

Strong economy, lack of skilled employees

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

Early Summer 2017



DIHK

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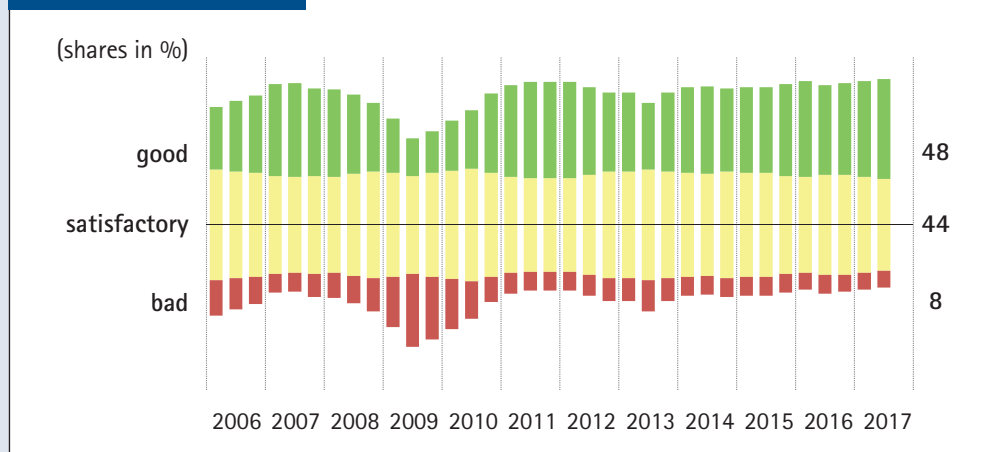
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Germany at a Glance

Early Summer 2017

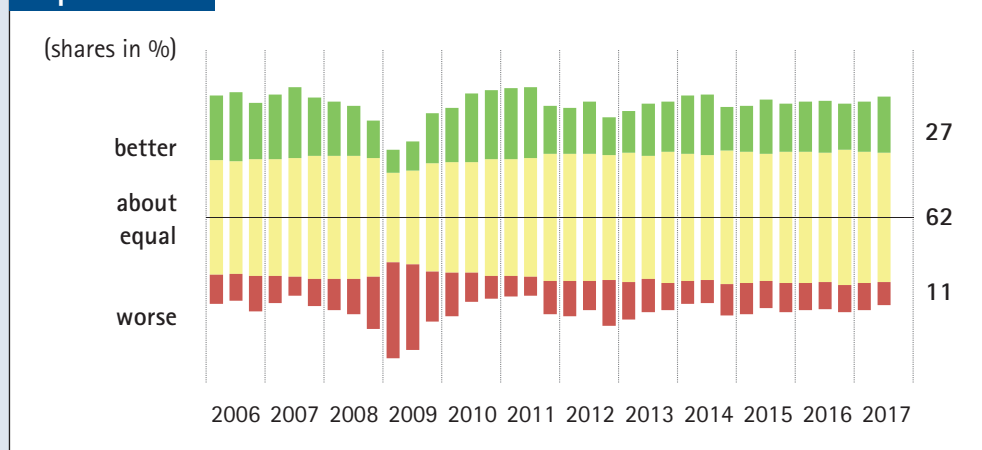
Economic Situation



in world trade. The domestic economy continues to run smoothly. The construction industry – which was skeptical for a long time – is now reaching record values. In some consumer sectors the success is not as high as previously. On balance, the sentiment among service providers remains positive and virtually unchanged.

The German economy is currently defying the international economic uncertainties. Coming from a record level, the **situation assessments** have improved again. The positive expectations from the beginning of the year have been realized. Manufacturing industry assesses its situation to be significantly better due to the recent slight revival

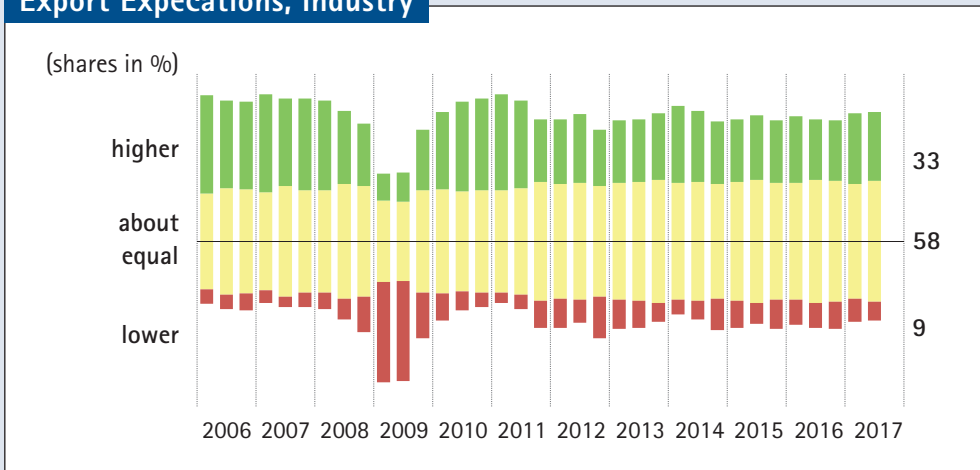
Expectations



beginning of the year. The prospects for manufacturing industry have improved once again. An end to the construction boom does not appear in sight. Confidence in the trade sector and among service providers is also growing. However, the shortage of skilled workers is by far the greatest business risk.

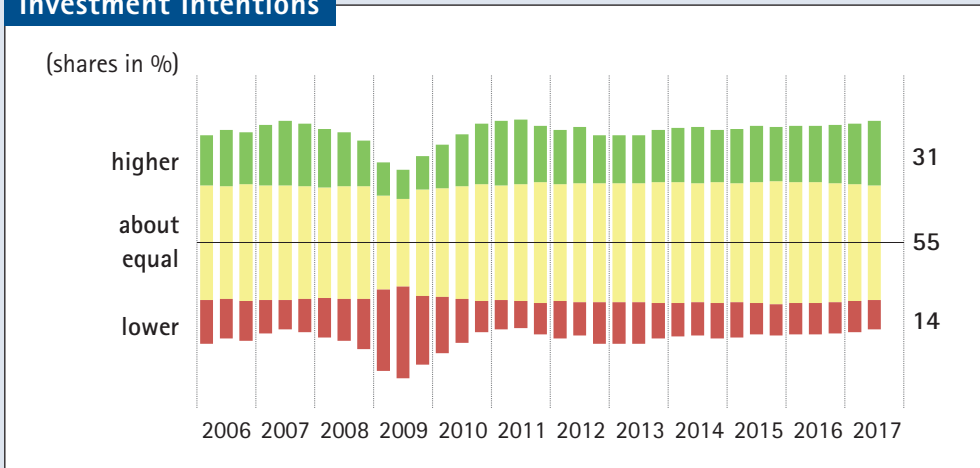
The **expectations** continue to improve noticeably. Demand at home and abroad is developing positively. Exchange rates, interest rates and oil prices are still favorable in long-term comparison. On balance, the companies in all sectors of the economy are more confident about the development of their business than they were at the

Export Expectations, Industry



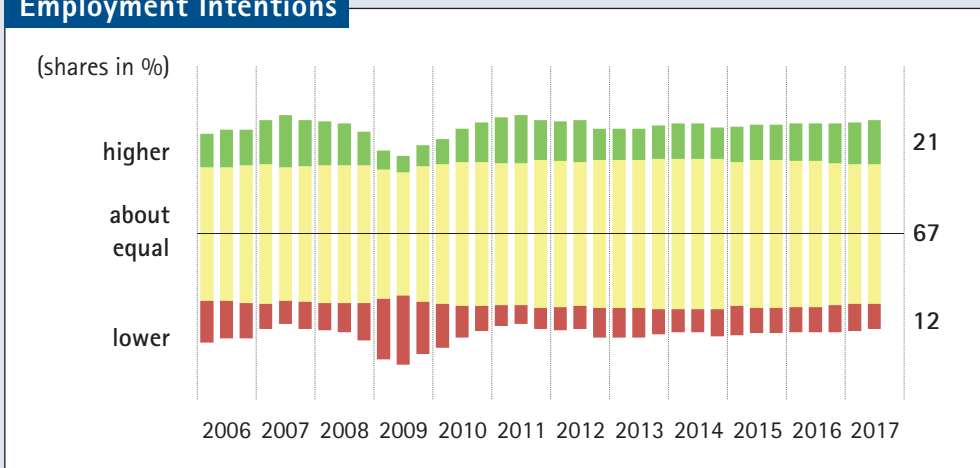
The **export expectations** of companies in the manufacturing industry have again increased slightly. German exporters were able to benefit from the revival of the world trade at the beginning of the year. Their rather optimistic export expectations and declining concerns about foreign demand indicate that the moderate growth in exports will continue in the coming months. The positive development in the Euro Zone and the USA is compensating setbacks in trade with important partners like the United Kingdom and Turkey. However, the political uncertainties and the protectionist tendencies worldwide are putting a brake on global growth.

Investment Intentions



The **investment intentions** of German businesses are picking up once more. Manufacturing industry has significantly increased its investment budgets, in particular export oriented companies. The construction industry is planning more investments than ever before. The trade sector is also going the extra mile. In contrast, the service providers are not continuing to expand their investment plans. The greatest limiting factor – especially for companies with expansive investment plans – remains the shortage of skilled workers. Overall, the overriding motif for investments remains replacements rather than expansions and innovations.

Employment Intentions



The cross-sector **recruitment intentions** of companies increase again. It is above all the manufacturing industry that is ramping up its plans. In the construction industry, the planned staffing levels have reached a new record high. The trader sector and service providers also intend to increase the level of their workforces once again. Generally, recruitment plans are being slowed by the increasingly severe shortage of skilled workers. This is by far the most significant business risk to companies. More than every second company now considers its business developments to be placed in jeopardy by this trend.

again. Generally, recruitment plans are being slowed by the increasingly severe shortage of skilled workers. This is by far the most significant business risk to companies. More than every second company now considers its business developments to be placed in jeopardy by this trend.

Economic Situation



Best economic situation since reunification

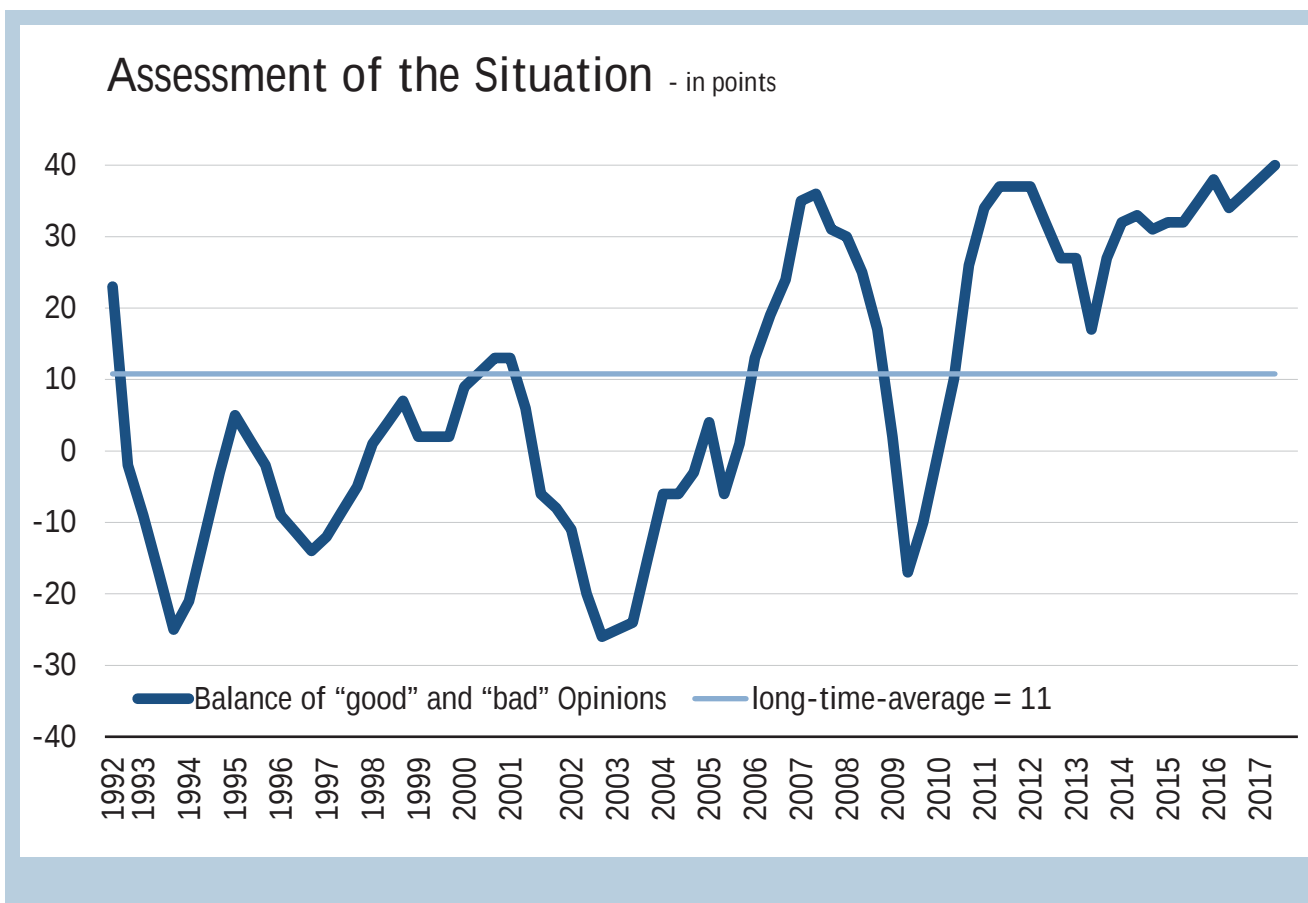
The German economy is currently defying the international economic uncertainties. Coming from a record level, the situation assessments have improved again. The positive expectations from the beginning of the year have been realized. Manufacturing industry in particular assesses its situation to be significantly better as a consequence of the recent slight revival in world trade. The domestic economy continues to run smoothly. The construction industry – which was skeptical for a long time – is now reaching new record values. Civil engineering in particular evaluates its situation considerably better. In some consumer sectors – such as the retail trade or hotel and restaurant industry – the success being enjoyed by business is not quite as high as previously. In contrast, the situation assessments of ICT, corporate and personal services reach record values. The sentiment among service providers therefore remains positive and virtually unchanged on balance.

Record situation assessment despite economic policy uncertainty

Companies assess their situation better than ever before since reunification. Almost every second company assesses its situation as "good" (48 percent) – more than in all previous surveys. Only 8 percent refer to the situation as bad. The situation balance as the difference between the two shares is 40 points – and therefore two points higher than at the beginning of the year. The economy continues to benefit from coping through low interest rates, inexpensive oil and an exchange rate that promotes exports, even if the additional impulses are no longer quite so large. The imponderables of international economic policy, such as the uncertainty surrounding the further course of the Brexit negotiations, have so far hardly been felt by the business activities of German companies. The course being taken by the United States government is also a source of concern for many businesses, but so far the words have scarcely been followed by any action. Overall, the situation balance has been well above its long-term average (eleven points) for almost four years now – a remarkably long phase of above-average growth.

Assessment of the Situation (in percent)

	good	satisfactory	bad	balance
Early Summer 2015	41	50	9	32
Fall 2015	44	47	9	35
February 2016	46	46	8	38
Early Summer 2016	43	48	9	34
Fall 2016	44	48	8	36
February 2017	46	46	8	38
Early Summer 2017	48	44	8	40



Positive expectations fulfilled

With the current improvement in the situation assessment, the increased business expectations of companies from the last survey are being realized. Almost one in four businesses had expected an improvement in their economic situation at the beginning of 2017 – and only 13 percent a downturn. Noticeable stimuli have been coming recently from exports, especially from the Eurozone and the USA, as well as investment activities.

Manufacturing industry benefiting from the boost in exports ...

The situation assessment of manufacturing industry has improved to a particularly marked extent. The balance has risen by a full eight points and is therefore now well above the average of the overall economy (manufacturing industry: 44 after 36 points at the beginning of the year; overall economy: 40 after 38 points previously). The domestic economy continues to develop positively. Not only that – there is also a revival in world trade. The comparatively low exchange rate continues to ensure that German products are less expensive and therefore more competitive outside the Eurozone. Exporting industry in particular therefore assesses its situation as being considerably better than previously (46 after 36 points in the last survey). This added momentum is being felt among the manufacturers of intermediate goods in particular (45 after 34 points previously). For example, companies working in the production and processing of metals, as well as the rubber and plastics industry, are much more

satisfied (28 after nine and 50 after 43 points previously). As a rule, the expansion of production is felt first of all by the manufacturers of intermediate goods.

... with capital goods
"Made in Germany" particularly in demand

The demand for capital goods is picking up again in Germany and gaining momentum around the world – riding on the back of low interest rates. The domestic producers of machines, equipment and other capital goods are much more satisfied with their economic situation than last time (48 after 40 points). The situation assessment has therefore now risen for the fourth time in succession. Companies are increasingly investing in order to be able to take advantage of the opportunities presented by digitalization. It is specifically in the cutting-edge technology field of optics and electrics that German companies offer ground-breaking products on the international markets. The producers of data processing equipment, electrical and optical products are particularly satisfied at the moment (52 after 40 points previously). Mechanical engineering and businesses which work in the field of repairing and installing machines and plants also assess their position as being significantly better than last time (49 after 39 and 50 after 36 points respectively). The automotive industry is also more satisfied again with its position than at the beginning of the year (50 after 46 points in the last survey).

Breather for
the consumer goods industry

The manufacturers of consumer goods continue to assess their situation as good. However, the balance has not quite been maintained at the high level of the previous survey (29 after 31 points). The positive development among the producers of durable goods (37 after 32 points) is making up in full for the deterioration in sentiment among the manufacturers of non-durable goods (27 after 31 points). Demand continues to benefit from the positive development in employment, wage increases and the low interest rates. For example, the furniture industry is noticeably more satisfied than last time (41 after 37 points). The downturn among the manufacturers of non-durable goods is characterized above all by the deterioration in the food industry (26 after 34 points). Here, the prices for agricultural raw materials – and therefore also the purchase prices – paid by companies at the beginning of the year have risen significantly. Passing on the higher costs is resulting in a decline in the demand stimuli among the producers of non-durable goods.

New records in the
construction industry

The construction industry assesses its situation as being better than ever. The situation balance of 56 points has eclipsed the previous highest level from the autumn of 2016 (54 points). Businesses were not as satisfied as now even during the time of the construction boom after reunification (highest level in 1990: 46 points). 60 percent of companies assess their situation as "good", with only four percent speaking of a difficult situation. Compared to the beginning of the year, the situation balance has increased by four points. The situation balances are also setting new records in all sub-sectors (construction, civil engineering and finishing trade). The situation assessment has improved particularly significantly in civil engineering (51 after the previous level of 44 points). Some of the funds allocated to the transport infrastructure are flowing into company coffers, in spite of a slowdown in release orders due to a lack of planning capacities. Furthermore, many civil engineering companies are notic-

ing the positive effects of the increasing expenditure on broadband expansion. Residential construction continues to benefit from the low interest rates, good developments in employment and the increased demand for residential space, especially in large cities – also as a result of the influx of refugees. Commercial construction – investments in new production facilities, warehouses or office buildings – is also developing dynamically in the meantime.

Slight declines in retail trade

Consumption remains a growth driver. Due to the rising inflation, however, the additional room for maneuver in terms of consumption enjoyed by households is currently not quite as large as in the last few years. The retail trade currently assesses its situation as being slightly less positive (19 after 23 points previously). It is true that the situation assessment remains clearly above the long-term average (four points). However, in contrast to the overall economy – and in spite of the booming consumption of the last few years – it has remained at a similar level since 2014. The trade sector is faced with many challenges, such as the effects of demographic change – particularly in rural areas – or more intense competition from online trading. Moreover, it is being burdened down by regulatory requirements, such as the obligation to introduce electronic cash registers. The wholesale trade and trade intermediaries, on the other hand, are benefiting from the revival in the export business and the high levels of activity in the manufacturing and construction industries. Wholesalers assess their situation as being significantly better than in the last survey (36 after 33 points). Among the trade intermediaries the situation assessment has deteriorated slightly (36 after 37 points previously). However, this represents only a small correction after the strong improvement at the beginning of the year (balance increase by six points compared to the autumn of 2016).

Spring downturn in the hotel and restaurant industry

Businesses operating in the hotel and restaurant industry assess their business situation as being significantly worse than at the beginning of the year (32 after 42 points). To a large extent this is in line with the usual seasonal downturn in this sector. To some extent the start of the season was adversely affected by the weather. Compared with the previous year, the mood among restaurants, cafés and other catering establishments is more or less the same (24 points, minus one point compared to last early summer). In contrast, hotels and other accommodation establishments are somewhat less satisfied than at this time last year (37 points, minus four points compared to the previous year and minus ten compared to the previous survey). Concerns about security and terrorism have probably caused slight reductions in urban tourism.

Expectations



Consolidation of the upward trend

The expectations continue to improve noticeably. The positive development in the domestic economy and the Euro zone is compensating for the setbacks in foreign trade with important trading partners such as the United Kingdom and Turkey. Overall, demand at home and abroad is developing positively. Exchange rates, interest rates and oil prices are also favorable in long-term comparison, even if the impulses are not as strong as in the previous two years. On balance, the companies in all sectors of the economy are more confident about the development of their business than they were at the beginning of the year. The prospects for manufacturing industry have improved once again. Also, an end to the construction boom does not appear in sight. The expectations in civil engineering in particular have taken a genuine leap forward. Confidence in the trade sector and among service providers is also improving – especially in the hotel and restaurant industry as well as the education industry. Rising employment and wages continue to stimulate consumer spending. The shortage of skilled workers is by far the greatest business risk. It is therefore becoming increasingly difficult for companies to process their orders.

Confidence achieves three-year high

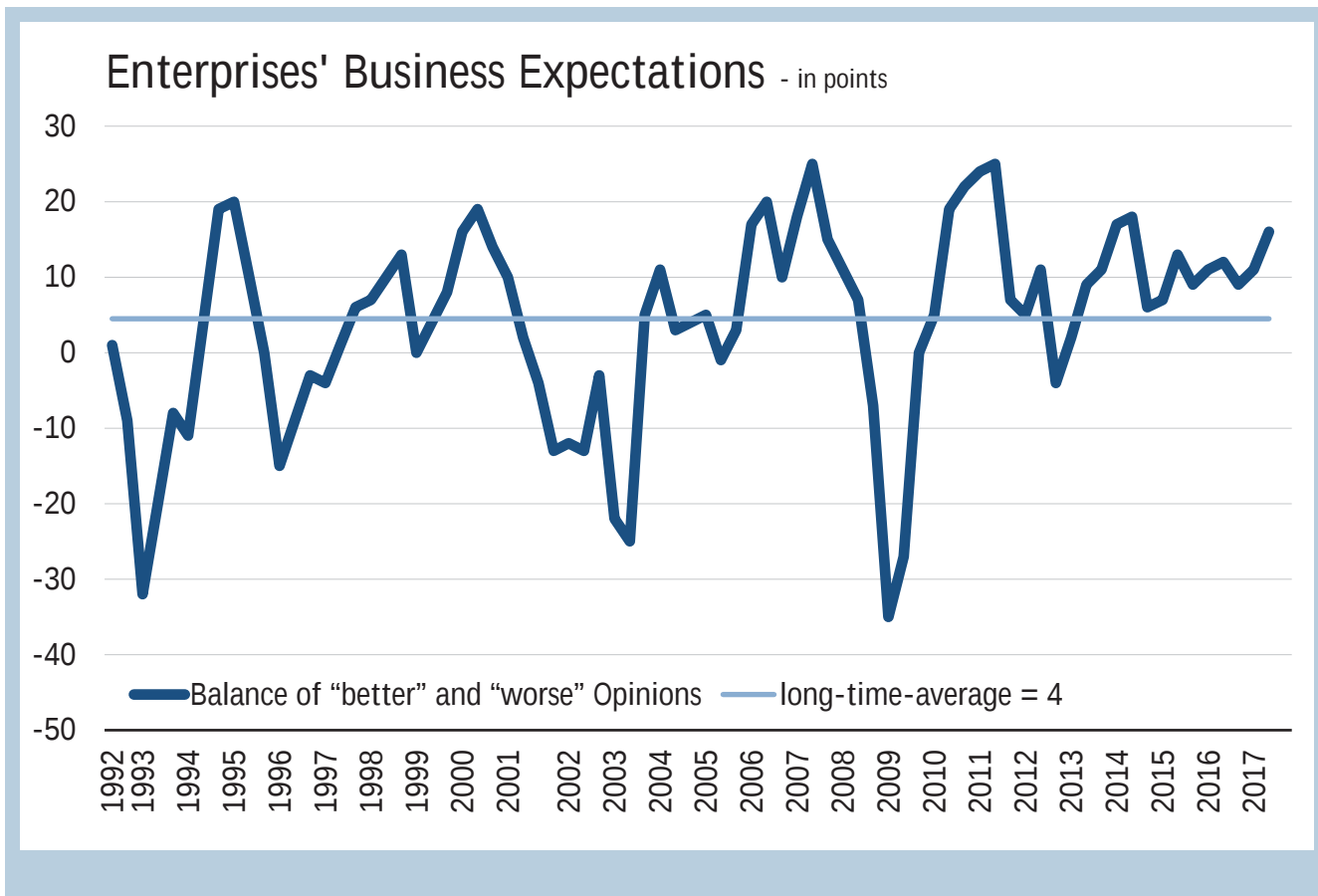
A good quarter of companies expect business to improve (27 percent). Only eleven percent fear a deterioration (62 percent expect business to remain constant). This results in a balance of 16 points – the highest value for three years. Compared to the previous survey of the beginning of the year, the balance has at least climbed noticeably by five points. At the same time, the proportion of optimists has increased and the share of pessimists decreased. As a result, the expectation balance has now been higher than its long-term average (four points) for the last four years. This indicates a continuation of the – unusually long – upturn.

Easing of risks

The improvement in sentiment is accompanied by the fact that companies see fewer risks to their business developments overall. Interest rates, the oil price and exchange rates remain favorable in the long-term comparison. Only eleven percent of businesses still consider financing difficulties to be a risk. Although the euro is gradually

Enterprises' Business Expectations (in percent)

	better	about equal	worse	balance
Early Summer 2015	26	61	13	13
Fall 2015	23	63	14	9
February 2016	24	63	13	11
Early Summer 2016	25	62	13	12
Fall 2016	22	65	13	9
February 2017	24	63	13	11
Early Summer 2017	27	62	11	16



recovering against the dollar, it has remained within a remarkably narrow corridor for more than the last two years (1.05 to 1.15 US dollars/euro). Turbulence on the currency markets has become less likely. As a consequence, the exchange rate risk has fallen again from the perspective of the export economy (from 17 to 15 percent). The "economic policy framework" is also referred to by fewer businesses as a business risk (41 after 43 percent previously). They are hoping that some of the fears that they have about international politics will not be confirmed (drastic trade policy measures by the USA, concerns about the stability of the EU) and that there will be no new financial burdens in Germany up to the time of the Bundestag elections.

Exception: shortage of skilled workers

The only aspect in which the situation has deteriorated is the shortage of skilled workers. This is now threatening to slow down more than every other company (51 percent, previous survey: 48 percent). As a result, this risk is gaining in importance from the point of view of businesses – not just as an annoyance when recruiting staff, but as a serious obstacle to developing their business. The labor costs are also referred to by an above-average number of companies in the long-term comparison. However, the situation is beginning to ease at least a little here (39 after 40 percent previously; average since 2010: 37 percent). Thanks to the increasing demand, it is becoming slightly easier to pass on the increasing costs.

Oil price doping not coming to an end ...

The oil price is well above the previous year's level. However, the increase is now slowing down. Inexpensive commodities are usually signs of a weak economy. At the current margin, however, the growing demand for oil is being accompanied by expansions in supplies. It is true that Saudi Arabia and Russia are determined to achieve an extension of the cuts in production in order to stabilize prices. However, oil production in the USA reacts flexibly to higher prices. These are counteracting OPEC's efforts to reduce global stocks. On the whole, this makes significant price rises unlikely. As a result, slightly fewer businesses on balance consider the developments in energy and commodity prices to be a risk (31 after 32% percent). Admittedly, when the lowest value was reached one year ago, this figure was only 24 percent. The recent decline in the number of businesses referring to this risk is mainly the result of the easing of the situation in the transport sector (by five points to 46 percent), which depends in particular on the price development for fuel. The consequence of this is that in the areas of road freight transport, the taxi business, and above all aviation, there is a noticeable drop in the number of businesses which refer to the business risk of "energy and raw material costs".

... but electricity costs are rising

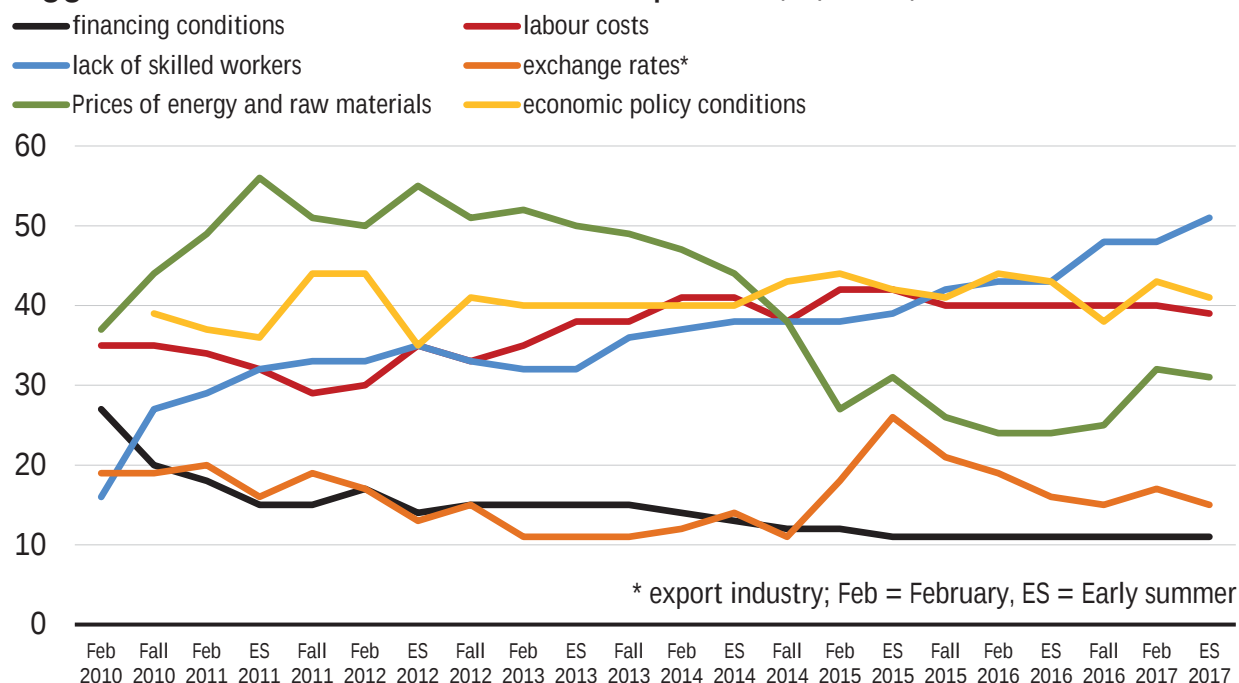
In contrast, the prices for electricity are rising. Contributing factors toward this include the higher Renewable Energy Law (EEG) levy, as well as new additional charges when companies produce their own electricity. As a result, the risk of "energy and raw material prices" continues to gain in importance in both manufacturing and the construction industry (an increase of one point in each case to 48 and 33 percent respectively). The concerns of the energy-intensive manufacturers of intermediate goods in particular are becoming more acute (59 percent; four points more than at the beginning of 2017 and even 19 more than in the previous year), with this figure being particularly high in the rubber and plastics industry (by ten points to 72 percent; previous year: 51 percent).

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

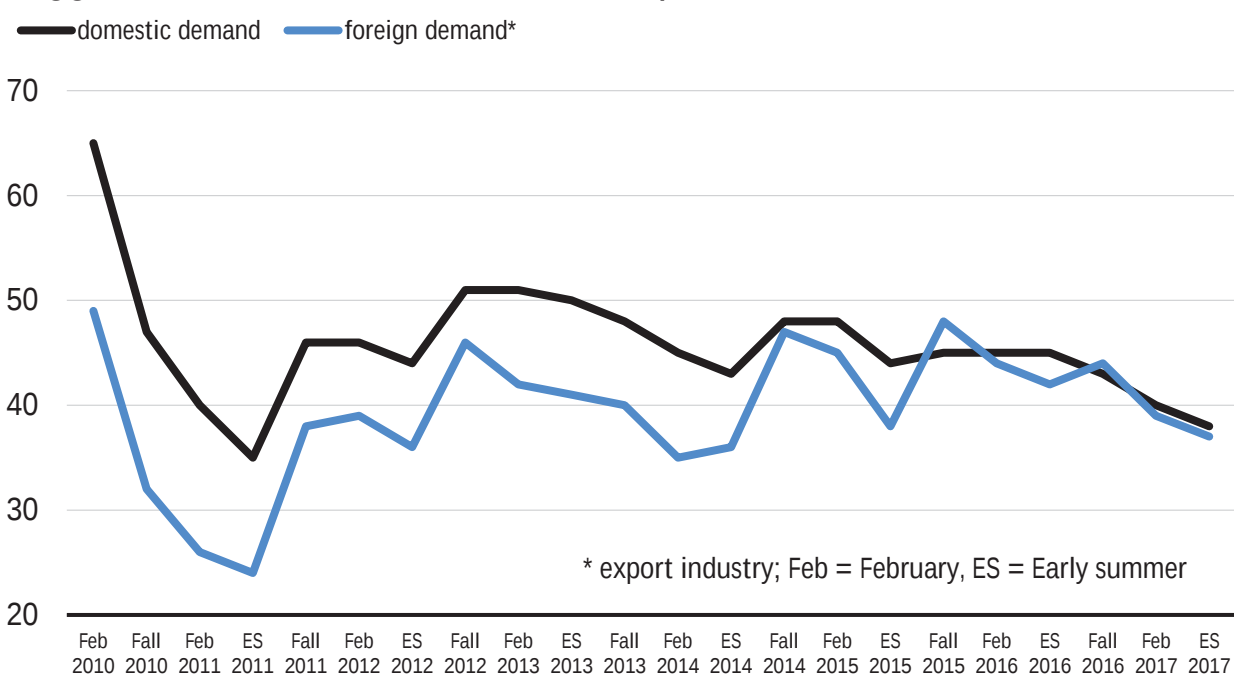
(in percent; multiple answers possible; *export industry)

	Early Summer 2015	Fall 2015	February 2016	Early Summer 2016	Fall 2016	February 2017	Early Summer 2017
domestic demand	44	45	45	45	43	40	38
foreign demand*	38	48	44	42	44	39	37
financing conditions	11	11	11	11	11	11	11
labor costs	42	40	40	40	40	40	39
lack of skilled workers	39	42	43	43	48	48	51
exchange rates*	26	21	19	16	15	17	15
prices of energy and raw materials	31	26	24	24	25	32	31
economic policy conditions	42	41	44	43	38	43	41

Biggest risks for the economic development (in percent)



Biggest risks for the economic development (in percent)



Demand: lifting forces dominate

Only 38 percent of companies are now concerned about domestic demand – again two points less than at the beginning of the year. This means that the share is well below the long-term average (46 percent). This figure has only been lower once (35 percent in the boom of 2011) since the survey began to ask questions about the business risks in 2010. Private demand is being driven by the good developments on the labor market and rising incomes. Government spending on infrastructure expansion and the integration of refugees remains high. Fewer businesses also consider the developments in foreign demand to be a risk (37 after 39 points previously). In the long-term comparison, this value is at least slightly below average (average since 2010: 39 percent).

Cross-sectoral improvement in sentiment

The expectation balance is climbing noticeably in all sectors of the economy. The strongest growth is to be found in the construction industry (new balance: 18 points; previous survey eleven points). Admittedly, this is also partially due to the fact that it is the early summer (previous year: 16 points). In the trade sector the balance has risen by five to 13 points, and in the service sector by four to 14 points. The expectations of manufacturing industry also continue to improve in the early summer of 2017. At four points, the increase remains slightly below that of the overall trend. At the beginning of the year, however, the manufacturing sector had improved more than any other in the wake of the rising demand for exports (previous year increase six points; other sectors one to three points). Now the mood in the areas of manufacturing industry which focus on exports and the domestic market is increasing at almost the same rate.

Export environment: avoiding a deterioration for the time being ...

Thanks to its broad international positioning and the fact that its competitiveness is still high, the German export industry has the ability to compensate for any losses in individual markets. This was achieved in the second half of 2016, for example, when demand from the United Kingdom or Turkey suffered. At the same time, however, not all fears came to fruition: the first few months of the new US president give at least reason to hope that many of the announcements which are of concern to business will not be translated into reality. The tone with respect to trade policy has become less aggressive. The relationship between the USA and China appears to be relaxing. Some plans – such as those relating to tax relief or higher infrastructure investments – could well stimulate the economy, at least in the short term, even if as a result the risks of overheating increase. The further strengthening of populist forces in France and the Netherlands, which was feared by many businesses, has not come about. However, it is too early to give the all-clear. France in particular continues to be faced with economic policy challenges. Further losses are threatened in the United Kingdom and Turkey. Furthermore, a number of further crises are simmering in the background, for instance in the Italian banking sector or in Greece. Particularly problematic for the German economy are such setbacks which feed through not only to individual markets, but also have a global effect. These include the increasing protectionism that threatens the global trade architecture, and international crises that weaken the demand for investments worldwide. In previous years, both have caused

world trade to stall and had negative effects on the export trade. There is also a threat of setbacks from both sides in the future as well.

... supports remain in place

The global expansive monetary policy is still having the effect of supporting growth. The gradual exit from this policy in the USA has however drawn attention to the fact that interest rates cannot remain this low forever. This may increase the incentives to secure favorable financing conditions for investment projects. Investments are growing in the EU, as is private consumption as a consequence of the positive developments in employment. It is above all Spain which is introducing its return on investment for reforms and growing dynamically. Thanks to the massive support measures of the government, the Chinese economy is improving again for the time being. However, the major challenges such as the reduction of overcapacities are a long way from being overcome. In Russia and Brazil the signs indicate that a gradual recovery is under way. The economy is also picking up in other commodity-exporting countries. All these factors are contributing to an increase in global investment activities. German companies also want to invest more themselves abroad¹ – this will probably also be associated with greater demand from abroad for capital goods.

Investment confidence is being consolidated

Expectations are improving in all of the main industrial groups. The balance has increased by three points in each case among the manufacturers of intermediate goods and consumer goods producers (new balances: 21 and 17 points respectively). The traditionally stronger expectations of the producers of capital goods have improved by five points (new balance: 24 points). The electrical industry is more optimistic, for example (balance improvement from 27 to 30 points). Fewer electrical manufacturers both in Germany and abroad are expecting setbacks in terms of demand. Confidence in the mechanical engineering sector is growing particularly significantly (balance improvement from 19 to 28 points). In this sector as well, the demand risks are easing noticeably from the perspective of businesses.

Damper for vehicle construction

The diminishing optimism in vehicle construction is putting the damper on the overall picture of the capital goods segment. The expectations in the Other Vehicle Construction sector have fallen to a greater extent than in all other sectors. However, the balance is at least significantly higher than the value for the previous year (15 points after 28 at the start of 2017 and seven in the previous year). Increased skepticism is found above all among the manufacturers of ships and boats, as well as aircraft and spacecraft. The confidence in the motor vehicle industry is largely evaporating. The balance is below the previous year's value (balance decline from 18 to seven points; previous year: 14 points). Unlike in the economy as a whole, the labor cost risk has increased in the automotive sector by the significant amount of four points. From the point of view of the motor vehicle manufacturers, this continues to represent the greatest risk to their business development at 47 percent.

¹ See [DIHK survey on foreign investments by industrial enterprises at the beginning of 2017](#)

Optimism in construction continues to grow	The spring revival in construction has lifted the expectation balance to a new record level (increase by seven to 18 points; in the year-on-year comparison improvement of two points). The last time this figure was higher was in the autumn of 1989, immediately before the construction boom resulting from reunification (at the time: 20 points). Residential construction continues to benefit from rising incomes, low interest rates and in many conurbations the growing housing needs due to the influx of high numbers of people. Commercial construction is also very likely to pick up in the coming months – as indicated by the assessments of regional CCI surveys and the increased investment intentions of businesses. Examples of this are the improvements in the expectations in structural engineering (balance increase by three to 16 points; only one point below its record level), in the finishing trade (balance increase by eight to a new record of 20 points), among architecture and engineering offices (from 16 to 19 points) and in the real estate sector (from 14 to 15 points). Other winners of the survey are the suppliers in the category of "quarrying of non-metallic minerals" with a balance improvement of 24 to 23 points.
Civil engineering out of the doldrums	Even the long-stricken civil engineering industry is showing itself to be more optimistic than ever before (balance increase by 21 to 24 points; plus nine points in the year-on-year comparison). The overdue infrastructure investments are benefiting the economy – not only in the case of road and rail investments, but also in the field of broadband expansion, which is being boosted by subsidies from the public purse.
Downside of the construction boom: increasing staff shortages	In the construction sector in particular, the ability to further develop business activities is being increasingly restricted by the shortage of skilled workers. In the meantime, three out of four construction companies state that securing enough skilled workers has become a problem (74 after the previous level of 70 percent). Only just over a quarter of businesses (27 percent) are worried about domestic demand. Civil engineering is the most severely affected by the risk of not obtaining enough skilled employees in the cross-sector comparison (81 after 74 percent). There has long been not only a shortage of engineers, but above all apprentices and qualified specialists. It is difficult to acquire personnel, for example in the case of bricklayers and roofers.
Consumption growing again	In spite of the shortage of skilled workers, the remarkably strong increase in employment and rising wages continue to stimulate private consumption. The slow rise in prices is having hardly any diminishing effect on the room for maneuver open to consumers. After a few downturns in the intervening period, companies in consumer-related sectors are now more optimistic than at the beginning of the year: In the consumer goods industry the expectation balance has risen from 14 to 17 points – even to a record level among breweries from 39 after 31 points previously. In the hotel and restaurant industry the balance has climbed from seven to 20 points, among travel agents from eight to 14 points, in the leisure industry from 13 to 19 points, among other personal service providers such as laundrettes, hairdressers or cosmetic studios from twelve to 15 points, and in the automotive trade from eleven to twelve points. The retail trade is also experiencing an improvement in confidence (balance increase

from two to seven points), although the expectation balance is lower than in the other categories.

Education industry more optimistic than ever before

In the early summer of 2017, businesses working in the education sector are more confident than in any previous survey (balance increase from 18 to 22 points). In addition to the strong demand for further training – for example as a result of the increasing digitalization and internationalization of work processes – there is the need to train refugees. The concerns about demand are therefore low (as in the last survey at 41 percent; in the previous year: 47 percent). In this sector the shortage of skilled workers is also considered to be the greatest business risk (43 after 42 percent).

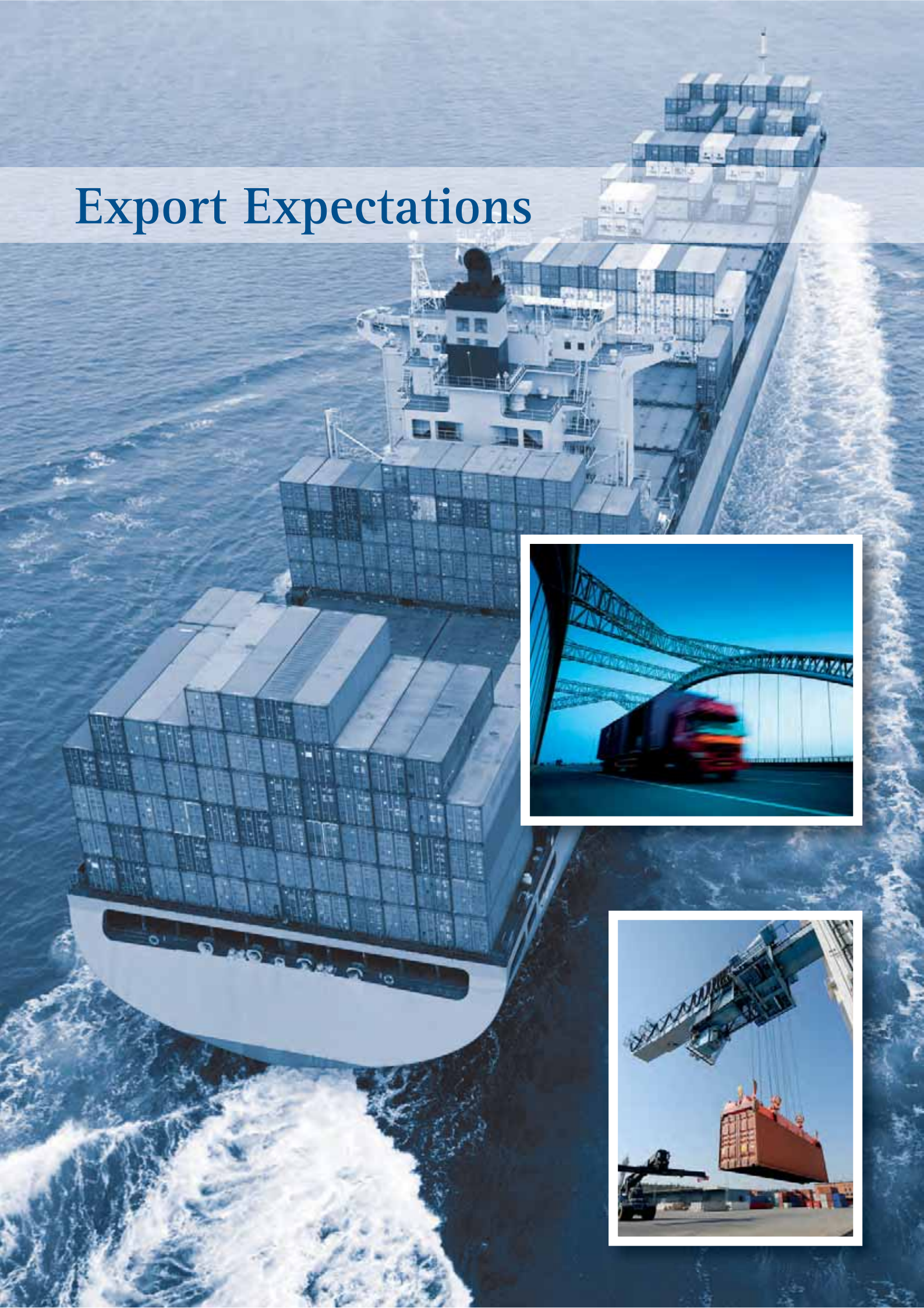
Manufacturing industry also radiating on its network

The mood of the company service providers has improved slightly (balance increase from 20 to 22 points). The sectors which are becoming increasingly confident are certified public accountants, legal and tax advisors (balance increase by seven to 26 points), temporary employment agencies (balance increase by five to 16 points) as well as advertising and market research agencies (balance increase by two to twelve points). In contrast, the positive mood of the R&D service providers (balance decline from 34 to 32 points) and the IT service providers has deteriorated somewhat (balance decline from 30 to 28 points). In both categories it is above all the concerns about securing enough skilled workers which have increased (40 after 34 and 58 after 56 percent respectively). In the transport sector there has been a marked improvement in expectations from two to seven points on balance. The better overall economic situation is resulting in higher transport volumes, while at the same time the concerns about rising fuel prices are easing (decline in the risk of "energy and raw material prices" by five to 46 percent). The wholesale trade is also more optimistic (balance increase from twelve to 20 points).

Mood in the credit industry remains low

The financial sector also expects a further deterioration in its business in the early summer of 2017 on balance. However, the pessimism is no longer as great as at the beginning of the year. The expectation balance has increased from minus 13 to minus nine points – the lowest value in the cross-sector comparison. Savings banks and cooperative banks in particular are skeptical (minus 34 and minus 34 points respectively). The "economic policy framework" remains by far the greatest business risk (83 after 85 percent previously). Banks have been particularly hit by low interest rates, the tight financial market regulation and the structural challenges of digitalization.

Export Expectations



Recovery in global economy being felt by exporters

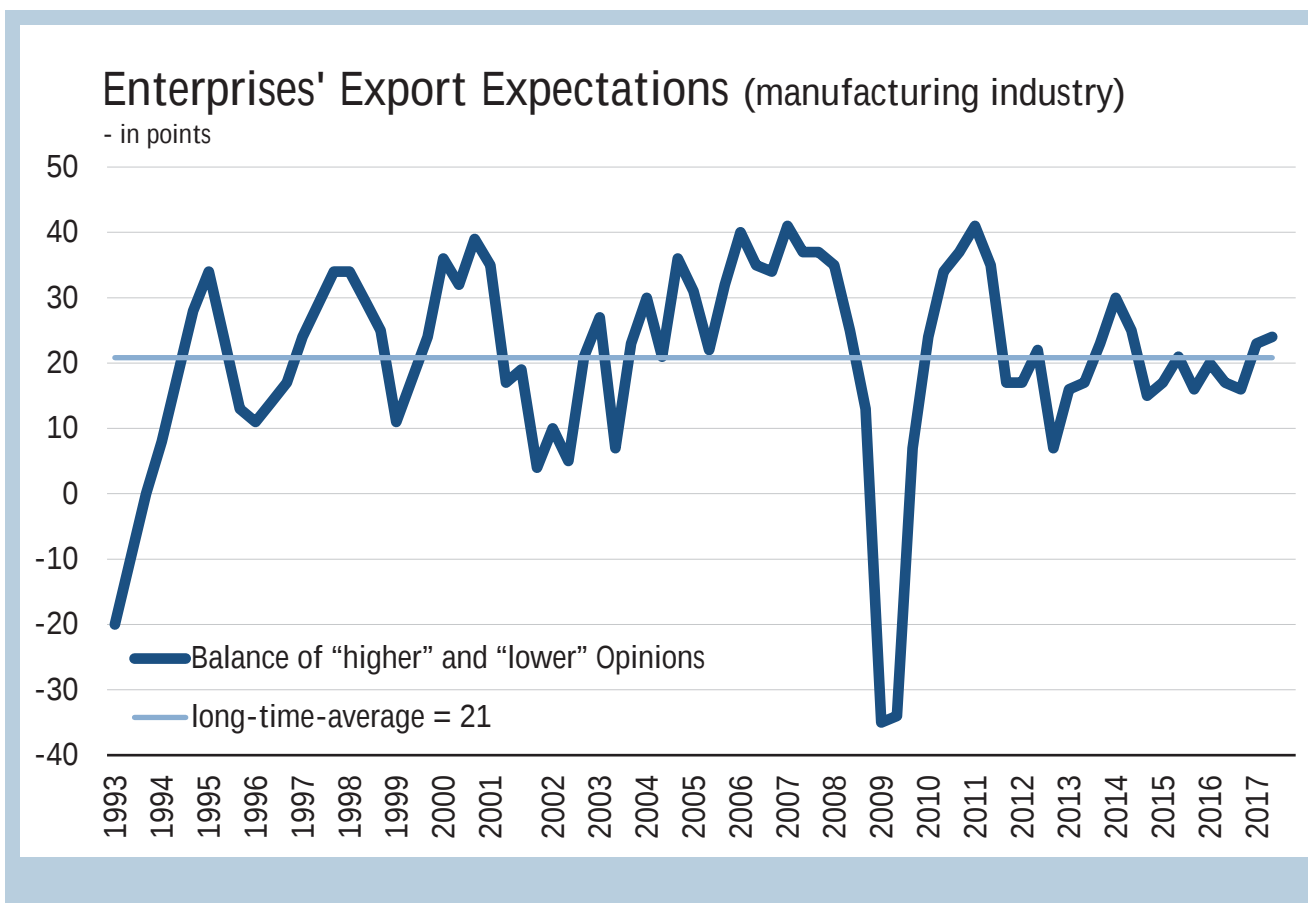
In addition to the increase in investments and consumption, exports will also contribute to growth in the next months. The export expectations of companies in the manufacturing industry have again increased slightly. German exporters were able to benefit from the revival of the global economy and world trade at the beginning of the year. Their rather optimistic export expectations indicate that the moderate growth in exports will continue in the coming months. Concerns about foreign demand are declining further. Business with the European Union is undergoing positive developments (exception: United Kingdom). Trade with China is likely to continue growing, albeit not at the high growth rates of the past few years. The higher investment momentum in the USA is also a reason for optimism that business will remain good. However, the political uncertainties in many regions of the world and the protectionist tendencies, for example of the US government, are putting a brake on global growth. Furthermore, the devaluation of the pound resulting from Brexit, as well as uncertain business prospects, has led to poor prospects for German-British foreign trade. The current situation in Turkey has also resulted in declines in exports.

Exporters remain confident

The mood in the exporting manufacturing industries has improved once more slightly after it had brightened up considerably at the beginning of the year (24 now after 23 points previously; 16 points in the autumn of 2016). Every third industrial company is expecting exports to increase next year, with only nine percent expecting them to decline. The upturn in the global economy is creating a better mood among companies. However, the expectation balance remains only slightly above the long-term average. Overall, the upswing in the level of exports is still not as large as before the financial crisis and the recovery phase thereafter.

Enterprises' Export Expectations (manufacturing industry; in percent)

	higher	about equal	lower	balance
Early Summer 2015	31	59	10	21
Fall 2015	30	56	14	16
February 2016	32	56	12	20
Early Summer 2016	29	59	12	17
Fall 2016	29	58	13	16
February 2017	34	55	11	23
Early Summer 2017	33	58	9	24



Demand setbacks less likely

The concerns about demand from abroad continue to decline. 37 percent of exporters consider this to be a risk (previous survey: 39 percent). The last time the percentage was lower was three years ago (early summer of 2014: 36 percent). From the perspective of exporting companies therefore, the development of foreign demand is a risk much less often than the energy and raw material prices (48 percent), the shortage of skilled workers (45 percent) and the economic policy framework (42 percent). The concerns about the exchange rate have fallen slightly (15 after 17 points previously). In spite of a gradual recovery, the euro is currently relatively inexpensive and displays very little volatility. The signs of a global competition for the cheapest currency with a corresponding sense of uncertainty among businesses and the threat of financial market turbulence have at least diminished somewhat.

Global economy growing at a moderate rate

The growth of the global economy has strengthened – and that in almost all regions of the world. Developments are currently positive in the three most important economic regions of China, the USA and the European Union in particular. Around 60 percent of German exports remain within the EU, so that the stable growth in the economy in the internal market is therefore ensuring that the mood among exporters remains good. The strong growth in investments and consumption in the USA is also making itself clearly felt in a positive manner. The Chinese economy also continues to grow. However, political uncertainties are slowing down the global upturn. Brexit has

put a cloud over the economic prospects of the United Kingdom. In Turkey, growth is being weakened by the political situation. The associated concerns are referred to by numerous businesses as an economic policy risk.

Emerging markets benefiting from higher commodity prices

In spite of the slight damper that is being felt at the current margin, the prices for agricultural and industrial raw materials have increased significantly compared to the previous year's level. This is resulting in more room for maneuver in commodity-exporting emerging markets, thereby stimulating the economy. There has been a strong rise above all among the energy commodities. The prices for coal, natural gas and oil are above the previous year's level. However, in the event of sizeable price increases, fracking becomes lucrative again and US production can be expanded. The room for maneuver with respect to price increases is therefore only limited, even if the OPEC countries agree on further cutbacks in production. Overall, the rises in commodity prices are a sign of increasing demand and therefore a revival in the global economy.

Growth still being supported

The revival of the global economy in spite of the high levels of economic policy uncertainty is also proving successful because many countries remain expansive in terms of their monetary and fiscal policy. For example, the Chinese economy continues to receive massive support from the government, even though the subsidizing of car purchases has come to an end. The growth is largely based on infrastructure investments and a very loose lending policy on the part of local banks. In the USA the government has also announced various measures to stimulate growth. In many European countries the efforts to implement further austerity measures have fallen away in spite of the continuing high levels of public debt. Moreover, monetary policy is on an expansive course globally. The Eurozone is benefiting from the low interest rates and the purchase programs of the European Central Bank. Interest rates are also very low in other European countries such as the UK, Denmark and Norway. Switzerland and Sweden even have negative key interest rates. In Japan the key interest rate is zero percent. Interest rates have been lowered in India and Brazil. It remains questionable whether the countries will take advantage of the resulting room for maneuver in the national budget in order to improve efficiency levels and economic performance. The Fed has decided to distance itself from the loose monetary policy. The central banks of China, South Africa and Turkey have also increased their interest rates.

Investments stimulating world trade

Thanks to the increased demand for capital goods, world trade picked up some momentum at the beginning of the year. Machines and plants are in greater demand in both the USA and Europe. The import share is higher than among consumer goods – and also the German global market share. Stronger investment-driven growth is therefore associated with more trade and higher German exports. In the last few years the growth in the global economy has been more strongly driven by consumption and services, especially in the emerging markets. As the import share in these areas is lower, the increasing global production during this time has not been reflected in a corresponding increase in imports. The improved mood among German exporters is now attributable to the fact that global investments are increasing somewhat. In the early summer it is specifically the manufacturers of capital goods who are again

more optimistic (28 after 26 points). As a result, the balance has reached a three-year high and is now slightly above the long-term average (25 points). The consequence is that mechanical engineering (27 after 25 points) and electrical engineering companies (32 after 30 points previously) are expecting business with foreign countries to improve to some extent. The strongly fluctuating export expectations of the motor vehicle manufacturers have diminished slightly in the latest survey (21 after 30 points previously), but also remain considerably higher than the average (17 points). The producers of intermediate goods are also somewhat more optimistic about their export expectations than last time (22 after 21 points). This is a further sign of a moderate expansion in worldwide production. In the chemical industry the export expectations remain at the same level as at the beginning of the year (34 points; long-term average: 31 points), which is slightly above average in the long-term comparison.

Energy prices remain the top risk

Exporting industrial companies continue to head the list of those which refer to energy and commodity prices at the domestic location as the most frequent risk to their business development. Almost every second company considers itself to be affected by this (48 after 46 points previously). Among the exporting companies it is above all the additional domestic burdens which are particularly significant, as foreign competitors are spared these. It is true that as a result of the price rise on the global commodity markets, the purchase prices rise not only for German companies, but also for their competitors. However, only European and German companies have to cope with additional burdens such as the Renewable Energy Law (EEG) and CHP levy. They therefore represent a disadvantage in the global competition and are therefore a sizeable risk to the worldwide business operations of numerous companies. Many exporting companies explicitly refer to the rising electricity prices and domestic energy policy as an economic policy risk in their free text replies.

Economic policy risks remain high

The concerns of the exporting companies with respect to the economic policy framework have fallen slightly (42 after 43 percent). With the outcome of the elections in the Netherlands and France, the advance of nationalistic and protectionist tendencies in Europe appear to have been halted for the time being. Nevertheless, many imponderables remain with regard to the development of the global economic environment. Here, companies refer above all to the following topics in their free text replies:

- Unclear course of the US government: Approximately every fourth industrial company which is concerned about the economic policy framework states that the future policies of the American government are a risk to its business activities. Companies are afraid, for example, that the framework conditions for exports to the USA might deteriorate. Negative effects on other countries in the event of the US market isolating itself and possible counter-reactions on the German side represent a risk in their eyes. However, since the government has taken office it has also been seen that not all election campaign promises become reality immediately. For example, it appears in particular

that the implementation of the trade restrictions that were announced is unlikely – at least for the time being.

- **Brexit and cohesion in the EU:** Brexit is referred to as a risk by more than every tenth industrial company with concerns about economic policy. The uncertainty about the future course of the exit negotiations is large. Companies are worried about possible restrictions on free trade, further devaluation of the pound and negative consequences for the cohesion of the EU.
- **International crises:** Many exporters are worried that the political turmoil abroad will lead to barriers to cooperation at the economic level. The current situation in Turkey has already led to declines in exports. Many businesses fear a further deterioration in the economic situation and local demand. The conflict with Russia is also still unresolved. The prolongation of the sanctions is a burden for many German companies. They also refer to other geopolitical crises in the Middle East, Korea and other parts of the world.

Global consumer spending
no longer quite so
dynamic

The export expectations of the manufacturers of consumer goods have declined slightly (21 after 24 points). They are therefore developing in the opposite direction to the upward movement in the industrial average. From autumn 2015 to the autumn of 2016, the consumer goods producers had the most optimistic export expectations in the comparison of the industrial sectors. They were able to benefit in particular from global consumer spending. Worldwide, the low oil prices have provided more room for maneuver among consumers. With the increase in inflation at the current margin, the consumer goods manufacturers are no longer quite so optimistic. Compared to the previous survey, the export expectations of the producers of durable goods have declined (new balance 15 after 27 points), while the export expectations of the producers of non-durable goods remain at the level of the previous survey (23 points).

Assessments on the development of individual regions

The assessments are based on an initial evaluation of the current AHK World Business Outlook, which includes feedback from around 4,000 member companies of the German Chambers of Commerce and Industry Abroad (AHK), delegations and representative offices.

Revival of the global economy

The main reason for the growing export expectations of German manufacturing industry is the positive development of the global economy. Germany's important trading partners – Europe, the USA and China – are growing. Problem children such as Russia and Brazil are slowly recovering. According to an initial analysis of the AHK World Business Outlook 2017, more than a third of the German companies abroad that were surveyed are expecting the local economy to develop positively. Only 16 percent expect the economy on the ground to deteriorate. The resulting balance of 18 points is well above the values of the last few years. Confidence is increasing in almost all regions of the world. Exceptions are South America and Eastern/South-Eastern Europe, characterized above all by the skepticism felt when viewing the Turkish economy.

USA: stable economy, unclear course of the government

The economy in the USA is also developing positively. Investments are increasing, the dynamism in the labor market remains high and the improvement in incomes give rise to the hope that there will be an upturn in consumption. Added to this is the prospect of higher infrastructure investments and possible tax relief. The upshot of this is that local German companies are expecting business to be better in the coming months than recently and are looking more optimistically towards the American economy. However, the protectionist statements of the US government on trade policy are leading to uncertainties about future business prospects. Future US foreign trade policy aims to reduce the trade deficit of the USA not only with Germany, but also China and Japan. Furthermore, the free trade agreement NAFTA is to be renegotiated with Canada and Mexico. This could have negative impacts not only for American, but also for German companies which rely on the free movement of goods between countries.

Europe profiting from reforms ...

The EU economy continues to grow. The German companies active in the Eurozone are confident about economic developments on the ground. A favorable external value for the euro, as well as the reform efforts of the past years, are beginning to show their effects. In almost all countries, e.g. Spain, Portugal and Ireland, development is being supported by rising employment figures. Outside the Eurozone it is above all the Eastern European countries such as Poland and Romania which are growing dynamically. The fact that the mood among companies relative to their European business is not even better than it is is due not only to Brexit, but also the unresolved debt crisis in Greece and the banking crisis in Italy. Although the Italian economy has been growing again since last year, the pace remains slow. The French economy is also recovering only slowly from the financial crisis. Unemployment and government debt remain high. Under the newly elected President Macron, however,

there is hope of higher infrastructure investments and structural reforms, above all on the labor market.

... but uncertainty about the outcome of the Brexit negotiations

Even in 2016, the growth of the British economy was significantly weaker than in the previous two years. Despite the appreciable depreciation of the pound, the British export business has slowed significantly since the vote. Furthermore, imports are becoming more expensive. Companies are feeling this in the form of higher purchase prices, while consumers are having to accept losses in purchasing power. The development of investments has weakened. The uncertainty about the exit modalities will result in further restraint with respect to investments. The withdrawal of the United Kingdom from the European Union should further dampen economic development in the country. The elimination of the benefits of the internal market, as well as expected cost burdens resulting from customs charges, taxes and the increasing bureaucracy on the new border with Europe, will impair business on both sides. The magnitude of this effect will depend decisively on the course and outcome of the exit negotiations.

Recession bottoming out in Russia

Companies in Russia are confident that the lowest point is now behind them. After the initial signs of the economic turnaround had already become apparent in the previous survey, German companies there are now expecting a further recovery in 2017. They are much more optimistic about economic developments and their own business than in the previous survey. As a result of the structural and investment crisis, the sanctions and the low oil price, Russian economic performance had diminished sharply. The stabilization of the prices for oil, gas and other commodities is now contributing to the recovery. German exporters are also benefiting significantly from the recovery of the ruble. However, there are currently no signs of the urgently required structural reforms to economic policy. The growth dynamics will therefore probably remain weak.

Political situation strains the Turkish economy

The prevailing sentiment is one of pessimism when the economic outlook for the Turkish economy is considered. More than every third German company in the country is expecting the economy to develop negatively, with not even every fifth company expecting an improvement. As a consequence of the political turmoil in Turkey, the value of the lira has fallen strongly. This is making the supply of German products more difficult and rendering imports to this national economy, which is strongly dependent on imports, more expensive, so that the purchasing power is suffering. Furthermore, the situation is unsettling investors and trading partners. This is problematic due to the high level of reliance on the flow of foreign capital. It is true that growth is still being supported by high infrastructure investments. The population and domestic consumption are also continuing to increase. Nevertheless, growth will probably weaken in the next few years.

China: growth thanks to state support

The Chinese economy continues to grow, with trade with Germany expanding. The AHK companies are expecting business to improve in the current year. They also estimate that the development of the Chinese economy will be much more positive than

last autumn. However, the high growth rates of the past decade are no longer realistic. In addition, the growth is largely based on government support measures. For example, the government is investing heavily in infrastructure and ensuring that the lending behavior of the banks is very relaxed. The Chinese competition has become stronger and is being favored by the state to some extent due to the obligation to cooperate with local companies. The foreign exchange market should continue to stabilize through controls on the movements of capital. However, this is undermining the confidence of investors. The planned restructuring of the economy is not being consistently pursued. The long-term risks to the Chinese economy and the reliance on the support measures have therefore not diminished. Potential trade policy measures of the USA are also not yet off the table.

South Asia continues to develop dynamically

The Indian economy continues to grow in 2017. Around three-quarters of the companies surveyed by the AHK in India expect business to improve in the coming months. Foreign investments and government infrastructure projects are also providing further impetus. However, industrial production remains weak. The cash reform has also unsettled the population and caused chaotic conditions in the banks in the meantime. Until the cash withdrawal system has normalized, the reform is acting as a brake on consumption and therefore leading to economic losses. The Indian government is planning to simplify and standardize the tax system so that the widespread occurrence of double taxation should be avoided. If effective practical implementation can be achieved, this could lead to additional growth. Growth in the Japanese economy is stable, albeit with huge support from monetary policy. In contrast, Southeast Asian countries such as Vietnam, the Philippines, Thailand and Malaysia are continuing to prove to be reliable growth drivers.

Crises restricting growth in the Middle East and Africa

Concerns about terror and unstable political conditions continue to weigh heavily on economic development in large parts of Africa, as well as the Near and Middle East. However, German companies in the Middle East and Africa are at least now somewhat more optimistic about their business prospects and the local economy than last autumn. The recovery of commodity prices is providing room for maneuver with respect to investments, from which German companies can also benefit. However, political crises and conflicts are keeping the levels of uncertainty high, thereby limiting the willingness to invest and growth. The war in Syria is weighing heavily on the entire region. In Iran, the hopes of a breakthrough in terms of investments and growth have not yet been fulfilled. It is also questionable whether the sanctions under the new US government will be tightened yet again. These are making the financing of business in Iran very unattractive for credit institutions. Economic development in South Africa is stagnating due to corruption affairs, strikes, droughts, energy shortages and the backlog in terms of modernization. Due to the prevailing political uncertainty, corporate investments are being reduced. High unemployment and inflation levels are proving to be a burden on the economy. The weak exchange rate of the rand is also making life more difficult for German exporters.

South America waiting for the recession to bottom out

The economic development of South America continues to be characterized by the weakness of the Brazilian economy. After the removal from office of President Rousseff, her successor Temer is pursuing a more economically friendly policy. This is giving rise to the hope that the political situation will stabilize and the recession come to an end, even if the planned austerity measures are leading to protests and strikes. German companies on the ground are optimistic about economic developments – and above all their own business. The effects of the corruption scandal surrounding politicians from the previous government are not yet foreseeable. However, a consistent fight against corruption would make Brazil more attractive to investors and could result in the revival of the economy. This might also lead to more growth on the South American continent, which is plagued by one crisis after another. However, confidence in the economy in the other South American countries is currently declining on balance. Even though 60 percent of companies in Colombia are expecting business to improve, the expectations of an overall economic revival are small. The high level of reliance on commodity prices has led to an investment backlog. At least the peace process with FARC is providing a positive sign for investors.

Investment Intentions



Investments gain momentum

The investment intentions of German businesses are picking up once more. Manufacturing industry has significantly increased its investment budgets, in particular export oriented companies. The construction industry is planning more investments than ever before. The trade sector is also going the extra mile. In contrast, the service providers are not continuing to expand their investment plans. The greatest limiting factor – especially for companies with expansive investment plans – remains the shortage of skilled workers. Overall, the overriding motif for investments remains replacements rather than expansions and innovations.

Fewer risks, more investments

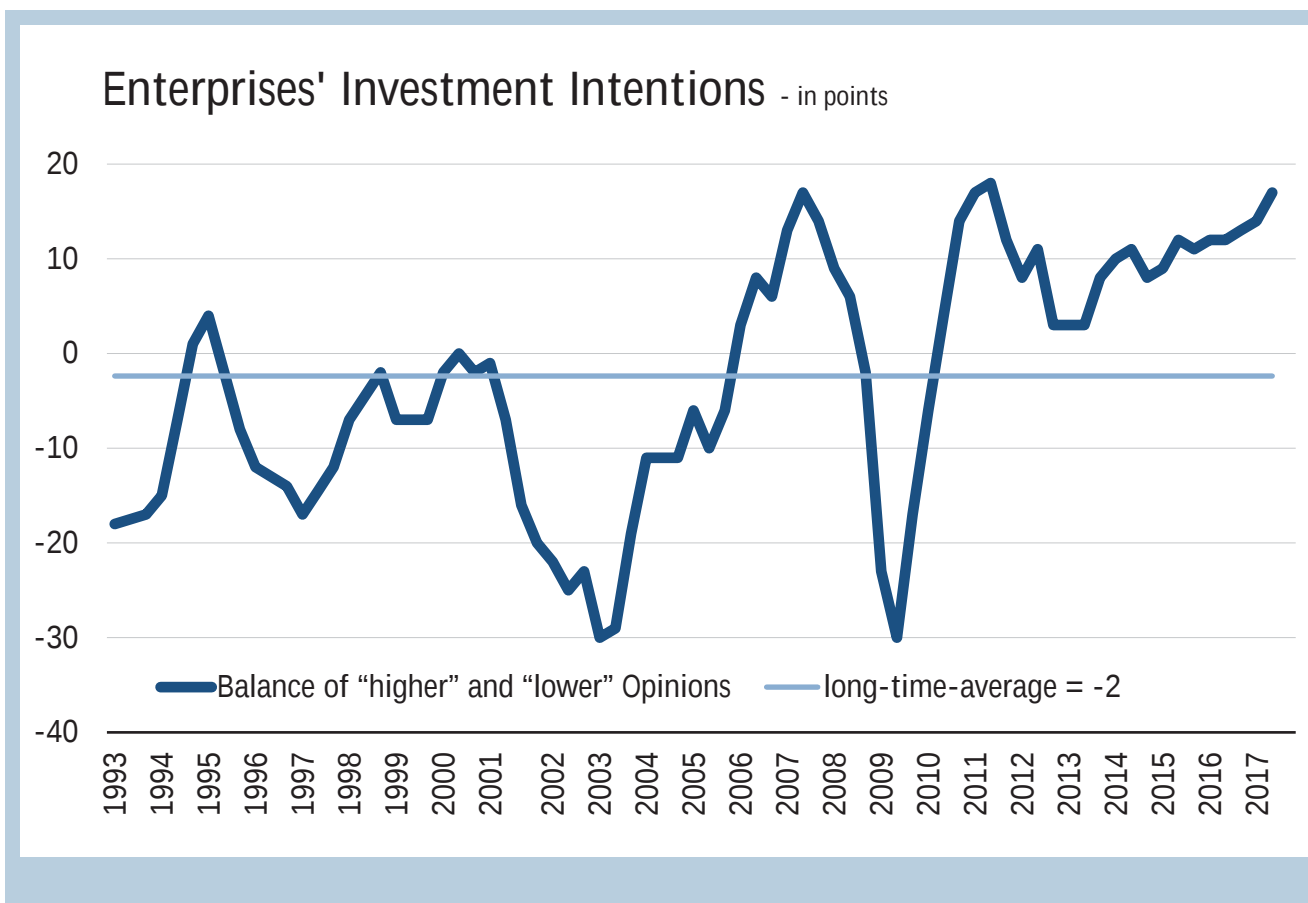
The investment propensity of companies is increasing. The share of companies which intend to increase their expenditure on domestic investment in the coming months has increased by two points to 31 percent. Only 14 percent of the companies surveyed plan to invest less, with 55 percent spending the same amount on investments. The resulting balance of 17 points is three points higher than at the beginning of the year. The upshot of this is that the investment intentions in the early summer of 2017 have reached almost record levels (maximum value: 18 points in the early summer of 2011). The higher investment intentions are therefore following the more optimistic expectations (balance increase by five to 16 points). At the same time the companies' concerns about demand are declining (risks to domestic demand: 38 after 40 percent; to foreign demand: 37 after 39 percent). The fears about the economic policy framework are also diminishing somewhat (41 after 43 percent). As part of the discussion about a possible exit from the low-interest policy, pull-forward effects are also assumed. Companies can still secure favorable financing conditions at the moment.

Expansionary plans across all sectors

Stimuli coming above all from manufacturing industries. Their tendency to invest displays the highest levels of dynamism. The balance has increased by seven to 21 points. The last time there was such a large leap in manufacturing industry was in 2010. The investment intentions in construction have reached unprecedented heights

Enterprises' Investment Intentions (in percent)

	higher	about equal	lower	balance
Early Summer 2015	27	58	15	12
Fall 2015	26	59	15	11
February 2016	27	58	15	12
Early Summer 2016	27	58	15	12
Fall 2016	28	57	15	13
February 2017	29	56	15	14
Early Summer 2017	31	55	14	17



since reunification (14 after nine points previously). The trade sector would also like to invest more. The balance has risen by three to 13 points, which is only two points below the highest level from 2011. In the services sector the investment budgets remain unchanged after the increase at the same high level (16 points; long-term average: five points).

Replacement motive dominant

The majority of the investment expenditures of companies continue to be made for the replacement of machinery and equipment or the maintenance of buildings. 66 percent of companies state that the need for replacements is the main motive for their planned investments (beginning of the year: 67 percent). Capacity expansion is the motivation referred to as in the last survey by 30 percent of companies. Businesses with expansive investment budgets refer to capacity expansions somewhat more frequently than before (51 after 50 percent previously). The share of investments in rationalization (31 after 33 percent), product innovations (32 after 33 percent) and environmental protection (14 after 15 percent) has declined slightly in each case. However, the loss of relative importance will probably be compensated for by the expansion of investment activities as a whole. Therefore, a reduction in expenditures for rationalization, environmental protection and product innovations is not to be expected. Concerns about the stability of the eurozone, geopolitical crises such as

those in Russia, the high level of economic uncertainty caused by Brexit and the unclear course being taken by the US government have resulted in many companies being reluctant to invest. The increase in the investment intentions with the dominance of replacement investments now suggests that many investments – for example in the replacement of old machines – simply can no longer be postponed.

Capacity expansion in some industries

With increasing capacity utilization there is also a growing need and desire to expand capacities. In the early summer of 2017, manufacturing industry and commerce want to invest more often for this purpose. The share of capacity expansions has increased to 36 after the previous level of 34 and to 30 after 28 percent previously – with simultaneously growing investment budgets overall. Electrical engineering and mechanical engineering companies in particular want to expand their capacities even more frequently than before (electrical: 38 after 35 percent and an increase in the investment balance by four points; mechanical engineering: 34 after 33 percent and a balance increase of seven points). More companies are also planning to expand in the building construction sector (29 after 24 percent). In the civil engineering sector the relative importance of this motive has declined somewhat (21 after 23 percent), but the investment planning balance has risen to a new record level (13 after five points previously). This category is being restricted particularly often by the shortage of skilled workers (81 percent of companies refer to this business risk).

Shortage of skilled workers is slowing down investments

The shortage of skilled workers remains risk number 1 for companies which are willing to invest. In the meantime, 59 percent of companies that are planning to invest more strongly consider the shortage of skilled workers to be a risk to their business development. As a result, this risk is becoming increasingly acute for businesses which are planning to increase their budgets (start of the year: 54 percent; 48 percent in the autumn of 2016). For companies that intend to expand their capacities, the shortage of skilled workers is also becoming a limiting factor (68 after 58 percent previously). Furthermore, the companies which are particularly concerned about the shortage of skilled workers are those which want to push forward with product innovations (proportion of the risk of the shortage of skilled workers: 54 after 50 percent).

All major groups expansive

The manufacturers of capital goods intend to expand their budgets significantly once again (balance increase by five to 20 points; autumn of 2016: nine points). The strongest stimuli are coming from the sector of vehicle builders, who want to significantly increase their budgets (34 after 19 points previously). The investment intentions in the field of mechanical engineering have also risen noticeably (by seven to 18 points). In this sector the factors which are playing a somewhat greater role at the current margin are not only replacement investments (65 percent after 64 percent), but also capacity expansion (34 percent after 33 percent previously). In contrast, the motive of product innovations has moved into the background somewhat after reaching the highest level at the beginning of the year (41 after 45 percent). The investment budgets of the consumer goods manufacturers have risen significantly compared to the beginning of the year and now reached a new record value (balance: 20 after 14 points). An upswing is coming here above all from the direction of the furniture manufacturers, who are expanding their budgets more than ever before (increase

of 19 to 28 points). The investment intentions of the clothing industry have increased by 22 points on balance. At the beginning of the year these companies were still planning to reduce their budgets overall (balance: minus six points). The investment plans of the intermediate goods producers have also improved (22 after 15 points). In particular, companies working in the sectors of "Metal production and processing" (balance increase of twelve to 20 points), "Electrical equipment" (balance improvement from eleven to 27 points) and "Chemicals" (balance increase by 15 to a new record of 34 points) intend to invest significantly greater amounts.

Construction industry –
new record after years of
reserve

The investment intentions in the construction industry have reached a new record level (14 after nine points previously). The boom continues. The good situation and the optimistic expectations in all construction sectors mean that companies want to invest significantly more. The record investment intention have admittedly been preceded by many years of weak investment activity. On the long-term average, the balance of all construction categories is clearly negative (overall sector: minus eleven points; the only balance which is lower is that in the taxi industry). Now, however, structural engineering and the finishing trade have again reached record levels of investment intentions (15 after eleven and twelve after eight points respectively). The increase in the balance in civil engineering is particularly marked compared to the beginning of the year (13 after five points). This is attributable to the increase in public funding for the repair of transport infrastructure and higher expenditure on broadband expansion. In the structural engineering sector, the motive of expansion investments has risen to a new maximum level of 29 percent (beginning of the year: 24 percent). The sustained demand for residential construction is proving to be a strong driving force for the economy in this category. Many companies have reached their capacity limits. The greatest bottleneck in the construction industry as a whole is the shortage of skilled workers. 80 percent of construction companies who want to increase their capacities consider the lack of personnel to be a risk to the development of their businesses (last survey: 73 percent).

Moderate confidence in
the trade sector

The investment intentions in the trade sector have increased moderately (balance improvement from ten to 13 points). This is accompanied by more optimistic expectations in this branch of the economy. Extensive stimuli are coming in particular from the trade intermediaries (21 after four points). The wholesale trade has also introduced noticeable increases in its investment budgets (balance increase of four to 17 points). This is caused by the revival in world trade. The retail trade, which is traditionally more reticent, is planning to expand its investments to a somewhat smaller extent (seven after five points).

Service providers: no
further increase

Service providers still intend to carry out relatively strong investments. At 16 points, the balance remains close to the record level (18 points). On balance they are not increasing their budgets any further after the two small rises in the previous surveys. Company and personal service providers are planning more often to expand their expenditure on buildings, IT equipment, vehicles and other investments (balance increase from 16 to 19 points and from 14 to 15 points). IT service providers (24 after

22 points) as well as research and development companies (22 after 20 points) also intend to invest more.

Construction-related service providers with expansionary plans

In line with the positive situation of the construction industry, the investment plans of architecture and engineering offices (18 after 15 points) as well as service providers in the field of building management, horticulture and landscaping (18 after the previous level of 14 points) particularly stand out. As in the previous surveys, the real estate industry also remains confident. The investment intentions have again risen slightly, reaching a new record of 28 points (previously: 27 points).

Finance industry remains reserved

The financial and insurance service providers are planning small increases in investments compared to the previous survey (balance increase of three to seven points). The challenges faced by the sector are still considerable. The continuing low-interest policy, the increasingly complex regulations and the need for adaptation as a result of digitization are only enabling the credit industry to be cautious with its investment planning (balance increase from minus one point to two points). Here, the three pillars of the German credit services sector differ fundamentally from one another: Savings banks and cooperative institutions are pessimistic about their business in the coming months and are planning to make hardly any additional investments (expectation balances: minus 34 and minus 35 points respectively; investment balances: plus or minus one point after the previous levels of minus five and minus three points). In contrast, the private credit banks are further expanding their investment plans (balance increase of one to 19 points). In the credit industry it is again the replacement and rationalization investments which dominate (64 after 67 and 46 after 51 percent respectively), while the role played by expansions is almost non-existent (six after seven percent). From the perspective of companies, the economic policy framework remains the main risk (83 after 85 percent).

Employment Intentions



Skills shortage coming to a head

The cross-sector recruitment intentions of companies increase again. It is above all the manufacturing industry that is ramping up its plans. In the construction industry, the planned staffing levels have reached a new record high. The trader sector and service providers also intend to increase the level of their workforces once again. Generally, recruitment plans are being slowed by the increasingly severe shortage of skilled workers. This is by far the most significant business risk to companies. More than every second company now considers its business developments to be placed in jeopardy by this trend.

Increases in staffing levels continue

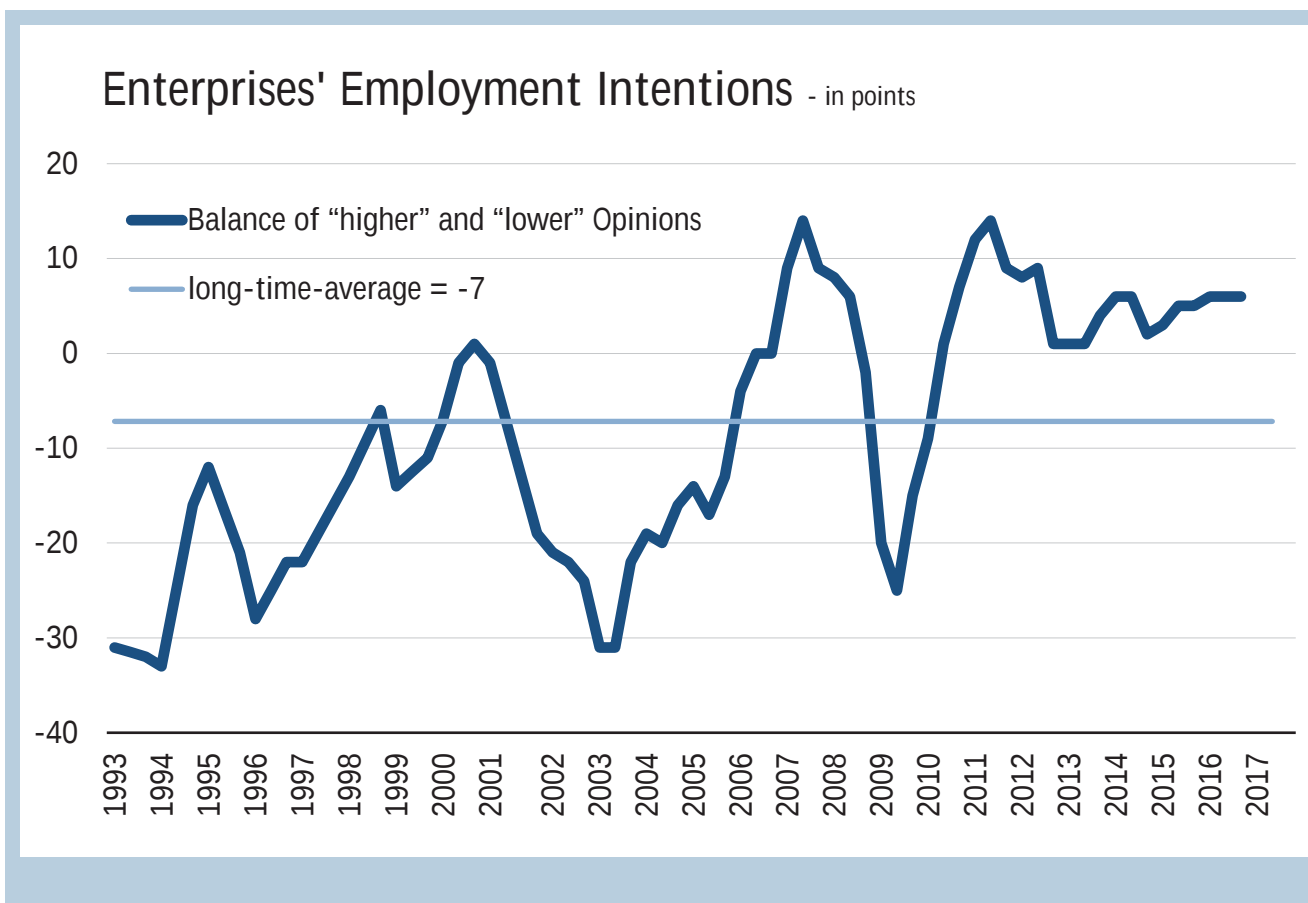
The employment intentions of companies continue on their upward path. 21 percent of companies want to expand the size of their workforce, while 67 percent expect their workforce to remain unchanged and only twelve percent are planning to cut jobs. The resulting employment balance has increased by two to nine points compared to the previous survey. The strong increase in staffing levels therefore continues.

Bottleneck caused by the shortage of skilled workers

It is becoming increasingly questionable whether companies can actually implement their employment plans. The share of companies that consider the shortage of skilled workers to be a risk to the business has risen by three points to 51 percent. The lack of qualified personnel is therefore becoming more and more the greatest economic risk from the point of view of companies. The assessment of the shortage of skilled workers as a risk has increased in manufacturing industry in particular (46 after 41 percent previously). In the construction sector, as many as almost three-quarters of companies are now concerned about not being able to find sufficient numbers of skilled employees (74 percent; previous survey: 70 percent). Among the service providers, 54 percent (previously: 51 percent) consider the shortage of skilled workers to be a risk, while among traders this level is 42 percent (previously: 41 percent). Particularly large are the concerns among companies which want to increase their staffing levels. Of these, 69 percent now state that the shortage of skilled workers is a risk.

Enterprises' Employment Intentions (in percent)

	higher	about equal	lower	balance
Early Summer 2015	17	71	12	5
Fall 2015	17	71	12	5
February 2016	18	70	12	6
Early Summer 2016	18	70	12	6
Fall 2016	19	68	13	6
February 2017	20	67	13	7
Early Summer 2017	21	67	12	9



A year ago this figure was still only 64 percent. Once again it is the small and medium-sized enterprises which are concerned about securing enough skilled workers. This risk is cited by 60 percent of businesses with 20 to 200 employees, 55 percent with ten to 20 employees and 51 percent of businesses with 200 to 1,000 employees. In contrast, large corporations (with more than 1,000 employees) are not finding it quite as difficult to secure enough skilled workers (40 percent refer to this risk). Smaller companies with fewer than ten employees usually have lower staff requirements and are therefore less often concerned about this aspect (38 percent). A number of businesses are recruiting not because they currently need more employees, but in order that they will be able to secure qualified specialists for themselves for the future. At 39 percent (previous survey 40 percent), labor costs remain the third most common risk from the perspective of companies (after the economic policy framework at 41 percent).

High spirits in the construction industry

The employment intentions in the construction industry have reached new record levels (13 after nine points) – and that across all categories. The civil engineering sector is expanding its recruitment plans particularly forcefully (20 after seven points previously; structural engineering: ten after eight points; finishing: 14 after nine points). Sectors which are benefiting from the positive sentiment in the construction industry are also associated services such as the real estate sector (balance increase to eleven

after nine points previously) or the "Building management, horticulture and landscaping" category: balance increase to 12 after ten points).

Construction site personnel urgently required

Many construction companies are wringing their hands searching for personnel so that they can process their orders. The good order situation results on the one hand from the low interest rate phase and strong economy overall, and on the other from the increase in public funding for infrastructure. Most businesses which work in the civil engineering sector are affected by the shortage of skilled workers (81 percent, previous survey 74 percent). In the structural engineering sector and finishing trade the risk assessments with respect to the shortage of skilled workers have also increased by an above-average amount (69 after 65 percent previously and 77 after 74 percent). At the same time, many civil engineers are concerned about the development of labor costs. The risk assessment has grown by five to 48 percent.

Upturn in manufacturing industry ...

Industrial companies are particularly expansive in their employment plans in view of the improved business expectations (increase in the expectation balance by four to 21 points). In the comparison of the branches of the economy, the reply balance has increased here most of all (by five to twelve points). Stimuli are coming in particular from the producers of intermediate goods (increase by six to 13 points). Many manufacturers of intermediate goods are now planning to increase their employment levels after there had been very few indications to do so in the last few years (long-term average: minus five points; experience has shown that a slightly negative balance is associated with a slight increase). The capital goods sector is also planning to increase its employment levels (increase in the employment balance by five to 15 points). Machine tool construction and automotive engineering companies want above all to recruit significantly higher numbers of employees (balance improvement by 15 to 25 points and by nine to eight points respectively). However, there are also obstacles in their way: For example, almost every second mechanical engineer (48 percent) is now worried about finding sufficient numbers of qualified employees. Among the motor vehicle builders, many companies report that increasing labour costs are a risk (47 percent; manufacturing industry as a whole: 38 percent) – from the point of view of companies they are once again the greatest business risk.

... but not in all branches

Not all branches of industry want to further expand their employment plans. Sectors which have lowered their sights are the textile, clothing and leather industry (balance reduction by eight to minus six points), breweries (balance deterioration by four to five points) as well as the "Jewelry, musical instruments, sports equipment and toys" category (balance deterioration by three to 15 points). On balance, the manufacturers of consumer goods have not made any changes to their staffing plans compared to the previous survey (balance: four points).

Dynamism among service providers

The staffing plans of the service providers have improved compared to the beginning of the year by one point (balance: eight points) and are therefore clearly above the long-term average (three points). Notable aspects are, for example, the positive employment intentions in the fields of shipping and air transport (balance increase by

seven to five and by six to 25 points respectively). The sectors with the highest balance increases overall are the postal, courier and express services (increase of 19 points). With the current balance of 25 points, they are no longer far away from the previous record of 27 points. Whether offers associated with the online trade, the bricks and mortar trade or the catering sector: postal and courier services are in demand in order to deliver orders. The risk of a shortage of skilled workers has climbed significantly in the company assessments. In the meantime, labor costs have come to represent a serious problem for around seven out of ten companies. No other industry in the business survey is affected to such an extent by the risk of rising labor costs.

Finance industry planning remains restrained	The personnel plans of the financial and insurance services remain at a very low level (balance: minus 33 after the previous level of minus 34 points). In the credit industry the employment balance is deeply in the red in spite of a slight improvement (minus 56 points). The employment plans in the savings bank sector have even slipped further, reaching a new low point of minus 80 points (long-term average since 2003: minus 38 points). The increasing regulatory requirements are forcing the sector to carry out consolidation measures and in many cases resulting in a reduction in employment.
Leisure and entertainment highly valued	The sectors associated with leisure and entertainment are benefiting from the current consumer sentiment and planning to recruit new employees – significantly in some cases. They need more staff in order to be able to satisfy the high demand. In the hotel and restaurant industry the employment plans have improved on balance by two to five points, in the media and film industry by eight to 19 points and in the leisure sector (e.g. concert organizers, theatres or fitness clubs) by a significant 13 to 15 points. Among the other personal service providers such as hairdressers and cosmetics studios, saunas and solariums or launderettes, the employment intentions have improved noticeably (from eight to 14 points). In the education sector, as well as health and social services, the intentions have fallen slightly, albeit starting out from a very high level (15 after 17 and 28 after 30 points respectively). Overall, the employment balance of companies which mainly offer personal services has reached a record value (balance increase by two to 14 points).
Temporary employment sector lowering its sights	Temporary employment agencies are putting their foot on the brake somewhat with respect to their personnel recruiting plans (balance reduction by three to 22 points). At the beginning of April the reform of the German Law on Temporary Employment came into effect. This provides for a maximum transfer period of 18 months, as well as equal pay after nine months. It is still unclear how this law will affect the demand of businesses for temporary workers. However, a decline as well as evasive reactions are to be feared. Companies from this category are more cautious with their personnel planning overall. The reduced employment intentions are also associated with a reduced risk assessment of the shortage of skilled workers (74 percent, previous survey: 80 percent).

Knowledge-intensive services gain ground

The research and development service providers have become much more expansionary (balance increase of twelve to 36 points). Companies from various sectors are increasingly investing in the development of new products, services and processes in order to meet the challenges of the megatrends, such as digitization, demographic change, sustainable management or autonomous driving. For this they also use external R&D service providers. Management consultancy companies (balance increase of 2 to 20 points) as well as advertising and market research agencies (balance increase of seven to 18 points) also have plans for increasing their employment levels.

Hardly any movement in the trade sector

The employment intentions in the trade sector have only increased slightly overall (balance improvement by one to seven points). The main stimuli are coming from the wholesale trade and trade intermediaries (balance increase of 3 to 13 points) and, to a lesser extent, from the retail sector (balance increase of two to two points). In contrast, companies working in the motor vehicle trade and repairs (balance deterioration by four to seven points) have lowered their sights. Here it is above all the smaller companies with up to 20 employees who are implementing cuts. On the other hand, the large vehicle dealers with 200 to 1,000 employees intend to significantly expand the size of their workforces.

Questionnaire Early Summer 2017

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

The basis of the GCCI results is surveys of companies conducted by a total of 79 CCIs. In the early summer of 2017 the CCIs evaluated round 25,000 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 (21 percent) and service providers (44 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 end of march 2017 to the begin of may 2017.

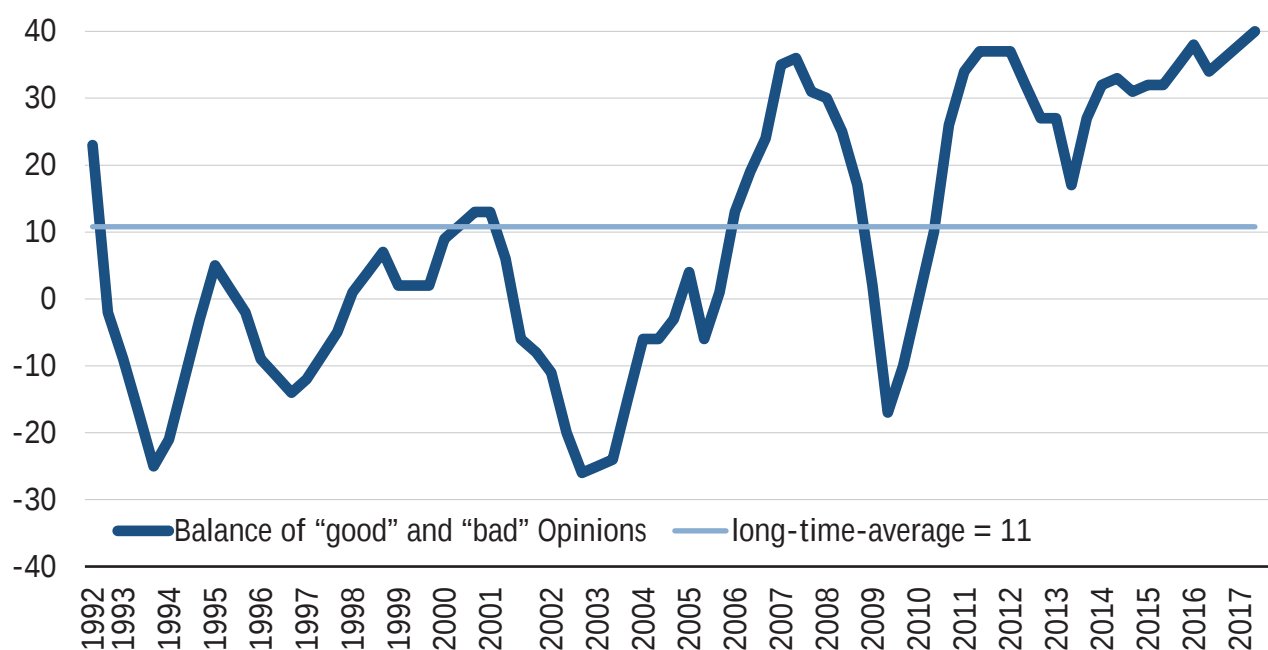
DIHK-Surveys - time series

All shares in percent; Balance = Share of „good/better” opinions minus share of „bad/worse” opinions in percentage points

Assessment of the Situation (in percent)

	good	satisfactory	bad	balance
February 2011	44	46	10	34
Early Summer 2011	46	45	9	37
Fall 2011	46	45	9	37
February 2012	46	45	9	37
Early Summer 2012	42	48	10	32
Fall 2012	38	51	11	27
February 2013	38	51	11	27
Early Summer 2013	32	53	15	17
Fall 2013	38	51	11	27
February 2014	41	50	9	32
Early Summer 2014	42	49	9	33
Fall 2014	40	51	9	31
February 2015	41	50	9	32
Early Summer 2015	41	50	9	32
Fall 2015	44	47	9	35
February 2016	46	46	8	38
Early Summer 2016	43	48	9	34
Fall 2016	44	48	8	36
February 2017	46	46	8	38
Early Summer 2017	48	44	8	40

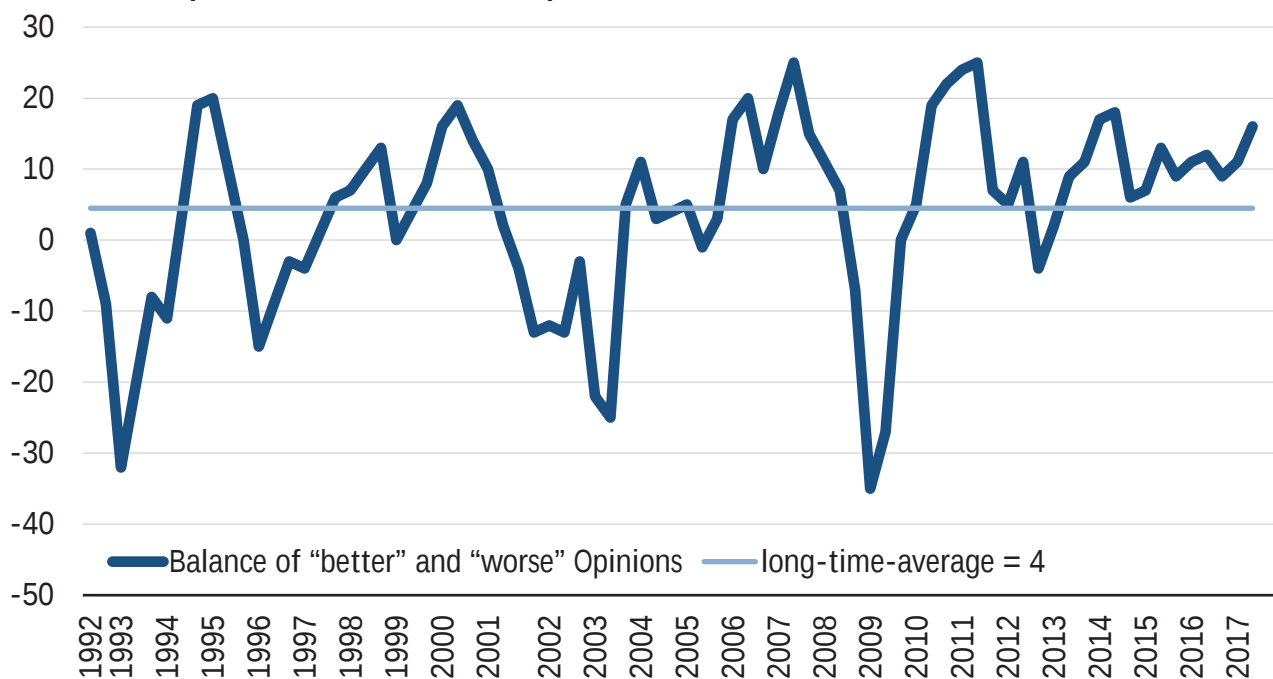
Assessment of the Situation - in points



Enterprises' Business Expectations (in percent)

	better	about equal	worse	balance
February 2011	34	56	10	24
Early Summer 2011	34	57	9	25
Fall 2011	23	61	16	7
February 2012	22	61	17	5
Early Summer 2012	25	61	14	11
Fall 2012	18	60	22	-4
February 2013	20	62	18	2
Early Summer 2013	25	59	16	9
Fall 2013	24	63	13	11
February 2014	28	61	11	17
Early Summer 2014	29	60	11	18
Fall 2014	21	64	15	6
February 2015	22	63	15	7
Early Summer 2015	26	61	13	13
Fall 2015	23	63	14	9
February 2016	24	63	13	11
Early Summer 2016	25	62	13	12
Fall 2016	22	65	13	9
February 2017	24	63	13	11
Early Summer 2017	27	62	11	16

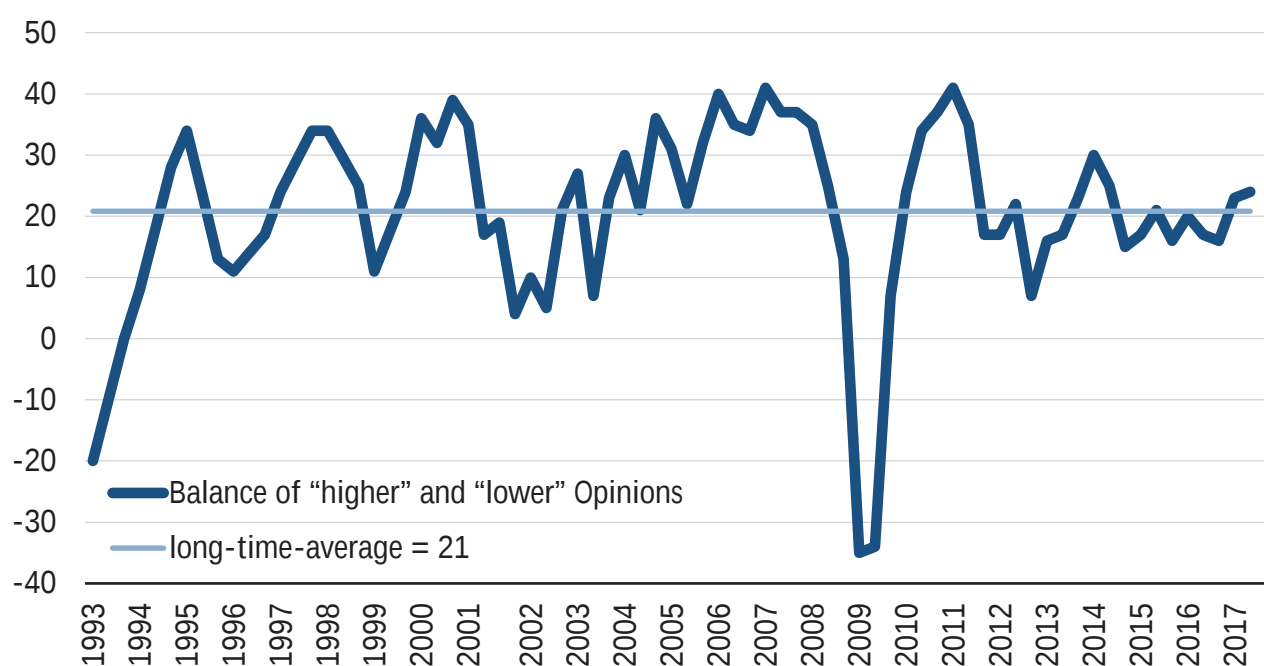
Enterprises' Business Expectations - in points



Enterprises' Export Expectations (manufacturing industry; in percent)

	higher	about equal	lower	balance
February 2011	46	49	5	41
Early Summer 2011	42	51	7	35
Fall 2011	30	57	13	17
February 2012	31	55	14	17
Early Summer 2012	33	56	11	22
Fall 2012	27	53	20	7
February 2013	30	56	14	16
Early Summer 2013	30	57	13	17
Fall 2013	32	59	9	23
February 2014	37	56	7	30
Early Summer 2014	34	57	9	25
Fall 2014	30	55	15	15
February 2015	30	57	13	17
Early Summer 2015	31	59	10	21
Fall 2015	30	56	14	16
February 2016	32	56	12	20
Early Summer 2016	29	59	12	17
Fall 2016	29	58	13	16
February 2017	34	55	11	23
Early Summer 2017	33	58	9	24

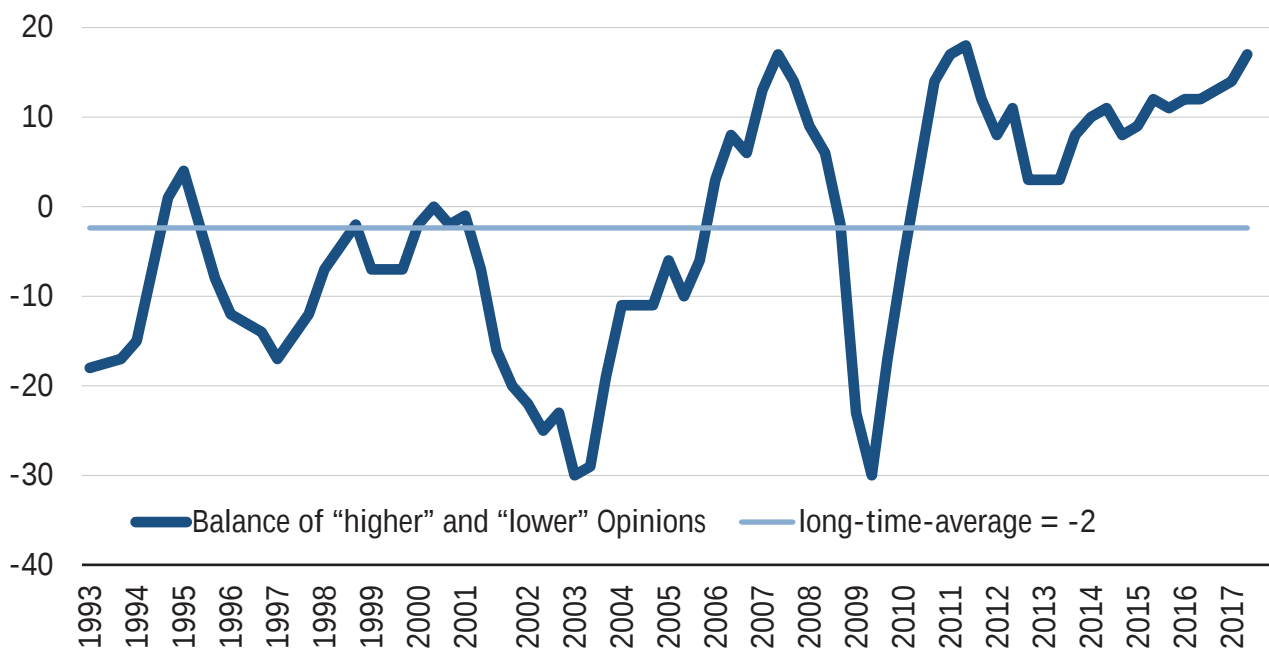
Enterprises' Export Expectations (manufacturing industry)



Enterprises' Investment Intentions (in percent)

	higher	about equal	lower	balance
February 2011	31	55	14	17
Early Summer 2011	31	56	13	18
Fall 2011	27	58	15	12
February 2012	26	56	18	8
Early Summer 2012	27	57	16	11
Fall 2012	23	57	20	3
February 2013	23	57	20	3
Early Summer 2013	23	57	20	3
Fall 2013	25	58	17	8
February 2014	26	58	16	10
Early Summer 2014	27	57	16	11
Fall 2014	25	58	17	8
February 2015	26	57	17	9
Early Summer 2015	27	58	15	12
Fall 2015	26	59	15	11
February 2016	27	58	15	12
Early Summer 2016	27	58	15	12
Fall 2016	28	57	15	13
February 2017	29	56	15	14
Early Summer 2017	31	55	14	17

Enterprises' Investment Intentions - in points



Enterprises' Employment Intentions (in percent)

	higher	about equal	lower	balance
February 2011	22	68	10	12
Early Summer 2011	23	68	9	14
Fall 2011	19	71	10	9
February 2012	19	70	11	8
Early Summer 2012	20	69	11	9
Fall 2012	15	71	14	1
February 2013	15	71	14	1
Early Summer 2013	15	71	14	1
Fall 2013	16	72	12	4
February 2014	17	72	11	6
Early Summer 2014	17	72	11	6
Fall 2014	15	72	13	2
February 2015	17	69	14	3
Early Summer 2015	17	71	12	5
Fall 2015	17	71	12	5
February 2016	18	70	12	6
Early Summer 2016	18	70	12	6
Fall 2016	19	68	13	6
February 2017	20	67	13	7
Early Summer 2017	21	67	12	9

Enterprises' Employment Intentions - in points

