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**German machine tool industry in strong position despite current challenges**

**Major decline in production expected in 2025**

**Frankfurt am Main, 20 January 2025.** – "The German machine tool industry considers itself to be in a very strong position among the international competition, despite the numerous challenges," reports Franz-Xaver Bernhard, Chairman of the VDW (German Machine Tool Builders' Association), Frankfurt am Main, at the association's annual press conference.

For decades now, German manufacturers have been leading the field in terms of production and exports. In 2024, they ranked second behind China in production and tied with China for first place in exports. Even in these challenging times, they are continuing to invest around 3 percent of turnover in research and development. Available to take part in joint research projects is a large pool of top experts working at more than 50 internationally renowned research institutes within German universities. The highly trained and highly motivated employees are a further key factor behind the sector's development. By November 2024, the sector had expanded its workforce slightly to around 65,300 employees. "This allows the companies to respond flexibly to any fluctuations in demand. It is a solution which has proven effective time and again in previous economic downturns," says Bernhard, summing up.

**Call for bold reforms**

Nevertheless, the companies need support from the government. The new government must waste no time in setting the course after the federal elections at the end of February and put forward an effective roadmap for stronger economic growth, demands the VDW Chairman. Top priorities must include reducing bureaucracy, driving forward digitalization, lowering energy costs and taxes, improving education and overhauling the infrastructure. "The Supply Chain Duty of Care Act, the Corporate Social Responsibility Directive (CSRD), the Cyber Resilience Act and the European Deforestation Regulation to name but a handful are putting unbearable pressure on companies," says Bernhard, describing the situation. Depending on the size of the company, they have to spend between 1 and 3 percent of their turnover on documentation – money that is then not available for investment.

**Decline in production expected in 2025**

The crisis in the automotive industry and the uncertainties in the two major customer markets, the US and China, are weighing heavily on the sector. Consumption of machine tools fell by 18 percent in 2024 in Europe, the main consumer market. The two largest markets, Germany and Italy, lost 12 percent and 28 percent respectively. China stagnated, the US market shrank by 7 percent.

According to estimates by Oxford Economics, VDW's forecasting partner, 2024 saw a 4 percent fall in the production of machine tools in Germany to around EUR 14.8 billion. A year earlier, however, the industry had posted a sizable 9 percent increase in production in Germany to EUR 15.4 billion. In addition, output at the sector’s foreign production sites grew disproportionately by 13 percent to EUR 3.8 billion. This accounted for a quarter of the global machine production by German manufacturers.

Exports had fallen 5 percent by October 2024. Within the Triad, Europe declined most sharply, by 16 percent. America, on the other hand, was clearly the main driving force, increasing by 17 percent. After a long time in second position, the US overtook China as the most important sales market, growing by a fifth. By contrast, exports to China, the second largest customer, fell by 12 percent. India is now the sixth largest sales market. Exports rose by a sizable 36 percent. Thanks in part to the strong export business with South Korea, Asia remained almost unchanged at the previous year's level.

The general economic climate is expected to improve slightly in 2025 with falling interest rates, normalization of inflation and a revival of private consumption. Incoming orders, an early indicator of future developments, fell significantly last year, having dropped 22 percent by November. However, most recently there have been signs that the slump could be bottoming out. Domestic sales fell by a tenth, while foreign sales were down by 27 percent, almost three times as much. The decline is spread across the entire Triad.

Even if the demand for machine tools stabilizes and there is a slight improvement in the general economic climate, production is set to decline significantly. The VDW is expecting production to decrease by 10 percent to EUR 13.3 billion.

**Potential in diversification of markets and customer sectors**

Around half of German exports go to the country’s European neighbors. Europe’s 450 million consumers enjoy considerable purchasing power, meaning that the continent remains a relevant and attractive sales market which is poised to see recovery in industrial investment. The German manufacturers are well established, have a very good reputation and benefit from the close geographical proximity to their customers. "We should seek to exploit this potential even more effectively in the future," recommends the VDW Chairman.

The EU Commission is keen to support the development of competitive industries in the digital sector, for example. The main priority is on the development of a circular and crisis-proof economy that prioritizes research and innovation. Production is to be stimulated by investment in the modernization and replacement of equipment.

Investment activity within Europe is broadly diversified. The aviation and defense industries in the UK, France and Germany are investing particularly dynamically. Spain, Italy and Portugal are investing heavily in the expansion of solar energy and in hydrogen and battery production. Wind energy dominates in Scandinavia, the UK and the Netherlands. Further tax credits for investments in industry are expected in Italy. Demand is therefore expected to revive somewhat in the current year.

The shortage of skilled workers and the resulting importance of raising productivity are driving investment in engineering. The automotive industry and its suppliers in Eastern Europe in particular are currently benefiting from the rise of electric vehicles. International OEMs are building up capacities in Poland, Hungary, Romania and Slovakia. Eastern Europe is particularly attractive as an industrial location due to the lower wage levels and the plentiful availability of labor. As a result, there is growing demand for manufacturing technology.

**US and China remain important markets**

The US is the largest customer market, accounting for a share of roughly one fifth. Exports have increased by over 30 percent in the past two years. The US is attracting investment with lower energy prices and taxes, with less bureaucracy, and with spending programs such as the Inflation Reduction and Chips acts. These moves will intensify further under Trump’s new *America first* administration. German manufacturers stand to benefit because they offer a broad range of services and technologies that are not produced locally but are urgently needed for reindustrialization. A number of German manufacturers already have production facilities in the US and would not be affected by the threatened tariffs.

The main factors behind the current slump in demand from the second largest market, China, which accounts for 16 percent of the German exports, are overcapacity in industry, deflation, consumer restraint and falling investment in traditional industries. As a consequence, the primary focus has now shifted to electric vehicles, wind power and solar energy. The Chinese government has launched a “Large Scale Equipment Renewal Plan”. Favorable loans and subsidies are available for the modernization of industrial equipment. This includes the replacement of machine tools that are more than ten years old. Together with economic measures aimed at boosting consumption, this could help revitalize sales again this year in China. The country is the largest foreign production location for German manufacturers. "But German manufacturers now need to secure and expand their technological lead through consistent innovation," says VDW Chairman Bernhard.

A trade war between the US and China could cause major upheaval, which would affect the entire global economy. In principle, stronger protectionism involving higher import tariffs would also affect European and German industry and therefore our customers, points out the VDW Chairman, concerned.

**Potential markets**

India has long been seen as a market with great future potential. German machine tool exports have grown very strongly by over 60 percent in the past two years. The largest industrial sector in particular – metal production and processing – is planning to invest heavily in its own expansion by 2030. The automotive industry is also developing. India is now the fourth largest manufacturing country in the world. Engineering is a major customer sector there, too. Food and packaging machinery, construction and mining machinery, power plant technology and plastics machinery are the main products manufactured in the country. The Indian energy industry is also prioritizing renewable energy.

The smaller markets of Southeast Asia – including Thailand, Malaysia, Vietnam and Indonesia – also offer potential. They only account for around 1.5 percent of German exports, however increased effort is still worthwhile here as international corporations are investing more heavily in these countries, in part as alternative locations to China. This is increasing the demand for higher-quality, state-of-the-art production technology. Nevertheless, there is fierce competition from Japan, China and other Asian manufacturers in their home region.

**New customers need new solutions**

The transformation in the automotive industry away from combustion engines to electric drives is currently undergoing a very bumpy phase. This in turn is motivating the machine tool manufacturers to move into other customer sectors. “However, it was always known that the transformation would require structural changes on the part of suppliers and equipment manufacturers," Bernhard says. Accordingly, the machine tool sector has already reduced its proportion of deliveries to the automotive and supplier industry. The 2023 VDW customer structure survey revealed that 27.2 percent of production went to the automotive industry, down from 31.1 percent two years earlier. Engineering is now the most important customer, accounting for 30.1 percent.

Other sectors are also gaining in importance and new business areas are developing. The aviation sector is investing in more fuel-efficient fleets. Medical technology is playing an increasingly important role in our ageing society. The energy transition is leading to investment in wind power, solar energy, hydrogen technology, carbon capture and storage and heat pumps. Spending on defense and armaments will continue to rise in Western countries as a result of Russia's war of aggression in Ukraine. And the electronics industry is being boosted by the sharp increase in digitalization and networking, for example with the production of ultra-modern chips and the expansion of server farms. Diversification into new customer groups makes it necessary to adapt the range of solutions offered. This is where the companies can play to their strengths. Key drivers of modern production technology are automation and digitalization, but further factors include labor shortages and sustainability.

“Industry in Germany and Europe continues to face major challenges. But our companies are already responding. I have no worries on this score," concludes Bernhard.

**Background**

The German machine tool industry ranks among the five largest specialist groupings in the mechanical engineering sector. It provides production technology for metalworking applications in all branches of industry and makes a crucial contribution towards innovation and enhanced productivity in the industrial sector as a whole. Due to its absolutely key role for industrial production, its development is an important indicator for the economic dynamism of the industrial sector as such. In 2024, with an average of 65,300 employees (firms with more than 50 staff), the sector produced machines and services worth around 14.8 billion euros.

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