

Press release

For business desks
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Commerzbank: Mechanical engineering with clear growth in production in 2017 and 2018

- **New mechanical engineering sector report: Production up by considerably more than 2 per cent in the current year and also in 2018, EBIT margin constant at around 5 per cent**
- **Opportunities: Advancing industrialisation in threshold countries boosts demand for German machinery, in particular in the high-tech segment; focus on sophisticated system solutions; expansion of mid-tech production and after-sales services**
- **Risk: Protectionist tendencies endangering market growth**
- **Forerunner role in the introduction of Industry 4.0 solutions**

A report from Commerzbank shows the end of the sideways movement. In the current year, the German mechanical engineering sector has seen a noticeable surge, this comes after production in the sector was, on average, stagnating in 2016. The expected growth of 2 per cent in production for 2017 is likely to be surpassed quite easily. Forecasts show that production is set to increase by more than 2 per cent in 2018. This is due to the robust economic development both in Germany and worldwide, as well as a rise in investment activity in plant and equipment by companies. The average EBIT margin for the sector will remain more or less constant at 5.1 per cent for 2017 as well as 2018, with total sales in the sector improving by a good 3 per cent in 2018. Against the background of increasing industrialisation, demand for products from German engineering firms will also be seen from China and other developing countries in the future. "The business climate in the German mechanical engineering sector is more stable than it has been for the past five years. Despite more intensive competition, current capacity utilisation is higher than 85 per cent," says Dr. Alexander Mann, Sector Head Industrials at Commerzbank.

The majority of German engineering firms are providers of technically complex and highly specialised system solutions. These are usually non-publicly-listed companies ("hidden champions") and – thanks to their focus on niches, technological benefits and innovative strengths – are very often global market leaders in their segments. Moreover, the sector is innovative; current spending on innovation amounts to approximately €15.5 billion. The implementation of Industry 4.0 solutions is regarded as the core task in many companies at present as this will ultimately also lead to an improvement in revenues. The development of after-sales services will also allow companies to expand their business models.

Competition in the segment formed by less sophisticated machinery (the so-called mid-tech segment) is constantly increasing, in particular in eastern Asia. “Nevertheless it can be quite lucrative for German producers to expand their commitment in the mid-tech segment. They will have to lower production costs and use the superior know-how that many of their competitors in the low-tech sector do not have yet,” says Dr. Alexander Mann. “Making market-entry into the mid-tech sector more difficult for new competitors and helping to defend their market share.”

In addition to the machine construction sector the vehicle construction, metal production and building industries are important markets for the sector. According to VDMA, the bulk of exports in 2016, approximately 47 per cent, went to member states of the European Union. The largest single consumer in the eurozone to date has been France, with just less than 7 per cent, followed by the United Kingdom and Italy, with nearly 5 per cent, and Austria and the Netherlands, each with 4 per cent. More than 10 per cent of exports go to the USA, followed by China with a little over 9 per cent.

As a heavily export-oriented branch of industry, the German mechanical engineering sector is heavily dependent on the global economy, forecasts for 2017 indicate a more moderate growth of 3.4 per cent.. In 2017 the export share of mechanical engineering amounts to more than 60 per cent of sales by German firms. Production at locations outside of Germany is increasingly making an additional contribution to the significance of foreign trading by German mechanical engineering firms. “International locations are key to the growth strategy being adopted by the engineering and plant construction sector,” emphasises Dr. Ralph Wiechers, a member of the management of VDMA Frankfurt and its senior economist. “The number of personnel in mechanical engineering firms abroad with German participation is already around 400,000.”

Alongside the general uncertainty surrounding the global economy, which has an impact on the engineering sector, there are also the effects of an upsurge in protectionist tendencies, the uncertain development of the Brexit negotiations, and the numerous political flashpoints such as Syria, North Korea and the east Ukraine. However, while the consequences of Brexit could become noticeable for the sector, a greater effect may be felt from protectionist measures from the new US government.

The mechanical engineering sector is Germany’s most important branch of industry, by the number of employees. Approximately 1.03 million people are employed in more than 6,000 companies, of which nearly two thirds employ fewer than 100 staff – meaning the sector is largely dominated by SMEs. A mere 6 per cent of the companies have 500 or more employees. These large-scale firms generate more than 50 per cent of sales in the sector, which in 2016 amounted to approximately €228 billion, up 1.8 per cent on the previous year. With a share of 10 per cent, Germany is the world’s third-largest market for mechanical engineering products, after China (38 per cent) and the USA (14 per cent). On the global market German mechanical engineering firms play an important role in virtually every area of the sector, occupying leading

positions in 14 sub-sectors – such as drive systems and materials handling equipment, machine tools and agricultural engineering the companies.

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About Commerzbank

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