

The background features a dark blue industrial scene with a laser cutting process. Bright orange sparks are flying from the point where a laser head meets a metal surface. Overlaid on this scene are several thin, light blue and white line graphs that fluctuate across the frame, suggesting economic data or trends.

# **MET Business cycle report**

# Recession in the MET Industry Accelerated at the Beginning of the Year - No Turnaround in Sight

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- **MET Production** fell by 2.1% in January 2024 compared to December. The three-month average was down 1.2%. This means that production is once again 15% points below the pre-crisis level of 2018. Production, sales and turnover also turned down after the catch-up effects at the beginning of the year. In November sales fell for the sixth month in a row. In addition to weak domestic business, both euro-zone and non-European sales are declining.
- **Turnover and sales** were also down at the start of the year. The downward trend thus continues. Sales have fallen by 7% since May 2023. In addition to the weak domestic business, sales outside the eurozone in particular are falling noticeably.
- **New orders** are still on a downward trend. The order volume in January was around 7% below the previous year. The book-to-bill ratio is still below 100%. The order backlog is therefore shrinking, which means that production and sales may also continue to fall for the time being.
- In January 2024, the number of **employees** in MET based industries was still 0.8% higher than in the previous year. Seasonally adjusted, the sideways movement has continued since April 2023. As a result of the downturn, the skills gap is gradually narrowing. Nevertheless, one in three companies in the MET industry could produce more if the right staff were available.
- The MET **business climate** stabilised somewhat in March. The proportion of pessimists decreased slightly. Other sentiment indicators are also slowly showing signs of an economic bottoming out.
- Another decline is forecast for **industrial production in 2024**, which means that Germany's economic development, which is far below average by international standards, is likely to continue. Production in the MET industry is likely to fall by 2 to 3%.
- The **inflation rate** fell further to +2.5% in February. However, political measures and strong wage momentum slowed disinflation and kept core inflation unchanged at a high level.

# Annual Overview 2024: MET Industry in Recession at the Start of the year

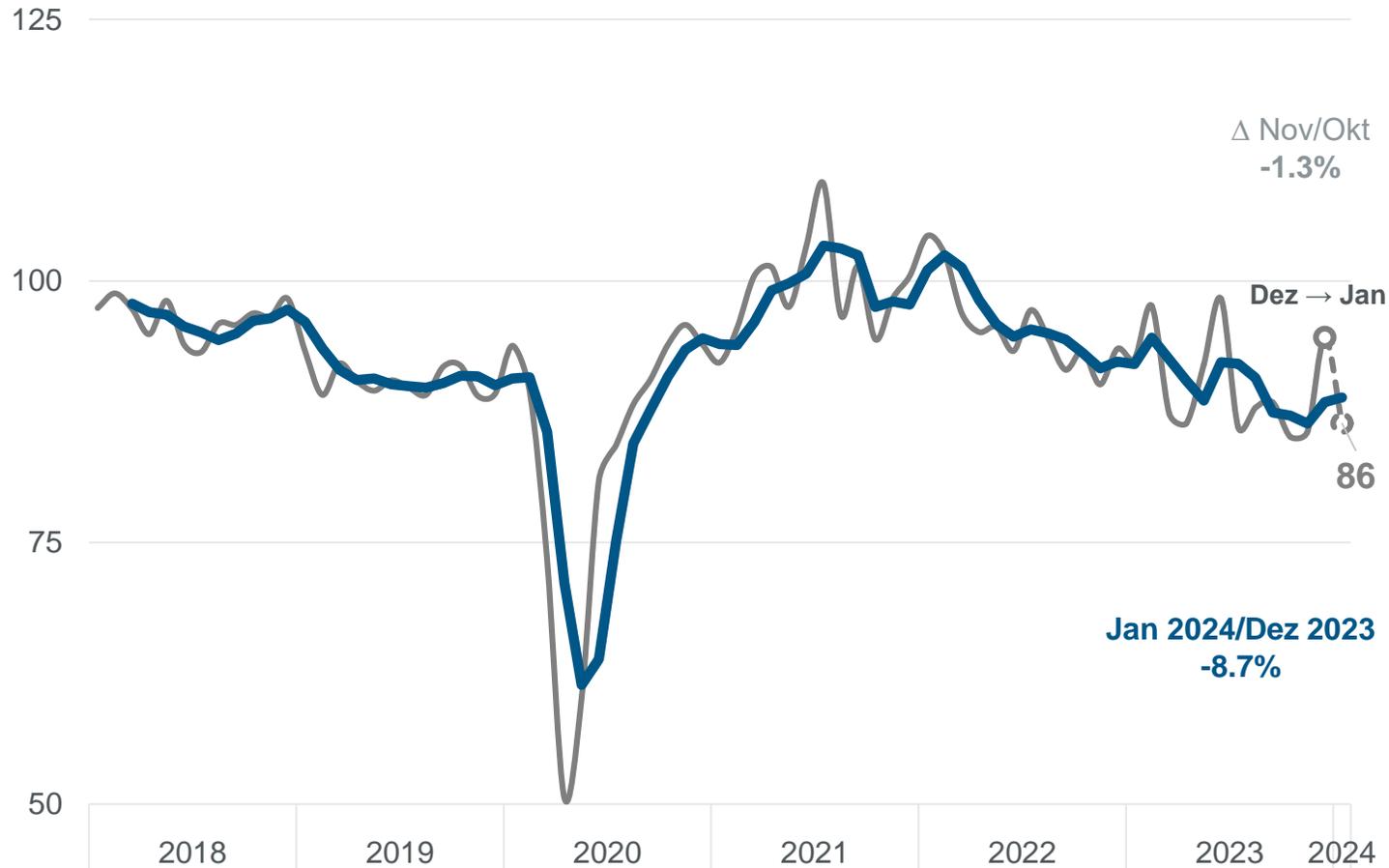
	Real**	Nominal		Nominal
 <b>New Orders*</b> (Δ Jan)	-7.3%	-5.9%	 <b>Employment</b> (Δ Jan)	+0.8%
 <b>Production*</b> (Δ Jan)	-6.9%		 <b>Hours worked</b> (Δ Jan)	+0.4%
 <b>Turnover*</b> (Δ Jan)	-3.5%	-1.8%	 <b>Wages &amp; salaries</b> (Δ Jan)	+3.1%
 <b>Foreign Turnover*</b> (Δ Jan)	-2.3%	-0.2%	 <b>Unit Labour Costs</b> (Δ Jan)	+8.8%

Changes in Economic Indicators for the German Metal and Electrical Industry from January 2024 compared to the Same Period in the Previous Year, Employment: Latest available monthly data. Preliminary values before the annual correction & the annual survey for companies with 20-50 employees, Source: Federal Statistical Office; Gesamtmetall calculations \*Calendar and seasonally adjusted values \*\*Price-adjusted values

# MET Production: Recovery Reversed – Plans Indicate Accelerated Decline

## New Orders MET Industries

Index Ø 2021 = 100. Price-, season- and calendar-adjusted monthly values & 3-Month moving average.



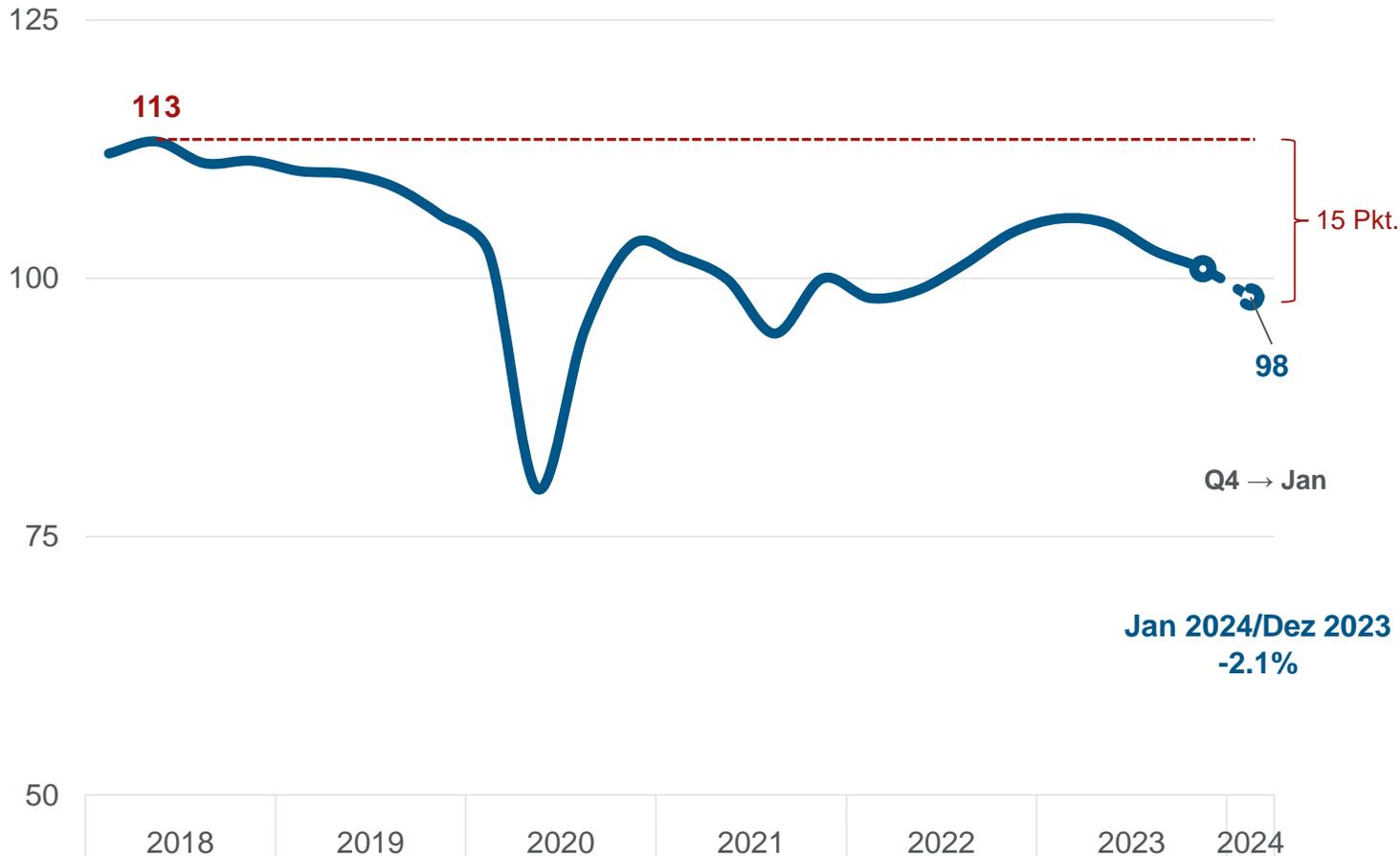
Source: Federal Office of Statistics

The order volume in January was 8.7% lower than in December. It should be noted that major orders were booked at the end of the year, primarily from the eurozone and Germany. As expected, the development of new orders is therefore back on the downward trend of recent months. Compared to the previous year, new orders in January were down 5.9% (nominal) or 7.3% (price-adjusted). A clear majority of MET companies were also dissatisfied with their order backlog in March. Demand deteriorated again slightly compared to the previous month.

# MET Production: Recession Accelerates - Gap to Pre-Crisis Level Widens Further

## Production MET Industries

Index Ø 2021 = 100. Price-, season- and calendar-adjusted quarterly values



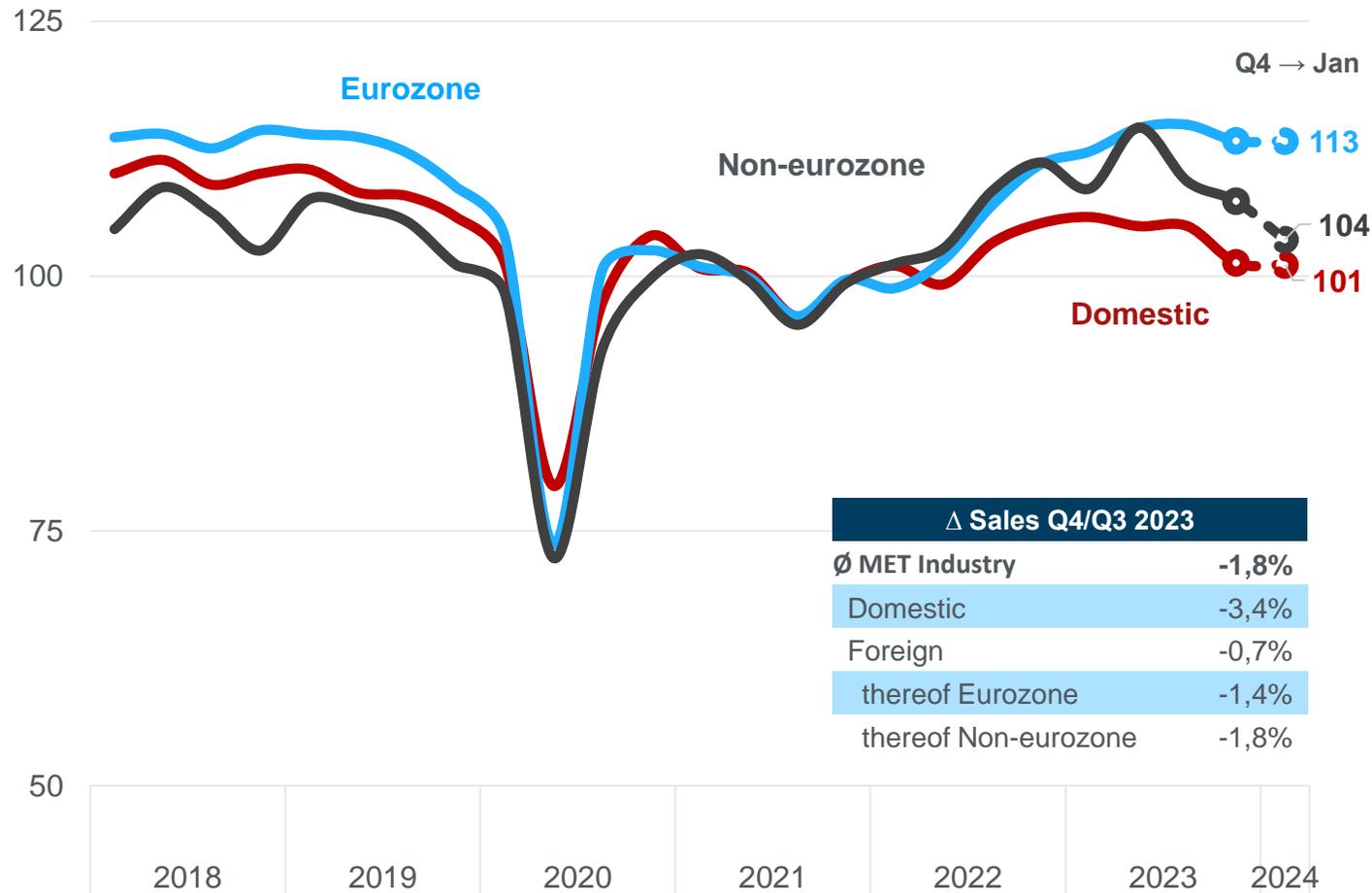
Source: Federal Office of Statistics

The decline in MET industries production has accelerated further. In January, the production volume was 2.1% below December, after output in Q4 had already fallen by 1.7% compared to the previous quarter. The previous year's figure was undercut by almost 7%. The gap to the pre-crisis level in Q2 2018 now totals 15 points again. The catch-up effects resulting from the improved materials situation have therefore largely run their course. The production plans of MET companies stabilised somewhat - partly because the materials situation improved again. However, they remained predominantly on a downward trend in March.

# Revenue & Sales: Decline Further Intensifies at the Beginning of the Year

## Sales development in the MET Industry

Index Ø 2021 = 100. Season-, calendar- and price-adjusted values per quarter



Source: Federal Office of Statistics

Turnover in the MET industry fell by 2.4% in January compared to December, which was characterised by year-end settlements. Price-adjusted sales fell by 2.8% compared to the previous month.

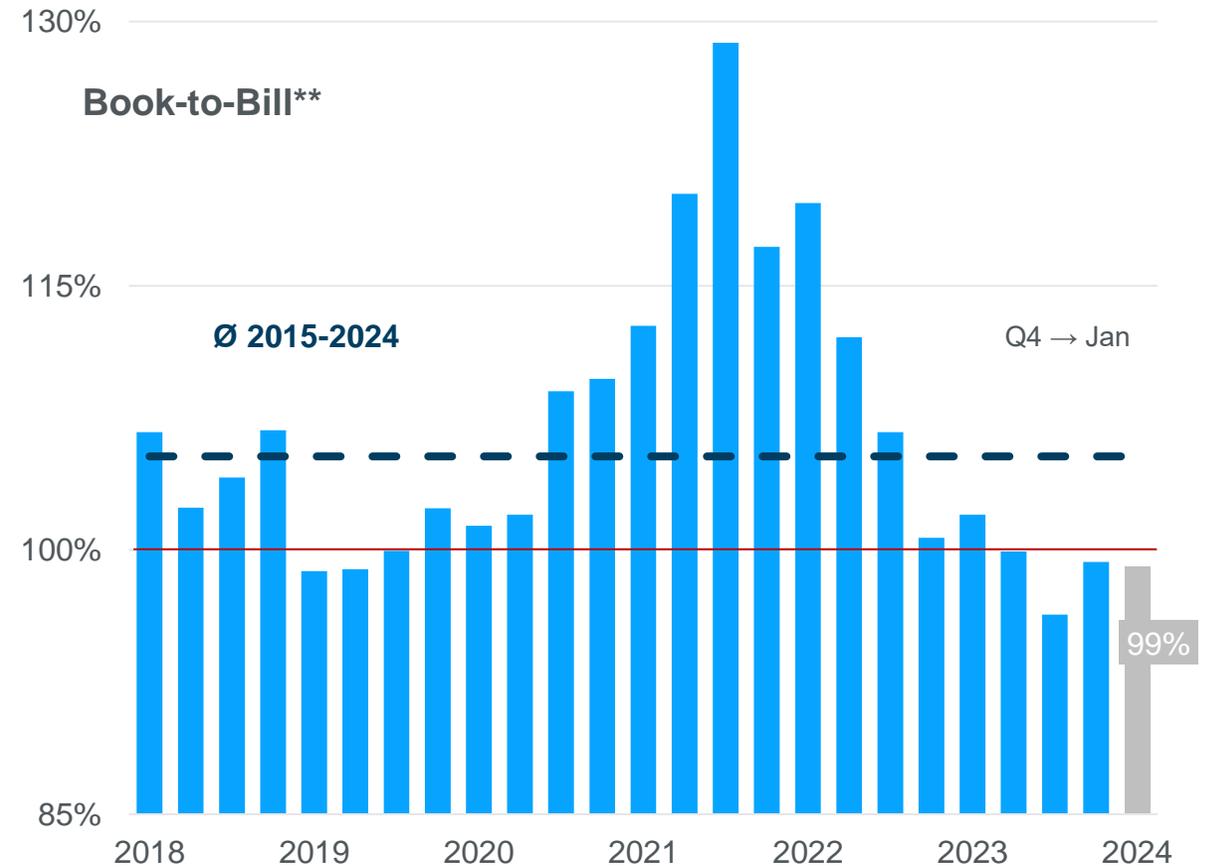
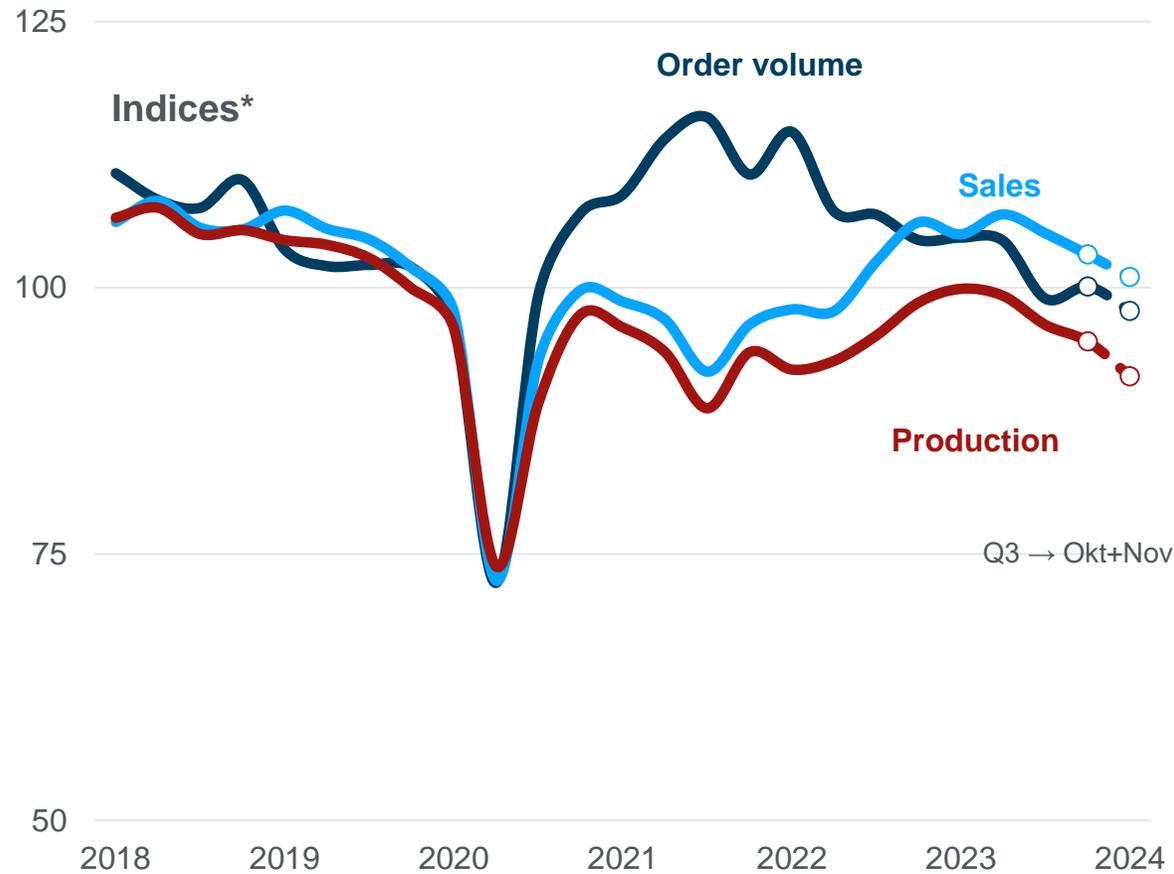
This further accelerated the decline. In Q4, sales had fallen by 1.8% compared to the previous quarter. Both turnover (-1.8%) and sales (-3.5%) are now below the previous year's level. Compared to the peak in May 2023, the decline in sales totalled 7%. Sales are falling particularly in Germany & outside the eurozone.

Sales & turnover follow the drop in new orders & declining production. Order backlogs are assessed as increasingly weak and stabilise the situation far less than hoped. The downward trend is therefore likely to continue in H1.

# Key Economic Indicators in the MET Industry: Recession Intensifies at the Start of the Year

## Development of incoming orders, sales & production in the MET Industry

Price, calendar, and seasonally adjusted values.



Source: Federal Office of Statistics; Gesamtmetall calculations

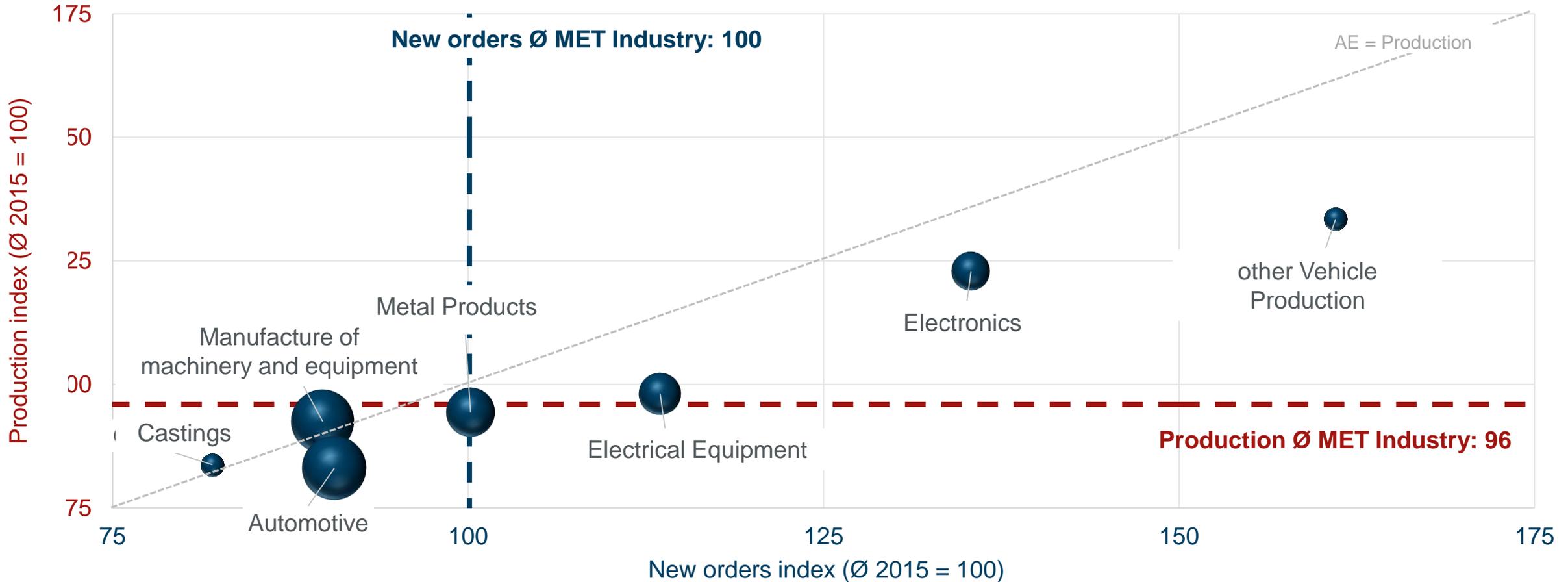
\*Reindexed to Ø 2015 = 100

\*\* Incoming orders in relation to sales

# Sector Portfolio: Persistent Differences Due to Mix of Crises and Structural Change

## New Orders & Production Index\* for MET industries

Price, seasonally and calendar adjusted values for Q4-2023



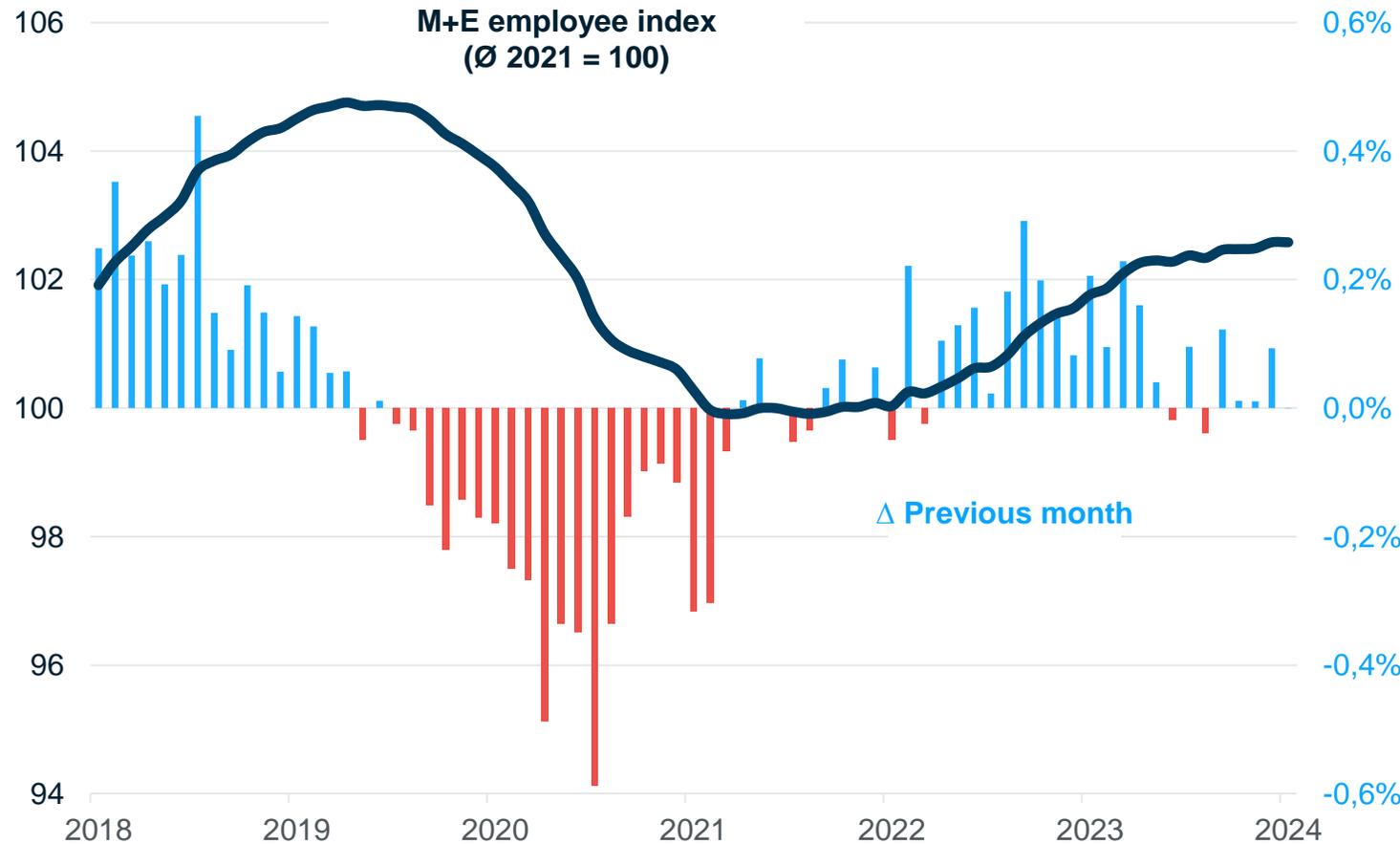
Source: Federal Office of Statistics, Gesamtmetall calculations

\*Values without WZ 32+33, Reindexed at Ø 2015 = 100)

# Employment Development Stable - Skill Shortages Remain Problematic Despite Economic Downturn

## Change in MET Employment

Seasonal adjusted Index (left) and  $\Delta$  Previous month (right)



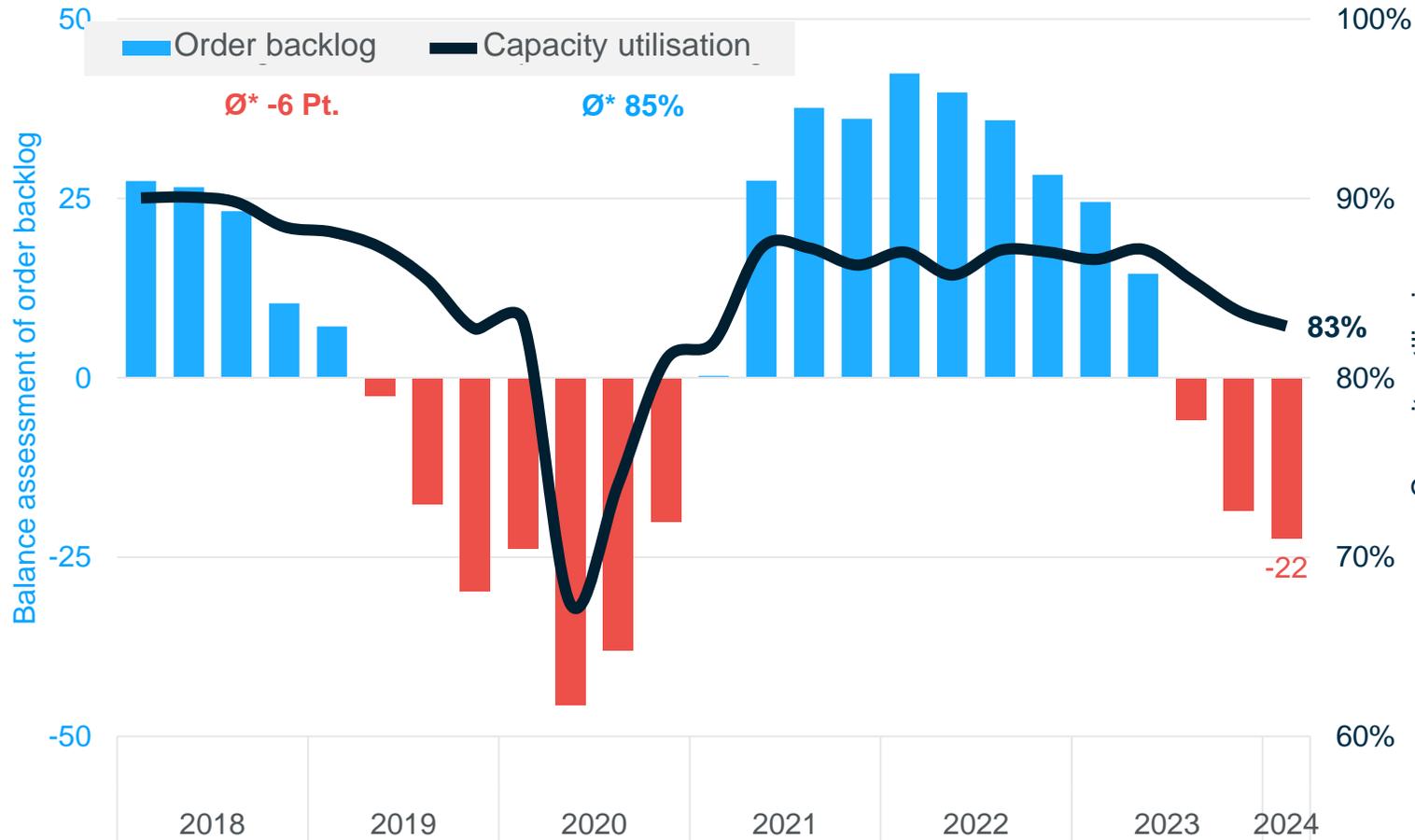
In January, there were ~ 3.96 million employees in the MET industry. Seasonally adjusted, the number of employees remained at the previous month's level and thus continued the sideways movement observed since the spring. Compared to the previous year, the number of employees rose by +32,700 or +0.8%. Reconstruction is being slowed by the weak economy. Personnel plans were also predominantly negative in March. On the other hand, the labour shortage continues to be a major problem and is the second most important obstacle to production after the lack of orders. The statistical skills gap is gradually narrowing: 239,000 STEM jobs could have been filled in February if the right staff had been available. Despite the decline (-22% compared to the previous year), the gap is still large.

Source: Federal Office of Statistics; Gesamtmetall calculations; projections based on monthly reports for companies  $\geq$  50 employees

# Utilization Falls Below Long-Term Average - Order Backlog Increasingly Viewed Negatively

## Order backlog & capacity utilisation in the MET industry

Seasonal adjusted Index (left) and Δ Previous month (right)



As a result of declining new orders and order postponements, MET companies are taking an increasingly negative view of the order backlog. Capacity utilisation fell to 83% at the beginning of the year, 2% points below the long-term average. Companies in the metal sector in particular are reporting weak capacity utilisation. However, the situation has also deteriorated noticeably in the electrical industry.

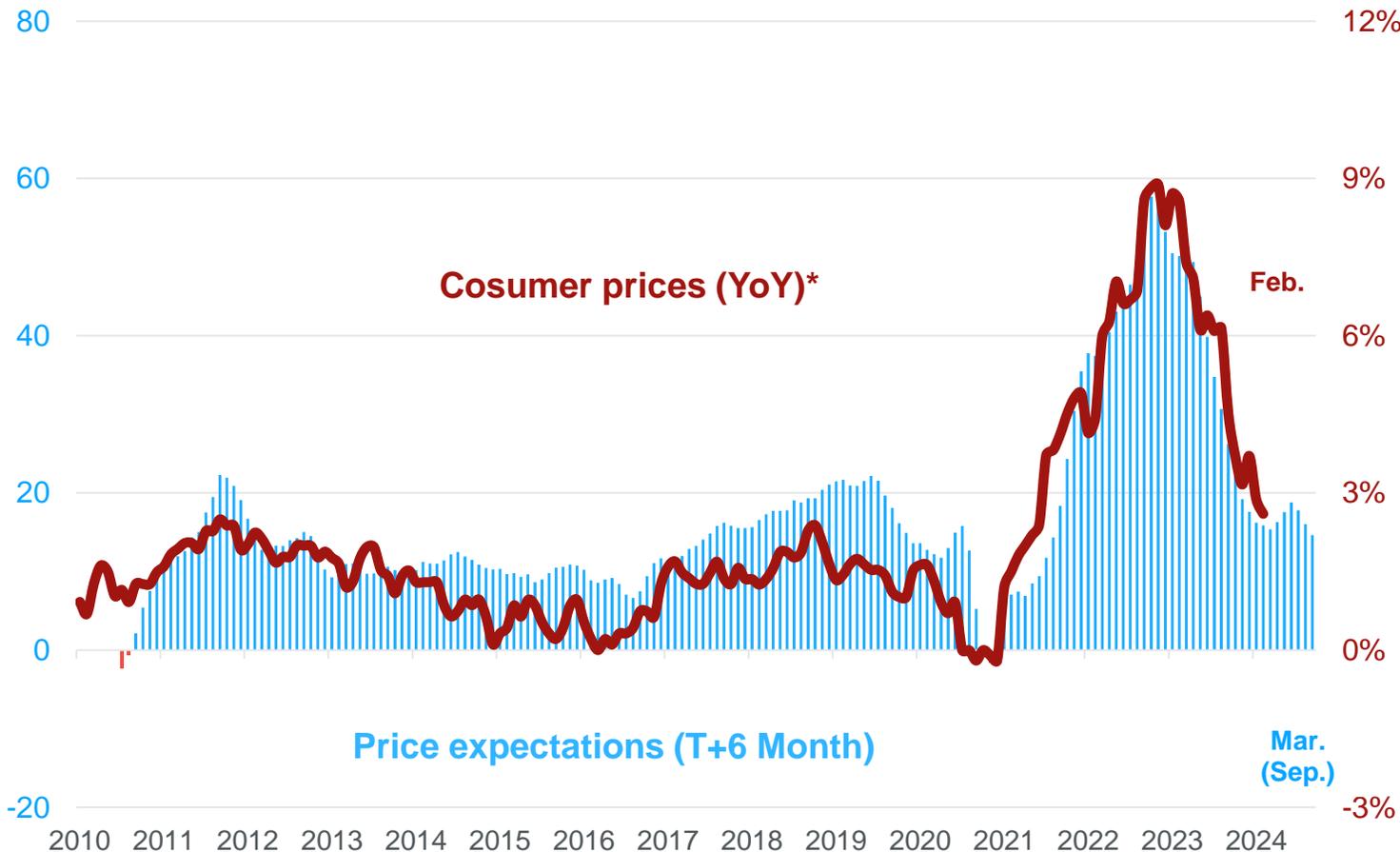
The order backlog fell by half a month to 4.6 months. However, it is very uncertain whether the orders accumulated during the special economic situation in 2021-2022 can actually be realised. This threatens to further exacerbate the downturn.

Source: ifo Business Survey \*Long-term average since 2002

# Inflation Rate Decreases - (Geo-)Political & Structural Factors Slow Down Disinflation Process

## Development & outlook inflation rate

Δ Consumer prices\* (right) & balance of ifo-survey price expectations (left)



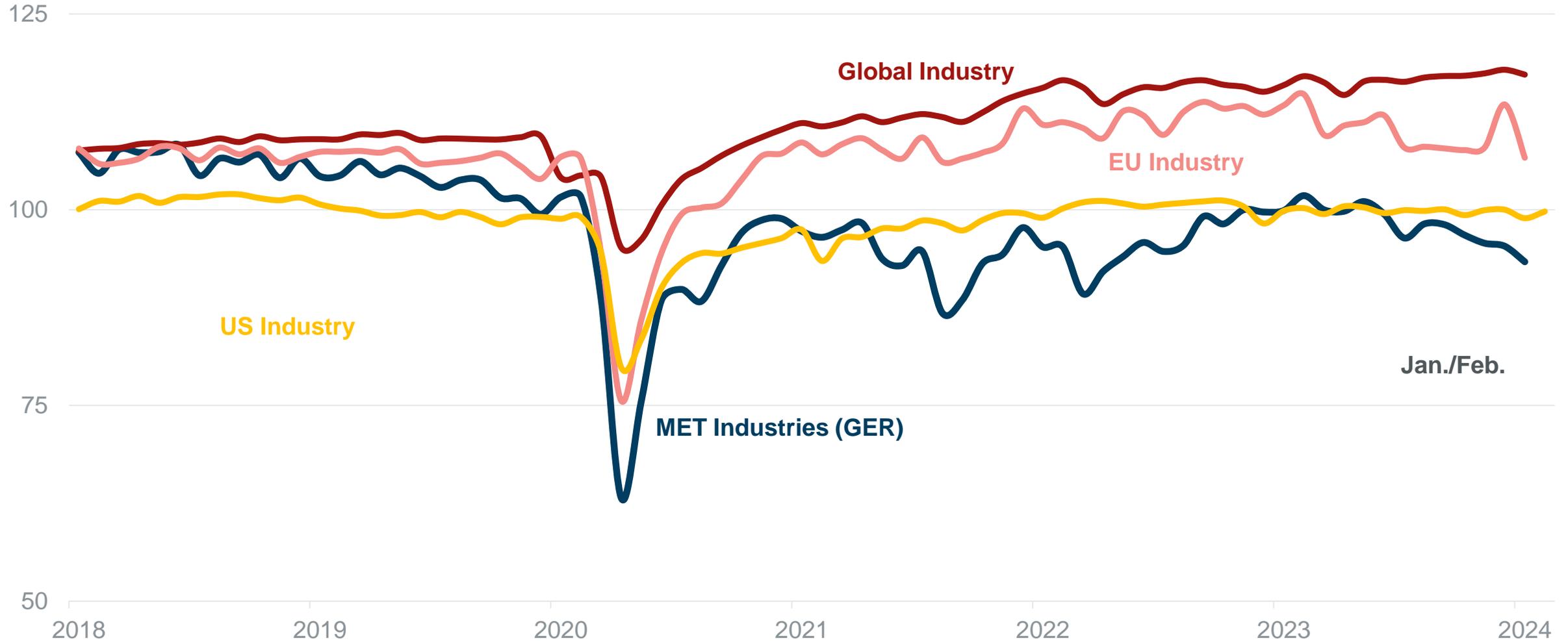
Inflation fell to +2.5% in February. It (delayed) follows the slowdown in price plans and the decline in wholesale and producer prices. Compared to the previous year, inflation rates weakened further as a result of the weaker economy & monetary policy tightening. However, political measures, rising network charges & structural (wage) cost pressure, particularly due to demographics & decarbonization, slowed the disinflation process noticeably at the start of the year, which was reflected in unchanged high core inflation & a broadening of price increases compared to the previous month. However, in view of the recession, companies' price plans are easing again despite the cost pressure, meaning that inflation is likely to weaken further over the course of the year.

Source: \*calendar and seasonally adjusted values from the Deutsche Bundesbank; price expectations: ifo Business Survey, moving 3-month-average, value shifted forward by 6 months

# Production Development World vs. Germany: Noticeable Decoupling from Global Growth Since 2019

## MET production compared to the global evolution of industrial production

Price, calendar, and seasonally adjusted values (Ø 2015 = 100)

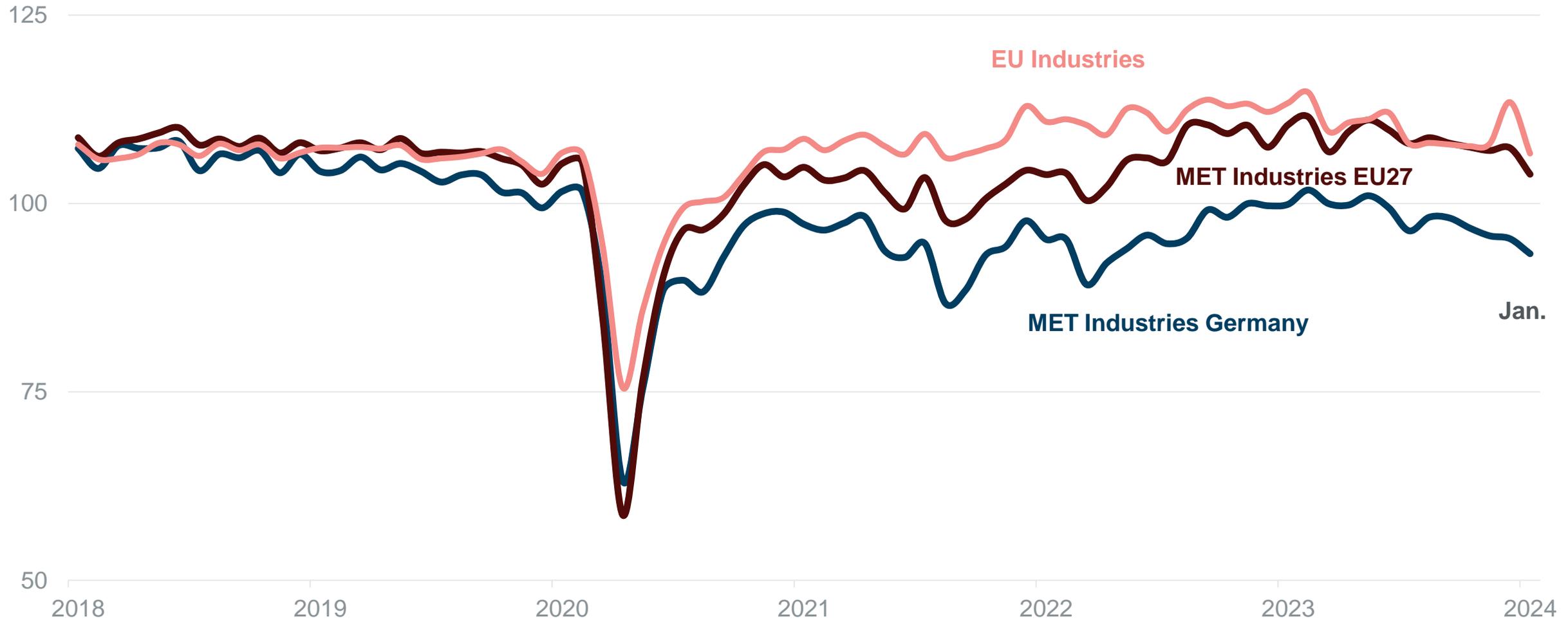


Source: CPB WORLD TRADE MONITOR; FRED, Industrial Production: Manufacturing (NAICS); Eurostat; Federal Office of Statistics; Gesamtmittel calculations

# European Industrial Production Above German Trend Since COVID-19 - Currently Also in Decline

## MET production compared to the global evolution of industrial production

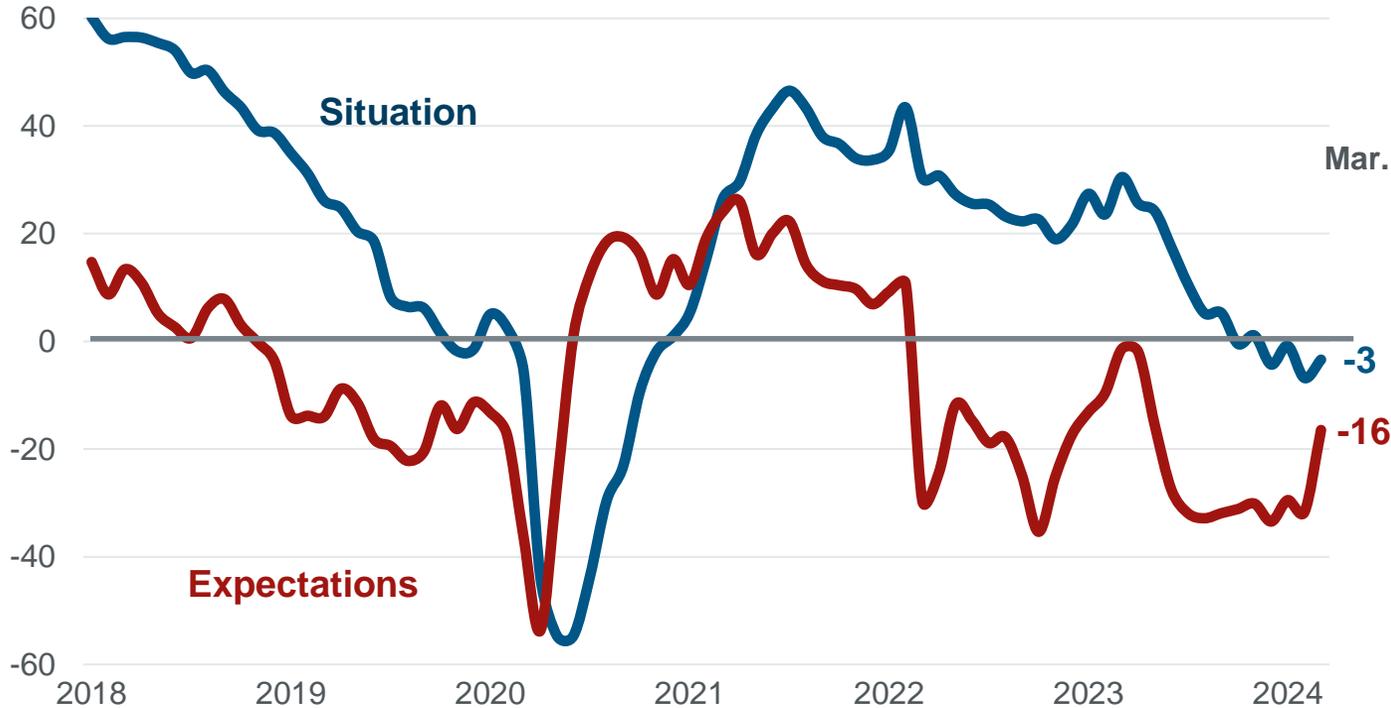
Price, calendar, and seasonally adjusted values (Ø 2015 = 100)



Source: Eurostat; Federal Statistical Office; Gesamtmetall calculations

# Sentiment Stabilizes in March - Hopes for Bottoming Out Increase

Ifo business climate MET-Industries, Seasonally adjusted balances of the +/- reports



The mood among MET companies stabilized somewhat in March. The proportion of pessimists decreased. The assessment of the situation did not deteriorate any further. However, assessments of demand trends and orders on hand remained negative. Production plans also remained on a downward trend. Export opportunities, on the other hand, were viewed more favorably.

Assesment of order book: -22 Pt. 

Production Plans: -7 Pt. 

Personnel Plans: -10 Pt. 

Demand Compared to the Previous Month: -8 Pt. 

Export expectations: +2 Pt. 

Price expectations: +11 Pt. 

Source: Ifo Business Survey, March 2024