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VDMA: Manufacturers of Construction Equipment and Building Material Machinery well prepared for end of boom

2009: Declining but still remaining on high level

After six years of growth in a row, the German construction equipment and building material machinery industry expects to see an end to the construction boom in 2009. „We see a slump with regard to incoming orders already today which indicates that the construction equipment sector is to face serious setbacks in the nearer future”, said Mr Dr Christof Kemmann, chairman of the Federation’s association representing the construction equipment and building material machinery industry, at its members’ meeting on Thursday in Karlsruhe. „But we are well prepared to take a decline.”

Significant Increases in Turnover For Building Material Machinery

Currently the industry is experiencing growth. During the first nine months of 2008, sales of the entire German construction equipment and building material machinery industry increased again compared to the same period last year. This is particularly due to the development in the building material machinery industry. With regard to building material, glass and ceramics machinery, turnover grew by 79 per cent during this period, with 31 per cent of this accrued in Germany and as much as 85 per cent abroad. This strong increase is the result of bulk orders in the cement machinery sector. With a total of seven per cent, the growth in construction equipment machinery is significantly smaller. Domestic sales grew by two per cent, whereas sales abroad grew by nine per cent in this sector.

Less Incoming Orders – Construction Machinery Affected More Strongly

In comparison, there were a lot less incoming orders for construction machinery during the same period of time – and this is true for all segments of construction machinery. On average, one third less orders were placed than at the same time last year. This particularly applies to manufacturers of tower cranes, concrete technology and construction devices, but also manufacturer of standard machinery such as

excavators and loaders are affected. Construction material machinery, on the contrary, still saw an increase in incoming orders by seven per cent.

Thanks to the bulk orders in the cement sector, the industry's association is able to even slightly exceed its forecast of 8.2 per cent growth for the entire industry for this year. The association now expects a growth in turnover of 8.6 per cent to 16.6 billion Euros. Mr Kemmann stressed that, however, these figures should not blind anybody to the fact that the current situation with regard to incoming orders is to be taken seriously.

Export Flourishing – Competition From China Increasing

Exportation is crucial for the industry. During the first nine months of this year, construction equipment and building material machinery worth nearly eight billion Euros was sold abroad. This is about 16 per cent more than at the same time in the previous year. With a 68 per cent export quota, Europe is the biggest sales market, followed by Asia (nine per cent) and North America (seven per cent). The global market for construction equipment and building material machinery has been growing steadily for years and represented a value of 76 billion Euros in 2007, according to figures published in the international foreign trade statistics. Germany holds a percentage of 14 per cent of the world export quota. „We were able to participate proportionally at this growth, while countries such as the USA, Japan and Great Britain lost market shares to other competitors - the Chinese in particular”, Mr Kemmann noticed. Chinese companies were able to expand their global export activities significantly during the past five years and, with this, their global market share grew from two to six per cent during this period of time also. Chinese companies export particularly to Africa, Latin America and the Middle East and are currently trying to gain a foothold in Russia. According to Mr Kemmann, though, they have not yet been successful in gaining a considerable market share in Europe as well as in North America.

Forecast 2009: Decline – Albeit On A Very High Level

The general economic situation shows obvious signs of weakness. The Federation's association representing the construction equipment and building machinery industry therefore expects a decline in turnover for the entire industry in 2009 of 4.6 per cent to about 15.8 billion Euros. 10.7 billion Euros (loss of 7.5 per cent) of this for construction equipment and 5.1 billion Euros (increase of 2.2 per cent) for building material machinery.

Looking at domestic and foreign markets separately, there is the following forecast: Domestic sales will decline by 13.8 per cent to 3.3 billion Euros and export sales will be declining also with a decrease by 1.8 per cent to 12.5 billion Euros. This forecast 2009 is based on the following assumptions:

- Companies are currently experiencing a volume of orders which is much above average, even though cancellations of orders for

construction machinery have been happening. For the entire industry, lead times have already become more normal.

- The raw material processing as well as the building material machinery sector are less, or currently even not at all, affected by changes than the construction machinery industry. The situation is also good in the cement, lime and plaster sectors as well as with glass machinery.
- Exchange rates are offsetting some disadvantages which German companies are facing. The European industry is currently enjoying a competitive advantage when it comes to prices due to the decreased Euro compared to the revalued US Dollar, the Yen and the Won „It is currently not possible to say seriously whether this trend will last, but at the moment we profit from this situation”, Mr Kemmann stated.
- Construction projects in the infrastructure area will remain stable globally, as these projects are generally all signed and sealed already at this point in time. The association expects that some countries, such as German for instance, will even drive these projects further now, especially to stimulate the economy.
- Global demand for house building, for private and commercial use alike, particularly in the emerging nations, will stay as big as before. The industry is hoping that the consequences of the financial crises will not have too dampening an effect on the emerging countries.

Positive Change In Two Years' Time At The Earliest

In total, Mr Kemmann expects a period of restrictive financing which will have negative effects on the industry's business. How long this phase is likely to last, nobody currently knows, according to him. It will largely depend on if, how and when the instruments chosen and implemented by politics to fight the financial crises will be successful.

Recession in important construction markets such as the USA, Spain, Great Britain and France are already causing the industry quite a bit of trouble.

According to the association's relevant experts, a positive change in the economic situation for the construction equipment and building material machinery industry can be expected in the second half of 2010 at the earliest.

Dampening Effect: Lack Of Engineers

Recruiting qualified staff is difficult for the construction equipment and building material machinery industry which mainly consists of middle-sized companies. Nearly all companies are looking for engineers and by doing so, are competing with other attractive employers, such as the automotive industry, for instance. According to a survey carried out by

the association among its 300 members in August/September 2008, most companies see the lack of engineers to have a dampening effect on their relevant company as well as believe that they also missed out on business opportunities due to this. They also think that the end of the boom, which is now clearly to be seen, will not solve the problem either. According to the survey, innovation and quality awareness are the strengths of the industry and make for its good market position. The industry needs qualified skilled workers and engineers in order to keep and defend this position in future, particularly against the growing Chinese competition. Mr Kemmann reports that the association he represents, embedded into some other activities by the German Engineering Federation, started a "Young Staff-Initiative". The aim of this being to show young people the various career opportunities this specific industry has to offer as well as promote the industry as an attractive employer.

Plagiarism Threatens Competitiveness

Product piracy threatens the competitiveness of the construction equipment and building material machinery industry. According to a survey carried out by the German Engineering Federation in April 2008, the entire industry has suffered a loss in sales of seven billion Euros per year due to counterfeiting and piracy. According to the survey, companies need to implement extensive strategies to fight plagiarism, including legal protection, organisational and technical as well as specific public communication measures. In this context, the German Engineering Federation will go via its offices in Berlin and Brussels more to make the German government and the European Union act against product piracy more determinedly. The China IPR SME Helpdesk, which the German Engineering Federation had asked for for years, is a big achievement and a success. It was implemented in May 2008 and has been a point of contact for all companies affected by plagiarism in the region. With its campaign "Pro Original", the companies belonging to the machinery industry inform their potential clients to make them appreciate the added value of using original technology and help them to see the risks in using copied products.

Graphs

Current Figures on Economic Situation and Forecast for the German Construction Equipment and Building Material Machinery Industry