



The Economic Situation and Expectations for 2013

Results of a survey conducted by
the Association of German Chambers
of Industry and Commerce (DIHK)
Fall 2012

SHORT VERSION



Deutscher
Industrie- und Handelskammertag

"THE ECONOMIC SITUATION AND EXPECTATIONS FOR 2012 – Fall 2012" („Wirtschaftslage und Erwartungen im Herbst 2012“) is the title of an evaluation the DIHK has made of the results of a business survey carried out through its 80 member chambers of industry and commerce in Germany. This kind of business survey was first made in the autumn of 1977 and has since then been made twice a year. In addition, the DIHK started at an interim date, i.e. in the early summer of the year 2000, through its chambers of industry and commerce an evaluation of the results of a nation-wide business survey.

The DIHK results are based on business surveys carried out by the chambers of industry and commerce. In each case, the chambers of industry and commerce question a representative number of their member companies. In Fall of 2012, the DIHK again evaluated more than 28,000 responses. These responses are broken down into 30 percent for industry, six percent for construction, 23 percent for retailing and 41 percent for services.

The territory of the Federal Republic of Germany consists of the states of Bremen, Hamburg, Lower Saxony and Schleswig-Holstein in the north, of the states of Hesse, North-Rhine/Westphalia, Rheinland-Palatinate and Saarland in the west, of the states Berlin, Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt and Thuringia in the east and of the states of Baden-Württemberg and Bavaria in the south.

The survey took place from late August to early October 2012.

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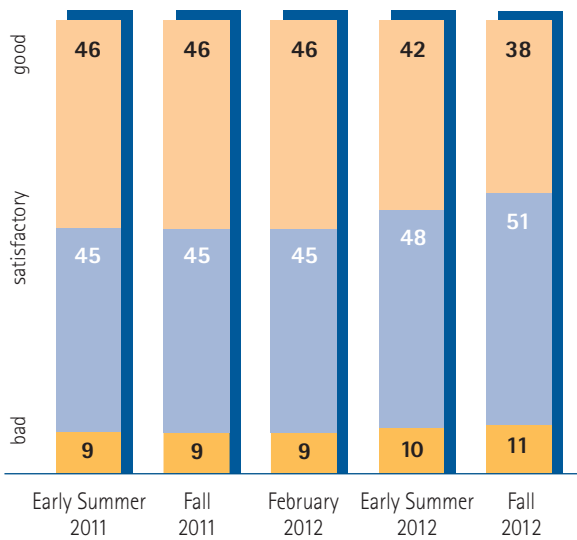
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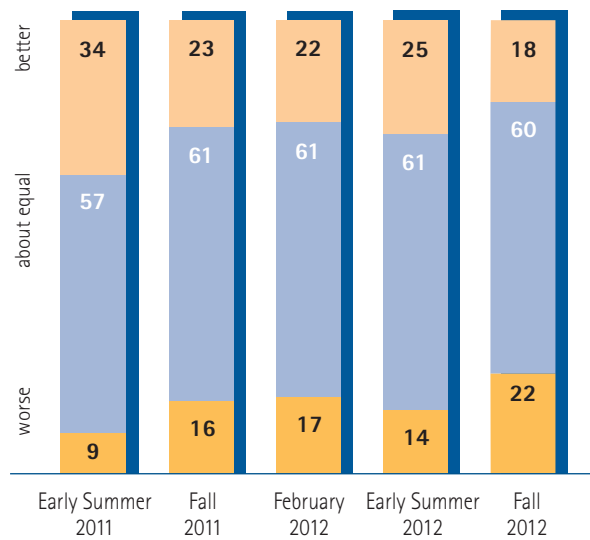
Economic Situation

as seen by the Enterprises in per cent



Business Expectations

of the Enterprises in per cent



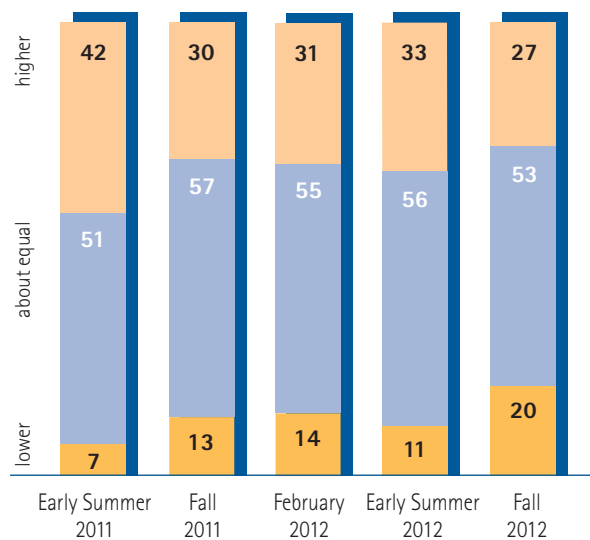
DIHK-Survey on the Economy Fall 2012

Germany at a Glance



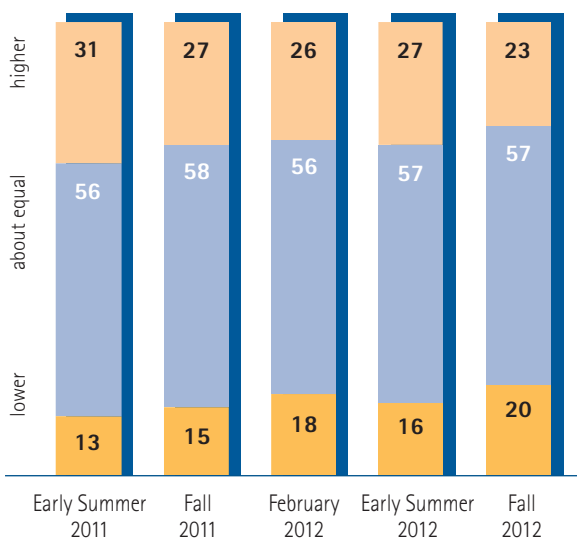
Export Expectations

of the Enterprises (manufacturing industry) in per cent



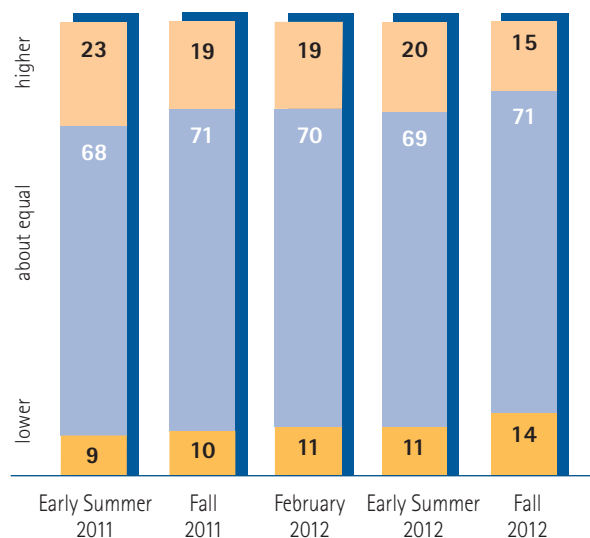
Investment Intentions

of the Enterprises in per cent



Employment Intentions

of the Enterprises in per cent



■ Main Findings

Economic situation

The economic slowdown is depressing the mood in the German economy. The manufacturing industry is confronted with cautious demand. The capital goods manufacturers in particular feel that many customers, especially from the Euro zone, are underemployed and suffer from financing difficulties. Impulses are still coming from the rest of the world, however, thanks in no small part to the relatively weak Euro. Domestically, business continues to be good. Construction is booming. The catering and hotel industry, the travel agents and other consumer service providers rate their current business situation better than ever. In this mixed atmosphere, it is to be expected that many companies are changing their assessment of their situation from good to satisfactory.

Expectations

The business expectations of the companies have clearly worsened after the glimmer of hope of the early summer. In addition to the assurance of a longer-lasting Euro debt crisis, the slowing of the global economy is reducing expectations. The recent decisions of the ECB and the Federal Constitutional Court were unable to change this uncertainty. The risk "economic policy" has once again gained importance from the point of view of companies. More and more companies fear setbacks in the heretofore robust domestic and foreign demand. Overall, the inland forces should be sufficient for a slight upward economic trend.

Exports

The Exports cannot keep up with the high expansion speed of the last few years. The percentage of optimistic evaluations is just barely above the percentage of pessimistic expectations. German products continue to be in demand throughout the world. But the current weaker dynamics of the global economy – not least due to the necessary structural adjustments in many countries – is making business difficult. In many places, there are also increasing trade barriers and financing difficulties. But particularly the relatively strong growth of most emerging countries continues to ensure that the export economy does well.

Investment

The uncertainty of the economy can especially be seen in investment intentions. The state debt crisis continues to smolder. The global economy has lost momentum. This causes the companies to act in a more careful manner. In addition, companies have invested a lot in the past few years and are waiting for now. Naturally, companies want to continue investing. In addition to replacement procurements and rationalisation, numerous companies are still expanding their capacities. The still favorable financing environment and the companies' strong belief in their own competitiveness could thus set the stage for a fast recovery of the investment dynamics – once the turbulence has subsided.

Employment

The slowing economic momentum also affects the employment plans of the companies. They want to continue to hire, even if it is on a smaller scale. The manufacturing industry is reticent. The corporate as well as the personal service providers on the other hand want to tangibly expand their staffs. However, a third of all companies is still having difficulties finding suitable specialised employees and considers this a risk for its business development in the coming months.

I ECONOMIC SITUATION

How do enterprises assess their situation at present?

Slowdown yes...

The economic slowdown is depressing the mood in the German economy. The manufacturing industry is confronted with cautious demand. The capital goods manufacturers in particular feel that many customers, especially from the Euro zone, are underemployed and suffer from financing difficulties. Impulses are still coming from the rest of the world, however, thanks in no small part to the relatively weak Euro. Domestically, business continues to be good. Construction is booming. The catering and hotel industry, the travel agents and other consumer service providers rate their current business situation better than ever. In this mixed atmosphere, it is to be expected that many companies are changing their assessment of their situation from good to satisfactory.

... slump no

Over the long term, an export-oriented economy cannot remain uncoupled from the difficult economic developments of its important trading partners. The reply balance of the situation assessments has further deteriorated from plus 32 to

plus 27 points (see table), after it had already fallen in the previous survey by five points. However, after two outstanding boom years, such a slowdown is certainly not unusual. The current business climate balance remains the third-best fall value over the last 20 years. Moreover, the deterioration in the balance results almost exclusively from the fact that more companies see themselves in a "satisfactory" situation instead of a "good" one. In contrast, there are still only eleven percent of companies which see themselves in a "poor" situation – only two points more than in phases of economic boom. The German economy is therefore doing remarkably well in a difficult environment.

Europe: crisis management sluggish...

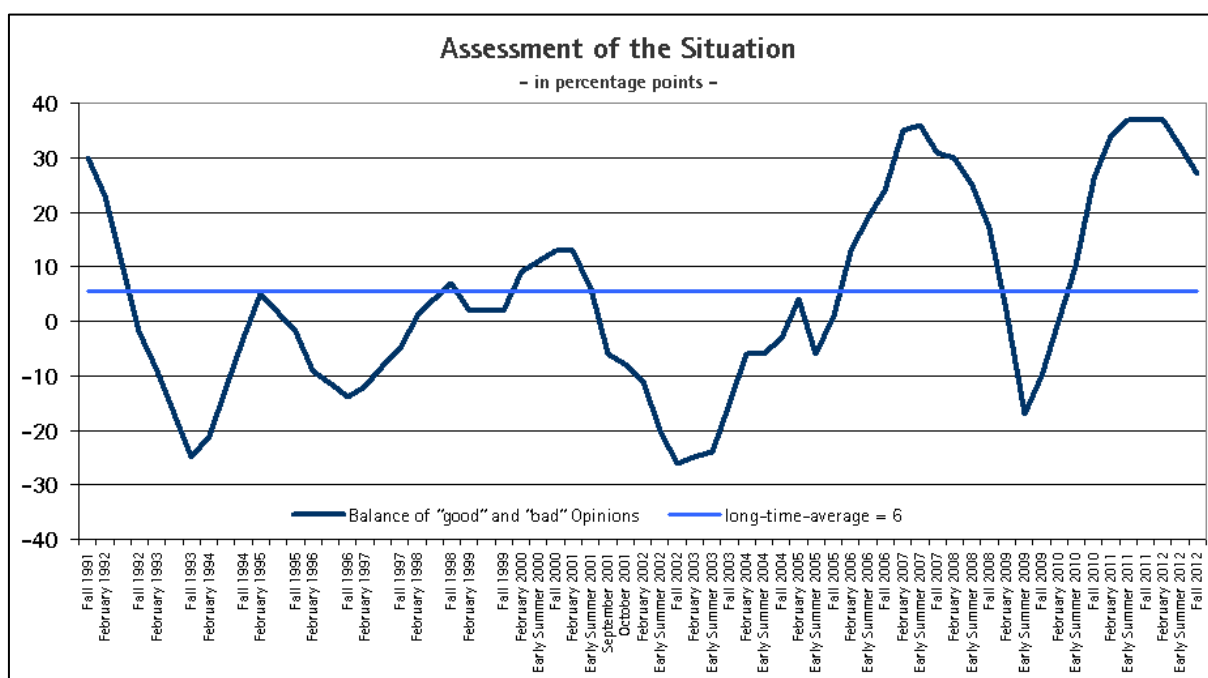
For the first time in more than five years, improved expectations are followed by a deterioration in the situation assessment. In the early summer, the expectations of companies and their investment and employment intentions had brightened significantly, after the governments in Europe had implemented positive, confidence-building measures such as the fiscal pact. Then, however, the election campaigns in Greece and France, the doubts concerning the consolidation and reform course and the discussion concerning the euro exit brought a new feeling of uncertainty. It was above all the propensity to invest in Germany and Europe which suffered as a result. Geopolitical tension, particu-

ECONOMIC SITUATION as seen by the Enterprises

in percent

	February 2011	Early Summer 2011	Fall 2011	February 2012	Early Summer 2012	Fall 2012
good	44	46	46	46	42	38
satisfactory	46	45	45	45	48	51
bad	10	9	9	9	10	11
Balance* of "good" and "bad" Opinions	34	37	37	37	32	27

* Share of „good“ opinions minus share of „bad“ opinions in percentage points



larly in the Yellow Sea and the Middle East, is also keeping the world in suspense.

... restructuring dragging on

The necessary structural adjustments of many European countries are demanding more patience than expected. Tax increases and the requisite cuts in government spending are now putting a strain on demand. Currently, the contractionary side effects of the simultaneous consolidation of national budgets and current accounts are reaching their climax. Many economies are in the midst of a structural change – away from overcapacity in the construction and financial sector towards a competitive industrial base. This is associated – at least temporarily – with rising unemployment figures and a decline in purchasing power. Moreover, many customers in other European countries are only able to obtain finance on unfavourable terms – this applies to both ongoing operations and investments.

Third countries and the weakness of the euro are preventing the worst

The weaker growth in the euro zone has not, however, stalled the global economy. The emerging

markets have shown for some time that they are able to create self-supporting growth which is even able to stimulate the industrialised countries. In contrast to the situation in most industrial countries, the public spending budgets in many emerging markets provide scope for fiscal policy measures. Some of these countries are making use of the scope available to take fiscal and monetary countermeasures, particularly as the problems with their economies are mostly caused by demand and not by supply. Moreover, the recent weakness in the euro is supporting the high level of competitiveness of German products. Overall, exports to third countries are surprisingly robust as a result.

Industrial activity in decline

The manufacturing sector in particular is increasingly feeling the slowdown. The fifth deterioration in the balance in succession – at eleven points – is greater than in the last survey (new balance: 25 points). Even though the situation assessments of the manufacturing industry are therefore still appreciably better than the average of the last few years (long-term average: plus twelve points). For the first time for more than two years, however, industrial companies no longer assess their busi-

ness situation as being better than the overall economy. The situation assessments of the export industry are particularly gloomy (falling on balance by 13 to 26 points; domestic industry: by three to 23 points).

Manufacturers of intermediate goods brought down to earth

In comparison to the main groups, the producers of raw materials show the largest falls. The balance has declined strongly from 34 to 20 points. In important sectors such as chemicals (decline by 15 to 23 points) and metal production (decline by 26 to seven points), the situation assessments have now fallen on balance to or even below their average of the last few years. On the one hand, as the economic precursors they have been feeling the slowdown somewhat longer, and on the other hand they are suffering particularly as a result of the high electricity, energy and raw material prices owing to their position as energy-intensive sectors.

Capital goods manufacturers: tailwind continues to subside

Especially in the capital goods sectors which are strong on exports, companies assess their current business situation as being not quite as good as previously. In mechanical engineering the balance has fallen from 48 to 33 points, in the automotive sector from 41 to 24 points and among the manufacturers of metal products from 43 to 27 points. In all of these sectors the business climate balances are, however, still above their average since 2003 (in the capital goods industry, currently 33 points, i.e. seven points above the average overall).

After the expansion in capacity of the last few years and the recent decline in orders, fewer and fewer companies are working at their capacity limit. Further increases in capacity are therefore not so urgent. The public discussion on crisis scenarios is causing investors to remain cautious.

Moreover, the low level of interest rates here in Germany has turned out not to be only a short-term situation. Securing favourable conditions is therefore no longer a top priority.

The flexible use of capital goods is made possible by leasing transactions. The continuing high level of popularity of this instrument is indicated by the situation assessments of companies from the field of investment goods leasing. Their reply balance has even improved from 29 to 34 points.

Construction activity remains at a high level

The growing caution with respect to commercial construction and the weak public investments are preventing any excessive construction activity. On the other hand, the construction of residential properties is providing a pleasing stimulus. The low interest rates together with rising incomes are making financing easier, particularly as in the view of many customers there are no convincing alternatives for their investments. The current business climate balance in the construction sector - at 37 points - is the second-highest value for more than 20 years (early summer: 33 points). The latest improvement does not go beyond the level usually found at this time of year, as the industry is traditionally particularly satisfied with business in the fall. It has not quite reached the high value of the previous year of 39 points. Slight reductions in their outstanding situation assessments are found for the real estate industry, as well as architectural offices and engineering firms (balance decrease from 46 to 44 and from 51 to 48 points respectively).

Domestic consumption supporting growth

Private consumption has taken over the role of growth driver. In the current economic cycle, the stimuli provided by exports and investments are therefore also being followed by a revival in consumption. The sustained positive development in employment and rising incomes are providing sig-

nificant increases in purchasing power, while at the same time the rise in consumer prices remains moderate in spite of the current low value of the euro. The situation assessments of most consumer service providers continue to improve. In the hotel and restaurant industry (balance improvement from 22 to 36 points), among travel agents (balance improvement from 28 to 40 points) and other individual-related services such as laundries, hair-dressing salons, saunas and solariums (balance improvement from 23 to 36 points) the assessments are better in the fall of 2012 than in the previous surveys.

Drinks manufacturers – and breweries in particular – are more satisfied than in the early summer (balance increase by seven and ten to 30 points in each case respectively). Overall the business situa-

tion evaluation of the producers of consumer goods is currently good and remaining stable (current balance: 22 points; early summer: 24 points). The business climate balances of the food producers, including the tobacco industry (26 points), the textile, clothing and leather manufacturers (17 points) and the pharmaceuticals industry (33 points) have each fallen by just one point.

In contrast, durable consumer goods are no longer selling as well. The balance of the manufacturers of consumer goods has fallen from 34 to 20 points, while that in the furniture industry declined from 30 to 22 points. In the motor-vehicle trade the situation assessments have even fallen on balance into the red (from 19 to minus nine points; average of the last few years: minus six points).

II EXPECTATIONS

What development do enterprises expect for 2013 compared to 2012?

Uncertainty has returned

The business expectations of the companies have clearly worsened after the glimmer of hope of the early summer. In addition to the assurance of a longer-lasting Euro debt crisis, the slowing of the global economy is reducing expectations. The recent decisions of the ECB and the Federal Constitutional Court were unable to change this uncertainty. The risk "economic policy" has once again gained importance from the point of view of companies. More and more companies fear setbacks in the heretofore robust domestic and foreign demand. Overall, the inland forces should be sufficient for a slight upward economic trend.

Expectations deteriorating on a broad front

For the first time for more than three years more companies are expecting business to deteriorate rather than improve. The corresponding reply balance has fallen from eleven to minus four percentage points (see table; long-term average: plus six points). The drop in expectations in the fall of 2012 is not only significant, it also includes the investment and employment intentions to a greater extent than before. This shows that al-

though the German economy is robust, it is not immune to the euro debt crisis - and that the resulting deep uncertainty is leaving its mark.

The export and investment-driven branches of the economy, the manufacturing industry and the construction industry, are currently more pessimistic (new balances: minus nine and minus ten points respectively) than the sectors of trade and services, which are more consumer-related (new balances: minus five and zero points respectively).

Long way out of the euro crisis

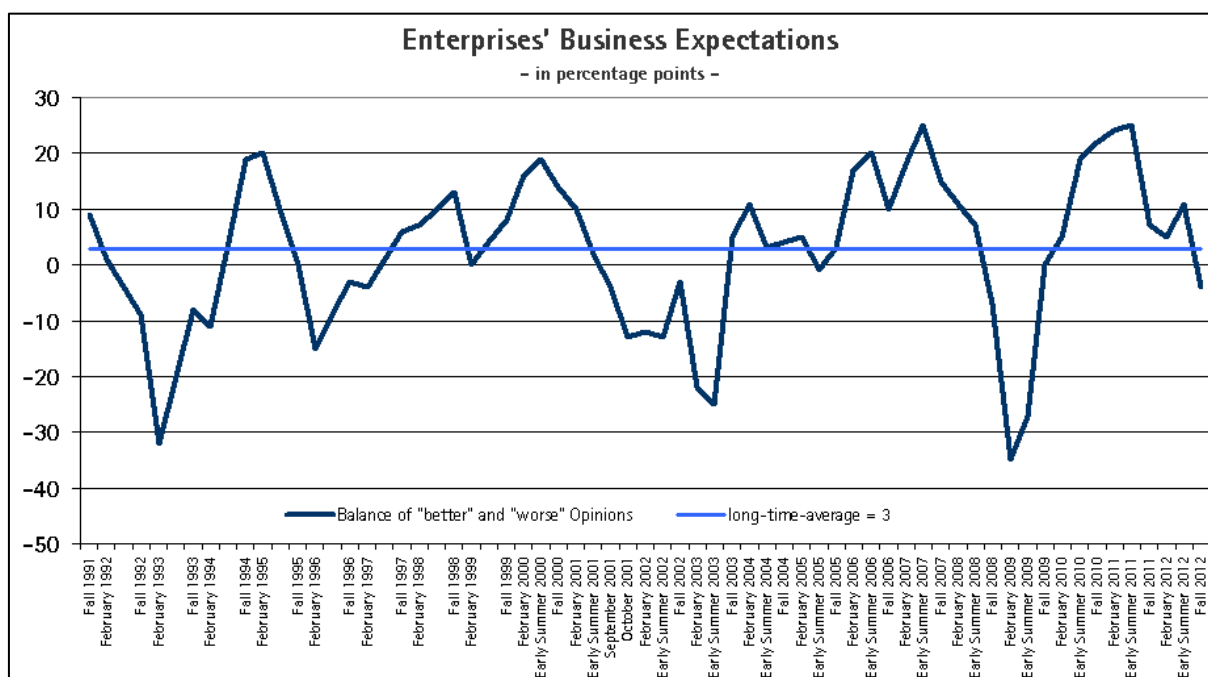
Hopes for a quick and consistent solution to the euro debt crisis have not been fulfilled. In the first half of this year, the occasional easing of tension in matters of the euro debt crisis fuelled a certain degree of optimism among companies, which was reflected in the early summer survey by an appreciable improvement in expectations (by six points after two falls totalling 20 points). The latest expected slowdown is not least attributable to the fact that the "economic policy" risk is again becoming increasingly important from the point of view of the companies (rise in the share of the responses from 36 to 42 percent). In the meantime, worries about the breakup of European Monetary Union have been overtaken by the question of which medium- to long-term consequences will arise from the rescue measures implemented by the EU and ECB. Recently the ECB adopted a con-

BUSINESS EXPECTATIONS of the Enterprises

in percent

	February 2011	in Early Summer 2011	Fall 2011	February 2012	Early Summer 2012	Fall 2012
for the following 12 months:						
better	34	34	23	22	25	18
about equal	56	57	61	61	61	60
worse	10	9	16	17	14	22
Balance* of "good" and "bad" Opinions	24	25	7	5	11	-4

* Share of „better“ opinions minus share of „worse“ opinions in percentage points



ditioned purchase programme for bonds of crisis states; in addition, the ESM has also begun its work. The announcement of the ECB programme and the ruling confirming the ESM by the Federal Constitutional Court (September 6 and September 12) occurred during the period of the survey. It is not currently foreseeable whether the deterioration in expectations has come to an end – there was no appreciable change within the survey period.

Many companies are haunted in this environment by concerns that the money supply will grow too quickly over the long term, with the consequential rise in purchase prices and an increasing necessity to introduce safety measures. Moreover, there is a threat of speculative bubbles in the case of titles to assets, price distortions and bad investments – as shown by the "Lehman crisis". With prices rising more quickly, the ECB therefore faces the challenge of having to implement countermeasures against political resistance as well.

European outlook: tough recovery

It is becoming increasingly apparent that the structural adjustments in the crisis states will take a considerable time to complete. Even though

there are signs that the situation is bottoming out, a rapid recovery such as that experienced here in Germany after the slump in demand in 2008/2009 does not appear possible. For the time being, the German export markets in the euro zone are only expected to provide weak stimulus. The adjustment recession in the European environment is being exacerbated by the slowdown in the global economy. The pace of economic activity in other centres of power of the world economy, for example the USA, China or South America, is currently somewhat muted. Moreover, with the renewed strength of the euro, the temporary support offered to the export business has fallen away again (rise in the exchange rate risk from 13 to 15 per cent). The monetary and fiscal policy countermeasures of many emerging markets are at least mitigating the slowdown in growth. Ultimately, however, it is mainly the high level of competitiveness of German companies which is ensuring good export prospects.

Signs of recovery of the manufacturers of intermediate goods a thing of the past

Little hope of a short-term acceleration in growth is provided by the latest slump in expectations of the producers of intermediate goods (from plus

eleven to minus 13 points). The expectations of these early business cycle companies had even improved since the beginning of the year. Now it is above all the metal producers, as well as the rubber and plastic manufacturers which are pessimistic again (new balances: minus 23 and minus ten points respectively). In the chemical industry the optimists and pessimists are at least more or less equal in number.

Investments: setbacks at home and abroad

In the manufacturing industry, uncertainty is spreading above all among the producers of capital goods. The expectation balance of the capital goods industry has fallen by 24 to minus ten points and is therefore in negative territory for the first time since early summer 2009. In this main group, 58 percent are worried about domestic demand and 50 percent about demand from abroad, both of which in the cross-sector comparison are values which are significantly above average (domestic demand: 51 percent in the overall economy; foreign demand: 46 percent in the export industry). The slow pace of the global economy is dampening investment activity – both in Germany and in other industrialised countries. In important investment sectors companies are now expecting a deterioration in business developments: in mechanical engineering (balance decrease from 14 to minus twelve points), in the electrical industry (from 20 to minus five points) and among the manufacturers of metal products (from eight to minus 18 points) the expectations have fallen below the zero line. In the motor vehicle manufacturing industry the balance – at minus 31 points in the fall of 2012 – is clearly in the negative range (previous survey: zero points).

Now that many companies have recently carried out major investments, it is currently less important to secure favourable financing terms. Moreover, there is the prospect that interest rates will remain favourable for the time being. This is contributed to by the strong competitive position of

many companies, as well as the high creditworthiness of Germany. The financing risk remains at the low level of the previous survey (14 percent).

The manufacturers of investment goods in particular generate a high proportion of their business with exports. For this reason, their pessimistic appraisals are also making their mark on the comparison between exporting and domestic industry: the business expectations of the export industry have deteriorated overall to a somewhat greater extent than those of domestic industry. However, the current balance of minus eight points (previous survey: 14 points) remains higher than in the domestic market-oriented manufacturing industry (minus twelve after the previous level of seven points). This indicates that the investment activities at home and abroad are initially weakening to a greater extent than the export economy overall.

Dynamism of the construction industry reaches its limits

Construction companies are also more sceptical than in the last two fall surveys. The reduction compared to early summer by 18 to minus ten points goes well beyond the level which is usually seen during this season. It is increasingly questionable how long the good developments in house building will be able to compensate for the weak developments in the fields of commercial and public construction. The risk assessment with respect to domestic demand has also increased within the industry by an above-average amount from 39 to 48 percent.

Consumer industries: diminishing optimism

Domestic consumption cannot dissociate itself over the long term from the deterioration in mood. Although the picture of a Germany which was strong on exports but weak on consumption was recently put into perspective, many companies are increasingly unsure what impacts the strategies to solve the euro debt crisis will have on consumer

behaviour. Little relief can be expected in the coming months from taxes and duties. Employment and wage developments remain positive, but in view of the recent slight increase in unemployment, job security might well be perceived as not being quite so high. Companies working in the consumer-related sectors are displaying caution, both in terms of their business expectations and their appraisals with respect to the "domestic demand" risk:

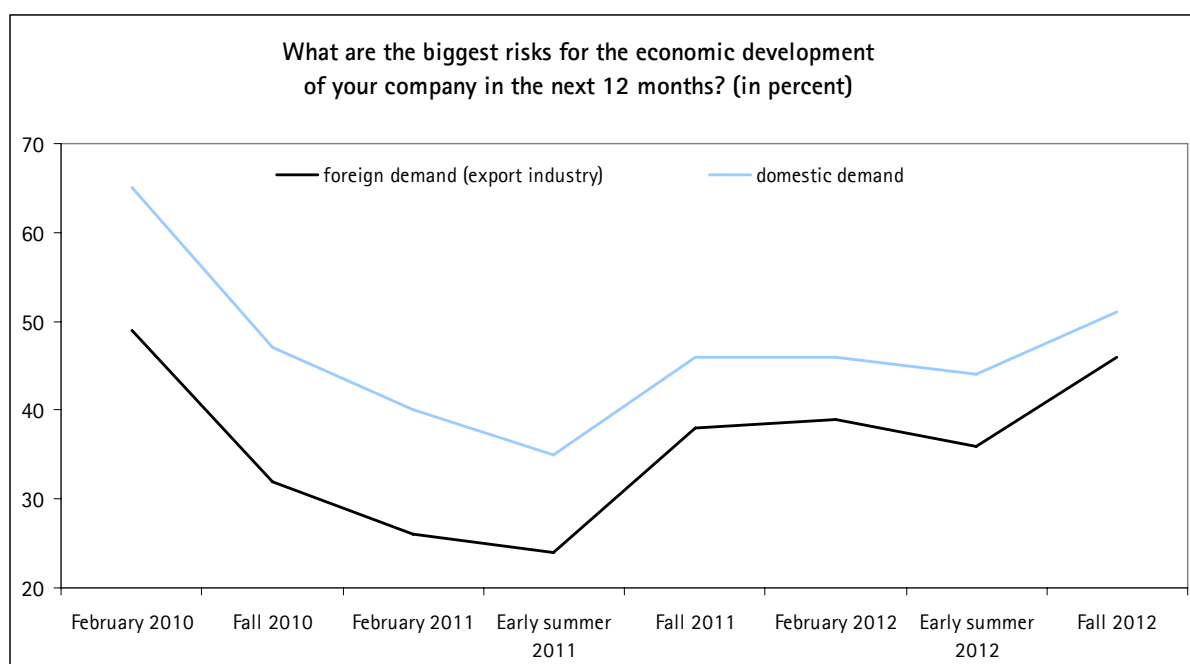
- In the retail trade field the expectation balance has tilted from eight to minus five points. Domestic demand is again the greatest economic risk (60 after the previous level of 56 percent).
- Confidence is also evaporating among the travel agents (balance decrease from eight to minus two points; increase in risk from 42 to 45 percent).
- Among the other personal services (laundries, hairdressing salons, saunas, solariums) the business expectations have also fallen into the negative range (change in the balance by 13 to minus two points; increase in risk from 33 to 44 points).
- In the hotel and restaurant industry the expectation balance has at least remained

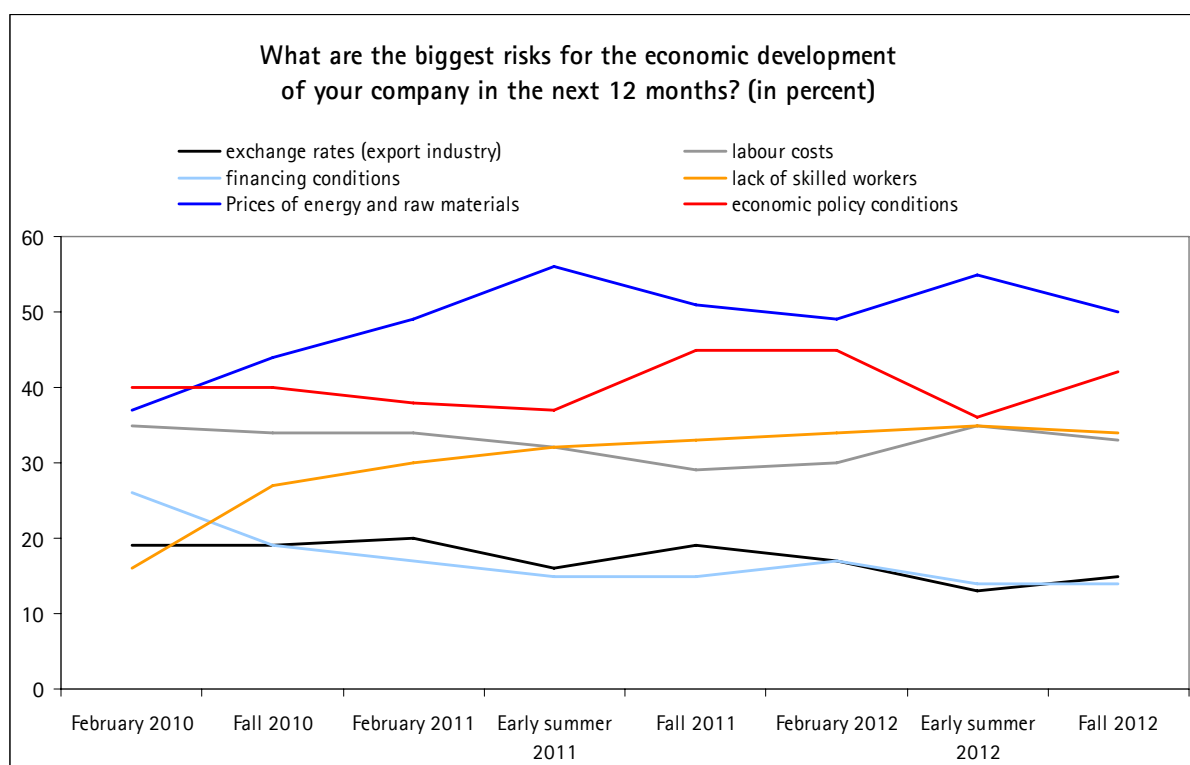
slightly positive (plus four after the previous level of 14 points; increase in risk from 26 to 31 percent).

- The leisure industry (e.g. concert organisers, theatres or fitness clubs) is also proving to be less optimistic (balance decrease from 19 to plus eight points). Similarly, the domestic demand in this sector – at 53 percent – is now again seen as the greatest economic risk (previous survey: 41 percent).
- Although the business expectations of the consumer goods industry display a higher level of confidence than in other main industrial groups, they nevertheless only present a mixed picture (balance decrease from 14 to plus three points; increase in risk from 52 to 56 percent).

Energy and commodity prices: scarcely any compensation

Electricity, energy and raw material costs are providing less relief than is usual in phases of weaker economic activity. As a result, every second company still considers this to be a business risk (previous survey: 55 percent). Compared to the previous year, this is only five percentage points fewer, while the risks of domestic and foreign demand





have increased to a somewhat greater extent (by seven and ten percentage points respectively). Experience has shown that rising prices, particularly for fuel, have an impact on the propensity to consume. The high energy prices only reach tenants after a delay. The stronger euro is also gradually beginning to provide relief again. In the field of agriculture, the prices are exceptionally high as a consequence of the problems with the harvest in the USA and Eastern Europe. In the food industry the risk of energy and commodity prices is even increasing against the trend (from 88 to 89 percent, for example among breweries from 84 to 85 percent). In road freight transport the worries concerning energy and commodity prices have also scarcely diminished – with the proportion of risk responses receding only slightly from 91 to 90 percent.

Shortage of skilled workers remains high

Among the risk assessments of the companies, the shortage of skilled workers has made a sideways movement at a high level (current proportion 34 percent). The above-average reference to this business risk in the construction industry (47 percent) in spite of the gloomy expectations shows that the securing of skilled workers is far more than a purely cyclical phenomenon. In the cross-sector comparison the lack of qualified workers is the most striking in the fields of temporary employment (77 percent), the education sector (66 percent), among tax auditors, certified public accountants and travel agents (55 percent each), as well as the hotel and restaurant industry (53 percent).

What are the biggest risks for the economic development of your company in the next 12 months?
(in percent; multiple answers possible; *export industry)

Enterprises appraise at the Risks for next the 12 months:	Fall 2010	February 2011	Early Summer 2011	Fall 2011	February 2012	Early Summer 2012	Fall 2012
domestic demand	47	40	35	46	46	44	51
foreign demand*	32	26	24	38	39	36	46
financing conditions	19	17	15	15	17	14	14
labour costs	34	34	32	29	30	35	33
lack of skilled workers	27	30	32	33	34	35	34
exchange rates*	19	20	16	19	17	13	15
prices of energy and raw materials	44	49	56	51	49	55	50
economic policy conditions	40	38	37	45	45	36	42

III EXPORT

How do enterprises expect exports in 2013 to develop compared to 2012?

Optimism temporarily diminished

The Exports cannot keep up with the high expansion speed of the last few years. The percentage of optimistic evaluations is just barely above the percentage of pessimistic expectations. German products continue to be in demand throughout the world. But the current weaker dynamics of the global economy – not least due to the necessary structural adjustments in many countries – is making business difficult. In many places, there are also increasing trade barriers and financing difficulties. But particularly the relatively strong growth of most emerging countries continues to ensure that the export economy does well.

Appraisals increasingly pessimistic

With a current value of seven points (see table), the balance has fallen back to the level of fall 2009. In comparison to the previous survey this represents a significant decline by 15 points. In spite of the difficult economic situation, 80 percent of companies are still expecting exports to be at a higher or at least the same level in the coming months.

Interim hopes from the previous survey – the export expectations had improved on balance by five points – have not been fulfilled. Companies are increasingly cautious owing to the low level of economic momentum in many countries of the world. This is also being contributed to by the painful consequences of the requisite austerity measures which a number of countries have taken in order to overcome the debt crisis.

Tough recovery in the euro zone

There are already signs that business activities in the euro zone are beginning to bottom out: unit labour costs are falling, exports and production are brisk, employment is stabilising. However, at the same time it is becoming apparent that the recovery from the adjustment recession is extremely sluggish and that setbacks cannot be excluded. The development in imports of the crisis states will probably also lag behind general developments for a long time. Nevertheless, within the survey period the export expectations show a slight improvement. The decisions on the stabilisation mechanism and the resolution of the European Central Bank in September to link the purchasing of state bonds to strict conditions will have contributed towards this.

Export plus ...

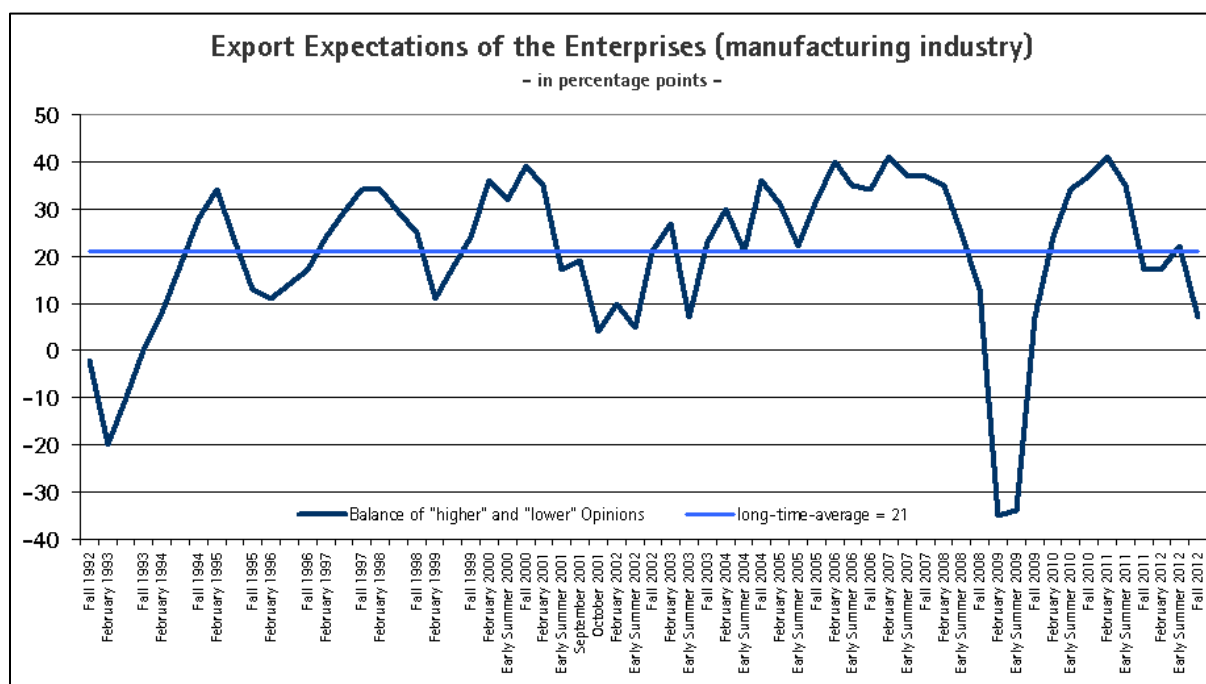
A strong argument in favour of the German export economy remains its high level of competitiveness.

EXPORT EXPECTATIONS of the Enterprises (manufacturing industry) *

in percent

	February 2011	in Early Summer 2011	Fall 2011	February 2012	Early Summer 2012	Fall 2012
for the following 12 months:						
higher exports	46	42	30	31	33	27
about equal exports	49	51	57	55	56	53
lower exports	5	7	13	14	11	20
Balance** of "good" and "bad" Opinions	41	35	17	17	22	7

* Manufacturing industry (without Construction); ** Share of „higher“ opinions minus share of „lower“ opinions in percentage points



Other European economies are only catching up very gradually. German businesses remain on course for internationalisation and are developing new markets. The weight of the dynamic non-European markets continues to grow. Companies are also continuing to benefit from their good business relationships outside the euro zone and their strong presence in the growth markets of the BRIC states, as well as the emerging markets in Southeast Asia. The global commitment of many German businesses is contributing to the fact that the current uncertainty and difficult foreign trade environment in the euro zone is being expressed in negative export expectations. In many emerging markets the fiscal policy is having a more expansive effect again over the course of the year. Most countries are also relaxing their monetary policy.

... despite the difficult business environment

Overall, companies are becoming increasingly uncertain about the development of foreign demand. It is specifically this risk which – at 46 percent – is referred to much more frequently than in the previous survey (36 percent). The last time the figure was higher was at the beginning of 2010 (49 percent), when the economy was still badly affected by the major falls in 2008/09. Motor vehicle con-

struction (65 percent), electrical engineering and mechanical engineering (52 percent each) in particular assess foreign demand as being a business risk for the coming months.

Effective exchange rate of the euro only temporarily weak

The exchange rate risk has also increased in importance. 15 percent of industrial companies now refer to this risk, compared to 13 percent in the previous survey, the lowest level since it was first surveyed at the beginning of 2010. Above-average values are shown by the producers of consumer goods (20 after the previous level of 17 percent) and in particular the clothing industry (39 compared to 25 percent), as well as medical technology (32 compared to 18 percent) and electrical engineering (20 compared to 18 percent). The level of the euro, whose significant falls in the last few months had made German products outside the euro zone less expensive, has recently risen again. For exporters this means that one form of interim support is no longer available. Moreover, owing to the increase in exchange rate volatility, the cost of hedging against exchange rate fluctuations has increased. Nevertheless, hedging transactions can head off the serious negative impacts of a rising

exchange rate. Moreover, the increase in the proportion of preliminary work performed abroad reduces the significance of currency effects because additional costs in the export business are associated with a reduction in such costs for imports.

Obstacles in export channels

Increasing protectionist measures are also damping down the current slow dynamics of global trade even further. A number of countries are introducing new trade barriers for the supposed protection of domestic producers. As increasing customs duties at the WTO level are fundamentally prohibited, it is no longer possible to discriminate against certain products at the border by the imposition of such duties. However, several countries are resorting to tricks and taking advantage of scope for individual creativity in areas which are not regulated multilaterally. For example, the completion of customs formalities is frequently delayed by continually changing regulations and the arbitrary application of the procedures.

At the same time there is increasing unequal treatment after the goods have crossed the border:

- Restrictive, discriminatory specifications are making new investments more difficult.
- Strict regulations are stipulating that foreign companies must generate a minimum share of their value creation in the country.
- Import duties on certain goods are intended to protect domestic producers.
- The repeated introduction of new documentation obligations is making business more difficult for exporters in particular.

For new members of the WTO the commitment to liberalism is associated with the obligation to reduce customs duties. Nevertheless, even in countries such as Russia or Vietnam, which have only recently joined the WTO, protectionist tendencies are being observed. Particularly during the crisis, renouncing income from customs duties appears

to be particularly painful in the short term for the national budget. They are therefore delaying the implementation of the obligations into which they have entered.

However, trade barriers can at best only provide short-term, non-sustainable protection for individual sectors. Over the long term, free trade is the precondition for economic growth even in difficult times – and not a threat. Moreover, the countries are spoiling the opportunities of their own companies and consumers to purchase inexpensive, high-quality imports. For this reason politicians at the German and European level should consistently attempt to counteract these protectionist tendencies.

Producers of consumer goods relatively stable

The producers of durable and non-durable consumer goods show the lowest level of reductions. Almost one third of businesses expect exports to continue to grow here in the coming months. In the pharmaceuticals industry and the food industry there is hardly any reduction in the levels of optimism (balance decrease from 40 to 31 and from 31 to 25 points respectively), while among the clothing manufacturers it has even grown slightly (balance increase from 16 to 20 points). Somewhat more sceptical are the manufacturers of durable consumer goods such as the furniture industry (deterioration in the balance from 39 to 21 points). On the one hand the production of durable consumer goods – and above all non-durable consumer goods – is not subject to quite such strong cyclical fluctuations as other sectors. On the other hand, the dynamism in Asia or Eastern Europe continues to provide good sales opportunities, particularly as the middle classes there are increasingly demanding goods of higher quality.

Global investment climate cooling down

Distinctly less optimistic are the manufacturers of investment goods (balance decrease from 23 to eight points). This main group is seriously worried about foreign demand – every other company refers to this business risk. The slowing global economy, as well as the difficult financing conditions and tax increases in many places, indicate that for the time being the investment conditions are no longer quite so friendly. Above all mechanical engineering shows a deterioration in the balance of 20 points to its present level of plus five, while the electrical industry is down by 13 to 15 points. In motor-vehicle construction the number of optimists and pessimists is more or less equal (deterioration in the balance by six points).

One area in which the export expectations in the capital goods segment stand out is that of medical equipment. The balance of 44 points is the highest in the cross-sector comparison and is also almost constant compared to the previous surveys (early summer: 49 points). With increasing growth, more and more countries are modernising their health systems. This is of benefit to German companies which are well established abroad and can take advantage of the "Made in Germany" seal of approval.

Manufacturers of intermediate goods: upward trend halted

The producers of intermediate goods are not able to build on the positive developments seen since the beginning of the year. After two increases in succession, the balance here is now falling – and not insignificantly. It is now at a level of plus one point, after 17 points in the previous survey. As this main group can be considered an early indicator of economic developments, the hopes for a rapid increase in the dynamics of the global economy have been dashed. In particular, the manufacturers of chemicals, rubber and plastic products show major negative changes in comparison to the

previous survey (by 19 and 18 to 16 and to minus one point respectively). The metal producers are particularly sceptical in the fall of 2012 (new export balance: minus eleven points; previous survey: plus one point). This sector mainly operates on the nearby European markets, where the business cycle is only bottoming out slowly.

No further tailwind for small and medium-sized enterprises

The deterioration in export expectations is shared by companies in all size categories. The tailwind which was filling the sails of the SMEs after the large corporations in the previous survey has subsided. The slower pace of the global economy is leaving its mark on smaller companies in particular. The reduction in the dynamism of many sales markets and their tendency to cut themselves off is making business more difficult. This applies in particular to small and medium-sized enterprises, which mainly operate abroad on the basis of their original exports.

Other exporters robust

Non-industrial companies are relatively confident with respect to their foreign business. Construction companies which are geared towards foreign markets are even slightly more confident than in the early summer. The export balance has increased from seven to twelve points, while in the case of architectural and engineering firms the level has fallen from 31 to 26. R&D and IT service providers continue to be optimistic as far as their foreign business is concerned (current export balances: 38 and 20 points respectively). In contrast, the export expectations in the wholesale trade are following the developments of the industrial export expectations, albeit at a somewhat lower level (balance decrease from 17 to eight points).

Supplementary appraisals concerning the development of individual target regions

Bright spots in Europe

Owing to the austerity measures and tax increases that have been introduced, the crisis countries of the euro zone have provided hardly any stimulus so far. Spending cuts and structural reforms required for budget consolidation are temporarily damping down growth in the local economies. Difficulties obtaining finance are restricting consumption and investment plans – and therefore also the opportunities for selling German products. Even if the lowest point is in sight, there is increasing certainty that the way out of the structural crisis will only succeed with plenty of stamina.

Some countries, especially Ireland, but also Portugal and Spain, have already been able to improve their competitiveness – for example by reducing bureaucracy and unit labour costs. Important reforms have also been introduced in Italy. Overall, government demand in the euro zone is having a braking effect in the short-term, albeit to a lesser effect than previously.

USA: reforms essential

The economic developments in the USA are not yet showing the dynamics which are otherwise typical of the country. Nevertheless, there continue to be signs of revival. The housing market has recovered over the past few months on a broad scale. The unemployment rate has fallen below the eight percent mark and is therefore lower than at any time since January 2009. However, consumer spending is currently still low, not least because private households are continuing to reduce their debts after the burst of the real estate bubble.

Moreover, the winner of the presidential election on November 6 will be immediately confronted by urgent decisions which will have important conse-

quences for growth in the country next year. Above all, the "fiscal cliff" is looming: automatic savings – and above all the end of significant tax breaks for citizens and companies – have been agreed which, if fully implemented at the turn of the year, would result in appreciable cuts for consumers. Overall, painful measures for budget consolidation are inevitable. In order to successfully negotiate the "cliff", a mixture of consolidation and the consideration of demand effects is required – without any protracted discussions that damage confidence.

BRICS model with scratches

The group of the most important sales markets for German products no longer unreservedly includes the successful BRICS states of Brazil, Russia, India, China and South Africa. Although the BRICS continue to grow, they are not able to sustain the growth rates of the last few years. The problems they are facing are also of their own making.

In Brazil it is the bureaucracy and high tax rates which are placing a burden on economic performance, as well as low productivity and a shortage of skilled workers. However, it may well be possible to reverse the trend, at least temporarily, by initial corrective measures carried out by the government and the prospects of record numbers of orders for the major sporting events in 2014 and 2016. In order to do so, however, the country will have to renounce its isolation and discrimination against foreign competition.

In India the rate of growth has slowed somewhat in comparison to the last few years, while the protectionist tendencies are increasing. This is acting as a deterrent to foreign investors, who have to struggle with high levels of bureaucracy and poor infrastructure anyway. If the government returns to its course of liberalisation, of which there have been signs in recent times, higher growth rates will again become possible. Recently introduced

reforms, such as in the field of the retail trade, may well be a first indication of this.

China is now also no longer able to reach the double-digit growth rates which it has occasionally achieved in the last few years – the government is aiming for a more realistic rate that can be sustained over the long term, namely 7.5 percent. The stipulation of this new course of growth appears to be successful. Restrictive interim measures in monetary policy and the regulatory field have contributed towards this slowing down, while at the same time counteracting inflation and real estate bubbles. Reforms are also aimed at a shift in the direction of domestic demand, and above all consumption, associated with rising imports. In the meantime the government is again putting its faith in expansionary measures. The effects of these might become visible in the coming months in the form of a slight acceleration in growth. However, the fiscal stimulus will probably be smaller and stretch over a longer period than that of 2008/2009 in order to prevent the economy from overheating again. This will provide German companies with good export prospects. In addition to the traditional exports – machines and vehicles – there is also increasing demand for high-quality consumer goods.

Problems such as a lack of competition, the burdens of bureaucracy and corruption are also having negative effects on the growth potential of Russia. Joining the WTO is forcing the country to open up its markets and highlighting the need for modernisation. The required investments in infrastructure and equipment are in turn providing good sales opportunities for German companies.

Economic growth in South Africa will not reach the three percent mark this year. The government's plans for further modernisation of the infrastructure and the implementation of employment programmes for the unemployed will therefore be more difficult to achieve. This may provide fertile ground for further unrest – as has already oc-

curred in the collective bargaining environment – and therefore also worse framework conditions for investments.

Newcomers in the starting blocks

In the wake of China, South East Asian states such as Singapore, Indonesia and Vietnam are also displaying good growth levels. The dynamism of these emerging markets offers great potential for German companies. Regional integration is increasing, but at the same time these countries are increasingly becoming more open for imports and investments from Germany due to free trade agreements with the EU. This can be of benefit to German businesses with international experience.

From Africa, Nigeria is also attracting attention to itself as a new player with growth rates of more than five percent. The improvements brought about by more transparent governance and improved rule of law are enabling the continuation of the positive trend of the past few years: Nigeria is changing from a developing country that is rich in resources to an industrial location which is contesting the role of South Africa as an economic hegemon in Africa. Although it is necessary to continue monitoring the religious unrest in the north of the country, the economic metropolis of Lagos has so far only been affected to a small extent.

Amongst the Latin American countries, Mexico, Colombia and Peru are increasingly attracting the attention of German exporters. The markets have become more accessible as a result of import duty reductions associated with the free trade agreements with the EU. An improved security situation – particularly in Colombia – and their wealth of natural resources make the countries more attractive for foreign stakeholders.

IV INVESTMENTS

How is businesses' expenditure for domestic investments expected to develop in 2013 compared to 2012?

Reduced investment intentions

The uncertainty of the economy can especially be seen in investment intentions. The state debt crisis continues to smolder. The global economy has lost momentum. This causes the companies to act in a more careful manner. In addition, companies have invested a lot in the past few years and are waiting for now. Naturally, companies want to continue investing. In addition to replacement procurements and rationalisation, numerous companies are still expanding their capacities. The still favorable financing environment and the companies' strong belief in their own competitiveness could thus set the stage for a fast recovery of the investment dynamics – once the turbulence has subsided.

Propensity to invest under pressure

After the investment intentions of companies in the early summer had indicated that there were hopes of an early improvement in the situation, the sobering reality has now returned. The balance has fallen in the fall of 2012 from eleven to three

points (see table). Although this is not as much as feared as a result of the significant drop in the expectations of the companies (by 15 points), it is nevertheless noticeable. The decline in the investment plans has several reasons:

- the lower levels of economic activity after a phase of increasing capacities,
- economic policy disappointments and
- the decreasing time pressure with respect to interest hedging.

Demand switches down a gear

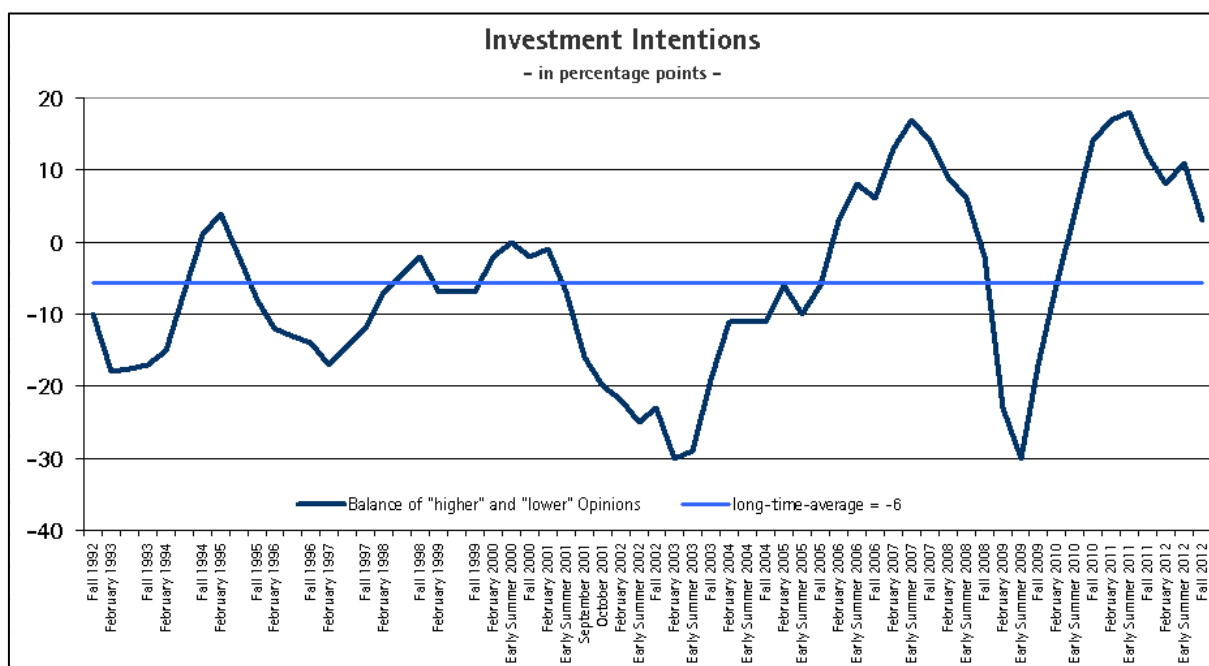
Even if the German economy did not seem particularly impressed by developments in other European countries at the beginning of the year, the continuing recession there has to leave its mark. Capacity utilisation has already fallen, while entrepreneurs are now concerned about foreign demand – and increasingly about domestic demand. It is specifically the companies with low levels of investment which are also afraid of more restrained demand (higher proportion of seven percentage points with respect to both the risk associated with domestic and foreign demand).

After the high investments of the past few years, many companies are suffering from the lack of direct pressure for additional innovations or even extensions. In the fall of 2012 the capacity motive

INVESTMENT INTENTIONS of the Enterprises in percent

	February 2011	in Early Summer 2011	Fall 2011	February 2012	Early Summer 2012	Fall 2012
for the following 12 months:						
higher investment	31	31	27	26	27	23
about equal investment	55	56	58	56	57	57
lower investment	14	13	15	18	16	20
Balance* of "good" and "bad" Opinions	17	18	12	8	11	3

* Share of „higher“ opinions minus share of „lower“ opinions in percentage points



is playing the main role for just 26 percent of companies. Although this is slightly more than the average of the last few years, it is not quite as much as in the previous year (29 percent).

Economic policy disappointment in Europe ...

At the beginning of the year, political reforms were implemented in order to solve the euro national debt crisis. These gave rise to the hope that the crisis countries would be able to get a stable foothold and the economic momentum would gradually accelerate. Companies indicated that they had a growing propensity to invest (balance increase in early summer of three to eleven points). Then, however, the elections in Greece and France and the associated protracted discussions about an exit of Greece from the euro, as well as the undoing of the fiscal pact, left their mark not only on the financial markets, but also the companies themselves. Credibility was lost as a result.

... domestic tax debate causing confusion

Further uncertainty is currently being caused by discussions about the reintroduction of a wealth tax or capital levy, the tightening-up of inheri-

tance tax for companies and an increase in the top rate of tax.

All in all it is the companies which have reduced investment intentions that are mainly worried about economic policy risks (two percentage points higher than overall) and appreciably more than in the early summer (increase of seven percentage points).

No rise in interest rates in sight

Low interest rates spur on investments. However, the statements issued by the ECB lead to the conclusion that the low interest rates will also be maintained over the medium term, so that any effects which might increase interest rates, such as the introduction of Basel III, will be attenuated. Companies therefore see little pressure to secure the low interest rates at the current time.

Faster dynamics possible however

The restraint characterised by uncertainty can however be quickly reversed if credible and proper reforms are consistently implemented for the sustainable set-up of monetary union. If optimism returns to an upward trend in growth, confidence in one's own competitiveness can provide a surpris-

ingly fast start to the dynamics of investment. The early summer survey in 2012 showed that the propensity to invest has not been permanently affected and that companies are certainly willing to make higher capital investments if there is a credible improvement in the economic policy environment. At the time the reply balance had increased in comparison to the previous survey from eight to eleven points.

Currently, one in five companies intends to invest less (early summer: 16 percent). This value is not particularly worrying and normal for the status of the economic cycle. Almost every fourth company still intends to increase its investment budgets (23 percent). This shows that in spite of everything, the German economy is well positioned in the difficult political and economic environment.

Financing risk remains at a record low

The reduced propensity to invest is not currently explained by funding worries. The fact that the granting of loans in Germany is currently only growing at a moderate rate is mainly due to the restrained demand and has less to do with supply constraints. The financial environment is even exceptionally good – the record low interest rates are setting the stage for profitable investments. From the company perspective, the financing risk accordingly remains at the record low level of the previous survey (14 percent).

In addition to the low central bank interest rates over the medium term, the role of Germany as a safe haven is currently having a noticeably positive effect on this development. It is not only the state as a debtor which benefits from the high level of creditworthiness, but also the domestic companies in comparison to international competitors. However, Basel III and a few other meaningful sets of regulations are just around the corner. Even though this is currently hardly a cause for concern for most companies, the banks are certainly worried: 80 percent of the companies

working in the credit services sector see the economic policy environment in the coming months as a risk to their business activities. This is more than twice as many as for every other risk and more than in any other industry. Politicians should not overstretch the mark with the regulation of the financial markets. Otherwise this could quickly have a negative effect on lending, which is still the number one source of borrowed capital in Germany.

The real estate industry, which is important for investments, has even greater concerns about financing, with the proportion rising from 26 to 28 percent. This is most probably attributable to the discussion concerning bans on open real estate funds within the framework of the implementation of the AIFM directive on the regulation of alternative investments. The economic policy risk is the greatest business risk from the point of view of the industry (52 percent).

Industrial investments hit twice

The manufacturing industry is feeling the slower pace of the global economy to a particular degree. In contrast to the previous survey, its investment budgets have fallen on balance from 14 to plus two points, which is the most significant drop in the comparison of the branches of the economy. The balance in the manufacturing sector is only slightly in the positive range and above its long-term average (minus two points). In almost all sectors the investment intentions have diminished.

The export industry is limiting its budgets to a greater extent than the domestic market-oriented enterprises (new balances: plus one and plus three points respectively). For the first time since 2003 the export industry therefore considers the investment requirements to be less than in the domestic economy. The robust domestic economic activity is reflected in the stable propensity to invest of the producers of durable and non-durable consumer goods. The balance has fallen only mod-

erately from nine to five points. Every fourth business still intends to make additional investments.

Construction understates the case

The construction industry intends to cut its investment budgets – an effect which is very likely to have been influenced not only by the approaching winter. The balance has fallen from one to minus nine points, but at least it remains above its long-term average (minus 23 points). Although both structural engineering and the finishing trade are still benefiting from the flight into material assets and the associated construction contracts, the propensity to invest has nevertheless fallen from six to minus four points (structural engineering) and from minus three to minus nine points (finishing trade). Civil engineering – which is traditionally more restrained anyway – intends to be significantly more cautious. The investment intentions have fallen drastically from plus three to minus 20 points.

Service providers still enjoying intact domestic economic activity

Companies within the service sector have been scarcely affected in terms of their investment in-

tentions. Although the balance has dropped from ten to five points, 82 percent of them intend to leave their budgets as they are or increase them. In particular, the service providers which are predominantly individual-related are benefiting from the continuing good mood on the labour market. This is also expressed in the fact that the balance has deteriorated only slightly from eleven to seven points. The structurally increasing importance of the service providers within the healthcare industry is leading to a relatively high level of economic independence. In this sector the budgets are even increasing on balance from 21 to 24 points. The hotel and restaurant industry is also positive about the future, maintaining the high balance of 23 points found in the early summer. In contrast to other consumer industries, the domestic demand risk does not represent a concern here (31 percent).

The property sector, which is the number one investment driver in Germany, is keeping its investment budgets constant at a very high level (balance: eleven points). The fluctuating financial markets and favourable interest rates are increasingly pushing investors in the direction of tangible assets – the property sector is reacting with investments.

V EMPLOYMENT

How will the employment figure in companies in 2013 develop in comparison to 2012?

Employment market feeling the economic slowdown

The slowing economic momentum also affects the employment plans of the companies. They want to continue to hire, even if it is on a smaller scale. The manufacturing industry is reticent. The corporate as well as the personal service providers on the other hand want to tangibly expand their staffs. However, a third of all companies is still having difficulties finding suitable specialised employees and considers this a risk for its business development in the coming months.

More employment below the line

All in all, German companies intend to further increase their workforces. The current balance in the employment intentions is plus one point (see table) and therefore clearly in the range which experience has shown is associated with growing employment. However, the increases are smaller than in the employment boom period of the last few years – the balance is the lowest for more than two years. It is questionable whether the rise

in employment will be associated with a fall in the number of unemployed, as new recruits are increasingly coming from the "hidden reserves" and from immigration.

The employment stimulus coming from small and medium-sized enterprises will probably diminish slightly. The reply balance of businesses with up to 500 employees is at a level of plus two points (early summer: nine points) and therefore slightly above its average since 2003 (minus two points). The employment plans of the large corporations (more than 1,000 employees) are usually significantly restrained, but currently also indicate a slight increase in employment on balance of minus three points (previous survey: plus seven points; average since 2003: minus 14 points).

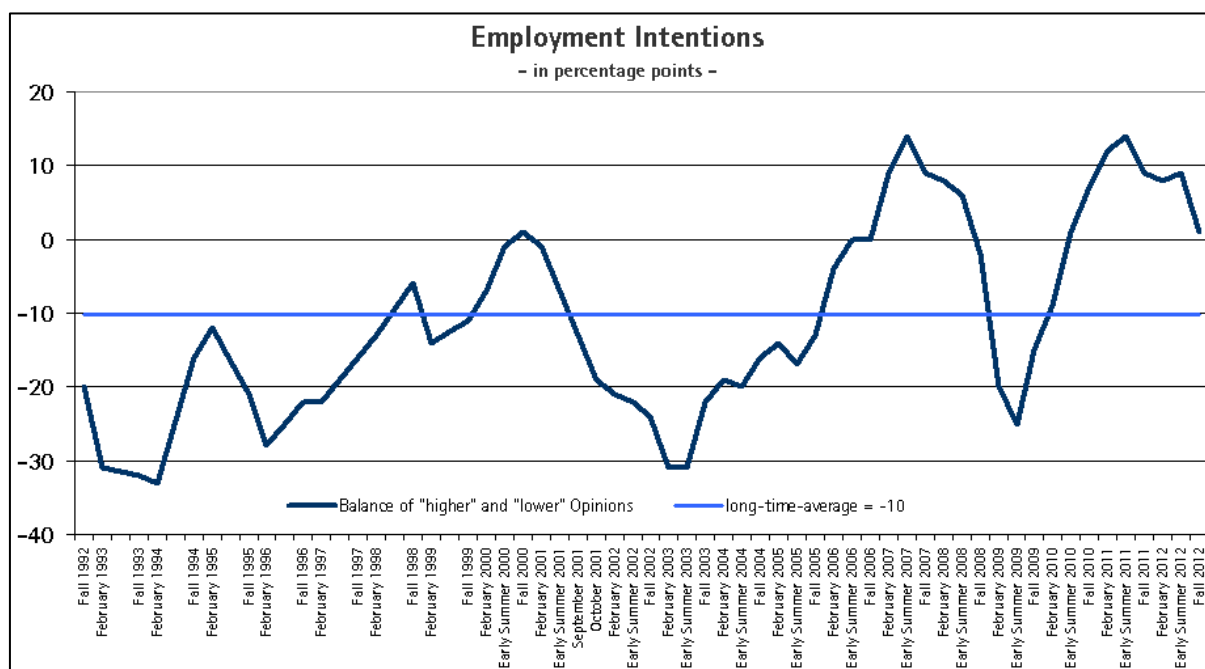
Concerns about demand, politicians worried

It is above all worries about demand which are causing companies to be more cautious. Companies which have negative employment plans are worried appreciably more often about domestic demand (cited as a risk eleven percentage points more often). Uncertainty about economic policy is also having a detrimental effect on the employment plans. Companies which want to reduce the number of employees are more frequently worried about economic policy developments than the overall economy (cited as a risk three percentage points more often).

EMPLOYMENT INTENTIONS of the Enterprises in percent

	February 2011	in Early Summer 2011	Fall 2011	February 2012	Early Summer 2012	Fall 2012
for the following 12 months:						
higher employment	22	23	19	19	20	15
about equal employment	68	68	71	70	69	71
lower employment	10	9	10	11	11	14
Balance* of "good" and "bad" Opinions	12	14	9	8	9	1

* Share of „higher“ opinions minus share of „lower“ opinions in percentage points



However, the employment balance has not decreased overall as significantly as in previous surveys in which the business expectations receded as clearly as in the current margin (deterioration in the balance of expectations by 15 points in the fall of 2012). On the one hand businesses are now holding on to their employees longer even in weak economic cycles in order that they can quickly ramp up their activities again as the order situation improves and retain skilled workers for whom there is high demand. On the other hand, modern tools such as working time accounts enable higher levels of internal flexibility.

Manufacturing industry cautious...

The employment dynamics in the manufacturing industry are coming to an end. In the comparison of the branches of the economy, this is the sector where the balance is falling most markedly, although at minus four points it remains at a level which largely indicates that workforces are remaining stable. In the manufacturing industry in particular the recruiting intentions are being damped down by worries about demand. Businesses with negative employment plans refer to domestic demand 15 percentage points more frequently, and foreign demand 14 points.

The diminishing dynamics of the economy are particularly noticeable among the manufacturers of intermediate goods and capital goods – also in terms of their employment intentions. The balances have fallen by ten and twelve points respectively, but remain just above their average of the last few years. Among the manufacturers of intermediate goods it is the chemical industry in particular which has expansionist employment plans (balance: five points) – engineers and chemists remain sought-after. However, in the rubber and plastics industry, and above all among the metal producers, the downturn in economic momentum is reflected in the negative employment plans. The reply balances have plummeted by 16 to minus five points and from nine to minus 13 points respectively.

... especially in motor vehicle construction

Among the manufacturers of investment goods, the fields of electrical engineering and mechanical engineering are being particularly cautious. Balance deteriorations in their employment intentions of 13 and eleven points to minus one and plus five respectively indicate that they will no longer be increasing their workforces. A reduction in the number of orders received and the debt crisis are

causing them to be cautious with their personnel planning.

Especially in the vehicle manufacturing industry there are a significant number of businesses which are afraid that they will not be able to maintain their workforces (27 percent; balance: minus twelve compared to minus four points in the early summer). The manufacturers of motor vehicle parts and accessories in particular are lowering their employment expectations significantly (deterioration in the balance by 16 to minus 28 points), while the car manufacturers are even showing signs of taking on new employees. The other vehicle construction sector (railway vehicles, air and spacecraft as well as ships and boats) is still proving robust (balance: minus one point).

Health creating jobs

Additional jobs in the manufacturing industry are being created not only by individual consumer categories (food: balance two points; leather: balance three points), but above all by the manufacturers of health products. Although the pharmaceutical industry is not able to maintain the high level shown in the previous surveys, it is nevertheless setting its sights on increasing the number of employees on balance (new balance: nine points compared to the previous level of 18 points). Together with companies working in the field of medical equipment (current balance: 17 compared to 25 points in the previous survey), the pharmaceutical industry is therefore the front-runner in increasing employment levels.

Overall, the healthcare industry – which now makes up almost 15 percent of the total number of employees in Germany who are liable for social insurance contributions – continues to show signs of increasing its employment levels (balance: twelve points; previous survey: 22 points). Among the health and social services, the urge to expand is continuing almost unabated (new balance: 21 points; early summer: 28 points). However, the

shortage of skilled workers in the healthcare industry is becoming even more acute – in spite of the slowing down in the economy. 45 percent of companies working in the healthcare industry now consider the shortage of skilled workers to be a risk to their economic development (previous survey: 44 percent). The situation appears to be particularly serious for businesses working in the health and social services: seven out of ten companies are afraid of a shortage of skilled workers.

Service providers intending to expand

Among the service providers the recruitment intentions display an upward trend overall. Both the company- and individual-related service companies are planning to expand the number of employees. The employment balances are 14 and eight points respectively (previous survey: 23 and nine points). Service providers from the field of research and development in particular intend to expand their workforce significantly (balance: 24 points). The telecommunications industry, as well as the culture and creative industries, also have plans to expand (current balances: 14 and nine points respectively). Above-average employment plans are also to be found among the organisers of trade fairs, exhibitions and congresses (balance increase by seven to 20 points). Companies are continuing to take advantage of these forums at home and abroad as a platform for presenting their products and services and acquiring new customers. An increase in the employment plans compared to the previous survey is also found among the leasing and letting service providers (balance improvement by three to plus four points), particularly in the capital goods sector (balance improvement by five to twelve points). In difficult economic times many companies take advantage of the possibility of the flexible use of investment goods, instead of purchasing them themselves. By this method they are also able to reduce the burden on their own capital.

Temporary employment bracing itself

The diminishing economic momentum and cost increases resulting from agreed pay supplements for temporary employees who have been working in some industries for prolonged periods are having significant effects on the employment intentions of the temporary employment companies. The business expectations have fallen as dramatically as at the low point of the 2009 crisis, with the drop in the employment balance of 42 points being by far the largest in the cross-sector comparison (new balance: minus eleven points). The main focus of the efforts is to retain the employees. The temporary employment agencies are finding above all that their service as an important flexibilisation instrument is becoming less attractive as a consequence of rising costs for some businesses who take on their employees. The risk of labour costs is rising dramatically among the temporary employment agencies compared to the previous survey. Currently, 60 percent of the temporary employment firms already see rising labour costs as being a risk to their economic development, whereas in the early summer this figure was approximately every second company (49 percent) and in the surveys before that significantly lower. The economic policy barriers are therefore determining the mood within the industry to a greater extent than the diminishing interest of customers as a result of the cyclical slowdown. Only 37 percent of temporary employment firms are worried about domestic demand.

Construction trade somewhat more hesitant

In the fall of 2012 the construction trade is adjusting its employment plans to the normal seasonal extent. With the new employment balance of minus three, the construction trade is only slightly below the value of last fall (minus one point), but still well above the long-term average (minus 25 points) and on course for expansion. The good developments up to now in the construction industry are based on the historically low con-

struction interest rates, which have boosted demand in the private house building sector. This is also reflected in the willingness to recruit. While the structural engineering and the finishing trade – both fields which tend to concentrate on private house building – have only corrected their recruitment intentions slightly downward (current balance: minus two and zero points respectively), the civil engineering – which is more dependent on public investments in construction – is proving hesitant (current balance: minus eight points).

Shortage of skilled workers remains a risk

The lack of suitable skilled workers is preventing a further increase in employment in many cases. This is becoming an increasing risk for the business activities of companies. Again, more than one company in three considers this to be a brake on its economic development in the short term (34 percent). In the previous survey 35 percent had considered this a risk, while the figure was 33 percent in the previous year and – when this aspect was surveyed for the first time at the beginning of 2010 – 16 percent. Therefore, the upward trend of this risk has only come to a standstill at a high level, but has certainly not been overcome.

Only in the manufacturing industry the risk is noticeably decreasing (from 30 to 26 percent) – in this sector the willingness to recruit has also fallen significantly. It is the business-related service providers in particular which consider the shortage of skilled workers to be a serious problem (further rise from 38 to 39 percent). These include businesses working in the field of temporary employment (61 percent), as well as firms of tax consultants and certified public accountants (55 percent). Among the health and social services (69 percent), in the hotel and restaurant industry (51 percent), the services to buildings/horticulture and landscaping sector, as well as the transport industry (41 percent), worries about securing skilled workers have reached record levels. The shortage of skilled workers is therefore again apparent not

only in MINT-oriented industries, but is also highly visible in other sectors, particularly the service sector.

Feeling the effects of rising labour costs

The effects of high labour costs are again considered a risk by companies. Compared to the early summer, the risk has indeed fallen slightly, but nevertheless one business in three considers labour costs to be a brake on its economic development. At 36 points, the small and medium-sized companies (20 to 200 employees) are again above the average with their appraisal, although their risk assessment has fallen slightly compared to the early summer (old balance: 39 points).

In particular, sectors which are especially labour-intensive or which require employees with low

professional qualifications rate the risk of labour costs as being higher. For example, compared to the early summer, companies working in the security industry (from 62 to 73 percent) and the providers of cleaning services (from 57 to 66 percent) consider the labour costs to be an even greater risk. The difficulty of securing skilled workers has also increased further for health and social service providers (from 56 to 57 percent). Additional cost increases resulting from regulations or the introduction of an across-the-board statutory minimum wage jeopardise the employment opportunities for people with low qualifications in labour-intensive industries in particular.

IHK-ECONOMIC SURVEY'S

The regional business surveys of the 80 Chambers of Industry and Commerce can be accessed at:
www.dihk.de/konjunktur.



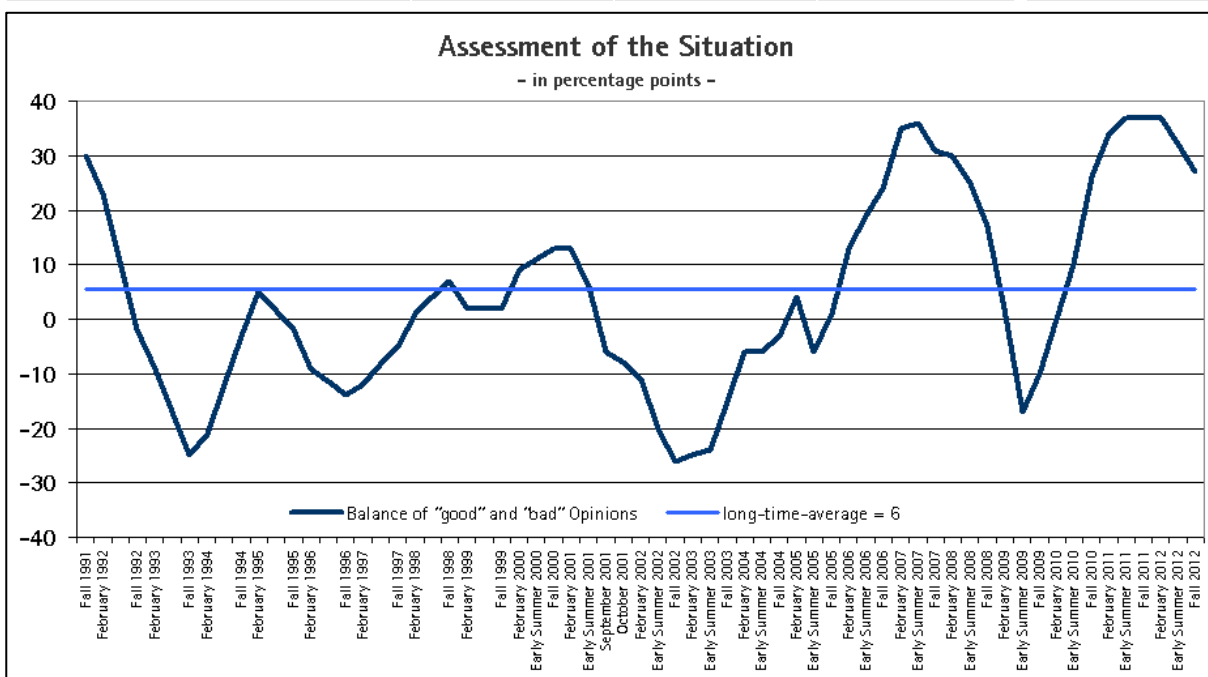
ADDENDUM

All shares in percent;

Balance = Share of „good/better“ opinions minus share of „bad/worse“ opinions in percentage points

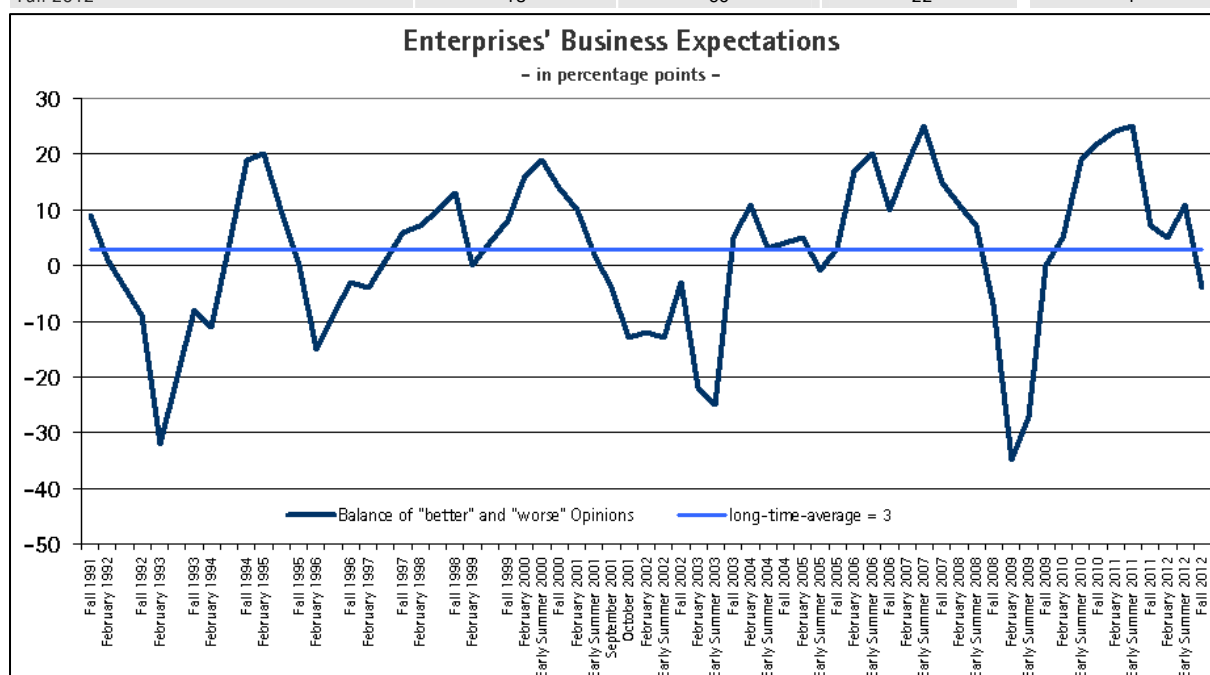
ECONOMIC SITUATION as seen by the Enterprises

	good	satisfactory	bad	Balance
September 2001	20	54	26	-6
October 2001	20	52	28	-8
February 2002	19	51	30	-11
Early Summer 2002	15	50	35	-20
Fall 2002	13	48	39	-26
February 2003	13	49	38	-25
Early Summer 2003	13	50	37	-24
Fall 2003	16	53	31	-15
February 2004	20	54	26	-6
Early Summer 2004	20	54	26	-6
Fall 2004	21	55	24	-3
February 2005	25	54	21	4
Early Summer 2005	20	54	26	-6
Fall 2005	24	53	23	1
February 2006	30	53	17	13
Early Summer 2006	34	51	15	19
Fall 2006	37	50	13	24
February 2007	44	47	9	35
Early Summer 2007	45	46	9	36
Fall 2007	42	47	11	31
February 2008	42	46	12	30
Early Summer 2008	38	49	13	25
Fall 2008	33	51	16	17
February 2009	26	50	24	2
Early Summer 2009	18	47	35	-17
Fall 2009	20	50	30	-10
February 2010	24	52	24	0
Early Summer 2010	28	54	18	10
Fall 2010	38	50	12	26
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



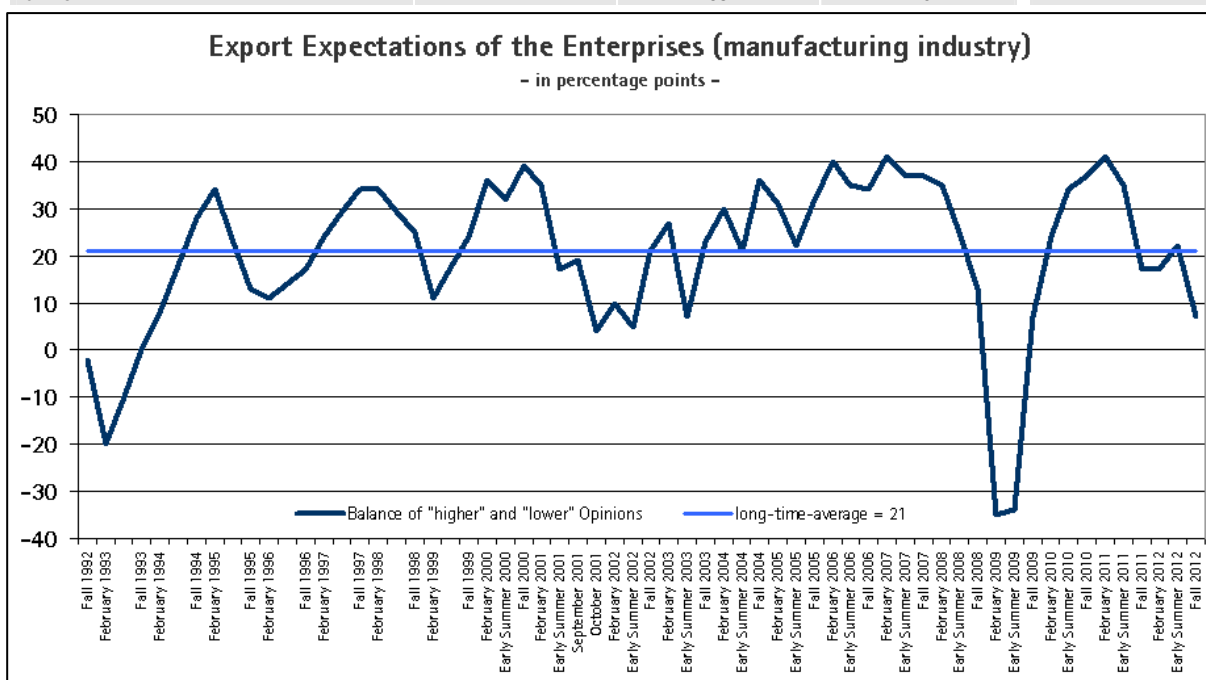
BUSINESS EXPECTATIONS of the Enterprises

	better	about equal	worse	Balance
September 2001	22	52	26	-4
October 2001	18	51	31	-13
February 2002	22	44	34	-12
Early Summer 2002	23	41	36	-13
Fall 2002	26	45	29	-3
February 2003	18	42	40	-22
Early Summer 2003	17	41	42	-25
Fall 2003	28	49	23	5
February 2004	32	47	21	11
Early Summer 2004	27	49	24	3
Fall 2004	26	52	22	4
February 2005	25	55	20	5
Early Summer 2005	22	55	23	-1
Fall 2005	23	57	20	3
February 2006	31	55	14	17
Early Summer 2006	33	54	13	20
Fall 2006	27	56	17	10
February 2007	31	56	13	18
Early Summer 2007	34	57	9	25
Fall 2007	28	59	13	15
February 2008	26	59	15	11
Early Summer 2008	24	59	17	7
Fall 2008	18	57	25	-7
February 2009	11	43	46	-35
Early Summer 2009	14	45	41	-27
Fall 2009	24	52	24	0
February 2010	26	53	21	5
Early Summer 2010	33	53	14	19
Fall 2010	33	56	11	22
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



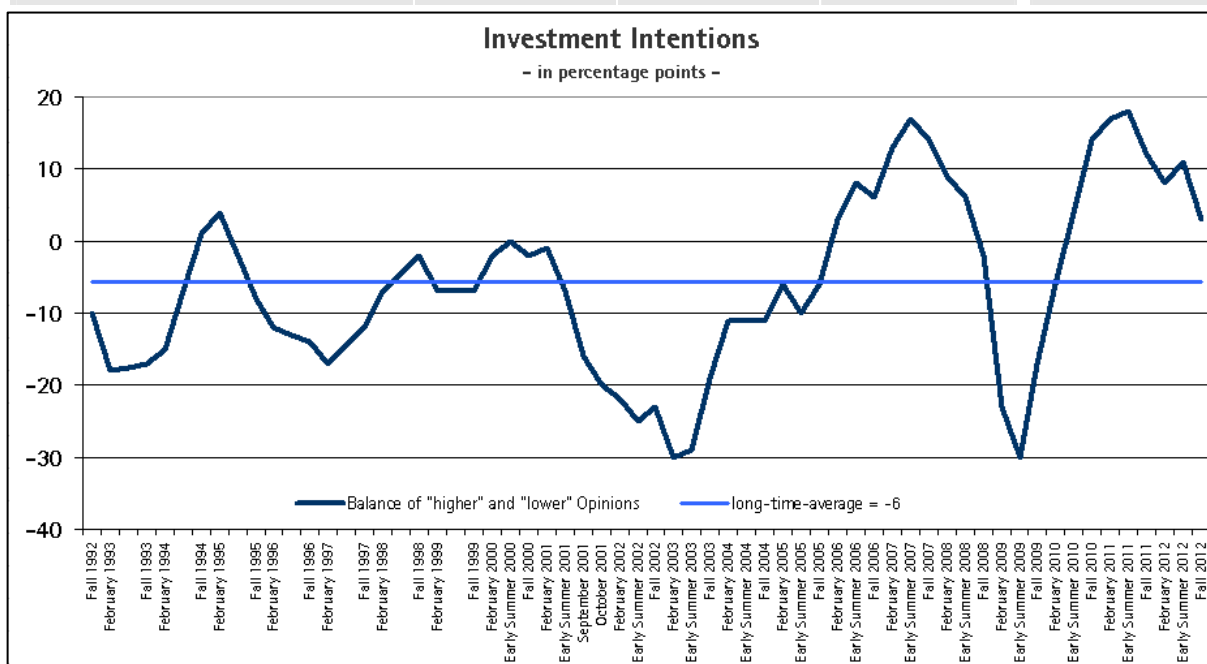
EXPORT EXPECTATIONS of the Enterprises (manufacturing industry)

	higher exports	about equal exports	lower exports	Balance
September 2001	34	51	15	19
October 2001	27	50	23	4
February 2002	29	52	19	10
Early Summer 2002	26	53	21	5
Fall 2002	34	53	13	21
February 2003	38	51	11	27
Early Summer 2003	27	53	20	7
Fall 2003	36	51	13	23
February 2004	41	48	11	30
Early Summer 2004	34	53	13	21
Fall 2004	44	48	8	36
February 2005	41	49	10	31
Early Summer 2005	35	52	13	22
Fall 2005	41	50	9	32
February 2006	47	46	7	40
Early Summer 2006	42	51	7	35
Fall 2006	42	50	8	34
February 2007	47	47	6	41
Early Summer 2007	42	53	5	37
Fall 2007	44	49	7	37
February 2008	43	49	8	35
Early Summer 2008	35	55	10	25
Fall 2008	30	53	17	13
February 2009	13	39	48	-35
Early Summer 2009	14	38	48	-34
Fall 2009	29	49	22	7
February 2010	37	50	13	24
Early Summer 2010	43	48	9	34
Fall 2010	44	49	7	37
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



INVESTMENT INTENTIONS of the Enterprises

	higher investment	about equal investment	lower investment	Balance
September 2001	18	48	34	-16
October 2001	16	48	36	-20
February 2002	17	44	39	-22
Early Summer 2002	17	41	42	-25
Fall 2002	15	47	38	-23
February 2003	15	40	45	-30
Early Summer 2003	15	41	44	-29
Fall 2003	16	49	35	-19
February 2004	19	51	30	-11
Early Summer 2004	19	51	30	-11
Fall 2004	18	53	29	-11
February 2005	21	52	27	-6
Early Summer 2005	20	50	30	-10
Fall 2005	20	54	26	-6
February 2006	24	55	21	3
Early Summer 2006	27	54	19	8
Fall 2006	25	56	19	6
February 2007	29	55	16	13
Early Summer 2007	31	55	14	17
Fall 2007	30	54	16	14
February 2008	28	53	19	9
Early Summer 2008	26	54	20	6
Fall 2008	22	54	24	-2
February 2009	16	45	39	-23
Early Summer 2009	14	42	44	-30
Fall 2009	16	51	33	-17
February 2010	21	52	27	-6
Early Summer 2010	25	54	21	4
Fall 2010	29	56	15	14
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



EMPLOYMENT INTENTIONS of the Enterprises

	higher employment	about equal employment	lower employment	Balance
September 2001	12	63	25	-13
October 2001	10	61	29	-19
February 2002	10	59	31	-21
Early Summer 2002	10	58	32	-22
Fall 2002	9	58	33	-24
February 2003	8	53	39	-31
Early Summer 2003	7	55	38	-31
Fall 2003	9	60	31	-22
February 2004	10	61	29	-19
Early Summer 2004	11	58	31	-20
Fall 2004	10	64	26	-16
February 2005	12	62	26	-14
Early Summer 2005	11	61	28	-17
Fall 2005	12	63	25	-13
February 2006	16	64	20	-4
Early Summer 2006	18	64	18	0
Fall 2006	17	66	17	0
February 2007	21	67	12	9
Early Summer 2007	25	64	11	14
Fall 2007	22	65	13	9
February 2008	21	66	13	8
Early Summer 2008	20	66	14	6
Fall 2008	16	66	18	-2
February 2009	9	62	29	-20
Early Summer 2009	8	59	33	-25
Fall 2009	10	65	25	-15
February 2010	12	67	21	-9
Early Summer 2010	16	69	15	1
Fall 2010	19	69	12	7
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

