

Press release

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Tool industry on road to recovery – uncertainty is growing

After tool sales in 2019 had increased slightly over the previous year by 2.1 percent to around EUR 5 billion, the German tool industry has also been hit hard by the corona pandemic since spring 2020.

The latest survey by the Association of German Tool Manufacturers (FWI) for January to August 2020 shows dramatic declines in incoming orders compared to the same period of the previous year: A decline of more than 10 percent in domestic orders was reported by 51 percent of the companies; for foreign orders, 61 percent also said they had more than a 10 percent decrease. Even if the assessments of the current situation turn out better from month to month, depending on the respective target industries, these losses can no longer be offset by the end of 2020.

In August 2020, the FWI business climate rose by a total of around 70 points for the fourth month in a row and is now at -8.1 points. The situation reached its low in April 2020 at -77 points. The curve clearly shows a V-shaped course. This confirms the trend that became visible in June at the latest. The trend had already been predicted by the positive balance of expectations in the FWI surveys since May 2020. By comparison, during the financial crisis of 2008/2009 it took close to a year before the FWI business climate reached neutral levels after a similarly deep fall as in 2020.

In August 2020, only 26.8 percent of companies rated the current situation as "unsatisfactory". That corresponds to almost 19 percent less than in the previous month. The share of tool manufacturers with short-time work schemes changed from 70 percent in August to around 52 percent.

The FWI business cycle clock has pointed to the upswing quadrant since May 2020, reflecting the balance of positive expectations. The positive expectations in recent months can be seen in an improved assessment of the current situation and have therefore turned out to be true: Since July 2020, the balance of assessments of the current situation have improved significantly by 18 points and is now at -20 points.

However, the crisis is not yet over. In August 2020, the expectations of companies were once again worse than in the previous month: Only 23.7 percent (seven percent less than in July) still expect the economy to recover in the next six months. More than half of the companies do not expect any changes. Every fifth respondent predicted a deterioration of the business climate.

Further uncertainty due to the impact of political factors in export markets such as the US and UK also contributes to this. In addition, an important marketing instrument is lacking as a result of the trade fairs cancelled or postponed in 2020.

The economic situation of the individual companies is also strongly determined by the conditions in the respective target industries. In particular, tool manufacturers specialising in the automotive and aviation industries are most likely suffering too in the medium term. On the other hand, suppliers for the skilled trades and construction industry are holding up better.

German tool exports and imports

According to FWI projections, tool exports in 2019 still reached a value of around EUR 4 billion and were thus 1 percent higher than in the previous year. Exports in the first half of 2020 fell 13 percent short of the previous year's figure, which was mainly attributable to the pandemic.

Tool imports in 2019 came to EUR 2.4 billion, thereby exceeding the level of the previous year by 2.8 percent. In the first six months of 2020, they declined by 10 percent.

US is most important export country

The US is the most important export country. In 2019, tool exports to the US increased by 10 percent compared to the previous year, accounting for 8.9 percent of total tool exports. In the first half of 2020, exports to the US dropped by 15 percent.

On 18 October, 2019, US punitive tariffs on certain core product ranges such as pliers, screwdrivers and axes came into force. The levying of punitive tariffs against industries that have not benefited from EU subsidies for Airbus, especially with the focus on German tools production, violates the spirit of free and fair world trade. The tariffs will either result in a significant decline in exports to the US or financial losses for tool manufacturers, which will make things even worse considering the other uncertainties in the markets as well as the pandemic. After the hopes of the punitive tariffs coming to an end soon were shattered, those manufacturers affected have and are cutting back on some already planned investments. This, in turn, has had an impact on suppliers and the long-term competitiveness of manufacturers.

Consequences of Brexit for the German tool industry

Within the last ten years, Great Britain has climbed from tenth to sixth place among the most important export partners for German tool manufacturers, with a 5.2 percent share of total exports.

In 2019, tool exports from Germany to Great Britain increased by 9.5 percent compared to the previous year, reaching a value of EUR 209 million. This increase can be partially explained by the fact that companies have stocked up on inventories there in order to deal with potential handling problems after a disorderly Brexit.

In the first half of 2020, exports to Great Britain fell by 23 percent and thus more significantly than total exports.

Since negotiations between the EU and Great Britain are being drawn out, there is still a lack of clarity and uncertainty in many areas about the rules that will apply from 2021. The concerns mainly relate to problems and delays in the practical handling of customs formalities and import controls.

Tool sales under corona: Trade fairs are missed

The corona-related restrictions on traditional sales channels and customer relations have significantly accelerated the trend towards digitalisation. According to a study by the Federal Statistical Office, mail order and online retail grew by around 21 percent between January and July 2020. This figure most likely also applies to the tools trade. Traditional ways of addressing customers such as trade fairs and customer visits are mainly missed by smaller companies, which are often not able to successfully organise their own events such as in-house trade fairs.