Upswing under scrutiny

DIHK economic survey at the Chambers of Commerce and Industry

Early Summer

2018






DIHK Deutscher Industrie- und Handelskammertag

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May 2018

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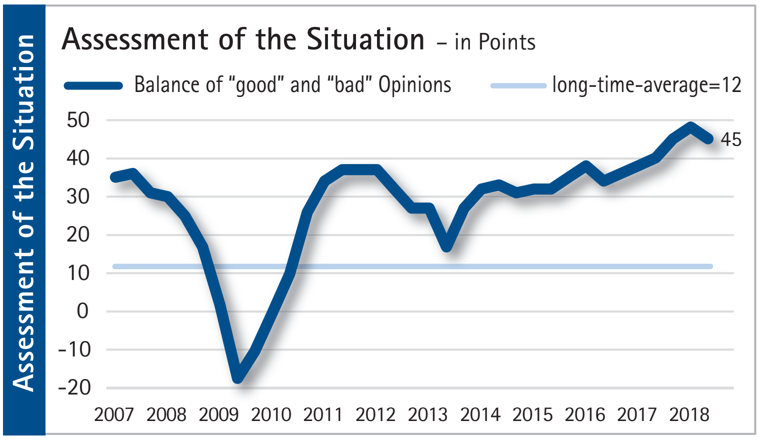
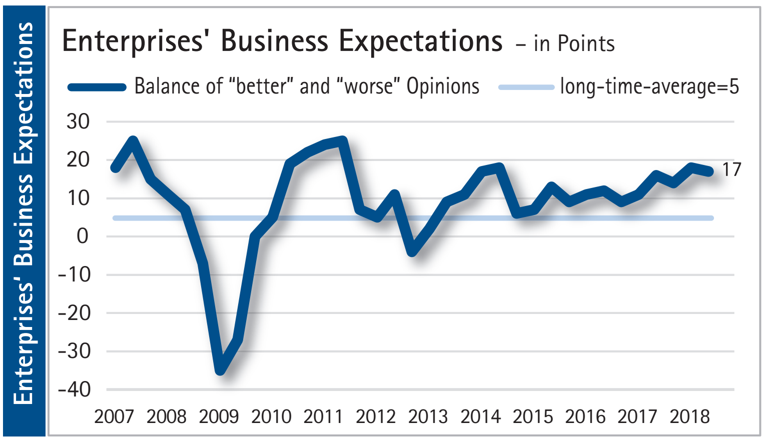
Germany at a Glance

Early Summer 2018

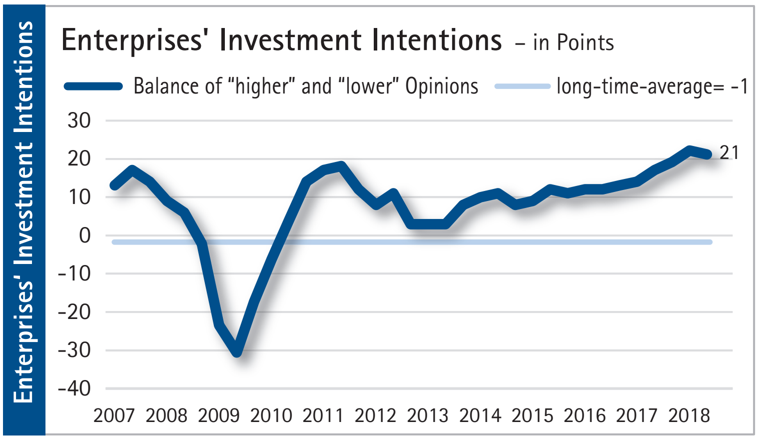


The German economy remains in good shape. The business **assessment** is at the second highest value in the last 25 years. However, companies rate their business situation somewhat less positively than at the beginning of the year. The bottlenecks in the supply of skilled workers are becoming apparent. In addition, the economy had recently returned to a more moderate growth course - this also applies to international markets.

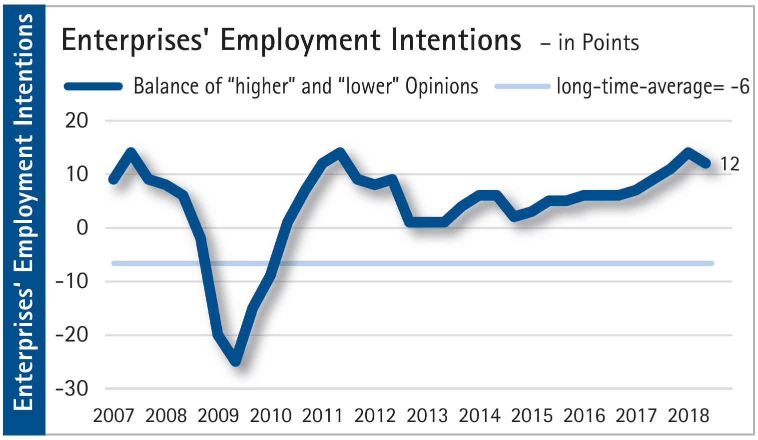


Companies are somewhat less optimistic about their **future business.** They are clearly aware of the obstacles and risks: the greatest concern across all sectors is the shortage of skilled workers, followed by labor costs and the economic policy framework conditions. In particular, the companies mention the high bureaucratic burden, concerns about global politics and the tax system that is too complex and not investment-friendly. With regard to international business, skepticism is growing. Especially the manufacturing industry is no longer running at such high speed as before.

Export expectations are undergoing a significant slowdown. The uncertainty in the discussion on the future of world trade is evident here. Fewer companies expect to be able to realize further growth under these conditions, although the indicators are actually good in many important markets. The upswing in the euro zone and the USA is still intact, as well as in Southeast Asia and China – also driven by corporate tax reforms. At the same time, investments are also acting as global growth drivers. This is in line with the fact that capital goods manufacturers are more optimistic than suppliers and consumer goods producers. Many emerging markets are also benefiting from rising commodity prices. In addition to trade disputes, however, economic policy challenges remain with regard to Russia, Turkey and other markets.



The companies want to continue investing heavily. Compared to the record value of the previous survey, **investment plans** are only declining slightly. In addition to replacement, capacity expansions and product innovations are the most important investment incentives. Financing conditions remain favorable. At the same time, companies with high investments are feeling the shortage of skilled workers more and more. In view of the continuing high demand, construction companies are more keen to invest than ever before.



After a four-year increase, the companies' **employment plans** are declining moderately for the first time. Companies are thus following the lower business expectations. Nevertheless, personnel planning remains expansionary across all industries. In the construction industry, contrary to the trend, employment intentions are even rising slightly again. The manufacturing industry, too, remains easy to adjust, but is noticeably weaker at the current point in time. Overall, the growing shortage of skilled workers is proving to be an extremely limiting factor. Companies see labor costs as the second biggest risk.

Business situation

How do you assess the current situation of your company?

Business situation: Bottlenecks noticeable

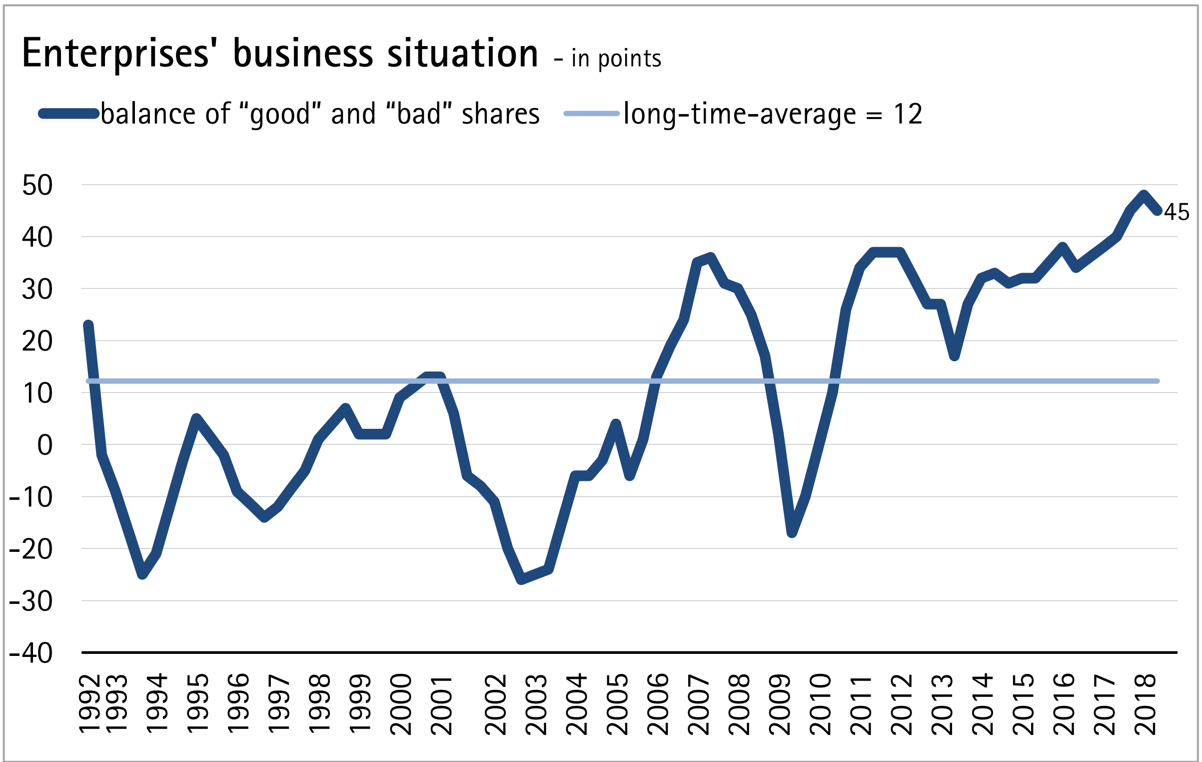
The German economy is still in good shape. The situation assessment is at the second highest value of the last 25 years. However, companies rate their business situation somewhat less positively than at the beginning of the year. The bottlenecks in the supply of skilled workers are making themselves felt. The economy has recently returned to a more moderate growth level - this also applies to international markets. As a result, industrial companies and wholesalers assess their business situation somewhat less optimistic than before. In addition, the retailers and some service providers are feeling the recent slightly calmer economic trend - they are also adjusting their evaluation.

Decline from record level

51 percent of the companies assess their business situation as good, only six percent are unsatisfied. At 45 points, the balance of "good" and "bad" shares is significantly lower than in the previous survey, in which the situation assessment reached the highest value since the survey started (48 points). The decline is due to an increasing proportion of companies with "satisfactory" judgments, to the detriment of the "good" share. The bottlenecks in the economy are having an increasing impact. In recent years, the shortage of skilled workers has steadily gained in importance. In addition, many companies report bottlenecks with regard to material, their capacities and transport possibilities. All this should have contributed to the slight deterioration of the current situation. However, the share of "bad" valuations remains at an all-time low.

Manufacturing industry feels the dent in international business...

With a balance of 52 points, industrial companies are still more than averagely satisfied with their business figures (balance for the economy as a whole: 45 points). However, the manufacturing industry assesses its business situation somewhat worse than at the beginning of the year (at that time: 54 points). Production did



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

	good	satisfactory	bad	balance
Early Summer 2016	43	48	9	34
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

not increase further in the first quarter. Exports were unable to maintain the high level of the end of the year - also as a result of growing uncertainty on the international market. In addition to the increasing trade barriers in many important sales markets and the political conflicts in the Middle East, for example, the announcements of US punitive tariffs are also likely to have dampened the mood.

Manufacturers of consumer goods are reducing their assessments of the situation by an above-average amount (by seven to 32 points). The manufacturers of furniture (balance deterioration by six to 45 points) and jewelry and musical instruments (deterioration by three to 46 points), for example, are reporting declining business dynamics. It is possible that many consumers have already purchased long-term consumer goods of this type in recent months - with the result that demand is currently no as high as before. By contrast, investment goods manufacturers and suppliers continue to be quite satisfied. This is announced by the minimally reduced balance, starting from record levels (60 after 61 and 53 after 54 points respectively). Mechanical engineering (60 after 62 points) and electrical engineering (56 after 60 points) rate their situation worse than earlier in the year. By contrast, vehicle construction, and in particular motor vehicle construction, are in even better shape than before. The assessments of the business situation set new records (66 after 59 and 68 after 60 points respectively). The good situation in the automotive industry is likely to be both a sign of the investment momentum that has picked up and a consequence of the good employment situation.

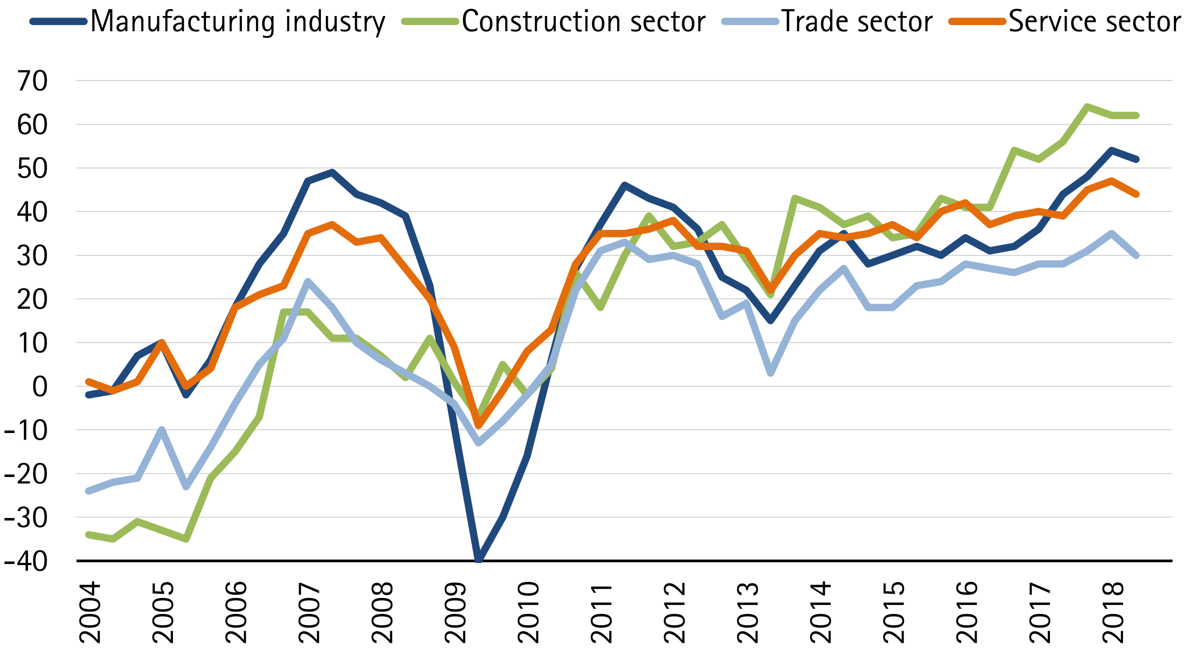
... and also the trade sector is restrained

Businesses in the trade sector have reduced their business ratings significantly by five points (balance: 30 points). Among others, more export-oriented sectors - wholesalers and trade brokers - are dampening the mood. Here, company valuations are falling sharply in particular (36 after 42 and 46 after 53 points respectively). However, trade brokers continue to be in the best mood in a sector comparison. In contrast to the trend, retailers with health-related goods assess their business situation significantly better than at the beginning of the year (by four points). The balance even reaches a new record value (39 points). In this context, demographics and changes in consumer behavior are also having an impact -- the willingness to pay for improvement of health and preventive health care is increasing.

Shifts in consumption

Retailers are significantly reducing their business assessments (reduction by four to 23 points). This is particularly astonishing in view of the good employment situation, rising wages and population growth. It seems that parts of the trade sector can no longer benefit as much from consumers' growing leeway as they have in the past. This applies especially to sellers of consumer goods such as shoes, clothing or toys.

Business situation by sector - in points



At the same time, many person-related service companies assess their economic situation again better than at the beginning of the year. They are even more satisfied than ever in the history of the DIHK economic surveys (improvement by one point to 42 points).

The education sector (improvement by seven points to 45) - also a consequence of the greater efforts to recruit good specialists - and travel agents (43 after 42 points) have never rated their situation this good. The arts, entertainment and recreation companies can maintain their good economic situation (balance still 35 points). These include libraries, museums, zoos and fitness studios. Many healthcare providers also assess their economic situation better than at the beginning of the year (improvement by two to 48 points). In this sector, demographic trends are particularly continuing to generate further growth.

Corporate services in a more modest mood

In line with the marginally less favorable situation in manufacturing industry, many enterprise-related service providers are also reducing their assessment of the situation slightly. However, the decline is happening at a high level (53 after 55 points). Among others, companies from the fields of research and development (51 after 57 points) and advertising and market research (30 after 39 points) are currently less satisfied with their own business situation. The decline in the security economy is also particularly significant (35 after 54 points).

The transport industry restricts their business situation in particular (by six to currently 34 points). Many transport and logistics companies are complaining about the need for investment in transport infrastructure and logistics and difficulties in finding and retaining personnel.

Temporary employment agencies assess their economic situation better than early in the year (improvement by three to currently 39 points). Many companies use temporary work as an anchor of flexibility, which is particularly important in times of major bottlenecks.

Assessment of the Situation (balance in points)

	Manufacturing industry	Construction sector	Trade sector	Service sector	All
Early Summer 2016	31	41	27	37	34
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

Banking industry remains cautious

The banking industry is now evaluating its situation a little better (up one point to 33). The slight improvement is also a consequence of the cost-cutting programs launched in recent years, which are now having an effect. As measured by the situation assessments of the overall economy (45 points) and in historical comparison, however, the banking industry remains cautious. Regulation and digitalization continue to cause major challenges for the institutes. In addition, many medium- and long-term loan agreements concluded years ago can now only be extended at minimum interest rates.

Building construction goes up, civil engineering goes down

The construction industry shows an ambivalent picture. The building construction companies rate their situation better than ever before (63 after 58 points). Only three percent rate their situation as "bad". Low interest rates, a good employment situation and increasing demand for housing, especially in conurbations, are driving up business. Furthermore, in the associated area of services to buildings, gardening and landscaping (56 after 45 points), the mood is brightening. By contrast, the civil engineering sector, which is dominated by public-sector contracts, reduces its assessment of the situation by five points on balance, but continues to consider itself to be doing well with a balance of 58 points. On the one hand, the order situation is good due to the many challenges of modernizing the infrastructure. However, many companies in this sector report lengthy and difficult approval procedures for their projects.

Expectations

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

Upswing under scrutiny

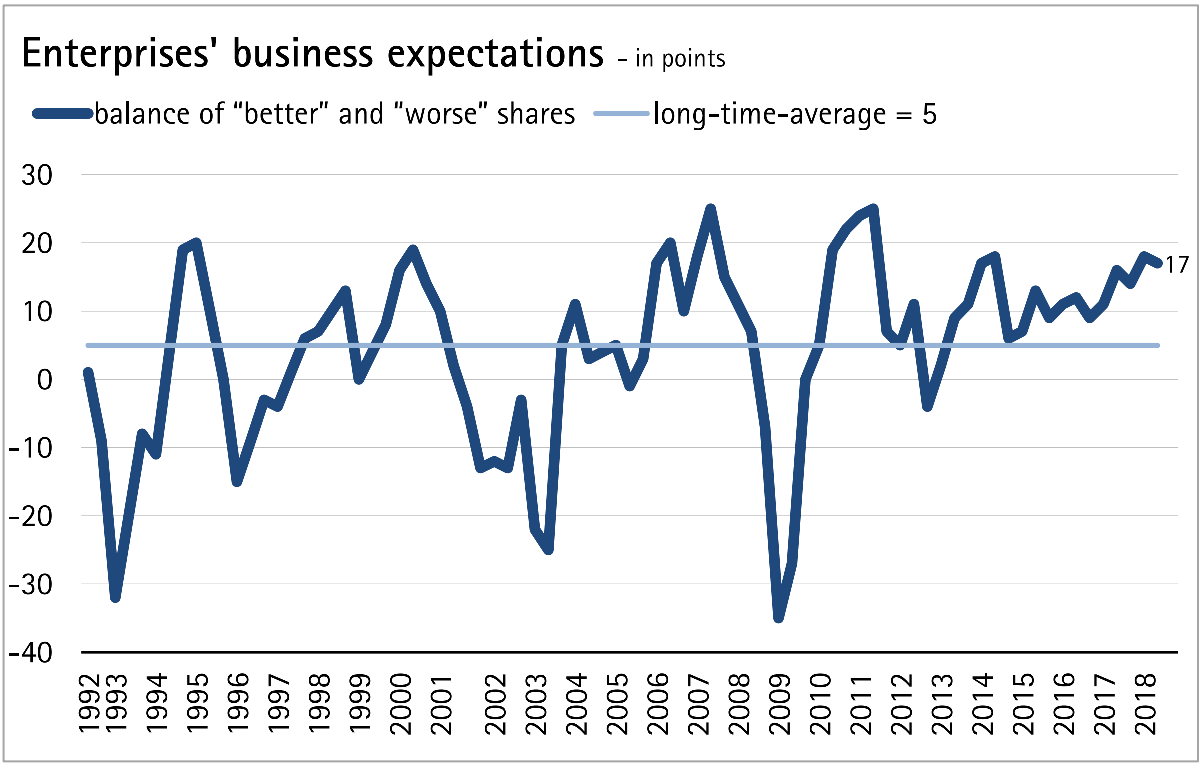
Companies are somewhat less optimistic about their future business. They are feeling the obstacles and risks: the greatest concern across all sectors is the shortage of skilled workers, followed by labor costs and the economic policy conditions. In particular, the companies mention the high bureaucratic burden, concerns about global politics and the tax system that is too complex and not investment-friendly. Regarding international business, skepticism is growing. Especially the manufacturing industry is no longer keeping up the high pace. Providers of corporate services are also feeling the effects. Retailers are likewise looking more cautiously into the future. By contrast, the construction sector continues to benefit from high demand, although bottlenecks are increasing.

Confidence is slightly waning

Over the next twelve months, 26 percent of companies expect their business situation to improve. 65 percent expect the development to be unchanged, only nine percent expect a deterioration. At 17 points, the resulting balance of "better" and "worse" shares is well above the long-term average (five points). However, the continuing rise in points from the beginning of the year (at that time: 18 points, fall 2017: 14 points) will not hold on. In addition, the value remains well below the level of past economic upswings.

Bottlenecks clearly visible

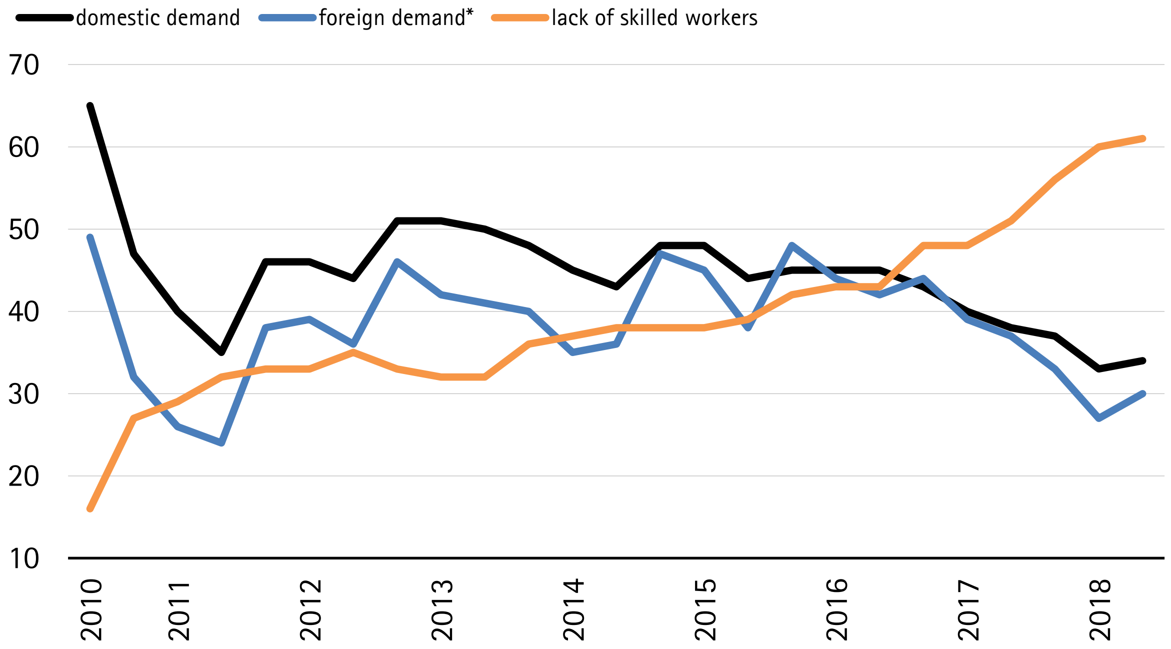
The main reason for the weaker business dynamics is the increase in bottlenecks. One serious problem is the shortage of skilled workers. More than six out of ten companies now see this as a risk to their business development (61 after 60 percent recently). Many companies are therefore afraid of having to reject orders or restrict the offer. In view of the increased competition for suitable skilled workers, labor costs remain the number two risk from the companies' point of view. Companies are also increasingly reporting shortages in materials and



Enterprises' Business Expectations (in percent, balance in points)

	better	about equal	worse	balance
Early Summer 2016	25	62	13	12
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

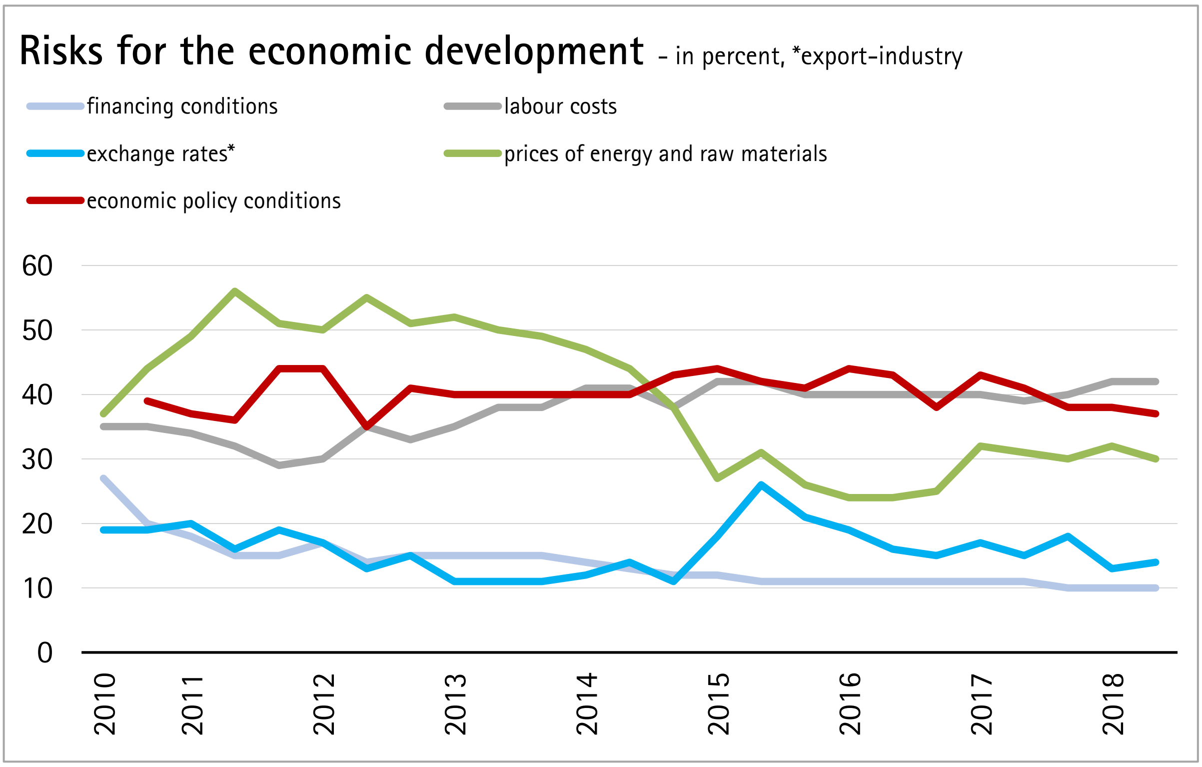
Risks for the economic development – in percent, *export-industry



transport capacities. In addition, many companies are currently operating at their capacity limits. Concerns about demand remain relatively low (domestic demand: 34 after 33 percent). Yet, in view of the international political uncertainties, concerns about foreign demand are also increasing (30 after 27 percent).

Still hope for decisive action by the federal government

By 37 percent of the companies the economic policy framework conditions are perceived as a risk for their business development. Concerns about economic policy therefore remain at a high level, but are decreasing compared to the previous survey (previously 38 percent). Companies particularly often mention high bureaucratic burdens due to excessive regulation, also in the field of labor market policy. They have seen further increases in the non-productive area - for example through additional documentation requirements. Currently, many companies are mainly concerned with the implementation of the General Data Protection Regulation. They feel partly overburdened and worry about high fines. The implementation of the new travel law is also one of the challenges faced by many companies. Uncertainties about the correct application of the regulations and additional burden from rising insurance premiums are a challenge for many in the manufacturing industry. Overall, coping with increasing



regulatory requirements alongside day-to-day business is a major obstacle especially for small companies

In the previous survey at the beginning of the year, the lengthy formation of a government was one of the core topics. The new government and its coalition agreement are also controversial among the companies. Some of them say that the government is not future-oriented enough. Some companies see their business threatened by the state of the infrastructure and energy policy. In particular, the expansion of the digital infrastructure is urgently needed from the point of view of the economy. Furthermore, tax policy is a frequently mentioned topic. The main criticisms here are the enormous complexity and the high burden on companies on an international comparison. Finally, the discussion about bans on diesel engines in certain areas and the possible consequences of the diesel scandal are also unsettling the local companies.

Major risk: global economic policy!

Compared to the prior survey, international politics is becoming even more important as a business risk. Uncertainty increases having in mind global trade threats and geopolitical conflicts. Trade barriers have been increasing for a while now. However, the advance of protectionism has taken on a new dimension with the introduction of new tariffs by the US. Many companies are therefore concerned about American trade policy and, in conjunction they worry about a trade war with China. The EU is also only temporarily exempted from US duties on steel and aluminium. In addition, US tariffs on automobile exports are on the table. In addition, there is the American unilateral approach to strengthening sanctions towards Russia and Iran. Apart from the effects to be feared of the individual measures on the countries concerned, it is above all the signal effect for the reliability of multilateral rules that is causing concern. Overall, there is reason to worry that this uncertainty could also have a significant negative impact on the global economy.

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
Early Summer 2016	45	42	11	40	43	16	24	43
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

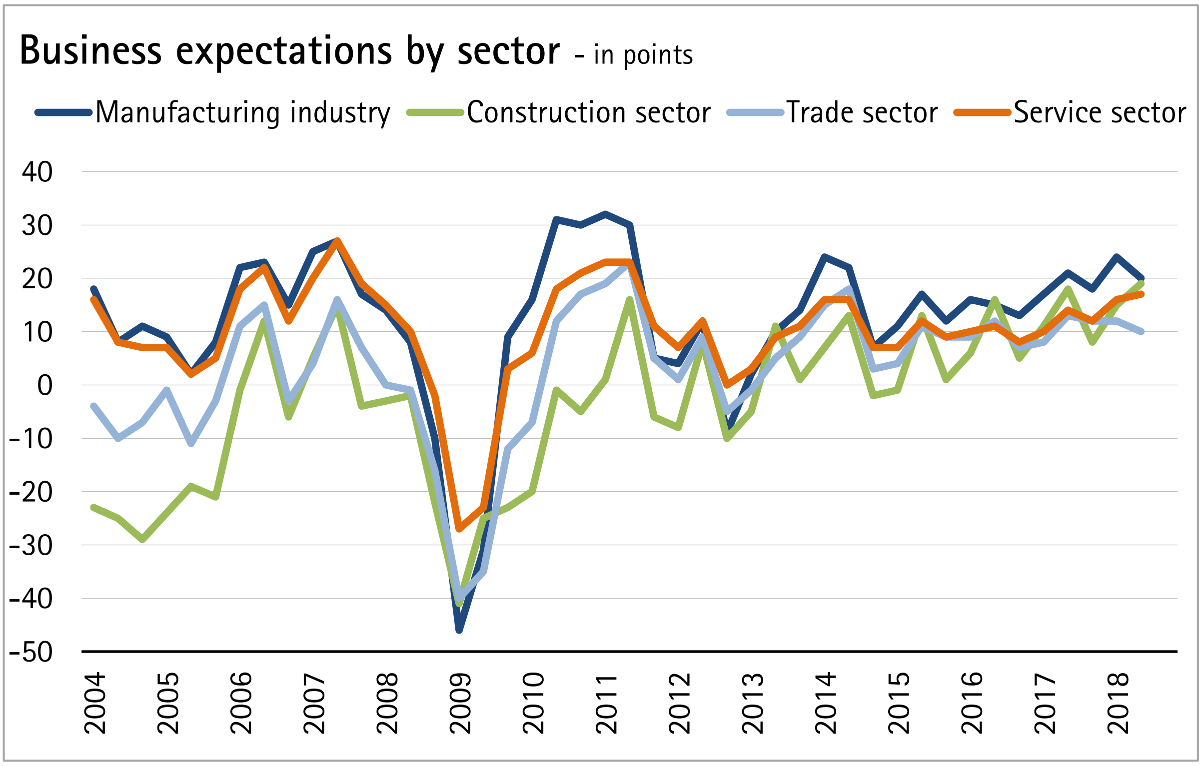
Due to the extended transition period, the Brexit is now somewhat off the agenda. However, uncertainty about the future shape of economic policy relations between the United Kingdom and the EU remains high. The strongly export-oriented manufacturing industry is particularly affected by the international imponderables. Accordingly, concerns about economic policy framework conditions are gaining in importance as a business risk in the manufacturing industry (36 percent after 34 percent in the previous year).

Pit stop at the electricity price rally ...

Energy and raw material prices are currently cited by slightly fewer companies as a risk to their business development (30 after 32 percent). An important determinant of this development is the special structural burden on German companies in terms of electricity prices. For every euro a local company spends on electricity, 81 cents are spent on taxes and duties. Network charges for electricity transport and the EEG levy put local companies at a cost disadvantage compared to competitors from abroad. Both positions have been repeatedly increased in recent years, but will not increase in 2018 once again. This is likely to be an important reason for the reduction in risk assessment. However, the structural problems remain. In the manufacturing industry, almost every second company sees a risk for its business growth in the development of energy and raw material prices (47 after 50 percent).

... but oil prices with effects

Yet, the slight decline in concerns about energy and raw material prices is not evident in all companies. From the perspective of large companies, the risk continues to increase (31 percent after 27 percent at last). This is probably also due to the fact that they often have direct purchasing channels and thus feel price changes directly. The oil price has risen sharply since the beginning of the year and has meanwhile reached its highest level since 2014. OPEC's reduction agreements have so far been adhered to. The production shortfalls in Venezuela and political risks in the Middle East are creating an additional shortage. However, the USA can react relatively flexibly by means of fracking and stocks were high for a long time. In addition, it remains questionable how long OPEC will keep its agreements. Prices for industrial raw materials have stabilized, starting from the all-time low of two years ago. Political restrictions could lead to price increases.



Large companies particularly skeptical

Expectations are particularly gloomy for large companies (>1000 employees: 19 after 22 points), while SMEs have not changed their outlook since the beginning of the year (<500 employees: 17 points as before). At the same time, many business risks are increasing from the perspective of large companies. They are increasingly concerned about the economic policy framework conditions (53 after 49 percent) and the development of their total costs (labor costs: 40 after 35 percent; energy and raw material prices: 31 after 27 percent). Concerns about financing are also rising slightly from a low starting level (ten percent after eight percent). Large companies are more heavily financed via the capital market. As a result, costs are likely to rise as a result of a global turnaround in interest rates.

Manufacturing industry at a more modest speed

The manufacturing industry is noticeably lowering its expectations (balance of expectations: 20 points after 24 points last). Concerns about foreign demand remain low by historical standards, but are rising remarkably (30 after 27 percent; average: 38 percent). By contrast, confidence in the development of domestic orders remains high (domestic demand risk: as previously 34 percent). However, the harsh geopolitical climate hits the manufacturing industry particularly hard due to its high foreign activity. Accordingly, an increasing proportion of the industrial companies see a risk for their economic development in the economic policy framework conditions (36 after 34 percent).

Uncertainty decreases demand for capital goods

In a comparison of the main industrial groups, manufacturers of capital goods remain the most optimistic, but the balance of expectations is likewise decreasing (25 after 29 points; intermediary: 19 after 26 points; producer of consumer goods: 18 after 19 points). The risks of orders from the rest of the world are also increasing from the perspective of manufacturers of capital goods. The catch-up demand for investments is high all over the world. However, the global economic policy risks are at least

Enterprises' Business Expectations (balance in points)

	Manufacturing industry	Construction sector	Trade sector	Service sector	All
Early Summer 2016	15	16	12	11	12
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

making planning more difficult. The confidence in mechanical engineering and electrical engineering companies is significantly lower than in the previous survey (26 after 31 points and 29 after 33 points). In the automotive industry, expectations are recovering after the decline at the beginning of the year (19 after 15 points; fall 2017: 19 points).

Business services slightly less demanded

The somewhat slower economic pace in the manufacturing industry is also being felt by providers of business-related services. Expectations are dampened (23 after 25 points) and concerns about demand are rising (38 after 36 percent). Confidence in corporate consultancies (25 after 30 points), for example, is clearly declining. In view of the uncertain socioeconomic situation, companies currently seem more cautious in commissioning such strategic services. In addition, IT service providers are also somewhat less confident about their business (33 percent after 36 percent), although concerns about domestic demand remain at the historical low level of the previous survey (48 percent). At the same time, companies see an even greater risk for their business in the shortage of skilled workers (70 after 67 percent) and in labor costs (38 after 36 percent). Expectations in the transport sector continue to develop positively (13 points after twelve). However, concerns about the future development of demand are increasing significantly here (24 after 20 percent).

Trade sector worries about the consumption mood

The mood in the trade sector is to some extent less positive (ten after twelve points). Companies are increasingly concerned about the development of demand (48 after 46 percent). To expect a positive business development is getting more rarely among trade brokers and wholesalers (24 after 29 points and 15 after 21 points). Trade representatives, sales agencies and other commercial intermediaries are often internationally active. As a result, concerns about the economic policy framework conditions are also increasing significantly among them (42 percent after 36 percent recently). For seasonal reasons, expectations in the retail sector are slightly better than at the beginning of the year (six after four points). However, the outlook is somewhat more restrained than last early summer (at that time: seven points). Despite the good situation on the labor market and rising wages, the consumption mood of consumers seems to get slightly worse off in some areas - albeit at a high level (long-term average of the expectation balance: minus two points).

Consumer-related service providers confident

In the hospitality sector and among person-related service providers, the increasing scope for private consumption continues to be felt. The expected balance of personal service providers remains at the historical maximum level of the previous survey (18 points). Expectations in the hotel and restaurant sector are significantly better than in the previous survey (19 after nine points). Restaurants, hotels and other accommodation establishments are more confident about their businesses than at the beginning of the year. Concerns about demand remain low (as recently 17 percent; low: 16 percent). Germany enjoys growing popularity as a travel destination. Despite everything, the hospitality sector is overall not as optimistic as last early summer (then: 20 points).

Financial sector: Skepticism in the credit business remains high

With an expected balance of one point (last survey: minus one point), for the first time in four years the number of those in the financial sector who expect their business to improve (16 percent) outweighs those who expect it to deteriorate (15 percent). However, the differences between the credit business and financial service providers remain large. Despite an improvement, the expected balance of the banking sector remains negative at minus twelve points (previously: minus 15 points). The challenges of adapting the business model to low interest rates, digitalization and increasing regulation remain great. From the point of view of the banking sector, the economic policy framework conditions remain by far the main risk (77 after 78 percent).

By contrast, the majority of financial service providers are optimistic about their future business (17 after 16 points) and concerns about economic policy conditions are noticeably decreasing (47 after 54 percent). Due to the lack of investment alternatives in the low-interest environment, investment companies, funds and other financial service providers are enjoying increasing popularity. Demand should even continue to rise, as long-term securities from the period before the financial crisis are gradually expiring.

Building construction with high demand ...

The construction industry is in the best mood (expected balance: 19 after 15 points). Companies are assessing their prospects more confidently than ever before since the Reunification. Optimism is rising in all sectors compared to the previous survey. This development is supported by the expected good weather: In early summer, construction companies are traditionally more optimistic about their business development than at the beginning of the year, when weather conditions make planning more difficult. However, there was also a slight increase in the year-on-year comparison (early summer 2017 balance: 18 points) - driven by building construction (19 points after 16 points in early summer 2017). Overall, concerns about demand and the economic policy framework in the construction industry are as low as never before (domestic demand: 21 after 23 percent at last; economic policy framework conditions: 26 after 29 percent). Low interest rates, positive employment dynamics and rising demand for housing, for example as a result of the growing population and increasing urbanization, are leading to a boom in the building construction and building completion. In addition, the companies' plans to expand are supporting demand in commercial construction.

... civil engineering with high hurdles

Expectations are also improving in civil engineering compared to the previous survey (20 after 15 points). In the highly seasonal building construction industry, however, the year-on-year comparison is often more meaningful. There was a significant decline here (at that time: 24 points). Civil engineering is feeling the increased funds for the expansion of digital and analogue infrastructure (falling risk of domestic demand: 20 points after 21). Yet, there is growing concern about future outflows of funds if investment funds and planning capacities are not increased synchronously. There is a shortage of projects, i.e. projects that are ready for construction. The largest drawback is the correspondingly increasing concern about the economic policy framework conditions (36 after 32 percent). In particular, the excessive regulation due to complicated environmental regulations and complex planning procedures as well as lengthy official and possibly judicial procedures make it difficult to completes upcoming orders quickly. Special challenges arise from multiple checks at all planning stages and from a lack of planning capacities - at federal, state and municipal level in many places.

Export expectations

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

Protectionism leaves its mark

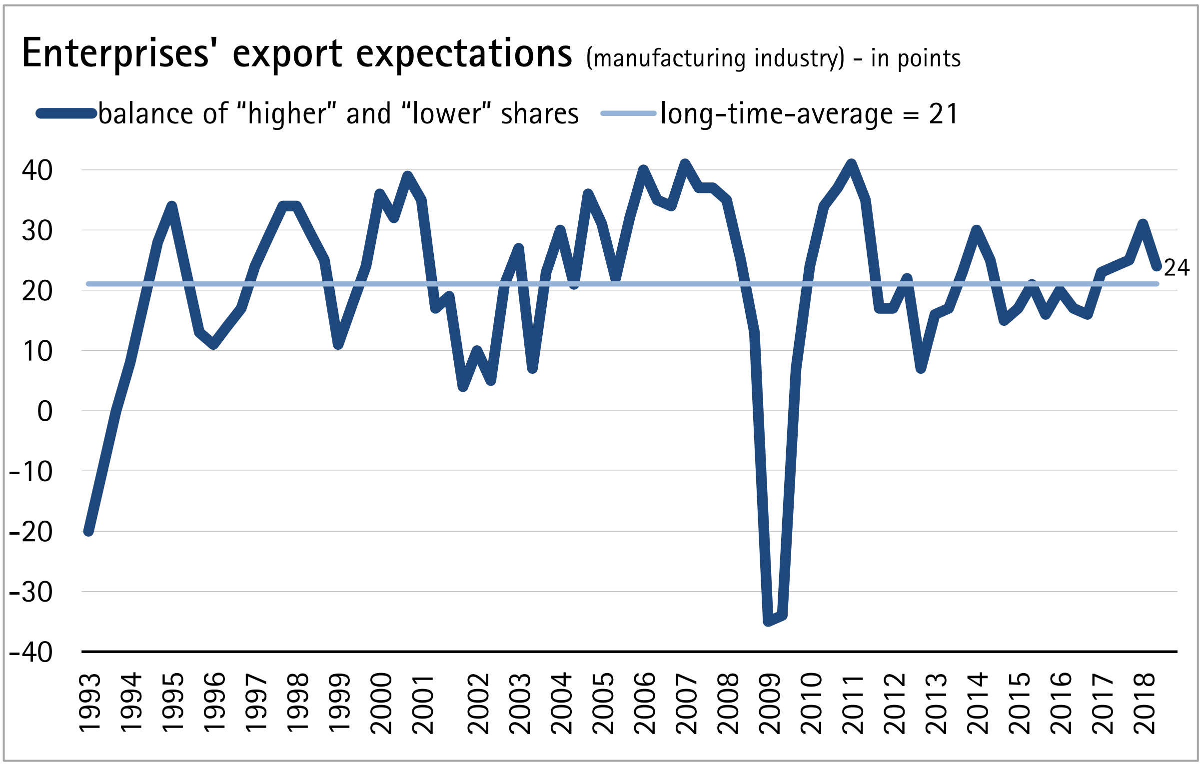
Export expectations are undergoing a significant slowdown. The uncertainty in the discussion on the future of world trade is evident here. Fewer companies expect to be able to realize further growth under these conditions, although the indicators are actually good in many important markets. The upturn in the euro zone and the USA is still intact, as well as in Southeast Asia and China - also driven by corporate tax reforms. At the same time, investments are also acting as global growth drivers. This is in line with the fact that capital goods manufacturers are more optimistic than suppliers and consumer goods producers. Many emerging markets are also benefiting from rising commodity prices. In addition to trade disputes, however, economic policy challenges remain with regard to Russia, Turkey and other markets.

Significant decline ...

Industrial companies' expectations of their export business have deteriorated noticeably since the beginning of the year. One in three companies expects better foreign business - nine percent worse. The balance of "higher" and "lower" reports drops by remarkable seven points to 24 points. Nonetheless the balance remains slightly above the long-term average of 21 points. All in all, the companies are confident with regards to their international business activities, although the momentum is slowing down substantially. Specifically, the proportion of companies expecting an improvement is well below the last figure (33 after 38 percent). The uncertainties with regard to international economic policy are complicating the realization of further growth in export business.

... despite economic drivers

The global economy continues to grow, albeit at a slightly slower pace. At the same time, the economic conditions for good business are actually in place in many important markets. All EU countries are enjoying an economic upswing. In the USA, the tax reform should provide new impetus. China continues to show



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

	higher	about equal	lower	balance
Early Summer 2016	29	59	12	17
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

high growth rates when compared internationally. Emerging countries exporting commodities are also benefiting from the stabilization of prices for industrial raw materials and the rise in oil prices. It remains to be seen if, in view of the political crises and conflicts, this favorable constellation can lead to new stimuli for world trade.

Trade policy as an uncertainty factor

The foreign trade environment has become considerably more complex in recent months. Especially the trade disputes, for example between Europe and the USA, are unsettling export-oriented companies. 30 percent of them consider foreign demand as a risk to business development. Since the beginning of the year, this topic has gained significantly in importance (most recently: 27 percent). For the first time since fall 2016, concerns about foreign demand are increasing, and no business risk recorded a stronger increase compared to the previous survey. In the free text answers to the risk factor "economic policy framework conditions" there are also significantly more companies mentioning international topics. The progress of protectionism has taken on a new dimension with the introduction of new US tariffs. Open markets are particularly important for the German economy due to its high export orientation. Trade policy developments are therefore a cause of concern for many companies. Other frequently mentioned topics include the trade war between the USA and China or geopolitical conflicts and wars. Some fear that the global economy will consequently slow down.

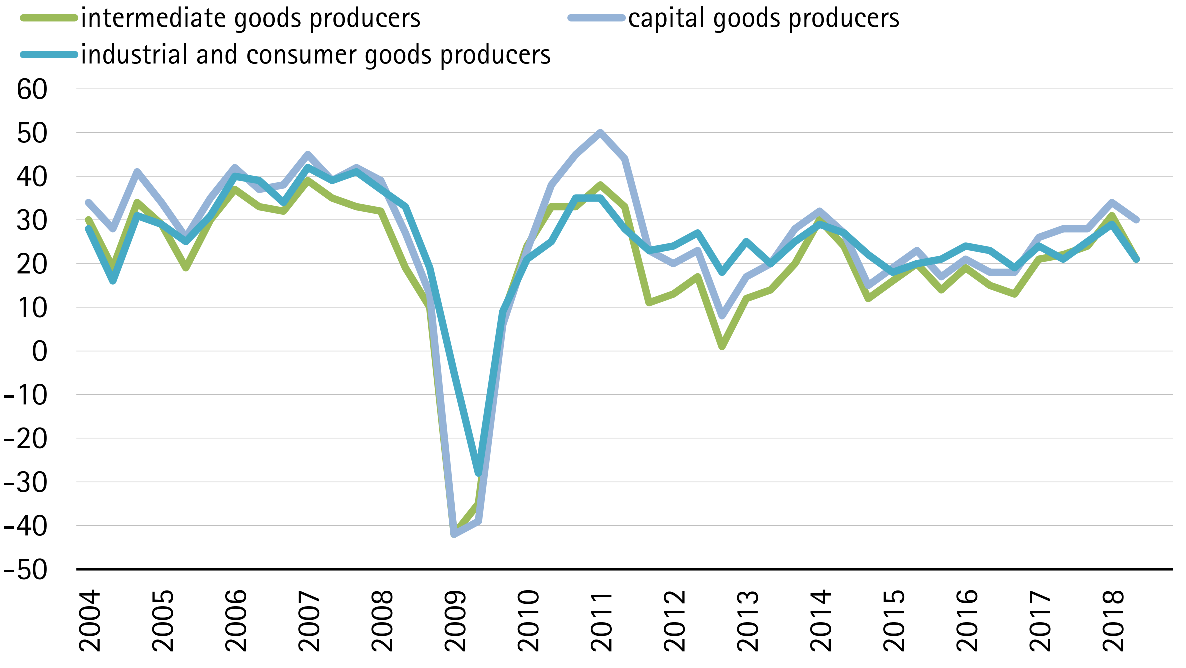
Exchange rate risk: Slight gain in significance

Only 14 percent believe that the development of the external value of the euro will pose a business risk for the coming months. When the year began, the figure was still 13 percent. By mid-April, the euro had developed relatively robustly against the most important trading currencies. Stable exchange rates increase the reliability of planning for companies. The euro also has a relatively low level in a long-term comparison. At the end point, however, various factors are causing concern in the foreign exchange markets: On the one hand, the US trade policy is exerting pressure on the dollar. On the other hand, the markets have responded strongly to the new formation of government in Italy. If these fluctuations continue, the risk should become even more relevant from the companies' point of view in the future.

Main industrial groupings: Capital goods manufacturer at the front

In a comparison of the main industrial groups, export expectations for capital goods are the most robust. The decrease of four points in export expectations is significantly lower than for suppliers and consumer goods producers. With an expected balance of 30 points, they are also continuing to be at the forefront. Although the upturn in investment abroad appears to have slowed down, it remains intact in fundamental terms. In addition, capital goods manufacturers seem to continue to see themselves well placed in international competition.

Export expectations by main industrial groupings - in points



Nevertheless, the setbacks in the other industrial sectors are even more pronounced. The balance of export expectations deteriorated by significantly ten points for intermediate producers (now 21 points) and by eight points for producers of goods and consumables (now 21 points).

Perceptible uncertainty across the board

Looking at the sectors, it is also evident that there has been more restraint with regard to international business almost across the board. This applies, for instance, to the chemical industry (30 after 43 points), mechanical engineering (32 after 36 points) and the food and feed industry (27 after 31 points). Contrary to the trend, the pharmaceutical industry is more confident about its business activities abroad. It anticipates a dynamic global sales market. With 43 points, the industry is now slightly above its long-term average (40 points, most recently: 39 points).

Vehicle manufacturing also started the early summer with optimism (balance up from 21 to 29 points). In view of rising incomes all over the world and a good position in important markets such as the USA and China, confidence was high for the next business months abroad. Things have changed since then, however: On the one hand, China has meanwhile announced a reduction in its import duties - for example on vehicles with internal combustion engines. On the other hand, the US has published plans for punitive tariffs on vehicles. The USA is the second most important export market for German automobiles. To what extent the positive mood in the industry can be maintained is questionable.

Enterprises' Export Expectations (balance in points)

	Intermediate goods-producers	Capital goods producers	Industrial and consumer goods producers	Industry
Early Summer 2016	15	18	23	17
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

At least large ones stay on track

When comparing the sizes of firms, it is the large companies that remain relatively optimistic about their export plans. The balance drops by a single point to 43 points. Due to their generally more global orientation, the companies can be active in many markets and benefit from the fundamentally broad upswing in the global economy. They are also in a more favorable situation to deal with increasing trade barriers.

Medium-sized companies are much more cautious. The companies with up to 500 employees are significantly reducing their export expectations by nine to 19 points. SMEs often have fewer resources to cope with changing external economic conditions and fewer opportunities to react in a flexible manner to changes in the global environment. For companies with up to 20 employees, the balance even fell by 14 to five points.

Service providers also shift down a gear

In line with the slightly restrained assessments of industrial companies, the expectations of export-oriented corporate service providers are also declining. Here the balance drops by seven points to 15. Here, too, the uncertainty about future international global cooperation becomes apparent.

View of the World Regions

The estimates are based on the current "AHK World Business Outlook", which includes feedback from around 5,000 member companies of the German Chambers of Commerce Abroad (AHK), delegations and representative offices.

Global economy robust - crises on the rise

Despite global crises and trade policy challenges, global economic growth is developing robust overall. The German companies abroad are generally optimistic about the global economy. However, more trade barriers are being observed internationally. In addition, political crises as well as economic policy uncertainties such as, for example, the Brexit are noticeable among companies.

Optimism in Europe persists

The economy in the EU countries is still developing positively. The upward trend continued particularly strongly in Spain and the new EU member states. Overall, German companies expect good business thanks to rising demand in the coming twelve months. But the momentum is unlikely to be quite as high as in recent years. For example, the French economy was unable to maintain the high growth rate of the end of the year at the beginning of the year. The potential for additional growth in the coming years lies in the implementation of further reforms by President Macron, because the economic policy framework conditions are the greatest risk from the companies' point of view. Solutions are also needed for the substantial public debt ratio and high youth unemployment.

Spain continues to grow robustly. The unemployment rate is falling sharply, boosting private consumption. Exports are also contributing to growth. Catalonia's aspirations for independence continue to give some cause for concern. Growth in Italy remains moderate. The persistently high (youth) unemployment is restraining consumption. The majority of German companies in the region cite the economic policy framework as the greatest risk to their business development - an above average figure also when compared to all other countries. As a result of the difficult formation of government, uncertainty with regard to economic policy is even increasing.

Poland's economy stays dynamic. This growth will be driven by private consumption - partly thanks to the ongoing decline in unemployment. In addition, there was an increase in investments. The Czech economy is also in good shape. Private households that are keen to consume as a result of rising wages, an increase in exports and investments by companies as well as by the state are contributing to the good mood in the economy.

Brexit is already looming on the horizon

The economy in the United Kingdom continues to grow only modestly. German exports to the United Kingdom are already declining. Many questions remain to be answered on the substance of future economic relations between the EU and the United Kingdom. Investors therefore also remain hesitant. The inflation rate of approximately three percent also puts pressure on household incomes and thus also acts as an economic obstacle.

Risks in Turkey and Russia

Growth rates in Turkey are currently still positive thanks to a very expansionary fiscal policy. Nevertheless, the high rate of inflation and the devaluation of the lira are considerable risk factors for economic development. Nearly half of German companies in Turkey are also concerned about the economic policy framework conditions. The political uncertainties are large.

The Russian economy is expected to grow for the second year in a row in 2018. This is mainly due to the stabilization of the oil price. In order to achieve even further growth, far-reaching reforms would be necessary to make the country's economy more competitive and to integrate it more strongly into global value chains. After the re-election of President Putin, however, it seems unlikely that a new economic policy course will be pursued. At present, new US sanctions will make the business of German companies more challenging.

High growth rates in Asia

China continues to grow, even though growth rates are decelerating to some extent. Thanks to rising wages, consumption continues to grow and import demand increases. But the major challenges of demographic change and overcapacity in some sectors remain. There remain major unanswered questions behind many of the government's announcements on opening up markets and removing barriers to foreign companies.

Following the recovery phase in winter, the Japanese economy has lost considerable momentum. Recently, production has even declined. The negotiated EU-Japan trade agreement and the free trade agreement CPTPP between eleven Asian and American countries could give new impetus to exports of the exporter country. South Korea is developing very well. The main reasons are increases in exports and investments. The shortage of skilled workers and weak domestic demand are preventing an even higher dynamic. High growth rates are continuing to be expected for India. A precondition, however, is that current economic reforms take the form of a uniform value-added tax. Increasing direct investments and gradual achievements in reducing bureaucracy are giving positive impetus to the economy. Yet economic policy remains the main risk from the company's point of view.

NAFTA future uncertain

The growth phase in the USA will continue in 2018. The main reason is the positive consumer climate. The extensive US tax reform should provide additional impetus - especially for local investments. But the economic policy framework conditions pose a risk to almost half of German companies in the USA. President Trump is raising concerns about a global trade war by introducing import duties on steel and aluminium along with a trade dispute with China. The examination of customs duties on cars from the EU is an additional risk. The introduction would imply a sharp cut for German exporters. In addition, the NAFTA renegotiation continues to cause uncertainty in the economy. Mexico is expected to grow by more than two percent. Its important export economy, however, remains heavily dependent on the USA. Therefore, the current uncertain outcome of the NAFTA renegotiations will have a significant impact on effective economic growth. Consequently, there has recently been a reluctance to invest and the peso has weakened.

EU-Mercosur agreement in the pipeline

Concluding negotiations on the Free Trade Agreement between the EU and Mercosur could give new impetus to the South American economy as a whole. The Brazilian economy is currently recovering slowly from the crisis. A stable government following the presidential elections in fall and economic policy reforms are prerequisites for sustainable growth in Brazil.

Opportunities and challenges in Africa

In the "Africa, Middle East" region, companies expect better economic performance. The region's commodity exporters benefit from the stabilization of prices for many industrial metals as well as the rise in oil prices. Yet concerns about the economic policy framework remain high. South Africa, the economic hub of the continent, continues to grow only weakly. The stabilization of the prices of important export raw materials could help at least to boost growth again to some extent in 2018. The ambiguous economic policy course of the new President Ramaphosa and the announced land reform, though, are causing uncertainty. Accordingly, the greatest risk for German companies are the economic policy framework conditions.

Investment intentions

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

Investment upswing continues for the time being

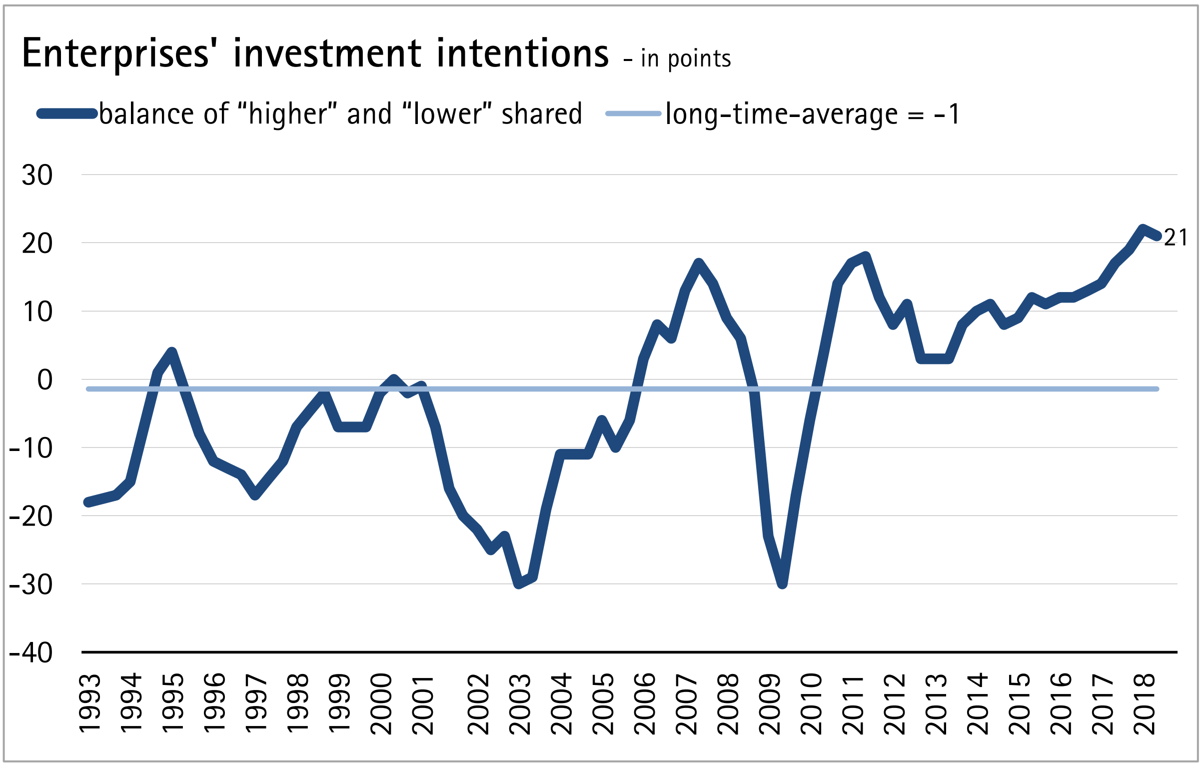
The companies want to continue to invest heavily. Compared to the maximum value of the previous survey, investment plans are only showing a slight decline. In addition to replacement, capacity expansions and product innovations are seen as the most important investment motives. Financing conditions remain favorable, as prior. At the same time, companies with high investments are feeling the shortage of skilled workers more and more. In view of the continuing high demand, construction companies are keener than ever to invest.

Uncertainties are not yet evident

The investment upswing in the private sector continues. Companies are only making minimal reductions compared to the beginning of the year. The proportion of companies wishing to increase their domestic investment spending in the coming months remains at 34 percent. Only 13 percent of the surveyed companies plan to invest less and 53 percent plan to make the same investments as prior. The resulting balance of 21 points only lies slightly below the record level earlier this year (22 points). Investment intentions in all sectors of the economy are well above the long-term average. As a result, investment plans are more robust than companies' assessments of the current situation and their expectations. Uncertainties mainly arise from international politics, however they have not yet created an impact.

Keeping the competitive edge with investments

The majority of companies' capital expenditure continues to be on the replacement of machinery and equipment or the maintenance of buildings. 64 percent of companies identify the need of replacement as their primary motive for their planned investments (beginning of the year: 65 percent). This is followed by identifying capacity expansions and product innovations as the next most important driving forces for investments (32 after 33 percent in each case). On the one



Enterprises' Investment Intentions (in percent; balance in points)

	higher	about equal	lower	balance
Early Summer 2016	27	58	15	12
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

hand, companies are clearly feeling the capacity bottlenecks and are therefore planning expansions. On the other hand, through investments they want to face the pressure of innovation and want to create the conditions for future competitiveness. The shares of investments in rationalization (31 percent) and environmental protection (14 percent) remain unchanged.

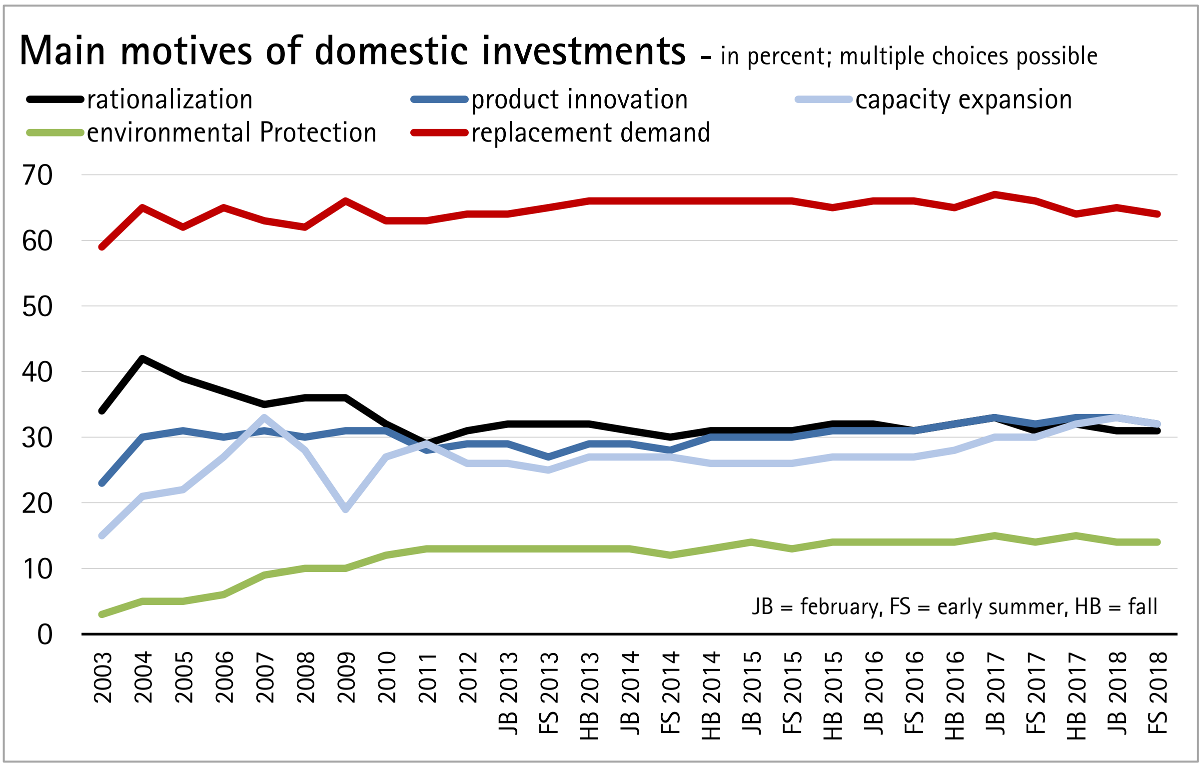
Financing conditions favorable

Financing continues to pose a risk to business development for only one in ten companies. This share does remain at an all-time low. In view of full capacity utilization and relatively minor concerns about demand (34 after 33 percent), many companies are taking advantage of low interest rates to finance their investments at favorable rates. This is even more so, as the low interest rates cannot stay endlessly low. The companies' self-financing power remains high. However, demand for corporate loans have been rising since the beginning of the year, partly because banks have relaxed their credit guidelines and conditions in this segment. Yet, the corresponding skilled personnel creates a reduction in the investment plans (proportion of skilled workers: 61 after 60 percent). Especially companies that want to boost their investment budgets see an increased risk in the shortage of skilled workers. (69 after 68 percent).

Consistency in the manufacturing industry

The manufacturing industry's propensity to invest remains at a high level despite the great uncertainties on the international markets. Although the balance has declined slightly (27 to 26 points), it is still only marginally below the record value (28 points). At 39 percent, the proportion of companies in the manufacturing industry that want to expand their budgets is also significantly higher than in other sectors of the economy.

The manufacturing of investment goods is particularly robust. On the bottom line, they are still planning a major budget expansion (balance of 28 points). For the manufacturers of investment goods, the motive for product innovations is again somewhat faded into the background (41 after 46 percent), while the capacity expansions are increasing (44 after 42 points). The strongest impetus comes from the automotive industry, which wants to significantly expand its budgets (33 after 28 points). In this sector, investments in capacity expansion are becoming particularly important: more than half of the companies now want to invest in expansions (51 percent after 41 percent). The share thus almost reaches the level of the traditionally dominant replacement investments (54 percent after 51 percent). The challenges in the field of electric mobility often require additional investments on the part of manufacturers and suppliers in the automotive industry, for example in the development of new models and parts, in charging infrastructure or smart mobility. Investment intentions in mechanical engineering also remain at a high level (28 after 28 points, a long-term average of ten points since 2003). A somewhat less strong expansion of



budgets is emerging in electrical engineering (28 after 32 points).

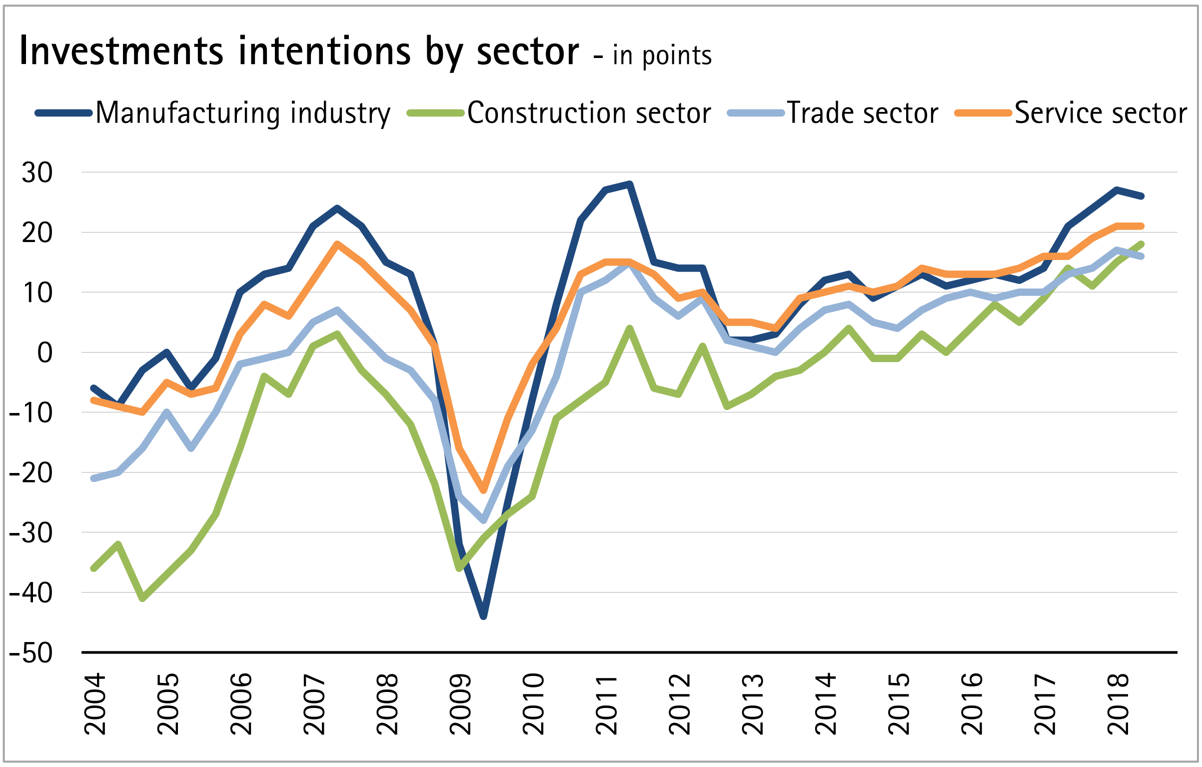
The investment budgets of consumer goods manufacturers are no longer rising as strongly as indicated at the beginning of the year (22 after 23 points). This applies for example to the furniture and pharmaceutical industries (19 after 25 and 32 after 38 points respectively). Additional impetus comes from the food industry (30 after 27 points) and the textile and clothing industry (9 after 7 points).

Against the backdrop of clearly dampened expectations and increasing concern about the development of raw material prices, the investment plans of producers of intermediate goods are declining slightly (26 after 28 points). Companies in the rubber and plastics industry in particular (27 after 33 points) and in the glass, ceramic and stone processing sectors (20 after 30 points) are noticeably reducing their budget expansion.

Construction industry: It's going!

Investment intentions in the construction industry have reached a new record value (18 after 15 points). The unchanged good situation and optimistic expectations mean that companies in all construction sectors clearly want to invest significantly more. The most important investment motive after sales (63 after 62 percent) therefore remains expansions (27 after 28 percent).

Net investment in the construction sector increased particularly sharply (19 after 13 points). Building construction also increased slightly (17 after 16 points). Demand for residential space remains high, especially in urban areas. In addition, there are contracts from the public sector, especially from the federal states and municipalities, for the construction or repair of public infrastructure such as schools, daycare centers or sports facilities. Civil engineering (18 after 17 points) benefits from increased public spending on upgrading transport infrastructure and broadband expansion.



The biggest bottleneck in the construction industry remains the shortage of skilled workers. Now 82 percent of construction companies see this as a risk to their business development (lastly: 79 percent). In response to this, construction companies are investing more than in the past in rationalization measures (27 after 26 percent).

Construction-related service providers are involved

Construction-related service providers are also responding to the ongoing construction boom and are intending to invest more heavily. The investment budgets of architectural and engineering firms (24 after 18 points) and service providers in the fields of building services, horticulture and landscaping (22 after 14 points) are rising particularly strongly. The high demand for residential space and, above all, commercial space also gives the real estate industry confidence. The investment intentions have reached a new record value (31 after 29 points). Increasing urbanization also poses new challenges, especially for providers of urban infrastructures. The waste and waste water disposal companies are also planning investments at record levels (37 after 34 points) and are concentrating above all on capacity expansions (45 after 34 percent). This environment - keyword grid expansion - as well as regulatory requirements during the energy transition can also be attributed to the expansionary investment plans of the energy suppliers, which also report an all-time high (29 after 19 points).

Good economic situation promotes changes in consumption patterns

Employment at record levels and an improved income situation are driving consumer spending. They also support long-term trends in consumer behavior, which are becoming increasingly apparent in the investment intentions of some sectors. Changing social patterns and rising life expectancy lead to higher spending on leisure activities, travel, fitness and well-being. Travel agents are responding to rising service demands with more investment (12 after 8 points), especially in rationalization (25 percent) and product innovations (42 percent). And accommodation establishments (25 after 23 points) and the hotel and restaurant industry

Enterprises' Investment Intentions (balance in points)

	Manufacturing industry	Construction sector	Trade sector	Service sector	All
Early Summer 2016	13	8	9	13	12
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

(23 after 22 points) are also planning higher investment budgets in response to the increased attractiveness of Germany as a travel and leisure location.

Trade sector more reserved

The trade sector's investment intentions are declining slightly (16 after 17 points). Wholesale reacted to the clouded business expectations with somewhat more cautious budget planning (19 after 21 points). The traditionally cautious retail sector are also planning a less strong expansion of its investments (nine after ten points). Trade in health-related goods is tending in the opposite direction. Demographic change and at the same time an ongoing social reassessment of "health" as an actively manageable state lead to optimistic expectations and are also reflected in high investment budgets (20 after 13 points).

Service providers remain at record level

The service providers still want to invest heavily. At 21 points, the balance remains at the maximum value of the previous survey. The enterprise-related service providers are proving robust in their investment projects. In addition to replacement (58 percent), they want to continue investing primarily in expansions and innovations (36 percent each). Advertisers and market researchers have even reached a new high with their investment intentions (22 after 18 points), as do management consultancies (23 after 19 points). The international integration of the German economy, but also the increasing regulatory requirements for commercial companies in the areas of publication, compliance or CSR also require more investments from corporate, legal and tax advisors and auditors - for example in new or larger locations or IT solutions (20 after nine points).

The balance of personal service providers is slightly lower (21 after 22 points), but is still at the second highest level in the survey history. In the transport sector, the balance is also slightly deteriorating at a high level (16 after 18 points). Here, bottlenecks in the transport infrastructure as well as a lack of commercial space, e.g. for logistics centers, prevent an expansion of investments.

Financial sector plans more expansionary

Financial and insurance service providers are planning more investments than recently (balance up five points to 20). The challenges for the sector remain immense. Consolidation is continuing and is causing the institutions to cut costs, inter alia by forming larger units. The ongoing low interest rate policy, the increasingly complex regulation and the need for adjustment due to digitalization require even more investment in rationalization than at the beginning of the year (60 after 57 percent). But spending on innovations (31 percent after 29 percent) is also increasing. In this context, new digital products for consumers such as mobile payment play a role.

Employment Intentions

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

Lack of skilled workers limits employment growth

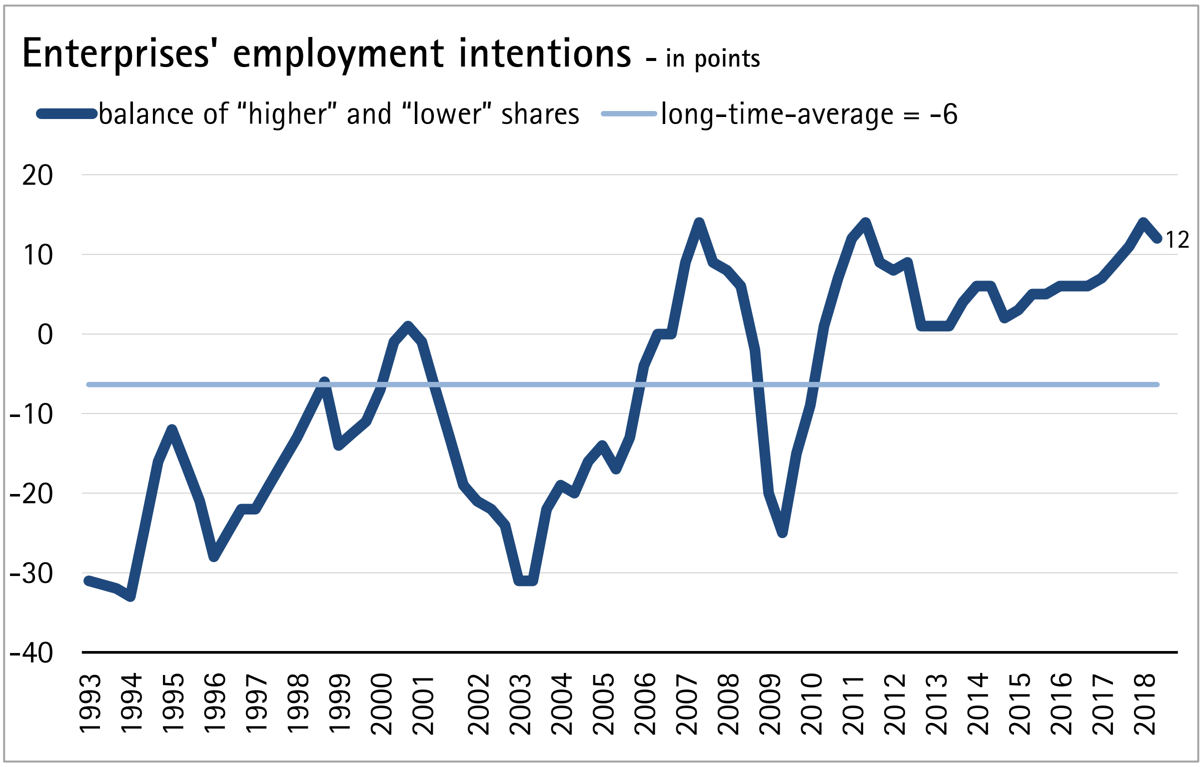
After a four-year increase, companies' employment plans are declining slightly for the first time. Companies are thus following the somewhat dampened business expectations. Nevertheless, personnel planning remains expansionary across all industries. In the construction industry, contrary to the trend, employment intentions have even risen marginally. The manufacturing industry, too, remains easy to adjust, but is noticeably weaker at the current point in time. Overall, the growing shortage of skilled workers is proving to be an extremely limiting factor. Companies see labor costs as the second highest risk.

Moderate adjustment also in the labor market

The companies' employment planning continues to be expansionary across all sectors, albeit to a lower extent than at the beginning of the year. Nearly one in four companies expresses the intention to increase the number of employees (23 after 25 percent). As in the past, two thirds want to maintain their current employment level and only eleven percent plan to reduce their staff. The resulting balance of job creation and job losses amounts to twelve points and is thus slightly lower (by two points) than in the previous survey.

Top-Flop: Skilled workers!

The lack of skilled workers is still regarded as the most serious business risk among companies and has reached a new peak in the survey. More than six out of ten companies report it as a threat to their business development (61 after 60 percent at the beginning of the year). The problems in the recruitment and retention of qualified personnel can be felt across all industries.



Enterprises' Employment Intentions (in percent; balance in points)

	higher	about equal	lower	balance
Early Summer 2016	18	70	12	6
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

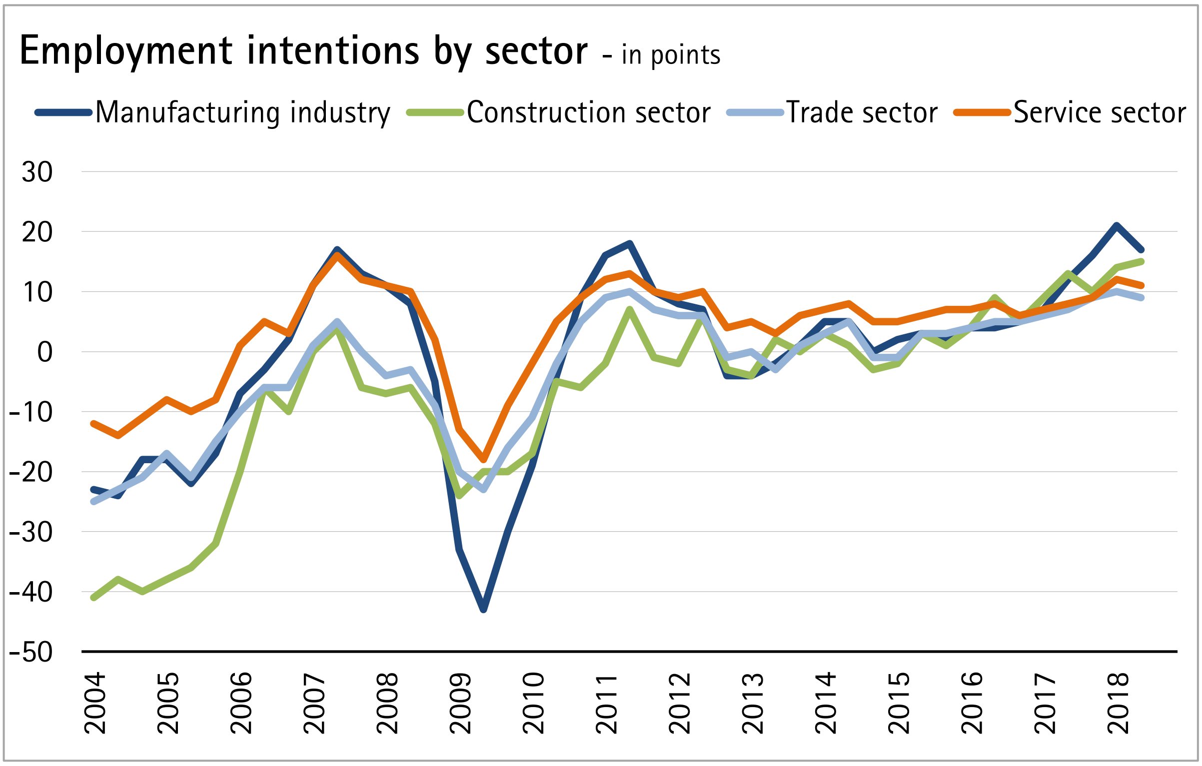
Many companies are worried that the shortage of skilled workers will prevent them from exploiting their growth potential. In addition, many companies are afraid of having to restrict their offers or refuse orders as a consequence. The lack of qualified employees is thus increasingly becoming an economic constraint. This reveals the need for measures to strengthen vocational training and expand employment potential, including through controlled immigration of qualified workers.

The shortage of skilled workers also remains the number one risk for companies that are keen to invest. 69 percent of companies planning higher investments now regard the scarcity of skilled workers as a risk to their business development (most recently: 68 percent). The worst-case scenario is that companies invest less than possible in new technologies due to a lack of qualified personnel. This is neither compensated by additional rationalisation investments (share: 31 percent as recently) with which companies react to a lack of skilled workers through new technologies. Many companies are responding with more training and further education measures, among others, in order to retain at least the regular staff for a long time. The services are also no longer limited to managers. This high demand is leading to significantly higher expectations among companies in the education sector (32 after 12 percent).

Shortage of skilled workers hits large and small

SMEs continue to drive employment growth and have significantly more expansive employment intentions than large companies (<500 employees: 13 after 15 points; <1000 employees: five after eleven points). Accordingly, there are likewise great concerns about the shortage of skilled workers among SMEs. Small and medium-sized enterprises with 20 to 199 employees face the biggest bottlenecks (70 after 69 percent at last). They are often less well known among potential applicants. In small companies with up to nine employees, the difficulties in recruiting skilled workers are also increasing (47 after 45 percent). However, because they employ overall fewer people due to their size, the shortage of skilled workers is not that severe yet.

For large companies, too, the shortage of skilled workers remains a major risk (53 percent). Here the number of vacancies is higher. In light of the somewhat restrained increase in the number of staff, there has been a slight reduction in the risk at the current edge (most recently 55 percent). In general, large companies often have more opportunities to cover gaps through employee rotation within their own companies. In addition, they often have access to a broader market of skilled workers. Moreover, due to their larger scope of action and higher human and financial resources in recruiting, it is often easier for them to replace departing specialists.



Labor costs remain risk no. 2

The staff shortages are also reflected in companies' concerns about high labor costs. This continues to be considered as a risk to the business development by 42 percent of the companies. Firms try to attract skilled workers by offering higher salaries, special services and flexible working models. This is another reason why the personnel costs of many companies are rising. Large companies with more than 1,000 employees are increasingly concerned about labor costs (40 percent after 35 percent at last). This could also have contributed to the somewhat weaker employment plans of these companies (five after eleven points lately).

In addition, in their free text responses to the risks arising from economic policy frameworks, companies primarily identify "bureaucracy" and often likewise "labor market policy" as obstacles. The regulations of the employee leasing law in force since April 2017 are also making themselves felt with growing documentation requirements.

Construction industry expands

Contrary to the trend, the intentions to employ extra staff in the construction industry sets a new record. The balance rises to 15 points (last survey 14 points). The construction industry is in fact the only branch of the economy that is showing even more willingness to hire than previously. The record levels cover almost all construction sectors (building construction: 13 after ten points, expansion construction: 17 after 15 points). One reason for this are well-filled order books due to the continuing construction boom. Only in civil engineering employment intentions remained stable (19 points as at the beginning of the year; early summer 2018: 20 points). This sector is particularly characterized by investments in public infrastructure. The stronger outflow and at the same time the stabilization of funds are positive signals. However, the planning capacity bottlenecks still exist in many areas.

Nonetheless, almost the entire construction sector is affected by the shortage of skilled

Enterprises' Employment Intentions (balance in points)

	Manufacturing industry	Construction sector	Trade sector	Service sector	All
Early Summer 2016	4	9	5	8	6
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

workers. Meanwhile, four out of five construction companies see this as a risk to their business development (82 after 79 percent). The expansion construction in particular (84 after 83 percent) sees the shortage of skilled workers as a decisive risk factor (building construction: 80 after 74 percent, civil engineering: 82 after 85 percent).

Employment dynamics in manufacturing industry are slowing down...

The weakening business expectations of the manufacturing industry - especially with regard to international business - also have an impact on personnel planning. The employment balance has fallen accordingly (17 after 21 points). The manufacturing industry remains in the lead in comparison of the sectors. But the high at the beginning of the year is slowing down. In particular, manufacturers of consumer goods are planning more cautiously than before (seven after 13 points), but capital goods producers and suppliers are also adjusting their intentions slightly (23 after 26 points and 18 after 22 points). Worries of the manufacturing industry about the shortage of skilled workers remain the primary risk for business (60 percent as in the past). There has also been no signs of relief in terms of labor costs (as in the previous 44 percent).

... except for the automotive industry

Vehicle construction is an exception to the somewhat restrained development in the manufacturing industry. Here, companies are expressing increasing recruitment intentions (13 after eleven points). Especially in automotive engineering (14 after six points) and in the production of automotive parts and auxiliary equipment (ten after minus one point), the companies intend to employ significantly more personnel. The sectors are facing high demand and want to expand capacities to a greater extent. This also increases personnel requirements. But the positive employment intentions have also significantly exacerbated the shortage of skilled workers in the automotive industry (62 after 53 percent).

Retailers and service providers are planning a little more cautiously

Employment intentions in the trade sector are declining slightly from record levels (nine after ten points). Wholesalers (13 after 17 points) and intermediaries (11 after 18 points) in particular are planning more cautiously given the difficulties in export business. Retailers, on the other hand, are planning minimal Expansion starting from a very low level (four after three points). In car sales and repair companies, the balance is even almost at a record high (ten after seven points, record: eleven points at the beginning of 2017), partly due to necessary car conversions.

The dynamic of service providers is also declining moderately from a high level (eleven after twelve points). Both providers of personal and business services are reducing their staff planning somewhat (15 after 16 points and 24 after 26 points). The IT sector's employment intentions are also declining (39 after 42 points). The shortage of skilled workers in this sector continues to worsen, reaching a record level (70 after 67 percent).

Hospitality industry ready for the summer

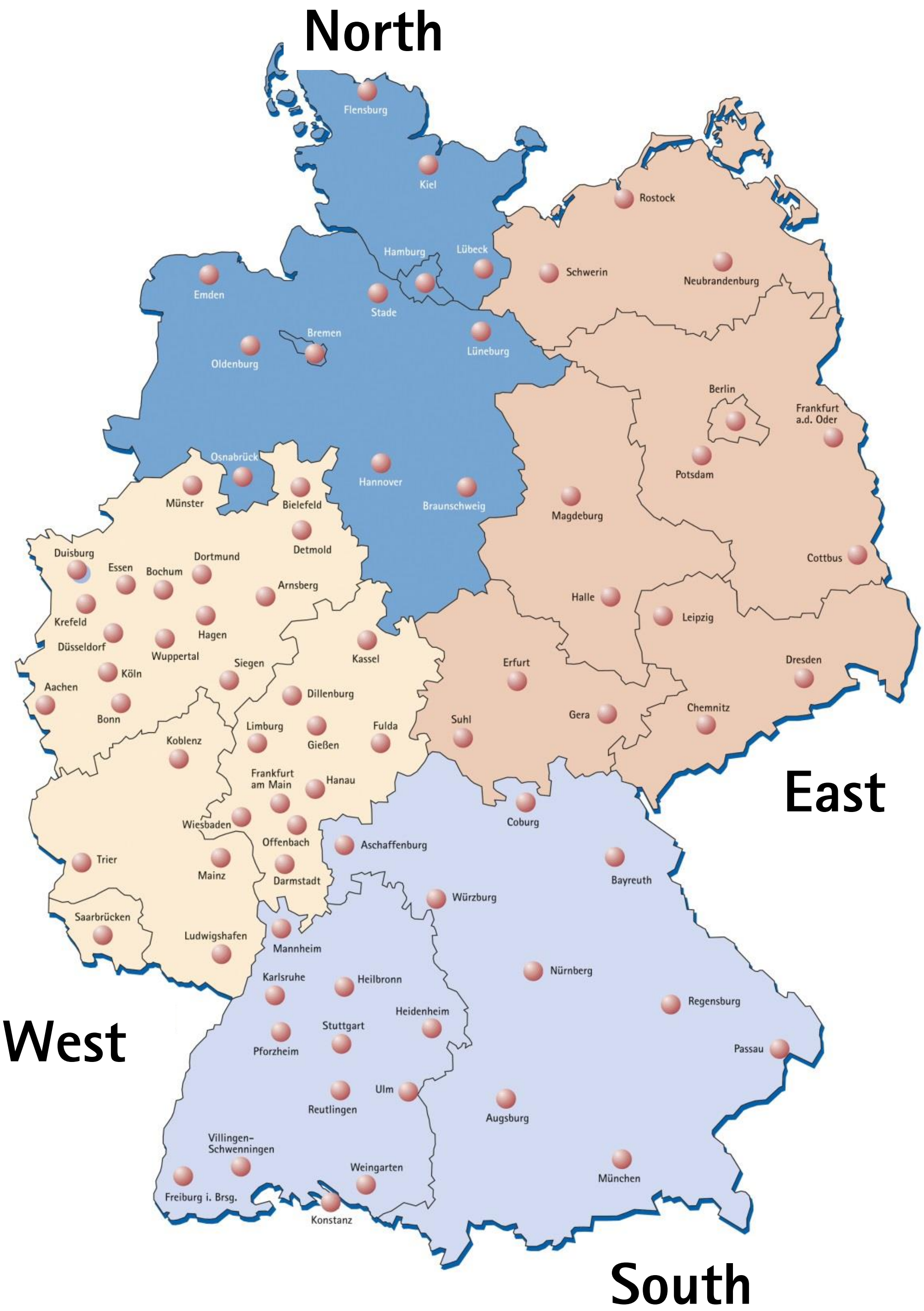
Restaurants, hotels and other companies in the hospitality industry are getting ready for the summer and holiday season and are planning a higher increase in staff than at the beginning of the year (five after three points last; early summer 2017: also five points). In this sector, the shortage of skilled workers continues to intensify (74 after 72 percent at last). In gastronomy, employment planning is rising significantly and is once again at its highest level of seven years ago (by three to six points). Restaurants, taverns, clubs and other gastronomic establishments benefit from the good income and employment situation in Germany. Concerns about domestic demand are as low as never before (13 after 16 percent). The number of overnight stays in Germany has risen for eight years in a row. The first months of this year also brought again more guests. Many companies are looking for additional personnel to meet this demand. At the same time, however, more companies than ever before report a shortage of skilled workers (73 after 67 percent).

Red Lantern: Financial sector

The financial and insurance service providers continue to plan predominantly with a constant (52 percent) or lower employment level (36 percent). But the balance is moving up again slightly (minus 24 after minus 28 points). Since last year, the value has thus risen continuously (fall 2016: minus 34 points). The balance in the banking industry also follows the trend - albeit at a very low level (minus 48 after minus 53 points, lowest level: minus 58 at the beginning of 2017). In principle, though, the need for consolidation remains high due to the low interest rate environment, digitalization and the increased regulatory requirements in the sector. Financial service providers such as investment companies or funds, on the other hand, are increasingly willing to hire. The balance rises again by one to now 17 points.

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 Early Summer 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 **"Upswing under scrutiny"** 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 2017 the CCIs evaluated round **24,000 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 (27 percent), the construction industry (seven percent), the trade sector (21 percent) and service providers (45 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: 35 percent companies with up to nine employees, 14 percent companies with ten to 19 employees, 40 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.

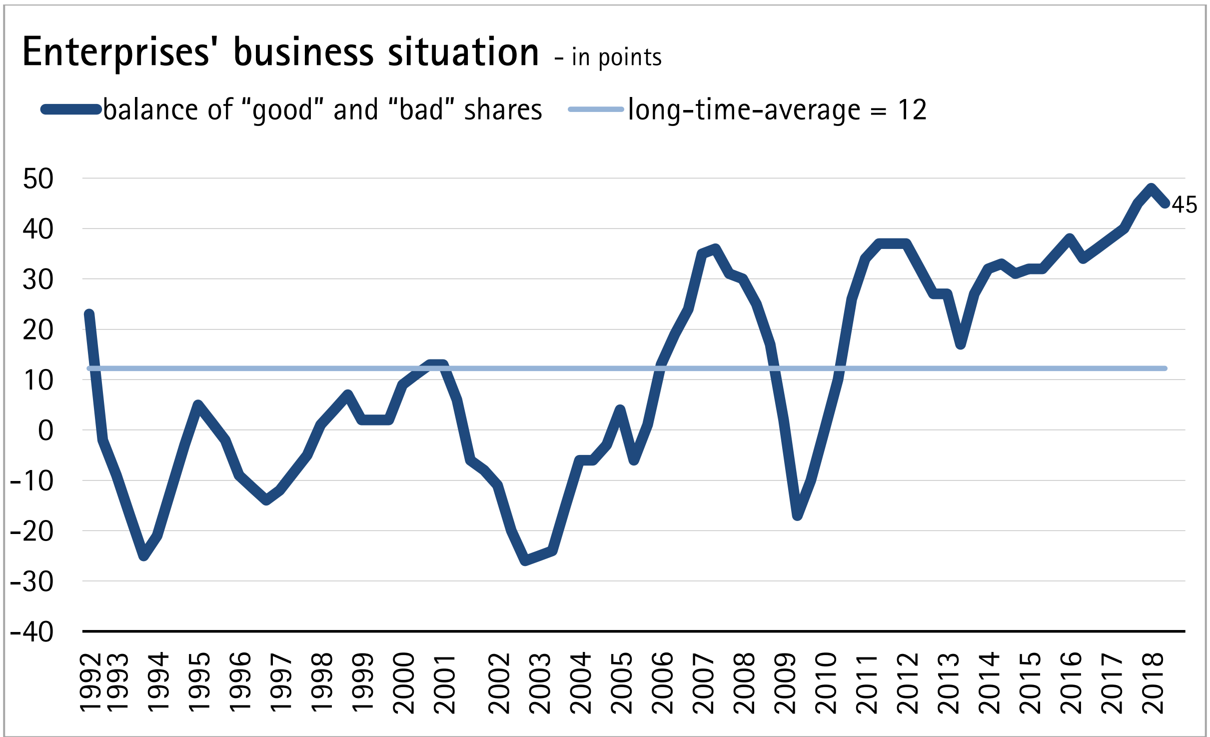
Where the text refers to a long-term average, this relates in the various sectors of the economy to the period from the autumn of 1991 (situation, expectations) or the autumn of 1992 (export expectations, investment and employment intentions). For the individual sectors, the data that reaches back to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

The survey was conducted from early April 2018 to early May 2018.

DIHK-Surveys - time series

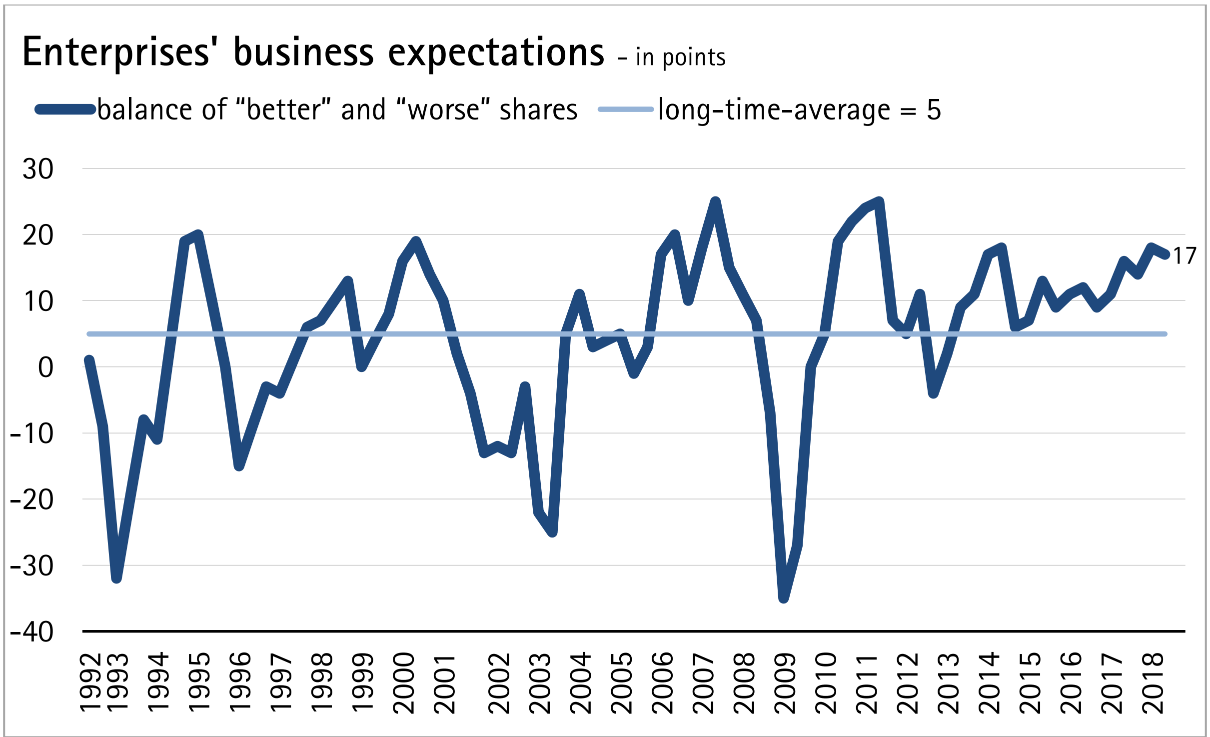
Assessment of the Situation (in percent; balance in points)

	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
Early Summer 2012	42	48	10	32	36	33	28	32	25	30	41	37
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

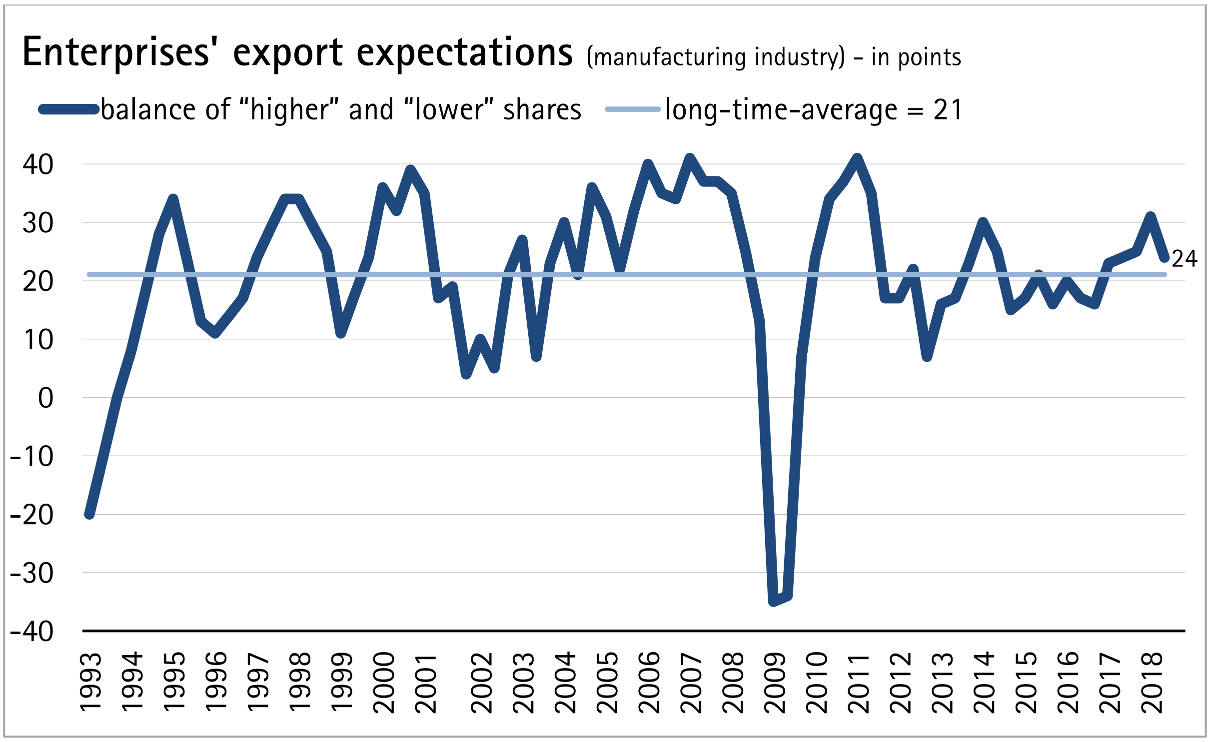


Enterprises' Business Expectations (in percent; balance in points)

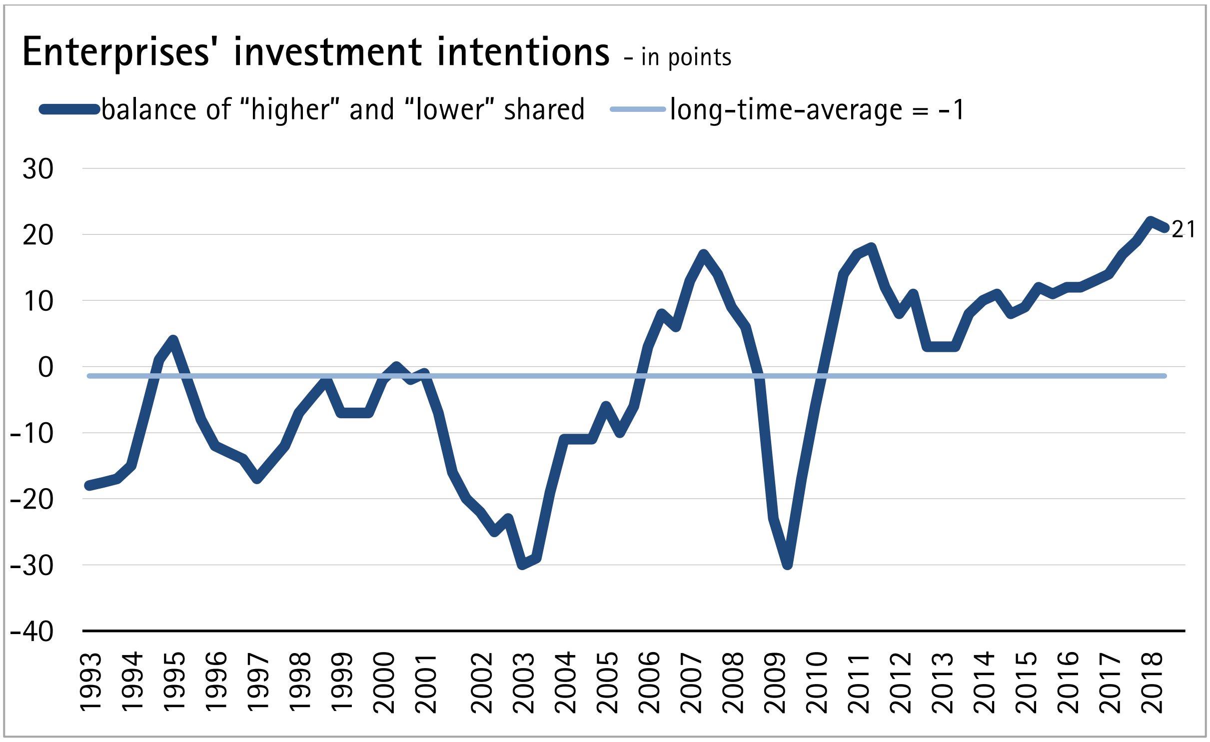
	Germany total				Economic sectors				Company size classes			
	better	about equal	worse	balance germany	balance manufacturing industry	balance construction	balance trade sector	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
Early Summer 2012	25	61	14	11	12	8	9	12	8	13	14	14
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



Enterprises' Export Expectations (industry; in percent; balance in points)	Germany total				Economic sectors			Company size classes			
	higher	about equal	lower	balance germany	balance Intermedi-ate 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
Early Summer 2012	33	56	11	22	17	23	27	11	18	27	29
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



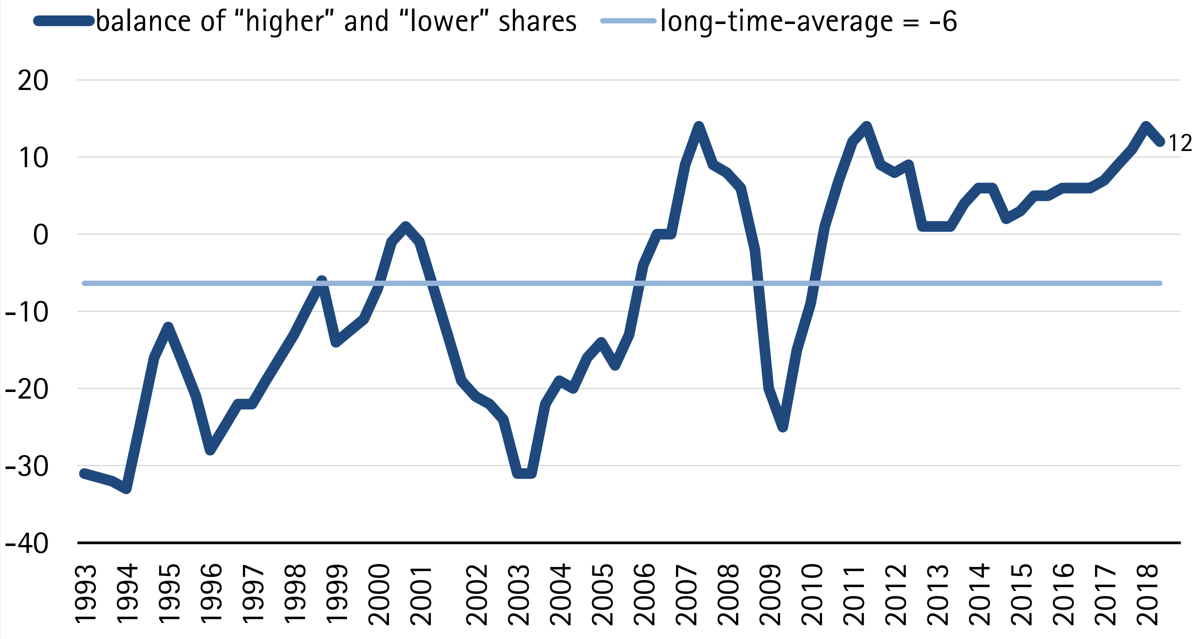
Enterprises' Investment Intentions (in percent; balance in points)												
	Germany total				Economic sectors				Company size classes			
	better	about equal	lower	balance germany	balance manufacturing industry	balance construction	balance trade sector	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
Early Summer 2012	27	57	16	11	14	1	9	10	4	11	16	20
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



Enterprises' 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
Early Summer 2012	20	69	11	9	7	6	6	10	5	11	9	7
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

Enterprises' employment intentions - in points



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 condi-tions	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 de-mand
Early Summer 2012	44	36	14	35	35	13	55	35					
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

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