German-American Business Bullish about 2013 U.S. Market
German American Business Outlook 2013

Introductory remarks

> In the fall of 2012, the German American Chambers of Commerce (GACCs – AHK USA), the Representative of German Industry & Trade (RGIT) and Roland Berger Strategy Consultants, for the fourth time, conducted a survey of German subsidiaries in the US: The German American Business Outlook 2013

> **1,900 headquarters of German-owned subsidiaries in the U.S.** were approached, from which approx. **12%** of senior management from various industries responded, mainly from the classic German Mittelstand (75%)

> The survey asked for the respondents' opinions on the **state of the economy**, their **market expectations**, and the **outlook for their own businesses**
The survey covered a wide spectrum of industries, mainly SMEs in Manufacturing and Automotive markets.

Participating companies in the study

**BY REGION [%]**
- Midwest: 38%
- Southeast: 32%
- Northeast: 18%
- West: 5%
- Southwest: 3%

**BY COMPANY SIZE¹) [%]**
- 0-10: 23%
- 11-50: 28%
- 51-150: 24%
- 151-500: 16%
- >1000: 3%
- Not reported: 3%

**BY INDUSTRY²) [%]**
- Manufacturing (Machinery & Equipment): 16%
- Automotive & Suppliers: 15%
- Chemicals & Plastics: 8%
- Renewable Energy: 8%
- Agriculture & Food: 6%
- Metals: 6%
- Construction: 6%

¹) Based on # of employees; 2) Respondents can be present in more than one industry, top 7 out of 20 industries shown

Source: German American Business Outlook 2013
German firms in the U.S. surveyed are confident based on their 2012 business results and expect a positive development for 2013.

Summary

1 STATE OF BUSINESS

German-American firms continued to **GROW STRONGLY IN 2012** and expect that they will continue to **OUTPACE U.S. ECONOMIC GROWTH** in 2013.

2 CHALLENGES NEXT YEAR

There is consensus among respondents on how to **INCREASE LONG-TERM U.S. ECONOMIC COMPETITIVENESS** – improvement of **FISCAL POLICY** and development of an **EDUCATED WORKFORCE** are seen as critical measures.

3 UNCERTAIN LANDSCAPE

**RESPONDENTS REMAIN OPTIMISTIC DESPITE UNCERTAINTY** – even though the **U.S. FEDERAL ELECTION**, looming **FISCAL CLIFF**, and continued **EUROZONE INSTABILITY** have been on the minds of German-American management in 2012.

Source: German American Business Outlook 2013
Firms experienced strong top-line growth as sales volumes have continued to increase and price levels have recovered.

Effects on sales volumes and prices in 2009-2012

**CHANGE IN SALES VOLUMES**

- Much worse: 6% (2009), 2% (2010), 1% (2011), 1% (2012)
- Worse: 23% (2009), 14% (2010), 17% (2011), 1% (2012)
- No change: 9% (2009), 6% (2010), 12% (2011), 16% (2012)
- Better: 49% (2009), 45% (2010), 48% (2011), 0% (2012)
- Much better: 17% (2009), 27% (2010), 17% (2011), 0% (2012)

**CHANGE IN SALES PRICE**

- Much worse: 2% (2009), 3% (2010), 1% (2011), 1% (2012)
- Worse: 47% (2009), 24% (2010), 21% (2011), 22% (2012)
- No change: 42% (2009), 52% (2010), 47% (2011), 43% (2012)
- Better: 9% (2009), 19% (2010), 28% (2011), 34% (2012)
- Much better: 0% (2009), 2% (2010), 3% (2011), 0% (2012)


**INSIGHTS**

- **REBOUND** from sales volume drop in 2009 have further **STABILIZED** throughout 2012, with more growth in volumes experienced.
- On average, firms have experienced a **SLIGHT IMPROVEMENT** in sales prices.
However, as the market has shown signs of recovery, both labor and non-labor costs continue to exhibit a mild inflationary trend.

Effects on labor and non-labor costs in 2009-2012

**CHANGE IN LABOR COSTS**

\[ \sum 2012: 88\% \]

- Much worse: 1\%
- Worse: 12\%
- No change: 71\%
- Better: 15\%
- Much better: 1\%

**CHANGE IN NON-LABOR COSTS**

\[ \sum 2012: 80\% \]

- Much worse: 1\%
- Worse: 34\%
- No change: 37\%
- Better: 22\%
- Much better: 0\%

1) Non-labor costs = raw material costs and costs of semi-finished and finished goods


**INSIGHTS**

- A majority of respondents indicated that labor costs have slightly worsened since 2009.
- Increase of commodity and material prices have eased, but are still increasing – causing respondents to report a worse non-labor cost condition.
- Increasing commodity prices and a labor market mechanism reaction have lead to increasing costs among respondents.

German American Business Outlook 2013
In response to top-line growth, companies increased their workforces – 76% expect further headcount growth for 2013

Changes in headcount by company size [employees]


INSIGHTS

> Hiring driven by SMALL/MEDIUM-SIZED COMPANIES (86% of SMEs plan to hire in 2013)

> Last year, 67% OF FIRMS WERE PLANNING to increase headcount in 2012, of which 55% FOLLOWED THROUGH

> Firms INTEND TO RECOUP in 2013 – on average, 76% OF FIRMS PLAN TO INCREASE THEIR WORKFORCE in the coming year
In 2013, respondents expect the U.S. market to continue improving and are confident in the growth prospects for their own firms.

Macroeconomic and microeconomic outlook for the year to come

**U.S. GROWTH OUTLOOK**

- Unclear: 29% (2012: 2%)
- Contraction: 2% (2012: 6%)
- Flat to moderate growth: 91% (2012: 87%)
- Strong growth: 78% (2012: 95%)

**OWN BUSINESS GROWTH OUTLOOK**

- Unclear: 18% (2009: 2%)
- Contraction: 7% (2010: 5%)
- Flat to moderate growth: 59% (2011: 61%)
- Strong growth: 45% (2012: 95%)

1) Flat is defined as <1%, moderate is defined as +1-3%, while strong is defined as + >3%


**INSIGHTS**

- Overall, 87% of respondents are expecting the ECONOMY TO GROW.
- Firms believe that their own businesses will GROW AT A PACE GREATER THAN that of U.S. MACROECONOMIC GROWTH in 2013.
- 95% EXPECT GROWTH FOR THEIR OWN BUSINESS in 2013.
Based on this confidence, firms continue to focus on growth-oriented initiatives – investing in development and capabilities.

## Strategic initiatives

<table>
<thead>
<tr>
<th>Category</th>
<th>2010 Actual</th>
<th>2011 Actual</th>
<th>2012 Actual</th>
<th>2013 Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entering new geographies</td>
<td>22%</td>
<td>26%</td>
<td>29%</td>
<td>31%</td>
</tr>
<tr>
<td>Introducing new product lines</td>
<td>55%</td>
<td>59%</td>
<td>38%</td>
<td>44% (up 6%)</td>
</tr>
<tr>
<td>Investment in PPE</td>
<td>34%</td>
<td>49%</td>
<td>35%</td>
<td>38% (up 3%)</td>
</tr>
<tr>
<td>Process production/optimization</td>
<td>54%</td>
<td>57%</td>
<td>31%</td>
<td>38% (up 7%)</td>
</tr>
<tr>
<td>Investment in R&amp;D</td>
<td>35%</td>
<td>33%</td>
<td>22% (up 3%)</td>
<td>25%</td>
</tr>
</tbody>
</table>


**INSIGHTS**

> German-American firms plan to engage in both short-term and long-term **GROWTH-ORIENTED** strategic initiatives.

> Focus remains on **NEW PRODUCT DEVELOPMENT** and **OPTIMIZATION**.

> Firms plan to implement more of these **STRATEGIC INITIATIVES** in 2013 than they did in 2012.
Propositions to increase long-term U.S. economic competitiveness have centered on fiscal policy and workforce education

### Political/economic measures

| MEASURES                                    | IMPORTANCE [1 to 5]
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Address federal and state fiscal concerns</td>
<td>3.9</td>
</tr>
<tr>
<td>Strengthen K-12 education</td>
<td>3.8</td>
</tr>
<tr>
<td>Financial incentives for training</td>
<td>3.8</td>
</tr>
<tr>
<td>Public consulting on vocational training</td>
<td>3.8</td>
</tr>
<tr>
<td>Simplify/reform tax system</td>
<td>3.7</td>
</tr>
<tr>
<td>More affordable university education</td>
<td>3.7</td>
</tr>
<tr>
<td>Invest in transportation infrastructure</td>
<td>3.5</td>
</tr>
<tr>
<td>Improve grant access for R&amp;D programs</td>
<td>3.5</td>
</tr>
<tr>
<td>Easing of Visa process</td>
<td>3.5</td>
</tr>
<tr>
<td>Invest in renewable energy infrastructure</td>
<td>3.4</td>
</tr>
<tr>
<td>Relaxing immigration barriers</td>
<td>3.4</td>
</tr>
<tr>
<td>Uniform vocational training on state level</td>
<td>3.3</td>
</tr>
</tbody>
</table>

1) 1 = least important, 5 = most important

Source: German American Business Outlook 2013

### INSIGHTS

- German-American firms believe that long-term economic value can be created through **INVESTING IN EDUCATION**
- Addressing **U.S. FISCAL CONCERNS** and **TAX REFORM** are believed to help restore market confidence and **IMPROVE LONG-RUN ECONOMIC GROWTH** potential
In uncertain landscape, respondents expect more negative impact by the Euro-debt crisis and further EUR depreciation in 2013.

European debt crisis and exchange rate expectations

EUROPEAN DEBT CRISIS IMPACT ON US OPERATIONS

- Majority of respondents believe that **EUROZONE INSTABILITY WILL CONTINUE** in 2013 and will have an increased negative impact on their U.S. operations.

- **FURTHER EURO DEPRECIATION IS EXPECTED** in 2013 – German-American firms have experienced **CAPITAL CONSTRAINTS** from traditional European sources and have reacted by **INCREASING USE AND RELIANCE ON USD**.

EXPECTED USD/EURO EXCHANGE RATE FOR THE NEXT YEAR

Source: German American Business Outlook 2013
Respondents believe that the upcoming year will see greater political commitment to economic improvement

Expected priorities for the U.S. Administration and Congress in 2013

<table>
<thead>
<tr>
<th>POLITICS</th>
<th>Markets</th>
<th>Location Optimization</th>
<th>Human Capital</th>
<th>Immigration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen transatlantic trade relations</td>
<td>Revitalization of internal market</td>
<td>Continuing reindustrialization</td>
<td>Loosening the labor market</td>
<td>More open immigration/visa policy</td>
</tr>
<tr>
<td>Stimulate Free-Trade-Zones (FTZs)</td>
<td>Revitalization of external markets</td>
<td>Manufacturing capabilities</td>
<td>Standardization of education accreditation</td>
<td>Reduce re-entry barriers for employees</td>
</tr>
<tr>
<td>Decrease (non-)tariff barriers to trade</td>
<td>Growth of small/medium businesses</td>
<td>Harmonization of measurements</td>
<td>Strengthening of vocational training models</td>
<td></td>
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<tr>
<td>Standardization of IP Rights</td>
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<tr>
<td>Complete implementation of healthcare reform</td>
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</tbody>
</table>

**INSIGHTS**

> Not surprisingly, **ISSUES THAT DOMINATED POLITICAL DEBATE THIS ELECTION YEAR** are believed to be probable priorities of the incoming Administration and Congress.

> Respondents believe that the incoming government will focus on **STABILIZATION OF THE U.S. ECONOMY**, followed by **SME GROWTH** and support for **DOMESTIC MANUFACTURING**.
Despite some market uncertainty, German-American firms have had a positive year and are confident in their outlook for 2013

**Key takeaways**

German-American firms have had a **POSITIVE YEAR** in terms of business activity and growth in 2012; respondents expect to continue this trend of **OUTPERFORMING THE U.S. ECONOMY** in 2013

Respondents believe that **EUROZONE INSTABILITY** and currency depreciation pressure will continue in 2013 – in response, firms react with **INCREASED RELIANCE ON USD**

The U.S. Administration and Congress are expected to focus on economic improvement – government commitment to domestic manufacturing and SMEs **INSPIRES CONFIDENCE** among respondents

Acting on this market confidence, German-American firms plan to **CONTINUE INVESTING** in growth initiatives impacting their U.S. operations in 2013

Source: German American Business Outlook 2013
Participating organizations

With offices in Atlanta, Chicago, Houston, New York, Philadelphia and San Francisco, the GACCs – AHK USA have approximately 2,500 member companies and an extensive national and international business network. The GACCs offer a broad spectrum of activities and services for the German American business community. The fostering of bilateral trade relations and investment, and the provision of consulting services to companies with business interests in the United States are among the key tasks. The GACCs, coordinated and supported by the German Association of Chambers of Industry and Commerce (DIHK), are an integral part of the network of German Chambers of Commerce Abroad with 120 offices in 80 countries around the globe.

The Representative of German Industry and Trade (RGIT) is the liaison office of the Federation of German Industries (BDI) and the Association of German Chambers of Industry and Commerce (DIHK) in Washington. RGIT represents the interests of the German business community vis-à-vis Congress, the US administration and the international organizations based in Washington, D.C. We report regularly on economically significant developments as well as legislative activities in the US and provide our partners in the United States with information on German business.

Founded in 1967, Roland Berger is one of the world's leading strategy consultancies. With 51 offices in 36 countries, the company has 2,700 employees contributing to its successful operations in all major international markets. The strategy consultancy is an independent partnership exclusively owned by about 240 Partners.
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Thank you for your participation!