Industry trends machines engineering August 2025

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Global overview: A deteriorated sector growth outlook for 2025/2026

We expect global mechanical engineering output to increase by just 1.4% in 2025, 0.6 percentage points lower than our forecast in March. The downward trend will continue into 2026, where we project a growth slowdown to 0.8%, 1.9 percentage points lower than previously expected. The main reasons for this downgrade are the direct and indirect impacts of US tariffs.

Machinery is highly reliant on cross-border supply chains, and therefore very sensitive to changes in global trade policies. Despite some trade agreements between the US and key export markets, economic and business uncertainty remain high as the threat of new tariffs remains present. In this business environment companies in the manufacturing and construction sectors are reluctant to invest in capital goods.

Across all regions, we expect sector growth to decelerate in the long-term. This mainly affects Asia Pacific, where China's pivot to a more services-oriented economy will reduce demand for capital goods.

United States: Output contraction due to tariff impact

We expect US machinery production to contract 0.9% this year, followed by a 3.9% decrease in 2026. Demand is seriously impacted by the tariff policy currently weighing on the US manufacturing sector.

Against the backdrop of considerable uncertainty, manufacturing and construction businesses are reticent to commit to orders and investments in capital goods. Machinery orders have decreased and are not expected to recover in the near term.

The tariffs raise costs for US producers. Producer price inflation for machinery and equipment has been increasing since March. Steel and aluminium are tariffed at 50%, which will put further upward pressure on input costs and weigh on competitiveness.

However, support for the sector should come from expansionary fiscal policy and monetary easing. The so-called One Big Beautiful Bill Act (OBBBA) includes some generous provisions for deducting the cost of machinery and equipment purchases.

Canada: High dependence on the US market takes its toll

We expect Canadian mechanical engineering production to contract by 4.5% in 2025 and by 5.6% in 2026. Exports to the US account for about 75% of Canadian machinery gross output, making it one of the most exposed sectors to US import tariffs.

However, we expect that the USMCA agreement will be renegotiated by mid-2026, providing a much-needed relief to Canadian machinery production, and leading to a robust rebound as of 2027.

China: Tariffs and lower private investment have an impact

We expect Chinese mechanical engineering output to increase by 4.8% in 2025. This solid growth rate is partly the result of US frontloading of imports from China ahead of tariff increases, which spurred production in Q1.

However, we expect the growth momentum to slow significantly in the coming quarters as US tariffs have taken effect and elevated global trade policy uncertainty will weigh on demand.

Chinese manufacturers are confronted with excess capacity and trade uncertainty, leading them to slash capital expenditure. Consequently, we expect machinery production growth to slow down to 2.4% in 2026.

That said, mechanical engineering is still supported by government investment in strategic sectors such as high-tech, automation, and climate/energy, mainly benefitting the electrical machinery segment.

Japan: Weaker demand from key buyer sectors

After a 4.7% contraction in Japanese mechanical engineering production last year, we expect a 1.6% decrease in 2025 and a modest 0.5% rebound in 2026.

The 15% US tariffs on Japanese exports (up from 2%) and ongoing trade policy uncertainty have dampened domestic business sentiment and weigh on Japanese exports, including external demand for machinery. Automotive as a key buyer sector is highly impacted by US tariffs.

European Union and UK: No substantial rebound before 2027

After a 5.3% contraction in 2024 we expect mechanical engineering output in the EU and the UK combined to decrease again in 2025, by 1.4%, followed by zero growth in 2026.
European mechanical engineering exports are highly dependent on the US market, meaning the sector is exposed to both higher import tariffs and weaker US
investment spending.

In Europe a low capacity utilisation and lingering uncertainty over future US trade policies makes manufacturing and construction businesses reluctant to invest in machines, as they prefer a wait-and-see approach. Another issue weighing on the industry is increasing competition from Asia, particularly China.

Germany's fiscal stimulus package and the EU's rearmament programme should support expansion in defence and infrastructure-adjacent sectors, including aerospace, ships, and military vehicles. This will increase demand for machinery and equipment, such as machine tools, in the coming years.

Germany: More insolvencies and serious challenges ahead

Germany accounts for more than 45% of eurozone mechanical engineering output. Machinery production contracted by 6.0% in 2024 and another decrease of 2.4% is expected for this year. The industry continues to struggle across all subsectors.

In the domestic and export markets, business uncertainty due to US tariffs hamper investment decisions for machinery purchases. The current 15% US tariff on EU machinery additionally hurts the German sector's performance, as the US is its main export market.

Non-payments and insolvencies in the industry increased in 2024 and in H1 of 2025, and we expect more business failures in the coming months.

The German mechanical engineering sector is still resilient and internationally competitive. However, competition from China is a serious issue.
Higher European defence spending and larger infrastructure investment in Germany should lead to a demand recover.

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