Grant Thornton

Germany

International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most economies remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic economy with an optimism/pessimism balance[1] of +95 per cent with the Philippines joining them at the top for the first time (also +95 per cent). Japan is still at the bottom this year with a balance of -49 per cent whilst PHBs in Germany are slightly more optimistic about 2008 (+67 per cent) than they were about 2007 (+66 per cent).

Levels of optimism have fallen amongst European Union (EU)[2] businesses. This year a balance of +34 per cent of EU businesses are positive about their country's economy compared to a balance of +46 per cent in 2007. However, levels of optimism vary extensively throughout the EU countries with Denmark recording the highest balance with +74 per cent optimistic, while Spanish PHBs are most pessimistic about their economy over the next year (-5 per cent).

1 the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.
2 for the purposes of IBR, the term 'EU' refers to those EU economies covered by our survey – Belgium, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

The German economy

Economic growth in Germany slowed substantially during the last three months of 2007, as consumer spending declined by 0.8 per cent. Export growth was substantially lower, at +1.3 per cent in the fourth quarter compared to +2.5 per cent in the third quarter, while government consumption retreated by 0.5 per cent. Investment regained some of the shine lost in the previous six months, but the annual profile was nonetheless still heading downwards. Despite constant progress on the labour market, consumer spending remains the black spot of the German economy. Unemployment fell to 7.6 per cent in January 2008, while 598,000 jobs were added to the economy last year (employees). However, surging prices, marginal progress on income and high indebtedness levels continue to weigh on household spending. The volume of retail sales fell by two per cent last year while household spending surveys remained on balance negative.

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Business expectations/revenue

- PHBs in Germany are much more optimistic about their revenue prospects in 2008 (+79 per cent) compared to 2007 (+53 per cent).
- Their levels of optimism regarding revenue performance are now above both the EU (+65 per cent) and global (+63 per cent) averages.
- Levels of optimism regarding exports in 2008 (+41 per cent) represent an 11 per cent rise from 2007. This is well above the EU (+28 per cent) and global (+18 per cent) averages.

Employment

- Expected employment in Germany has fallen from +28 per cent in 2007 to +24 per cent in 2008.
- Businesses in the EU as a whole are now more optimistic +27 per cent with regard to employment growth in 2008 than German businesses.
- Actual reported employment growth in Germany (+34 per cent) was higher than expected in 2007.

Figure 1: Revenue expectations for Germany and the European Union average 1993-2008

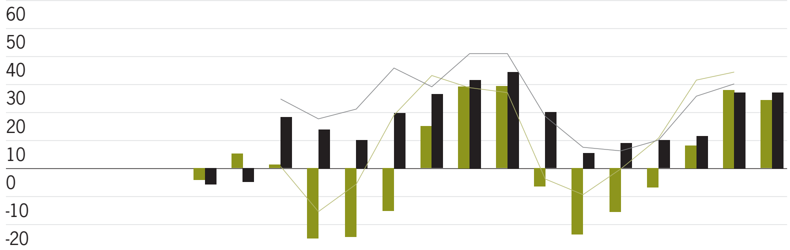
Percentage balance of businesses indicating optimism against those indicating pessimism

	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08
Germany	16	64	50	29	24	49	53	58	52	31	5	25	34	48	53	79
European Union	23	40	65	58	47	64	58	63	64	46	33	44	49	51	59	65

Source: Grant Thornton IBR 2008

Figure 2: Employment history of Germany and the European Union average 1993-2008

Percentage balance of businesses indicating optimism against those indicating pessimism

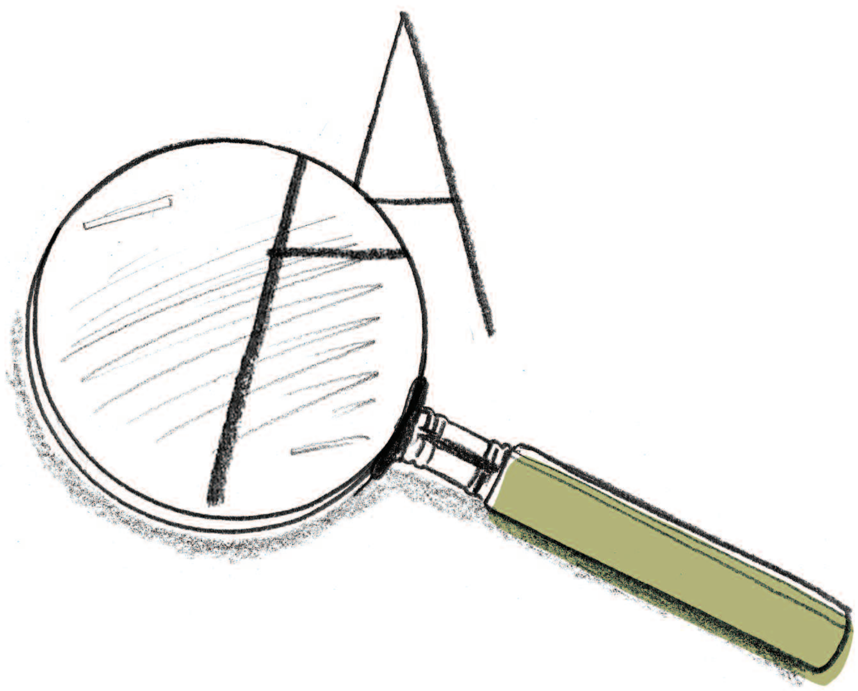


	93*	94*	95	96	97	98	99	00	01	02	03	04	05	06	07	08**
Expected Germany	-4	5	2	-26	-25	-15	15	29	29	-7	-24	-16	-7	8	28	24
Expected EU	-6	-5	18	14	10	20	26	32	34	20	5	9	10	12	27	27
Actual Germany	–	–	1	-15	-6	19	33	29	27	-4	-9	0	11	32	34	–
Actual EU	–	–	24	17	21	36	29	41	41	18	7	6	10	25	30	–

*no data available

**2008 data will be documented in IBR 2009

Source: Grant Thornton IBR 2008



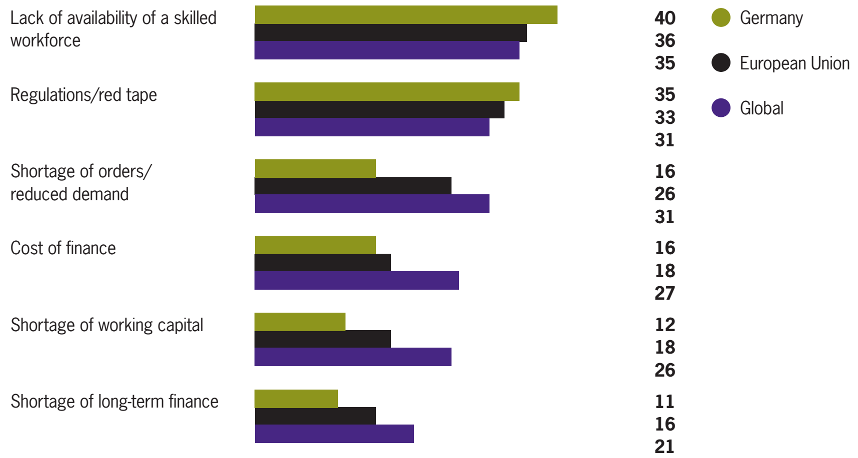
Constraints

- The availability of a skilled workforce is the constraint restricting expansion, cited most by businesses in Germany (40 per cent).
- Lower proportions of German businesses cite the shortage of orders/reduced demand, cost of finance, shortage of long-term finance and shortage of working capital than either the EU or global averages.
- Over one third of German businesses cite regulations/red tape as a constraint, which is marginally higher than the EU and global averages.

Emerging markets

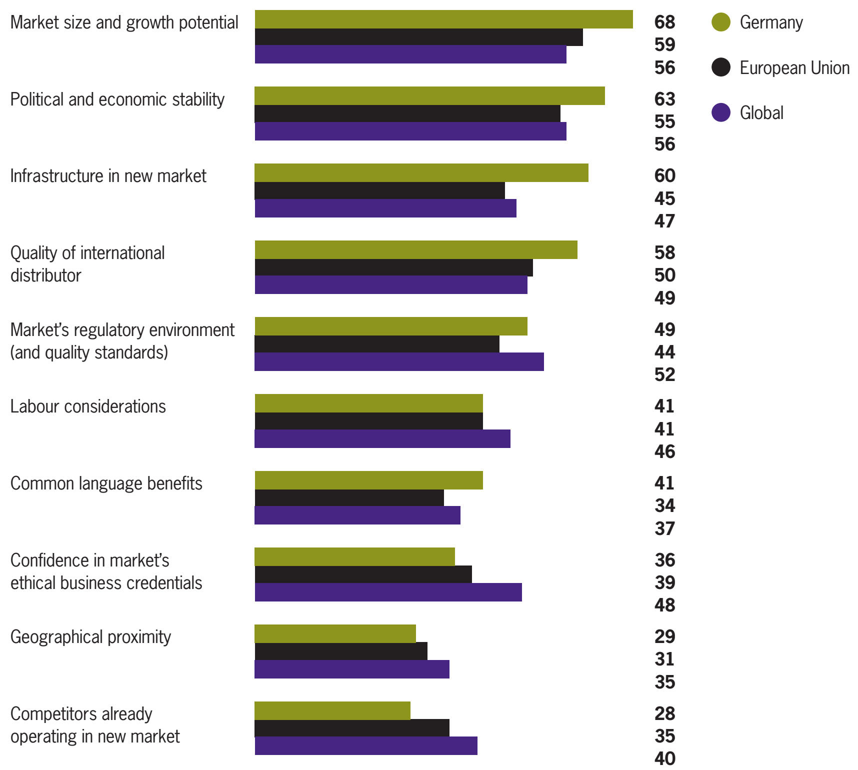
- The most important factor for PHBs in Germany, when determining whether to invest internationally, as is the case for businesses globally, is market size and growth potential (68 per cent).
- The number of German businesses which export (61 per cent) is higher than the global average (39 per cent) and is up from 50 per cent in 2007.
- 63 per cent of PHBs in Germany import, this is way above the global average of 39 per cent.
- 42 per cent of German businesses, as well as businesses globally, see their main competition coming nationally.

Figure 3: Largest constraints on growth for German businesses compared to the European Union and the global average
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 2008

Figure 4: Importance of factors determining foreign investment
Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



Source: Grant Thornton IBR 2008

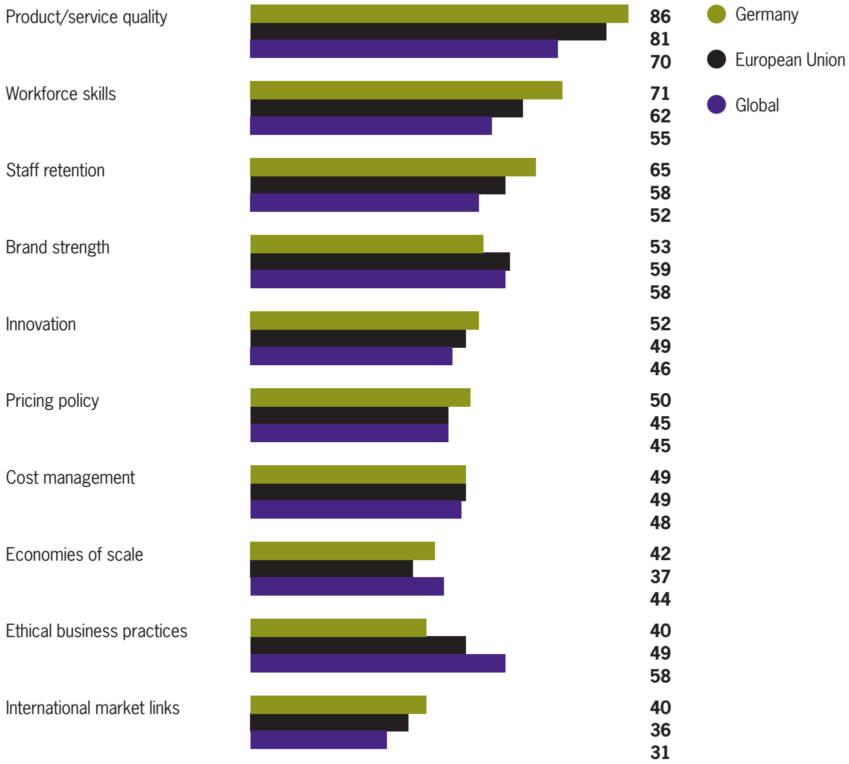
Competitiveness

- PHBs in Germany see their greatest source of competitive advantage as product service quality (86 per cent), as is true of businesses globally.
- 71 per cent of German businesses see workforce skills as a source of competitive advantage. This is above the global business average of 55 per cent.
- Ethical business practices are cited by 58 per cent of businesses globally but by just 40 per cent of PHBs in Germany.

Corporate social responsibility (CSR)

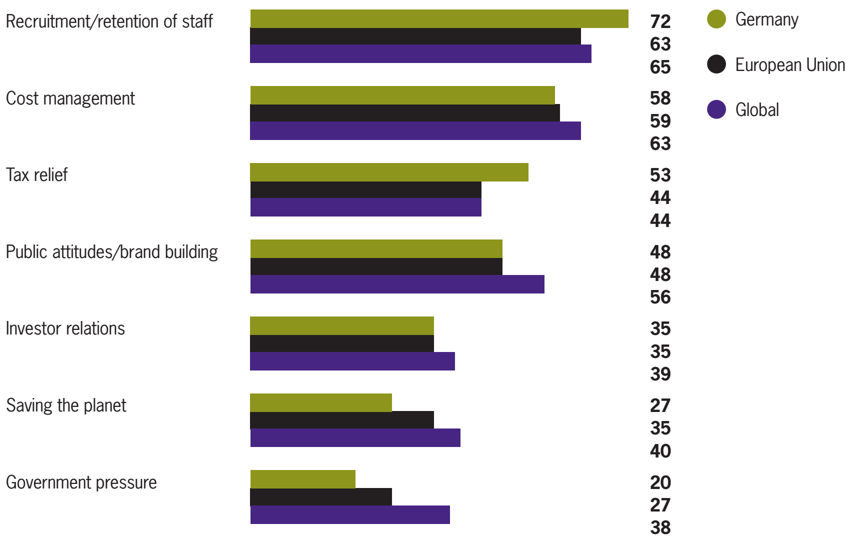
- The recruitment/retention of staff is viewed as the biggest driver towards more ethical practices by PHBs in Germany (72 per cent). This is higher than the EU (63 per cent) and global (65 per cent) averages.
- 93 per cent of PHBs in Germany provided internships/apprenticeships/work experience in the past year, compared to 67 per cent of all businesses.
- Just 39 per cent of German businesses have incorporated their policies in to a written CSR document, which is slightly lower than the EU average of 45 per cent.

Figure 5: Main sources of competitive advantage for German businesses compared to the European Union and the global average
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for German businesses compared to the European Union and the global average
Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



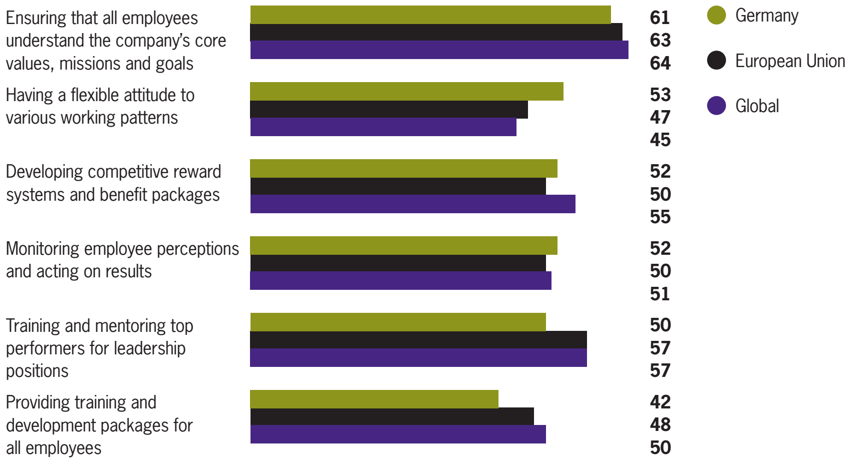
Source: Grant Thornton IBR 2008

Recruitment and retention

- The balance of PHBs in Germany more focused on retention than one year ago is +48 per cent. This up from +25 per cent in 2005, but remains below the EU (52 per cent) and global (59 per cent) averages.
- Similarly to PHBs in the EU in general, 61 per cent of German businesses ensure that all employees understand the company's core values, mission and goals to aid recruitment/retention.
- Cited by 49 per cent of PHBs in Germany, an increased workload for remaining staff is viewed as the major problem caused by staff retention issues.
- It is costing 68 per cent of German businesses significantly more to pay their staff than it was 12 months ago, above both the EU (58 per cent) and global (63 per cent) averages.

Figure 7: Usage of recruitment and retention tools for German businesses compared to the European Union and the global average

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for the German economy

Figures from the start of 2008 have confirmed that the business cycle in Germany is now heading for a significant slowdown. Industrial activity is feeling the pinch from slowing world demand, with production growth at 4.3 per cent year-on-year in December 2007, compared to eight per cent in Q1 2007.

Sharp corrections in both foreign and domestic orders in the course of last year do not bode well for industrial activity in 2008. Combined with a strong euro and liquidity problems, this could in turn weigh down on business investment, which is already expected to slow next year.

Stricter financing terms will impact small to medium-sized companies, which rely heavily on bank lending. There is also a risk that tighter monetary conditions could bite into investment plans on the part of German households. Lower growth in business investment and exports this year should only partially be compensated by a recovery in consumer spending. GDP is expected to progress by 1.6 per cent in 2008 and 1.8 per cent in 2009.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six-year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

Argentina
Armenia
Australia
Belgium
Botswana
Brazil
Canada
Mainland China
Denmark
France
Germany
Greece
Hong Kong
India
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Philippines
Poland
Russia
Singapore
South Africa
Spain
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Taiwan
Thailand
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