SOME BRIGHT SPOTS IN DOWNTURN

UPDATE ON THE ECONOMIC SITUATION AND DEVELOPMENT IN SELECTED SECTORS
This quarterly newsletter can give you a general idea of which way the wind is blowing in the machine tools industry. It is a special supplement to our subscribers of Knowledge Link, our website for the machining industry.

Almost all the charts and graphs here are publicly available. They come from the three major machine tool associations – in Germany, Japan and the United States – as well as global surveys from market analysts.

We make the final graphs ourselves, the Grundfos Raw Materials Index and the automotive Monthly Production Output by country and manufacturer. We build the latter up from available automotive production figures. Grundfos Machining Industry segment uses automotive production statistics, because that market is such a big part of the machine tools industry.

Based on that, we try to estimate how the coming one- to three months will look.

Why do we want to share these statistics? Because we have a common interest in seeing how the market is doing. So please: read these statistics and comments as indicators alone.

We publish a full version of the Grundfos Industry Indicators quarterly in three languages, as well a monthly version in English only.

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Grundfos analyst:

Eurozone recession and global uncertainty continue to affect business in stronger economies

A downward global economic trend continued in October, caused mostly by the lasting recession in the Eurozone. The automotive industry and its sub-suppliers have been strongly affected by this economic slump.

Global consumer and investor uncertainty is the grey cloud that hangs over us. Major worries include the debt crisis in Europe, an economic slowdown in China and India, and pending fiscal policy decisions after the U.S. election.

Despite this downturn, the Japanese machine tool industry saw orders returning and U.S. manufacturers kept momentum in October.

Frank Baake
Senior Marketing Analyst

The Centre for European Economic Research (ZEW) writes,

“The ZEW Indicator of Economic Sentiment for Germany has increased by 6.7 points in October 2012. It now stands at a level of minus 11.5 points.

Financial market experts say that this rise shows that risks for the German economy have somewhat diminished. This could be explained by decreased uncertainty in financial markets in the past weeks. Still, other experts expect the German economy to cool down instead of heat up.

“Economic expectations for the Eurozone have hardly changed in October. The corresponding indicator has increased by 2.4 points to minus 1.4 points.”

The ZEW Indicator of Economic Sentiment is ascertained monthly. Up to 350 financial experts take part in the survey. The indicator reflects the difference between the share of analysts that are optimistic and the share of analysts that are pessimistic for the expected economic development in Germany in six months. The survey also asks for the expectations for the Euro-zone, Japan, Great Britain and the U.S.A.

For more information, visit ZEW’s website at zew.de.
**ZEW Indicator of Economic Sentiment (Germany)**

![ZEW Indicator of Economic Sentiment (Germany)](image)

**ZEW - Financial Market Survey: Results October 2012**

<table>
<thead>
<tr>
<th>Economic expectations</th>
<th>improve</th>
<th>no change</th>
<th>get worse</th>
<th>balance</th>
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<td>Italy</td>
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<table>
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<th>Sectors</th>
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Note: 288 analysts participated in the October survey which was conducted during the period 10/1-10/15/2012. Analysts were asked about their expectations for the next 6 months. Numbers displayed are percentages (month-over-month percentage point changes in parentheses). Balances refer to the difference between positive and negative assessments.
New Passenger Car Registrations in Europe

The European Automobile Manufacturers Association writes: “In September, new passenger car registrations continued their downward trend, declining for the twelfth consecutive month. Demand for new cars was down 10.8%, amounting to 1,099,264 units, compared with September 2011. Nine months into the year, the downturn reached 7.6%, with a total of 9,368,327 new cars registered in the EU.”

In major markets, the UK was the only market to expand, while Germany (-10.9%), France (-17.9%), Italy (-25.7%) and Spain (-36.8%) all had double-digit downturns.

“From January to September, the EU market shrank by 7.6%, compared to the first nine months of 2011. Results were diverse across markets, as the UK posted growth (+4.3%), while Germany saw its demand fall by 1.8% and Spain (-11.0%), France (-13.8%) and Italy (-20.5%) contracted more severely.”

For more information, see ACEA’s website at acea.be.

Machine Tool Order Intake in Germany

For the German machine tool industry, the order intake in August was 19.2% compared to the same month in 2011 and 30% compared to July of this year, according to figures from the German Engineering Federation (VDMA).

The VDMA (Verband Deutscher Maschinen- und Anlagenbau – German Engineering Federation) is a network of around 3,000 engineering industry companies in Europe.

For more information, please visit the VDMA’s website at vdma.org.
Machine Tool Order Intake in Japan

The order intake for the Japanese Machine Tool Industry in September 2012 was -3.0% compared to September 2011 and +11.4% compared to previous month August 2012, according to figures from the Japan Machine Tool Builders’ Association (JMTBA).

For more information, please visit the JMTBA’s website at jmtba.or.jp

Machine Tool Order Intake in U.S.A.

The Association for Manufacturing Technology (AMT) writes, “August U.S. manufacturing technology orders totalled $470.44 million...This total, as reported by companies participating in the USMTO program, was up 3.4% from July but down 4.7% when compared with the total of $493.60 million reported for August 2011.”

With a year-to-date total of $3,132.23 million, 2012 is up 5.4% compared with 2011.”

The United States Manufacturing Technology Consumption (USMTC) report, jointly compiled by the two trade associations representing the production and distribution of manufacturing technology, provides regional and national U.S. consumption data of domestic and imported machine tools and related equipment. Analysis of manufacturing technology consumption provides a reliable leading economic indicator as manufacturing industries invest in capital metalworking equipment to increase capacity and improve productivity.

For more information, visit the website at amtonline.org.
The Ifo Business Climate Index for German industry and trade continued to fall in September, marking its fifth successive decline. The companies surveyed are again less satisfied with their current business situation. They also expressed greater pessimism about the future. The curbing forces on the German economy continue to prevail. After recovering briefly last month, the business climate in manufacturing continued to cool significantly in September. Expectations concerning the six-month business outlook remained clearly negative and dropped for the fifth month in succession.

The Ifo Business Climate Index is based on ca. 7,000 monthly survey responses of firms in manufacturing, construction, wholesaling and retailing. The firms are asked to give their assessments of the current business situation and their expectations for the next six months. They can characterise their situation as “good,” “satisfactorily” or “poor” and their business expectations for the next six months as “more favourable,” “unchanged” or “more unfavourable.” The balance value of the current business situation is the difference of the percentages of the responses “good” and “poor”; the balance value of the expectations is the difference of the percentages of the responses “more favourable” and “more unfavourable.” The business climate is a transformed mean of the balances of the business situation and the expectations. For calculating the index values, the transformed balances are all normalised to the average of the year 2000.

The CESifo Group, consisting of the Centre for Economic Studies (CES), the Ifo Institute for Economic Research and the CESifo GmbH (Munich Society for the Promotion of Economic Research) is a research group unique in Europe in the area of economic research. It combines the theoretically oriented economic research of the university with the empirical work of a leading Economic research institute and places this combination in an international environment.

For more information, visit the website at cesifo-group.de.
The Grundfos Global Automotive Indicators

In August, the two U.S. manufacturers (Ford and GM) showed positive development when compared to other car manufacturers. This trend is not expected to last, as the chart below indicates.

While production in the U.S. has been unsteady, the world’s four major automotive markets have maintained a production level of approximately 3.5 million units per month.
Grundfos Cost Analyst Jesper Bjerregård Juul comments on the price fluctuations of raw materials and their impact on the manufacturing industry. He writes:

**Mixed Commodities prices in September**

- In the beginning of September commodity prices were stimulated by U.S. Federal Reserve Chairman Ben Bernanke’s speech at the Federal Reserve’s annual meeting in Jackson Hole, Wyoming.

- Bernanke signaled a willingness to introduce economic stimuli to kick-start the U.S. economy. Later, prices were stimulated again when the U.S. Federal Reserve announced that they would buy mortgage-backed securities for 40 billion USD, which will stimulate future demand.

- Weak figures from the Chinese manufacturing industry have contributed to increased speculation that the Chinese government will introduce economic stimuli.

- The U.S. showed an overall solid report from The Institute of Supply Management (ISM), rising to 51.5 in September.

- On the downside, the Ifo index fell to 93.2 in September, signaling a German recession.