

# The Economic Situation and Expectations for 2013

Results of a survey conducted by  
the Association of German Chambers  
of Commerce and Industry (DIHK)  
Early Summer 2013



“THE ECONOMIC SITUATION AND EXPECTATIONS FOR 2013 – Early Summer 2013” („Wirtschaftslage und Erwartungen im Frühsommer 2013“) is the title of an evaluation the DIHK has made of the results of a business survey carried out through its 80 member chambers of industry and commerce in Germany. This kind of business survey was first made in the fall of 1977 and has since then been made twice a year. In addition, the DIHK started at an interim date, i.e. in the early summer of the year 2000, through its chambers of industry and commerce an evaluation of the results of a nation-wide business survey.

The DIHK results are based on business surveys carried out by the chambers of industry and commerce. In each case, the chambers of industry and commerce question a representative number of their member companies. In Early Summer of 2013, the DIHK again evaluated round 24,000 responses. These responses are broken down into 29 percent for industry, seven percent for construction, 22 percent for retailing and 42 percent for services.

The territory of the Federal Republic of Germany consists of the states of Bremen, Hamburg, Lower Saxony and Schleswig-Holstein in the north, of the states of Hesse, North-Rhine/Westphalia, Rheinland-Palatinate and Saarland in the west, of the states Berlin, Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt and Thuringia in the east and of the states of Baden-Württemberg and Bavaria in the south.

The survey took place in April and in the beginning of May 2013.

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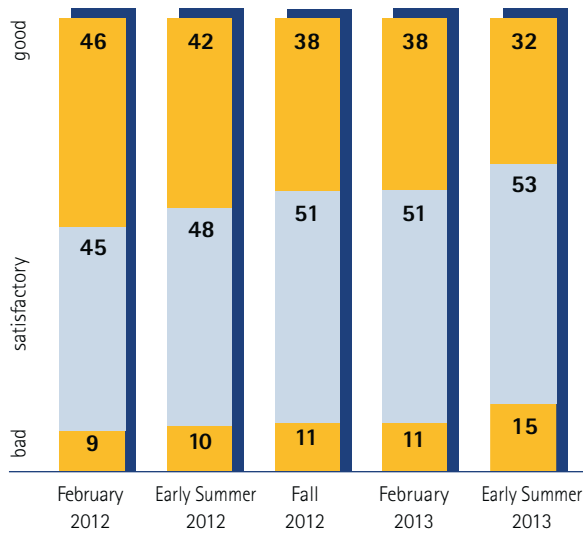
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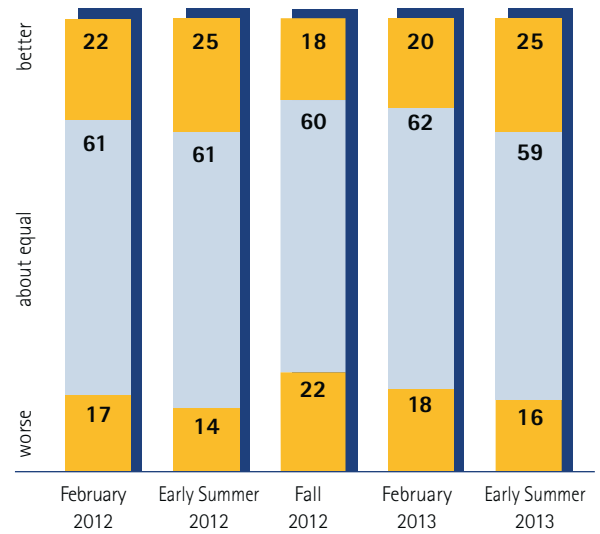
## Economic Situation

as seen by the Enterprises in per cent



## Business Expectations

of the Enterprises in per cent



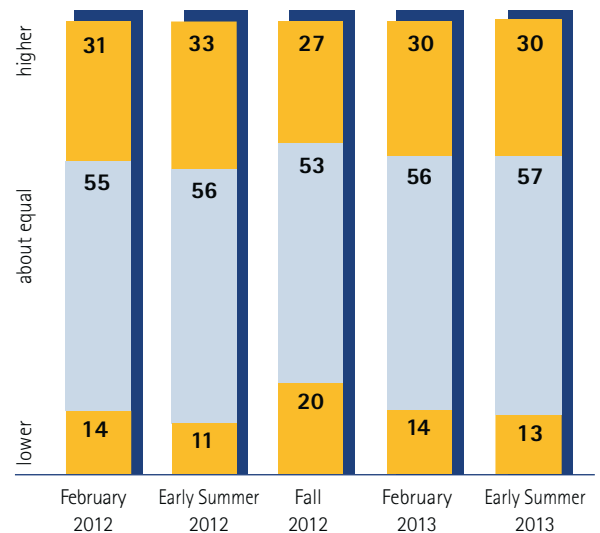
# DIHK-Survey on the Economy Early Summer 2013

# Germany at a Glance



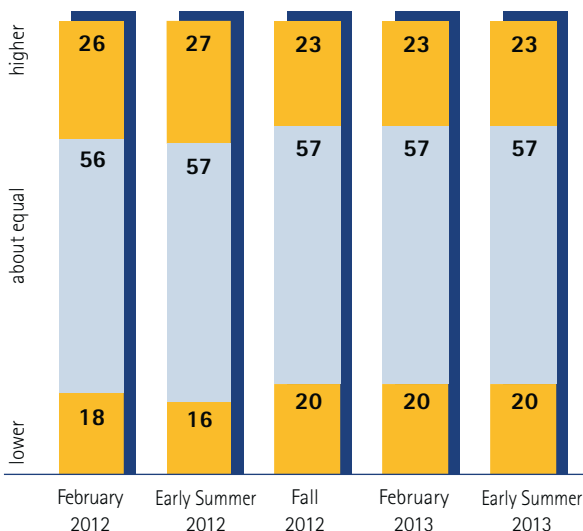
## Export Expectations

of the Enterprises (manufacturing industry) in per cent



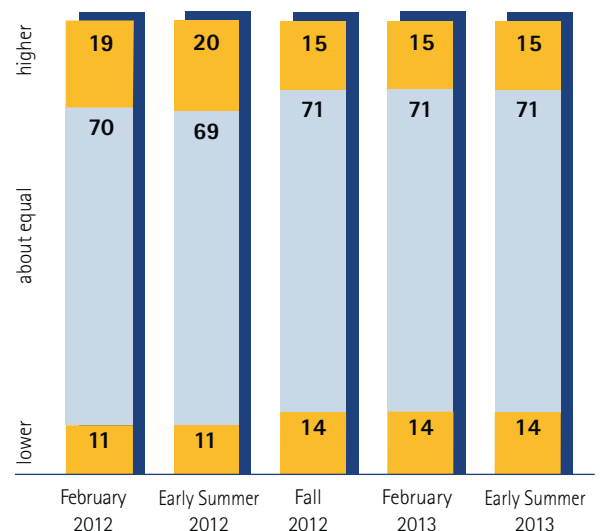
## Investment Intentions

of the Enterprises in per cent



## Employment Intentions

of the Enterprises in per cent



## ■ Main Findings

### Economic situation

Companies have become less optimistic in their current situation assessment. As a result, the confidence shown at the beginning of the year has so far not been fulfilled. Although the vast majority of businesses consider their situation to be satisfactory or even good, they are not able on balance to maintain the high level of their situation assessments of the past three years. After the unusually long winter, the situation for the construction and transport sector, as well as trade and consumer-oriented service providers such as hotels and restaurants, has deteriorated considerably. The situation assessments in the export and investment industries are also declining, albeit at a slower rate. In a difficult foreign trade environment, the broad international presence and high level of competitiveness of German industry are certainly helpful.

### Expectations

The outlook for companies with respect to their business developments over the coming months continues to brighten. Expectations are improving in all branches of the economy. Companies are evidently not afraid of any serious setbacks in terms of the euro debt crisis, even if the budget consolidation and the reforms still need time. The clearest improvement in expectations is found in the construction sector, where the value is well above average. This is followed by manufacturing industry. Services and trade are also improving, so that now - in spite of the existing uncertainties - the optimists are regaining the upper hand.

### Exports

The export expectations of the companies are more or less stagnant in the early summer. The burgeoning hopes for a revival of foreign business seen at the beginning of the year have not yet been fulfilled. Renewed setbacks as a result of the developments in Cyprus and the weak economic developments in the euro area, especially in France and Spain, continue to have a negative effect. This is still leaving its mark on export expectations. The uncertainty with respect to foreign demand is not abating. It is currently only possible to rely on a few emerging markets and the USA.

### Investment

Companies are remaining cautious with respect to their investment plans. The confidence demonstrated by the renewed improvement in expectations is not reflected in investment intentions. Evidently, the continuing uncertainties and the discussion about the plans for tax increases are making themselves felt. Although there is a fundamental sense of confidence in their own competitiveness, there is currently no clear investment driver, particularly in terms of increasing capacities. Furthermore, from the financing point of view, there is currently no time pressure due to also low medium-term interest rates.

### Employment

The recruitment plans of the companies remain stable compared to the two previous surveys. Employment therefore continues to display slight growth, even if there is no additional dynamism. In a difficult economic environment, the increase in employment is nevertheless remarkable - and the result of the more flexible labour market and worries about where the next generation of skilled workers will come from. The construction sector requires more personnel - due to the special economic situation in private housebuilding and in order to make up for the backlog resulting from the hard and long winter. Manufacturing industry is again turning the robust level of exports into somewhat higher employment levels. However, the economic stimuli here are still too weak to bring about stronger developments. After a long period of moderate wage increases, significantly more businesses across the sectors consider rising labour costs to be a risk.

## I ECONOMIC SITUATION

### How do enterprises assess their situation at present?

#### Business situation has cooled down

Companies have become less optimistic in their current situation assessment. As a result, the confidence shown at the beginning of the year has so far not been fulfilled. Although the vast majority of businesses consider their situation to be satisfactory or even good, they are not able on balance to maintain the high level of their situation assessments of the past three years. After the unusually long winter, the situation for the construction and transport sector, as well as trade and consumer-oriented service providers such as hotels and restaurants, has deteriorated considerably. The situation assessments in the export and investment industries are also declining, albeit at a slower rate. In a difficult foreign trade environment, the broad international presence and high level of competitiveness of German industry are certainly helpful.

#### Situation still positive after the crash

The situation evaluations of the companies are returning to normal after a three-year phase of exceptionally good assessments. The decrease in the

balance is the largest since the beginning of the downturn at the beginning of last year. The weak development from the end of the year is therefore now reflected in the companies' books, with the recovery still not displaying enough strength. Moreover, the extremely cold weather lasting well into the spring has had a detrimental effect on business in many sectors. The fact that the balance is nevertheless higher than during the entire period from 1993 to 2005 is also a sign of the structural strength of the German economy. With its current level of 17 points, it is still well within the positive range and noticeably better than the long-term average (plus six points).

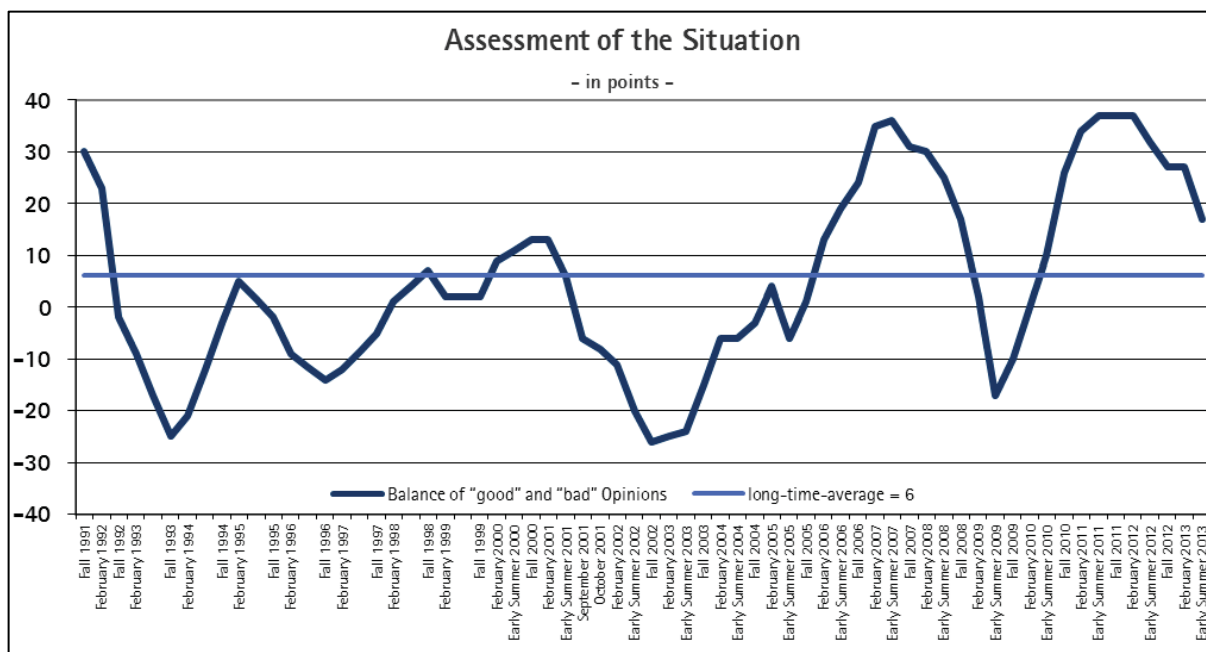
#### Consumption: Spring fever has disappeared

After an extended period of high spirits, it is mainly the consumer-related sectors which are lowering their sights in the early summer of 2013. Retailers and businesses working in the leisure industry have become even more pessimistic in their situation assessments at the current margin than during the general economic slump resulting from the financial crisis. In the retail trade the balance has decreased by 15 to a level of just two plus points. Especially in the textile and clothing industry, as well as the do-it-yourself field, the new product ranges did not match the outdoor temperatures, with snow and the cold spoiling the buying mood for the spring collections. The balance in the leisure industry, which includes theme parks, zoos

### ECONOMIC SITUATION as seen by the Enterprises in percent

	Fall 2011	February 2012	Early Summer 2012	Fall 2012	February 2013	Early Summer 2013
good	46	46	42	38	38	32
satisfactory	45	45	48	51	51	53
bad	9	9	10	11	11	15
Balance* of "good" and "bad" Opinions	37	37	32	27	27	17

\* Share of „good“ opinions minus share of „bad“ opinions in points



and swimming baths for example, has even fallen by a total of 19 points. The hopes for better business in the outdoor catering industry have also not been fulfilled due to the weather - in the hotel and restaurant industry the situation assessments have dropped by 16 points on balance to their current level of 14, while among the breweries the fall is from 26 to eleven points.

In addition, the higher levels of taxation resulting from the cold progression have also halved the room for manoeuvre of the consumers. The recent high levels of residential construction are also limiting the scope of many a private household with respect to other durable goods and consumables. All in all, however, the growth in employment and income, as well as the high levels of consumer confidence, continue to represent a promising launching pad for rising consumer spending. This provides hope that the major falls are mainly a result of the long period of cold weather. Furthermore, the energy suppliers assess their situation as good (balance: 30 points compared to 33 previously) - not least because the increase in the demand for heating has been a major boom to their business.

The motor vehicle dealers have long been sceptical about their business situation. The most recent de-

terioration is not quite as bad (decline in the balance from minus seven to minus 13 points). Within the consumer sectors, the travel agency business is remarkably robust in the early summer of 2013. At 29 points, the new balance remains one of the highest in the cross-sector comparison (previous survey: 34 points). The unfavourable weather in Germany rarely puts a damper on the population's desire to travel. In addition, business trips play an important role. The stability in this industry indicates that the consumer business is intact overall and will soon be improving again in the sectors that are more dependent on the weather.

### Construction industry has to take a break

In the construction trade in particular, snow and ice have for a long time made business noticeably more difficult. The business climate balance has slipped from 29 to 21 points and therefore to the lowest value for more than two years.

The continuing robust business situation assessment of architectural and engineering offices (new balance: 40 compared to the previous level of 45 points) and in the real estate sector (new balance: 43 compared 46 points previously) also provide hope that the deterioration in the situation in construction is mainly attributable to the weather.

Although public and commercial construction is stagnating, private home ownership continues to represent an attractive investment for many households. Low financing costs and higher incomes are making this possible. The number of households is also growing, not least due to the increasing numbers of immigrants.

### Transport sector stricken

The transport companies report significant downturns in their business development. The balance has even fallen into negative territory - from plus nine to minus four points. Also in the transport sector, the winter weather has left its mark this early summer not only in the form of reduced levels of freight transport, but also in the balance sheets of the companies. For example, the situation balance in land transport has decreased by 15 to minus eight points, with forwarding agents being particularly dissatisfied (balance deterioration by 21 to minus 16 points). This sector is feeling the sluggish demand in the transport business within Europe. For some time now the sector has also been facing structural challenges, such as increasing competition from Eastern Europe in particular and high diesel prices.

In maritime transport the development in the early summer of 2013 is mixed (balance decline by seven to minus 15 points): the inland waterway navigators are having to cope with significant losses, whereas sea and coastal shipping assess their situation as no longer quite so bad at least. The business situation among service providers such as the port industry is rather positive. Overall, air traffic is becoming increasingly sceptical of its business situation (balance decline by eight to minus ten points), with service providers such as airports in particular making major downward corrections in their appraisals. Here, strike-related downtimes and recent increases in wage costs are increasing the high competitive pressure, in addition to structural reasons such as the aviation tax.

### Manufacturing industry still waiting to land

Manufacturing industry is increasingly feeling the effects of the weak demand in the euro countries and the low levels of investment in many places. In Europe, France also has developed into a problem child. The fact that crisis management has been required several times in recent months - for example in Italy, Cyprus and Portugal - is preventing any improvement in the investment climate. Not only are the European economies going through a phase of consolidation of the public finances and economic structure. At the same time the USA has been successfully managing the transition to consolidation without any economic turmoil. The increases in employment there are having a supportive effect, as are the low energy costs and the stabilisation of the real estate market. While demand from China is stalling in comparison to the previous high levels of growth, other Asian markets remain sound. Overall, this foreign trade environment presents a mixed picture - so far without much dynamism.

Against this background, the situation assessments in manufacturing industry have also deteriorated for the fourth time in succession (balance change by seven to 15 points). The slowdown is continuing in both the export industry and domestic industry in equal measure. Overall, the business climate balance in manufacturing industry has not fallen as much as in other branches of the economy. The high levels of competitiveness and the broader global presence are once again proving to be effective pillars.

### Still no bottoming out among manufacturers of intermediate goods

Even among the manufacturers of intermediate goods - traditionally an early indicator of the economy - the business situation has still not stabilised. In this main group the situation has now deteriorated on balance for the sixth time in a row. In many cases business is only patchy at the

moment (balance decline from 14 to seven points). The manufacturers of intermediate goods are not as strongly anchored in the growth markets, and they are particularly affected by the continuing high costs of energy and raw materials.

The glass industry has also set its sights much lower (balance decline by 19 points to zero), as have the non-metallic minerals industry and mining (balance decline by 19 to plus one point). In individual sectors the negative appraisals now even outweigh the positive ones, for example in the wood industry (new balance: minus four compared to the previous level of 11 points) and in the textile industry (new balance: minus one point after three points previously). The situation assessments of the metal producers are now beginning to stabilise at a relatively low level after major falls (new balance: minus seven points; decrease compared to the previous survey of two points, compared to 40 points in the previous year).

### **Investment goods: overseas exports preventing the worst**

The manufacturers of capital goods have also recorded further slowdowns, although they are still starting from a high level. The business climate balance has fallen from 30 to 23 points below the line. In this main group in particular, many businesses are benefiting at least from the strong demand from the USA and Asia. In the early summer of 2013 it is the export-oriented sectors in particular that assess their business situation as above average, in spite of having to make some significant compromises in some cases: medical equipment (balance: 32 compared to the previous level of 51 points), machine tool manufacturing (balance: 30 compared to the previous level of 31 points) and other vehicle construction (balance: 29 compared to the previous level of 39 points). The situation in the vehicle construction sector is still in reverse gear (balance change from 22 to 13 points), mainly due to the growing scepticism of

the suppliers. In contrast, the manufacturers are even slightly more satisfied than before.

The downgrade in the situation assessments is greater in the investment sectors which are strongly oriented on the domestic economy. Installation businesses for machinery and equipment evaluate their situation below the line as being 10 points worse than at the beginning of 2013 (current balance: 13 points). In the field of capital goods leasing, companies are now setting their sights much lower - with the balance having fallen by 19 to 21 points. In car leasing the decline is of a similar level.

### **Producers of consumer goods holding up well**

In comparison to the main industrial groups, the production of consumer goods is again proving to be relatively stable. The reply balance has decreased by four points, but at plus 17 points - unlike in other major groups - remains significantly above the average of the last ten years (plus eleven points). For example, the situation assessments in the clothing industry are almost at the same level as in the previous survey (balance: 19 compared to the previous level of 21 points). In food production the balance has fallen from 26 to 20 points. One sector which continues to stand out positively is the pharmaceutical industry (balance: 32 compared to the previous level of 34 points), not least thanks to its strong position on the world market.

### **Business services getting off lightly**

Most of the businesses providing services to companies are also contributing in the early summer of 2013 towards the stabilisation of the current economic situation. All in all, the balance has fallen from 36 to 30 points. There has been a weak fall in the early summer of 2013 in the situation assessments of the temporary employment sector, albeit without any further significant deteriora-



tions. The balance has slipped into the red, from plus one to minus four points.

Sectors which have become slightly more sceptical are IT (balance decline from 42 to 36 points), R&D service providers (balance decline from 41 to 31 points) and management consultancy firms (balance decline from 37 to 30 points). Certified Public Accountants, legal and tax advisers have not changed their situation assessments overall (balance: 42 points). Only a few corporate service providers report an improvement in the situation compared to the beginning of the year: trade fair, exhibition and congress organisers (balance increase from 43 to 49 points), the security sector (balance increase from 20 to 22 points), as well as postal, courier, express services (balance increase from five to six points).



## II EXPECTATIONS

### What development do enterprises expect for 2013 compared to 2012?

#### Expectations are improving

The outlook for companies with respect to their business developments over the coming months continues to brighten. Expectations are improving in all branches of the economy. Companies are evidently not afraid of any serious setbacks in terms of the euro debt crisis, even if the budget consolidation and the reforms still need time. The clearest improvement in expectations is found in the construction sector, where the value is well above average. This is followed by manufacturing industry. Services and trade are also improving, so that now - in spite of the existing uncertainties - the optimists are regaining the upper hand.

#### Slump not yet completely offset

The expectations of the companies have improved for the second time in a row - for the first time in over two years. The improvement at the beginning of the year by six points on balance has now been followed by a further improvement of seven points. Nevertheless, the reply balance has not yet reached the level of the previous year (eleven points) - too extreme was the slump in expectations in the fall of 2012. This is now reflected in a

noticeable deterioration in the situation and weaker business activities towards the end of 2012. The hope of many companies for a spirited improvement in the business situation is therefore also based on a somewhat lower starting level. This suggests that the path of growth will be directed upwards in the coming months, although it will not be very steep. The risk assessments of the companies do not generally indicate any fundamental improvement in the environment - none of the risks is becoming less important from the point of view of the companies. All this speaks for only a gradual business recovery.

#### Construction back to winning ways

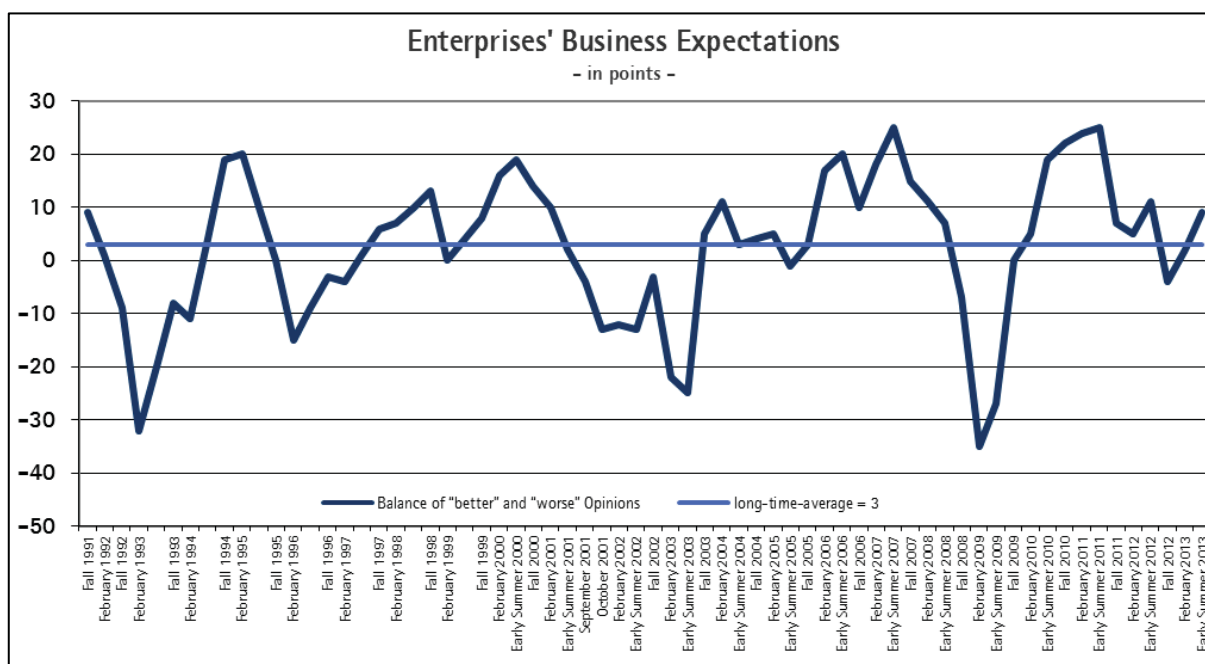
The surge in the business expectations of the construction industry is more pronounced than usual for the time of year. The balance has improved compared to the previous survey by 16 to eleven points, while compared to the previous year it has increased by three points. After the unusually long winter, it is not only necessary to catch up on deferred projects. The demand for investments in tangible assets continues unabated in view of the continuing low interest rates and has led to a boom in private house building. This development is making up for the reticence of the public authorities to invest in construction. Moreover, there is increasing hope of a further improvement in commercial construction. Setbacks with respect to domestic demand are feared by only 45 percent of

### BUSINESS EXPECTATIONS of the Enterprises

in percent

	Fall 2011	February 2012	Early Summer 2012	Fall 2012	February 2013	Early Summer 2013
for the following 12 months:						
better	23	22	25	18	20	25
about equal	61	61	61	60	62	59
worse	16	17	14	22	18	16
Balance* of "good" and "bad" Opinions	7	5	11	-4	2	9

\* Share of „better“ opinions minus share of „worse“ opinions in points



construction companies - five points less than in the previous survey. However, the industry is facing increasing difficulties in terms of meeting the demand with greater capacities - not only the shortage of skilled workers, but also the labour costs are developing into challenges from the point of view of the companies. Meanwhile, 48 percent refer to these risks in each case (previous survey: 42 percent and 44 percent respectively) for their business developments.

### Manufacturing industry: the situation in terms of demand is easing ...

In manufacturing sector the mood is brightening up considerably. The balance has climbed by eight to ten points. However, the risk assessment has fallen only slightly, both with respect to domestic and foreign demand (decrease in the shares by two and one point respectively to 56 and 41 percent).

#### ... only very gradually ...

In spite of the greater expectations, the improvement in business developments in manufacturing industry will probably only come about slowly, as the foreign trade environment is still too difficult. The eurozone in particular still has a lot to do to overcome the crisis and address the structural ad-

justments. Even if the flare-up of the euro debt crisis in Italy, Cyprus and Portugal did not recently bring about a climate of deep insecurity, the route to competitive structures in the euro zone still has a long way to go. This is affecting the sales expectations for what is still the most important destination for German exports, where the share of exports is around 37%.

China is also no longer growing as quickly as in the past few years. The transition in the growth model proclaimed by the government towards more sustainability is new territory and is shifting demand structures. In the investment segment, which is particularly important for the German export sector, this is associated with lower levels of growth. At the same time the higher demands placed on consumer goods in particular mean better opportunities for the products of German companies - in China and other growth markets. Here, middle classes are being created that have purchasing power and new purchasing wishes. The stimuli for the export business are therefore coming mainly from the emerging economic regions outside Europe. In addition, the United States is currently succeeding with the start of its budget consolidation and restructuring without any major economic skid marks - mainly thanks to favourable energy prices. Overall, the picture is becoming

consolidated that the continuing weak growth in Europe is being offset by the stimuli from Asia, Latin America and the United States in particular.

### ... with only a shift in costs

Moreover, in manufacturing industry, which is particularly exposed to the pressure of international competition, there are growing concerns about the development of labour costs. Meanwhile, 36 percent have come to see this as a business risk (previous survey: 32 percent). Among the manufacturers of capital goods in particular, there are increasing worries about labour costs (rise from 30 to 38 points). In vehicle construction (42 percent) and among the manufacturers of metal products (44 percent), a particularly high number of companies see this as a business risk.

Industrial enterprises do not therefore expect to experience any relief as far as costs are concerned below the line, even if the development of the energy and commodity prices is not referred to as a business risk quite so often. Here, the share is 61 percent and therefore four points below the proportion in the previous survey and the average since 2010 (65% in each case). Despite the subdued development in world market prices for raw materials, the costs of energy and raw materials

remain the greatest economic risk beyond the risks of demand. This is probably largely due to the uncertain progress of the energy revolution and rising electricity prices. For example, the Renewable Energy Law (EEG) levy has been increased this year by 50 percent.

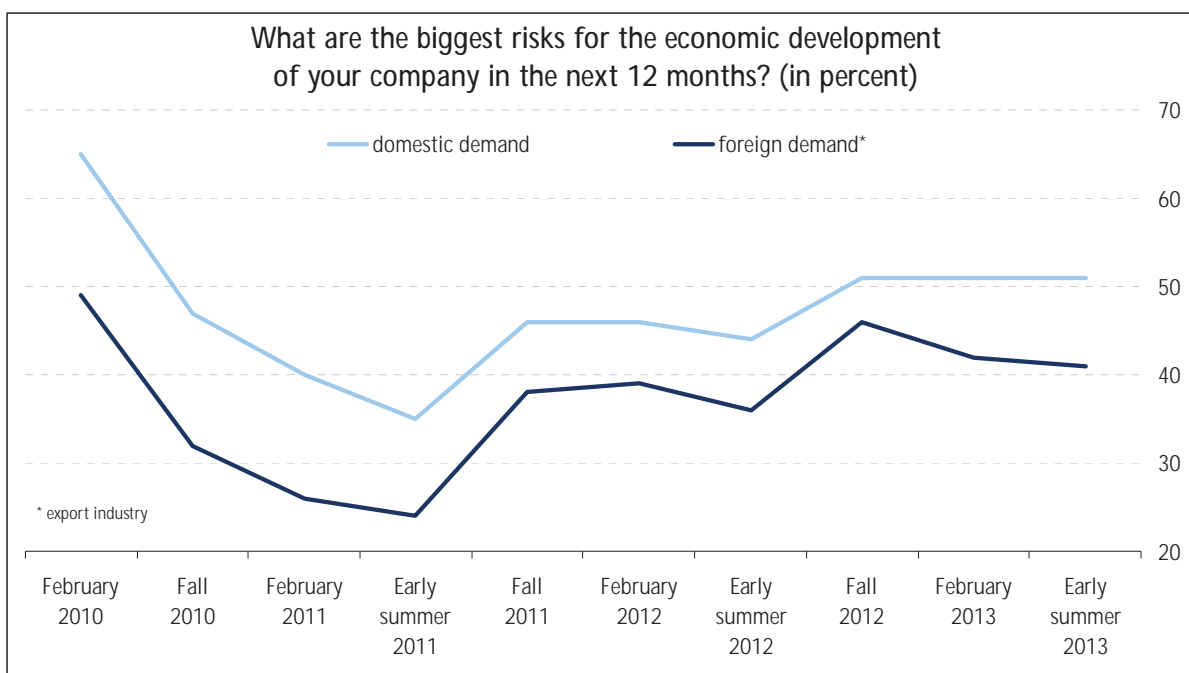
All in all, this complex situation speaks only for a very gradual improvement in business in manufacturing industry, which is still subject to substantial risks.

### Capital goods industry sitting pretty

Confidence is returning above all to the capital goods manufacturers. In the early summer, the companies in this main group are again the most optimistic - while even at the beginning of the year their expectations were particularly restrained (balance improvement from zero to 13 points). In the investment segment in particular there had recently been a few setbacks. In the meantime there are now indications of returning stability in many places. Low central bank interest rates all over the world can help to resolve the investment backlog. The global requirement for investment remains high in the field of infrastructure in particular - an area where providers from Germany can score points.

**What are the biggest risks for the economic development of your company in the next 12 months?**  
(in percent; multiple answers possible; \*export industry)

Enterprises appraise at the Risks for next the 12 months:	Early Summer 2011	Fall 2011	February 2012	Early Summer 2012	Fall 2012	February 2013	Early Summer 2013
domestic demand	35	46	46	44	51	51	51
foreign demand*	24	38	39	36	46	42	41
financing conditions	15	15	17	14	14	14	14
labour costs	32	29	30	35	33	35	38
lack of skilled workers	32	33	34	35	34	32	32
exchange rates*	16	19	17	13	15	11	11
prices of energy and raw materials	56	51	49	55	50	51	49
economic policy conditions	37	45	45	36	42	41	40



In electrical engineering the level of optimism continues to grow - with the balance climbing from nine to 18 points. In mechanical engineering and automotive construction, the expectation balances are back in the positive range for the first time for a year (balance increase from minus two to twelve points and from minus eleven to two points). However, the diminishing scepticism in the automotive industry is not supported by improved expectations for business at home - the domestic demand risk is referred to by 71 percent of businesses and therefore even slightly more than at the beginning of the year (70 percent). This increased hope is based on a return to higher demand from foreign markets.

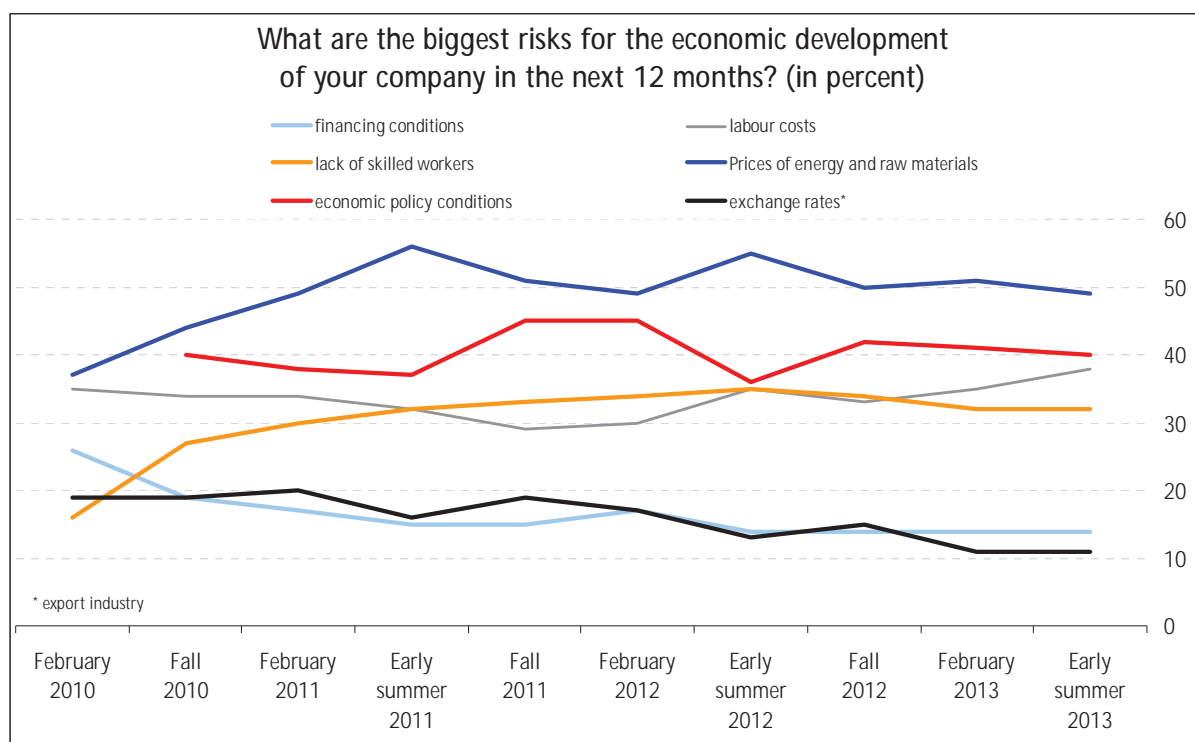
### Consumer goods production holding up well

The business of the consumer goods manufacturers is displaying relatively stable development, with their business expectations also being robust. The reply balance has risen slightly by three to twelve points and has never slipped into the negative range in any of the previous surveys since 2009. Many producers of consumer goods continue to fear setbacks in terms of demand. With respect to foreign demand, the proportion has risen by four points - for this major group, the nearby

markets of the euro zone are of above-average importance. Domestic demand remains unchanged as a risk. In some sectors, fears are also growing in terms of domestic demand: among the manufacturers of furniture (rise in the share from 72 to 74 percent), in the pharmaceutical industry (from 42 to 46 percent), in the food industry (from 38 to 40 percent) and among the manufacturers of jewellery, musical instruments, sports equipment and toys (from 49 to 53 percent). In terms of the business risks, the improved expectations are mainly the result of reduced concerns about energy and commodity prices, especially in the furniture and food industry (drop in the shares from 67 to 53 and from 90 to 85 percent respectively).

### Manufacturers of intermediate goods: easing of raw material prices

The mood among the intermediate goods manufacturers, which are usually ahead of the economic cycle, is also improving (change in the balance by eight to plus ten points). In this main group in particular, the development in the energy and commodity prices plays a major role - and this risk is easing somewhat, at least as far as the world market prices are concerned. However, it still remains the greatest business risk for the manufac-



turers of intermediate goods (69 percent), especially as competitors in other countries, such as the United States in particular, can plan on the basis of lower energy prices. The energy-intensive industries in particular, such as the rubber and plastics industry (77 percent), the paper industry (76 percent), as well as the chemicals industry (72 percent) refer to the energy and commodity price risk more often than average.

### Trade and service providers: domestic demand remains a risk

In the trade and service branches the business expectations have improved to a lesser degree. The balances have increased by six points in each case to five and nine respectively. Traditionally, the fluctuations in expectations do not vary as much here, and the companies operating in these sectors in the early summer of 2013 do not see any improvement in domestic demand, which is a particularly important business risk for them. 45 percent of service providers - an unchanged level - refer to this risk. Among traders this figure is as high as 64 percent and therefore slightly more than at the beginning of the year (62 percent). The growth in

employment has not been quite as clear recently, with much of the wage increases being eroded by the cold progression. As a result, the room for manoeuvre with respect to consumption is increasing to a smaller extent.

### Labour costs flashing

There is therefore no apparent positive effect on demand from the recent higher collective wage agreements. Instead, there are significant growing concerns about the development of labour costs, unlike all other economic risks. At 38 percent, the proportion is higher than in the previous surveys since the beginning of 2010 (beginning of the year: 35 percent). The current discussion on collective bargaining policy suggests a departure away from moderation. As a result, the growth in employment - which up to now has been a remarkably strong support of consumption - might turn out to be smaller.

### Signs of hope among early cycle companies

The largest increases in business expectations in the services sector are displayed by the categories which usually feel an economic recovery particu-

larly early. In the leasing business the balance has climbed by 26 to 20 points, and in the field of temporary employment by 20 to 19 points. At the same time, the companies working in these industries consider domestic demand to be a risk comparatively rarely (37 and 41 percent respectively). The high growth levels are a sign of hope, even if the fundamental signs are still not very specific.

Overall, the expectations of the business services have only improved slightly, however, by five to 17 points on balance. In advertising and market research, as well as among research and development service providers, the level of confidence has even diminished slightly (balance decline by 13 points to five and by eleven to 22 points). In the transport sector the optimistic and pessimistic expectations are now largely in equilibrium (new balance: minus one point compared to minus ten points in the previous survey).

### **Economic policy a stubborn risk ...**

The risk of "economic policy framework conditions" is only easing very gradually. 40 percent of companies consider this to be a business risk, which is as high as the average of the last three years (beginning of 2013: 41 percent; fall 2012: 42 percent). Although Europe is making slow but steady progress in overcoming the debt crisis, national policy measures are increasingly having an impact on this risk, particularly the energy revolution, looming tax increases and increasing labour market regulation (e.g. temporary employment, minimum wages).

### **... especially for larger medium-sized enterprises ...**

Companies with 200 to 500 employees consider the economic policy to be a risk factor for their business more frequently than at the beginning of the year and than in the overall economy. This probably also includes the discussion on taxes to a large extent. On the one hand this size category is

economically strong, while on the other it is very often owner-managed. Here, the political plans for higher income, inheritance and wealth taxes after the election to the Bundestag are a source of great uncertainty.

### **... and burdens on industry**

Individual sectors consider themselves exposed to particular economic policy risks, for example the financial sector by a large number of planned regulations. Here, the risk assessment of 72 percent is well above the average across all sectors. There are particularly significant increases with respect to economic policy as a business risk in the fields of aviation (up to 80 percent compared to 65 previously), as well as in machine tool manufacturing (up to 46 after the previous level of 31 percent). This category sees itself particularly exposed to fluctuations in demand which cannot be compensated for by working time accounts alone, but in many cases only with the help of temporary workers. The worries about new regulations continue to grow among the temporary employment agencies themselves (rise in the risk of economic policy from 52 to 58 percent).



### III EXPORT

#### How do enterprises expect exports in 2013 to develop compared to 2012?

##### Hardly any revival in a difficult environment

The export expectations of the companies are more or less stagnant in the early summer. The burgeoning hopes for a revival of foreign business seen at the beginning of the year have not yet been fulfilled. Renewed setbacks as a result of the developments in Cyprus and the weak economic developments in the euro area, especially in France and Spain, continue to have a negative effect. This is still leaving its mark on export expectations. The uncertainty with respect to foreign demand is not abating. It is currently only possible to rely on a few emerging markets and the USA.

##### Minimal balance improvement

Compared to the beginning of the year, the balance of "higher" and "lower" assessments (see table) has scarcely risen, namely by one point. It has now reached the level of 17 points. As a result, the long-term average of the export expectations has still not been reached. In the next few months, exports can be expected to develop with little momentum. Nevertheless, companies are able to assert themselves in the difficult environment - especially thanks to their broad base also outside Europe.

#### Crisis in Europe constantly in the background

Foreign demand as a business risk is only easing to a minimal extent. 41 percent of exporting companies state that foreign demand is the main risk to their business development (previous survey: 42 percent). The relatively high level of the three previous surveys therefore remains. The degree of uncertainty was last at a similar level at the beginning of 2010. This indicates that many companies are still worried about setbacks with respect to their business abroad. The only risks considered to be greater by industrial companies are the energy and commodity prices and domestic demand.

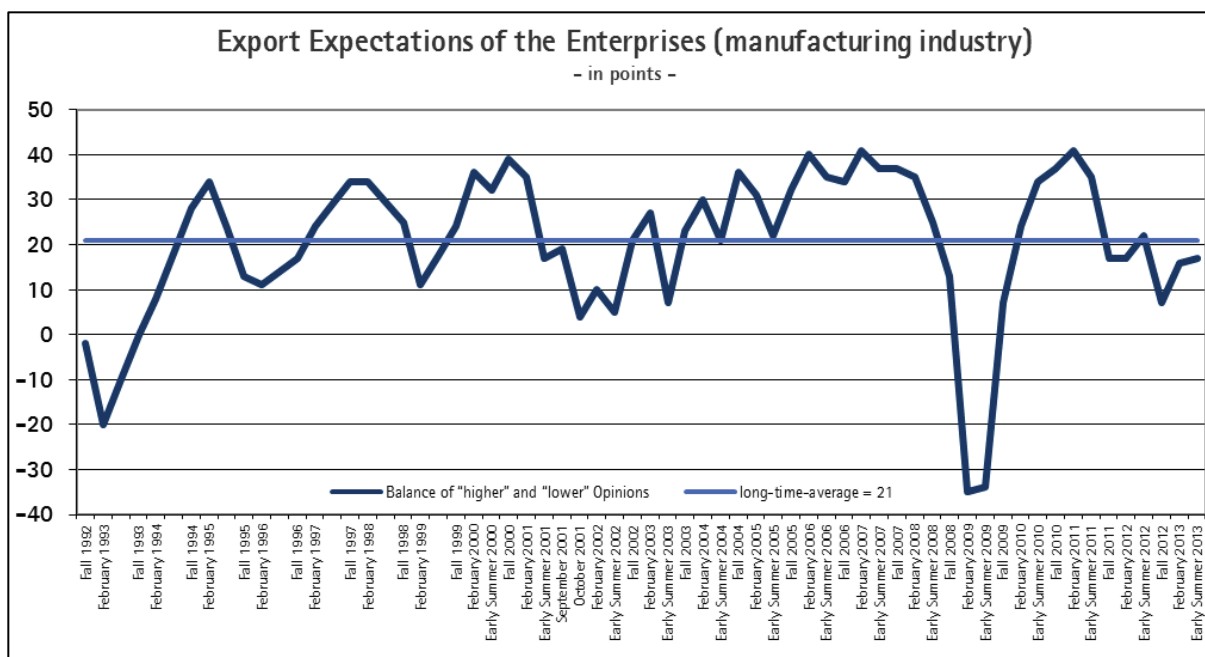
Initial successes of the reform policy in terms of exports, budget consolidation and production in important markets of the euro zone show that it is slowly becoming possible to return national economies to a course for growth. However, these are not enough to accelerate the demand for imports and thereby provide impetus for businesses within Germany.

Additionally, there are problems finalising the rescue package for Cyprus. The consequence of this is that the euro debt crisis has become a permanent state of mind for companies. Moreover, growing trade barriers in Latin America and difficulties in China or Brazil are making it more difficult to maintain the current high rates of growth in the foreign trade with these partners. The fact that

#### EXPORT EXPECTATIONS of the Enterprises (manufacturing industry) \* in percent

	Fall 2011	February 2012	Early Summer 2012	Fall 2012	February 2013	Early Summer 2013
for the following 12 months:						
higher exports	30	31	33	27	30	30
about equal exports	57	55	56	53	56	57
lower exports	13	14	11	20	14	13
Balance** of "good" and "bad" Opinions	17	17	22	7	16	17

\* Manufacturing industry (without Construction); \*\* Share of „higher“ opinions minus share of „lower“ opinions in points



companies are not able to liberate themselves from this is specifically shown by the comparison with the early summer of 2012 - at that time the risk assessment for foreign demand was still 36 percent and therefore well below this year's value (41 percent).

### Glimmer of hope of an upturn

The export expectations of the intermediate goods and capital goods industry are improving compared to the beginning of the year. The balances have risen to 14 (previous survey: twelve points) and 20 points respectively (previous survey: 17 points). Typically, these two main industrial groups are important indicators of an economic recovery. The assessments of the companies have therefore improved for the second time in succession. Nevertheless, they still remain below the values for the previous year.

The return to an improvement in the appraisals of the two main groups indicates that the numerous recent interest rate cuts of many central banks around the world are able to improve the investment climate, at least as far as the financing conditions for corresponding projects are concerned. However, an even more important aspect is very likely to be the fact that after a slight period of

weakness at the end of the year, the growth in the emerging markets such as India or Thailand has begun to gather speed.

### Compromises among manufacturers of durables and consumables

Unlike the two aforementioned main industrial groups, the manufacturers of durables and consumer goods have downgraded their evaluation in the early summer. The balance has fallen by five to 20 points. Following a temporary increase in optimism at the beginning of the year, it has therefore not been possible to perpetuate the upward trend. The impacts of the recessions in Europe in particular can still be felt too strongly - which is a particularly important market for the producers of consumer goods. In view of the economic uncertainty and high unemployment levels in many countries, consumers are holding back. Businesses working in the food industry, for example, have downgraded their export expectations by seven points (balance: 23 points), as have those in the clothing industry (balance: nine points) and the furniture manufacturers (balance: 15 points). The long-term trend, according to which the consumer goods manufacturers in particular are continuing to benefit from the worldwide increase in prosperity and the growing demands placed on the quality

of durables and consumer goods, continues unabated however.

### Large and small cautiously optimistic...

Small exporters with up to 20 employees and businesses with more than 200 employees are looking forward with more confidence to their foreign business in the coming months. The export expectations of small businesses have increased by two to ten points, although they remain well below the average for all size categories. The companies often focus on the European market and therefore feel the local reticence particularly clearly.

In contrast, the large companies with more than 1,000 employees are globally oriented to a large extent. A considerable number of companies within this size category appear to be sensing an end to the weak phase of the global economy. Here the balance has increased by six to 26 points in the early summer of 2013.

The situation is similar among businesses with 200 to 1,000 employees. Here the balance has also climbed to 26 points (beginning of the year: 22 points). Confidence in a renewed faster pace of the growth markets is returning - albeit slowly.

Nevertheless, smaller medium-sized export companies with 20 to 200 employees continue to exercise restraint. They have lowered their expectations by two to ten points.

### Mechanical engineering slowly back on track

Since the fall of last year, the export expectations of the mechanical engineering companies have revived significantly. The balance has now reached a level of 20 points. In the fall the balance still stood at five points, and 16 points at the beginning of the year. As a result, the companies working in this sector are again more optimistic for the first time in a year than the average of the exporting

companies. The reluctance to invest is slowly dissipating in more and more regions of the world. In China and the USA, a revival in the economy and investment activities is being seen. The need for modernisation all over the world and low interest rates are promoting this trend.

The revival in machine tool manufacturing is even clearer at the current margin than in mechanical engineering overall. Here the balance has climbed by twelve to 23 points.

### Vehicle manufacturers raise expectations for abroad

Driven by the car manufacturers, the assessments concerning the exports of motor vehicles and vehicle parts are improving. The balance of the industry as a whole has increased from ten points at the beginning of the year to 18 points.

Demand in the emerging markets in particular, but also in the important vehicle market of the USA, is expected to pick up further in the coming months. In contrast, in the main market of Europe the environment for vehicle sales remains extremely difficult.

In the slipstream of the vehicle manufacturers, the assessments of the suppliers are also reviving. Their export expectations have leapt by 15 points to their current level of 15 points on balance.

### Export hits still at the top - just

Since the fall of 2010, the pharmaceutical industry and medical technology have headed the export expectations of the various sectors, as they are not particularly sensitive to the general economic situation. Also in the early summer of 2013 they have both reached the highest balances at 36 and 44 points respectively. However, neither sector has quite been able to maintain the values from the beginning of the year. For example, the balance of the pharmaceutical companies has dropped by

eight points. In the field of medical technology the restraint is smaller, with a decrease of two points. In view of the high level, the small backward step appears to be normalisation. The trend towards better health care and greater health awareness, however, will also determine the exports of these two sectors in the coming years.

### Environment remains marked by uncertainty

In spite of a somewhat more positive underlying sentiment, a deeper look into the various sectors shows how challenging the export environment currently is for many companies. The metal processing companies again assess their export prospects with a balance of six points as being worse than at the beginning of the year (balance: nine points) and are therefore well below the values of the previous years (average of the last ten years: 18 points).

The printing industry is also having to cope not only with structural difficulties, but also reluctance on the part of foreign customers due to economic trends. Here, the negative assessments of the companies now outweigh even those of the optimists (balance: minus three points, previous survey: plus four points). Another sector struggling to fight its way out of a hole is the metal producers. The balance here has reached a level of four points. It is therefore even higher than the value for the previous year of plus one point (fall 2012: minus eleven points; beginning of 2013: minus four points).

### Exchange rate concerns remain insignificant for the time being

As at the beginning of the year, only eleven percent of companies state that they consider the development in exchange rates in the next few months to be a direct risk to their businesses. After the sometimes significant fluctuations in the foreign currency markets in the wake of the sovereign debt crisis, the current sense of calm, particu-

larly with respect to the euro-dollar exchange rate, is contributing towards the feeling of reassurance. In any case, the growing proportion of imported intermediate goods is putting the importance of the exchange rate into perspective. The financial institutions are also offering companies a wide range of instruments for hedging exchange rate risks. In the meantime, providers and customers can build on many years of experience. Furthermore, German companies are continuously expanding their investments abroad<sup>1</sup>.

Nevertheless, the foreign exchange markets are currently subjected to various stresses and strains. The euro has been gaining steadily in value against the yen for months. The extremely expansionary policy of the Japanese central bank is having an impact - and improving the price competitiveness of Japanese exporters. Brazil and Switzerland are also having to struggle with appreciation pressure and intervening to control the currency markets.

### Confidence in trade and services dampened

The significant improvement in sentiment in the wholesale trade with respect to international business at the beginning of the year has not been confirmed in the early summer. The balance of the export expectations has declined by nine points and is now at a level of 13 points. A rapid recovery in the international flow of goods in the first quarter did not materialise. The companies are therefore more cautious in their expectations for the coming months and are not placing their trust fully in the revival of business which is becoming apparent at the current margin.

Also the transport and logistics industry remains restrained. The balance has fallen by three to minus one point. The R&D service providers who are active abroad (balance decline from 44 to 29 points), management consultancy firms (balance

<sup>1</sup> See the GCIC survey "Foreign investments in manufacturing industry, spring 2013"

decline from 27 to 26 points) and advertising agencies (balance decline from 18 to twelve points) also appear less confident than at the beginning of the year. In the construction industry, as well as architectural and engineering firms, business beyond the borders will probably continue to run not quite as well as in this country (balance deterioration by two points to minus one point and by eleven to 15 points respectively). Robust business with software products is expected by the IT industry - here the reply balance has improved from 31 to 34 points.

## Supplementary appraisals concerning the development of individual target regions

### Old top markets applying the brakes

With France (1st place), Italy (7th place) and Belgium (8th place), some of the heavyweights of the German export markets are currently finding themselves in difficult economic waters. This is being felt by the companies in their foreign sales. Although the problems in these traditional markets can be offset to a certain extent by the partly very good levels of growth in exports to emerging markets such as Peru or Columbia - even though these are developing from a low level - they cannot make up for them completely. The developments are therefore all the more important in the United States (2nd position) or China (5th position),

### France: Waiting for a course correction

The economic developments in France are currently causing worry lines. The reason for this is that the French economy is struggling to cope with high budget deficits and rising unemployment. No corrective pressure is coming from the financial markets, because these are still dominated by the search for safe havens. Reforms that had already been planned have been withdrawn or softened up. There is a lack of decisive measures to increase competitiveness. The confidence of companies - both German and domestic - that the situation will improve is falling. The introduction of a tax on the rich and the increase in VAT is unsettling consumers and companies in equal measure and putting a brake on the propensity to invest. For this reason it is very unlikely that France will provide any stimulus for German exports.

### USA: Good chances of remaining the growth driver for exports

After France, the United States is Germany's most important selling market. A significant number of

orders came from there in 2012 to boost the exports of the companies. There are good signs of a continuing recovery in private consumption and corporate investments in the USA: favourable energy costs, the stabilisation of house prices, lower unemployment and ongoing debt relief of private households are also providing a good environment for goods "Made in Germany".

At the same time, optimism about the prospects for growth is increasing significantly - despite the continuing budget problems. The possibility of lowering energy costs considerably and over the long term through the use of fracking may lead to a re-industrialisation of the country. This will also increase the sales opportunities for German companies in this field. The same applies to the positive demographic developments in comparison to other industrialised countries.

### **China: the transition continues**

In view of growing social tensions, high levels of corruption and significant environmental pollution, China's new government is slowly moving towards a course of more sustainable growth. Double-digit growth rates are becoming a thing of the past. Dangers now lurk in the shadow banking market of the country.

With the government's turnaround, quality is becoming more important in China - a change of heart from which German manufacturers can also benefit. Due to the large presence of German companies with investments on the ground, the pattern of exports will also change. Although China will remain an important sales market for companies, huge growth rates in exports are not to be expected.

### **South Korea: further rise in China's shadow**

Over the last few years, South Korea has become the most important German sales market in Southeast Asia after China and Japan. The exchange of goods has received new impetus through a free-trade agreement between the EU and Korea. Exports have risen well above average. In spite of the political tensions at the beginning of the year, the latest economic data point to a continuation of the success story.

### **Russia: as long as the commodity rouble keeps rolling in**

Russia's economy is about to work its way up into the top 10 markets for German exports. In doing so, the country is still dependent on the revenue developments in the commodity sector. The plan is for the urgently needed modernisation of the economy to succeed with the help of German technology. In view of the country's accession to the WTO, the companies must become more competitive. This opens up sales opportunities and - despite the continuing existence of trade barriers - supports German exports.

## IV INVESTMENTS

### How is businesses' expenditure for domestic investments expected to develop in 2013 compared to 2012?

#### No clear investment driver

Companies are remaining cautious with respect to their investment plans. The confidence demonstrated by the renewed improvement in expectations is not reflected in investment intentions. Evidently, the continuing uncertainties and the discussion about the plans for tax increases are making themselves felt. Although there is a fundamental sense of confidence in their own competitiveness, there is currently no clear investment driver, particularly in terms of increasing capacities. Furthermore, from the financing point of view, there is currently no time pressure due to also low medium-term interest rates.

#### Risks dominate investment motives

Companies want to invest further, but rarely enter new territory. The investment balance has stabilised at three points and is therefore still well above the long-term average of minus five points. The pattern of investment motives remains largely constant. The dominant motive is the need for replacements. At 65 percent, more companies than in the previous survey (64 percent) are renewing

their stocks. Almost every third company intends to invest more in rationalisation. When taken together, the two motives match the reluctance shown with respect to investments overall, which is caused by demand risks, the euro debt crisis and the discussions that are flaring up about tax increases. Currently, slightly fewer companies want to invest in capacity expansion (drop from 26 to 25 percent) and product innovations (fall from 29 to 27 percent).

#### Improvement in expectations not catching

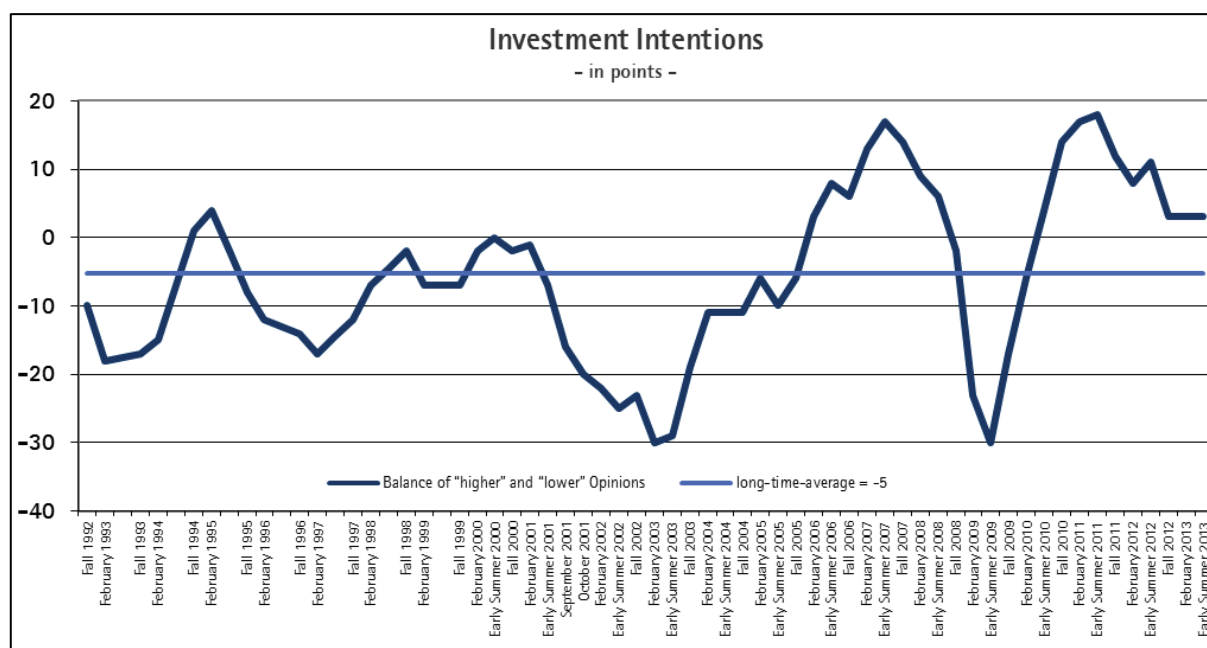
The renewed improvement in business expectations is not currently reflected in increased investment plans on the part of the companies. At the beginning of the year, the downturn in the investment plans was at least brought to a halt. Even among the businesses with better business expectations, little more than one third currently intend to increase their investment budgets (overall economy: 23 percent). The companies remain cautious and are restricting themselves to the foreseeable future.

Increased investment dynamics depend not only on further economic developments, but in particular on the framework economic policy conditions in Germany and Europe. An increase in the economic policy risk has so far always been reflected in lower investments. Conversely, a significant decrease in this risk leads to a greater propensity to invest. The companies with lower investment in-

### INVESTMENT INTENTIONS of the Enterprises in percent

	Fall 2011	February 2012	Early Summer 2012	Fall 2012	February 2013	Early Summer 2013
for the following 12 months:						
higher investment	27	26	27	23	23	23
about equal investment	58	56	57	57	57	57
lower investment	15	18	16	20	20	20
Balance* of "good" and "bad" Opinions	12	8	11	3	3	3

\* Share of „higher“ opinions minus share of „lower“ opinions in points



tentions are worried with above-average frequency about domestic demand (61 percent) and the development of labour costs (41 percent).

### Habituation effect in the euro crisis ...

The companies have been facing the euro debt crisis for more than two years now. Greater economic slumps have failed to materialise thanks to the robust demand from many emerging markets and the high level of competitiveness. Extreme risks have been counteracted by the euro crisis countries with committed reforms and efforts to make savings. Moreover, a certain habituation effect with respect to crisis news from Europe has come about, since not every item of bad news has direct impacts on the order books. However, the euro area is not currently able to provide any stimuli owing to the sluggish developments in the heavy-weight countries of France, Italy and Spain.

### ... while the concerns about demand remain

A driving economic force to induce companies to invest in expansion is nowhere to be seen. The economic recovery in Europe is taking longer to appear than had been hoped. Furthermore, the expectations of greater stimulus from China have not been fulfilled. In the United States it is the

positive signals which dominate. All in all, the demand risks remain in spite of improved business expectations - at home, 51 percent of the companies fear setbacks as in the previous survey, while from abroad the figure is 41 percent, and therefore also almost as high as at the beginning of the year (42 percent). Therefore, the environment in Germany, Europe and the world appears to be largely stable, but nevertheless still too difficult to assess in the medium term. For the time being, companies are continuing to invest only with caution.

### Tax discussions acting as a brake

The unclear planning horizon of the companies is negatively affecting investment activities. The close connection between economic policy concerns and the propensity to invest is not only evident from the survey. The negative effects of higher taxes have been clearly demonstrated both analytically and empirically and should be well known to politicians. Debates about the reintroduction of wealth tax or a capital levy, increasing inheritance tax for businesses and raising the top rate of tax are causing companies to refrain from investing



## Energy as a long-term risk

Almost every second company considers high energy and commodity prices to be a risk for their business in the next few months. Although commodity prices have recently fallen due to economic trends, the price of electricity has increased at the same time. In manufacturing industry, concerns about the availability and affordability of energy have developed into a long-term challenge - also for investments. Here, companies whose main motives are rationalisation and environmental protection see a particularly large business risk (56 and 73 percent respectively).

## Investments driving employment

Almost every other company that intends to invest more than before is also planning higher capacity levels - twice as many as in the overall economy. These companies are also increasingly focusing on recruiting additional personnel. If at the beginning of the year 28 percent of companies with expansive investment intentions were searching for new employees, this figure is now almost a third. In spite of the difficulty of assessing global economic developments, the willingness to recruit remains robust. This results in part not only from the companies' faith in their own competitiveness, but also the increase in the flexibility of the labour market. Overall, investments continue to go hand-in-hand with additional employment. Businesses with stable investment budgets are also planning on taking on more employees (employment balance: four points).

## Financing: offers are waiting ...

For most companies, financing currently plays a subordinate role as a risk. Only 14 percent of businesses currently assess funding as a risk to their business development in the coming 12 months. The business developments of most banks in the last few years, as well as the status of Germany as a safe haven, mean that the financial institutions

are able to provide a broad range of credit. Furthermore, the ongoing low interest rate policy and the aggressive provision of liquidity by the ECB are making the favourable conditions possible.

These effects are currently covering up the impacts of stricter rules for the financial sector. Tighter regulation of the financial markets may restrict the scope for lending on the part of the institutions, as more security also has its price. It remains to be seen what effects Basel III will have, particularly on the availability and interest rates of loans. There may well be a need for improvement in this respect. The EU Commission also considers it necessary to keep an eye on the situation and is currently consulting on the Green Paper for long-term financing in Europe.

## ... but the demand for credit is low

Whenever the propensity to invest is restrained, the demand for third-party finance is also lower. In addition, many companies have learned from their experience of the crisis on the financial markets and have been attempting since then to make themselves more independent of bank financing. More than 28 percent of companies have an equity ratio of over 30 percent. The companies are making use of the profits in order to further increase their equity and create greater liquidity cushions. This makes it possible not only to survive prolonged dry spells, but improves both their negotiating position with respect to the banks and the possibility of carrying out investments under their own steam. However, tax increases could put a spanner in the works in the future.

On the one hand, financing is a greater business risk for companies with higher investment intentions - and therefore higher capital requirements in most cases (16 percent). On the other hand, businesses with reduced investment budgets - and therefore usually a slower business tempo - consider the raising of capital to be a higher risk (17 percent) than the overall economy. The assessment

of companies with increasing investment intentions in particular reflects the concern that in the future the banks will no longer be able to meet all the needs of businesses. In sectors with traditionally large investment budgets, e.g. the leasing and real estate business, the worries about financing remain at an above-average level (22 and 26 per cent respectively).

### **Manufacturing industry more optimistic**

Manufacturing industry intends to slightly increase its investment budgets in comparison to the previous survey. The balance has improved from two to three points. Cautious optimism predominates in this sector. The companies which have increasing investment intentions also have a business expectancy balance which is well above average, i.e. 27 points. The manufacturers of intermediate goods have increased their balance with respect to budget plans from zero to one point, while the manufacturers of capital goods have improved theirs from one to four points. Most individual sectors are somewhat more expansive than at the beginning of the year, for example mechanical engineering (balance increase from four to five points), vehicle construction (balance increase from zero to one point) and electrical engineering (balance increase from three to six points). In contrast, the chemical and pharmaceutical industry are more restrained (drop from seven to four points).

### **Trade continuing its downward movement**

The plans of the trade sector are more restrained overall. In the early summer, the investment balance is zero and therefore one point below the value at the beginning of the year. The downward movement since the fall of 2011 is continuing and has reached the lowest level since the early summer of 2010. The motor trade is reducing its investment budgets even further - with the balance falling by one point to minus eight. The wholesale trade and trade intermediaries are also lowering

their sights (decline in the balance from five points to two and from three to one point respectively). The retail sector is maintaining its investment plans from the fall of 2012 (balance: minus one point).

### **Construction increasing investment budgets**

The construction industry, which in the meantime has become rather restrained, intends to increase its investment budgets in the coming months. In the early summer the balance has improved from minus seven to minus four points and is therefore significantly above its long-term average (minus 26 points). The trend towards one's own four walls and investments in tangible assets is improving the planning reliability at construction companies, which is so important for its own investments. The motive of capacity expansion in construction has therefore also reached a record level in the meantime (rise from 17 to 19 points). While the balance of the investment plans in structural and civil engineering has improved from minus five to zero points, it is slightly down in the finishing trade.

### **Service providers more reserved**

The service industries have corrected their investment budgets slightly downwards (balance deterioration by one to four points). The picture of the industry is mixed. Aviation companies are feeling the pressure on costs and reducing their investment intentions (fall in the balance from six to minus four points). Here the rationalisation motive is above-average. Overall, the willingness to invest in the transport sector has only fallen slightly (balance decline by one to minus eight points), but is now the weakest since the beginning of 2010. Even the business-related service providers are being more cautious when planning their budgets for offices, IT systems, vehicles and other investments. The reply balance has fallen from six to three points. Examples of sectors which are less expansive are legal advisers and tax consultants, as well as Certified Public Accountants (balance deteriora-

tion from 14 to six points) and management consultancy firms (drop from seven to one point). The budgets of IT service providers are above average (balance unchanged at ten points). Overall, the knowledge-intensive service providers have scarcely corrected their plans downwards (balance decline from eight to seven points). Companies which mainly provide personal services have cut their investment budgets on balance from ten to three points. The expansion plans of the hotel and restaurant industry remain unchanged (balance: twelve points).

In contrast, with the property sector, a high-volume investment industry is adjusting its budgets upwards (balance increase from ten to 14 points), The balance of the investment plans is therefore only two points below its record level in the early summer of 2007.



## V EMPLOYMENT

### How will the employment figure in companies in 2013 develop in comparison to 2012?

#### Buoyancy slow in coming

The recruitment plans of the companies remain stable compared to the two previous surveys. Employment therefore continues to display slight growth, even if there is no additional dynamism. In a difficult economic environment, the increase in employment is nevertheless remarkable - and the result of the more flexible labour market and worries about where the next generation of skilled workers will come from. The construction sector requires more personnel - due to the special economic situation in private housebuilding and in order to make up for the backlog resulting from the hard and long winter. Manufacturing industry is again turning the robust level of exports into somewhat higher employment levels. However, the economic stimuli here are still too weak to bring about stronger developments. After a long period of moderate wage increases, significantly more businesses across the sectors consider rising labour costs to be a risk.

#### Moderate increase in personnel continues

Overall, the increase in employment will continue in the coming months. 15 percent of businesses

are planning to take on more employees, while 14 percent are having to consider reductions. 71 percent of companies intend to work through the coming months with an unchanged human resource base. The balance of the employment intentions of the companies is therefore plus one point and well within the range in which experience has shown that growing employment can be expected. Here, the increase in employment does not mean a one-on-one reduction in unemployment. The reason for this is that the reduction in employment market policy measures and the associated changeover from underemployment to unemployment, as well as the activation of the "hidden reserves" (e.g. women who were not previously gainfully employed) are two explanations of why the number of unemployed does not fall to the same extent as the number of employed increases. A third cause is the increased immigration into the German employment market.

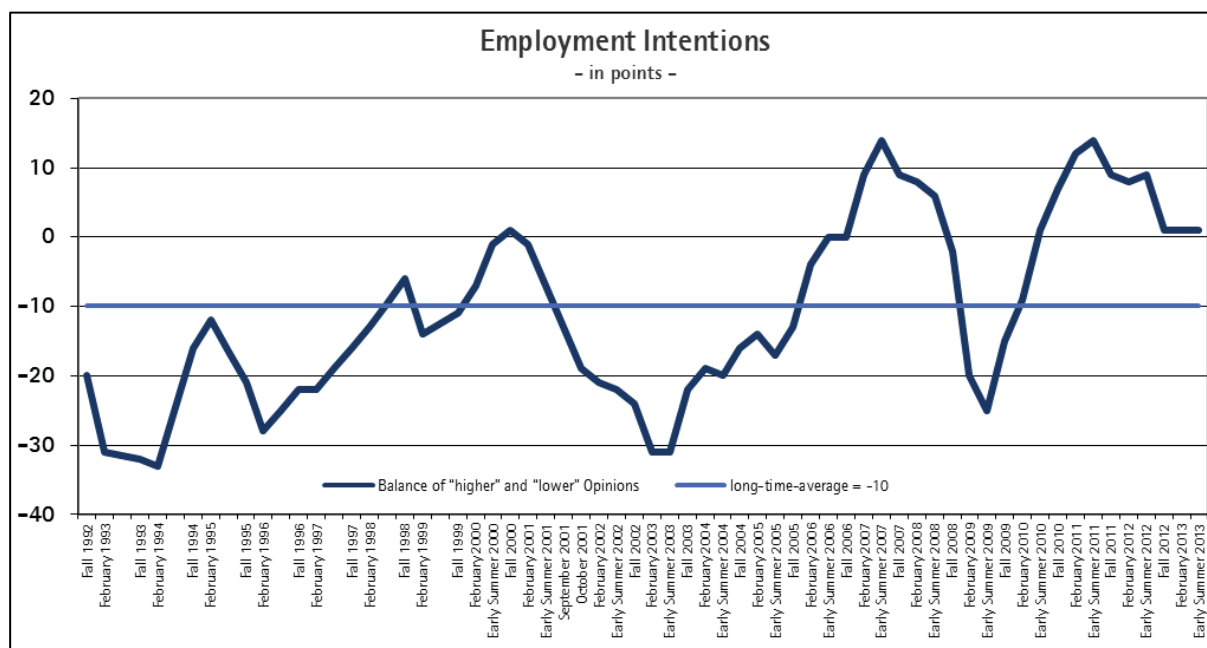
#### Risk of labour costs: the flip side of the shortage of skilled workers

The equation that has applied in recent years that even low economic growth leads to (moderately) higher employment is not a constant of nature. This development may be negatively affected by a further increase in the risk of higher labour costs. In the meantime, 38 percent of companies refer to this risk, which is three points more than in the previous survey and more than in any previous survey since 2010. Here, the shortage of skilled

#### EMPLOYMENT INTENTIONS of the Enterprises in percent

	Fall 2011	February 2012	Early Summer 2012	Fall 2012	February 2013	Early Summer 2013
for the following 12 months:						
higher employment	19	19	20	15	15	15
about equal employment	71	70	69	71	71	71
lower employment	10	11	11	14	14	14
Balance* of "good" and "bad" Opinions	9	8	9	1	1	1

\* Share of „higher“ opinions minus share of „lower“ opinions in points



workers plays an important role; the number of applicants in many professions are becoming scarcer and therefore "more expensive" - which is putting a damper on overall development plans. Furthermore, the recent higher wage agreements and demands are causing many businesses to be more cautious as far as recruitment is concerned.

The technology providers in particular, which are so important for exports, consider themselves to be more strongly affected by this. 38 percent of the capital goods producers now see labour costs as a risk to their short-term economic development. This represents the highest value since the introduction of this question at the beginning of 2010 and an increase of eight points compared to the previous survey. Record highs are recorded by high-tech enterprises at 39 percent (plus seven points), as well as electrical engineering (plus five points to 36 percent), mechanical engineering (plus seven to 37 percent) and vehicle construction (plus four to 42 percent). The machine tool manufacturing sector is particularly worried about the burden of labour costs. For example, 47 percent of the businesses (previous survey: 31 percent) consider labour costs to be an important risk to their economic development.

The risk of labour costs is also referred to more frequently than the average by a significant number of service industries such as the cleaning and security sector, temporary employment or air transport service providers.

The increasing relevance of rising labour costs is also becoming clear among those businesses where the willingness to recruit is more restrained. Here, 48 percent consider labour costs to be a risk to their economic development.

### Shortage of skilled workers hindering increases in personnel

Even with a slower pace of the economy, the shortage of skilled workers is putting a brake on the increase in personnel in many cases. As in the previous survey, 32 percent consider the short supply of skilled employees as a risk to their economic development. Therefore, the share is only three points below the highest level of one year ago (35 percent), but twice as high as in the first survey at the beginning of 2010 (16 percent). If one currently only considers those businesses which are planning to increase their workforces, as many as 51 percent report a lack of suitable applicants - which has catapulted the risk of not being

able to find skilled workers to the number one risk in the rankings for these businesses.

The construction industry is particularly affected in this respect. 48 percent of businesses report a shortage of skilled workers - a plus of six points in comparison to the previous survey. In contrast, the risk has remained at the same level in manufacturing industry at 22 percent. A high number of service companies - 37 percent - consider the shortage of skilled workers to be a hindrance, which in comparison to the previous survey at least signifies that the problem has not become worse.

The shortage of skilled workers has therefore become apparent once more not only in the STEM-oriented fields, but has long been a problem in other sectors, especially the service sector.

For this reason, the fact that in 2012 significantly more immigrants came to Germany than in the previous years should be considered a positive development. This is due not only to the economic difficulties in the euro crisis countries, but also the opening up of the German employment market to the most recent EU members. The efforts to encourage more people to migrate to Germany to work should continue, even if the opportunities for alleviating the shortage of skilled workers lie above all with the older employees and women.

### Construction with the greatest dynamics

The largest increase in employment plans in the comparison of the branches of the economy is found in construction with a balance improvement from minus four to plus two points. The current increase is also attributable to weather-related catch-up effects and corresponds to the usual seasonal pattern in the construction industry. In the coming months, construction projects will now be undertaken which it was not possible to carry out during the long winter. At the same time, the construction sector remains in a good position overall.

The current balance is well above the long-term average of minus 14 points. The pleasing developments in the employment market and income, as well as the historically low construction interest rates, are keeping demand high for private house building. Also in the field of commercial construction, the favourable financing conditions and the gradually improving earnings prospects of the companies are creating a good basis for increased recruitment. In contrast, little stimulus can be expected from public construction investments.

### Manufacturing industry slightly more expansive

The employment plans in the manufacturing industry have risen to a balance of minus two points (change in the balance of two points). At this level, experience has shown that a slight growth in employment levels can be expected. The increase here is attributable solely to export-intensive manufacturing industry. The employment intentions at the more domestically oriented companies have even diminished slightly.

Within manufacturing industry, it is the sectors from the field of capital goods manufacturers (balance improvement by one to plus two points) which are the most optimistic in terms of their employment plans. For example, the balance has increased in electrical engineering by three to its present level of plus three points and in mechanical engineering by two to four points. Far more reticent are companies from the field of motor-vehicle construction. The recruitment plans have only improved slightly - from minus 24 to minus 23 points. The business expectations of the industry are indeed brightening up in the meantime after considerable downturns, but these are not enough to fuel more expansive employment intentions. The development in some euro states remains too weak, while the dynamics in other export markets and at home are still too flat.

One striking aspect is the clear improvement in the recruitment intentions of the intermediate goods producers. These have increased by five to minus four points - so that the value is again above the average of the last few years (minus eight points). Among these, the rubber and plastics industry in particular are optimistic and are now making plans for higher employment levels again - with the balance climbing by eight points to its present level of plus one.

### Healthcare industry requires personnel

In the healthcare industry, which now makes up almost 15 percent of employment that is liable for social insurance contributions in Germany, the indications are of a continuing increase in employment levels (balance: eleven points; previous survey: 16 points).

In the industrial sectors of pharmaceuticals and medical technology, the balances remain well within the positive range (13 and 14 points respectively). Healthcare and social services are continuing their urge for expansion almost unabated (new balance: 15 points; beginning of the year: 19 points). However, the shortage of skilled workers in the healthcare industry continues to worsen overall. 43 percent of companies now consider the shortage of skilled workers to be a risk to their economic development (previous survey: 42 percent). The situation appears to be particularly serious among the businesses working in the healthcare and social services: Almost seven out of ten companies working in this field fear bottlenecks with respect to skilled workers.

### Service providers continue to grow

Among the service providers overall, the recruitment intentions are pointing slightly upwards when taken as a whole. Both the business and personnel-related service companies intend to expand their employment levels somewhat. The driving forces behind this are mostly the providers of

business-related services, although the trend is declining slightly (balance: 13 points; previous survey: 17 points). The sectors with the most expansive plans are the providers of research and development services (balance: 25 compared to the previous level of 34 points). The IT service providers continue to search desperately for personnel (balance: 23 compared to the previous level of 28 points). Among the personal service providers, it is those working in the fields of art, entertainment and leisure, for example, whose recruitment plans point towards expansion (balance plus seven points).

### Temporary employment again seeking additional employees

The temporary employment agencies again report a significant increase in their demand for employees. 35 percent of businesses are planning to take on more staff, with only 16 percent planning to reduce theirs. The resulting balance of plus 19 points is therefore a clear eleven points higher than in the previous survey. The temporary employment agencies therefore represent the - at least tentative - improvements among the business expectations of all companies.

Many companies clearly intend to make flexible use of their additional staff initially, because they are unsure whether the current improvement in expectations is sustainable. This clearly shows on the one hand how important it is for the companies to be able to respond flexibly to fluctuations in capacity utilisation, while on the other hand demonstrating that the tool of temporary employment is well-suited to implementing small improvements in economic developments with respect to employment.

When business risks are considered, economic policy is playing an ever-increasing role from the perspective of the supply of temporary workers - meanwhile 58 percent of the temporary employment companies refer to this concern - a higher



level than ever before (previous survey: 52 per-cent). Any further adjustment of this tool could put a brake on increases in recruitment at this point and therefore reduce the job opportunities of low-skilled workers and the unemployed in particular.

## IHK-ECONOMIC SURVEY'S

The regional business surveys of the 80 Chambers of Industry and Commerce can be accessed at: [www.dihk.de/konjunktur](http://www.dihk.de/konjunktur).



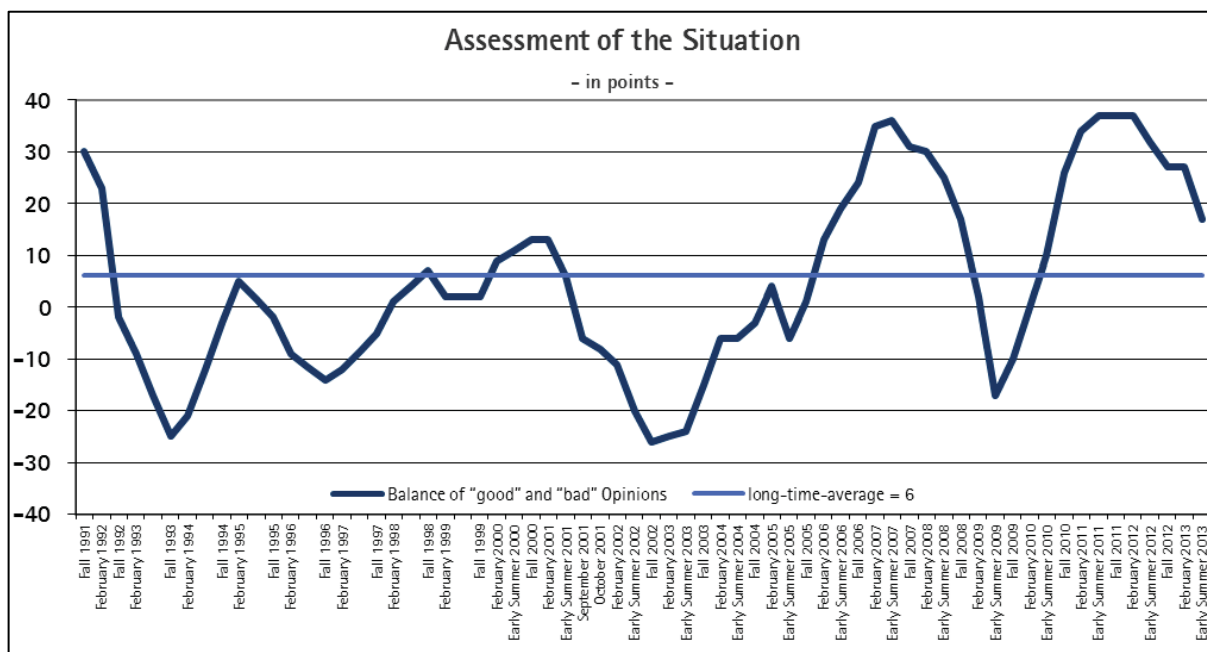
## ADDENDUM

All shares in percent;

Balance = Share of „good/better“ opinions minus share of „bad/worse“ opinions in percentage points

## ECONOMIC SITUATION as seen by the Enterprises

	good	satisfactory	bad	Balance
February 2002	19	51	30	-11
Early Summer 2002	15	50	35	-20
Fall 2002	13	48	39	-26
February 2003	13	49	38	-25
Early Summer 2003	13	50	37	-24
Fall 2003	16	53	31	-15
February 2004	20	54	26	-6
Early Summer 2004	20	54	26	-6
Fall 2004	21	55	24	-3
February 2005	25	54	21	4
Early Summer 2005	20	54	26	-6
Fall 2005	24	53	23	1
February 2006	30	53	17	13
Early Summer 2006	34	51	15	19
Fall 2006	37	50	13	24
February 2007	44	47	9	35
Early Summer 2007	45	46	9	36
Fall 2007	42	47	11	31
February 2008	42	46	12	30
Early Summer 2008	38	49	13	25
Fall 2008	33	51	16	17
February 2009	26	50	24	2
Early Summer 2009	18	47	35	-17
Fall 2009	20	50	30	-10
February 2010	24	52	24	0
Early Summer 2010	28	54	18	10
Fall 2010	38	50	12	26
February 2011	44	46	10	34
Early Summer 2011	46	45	9	37
Fall 2011	46	45	9	37
February 2012	46	45	9	37
Early Summer 2012	42	48	10	32
Fall 2012	38	51	11	27
February 2013	38	51	11	27
Early Summer 2013	32	53	15	17



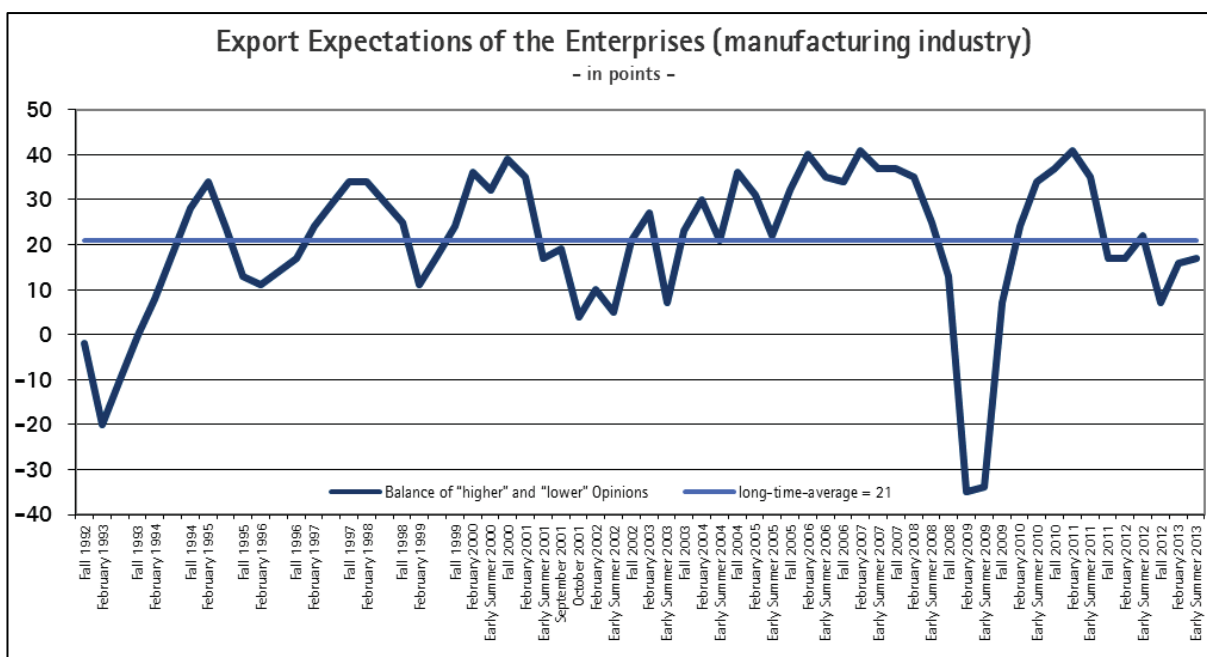
## BUSINESS EXPECTATIONS of the Enterprises

	better	about equal	worse	Balance
February 2002	22	44	34	-12
Early Summer 2002	23	41	36	-13
Fall 2002	26	45	29	-3
February 2003	18	42	40	-22
Early Summer 2003	17	41	42	-25
Fall 2003	28	49	23	5
February 2004	32	47	21	11
Early Summer 2004	27	49	24	3
Fall 2004	26	52	22	4
February 2005	25	55	20	5
Early Summer 2005	22	55	23	-1
Fall 2005	23	57	20	3
February 2006	31	55	14	17
Early Summer 2006	33	54	13	20
Fall 2006	27	56	17	10
February 2007	31	56	13	18
Early Summer 2007	34	57	9	25
Fall 2007	28	59	13	15
February 2008	26	59	15	11
Early Summer 2008	24	59	17	7
Fall 2008	18	57	25	-7
February 2009	11	43	46	-35
Early Summer 2009	14	45	41	-27
Fall 2009	24	52	24	0
February 2010	26	53	21	5
Early Summer 2010	33	53	14	19
Fall 2010	33	56	11	22
February 2011	34	56	10	24
Early Summer 2011	34	57	9	25
Fall 2011	23	61	16	7
February 2012	22	61	17	5
Early Summer 2012	25	61	14	11
Fall 2012	18	60	22	-4
February 2013	20	62	18	2
Early Summer 2013	25	59	16	9



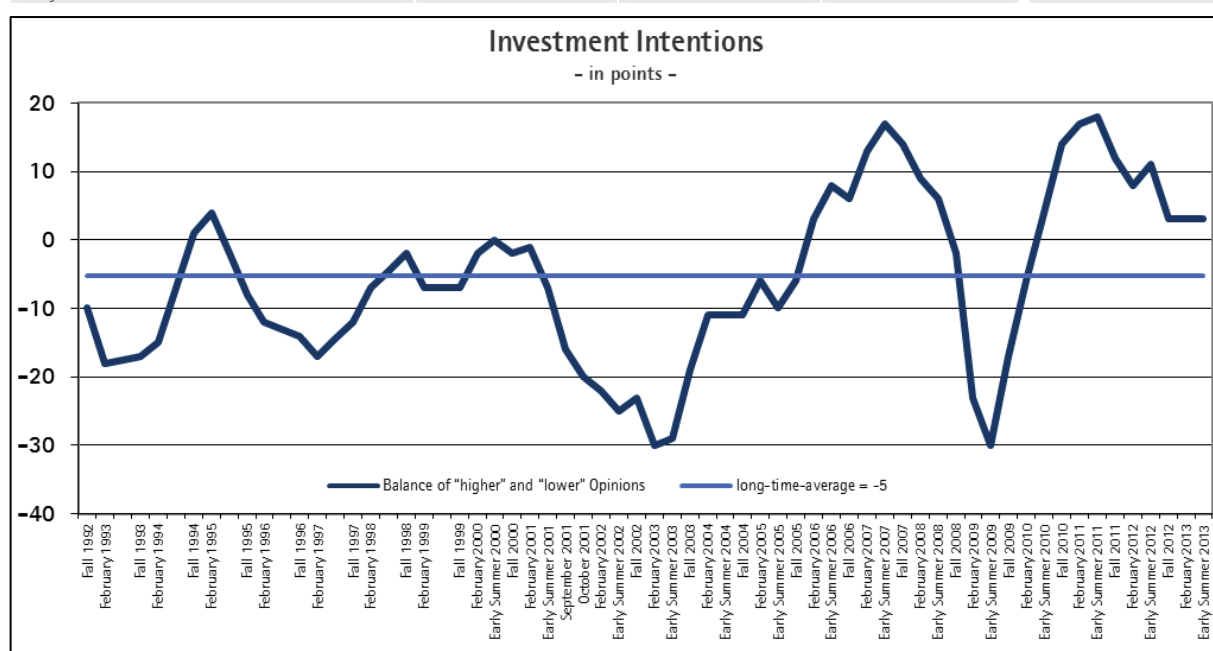
## EXPORT EXPECTATIONS of the Enterprises (manufacturing industry)

	higher exports	about equal exports	lower exports	Balance
February 2002	29	52	19	10
Early Summer 2002	26	53	21	5
Fall 2002	34	53	13	21
February 2003	38	51	11	27
Early Summer 2003	27	53	20	7
Fall 2003	36	51	13	23
February 2004	41	48	11	30
Early Summer 2004	34	53	13	21
Fall 2004	44	48	8	36
February 2005	41	49	10	31
Early Summer 2005	35	52	13	22
Fall 2005	41	50	9	32
February 2006	47	46	7	40
Early Summer 2006	42	51	7	35
Fall 2006	42	50	8	34
February 2007	47	47	6	41
Early Summer 2007	42	53	5	37
Fall 2007	44	49	7	37
February 2008	43	49	8	35
Early Summer 2008	35	55	10	25
Fall 2008	30	53	17	13
February 2009	13	39	48	-35
Early Summer 2009	14	38	48	-34
Fall 2009	29	49	22	7
February 2010	37	50	13	24
Early Summer 2010	43	48	9	34
Fall 2010	44	49	7	37
February 2011	46	49	5	41
Early Summer 2011	42	51	7	35
Fall 2011	30	57	13	17
February 2012	31	55	14	17
Early Summer 2012	33	56	11	22
Fall 2012	27	53	20	7
February 2013	30	56	14	16
Early Summer 2013	30	57	13	17



## INVESTMENT INTENTIONS of the Enterprises

	higher investment	about equal investment	lower investment	Balance
February 2002	17	44	39	-22
Early Summer 2002	17	41	42	-25
Fall 2002	15	47	38	-23
February 2003	15	40	45	-30
Early Summer 2003	15	41	44	-29
Fall 2003	16	49	35	-19
February 2004	19	51	30	-11
Early Summer 2004	19	51	30	-11
Fall 2004	18	53	29	-11
February 2005	21	52	27	-6
Early Summer 2005	20	50	30	-10
Fall 2005	20	54	26	-6
February 2006	24	55	21	3
Early Summer 2006	27	54	19	8
Fall 2006	25	56	19	6
February 2007	29	55	16	13
Early Summer 2007	31	55	14	17
Fall 2007	30	54	16	14
February 2008	28	53	19	9
Early Summer 2008	26	54	20	6
Fall 2008	22	54	24	-2
February 2009	16	45	39	-23
Early Summer 2009	14	42	44	-30
Fall 2009	16	51	33	-17
February 2010	21	52	27	-6
Early Summer 2010	25	54	21	4
Fall 2010	29	56	15	14
February 2011	31	55	14	17
Early Summer 2011	31	56	13	18
Fall 2011	27	58	15	12
February 2012	26	56	18	8
Early Summer 2012	27	57	16	11
Fall 2012	23	57	20	3
February 2013	23	57	20	3
Early Summer 2013	23	57	20	3



EMPLOYMENT INTENTIONS of the Enterprises

	higher employment	about equal employment	lower employment	Balance
February 2002	10	59	31	-21
Early Summer 2002	10	58	32	-22
Fall 2002	9	58	33	-24
February 2003	8	53	39	-31
Early Summer 2003	7	55	38	-31
Fall 2003	9	60	31	-22
February 2004	10	61	29	-19
Early Summer 2004	11	58	31	-20
Fall 2004	10	64	26	-16
February 2005	12	62	26	-14
Early Summer 2005	11	61	28	-17
Fall 2005	12	63	25	-13
February 2006	16	64	20	-4
Early Summer 2006	18	64	18	0
Fall 2006	17	66	17	0
February 2007	21	67	12	9
Early Summer 2007	25	64	11	14
Fall 2007	22	65	13	9
February 2008	21	66	13	8
Early Summer 2008	20	66	14	6
Fall 2008	16	66	18	-2
February 2009	9	62	29	-20
Early Summer 2009	8	59	33	-25
Fall 2009	10	65	25	-15
February 2010	12	67	21	-9
Early Summer 2010	16	69	15	1
Fall 2010	19	69	12	7
February 2011	22	68	10	12
Early Summer 2011	23	68	9	14
Fall 2011	19	71	10	9
February 2012	19	70	11	8
Early Summer 2012	20	69	11	9
Fall 2012	15	71	14	1
February 2013	15	71	14	1
Early Summer 2013	15	71	14	1

