

THE GRUNDFOS INDUSTRY INDICATORS



IS THE CRISIS OVER?

UPDATE ON THE
ECONOMIC SITUATION
AND DEVELOPMENT IN
SELECTED SECTORS

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ABOUT GRUNDFOS INDUSTRY INDICATORS

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 new 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 two graphs ourselves, the Monthly Production Output by country and manufacturer. We build these 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 esti-

mate 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 where the market is going.

So please: read these statistics and comments as *indicators* alone

PUBLISHER'S COMMENTARY

AN ANALYSIS OF CURRENT INDUSTRY INDICATORS

IS THE CRISIS OVER?

By Ole Gerlich, Market Segment Director

If we look at the recent year's Grundfos performance within the machine tool industry, it seems like the crisis is over. In fact, our recent sales have overshot those from 2008, our previous best year. The question is, then: is the market real? Or do we risk another drop – the so-called “double dip”?

AS A SUPPLIER, IT SUDDENLY LOOKS LIKE THE TREES ARE GROWING INTO THE SKY

Quite often after a downturn, people overreact and order extra. As a supplier, it suddenly looks like the trees are growing into the sky. Will the high activity continue, will we see it stagnate, or will we see another recession with a drop in demand?

OUR TAKE

Up until spring 2011, we can see from our indicators that the market has definitely returned – maybe not a constant but a steady growth. When looking at durable consumer goods, we have seen a high output in car sales in the Americas, Europe and Asia – with countries like China in the lead. Grundfos was performing above the 2008 industry level. As a whole, the machine tool industry was actually 10-20 per cent below those levels.

In general since April-May 2011, we have seen a decline of business expectations. We are all under the influence of the discussions of the global econ-

omy: the weak situations in southern Europe, the continued low growth in USA and the worries that China's inflation is getting out of control.

Global car production is still going up, however, and almost at the same level as last year, supported by the comeback of Toyota after the natural disasters in Japan in March. At the same time, we see slight indications for a decrease in Europe.

IMPRESSIVE GROWTH

The Machine Tool industry shows impressive growth rates in its main countries – Japan, Germany and USA – for the first six months, compared to last year.

The Japanese machine tool order intake fell slightly in July compared to a very high June, not a reason to be worried in itself. In fact, the Japanese machine tool industry has been growing constantly since an all-time low in January 2009. It is amazing how Japan was able to recover and keep its growth, even though it was rebuilding after the natural disasters like the earthquake and tsunami. Strong export keeps the Japan machine tool industry growing steadily, and the coming months will show whether this just is a one-month incidence or already a sign of the expected easing of demand.

Despite the situation in southern Europe, Germany is keeping the European machine tool industry at a high growth level. We must remember that Germany was three to six months later into the crisis than the rest of the world, and



it has taken it three to four months longer than rest of the world to recover.

Like Japan, however, the German machine tool industry has grown constantly since mid-2009. Data from the German Engineering Federation (VDMA) shows that machine tool order intake in June was as much as 56% higher than June 2010 and as much as +103% for the first 6 months of this year.

USA AND BEYOND

America is also doubling, up 104% compared to 2010, according to a recent report from the Association for Manufacturing Technology and the American Machine Tool Distributors' Association. But keep in mind that USA is not the world's biggest consumer of machine tools anymore, as it was for so many years since the early 2000s, where I've been following these numbers. USA lost its lead in 2002, and today the country ranks third after China and Germany.

We believe the global machine tool business has reached its peak and the potential for additional growth is minor. On the other hand, we believe the momentum will continue for now – despite all the negative, global economic signals. We believe the positive trend with full order books will stay on a high level until the end of 2011, after which we will see a moderate stagnation.

For the moment, at least, we can enjoy the sight of all the trees growing into the sky.

Grundfos analyst: Good vibrations despite falling expectations



With the recent market indicators, we observe a continued decline of business expectations in general.

Global car production is still rising, however. In the first half of 2011, it has nearly reached last year's corresponding level, supported by the comeback of Toyota after the natural disasters in Japan in March. In Europe, we see slight indications for a decrease.

The machine tool industry shows impressive growth rates compared to last year in the main countries of Japan, Germany and the U.S for the first six months. The Japanese machine tool order intake fell slightly in July compared to a high in June but is still strong. The coming months will show whether this is just a one month incidence or already a sign of the expected easing of demand.

Despite the general decline of expectations, we expect some positive activity in the machine tool industry in connection with the EMO trade show in Hannover in September.

Frank Baake
Senior Marketing Analyst

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Economic Expectations for Key Countries and Industry Sectors



The Centre for European Economic Research (ZEW) writes, "The ZEW Indicator of Economic Sentiment for Germany has dropped by 6.1 points in July 2011. The indicator now stands at minus 15.1 points. This value is below the indicator's historical average of 26.2 points.

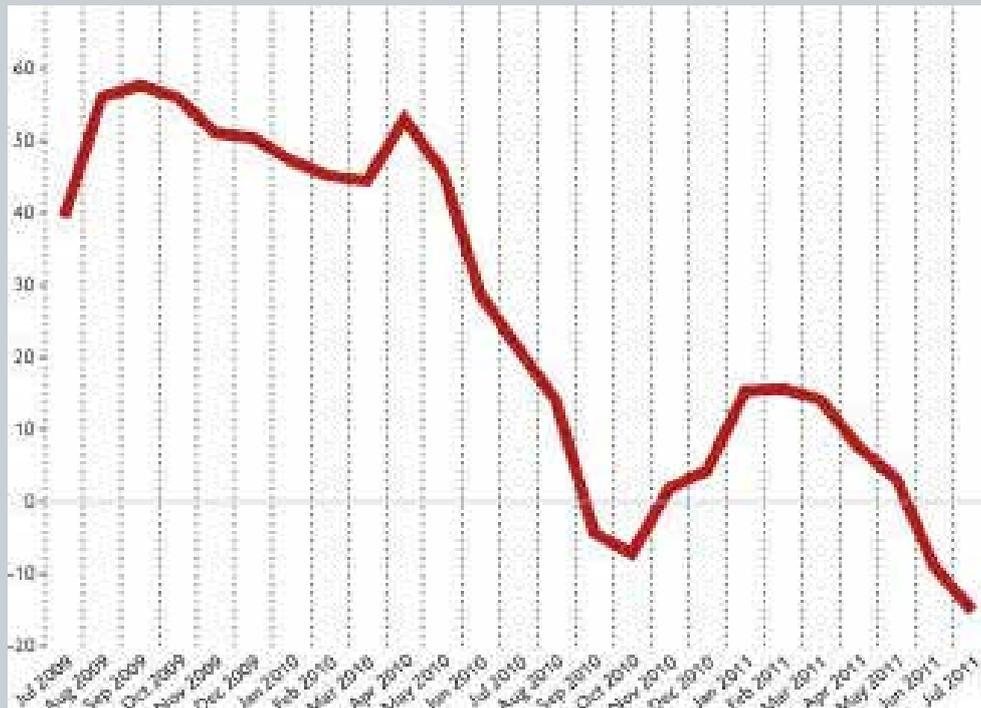
Compared to the previous month, economic expectations have declined moderately in July. Despite the robust economic situation, the public debt problems of some countries in the euro zone have dampened economic sentiment.

Economic expectations for the euro zone have decreased by 1.1 points in July. The respective indicator now stands at minus 7.0 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 - Financial Market Survey: Results July 2011

Economic expectations	improve		no change		get worse		balance	
Eurozone	16.7	(- 2.6)	59.6	(+ 4.1)	23.7	(- 1.5)	-7.0	(- 1.1)
Germany (ZEW Indicator)	10.8	(- 6.4)	63.3	(+ 6.7)	25.9	(- 0.3)	-15.1	(- 6.1)
USA	30.8	(+ 2.3)	50.3	(- 1.6)	18.9	(- 0.7)	11.9	(+ 3.0)
Japan	55.6	(+ 7.1)	35.7	(- 0.3)	8.7	(- 6.8)	46.9	(+13.9)
United Kingdom	17.3	(- 2.2)	70.2	(+ 4.0)	12.5	(- 1.8)	4.8	(- 0.4)
France	12.8	(- 3.5)	71.6	(+ 4.1)	15.6	(- 0.6)	-2.8	(- 2.9)
Italy	11.0	(- 1.9)	68.4	(- 0.2)	20.6	(+ 2.1)	-9.6	(- 4.0)
Sectors	improve		no change		get worse		balance	
Banks	17.4	(- 4.3)	44.9	(- 1.2)	37.7	(+ 5.5)	-20.3	(- 9.8)
Insurance companies	14.6	(- 4.9)	53.7	(+ 4.3)	31.7	(+ 0.6)	-17.1	(- 5.5)
Automobile	38.2	(- 1.3)	51.6	(+ 3.6)	10.2	(- 2.3)	28.0	(+ 1.0)
Chemicals / Pharmaceuticals	43.5	(- 2.3)	50.4	(+ 2.2)	6.1	(+ 0.1)	37.4	(- 2.4)
Steel	32.4	(- 2.0)	55.5	(- 0.5)	12.1	(+ 2.5)	20.3	(- 4.5)
Electronics	35.8	(+/- 0.0)	56.5	(- 0.9)	7.7	(+ 0.9)	28.1	(- 0.9)
Mechanical engineering	51.6	(+ 4.4)	39.1	(- 4.6)	9.3	(+ 0.2)	42.3	(+ 4.2)
Retail / Consumer goods	37.8	(- 2.6)	49.2	(+ 3.0)	13.0	(- 0.4)	24.8	(- 2.2)
Construction	32.0	(- 5.1)	50.0	(- 1.0)	18.0	(+ 6.1)	14.0	(-11.2)
Utilities	8.9	(+ 0.9)	43.5	(+ 3.7)	47.6	(- 4.6)	-38.7	(+ 5.5)
Services	29.8	(+ 2.7)	65.3	(- 2.4)	4.9	(- 0.3)	24.9	(+ 3.0)
Telecommunications	15.4	(- 0.2)	72.8	(+ 3.2)	11.8	(- 3.0)	3.6	(+ 2.8)
Information technology	38.1	(+ 0.7)	54.9	(- 0.9)	7.0	(+ 0.2)	31.1	(+ 0.5)

Note: 288 analysts participated in the July-survey which was conducted during the period 7/4-7/18 2011. 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.

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New Passenger Car Registrations in Europe



ACEA
EUROPEAN AUTOMOBILE MANUFACTURERS' ASSOCIATION

The European Automobile Manufacturers' Association (ACEA) writes, "In June, all important markets faced a downturn, leading to an overall 8.1% fall across the EU. Contractions ranged from -0.3% in Germany to -1.7% in Italy, -6.2% in the UK, -12.6% in France and -31.4% in Spain. The month counted on average 0.7 working day less across the region.

Over the first six months of 2011, a total of 7,120,499 new cars was registered, or 2.1% less than in the first half of last year. The situation in the major markets varied. While Germany (+10.5%) performed better than in the same period a year ago, the UK (-7.1%), Italy (-13.1%) and Spain (-26.8%)



saw the number of new car registrations decrease. Registrations in France (+1.0%) were almost level compared to last year."

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



Production of Motor Vehicles in Japan

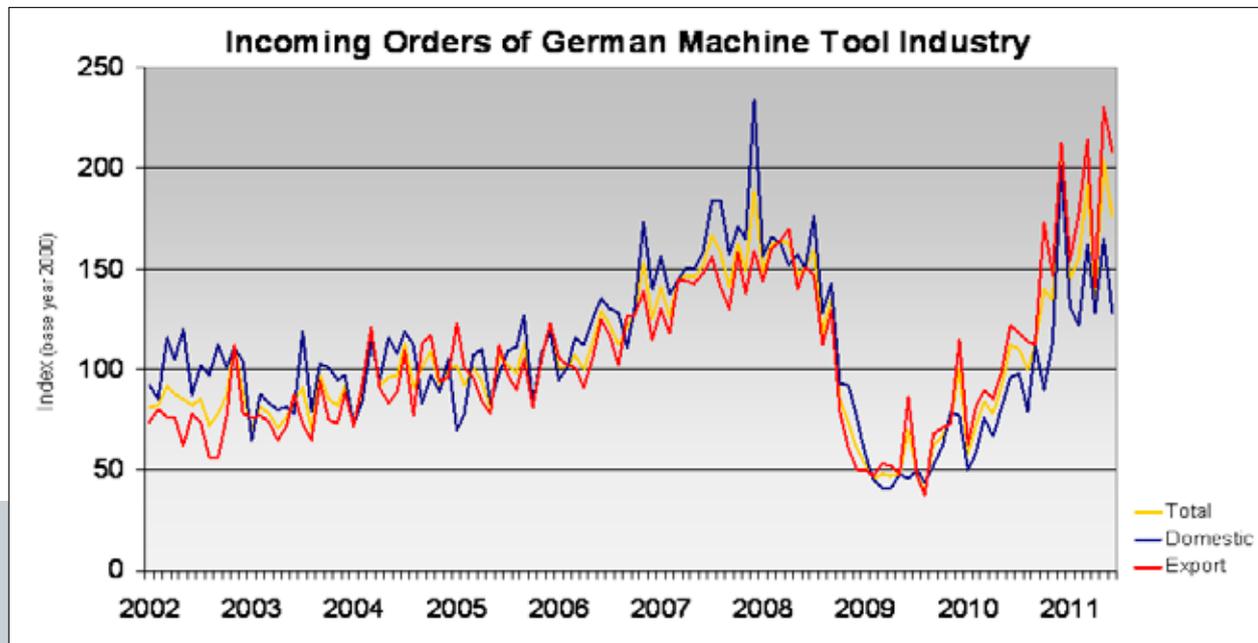


Production numbers show for all vehicles in June minus 13.9% compared to same month in 2010 but already almost on the same level as before the earthquake and tsunami in March.

For more information, see the Japan Automobile Manufacturers' Association (JAMA) website at jama-english.jp

Japan's Motor Vehicle Statistics								
TOTAL BY MONTH				Current Year				
[Unit: Number of vehicles]								
Production								
	Cars	*Change	Trucks	*Change	Buses	*Change	Total	*Change
YTD '11	2,925,187	-30.2%	464,559	-22.4%	40,188	-27.0%	3,429,934	-29.2%
Jan	609,598	-7.2%	87,830	-2.1%	8,679	17.2%	706,107	-6.3%
Feb	685,655	-6.4%	99,531	-0.5%	10,470	12.8%	795,656	-5.5%
Mar	348,474	-57.7%	50,781	-54.2%	4,682	-55.4%	403,937	-57.3%
Apr	249,772	-60.2%	40,348	-57.5%	1,924	-80.0%	292,044	-60.1%
May	410,971	-32.5%	74,840	-18.7%	3,948	-52.3%	489,759	-30.9%
Jun	620,717	-16.2%	111,229	0.1%	10,485	5.5%	742,431	-13.9%

Machine Tool Order Intake in Germany



For the German machine tool industry, the order intake in June was +56% compared to the same month in 2010, for the first 6 months +103%.

“The German machine tool industry is forecasting a 30-percent increase in production output for 2011.... With the return to an anticipated volume of almost 13 billion Euros, we would have caught up on almost all the deleterious effects of the crisis. That’s something we could be more than satisfied with,” said Martin Kapp, Chairman of the VDW (German Ma-

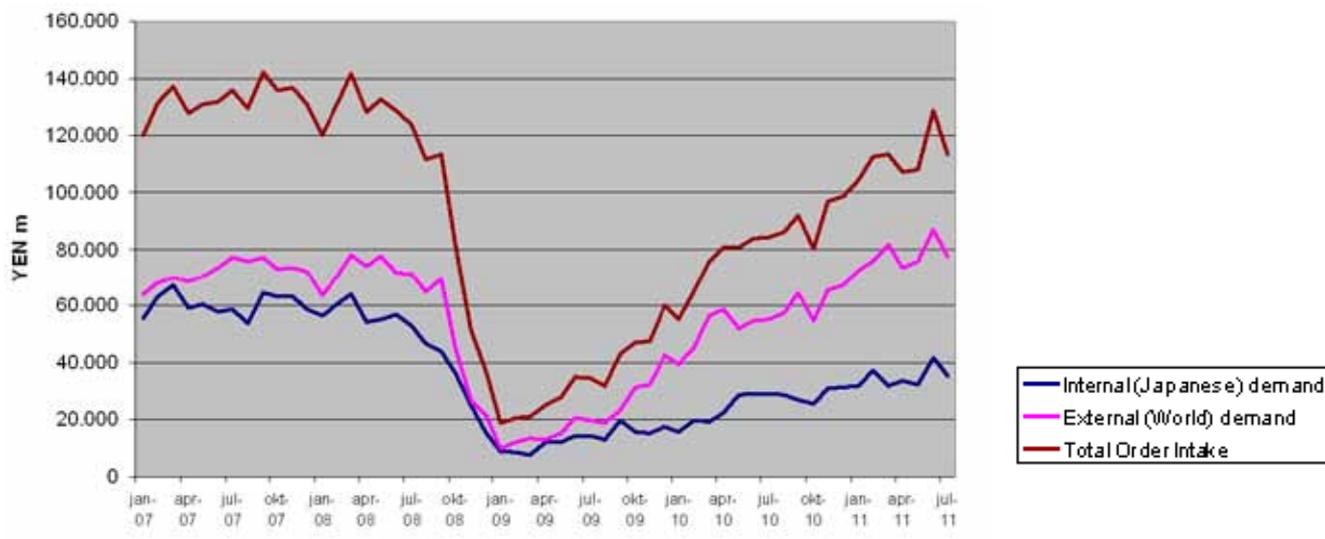
chine Tool Builders’ Association), speaking at its annual press conference in Frankfurt am Main earlier this year. The data derive from a monthly representative survey by the Verband Deutscher Maschinen- und Anlagenbau, or the German Engineering Federation (VDMA) among its member enterprises in Germany.

For more information, please visit the VDMA’s website at vdma.org.

5 Machine Tool Order Intake in Japan



Order Intake of Japanese Machine Tool Manufacturers



According to the Japan Machine Tool Builders' Association (JMTBA), the order intake for the Japanese Machine Tool Industry in July 2011 was 1.9% below a high June and +34.6 % compared to June 2010.

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

6 Machine Tool Order Intake in U.S.A.



“June U.S. manufacturing technology orders totalled \$459.39 million according to AMT - The Association for Manufacturing Technology and AMTDA, the American Machine Tool Distributors' Association. This total, as reported by companies participating in the USMTO program, was up 15.3% from May and up 91.7% when compared with the total of \$239.68 million reported for June 2010. With a year-to-date total of \$2,453.78 million, 2011 is up 103.9% compared with 2010.”

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.

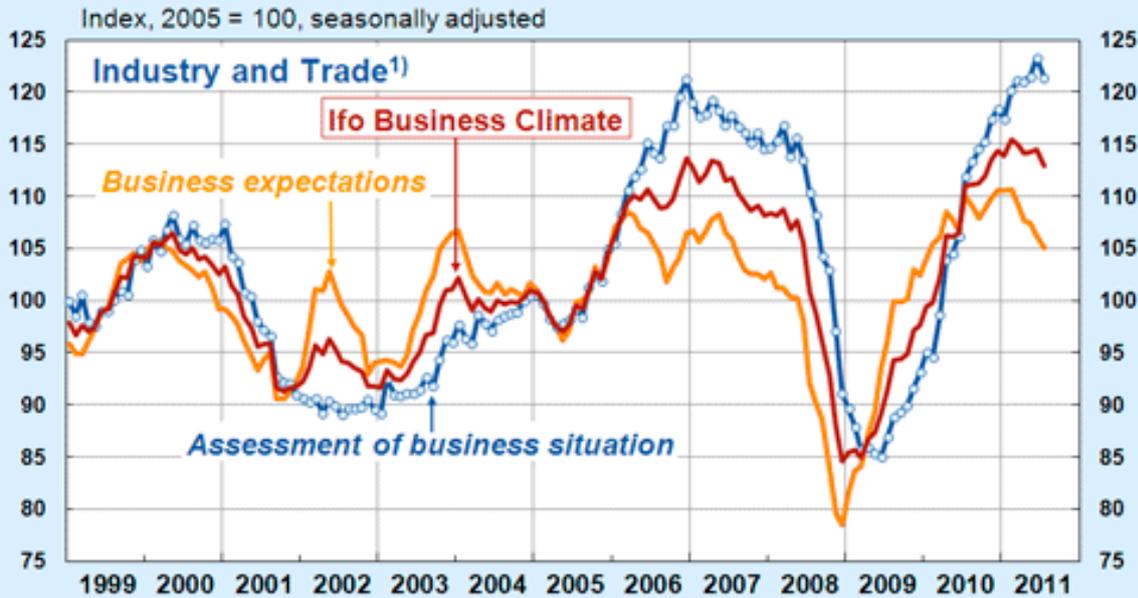
The USMTC report, jointly compiled by the two trade associations representing the production and distribution of manufacturing technology, provides regional and national U.S. consumption data of domestic and imported machine tools and

USMTO		U.S. Manufacturing Technology Orders					June 2011		
		A joint statistical program of AMT and AMTDA							
	Jun 11 (P)	Previous Month	% Change	Year Ago Month	% Change	YTD 11 (P)	YTD 10 (R)	% Change YTD	
National									
Metal Cutting	396.95	362.77	9.4%	226.48	75.3%	2,230.18	1,111.20	100.7%	
Metal Forming & Fabricating	62.44	35.75	74.6%	13.20	373.1%	223.60	92.15	142.6%	
Total	459.39	398.53	15.3%	239.68	91.7%	2,453.78	1,203.35	103.9%	

German Business Climate – Industry and Trade



Ifo Business Climate in Germany Ifo Business Survey July 2011



22/07/2011 © ifo

Ifo Business Climate Germany:

“The Ifo Business Climate for German industry and trade worsened noticeably in July after having improved in the previous month. The firms are no longer quite so satisfied with the current business situation but their assessments are just as favourable as in the spring of the year. But the expectations are clearly weakening.

The firms anticipate a lower growth in export business than in the previous months. Capacity utilisation in manufacturing, however, is currently somewhat higher than in the spring. The firms still plan to hire additional personnel.”

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 Center for Economic Studies (CES), the Ifo Institute for Economic Research and the CESifo GmbH (Munich Society for the Promotion of Economic Research)

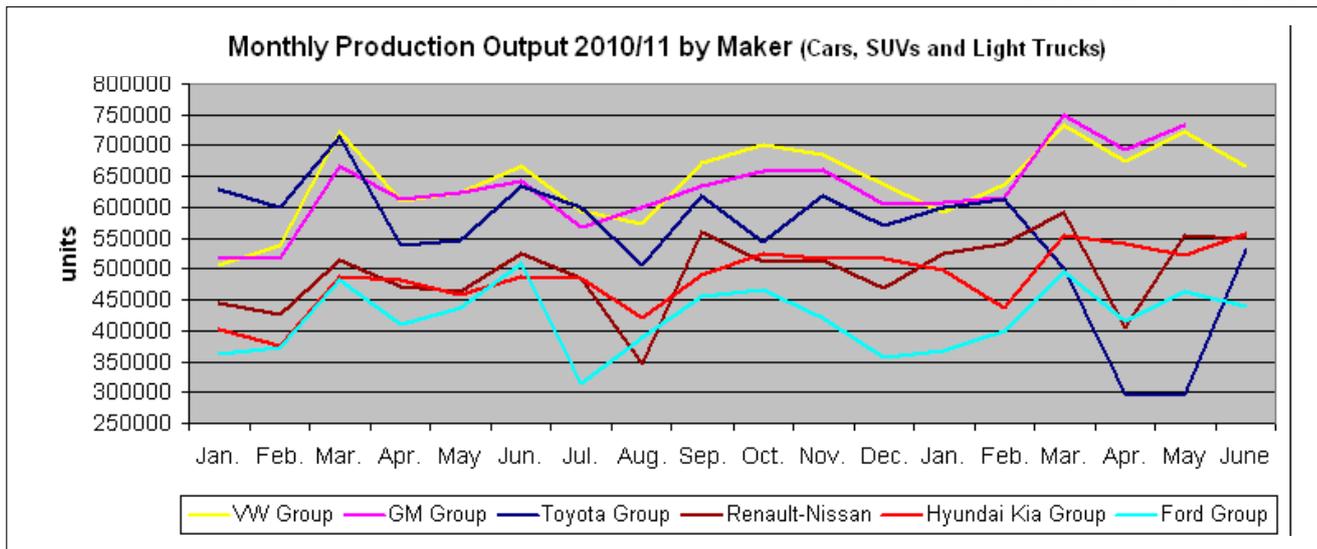


is a research group unique in Europe in the area of economic research. It combines the theoretically oriented economic research of the university with the empirical work of a leading Economic research institute and places this combination in an international environment.

For more information, visit the website at cesifo-group.de.

8 The Grundfos Global Automotive Indicators

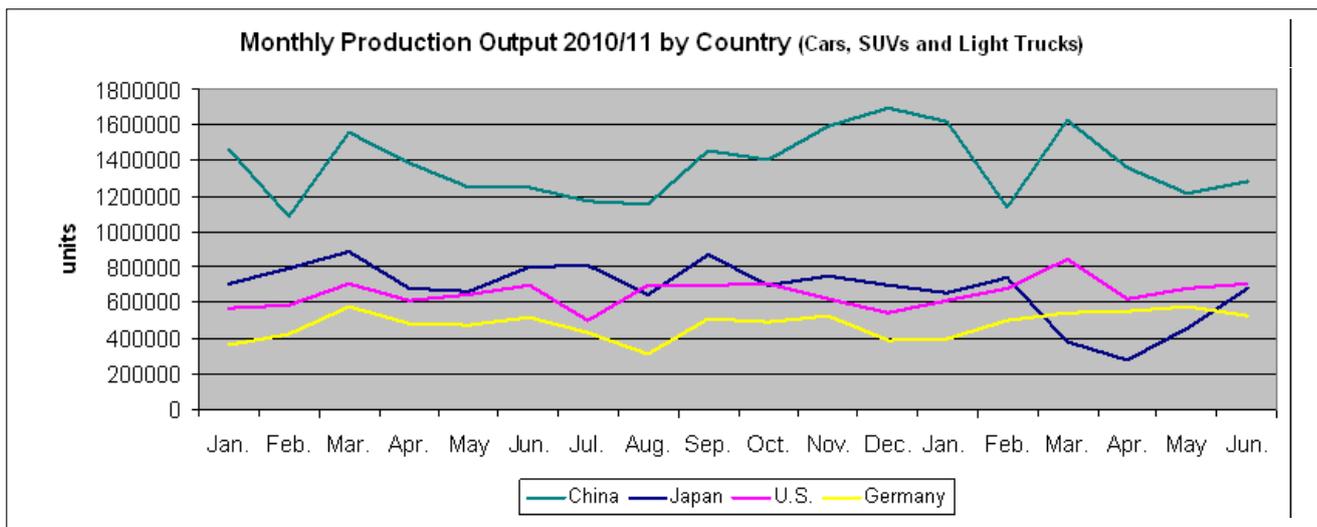
Data source: MarkLines Co. Ltd



The year-end production numbers 2010 of the TOP 6 car manufacturers are (in units):

VW Group	7.5m	Toyota Group	7.1m	Hyundai Kia Group	5.6m
GM Group	7.3m	Renault-Nissan	5.7m	Ford Group	5.0m

Data source: MarkLines Co. Ltd



The year-end production numbers 2010 of the TOP 4 car producing countries are (in units):

China	16.5m	U.S.A.	7.6m
Japan	9.0m	Germany	5.5m

The strongly hit Japanese manufacturers like Nissan and Toyota are almost on track again. The slight decrease for the VW Group is mainly due to less production in the German factories. GM figures are not shown for June due to lack of reporting from some countries (e.g. Mexico and Eastern Europe).

Hyundai Kia Group is gradually increasing market share.

Car production in the four monitored countries has mostly levelled off at previous year figures (Japan is slightly behind, but catching up).

Several car manufactures (e.g. GM and VW) have announced to expand production capacity in China in the coming years, which will enlarge the dominant position of the country.



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