Atradius
Managing risk, enabling trade

Industry trends – Machines / Engineering

2026 promises production growth, but below its potential

March 2026

Global overview

Renewed uncertainty surrounding tariff regimes and legal risks affect machinery investment

We expect global mechanical engineering output to increase by 3.1% in 2026. While this is higher than in our previous forecast given in August 2025, growth remains below potential, as the sector continues to face a complex mix of ongoing trade uncertainty, geopolitical risks and elevated capital expenditure costs.

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 are important for an industry that often requires financing for significant capital outlay, often over many years. A US Supreme Court decision invalidated most tariffs imposed under the International Emergency Economic Powers Act (IEEPA). However this was quickly followed by the US administration's decision to apply 10% across the board tariffs. This has resulted in a high uncertainty environment, ending a period of fragile predictability achieved through agreements and quiet, gradual tariff relief.

Companies are facing renewed uncertainty surrounding tariff regimes and legal risks. In this business environment many companies in the manufacturing sector remain reluctant to invest in capital goods. In addition, the monetary policy easing cycle has slowed in most countries for the time being. The war in the Gulf region and the associated additional geopolitical uncertainty are a downside risk for global machinery investment.

In 2027 we expect global mechanical engineering output growth to accelerate to 3.6%, as additional monetary easing expected in H2 of 2026 begins to feed through and defence spending increases, particularly in Europe.

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 is reaching the limits of its investment-driven growth model.

Industry performance forecast

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

Industry trends

Mechanical engineering output

Global and per region	2024	2025*	2026*	2027*
Global	-0.5	2.9	3.1	3.6
Americas	-0.7	1.5	0.6	2.7
Asia Pacific	1.6	4.5	4.5	4.4
Europe	-5.3	-0.6	0.9	1.7

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

Global output per subsector	2024	2025*	2026*	2027*
General purpose machinery	0.4	3.7	2.2	3.6
Agricultural machinery	-9.3	-1.2	4.2	3.4
Machinery for mining and construction	-6.0	1.4	2.3	2.3
Machine tools	-5.2	2.6	1.7	2.1

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	2024	2025*	2026*	2027*
Brazil	0.9	5.1	-0.1	3.9
Canada	-6.8	-3.9	-7.9	5.4
Mexico	0.8	0.6	0.7	3.7
USA	0.4	2.0	1.3	2.4

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

Industry performance forecast

- Brazil
- Canada
- Mexico
- USA

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USA

Machinery demand driven by the AI-boom, but tariffs weigh on input costs

We expect US mechanical engineering production to grow by 1.3% in 2026 and by 2.4% next year. After increasing by 8% in 2025, machinery and equipment investment in the US should expand again this year. A main driver is ongoing robust AI-related capital expenditure, particularly in hardware and data-centre construction. Special purpose machinery output is forecast to increase by 4.2% in 2026. Additionally, fundamentals beyond AI remain supportive for equipment spending. In key machinery buyer industries corporate spreads are tight but profit margins good. 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 the increase in government spending (defence and non-defence) supports demand for US machinery across all subsectors in the forecast period.

However, the current US tariff policy risks preventing additional growth of machinery production and sales due to higher input costs. Producer price inflation for machinery and equipment has sharply increased since mid-2025. 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 still tariffed at 50%, which will continue to put upward pressure on input costs and weigh on competitiveness.

Recent tariff policy developments have added uncertainty

The US administration responded to the recent US Supreme Court decision to invalidate most tariffs imposed under the International Emergency Economic Powers Act (IEEPA) by imposing 10% across the board tariffs. As a result, this has ended the period of, admittedly fragile, predictability achieved through deals and tariff relief negotiated by many markets. US companies are facing renewed uncertainty surrounding tariff regimes and legal risks. Any near-term economic boost from lower tariffs is now likely to be partly offset by this renewed uncertainty, which could negatively affect (non-AI-related) fixed investment in the US. We will probably see another boost in trade from front-loading again in the short term while alternative tariff tools are investigated. This could lead to an increase in machinery imports in the coming months.

In the mid- to long-term, demand for automation, digitalisation, and sustainable production solutions in manufacturing should support machinery demand in the US. 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 7.9% in 2026 after a 3.9% slump last year. 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. At least the industry benefits from fiscal measures which enhance existing tax allowances by enabling firms to deduct capital investment more rapidly and at a higher proportion of total cost. We expect that the USMCA agreement will be renegotiated this year, providing a much-needed relief to Canadian machinery production, leading to a 5.4% output rebound in 2027.

Machines / Engineering outlook

Asia Pacific

Mechanical engineering output	2024	2025*	2026*	2027*
China	3.5	6.5	6.1	5.3
India	3.8	8.8	4.0	6.3
Japan	-4.7	-0.2	-0.4	1.3
South Korea	-2.9	-4.1	2.5	2.1

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

China

The sector benefits from fiscal stimulus

We expect Chinese mechanical engineering output to increase by 6.1% in 2026, with the special purpose machinery segment growing 8.3%. In 2027 mechanical engineering production is forecast to rise 5.3%. Demand from Chinese manufacturing sectors remains solid. Domestically the machines and engineering industry benefits from fiscal stimulus for advanced manufacturing and export-oriented sectors. Fixed investment in China is expected to recover meaningfully in 2026, rising by 5.2%, from a modest 1.0% in 2025. Mechanical engineering is additionally supported by government investment in strategic sectors such as high-tech, automation, and climate/energy, mainly benefitting the electrical machinery segment.

US tariffs remain a headwind for Chinese machinery and manufacturing exports, even though trade tensions between the US and China have eased following their leaders' meeting in October 2025. The recent US Supreme Court ruling on IEEPA tariffs and Washington's subsequent introduction of 10% across the board tariffs have reduced the effective tariff rate of Chinese imports by 8%. However, a material shift in US imports from China is unlikely because they will remain a key focal point of US tariff policy. That said, global Chinese machinery exports benefit from the strength of pricing power and the ability of producers to either find new markets or reroute their products via other countries. The US currently accounts for only about 10% of China's total machinery and equipment exports.

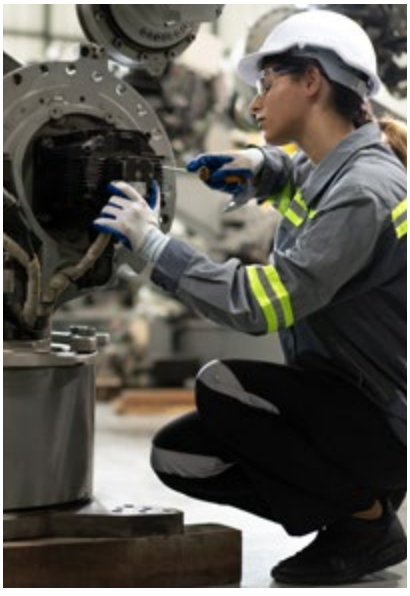
In the mid- and long-term we expect Chinese annual mechanical engineering output to stabilise between 2.0% and 2.5%, as China is reaching the limits of its investment-driven growth model. A shift to a more service-oriented economy will reduce demand for capital goods.

Japan

Weaker global trade environment remains a concern

Japanese mechanical engineering output is forecast to decline by 0.4% in 2026 before rebounding by 1.3% in 2027. The impact of US tariffs has been more limited than initially feared, but the ongoing trade policy uncertainty still hampers capital expenditure growth in Japan and abroad. This is likely to weigh on sector activity over the next few quarters. A weakening global trade environment is a concern for a sector that heavily relies on foreign markets.

The new Japanese government has approved a large supplementary budget focused on strategic industries and defence expansion, which should support medium-term investment in machinery. However, any further fiscal slippage risks triggering higher government bond yields, raising financing costs and limiting the effectiveness of fiscal support. While defence spending is set to increase, the benefit for mechanical engineering will be limited as a large share of equipment will be imported.



Industry performance forecast
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Machines / Engineering outlook

Europe

Mechanical engineering output	2024	2025*	2026*	2027*
Germany	-7.1	-1.2	0.8	1.2
Italy	-4.2	-0.4	0.6	2.3
The Netherlands	-2.3	1.1	3.5	3.2
United Kingdom	-8.4	4.5	0.3	2.5

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

European Union and UK

No substantial rebound before 2027

After contractions in 2024 and 2025 we expect mechanical engineering output in the EU and the UK combined to grow by 1% in 2026. The rebound remains modest due to a subdued manufacturing performance in the region, while the recovery of exports remains muted. European mechanical engineering exports are highly dependent on the US market, meaning the sector is exposed to higher metals and aluminium import tariffs. In many other markets 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.

EU and UK machinery is potentially the most vulnerable European manufacturing sector to Chinese competition in external markets, as sales outside the region are a significant source of revenue for the industry. Over the past five years the EU global export market share in machinery has declined markedly, while China's has increased by more than 5% as its products have risen up in the value chain.

Towards the end of 2026 sector growth should accelerate, and we expect machinery output in the region to increase by 1.9% in 2027, due to a rebound in manufacturing activity. Germany's fiscal stimulus package and the EU's rearmament programme support expansion in defence and infrastructure-adjacent sectors, including aerospace, ships, and military vehicles. This should increase demand for machinery and equipment, such as machine tools.

Germany

A modest rebound is on the cards, but major issues remain

Germany accounts for more than 45% of eurozone mechanical engineering output. Machinery production and exports contracted in 2024 and 2025. Last year business uncertainty due to US tariffs have hampered investment decisions for machinery purchases, and exports to China and the US shrank by 8% year-on-year. Non-payments and insolvencies in the industry increased over the past two years.

We expect a modest 0.8% machines and engineering production rebound in 2026, followed by a 1.2% increase in 2027. Higher European defence spending and larger infrastructure investment in Germany triggered by fiscal stimulus should support the recovery. 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.

That said, the recovery of Germany's economy remains slow for the time being. Fiscal spending focuses on civil engineering and defence, with both sectors already operating at full capacity, which means delays are likely. At the same time demand from automotive as a key buyer industry, is expected to decrease further. Exports are facing ongoing trade policy uncertainty, which hampers mechanical engineering investment in target markets. Deliveries to the US continue to suffer from high tariffs on the steel and aluminum components of machines, while competition from China is a growing in many export markets. Therefore, we expect credit risk in the German machinery sector to remain elevated this year.

Industry performance forecast
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Czech Republic
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