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PRESS RELEASE

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Machine tool industry expecting decline in production

Bureaucracy and skills shortages putting additional strain on businesses

Frankfurt am Main, Germany, 22 January 2024. – In 2024, the German machine tool industry is expecting production to decline by almost 3 percent to EUR 14.8 billion in nominal terms. "A nominal record volume of 17.0 billion euros was posted in 2018/2019, and five years later, there is still no sign of this figure being matched," said Franz-Xaver Bernhard, Chairman of the VDW (German Machine Tool Builders' Association), at the association's annual press conference in Frankfurt am Main, Germany, on Monday.

There has been a clear slowdown in orders since the beginning of last year, which is now having an increasing impact on sales and production. The considerable order backlog, representing around eleven months' work, had helped. However, nearly all supply bottlenecks have since been resolved, allowing the backlog to be worked through more quickly. Accordingly, orders on hand are less and less able to compensate for the lack of new orders. Overall, orders fell by 10 percent in nominal terms in 2023. The decline was partly offset by several months of stronger project business. Domestic demand fell by 14 percent, almost twice as much as foreign demand.

The global economy is unlikely to provide much impetus in 2024. The growth rates of both gross domestic product and investment are once again down on the previous year's levels. The international purchasing managers' index also highlights the weakness of the global economy in all key markets, particularly in the eurozone and Germany.

"In fact, we are currently seeing two divergent developments," reported Bernhard. Growth sectors such as electric vehicles, wind power, medical technology, aerospace and defense boosted the project business in particular, while the standard machine business performed more weakly. Small and medium-sized customers such as job shop businesses are uncertain about the future and are reluctant to invest. Machine purchases are also more difficult to finance due to higher interest rates. Companies that prepared for the transformation process at an early stage are therefore better able to weather the weak demand.

2023 ended with a good result overall

Last year, production is estimated to have risen by just under 8 percent in nominal terms, to EUR 15.2 billion. In real terms, this represents an increase of 2 percent due to inflation, which remained at a high average level over the year. Exports grew by 9 percent. The export ratio reached almost 70 percent. Exports were boosted by double-digit growth in America. Asia and Europe, on the other hand, only recorded single-digit increases. The US in particular saw extremely dynamic growth, driven above all by investment in climate protection and renewable energy. China, by contrast, experienced weak growth due to falling consumer demand and the ongoing difficulties in the real estate sector. India, on the other hand, enjoyed sharp upward growth.

At 5 percent, domestic sales did not increase quite as much. This is attributable in part to the weaker demand from domestic customers. Averaging out at 89.6 percent over the last year, companies had good capacity utilization and also took on more staff again. Around 66,600 women and men were employed in the sector at the end of 2023, 2.4 percent more than at the end of 2022.

Bureaucracy disproportionately impacting SMEs

A further cause of great concern to the industry – in addition to the general economic development – is the regulatory zeal of the German government and the EU administration. Bernhard cited the Supply Chain Duty of Care Act and the European Union's Corporate Sustainable Reporting Directive (CSRD) as "particularly egregious examples of bureaucratic monsters". "They are an additional burden on business and pose a disproportionate challenge to small and medium-sized companies in already difficult times. They fail to achieve their goals and the resulting costs are far too high," was his verdict.

Both laws include extensive documentation and reporting obligations regarding compliance with fair working conditions and environmental protection requirements in the supply chain. "Even if it were possible to create transparent supply chains, SMEs lack the power within the market to enforce the required standards in suppliers outside their own legal sphere of influence," Bernhard added. This is not to diminish the importance of respecting human rights and environmental aspects in economic activity. Simply addressing the issue raises awareness levels. "However, I firmly believe that it is the task of the government to ensure that the standards are effectively enforced," he demanded.

The lengthy licensing requirements for dual-use exports represent a further source of irritation, according to Bernhard. Applications that should be processed quickly by the relevant federal export office get caught up in the political process in Berlin. The committees involved in considering and granting individual approvals only meet once every three weeks or so, and experience has shown that each application is reviewed up to three times. During this time applicants receive no interim notification and are therefore not able to give their customers any reliable information. It often takes a very long time to process the applications, even for follow-up projects where the customer has already purchased approved machines, or in the case of orders from German subsidiaries. There is a risk of customers' cancelling if the machine tool manufacturer does not receive approval until six to eight or more months after the order has been placed and cannot start manufacturing the machines until then. The company's reputation also suffers. "Some companies have a not inconsiderable proportion of their turnover waiting for approval by the authorities," said Bernhard. His proposal to the government: "Hardly any applications are actually rejected – so it's not about questioning the procedures, simply about shortening the processing times. It would also make sense to look into the committees' meeting more frequently for a temporary period in order to ease the bottleneck.

Young talent campaign aimed at opening up apprenticeships to new target groups

The mechanical engineering sector is breaking new ground in the fight against skills shortages. The Youth Education and Development Foundation for Mechanical Engineering is aiming to attract additional target groups into "dual" training with its young talent campaign. The aim is to provide extra support for young people as they go through the school-career transition system. In 2022, there were officially 240,000 students in vocational colleges. There, depending on their status, they can take their school-leaving exams, make their first contacts with employers or complete state-approved vocational training. This is not a substitute for dual training.

The Youth Education and Development Foundation for Mechanical Engineering is therefore launching a project in North Rhine-Westphalia this year to introduce pupils in the transition system to metalworking occupations. The project includes advising companies on all issues relating to training and to the creation of an innovative trainee recruitment system, coaching young people in the transitional vocational college system with regard to careers in the metal industry and matching them with companies that provide such training. In addition, the young people's professional, personal and social skills are honed in workshops in order to prepare them as well as possible for the apprenticeship itself and to prevent them from dropping out at a later stage.

"The main focus of education policy should be on investing more in careers guidance, optimizing the transition from school to work and providing intensive coaching for pupils so that they can join regular apprenticeship schemes. Instead, the Youth Education and Development Foundation for Mechanical Engineering states that funding programs for downstream projects are being cut," says the VDW Chairman. "In the long term, and in light of the skills shortages, we as a society cannot afford to have such a large number of people with no vocational training. We are therefore delighted at the great interest being shown by companies and vocational colleges in our initiative," concluded Bernhard.

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