**Check against delivery**

**The German Machine Tool Industry is**

* **strongly positioned among the international competition**
* **calling for bold structural reforms**
* **expecting a significant decline in production in 2025**
* **creating new opportunities by diversifying its markets and customer industries**

**Statement by Franz-Xaver Bernhard, Chairman of the VDW (German Machine Tool Builders' Association), at the annual press conference on 20 January 2025**

Ladies and Gentlemen

Welcome to the VDW annual press conference. Welcome to those of you in the room here, and to those of you out there at your computer screens. I wish you all every success and the best of health in this New Year. We are delighted to note your interest in discussing with us today the current state of the German machine tool industry within the international context.

Machine tools are the basis of all industrial production. And that means that our products are used in almost all industries. There is strong demand for modern, high-performance *Made in Germany* machine tools, particularly in view of the transformations currently taking place in such areas as electric transport, energy and sustainability. They can be used for a variety of purposes, including for new products and applications. They offer superior energy and material efficiency, conserve raw materials thanks to their long service life, and are designed to be recyclable. German manufacturers have held a leading position among the international competition for decades. According to preliminary estimates by the VDW, they were ranked second behind China in production in 2024. They also tied with China for first place in exports. The German manufacturers have retained all their innovativity, creativity and flexibility – even in the face of the current downturn in demand and the challenges posed by the structural transition. All these aspects will once again be on impressive display at the EMO in Hanover from September 22 to 26 this year.

The field of research and development represents a key factor behind the success of the German manufacturers. In terms of technology, it has put the sector at the forefront. The companies spend around 3 percent of their turnover on R&D each year, a figure which has remained relatively stable even in difficult times. A further key success factor is the close partnership with production researchers. There are numerous top experts working for over 50 internationally renowned research institutes at German universities. These are available to collaborate with the companies on joint research projects.

Another advantage which Germany enjoys is the availability of well-trained and highly motivated employees. Machine tool manufacturers are holding on to their workforces despite the current economic challenges. The average employment levels in the sector rose slightly by 0.5 percent between January and October 2024, to around 65,300 employees in Germany.

This will allow companies to respond flexibly to fluctuations in demand, and give them a clear advantage as soon as demand picks up again. This has been proven time and again in previous economic downturns. We believe that this puts not only the numerous small and medium-sized companies but also the major players which make up the sector in a very strong position to compete internationally.

**Reducing bureaucracy is the top priority**

It is now up to the government to step up and fulfill its primary task of strengthening Germany’s position as an industrial location. That is why we are once again calling for the new government to waste no time in drawing up an effective roadmap for achieving stronger economic growth after the Bundestag elections on February 23. We simply cannot afford to lose any more time.

It is crucial that bold steps are taken to tackle the necessary reforms in various areas such as the energy transition, the social systems, taxes and infrastructure. What are needed are a fresh start and a willingness to take action.

In our view, the top priority must be cutting back the excessive bureaucracy and the extensive documentation requirements. Over the last year, we have highlighted in detail just what the Supply Chain Duty of Care Act and the Corporate Social Responsibility Directive (CSRD) require of SMEs on a regular basis. Looming on the horizon are the Cyber Resilience Act and the European Deforestation Regulation. Two years ago, the “Impuls-Stiftung des Maschinenbaus” engineering foundation conducted case studies and discovered that the bureaucratic workload amounts to between one and three percent of turnover, depending on the size of the company. This puts pressure on the industry's profit margins. It means that money and manpower are channeled elsewhere.

Despite the numerous commitments made at the federal and EU levels, there has been no real progress. Alongside streamlining the requirements, it is also important to digitalize and simplify the administrative processes so that the data can at least be delivered efficiently. Inefficiencies in the system are holding down investment, not only because money is being tied up, but also because companies will always seek to avoid bureaucracy and are choosing to invest abroad instead. These were the findings of a study conducted by the ifo Institute in 2024 on behalf of the Foundation for Family Businesses.

Compared internationally, the excessive tax burden and the high energy and non-wage labor costs represent further obstacles for the domestic industry. Added to this are the crumbling infrastructure and the difficulties involved in recruiting skilled workers. Finally, uncertainty surrounding the processes involved in transforming the automotive industry, the energy supply and climate protection is also holding companies back. The guidelines issued by the government are too unreliable and in some cases inconsistent, and the message is often poorly communicated.

**Sluggish international demand**

In addition to the domestic hurdles, the crisis in the automotive industry and the uncertainties in the two major customer markets, the US and China, are also weighing on the sector. The effects are clearly visible. Consumption of machine tools fell by 18 percent in 2024 in Europe, the main consumer market. China stagnated and the US market shrank by 7 percent. Within Europe, the two largest markets – Germany and Italy – lost 12 percent and 28 percent respectively.

According to estimates by our forecasting partner Oxford Economics, 2024 will have seen a 4 percent fall in the production of machine tools in Germany to around EUR 14.8 billion. Just a year earlier, the sector had posted a sizable 9 percent increase in its production in Germany to EUR 15.4 billion. Output even grew by a disproportionate 13 percent in the sector’s foreign production facilities to EUR 3.8 billion. This accounted for a quarter of the global machine production by German manufacturers. Intensifying trade conflicts mean that the policy of *local for local* is now gaining traction.

German exports had fallen 5 percent by October 2024. Within the Triad, Europe showed the sharpest decline: 16 percent. This applies to almost all important markets, but especially Italy, which has long been supported by high subsidies. America, on the other hand, represented a strong 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. In addition to the US, India is also proving to be a significant growth market. Exports to what is now the sixth-largest sales market rose by an impressive 36 percent. Thanks in part to the strong export business with South Korea, Asia remained almost unchanged at the previous year's level.

**Further decline in production expected in 2025**

The overall economic climate is expected to recover slightly in 2025, according to forecasts by economic researchers. Falling interest rates and the return of inflation to normal levels are contributing to the improvement. In addition, the latest wage settlements point to a potential revival in 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.

**Renaissance of the home European market**

What can be done? Manufacturers would be well advised to diversify their markets and customer sectors. Here it is worth taking a look at our largest market, Europe. Around half of Germany’s exports go to its neighbors in Europe. We are well established here, enjoy a good reputation and close geographical proximity to our customers. We should seek to exploit this potential even more in the future.

The main focuses of the EU Commission’s latest strategy paper are on sustainable prosperity and the competitiveness of the economy. The establishment of competitive industries, for example in the digital sector, and the development of a circular and crisis-proof economy that prioritizes research and innovation would encourage investment. European industry needs to modernize and replace old equipment, which requires the purchase of new production equipment.

Investment activity within Europe is broadly diversified. The aviation and defense industries in the UK, France and Germany are investing particularly dynamically. There is especially strong investment in the expansion of solar energy in Spain and Italy. Wind energy dominates in Scandinavia, the UK and the Netherlands. 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. Spain and Portugal are attracting investment in hydrogen technology and battery production. In Germany, a chip cluster has developed in Dresden, and the manufacturer ASML is producing systems for the production of state-of-the-art chips in the Netherlands. Machine tools are in demand in all these value chains.

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. Further tax credits for investments in industry are expected in Italy. Demand is therefore expected to revive somewhat in the current year. Spain is enjoying stronger growth than the European average and is promoting the expansion of electric vehicles and renewable energy. Finally, France is supporting investment in strategic industries, particularly electronics and aviation.

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.

**US offers opportunities and risks**

We continue to see good opportunities in the US. It is our largest customer, accounting for around one fifth of exports. 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 technologies that are not produced locally but that are urgently needed for reindustrialization. A number of German manufacturers already have production facilities in the US and will therefore not be affected by the threatened tariffs. The *local for local* policy will thus offer advantages here, too.

However, a trade war between the US and China could cause major upheaval which would affect the entire global economy. Greater protectionism with generally higher import tariffs would also impact European and German industry and therefore our customers.

**China in transition**

The main factors behind the current slump in demand from our second largest market, China, which accounts for 16 percent of German exports, are overcapacity in industry, deflation, consumer restraint and falling investment in traditional industries. In contrast, the focus is now shifting to new technologies such as electric vehicles, wind power and solar energy. The Chinese government has also drawn up a *Large Scale Equipment Renewal Plan*. Favorable loans and subsidies are available for the modernization of industrial equipment, aimed at strengthening the country’s competitiveness and sustainability. This includes the replacement of machine tools that are more than ten years old. The provinces are set to implement the plan regionally, but few details are yet known. Together with economic measures aimed at boosting consumption, this could help revitalize sales this year in China. However, the Chinese are seeking to become less dependent on imports, meaning that domestic Chinese machine tool manufacturers will certainly benefit more. The country is the largest foreign production location for German manufacturers. At the same time, it is crucial to keep an eye on the growing competition from China, which is catching up both in its own and in other national markets. German manufacturers now need to secure and expand their technological lead through consistent innovation.

**Potential markets**

There are significant opportunities, above all in India. The country has long been seen as a market with great future potential. Efforts to develop the Indian economy and industry are beginning to bear fruit, and it is now seeing increasing investment by international companies. Indeed, German machine tool exports have seen very strong growth of over 60 percent in the past two years. This puts India in 6th place among our key customer markets. The largest economic 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 plays an important role as a customer sector. 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, yet it is still worth Germany stepping up its efforts there, as they play a more important role in the global market for machine tools. International corporations are investing more heavily in these countries, partly as alternative locations to China, and the local industry is continuing to develop. 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. The VDW has already held symposia under the banner of "Machine tools from Germany" in all these countries and showcased the expertise of our manufacturers to local audiences, most recently in Malaysia in 2024.

There have also been developments in the Maghreb countries. However, these only offer medium-term prospects. The German-Moroccan Chamber of Commerce, for example, calculates that there are already around 300 branches of German companies in Morocco. These employ a combined workforce of 35,000. Ten German companies have announced intentions to establish or open new branches there in 2024. These include automotive suppliers and component manufacturers from the engineering sector.

**Focus on medical technology and aviation**

The automotive industry’s transformation away from combustion engines towards electric drives is currently undergoing a very bumpy phase. This in turn is causing considerable problems for machine tool manufacturers. However, it was always known that the transformation would require structural changes on the part of suppliers and equipment manufacturers. The machine tool industry has already reduced the proportion of its 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.

Diversification into new customer groups makes it necessary to adapt the range of solutions offered. This is where our companies can play to their strengths. Other sectors are gaining in importance and new business areas are developing. The aviation industry 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. Key drivers of modern production technology are automation and digitalization, but further factors include labor shortages and sustainability.

Ladies and Gentlemen, industry in Germany and Europe continues to face major challenges. But our companies are already responding. I have no worries on this score. We have always come out on top here, even in difficult times

Thank you very much.