

Using momentum, releasing the investment brakes

Fall 2017

DIHK
economic survey
at the Chambers
of Commerce and
Industry



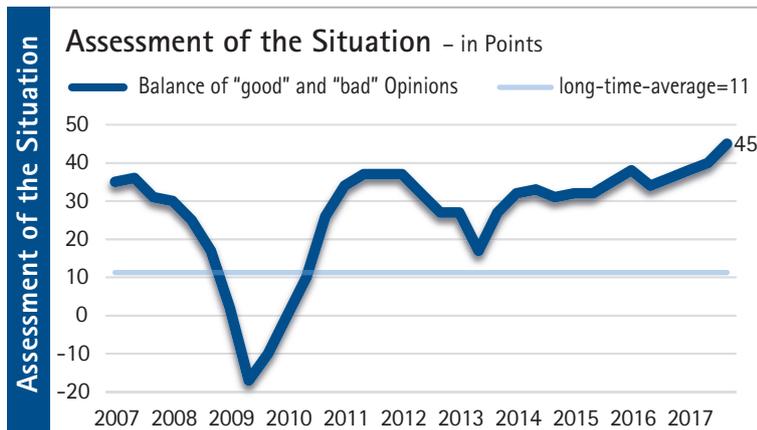
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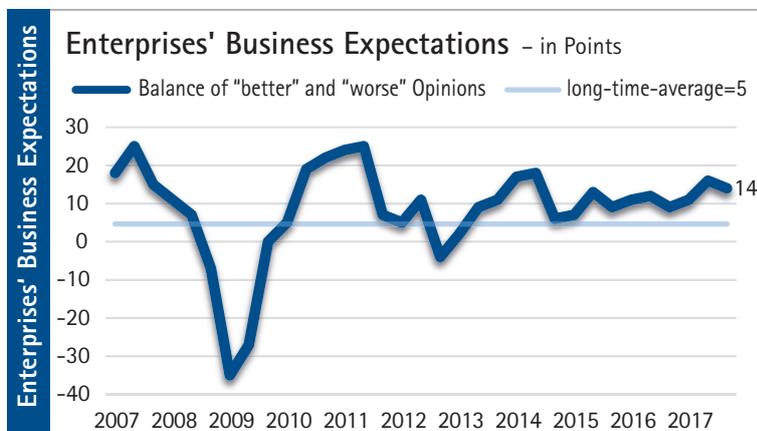
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Germany at a Glance

Fall 2017



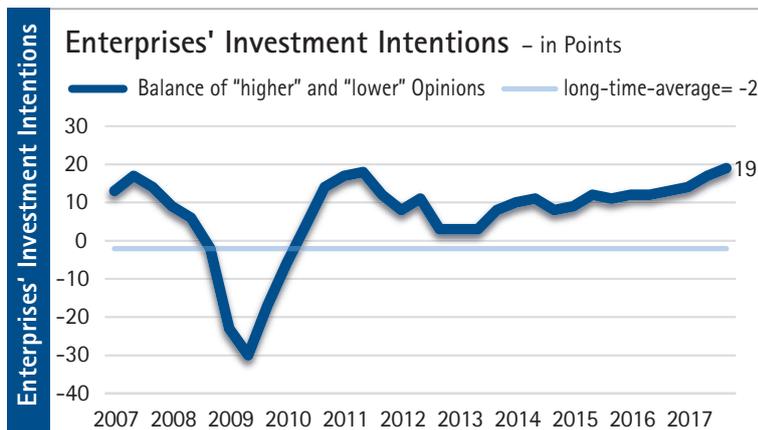
The **business situation** of companies is better than ever before. The improved expectations from spring have been fulfilled. The economy profits from strong domestic demand as well as solid exports. This is an advantage for companies in almost all industries. The situation is particularly positive in the construction sector, where the assessment reaches its highest level for the third time in a row. The service providers also set a new record. The mood in the manufacturing industry is improving significantly - cutting-edge technology in particular is in high demand.



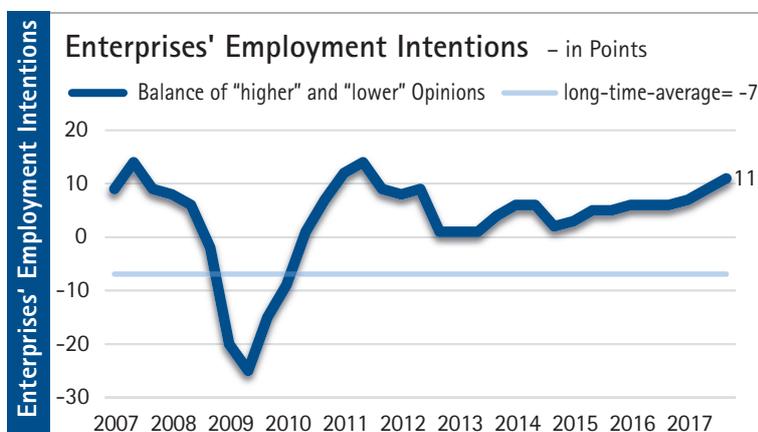
The economy continues to operate at high speed. Investments are a new additional driver. The dynamic employment growth, low interest rates and the good international competitive position contribute to the good mood. Currently, a slightly smaller number of companies are **expecting** a further improvement in their business. Nevertheless, more companies are expecting their businesses to continue to perform well. Companies are also less worried about decreasing demand. The main risk remains the shortage of skilled workers, followed by labor costs and the economic policy conditions.



The **export expectations** again improve only slightly. The many challenges posed by foreign trade are preventing a more pronounced rise. These include the still unclear course of the US government, the Brexit, developments in Turkey and increasing trade barriers with important trading partners. Concerns about the development of the exchange rate are also rising again. Even so, the recent increase in the external value of the euro is primarily a sign of further economic recovery in the EU. Other sales markets, like the BRICS countries, are also developing positively.



The **investment intentions** are improving once again – and thereby reaching record levels. The main driver of the upturn in investment is the manufacturing industry. However, companies are also planning to increase their investment budgets across the economy as a whole. With regard to the investment motives, expansions and rationalizations are gaining in importance across all industries. Digitalization and changing consumer behavior are leading to capacity expansion in the sectors involved. The greatest limiting factor remains the availability of qualified personnel.



Companies want to further increase **employment** levels. With the renewed improvement in their employment balance, companies are more willing to hire new employees than they have been over the last six years – and this despite the fact that employment has already increased significantly in recent years. Almost all sectors of the economy are planning to expand. Meanwhile, the shortage of skilled workers increases significantly in the risk assessment of companies. It represents a limitation to the increase in employment in Germany. Labor costs are now the second largest business risk.

Economic Situation

How do you assess the current situation of your company?



Strong Position on a Broad Basis

The business situation of companies is better than ever before. The improved expectations from spring have been fulfilled. The economy profits from strong domestic demand as well as solid exports. This is an advantage for companies in almost all industries. The situation is particularly positive in the construction sector, where the assessment reaches its highest level for the third time in a row. The service providers also set a new record. The mood in the manufacturing industry is improving significantly - cutting-edge technology in particular is in high demand. However, the car trade sector is an exception to the underlying good mood.

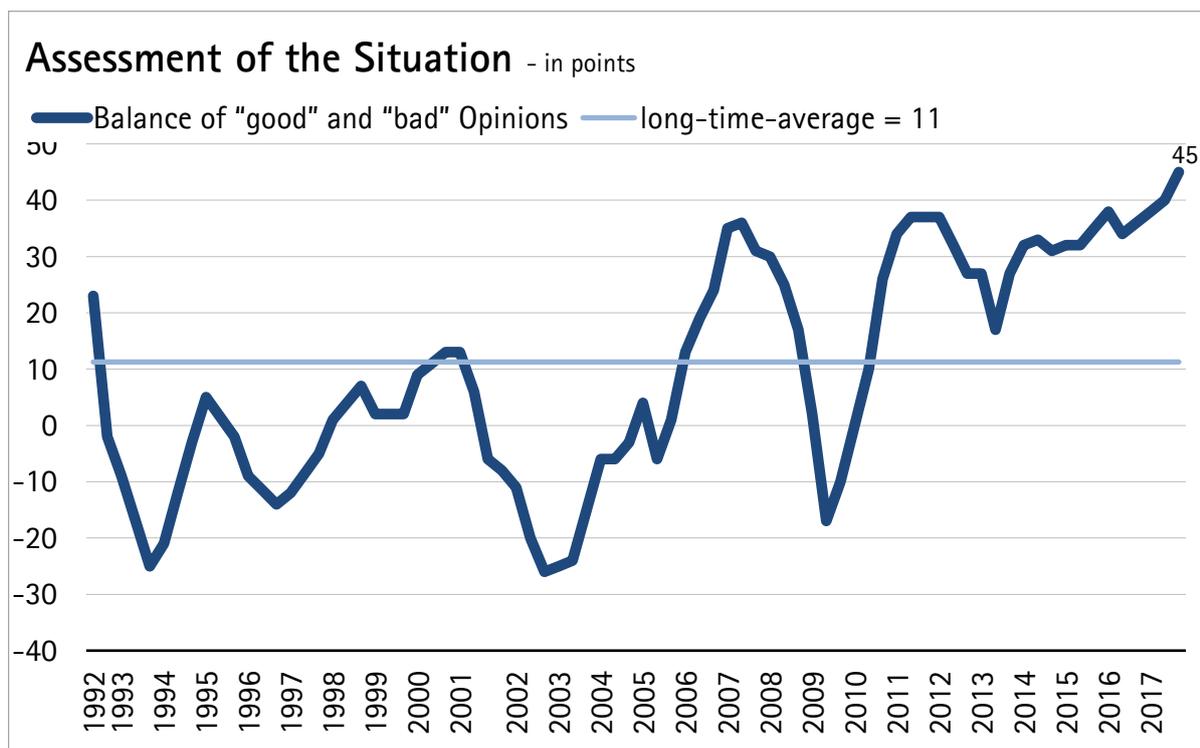
Another record

Starting from a record situation in the early summer, the economic position of companies in Germany has significantly improved once again. Around one in two companies (51 percent) rate their situation as "good" – more than in all previous surveys. At the same time, the proportion of companies with a poor situation assessment has fallen to six percent – a lower figure than ever before. The resulting balance of 45 points (difference between the "good" and "bad" shares) marks an all-time high (early summer: 40 points). The high expectations of companies have been fulfilled: The upward trend in the

business situation is not only continuing, but has become even stronger.

Excellent mood across the economy

The economic situation is currently displaying a pleasing degree of strength. The situation is improving across all sectors of the economy. The assessment is particularly positive in the construction industry (plus eight to the current level of 64 points) and among the service providers (plus six to 45 points), each of which has recorded new highs. Manufacturing industry (plus four to 48 points) and the retail trade (plus three to 31 points) are only slightly below



their historic record values (manufacturing industry: 49 points in the early summer of 2007; retail trade: 33 points in the early summer of 2011). On the one hand, this is due to the strong domestic demand, which is being supported by the very good employment situation and favorable financing conditions. On the other hand, exports are currently benefiting from the revival of the global economy.

Construction boom continuing

The construction industry is in excellent spirits. The situation balance has risen sharply and reached a new record level of 64 points (early summer: 56 points). Only three percent of construction companies still assess their business situation as "poor". The good mood has also reached all three pillars of the construction industry. The low interest rates and rising incomes are enabling many households to invest in their own four walls. In view of the good economic situation, companies are also increasingly investing in the expansion of their spatial capacities. The finishing trade in particular continues to benefit from the implementation of energy efficiency targets. The high level of construction activity is also having a positive effect on sectors close to the construction industry, such as architectural and engineering firms and the "quarrying of stones and soils".

Infrastructure expansion supporting civil engineering

Compared to the early summer, the civil engineering sector has stepped up another gear (increase in the situation balance by 17 to 68 points), thereby closing the gap to the other construction sectors in the situation assessment. It is above all road construction and refurbishment, as well as broadband expansion, which are filling the order books of the civil engineering sector. After many years of restraint, the propensity of the public sector to invest in infrastructure has – finally – sprung into life. At the end of the last legislative period in particular, the availability of public funds for infrastructure investments from the federal budget was considerable. In order to be able to implement major projects, such as those classified as urgent in the Federal Transport Route Plan, it is now also necessary to increase the planning capacities of the authorities.

New impetus for manufacturing industry

The business situation of industrial companies has once again improved markedly compared to the early summer (48 after 44 points previously) and has therefore reached its best level in more than 10 years. Compared to the previous year, the situation assessment has improved by 16 points, which is significantly more than in the other sectors of the economy. The upswing is being felt across all major industrial groups. The situation assessments of the manufacturers of intermediate goods (increase by four to 49 points), capital goods producers (by six to 54

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

	good	satisfactory	bad	balance
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
Fall 2017	51	43	6	45

points) and the manufacturers of consumer goods (increase by three to 32 points) have improved noticeably. Large corporations with more than 1000 employees (57 points after 46 previously) have taken a particularly significant step forward, benefiting to an above-average extent from the demand for exports and often representing an important stimulus to their respective industries.

Cutting-edge technology in demand more than ever before

Manufacturers of capital goods have once again assessed their business situation as being significantly better than in the early summer (54 compared to 48 points). Increasing investments here in Germany and rising export demand, especially from the EU, are contributing towards this. After the global economy had grown in recent years primarily as a result of consumer spending, there had been an accumulation of investment requirements in many countries. There is strong demand in particular for cutting-edge German technology, such as medical and electrical engineering products, sensors and other optical items. As a result, the situation assessments of high-tech companies have improved noticeably and reached a new record level (56 after the previous level of 51 points). The mechanical engineering sector is again more satisfied with its business situation (57 after 49 points in the previous survey).

Good business for consumer-oriented service providers

The meteorologically mixed summer in Germany was not able to dampen the spirits of restaurateurs and hoteliers. The hotel and restaurant industry assesses its business situation as being much more positive than in the first half of the year (45 compared to 32 points). In addition to the generally high level of consumption willingness, uncertainties about popular holiday destinations such as Turkey and Egypt have ulti-

mately resulted in an increase in domestic tourism. The good business being enjoyed by the hotel and restaurant industry is also resulting in many places from the successes of the trade fair and congress organizers (61 compared to 45 points), with increasing visitor numbers and therefore also a higher number of overnight stays at local hotels. Personal service providers (42 after 40 points previously) are also benefiting from increases in purchasing power due to the good employment situation. As a result, the situation assessment in the cultural and creative industry (42 after 39 points) and among travel agents (39 after 35 points) has improved once again, even though it started from a high level.

High demand for business services...

Business service providers are benefiting from the good situation and high level of capacity utilization in the economy as a whole (50 compared to 47 points). The business situation of the lessors of capital goods has improved once again very considerably (by 14 to 62 points), reaching record levels. Temporary employment agencies are also in greater demand once more (43 after 30 points in the last survey), although the situation assessment is not able to achieve the high levels of the past. The service providers from the field of research and development also assess their business situation to be somewhat better again than in the early summer (improvement by three to 42 points) and even significantly better than in the previous year (plus nine points).

... above all for digitization

The leap into the digital age is offering companies considerable opportunities not only with respect to existing, but also to completely new business models. Not least against this background, the business situation of the IT service providers has again reached its record level from the beginning of the year (54 compared to

52 points). Software developers and other companies working in the field of programming in particular assess their situation as being much better (increase by six to 55 points – also a record figure). Providers of information services, such as the operators of web portals, are also significantly more satisfied than in the spring (58 compared to 51 points).

Road and aviation in the fast lane

The transport and logistics sector is also developing extremely positively in the fall (increase by 12 to 37 points). In the case of road freight transport (improvement by 15 to 40 points) and air transport (up 28 points to 56 points), the improvement in the situation is particularly marked compared to the early summer. The strong domestic demand is resulting in high levels of capacity utilization in the field of freight transport. At the same time, fuel prices have remained at a comparatively favorable low level.

Situation in the financial sector remains mixed

The financial and insurance services sector is still not able to keep up with the good situation in the economy as a whole. The situation assessment has fallen by one point compared to the early summer and, at 34 points, remains only just above the long-term average.

Retail trade doing good business....

The retail trade assesses its situation as being very good in the long-term comparison. The balance has risen once again by three to 31 points, thereby approaching the long-term record level. One winner from the strong consumer demand is the retail sector, which has currently jumped seven points at the current margin (to 26 points). Consumer confidence is growing thanks to good developments in employment and rising wages. Business in the wholesale trade has also improved slightly once more (38 compared to 37 points).

... but diesel ruining the mood of automotive dealers

However, the picture is different among motor-vehicle dealers, who assess their current business situation as being significantly weaker than in the early summer (25 after 29 points). The diesel scandal and the discussion about bans on driving diesel vehicles are creating uncertainty among many customers. The sales and new registrations of diesel vehicles slumped by 20 percent in September compared to the same month of the previous year. Many car dealerships have high diesel stocks, for which they are having to adjust the residual values. The scrap-age premium for older diesels is not able to compensate for the decline in sales of diesel vehicles and is also depressing the margins of automotive dealerships.

Assessment of the Situation (balance in points)

	Industry	Construction	Trade	Services	All
Fall 2015	30	43	24	40	35
February 2016	34	41	28	42	38
Early Summer 2016	31	41	27	37	34
Fall 2016	32	54	26	39	36
February 2017	36	52	28	40	38
Early Summer 2017	44	56	28	39	40
Fall 2017	48	64	31	45	45

Expectations

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



Still on the Road to Success

The economy continues to operate at high speed. Investments are a new additional driver. The dynamic employment growth, low interest rates and the good international competitive position of industrial companies also continue to contribute to the good mood. In this fall a slightly smaller number of companies are expecting a further improvement in their business. Nevertheless, more companies are expecting their businesses to continue to perform well. Only few are expecting a deterioration. Companies are also less worried about decreasing demand at the moment. The main risk remains the shortage of skilled workers, followed by labor costs and the economic policy framework conditions.

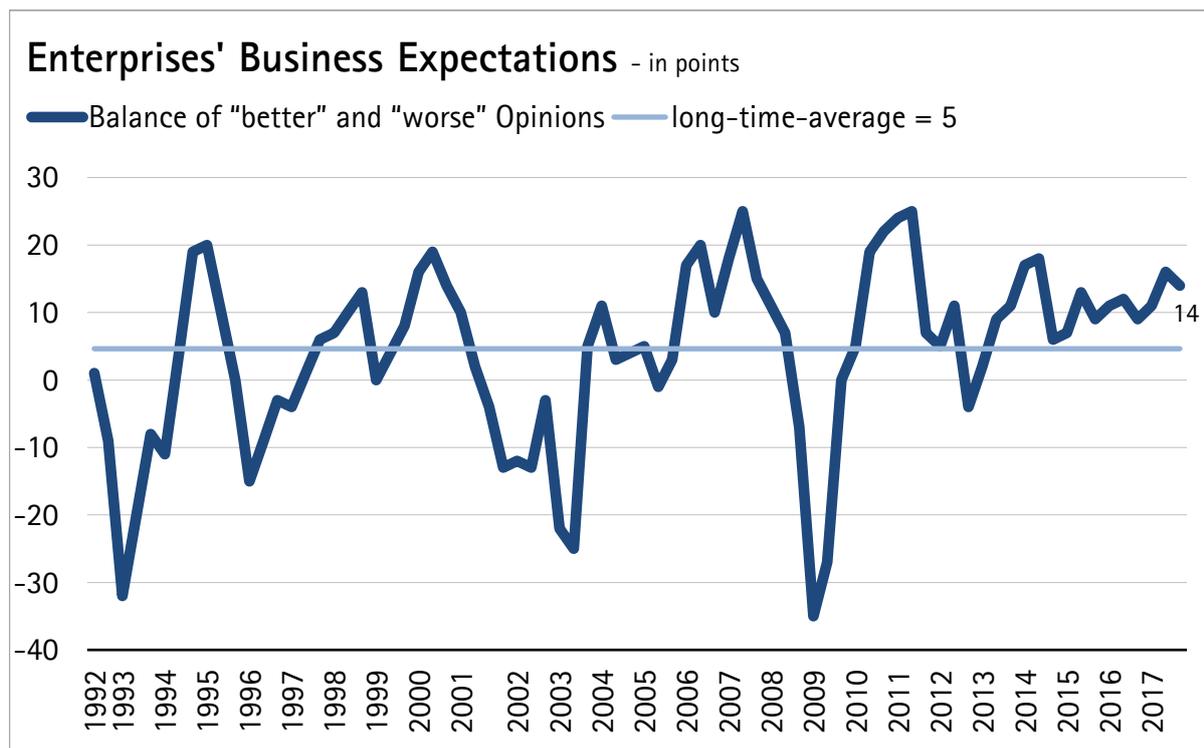
Good economic activity on a broad base

The upswing is continuing. One in four companies expects their business situation to improve further. A deterioration is expected by only eleven percent. The resulting expectation balance of 14 points is well above the long-term average (five points) and only slightly below the value from the early summer (16 points). The good economic development is based on a broad foundation. Investment confidence in Germany and worldwide has risen, while the interest rate environment remains favorable. Exports to all regions of the world have increased to a certain extent. At the same time, the excellent employment situation continues to boost the domestic economy. Furthermore, Germany's

budget situation is excellent and has enough room for maneuver to address important future issues.

... with remarkable stability

For more than four years now, the expectation balance has been above the long-term average. Such a long phase of optimistic expectations has not been seen in the survey before. During this period, the growth of the German economy has always been higher than its potential growth. The positive expectations therefore suggest that the unusually long upswing will continue. Although slightly fewer enterprises are currently anticipating a further improvement in their business situation (25 compared



to 27 percent previously), more companies are nevertheless expecting business to continue to run as smoothly as it is at the moment (64 percent after 62 percent in the previous survey). This is remarkable, especially in view of the record level of the situation assessment.

Fewer concerns about demand

Domestic demand continues to develop strongly thanks to rising employment and wages. The rise in inflation has been compensated for up to now as a result. When asked about the risks to their business development, companies are therefore once again referring less frequently to domestic demand. Only 37 percent of businesses are concerned about this (previous survey: 38). This is an exceptionally low level in view of the dependence of each company on the demand for its products. It is well below the long-term average of 45 percent.

Concerns about demand from abroad have also declined significantly (minus four percentage points). Only one-third of exporting industry still considers this to be a risk to its business. The share has not been this low since 2011. The German export industry is benefiting in particular from the upturn in the EU and from the fact that the global upturn is currently being driven more strongly by investments.

Low interest rates continue to support the economy

Economic development continues to be supported by the low interest rates. These are ensuring favorable financing conditions for companies and consumers, with the latter benefiting from low-cost loans for real estate, cars or other purchases. It is easier for businesses to finance investments in machinery, plant, software or buildings. This becomes increasingly important in times of increasing levels of capacity utilization. Currently, only ten percent of companies refer to financing as a risk to their business development. However, among small companies with fewer than ten employees, the proportion is higher (14 percent). Loans with small volumes are often not so attractive for banks, partly because of the stricter creditworthiness requirements associated with the regulation of the financial markets.

At the same time, many companies cite the low interest rates in their free text responses as being an economic risk to their business. They fear the development of instabilities and the consequences of an overhasty exit from expansionary monetary policy which comes too late.

Inexpensive raw materials, expensive electricity

At present, 30 percent of companies see the development in energy and raw material prices as a risk to the development of their businesses (last survey: 31 percent). The prices for oil and other commodities have remained low in the

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

	better	about equal	worse	balance
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
Fall 2017	25	64	11	14

long-term comparison. Although they have risen significantly in the last twelve months, the stronger euro exchange rate is currently making imports from third countries more attractive and thereby providing relief. Furthermore, a drastic increase in raw material prices appears unlikely in view of the continuing underutilization of the available capacities. Oil production in the USA in particular reacts flexibly in the case of price increases. For this reason, the concerns of the sectors which are highly dependent on the price of gasoline, such as land transport (45 percent after 48 percent) as well as shipping and aviation companies, have declined significantly (46 after 63 percent and 33 after 39 percent respectively).

In contrast, many industrial companies still refer to the energy and raw material prices as a risk (47 after 48 percent previously). Manufacturing industry requires large amounts of energy and is strongly exposed to the international competition. They are therefore particularly affected by the additional domestic burdens resulting from the electricity costs, which foreign competitors are spared.

Euro appreciation increasing price competition

The doping caused by the favorable **exchange rate** is now clearly decreasing. In the last two years the low external value of the euro has

proved favorable in terms of the price competitiveness of German products. Rising labor and electricity costs have therefore been somewhat less significant so far. In recent months the euro has appreciated sharply and is now trading at its highest level since 2014, with the result that the demands placed on competitiveness are rising again. 18 percent of the export industry consider this to be a risk to their business development (last survey: 15 percent). At the same time, the price pressure within Germany is increasing compared to imported products. Besides the level of the external value of the euro, fluctuating exchange rates are also problematic for companies, as this increases the cost of hedging.

However, the appreciation of the euro is also a sign of the increased economic dynamism in the euro zone. German exporters are benefiting from this, as 37 percent of exports go to euro countries.

Leap of faith for economic policy

During the election campaign, many sides announced that they would be devoting more attention to core topics such as digitalization, education, reducing bureaucracy and the modernization of public infrastructure. Against the background of the excellent budgetary situation, almost all parties included tax cuts in their programs. This nourishes the hope of a growth-

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

	domestic demand	foreign demand*	financing conditions	labor costs	lack of skilled workers	exchange rates*	prices of energy and raw materials	economic policy conditions
Fall 2015	45	48	11	40	42	21	26	41
February 2016	45	44	11	40	43	19	24	44
Early Summer 2016	45	42	11	40	43	16	24	43
Fall 2016	43	44	11	40	48	15	25	38
February 2017	40	39	11	40	48	17	32	43
Early Summer 2017	38	37	11	39	51	15	31	41
Fall 2017	37	33	10	40	56	18	30	38

oriented economic policy in Germany: The concerns about the economic policy framework conditions are diminishing (reference to this risk: 38 after 41 percent previously). However, it remains to be seen whether the leap of faith is justified. Companies that consider the economic policy framework conditions to be a risk cite concerns about political instabilities in the aftermath of the elections, for example. The fear that taxes and levies might be increased in spite of the excellent budgetary situation is also referred to.

Record levels for the fall in the construction industry

At eight points, the expectation balance in the construction industry is the highest figure in the fall since reunification. In the economically more meaningful comparison with last year, expectations have once again risen noticeably (plus three to eight points). However, there has been a decline compared to the early summer (minus ten points). Towards the end of the year, construction companies are generally less optimistic about their business, as the winter makes construction work more difficult (usual seasonal decline: minus 13 points).

Commercial construction is likely to pick up again in the coming months – this view is supported by assessments of regional surveys conducted by the Chambers of Commerce and Industry (CCI) and the increase in the investment intentions in the economy as a whole. This fall, civil engineering and finishing companies are much more optimistic about their business than

they were last year (increase by ten and four points respectively to ten in each case). In the field of structural engineering, expectations are at the same level as the previous year on balance at seven points.

Manufacturing industry remains optimistic

Manufacturing industry's expectations continue to be well above average (balance: 18 points; long-term average: twelve points). Although the balance is no longer quite as high as in the early summer (21 points), it is nevertheless well above the previous year's figure (13 points). This is striking, particularly against the background of the exceptional situation assessment in manufacturing industry (situation balance: 48 points; historical record level: 49 points in the early summer of 2007). Concerns about domestic demand (minus two to 39 percent) and foreign demand (down four to 33 percent) continue to decline. The limiting factor for further expansion is increasingly becoming the shortage of skilled employees. In the meantime, well over half of all industrial companies see this as a risk to their business development (54 percent after 46 percent previously).

Manufacturing industry is benefiting from the increased investment confidence – not only in Germany, but also worldwide. In addition, the investment requirements associated with the Industry 4.0 megatrend are increasingly being met. As a result, the expectations of manufacturers of capital goods have improved considerably since last year (23 compared to 16 points in the fall of 2016; early summer of 2017: 24

Enterprises' Business Expectations (balance in points)

	Industry	Construction	Trade	Services	All
Fall 2015	12	1	9	9	9
February 2016	16	6	9	10	11
Early Summer 2016	15	16	12	11	12
Fall 2016	13	5	7	8	9
February 2017	17	11	8	10	11
Early Summer 2017	21	18	13	14	16
Fall 2017	18	8	12	12	14

points). For example, the mechanical engineering companies (22 after 16 points) and electrical engineering companies (28 after 23 points) are more optimistic about the future than in the previous year. And they are not alone – the producers of consumer goods and manufacturers of intermediate goods are also more optimistic about their business than last fall (17 after 13 and 17 after 12 points respectively). The favorable situation in the rest of manufacturing industry and in the construction industry is proving advantageous to the manufacturers of intermediate goods.

Diesel: major worries with respect to driving bans

The discussion about the future of diesel technology, especially the introduction of bans on diesel vehicles in towns and cities with high nitrogen oxide contamination levels, is having an impact far beyond the automotive industry. Some companies cite concerns about the reputation of the German economy as an economic risk. Since a large proportion of commercial vehicles run on diesel, a ban on diesel-powered vehicles would also result in high costs for replacement investments among companies in the affected regions. A changeover to local public transport is not possible for companies if they have to transport goods, materials or tools. Retail companies are also concerned that their turnover will decline if passenger car travel to town and city centers is restricted.

The decline in the value of vehicles with diesel engines is affecting the automotive trade particularly badly. Many car dealerships are already finding it more difficult to sell diesel vehicles due to a significant drop in demand, with the result that they sit on stocks of such vehicles. Were driving bans to be introduced, they would have to carry out significant reductions in their residual values once more. Accordingly, the business expectations of the motor vehicle dealers have declined significantly (two after 12

points in the early summer), while the proportion of those who see economic policy as a risk to their business has increased noticeably (to 42 after 37 percent previously).

Uncertainty in the energy industry

The business expectations of the energy suppliers have slipped back into negative territory (minus six after seven points). The objectives of the energy turnaround continue to pose major structural challenges with respect to energy generation, distribution and trading. At the same time, however, the opportunities and risks are strongly dependent on political decisions. 72 percent – more than in all other sectors of manufacturing industry – see the economic policy framework conditions as a main risk to their business development (early summer: 69 percent). Election campaign topics such as a possible exit from coal production and the future financing of the expansion of renewables and the energy grid are directly affecting the economic viability of companies and therefore creating a feeling of uncertainty in the industry.

Consumer spending all abuzz

Worries about domestic demand have fallen to an all-time low in the retail sector (mentioned by 50 percent after 53 percent in the previous survey), in the hotel and restaurant industry (16 percent after 20 percent) and in the personal service sector (32 percent after 37 percent). The consumers' room for maneuver with respect to consumption continues to grow thanks to the favorable employment situation. Restaurants and cafés are also benefiting from this. Here, only 14 percent are still concerned about domestic demand (last survey: 18 percent). Hotels are also experiencing increased interest in travel within Germany. Here too, only a few consider not enough guests to be a risk to their business (demand risk: 16 after 21 percent). Among the personal service providers, it is

above all the travel agencies which are benefiting (reference to this demand risk: 36 percent after 44 percent).

Service Providers 4.0

The digitalization of business processes is gaining momentum. For example, digital distribution channels are becoming increasingly important. In addition, completely new business models are being created as a result of digitalization. IT service providers (expectation balance: 33 compared to 28 points in the early summer) such as software development companies and system consultancies or administrators are benefiting from this in particular. While concerns about demand continue to fall (44 percent after 48 percent), the shortage of skilled workers represents a growing problem (60 after 58 percent). The mood among the operators of web portals and other information service providers is also improving (42 compared to 33 points).

Export Expectations

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



Export Expectations Cautiously Optimistic

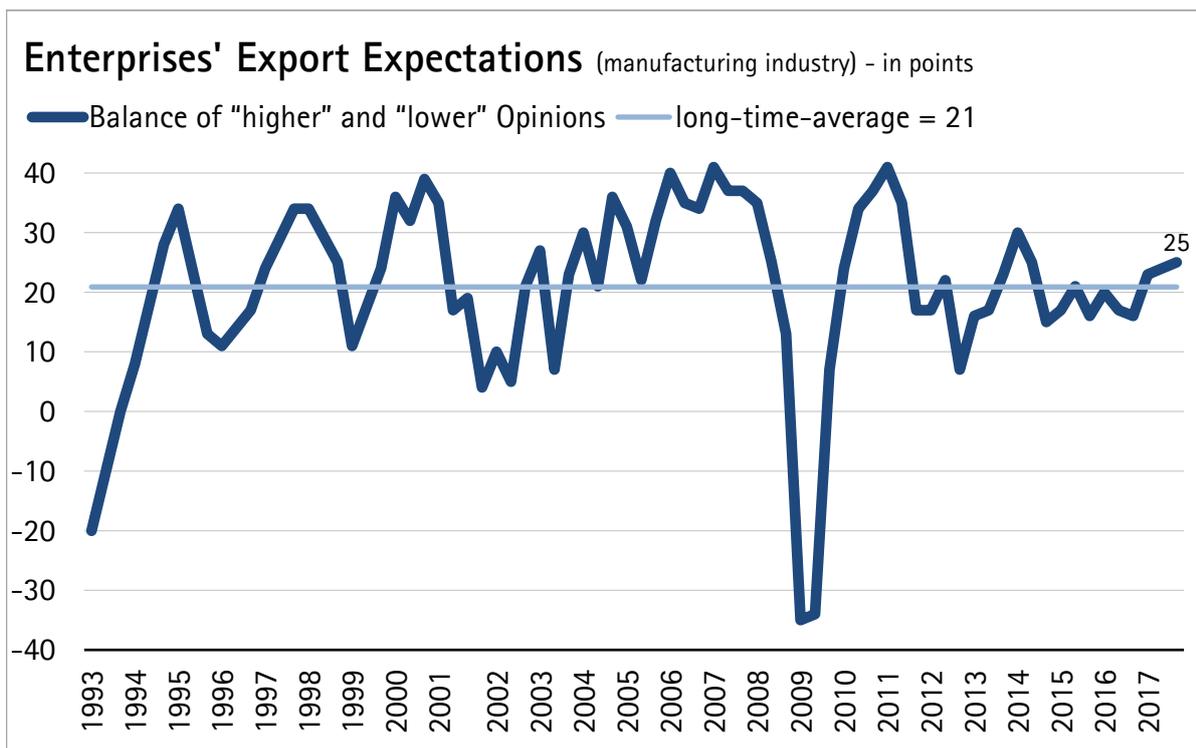
The export expectations again improve only slightly. The many challenges posed by foreign trade are preventing a more pronounced rise in export expectations. These include the still unclear course of the US government, the imminent Brexit, developments in Turkey and increasing trade barriers with important trading partners. Concerns about the development of the exchange rate are also rising again. Even so, the recent increase in the external value of the euro is primarily a sign of further economic recovery in the EU, Germany's most important foreign market. Other sales markets are also developing positively: For example, companies are again doing better business with the BRICS countries – admittedly starting from a low level.

Confidence rising again slightly

Companies are expecting slight improvements to their business with their foreign partners. After a small increase in the early summer this year, the export expectations of manufacturing industry have now risen by one point to 25. As a result, the balance of export expectations consisting of "better" and "worse" reports is above the long-term average (21 points). However, the export expectations remain well below the level of past upturns. This is an indication of the major challenges that German companies see on the international markets.

World economy picking up some momentum...

Global economic growth is currently gaining some momentum – despite all the risks. The economy in all regions of the world is picking up. After a long period of reluctance to invest, a recovery can also be observed here. The pressure to modernize around the globe remains high. Many industrialized countries also report good employment growth, which is supporting private consumption. In some emerging markets, the stabilization of the commodity prices is easing the situation to some extent. Brexit, geopolitical crises such as those in Turkey and increasing protectionist tendencies are therefore



not yet being felt by the international economy – but remain clearly present.

... with world trade joining in

World trade is also picking up again after the weak phase of the last few years. The main reason for this is that the global economy is once again growing more strongly as a result of the impetus it is receiving from investments. Capital goods such as machinery and equipment are significantly more trade-intensive than consumer goods or services, which have accounted for a large share of the growth in recent years. Furthermore, the revival of the economy in the EU is also boosting world trade. These account for a much larger share of global trade than world GDP. Nevertheless, global trade is still facing major challenges. Customs bureaucracy and protectionist tendencies continue to increase.

Fear of slumps in demand decreasing

German exporters currently see significantly fewer risks to their business than in the early summer. Only one third are currently concerned about declines in demand abroad (decline of four points). This is the lowest value since 2011. German exporters are benefiting in particular from the economic recovery in Europe and the increasing investment confidence worldwide. The EU remains by far the most important sales market for local industrial companies (share of total exports: 59 percent). In addition, German

industry is also represented to a disproportionate extent in the segment of capital goods manufacturers. As a result of its broad-based structure, the German export industry is also participating particularly strongly in the globally synchronized upturn.

Acclimatization to risks

The concerns of exporting companies about the economic policy framework conditions continue on a high level, but have eased to some extent in comparison with the early summer (references to this as a risk down from 35 after 41 percent previously). The risks continue to smolder, but have in some cases lost some of their urgency:

- The **US government's** protectionist announcements have hardly been implemented so far, but are on the way. The renegotiations on NAFTA have already started, with talks with South Korea also having been announced. The impact of the measures is still limited. However, the great importance of the USA to the global economy alone means that local developments remain virulent.
- The course of the **Brexit negotiations** is being accompanied by a great feeling of uncertainty for companies. It is becoming increasingly apparent not only how complex the matter is, but also how tight the timeframe for the negotiations is.
- The concerns about the **cohesion of the EU and therefore the internal market** currently appear to be somewhat less acute than in the spring. The outcome of the election in France

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

	higher	about equal	lower	balance
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
Fall 2017	34	57	9	25

is the main contributory factor to this. The hopes for policies which are clearly pro-European are associated with the new government. In contrast, however, the risks to monetary union have scarcely diminished. The instabilities in Italy and Greece continue to be seen by many companies as risk factors.

At the same time there appears to be a certain degree of acclimatization to the political crises among companies. In view of the many challenges of the last few years, companies are comparatively optimistic that they will be able to overcome current crisis situations.

Exchange rate worries

The risk assessment of the development of the exchange rate has increased noticeably (by three points). 18 percent of exporters see this as a risk to their business development in the next few months. The favorable exchange rate of recent years has increased the price competitiveness of German export products abroad. Disadvantages due to higher labor or electricity costs have been mitigated in this way. This effect is easing due to the strong appreciation of the euro against the dollar in recent months. Manufacturers of price-sensitive products in particular, such as consumer goods producers, the chemical industry and producers of automotive parts, are therefore concerned about the increased external value of the euro.

Energy prices remain a competitive disadvantage

The export-oriented companies assess the risk of price developments for energy and raw materials to be particularly high. In addition, almost half of companies still see this as a threat to their business development (47 percent compared to 48 percent in the previous survey). In the economy as a whole this value is 30 percent. Due to the pronounced international competition in manufacturing industry, price disadvantages are particularly important here. Foreign competitors are being spared the additional domestic charges resulting from electricity costs. These therefore represent not only a burden on companies, but at the same time also a considerable locational disadvantage.

Capital goods manufacturers slightly ahead of the game...

The export expectations of manufacturing industry in the three main groups are not far apart. The capital goods manufacturers continue to be the most positive. As in the early summer, the balance in the export expectations is 28 points. After the global economy had mainly been supported by consumption in recent times, there are now increasing signs that global investments are also increasing and that the upturn is being placed on a broader footing. Traditional export industries in particular are gaining in confidence here. The expectations with respect to exports have improved consid-

Enterprises' Export Expectations (balance in points)

	Intermediate goods-producers	capital goods producers	Industrial and consumer goods producers	Industry
Fall 2015	14	17	21	16
February 2016	19	21	24	20
Early Summer 2016	15	18	23	17
Fall 2016	13	18	19	16
February 2017	21	26	24	23
Early Summer 2017	22	28	21	24
Fall 2017	24	28	25	25

erably among electrical engineering and mechanical engineering companies (by four to 36 and two to 29 points respectively).

.... but consumer goods producers and manufacturers of intermediate goods catching up

Although the other main industrial groups are not quite as optimistic as the capital goods manufacturers, they are nevertheless catching up. The balance among the producers of durable and non-durable consumer goods has increased significantly (by four to 25 points).

Manufacturers of intermediate goods have improved their assessments again slightly in comparison with the previous survey (by two to 24 points). The industrial economy in Europe is picking up speed. This is leading to an increase in demand from manufacturers of intermediate goods.

Medium-sized companies more confident

The larger medium-sized companies in particular are more confident about their foreign trade business. The balance has improved among companies with 200-500 employees by four points to 37. Compared to the previous year, the balance has even increased by as much as a full 16 points. Many medium-sized enterprises in Germany are world market leaders with their products. These hidden champions are benefiting in particular from the strong global industrial economy. In the case of companies with more than 1,000 employees, the value remains constant at 34 points, which is well above the average. Smaller companies with fewer than 20 employees, on the other hand, are cutting back. The balance has dropped from twelve points to nine.

Exports as a driving force for investments and employment

The slight increase in the confidence of industrial companies with respect to foreign trade is also reflected in their investment and employment plans within Germany. Both in terms of investments (balance of 25 points vs. 22 points) and employment (balance of 20 points vs. five points), the plans of foreign trade-oriented manufacturing industry are much more positive than those of companies that limit their business to Germany only. Companies which are expecting rising exports are even more active (investment intentions: 39 points, employment balance: 42 points).

Service providers also more confident

The better export expectations of the service providers also suggest that the international economy – and therefore exports – will pick up to an increasing extent across-the-board. The balance has risen by three points to 15.

View of the World Regions

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

Stable growth worldwide

The global economy continues to develop positively overall. Despite numerous crises and increasingly hostile rhetoric in many countries, growth in all regions of the world is robust.

EU internal market in the ascendant

The euro zone is currently growing dynamically. The reform efforts of the past few years are bearing fruit. Employment and investment confidence are increasing. In addition, the euro countries are benefiting from the revival of world trade. Spain is recovering rapidly. In addition to national consumption, it is above all the export business which is growing. Investments in plant and buildings are also increasing. However, the domestic political turbulence resulting from Catalonia's independence aspirations is leading to uncertainty among many companies.

Although growth in Italy is still below the European average, it has nevertheless picked up significantly. Manufacturing industry is gaining strength. Even so, unemployment is only slowly declining. Other structural problems such as the high level of indebtedness and the risks in the banking sector also remain. It therefore appears to be important that Italy should be able to form a viable government after bringing forward the parliamentary elections. The economic upturn in France is gaining momentum. French exports are reviving and unemployment gradually declining.

Through the reforms it has adopted, the government in Greece has achieved the suspension of the deficit proceedings against the country and continues to hope for debt relief. The Greek economy is growing considerably again this

year for the first time in ten years. Further recovery is expected next year. However, the crisis is still being clearly felt among companies. Urgently needed investments are only being made slowly.

Brexit a source of concern for companies

Growth in the United Kingdom continues to slow down. In the second quarter, production in the construction and manufacturing industry even fell. The pound has lost a significant share of its value in the aftermath of the Brexit vote. On the one hand this is supporting British exports. However, inflation is depressing real household incomes and thereby acting as a brake on consumption. The uncertainty about future economic and trade relations is also resulting in reluctance on the part of companies to invest.

Turkey and Russia with question marks

The Turkish economy continues to grow thanks to the government's expansionary financial and credit policy, although the business of German companies is suffering due to the difficult political situation. The imponderables and risks are deterring internationally active companies – especially SMEs. The export shares of the EU and Germany in particular have fallen sharply recently.

The Russian economy has picked up momentum again in 2017 thanks to the stabilization of oil prices and improved financing conditions. However, the lack of structural reforms in the Russian economy and worldwide sanctions continue to create a feeling of uncertainty among companies.

Asia growing dynamically

Due to the high level of their exports, many Asian economies are benefiting greatly from the revival in world trade and the high demand for imports from China. Growth in South Korea is also accelerating slightly. The deterioration in the North Korean crisis has not yet had any impact on this. Even greater dynamism is being prevented by the weak domestic demand and rising youth unemployment. At least the political crises of recent years have been brought to an end by the election of Moon Jae-in as President and a new economic policy announced.

Vietnam will continue to grow strongly in 2017, with rates above six percent. The country's increasing integration into the international economy is leading to a strong increase in exports. Developments in the Philippines are showing similar levels of dynamism. The services sector remains the most important engine of economic growth, supported by increasing industrial production and infrastructure investments.

For Japan, the positive growth rates of over one percent are a clear success. Consumption and investment have risen, and exports have also developed into a driver of growth. However, Japan's economic development over the next few years will be strongly affected by the increasing shortage of manpower resulting from demographic change.

Supported growth in China

In China, the government wants to strengthen domestic consumption over the long term, thereby making the country less dependent on the world market. The Chinese economy will continue to grow by the target level of seven percent in 2017 thanks to government support. However, the major challenges associated with demographic change, the social and environmental conditions and the reduction of overca-

capacity in manufacturing industry remain. Furthermore, public debt is rising at the various levels of government.

In India too, the government's major investment programs are currently an important driver of the economy. In the long term, a further increase in growth rates can even be expected as a consequence of important structural reforms.

Future of NAFTA uncertain

The US economy will undergo relatively stable developments in 2017, with growth of around two percent. After the brief downturn at the beginning of the year, further growth in consumption is expected. Investments are also gaining in strength. In contrast however, the expectation of short-term injections into the economy due to tax cuts and deregulation have not been fulfilled. The change of course that has been implemented in foreign trade policy continues to be a source of concern for companies. Concrete protectionist measures have so far largely failed to materialize, although they are still on the table and are currently being used primarily as a threat. The Mexican economy, which is heavily dependent on the NAFTA trade agreement with Canada and – above all – the USA, is also affected by this. Currently, Mexico is having to cope with the consequences of two major earthquakes in September.

Brazil slowing down South America

In Brazil, the economy grew again for the first time in the first quarter of 2017, after gross domestic product had shrunk in the previous eight quarters. A major contribution towards this improvement was the stronger exports and a recovery in domestic consumption. However, the political instability continues to jeopardize the emerging recovery of the Brazilian economy. President Temer is under heavy pressure due to allegations of corruption. Above all, foreign

companies are holding back with their investments in Brazil.

In Argentina, the economy is slowly picking up speed. Economic growth of two and a half percent is expected in 2017, and is expected to continue in the following year. Increasing real wages are supporting private consumption. Investments are recovering, while exports are benefiting from the strong foreign demand.

The situation in Colombia remains difficult. In addition to the relatively low world market price for oil, inflation is high at around six percent. The "peace dividend" from the FARC conflict has not yet taken effect. Higher infrastructure spending and investment-friendly tax reforms are giving rise to hopes of gradually increasing growth rates.

Crises overshadowing African development

South Africa is still in the middle of an economic crisis. The economic growth target for 2017 of one percent is likely to be missed. Unemployment has reached a new record level of 28 percent. Domestic policy corruption scandals and the lack of important economic policy reforms are worsening the economic situation. In spite of higher prices for important export commodities and an increase in agricultural production, economic growth remains subdued as a result. In contrast, Kenya's economy is growing significantly. Growth is being accompanied by a strong increase in the size of the population in recent years and increasing government investments in infrastructure projects. The country is currently suffering from political uncertainty as a consequence of the repeat of the presidential elections, which is deterring foreign investors.

Investment Intentions

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



Investments as the Driving Force again

The investment intentions of the German economy are improving once again – and thereby reaching record levels. The main driver of the upturn in investment is the manufacturing industry. However, companies are also planning to increase their investment budgets across the economy as a whole. With regard to the investment motives, expansions and rationalizations are gaining in importance across all industries. Digitalization and changing consumer behavior are leading to capacity expansion in the sectors involved. The greatest limiting factor – especially for companies with expansionary investment plans – remains the availability of qualified personnel.

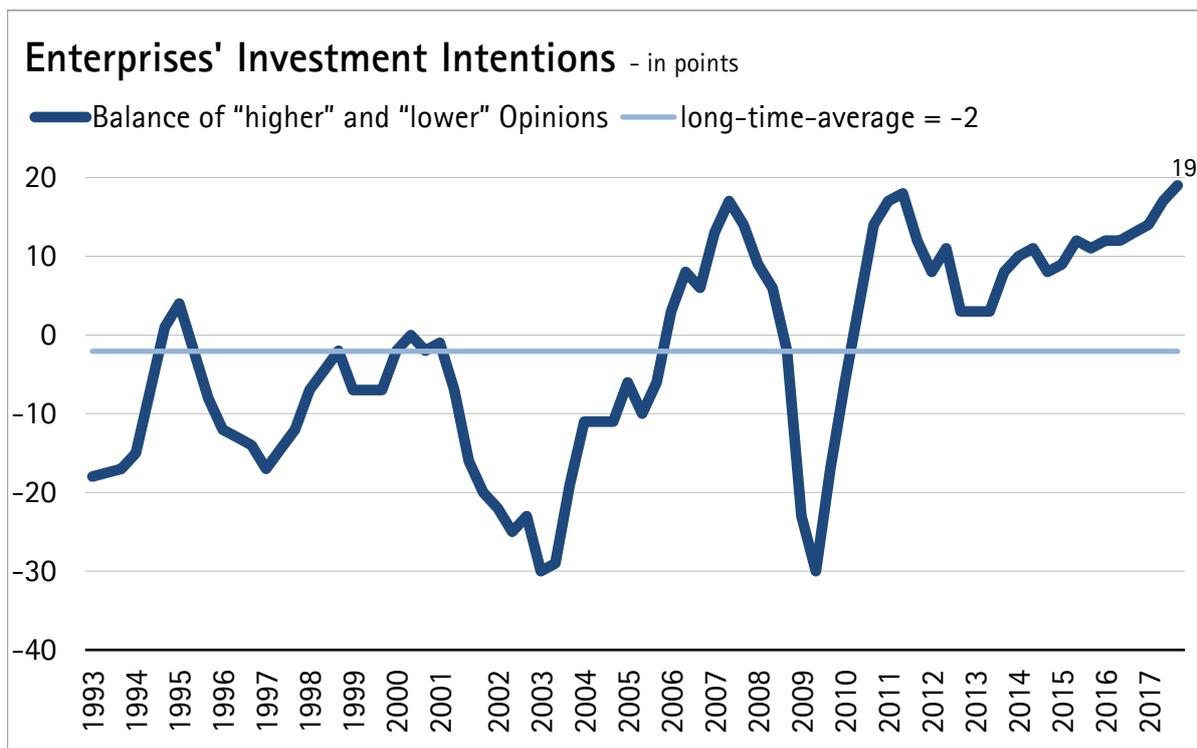
Investments the driver of the economy once more

Approximately one third of all companies want to expand their investments in Germany over the next few months. At the same time, only 13 percent of businesses are planning to reduce their investment budgets. The resulting balance of 19 points from higher and lower investment plans is two points higher than in the early summer. As a consequence, the investment intentions have reached record levels in the fall of 2017. After the economy has mainly been supported by consumer spending over the last few years, exports and investments are now also

contributing to the upswing. The figures underline the confidence that companies have in the continuing economic recovery.

Expansive plans across almost all industries

The investment intentions are increasing significantly in almost all sectors of the economy. The main impetus is coming above all from manufacturing industry and the services sector (an increase in the investment balance of three points in each case to 24 and 19 respectively). In the services sector, the investment plans have even reached a new record level. The trade sector also intends to increase its investments to a small extent (14 compared to 13 points previously). The balance is only slightly below



the record level from 2011 (15 points). The investment intentions in the construction sector have declined in line with the usual seasonal trend (eleven compared to 14 points). However, there has been a significant increase compared to the previous year's figure (plus six points compared to the fall of 2016).

Companies on course for expansion

Significantly more companies want to invest in capacity expansions (referred to by 32 percent as an investment motive, early summer: 30 percent). The last time the expansion of capacities played an even greater role was in 2007. Manufacturing industry and construction in particular are currently striving to meet the high demand by means of expansions (39 percent after 36 percent and 27 percent after 25 percent respectively). Many companies have been reporting a good business situation and full order books for a long time now. Capacity expansions by means of new machines, building extensions or modern IT systems are therefore becoming increasingly more attractive. Indeed, in the companies with expansive investment budgets, capacity expansions have even taken over from replacement as the dominant investment motive (53 percent).

Companies are also considering product innovations as becoming more and more important (33 percent after 32 percent). The slight increase in the importance of rationalization investments (32 after 31 percent) is being driven above all by the construction industry (26 after 23 percent). In view of the exceptionally high

level of capacity utilization and increasing problems in recruiting personnel (shortage of skilled workers: a risk for 77 percent of companies, after 74 percent in the fall), the most efficient use possible of resources is currently of particular importance for the construction industry. The importance of environmental protection continues to grow slowly but surely, and has once again reached record levels (referred to by 15 percent). In contrast, replacement is becoming less important, but remains by far the most important investment motive (64 after 66 percent).

Greatest braking factor: shortage of skilled workers

The shortage of skilled workers remains the number one risk among companies which are willing to invest. Almost two-thirds consider themselves to be affected (64 percent, compared to 55 percent in the fall of 2016). On the one hand, this reflects the problems of recruiting additional employees for company expansion. Investments in product innovations can also lead to considerable difficulties when new qualifications become necessary. In the worst-case scenario, planned investments in new technologies or company expansions are not implemented from the outset because the personnel required for this are not available. The risk of rising labor costs remains a driver of rationalization investments, but is increasingly also playing an important role in the other investment motives.

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

	higher	about equal	lower	balance
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
Fall 2017	32	55	13	19

Manufacturing industry significantly expanding its budgets

Manufacturing industry is planning to increase its investment budgets substantially once again (balance: 24 after 21 points previously). As a result, it continues to be much more expansive than the rest of the economy. Due to its strong orientation on exports, manufacturing industry is benefiting not only from the positive situation here in Germany, but also from the revival of the global economy. The demand for goods which are "Made in Germany" continues to increase. Accordingly, capacity expansions are playing a greater role (referred to as an investment motive by 39 percent after 36 percent previously).

The manufacturers of capital goods are expanding their budgets to a particularly high degree (balance increase by five to 25 points). The investment intentions of this sector have now increased for the third time in succession (previous year's figure: nine points), with capacity expansions becoming increasingly important as a motive for investments (proportion of references: 41 after 35 percent last time; 31 percent in the previous year). This points to the prospects of a further increase in the demand for machinery, plant and other capital goods – also against the background of the enormous changes resulting from technological changes – with the keyword being Industry 4.0.

The investment budgets of the manufacturers of consumer goods have increased slightly compared to the early summer, thereby reaching a

new record level (balance: 22 after 20 points). Good employment levels and rising wages are ensuring increased room for maneuver with respect to consumption in many important sales markets.

Construction industry continuing to expand

The investment intentions in the construction industry are greater than ever before in a survey conducted in the fall. There is, however, the usual seasonal decline compared to the early summer (eleven compared to 14 points previously). In the fall, the uncertain weather situation makes the procurement of machines and tools less attractive.

Nevertheless, the balance is six points higher than the level of the previous year. The very good situation in all construction sectors is inducing companies to want to invest more in capacity expansion (27 percent). This applies above all to the civil engineering sector (29 percent) and the finishing industry (28 percent). Companies are apparently expecting demand to continue to rise. At the same time, the rationalization motive is gaining in importance. Companies are attempting to counteract the scarcity of materials and personnel with the help of investments that increase productivity.

Retail trade with investment record

The investment intentions of the retail trade sector have increased moderately (balance improvement from 13 to 14 points). This development is being supported by the retail trade,

Enterprises' Investment Intentions (balance in points)

	Industry	Construction	Trade	Services	All
Fall 2015	11	0	9	13	11
February 2016	12	4	10	13	12
Early Summer 2016	13	8	9	13	12
Fall 2016	12	5	10	14	13
February 2017	14	9	10	16	14
Early Summer 2017	21	14	13	16	17
Fall 2017	24	11	14	19	19

where the balance has reached a record level (eleven compared to seven points). Investments in expansion are playing a greater role here (27 after 25 percent). In the bricks and mortar retail sector, the competition from online trading is also likely to be stimulating increased investments.

Services at record levels

The service providers want to increase their expenditure for IT equipment, buildings, vehicles and other investments more than ever before (increase by three to 19 points). The balance among the IT service providers continues to be only slightly below the historical record levels (24 points; record: 25 points). Companies in the programming industry are even increasing their budgets to a significant extent (38 compared to 32 points). Product innovations are playing a growing role within this context (share of investment motive: 67 percent after 54 percent). In these industries the hardware is having to be adapted to rapidly increasing data volumes and implementations of complex applications in robotics, artificial intelligence and other fields. The operators of web portals and other information service providers are also planning to increase their growth once again (increase by 16 to 26 points). Digitalization, big data and Industry 4.0 are increasingly becoming apparent as megatrends here. Companies operating in the cutting-edge technologies of the pharmaceutical and electronic industries are also investing more heavily, with the simultaneous objectives of expansion and modernization (increase by 28 to 55 points and by 10 to 28 points respectively).

High demand for services driving investments

The good economic situation, high employment levels and stable consumer confidence are now also being reflected in the investment intentions of the personal service providers. Companies operating in the "Art, Entertainment and

Recreation" sector (27 after 19 points previously, which is therefore a new record level) and personal service providers such as laundries, solariums or saunas (22 after 13 points previously) are proving to be particularly expansionary with their investments. The investment offensive also applies to the providers of health and social services, which are also planning to expand their budgets (33 compared to 21 points). The demand for services in this area is being stimulated by demographic change and increases in public spending.

Adjustment investments in the financial sector

Financial and insurance service providers are again planning to invest slightly more (balance increase by four to eleven points). The challenges faced by the industry are great. The continuing low interest rate policy, the increasingly complex regulations and their implementation, as well as the need for adjustments resulting from digitalization, are generating an increasing need for investments in the banking industry (balance increase from two to ten points). Overall, investments in replacements and rationalization therefore continue to dominate the banking industry (68 after 74 percent and 58 after 52 percent respectively), while expansions are almost completely insignificant (seven after six percent).

Employment Intentions

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



Workforce Expansion Continuing

Companies in Germany want to further increase employment levels. With the renewed improvement in their employment balance, companies are more willing to hire new employees than they have been over the last six years – and this despite the fact that employment has already increased significantly in recent years. Almost all sectors of the economy are planning to expand. At the same time, the shortage of skilled workers has increased significantly in the risk assessment of companies. It represents a limitation to the increase in employment in Germany. Labor costs are now the second largest business risk – four out of ten companies see these as a threat to their economic development.

Employment levels increase again

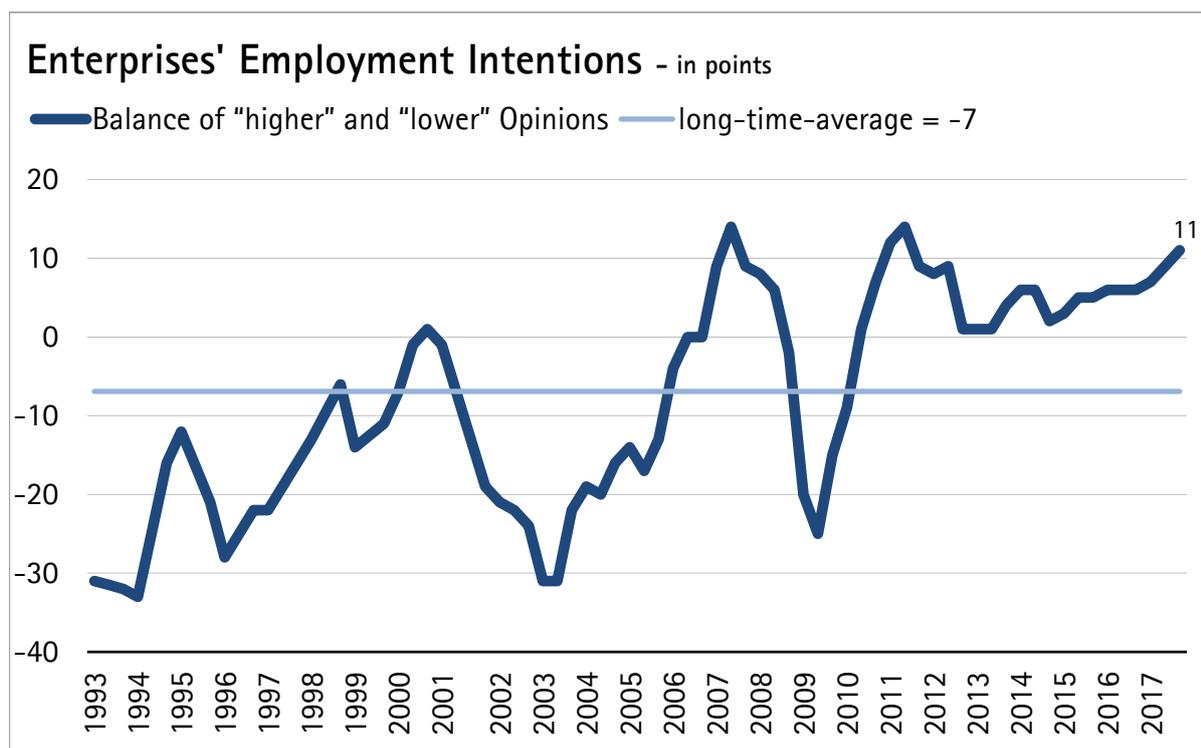
The companies in Germany intend to continue expanding their personnel levels and create new jobs. At 22 percent, the proportion of employees who are planning to increase their workforce in the coming months is set to reach its highest level since the early summer of 2011. 67 percent expect the number of employees to remain the same, while eleven percent are planning to continue with fewer employees. The resulting balance of eleven points has increased once more by two points compared to the previous survey. With the exception of construction, all sectors of the economy have plans for expansion. Construction companies have traditionally been more cautious in the fall when planning

their employment levels. However, the balance here has also improved significantly compared to the previous year's figure (increase of five points).

In eastern Germany, the staffing plans of the companies have reached their highest level (balance: eleven points). This indicates a further positive development in the labor market, which is increasingly becoming more and more like the other regions.

Shortage of skilled workers as business risk number 1

The lack of manpower is increasingly imposing restrictions on companies' efforts to increase



their personnel levels. From the point of view of companies, the shortage of skilled workers as a business risk has increased once again significantly in the fall (by five percentage points). In the meantime, well over one in two companies (56 percent) consider themselves to be affected by this. The shortage of skilled workers is therefore by far the greatest concern of companies. Businesses which are expanding and want to expand their workforce in particular fear the shortage of skilled workers (73 after 69 percent in the previous survey). Many companies are already attempting to secure skilled workers today independently of the economic situation in order to be well positioned for the future.

The construction industry is particularly concerned about securing skilled employees (77 percent). The sustained upturn in the construction sector is being reflected in the high demand for employees. Among the service providers, 57 percent of companies see their business activities placed in jeopardy as a consequence of the lack of skilled workers. The list is headed – among others – by health and social service providers (80 percent), the security industry (79 percent), the hotel and restaurant industry (74 percent) and transport service providers (73 percent). In these sectors, skilled employees with a professional qualification are particularly scarce – the competition for personnel with other sectors is becoming increasingly noticeable.

Risk number 2: labor costs

Labor costs have now become the second largest business risk for companies. These are referred to by 40 percent of businesses (39 percent in the early summer). This is not surprising in view of the shortage of skilled workers. Many companies are offering better conditions in order to recruit and retain suitable personnel. The increase in costs represents a burden for times of declining demand. The construction industry in particular is afraid of high labor costs (45 percent), which also represent a well-above-average business risk to industries that require high levels of personnel, such as the hotel and restaurant industry (60 percent), cleaning services (60 percent), building supervision, horticulture and landscaping (58 percent).

Large companies employing more people again

In recent years, the willingness of small and medium-sized enterprises to recruit new employees has always been significantly higher than among large corporations. This fall, SMEs (up to 500 employees) are also expanding their plans for staffing levels once again (balance increase from ten to eleven points). However, companies with more than 1,000 employees are increasing their plans to an even greater extent than in the previous survey (balance increase by seven to the current level of six points). The employment balance in this size category is therefore clearly above its long-term average

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

	higher	about equal	lower	balance
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
Fall 2017	22	67	11	11

(minus ten points) and sending out a strong signal for an increase in employment levels. Large corporations are finding it slightly less difficult to recruit skilled workers. Nevertheless, this risk is referred to by 47 percent of them (after 41 percent in the last survey). As a rule they have a structured personnel management system and are often considered by employees to be attractive employers, thereby making it easier to recruit them. Medium-sized companies with 20 to 200 employees, on the other hand, are the ones which are most affected by bottlenecks and fear a further deterioration in the situation surrounding skilled employees (increase from 60 to 65 percent).

Large increase in employment in manufacturing industry

The employment plans of manufacturing industry have increased significantly once again. The balance is approaching the record levels of the early summer of 2011 (balance increase by four to 16 points; record level: 18 points). This indicates that in the comparison of the branches of the economy, manufacturing industry has the highest employment intentions and the largest increase compared to the previous survey. Industrial production has risen sharply, with concerns about domestic and foreign demand diminishing. Many companies want to expand their capacities and therefore require more personnel. The employment intentions among the capital goods producers have increased significantly (balance increase by five to 20 points, compared to the fall of 2016 by 15 points).

Many companies in this segment have high capacity utilization levels and are therefore planning to expand their operations.

Slightly less dynamism in the construction industry

The construction industry is displaying the usual pattern of a slight decline in its personnel plans at the end of the year (decline in the balance by three to ten points). Nevertheless, these plans are still clearly expansionary. The employment balance has never even been so high during the fall, which indicates that employment will continue to grow in the future. Construction companies are benefiting from the high demand, but are increasingly aware of bottlenecks with regard to labor supply. The companies operating in the civil engineering sector (84 percent after 81 percent previously) and in the finishing industry (80 percent after 77 percent) are particularly concerned about securing skilled workers.

Service providers with stable recruitment intentions

The service providers have increased their recruitment intentions slightly once again (balance of nine compared to eight points previously). The plans in the sector of the economy with the highest number of employees in Germany are therefore continuing to display a clear upward trend. For example, companies in the transport and warehousing sector (nine after seven points) or architectural and engineering firms (27 after 23 points) are planning to expand to a greater extent once more.

Enterprises' Employment Intentions (balance in points)

	Industry	Construction	Trade	Services	All
Fall 2015	2	1	3	7	5
February 2016	4	4	4	7	6
Early Summer 2016	4	9	5	8	6
Fall 2016	5	5	5	6	6
February 2017	7	9	6	7	7
Early Summer 2017	12	13	7	8	9
Fall 2017	16	10	9	9	11

Healthcare and social service providers are still aiming to recruit new employees at a high level (balance: 20 points as before). Against the background of demographic change and increasing health awareness, the demand for personnel in this area continues to grow. It has almost become a tradition for this to be accompanied by a high risk assessment in view of the skilled labor situation, which now affects eight out of ten companies (80 percent).

The hotel and restaurant industry has fewer plans to increase its staffing levels (one point after five points previously). This applies both to hotels and other accommodation establishments (one point after six points previously) and to the catering sector (one point after three points). Three-quarters of all companies operating in the hospitality industry are concerned about securing skilled employees. The declining momentum in the expansion of employment is therefore due not only to seasonal effects, but also to difficulties in recruiting and retaining personnel.

Digitalization reaches the field of personnel planning

The advancing digitalization is having an impact on the employment plans of the IT service providers (37 compared to 34 points). Businesses operating in the field of programming in particular (balance increase by ten to 45 points) want to further expand their staffing levels. Information service providers, such as the operators of web portals, are also benefiting from this development (balance increase by eight to 36 points). In manufacturing industry as well, the rising demand for data processing equipment, electrical and optical products (balance increase by five to 30 points) is ensuring that the sector is right at the top of the list in Germany with expansionary recruitment plans which are well above average. The trend towards "Economy 4.0" with networked, IT-based processes is being adopted by more and more

businesses and increasing the demand for skilled employees.

Digitalization is also being reflected in the recruitment intentions of the postal, courier and express services. These are scaling up their plans to a significantly high degree, reaching their highest level so far (balance increase of 16 to 41 points). These service providers are benefiting above all from the flourishing Internet trade.

At the other end of the scale of the recruitment intentions are the financial and insurance service providers, among others. Although there is stabilization of the plans at a very low level here (balance increase of two to minus 31 points), the indications are still that there will be staff reductions. The adjustment process that has already been introduced is being continued. The banking industry (balance minus 55 points) continues to hover only marginally above its historic record low. Here, digitalization and the closure of branches are currently having a negative impact on employment. Complex regulations are also leading to consolidation in this sector. The economic policy framework conditions are therefore the greatest business risk by far for the financial and insurance service providers (71 percent).

Positive buying mood strengthening the retail sector

In the retail sector, the willingness to recruit new employees is again showing a slight increase (balance increase by two to nine points). Retailers want to expand their headcounts overall, and this is where the plans reach their highest level (balance increase by two to five points). The buying mood of consumers is resulting in increased employment levels. The turnover on the Internet and in the mail order business in particular has recently risen sharply, so that digitalization is having a positive effect on the employment plans there as well.

IHK-Economic-Surveys

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



Questionnaire Fall 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 "**Using momentum, releasing the investment brakes**" evaluation, the Association of German Chambers of Commerce and Industry (GCCl) 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 GCCl results is surveys of companies conducted by a total of 79 CCIs. In fall of 2017 the CCIs evaluated round **27,000 responses**. The regional evaluations of the CCIs can also be retrieved on the Internet at www.dihk.de/konjunktur. The breakdown of the company assessments according to **regions** is also a special feature of the GCCl survey. Here the North is made up of the federal states of Bremen, Hamburg, Lower Saxony and Schleswig-Holstein, the West of the federal states of Hesse, North Rhine-Westphalia, the Rhineland Palatinate and the Saarland, the East of Berlin, Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt and Thuringia and the South of the federal states of Baden-Württemberg and Bavaria.

According to **sectors** the replies come from manufacturing industry (27 percent), the construction industry (seven percent), the trade sector (22 percent) and service providers (44 percent). The classification of the industrial sectors in the GCCl 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.

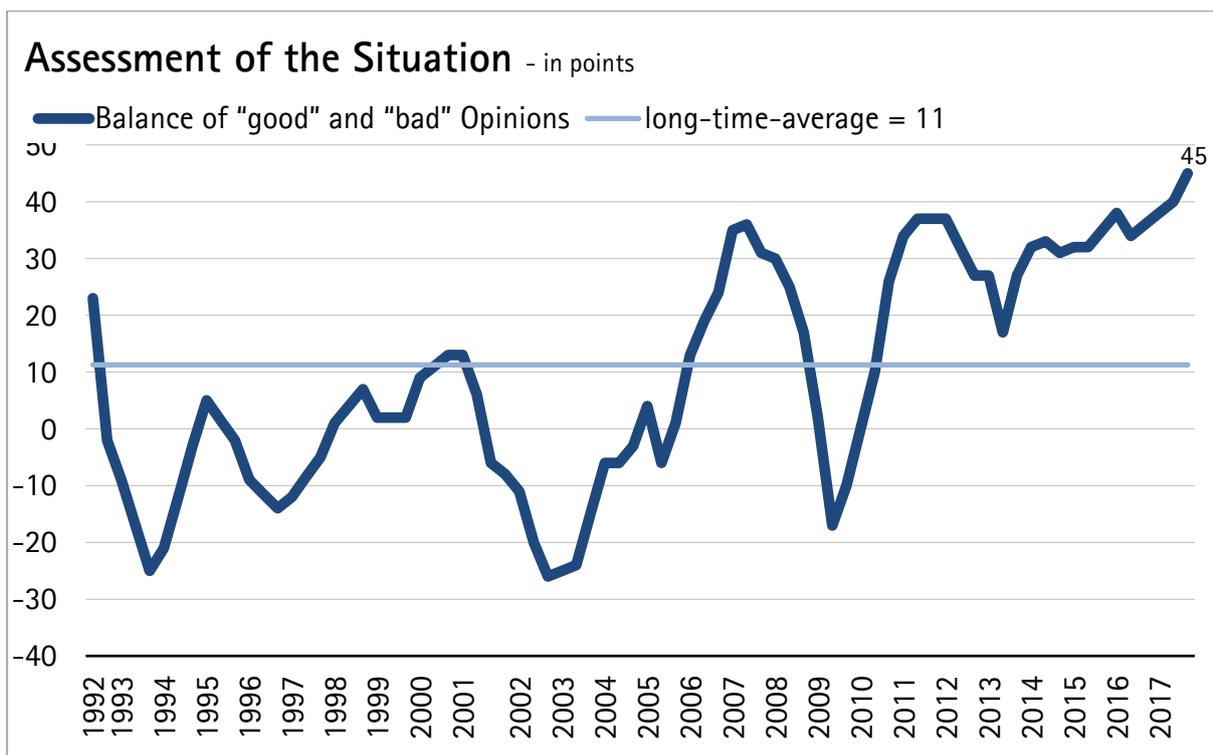
The CCIs carry out their random sample in such a way that a representative snapshot of the current situation of local commercial companies is provided (random sample stratified according to sectors, regions and company sizes). The aggregation at the federal level is carried out by means of a regional 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 august 2017 to the begin of october 2017**.

DIHK-Surveys - time series

Assessment of the Situation (in percent; balance in points)												
	Germany total				Economic sectors				Company size classes			
	good	satisfactory	bad	balance germany	balance industry	balance construction	balance trade	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
Fall 2011	46	45	9	37	43	39	29	36	27	34	45	48
February 2012	46	45	9	37	41	32	30	38	29	36	46	42
Early Summer 2012	42	48	10	32	36	33	28	32	25	30	41	37
Fall 2012	38	51	11	27	25	37	16	32	23	27	29	29
February 2013	38	51	11	27	22	29	19	31	24	26	28	29
Early Summer 2013	32	53	15	17	15	21	3	22	14	16	20	20
Fall 2013	38	51	11	27	23	43	15	30	24	26	30	25
February 2014	41	50	9	32	31	41	22	35	27	31	35	37
Early Summer 2014	42	49	9	33	35	37	27	34	26	32	40	43
Fall 2014	40	51	9	31	28	39	18	35	26	29	34	38
February 2015	41	50	9	32	30	34	18	37	26	31	37	37
Early Summer 2015	41	50	9	32	32	35	23	34	25	30	37	42
Fall 2015	44	47	9	35	30	43	24	40	31	35	37	36
February 2016	46	46	8	38	34	41	28	42	33	37	40	44
Early Summer 2016	43	48	9	34	31	41	27	37	29	33	40	38
Fall 2016	44	48	8	36	32	54	26	39	33	36	36	41
February 2017	46	46	8	38	36	52	28	40	33	37	41	43
Early Summer 2017	48	44	8	40	44	56	28	39	32	38	48	47
Fall 2017	51	43	6	45	48	64	31	45	39	49	51	48

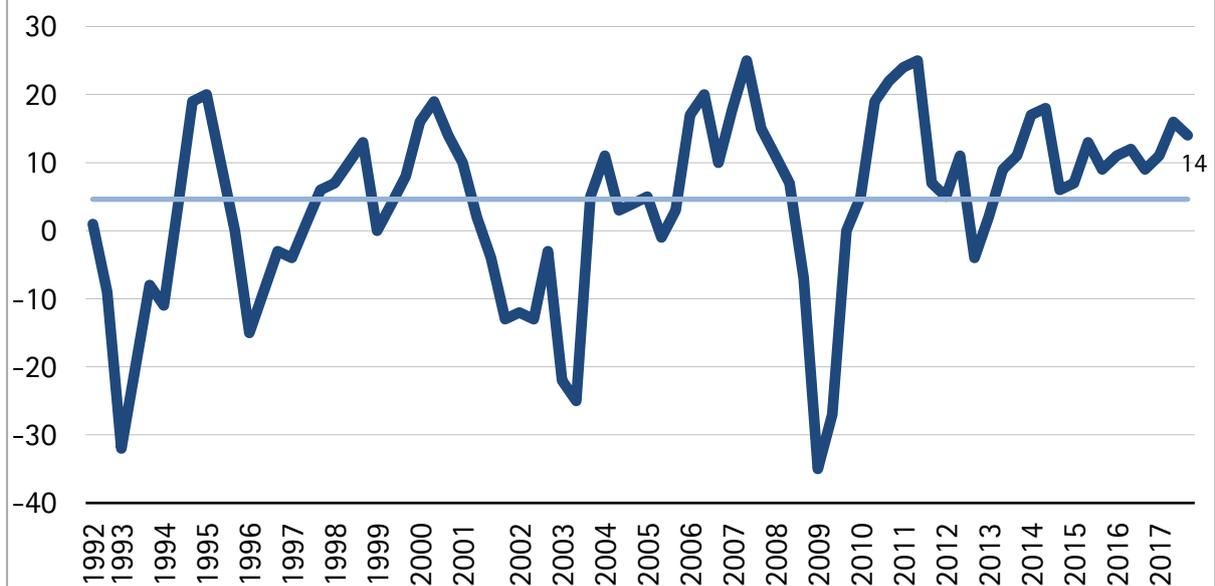


Enterprises' Business Expectations (in percent; balance in points)

	Germany total				Economic sectors				Company size classes			
	better	about equal	worse	balance germany	balance industry	balance construction	balance trade	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
Fall 2011	23	61	16	7	5	-6	5	11	8	7	6	5
February 2012	22	61	17	5	4	-8	1	7	5	4	5	5
Early Summer 2012	25	61	14	11	12	8	9	12	8	13	14	14
Fall 2012	18	60	22	-4	-9	-10	-5	0	-1	-5	-8	-5
February 2013	20	62	18	2	2	-5	-1	3	3	3	0	-1
Early Summer 2013	25	59	16	9	10	11	5	9	6	11	9	10
Fall 2013	24	63	13	11	14	1	9	11	7	12	16	18
February 2014	28	61	11	17	24	7	15	16	13	20	23	22
Early Summer 2014	29	60	11	18	22	13	18	16	12	21	22	24
Fall 2014	21	64	15	6	7	-2	3	7	4	8	7	9
February 2015	22	63	15	7	11	-1	4	7	5	9	9	10
Early Summer 2015	26	61	13	13	17	13	11	12	10	17	13	17
Fall 2015	23	63	14	9	12	1	9	9	6	12	9	11
February 2016	24	63	13	11	16	6	9	10	8	14	11	10
Early Summer 2016	25	62	13	12	15	16	12	11	10	15	12	14
Fall 2016	22	65	13	9	13	5	7	8	7	12	6	11
February 2017	24	63	13	11	17	11	8	10	9	14	12	13
Early Summer 2017	27	62	11	16	21	18	13	14	14	20	15	14
Fall 2017	25	64	11	14	18	8	12	12	10	17	17	12

Enterprises' Business Expectations - in points

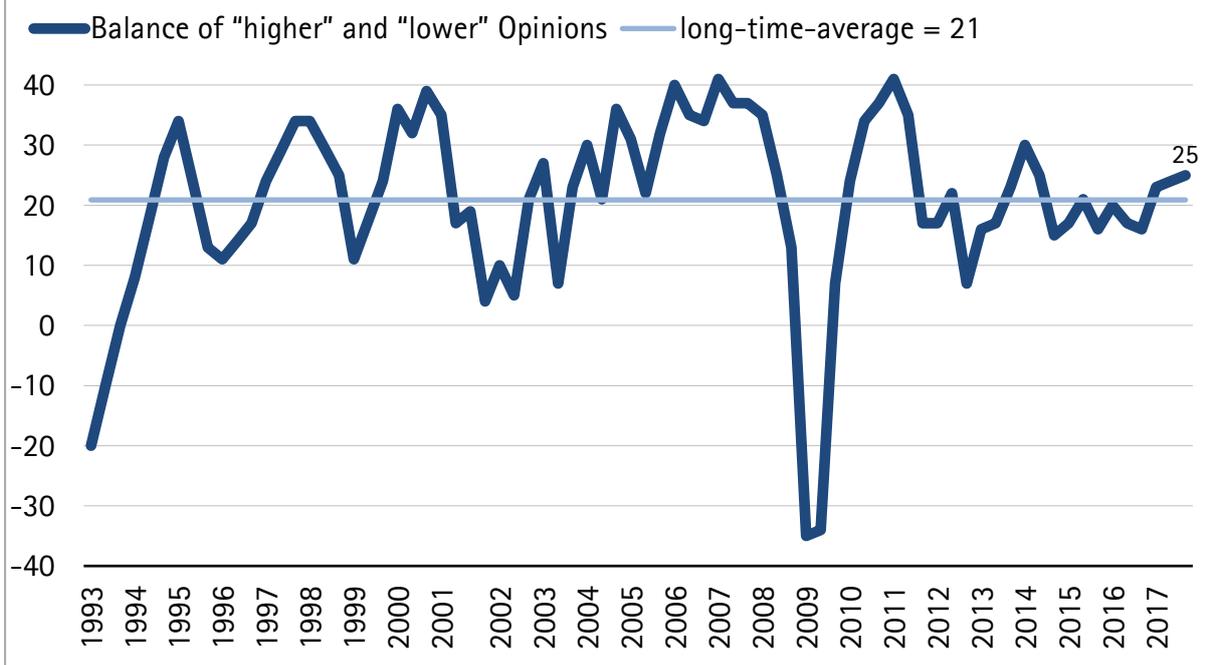
— Balance of "better" and "worse" Opinions — long-time-average = 5



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

	Germany total				Economic sectors			Company size classes			
	higher	about equal	lower	balance germany	balance V Interme- diate goods-produc- ers	balance I capital goods producers	balance Industrial and consumer goods producers	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
Fall 2011	30	57	13	17	11	23	23	11	13	25	20
February 2012	31	55	14	17	13	20	24	9	11	26	27
Early Summer 2012	33	56	11	22	17	23	27	11	18	27	29
Fall 2012	27	53	20	7	1	8	18	-1	2	11	17
February 2013	30	56	14	16	12	17	25	8	12	22	20
Early Summer 2013	30	57	13	17	14	20	20	10	10	26	26
Fall 2013	32	59	9	23	20	28	25	12	19	31	36
February 2014	37	56	7	30	30	32	29	16	27	40	40
Early Summer 2014	34	57	9	25	24	27	27	11	21	36	33
Fall 2014	30	55	15	15	12	15	22	2	9	25	28
February 2015	30	57	13	17	16	19	18	3	14	26	32
Early Summer 2015	31	59	10	21	20	23	20	8	17	28	37
Fall 2015	30	56	14	16	14	17	21	7	12	22	32
February 2016	32	56	12	20	19	21	24	7	16	30	37
Early Summer 2016	29	59	12	17	15	18	23	6	13	24	35
Fall 2016	29	58	13	16	13	18	19	3	14	21	29
February 2017	34	55	11	23	21	26	24	8	18	33	42
Early Summer 2017	33	58	9	24	22	28	21	12	19	36	34
Fall 2017	34	57	9	25	24	28	25	9	20	40	34

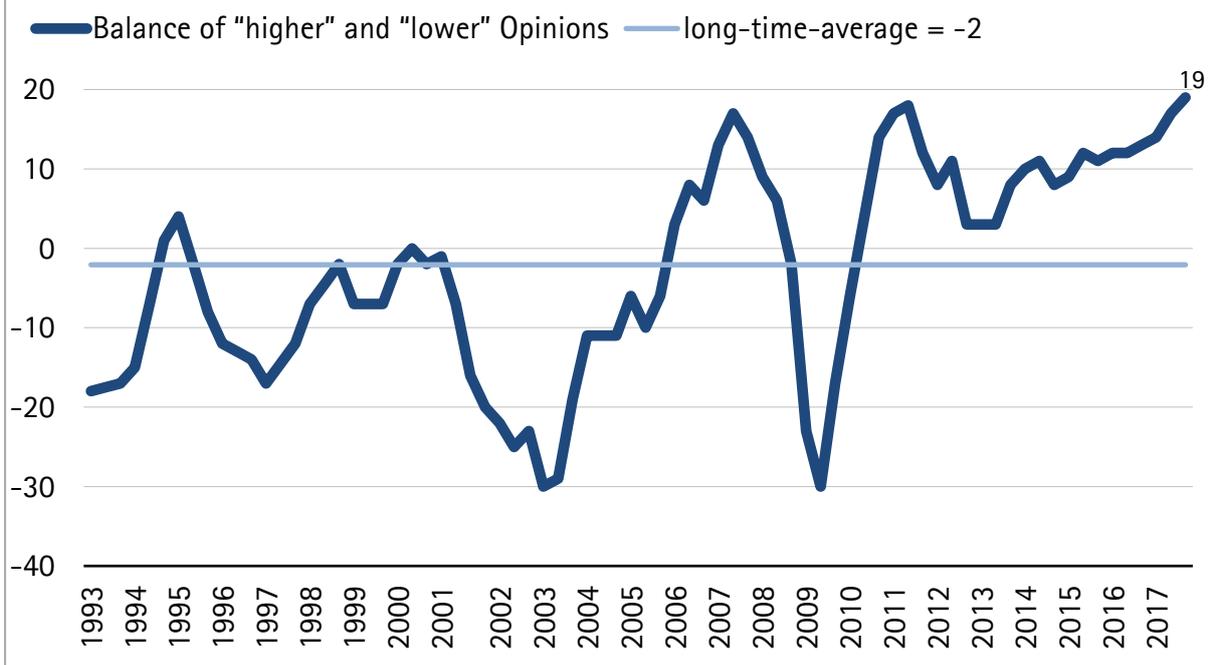
Enterprises' Export Expectations (manufacturing industry) - in points



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

	Germany total				Economic sectors				Company size classes			
	better	about equal	lower	balance germany	balance industry	balance construction	balance trade	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
Fall 2011	27	58	15	12	15	-6	9	13	7	13	18	16
February 2012	26	56	18	8	14	-7	6	9	4	11	15	14
Early Summer 2012	27	57	16	11	14	1	9	10	4	11	16	20
Fall 2012	23	57	20	3	2	-9	2	5	0	4	5	5
February 2013	23	57	20	3	2	-7	1	5	0	4	5	9
Early Summer 2013	23	57	20	3	3	-4	0	4	-2	4	7	8
Fall 2013	25	58	17	8	8	-3	4	9	4	9	11	15
February 2014	26	58	16	10	12	0	7	10	5	12	14	15
Early Summer 2014	27	57	16	11	13	4	8	11	5	13	14	19
Fall 2014	25	58	17	8	9	-1	5	10	2	10	11	19
February 2015	26	57	17	9	11	-1	4	11	3	11	13	22
Early Summer 2015	27	58	15	12	13	3	7	14	6	15	16	23
Fall 2015	26	59	15	11	11	0	9	13	6	15	15	15
February 2016	27	58	15	12	12	4	10	13	6	15	17	18
Early Summer 2016	27	58	15	12	13	8	9	13	6	15	18	22
Fall 2016	28	57	15	13	12	5	10	14	8	16	15	15
February 2017	29	56	15	14	14	9	10	16	8	18	17	18
Early Summer 2017	31	55	14	17	21	14	13	16	10	22	22	24
Fall 2017	32	55	13	19	24	11	14	19	12	22	26	31

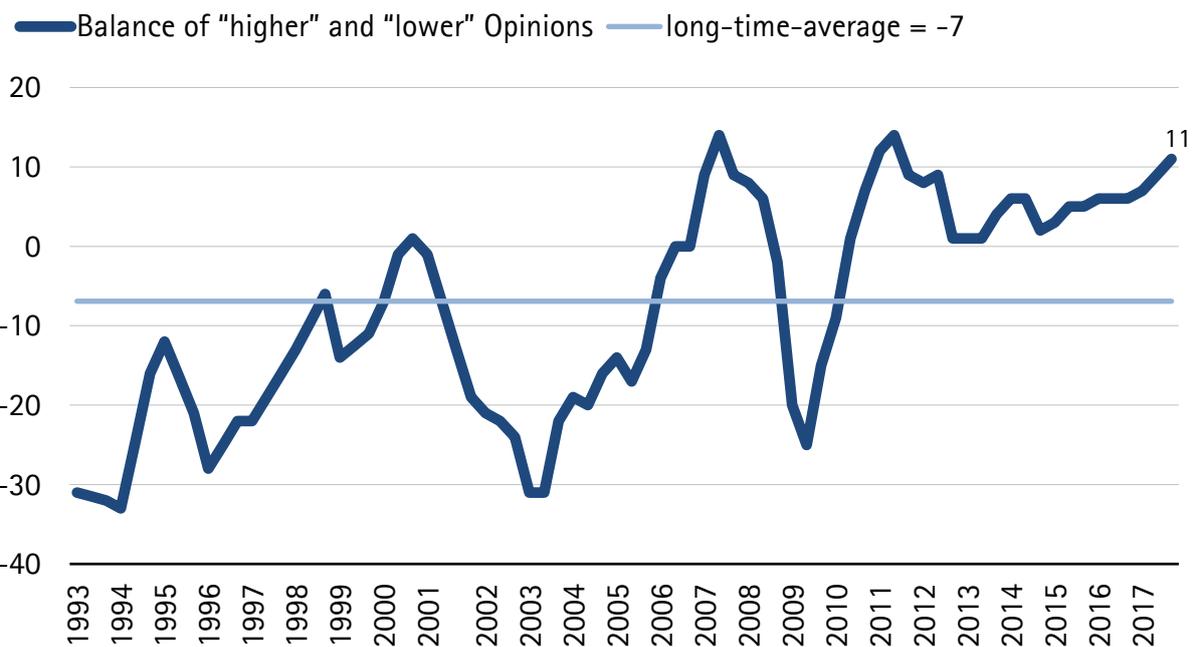
Enterprises' Investment Intentions - in points



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

	Germany total			Economic sectors				Company size classes				
	better	about equal	lower	balance germany	balance industry	balance construction	balance trade	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
Fall 2011	19	71	10	9	10	-1	7	10	6	13	9	7
February 2012	19	70	11	8	8	-2	6	9	5	12	9	4
Early Summer 2012	20	69	11	9	7	6	6	10	5	11	9	7
Fall 2012	15	71	14	1	-4	-3	-1	4	2	3	-4	-3
February 2013	15	71	14	1	-4	-4	0	5	2	4	-4	-5
Early Summer 2013	15	71	14	1	-2	2	-3	3	1	3	-2	-5
Fall 2013	16	72	12	4	1	0	1	6	3	6	1	-5
February 2014	17	72	11	6	5	3	3	7	4	9	3	1
Early Summer 2014	17	72	11	6	5	1	5	8	4	10	6	-1
Fall 2014	15	72	13	2	0	-3	-1	5	1	5	1	-3
February 2015	17	69	14	3	2	-2	-1	5	2	5	1	-6
Early Summer 2015	17	71	12	5	3	3	3	6	3	9	3	-7
Fall 2015	17	71	12	5	2	1	3	7	4	8	4	-4
February 2016	18	70	12	6	4	4	4	7	5	10	1	-8
Early Summer 2016	18	70	12	6	4	9	5	8	6	10	1	-6
Fall 2016	19	68	13	6	5	5	5	6	5	9	1	-5
February 2017	20	67	13	7	7	9	6	7	6	11	0	-2
Early Summer 2017	21	67	12	9	12	13	7	8	7	15	7	-1
Fall 2017	22	67	11	11	16	10	9	9	8	15	10	6

Enterprises' Employment Intentions - in points



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

	Risks for the economic development								domestic investment motives				
	domestic demand	foreign demand*	financing conditions	labor costs	lack of skilled workers	exchange rates*	prices of energy and raw materials	economic policy conditions	rationalization	product innovation	capacity expansion	environmental Protection	replacement demand
Fall 2011	46	38	15	29	33	19	51	44	29	28	29	13	63
February 2012	46	39	17	30	33	17	50	44	nicht abgefragt				
Early Summer 2012	44	36	14	35	35	13	55	35	nicht abgefragt				
Fall 2012	51	46	15	33	33	15	51	41	31	29	26	13	64
February 2013	51	42	15	35	32	11	52	40	32	29	26	13	64
Early Summer 2013	50	41	15	38	32	11	50	40	32	27	25	13	65
Fall 2013	48	40	15	38	36	11	49	40	32	29	27	13	66
February 2014	45	35	14	41	37	12	47	40	31	29	27	13	66
Early Summer 2014	43	36	13	41	38	14	44	40	30	28	27	12	66
Fall 2014	48	47	12	38	38	11	38	43	31	30	26	13	66
February 2015	48	45	12	42	38	18	27	44	31	30	26	14	66
Early Summer 2015	44	38	11	42	39	26	31	42	31	30	26	13	66
Fall 2015	45	48	11	40	42	21	26	41	32	31	27	14	65
February 2016	45	44	11	40	43	19	24	44	32	31	27	14	66
Early Summer 2016	45	42	11	40	43	16	24	43	31	31	27	14	66
Fall 2016	43	44	11	40	48	15	25	38	32	32	28	14	65
February 2017	40	39	11	40	48	17	32	43	33	33	30	15	67
Early Summer 2017	38	37	11	39	51	15	31	41	31	32	30	14	66
Fall 2017	37	33	10	40	56	18	30	38	32	33	32	15	64

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

- domestic demand
- financing conditions
- lack of skilled workers
- Prices of energy and raw materials
- foreign demand*
- labour costs
- exchange rates*
- economic policy conditions

