

# Industry trends

## Machines/Engineering

**Growth slows amid subdued demand; opportunities will come from green and digital transitions**



### Global overview

Global mechanical engineering output growth will slow down from 3% in 2022 to 1% in 2023, mainly due to subdued demand in advanced markets. Tighter financing conditions and increased borrowing costs are having a negative effect on capital expenditure, in particular in major buyer industries like construction and transport. Both sectors are highly cyclical and sensitive to financing costs.

Backlogs of orders built up during the height of the pandemic should provide short-term support for production even in the context of weakening new orders. However, if industrial weakness persists, some of these longstanding orders are at risk of being cancelled.

The ongoing shift towards electric vehicles will lead to changes in machinery supply to the automotive sector, with more emphasis on batteries and related

electrical equipment. Demand for machinery to manufacture conventional powertrains will weaken.

Across all regions, we expect sector growth to decelerate in the long-term. This mainly affects Asia Pacific, where China's pivot to a more services-oriented economy will reduce demand for capital goods.

### Industry performance forecast

Europe		Asia and Oceania		Americas	
Austria	Netherlands	Australia	New Zealand	Brazil	<p> <b>Excellent</b> The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.</p> <p> <b>Good</b> The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.</p> <p> <b>Fair</b> The credit risk situation in the sector is average / business performance in the sector is stable.</p> <p> <b>Poor</b> The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.</p> <p> <b>Bleak</b> The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.</p>
Belgium	Poland	China	Philippines	Canada	
Czech Republic	Portugal	Hong Kong	Singapore	Mexico	
Denmark	Slovakia	India	South Korea	USA	
France	Spain	Indonesia	Taiwan		
Germany	Sweden	Japan	Thailand		
Hungary	Switzerland	Malaysia	Vietnam		
Ireland	Turkey				
Italy	UK				

# Industry trends

## Machines/Engineering

Mechanical engineering output: Global and per region	2022	2023*	2024*	2025*
Global	3.1	1.0	2.4	4.7
North America	4.6	-2.2	-1.6	6.4
Asia Pacific	2.4	2.3	4.6	5.0
Europe	3.4	0.3	0.2	3.2

Year-on-year, % change /\*forecast – Source: Oxford Economics

### Strengths and growth drivers

**High entry barriers.** Established players are able to take advantage of the need for major investment in technology to deliver new machines capable of supporting a wider variety of product mixes for their customers.

**Automation.** Many industries are increasingly using process automation and industrial robots, which should stimulate demand for related machinery equipment.

**Technological advances.** 3D printing, AI, IIoT (Industrial Internet of Things) and big data analytics are increasingly used in manufacturing. Businesses are learning how to take advantage of the massive amounts of data their machines generate. All this should result in higher productivity, lower operating costs and higher margins.

Mechanical engineering output per subsector	2022	2023*	2024*	2025*
Agricultural machinery	7.7	-0.8	-1.3	3.9
Machine tools	5.0	0.2	0.9	5.3
Machinery mining and construction	1.9	2.4	1.0	4.4
Other machinery	5.8	1.7	3.2	4.9

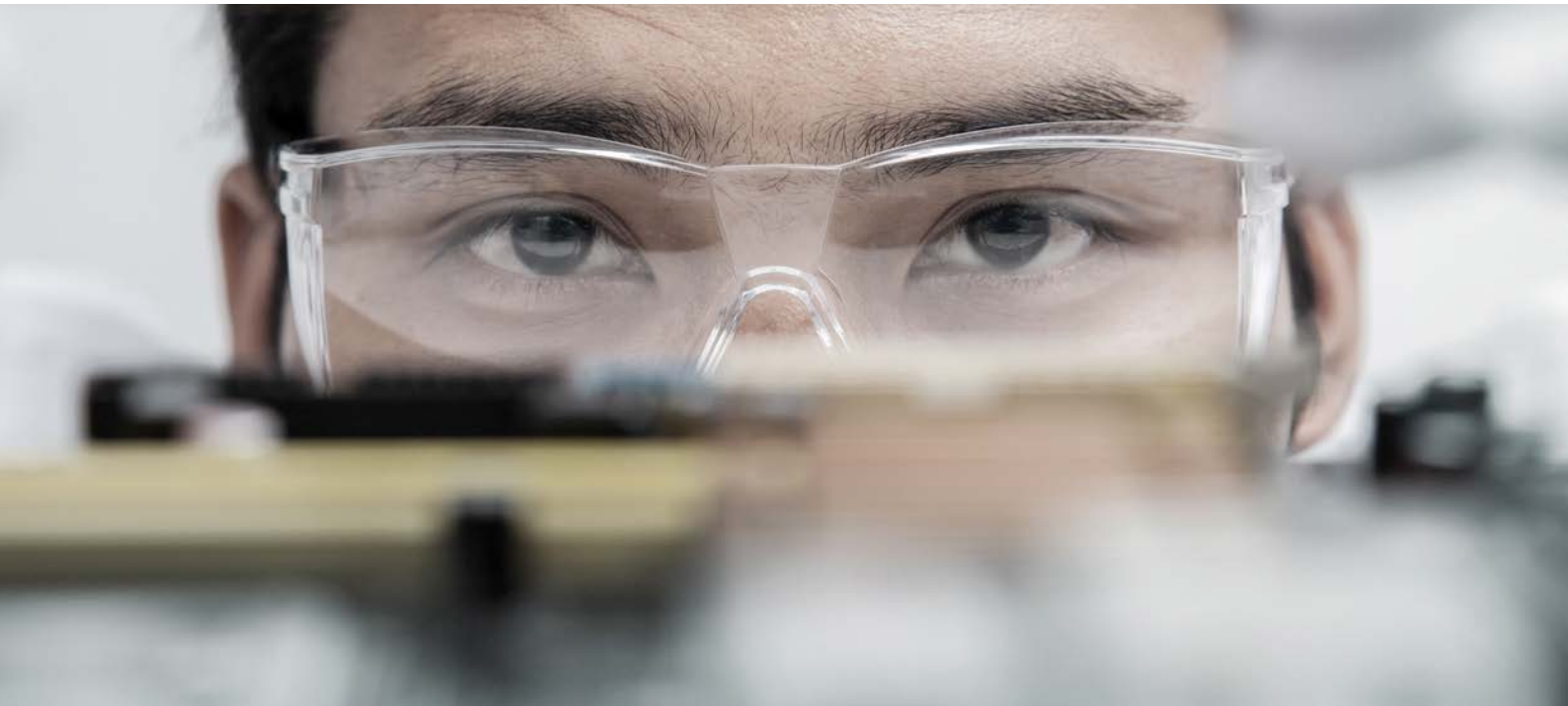
Year-on-year, % change /\*forecast – Source: Oxford Economics

### Constraints and downside risks

**Economic cycle.** Many machinery segments depend on demand from cyclical sectors like construction and automotive.

**Capital-intensity:** Machinery businesses often face large investments and R&D expenditures in order to provide tailor-made products in a market where the preferences of customers are constantly changing.

**Commodity price volatility:** The sector is highly susceptible to the price developments and availability of input materials like aluminium, copper and steel.



# Machines/Engineering outlook Americas

Mechanical engineering output	2022	2023*	2024*	2025*
Brazil	-2.8	-5.9	0.6	3.5
Canada	8.9	5.3	-2.7	7.2
Mexico	3.8	1.6	-0.3	0.9
United States	4.4	-3.0	-1.6	6.6

Year-on-year, % change /\*forecast – Source: Oxford Economics

## USA

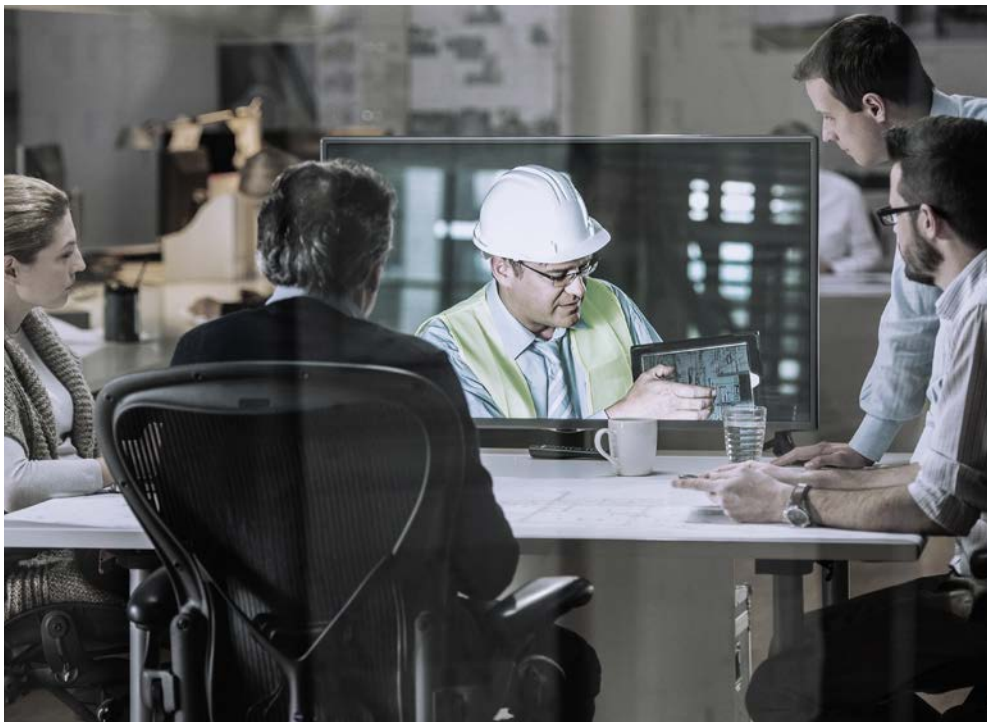
**After growing 4.4% in 2022, we expect mechanical engineering output to contract by 3% in 2023 and 1.6% in 2024.**

Tighter lending conditions will affect the sector through the spillover effects stemming from reduced business formation. Less consumer spending on cars and homes will impact automotive and construction in particular – both key end-use sectors for machinery. At the same time, machinery exports will also suffer from weaker overseas demand and an USD appreciation.

However, a strong rebound is on the cards for 2025. The manufacturing sector’s capacity remains high, and as the US industry as a whole recovers, investment in machinery will become necessary.

In the mid to long-term, demand for automation, digitalisation, and sustainable production solutions in manufacturing should support machinery demand. New technologies integrated in the manufacturing process will lead to efficiency gains in the mechanical engineering industry.

Industry performance forecast	
	<b>Brazil</b>
	<b>Canada</b>
	<b>Mexico</b>
	<b>USA</b>
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# Machines/Engineering outlook Asia Pacific

Mechanical engineering output	2022	2023*	2024*	2025*
China	0.8	6.0	5.6	4.7
India	0.6	12.5	2.2	8.3
Japan	7.8	-6.3	2.1	5.1
South Korea	0.1	-4.4	1.5	6.0

Year-on-year, % change /\*forecast – Source: Oxford Economics

## China

**We expect mechanical engineering output to increase by more than 5.0% in 2023 and 2024. Despite the current issues in the property sector, we expect the civil engineering subsector to grow by 3.5% next year.**

Automotive production is forecast to grow 4% in 2024, which will also sustain machinery demand. Mechanical engineering is supported by government investment in strategic sectors such as high-tech, automation, and climate/energy.

We expect that in the medium-term the electrical machinery segment will lead sector growth, as China has established itself as a leading global manufacturer of batteries for electric vehicles.






















## Japan

**After growing 7.8% in 2022, we expect mechanical engineering production to contract by 6.3% in 2023, followed by a 2.1% rebound in 2024.**

Despite Japan's relatively accommodative monetary policy, investments have been hindered by high capital goods prices and subdued global investment activity. Machinery orders have remained weak since the end of 2022, primarily due to sluggish orders from machinery-related manufacturers.



## Industry performance forecast

 Australia
 China
 Hong Kong
 India
 Indonesia
 Japan
 Malaysia
 New Zealand
 Phillipines
 Singapore
 South Korea
 Taiwan
 Thailand
 Vietnam
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# Machines/Engineering outlook Europe

Mechanical engineering output	2022	2023*	2024*	2025*
France	-2.8	4.9	-1.3	2.3
Germany	1.0	0.8	-0.1	2.6
Italy	3.9	-1.0	-0.4	4.4
United Kingdom	-10.3	-2.9	-1.1	0.7

Year-on-year, % change /\*forecast – Source: Oxford Economics

## Eurozone

After increasing 3.7% in 2022, we expect mechanical engineering output growth to slow down to 0.3% in 2023 and to level off in 2024.

Manufacturers’ ability and willingness to purchase capital equipment are affected by tighter credit conditions and a modest regional and global economic outlook.

Order backlogs in capital goods segments are helping to cushion the impact of contracting demand, although this support is expected to diminish in the short-term. Large investment requirements driven by green and digital transitions will help to mitigate the current headwinds, thanks to generous fiscal support.

The machine tools segment is forecast to grow 4.4% this year and 0.9% in 2024, supported by ongoing demand from the automotive industry, including increasing production of electric vehicles and related batteries.



## Germany

German machinery production continues to struggle across all subsectors, as new orders have sharply decreased.

The current economic slowdown in Germany is dragging down manufacturing growth in the EU, with negative consequences for machinery demand.

The outlook for H1 of 2024 remains pessimistic. Domestic demand from key buyer sectors like automotive and construction is expected to remain subdued. Weak foreign demand and tighter monetary policy will significantly weigh on the industry and investment. The gap between sales and orders continues to narrow, and production expectations for machinery and equipment have declined.



## Industry performance forecast

	Austria
	Belgium
	Czech Republic
	Denmark
	France
	Germany
	Hungary
	Ireland
	Italy
	Netherlands
	Poland
	Portugal
	Slovakia
	Spain
	Sweden
	Switzerland
	Turkey
	UK
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