



BDI

The Voice of
German Industry

INDUSTRIAL POLICY DOSSIER

Industry Report

December 2016

- **We expect 2016 to bring half a percent increase (up 0.5 percent) in manufacturing production in Germany.** The manufacturing sector is very focused on foreign trade and has been affected by the weak development of the global economy.
- **Global industrial production is set to increase by 1.5 percent in 2016 overall in comparison to the previous year.** It is the first time in six years that developed economies have failed to achieve more than a marginal increase in industrial production. At the same time, the rate of expansion in emerging countries has declined.
- **Given the developments of the export markets and the assessments of the BDI member associations, the BDI expects German exports to grow by approximately one percent in 2016.** Foreign trade will be far below the high growth rates seen last year. In 2015 German exports grew by 6.4 percent over 2014.

Content

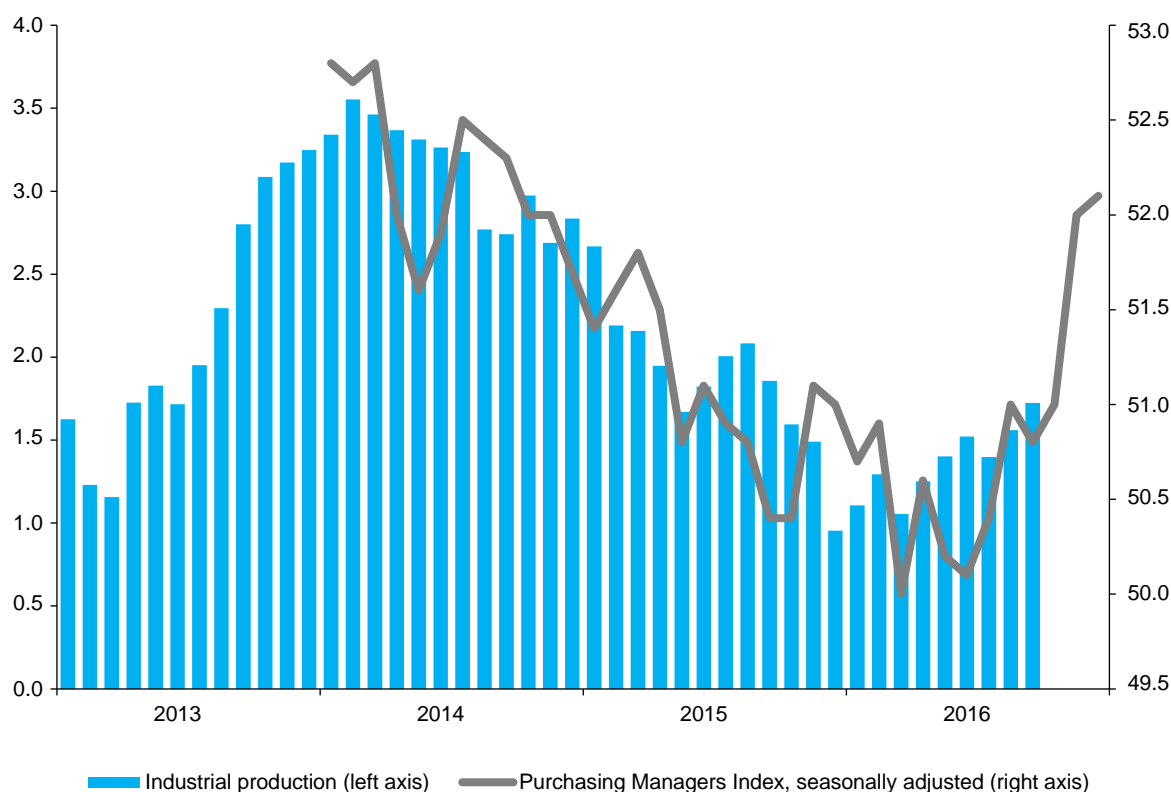
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Global industrial production

Bottoming out?

In 2016, global industrial production will only achieve a minimal increase to the level recorded last year. According to figures from the CPB Netherlands Bureau for Economic Policy Analysis, industrial production increased by just over one percent in the first nine months of 2016 in comparison to the same period last year. Since early 2013 the increase in global industrial production has steadily lost pace. At the turn of the year 2015/2016 the index for global industrial production increased by just one percent. In the further course of 2016 the pace of expansion picked up slightly, continuing into the early summer months. The global purchasers' manager index is currently pointing towards a further acceleration of growth. The index has increased consecutively in the last three months, reaching its highest level in 24 months in October 2016. If production maintains the level achieved in late summer until the end of the year, global industrial production should increase by a total of 1.5 percent for 2016 as a whole. It is the first time in six years that developed economies have failed to achieve more than a marginal increase in industrial production. At the same time, the rate of expansion in emerging countries has declined.

World: Industrial production*, Purchasing Managers Index**



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

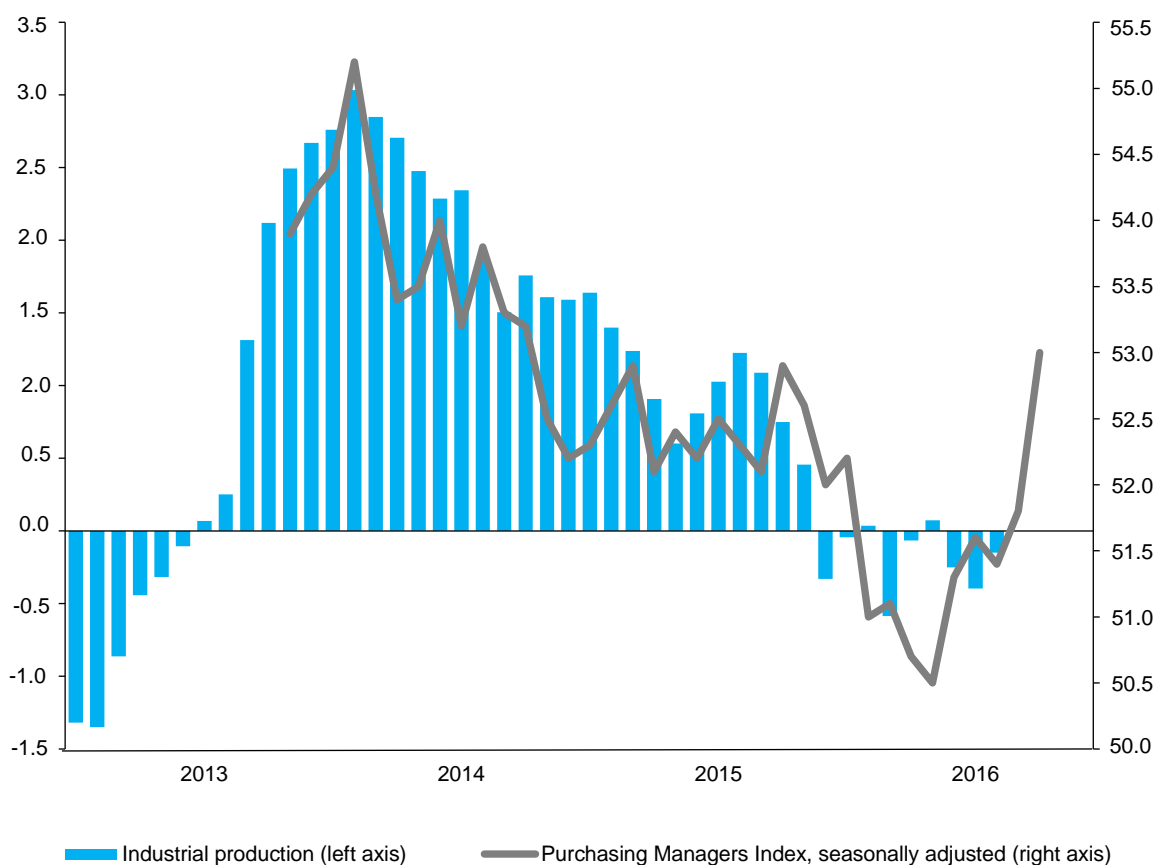
Sources: Macrobond, Netherlands Bureau for Economic Policy Analysis (CPB)



The **developed economies**, which currently only account for just under 53 percent of industrial value added, recorded the following divergent regional trends up to autumn 2016. In Japan and the United States, industrial production decreased over more than eight and four quarters respectively in comparison to the previous year. At the same time, industrial production has grown steadily since late 2013 in the euro area and in the other developed economies.

Overall, industrial production decreased slightly in the first nine months of the year. The latest figures now indicate an upward trend. In the last two months, industrial production (two-month average) increased seasonally-adjusted in almost all countries monitored in comparison to the previous period. The purchasing managers' index registered its highest level in two years in October, which also signals an expansion towards the end of the year. If production levels seen throughout the year so far are maintained in the last three months, industrial production in the developed economies in 2016 could even nudge up by 0.1 percent.

Developed Economies: Industrial production*, Purchasing Managers Index**



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

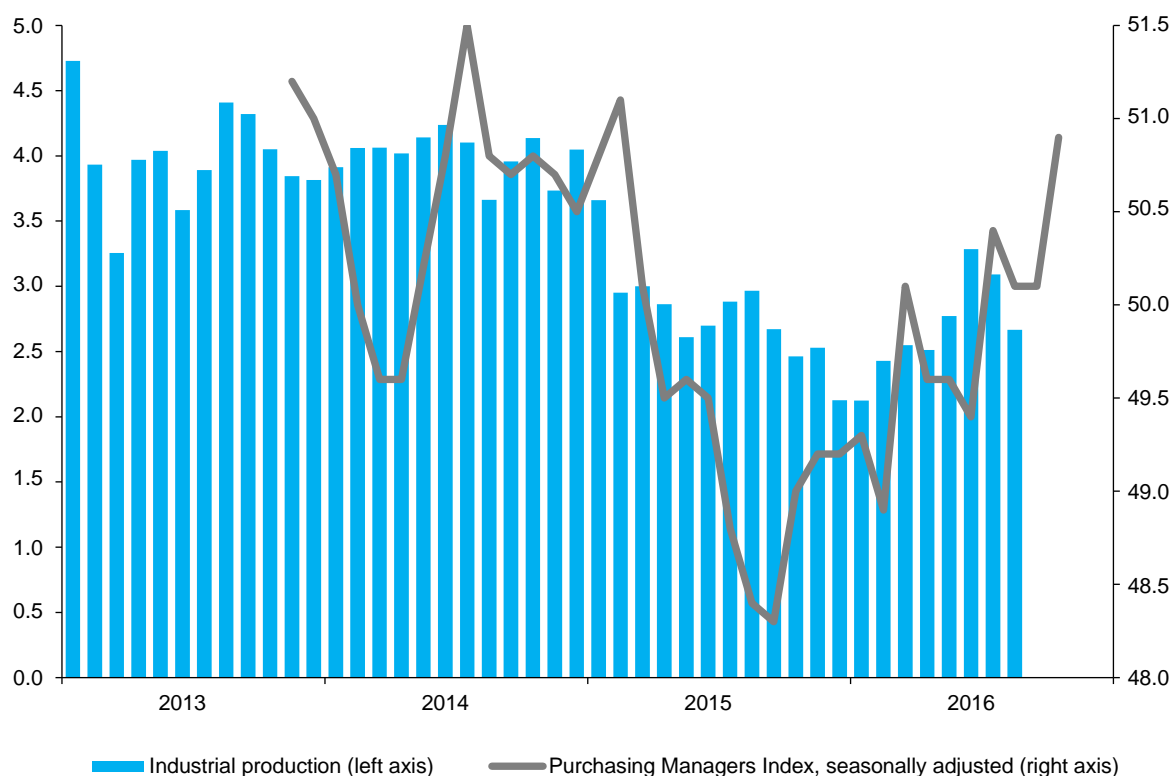
Sources: Macrobond, Netherlands Bureau for Economic Policy Analysis (CPB)



Although industrial production continued to grow in the **emerging countries**, growth rates here are dropping every year. While these countries still managed to achieve an increase in production of 2.7 percent in 2015, this comparatively low growth rate will not be matched in 2016. However, emerging countries still have scope for further growth in industrial production, principally in Asia where – including China – over half the industrial production in emerging countries takes place. If the current growth rate is maintained in the last quarter, this region is set to achieve an increase in production of over four percent. Industrial production is also rising in Africa and the Middle East, a region that has experienced an upward trend in this sector since mid-2014. This region now accounts for just under one fifth of total industrial production in emerging countries, although production in these countries focuses on the production of fossil fuels.

Developments in Latin America are cause for concern. The crisis the region’s industrial production has been experiencing for the past three years shows no sign of diminishing. On the contrary – the pace of the downturn has accelerated in the third year of the crisis: industrial production is expected to drop by more than four percent in 2016. In Central and Eastern Europe, industrial production will record another slight decline, largely due to economic heavyweight the Russian Federation. But the downward trend seems to have bottomed out here. In the third quarter all regions – including Latin America – registered an increase in production in comparison to the previous quarter. The purchasing managers’ index for industrial production in the emerging countries has indicated a clear positive trend since spring 2016. Overall, emerging countries are set to increase industrial production by around 2.5 percent in 2016.

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

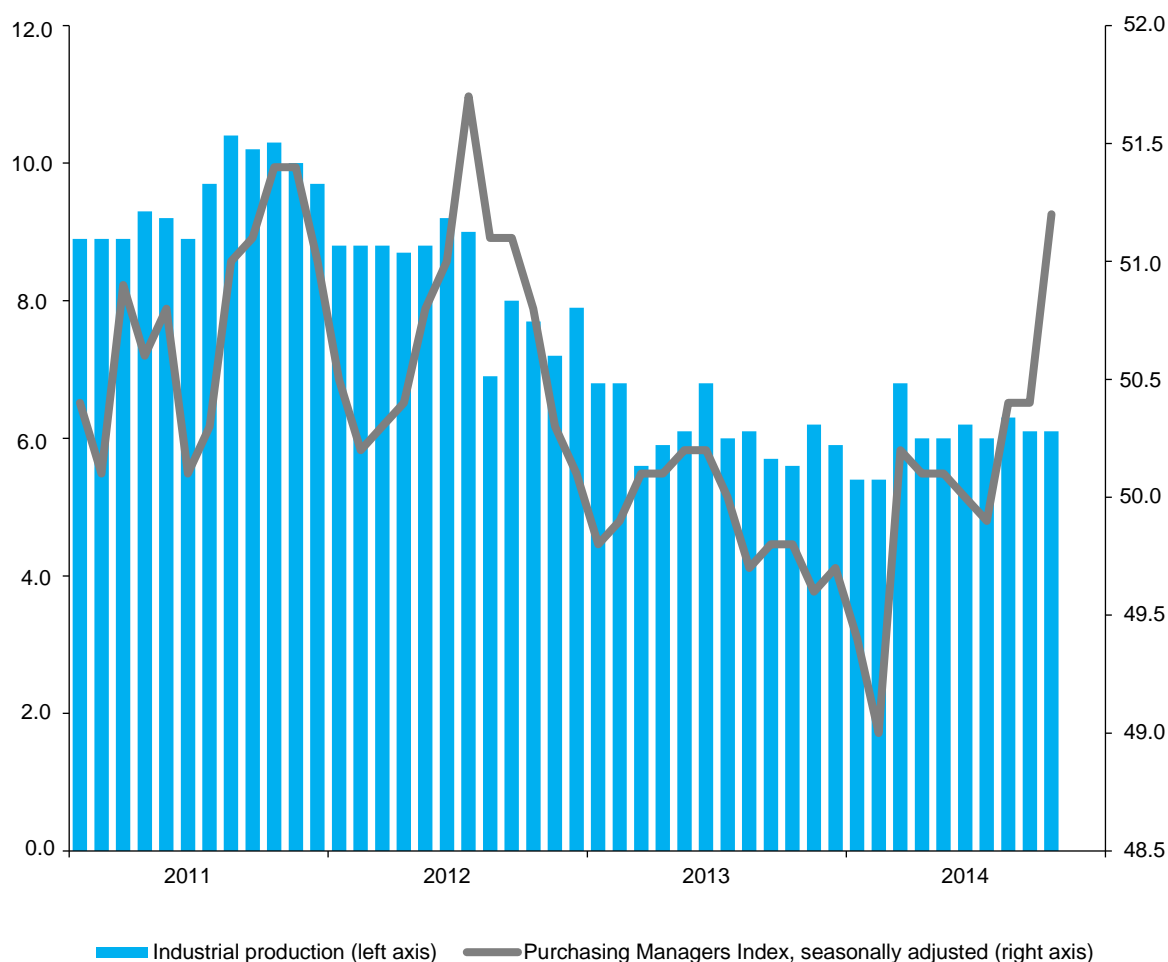


*Production index: two-month comparison, after calendar and seasonal adjustments, in percent, year on year
 **from January 2014

China

The weak growth of the Chinese economy at the start of the year triggered slight uncertainties on the capital markets and had a detrimental effect on the economic development of neighbouring Asian states and export-oriented industrialised countries. The growth rates of Chinese industrial production dropped to 5.5 percent at the start of 2016. In April 2016, growth accelerated slightly. Thanks to monetary and financial policy stimulus measures and a pickup in construction activity, China's industrial production has been growing at a rate of over six percent again since June 2016. The purchasing managers' index for industry in China also shows a rise in industrial production since July 2016.

China: Industrial production*, Purchasing Managers Index



*Change of the industry production (seasonally adjusted) over previous year-quarter in percent

Sources: National Bureau of Statistics of China, Statista, own calculation

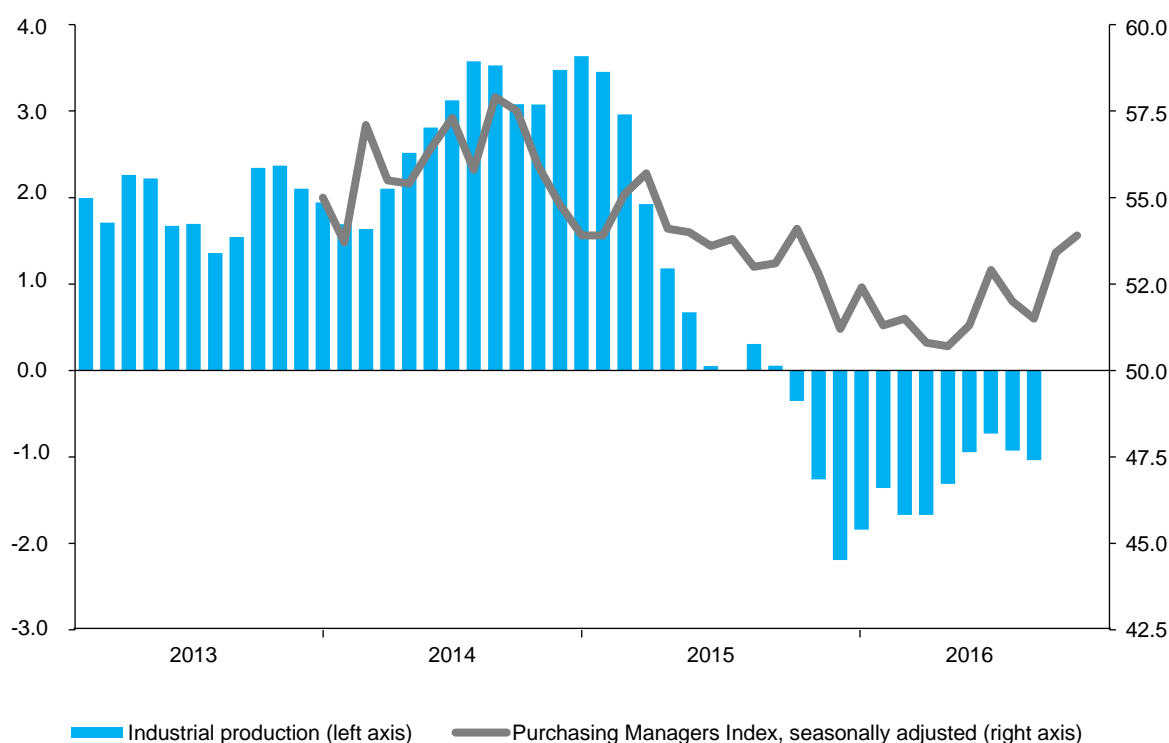


United States

The US industry has been stuck in a weak phase for more than one year now. Industrial activity in the US has declined since mid-2015. In the fourth quarter 2015, the US industry fell short of the production level achieved in the same quarter in the previous year for the first time since 2009, going down 1.6 percent. The pace of decline continued in the first quarter of this year, only becoming slightly more moderate towards the middle of the year. Overall figures for the first nine months of the year put production at one percent lower than the same period in 2015.

However, the latest figures show a clear slowdown in the rate of decline. In the two month comparison August/September 2016 industrial production held more or less steady compared with the previous period and following calendar and seasonal adjustments. Production even increased slightly in the three previous months in comparison to the preceding period. The latest figures from the purchasing managers' index again show a clear expansion in production. The index points for October and November 2016 were the highest since October 2015. If production in the fourth quarter draws level with that of the previous quarter, the US decrease in industrial production for 2016 should total slightly less than one percent.

United States: Industrial production*, Purchasing Managers Index**



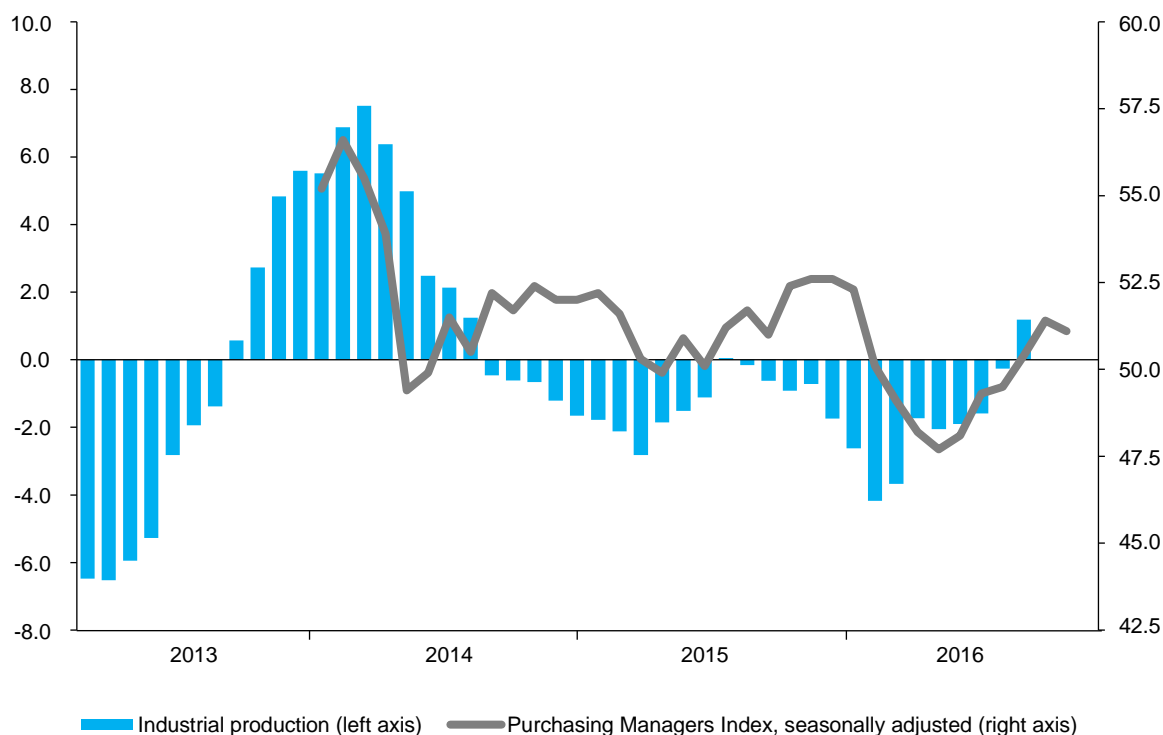
*Production index: two-month comparison, after calendar and seasonal adjustments, in percent, year on year
 **from January 2014

Japan

The Japanese industry has experienced a weak two years since autumn 2014. Between the third quarter 2014 and the second quarter 2016 production consistently dropped below the previous quarter. The lowest point so far with a decrease of 3.3 percent was registered in the first quarter of 2016. In the further course of the year, the rate of decline tailed off slightly. In the third quarter of the current year, industrial production was slightly above the level of the same period last year (up 0.3 percent). In the first nine months of the year overall, production was one percent lower than the same period in 2015. Mechanical engineering was also weak, with production contracting by 2.2 percent in the first nine months. Production in the chemical industry also declined. The Japanese electronics industry and vehicle production provided a pleasing contrast, with production increasing for the first time in three years.

The increase in production is continuing, as the latest figures show. In the two-month comparison September/October 2016 and after calendar and seasonal adjustments, industrial production increased by 0.9 percent over the previous period following an increase of 1.2 percent in the previous month. The figures from the purchasing managers' index show an expansion in production for the last three months. The figures of the index in the last three months are the highest since February 2016. If the figures for the fourth quarter draw level with those of the previous quarter, the decrease in industrial production in Japan should total 1.2 percent, which is not quite as severe as the previous year.

Japan: Industrial production*, Purchasing Managers Index**



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

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

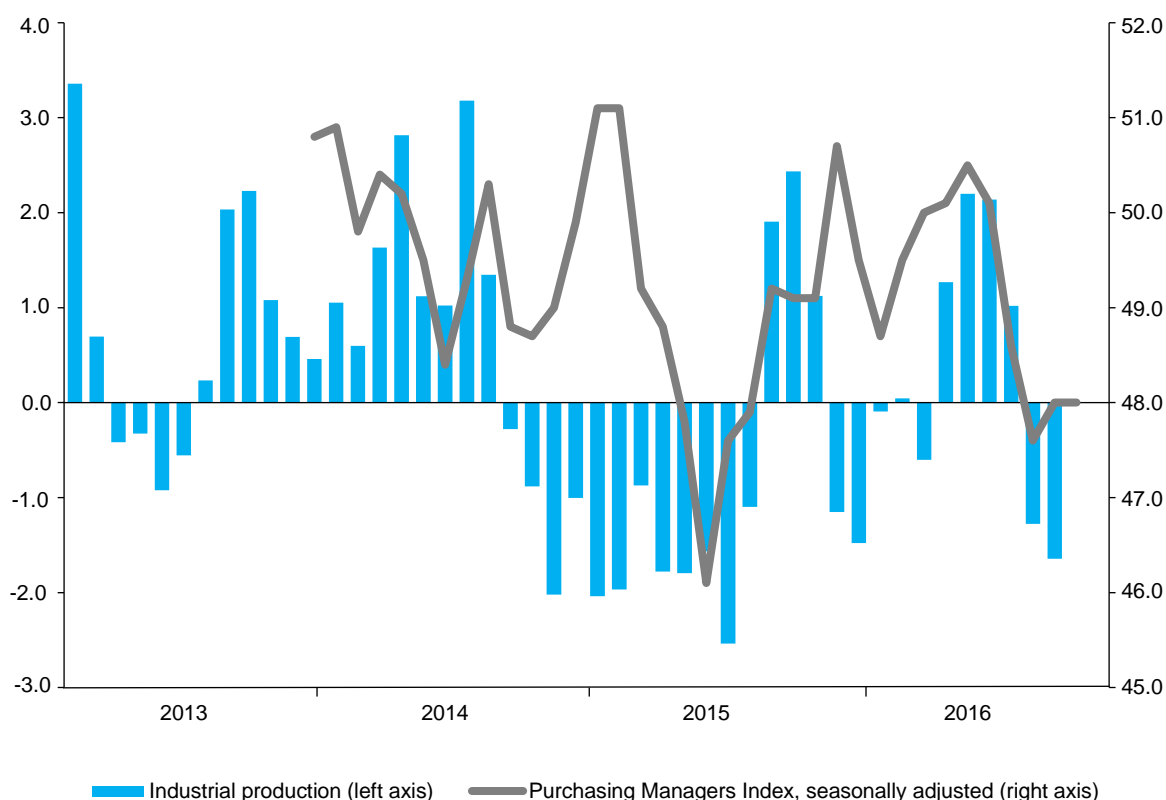


South Korea

The weak phase South Korea’s industry experienced from spring 2014 to the summer of 2015 saw industrial production decline for five consecutive quarters in comparison to the previous period. Between the third quarter 2014 and the second quarter 2016 production consistently dropped below the previous quarter. In 2015 industrial production thus failed to match the previous year’s level for the first time since 2009. Following a weak start in 2016, production expanded in the further course of the year. Overall, industrial production in the first ten months of the current year is 0.2 percent above the previous year’s level. A look at the individual industries shows negative developments in mechanical engineering and vehicle production, which downscaled production by just over five percent. The South Korean electronics industry stagnated, while pharmaceuticals pointed up.

The decrease in production is continuing, according to the latest figures. In the two-month comparison September/October 2016, following calendar and seasonal adjustments, industrial production decreased by 1.4 percent over the previous period following an increase of 1.7 percent in the previous month. The figures from the purchasing managers’ index have not shown any further expansion in production for the past four months. If this level is maintained in the fourth quarter, industrial production in South Korea should increase by 0.2 percent in 2016.

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



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

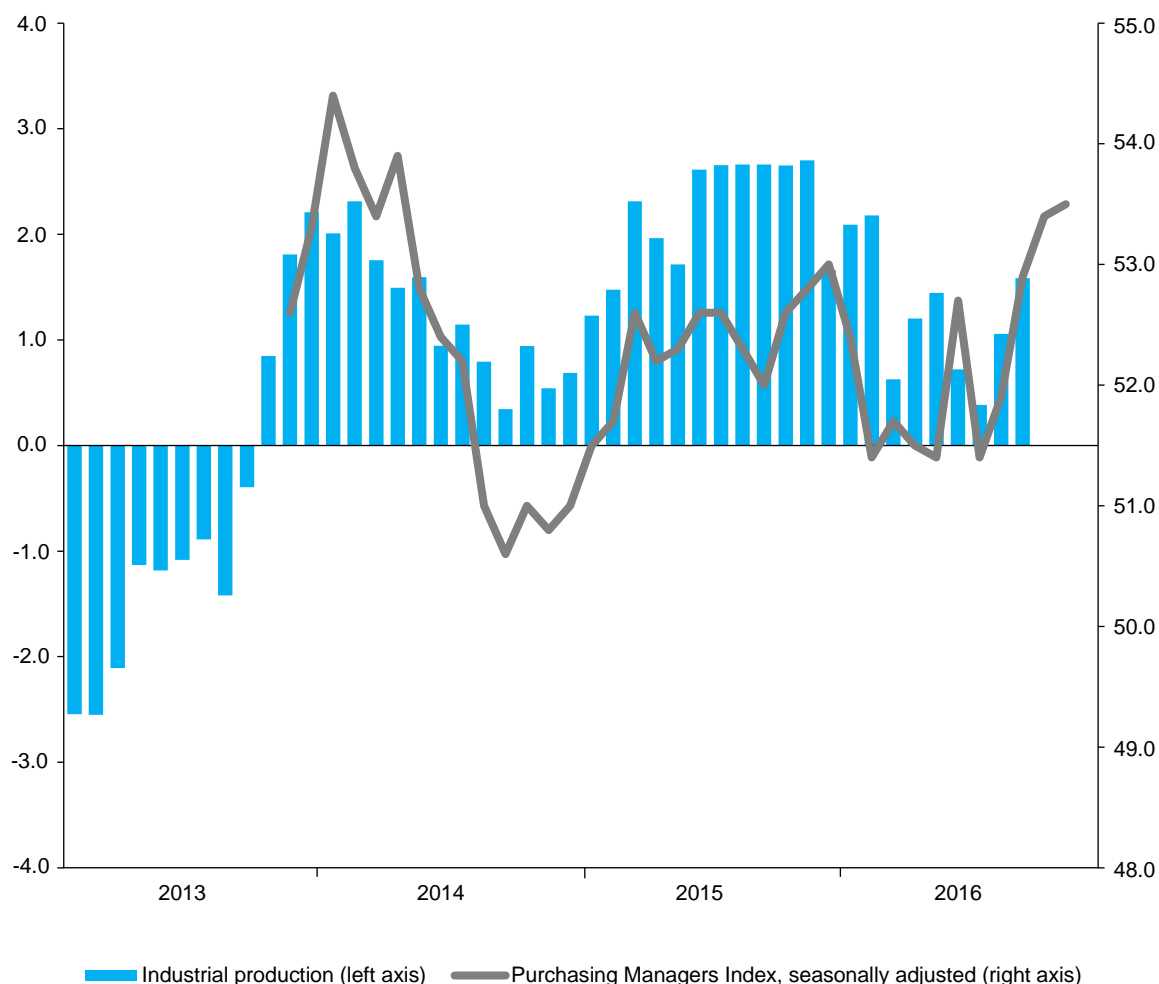
Source: Macrobond



European Union: Europe's industry increased production for the third consecutive year

Industrial production in the European Union (EU 28) is very likely to increase for the third consecutive year. To enable a comparison with the countries and regions discussed above, industrial output comprises the whole production sector excluding construction. Following a solid hike in the first quarter 2016, the rate of expansion lost steam in the further course of the year. Production has nonetheless been higher year-on-year throughout the entire period under observation. On the basis of the figures available for the first nine months of 2016, industrial output in the EU 28 should increase by at least 1.1 percent. The latest developments also signal an increase. In the two-month comparison August/September 2016, European industrial production increased by one percent over the previous period after seasonal and calendar adjustments. The upward trend registered by the purchasing managers' index since 2016 even points to further acceleration in the expansion rate of production. In October 2016 the PMI index reached its highest level since April 2014.

European Union EU28: Industrial production*, Purchasing Managers Index**



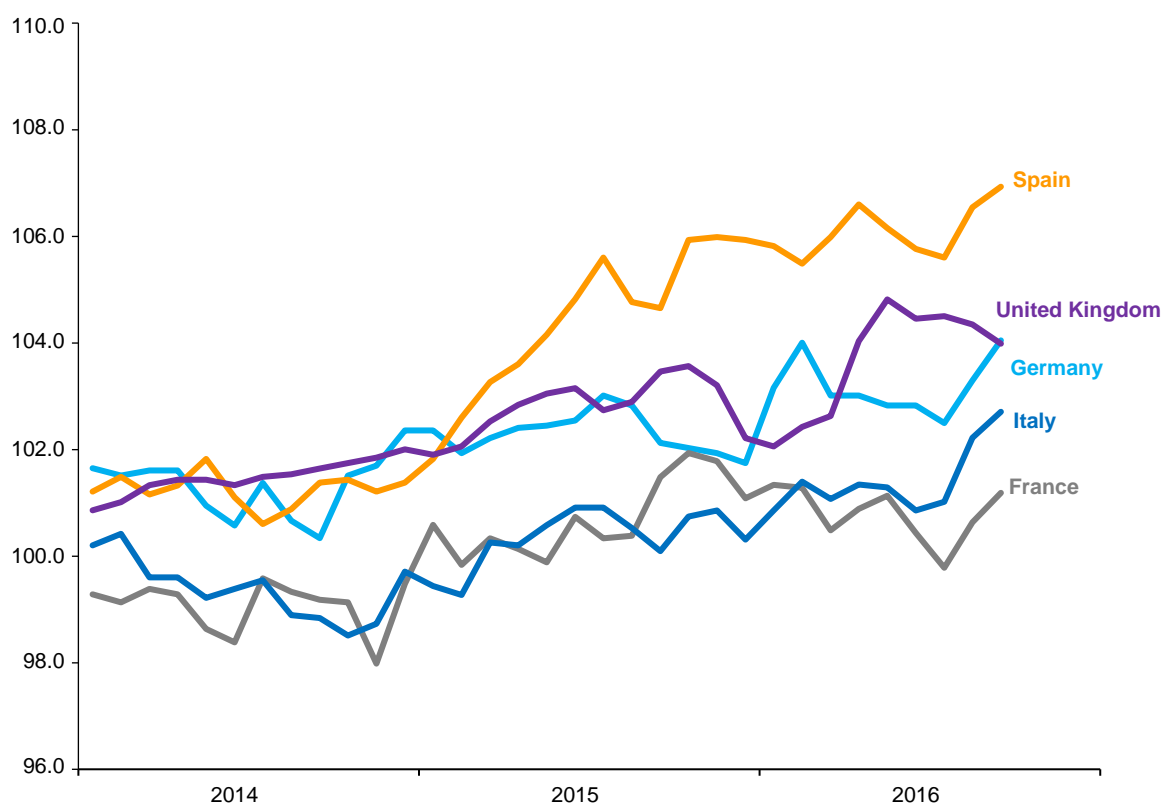
*Production index: two-month comparison, after calendar and seasonal adjustments, in percent, year on year
 **from January 2014

Industrial production per region

The larger economies proceed at an equal pace with France falling behind

Almost all large economies in the European Union are experiencing a slight upward trend in industry. Spain's industrial production again records the highest growth in this group of five. In contrast to last year, the industrial sector in Spain will not grow as much (around 1.5 percent) as the economy overall (up 3.2 percent according to the European Commission forecast). Industrial production in Germany and the United Kingdom will not increase by as much as the European average. In Italy, production in industry should increase by slightly more than the European average and top the country's economic output. The country with the lowest growth in this group of five is France. Overall economic growth for France for this year is expected to be slightly over one percent with industrial production stagnating.

Development of Industrial production* since 2014



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

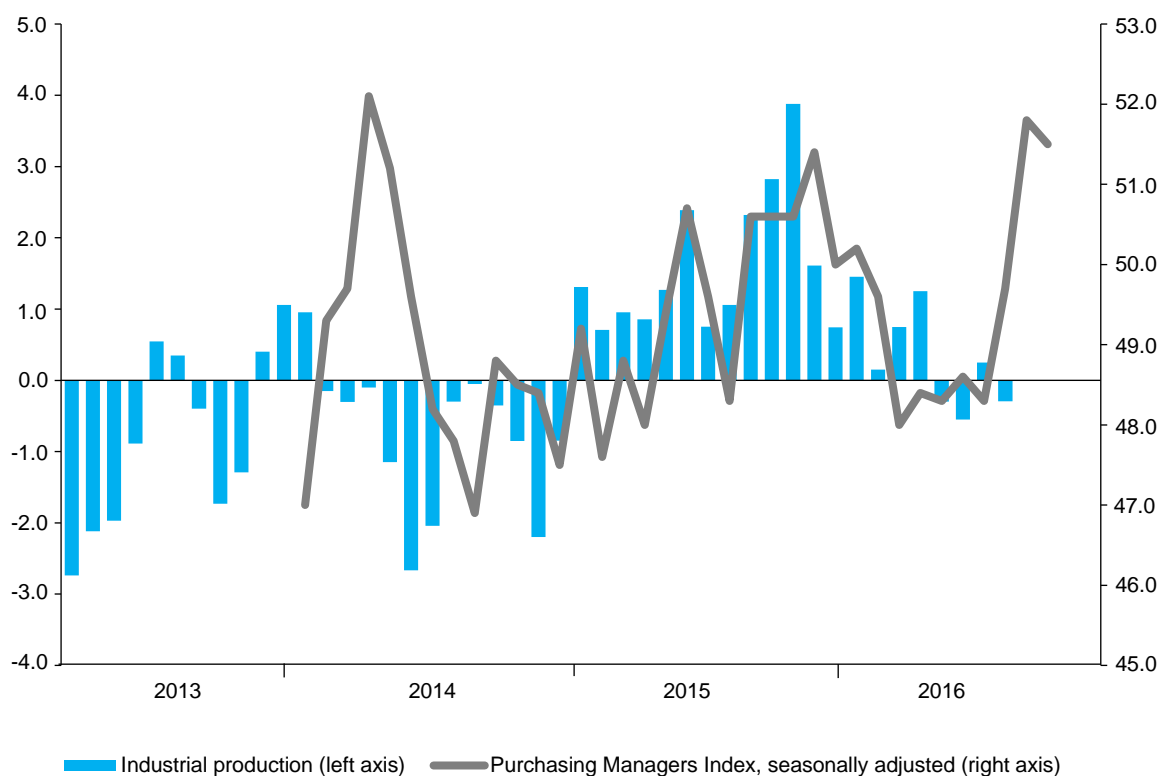
Sources: Macrobond, Eurostat, own calculations

France heading for a final spurt at the end of a weak year

French industrial enterprises were not able to sustain the rate of growth from the previous year. The figures for the first quarter of 2016 were already lower than the previous quarter. This trend continued into the next two quarters. In the third quarter 2016, production was also down on the previous year, dropping by 0.2 percent. In the first nine months of the current year, the production level only just equalled the level of the previous year. Mechanical engineering experienced negative growth, with production contracting by 1.4 percent in the first nine months. Production in the pharmaceutical industry was disappointing and the electronics industry stagnated. The only ray of light was in vehicle production where output is set to increase by around four percent.

However, the latest figures show a pick-up in industrial production. In the two month comparison August/September 2016, industrial production increased by 1.4 percent over the previous period following calendar and seasonal adjustments – the second consecutive increase. The high production level seen last year proved unattainable. The purchasing managers' index for industry in France shows a rise in production for the first time since February 2016. The index levels for October and November 2016 were the highest since March 2014. If France's industrial production in the fourth quarter maintains the level of the previous quarter, it should achieve an increase in 2016 by 0.1 percent over the previous year with a slight upward risk.

France: Industrial production*, Purchasing Managers Index**



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

Sources: Macrobond, Eurostat

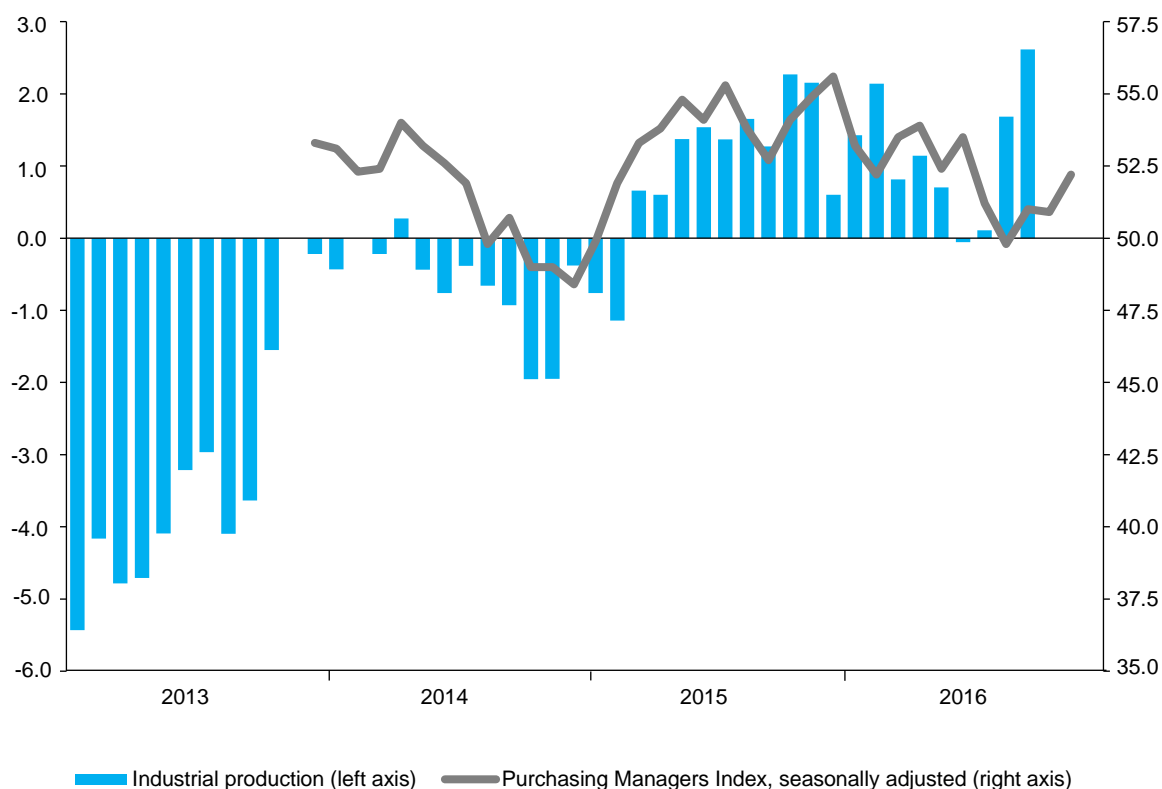


Italy: Industry regaining strength

In Italy, industrial production increased in comparison to the same quarter the previous year for the sixth consecutive time in the autumn of this year. The comparison to the previous quarters was also largely positive with just a few exceptions. In the first nine months of the current year, the production level exceeded that of the previous year by 1.2 percent. Principal factors contributing to this outcome were the increase in vehicle production of around three percent and an increase in production in the electronics industry of 1.5 percent. Production in the chemical industry and mechanical engineering stagnated, while the pharmaceutical industry recorded a slight recovery.

The latest figures show a definite pick-up in industrial production. In the two month comparison August/September 2016 over the previous period, industrial production increased by 1.7 percent after calendar and seasonal adjustments, following an increase of 1.4 percent in the previous month. The level of production also increased in the two-month comparison over the same period last year for the third consecutive time. The purchasing managers' index for Italy's industry shows an expansion in production for September and October 2016, but is unlikely to equal the momentum of the first half of the year. If this level is maintained in the fourth quarter, industrial production in Italy should increase by 1.4 percent in 2016 compared with the previous year.

Italy: Industrial production*, Purchasing Managers Index**



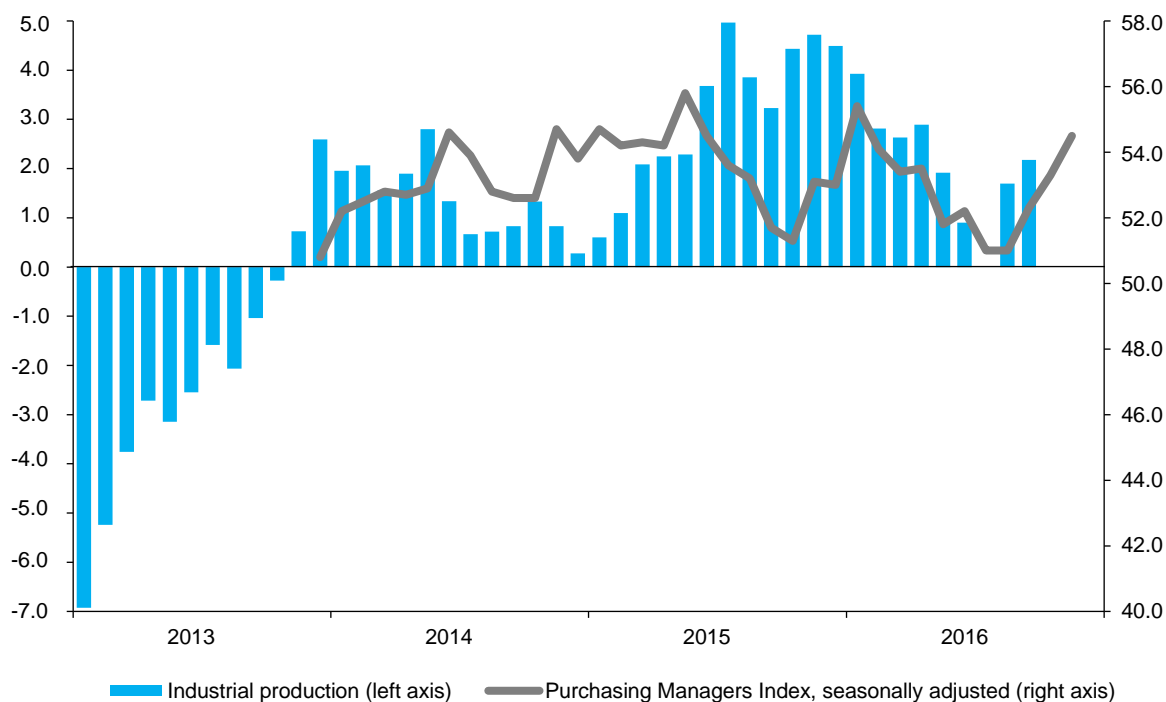
*Production index: two-month comparison, after calendar and seasonal adjustments, in percent, year on year
 **from January 2014

Spain: Catch-up loses steam

Spain's industry has been recovering for the third consecutive year. In the third quarter 2016, industrial production increased for the twelfth consecutive time year on year. With growth rates of 1.5 percent in summer and 1.3 percent in autumn, the catch-up process has lost much of its momentum. In the first nine months of this year, industrial production increased by an average of 1.4 percent, a lot slower than the 3.3 percent increase registered in the same period in 2015. Spain's vehicle manufacturers made a major contribution to growth, increasing output by seven percent. Mechanical engineering achieved a 3.4 percent increase in production in the first nine months, and also increased its rate of growth. The chemical industry only managed a rather meagre production increase of 0.9 percent. The electronics industry cut production by 2.4 percent in the same period.

The latest figures show a slight pick-up in industrial production. In the two month comparison August/September 2016 over the previous period, industrial production increased by 1.3 percent after calendar and seasonal adjustments, following an increase of 1.4 percent in the previous month. The level of production continued to increase in the two-month comparison over the same period last year. The purchasing managers' index for Spanish industry indicates a clear expansion of production towards the end of the year. September and October 2016 registered an increase of 1.3 percent and one index point respectively. If this level is maintained in the fourth quarter, industrial production in Spain should increase by 1.5 percent in 2016 compared with the previous year. In view of the course of production towards the end of the year, there should be some scope for improvement here.

Spain: Industrial production*, Purchasing Managers Index**



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

Sources: Macrobond, Eurostat

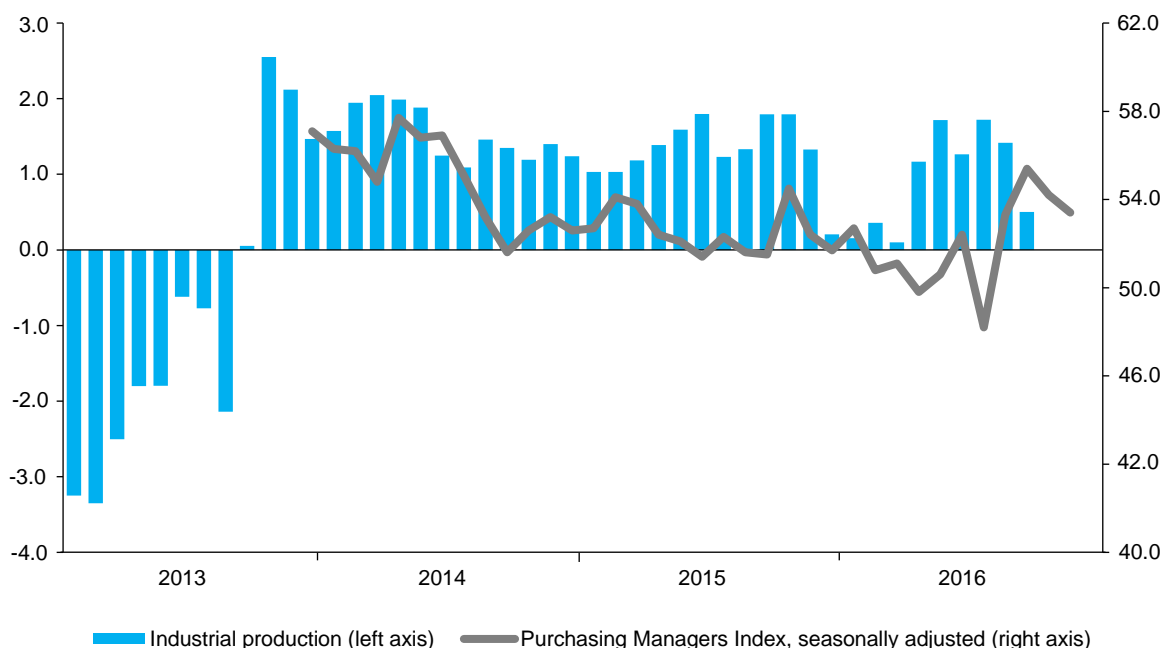


United Kingdom: Industry growing despite Brexit

The UK industry is continuing to grow despite the Brexit vote. In the third quarter 2016, industrial production increased for the twelfth consecutive quarter year on year. The growth rates of 1.6 percent in summer and one percent in autumn even topped those of the six winter months before. In the first nine months of this year, industrial production increased by 1.1 percent, slightly slower than the growth recorded in 2015. The UK industry growth rate thus equalled the EU 28 industry average. In the key industries, only vehicle production performed really well with production increasing by 4.8 percent. UK's mechanical engineering sector recorded a minus of 1.6 percent in the first nine months of the year, following a slump in production of more than twelve percent in the previous year. The chemical industry and the electronics industry also declined by more than three percent.

The latest figures show a slight decline in industrial production. In the two month comparison August/September 2016 over the previous period, industrial production decreased by 0.5 percent after calendar and seasonal adjustments, following a decrease of 0.1 percent in the previous month. Despite a moderately weak summer, the level of production has not slipped below the previous year in the two-month comparison for the past 36 months. The purchasing managers' index for industry shows an expansion of production in the last three months. The temporary slump of the indicator in the summer was most probably a result of the Brexit vote. Following a drop of four points in July, the index jumped up by over five index points in August and by another two points in September. In the short term, the Brexit shock does not seem to have had a negative impact on the economic development of the UK industry. If production does not decrease in the fourth quarter, industrial production in the United Kingdom should increase by just over one percent in 2016 compared with the previous year.

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



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

Sources: Macrobond, Eurostat

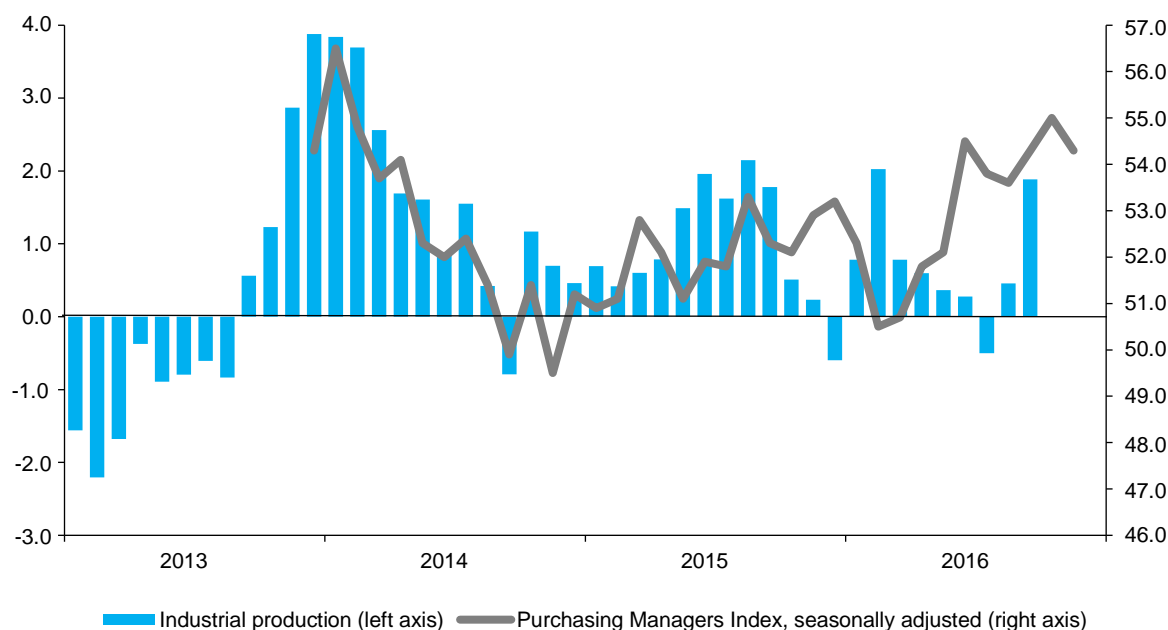


Germany: Momentum picking up following dry spell

In Germany industrial production increased this autumn for the third consecutive time year on year, although the growth rate tailed off sharply throughout 2016 following a strong start to the year. The most recent quarter-on-quarter comparison shows an increase of 0.2 percent, following a drop of 0.5 percent in the second quarter. In the first nine months of the current year, the level of production exceeded that of the previous year by one percent. The main contributing factors were the increases in vehicle production and the electronics industry. Production in the chemical industry and in mechanical engineering stagnated while the pharmaceutical industry recorded a slight recovery.

The latest figures show a definite pick-up in industrial production following a dry five months. In the two month comparison August/September 2016 over the previous period, industrial production increased by 1.5 percent after calendar and seasonal adjustments, following an increase of 0.5 percent in the previous month. The level of production also increased in the two-month comparison over the same period last year for the second consecutive time. The purchasing managers' index reached its highest level since February 2014 in September and was able to maintain this level throughout the two succeeding months. If production in the fourth quarter remains at the level of the third quarter, industrial production in Germany (or to be precise: output in the production sector excluding construction) should increase by one percent in 2016 compared with the previous year. The performance of manufacturing, given its focus on foreign trade, is likely to be significantly weaker in view of the poor development of exports in the current year. According to our estimates based on the aggregated forecasts of member associations, output in manufacturing is set to increase by 0.5 percent in 2016.

Germany: Industrial production*, Purchasing Managers Index**



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

Sources: Macrobond, Eurostat



Development of German exports

The demand for goods “made in Germany” in the course of the year so far was affected by the continued moderate development of the global economy. The IMF forecasts economic growth of 3.1 percent for the present year (2015: 3.2 percent). Up to September 2016, the German economy had exported goods to the value of 901.0 billion euros. This corresponds to an increase of 0.8 percent in exports in the first three quarters compared with the same period in 2015. Exports to EU countries outside the euro area recorded particularly large increases (3.8 percent), while target markets outside the EU received fewer exports (down 1.4 percent). Imports decreased marginally in the first three quarters of the year. Between January and September 2016, imports were 0.2 percent lower than in the same period the previous year. The biggest drop was in demand for goods from non-EU countries (down 3.2 percent).

In the coming year, demand in the target countries of German exports should gather some momentum. Although the IMF predicts sluggish growth in the euro area (1.5 percent) – the most important market for German exporters – growth in the US (1.8 percent) and in emerging countries (4.6 percent) is forecast to top the levels seen this year.

The estimates of export-focused BDI member industries are still subdued. In the course of the year so far, the automotive industry has failed to match the level of exports achieved in the previous year by a small margin. According to the forecast of the VDA, the industry association of the German automotive industry, next year’s trends will depend on whether the level of protectionism increases around the globe in the wake of the US elections. The development of exports for machine manufacturers in 2017 will also depend on the policy adopted by its important trade partner, the US. The steel industry is keeping a close eye on the import side for 2017. The course of business in this sector will depend particularly on rolled steel imports from China. Textile producers are particularly affected by the fall in exports to Russia as a consequence of the sanctions imposed. The building materials industry anticipates a slight decrease in exports for this year and the next. The foundry industry is pessimistic about exports in 2017. The chemical industry, in contrast, forecasts a slight pick-up in exports in 2017, following the slight decrease this year. The electronics industry increased exports in 2016 so far and anticipate a further increase in 2017. Given the developments in the export markets and the assessments of the BDI member associations, the BDI expects German exports in 2016 to increase by around one percent.

Foreign trade will be far below the high growth rates seen last year. In 2015, German exports increased by 6.4 percent over 2014.

Industrial sectors in Germany

German aluminium industry: production

In Germany around 870,400 tonnes of aluminium were produced between January and September 2016. Production was thus marginally below last year's level. Aluminium production is divided between the segments recycled aluminium (53 percent) and primary aluminium (47 percent). While primary aluminium production increased, recycled aluminium production decreased slightly.

Up to September, the production of semi-finished aluminium products (rolled goods, extruded products, conductors and wires) increased by 6.1 percent to 1,971,500 tonnes. Production in 2014, the record year to date, was 1,948,000 tonnes in the first nine months. 2016 could therefore set a new all-time record for the producers of semi-finished aluminium products. Key buyers are all major industrial sectors and the construction industry. The transport sector exhibited particular momentum. Aluminium rolled goods manufacturers account for the largest part of German production of semi-finished products in terms of volume. The production of rolled aluminium goods totalled 1,508,100 tonnes, an increase of 7.9 percent in comparison to the same period in 2015. Producers of extruded products recorded a stable development in production from January to September 2016 (445,200 tonnes).

Companies working in aluminium processing produced a total of 263,100 tonnes during the reporting period, corresponding to a decrease of 1.8 percent over the same period the previous year. Products include foil, thin ribbon, tubes, aerosol cans and other cans and powdered metal. The main market in aluminium processing is the packaging industry. The production of foil, thin ribbon and powdered metal dipped slightly overall. The decrease in the tubes / aerosol and other cans segment was stronger due to restructuring processes. The German aluminium industry has experienced divergent economic development in the course of the year so far. Nonetheless, company sentiments in this sector are cautiously optimistic about the coming months. Overall, the industry anticipates a slight increase in production for 2017.

Exports

From January to August 2016, exports were an important pillar for German companies in the aluminium industry. This applied particularly to the manufacturers of aluminium semi-finished products. Exports in this area increased by 6.6 percent overall. Exports increased particularly within Europe. Among European partners, business with Sweden displayed the strongest momentum, with a 132.3 percent increase in exports. The main European trade partner accounting for over 20 percent is the United Kingdom. Exports to the UK increased by four percent. While exports to the US rose slightly (up 0.2 percent), exports to Central and South America increased by a hefty 29.6 percent.

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Automotive industry

Production

Domestic car production among Germany's car makers stood at 4.85 million units in the first ten months of the year, matching the high level of the previous year. Although the last few months show some consolidation, factories are still currently producing at close to maximum capacity. Capacity utilisation in the fourth quarter was at 97 percent, the highest level in more than eight years.

The basis for the solid increase in production seen this year – besides the expanding domestic market due particularly to increasing incomes – was increased demand from other European countries. In the European Union, the number of new passenger car registrations increased by seven percent in the first ten months reaching their highest level since 2008. The need for replacements to cover the aging cars in circulation led to clear double-digit increases in Italy, Ireland, Portugal and Spain. The proportion of diesel vehicles remained almost steady during the course of the year at 47 percent, a middling figure in the narrow span seen in the last five years.

Production of German manufacturers outside Germany increased by six percent in the first nine months of 2016, reaching 7.4 million units. The global orientation of the German automotive industry is clearly reflected in the fact that 63 percent of cars are now produced outside Germany. The momentum here principally emanated from the most important location, which is China (up 16 percent to 3.3 million units). Production in other European countries increased by two percent to 2.6 million cars.

This year's development in the commercial vehicles segment was characterised by consolidation on a high level, both in light and heavy-duty vehicles. The production of vans, reaching a second consecutive record high in 2015, declined slightly by three percent in the first ten months of the year. A major factor influencing development in this area, alongside the sustained boom in online sales, was the positive economic environment in the EU. Purchases were also pulled forward on account of the Euro 6 standard that came into effect on 1 September 2016, which led to a drop in production figures afterwards.

Exports

With an export quota of 76 percent during the first ten months, car exports are once again the most important pillar in the German automotive industry this year. The slight decline of one percentage point in the quota year on year reflects the strength of the German domestic market. In absolute numbers, car exports at 3.7 million cars from January to October were only one percent less than during the same period last year. The further development of exports will also depend on the extent to which protectionist tendencies are asserted in the English-speaking regions. The fact is that the two most important export partners in the first three quarters were the UK and the US: the destination of 1.05 million units or 31 percent of all German car exports. Momentum came largely from within the euro area, where imports from Germany increased by five percent to 0.97 million cars. German carmakers also increased exports to China by six percent to 0.17 million units.

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Production in the construction materials, rocks and soils industry up by around 2.5 percent in 2016

2016 was a good year for the construction materials, rocks and soils industry. Production from January to September increased three percent year on year following price adjustments. The climb in production was particularly steep in the second quarter. This upward trend was spurred by the positive economic development seen in the building industry proper. Segments closely related to residential construction, such as the masonry industry, are benefiting most from the healthy level of orders. Demand for aggregates and concrete also increased, with lower demand in segments more closely related to industry such as the lime and refractory industries.

In line with the overall positive trend in the construction materials industry, sentiment here has brightened substantially throughout the year. The latest figures from the ifo Business Test show an increase to 19.8 points (compared with ten points in January 2016).

Based on the course of the year so far, the industry's trade association, bbs, expects an increase in the production of construction materials for 2016 of around 2.5 percent over the previous year. If the increase in producer prices remains moderate, revenue in the industry should rise by around three percent. A major factor boosting production here is residential construction. Public construction also increased in terms of revenue and orders; measures such as stepping up the investments in the country's transport infrastructure are having a noticeable impact. The bbs forecasts an increase in construction investments in 2016 of around three percent in real terms.

The positive trend is set to continue in 2017. Residential construction and public construction are likely to remain the major drivers of growth, with commercial construction on a path of below-average growth. The rocks and soils industry is thus heading for growth in the next year as well, though at a slightly lower level. This assessment is supported by an economic survey conducted among bbs members. A comparison of growth prospects in the construction industry and the construction materials, rock and soils industry must, however, take account of the fact that – owing to different factors, such as falling proportion of new construction in civil engineering, increasing proportion of building services in construction investments – the construction materials industry plays a minor role in additional construction demand.

Foreign trade declines again

Some four billion euros worth of construction minerals and mineral raw materials were exported between January and September 2016. Year-on-year this yields a decline of 0.7 percent (tonnage: down 4.6 percent). Both the raw material extraction and refining companies recorded falling sales abroad. Particularly the main trade partners including France, Poland and Belgium currently have less demand for goods from this industry. The decrease in foreign trade is due in particular to increasing domestic demand for construction materials. The bbs thus expects a slight decrease in exports for 2016 as a whole.

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Construction industry: Solid growth in 2016, bright prospects for 2017

The Central Federation of the German Construction Industry (HDB) forecasts a five percent increase in revenue in the building industry proper. In real terms, that would amount to an increase of around 3.5 percent. The HDB has made a marked upward revision to the forecast pronounced at the beginning of the year as a result of the sustained positive trend in almost all early indicators. The potential problems on the international level (development in China, Brexit, uncertainty concerning the policies of the new US president) have had no direct impact on the German construction market.

Residential construction will drive this growth, to an even greater extent than in previous years. The anticipated increase in revenue of eight percent corresponds to an increase of over 50 percent in relation to 2010 revenue. In view of the continuing positive environment (low mortgage interest rates, high immigration, rising real disposable income of private households, substantially higher returns on rent than on government bonds) this upward trend will continue in 2017. In the first three quarters of the year, the number of approved apartments increased by another 25 percent.

Public construction will also contribute to growth in 2016 with a nominal revenue increase of four percent. The major factor here is the 1.6 billion-euro increase in the federal government's investment in the country's transport infrastructure. At the municipal level, construction activity is increasing due to a range of construction measures for both the initial reception and the permanent housing of refugees. The prospects for public construction in 2017 are generally positive, with incoming orders from the public sector increasing by 18 percent from January to August of this year.

The German construction industry also forecasts a more positive development for commercial construction than it did at the beginning of the year. The revenue forecast here was upwardly revised from zero to three percent. Commercial underground construction – including the investments of the Deutsche Bahn AG — has provided for a sustained positive trend since the start of the year. The building permits (budgeted construction costs) for commercial construction recorded double-digit increases in all relevant building categories in the first three quarters of 2016. This will also ensure that the positive trend in growth continues in 2017.

Employment in the construction labour market has grown as well. An average of 775,000 people worked in the building industry proper in 2016, which is an increase of almost 1.5 percent over the previous year. Since the low in 2009, the industry has meanwhile created 70,000 new jobs, which is ten percent more than seven years ago. In view of the expected increase in revenue in 2017, next year should see another increase in the number of employees.

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Chemicals industry: Chemicals business weak

The performance of the German chemicals and pharmaceutical industry in 2016 has been disappointing so far. Following a good start to the year in the first quarter, the chemicals and pharmaceutical industry suffered a setback in the following two quarters. Bulk sales decreased both in the second and in the third quarter. From January to September, chemicals and pharmaceutical production was only marginally above last year's level, going up 0.3 percent. Only the polymer and pharmaceutical segments recorded a clear increase in production.

In response to rising oil prices, companies were able to increase the prices of many chemicals in the summer months again. Overall producer prices for chemical and pharmaceutical products still remained 2.3 percent

down year on year. Sluggish demand, the sustained slump in German chemicals production and little momentum in producer prices all pulled down revenue. Industry revenue fell by four percent year on year to 118.2 billion euros. Both domestic sales and sales abroad declined.

In Europe which accounts for almost 70 percent of chemicals exports abroad, demand for chemicals remained low. Exports to the European Union in August were 0.5 percent down from last year. The development of exports to other European countries was more positive, rising by more than nine percent over last year's level so far this year. Despite a slight increase in momentum in the last few months in non-European markets, exports were still below last year's level between January and August. Exports to the US were 3.8 percent below last year's level. In Latin America, exports plunged by over nine percent. Asia was the only region here where exports increased year-on-year, going up by 1.4 percent.

Outlook: Negligible momentum in chemicals

Overall, the chemical companies were still quite happy. The current situation is largely assessed as positive by the industry. But companies are subdued regarding the future course of business. Uncertainty regarding the sustained weak growth in emerging countries and concerns about the stability of Europe are affecting the industry.

All in all, companies in this sector are not anticipating business to pick up much in the coming months. Sustained momentum for the German chemicals industry is not on the horizon – neither at home nor abroad. Despite the difficult environment, the German Chemicals Industry Association (VCI) still expects a moderate 0.5 percent increase in chemicals production for 2016. Industry revenue is dropping substantially with prices falling (down two percent). The VCI now forecasts a decline in revenue of three percent to 183 billion euros. Foreign trade should follow a more positive trend than domestic sales.

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German electronics industry: Slight gains in production and revenue

In the first three quarters of 2016 orders in the German electronics industry were up one percent year on year. Domestic orders stagnated while orders from abroad decreased by 1.7 percent. Production between January and September 2016, on the other hand, improved on the figures from the same period the previous year by 1.6 percent. Industry revenue also rose slightly by 1.1 percent, totalling 131.6 billion euros. Domestic revenue was up 1.6 percent to 64 billion euros, while foreign revenue rose 0.6 percent to 67.7 billion euros. The number of people currently working in the industry is 851,000 – 4,000 more than at the beginning of the year.

Gross fixed capital formation in the German electronics industry amounted to 6.4 billion euros last year. This corresponds to 3.6 percent of industry revenue. According to the plans of companies in the industry, investment volume this year should be eight percent higher than last year, totalling just under 6.9 billion euros. Half of these investments are directed towards expanding production capacities. 31 percent of the companies want to prioritise rationalisation measures, while 20 percent plan to focus on replacements.

The electronics trade association (ZVEI) expects electronics production to increase by one percent as a whole (adjusted for prices). Revenue growth is projected to be at two percent, which means the record high of 2008 of 182 billion euros could be achieved again.

Electronics exports continues to break records

Exports (including re-exports) of the German electronics industry exceeded the figures from the previous year in the first eight months by 3.8 percent with a total value of 133.6 billion euros. Exports to industrialised countries increased 4.1 percent, growing more than exports to emerging countries, which rose by 3.1 percent. The US – the largest buyer of German electronics exports – imported goods to the value of 12 billion euros between January and September 2016, which corresponds to a year on year increase of 1.4 percent. Exports to China increased in the same period by 6.2 percent to 11.9 billion euros. Deliveries to the euro area grew by 2.8 percent to 40.3 billion euros. Exports to commodity-dependent countries such as Russia and Brazil, by contrast, continued to be weak in the course of the year so far.

The ZVEI expects German electronics exports to again surpass last year's record high of 174.5 billion euros by another two to three percent.

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Growth in foundry industry very weak

Sentiment at German foundries was very subdued in the middle of the fourth quarter 2016. Machinery foundries across the board were under pressure in almost all areas due to weak global investment particularly in raw materials and agricultural machinery, which the good level of orders in other segments including machine tools and plastics machinery proved unable to balance out. Furthermore, demand from the main customer group, the automotive industry, seems to have reached its peak. Stagnating domestic automotive production leads to the same conclusion. Overall figures in the first three quarters for the production of cast components hovered at two percent below the level attained in the same period in 2015 after calendar and seasonal adjustments. A look at industry developments according to the dominant materials reveals divergent activity: The iron and steel foundries clocked up a production decrease of around five percent due to the high proportion of parts supplied to machinery. In contrast, the light metal foundries benefited from their main customer group, the automotive industry, and were just about able to sustain the previous year's level of production in the first nine months of the year. The industry currently has just under 600 companies employing around 80,000 people according to a survey by its trade association, the BDG.

The low level of orders continued at beginning of the last quarter of 2016. The current business climate as of late October shows a more sceptical picture than in October 2015. Only ten percent of foundries assessed the current situation as good during the past two months. An average of 40 percent of companies surveyed in the Ifo survey for September/October 2016 categorised the situation as poor. Looking at the next six months, the balance of positive and negative expectations has deteriorated further. More than 25 percent of foundries are expecting a slow-down in business. The sideways movement anticipated in spring did not materialise in the course of 2016.

Exports of cast components affected by the low raw material prices and capital outflow out of emerging countries

The foundries' international revenue fell by three percent in 2015 to just under 4.3 billion euros. The export quota was at just under 34 percent. In the first nine months of the current year, revenue dropped by just under one percent, due primarily to the approx. four percent decrease in export revenue. Deliveries to euro area countries dropped by three percent, while exports outside the euro area fell by five percent. Export expectations remain pessimistic. A quarter of foundries expect the weak foreign demand to continue. More than two thirds hope that the market has now bottomed out. We should not forget though, that around 80 percent of the cast components

produced in Germany end up abroad. Indirect exports through German vehicle and machinery production are a major lever for this segment, currently reinforcing the downward trend. The low level of raw material prices is restricting the investment potential of the global mining and exploration industry, which is having a direct impact on German equipment suppliers and thus on foundries.

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Glass industry

Economic development in the glass industry was quite positive in the first three quarters of 2016. The value of production increased year on year by 2.8 percent following price adjustments. Overall industry revenue rose by 2.9 percent, with growth impetus largely stemming from other European countries. Revenue in the euro area climbed 9.3 percent over last year's level, while revenue outside the euro area failed to make anything more than a negligible contribution to growth. This resulted in a combined growth of 4.7 percent of foreign trade for the glass industry as a whole. The trend in domestic demand was also positive, though somewhat weaker than abroad. Domestic trade increased by 1.6 percent in comparison to the previous year. Almost all segments of the glass industry benefited from the stable economic situation, in particular flat glass, glass containers, fibre optics and special glass. The positive trend in foreign revenue is also reflected in the foreign trade balance for the industry.

Between January and September 2016, trade in glass and glass goods generated an export surplus of 785,000 tonnes or 846 million euros. Exports increased by 4.9 percent in terms of tonnage and 2.9 percent in terms of value. Imports declined slightly with tonnage decreasing by 3.2 percent. Large exports were recorded in particular for products of the flat glass and flat glass finishing industry, going up 10.1 percent and 7.4 percent respectively.

The overall picture for the glass industry is stable and moderately positive. The increase of the economic trend components of the production and revenue index for the period from January to September in comparison to the same period last year of 1.9 percent and 2.8 percent respectively consolidate this impression.

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Ceramics industry

Industry figures for 2016 so far show a sideways movement in fine ceramics. Total industry revenue is currently slightly below previous year's level. The economic situation differed according to the various segments, though all showed weak exports.

Makers of dinnerware and decorative ceramics, including the manufactories, have recorded slight gains in total revenue of 0.2 percent. The producers are benefiting from the good domestic market. Revenue generated in Germany increased by 3.2 percent over the previous year. Foreign trade was correspondingly weak, with a decline of 2.9 percent this year so far. Looking at the incoming orders from abroad, no turnaround is to be expected in exports for 2016. The overall result for the year 2016 is therefore likely to remain at around about the same level as last year. Production is currently growing slightly at 1.4 percent.

Contrary to the long-term trend, the technical ceramics segment has lost momentum this year. The segment is currently at three percent below last year's figures. The fine ceramics industry is particularly export-oriented and generates more than 60 percent of its revenue abroad. While domestic business displayed robust growth, going up by 4.1 percent, demand from abroad has plunged. Foreign revenue is currently down 7.2 percent year on year. Incoming orders follow a similar pattern, meaning that a significant improvement of the situation is not to be expected before the end of the year. On the back of this difficult situation, production suffered a significant drop. Particularly the technical ceramics industry is hoping for an improvement in the global economy. Political developments around the world, such as the Brexit vote and the election of Donald Trump as the 45th president of the United States are not helping to reduce uncertainties regarding economic policy.

Stove tile producers registered positive growth, with an increase in total revenue of 6.3 percent so far this year. The majority of these gains were generated on the domestic market. Exports, on the other hand, are currently down by 6.2 percent. The good level of incoming orders from abroad is encouraging though. Exports should improve slightly by the end of the year. Production recorded a clear increase of 18.6 percent. Stove tile producers have nonetheless been operating in a difficult environment for many years as the market for the industry is shrinking.

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Machinery production manages to hold steady in 2016

In the first nine months of the year real production of machinery in Germany increased by 0.4 percent year on year. This corresponds to the stagnation predicted by the German Engineering Federation (VDMA) back in October 2015. More than a quarter of the industry's companies complained of a shortage of orders in October 2016, a phenomenon certainly not limited to Germany. Global revenue in machinery stagnated in 2016 as the demand for capital goods is weak around the world. Several factors are curbing momentum here. Alongside the numerous geopolitical risks and the impending Brexit, China also plays a central role. Growth has slowed in the People's Republic, and the situation is further aggravated by a shift in growth drivers from capital goods to consumer goods and services. No other country in the world, nor any other region, has so far managed to replace China as the driver of the global economy, particularly in demand for machinery and plants.

No growth in sight for 2017

For the coming year, the VDMA expects a real increase in production of one percent. The main reason for the slight growth in 2017 following zero growth in 2016 is that the burdens from some developing and emerging countries are expected to ease off.

The domestic market could provide a little positive momentum again – it seems unrealistic to hope for more. The mainstay of the positive economic environment is strong consumption and buoyant construction activity. Capacity utilisation in manufacturing, the largest customer group of machinery, reached 85.8 percent in October – the highest rate recorded since 2012 but certainly not a figure that will drive incoming domestic orders up on account of capacity expansion projects. Export markets are likely to exhibit divergent trends. The future course of machinery exports in the industry's two largest foreign markets the US and China remains unclear. The course of development in the US under the new presidency is uncertain. In China there are still a series of risks including surplus capacities in some industries and high debt levels. The trend in the EU partner countries (excluding the United Kingdom) should continue to recover. However, the meagre level of orders coming in from euro partner countries indicates that not much can be expected from exports to these countries in the second half of 2016 through to the first half of 2017. The United Kingdom will probably produce a negative rather than a positive momentum. Caution is likely to rule investments as it is unclear when and how Brexit will be implemented. The

strongest improvement can be expected from the group of developing and emerging countries (excluding China). Exports to Russia are bottoming out so machinery may be able to achieve a small increase here in 2017 after having collapsed to just over half the pre-crisis level. Deliveries to Brazil could bottom out in 2017, which would at least stop them pulling down growth, and exports to India should increase again following the introduction of the uniform level of value-added tax across the nation, among other factors.

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Nonferrous metal industry

2016 has been a good year for Germany's non-ferrous metal industry and it is optimistic about the year ahead. With an average of 111,000 employees and roughly 650 companies, the industry produced 6.4 million tonnes between January and September 2016 (1.9 percent more than the same period in the previous year) and revenue of 35.2 billion euros, of which 18.8 billion euros (53.5 percent) domestically. The non-ferrous metal industry is divided into the value added stages of production (production of refined metals and metal alloys), semi-finished products (initial processing into sheets, plates, rods, profiles, tubes, wires and forged parts), further processing (foil, thin ribbon, tubes, aerosol and other cans, and powder), cast iron and hot-dip galvanizing. The **aluminium industry** stabilised its production of primary aluminium in the first nine months of the year on almost the same level as the previous year. Semi-finished aluminium products recorded a clear increase of six percent. In contrast, production in the further processing of aluminium dropped by two percent. In the **base metal industry** (copper, zinc, lead, tin and nickel), production dropped by three percent in the first three quarters of 2016 compared with the same period last year. Producers of base metal semi-finished products, on the other hand, recorded a clear increase in production of four percent over the same period. **Non-ferrous metal foundries** recorded a slight decrease in production of one percent in the first three quarters of 2016. The main factor causing this decrease was a drop of the same magnitude in aluminium cast parts. This segment accounts for around 88 percent of production in the non-ferrous metal foundries. Base metal cast parts, on the other hand, increased by two percent.

In November the current business situation across the non-ferrous metal industry was similar to the previous month. Around 84 percent of the companies surveyed assessed the business situation as good or normal for the season. Expectations have continued to improve. Looking ahead to the next six months, 95 percent of those surveyed thought business would improve or be equally good. Following a rise in production of probably well over 1 percent in 2016, the non-ferrous metal industry is expecting production to be stable or slightly above the previous year in 2017.

Impact of Brexit and the US elections on the non-ferrous metal industry

The non-ferrous metal industry generated international revenue of 16.4 billion euros between January and September 2016. That equates to an export quota of 46.5 percent. The United Kingdom has so far been the biggest foreign market for the metal producing and processing industry. Twelve percent of metal and semi-finished exports were delivered to the United Kingdom in 2015. 85 percent of these exports were aluminium semi-finished products and twelve percent copper semi-finished products. According to a recent survey of the base metal industry, 76 percent of those surveyed do not expect any impact from Brexit, 20 percent anticipate a slightly negative impact and four percent a slight positive impact. Following nine European countries at the top of the list, the US ranked as the tenth most important export market in 2015. Four percent of metal and semi-finished products were delivered to the US, which corresponds to a ten percent increase over 2014. US demand

focused on aluminium semi-finished products (48 percent) and copper semi-finished products (34 percent). Refined lead and nickel semi-finished products also played quite a significant role.

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Situation of the steel industry in Germany

In terms of volume, the steel industry in Germany has brightened somewhat in recent months. Key indicators still show a mixed picture though, with production and particularly revenue recording sharp drops in the course of the year so far. However, the level of orders and the business climate in the steel industry – albeit in comparison to an unusually depressed comparison period last year – have improved. In the third quarter, rolled steel orders increased for the third consecutive time, going up by two percent. The aggregate growth for the period between January and September therefore totals six percent.

There is cause for cautious optimism for demand for steel in the coming year. The economic outlook for the major steel processors remains stable, and the inventory levels in retail and processors are currently low in comparison with the long-term average. In view of this situation, we expect the supply of rolled steel to increase slightly in the coming year following an increase of one percent in 2016. Currently at 40.2 million tonnes, the level could reach the records set in 2006. The production of crude steel in 2016 at around 42.5 million tonnes is likely to be slightly below last year's level of 42.7 million tonnes. Capacity utilisation is set to draw level to the long-term average at 87 percent. By comparison, worldwide capacity utilisation is only 70 percent. A high capacity utilisation is also expected by German factories in the coming year as well.

However, the economic environment for steel companies in Germany is still difficult, mainly due to the fact that the structural crisis on the global steel market has still not been resolved. While first steps have been taken to cut down surplus capacities in the Chinese steel industry, capacity reduction this year amounted to just about one percent of overall capacities. Other countries meanwhile, including Iran and India, have stocked up their capacities with state subsidies, exacerbating the situation. The challenges facing steel foreign trade are therefore still daunting. While rolled steel imports from China to the EU dropped slightly this year, they are still at 6.4 million tonnes (2015: 7.2 million tonnes), which is twice the level recorded in 2013. Total imports in 2016 again increased substantially over the previous year, as other supplier countries (e.g. from South Korea, Russia and Ukraine) are stepping up their penetration of the EU market, often in response to suppression from third-party markets by Chinese suppliers (cascade effect).

On the expenses side, dramatic price surges in the base raw materials are putting companies under pressure. Prices for coking coal have more than doubled since the middle of the year and are now at their highest level since mid-2012. The price of iron ore has increased by more than 50 percent in the last five months. The rally in coal prices was triggered by reduced output in China and Australia coupled with disruptions in seaborne transport, higher demand from China and India and speculative trading.

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Steel and metal processing industry

Production plus 1.4 percent in first three quarters of 2016

The steel and metal processing industry increased production by 1.4 percent in the first three quarters of 2016 in comparison to the same period last year. This growth was achieved in the first six months, where production was two percent higher in a year-on-year comparison. In the third quarter, production was almost identical to the level recorded in the same quarter in 2015 (up 0.1 percent). In the course of the year, the level of output remained stable throughout the first and second quarters, before declining by 2.3 percent in the third quarter over the previous quarter.

Domestic demand was a key driver of the overall positive growth. Exports lagged 0.7 percent behind last year's level, although the latest figures indicate a slight pick-up towards the end. In September, 3.5 percent more goods were exported than in the previous year. Incoming orders from abroad also stabilised, registering 4.9 percent growth in the third quarter year on year, and now reaching the previous year's level (down 0.1 percent). After three quarters, domestic deliveries are up 1.4 percent compared to last year, with domestic incoming orders up by as much as 4.6 percent. The number of employees working in companies with 50 or more employees totalled 358,550 in August, corresponding to a 1.2 increase over last year.

The business climate in the steel and metal processing industry improved further in October. Expectations for the course of business in the next six months continue the upward trend with an increase of 4.7 index points. The current business situation is also judged to be in better shape compared to the previous month. The industry is therefore in step with the current overall trend in manufacturing in Germany in October.

About the WSM

The steel and metal processing industry in Germany is composed of over 5,000 largely family-run businesses with a total of approx. 450,000 employees and generating 80 billion euros of revenue per year. The companies have an average of 100 employees and are by far the most important customer group for steel producers.

The industry is characterised by a high level of specialisation and intensive competition. The companies sell to the international automotive, electronics and construction industry, mechanical engineering and retail markets.

WSM is an umbrella association comprising 15 specialist associations. Together, it pools the interests of one of the largest sectors dominated by mid-sized companies in Germany, representing them in economic policy on a regional, national and European level. The WSM mission is to achieve a balance between the powerful customers on the one hand and the suppliers from industry and trade on the other. WSM also tries to improve the environment for growth, momentum and competition in all aspects of the industry from taxation, charges, legislation, to research, the environment, energy and technology.

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The German textile and clothing industry

Diverging trends persist

2016 has been a satisfactory year on the whole for the German textile and clothing industry. As of September, the industry managed to record a slight increase of 0.4 percent despite the difficult environment. The number of employees increased by 0.6 percent, running counter to the long-term trend. The two segments textiles and clothing developed in opposite directions. While textiles generated 3.9 percent more revenue in the first three quarters, revenue dropped by 4.8 percent in clothing during the same period. Employment in the two segments in Germany exhibited a similarly divergent development (textiles up 2.5 percent, clothing down 2.4 percent) – a pattern shown by most other economic indicators. The clothing industry was badly hit by the drastic slump in business with Russia. In the space of just three years, industry exports halved, dropping to an estimated 500 million euros in 2016. This nosedive could not be balanced out by other European and non-European markets. Workwear, which has grown steadily in the past, failed to reproduce the positive trends shown in former years in 2016. Technical segments within textiles, on the other hand, are still driving growth. Technical textiles were able to increase revenue in the first nine months of 2016, rising by 9.2 percent.

For 2016 overall, growth was projected to reach 1.5 percent for the industry overall (textiles: up two percent; clothing: up 1.5 percent). Despite the above average growth in technical textiles that benefit from stable supplier markets, this target is looking increasingly out of reach. We now only expect revenue to grow by one percent in 2016 overall. Current general expectations of companies in the textile and clothing industry are still cautiously optimistic, but well below the expectations in manufacturing overall. Unfortunately, other indicators besides revenue, including capacity utilisation and incoming orders, also point to a continuation in the divergent development of these segments. As retail sales of clothing did not benefit from the overall upward consumer behaviour in retail either, we expect this trend to continue until the end of 2016. However, the willingness to invest remains high, with just under 70 percent of companies planning to invest in the current year, mostly at home. Just four percent of companies solely intend to invest abroad. Expectations regarding employment in the industry are also positive, with a net growth of 0.5 percent anticipated at home (textiles: up one percent; clothing: up 0.3 percent).

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Tourism

2016 has been a mixed year for tourism. In these troubled times, tourists chose their destination with more care. A look at the travel behaviour of German holidaymakers shows that tourist flows have shifted in 2016, away from North African and the eastern Mediterranean towards the western Mediterranean. Long-haul travel was and still is popular. Many Germans also spent their holidays in Germany. Some destinations have benefited while others have suffered this year.

Germany as a travel destination has increased its upward trend. This is indicated both by overnight stays in Germany's tourist accommodations, up three percent by September. Although Germany lost a little momentum in visitor numbers from abroad compared to previous years, due to security considerations in individual countries following the terrorist attacks in Bavaria and economic problems in some source markets, the popularity of Germany has increased further. By September, overnight stays among foreign visitors were up two percent, while domestic visitors were up three percent.

Hotel and restaurant revenues have also developed pleasingly in the year so far. Restaurant owners generated three percent more sales throughout the first nine months than in the same period last year, while hotel owners recorded a plus of 3.9 percent.

Airports in Germany counted almost 170 million passengers (arrivals and departures) up to September, a 2.9 percent increase over the first nine months of 2015. However, German airlines are hardly benefiting from this positive development themselves. The largest growth was recorded by foreign airlines, particularly those that operate within a more favourable policy framework. Tour operators and travel agencies have suffered from a slump in traditional all-inclusive destinations such as Turkey and Egypt. According to projections by the German Travel Association (DRV) the revenue of tour operators in the tourist financial year of 2015/2016 (as of 31 October) decreased by between three to four percent, dropping to around 26.3 billion euros. Travel agencies registered a decrease of between two and three percent to just under 23 billion euros.

Notwithstanding these trends, people have not lost their basic urge to travel. Indeed, people are travelling more and more across the world. A total of 561 million people left their national borders in the first six months of 2016. This amounts to an increase of four percent or 21 million tourists year on year, according to the World Tourism Organisation UNWTO.

The course of business in 2017 will depend on how the security situation develops around the world, especially in Europe. Past experience has shown that terrorist attacks will not deter people from travelling in the long term. Following temporary uncertainty, the tourist flows in the past few years and decades have always picked up quite quickly once the situation has stabilised, if only temporarily. We are building on that and hoping that both customers and companies can look forward to a good and safe year of travel in 2017.

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