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**German machine tool industry still sees chances for growth**

**Stuttgart, 16 September 2014.** – In the first half of 2014, the German machine tool industry maintained its production output at the previous year’s high level of around 6.5 bn euros. “Thanks to healthy domestic demand, the sector has put up a valiant performance”, reports Dr. Wilfried Schäfer, Executive Director of the VDW (German Machine Tool Builders’ Association), speaking at the press lunch held at the AMB in Stuttgart (for which the VDW is the conceptual sponsor) on 16 September 2014. At the same time, he admits that the association’s forecast for production output, with a plus of 3 per cent, is appearing increasingly over-optimistic.

**Chances for growth are looking quite good**

Nonetheless, the VDW definitely sees grounds for optimism. Up to July, order bookings had risen by 7 per cent. Important momentum is coming from abroad. “For the year’s second half, we are expecting a reversal of roles between domestic and foreign demand”, says Schäfer. Domestic orders were in fact still rising overall in the year’s first half, by 18 per cent, while export orders were lightly down at minus 1 per cent. In the months of May to July, however, they were already down by 5 per cent, and in July they fell by 24 per cent, the first double-figure drop in a single month for eight months.

For export orders, the picture is reversed: they have been rising since May, from May to July they were 23 per cent up on the preceding year’s equivalent figure, and most recently, in July of this year, by an impressive 42 per cent. The growth consists partly of large-sized orders, but not exclusively. Rather, it is broadly based, and is also showing up in the figures for metal-cutting technology.

**America and Eastern Europe are the determinant factors in demand from abroad**

According to a survey commissioned by the VDW, it’s primarily orders from America and parts of Europe that are responsible for the upturn. The intensive re-industrialisation efforts in the USA and high capital investment by the automotive industry in the NAFTA nations of Mexico and Canada, and in Eastern Europe, have here ensured higher order volumes for “Made in Germany” production technology.

As expected, Russia exhibits a substantial fall in orders, with a minus of 40 per cent. Schäfer identifies the principal causes involved as rising prices for imports resulting from the rouble’s devaluation, the continuingly difficult financing situation, and the EU’s tighter regulations on exports of dual-use goods. The rise in European demand levels was thus only a slight one.

Business with Asia is also faltering: potent markets like China, South Korea and Thailand still ordered fewer machine tools in Germany during the year’s first half than in the preceding year’s equivalent period. Nonetheless, he continues, the VDW continues to pin high hopes on China, the biggest sales market for German machine tools. It’s true that the high double-figure growth rates in machine tool consumption and imports are presumptively a thing of the past, says Schäfer. However, he adds, Chinese companies need high-quality production technology for the quality enhancement thrust their politicians are demanding. “For German manufacturers to benefit from this, they have to stay on the ball and purposefully upgrade and expand their presence on this market”, emphasises Schäfer.

**International Purchasing Managers Index is stable**

The developments thus outlined show that the global economy has in no way been paralysed by pessimism. The international Purchasing Managers Index, an important early indicator for the business cycle’s trend, underpins this assertion. It is not as volatile, not as influenced by mood swings as the ifo Business Climate Index, because hard facts like orders and price developments, sales and capacity utilisation are also factored into the calculation. Globally, it has remained remarkably stable, despite the numerous trouble-spots around the planet. In some markets, like Japan, Korea or Brazil, the prognosis is improving. In the important lead market of the USA, the curve has even been rising steeply for some time now. Following a low point early this year, China has meanwhile recovered. Last month, however, was disappointing.

“The upcoming weeks and months will show whether international investment from the major customer sectors for the machine tool industry will increase, as forecast by economic pundits, and whether our sector can benefit from this”, said Schäfer in conclusion.

**Background**

The German machine tool industry ranks among the five largest sectors in the country’s mechanical engineering segment. It supplies production technologies for metalworking applications to all categories of manufacturer, and makes a crucial contribution towards progressing innovation and productivity in the industrial sector overall. Due to its absolutely key position for industrial production output, its development is also an important indicator for the economic vigour of the country’s industrial sector as a whole. In 2013, the German machine tool industry produced machines and services worth around 14.6 billion euros, and was employing about 71,000 people (annual average for 2013, firms with more than 20 staff). This corresponded to growth of 3 per cent.

Picture:

Dr. Wilfried Schäfer, Executive Director of the VDW (German Machine Tool Builders’ Association), Frankfurt am Main