hpo economic commentary 4th quarter 2026

Is inflation threatening the upturn in mechanical engineering?

Cham, November 2026

Key Takeaways

- **Order intake in mechanical engineering continues to grow,** but growth is unevenly distributed across segments and price effects play a major role.
- While **production and imports of machine tools in the United States have so far risen only slightly,** machine tool orders from US customers, as tracked by the Association for Manufacturing Technology (AMT), are going through the roof.
- **Business confidence** in Europe, the United States and Japan continues to rise and has meanwhile returned to expansionary territory.
- Growth in **industrial production** in the eurozone and the United States, however, remains flat.
- **High inflation rates are dampening consumer sentiment** and could somewhat weaken growth in private consumption.
- Deglobalisation, trade barriers, wars and chronic supply bottlenecks point to **persistently higher inflation over the longer term.**
- **Oil prices** are also likely to remain high given depleted inventories and falling output.
- **The EU is planning the next round of protective measures** in its trade policy towards China. This time, the focus is on the chemicals, machinery and furniture sectors.
- The Chinese machine tool industry has undergone major structural changes in recent years. Details can be found in the new **hpo study 'The Chinese Machine Tool Industry 2000-2025'** with a summary at the end of this economic commentary.

Demand in mechanical engineering continues to grow

The recovery in machinery demand continued in the third quarter. The 12-month moving average of **inflation-adjusted order intake rose by 9.3 % year on year in Germany and by 7.8 % in the United States,** according to data from the national statistical offices Destatis and the Census Bureau.

Since Q4 2025, however, the quarterly data for Germany have only moved sideways (thin red line in Fig. 1). Growth in the 12-month moving average over recent quarters was based on a favourable base effect. This effect will drop out in Q4 2026, and it remains to be seen whether the growth momentum can be sustained. In the United States, momentum has been stronger over the past three quarters.

One challenge remains that **growth in mechanical engineering rests on a narrow base.** The US Census Bureau distinguishes between various subcategories of machinery. Fig. 2 shows the

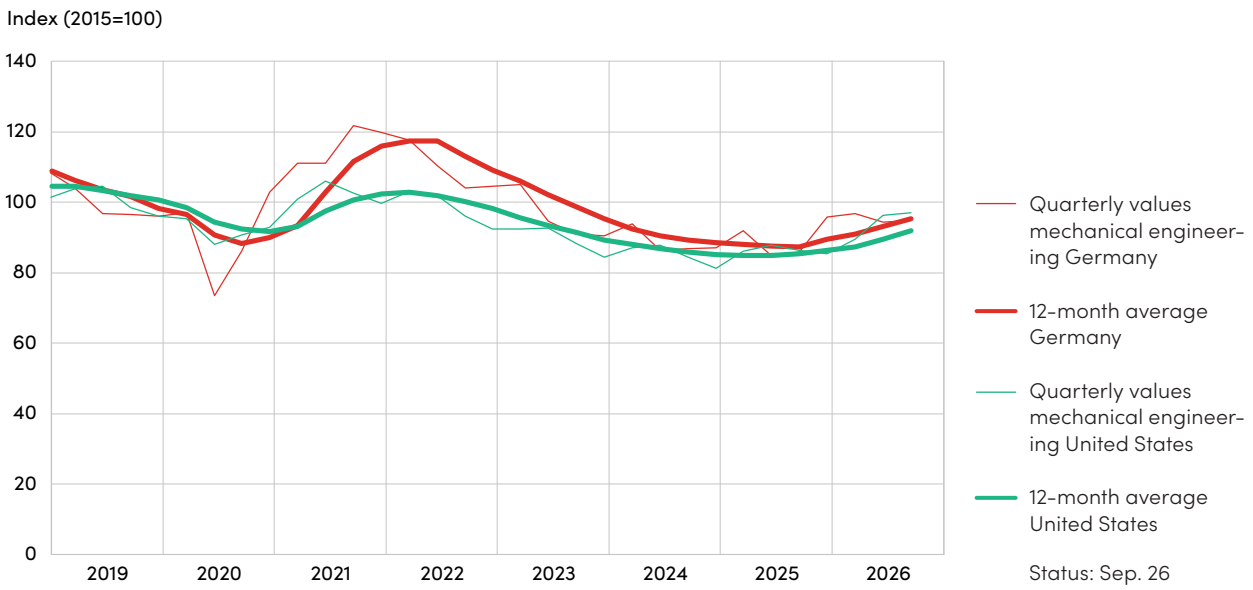


Fig. 1: Machinery order intake, Germany and United States (real)

Sources: Destatis and Census data, illustration by hpo forecasting

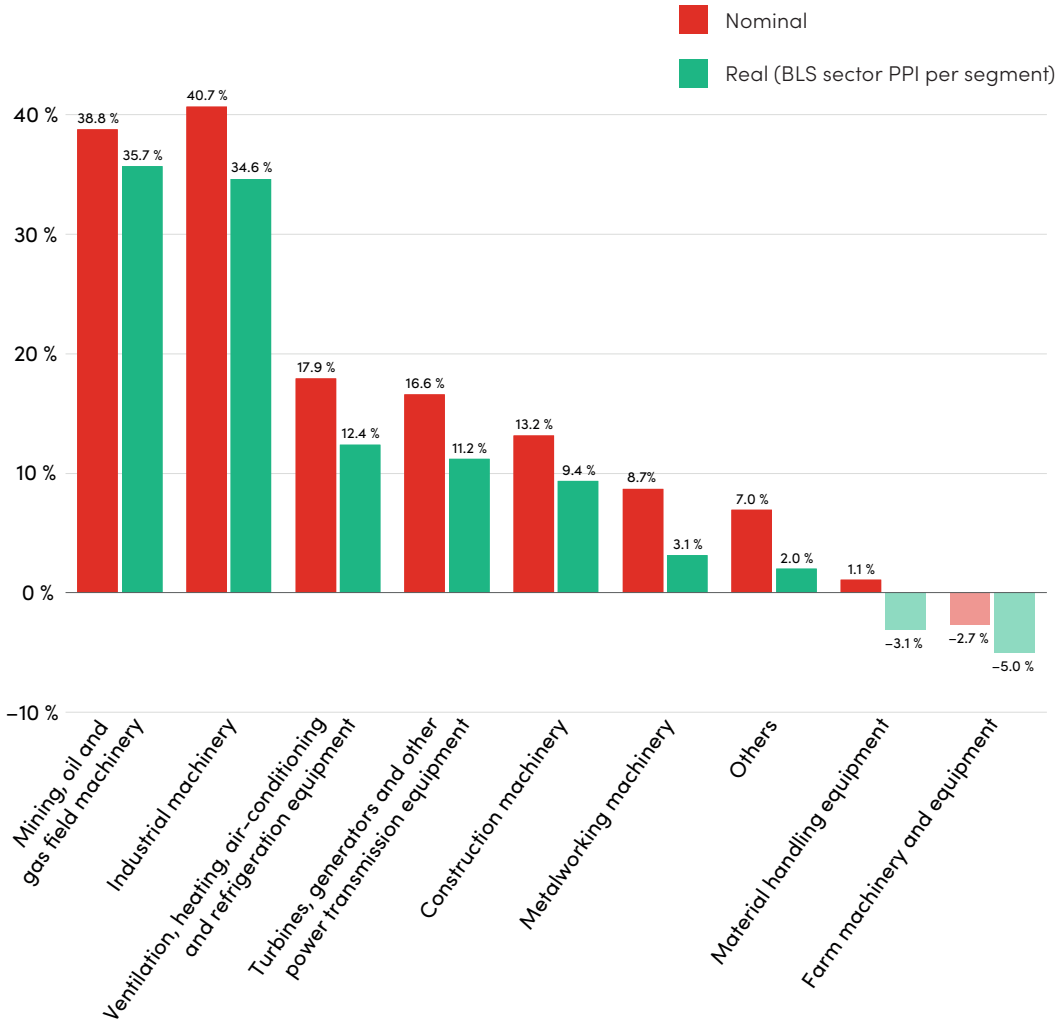


Fig. 2: New orders of US machinery manufacturers, Jan to Sep 2026 vs prior year, nominal vs real (%)

Sources: U.S. Census Bureau data, seasonally adjusted; BLS PPI by segment; illustration by hpo forecasting

year-on-year growth in US machinery orders from January to September 2026 in percent, broken down by segment. Two things stand out. First, a large share of nominal growth is due to **price effects.** Second, **growth is unevenly distributed.**

In the wake of the Iran conflict and rising oil prices, demand for **mining, oil and gas field machinery** has been growing strongly since the beginning of 2026. This is where real growth is highest, albeit from a low base.

The highest nominal growth is recorded in the **industrial machinery** category. This includes **equipment for semiconductor fabs,** which accounts for the lion's share of the growth. Production in this category is at its highest level since the data series began in 1993.

Exceptionally strong growth has been recorded for **ventilation, heating, air-conditioning and refrigeration equipment.** This segment has been on a steep growth trajectory for six years and now also stands well above previous peaks. Here, too, data centre construction is an important driver.

The same applies to the other growth segments: **turbines, generators and power transmission equipment** as well as **construction machinery.** These sectors also benefit from the data centre investment boom. **Metalworking machinery** production in the United States, by contrast, is growing only tentatively, and more than half of this growth is attributable to rising prices.

The statistics of the Association for Manufacturing Technology (AMT) paint a significantly more positive picture. Closely followed in the industry, these statistics show **machine tool consumption in the United States** and are based on orders. They therefore include all machines from abroad; in addition, the AMT defines the metalworking machinery much more narrowly than the Census Bureau. The data are therefore only partly comparable.

It is nonetheless remarkable that, unlike the Census data shown above, the AMT data are reaching record levels. Nominal machine tool orders **rose by 44 % year on year,** measured on a 12-month moving average. September was a record month, with by far the highest demand ever recorded and a doubling compared with the same month of the previous year. However, this month also saw IMTS in Chicago, the leading US trade fair for manufacturing technology, and according to data from the U.S. Bureau of Labor Statistics (BLS), the **inflation rate** for machine tools in the United States was a high **7.5 % year on year.**

As before, the main growth drivers are the **defence industry, the aerospace industry and, once again, investment related to AI.** Until now, demand focused on machines with a high degree of automation. In September, however, unit volumes rose faster than order value for the first time in a long while. The AMT attributes this to increased pressure on delivery times. Another important factor is the new fiscal law known as the *One Big Beautiful Bill*. In force since summer 2025, it allows investments to be written off immediately.

These very high orders are not yet reflected in the import data, which by nature lag behind order intake. Imports from Japan and Italy in particular, and to a lesser extent from Germany, have recently started to rise. The other curves have so far been rather flat but are likely to rise soon.

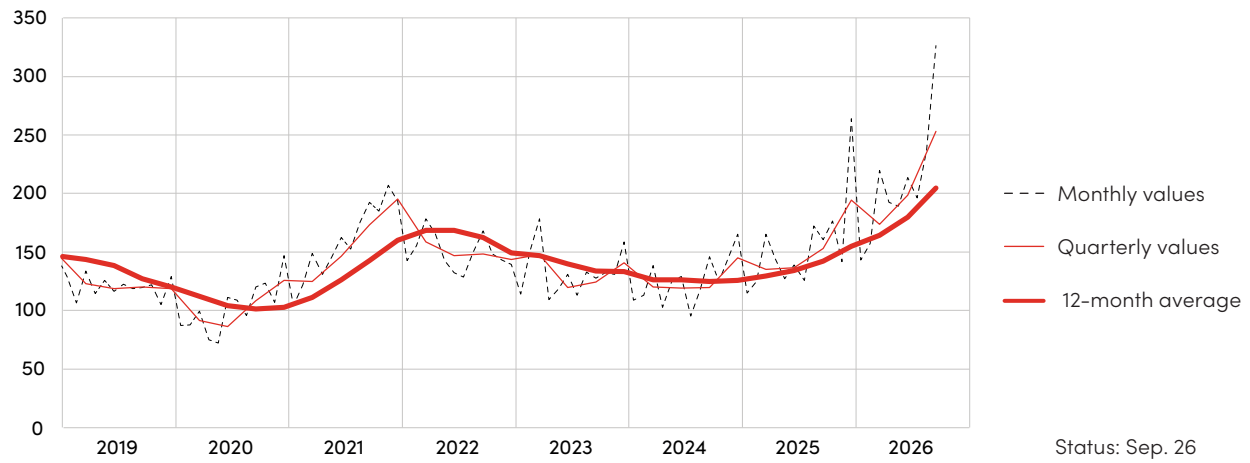


Fig. 3: US machine tool consumption (orders, nominal)

Sources: AMT/USMTO data, illustration by hpo forecasting

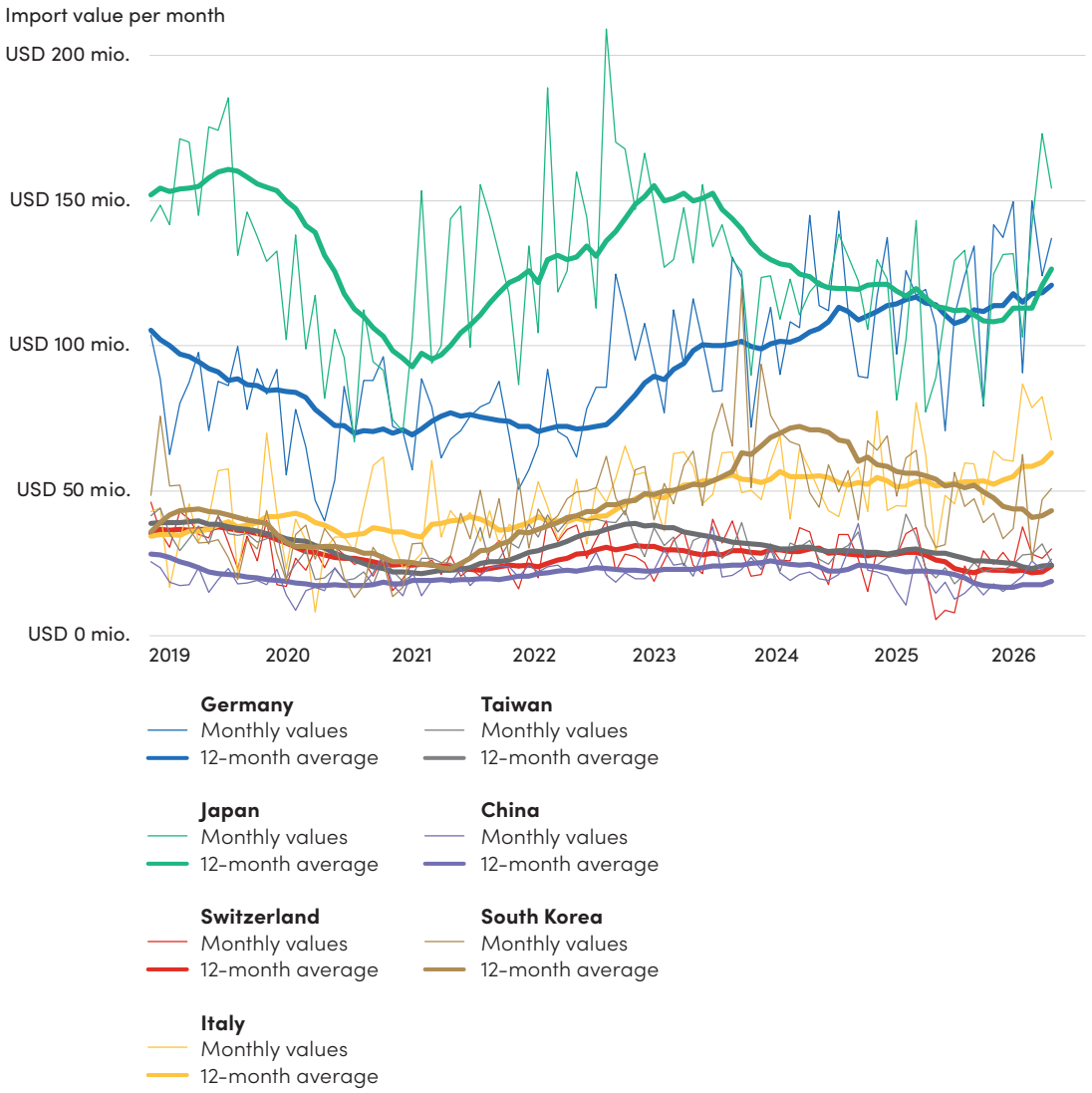


Fig. 4: US machine tool imports by country of origin, nominal

Source: USITC, illustration by hpo forecasting

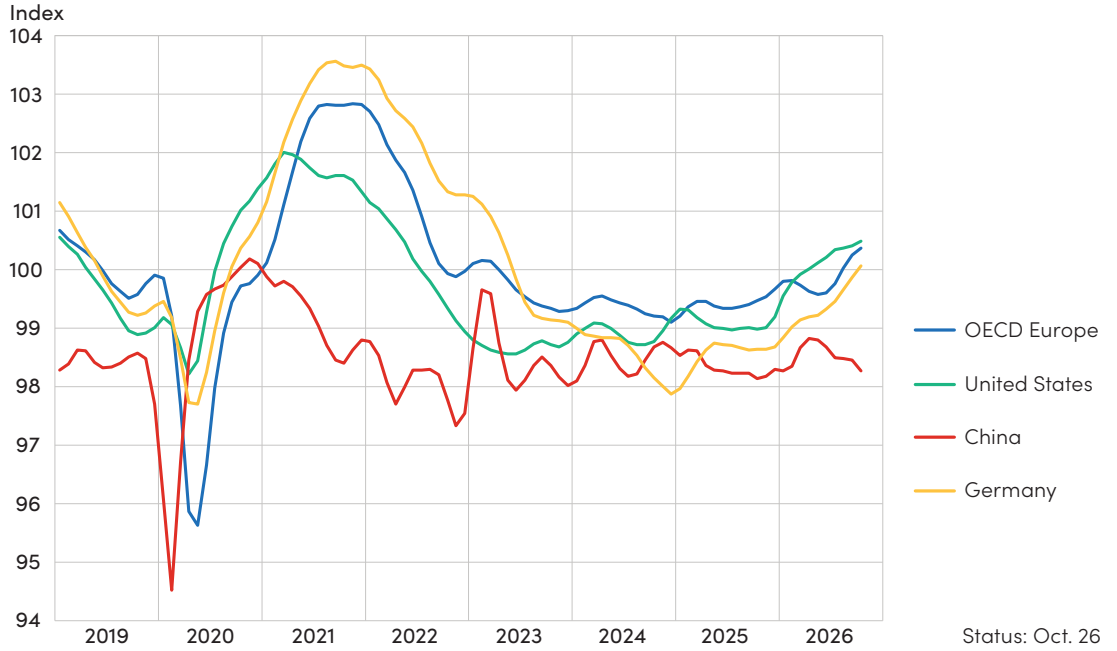


Fig. 5: OECD Business Confidence Index (BCI)

Source: OECD data, illustration by hpo forecasting

Industrial sentiment indicators continue to recover

As order intake rises, industrial sentiment is improving too. Business confidence as measured by the OECD's **Business Confidence Index (BCI)** is now clearly in positive territory in Europe, the United States and Japan. Manufacturing PMIs in Europe, the United States and Japan also point to expansion. In China, by contrast, industry continues to suffer from weak domestic demand and substantial overcapacity.

The closely watched **ifo Index** for German manufacturing is also slightly in positive territory again for the first time since 2023. **Real industrial production** in Europe and North America has been rising since early 2025. In the United States in particular, it is being strongly fuelled by AI investment and accelerat-

ed markedly again in recent months. In the European OECD countries, industrial growth is somewhat more sluggish and has recently slowed again. Nevertheless, the 12-month moving average in September was still 0.5 % above its level a year earlier. India remains particularly dynamic, having been on a growth path for around five years. The strong growth in Switzerland is primarily due to the very dynamic pharmaceutical industry. China does not publish industrial production as an index level and is therefore missing from the chart below. Official figures from the National Bureau of Statistics (NBS) show average year-on-year growth in industrial production of 5.1 % over the past 12 months.

High inflation is slowing private consumption

The Democrats' landslide victory in the United States and the protests in many European countries point to consumer dissatisfaction. After rising optimism over the summer, consumer sentiment fell markedly again in the autumn. In the United States, the **Consumer Confidence Index (CCI)** published by the OECD hit another low, and sentiment in the EU has also deteriorated again. In China, sentiment remains unchanged at a very low level, far below the neutral value of 100 index points.

Retail sales are developing considerably more positively. Despite elevated inflation and widespread consumer pessimism, consumer spending in the United States is rising strongly. According to media reports, however, this growth is driven mainly by affluent households, which have benefited greatly from buoyant equity markets in recent years. The majority of Americans, by contrast, are suffering from declining purchasing power. In Europe, retail sales also rose steadily until summer 2026 but have been correcting since. This, too, is likely linked to rising prices.

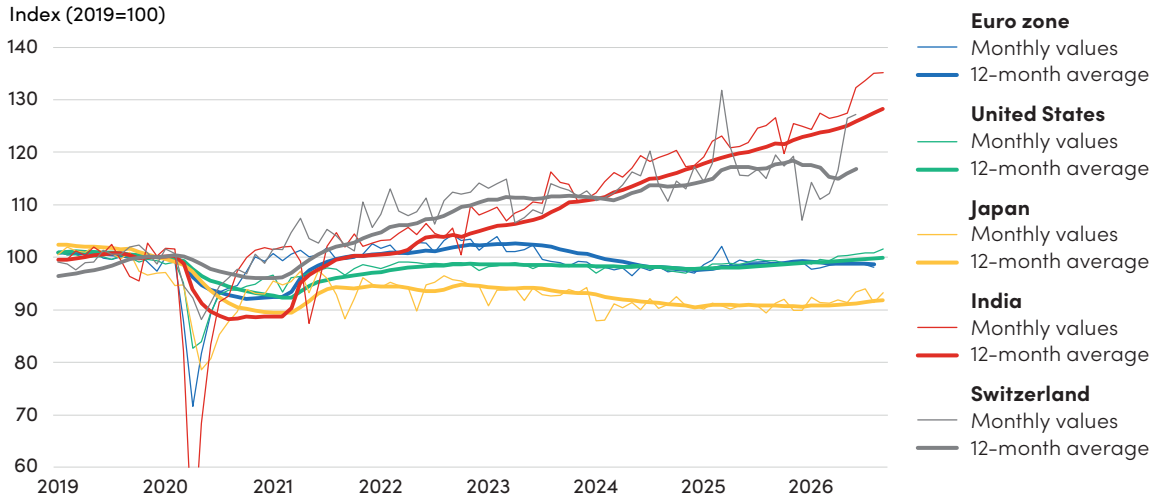


Fig. 6: Industrial production in selected countries

Source: OECD data, illustration by hpo forecasting

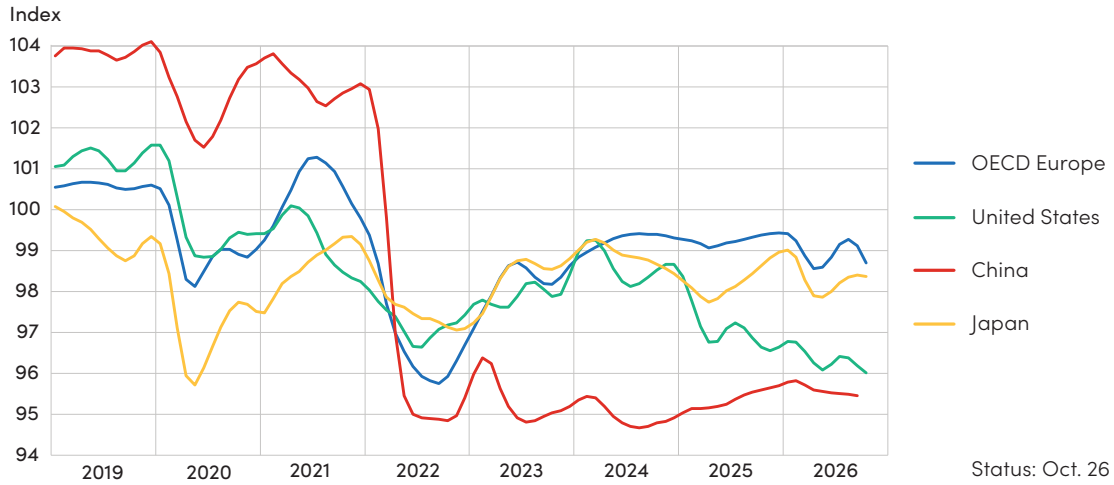


Fig. 7: Consumer confidence in selected countries

Source: OECD data, illustration by hpo forecasting

Rising inflation is putting the brakes on consumption. In October, the rate in the eurozone and the United States was around 4 %, twice the upper end of the 2 % target band. This is forcing central banks to raise interest rates. Even in Switzerland, inflation almost doubled within two months, reaching 1.5 % in October after 0.8 % in August.

Inflation is likely to remain elevated for some time, but this requires some explanation. In an interview with *The Market / NZZ,* **US market strategist Jim Bianco** identifies globalisation as the main reason for the low inflation of the past two decades. Between China's accession to the WTO in December 2001 and the pandemic, US goods prices excluding energy and food fell by an average of 0.5 % per year thanks to ever cheaper imports, while services became 2.5 % more expensive each year. This resulted in core inflation of 1.7 %, below the 2 % target, which, according to Bianco, central banks wrongly claimed as their own success. Since 2020, the picture has reversed. Deglobalisation, tariffs, wars and chronic supply bottlenecks are pushing goods prices up by 1.8 % per year, putting trend core inflation at 3.4 %. As neither the United States nor Europe or Japan wants to keep encouraging cheap imports, and even a Democratic US administration would hardly abolish tariffs, Bianco sees little reason to expect a return to the old pattern.

Oil prices are another important driver of elevated inflation. There is a high probability that they will remain elevated for some time, regardless of how the situation in Iran develops.

Oil prices likely to stay high for longer

Following the Democrats' landslide victory in the US midterm elections, the price of a barrel of Brent fell from its peak of USD 114 at the end of October to **below USD 90 at one point** and stood at around USD 93 at the time of writing on 15 November 2026.

Nevertheless, most commodity experts do not expect a return to the pre-crisis level of USD 60 to 70. Inventories have shrunk sharply (US reserves to their lowest level since 1983), and many countries want to replenish them. In the event of renewed escalation between the United States and Iran, the price is therefore likely to spike more sharply than in March. Over the longer term, opinions diverge. BCA Research expects falling prices owing to electric mobility in China and a weaker OPEC. The Swiss asset manager SIA and the US commodity boutique Goehring & Rozencwajg, both surveyed by *The Market / NZZ,* take the opposite view. Because output from existing fields declines by around 3 % a year, new reserves equivalent to Saudi exports would have to be developed every three to four years just to keep supply stable. However, investment has been falling steadily since 2007, not least because of the energy transition and ESG requirements. In addition, shale oil production in the United States, the most important driver of supply growth in recent years, is slowing. **Energy costs therefore remain a risk factor for industry.** Higher fertiliser and transport costs are also likely to push up agricultural prices.

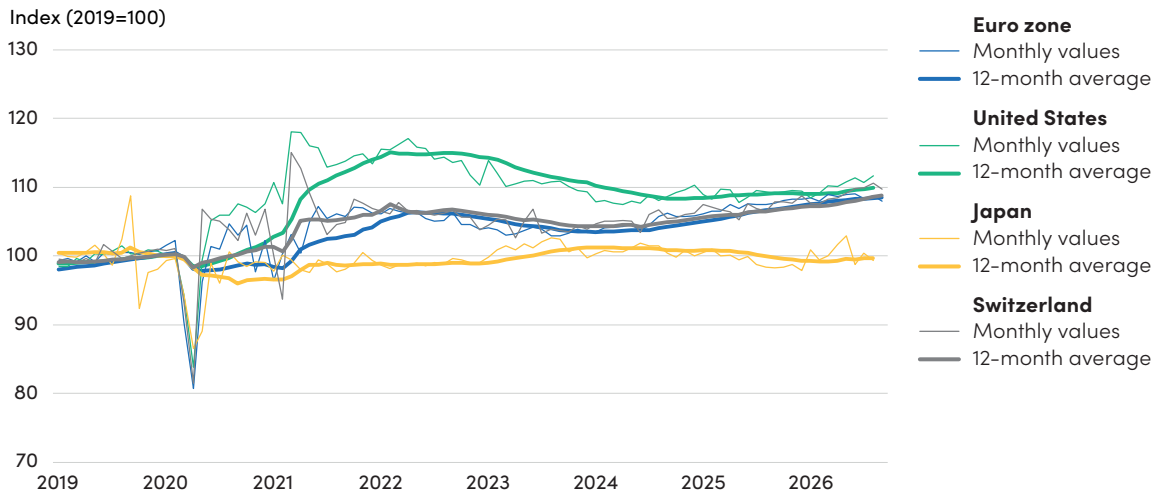


Fig. 8: Retail sales in selected countries
Source: OECD data, illustration by hpo forecasting

The EU is planning further trade measures against China

We have repeatedly pointed out here that new trade barriers between the EU and China are looming. At the end of October, the news agency Bloomberg reported that the EU is now planning **to curb imports from China in sectors such as chemicals, furniture and machinery through protective measures,** in the form of import caps or tariffs that could be presented as early as the first quarter of 2027. The model is the recent agreement with Beijing limiting hybrid

vehicle imports from China to 350,000 cars per year, a level set high enough to avoid retaliation. The background is the EU's trade deficit with China of EUR 360 billion last year.

An analysis of Eurostat data by the trade blog Soapbox shows why **furniture,** for example, has come into Brussels' sights. In 2022, the EU imported 3.2 million tonnes of furniture from China worth EUR 13.4 billion. For 2026, Soapbox estimates the volume at 5.2 million tonnes worth EUR 13.2 billion. **Import volumes have thus risen by 63 %, while the total import bill has remained virtually unchanged.** This has put the European furniture industry under massive pressure.

Outlook

The current recovery in the capital goods industry is highly uneven. **Sectors that typically depend heavily on consumption and recorded particularly high orders during the pandemic are still struggling.** These include, for example, manufacturers of textile, packaging and plastics machinery.

First signs of an upturn are visible, but in many cases the level is still extremely low, and according to our analysis the conditions for a prompt, pronounced and sustained boom have not yet been met.

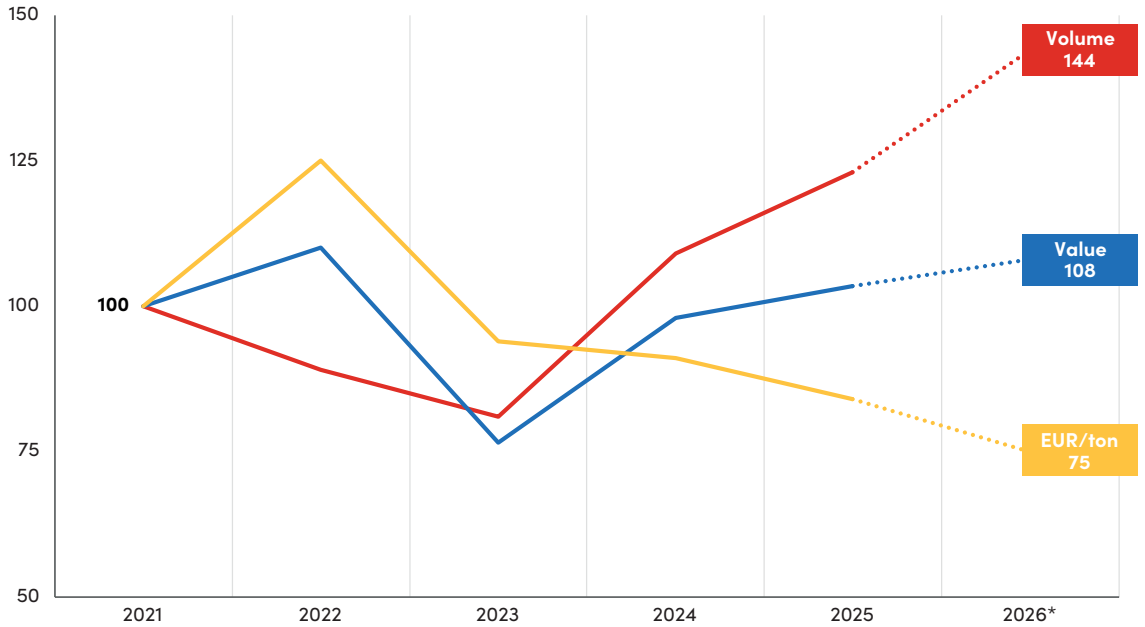


Fig. 9: EU furniture imports from China in tonnes and euros since 2021

Sources: Eurostat raw data, illustration by Soapbox, reproduced by hpo forecasting
* Estimate for 2026 based on January to August 2026 figures

In other sectors, however, the growth drivers artificial intelligence, defence and aerospace will continue to provide momentum. The key question is how long the AI investment boom will last. For many observers, there is no doubt that it will end in a bubble. Opinions differ widely, however, on how long it will take for the bubble to burst. According to current estimates, capital expenditure by the US hyperscalers will amount to around 2.4 % of US GDP this year and, in the prevailing view, settle at around 3 % of GDP from 2027. **The fact that the hyperscalers' revenues, as well as their investment, are rising extremely strongly makes us confident that the AI boom will continue for some time yet.**

Moreover, companies such as Microsoft, Alphabet and Amazon still have highly profitable core businesses and, like the chipmaker Nvidia, very strong balance sheets. These companies have the capacity to absorb major setbacks without collapsing.

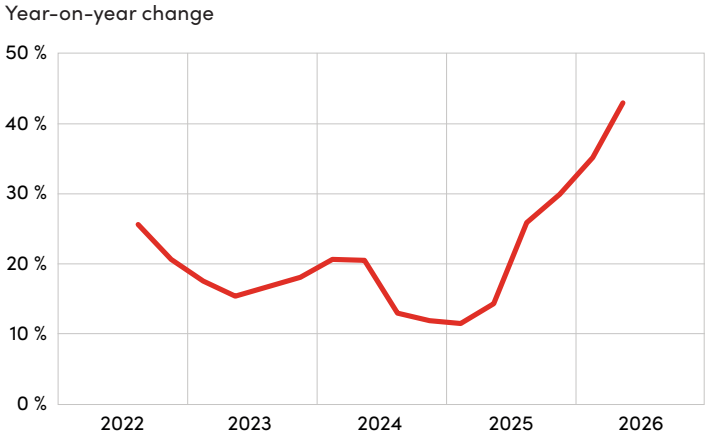


Fig. 10: US hyperscalers' cloud revenue growth (12-month average)

Source: BCA Research data, illustration by hpo forecasting

New hpo study: The Chinese Machine Tool Industry 2000-2025

Updated ranking:
The World's Top 100 Machine Tool Manufacturers
Many readers will know the name Peter Meier. He is the founder of hpo forecasting ag (formerly USP Consulting GmbH) and, despite his retirement, remains a close observer of the global machine tool industry.

For many years, he has compiled the **statistics on the 100 largest machine tool manufacturers,** which he updates annually and which are distributed by hpo forecasting. This year, he has also produced a detailed **study of the structural changes in China's machine tool industry.**

A short summary of the study follows below. The full 19-page report contains numerous charts and data on the 20 largest Chinese machine tool manufacturers.

China is turning from the most important sales market into the toughest competitor
For more than 20 years, China has been by far the largest buyer of machine tools. In 2025, the country accounted for around one third of global demand (USD 26.5 billion), more than the United States, Germany, Italy and India combined. Until 2011, consumption grew by around 20 % a year, driven by unprecedented industrialisation. Since then, the market has been saturated. Demand fluctuates around a trend that is flat at best and is sustained almost entirely by replacement investment. We know this pattern from Germany, Japan and South Korea. The only new element is the sheer size of the Chinese market.

Production has decoupled from domestic demand. At USD 30.8 billion, China now produces three times as many machine tools as Germany, and production continues to grow by 6 to 7 % a year. Since 2023, it has exceeded domestic consumption, and since 2024 China has been the world's largest exporter. The export share of production has risen from 10 to 15 % before 2010 to over 30 %. Exports are growing by around 12 % a year, while imports are falling by 5 %.

The drivers are economies of scale from the massive capacity build-up in the solar, electronics and automotive industries, state loans and subsidies, a weak currency and the gap left by Western suppliers in Russia. A new generation of manufacturers, founded from the mid-1990s onwards, has increased its revenue more than tenfold since 2005: first by displacing Japanese and German imports, and since 2020 increasingly through exports. Laser manufacturers have even multiplied their revenue thirteenfold in 15 years but are now caught in a fierce price war. One weak spot remains: controls and drives come overwhelmingly from Germany and Japan. The domestic share of high-end CNC controls is around 30 %.

For the DACH industry, this is the core of 'China Shock 2.0'. China has gone from being the most important market for capital goods to being the toughest competitor. For now, Chinese machines go mainly to emerging markets such as Russia, Vietnam and India. That is likely to change soon. Competition will play out first among small and medium-sized enterprises in Europe and North America, which today are often equipped with machines from Taiwan, South Korea or Japan.

Asian suppliers will come under pressure first, followed by European ones. Chinese manufacturers will also have to make concessions until a new equilibrium is reached. They will, however, retain a significant position in the global market.

Who are China's 20 largest machine tool manufacturers, and how has the market changed structurally in recent years?

Details can be found in the new hpo report 'The Chinese Machine Tool Industry 2000-2025'. The detailed report, together with the new ranking of the world's 100 largest machine tool manufacturers, can be ordered on our website from 25 November 2026: **hpoforecasting.ch**

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Who is hpo forecasting?

hpo forecasting produces industry- and company-specific order intake forecasts for the industry. With well over 200 industry forecasting models worldwide, hpo forecasting covers numerous market segments for capital goods and consumer durables. The forecasts are individually configured for companies. They are based on the Peter Meier Forecasting Model, a scientifically based method that has been empirically tested for over 20 years and is constantly being further developed.



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