

Foreign investment continues to rise – Germany benefits

Foreign investment of the manufacturing industry

2018



Deutscher Industrie- und Handelskammertag

With the "Foreign investments continue to rise - Germany benefits" survey on foreign investments in manufacturing industry in the spring of 2018, 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 2018. 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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Responsible

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Main results

- With the positive development of the economy in most regions of the world, the global investment activities of German companies also continue growing. More than a third of industrial companies are planning to increase their foreign investment budgets, with only nine percent planning a reduction (balance of "higher" and "lower": 27 points), making growth even stronger than in the previous year (2017: 20 points).
- For the first time, the investment intentions of industrial companies at home and abroad are on the same level. In recent years, industrial companies abroad have been continually planning significantly more expansive investments than here in Germany, mainly due to the high capacity utilisation and the large backlog demand for equipment.
- Companies with foreign investments see the greatest risks to their business development in the supply of skilled workers (67 percent) as well as personnel and energy costs (46 and 45 percent respectively) in Germany.

Target regions for foreign investments

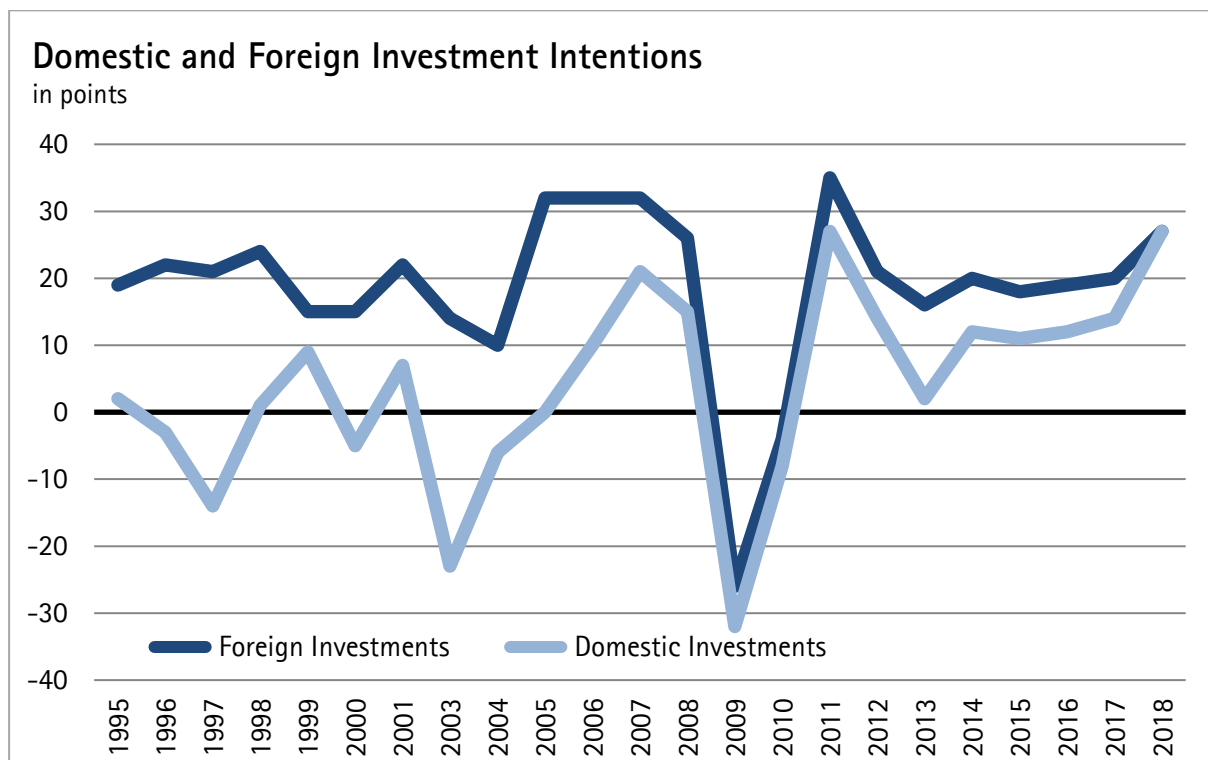
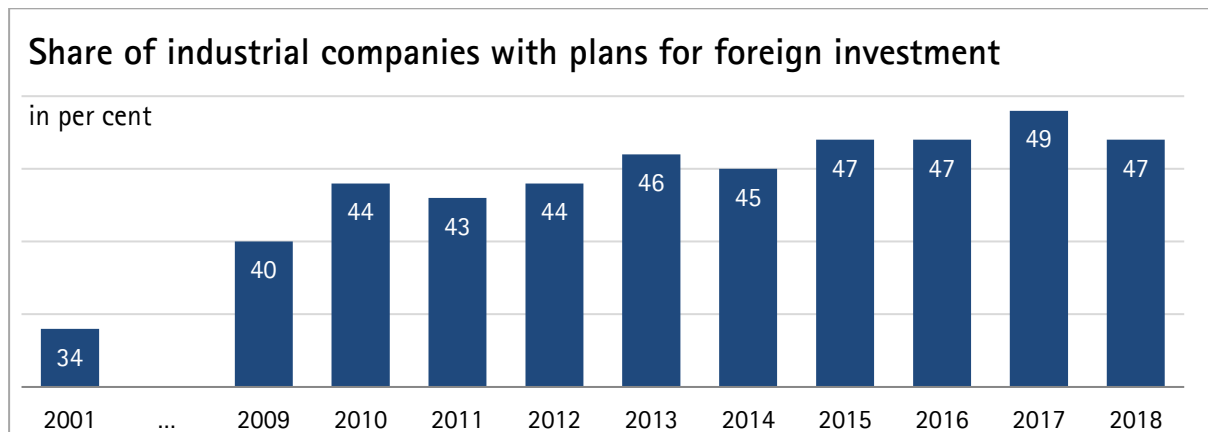
- The eurozone remains the number one investment location for German companies. 63 percent are planning investments here. Since the previous year the region has become even more attractive due to the continuing economic recovery (then: 60 percent).
- Asia - especially China - is also on the upswing again (China: 39 after 37 percent, Asia/Pacific excluding China: 26 after 25 percent). The stabilisation of the Chinese financial markets and the dynamic growth throughout Asia are probably the main contributors to this.
- In North America on the other hand, slightly fewer companies than in 2017 are planning to commit themselves (35 percent after 37 percent previously). It is above all the US government's trade policy which contains great uncertainties for investment projects in global value-added chains. After the announcement of the US tax reform, on the other hand, additional investment stimulus was noticeable at the beginning of the year.

Motives/reasons for foreign investments

- By far the most important motive for foreign investments continues to be the development of local sales structures. The strong global demand for "Made in Germany" goods is even currently providing a further boost (46 after 45 percent, single rating). In contrast, the expansion of production to open up new markets is losing some of its importance (30 after 31 percent). This is likely to be due not least to the repeated increase in importance of the domestic market, which is more frequently served by exports from domestic production facilities. Furthermore, around one in four companies (24 percent) continues to invest abroad for cost reasons.
- The supply of skilled workers is increasingly the reason for foreign investments (14 after 10 percent in 2014). The difficulties in recruiting and retaining suitable personnel in Germany are particularly acute. Companies are therefore increasingly looking to foreign markets.

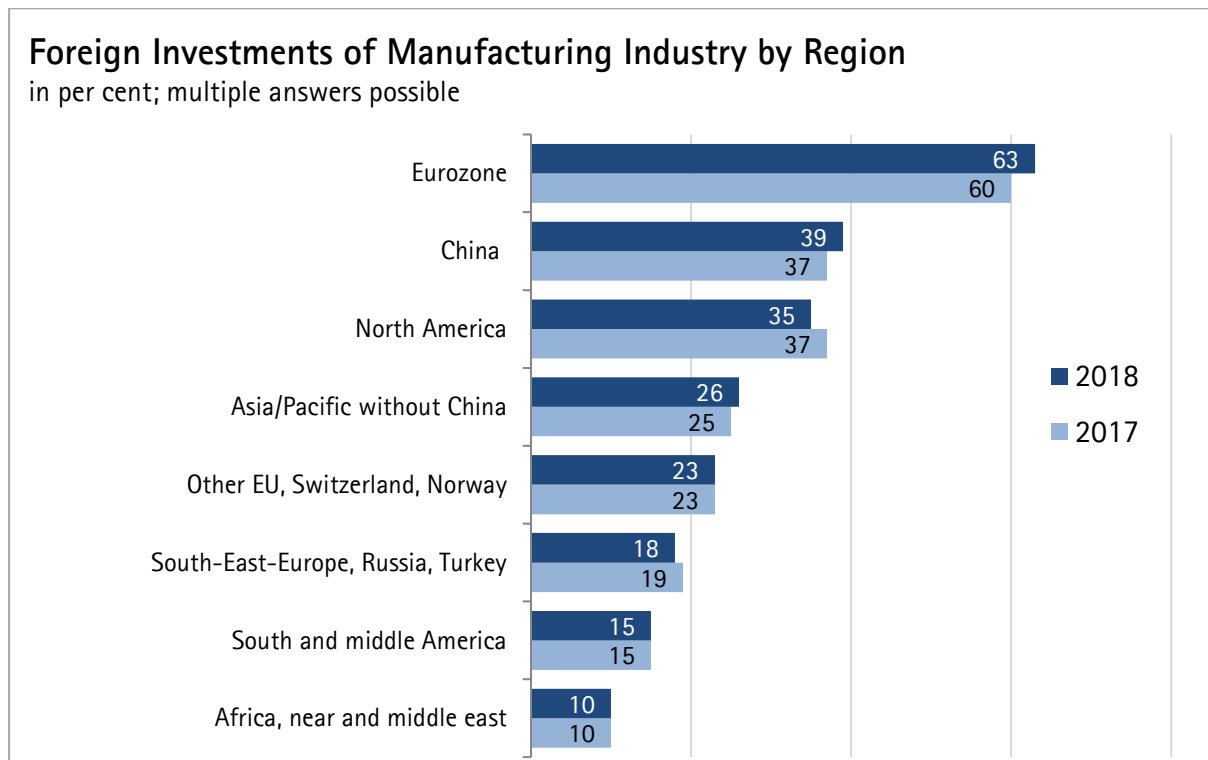
Budgets for foreign investments continue to rise

With the positive development of the economy in most regions of the world, the global investment activities of German companies also continue to increase. Industrial companies want to increase their expenditure on foreign investments even more than in the recent past. However, the momentum is not quite as strong as for domestic investments. For this reason, the investment intentions in Germany and abroad are on the same level for the first time. The proportion of companies wishing to invest abroad has slightly decreased.



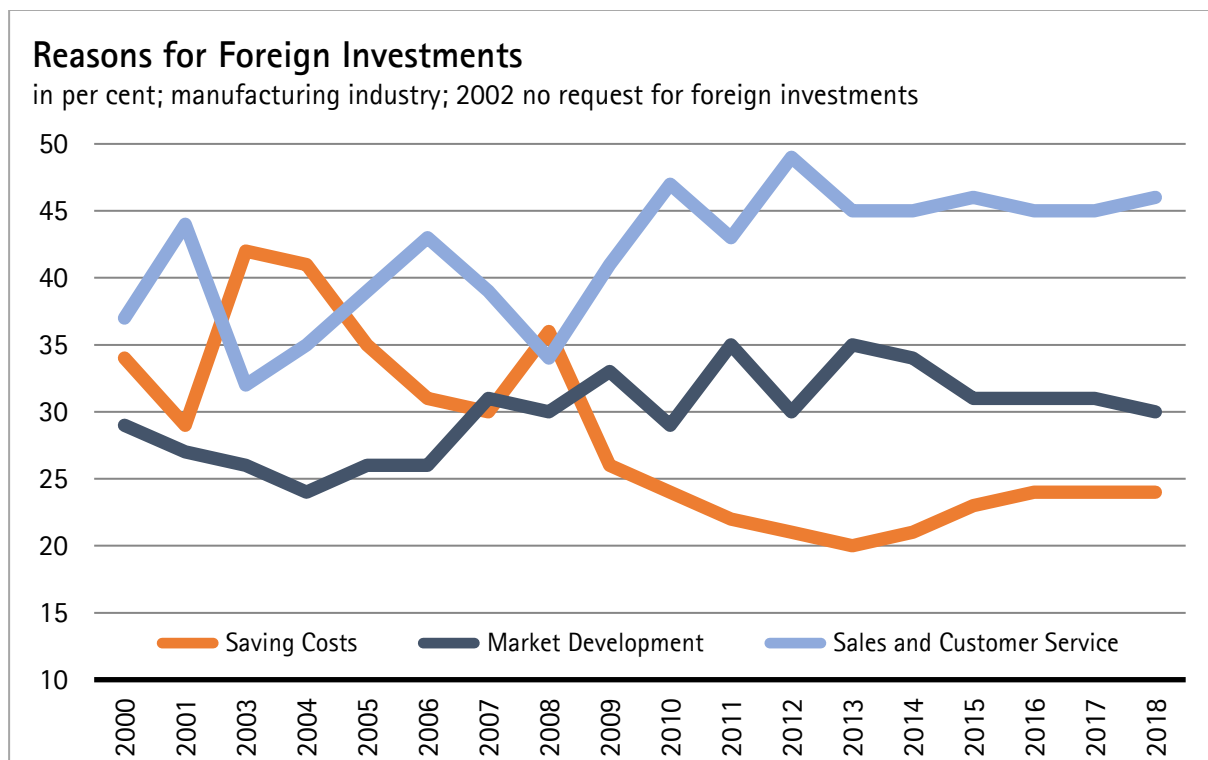
Eurozone becomes even more attractive

The eurozone remains the most popular target region for foreign investments by German industrial companies. As a result of the continued economic recovery, the region is currently becoming even more important. Furthermore, many companies have established business relationships in the internal market. Asia – especially China – is also on the upswing again. The stabilisation of the Chinese financial markets and the dynamic growth throughout Asia are likely to be the main contributors towards this. In North America, on the other hand, slightly fewer companies are planning a commitment than in 2017. The renegotiation of the NAFTA Agreement in particular is a source of great uncertainty for investment projects. However, after the announcement of the US tax reform, additional investment stimulus was noticeable at the beginning of the year.



Sales and customer service for goods "Made in Germany" remains the most important investment motive

By far the most important motive for foreign investments continues to be the establishment of local sales structures. This has recently even become slightly more important again. The global demand for products "Made in Germany" is currently high. An efficient sales system is helping to exploit this potential. On the other hand, the expansion of production to open up new markets is losing some of its importance. The reason for this is probably not least the repeated gain in importance of the eurozone against the background of the continuing economic recovery. The internal market is better suited to serving domestic production sites through exports because of the free movement of goods and connected infrastructure. Furthermore, every fourth company continues to invest abroad for cost reasons.



Supply of skilled workers increasingly a reason for foreign investments

Proximity to customers remains by far the most important reason for commitments abroad. Four out of five companies are investing for this purpose. However, the significance is no longer quite as great as in 2014 – the date of the last survey on this topic. The reason for this is probably not least the improved means of digital communication. The only reason for investing that is becoming significantly more important than in the previous survey is the better availability of skilled workers. The difficulties in recruiting and retaining suitable personnel are severe in Germany. Companies are therefore increasingly looking to foreign markets. However, in view of the comparatively low external value of the euro in recent years and the relatively stable development, the hedging of exchange rate risks has become significantly less important.

