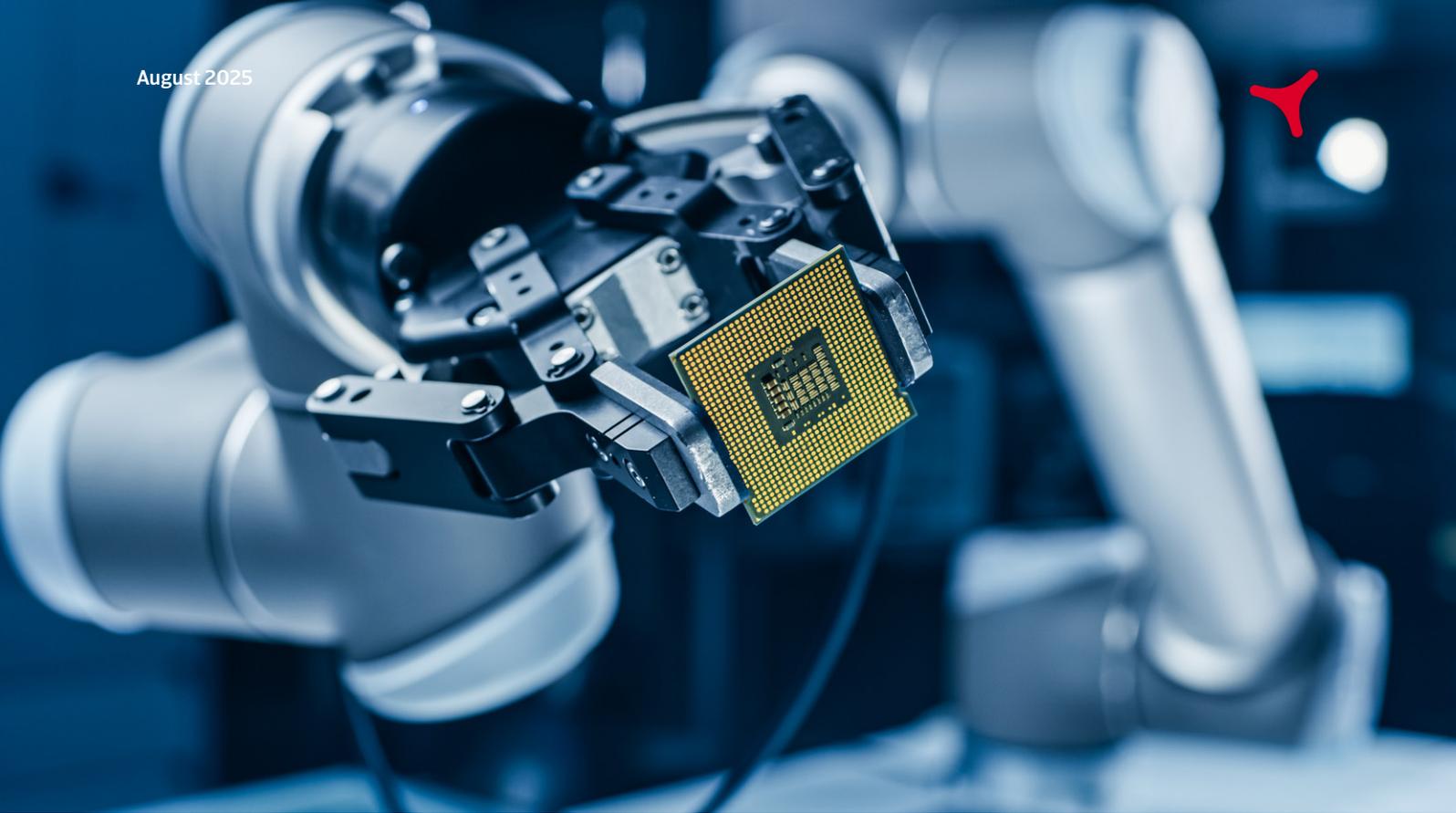


Industry trends – Machines/Engineering

Tariffs and related uncertainty causing a large negative impact

August 2025



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. Confidence and security over strategic planning decisions is important for an industry that often requires financing for significant capital outlay, often over many years.

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. In addition, the

monetary policy easing cycle has slowed in most countries, and China's investment-driven growth model may be reaching its limits. All of these factors combined will dampen global demand for machinery in 2025 and in 2026.

Among the regions Asia Pacific, will perform more strongly than the West. Mechanical engineering output in both the Americas and Europe is expected to contract this year, while Asia Pacific will record a growth rate of about 3%. Among subsectors, agricultural machinery, along with machinery related to construction and mining, are expected to record large contractions this year (see chart overleaf).

In the mid- and long-term, the shift towards electric vehicles will lead to changes in machinery supply to the automotive sector, with more emphasis on batteries and related electrical equipment. Demand for machinery to manufacture conventional powertrains will weaken. 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.

Industry performance forecast

Europe		Asia and Oceania		Americas		
Austria	Netherlands	Australia	Phillipines	Brazil	Excellent	<p>Excellent The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.</p> <p>Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.</p> <p>Fair The credit risk situation in the sector is average / business performance in the sector is stable.</p> <p>Poor The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.</p> <p>Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.</p>
Belgium	Poland	China	Singapore	Canada		
Czech Republic	Portugal	Hong Kong	South Korea	Mexico		
Denmark	Slovakia	India	Taiwan	USA		
France	Spain	Indonesia	Thailand			
Germany	Sweden	Japan	UAE			
Hungary	Switzerland	Malaysia	Vietnam			
Ireland	Turkey	New Zealand				
Italy	UK					



Industry trends

Mechanical engineering output

Global and per region	2023	2024	2025*	2026*
Global	0.9	-0.5	1.4	0.8
Americas	-0.9	-0.9	-0.8	-3.4
Asia Pacific	1.0	1.6	3.1	2.1
Europe	1.7	-5.2	-1.2	0.0

Year-on-year, % change /*forecast
Source: Oxford Economics

Global output per subsector	2023	2024	2025*	2026*
General purpose machinery	1.2	0.4	3.0	0.7
Agricultural machinery	-2.0	-9.2	-6.0	-1.4
Machinery for mining and construction	1.9	-6.1	-3.8	-0.8
Machine tools	-0.6	-5.2	0.1	-0.2

Year-on-year, % change /*forecast
Source: Oxford Economics

Strengths and growth drivers

High entry barriers. Established players are able to take advantage of the need for major investment in technology to deliver new machines capable of supporting a wider variety of product mixes for their customers.

Automation. Many industries are increasingly using process automation and industrial robots, which should stimulate demand for related machinery equipment.

Technological advances. 3D printing, AI, IIoT (Industrial Internet of Things) and big data analytics are increasingly used in manufacturing. Businesses are learning how to take advantage of the massive amounts of data their machines generate. All this should result in higher productivity, lower operating costs and higher margins.

Constraints and downside risks

Economic cycle. Many machinery segments depend on demand from cyclical sectors such as construction and automotive.

Capital-intensity. Machinery businesses often face large investments and R&D expenditures in order to provide tailor-made products in a market where the preferences of customers are constantly changing.

Commodity price volatility. The sector is highly susceptible to the price developments and availability of input materials like aluminium, copper and steel.





Machines/Engineering outlook Americas

Mechanical engineering output	2023	2024	2025*	2026*
Brazil	-7.2	0.9	4.6	-0.3
Canada	7.0	-7.3	-4.5	-5.6
Mexico	0.8	-2.9	-7.1	-0.8
USA	-1.6	0.1	-0.9	-3.9

Year-on-year, % change /*forecast – Source: Oxford Economics

USA

Output contraction due to tariff impact

At the beginning of this year, the outlook for the US mechanical engineering industry was promising, with output forecast to increase by 5.4% in 2025. However, due to the impact of tariffs and weaker economic growth we have revised our forecast. We are now expecting a 0.9% contraction, followed by a 3.9% decrease in 2026.

Demand for US machinery has been 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. Private investment in equipment slowed in Q2 of 2025, down from 5.5% growth in Q1 to just 1.2%. Machinery orders have decreased and are not expected to recover in the near term. At the same time retaliatory tariffs from some external major downstream consumers of US machinery, like China, are reshaping demand.

The tariffs raise costs for US producers. Producer price inflation for machinery and equipment has been increasing since March. Mechanical engineering’s reliance on imported goods is in the middle of the pack of US manufacturing subsectors—broadly similar to manufacturing as a whole. But arguably more important for the sector is its relatively high use of metals as an input to production. 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, although we do not expect an interest rate cut before December. Lower interest rates are important as machines are often bought with credit. The so-called One Big Beautiful Bill Act (OBBBA) includes some generous provisions for deducting the cost of

machinery and equipment purchases. The extension of tax cuts and increase in government spending (defence and non-defence) should lead to a demand recovery during H2 of 2026 for US machinery across all subsectors, with a particular boost for general-purpose machinery.

In the mid- to long-term, demand for automation, digitalisation, and sustainable production solutions in manufacturing should support machinery demand. New technologies integrated in the manufacturing process and generative AI will increase productivity in the mechanical engineering industry.

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. The 25% tariff on all non-USMCA compliant goods will raise the price of Canadian produced machinery producers compared to their US-peers. 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.



Industry performance forecast

- Brazil** (Sun icon): Excellent. The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.
- Canada** (Sun icon): Good. The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
- Mexico** (Sun icon): Fair. The credit risk situation in the sector is average / business performance in the sector is stable.
- USA** (Sun icon): Poor. The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.



Machines/Engineering outlook Asia Pacific

Mechanical engineering output	2023	2024	2025*	2026*
China	3.4	3.5	4.8	2.4
India	16.2	3.7	5.6	5.9
Japan	-5.1	-4.7	-1.6	0.5
South Korea	-3.7	-3.1	-4.9	3.3

Year-on-year, % change /*forecast – Source: Oxford Economics

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 external demand for Chinese machinery.

Domestically, an easier monetary policy will not be sufficient to prevent a slowdown in investment spending. Chinese manufacturers are confronted with excess capacity and trade uncertainty, leading them to slash capital expenditure. This affects in particular private investment growth, even as policymakers attempt to create an easier regulatory environment for private entrepreneurs. 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.

In the mid and long-term we expect Chinese annual mechanical engineering output to stabilise between 2.0% and 2.5%, as China is reaching the limits of its investment-driven growth model. A shift to a more service-oriented economy will reduce demand for capital goods.

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. Japanese mechanical engineering has a reasonable exposure to the US, where 10% of the sector's output is sold. Automotive as a key buyer sector is highly impacted by US tariffs, and its machinery demand has started to decrease in Q2 of 2025. Investment spending from other buyer sectors like agriculture, construction and mining will remain weak this year, affecting the related machinery segments.



Industry performance forecast	
	Australia
	China
	Hong Kong
	India
	Indonesia
	Japan
	Malaysia
	New Zealand
	Phillippines
	Singapore
	South Korea
	Taiwan
	Thailand
	UAE
	Vietnam
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Machines/Engineering outlook

Europe

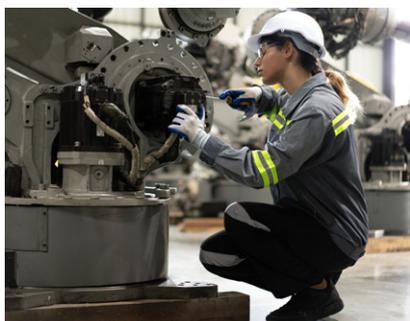
Mechanical engineering output	2023	2024	2025*	2026*
Germany	2.0	-6.0	-2.4	-1.5
Italy	1.5	-4.3	-1.2	0.5
The Netherlands	3.0	-2.3	0.2	1.7
United Kingdom	-0.7	-7.6	1.4	-1.3

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. Among individual countries, we expect output to decline by more than 2% in France and Germany this year, while the UK will record a modest 1.4% growth after a steep 7% decline in 2024.

In H2 of 2026 the sector should return to growth. 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. Downstream producers like automotive are unsure of demand prospects. The current 15% US tariff on EU machinery has additionally hurt 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. While smaller companies with smaller financial cushions will be hit first, even larger businesses could fail.

That said, the German mechanical engineering sector is still resilient and internationally competitive, in particular in highly specialised machinery segments such as high value-added machine tools. But there are serious challenges ahead. If it doesn't have to be 'Made in Germany' quality, competition from China is a serious issue, and already weighing on domestic production.

Higher European defence spending and larger infrastructure investment in Germany should lead to a demand recovery in the course of 2026. Also helpful will be tax breaks which enable businesses in Germany to deduct 30% of the cost of new machinery and equipment from their tax bill between 2025 and 2027.

Industry performance forecast	
	Austria
	Belgium
	Czech Republic
	Denmark
	France
	Germany
	Hungary
	Ireland
	Italy
	Netherlands
	Poland
	Portugal
	Slovakia
	Spain
	Sweden
	Switzerland
	Turkey
	UK
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Atradius

David Ricardostraat 1
1066 JS Amsterdam
P.O. box 8982
1006 JD Amsterdam
The Netherlands
Phone: +31 (0)20 - 553 91 11

info@atradius.com
www.atradius.com