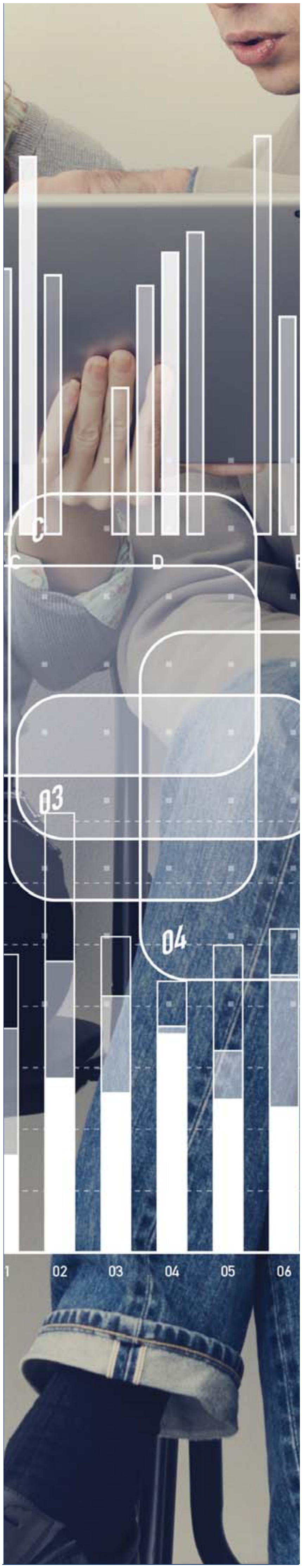
cecimo

European Association of the Machine Tool Industries
and related Manufacturing Technologies

Economic & Statistical Toolbox

Second Quarter 2020



IN THIS ISSUE

COVID-19 CONTINUES TO STRAIN THE EUROPEAN INDUTRY in the second quarter of 2020.

CECIMO MACHINE TOOL ORDERS DECREASE significantly.

INVESTMENT LEVELS DROP in the European Union, while companies' DEMAND FOR LOANS REACHES AN ALL-TIME HIGH. The need for emergency liquidity discourages investment.

New GDP forecast shows a DIVERGENCE BETWEEN KEY MARKETS and a partial recovery of the European Union in 2021.

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Introduction

The coronavirus public health crisis continued to put significant pressure on many European manufacturing sectors, including the machine tool industry, during the second quarter of 2020. The most notable part of this quarterly economic juncture is that it saw two subsequent trends: firstly, the early stages of the three-month period, business environment worsened considerably, as national lockdown measures forced companies to halt their activity and implement cost-containment organizational schemes to avoid closures; lastly, the latter part, especially in the month of June, the situation has stabilized and is potentially leading the way to a short-term, mechanical recovery of manufacturing.

As to the performance of our sector, Q2 2020 has been one of the weakest in recent history. CECIMO8 machine tool order intake has decrease dramatically on a yearly basis. Particularly, CECIMO foreign orders, in this difficult juncture, dropped by -51% against Q2 2019, while domestic orders fell by -45% on the same basis. CECIMO8 total orders have dropped by -49% over the same period. Although no new figures are available at this stage on machine tool production, industrial production index in Europe decreased by almost -20% in Q2 2020 against the same period of the previous year. In April alone, industrial output fell by -27% on a yearly basis. However, as described above, June's industrial output improved slightly, although the rate of growth remained negative.

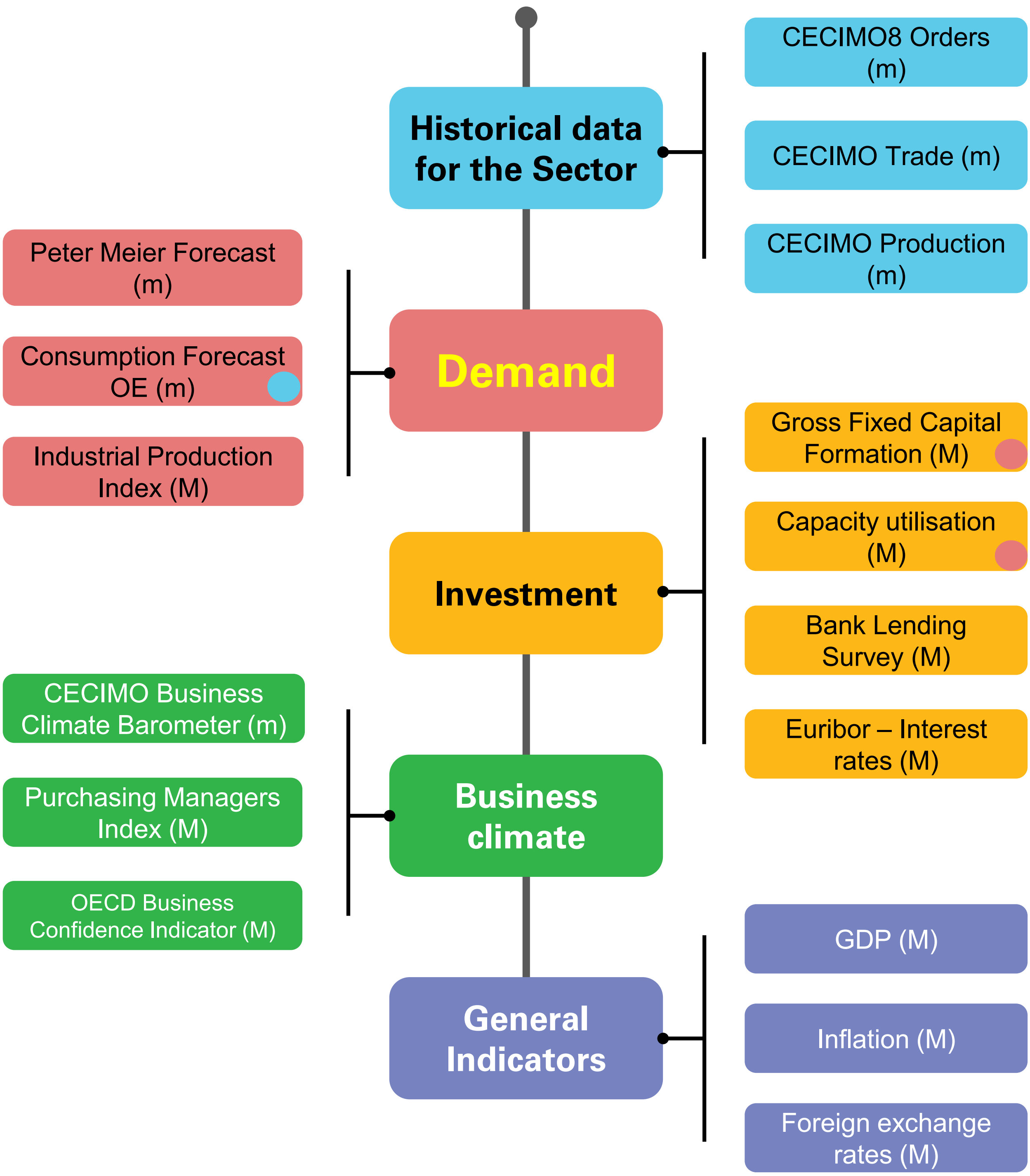
Concerning demand and consumption of capital goods, machine tool demand is expected to remain low, since durable goods sales, namely of vehicles, have plummeted amid the pandemic. Furthermore, demand for capital goods is expected to recover slightly from the third quarter onwards but will not reach pre-crisis levels in the short-term. MT-buying sectors are also suffering from the pandemic strains, which has led to the postponement of investment decisions.

Gross fixed capital formation in Europe (EU27+UK) drops -11% on a yearly basis during Q2 2020. It improves on the previous quarter rate, but the negative growth indicates that durable and capital goods have negative expectations on the returns of their investment decisions and have, as mentioned, refrain from investment. At the same time, production capacity has increased to 32,4% during this period, showing that current production levels are sufficient, considering the business environment for companies. Conversely, capacity utilization stands at 66%, the lowest rate in 25 years. Lastly, European Central Bank's latest Bank Lending Survey results show that firms' demand for new loans has increased. Companies seek emergency liquidity to cover their working capital in an uncertainty market. New loans are used as a mean of corporate protection, as opposed to resources to finance investment.

Business sentiment improves in late Q2 2020, as the latest PMI and OECD's Business Climate Indicators show, yet it is unlikely that this new, more positive, outlook on the economy will hold, given the unprecedent uncertainty that reigns over key markets.

Lastly, GDP forecasts by the European Commission show steep decreases in Europe, Japan and the US, while China is expected to grow at a moderate rate in 2020.
A recovery is foreseen in 2021, yet it will be partial.

Toolbox Mind Map

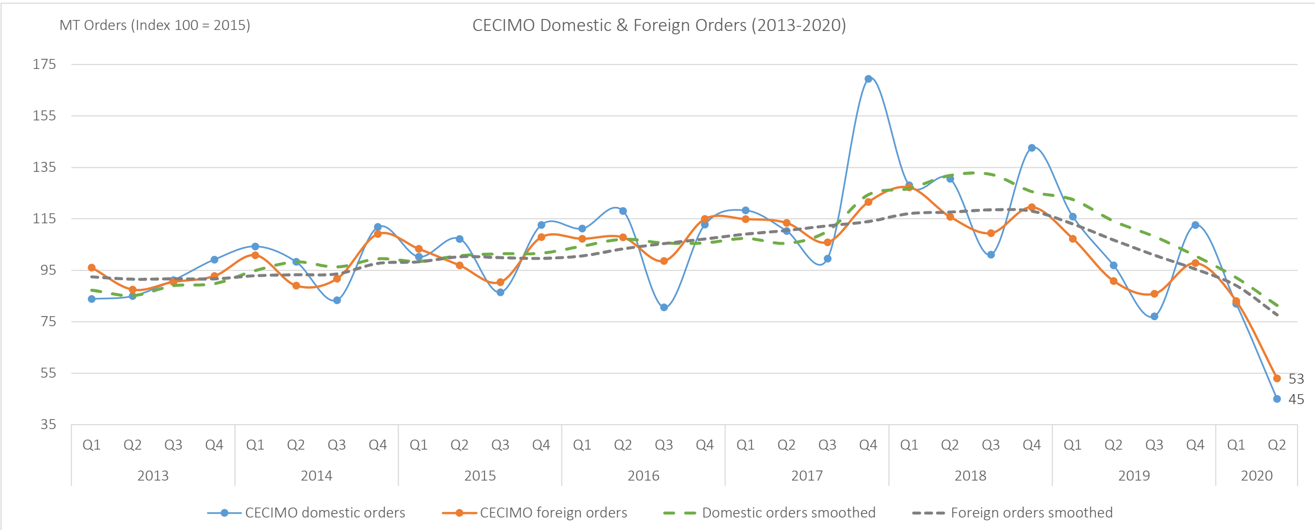


1. Historical Data for the Sector

1.1 CECIMO8 Orders (m)

CECIMO8 machine tool order income has had one of its weakest performances in recent history in Q2 2020, as foreign, domestic and total orders decreased dramatically on a yearly basis due mostly to the containment measures implemented a cause of the coronavirus pandemic, which have gravely impaired business activity, from production to provisioning, across Europe and the key international market.

CECIMO foreign orders, in this difficult juncture, dropped by -51% against Q2 2019, while domestic orders fell by -45% on the same basis. CECIMO8 total orders have dropped by -49% over the same period.



Foreign Orders:

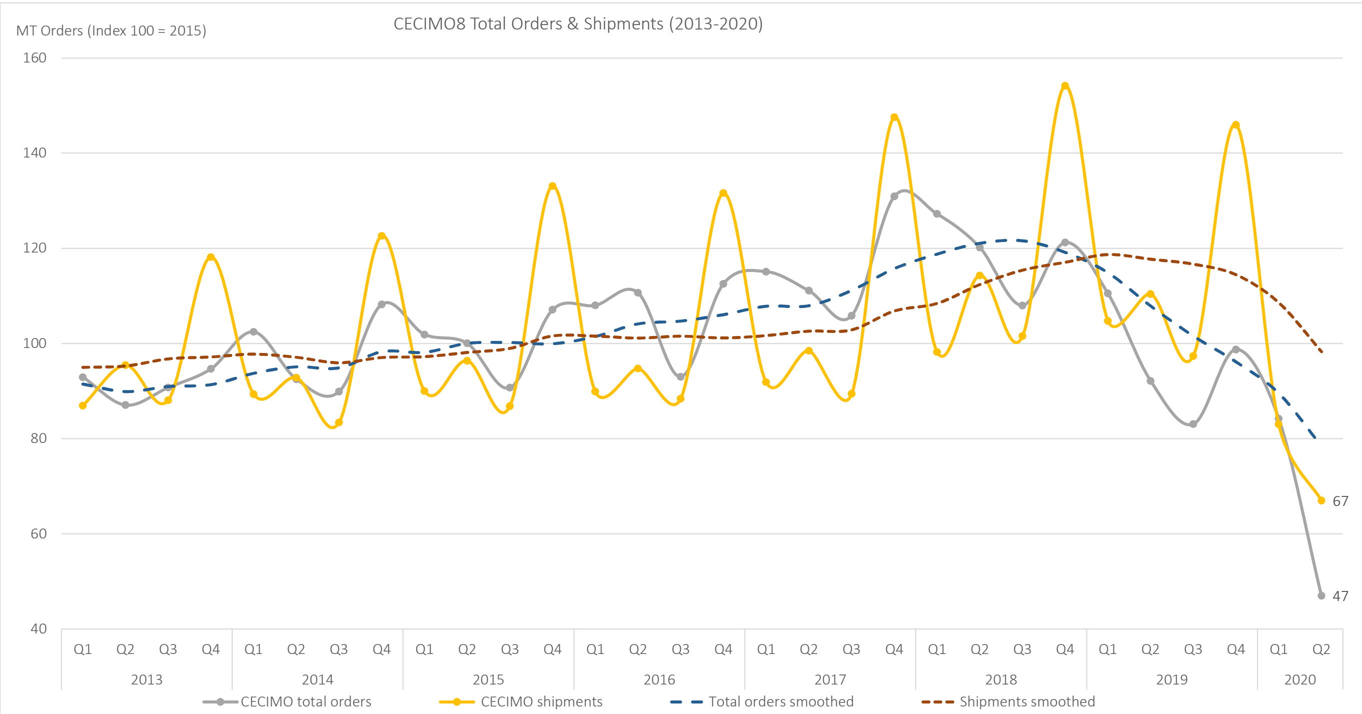
In Q2 2020, German and British machine tool order intake decreased by -51% against the same quarter of the previous year.
Further drops in foreign orders were recorded in Spain (-49%), Switzerland (-47%), Italy (-37%) and Czech Republic (-30%).
The worst deterioration in foreign order intake took place in the French machine tool sector, which recorded a quarterly negative growth rate of -80%.

Domestic orders:

In terms of domestic orders, Czech orders in the national market drop by -25% against Q2 2019. Meanwhile, British and Spanish orders follow the same downward path over the same period, at a comparatively faster pace (a -31% drop). German domestic orders follow suit with a somewhat larger yearly decrease: -36% over the same period.

More significant was the domestic market deterioration in Italy and Switzerland, whose domestic orders fell by -44% and -52% against Q2 2019, respectively.

France's domestic market, however, has seen perhaps the sharpest decline in recent years among CECIMO countries, as French domestic orders fall by a staggering -94%.



Total orders:

Lastly, as to total orders, Italian orders decrease by -39%, while British (-43%), German (-46%), Spain (-47%) and Swiss (-48%) orders decrease at faster rates, driven down by domestic and foreign demand woes.

Czech total orders also register a significant -30% decrease, but clearly below what seen across the larger European machine tool markets.

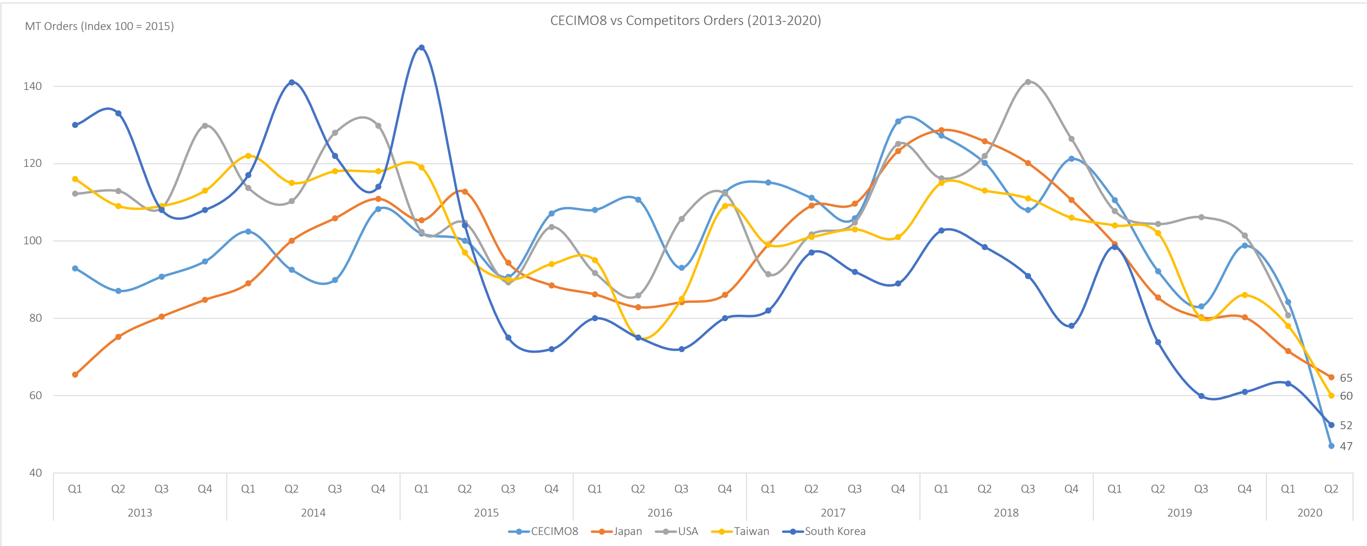
French total orders, given the overall fragility of order income and market expectations, both at home and abroad, recorded a negative growth rate of -88%.

Our competitors:

- Japanese metal forming new machinery intake continues to decrease, yet a faster pace than in the previous quarter. Foreign orders contracted by -42% compared to Q2 2019 figures, while domestic order fell by a significant -52% yearly rate. Total orders dropped by -48% over the same period.

- The Japanese metal cutting industry also remains in negative growth territory. Its foreign orders intake has decreased by a yearly -42% in Q2 2020, in line with the metal forming branch. Domestic orders, in the meantime, contracted by -49%. Considering this scenario, total orders have dropped by -45%, a slightly better rate than the metal forming industry, due in part to the better foreign performance.

- The Korean machine tool industry, as in other strategic Asian markets, the pandemic has also had a generally negative impact of the country's machine tool order intake, although foreign demand has been the most strained by the health crisis. In this sense, domestic orders decreased by -21% against Q2 2019, while foreign orders contracted by a notable -36%.



1.2 CECIMO Trade (m)

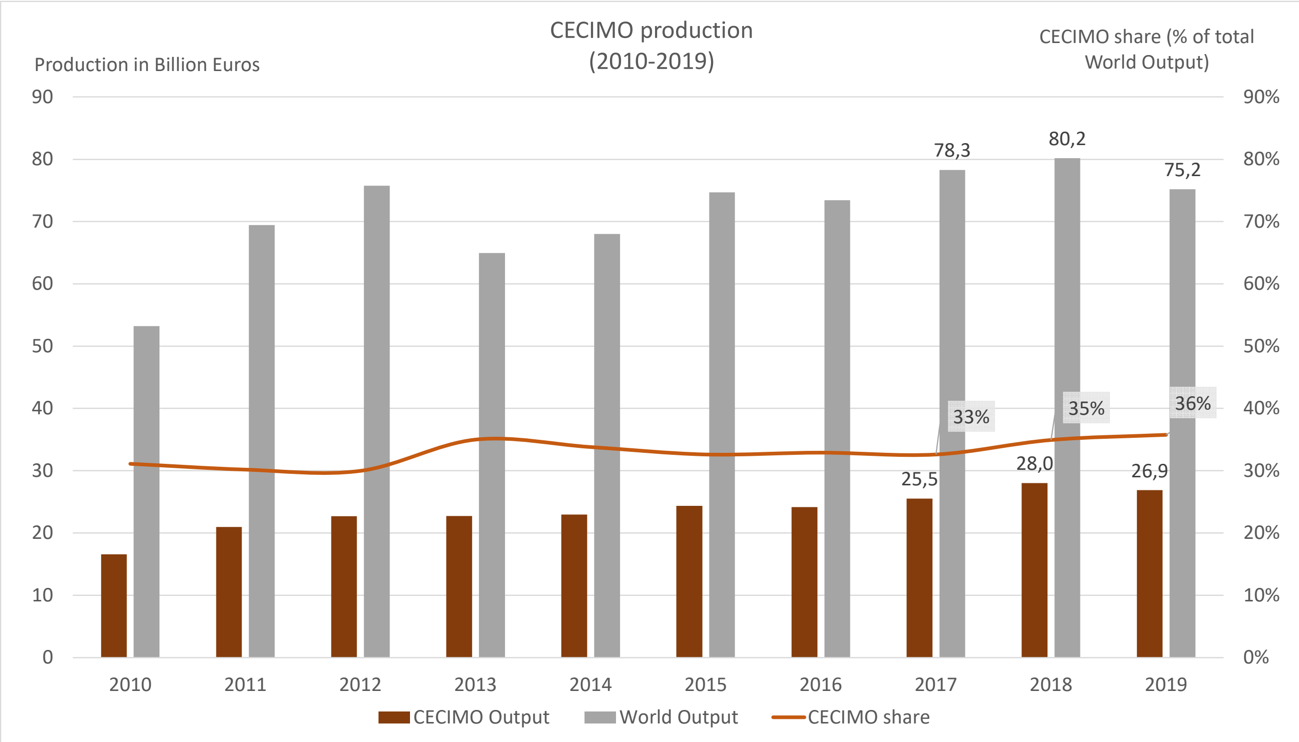
Machine tool export and import figures for the second quarter of 2020 are not available at the date of publication of this number of the Economic and Statistical Toolbox.

Once they are published by the source, this section will be updated.

1.3 Production (m)

As in the previous number of the Economic and Statistical Toolbox, CECIMO's total machine tool output in 2019 stands at a volume of 26,9 billion euros.

CECIMO's total production decreased by -4% in 2019 against 2018 levels.

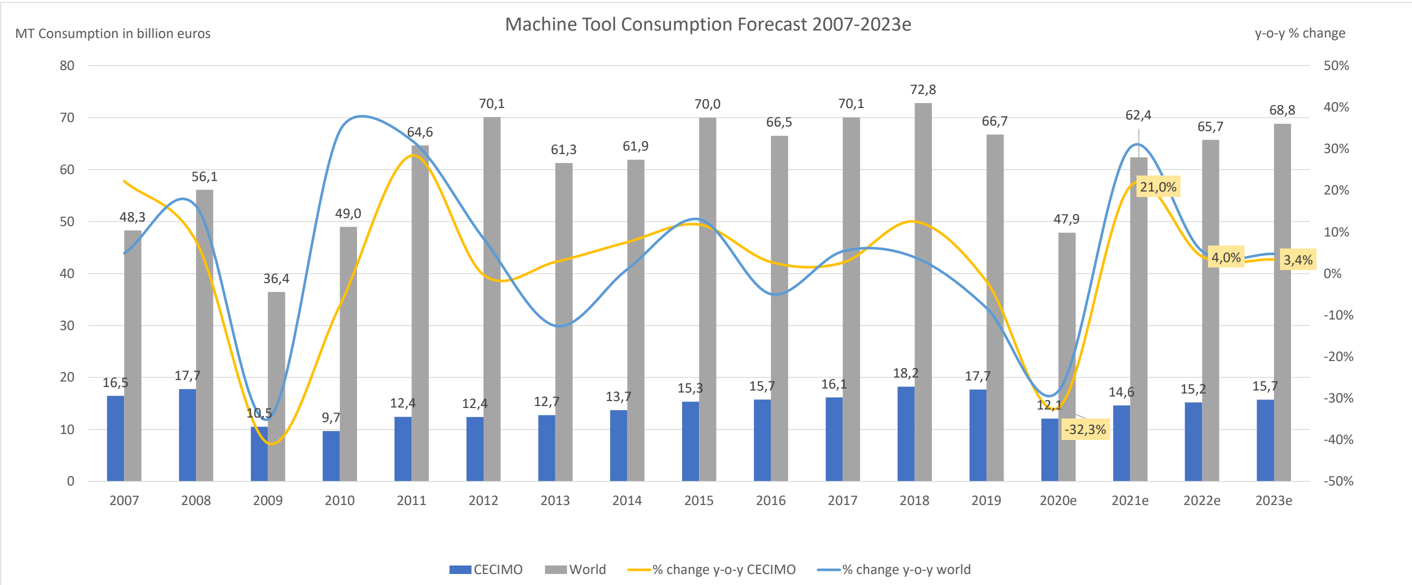


2. Demand

2.1 CECIMO Consumption (m)

Oxford Economics Consumption Forecast

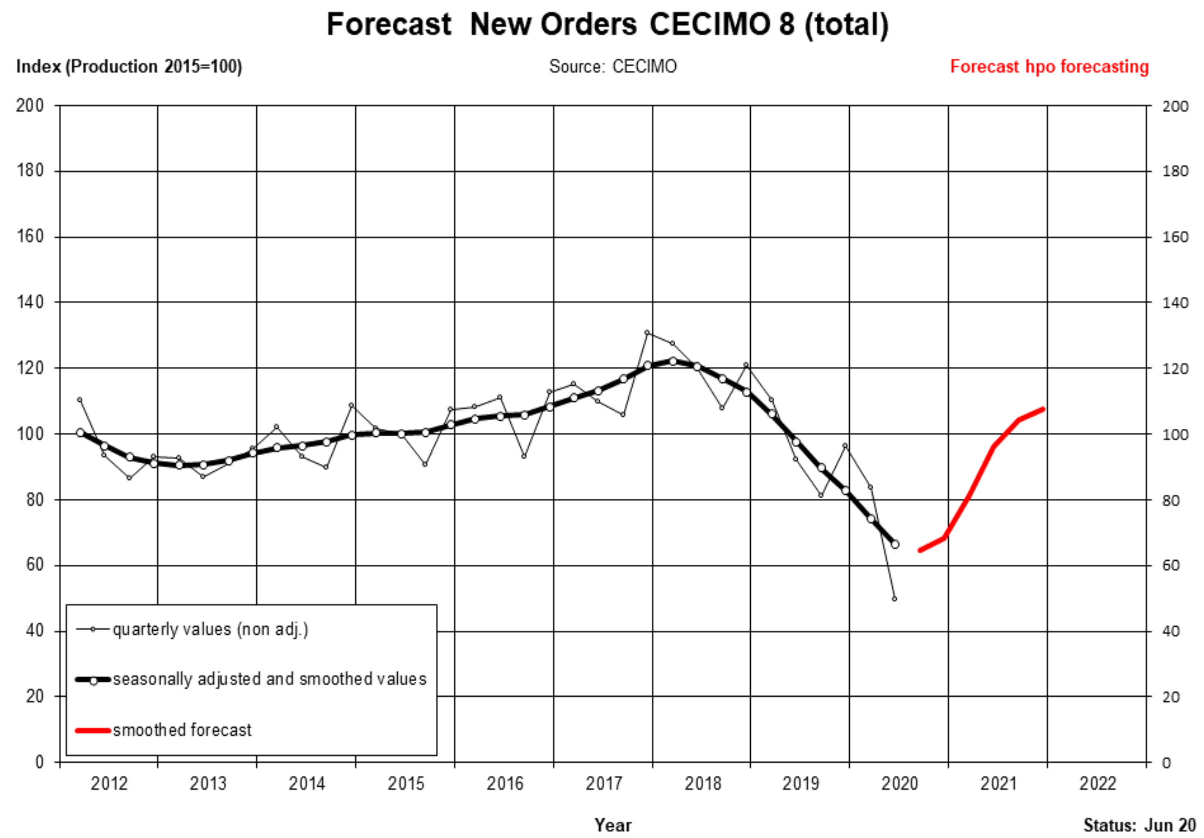
As per the latest available data, CECIMO's total machine tool consumptions currently stand at 17,7 billion euros, marginally below December 2019's volumes (17,8 billion euros). This would mean a yearly decrease of -2,2% (against 2018 volumes).



Oxford Economics Fall 2020 forecast will be available in the upcoming Q3 2020 Economic and Statistical Toolbox.

A preliminary outlook to the text shows that the world machine tool market, heavily strained by the coronavirus health crisis, should go through a mechanical, albeit limited, rebound -both in terms of production and demand- in Q3 2020. However, long-term trends in the sector show a divergence between European, American, and Asian markets and weaker rates of recovery as of 2021.

2.2 Peter Meier / HPO CECIMO8 Orders Forecast (m)



In April 2020, new passenger cars and light trucks registrations recorded its lowest figures in 60 years across developments countries. The collapse in automobile demand is indicative of a troubling juncture for durable consumer goods in Q2 2020. Durable and capital goods consumption has fallen drastically due to the lockdown measures implemented in the Americas, Europe and Asia.

Demand is expected to pick up after the lockdowns are lifted, but HPO foresees consumption levels to remain below pre-crisis levels.

In order to endure the negative effects of the pandemic, companies have either resorted to short-time working schemes, layoffs or other forms of cost-reduction measures.

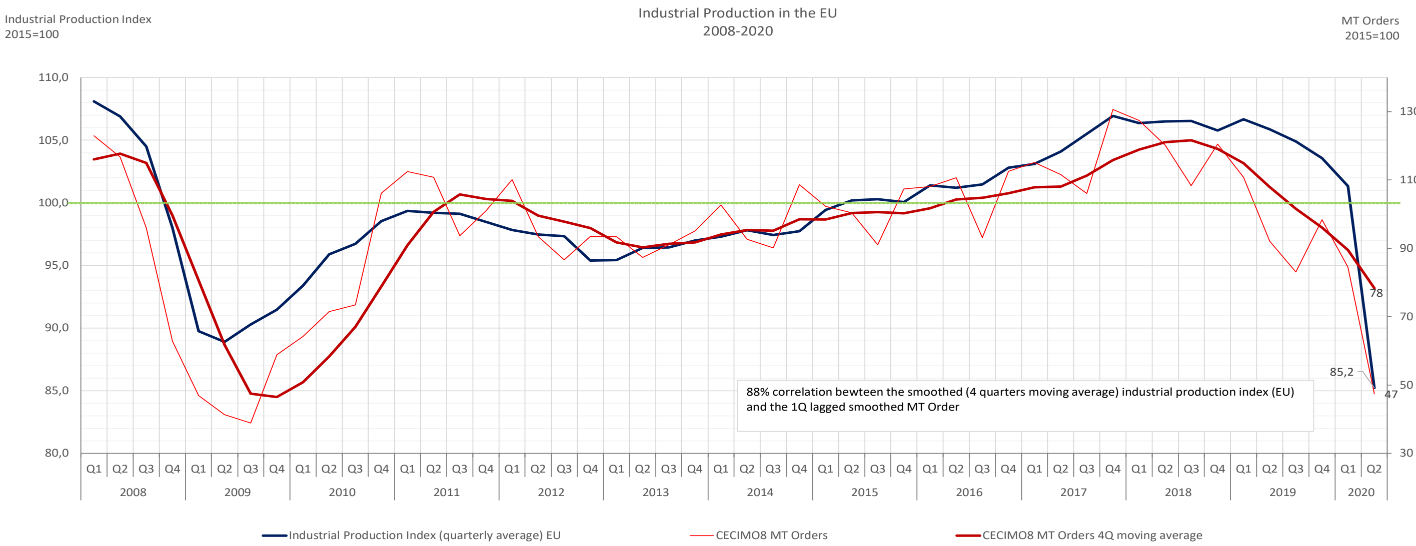
Layoffs might become more widespread as business conditions deteriorate. Since curable consumer goods consumption will remain weak, this will spill over to an already distressed capital goods industry, as slumping consumer goods builders are restraining both new and replacement investment in machinery.

HPO ascertains that a partial, short-term recovery in retail sales will take place, but overall consumption will remain below pre-crisis levels.

Industrial production will recover at a slower pace in key markets, apart from China. European and US output is below end of Q1 2020 levels, while Japan industrial volume is still comparatively very low. China, however, has witness a rapid recovery of its industrial activity since the lockdown was lifted.

In terms of business sentiment, it has recovered rapidly in the three major economic regions after the lockdown measures were softened. However, caution is advised, as the economic scenario remains uncertain.

2.3 Industrial Production Index (M)



Source: Eurostat + CECIMO

EU27 industrial production decreased by -19,3% in Q2 2020 against the same quarter of the previous year. Over the same period, Eurozone industrial output fell at a slightly faster pace, registering a -20,3% yearly negative growth rate.

The average value of industrial production in EU27 during Q2 2020 was 85,2, which is clearly below the 100-points threshold and the 105,6 score of Q2 2019. The Eurozone average score is also moderate: 83,3 point (more than 20 points below that of Q2 2019).

It is worth noting that these figures show a further decline of industrial output, worsening the Q1 2019 scores. This is mainly due to the fact that April 2020 saw both EU 27 and Eurozone industrial activity go down by more than -27% on a yearly basis, which is the largest decrease since Q2 2009, in the midst of the financial crisis.

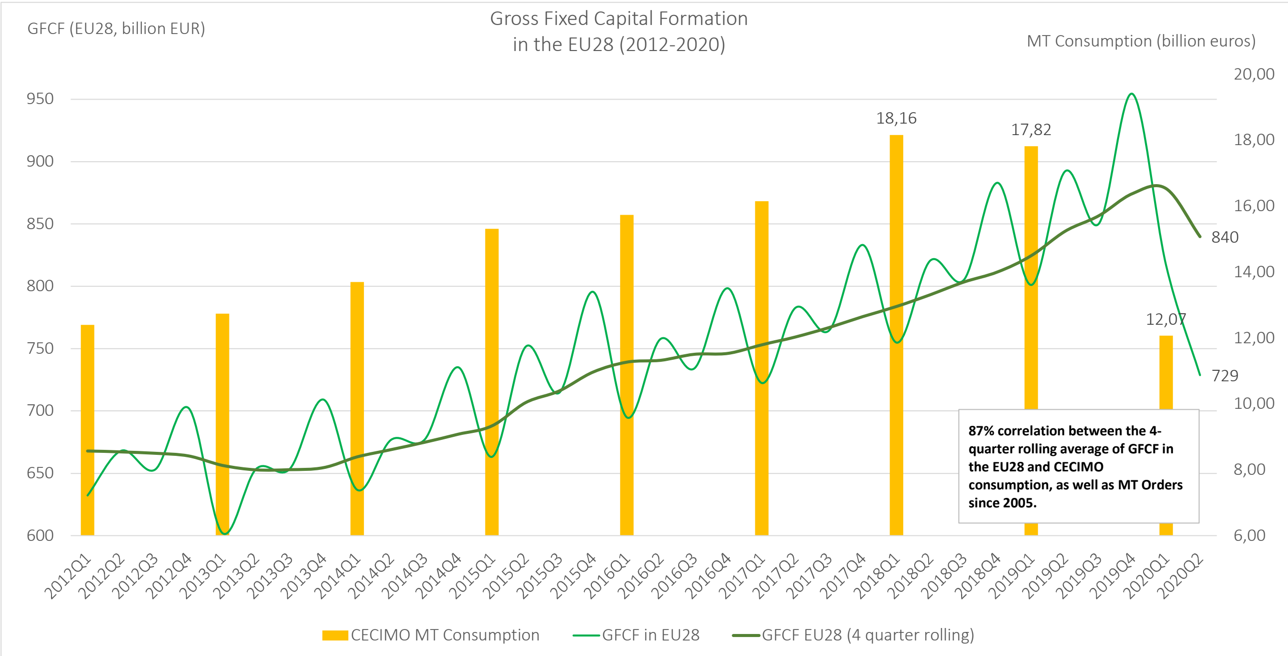
Nevertheless, considering the latest available figures on Eurostat, overall industrial production has improved slightly in June 2020. The juncture still shows a significantly curtailed activity at industrial level, but the speed of decline has moderated, especially in key branches such as capital goods and durable consumer goods.

The question remains as to whether this recovery will continue or if it is a short-term upward adjustment caused by the progressive lifting of lockdown and containment measures. This will be addressed in upcoming editions of the Economic and Statistical Toolbox.

EU 28 (y-o-y % change)	June 2019/ June 2018	Jul 2019/ Jul 2018	Aug 2019 / Aug 2018	Sep 2019/ Sep 2018	Oct 2019/ Oct 2018	Nov 2019/ Nov 2018	Dec 2019 / Dec 2018	Jan 2020/ Jan 2019	Feb 2020/ Feb 2019	March 2020/ March 2019	Apr 2020/ Apr 2019	May 2020/ May 2019	June 2020/ June 2019
Total industrial production	**-1,8%**	**-1,3%**	**-2,0%**	**-1,2%**	**-1,7%**	**-1,3%**	**-3,9%**	**1,5%**	**-1,3%**	**-11,8%**	**-27,2%**	**-20,5%**	**-12,3%**
Capital goods	-3,2%	-2,3%	-2,9%	-1,0%	-2,8%	-2,1%	-0,6%	-2,0%	-3,1%	-20,0%	-27,3%	-29,5%	-16,4%
Durable consumer goods	-0,8%	1,8%	0,1%	0,8%	1,7%	1,9%	-0,9%	2,6%	1,5%	-21,7%	-27,8%	-23,2%	-7,5%
Intermediate goods	-3,0%	-2,3%	-2,7%	-3,3%	-3,0%	-2,3%	-4,9%	-1,5%	-0,2%	-10,1%	-14,9%	-18,5%	-11,9%
Energy	0,3%	-1,5%	-2,9%	-2,5%	-2,6%	-1,5%	-3,0%	-5,8%	-1,7%	-6,4%	-5,0%	-10,6%	-9,1%
Non-durable consumer goods	1,2%	1,7%	0,0%	2,4%	2,7%	1,8%	0,9%	1,3%	0,5%	-0,3%	-10,7%	-13,4%	-6,0%

3. Investment

3.1 Gross Fixed Capital Formation (M)



Considering the latest EU 27 and UK figures altogether, gross fixed capital formation decreased by a significant -18% in Q2 2020 against Q2 2019. It is the first yearly decrease in capital investment in seven years, the last one taking place in mid-2013.

In absolute terms, Q2 2020 investment amounted to 727 billion euros, a considerably smaller figure if we considered the 892 billion euros registered a year earlier.

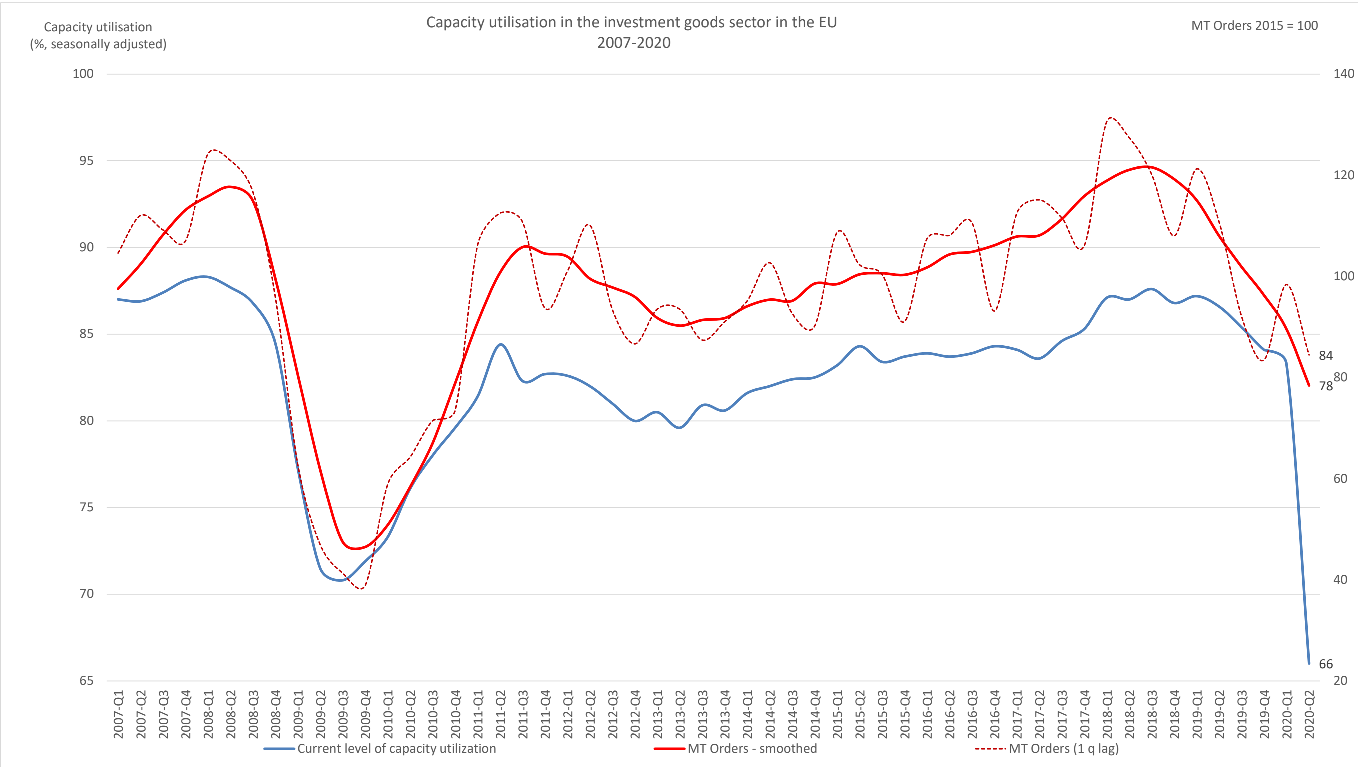
The early round of the pandemic (late Q1 2020) led to a more moderate yearly growth of investment, but as the coronavirus spread, straining domestic markets across Europe, business expectations have waned and, with this, investments.

As to the quarterly performance of investment, Q2 2020 improves slightly from Q1 2020's -14% quarter on quarter decrease, recording a -11% drop. Again, it is not certain this would break the trend, but is an indication of the short-term changes that have taken place in the period of just three months.

3.2 Capacity Utilisation in the Investment Goods Sector (M)

The latest the European business survey on investments confirms the -24% yearly decrease in EU28 capacity utilization in Q2 2020, as was anticipated in the previous number of this publication.

This quarter's rate of capacity utilization is 66%, lowest rate recorded in 25 years, far worse than the 70% score registered during the crisis ridden Q3 2009.

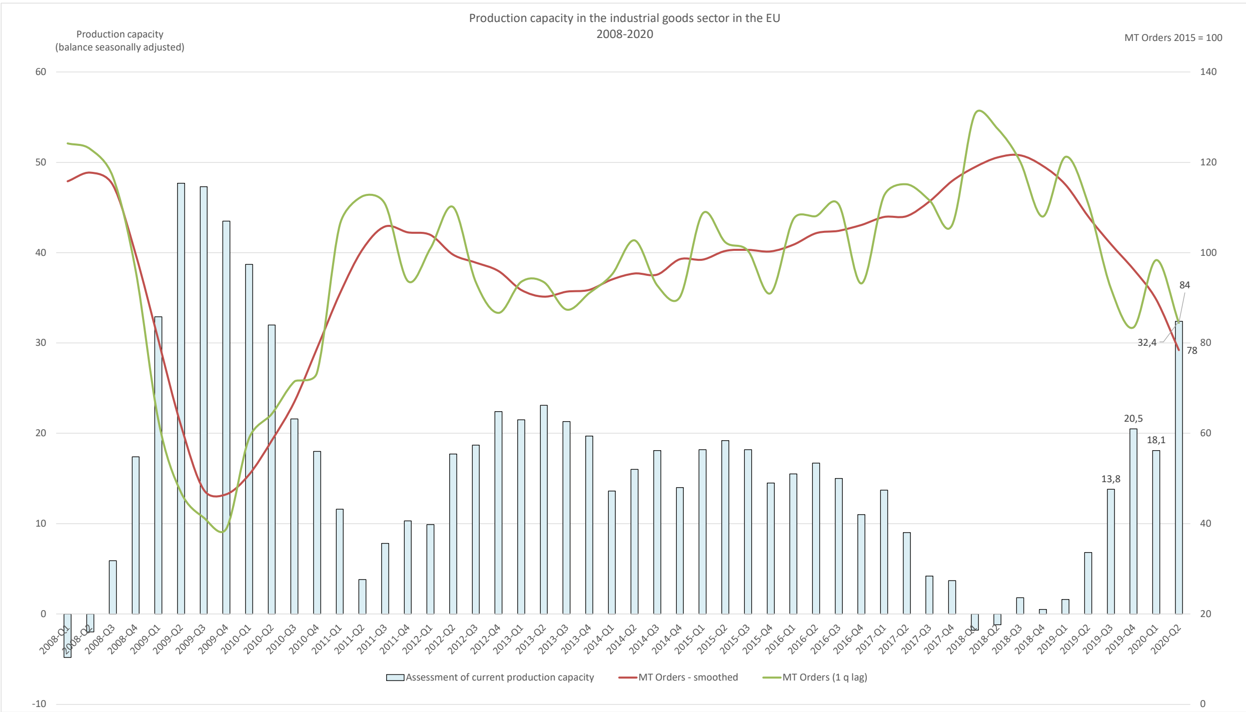


Capacity Utilisation (% of total capacity)

	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Austria	87,8	87,3	86,2	85,4	74,2
Czech Republic	85,5	85,4	86,9	86,9	47,7
France	88,3	87,3	85,7	84	62
Germany	89,5	87,9	85,5	85,5	65,9
Italy	78,7	77,8	77,9	76,9	
Spain	87,5	87,5	87,9	85,4	81,8
United Kingdom	81,2	80,0	82,9	82,9	57,5

EU 28 production increased to 32,4% in Q2 2020 from 18,1% in the previous quarter. As mentioned in the previous number, European company managers consider their production levels to be more adequate to their overall activity than at the early stages of 2020.

As the heath crisis has led to a severe disruption of manufacturing, businesses have been forced to adapt their production, staff, and organization to a whole new set of economic and business safety challenges.



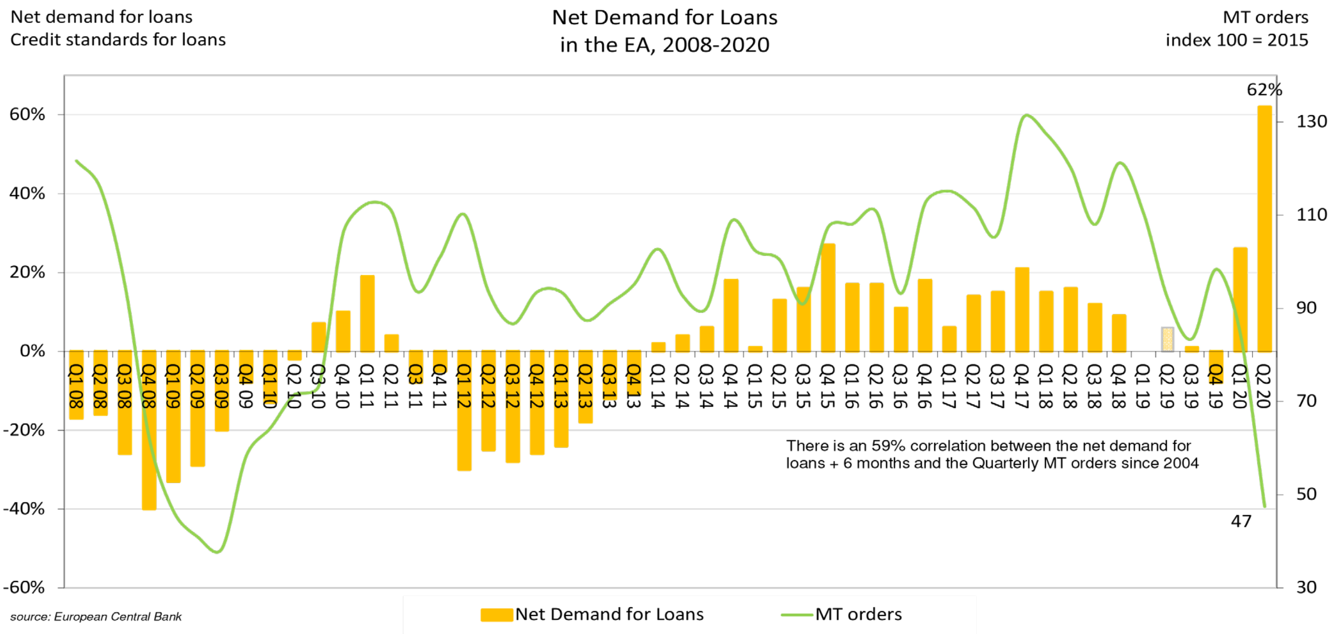
Production Capacity (balance in %)

	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Austria	6,1	11,7	22,5	18,7	35,8
Czech Republic	27,4	27	28,9	33,5	19,2
France	-11,4	-4,7	-4	-1,1	15,8
Germany	9,6	22,1	33	25,7	46,5
Italy	20,7	24,6	25,5	27,6	
Spain	0,4	-2,1	13,2	7,8	13,7
United Kingdom	14	25,7	41,2	0,3	47,1

3.3 Bank Lending Survey (M)

During the second quarter of 2020, European companies demand for loans increased dramatically, most notably among manufacturing and trade firms.

Firm's net demand reached its highest level since the bank lending survey was launched in 2003, standing at 62% in Q2 2020, due in great part to an increased demand for working capital and the need to build-up liquidity buffers.



Since the aim of the demand is essentially to protect businesses from unforeseen sways in the economy, new loans could potentially help counteract a weakened investment in capital goods environment, which has been outlined above. Net demand for loans is nevertheless expected to drop significantly by Q3 2020 by the European Central Bank, as the juncture stabilizes in the short term.

Credit standards for loans to enterprises remained broadly unchanged, if not tightening slightly, in the second quarter of 2020 (net percentage of 1%, as opposed to 4% in Q1 2020). However, it is worth noting that credit standards on loans to companies have tightened in Germany, whereas they have eased in Spain, Italy and France, which were heavily hit by the pandemic.

The fact that internal lending standards remain generally favourable for companies is due to European Central Bank's long-running expansive monetary policy and, more recently, to fiscal and extraordinary recovery measures, such as government-supported loans, laid out both the European Union and Member States.

This combination of policies has provided European private banks with solid ground to lend under a situation of economic duress, something that contrasts greatly with the financial and sovereign debt crisis of 2011-2012.

- Banks' overall terms and conditions -that is, the ones agreed upon in the loan contract- for new loans to enterprises slightly tightened in the second quarter of 2020 (with a net percentage score of 2%, following Q1 2020's 9%.

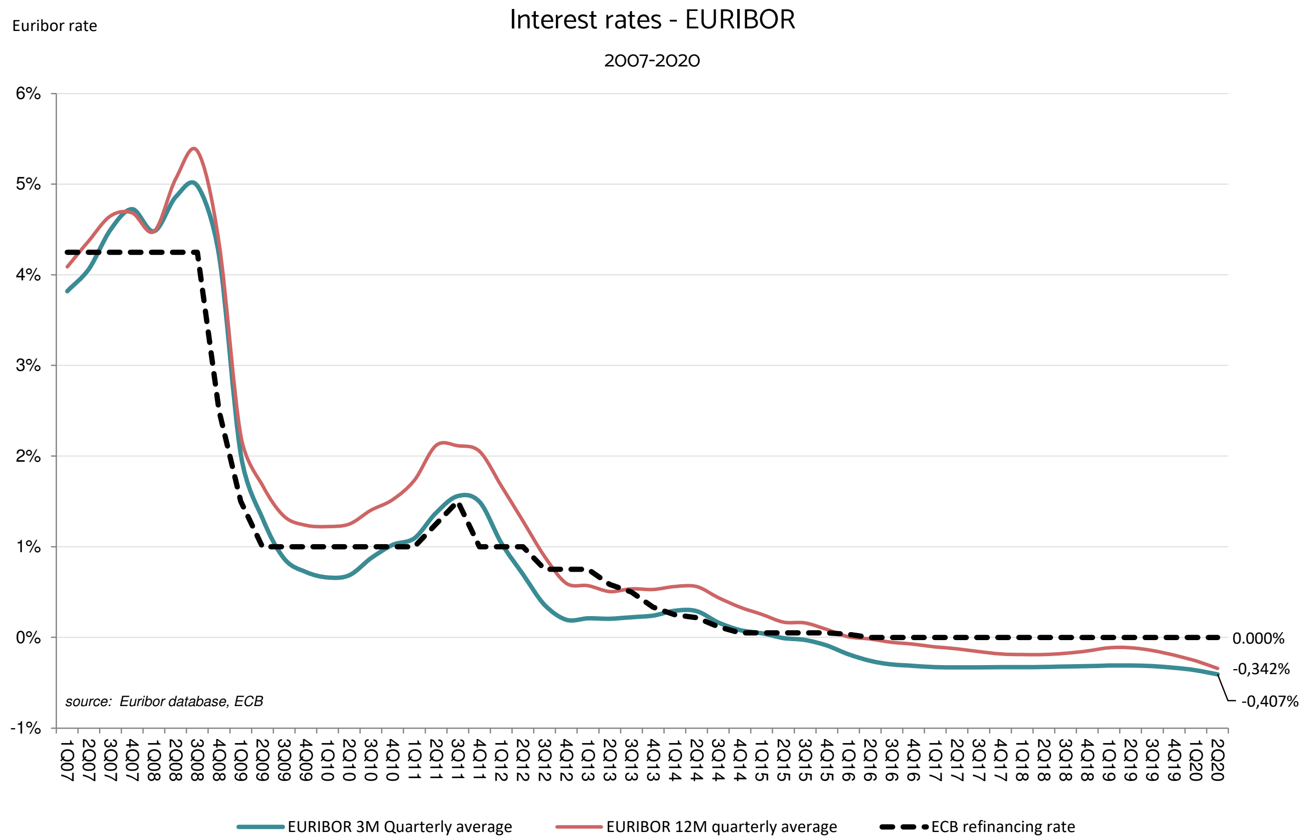
- The rejection rate for loan applications from enterprises decreased. Euro area banks reported that the net share of rejected applications for loans to firms decreased (-12%, after 9% in Q1 2020).

- Loan demand was higher for SMEs (net percentage of 61%) than for large firms (47%) and significantly higher for short-term loans (net percentage of 60%) than for long-term loans (11%), which is consistent with the aforementioned need for emergency liquidity.

Overall, the main drivers of Q2 2020 demand for loan at corporate level were inventories and working capital emergency needs, while fixed investments has had a negative contribution on loan demand altogether.

3.4 Euribor - Interest Rates (M)

As of Q2 2020, the ECB refinancing rate remains unchanged at 0,00%. The EURIBOR 3-month average is -0,407%, while the 12-month average stands at -0,342%.



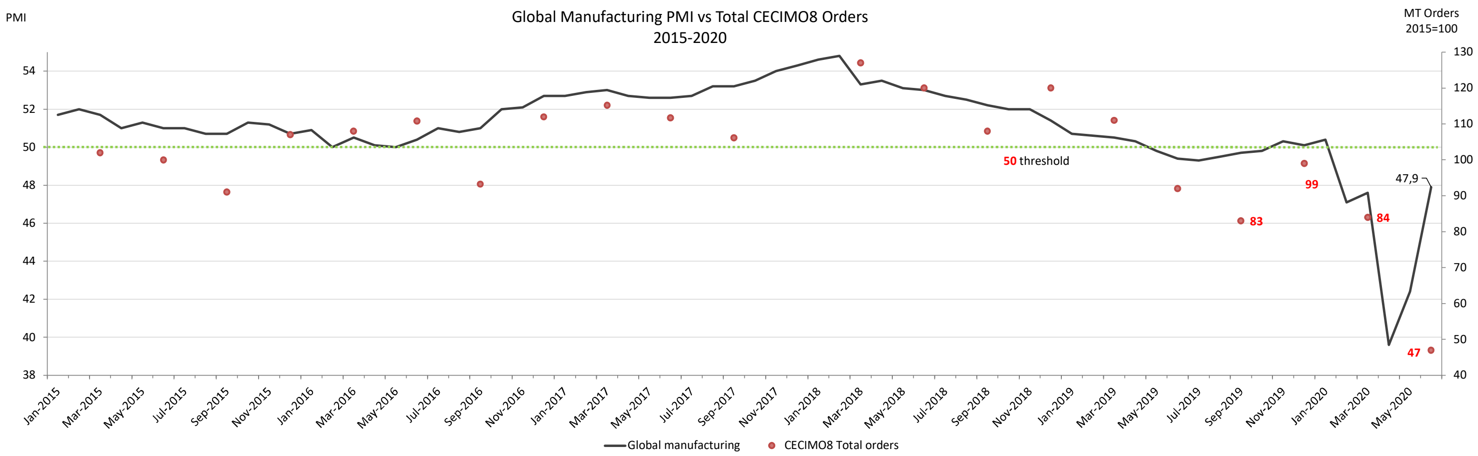
4. Business Climate

4.1 CECIMO Business Climate Barometer (m)

The Business Climate Barometer is a quarterly survey that assesses CECIMO-based companies' current business sentiment and expectations for the next quarter.

The Business Climate Barometer will not be published in this edition of the Statistical Toolbox, as it is under review.

4.2 Purchasing Managers Index (M)



Global Manufacturing PMI

Global Manufacturing PMI rose by a record 5.4 points to 47.8, up from 42.4 in May.

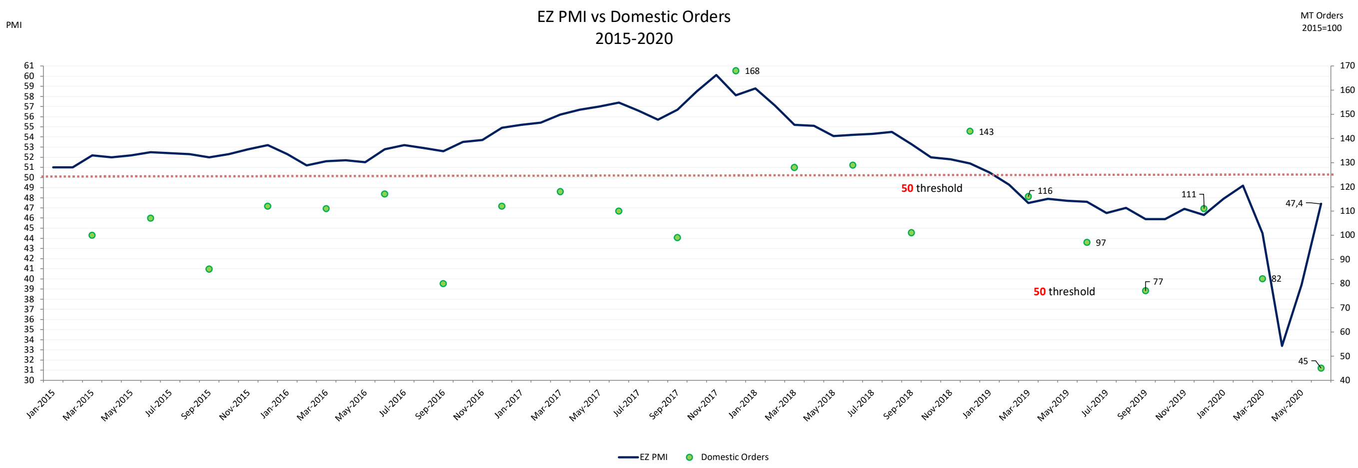
Measured overall, the rate of decline in global manufacturing production was the weakest during the current five-month, pandemic-driven economic cycle. The downturns in consumer, intermediate and investment goods sectors also slowed sharply, and seem to be headed to a near-term stabilization.

In June 2020, output grew in China, France, Italy, the UK and Brazil, while the downturn eased in the US, Japan, Germany, South Korea and India. Among key industrial countries, Mexico saw a steeper pace of contraction than in May's PMI survey.

New orders have gone down for the fifth successive month in June, although the pace of the decreased has moderated notably. Trade in manufactured good, in the meantime, remains sluggish.

The restrictions and lockdowns in place to combat the COVID-19 pandemic continued to exert stress on global supply chains in June.

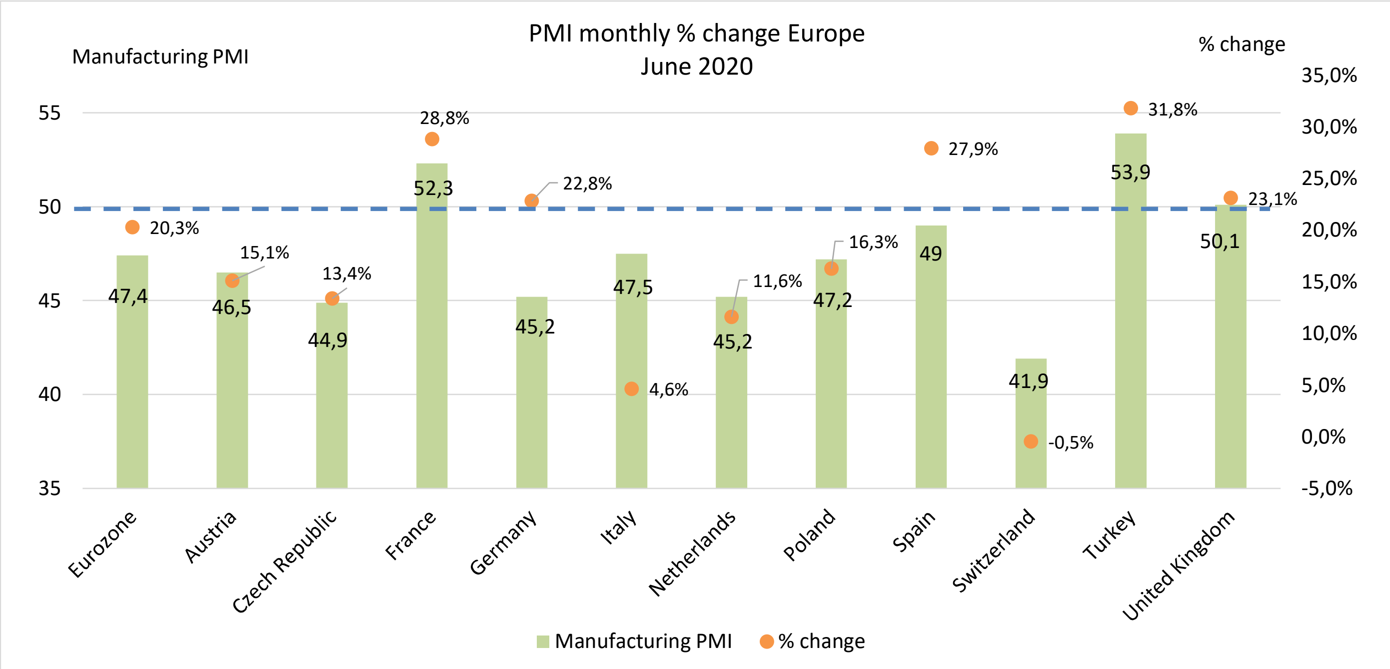
Eurozone Manufacturing PMI



As the global coronavirus disease (COVID-19) restrictions ease on economic activity, the Eurozone manufacturing activity slowly starts to pick up its pace. In June (last month of Q2 2020), the Eurozone's Manufacturing PMI was a four-month high 47,4, an improvement against May's 39,4 reading.

Manufacturing output declined slightly in June and to a lesser degree than in late Q1 2020. However, Demand for industrial goods, whether durable good or machinery, remains weak: Q2 2020, as mentioned in the first part of this report, has witness a notable reduction in total new orders (although at its lowest pace in almost four months). New export sales were also down, declining for a twenty-first consecutive month.

European manufacturing companies are operating well below capacity during June. Working hours have been cut and overall workload is lacking. Employment has fallen for 14 straight months, but at a quicker pace during the current quarter. Manufacturing employments have gone down across Eurozone countries, especially in Germany, Italy and the Netherlands.



Austria

Austrian Manufacturing PMI increased to 46,5 in June 2020 from 40 points in May. The latest reading signals the weakest GDP decrease in four months, as coronavirus containment restrictions slowly ease in the country. Manufacturing output also went down at its softest pace in the four-month sequence of contraction, while new orders dropped at the slowest rate since February, driven by an improved domestic demand. Business sentiment among manufacturing managers remained negative, as there are still concerns about the long-term weakness of demand and consumption.

Czech Republic

Manufacturing PMI in the Czech Republic rose to 44,9 in June 2020 (39,6 in May), a reading slightly below the one originally forecasted for the nation's manufacturing sector (45). Manufacturing output went down for the fourth consecutive month, but at a softer space, coinciding with the easing of containment policies. New orders have also decreased, yet at a weaker rate. Like in other European countries, Czech industrial firms have reduced their workforce, given the overall weakness of demand, especially at retail level. Company managers, notwithstanding the previous, expect demand to surge when the Czech domestic and client markets reopen, prompting them to have a positive outlook of the economy.

Germany

Manufacturing PMI for Germany was revised higher to 45,2 in June of 2020 from a preliminary of 44,6 and 36.6 in the previous month. It is the highest reading in 3 months. However, the contraction in the manufacturing sector in Germany has contracted sharpy, now in its 18th straight month of decreasing activity. Following a severe disruption in supply chains, industrial output, new orders and employment levels have gone down as well, but the rate of decrease is lower than in previous months. German manufacturers are optimistic as to the second half of 2020 and 2021, though employment is still relatively low, and the industry has a significant un-used capacity.

Spain

Spanish Manufacturing PMI increased to 49 points in June of 2020, a significant improvement from May's 38,3 reading. Spain's PMI remains below the 50-point threshold since February 2020. Manufacturing output and order intake continue in a downward spiral, but these indicators seem to be decreasing at a slower pace as of the end of the second quarter. Job cuts have reached 2009 levels, while the industrial operating rate plummets. June has nevertheless seen a boost in business confidence, given that the country's pandemic measures have softened, and companies are slowly reopening.

France

Manufacturing PMI for France rose to 52,3 in June 2020. The reading pointed to the sharpest contraction since September 2018. Industrial output in France increased the most since Q1 2018 and new orders have increased for the first time in five months, mainly due to a boost in domestic demand. Exports, however, not performed as well. French manufacturers share an optimistic near-term outlook on the economy, given the progressive easing of containment measures.

Italy

Italian Manufacturing PMI increased to 47,5 in June, up from 45,4 points in May. Although an improvement, end of quarter PMI was below market expectations. The results for Italy show a 21-month contraction in factory activity. Industrial output increased for the first time in nearly two years, but demand remains weak, as new orders falling again.

Switzerland

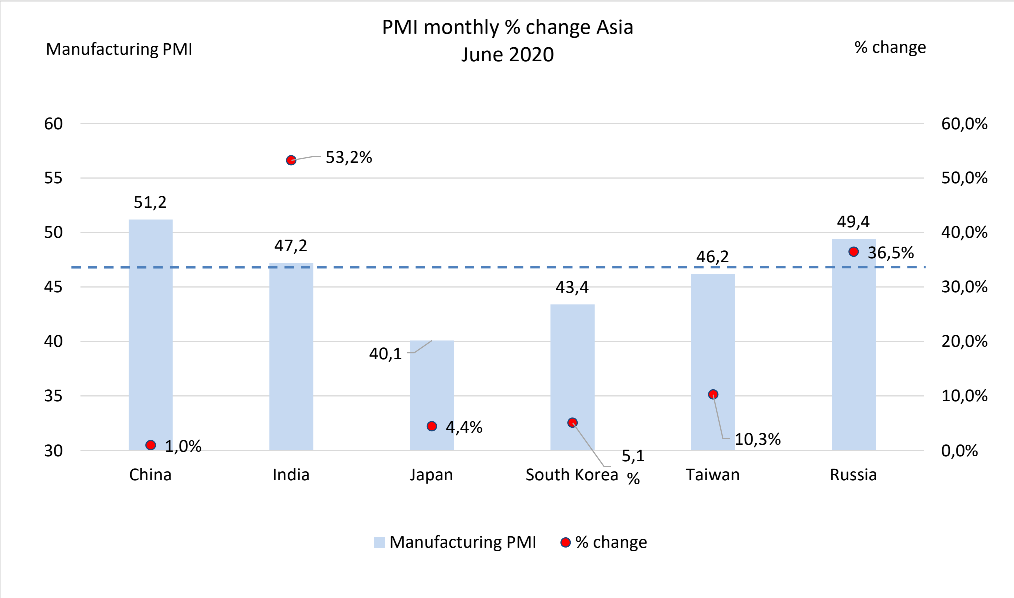
Swiss Manufacturing PMI fell to 41,9 in June of 2020 from 42,1 in May. The index only improves slightly against the May and June's score is well below the forecasted score 48,3. This reading would indicate a deep contraction of manufacturing activity, driven a declining employment. Production and new orders however contribute strongly to the current score, even though the overall performance is weak. Capital investment has been halted and managers are clearly avoiding risks.

Turkey

The country's manufacturing PMI rose to 53,9 in June of 2020 from 40,9 in the previous month. The results from the Turkish survey show the first expansion in the manufacturing sector since February, driven by the easing of the national containment policies.

United Kingdom

The United Kingdom's Manufacturing PMI was confirmed at threshold-level 50,1 in June 2020, up from 40,7 in May. This score suggests that the British manufacturing sector has stabilized after a sharp decline amid the coronavirus pandemic and ensuing containment measured. Industrial production increased slightly in June after four months. New orders intake, conversely, decreased, but a slower rate than in previous months. In terms of business sentiment, the latter increased to a 21-month high at the end of Q2 2020. Coronavirus related restrictions are expected to loosen in the third quarter, which would favour demand.



China
Chinese Manufacturing PMI rose to 51,2 in June 2020 from 50,7 in the previous month. This was the highest reading since December 2019. Manufacturing output has increased, along with new industrial orders. Chinese exports, however, continued to fall due to a lacklustre global demand. Finally, business sentiment has reached its highest level since the pre-coronavirus period.

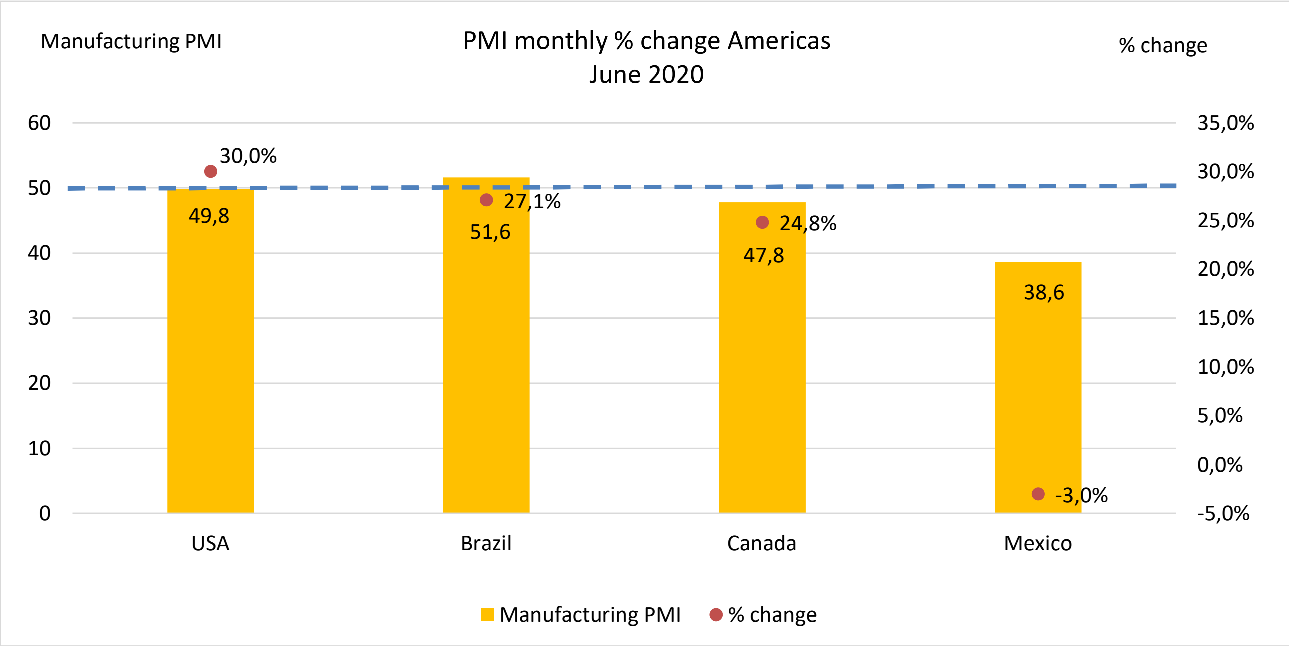
India
Manufacturing PMI increased in India to 47,2 in June 2020, following a very weak 30.8 in May. Despite the notable index score increase, the latest reading pointed to a third straight monthly decrease in manufacturing activity. Both output and new orders fell at slower pace, while export dropped for the fourth month in a row.

Japan
Japan Manufacturing PMI was revised to 40,1 in June 2020 following the 37,8 in May. The Japanese economy is suffering from a protracted impact of the pandemic. June's PMI survey shows a 14-month contraction, prompted by fall sharp rates on individual items, namely new orders, industrial output, employment and purchasing activity. Even though the economic situation in Japan is on the downside, business sentiment jumped back into positive territory for the first time since February.

South Korea
South Korea's Manufacturing PMI increased to 43,4 in June 2020 from 41,3 in the previous month. Junes is the sixth straight month of contraction in South Korean manufacturing, mainly driven down by the global pandemic. Industrial production and order intake decreased, as domestic and overseas demand remain in negative territory. South Korean firm managers have a pessimistic outlook about the future performance of the economy, due to the uncertainty and a potentially sluggish recovery.

Taiwan
Manufacturing PMI rose in Taiwan to 46,2 in June 2020 (41,9 in May). The increase was due in great part to an easing of containment policies, as in other countries. Industrial production, new orders and manufacturing jobs all decreased in June, but the fall rate was more moderate. Exports, given the weakness of foreign demand, are still decreasing. The countries supply chain, given the previous factors, remains heavily strained and input delivery time decreases. Nevertheless, business sentiment transitions to positive ground since managers expect the economic situation to improve once manufacturing demand restarts.

Russia
Russia Manufacturing PMI jumped to 49,4 in June 2020 (from 36,2 in May). Russia's manufacturing sector declined, albeit at its slowest rate since May 2019. Industrial output increased at its fastest pace since Q2 2019, following the reopening of factories, while new orders also increased. Exports also grew, albeit slowly, while domestic demand remains weak. Hopes for a surge in demand has improved business sentiment in the country's manufacturing sector.



United States

Manufacturing PMI in the United States was recorded at 49,8 in June of 2020, slightly below the 50-point threshold. US manufacturing deteriorated marginally at the end of Q2 2020. A greater fall was averted due to the reopening of businesses and to retail activity being restarted. Coronavirus containment measures have loosened by the end of the second quarter, contributing to this restart. Production continues to go down, but new orders have increased, helping manufacturing stabilize. American manufacturers are optimistic about the second half of 2020 and 2021.

Canada

Canadian Manufacturing PMI rose to 47,8 in June 2020 from 40,6 in the previous month. Factory activity contracted once again, but it did so at a slower pace, thanks to the easing of social distancing and confinement policies. Both manufacturing and new order intake fell at the slowest rate since the start of the pandemic, indicating a slowly improving environment for Canadian industrial companies. A recovering demand and the potential of rebound of production has driven up business sentiment.

Mexico

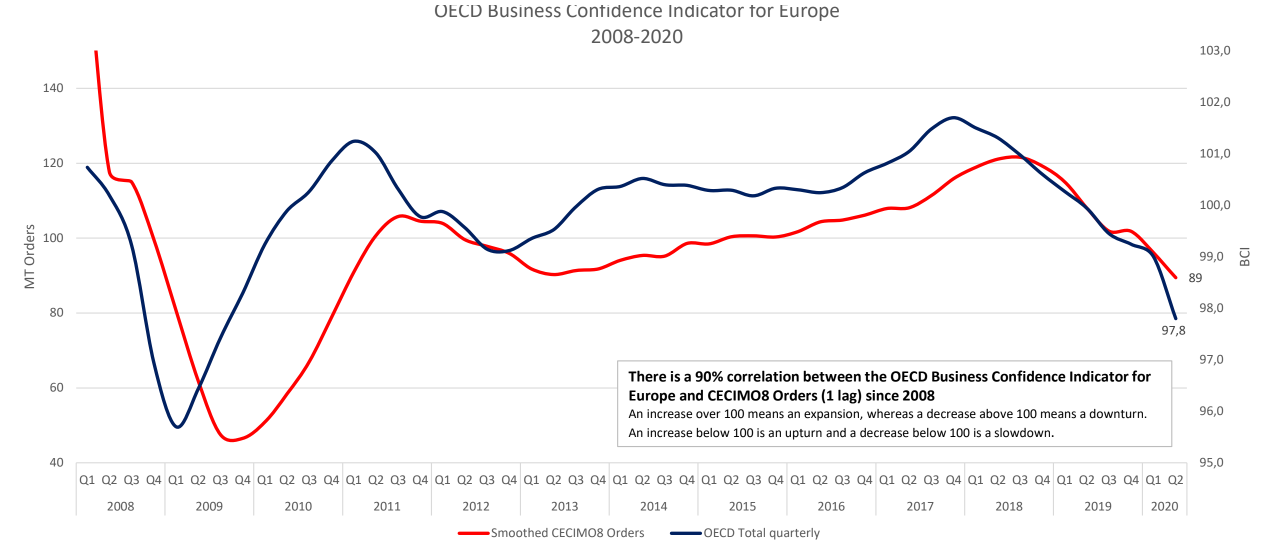
Manufacturing PMI adjusted slightly to 38,6 in Mexico in June 2020, against May's reading of 38,3. Nevertheless, the current Mexican manufacturing PMI scores shows that factory activity in the country has contracted for four consecutive months, which have been scarred by the coronavirus pandemic. Industrial production is down, and operating capacity has been greatly reduced, as factories have been forced to close. Demand for industrial good remains week, while exports drop at a slower pace. Business sentiment, given the previous indicators, is clearly negative.

Brazil

Brazilian Manufacturing PMI reached a relatively strong 51.6 in June 2020, following a dismal 38,3 reading in May. June saw the first expansion in factory activity since March. Output and new orders both grew by the end of the second quarter of 2020, due mainly to the restart of business activity and client demand. Finally, business sentiment improved to a four-month high as the Brazilian production and demand seem to restart.

4.3 OECD Business Confidence Indicator (M)

OECD's Busines Climate Indicator (BCI) readings show a significantly worse-off business sentiment across key domestic markets in Q2 2020. The average BCI quarterly score during this period was 97,8 points, a -2,2% decrease against Q2 2019's average (99,9).

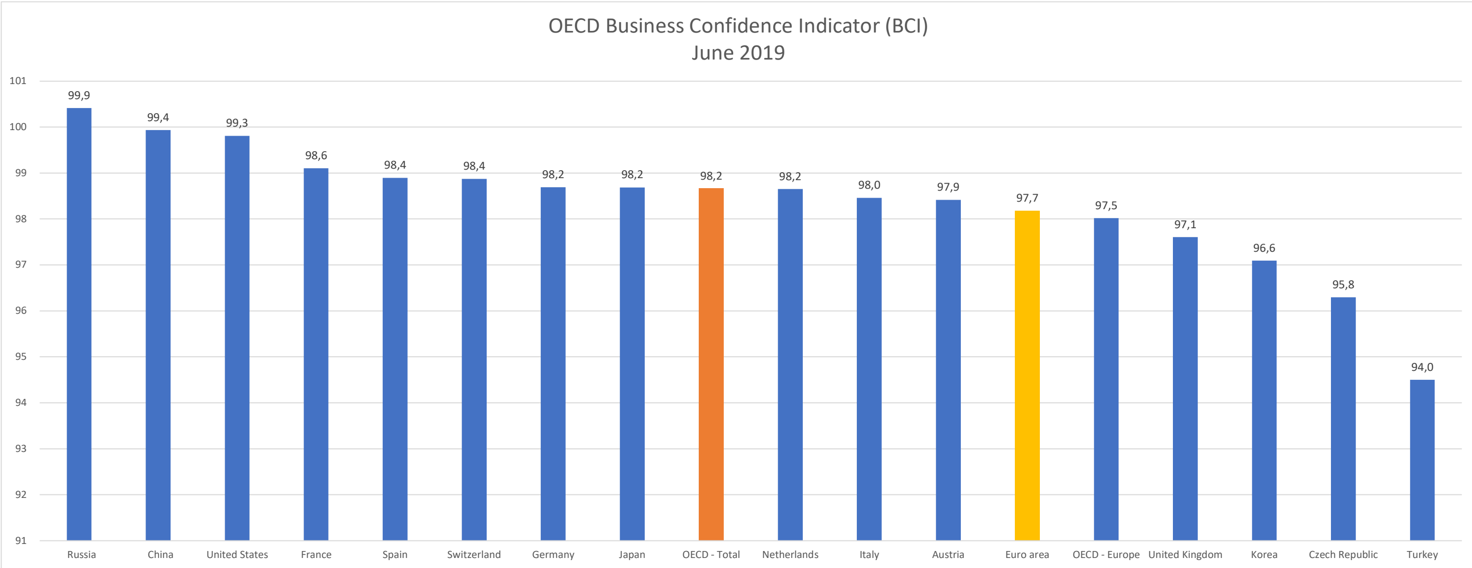


However, monthly short-term movements show that, during June 2020, OECD business sentiment improved for the first time since December 2019, reaching a score of 98,2. This, however, has to be read bearing in mind the broader uncertainty-ridden economic context and, above all, how business sentiment has performed recently.

Therefore, it is worth to consider the following: firstly, the monthly increase (June 2020 against May 2020), the increase was but a meagre 0,65% and the final monthly still remains below 100, which indicates a negative economic outlook. Secondly, compared to June 2019, the reading for June 2020 decreased by -1,8%. Third, if we consider the more significant year on year quarterly change, OECD's BCI readings have decreased consistently since Q3 2018, being Q2 2020 the period that has recorded the fastest rate of deterioration. Thus, the last OECD BCI reading for the Q2 2020 does not constitute a near-term change of trend, as all forecasts and available indicators outline a down-sided economic scenario for the second half of 2020.

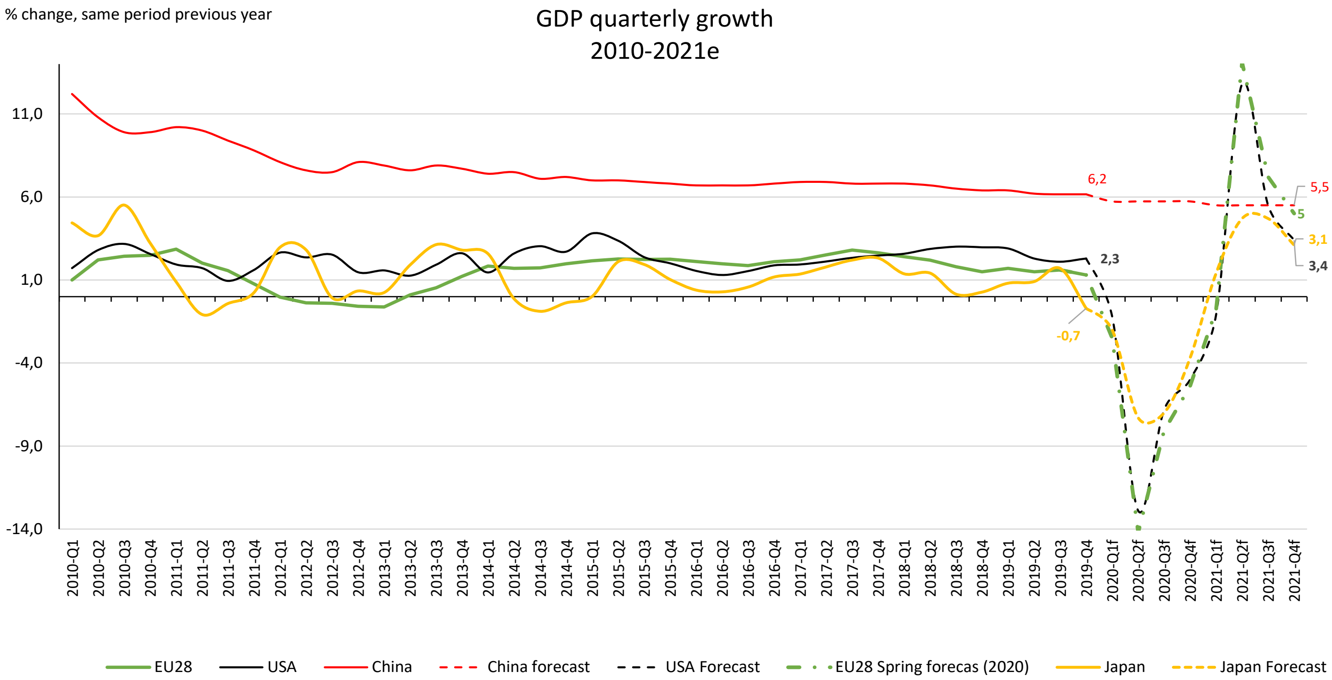
A weak business sentiment continues to be widespread in OECD and partner countries in June 2020, with all relevant domestic markets reporting below 100-point readings:

- Eurozone BCI stands at 97,7, clearly below the OECD total of 98,2 points.
- Among CECIMO countries, only three of them stand above the OECD total: Spain (98,4), Switzerland (98,4), France (98,6). In the meantime, the Netherlands and Germany both share the same score as the OECD general BCI.
- Below the OECD June 2020 line are Italy (98), Austria (97,9) and United Kingdom (97,1)
- Business sentiment seems to more robust, albeit indicative of a weak economic outlook, outside of Europe. Both China and the US score above the 99 points. Russia edges closer to 100, the only country to do so.


OECD Business Confidence Indicator (BCI)
June 2019
101
100
99
98
97
96
95
94
93
92
91
99,9
99,4
99,3
98,6
98,4
98,4
98,2
98,2
98,2
98,2
98,0
97,9
97,7
97,5
97,1
96,6
95,8
94,0
Russia
China
United States
France
Spain
Switzerland
Germany
Japan
OECD - Total
Netherlands
Italy
Austria
Euro area
OECD - Europe
United Kingdom
Korea
Czech Republic
Turkey

5. General Indicators

5.1 GDP (M)



Year-on-year quarterly GDP percentage change in Q2 2020:

- Eurozone GDP has dropped -14,7% in Q2 2020 against the same period in the previous year.
- EU27 economic output decreases -13,9% on the same yearly basis.
- The UK, no longer considered in the EU aggregate, recorded a year-on-year negative growth of -21,7% in Q2 2020.
- Some key foreign markets also continue down the path of yearly negative growth in Q2 2020: Japanese GDP decreases -10,1%, while US GDP decreased by -9,1% o
- The Chinese economy fares significantly better than the rest, as it registers a 3,2% yearly GDP increase in the second quarter of 2020.

According to the latest European Commission forecast, published in July 2020, the Eurozone GDP is expected to go down by -8,7% against 2019's GDP figures. In 2021, the Eurozone should recover partially, with a 6,1% yearly increase.

As to the EU27 aggregate, it will most likely follow a similar trend: a -8,3% drop in 2020 followed by a 5,6% increase in 2021.

- GDP indicators suggest that the economic contraction has picked up speed in Q2 2020 and that different industrial branches have diverted, leading to a wider difference in the performance of domestic market.
- The latest forecast assumes that lockdown and social distancing measures will be gradually lifted, leading to a mechanical rebound of economic activity. However, the risk of second wave of infections is still possible. Economic recovery could therefore be a short-term process.

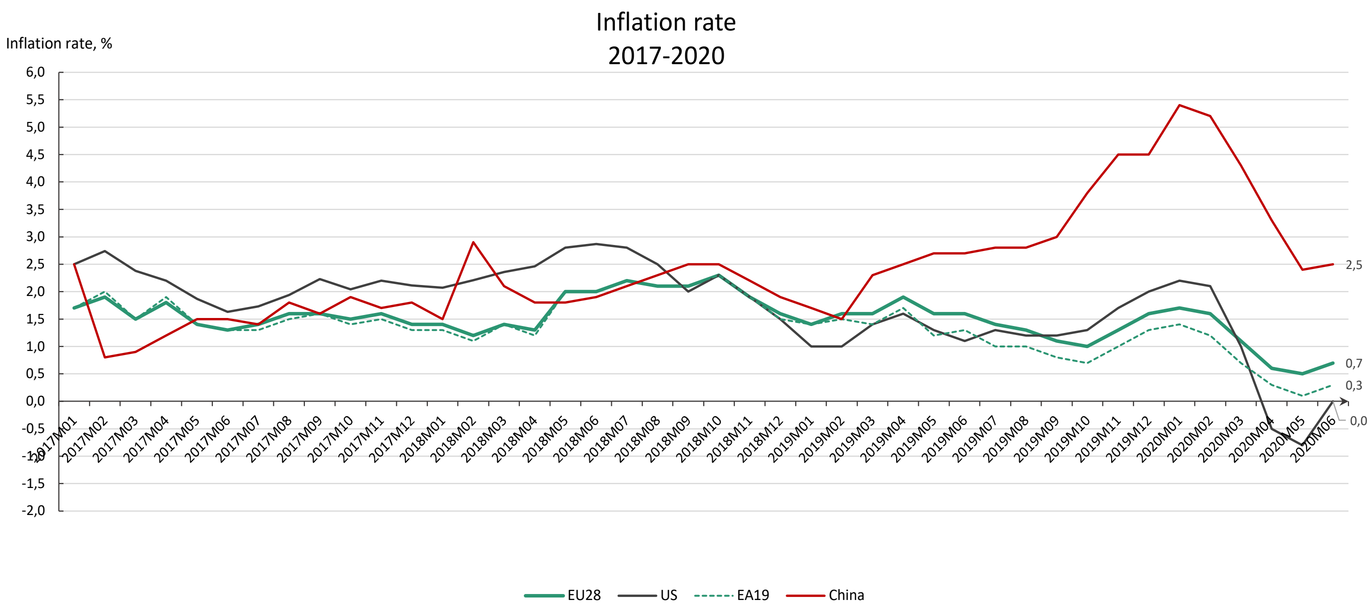
- Furthermore, the scar of COVID-19 is deep. The effects on businesses have been twofold: the pandemic has led to factory shutdown, which has caused significant supply chain strains; secondly, the business environment, distraught already by weak levels of demand, especially in the capital goods sector, has driven firms to delays investments and to build up financial reserves to cope with potential liquidity troubles.

- Thus, as the duration of the pandemic is not known and demand levels remain low, businesses can be prompted to cut down staff and, more importantly, their production volume, further straining the European industrial activity.

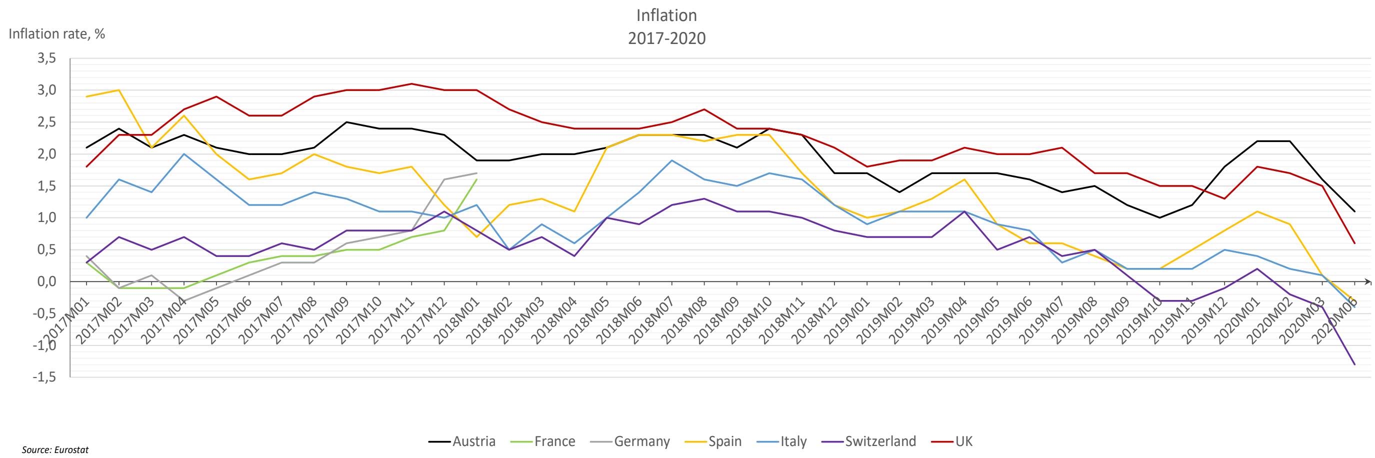
5.2 Inflation (M)

Quarterly inflation data (Q2 2020):

- EU27: 0,7%
- Eurozone: 0,2%
- United States: -0,4%
- China: 2,7%



Deflation has set in in key CECIMO domestic markets. Italy (-0,2%), Spain (-0,6%) and Switzerland (-1,1%) register all quarterly decrease in their national price indexes. In the meantime, inflation levels remain low, edging closer to zero, in Germany (0,7%) and France (0,3%). Austria records a quarterly inflation rate of 1,1%.



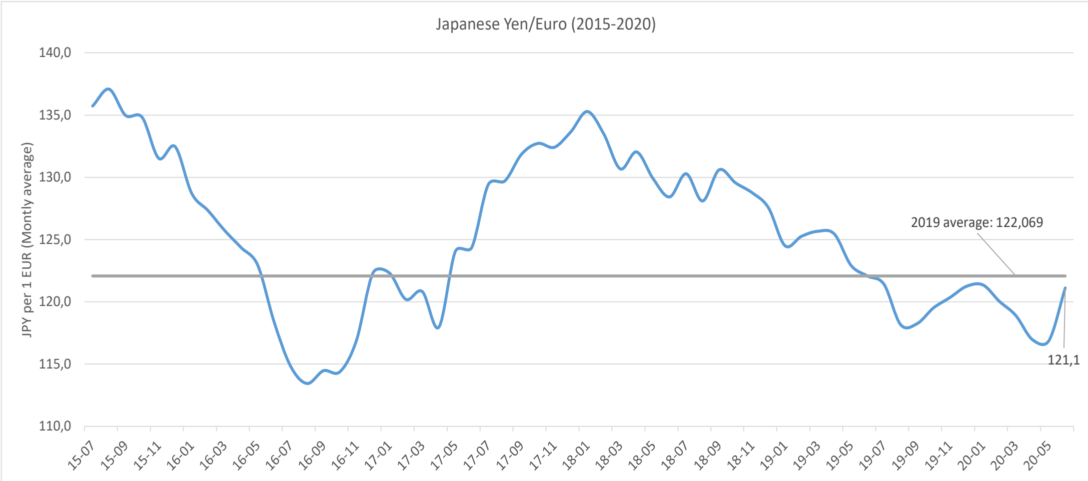
Source: Eurostat

	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
United Kingdom	2	2,1	1,7	1,7	1,5	1,5	1,3	1,8	1,7	1,5	0,8	0,5	0,6
Austria	1,6	1,4	1,5	1,2	1	1,2	1,8	2,2	2,2	1,6	1,5	0,6	1,1
France	1,4	1,3	1,3	1,1	0,9	1,2	1,6	1,7	1,6	0,8	0,4	0,4	0,2
Germany	1,5	1,1	1	0,9	0,9	1,2	1,5	1,6	1,7	1,3	0,8	0,5	0,8
Spain	0,6	0,6	0,4	0,2	0,2	0,5	0,8	1,1	0,9	0,1	-0,7	-0,9	-0,3
Switzerland	0,8	0,3	0,5	0,1	-0,3	-0,3	-0,1	0,2	-0,2	-0,4	-1	-1	-1,3
Italy	0,7	0,4	0,5	0,2	0,2	0,2	0,5	0,4	0,2	0,1	0,1	-0,3	-0,4

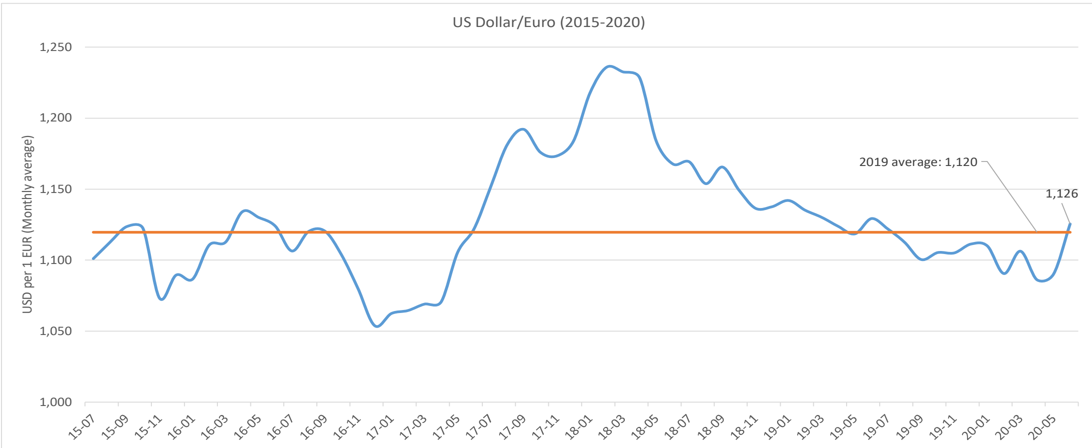
The deflationary situation in the former three countries and the overall low inflation rate in Europe can be explained, in part, by the generally low demand and consumption levels and a negative business outlook, described previously.

The second quarter of 2020 shows a worsened price scenario, in that already low inflation levels have given way to price decreases, which would be a consequence of the contraction of the economy.

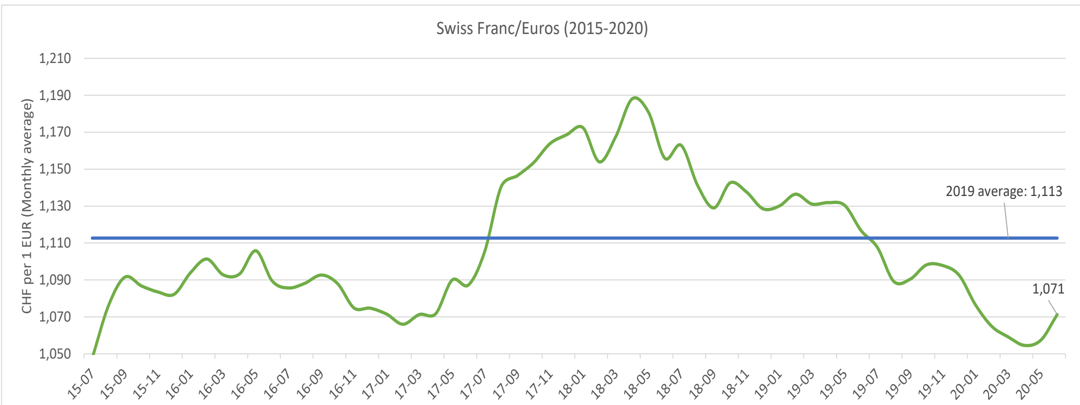
5.3 Foreign Exchange Rates (M)



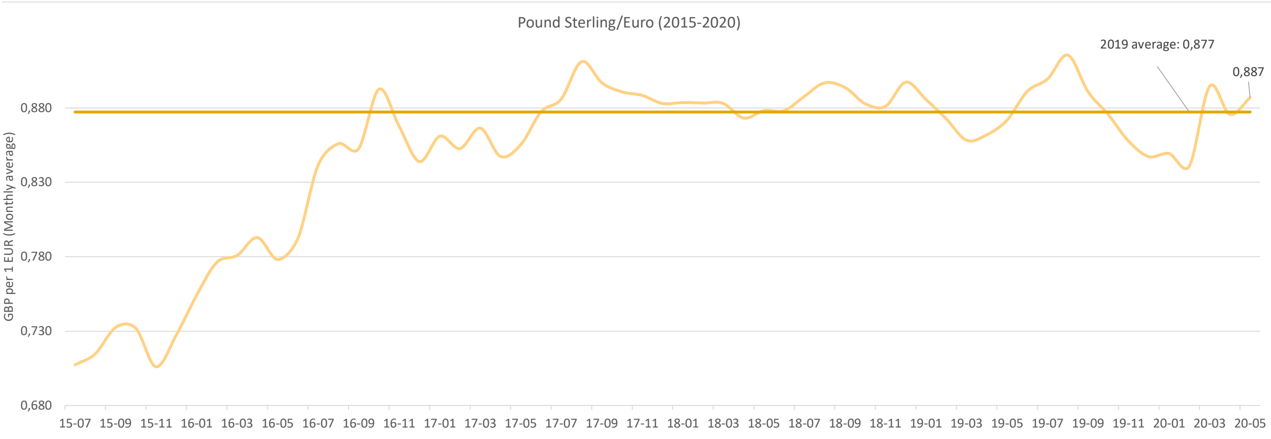
Considering the average quarterly exchange rate, the Japanese Yen was traded at 118,3 units per Euro in Q2 2020. Until the current moment, the Yen was considered a sort of haven for forex investors, yet the Japanese currency registered significant monthly sell-off, leading to a small correction. Nevertheless, the Bank of Japan kept the monetary policy steady, helping maintain the national currency's reserve status abroad.



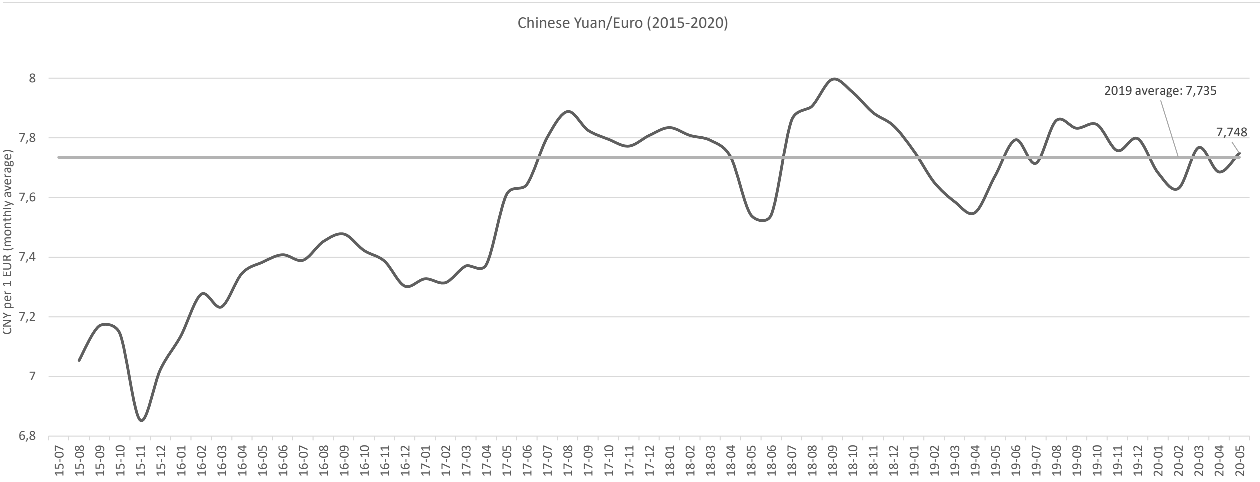
The US greenback's value decreases significantly against the Euro as the European Union agrees on a recovery and stimulus package as well as a deeper fiscal integration, two decisions aimed at protecting businesses competitiveness and the regions financial stability amid the pandemic. Risk aversion around the European common currency is down. The US traded, on a quarterly average, at 1,01 units per Euro.



As in the first quarter of 2020, the average trading ratio was 1,06 francs per euro. The Swiss economy has recorded a significant deflation rate domestically. However, the Swiss franc has become a haven currency in forex markets, given the uncertainty in global markets and the prospects of a new economic contraction driven by a second wave of infections.



In Q2 2020, Pound Sterling was traded 0,89 pence per Euro. The British pound has underperformed, losing ground against the euro, as key economic indicators show Britain's economy recovering at a slower pace than initially forecasted. As mentioned in the previous number, Pound Sterling is still considered a risk-correlated currency by investors.



During Q2 2020, China's Yuan traded, on average, at 7,8 units per 1 euro, slightly above 2019's yearly average exchange rate (7,7 yuan per euro). The currency seems to continue depreciating against the euro and, above all, the dollar. As the Chinese economy restarts and the yuan continues to lose value, analyst speculate that Chinese monetary policy might be pursuing depreciation as a way to counteract trade tariffs. However, this does not seem to be the case, as monetary policy in China, as in other key markets, currently pursues to strengthen domestic demand. This softening of the Chinese yuan might be due to a reduced exposure to yuan-denominated assets among investors, driven by slower growth prospects across the economy.

Glossary [i]

1.1 CECIMO8 orders

This section presents the "new orders received index" showing the development of the machine tool demand as an indication of future production. An order is defined as the value of the contract linking a producer and a third party in respect of the provision by the producer of goods and services.

The CECIMO8 orders index combines the relevant indexes of Austria, the Czech Republic, France, Germany, Italy, Spain, Switzerland and the United Kingdom. The weights of the different indexes correspond to the countries shares in total production of the eight countries in 2010. The new orders received are split according to the origin of the order, based on the change of ownership. This identification is the basis for domestic and foreign new orders. The origin is determined by the residency of the third party that has made the order.

2.3 Industrial Production Index

The objective of the production index is to measure changes in the volume of output at close and regular intervals, normally monthly. It provides a measure of the volume trend in value added over a given reference period. The production index is a theoretical measure that must be approximated by practical measures. Value added at basic prices can be calculated from turnover (excluding VAT and other similar deductible taxes directly linked to turnover), plus capitalised production, plus other operating income plus or minus the changes in stocks, minus the purchases of goods and services, minus taxes on products which are linked to turnover but not deductible plus any subsidies on products received. Industrial production is compiled as a fixed base year Laspeyres type volume-index.

Base period: Year 2010 = 100.

Source: Eurostat.

3.1 Gross Fixed Capital Formation

The Gross Fixed Capital Formation (GFCF) consists of resident producers´ aquisitions, less disposals, of fixed tangible or intangible assets. This covers in particular machinery and equipment, vehicles, dwellings and other buildings. The GFCF is a key determinant of both aggregate demand and supply.

Source: Eurostat and ECB.

3.2 Capacity Utilisation in the Investment Goods Sector

Population: Investment goods producers. Data covered: Assessment of current production capacity, measured as a balance (seasonally adjusted); Current level of capacity utilization, measured in % (seasonally adjusted). More than 38.000 industrial firms are surveyed every month, while the biannual investment survey includes over 44.000 units. Answers obtained from the surveys are aggregated in the form of "balances". Balances are constructed as the difference between the percentages of respondents giving positive and negative replies. The Commission calculates EU and euro-area aggregates on the basis of the national results and seasonally adjusts the balance series.

http://ec.europa.eu/economy_finance/db_indicators/surveys/documents/userguide_en.pdf

3.3 Bank Lending Survey

The bank lending survey is addressed to senior loan officers of a representative sample of euro area banks. Its main purpose is to enhance the understanding of bank lending behaviour in the euro area. The questions distinguish between three categories of loan: loans or credit lines to enterprises; loans to households for house purchase; and consumer credit and other lending to households. For all three categories, questions are posed on credit standards for approving loans; credit terms and conditions; and credit demand and the factors affecting it.

The responses to questions related to credit standards are analysed in this report by focusing on the difference ("net percentage") between the share of banks reporting that credit standards have been tightened and the share of banks reporting that they have been eased. A positive net percentage indicates that a larger proportion of banks have tightened credit standards ("net tightening"), whereas a negative net percentage indicates that a larger proportion of banks have eased credit standards ("net easing"). Likewise, the term "net demand" refers to the difference between the share of banks reporting an increase in loan demand and the share of banks reporting a decline. Net demand will therefore be positive if a larger proportion of banks have reported an increase in loan demand, whereas negative net demand indicates that a larger proportion of banks have reported a decline in loan demand.

http://www.ecb.eu/stats/money/surveys/lend/html/index.en.html

3.4 Interest Rates - Euribor

Euribor® (EURo InterBank Offered Rate) is the rate at which euro interbank term deposits are being offered by one prime bank to another within the EMU zone. Monthly data are calculated as averages of daily values from the banks with the highest volume of business in the euro area money markets.

http://www.euribor-ebf.eu/

The deposit facility rate is the one the banks receive for depositing money with the central bank overnight.

The so-called main refinancing rate, minimum bid rate or rate for the main refinancing operations (MROs) is the interest rate which banks do have to pay when they borrow money from the ECB for a period of one week.

4.2 Purchasing Managers' Index (PMI)

The Global Report on Manufacturing is compiled by IHS Markit and J.P. Morgan in association with ISM and IFPSM based on the results of surveys covering 9.000 purchasing executives in 30 countries. Together these countries account for an estimated 86% of global manufacturing output. Questions are asked about real events and are not opinion based. Data are presented in the form of diffusion indices, where an index reading above 50,0 indicates an increase in the variable since the previous month, below 50,0 a decrease and equal to 50.0 means no change on prior month. All the indices are seasonally adjusted at the national sector level.

http://www.markiteconomics.com/Survey/Page.mvc/AboutPMIData

4.3 OECD Business Confidence Indicator (BCI) for Europe

The Composite leading indicators (CLI), which BCI is part of, comprises a set of component series selected from a wide range of key short-term economic indicators to ensure that the indicators will still be suitable when changes in economic structures occur in future. CLIs are calculated for 33 OECD countries (Iceland is not included) and several regional aggregates, based on enterprises' assessment of production, orders and stocks, together with its current position and expectations for the near future.

These indexes are designed to anticipate turning points in economic activity relative to trend, on average 6 to 9 months before they happen. While theory says that a turning point in the CLI signals a turning point in the reference series, such turning points, in reality, are determined by a complicated process. Turning points in the detrended reference series are usually found about 4 to 8 months in advance. Therefore, one often needs to wait for several periods to draw a more definite conclusion. A useful way to exploit the information in CLIs is to take their year-on-year growth rate.

Typical indictors in the CLI include orders and inventories changes, financial market indicators, business confidence surveys and data on key sectors and trend in the main trade partners.

The standardised BCIs represent only the manufacturing sector. It is based on companies' assessment of production, orders, stocks and its current position and expectations. BCI shows a long-term trend in industrial production (with a 6-month time-lag). An increase over 100 means expansion; a decrease above 100 means a downturn; an increase below 100 is an upturn and a decrease below 100 is a slowdown. http://stats.oecd.org/mei/default.asp?lang=e&subject=5

Geographical Information

CECIMO countries

The European Association of the Machine Tool Industries and related Manufacturing Technologies brings together 15 national associations of machine tool builders from the following countries: Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Italy, the Netherlands, Portugal, Spain, Sweden, Switzerland, Turkey and the United Kingdom.

Euro area (EA) / Eurozone (EZ)

The euro area (EA19), also called the Eurozone, consists of Member States of the European Union that have adopted the euro as their currency. It includes Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.

European Union (EU)

The European Union (EU28) includes Belgium, Bulgaria, the Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and the United Kingdom.

Other Symbols and Acronyms

M / m (Toolbox headings)
M = Macro-economic. non-caps (m) = microeconomic.

GDP
Gross Domestic Product

Billion
Billion means one thousand million

US
United States

Q1, Q2, Q3, Q4
1st quarter, 2nd quarter, 3rd quarter, 4th quarter

EUR / €
Euros

USD / $
United States Dollar(s)

CHF
Swiss Franc(s)

ECB
European Central Bank

Fed
Federal Reserve (System), the US Central Bank

GBP
Great Britain Pound(s), the Pound Sterling

IMF
International Monetary Fund

WB
World Bank

MT
Machine tools

CECIMO countries
Countries whose machine tool sector is represented by CECIMO

cecimo

European Association of the Machine Tool Industries and related Manufacturing Technologies

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Association of Metaltechnology Industries
www.metalltechnischeindustrie.at

Belgium: AGORIA
Federatie van de Technologische Industrie
www.agoria.be

Czech Republic: SST
Svazu Strojírenské Technologie
www.sst.cz

Danish Manufacturing Industries Cooperation
A part of the Confederation of Danish Industry
www.isa.di.dk

Finland: Technology Industries of Finland
www.teknologiateollisuus.fi

France: SYMOP
Syndicat des Entreprises de Technologies de Production
www.symop.com/fr

Germany: VDW
Verein Deutscher Werkzeugmaschinenfabriken e.V.
www.vdw.de

Italy: UCIMU
Associazione dei costruttori Italiani di macchine utensili robot e automazione
www.ucimu.it

Netherlands: FPT-VIMAG
Federatie Productie Technologie / Sectie VIMAG
www.ftp-vimag.nl

Portugal: AIMMAP
Associacâo dos Industriais Metalúrgicos, Metalomecânicos e Afins de Portugal
www.aimmap.pt

Spain: AFM - Advanced Manufacturing Technologies
Asociación española de fabricantes de máquinas-herramienta, accesorios, componentes y herramientas
www.afm.es

Sweden: SVMF
Machine and Tool Association of Sweden
www.svmf.se

Switzerland: SWISSMEM
Die Schweizer Maschinen-, Elektro- und Metall-Industrie
www.swissmem.ch

Turkey: MIB
Makina Imalatcilari Birligi
www.mib.org.tr

United Kingdom: MTA
The Manufacturing Technologies Association
www.mta.org.uk

EMO

cecimo is the European Association representing the common interests of the Machine Tool Industries and related manufacturing technologies globally and at EU level. We bring together 15 National Associations of machine tool builders, which represent approximately 1500 industrial enterprises in Europe (EU + EFTA + Turkey), over 80% of which are SMEs. CECIMO covers more than 98% of total machine tool production in Europe and more than one third worldwide. CECIMO assumes a key role in determining the strategic direction of the European machine tool industry and promotes the development of the sector in the fields of economy, technology and science.