

# Navigator

Now, next and how for business

Germany



# Germany

## Traditional strengths beat concerns over tariffs

German firms' mood remains largely unfazed by rising global protectionism, according to the latest HSBC Navigator survey. This optimistic outlook is supported by the large degree of regional diversification amongst businesses and strong ties with both suppliers and clients. Moreover, a strong domestic economy and robust global growth bolster the short-term trade outlook.

## What is happening now

### German optimism on par with global sentiment

The German economy has slowed significantly in 2018 as exporters have increasingly felt the effects from slowing global trade growth and uncertainty stemming from imposed and threatened US tariffs, which has weighed on firms' investment intentions. Some transitory factors and increasingly binding capacity constraints were also added to the mix. On the other hand, a robust domestic economy fuelled by a buoyant labour market and resilient demand from European neighbours have helped to support the economy. That dichotomy may persist in the near-term as global growth settles at a slower pace over the coming quarters, but Germany's traditional strength should ensure that the export outlook remains well supported.

Indeed, four out of five respondents (81%) believe that the outlook for international trade is positive, with companies citing their tight relations with business partners and a strong domestic demand as key reasons for their optimism. A marginally lower proportion have a positive outlook for the country and their own company (76% and 77% respectively) which are on par with global benchmarks. Perhaps reflecting the recent resilience of demand from European neighbours, traditional trade partners such as Austria and France were identified as the key markets where German firms are looking to expand sales in the near term (Fig. 1). Key worries identified by respondents included the global political environment and tariffs. Nevertheless, over three-quarters (77%) of German firms are optimistic that they can succeed in the current global environment, on par with the global average of 81%.

### How your business can respond

- ◆ Strengthen regional diversification strategies to soften the blow from slowing demand or rising protectionism in any one region.
- ◆ Examine the impact of Brexit on your business interests in the UK. The implications may extend beyond tariffs – for example, IP protection could lapse post-Brexit.

Fig. 1: Which are the top 3 markets where your business will look to expand in the next 3-5 years? (Share of respondents identifying each market)



Source: TNS Kantar



## Policy Developments

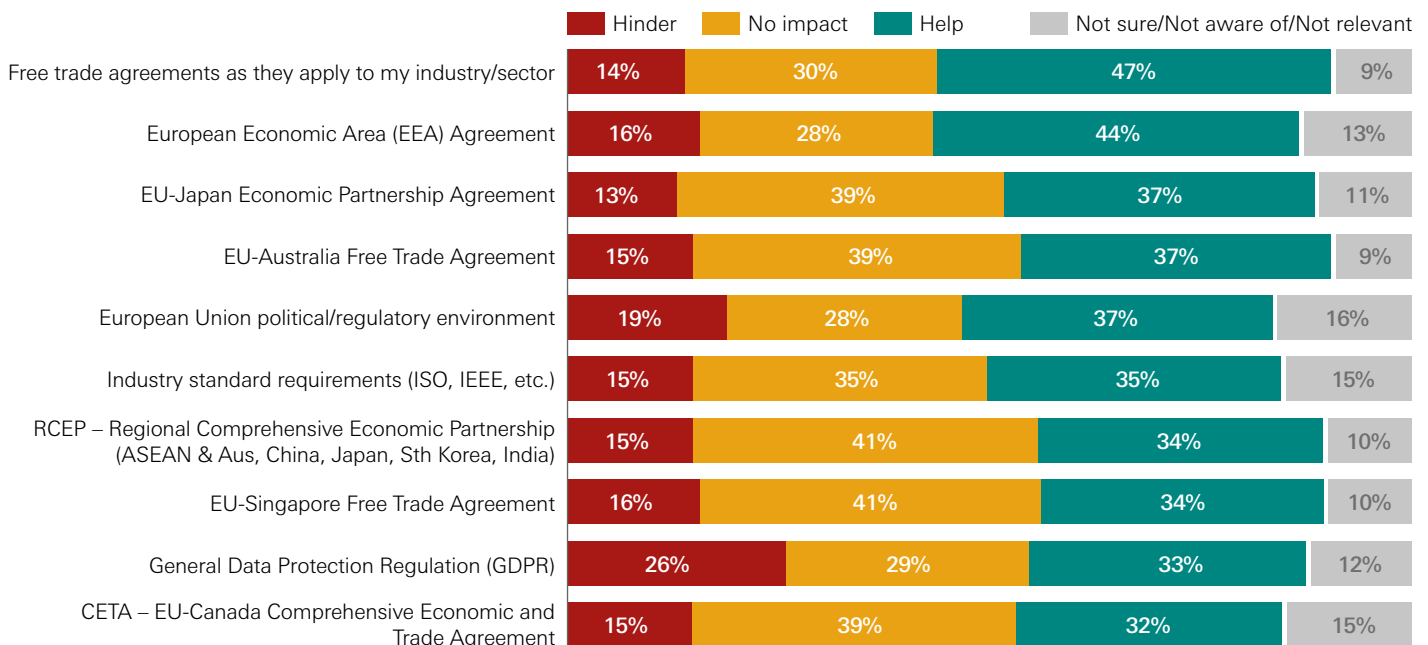
### Less than half of German firms see protectionism increasing

Less than half (46%) of German firms believe that governments in their key markets are becoming more protective of their domestic businesses. With only the Netherlands (45%), Belgium (44%) and Sweden (36%) having lower approval ratings, this is well below the global average (63%). German firms may be partially sheltered from the US-China trade war by their reliance on the EU single market and their pronounced diversification across the globe, but it could also imply that the risks to their business models are underappreciated.

Views regarding the impact of regulations on their business are mixed. A quarter of respondents (25%) believe regulations contribute to increased competitiveness, but a similar proportion (24%) of firms report that they increase costs.

Survey responses also underline Germany's support for free trade (Fig. 2). Nearly half (47%) of all firms think that relevant free trade agreements are positive for their business, with only 14% believing they are a hindrance. This is reflected in generally positive assessments of the European Economic Area (44% of respondents) as well as free trade agreements with Japan and Australia (37% of respondents).

**Fig. 2: Relevance and impact of policy developments in the next 3 years**



Source: TNS Kantar

\*May not total 100% due to rounding

### Brexit high on firms' agendas

Brexit is clearly high on firms' agendas, with only 17% reporting that they have not taken any action to prepare for the UK's departure from the EU (Fig. 3). The most common actions taken to counter potential associated disruptions include a review of existing contract agreements and renegotiating terms with suppliers. In general, attitudes towards Brexit tend to be negative. It is expected to disrupt existing supplier / buyer arrangements (20%), make conducting business more expensive (19%) and create a disadvantage for German businesses in EU markets (18%).

### How your business can respond

- ◆ Identify how directly and indirectly exposed your sales and downstream supply chains are to US and Chinese tariffs.
- ◆ Examine your business through a sustainability lens. For example, investing in renewable energy could facilitate long-term cost management and security of supply.

**Fig. 3: Impact of Brexit and measures to prepare for it**

Top 3 impacts of Brexit	Germany	Global
Will disrupt existing supplier/buyer arrangements	20%	15%
Will make it more expensive to conduct business	19%	17%
Will create disadvantages for my business in EU markets	18%	14%
Top 3 measures to prepare for Brexit	Germany	Global
Reviewing contract agreements	19%	17%
No actions taken	17%	22%
Renegotiating terms with suppliers	17%	6%

## What is happening next for business strategy

### German firms have to step up their digitisation strategies

In the near-future, growing market share was identified most frequently as the key strategic focus for German companies (mentioned by 30% of respondents), underlining how firms are keen to build upon their current healthy positions (Fig. 4). This holds especially for larger and more export-reliant manufacturing firms. The second most frequently identified priority is to expedite digitisation (mentioned by 27% of respondents).

Notably, less than a quarter (22%) of respondents mentioned a focus on productivity and skills development, despite the country's looming demographic challenges. This focus was more common amongst manufacturing firms, however, with 38% of respondents in this sector seeing it as important. This may be reflective of German manufacturers well-known dominance of many high-value market niches, which requires a well-trained workforce to harness the benefits of new technologies.

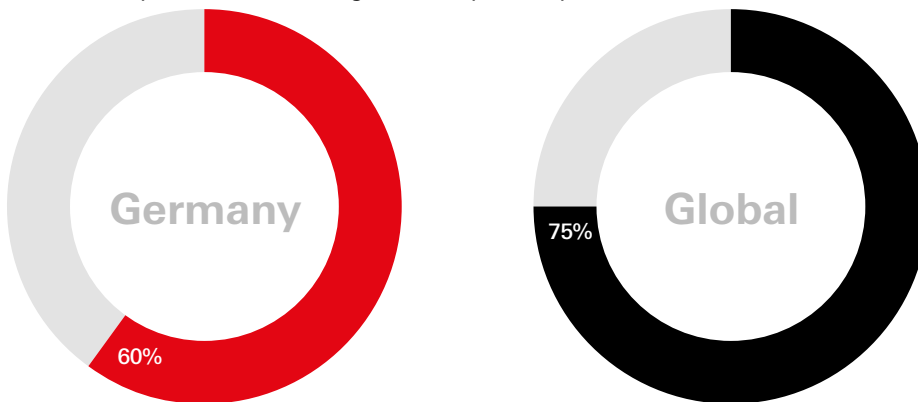
On the other hand, it appears that respondents' increased focus on digitisation is more aspirational than reality, with German firms lagging behind their global competitors in most categories. As illustrated by Fig. 5, only three in five German companies use data to optimize their performance compared to three in four for the global average (including 65% of French respondents and 76% of UK respondents). Moreover, while around half of German firms see major trends such as the Internet of Things or Industry 4.0 as a major opportunities, their share is lower than the global average, suggesting a risk of losing German industry's competitive edge.

Fig. 4: Top 3 actions for future company direction



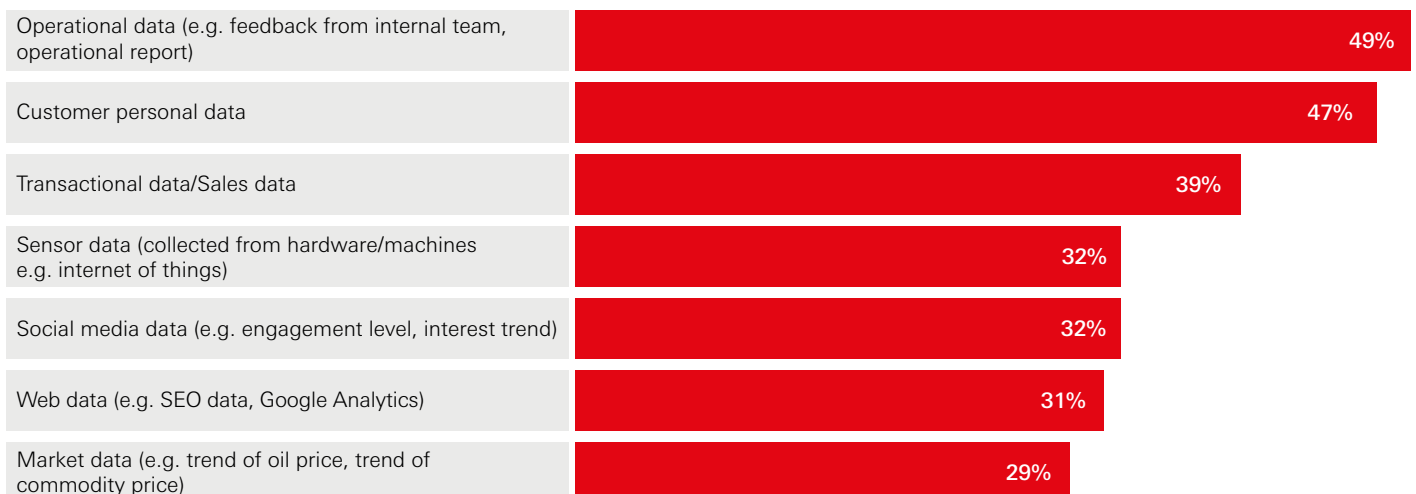
Fig. 5: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

### Data sets currently being used



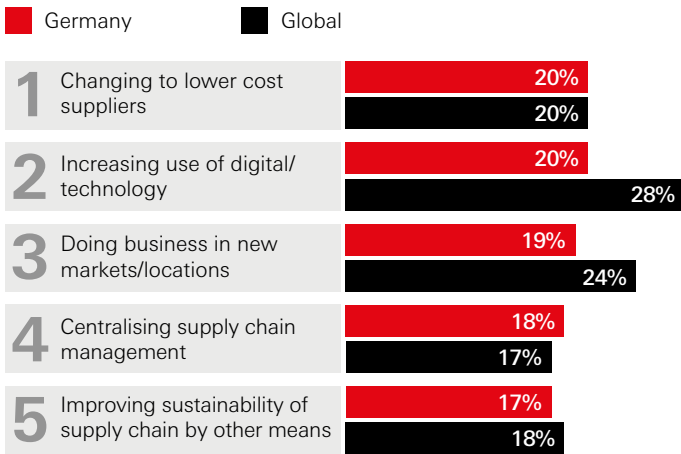
Source: TNS Kantar

### Firms have a defensive cost containment strategy for their supply chains

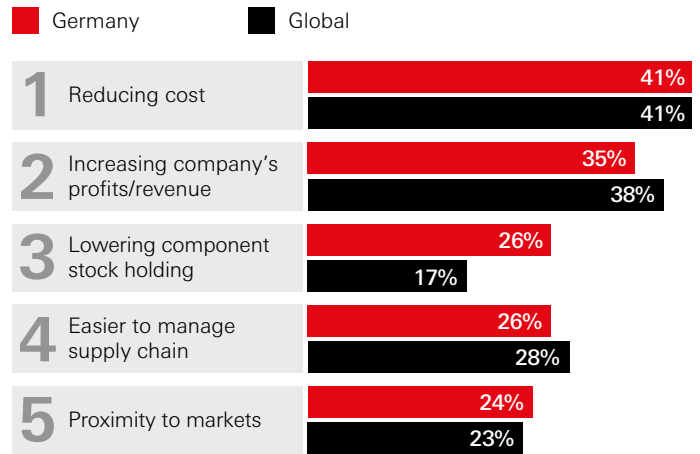
German supply chain strategies demonstrate a clear focus on costs (Fig. 6 and Fig. 7), with the top priority amongst both goods and services providers being to change to lower cost suppliers (mentioned by a fifth of respondents). Moreover, reducing costs is also the top objective of planned adjustments to firms' supply chains, as mentioned by 41% of goods producers and 30% of services providers.

**Fig. 6: Supply chain changes for goods**

**Top 5 planned supply chain changes in the next 3 years**



**Top 5 objectives behind the changes**

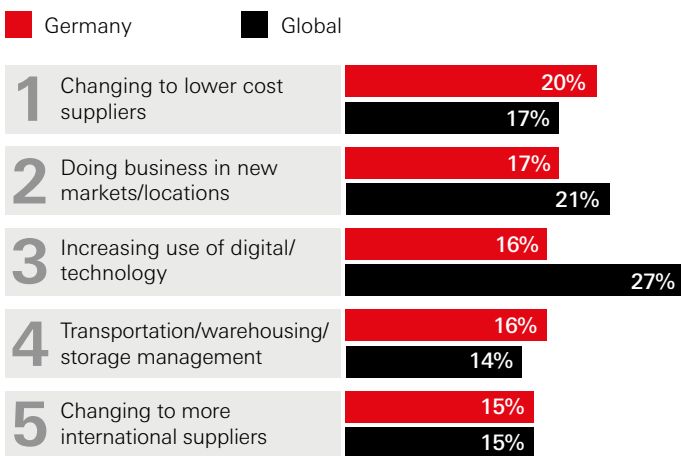


Source: TNS Kantar

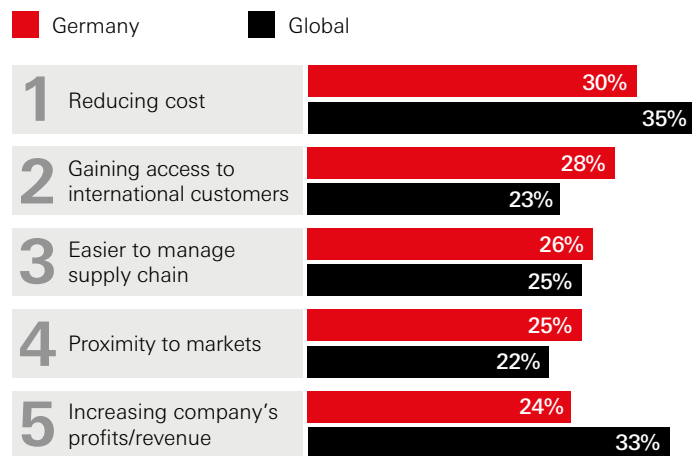
More pro-active supply chain strategies, such as increasing use of technology or expanding to new markets and locations, appear to play less of a role for German firms than their global peers. For instance, 20% of goods firms report wanting to increase the use of technology, but across the globe that share is 28%. Strongly rising domestic wages and currently healthy demand may explain the focus on costs, but it does seem to be a rather defensive strategy that may entail risks for the next downturn.

**Fig. 7: Supply chain changes for services**

**Top 5 planned supply chain changes in the next 3 years**



**Top 5 objectives behind the changes**



Source: TNS Kantar

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## About HSBC Navigator Germany

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 8,650 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 34 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, 350 businesses were surveyed in Germany. Global results are based on an average of the 34 markets (using weights based on each market's share of world trade). The survey was conducted over a six week period from July to September 2018.

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.

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