

Dynamics slowing down, skilled workers the greatest bottleneck factor

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

Fall 2016



DIHK

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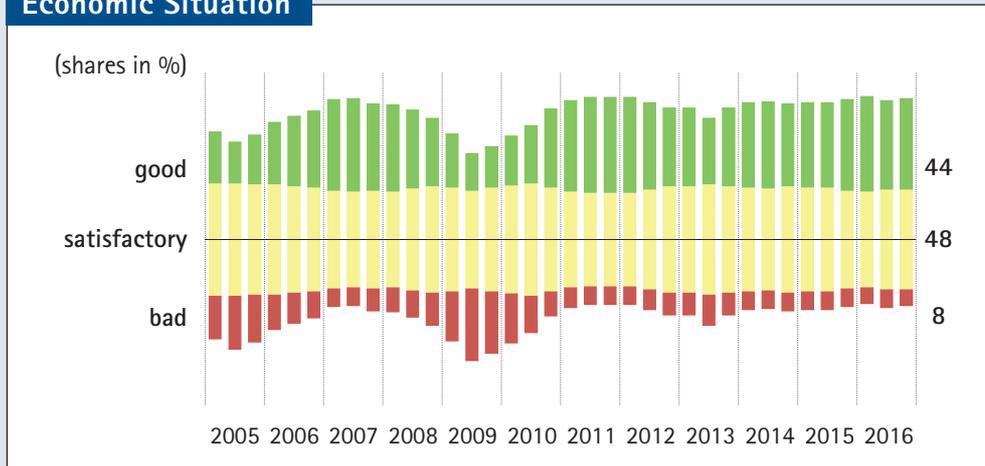
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Germany at a Glance

Fall 2016

Economic Situation



Companies are even more satisfied with their business situation than in the early summer. The improved expectations of the previous survey have been turned into reality. Construction is booming in particular – companies consider their business situation to be more positive than ever. Record employment, rising wages and social spending are continuing to drive the domestic economy. Especially service providers are benefiting from strong consumption. In contrast, the finance sector continues to suffer from the low interest rates. The manufacturing industry is struggling bravely in a difficult foreign trade environment – the situation is brightening up somewhat.

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Expectations



Confidence in the German economy is diminishing in all sectors. While fewer companies fear setbacks in domestic demand, the export industry is more concerned about foreign demand. Overall, the expectations of the manufacturing industry are declining for the second time in a row. Within the service sector the financial industry is particularly sceptical. In the construction industry the outlook for the coming months is also less optimistic. However, the expectations have never been so positive in an autumn survey before.

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Export Expectations, Industry



also a risk to German foreign trade. For the first time this year, the concerns of companies are growing with respect to the development of foreign demand.

Companies are reducing their export expectations once again. The weak growth in many regions of the world and political crises continue to weigh heavily on the prospects of exporters. There is a lack of investment worldwide – this is affecting the German export industry in particular. Furthermore, protectionist measures are restricting the movement of goods. Brexit is

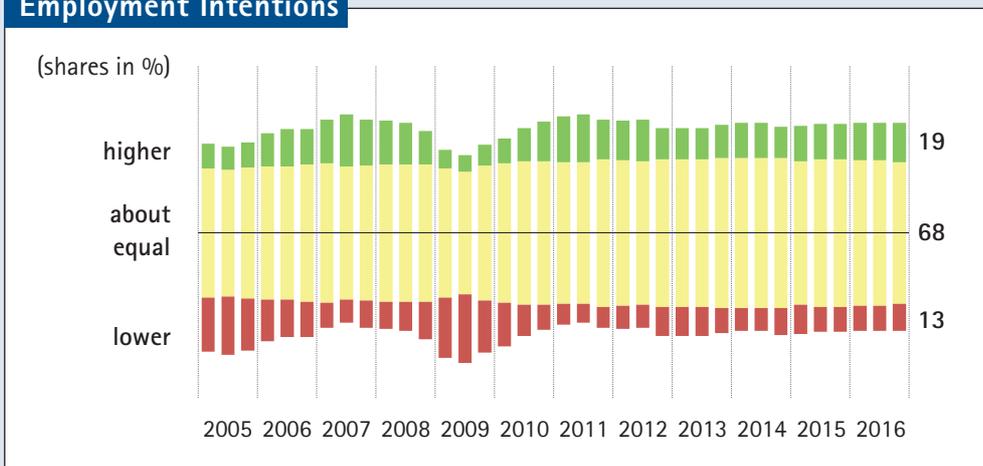
Investment Intentions



in expectations. The retail trade and service providers are planning to increase investments slightly. Consumption-related industries are increasing their investment budgets. The construction and manufacturing industry, on the other hand, are no longer as expansive as before.

The investment intentions of the German economy are improving slightly. Thereby, the flat upward trend of recent years is continuing. The still favourable financing situation and the positive developments in consumption are supporting investment activities. However, the expansion of the investment budgets is still remarkable in view of the deterioration

Employment Intentions



In spite of somewhat bleaker expectations, the recruitment plans of companies remain high. Stimulus is coming from the manufacturing industry in particular. A number of service providers, such as the financial, hospitality and transport sectors, are reducing their workforce expansion. As is usual in autumn, the construction industry is also planning to recruit less. In the trade sector the employment plans do not change on balance. Overall, the risk of rising labour costs is still problematic for companies. The shortage of skilled workers is becoming even more serious. Companies now consider this to be the most important risk to their business development.

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Economic Situation



Consumer sentiment keeps on carrying the economy

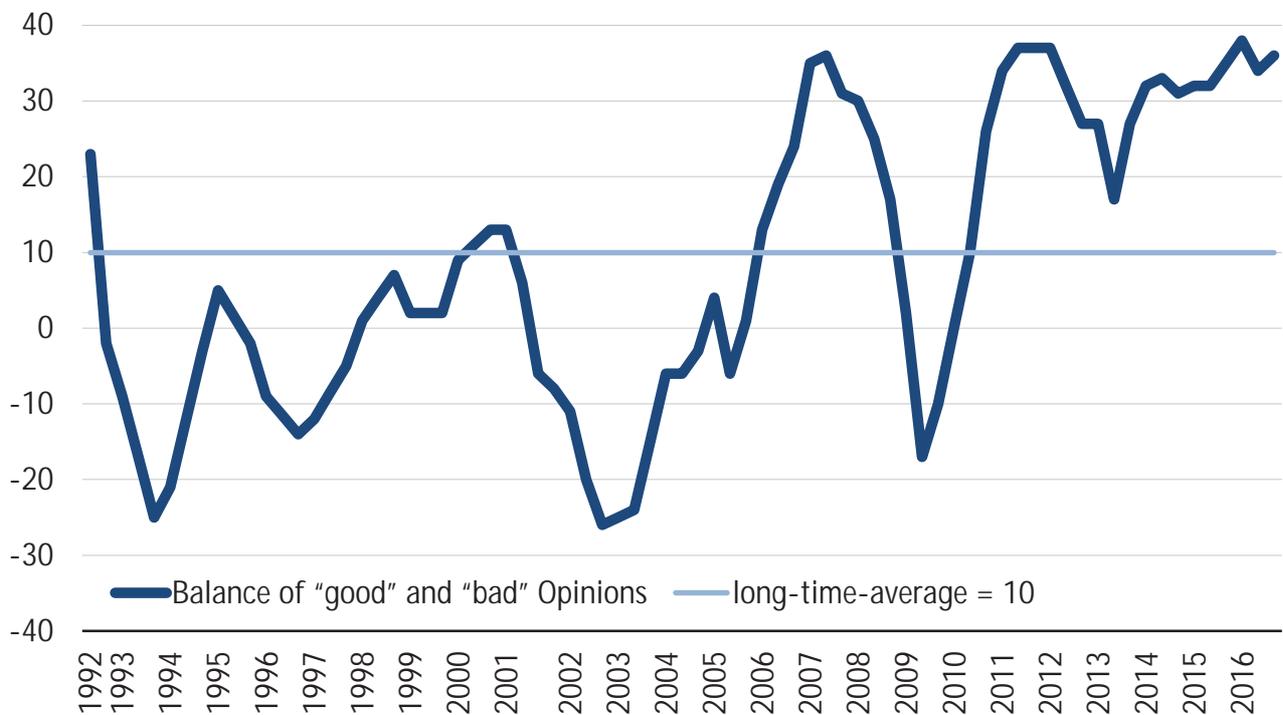
In the autumn of 2016, companies are even more satisfied with their business situation than in the early summer. The improved expectations of the previous survey have been turned into reality. Economic developments have recently been a positive surprise. Moreover, they have been remarkably stable for three years now. Apart from a slight downturn in the retail trade, all sectors are more satisfied compared to our last survey. Construction is booming in particular – here companies consider their business situation to be more positive than ever. Record employment, rising wages and social spending are continuing to drive the domestic economy. Especially service providers, such as the hospitality sector and travel agencies, are benefiting from strong consumption. In contrast, the finance sector continues to suffer from the low interest rates. The manufacturing industry is struggling bravely with the difficult foreign trade environment – the business situation is also brightening up somewhat.

Moderate upswing

The mood in the German economy remains positive. 44 per cent of companies rate their situation as good, only eight per cent are dissatisfied with their business situation. After a slight hiccup in the early summer, the resulting balance of 36 points is again approaching the record level from the beginning of the year. The moderate upward trend in the situation assessments has now been maintained for the last three years. The domestic economy in particular continues to run smoothly. Construction and several service providers are setting new records in their situation assessments. With the current improvement in the business situation, the improved expectations of companies from the early summer are also being fulfilled. Construction in particular was unusually optimistic about the remainder of the year at the time.

Assessment of the Situation (in per cent)				
	good	satisfactory	bad	balance
Fall 2014	40	51	9	31
February 2015	41	50	9	32
Early Summer 2015	41	50	9	32
Fall 2015	44	47	9	35
February 2016	46	46	8	38
Early Summer 2016	43	48	9	34
Fall 2016	44	48	8	36

Assessment of the Situation - in points



Residential construction continues to boom

The demand for housing is growing due to the increase in population alone, with employment and incomes also at record levels. Financing conditions remain favorable, although at the same time there is a lack of attractive investment alternatives in the view of many investors. Commercial construction has also recently begun to expand. All of this is being fully reflected in construction activities – and also in the business situation assessment in the construction industry: the balance is at historic levels with 54 points (previous survey: 41 points). Starting from a record level, the balance of the business situation assessments in structural engineering has risen by seven points (53 compared to the previous level of 46 points).

Optimism also being felt in civil engineering

Civil engineering companies are now also benefiting from the optimism in the construction sector. The business situation balance has increased by a massive 30 points. The current balance of 51 points has left the previous record level far behind (40 points in the autumn of 2015). Civil engineering is benefiting from rising infrastructure investments such as roads, railways or network expansion. The turning point in civil engineering had already made itself known: the expectations of this traditionally very skeptical industry had already improved significantly in the early summer.

Fit-out and construction-related sectors benefiting

Fit-out businesses such as installation or roofing companies assess their current economic situation as being better than ever (56 compared to 42 points in the previous survey). The fit-out business is benefiting from the continuing strength of structural engineering, as well as redevelopment measures in the field of energy, reconstruction in line with the requirements of the elderly and other measures to improve wheelchair access etc. and protect against burglary, which receive additional public funding in each case. The high level of construction activity is also being felt in numerous related industries. Upstream companies which manufacture glass, ceramics and process stones are also benefiting (32 compared to the previous level of 22 points). Mining companies are benefiting as suppliers of gravel, construction sand or natural stones (34 compared to the previous level of 21 points). Service providers also participating in the construction boom. Architecture and engineering firms assess their situation as being even better than in the last survey (56 compared to the previous level of 51 points). In the horticulture and landscaping sector, as well as building management, the mood remains at record levels (balance: 44). In the real estate industry as well, the situation remains unchanged, i.e. good (54 points).

Consumption mainly supports service providers

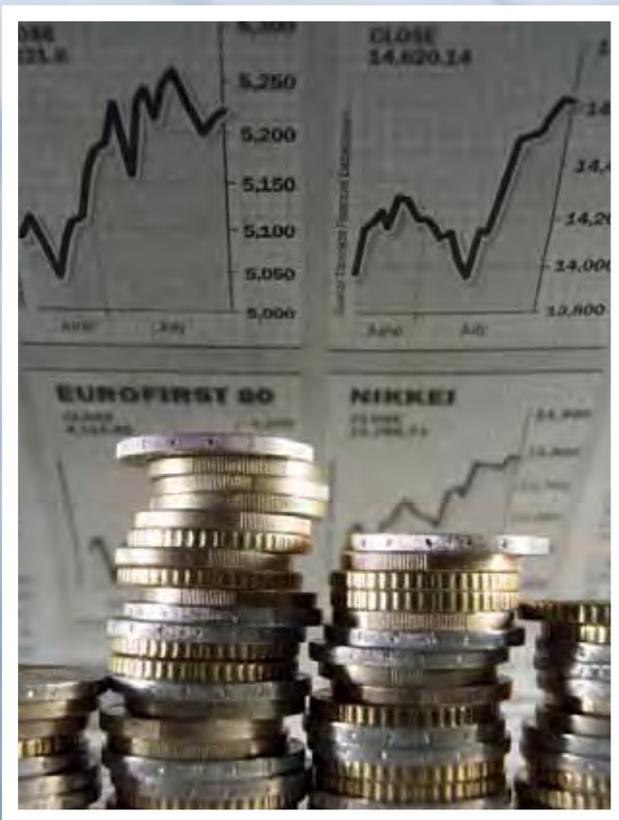
The good domestic economy is clearly noticeable, above all among service providers. The mood has improved on balance compared to the early summer by two points (39 points after the previous level of 37 points). Numerous service industries evaluate their situation this autumn as being better than ever – personal service industries in particular (39 compared to the previous level of 33 points). The education sector as well as health and social services are taking advantage of a growing awareness of the need for a good qualification and good health, the demographic changes and the rise in expenditure on caring for and integrating refugees. With 45 and 55 points respectively, they assess their situation as better than ever (previously 31 and 52 points respectively). Other personal service providers such as launderettes, hairdressers or beauty salons, saunas and solariums, as well as the hotel and restaurant industry are benefiting from consumer spending and also achieving new records in their situation assessment (45 compared to the previous level of 40 points; hotel and restaurant industry: 46 compared to the previous level of 35 points). The retail and motor vehicle trade, on the other hand, are participating less in the flourishing domestic consumption. The reply balances have fallen by three and two points respectively to 20 and 27 points.

Good situation among corporate services providers

Providers of corporate services providers are extremely satisfied with their situation (46 compared to the previous level of 44 points). Law and tax accountancy firms, as well as auditing companies, assess their current situation as good (60 compared to the previous level of 61 points). Particularly strong growth is being recorded by the providers of leasing and rental services (41 compared to the previous level of 24 points), above all in the car and capital goods segments. The record high in land transport (30 compared to 22 points previously) is probably attributable not only to the favorable development in the demand for individual and material transport, but also to the continuing low petrol prices.

Financial sector stricken	In the financial sector, companies are assessing their situation as being noticeably worse than in the early summer (26 overall compared to the previous level of 33 points). And that even though the previous figure was the all-time low since the financial crisis. The reasons are mainly the low interest rate environment, the increasing regulation and also the challenges presented by digitization – as shown by the risk assessments of the institutes. In the banking industry the business climate balance has even plummeted to 19 points after 31 previously. Even insurance companies assess their situation as being somewhat worse (35 compared to the previous level of 36 points). They are struggling above all with the lack of profitable investment opportunities.
Manufacturing industry putting up a good show overall ...	The business situation of manufacturing industry companies has improved again slightly in the autumn (32 compared to the previous level of 31 points). Consumer and capital goods producers have improved slightly after a minor lull in the early summer (30 compared to 28 points and 34 after 33 points previously). The food industry – in particular the industries that produce food for human and animal consumption – has recorded a significant increase (both 33 points after 29 and 26 respectively). The positive developments among the producers of capital goods are being supported above all by mechanical engineers and the manufacturers of metal products (32 compared to 30 points and 33 after 31 points previously). The situation of the suppliers of intermediate goods remains stable on balance (at 30 points).
... but a decline among exporters	Exporting industry businesses assess their situation as being slightly worse than in the early summer. The balance has fallen to 32 points, after 33 previously. World trade is currently growing only weakly and is consumer-driven in particular. German exporters are particularly well represented in the investment segment and are able to participate to a correspondingly smaller extent than in the past years in the dynamism – which has reduced anyway – displayed by this sector. In view of the difficult global economic environment, the slight decline is therefore not surprising. Nevertheless, the developments are painful for the export industry.

Expectations



Damped expectations

Confidence in the German economy is diminishing in all sectors. While fewer companies fear setbacks in domestic demand, the export industry is more concerned about foreign demand. Overall, the expectations of the manufacturing industry are declining for the second time in a row. Within the service sector the financial industry is particularly sceptical. In the construction industry the outlook for the coming months is also less optimistic. However, the expectations have never been so positive in an autumn survey before.

Upward trend
levelling off

The proportion of optimists in the German economy has declined noticeably. In the autumn of 2016, 22 per cent are expecting an improved business situation. In the previous survey this figure was still one in four companies (25 per cent, corresponding to the average share since 1991). The proportion of pessimists remains at an unchanged low level of 13 per cent (average since 1991: 13 per cent). The resulting balance of better and worse business expectations continues at its above-average level with nine points in the long-term comparison (long-term average: four points). However, after recovering in the meantime, it has now fallen back to the level of the previous year. Meanwhile, almost two thirds of companies are expecting business to remain the same – more than in any previous survey. All in all, the assessments of companies suggest that the upward trend is levelling off.

Special factors losing
momentum

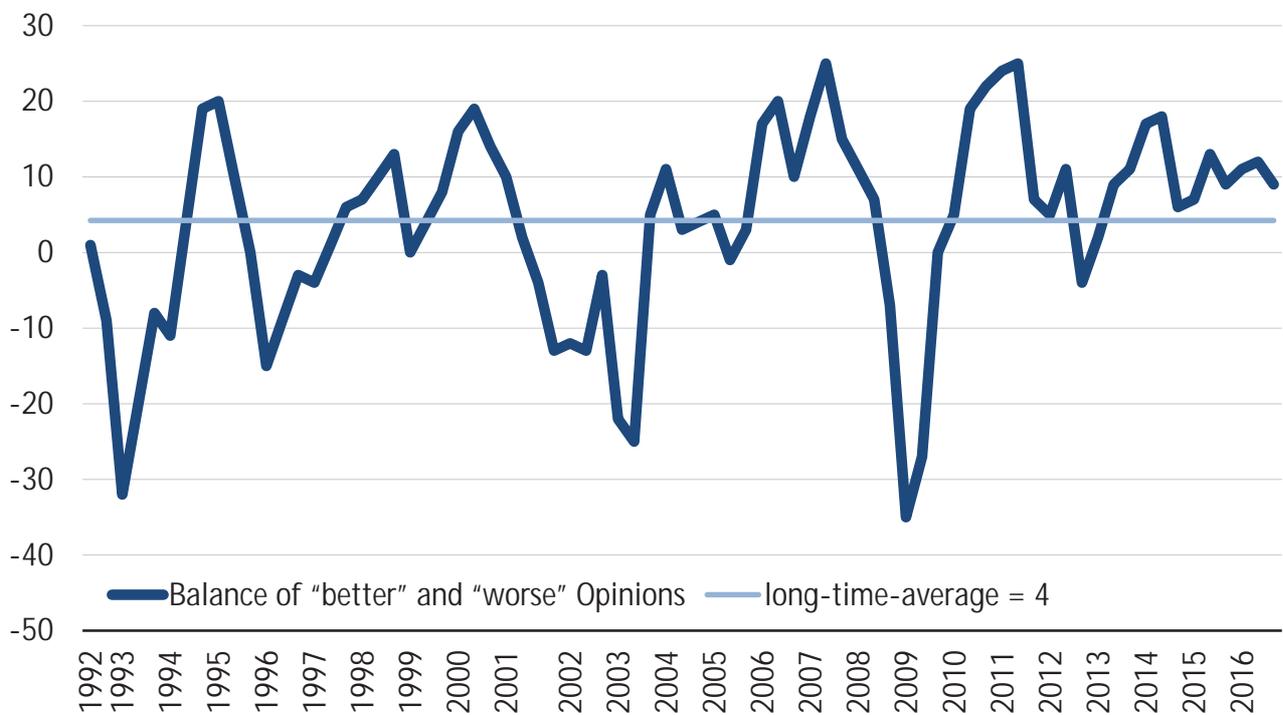
The diminishing power of the supporting factors from the last two years indicates a gradual downward trend in growth levels:

- The relief provided by falling commodity prices is gradually being reversed. The oil price in particular, but also industrial and agricultural commodity prices, are rising again. The risk assessment of companies with respect to the energy and commodity prices is rising for the first time in more than one year, having started from the record low levels of the two previous surveys (from 24 to 25 per cent), in manufacturing industry by two points to 37 per cent). Furthermore, the purchasing power of consumers is no longer growing so strongly due to rising costs for petrol and heating oil.

Enterprises' Business Expectations (in per cent)

	better	about equal	worse	balance
Fall 2014	21	64	15	6
February 2015	22	63	15	7
Early Summer 2015	26	61	13	13
Fall 2015	23	63	14	9
February 2016	24	63	13	11
Early Summer 2016	25	62	13	12
Fall 2016	22	65	13	9

Enterprises' Business Expectations - in points



- The euro exchange rate is no longer providing support with price competitiveness. In the meantime it has become remarkably stable. Above all, the devaluation in 2015 had been instrumental in enabling German exports to enjoy relatively positive developments in a difficult international environment. Currently, 15 per cent of export businesses consider the exchange rate to be a risk to their business developments in the coming months (previous survey: 16 per cent).
- In the view of companies, the financing conditions remain unchanged and favorable. The share of the risk has been constant since the early summer of 2015 at only eleven per cent. From the perspective of the banking industry, however, the low interest rates are now an enormous burden – in no other sector there are so many companies that are worried about the economic policy framework. The low interest rates are referred to by the banks even more frequently than the tight financial market regulations.

These factors had until recently contributed significantly towards the economy being able to develop surprisingly well in difficult waters. The declining power now sug-

gests that the economic pace is slowing down. Even so, strong consumer momentum can still be expected from the increasing social benefits, above all of pensioners and refugees.

Skills shortage the most serious brake

The greatest business risk from the perspective of the companies is now the shortage of skilled workers – and that by some distance. Almost every other company now sees their business developments affected by this (48 per cent, i.e. five points more than the second largest risk of domestic demand). This is accompanied by the high share of companies which consider rising labor costs to be a business risk (continuing at 40 per cent, third-largest risk). Within the euro zone, Germany had lost competitiveness over the last few years, mainly due to the rising unit labor costs. The risk of labor costs in manufacturing industry – at 39 per cent – is just one point below the record level and four points above the average since 2010.

Economic policy: geopolitical fears ...

The "economic policy framework conditions" are currently referred to by far fewer companies as a business risk than in the previous surveys. In the current survey, businesses have been able to concretize the risks for the first time¹. They refer particularly often to the current geopolitical risks such as the crises in Russia and Turkey or the threat of terrorist attacks. Brexit is also a source of worry to many businesses – not only in manufacturing industry, but also in the trade sector. A number of businesses are also concerned about possible shifts in economic policy as a consequence of the upcoming elections in the USA and in Europe. For example, companies cite impending instability, the future of the euro or the rise in nationalist movements. With respect to trade policy, companies fear above all the emerging protectionism and setbacks in trade agreements and free trade.

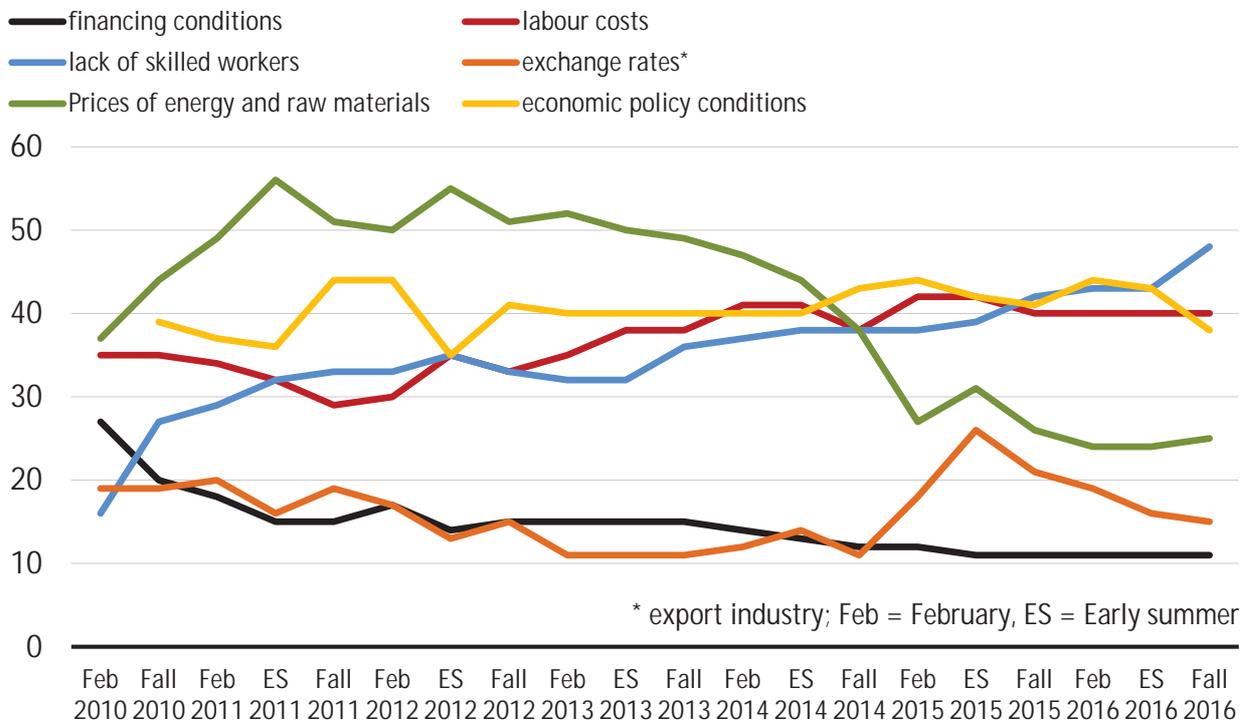
What are the biggest risks for the economic development of your company in the next twelve months?

(in per cent; multiple answers possible; *export industry)

	Fall 2014	February 2015	Early Summer 2015	Fall 2015	February 2016	Early Summer 2016	Fall 2016
domestic demand	48	48	44	45	45	45	43
foreign demand*	47	45	38	48	44	42	44
financing conditions	12	12	11	11	11	11	11
labor costs	38	42	42	40	40	40	40
lack of skilled workers	38	38	39	42	43	43	48
exchange rates*	11	18	26	21	19	16	15
prices of energy and raw materials	38	27	31	26	24	24	25
economic policy conditions	43	44	42	41	44	43	38

¹ There are of course major differences in the formulations and specific assertions in the responses in the boxes in which the respondents are able to express themselves freely. For this reason, it is not possible to carry out a clear subdivision and quantification of the responses.

Biggest risks for the economic development (in percent)



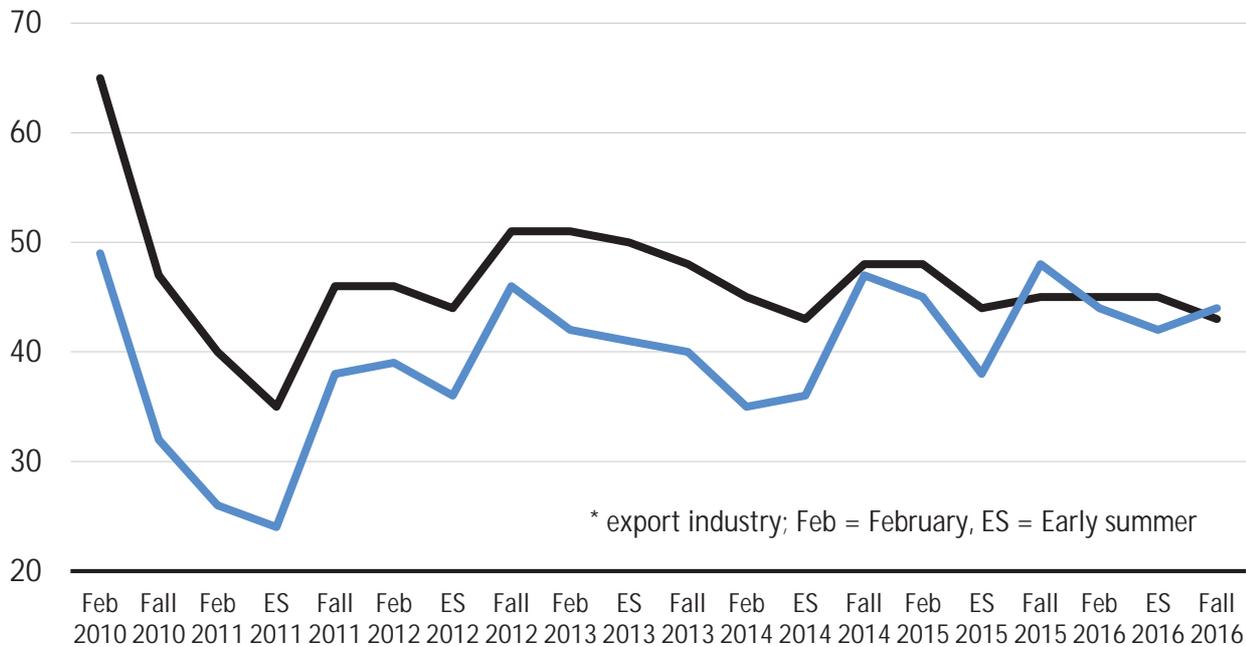
... and domestic burdens

When considering the economic policy framework conditions here in Germany, the companies refer to the following risks in particular:

- bureaucracy and regulations (particularly in the financial sector and on the labor market),
- taxes and duties (especially inheritance tax),
- labor market (bureaucratic requirements such as the Working Time Act),
- energy policy (Renewable Energy Law - EEG - energy taxes),
- low interest rates (especially in the financial sector, but also in other branches of the economy),
- continuing lack of public investment in infrastructure.

Biggest risks for the economic development (in percent)

— domestic demand — foreign demand*



Some businesses are concerned about the election campaign to the Bundestag in 2017 and are afraid, for example, of an associated political stalemate. Companies refer comparatively rarely to the immigration of refugees (costs, but also impacts on the political landscape) as a risk. This is likely to have contributed to the diminishing importance of the risk of "Economic policy framework conditions" compared to the survey in early summer.

Domestic economy: slowing down

The increase in concerns about the bottlenecks on the labor market and the weaker impact of special factors are associated in the sectors which are predominantly active within Germany with declining confidence. As before, however, more businesses are expecting growth rather than reductions in this respect on balance. For example, the balance in the trade sector has fallen by five to seven points, among service providers by three to eight points and in the construction industry by 11 to five points. At the same time, fewer companies are worried about setbacks on the part of domestic demand (reduction in risk from 45 to 43 points). On balance, therefore, companies are expecting positive but subdued developments in the domestic economy.

Consumption: less growth, but stable as a result

The pattern of declining confidence and falling demand risks at the same time pervades all the consumer sectors:

- Manufacturers of durable and non-durable goods (balance from 17 to 13 points; domestic demand risk from 55 to 52 per cent)
- hotel and restaurant industry (balance from 18 to seven points; domestic demand risk from 22 to 20 per cent)
- retail trade (balance from nine to five points; domestic demand risk from 56 to 54 per cent)
- motor vehicle trade (balance from 12 to two points; domestic demand risk from 59 to 58 per cent)

Improved business is expected on the other hand by the furniture manufacturers. In the autumn they are one of the most optimistic sectors (balance: 28 after the previous level of 18 points). At the same time the worries about domestic demand have also noticeably diminished in this industry (reduction in risk from 66 to 58 per cent). This probably reflects the boom in construction activities.

Further growth in private consumption in spite of the shortage of skilled workers is probably due to the remarkably good trend in employment and the high wage increases compared to price developments. However, because of the rising prices for petrol and heating oil in particular, the financial scope of consumers will probably not grow as strongly as recently in the coming months.

Providers of travel services afraid of additional burdens due to economic policy

The business expectations of the providers of travel services – i.e. travel agencies and tour operators – are at least back in the positive range for the first time this year on balance (balance: three compared to minus seven points previously). In this industry, the risk of "Economic policy framework conditions" continues to rise and is now clearly predominant (rise of two to 48 per cent); domestic demand: 39 after the previous level of 43 per cent). Many providers of travel services currently view the consequences of the EU Package Travel Directive, which is currently being implemented in German law, with concern. For travel agencies, the existing consulting practice of providing several individual travel services is becoming almost impossible without becoming a tour operator – with the associated higher liability risks. Moreover, information requirements are being extended. Tour operators have not only extensive obligations to provide information, but also a duty to provide assistance in the case of unavoidable events (e.g. volcano eruption). Furthermore, tour operators are still suffering from the problem of trade tax additions. The Package Travel Directive would also be an enormous burden for hotels and bed-and-breakfast establishments. Consequently, many businesses in the accommodation sector also consider economic policy to be a business risk (45 per cent). Furthermore, there is a good deal of annoyance in this sector in particular about the costly modifications of cash registers,

tourist taxes in more and more municipalities and new building regulations (e.g. for evaporative cooling systems or flood protection).

Construction: only slight cooling down in the autumn

The expectation balance in the construction industry – at five points – is the highest autumn value since reunification (previous year: one point). The deterioration in sentiment of 11 points is following the usual seasonal pattern before the winter months. At the same time, the worries about domestic demand have fallen to a new low (36 after the previous level of 39 per cent). In the real estate business, the balance remains unchanged, i.e. clearly within the positive range (17 points). Among the architectural and engineering firms the sentiment has even improved (balance increase from 15 to 17 points). The expectations this autumn in both the structural engineering and fit-out industries, which are benefiting from the still-flourishing housing construction levels, are optimistic (balances: seven and six points respectively; previous year four and two points). Private residential construction continues to benefit from low interest rates, rising incomes and the growth in population resulting in particular from the influx of refugees. In civil engineering the expectations are also comparatively good for the autumn (balance: zero points; previous year: minus two points; autumn average since 2003: minus 12 points). This sector is benefiting from the fact that the funds available for additional investments in public construction are increasing, even though they have started out from a low level. Bottlenecks are now resulting in many cases here from the often inadequate public planning capacities in the regions. Support for civil engineering is coming from investments by private companies in broadband lines and railways.

Manufacturing industry: depressed mood due to costs

The business expectations of manufacturing industry have declined again slightly (balance: 13 after the previous level of 15 points). However, they remain better than in other branches of the economy and are slightly above the average since 2003 (11 points). The balance has fallen equally in the export industry and industry as a whole. While fears of a slowdown in foreign demand have increased somewhat in the export industry (from 42 to 44 per cent), the risk assessment in terms of domestic demand remains almost unchanged (balance decline from 50 to 49 per cent). Overall, the development of the traditionally more cyclical manufacturing industry has been remarkably stable since 2015. However, there is no noticeable recovery in world demand in sight. Hopes for stronger growth are predominantly based on the economy of some problem children (Russia, Brazil, other producers of raw materials) gradually improving. This contrasts with the growing concerns of industrial companies with respect to their ability to secure skilled workers (from 36 to 40 per cent) and rising energy and raw material prices (from 35 to 37 per cent).

Capital goods producers stable

Among the manufacturers of capital goods, the business expectations for the coming months remain unchanged on the whole (balance since the beginning of the year: 16 points). The favorable financing conditions and increasing capacity utilization in domestic industries in particular are continuing to support the demand for capital goods on the one hand. However, no additional impetus is currently in sight. The greatest risk is still considered by the businesses in this main group to be demand

(domestic and foreign, at 50 and 45 per cent respectively). At the current margin the shortage of skilled workers is also becoming more acute (rise from 39 to 43 per cent).

Supply-side slowdown among manufacturers of intermediate goods

The slight slowdown in the intermediate goods industry is predominantly associated with concerns about cost developments. The balance of business expectations has decreased from 15 to 12 points. Although the demand risks have receded both for Germany and abroad (from 51 to 49 per cent and from 37 to 36 per cent respectively), concerns about the ability to secure skilled workers have risen significantly (from 35 to 40 per cent). Energy and commodity prices are also considered more frequently to be a business risk by the businesses in this main group (rise from 40 to 43 per cent). For example, two out of three food producers now refer to this risk (rise from 62 to 66 per cent). The increase in the risk assessment is particularly clear among the metal producers (by 10 points to 52 per cent). The supply bottlenecks and simultaneously declining concerns about demand speak against interpreting the slowdown in this main group, which often runs ahead of the overall economy, as a phase of weakness for the economy as a whole.

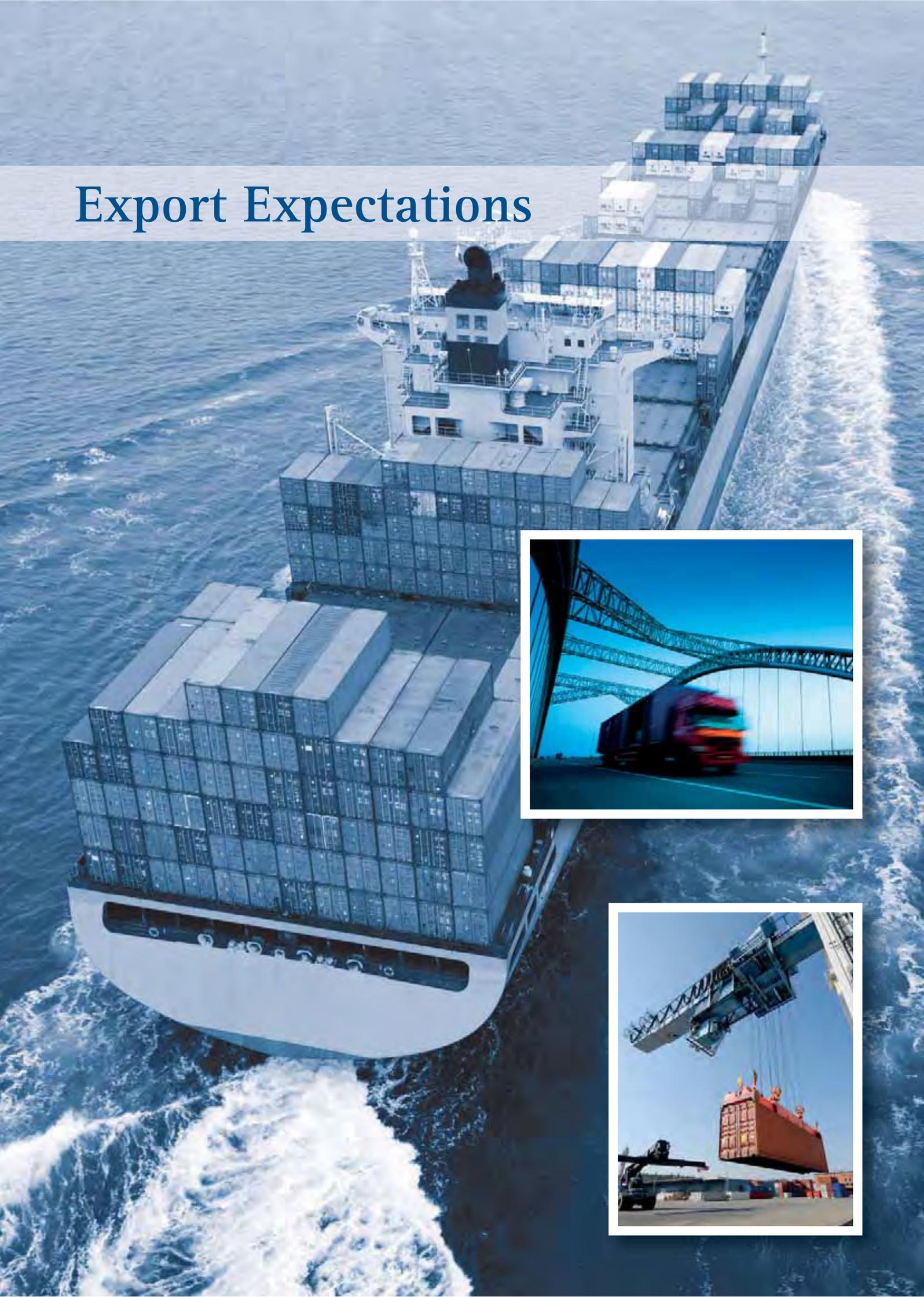
Company service providers more cautious

The somewhat slower economic pace overall is also affecting business-related service providers. The expectation balance has fallen from 20 to 19 points. The confidence of the trade fair, exhibition and congress organizers from the previous surveys has vanished – the reply balance has plummeted from 11 to zero points. By contrast, the optimism of the IT sector remains almost unchanged (new balance: 30 points; previous survey: 31 points). However, the positive business expectations in the industry are associated with enormous difficulties to find qualified staff (skilled employee risk: 57 per cent; previous survey: 51 per cent). In the wholesale trade the assessments are slightly worse than in the early summer (balance decline by three to 11 points). In this segment the domestic demand remains the greatest concern, even though it has improved slightly (54 after the previous level of 56 per cent).

Energy and finance industry pessimistic

Energy suppliers and financial service providers are expecting business developments to deteriorate on balance. At the same time, these are the industries which most commonly see the economic policy framework as a risk. In the energy sector, the balance has fallen into the red (from eight to minus two points), with 71 per cent of companies concerned about economic policy. In the banking industry, this figure is as high as 82 per cent – and at minus 40 points the reply balance has reached a new low (previous survey: minus 37 points). Since the financial crisis, no industry has been so pessimistic. Specifically, the banks refer above all to the low interest rates as a business risk, as well as the tight regulations. Particularly skeptical are savings banks and cooperative institutions. Smaller banks are having enormous problems coping with the regulatory requirements. The dominance of these problems is also shown by the fact that other business risks scarcely play a role in comparison. The second largest risk of the industry – labor costs – are far behind on 29 per cent.

Export Expectations



Reduced export expectations

Companies are reducing their export expectations once again. The weak growth in many regions of the world and political crises continue to weigh heavily on the prospects of exporters. There is a lack of investment worldwide – this is affecting the German export industry in particular. Furthermore, protectionist measures are restricting the movement of goods. Brexit is also a risk to German foreign trade. For the first time this year, the concerns of companies are growing with respect to the development of foreign demand.

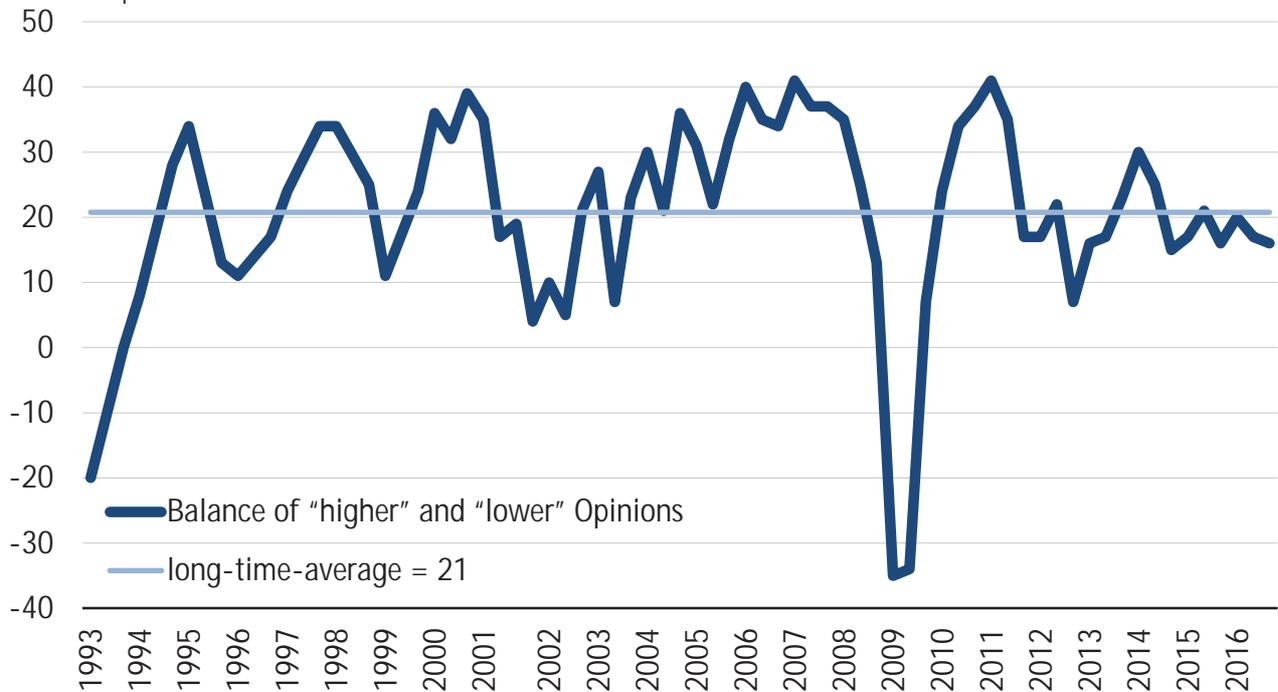
- Exporters remain skeptical** The export expectations of industrial companies remain below the long-term average and have even declined slightly compared to the early summer. Although 29 per cent of exporting industrial companies still expect higher exports and 58 per cent expect them to remain at the same level in the coming months, 13 per cent assume that they will fall. The resulting balance of 16 points is one point lower than in the previous survey and five points below the long-term average of 21 points. After the beginning of 2016 went slightly better than expected for the exports from German workshops, the export expectations are now falling back on balance to the level of the previous year. The exporters are evidently not expecting the weak phase in world trade to be overcome in the near future.
- Concerns about foreign demand increasing** 44 per cent of exporting industrial companies consider the developments in foreign demand to be a risk to their economic development. No region is expected in the coming months to provide any significantly greater stimulus to growth for world trade.
- Weak emerging economies** Only a few positive effects on the global economy can be expected to come for the time being from the direction of the emerging economies. In China, the massive support measures initiated by the government have indeed stabilized economic development in the short term, but structural problems such as overcapacity and the low productivity levels in some sectors have not been tackled. The level of indebtedness of

Enterprises' Export Expectations (manufacturing industry; in per cent)

	higher	about equal	lower	balance
Fall 2014	30	55	15	15
February 2015	30	57	13	17
Early Summer 2015	31	59	10	21
Fall 2015	30	56	14	16
February 2016	32	56	12	20
Early Summer 2016	29	59	12	17
Fall 2016	29	58	13	16

Enterprises' Export Expectations (manufacturing industry)

- in points



the private sector continues to rise. Turmoil on the financial and currency markets – and as a consequence, reductions in demand – remain a risk for the Chinese market. Overall, growth is falling significantly behind the levels of recent years. Economic developments in Turkey are suffering as a result of the political tensions. Individual markets such as Indonesia and Vietnam, however, are providing quite favorable prospects. The stabilization of prices for certain raw materials such as oil, metal or steel is likely to contribute to economic recovery in the countries where they are produced – and at least to a bottoming-out in the ailing economies of Russia and Brazil.

EU: creeping paralysis as a result of Brexit

The development in demand from the European Union will depend in particular on how successful the orderly withdrawal of the United Kingdom is. The devaluation of the pound and the uncertainty regarding future developments are already having an adverse effect on exports to the island.² Of the export companies which consider the "economic policy framework conditions" to be a business risk for the coming months (36 per cent), many specifically refer to Brexit as the reason. Overall, the demand from EU countries is unlikely to develop as strongly as in the recent past at least.

² This is indicated by the CCI flash survey on Brexit "Initial assessment of Brexit by companies in Germany" with an overview of the mood of more than 5,600 businesses immediately after the vote of the British people.

Here, it was purchasing power gains in particular as a result of the low oil price which provided additional buoyancy. The elimination of these effects is also likely to put a slight brake on the increase in exports to Central and Eastern Europe, as well as the Scandinavian countries, starting however from a high level.

Investments and dynamism levels too small

Important industrialized countries such as the USA, Japan and some European countries are undergoing positive developments in the field of employment, even though they are only investing to a relatively low level, which is restricting import growth. The overall growth in world trade is currently not even keeping pace with the expansion in global production. In spite of the difficult global economic environment, the export industry continues to put up a good show. The broad base of the German export economy is ensuring that it is able to compensate for weaknesses in individual sales markets to a certain extent. Overall, the dynamism of the export expectations remains small. Since the autumn of 2014 there have been only minor changes. There are currently no indications of the emergence of new stimuli or downturns.

Exchange rates stable – even so

Concerns about the exchange rate are decreasing once more. Only 15 per cent of companies involved in the export business see this as a risk to their business developments. Compared to the early summer, the relevance of this topic for businesses has therefore declined further (then: 16 per cent). This is the fifth fall in succession. In the early summer of 2015, more than one in four companies had been concerned about the development of exchange rates. At that time, the exchange rate against the dollar, which was the main trading currency, had plummeted to a 10-year low and had therefore increased the price competitiveness of German export products. However, the abrupt slide in the exchange rate had reduced the level of planning reliability and made hedging measures more expensive for companies. Currently the swings are remarkably low. The careful approach of the major central banks is also contributing towards this. The combination of the relatively low exchange rate level and low volatility is providing noticeable relief for companies at the moment. In the meantime, the strengthening of the US dollar and other currencies such as the yen was still acting as a doping factor for German exports. However, no more stimuli are to be expected from this direction in the coming year.

Monetary policy expansionary worldwide

At present it is not only the economy in the euro area which is benefiting from an expansionary monetary policy – the economy is also being doped globally. After the Brexit vote, the Bank of England recently returned to a significantly more expansionary approach. In other important currency areas such as the USA, Japan and China there has been no new stimulus, but the central banks are currently still holding back with rapid increases in interest rates. In addition to the slow global increase in price levels, it is likely that concerns about strengthening their own currency to an excessive amount and negatively affecting price competitiveness is also playing a role.

Risk factor international economic policy

A good third of exporting industrial companies refer to the economic policy framework conditions as a risk to their business developments (36 per cent). They are worried not only about the economic policy in Germany, but also at the international level. For example, companies frequently refer to geopolitical crises such as the con-

flict between Russia and Ukraine (including the sanctions) or the war in the Middle East, which are proving a significant burden on the export business with the respective regions. In addition, many businesses view the political developments in Turkey or the USA, for example, with some concern – and fear negative impacts on their businesses. A further important topic is Brexit. Many businesses are afraid of falls in demand from the United Kingdom. The failure of TTIP and CETA is also a risk from the perspective of quite a few export companies.

Economy focusing on openness

The Brexit vote, the complicated negotiations on free trade agreements and increasing populist tendencies in Europe and elsewhere are a concern to many businesses. There is the threat of a further increase in protectionism, or even nationalism in some cases. According to the World Trade Organization, 21 new trade barriers are created every month worldwide on average. German companies are also reporting increasing barriers – not only through customs duties, but also non-transparent local marketing authorizations. Quotas, restrictions in the case of invitations to tender or targeted, discriminatory subsidies are additional instruments which are being used as barriers. Such restrictions for investors and business partners are having a negative impact on world trade and the willingness to invest. Due to the high degree of orientation on exports and the high proportion of capital goods in the exports, these developments are especially dangerous for the German economy in particular. A pathway to more growth without openness is hard to imagine for the export industry.

Opportunities for the German economy

A more consistent orientation of international economic policy on growth, openness and competition would be of great benefit to the German export industry in particular. There is therefore hope that in a better economic policy environment, the global backlog in private investments and consumption will be resolved – especially in the emerging markets.

Declining business for manufacturers of consumer and intermediate goods

The purchasing power stimuli resulting from the low energy and commodity prices are gradually diminishing, partly as a result of the stabilization of the oil price – which is putting a damper on the recent positive mood of the manufacturers of consumer goods (balance decline to 19 compared to the previous level of 23 points). The expectations of the manufacturers of intermediate goods have also declined slightly compared to the previous survey (13 compared to the previous level of 15 points). Manufacturers of intermediate goods view the Brexit vote as a risk to their business developments particularly often.

Capital goods holding strong

The export expectations of the manufacturers of capital goods remain unchanged on balance (balance: 18 points). After the global demand for capital goods has recently undergone rather weak developments, signs of stabilization are now emerging at least. Mechanical engineering has recorded a slight increase of two points (17 compared to the previous level of 15 points). The most significant decline in expectations is that in vehicle construction (10 compared to the previous level of 17 points). Overall, the manufacturers of capital goods refer particularly often to geopolitical crises such as the Russia-Ukraine conflict or the tense situation in the Middle East as a risk to their business development. They are feeling the uncertainty and the resulting

reluctance to invest particularly strongly – as well as the consequences of the sanctions against Russia.

Service providers and trade cautiously optimistic

Service providers that operate abroad are again expecting a moderate increase in their exports (balance unchanged: 12 points). Knowledge-intensive service providers such as management consultancies and IT service providers are optimistic with regard to their foreign business (16 compared to the previous 13 points and 31 after 25 points previously). In contrast, the export expectations among architectural and engineering firms, as well as advertising and market research are declining (18 compared to 20 points and three after 11 points previously). Here, both industries are even more optimistic with respect to their domestic business, with the domestic demand risk decreasing. Commerce views developments among exports with even greater optimism overall (13 after the previous level of 10 points), as does the export-oriented wholesale trade (balance: 14 compared to the previous level of 13 points).

Declining exports in the north

Behind the decline in export expectations in Germany as a whole there are major differences between the regions. The export expectations of North German businesses have become far less optimistic, with the balance having dropped by 11 points (to 10 points). In contrast, companies in the west and east expect exports to increase more often than in the last survey (balances: 12 compared to 11 and 10 after eight points previously). In the south the export expectations remain stable. One influencing factor could be the Brexit vote. The share of exports to the United Kingdom is highest in the north. For this reason, the devaluation of the pound, falling investments on the island and the fear of further negative consequences for the trade with the United Kingdom have a slightly stronger effect here than the national average. This is supported by the fact that the decline among the North German capital goods producers is the most significant – they feel a decline in investment activities in the United Kingdom directly.

Estimates of the development of individual regions

The estimates are based on the current "AHK World Business Outlook", which includes feedback from around 2,200 member companies of the German Chambers of Commerce Abroad (AHK), delegations and representative offices.

Less light than shade in Europe

In the euro zone, the expectations of companies with respect to an improvement in the economic situation are falling. Supporting effects from the falling exchange rate no longer apply. In addition, the doping of the economy as a result of the oil price is coming to an end. Somewhat better are the prospects for the EU countries of Central and Eastern Europe. For example, in Poland and the Czech Republic, rising employment levels and wages are stimulating consumer spending. The Polish economy is also benefiting from the impetus provided by the stimulus package of the new government. Overall, the economic momentum throughout Europe is expected to decline slightly, although admittedly this is starting from a higher level in Central and Eastern Europe.

Italy and France restrained

In the euro zone, Italy remains a problem child. Unemployment has scarcely fallen so far. The difficulties in the Italian banking sector are also slowing down the upward trend. Although the Italian economy has been growing again since last year, the pace remains slow. Fewer German companies are expecting positive economic developments. France is growing more strongly than Italy overall. Economic developments have been significantly affected by strikes in the second quarter. Even so, German companies now assume that economic developments in France will improve somewhat. Not least, the reason for this is probably the tax relief which has been announced and already partially implemented, for example with respect to wages and fuels.

Impacts of Brexit still unclear

After the decision in the United Kingdom to leave the European Union, the specific impacts on trade relations with the EU countries are still unclear. However, the elimination of the advantages of the internal market, as well as additional trade barriers and bureaucratic burdens, will result in a decline in trade and investments in the British Isles³. Moreover, the British pound has depreciated by more than 20 per cent since the Brexit vote. Accordingly, German companies expect to sell fewer exports to the United Kingdom.

Turkey: moderate growth, high level of uncertainty

The political developments and difficult security situation in Turkey are causing a feeling of uncertainty among investors and trading partners. This is problematic, specifically due to the high level of reliance on foreign capital inflows and imports. Investments are stagnating. Although the devaluation of the lira and the falling prices for oil and commodity imports have reduced the Turkish foreign trade deficit, these effects are coming to an end, while demand for Turkish exports remains

³ Source: DIHK survey "Ersteinschätzung der Unternehmen in Deutschland zum Brexit", July 2016

weak. The proportion of AHK companies which are expecting a deterioration in the development of the economy clearly outweighs those which assume that the economy will brighten up. At least the Turkish economy is on course for growth on balance, even if the pace of growth remains slow for an emerging economy. Impetus is coming above all from the strong domestic demand.

Major concerns as a result of geopolitical crises	The concerns about terrorism, the war in Syria and unstable political conditions are having an adverse effect not only on the economic developments in Turkey, but also in large parts of Africa and the Near and Middle East. In these regions, the proportion of companies which assume that the economic situation will deteriorate far outweighs the proportion of optimists.
Bottoming-out in sight in Russia	The sanctions of the USA and the EU continue to cause problems for the Russian economy. Even so, the stabilization of the oil and commodity prices has helped the Russian economy to shrink much more slowly. Currently, more German companies which operate in Russia than last time assume that the bottom of the curve is being gradually left behind. Urgently needed political and economic structural reforms are not currently foreseeable, however. The increase in protectionist measures by the Russian government and the abundance of government interventions are also weakening the dynamics of the economy.
Uncertain changes in China	The growth in China is currently being furthered above all by state investments. However, this is preventing reductions in excess capacity and underlining the growing dependence on Chinese economic policy. Protectionist measures, the high level of indebtedness of the private sector and serious environmental damage are further negative influences. In the short term, the huge support measures of the government are ensuring stable growth rates. The risk of a collapse of the Chinese economy, however, is still not out of the question. Most German companies in the Middle Kingdom currently assume that the economic situation will deteriorate.
What remains from BRICS	In the BRICS group – the former countries on which the hopes of the world economy were pinned – it is now India which leads the way in terms of growth. Low commodity prices and direct foreign investments at record levels are promoting this development. Even so, Indian growth is strongly driven by domestic factors, so that German exports do not grow as quickly as overall demand. Nevertheless, the Indian market remains attractive on the whole to exporters and investors due to the growing middle classes, infrastructure projects and the number of qualified university graduates.
USA buoyant	The growth in the US economy is relatively stable. The driving force behind this is private consumption. However, investments in the industrial sector continue to stagnate. The uncertainty about the economic policy framework conditions after the election in November is also slowing things down. Even so, more than half of German companies which operate on the American market expect economic developments to become more positive. One reason for this is the prospect that em-

ployment levels will also develop positively.

Weak investments in Mexico

The state has cut back its investments due to the low oil price. The exchange rate remains volatile, causing a feeling of uncertainty among investors and trading partners. In principle, owing to its participation in numerous free trade agreements and its privileged access to the US market, Mexico is also an attractive investment location for German companies. However, the skills shortage, widespread corruption and the complex tax system are adversely affecting market conditions. Many German companies are currently skeptical about economic developments.

Brazil putting the brake on South America

At present, the situation of companies in South America is not very satisfactory, mainly due to the recession in Brazil and the impacts on neighboring countries. Brazilian entrepreneurs are holding back with investments in the uncertain political environment. The rising unemployment is resulting in a growing budget deficit in the country. In Argentina, on the other hand, there are hopes that the downward curve is beginning to bottom out. President Mauricio Macri is making great efforts to acquire more investments in the country. Plus points are the abundance of natural resources, the intact infrastructure and the relatively high level of education. The majority of local German entrepreneurs believe that the dynamics of the economy will improve. Paraguay's economy is also recording further solid growth. In Colombia as well, German companies are expecting positive economic developments.

Difficult framework conditions in Africa

The economy in South Africa is stagnating, predominantly due to structural problems. These include the ongoing energy shortages and the low level of investment in an uncertain economic policy environment. Furthermore, the high inflation rate is putting a strain on the country, as is the strongly fluctuating exchange rate. The expansion of the electricity supplies is expected to strengthen economic developments in the future. In the medium term, only a few German companies in South Africa expect the economy to improve.

Although the Kenyan economy is experiencing moderate growth, there are no changes to the problematic framework conditions. High levels of corruption, serious youth unemployment, terrorism and the current failed harvests due to drought are placing great strains on the economy, which is already structurally weak. One bright spot is the dynamism in the telecommunications industry, as well as the expansion of the infrastructure and the abundance of natural resources. Although local companies are less optimistic than they were in the early summer, nearly one-third of them nevertheless assume that the economy will improve.

In Tunisia and Algeria, the expectations with respect to the economy are restrained. The percentage of companies which believe that economic developments will be negative outweighs the optimists. Overall, the countries in North Africa continue to struggle with political crises which are adversely affecting the economy, and above all tourism.

Investment Intentions



Light stimulation in investments

The investment intentions of the German economy are improving slightly. Thereby, the flat upward trend of recent years is continuing. The still favorable financing situation and the positive developments in consumption are supporting investment activities. However, the expansion of the investment budgets is still remarkable in view of the deterioration in expectations. The retail trade and service providers are planning to increase investments slightly. Consumption-related industries, such as the catering industry or breweries, are increasing their investment budgets. The construction and manufacturing industry, on the other hand, are no longer as expansive as before. The vehicle construction sector is reducing its investments in particular. The banking industry is cutting back its investment plans sharply.

Investment plans remain expansionary

Companies are planning slightly higher investments in the autumn than last time (balance: 13 after the previous level of twelve points). The percentage of companies expanding their investment budgets has risen by one point to the current level of 28 per cent. 57 per cent are planning to make investments on the same level, and 15 per cent on a lower level. Impetus is coming above all from traders and service providers. The trade sector is increasing its investment budgets slightly on balance and has therefore returned to the level at the beginning of the year (ten after the previous level of nine points). In the services sector, the willingness to invest has also increased by one point (balance: 14 after the previous level of 13 points). In contrast, construction has made the usual seasonal cuts to its investment plans (balance: five after the previous level of eight points). In manufacturing industry the investment balance has fallen by one point (balance: twelve after the previous level of 13 points).

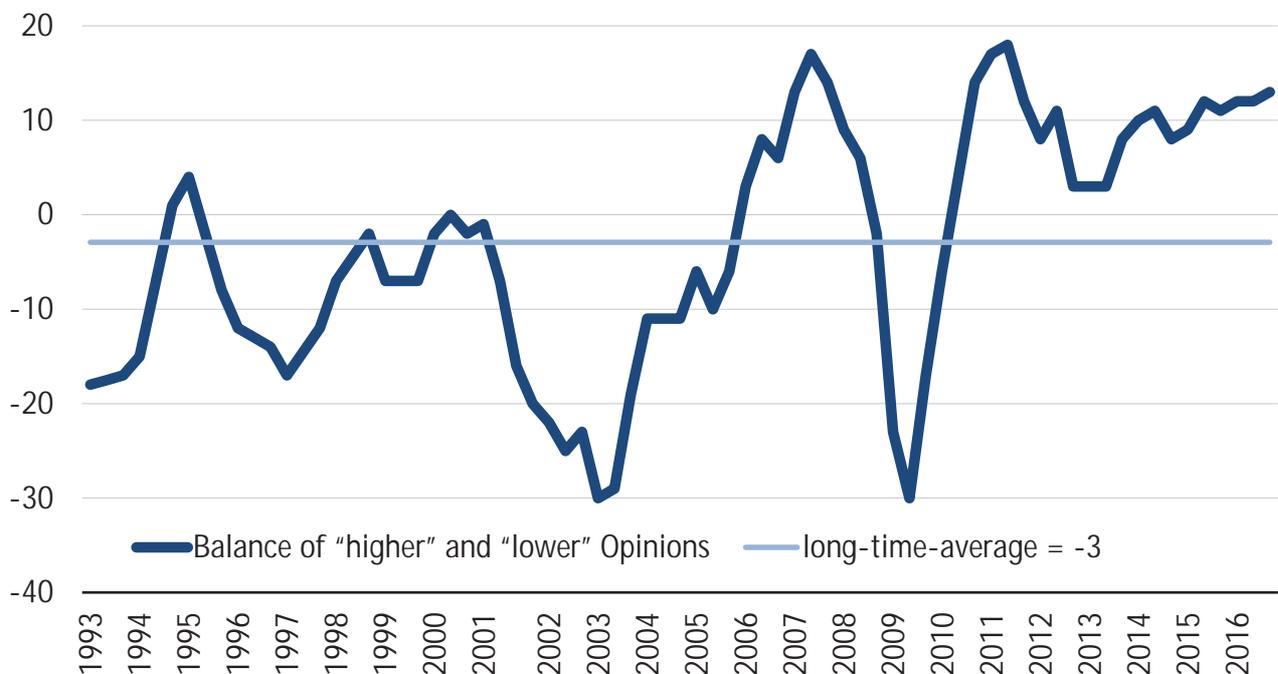
Planned increase in capacity

The slight increase in investment intentions is associated with greater importance being attached to capacity expansion. The percentage of companies which intend to invest in expanding their capacities has increased slightly (28 after 27 per cent previously). This figure has therefore reached a five-year high and is two points above the long-term average (since 2003). In the trade sector and the construction industry, more businesses than in any previous survey (since 2003) intend to increase their capacities. In the service sector and manufacturing industry, the importance of this

Enterprises' Investment Intentions (in per cent)

	higher	about equal	lower	balance
Fall 2014	25	58	17	8
February 2015	26	57	17	9
Early Summer 2015	27	58	15	12
Fall 2015	26	59	15	11
February 2016	27	58	15	12
Early Summer 2016	27	58	15	12
Fall 2016	28	57	15	13

Enterprises' Investment Intentions - in points



motive has at least increased slightly. Above all, the high domestic demand is ensuring that capacity utilization is reaching its limits in an increasing number of businesses. The concerns of companies about domestic demand are continuing to diminish with respect to the coming months (43 after the previous level of 45 per cent). However, the dampened business expectations speak against any greater expansion of the investment budgets (balance: nine after the previous level of 12 points) and a slight decrease in export expectations (balance: 14 after the previous level of 15 points).

Innovations and rationalization gaining in importance

The share of the "product innovation" investment motive is also increasing and has reached a new record level (32 after the previous level of 31 per cent). Digitization in particular is resulting in new product requirements in many areas. Companies are expanding their innovation activities accordingly in order to take full advantage of the associated opportunities⁴. Moreover, businesses are planning more investments in the rationalization of their processes (32 after 31 per cent previously). Companies which are investing in such rationalization are worried not only about domestic demand (49 per cent), but particularly often about labor costs (46 per cent). Environ-

⁴ Cf. the CCI corporate barometer on digitisation "Wirtschaft 4.0: Große Chancen, viel zu tun", July 2016

mental protection as a motive for acquisitions is not currently gaining in importance, after having reached the record level of 14 per cent in the previous surveys. The dominant investment motive remains the acquisition of replacements. However, at 65 per cent, the percentage has fallen by one point below the highest level of the two previous surveys.

Shortage of skilled workers slowing the level of investments

This shortage of skilled workers has now developed into the main risk to economic developments (48 after 43 per cent previously). Of the companies which are planning higher investments, as many as 55 per cent refer to the shortage of skilled workers – in the early summer this figure was just 52 per cent. The lack of suitable personnel can thwart the plans of companies in particular which have intentions to expand: of the companies which are planning to make expansion investments, 57 per cent are concerned about the shortage of skilled workers.

Autumn record in construction

The investment balance in the construction industry is higher than ever before in the autumn since reunification. The decline is typical for the season (five after the previous level of eight points; previous year: zero points). In the construction trade, the rationalization motive is pushing its way further to the front (24 after 22 per cent previously) and therefore ranks directly behind the motive to acquire replacements (79 after 78 per cent previously).

Trade: investment plans remain robust

The investment intentions of the trade sector are expanding slightly in spite of the significantly dampened business expectations (investment balance: ten after the previous level of nine points; expectation balance: seven after the previous level of twelve points). On balance, the investment plans have remained comparatively stable since last year (balances of the last three surveys nine or ten points in each case).

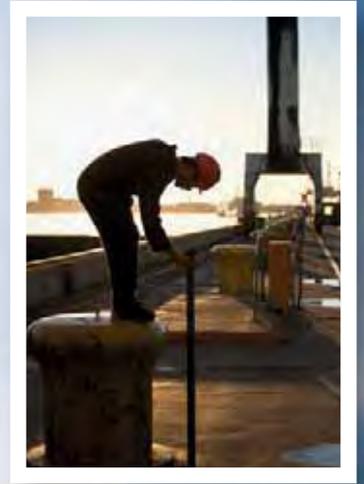
Consumer goods manufacturers losing momentum

The producers of durable and non-durable consumer goods are gradually introducing further cuts to their very expansionary investment budgets (balance deterioration by five to 13 points). The current investment intentions represent a two-year low on balance, after they had been higher than ever since 2003 in the early summer. The loser among the consumer goods manufacturers is the clothing industry, with a balance decrease of 14 to minus two points. Capacity expansions are becoming increasingly important here (34 after 30 per cent previously).

Capital goods manufacturers more cautious in their plans	The capital goods manufacturers are now cutting back their procurement plans to the level at the beginning of the year after a temporary increase in the early summer (balance: nine after the previous level of 11 points). As a result, this industry is only just above the average of the last few years (balance since 2003: seven points). Mechanical engineering is also planning to increase its investment budgets somewhat (balance increase by two to 10 points). Here, investments in product innovations are gaining slightly in importance (43 compared to the previous level of 42 points), with which the mechanical engineering companies can also take advantage of the opportunities offered by digitization.
Manufacturers of intermediate goods continuing to do well	In contrast to the other main industrial groups, the plans of the manufacturers of intermediate goods are more expansionary than in the spring (balance increase by one to 13 points). The industrial sectors which are closely associated with construction, such as "extraction of stone and earth, mining" (balance increase by seven to six points) or "glass, ceramics, stone processing" (balance increase by six to 10 points) intend to invest heavily.
More and more investments flowing into environmental protection	In spite of the downturn in business expectations, chemical and pharmaceutical companies also want to continue investing (23 compared to the previous level of 17 points). At the same time, the proportion of investments in environmental protection is increasing strongly and has reached a new record (27 after 21 per cent previously). The implementation of the European REACH chemical regulations is also necessitating additional investments for many companies. Other industries which use chemicals are also affected by this. For example, the importance of the environmental protection motive is increasing among disposal companies (36 after 31 per cent previously). In the textile industry it has even reached a new record (25 compared to the previous level of 15 points).
Education and health in demand	The investment intentions of the education and health industry have risen significantly compared to the previous survey. The reason for this is most likely the demographic changes, the increase in health awareness and the care and integration of refugees. The greatest increase in the investment budgets has been recorded by the education sector (balance: 13 after the previous level of three points). In the healthcare industry, the budgets have climbed to a new record high (27 compared to the previous level of 24 points). The leaders here are the health and social service providers (balance increase by two to 33 points). Impetus is coming from the pharmaceutical industry, for example (balance increase by five to 33 points) and the health trade (16 compared to the previous level of 13 points). Overall, the importance of capacity expansions has increased for the healthcare industry to a record level of 49 per cent (early summer: 45 per cent).

Company service providers gaining momentum	The company-related service providers are also planning more acquisitions for buildings, computer equipment, vehicles and other investments. The reply balance of the investment intentions has increased by two to 15 points. The investment intentions in the field of leasing and rentals, e.g. for cars and consumer durables, have increased significantly (balance increase by 17 to 12 points).
Pressure on financial and insurance service providers increasing	The banking industry is struggling with the impacts of the continuing low interest rate policy, the adaptations to the ever-growing regulation of the banking market and the challenges posed by the progressive digitization of the financial industry. All of this is no longer reflected only in more skeptical situation assessments and business expectations, but also in the investment intentions of the banking industry. The financial and insurance providers are cutting their investment budgets on balance by five to three points and are well below the average of recent years as a result (balance since 2003: six points). The investment plans of the individual pillars of the banking industry differ significantly from one another. Savings banks and cooperative banks intend to considerably reduce their investments (minus five compared to 12 points and minus three after six points previously). In the meantime, the plans of the private credit banks are still expansionary on average (balance: ten compared to the previous level of 17 points, average since 2003: eight points).

Employment Intentions



Shortage of skilled workers becoming a bottleneck

In spite of the somewhat bleaker expectations, the recruitment plans of companies remain at a high level. Stimulus is coming from the manufacturing industry in particular. A number of service providers, such as the financial, hospitality and transport sectors, are reducing their workforce expansion. As is usual at this time of year, the construction industry is also planning to recruit fewer people. In the trade sector the employment plans do not change on balance. Overall, the risk of rising labor costs is still problematic for companies. The shortage of skilled workers is becoming more and more serious. Companies now consider this to be the most important risk to their economic development.

Workforce expansion should continue ...

Since the beginning of the year, companies have been maintaining their employment plans at a stable level on balance. Almost one in five companies now intends to increase the size of their workforce (19 per cent), 68 per cent expect their headcount to remain unchanged, while 13 per cent are planning to have fewer employees. Since the proportion of the plans to increase and reduce the number of employees has increased by one point in each case, the balance remains at six points. This means that the positive employment trend is already entering its twelfth year. However, there are two business risks which are negatively affecting the employment plans of companies: The lack of suitable skilled employees (48 per cent after the previous level of 43 per cent) and rising labor costs (again 40 per cent).

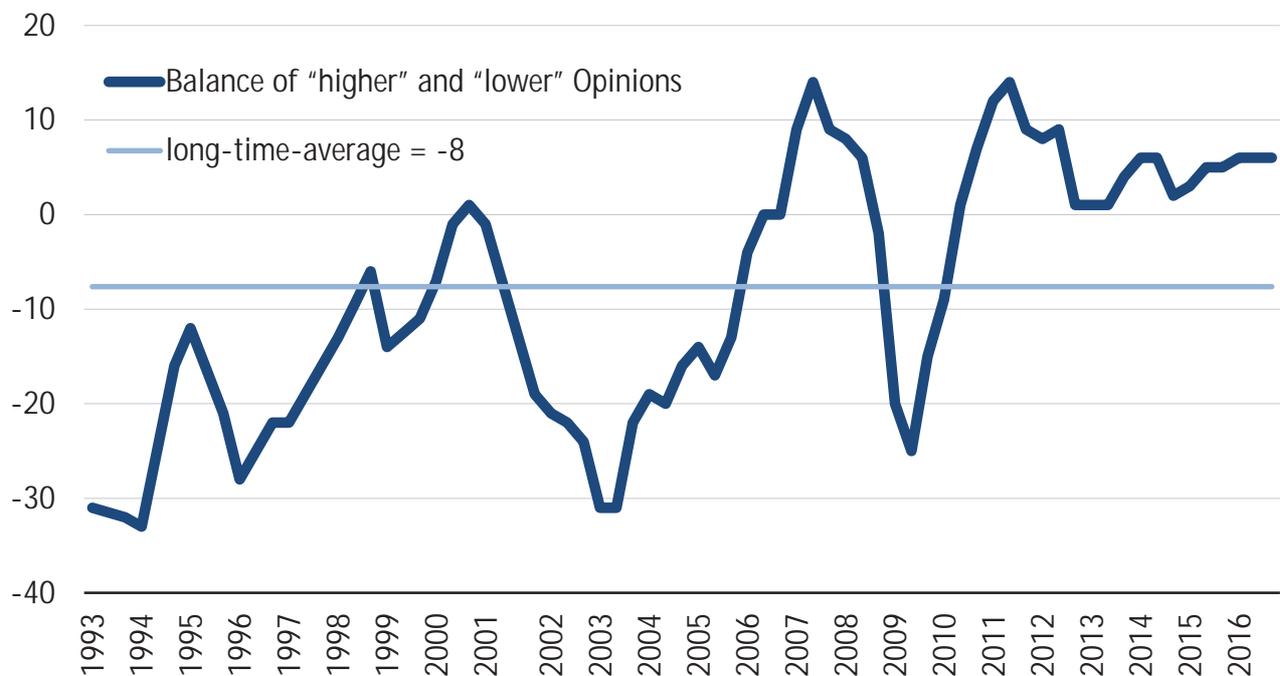
... but the shortage of skilled workers is a problem

The business risk of the "shortage of skilled workers" has climbed to a new record level and is now the top risk for companies. Since the very first survey less than seven years ago, the proportion has tripled. More than half of service providers are now concerned about this problem (51 per cent), while in the construction industry the figure is more than two thirds (69 per cent). Of the companies which intend to recruit additional staff, 67 per cent now state that the shortage of skilled workers is a risk – at the beginning of the year this figure was 61 per cent. The shortage of skilled workers is probably not just a consequence of the expansion in the size of workforce over

Enterprises' Employment Intentions (in per cent)

	higher	about equal	lower	balance
Fall 2014	15	72	13	2
February 2015	17	69	14	3
Early Summer 2015	17	71	12	5
Fall 2015	17	71	12	5
February 2016	18	70	12	6
Early Summer 2016	18	70	12	6
Fall 2016	19	68	13	6

Enterprises' Employment Intentions - in points



the last few years and the continuing high employment intentions of companies, which are intensifying the competition for appropriate skilled employees. In many companies it is also one reason for the greater willingness to recruit new employees, especially in view of the demographic changes. Companies want to secure qualified personnel in good time before the bottlenecks become even more acute. The demand has long been not just for academics, but above all for skilled employees and apprentices who have passed through the dual education system.

Searching in vain –
across many sectors

A further striking aspect is the breadth of the industries which are concerned about the problem of securing qualified workers. In all sectors, the risk responses have now reached record values since the first time this question was surveyed at the beginning of 2010. For example, the healthcare and social services (76 after 69 per cent previously), hotels and guest houses (74 after 71 per cent previously), the hospitality industry (71 after 68 per cent previously) and IT service providers (57 after 51 per cent previously) have reached record levels in their risk assessment. In the construction industry, all sectors have climbed to record levels (structural engineering, civil engineering, fitting-out), as has the trade sector (wholesale trade, retail trade, automotive trade). In manufacturing industry as well, the concerns about the ability to find suitable skilled employees are also growing. In the meantime, every other mechanical engineering company considers its business developments to be negatively affected

by this (previous survey: 41 per cent), whereas in the medical technology sector this figure is 46 per cent (previous survey 39 per cent), among the manufacturers of metal products 44 per cent (previous survey 40 per cent) and in vehicle construction 38 per cent (after 35 per cent previously) – more than ever before. In order to alleviate the shortage of skilled workers, greater flexibility in the supervision times of daycare facilities for children, for example, might help. This applies to the trade sector and the hospitality industry (but also to other industries with high personnel requirements during flexible time bands and at weekends).

Worries about labor costs increasing in manufacturing industry ...

The major challenge of finding and keeping suitable skilled employees is also reflected in rising labor costs. Companies are increasingly having to offer better conditions in order to attract or retain skilled employees. The risk assessment with respect to labor costs remains at a significant level. In manufacturing industry, the record value of the previous survey is being maintained (39 per cent; average since 2010: 34 points) and has even climbed in some industries to new record levels. For example, the assessment of the risk of labor costs in the leather industry (46 after 32 per cent previously), businesses working in the field of "extraction of stone and earth, mining" (46 after 37 per cent previously) and manufacturers of electrical equipment (44 compared to 43 per cent) have reached new highs.

... and growing in the trade sector

Traders are particularly concerned about rising labor costs. Here the business risk in the autumn of 2016 has increased somewhat (from 36 to 37 per cent). A particularly large number of retailers consider this to be a growing risk to their economic developments. The rate at which this risk is referred to has risen to 42 points, compared to 40 points previously; in the east it is even higher at 47 per cent. Among the service providers, the risk assessment of the labor costs remains at the level of the previous survey (40 per cent). Strong increases in the perception of the labor cost risk are also seen in the security industry (64 per cent, compared to 50 per cent previously) or among cleaning services (54 after 45 per cent previously).

Manufacturing industry more optimistic

Manufacturing industry companies are slightly more expansionary in their employment plans in spite of a slight downturn in their business expectations. The reply balance has risen to five from the previous level of four points – a level which it last reached more than two years ago. Impetus is coming above all from the manufacturers of intermediate goods (increase by three to four points). The consumer goods industry has increased its employment plans slightly (balance improvement by one to six points). The capital goods manufacturers are the only major group that has slightly reduced its employment plans on balance (balance deterioration by two to five points). The vehicle construction sector has made significant downward corrections to its plans (balance deterioration by nine to minus eight points). The employment balance of this sector has not been as low as this since the early summer of 2015.

Pharmaceuticals slowing down	<p>In the pharmaceutical industry, the expansion in the employment plans has begun to slow down again somewhat after having been very strong in the meantime. The balance has fallen to 21 points after 30 points previously. Admittedly, this is still a high level. Here, the difficulties in searching for suitable skilled employees are making themselves noticeable. With a current level of 33 per cent, this figure represents a new record. Overall, the industry is less confident than it was in the early summer: the less positive business expectations (balance deterioration by eleven to twelve points), the return of the exchange rate risk (22 per cent compared to 13 per cent previously) and higher risks in terms of energy and commodity prices (32 per cent compared to 24 per cent) are damping down the employment plans of pharmaceutical companies.</p>
Less momentum among service providers	<p>The employment plans in the services sector have deteriorated slightly compared to the early summer (balance decline by two to six points). The companies are finding it increasingly difficult to acquire suitable skilled employees. In the meantime, more than half of service providers consider the shortage of skilled workers to be a risk to their economic development (51 per cent) – more than ever before. This driver of employment is facing the threat of not being able to find enough employees. In the hospitality industry, as many as seven out of ten companies see the lack of skilled employees as a risk to their economic development – a new record which is also gradually being reflected in their employment plans. For the first time since the beginning of 2015, the balance has fallen – by five to zero points. Even companies that work in the transport sector are facing increasing difficulties due to the shortage of skilled workers. As a result, the risk assessment in the road freight transport sector has risen to the record value of 72 per cent. The struggle to obtain skilled employees is also evident here in the form of reduced recruitment plans. The road freight transport sector has reduced its employment plans by one to two points.</p>
Banks badly stricken	<p>The banking industry continues to cut back on its employment plans. The current level of minus 49 points for the employment balance is lower than ever before (previous survey: minus 46 points). In the savings bank sector, the balance has even plummeted to minus 67 points (previous survey: minus 63 points). Significant reductions have also been carried out by the cooperative banks (minus 45 after the previous level of minus 38 points). The increasing regulation of the financial markets and banks, changes in customer behavior as a consequence of digitization and above all the adverse effects of the current continuing low interest rate phase represent a challenge to the banks and are resulting in adjustments to staffing levels.</p>
Temporary employment sector lowering its sights	<p>In the temporary employment sector the employment balance has fallen significantly compared to the previous survey (currently: 14 points; early summer: 28 points) and is also below the average since 2003 (28 points). Admittedly, it is not unusual in good economic times with considerable increases in workforce sizes for the providers and mediators of temporary employees to have difficulties finding staff. The business risk of the shortage of skilled workers has therefore intensified even further (to 80 per cent). Furthermore, there is an impending amendment to the German Law on Temporary Employment which limits the maximum loan period to 18 months, for example,</p>

and provides for equal pay after nine months. Several companies refer to this law as an example of the risk posed by the economic policy framework conditions. They are afraid of a restriction on flexible staff assignments. Any potential reduction in demand for temporary workers associated with this may also have an impact on the employment plans of the temporary employment agencies.

Trade sector confident on balance

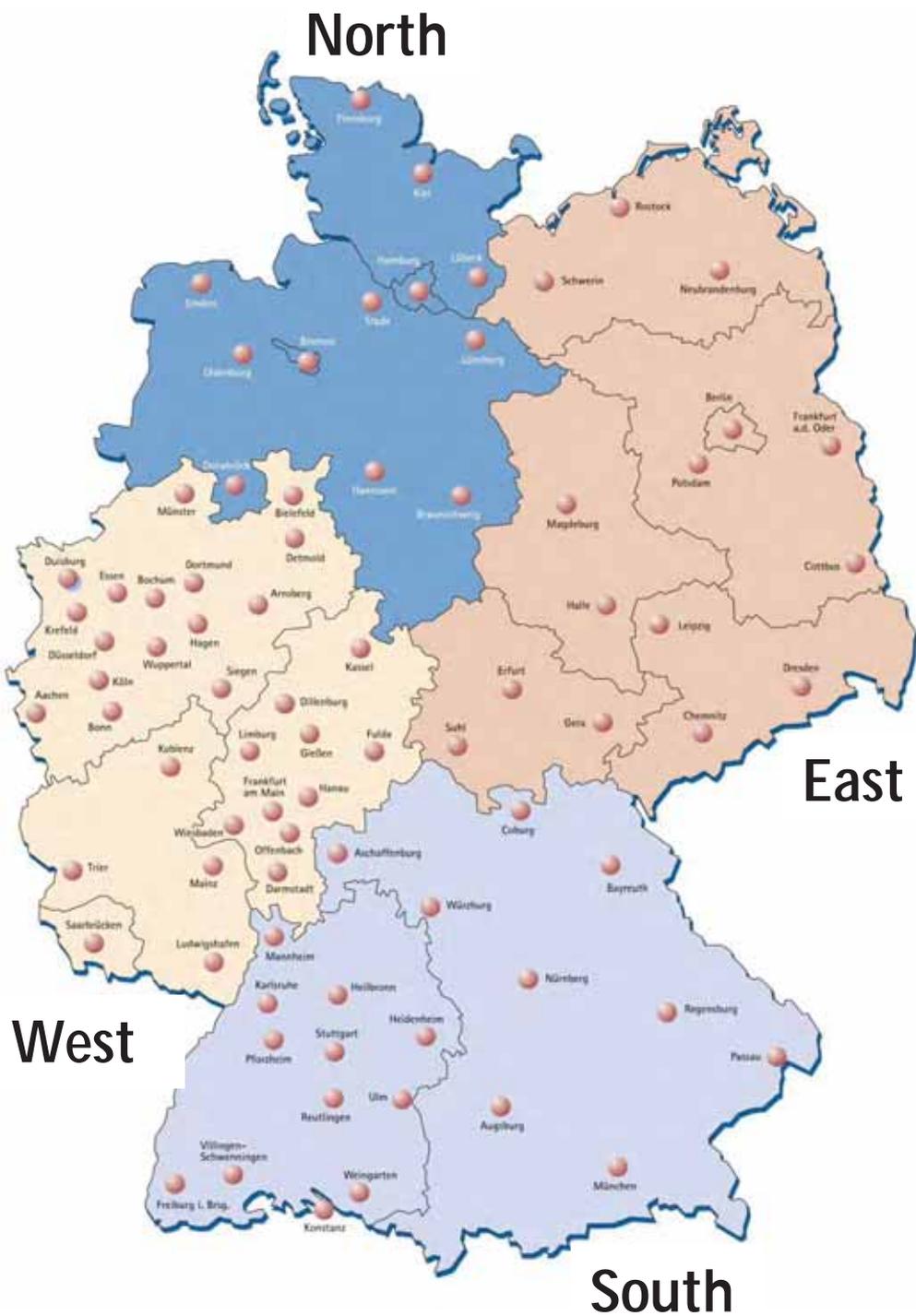
The employment plans in the trade sector remain at the level of five points on balance. Wholesalers are even expanding their plans to a certain extent (to eight points compared to six points previously). On the other hand, the retail trade has made slight adjustments to its recruitment intentions (balance: two points, previous survey: three points). In the case of smaller retailers with up to 20 employees, the balance has even declined by two to zero points. In contrast to other industries, the willingness of larger retailers to recruit is greater: among the retailers with 20 to 200 and 200 to 1,000 employees, the reply balance is five points in each case, while amongst those with over 1,000 employees this figure is as high as 17 points. The lack of skilled employees is creating problems for everyone (43 per cent, previous survey: 39 per cent).

No autumn depression in the construction trade

In the autumn the employment balance always falls a little for seasonal reasons, and has slipped to five points this year (previously nine points) – a record level in the autumn. Although the risk posed by labor costs has declined somewhat in the view of companies, it is - at 45 per cent - nevertheless still well above the average of all industries (40 per cent). The shortage of skilled workers continues to increase and has reached a new record value of 69 per cent. The industry which has made the most drastic reductions in its employment plans is civil engineering (balance deterioration by seven to two points). For civil engineering companies in particular, the difficulties of searching for appropriate personnel such as excavator operators for the construction of motorways, roads, bridges or tunnels is becoming an increasing obstacle (74 per cent after the previous level of 62 per cent).

IHK-Economic-Surveys

The regional business surveys of the 79 Chambers of Industry and Commerce can be accessed at:
www.dihk.de/konjunktur



Questionnaire Fall 2016

How do you assess the current situation of your company?

- good
- satisfactory
- bad

Which business development does your company expect for the next twelve months?

- better
- about equal
- worse

What are the biggest risks for your company's economic development in the next twelve months?
(multiple answers possible)

- domestic demand
- foreign demand
- financing conditions
- labor costs
- lack of skilled workers
- exchange rates
- prices of energy and raw materials
- economic policy conditions

Which export development does your company expect for the next twelve months?

- higher
- about equal
- lower

How do you think domestic investments of your company are likely to develop in the next twelve months?

- higher
- about equal
- lower

What are the main reasons for your company's domestic investments in the next twelve months?
(multiple answers possible)

- efficiency measures
- product innovation
- capacity extension
- environment protection
- replacement demand

How do you think domestic employment of your company is likely to develop in the next twelve months?

- higher
- about equal
- lower

Methodology

With the current "Consumer Sentiment carrying the Economy through the Year" evaluation, the Association of German Chambers of Commerce and Industry (GCCI) is presenting the results of its latest business survey among the Chambers of Commerce and Industry (CCIs) in Germany. The survey was conducted for the first time in the fall of 1977 (until the early summer of 2013 under the title "Economic Situation and Expectations"). Since the year 2000 it has been conducted three times a year, and before that twice.

The basis of the GCCI results is surveys of companies conducted by a total of 79 CCIs. In the February of 2016 the CCIs evaluated more than 27,000 responses. The regional evaluations of the CCIs can also be retrieved on the Internet at www.dihk.de/konjunktur. The breakdown of the company assessments according to regions is also a special feature of the GCCI survey. Here the North is made up of the federal states of Bremen, Hamburg, Lower Saxony and Schleswig-Holstein, the West of the federal states of Hesse, North Rhine-Westphalia, the Rhineland Palatinate and the Saarland, the East of Berlin, Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt and Thuringia and the South of the federal states of Baden-Württemberg and Bavaria.

According to sectors the replies come from manufacturing industry (29 per cent), the construction industry (seven per cent), the trade sector (22 per cent) and service providers (42 per cent). The classification of the industrial sectors in the GCCI business survey is based according to the official statistics on the classification of the industrial sectors of 2008. Within the framework of the changeover in the early summer of 2009, the values from the previous surveys were recalculated on this basis, so that there may be differences compared to values reported earlier.

According to size classes the replies are divided up as follows: 33 per cent companies with up to nine employees, 14 per cent companies with ten to 19 employees, 42 per cent companies with 20 to 199 employees, seven per cent companies with 200 to 499 employees, two per cent companies with 500 to 999 employees, two per cent companies with more than 1,000 employees.

The CCIs carry out their random sample in such a way that a representative snapshot of the current situation of local commercial companies is provided (random sample stratified according to sectors, regions and company sizes). The aggregation at the federal level is carried out by means of a regional and sector-related weighting. The responses to the regular economic questions (see questionnaire in the attachment) of businesses with more than 500 employees are weighted with the factor 2 and the responses from businesses with more than 1,000 with the factor 3.

The risks for the economic development are not weighted anymore since fall 2016. The data of previous surveys is corrected correspondingly. Therefore, small deviations from previously published data may occur. In the case of additional questions, the weighting according to size classes is dispensed with if the unweighted proportion of companies is more meaningful.

The survey was carried out from the end of August 2016 to the beginning of October 2016.

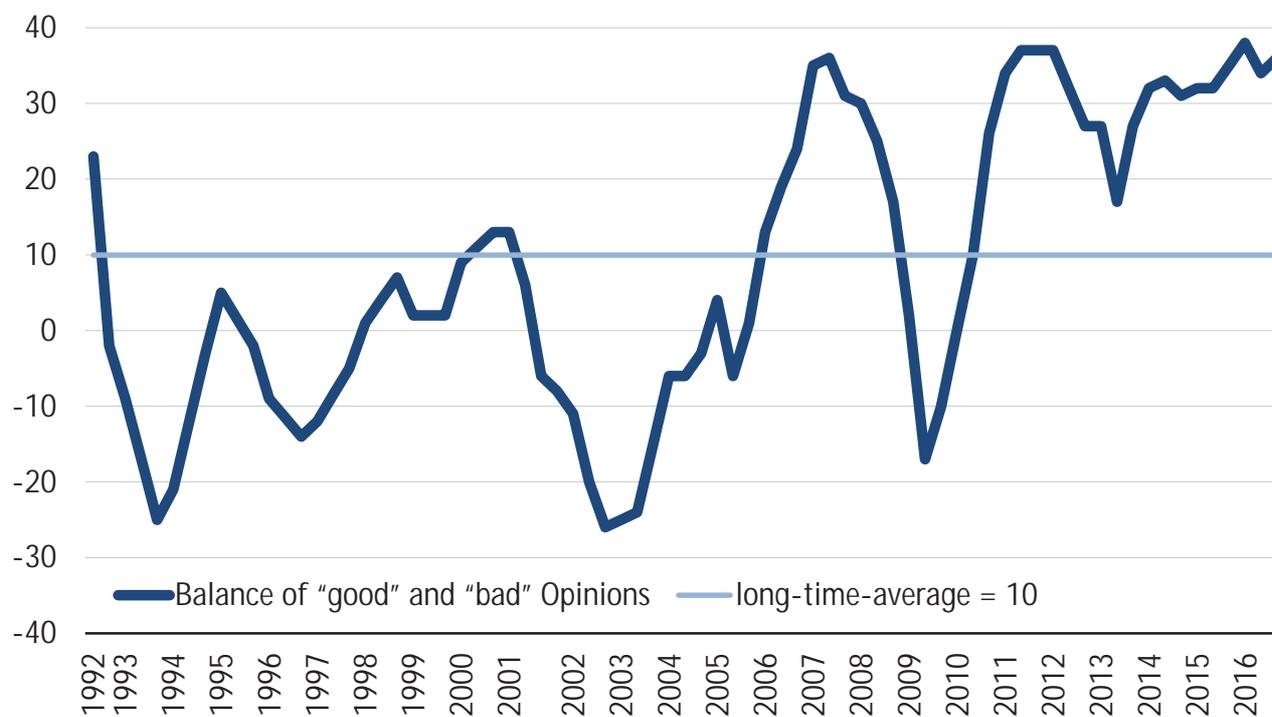
DIHK-Surveys - time series

All shares in per cent; Balance = Share of „good/better“ opinions minus share of „bad/worse“ opinions in per centage points

Assessment of the Situation (in per cent)

	good	satisfactory	bad	balance
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
Fall 2013	38	51	11	27
February 2014	41	50	9	32
Early Summer 2014	42	49	9	33
Fall 2014	40	51	9	31
February 2015	41	50	9	32
Early Summer 2015	41	50	9	32
Fall 2015	44	47	9	35
February 2016	46	46	8	38
Early Summer 2016	43	48	9	34
Fall 2016	44	48	8	36

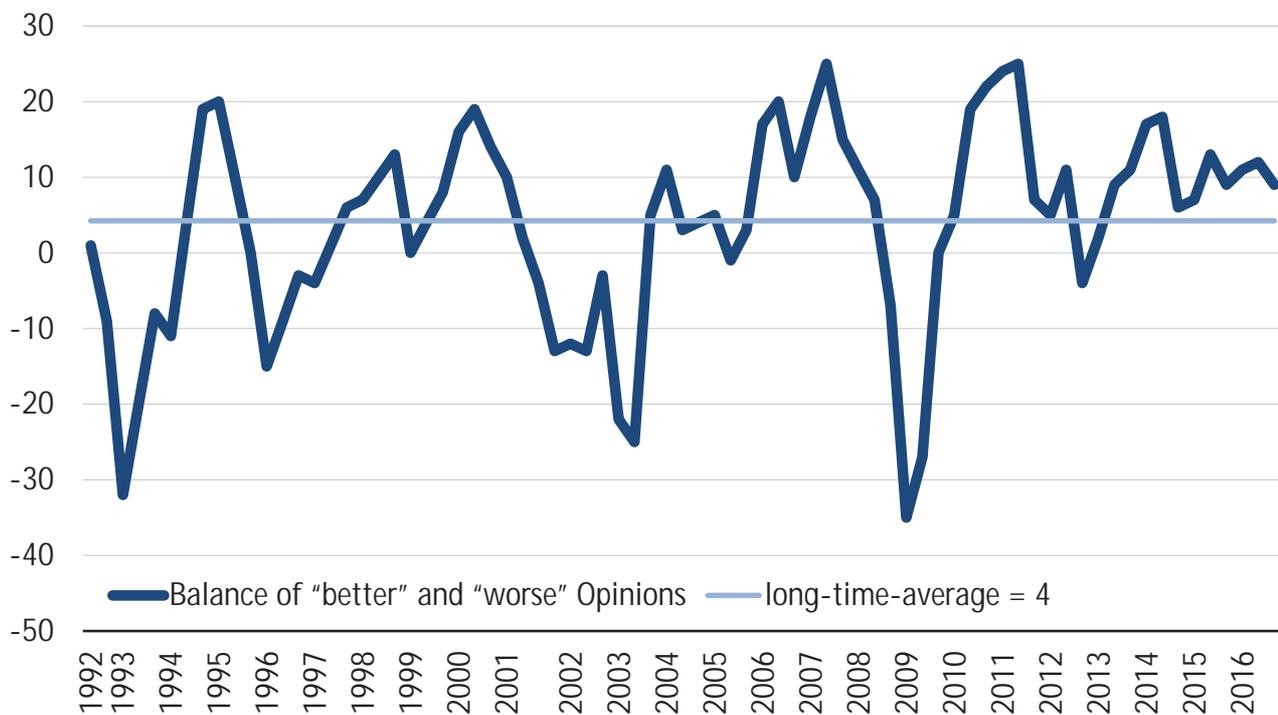
Assessment of the Situation - in points



Enterprises' Business Expectations (in per cent)

	better	about equal	worse	balance
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
Fall 2013	24	63	13	11
February 2014	28	61	11	17
Early Summer 2014	29	60	11	18
Fall 2014	21	64	15	6
February 2015	22	63	15	7
Early Summer 2015	26	61	13	13
Fall 2015	23	63	14	9
February 2016	24	63	13	11
Early Summer 2016	25	62	13	12
Fall 2016	22	65	13	9

Enterprises' Business Expectations - in points

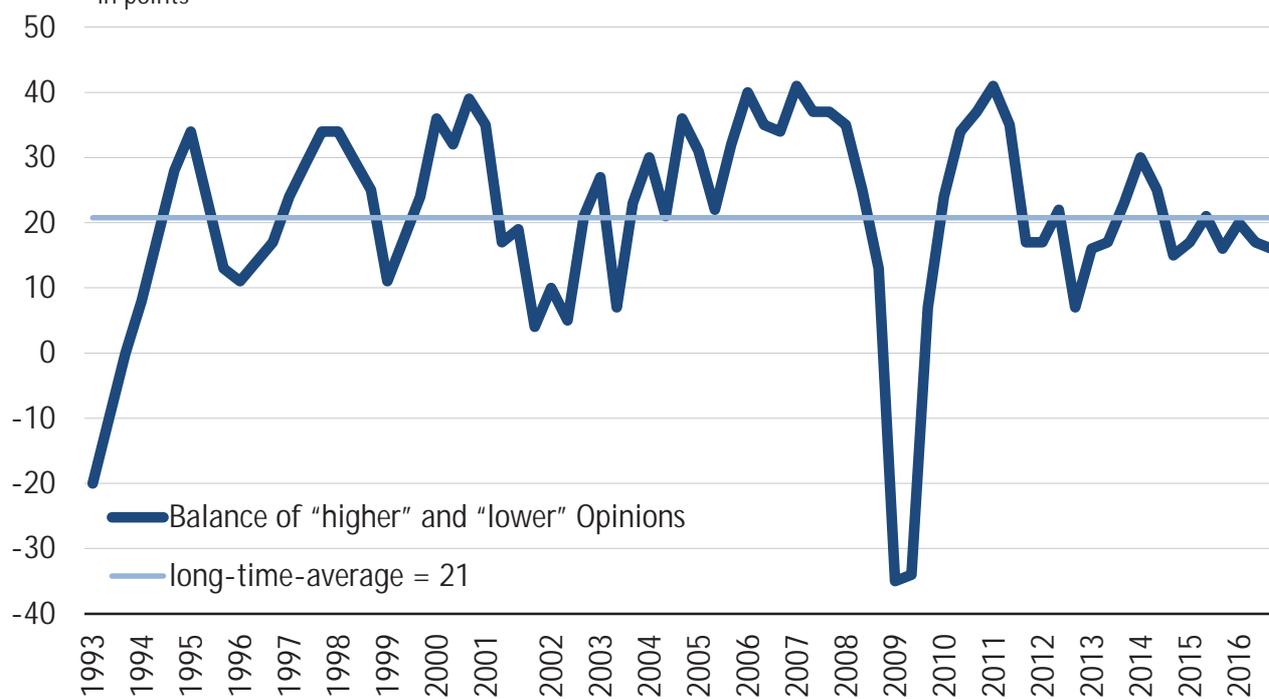


Enterprises' Export Expectations (manufacturing industry; in per cent)

	higher	about equal	lower	balance
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
Fall 2013	32	59	9	23
February 2014	37	56	7	30
Early Summer 2014	34	57	9	25
Fall 2014	30	55	15	15
February 2015	30	57	13	17
Early Summer 2015	31	59	10	21
Fall 2015	30	56	14	16
February 2016	32	56	12	20
Early Summer 2016	29	59	12	17
Fall 2016	29	58	13	16

Enterprises' Export Expectations (manufacturing industry)

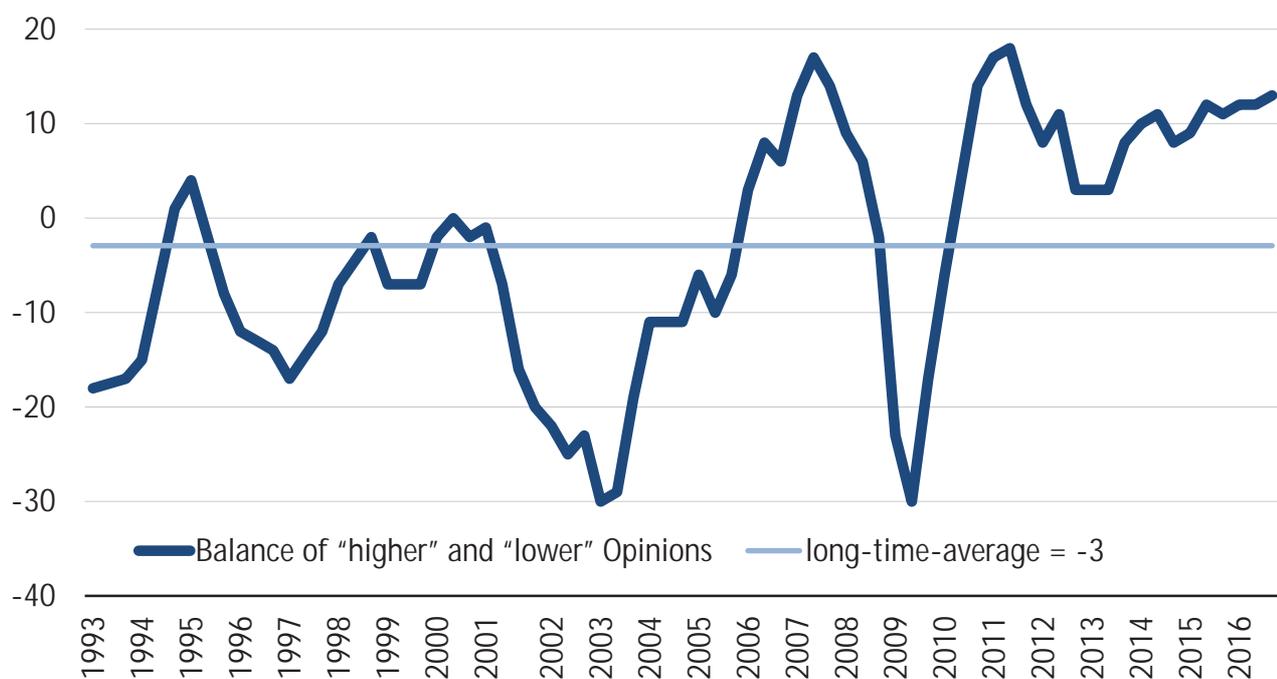
- in points



Enterprises' Investment Intentions (in per cent)

	higher	about equal	lower	balance
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
Fall 2013	25	58	17	8
February 2014	26	58	16	10
Early Summer 2014	27	57	16	11
Fall 2014	25	58	17	8
February 2015	26	57	17	9
Early Summer 2015	27	58	15	12
Fall 2015	26	59	15	11
February 2016	27	58	15	12
Early Summer 2016	27	58	15	12
Fall 2016	28	57	15	13

Enterprises' Investment Intentions - in points



Enterprises' Employment Intentions (in per cent)

	higher	about equal	lower	balance
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
Fall 2013	16	72	12	4
February 2014	17	72	11	6
Early Summer 2014	17	72	11	6
Fall 2014	15	72	13	2
February 2015	17	69	14	3
Early Summer 2015	17	71	12	5
Fall 2015	17	71	12	5
February 2016	18	70	12	6
Early Summer 2016	18	70	12	6
Fall 2016	19	68	13	6

Enterprises' Employment Intentions - in points

