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**German machine tool industry expects increased production output in 2015**

**Boosted by developments in the oil price and the euro exchange rate**

**Frankfurt am Main, 12 February 2015.** – The German machine tool industry is anticipating a three-per-cent rise in production output during 2015. “The low oil price and the fall in the euro’s exchange rate are invigorating capital investment and thus also increasing the demand for machine tools,” says Martin Kapp, Chairman of the VDW (German Machine Tool Builders’ Association), speaking at the organisation’s annual press conference in Frankfurt am Main.

Oxford Economics, the VDW’s forecasting partner, is predicting an improvement in the global business cycle during 2015. Firstly, this will benefit the major user sectors for machine tools. In Germany, the automotive industry and the mechanical engineering sector (who together buy about 70 per cent of machine tool production output) are each expecting growth in their own production volumes.

Secondly, pundits are forecasting a moderate global recovery in demand on a relatively broad base for 2015, driven primarily by America. Thanks to the ongoing process of re-industrialisation in the USA, the market is set to expand beyond its traditional drivers: the automotive and aircraft construction industries. Capital investment by the automotive industry, moreover, is underlining the particular importance of the NAFTA region. The result is high double-figure growth rates for machine tool orders in Germany.

European demand was hit painfully last year by developments in Russia. Nonetheless, orders from some nations of Eastern Europe are already showing rises in a medium-double-figure order of magnitude. In Italy, government subsidies for capital investment in the shape of reduced-rate loans have proven beneficial. Good business with Switzerland is owed to close entrepreneurial interweaving between German manufacturers and their Swiss subsidiaries. In 2015, a moderate recovery in European demand is expected.

This also applies to Asia. Thanks not least to China and Korea, machine tool consumption stabilised last year. So recently there has been a concomitant rise again in orders placed with German manufacturers.

“We are cautiously optimistic about the ongoing year, since the German machine tool industry is in good shape, as a vendor of production equipment for the entire world,” is Kapp’s summary. The sector is fully aware, though, he added, that the numerous crises around the globe continue to entail manifold risks, and that it is still waiting for clearer growth signals in many important markets.

**2014 saw the first decline in three years**

Last year, the German machine tool industry saw its production output fall for the first time in three years. With a minus of one per cent, production output came to 14.4 billion euros, the second-highest production figure that the sector has ever achieved.

Exports fell by three per cent to 8.9 billion euros. Inside the triad, deliveries to Europe came out best, with growth of 1 per cent. Both Asia and America performed less impressively. The export ratio, however, remained very high overall, at around 67 per cent.

Imports suffered less severely, rising by four per cent. Almost 70 per cent of imports come from Europe; Switzerland remains the most important supplier.

The order backlog, averaging 7.3 months over the whole of 2014, was slightly down on the preceding year’s figure. Capacity utilisation continued high, averaging 90.1 per cent over the year. Employment remained gratifyingly stable, with the workforce totalling 71,600 people. “We aim to offer highly skilled and optimally paid jobs, which we are well able to do. What’s more, we do not release our skilled employees in terms of fluctuating production output. The metalworkers’ labour union IG-Metall should bear this in mind, and refrain from inflated demands that do not accord with the reality of an uncertain business outlook with presumptively falling sales prices,” added Kapp.

**Germany remains the world champion exporter**

In the context of international competition, the sector has put up a very good performance. In its rivalry with the Japanese, it has retained its top ranking in exports, despite a decrease of five per cent (excluding parts and accessories), with a share of 21.2 per cent in global exports. The Japanese are benefiting from the weak yen, and have increased their exports by seven per cent when calculated in euros.

German manufacturers, with a share of 17.7 per cent, also rank among the Top Three of the world’s biggest producers, behind China and Japan. The Japanese achieved substantial growth, thanks not least to a high double-figure rise in their own machine tool consumption.

**Worries about the Russian market, opportunities through TTIP**

“The biggest currently discernible risk for our sector is our business with Russia,” says VDW Chairman Kapp. Russia is (or rather was), with a volume of 500 million euros and a share of currently 5.5 per cent, the third-largest market. Severe setbacks were already occurring in 2013, due to a marked weakness in growth, declining interest from investors, who were withdrawing their capital, rising interest rates, and finally the free-fall of the rouble. Since the beginning of 2013, its value against the euro has meanwhile halved. In the same time period, Russia’s industrial production output shrank. Orders for German machine tools fell to less than half the figure for 2013.

“It remains for us to hope that the ongoing negotiations for a political solution will soon meet with success,” says Kapp. Even then, he adds, it will take a long time before business has normalised, since the confidence and financing crises will take even longer to heal.

Machine tool manufacturers see major opportunities for business with the USA, by contrast, thanks to the prompt conclusion of the Transatlantic Trade and Investment Partnership (TTIP.) The focus here is on unrestricted market access at the same conditions as for domestic manufacturers. The harmonisation of technical standards, in particular, enables German firms, without any additional outlay, to offer their products a good 20 per cent cheaper on average. With a share of around ten per cent, the USA is the second-biggest market for the German machine tool industry.

**Self-regulation of energy-efficiency has to be mandatory in Europe**

German manufacturers score highly in the global competitive environment, thanks to their role as technology leaders. They are successful not least because they are selling maximised efficiency, and are contributing towards minimising waste of all kinds. Nonetheless, the European Commission wants to regulate the energy-efficiency of machine tools. For this purpose, the European industrial sector has proposed a self-regulatory initiative (SRI). Within the framework of the official consultation forum with the EU Commission, it was rated positively in mid-2014 as the only plausible option for regulation.

Self-regulation means that market monitoring will be handled by the sector itself. To ensure its continuing viability, 80 per cent of the market players concerned have to sign up to self-regulation. They are not, however, obligated to participate.

In order to achieve its goal, the association prefers what is called the third way. This provides for a statutory framework in which regulation is binding for all parties involved. The formulation and design of technical measures will then be delegated once more to the sector itself. The present EU Directive on eco-design already provides for corresponding “generic measures”. “Unfortunately, these have as yet not been seriously discussed by the Commission as an alternative to an actual ordinance or to self-regulation,” says a regretful Kapp. “However, we would like to see an open, result-driven dialogue, leading to a pragmatic, goal-focused mode of implementation.”