The air is getting thinner

DIHK economic survey at the Chambers of Commerce and Industry

Fall

2018






DIHK Deutscher Industrie- und Handelskammertag

IHK Deutsche Industrie- und Handelskammern

DIHK Berlin:
Postal address: D-11052 Berlin | Visitors address: Breite Straße 29 | D-10178 Berlin-Mitte
Tel. +49-30-20308-0 | Fax +49-30-20308-1000

DIHK Brussels:
Postal and Visitors address: Avenue des Arts 19 A-D | B-1000 Bruxelles
Tel. +32-2-286-1611 | Fax +32-2-286-1605

Web: www.dihk.de
Facebook: www.facebook.com/DIHKBerlin
Twitter: http://twitter.com/DIHK_News

Responsible Department for International Economic Policy

Dr. Ilja Nothnagel, Sophia Krietenbrink, Dr. Kathrin Andrae, Dr. Marc Evers, Jakob Flechtner, Emanuel Weishäupl

Layout Friedemann Encke, Sebastian Titze

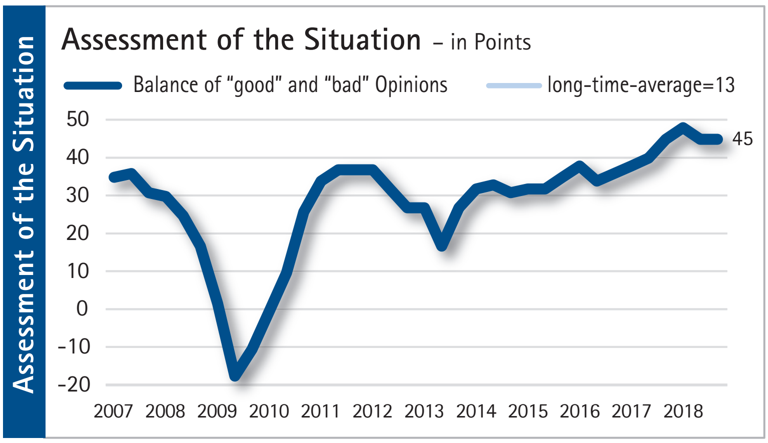
Pictures www.Thinkstock.de / www.gettyimages.com

October 2018

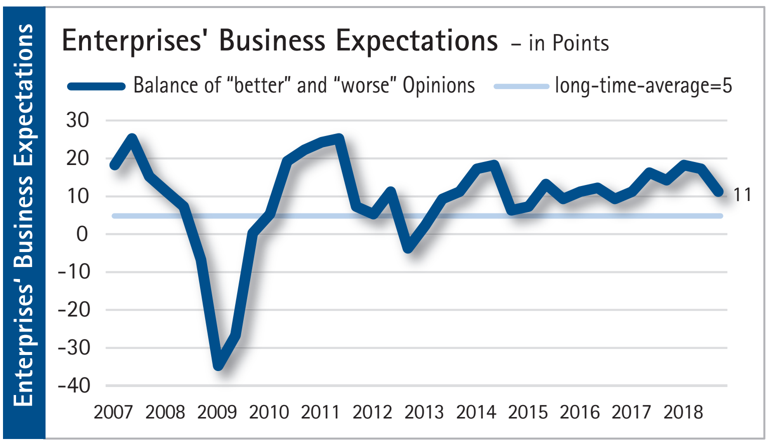
Table of Content

Germany at a Glance

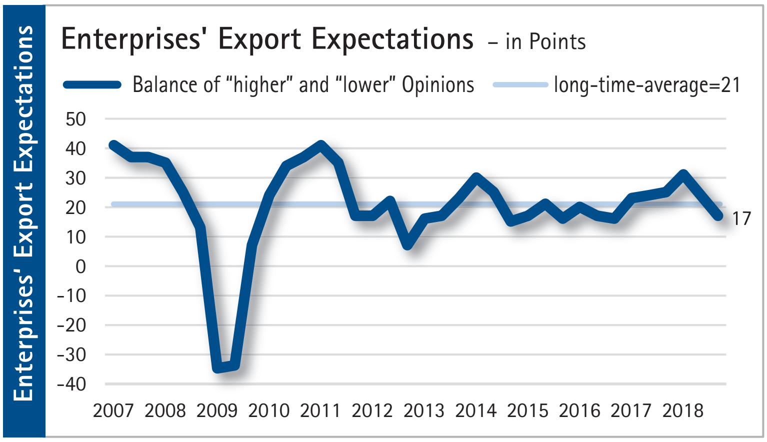
Fall 2018



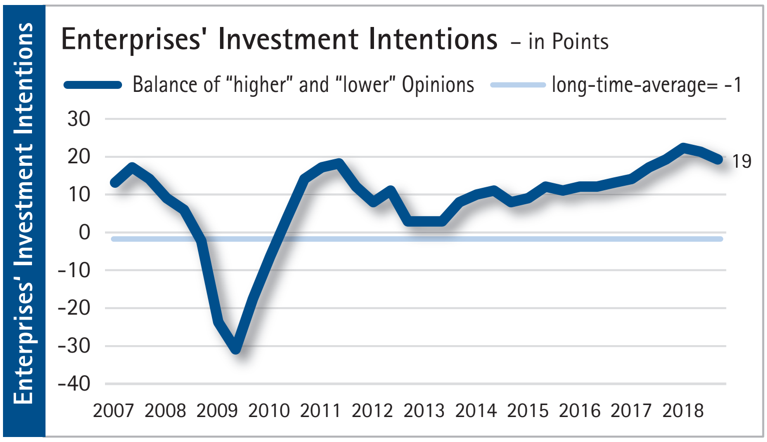
The German economy is still running at a high level. The construction industry assesses its **economic situation** more positively than ever before. Trade and service providers are also benefiting from the strong domestic demand. However, the picture is not completely unclouded: Manufacturing industry and especially large companies in all sectors already notice that the wind is becoming rougher at the international level. They are making cutbacks in the assessment of their business situation in autumn 2018.



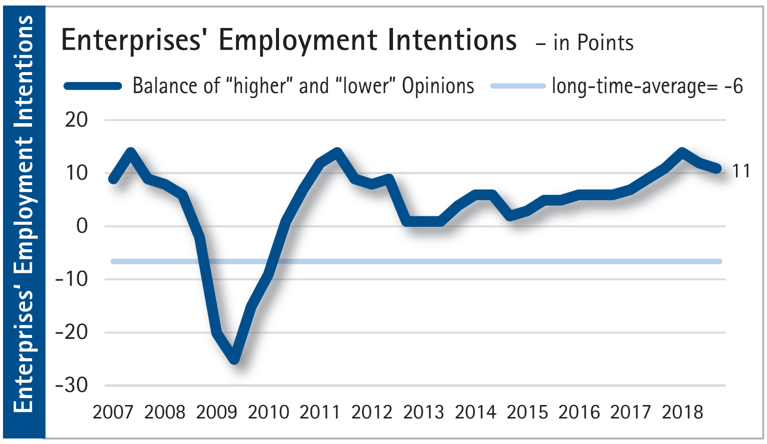
Companies are looking at their future business with a greater degree of caution – the strongest deterioration in **business expectations** in four years. This is particularly evident in manufacturing industry. Companies are feeling obstacles and risks even more strongly than in early summer. The greatest risk of the shortage of skilled workers again gains in importance. This is being compounded by more difficult framework conditions in terms of economic policy on national and international level. The clouded international prospects of German companies are the most significant factor. In terms of energy and raw material prices - due to higher oil and gas prices - further burdens will be added to the high costs of electricity in Germany, which continue to rise in the foreseeable future.



Expectations for exports have suffered a significant setback and are now below their long-term average. The distortions in trade policy are unsettling companies and leaving their mark. Companies fear that the rampant trade conflicts, especially between the USA and China, will have a serious impact on trade over the next twelve months. Against the background of the high level of uncertainty, in particular producers of capital goods producers expect their international business to flatten out. In many important sales markets there are signs of a slower pace of economic growth. In the near future, the emerging markets will be at least partially absent as growth drivers.



The increased level of uncertainty for companies is also reflected in a slight slowdown in **investment** momentum. Fewer companies than in early summer intend to expand their budgets. However, the plans remain at a solid high level overall. In addition to the favorable financing conditions, this is due to the high capacity utilization in many areas as well as the digitization of the operations. Capacity expansions and product innovations remain the most important investment motives in autumn 2018. At the current margin, the proportion of companies planning to invest in rationalization measures is also rising slightly. This shows the lack of skilled workers that has long been deplored.



The significant decline in business expectations has so far only been reflected to a limited extent in the **employment intentions.** Employment plans decline only slightly compared to early summer. Especially in times when skilled workers are scarce, companies are holding on to their qualified teams. In spite of cautious economic expectations and concerns about rising labor costs, the employment growth continues in the fourteenth year, albeit at a somewhat slower pace.

Current business situation

How do you assess the current situation of your company?

Current situation: Strong domestic market, exports with weaknesses

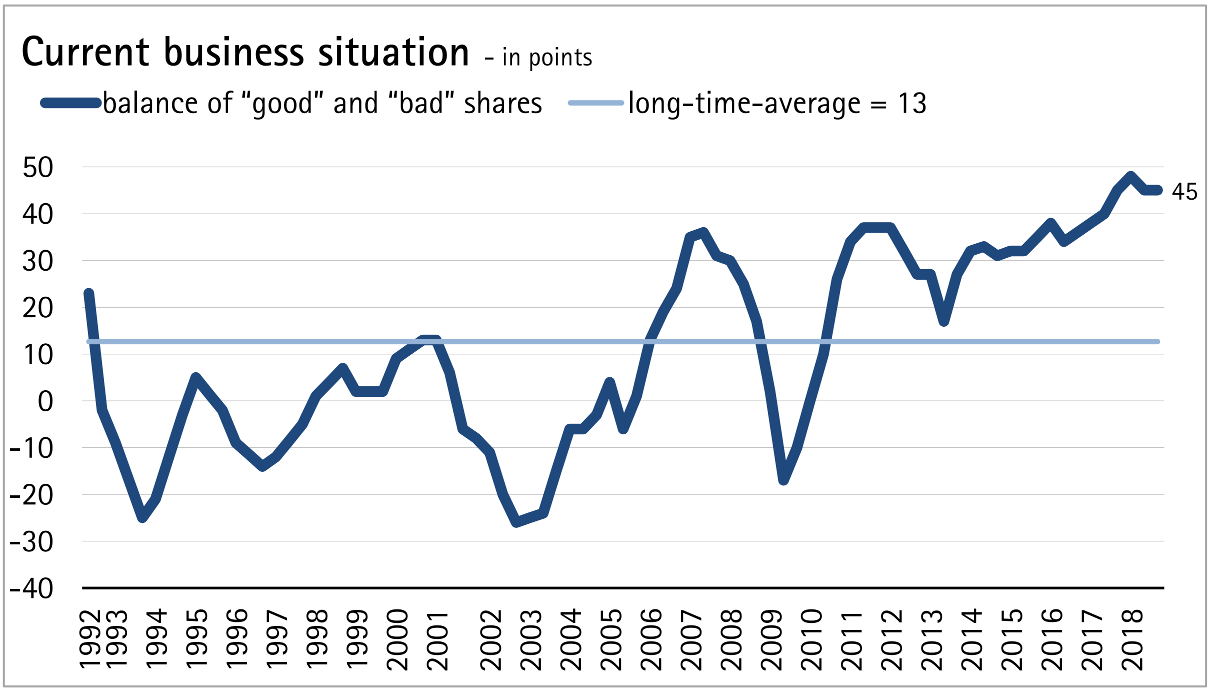
The German economy is still running at a high level. The construction industry assesses its **economic situation** more positively than ever before. Trade and service providers are also benefiting from the strong domestic demand. However, the picture is not completely unclouded: Manufacturing industry and especially large companies in all sectors already notice that the wind is becoming rougher at the international level. They are making cutbacks in the assessment of their business situation in autumn 2018.

Business situation: stable with cutbacks

For 52 percent of companies, business is going well, and only 7 percent are dissatisfied. With a balance of 45 points from the "good" and "bad" proportions, the assessment of the business situation remains well above the long-term average of 23 points. There is no overall change compared to early summer 2018. When looked at in detail, however, there are significant shifts between sectors, company sizes and regions. This is where the current challenges for business activity become apparent. On the one hand, there are bottlenecks, particularly in the availability of skilled workers, but also due to high capacity utilization. On the other hand, many companies are experiencing a decline in demand from abroad and higher energy costs.

Construction boom continuing, but a damper for the manufacturing industry

A comparison of the individual branches of the economy reveals a marked slowdown in business in the manufacturing sector (47 after 52 points). The assessment for current business in the construction industry is quite different, reaching a new high with a balance of 70 points (most recently: 62 points). Only two percent of construction companies assess their business situation as "bad". Trade remains at a balance of 30 points, the service providers increase their assessment by two points to 46 and are thus able to almost match the record value of the beginning of the year. Overall, this shows a split in development: While the sectors heavily dependent on domestic demand were able to maintain and in some



Assessment of the situation (in percent, balance in points)

	good	satisfactory	bad	balance
Fall 2016	44	48	8	36
February 2017	46	46	8	38
Early Summer 2017	48	44	8	40
Fall 2017	51	43	6	45
February 2018	54	40	6	48
Early Summer 2018	51	43	6	45
Fall 2018	52	41	7	45

Assessment of the situation (balance in points)

	Manufacturing industry	Construction sector	Trade sector	Service sector	All
Fall 2016	32	54	26	39	36
February 2017	36	52	28	40	38
Early Summer 2017	44	56	28	39	40
Fall 2017	48	64	31	45	45
February 2018	54	62	35	47	48
Early Summer 2018	52	62	30	44	45
Fall 2018	47	70	30	46	45

cases even expand their very good business situation, the more export-oriented industry had to shift down a gear.

Larger companies under pressure

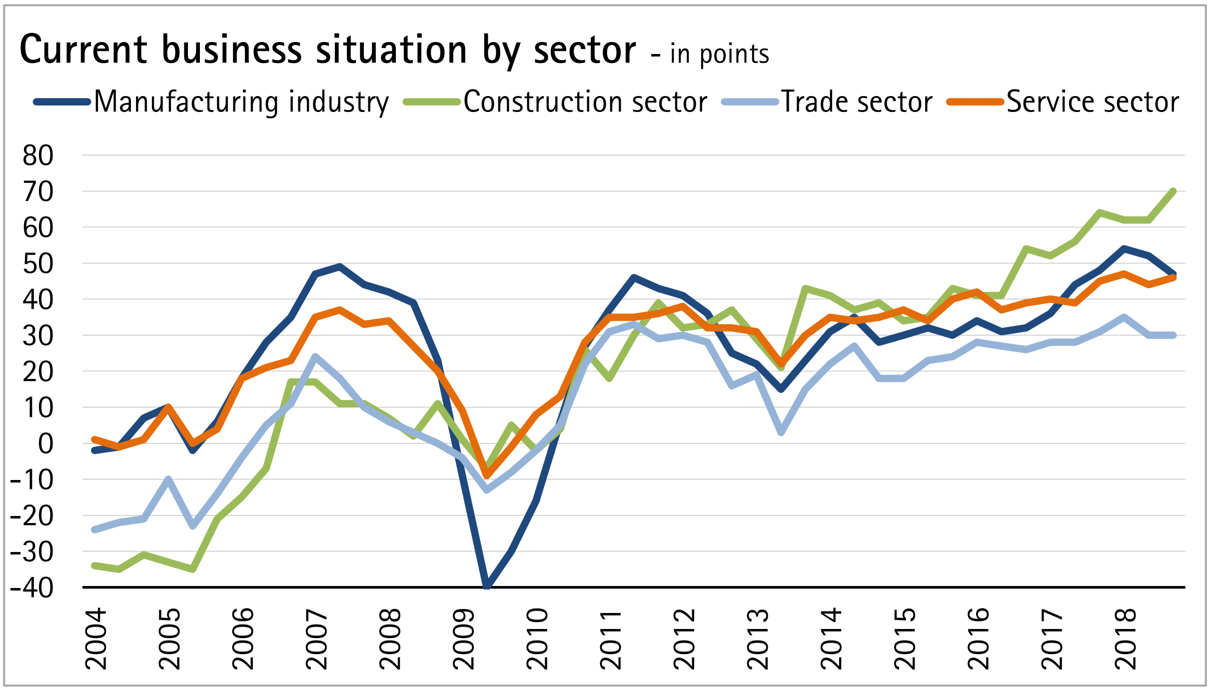
The slowdown in international business is also reflected in the comparison according to company sizes. This means that smaller companies can easily improve their business situation once again. Companies with more than 200 employees, on the other hand, assess their situation as worse than before, and companies with more than 1000 employees do so by as much as 6 points on balance (47 after 53 points).

Economy in the east on the rise ...

While on average the business situation of companies in the North, West and South has hardly changed at all, companies in the East are assessing their current business as even better than before (51 after 46 points). The main driver of this development is the construction industry with a clear plus of 11 points (71 after 60 points). On the other hand, the service sector in the East was able to improve its business activity more significantly than in other regions (53 after 45 points), especially the tourism sector, which is important in the East.

... thanks also to the summer of the century

The long, dry summer of 2018 was positive for a whole range of industries. Sectors such as the hospitality industry (46 points) and beverage manufacturers (49 points), which have never assessed their business situation better, have benefited in particular. But the construction industry was also able to take advantage of the stable weather to work without interruption. This applies above all to building construction, which has improved its business situation by 9 points year-on-year to a new maximum of 71 points.


Current business situation by sector - in points
Manufacturing industry
Construction sector
Trade sector
Service sector
80
70
60
50
40
30
20
10
0
-10
-20
-30
-40
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018

Business expectations

How do you expect your company to develop in the coming 12 months?

The air is getting thinner

Companies are looking at their future business with a greater degree of caution – the strongest deterioration in **business expectations** in four years. This is particularly evident in manufacturing industry. Companies are feeling obstacles and risks even more strongly than in early summer. The greatest risk of the shortage of skilled workers again gains in importance. This is being compounded by more difficult framework conditions in terms of economic policy on national and international level. The clouded international prospects of German companies are the most significant factor. In terms of energy and raw material prices - due to higher oil and gas prices - further burdens will be added to the high costs of electricity in Germany, which continue to rise in the foreseeable future.

Confidence waning

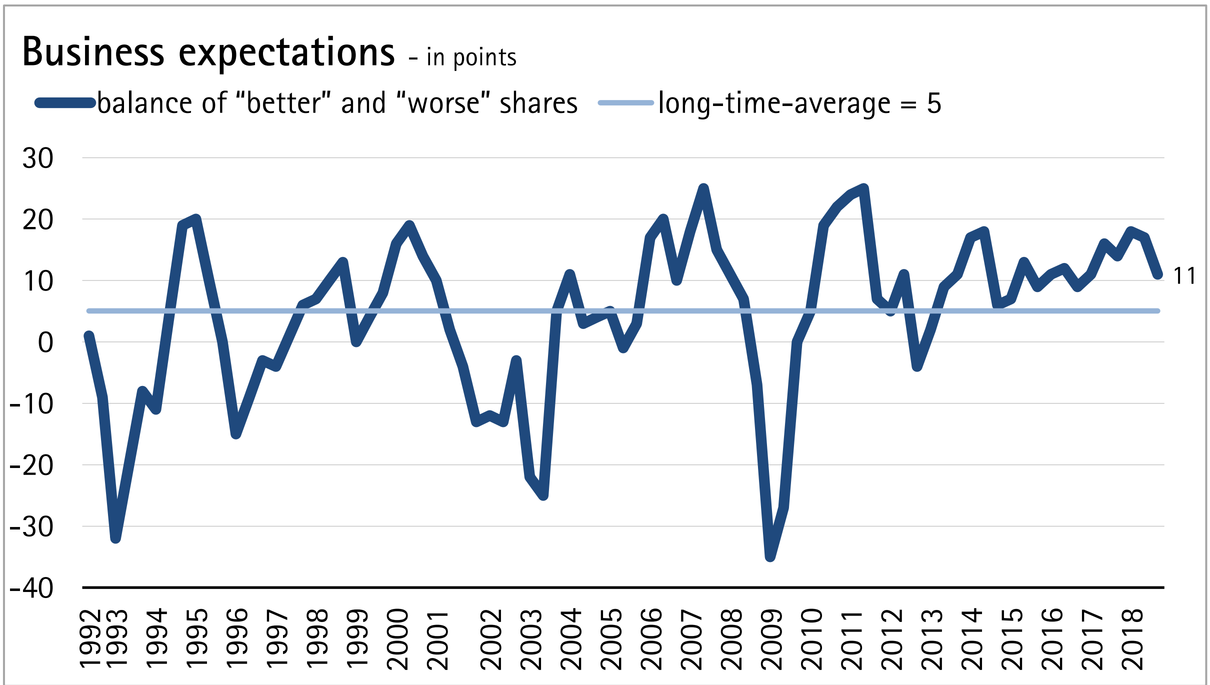
Companies are noticeably less optimistic about their business development than they were until recently. Only 22 percent of companies expect their situation to show further improvement (early summer: 26 percent), while eleven percent now expect it to worsen (most recently nine percent). The expected balance as the difference between these proportions shows therefore a significant decline (eleven after 17 points most recently). All in all, however, confidence still prevails and the balance is - still - well above the long-term average (five points). Some sectors, such as construction, the beverage industry and accommodation providers, tend to be more cautious about their coming business in fall. However, a year-on-year comparison shows an improvement in expectations.

Uncertainty on the rise

The vast majority of companies are expecting development to remain constant. The proportion rose again slightly compared to the previous survey and reached an all-time high of 67 percent. For comparison: In the 1990s, the proportion of "stable" business expectations had still been 50 percent. In view of the rapid pace of change - for example in global trade policy or due to digitization - and the unclear outcome of Brexit, it is becoming more difficult for companies to predict a clear trend in their business development.

Concerns about international politics ...

More companies than of late see a risk for business development in the economic environment (39 after 37 percent). This development is particularly evident in manufacturing industry (39 after 36 percent). Companies cite above all their concerns about trade



Business expectations (in percent, balance in points)

	better	about equal	worse	balance
Fall 2016	22	65	13	9
February 2017	24	63	13	11
Early Summer 2017	27	62	11	16
Fall 2017	25	64	11	14
February 2018	27	64	9	18
Early Summer 2018	26	65	9	17
Fall 2018	22	67	11	11

policy. Many see the trade conflicts in the USA and their impact on the global economy as a risk to their business. The introduction of customs duties is only the tip of the iceberg. The US sanctions against Iran and Russia are also mentioned as a risk. The tense situation in Turkey is a further factor.

In addition to this, Brexit is becoming more prominent as a risk factor. It remains unclear what relations between the EU and the UK will look like in the coming years. The scenario of a disorderly Brexit is causing uncertainty. Overall, "uncertainty" is a frequently cited keyword.

... and domestic burdens

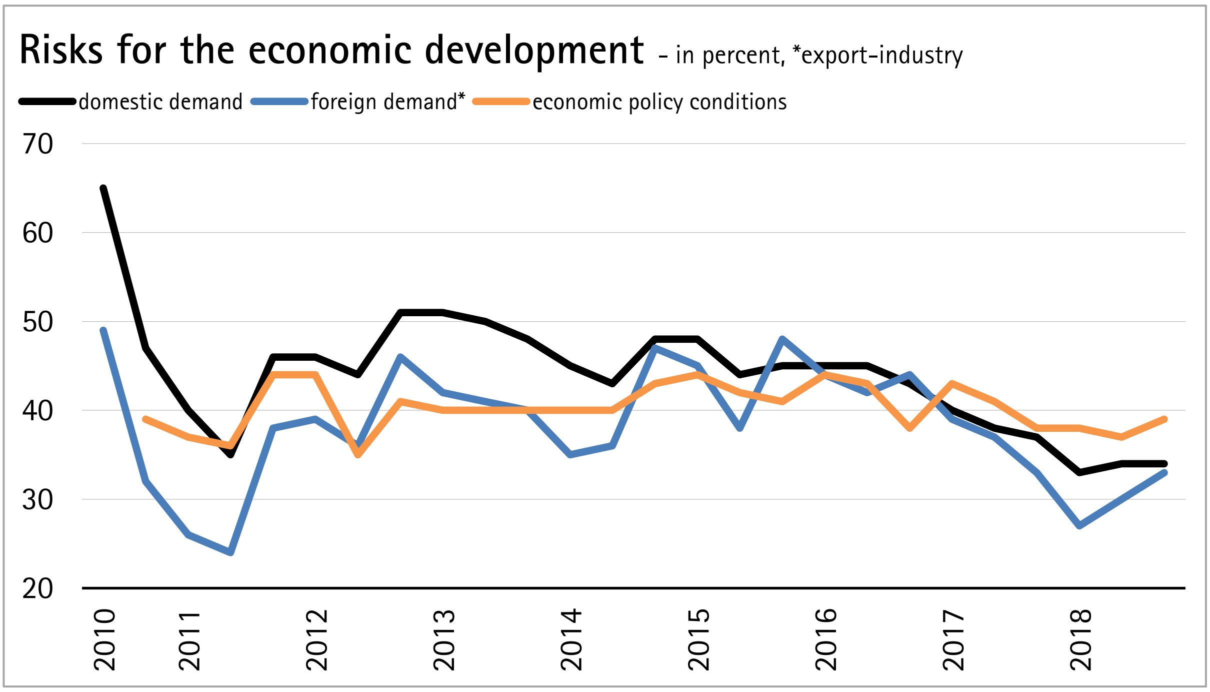
Even with regard to economic policy in Germany, companies are by no means free of worries. Bureaucracy is particularly often cited as a risk factor - often in the form of increasing expenditure and higher costs for fulfilling official requirements. Bureaucratic processes, however, are not only perceived as annoying, but also to a certain extent as a concrete restriction of entrepreneurial freedom. Companies report, for example, on lengthy approval procedures for building applications or excessive labeling requirements for foodstuffs. In this way, selective relief is often cancelled out by new regulation. For this reason, the German federal government has committed itself to a bureaucratic brake at national level with "One in, one out". At the same time, however, additional regulations, e.g. in the areas of environmental protection, consumer protection and data protection, are being adopted at the European level - with German participation. Many companies are also concerned about labor market policies and fear negative effects on their businesses. The tax burden is also moving more into focus against the backdrop of relief in other European countries, the USA and China.

Shortage of skilled workers still a braking factor

More than sixty percent of companies cite the shortage of skilled workers as a risk to their business activities. This means that the topic is becoming increasingly important from the company's point of view (62 after 61 percent). The lack of suitable personnel often means an additional burden for the existing workforce. In the worst case, even supply must be restricted or orders rejected. In case of doubt, moreover, the entrepreneurial innovation potential suffers if the necessary qualifications, e.g. for digitization, are lacking. All of this diminishes business prospects and growth.

Risk of energy and commodity prices: Through the world market ...

The nationwide increase in the prices of energy raw materials is increasingly becoming an economic risk for the German economy. The high oil inventories of the low-price phase are increasingly being depleted. In addition, uncertainty about the future supply situation is increasing. US sanctions are already ensuring that less Iranian oil reaches the world market. Together with supply problems in Venezuela and the still strong demand, this is leading to high oil and gas prices. The market value of a barrel of Brent in September 2018 was around 45 percent higher than in the same month last year. This hits the German economy in the form of rising costs, e.g. for chemical raw materials and for fuels and heating fuels. In particular for the transport industry, the construction industry and some intermediate companies - for example in the fields of glass, ceramics, stone processing or metal production and processing - the price increases are a cause of concern. Rising prices are also reducing the consumption possibilities of



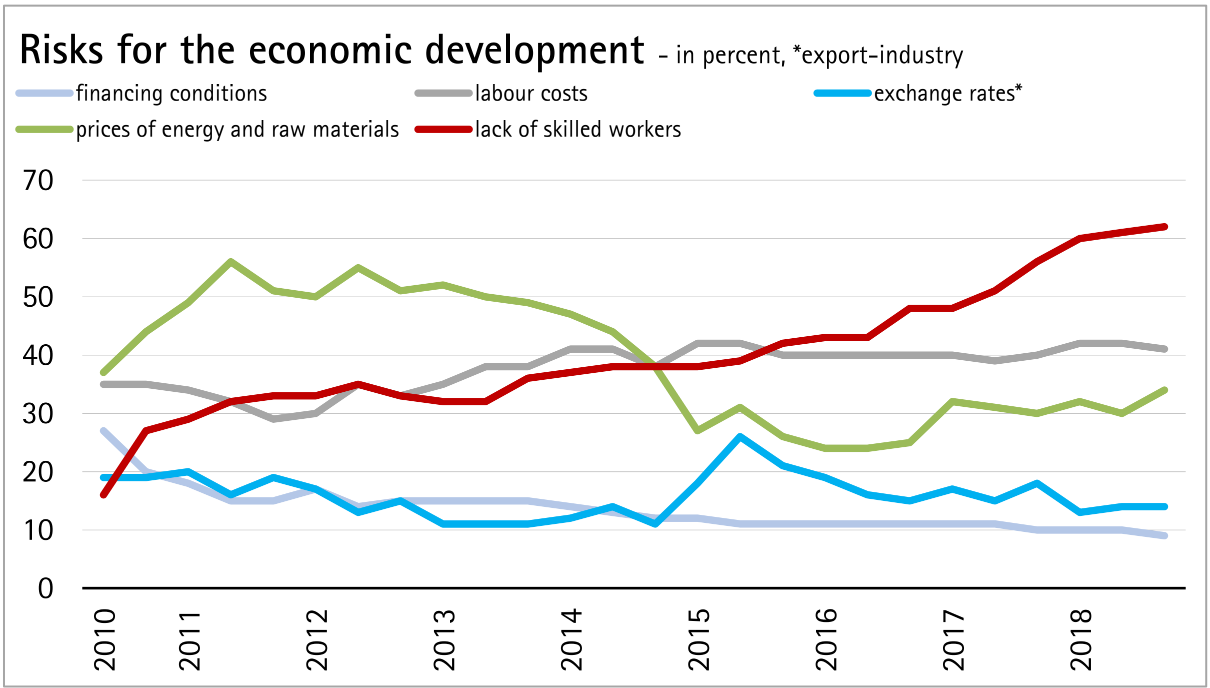
Risks for the economic development (in percent; *Manufacturing Industry)

	domestic demand	foreign demand*	financing condi-tions	labor costs	lack of skilled workers	exchange rates*	prices of energy and raw materials	economic policy conditions
Fall 2016	43	44	11	40	48	15	25	38
February 2017	40	39	11	40	48	17	32	43
Early Summer 2017	38	37	11	39	51	15	31	41
Fall 2017	37	33	10	40	56	18	30	38
February 2018	33	27	10	42	60	13	32	38
Early Summer 2018	34	30	10	42	61	14	30	37
Fall 2018	34	33	9	41	62	14	34	39

the consumers. Accordingly, the proportion of companies that see a current business risk in the development of energy and raw material prices is rising significantly (34 after 30 percent in early summer 2018). Compared to 2016, when companies benefited across the board from lower oil and gas prices (risk rating fall of 2016: 25 percent), the energy price situation for the economy has thus completely reversed.

... but also home made

In manufacturing industry, every second company now sees energy and raw material prices as an obstacle to economic growth (50 after 47 percent in early summer). The main reason for this high value is the relatively high burden on local companies in terms of electricity prices. It is especially in manufacturing industry that the high allocations and levies on the electricity price, in particular the EEG allocation, represent a cost disadvantage in comparison to competitors from abroad. In no other EU country are the electricity costs for medium-sized industrial companies as high as in Germany. And on the one hand, there is selective relief with respect to the EEG levy, while network charges will rise and CO2 certificate prices will rise significantly, on the other. Electricity prices are therefore expected to rise further in 2019. All in all, the burdens of the important social issue of the "energy transition" are being passed on



Business expectations (balance in points)

	Manufacturing industry	Construction sector	Trade sector	Service sector	All
Fall 2016	13	5	7	8	9
February 2017	17	11	8	10	11
Early Summer 2017	21	18	13	14	16
Fall 2017	18	8	12	12	14
February 2018	24	15	12	16	18
Early Summer 2018	20	19	10	17	17
Fall 2018	12	9	7	11	11

to too great an extent to the economy. Meanwhile, more companies see a risk than an opportunity in the energy transition1. Prospects for cost containment are not discernible for the time being.

Domestic demand remains strong ...

The good employment situation continues to boost domestic demand. Furthermore, only 34 percent of companies see this factor as a risk for their business development - a low value in a long-term comparison. Because of the coming winter, the construction industry estimates its expectations winter to be worse than recently, but better than last fall (nine after eight points). Therefore, the construction boom is set to continue. In a long-term comparison, the retail sector is relatively optimistic about its business (five after six points), although the impetus is no longer as strong at the current margin.

... but a slowdown in the industrial economy leaves its mark

Confidence in manufacturing industry is waning significantly (expectation balance: twelve after 20 points). Due to the strong export orientation, the lower work rate and the uncertainty in foreign trade hit this branch of the economy particularly hard. Related sectors are also feeling the effects of the weak economic pace in manufacturing industry. For example, the transport industry (one point after 13 points) evaluates its prospects noticeably more cautiously, and business-related service providers (19 after 23 points) are also lowering their sights.

[1] Cf. IHK-Energiewende-Barometer 2018

Export expectations

How do you expect exports to develop for your company in the coming 12 months?

Exports running out of breath

Expectations for exports have suffered a significant setback and are now below their long-term average. The distortions in trade policy are unsettling companies and leaving their mark. Companies fear that the rampant trade conflicts, especially between the USA and China, will have a serious impact on trade over the next twelve months. Against the background of the high level of uncertainty, in particular producers of capital goods producers expect their international business to flatten out. In many important sales markets there are signs of a slower pace of economic growth. In the near future, the emerging markets will be at least partially absent as growth drivers.

Below-average momentum

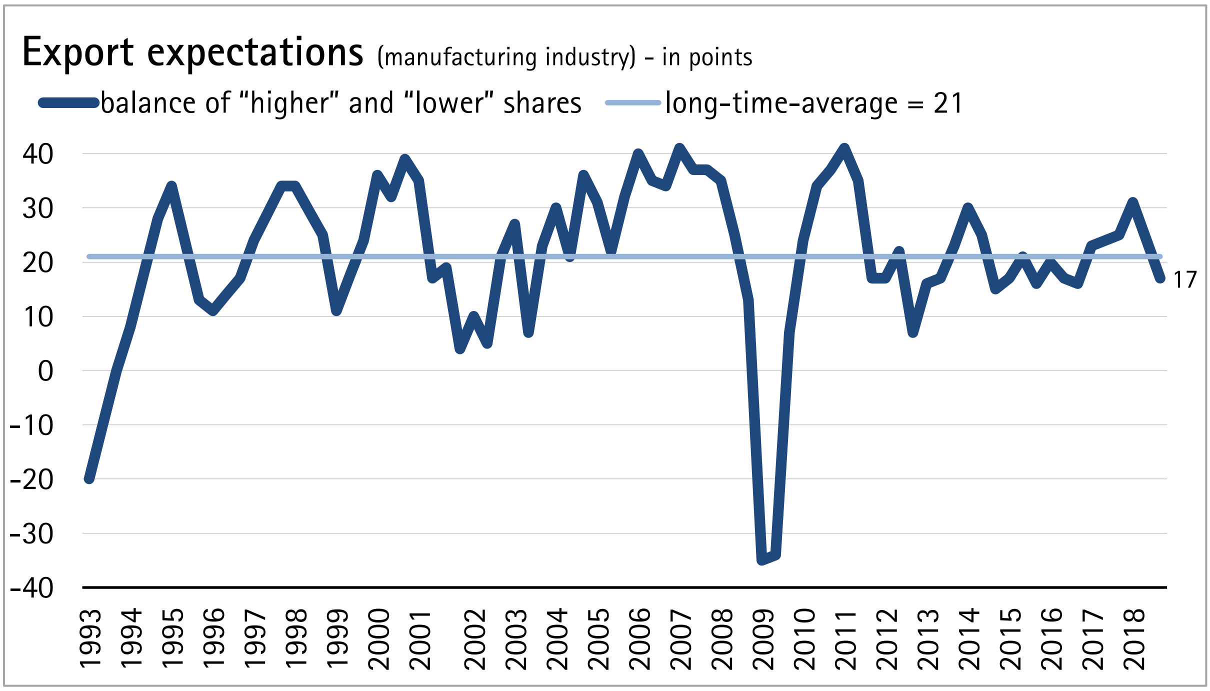
The export expectations of companies are dipping considerably. Only 30 percent of companies still expect exports to rise. At the beginning of the year this figure was 38 percent. 13 percent, on the other hand, are expecting declines. This means that the proportion of companies with "higher" exports still clearly predominates. At 17 points, however, the resulting balance is well below the long-term average of 21 points and the lowest it has been since fall of 2016 (early summer: 24 points).

Protectionism on the rise

The fierce disputes in international trade policy are leading to considerable uncertainty among companies. At 33 percent, the business risk of foreign demand is also being mentioned much more frequently than in early summer (then 30 percent). The proportion of industrial companies that assess the economic policy environment as a business risk has increased by three percentage points (39 percent after 36 percent). This is the highest growth in a comparison of economic sectors. The term "trade policy" most frequently appears in the free text responses of companies.

Measures and countermeasures in trade policy are taking place at an unprecedented rate. The EU and the USA are currently negotiating trade facilitation measures. However, punitive tariffs on steel and aluminium and EU countermeasures are in force. Car tariffs are also not yet off the table for good.

In addition to the direct consequences, companies are particularly concerned about the braking effects on global growth. The USA and China together account for a good third of world economic output and



Export expectations (industry; in percent; balance in points)

	higher	about equal	lower	balance
Fall 2016	29	58	13	16
February 2017	34	55	11	23
Early Summer 2017	33	58	9	24
Fall 2017	34	57	9	25
February 2018	38	55	7	31
Early Summer 2018	33	58	9	24
Fall 2018	30	57	13	17

a fifth of world trade. If economies are adversely affected by import duties, this would have a perceptible effect worldwide. At present, around half of China's exports to the USA are already affected by punitive tariffs.

In addition to the spiral of conflict between the USA and China, the future role of the World Trade Organization (WTO) is also being questioned. The important sales markets of the German export economy outside the EU are only connected to Europe by WTO rules - USA, China, Russia, Brazil, etc. This uncertainty is also reflected in the slower pace of world trade.

Emerging markets under pressure

In addition to this, the higher interest rates of the US Federal Reserve are increasing the pressure on the emerging markets. The special economic situation in the USA as a result of tax relief also makes further interest rate moves appear likely. Capital that could be invested in these states is now finding its way to the USA. These effects are exacerbated by the increased uncertainty resulting from US trade conflicts and by homemade (economic) political risks. As a result, the euro has also appreciated against many emerging market currencies. This is likely to make German products more expensive in these countries and thereby dampen demand.

Global economy putting on the brakes

The foreign trade environment has deteriorated in recent months. The economic crises in Argentina and Turkey are a clear indication of the risks to the global economy. Overall, the pace of economic activity has slowed globally. In Europe, having caught up after the crisis, many countries in the euro zone are moving towards a more subdued growth path. The question is over Italy, whose economic policy course is currently unpredictable. On the positive side, we still see the dynamic economic development in Central and Eastern European EU states, in the USA and the still solid development in China. A strong growth process is also occurring in many emerging Asian countries.

Oil prices as further burden

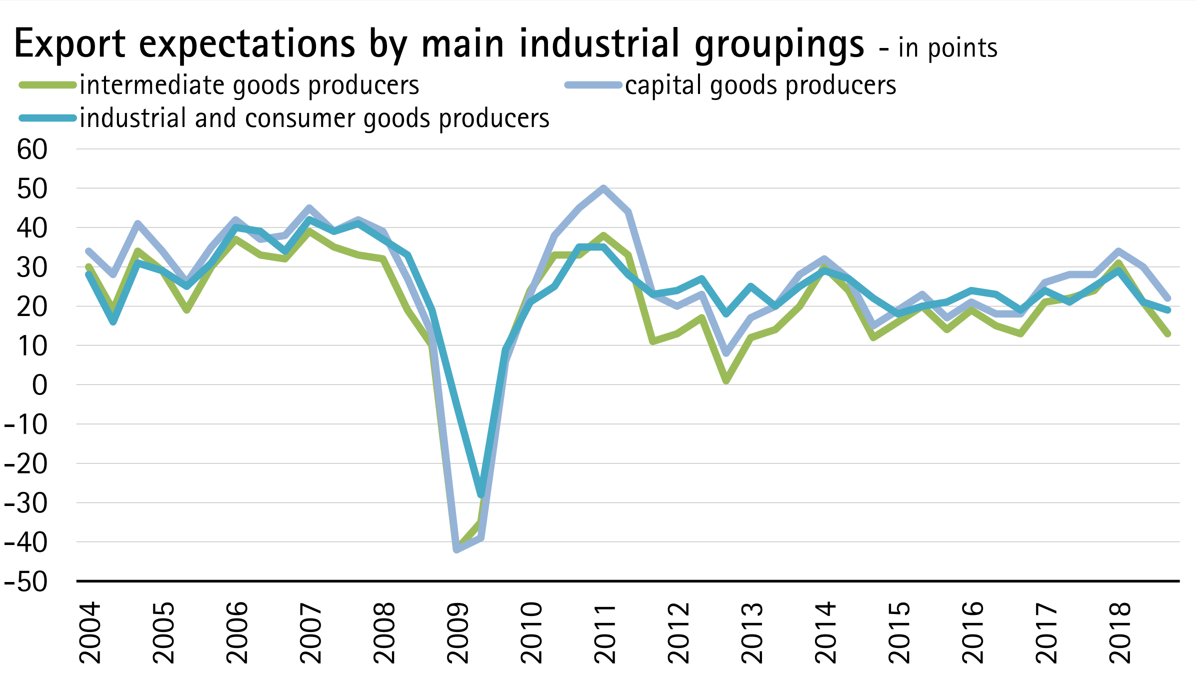
The increased oil price not only leads to high raw material and material costs for companies in Germany, but also acts as a brake on the global economy. This is all the more true because it is not so much the demand which is the cause, but rather constraints and uncertainties on the supply side. In the oil-importing countries, imports are becoming more expensive. This means purchasing power losses for both consumers and companies. Customers of German companies also have less money to spend on products "Made in Germany". Particularly in oil-dependent developing and emerging countries - such as Turkey - price rises could also cause currency devaluations, as demand for petrodollars rises. This is further weakening the economy. It is true that individual partners in the German economy, such as Russia, Saudi Arabia or other oil-exporting countries, can also buy more products through higher revenues. However, on balance this is not sufficient to compensate for the negative effects, which are expected to become stronger and stronger in the foreseeable future.

Concerns about the exchange rate remain relatively low

Of the exporting industrial companies, 14 percent continue to regard the development of exchange rates as a risk for their business. This is not a reason to sound the all-clear. This is because two opposing

Export expectations (balance in points)

	Intermediate goods-producers	Capital goods producers	Industrial and consumer goods producers	Industry
Fall 2016	13	18	19	16
February 2017	21	26	24	23
Early Summer 2017	22	28	21	24
Fall 2017	24	28	25	25
February 2018	31	34	29	31
Early Summer 2018	21	30	21	24
Fall 2018	13	22	19	17



effects are likely to partially offset each other. On the one hand, the trade-weighted exchange rate of the euro has fallen significantly compared with the early summer. The decisive factor in this development was the noticeable depreciation against the dollar. The low external value of the euro supports exports because it increases the price competitiveness of German products abroad. On the other hand, uncertainty on the currency markets has increased further in recent months. Strong fluctuations in value make planning more difficult for companies and make hedging transactions more expensive.

Large companies with the most cutbacks

The downturn in the foreign trade environment is affecting companies of all sizes. The decline in export expectations is particularly marked among large companies with more than 1,000 employees. The balance here has fallen from 43 to 29 points. Precisely because larger companies tend to operate globally, this assessment also reflects the slower pace of the global economy. The decline by five points to 14 is slightly less pronounced in the SME sector. Nevertheless, a slower pace is being adopted across manufacturing industry as a whole.

When looking at the main groups, it is in particular the intermediate companies (balance drop from 17 to 13 points) and the capital goods producers (balance drop from 30 to 21 points) who have to make concessions in their assessments. Both indicate that global investment momentum will slow. It is the uncertainty about further trade conflicts that is slowing the momentum.

View of the World Regions

The estimates are based on the current "AHK World Business Outlook", which includes feedback from around 3,500 member companies of the German Chambers of Commerce Abroad (AHK), delegations and representative offices.

Risks to the global economy continue to increase

The foreign trade environment for German companies is becoming more difficult. In the fall of 2018, the global economy is still growing relatively steadily. However, expansion in the world is no longer as synchronous as it was last year and is lagging slightly behind original expectations. The growing economic policy uncertainty – for instance due to the trade conflict between China and the USA or the Brexit - is also a burden on the further development of global growth. On top of this, financial conditions have deteriorated significantly as a result of higher US interest rates and domestic problems in many emerging markets. The current developments in world trade pose major risks for Germany's export-oriented economy in particular. German companies abroad are therefore much more sceptical about the global economy than they were in early summer.

Growth in the EU slowing down

The upswing in the EU is losing some of its momentum. The most important driver of growth continues to be consumption. Investment activity is also continuing to develop positively, but not with a great deal of dynamism. A less buoyant export business as well as complications with the conversion to the new WLTP standard for exhaust testing are slowing down economic development. Companies are particularly concerned as well about the general economic conditions. In particular, the disorderly withdrawal of Great Britain from the EU and the danger of a new debt crisis in Italy pose major risks for the European economy.

In Italy, the economy will grow more slowly this year than in 2017. The high youth unemployment rate continues to slow down private consumption. At the same time, fears are growing about the new government's fiscal policy. In combination with low growth and high government debt, the expansion of government spending is giving rise to fears of high interest premiums at the least. This in a situation where the debt crisis is still fresh in our minds. German companies continue to be robustly positioned in the Italian market. However, their economic expectations are clouding over.

The French economy cooled noticeably in the first half of 2018. Growth in gross domestic product this year will be lower than in 2017. In the first half of the year, the industrial sector in particular demonstrated only below average development in a European comparison. The relatively weak export business and the only slight increase in consumption are depressing the economic mood. The President's reform programme, in particular with regard to public debt and the high youth unemployment rate, is making only slow progress.

By contrast, the upswing in the Central and Eastern European EU states is continuing. The Czech Republic recorded record growth in the second quarter, and the signs on the Vltava remain dynamic. The most important factors for the positive trend are the stable growth in consumer spending and increasing investment. Employment and wages continue to rise in the wake of the good economic situation. However, the Czech National Bank has raised key interest rates for the fifth time in succession in order to prevent the economy from overheating.

The economies of Poland and Hungary are also continuing to grow. However, the shortage of skilled labor is increasingly hampering capacity expansion. Companies are increasingly concerned as well about the general economic conditions in the two countries.

“No deal“ scenario weighing heavily on the economy

The danger of a "hard" Brexit is already weighing heavily on the growth of the British economy. GDP growth will decline again this year and be well below the EU average. Uncertainty about future economic and trade relations with the EU among businesses and private households is high and growing every day. This, together with the rise in the price of imported products due to the devaluation of the pound, has led to a marked reluctance to invest. Rising consumer prices are also proving to be a brake on consumption. Starting from an unusually low level, the unemployment rate in the UK is also likely to rise slightly, in contrast to the European trend.

North America: US economy still strong

Growth in the USA reached its highest level in three years in the second quarter. This is mainly due to the stimulus provided by tax reform. However, this momentum will ease somewhat in the coming years. Higher interest rates and trade conflicts are also acting as braking factors. Meanwhile, the employment boom is continuing. The unemployment rate is lower than it has been for 50 years.

In Mexico there is relief after conclusion of the new USMCA trade pact. Nevertheless, the new agreement weakens the location in comparison to NAFTA. Especially in the case of European and Asian automotive suppliers, investments will probably become considerably less attractive in the medium and long term due to stricter rules of origin.

China in the focus of trade conflicts

The first effects of the trade conflict with the USA on China can already be seen in the trade flows. Exports of aluminum, steel and iron ore to the US have fallen since the entry into force of US tariffs. The increase in US import duties on a large proportion of Chinese goods from the current 10 to 25 percent at the beginning of next year is likely to exacerbate the situation even further. So far, the loss of price competitiveness has been cushioned somewhat by the devaluation of the renminbi. In light of the trade dispute, the National Bank (PBC) is already loosening its monetary policy in order to prevent the economic situation from deteriorating. Growth rates are therefore still high. However, the Chinese economy as a whole is developing somewhat less vigorously than in recent years.

Japan's economy picked up somewhat in the second quarter following low growth at the beginning of the year. This is largely attributable to the recovery in private consumption and increased investment. By comparison, exports grew much more slowly over the same period. Overall, given the low potential growth, development remains less dynamic. For the future development, it remains to be seen to what extent the trade dispute between the USA and China will affect the economy. Both nations are close economic partners of the country.

The economic outlook for the rest of the Asia-Pacific region remains good. The Indian economy in particular gained momentum in the second quarter. However, the concerns of companies about the exchange rate are increasing. The signing of the EU's first free trade agreement with an ASEAN country - Singapore - is a strong signal for rule-based trade and hence against import restrictions.

Argentina in recession

The increase in key interest rates by the US Federal Reserve has put some emerging markets under pressure. This has also exposed Argentina's structural problems and brought them to the attention of investors. A large part of government spending and the current account deficit are traditionally financed by foreign debt in US dollars. International investors now seem to have lost confidence in the Argentine peso. Despite the IMF loan of 50 billion euros, the capital flight could not be stopped. The high key interest rates of 60 percent are slowing both private consumption and corporate investment activity. As a result, the economy will collapse significantly in the current year and reach a maximum of zero growth in 2019.

In Brazil, the economy remains sluggish. A new government of the eighth largest economy in the world faces great challenges in view of the growing national debt and the ailing infrastructure. The outcome of the elections in Brazil will also have an impact on how the EU's Mercosur negotiations continue.

Currency crisis in Turkey

Turkey's economy remains under strong pressure. Inflation is climbing to ever new heights and is putting the lira in distress. The weak currency is hampering private consumption and corporate investment. The dependence on imports and the debt burden in foreign currencies such as the euro or the US dollar are high. At the same time, the measures taken by the

Turkish government to stabilise the Turkish currency could discourage potential investors. As a result of the sharp devaluation, Turkey will grow much more slowly in 2018 than last year and the pace is likely to slow further in 2019. The domestic political situation and the dispute with the EU pose risks for the business activities of companies, especially with regard to the common customs union.

The Russian economy again grew slightly in the first two quarters. The main reason for this was the rise in the price of oil, from which Russia benefited due to higher export revenues. In addition to this, the relatively low inflation rate stimulated private consumption. Overall, however, growth is likely to remain weak. From the point of view of German companies, the economic policy environment and the weak ruble remain the country's biggest worries.

Iran sanctions with drastic consequences

With the Americans turning their backs on the nuclear treaty and introducing new sanctions, Iran is on the verge of a recession. The economy is likely to shrink in the foreseeable future. In view of the high rate of inflation, both households and the private sector are reducing their spending. Payment transactions are becoming increasingly difficult, as hardly any banks are doing business with Iran. German companies as well are increasingly withdrawing from the Islamic Republic in view of the current situation.

Investment intentions

How will your company's expenditures on domestic investments develop in the coming 12 months?

Investment momentum declining

The increased level of uncertainty for companies is also reflected in a slight slowdown in **investment** momentum. Fewer companies than in early summer intend to expand their budgets. However, the plans remain at a solid high level overall. In addition to the favorable financing conditions, this is due to the high capacity utilization in many areas as well as the digitization of the operations. Capacity expansions and product innovations remain the most important investment motives in autumn 2018. At the current margin, the proportion of companies planning to invest in rationalization measures is also rising slightly. This shows the lack of skilled workers that has long been deplored.

Still robust investment plans

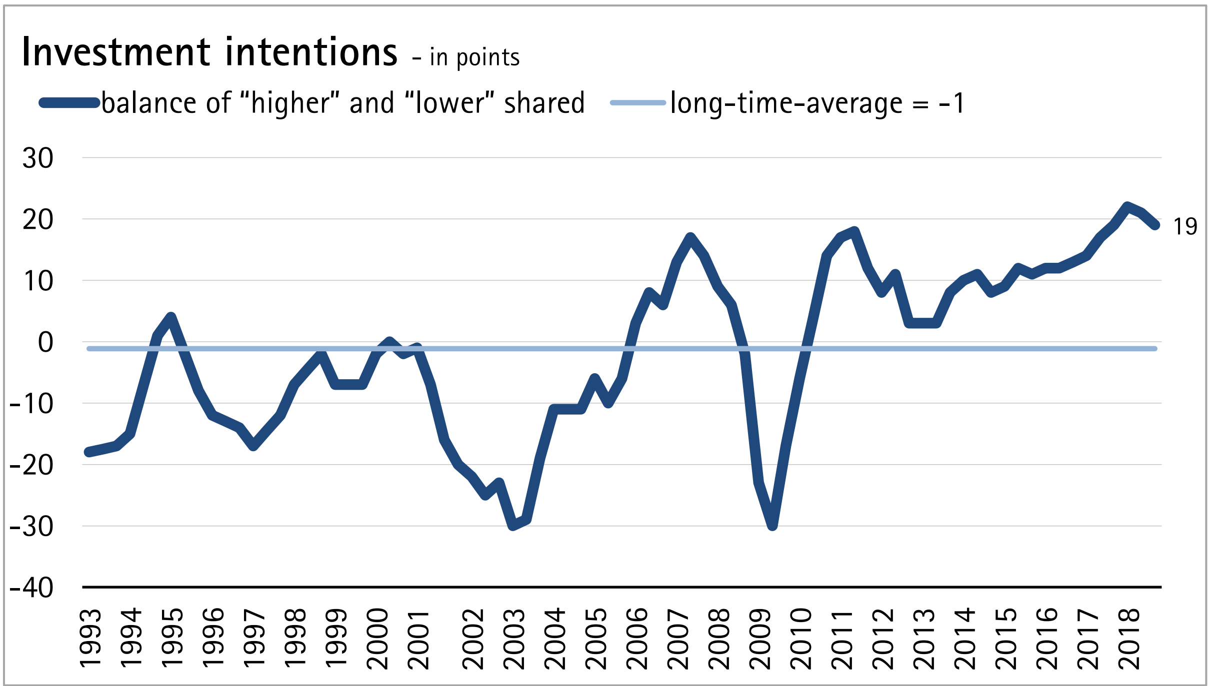
The investment drive of the German economy is losing momentum. This means that the flat upward trend in investment intentions since 2016, compared to earlier upswings, has been halted for the time being. Companies are planning slightly lower investments in the fall than recently (balance: 19 after 21 points before). The proportion of companies wishing to expand their investment budgets has fallen by two to 32 percent. More companies than in early summer are planning constant investments (55 after 53 percent previously), and only 13 percent still want to invest less. For companies with expansive investment plans, worries about a shortage of skilled workers and labor costs predominate. Those with reduced investment budgets are increasingly concerned about domestic demand and labor costs.

Securing a low interest rate before turnaround

Only nine percent of companies are concerned about financing - a historic low in the survey (most recently: ten percent). This means that the financing environment continues to be investment-friendly. Lending has recently accelerated significantly. The first interest rate cuts on the part of the ECB are expected by the end of 2019 at the latest. This serves to increase the incentive for companies to secure favorable credit conditions at present.

Innovations and capacity expansions remain important

The somewhat weaker investment momentum is hardly reflected in changes in investment motives. Both product innovations and capacity expansions, at 32 percent each, are only slightly below their



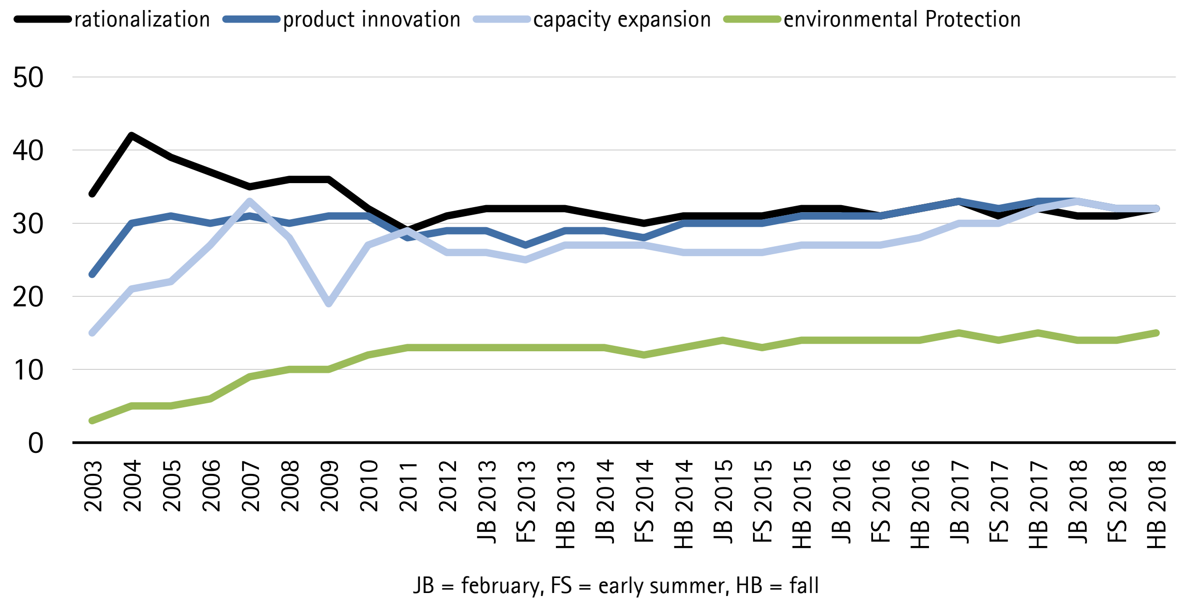
Investment intentions (in percent; balance in points)

	higher	about equal	lower	balance
Fall 2016	28	57	15	13
February 2017	29	56	15	14
Early Summer 2017	31	55	14	17
Fall 2017	32	55	13	19
February 2018	34	54	12	22
Early Summer 2018	34	53	13	21
Fall 2018	32	55	13	19

Investment intentions (balance in points)

	Manufacturing industry	Construction sector	Trade sector	Service sector	All
Fall 2016	12	5	10	14	13
February 2017	14	9	10	16	14
Early Summer 2017	21	14	13	16	17
Fall 2017	24	11	14	19	19
February 2018	27	15	17	21	22
Early Summer 2018	26	18	16	21	21
Fall 2018	22	16	14	20	19

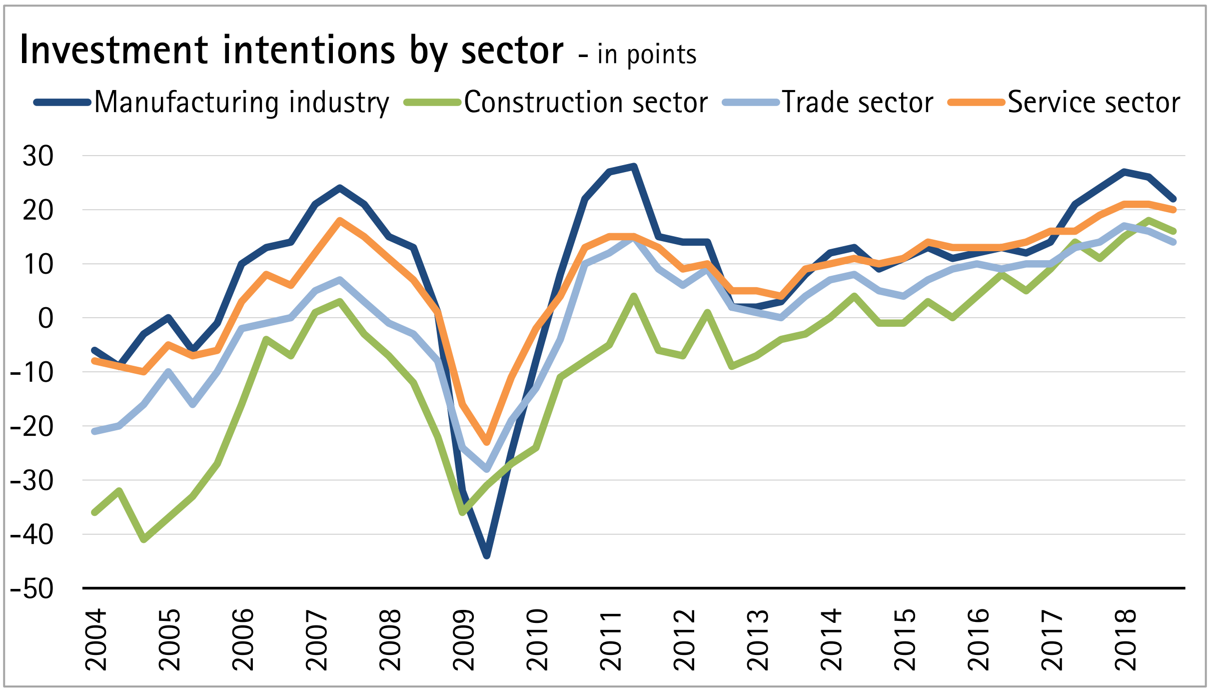
Main motives of domestic investments – in percent; multiple choices possible



peak. Many companies have been reporting a good business situation and full order books for some time now. Capacity utilisation therefore remains high in many areas. Although the proportion of capacity expansions in manufacturing industry is falling slightly, the proportion remains high in both historical and industry sector comparison (40 after 42 percent). The capacity utilization rate of German industry recently amounted to around 88 percent (average since 1985: 85%)[2]. The range[3] of orders already in

[2] Source: Eurostat

[3] The range indicates how many months the company could or would theoretically have to produce in order to process the existing demand, assuming constant sales and without new orders and cancellations. Source: Federal Statistical Office



the books currently extends to 5.6 months. Capacity expansions through new machines, new commercial buildings or modern IT systems therefore remain on the agenda here as well.

Digitization is also leading to new product requirements in many areas. Companies are increasingly aware that digitization is increasing their investment needs.[4] They must invest here to take advantage of the opportunities offered by new technologies and to remain competitive - even in uncertain times.

Stronger focus on rationalisation and environmental protection

An indication of the coming economic uncertainty is the slight increase in the proportion of planned investments in rationalization (32 after 31 percent). They are also gaining in importance by comparison in manufacturing industry (45 after 43 percent). In view of the extraordinarily high capacity utilization and increasing uncertainty at the same time, the most efficient possible use of resources is particularly important.

Environmental protection is slowly continuing to gain importance, reaching a new record level of 15 percent (most recently 14 percent). The proportion of environmental protection investments (22 after 17 percent) is rising, especially among large companies with more than 1,000 employees. To a certain extent, this certainly includes the commercial diesel fleets affected by the impending driving bans. The dominant investment motive is replacement. At 64 percent, the proportion remains at the level of the previous survey.

Large companies with declining momentum

The investment intentions of companies with more than 1,000 employees are falling particularly sharply (27 points after 32). These companies are often globally active and are therefore particularly affected by the uncertainty caused by international trade policy. The lower dynamics are also relevant because large companies have extensive investment budgets and are therefore of particular importance for the overall development. For small and medium-sized enterprises (up to 500 employees), on the other hand, investment plans at a lower level are developing much more robustly (19 after 20 points). Small companies with ten to 20 employees are showing an increasing propensity to invest. It has reached a new record in this size class (20 points after 18).

[4] Cf. IHK-Unternehmensbarometer Digitalisierung 2017

Employment intentions

How is the number of employees of your company within Germany expected to develop in the coming 12 months?

Companies applying the brakes slightly to employment growth

The significant decline in **business expectations** has so far only been reflected to a limited extent in the employment intentions. Employment plans decline only slightly compared to early summer. Especially in times when skilled workers are scarce, companies are holding on to their qualified teams. In spite of cautious economic expectations and concerns about rising labor costs, the employment growth continues in the fourteenth year, albeit at a somewhat slower pace.

Momentum only slightly weakened

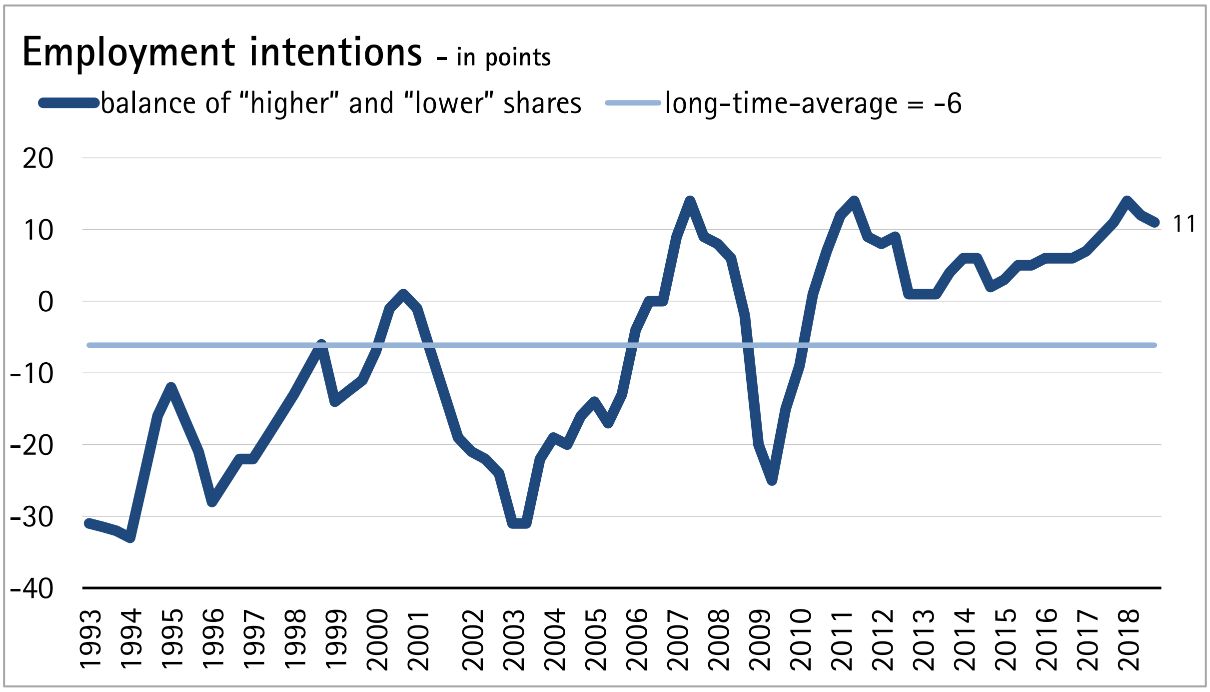
Companies want to continue to build up employment in the coming months, albeit at a slightly slower pace. 22 percent are planning to hire additional personnel, a slightly lower proportion than in early summer (23 percent). More than two thirds of the companies - 67 percent - want to maintain their workforce strength (most recently: 66 percent). At eleven percent, the proportion of companies planning to employ fewer staff remains at a low level. The resulting balance of "higher" and "lower" reports of eleven points is only one point lower than in early summer. This means that despite the significant drop in business expectations of six points on balance, the companies' personnel plans are proving to be quite stable.

Employment growth enters its fourteenth year

The employment intentions of companies remain well above their long-term average (minus six points). It is probable therefore that the growth of employment in Germany will enter its fourteenth year. Such a long period of increasing employment has not existed in Germany since the post-war period. However, the momentum is weakening slightly at the current edge.

Companies desperately looking for skilled workers

The reason why companies are maintaining their demand for labor at a high level despite significantly declining business expectations is not least the lack of qualified specialists themselves. Companies are already desperately looking for personnel. The risk for companies has increased even more sharply. 62



Employment intentions (in percent; balance in points)

	higher	about equal	lower	balance
Fall 2016	19	68	13	6
February 2017	20	67	13	7
Early Summer 2017	21	67	12	9
Fall 2017	22	67	11	11
February 2018	25	64	11	14
Early Summer 2018	23	66	11	12
Fall 2018	22	67	11	11

Employment intentions (balance in points)

	Manufacturing industry	Construction sector	Trade sector	Service sector	All
Fall 2016	5	5	5	6	6
February 2017	7	9	6	7	7
Early Summer 2017	12	13	7	8	9
Fall 2017	16	10	9	9	11
February 2018	21	14	10	12	14
Early Summer 2018	17	15	9	11	12
Fall 2018	15	12	8	9	11

percent now see their business adversely affected by this (after 61 percent in early summer). The shortage of skilled workers is the greatest business risk in all sectors of the economy. With regard to demographic change, it is also clear that the problems will worsen in the future. Companies therefore want to secure and retain good skilled workers. Accordingly, employment intentions in recent years have reacted only weakly to cyclical fluctuations.

Where skilled workers are in short supply, concerns about rising labor costs are also high. The fact that, despite this, the bottom line for companies is that there is still more recruitment shows just how much the shortage of skilled workers predominates as a business risk and restricts companies' scope for action. Many companies are aware that in order to retain or recruit skilled workers, they have to make wage concessions or take other measures to increase attractiveness, which are reflected in labor costs.

Medium-sized companies want to hire

In a comparison of company size classes, medium-sized companies with 20 to 200 employees continue to be the most expansive in their personnel plans (balance: 16 after 19 points). It is particularly important for medium-sized companies to retain their qualified teams, as it is difficult to compensate for staff departures. At 72 percent, the proportion of companies that see a shortage of skilled workers as a business risk is the highest in this size category (most recently: 70 percent).

Temporary work restricting personnel plans

Temporary employment companies are clearly restricting their personnel plans (current balance: five points, decrease of 16 points compared to early summer and seven points within a year). Above all, the decline is a reflection of a weakening in the economic momentum; temporary employment is generally regarded as an early economic indicator - apparently there are currently fewer companies that have to absorb peak orders quickly and flexibly by placing and hiring workers.

In the free text responses to the risk "economic policy framework", the reform of the law on temporary employment of industrial and construction companies as well as service providers is also mentioned as a risk. The amendment to the law was passed in 2017 and provides, among other things, for a maximum duration of 18 months. This is the first time that the change in the law has taken effect.

Economic activity in the sectors

Manufacturing industry

Industrial economic activity cooling noticeably

The air in manufacturing industry is getting thinner. Expectations of business in Germany and abroad are falling significantly. The slowing momentum in world trade, the escalation of international trade conflicts and concerns about a disorderly Brexit are weighing heavily on manufacturing industry in particular. Companies want to invest noticeably less than in early summer. In addition to concerns about the development of demand, economic policy conditions and energy and raw material prices are increasingly seen as risks to future business development.

Deterioration in the mood

The industrial economy has cooled noticeably. The assessment of the situation remains at a high level (47 points). However, the decline compared with the previous survey is clear at five points. Companies are looking as well to the coming months with increasing worries. The expectation balance has fallen significantly (twelve after 20 points most recently).

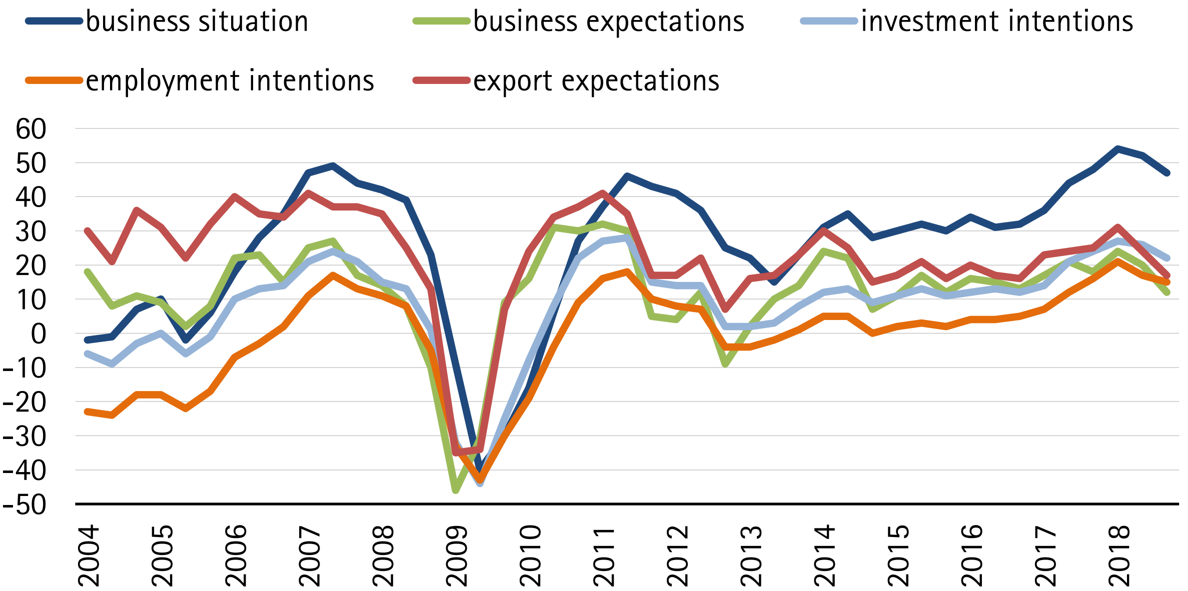
Fewer than one in four companies expects their business situation to improve, eleven percent expect it to decline. Concerns about demand from home and abroad (37 after 34 percent and 33 after 30 percent) are gaining noticeably in importance.

Headwinds increasing

The wind is getting rougher, especially in international business. Companies are significantly lowering their expectations of export business (17 points after 24). The pace of economic growth is likely to slow in many important sales markets. In addition to this, developments in international economic policy provide an uncertain outlook. Significantly more companies than of late therefore see a risk for their business development in the economic policy framework conditions (39 after 36 percent). They particularly often mention concerns about the trade policy of the USA and the unclear course of Brexit. But the sanctions against Russia and Iran as well as the crisis in Turkey are also causing concern for companies.

Industrial companies are also feeling the effects of the rise in oil and gas prices. Coupled with the high electricity prices, which will continue to rise in the future, this will ensure that every second industrial

Economic situation in the manufacturing industry - in points



company identifies energy and raw material prices as a risk factor again (50 after 47 percent most recently).

Large companies want to invest less

In view of the recent decline in demand and concerns about future developments, investment intentions are also declining markedly (22 points after 26). This development is particularly strong in the case of large enterprises (24 points after 31), while small industrial enterprises are keeping their planning largely constant (14 points after 13). Large industrial groups are often even more affected by uncertainty through their global value creation structures. At the same time, they have the largest investment budgets and are therefore of particular importance for overall development. The changes in investment motives are also rather bad omens for the development of production potential in the coming months. Overall, capacity expansions are losing importance (40 after 42 percent). At the same time, the proportion of investments in rationalization is increasing (45 after 43 percent).

Employment momentum still at a high level

Personnel plans continue to be expansionary. The employment balance fell slightly compared with the previous survey (15 to 17 points), but is still well above the long-term average (minus one point). In difficult times in particular, clever minds are needed for innovative solutions. However, they are not always easy to find. The top-risk of shortage of skilled workers continues to gain in importance (61 after 60 percent).

Weary mood among manufacturers of capital goods and intermediate goods

The deterioration in the outlook is particularly evident among manufacturers of capital goods and manufacturers of intermediate goods (17 after 25 and ten after 19 points respectively). These main groups of the manufacturing industry are more dependent on fluctuations in the global economy. The global slowdown in investment momentum has been felt above all by mechanical engineering (17 points after 26) and electrical engineering companies (21 points after 29). Accordingly, manufacturers of capital goods are planning more restrained investments across the board (22 points after 28 points). Employment plans, on the other hand, are developing comparatively robustly (22 points after 23 points).

Manufacturers of intermediate goods such as "glass, ceramics, stone processing" as well as metal producers and processors are also feeling in particular the impact of higher oil and gas prices and high electricity prices (67 after 60 and 69 after 63 percent). The overall gloomy outlook also has an impact on investment and employment intentions (23 after 26 and 13 after 18 points).

Companies in the consumer goods industry are somewhat less affected by the international turmoil - and continue to benefit from relatively brisk demand (domestic demand 47 after 46 percent, foreign demand 21 after 20 percent). Here, both export expectations (19 points after 21) and the overall outlook are slightly gloomier (expectation balance: 14 points after 18). Investment momentum is also slowing slightly (20 points after 22 points). Employment plans are even slightly more expansionary than recently (eight after seven points).

Automotive industry making cuts

The business situation in the automotive industry has deteriorated significantly since early summer. The situation balance has dropped by as much as 19 points (to 49 points). Pessimism is also increasing significantly for further developments (expectation balance: twelve points after 19; export expectations: 22 points after 29). At the same time, the economic policy framework conditions are becoming noticeably more significant as a risk (37 after 28 percent). The diesel problem has not yet been conclusively solved. Many manufacturers are currently also experiencing difficulties in converting to the new WLTP standard for exhaust testing. So far only parts of the model pallets have been certified, so only a certain number of variants can currently be offered in Europe. As a result, suppliers are also feeling the effects of reduced delivery and production.

There are also concerns that a US customs duty on automobiles and vehicle parts may not be off the table after all. The EU had agreed with the US administration on a negotiation period for trade facilitation until December and had suspended further investigations into an import duty on cars from Europe until then. The major imponderables for the development of the sector are clearly reflected in the investment and employment plans (19 after 33 and eight after 14 points). The proportion of investments in rationalization and product innovation is rising (50 after 44 and 55 after 50 percent), while capacity expansion is losing importance (44 after 51 percent).

Construction sector

Construction sector at record levels

The construction boom in Germany is continuing. The construction industry is benefiting from low interest rates, infrastructure investments, the continuing rise in demand for residential and commercial space - especially in the metropolises - and not least from a dry summer. Companies are evaluating their situation as better than ever before. This fulfils the high expectations of the previous survey. At the current margin, business expectations are declining mainly due to seasonal factors, but have never been higher in fall in the past 25 years. The investment intentions of the sector remain at a correspondingly high level. But there are risks to business development: In no other sector is the shortage of skilled workers as noticeable as in construction.

Build, build, build ...

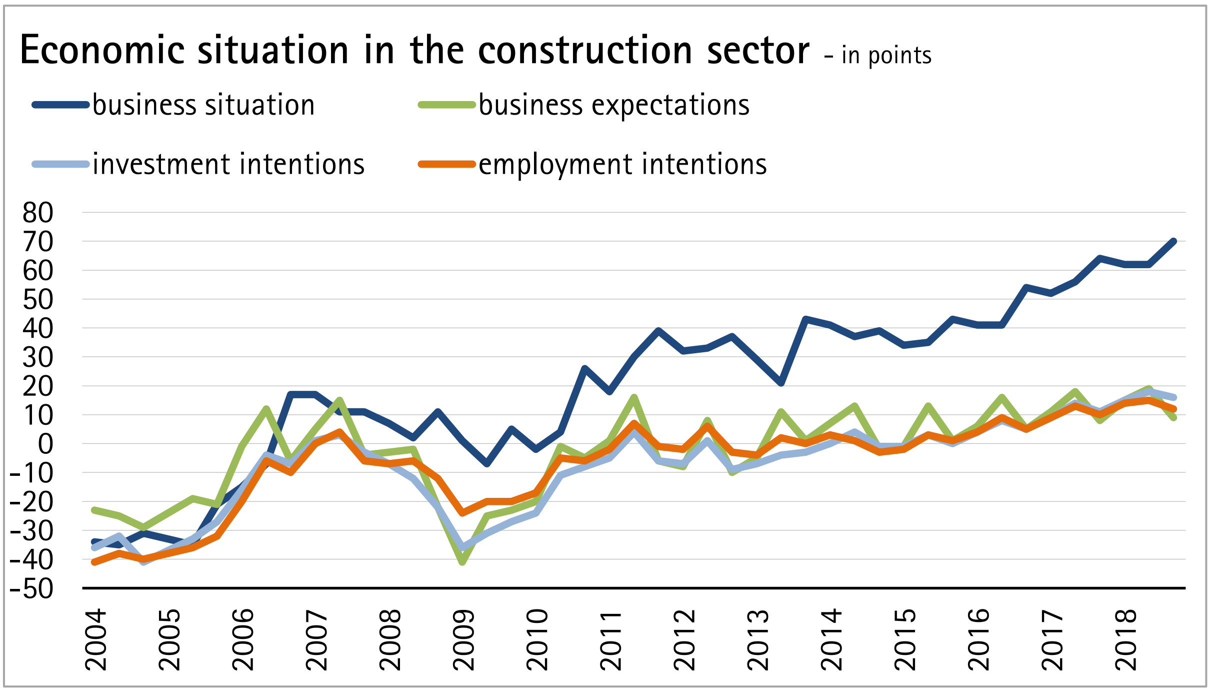
The business situation in the construction industry has once again improved significantly from a high level (plus eight points) equally in terms of structural engineering, civil engineering and finishing trade. The business situation balance has reached a new high of 70 points. Only two percent of companies currently rate their business as "bad". The demand for construction services remains high, with already intensive construction activity. The capacity utilization in the construction industry is correspondingly high, and in many cases new orders cannot be accepted or can only be accepted with long lead times. The current situation also enables the construction industry to pass on its own cost increases and push through higher prices. In August 2018, construction prices were four to six percent higher than in the same month last year, depending on the sector.

... also in the coming months

Construction companies are more confident about their business development than ever before in a fall. Compared to the previous year's survey, business expectations have again improved slightly (from eight to nine points). The outlook is no longer as euphoric as in early summer (19 points). However, the decline is mainly due to a seasonal effect. Companies usually look more cautiously at their business before winter because the weather hinders their work. A continued high demand for construction services is foreseeable. Concerns about domestic demand remain at a historically very low level (22 after 21 percent). The still favorable financing conditions, the good development of the labor market and the economic situation point to a further high demand for residential and commercial space in the coming year. Thus, the finishing trade expects an increase in business compared to the previous year (from ten to twelve points). The investment ramp-up in government infrastructure projects, which has been underway for two years, has had a stabilising effect, benefiting civil engineering in particular (ten points, unchanged from the previous year). On the other hand, the high price buoyancy in construction could have a dampening effect.

Building construction the exception

Only building construction companies lowering their business expectations compared to the previous year (from seven to five points), although concerns about domestic demand remain low (24 after previously 23 percent and 32 percent last fall). By contrast, structural engineering companies increasingly see a risk in the development of energy and raw material prices (41 after 31 percent). Problems are also likely to arise in the search for suitable building land. In the free text answers on the economic policy framework conditions, some companies also report on protracted construction planning.



High capacity utilization requires investments

In view of high capacity utilization in the construction industry, the industry's increased investment intentions are not surprising. Compared to the previous year, significantly more companies are planning to increase their investment budgets (plus five to 16 points).

The most important investment motive besides replacement (76 after 78 percent) is rationalization (27 after 25 percent), followed by capacity expansion (26 percent as before). This shows that the construction industry can only expand its capacities to a limited extent now. At the same time, the most efficient possible use of scarce resources is gaining in importance. A steady growth in building law requirements is causing investments in environmental protection in particular to increase significantly and more strongly than in other branches of industry (14 after twelve percent). However, the drivers for investments in environmental protection are also concerns about rising energy and raw material prices.

Limits to growth

The shortage of skilled workers in particular has a limiting effect on the construction industry. In no sector of the economy is this more frequently cited as a risk to further economic development (82 percent as before). The typical seasonal decline in employment intentions is lower than the average of recent years (minus three points, average minus six points). Compared with the previous year, employment intentions have risen noticeably (plus two to twelve points). A significantly higher proportion of construction companies see energy and raw material prices as a risk to their business activities (increase by eight to 42 percent). One reason for this is the sharp rise in diesel and gasoline prices. Given the high demand, however, there is also the threat of a shortage of building sand and gravel in some regions. The consequences are rising prices for construction raw materials or high costs for transport from distant mining sites.

Trade sector

Trade: strong domestically, risks abroad

The mood in the retail sector is deteriorating somewhat. Based on a good assessment of the situation, uncertainty about the development of world trade is growing in the wholesale sector and among trade intermediaries. They are expecting significantly less good business in the coming months. The retail sector continues to benefit from strong domestic demand. Growth is continuing at a slightly slower pace. Overall, trade is planning somewhat less expansionary in terms of investment and employment than recently.

Good business situation, but increasing barriers

Trade business is still doing well (situation balance: 30 points). The assessment of the situation thus continues to be well above the long-term average (six points). In recent years, consumption has been the most important pillar of the economy, as the good labor market situation has led to an increase in purchasing power. Many dealers have been able to profit from this.

However, expectations in the retail sector as a whole have worsened noticeably compared to early summer (seven after ten points). In this sector as a whole, concerns about energy and commodity prices (32 after 28 percent) and about the economic policy framework conditions (37 after 35 percent) are on the rise.

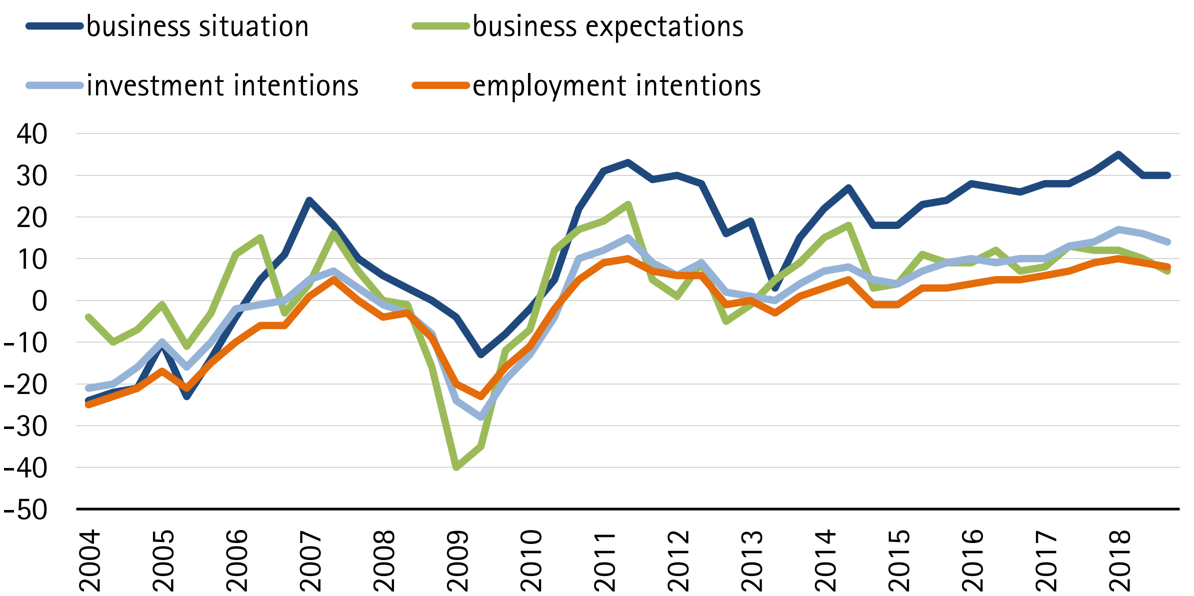
Wholesalers and trade intermediaries, who are strongly intertwined with world trade, are adjusting their expectations for business in the coming months particularly sharply downwards (balance: eleven after 16 points). Increasing trade conflicts, the significant currency devaluations in many emerging markets and Brexit are causing uncertainty. The trade in health-related goods rates its business prospects even more critically (zero after ten points). Concerns about the economic policy framework conditions are rising noticeably here (60 after 56 percent). It remains unclear how the shipment of prescription medicines will be handled in future.

The retail sector, by contrast, remains relatively confident about its business in a long-term comparison (expectation balance: five after six points). Concerns about domestic demand are again falling to the low at the beginning of the year (46 after 48 percent, long-term average: 55 percent).

A little more caution with investments

Investment momentum in trade as a whole declined slightly and remained at the previous year's level (investment balance: 14 after 16 points). The retail sector is also planning somewhat more cautiously (eight

Economic situation in the trade sector - in points



after nine points previously). However, the investment intentions here remain well above the long-term average (of zero points). The proportion of investments in product innovations rose slightly (citing investment motive: 28 after 27 percent). The intense competition in the sector requires above all investments in attractive business premises and digital business models. Trade intermediaries are reducing their investment intentions particularly sharply (nine after 19 points). The massive uncertainty about developments in world trade is making itself felt here. Accordingly, capacity expansion is becoming less important as an investment motive (32 after 36 percent).

Employment growth continuing

The employment plans remain at a high level (balance: eight after nine points; long-term average: minus three points). Almost three-quarters of companies plan to keep their employment constant. At 18 percent, the proportion of companies wishing to create even more employment is significantly higher than the proportion of companies expecting employment to fall (ten percent). More than half of the retail companies (54 percent as before) are concerned about the lack of skilled workers.

High investment and personnel requirements in the automotive sector

Motor vehicle dealers and repair shops rate their situation as somewhat worse than last time (28 after 30 points). Expectations are also falling again from a low level (two after four points). Since the early summer of 2017 (twelve points), the outlook has therefore become much gloomier. This is probably due not least to the limited deliveries arising from the new WLTP standard for exhaust gas testing. Some car dealerships also offer leasing. As a result of the bans on diesel driving, the number of returns could now increase. The residual values of diesel vehicles are also falling. On the other hand, retrofitting could provide impetus for repairers. Against this backdrop, concerns about the economic policy framework conditions are rising slightly (40 points after 38 points). Nevertheless, the sector intends to invest heavily and build employment. Starting from the record level of the previous survey, the investment balance has only fallen slightly (25 after 26 points). Besides replacement, product innovations remain an important investment motive (24 after 22 percent). In addition to this, the proportion of investments in capacity expansion (33 after 28 percent) and rationalization (24 after 20 percent) is increasing.

Service sector

Less impetus for service providers

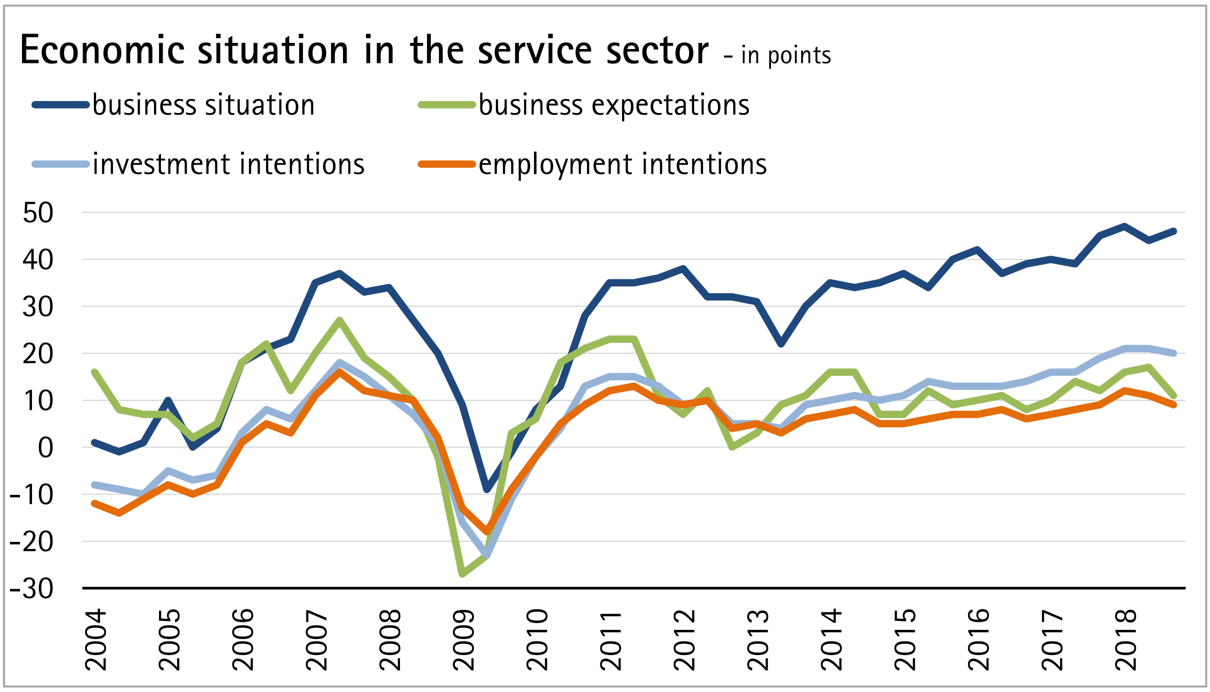
The mood among service providers is slightly gloomy. They assess their current situation as better than in early summer. The domestic impetus is no longer as strong as in recent years. Accordingly, expectations for future development are not improving. The outlook is much more cautious, particularly for the transport industry and, surprisingly, for IT service providers. Overall, investments are developing comparatively robustly. The pace of employment growth is slowing somewhat.

Sunny situation, no golden fall

In the fall of 2018, most service industries recorded a very good business situation. The situation balance has risen from a high level (46 after 44 points) - just below the record value at the beginning of the year (47 points). Concerns about domestic demand have reached a new low (30 after 31 percent). However, expectations are significantly lower than in early summer (eleven after 17 points). Many service industries experience a boom in the summer. As a result, the outlook towards the end of the year is typically more cautious. This applies, for example, to the hospitality industry, the transport industry or even services to buildings, gardening and landscaping. But even a more meaningful comparison with the previous year shows no further improvement in expectations (currently: eleven points, fall 2017: twelve points). The prospect of a golden fall is being countered by supply-side factors. On the one hand, the search for suitable personnel is often difficult. On the other hand, higher oil and gas prices (26 after 22 percent) will have an additional negative impact.

Robust personnel and investment planning

Employment growth is currently losing some momentum (nine after eleven points). In a long-term



comparison, however, the plans still remain at a high level (average: three points). In any case, the development of employment in some sectors is more dependent on the supply of skilled workers than on demand from enterprises. Overall, 63 percent of service companies now see a shortage of skilled workers as a risk to their business development. Risk factor no. 2 is labor costs, with the situation slightly easing compared with the previous survey (41 after 42 percent). The investment momentum remains almost constant. Product innovations are the most important investment motive after replacement, but are not gaining further importance at the current margin (share: 32 after 33 percent; replacement: constant at 63 percent).

Slight downturn with personal service providers

Overall, demand concerns among personal service providers remain at a very low level (31 percent as before). Laundries, hairdressing salons, saunas or solariums and other personal service providers can benefit from the high demand due to the good employment situation. Health and social services as well as the education sector have experienced a special boom in recent years as a result of population growth. In addition to this, there is the demographic development, which also brings with it more demand for health services. However, the additional impetus is not quite as strong as in recent years. Starting from a record high, the assessment of the situation has declined slightly (38 after 42 points). Although expectations for future business remain above the long-term average, they are also falling significantly (13 after 18 points; average: seven points). Accordingly, companies are planning somewhat less expansionary with regard to investments (19 points after 21) and employment (12 points after 15).

Hospitality industry with cautious outlook

Hotels, restaurants and other hospitality companies have rated their situation to be as good as never before (46 after 32 points). At the same time, concerns about domestic demand have reached an all-time low. The sunny summer is likely to have contributed to consumer spending. However, the expectations of the industry are becoming gloomier compared to the previous year (six after seven points last fall). The sector is feeling the impact of the rise in oil and gas prices (risk of energy and raw material prices: 42 after 37 percent). In addition, three out of four companies cite the shortage of skilled workers as a risk to their business development (previously: 74 percent). 60 percent (as before) are concerned about the development of labor costs. Employment intentions are therefore also declining slightly (zero after five points; fall 2017: one point).

Company-related service providers feeling the effects of a weak industrial economy ...

The slower pace of economic activity in manufacturing industry is also being felt by company-related service providers such as management consultancies, leasing companies and research and development companies. Their overall assessment of the situation remains at the high level of the previous survey (53 points). However, expectations are becoming noticeably gloomier (19 after 23 points; fall 2017: 21 points), although concerns about domestic demand have reached an all-time low (36 after 38 percent). Investment and employment plans are somewhat less expansionary than recently (21 after 22 and 23 after 24 points). Exceptions to this trend are architecture and engineering firms, which are planning to expand even more than recently in view of high demand from the construction sector (expectation balances): 22 after 21 and 27 after 24 points respectively).

... especially IT

The mood among IT service providers is deteriorating noticeably - albeit from a very high level. They assess their situation significantly more negatively than recently (56 after 62 points) and their outlook is also more cautious (29 after 33 points). Concerns about domestic demand are on the rise (43 after 40 percent). This is surprising at a time when the digitization of processes and products is playing an increasingly important role. It is quite possible that the disappearance of one-off effects due to the changes under the General Data Protection Regulation will contribute to this. On top of this, there is the continuing legal uncertainty regarding the economic use of data.[5] Nevertheless, companies want to invest even more and build employment more than recently (27 after 26 and 41 after 39 points). Apparently, they are not yet being deterred in their concrete plans.

[5] Cf. IHK-Unternehmensbarometer Digitalisierung 2017

Economic surveys of IHKs

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

Questionnaire Fall 2018

How do you assess the current situation of your company?
- good business situation
- satisfactory business situation
- poor business situation

How do you expect your company to develop in the coming 12 months?
- better business situation
- unchanged business situation
- worse business situation

Where do you see the greatest risks in the economic development of your company in the coming 12 months? (more than one answer is possible)
- domestic demand
- foreign demand
- financing
- labor costs
- shortage of skilled workers
- exchange rate
- energy and raw material prices
- economic policy framework conditions, if so...

How do you expect exports to develop for your company in the coming 12 months?
- higher exports
- unchanged exports
- fewer exports

How will the expenditure of your company on domestic investments probably develop in the coming 12 months?
- higher expenditure
- unchanged expenditure
- lower expenditure

What are the main motives on which the planned domestic investments of your company in the next 12 months are based? (more than one answer is possible)
- rationalisation
- product innovation
- capacity expansion
- environmental protection
- replacement requirements

How is the number of employees of your company within Germany expected to develop in the coming 12 months?
- higher number of employees
- unchanged number of employees
- lower number of employees

Methodology

With the current **" The air is getting thinner"** 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 fall of 2018 the CCIs evaluated round **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 (28 percent), the construction industry (seven percent), the trade sector (22 percent) and service providers (43 percent). 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. According to **size classes** the replies are divided up as follows: 34 percent companies with up to nine employees, 14 percent companies with ten to 19 employees, 41 percent companies with 20 to 199 employees, seven percent companies with 200 to 499 employees, two percent companies with 500 to 999 employees, two percent 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.

Where the text refers to a long-term average, this relates in the various sectors of the economy to the period from the autumn of 1991 (situation, expectations) or the autumn of 1992 (export expectations, investment and employment intentions). For the individual sectors, the data that reaches back to 2003 is used to calculate the average value.

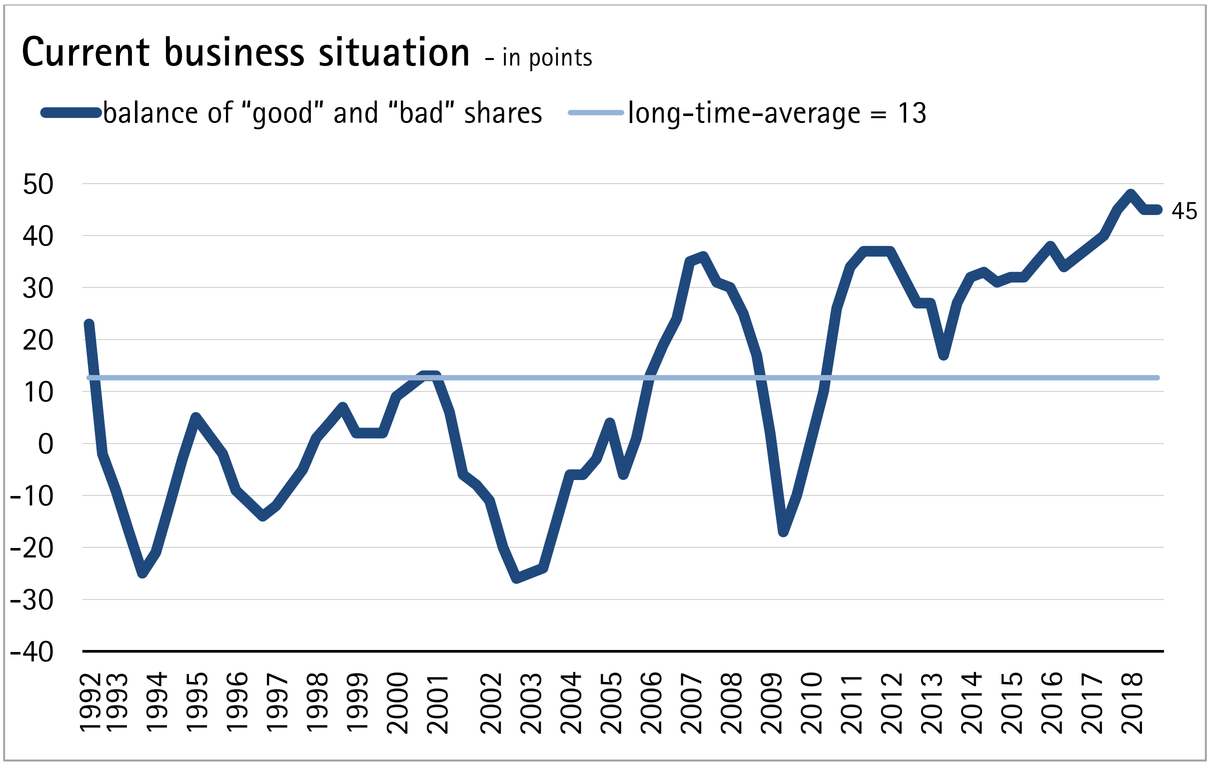
When asked about business risks, companies can write a free text on the answer option "Economic policy framework conditions". In the current survey, around 4,400 free text answers were available. These were categorised as precisely as possible on the basis of the terms mentioned and the topics dealt with. The most frequent answers are represented as a word cloud. The larger a term is, the higher the number of free text answers on this topic.

The IHK business climate indicator is calculated as a geometric mean of the situation and expectation balances. The indicator therefore has the following mathematical form: $\sqrt{(L_1 - L_3 + 100) * (E_1 - E_3 + 100)}$ where L1 represents the proportion of enterprises with a good estimate of the situation, L3 the proportion of enterprises with a bad estimate of the situation, E1 the proportion of enterprises with better business expectations and E3 the proportion of enterprises with worse expectations.

The survey was conducted from end of August to beginning of October 2018.

DIHK-Surveys - time series data

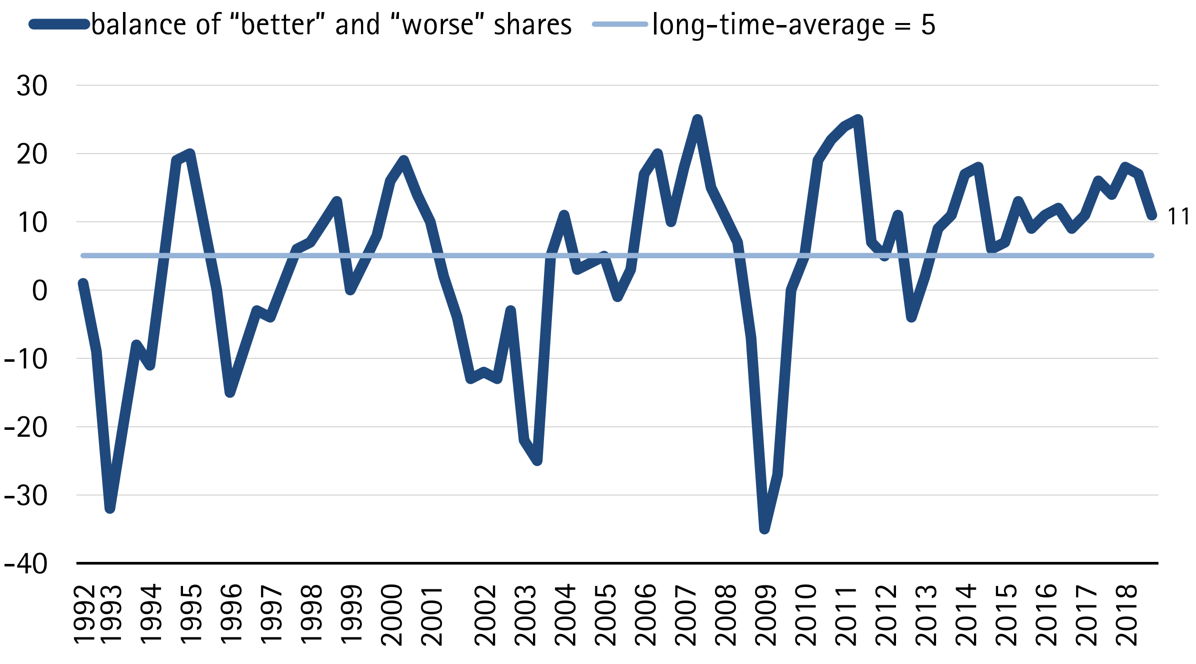
Assessment of the situation (in percent; balance in points)												
	Germany total				Economic sectors				Company size classes			
	good	satisfactory	bad	balance germany	balance manufacturing industry	balance construction	balance trade sector	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
Fall 2012	38	51	11	27	25	37	16	32	23	27	29	29
February 2013	38	51	11	27	22	29	19	31	24	26	28	29
Early Summer 2013	32	53	15	17	15	21	3	22	14	16	20	20
Fall 2013	38	51	11	27	23	43	15	30	24	26	30	25
February 2014	41	50	9	32	31	41	22	35	27	31	35	37
Early Summer 2014	42	49	9	33	35	37	27	34	26	32	40	43
Fall 2014	40	51	9	31	28	39	18	35	26	29	34	38
February 2015	41	50	9	32	30	34	18	37	26	31	37	37
Early Summer 2015	41	50	9	32	32	35	23	34	25	30	37	42
Fall 2015	44	47	9	35	30	43	24	40	31	35	37	36
February 2016	46	46	8	38	34	41	28	42	33	37	40	44
Early Summer 2016	43	48	9	34	31	41	27	37	29	33	40	38
Fall 2016	44	48	8	36	32	54	26	39	33	36	36	41
February 2017	46	46	8	38	36	52	28	40	33	37	41	43
Early Summer 2017	48	44	8	40	44	56	28	39	32	38	48	47
Fall 2017	51	43	6	45	48	64	31	45	39	49	51	48
February 2018	54	40	6	48	54	62	35	47	41	53	55	53
Early Summer 2018	51	43	6	45	52	62	30	44	38	50	52	53
Fall 2018	52	41	7	45	47	70	30	46	40	51	47	47



Business expectations (in percent; balance in points)

	Germany total				Economic sectors				Company size classes			
	better	about equal	worse	balance germany	balance manufacturing industry	balance construction	balance trade sector	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
Fall 2012	18	60	22	-4	-9	-10	-5	0	-1	-5	-8	-5
February 2013	20	62	18	2	2	-5	-1	3	3	3	0	-1
Early Summer 2013	25	59	16	9	10	11	5	9	6	11	9	10
Fall 2013	24	63	13	11	14	1	9	11	7	12	16	18
February 2014	28	61	11	17	24	7	15	16	13	20	23	22
Early Summer 2014	29	60	11	18	22	13	18	16	12	21	22	24
Fall 2014	21	64	15	6	7	-2	3	7	4	8	7	9
February 2015	22	63	15	7	11	-1	4	7	5	9	9	10
Early Summer 2015	26	61	13	13	17	13	11	12	10	17	13	17
Fall 2015	23	63	14	9	12	1	9	9	6	12	9	11
February 2016	24	63	13	11	16	6	9	10	8	14	11	10
Early Summer 2016	25	62	13	12	15	16	12	11	10	15	12	14
Fall 2016	22	65	13	9	13	5	7	8	7	12	6	11
February 2017	24	63	13	11	17	11	8	10	9	14	12	13
Early Summer 2017	27	62	11	16	21	18	13	14	14	20	15	14
Fall 2017	25	64	11	14	18	8	12	12	10	17	17	12
February 2018	27	64	9	18	24	15	12	16	13	21	21	22
Early Summer 2018	26	65	9	17	20	19	10	17	14	20	16	19
Fall 2018	22	67	11	11	12	9	7	11	9	12	11	13

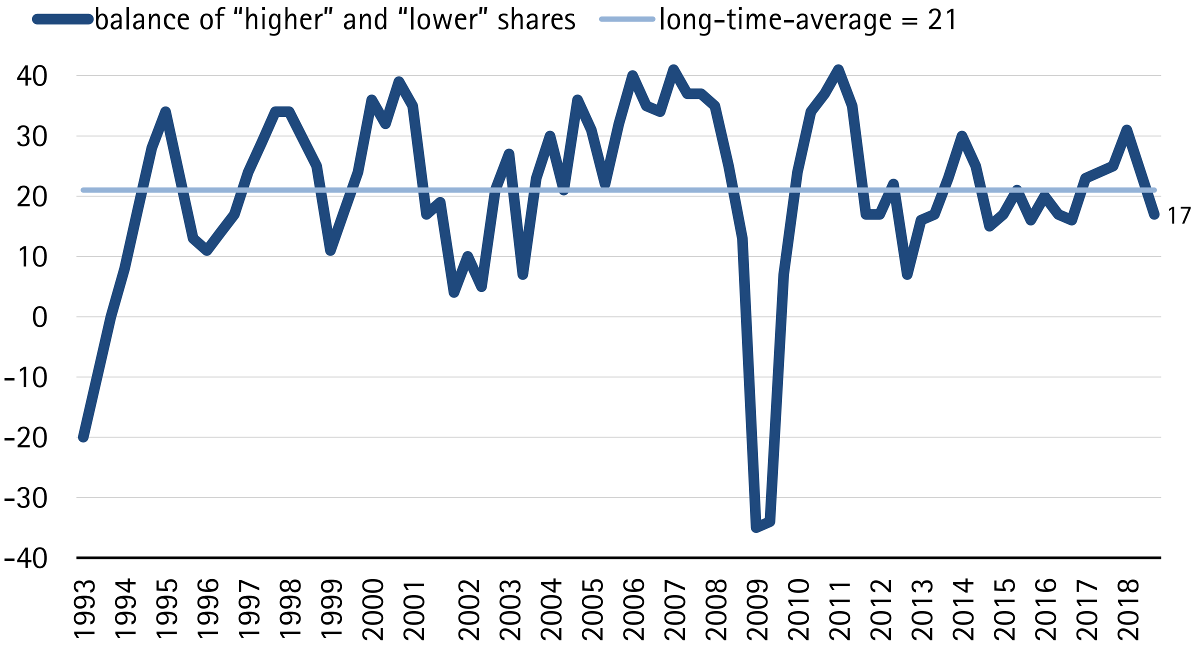
Business expectations - in points



Export Expectations (industry; in percent; balance in points)

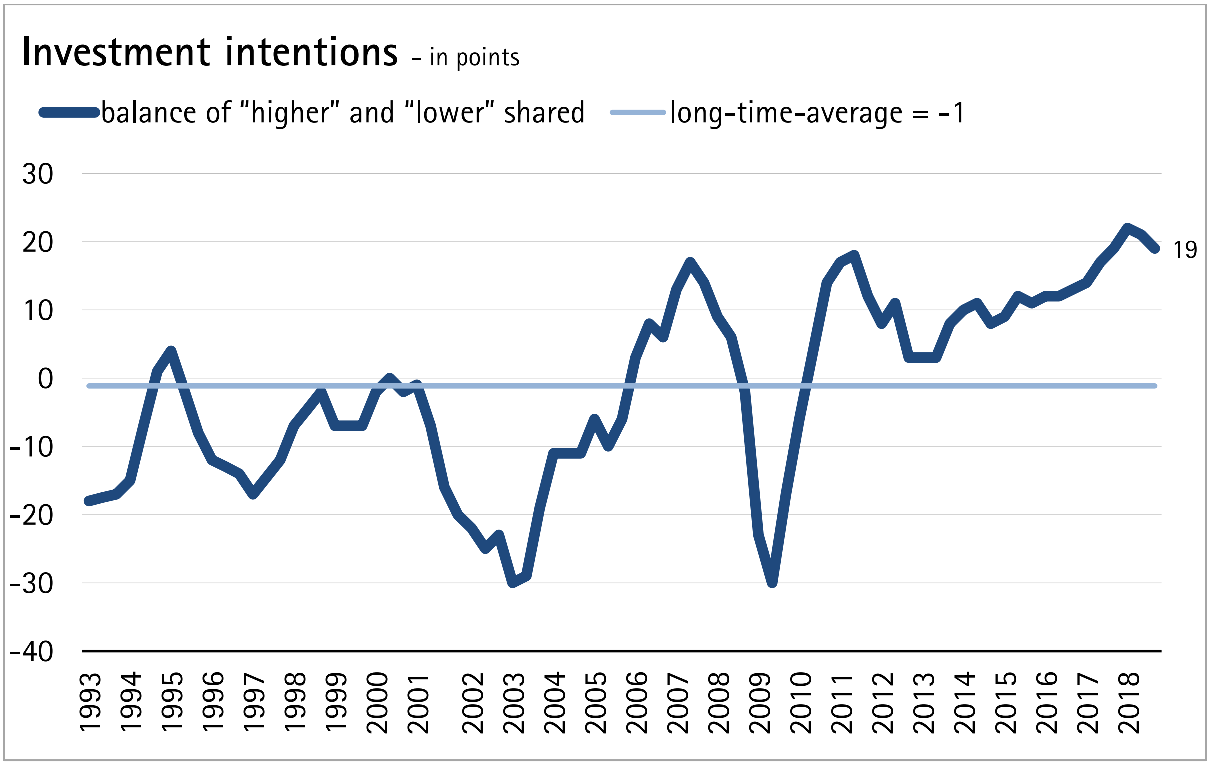
	Germany total				Economic sectors			Company size classes			
	higher	about equal	lower	balance germany	balance Intermediate goods-producers	balance I capital goods producers	balance Industrial and consumer goods producers	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
Fall 2012	27	53	20	7	1	8	18	-1	2	11	17
February 2013	30	56	14	16	12	17	25	8	12	22	20
Early Summer 2013	30	57	13	17	14	20	20	10	10	26	26
Fall 2013	32	59	9	23	20	28	25	12	19	31	36
February 2014	37	56	7	30	30	32	29	16	27	40	40
Early Summer 2014	34	57	9	25	24	27	27	11	21	36	33
Fall 2014	30	55	15	15	12	15	22	2	9	25	28
February 2015	30	57	13	17	16	19	18	3	14	26	32
Early Summer 2015	31	59	10	21	20	23	20	8	17	28	37
Fall 2015	30	56	14	16	14	17	21	7	12	22	32
February 2016	32	56	12	20	19	21	24	7	16	30	37
Early Summer 2016	29	59	12	17	15	18	23	6	13	24	35
Fall 2016	29	58	13	16	13	18	19	3	14	21	29
February 2017	34	55	11	23	21	26	24	8	18	33	42
Early Summer 2017	33	58	9	24	22	28	21	12	19	36	34
Fall 2017	34	57	9	25	24	28	25	9	20	40	34
February 2018	38	55	7	31	31	34	29	19	26	44	44
Early Summer 2018	33	58	9	24	21	30	21	5	21	34	43
Fall 2018	30	57	13	17	13	22	19	2	15	26	29

Export expectations (manufacturing industry) – in points



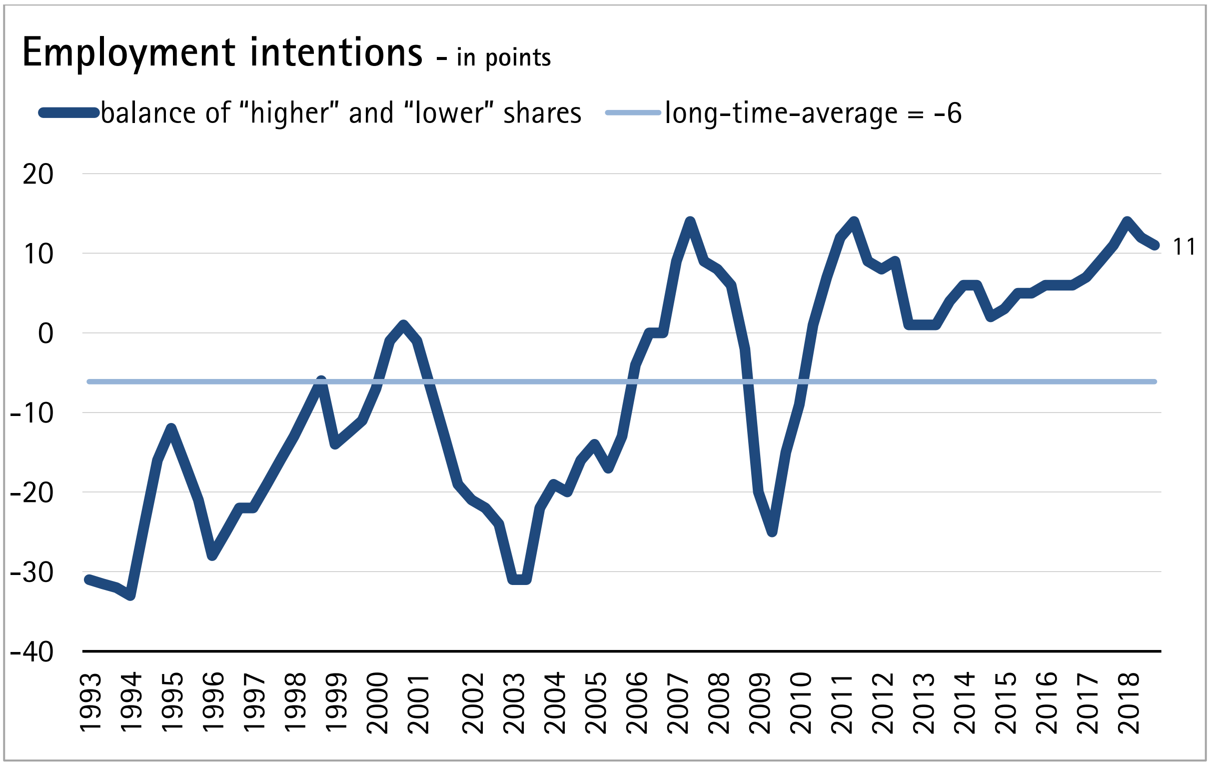
Investment intentions (in percent; balance in points)

	Germany total				Economic sectors				Company size classes			
	better	about equal	lower	balance germany	balance manufacturing industry	balance construction	balance trade sector	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
Fall 2012	23	57	20	3	2	-9	2	5	0	4	5	5
February 2013	23	57	20	3	2	-7	1	5	0	4	5	9
Early Summer 2013	23	57	20	3	3	-4	0	4	-2	4	7	8
Fall 2013	25	58	17	8	8	-3	4	9	4	9	11	15
February 2014	26	58	16	10	12	0	7	10	5	12	14	15
Early Summer 2014	27	57	16	11	13	4	8	11	5	13	14	19
Fall 2014	25	58	17	8	9	-1	5	10	2	10	11	19
February 2015	26	57	17	9	11	-1	4	11	3	11	13	22
Early Summer 2015	27	58	15	12	13	3	7	14	6	15	16	23
Fall 2015	26	59	15	11	11	0	9	13	6	15	15	15
February 2016	27	58	15	12	12	4	10	13	6	15	17	18
Early Summer 2016	27	58	15	12	13	8	9	13	6	15	18	22
Fall 2016	28	57	15	13	12	5	10	14	8	16	15	15
February 2017	29	56	15	14	14	9	10	16	8	18	17	18
Early Summer 2017	31	55	14	17	21	14	13	16	10	22	22	24
Fall 2017	32	55	13	19	24	11	14	19	12	22	26	31
February 2018	34	54	12	22	27	15	17	21	14	25	30	32
Early Summer 2018	34	53	13	21	26	18	16	21	14	25	29	32
Fall 2018	32	55	13	19	22	16	14	20	13	24	26	27



Employment intentions (in percent; balance in points)

	Germany total				Economic sectors				Company size classes			
	better	about equal	lower	balance germany	balance manufacturing industry	balance construction	balance trade sector	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
Fall 2012	15	71	14	1	-4	-3	-1	4	2	3	-4	-3
February 2013	15	71	14	1	-4	-4	0	5	2	4	-4	-5
Early Summer 2013	15	71	14	1	-2	2	-3	3	1	3	-2	-5
Fall 2013	16	72	12	4	1	0	1	6	3	6	1	-5
February 2014	17	72	11	6	5	3	3	7	4	9	3	1
Early Summer 2014	17	72	11	6	5	1	5	8	4	10	6	-1
Fall 2014	15	72	13	2	0	-3	-1	5	1	5	1	-3
February 2015	17	69	14	3	2	-2	-1	5	2	5	1	-6
Early Summer 2015	17	71	12	5	3	3	3	6	3	9	3	-7
Fall 2015	17	71	12	5	2	1	3	7	4	8	4	-4
February 2016	18	70	12	6	4	4	4	7	5	10	1	-8
Early Summer 2016	18	70	12	6	4	9	5	8	6	10	1	-6
Fall 2016	19	68	13	6	5	5	5	6	5	9	1	-5
February 2017	20	67	13	7	7	9	6	7	6	11	0	-2
Early Summer 2017	21	67	12	9	12	13	7	8	7	15	7	-1
Fall 2017	22	67	11	11	16	10	9	9	8	15	10	6
February 2018	25	64	11	14	21	14	10	12	10	20	14	11
Early Summer 2018	23	66	11	12	17	15	9	11	8	19	12	5
Fall 2018	22	67	11	11	15	12	8	9	7	16	8	5



Risks for the economic development and domestic investment motives (in percent; *Industry)

	Risks for the economic development								domestic investment motives				
	domestic demand	foreign demand*	financing conditions	labor costs	lack of skilled workers	exchange rates*	prices of energy and raw materials	economic policy conditions	rationalization	product innovation	capacity expansion	environmental Protection	replacement demand
Fall 2012	51	46	15	33	33	15	51	41	31	29	26	13	64
February 2013	51	42	15	35	32	11	52	40	32	29	26	13	64
Early Summer 2013	50	41	15	38	32	11	50	40	32	27	25	13	65
Fall 2013	48	40	15	38	36	11	49	40	32	29	27	13	66
February 2014	45	35	14	41	37	12	47	40	31	29	27	13	66
Early Summer 2014	43	36	13	41	38	14	44	40	30	28	27	12	66
Fall 2014	48	47	12	38	38	11	38	43	31	30	26	13	66
February 2015	48	45	12	42	38	18	27	44	31	30	26	14	66
Early Summer 2015	44	38	11	42	39	26	31	42	31	30	26	13	66
Fall 2015	45	48	11	40	42	21	26	41	32	31	27	14	65
February 2016	45	44	11	40	43	19	24	44	32	31	27	14	66
Early Summer 2016	45	42	11	40	43	16	24	43	31	31	27	14	66
Fall 2016	43	44	11	40	48	15	25	38	32	32	28	14	65
February 2017	40	39	11	40	48	17	32	43	33	33	30	15	67
Early Summer 2017	38	37	11	39	51	15	31	41	31	32	30	14	66
Fall 2017	37	33	10	40	56	18	30	38	32	33	32	15	64
February 2018	33	27	10	42	60	13	32	38	31	33	33	14	65
Early Summer 2018	34	30	10	42	61	14	30	37	31	32	32	14	64
Fall 2018	34	33	9	41	62	14	34	39	32	32	32	15	64

Risks for the economic development – in percent, *export-industry