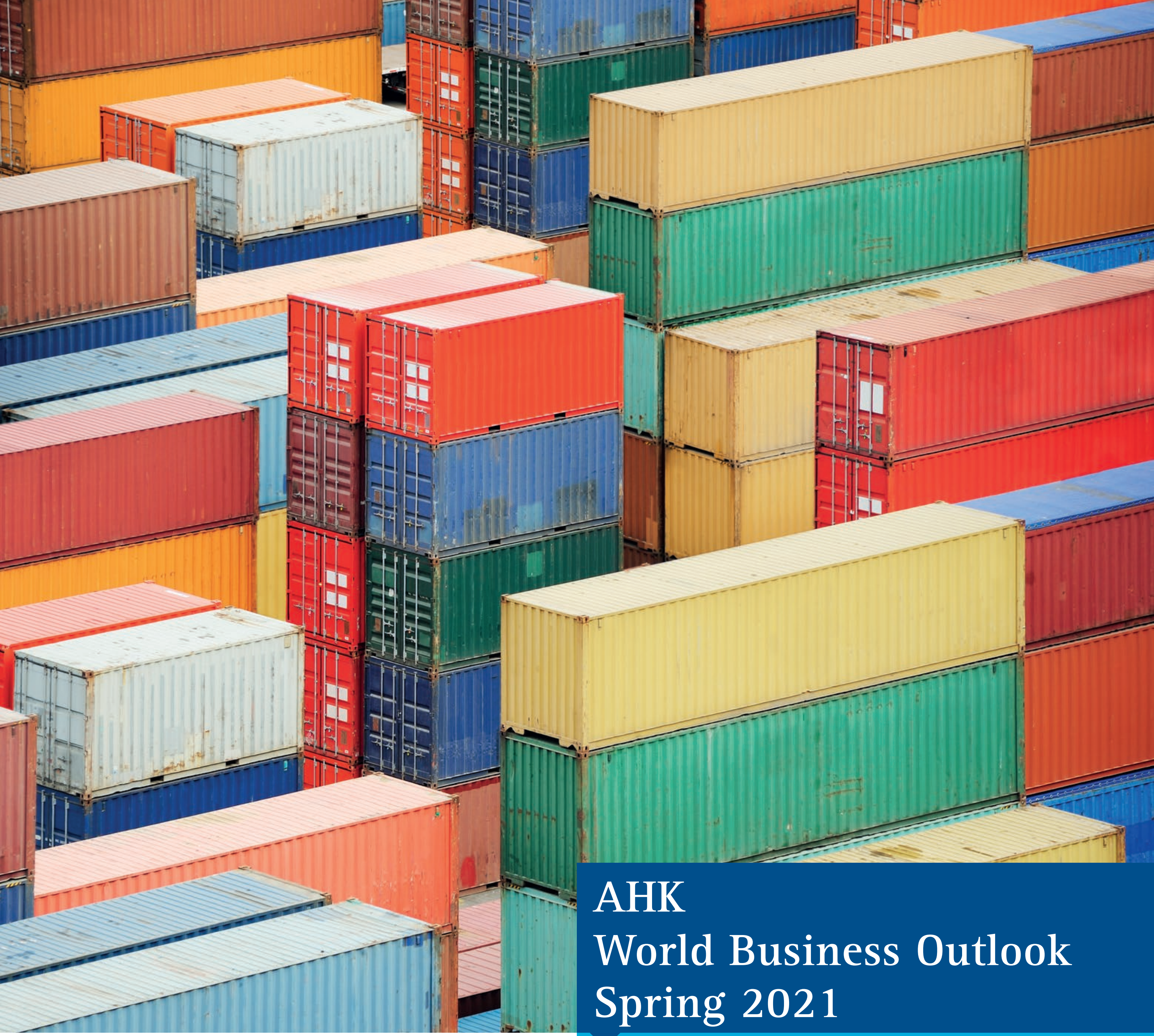


AHK
World Business Outlook
Spring 2021

Survey by the Network of German Chambers of Commerce Abroad (AHKs)

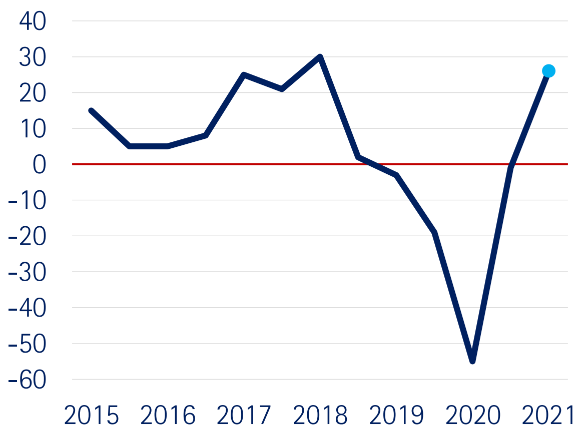
DIHK Deutscher Industrie- und Handelskammertag

AHK Deutsche Auslandshandelskammern

Summary

The recovery of the global economy is gaining momentum and a majority of German companies abroad hope to make up for the losses of the past year. Almost one in two of the more than 4,500 companies surveyed by the AHKs worldwide expects an improved economy in their respective countries. Especially in China and North America, German companies expect a strong economic development in the coming twelve months. Accordingly, more than half of the companies expect their own business to develop better in the coming twelve months. Some of the companies that put their investment and employment plans on hold last year therefore want to ramp them up again this year.

Economic expectations of companies worldwide (balance in points)



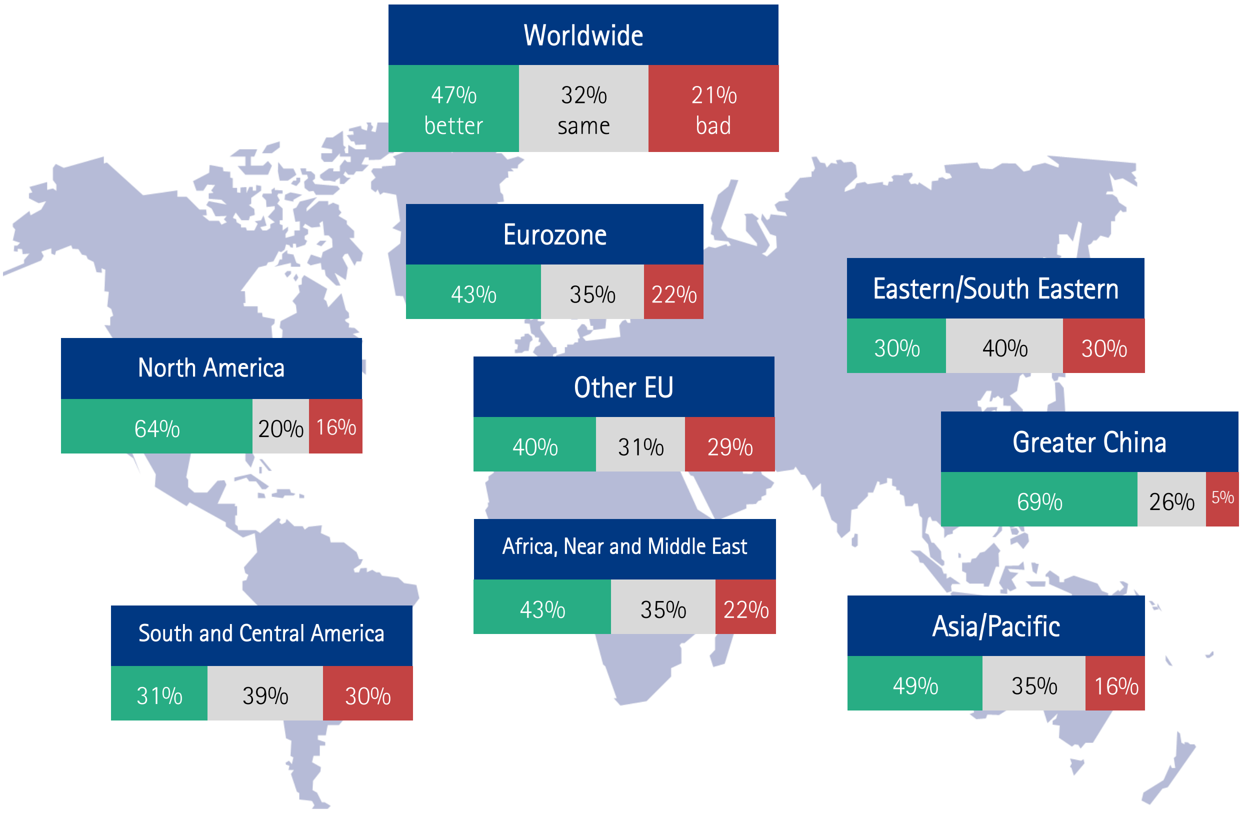
Despite the brighter mood in the global economy, however, the effects of the coronavirus pandemic continue to pose major challenges for companies. Supply chain and logistics problems, lack of goods and services and own production losses have even worsened compared to the previous survey. Also, many companies still have to cancel or postpone investments.

Unchanged from the previous surveys, a lack of demand and uncertainty about economic policy conditions are the greatest risks for German companies abroad. The shortage of skilled workers as well as energy and raw material prices have become significantly more important. The latter have risen sharply compared to the previous survey and are putting pressure on the already tense situation in production and supply chains.

The AHK World Business Outlook is based on a regular DIHK survey of member companies of the German Chambers of Commerce Abroad, Delegations and Representative Offices (AHKs). In spring 2021, it collects feedback from more than 4,500 German companies, branches and subsidiaries worldwide, as well as companies with close ties to Germany.
41 percent of the responding companies are from the industry and construction sector, 39 percent from the service sector and another 20 percent are trading companies. Smaller companies with less than 100 employees account for 52 percent of the responses. 27 percent of the companies employ 100 to 1,000 people. Large companies with more than 1,000 employees worldwide account for 21 percent of the respondents.

Development of the global economy

The global economy is recovering. 47 percent of the more than 4,500 companies surveyed by the AHKs worldwide expect the economy in their respective countries to develop better in the next twelve months. Every fifth company expects a worse economic development. The resulting balance of better and worse assessments amounts to 26 points. The mood has brightened considerably compared to previous surveys. In autumn 2020, the positive and negative voices were still in balance, but now the optimistic responses predominate. The last time companies were similarly confident about the economy was in spring 2018. Expectations are also noticeably above the pre-crisis level, when a slowdown was already expected in autumn 2019. At that time, in the last survey before the coronavirus pandemic, the balance was minus 19 points.



Optimism in Asia and North America

Overall, positive expectations for economic development have increased. Nevertheless, they differ noticeably depending on the region. While German companies in China and Asia as well as North America are particularly optimistic, companies in South and Central America as well as Eastern and Southeastern Europe do not yet expect a strong economic recovery in the coming months. In Greater China, 69 percent expect the economy to improve and only five percent expect it to worsen. In North America, 64 percent - twice as many as in the previous survey - forecast an improvement, only 16 percent a deterioration.

In the South and Central American countries, the predominantly positive expectations expressed in autumn 2020 could not be confirmed. Although 31 percent expect the economy to improve, 30 percent expect it to worsen. In Eastern and South-Eastern Europe, too, the positive and negative expectations of the companies balance each other out.

Slightly slower economic recovery in Europe

German companies in other European countries are more positive about the economic recovery than in autumn, but less confident than in Asia and North America.
In the Eurozone, 43 percent of companies expect an upswing, in the rest of the EU, Switzerland, Norway and the United Kingdom it is 40 percent, in Eastern and South-Eastern Europe 30 percent. No economic improvement is expected by 22 percent in the Eurozone and 29 and 30 percent in the rest of Europe.
The majority of companies do not expect a sustained economic recovery in these countries until 2022 or later.

Companies in Denmark and Sweden rate the economic development better than the European average. In Italy and Portugal, on the other hand, the mood is balanced and the resulting balance of better and worse assessments, with two and three points respectively, is only slightly positive. In Poland, the majority of companies do not expect the economy to improve further: 53 percent expect it to worsen. In Turkey, the more pessimistic voices also predominate: 29 percent expect an upswing, 35 percent a downturn.

China hurries away

Every second German company in Asia expects the economy to improve in the next twelve months. But nowhere is there as much optimism as in Greater China: almost 70 percent of German companies in China expect the economy to improve. At this location, there is a clear leap from the previous survey. Last autumn, every second company had already expected a positive development. The balance of better and worse assessments reaches a high of 65 points in China.

The mood is also brightening noticeably in the Asian region outside Greater China. In Vietnam (balance 61 points), Malaysia (57 points), India (56 points) and South Korea (52 points), the positive voices predominate particularly clearly. In Japan, 48 percent expect an improvement, only ten percent a deterioration in economic performance.

But in Asia, too, it is evident that uncertainties about the economic recovery persist. In the Philippines, for example, only 15 percent expect an upswing in the coming months, two out of five companies expect a downturn. The negative voices outweigh even more clearly than in autumn, the balance falls from minus seven to minus 24 points.

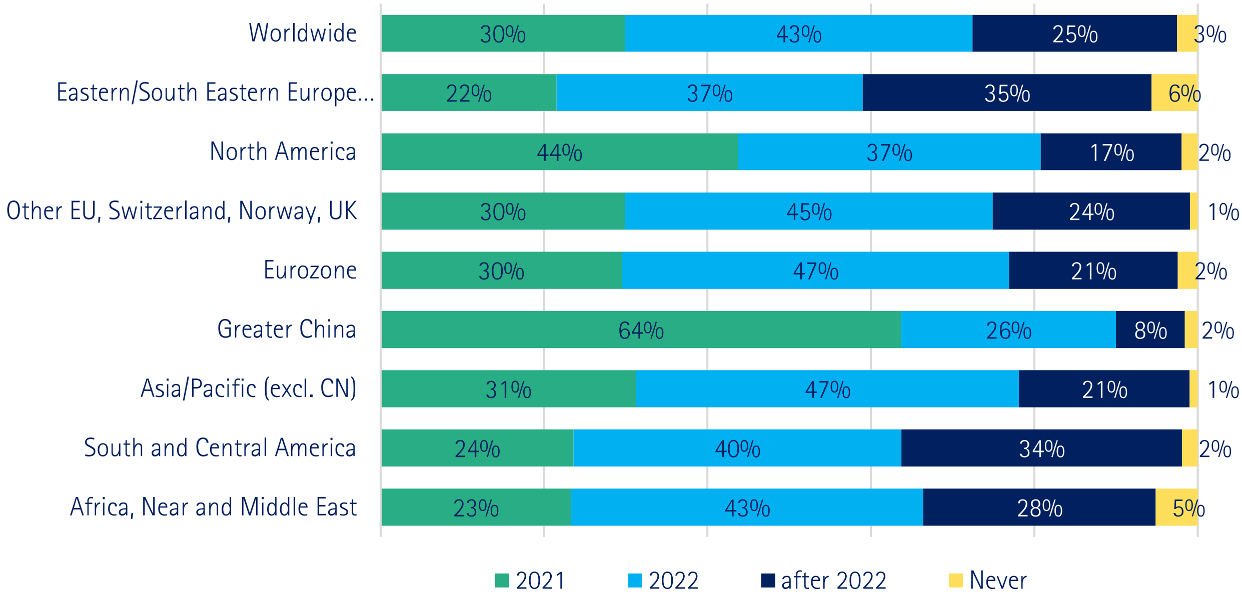
Mixed picture in the MENA region, sub-Saharan Africa and South America

In the Middle East and Africa, 43 percent of companies expect the overall economy to improve, while 22 percent expect it to deteriorate.
German companies are more optimistic than average in Egypt - where 57 percent expect an upswing - and in the United Arab Emirates (70 percent).
Companies in South Africa and Kenya, on the other hand, are more likely to see signs of an economic downturn: while 37 percent of the companies in South Africa expect a worse development, half of the companies in Kenya do.

In South and Central America, the companies' expectations for the economic recovery are balanced. While every second company in Argentina and Venezuela expects a worse development, positive expectations prevail in Brazil and Chile: 35 and 45 percent of the companies respectively expect a better economic situation, and 23 percent each expect a worse one.

Despite economic recovery in large parts of the global economy, companies' assessments show that the impact of the coronavirus pandemic continues to significantly affect business activities and that a return to normality is still a long time coming. On average, 43 percent worldwide expect a sustained economic recovery in their countries in 2022, with a quarter expecting it in 2023 or later.

When do companies expect a sustainable recovery of the economy in their country?



Situation and expectations of German companies abroad

Improved business situation

On average, German companies assess their current business situation at international locations as good as before the start of the coronavirus pandemic: 45 percent assess their situation as good, only 14 percent as poor. The resulting balance of 31 points is 21 points higher than in the previous survey in autumn 2020. Before the crisis, in autumn 2019, the balance was 30 points. However, the business situation of German companies abroad differs between the regions.

In Asia, especially in China, the situation is already better than before the crisis. The assessment of the situation by companies in the other regions of the world, however, is still below the pre-crisis level.

There are also differences between the economic sectors. Business is more positive for industrial and construction companies than for trade and service companies. The balance of good and bad ratings is 35 points in industry and construction, 27 points in trade and 18 points in services.

The mood of small and medium-sized enterprises with less than 100 employees has so far brightened less than that of companies with 100 and 1,000 employees. While one third of the smaller companies rate their situation as good, every second larger company does so.

Business expectations rise significantly

Expectations for German companies' own business abroad have brightened considerably. More than half of the companies expect an improvement in business development over the next twelve months. Only eight percent expect a deterioration. At 44 points, the balance of better minus worse assessments is significantly above the pre-crisis level (autumn 2019: 20 points). Companies in North America, primarily in the USA, have the highest expectations. There, two-thirds expect business to improve and only four percent to worsen. In South and Central America, business expectations have dimmed compared to the previous survey.

Globally, German companies estimate that their own business will develop relatively better in the countries than the local economy. Only in China do companies for the first time assess their own business development somewhat less positively than the economic development.

Companies cautiously resume investment plans

One third of the companies plan to make higher investments in the coming months, 16 percent want to reduce their investments. The last time companies had similarly positive intentions was in spring 2019. At 17 points, the balance of higher and lower investment plans is significantly higher than the balance last determined before the crisis (autumn 2019: three points).

Based on the extremely low investment commitment last year, every second company, on the other hand, is not planning any changes. Due to the coronavirus pandemic and the restrictions on business activities, some investments still have to be postponed or cancelled.
Due to the good business situation and the optimistic economic expectations, companies in China and North America in particular want to expand their investments.

Trading companies tend to be more cautious with their investments, while industrial companies more often plan to increase their investments.

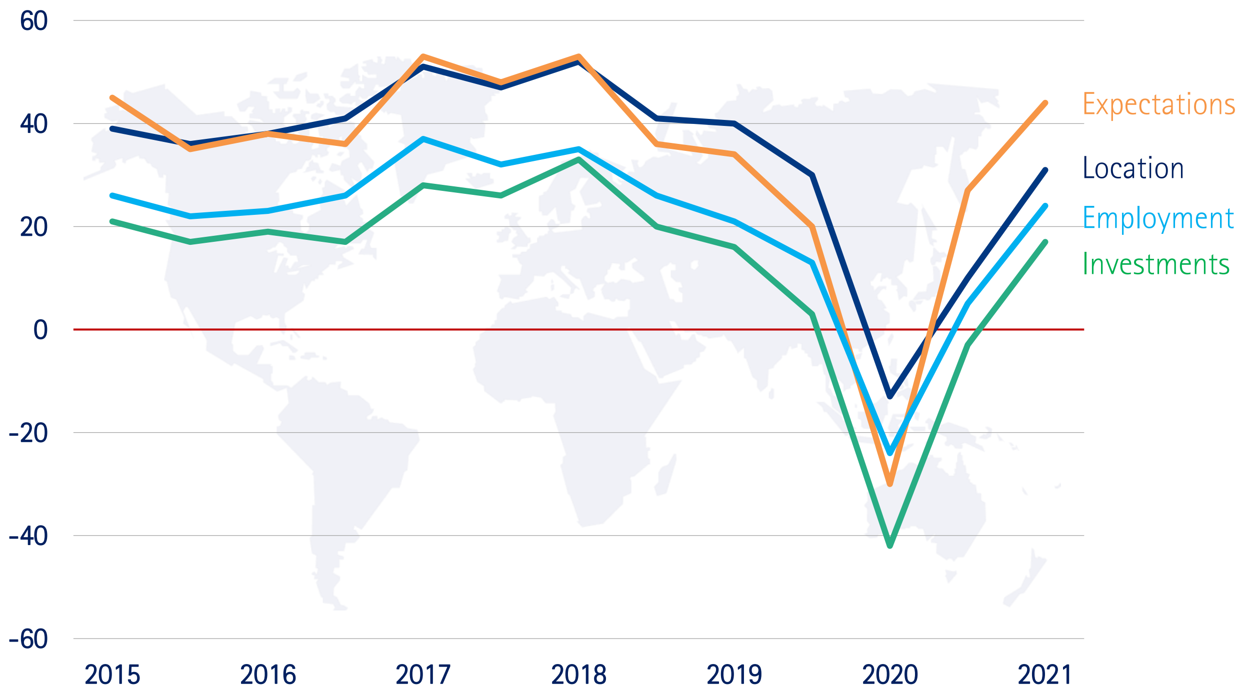
Employment is expanding again

The upswing is also reflected in the employment intentions of German companies abroad. 35 percent intend to hire more staff in the coming twelve months, 11 percent plan to reduce the number of employees. In autumn 2020, one in five companies still expected to cut staff. With a balance of 24 points, employment intentions are also above the pre-crisis level (13 points in autumn 20219). Only in Eastern and South-Eastern Europe as well as Turkey and Russia do companies have lower employment intentions than before the coronavirus pandemic.

Analogous to the investment plans, employment intentions are positive in all sectors of the economy, but particularly pronounced among industrial and construction companies: There, more than one third of the companies plan to hire more staff. In trade, only every fourth company plans to do so.

German companies abroad

Balance in points



Impact of the coronavirus pandemic

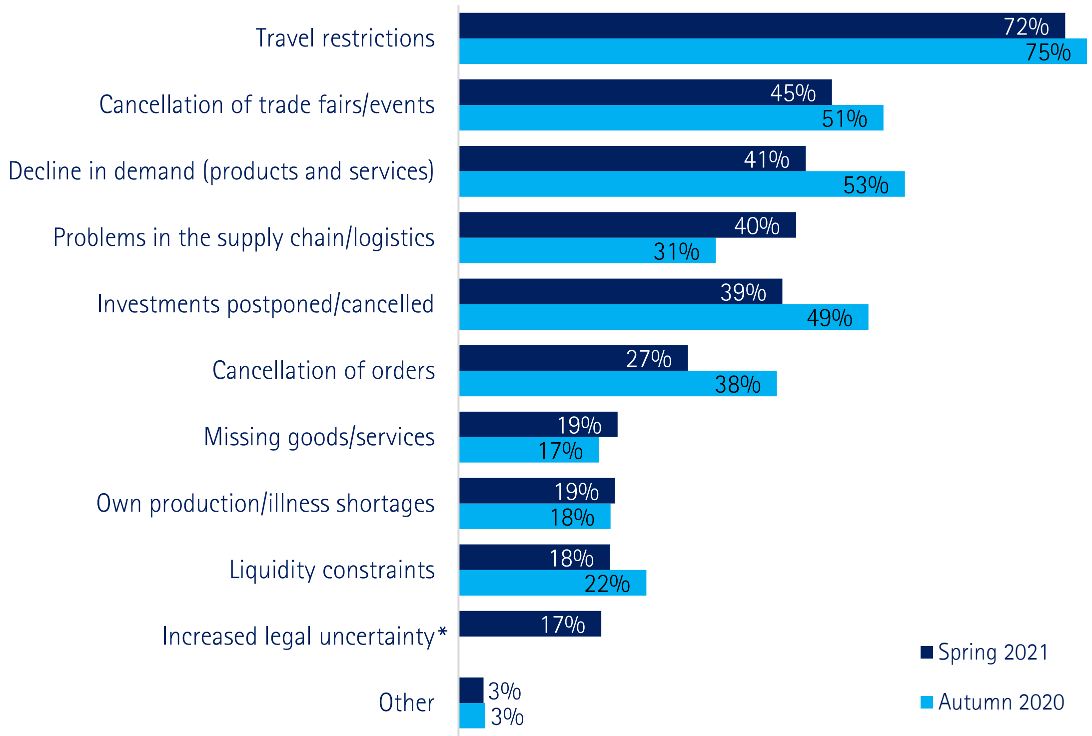
Even though the indicators point to recovery. The impact of the coronavirus pandemic continues to pose major challenges for companies.

72 percent of companies still see their business affected by travel restrictions and 45 percent by cancelled trade fairs and events. So despite digital opportunities, an important part of international business continues to fall away. Companies in Hong Kong, Japan and India most frequently cite travel restrictions as a particular problem. Canceled trade fairs and events, on the other hand, are a business obstacle especially for companies in the Eurozone.

Two out of five companies are experiencing or expect lower demand for their own products and services. In North and Latin America, more than half of the companies share these concerns, in Greater China only a quarter.

Impact of the coronavirus pandemic on companies

Multiple answers possible, *asked for the first time



Supply chain problems in all regions of the world

In recent months, problems in sea freight and a shortage of containers have led to disruptions in world trade. As a result, transport costs have increased significantly and delivery times have lengthened. Thus, in spring 2021, 40 percent of companies worldwide are experiencing problems in their supply chains or logistics. In autumn, it was still 31 percent.

The obstacles are particularly noticeable among industrial companies: 55 percent cite this as a problem.

In addition, 19 percent report a lack of goods and services as well as their own production stoppages or absences due to illness. In industry, even a quarter of the companies have to deal with production or sickness absences.

It is true that companies in all regions of the world are affected by supply chain problems. However, this is particularly common in Asia-Pacific and Greater China, as well as North America.

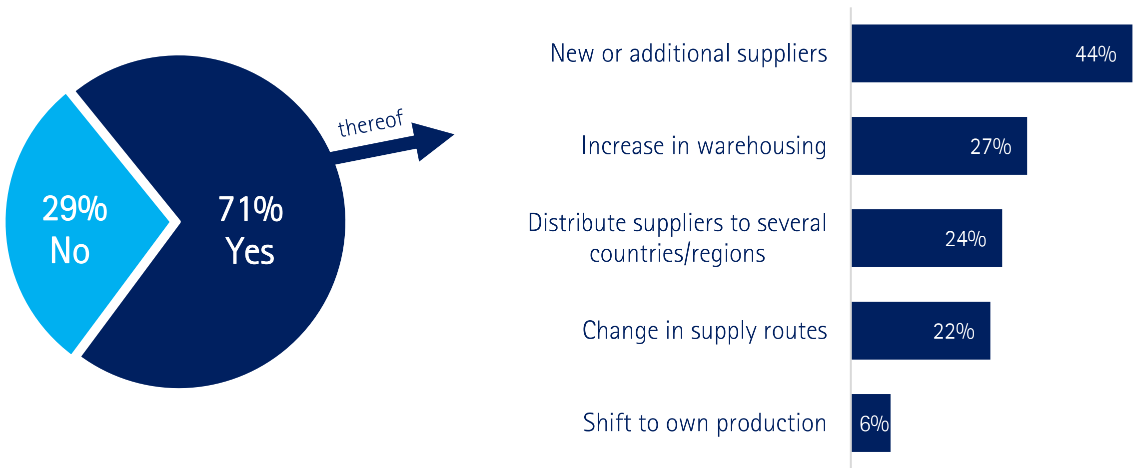
New suppliers, higher stock levels

As a result, 71 percent of companies with supply difficulties are making changes in their supply chains. 44 percent are looking for new or additional suppliers for their products. 27 percent are increasing their stock levels. One fifth of the companies distribute their suppliers in several countries or regions. A change in supply routes has been made or is planned by 22 percent. Six percent of the companies are relocating the production of individual components back to their own company.

Fewer companies than last time, but still 39 percent, see themselves forced to postpone or cancel investments due to the effects of the coronavirus pandemic. A quarter are struggling with order cancellations. The proportion of companies with liquidity bottlenecks has fallen somewhat - but it is still almost one in five (18 percent).

Do you plan to diversify your supply chain?

Multiple answers possible



Risks for German companies abroad

The economic recovery of the global economy is indeed making itself felt by companies. However, every second company still sees the demand for its products as a major business risk. Nevertheless, this is a decrease compared to the previous survey. In autumn, the share was still 63 percent.
Economic policy framework conditions represent an uncertainty for 42 percent of the companies.
For 23 percent of companies, legal certainty is a risk.

Skills shortage is back

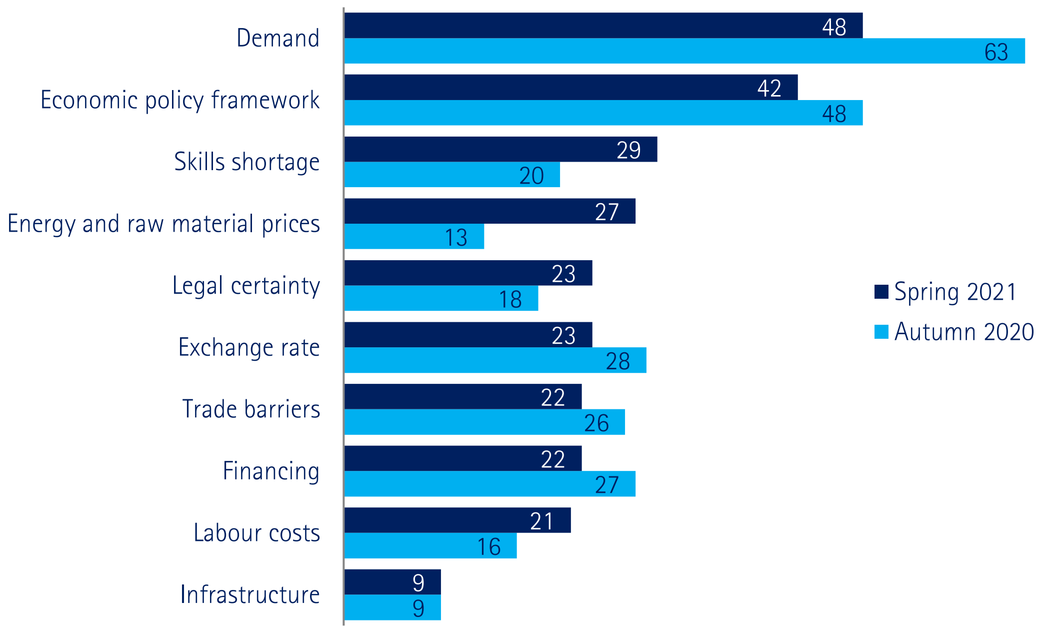
While in the middle of the coronavirus pandemic companies significantly reduced their employment intentions, they are now expanding their plans again. This brings the shortage of skilled workers to the fore again. After 20 percent in autumn, 29 percent of the companies now cite the hurdle of not being able to recruit enough skilled staff. Before the crisis, one third of the companies had regularly mentioned the risk of a shortage of skilled workers. Labour costs are also rising. For every fifth company, this represents an increased burden. Industrial and construction companies mention the lack of skilled workers and increased labour costs more frequently than trade and service companies.

Energy and raw material prices increased

The risk of high energy and commodity prices has become significantly more important. 27 percent of companies see this as a burden on their business activities - more than ever before since the survey began and a jump of 14 percentage points compared to the previous survey. Companies in Greater China (41 percent) and North America (39 percent) are particularly likely to cite this risk.
Increased commodity prices are currently an acute problem. After the slump in the global economy last year, production has risen faster and more strongly than expected. As a result, the high demand for raw materials is leading to bottlenecks and increased prices.

Risks for the global economy in the coming twelve months

in percent, multiple answers possible



Compared to the other risks, exchange rate (23 percent), trade barriers (22 percent) and financing (22 percent) play a slightly smaller role on a global average than recently. Exchange rate risk is mentioned significantly more often by companies in Turkey (86 percent) and Russia (68 percent). Financing risk is particularly relevant for companies in Kazakhstan (48 percent), Iran (48 percent) and Greece (46 percent). Due to Brexit, trade barriers represent an increased business risk for 72 percent of German companies in the UK.

Statistical annex

Evaluation of the results by country

Balance of good/better answers minus bad/less answers in each case

	Current business situation	Business expectations	Economic expectations	Investment intentions	Employment intentions
Worldwide	**31**	**44**	**26**	**17**	**24**
Eurozone	**28**	**42**	**21**	**11**	**17**
Belgium	16	32	16	-17	0
Estonia	26	47	29	26	12
Finland	20	58	10	19	22
Greece	30	52	18	32	27
Ireland	42	48	29	7	16
Italy	35	53	2	32	19
Latvia	46	21	21	29	8
Lithuania	60	53	0	30	38
Netherlands	26	16	42	-10	16
Portugal	21	56	3	17	20
Slovakia	30	18	3	13	10
Slovenia	38	26	19	0	16
Spain	26	45	29	16	11
Other EU, Switzerland, Norway, UK	**36**	**37**	**11**	**17**	**28**
Bulgaria	43	34	-8	-2	18
Denmark	27	63	63	21	7
Croatia	34	35	-10	20	24
Norway	32	44	40	6	26
Poland	50	22	-36	10	23
Romania	27	26	1	5	13
Sweden	48	63	63	37	43
Switzerland	30	33	48	-4	33
Czech Republic	42	35	2	16	22
Hungary	33	32	17	25	29
United Kingdom	26	42	28	25	34
Eastern/South Eastern Europe (without EU), Russia, Turkey	**40**	**35**	**0**	**7**	**19**
Albania	-15	4	-17	-6	-13
Bosnia and Herzegovina	17	29	-32	20	27
Kazakhstan	45	35	19	7	13
Kosovo	19	39	0	27	29
Macedonia	8	6	-39	-10	6
Russian Federation	38	49	20	4	12
Serbia	35	39	5	20	36
Turkey	67	31	-6	4	19
Ukraine	35	26	-3	4	21
Belarus	36	9	-59	-3	18

	Current business situation	Business expectations	Economic expectations	Investment intentions	Employment intentions
Greater China	**50**	**43**	**64**	**29**	**35**
China	51	42	65	30	36
Hong Kong	38	19	10	-6	-29
Taiwan	40	63	72	33	44
Asia/Pacific (without China)	**25**	**50**	**33**	**14**	**18**
India	35	57	56	33	27
Indonesia	11	39	29	5	14
Japan	27	56	38	20	17
South Korea	-9	30	52	-18	17
Malaysia	14	46	57	24	21
New Zealand	65	39	-35	14	26
Philippines	-8	20	-24	-18	-14
Singapore	43	52	76	21	24
Thailand	28	53	9	4	18
Vietnam	45	74	61	43	42
North America	**29**	**63**	**48**	**28**	**43**
Mexico	7	49	-13	0	3
USA	37	69	66	37	58
South and Central America	**21**	**42**	**1**	**9**	**9**
Argentina	24	32	-30	5	-3
Bolivia	0	45	-26	-9	-8
Brazil	36	30	13	25	25
Chile	34	52	23	20	18
Ecuador	3	46	-12	-10	-10
Colombia	22	66	17	-8	7
Peru	31	60	23	9	6
Venezuela	-37	34	-32	-8	-3
Africa, Near and Middle East	**17**	**48**	**21**	**22**	**18**
Egypt	36	60	46	30	27
Algeria	-41	-9	-27	-25	-12
Iran	17	43	-3	26	29
Kenya	3	41	-29	-10	-9
South Africa	10	35	-14	8	-10
Tunisia	0	43	1	38	25
United Arab Emirates	22	70	65	-11	13

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