

Focus on: Germany

International Business Report 2010 – Country focus series

The recovery

After enduring one of the worst contractions in output, Germany has been amongst the first to return to growth, leading the eurozone out of recession. The stabilisation and subsequent growth in global trade has helped this manufacturing-heavy exporting nation regain its poise. However, uncertainty remains over the recovery path once government stimuli fade and the risks to exports posed by the strength of the euro increase.

The key indicators¹ are highlighted below:

- having grown for two consecutive quarters, the economy remained flat in the fourth quarter, a 1.7 per cent year-on-year contraction
- investment remains weak – gross fixed capital formation contracted by 0.7 per cent quarter-on-quarter in Q4, 6.2 per cent down on the same period 12 months ago
- German consumers, who have proven rather resilient, have been helped by government measures to keep people in work and to help them buy new or nearly new cars, although private consumption fell by 0.1 per cent in the three months to December
- export sales picked up by 2.5 per cent in October, although order books remain well below 2007-2008 levels
- industrial production in October fell unexpectedly by 1.8 per cent on the previous month, as capital goods showed a sharp drop.

Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on Germany, the experiences and attitudes of its privately held businesses and how they have been affected by the economic crisis along with how they are dealing with recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in Germany are more optimistic this year as regards the outlook for the economy over the next 12 months, but just over half expected to see an upturn in the global economy by the end of 2010. Business expectations for revenue and profitability are more optimistic than last year, but a lack of demand for products and services remains the major constraint on potential expansion.



¹ Source: International Monetary Fund, The Economist and Experian.

Looking ahead

The global economy has emerged from recession, with most of the G7 economies now growing. This, coupled with the return of strong growth in emerging Asia, has been a boon to Germany's all-important export-led economy. With job prospects better than they were just a few months ago, growth projections for 2009 and 2010 have been upgraded.

After contracting by 4.6 per cent in 2009, Germany's economy is expected to expand by 1.6 per cent in 2010. Growth will be broadly based, with household and government spending and stockbuilding all contributing equally to expansion. Stimulus measures will continue to have a supportive influence, particularly for consumer spending and construction. As the destocking process ends, this will also exert a positive impulse.

Investment is expected to be an even more important contributor in 2010, especially as exporters again think about capital expenditures after putting plans on hold in 2009. Investment will lead the way in 2011 as well, with activity expected to finally approach 2008 levels after 2009's sharp decline. With the global economy entering into a fully-fledged recovery, net exports will also be a driver of growth. Exporters' good fortunes should be a boon for labour, with consumers expected to finally start to raise their game in 2011, once the global recovery becomes entrenched.

Risks are related to the end of some stimulus measures, which had kept people in work and promoted car sales. Their eventual end could see a sharp rise in unemployment.

As the economy exits recession, all businesses will need to face new challenges and take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Figure 1: Key indicators for PHBs

Germany compared to the EU average	2008 Ger	2009 Ger	2010 Ger	2010 EU
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+67%	-3%	+38%	+7%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+24%	+3%	-5%	-1%
Constraints on expansion				
Shortage of orders/reduced demand	16%	51%	42%	41%
Regulations/red tape	35%	27%	40%	34%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can help you deal with the challenges of a new world economic order.



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International Business Report results

The Grant Thornton IBR 2010 reveals that privately held businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in Germany are less pessimistic about prospects for 2010; their optimism/pessimism balance² has risen 41 percentage points from -3 per cent in 2009 to +38 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

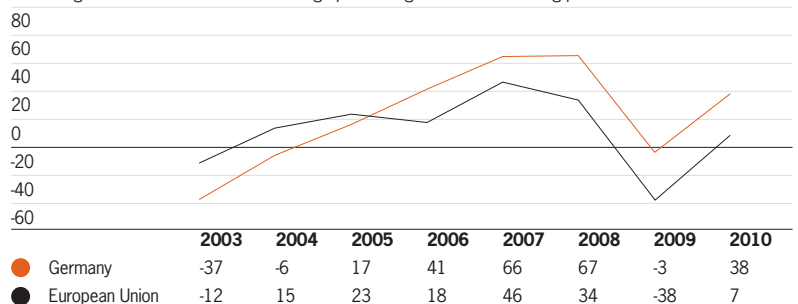
Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Optimism/pessimism

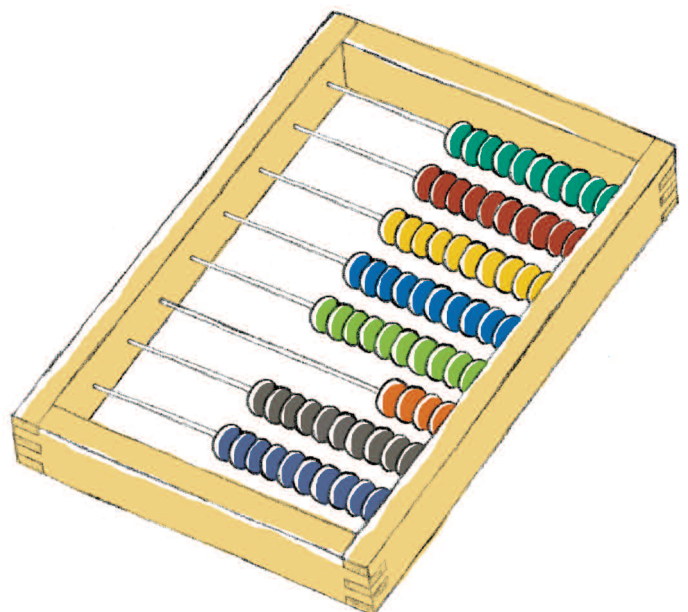
- businesses in Germany are more optimistic about their economy this year (+38 per cent) compared with 2009 (-3 per cent)
- optimism levels in Germany (+38 per cent) are considerably higher than the EU³ average (+7 per cent)
- optimism amongst businesses across the EU region as a whole has risen by 45 percentage points this year, from -38 per cent to +7 per cent.

Figure 2: Outlook for the economy over the next 12 months: 2003-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

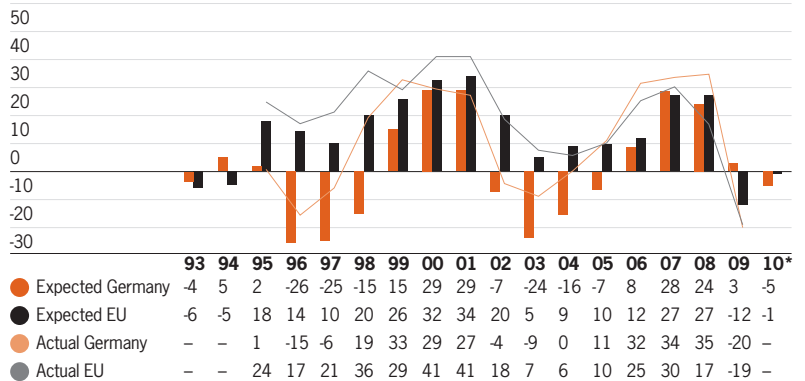
³ for the purposes of IBR, the term 'EU' refers to those EU countries covered by our survey – Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

Employment

- businesses in Germany expect employment to contract in 2010: the 2010 balance of -5 per cent represents a fall of eight percentage points from the previous year (+3 per cent)
- expectations have risen 11 percentage points, across the EU as a whole, although businesses still expect employment to contract (-1 per cent)
- actual employment growth reported by businesses in Germany for 2009 (-20 per cent) was considerably lower than expected 12 months previously (+3 per cent).

Figure 3: Employment history: 1993-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



*2010 data will be documented in IBR 2011

Please note that the expected values are represented by the bars and the actual values by the lines

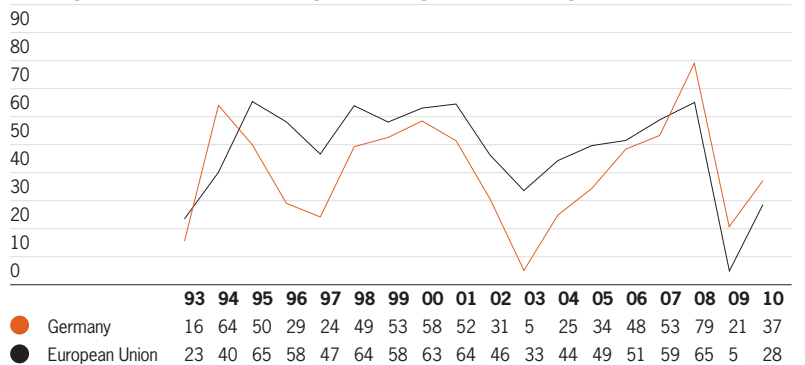
Source: Grant Thornton IBR 2010

Revenue expectations

- expectations for revenue prospects have risen by 16 percentage points this year to +37 per cent, up from +21 per cent in 2009
- the EU average has risen by 23 percentage points, from +5 per cent last year to +28 per cent this year.

Figure 4: Revenue expectations: 1993-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



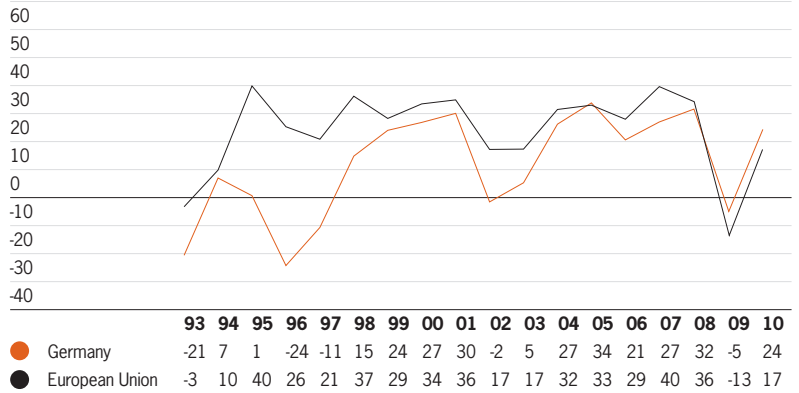
Source: Grant Thornton IBR 2010

Profitability expectations

- the balance of businesses expecting to increase profits in Germany has also risen; a 29 per cent increase, up from -5 per cent in 2009 to +24 per cent this year
- the EU average has risen 30 percentage points and turned positive again, following last year's dip (-13 per cent), to +17 per cent in 2010.

Figure 5: Profitability expectations: 1993-2009

Percentage balance of businesses indicating an increase against those indicating a decrease



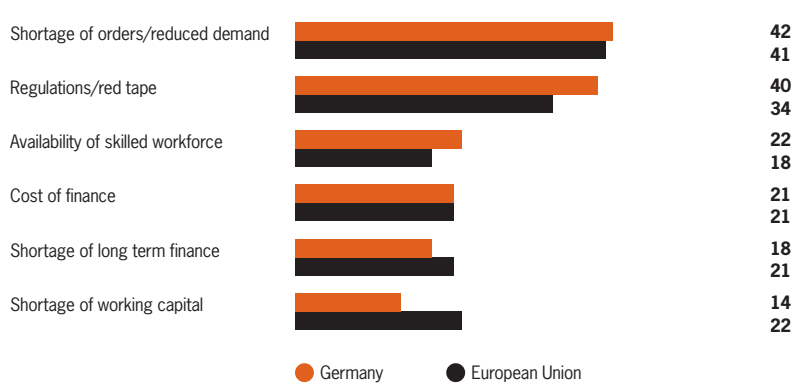
Source: Grant Thornton IBR 2010

Constraints

- a shortage of orders/reduced demand has been cited as the most pressing constraint on expansion by businesses in Germany since 2009; this year it is cited as a major constraint by 42 per cent of businesses, similar to the EU average (41 per cent)
- regulations/red tape (40 per cent) is cited as the second greatest constraint by businesses in Germany, compared with 34 per cent of businesses across the EU as a whole.

Figure 6: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



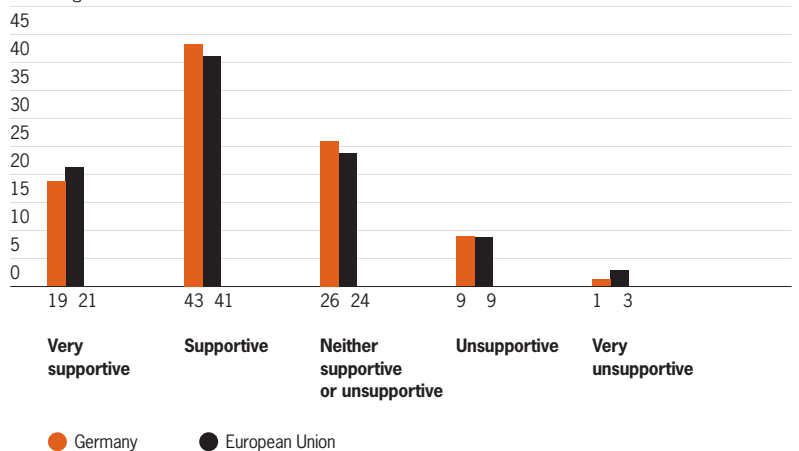
Source: Grant Thornton IBR 2010

Support of lender

- the majority of businesses in Germany are happy with the level of support provided by lenders; 62 per cent class lenders as supportive or very supportive towards their business
- this is identical to businesses across the EU as a whole
- moreover, just ten per cent of businesses in Germany believe that lenders are unsupportive or very unsupportive of their business, compared with the EU average of 12 per cent.

Figure 7: Level of support provided by lenders

Percentage of businesses

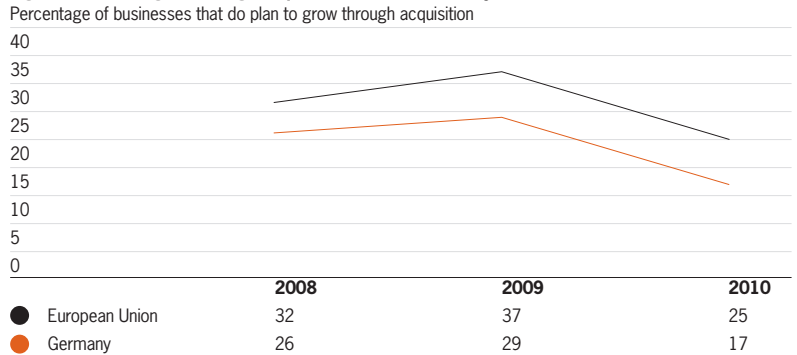


Source: Grant Thornton IBR 2010

Mergers & acquisitions

- the proportion of businesses in Germany planning to grow through acquisition this year has fallen from 29 per cent in 2009 to 17 per cent
- the EU average also dropped this year, from 37 per cent in 2009 to 25 per cent.

Figure 8: Plans to grow through acquisition in the next three years



Source: Grant Thornton IBR 2010

Business relations with Switzerland

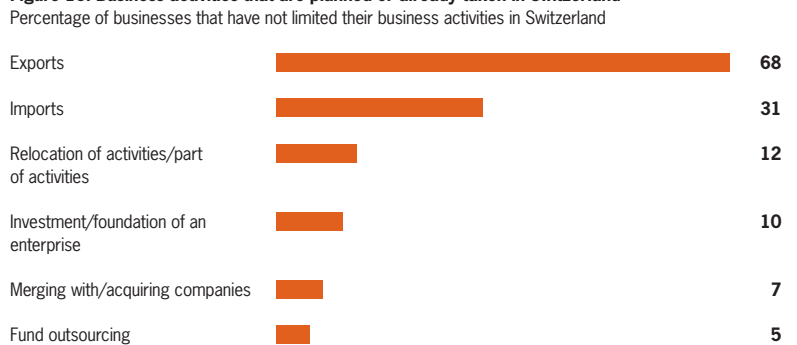
- the majority of businesses in Germany (57 per cent) do not have business relationships with Switzerland
- of the remainder that do, seven per cent plan to or already have limited businesses activities
- the main business activity for the German businesses that are not limiting activities is exporting to Switzerland (68 per cent)
- 31 per cent of businesses, not limiting ties, are importing from Switzerland
- German businesses favour easy VAT reimbursement, tax privileges for employing local staff and for entrepreneurs as the most important tax incentives when considering business activities in Switzerland
- many businesses see the general economic situation, due to the recession, as the greatest barrier against conducting business activities in Switzerland.

Figure 9: Plan to (within the next two years) or already have limited business activities with Switzerland



Source: Grant Thornton IBR 2010

Figure 10: Business activities that are planned or already taken in Switzerland



Source: Grant Thornton IBR 2010

