GESAMTMETALL
Federation of German Employers`Associations in the Metal and Electrical Engineering Industries

Economic Report 2021/I

26 February 2021

VWL/Joost

Economic Report for the German Metal and Electrical Engineering Industries

Overview

The German Metal and Electrical Engineering Industries (MET Industries) was forced into a deep recession by the Corona crisis: After a real crash in the second quarter of 2020 the economic situation recovered noticeably in the second half of the year. Incoming orders and production have improved considerably by December. Although the MET Industries have come through the lowest point of the economic crisis, the companies are still far from a level of fully utilized capacities.

The evaluation of the economic situation has improved somewhat in February, but remains cautious. The uncertainties and downward risks caused by the Corona crisis continue undiminished. However business expectations for the next six months have improved.

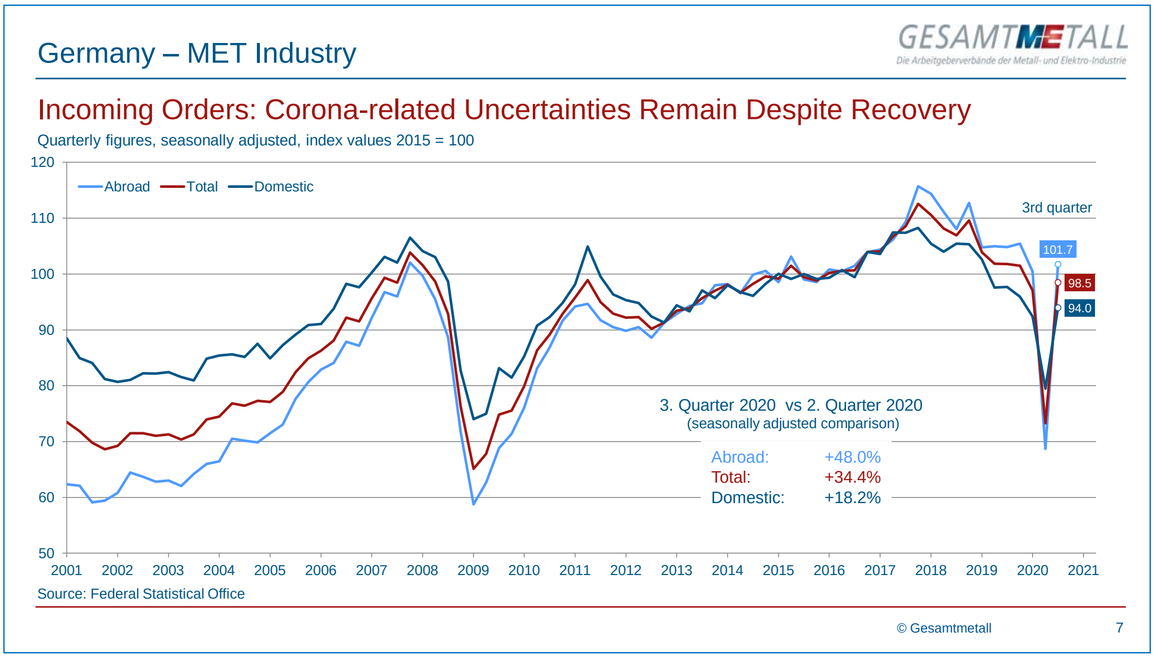
In May 2019, the MET companies had to reduce the number of employees for the first time after nine years of growing employment. By December 2020, they had cut more than 161,900 jobs. According to first projections, the number of short-time workers has more than halved from the historic negative record of around 1.5 Million in May 2020 to around 661,200 in October 2020. The MET companies seem to cope with the economic consequences of the Corona pandemic. The structural change – caused not least by the great changes in the automotive industry - receives therefore more attention again.

Overall Outcome 2020

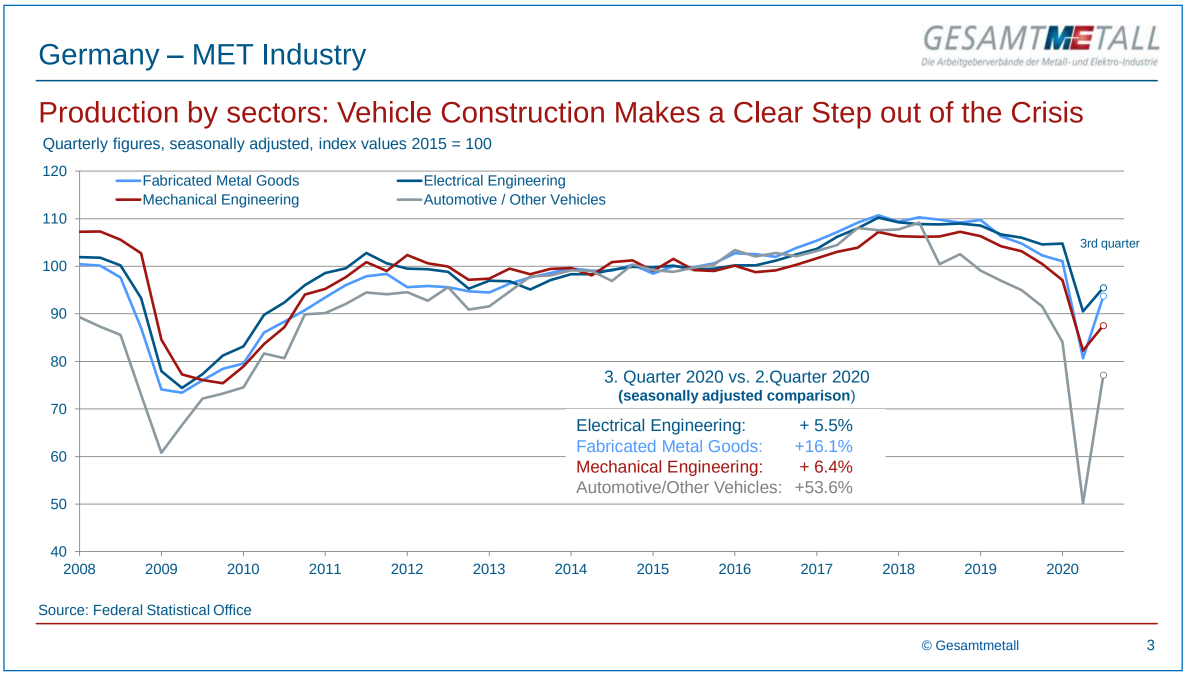
The impact of the Corona crisis is reflected in all economic indicators for the MET industries in 2020. Overall, **production** fell by 14.1 percent compared to the year 2019, which was already a year of recession with a 4.5 percent drop in production. The severe crisis in the MET industries in 2020 is also reflected in **incoming orders**, -8.5 percent on average for the year, **sales** (-10.1 percent), **exports** (-12.8 percent) and **imports** (-9.8 percent). Despite the severe economic situation, the MET companies did much to maintain employment. The massive use of short-time working enabled a comparatively moderate reduction in the **number of employees** of only 2.5 percent year-on-year. At the same time, the negative development in the MET industries led to a massive increase in **unit labour costs** of 7.8 percent (yoy).

Current Situation in some detailed data

Incoming Orders. The way out of the crisis continued in the fourth quarter of 2020, with incoming orders up 6.9 percent on the third quarter on a seasonally adjusted basis. At 6.9 percent, foreign orders rose as strongly as domestic orders. Compared with the previous quarter, incoming orders increased by 2.0 percent in vehicle manufacturing, by 10.3 percent in the electrical industry, by 7.7 percent in metal product manufacturing and by 12.0 percent in mechanical engineering.

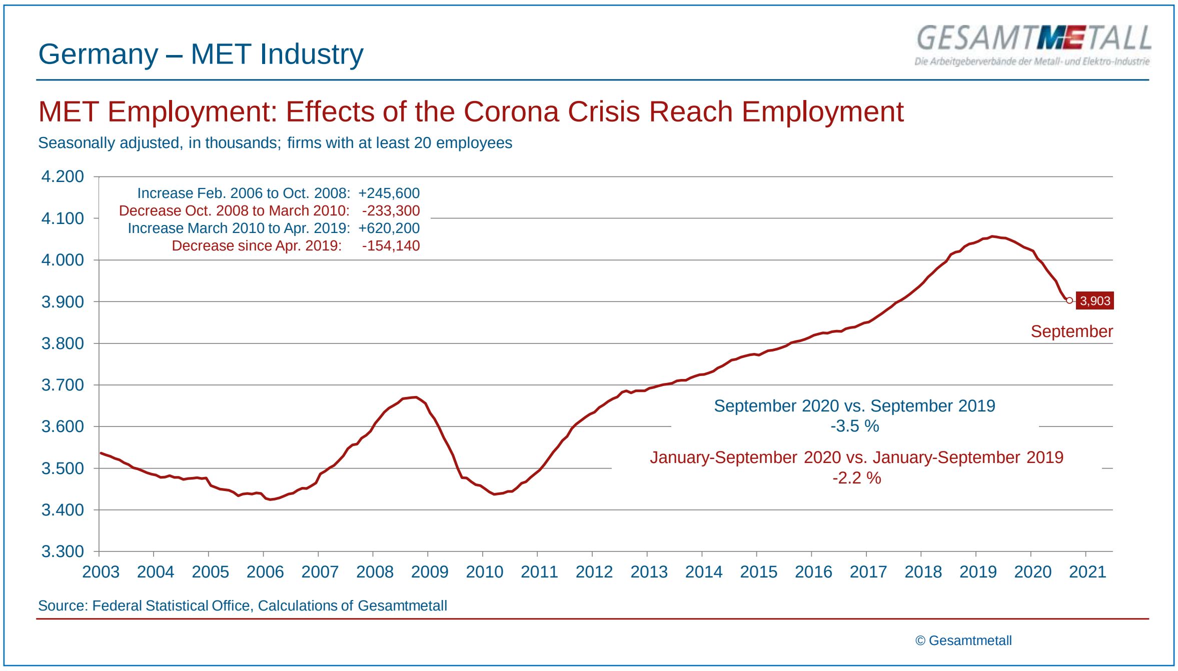


Production. MET production in Q4 2020 was 8.9 percent above the level of the third quarter on a seasonally adjusted basis. Among the major MET sectors, vehicle manufacturing - and among them the automotive industry - recovered the most: Its output increased by 13.1 percent in 2020. Among metal products manufacturers, it was +8.8 percent, in the electrical industry +7.7 percent and in mechanical engineering +3.5 percent.



Capacity utilization rose to 81.9 percent in January 2021.

Employment/Labour Market. MET employment was 3.9 million in December 2020, down 3.3 percent from a year earlier on a seasonally adjusted basis. MET companies' employment plans suggest further job losses. Since April 2019, the MET industry has lost a net total of about 161,900 jobs. Short-time work proved to be an important tool for securing employment at the height of the crisis. With the economic recovery, the importance of short-time work is declining again. In the 3rd quarter, there was a decline in short-time working of around 40 percent compared with the previous quarter. The number of short-time workers fell to around 661,200 in October.



Costs and productivity. Unit labour costs increased significantly by 7.8 percent in 2020. Labour costs per hour were 2.3 percent higher and productivity 5.1 percent lower than in 2019.

Foreign trade. In 2020, **exports** decreased by 12.7 percent yoy, falling from 775 billion euros in 2019 to 677 billion euros in 2020. An even greater decrease was only prevented by stable demand from China, which replaced the U.S. as the MET industries' most important trading partner in 2020. **Imports** of MET products fell by 8.9 percent yoy to 462 billion euros. China is also the most important trading partner for imports. The relatively smaller decline in imports reduced the foreign trade surplus to 215 billion euros.

Even though China consolidated its role as the most important trading partner in 2020, Europe as a region remains by far the most important export region for the German MET Industries, with a share of around 62.1 percent (+0.1 percent compared with 2020). Asia follows in second place with 21.9 percent (+1.3 percent compared to 2020), with North and South America well behind in third place with 13.2 percent (-1.3 percent).

In terms of imports, Europe also remains the most important import region for products from the MET industries. Since the 3rd quarter of 2020, both exports and imports have been recovering and could already be described as pleasingly strong again in the 4th quarter. Foreign trade is thus making a decisive contribution to the recovery process of the MET industries following the massive slumps caused by the Corona crisis in the 2nd quarter of 2020.

Outlook 2021

After 2019 (production: -4.5 percent), 2020 was the second severe recession year in a row for the MET industries. Despite confident signs of improvement, uncertainties and downside risks remain due to the ongoing Corona crisis. It is therefore currently difficult to estimate when the pre-crisis level of 2018 will be reached again. A poll in the MET industries conducted by Gesamtmetall in January 2020 revealed that around 60 percent of companies do not expect a return to pre-crisis levels before 2022. For as many as 28 percent of the companies, the timing of a return cannot be predicted at all at present.