



BDI

The Voice of
German Industry

INDUSTRIAL POLICY DOSSIER

Industry Report

May 2016

- **We expect 2016 to bring a three-quarter percent increase (up 0.75 percent) in industrial production in Germany.** The sideways movement expected in the global economy and modest prospects for world trade will prevent German industry from enjoying tremendous business opportunities this year as well.
- **Global industrial production increased by just 1.9 percent in 2015 over the previous year.** This was the weakest growth since 2009. The euro area and the United States, on the other hand, showed stronger than average performance. In newly industrialised countries, industrial production increased by only three percent in 2015.
- **Weak demand is likely to also impact growth in goods exports at current prices assuming only slight changes in the real effective external value of the euro this year.** We expect a slight increase of around two percent from the previous year.

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Global industrial production

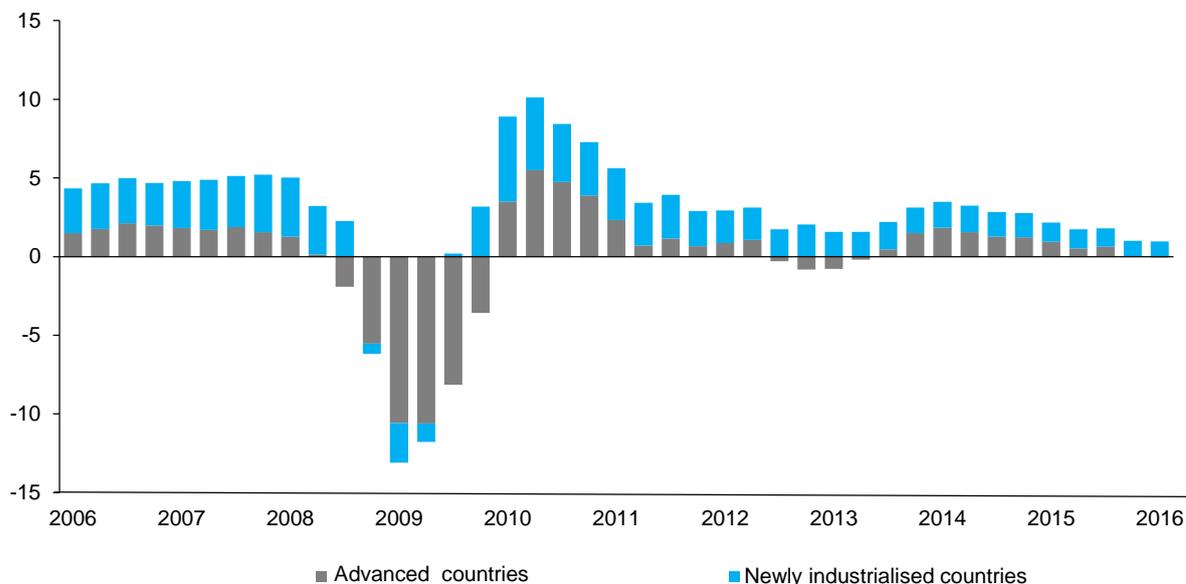
Global industrial production barely growing

According to figures from the CPB Netherlands Bureau for Economic Policy Analysis, global industrial production increased by just 0.3 percent in the fourth quarter of 2015 from the previous quarter (seasonally and working-day adjusted). Year on year, fourth quarter growth was very modest too, up only 1.3 percent. For 2015 as a whole, global industrial production increased by just 1.9 percent over the previous year. This was the weakest growth rate since 2009.

Based on seasonally and calendar adjusted values, **advanced economies**, where just under two-thirds of global industry is concentrated, only increased production by 0.9 percent in 2015. The euro area and the United States, on the other hand, showed stronger than average performance. Japan's industry suffered a roughly one percent decline in production. In other industrialised countries, production expanded by less than 0.5 percent on average.

Industrial production in **newly industrialised countries** has also lost momentum, expanding by just three percent last year. Apart from 2009, the year of the global financial crisis when production declined slightly, this was the weakest growth since 1999 and 2002, when the Asian crisis and the bursting of the dot-com bubble each triggered a global recession. The cause of the latest weak growth in newly industrialised countries is likely to have been weakness in the Chinese economy. Broken down into different regions, industrial production in Asia's newly industrialised countries still rose by nearly five percent. In the Middle East and Africa region, industrial production rose after falling two years in a row. In Central and Eastern Europe, there were virtually no changes. In Latin America, industrial production declined for the second year in row.

Development of industrial production* in advanced and newly industrialised countries



*production index, quarter-on-quarter change in percent

Source: Netherlands Bureau for Economic Policy Analysis

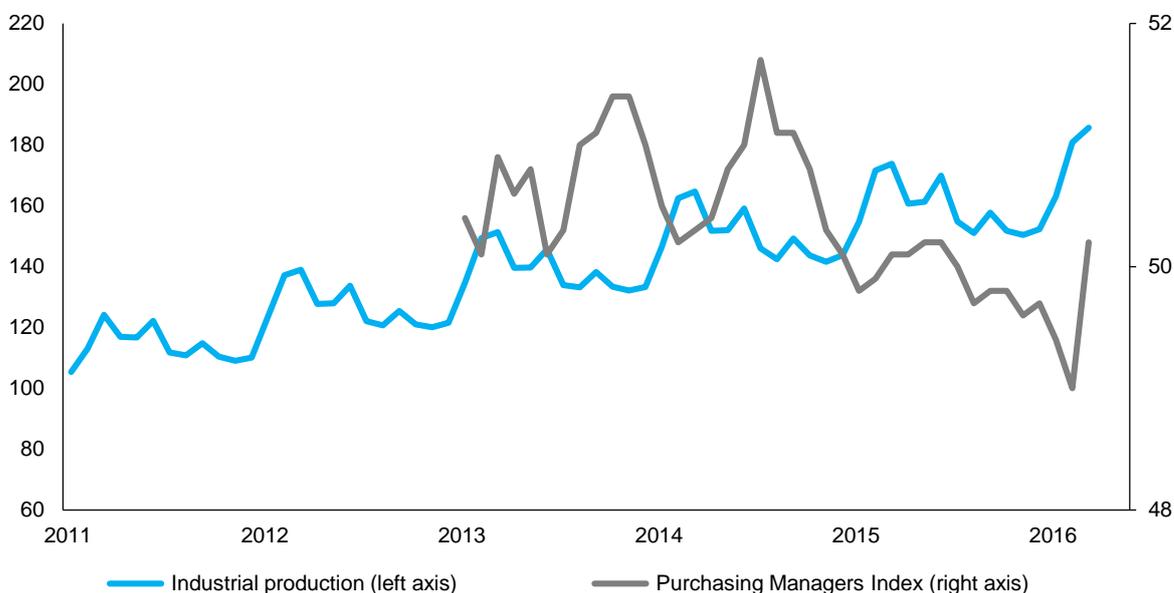
Latest data show slight recovery

The most recent industrial production data published by CPB indicate a very weak recovery at the start of the year. In February, global industrial production declined by 0.5 percent month on month (seasonally and calendar-adjusted) after having climbed 0.6 percent month on month in January. The two-months comparison shows a 0.3 percent rise in production after a 0.1 percent gain in January. The global purchasing managers' index for industrial production rose by 0.5 percentage points in March and remains on the expansionary side.

China

China's leaders have passed a series of financial and monetary policy stimulus measures in recent months. These efforts to stabilise the business cycle have since taken hold in a number of sectors of the economy. Manufacturing is among them. Growth in industrial production, which had fallen into the single digits from 2012, had dropped to just a little more than five percent year-on-year in real terms by the end of 2015. At first it appeared this trend would continue. After weak numbers in January and February, industrial gross value added suddenly surged to just over seven percent (7.2 percent) in March. As a result, there was a year-on-year gain of 6.5 percent during the first three months of the year. The automotive, electronics, non-ferrous metals, computer and textile industries showed even stronger growth. Production growth in the steel, cement and construction-related industries was more modest, although the latest data show that here too there has been a slight uptick in economic activity on real estate markets. The purchasing managers' index also shows a rise in industrial production since March 2016. We expect this recovery to continue during the first half of the year and gradually weaken during the second half as the effects of some of the stimulus measures diminish. It remains to be seen to what extent structural adjustments in sectors with significant industrial overcapacity will impact production figures during the rest of the year.

China: Industrial production*, Purchasing Managers Index



* Index calculation based on growth rates

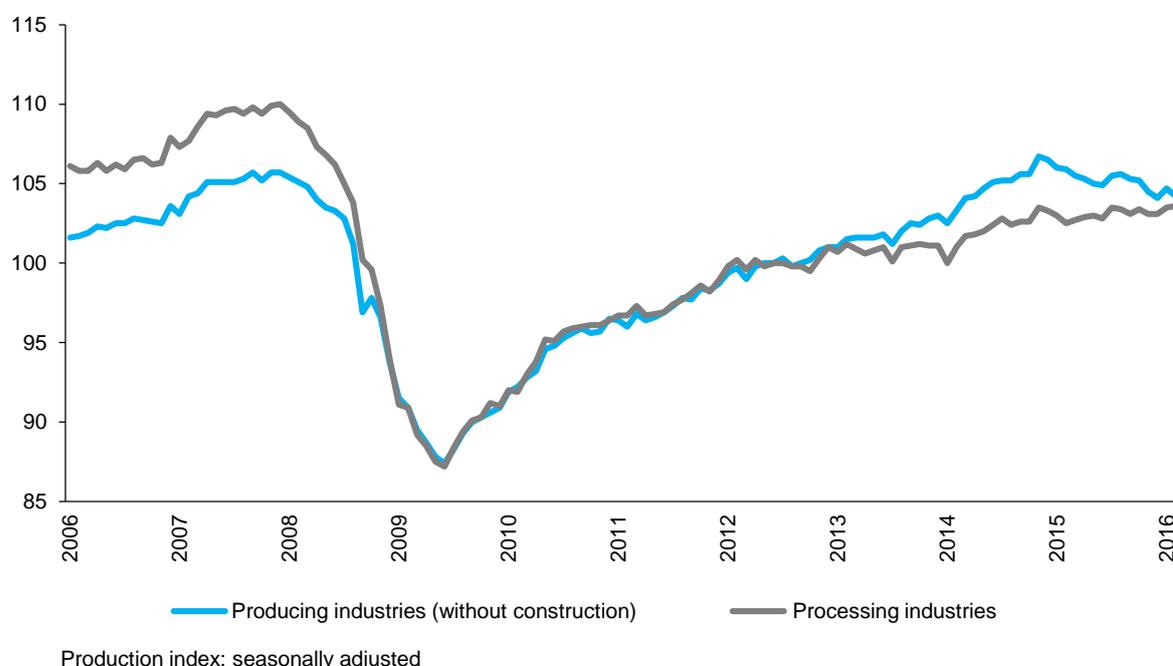
Sources: National Bureau of Statistics of China, Statista, own calculations



United States

It has now been seven years since the US economy collapsed after Lehman Brothers declared bankruptcy in autumn 2008, and US industry has still not recovered completely. Granted, gross domestic product did return to pre-crisis levels in 2011. But US industrial production – manufacturing including mining and the energy sector – did not reach third-quarter 2008 levels until 18 quarters later, in the first quarter of 2013. The production peak from the fourth quarter of 2007 (five percent higher than in autumn 2008!) was only surpassed in the last quarter of 2014 and first quarter of 2015, and again in the summer quarter of 2015. Shale gas exploration in the US, which surged from 2012, is essentially what put industrial production back on track. The manufacturing sector only exceeded the production levels seen in the summer quarter of 2008 during the last quarter of 2014 and the second half of last year. Manufacturing has not yet managed to return to the production levels seen in 2006 and 2007.

After the fracking boom, the producing and processing industries are on a par again

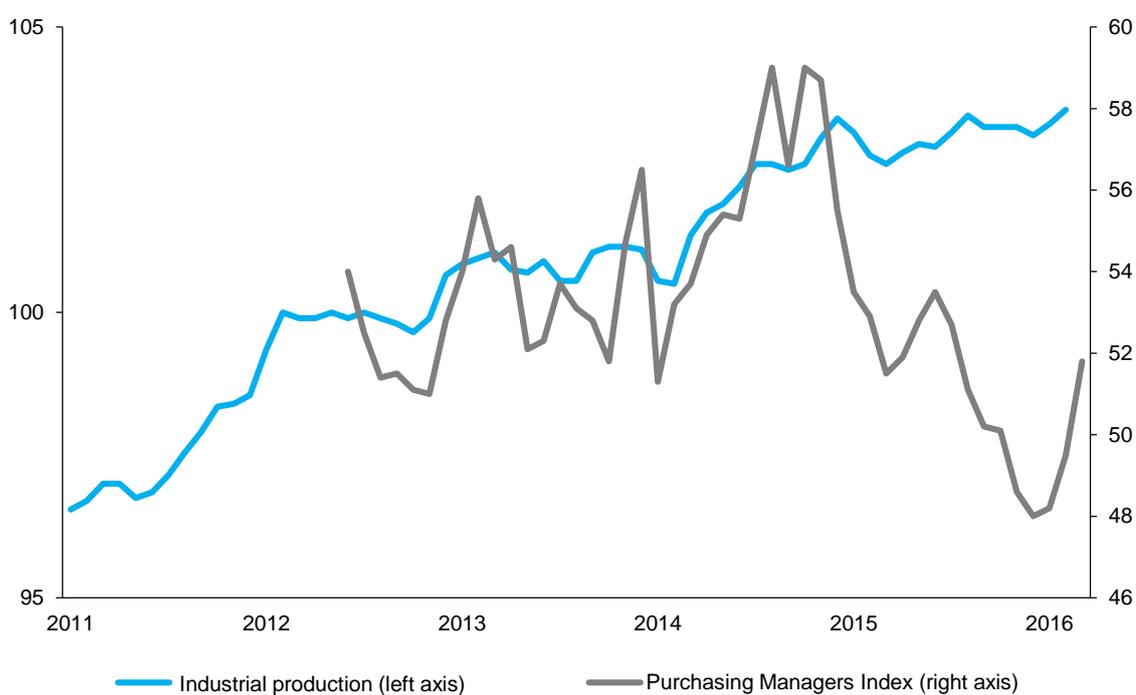


Source: Board of Governors of the Federal Reserve System



At the start of 2016, the downward slide in the industrial sector appears to be continuing. In industry as a whole, the average during the first two months of the current year was 0.1 percent below the average from the quarter before. And 1.3 percent below where it was one year before. This being said, the base effect resulting from the cold winter in 2014-2015 is likely to have come into play here. Manufacturing production, on the other hand, expanded during the first two months. Both the one-month and two-months comparison show an increase in production. The purchasing managers' index for manufacturing rose three times in a row – most recently in March, when it climbed 1.3 index points, suggesting significant production growth in the spring.

United States: Industrial production*, Purchasing Managers Index



*Production index: two-month average, calendar and seasonally adjusted

Sources: Board of Governors of the Federal Reserve System; Statista

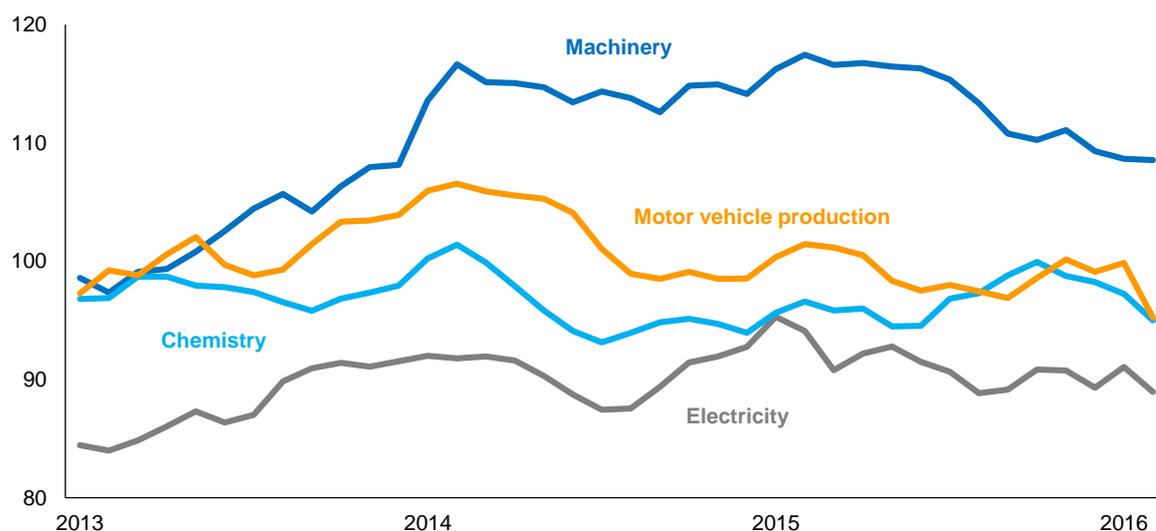


Japan

Japan's industrial production trajectory looks like a gentle gradient that has been sliding downhill for nearly seven years. The sluggishness in Asia is having a huge impact on Japan. Business cycles have typically been triggered by external shocks such as the Fukushima nuclear disaster, heavy flooding in Thailand that negatively affected the Japanese supply chain, or the big VAT hike in early 2014. The decline has further stabilised since the second quarter of 2014. Quarterly production levels have consistently fallen short year-on-year since that time.

Only a few large industries have shown cyclical movement during the last three years. Machinery production expanded strongly from late 2012 and early 2013 until the spring of 2014. The production levels achieved by that time continued until the late summer of 2015. Motor vehicle production posted an upswing in 2013, but was not able to maintain this growth. By summer of the following year, production had already fallen back to its initial level. In the electronics industry, production mostly moved sideways. For four quarters in a row from autumn 2014 to the middle of 2015, production was up year on year. The chemicals industry was on a steady upward trajectory during the second half of 2015, but this ended at the close of 2015.

Industrial production* in selected industries in Japan



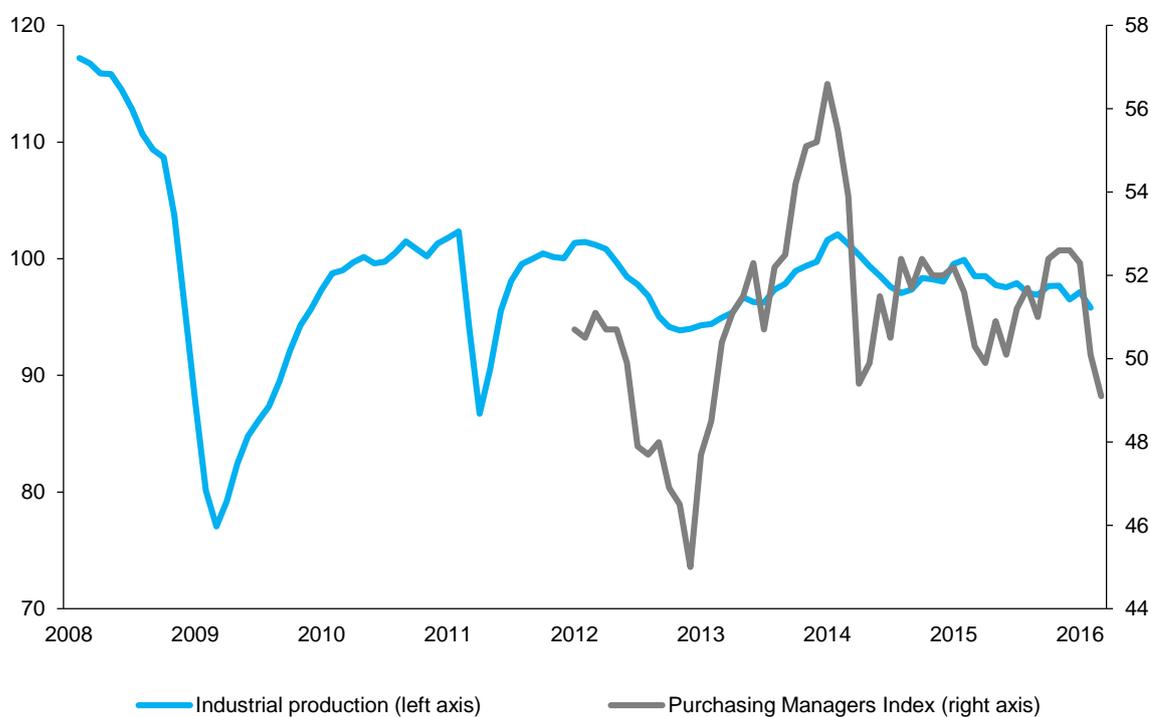
*Production index: two-month average, calendar and seasonally adjusted

Source: Ministry of Economy, Trade and Industry; Japan



At the start of 2016, developments in production were mostly disappointing. Average production during the first two months of the current year was 1.3 percent below the average from the quarter before. Compared to the same quarter the previous year, growth was down more than three percent. The purchasing managers' index for Japanese industry showed a clear upward trend until December 2015, which suggested production growth. In January 2016, however, the index fell slightly. In February of the same year, it fell noticeably. In March 2016, the mood among purchasing managers had darkened so much that production can be expected to decline even further.

Japan: Industrial production*, Purchasing Managers Index



*Production index: two-month average, calendar and seasonally adjusted

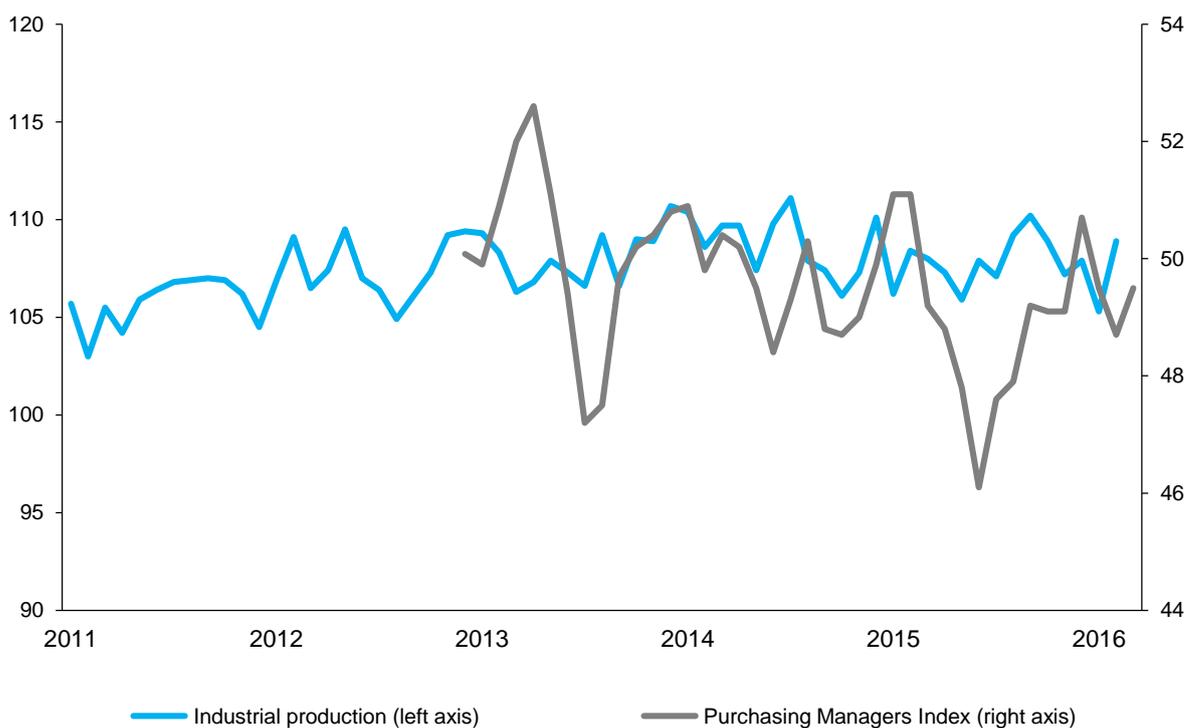
Sources: Ministry of Economy, Trade and Industry; Japan, Statista



South Korea

For the first time since 2009, industrial production in South Korea fell year on year. Granted, an average annual decline of 0.6 percent is far from dramatic. However, considering that growth had been weak during the three years before, the performance of Korean industry was rather disappointing. Over the past four years, industrial production has expanded by just 1.7 percent. While this is somewhat better than Japan (which grew by one percent), it is nowhere near US industry, which expanded by more than eight percent during the same period. At the start of 2016, the slight decline continued. Average production during the first two months was down nearly one percent from the fourth quarter of 2015 and down 0.5 percent from the previous year. The purchasing managers' index for manufacturing recently improved by 0.8 index points, but it is still below the expansion line. Slow growth in China and a bleak outlook for growth in the global economy suggest that Korean industry is not likely to post strong growth this year.

South Korea: Industrial production*, Purchasing Managers Index



*Production index: two-month average, calendar and seasonally adjusted

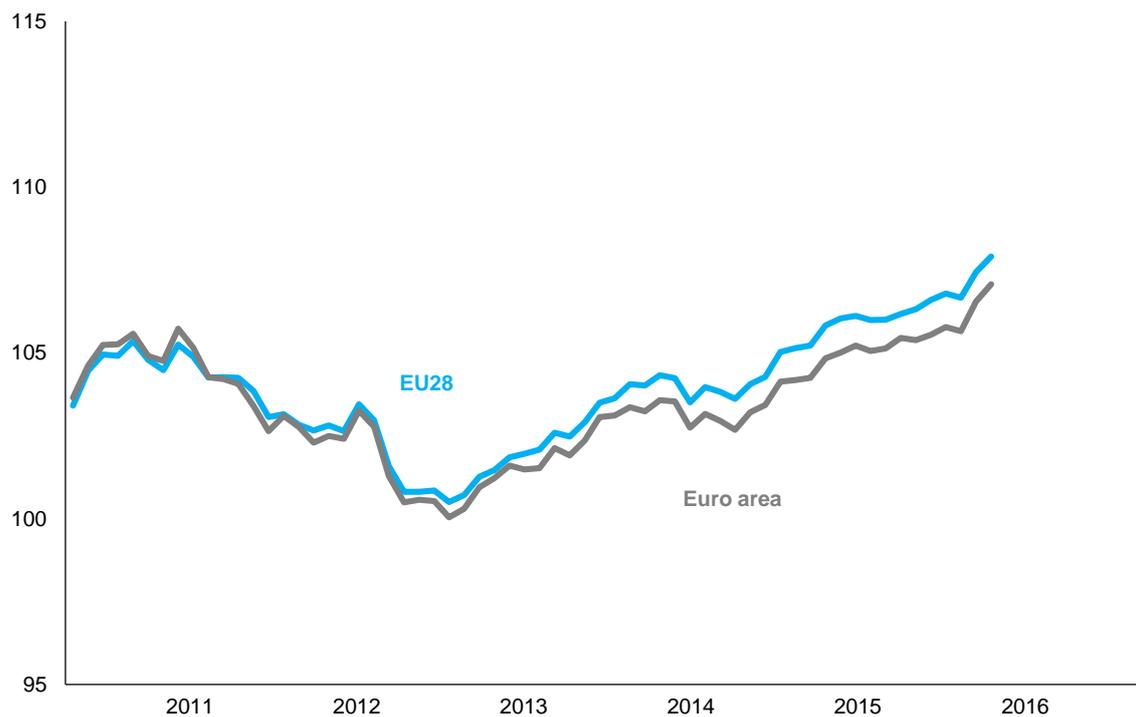
Sources: OECD, Statista



European Union: Production expands for the second year in a row

Industrial production in the European Union increased for the second year in a row. Both the industrial sector (without construction) and manufacturing steadily increased output. The upward movement started in 2013. A negative statistical overhang – production was down significantly during the second half of 2012 versus the first half – was the only reason that the average growth rate for 2013 just missed positive territory.

Industrial production*



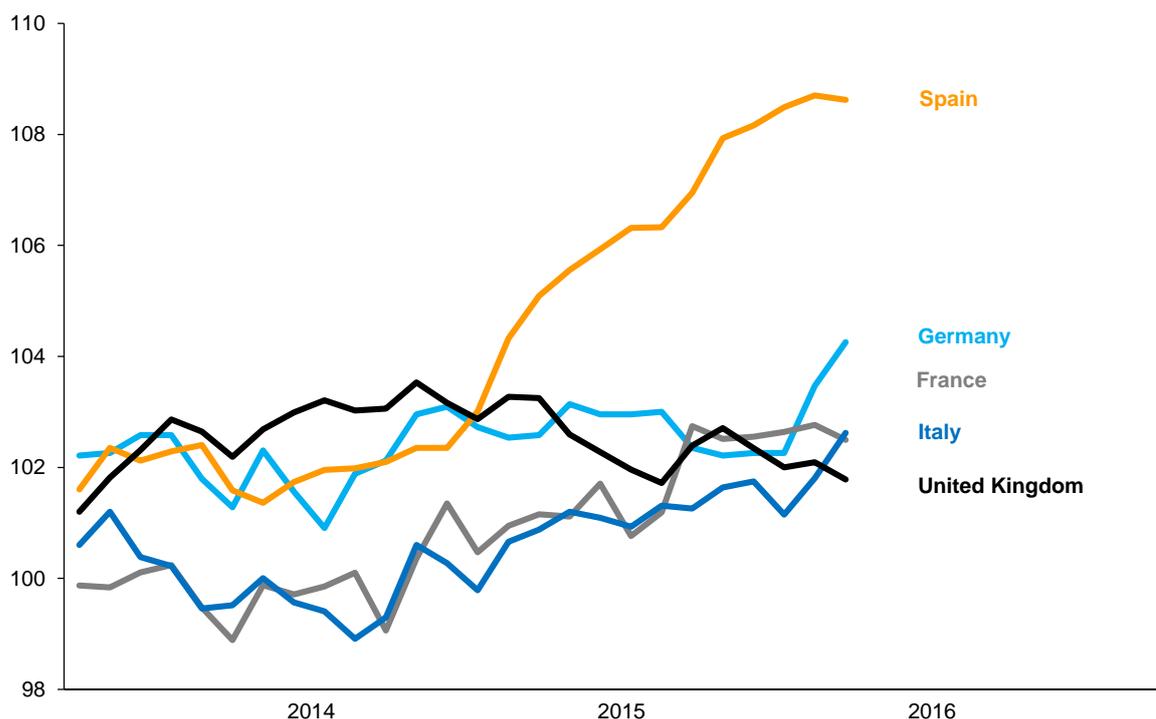
*Production index: two-month average, calendar and seasonally adjusted

Source: Eurostat



Upward movement in industry was visible in all five of the European Union’s largest economies, with a few exceptions. Only France and Italy posted a marginal decline in industrial production in 2014 (each were down 0.1 percent). UK manufacturing was just shy of the previous year’s level in 2015, when it fell by 0.1 percent. Spain posted the highest growth rate in this group of countries last year (up 4.1 percent). In France and Italy, industrial production was up 1.7 percent and 1.1 percent – more than total production.

Industrial production* since 2014



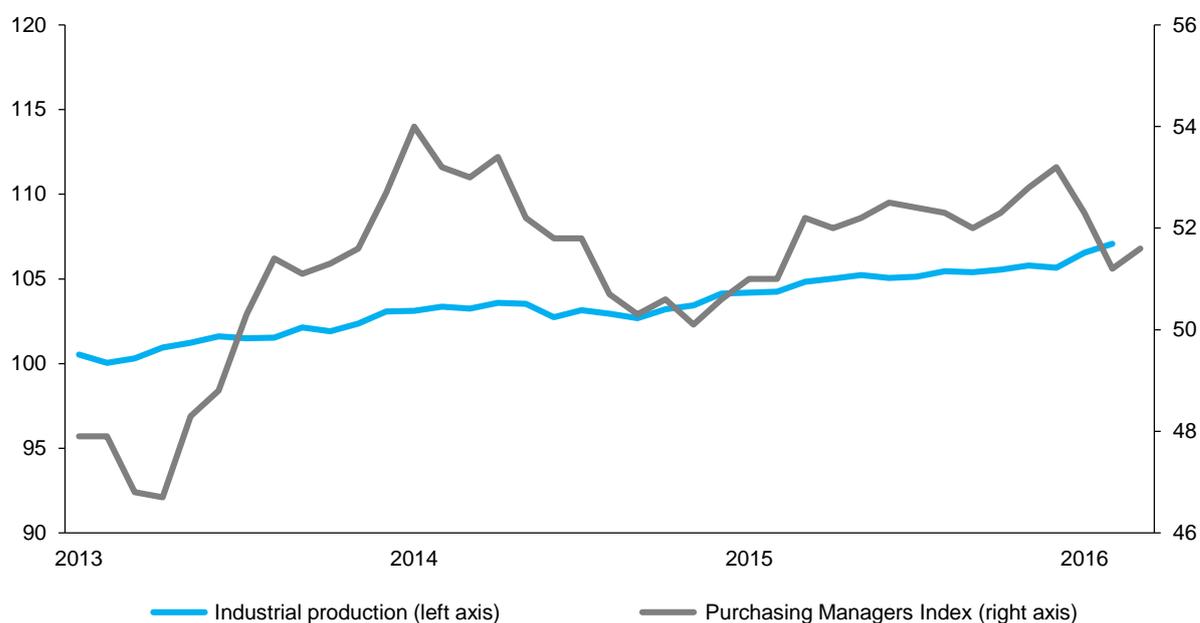
*Production index, two-month average, calendar and seasonally adjusted (Index: 2013=100)

Source: Eurostat



There are several reasons why the upswing in European industry is likely to continue. A two-months comparison with November/December 2015 shows that industrial production increased a bit more than one percent after seasonal and calendar adjustments. Year on year, the increase was well over two percent. If monthly production levels do not decline in March 2016, first quarter industrial production both in the European Union and in the euro area should have expanded by about one percent quarter on quarter and about two percent year on year. The purchasing managers' index for the euro area is signalling an expansion in production for the first time in nearly three years. Granted, it has lost 1.8 index points versus December 2015. However, at the current figure of 51.5 it is still reasonable to expect production growth.

Euro area: Industrial production*, Purchasing Managers Index



*Production index: two-month average, calendar and seasonally adjusted

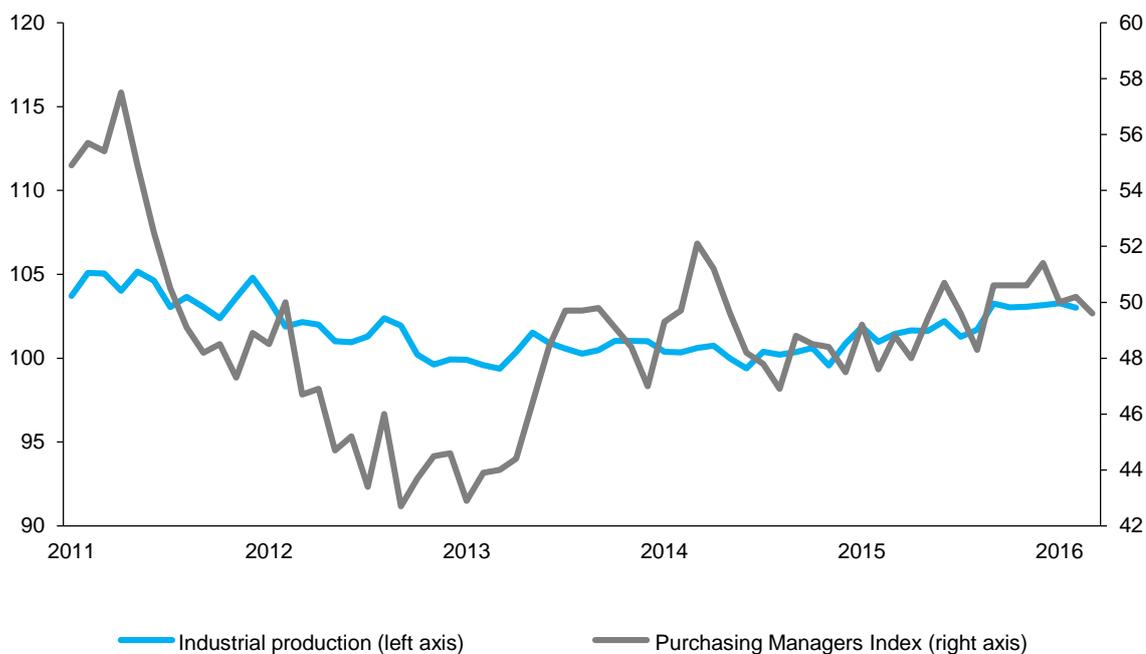
Sources: Eurostat, Statista



France

Industrial production in France picked up in 2015 for the first time in three years. The country produced 1.7 per cent more industrial goods than the previous year. The chemicals industry including pharmaceuticals production was particularly strong in 2015. Not only was it the sixth consecutive year of production growth: with a surge of 6.3 percent, production also reached a new high. Since the beginning of 2015, French industrial output has consistently been higher year on year in a two-months comparison. French production is likely to lose some speed in 2016. In January/February 2016, production declined slightly from November/December 2015 after seasonal and calendar adjustments. Granted, it is still up year on year. However, the purchasing managers' index for France declined for the second month in a row in April. Since March 2016, the index has fallen so much that a slight decline in production can be expected.

France: Industrial production*, Purchasing Managers Index



*Production index: two-month average, calendar and seasonally adjusted

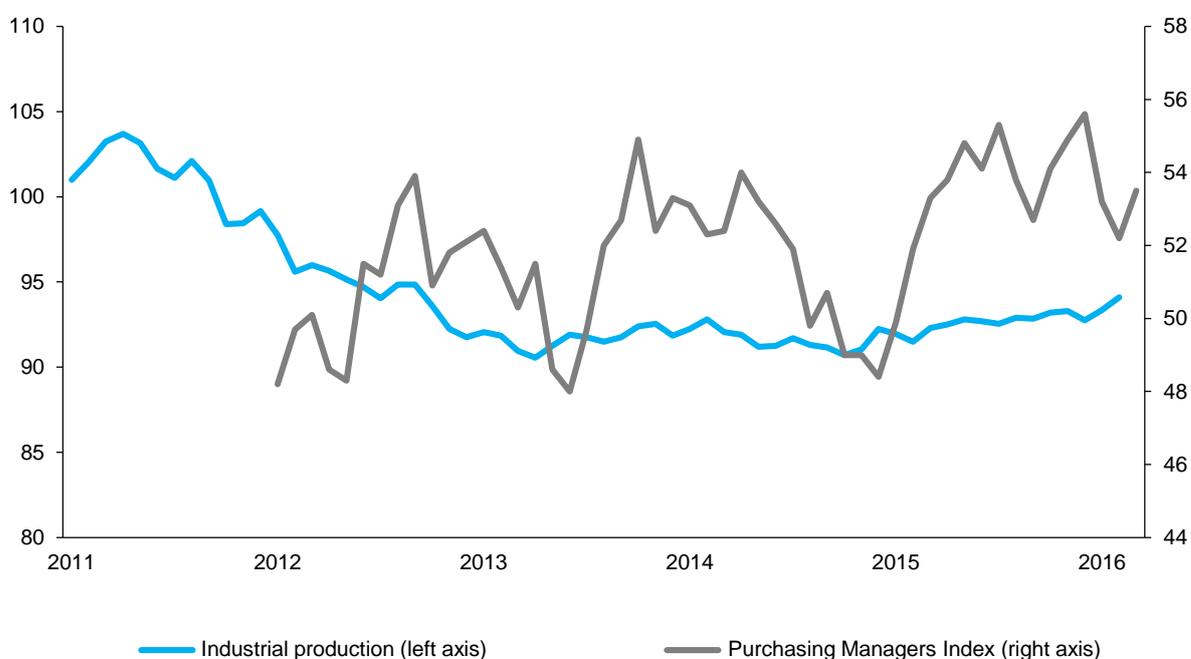
Sources: Eurostat, Statista



Italy

In Italy, industrial production grew by 1.1 percent in 2015, ending three years of contraction. Production expanded in all major industrial sectors. The most dramatic increase occurred in motor vehicle production, which rose 26.9 percent. The upward movement of the business cycle has therefore been intact in Italian industry for more than a year. At the start of 2016, industrial production climbed two times in a row in a two-months comparison, both from the previous period and year on year. If February production levels remain steady in March, this would not only be the sixth quarterly increase in a row. At more than one percent, it would also be the strongest quarterly growth in more than five years. The purchasing managers' index for Italian industry has been signalling an expansion in production since February 2015. In March the index rose by 1.3 points to 53.5.

Italy: Industrial production*, Purchasing Managers Index



*Production index: two-month average, calendar and seasonally adjusted

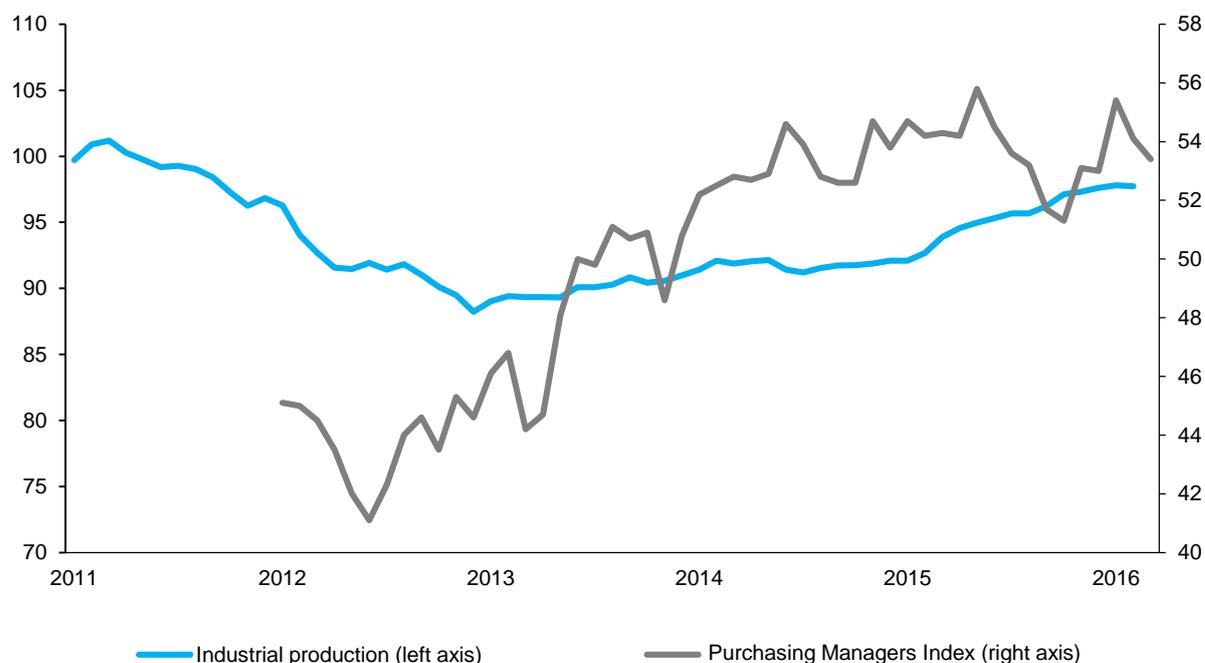
Sources: Eurostat, Statista



Spain

Spanish industry began playing serious catch-up in 2014 after three years of recession. After growing production by two percent in 2014, the country increased its industrial production by 4.1 percent in 2015. The electronics industry posted two consecutive years of growth rates above five percent. The motor vehicle industry has achieved an average growth rate of more than nine percent during the last three years, even posting a 13.6 percent increase in production in 2015. It is true that Spanish industry is still a long way from its production peak in the summer of 2007. Yet industrial output has been on the rise since autumn 2013. After production grew by 1.4 percent in the fourth quarter of 2015 (quarter on quarter, seasonally and calendar adjusted), the first two months of 2016 suggest that first quarter growth will be slightly slower. But it is still likely to be nearly five percent higher year on year. The purchasing managers' index for industry did decline for the second month in a row in March 2016. However, at 53.4, the index is still high enough to suggest strong production growth.

Spain: Industrial production*, Purchasing Managers Index



*Production index: two-month average, calendar and seasonally adjusted

Sources: Eurostat, Statista



United Kingdom

Of the five largest economies in the European Union, the UK was the only one that did not expand its industrial production in 2015, but rather reduced it by 0.1 percent. This was after UK industry posted 2.6 percent growth in 2014, the highest rate in this group of five. Among individual industrial sectors, production in the electronics industry contracted by 1.8 percent. Machinery suffered another two-digit loss in 2015 after 2013, with production dropping by 13.3 percent this time around. There was good news from the chemicals industry (including pharmaceuticals), which managed to increase production for the first time in six years. Furthermore, it was the sixth consecutive year of production growth for motor vehicles and motor vehicle parts as well. 2015 saw a 6.8 percent increase year on year. UK industry started showing weakness in the second half of 2015. Since then industrial production has been consistently lower year on year in a two-months comparison. If industrial production for March 2016 remains at the level of the previous year, the first quarter of 2016 is likely to deliver another production decline of just over one percent year on year. The purchasing managers' index rose by 0.2 index points in March 2016 to 51, which typically points to production growth. The index never fell below the expansion/contraction line of 50 in 2015, yet production still dropped.



*Production index: two-month average, calendar and seasonally adjusted

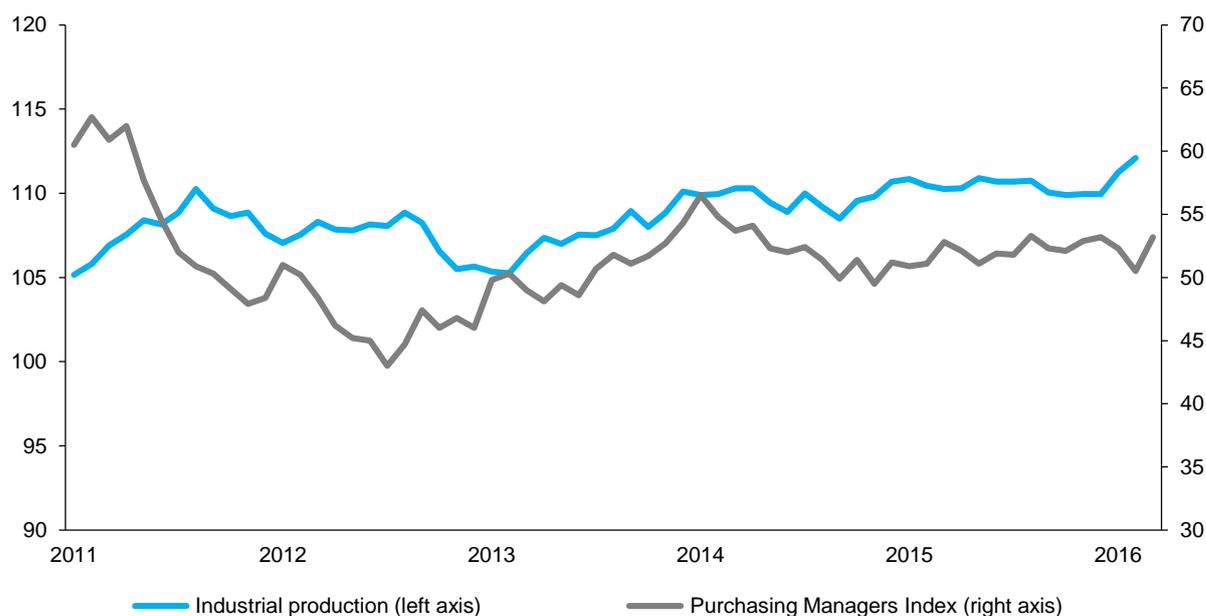
Sources: Eurostat, Statista



Germany

Industrial production in Germany increased for the third year in a row in 2015 according to the statistical office of the European Union. However, with a gain of 0.5 percent, it was the second year in a row that the increase in production in German industry remained below the level of European industry as a whole. Among the largest industrial sectors, the electronics industry and the chemicals industry (including pharmaceutical products) expanded production by slightly less than one percent. German machinery suffered a production decline of slightly more than one percent. It was the sixth consecutive year of production growth for motor vehicles and motor vehicle parts. But with an increase of slightly less than two percent, it was the smallest gain among Europe's five largest economies. The weak phase that began during the second half of 2015 seems to have turned around at the start of the year. A two-months comparison shows that month on month, industrial production has now increased three months in a row after seasonal and calendar adjustments. Year on year, production has been up since April 2015, apart from a lull in December 2015. The purchasing managers' index for German industry signalled a modest expansion in production for February and March 2016. In April the index climbed a full 1.2 points, which points to further growth in industrial production in the spring.

Germany: Industrial production*, Purchasing Managers Index



*Production index: two-month average, calendar and seasonally adjusted

Sources: Eurostat, Statista



Development of German exports

Exports grew by 6.4 percent year on year, making 2015 a good year for the German export economy. Imports showed slightly weaker growth during the same period, rising 4.2 percent. As a result, last year's foreign trade balance of 247.8 billion euros produced its largest surplus ever. The United States became Germany's most important trading partner for the first time with a trade volume of 173.2 billion euros (exports plus imports). Exports fell slightly in January 2016 (down 0.6 percent from December after seasonal adjustments) but then rebounded in February (up 1.3 percent), the most recent reporting month. Total exports for the current year (January and February) were 1.4 percent higher than the same period last year. This increase is due primarily to exports to countries in the EU (up 3.2 percent year on year). Exports to countries outside the EU fell year on year (down 1.3 percent).

The economies of the most important destination countries for German exports are expected to develop well during the course of this year. The IMF is forecasting that the current year will bring growth of 1.5 percent in the euro area, the destination of 36.4 percent of German exports last year. The United States, which was the most important individual destination country for German exports in 2015 (9.5 percent of exports), is expected to be a driving force in the global economy once again with forecast growth of 2.4 percent. The IMF is also forecasting another year of solid growth in Asia. Brazil's economic output is forecast to shrink by 3.8 percent, but Brazil has not yet become an important export destination for the German economy (0.8 percent of exports).

According to the latest BDI survey, export-oriented industrial sectors expect exports to develop modestly this year. While foreign trade remains the most important pillar for the automotive industry, the domestic market will become more important this year. German electronics exports showed noticeably weaker growth at the start of 2016. As in the previous year, German machinery is only expected to stagnate during the current year. Exports of industrial and construction minerals are also likely to remain flat in 2016. Expectations are modest for exports in the plastics processing industry – due largely to the economic contraction seen in China at the start of the year. The foundry industry's expectations regarding developments on international markets tend to be pessimistic as well, at least until the summer. The chemicals industry, on the other hand, is benefiting from an upward trend on international markets and is hoping for solid business in Europe, though not in Germany. Considering developments on export markets, currency relations, and the results of a survey of associations of export-oriented industries sectors, the BDI believes German exports could rise by around two percent this year.

Slight increase in German industrial production expected

German industry got off to a good start this year, expanding production by slightly more than 1.5 percent year on year during the first two months after seasonal and calendar adjustments. Even if industrial production stagnates in March 2016, we are likely to see a quarter-on-quarter increase of nearly two percent. This would be a good start for the rest of the year. Industrial production is unlikely to show dynamic growth this year. However, there are many reasons why production should be at least as strong this year as in 2015. Weak industrial orders since the second half seem to have turned around. During the first two months, industrial companies received about 0.5 percent more orders than before the new year. After half a year of declining international orders, international demand rose sharply recently. Demand for industrial goods increased most noticeably in the euro area. A glance at the sentiment indicators also suggests that production will expand. For instance, the purchasing managers' index for German industry increased by slightly more than one index point. It was the biggest increase in more than half a year. The Ifo Business Climate Index for industry rose for the second time in a row in April 2016. The majority of businesses assess their current situation as good. Business expectations improved for the second consecutive time as well. Based on economic developments in the most important export markets for German industry, and based on estimates by export-oriented industrial sectors, we believe average annual industrial production is likely to climb by 0.75 percent in 2016 year on year.

Industrial sectors in Germany

German aluminium industry optimistic about 2016

The German aluminium industry's business cycle was generally steady in 2015. In terms of specific production steps and products, however, development was very heterogeneous. Production of raw aluminium improved, growing by 2.8 percent in 2015. Recycled aluminium production, which represents almost 55 percent of raw aluminium production, increased by 3.5 percent. This was slightly faster than primary aluminium production, which grew by two percent. First-stage production dropped in 2015 (down 3.9 percent). This development is due largely to rolled goods manufacturers, who produced 4.9 percent less than their historic high in 2014. Investment activity rose in this area, however. The growing needs of the automotive industry are driving this. At pressing and drawing companies, production was virtually unchanged. Production for industry tended to be better than for construction there. Total production of cast aluminium rose by 7.2 percent year on year in 2015, making it the most dynamic segment in the aluminium industry. These companies produce sand castings, mould castings and pressure castings. The road vehicle construction industry is the largest purchaser of cast products. In the German aluminium processing industry, production rose by nearly one percent year on year in 2015. Individual industry segments (foil and thin ribbon; tubes, aerosol and other cans; metal powder) developed very differently. Positive developments were seen in the production of tubes, aerosol and other cans as well as in foil and thin ribbon production. Production of metal powder declined, however. The mood in the German aluminium industry is cautiously optimistic. The industry's economic situation and economic expectations are positive and recently showed a slight improvement. A slight uptick in production is expected for 2016 as a whole.

Exports support business cycle

Exports provided a significant cyclical boost to companies in the German aluminium industry in 2015. Exports of raw aluminium were up eleven percent year on year, and exports of semi-finished aluminium products were up nine percent. Economic recovery in the rest of Europe has caused exports to develop particularly well up to this point. France and Italy are the most notable exceptions to this positive development. Changes in the euro/dollar exchange rate proved to be an important driver of exports. For example, exports of semi-finished aluminium products to the United States jumped by more than ten percent.

Contact: Dr. Andreas Postler / Phone: +49 211 4796 118 / Mail: andreas.postler@alinfo.de

Automotive industry

Production

Domestic auto production among Germany's largest automakers stood at 1.46 million units during the first quarter of 2016, nearly reaching the level of the previous year. There are several reasons for the minimal decline of one percent, such as the fact that Easter fell in March this year. After seasonal adjustments, there was a year-on-year increase of seven percent from January to March.

The coming months are expected to bring an increase in production. This is suggested by the extraordinarily high number of orders – that is, vehicles ordered but not yet produced and delivered. In addition, domestic incoming orders are looking up. Demand from other European countries rose in recent months too. This can be traced back to the sustained recovery in the Western European market. Italy, Ireland and Spain have continued to gain ground. Growth has continued on the auto market in the UK as well. The EU market is now just five percent below its 2008 high.

Of the international locations of German automakers, the United States was in second place behind China during the first two months of the year. In the US, production increased by ten percent whereas China saw production decline by eight percent. In Europe, Spain (down seven percent) came out just ahead of the Czech Republic (up 14 percent).

Last year's positive development has also continued in the commercial vehicles segment. This is true for both light-duty and heavy-duty commercial vehicles. A sustained boom in online sales and a positive economic environment in the EU have led to high domestic production of vans. Although three percent lower during the first quarter, current levels are still about 14 percent higher than the average of the last five years. We expect positive developments for the rest of the year.

Exports

With an export quota of 76 percent during the first quarter of 2016, automobile exports are the most important pillar in the German automotive industry once again this year. The slight decline in the quota year on year is a reflection of the increasing strength of the German domestic market. In absolute numbers, auto exports declined by nearly four percent during the first quarter. The effect of the Easter holidays and a slightly weaker economy in some newly industrialised countries is behind this. Europe meanwhile had a stabilising effect during the first two months with an increase of three percent. More than two thirds of all auto exports remain on the continent. The UK (up four percent) is the most important export partner by a large margin, receiving one third of exports to Europe. This underscores how important it is to have good trade relations with the UK. The UK's referendum on whether to remain in the European Union should therefore not be taken lightly. The United States remains the second most important export country, followed by Italy.

Contact: Dr. Manuel Kallweit / Phone: +49 30 8978 423 30 / Mail: Kallweit@vda.de

Economic development in the construction materials, rocks and soils industry

The construction materials, rocks and soils industry started 2016 with a tailwind. Total production in January and February was four percent higher than the previous year. This was probably due to relatively good weather conditions, among other things. The significant jump in orders that the main construction trades saw at the beginning of the year is further confirmation of the good situation of the German construction industry, which is providing positive momentum for the rocks and soils industry.

The trade association for construction materials, rocks and soils (BBS) is cautiously optimistic for 2016 as a whole. It expects construction spending to rise by a real two percent. Momentum for this is likely to come from both residential construction and public construction, whereas commercial construction is not expected to be a major driver. The association forecasts construction materials production will increase by a real one percent in 2016. This is a reflection of weaker growth in demand for construction materials, due partly to higher spending on maintaining existing construction (which is less material-intensive) compared to spending on new construction.

All in all, fiscal year 2015 was significantly below expectations. In spite of a surge during the fourth quarter of 2015, very weak investment in commercial construction and restraint in public construction led to a real decline of 1.1 percent in the production of construction materials. In line with current positive developments in production, there has been a significant improvement in how companies assess the situation, according to the Ifo Business Survey for winter 2015/16. Their expectations, on the other hand, show more restraint.

Foreign trade

Some 4.83 billion euros (nominal value) worth of industrial and construction minerals were exported in 2015. Year-on-year this yields a decline of 0.6 percent. The fire-retardant materials industry accounted for the largest share of these exports on a value basis at around 22 percent. Exports contrasted with imports of 3.51 billion euros. This was a decline of 1.4 percent from the previous year. On a quantity basis, exports have dropped from 49.2 million tonnes in 2015 to 46.5 million tonnes in 2016 (down 5.7 percent), and imports have fallen from 25.7 to 23.7 million tonnes (down 7.7 percent). Weak demand from our neighbours in France and the Netherlands were a particular strain on the latest export figures. Exports of industrial and construction minerals are likely to remain flat in 2016 (2016/15: breakeven results). Additional support for this forecast comes from a business survey of members of the trade association for construction materials, rocks and soils.

Contact: Christian Engelke / Phone: +49 30 7261 999 12 / Mail: c.engelke@bvbaustoffe.de

Construction industry: Construction growth to double in 2016

Revenue in Germany's main construction trades grew by a nominal 1.6 percent in 2015. The Central Federation of the German Construction Industry (HDB) is forecasting that growth will markedly accelerate in the current year to three percent. With projected inflation of 1.5 percent, this means real growth of the same magnitude.

Residential construction will be driving this growth, as in previous years. New building permits (projected construction costs) rose by 9.5 percent in 2015, and orders in the main construction trades grew by 13.3 percent. Consistently low mortgage interest rates (average of all terms in 2015: 1.95 percent) are driving this development. Other conditions, such as an ongoing high rate of immigration, rising real disposable income as well as investors looking for high returns, will remain favourable in 2016. Revenue is likely to rise by five percent in this sector.

After weak results in 2015, public construction will also make a positive contribution to the industry's growth this year with four percent higher revenue. Incoming orders rose by 5.4 percent last year. The federal government has greatly increased its investment in transport routes through its two investment schemes, and this is the main force behind growth in the current year. At the municipal level, construction spending is expected to increase modestly; this mainly applies to all construction connected with the flood of refugees who have come to Germany.

Commercial construction remains the industry's problem child. Building permits and incoming orders both only posted minimal gains last year. With industrial capacity utilisation only slightly above average levels and concerns surrounding the development of the global economy, investment intentions remained muted at the beginning of 2016. Commercial underground construction – specifically, greater investment activity on the part of Deutsche Bahn AG – is the only thing likely to ensure that revenue in this sector of the construction industry will remain at the level of the previous year.

2016 will be the seventh year of job creation in the main construction trades. An average of 705,000 people worked in this industry in 2009. In 2016, there are likely to be 770,000. This would equate to another year of nearly one percent job growth from 2015.

Contact: Heinrich Weitz / Phone: +49 30 2128 6144 / Mail: heinrich.weitz@bauindustrie.de

Chemicals industry: Mixed balance sheet in 2015 – little momentum in 2016

As a whole, 2015 missed expectations. Total chemicals production grew by just 0.7 percent last year. Prices declined by 2.8 percent, and industry revenue fell by 1.1 percent to 189 billion euros. Large differences could be seen across chemicals industry segments. Whereas the pharmaceuticals business flourished and specialty chemicals improved overall, production and sales of basic chemicals dropped.

This trend has not reversed in early 2016. Although production increased by 1.8 percent year on year during the first two months of this year, prices fell by a further 1.3 percent year on year, and revenue remained below the level of the previous year (down 3.6 percent). Exports showed the broad weakness in the global economy. At the beginning of the year, exports to all regions – with the exception of countries that have recently joined the EU – were down year on year. Pharmaceuticals was the only sector that flourished; all other sectors exported less year on year. But there was a jump in imports from nearly every region and in every industry segment. The trade balance remained firmly in positive territory, however.

Outlook: Chemicals momentum to remain weak in 2016

In light of one-off factors like the weak euro, cheap oil and low interest rates, the outlook for the German economy as a whole is not bad at first glance. Yet an overall economic pickup does not appear to have reached German industry. Due to weak domestic chemicals demand and falling prices, the domestic chemicals business will not be able to grow much.

However, there are brighter prospects in Europe. Unlike in Germany, industry is benefiting from an economic upswing in many countries. As a result, it is reasonable for the German chemicals industry to expect solid business in Europe. The outlook for sales overseas is mixed, however. The US economy has cooled off significantly lately due to low oil prices and higher interest rates. Russia has been unable to free itself from recession, and the Brazilian economy will shrink again in 2016 as well. Developments in China are the primary cause for concern among businesses, however. The Chinese economy will continue to weaken. On balance, however, demand for German chemicals is likely to increase slightly this year, especially given that the weak euro is helping exports and low oil prices are making German producers more competitive.

The German Chemicals Industry Association (VCI) expects a moderate, one percent increase in chemicals production for 2016 as a whole. Chemicals prices will fall by 0.5 percent for the year. Industry revenue will increase slightly (up 0.5 percent) to 190 billion euros.

Contact: Christiane Kellermann / Phone: +49 69 2556 1585 / Mail: ckellermann@vci.de

German electronics industry: Moderate start to 2016

The German electronics industry got off to a moderate start in 2016. From January to February, orders were up by 2.7 percent year on year. Of those, domestic orders rose 4.4 percent and international orders rose 1.5 percent from one year earlier. Production, on the other hand, only managed to beat its figures from the same period the previous year by 0.3 percent (adjusted for inflation). Industry revenue, meanwhile, rose 2.5 percent year on year during the first two months to 27.1 billion euros. Domestic revenue was up 5.1 percent at 13.2 billion euros, whereas sales to international customers only inched up 0.1 percent to 13.9 billion euros.

Real production growth stood at 1.3 percent in 2015. Revenue rose 4.1 percent to 178.9 billion euros. Although domestic revenue was only up 0.2 percent at 86.8 billion euros, sales to international buyers surged 8.1 percent

to 92.1 billion euros. 849,000 people were working in the industry at the end of 2015 – 4,000 more than at the beginning of that year.

The business climate index for the German electronics industry improved slightly in April 2016. Companies again assessed the current business situation as being somewhat better than the previous month. General business expectations even improved dramatically. The electronics trade association (ZVEI) expects the industry to grow production by one percent for 2016 as a whole (adjusted for inflation). Revenue growth is projected to be somewhat stronger again this year at 2 percent, which could eclipse the 2008 high of 182 billion euros.

Electronics exports set another record in 2015

At the beginning of this year, strong February exports compensated for weak January exports. Taken together, January and February 2016 saw German electronics exports rise by 3.1 percent to 27.7 billion euros. For 2015 as a whole, German electronics exports grew by 6.7 percent, setting a new all-time high of 174.1 billion euros. For the first time in a long time, exports to industrialised countries grew more strongly than exports to newly industrialised countries. The United States was the largest buyer in 2015 again – thanks in large part to a favourable exchange rate – with China taking second place. Deliveries to the United States soared by 16.4 percent to 15.9 billion euros. Business with China, on the other hand, only inched up 0.8 percent to 15 billion euros. Exports to the euro area rose by 4.8 percent to 53.3 billion euros in 2015. By contrast, exports to commodity-dependent countries were weak. Although April 2016 saw the German electronics industry's export expectations decline for the fourth month in a row, on balance they are still in positive territory.

Contact: Jochen Schäfer / Phone: +49 69 6302 332 / Mail: schaeferj@zvei.org

Mixed situation in the foundry industry results from two main customer groups

Sentiment remains extremely mixed at German foundries at the beginning of the second quarter of 2016 and is characterised by great uncertainty regarding future prospects. Economic developments during the last quarter of 2015 and the first quarter of 2016 varied a great deal depending on customer groups. Overall production during 2015 only managed to beat the 2014 mark by one percent. Industry segments performed largely according to the materials they work with. Iron and steel foundry results were behind those from the previous year. This was caused by machinery, the industry's second most important customer group, which completely lacked momentum and ordered less. By contrast, light metal foundries benefited from the good performance that the automotive industry has continued to show and increased production. As a group, German foundries generated revenue of nearly 12.8 billion euros in 2015. This meant that the level of the previous year remained unchanged. The industry's nearly 600 companies currently employ around 80,000 people according to a survey by its trade association, the BDG.

The beginning of 2016 has been marked by a more than seven percent decline in orders during the first two months of the year versus the same period in 2015. A recovery is not expected in the foreseeable future. The current business climate is mixed as at late April 2016. Only ten percent of foundries have assessed the current situation as good during the past three months. Up to 40 percent have categorised the situation as poor. Looking at the next six months, the balance of positive and negative expectations has become decidedly negative. Scepticism is on the rise. The sideways movement hoped for in the autumn is currently turning out to be a very ambitious goal.

Weak investment in noncurrent assets in newly industrialised countries hurting exports of cast components

Foundries' international revenue fell by three percent in 2015 to just under 4.3 billion euros. The export quota shrank accordingly from the previous year, down 1.1 percentage points to 33.8 percent. Pressure remained on exports to partner countries in the euro area (down 3.2 percent). In addition, the decline in exports to regions outside the euro area accelerated during the course of the second half of the year. This confirmed an earlier forecast of significant weakening during the autumn quarter. Further expectations regarding developments on international markets tend to be pessimistic, at least until the summer, the results of the Ifo survey from April 2016 show. Hopes for later in the year are based on continued strength in vehicle construction and on not having too sharp a drop in investment in newly industrialised countries. There is a chance that investment in noncurrent assets within the EU could provide balance, although investment within the NAFTA area is more likely to do so.

Contact: Heiko Lickfett / Phone: +49 211 6871 214 / Mail: heiko.lickfett@bdguss.de

Real estate

2015 was a record year for the real estate industry, and that industry continues to see a bright future. The Council of Real Estate Experts explained in the 2016 spring report of the German Property Federation (ZIA) that demand for real estate would remain at an historic high during the current year. Helping to bolster demand are favourable financing terms, investors giving real estate more weight in their portfolios, rising disposable household income, and population growth, which is mainly the result of a jump in migration. The Cologne Institute for Economic Research comes to a similar conclusion in its real estate index. High demand for real estate is behind the excellent economic situation that the industry is currently experiencing. Rising prices and rents are causing companies to expand further and broker more properties. Developers are benefiting from rising demand too. Higher rents are also helping sustain the extremely pleasant climate in real estate. Some 56 percent expect rents to continue to rise and around 68 percent plan to take on more properties. The business situation in the real estate industry is therefore excellent, according to the Cologne Institute for Economic Research.

Contact: Sabine Georgi / Phone: +49 30 2021 585 24 / Mail: sabine.georgi@zia-deutschland.de

Ceramics industry

The fine ceramics industry had gained some more momentum at the end of 2015. Although production declined by 2.8 percent, the fine ceramics industry managed to reverse a downward trend in total revenue by the end of 2015. Industry revenue grew by 0.3 percent in 2015. Technical ceramics was the main driver of this development.

So far, 2016 has been a modest year for the fine ceramics industry. The number of incoming orders, however, suggests positive developments to come.

During January and February 2016, makers of dinnerware and decorative ceramics scaled back production by 2.1 percent. Sale prices per kg rose, so revenue only declined by 1.9 percent year on year. Exports showed the greatest weakness. The number of incoming orders brought more positive news. Domestic and international growth have led orders to rise by 1.9 percent.

Manufacturers did not alter production year on year. Domestic demand for the dinnerware and decorative ceramics made by these companies led revenue to increase sharply by five percent. A 31.9 percent increase in orders is very good news for manufacturers going forward.

Technical ceramics has gotten off to a weak start in the new year. Production is down 14 percent from last year. Higher sale prices per kg softened the impact of a real decline in sales. As a result, total revenue was only 1.8 percent below the same period last year. Exports in particular have not yet left the starting gate. However, there has been a reversal in the trend for incoming orders. They were 7.1 percent higher year on year in January and February 2016.

Stove tile makers started 2016 in the red, unfortunately. Production plummeted by 30 percent. This was a result of a collapse on the domestic market. Although international revenue has grown well in 2016, sales on the far more significant domestic market have fallen sharply. Total revenue during the first two months of 2016 was down about 19 percent year on year. Incoming orders have fallen by about 8.5 percent.

The fine ceramics industry expects production to remain at the level of the previous year in 2016. Exports will remain an important source of business for companies in the fine ceramics industry this year despite instability in the global economy.

Contact: Philipp Pickelmann / Phone.: +49 9287 808 25 / Mail: pickelmann@keramverband.de

German plastics processing remains at near-record levels

2015 business cycle

Germany's plastics processing industry had another successful year in 2015 after a record year in 2014. Whereas plastic packaging and technical plastic products stimulated industry growth last year, growth in construction supplies and construction-related semi-finished products stagnated. Yet the industry still managed to post growth of 1.3 percent and total revenue of 59.8 billion euros at year-end.

2016 could be another record year. Bulk plastics continue to benefit from cheap oil. Products for the packaging and construction industry have benefited most from this, given that they are now more affordable than competing products made from other materials. The debate on lowering carbon emissions has helped technical plastic products. This issue has increased demand for products that support lightweight construction. Components made from innovative raw material solutions and hybrid solutions, such as plastic-metal or plastic-fibre combinations, make such products possible. The consumer products segment has benefited from higher demand within Germany and Europe.

Export expectations and challenges in 2016

Expectations for exports were modest at first due to the economic contraction in China at the start of the year. Rising demand in other parts of the world, such as North America, made up for this weak demand and supported year-on-year growth of 4.2 percent. The current favourable demand-side environment has helped the industry grow 3.8 percent from the same period last year and inspired market participants to expect further revenue growth this year. This being said, fewer companies expect profitability to go up because most plastics manufacturers are still struggling with the renewable energy levy, which puts them at a disadvantage to international competitors. German companies are responding to this energy pricing policy by investing abroad.

The industry is also concerned about the future supply of skilled workers. Some companies have objected to the emphasis on Abitur (A-level qualifications) given that there is a shortage of pupils who leave school after Year ten and have commonly gone on to vocational training. The industry sees the current influx of migrants as only providing minimal, short-term relief in this regard.

Contact: Michael Weigelt / Phone: +49 69 2710 528 / Mail: michael.weigelt@tecpart.de

Machinery production stagnant

Real production of German machinery stagnated last year. This is exactly what economists from the German Engineering Federation (VDMA) predicted. Production volume ended up at about 199 billion euros. Revenue volume amounted to about 218 billion euros. Demand for machinery was quite uneven. Of the companies in the machinery industry surveyed by the Ifo for its economic assessment, 30 percent complained of a shortage of orders during the previous year. Average capacity utilisation was 84.3 percent. This is at the bottom end of the middle fifty, which stretches from 84.1 to 89 percent. At the close of 2015, the machinery industry employed 1,012,000 people. Job creation came to a halt during the second half of the year.

Strong exports to the US and EU can compensate for losses in declining markets

2015 exports were up slightly from the previous year, rising by 0.9 percent after inflation. Not adjusted for inflation, this equates to growth of 2.6 percent. Exports to the United States were particularly strong. The jump of eleven percent is due largely to a weak euro. The United States has now become the largest international customer for German machinery producers again (ahead of China). Deliveries to India even jumped by 15 percent. This country serves to represent all countries consuming raw materials. On those markets, machinery exports benefited from lower commodity prices. Deliveries to partner countries in the EU also benefitted from this. The relative weakness of the euro also gave a bit of a boost to the economies of countries that use the euro, which in turn helped stimulate demand for machinery. Exports to China were down six percent year on year. Economists from the German Engineering Federation (VDMA) had predicted a decline anyway, considering the slowdown in growth and the continuing process of transformation in the Chinese economy. Commodity producing countries were responsible for the biggest drops in machinery exports.

Machinery production to remain flat again this year

Economists from the German Engineering Federation (VDMA) are predicting that the industry will stagnate during the current year, like last year. This puts German machinery exactly at the average of revenue projections for the global machinery market. Global demand for machinery remains flat. One reason for this is that industrial production has yet to really get into gear in many countries. In addition, the boost given to German companies by the exchange rate is fizzling because the euro has not fallen any further against the dollar since early 2015. Commodity prices, on the other hand, did continue to fall until early 2016, so consuming countries could continue to provide momentum for expansion in this area. However, a sharp decline in orders from commodity producing countries should also be expected.

Contact: Olaf Wortmann / Phone: +49 69 6603 1373 / Mail: olaf.wortmann@vdma.org

Nonferrous metal industry

Germany's nonferrous metal industry is cautiously optimistic about 2016. With an average of 112,000 employees and roughly 670 companies, the industry produced 8.3 million tonnes in 2015 (one percent more than the previous year) and revenue of 47.8 billion euros, of which 26.4 billion euros (55 percent) domestically.

Producers of raw aluminium increased production by more than three percent from 2014 to 2015. The semi-finished aluminium products industry (rolled products, extruded products, wires and forgings), on the other hand, posted a decline of nearly four percent. Production of more highly processed aluminium (foil, thin ribbon, tubes, aerosol and other cans, and powder) increased by one percent.

The nonferrous metal industry grew production of both metal and semi-finished products (initial processing into sheets, plates, rods, profiles, tubes and wire) by two percent during the same period year on year.

Nonferrous metals foundries sharply increased production. In April, 83 percent of business owners surveyed in the metal producing and processing industry assessed the business situation as good or normal for the season. Looking forward to the next six months, 89 percent of those surveyed thought business would improve or be equally good. This was a comparatively good number despite global challenges. For 2016, the nonferrous metal industry expects modest production growth of one percent from the previous year.

Exports to the euro area are recovering

The nonferrous metal industry generated international revenue of 21.4 billion euros in 2015. Of this, 12.7 billion (27 percent of total revenue) came from other countries in the euro area, and 8.7 billion euros (18 percent of total revenue) came from non-EU countries. That equates to an export quota of 45 percent. Aluminium industry exports stood at 7.8 billion euros in 2015. The base metal industry (copper, zinc, lead, tin and nickel) exported goods valued at eight billion euros. Nonferrous metal foundries exported cast parts valued at 1.6 billion euros. Foreign trade in metals is fundamentally different from foreign trade in semi-finished products. Germany, for example, imports far more metals than it exports. Germany's metal imports fell by more than three percent in 2015 to four million tonnes. Metal exports sank by more than four percent to 877,000 tonnes. The heavily export-oriented semi-finished products industry increased its 2015 exports by 6 percent from the previous year to 2.8 million tonnes. Its imports stood at 1.8 million tonnes (an increase of 6 percent). Slower growth in China was partially offset by a robust US market, slightly higher demand in Europe, and more orders from the Middle East and North Africa region. The industry indirectly benefited from a weak euro through export-oriented buyers in the euro area. On the other hand, the decline in the cost of raw materials, which are priced in US dollars, has not had as great an impact for countries that use the euro.

Contact: Oliver Eisenberg / Phone: +49 30 7262 071 67 / Mail: eisenberg@gdb-online.org

Paper industry

The paper industry reflected the positive developments seen in the German economy at the beginning of 2016. January and February 2016 saw the paper industry increase production by a total of 3.7 percent year on year. Production increased most sharply in the hygienic paper (up 5.9 percent) and graphic paper (up 4.6 percent) segments. Production also rose in the paper, paperboard and cardboard packaging segment (up three percent) and technical and specialty papers segment (up 2.1 percent) during the first two months of 2016.

Total sales in the German pulp and paper industry increased moderately year on year (up one percent) during the first two months of 2016. Whereas sales of graphic paper (up 0.4 percent) and paper, paperboard and cardboard packaging (up 0.7 percent) only rose slightly during this period, hygienic paper sales (up 3.3 percent) and technical and specialty paper sales (up 4.3 percent) rose noticeably. Driving the overall increase in sales were domestic sales, which rose significantly in January and February 2016 by 3.2 percent year on year. International sales, however, were down significantly by 1.6 percent. This drop can be attributed primarily to a sharp decline in demand from countries outside of Europe (down 10.1 percent). Sales to Eastern European countries also declined (down 0.5 percent) whereas exports to Western Europe increased slightly (up 0.7 percent).

Revenue in the German pulp and paper industry was 2.6 percent higher during the first two months of 2016 than in January/February 2015. This increase is a result of higher sales (up one percent) as well as higher prices for some types of paper. 2015 as a whole was more stable than 2014 for the German pulp and paper industry. Annual production of paper, paperboard and cardboard in Germany rose by 0.3 percent to 22.6 million tonnes. The continued trend towards digital media consumption led to another decline in demand for graphic paper. However, the German paper industry benefited from restructuring and plant relocations at large companies. Although graphic paper production fell by 0.6 percent year on year, sales increased by 0.3 percent. International sales rose 2.2 percent, but domestic sales fell 1.5 percent. The biggest increases in exports were to Western Europe (up 1.9 percent) and regions outside Europe (up 5.2 percent). Exports to Eastern Europe declined by 0.1 percent.

Paper, paperboard and cardboard packaging shared in the strong private consumption and general economic growth that occurred in 2015. Production grew by 1.2 percent in this segment. Sales increased by 1.7 percent. Technical and specialty papers saw production decline by 3.4 percent. Sales slid by 1.3 percent. The hygienic paper segment increased production (up 1.5 percent) and sales (up 0.3 percent). Its 2015 sales reached 14.4 billion euros, up 0.9 percent from 2014.

Contact: Katrin Brabender / Phone: +49 228 2670 559 / Mail: K.Brabender@vdp-online.de

Steel industry

The German steel industry remains in an ominous situation at the start of 2016. After declining sharply during the fourth quarter, incoming orders returned to the level of the previous year, but sales revenue is still far below normal. The Ifo business climate was also significantly lower in January/February than it had been at the beginning of 2015. A massive increase in steel imports, particularly from China, at what appear to be dumped prices, remains the chief economic challenge. Rolled steel imports to the EU from non-member countries soared by 32 percent in January after having already climbed more than 20 percent last year, which itself began at a high level. Rolled steel imports from China to the EU rose by 21 percent after increasing by 50 percent in 2015.

German demand for steel, on the other hand, has been relatively solid on a quantity basis. One reason for this has been steady demand in the industry's most important customer segments. A more significant reason is that retailers and processors reduced their inventories to an extremely low level at the end of the year. Against this backdrop, the market supply of rolled steel will probably increase slightly in 2016. However, production of crude steel within Germany is likely to continue to decline as a result of the difficult foreign trade situation. Production fell by 3 percent year on year during the first two months of the year. Capacity utilisation has dropped to nearly 80 percent, although it remains significantly higher than the global average (67 percent in January/February).

Contact: Dr. Martin Theuringer / Phone: +49 211 6707 105 / Mail: martin.theuringer@wvstahl.de

Steel and metal processing industry

Production up 0.5 percent in 2015; up 2.4 percent at the start of the year

The steel and metal processing industry increased production by 0.5 percent in 2015 overall, with revenue rising by one percent to 79.9 billion euros. Domestic deliveries increased by 1.1 percent, slightly outperforming exports, which grew by 0.8 percent. The number of employees in the industry in 2015 remained on the same level as the previous year at 449,000.

In the first two months of 2016, the industry achieved a 2.4 percent increase in production with domestic and foreign demand showing contrary trends. While exports fell by 3.4 percent, domestic sales increased by 3.3 percent. Exports were particularly weak in February, dropping 5.7 percent year on year. With an export share of 35 percent, the industry's direct dependence on exports is not all too high, but indirect exports through key customer industries do have a substantial impact on business. Uncertainties on foreign markets correspondingly affect the business climate. Expectations here had declined considerably at the end of the year, before stabilising in March on the back of the increased demand for exports in February.

Foreign business was already noticeably under pressure by the end of 2015. In the last quarter, foreign sales were down 4.2 percent year on year, though the previous year's figure was admittedly high. Incoming orders from abroad, down 1.1 percent, were still under pressure at the start of 2016. However, the 3.2 percent increase seen in February should have boosted confidence for the next few months. It remains to be seen how the flailing growth in newly industrialised countries will develop.

The outlook for 2016 overall is cautiously optimistic in view of the business expectations of the industry's key customers and the uncertainties in exports. While the positive developments in the automotive markets are set to continue, increased momentum is currently not to be expected from machinery production. To generate more than one percent growth, the industry will have to deliver innovations in customer products that provide real value added, for example through current hot topics like lightweight construction and efficiency. This could trigger growth in exports of an additional one percent.

Contact: Holger Ade / Phone: +49 2331 9588 21 / Mail: hade@wsm-net.de

Textile and clothing industry

The textile and clothing industry ended 2015 with an increase in revenue of 1.9 percent, slightly exceeding original growth expectations of 1.5 percent. The segments textiles and clothing moved in opposite directions. While textiles registered growth of 3.4 percent, sales in clothing dipped by 0.3 percent. Although the market environment was generally positive, the industry struggled with problems related to its key export market Russia, and some clothing companies strongly focused on this market suffered drastic drops in sales. Producers of technical textiles and workwear, on the other hand, saw some substantial growth in sales. The strong SME base in the clothing segment had a positive impact on overall performance. Employment in the two segments also developed differently, with textiles employing 1.8 percent more people than in the previous year and clothing 0.9 percent more.

For 2016 overall, we anticipate 1.5 percent growth in the industry (textiles: up two percent; clothing: up 1.5 percent). Although the start of the year saw some substantial drops in sales, we are expecting above-average growth in the technical and supplier segments, as already seen in 2015. Furthermore, most companies have meanwhile adapted to the difficult situation in Russia and the downward trend on this market appears to have

bottomed out. Current overall expectations of business leaders in the textile and clothing industry remain cautiously optimistic. We also anticipate a slight increase in other indicators alongside sales, such as capacity utilisation and incoming orders. Willingness to invest also remains high with just under 70 percent of companies planning on investing in the current year, most of them at home, and only four percent of companies intending to invest solely 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; textiles: up 0.3 percent).

Contact: Marcus Jacoangeli / Phone: +49 30 7262 2024 / Mail: mjacoangeli@textil-mode.de

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Bundesverband der Deutschen Industrie e.V. (BDI)
Breite Straße 29, 10178 Berlin
www.bdi.eu
T: +49 30 2028-0

Authors

Thomas Hüne
T: +49 30 2028-1592
t.huene@bdi.eu

Dr. Christoph Sprich
T: +49 30 2028-1525
c.sprich@bdi.eu

Editorial

Dr. Klaus Günter Deutsch
T: +49 30 2028-1591
k.deutsch@bdi.eu

Dr. Stormy-Annika Mildner
T: +49 30 2028-1562
s.mildner@bdi.eu

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