2021 German American Business Outlook

Annual Survey of German Firms in the US

AHK German American Chambers of Commerce Deutsch-Amerikanische Handelskammern

KPMG

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Introduction

The German American Chambers of Commerce (GACCs) and KPMG in Germany approached German subsidiaries in the US to survey how they assess their current businesses, their opportunities and challenges, and their future expectations in the US. The survey was conducted between November 4 and November 30, 2020, with a total of 166 companies completing the survey.

The US is and will remain the most important partner for Germany outside of Europe. Neither COVID-19 nor strategic moves to develop bilateral trade and investment flows changed the confidence and strong cooperation that characterize the German American relationship. The US remains attractive not only as a trading partner, but also as an investment location. Many German companies continue to identify closely with the United States through their US subsidiaries. German companies are indicating their willingness to invest in the US by not only expanding and strengthening existing operations, but also by establishing new locations, sales and service offices, and manufacturing facilities. In 2019, compared to other foreign investors in the US, German companies generated the second-highest number of projects, spent the third highest capex and created the third-most additional jobs (over 19,100) through their US investments.

In these turbulent times, it is noteworthy that 90% (prior year: 93%) of the companies surveyed are generating profit after taxes in their US businesses in 2020, although the profit levels decreased compared to 2019. For 2021 expectations are positive, since 92% expect growth for their business, exceeding the expected growth of the US economy. And, despite economic uncertainties, 43% of companies surveyed plan to increase their workforce in 2021.

We would like to thank the German companies who participated for sharing their thoughts for this year's German American Business Outlook (GABO), and we hope that this report helps to steer your organizations through uncertain and difficult times.

Yours sincerely,

PETER RIEHLE
Chairman, German American Chambers of Commerce

ANDREAS GLUNZ
Managing Partner International Business, KPMG in Germany

Executive Summary

PROFITABLE BUSINESSES IN UNCERTAIN TIMES

Nine out of ten respondents (90%; previous year 93%) reported generating profits after taxes, while 23% (previous year: 25%) reported that they generated more than 10% profit after taxes for their US business. Despite the pandemic, only 10% (previous year: 7%) of companies reported a loss on their US business in 2020 (Figure 17).

US MARKET REMAINS IMPORTANT TO GERMAN GROUPS BUT PROFIT LEVELS SHRANK

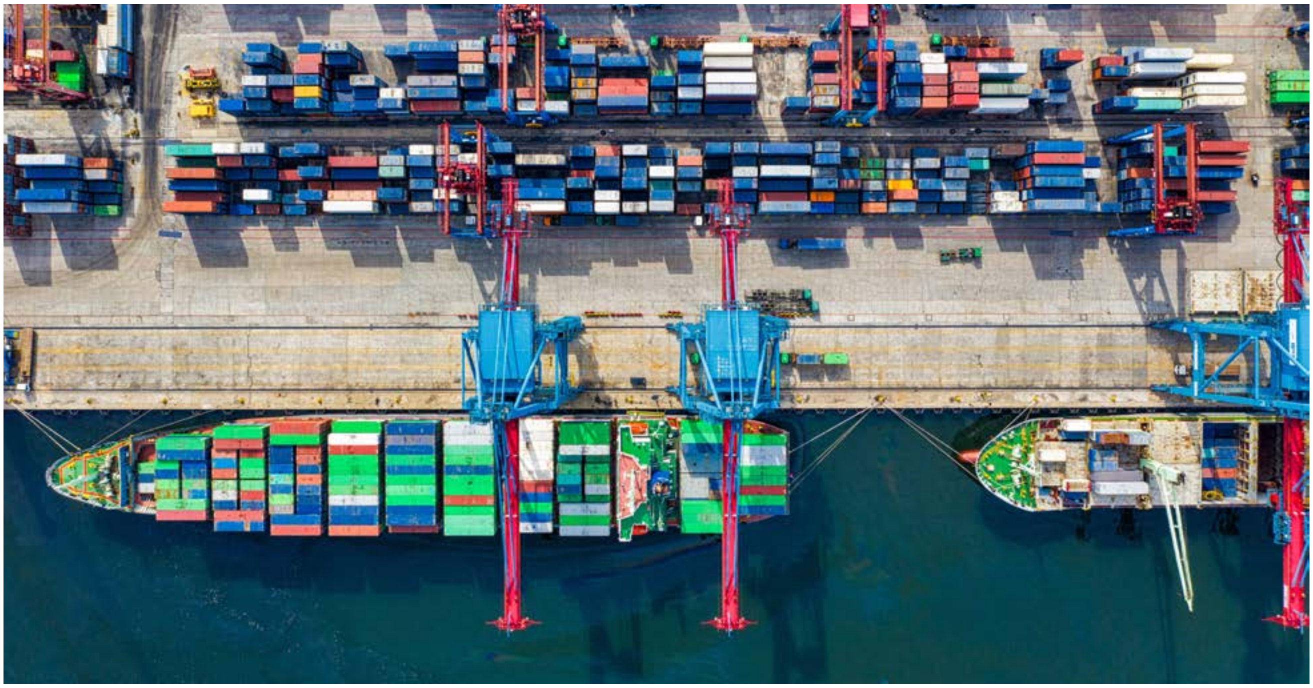
More than one out of three of German companies surveyed reported that their US operations generate more than 20% of their total corporate group sales (34% of companies surveyed; previous year: 38%). At the same time, profit shares from their US operations decreased significantly as the number of companies generating more than 50% of their group profits from their US operations more than halved (9%; previous year 20%) (Figures 13 and 14).

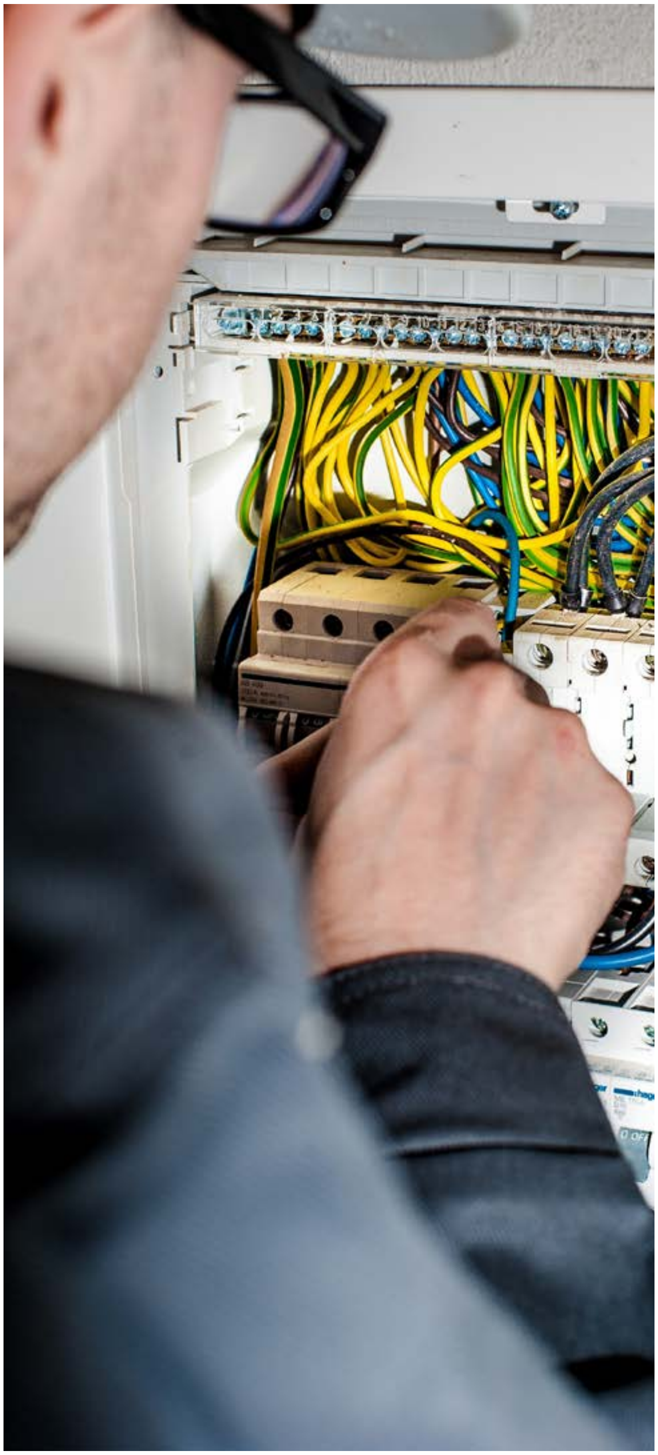
STABLE GROWTH EXPECTATIONS FOR US BUSINESSES

After a turbulent 2020, 92% (previous year 96%) of German companies in this year's German American Business Outlook expect growth for their US businesses in 2021. At the same time, they expect that the growth for their own companies will exceed those of the US economy (Figures 18 and 19).

ALTHOUGH COVID-19 DOMINATES, SKILLED WORKFORCE REMAINS MAJOR CHALLENGE

Almost two out of three (65%) respondents stated that the COVID-19 crisis is one of the top three economic challenges to their business in 2021. As in previous years, the lack of skilled workers remains a major challenge for 45% of companies (previous year: 56%). Although 2020 saw record levels of unemployment, the skills gap has not been filled. (Figure 24).





GERMAN COMPANIES ARE GROWING THEIR US WORKFORCE AND CONTINUE INVESTMENTS

43% of companies surveyed plan to expand their workforce in 2021.Only 5% intend to decrease their workforce. By 2026, 79% expect to grow their staff in the US, 30% by at least 25% (Figure 27). Despite the uncertainties encountered in connection with COVID-19, 82% (prior year 85%) of the respondents are planning additional investments in the US market (Figure 21).

OPEN MARKETS AND WORK VISAS MATTER

The top policy issue cited by companies is access to open markets and trade agreements. 64% of German companies in the US stated this as one of their three most important policy concerns to further grow their US operations. The next most critical factor cited is access to work visas (47%) (Figure 25).

COVID-19 ACCELERATES DIGITAL TRANSFORMATION AND EMPHASIZES IMPORTANCE OF RESILIENCE

Many companies view COVID-19 as a catalyst for change. Adjustments in working patterns, such as permanent remote working and use of collaborative communication technology, as well as investments in automation and digitalization of all internal processes and sales channels, are the three main changes that German companies in the US plan to implement in response to COVID-19. These modifications lay the path for accelerated digital transformation (Figure 30). Over a third of the respondents (38%) state that they are creating alternate sourcing options in order to reduce reliance on a single market (Figure 32).

Economic Relations between Germany and the US

1 Key Economic Figures

Germany and the United States are closely interwoven - not only when it comes to exchanging goods and services, but also when it comes to research and development. Germany and the US are among the most competitive economies in the world. Both are important players in terms of global economic performance, accounting for almost 29% of global gross domestic product (GDP) and more than 18% of global trade. Economic growth of both nations has continued for years. This – coupled with lively trade relations between these two powerhouses – has contributed significantly to the high standard of living enjoyed in Germany and the US, who remain reliable partners for each other, even in times of crisis.

Economic growth in Germany *is declining. The 2019 figure for GDP growth in the US of 2.3% clearly exceeded that of EU-27 and Germany at 1.5% and 0.6%, resp. The German government is forecasting a sharp decline in GDP of 5.0% for 2020. Nevertheless, economic GDP in 2021 is currently expected to range between 2.8% and 4.9%.*

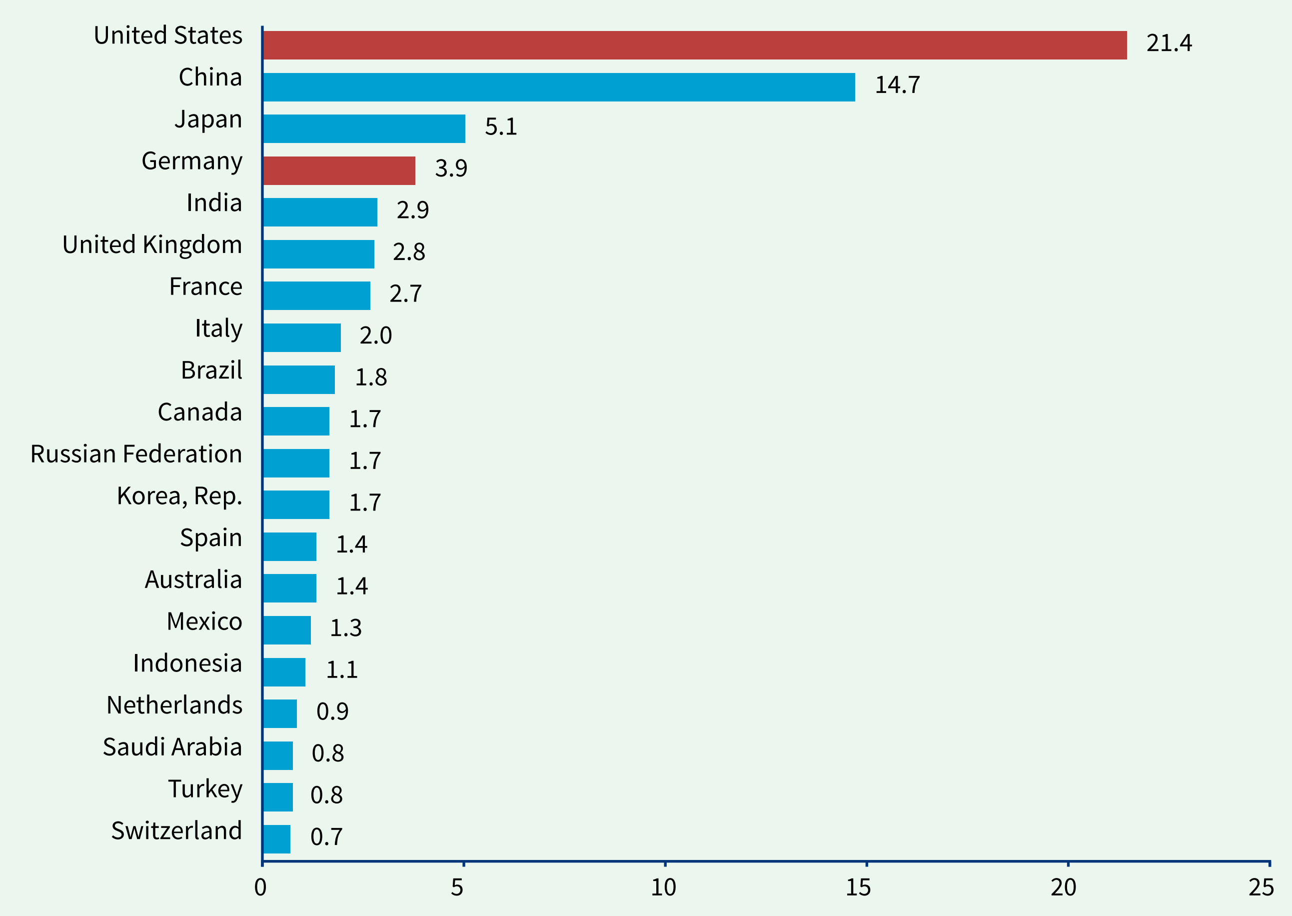
German foreign trade *is heavily dependent on the US. In 2019, Germany imported about half as many goods from the US as it exported across the Atlantic. This makes Germany the fifth-most-important importer of the US, while the US continues to be the most important sales market for German products.*

Source: Bundesbank; Ifo Institute (Leibniz Institute for Economic Research at the University of Munich).

GERMANY AND THE US AS DRIVERS OF THE GLOBAL ECONOMY

With a GDP of 21.4 trillion USD, the US is by far the world's largest economic powerhouse, with China trailing far behind at 14.7 trillion USD.[1] In particular, private services industries have been an enormous driver behind the dynamic development of the US GDP, accounting for more than 70% of this year´s GDP growth rate of 2.3%, while private goods-producing industries make up a comparatively small share at around 17%.[2]

Figure 1: GDP in 2019



Source: IMF; World Economic Outlook (October 2020); figures in trillion USD.

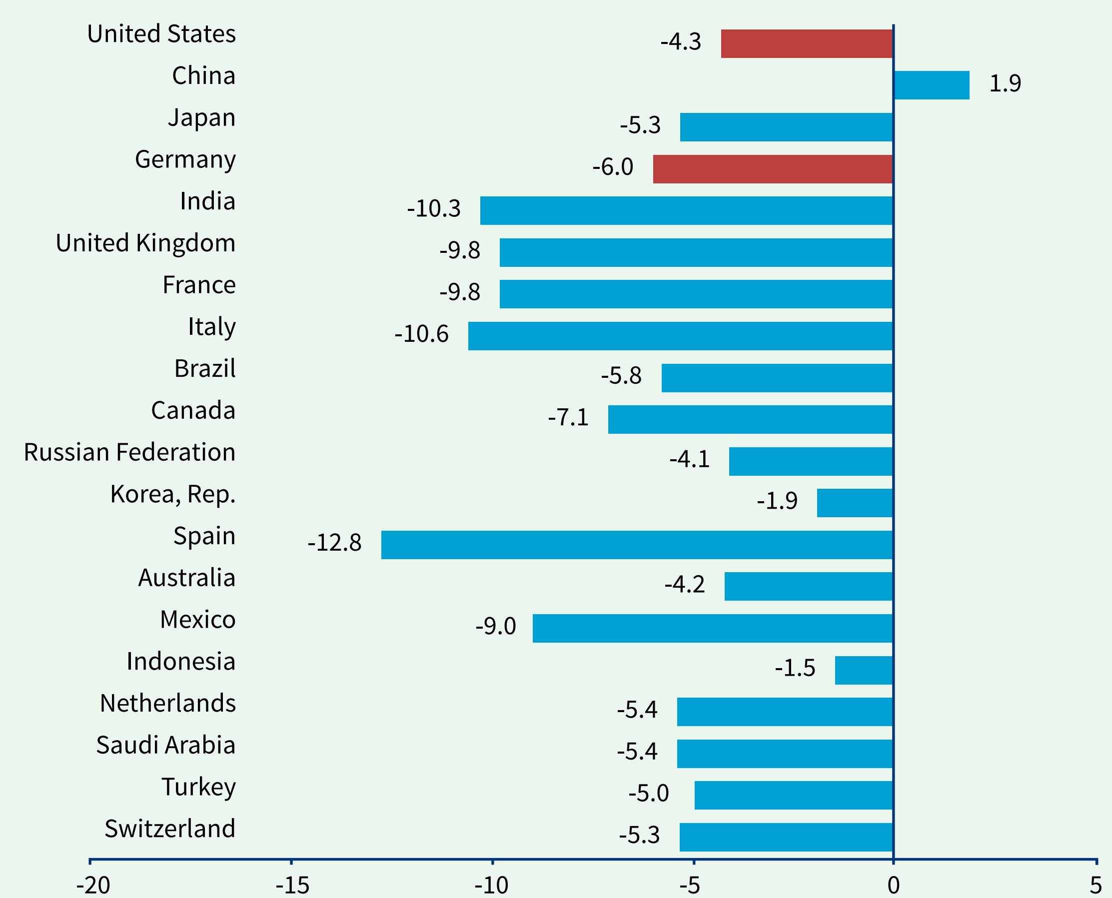
1. International Monetary Fund (IMF), October 2020.
2. Bureau of Economic Analysis, August 2020.

ECONOMIES ARE CLIMBING OUT OF THE DEEP RECESSION

The global economy suffered its worst recession on record in 2020, and some of its powerhouses are still struggling to contain the fallout from the COVID-19 pandemic. The IMF forecasts that global growth will shrink by 4.4% in 2020. In 2021, the IMF expects growth to increase by 5.2%.

In terms of GDP forecast for 2020, the United States and Germany were not the hardest hit by the pandemic. Other industrialized economies such as the United Kingdom, France, and India forecast downturns in the range of -10%. On the other hand, China is the only country that overcame the pandemic quickly, forecasting a rise in GDP of 1.9% for 2020.

Figure 2: GDP forecast for 2020*



Source: IMF; World Economic Outlook (October 2020); figures in percent.
*Note: *) Forecast for the development of the GDP in selected countries in 2020, change in percent compared to 2019.*

KEY US ECONOMIC DATA – HISTORICAL AND OUTLOOK

Capital:	Washington, D.C.
Total area:	3,796,742 sq mi
Population:	328,239,523

This table shows an overview of key economic data for the US. It includes both actuals for 2019 and the US economic forecast for 2020 and 2021. This information is published by the Congressional Budget Office.

	2019	2020 Forecast	2021 Forecast
Unemployment Rate (%)	3.7	10.6	8.4
Growth of the Labor Force (%)	1.6	0.4	1.4
Employment Cost Index (ECI), Private Wages and Salaries (Index: December 2005=100)	137.4	140.7	143.6
Growth of Productivity* (%)	0.7	0.1	3.7
Inflation - Growth of the CPI-U**	5.4	4.2	3.0
10-Year Treasury Note (in %)	2.1	0.9	0.9

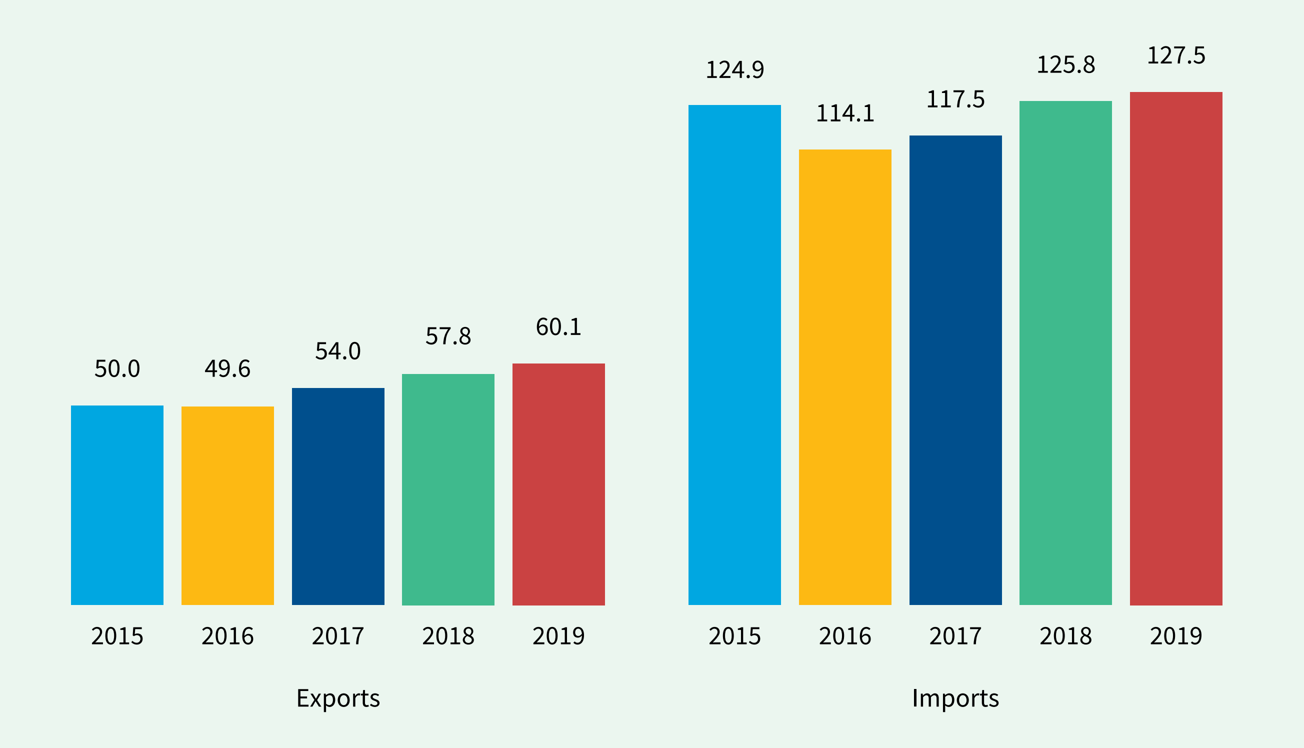
Source: Congressional Budget Office (CBO), The 2020 Long-Term Budget Outlook, September 2020.
*Note: *) Total factor productivity in the nonfarm business sector*
***) CPI-U = consumer price index for all urban consumers*

EXPORTS FROM GERMANY TO THE US

As in previous years, in 2019 the US defended its lead as the most important destination for German exports. Additionally, Germany plays an important role for the US as the fifth-most important supplier to the US economy in 2019 after Mexico, Canada, China and Japan. Imports of goods from Germany accounted for 5.1% of total US imports in 2019. German vehicles, machinery and chemical products, in particular, are imported into the US in significant numbers. In 2019, the US imported a total volume of 127.5 billion USD from Germany[3], which equals about a third of that imported from Mexico, the biggest exporter to the US.

It should also be noted that both US and German exports and imports steadily increased during the last couple of years.

Figure 3: US trade in goods with Germany



Source: United States Census Bureau; Foreign Trade; November 2020; figures in billion USD.

3. United States Census Bureau, 2020.

The overall upward trend in imports and exports since 2009 continued until the COVID-19 pandemic occurred. After the deep drop during the first lockdown, trade bounced back.

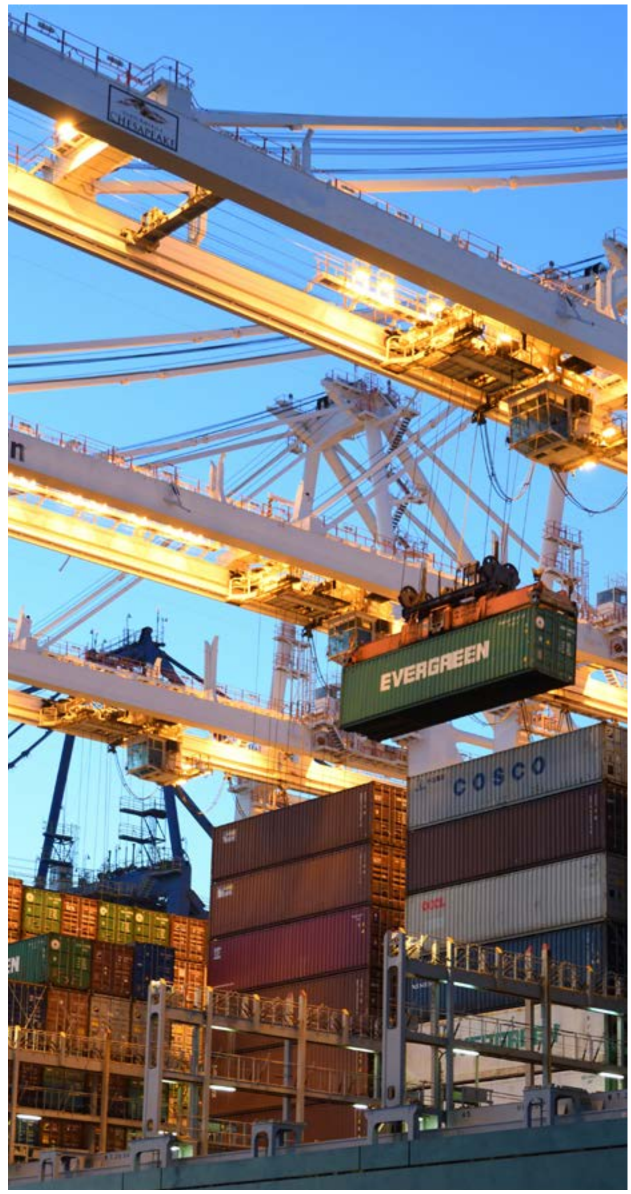
Including also services traded, the numbers have not changed much: In 2019, US exports of goods and services to Germany were 96.7 billion USD, up 3.2% from 2018, and imports from Germany were 162.9 billion USD, up 2.2% from 2018. As a result, the trade deficit with Germany was 66.2 billion USD.

GERMAN IMPORTS FROM THE US

Exports of goods to Germany accounted for 3.7% of total US exports in 2019, which makes Germany the sixth most important destination for US goods worldwide behind Canada, Mexico, China, Japan, and the UK[4]. In an EU comparison of the most important sales markets for US goods and services, Germany ranks second behind the United Kingdom (UK)[5]. The US is the third largest supplier of goods to Germany after China and the Netherlands.[6]

US TRADE IN GOODS WITH GERMANY HIT HARD BY THE PANDEMIC

The pandemic also had a massive impact on the transatlantic exchange of goods. The trade volume between the US and Germany for the first eleven months of 2020 underpins this development, with a dramatic slump of imports and exports between March and May and an impressive rebound since June. As a consequence, the overall full-year trade volume for 2020 is expected to see a double-digit negative growth rate.



4.– 6. German Federal Statistical Office (Statistisches Bundesamt), 2020.

2 Investment Status

By the end of 2018, more than 4,550 companies with German majority shareholders were located in the US and accounted for a total revenue of almost 500 billion EUR in that fiscal year. In other words, 15.5% of all German entities in foreign countries were located in the US and responsible for 20.4% of revenue realized by such entities worldwide. This underlines once again the particular importance of the US market for German companies. The following data derives from German sources:

Figure 4: Number and revenues of German entities in foreign countries

Number of companies

	2014	2015	2016	2017	2018
US	**4,010**	**4,568**	**4,577**	**4,653**	**4,559**
France	1,835	1,845	1,848	1,781	1,779
PR China*	1,547	1,646	1,688	1,735	1,735
United Kingdom	1,710	1,767	1,763	1,719	1,693
Netherlands	1,373	1,374	1,489	1,532	1,498
Total	**27,547**	**28,528**	**28,952**	**29,500**	**29,461**

Total revenue in million EUR

	2014	2015	2016	2017	2018
US	**430,921**	**502,145**	**518,706**	**478,361**	**496,958**
United Kingdom	178,902	193,667	219,422	231,379	242,278
PR China*	151,442	162,245	170,874	188,138	194,001
France	122,057	127,440	132,368	139,797	144,619
Italy	77,394	79,738	84,459	87,545	92,777
Total	**2,020,515**	**2,162,166**	**2,313,211**	**2,353,695**	**2,436,454**

Source: Deutsche Bundesbank (central bank of the Federal Republic of Germany), outward foreign affiliates statistics (outward FATS), November 2020; figures in million EUR.
*Note: *) Excluding Hong Kong.*

It is worth comparing these figures with data from US sources:

According to the US Bureau of Economic Analysis, majority-owned US affiliates (MOUSA) with ultimate owners in Germany were the third largest contributors to total MOUSA sales and employment in 2018. They employed 860,700 people (11.0% of total MOUSA) in the US and generated sales of more than 532 billion USD (10.9% of total MOUSA) (equaling the EUR 496,958 million in the figure above). German MOUSA invested over 10 billion USD in innovative R&D, which was second highest in MOUSA totals in 2018. US affiliates of majority German-owned firms account for 15.0% of total R&D performed by MOUSA and 2.2% of total US business R&D in 2018.

Figure 5: Selected data of majority-owned US affiliates of foreign enterprises, 2018*

	Sales	Total assets	Value added	R&D performed	Thousands of employees
Japan	886,660	2,337,538	160,676	10,886	948.1
United Kingdom	684,760	1,936,119	169,698	6,688	1,271.1
Germany	**531,831**	**1,493,499**	**128,561**	**10,030**	**860.7**
Netherlands	393,321	789,015	65,019	5,791	550.0
Canada	383,061	2,259,269	124,701	1,021	836.0
Total	**4,893,162**	**14,755,546**	**1,121,187**	**66,927**	**7,808.1**

Source: Bureau of Economic Analysis (BEA), November 2020; figures in million USD.
*Note: *) Including Banks*

UNITED STATES STILL THE MOST IMPORTANT DESTINATION FOR GERMAN DIRECT INVESTMENT

German companies have a strong presence in the US market, and they continue to invest in their US subsidiaries. Foreign direct investment (FDI) is a key indicator of this. German FDI in the US was over 42 billion USD in 2019 – the highest amount since 1998.

By the end of 2019, the steadily growing number of German subsidiaries in the US had invested a cumulative total position of 522 billion USD. Most of the FDI goes into the manufacturing industry and small and medium-sized enterprises. German FDI accounts for 11.7% of all foreign direct investment in the US, making Germany America's third largest source of FDI in 2019.[7]

Figure 6: German FDI in the US*

	2014	2015	2016	2017	2018	2019
Position (UBO)	327,995	356,982	347,963	387,997	482,608	**521,979**
Flow	37,121	25,353	15,637	18,727	28,346	**42,052**

Source: Bureau of Economic Analysis, August 2020; Information in million USD.
**) Note: UBO: Ultimate beneficial owner (i.e., entity at the top of an affiliate's ownership chain)*
Position/Stock: Snapshot of cumulative FDI taken at year end.
Flow: FDI coming into country for the financial year from January 1 to December 31.
Please note that for some indices there can be a delay of up to two years (data release dates vary).
As a result, there may be discrepancies with figures published in previous reports.

7. Bureau of Economic Analysis, August 2020.

Figure 7: Largest sources of FDI in the US, 2019*

Rank	Market	2019 Position in million USD	Share of total
1	Japan	644.727	14.5%
2	Canada	580.752	13.0%
3	**Germany**	**521.979**	**11.7%**
4	United Kingdom	446.179	10.0%
5	Ireland	343.538	7.7%
6	France	310.743	7.0%
7	Netherlands	290.429	6.5%
8	Switzerland	224.368	5.0%
9	Australia	86.537	1.9%
10	Spain	84.338	1.9%
11	Bermuda	77.140	1.7%
12	Belgium	70.073	1.6%
13	Sweden	61.316	1.4%
14	South Korea	61.135	1.4%
15	Singapore	60.138	1.3%

Source: Bureau of Economic Analysis, July 2020; figures in million USD.
**) Note: Position/Stock: Snapshot of cumulative FDI taken at year end.*

Figure 8: German transaction values of direct investments in selected countries worldwide, 2019*

Rank	Country	Value increase 2019
1	**United States**	**34,495**
2	Luxembourg	32,955
3	Netherlands	9,243
4	Italy	9,212
5	Ireland	5,140
6	Switzerland	5,050
7	France	5,032
8	China	4,396
9	Spain	4,032
10	Austria	2,995
11	Russian Federation	2,637
12	Poland	2,365
13	Hungary	1,895
14	India	1,210
15	Norway	1,092

Source: Deutsche Bundesbank (German Central Bank), November 2020; figures in million EUR.
**) Note: Transaction values of direct investments (Asset-Liability-Principle) coming into country for the financial year from January 1 to December 31. Deviating values from those given earlier, due to different definitions and recording methods in use with the of the national statistical offices.*

German companies continue to invest in the US by expanding existing operations and by establishing new locations, manufacturing facilities, and sales offices. In 2019, German companies began the second-highest number of projects, spent the third-highest capex and created more than 19,100 additional jobs through greenfield investments in the US, the third-highest amount in a nation-by-nation comparison.

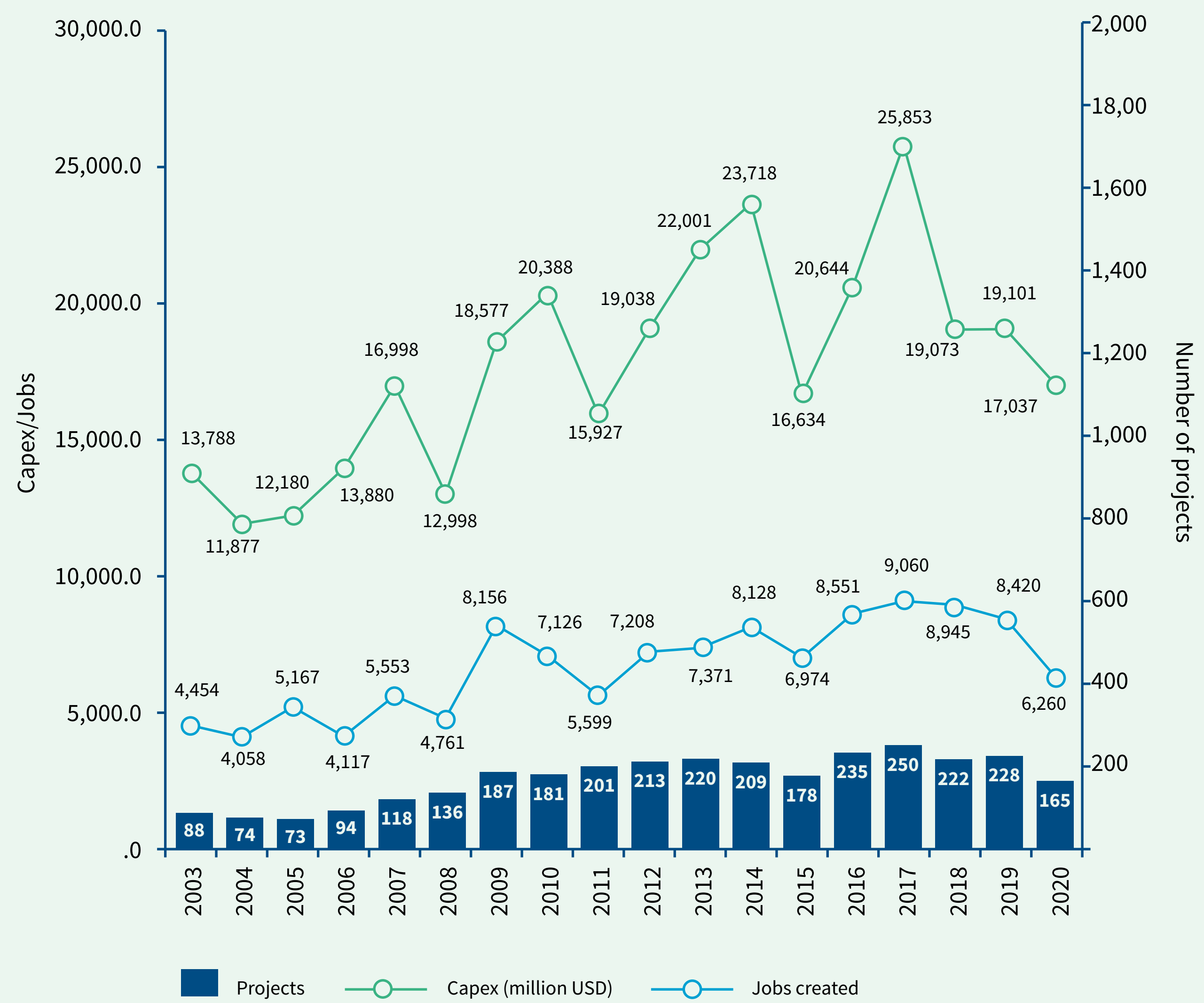
Figure 9: 2019 Greenfield investments in the US by selected countries worldwide*

Source Country	Projects	Capex	Avg capex	Jobs created	Avg jobs	Companies
United Kingdom	327	10,932.6	33.4	26,800	81	266
Germany	**228**	**8,420.0**	**36.9**	**19,101**	**83**	**162**
Canada	189	9,361.5	49.5	14,452	76	139
Japan	182	8,258.3	45.4	19,475	107	140
France	142	7,260.1	51.1	12,905	90	117
Switzerland	114	1,448.1	12.7	6,015	52	61
Australia	103	2,886.2	28.0	6,891	66	47
Netherlands	78	3,625.6	46.5	6,494	83	51
Spain	58	2,190.6	37.8	3,253	56	45
China	57	2,841.9	49.9	7,267	127	48
...						
Qatar	2	17,900.0	8950.0	3,200	1,600	1

Source: fDi Markets, from the Financial Times Ltd, November 2020.
**) Note: Data for companies investing in the US between January 2019 and December 2019, capex figures in million USD.*

Through a long-term lens, the capex of German companies through greenfield investments in the US have nearly doubled over the 2006 – 2019 period. In light of the COVID-19 recession, number of new projects, capex and job creation in 2020 are expected to decline by a low two-digit percentage compared to the previous year. Since it is unclear how lasting the economic crisis will be, companies have become much more cautious regarding their investment and spending plans. They are re-evaluating and stretching out current projects while holding back on new ones to keep equity and maintain liquidity.

Figure 10: 2006 – 2020 Greenfield investments in the US by German companies*



Source: fDi Markets, from the Financial Times Ltd, December 2020.
**) Note: Data for German companies investing in the US between January 2006 and November 2020, capex figures in million USD.*

Continuing the long-term perspective, German companies also ranked well compared to other world economies in terms of large M&A deals. Particularly noteworthy amongst these were the acquisitions of Monsanto by Bayer in 2016 and the takeover of software company Qualtrics by SAP in 2018. The biggest deal, announced in 2019 and completed in 2020, was the acquisition of Cypress Semiconductor Corp. by Infineon Technologies.[8] In 2020 – so far – no transaction with a deal value bigger than one billion USD was completed, which makes 2020 a weak year for acquisitions of US targets by German companies. Not included in the table are Siemens Healthineers' plans to acquire Varian for a consideration of 16.4 billion USD. The completion of this deal is expected in early 2021.

Figure 11: Major acquisitions of US companies by German companies*

	Number of deals	Deal value
2016	6	67.7
2017	18	5.2
2018	17	16.6
2019	24	31.7
2020	20	2.6

Source: ThomsonOne, January 2021, deal value in billion USD, classified by the announced date, considered are transactions announced and completed before December 31, 2020.
**) Note: "Major acquisitions" is defined as completed M&A deals with a published and minimum deal value of 5 million USD. Due to late-reported transactions or subsequent amendments of the deal status, there may be discrepancies with figures published in previous reports.*

8. According to ThomsonOne, from January 1, 2019 to December 31, 2020.

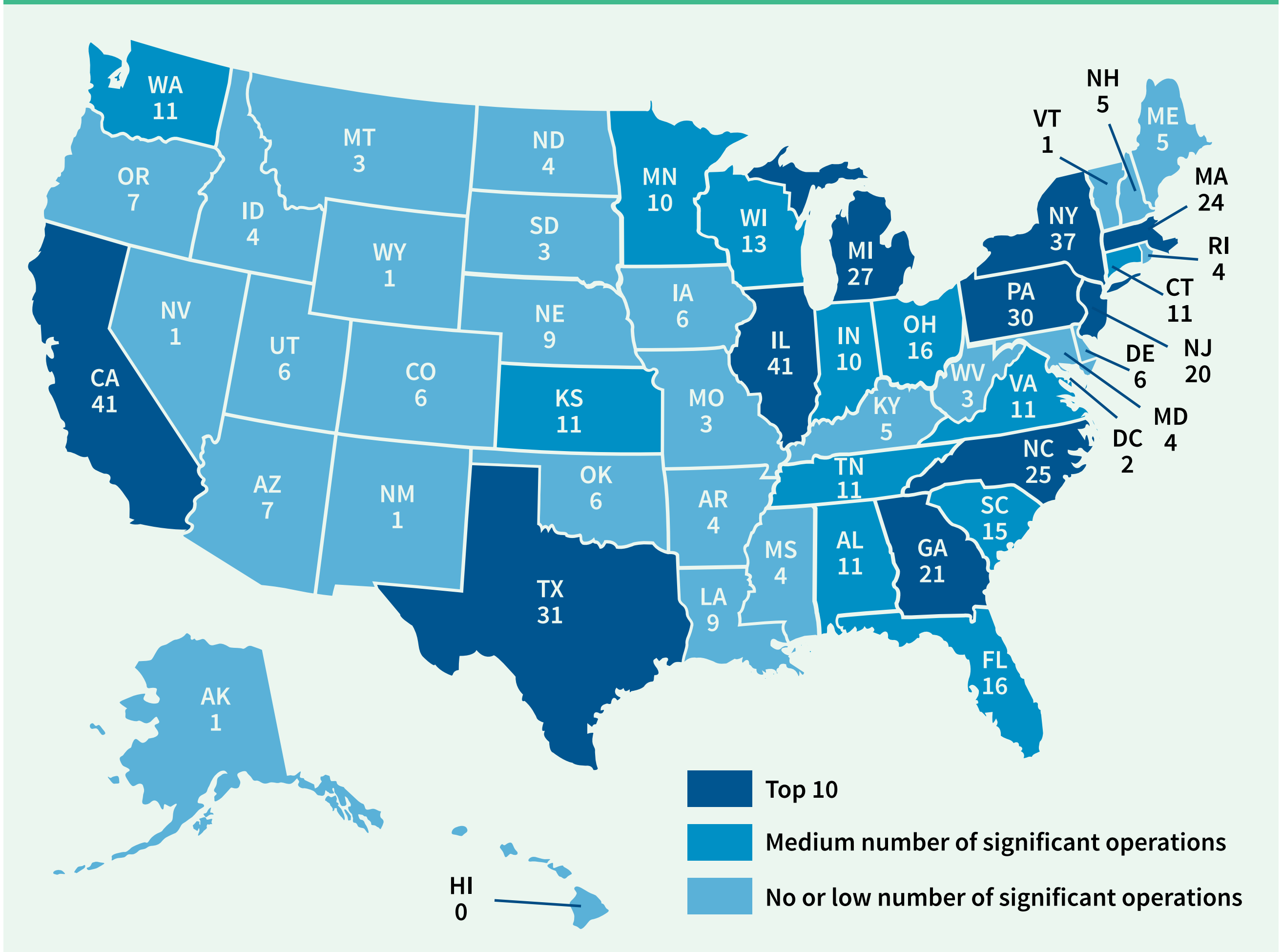
Survey Results

1 Business Situation and Developments

For a clearer interpretation of the survey results, the geographic focus of German operations in the US should be taken into account: The majority of German companies are based on the East Coast and areas near the Great Lakes in the Midwest.

More than 50% of the companies surveyed have significant operations concentrated in ten large US States – Illinois, California, New York, Texas, Pennsylvania, Michigan, North Carolina, Massachusetts, Georgia and New Jersey. Those states account for half of the locations of significant operations (297 out of 566).

Figure 12: Location of operations (US State)



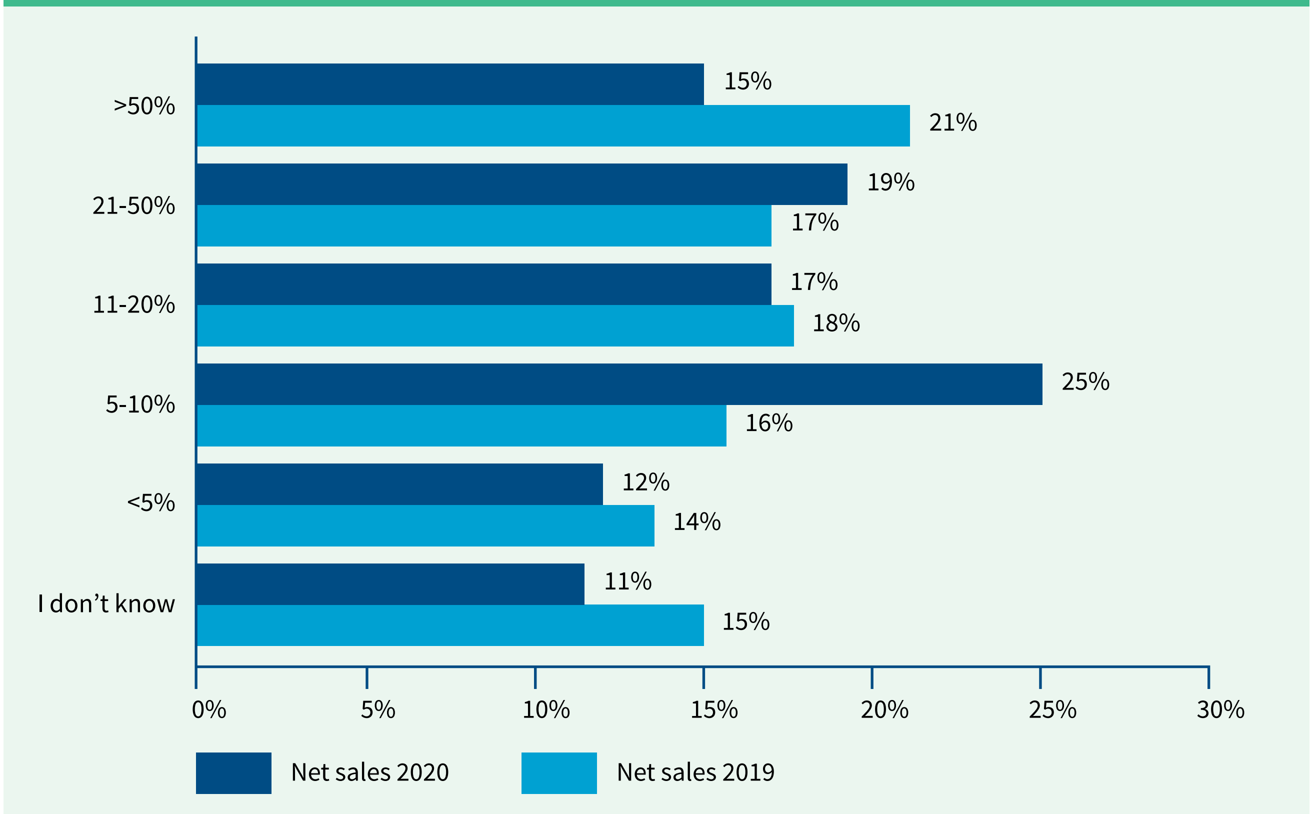
Source: KPMG in Germany and GACCs, 2020, multiple choice question, information in absolute numbers, n=150; total = 566.

As the world's largest economy, the US plays a dominant role for the surveyed German groups. US operations generate more than 20% of total group sales for 34% of the German companies surveyed (prior year: 38%). Even more significant, for 15% of companies surveyed, US operations account for more than 50% of total group net sales (previous year: 21%). This shows that, sales-wise, operations continue to play a very important role for German corporate groups. However, profit shares from US operations decreased significantly in 2020: 19% of respondents (previous year: 33%) generate more than 20% of their total group profits after taxes and 9% of the surveyed companies stated that they generate more than 50% of their group profits from their US operations (previous year: 20%).

90% *of companies surveyed stated they generated profits after taxes in 2020 (Figure 17).*

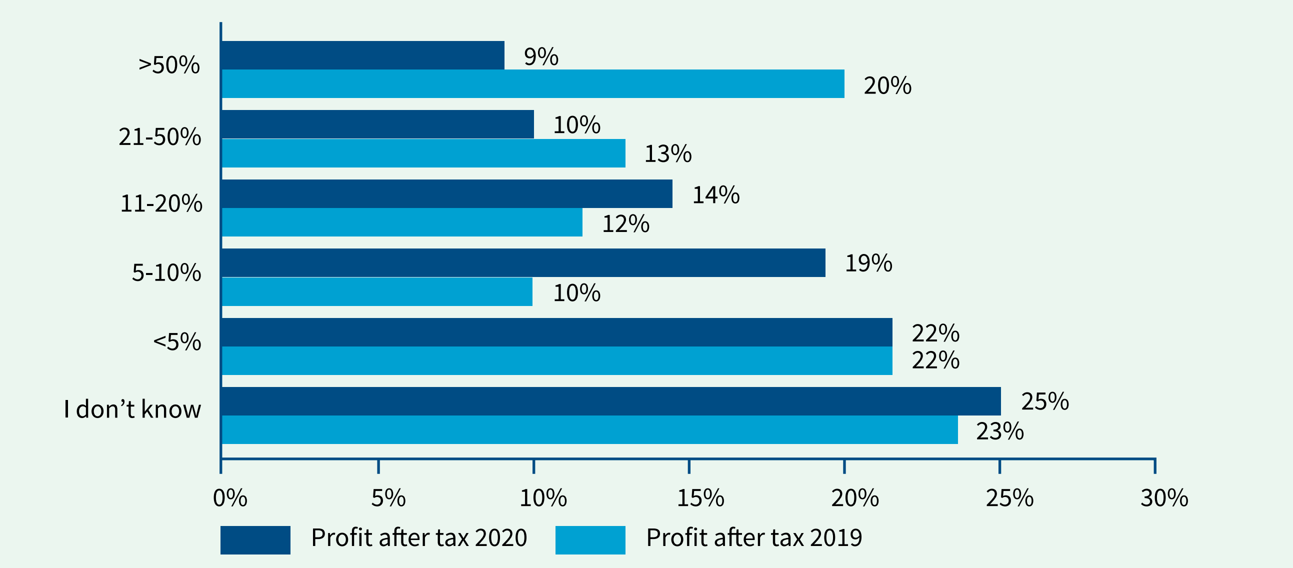
45% *of the participants reported a positive or even very positive development in profitability in 2020 compared to 2019 (Figure 16).*

Figure 13: What is the percentage of net sales generated by your US operation for the overall group?



Source: KPMG in Germany and GACCs, 2020, figures in percent, deviations from 100 percent are due to rounding differences, 2020: n=166, 2019: n=147.

Figure 14: What is the percentage of profit after tax generated by your US operation for the overall group?



Source: KPMG in Germany and GACCs, 2020, figures in percent, deviations from 100 percent are due to rounding differences, 2020: n=166, 2019: n=147.

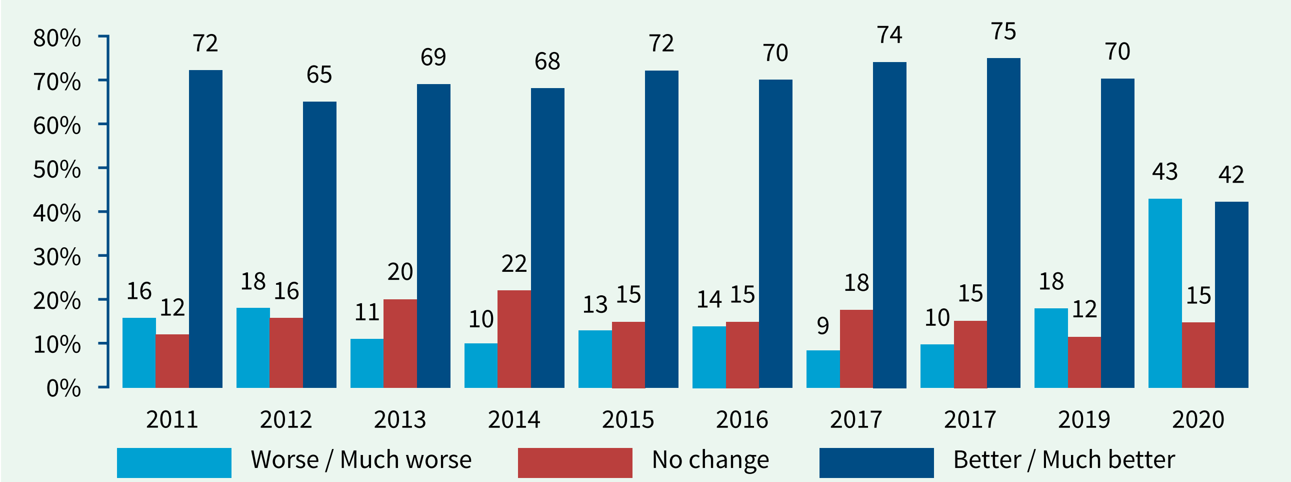
The US and EU economies are characterized by unusually severe slumps and a pronounced recovery phase in 2020, with a very favorable outlook for 2021. Nevertheless, the US economy appears more stable, with a less volatile pandemic-related economic contraction than in the EU.[9] In the second half of 2020, the US economy has already started to show signs of recovery, rebounding faster than expected due to rapidly reviving consumer demand. However, a full return to pre-COVID-19 levels should not be expected until the pandemic has largely been overcome by successful vaccines. Still, with private consumer spending remaining relatively stable and capital expenditure recovering as well, the US continues to offer German companies solid growth opportunities for 2021.

However, the COVID-19 crisis impacted specific regions, industries, and business models in significantly different ways, and the results of the GABO 2021 survey reflect this diversity. For many companies, 2020 caused enormous losses in sales, while for others, sales development remained almost unaffected by the pandemic. Furthermore, a third group was able to defy the adversity of the crisis altogether and expand its sales. In comparison to the financial crisis of 2008, the COVID-19 recession initially unfurled quicker and more intensely, but the rebound took place more quickly as well.

For the first time in the history of the GABO survey since 2011, the percentage of companies with increasing sales volumes is below 65% (Figure 15). In 2020, only 42% of the surveyed German companies in the US reported a net sales increase. On the other side, 43% of respondents reported negative or very negative sales development in 2020 - more than twice as many as in the previous year.

9. Congressional Budget Office (CBO), August 2020 / European Commission, November 2020.

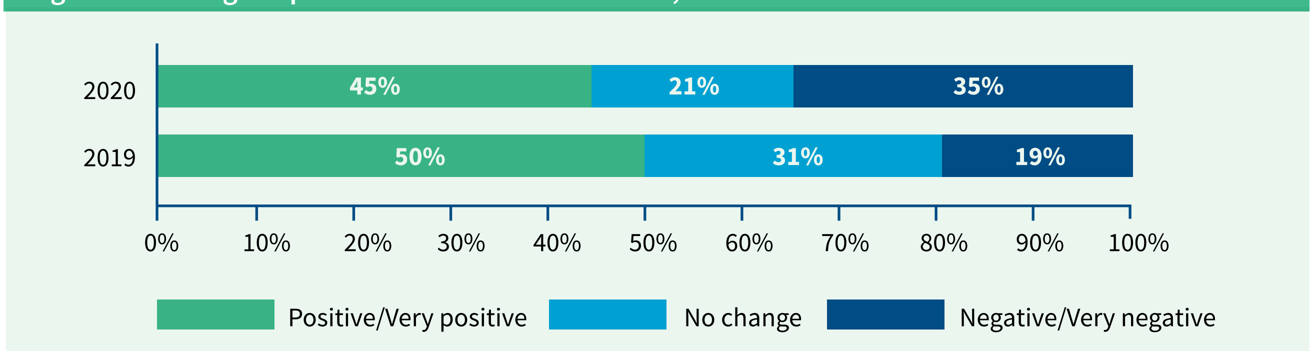
Figure 15: Sales volume development



Source: KPMG in Germany and GACCs, 2020, figures in percent, deviations from 100 percent are due to rounding differences, n=161.

However, the decline in sales did not have the same impact on profitability in every company. 45% of the participants reported positive or even very positive development in profitability in 2020 compared to 50% in 2019. On the other hand, almost every third company (35%) posted a decline in their profit after tax, nearly doubled from the previous year (19%).

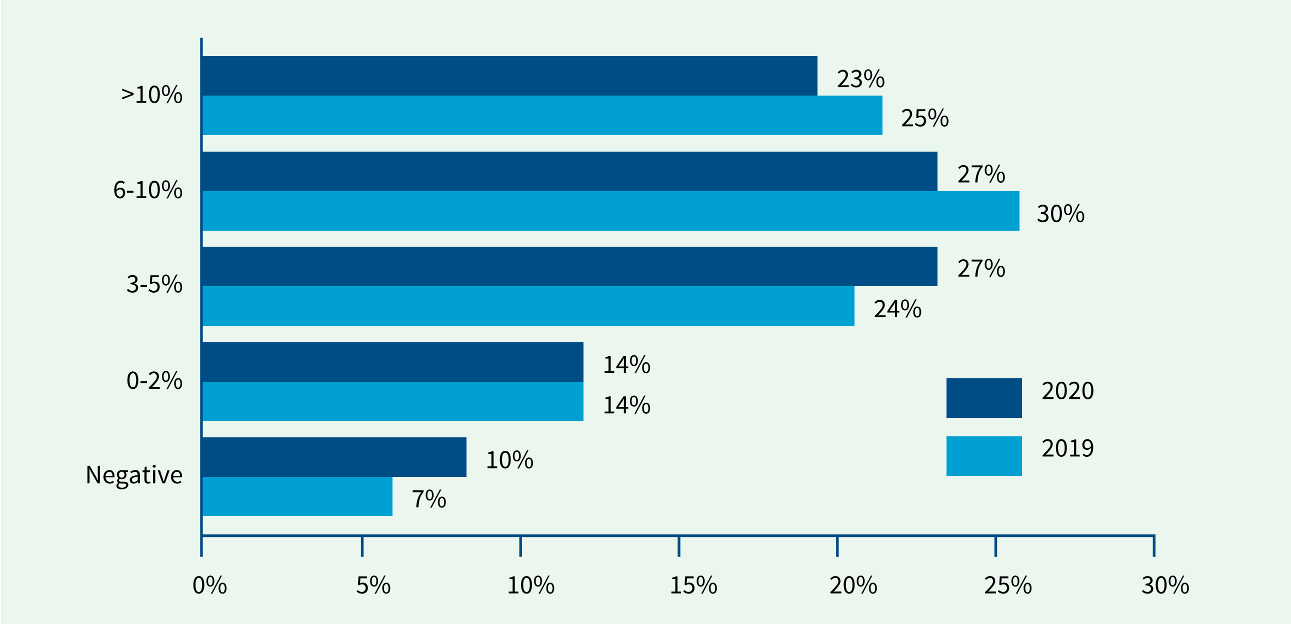
Figure 16: Change of profit after taxes 2020 vs. 2019, 2019 vs. 2018



Source: KPMG in Germany and GACCs, 2020, figures in percent, deviations from 100 percent are due to rounding differences, 2019 n=133, 2020 n= 159.

The levels of profitability achieved by the respondents were again noteworthy: 90% of surveyed companies stated they generated profits after taxes (prior year: 93%), a decrease of only 3%. 23% of all surveyed companies (prior year: 25%) reported a very significant level of profitability of more than 10% of net sales. This, in turn, left 10% of the companies surveyed reporting negative margins (prior year: 7%).

Figure 17: Level of profit after taxes in relation to net sales in the US

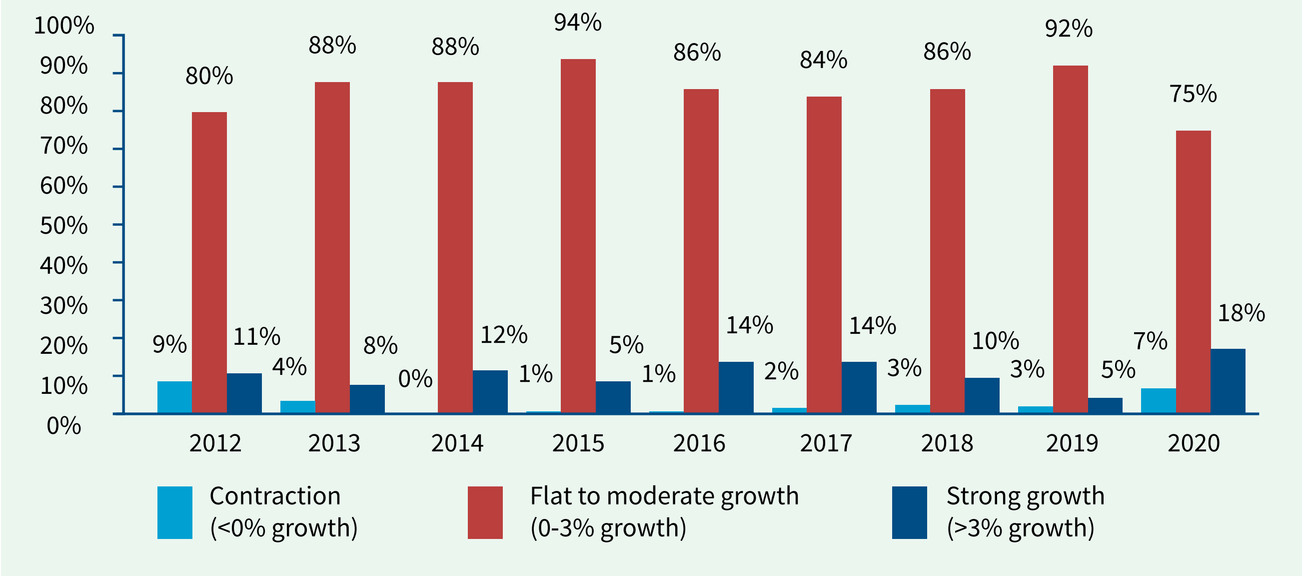


Source: KPMG in Germany and GACCs, 2020, figures in percent, deviations from 100 percent are due to rounding differences, 2019: n=116, 2020: n= 124.

Our results show an unrelenting optimism: This year, an impressive 93% of companies surveyed still anticipate moderate to strong growth for the US economy in 2021. The survey finds that the COVID-19 crisis has somewhat changed the expectations in US economic growth. As was the case in previous years, most German subsidiaries have positive expectations for growth for 2021. However, the percentage of companies expecting strong growth of more than 3% for the following year has more than tripled from 5% in 2019 to 18% in 2020. Also different from previous years is the increased number of companies surveyed that expect a contraction of the US economy – 7% of the German subsidiaries anticipate negative growth rates for 2021 versus 3% in the previous year.

Only the 18% of participants with growth expectations for 2021 of more than 3% are in line with the Congressional Budget Office's September 2020 forecast of 4% real GDP growth in 2021.

Figure 18: Growth expectation for the US economy for the following year



Source: KPMG in Germany and GACCs, 2020, figures in percent, deviations from 100 percent are due to rounding differences, n=165.

The companies surveyed this year have slightly lower expectations for growth for their own businesses in 2021 than they did for 2020. While the percentage of German companies expecting flat to moderate growth of up to 3% remained at an unchanged level of 58%, slightly fewer companies are expecting strong growth of more than 3% (34% in 2020 versus 38% in the previous year), which matches or exceeds the forecasted real GDP growth of 4.0% for 2021. Additionally, the percentage of companies expecting their business to contract has doubled from 4% in 2019 to 8% in 2020, although this is still a small number of companies.

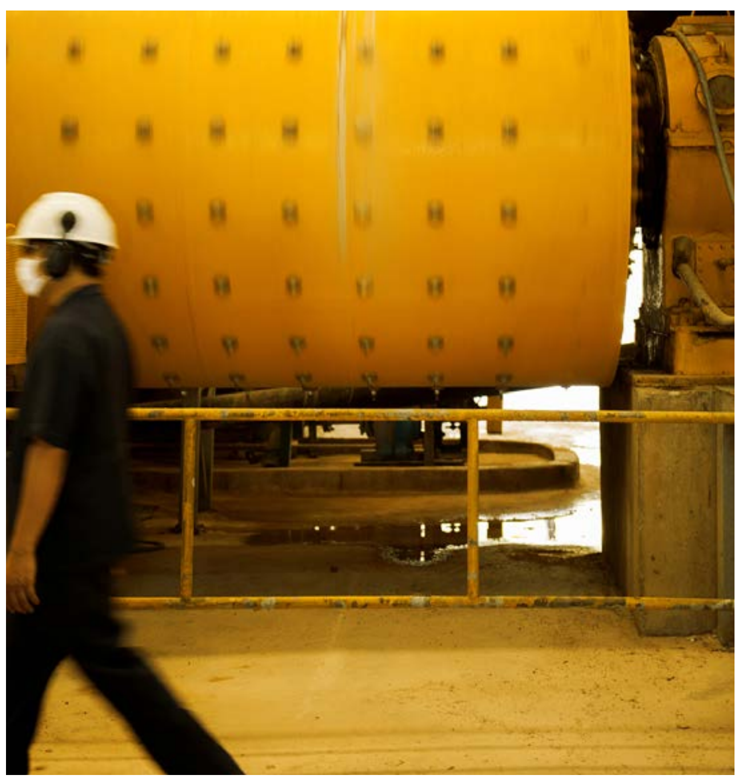
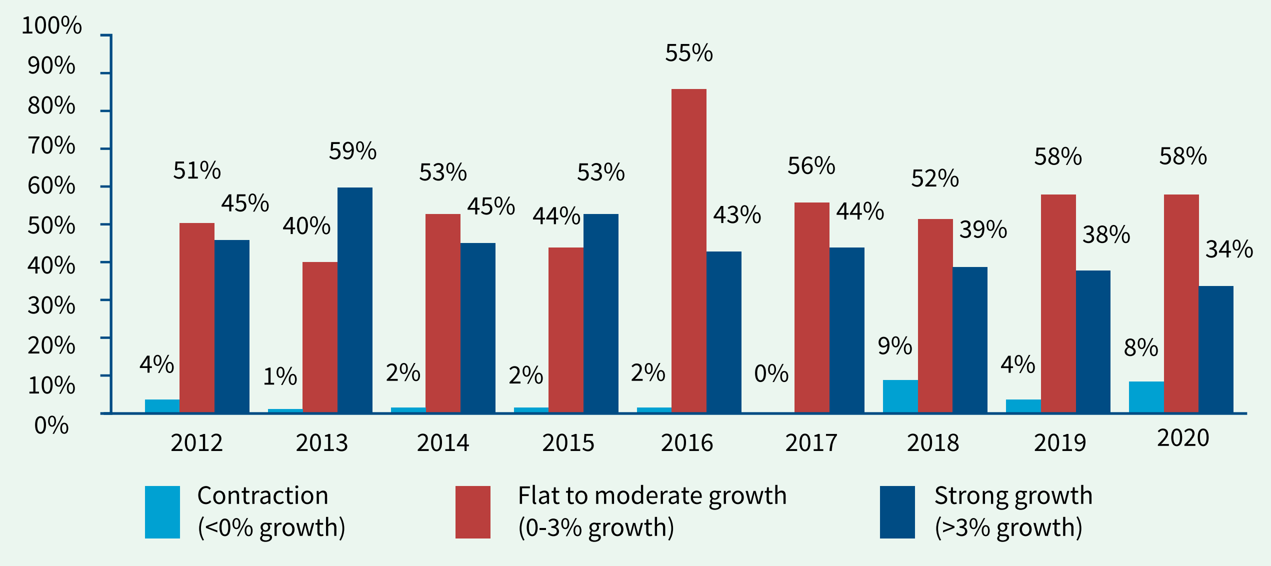


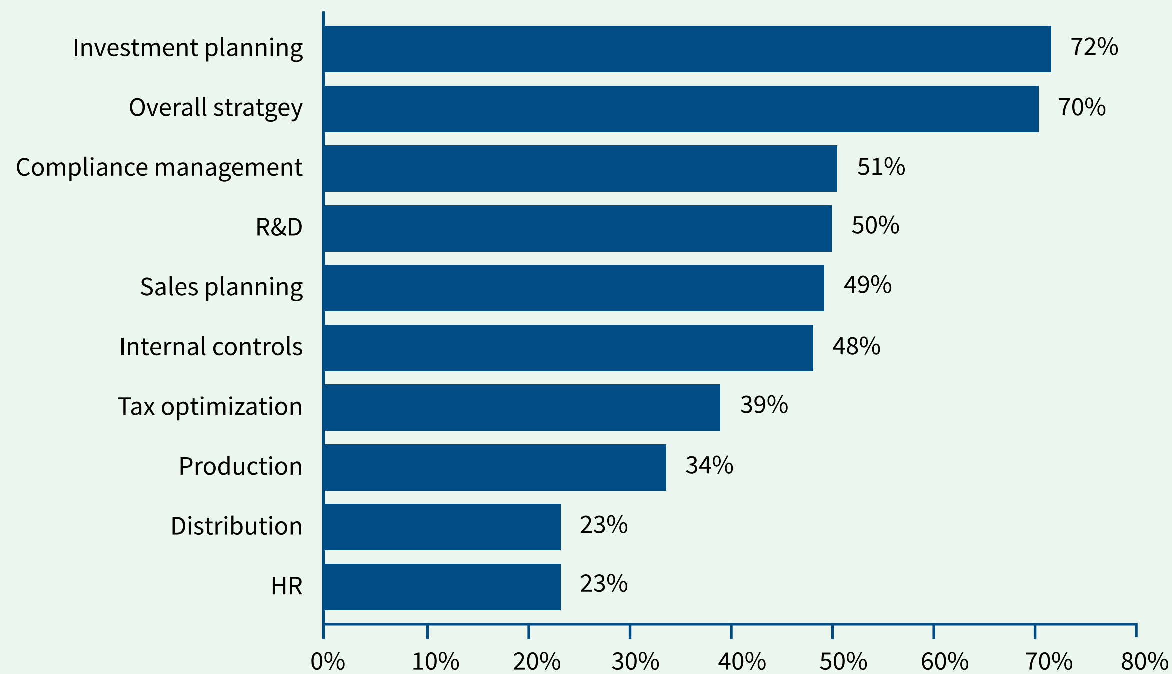
Figure 19: General expectation for own business in the following year



Source: KPMG in Germany and GACCs, 2020, figures in percent, deviations from 100 percent are due to rounding differences, n=162

One key finding is that the growth expectations that individual German subsidiaries have for their own companies in the coming year are more positive than the growth expectations for the US economy, even though the expectations for their own companies are the lowest in the history of the GABO survey.

Figure 20: Involvement of German headquarters in business decisions of US operations



Source: KPMG in Germany and GACCs, 2020, figures in percent, n=166.

GERMAN SUBSIDIARIES IN THE US ENJOY GREAT AUTONOMY IN DECISION-MAKING

A key finding of the study shows that German subsidiaries are largely independent, but investment planning and strategy are still done at the German HQ.

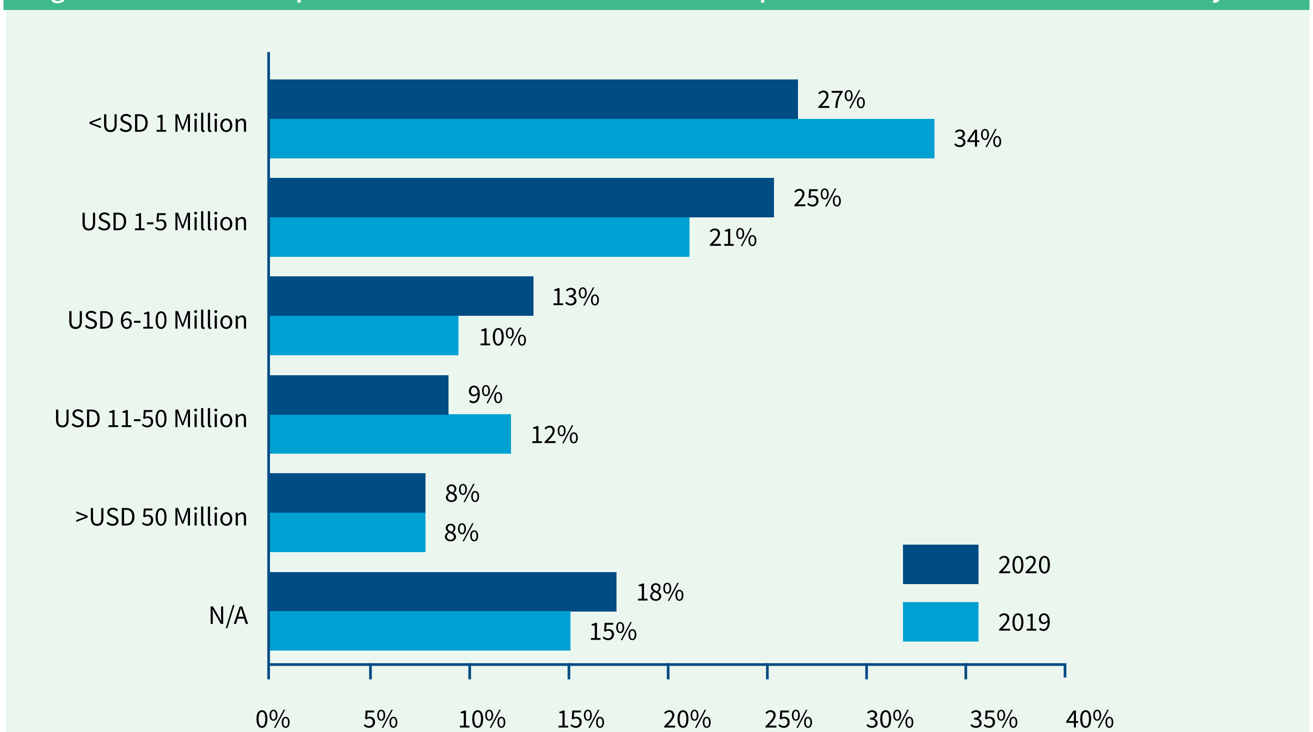
2 Investment Plans

*Despite uncertain business conditions, **82%** of the surveyed companies are still planning investments in the US market.*

Our survey shows that 17% of respondents plan to invest more than 10 million USD in the US market over the next three years. However, 27% of the German companies reported that they intend to invest less than 1 million USD or nothing over the next three years (18%). Summarizing actual results, the overall investment profile stays similar to pre-pandemic levels: 82% of the surveyed companies still plan to invest in the US market, with fewer large-scale projects, but also fewer small investments.

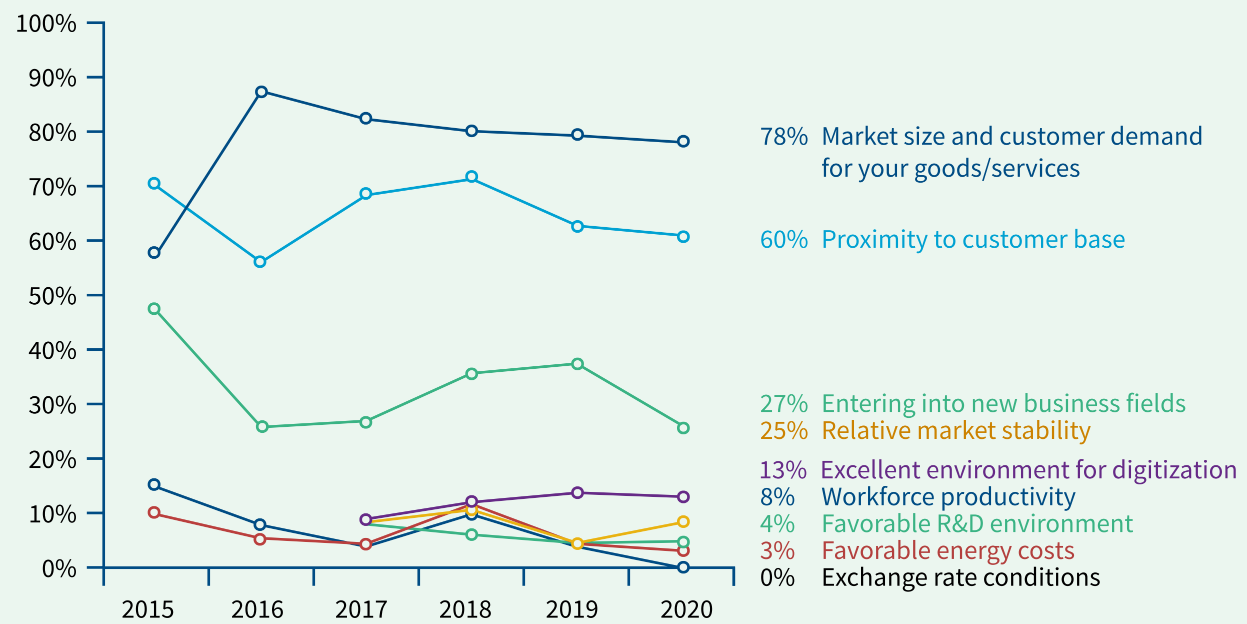
As most companies surveyed have significant operations concentrated in ten large US states – Illinois, California, New York, Texas, Pennsylvania, Michigan, North Carolina, Massachusetts, Georgia and New Jersey – it can be assumed that planned investments will predominantly take place in these states.

Figure 21: Amount of planned investments of German companies in the US over the next three years



Source: KPMG in Germany and GACCs, 2020, figures in USD million, deviations from 100 percent are due to rounding differences, 2020 n = 165, 2019 n=146.

Figure 22: Top reasons for current and future investments in the US relative to other world markets



Source: KPMG in Germany and GACCs, 2020, figures in percent, multiple choice question, n=158.

INVESTMENT REASONS

As in previous years, more than three out of four (78%) German companies in the US reported “market size & customer demand” as the primary reason for their US investment, with “customer proximity” ranking second (60% of companies). Apart from these customer-driven investment reasons, “entering into new business fields” follows in third place with 27%, which was queried for the first time.

“Market stability” lost its significance, with 25% of companies reporting this as a reason for investment, down 12% from 2019. 13% of companies choose the “favorable environment for digitization” in the US as their reason to invest in 2020, down only 1% from 2019. Other location factors such as workforce productivity, R&D environment or energy costs were once again of limited relevance.

*Almost a third of companies reorganized their business due to COVID-19 in 2020 – but only **4%** reported closure, and only **2%** plan to close in 2021.*

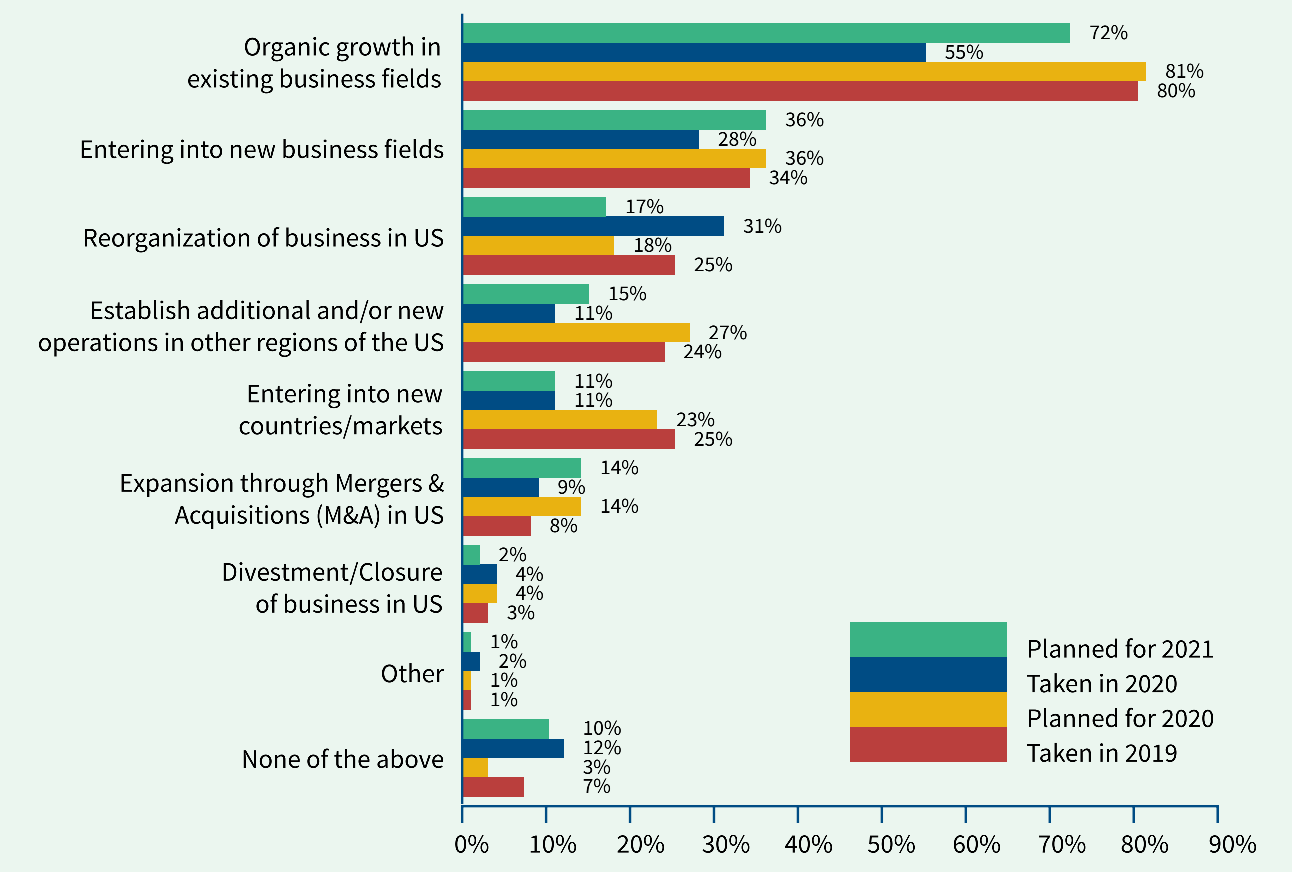
INVESTMENT AREAS

Most German companies in the US are focusing on organic growth in their existing business fields to achieve their 2021 goals. In 2020, 55% of all respondents focused on organic growth as their main strategic action, and 72% plan to do so for 2021.

In response to the weakening economy in 2020, almost every third company (31%) reorganized its business in the US, the second most common strategic action taken in 2020. 17% intend to reorganize in 2021. Despite a sharp increase of these restructuring measures taken in 2020, only 4% of surveyed companies reported on the divestment or closures of business locations or segments. 2% have such plans for 2021. These low percentages are notable because, despite a forecasted increase in business bankruptcy filings[10] and restructuring measures, the results of our survey on this subject remain almost unchanged compared to the previous year (divestments/closures in 2019: 3%; planned for 2020: 4%).

28% of surveyed companies entered new business fields in 2020 (previous year: 34%) and 36% have plans to do so in 2021 (unchanged from the previous year). 15% of German companies in the US intend to establish new or additional operations in other US regions, a sharp drop from the prior year's 27%. In addition, fewer companies intend to enter into new countries and/or markets: 11% versus 23% in the previous year. However, plans to expand through mergers & acquisitions (M&A) have not changed from last year's survey: 14% stated that they intend to do so.

Figure 23: Strategic actions taken and planned



Source: KPMG in Germany and GACCs, 2020, figures in percent, multiple choice question, "Taken in 2020" n= 271, "Planned for 2021" n=295.

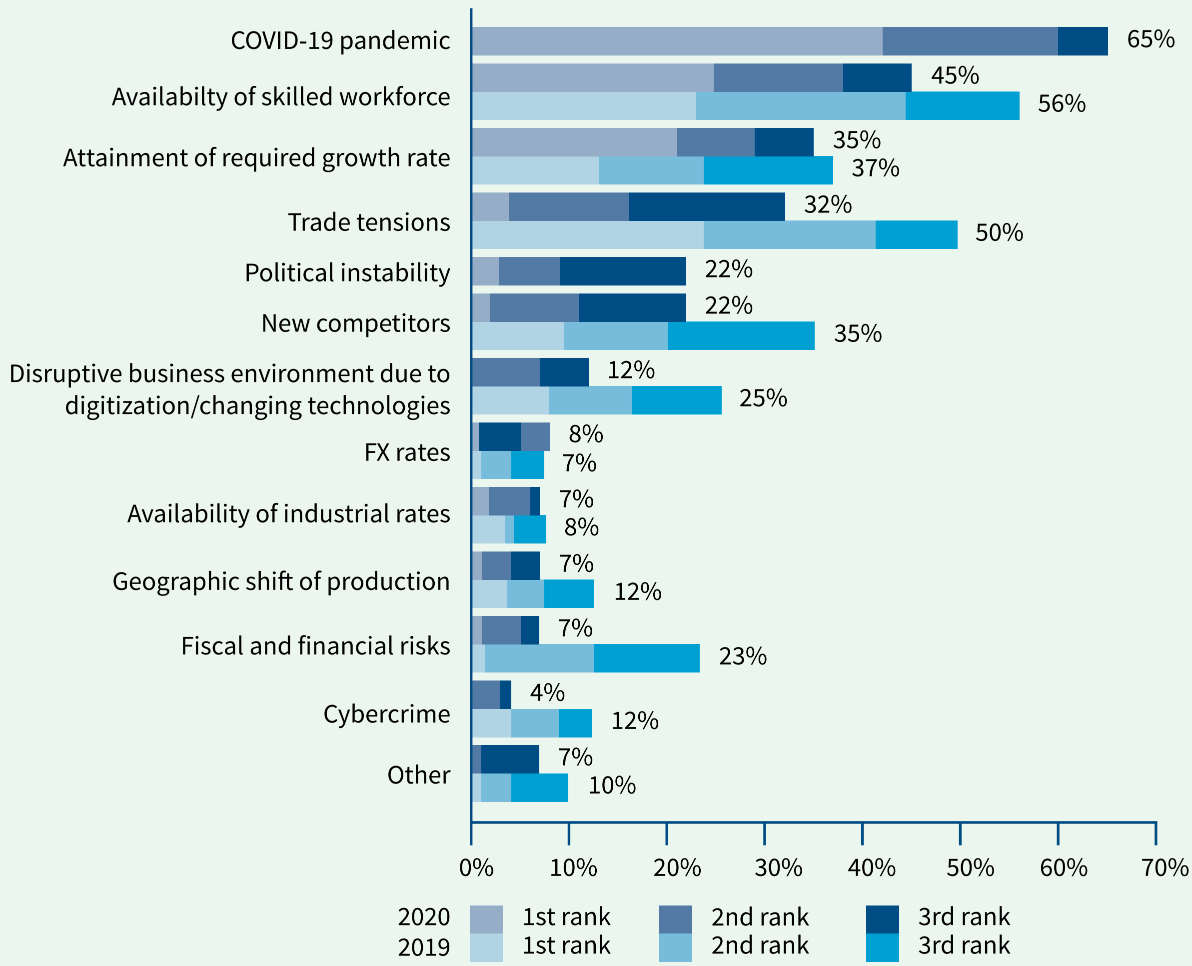
10. Source: Atradius N.V., "2020 insolvencies forecast to jump due to Covid-19", September 2020.

3 Economic Challenges

Aside from German subsidiaries' top-rated concern (COVID-19), the availability of skilled workers remains a major challenge for 45% of surveyed companies (previous year: 56%). About one-third named reaching their growth targets (35%, compared to 37% the previous year) and trade tensions (32%, down from 50%) as among their three biggest challenges in 2021. 22% listed political instability and the appearance of new competitors among their concerns.

*The COVID-19 pandemic is by far the greatest challenge for 2021 – for **65%** of the surveyed companies, the impacts of the COVID-19 crisis are among their top three economic challenges in the coming year.*

Figure 24: Top three economic challenges for business in 2021 versus prior-year results



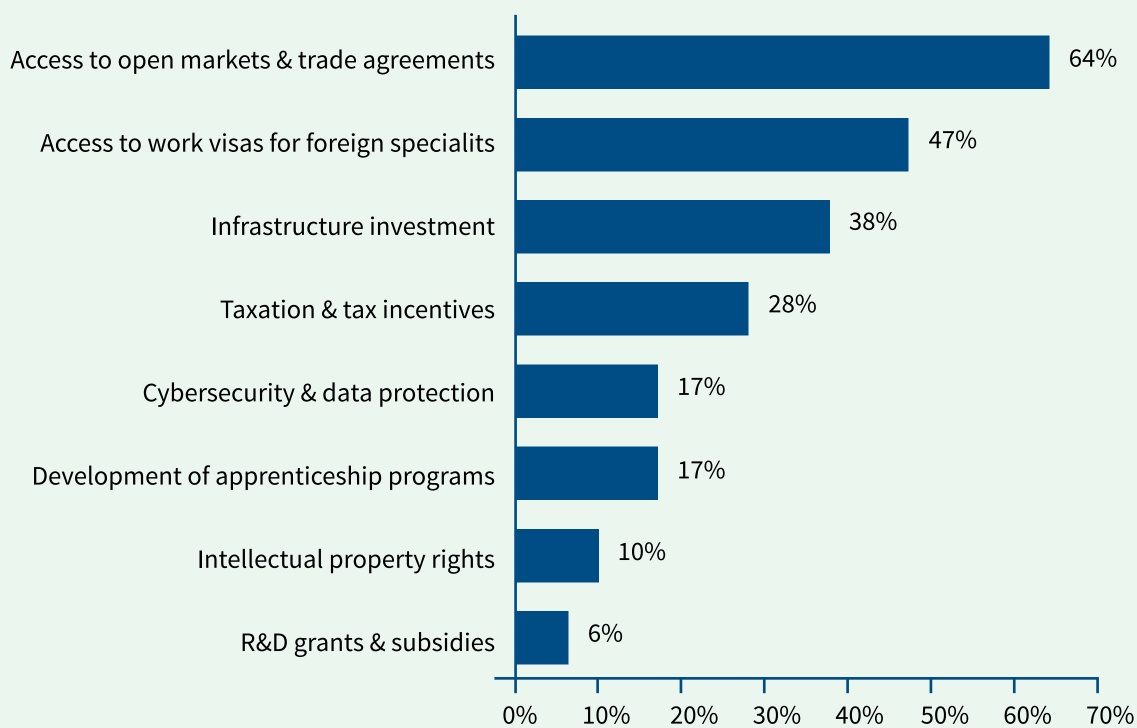
Source: KPMG in Germany and GACCs, 2020, figures in percent, ranking question, 2020: n=159, 2019: n=139, matt colors show prior-year results.

It is notable that cybercrime appears to be an underestimated threat for German companies, with very few companies (4%) viewing it as an economic challenge. Cyber-attacks can have serious consequences for companies, including data loss, production downtimes, theft of intellectual property and cyber extortion. With the increasing use of remote work during the crisis, IT security is gaining great importance. When comparing these survey results of German companies in the US with a recent survey done by KPMG in Germany ("Vom Plus zum Muss," December 2020), results show that cybercrime is similarly underestimated in Germany.

Apart from economic challenges, the results of the US presidential election will have a direct impact on all companies in the US for both domestic and foreign investors. The next few months will determine which priorities and initiatives will shape the next legislative period.

For 64% of German companies in the US, access to open markets and trade agreements is one of the three most important policy fields for growing their US operations, followed by access to work visas for foreign specialists (47%) and infrastructure investments (38%).

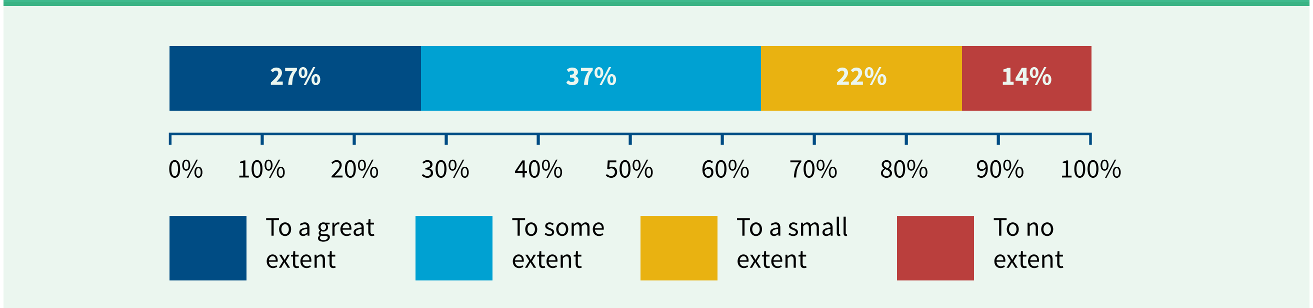
Figure 25: Top three policy fields with most importance for further growth of German US operations



Source: KPMG in Germany and GACCs, 2020, figures in percent, multiple choice question, n=163.

4 Availability of Skilled Workforce

Figure 26: Difficulties in attracting skilled workers in the US



Source: KPMG in Germany and GACCs, 2020, figures in percent, n=142.

The US job market changed drastically in early 2020 because of the COVID-19 pandemic. While the unemployment rate was 3.6% in January, it spiked to 14.7% in April, the highest since 1948 - higher than during the financial crisis of 2008 and the global recession of 1982. By December 2020, this number declined to 6.7%.

The approx. 860,000 US workers employed by German subsidiaries in the US make up 11% of all US workers employed by foreign-owned companies.[11] But how are the recent changes in the US job market affecting German-owned companies' search for skilled workers? One thing is certain: Apart from the hurdles posed by the pandemic, the availability of skilled workers is the biggest economic challenge for growing German companies in the US (as per figure 24 above).

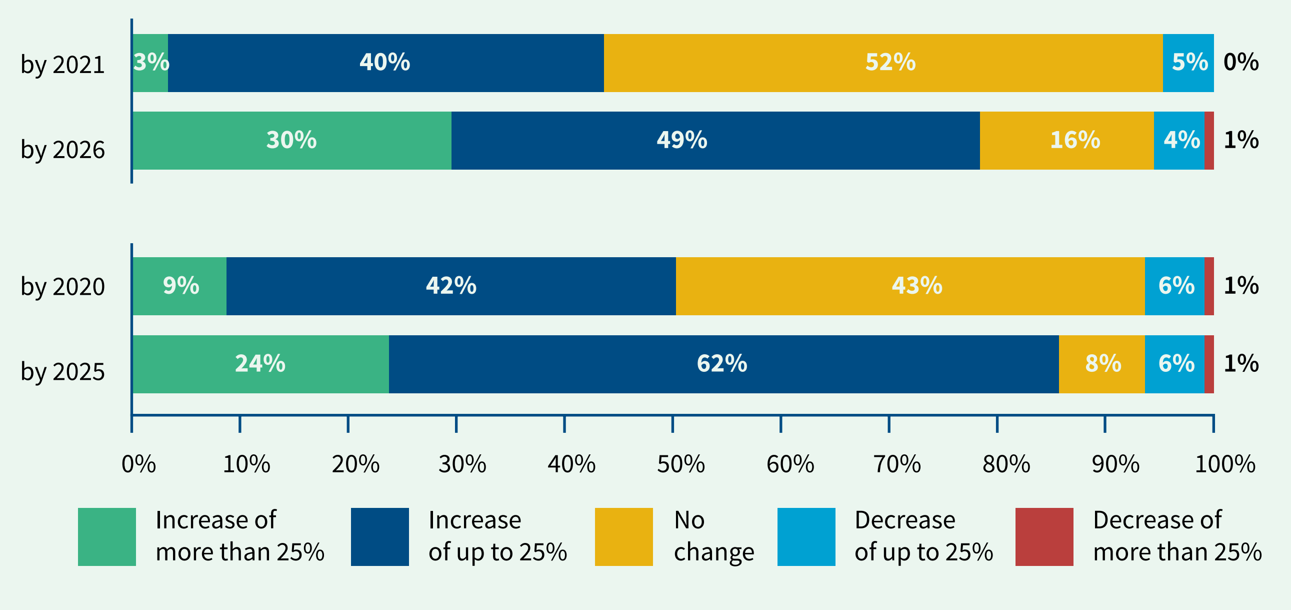
Despite continuous efforts in workforce development, only 14% of companies surveyed stated that they never face difficulties in attracting qualified US talent to fill vacancies. Conversely, 64% of German companies in the US stated that they experience difficulties in attracting skilled workers to some or to a great extent. Although more people are available for hire, the skills shortage has not been solved. This underscores the continued need to create pipelines of qualified employees, particularly through apprenticeship programs, an activity the US market in general is increasingly pursuing to ease this bottleneck.

In the short term, organizations and employees face periods of uncertainty mainly driven by rapid changes in customer demand. At many companies, the workload has dropped significantly, changing personnel requirements. Against this backdrop, this year's results look very optimistic. In 2021, 43% of companies surveyed plan to increase their workforce, 3% by more than 25%. This dropped 8% from 51% in last year's survey. Only 5% intend to decrease their workforce. By 2026, almost 4 in 5 (79%) expect an increase in their number of employees, with 30% of those expecting an increase higher than 25%.

Despite record unemployment, German subsidiaries in the US still face the issue of a shortage of skilled workers.

11. Source: Bureau of Economic Analysis (BEA), November 2020.

Figure 27: Change in number of employees expected in 2021 and until 2026 (in comparison to the results from the previous year, in 2020 and until 2025)



Source: KPMG in Germany and GACCs, 2020, figures in percent, n=149 for 2021; n= 149 for 2026, n= 125 for 2020, n=126 for 2025.

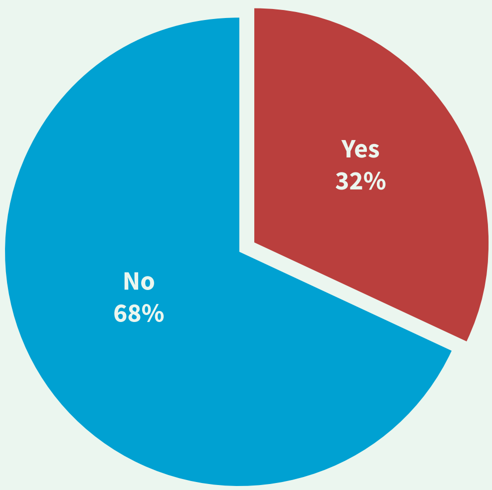
Compared to previous years, the share of companies that do not intend to change their headcount for the following year grew from 43% in 2019 to 52% in 2020. But most noteworthy is the slightly smaller ratio of companies with plans to decrease their workforce in 2021 than in the previous year (5% compared to 7% last year).

However, in the long term, a fundamental workforce transformation is to be expected. Digitalization, automation of various processes and the development of new services will all require new skill profiles. Therefore, the shortage of skilled workers will persist despite somewhat less ambitious plans for the expansion of the workforce.

APPRENTICESHIP PROGRAMS AS A SUITABLE APPROACH

In order to close the skills gap, 32% of German companies surveyed (an increase of 4% from last year) have started apprenticeship programs to create a pipeline of qualified workers. Particularly for smaller and medium-sized enterprises, so-called “consortium-style programs” offer cost-effective ways to grow a company’s workforce. Together with local community colleges, companies train apprentices in company-specific tasks to meet international industry standards, saving recruitment costs and increasing employee retention. The GACCs offer full apprenticeship programs to German, US, and international companies as well as targeted consulting and certification services to German industry standards that are adapted for the US market.

Figure 28:
Does your business currently participate in / offer any dual education or apprenticeship programs in the US?



Source: KPMG in Germany and GACCs, 2020, figures in percent, n=137.

"Being part of the MAT² Apprenticeship Program in the US means we are building a pipeline for a globally competitive workforce that is ready to tackle current and future developments in our industry. At Dürr, we believe in the philosophy of growing our own, and make it our goal to ensure that each apprentice has an opportunity to find their niche within our organization."

Mike Boss, President & CEO, Dürr Systems, Inc.

5 Research & Development: Innovation through Cooperation

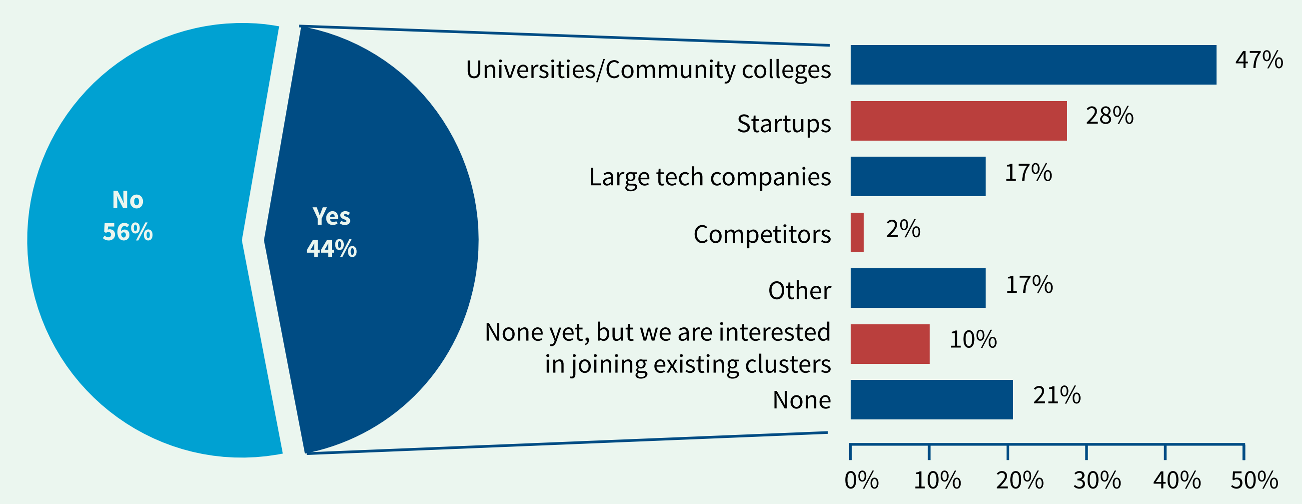
*Roughly **half** the companies surveyed conduct R&D in the US, and of those, about half work with community colleges and universities.*

According to the UNESCO Institute for Statistics (UIS), both the US and German economies belonged to the global Top 10 Research & Development (R&D) Spenders in 2018, with Germany ranking sixth at 3.1% of GDP, two positions ahead of the US at 2.8%. Foreign-owned subsidiaries make up just under one fifth of total R&D expenditures in the US. In 2018, German subsidiaries in the US had around 29,000 employees in R&D and budgets of 10 billion USD for R&D. This accounts for 15% of all R&D spending by foreign-owned companies in the US.[12]

Technological disruptions, changes in consumer behavior and steadily tightening regulations heighten the significance of innovation. R&D is a key topic of almost every corporate group's growth agenda, and every second German company in the US is free to make their own decisions regarding R&D (as per figure 20 above). The number of companies surveyed that are conducting R&D in the US is increasing as well: 37% of the surveyed German companies state that they conduct R&D in the US, a slight increase from the 41% reported in 2019 and an even more significant increase than the stated 29% in 2018.

Cooperation with external parties provides an additional way of fostering innovation and acquiring new technologies for German firms in the US. Quite similar to 2019, most of the 44% of German companies conducting R&D in the US collaborate with universities and colleges (47%), startups (28%) and large tech companies (17%) in their efforts to innovate. Other partners include institutes, suppliers, vendors, specialist agencies and customers. However, 31% (26% in 2019) of all companies doing R&D in the US still do not collaborate with partners at all.

Figure 29: R&D activities in the US and collaboration with external parties



Source: KPMG in Germany and GACCs, 2020, figures in percent, deviations from 100 percent are due to rounding differences, "n=132 having answered re "Conducting R&D in the US; n= 58 having answered re "Collaboration Partner".

12. Bureau of Economic Analysis (BEA), November 2020.

6 COVID-19: Anticipating the New Reality

Companies are viewing COVID-19 as a catalyst for transformation. Changes in working patterns and investments in automation and digitalization are main fields of action in response to the challenges of COVID-19.

The coronavirus has impacted businesses dramatically, leading to protective measures like contact and travel restrictions, lockdowns, and curfews, as well as production freezes, interrupted supply chains, insolvencies, stock value fluctuations, declining economic output and rising unemployment.

The pandemic pervades all areas of our society and is a shock to the global economy. The economic consequences of coping with the global pandemic will be felt for many years. Following the first phase of crisis management, companies were looking for ways to mitigate long-term impacts on their business. As a result of COVID-19, most of the German firms in the US expect to change the way they operate.

COVID-19 ACCELERATES DIGITAL TRANSFORMATION

In looking at how the surveyed German companies expect to respond to the challenges of COVID-19, two main fields of action could be identified: changes in working patterns and investments in automation and digitalization. Both of these areas are accelerating on the path to digital transformation.

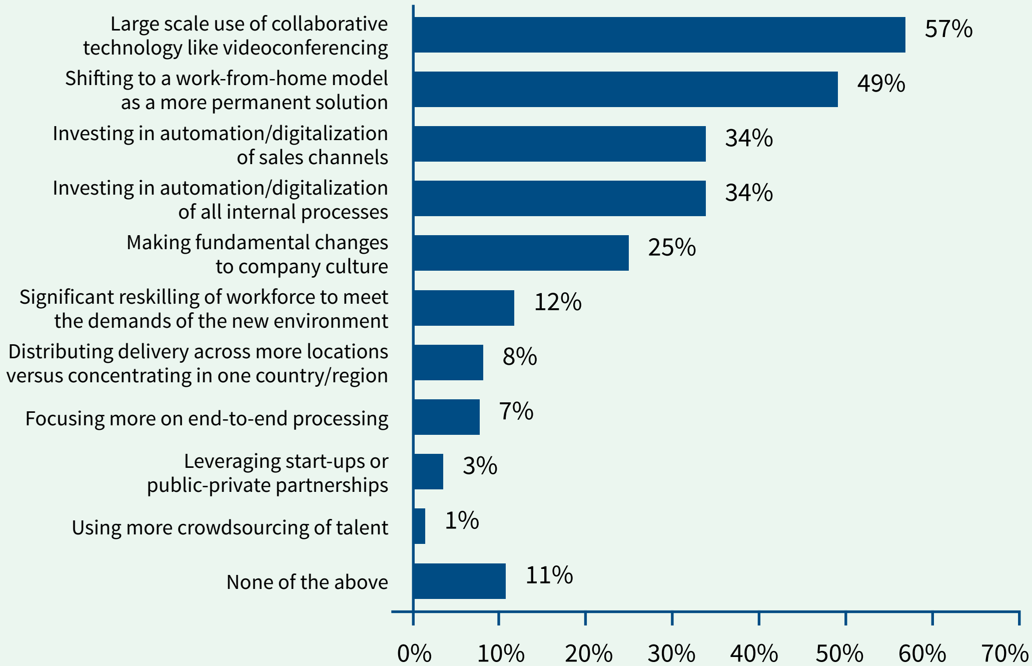
The COVID-19 pandemic has rapidly made people the number one priority in nearly every organization and forced companies to experiment radically with how work is done safely. For many companies, the transition to the virtual world of work took place overnight. Now after experiencing the pandemic's workplace disruptions, 57% of German companies plan to build on their large-scale use of digital collaboration and communication tools. This quick response to COVID-19 coupled with advances in technology has accelerated the ability to "work from anywhere." Almost half of German companies in the US (49%) expect to shift to a work-from-home model as a more permanent solution. As a result, 25% expect to make fundamental changes to company culture.

In addition to how people work, digital transformation includes modifications to business structures and processes throughout a company in both front and back office operations. Accordingly, 34% of German companies surveyed plan to invest in automation and digitization of sales channels, while 34% plan on investing in the automation and digitization of all internal processes.

"As farm sizes increase and margins tighten, U.S. Ag professionals demand greater throughput, easier operation and enhanced efficiency. At CLAAS, our advanced harvesting equipment collects millions of points of data and responds to the ever-changing conditions in the field automatically and autonomously for superior harvesting efficiency. The data collected and transmitted by these machines can easily be shared between systems using new standards like DataConnect, to improve management practices and reduce environmental impact."

Head of Digital Business Development, Patrick Honcoop, CLAAS of America, Inc.

Figure 30: What changes to the way you operate, if any, are you expecting to make as a result of COVID-19?



Source: KPMG in Germany and GACCs, 2020, figures in percent, multiple choice question, n=152.

"The pandemic has accelerated the adoption of digital transformation technologies across all industries. For example, the operational stock of industrial robots globally has doubled during the pandemic, when compared with the previous six year stock. The swings in the global economy in the last month illustrate that while the pace of the tumult will slow again, change will remain a constant."

Katrin Zimmermann, Managing Director, TLGG

The long-term consequences of COVID-19 are still uncertain, but one thing is clear: The key to business survival and future success is resilience. And to achieve this, strategies and initiatives must be developed and implemented promptly. For the German companies surveyed, the most important focus areas in the coming months are core competences for reliability, new workforce strategies, and a focus on innovation. 66% stated that in the next 6-12 months they will focus on core products and services that drive profit, while 40% of companies plan to design new workforce strategies. For 38% innovating and new product development is of fundamental importance to adapt to the "new normal."

Figure 31 Primary areas of focus of German companies in the US for the next 6-12 months

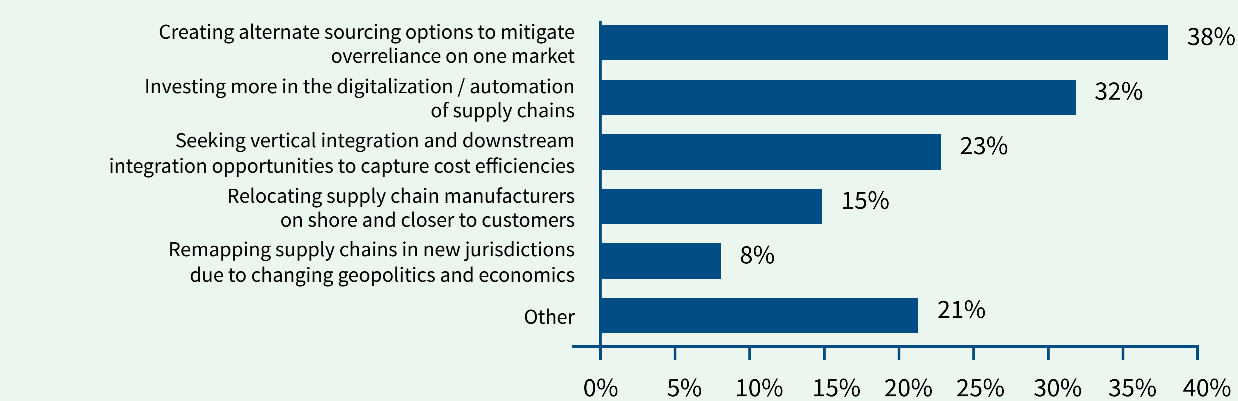
Source: KPMG in Germany and GACCs, 2020, figures in percent, multiple choice question, n=151.

*Over a **third** say they will look at alternate sourcing for mitigation*

Protective measures taken worldwide to contain the coronavirus led to disruptions in operational processes and restrictions in the movement of goods, resulting in production downtimes and supply chain interruptions. Before the pandemic, many supply chain initiatives focused on reducing cost, with minimal risk consideration.

In reaction to these challenges, companies began to search for ways to reduce risk and changed their supply chain strategy to be more resilient in the future. 38% of German firms in the US stated that they plan to locate alternate sourcing options to mitigate overreliance on one market, and 32% reported that they will invest more in the digitization and automation of their supply chains. Less relevant are strategies to localize supply networks or regional value chains: Only 15% are looking at pulling operations on shore and closer to customers.

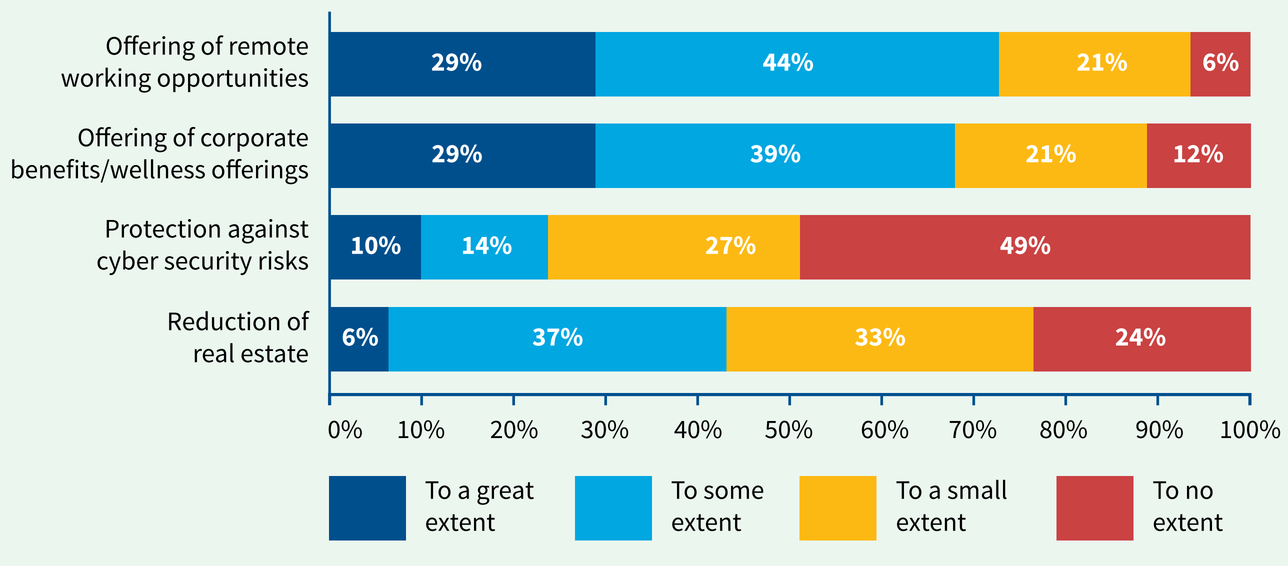
Figure 32: Changes in supply chain strategy to be more resilient in the future



Source: KPMG in Germany and GACCs, 2020, figures in percent, multiple choice question, n=150.

Many aspects of business have changed with the COVID-19 pandemic. As a result, most companies must adjust the structure of their business to this new reality. Almost 3 out of 4 (73%) German companies in the US will offer remote working opportunities to some or to a great extent. With this comes an increased risk of cyber attacks. In general, companies are underestimating the need for appropriate adjustments: Only 24% of the German companies surveyed will adjust their protection capabilities against cyber security risks at least to some extent. Another impact of COVID-19 might be a changing demand for office space as employees and employers embrace virtual work. More than 2 out of 5 companies (43%) surveyed will rethink their real estate footprint plan, leading to office space reductions.

Figure 33: To what extent will the set-up of your business in the US be adjusted in the New Reality?



Source: KPMG in Germany and GACCs, 2020, figures in percent, multiple choice question, n=151.

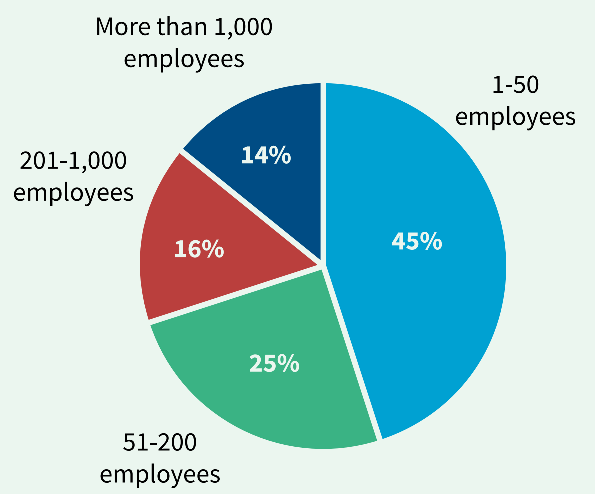
Methodology & Profiles

Methodology of Survey and Profile of Surveyed Companies

The German American Chambers of Commerce (GACCs) and KPMG in Germany approached German subsidiaries in the US who are members of the GACC or in its field of interests for this survey. The survey was conducted between November 4, 2020 and November 30, 2020, with a total of 166 companies taking part. Some companies did not complete the questionnaire. We used the maximum statistically viable database and have individually named the underlying database (n) used with respect to each concept. The survey focuses on the economic outlook of German companies in the US, as well as on the challenges they face and the chances to grow their business.

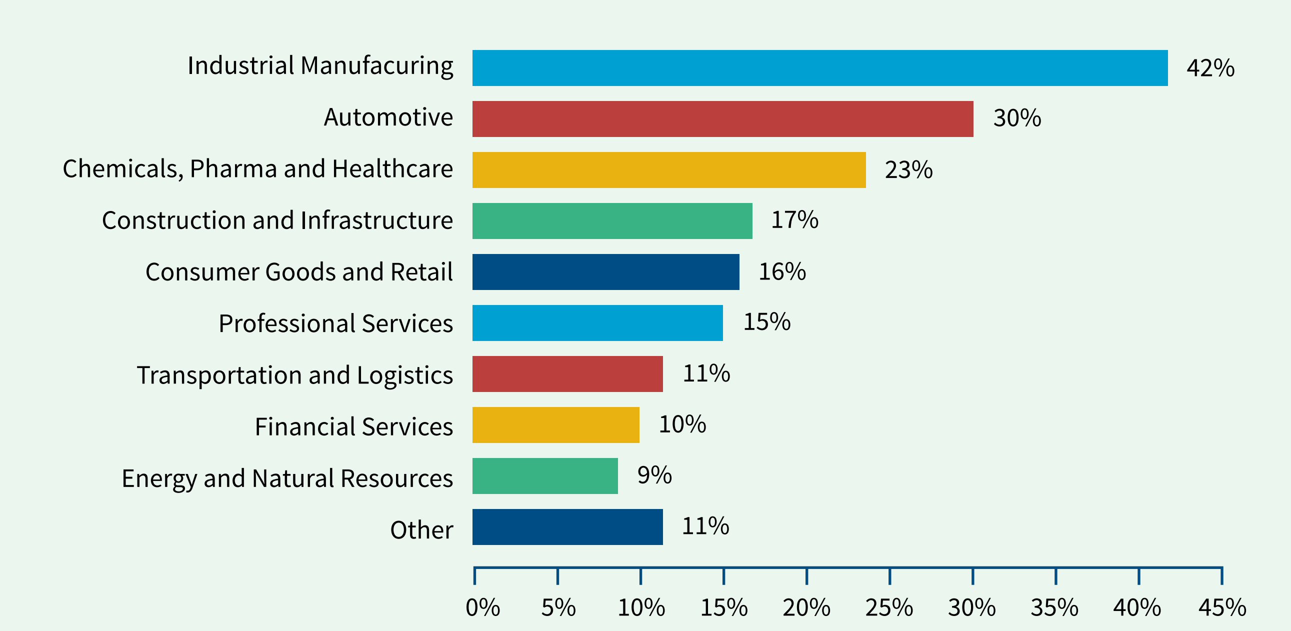
The German American Business Outlook (GABO) benchmarks the success and satisfaction of German companies in the US. While the survey's focus changes from year to year, a number of core questions have remained constant. This allows a set of long-term comparative data to be analyzed, thereby providing a unique view and understanding of the economic success of German subsidiaries in the United States.

Figure 34: Participating companies, by number of employees



Source: KPMG in Germany and GACCs, 2020, figures in percent, deviations from 100 percent are due to rounding differences, n=135.

Figure 35: Participating companies, by sector

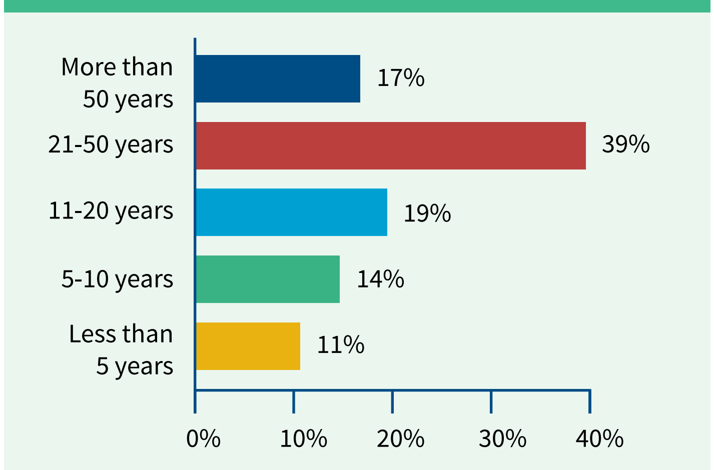


Source: KPMG in Germany and GACCs, 2020, multiple choice question, figures in percent, n=149; total = 276.

More than half of companies surveyed (56%) have had operations in the US for at least 20 years – 17% have even been in the States for over 50 years. 25% of the surveyed companies have been in the US for fewer than 10 years, demonstrating continuous German investment.

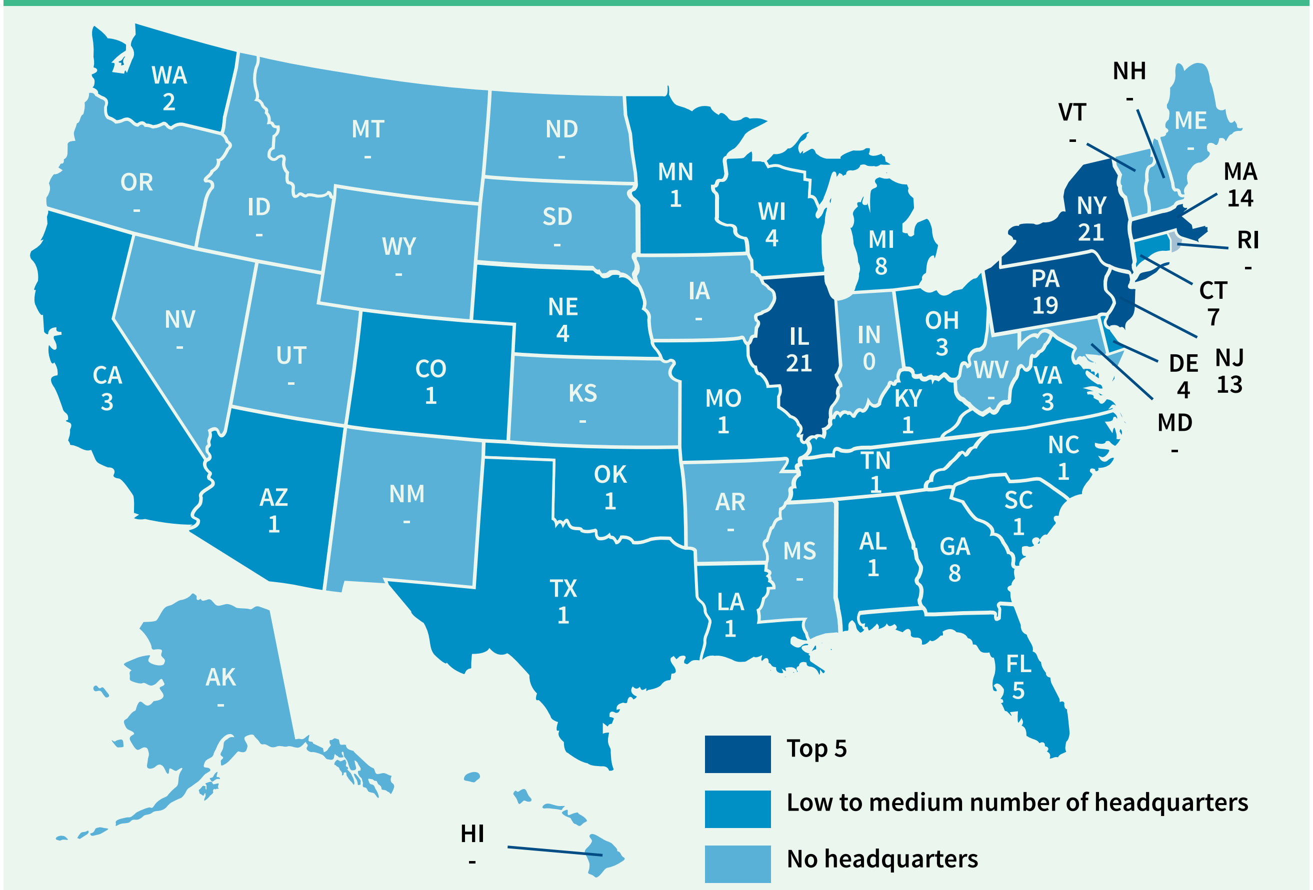
58% of companies surveyed have their US headquarters based in five of the 50 United States. Illinois and New York are the preferred HQ locations for 14% of the participants each. The majority of the surveyed German companies are based on the East Coast or near the Great Lakes in the Midwest.

Figure 36: How long has your group had operations in the US?



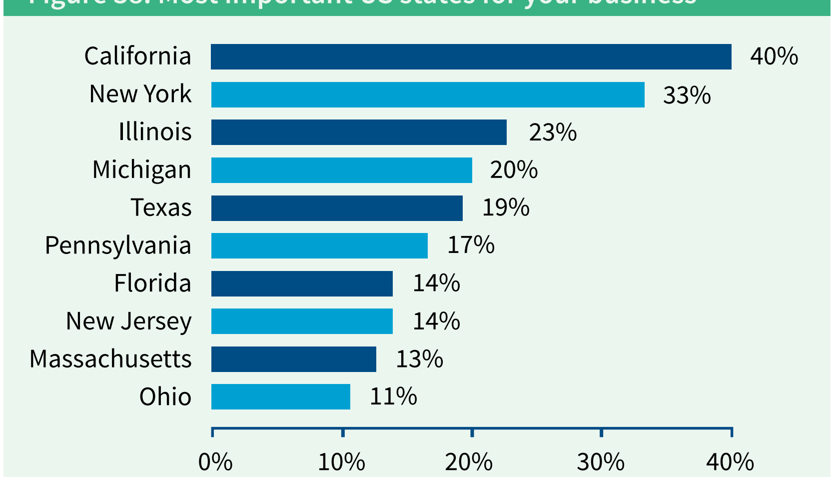
Source: KPMG in Germany and GACCs, 2020, figures in percent, n=151.

Figure 37: Location of US headquarters (US State)



Source: KPMG in Germany and GACCs, 2020, information in absolute numbers, n=151.

Figure 38: Most important US states for your business



Among all US states, California, New York, Illinois, Michigan and Texas are the top five most important markets by state for the German companies surveyed.

Source: KPMG in Germany and GACCs, 2020, multiple choice question, figures in percent, n=150; total = 411.

About Us

German American Chambers of Commerce
Deutsch-Amerikanische Handelskammern

GACCS

The German American Chambers of Commerce (GACCs) have offices in Atlanta, Chicago, Detroit, Houston, New York, Philadelphia and Pittsburgh. With approximately 2,500 members and an extensive national and international business network, the GACCs offer a broad spectrum of activities and services administered by a team of highly-qualified professionals

Established more than 70 years ago in the US, the GACC is an impartial facilitator of transatlantic commerce. The organization has distinguished itself as an innovative service provider and a reliable source of information that is relevant to businesses and other stakeholders in the German-American community.

KPMG IN GERMANY

KPMG is an organization of independent member firms with around 220,000 employees in 147 countries and territories. KPMG in Germany is one of the leading auditing, tax and advisory firms in Germany with 12,600 employees at 26 locations. Our services include Audit, Tax, Consulting and Deal Advisory. Legal services in Germany are also provided by KPMG Law Rechtsanwaltsgesellschaft mbH.

KPMG in Germany has established Country Practices for business corridors between Germany and other key industries or regions. They are staffed by country experts familiar with the particularities and regulatory environment of these markets. Our country practice experts work regularly in these countries and advise German, international and multinational companies on country- and corridor-related matters on a daily basis.

KPMG in Germany's Country Practice USA has a bilingual team that serves US clients of all sizes and sectors in Germany. Its close connection with KPMG in the US enables unparalleled cross-border service both for local management in Germany and for group management in the US.

German American
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Deutsch-Amerikanische
Handelskammern

GACC MIDWEST
Mark Tomkins
President & CEO
T +1 312 494-2172
tomkins@gaccmidwest.org
www.gaccmidwest.org

GACC NEW YORK
Dietmar Rieg
President & CEO
T +1 212 974-8848
drieg@gaccny.com
www.gaccny.com

GACC SOUTH
Matthias Hoffmann
President & CEO
+1 (404) 586-6800
mhoffmann@gaccsouth.com
www.gaccsouth.com

KPMG IN GERMANY
Andreas Glunz
Managing Partner International Business
T +49 172 676-7110
aglunz@kpmg.com
www.kpmg.de

Warren Marine
Partner, Head of Country Practice USA
T +49 174 306-3553
warrenmarine@kpmg.com
www.kpmg.de