Economy working full steam, bottlenecks increasing

DIHK Economic Survey at the Chambers of Commerce and Industry

February

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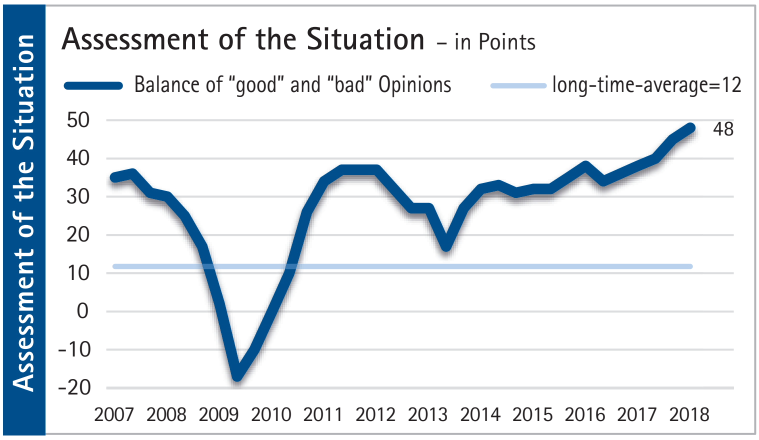
DIHK Deutscher Industrie- und Handelskammertag

IHK Deutsche Industrie- und Handelskammern

Germany at a Glance

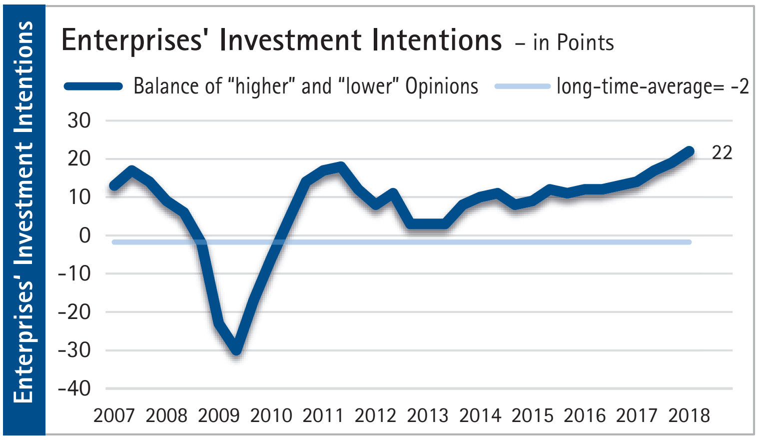
February 2018



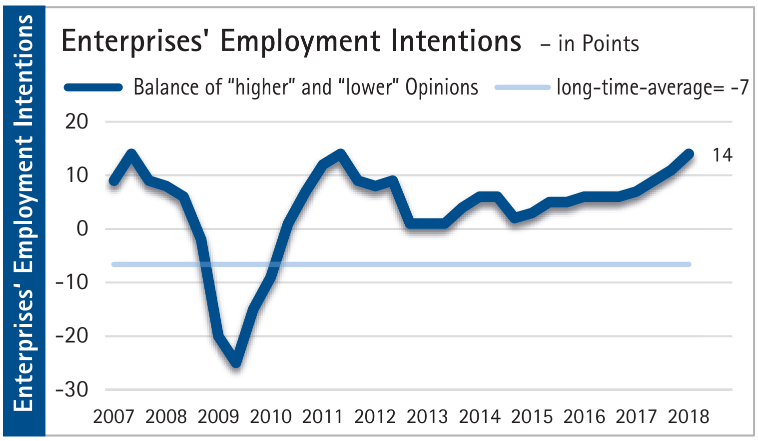
Companies assess their business **situation** better than ever before. They made it through the winter even better than expected in the fall. Even in the construction industry, the cold months are hardly able to spoil the very good situation. Manufacturing industry in particular is much more content than in the fall and is benefiting from the recovery in world trade and increased investment confidence. In addition, retailers and service providers are also reporting new records in their situation assessments.

The optimism of companies with regard to their business **expectations** is increasing again significantly after a slight slowdown last fall. Here in Germany, rising employment and purchasing power gains are boosting the economy. Furthermore, companies are investing more. Concerns about domestic and foreign demand fall sharply once again. The greatest obstacle for companies by far is the shortage of skilled workers. If urgently needed vacancies remain unfilled, it becomes more and more difficult to process current orders. The second greatest risk is the development in labor costs.

The **export expectations** of the manufacturing industry improve for the fourth time in succession. Companies are therefore as optimistic about their export business as they last were seven years ago. The risk of foreign demand is declining noticeably thanks to a robustly growing global economy. The good economic developments in the most important sales markets, as well as the increase in global investment activities, are generating increasing demand for German products. However, risks remain due to the difficult framework economic conditions in some regions, protectionist tendencies and the forthcoming Brexit. Companies have so far been able to avoid any downturn due to good business in Europe and dynamic economic development, for example in the USA and China.



Companies' **investment plans** are more expansive than ever before. Many companies are now operating at the limit of their capacity. Furthermore, confidence in the continuing high demand for their goods and services is increasing. Manufacturing industry in particular is planning to expand, while the construction industry and retail trade also want to increase their capital expenditure. In view of this development, more companies than ever before intend to expand their capacities. The investment motive of product innovations also reaches a record level. The high investment requirements of digitalization are likely to materialize more and more. Besides the modernization of existing products and processes, companies also see a great need to develop new business models and production processes.



Employment intentions are increasing across all sectors, having reached new highs in manufacturing industry, construction and commerce, and are only slightly below that among service providers. The dynamics in manufacturing industry and among IT service providers is particularly strong at the current margin. Only the financial services industry continues to expect declining personnel budgets. Overall, the growth in employment is becoming increasingly difficult to implement as a result of the shortage of skilled workers, which has become by far the greatest obstacle for companies in the meantime. In 2010, only 16 percent of companies cited this as a business risk - compared with 60 percent today. The shortage of personnel is also reflected in the increasing worries of companies across all sectors about labor costs.

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Business situation

How do you assess the current situation of your company?

Excellent business situation at the beginning of the year

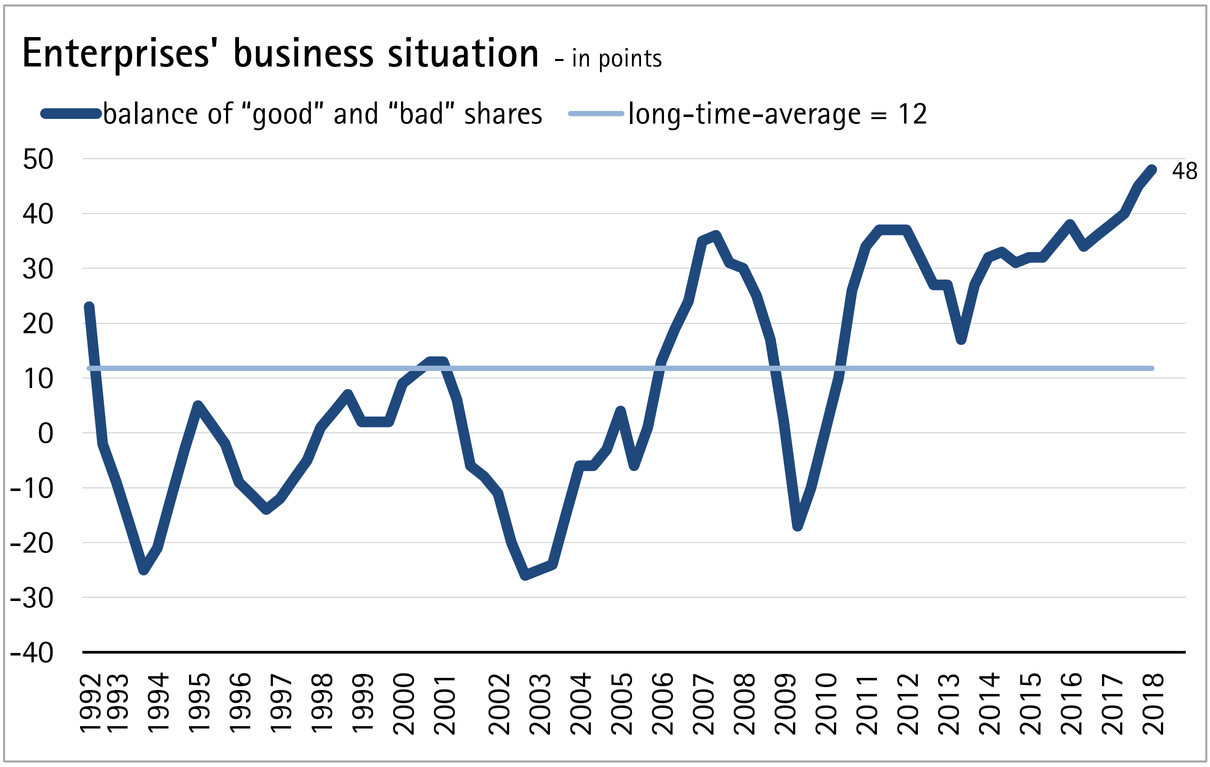
Companies assess their business situation better than ever before. They made it through the winter even better than expected in the fall. Even in the construction industry, the cold months are hardly able to spoil the very good situation. Manufacturing industry in particular is much more content than in the fall and is benefiting from the recovery in world trade and increased investment confidence. In addition, retailers and service providers are also reporting new records in their situation assessments.

New record-breaking business situation

The remarkably positive business development of the past year has been consolidated. Starting from a record situation in the fall, the companies in Germany see a further slight improvement in their economic situation. The expectations of strong but relatively stable economic development expressed in the fall were even exceeded. 54 percent of companies – more than ever before – rate their own business situation as "good". The proportion with a "poor" rating remains unchanged at only six percent. With a resulting balance of 48 points (difference between the shares of "good" and "poor"), the situation assessment has reached a new high for the third time in a row (fall of 2017: 45 points, early summer: 40 points).

Excellent mood in all sectors of the economy

The situation assessment is improving at the beginning of the year in almost all sectors of the economy. Developments are particularly positive for manufacturing industry at the current margin (increase in the business situation balance by six to 54 points). The business situation has reached a new maximum value. Industrial companies are benefiting from the upturn in world trade and increased investment confidence. Thanks to the good employment situa-



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

	good	satisfactory	bad	balance
February 2016	46	46	8	38
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

Assessment of the Situation (balance in points)

	Manufacturing industry	Construction sector	Retail trade	Services	All
February 2016	34	41	28	42	38
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

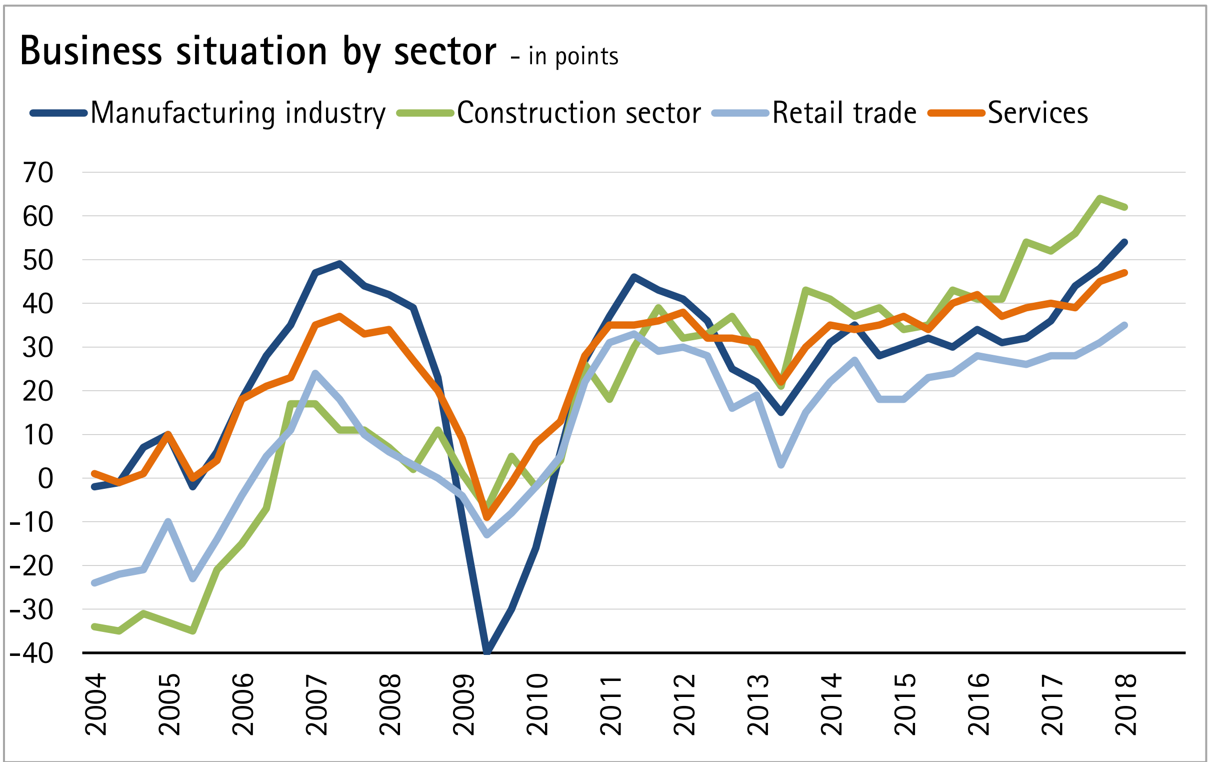
tion and continued favorable financing conditions, domestic demand also remains strong. This is also helping the retail sector (plus four to 35 points) and the service providers (plus two to 48 points), whose situation assessment at the beginning of the year is also improving. They have therefore reached new record levels. In the construction industry, the winter is scarcely able to dampen the continuing very good business situation. Although the assessment of the current economic situation is slightly lower in this industry (decrease by two points), the balance of 62 points remains at a historically high level and clearly above the previous year's value (52 points).

Strong manufacturing industry

In the export industry (increase from 49 to 55 points), the situation assessment has even improved to a slightly greater extent than that of domestic industry (from 45 to 49 points). Among the main groups of the manufacturing industry, it is mainly the producers of intermediate goods (54 compared to 49 points previously) and capital goods (61 compared to 54 points) who are succeeding in improving their business situation. This is particularly clear in the year-on-year comparison (increase of 20 and 21 points respectively). This shows the following: The world is investing – especially in products "Made in Germany".
Contrary to the improvement in manufacturing industry as a whole, the situation of the producers of durable and non-durable goods remained almost unchanged in 2017. At the beginning of 2018, a clear step forward has now been achieved (from 32 to 39 points).

High spirits in the retail sector

The retail sector currently assesses its business situation as better than ever (35 after 31 points previously). Wholesale in particular has made a significant leap forward in the assessment of its economic situation (42 points after 37 points, which is also a record level). This is partly due to the high demand in the economy for intermediate inputs, trade and capital goods.



Trading intermediaries with a strong commitment to international business are also improving their business situation again significantly from a record level in the fall (53 points after 48 points in the last survey). Like manufacturing industry,

they are benefiting from the synchronous upswing in almost all major world markets. The retail trade remains at its fall assessment (27 points compared to 26 points previously), and thus slightly below its highest level (of 29 points). Private consumption remains strong against the backdrop of the very good labor market situation. Within the retail trade, however, the picture is mixed. The structural challenges remain great, especially for dealers with purely analogue sales, while online offers are increasingly in demand.

Motor vehicle trade shifting up a gear again

The effects of last year's diesel scandal have had a noticeable negative impact on the motor vehicle trade. The unexpectedly sharp drop in demand for diesel vehicles has necessitated value adjustments to dealers' inventories. The number of new registrations rose in 2017 despite the diesel issue. Many dealers have adapted better to the shift in demand to petrol engines. At the beginning of the year, the motor vehicle dealers' business situation had brightened considerably (35 after 25 points previously) but cannot match the highs of previous up-swings. In the used vehicle trade, there are still challenges due to the surplus of diesel vehicles. In addition, the continuing threat of diesel bans in some towns and cities remains a sword of Damocles for the industry.

Continuing high spirits in the construction industry

The extremely good situation assessment in the construction industry is continuing at the beginning of the year (62 after 64 points). The normally lower rates of capacity utilization in construction during the winter are hardly noticeable at present. This applies above all to the finishing trade, which is less dependent on the weather and also has a particularly high backlog of orders. The business situation balance in the finishing trade remains unchanged at the record level reached in the fall (65 points). Only two percent of companies rate their business situation as "poor".

Services in great demand ...

For the second time in a row, the service industry has rated its business situation as better than ever before (47 after 45 points previously). Against the background of the very good economic situation, there is particularly strong demand for offers from company-related service providers (55 after 50 points). Business consultancies (54 compared to 45 points), architectural and engineering firms (64 after 61 points) and service providers in the marketing sector (39 after 30 points) are all registering record levels.

.... also thanks to digitalization

The IT service providers have submitted a further significant improvement in the assessment of their business situation – from the already very good level (63 after 54 points previously). The digitalization of business and production processes is becoming ever more widespread and intense. IT security issues are of particular importance and a major challenge for many companies. However, the digital economy itself is also giving new impetus with the development and use of new business models. Research and development companies are also benefiting from the modernization push of the economy. Their situation assessment has risen by 15 points to a new all-time high (57 points on balance).

Expectations

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

Upswing continuing to gain momentum

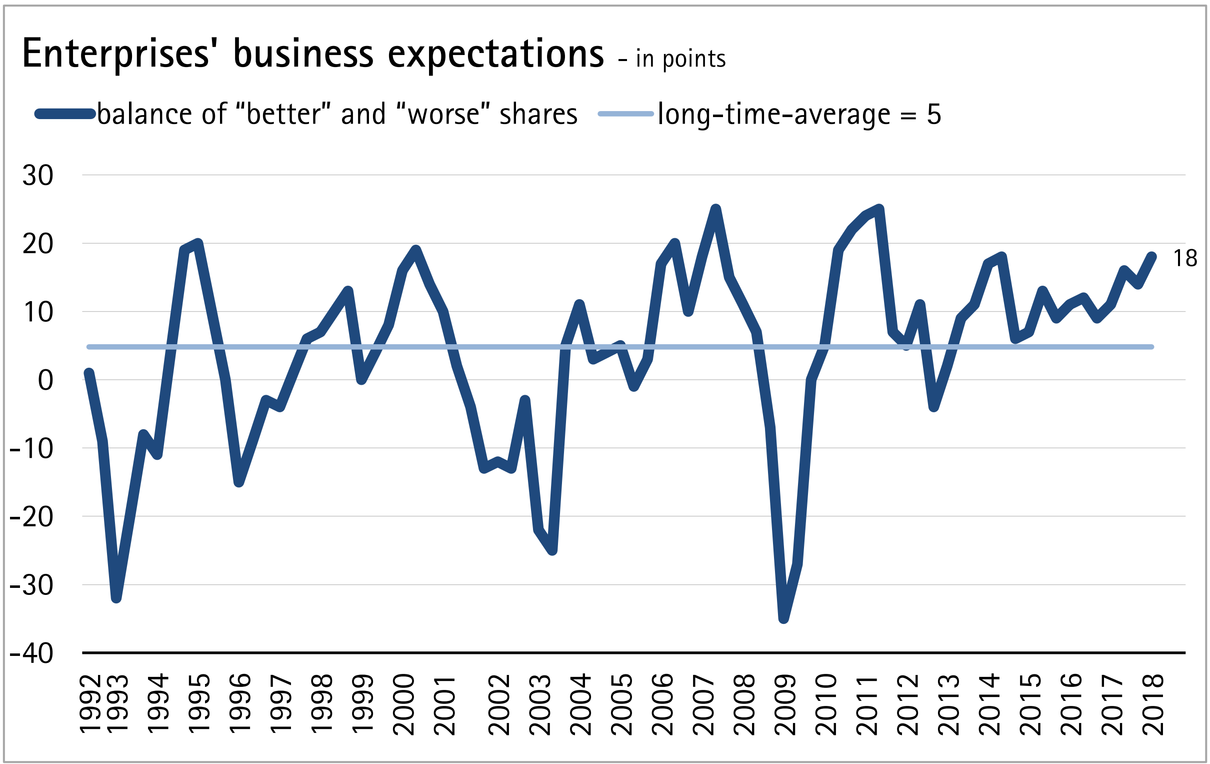
The optimism of companies with regard to their business expectations is increasing again significantly after a slight slowdown last fall. Here in Germany, rising employment and purchasing power gains are boosting the economy. Furthermore, companies are investing more. Concerns about domestic and foreign demand fall sharply once again. The greatest obstacle for companies by far is the shortage of skilled workers. If urgently needed vacancies remain unfilled, it becomes more and more difficult to process current orders. The second greatest risk is the development in labor costs.

Dynamics increasing

Companies are as confident about their business prospects as they last were about four years ago. More than one in four companies currently expects an improvement (27 percent, fall of 2017: 25 percent). This is particularly remarkable in view of the already very good business situation. Only nine percent see a deterioration coming. The expected balance is therefore 18 points (difference between “better” and “worse” shares) – and significantly higher than last fall (14 points at the time). For a long time, many companies apparently did not quite trust the upswing. Expectations have developed rather cautiously in recent years, although the situation assessment had improved steadily. With a view to future development, the assessments are now becoming much more optimistic.

Domestic and international momentum...

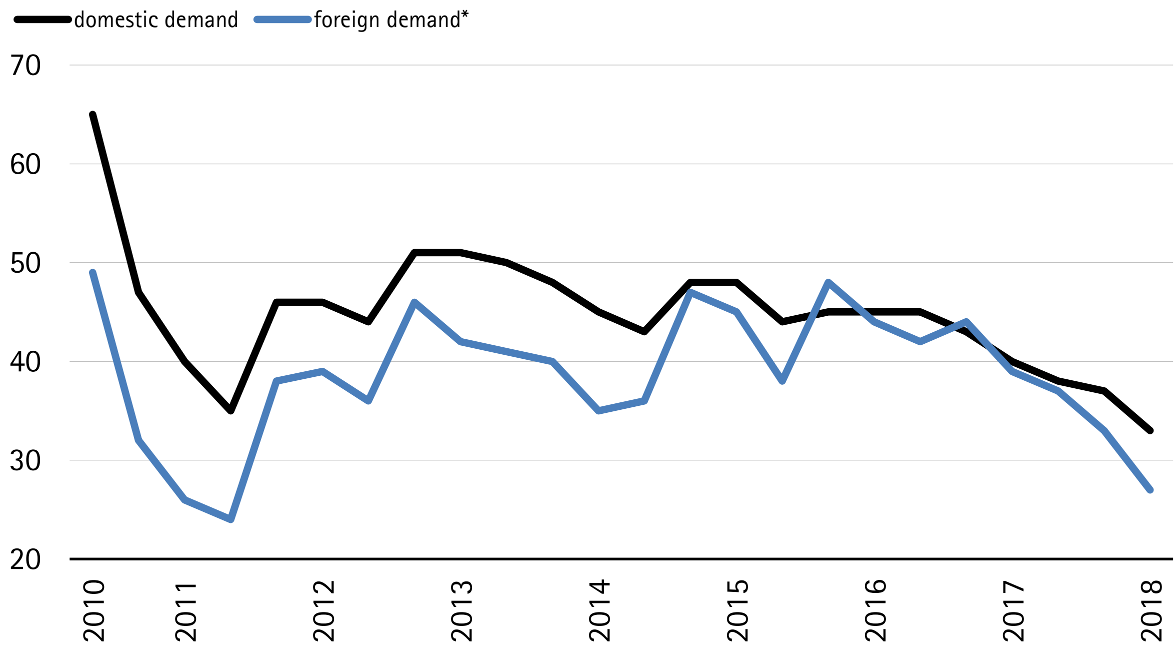
Companies' concerns about domestic and foreign demand are once again declining significantly. Only one in three sees domestic demand as a risk to its business development – fewer than ever since the start of the survey in 2010 (fall of 2017: 37 percent). With regard to foreign demand, concerns were only lower in 2011 (currently 27 percent, fall of 2017: 33 percent, early summer 2011: 24 percent).



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

	better	about equal	worse	balance
February 2016	24	63	13	11
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

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

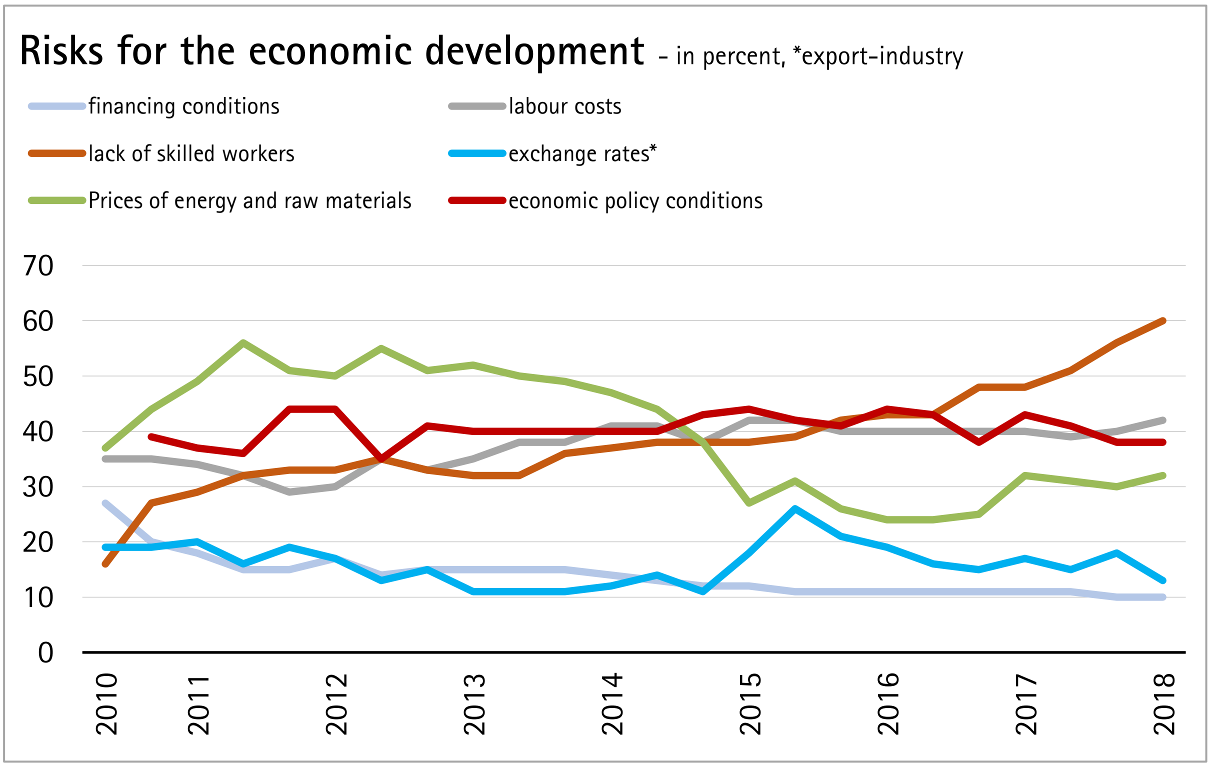


... ensuring strong buoyancy

Companies are continuing to build up their employment levels. This is also creating increasing scope for consumption. The investment intentions are even at record levels. As a result of the reluctance to invest in recent years, many companies are increasingly operating at their capacity limits and therefore planning expansions. Additional impetus is coming from abroad: world trade – especially in capital goods – continues to grow. The German economy can benefit in particular from this.
All in all, everything points to a continuation of the positive economic developments. The momentum should even increase slightly once more.

Increasing bottleneck: shortage of skilled workers...

The stronger the growth and plans for capacity expansions, the more noticeable bottlenecks are becoming for companies: this is particularly the case with respect to qualified personnel. Six out of ten companies see the shortage of skilled workers as a risk to their businesses. In the first survey in 2010, this figure was only 16 percent. Since then the problems with recruiting and retaining suitable skilled workers have steadily increased in significance. In the mean-time, this has become by far the greatest worry from the perspective of the companies. If urgently



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

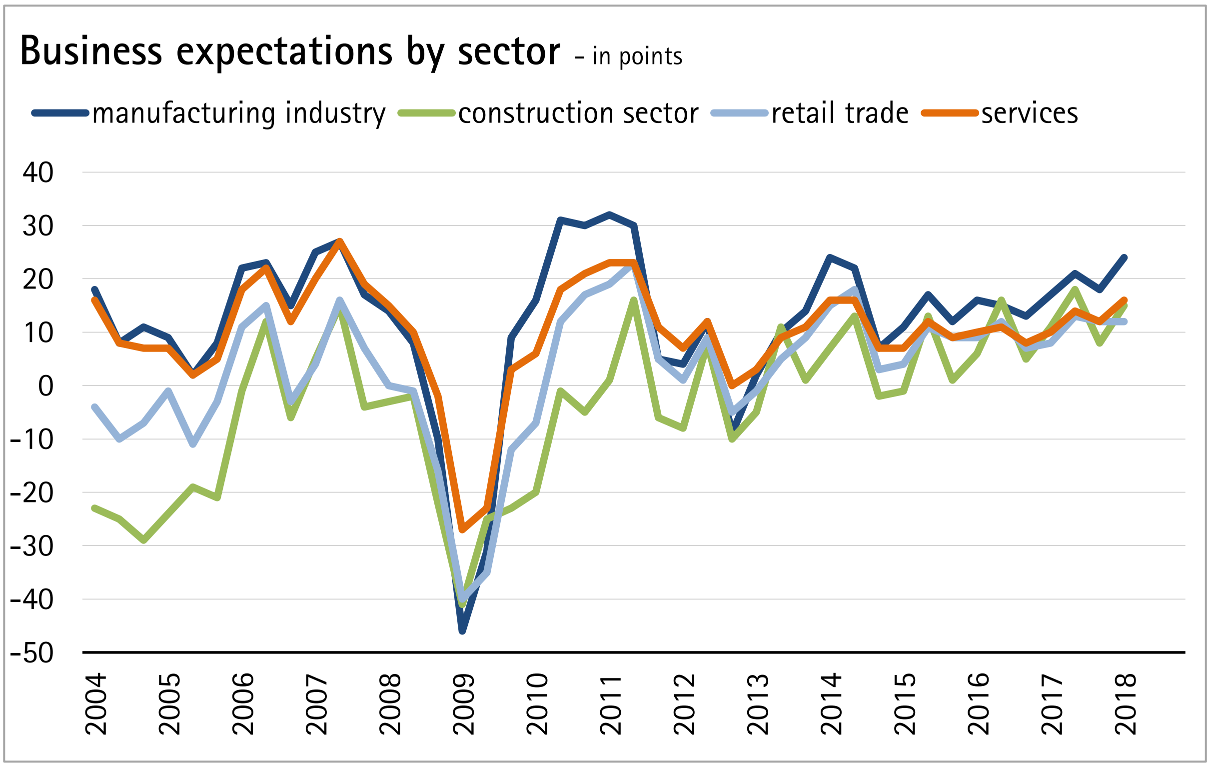
	domestic demand	foreign demand*	financing conditions	labor costs	lack of skilled workers	exchange rates*	prices of energy and raw materials	economic policy conditions
February 2016	45	44	11	40	43	19	24	44
Early Summer 2016	45	42	11	40	43	16	24	43
Fall 2016	43	44	11	40	48	15	25	38
February 2017	40	39	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

needed positions cannot be filled, the processing of pending orders is delayed, or the offer even has to be restricted. Urgently needed capacity expansions or investments in new technologies are also only carried out if the required personnel can be found. This is why many companies are currently unable to fully exploit their growth potential.

The competition for suitable skilled workers is also leading to rising concerns about labor costs. 42 percent of the companies see this as the second largest risk (last time: 40 percent). In the last two years the low external value of the euro has partially compensated for the cost disadvantages. This effect is now increasingly coming to an end. The price competition pressure on German companies is likely to increase as a result. In short: the lack of skilled workers will become a real obstacle to growth in the future.

... and too much bureaucracy

Almost four out of ten companies cite economic policy framework conditions as a risk factor for their future development (38 percent, as last time). It is therefore the third largest business



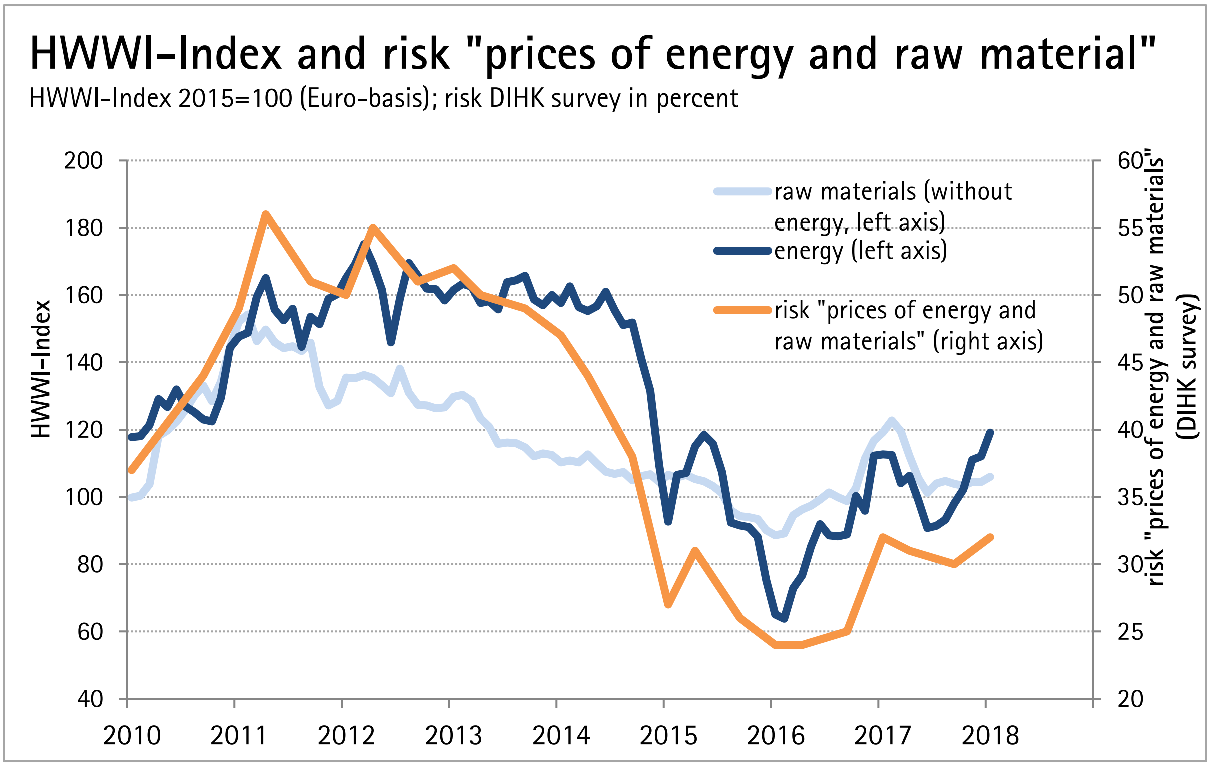
Enterprises' Business Expectations (balance in points)

	Manufacturing industry	Construction sector	Retail trade	Services	All
February 2016	16	6	9	10	11
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

risk from the companies' point of view. In the associated free text responses, businesses often specify this particularly often in terms of the topic of bureaucracy. In times of expansive business activity, they feel the restrictions – for example, as a result of excessive regulation and lengthy approval processes. The fulfilment of complex documentation requirements is time-consuming and cost-intensive for companies. This ties up valuable resources that are needed to process the often full order books.

The lengthy process of forming a government and the unclear outcome of the coalition negotiations are also often seen as a risk in the free text responses. Some companies fear that new tax burdens will arise in spite of the good budget situation because at the same time important competitors such as companies from the USA, France or Great Britain will benefit from strong tax cuts.

Many companies appear to be becoming accustomed to uncertainty within the context of economic policy – a good 12 months ago, many more companies (43 percent) considered the economic policy framework conditions to be a risk. Important uncertainty factors remain, for example with regard to Brexit or the geopolitical crises in Turkey and Russia. In addition, there is the unclear trade policy course of the USA.

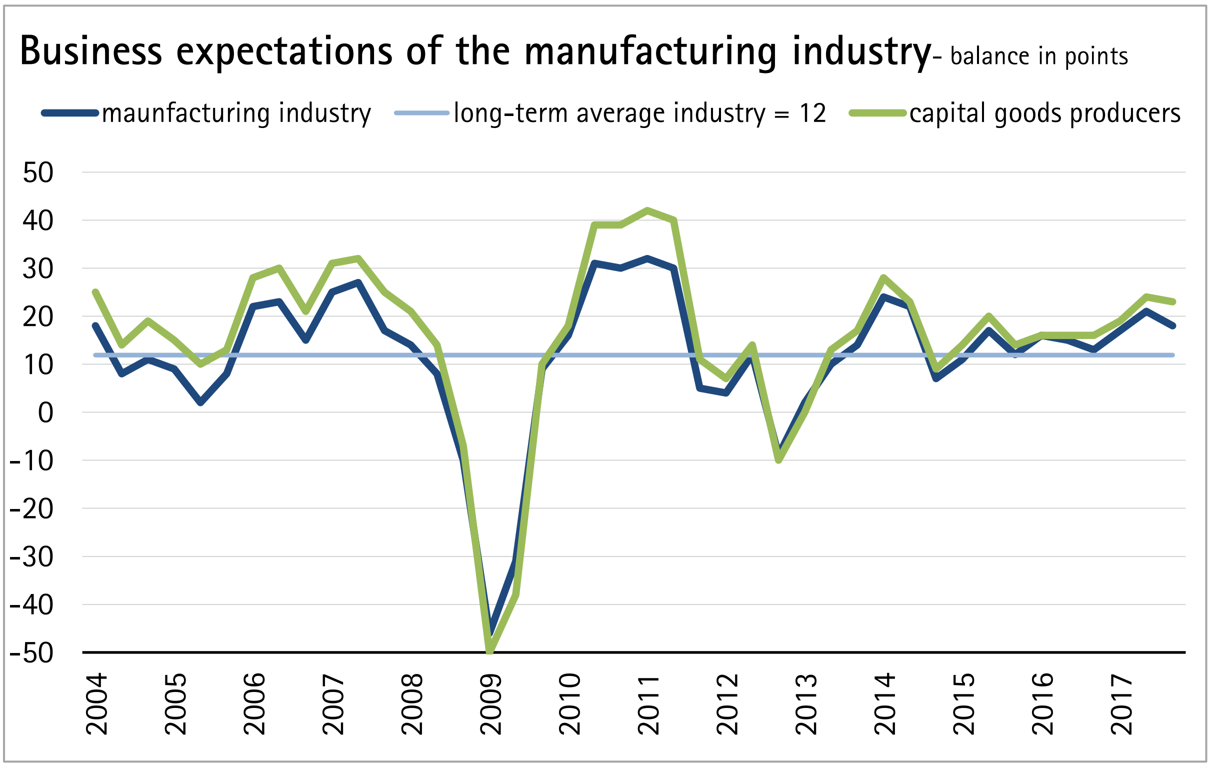


Companies feeling the rising price of oil ...

Cross-industry, energy and raw material prices are increasingly back in the spotlight. Almost every third company sees this as a risk to their business development (fall of 2017: 30 percent). Although the global market price for oil remains favorable in the long-term comparison and the appreciation of the euro has cushioned a good portion of the price increase, there is nevertheless a significant increase that is resulting in additional costs for companies. Particularly sectors with high oil, gasoline and diesel consumption, such as the transport industry or the rubber and plastics industry, now more frequently cite energy and raw material prices as a risk (48 percent after 40 percent and 69 percent after 63 percent respectively). The reason for the price increases is, among other things, the continuation of OPEC agreements with Russia, the political risks in the Middle East and, to some extent, lower stocks. The prices for other commodities stabilized somewhat in the second half of the year, after falling sharply in the first half.

... and special structural burdens in the area of electricity

However, the high proportion of companies in the German economy worried about energy and raw material prices can also be structurally explained. In manufacturing industry they are even the second largest risk after the shortage of skilled workers (50 percent compared to 60 percent of companies). Manufacturing industry requires very large quantities of energy and is special domestic burdens in the form of electricity costs, such as the Renewable Energy Law (EEG) levy or grid fees, which foreign competitors are spared. This applies all the more against the background of the appreciation of the euro, which has increased the need for price competitiveness in the domestic economy.



Optimism across the economy

Despite the sometimes challenging locational conditions, companies are currently confident across all sectors that they will be able to achieve a further improvement in their business situation. Expectations are improving in almost all branches of the economy. Manufacturing industry is particularly optimistic (24 points after 18 points last time) and is now clearly at the top again in the cross-sector comparison – as has been the usual situation during previous upswing phases. In the construction industry, business expectations are rising significantly compared with the fall (15 after eight points previously) and compared to the year before (beginning of 2017: eleven points). Service providers are also even more optimistic about their businesses than they were last time. The balance of expectations is stagnating in the retail sector – albeit at a high level and well above the long-term average (12 points; average: three points).

The expectations of large companies (> 1000 employees: 22 after 12 points) have risen particularly sharply, although small and medium-sized enterprises (SMEs) are also increasingly optimistic about their businesses (<500 employees: 17 after 14 points).

German capital goods in demand worldwide

Manufacturing industry is benefiting in particular from the growing demand for German capital goods and intermediate inputs (expectation balance: 29 after 23 points and 26 after 17 points respectively). Investment confidence is rising worldwide. In view of the high capacity utilization rates, many companies want to expand their capacities, with mechanical engineering and IT manufacturers in particular therefore expecting good business again (31 after 22 points and 33 after 27 points respectively).

The automotive industry is currently an exception to the positive trend. Both motor vehicle manufacturers and the producers of automotive parts are currently looking towards future developments with somewhat more caution (15 after 19 points and nine after 15 points respectively). Concerns about demand are increasing, especially among the manufacturers of parts (domestic demand risk: 43 percent after 39 percent previously). For suppliers which specialize in diesel engines the prospects will almost certainly become much more negative.

Stronger inflation hardly affecting the buying mood so far

The good development of the labor market and rising wages are providing purchasing power gains despite the higher inflation. The concerns of the consumer-oriented industries about domestic demand are therefore continuing to decline. For example, the retail trade, manufacturers of consumer goods or personal service providers see a risk in local demand even less often than last time (48 percent after 50; 45 after 46 percent and 30 after 32 percent previously). Accordingly, consumer goods producers (expectation balance: 19 after 17 points) as well as providers of personal services (18 after 12 points), such as travel agents and the leisure industry, are optimistic about the future (16 after 6 and 19 after 15 points respectively). The hotel and restaurant industry, which traditionally looks towards the future with restraint at the turn of the year, is also relatively optimistic at present (nine after seven points; long-term average five points). After the end of the Christmas season, the retail sector is somewhat less optimistic about business in the new year (four after nine points). Compared with the previous year, however, there was a net increase of two points

Transport industry experiencing staff shortages

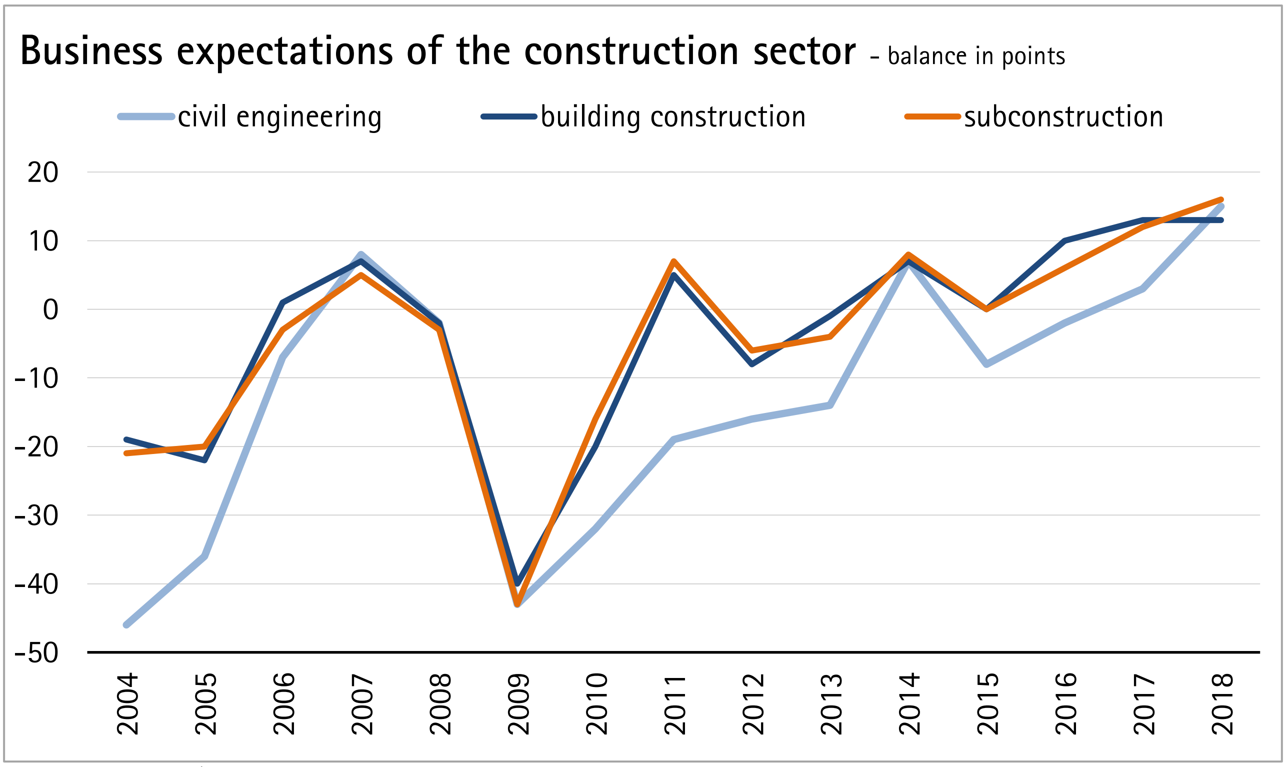
In view of the good economic situation, logistics companies have their hands full. Only one in five companies is worried about demand (20 percent) – fewer than ever before (last time: 24 percent). The expectation balance is rising sharply (12 after seven points). However, it remains well below previous highs (early summer of 2014: 22 points). The shortage of skilled workers remains by far the greatest problem, affecting three out of four companies (previously: 72 percent). Haulage companies in particular are finding it almost impossible to compensate for under-staffing by recruiting additional colleagues – if there is no driver, the truck re-mains off the road.

Business services in demand more than ever

The economic momentum and high capacity utilization of the economy as a whole is also being achieved by the company-related service providers. Companies are looking to the future with even more optimism than they did last year (expectation balance: 25 compared to 21 points), especially management consultancy firms (30 after 21 points), advertising agencies and market research institutes (18 after 13 points) and research and development institutions (40 after 28 points previously). They often benefit in particular when expansion investments and product innovations become more important for the economy. IT service providers are also continuing on their successful course (36 points after 33). In the wake of the increasing digitalization of the economy, they are expecting demand for their services to continue to grow (domestic demand risk: 40 after 44 percent).

Civil engineering advancing

The construction industry is confident about its future business. The expectation balance is 15 points – the highest value at the beginning of the year since reunification. In the year-on-year comparison, confidence is once again rising sharply (15 after 11 points at the beginning of 2017) – driven by civil engineering and the finishing trade (15 after three points and 16 after 12 points respectively). The companies' order books are full to bursting. Concerns about domestic demand in civil engineering is lower than ever before (stated by 21 percent, compared to 32 percent last time; beginning of



2017: 36 percent). The gradual ramp-up of expenditure on transport infrastructure and broadband expansion is making itself felt here and creating confidence in this sector, which has been under pressure for such a long time. Building construction also continues to expect good business, although expectations have not continued to improve in the year-on-year comparison (13 points, as last time; long-term average: minus three points). Housing construction is benefiting from rising demand for housing and the continuing low interest rates. The expansion plans of many companies are also reflected in a flourishing commercial construction business. However, structural engineering, like the entire construction industry, is increasingly reaching its capacity limits. Around four out of five construction companies now cite the shortage of skilled workers as the main risk to their business development (79 after 70 percent). Worries about labor, energy and raw material costs are also on the rise (48 after 46 percent and 36 after 32 percent respectively).

Scarcely any worries about financing...

The financing conditions are favorable for many companies. Furthermore, only ten percent of respondents see this as a risk to their business developments. The share is therefore at an all-time low. Although bond markets already experienced a cautious interest rate turnaround in the fall of 2016, corporate financing costs remain at a very low level. In addition, the equity base remains high.

... but prospects for the banking industry remain bleak

However, the low interest rates continue to pose a major challenge for the financial sector and especially the banking industry. If net interest income is low over a prolonged period of time, this calls into question the business model of many banks. In addition, many institutions in the industry are faced with increasing regulation and the challenges of digitalization (risk of "economic policy framework conditions": 78 after 82 percent compared to an unchanged 38 per-cent in the economy as a whole). Financial and insurance service providers therefore continue to look pessimistically into the future (expectation balance: minus one point after minus two points). The mood in the banking industry continues to be particularly negative (minus 15 after minus 16 points), while the insurance industry is much more optimistic about its future business (28 after 17 points).

Export expectations

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

Export surge at the beginning of the year

The export expectations of the manufacturing industry improve for the fourth time in succession. Companies are therefore as optimistic about their export business as they last were seven years ago. The risk of foreign demand is declining noticeably thanks to a robustly growing global economy. The good economic developments in the most important sales markets, as well as the increase in global investment activities, are generating increasing demand for German products. However, risks remain due to the difficult framework economic conditions in some regions, protectionist tendencies and the forthcoming Brexit. Companies have so far been able to avoid any downturn due to good business in Europe and dynamic economic development, for example in the USA and China.

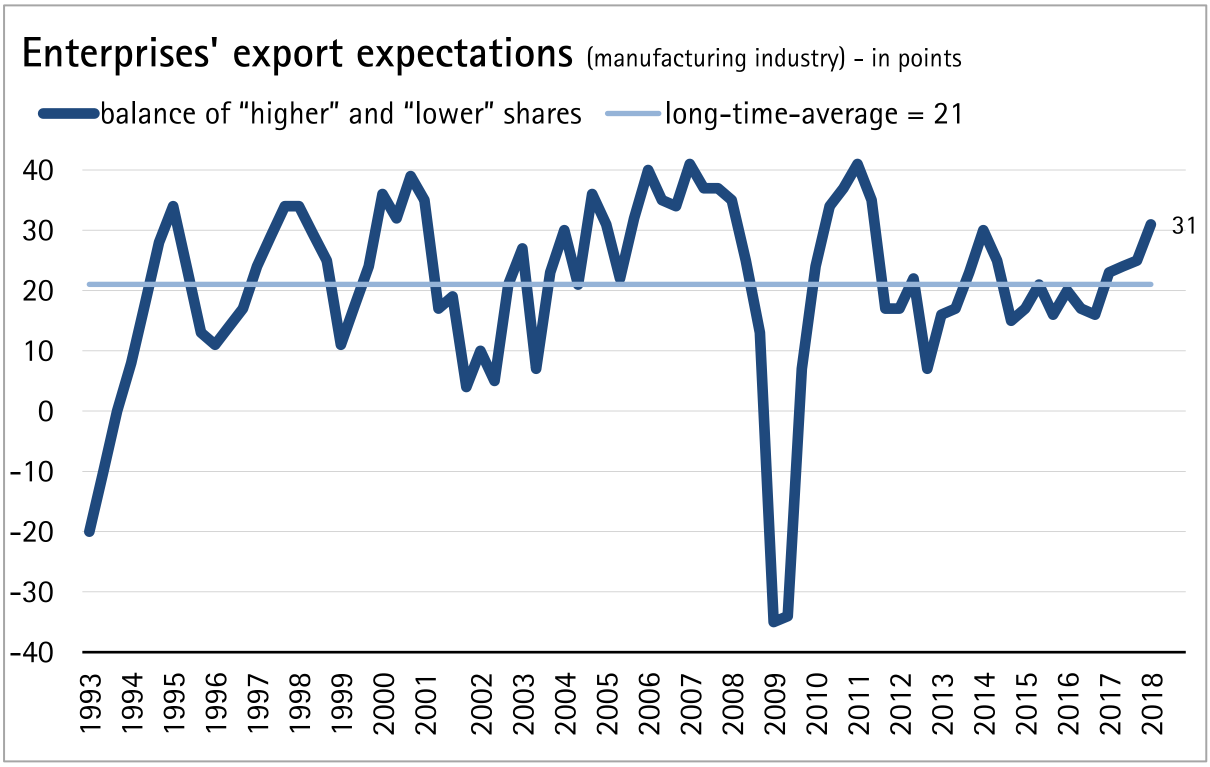
Outlook at a seven-year high

After a slight increase in export expectations in the fall, estimates at the beginning of the year are once again showing a clear increase. 38 percent of industrial companies expect higher exports. Only seven percent expect losses. The balance of "higher" and "lower" reports has risen sharply to 31 points – after still being as low as 25 points in the fall. Exports should there-fore gain momentum in 2018 and contribute even more to GDP growth in Germany than last year.

Investments again determining the pace....

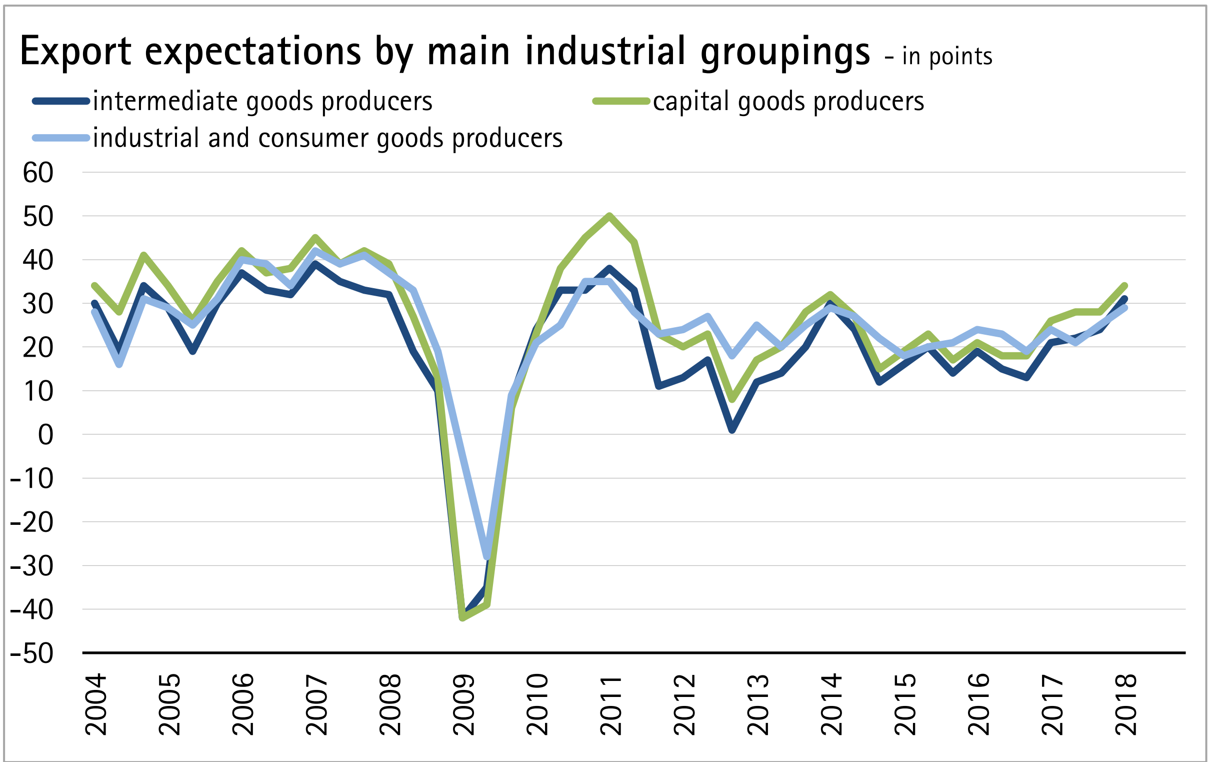
The global economic momentum is again marked more by investments. This is beneficial to the structure of the German export industry, which is traditionally strongly represented in this segment. Expectations for the international business of capital goods producers are once again rising sharply (from 28 to 34 points on balance). This main group is therefore the most optimistic in the comparison.

... other main groups also optimistic



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

	higher	about equal	lower	balance
February 2016	32	56	12	20
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

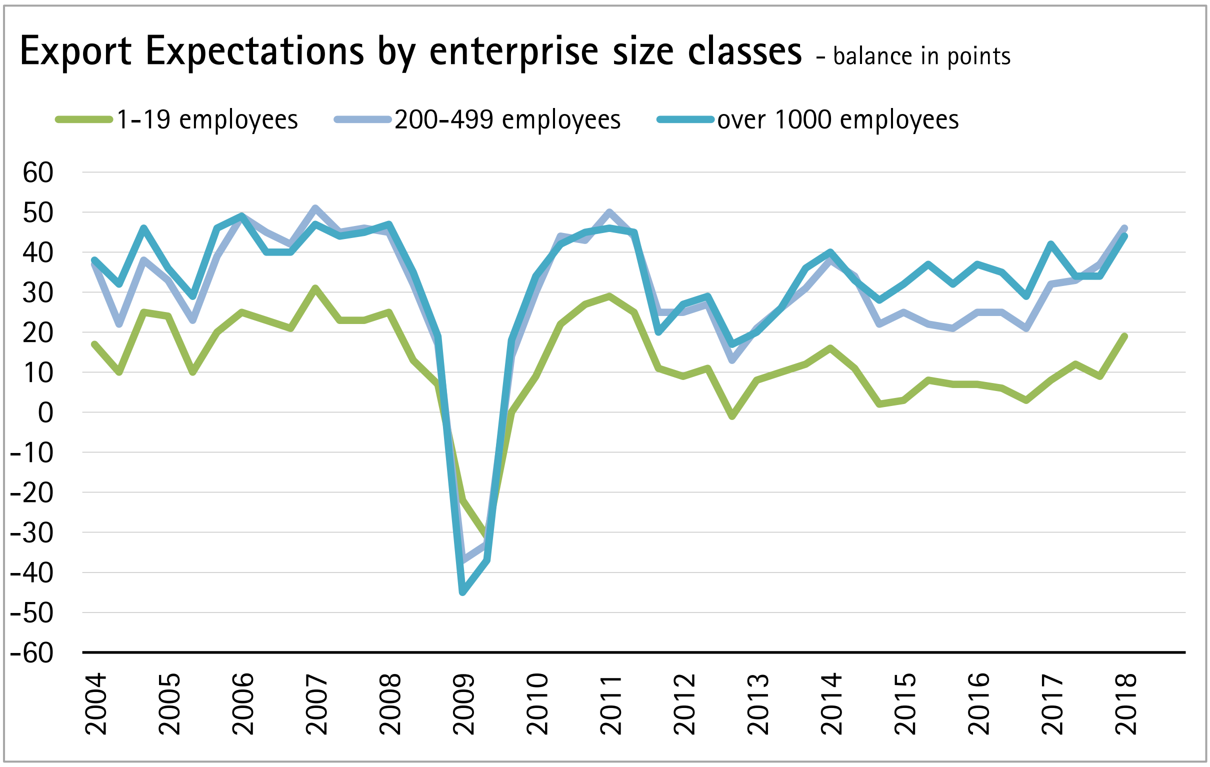


Manufacturers of intermediate goods have made the greatest leap forward in the comparison of the main groups (increase by seven to 31 points). They are benefiting greatly from the global expansion of production. Companies in the chemical industry in particular are looking to 2018 with great confidence with respect to their international business (43 after 36 points). Thanks to the good labor market developments in many regions of the world, the scope for consumption is continuing to grow in many important sales markets. Consumer goods manufacturers are once again looking at their businesses with greater confidence (29 after 25 points).

Upswing encompassing large and small industrial companies

The confident outlook for international business extends to all size classes. The balances are improving across-the-board. The large companies with more than 1,000 employees and a strong global commitment in particular are increasingly optimistic about the coming months (44 after 34 points last time). The expectations of companies with up to 20 employees are also rising sharply and are now as positive as they last were in the early summer of 2011 (19 after nine points).

Improving global economy….



Enterprises' Export Expectations (balance in points)

	Intermediate goods-producers	Capital goods producers	Industrial and consumer goods producers	Industry
February 2016	19	21	24	20
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

The global economy is currently experiencing an astonishingly synchronous upswing. The economies of Europe, Asia and North America are growing. Global trade has also been picking up again since last year. The exporting companies in Germany are just as confident in this respect as they are about increased investments around the globe. In particular, the growing economic strength of the European trading partners is being consolidated. This is also reflected in orders from the region. Emerging countries such as China, India and Russia are once again generating stronger demand for products "Made in Germany". So few companies consider a decline in demand from abroad to be a risk to their own business development as was last the case in 2011 (27 percent. 2011: 24 percent).

.... in a continuing difficult environment

In view of political and economic crises, such as in Russia or Turkey and Brexit, German exporters have done well in recent years. German companies are apparently continuing to believe that they can face the existing challenges successfully. Nevertheless, the environment remains challenging:

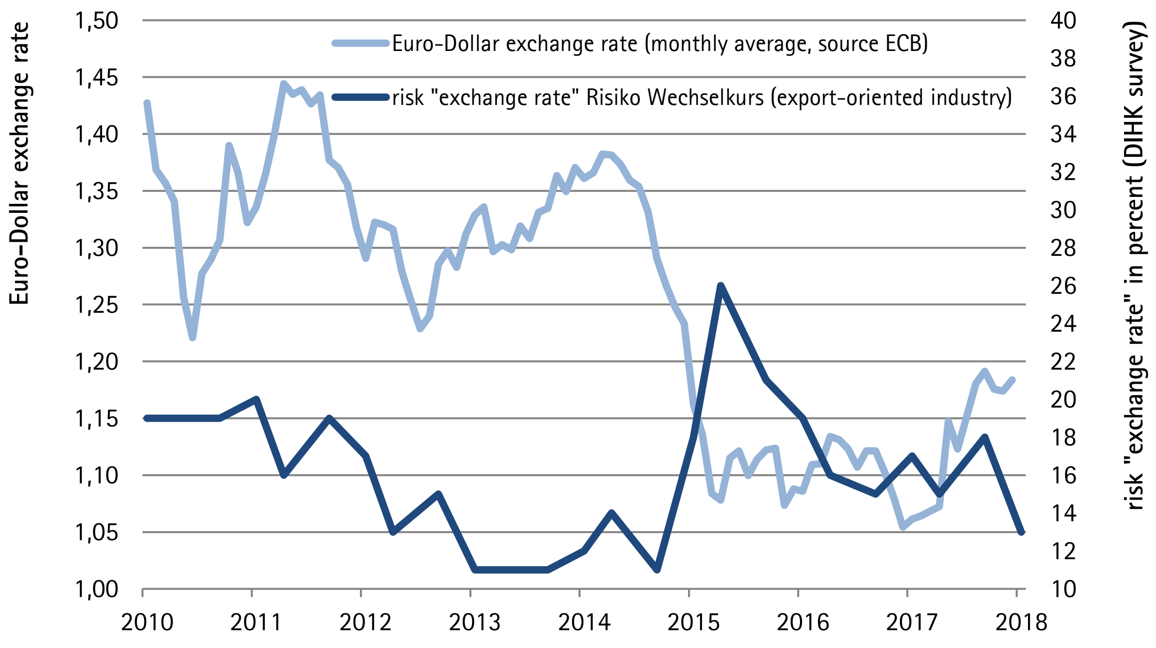
- Brexit is around the corner. The exit is to be implemented in just under a year's time. However, most of the regulations and changes remain completely unclear. In addition, the slower local economic development and the strong devaluation of the pound have already led to declines in trade with Great Britain – Germany's third most important export market before the Brexit vote. According to DIHK estimates, Great Britain was only number 5 of the most important sales markets in 2017.

- The World Trade Organization is still at a standstill. The USA is increasingly losing momentum as the driving force behind further trade liberalization. Decisive steps towards opening up new markets or simplifying trade on a global level are therefore not expected at pre-sent. One ray of hope: The EU is making progress in the area of free trade agreements. An agreement was reached with Japan recently.
- At the same time, protectionism is increasing around the globe, especially in the form of non-tariff barriers to trade. New requirements are being stipulated on a weekly basis –most recently in Tunisia and Algeria. In some regions, export transactions are similar to an obstacle course.

Hardly any braking effects through the stronger euro

The proportion of exporting industrial companies that see a risk to their business from the ex-change rate has dropped significantly from 18 to 13 percent. Although the euro exchange rate continues to be above the previous year's level, fluctuations have been significantly weaker since the steep rise in the middle of the year. A relatively stable exchange rate is important for companies as it facilitates price calculations and makes hedging transactions cheaper. Most companies are still able to cope with the rise in levels. The external value of the euro remains mid-table in historical comparison. In addition, the deterioration in price competitiveness is put into perspective by the fact that many German companies have specialized in goods with unique selling points, whose sales are not primarily determined by price.

Euro-Dollar exchange rate und economic risk "exchange rate"



View of the World Regions

The assessments are based on the current "AHK World Business Outlook", which comprises the feedback from around 3,000 member companies of the German Chambers of Commerce Abroad (AHK), delegations and representative offices.

Worldwide stable growth

Internationally active German companies are benefiting from the continued growth of the global economy. The upturn is affecting all regions of the world. World trade is being boosted in particular by the strong growth of the euro countries, North America and many Asian countries. Political crises in Turkey and Russia, for example, as well as protectionist measures by individual countries, are standing in the way of even greater momentum. In particular, the Brexit and the anti-trade statements of the US government are causing uncertainty among many companies.

The upswing experienced by EU countries pleases exporters

The euro zone has become an important driver of German exports. All countries in the euro area are currently experiencing an upturn. They are benefiting from the reform efforts of recent years and demonstrate robust growth overall. The revival in world trade is driving up ex-ports across the EU. This compensates for the slight braking effects due to the somewhat stronger euro. In addition, investment confidence is increasing and financing conditions remain extremely favorable. With moderate inflation, the improved labor market situation is also providing increased scope for consumption.

France's economy is growing stronger again. However, it will still be some time before the reforms take full effect. Solutions are also needed for the heavy debt burden and high level of youth unemployment. Greece has finally emerged from the recession. The euro finance ministers gave the green light to the disbursement of the next tranche of credit after the Greek aid program was reviewed at the end of last year.

Italy is also experiencing an upturn, albeit with growth rates remaining restrained. The persistently high level of (youth) unemployment is slowing consumption. The appreciation in the value of the euro is slowing down Italian exports. Investments, however, are making a decidedly positive contribution to growth. And with the numerous "Industry 4.0" initiatives, investment should be boosted still further. Further reforms to improve competitiveness and reduce risks in the financial sector are important. Otherwise, an end to the low-interest phase could hit Italy hard. The parliamentary elections in May are eagerly awaited. A stable government could further increase investment confidence.

In Spain, unemployment is falling sharply, providing a boost to private consumption. Exports have also developed well - not least because Spain has gained market share worldwide. However, discussions about Catalonia's pursuit of independence are unsettling businesses in the region. The companies affected are therefore only cautiously optimistic with regard to economic development. The recent three percent growth will probably not be achieved again this year.

Brexit imposing a burden on trade relations

The impending Brexit and the lack of progress in negotiations on future economic relations with the EU are dampening the mood of German companies in the UK. German exports to the United Kingdom are already showing a decline. Growth in the British Isles is at the same time slowing down. The weak pound is providing support for exports and thereby preventing even greater declines. However, the uncertainty is leading to investor reticence. The inflation rate of around three percent is also depressing household incomes and acting thereby as an additional brake on the economy.

Economic risks in Turkey and Russia

Growth rates in Turkey remain clearly positive thanks to expansionary fiscal policy. However, high inflation and devaluation of the lira continue to be risk factors for economic development. Unemployment also remains high. German companies on the ground are expecting the economy to weaken in the next twelve months. The primarily political uncertainties and risks are acting as a deterrent to internationally active companies.

The Russian economy is expected to grow in 2018 for the second consecutive year. This is mainly due to stabilization of the oil price. Productivity gains in Russia remain low, however. For greater growth to be achieved, the Russian economy requires far-reaching reforms to make it more competitive. It is questionable whether a new economic policy position will be adopted after the presidential elections in March.

China strong again

The expectations of German companies in China concerning business remain high. Consumption is growing thanks to rising wages and the demand for imports is increasing. High growth rates continue to make business in China attractive, although a gradual slowdown is discernible. Private sector indebtedness is on the rise and the underlying economic policy framework conditions represent an increasing risk for companies. The major challenges of demographic change, social and environmental conditions and the need to reduce overcapacities in some sectors remain. On the whole, the planned restructuring of the economy is progressing only sluggishly.

Asia benefiting thanks to the robust global economy

Japan is also expected to grow by more than one percent in 2018. In light of the manpower shortage and the demographic trends, this must be considered a success. Whether this will lead to a longer period of recovery remains unclear, however. The finalized EU-Japan trade agreement is intended to impart new impetus to trade.

The other Asian economies are benefiting greatly from the good global economy because of their high level of export intensity. The Philippines is developing robustly - thanks in particular to the growing service sector. South Korea as well is demonstrating stable development, with growth rates of around three percent. However, the shortage of skilled workers and weak domestic demand are preventing even greater momentum.

Companies in India continue to expect high growth rates of more than seven percent overall. This presupposes however that the current economic reforms prove effective. Increasing levels of direct investments and successes in reducing bureaucracy are improving the business situation for companies. However, the greatest risks are still represented by economic policy and inadequate infrastructure.

Stimulation provided by US tax reform

German companies in the USA are satisfied and expect to do good business in 2018. The extensive US tax reform should provide additional impetus. The debt problems of the US budget may however be exacerbated as a result. There remains still a high need for modernization of the infrastructure. An additional factor is the president's America First policy: The tax reform can result in a disadvantage to importing companies. New "Buy-American" specifications could restrict trade. The NAFTA renegotiation is also creating uncertainty - not only in Mexico and Canada, but also among the many internationally active companies in the USA.

Trade agreement with Mercosur countries expected

The Brazilian economy is slowly emerging from the crisis. For the first time since 2013, the country could achieve growth of more than one percent this year. The presidential elections are eagerly awaited in the fall. Stable government and economic policy reforms are prerequisites for sustainable growth in Brazil.

Argentina is developing positively. Infrastructure investments are ensuring good figures in the construction industry. Holding the G20 and B20 presidencies this year, President Macri wants to promote further investment in his country. A conclusion to negotiations on an EU-Mercosur trade agreement could provide further impetus for South America's exit from the crisis.

Growth in Africa stabilizing slightly

Individual crises continue to overshadow development in Africa. South Africa, the continent's economic heavyweight, continues to show only weak growth. A high level of political uncertainty caused by the government's involvement in corruption scandals remains. There is a consequential lack of investment. Unemployment remains high. Stabilization of the prices of important export raw materials could help at least somewhat to boost growth in 2018. Other African countries by contrast, such as Kenya, are developing at higher growth rates. Unemployment and high debts are a problem here too, but new investments and stable development are giving companies a positive feeling. This also presages a growth rate of over three percent for the African continent as a whole.

Investment intentions

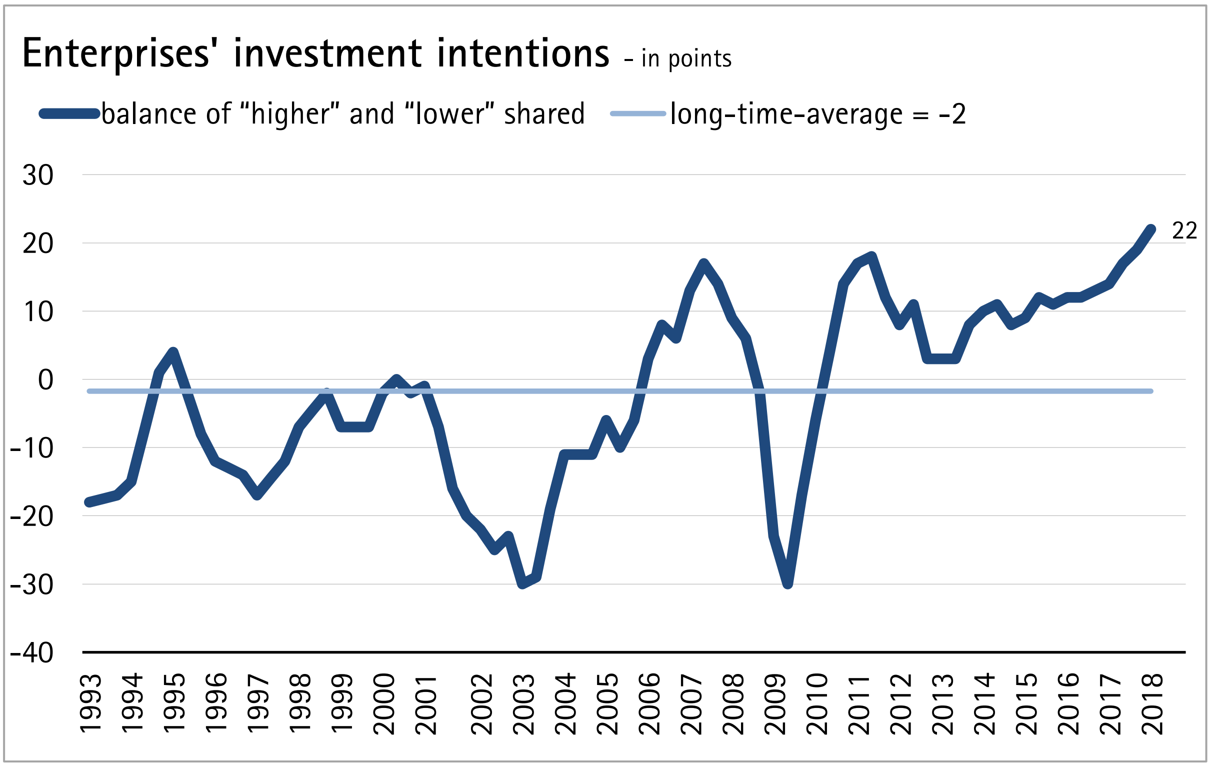
How will the expenditure of your company on domestic investments probably develop in the coming 12 months?

Growth at new levels

Companies' investment plans are more expansive than ever before. Many companies are now operating at the limit of their capacity. Furthermore, confidence in the continuing high demand for their goods and services is increasing. Manufacturing industry in particular is planning to expand, while the construction industry and retail trade also want to increase their capital expenditure. In view of this development, more companies than ever before intend to expand their capacities. The investment motive of product innovations also reaches a record level. The high investment requirements of digitalization are likely to materialize more and more. Besides the modernization of existing products and processes, companies also see a great need to develop new business models and production processes.

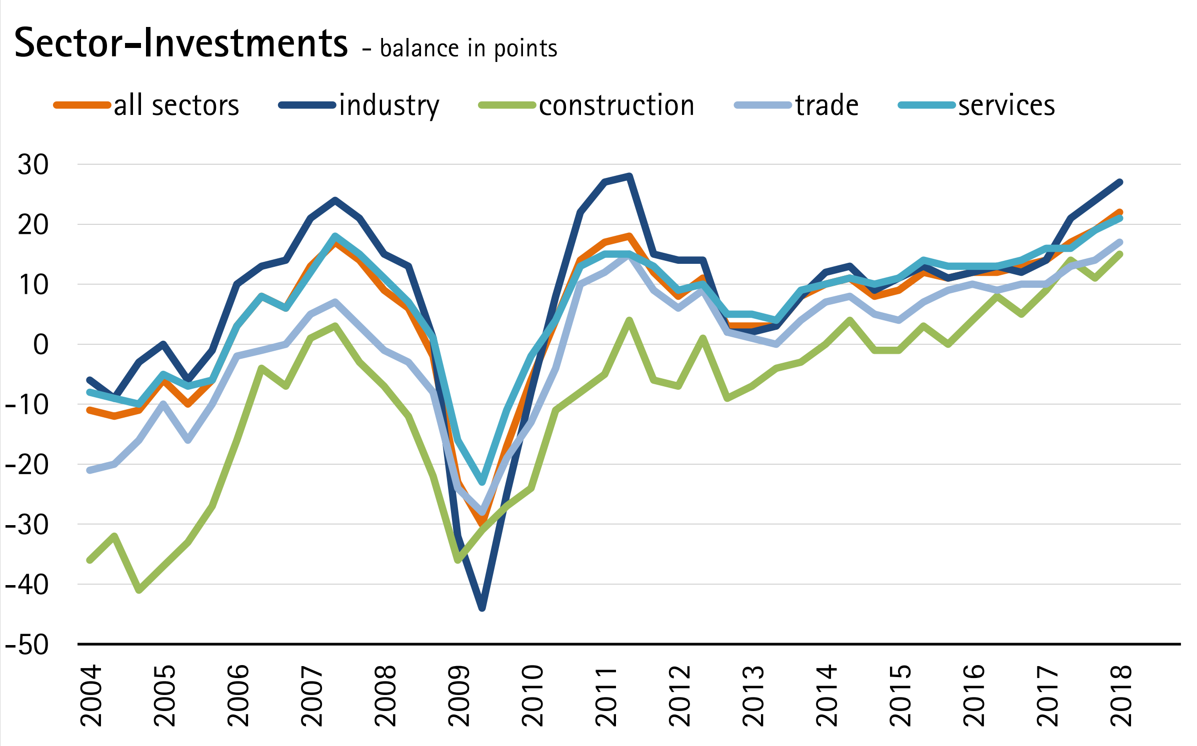
Investments: reaffirmation of record intentions

At the beginning of 2018, more than one-third of all companies want to expand their investments in Germany (34 percent) over the next few months. By contrast, only twelve percent of companies are planning lower investment budgets. Slightly more than half (54 percent) will go into 2018 with constant investment plans. With the resulting net balance of higher and lower investment intentions of 22 points, the investment intentions at the beginning of the year have once again reached record levels. Relative to the record high reached last fall, intentions have again risen significantly (by three points). The momentum of the upturn in investment has been growing steadily since the early summer of 2016. The further marked improvement in the business situation (balance improvement by seven points to 61 points) and the more optimistic business expectations (balance improvement from 23 to 29 points) among capital goods producers also point to brisk investment demand. The picture of a broad-based upturn is consolidated therefore and is supported not only by consumption and export



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

	higher	about equal	lower	balance
February 2016	27	58	15	12
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



earnings but also by extensive investment activity. The continued favorable financing conditions are supporting the upturn in investment. At present, only one in ten companies - new investment projects, for example - see financing as a risk for their business development.

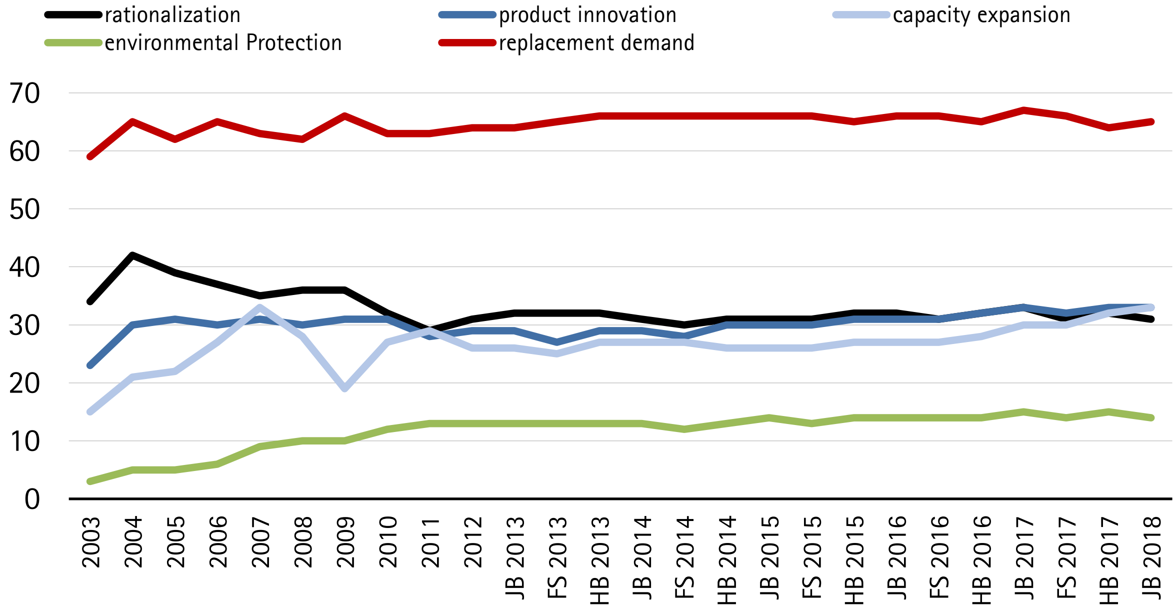
All branches of the economy on a high

Investment intentions are rising to record levels in almost all sectors of the economy or moving near. In the construction industry (investment balance plus four points to 15), in the retail sector (plus three balance points to 17) and in the service sector (plus two points to 21 balance points), investment balances are registering all-time highs. In the manufacturing industry as well the figure is approaching the record level of 28 points - the investment balance is now 27 points, an improvement of three points compared to the previous survey. At the beginning of 2016 the investment intentions for an upturn were still cautious, but the manufacturing industry is now catching up strongly and wants to expand its budgets even more significantly than the rest of the economy (increase compared to the previous year in the manufacturing industry: 13 points; overall economy: 8 points). The investment gap identified a few years ago is therefore closing a little. This is also supported by the fact that large companies in particular, which typically make large-volume investments, report the biggest leap in

Enterprises' Investment Intentions (balance in points)

	Manufacturing industry	Construction sector	Retail trade	Services	All
February 2016	12	4	10	13	12
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

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



JB = february, FS = early summer, HB = fall

their investment intentions. Over the course of the year, the balance in this case has risen by 14 points to 32 points.

Digitalization is also increasingly likely to become a driver of investment. This is reflected on the one hand in the optimistic expectations of IT service providers and the information industry. On the other hand, the IHK digitalization barometer has also shown that companies are aware of the need for investment resulting from digitalization. Around nine out of ten companies - and so even more than in the previous year - want to increase their investments in order to further digitize their processes and products.

Bottleneck factor No. 1: shortage of skilled workers

It is questionable whether all investment intentions of the companies can be realized in full – the shortage of skilled workers could to a certain extent prevent or delay this. For companies willing to invest, this is the number one risk. Currently 68 percent (64 percent in the fall of 2017) are affected.

Expansions in capacity more important than ever

The share of companies wishing to invest in capacity expansion is at record levels. One third of companies cite this as a motive (previous survey: 32 percent, previous year's survey: 30 percent). It has therefore gained significantly in importance over the last three years (beginning of 2015: 26 percent). Manufacturing industry in particular is currently reacting with expansions to the continuing high level of capacity utilization (41 after 34 percent and 27 after 25 percent respectively year-on-year). Although the investment motive of product innovation is not continuing to increase, it nevertheless remains at a record high of 33 percent. At the same time, the motive of replacement investments has increased slightly across all sectors – 65 percent of businesses are planning to invest capital for this reason, one percent more than in the fall of 2017. There is little change on balance with regard to the motives of "rationalization" (31 percent, minus one percent compared to the previous survey) and "environmental protection" (14 percent, minus one percent).

Manufacturing industry expanding

Manufacturing industry is continuing to scale up its investment budgets (balance: 27 after 24 points previously) and is therefore planning to be much more expansive than the rest of the economy. The motive of capacity expansion is the highest among industrial companies since the start of the survey and in the comparison of the economic sectors (41 percent). These are benefiting to a particular extent from the economic recovery in the EU and worldwide.

Construction with the greatest dynamics

The construction industry shows the highest investment balance since the survey began. The balance has risen noticeably (by four to 15 points) – with civil engineering even more expansive (plus six to 17 points). The investment motive of capacity expansion remains at the maximum value of the previous survey (27 percent of businesses are investing for this purpose).

Retail trade reporting records as well

The investment intentions of the retail trade are increasing significantly (balance improvement from 14 to 17 points). Overall, the share of retail traders who have set up their investment budgets for the purposes of capacity expansion or product innovations remains at record levels of 30 and 29 percent respectively.

Service providers planning even more capital investment

Service providers are continuing to increase their expenditure substantially (by two to 21 points). This sector of the economy has also surpassed its previous records (previous record high: 19 points). The dynamism is particularly strong among the company-based service providers (22 after 18 points). Digitalization is an important driver in this. IT service providers want to increase their budgets even more than last time (28 points after 24). The providers of research and development services are also planning a large rise in investments. Here, the balance shows a strong leap to 37 points (previous survey 21 balance points). Many businesses are making use of R&D services in order to work on their competitiveness in the face of the various challenges, e.g. in the field of digitalization.

Individual-related service providers such as health and social services are planning to invest slightly more (22 after 21 points and 34 after 33 points) after a strong increase in the fall. The economic situation, which has been good for some time now, the ever-increasing employment levels and the associated stable consumer confidence has also led to very high investment intentions in the leisure industry, albeit slightly below the record level of the previous survey (balance 26 points after 27 points in the previous survey).

Banking industry working its way out of the impasse

The banking industry, which has been under pressure for years, is also generating additional investment impulses. The persistent low interest rate policy, the ever more complex regulation and its implementation, as well as the need for adaptation due to digitalization, is putting considerable pressure on the sector and generating an increasing need for investment (balance increase from ten to twelve points). Overall, however, investments in replacements and rationalization continue to dominate the banking industry (72 percent after 68 percent and 57 percent after 58 percent respectively), while expansion continues to play hardly any role (eight percent after seven percent).

Employment Intentions

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

Employment plans at record levels – shortage of skilled workers setting limits

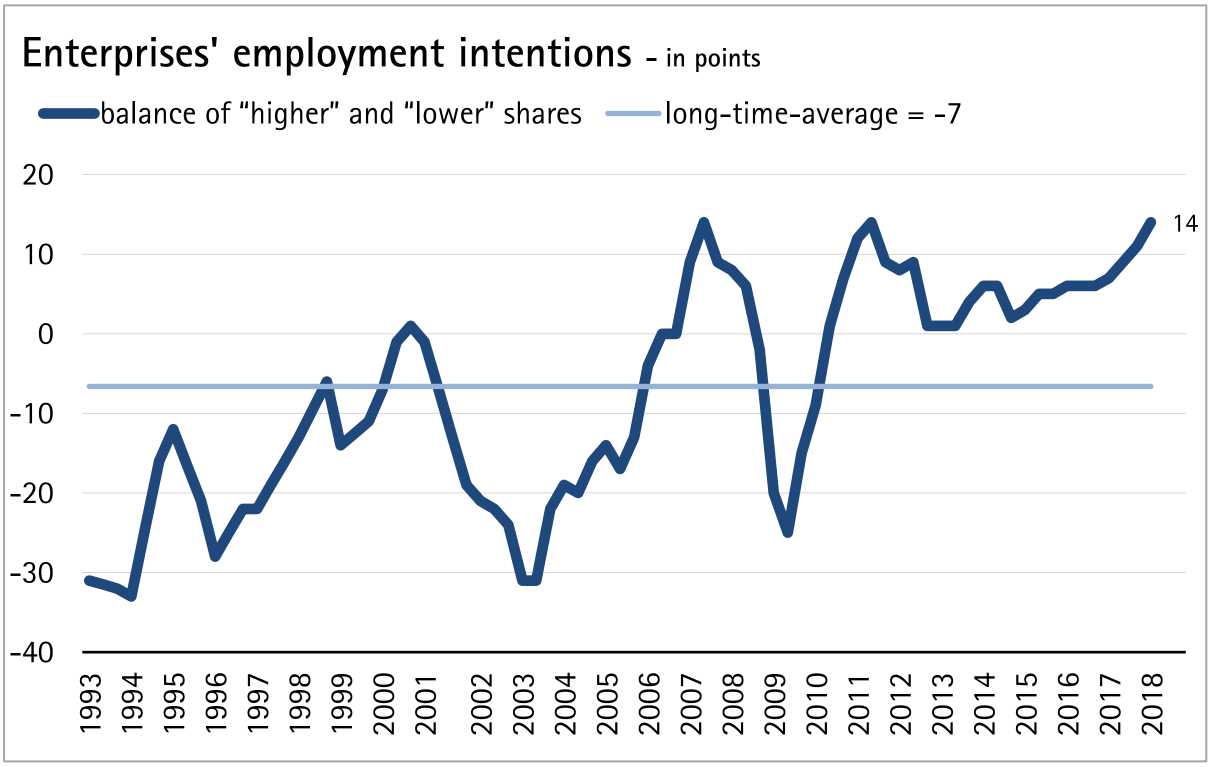
Employment intentions are increasing across all sectors, having reached new highs in manufacturing industry, construction and commerce, and are only slightly below that among service providers. The dynamism in manufacturing industry and among IT service providers is particularly strong at the current margin. Only the financial services industry continues to expect declining personnel budgets. Overall, the growth in employment is becoming increasingly difficult to implement as a result of the shortage of skilled workers, which has become by far the greatest obstacle for companies in the meantime. In 2010, only 16 percent of companies cited this as a business risk - compared with 60 percent today. The shortage of personnel is also reflected in the increasing worries of companies across all sectors about labor costs.

Upswing continuing also on the labor market

Companies have even more expansionary employment plans than last fall. One in four businesses wants to increase its number of employees, 64 percent want to continue their current employment levels and only eleven percent are planning fewer employees. The balance of the proportions of companies that have staff expansion plans and reduction intentions is 14 points – once again reaching the record levels of 2011 and 2007. The rise in employment is therefore entering its thirteenth year in 2018.

Bottleneck factor skilled workers....

From an economic point of view, however, the strong increase in employment in recent years also has its downsides. The recruitment and retention of personnel is becoming increasingly



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

	higher	about equal	lower	balance
February 2016	18	70	12	6
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

difficult because the labor market has been largely swept bare with regard to certain occupational groups. Not only academics are looked for, but especially people with professional qualifications. Over the last few years, foreign skilled workers have accounted for a large part of the increase in employment. Due to the improved labor market situation in the rest of Europe, labor migration to Germany is becoming less attractive.

The risk of a “shortage of skilled workers” has risen to a new record level. Six out of ten companies now see this as a risk to their business development. Since the fall of 2016, the shortage of skilled workers has therefore been the top risk from the perspective of the economy. Previously, concerns about demand had dominated.

The lack of qualified specialists is increasingly becoming a bottleneck across all industries and is slowing companies down in their business activities. If companies are unable to realize their growth potential against this background, this ultimately also reduces overall economic development.

... especially for small and medium-sized businesses

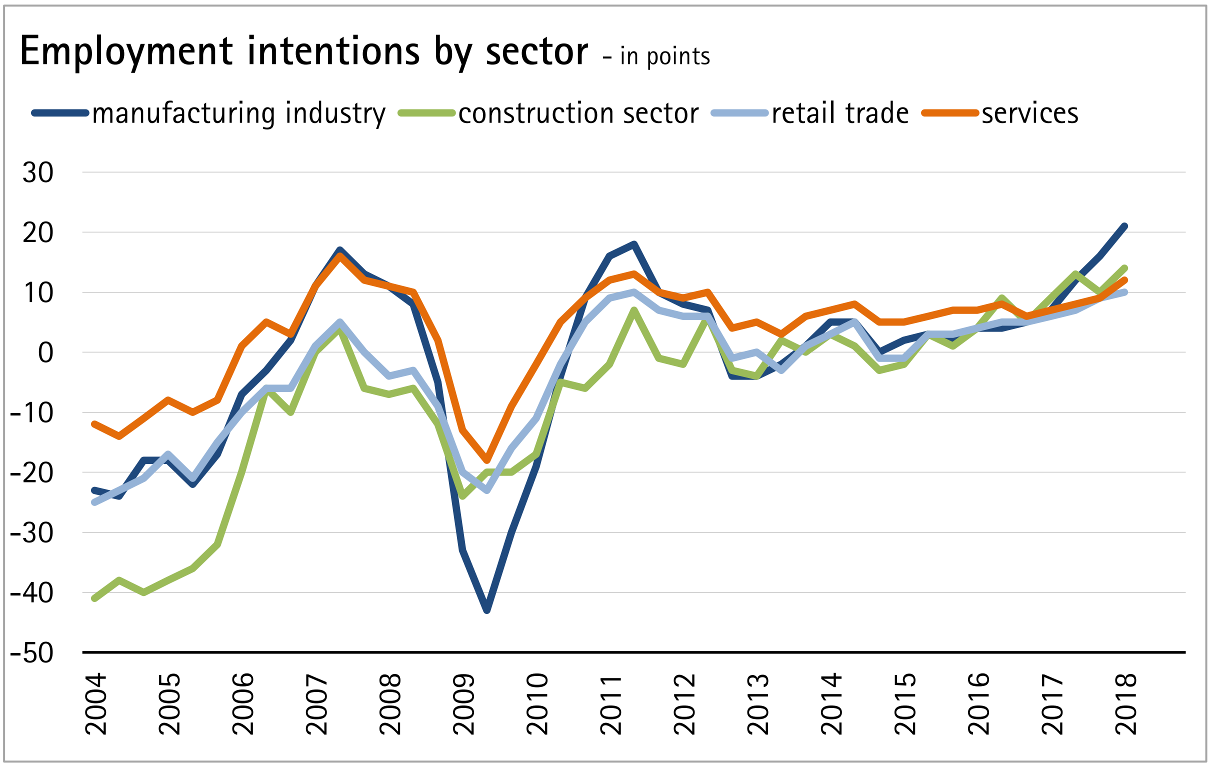
The shortage of skilled workers is the number one business risk for companies of all sizes and is increasingly causing problems for SMEs in particular. Small and medium-sized companies often find it more difficult to attract potential applicants. The smaller medium-sized businesses (20 to 199 employees) are particularly affected by the shortage of skilled workers (69 after 65 percent). The same applies to the larger medium-sized companies (200 to 499 employees), where the risk assessment is once again slightly higher than in the fall (66 percent, in the fall of 2017 63 percent). Even small companies (up to 19 employees) are increasingly concerned about recruiting skilled workers (51 after 48 percent). Admittedly, the need for personnel is not so great here. If vacancies remain unoccupied, it is particularly difficult for small businesses to compensate for this internally. In contrast, large companies often have the advantage of being better known and are therefore able to fill their vacancies more easily. Their international orientation also facilitates the cross-border search for suitable personnel. However, the improved labor market situation in many countries seems to be imposing increasing limits on this model. Accordingly, the risk of a "shortage of skilled workers" among large companies has risen significantly compared to the fall (increase by eight percentage points to 55 percent).

Growing labor cost concerns

With the increasing difficulties in recruiting and securing skilled workers, companies are becoming more and more concerned about the development in labor costs. Businesses are frequently offering better conditions to recruit or secure skilled workers. This includes higher re-

Enterprises' Employment Intentions (balance in points)

	Manufacturing industry	Construction sector	Retail trade	Services	All
February 2016	4	4	4	7	6
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



muneration, but also other special services such as assistance in finding a home or day care facilities and school places for children. In addition, there are offers for mobile working and therefore often the creation of the corresponding technical requirements. Accordingly, rising personnel costs are creating problems for many companies, particularly in the face of international competition. In the meantime, 42 percent of companies see the development in labor costs as a risk to their business development (last time: 40 percent). The share has therefore reached a record high again. Here too, small and medium-sized businesses are particularly affected. Almost half of the companies with 200 to 499 employees are concerned about personnel costs (49 percent, compared to 41 percent previously).

Manufacturing industry planning to expand its workforce across a broad front

The positive business expectations of manufacturing industry correspond to record employment plans. The employment balance is rising sharply once again (21 after 16 points) – for the fourth time in a row. Manufacturing industry is now planning much more expansively than the rest of the economy. But the shortage of skilled workers is leaving its mark here too. 60 percent now see this as a risk to their business (last time: 54 points). Worries about labor costs are also rising sharply (44 after 39 percent).

Investment boom generating new momentum

Capital goods producers have improved their employment plans by six points on balance (26 compared to 20 points in the fall of 2017). As a result, they remain only slightly below the maximum value of the early summer of 2011 (29 points). Electrical engineering companies (31 after 28 points) and especially the manufacturers of data processing equipment are also planning to employ more personnel (balance of 35 after 30 points in the fall). Here too, additional personnel requirements are becoming apparent as a result of digitalization. The employment intentions in the area of the repair and installation of machinery and equipment (46 after 29 points) are also reaching a new peak.

Plans are one thing – worries another. Concern about the shortage of skilled labor is also being felt among capital goods producers – and is becoming ever greater over time. Companies in the "Repair of machinery and equipment" sector (76 after 77 percent in the fall) and the machine tool industry (68 percent as last time) are particularly concerned. In view of the increased competition for skilled workers, it is not surprising that businesses are becoming more and more worried about rising labor costs. More mechanical engineering companies (46 percent, up from 37 percent previously) and manufacturers of motor vehicles and their parts (52 after 37 percent) see labor costs as a risk to their own business development. Increasing labor costs are also a serious risk to companies producing and processing metals (51 after 40 percent) as well as electrical equipment (47 after 40 percent).

Service providers recruiting

Personnel planning in the service sector remains expansionary. The employment balance has risen sharply (from nine to twelve points). Many companies want to respond to the persistently high demand by creating additional jobs (domestic demand risk: 30 after 33 percent). But even service providers are not being spared from the shortage of skilled workers (referred to as a business risk: 60 after 57 percent last time).

The high level of consumer confidence in the stability of the economy and the good employment situation are making it possible to increase expenditure on personal services. The leisure industry, for example, is planning to increase its workforce at record levels (increase from ten to 15 points). At the same time, the risk of skilled manpower is also becoming increasingly important in this area (mentions: 42 after 36 percent previously).

Healthcare and social services providers are facing increasing demand almost daily. For this reason, companies are planning to expand employment levels (balance of 31 after 28 points in the fall). In view of the demographic developments, the demand for personnel is also expected to increase further in the future. At the same time, however, the shortage of skilled workers is the greatest business risk to four out of five companies. However, the worries are not currently becoming more acute (decrease by one to 79 percent; beginning of 2017: 82 percent). The development in labor costs remains an important issue for companies, but here too, the risk assessment has declined at the current margin (40 after 43 percent in the fall).

Restaurants, hotels and other businesses in the hospitality industry plan to increase their employment levels (balance increase by two to three points). However, they are having considerable difficulties in recruiting and retaining staff. Nearly three out of four companies in the hospitality industry consider the lack of skilled workers to be a business risk (72 after 74 percent). In particular, finding personnel for off-peak periods and on weekends regularly presents companies with challenges. In order to alleviate the shortage of skilled workers, more flexibility in terms of time with respect to childcare could help here, for example.

Digitalization: Skilled workers bottleneck

The good economic situation in industry and the challenges posed by digitalization are also driving up the demand for business-related services. This is why companies want to substantially build up employment here as well (balance: 26 after 23 points). R&D facilities (41 after 28 points) are particularly expansive in their planning. Increasing digitalization is driving the business of IT service providers and information service providers in particular. Whether new IT infrastructures, innovative web portals or customer-specific apps – the demand for digital solutions is growing. The optimistic business expectations of these sectors are also reflected in their employment intentions. For example, information service providers (balance increase by 18 to 54 points) as well as IT service providers (balance increase by five to 42 points) are planning a substantial expansion of their personnel base.

For almost all business service providers, however, securing skilled workers is becoming more and more of a challenge (mentioned by 61 after 57 percent previously). Among the IT service providers, two out of three companies see the shortage of skilled workers as an obstacle to their economic development (67 after 60 percent last time).

Retail trade planning to recruit more than ever before

Employment growth in the retail trade sector is continuing (balance of 10 compared to 9 points). In line with the rising expectations and expected growth in foreign trade, the impetus is coming primarily from the wholesale trade (16 after 12 points) and from trade brokers (18 after 11 points). On the other hand, greater caution is being shown by companies from the "Automotive trade and repair" segment (balance decline compared to the fall by one to seven points). The shortage of qualified specialists is slowing businesses down more sharply here than in the other trade sectors (63 percent compared to 57 percent in the fall). In addition, many car dealerships in particular see rising labor costs as a risk to their economic activity (43 percent compared to 38 percent in the fall).

Construction at record levels

The construction industry has never been so confident in its plans for staff expansion. The balance has risen by four points to 14. Employment balances in structural engineering and the finishing trade have also reached record levels (ten after nine and 15 after twelve points respectively). Civil engineering is planning to expand by a significant extent with a balance improvement of nine points to 19 points.

However, the recruitment and retention of personnel is also becoming increasingly difficult in the construction industry. Never before since the first survey was conducted at the beginning of 2010 have so many construction companies seen a business risk in the shortage of skilled workers as they do at present (79 after 77 percent). Particularly in civil engineering and the finishing trade, the risk assessments of the lack of skilled worker have now reached new record levels (85 and 83 percent respectively). At the same time, the risk of rising labor costs in the construction industry is establishing itself at a high level (48 after 45 percent).

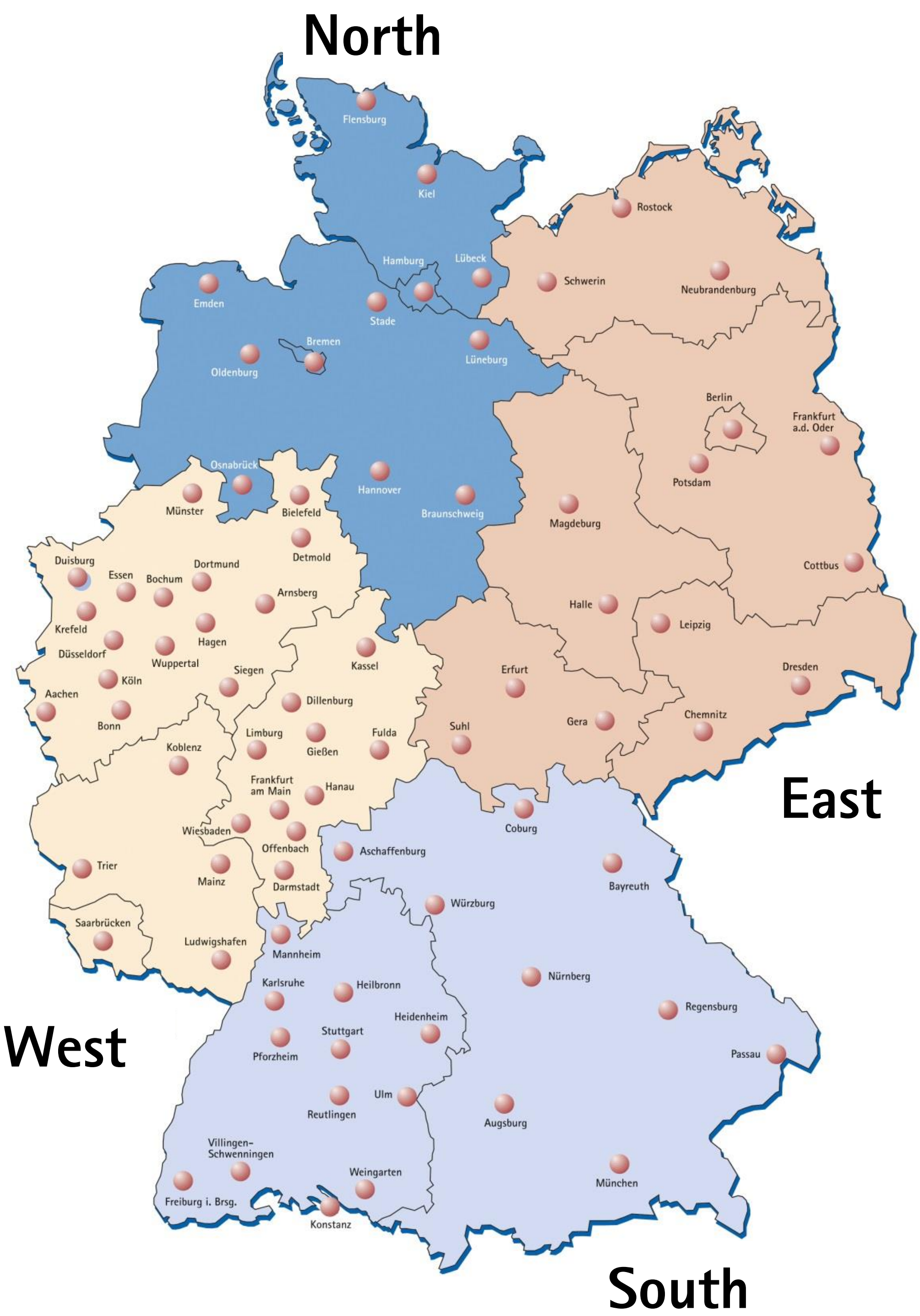
The increasing demand for residential and commercial space is also making itself felt in the real estate industry. The employment balance has reached a record level (14 after 13 points in the fall). The demands placed on the services provided by the real estate industry are becoming more and more complex and therefore more labor-intensive. Especially the search for free real estate is becoming increasingly difficult in the urban environment.

Financial sector bringing up the rear

Financial and insurance services are adjusting their employment plans slightly upwards (balance of minus 28 after minus 31 points in the fall). The balance in the banking industry has also improved slightly (minus 53 after minus 55 points). However, the progressive regulation of the financial markets, digitalization – especially the market entry of new providers such as Fintechs – and the low-interest environment are challenging the credit institutions and necessitating further adjustments. The consolidation of the sector and, above all, the branch business has not yet been completed. This is another reason why the employment balance of the credit banks is lower than ever before (minus 39 after minus 19 previously). However, ten percent of credit banks are planning to increase their employment levels. The main focus is on the back-office areas in connection with new business models such as mobile banking and mobile payment systems, as well as higher regulatory requirements. At the savings banks (minus 72 after minus 76 points), however, there is a slight upward movement, albeit at a very low level. The hiring of new employees is not being planned by the savings banks, although job cuts are progressing more slowly. The cooperative banks are in a better position (balance of minus 39 after minus 43 points), five percent of which are planning more staff. The insurance industry is already benefiting from the adjustments in the sector and is showing a clearer upward trend (balance of minus ten after minus 18 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 February 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 **" Economy moving full steam ahead, although bottlenecks increasing"** 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 **26,000 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 (23 percent) and service providers (42 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.

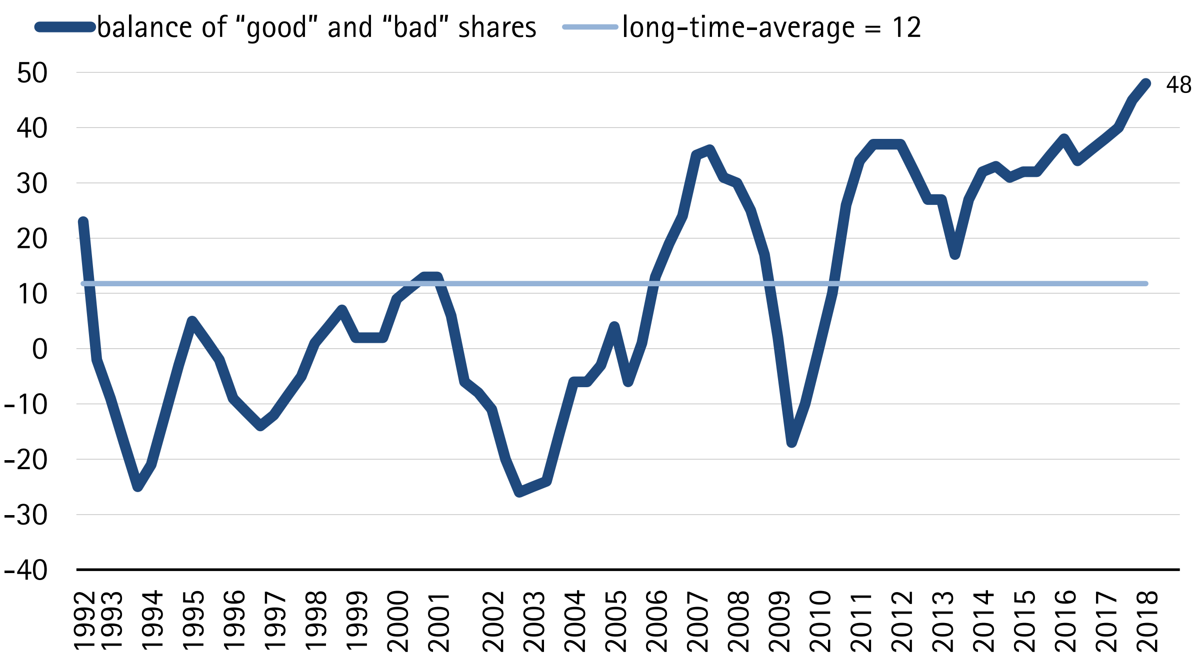
Where the text refers to a long-term average, this relates in the various sectors of the economy to the period from the autumn of 1991 (situation, expectations) or the autumn of 1992 (export expectations, investment and employment intentions). For the individual sectors, the data that reaches back to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

The survey was carried out from the **begin of December 2017 to the middle of January 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 retail trade	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
February 2012	46	45	9	37	41	32	30	38	29	36	46	42
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

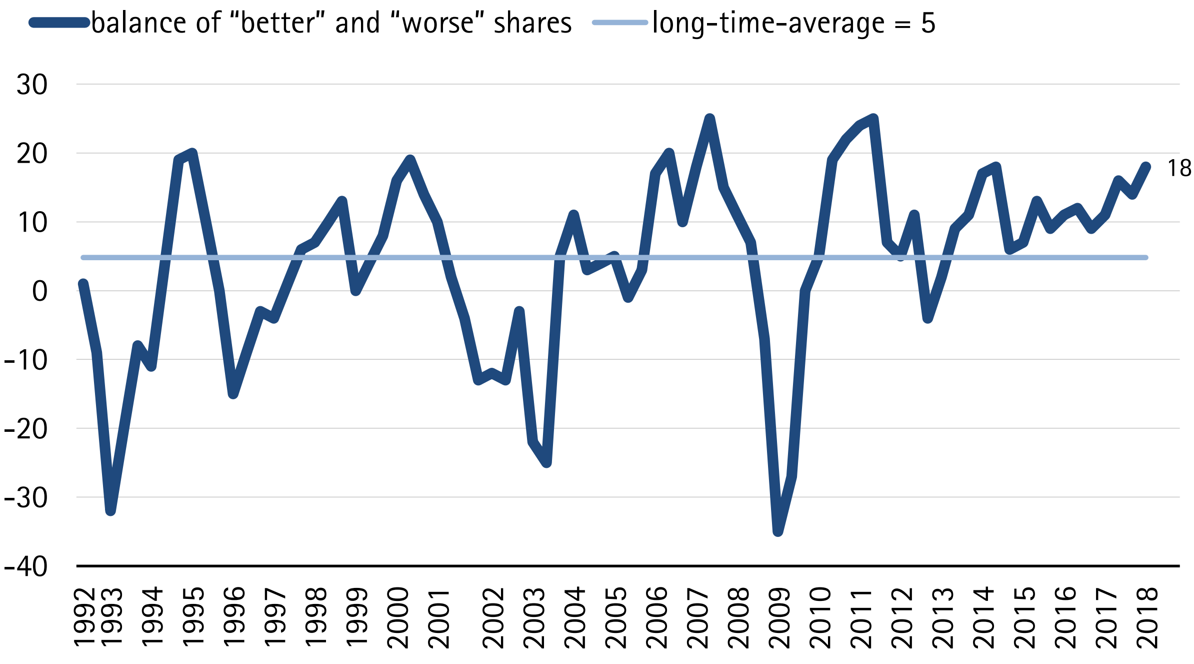
Enterprises' business situation - in points



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 retail trade	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
February 2012	22	61	17	5	4	-8	1	7	5	4	5	5
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

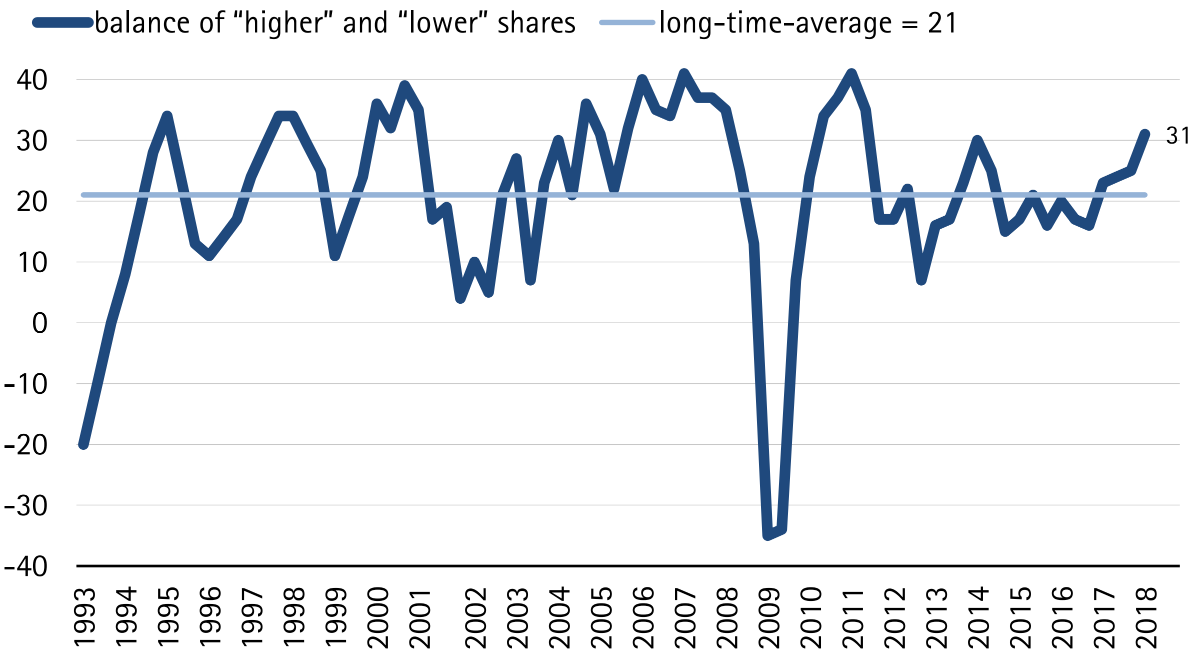
Enterprises' business expectations - in points



Enterprises' 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
February 2012	31	55	14	17	13	20	24	9	11	26	27
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

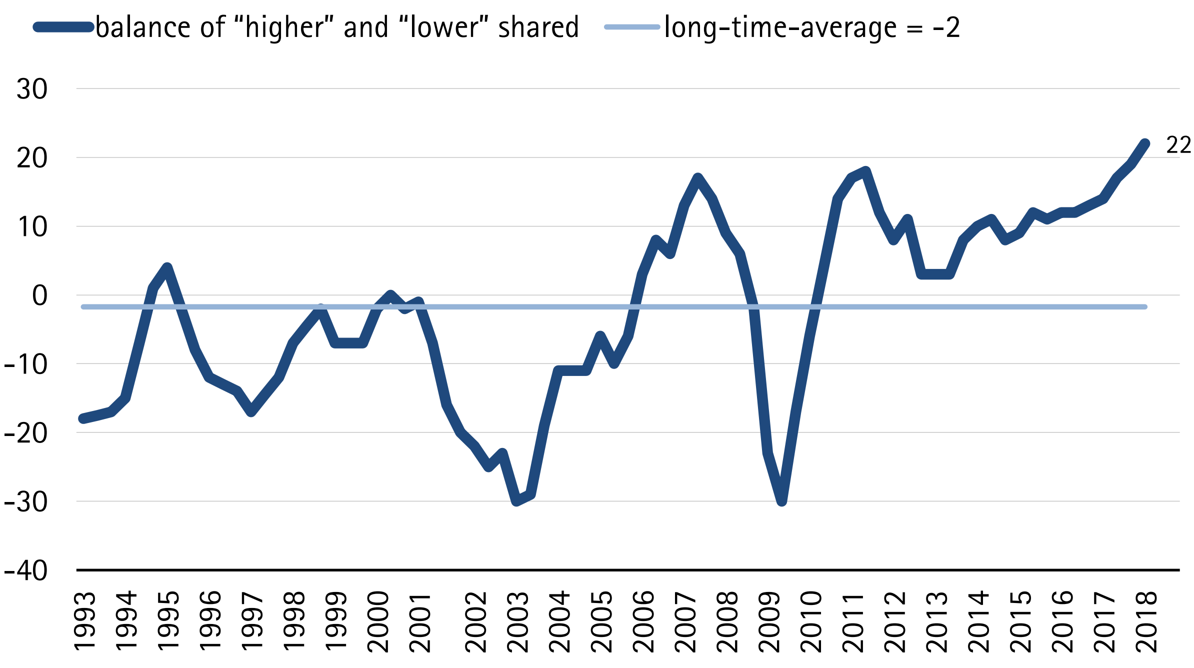
Enterprises' export expectations (manufacturing industry) - in points



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

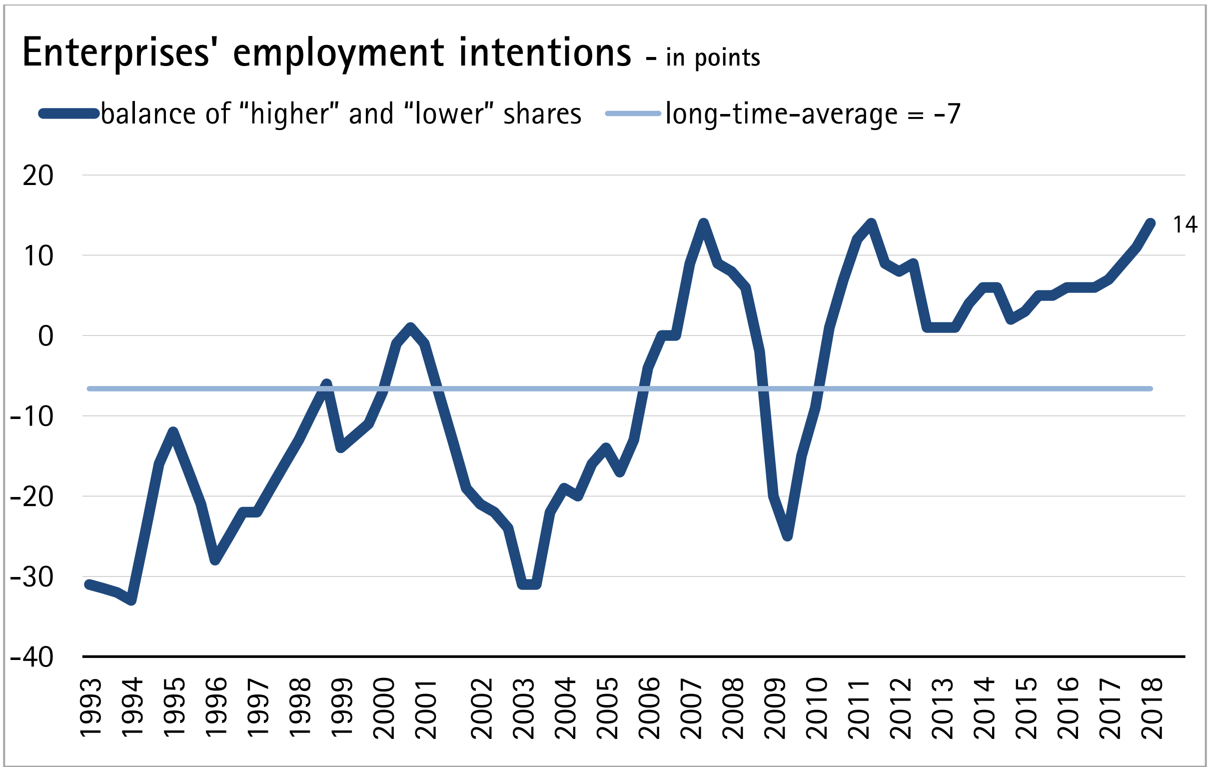
	Germany total				Economic sectors				Company size classes			
	better	about equal	lower	balance germany	balance manufacturing industry	balance construction	balance retail trade	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
February 2012	26	56	18	8	14	-7	6	9	4	11	15	14
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

Enterprises' investment intentions - in points



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 retail trade	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
February 2012	19	70	11	8	8	-2	6	9	5	12	9	4
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



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
February 2012	46	39	17	30	33	17	50	44	not asked				
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

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