Europe
Germany

Economics
# Focus Germany

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## Insights from corporate Germany on key election topics

Marion Muehlberger
Senior Economist
+49-69-910-31815

Barbara Boettcher
Senior Economist
+49-69-910-31787

To better grasp the sentiment of corporate Germany on key election topics DB conducted a representative survey with 200 companies. Key insights are:

- **Conservative-green coalition: A turn for the better or worse**. Unsurprisingly, 85% of respondents expect this first-of-its-kind coalition to bring along (at least some) change. A relative majority (42%) welcomes the prospect of a long overdue overhaul of the industrial structure (42%) or a public investment program (39%). A similarly large share (40%), however, is worried about weakening competitiveness as an industrial powerhouse and a debt-financed expansion of the social welfare state.
- **Industrial policy: In fashion in corporate Germany soon as well?** The corporate sector seems to be divided about the benefits of a more active role of the state. While 42% agree with securing jobs during the pandemic with taxpayers' money, 37% think that active industrial policy distorts competition. What is striking here is the relatively high share (36%) of supporters of active industrial policy also among the smaller companies as in the past the Mittelstand was not a fan of industrial policy.
- **Climate policies: Corporate Germany evenly split in prospective winners and losers.** Camp one is worried about higher energy and electricity prices and forced investments that are not profitable in the short run. For camp two, the looming transformation to a net-zero world seems to be credibly cushioned by state subsidies, the timely adjustment of corporate strategies and even increasing the demand for their products.**EU fiscal union: Corporate Germany is not as fiscally conservative as one might have thought.** Only 60% of respondents oppose permanent common borrowing and joint liability. First disbursements of the EUR 750bn NGEU are expected in the course of July. The perceived success in terms of higher resilience and potential growth of recipient countries will be decisive for enlarging or shrinking the future share of this group.
- **China-US decoupling: Seems to be a non-issue (for now)**. Only one third of surveyed companies are more than marginally affected by the ongoing strategic and systemic rivalry. Those affected are either planning to readjust their value chains (25%) or they deliberately forego specific deals (22%). Only 12% feel the need to increasingly focus on one of the two markets.
- **Digitalisation: Almost 2/3 see themselves well equipped - skilled labour is the key bottleneck.** Shortage of skilled labour is by far the bigger constraint than digital infrastructure.

## Feeling the pulse of corporate Germany

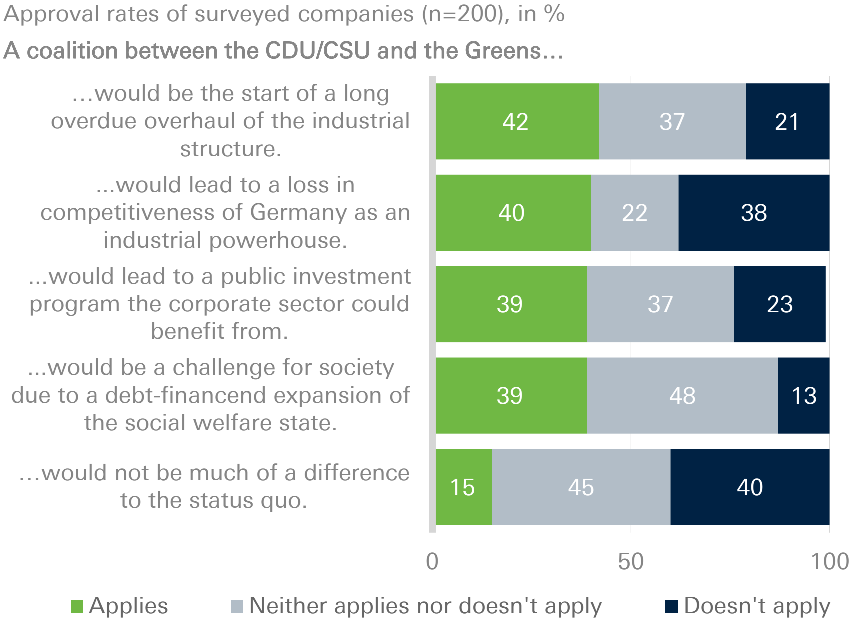
A conservative-green government would be a novelty in German coalition history and seems to be the most likely government setup after the September elections. To better grasp the sentiment of corporate Germany on key election topics DB conducted a representative survey with 200 companies as part our coverage of the German federal elections. Yes, companies do not vote but at this critical political and economic juncture there is a lot at stake for them (e.g. energy prices in the context of climate policies, exit from state support, active industrial policy). One key finding of our proprietary survey is that corporate Germany is no monolithic bloc, views expressed here are more heterogeneous than selective statements of their representative bodies might suggest. Not only are the answers relevant for our corporate bankers, but they might also provide insights for policymakers.

## 1) Corporate Germany on a potential conservative-green coalition: Turn for the better or for worse

Unsurprisingly, 85% of respondents expect a first-of-its-kind black-green coalition to bring along (at least some) change. There was no consensus, however whether this would be to the advantage or disadvantage of the German economy. A relative majority (42%) welcomes the prospect of a long overdue overhaul of the industrial structure (42%) or a public investment program the corporate sector could benefit from (39%). A similarly large share (40%), however, is worried about the weakening competitiveness of Germany as an industrial powerhouse and a debt-financed expansion of the social welfare state. These divergent views on a potential conservative-green coalition confirm our understanding that corporate Germany is very heterogenous. Potential winners and losers of black-green policies are spread across the manufacturing and service sector. All in all, the relatively high share of undecided respondents reflects the considerable uncertainty about any future policy course in such a new potential coalition setup.

Figure 1: Conservative-green coalition: Clear change from status quo

Approval rates of surveyed companies (n=200), in %



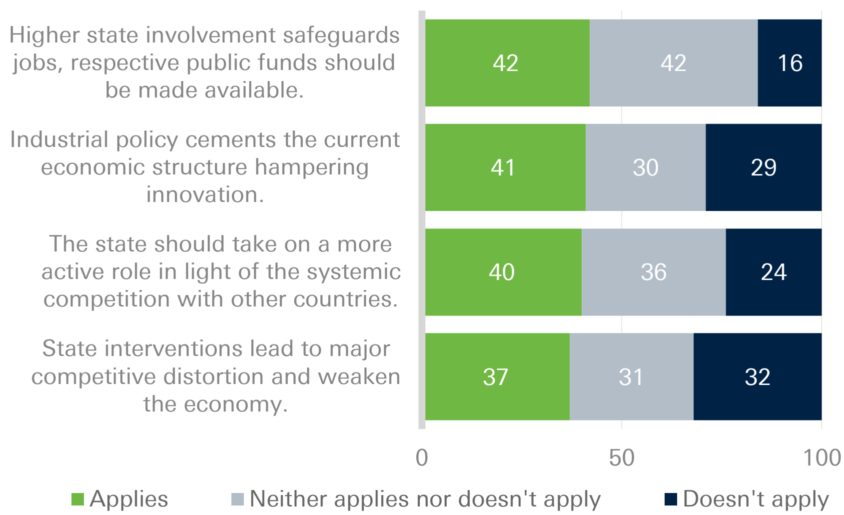

Source : Deutsche Bank

## 2) Industrial policy: In fashion in corporate Germany soon as well?

The German corporate sector seems to be divided about the benefits of a more active role of the state. While 42% agree with securing jobs during the pandemic with taxpayers' money, 37% think that active industrial policy distorts competition. What is striking here is the relatively high share of supporters of active industrial policy also among the smaller companies in our sample (< 25m turnover). In the past the Mittelstand – or at least its representative bodies – was not a fan of industrial policy. In addition, one third of all respondent companies seems to be indifferent with respect to higher state intervention. This might be a reflection of the pandemic lasting more than 12 months and the perceived need for a larger role of the state during a crisis. Another driver might be the growing awareness of a general "regime" shift globally. If industrial policy is back in fashion globally (see China, see US), reservations about an active industrial policy might vanish in corporate Germany as well. Thus, the sometimes perceived dichotomy between the more pro-industrial policy DAX companies and the contra-industrial policy Mittelstand might be less visible further down the road.

Figure 2: A more active role of the state – no longer a no-go

Approval rates of surveyed companies (n=200), in %



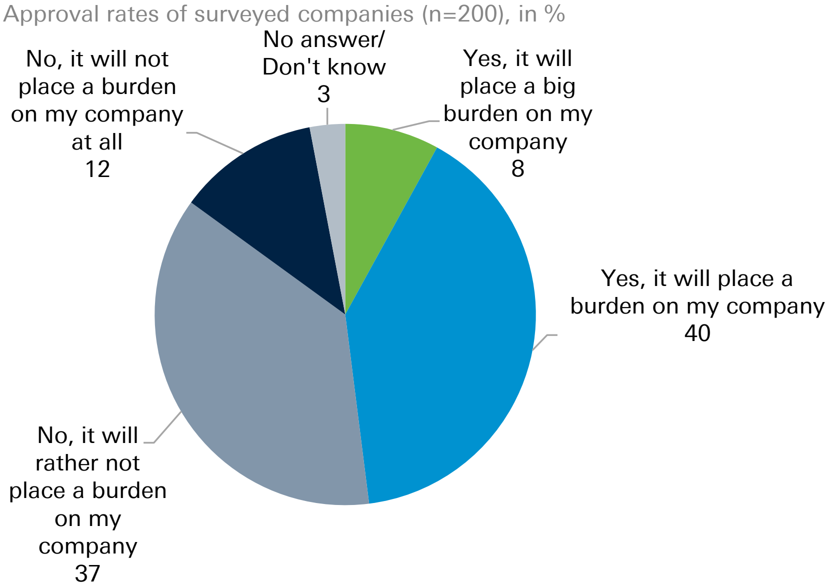

*Source : Deutsche Bank*

## 3) Climate policies: Corporate Germany seems evenly split in prospective winners and losers

Being asked about the potential future impact of the next government's climate policies, there seem to be two equally strong camps. As expected the split mirrors the sectors the companies are hailing from with the manufacturing sector expecting more of a burden than the service sector and the transport sector being most pessimistic. What is camp "climate policies are a burden" worried about most? Higher energy and electricity prices are the key concern for 90% of this subgroup. In addition, 71% think that they will be forced to make investments that are not profitable in the short term. In general, irrespective of the chosen policy path, predictability and stability of climate policies is key for the corporate sector given the long planning horizon of corporate investments. What is striking, though, is that only half of that camp is worried about Germany's competitiveness in a global context. This is partly explained by the fact that some respondents in this subgroup are hailing from sectors less exposed to international competition (e.g. the service sector). In addition, the idea of being a first mover in the green transformation and/or effective trade protectionism (CBAM) might be giving comfort to this subgroup.

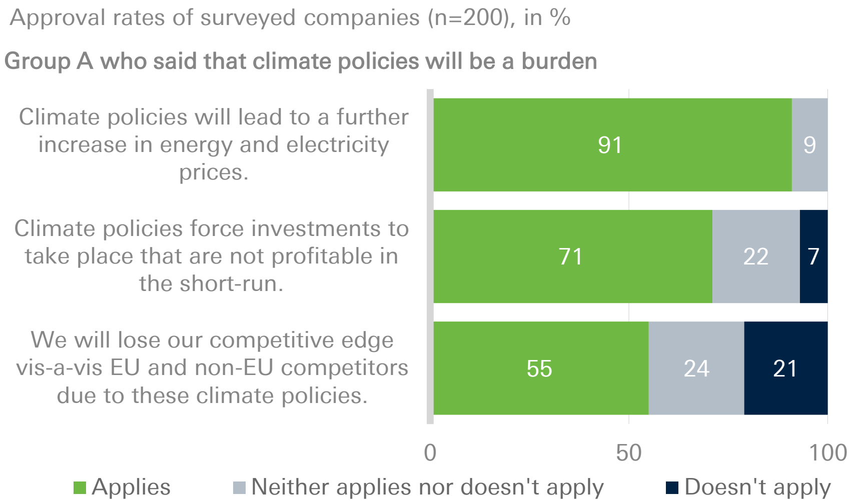
Figure 3: Climate policies: Burden or no burden?

Approval rates of surveyed companies (n=200), in %




*Source : Deutsche Bank*

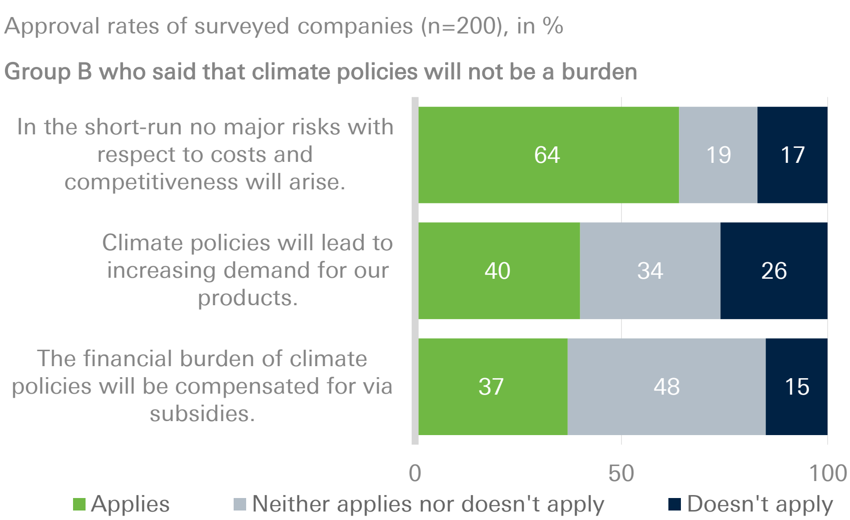
Figure 4: Higher energy and electricity prices: Major cause of concern




Source : Deutsche Bank

Now let us zero in on the "climate policies are not a burden"-camp. 70% of the bigger companies in this subgroup (> 25m turnover) do not foresee any major risks with respect to costs and competitiveness. 40% even think that climate policies will fuel demand for their products and that the financial burden of climate policies will be compensated for via subsidies. For this subgroup, the looming transformation to a net-zero world seems to be credibly cushioned by state subsidies or timely adjustment of the corporates themselves.

Figure 5: Climate policies might even pay off in terms of higher demand for German goods and services

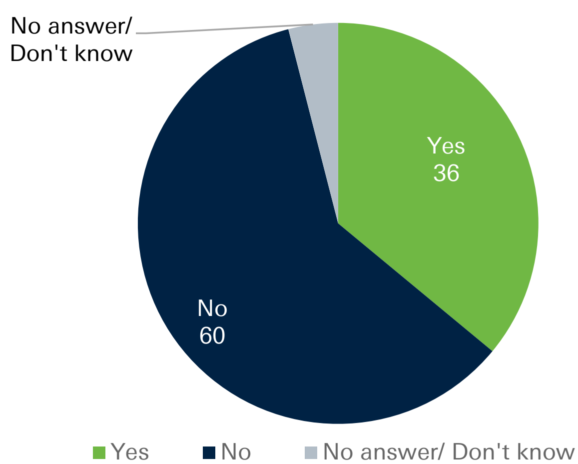



Source : Deutsche Bank

## 4) EU fiscal union: The German corporate sector is not as fiscally conservative as one might have thought

A majority of surveyed companies (60%) is opposing permanent common borrowing and joint liability, mirroring the position of the Conservatives and the Liberals. The arguments of this group are well-known. 95% worry about a decline in the sovereign creditworthiness and rising debt servicing costs of Germany in the longer term. They also strongly agree (85%) with the moral hazard argument – incentives for other member states to embark on reforms are lower once joint liability has been established. First disbursements of the EUR 750 bn NGEU are expected in the course of July. Thus, the perceived success/failure in terms of increasing resilience and raising potential growth of recipient countries will be decisive for enlarging or shrinking the future share of this group.

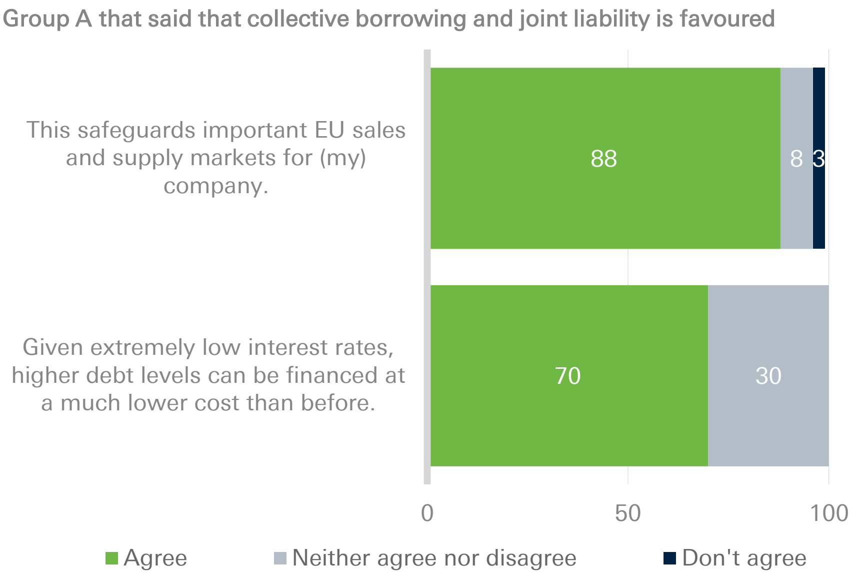
Figure 6: Majority against collective borrowing – still 36% supportive




*Source : Deutsche Bank*

Figure 7: Safeguarding sales and supply markets as counter-argument

Approval rates of surveyed companies (n=200), in %

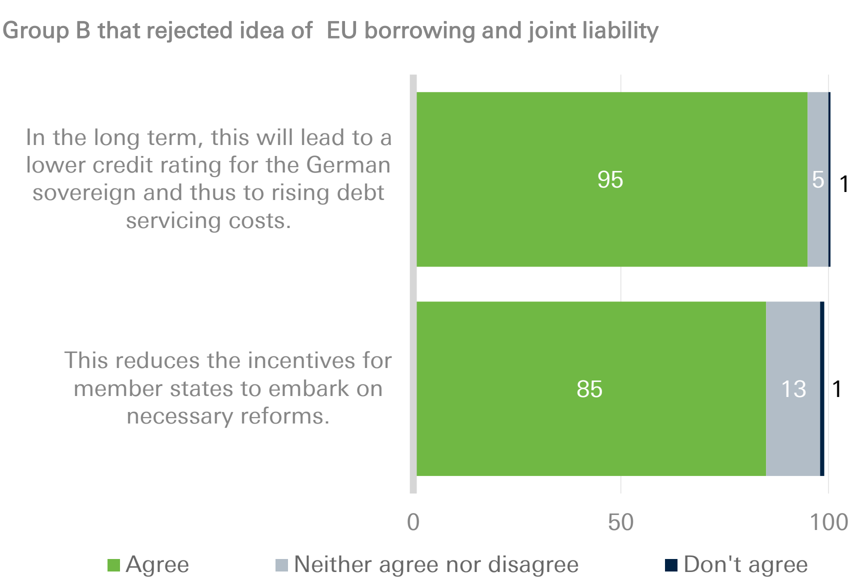



*Source : Deutsche Bank*

The position of the Greens and the SPD as advocates of making the NGEU a permanent facility is echoed by 40% of the surveyed corporates. 88% of those supportive of joint EU debt indicate safeguarding key supply and sales markets as the key reason. It would be interesting to monitor whether this assessment holds in a post-pandemic world. 70% of the supporters of common borrowing state that debt tolerance is much higher given the low interest rate environment.

Figure 8: Declining German creditworthiness & moral hazard as key arguments

Approval rates of surveyed companies (n=200), in %



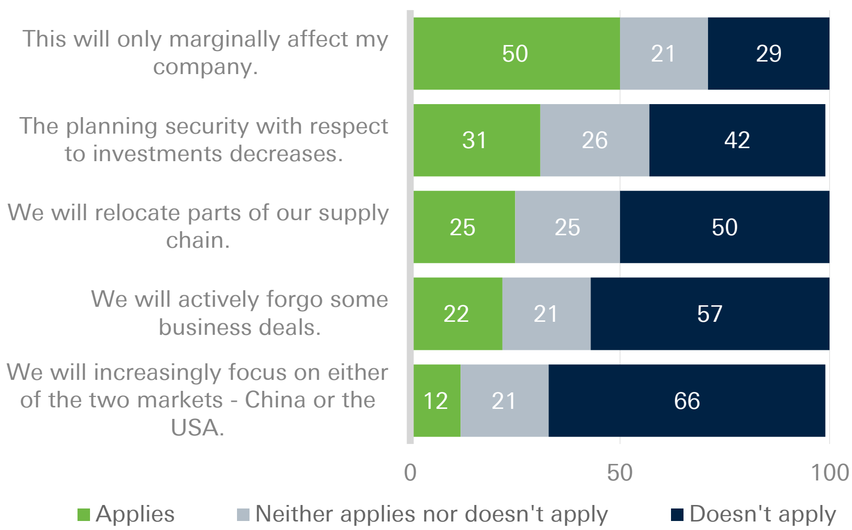

*Source : Deutsche Bank*

## 5) China-US decoupling: (Still) seems to be a non-issue (at least for our sample)

Unsurprisingly, the ongoing systemic and strategic rivalry between China and the US is not leaving export-oriented corporate Germany unscathed. Still, two thirds of the respondent companies claim that they are only marginally affected, while only roughly one third state to be hit more. Those affected are either planning to readjust their value chains (25%), deliberately forego specific deals (22%) or they will increasingly focus on either of the two markets (12%). Only time will tell whether the unaffected other two-thirds are just not affected (yet) or truly insulated from the increasing geo-economic rivalry.

Figure 9: Two thirds unaffected by the US-China geo-economic rivalry

Approval rates of surveyed companies (n=200), in %



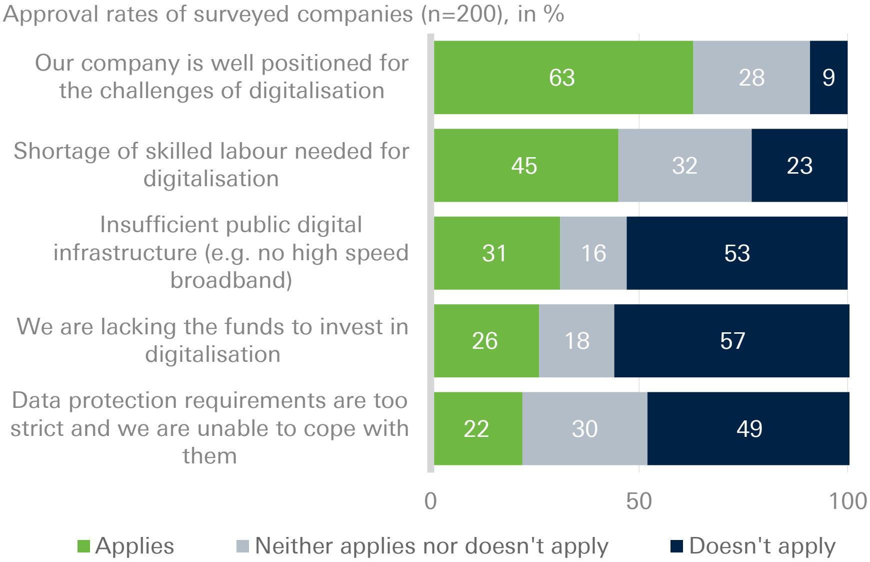

*Source : Deutsche Bank*

## 6) Digitalisation: Almost 2/3 see themselves well positioned – skilled labour is the key bottleneck

Two thirds of the companies feel well-equipped to master the challenges of digitalisation. Shortage of skilled labour is a far bigger constraint with respect to successful digitalisation than digital infrastructure (like fast broadband), which could give important hints for any future government which bottlenecks to focus on. Another interesting observation is the fact that one third of the small companies (<25m turnover), but only one fifth of bigger companies is lacking financial means for investing in digital technologies. This dovetails with the call for a German transition fund to the tune of EUR 40bn p.a. in the "Post-Corona Agenda" from the Association of German SMEs. According to Creditreform, many enterprises had to finance their running costs through equity capital due to pandemic-related disruptions.

Figure 10: Two thirds feel well-equipped to master the challenges of digitalisation

Approval rates of surveyed companies (n=200), in %




*Source : Deutsche Bank*

Background: This representative survey was conducted via telephone during May 3 to May 24 among 200 financial decision makers of German corporates, each 50% below and above EUR 25m turnover.

The B2B sample consisted of 34% respondents from the manufacturing sector, 36% from the service sector, 20% retail and wholesale sector and 9% other.

We would like to thank Jenny Franke and Ursula Walther for their valuable contribution.

# Appendix 1

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## David Folkerts-Landau

Group Chief Economist and Global Head of Research

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## International Production Locations


**Deutsche Bank AG**
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

**Deutsche Bank AG**
Equity Research
Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: (49) 69 910 00

**Deutsche Bank AG**
Filiale Hongkong
International Commerce Centre,
1 Austin Road West,Kowloon,
Hong Kong
Tel: (852) 2203 8888

**Deutsche Securities Inc.**
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6000

**Deutsche Bank AG**
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

**Deutsche Bank Securities Inc.**
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500