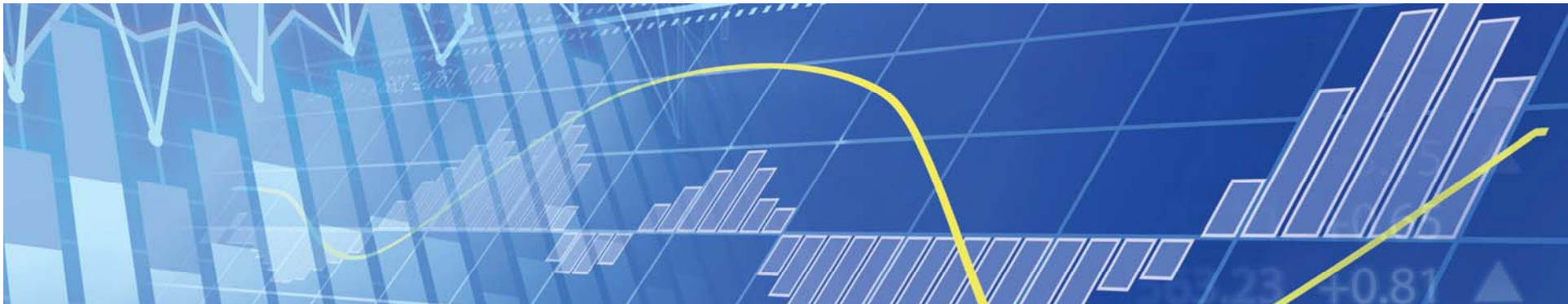




German American Business Outlook

Annual Survey among German Firms in the U.S.



GERMAN AMERICAN BUSINESS OUTLOOK 2014

Confidence Hits Five Year High, 98% of German Subsidiaries Expect Business Growth in 2014

Marc Winterhoff, Partner, Roland Berger Strategy Consultants
New York City – December 16, 2013



German American Business Outlook 2014

Introductory remarks

>

In the fall of 2013, the **German American Chambers of Commerce** (GACCs – AHK USA), the **Representative of German Industry & Trade** (RGIT), and **Roland Berger Strategy Consultants**, for the fifth time, conducted a survey of German subsidiaries in the U.S.: the **German American Business Outlook 2014**.

>

1,900 headquarters of German subsidiaries in the U.S. were approached, and approx. **10% of senior management** from various industries responded, mainly from the traditional German Mittelstand (85%).

>

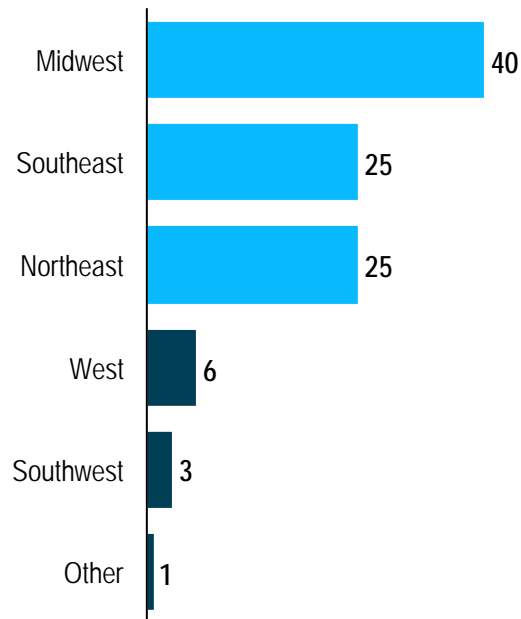
The survey asked for the respondents' opinions on the **state of the economy**, their **market expectations**, their **own business outlook**, and their **opinions on the Transatlantic Trade and Investment Partnership (TTIP)**.



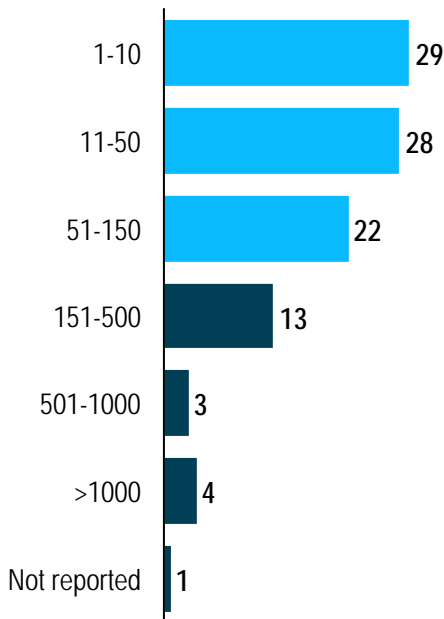
Respondents represented a comprehensive spectrum of regions and industries, primarily SMEs in Automotive and Manufacturing

Study participant breakdown

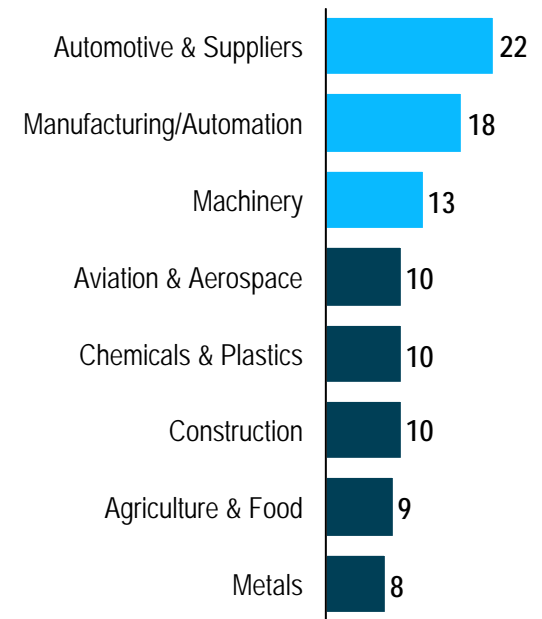
By region [%]



By company size¹⁾ [%]



By industry²⁾ [%]



1) Based on employee count; 2) Respondents can be present in more than one industry, top 8 of 46 industries shown – results normalized to 100%

Optimistic about the economy, German-American firms believe future transatlantic integration will further stimulate growth

Summary

1

State of business

Although costs continue to rise, German-American firms have experienced **top-line growth** and have **increased capital expenditure** projects.

2

Focus on U.S. market

Firms are planning to increase focus on the U.S. – and believe own growth will **outpace U.S. economy.**

3

Future expectations

German-American firms are **confident in growth prospects** of the U.S. market, despite potential **foreign exchange risks** and **shortfall in skilled labor.**

4

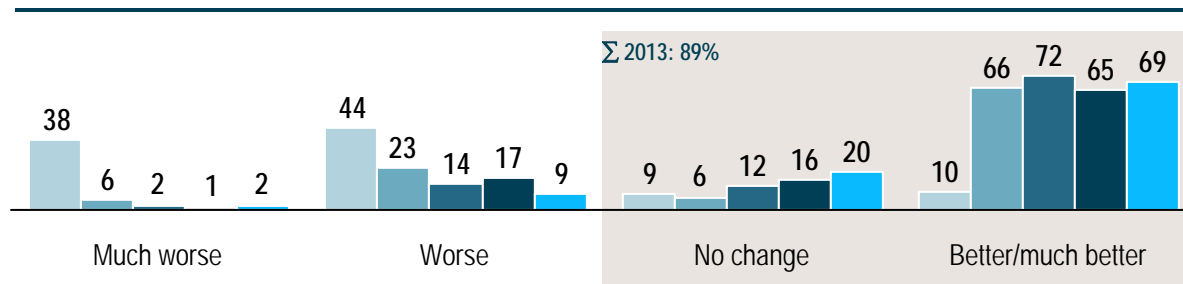
Transatlantic partnership

To **address structural limitations**, German-American firms believe that increased transatlantic **economic integration will stimulate growth.**

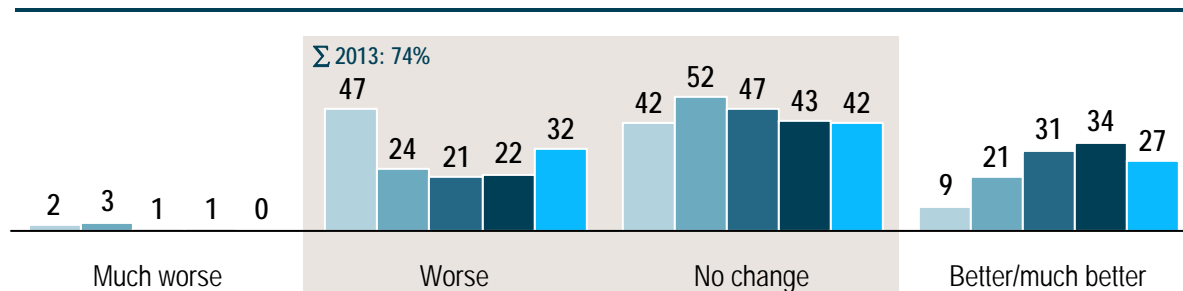
Despite stagnating price levels, German-American firms report strong year of volume growth

Sales volumes and prices (2009-2013)

Change in sales volumes [%]



Change in sales price [%]



2009 2010 2011 2012 2013

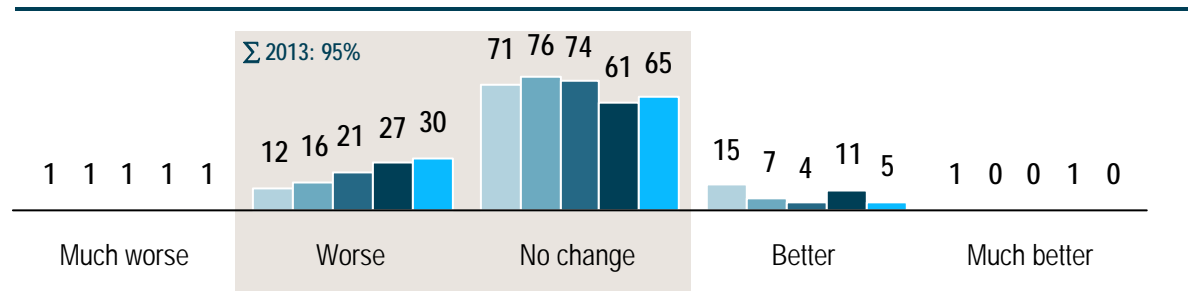
Insights

- > 89% of firms report same or much better sales volumes, continuing their recovery from the economic slowdown
- > On average, firms have experienced a slight decrease in sales prices

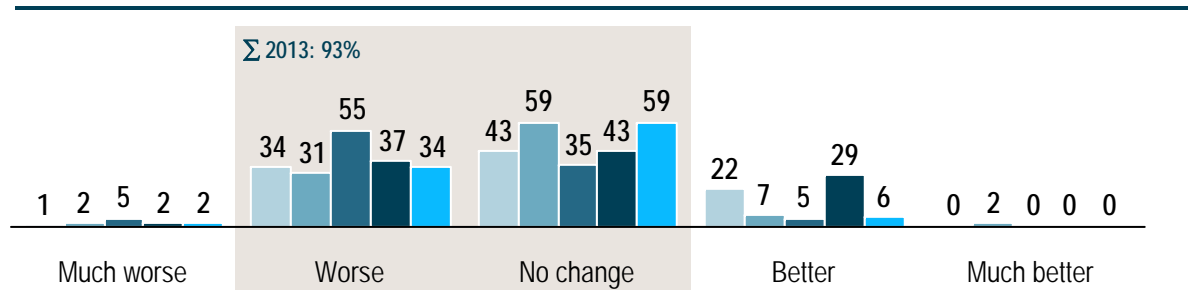
As market stability returns, labor and input costs have been marginally increasing

Labor and non-labor costs (2009-2013)

Change in labor costs [%]



Change in non-labor costs¹⁾ [%]



2009 2010 2011 2012 2013

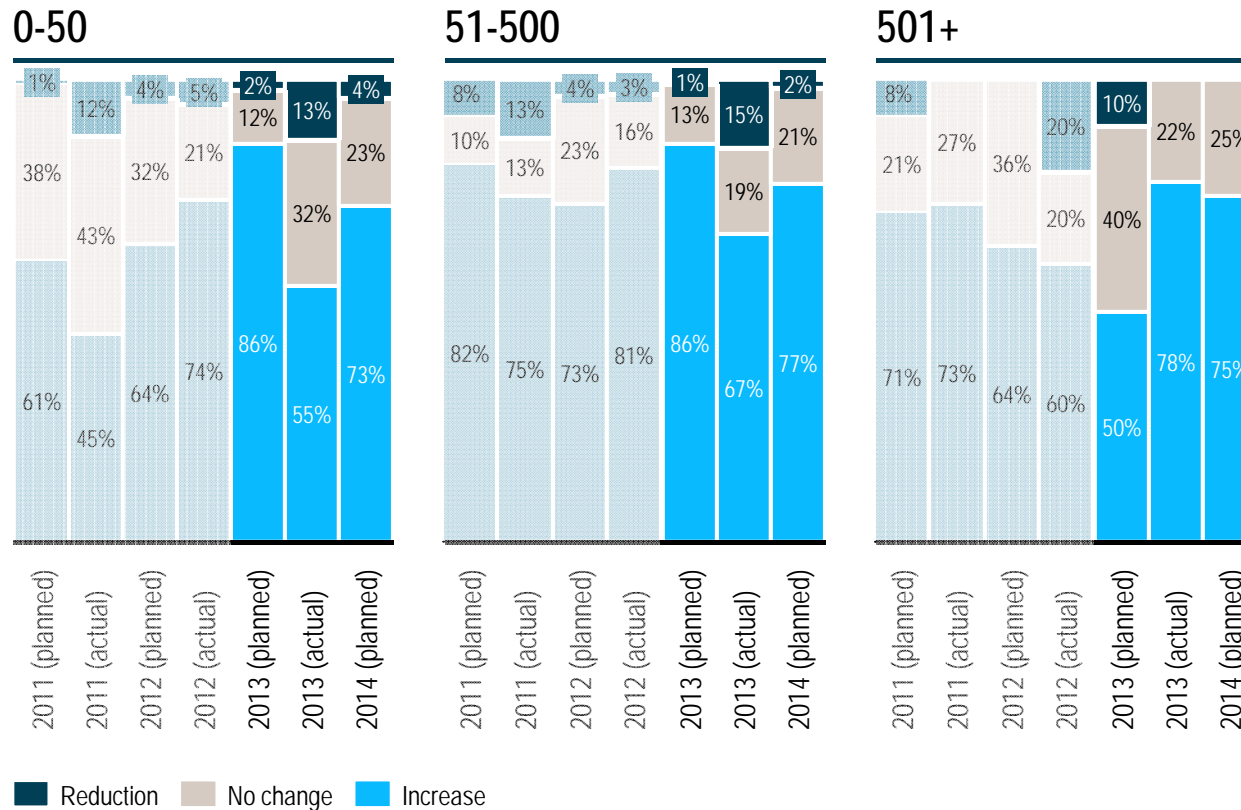
1) Non-labor costs = raw material costs and costs of semi-finished and finished goods

Insights

- > Labor costs are increasing due to **upward wage pressure** as the economy continues to rebound
- > Non-labor costs showed **signs of stabilization** in 2013

Both SME and large firms expect hiring to be stable/increased in 2014

Headcount change by company size [employees]

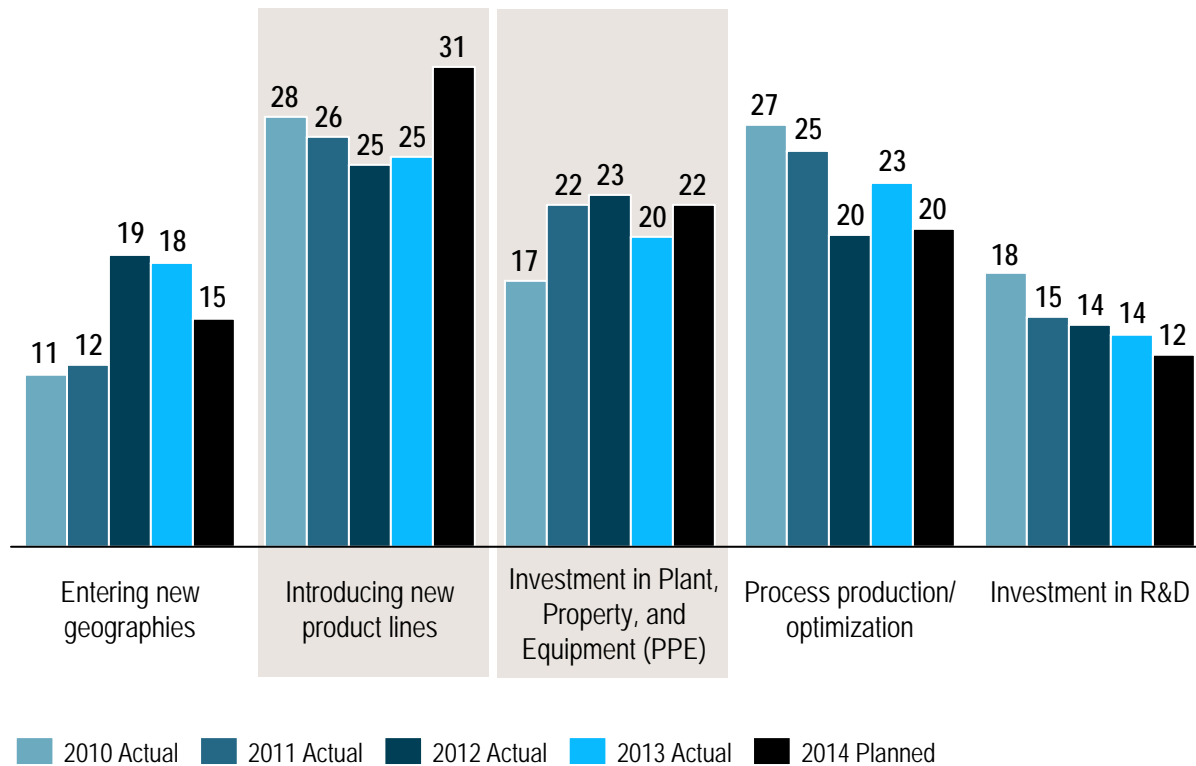


Insights

- > On average, **75% of firms intend to increase** their workforce in 2014
- > **Many SMEs did not hire to the degree they had planned in 2013**, while large firms increased hiring beyond initial expectations
- > **Especially SMEs plan to boost hiring** again in 2014

Introduction of new product lines is a prevalent strategic initiative, supported by higher capital expenditures in 2014

Strategic initiatives¹⁾ [%]



Insights

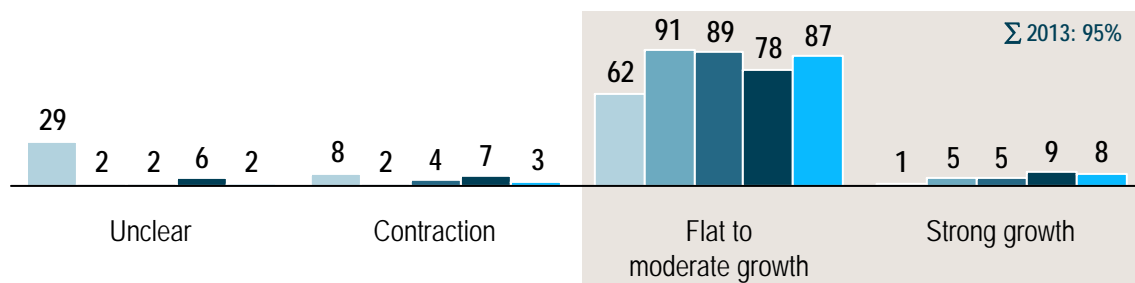
- > Half of respondents indicated that their firms forecast a moderate-to-strong increase in capital expenditures in 2014
- > New product line introductions and Investment in PPE are most likely strategic initiatives to increase in 2014

1) Multiple responses allowed, normalized results to 100%

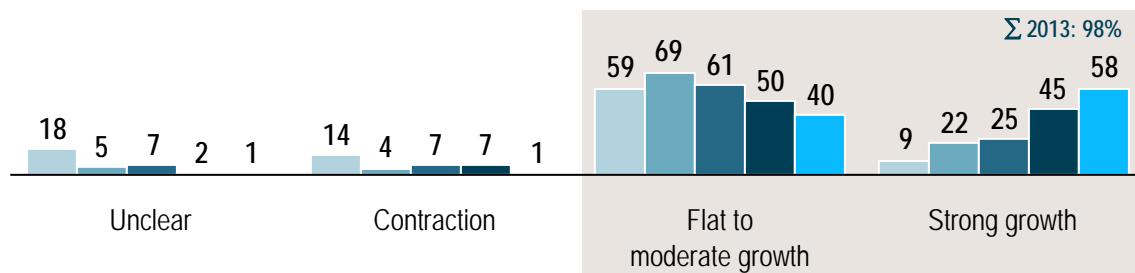
German-American firms are more confident about growth now than at any point over the past five years

Macroeconomic and microeconomic outlook

U.S. Growth outlook¹⁾ [%]



Own business growth outlook¹⁾ [%]



2009 2010 2011 2012 2013

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

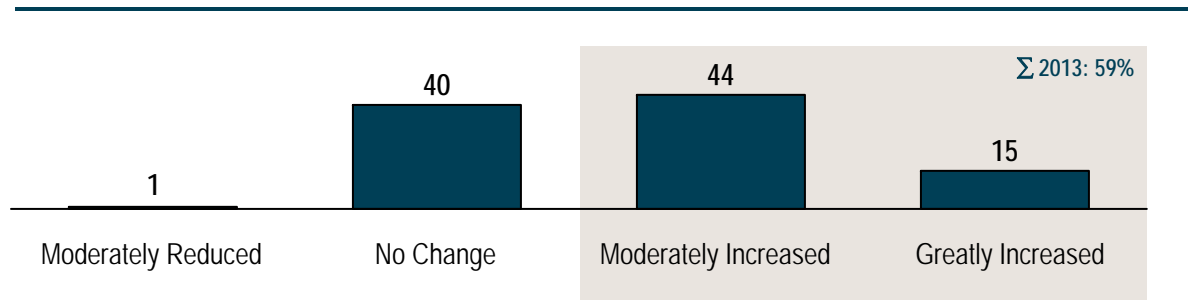
Insights

- > 98% of respondents anticipate flat to strong growth for their business in 2014
- > Overall, 95% of respondents expect U.S. economic growth
- > Firms believe that their own businesses will grow at a pace greater than that of U.S. macroeconomic growth

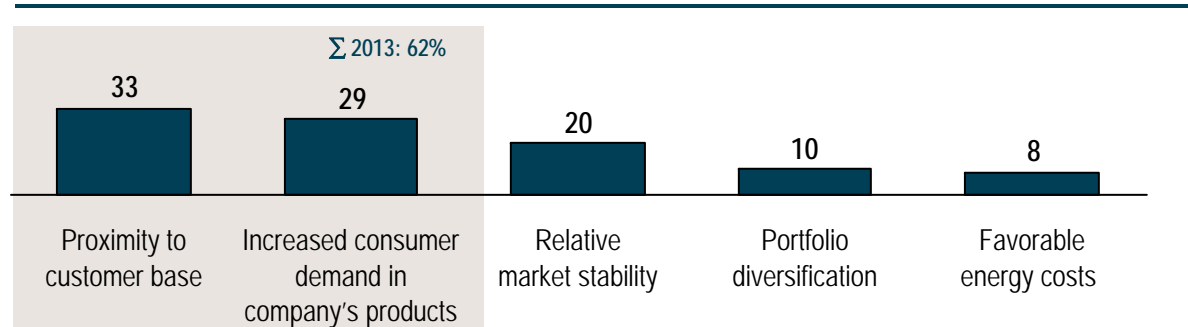
Access to the U.S. market and consumer base will continue to attract investment from German-American firms

Strategic focus and future investment in the U.S.

Strategic focus on U.S. since last year¹⁾ [%]



Top reasons for future investment in the U.S. [%]



Insights

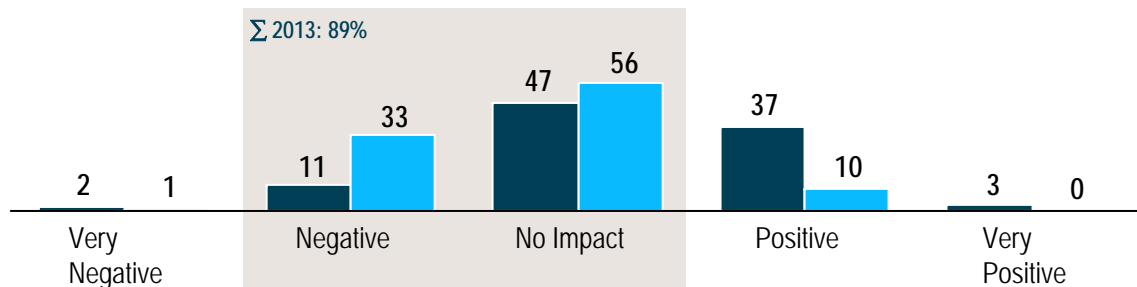
- > Majority of respondent firms have moderately or greatly increased their strategic focus on the U.S. in 2013
- > U.S. operations provide the opportunity to be closer to American consumers, who increasingly demand their products
- > Further growth and investment is expected in 2014

1) Multiple responses allowed, normalized results to 100%

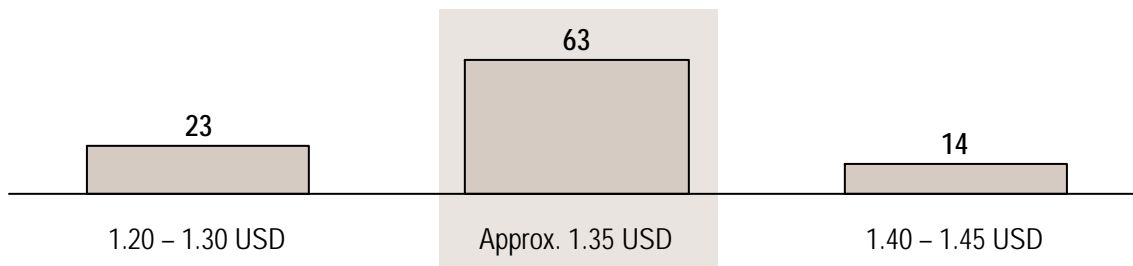
However, the Euro/USD exchange rate has negatively effected firms in 2013 – exchange rate is expected to hold in 2014

Exchange rate effects and expectations

Effect of Euro/USD exchange rate on business of respondents¹⁾ [%]



Expected Euro/USD exchange rate for the next year [%]



■ 2012 ■ 2013

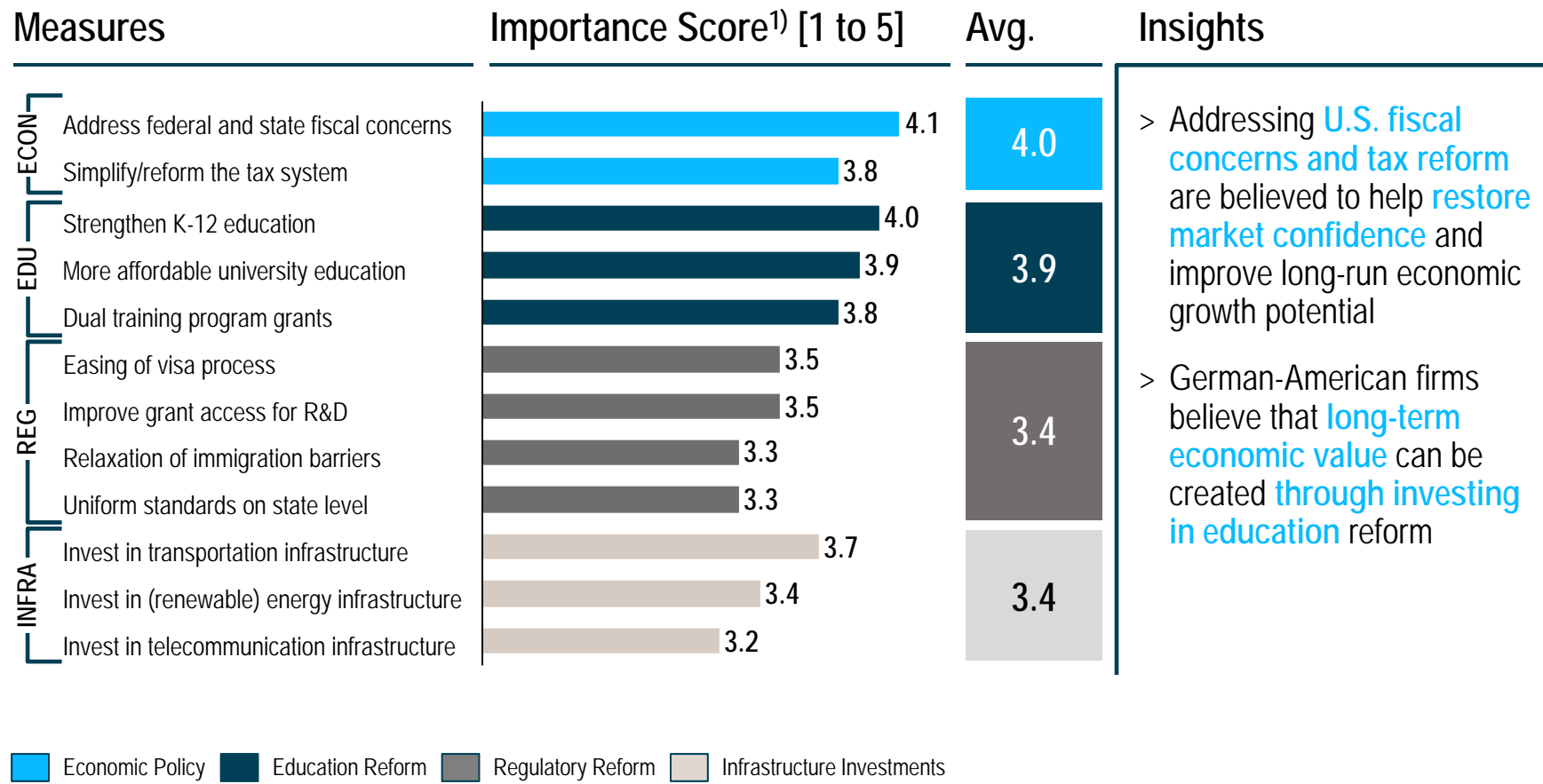
1) Multiple responses allowed, normalized results to 100%

Insights

- > A majority of respondents believe that the Euro/USD exchange rate will hold close to the current rate
- > In a noteworthy shift from last year, more respondents reported that exchange rates had a negative impact on their U.S. operations

Education and government fiscal reform are regarded as the most critical factors to enable sustained economic growth

Relative importance of regulatory reforms



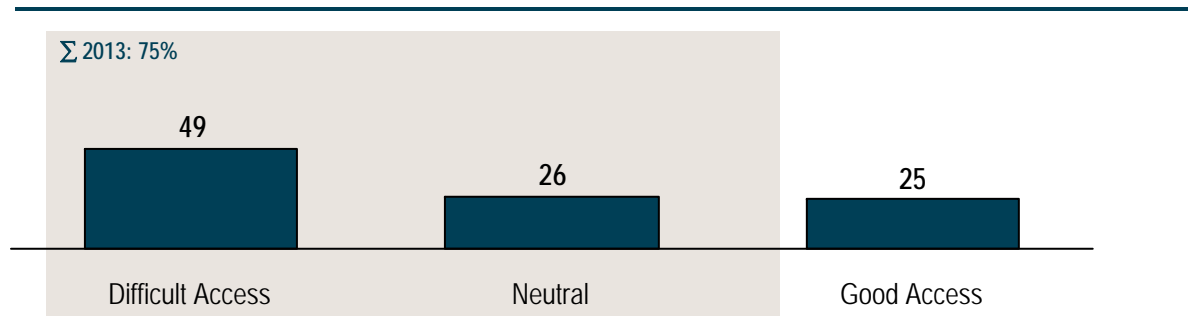
■ Economic Policy
 ■ Education Reform
 ■ Regulatory Reform
 ■ Infrastructure Investments

1) 1 = least important, 5 = most important

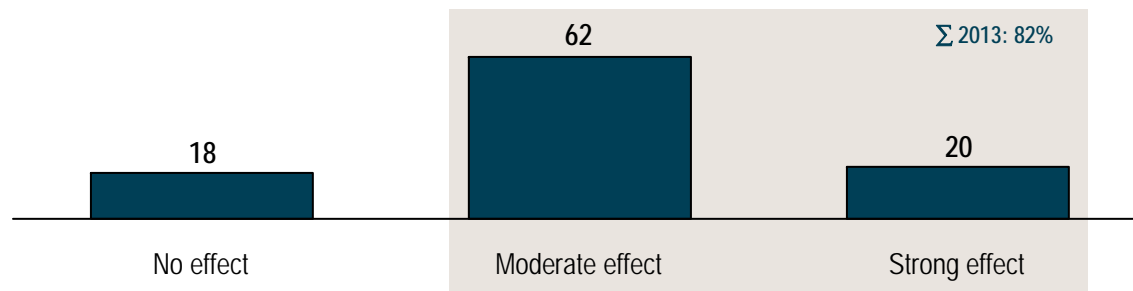
German-American firms experience difficulty accessing an appropriately skilled workforce – may limit future investment in U.S.

Labor Accessibility

Ease of access to skilled workforce in the U.S. [%]



Effect on future investment in the U.S. [%]



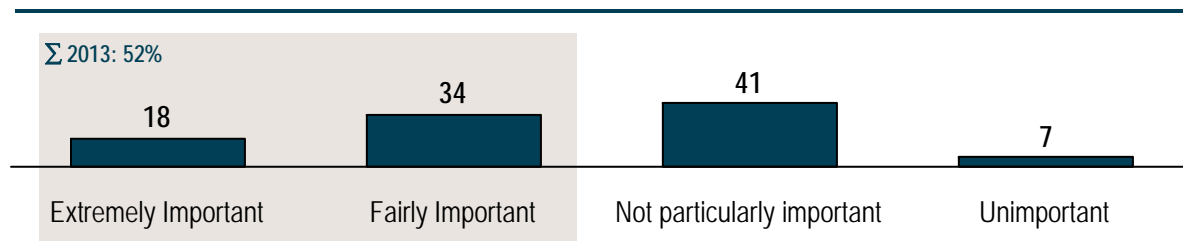
Insights

- > A **startling majority** of respondents **report difficulty sourcing labor** with the skill they require
- > Access to sufficiently **skilled workforce has a noticeable impact on firm's investment outlook** when considering options in the U.S.

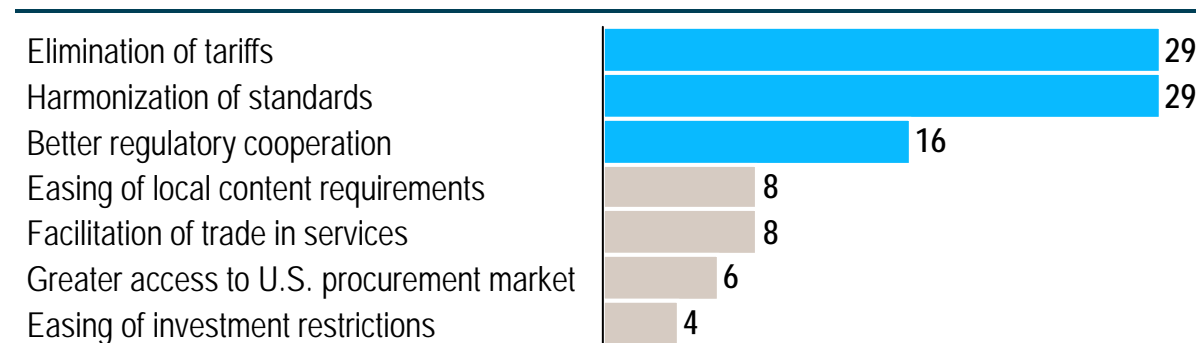
TTIP would allow companies to overcome structural hurdles and increase investment

Transatlantic Trade and Investment Partnership

Relative Importance of TTIP to respondents [%]



Greatest potential benefits of TTIP [%]¹⁾



1) Multiple responses allowed, normalized results to 100%

Insights

- > Majority of respondents believe that their firms would **respond to TTIP** adoption by **expanding U.S. operations** and **increasing hiring** in the U.S.
- > Majority of respondents believe that **TTIP** would be either **extremely or fairly important** to their firm
- > Reduction of **tariffs and compliance costs** are viewed to be the most **influential anticipated benefits** of TTIP



German American
Chambers of Commerce
Deutsch-Amerikanische
Handelskammern



REPRESENTATIVE
of German Industry + Trade

Roland Berger
Strategy Consultants

Optimistic about fundamentals and growth prospects, firms believe increased transatlantic partnership will bolster growth

Key takeaways

Optimistic about future growth in U.S., German-American **firms are expanding** their **strategic focus** on the market by **increasing hiring and investment** in capital expenditure projects.

Despite strong underlying **market fundamentals**, German-American **firms remain cautious in regard to** the Euro/USD **exchange rate**, American **fiscal stability** and **labor market quality**.

A successfully implemented **Transatlantic Trade and Investment Partnership would facilitate additional investment and capital expenditures** mainly as a result of the elimination of tariffs and increased regulatory cooperation.

Participating organizations:



With offices in Atlanta, Chicago, Detroit, 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. Fostering 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 U.S. administration and the international organizations based in Washington, D.C. We report regularly on economically significant developments as well as legislative activities in the U.S. 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 250 Partners.

Your contacts:



German American Chamber of Commerce, Inc. – AHK USA-New York
Nicola Michels

75 Broad Street, 21st Floor, New York, NY 10004
T +1 (212) 956-1770 | F +1(212) 074-8867
nmichels@gaccny.com | www.gaccny.com

German American Chamber of Commerce of the Midwest, Inc. – AHK USA-Chicago

Jayne Riemer-Chishty

321 N Clark Street, Suite 1425, Chicago, IL 60654
T +1 (312) 494-2169 | F +1 (312) 644-0738
riemer-chishty@gaccmidwest.org | www.gaccmidwest.org

German American Chamber of Commerce of the Southern United States, Inc. – AHK USA-Atlanta

Stefanie Jehlitschka

1170 Howell Mill Rd, Suite 300 Atlanta, GA 30318
T +1 (404) 586-6803 | F +1 (404) 586-6820
sjehlitschka@gaccsouth.com | www.gaccsouth.com



Representative of German Industry + Trade

Dr. Thomas Zielke

1776 I Street, N.W., Suite 1000, Washington, D.C. 20006
T +1 (202) 659-6831 | F (202) 659-4779
thzielke@rgit-usa.com | www.rgit-usa.com



Roland Berger Strategy Consultants LLC

Marc Winterhoff, Partner

37000 Woodward Avenue, Suite 200, Bloomfield Hills, MI 48304
T +1 (248) 729-5000 | F +1 (248) 649-1794
Marc.Winterhoff@rolandberger.com | www.rolandberger.us



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for your
participation!

