



# BDI

The Voice of  
German Industry

INDUSTRIAL POLICY DOSSIER

## Industry Report

May 2017

- **In 2017 as a whole, based on the forecasts of the individual industries, we expect manufacturing output in Germany to rise by 0.5 percent.** This weak growth is not cyclical but due to the relocation of production and repair and conversion works.
- **Global industrial production is set to maintain the pace of growth seen in 2016 of 1.7 percent.** For the first time since 2014 we are expecting industrial production to increase in all advanced economies. If South America recovers, this will also apply to the emerging countries.
- **Despite the sturdy pick-up in the pace of global trade, we are only expecting below-average growth in German exports.** As the euro depreciates against the dollar as a result of US financial policy, we expect the export of goods to increase by about one and a half percent versus the previous year. Including services, exports should grow by a total of two percent.

## Content

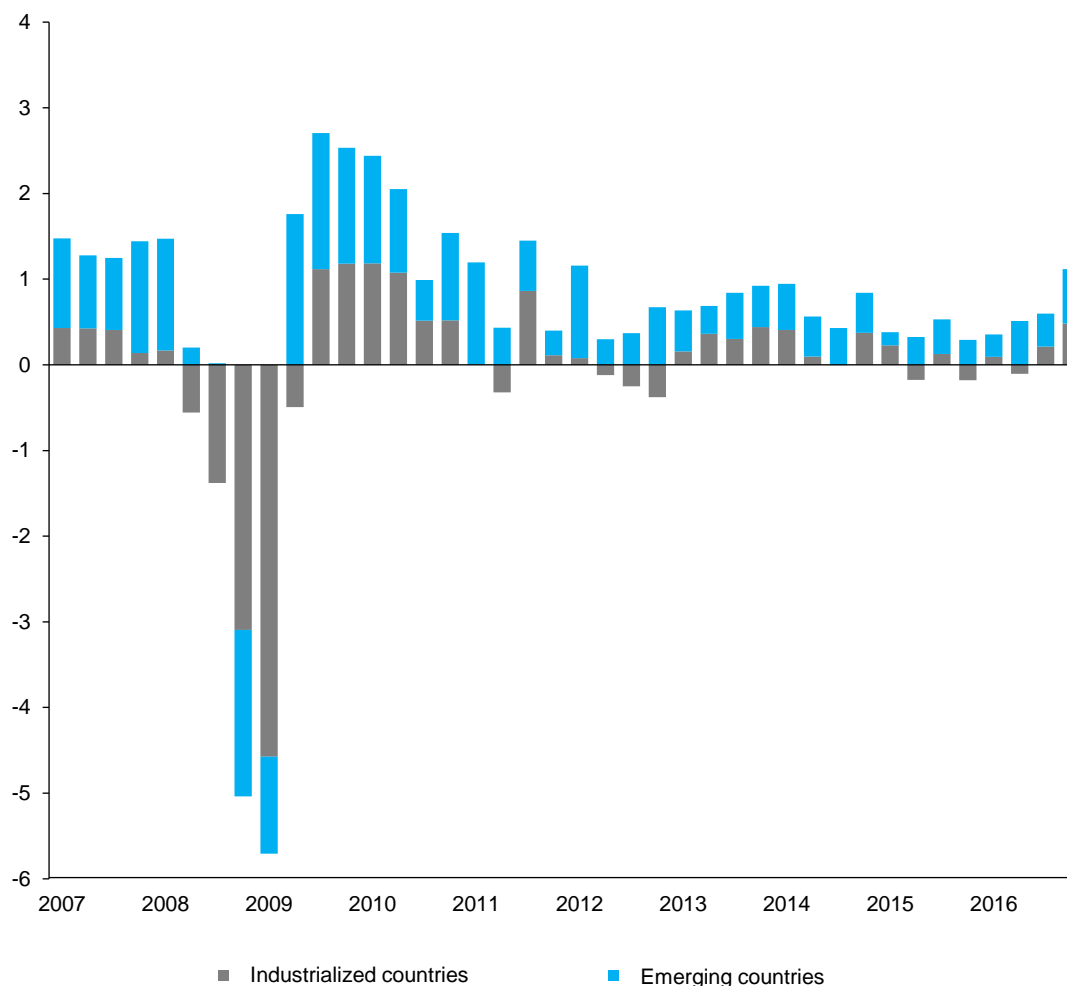
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## Global industrial production

### Sturdy economic upswing in second half of 2016

According to figures from the CPB Netherlands Bureau for Economic Policy Analysis, **global industrial production** in the fourth quarter was up by 1.2 percent on the previous quarter (seasonally and working-day adjusted), the highest growth in over five years. Year-on-year fourth quarter growth in 2016 came in at 2.6 percent. Despite the considerable pick-up in momentum seen in global industrial production towards the end of the year, annual growth, at 1.7 percent, was slightly less than the previous year. A positive development is that the economic upturn in the second half of 2016 was not limited to newly industrialised countries but also included the advanced economies.

### Development of the Industrial production\* Industrialized and Emerging countries



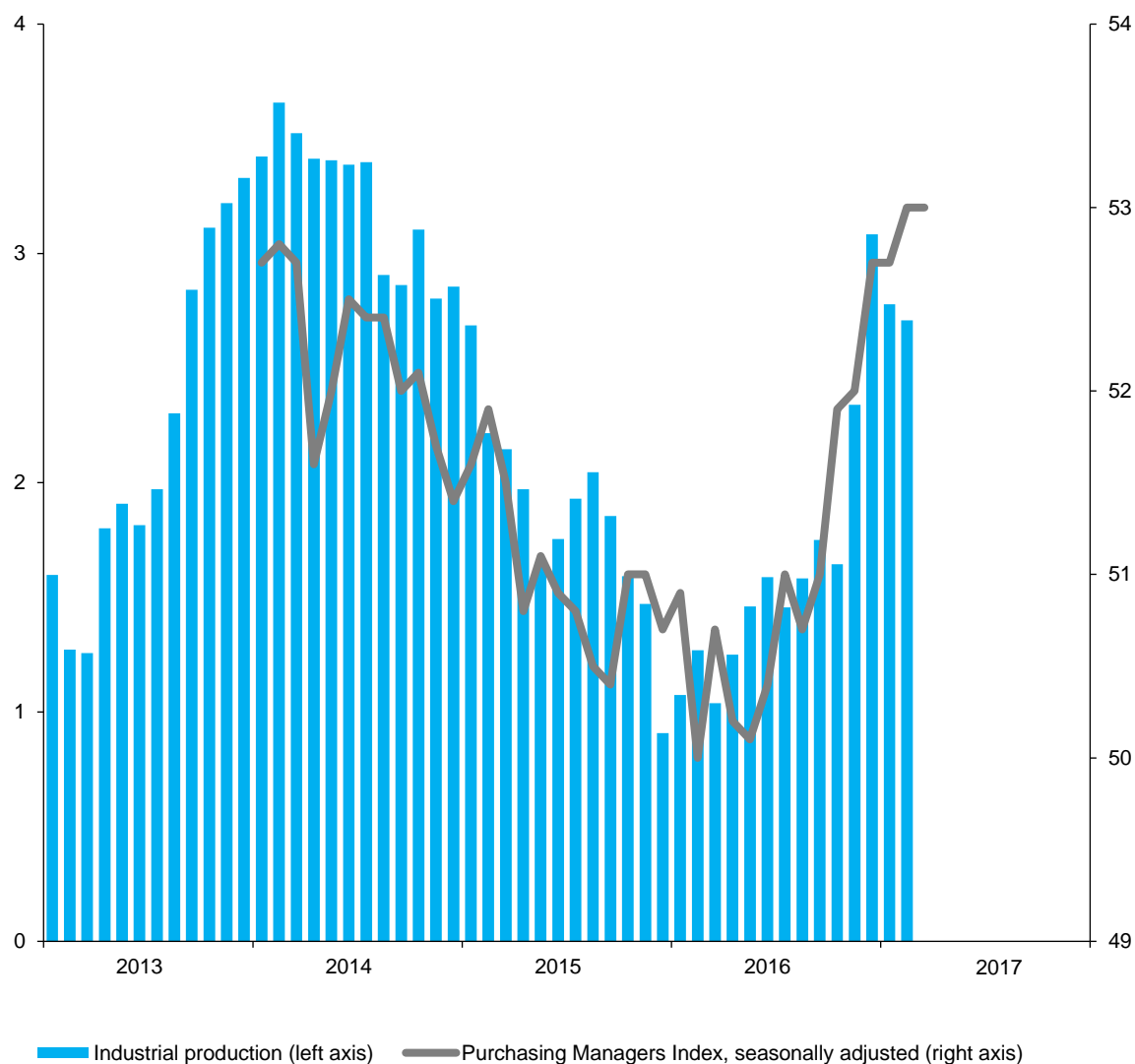
\*Change compared to same quarter last year, contributions to growth in percentage points

Source: Netherlands Bureau for Economic Policy Analysis



Production is pointing upwards into 2017. In February 2017, global industrial production increased 0.2 percent over the previous month following seasonal and working day adjustment. At 2.7 percent, year-on-year growth was also clearly above the average annual growth rate of the previous year. The worldwide purchasing managers' index for the manufacturing sector also points towards a sturdy increase in growth for the current year, rising up to 53.0 index points in February and March 2017 – its highest level for the last 38 months.

**World: Industrial production\*, Purchasing Managers Index\*\***



\*Production index: two-month average, after calendar and seasonal adjustments, in percent, year on year  
 \*\*from January 2014

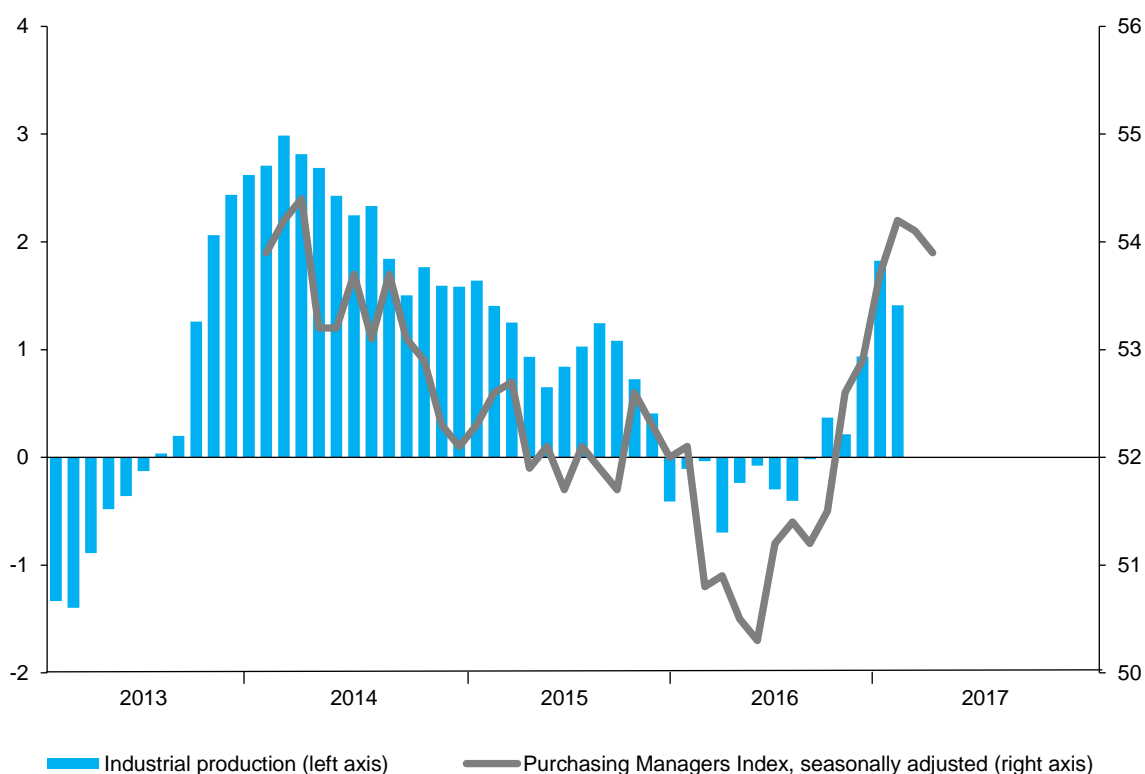
## Industrial production in the advanced economies

### Steady growth in euro area – recovery in Japan and the US

Industrial production in the **advanced economies** has been rising steadily since the summer months of 2016. While the level of production in the first half of the year was below 2015 levels, third quarter growth drew level with 2015 and fourth quarter growth exceeded that of the previous year by 1.3 percent. Industrial enterprises in Japan and the United States still produced less until August 2016 and November 2016 respectively compared with the previous year (two-month average), but production in the euro area and the rest of the advanced economies continued on the growth path that has been sustained since at the end of 2013. Production levels rose in almost all advanced economies at the end of 2016, nudging the overall annual result into the positive at 0.1 percent despite the weak first six months of the year.

The upward trend in production in the advanced economies has continued into 2017. After seasonal and working-day adjustment, production in the first two months compared to November/December 2016 was up by 0.3 percent. Year-on-year, production increased by 1.5 percent. The purchasing managers' index for manufacturing also signals robust production growth during the first quarter of 2017. Ranging between 54.2 points in January 2017 and 53.9 in March 2017, the index was higher than at any point last year as well as 2.3 percentage points higher than the 2016 average.

#### Advanced Economies: Industrial production\*, Purchasing Managers Index\*\*



\*Production index: two-month average, after calendar and seasonal adjustments, in percent, year on year  
 \*\*from January 2014

Sources: Macrobond, Netherlands Bureau for Economic Policy Analysis (CPB)



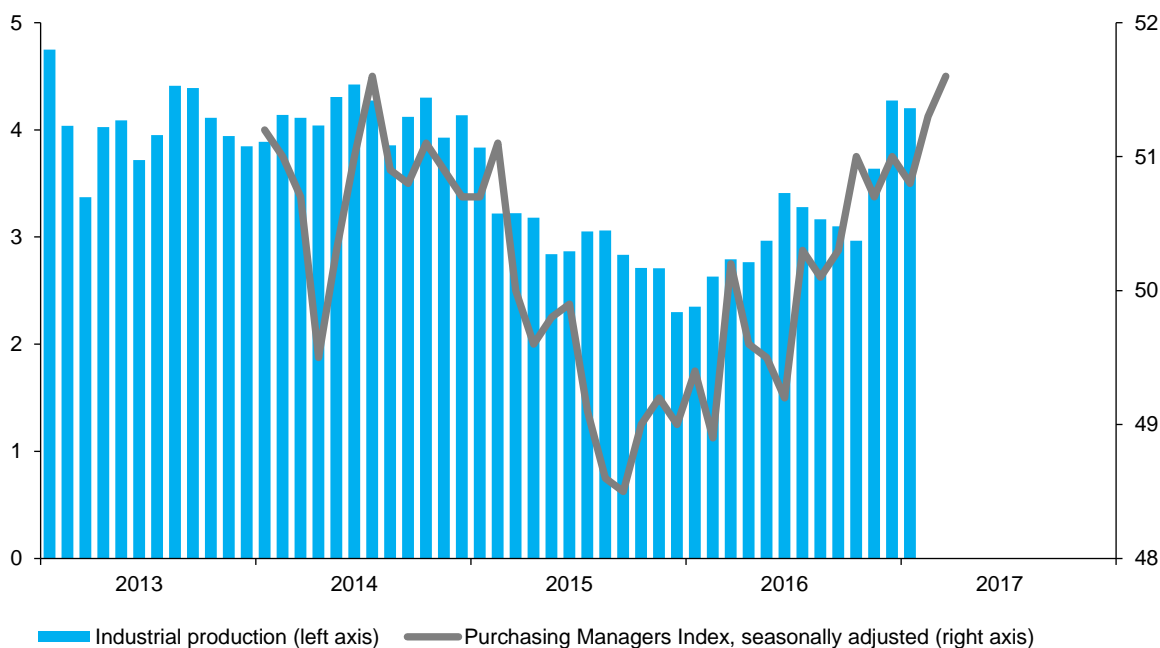
## Industrial production in the emerging countries

### Asia sets the pace – recession in South America still not over

In the fourth quarter of 2016, industrial production in the **emerging countries** expanded by 1.3 percent compared to the previous quarter following seasonal and working-day adjustment. This is the biggest increase seen since the fourth quarter of 2012. Year-on-year, production rose by 3.8 percent. As in previous years, the pace was set by the Asian countries, where almost 57 percent of the total industrial production of newly industrialised countries takes place. With an average annual growth rate of 4.9 percent, these countries once again upheld their role as engines of growth in 2016. Industrial production in Africa and the Middle East also gathered speed considerably, increasing 3.5 percent on average over the year. The Central and Eastern European countries, following a drop of almost four percent in 2015, managed to deliver a one percent increase in industrial production in 2016. Industry in South America, on the other hand, recorded its third consecutive annual decline. The 3.7 percent drop in production was the largest in seven years. However, the trend appears to have bottomed out at the turn of the year 2016/ 2017. Towards the end of the year, comparisons with the previous month revealed two consecutive increases in production. Overall, industrial production in the newly industrialised countries increased by 3.2 percent in 2016 over the previous year.

In the first two months of 2017 production came in at 0.1 percent below the previous two months following seasonal and working-day adjustment. Year-on-year, however, industrial production increased by 3.8 percent. Industrial production increased in the newly industrialised countries in Asia (up 5.6 percent) and in Africa, the Middle East and Central and Eastern Europe. The purchasing managers' index for manufacturing in the newly industrialised countries climbed to 51.6 in March 2017, its highest level since July 2014.

Emerging countries: Industrial production\*, Purchasing Managers Index\*\*



\*Production index: two-month average, after calendar and seasonal adjustments, in percent, year on year

\*\*from January 2014

Sources: Macrobond, Netherlands Bureau for Economic Policy Analysis (CPB)

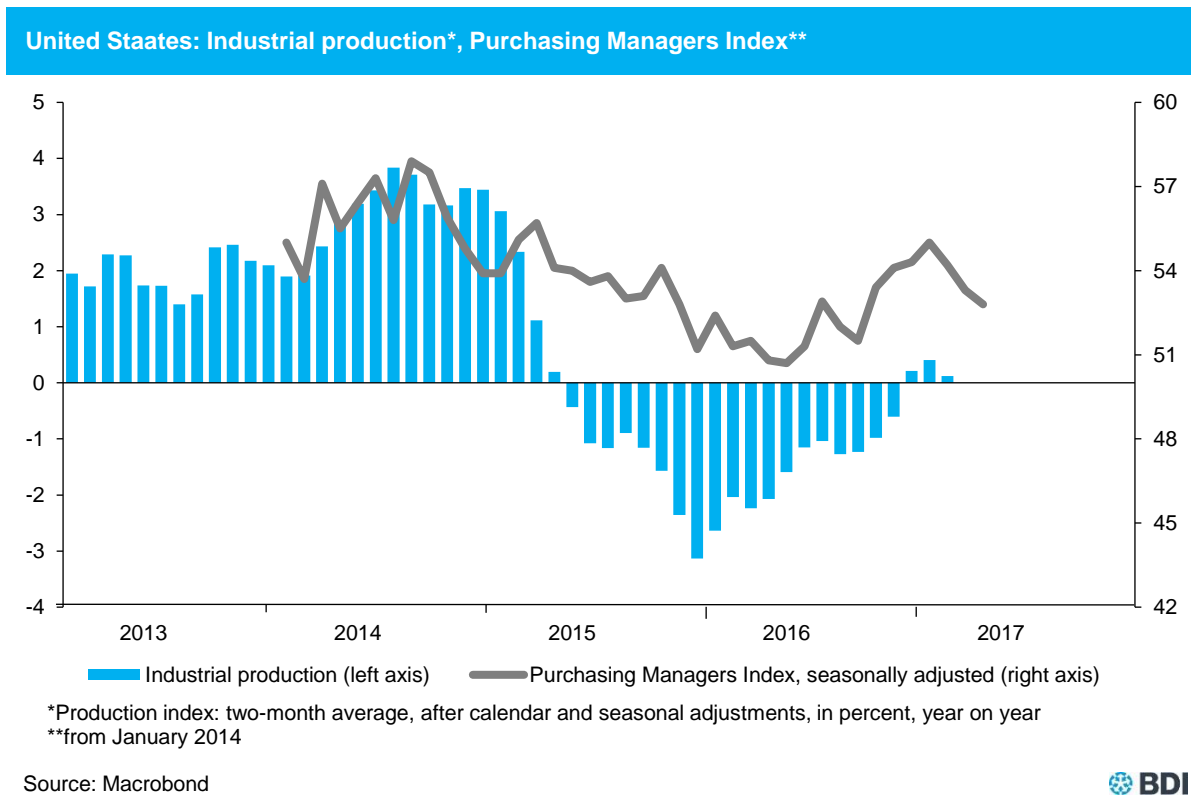


## United States

US industrial production (industrial sector without construction) was lower than in the previous year for the second year running. The downward trend since the fourth quarter of 2015 is largely due to reduced shale gas extraction, the data from which is included in mining. Overall, US industrial production in 2016 dropped 1.2 percent. Manufacturing output, on the other hand, remained steady with the previous year's level. The production increase of 0.5 percent achieved in the first quarter of 2016 and at the end of 2016 proved sufficient to compensate for the weak growth seen in the middle of the year.

Among the individual industries in the manufacturing sector, vehicle manufacturing played a leading role, with a constant increase in production since the fourth quarter of 2009. For 2016 overall, vehicle production increased by 4.1 percent. The food industry recorded an above average performance, rising 2.7 percent. This was its best result since 2003. The electrical and electronics industry also performed well, growing by 2.2 percent over the year. The chemical industry, in contrast, put in a rather weak performance in 2016, largely due to a 0.4 percent drop in basic chemicals production. Combined with the production figures for pharmaceuticals, annual production here was up by 0.2 percent in 2016. Machinery manufacturing was once again disappointing; production here has been in constant decline since the second quarter of 2015 and it finished off the year with an overall drop of 3.2 percent.

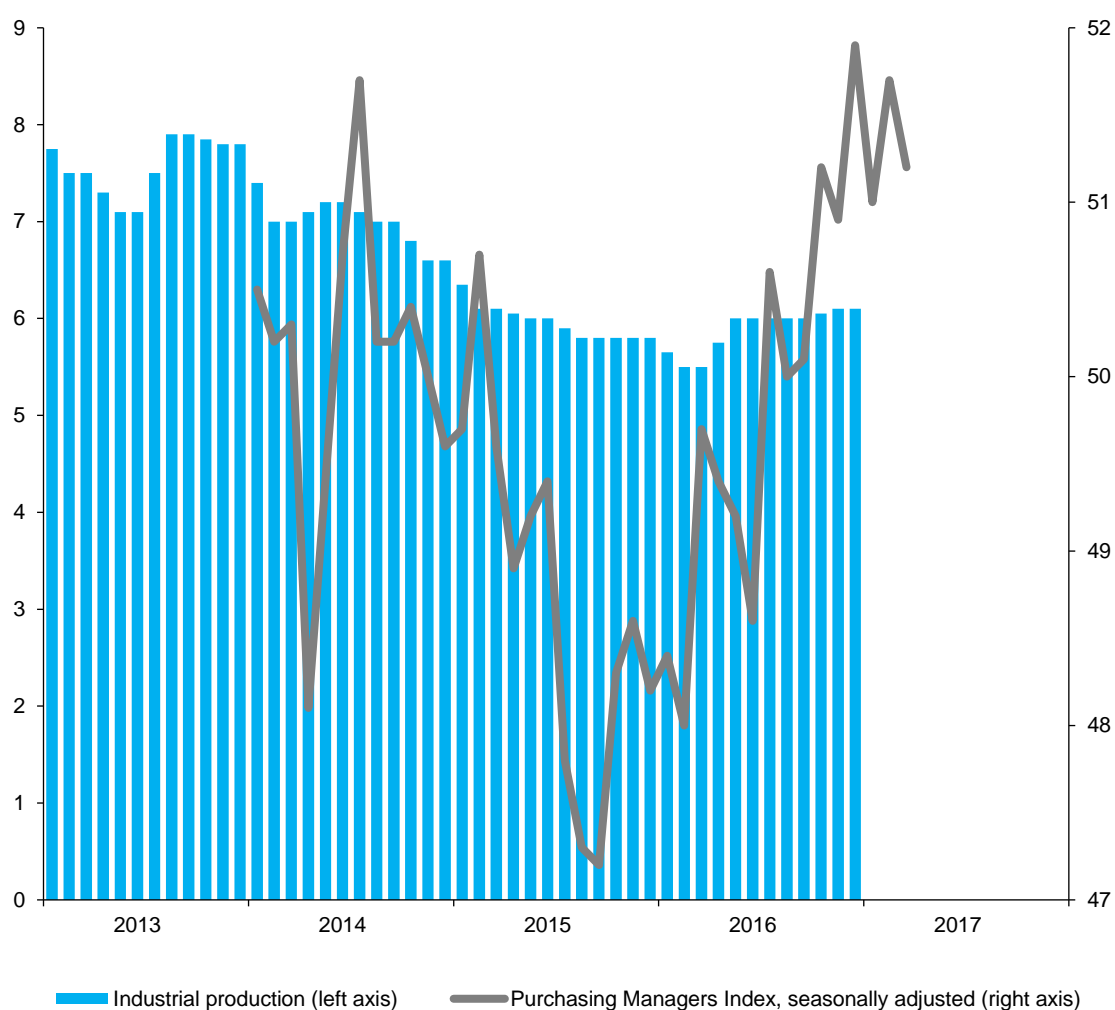
US industry got off to a good start in 2017, recording an increase in production of 0.6 percent in the first quarter of 2017. Manufacturing rose 0.8 percent over the same period in 2016. All of the larger industries increased production except for pharmaceuticals and electrical and electronics. The purchasing managers' index for manufacturing dropped slightly in February and March but is still far above last year's average, indicating an expansion of production in the spring quarter.



## China

The Chinese economy has emerged from its period of weak growth around the turn of the year 2015/2016, during which annualised growth rates dropped to 5.5 percent. By May 2016, however, Chinese industry was once again growing at an annualised rate of six percent. Production even topped six percent in the fourth quarter of 2016. The favourable trend in production should carry on into early 2017. Although the purchasing managers' index for manufacturing didn't quite match its record high of December 2016 in February and March, it has remained above the average level seen in the second half of 2016 for the last three months. This indicates that production is heading for growth in the spring quarter.

### China: Industrial production\*, Purchasing Managers Index\*\*



\*Production index: two-month average, after calendar and seasonal adjustments, in percent, year on year  
 \*\*from January 2014

Source: Macrobond





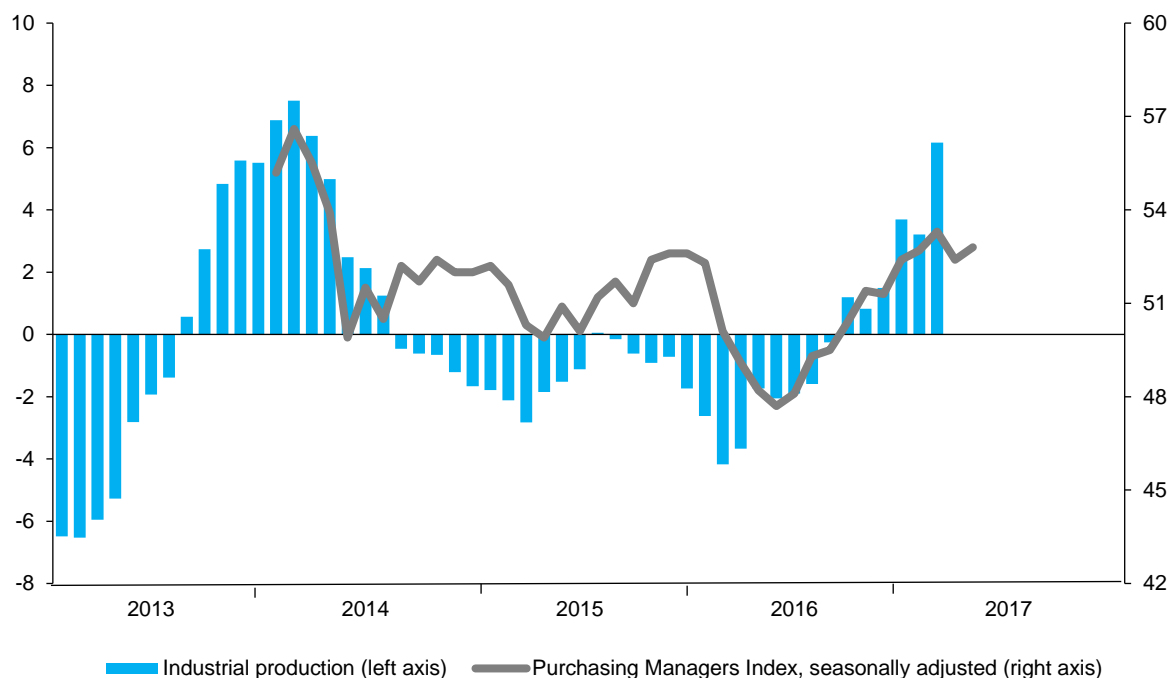
## Japan

In Japan, manufacturing output posted year-on-year growth for the first time in two years in the third quarter of 2016. The 0.9 percent increase in the third quarter was followed by a production increase of 2.8 percent in the fourth quarter. However, the revival in the second half of the year did not prove sufficient to compensate for the production decreases of the first six months. For the year overall, production slipped down 0.3 percent compared to the previous year.

Among the individual industries in manufacturing, vehicle production was dominant, recording its first increase in production in three years. With a growth rate of three percent, vehicle production delivered the best performance of all large industries. The electrical and electronics industry more or less maintained the growth rate recorded in 2015, expanding by 1.7 percent. The chemical industry showed little momentum. Production of basic chemicals grew by 2.9 percent over the previous year. In combination with the production of pharmaceuticals, however, production in 2016 overall only increased by one percent. Developments in machinery production were disappointing, dropping by one percent for the second year running. Figures were beginning to improve considerably towards the end of 2016 and this trend consolidated at the turn of the year.

The Japanese industry started off 2017 with a powerful increase in production. In the first two months, production recorded the strongest growth seen since spring 2014, going up by four percent. Apart from the pharmaceutical industry, all larger industries increased their output, with vehicle production leading the way with a growth rate of 7.7 percent. The purchasing managers' index for manufacturing has been signalling an increase in production since September 2016 and, in February 2017, climbed to its highest level since March 2014. We are thus anticipating a robust expansion of production in the spring quarter.

Japan: Industrial production\*, Purchasing Managers Index\*\*



\*Production index: two-month average, after calendar and seasonal adjustments, in percent, year on year  
 \*\*from January 2014

Source: Macrobond



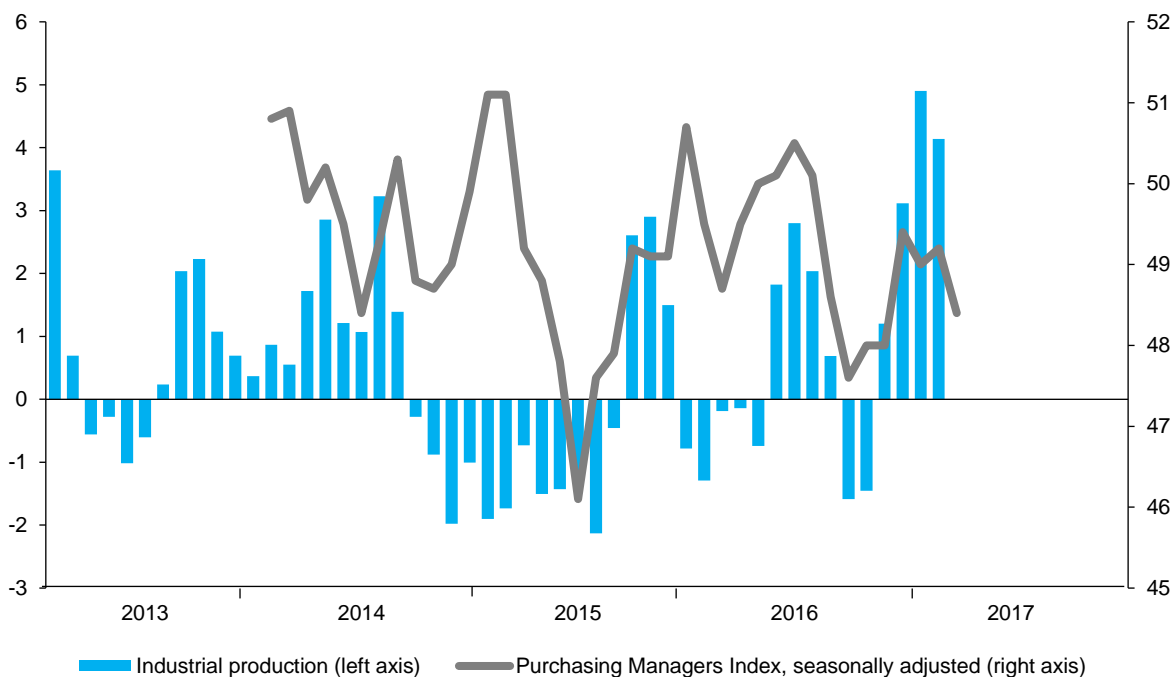
### South Korea

Following a weak start in the first quarter of 2016, manufacturing output in South Korea managed to regain its footing in the further course of the year. The first quarter contraction of 0.4 percent was followed in the second and fourth quarter by a production increase of 1.7 percent year on year, with another slight dip in the third quarter. All in all, production for 2016 overall increased by 0.7 percent compared with the previous year, following a decline of 0.5 percent in 2015.

Among the key industries, the electrical and electronics sector matched the pace of industry overall, with both growing at 0.7 percent. Production of basic chemicals was down 3.3 percent in 2016 but overall, the chemical and pharmaceutical industry increased its annual output by 3.1 percent. The 3.8 percent drop in vehicle production compared with the previous year is the first setback recorded by this sector since 2009. South Korean machinery production shrank by 5.2 percent. Although this is not as much as the year before (down 6.2 percent), it was the fourth consecutive year of decline. In the last four years, South Korea’s machinery production has fallen by a total of 16.0 percent.

Since the turn of the year 2016/2017, South Korean industrial production has enjoyed a buoyant recovery. The two-month comparison for January/February 2017 compared to the same period in 2016 shows production increasing by 4.3 percent. This makes it the fourth consecutive increase, and one that has taken place across almost all key industries. The purchasing managers’ index for manufacturing is not quite as optimistic, staying shy of the expansion threshold of 50 index points in the first three months of the current year.

#### South Korea: Industrial production\*, Purchasing Managers Index\*\*



\*Production index: two-month average, after calendar and seasonal adjustments, in percent, year on year  
 \*\*from January 2014

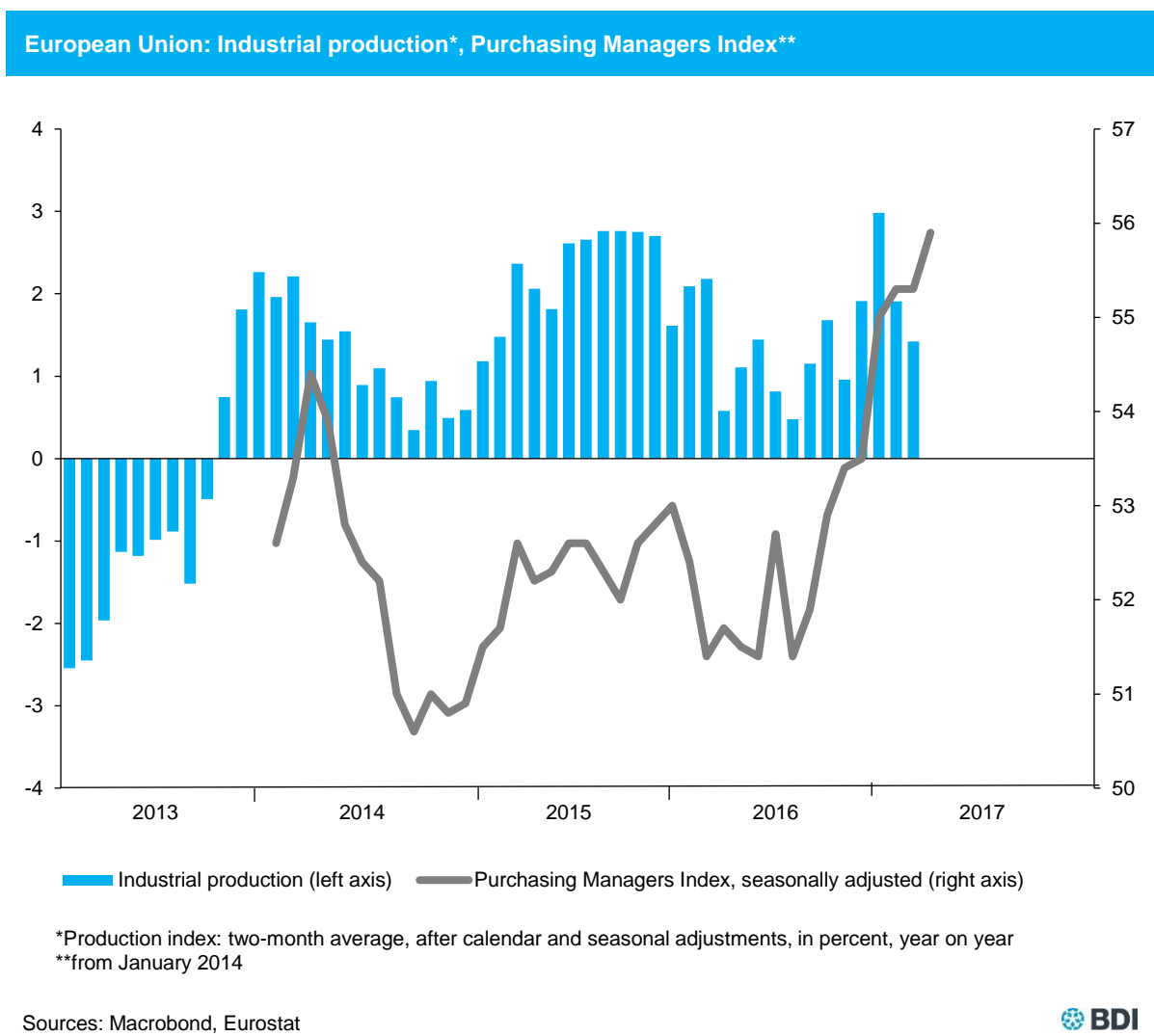
Source: Macrobond



## European Union

In the European Union, industrial production (industrial sector without construction) grew steadily over the course of the year. In each of the first three quarters, production increased by somewhat over one percent. In the fourth quarter, growth rose to 2.2 percent. Industrial production in the EU28 thus increased by a total of 1.5 percent. This was the third consecutive increase, following 2.2 percent growth in 2015.

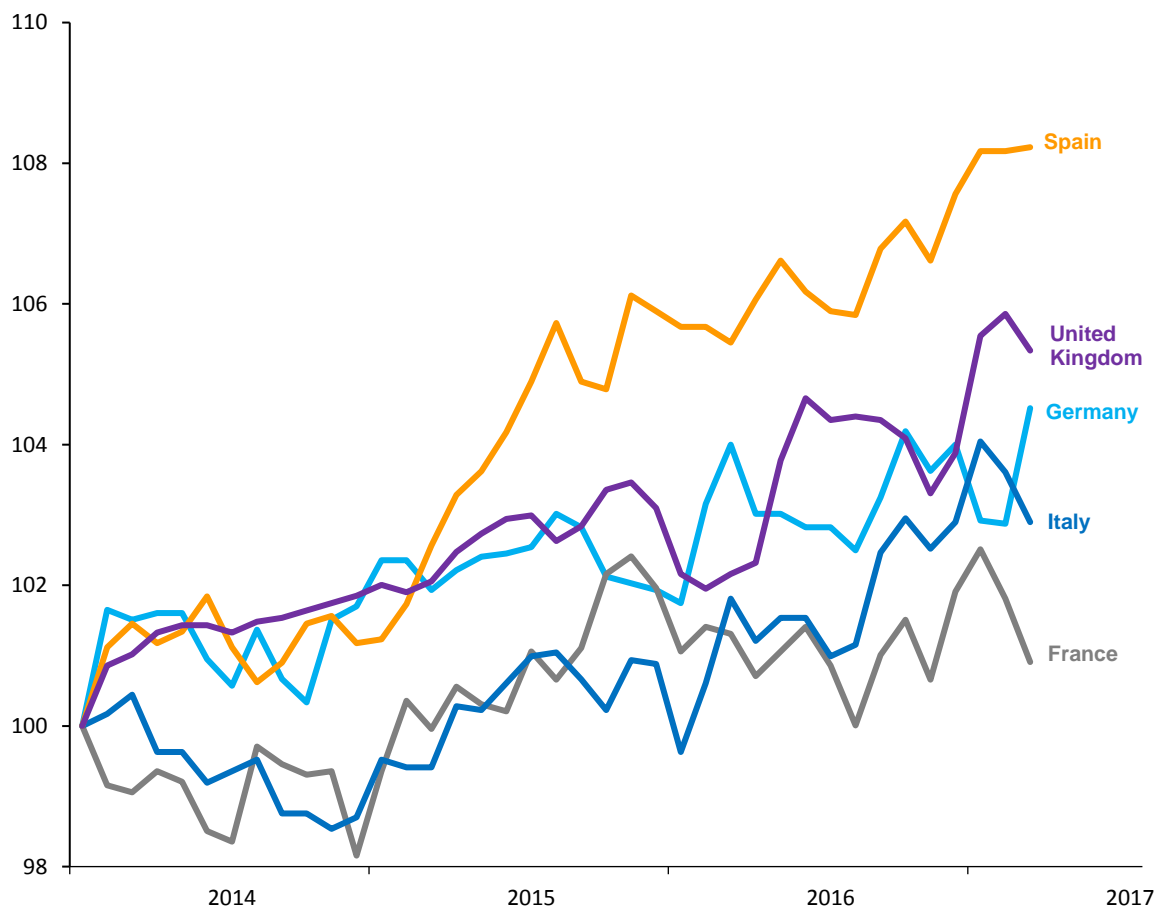
Among the individual industries in the manufacturing sector, vehicle production recorded the strongest increase with growth of 4.5 percent, followed by the chemical industry which achieved a 1.2 percent increase on the back of robust growth in pharmaceuticals. Basic chemical production increased by just 0.5 percent in 2016. The electrical and electronics industry expanded its production slightly by 1.1 percent. This moderate result is partly due to the high growth registered the previous year. In 2015, production in the electrical and electronics industry had surged by 7.1 percent. Machinery production continued its sideways trend, growing by 0.8 percent in 2016 following a dip of 0.2 percent in 2015.



The upward trend in industry was seen in all five major economies in the European Union. The Italian industry drew level with Spain as the top performers of these five countries in 2016. Both countries increased their industrial output by 1.9 percent. The UK industry, growing by 1.2 percent in 2016, outperformed its German counterpart (up one percent) due to oil production, which plays a bigger role in the UK than in Germany. In terms of just the manufacturing sector, the increase in output of German industry was larger than that of the United Kingdom. France's industry was not able to maintain the pace of growth recorded the previous year (up 1.9 percent); it barely managed to hold last year's level, nudging up just 0.2 percent.

We are expecting the upturn that has been sustained since 2014 to continue in 2017. While the two-month comparison (January/February 2017) compared to November/December 2016 shows a slight drop in industrial production of 0.1 percent after seasonal and working-day adjustment, it has improved markedly year on year, rising by 1.4 percent. In the first three months of the current year, the purchasing managers' index for manufacturing in the European Union topped the highest level seen last year.

**Industrial production\* since 2014**



\*Production index: two-month average , calendar and seasonally adjusted (index: 2013=100)

Sources: Eurostat, own calculations



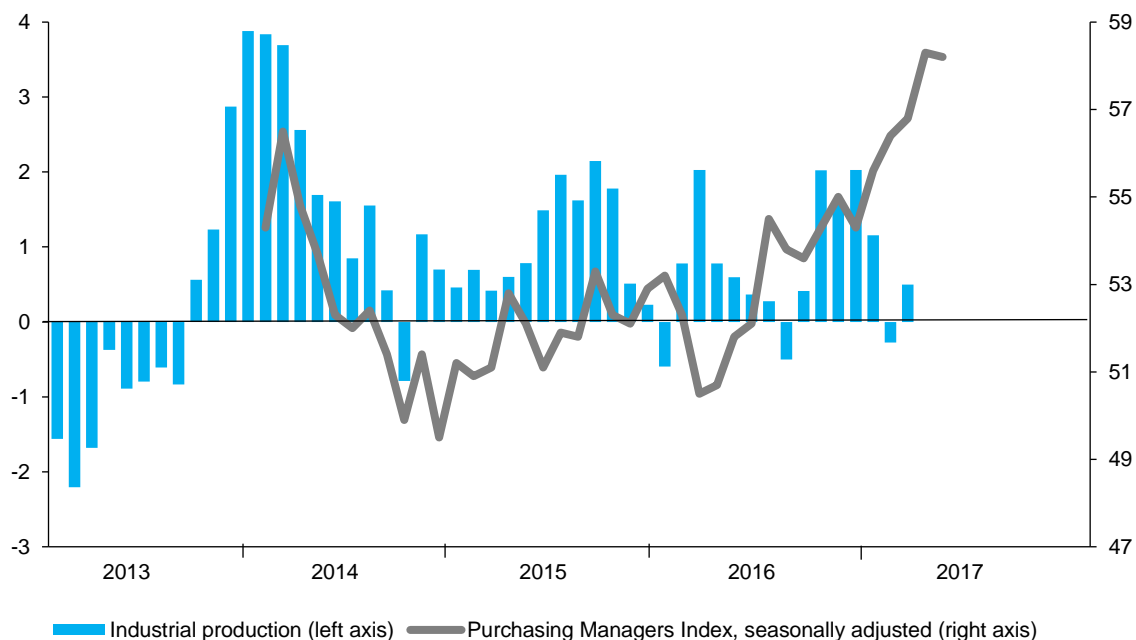
## Germany

German industry got off to a good start in 2016. Industrial production (industrial sector without construction) increased by 1.4 percent in the first quarter compared to the previous year. While this momentum was not upheld in the further course of the year, production did increase over last year throughout the next three quarters. The 1.3 percent increase in the fourth quarter brought the total increase in industrial production in 2016 to one percent, its fourth consecutive year of growth.

Among the individual industries in the manufacturing sector, vehicle production recorded the biggest rise with 2.1 percent, followed by the electrical and electronics industry, which increased production by 1.9 percent. This was the third consecutive increase in annual production in this industry. Machinery continued its sideways trajectory, with a small increase in production of 0.4 percent in 2016 following on from a marginal drop in production of 0.2 percent in 2015. The production of basic chemicals dropped by 0.4 percent in 2016, though production in the chemical industry overall increased by 0.6 percent, fuelled by strong pharmaceutical production levels.

Buoyed by the fourth quarter of 2016, German industry should deliver a good start to 2017. The industrial sector (without construction) and manufacturing recorded an increase in production of one percent and 0.5 percent respectively for the months January/February 2017 compared to the same period last year. Moreover, the purchasing managers' index for manufacturing has remained above the highest level recorded in 2016 for the first four months of the current year. In March 2017 it reached the highest level seen since April 2011. For 2017 overall, we expect manufacturing output to increase by 0.5 percent, based on the estimates of the individual industries. This weak growth is not cyclical in nature but rather due to the relocation of production facilities as well as repair and conversion measures.

Germany: Industrial production\*, Purchasing Managers Index\*\*



\*Production index: two-month average, after calendar and seasonal adjustments, in percent, year on year  
 \*\*from January 2014

Sources: Macrobond, Eurostat



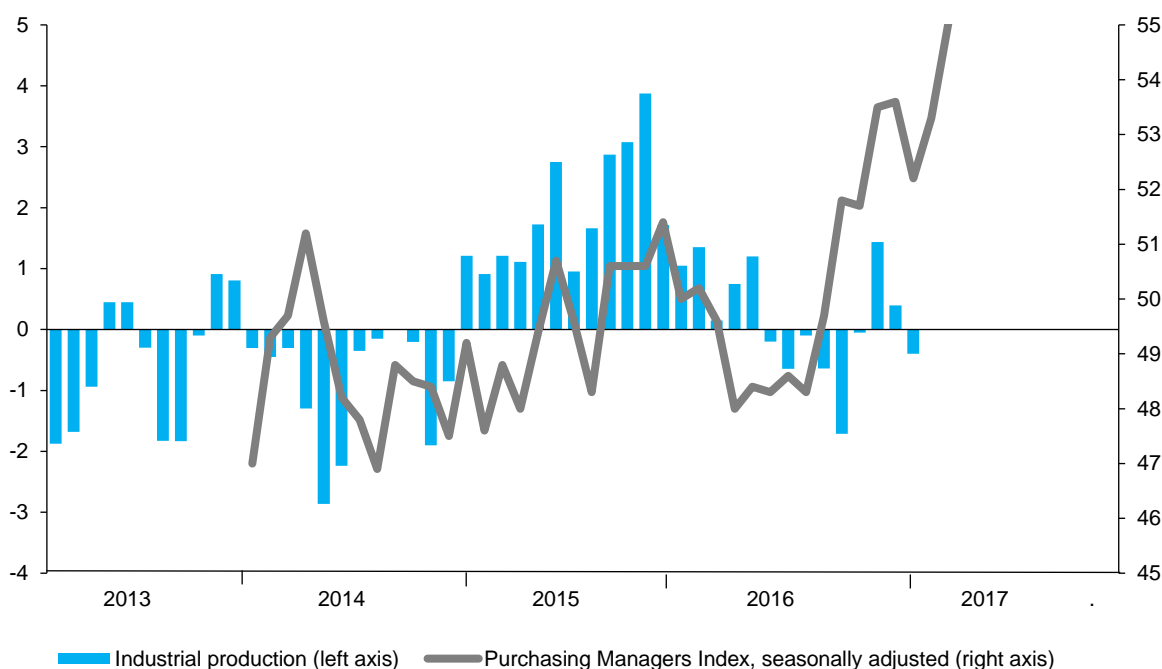
## France

In France, industrial production (industrial sector without construction) increased 0.2 percent last year overall, thanks to the positive performance in the first half of the year and at the end of the year. The monthly fluctuations here lay within a range of plus/minus two percent throughout the year. This is the second consecutive increase in industrial production in France, following a 1.9 percent increase in 2015.

As in 2015, vehicle production was the dominant industry within the manufacturing sector, expanding production for the third year in a row. Vehicle production increased the most among all large industrial sectors, posting 4.6 percent growth. Production of basic chemicals also increased at an above-average rate, going up by 2.4 percent. In combination with the pharmaceuticals industry, however, annual production in 2016 only increased by 0.1 percent. The electrical and electronics industry was able to maintain last year's production level after increasing 1.9 percent the year before. Machinery production reported similarly unspectacular results. This sector continued its sideways trajectory, posting a decrease of 0.1 percent in 2016 following a marginal increase of 0.1 percent in 2015.

At the start of 2017, there were no clear signs of economic recovery in France's industry. The figures for the industrial sector without construction and for manufacturing both show a slight drop in production both in comparison to the previous period and year on year. The purchasing managers' index for manufacturing paints a brighter picture. It has pointed towards a growth in production since October 2016 and climbed to its highest level in six years in April 2017.

France: Industrial production\*, Purchasing Managers Index\*\*



\*Production index: two-month average, after calendar and seasonal adjustments, in percent, year on year  
 \*\*from January 2014

Sources: Macrobond, Eurostat



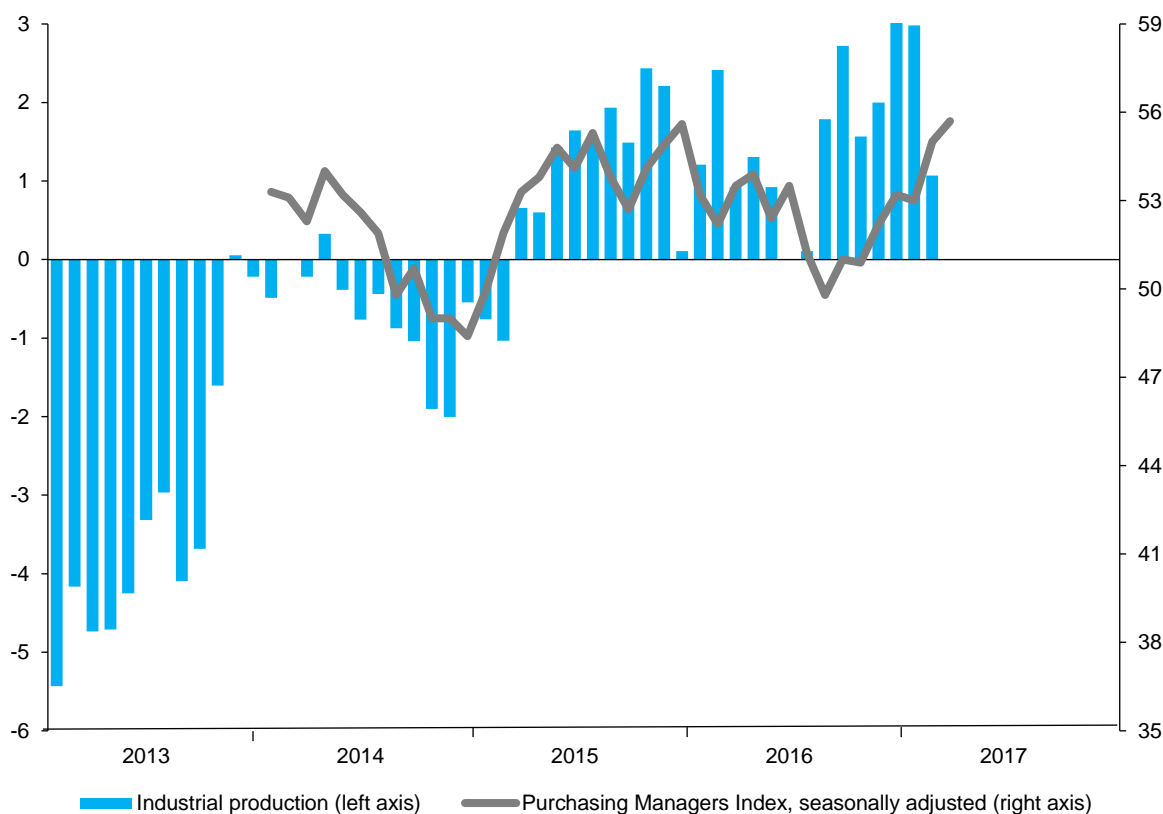
## Italy

In 2016, Italy's industry continued on its path of growth, which began in mid 2015. Industrial production (industrial sector without construction) increased in the first quarter of 2016 by 1.8 percent over the previous year. Following a weaker second quarter, the pace of production picked up throughout the rest of the year. Overall, industrial production in 2016 rose by 1.9 percent.

Among the individual industries of the manufacturing sector, vehicle production posted the greatest increase, growing by seven percent, followed by machinery, which expanded production by 3.9 percent. Production of basic chemicals increased by 2.1 percent. Annual production in the chemical industry for 2016 was pulled down slightly by the somewhat weaker performance of pharmaceuticals and finished off with an increase of 1.9 percent. The electrical and electronics industry put in a below-average performance, increasing production by only 0.1 percent.

The economic upturn should continue into early 2017. Both the industrial sector without construction and the manufacturing sector recorded an increase of 1.1 percent and 2.9 percent respectively for the first two months of the year compared with the first two months of 2016. Furthermore, the purchasing managers' index for manufacturing exceeded the highest level recorded last year in both February and March 2017.

**Italy: Industrial production\*, Purchasing Managers Index\*\***



\*Production index: two-month average, after calendar and seasonal adjustments, in percent, year on year  
 \*\*from January 2014

Sources: Macrobond, Eurostat



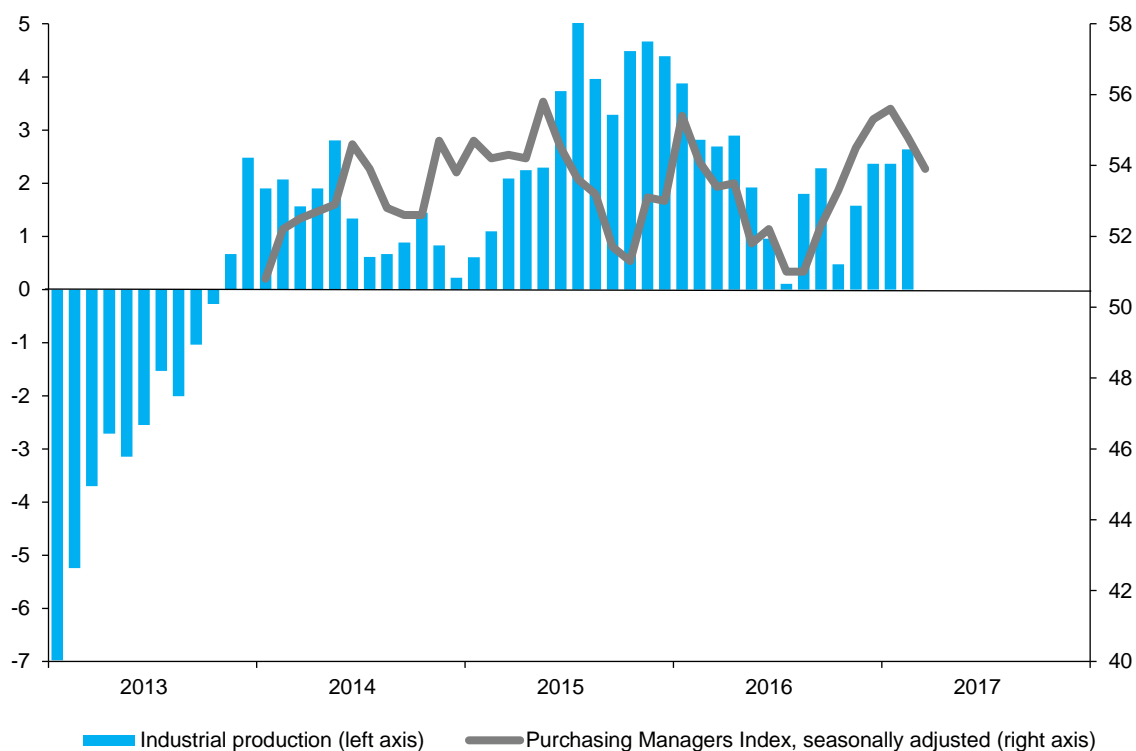
## Spain

Spain's industry was not able to maintain the pace of growth recorded the previous year. Although manufacturing output increased by a further 4.6 percent in the first quarter of 2016, the pace of growth almost halved in the industrial sector as a whole (without construction) and manufacturing in the further course of the year. A few industries even recorded negative quarterly growth rates. Overall, industrial production in 2016 only increased by 1.9 percent following growth of 3.3 percent the previous year.

Among the individual industries of the manufacturing sector, vehicle production grew the most with an increase of 6.3 percent. Machinery production registered a much lower increase of 3.3 percent. Growth in production in the chemical industry, at 3.2 percent, was of a similar magnitude on the back of good results in pharmaceuticals. Pure chemicals closed the period with a plus of 1.9 percent. Production in the electronics industry decreased for the first time in two years, dropping 1.8 percent.

Following a strong recovery last year, Spain's industry seems to be heading for more moderate growth in 2017 due to the base effect. The industrial sector (without construction) and manufacturing recorded an increase in the first two months of 2017 compared to the previous year of 2.6 percent and 1.7 percent respectively. The purchasing managers' index for manufacturing is still pointing towards growth although in February and March 2017 it fell below the high values seen in late 2016.

### Spain: Industrial production\*, Purchasing Managers Index\*\*



\*Production index: two-month average, after calendar and seasonal adjustments, in percent, year on year  
 \*\*from January 2014

Sources: Macrobond, Eurostat





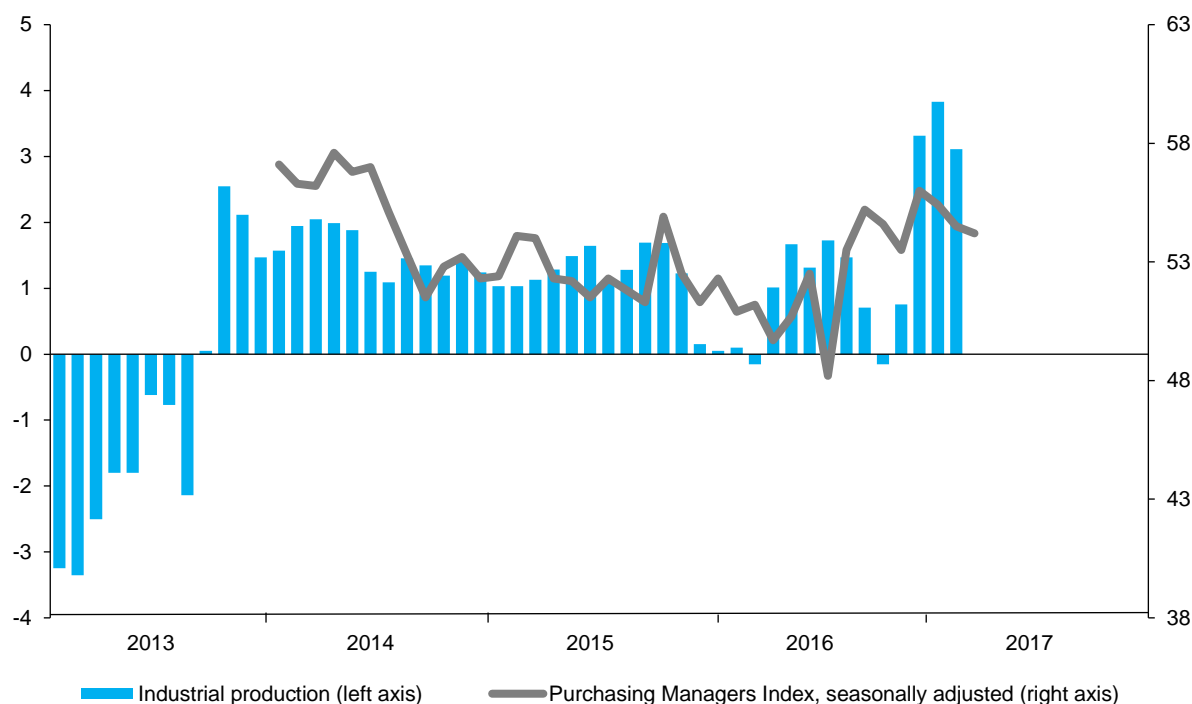
## United Kingdom

In the United Kingdom, industrial production (industrial sector without construction) increased by 1.2 percent over the previous year. The rate of growth in 2016 thus exactly matches that of 2015. Manufacturing output even expanded 0.7 percent after dipping by 0.2 percent the previous year. Production dropped in almost all industries in early 2016 but managed to make up for this over the further course of the year.

Among the larger industries in the manufacturing sector, only vehicle production was able to expand its annual production. The 4.3 percent plus recorded by vehicle production was its sixth consecutive annual increase. The chemical industry fell just short of its production level of the previous year and closed off the year marginally below zero thanks to favourable developments in pharmaceuticals. Chemicals alone dropped by 2.5 percent, although it should be noted here that the 2015 result was very good. The drop in machinery production of 1.2 percent was much less than the previous year (down 12.7 percent). The electrical and electronics industry registered a drop in production for the second year in a row, falling by 2.5 percent in 2016.

The economic data for the turn of the year 2016/2017 are extremely good. The industrial sector (without construction) recorded an increase in production of 3.1 percent for the first two months of the current year in comparison to the same period in 2016. This is the fourth increase in a row. Output in manufacturing has increased consistently since May 2016, rising most recently by 2.9 percent across all major industries. The purchasing managers' index for manufacturing has dropped slightly since the turn of the year but the first three index values of the current year all lie above the previous year's average, which indicates that production will increase at the start of the year.

**United Kingdom: Industrial production\*, Purchasing Managers Index\*\***



\*Production index: two-month average, after calendar and seasonal adjustments, in percent, year on year  
 \*\*from January 2014

Sources: Macrobond, Eurostat



## Development of German exports

In 2016, goods were exported to a value of 1,208 billion euros, which is 1.2 percent more than in 2015. Exports to EU countries rose by 2.2 percent, with demand for German products particularly strong outside the euro area (2.8 percent). Exports to non-EU countries did not grow (down 0.2 percent). The most important destination for exports was the US, while China was the biggest country of origin of German imports. For the first time, China was also Germany's biggest trading partner (exports plus imports). Imports to Germany in 2016 only increased by 0.6 percent, bringing the annual trade surplus to a record level of 253 billion euros.

German exports got off to a very good start in 2017 and, in February, were 3.1 percent above the previous year's level. In January they were even 11.7 percent higher year on year. The current upwind in the global economy gives ground for hope that German foreign trade will continue on this positive trend in the further course of the year.

We expect the global economy to expand by 3.5 percent over last year. Despite this robust overall pick-up in global trade, we are only anticipating below average growth in German exports. Following a depreciation of the euro against the dollar driven by US fiscal policy, we anticipate nominal goods exports to increase by a good one and a half percent over the previous year. Although the electrical and electronics industry, the chemical industry, the ceramics industry, the textile industry and machinery production are relatively optimistic regarding their foreign trade prospects, the strongly export-oriented automotive industry remains comparatively sceptical. This is not because it anticipates weaker demand for cars in foreign markets but due to impending relocations of production abroad. In view of the good overall economic development in the important destination countries of German exports, the export prospects for industry should improve in the course of the second quarter.

## Industrial sectors in Germany

### Production in German aluminium industry

In 2016, Germany produced around 1,142,000 tonnes of aluminium, which is two percent below the previous year's level. Production in this industry is divided into recycled aluminium (52 percent) and primary aluminium (48 percent). While the production of primary aluminium increased, recycled aluminium decreased.

The production of semi-finished aluminium products (rolled goods, extruded products, conductors and wires) in 2016 increased by eight percent, rising to 2,639,000 tonnes and thus outperforming its previous record level of 2014. The industry supplies all major industrial sectors and the construction industry. Sales to the transport sector showed particularly strong growth. The largest customer group of German semi-finished rolled aluminium goods in terms of volume are aluminium rolling mills. The production of rolled products made of aluminium in 2016 overall amounted to 2,046,000 tonnes. This is an increase of 10.2 percent over the previous year. The producers of extruded products reported a stable development in production (570,000 tonnes).

Aluminium processing companies in Germany produced a total of 336,000 tonnes in 2016. This corresponds to a decrease of three percent over the previous year. These companies produce foil, thin ribbon, tubes, aerosols and other cans as well as metal powder. The main buyer for aluminium processing is the packaging sector. The production of foil and thin ribbon dropped off slightly while production in the other product groups contracted more strongly.

2016 was thus a mixed year for the German aluminium industry. Companies in this sector view their current situation (first quarter 2017) and prospects for the next six months as positive. Despite geopolitical uncertainties, the prospects for 2017 as a whole are marked by cautious optimism. Overall, the industry expects a slight increase in production.

### Exports

Exports were an important pillar for companies in the German aluminium industry in 2016, particularly for producers of semi-finished aluminium products. Exports in this sector increased by 6.5 percent overall, doing particularly well within Europe. Trade with Sweden was the most dynamic among European partners with exports to the country surging by a whopping 78 percent. The most important European trading partner by far was the United Kingdom. Exports here increased by 7.7 percent. While exports to North America were slightly lower (down 2.2 percent), exports to Central and South America increased strongly (up 53.7 percent).

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## Automotive industry

### Production

German carmakers managed to increase their domestic production in the first quarter by a good two percent to over 1.5 million vehicles, the highest output measured in ten years. The production facilities are operating at near full capacity, with utilisation in the first quarter at 98 percent, almost as high as in the previous quarter. Diesel is still an important pillar of the German automotive industry. In the first two months, the proportion of diesel vehicles was 46 percent, and thus was just one percentage point below the proportion in the same period last year.

Production is benefiting from the positive trend in the domestic market. Rising incomes and the higher rate of employment is pushing up sales. New vehicle registrations increased by seven percent in the first quarter thus reaching the highest level seen since the year of the scrapping bonus in 2009. The good current situation is also reflected in the order books, which are fuller than they have been for the last eight years.

The upturn in the automotive sector includes not just the German market but other Western European countries as well. In March, new vehicle registrations reached an absolute record high, with more new vehicle registrations than in any quarter since 2007. Particularly in the Southern European countries such as Italy, Spain and Greece, demand for new vehicles to replace outdated stock that piled up during the crisis years is now gradually being met.

The global orientation of the German automotive industry is reflected in its foreign production figures, which continued to gather momentum in the first two months of the year, surging up by 13 percent to 1.71 million units. Today, 64 percent of global production of German OEMs takes place in international facilities. The most important location abroad by far is China, where 755,000 vehicles were produced.

Economic growth leads to more transport of goods which, in turn, animates the commercial vehicles sector. The booming online trade is increasingly having a positive impact on van production. In the category of up to six tonnes, new vehicle registrations in Western Europe have increased by six percent the first two months of the year to reach a record level since 2008. Heavy-duty truck production grew three percent. The production of vans in Germany is currently declining due to the relocation of one model range to Poland.

## Exports

In the first quarter of 2016, German OEMs increased their exports by four percent to 1.16 million units. The proportion of exports thus further increased by one and a half percentage points to 76.8 percent. Despite the controversies surrounding diesel, 44.6 percent of foreign customers of German carmakers opted for diesel engines, up from 44.2 percent the previous year. The number of units has recorded a sturdy increase, but there is also qualitative growth as higher segment models including executives (up 28 percent) and SUVs (up 22 percent) are currently proving particularly successful. The driver of growth in the first two months was the euro area, which increased its car imports from Germany by eleven percent to 231,000 vehicles. Exports to the United Kingdom, the most important partner country in terms of volume, dropped by nine percent to 149,000 on account of the weak exchange rate of the pound.

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## Prospects remain positive in the building materials industry

Sentiment in the building materials industry remains good, based on favourable developments in the construction industry. 2016 was a very good year for building materials, with price-adjusted production increasing by three percent. Base effects have led to a 0.6 percent decline in production in the first two months of 2017 compared with the previous year but as demand in the construction sector is expected to remain high we anticipate the industry to grow in 2017 overall. As things stand, the German Building Materials Association (bbs) is forecasting production to increase by around two percent in the current year.

Most of the subsectors of the industry should benefit from the high demand in construction, among them the concrete-related sectors (e.g. cement, aggregates, ready-mixed concrete and concrete components), masonry (brick, sand-lime brick, cellular and lightweight concrete) and sectors related to civil and underground engineering such as natural stone quarrying. Still driving growth in this sector is the high demand for residential housing,

with particular upwind in the construction of apartment blocks in high-growth regions, and the increase in public sector investment in both structural and civil engineering. On account of the overall positive situation, the bbs is also predicting a slight increase in jobs and in investments in 2017.

The good economic prospects are also reflected in the ifo business survey for the industry. Building materials companies most recently rated their current business situation at plus 40 points, which is an all-time high. Expectations for the next six months are considerably more muted but, at plus ten points, still solidly optimistic.

#### Foreign trade prospects for 2017 are muted

On account of the high transport costs in relation to production value and relatively demand-oriented supply, foreign trade plays a minor role in many segments of the building materials industry (e.g. construction gravel and sand, natural stone, concrete products), whereas the proportion of foreign trade is very high in other segments such as tiles. Just under 14 percent of the industry's total revenue is generated by sales abroad. The share of exports has trended downwards slightly in the past few years, no doubt partly due to increased domestic demand. For 2017 the bbs is expecting exports of building materials to remain level.

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#### Construction industry expecting robust growth to continue in 2017

The Central Federation of the German Construction Industry (HDB) is expecting construction industry revenue to grow by five percent in 2017 and between three to 3.5 percent in real terms. The industry will thus more or less maintain the high pace of growth seen in 2016, with its nominal increase of 6.3 percent. This optimism is also reflected by the current mood in the industry. In the first quarter of 2017 the business climate in the construction industry was more positive than it has been since German-wide surveys began recording this indicator in 1991.

Residential construction is set to remain the driver of growth, buoyed above all by new construction. Thanks to low mortgage rates, high immigration, rising real disposable incomes of private households and high rental yields, almost 20 percent more apartments were approved for construction in 2016. Incoming orders in this segment of the construction industry increased by 17 percent, with orders in hand at yearend the highest in twenty years. The seven percent increase in revenue expected by the industry in the current year would bring the annual revenue to over 60 percent more than in 2010.

In 2017, public construction will account for a nominal increase of five percent in the construction industry's revenue. This is partly due to the hike in federal investment in the transport infrastructure of 12.8 billion euros, which is 600 million more than was made available in 2016. On the municipal level, the doubling of the municipal investment promotion fund to seven billion euros has brightened prospects here. Incoming orders from the public sector increased by 16 percent in 2016, with orders in hand at yearend reaching their highest level by far since 1995.

The German construction industry is less optimistic about the prospects for commercial construction, expecting growth of three percent. International problems (Brexit, the protectionist stance of the new US president) could curb investments in this segment. These had little impact last year however, with a double-digit increase in building permits (budgeted construction costs) for all building categories in the commercial construction sector. Incoming orders and orders in hand also experienced double-digit growth that will ensure the upward trend in construction continues in 2017.

The year was equally positive for the construction job market. At 781,000, the average number of workers in the construction industry in 2016 was 2.4 percent above the previous year's level. This means that since the trough in 2009, the industry has created 76,000 new jobs. In view of the expected increase in revenue in 2017, the number of workers is expected to rise further in the current year to 790,000. However, this expansion in the workforce is gradually reaching its limits. The number of unemployed skilled construction workers dropped to a new all time low of 27,700 in 2016. The situation is even more problematic concerning building engineers, where there are currently 1.7 job vacancies for every unemployed engineer.

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### Synthetic fibre industry: forecast on production developments

Despite the international trends and multiple political challenges that are increasingly weighing down on German synthetic fibre producers, synthetic fibres "made in Germany" are not yet extinct.

In contrast to 2014 and 2015 when production volumes stabilised at almost exactly the same level as the previous year, total production in 2016 rose slightly, going up from 628,000 tonnes in 2015 to 641,000 tonnes in 2016.

Even production of man-made cellulosic fibres, which had dropped 6.8 percent in 2015 in line with the global slump in cotton, experienced a minimal increase of 0.02 percent in 2016.

Meanwhile, the positive trajectory in synthetic fibres, in particular polyester, continued with production remaining at the same level as 2015 (up 0.05 percent year on year) despite the collapse of key markets such as Russia. Synthetic fibre exports remained steady with only a marginal increase on last year, at 602,000 tonnes in 2016 compared to 600,600 tonnes in 2015. Synthetic fibres imports trended similarly.

The revenue generated by the industry also remained steady at two billion euros, while 2015 had witnessed a drop in revenue of 4.8 percent over 2014. This had led to unavoidable adjustments in the workforce number, which dropped by 1.4 percent in 2015. This figure rose again slightly in 2016. In 2015, fibre processing in Germany of all types of fibres had fallen 11.6 percent below the previous year's level. The situation remained stable in 2016.

Despite the alarm bells that have been ringing in this industry since 2015, we anticipate solid stabilisation in 2017 with growth potential in niche markets. The synthetic fibre industry will not experience any significant growth unless production factors for synthetic fibre producers in Germany (and Europe) improve substantially.

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### A difficult year for chemical industry with conciliatory yearend

2016 was a difficult year for the German chemical and pharmaceutical industry overall. Production only grew by 0.5 percent. Prices went down 1.9 percent and the industry's revenue suffered a hefty drop of over two percent, down to 184.7 billion euros. The marginal increase in production was generated exclusively by pharmaceuticals. Production decreased in all other sectors year on year.

The sluggish year ended on a positive note, however, with performance improving in the fourth quarter. Production remained stable, matching the previous quarter's level. Quarterly revenue saw its second robust consecutive increase (up 1.7 percent). One of the factors providing upwind was the continued increase in prices (up 0.5 percent) on the back of rising oil prices. Domestic and foreign sales both increased. The biggest impetus for growth came from trade with Asia and North America, while European trade failed to gain momentum overall.

In the first months of 2017 the moderate upward trend seen in the last quarter of 2016 continued. Production increased. Prices rose considerably with revenue also regaining strength. Exports increased across all sectors and all regions.

#### **Outlook: moderate growth with high risk potential on the horizon**

The industry remains cautious about the further course of business. The new economic and trade policy approach under the Trump administration has triggered uncertainty as have concerns about the stability of Europe. Indications are mounting that we are heading for a hard Brexit, which will be detrimental to the European Chemical Regions Network for the long term.

However, there are also positive developments that give ground for hope. Despite the numerous shocks of the last year, the European industry has proved to be resilient. Growth is continuing and both unemployment and public deficits are pointing down, also in large parts of southern Europe. The gathering momentum in industry is currently stimulating demand for chemicals in Europe. There are also positive signs coming from overseas. The measures announced by Trump will inject short-term impetus into the US economy. Any gains garnered by industrial customers of the chemical companies from US trade will push up the domestic demand for chemicals.

For 2017, the German Chemical Industry Association (VCI) is expecting production to increase by 0.5 percent with broader-based growth than in the previous year. While prices continue to rise, revenue will also increase further. Domestic sales will grow somewhat less than foreign sales.

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#### **German electrical and electronics industry off to good start in 2017**

The German electrical and electronics industry started out well in 2017. Price-adjusted production in the first two months here was 4.4 percent over the previous year. Nominal revenue increased in the same period by 5.8 percent to 28.6 billion euros, with exports soaring 11.4 percent. Incoming orders also increased substantially, rising 6.4 percent year on year. Last year the orders for the German electrical and electronics industry flagged to one percent below the 2015 level due in part to fewer large orders. Domestic and foreign orders fell to an almost equal degree, going down one percent and 1.1 percent respectively. By contrast, price-adjusted production went up by 1.2 percent last year. Revenue generated by the industry's companies crept up a marginal 0.2 percent to 178.5 billion euros in total. Domestic and foreign revenue increased by 0.2 percent to 86.9 billion euros and 0.1 percent to 91.6 billion euros respectively. The size of the domestic workforce of the electrical and electronics industry is currently 847,000 workers. The industry has another 704,000 workers abroad.

According to preliminary figures, the R&D expenditure of the German electrical and electronics industry again increased markedly in 2016, going up by 5.8 percent to 17.2 billion euros. According to companies' planned investments for the period, fixed gross capital formation should also have risen by a notable eight percent to 6.2 billion euros. Together, these two items correspond to over 13 percent of the industry's revenue. In half of the cases, the capital investments were designed to expand production capacities. For 31 percent of the companies,



investments were primarily motivated by rationalisation measures while 20 percent were mainly focusing on replacements.

For 2017, the German Electrical and Electronic Manufacturers' Association (ZVEI) are expecting price-adjusted production in the industry to increase by 1.5 percent. Nominal revenue is expected to rise by two percent, which will see it getting back to its 2008 record level of 182 billion euros.

#### Electrical and electronic exports set new record for third consecutive year

In 2016, German electrical and electronic exports (including re-exports) grew by 4.4 percent year on year reaching a total value of 182.1 billion euros. Exports to industrialised countries rose by 4.7 percent, thus again somewhat more strongly than exports to newly industrialised countries, which increased by 3.8 percent. 2016 marked the third consecutive year of record exports. Exports to China, which once again replaced the US as the largest importer of German electrical and electronic goods, totalled 16.3 billion euros in 2016. This corresponds to an increase of 8.3 percent compared with the previous year. Electrical and electronic exports to the US rose by two percent to 16.1 billion euros over the same period, while exports to the euro area increased by 2.9 percent to 56.8 billion euros.

For the current year, the ZVEI is expecting further growth in exports of around three percent to 188 billion euros.

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#### Mixed prospects for the foundry industry

Sentiment among German foundries in the middle of the first quarter 2017 was very mixed. Some areas of the most important casting-related machine building sectors such as agricultural technology and commodities-related sectors like mining and exploration have good chances of bottoming out. The machine tool industry and plastic and rubber machinery are showing a satisfactory development, although these subsectors are highly dependent on individual customers. There are question marks hanging over the main customers from road vehicle production. The relocation of individual models from Germany to overseas and signs of saturation in a number of markets in Europe are muting prospects here.

The production of cast components in 2016 only came in at about two percent under the 2015 level after seasonal and working-day adjustment. Breaking this figure down by dominant material shows that the industry is still experiencing very diverse economic trends. Iron and steel foundries suffered a production drop of around five percent due to the high proportion of their sales to machinery and plant manufacturers. Light metal foundries, on the other hand, benefited from the fact that the majority of their customers come from the automotive industry and were able to expand production slightly in 2016 thanks to a pick-up in momentum at the end of the year. The 600-odd companies operating in the industry currently employ around 80,000 workers according to a survey by its trade association BDG.

The foundry industry had a mixed start to 2017. As of the end of April, the current business climate shows a very heterogeneous assessment of the current situation and expectations clearly portray the dominance of individual customer groups and competition between materials. In the last two months, the current situation has been rated by 27 percent of foundries as good and business is expected to improve in the further course of the year. However, around one quarter of companies assess the current situation as poor. Foundries are looking at the next six months with muted optimism despite the uncertainties in the investment climate of the most important destination countries in Europe and overseas.



### Cast component exports influenced by international investment climate

In 2015, foundries' foreign sales dropped by three percent to just under 4.3 billion euros. The share of exports was just under 34 percent. In 2016, sales (according to the sales index) fell by around one percent, largely due to a roughly four-percent decline in exports. Deliveries to euro area countries were down by almost three percent, while exports to countries outside the euro area dropped five percent. Export prospects are slightly positive overall but still rather subdued. Two-thirds of foundries expect the weak foreign demand to stabilise at the current level. It should be noted here that around 80 percent of cast components produced in Germany are end-used abroad. Indirect exports via the German automotive and machinery industries are therefore a powerful influencing factor.

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### Glass industry

Economic developments in the glass industry were fairly positive in 2016. The price-adjusted production value increased by 3.2 percent over the previous year. Total revenue increased by 2.6 percent with growth momentum coming largely from other countries in Europe. Total foreign revenue increased by 5.1 percent year on year, with around 8.5 percent of the increase coming from sales within the euro area and around 1.6 percent from outside the euro area. Domestic trade also trended positive but less than foreign trade, recording an increase of one percent compared with the previous year. Almost all sectors of the industry are benefiting from the current stable economic environment, particularly the flat glass, glass finishing, glass containers, fibre optics and special glass industries. The positive trajectory in foreign sales is also reflected in the foreign trade balance of the industry.

In 2016, trade in glass and glass goods generated an export surplus of 852,000 tonnes or 1,026 million euros. Exports increased by 5.1 percent in terms of tonnage and 2.8 percent in terms of value. Imports, by contrast, increased by only 1.2 percent in tonnage and 3.4 percent in value. Exports in particularly high demand were products of the flat glass finishing and fibre optic industries, which increased ten percent and 7.4 percent respectively.

Foreign business was again strong at the start of 2017, although this time, sales in countries outside the euro area surged (up around twelve percent), while domestic business was slightly negative (down 1.1 percent). The overall trend was nonetheless positive, with growth at 1.8 percent. Seen as a whole, the glass industry is stable and pointing upwards slightly. Another positive factor is that the early indicators of the customer industries (construction, automotive, food, pharmaceuticals, cosmetics) are largely positive.

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### Real estate

2016 was one of the best years in a decade for German real estate. In its spring report, the Council of Real Estate Experts recorded a transaction volume of 52.9 billion euros for the commercial real estate market. This is the third highest total revenue posted in the past decade after 2007 and 2015. Gross value added of real estate industry (real estate and housing) increased by 3.2 percent from 2015 to 2016. The council expects the German real estate industry to continue its period of high growth this year. Factors that have been driving demand such as favourable financing conditions, rising disposable incomes and shifts in investor portfolios towards real estate

will continue to apply. The high level of demand is not equally distributed throughout Germany, however, with demand set to pursue its trajectory of steep growth in urban areas while stagnating or declining in rural regions. The supply of housing to meet this demand will remain inadequate. The experts also point towards a shortage of office and retail space in these tight markets. The framework conditions could be made more conducive to increasing the supply of residential, sales and commercial space. Supply in the real estate industry is currently bottled by numerous regulations that drive up the construction costs of real estate.

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## Ceramics industry

2016 was a year of extremely mixed results for the subsectors represented by the fine ceramics industry trade association BVKI. Dinnerware, decorative ceramics and stove tile producers were able to increase sales, while the revenue of manufactories and producers of technical ceramics went down. Domestic business was extremely robust across all subsectors (gains throughout the year), coupled with weak demand from abroad (losses throughout the year). The combined outcome of all individual subsectors of ceramics was a drop in total revenue in 2016 of 2.5 percent compared to the previous year.

With growth of 0.4 percent, dinnerware and decorative ceramics made a positive contribution to total revenue. Demand for professional dinnerware (HoReCa) was considerably larger than for household dinnerware.

Revenue in the extensive technical ceramics sector dropped 3.8 percent in 2016, with very mixed trends within the sector. Individual subsectors, such as electronic ceramics, managed to increase revenue. Others, such as ceramic insulators and chemical and processing technology, faced substantial declines. In general, this strongly export-oriented sector is hoping that demand from abroad will pick up.

Stove tile producers increased revenue by 3.1 percent in 2016, although the increase was largely the result of a market shake-out. Stove tile producers are still operating in a difficult and contracting environment.

Manufactories closed 2016 with a drop in revenue of 1.5 percent. This sector was also affected by the combination of robust domestic demand and weak foreign demand. The Russian market, for example, which is a key market for the industry, was very problematic due to the weak rouble.

## Outlook

In view of the current uncertainties in the global economy, only conservative estimates for the course of business in 2017 can be made. Rising incoming orders, particularly from abroad, have led to brightened business prospects and an improved business climate in the ceramics industry according to the ifo Institute. Nonetheless, concerns over the weak foreign demand of the previous year together with uncertainties surrounding the stability of Europe and the protectionist trends prevailing in the industry's various export markets are tangible. As things stand, only a moderate increase in production and export revenue of 0.5 percent is expected. There is room for further improvement.

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## Machinery production in 2016

The stagnation forecast delivered for German machinery production in autumn 2015 did indeed materialise with price-adjusted production in 2016 at just 0.1 percent above the previous year's level. Negative impetus came, as expected, from the US and many developing and emerging countries. The sector was largely able to compensate the drops in machinery exports to these countries by additional deliveries to other countries in the EU. The remaining loss was balanced out by a slight gain on the domestic market. In terms of school grades, machinery manufacturing would deserve no more than a C- for its performance. Back in October 2016 around one quarter of companies were complaining about a lack of orders. Commodities-related companies in particular are still facing too weak demand while component and machinery producers related to automation fared considerably better.

## Outlook for 2017

For the current year, the economists of the German Mechanical Engineering Industry Association (VDMA) are sticking to the forecast made in their report of October 2016 of one percent growth in real-term machinery production. The reason for the expected minor improvement over 2016 is that improved growth opportunities are anticipated in many developing and emerging countries. Alongside a recovery in commodity prices, the contributing factors here are mainly country-specific. The US market is gathering pace. However, it remains to be seen whether and to what extent this will lead to a tangible increase in machinery purchases. The threat of protectionism could curb the propensity to invest. Deliveries to partner countries in the European Union (without the United Kingdom) are likely to continue moving upwards. Economic recovery is still fragile given the numerous risks in hand.

Future deliveries to the UK are hanging in the balance. Although German machinery exports did not drop in 2016, even after the referendum, experience has shown that investments suffer wherever there is a high degree of uncertainty about the future.

The VDMA economists are predicting slight growth for sales of machinery in Germany, which accounts for almost a quarter of total production and is therefore the industry's biggest market. The ifo business climate for manufacturing has been pointing upwards for many months and utilisation of production capacities has increased markedly. Another contributing factor is that many companies in Germany have held back on investments in the last few years. Although the risks have not fallen in the last few months, investments that can no longer be delayed for a variety of reasons are becoming more frequent. That also explains the results of the ifo investment survey which predicted an increase of capital investment in manufacturing of five percent this year. This will obviously not only be targeted at machinery producers but should definitely trigger an increase in their domestic sales.

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## Nonferrous metal industry

Following a good year overall in 2016, Germany's nonferrous metal industry is cautiously optimistic about 2017. With 111,000 workers employed in 655 companies, the industry produced 8.5 million tonnes in 2016 (two percent more than the previous year). Revenue in 2016 for the metal producing and processing companies was 46.5 billion euros. Of this, the industry generated 54 percent (25.0 billion euros) in Germany, its most important market. The nonferrous metal industry is divided into the following stages of the value chain: production (raw metal), semi-finished products (ribbon, sheets, rods, profiles, pipes and wire), further processing (foil, thin rib-

bon, tubes, aerosol cans, other cans and powder), casting and hot-dip galvanising. The aluminium industry produced just over 1.1 million tonnes of raw aluminium, two percent less than the previous year. Producers of semi-finished aluminium products, by contrast, managed to step up production by eight percent to 2.6 million tonnes. Production in the aluminium further processing sector however dropped by three percent, down to 336,000 tonnes. In base metals (copper, zinc, lead, nickel and tin), production dropped year on year by three percent to 1.3 million tonnes. The producers of semi-finished base metal products, on the other hand, recorded a production increase of two percent to 1.8 million tonnes. The nonferrous metal foundry industry had a record year in 2016, producing just over 1.2 million tonnes of cast parts, two percent more than in 2015. This came about largely through an increase of the same order of magnitude in aluminium castings. This segment accounts for around 88 percent of production from nonferrous metal foundries. Base metal castings remained stable at 135,000 tonnes.

For 2017, the nonferrous metal industry is expecting production to remain stable or rise slightly over the previous year.

#### **United Kingdom still most important export market, with US ranking tenth**

The foreign revenue of the nonferrous metal industry in 2016 amounted to 21.5 billion euros. This corresponds to an export quota of 46 percent. Foreign trade in metal and semi-finished products is very divergent. Germany imports considerably more metal than it exports, reflecting the dependence of German industry on imports from abroad of metals such as aluminium, nickel, zinc, tin and some rare metals. Metal imports in 2016 increased by three percent over the previous year to 4.2 million tonnes. Metal exports rose by one percent to 866,000 tonnes. The export-oriented semi-finished products industry increased its exports by six percent over 2015 to 2.9 million tonnes. At 1.9 million tonnes, imports in this sector were up three percent. Imports of some semi-finished products from China recorded massive rates of growth – though starting from a very low level. In 2016 the United Kingdom was again the most important export market for the German nonferrous metal industry. Twelve percent of metal and semi-finished exports were destined for the UK. In 2016, German exports of nonferrous metal and semi-finished products to the UK jumped by as much as eight percent over the previous year to 465,000 tonnes. A large proportion of this were semi-finished products, mainly aluminium. The United States was the tenth biggest export market for metal and semi-finished products in 2016 making it the most important destination outside of Europe. A good three percent of the industry's exports went to the US. At 129,000 tonnes in 2016, exports were much lower than the previous year (down twelve percent). The German nonferrous metal industry delivered about the same volume to domestic industry customers who, in turn, exported to the US.

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#### **Situation of the steel industry in spring 2017**

The key indicators for steel production continue to indicate a slight economic recovery. The production of crude steel in Germany at the start of the year increased two percent year on year, with revenue growth into the double digits year on year, although starting on a low level. While incoming orders for rolled steel dropped two percent in the first three months of the year, the companies in the industry are still rating their orders in hand as above average according to ifo data. The ifo business climate index for the German steel industry continued rising in the first quarter, in view of the solid upward trend in steel production and robust demand in key customer industries, particularly in the automotive and construction industries. Rising demand has also been seen in machinery production and steel pipes. Overall, the supply of rolled steel on the market this year is set to increase slightly by around one percent. Crude steel production is expected to expand by around 1.5 percent to 42.7 million tonnes.

The moderate recovery in the industry is still threatened by structural problems on the global steel markets that have not yet been resolved. Capacity utilisation remains on very low level worldwide. Growth prospects for global steel demand for 2017 and 2018 are rather moderate. Furthermore, it is still unclear how long the most recent drop in Chinese steel exports will persist. Last but not least, the import crisis in the EU has not yet been overcome. Decreasing steel imports from China into the EU are being overcompensated by rising imports from other countries. If protectionist trends on the global steel markets continue, this could further impact the open EU steel market as trade is rerouted.

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### German textile and clothing industry

In 2016, revenue in the industry only increased by a minimal 0.2 percent compared to the previous year, thus falling short of the two-percent revenue growth originally forecast. Although textiles exceeded growth expectations by going up 2.9 percent (2016 forecast was up two percent), clothing, where an increase of 1.5 percent was expected, ended up sinking 3.8 percent.

A look at the individual segments of the textile industry shows that technical textiles are still the driver of growth here. Non-wovens, which had done so well in recent years, failed to contribute to growth in 2016. The traditional textile segments, weaving and spinning, both grew year on year. Made-up goods (above all home textiles and outdoor gear) were also strong last year.

The drop in revenue in clothing was caused by the poor performance of outerwear, which the previously strong industrial and occupational clothing segment was not able to compensate for this year.

The 2016 figures highlight the importance of the euro area for the German textile and clothing industry. Exports within the euro area were a major positive factor in textiles, and the negative trend from the euro area was less pronounced also in clothing, a sector in general decline. Non-European markets were the most problematic region for the industry last year, particularly for clothing.

Employment in the industry overall in 2016 increased by 1.4 percent. While the number of employees working in textiles increased by three percent, the workforce in clothing dropped 1.7 percent.

Retail sales of clothing were unsatisfactory in the course of 2016, sliding down 0.5 percent in the year overall. Individual growth segments here were online and mail order clothing sales, which increased 3.2 percent over the previous year.

German textile and clothing exports increased by 1.2 percent overall in 2016. Russia and Turkey are still causing concern with German exports falling the most in these two markets, both in absolute terms and in percent. Losses here were more than compensated for by increased exports to China and, above all, the EU market.

China remains the biggest import market for the industry, although countries including Cambodia, Pakistan and Myanmar closed the gap in 2016. Imports increased 0.7 percent overall.

## Outlook

In the last few months, orders in hand for clothing have trended upwards on the whole, while textiles have pointed down. Accordingly, we may well see a slight dip in the previously brisk textiles business in the next few months, but a trends analysis of clothing suggests we can hope for slight improvement in this segment. Sentiment in the industry year on year for revenue, exports, orders and earnings is either constant or slightly improved across the board with the exception of employment. Although the first months of the year have not been satisfactory for either textiles or clothing, revenue is still expected to grow 1.7 percent this year with an uptick in employment of 0.5 percent.

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