Europe scores highly – cost pressures more important again

Results of the GCCI survey among the Chambers of Commerce and Industry Spring 2015

DIHK Deutscher Industrie- und Handelskammertag

With the "Europe scores highly – cost pressures more important again" survey on foreign investments in manufacturing industry in the spring of 2015, the association of German Chambers of Commerce and Industry (DIHK) is presenting an analysis based on the results of a supplementary survey as part of the DIHK business survey at the beginning of 2015. This special evaluation continues the DIHK survey on foreign investments, which goes back to the year 1995. The basis of the results is provided in each case by representative surveys of the Chambers of Commerce and Industry (IHKs) among their member companies. Around 2,500 replies from companies from the manufacturing sector (excluding construction) serve as a basis.

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The Important Results

- An increasing number of German industrial companies plan to invest abroad - 47 per cent of industrial enterprises want to make use of funds for this purpose in 2015, which is more than ever before. As they do so, the budgets they are spending remain expansionary - however, with somewhat less dynamism. The balance of "higher" and "lower" budgets for the planned foreign investments has decreased slightly from 20 to 18 points. The international political crises, in particular the Russian-Ukrainian conflict, as well as weaker economic developments in some emerging markets, are preventing an even greater level of commitment this year.
- For the second year in a row, increasing cost pressures in Germany are inducing more entrepreneurs to invest beyond the country's borders. Costs as the investment motive continue to become more important. As a result, 23 per cent (2014: 21 per cent) of the companies which operate abroad are now planning their investments for this reason. Previously, the cost motive had for many years lost ground almost continuously (2003: 42 per cent) - evidence of the long-term positive and improved locational conditions in Germany. The current second consecutive increase bears witness to the fact that the renewed deterioration in the cost structure here at home, especially due to high energy prices, increasing employment and bureaucracy costs, is now reflected in the longer-term planning of companies. Relocation for reasons of cost means a loss of investment and – at least in the medium term – less employment at the domestic sites of these companies.
- With regard to the investment regions, the EU-15 countries1 are again in first place. 47 per cent (2014: 46 per cent) of industrial enterprises – and therefore more than ever before – are deciding in favour of investments in this region. Following the rapid growth from 2013 to 2014 (40 to 46 per cent), these countries are again the winners in this respect. The long-term leader China has also improved its position by three to 45 per cent, but has ended up "only" in second place. With a significant increase of six percentage points, North America has achieved the highest gains in terms of new German investors and has thereby established itself in third position in the target region rankings. Only the region of "Asia excluding China" is still developing almost as dynamically: 28 per cent of all German industrial companies with an international connection are investing here - five points more than in 2014.
- It is noteworthy that over 40 per cent of all companies which are investing for reasons of cost are now doing so within the EU-15. Last year this figure was even less (36 per cent, multiple answers possible). Many European locations have tackled the issue of reforms and further improved their competitiveness. This has made the region more attractive as an investment location and is attracting more investments from Germany. The second most important region for investment for reasons of cost remains the new EU member countries (those who have joined the EU since 2004). In the case of investments in China, cost considerations also play a significant role, although market development motives are more important here. Commitments in North America are mainly entered into in order to develop the attractive markets there.
- Again in 2015, the most important functional focus of German foreign investments remains the development of sales and customer service. 46 per cent of businesses (2014: 45 per cent) are planning their cross-border investments for this purpose. When investing in new or existing production facilities in order to open up foreign markets, however, companies are lowering their sights on balance (31 per cent compared to 34 per cent in 2014).
- The geopolitical situation has left its mark on the foreign investments of German industrial companies. Only 17 per cent state that they intend to invest in the region of Russia, Ukraine, South-Eastern Europe or Turkey. Last year this figure was still 26 per cent. South America also noticed a decline: in this region the degree of commitment has shrunk from 23 per cent to its current level of 20 per cent. It is in particular the economic difficulties in Brazil, the economic heavyweight in South America, which are reflected in this data.

[1] The EU-15 includes all Member States of the European Union before the so-called Eastern enlargement in 2004. These are Belgium, Denmark, Germany, Finland, France, Greece, United Kingdom, Italy, Ireland, Luxembourg, Netherlands, Austria, Portugal, Sweden and Spain.

Content

International orientation and motivation of companies

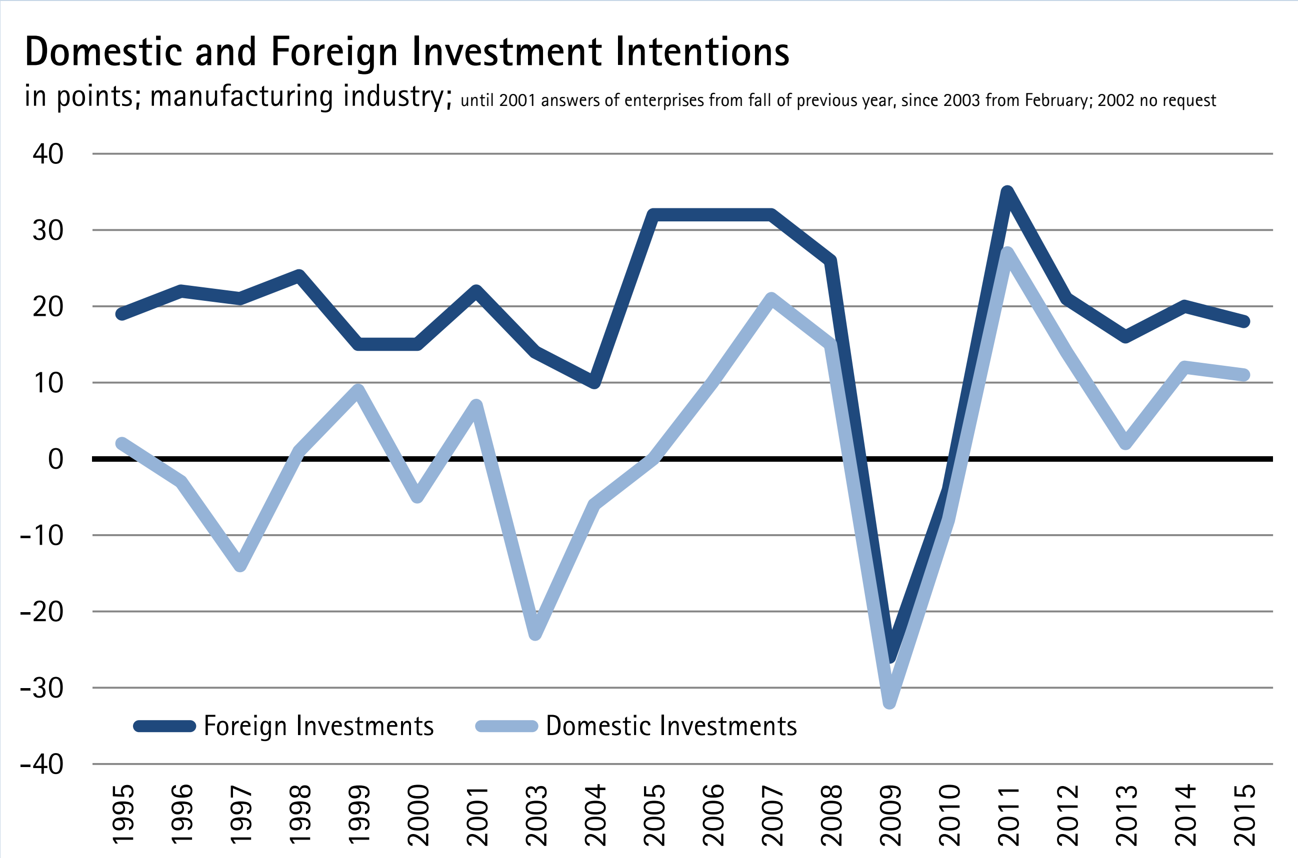
Commitment increasing overall - but not unanimously

An increasing number of German industrial companies plan to invest abroad - 47 per cent of industrial enterprises want to make use of funds for this purpose in 2015, which is more than ever before. As they do so, the budgets they are spending remain expansionary - however, with somewhat less dynamism. The balance of "higher" and "lower" budgets for the planned foreign investments has decreased slightly from 20 to 18 points. The international political crises, in particular the Russian-Ukrainian conflict and weaker economic developments in some emerging markets, are preventing an even greater level of commitment this year.

In manufacturing industry, large companies with more than 1,000 employees are ramping up their investment plans (balance improvement by one to 26 points). In contrast, small and medium-sized enterprises are less expansionary with their plans for abroad. Businesses with 200-500 employees and with 20-200 employees have reduced their investment balances in each case by three to the still relatively positive values of 21 and 14 points respectively. However, the strongest decline is among the small companies with up to nine employees. The balance has dropped to one after the previous level of nine points.

The Investment Plans of German Industrial Companies Abroad
in per cent

Industrial companies are planning the following for the year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Investments abroad	44	40	42	45	42	40	44	43	44	46	45	47
No investments abroad	56	60	58	55	58	60	56	57	56	54	55	53
Of the industrial companies which want to invest abroad, these are planning in comparison to the previous year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
... higher foreign investments	30	43	42	40	39	16	22	44	34	32	33	31
... foreign investments of an equal level	50	46	48	52	48	42	52	47	53	52	54	56
... lower foreign investments	20	11	10	8	13	42	26	9	13	16	13	13
Balance (long-time-average: 18)	**10**	**32**	**32**	**32**	**26**	**-26**	**-4**	**35**	**21**	**16**	**20**	**18**



Increase in cost motive for the second time in a row

The cost motive is again gaining ground for foreign investments – and with an upward trend. 23 per cent of the companies which operate abroad are now planning their investments for this reason. Previously, this motive for investments had declined almost continuously for many years (2003: 42 per cent; 2013: 20 per cent), although it had slightly increased again in the previous year's survey (2014: 21 per cent). Although still only moderate, the repeated increase bears witness to the fact that in the meantime the deterioration in the cost structure here at home, especially due to high energy prices and rising labour costs, is being reflected in the longer-term planning of companies. Again in 2015, however, the most important functional focus of German foreign investments remains the development of sales and customer service. 46 per cent of businesses (2014: 45 per cent) are planning their cross-border investments for this purpose. When investing in new or existing production facilities, however, companies are lowering their sights on balance (31 per cent compared to 34 per cent in 2014).

In addition to the costs, there are other domestic developments which are having an impact on foreign investments. For example, almost every other industrial company which expects to make increasing foreign investments refers to the risk of "economic policy framework conditions" (48 per cent, previous year's survey: 37 per cent). The assessment of companies of the risk of the shortage of skilled workers also remains high. Of the companies which are planning sizeable investment

Functional Focus of Foreign Investments of German Industrial Companies
(in per cent; no survey on the foreign investment plans in 2002)

	2001	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Production abroad for cost savings	29	42	41	35	31	30	36	26	24	22	21	20	21	23
Production abroad for market development	27	26	24	26	26	31	30	33	29	35	30	35	34	31
Sales and customer service	44	32	35	39	43	39	34	41	47	43	49	45	45	46

budgets abroad, as many as 39 per cent refer to the limited availability of qualified personnel as an obstacle to their economic development in this country (previous year's survey: 32 per cent).

Negative impacts on Germany as an investment location?

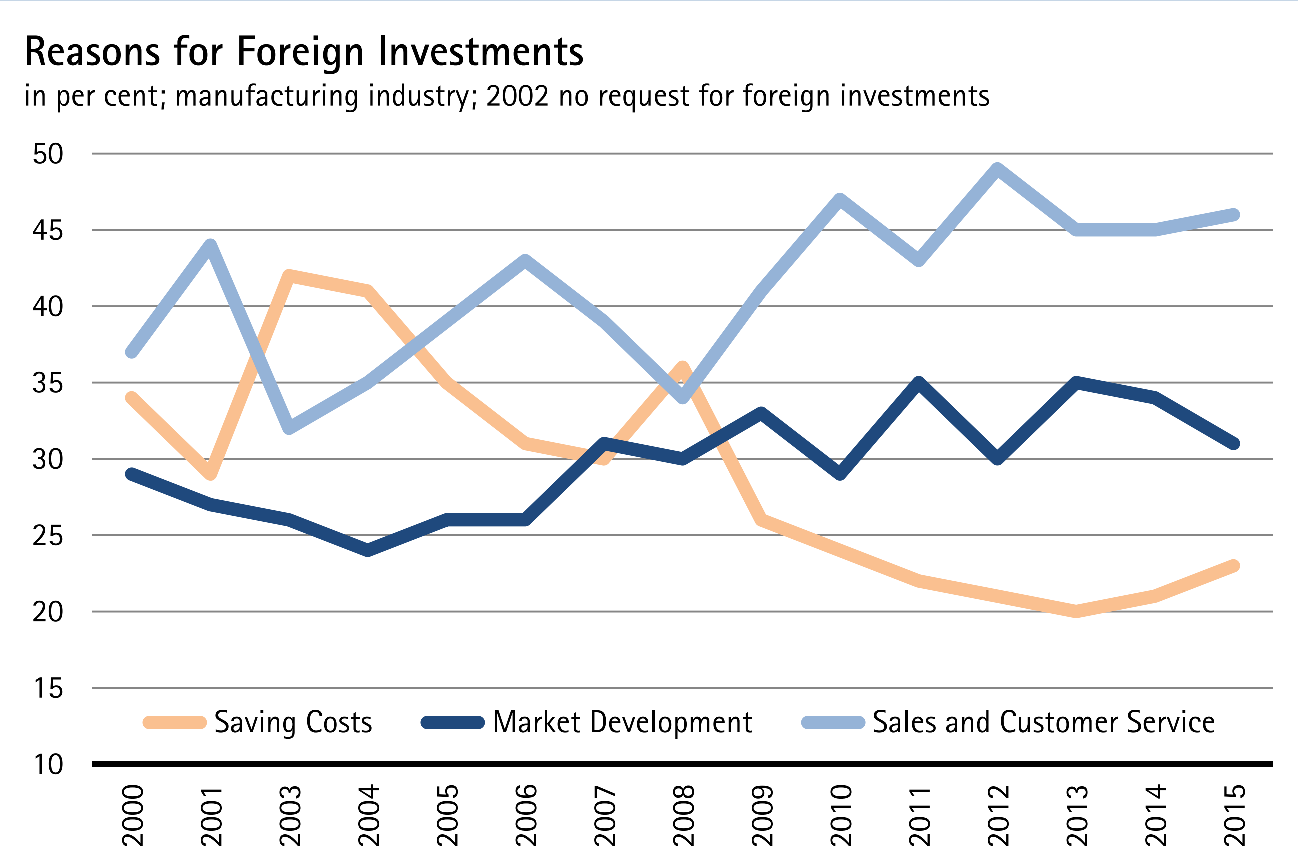
Businesses which want to invest abroad for cost reasons are more restrained with respect to their commitments at their domestic location. Although these companies also want to slightly increase their domestic investments on balance (balance of "higher" and "lower" responses eleven points, as many as the total number of industrial enterprises), their employment plans are very negative (balance: minus seven points, industry as a whole: plus two points). This means a significant deterioration compared to the previous survey in 2014. At that time, the employment balance was still in equilibrium, so that the relocation of parts of the production process abroad strengthened the position of the company overall and jobs were secured. Now the relocation for cost reasons is generally associated with lower levels of employment in this country.

Cost motive increasing among larger companies

There is a significant level of dynamism in the foreign investments for cost reasons among companies with more than 1,000 employees. Here the value has climbed compared to the beginning of 2014 by six points to its present level of 20 per cent. Also in the larger category of medium-sized enterprises with 200 to 500 employees, the willingness to invest for reasons of cost has increased for the umpteenth time to its current above-average level of 28 per cent.

Higher labour costs driving the relocation trend

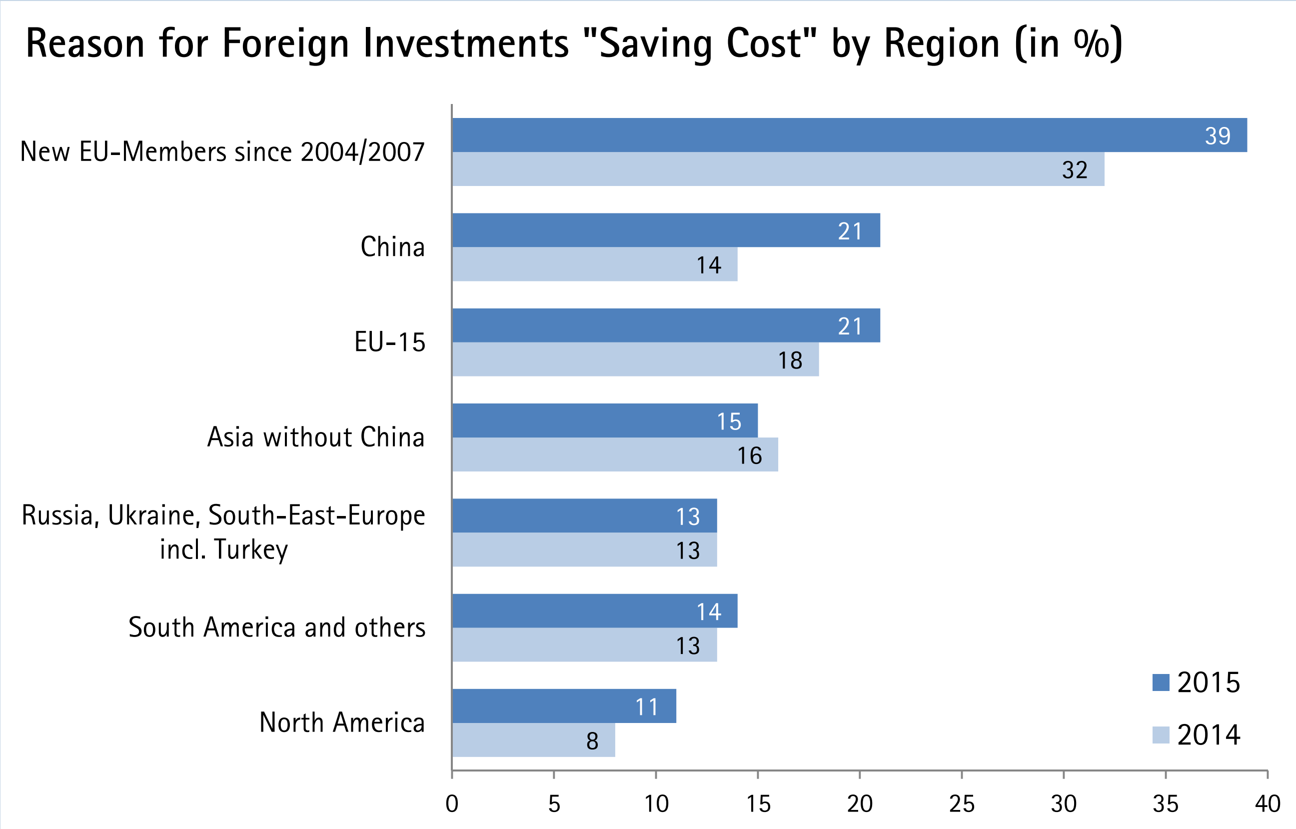
Of those companies which are building up production abroad in order to save costs, 43 per cent consider the developments in labour costs in Germany to be a risk to their further economic development. This is well above the average of all companies that are investing abroad (37 per cent). Overall, the increase in labour costs in this country is not only a reaction to bottlenecks in the supply of skilled employees, but also the result of a whole series of policy proposals. The discussion about further regulations, e.g. with respect to temporary employment and contracts for work and services, but also a right of return for part-time employees, is increasing the pressures on costs for many companies and making the relocation of production abroad a necessity. Even if the minimum wage often does not



directly affect manufacturing industry, it can nevertheless have a negative impact indirectly through the company-related service providers which are integrated into the value-added chains. Overall, the business risk of "labour costs" is referred to by more industrial companies than in any previous survey. In addition to the minimum wage, collective bargaining negotiations are making themselves felt among the companies. The pension without any reductions at the age of 63 and the mothers' pension are also preventing any palpable relief in terms of contributions to the pension insurance scheme. Overall, the social security contributions are even rising slightly due to the contributions to the nursing care insurance.

High electricity costs remain a problem ...

Although the prices for energy and raw materials have undergone favourable developments in the last few months, the high electricity costs in particular remain a dominant driver for cost-motivated foreign investments. 41 per cent of businesses which are investing abroad for reasons of cost consider this to be a risk to their business developments over the next few months. Compared to the foreign investments for building up marketing and service structures and market development, these are significantly more (28 and 33 points respectively). Special charges such as the Renewable Energy Act reallocation charge affect only the domestic economy and therefore represent an additional burden on these companies in international competition. It is anticipated that the manufacturing sector alone here in Germany will have to pay 7.5 billion euros this year - more than one per



cent of total industrial value creation. Finance which is missing for investments. At the same time the costs for the supply of energy in other countries have risen to a lesser extent or – as in the case of the USA along with the shale gas and shale oil boom – even decreased. The further opening up of the gap in energy costs is putting German industrial companies under pressure in the international competition - and often proves to be the decisive factor for relocating production to other countries.

... particularly for energy-intensive industries

It is precisely the industries which are planning to relocate their production beyond national boundaries for cost reasons which display relatively high energy consumption levels and are simultaneously labour-intensive. As a result, almost 50 per cent of foreign investments in the textile, clothing and leather industry state that this is their motivation. Moreover, the manufacturers of intermediate goods show the greatest increase in the cost motive (plus five percentage points to the current level of 28 per cent). Here, the chemical industry stands out in particular, as it displays the largest increase of all sectors (plus 16 points compared to the previous survey to the current level of 26 points). More companies working in the rubber and plastics industry also want to invest abroad for reasons of cost (23 per cent, previous survey: 16 per cent).

Europe remains the number one investment target for cost reasons

The motive of saving costs is the decisive factor with respect to investments in the EU-15 for a good 20 per cent of companies (21 per cent). This means that the proportion has increased compared to the previous year's survey by three percentage points. Many European sites have tackled the issue of reforms and have been able to significantly improve their competitiveness. This makes the region more attractive as an investment location and attracts more investments from Germany. Its share as a target region for German investments has increased within one year from 46 to the record level of 47 per cent. The new EU Member States (since 2004/2007) are also becoming considerably more attractive for reasons of cost. In a comparison of all regions of the world, the cost motive is highest here at 39 per cent. Compared to 2013, the value has increased again by a clear seven points. However, "only" 21 per cent of all German industrial investments are made in this region. Cost-driven investments in China are also increasing - here the motive has soared from 14 per cent to 21 per cent.

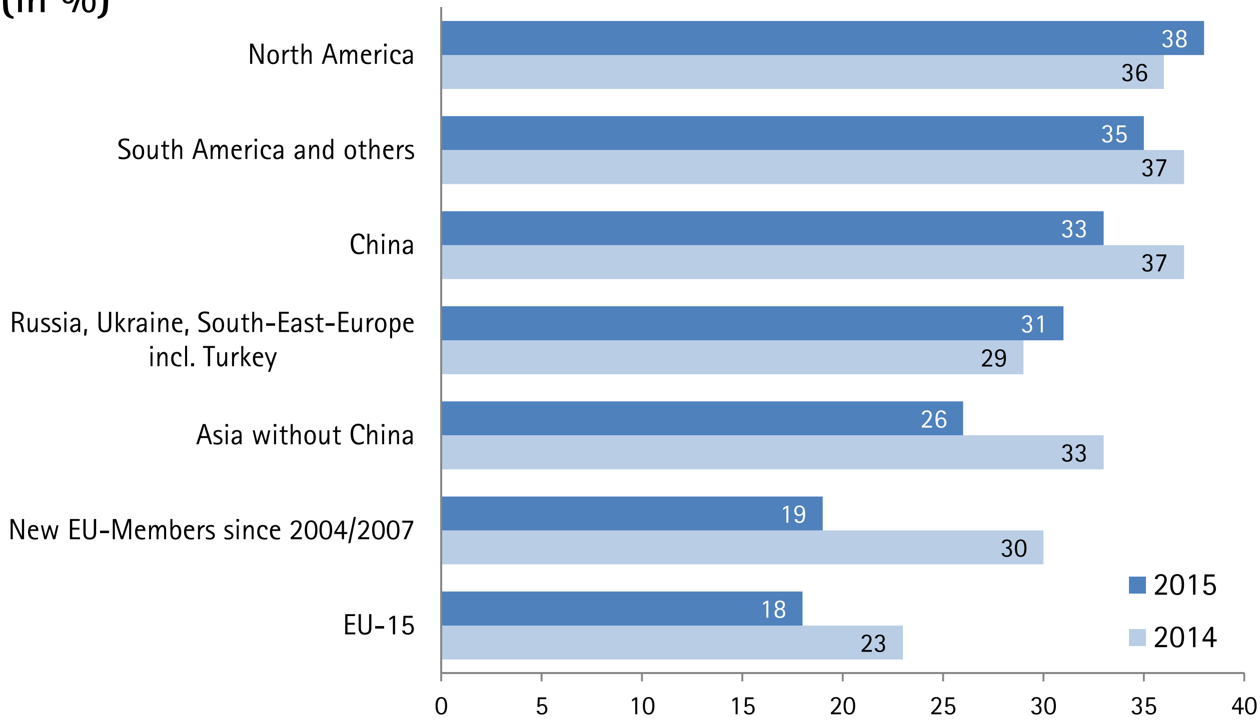
Nevertheless: Germany as a business location is still benefiting overall

For 46 per cent of industrial enterprises, the development of marketing and customer service abroad is the decisive motive for cross-border commitments. Compared to the beginning of 2014, this represents a slight increase (plus one percentage point). These investments often function as a preliminary stage for further investments with a higher volume. Companies can increase their sales through the service centres while continuing to produce in Germany. This benefits the domestic location through improved investment and employment plans (balances: 20 and ten points respectively; manufacturing industry overall: eleven and two points respectively). However, the current data indicates a slowing down in the pace, especially with respect to employment expansion - the balance in 2014 was still plus 17 points. It is small and medium-sized businesses in particular which prefer this form of foreign commitments. For example, in the group of businesses with up to 500 employees, 54 per cent are planning the development and expansion of their marketing and customer service, while in contrast this figure is only 28 per cent for companies operating abroad with more than 1,000 employees. Admittedly, they also have the necessary scope to develop markets immediately with local production facilities (52 per cent).

Little change among the target regions

Within the EU-15, the development of marketing and customer service remains by far the most important functional focus of investing German businesses (61 per cent, previous year: 59 per cent). The high value is attributable on the one hand to the fact that as a rule these markets can also be supplied from Germany, especially as tariff and non-tariff trade barriers are of no significance. On the other hand, the companies have already opened up these markets with their own production where necessary. The value for the motive of "developing marketing and customer service" in China is well below average (46 per cent) - here the construction of production facilities has played a more important role for some time now, as well as in the new EU member countries (42 per cent) – here the motive of cost reduction has gained significantly in importance.

Reason for Foreign Investments "Market Development" by Region (in %)



Construction of production facilities for market development declining

Currently, slightly fewer industrial companies than a year ago are investing in foreign production capacity in order to open up markets - albeit on a level which is still high. 31 per cent of businesses refer to this as their motive, after 34 per cent in 2014. These businesses are also planning with above-average investment budgets and employment plans in Germany (balances: 17 and ten points respectively).

The slight decline in the motive of developing capacity is associated with a deterioration in growth expectations. Investments for market development usually require much larger investment amounts and a greater payback period than those foreign commitments used to develop marketing structures or for the purpose of cost savings. In 2015, companies which are investing in production facilities abroad again want to ramp up their budgets to a particularly significant extent. Among them, the balance of "higher" and "lower" foreign investment intentions is 30 points (overall: 18 points). Compared to the previous year, however, this indicates a slower pace (2014: 35 points versus an overall balance of 20 points).

Among the various sectors it is motor-vehicle construction which is setting up production facilities in particular in order to tap into new markets. This is the decisive factor for 57 per cent of the companies in this sector with plans for foreign investments. For German car manufacturers in particular, production at the global level has been considered normal for many years. However, more and more suppliers are also taking this step and following their customers with their own production abroad, e.g. the manufacturers of automotive parts and accessories (63 per cent, previous survey: 57 per cent). For many years the traditional peak value for the development of production for market development has been in the target region of China. However, the proportion of businesses investing there for this motive has fallen to 33 per cent (previous survey 37 per cent). Of all the companies with the motive of "foreign production for market development", 44 per cent state that they want to invest in China. However, this value is also lower than in the previous survey in 2014 (48 per cent). An important reason for this lies in the foreseeable slowing down of the growth momentum in China. In contrast, North America is catching up quickly as a destination for investments in market development. In the meantime, over 40 per cent of all businesses which want to construct production facilities abroad state that North America is their target (previous survey 33 per cent, multiple answers possible). Investments, especially in the USA, often have to adapt to the prevailing regulatory circumstances, however, in order to even begin serving the local market. For many companies – especially small and medium-sized enterprises – this option is also not affordable. With a free trade agreement such as the TTIP, the unnecessary barriers to market entry would be reduced and more businesses overall could easily develop these markets from Germany. Numerous additional investments would also take place in this country.

Domestic Investment and Employment Plans of Industrial Companies which are Investing Abroad (balance in points)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Domestic investment balance of the industrial companies ...									
... overall	21	15	-32	-8	27	14	2	12	11
... with plans for foreign investments	25	20	-32	-6	37	17	6	18	17
... with foreign investments for the purposes of saving costs	10	16	-41	-6	32	9	-5	13	11
... with foreign investments for the purposes of market development	30	24	-30	-5	40	16	7	21	17
... with foreign investments for the purposes of sales/customer service	31	22	-28	-6	38	21	10	18	20
Domestic employment balance of the industrial companies ...									
... overall	11	11	-33	-19	16	8	-4	5	2
... with plans for foreign investments	19	23	-32	-16	29	15	1	12	6
... with foreign investments for the purposes of saving costs	3	12	-51	-29	19	-1	-14	-1	-7
... with foreign investments for the purposes of market development	21	27	-28	-15	30	15	-1	13	10
... with foreign investments for the purposes of sales/customer service	28	30	-25	-10	34	20	9	17	10

Target regions for foreign investments

At home in all regions of the world

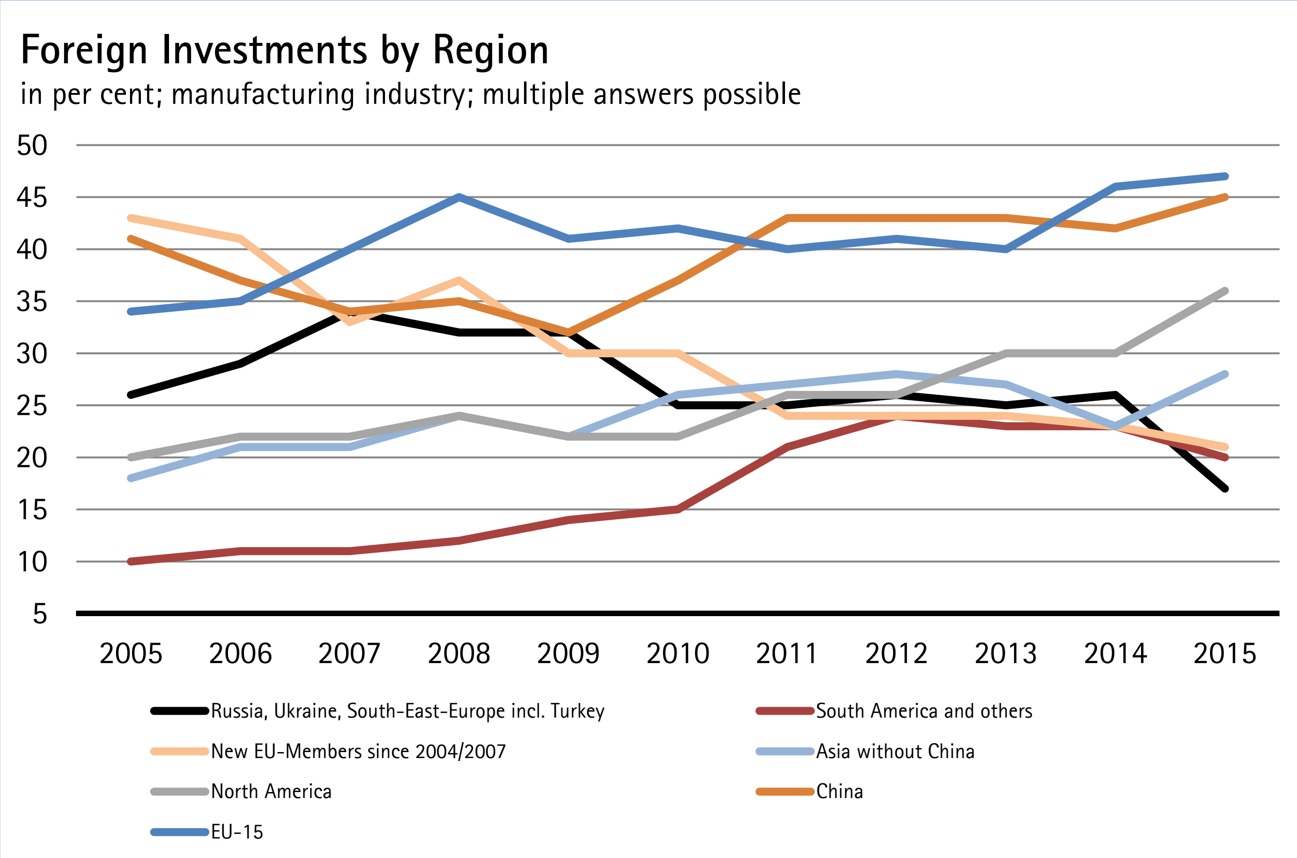
As before, the breadth of the commitments of German companies is remarkable. Foreign markets in all regions of the world are being intensively cultivated, with the proximity to the customer remaining of paramount importance. Even if considerable reductions are currently being made with respect to investments in Eastern Europe, the interest in business activities in the various international markets continues unabated overall. Only 17 per cent of businesses state that they intend to invest in the region of Russia, Ukraine, South-Eastern Europe and Turkey. Last year this figure was still 26 per cent. Here it is clearly evident that the crisis in Ukraine is making its mark. South America also noticed a decline: in this region the degree of commitment has shrunk from 23 per cent to its current level of 20 per cent. It is in particular the economic difficulties in Brazil, the economic heavyweight in South America, which are making themselves felt.

Europe expanding its leading position

In contrast, the EU-15 countries have expanded their leading position: 47 per cent (46 per cent in the previous year) of industrial companies are deciding in favour of investments in this region. Following the rapid growth in the previous year (from 40 to 46 per cent), these countries have again been able to increase their shares and therefore remain the top destination for investments by industrial companies. Until now, no region has ever reached a higher value than 47 per cent. Having been a long time at the top, China remains in second position with an increase of three to 45 per cent. North America has established itself in third place and with a significant increase of six percentage points has even moved slightly closer to China. Overall, businesses are therefore putting their faith in continuity with their commitments to the established markets. Furthermore, they are taking advantage of the development prospects in other growth regions, such as the countries of South-East Asia which are also known as the Tiger states (28 per cent of responses, 2014: 23 per cent). Selected "African Lions" - i.e. dynamic countries in sub-Saharan Africa such as Ghana – are also beginning to emerge. German investors are able to benefit from increasingly developed middle classes and the resulting rise in demand. The upshot of this is that German foreign trade is maintaining one of its strengths: the high degree of diversification among foreign investments is ensuring that weaker phases in individual markets can be offset by improved developments in others.

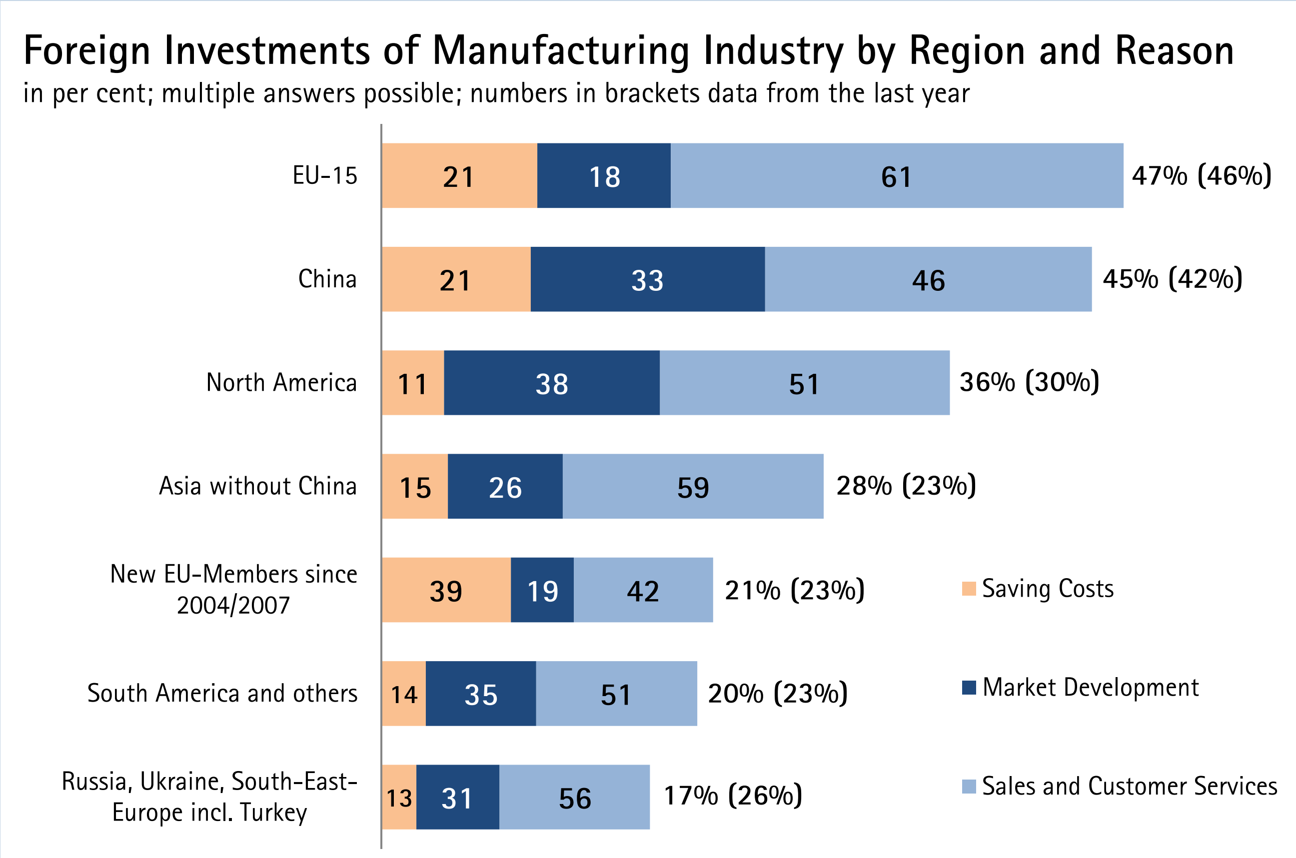
EU-15 remains ahead

Companies are strengthening their activities in the EU-15 countries and thereby responding to the often successful reform efforts of several states. The countries' efforts to strengthen their competitiveness are therefore being increasingly reflected in the investment plans of domestic industrial companies. Even so, the countries undertaking the reforms, e.g. Spain, Portugal or Ireland, can leverage further potentials to improve their competitiveness. The resulting stronger economic growth would make these countries even more interesting as investment locations.



Reforms paying off ...

For example, Spain has increased the retirement age from 65 to 67, frozen civil servants' salaries and increased the number of working days. Portugal is also one of the successful reform countries. The country was able to stop it reliance on the bailout fund as long ago as May 2014. The IMF loans in the amount of 26 billion euros have been paid off prematurely. The trade balance is now almost in equilibrium and unemployment is also continuing to fall. The reforms such as raising the retirement age and increasing the number of weekly working hours in the civil service are beginning to bear fruit. However, the rise in German investments to an all-time high of 47 per cent in the EU-15 is also due to the strong performance of the UK economy. The failure of the referendum on Scottish independence has given Britain's economic development a major boost. For foreign investors the result of this vote primarily means better planning certainty. Additional factors are the low unemployment and booming service sector in the British Isles. Of course the weak euro is also playing a role in this. However, a possible interest rate increase in view of the positive economic developments could counteract the steady growth path of the British economy and diminish the interest of German investors.



... France and Italy remain the problem children

The labour market in France is stabilising at best at a low level and the economy is stagnating. The relief offered to employers with regard to their social security contributions, savings programmes of the French government totalling €50 billion and the reduction in taxes and duties have not (yet) been able to boost the economy as hoped. The situation is not much better in Italy: The recession is at best being transformed into stagnation, although at least it has been possible to stop the rise in unemployment. Further increases in unit labour costs might also slow down further investments on the part of German businesses.

Mechanical engineering and motor vehicle construction hesitant

Two top sectors of German manufacturing industry are proving to be less expansionary. At 37 per cent, the investments of businesses that operate in the field of mechanical engineering in the EU-15 countries are well below the values for all industrial enterprises (previous year 33 per cent). This may be the result in particular of the fact that the reform efforts in the EU countries have not yet been felt by the local industrial sectors, so that the interest in German machines remains limited. German vehicle manufacturers are currently also proving somewhat reticent with their investments in the EU-15 countries. 42 per cent of the businesses in the sector which were surveyed stated that they have commitments in these states. This is evidently a consequence of the extensive saturation of the automotive market in Europe and the fact that the regions of Asia and North America are more attractive due to their greater dynamism.

Reduced growth in budgets in the EU-15

In the global comparison, the EU-15 countries are well ahead on the question of whether German industrial companies want to commit themselves to this region. A fly in the ointment, however, is the information provided on the development of investment activities. Only a quarter of companies have indicated that they intend to expand their investment budgets. This is the lowest value compared to all other regions of the world surveyed. In contrast, the response option of "unchanged" shows a peak value. It therefore appears that industrial companies want to initially wait and see how the situation develops in these countries. This is also indicated by the fact that only one in seven businesses would like to reduce their commercial activities. This results in a positive balance of eleven points (2014: 19 points).

New EU members on the rise

The number of German industrial companies with investments in the countries which joined the EU in 2004 and 2007 has declined slightly from 23 per cent to 21 per cent. However, more than one in three of these companies (35 per cent) assume that investments will increase. The car manufacturers are represented to an above-average extent in these countries at 24 per cent. German vehicle manufacturers in particular have made use of some of the new EU members in recent years as a so-called "extended workbench" and transferred significant parts of their production, for example, to Bulgaria, Romania and Hungary. In contrast, businesses operating in the field of mechanical engineering are more reticent at just 15 per cent. In these countries, the cost motive for German investors plays a very special role, rising to 39 per cent compared to 32 per cent last year.

The potential for German investments has not been exhausted in these countries by a long chalk. However, the framework conditions for investments are not attractive enough for many German companies. Corruption and a partly outdated transport infrastructure are preventing businesses from committing themselves to these countries. A further factor is significant increases in labour costs in some cases without any improvement in productivity. This often leads to German industrial companies preferring to focus on their tried and trusted partners in the "old" EU countries.

China becoming more stable

Until last year, China was the top target of the investments of German industrial companies (since 2010). It then lost its top place to the EU-15, although it has now improved its position again. After 42 per cent last year, 45 per cent of businesses are now commercially active in China. The balance of increasing and falling investments of the companies with commitments in the Middle Kingdom has however dropped to 25 points – from its strong level of 32 points last year. The cost motive is also playing an increasingly important role in investments in this region. After 14 per cent, it is now every fifth company surveyed which refers to the lower costs as the reason for its investment.

The spectacular growth of the Chinese economy is very likely to be a thing of the past very soon. The local government expects growth this year to be only around seven per cent - following an increase of 7.4 per cent in the past year, the lowest level of economic growth since 1990. The government is focusing its attention on further cooling down the overheated property sector and reducing the enormous levels of debt of company. The transformation to a less environmentally harmful and more consumer-driven economic model is likely to be associated with large structural upheavals. The electrical equipment supply industry could be among the winners as a result of investments by the Chinese government in environmentally-friendly technologies, as well as mechanical engineering. At 57 per cent (electrical equipment) and 59 per cent (mechanical engineering), these two industries are planning above-average commitments to the Chinese market. Motor vehicle construction is also above average at 52 per cent. This sector might benefit from the fact that an increasingly affluent middle class in China prefers German car brands.

North America catching up

The number of industrial companies investing in North America has risen to 36 per cent - and therefore topped the highest value of the last two years. The companies also state that they intend to expand their commercial activities. The balance of increasing and falling investments is 29 points. This is the highest value measured in the world (together with the region of South America). There is therefore not only increasing interest from local businesses in commitments on the other side of the pond. Companies also state that they intend to significantly expand existing investments.

The ongoing upswing since 2009 in the US economy is expected to accelerate in 2015. This optimism is based on a further recovery in private consumption, which in the USA accounts for over two-thirds of economic activity. The labour market is also developing strongly overall. The highest employment growth for over ten years (autumn of 2014) could however be slowed by the collapse of the oil price. Because the consequence of this was that the first suppliers of equipment to the oil industry have already had to announce redundancies. The producers of capital goods assume that the boom in German products in this segment will continue. An average of 37 per cent of the capital goods manufacturers have a local presence in the USA. For the chemical and pharmaceutical industry, the USA is of particular importance as a business location. Over 43 per cent of businesses in the chemical industry which are involved in foreign countries serve their customers with their own local sites, with this figure in the pharmaceutical field being as high as 63 per cent. Mechanical engineering is slightly above the average of all industrial enterprises at 38 per cent, while motor vehicle construction has slightly reduced its commitments from 39 per cent in the previous year to the current level of 36 per cent.

Russia remains the problem child

As expected, the greatest decline relates to the region of Russia, Ukraine, South-Eastern Europe and Turkey. After 26 per cent last year, only 17 per cent of industrial enterprises are now focusing on this region. In spite of the painful reductions in the business with Russia last year, companies are again expecting significant losses in the current year. The unresolved conflict in Ukraine harbours a serious risk of further setbacks in the coming months for companies which are active in Russia. Even so, at 32 per cent, almost every third company is planning to increase its investments in this region – above all in the countries of South-Eastern Europe and Turkey, which are also part of this group of countries. While mechanical engineering (16 per cent) is imposing some restrictions, the chemical industry (20 per cent) and motor vehicle construction (26 per cent) are significantly higher in some cases than the values for all companies with commercial activities abroad. Some of these businesses have already built up substantial long-term commitments in this region which allow them to withstand economic crises in individual countries over a prolonged period of time. The construction sector is not immune to the negative trend either: with a decline from 27 per cent of companies last year to 16 per cent, the situation is going downhill.

Asian tigers continue to advance

In the growth region of South-East Asia, German investors continue to be very conspicuous. This is underlined by the proportion of companies investing in this region, which has risen significantly from 23 per cent (2014) to 28 per cent. The extent of the commitments has also been increasing: almost 40 per cent of the companies committed to the region would like to increase their investments. At 36 per cent, more than one third of capital goods producers state that they are commercially active in Asia (excluding China). This represents an increase of eight per cent year-on-year. The interest of the manufacturers of cutting-edge technologies also remains at a high level (42 per cent, increase by eight per cent compared to the previous year). While the companies working in the pharmaceutical industry are somewhat reticent at 25 per cent, mechanical engineering – at 35 per cent – is planning a slightly above-average level of commitments in the region. Motor vehicle construction has kept its plans at the same level of 30 per cent.

Depressed mood in South America

The recent less favourable news from South America is reflected in the investments of German companies in the region. Only 20 per cent of industrial enterprises state that they have commitments in South America – after 23 per cent in the previous year. Brazil is by far the most important economic power on the continent. The country has to struggle against widespread corruption and a business model which focuses above all on revenues from the exports of raw materials. The state-owned oil producer Petrobas, which is symbolic of the major economic problems, has recently been shaken by a corruption scandal. Other problem children in South America are Argentina and Venezuela. Both countries are having – albeit for very different reasons – to struggle with a large budget deficit and a decline in economic growth. In view of these bad tidings, the capital goods manufacturers are surprisingly positive at 25 per cent. Motor vehicle construction remains very well positioned at 41 per cent. However, companies from the chemical industry have turned their backs on the region. After 32 per cent last year, only 15 per cent of the companies working in this sector are now considering committing themselves to investments in South America. One cause for hope is the fact that the balance of companies with rising and falling investment intentions is higher than average at plus 29 points (average 17, in the previous year 28 points).

Falling oil prices as a brake on growth

Especially in the Near and Middle East, but also Africa, there are many losers as a result of the falling oil prices. African countries on which hopes are pinned, such as Nigeria and Angola, will have to change the model of their economies in the long term in times of low oil prices in order to be able to reduce their high dependence on revenues from the export of raw materials. Although the low oil price is also having a negative effect on the Arab countries such as Saudi Arabia, the United Arab Emirates and Qatar, these countries nevertheless still have overflowing sovereign wealth funds which allow them to invest in the diversification of their domestic economies. As a result, these countries will remain a relevant target for investments from Germany, at least for the foreseeable future.

Overview of individual industries

Manufacturers of automotive parts on an expansionary course again, but medical technology making further reductions

The highest balance among the various sectors belongs to the manufacturers of automotive parts and accessories at a level of 34 points, after the previous figure of 28. Overall, motor-vehicle construction is enjoying good times, even if it has cut back its plans for abroad somewhat (balance decline by seven to 25 points). Investing abroad for cost reasons is considered by the constructors of motor vehicles to be of greater importance, however, compared to the previous survey (23 after the previous level of 19 per cent) – a pointer towards German location policy.

Among the capital goods manufacturers, companies working in the field of electrical engineering (balance improvement by four to 23 points), the manufacturers of metal products (23 after the previous level of 21 points) and machine tool builders (balance increase by seven to 23 points) intend to expand their plans for abroad. Companies working in the field of medical technology are having to correct their investment plans downwards once more (balance decline by 27 to minus eight points). Mechanical engineering is also applying the brakes to a certain extent (balance deterioration by two to 18 points). Although the mechanical engineers are maintaining their presence in all markets, they intend to focus more strongly on the EU-15, China, Asia and North America.

Pharmaceutical industry and clothing trade relying on foreign countries

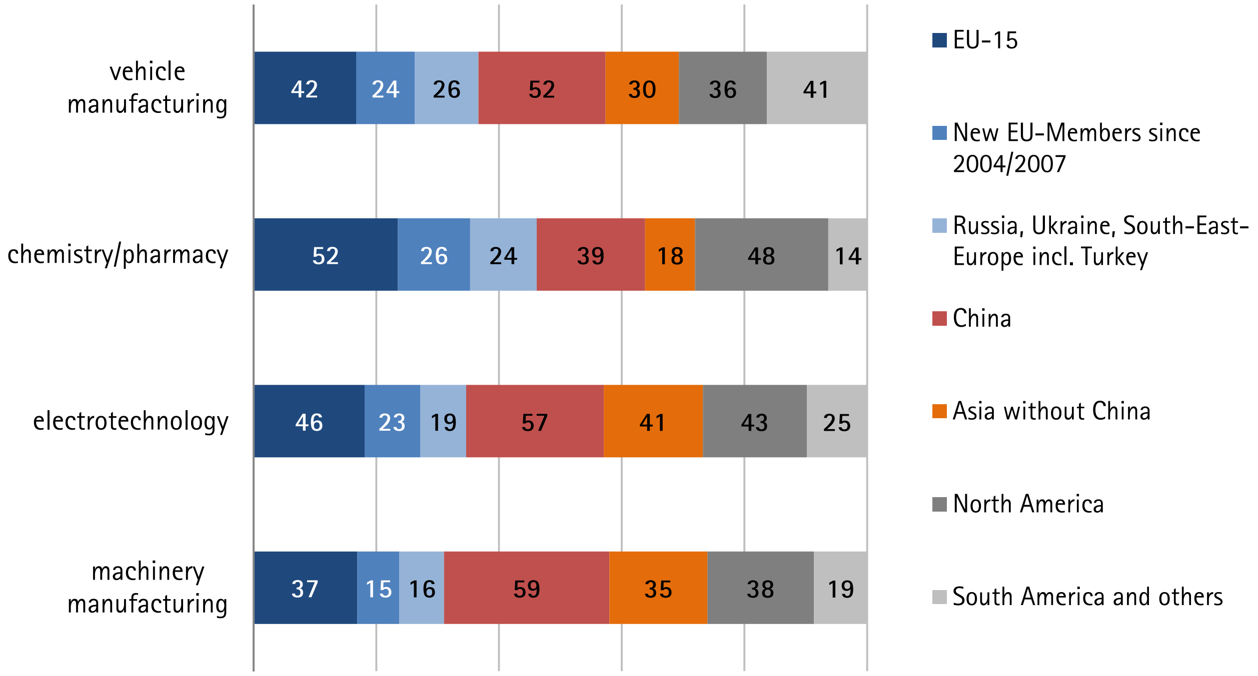
With a balance improvement of eleven to 33 points, the pharmaceutical industry is particularly confident among the manufacturers of consumer goods. The clothing industry is also keeping its eyes on foreign countries, albeit with somewhat less dynamism than in the previous year (balance deterioration by three to 29 points). In contrast, there has been a major curb on the rate of expansion by companies working in the fields of "jewellery, musical instruments, sports equipment, toys" and "furniture" (balance deterioration by 26 and 21 points respectively to one and seven points respectively). Overall, the consumer goods industry is not quite able to keep up the pace from last year and is toning down its investment plans for countries abroad (balance deterioration by three to 19 points).

Rubber and plastics industry taking advantage of scope for investments, chemicals hitting the brakes

The companies working in the rubber and plastics industry (balance increase by six to 26 points) and the manufacturers of electrical equipment (balance increase by eight to 25 points) are proving to be particularly confident among the intermediate goods producers in their international commitments. On balance the manufacturers of intermediate goods are leading the way, as they are the only ones to expand their budgets (balance improvement by two to 18 points, industry as a whole: deterioration by two to 18 points). The decline in oil prices is benefiting the traditionally energy-intensive manufacturers of intermediate goods. In contrast, the chemical industry is having to accept cuts in its foreign budgets (balance deterioration by six to 15 points). The chemical companies see in particular a need to catch up with domestic investments.

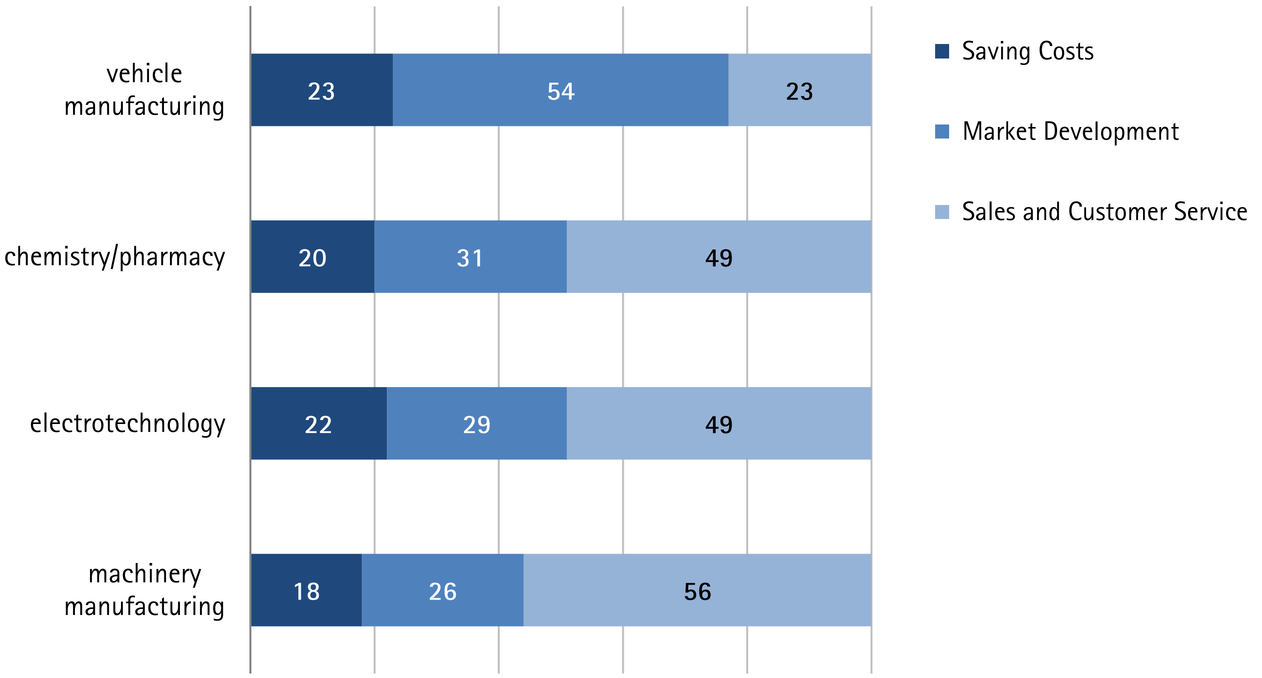
Foreign Investments by Region and Sector

in per cent; multiple answers possible



Reasons for Foreign Investments by Sector

in per cent



Questions of the DIHK on the Foreign Investments of Companies

1. How will your company's expenditure on investments abroad develop in 2014 compared to 2013?
   - higher
   - the same
   - lower
   - no foreign investments in either year

2. Where is your company planning to make foreign investments in 2014? (Multiple answers possible)
   - EU-15
   - New EU Member States since 2004/2007
   - Russia, Ukraine, South-eastern Europe (excluding the EU countries), Turkey
   - China
   - Asia excluding China
   - North America
   - South America and others

3. What is the functional focus of the foreign investments of your company in 2014?
   - Production for the purposes of saving costs
   - Production for the purposes of market development
   - Sales/customer service

4. What are the important reasons for your company's foreign investments in 2014? (Multiple answers possible)
   - Proximity to customers
   - Proximity to suppliers
   - Trade barriers with respect to exports to the target region
   - Access to technology
   - Better availability of skilled workers in the target region
   - Energy/raw material purchases)
   - Protection against exchange rate risks