

AHK World Business Outlook

Results of the Survey by the Network of German Chambers of Commerce Abroad (AHKs)

Fall 2016



AHK World Business Outlook | Core messages

The AHK World Business Outlook is based on a survey conducted by the German Chambers of Commerce Abroad (AHKs). The survey took place in September 2016 and gathers the feedback from about 2.200 companies.

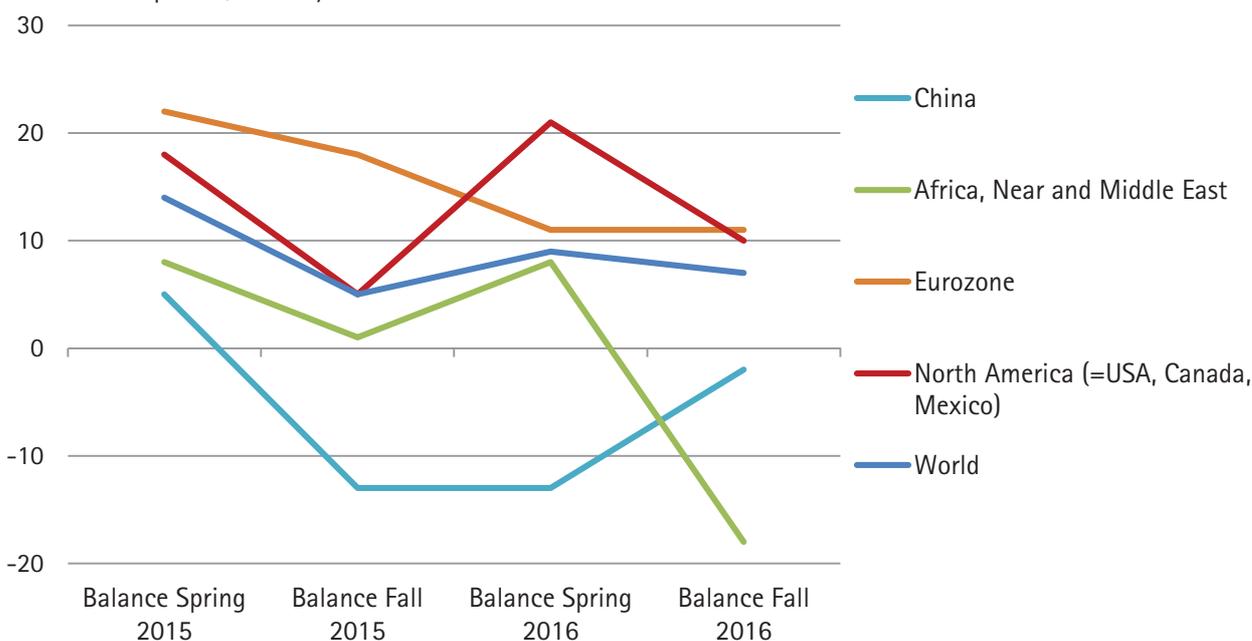
Weak growth of global economy

Due to political and economic crises in many regions, the world economy's growth path has been rather flat. Stable growth expectations in some parts of Europe cannot make up for the weak global investments and setbacks caused by political instability. Moreover, debt or revenue loss due to a long period of low oil prices have affected public demand in many places. At least for some countries plagued by recession such as Russia and Brazil, there is hope that economy may stabilize in the coming months. Drivers of growth in the global economy are generally scarce and can at best be found in the Southeast Asia/Pacific region.

Now the future economic policy of the US administration comes in as an additional element of uncertainty. The question is which of the protectionist measures proclaimed during the campaign will actually be implemented. Especially against that background, the risk of trade barriers and preferential treatment of domestic companies could increase significantly.

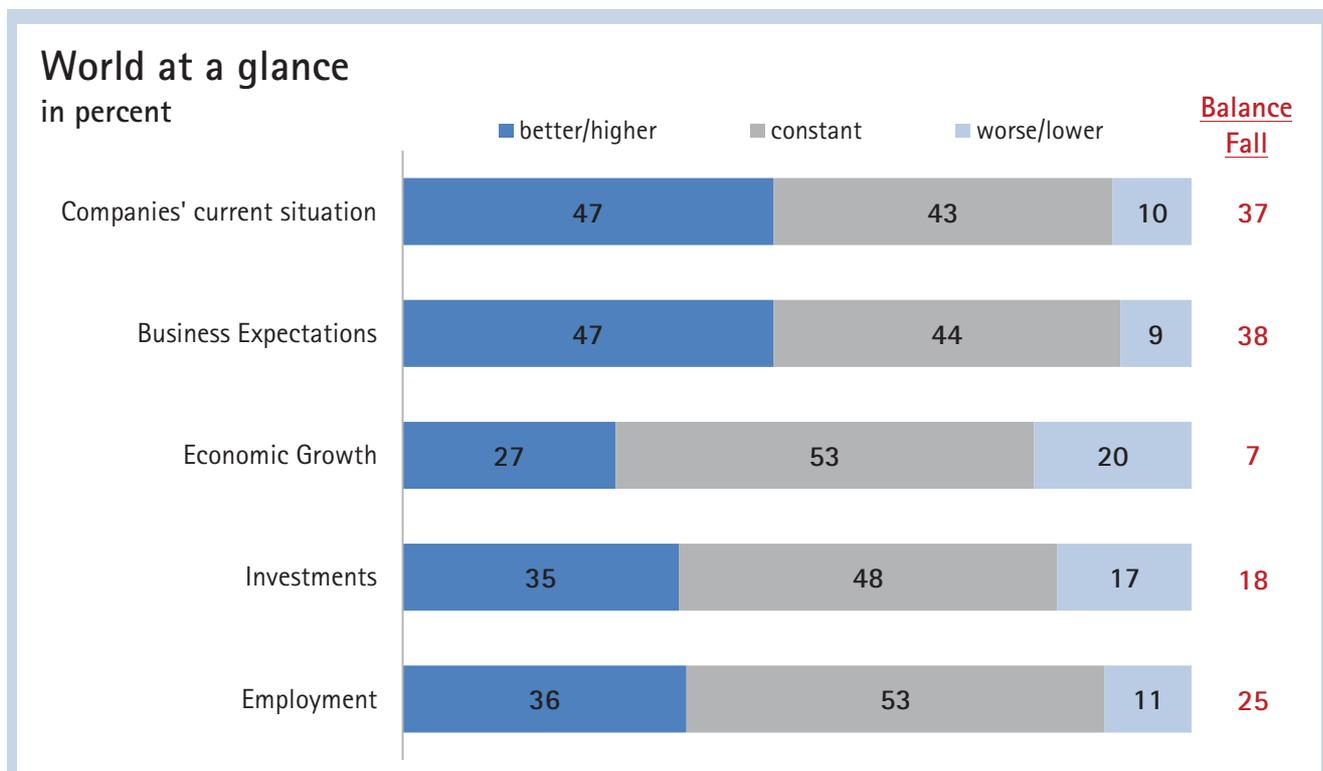
Medium-term Economic Growth Expectations

Balance in points, country selection



Sluggish economic development in many regions

In China, German companies are no longer considering the economic situation quite as pessimistic as in the previous two surveys. However, in the assessments the balance between "better" and "worse" is minus two points and thus remains negative. The most optimistic expectations are those of the companies in the Euro zone (balance: 11 points), closely followed by North America. Their optimism versus the spring survey has markedly deteriorated (balance decline from 22 to ten points). In the meantime, German companies doing business in Africa, Near and Middle East have become very pessimistic. Overall, expectations for the global economy are dropping (balance from 9 to 7 points). Hence, the economic environment for international business of German companies remains clouded.



German companies put up a good show

Despite the difficult macroeconomic environment, German companies internationally continue to be on a relatively successful course. Both the current situation with plus 37 balance points, and business prospects for the coming months are overwhelmingly positive, as can be seen from the balance of 38 points. Confidence in their own strength is strong. In the spring survey, however, both balances were still a bit higher (39 points). In assessing the situation, the share of "bad" has gone up from 7 to 10 percent. Thus, the sluggish development of global economy also dampens the spirits of German companies.

Restraint in investment and employment

In this difficult environment, the companies are slightly holding back from investing and increasing their staff abroad. Planned investments went down from 22 to 18 points. The wait-and-see attitude of the countries with regard to investment is mainly due to uncertain prospects in many countries, as is the case still in Russia or Turkey but also in Thailand and the UK. At least in terms of employment the

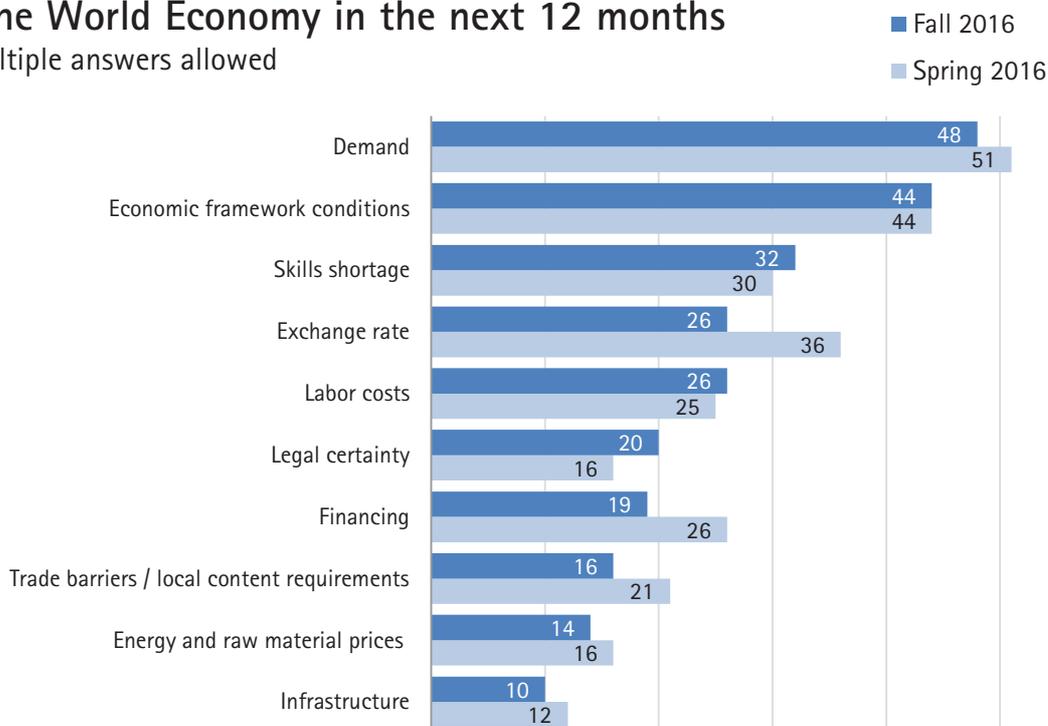
balance remains constant. However, the number of companies willing to increase their staff is going down by two percentage points to 36 percent. More than half of the companies are planning to keep the number of employees at the present level.

Risks for the world economy

The greatest risks from a business perspective are the uncertain demand and the economic policy framework. The risk of shortage of skilled labor is increasing and already ranks as No. 3 on the risk scale. Companies find it increasingly difficult to get suitable staff. On the other hand, the exchange rate risk is going down. After the Euro had significantly dropped in 2015, its external value now has stabilized against the dollar. Only 14 percent of the companies consider energy and commodity prices a risk in international business.

Risks for the World Economy in the next 12 months

in percent; multiple answers allowed



Less reliable framework conditions restrict economic activity

Economic framework conditions are again the second highest risks. Companies are worried by the vote in the United Kingdom to exit the European Union or by the Russia-Ukraine conflict. There are also concerns about terrorism and war, especially in the Middle East. Moreover, protectionist measures restrict the movement of goods – although German companies feel that the increase of other obstacles seems to be slowing down. Especially the export-oriented German companies depend on open and secure markets.

US elections update

Due to the close integration of global value chains and the high economic importance of the USA the outcome of the presidential elections has a strong impact on world economy and thus on German companies worldwide. According to a report of the Chambers of Industry and Commerce in an update of their World Business Outlook, Donald Trump's critical campaign statements on free trade and the result of US elections have caused confusion among many German companies and their foreign subsidiaries.

Especially in Mexico German companies are anxiously waiting which of the announcements made about NAFTA during the campaign will actually be implemented. Trump had announced to terminate the North American Free Trade Agreement. In Mexico, the impact of the elections has already become noticeable in the devaluation of the Mexican Peso. Some investment projects have been postponed. For many German companies the main reason to be active in Mexico has been to serve the US market from there without having to pay customs duties.

Companies that are active in the Chinese market are concerned about Trump's announcement to introduce punitive tariffs on goods from China and the countermeasures that might be taken by the government in Beijing. Interdependence is strong, and a trade war would seriously harm both economies, including German companies that are active in both countries.

After the Brexit vote there is hope in UK that a bilateral free trade agreement may be easier to be achieved under a Trump Administration. Japanese are puzzled by the political change. They had especially high hopes for the Trans Pacific Free Trade Agreement - TPP. After the election campaign against the agreement the future seems more than uncertain.