

PRESS RELEASE

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German machine tool industry focuses on diversification and technological leadership

Industry calls for economic policy reforms – with speed and clear priorities

Frankfurt am Main, January 19, 2026. – After two years of decline, the German machine tool industry expects production to grow by 1 percent to 13.7 billion euro in 2026. “The fundamental basis for this is the expected recovery of domestic demand,” says Franz-Xaver Bernhard, Chairman of the VDW (German Machine Tool Builders' Association), explaining the forecast at the annual press conference. In 2025, investments were stifled by high costs, insufficient planning security and the absence of economic reform to revitalize Germany as a manufacturing location. In the current year, positive effects are expected from the so-called “special assets” of the German federal government, which have been set up for investments in infrastructure, defense, climate protection, digitalization and mobility, and could provide at least a small boost.

By 2025, production had fallen by 8 percent. Compared to the highest result in 2018, the difference is thus one-fifth. Adjusted for price, the gap is actually 35 percent. The decline affects both exports and domestic sales equally. Exports were in decline in all regions of the world. Only a few of the top 15 foreign markets were able to grow.

China on the fast track internationally

“We are very concerned about competition from China,” says Bernhard. As expected, China has massively boosted their machine tool exports by 18 percent in accordance with its government's strategy. The development was reinforced by weakness in domestic demand. As a result, German manufacturers had to relinquish their international leadership position in exports to China. The country is dramatically increasing its position in the ASEAN region, in Brazil, the Middle East and in North Africa. Exports to some EU countries are continuing to increase, for example to Germany, Poland and Italy, even though the total imports of these countries have actually declined somewhat in recent years.

“Not good news,” states Bernhard. “However, we are making intensive use of all options available to us to adapt to structural change,” he says. Unfortunately, this ultimately also requires capacity adjustments. Up until October 2025, the workforce in corporations with more than 50 employees dropped, compared to the previous year, by 3.9 percent to 63,300 men and women.

In order for the industry to regain momentum, it must exhaust all available options. In addition to capacity adjustments, these include foreign production, market diversification, expansion of technological leadership, intensification of research activities, and recruitment of excellent employees.

***Local for local* is becoming increasingly important**

Twelve of the largest machine tool manufacturers are now producing abroad. Their foreign production accounts for a good fifth of total German machine tool production. 45 percent are generated in Europe, 32 percent in China and 20 percent in the USA. It compensates for declining exports to important markets and stabilizes the overall results of companies. “Companies that recognize this have a better chance of participating more strongly in local market growth despite existing trade barriers and also realizing cost advantages,” says Bernhard.

Diversification of sales markets – Focus on Europe

In 2025, German exports to its largest markets declined sharply due to US tariffs and falling imports to China. The top sales region of the German manufacturers is the European home market, which accounts for around half of the exports. Add the German market to this and more than 60 percent of the machine tool sales are realized in the region. Customer sectors such as defense, aircraft construction, electronics, energy or medical engineering hold a great deal of promise. The expansion and consolidation of critical infrastructure for batteries and chips, for establishing hydrogen technology, digitalization and for building data centers are freeing up investments in Europe. These will not be able to surpass the automotive industry in its importance, but they will soften the pressure of the transformation.

Strengthening technological leadership

With an international export share of 17 percent, Germany plays an important global role, despite the drop in exports last year. “The industry owes its position as the second most important supplier worldwide, with a 17 percent share, to its technological leadership,” says Bernhard. Time and time again, corporations succeed in meeting customer requirements. This includes both individual machines and complete systems. Innovative products and many world firsts are created. Innovations are currently being advanced by automation, productivity and increased efficiency in the use of materials and energy, digitalization and artificial intelligence in production. “Here we can benefit from our many years of experience, because we know how to make the most of high-tech, and because we have access to excellent scientific resources. And moreover, we also offer sophisticated service and retrofitting. Both are gaining in importance as less is invested in new machines,” Bernhard is convinced. Topics such as e-mobility, digital transformation, and artificial intelligence offer opportunities.

Further enhancing research and development

German technological leadership is based on the high intensity of corporate research and development. The R&D rate in mechanical engineering is

more than 4 percent of revenue. 15 percent of revenue is generated by product innovations. Internationally, German patent applications rank fourth.

The Research Allowance has given a significant boost to research activities in mechanical and plant engineering. It allows tax depreciation, especially for small and medium-size corporations, and is a very good example of the progress that can be made with the right general conditions. “The Research Allowance could be further improved by making access to it simpler and less bureaucratic and paying out approved funds more quickly,” demands Bernhard. Machinery manufacturers still perform more than four fifths of their research and development activities in their home country. However, larger corporations in particular are relocating some of this abroad together with production. “This is something we must prevent,” says Bernhard.

Motivating future specialists – Making the labor market more flexible

The machine tool industry lives from and works with highly qualified personnel. This is an important basis for our technological leadership and remains one of the key locational advantages in this country. The long-term tasks of our corporations include communicating the attractiveness of the sector on all available channels and providing modern training and attractive workplaces. Regardless of the current reduction in the workforce, the need for specialists will remain high in the medium term. Labor market reforms would help us retain jobs and boost the recovery. “I am thinking of capping social expenditure, extending and making working hours more flexible, raising the retirement age, and the debureaucratization of labor law,” says Bernhard, describing the necessary steps. The time has come for the social partners to discard the friend-foe logic and to pull together to secure and expand employment. “That should be the overriding interest of both social partners,” says Bernhard.

Qualifying engineers

Small and medium-size machinery manufacturers in particular will remain reliant on engineers to maintain technological leadership in the future. Over 60 percent of the corporations questioned in the latest engineers’ survey by

the VDMA stated that they intend to keep their numbers stable or even to increase them. Artificial intelligence will not change that either. “Improved education and training have long been demanded by the mechanical engineering industry,” says Bernhard. This includes, for instance, the introduction of minimum standards and quality in the education system, the introduction of Technology as a compulsory subject in schools and the rapid realization of the so-called “Digital Pact”.

Reforms with speed and clear priorities

“The German machine tool industry is facing challenges on many fronts in international competition,” summarized VDW Chairman Bernhard. The industry works intensively on areas of activity over which it has influence. The government can and must finally take countermeasures against the own home-made location problems. “Small and medium-sized enterprises are committed to this location because they cannot easily relocate their activities abroad. That's why we expect economic policy reforms that encourage growth and investment here, in this country. We expect clearly defined priorities, and above all we expect a certain urgency,” concludes Bernhard.

Background

The German machine tool industry ranks sixth among the largest branches of mechanical engineering. It supplies production technology for metal working in all branches of industry and makes an important contribution towards innovation and increased productivity in industry. Due to its absolute key role in industrial production, its development is an important indicator of the economic dynamism of the entire industry. In 2025, approximately 64,500 employees in the industry (companies with more than 50 employees) produced machines and services to the value of around 13.6 billion euro.

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