



Industry trends – Machines / Engineering

A global rebound is underway, but Europe still lags behind

Global overview

Most machinery segments to show solid growth rates in 2025

We expect global mechanical engineering output to rebound by 3.6% in 2025 after a 0.9% contraction last year. Region-wise the recovery is fuelled by the Americas (mainly US) and Asia Pacific. As the EU accounts for about 20% of global sector output, a modest 1.3% growth projection is likely to drag on the global recovery. The outlook for manufacturing remains highly uncertain in the region, mainly due to Germany’s economic weakness.

Apart from the agricultural machinery segment, global production in the main subsectors is forecast to show robust growth this

year (see chart overleaf). Demand for engineering and metal goods is heavily dependent on construction and transport equipment. Both these sectors are highly cyclical and sensitive to financing costs. Ongoing monetary easing by central banks should lead to increased capital expenditure in the coming months.

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



Industry trends

Machines/Engineering

Mechanical engineering output: Global & per region	2023	2024*	2025*	2026*
Global	0.6	-0.9	3.6	4.2
Americas	-0.9	-1.1	4.9	4.6
Asia Pacific	0.4	0.9	4.3	4.5
European Union	2.0	-4.9	1.3	3.4

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

Mechanical engineering output per subsector	2023	2024*	2025*	2026*
General purpose machinery	1.0	-0.2	3.6	4.1
Agricultural machinery	-2.1	-9.2	-0.7	4.3
Machinery for mining and construction	1.4	-5.6	4.7	3.7
Machine tools	-1.2	-5.6	4.7	3.7

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.

Constraints and downside risks

Economic cycle. Many machinery segments depend on demand from cyclical sectors such as 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	2023	2024*	2025*	2026*
Brazil	-7.2	0.7	2.7	1.5
Canada	7.1	-6.4	2.3	4.8
Mexico	0.8	-2.9	-3.2	1.4
USA	-1.6	-0.2	5.4	4.9

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

USA

Robust growth expected in 2025 and 2026

After contractions in 2023 and in 2024, we expect US mechanical engineering output to rebound by 5.4% in 2025, with solid growth across all subsectors. The US economy is forecast to grow 2.6% this year. This and monetary easing by the Fed support capital expenditure by businesses. Another growth driver for investment in machinery (in particular construction machinery) are the pandemic-era infrastructure bill and the Inflation Reduction Act (IRA).

In 2026 we expect machinery production growth to remain robust (up 4.9%) and investment in machinery to increase by 7%. Growth drivers should be the extension of tax cuts and government spending by the new administration. We expect these Tax Cuts along with the Jobs Act (TCJA) to include measures aimed at investment in machinery and broader investment initiatives.

Republicans will likely restore the 100% bonus depreciation scheme, allowing companies to deduct the full cost of machinery purchases in the first year. The extension of tax cuts and increase in government spending (defence and non-defence) will boost economic growth in 2026 and increase demand for machinery across all subsectors, with a particular boost for general-purpose machinery. That said, in the medium-term we expect import tariffs and curbs on immigration to have an adverse impact on industrial production and machinery demand.

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 and generative AI will increase productivity in the mechanical engineering industry.

Canada

A sluggish recovery in 2025, but growth will pick up next year

After a 6.4% contraction last year we expect mechanical engineering production to rebound by 2.3% in 2025. The impact of rate hikes and inflation will continue to weigh on Canadian business finances and machinery investment for the time being. This mainly affects the construction and extraction sectors, while machinery demand from the automotive sector will support growth.

In 2026 machinery production growth is forecast to accelerate to 4.8% as the effects of a looser monetary policy will gain momentum and demand from key buyer industries picks up. In the short-term the US fiscal stimulus should support exports, but in the medium-term any US tariffs imposed on Canadian imports are likely to dampen machinery demand.



Industry performance forecast

Brazil
Canada
Mexico
USA
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Machines/Engineering outlook Asia Pacific

Mechanical engineering output	2023	2024*	2025*	2026*
China	3.4	2.7	4.4	4.4
India	14.0	2.4	6.8	8.4
Japan	-7.9	-6.8	3.4	4.7
South Korea	-4.6	-0.9	4.4	3.8

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

China

A slow private investment recovery and a looming trade war

In response to the weakening economy, the central government has recently stepped up its support for economic growth through aggressive monetary easing, which will be followed by fiscal expansion to support domestic demand. However, this will take time to feed through. While private business investment is forecast to increase by 7% in 2025, this will not offset the steep 19% decline seen in 2024. The property sector is still plagued by weak buyer demand for new homes and financing difficulties affecting developers, which continues to dampen construction machinery demand.

That said, mechanical engineering is supported by government investment in strategic sectors such as high-tech, automation, and climate/energy, mainly benefitting the electrical machinery segment. After a 2.7% growth in 2024 we expect Chinese mechanical engineering output to increase by 4.4% in 2025.

A major trade dispute with the US remains a major downside risk. We assume that the incoming Trump administration will gradually implement a 25% tariff on Chinese machinery, electronics, and chemicals imports starting in 2026. In response, China is expected to impose a 10% retaliatory tariff on the same set of US imports. This could escalate to even higher tariffs.

In the mid and long-term we expect Chinese annual mechanical engineering output to stabilise between 2.5% and 3%, as economic growth slows down and a shift to a more service-oriented economy will reduce demand for capital goods.

Japan

A rebound after a deep contraction seen in 2024

After a 6.8% contraction in Japanese mechanical engineering production last year, we expect a 3.7% rebound in 2025 and a 4.7% increase in 2026. Rising Japanese exports of special-purpose machinery for semiconductor manufacturing will support sector growth in the coming months. Machinery demand from the automotive sector has picked up again after Daihatsu's suspension of production over safety issues in early 2024 (a main reason for the machinery output contraction recorded last year). A robust US economic outlook and subsequent demand for Japanese imports is expected to outweigh the impacts of potential 10% tariffs on Japan's automotive and metal exports.

However, Japanese GDP growth will remain modest at 1.2% in 2025 and 0.7% in 2026. Machinery investments are still impacted by high capital goods prices and lower global investment activity. Additional interest rate hikes by the Bank of Japan could have a dampening effect on capital expenditure by key buyer sectors like automotive and construction.



Industry performance forecast

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

Mechanical engineering output	2023	2024*	2025*	2026*
Germany	-1.2	1.1	0.0	2.2
Italy	0.1	2.6	-0.3	2.0
The Netherlands	-1.2	3.2	1.7	1.3
United Kingdom	-2.7	2.2	1.9	1.3

European Union

Modest growth in 2025 and rising downside risks

After a 4.9% contraction in 2024 we expect mechanical engineering output in the EU to grow by only 1.3% in 2025. The outlook for the manufacturing sector remains highly uncertain, particularly due to Germany’s economic weaknesses. Across the region higher interest rates have weighed on profit margins of manufacturing and construction businesses, negatively affecting their ability and willingness to invest in machines and related equipment.

We expect an improvement in the course of 2025 and into 2026, as the effect of recent interest rate easing will materialise, supporting demand from key buyer sectors like construction. In 2026 EU machinery production is forecast to rebound by 3.4%. However, a potential trade war between the EU and US is a major downside risk for the export-driven machinery industry. In addition, fiscal woes in several countries (e.g France) could have a negative impact on machinery investment.



Germany

More insolvencies and serious challenges ahead

Germany accounts for more than 45% of eurozone mechanical engineering output. German machinery production contracted by 5.7% in 2024 and another decrease of 0.6% is expected for this year. Investment in machinery decreased by 9% this year and will not recover before 2026. The industry continues to struggle across all subsectors, due to weak demand from key buyer industries like automotive and construction and increased geopolitical uncertainties. Non-payments and insolvencies in the industry increased by double-digit rates in H1 of 2024, and we expect business failures to increase again in 2025. While smaller companies with smaller financial cushions will be hit first, even larger businesses could fail.

While the German mechanical engineering sector is still resilient and internationally competitive, it is facing serious challenges ahead. If it doesn’t have to be ‘Made in Germany’ quality, competition from China is a serious issue. The shift away from internal combustion (IC) vehicles to electric vehicles (EV) will require less intensive use of machine tools. The German machinery sector would be one of the most affected by potential US tariffs on EU imports.

Industry performance forecast	
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	Belgium
	Czech Republic
	Denmark
	France
	Germany
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