

Navigator

Now, next and how for business

Germany



Together we thrive

Overview

Domestic demand picks up the slack from global slowdown

After a decade of outperformance, Germany's export-driven economy has suffered from the slowdown in global demand. However, domestic demand remains resilient with unemployment at record lows. The robust services sector and easier credit conditions are underpinning growth.¹

State of play

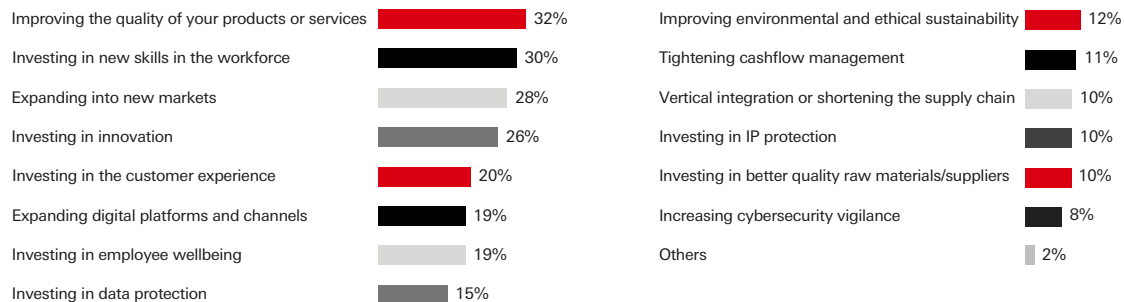
Workforce the leading factor in growth predictions

German companies are positive about growth but are less bullish than their European peers. More than three-quarters of companies (78%) project business growth in the next five years, compared to 82% worldwide and 89% in Europe.

However, only one-third of businesses in Germany are more optimistic than they were a year ago, a lower proportion than the 47% globally and 41% across Europe. Among European markets, only Belgium is less optimistic.

Workforce issues drive growth far more than in any other market. More than a third of businesses believe workforce motivation, and the quality and availability of skilled labour, are the most important contributors to growth.

Strategies to overcome the threats or potential decline of business



What you need to know



Only 15% of businesses expect growth of 15% or more in the next year compared to 22% globally.



Only a third of German companies expect substantial or total change in their business in the next five years, compared to half of their global competitors.



Nearly a third of German companies will invest in workforce skills to maintain competitiveness against just one in five of their international peers.

What your business can do



Focus on the skills, motivation and quality of your workforce. 37% of German companies forecasting growth cite a motivated workforce as a main driver, compared to 25% globally and the quality and availability of a skilled workforce is driving growth for 35%, compared to 24% worldwide.



Embrace new ideas to boost growth. The top external driver for companies expecting sales to grow is new markets opening up (36%), while introducing new products or services is an internal driver for 27%.

Trade outlook

Germany focuses on its own backyard

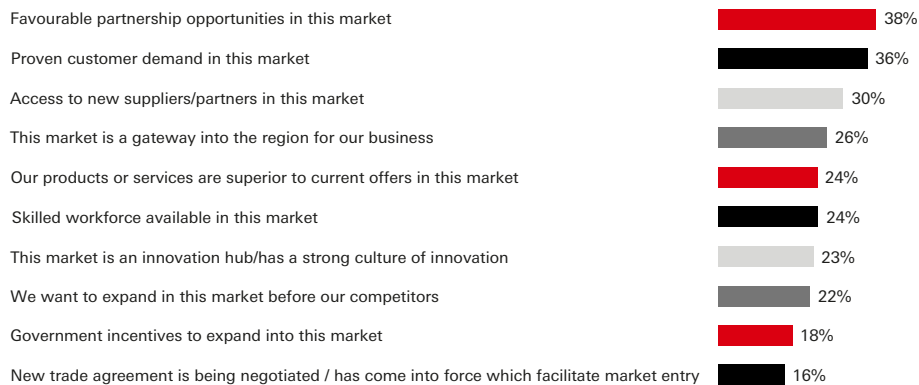
Germany has always been a powerhouse of international trade, especially in manufacturing, but almost half (47%) of German businesses have reduced trading relationships with other markets in the last two years and almost a third (37%) expect to do so in the next two years. Europe and the US remain key markets for Germany, but the number of companies doing business in these regions has declined in the last year. Only China has held steady, while the number trading with France, still the biggest single trade partner, has dropped by 6% to 24%.

More than a third of German firms cite geopolitical risk and declining customer demand as the main reasons for the setbacks in European trade. 32% also highlight increased competition.

Businesses in Germany believe in the idea of trade as a force for good, agreeing that over the next five years international trade will drive innovation (Germany: 75%, Global: 80%), improve efficiency (Germany: 74%, Global: 78%) and provide new business opportunities (Germany: 72%, Global: 79%).

Germany itself, ranking equally alongside France, is seen as the most attractive market in Europe for future expansion. Favourable partnership opportunities appeal to 38% of companies, while proven customer demand and access to new suppliers are seen as the other major advantages.

Reasons for market attractiveness (companies trading with Germany)



What you need to know



Three-quarters of trade from Germany remains within Europe, the same level as 2018.



48% of German firms consider Europe to be the top region for expansion in the next three to five years.



27% of businesses that have withdrawn/reduced or plan to withdraw/reduce in the next two years from Germany cite rising labour costs as the main reason.

What your business can do



Consider how your business can offset the impact of the rising labour costs which make Germany unattractive to trade partners.



Look at new market opportunities that are less heavily exposed to geopolitical risks. 37% of German companies believe this is a reason for cutting back on trading relationships in Europe.

Protectionism and geopolitics

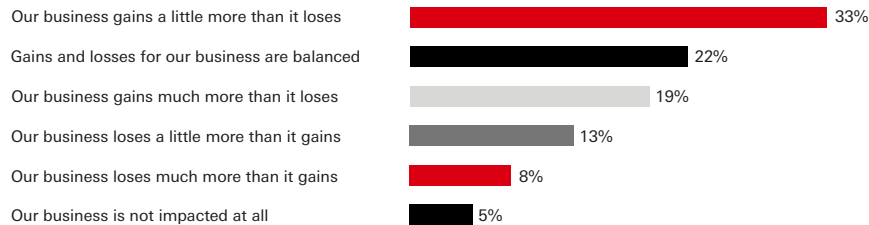
Businesses don't see the threat of protectionism

German companies are much less concerned about protectionism than almost any other country in the world except Sweden. The number of businesses that think their key markets are becoming more protectionist declined by 4% from 2018 to 2019 and now stands at just 42%.

Even then, half of companies who believe protectionism is on the rise feel that they will gain overall benefits from this trend, with one in five identifying increased competitiveness as the main positive impact. However, more than a third of companies see increased costs from tariffs as being the main negative effect.

While 10% of companies worry more about geopolitical disruption than protectionism, it is still not felt nearly as strongly in Germany as elsewhere. Taking more business online is the most common response to the geopolitical threats, while 31% of companies are coping with protectionism by cutting costs. More than a quarter of businesses would react by exiting protectionist markets.

Gains and losses businesses feel due to protectionism



What you need to know



Just 42% of German companies think key markets are getting more protective compared to 65% globally.



73% of domestically-focused companies expect to benefit from protectionism, while only 39% of international firms feel the same.



52% of German firms think geopolitics will affect them – far fewer than the global average of 64%.

What your business can do



Consider taking more of your business online. 28% of businesses see this as a key strategy to mitigate geopolitical risk.



Source from local suppliers to overcome protectionist barriers. This is a preferred strategy for 28% of businesses.

The sustainable future

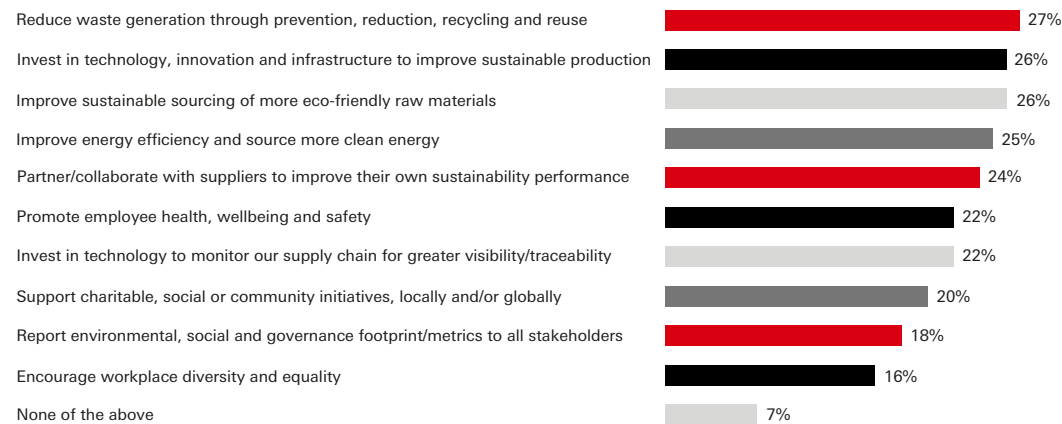
Caring consumers drive sustainable practices

German businesses are not focused on meeting the UN's Sustainable Development Goals (SDGs). Less than half think they have a role to play here, well below their European and global peers. For those that do, a third see affordable and clean energy as the most relevant, while quality of education is cited by one in five as the area where they can contribute the most.

German companies see sustainable practices as a good way to improve operational efficiency (31%), gain competitive advantage (28%) and meet buyer expectations (28%). Meeting consumer expectations is the biggest driver for implementing sustainability standards over the next five years with 38% acknowledging this as a reason, well ahead of government or competitor pressure.

A third of companies see extra work time as the main challenge in boosting sustainability over the next five years, while a quarter see lack of knowledge, extra finance, and lack of a consistent government reporting framework as the primary obstacles.

Sustainable investment priorities over the next five years



What you need to know



45% of businesses think they have a role to play in delivering the UN's SDGs, significantly below the 63% global average.



38% of companies feel pressure from end consumers to become more sustainable over the next five years.



German companies focus less on employee health and wellbeing than their counterparts internationally. Just 22% see this as important.

What your business can do



Look at implementing sustainable practices in your business. 31% of German companies see this as a way to improve operational efficiency.



Invest in a portfolio of environmentally-friendly strategies. More than a quarter of German companies are spending on reducing waste, sustainable production, sustainable sourcing of eco-friendly raw materials and clean or efficient energy.

Breakthrough tech

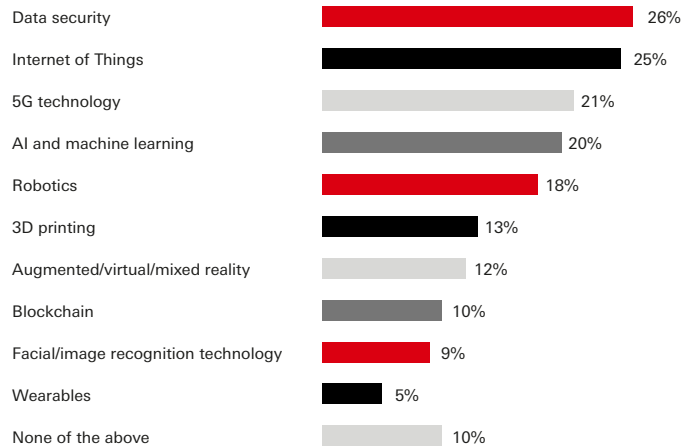
Disruptive tech driving product and service improvements

When it comes to innovation, a quarter of German businesses believe data security and the Internet of Things (IoT) are the technologies that will have the biggest impact in the next five years, while one in five are excited about the possibilities of 5G and artificial intelligence (AI).

Companies are expecting all four of these disruptive technologies to play a key role in improving product and service quality. More specifically, 38% of companies believe advances in data security will improve business transparency while more than half see AI as a route to reducing costs.

While Germany is acknowledged as the leading technology hub in Europe, especially in the field of data security, there is widespread acceptance that the US is the global leader in AI, 5G and IoT.

Technologies businesses think will be important over the next five years



What you need to know



Businesses think Germany is ahead of China for 5G but behind in AI and IoT.



39% believe Germany is world leader in data security against 16% who rate the US as top player.



In the next five years, data security (26%), IoT (25%), 5G technology (21%) and AI (20%) are seen as the top technologies that will impact German businesses.

What your business can do



Consider adopting AI solutions as part of your business strategy. 51% of companies believe this will reduce costs while 42% think it will improve productivity.



Leverage technology to improve the quality of your products or services. This is the most common benefit German businesses expect from new tech.

About HSBC Navigator Germany

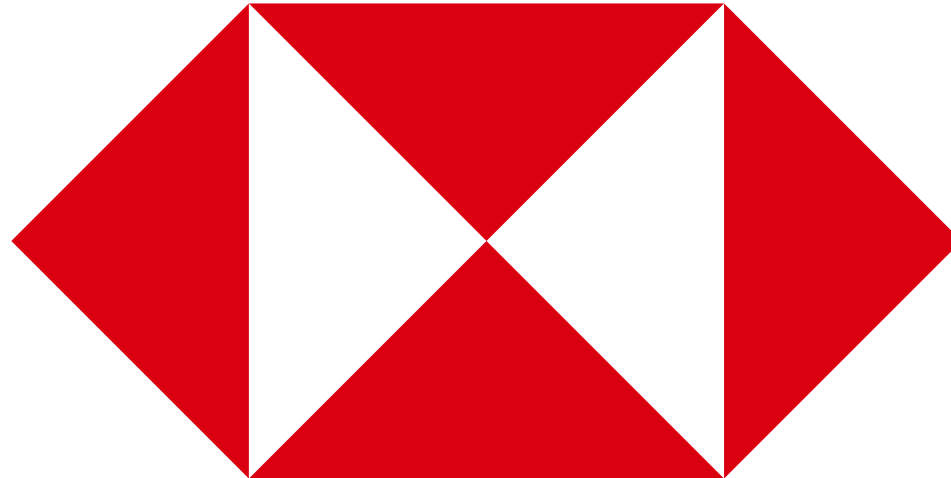
The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellbeing. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 350 businesses surveyed in Germany. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

Data visualisations based on the following:

Page 2, 5 & 6: all companies. n=350

Page 3: companies who have any future trading expansion plan. n=923

Page 4: companies who think governments are becoming more protective. n=152



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