CELIMO

European Association for Machine Tools, Tooling and Technologies

CELIMO STATE OF TRADE REPORT

Commentary, February 2022

This commentary reports the contributions of the CELIMO Board members at their meeting on 25th February. Please note that all the data and forecasts were collected before the Russian invasion of Ukraine which began on the day before the meeting.

The highlights from the State of Trade Report include:

- There was a strong pace of GDP growth in most countries in 2021 although this is, of course, mainly because of the large declines that most countries saw in 2020 (Turkey was the exception to this). One key point is that most countries expect to see the rate of growth of GDP slow in 2022 – the exceptions to this are Austria, Spain, Germany and Czechia.
- The Purchasing Managers' Index (PMI) for manufacturing has been positive (above the crucial 50 level) everywhere over the past 4 months. In most cases, the readings have been at high levels but it is important to note the incorrect influence of the suppliers delivery times on the PMI calculation. It is assumed to be a sign of increased activity in the sector and so adds to the PMI reading - in the current circumstances, it should be negative as it is a symptom of the supply chain challenges. The December reading for Hungary appears to be an anomaly.
- Turkey has an exceptionally high inflation rate mainly due to exchange rate effects but beyond that, countries generally fall into two groups – one with inflation above 6% and the rest where it is between 3% and 6%; Switzerland is the other outlier in this data with a very low inflation rate.
- Similarly, there are three groups of countries in the unemployment data; Spain and Turkey are in the highest group with an unemployment rate above 10% followed by a group with unemployment between 6% and 10% - this includes Austria, Finland, France, Italy and Sweden (and we should probably include Belgium in this group even though they are just under 6%). The final group with a low unemployment rate (broadly below 4%) includes Netherlands, Switzerland, the UK (actually just a fraction over 4%), Germany, Czechia, Hungary and Poland.
- Three countries - Finland, Netherlands and Spain - had exceptional growth in percentage terms in machine tool sales in 2021 although as with the GDP data this at least partly reflects a very large fall in 2020. There was also strong growth in turkey and Italy, with the latter driven by the investment incentives offered by the Italian government.

- The fall in the market in Germany is the data trend for the first three quarters of the year rather than an estimate of the full year trend. Only Austria (marginally), the UK and Germany expect stronger growth in machine tool demand in 2022 than in 2021.
- Growth in demand for cutting tools is more modest than for machine tools. The main reason is that demand was less affected during the downturn in 2020 as, in many cases, customers were still busy even if they did not invest in new machinery. The shortage of components and other supply chain issues is also affecting tooling demand, especially from the automotive industry.

The following are the individual country comments offered by the Board members.

Turkey: The GDP growth rate reached +9% in 2021 and industrial production grew more strongly at +14%; both of these represent a much stronger position than for 2020 although that was still positive on both measures. In January, the capacity utilisation rate remains high but is down from the levels that were recorded at the end of 2021.

The PMI for manufacturing is still above the 50 level which indicates expansion of activity in the sector but the latest reading (January 2022) was the lowest since the negative reading in May 2021.

The machine tool market has been very strong with consumption in 2021 estimated to have been +36% higher than the previous year, with imports growing by +41%; exports (+35%) and production (+28%) also increased.

Turkish exports have been helped by the exchange rate falling – it is now roughly TLK15 per Euro and TKL14 per US$ - and this has also helped the demand for machine tools. It was noted that the top ten export markets for Turkish machine tools is led by Russia, the USA, Poland and Germany, while the list of import sources is headed by Taiwan, followed by Germany, China and Japan.

Demand for tooling was also strong in 2021 with exports growing by +73% and imports up by +10%.

The MAKTEK exhibition will be held from 26th September to 1st October.

Mr Gamsiz talked briefly about the TIAD's new project - the open Source Design Center and Networking Platform Project. This aims to connect designers and manufacturers via an on-line platform which is based around the existing TIAD academy. It is supported by the local government in Istanbul and the project will run for 20 months – more details are available at www.opendesignistanbul.com.

UK: The market is still in recovery mode and optimism is good despite the negative impact of Brexit. The MACH exhibition will run from 4th to 8th April. The aerospace industry has been weak but activity is now starting to return. The automotive industry faces the short-term challenge of various forms of supply chain disruption and the longer term transition to electric vehicles (of various types). The latter is particularly important for the UK which produces more engines than it does cars.

As in many other countries, the machine tool market is stronger than that for cutting tools, although both are moving in the right direction.

Switzerland: Activity has been good and the market has recovered well. The tooling industry is at a high level partly because Switzerland does not have much activity in the automotive industry. Activity in the tooling market is also high but there are long delivery times for new machines. All Covid restrictions have been lifted.

Spain: Reflecting on a changing world it was noted that while the market was positive in 2021 this is partly a reflection of the weakness in the previous year. the growth of +13% for tooling demand is a more accurate reflection of the real position because it is directly linked to output. It is expected that 2022 will be a transition year and probably little change in the market levels.

Aerospace demand is picking up but the main customer industry is the large automotive sector with its strong links to Germany. The exhibition in Bilbao from 13th to 17th June is already 90% sold and promises to be a positive event for the Spanish market.

There are three main concerns at the moment: delivery times for machine, prices for parts and materials and increasing salaries. The impact of the last two of these can't all be passed on to customers, so suppliers margins are being squeezed.

Netherlands: This report shared these three concerns although the economy is growing well even if the comparison is distorted by the weakness in 2020. Demand for machine tools has recovered strongly with growth of +83% in 2021 taking it almost back to the 2019 level.

The tooling market was also at a high level in 2021 and continuing into 2022; however, it was noted that tooling demand had not fallen significantly during the pandemic as companies were busy even though they were not investing.

In part this is due to the industrial structure as the automotive industry is not that significant as a customer. The Netherlands is home to a large producer of machines for making semi-conductor chips (turnover €16 billion) and they have been very busy. Higher energy prices are driving inflation but the manufacturing PMI remains strong.

Because of uncertainty around Covid, the exhibition has been moved back in the year to run from 30th August to 2nd September. The restrictions around the pandemic have just been lifted. It was reported that VIMAG has started to work with schools and training organisations to improve the availability of technical staff.

Italy: Demand had been very good in 2021, helped by the enhanced depreciation scheme. The tooling market grew by +10% in 2020, but like other countries, it had not fallen as far as the machine tool market in 2020 as companies ran their existing machines. Most customer sectors are still busy but the automotive sector is down because of the supply chain problems and there are signs that sub-contracts are moving away from this industry; the aerospace industry is now starting to recover.

Most of the problems reported earlier are repeated in Italy with supply chain difficulties, rising prices and a shortage of skilled labour. There is a promotion campaign for technical schools to try to resolve this; one of the main benefits is that most graduates from these schools are in a job within one month of finishing the course.

France: There has been strong government support during the crisis so 2021 has seen an almost complete recovery back to the 2019 levels. As in other counties, the automotive and aerospace industries are the weak point in the market although the latter is seeing the start of a recovery as companies are placing orders for later in the year to take account of the long delivery times. It is likely that 2022 will be flat overall as the government support eases and the market returns to normal, but this will be at a high level.

While the demand for machine tools is strong, the tooling market is not as good – the large automotive and aerospace industries may be behind this trend. As a result, this part of the market is still below the pre-pandemic level although there are signs that it may be starting to recover as the investment in machine tools is coming on-stream.

There are two exhibitions coming up with SIMODEC in March and Industrie in May. Prices and availability of components continue to be a problem along with the shortage of skilled staff – for the latter, while it is possible to get people to work in the factory, it is much harder to find people prepared to take on service and installation roles which require a lot of travel and time away from home.

Finland: During 2021, machine tool sales reached their highest level since 2008 bu the business needs to stay at this level to get the domestic metal industry up to modern standards. While no growth is expected during 2022, the market will be at a high level. Industrial output is also at its best level for 11 years and with capacity utilisation at 83%, demand for machine tools should remain strong.

The machine tool exhibition has been postponed to November because of Covid which remains a problem in Finland. The vaccination rate is high and although restrictions are starting to ease, it has restricted the ability to sell as customers are only willing to meet face-to-face when they are ready to make a purchase; technical visits have been unaffected. The challenge of long delivery times and shipping delays for machine tools is significant.

Finland has a long border with Russia (1340km) and that is a major export market for the Finnish machinery industry while the main import from Russia is oil.

Austria: The latest forecasts predict GDP growth of +5.2% in 2022 and +2.5% in 2023, with investment forecast to grow by +4.8% and +1.8% respectively. Unemployment remains high at 8% but this is expected to fall gradually over this year and next. The inflation rate in 2021 was +2.8%, with 3.3% expected for 2022 overall, although the rate in January was +5.2%.

Industry did well during the pandemic but the tourism and hospitality sector was very weak. The Omicron variant increased the problems at the start of 2022 and it is hoped to be able to ease restrictions in March or April. There have also been some problems with the government, with 2 changes in the Chancellor since last October.