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Methods and Applications of the IW Business Survey

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JEL-Classifikation:

C82 – Methodology for Collecting, Estimating, and Organizing Macroeconomic Data, Data Access

E32 – Business Fluctuations, cycles

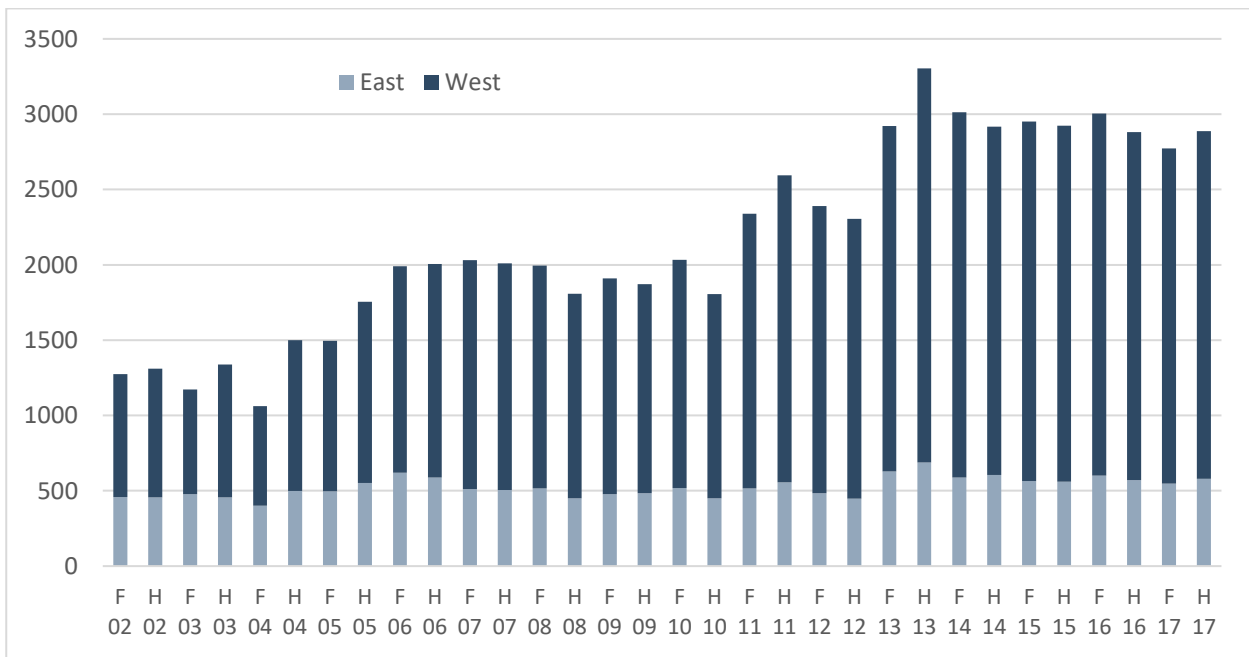
1 Design of the IW business survey

Surveys of businesses provide important data for an analysis of economic development. In addition to the statistical offices in the respective states, private sector institutions such as research institutes or associations provide a diverse range of economic data. The following article presents the business survey conducted by the German Economic Institute (Institut der deutschen Wirtschaft, IW). It provides comprehensive information on the current situation and the outlook of German companies and serves as an important basis for the half-year economic forecast by the German Economic Institute (Grömling, 2005).

The German Economic Institute has been asking eastern German companies about their current business situation and their economic outlook since 1992 (see Beyfuß/Lichtblau, 2002). The former, so-called East Survey (Ost-Umfrage) was conducted 21 times in total by the IW's central office in Berlin. Roughly 500 eastern German companies took part in each case, and the response rate was extraordinarily high at an average of just under 50 per cent.

Figure 1-1: Coverage of the IW business survey

Number of participating firms¹⁾



1) Number of analysable responses.

Source: IW business surveys

In 2002 the traditional East Survey was expanded to Western Germany for the first time and reorganised. See Beyfuß/Lichtblau (2002) for the selection of the sample at that time and the extrapolation method. Since then, companies in Germany have been consulted regularly in the spring and autumn. The survey is conducted by amsa – an acronym for arbeitgemeinschaft

markt- und sozialanalyse – on behalf of the German Economic Institute. amsa is a market research company founded in Cologne in 1984. It is an independent institute for representative empirical research projects.

Table 1-1: Structure of the IW business survey

Shares according to the autumn survey 2017 in percent

Region	West Germany			East Germany	
	79,9			20,1	
Sector	Intermediate goods	Investment goods	Consumer goods	Construction	Services
		13,8	14,8	7,2	4,7
Firm size ¹⁾	1 to 49		50 to 499		500 and more
	24,9		53,1		13,9

1) Based on employees.

Source: IW business survey autumn 2017

Figure 1-1 shows how the number of participating companies – or, more precisely, the number of analysable responses – has changed since 2002. In recent years there have been nearly 3,000 responses. The gross number of samples is currently between 15,000 and 16,000 companies. Accordingly, the response rate is a good 20 per cent. Companies can answer the questions online or by post, with the online form now accounting for a good two-thirds of the responses. The questionnaire is deliberately kept simple and comprises only one page – in order to enable a quick response and ultimately a high level of participation. The IW business survey is not a panel survey with a constant number of participants. On the one hand, the frequency of participation varies among the existing respondents. On the other, new companies are also added at regular intervals, partly because previously participating companies discontinue their business operations. Generally speaking, the group of regularly participating companies dominates and is largely stable.

The businesses surveyed are divided into five economic sectors: manufacturers of basic materials, capital and consumer goods (which can be aggregated as industry), construction and services. The sectors of trade and banking/insurance as well as the public sector are not included. Table 1-1 shows the percentages of these sectors in the survey, with industry accounting for a good 37.5 per cent, construction for roughly 5 per cent and services included here for just under 60 per cent in autumn 2017. In regard to macroeconomic aggregates, the economic sectors are extrapolated with their shares of value added according to National Accounts and in relation to the identical basic population of the sample. Four-fifths of the answers come from Western German companies. Western Germany (excluding Berlin) currently accounts for almost 90 per cent of macroeconomic gross value added. Medium-sized companies – in this case companies

with 50 to 499 employees – account for roughly half of the answers that can be analysed. Large companies are disproportionately well represented in the survey.

Companies are asked, on the one hand, about their current situation. On the other, in the autumn survey, they are asked about their expectation for the coming year and, in the spring survey, about the outlook for the current year. The companies provide estimates for production, exports, investments, employment, prices and earnings. Table 1-2 shows the possible answers that companies can give. The results are available in an unweighted and a weighted version. The weighting of the data is based on the number of employees.

Table 1-2: Response options of the IW business survey

Current business situation: autumn 2017 against autumn 2016

	Decreasing		Stable	Increasing	
Production	--	-	0	+	++
Prices	--	-	0	+	++
Employment	--	-	0	+	++
Investment	--	-	0	+	++
Exports	--	-	0	+	++
Profits	--	-	0	+	++
Overall situation	--	-	0	+	++

Quelle: IW business survey autumn 2017

Companies are asked about the current situation and their expectations with regard to improvement, worsening or continuity relative to the corresponding result from the previous year. The percentage values and their net result (positive less negative reports) produce statements on trends. It is not possible to determine whether a positive net result (negative net result) will lead to an absolute increase (decrease) in the corresponding metric. If, therefore, the percentage of companies expecting production to be higher than in the previous year is greater than the percentage expecting production to decline, it is not immediately clear from this whether the absolute production of all companies exceeds the previous year's result. Company surveys such as those conducted by the German Economic Institute provide qualitative information for assessing the economic situation, since respondents rate the indicators qualitatively (better – the same – worse), and this is usually not possible to transform into quantitative metrics.

The IW business survey is often supplemented by an additional question. This is aimed at a special topic relevant to the current business cycle. In addition to a standard analysis, the following article will present some selected topics in these additional questions. In contrast to the business cycle analysis, the evaluation of the additional question relies most often on unweighted

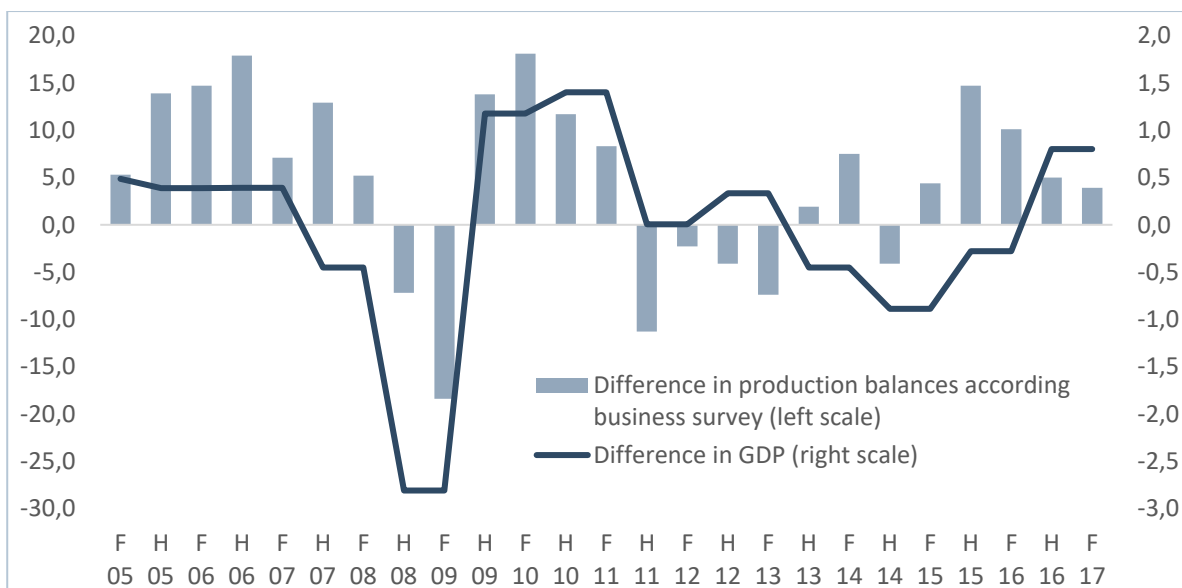
results. This means that every company, regardless of its size, is included in the result. An analysis and assessment of the value of the statements in the IW business survey will follow in another article.

2 Is the convergence process between East and West Germany grinding to a halt?

An analysis of the IW business survey from autumn 2017 shows that the companies in Western Germany were more optimistic for 2018 than their counterparts in Eastern Germany. This has consequences for the convergence process between the two economic areas after a lengthy catch-up period. In the period from 2014 to 2016, real economic output in the eastern federal states increased much more rapidly than in Western Germany. Annual average growth in real gross domestic product (GDP) in Eastern Germany was 2.2 per cent, while it was 1.6 per cent in Western Germany. This let Eastern Germany further reduce the gap between itself and Western Germany. In the first half of 2017, however, economic growth in Eastern Germany lagged significantly behind that in Western Germany. While real GDP expanded by 2.1 per cent in the west, it rose by only 1.3 per cent in the East. The convergence process between the two economic areas appears to be slowing down.

Figure 2-1: East and West Germany in Comparison

Difference of rates of change for real GDP and difference of production balances¹⁾ between West and East Germany in percentage points



1) Balances of positive and negative estimates of future production according to IW business survey. Forecaste in spring for current year and in autumn for next year.

Sources: VGR der Länder; IW business surveys

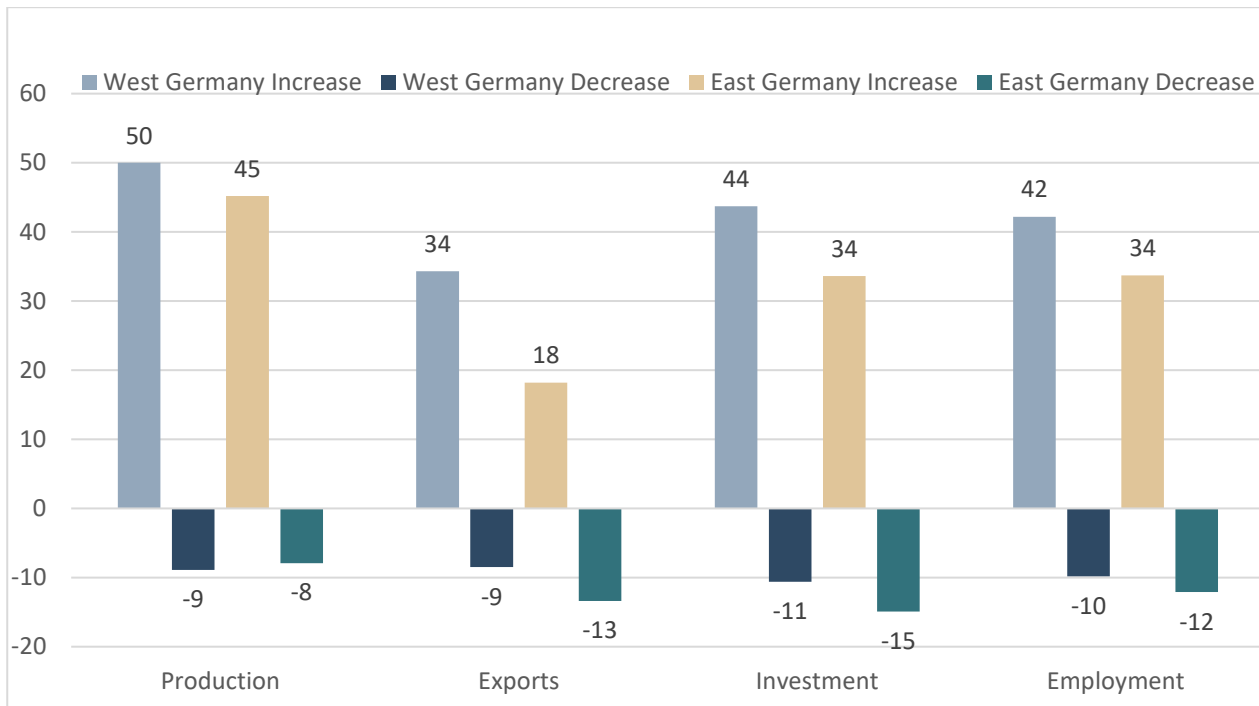
Figure 2-1 shows whether and to what extent the results of the IW business survey for Eastern and Western Germany reflect – and can ultimately also forecast – the actual economic development in the two areas. According to Beyfuß/Lichtblau (2002), the experience with the former East Survey was good.

On the one hand, the difference in the rates of change in real gross domestic product (GDP) between Western and Eastern Germany is shown in percentage points. For example, it can be seen that the growth rate in Western Germany was lower than in Eastern Germany between 2014 and 2016. On the other hand, the difference between the net survey results in western and Eastern Germany is also shown in percentage points. The net survey results relate to production expectations and represent the difference between positive and negative values in each case for the East and the West. For example, this can be seen in autumn 2017 (see Figure 3 in this regard): 50 per cent (45 per cent) of the companies in the West (East) expect higher production in 2018 than in the previous year and 9 per cent (8 per cent) in the West (East) expect lower economic output. The net result in the West is thus 41 percentage points and in the East 37 percentage points. The difference between the net results for Western and Eastern Germany is thus 5 percentage points. Figure 2-1 shows that the net survey results shift with the actual growth differences, in part meaningfully. For example, the actual annual result according to the National Accounts for 2016 is compared with the result from the autumn survey in 2015 and the spring survey in 2016. A comprehensive evaluation of the IW business survey's forecast quality will follow in another article.

The IW-business survey for October and November 2017 indicates that the weaker development in the East in 2017 is also likely to continue in 2018 (Grömling, 2017a). 579 companies in the East and 2,308 companies in the West took part in this survey. Among other things, the companies were asked for their assessments of production, exports, investments and employment (see Figure 2-2). The German economy has proven to be very robust, even in a global environment defined by high economic uncertainty (Hüther, 2017). The net result of positive and negative production expectations improved in both Eastern and Western Germany. Since the spring of 2017, it has risen from 33 to 37 percentage points in the East and from 37 to 41 percentage points in the West. However, the headline figure for the eastern German economy is likely to lag behind that of the west in 2018, as construction and service companies in the east are less optimistic. The better building outlook in Western Germany reflects the significantly higher construction demand there – especially in conurbations. The moderate differences in industrial expectations between eastern and western German companies should be viewed in relation to the sharper differences in regard to export expectations. Since western German companies are more focused on exports, the recovering global economy has revived the economy in Western Germany more than in the eastern half. The improvement in production and export expectations in West Germany is also reflected in more optimistic investment plans in the western part of the country.

Figure 2-2: Expectations of East and West German firms for 2018

Share of firms that expect increasing or decreasing production, exports, investment and employment in per cent¹⁾



1) Weighted results; rest from 100: stable.

Source: IW business survey autumn 2017; Grömling, 2017a

For example, it can be deduced from the results of the IW business survey that the dynamic economy in Western Germany has a broader foundation than in the east. The currently stronger expansion in the west can also be seen in terms of capacity utilisation. With respect to the additional question (see Section 4) on how companies assess their current capacity utilisation, 35 per cent of the western German and 27 per cent of the eastern German companies speak of over-utilisation of their production capacities. In both economic areas, the lack of skilled workers is cited as the main cause of over-utilisation.

3 What blocks investment in Germany?

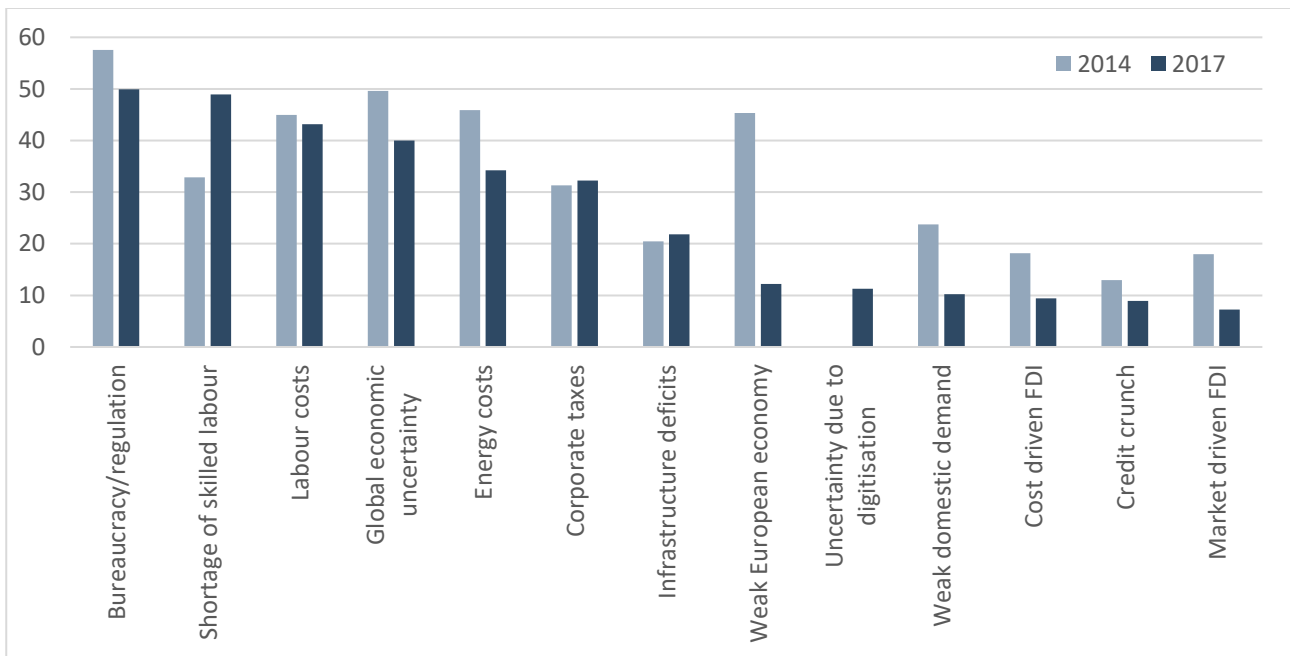
There is an ongoing debate about sluggish investment in Germany. An analysis by the German Economic Institute (Bardt et al., 2017) has shown that it is not clear whether Germany can be diagnosed as having weakness in private investment at the present time. An economic analysis can be carried out in different ways. On the one hand, an economic analysis can be used for trying to explain changes over time. It is possible to use an investment function and its underlying regression analysis to take data from the past and from other countries to make significant statements on the factors determining investment. However, the different results of various studies clearly show that the choice of determinants, periods of time and considered countries is critical for the statements. An investment function provides information – and this is also its

explanatory objective – on (average) relationships in the past and in the selected countries on which it is based.

An alternative to this method is a company survey, which was selected in two studies on investment activity in Germany (Bardt et al., 2015; 2017). As with a regression analysis, the determining factors were selected in advance here. However, a survey has the advantage, above all, of dealing directly with current events and special effects. For the derivation of economic policy recommendations, it is possible to ask about current barriers to entrepreneurial investment. This information is also important if, for example, no obvious investment problems are diagnosed on the basis of certain indicators such as investment rates.

Figure 3-1: Barriers to corporate investment in comparison

Values as a percentage of all respondents¹⁾



1) Answers for the category: „severe barrier for investment“; rest from 100: no or small barrier for investment; weighted with employment.

Sources: IW business survey autumn 2014 and autumn 2017; Bardt/Grömling (2017)

In autumn 2014, therefore, the German Economic Institute asked companies in Germany about the investment barriers that were considered plausible at that time as part of its half-year business cycle survey. Around 2,900 companies took part in this additional question. In autumn 2014, the surveyed companies had a total of 13 arguments to choose from in regard to the investment barriers deemed to be current at that time. The results and their interpretation can be found in Bardt et al. (2015, p. 240). In spring 2017, this survey was repeated. Nearly 2,800 companies took part. The response categories have only been modified or expanded to a limited extent.

This should ensure the greatest possible comparability of the results. The results of both surveys are available by region, by five major economic sectors (intermediate goods, capital goods, consumer goods, construction, services) and by company size. As part of the analysis of the results in the 2014 survey, companies' responses to investment barriers in Germany were classified in three areas: economic, politically induced and company-specific investment barriers. This classification was also applied in the analysis of the results from spring 2017 (Bardt et al., 2017).

A comparison of the two surveys reveals that the overall level of investment barriers was slightly lower (Figure 3-1), which can also be explained by the good economic momentum in the recent past and the positive economic outlook. At the same time, there have been shifts in emphasis regarding the problems that companies face. It can be seen that the main barriers against private investment are homemade. Global dynamics or uncertainties about Europe's economic development played an important role in 2014, but have faded into the background in the meantime. External, demand-side factors play only a minor role. By contrast, the supply-side arguments that can be addressed by national policy have become more important. Bureaucracy, regulatory issues, cost and tax levels and the shortage of skilled workers are among the most important internal problems.

4 Is the German economy overheating?

The German economy is entering its sixth year of expansion in 2018. This strong performance shows, on the one hand, that the German economy has a high level of entrepreneurial resilience and stability, even in an uncertain global economic environment, due to deeper structural and institutional peculiarities – e.g. global value-added chains or collective bargaining partnerships (Hüther, 2017). On the other hand, this strength has also intensified the discussion of whether the German economy is in danger of overheating (IW-Forschungsgruppe Konjunktur, 2017).

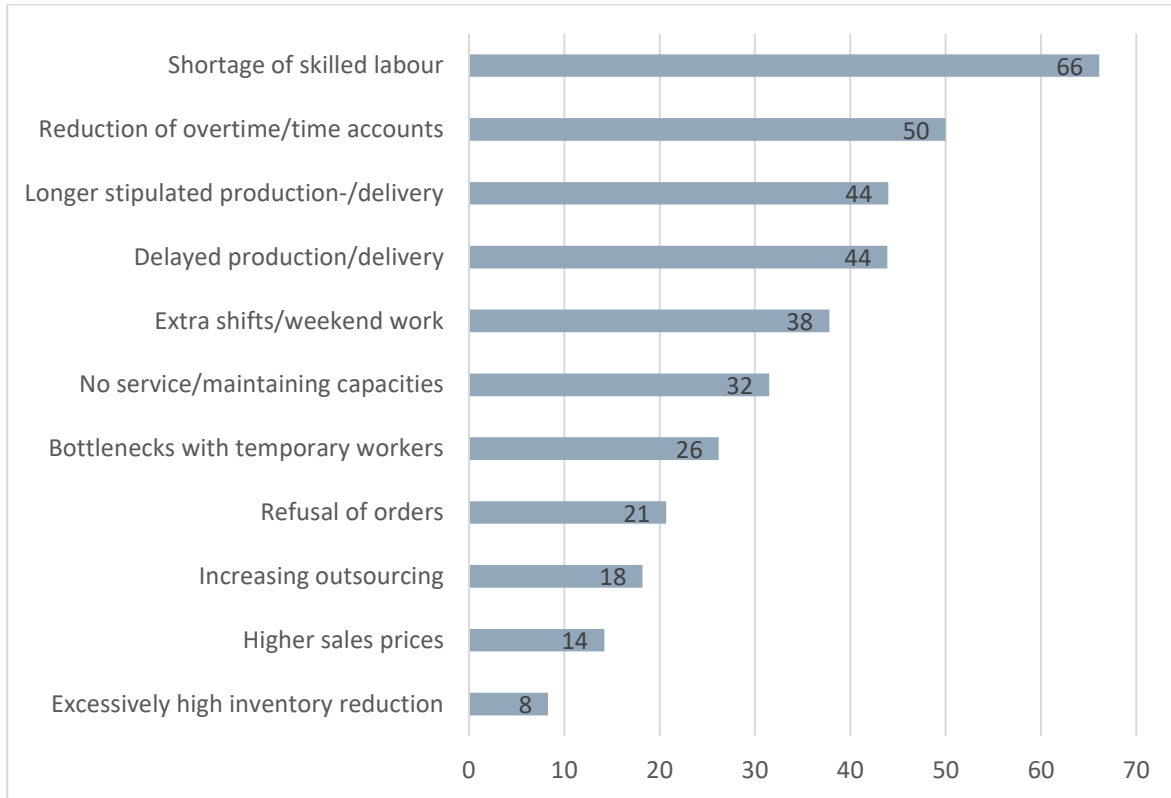
The diagnosis of a macroeconomic over-utilisation is not easy. On the one hand, the output potential of the economy must be determined with sufficiently good quality. However, there are only rough estimates for this. On the other hand, it must be clarified when output potential is considered to be normally utilised, fully utilised or over-utilised. Since the determination of actual output in the context of National accounts is also more or less an estimate (Brümmerhoff/Grömling, 2015), the empirical determination of a macroeconomic overheating or at least an extremely high strain on output potential is difficult.

Against this backdrop, the German Economic Institute consulted companies in Germany with regard to their capacity utilisation as part of its business cycle survey in autumn 2017. At the very least, it can be assumed that it is easier to determine the individual company's output potential and that businesses can more easily make qualitative statements on their capacity utilisation. Nearly 2,900 companies from Western and Eastern Germany and from all sectors took part in the survey. The companies gave the following answers to the question of how they assess the current capacity situation from their company's point of view: Just under 34 per cent of the

companies report that their capacities are currently over-utilised. A good 54 per cent talk of normal capacity utilisation and only just under 12 per cent indicate under-utilisation.

Figure 4-1: Indicators for an economic over-utilisation in Germany

Values for strongly concerned firms as a percentage of over-utilised firms¹⁾



1) Rest from 100: less and not affected firms.

Sources: IW business survey autumn 2017; Grömling (2017b)

These findings can be interpreted as important original corporate evidence in regard to the risk of economic over-utilisation in Germany. The IW business cycle survey also identified the indicators used by companies to diagnose a high strain on their production capacity (Figure 4-1). This provides information on both possible causes and possible consequences of the current capacity utilisation. The results were summarised as follows (Grömling, 2017b):

- The labour force potential is the limiting production factor in Germany. 47 per cent of all companies surveyed in autumn 2017 state that a lack of skilled workers is an indication of a company's over-utilisation. Of the over-utilised companies, two-thirds of them cite the lack of skilled workers. The increase in overtime and working time accounts is also cited by half of the over-utilised companies as an indication of the high economic strain. A quarter of companies with over-utilisation report bottlenecks in temporary workers.
- In autumn 2017, the companies reported delays in production and delivery due to high capacity utilisation. Furthermore, companies are agreeing on longer production and delivery

times in advance. Both arguments apply to 44 per cent of the over-utilised companies. However, only one-fifth of these companies have to reject orders because of over-utilised production.

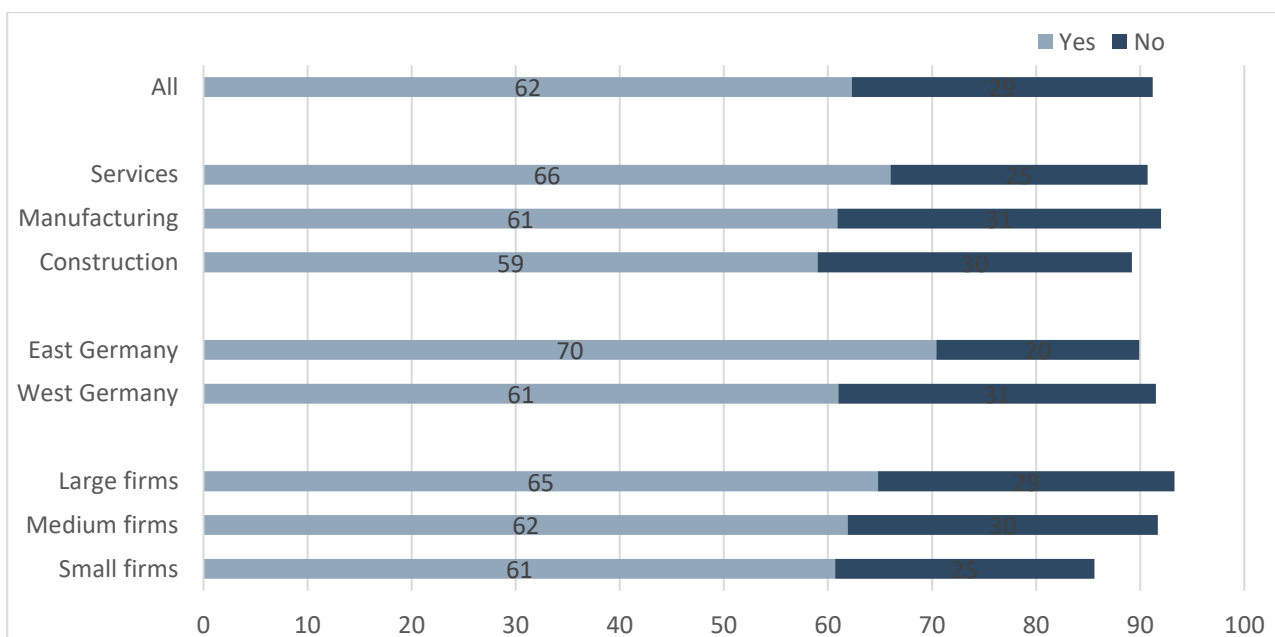
- The current over-utilisation has not been reflected in macroeconomic price developments so far. In 2017 the GDP deflator was 1.5 per cent higher than in the previous year. Nevertheless, the development of prices in the construction industry is considerably higher. Overall, only one-seventh of companies with over-utilisation reported that they see higher sales prices as an indication of over-utilisation of capacity.

5 Do German companies expect secular stagnation?

Asking companies about over-utilisation can be viewed as surprising when one considers the dominant discussion on ongoing economic weakness or secular stagnation following the global financial and economic crisis. This was a central economic issue for a number of different reasons (Matthes, 2016), and it may have a high degree of relevance despite the currently high utilisation of production capacity in Germany. Both questions need not be contradictory if the reasons for the cautious economic outlook and capacity problems can be seen primarily on the supply side of the economy.

Figure 5-1: Expectations concerning a secular stagnation in Germany

Values in per cent¹⁾



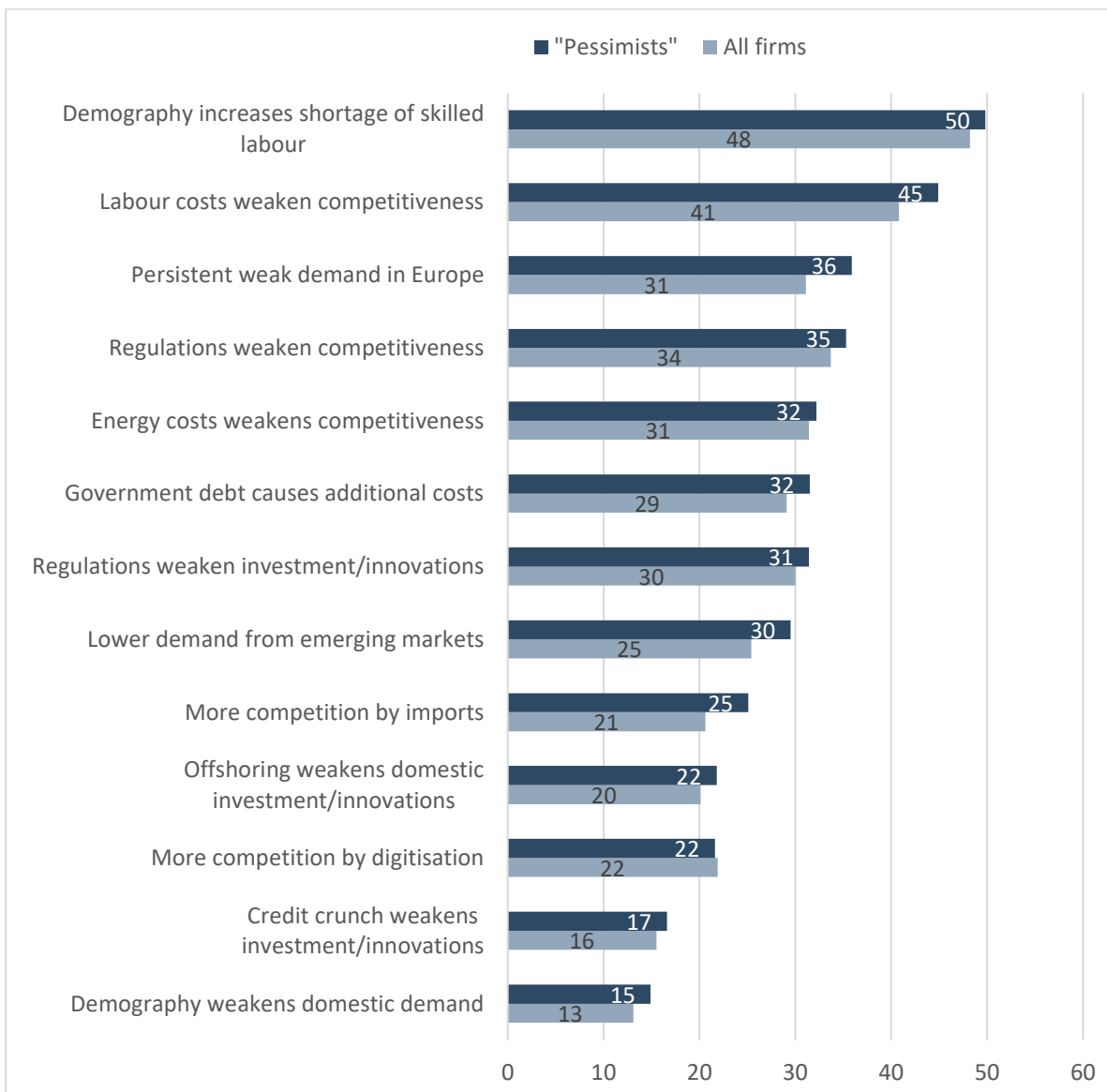
1) Rest from 100: no answer. Underlying question: Do you expect that the Germany economy will have moderate growth rates in the long run?

Sources: IW business survey autumn 2015; Grömling (2016)

In the business cycle survey of autumn 2015, the German Economic Institute asked companies whether they expect the German economy to grow at a rather sluggish pace over the long term. In contrast to most of the other additional questions as part of the survey by the German Economic Institute, this question addressed macroeconomic development rather than the outlook for one's own company. A total of almost 3,000 companies took part in this additional question. Figure 5-1 shows, with regard to Germany, that 62 per cent of all companies participating in the survey in autumn 2015 expected economic development to remain weak in Germany.

Figure 5-2: Arguments of the growth pessimists in comparison

Share of firms which agree strongly to the following arguments¹⁾; values in per cent for all firms and for firms expecting secular stagnation ("pessimists")



1) Rest from 100: „little relevance“ and „no relevance“

Sources: IW business survey autumn 2015; Grömling (2016)

Just under 30 per cent of the companies did not share this view. The remaining 8 per cent did not express an opinion on the issue. The analysis showed that the service sector, at an average of 66 per cent, was almost 5 percentage points more pessimistic about growth than industry. In all areas, the more pessimistic companies dominate expectations. There was also a noticeable difference between Western and Eastern Germany. At just over 70 per cent, the share of eastern German companies assuming that growth in Germany would remain weak is almost 10 percentage points higher than in Western Germany. These divergent expectations could not be explained by actual growth experience at this time: The average growth rate of real gross domestic product (GDP) in Western Germany (excluding Berlin) and Eastern Germany (including Berlin) was largely identical in the period after the global economic and financial crisis – in the period from 2014 to 2016 it was even higher in the east (Figure 2-1). With regard to the sectors, it is noticeable that the survey differences between East and West were not to be seen in the service sector, but primarily in construction and industry.

In addition to this overall assessment of the companies, the survey also provided information on the justifications. A total of 13 formulated arguments were available to the companies in this regard. It was not possible to state one's own reasons. The following three options could be chosen as an answer: 1. Is accurate. 2. Is somewhat accurate. 3. Is not accurate. The companies also had the option of not expressing an opinion. When analysing the justifications for a future moderate economic development, different perspectives can be obtained: On the one hand, the justification structure of all companies can be considered. On the other hand, however, it is also possible to evaluate only the responses of those companies that expect long-term growth weakness ("pessimists"). Both justification patterns – and their differences – are shown in Figure 5-2 (see Grömling, 2016 for a detailed description).

Figure 5-2 shows that the demographic trend and the associated shortage of skilled workers were identified first as the most accurate argument by the "pessimists" as well as by all companies. Half the companies stated that this was a highly relevant reason for ongoing weak growth. Labour costs came in second place. This cost factor is also an important argument in other company surveys. Regulations governing labour and product markets were often identified as relevant justifications for weaker growth in the future. For a good 30 per cent of all companies, the high energy costs in Germany compared to other countries were also of great importance as a justification for weak growth domestically in future. Ongoing weak demand in Europe, the most important market for German export companies, was a concern for 36 per cent of pessimistic companies in autumn 2015. Weaker demand from emerging markets, which were significant for Germany's net exports and the growth driven by this over the last 15 years, was an important reason for the secular stagnation according to 30 per cent of the companies. While the economic potential as a result of the increasing digitalisation of economic life can open up additional growth opportunities, it is also perceived by companies as a threat and thus a brake on growth. According to the IW business cycle survey, 22 per cent of companies cited high competitive pressure from new digital business models as a strong reason for continuing stagnation in Germany. In the service sector in particular, this fear is more pronounced at just under 29 per cent of the companies. A good one-fifth of the companies assume that ongoing weak growth in Germany is due to the relocation of production abroad. This slows down investment and innovation in Germany and weakens the potential for growth as a result. Higher competitive pressure due

to imports – i.e. increasing foreign competition on the domestic market – was also seen by a quarter of the cautious companies as a reason for coming growth problems. Finally, there was the option of responding to whether the demographic development in Germany not only exacerbates the above-mentioned problem of skilled labour and supply, but also lead to weak demand in Germany, which then feeds into secular stagnation. Only 15 per cent of the companies agree with this. The survey also made it clear that financing problems were obviously not an important justification for weak growth, from the point of view of German companies.

6 Are companies impaired by infrastructure problems?

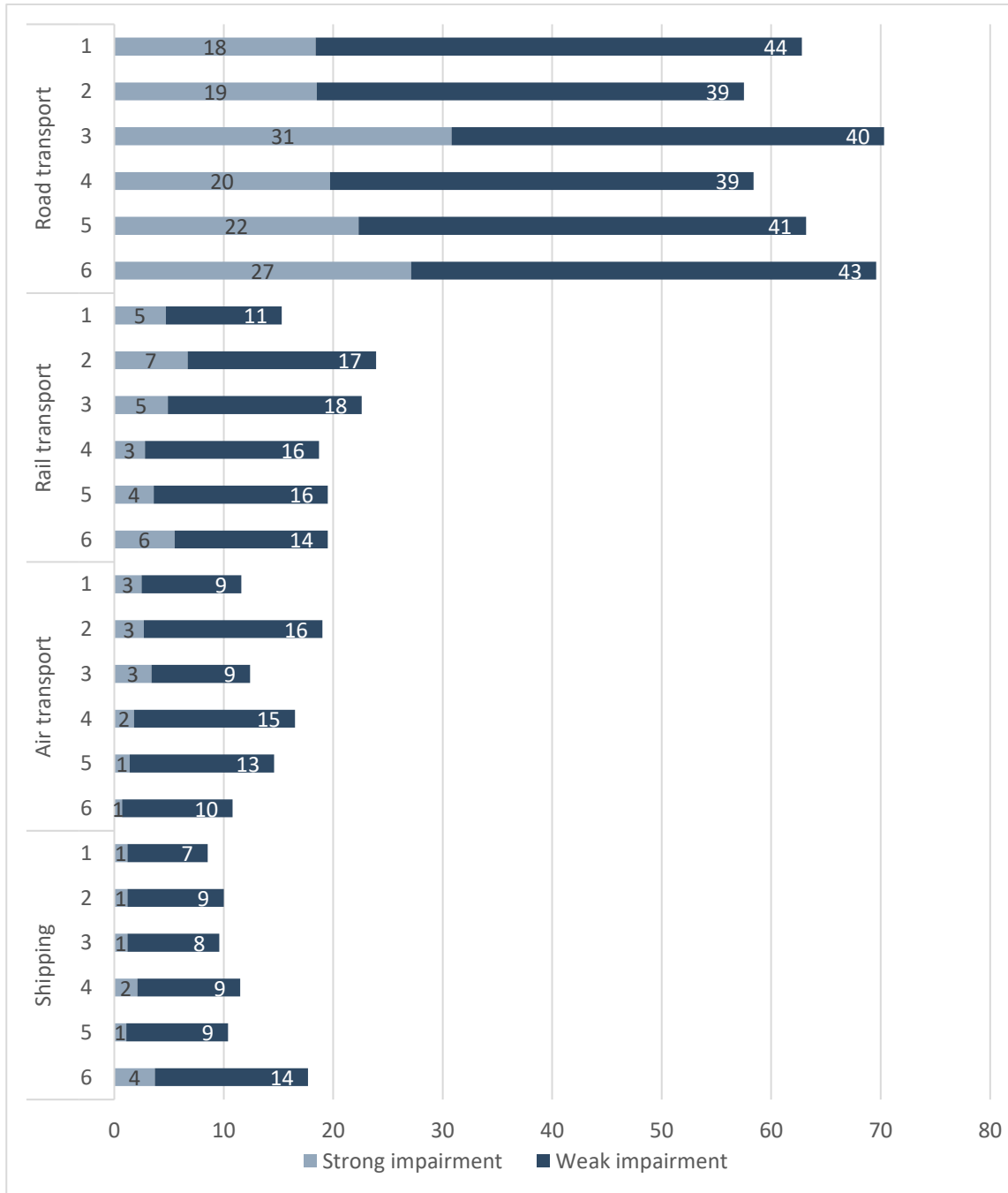
The discussion on the infrastructure in Germany should be viewed in the context of two findings (Bardt et al., 2014). On the one hand, empirical studies show that spending on infrastructure investments has become less important in Germany over the last few decades. On the other hand, Germany is still doing well in terms of infrastructure by international standards. Against this backdrop, as part of the IW business cycle survey in autumn 2013, the German Economic Institute asked companies in Germany whether their current business processes in general are regularly affected adversely by infrastructure problems. An additional question was asked to determine whether companies find no, minor or significant adverse effects in the infrastructure areas of road transport, rail transport, air transport, shipping, energy supply and communications networks. The survey provided an extensive database that allowed the level of adverse effects to be depicted by region and sector. Of the more than 3,300 companies that provided analysable answers on the economic situation, 2,500 companies in Western Germany and 370 companies in Eastern Germany responded to the questions on infrastructure.

The survey showed that the business activities of a good 57 per cent of the companies surveyed in 2013 were regularly affected in a negative way by problems or deficiencies in infrastructure (see Grömling/Puls, 2014 in this regard). 10 per cent of all companies even spoke of a significant adverse effect. The second question showed very clearly that most of the adverse effects occur in road transport. Almost two-thirds of the companies reported adverse effects in this area. Nearly 23 per cent of all companies even spoke of significant obstacles. The high number of responses made it possible to further differentiate the results by region, and not just by Eastern and Western Germany (Figure 6-1). This gave a quite comprehensive picture of the adverse effects and allowed the derivation of negative focal points by mode of transport. The 16 federal states were combined into six regional groups. The order of the infrastructure areas by the degree of negative focal points did not change as a result of this comparison between federal states. The most severe adverse effects are found everywhere in road transport. Here, companies judged the problems to be the greatest in Baden-Württemberg and in the northwestern German states of Lower Saxony, Schleswig-Holstein, Hamburg and Bremen. In North Rhine-Westphalia and Eastern Germany, 63 per cent of the companies reported problems. Somewhat further behind were Bavaria and the federal states of Hesse, Rhineland-Palatinate and Saarland. As a result, the IW business cycle survey was able to show a high level of adverse effects in road

transport throughout Germany. However, there were also clear centres of adverse effects in some regions, indicating a particular need for additional investment.

Figure 6-1: Infrastructure deficits in German Bundesländer

Continuous impairment of business processes by infrastructure deficits in autumn 2013; values according to infrastructures and regions¹⁾ as a percentage of all firms²⁾



1) Classification of the Bundesländer: 1: East Germany; 2: Bavaria; 3: Baden-Württemberg; 4: Hesse, Rhineland-Palatinate, Saarland; 5: North Rhine-Westphalia; 6: Lower Saxony, Schleswig-Holstein, Hamburg, Bremen. 2) Rest from 100: no impairment.

Sources: IW business survey autumn 2013; Bardt et al. (2014)

7 Are German companies afraid of Brexit?

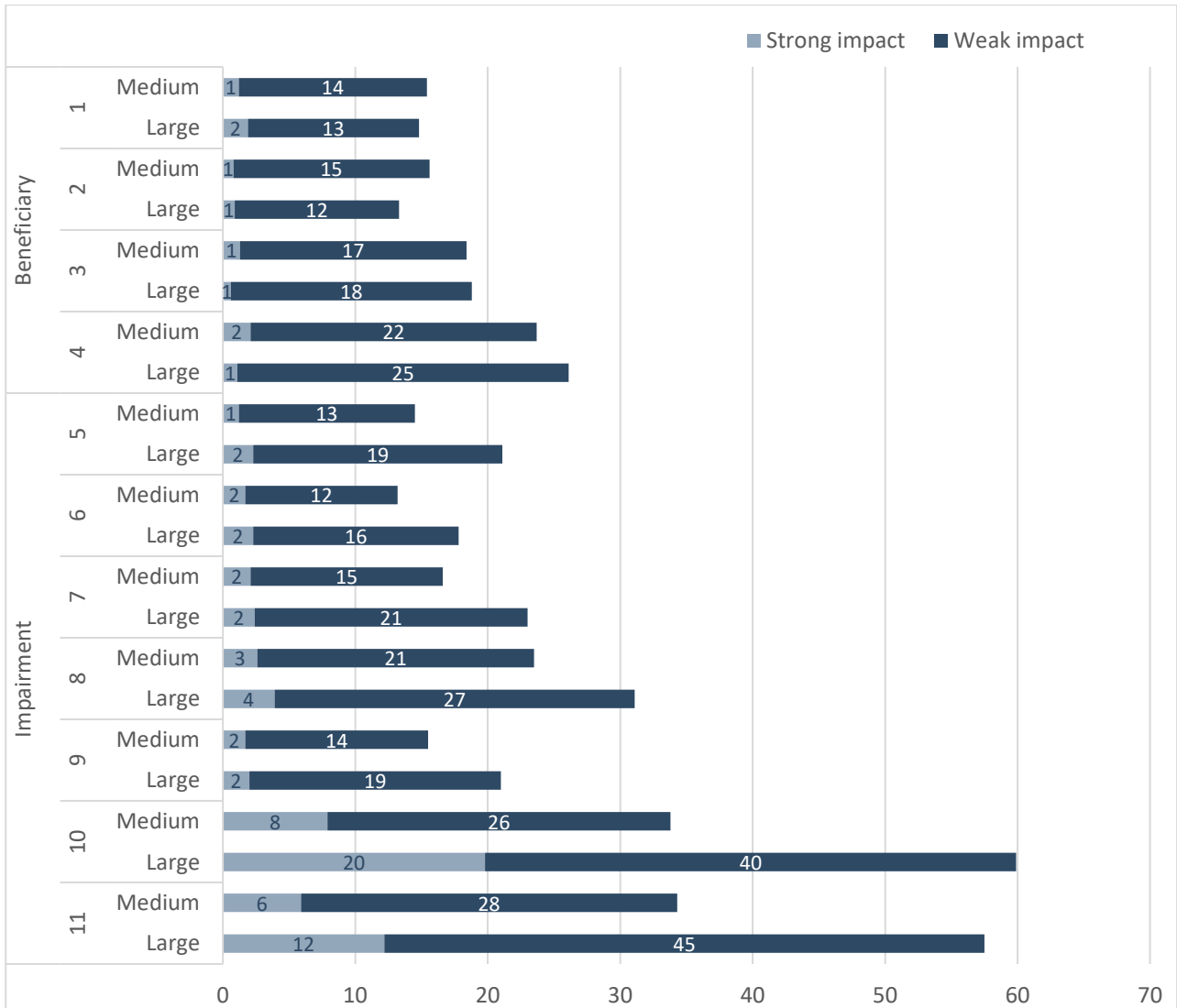
The additional question for the IW business survey also examines the impact of international events on the German economy. In the springs of 2004 and 2014, for example, questions were asked about the effects of the EU's eastward enlargement on German companies (Busch/Grömling, 2014). The impact of the global financial market and economic crisis was on the agenda in autumn 2008.

In October and November 2016, the German Economic Institute surveyed around 2,900 companies in Western and Eastern Germany with regard to their expectations of the impact that the forthcoming departure of the United Kingdom (UK) from the European Union (EU), the so-called Brexit, will have on exports, investment, employment, personnel planning and production processes. This yielded the following picture: More than 90 per cent of the companies surveyed did not see any significant Brexit impact on the business activities mentioned. Thus, the German economy viewed Brexit in a relatively relaxed manner in autumn 2016 (Grömling/Matthes, 2017). The survey data provided a wide range of insights into the impact that Brexit will have on the German economy (Figure 7-1). The export outlook to the UK was affected the most. Nearly 10 per cent of the companies surveyed expected a strong negative impact in the medium term (from 2018 onwards) due to the devaluation of the British pound. However, only 2 to 3 per cent of the companies foresaw a strong negative impact on investment and employment. The impact on exports and investment could be further differentiated (Grömling/Matthes, 2017). Foreign exchange-related export losses were expected more by companies that are heavily involved in foreign trade:

- In distinguishing between industries, 14 per cent of companies in industry saw a strong and 36 per cent a slight negative impact, while these figures were only 5 and 18 per cent, respectively, for service providers.
- There were especially strong differences based on company size: Of the large companies with more than 500 employees, around 20 per cent expected a serious foreign exchange-related negative impact on exports, and around 40 per cent expected a minor impact in this regard. By contrast, small and medium-sized companies responded much more cautiously. Only around 8 per cent felt strongly affected, and 26 per cent slightly affected.

However, even large companies, despite the impact on exports, did not assume that Brexit would have a major negative effect on their investments. This was said by only around 2 per cent of the large companies surveyed. Across all company categories, there were remarkably small differences in regard to a strong impact on investment. By contrast, the mentioned difference became evident again with respect to slight negative effects on investment activity: a relatively greater impact was seen by industry (19 per cent), western German companies (16 per cent) and large companies (21 per cent). The responses also showed that Brexit may have a positive influence on the German economy. Almost a quarter of the companies expect that their business activities will benefit from redirection effects to the detriment of the British economy.

Figure 7-1: Expected effects of Brexit after 2018

 Values as a percentage of all firms¹⁾ according firm size²⁾


1) Rest from 100: does not apply. Large firms: more than 500 employees; medium firms 10 to 500 employees; without consideration of very small firms (less than 10 employees).

Explanation:

Beneficiary for

- 1 ... own human resource planning by better staff availability
- 2 ... own human resource planning by positive redirection effects
- 3 ... own investment by positive redirection effects
- 4 ... own business activities by positive redirecting effects

Impairment of

- 5 ... own human resource management by uncertain business with UK
- 6 ... own business activities by restricted staff availability
- 7 ... own investment by lower own business activities with UK
- 8 ... own investment by general higher uncertainty due to Brexit
- 9 ... own production processes by restricted intermediates from UK
- 10 ... own exports to UK by exchange rate disadvantages
- 11 ... own exports to UK by lower demand

Source: IW business survey autumn 2016

This is even a slightly higher share than in the response category for a negative impact on investment. For example, redirection effects mean that previous EU buyers of British goods no longer buy goods in the UK due to the new EU import barriers following Brexit, but instead demand products from German companies. Industrial companies (27 per cent) saw such redirection effects more than service providers (21 per cent).

8 Concluding remarks

The IW business survey has provided important qualitative information on the assessment of the current economic situation and the short-term outlook of German companies for a long time. Initial evaluations show that the assessments on investment have relatively high information value. A comprehensive analysis of the forecast quality of the IW business survey is still pending.

The additional question as part of the IW business survey offers a very good opportunity to obtain a comprehensive and up-to-date assessment of companies with regard to certain economic events. The examples shown here provide a solid demonstration of the wide range of topics addressed. Above all, there are diverse options for analysis – by sector, region, company size and the respective degree to which each is affected. The results from the additional question are not only important for gaining an orientation with regard to the economic effects. Rather, they also provide important starting points for economic policy.

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