About the survey

» Survey duration: 26 August – 20 September 2019
» 1114 top executives of affiliates of VDMA member companies in China were addressed
» VDMA represents 36 mechanical engineering sectors. If an affiliate is active in more than one sector, participants were asked to answer for as many of these sectors as possible
» 203 participants completed the survey (response rate: 18.2 %)
» Sample size n=190 (13 duplicates were removed from the sample)
Detailed sectors analysis (only participants)

About the survey

» Following 10 sub-sectors are evaluated in detail:
  » Agricultural Machinery
  » Construction Equipment & Building Material Machines and Mining Equipment
  » Electric Automation
  » Fluid Power
  » Food Processing & Packaging Machinery
  » Machine Tools & Manufacturing Systems
  » Plastics & Rubber Machinery
  » Power Transmission Engineering
  » Robotics & Automation
  » Textile Machinery
Economic situation and outlook

» Mechanical engineering companies in China are much more pessimistic than they were six months ago. This is shown by the results of the current VDMA business climate survey.

» 40% of the respondents assess their current business situation as bad. In spring 2019, the share was significantly lower (23%). Moreover, the current survey results are the weakest since the start of the survey in 2016. The same applies to the development of the capacity utilization (slides 6-8).

» All sub-sectors of the mechanical engineering industry (except food processing and packaging machinery) experience a significant downturn in their business situation.

» More than 50% of the companies report that their current stock of orders is below normal. This is a significant worsening compared to the situation six months ago (slide 9).

» 30% of the companies reported that their production activities are currently hampered. According to the same companies, the main reason for this are a considerable lack of orders followed by shortages of skilled labour (slide 10).

» Almost 80% of the respondents expect incoming orders to stagnate or decline in the next three months which indicates a further weakening of the stock of orders (slide 12).

» The poor economic situation will most likely lead to some layoffs in the mechanical engineering industry. The share of companies expecting a reduction in employees has increased compared to the last survey (slide 13).

» The business situation will get worse before it gets better: More than 30% of the respondents expect their situation to worsen during the next six months while only 21% expect an improving situation (slide 14).
Current situation

» Current business situation
» Capacity utilization
» Current stock of orders
» Limiting factor for production
How do you evaluate your company’s current business situation?
Two fifth of the companies report a bad business situation

» 40% of the companies report a bad business situation while only 20% state that their current situation is good. The remaining part (40%) assess the situation as satisfactory.

» Since the last survey, the business situation has deteriorated significantly. In spring 2019, the share of companies which reported a bad business situation, was 23%. Hence, the share of companies reporting a bad business situation is up 17 percentage points compared to the last survey.

N = 190
Answers weighted
Source: VDMA
Development of current business situation
Since spring 2019, the business situation has deteriorated markedly

» Since spring 2019, more companies assess their current business situation as bad relative to companies which assess their current business situation as good.

» The balance value of the current business situation is the difference between the percentages of the responses “good” and “bad”. In autumn 2019, the balance value is -20 percentage points (20% minus 40%).
How do you evaluate your company’s current level of capacity utilization?

- above normal: 11%
- normal: 42%
- below normal: 46%

N = 190
Answers weighted
Source: VDMA
How do you evaluate the current stock of orders? 
More than 50 % of the companies say that orders are “below normal”

More than 50% of the companies report that their current stock of orders is below normal. This is a considerable worsening compared to the situation six months ago.

In spring 2019, the share of companies reporting “below normal” stock of orders was below 40% and the share of companies reporting “above normal” was above 15%.

The total stock of orders as well as the stock of orders from outside China are affected equally.
Is your production currently hampered? If yes, by which factors? Lack of orders is by far the most limiting factor for production

- Lack of orders: 68%
- Shortages of skilled labour: 7%
- Missing technical capacity: 7%
- Regulatory environment: 4%
- Financing constraints: 8%
- Shortages of raw or input material: 3%
- Trade war: 3%

N = 190, 56
Answers weighted
Source: VDMA
Expectations

- Incoming orders
- Number of employees
- Business situation
- Revenue growth for 2019 and 2020
How do you expect incoming orders to develop over the next three months?

Almost 80% of the respondents expect incoming orders to stagnate or decline over the last three months of 2019.

The share of respondents expecting incoming orders to decline (23%) is slightly higher than the share of respondents expecting incoming orders to increase (22%). This indicates a further weakening of the stock of orders.

Roughly 30% of the respondents don’t have orders from outside China which means they are “in China for China”.

N = 190, 134 Answers weighted
Source: VDMA
What changes do you expect during the next 6 months regarding the number of employees in your company?

- 59% expect the number of employees to remain unchanged.
- 18% plan to hire new employees.
- 23% plan to reduce the number of employees during the next 6 months.

- The share of companies expecting a reduction in employees has increased compared to the last survey. In spring 2019, only 11% of the respondents expected a drop in the number of employees.

Source: VDMA
Do you expect that the business situation of your company during the next 6 months will be...

- better
- same
- worse

The economic outlook has darkened. More than 30% of the respondents expect their situation to worsen during the next six months while 21% expect an improving situation.

Since the last survey, companies are far more pessimistic about their expected business situation. In spring 2019, only 12% expected a worsening situation while 30% expected a better situation. However, their optimistic expectations in spring haven’t turned into reality.
Implications

» The weak situation in the stock of orders has a negative impact on local production activities. More than 50% of the companies indicated that their stock of orders is below the usual level. In addition, almost 90% of the respondents do not expect incoming orders to rise in the fourth quarter of 2019.

» Total orders as well as orders from outside China are affected equally. Hence, weak domestic demand and a deteriorating external environment – caused by a deepening trade war with the US as well as a global growth slowdown – hit the mechanical engineering industry in China.

» Premier Li Keqiang admitted recently, that it is very difficult for China’s economy to grow at 6% or faster citing a complicated international backdrop. Significant lower growth rates are also expected for the manufacturing sector, and notably the mechanical engineering industry.

» There is yet no improvement in sight for the 4th quarter of 2019 and the 1st quarter of 2020. This is indicated by current capacity utilization, weak stock of orders and disappointing incoming orders from China but also from outside China.

» One thing is certain: it will get worse before it gets better: More than 30% of the respondents expect their situation to worsen during the next six months while only 21% expect an improving situation.

» Companies estimate their revenue growth to be around 2% in 2019. They are slightly more optimistic for the full year 2020 even though the beginning of next year is expected to be painful.

» Companies were quite optimistic at the beginning of 2019, but that outlook failed to materialize and instead the actual situation is much worse. A more successful year 2020 depends heavily on the external environment and a dispute settlement with the US.
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