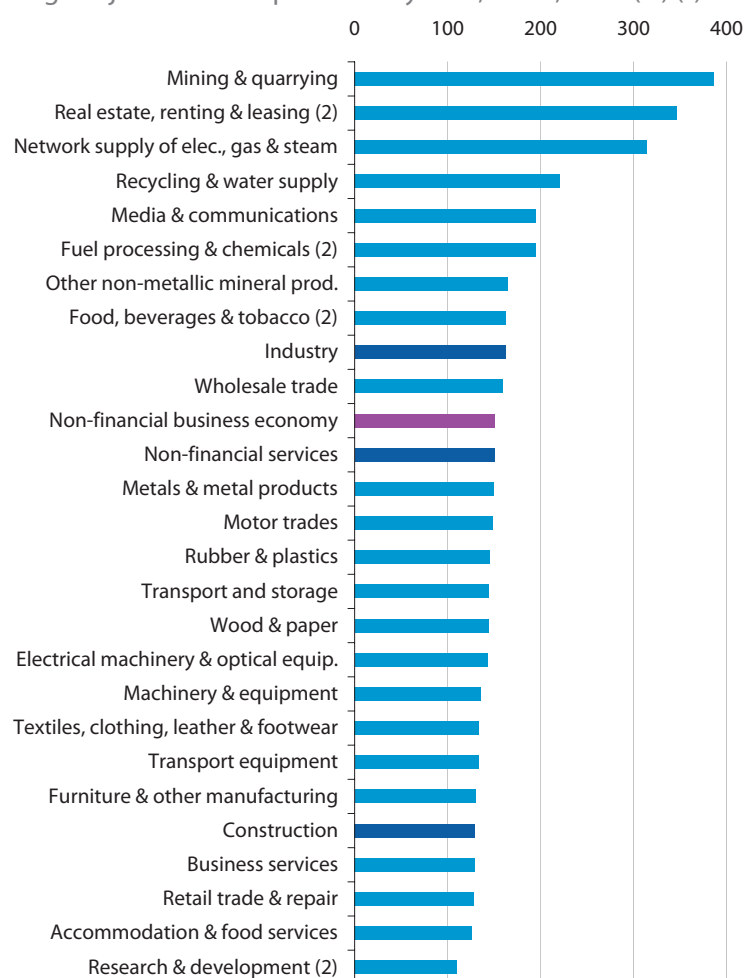
Productivity is often considered as one of the key measure of economic efficiency, showing how effectively economic inputs are converted into output. Apparent labour productivity is defined as the value added generated by each person employed (measured by headcounts): this measure is therefore limited insofar as it does not consider differences in the extent of part-time work across activities. Figure 1.20 shows that, on average, each person employed in the EU-27's non-financial business economy generated EUR 43.5 thousand of value added in 2006; with apparent labour productivity higher for industrial activities (EUR 54.5 thousand) than for non-financial services (EUR 39.7 thousand) or for construction (EUR 36.2 thousand). Labour productivity tended to be highest among those sectors that are characterised as being capital-intensive, for example, the network supply of electricity, gas and steam, mining and quarrying, fuel processing and chemicals manufacturing (2005), or real estate, renting and leasing (2005). It was lowest among labour-intensive activities, such as the manufacture of textiles, clothing, leather and footwear or accommodation and food services, where labour productivity levels were less than half the non-financial business economy average.

Another measure of productivity is the wage adjusted labour productivity ratio, defined as value added divided by personnel costs and subsequently adjusted by the share of paid employees in the total number of persons employed, or more simply, apparent labour productivity divided by average personnel costs (expressed as a ratio in percentage terms). Given that this indicator is based on expenditure for labour input rather than a headcount of labour input, it is more relevant for comparisons across activities (or countries) with very different incidences of part-time employment or self-employment. The wage adjusted labour productivity ratio for the EU-27's non-financial business economy stood at 151.1 % in 2006 (see Figure 1.21). Among the activity aggregates used for the sectoral chapters in this publication, the highest ratios were recorded for capital-intensive activities (as was the case for apparent labour productivity), with mining and quarrying and the real estate, renting and leasing sectors at the top of the ranking. At the other end of the range, the wage adjusted labour productivity ratio was 110 % for research and development (2005).

The ranking of the sectoral chapters was generally similar whether based on apparent labour productivity or wage adjusted labour productivity. However, transport equipment manufacturing moved down from sixth most productive to below the non-financial business economy average, once apparent labour productivity was adjusted for average personnel costs (which were among the highest). On the other hand, motor trades, food, beverage and tobacco manufacturing, and textiles, clothing, leather and footwear manufacturing all moved up the ranking considerably (largely due to the fact that they recorded some of the lowest average personnel costs).

Across the Member States (see Table 1.11) there were wide ranging differences in apparent productivity levels and average personnel costs; both these ratios tended to be higher among the EU-15 Member States. Ireland reported the highest level of apparent labour productivity for the non-financial business economy, slightly more than 15 times as high as in Bulgaria (data for both of these countries is only available for 2005). The difference in average personnel costs across the Member States were also considerable, as an employee working in the non-financial business economy in Belgium cost almost 17 times as much as someone working in Bulgaria (2005). However, once average personnel costs are used to adjust apparent labour productivity, many of the EU-15 Member States reported relatively low wage adjusted productivity ratios. This was particularly the case in Greece (122.6 %), Italy (133.1 %), France (133.5 %) and Sweden (135.3 %). In contrast, Latvia, Slovakia, Poland (2005) and Bulgaria (2005) each reported wage adjusted labour productivity ratios of more than 200 % for their respective non-financial business economies in 2006.

Figure 1.21: Business economy overview
Wage adjusted labour productivity ratio, EU-27, 2006 (%) (1)



(1) Includes rounded estimates based on non-confidential data.
(2) 2005.

Source: Eurostat (SBS)

Table 1.11: Business economy overview
Productivity and profitability, non-financial business economy, 2006

	Apparent labour productivity (EUR thousand per person employed)	Average personnel costs (EUR thousand per employee)	Wage adjusted labour productivity ratio (%)	Gross operating ratio (%)
EU-27	43.5	28.8	151.1	10.8
BE	62.8	44.2	142.2	8.0
BG (1)	5.4	2.6	204.7	9.2
CZ	19.1	11.4	166.8	10.7
DK	65.9	39.1	168.8	12.0
DE	53.6	35.7	150.4	10.4
EE	17.6	9.2	191.0	10.1
IE (1)	83.5	:	:	:
EL	26.9	21.9	122.6	12.2
ES	38.6	26.1	148.0	11.4
FR	54.2	40.6	133.5	7.3
IT	41.6	31.2	133.1	11.2
CY (1)	32.9	21.2	155.3	14.4
LV	13.6	5.3	255.7	13.9
LT	10.7	6.1	177.4	10.2
LU	68.7	43.0	160.0	7.7
HU	16.6	9.8	169.4	8.6
MT	:	:	:	:
NL (2)	50.8	33.5	151.6	9.7
AT	56.6	37.4	151.2	11.0
PL (1)	16.1	7.6	210.7	14.9
PT	21.6	13.3	162.2	9.2
RO (1)	7.0	3.6	194.4	10.0
SI	26.4	18.0	146.8	9.0
SK	18.8	8.7	216.9	11.0
FI	65.0	40.1	162.2	10.4
SE	59.4	43.9	135.3	9.4
UK	60.5	33.9	178.5	14.4
NO	109.2	51.3	212.8	17.9

(1) 2005.

(2) 2004.

Source: Eurostat (SBS)

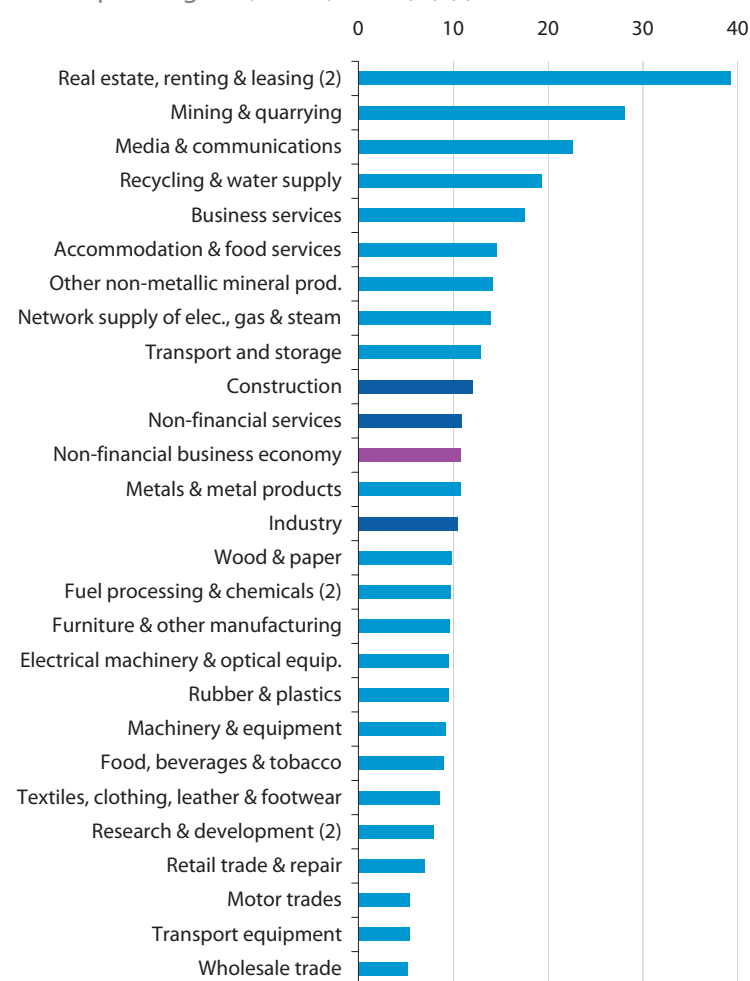
Profitability: the gross operating rate

The gross operating rate is defined as the gross operating surplus (value added at factor cost less personnel costs) divided by turnover; it is expressed as a percentage. The gross operating surplus measures the operating revenue that is left to compensate the capital factor input, after labour input has been recompensed. The operating surplus can be used to recompense the providers of funds, to pay taxes, or for self-financing investment. Although not always the case, the gross operating surplus will generally be higher for capital-intensive activities and lower for those activities which have a relatively high proportion of their costs accounted for by personnel. The gross operating rate can be considered as one measure of profitability and is also used as an indicator for measuring competitiveness and enterprise success.

The EU-27's gross operating rate for the non-financial business economy was 10.8 % in 2006 (see Figure 1.22), with the rates for industry (10.5 %), non-financial services (10.9 %) and construction (12.0 %) all closely grouped around this broader average. In terms of the activity aggregates used for the sectoral chapters, the highest level of profitability in the EU-27 was recorded for real estate, renting and leasing (39.2 % in 2005), followed by mining and quarrying (28.1 %) and media and communications (22.6 %). The lowest EU-27 gross operating rates in 2006 were recorded for distributive trades (in particular, the motor trade and wholesale trade) and for the manufacture of transport equipment.

Across countries, the lowest gross operating rates tended to be recorded among those countries with relatively high personnel costs. Gross operating rates for the non-financial business economies of Belgium, Luxembourg and France did not rise above 8.0 % in 2006, while at the other end of the ranking, gross operating rates exceeded 13 % in Cyprus (2005), Latvia, Poland (2005) and the United Kingdom.

Figure 1.22: Business economy overview
Gross operating rate, EU-27, 2006 (%) (1)



(1) Includes rounded estimates based on non-confidential data.
(2) 2005.

Source: Eurostat (SBS)

1.4: Enterprise demography and size class analysis

Business demography

Annex IX of the recast structural business statistics Regulation provides for a detailed module for the collection of statistics on business demography. It requires the National Statistical Institutes (NSIs) to produce statistics on enterprise births, deaths and survival rates using common definitions and methodology, which should ensure greater comparability in this field of statistics from the reference year 2008 onwards. Note that for the moment, the statistics presented for this subject have been produced and provided by most of the NSIs on the basis of informal, gentlemen's agreements.

The starting point for business demography statistics is the concept of the population of active enterprises. These are defined as businesses that had either turnover or employment at any time during the reference period. Data on births and deaths of enterprises, as well as their life expectancy form part of the structural indicators that are used to measure the progress being made towards the European Union's goals set out in the Growth and Jobs Strategy.

Business demography statistics are also a key source of information for analysing entrepreneurial activity. The creation of a new enterprise generally leads to new products or services being offered in a marketplace. In this context, new enterprises can be seen as disturbing market equilibrium and they are therefore often cited as being drivers of competitiveness, as they force existing enterprises to improve their efficiency, while driving inefficient enterprises out of business.

SBS business demography statistics focus on so-called real enterprise births and deaths. Under the definitions employed, births (and deaths) do not include entries into (or exits from) the business enterprise population due to mergers, break-ups, splits or the restructuring of enterprises, nor do they include changes resulting from a change in the enterprise's principal (main) activity.

A birth is defined as an enterprise that was present in year t , but did not exist in the two preceding years. An enterprise is deemed to have survived if, having been a birth in year t or having survived to year t , it is active in terms of employment and/or turnover in any part of year $t+1$; an enterprise is considered to have survived if it

is active in any part of the survival year under consideration. An enterprise death is defined as an enterprise that was active in year t but was no longer present among the active enterprises in the two following years (after checking for any reactivations). It is often quite difficult, statistically, to determine the exact date of cessation of activity with respect to an enterprise death. Indeed, this may well be detected only after a lengthy period (of several years); as such, information presented on enterprise deaths is often provisional in nature and sometimes lags other indicators.

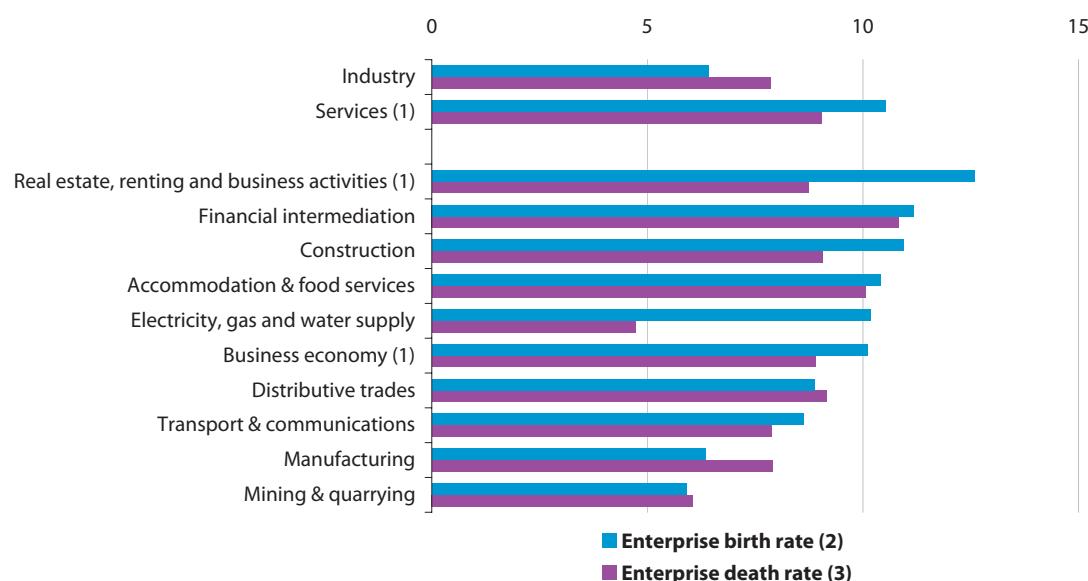
Economic theory suggests that relatively low numbers of enterprise births are likely to be recorded for those activities where high barriers to entry exist, perhaps because a greater level of initial investment in production factors is required to reach a minimum efficient scale of production. Consequently, where barriers to entry (and exit) are lower, as is the case for many services and construction activities, there are generally higher levels of enterprise birth and deaths.

There were approximately 1.75 million newly born enterprises in the business economies of 21 countries for which data are available for 2005 (see Figure 1.23 for details of the country coverage). To put this into perspective, newly born enterprises accounted for roughly one in every ten (10.1 %) of the stock of active enterprises. Enterprise birth rates were higher for construction (10.9 %) and for services (10.5 %) than for industry (6.4 %).

Figure 1.23 shows enterprise birth rates and preliminary death rates across a range of NACE sections based on averages compiled from those Member States for which data are available. Real estate, renting and business activities, financial intermediation and construction reported the highest enterprise birth rates (12.6 %, 11.2 % and 10.9 % respectively) and were the only activities (at the NACE section level of detail) to report birth rates above the business economy average.

Based on the available information, a comparison between enterprise birth and death rates can provide some evidence as to net changes in the business enterprise population (note that the number of enterprises may also change as a function of mergers, take-overs, split-offs and break-ups). The birth rate for enterprises within the services sector was 1.5 percentage points higher than the corresponding death rate, whereas for total industry the opposite was observed as the death rate exceeded the birth rate by 1.4 percentage points. The largest difference (5.4 percentage points) between

Figure 1.23: Business economy overview
Enterprise birth and death rates, average for available Member States, 2005
(% share of active enterprises)



(1) Excluding management activities of holding companies (NACE Class 74.15).

(2) Weighted average based on data available for Bulgaria (2004), Czech Republic, Denmark, Germany (2004), Estonia (2004), Spain, Italy, Cyprus, Latvia, Luxembourg, Hungary, Netherlands, Austria, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and United Kingdom.

(3) Weighted average based on preliminary data available for Bulgaria (2004), Czech Republic (2004), Denmark, Estonia (2004), Spain, Italy, Latvia, Luxembourg (2004), Hungary, Netherlands (2004), Portugal, Romania, Slovenia, Slovakia (2004), Finland (2004), Sweden (2004) and United Kingdom.

Source: Eurostat (SBS)

birth and death rates was recorded for electricity, gas and water supply, where the provisional death rate was only 4.7 %. This relatively large difference might, among other reasons, be explained by a recent period of liberalisation within these activities, resulting in the creation of a relatively high number of new energy and water distribution companies.

Among the 21 Member States for which data are available (see Tables 1.12 and 1.13), those countries with relatively low/high birth rates also tended to report relatively low/high death rates. Italy, Cyprus (2005), Slovakia (2005) and Sweden were among those countries with the lowest levels of renewing their enterprise populations in 2006, while Bulgaria (2005), Denmark (2005), Portugal, Romania (2005) and the United Kingdom (2005) reported some of the highest rates.

Table 1.13 also presents information on two-year survival rates. Enterprises born in Slovenia, Sweden and the United Kingdom reported some of the highest rates, as upwards of 80 % of all enterprises born in industry, construction or services survived two years.

Table 1.12: Business economy overview
Enterprise death rates, 2005 (%) (1)

	Industry	Construction	Services (2)
BG (3)	8.4	6.8	12.6
CZ (3)	11.2	12.6	13.3
DK	8.3	8.1	11.1
EE (4)	8.5	15.9	10.8
ES	6.6	7.7	6.7
FR	5.9	7.8	:
IT	6.3	9.1	7.4
LV	7.0	7.3	8.0
LU (3)	4.7	6.1	9.1
HU	9.3	13.2	12.2
NL (3)	6.4	6.5	9.2
PT	14.2	15.0	14.9
RO	10.0	8.6	9.6
SI	3.6	4.2	4.7
SK (3)	4.3	4.2	5.6
FI (3)	5.5	6.3	7.2
SE	4.7	4.8	5.9
UK	9.5	9.3	11.3

(1) Including preliminary data.

(2) Excluding management activities of holding companies (NACE Rev. 1.1 Class 74.15).

(3) 2004.

(4) Construction, 2004.

Source: Eurostat (SBS)

Table 1.13: Business economy overview
Enterprise birth and two-year survival rates, 2006 (%)

	Birth rate			2-year survival rate (1)		
	Industry	Construction	Services (2)	Industry	Construction	Services (2)
BG (3)	8.4	17.9	12.0	:	:	:
CZ (3)	6.3	8.0	9.5	66.1	62.4	59.7
DK (3)	7.6	14.0	13.8	:	:	:
DE (4)	6.0	8.4	10.9	:	:	:
EE (5)	7.2	22.4	11.3	67.8	78.0	66.3
ES (3)	5.9	13.6	10.3	77.5	70.0	72.0
FR	5.7	11.8	:	79.7	82.1	:
IT	4.9	9.4	7.1	77.7	73.9	74.5
CY (3)	3.0	12.6	6.6	:	:	:
LV	7.5	15.4	9.8	68.9	77.2	73.2
LU (3)	5.4	9.1	11.6	44.6	77.1	74.9
HU	4.5	9.0	9.2	72.0	66.5	61.8
NL (3)	6.6	10.8	10.0	78.4	77.5	72.1
AT (3)	5.4	9.1	8.6	:	:	:
PT	7.8	13.4	15.3	56.6	62.0	59.5
RO (3)	14.7	24.8	18.3	78.8	79.8	78.5
SI (3)	4.5	11.3	9.5	87.0	88.8	80.5
SK (3)	6.1	7.5	7.6	75.5	70.5	72.7
FI (3)	5.0	10.1	8.6	74.2	73.7	64.2
SE	4.4	7.5	6.9	90.1	89.3	86.6
UK (3)	8.1	13.2	14.4	81.9	82.6	80.9

(1) For enterprises born in 2004.

(2) Excluding management activities of holding companies (NACE Rev. 1.1 Class 74.15).

(3) Birth rates, 2005; survival rates, 2005 for enterprises born in 2003.

(4) Birth rates, 2004; survival rates, 2004 for enterprises born in 2002.

(5) Industry and services: birth rates, 2005; survival rates, 2005 for enterprises born in 2003. Construction: birth rates, 2004; survival rates, 2004 for enterprises born in 2002.

Source: Eurostat (SBS)

Foreign-controlled enterprises (inward FATS)

Globalisation has had a considerable impact on the location of production. Many enterprises have extended their operations beyond national borders in an attempt to (amongst other things) increase proximity to customers, circumvent trade or taxation barriers, reduce costs (labour, transportation or material inputs), guarantee the supply of material inputs, or avoid regulation. Groups of (predominantly large) enterprises are at the core of the globalisation process and may be seen as agents of cross-border transactions, as they control decisions, information flows and strategies across a range of countries.

The qualitative nature of information required to define a group's perimeter can often make it difficult to obtain reliable statistical information on these economic actors. One of the main constraints when trying to measure their activities

is that global enterprises make their decisions against a worldwide backdrop, while their decisions continue to be analysed using national data collections.

Aside from exporting goods and services or setting-up a new enterprise, there are a number of other alternative actions that enterprises wishing to diversify into new markets can take – one of the main options is to take control of an enterprise in the new market. Information on foreign-controlled enterprises is covered by inward foreign affiliates' statistics (inward FATS). For the purpose of the inward FATS data collection, the concept of control is defined as the ability to determine general corporate policy; however, in practice, a share of ownership is often used as a proxy. Inward FATS statistics show that the number of foreign affiliates tends to be relatively low. However, given their comparatively large average size, these enterprises often exercise significant economic influence.

Table 1.14: Business economy overview
Impact of foreign-controlled enterprises,
non-financial business economy, 2005
(% share of total)

	Number of enterprises	Value added	Number of persons employed
BG	2.1	32.2	13.5
CZ	1.9	38.0	22.9
EE (1)	19.6	41.2	31.6
ES	0.3	14.2	9.0
FR	1.0	19.6	:
IT	0.3	11.5	7.5
CY	0.8	5.6	3.3
LV	3.9	25.1	13.5
LT	2.0	25.0	11.2
HU	0.3	39.0	16.6
NL	1.3	21.5	14.5
AT (2)	1.1	16.4	11.8
PT	0.5	16.8	7.9
RO	0.8	22.0	14.0
SI	1.9	16.4	10.3
SK	5.6	44.6	28.1
FI	0.9	17.8	15.4
SE	1.8	27.6	22.3

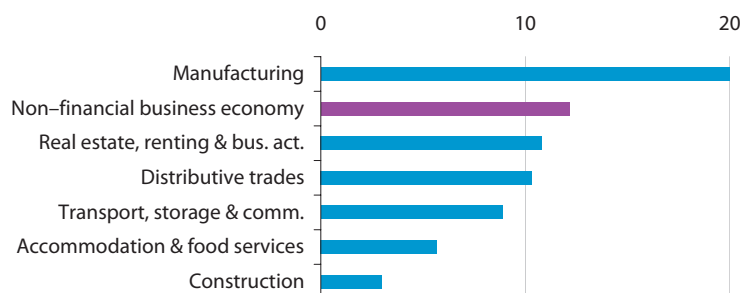
(1) 2004.

(2) 2003.

Source: Eurostat (SBS)

Figure 1.24 shows that foreign-controlled enterprises accounted for 12.2 % of the workforce in the non-financial business economies of the 16 Member States for which data are available in 2005. The relative importance of foreign-controlled enterprises (using this measure) was considerably higher for the manufacturing sector, rising to 20.0 %. Manufacturing was the only activity (at the NACE Section level) to report that foreign-controlled enterprises provided a higher share of total employment than the non-financial business economy average. In contrast, less than 3 % of the construction sector's workforce was employed by a foreign-controlled enterprise.

Figure 1.24: Business economy overview
Share of employment generated by foreign-controlled enterprises, average for available Member States, 2005 (%) (1)



(1) Weighted average based on data available for Bulgaria, the Czech Republic, Estonia (2004), Spain, Italy, Latvia, Lithuania, Hungary, the Netherlands, Austria (2003), Portugal, Romania, Slovenia (2004), Slovakia, Finland and Sweden.

Source: Eurostat (SBS)

More detailed country information is provided in Table 1.14, supporting the view that foreign-controlled enterprises had a relatively large average size. Across the countries for which data are available, the share of foreign-controlled enterprises in the total number of enterprises was (with the exception of Estonia) always below 6 % of the total enterprise population, and more generally below a threshold of 2 %. Nevertheless, foreign-controlled enterprises often reported a double-digit share of the non-financial business economy workforce (Cyprus, Italy, Portugal and Spain were exceptions to this rule). Cyprus was also the only country where foreign-controlled enterprises did not create at least 10 % of the total value added generated in the non-financial business economy.

Foreign-controlled enterprises consistently reported a higher share of value added than employment in each of the 17 countries for which data are available for the non-financial business economy – suggesting they were more productive than nationally-owned enterprises. Note that these differences in productivity levels may, at least in part, be due to the larger average size of foreign-controlled enterprises, rather than any inherent difference in productivity levels between nationally-controlled and foreign-controlled enterprises.

Size class analysis

Commission Recommendation 2003/361/EC regarding the definition of SMEs has been in effect since 1 January 2005. In legal terms, a small and medium-sized enterprise (SME) should have fewer than 250 employees. This definition was revised to ensure that enterprises which were part of larger (parent) groups could no longer benefit from SME support schemes, and that help was targeted specifically at independent SMEs. Under the recommendation, enterprises are classified as SMEs when their annual turnover does not exceed EUR 50 million, or their annual balance sheet total does not exceed EUR 43 million. The definition plays an important role as it establishes which SMEs may benefit from EU programmes, policies and competition rules.

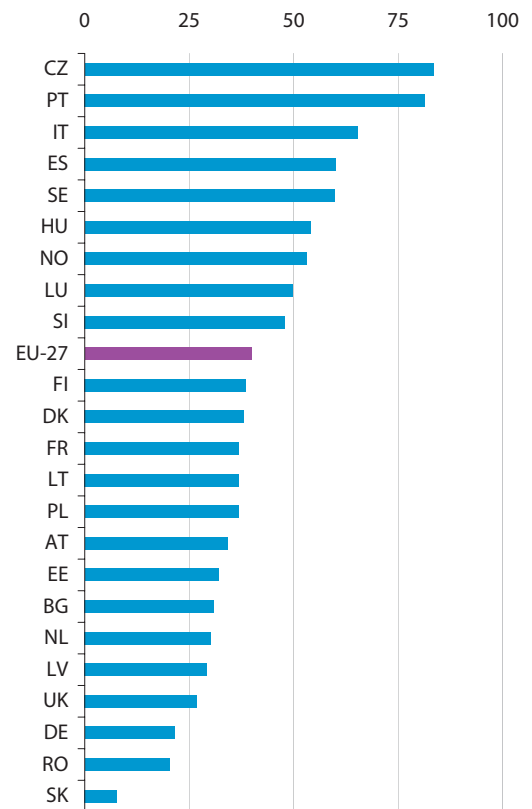
However, for reasons of feasibility, the collection of structural business statistics on SMEs only uses the criteria based on employment. As such, for the purpose of the statistics presented hereafter, SMEs are defined as having fewer than 250 persons employed. The sub-population of SMEs may be further divided into:

- micro enterprises (with 1 to 9 persons employed);
- small enterprises (with 10 to 49 persons employed), and;
- medium-sized enterprises (with 50 to 249 persons employed).

The vast majority of SMEs in the EU are considerably smaller than the threshold of 250 persons. While large enterprises can maintain whole departments to keep up with technological developments, track competitors, attract finance and skilled employees, or develop new products and processes, many smaller enterprises struggle for resources, whether financial, know-how or skills. Furthermore, while larger enterprises may seek to lobby decision-makers in order to tailor laws to their own needs, it is rare for entrepreneurs or SMEs to devote resources to areas such as this.

In an attempt to redress this imbalance, the European Commission has appointed an SME Envoy, who acts as an interface with the SME business community, defending SMEs' interests in the EU policy-making process. The SME Envoy acts as a channel through which the European Commission is able to take account of the impact which its legislative proposals might have on SMEs.

Figure 1.25: Business economy overview
Density of SMEs: number of SMEs per 1 000 inhabitants, non-financial business economy, 2006 (1)



(1) Belgium, Ireland, Greece, Cyprus and Malta, not available; EU-27, Bulgaria, the Netherlands, Poland and Slovakia, 2005; Hungary, 2004.

Source: Eurostat (SBS, DEMO)

Furthermore, the European Commission has placed SMEs at the centre of their industrial policy-making⁽⁶⁾, realising that 'if SMEs are to have a significant impact on Europe's economy, they need to grow bigger – take on more employees, and expand their product ranges, markets and turnover'.

On average there were 39.9 SMEs in the EU-27's non-financial business economy for each 1 000 inhabitants in 2005 (see Figure 1.25). In 2006 this ratio was more than twice as high (83.4) in the Czech Republic, and close to this level in Portugal, while there was generally a high density of SMEs per 1 000 inhabitants in many of the southern European countries. At the other end of the range, there were just 7.7 SMEs per 1 000

⁽⁶⁾ More details can be found on the web-site for the Directorate-General for Enterprise and Industry, available at http://ec.europa.eu/enterprise/entrepreneurship/index_en.htm.

Table 1.15: Business economy overview

Breakdown of activity within the non-financial business economy by size-class, EU-27, 2006 (% share of total)

Chapter	Value added					Number of persons employed				
	SMEs	Micro	Small	Med.	Large	SMEs	Micro	Small	Med.	Large
1 Non-financial business economy (1)	57.7	21.0	18.9	17.8	42.3	67.4	29.7	20.7	17.0	32.6
Industry	42.5	7.3	14.1	21.0	57.5	57.2	13.2	19.6	24.4	42.8
2 Mining and quarrying	35.7	11.9	9.3	14.5	64.3	31.6	5.5	13.3	12.9	68.4
3 Food, beverages & tobacco	45.5	8.2	14.8	22.6	54.5	62.5	16.3	21.2	25.0	37.5
4 Textiles, clothing, leather & footwear	74.5	14.1	28.0	32.4	25.5	75.3	17.7	26.3	31.2	24.7
5 Wood & paper	58.3	11.5	19.9	27.0	41.7	73.5	21.8	24.9	26.7	26.5
6 Fuel processing & chemicals (1)	22.3	1.2	5.0	16.1	77.7	33.8	3.2	8.8	21.8	66.2
7 Rubber & plastics	57.4	4.8	19.0	33.6	42.6	64.1	7.8	22.0	34.3	35.9
8 Other non-metallic mineral products	52.5	7.3	18.5	26.7	47.5	64.0	14.5	22.1	27.5	36.0
9 Metals & metal products	62.4	11.2	24.9	26.4	37.6	72.1	17.6	28.2	26.4	27.9
10 Machinery & equipment	50.7	6.2	16.5	28.0	49.3	56.7	9.5	18.6	28.6	43.3
11 Electrical machinery & optical equipment	38.0	5.9	12.2	19.9	62.0	47.6	10.9	15.1	21.7	52.4
12 Transport equipment	13.8	1.4	3.5	8.8	86.2	20.8	2.7	5.8	12.4	79.2
13 Furniture & other manufacturing	72.6	18.3	26.3	27.9	27.4	76.8	25.6	25.7	25.5	23.2
14 Network supply of electricity, gas & steam (2)	19.8	5.1	4.4	10.3	80.2	17.6	2.2	4.3	11.2	82.4
15 Recycling & water supply	47.2	9.3	16.6	21.3	52.8	52.0	9.1	16.3	26.6	48.0
16 Construction	82.8	33.0	32.1	17.7	17.2	88.0	41.5	30.6	15.9	12.0
Non-financial services (1)	63.5	27.7	19.8	15.9	36.5	68.4	35.2	19.5	13.7	31.6
17 Motor trades	78.8	28.7	29.1	21.0	21.2	88.2	42.6	29.1	16.5	11.8
18 Wholesale trade (1)	76.9	23.7	29.4	23.8	23.1	82.1	32.9	29.1	20.1	17.9
19 Retail trade & repair	56.4	31.5	16.3	8.6	43.6	65.1	42.7	15.0	7.4	34.9
20 Accommodation & food services	76.5	35.5	27.2	13.8	23.5	82.4	44.7	26.8	10.9	17.6
21 Transport and storage	51.5	16.9	18.0	16.6	48.5	59.3	23.8	19.2	16.3	40.7
22 Media & communications	21.8	5.2	7.6	9.1	78.2	35.3	11.6	11.6	12.1	64.7
23 Real estate, renting & leasing (2)	85.7	52.4	16.7	16.7	14.3	84.8	53.5	17.4	13.9	15.2
24 Research & development (3)	41.7	7.0	10.2	24.5	58.3	54.2	11.8	15.8	26.6	45.8
25 Business services	66.6	29.1	20.1	17.5	33.4	64.5	31.3	16.7	16.6	35.5

(1) 2005 for value added.

(2) 2005.

(3) 2005 for number of persons employed.

Source: Eurostat (SBS)

inhabitants in Slovakia (2005), less than half the density recorded in any of the other Member States. Otherwise, Romania, Germany and the United Kingdom also had relatively low levels of SME density.

Of the 20 million active enterprises in the EU-27's non-financial business economy in 2006, the overwhelming majority (99.8 %) were SMEs. A closer inspection reveals that 91.8 % of the total were micro enterprises (employing fewer than 10 persons), while 6.9 % were small enterprises (with 10 to 49 persons employed), 1.1 % were medium-sized enterprises (with 50 to 249 persons employed) and the remaining 0.2 % were large enterprises (with 250 or more persons employed).

Just over two thirds (67.4 %) of the EU-27's non-financial business economy workforce was

employed within an SME in 2006. As such, large enterprises (with 250 or more persons employed) that accounted for just 0.2 % of the enterprise population employed almost one third of the workforce (32.6 %); this share rose to 42.8 % across industrial activities. The relative importance of large enterprises varied considerably between activities, as they employed more than 50 % of the workforce within mining and quarrying, the manufacturing activities of fuel processing and chemicals (2005), electrical machinery and optical equipment, and transport equipment, as well as the network supply of electricity, gas and steam, and the media and communications sector. At the other end of the spectrum, a relatively high proportion of the workforce, upwards of 75 %, were employed in SMEs within the activities of: furniture and other manufacturing activities, motor and wholesale

Table 1.16: Business economy overview
Breakdown of the non-financial business economy by size-class, 2006 (% share of total)

	Number of enterprises					Value added					Number of persons employed				
	SMEs	Micro	Small	Med.	Large	SMEs	Micro	Small	Med.	Large	SMEs	Micro	Small	Med.	Large
EU-27 (1)	99.8	91.8	6.9	1.1	0.2	57.7	21.0	18.9	17.8	42.3	67.4	29.7	20.7	17.0	32.6
BE (2)	:	:	:	0.9	:	:	:	:	18.9	:	:	:	:	15.5	:
BG (3)	99.7	89.5	8.5	1.7	0.3	53.2	14.3	17.4	21.5	46.8	72.6	28.4	22.0	22.2	27.4
CZ	99.8	95.1	3.9	0.8	0.2	54.7	18.8	16.0	19.9	45.3	67.5	29.0	18.7	19.8	32.5
DK	99.7	86.8	11.0	1.9	0.3	67.8	27.7	21.4	18.8	32.2	66.0	19.7	25.2	21.0	34.0
DE (4)	99.5	83.1	14.1	2.3	0.5	:	:	17.7	:	:	60.5	19.3	21.8	19.3	39.5
EE (5)	99.6	83.1	13.8	2.7	0.4	:	:	25.3	:	:	:	:	27.7	:	:
IE	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
EL	:	:	:	0.4	:	:	:	:	17.1	:	:	:	:	11.8	:
ES	99.9	92.2	6.8	0.8	0.1	67.9	26.5	24.1	17.3	32.1	78.0	37.7	25.5	14.8	22.0
FR	99.8	92.3	6.5	1.0	0.2	55.2	21.0	18.7	15.6	44.8	61.7	24.7	20.8	16.2	38.3
IT	99.9	94.6	4.8	0.5	0.1	71.7	32.7	23.0	16.1	28.3	81.0	46.9	21.6	12.5	19.0
CY	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
LV	99.7	83.3	13.7	2.6	0.3	:	:	:	28.4	:	75.9	21.7	28.0	26.1	24.1
LT (6)	99.7	88.4	9.3	2.0	0.3	56.7	9.3	21.7	25.7	43.3	71.3	17.0	26.4	27.9	28.7
LU	99.6	86.7	10.7	2.1	0.4	:	:	:	:	:	:	:	:	:	:
HU (6)	:	:	:	0.8	:	51.9	:	:	:	48.1	72.2	:	:	:	27.8
MT	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
NL (7)	99.7	89.5	8.7	1.5	0.3	60.4	:	:	21.3	39.6	67.3	29.2	21.1	17.0	32.7
AT	99.7	87.5	10.5	1.6	0.3	:	:	19.9	:	:	:	:	23.2	:	:
PL (3)	99.8	95.9	2.9	1.0	0.2	48.4	16.8	11.5	20.1	51.6	69.8	39.2	12.0	18.7	30.2
PT	99.9	94.6	4.7	0.7	0.1	:	:	22.3	:	:	:	:	23.1	:	:
RO	99.6	88.1	9.4	2.1	0.4	49.6	13.9	15.8	19.8	50.4	63.6	21.2	19.8	22.6	36.4
SI (4)	99.7	92.8	5.7	1.3	0.3	:	:	:	21.6	:	:	:	:	:	:
SK (3)	98.8	72.7	21.0	5.1	1.2	44.5	10.7	15.3	18.5	55.5	54.0	13.0	17.5	23.4	46.0
FI	99.7	92.8	5.8	1.1	0.3	:	:	:	:	:	:	:	:	:	:
SE	99.8	94.2	4.8	0.8	0.2	55.8	20.2	17.6	18.0	44.2	63.7	24.7	20.9	18.1	36.3
UK	99.6	87.5	10.5	1.7	0.4	50.7	18.5	15.5	16.6	49.3	54.8	21.5	17.9	15.4	45.2
NO	99.8	91.6	7.2	1.0	0.2	64.5	29.8	15.7	18.9	35.5	69.7	26.5	25.0	18.3	30.3

(1) 2005 for number of enterprises and value added.

(2) 2004.

(3) 2005.

(4) 2004 for value added.

(5) 2005 for persons employed.

(6) 2004 for value added and persons employed.

(7) 2005 for number of enterprises and persons employed, 2004 for value added.

Source: Eurostat (SBS)

trades (2005), as well as accommodation and food services and real estate, renting and leasing (also 2005), rising to a maximum of 88.0 % for the construction sector.

The economic importance of large enterprises was generally higher in terms of their contribution to total value added (42.3 % of the total) within the EU-27's non-financial business economy in 2005. There were quite wide disparities across activities, as large enterprises contributed 57.5 % of total value added in the industrial economy, while the corresponding share for non-financial services was 36.5 %, falling further still to just 17.2 % for construction.

The relative importance of SMEs in terms of their contribution to the non-financial business economy workforce varied considerably across countries, as SMEs engaged 81.0 % of the total number of persons employed in Italy in 2006, a share that fell to just under 55 % in Slovakia (2005) and the United Kingdom (see Table 1.16). Those working in Italian SMEs created 71.7 % of the total value added generated in the non-financial business economy, while in Romania, Poland and Slovakia (data are for 2005 for the latter two countries), large enterprises generated more than 50 % of the total value added.

Table 1.17: Business economy overview
Apparent labour productivity by size-class, EU-27, 2006
(EUR thousand per person employed)

Chapter	SMEs	Micro	Small	Medium	Large
1 Non-financial business economy (1)	37.8	:	40.1	44.7	56.8
Industry	40.5	30.2	39.4	47.0	73.3
2 Mining and quarrying	137.1	263.7	85.3	136.7	114.0
3 Food, beverages & tobacco	30.5	21.0	29.2	37.8	60.8
4 Textiles, clothing, leather & footwear	21.4	17.2	23.0	22.4	22.3
5 Wood & paper	31.3	20.8	31.4	39.8	61.9
6 Fuel processing & chemicals (2)	69.7	42.5	59.7	80.0	123.7
7 Rubber & plastics	40.1	27.6	38.7	43.8	53.2
8 Other non-metallic mineral products	41.4	25.3	42.4	49.1	66.7
9 Metals & metal products	40.8	30.0	41.6	47.2	63.6
10 Machinery & equipment	47.2	34.9	46.7	51.6	60.1
11 Electrical machinery & optical equipment	43.9	30.0	44.2	50.7	65.2
12 Transport equipment	41.0	32.8	38.0	44.2	67.3
13 Furniture & other manufacturing	28.0	21.2	30.4	32.5	35.0
14 Network supply of electricity, gas & steam	165.3	339.7	152.6	135.7	143.0
15 Recycling & water supply	54.7	61.3	61.5	48.3	66.1
16 Construction	34.1	28.8	37.9	40.4	51.8
Non-financial services (3)	37.5	30.8	41.0	46.1	46.7
17 Motor trades	34.1	25.7	38.1	48.6	68.5
18 Wholesale trade (4)	49.0	34.4	50.7	63.8	66.3
19 Retail trade & repair	20.8	17.6	26.1	27.9	29.9
20 Accommodation & food services	18.2	15.6	19.9	24.8	26.3
21 Transport and storage	39.4	32.2	42.4	46.1	53.9
22 Media & communications	44.4	31.9	47.0	53.8	87.0
23 Real estate, renting & leasing (5)	98.8	95.7	91.8	117.5	91.5
24 Research & development (4)	39.4	37.5	47.1	49.8	65.2
25 Business services	41.1	37.1	47.9	42.0	37.5

(1) 2005 for medium-sized enterprises.

(2) 2005 for SMEs, small and large enterprises.

(3) 2005 for micro and medium-sized enterprises.

(4) 2005 for micro and small enterprises.

(5) 2005 for SMEs, micro, medium-sized and large enterprises.

Source: Eurostat (SBS)

Combining these relative shares of value added and employment suggests that the apparent labour productivity of SMEs was generally lower than that of larger enterprises. This view is supported by economic theory, insofar as it suggests that economies of scale may lead to larger enterprises generating more value added per person employed. This was the case for most of the aggregates used for the sectoral chapters in this publication (see Table 1.17). Indeed, mining and quarrying, the manufacture of textiles, clothing, leather and footwear, real estate, renting

and leasing, and business services sectors were the only four exceptions where apparent labour productivity was similar or higher among SMEs than it was for large enterprises.

On average, apparent labour productivity in large enterprises (EUR 56.8 thousand per person employed) was about 50 % higher than among SMEs within the EU-27's non-financial business economy in 2006. Differentials in apparent labour productivity ratios between SMEs and large enterprises were generally more marked for industrial activities.

Table 1.18: Business economy overview
Apparent labour productivity by size-class, 2006 (EUR thousand per person employed)

	Industry		Construction		Non-financial services	
	SMEs	Large	SMEs	Large	SMEs	Large
EU-27	40.5	73.3	34.1	51.8	37.5	46.7
BE	:	:	40.4	60.7	53.4	59.8
BG (1)	4.4	10.9	5.5	6.5	3.9	9.7
CZ	16.2	29.9	11.7	26.2	16.1	21.5
DK	94.2	79.9	46.8	57.7	64.4	53.5
DE	:	:	35.7	53.6	46.5	47.6
EE	:	:	15.4	26.8	18.7	16.6
IE	:	:	127.7	125.4	51.6	64.0
EL	:	:	19.8	34.6	20.8	47.4
ES	40.8	95.7	31.5	53.3	32.2	42.9
FR	48.3	79.2	40.7	51.1	50.6	55.7
IT	43.0	81.5	33.1	74.9	34.6	48.8
CY (1)	:	:	33.2	43.0	31.2	43.2
LV	:	:	12.8	17.6	14.4	14.2
LT (2)	7.1	16.8	9.0	16.5	9.7	13.7
LU	:	:	44.8	48.9	72.1	71.1
HU	:	:	8.7	26.3	12.2	19.5
MT	:	:	45.7	68.7	43.4	42.3
NL	:	:	45.7	68.7	43.4	42.3
AT	:	:	45.7	61.2	48.1	49.8
PL (3)	12.4	33.6	10.4	16.3	10.7	20.0
PT	:	:	15.7	35.0	18.2	30.0
RO	5.5	11.8	7.0	5.2	7.2	13.4
SI	:	:	18.4	27.7	24.5	30.6
SK (4)	11.8	22.6	13.1	16.3	15.1	14.2
FI	:	:	50.6	54.8	57.3	49.6
SE	54.1	94.1	42.8	55.7	53.0	56.4
UK	62.0	114.5	66.2	83.7	52.6	53.0
NO	227.2	235.5	61.0	73.4	72.1	77.9

(1) 2005 for non-financial services.

(2) 2005 for industry.

(3) 2005.

(4) 2005 for industry and for non-financial services.

Source: Eurostat (SBS)

1.5: Employment characteristics

Article 39 of the EC Treaty lays down a fundamental freedom that entitles persons from within the EU to look for a job, work, and at the same time live, in any other EU country, while enjoying equal treatment in terms of access to employment, working conditions and all other social and tax regimes.

The information that is presented within this section is largely derived from the Labour Force Survey (LFS) which collects information from individual households (rather than from enterprises). Note that the data pertain to an annual

average for each reference year, which marks a change from previous editions of this publication where LFS data has generally been presented in relation to the second quarter of a particular reference year.

The EU-27's labour force is characterised by considerable differences in terms of its gender profile (see Table 1.19). Across the whole of the business economy (NACE Sections C to K, and therefore including financial and insurance services), almost two thirds (64.1 %) of those employed in the EU-27 in 2007 were male. The imbalance between the sexes was most evident in the construction sector, where men outnumbered women by

a ratio of more than nine to one (92.1 %), while 69.9 % of the industrial workforce was male, and 55.6 % of those working in non-financial services were men. All but one of the industrial sectoral aggregates that are used as chapter headings within this publication reported a majority of their respective workforce was composed of men, the exception being the textile, clothing, leather and footwear manufacturing sector where women represented 69.4 % of those employed. Among the chapters that cover the services economy, women outnumbered men in three activities, namely: retail trade and repair; accommodation and food services; and financial and insurance services.

Some 14.3 % of those persons employed within the EU-27's business economy in 2007 worked on a part-time basis. The rate of part-time employment across industrial activities (7.3 %) was about

half the business economy average, and this rate fell further still to 5.7 % for the construction sector, while part-time employment accounted for in excess of one in five persons (20.3 %) within non-financial services. At a more detailed level (the chapter headings used in this publication) there was a clear link between those activities with relatively high levels of part-time employment and those with relatively high female employment rates. Upwards of one in five persons worked on a part-time basis within retail trade and repair, accommodation and food services, and business services, as well as in the real estate, renting and leasing sector.

The age profile of employment across Member States reflects, to some degree, demographic trends such as ageing populations and baby-boom cohorts, as well as opportunities to remain within higher education, the average length of higher

Table 1.19: Business economy overview

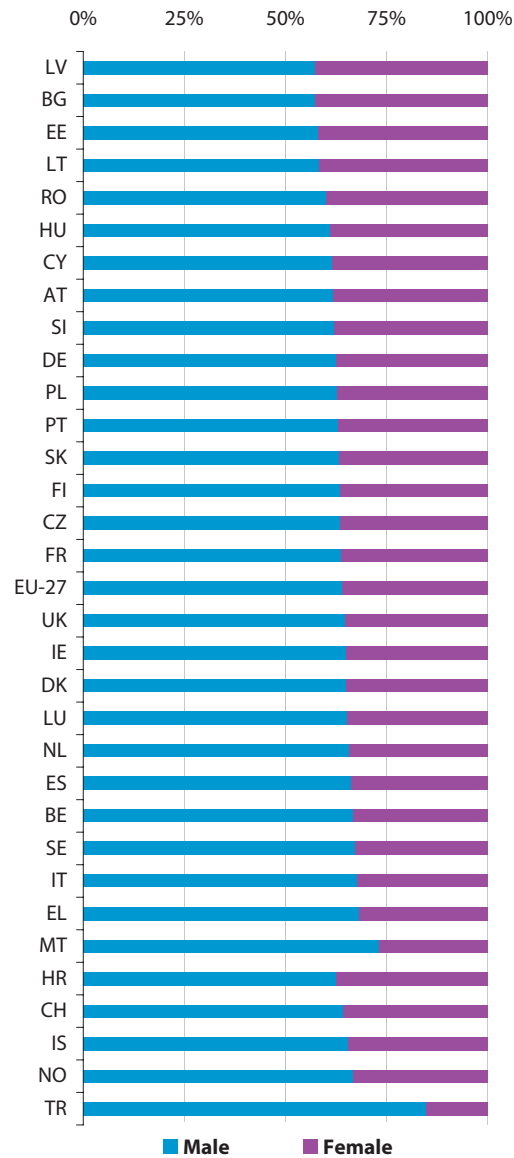
Employment characteristics, EU-27, 2007 (% share of total number of persons employed)

Chapter	Employees, 2006 (1)	Gender		Time at work		Age		
		Male	Female	Full-time	Part-time	15-29	30-49	50+
Business economy	:	64.1	35.9	85.7	14.3	24.2	53.9	21.9
1 Non-financial business economy	86.5	64.9	35.1	85.7	14.3	24.3	53.7	21.9
Industry	94.2	69.9	30.1	92.7	7.3	21.1	56.1	22.8
2 Mining & quarrying	97.9	86.2	13.8	97.3	2.7	12.9	63.2	23.9
3 Food, beverages & tobacco	93.3	57.6	42.4	88.8	11.2	23.9	55.1	21.1
4 Textiles, clothing, leather & footwear	91.7	30.6	69.4	91.8	8.2	18.4	59.9	21.8
5 Wood & paper	90.0	79.0	21.0	94.6	5.4	22.0	56.4	21.6
6 Fuel processing & chemicals	98.8	65.0	35.0	93.2	6.8	17.9	58.9	23.2
7 Rubber & plastics	96.5	71.5	28.5	93.9	6.1	22.6	56.5	20.8
8 Other non-metallic mineral products	93.8	78.1	21.9	94.5	5.5	19.7	57.0	23.3
9 Metals & metal products	92.2	84.5	15.5	94.7	5.3	21.6	53.9	24.5
10 Machinery & equipment	95.6	81.9	18.1	94.8	5.2	20.1	54.7	25.1
11 Electrical machinery & optical equip.	95.0	65.0	35.0	93.3	6.7	23.1	56.3	20.5
12 Transport equipment	98.6	81.5	18.5	96.3	3.7	22.0	56.0	22.0
13 Furniture & other manufacturing	89.1	71.9	28.1	89.9	10.1	22.8	55.8	21.4
14 Network supply of elec., gas & steam	98.8	76.8	23.2	94.5	5.5	15.6	55.4	29.0
15 Recycling & water supply	97.3	78.4	21.6	93.6	6.4	16.4	56.2	27.4
16 Construction	82.2	92.1	7.9	94.3	5.7	25.1	53.6	21.3
Non-financial services	83.7	55.6	44.4	79.7	20.3	26.0	52.4	21.6
17 Motor trades	82.7	81.9	18.1	90.5	9.5	29.0	50.4	20.6
18 Wholesale trade	86.4	66.6	33.4	89.1	10.9	21.8	56.0	22.2
19 Retail trade & repair	79.7	37.8	62.2	71.1	28.9	31.2	48.8	20.1
20 Accommodation & food services	82.1	44.4	55.6	71.9	28.1	35.7	46.5	17.8
21 Transport and storage	88.0	79.1	20.9	90.9	9.1	17.7	56.7	25.7
22 Media & communications	95.0	60.6	39.4	83.0	17.0	21.5	55.4	23.0
23 Real estate, renting & leasing	72.9	53.0	47.0	79.5	20.5	18.7	51.4	29.8
24 Research & development	100.0	55.4	44.6	86.6	13.4	20.2	54.1	25.6
25 Business services	84.5	55.3	44.7	78.8	21.2	23.4	55.3	21.3
26 Financial & insurance activities	:	48.0	52.0	86.0	14.0	21.4	57.0	21.6

(1) Fuel processing and chemicals and real estate, renting and leasing, 2005; food, beverages and tobacco, excluding tobacco.

Source: Eurostat (SBS, LFS)

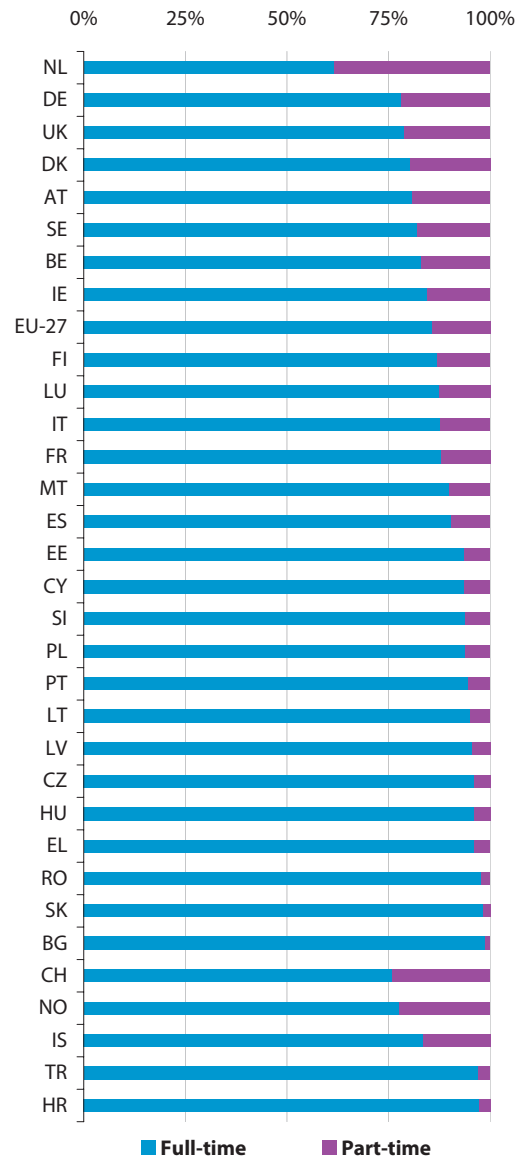
Figure 1.26: Business economy overview
Employment breakdown by gender,
business economy, 2007 (% share of total
number of persons employed)



Source: Eurostat (LFS)

education courses, and the availability of work and job placements. At the other end of the age range, the proportion of older workers may be influenced, among other factors, by pension rights, age-related wage schemes, and the availability of lifelong learning programmes. Within the EU-27's business economy almost one quarter (24.2 %) of the total workforce were aged between 15 and 29 years old, slightly more than half (53.9 %) were aged 30 to 49, and the remaining 21.9 % were aged 50 or more. The age profile was relatively stable across the three main activity aggregates of industry

Figure 1.27: Business economy overview
Employment breakdown by time at work,
business economy, 2007 (% share of total
number of persons employed)



Source: Eurostat (LFS)

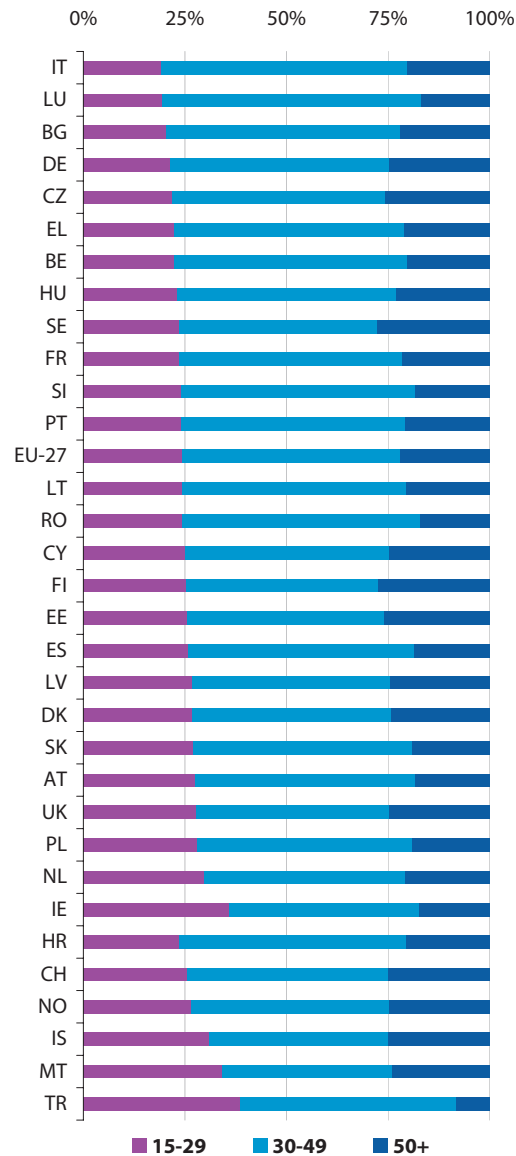
(56.1 % of the workforce were aged 30 to 49), construction (53.6 %), and non-financial services (52.4 %). Those differences that did exist largely reflected education/skills levels and/or experience requirements of particular sectors. For example, accommodation and food services (35.7 %) and retail trade and repair (31.2 %) reported relatively high proportions of young workers. In contrast, there were relatively few young workers employed within mining and quarrying (12.9 %), perhaps reflecting that this is a declining industry where there is less of a need to engage new staff.

Employment characteristics tend to be relatively similar across the activities within a particular country, which may be explained by structural factors. For example, the proportion of women working was high (40 % or above) in the business economies of the Baltic Member States, Bulgaria and Romania, whereas it was generally low in the Mediterranean Member States – in particular, Italy, Greece and Malta (see Figure 1.26). This pattern was often repeated at different levels of activity breakdown. Indeed, the likelihood that a woman works probably reflects, to some degree, socio-economic policies regarding family allowances, the availability of crèches and after school care, part-time employment opportunities, as well as cultural differences with respect to the interdependence and/or independence of (extended) family units.

The Netherlands stood out as having by far the highest part-time employment rate for the whole of the business economy in 2007 (38.4 %), while more than one in five persons in Germany and the United Kingdom also worked on a part-time basis. This contrasted vividly with the situation in Slovakia and Bulgaria, where no more than 1 in 50 persons worked on a part-time basis (see Figure 1.27). None of the Member States that joined the EU in 2004 or 2007 reported a particularly high rate of part-time employment; the highest being Malta (10.1 %), below the EU-27 average.

According to SBS data, across the EU-27's non-financial business economy the average share of paid employees in the total number of persons employed was 86.5 % in 2006. This share was generally highest within industrial activities (94.2 %), falling to 83.7 % for non-financial services. The activities where employees accounted for the smallest share of total employment in 2006 (in other words, where there was the highest proportion of working proprietors and unpaid family workers) included real estate, renting and leasing (72.9 % of those employed in 2005 were employees), retail trade and repair (79.7 %), accommodation and food services (82.1 %) and construction (82.2 %) – all of which are characterised by a high proportion of small, often family-run enterprises.

Figure 1.28: Business economy overview
Employment breakdown by age, business economy, 2007 (% share of total number of persons employed)



Source: Eurostat (LFS)

1.6: Evolution of production, employment and turnover

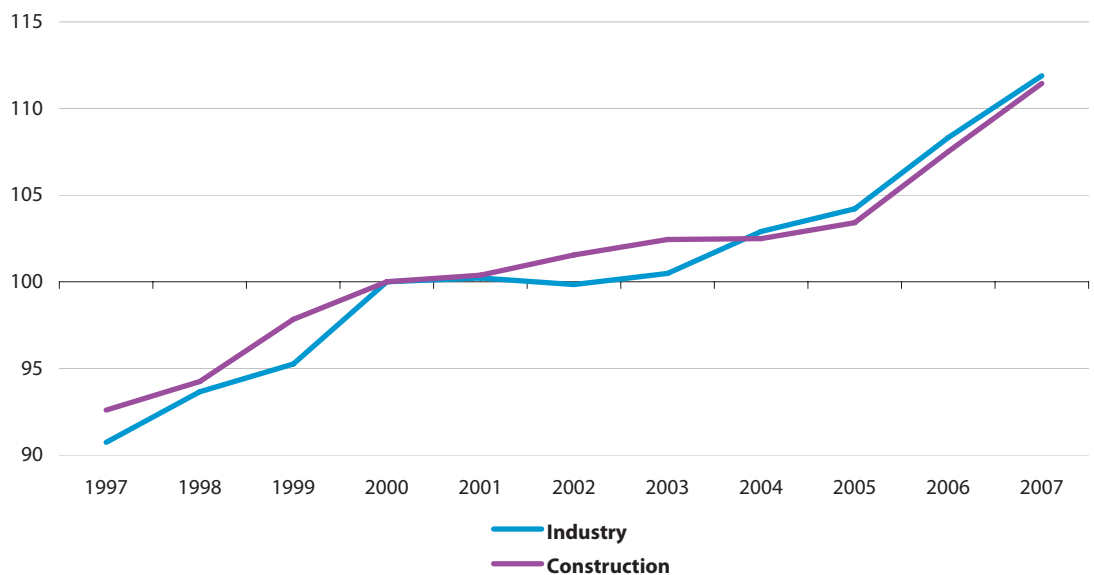
The index of production for industrial activities and that for construction shows the development of value added at constant prices. This indicator provides information on the speed and direction of change, in particular showing the cyclical evolution of activity (which is often related to general economic developments within the whole economy).

As no production index exists for services, an index of turnover is used instead to analyse the evolution of output. Note that this is generally based on a current price series (and as a result includes the effects of price increases) – the retail trade sector is the only exception, as an index is available to measure the volume of retail sales.

The long-term evolution of the EU-27 index of production for industry rose rapidly during two distinct periods between 1997 and 2007,

Figure 1.29: Business economy overview

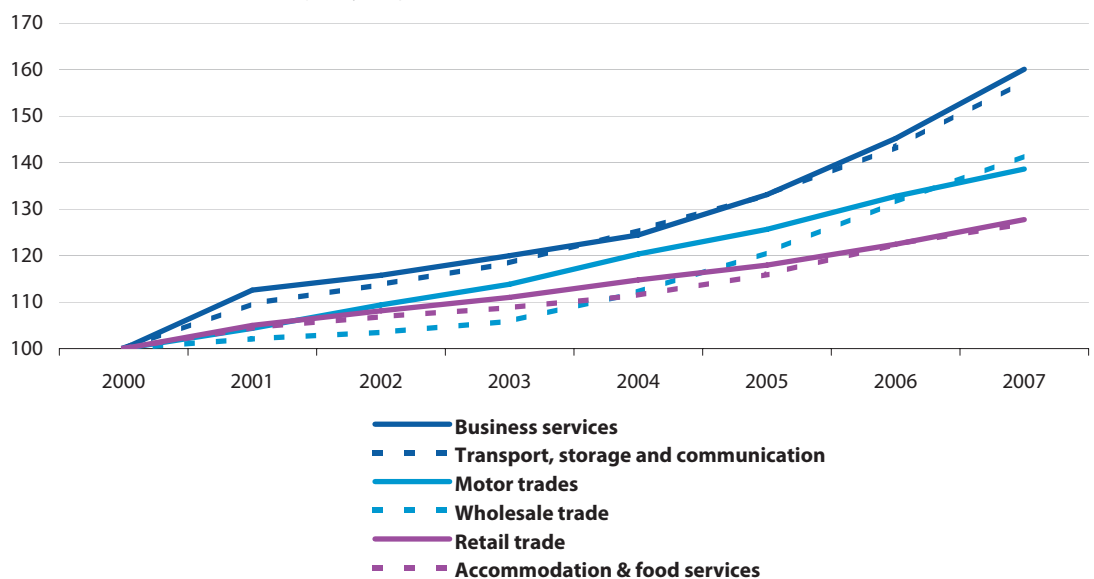
Index of production, working day adjusted, EU-27 (2000=100)



Source: Eurostat (STS)

Figure 1.30: Business economy overview

Index of turnover, working day adjusted, EU-27 (2000=100)



Source: Eurostat (STS)

interspersed by a three-year period of stagnation from 2000 to 2003 (see Figure 1.29). The working day adjusted EU-27 index of production rose on average by 2.7 % per annum between 2003 and 2007, with the fastest rates of growth being registered in 2006 and 2007 (3.9 % and 3.3 % respectively).

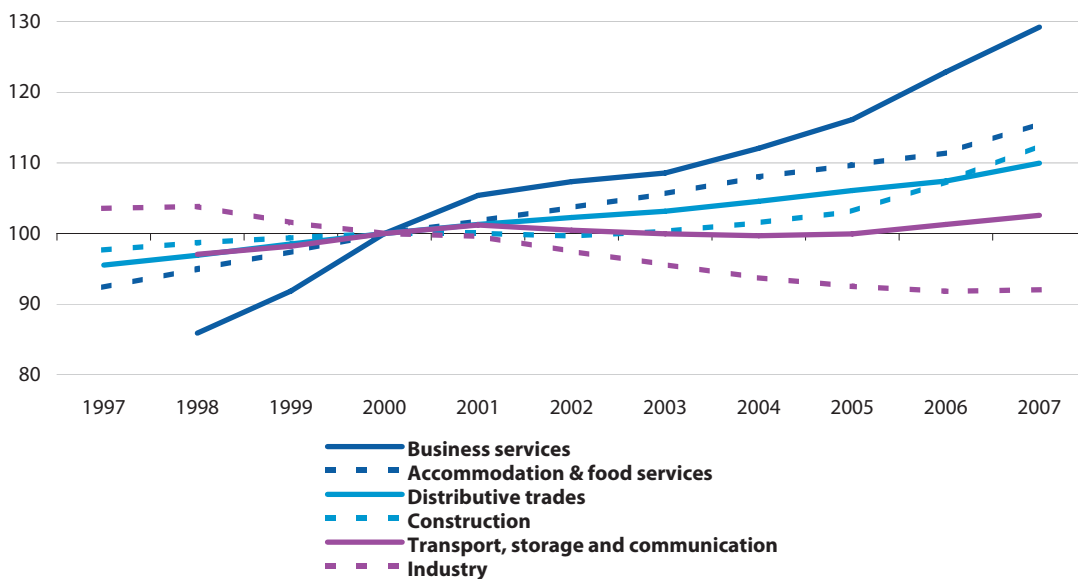
EU-27 output for construction followed a similar path – although overall growth was slightly lower – despite unbroken, positive year-on-year rates of change. As with industrial output, the fastest expansion in construction activity was recorded towards the end of the time-series in 2006 and 2007.

Among the service sectors (see Figure 1.30), the EU-27 index of turnover for business services (NACE Divisions 72 and 74) and for transport, storage and communication (NACE Section I) rose particularly strongly in the period between

2000 and 2007, on average by 7.0 % and 6.7 % per annum. The remaining four services that are presented also reported a positive evolution to their respective current price sales indices, averaging between 5.1 % and 3.5 % per annum.

The EU-27 index of employment for industrial activities showed a steady decline during the period 1997 to 2007, with reductions averaging 1.2 % per annum. In contrast, there was employment growth within the construction sector, which accelerated from 2005 onwards. Each of the services that are presented in Figure 1.31 reported an expansion in their respective numbers of persons employed between 1998 and 2007. There was relatively fast average growth recorded for business services (4.6 % per annum), as well as for accommodation and food services (2.2 % per annum), while employment levels for transport, storage and communication remained almost unchanged.

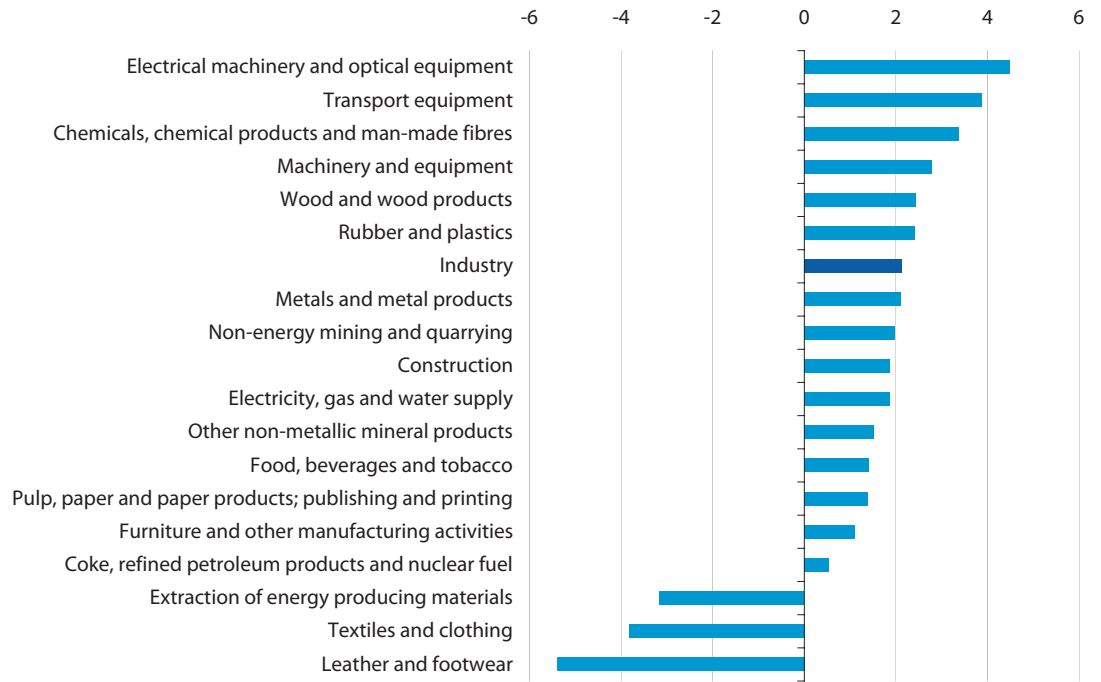
Figure 1.31: Business economy overview
Index of employment, gross data, EU-27 (2000=100)



Source: Eurostat (STS)

Figure 1.32: Business economy overview

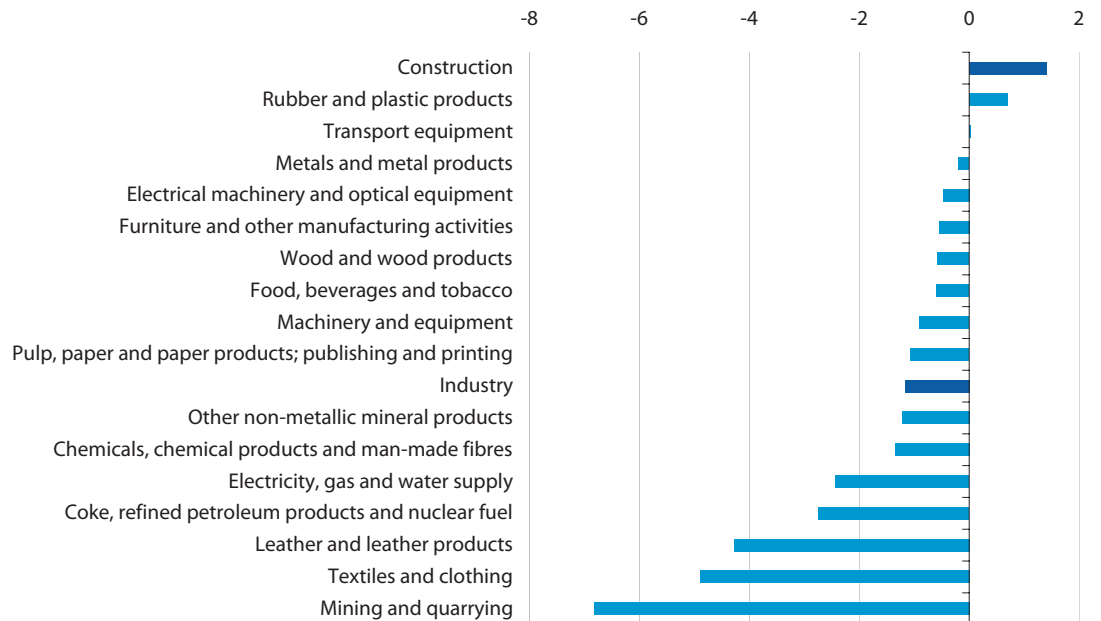
Average annual growth rates, index of production for industrial activities, working day adjusted, EU-27, 1997-2007 (% per annum)



Source: Eurostat (STS)

Figure 1.33: Business economy overview

Average annual growth rates, index of employment for industrial activities, gross data, EU-27, 1997-2007 (% per annum)



Source: Eurostat (STS)

Evolution within industrial activities

On average, the index of production for total industry rose by 2.1 % per annum during the period 1997 to 2007. This measure of output grew for the majority of the NACE subsections that appear in Figure 1.32. Indeed, there were only three exceptions, the extraction of energy producing materials (NACE Subsection CA), the manufacture of textiles and clothing (NACE Subsection DB) and the manufacture of leather and footwear (NACE Subsection DC). In contrast, the highest average rates of growth were recorded for electrical machinery and optical equipment (NACE Subsection DL), transport equipment manufacturing (NACE Subsection DM) and the manufacture of chemicals, chemical products and man-made fibres (NACE Subsection DG).

While output generally rose across industrial activities, the same could not be said for the number of persons employed. The employment index for total industry fell in the EU-27 by an average of 1.2 % per annum during the period from 1997 to 2007 – see Figure 1.33 – reinforcing the notion of productivity gains. The only industrial subsection that reported any substantial increase in its workforce during the period under consideration was rubber and plastic products manufacturing, while there were larger employment gains in the construction sector.

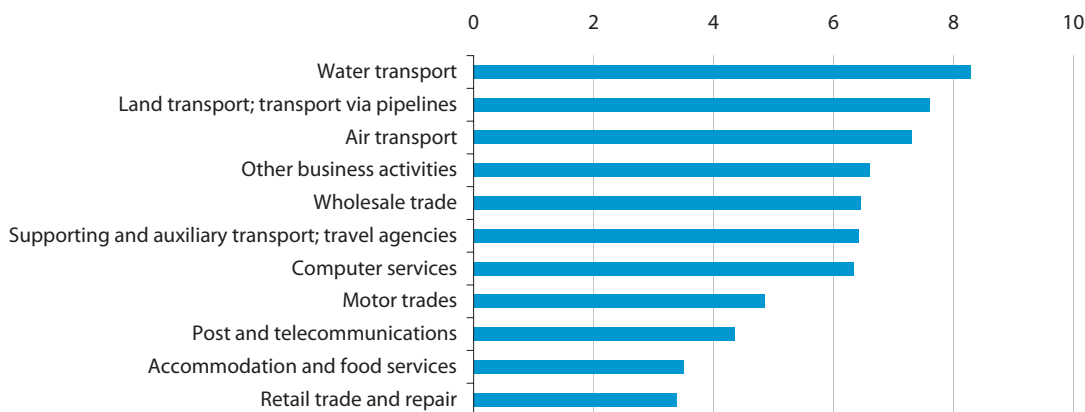
Evolution within service sectors

During the five-year period from 2002 to 2007, the EU-27 index of turnover increased for each of the NACE divisions within the non-financial services sector for which data are available – see Figure 1.34. The highest rates of sales growth tended to be reported for transport services, with average growth of 8.3 % per annum for water transport, 7.6 % per annum for land transport and transport via pipelines, and 7.3 % per annum for air transport services. The slowest rates of turnover growth were registered for accommodation and food services (3.5 % per annum) and retail trade and repair (3.4 % per annum).

In contrast to the industrial economy, the evolution of employment within services tended to show that the number of persons employed rose for the majority of activities across the EU-27. The sharpest rate of increase between 2002 and 2007 was registered for other business activities (NACE Division 74), where the workforce expanded, on average, by 4.0 % per annum. There were two service activities – air transport services and post and telecommunications – that reported reductions in their respective workforces between 2002 and 2007 (see Figure 1.35).

Figure 1.34: Business economy overview

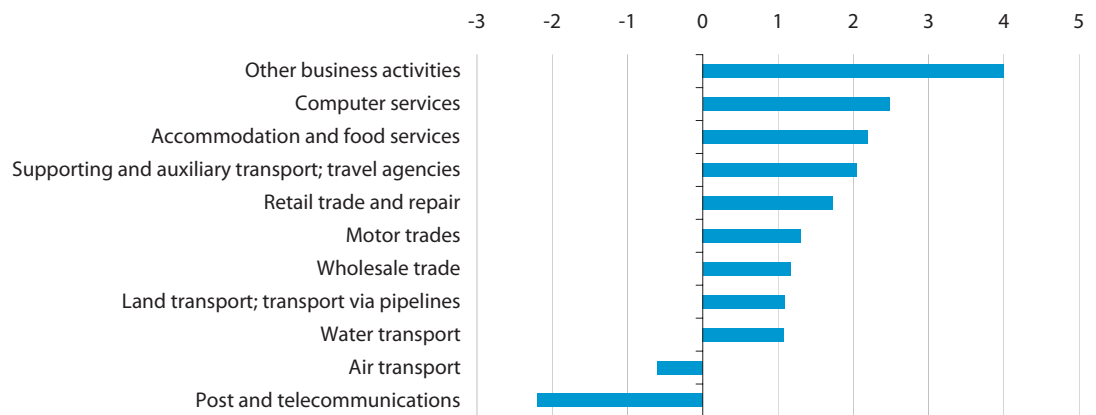
Average annual growth rates, index of turnover for services activities, working day adjusted, EU-27, 2002-2007 (% per annum)



Source: Eurostat (STS)

Figure 1.35: Business economy overview

Average annual growth rates, index of employment for services activities, gross data, EU-27, 2002-2007 (% per annum)



Source: Eurostat (STS)

Recession at the end of 2008 and start of 2009

The information presented in this publication does not include annual short-term business statistics for reference year 2008, as these were unavailable at the time that data was extracted. As such, the annual time-series that are presented fail to show the downturn in economic fortunes that occurred during the second half of 2008, as the credit crisis in sub-prime markets, falling stock market indices and a reduction in consumer and business confidence led to recession.

In order to put the recession into some context, the EU-27's seasonally adjusted index of production for total industry peaked in May 2008. However, only six months later in November 2008, industrial output was 8.2 % lower than it had been a year before. Most industrial activities reported a turning point in their respective levels of production in either late 2007 or the first half of 2008. One of the largest contractions was recorded for the motor vehicles manufacturing activity, where production fell by 21.0 % during the period November 2007 to November 2008.

Other areas of the non-financial business economy were generally less affected by the contraction in activity. Nevertheless, the EU-27 index of production for construction fell by 4.3 % between November 2007 and November 2008. Among services, while there was evidence of a slowdown in activity, this was rarely translated into an absolute reduction. The main exceptions were the motor trades sector, where current price sales fell by 8.1 % during the period October 2007 to October 2008, while EU-27 sales for accommodation and food services as well as for post and telecommunication services stagnated. There was also a slight downturn in the volume of sales within the retail trade and repair sector, down by 0.4 % between November 2007 and November 2008.

1.7: External trade

External trade statistics presented in this publication relate to the classification of products by activity (CPA). More specifically, the data included refer to CPA Sections C to E, covering imports and exports of industrial products.

As noted above, the world economy is increasingly inter-related, with foreign-controlled enterprises and globalisation making the distinction between domestic and non-domestic production less clear. The successive removal of trade barriers (particularly those under the auspices of the World Trade Organisation) has also led to a notable increase in world trade, which has expanded to cover services. However, the recent economic slowdown has seen concerns rise over the possibility that some countries will adopt protectionist policies (barriers to trade and capital flows) in an attempt to cushion themselves from the impact of the economic slowdown.

There have been rapid changes in trade patterns in recent years, associated with emerging economies such as China and India accounting for a growing share of world trade, in particular in areas that are price-sensitive. There have also been structural changes in the origin of EU imports, for example, the growth in energy imports

originating from the Russian Federation (an important global supplier of energy), as indigenous EU supplies dwindle.

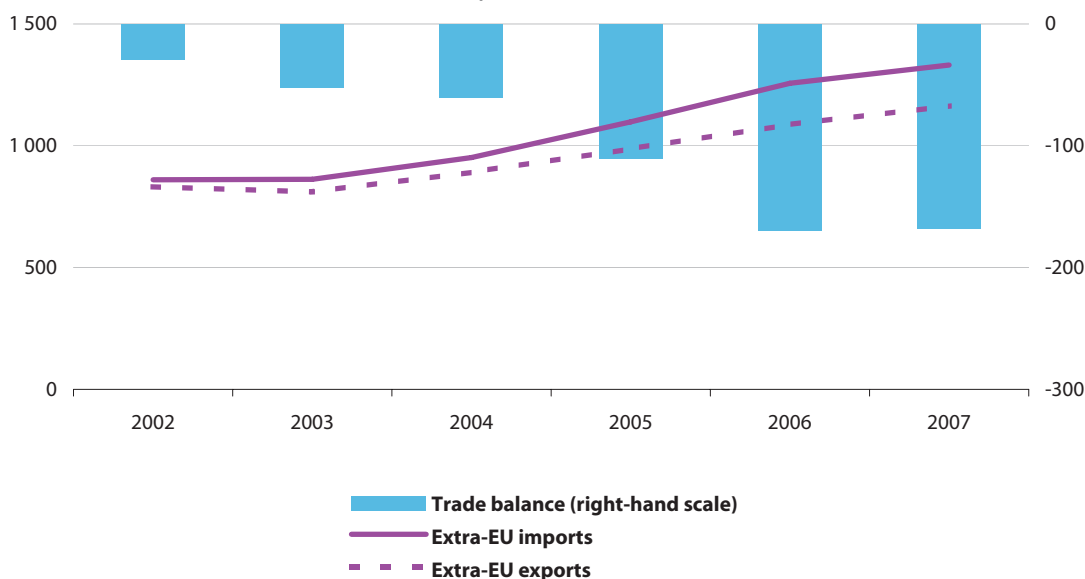
External trade data (see Figure 1.36) shows that after having stagnated at the start of the decade – during the previous economic slowdown – there was growth in the level of EU-27 exports and imports through to 2007 as economies strengthened. The EU-27 trade balance (the value of exports minus imports) for industrial goods became a progressively larger deficit through to 2006, reflecting to some degree buoyant demand, changes in exchange rates, and the relative price of imports (in particular, higher prices of oil and gas imports). The widening trade deficit for industrial goods reached EUR 169.3 billion by 2006, before falling slightly in 2007 to EUR 167.9 billion.

EU-27 trade partners

The most important destination for EU-27 industrial exports in 2007 was the United States which accounted for a little more than a fifth (21.2 %) of the total – see Figure 1.37. The proportion of exports that were destined for the United States fell gradually in recent years, while a similar pattern was observed for the second largest market for EU-27 exports of industrial goods, namely Switzerland, which accounted for a 7.3 % share

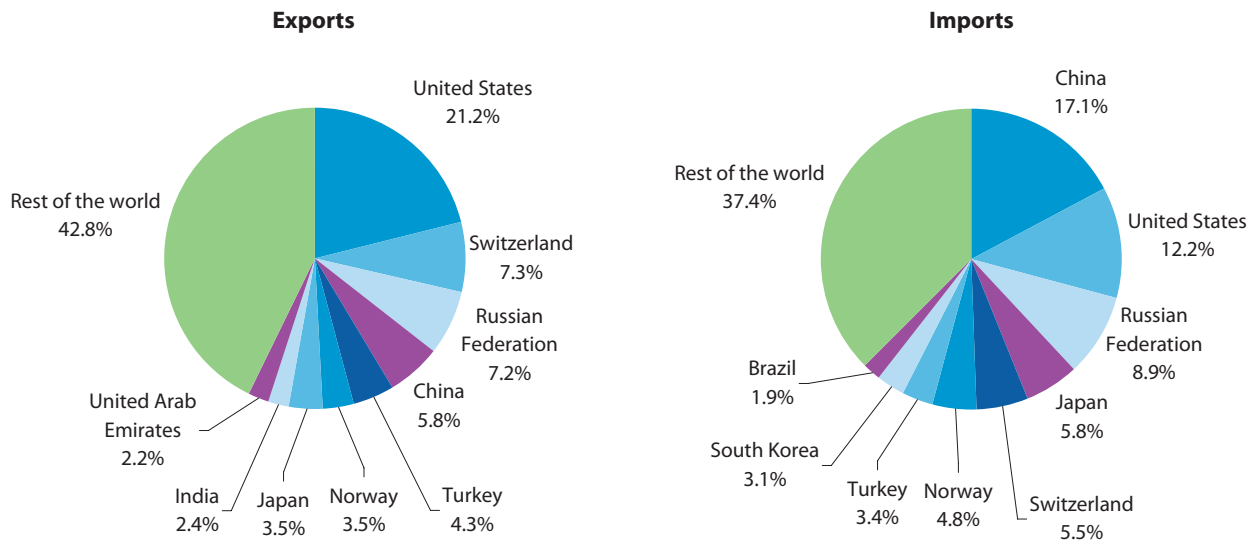
Figure 1.36: Business economy overview

Evolution of external trade for industrial products, EU-27 (EUR billion)



Source: Eurostat (Comext)

Figure 1.37: Business economy overview
Main trading partners, industrial products, EU-27, 2007 (% share of exports/imports in value terms)



Source: Eurostat (Comext)

of total exports in 2007. The declining share of EU-27 exports to established, industrialised trading partners was offset by the growing importance of trade with the Russian Federation and China, whose combined market share rose to 12.9 % by 2007.

The relatively slow change in the structure of EU-27 exports by partner was in contrast to more rapid developments as regards the origin of EU-27 imports. The relative importance of the United States has diminished considerably in recent years, as imports from America accounted for 12.2 % of the total in 2007 (approximately half their share of a decade before). There was also a considerable reduction in the relative share of imports from Japan, declining to 5.8 % of EU-27 imports in 2007. In contrast, the share of EU-27 imports that originated from China and the Russian Federation increased rapidly to reach 17.1 % and 8.9 % respectively by 2007.

EU-27 trade by product

Table 1.20 shows information relating to EU-27 external trade flows in 2007, broken down according to the aggregates used for the industrial chapters within this publication. These figures provide evidence of why concerns are often raised with respect to the EU's dependence on external supplies of energy: one third of all EU-27 imports

concerned mining and quarrying products (22.1 %) or processed fuel products and chemicals (13.3 %). Electrical machinery and optical equipment products were the only other chapter aggregate to report a double-digit share of EU-27 industrial imports in 2007, accounting for slightly more than a fifth (20.1 %) of the total.

With relatively low levels of exports of mining and quarrying products, the EU-27 recorded by far its largest trade deficit for these products (EUR 273.8 billion in 2007). The magnitude of the deficit for mining and quarrying products was more than four times as high as the second largest deficit – that registered for electrical machinery and optical goods (EUR 67.8 billion).

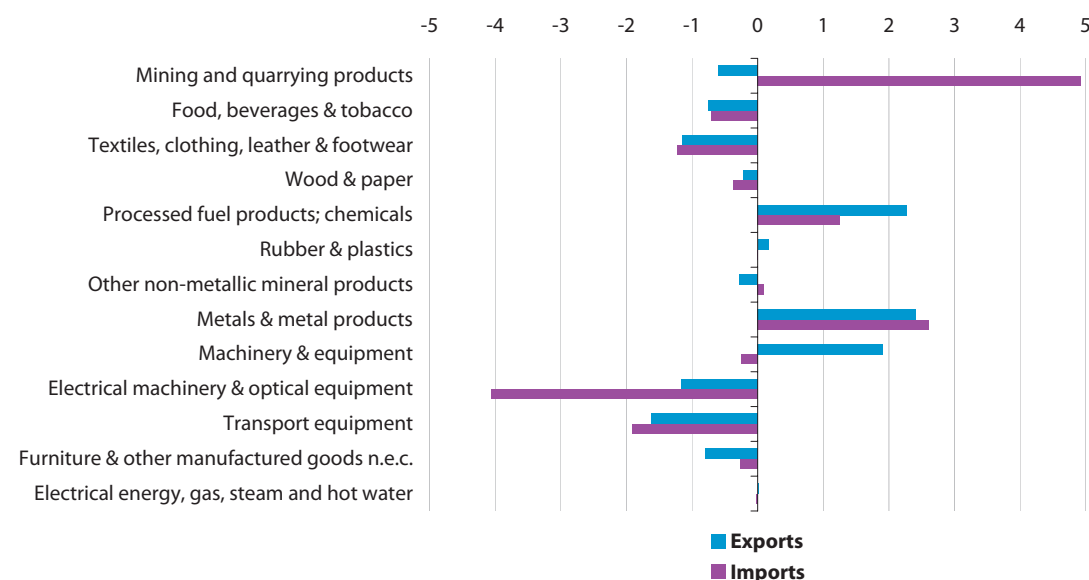
Many EU exporters face competition from producers in emerging economies, resulting in some EU producers trying to shift their output to higher value, specialist products. The majority of the EU-27's exports tend to be concentrated among medium-high technology products. Table 1.20 shows that there were four groups of products that together accounted for 70.5 % of EU-27 exports in 2007: processed fuel products and chemicals; electrical machinery and optical equipment; machinery and equipment; and transport equipment. Three of these groupings reported the highest EU-27 trade surpluses in 2007: namely, machinery and equipment (EUR 108.5 billion),

Table 1.20: Business economy overview
External trade flows, EU-27, 2007

Chapter	Exports (EUR million)	Imports (EUR million)	Cover ratio (%)	Balance (EUR million)	Share in EU-27 industrial exports (%)	Share in EU-27 industrial imports (%)
Industrial products	1 163 491	1 331 425	87.4	-167 935	100.0	100.0
2 Mining and quarrying products	20 001	293 763	6.8	-273 762	1.7	22.1
3 Food, beverages & tobacco	56 912	52 811	107.8	4 101	4.9	4.0
4 Textiles, clothing, leather & footwear	48 191	102 647	46.9	-54 456	4.1	7.7
5 Wood & paper	30 403	24 197	125.7	6 207	2.6	1.8
6 Processed fuel products; chemicals	235 104	177 278	132.6	57 827	20.2	13.3
7 Rubber & plastics	27 148	24 347	111.5	2 801	2.3	1.8
8 Other non-metallic mineral products	18 433	12 319	149.6	6 115	1.6	0.9
9 Metals & metal products	102 115	126 887	80.5	-24 772	8.8	9.5
10 Machinery & equipment	193 354	84 899	227.7	108 455	16.6	6.4
11 Electrical machinery & optical equipment	199 992	267 821	74.7	-67 829	17.2	20.1
12 Transport equipment	191 379	110 212	173.6	81 167	16.4	8.3
13 Furniture & other manufactured goods n.e.c.	31 506	47 153	66.8	-15 647	2.7	3.5
14 Electrical energy, gas, steam and hot water	2 363	3 068	77.0	-706	0.2	0.2

Source: Eurostat (Comext)

Figure 1.38: Business economy overview
Structural change of external trade, EU-27, 2002-2007
(percentage point change in share of industrial exports and imports)



Source: Eurostat (Comext)

Table 1.21: Business economy overview
External trade, industrial products, 2007

	Exports		Imports		Trade balance (EUR million)	Cover ratio (%)
	(EUR million)	Share of total (%)	(EUR million)	Share of total (%)		
BE	302 262	8.4	289 040	7.7	13 222	104.6
BG	12 763	0.4	20 882	0.6	-8 119	61.1
CZ	87 170	2.4	84 202	2.3	2 968	103.5
DK	67 863	1.9	67 635	1.8	229	100.3
DE	887 621	24.7	708 922	19.0	178 698	125.2
EE	7 419	0.2	10 382	0.3	-2 963	71.5
IE	83 891	2.3	55 965	1.5	27 926	149.9
EL	15 165	0.4	53 753	1.4	-38 588	28.2
ES	170 942	4.8	273 018	7.3	-102 075	62.6
FR	372 019	10.3	437 069	11.7	-65 051	85.1
IT	344 125	9.6	333 047	8.9	11 078	103.3
CY	719	0.0	6 060	0.2	-5 341	11.9
LV	5 379	0.1	10 354	0.3	-4 976	51.9
LT	11 624	0.3	17 042	0.5	-5 418	68.2
LU	15 839	0.4	18 760	0.5	-2 921	84.4
HU	60 444	1.7	61 053	1.6	-609	99.0
MT	2 196	0.1	3 335	0.1	-1 139	65.8
NL	338 409	9.4	311 209	8.3	27 200	108.7
AT	108 936	3.0	112 072	3.0	-3 137	97.2
PL	100 245	2.8	114 597	3.1	-14 352	87.5
PT	34 223	1.0	52 023	1.4	-17 800	65.8
RO	28 263	0.8	48 667	1.3	-20 404	58.1
SI	21 653	0.6	22 450	0.6	-796	96.5
SK	41 225	1.1	42 918	1.1	-1 693	96.1
FI	61 458	1.7	54 904	1.5	6 554	111.9
SE	115 965	3.2	106 292	2.8	9 673	109.1
UK	296 812	8.3	418 409	11.2	-121 597	70.9

Source: Eurostat (Comext)

transport equipment (EUR 81.2 billion) and processed fuel products and chemicals (EUR 57.8 billion).

Figure 1.38 presents information on the changing composition of industrial exports and imports for the EU-27. These relative shares reflect, to some degree, differences in prices between 2002 and 2007, as revealed by the growing share of EU-27 imports accounted for by mining and quarrying products, metals and metal products, and processed fuel products and chemicals. Increased prices of raw material imports may well be passed on by EU manufacturers, as the relative importance of downstream exports, such as metal products and processed fuel products and chemicals rose, their relative share of EU-27 industrial exports increasing by 4.7 percentage points between 2002 and 2007.

On the other hand, falling prices were also evident for products such as textiles, clothing,

leather and footwear, and hence, despite considerable volume increases in imports, the overall share of these products in total EU-27 imports fell in value terms. In a similar vein, technology gains may result in falling prices for some products, such as electrical machinery and optical equipment – for example, a plasma or LCD television is considerably cheaper today than it was five years ago. As such, despite the volume of trade in these goods increasing, their share of total imports and exports in value terms fell too.

Trade by Member State

While external trade statistics relating to the EU-27 are presented by treating the EU as a single trading entity, and cover only trade flows between the EU and non-member countries, the external trade data reported for each of the Member States concerns both trade flows with non-member countries (extra-EU trade) and that with other Member States (hereafter referred to as intra-EU trade).

Table 1.22: Business economy overview

Three most specialised Member States, 2007 (% , specialisation relative to the EU-27)

Chapter	Exports			Imports		
	Most	Second	Third	Most	Second	Third
2 Mining & quarrying products	UK	Denmark	Belgium	Bulgaria	Lithuania	Finland
3 Food, beverages & tobacco	Denmark	Greece	Lithuania	Denmark	Malta	Cyprus
4 Textiles, clothing, leather & foot.	Romania	Bulgaria	Portugal	Romania	Bulgaria	Italy
5 Wood & paper	Finland	Latvia	Estonia	Denmark	Latvia	Estonia
6 Processed fuel products; chemicals	Ireland	Belgium	Greece	Belgium	Cyprus	Estonia
7 Rubber & plastics	Luxembourg	Poland	Czech Rep.	Czech Rep.	Romania	Poland
8 Other non-metallic mineral prod.	Portugal	Spain	Czech Rep.	Latvia	Cyprus	Malta
9 Metals & metal products	Bulgaria	Luxembourg	Greece	Slovenia	Luxembourg	Italy
10 Machinery & equipment	Italy	Germany	Austria	Romania	Austria	Denmark
11 Elec. machinery & optical equip.	Malta	Hungary	Luxembourg	Hungary	Malta	Luxembourg
12 Transport equipment	Spain	Slovakia	Germany	Spain	Slovenia	Slovakia
13 Furniture & other manuf. goods	Poland	Lithuania	Slovenia	UK	Cyprus	Denmark
14 Elec. energy, gas, steam, hot water	Bulgaria	Slovenia	Czech Rep.	Slovenia	Austria	Hungary

Source: Eurostat (Comext)

Germany recorded by far the largest trade surplus in industrial goods (EUR 178.7 billion) in 2007; with exports covering imports by 125.2 % (see Table 1.21). Much of the German trade surplus in industrial goods reflected the export performance of machinery and equipment and transport equipment, areas in which German manufacturers are particularly specialised. Ireland was the only Member State to report a cover ratio above that registered in Germany, as exports covered imports by 149.9 % in 2007, largely as a result of a relatively large trade surplus for basic chemicals and pharmaceuticals.

Spain and the United Kingdom recorded the largest trade deficits for industrial goods in 2007 (EUR 102.1 billion and EUR 121.6 billion), although Greece and Cyprus had by far the lowest cover ratios (28.2 % and 11.9 % respectively). It is important to remember that the data presented only refer to the external trade of industrial goods and countries such as Spain, Greece and Cyprus (tourism) or the United Kingdom (financial and business services) may have considerable net exports from various services.

Relative export and import specialisation ratios reflect, to some degree, the importance and size of domestic output in relation to international

and domestic demand. These specialisation ratios are defined in terms of the share of a country's exports (or imports) of a certain product in its total exports (or imports). The ratio for each country is then divided by the same ratio for the sum of the EU-27 Member States and expressed as a percentage; as such, any values over 100 % represent country-product pairings where the economy in question is relatively specialised in exporting (or importing).

Given most of the large Member States produce, export and import a wide range of products, it is more likely that specialisation ratios are high in relatively small countries or countries whose industrial activities are concentrated among relatively few activities – see Table 1.22. The main exception to this rule is the export of machinery and equipment (where Italy and Germany were the most specialised producers and exporters) and transport equipment products (where Spain and Germany were among the most specialised exporters). Although not always the case, there was often a relationship between countries specialised in producing and exporting certain products, for example, exports of textiles, clothing, leather and footwear products from Romania, Bulgaria and Portugal, or exports of wood and paper products from Finland, Latvia and Estonia.

