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German firms relaxed in view of upcoming Brexit

Statement

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More than nine out of ten German firms do not expect strong effects from Brexit on their business activities in the near future (see figure). This is the result of a recent business survey covering 2,900 German firms conducted by the Cologne Institute for Economic Research. The results call into question the view that the German business community would support soft compromises to the benefit of the UK in the upcoming Brexit negotiations.

The IW Köln asked the firms about the impact of Brexit on exports to the UK as well as on investment, employment and production processes. Only a tiny share of two to three percent of companies surveyed see strong negative consequences on their investment and employment. The same goes for a potentially negative effect on firms' production processes due to possible problems with intermediate imports from the UK –here too, German firms do not see grave effects.

Exports to the UK feature as the category most affected. However, even here, only every tenth company expects a serious decline due to Brexit – be it in 2017 or afterwards. A somewhat larger fraction of 27 and 30 percent see small negative effects on their UK exports from 2018 onwards due to declining British demand and a devaluation of the British Pound, respectively.

Strikingly, a quarter of German firms rather expect to benefit from diversion of business activities away from the UK.

Asked about their view on the degree of the envisaged separation between the UK and the EU, 6 out of 10 surveyed companies expect a soft Brexit. Yet, the firms see only moderate differences in the effects of a soft and a hard Brexit.

Looking deeper into the details of the survey, clear distinctions emerge: Stronger (negative and positive) effects of a Brexit are expected by larger companies compared to smaller firms with less than 500 employees, by businesses from manufacturing compared to services and by companies from the west compared to the east of Germany. Focusing on the category with the largest share of businesses that see strong negative consequences, two out of ten large firms, which are much more likely to export to the UK than smaller companies, expect a serious impact of the Pound's devaluation on their exports. However, this export decline does not translate into grave negative effects on employment or investment.

Finally, the firms surveyed do not see significant differences between the Brexit effects in 2017 in comparison to 2018 and afterwards – an outcome which points to the large degree of uncertainty around this issue.

The results of the survey call into question the view brought forward in the British public debate that strong political pressure from the German business community would ensure soft compromises to the benefit of the UK in the upcoming Brexit negotiations. The effects of the Brexit on all firms are too limited for such a conjecture. While it is true that larger German firms might be more affected, the fear that the EU could disintegrate, if the UK obtained an overly generous deal, dominates the considerations. Therefore, German businesses will not support any cherry picking by the British government.