

GERMANY

2022 Business Leaders Outlook

Room for growth, but costs climbing

Executives of midsize businesses are resilient, even as war in Ukraine jolts the markets.



Foreword

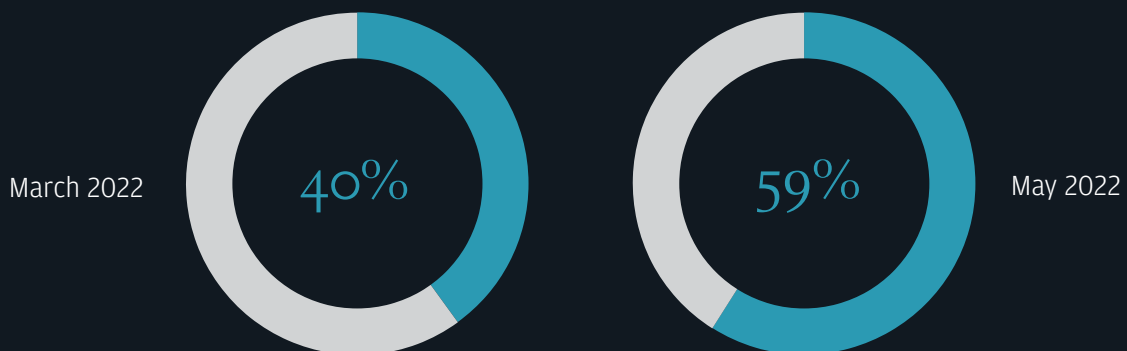
Capturing the latest sentiment after two months of war

In March 2022, we surveyed midsize German businesses as part of the second annual Business Leaders Outlook: Germany. The survey took place a few weeks into the war in Ukraine, which has since intensified and had a global economic impact. To gauge whether the sentiment among German businesses has changed, we conducted a shorter follow-up survey in May. The new survey results validate some of the March survey findings while also offering new insight into how the outlook is shifting among German business leaders. The introduction (p. 4) and results that follow are all based on the March survey.

Ongoing war in Ukraine shifts business outlook

Roughly 6 in 10 (59%) German business leaders now expect the war in Ukraine to have an impact on business, a jump from 40% captured in March. Over half (52%) of businesses expect the war's impact to last at least a year. In regard to how the war will most impact business operations, German business leaders expect higher energy prices (50%), higher commodity prices (47%), higher inflation (38%) and supply chain issues (35%).

Expect business impact from war in Ukraine

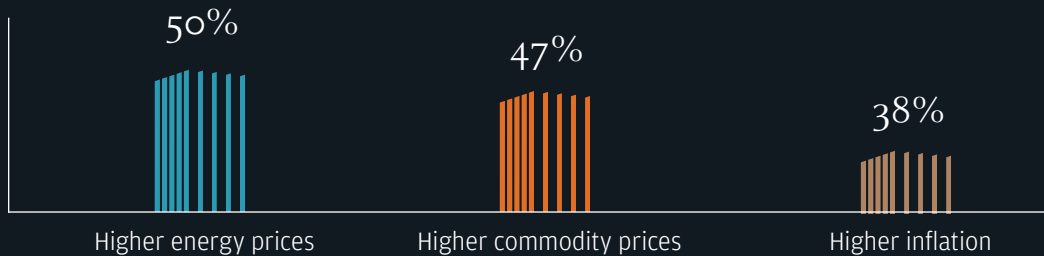


Foreword cont.

Higher energy prices anticipated because of the war

Half of German business leaders expect the war in Ukraine to lead to higher energy prices. Other top business impacts from the war that they anticipate include higher commodity prices (47%) and higher inflation (38%). In May, more than half of businesses (52%) believe the war will impact their business for at least a year, an increase from 36% in March.

Impact of the war in Ukraine



Labour challenges are a larger concern

When German business leaders were asked about the top three challenges they are facing, labour mentions nearly doubled in May (29%) compared with March (15%). More than half (58%) of business owners surveyed in May say higher/rising costs are a top concern, a finding similar to the March results (53%).

Mention labour as a challenge



Growth expectations increase

In the two months between the two surveys, German business leaders gained significantly more confidence in their companies' ability to grow. In May, 83% of businesses say they expect their business to grow in the next 12 months, compared with 69% in March.

Have confidence their business will grow



Introduction

Executives at midsize businesses across Germany believe 2022 will foster growth, even as they keep a close eye on the intensifying war in Ukraine and its effect on energy costs. In its second year, the J.P. Morgan Business Leaders Outlook: Germany survey finds that the business community's confidence is holding steady from 2021. Leaders feel cautiously optimistic about revenues, profits and overall company performance in the year ahead.

The survey gathered responses from German business leaders at companies with revenues between €20 million and €2 billion. The answers were collected in March 2022, weeks after Russian forces invaded Ukraine. As the German economy contends with Russian energy implications, business leaders are assessing how the conflict could add to costs, snarl supply chains and erode bottom lines. About 4 in 10 executives expect the war to have an effect on their businesses, and 80% expect the impact to last longer than six months.

Still, 69% of respondents say they expect business growth in the year ahead. They see consumer demand, technological advancements and market expansion as the primary drivers of growth in 2022. For German companies, rising costs are now the dominant concern. This replaces the main worry in 2021: pandemic-triggered shifts in consumer habits. And leaders see plenty of room to grow: Only 9% say they're operating at or above pre-pandemic levels.

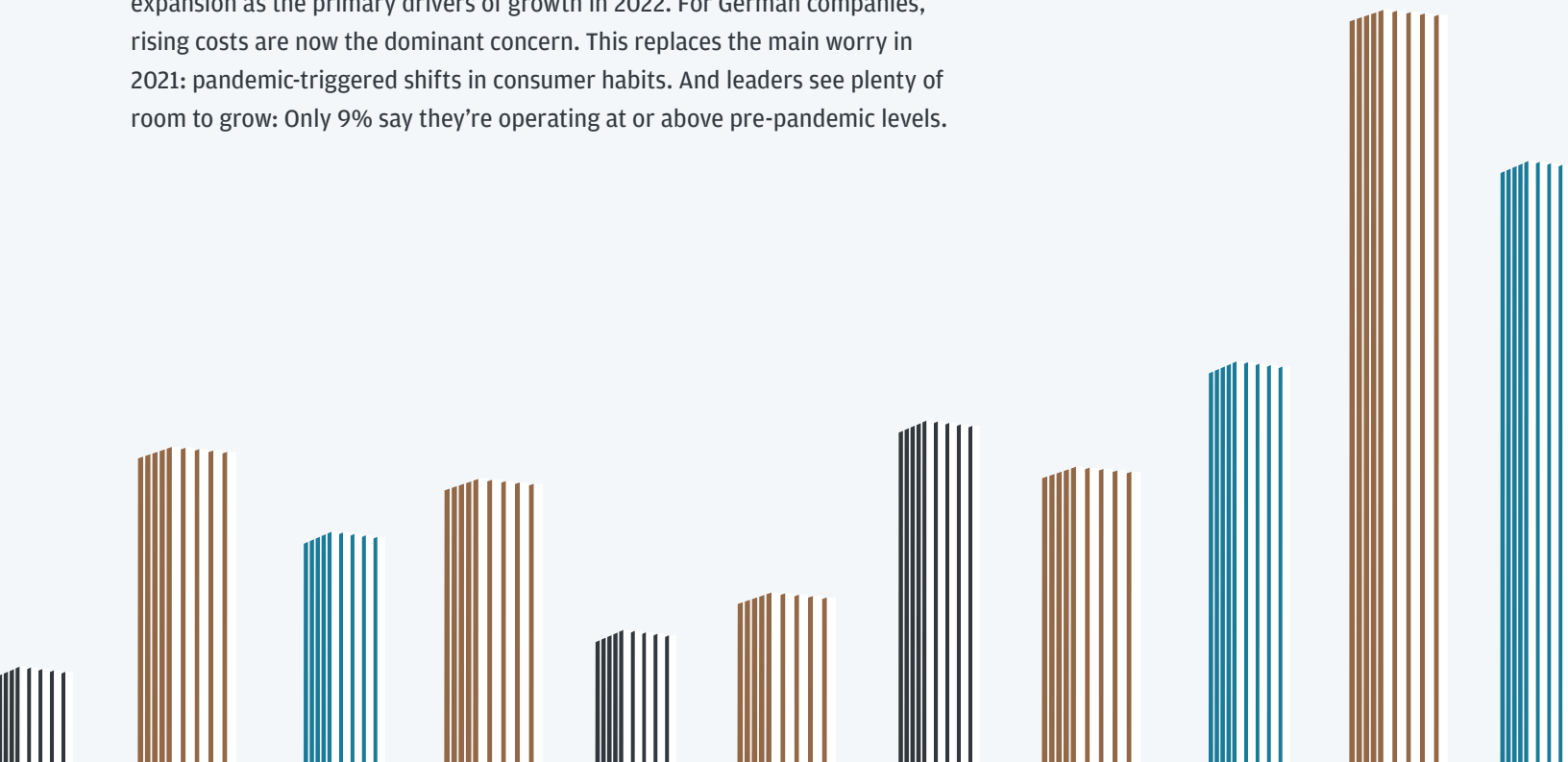
Explore the top takeaways from executives at midsize German businesses in 2022:

WAR IN UKRAINE

SUPPLY CHAIN, CYBERSECURITY AND FRAUD

GERMAN GOVERNMENT

BUSINESS TRANSITIONS



Economic outlook

Global economy

2022: Optimistic 64%, Neutral 17%, Pessimistic 19%



2021: Optimistic 60%, Neutral 25%, Pessimistic 15%



European economy

2022: Optimistic 63%, Neutral 17%, Pessimistic 20%



2021: Optimistic 60%, Neutral 21%, Pessimistic 18%



National economy

2022: Optimistic 62%, Neutral 20%, Pessimistic 19%



2021: Optimistic 58%, Neutral 22%, Pessimistic 19%



Industry performance

2022: Optimistic 76%, Neutral 17%, Pessimistic 7%



2021: Optimistic 67%, Neutral 19%, Pessimistic 14%



Company performance

2022: Optimistic 82%, Neutral 13%, Pessimistic 5%



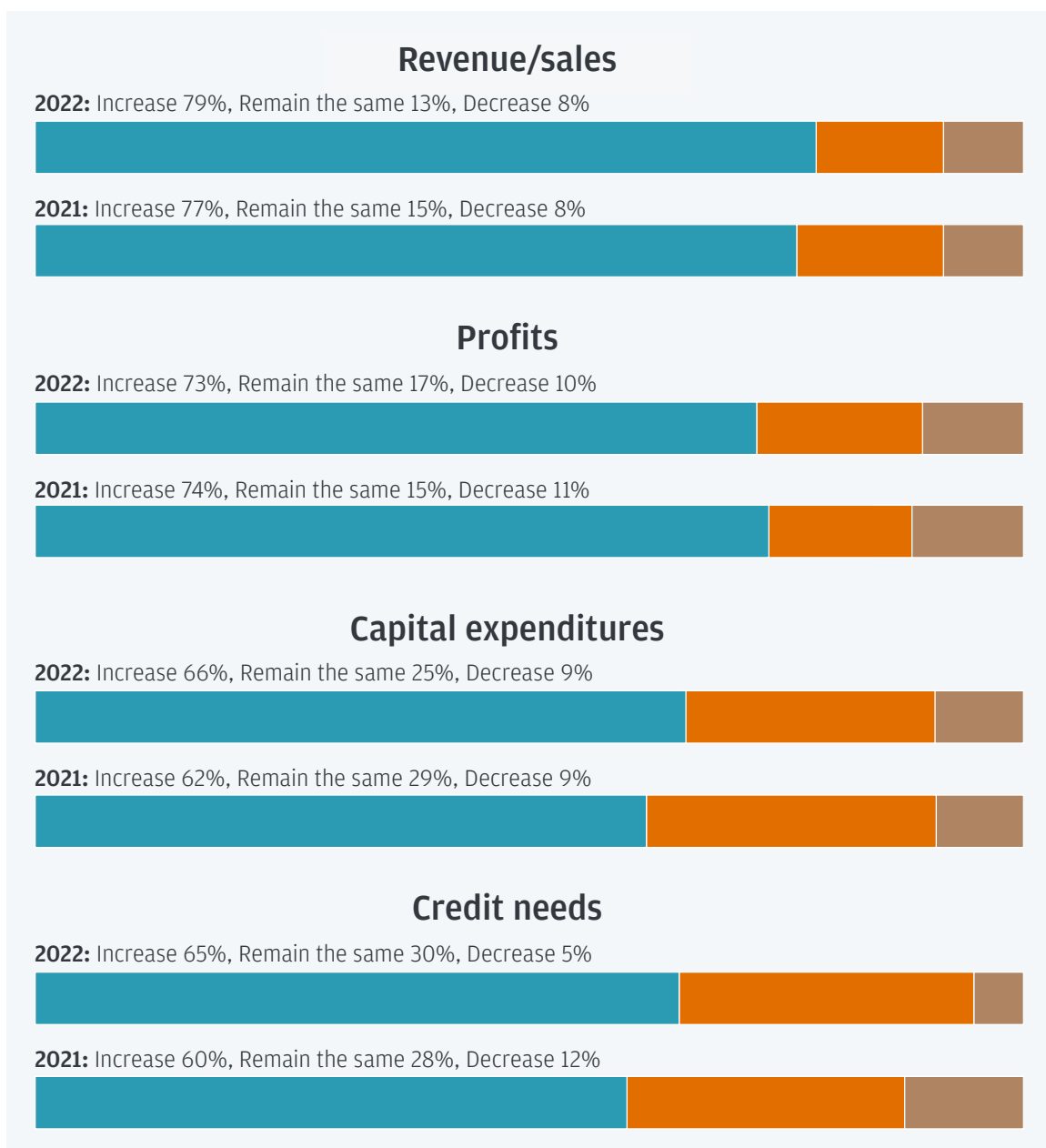
2021: Optimistic 77%, Neutral 12%, Pessimistic 11%



| Business expectations

German business leaders are optimistic about the global economy (64%), the European (63%) and national economies (62%). But they're overwhelmingly bullish about the future of their own companies (82%) and their own industries (76%). Nearly 8 in 10 expect revenue and sales to increase in 2022. And 73% expect profits to increase this year.

Businesses' capital needs are accelerating upward. Up 5 points from last year, 65% of respondents said their credit needs increased over the year, while only 5% said credit needs decreased between 2021 and 2022.

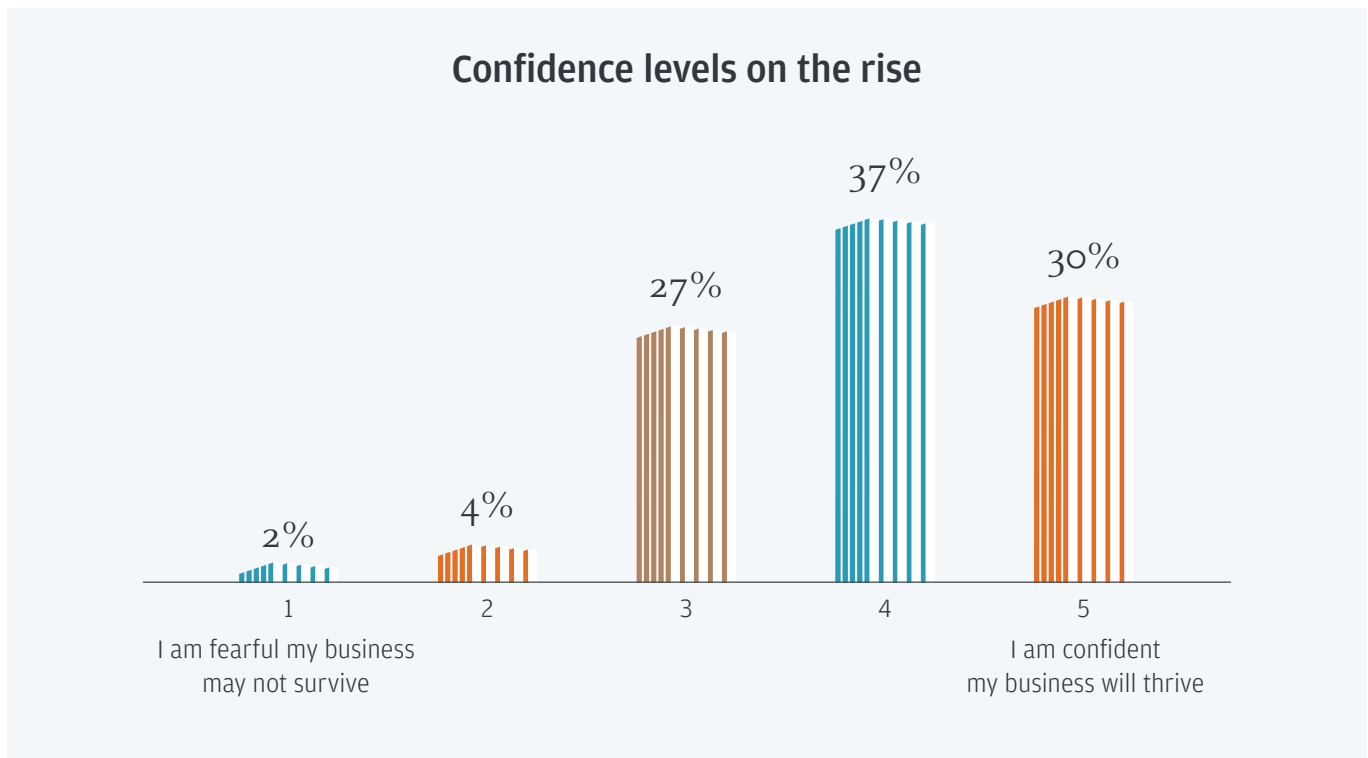


Business expectations cont.

“Without doubt, the last two and a half years have been challenging. But with each new challenge, German Mittelstand business leaders are finding ways forward and are more prepared for what the future may hold. It cannot be denied that companies are worried about inflation and the evolving geopolitical situation, but executives are confident about their organisations in 2022”.

Stefan Povaly, Head of Germany and Senior Country Officer
J.P. Morgan

Nearly 7 out of 10 (67%) of leaders anticipate their companies will thrive this year, and only 2% expressed concern for their organisation’s survival. Among those who expect their businesses to grow, a majority (51%) expect growth through increases in consumer demand. Others said their companies will grow through new automations (47%), organic market expansion (46%) and product innovation (43%).

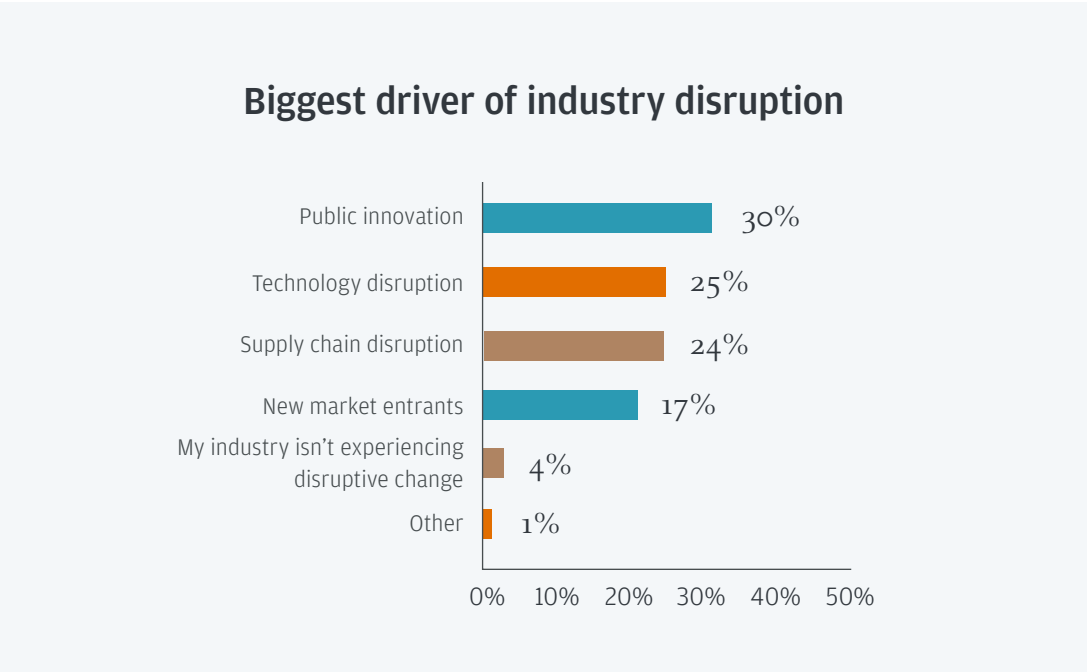


Business expectations cont.

Expecting business growth in the next 12 months



Product innovation and technology are also at the heart of disruptive changes in German industries.

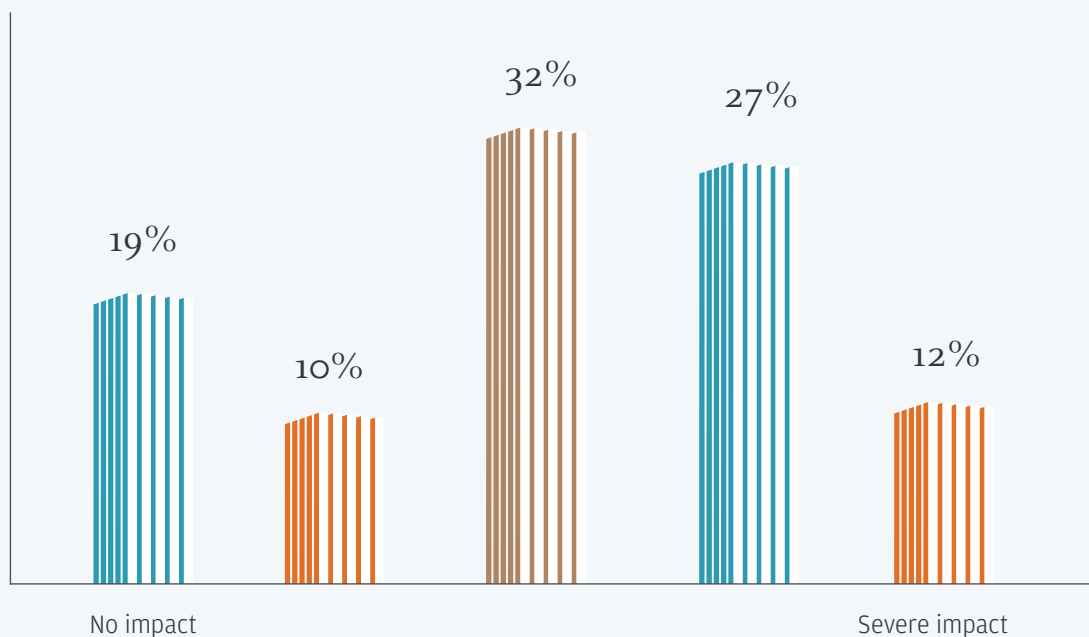


War in Ukraine

Russia's invasion of Ukraine has roiled a significant share of the German business community, especially industries that rely on imported energy. About 4 in 10 executives surveyed in March say Europe's stern economic response to Russian aggression will impact their businesses at either a four or five on a five-point scale. Only 19% say the conflict will have little or no impact on their organisation, rating their concerns a one or two on the same five-point scale.

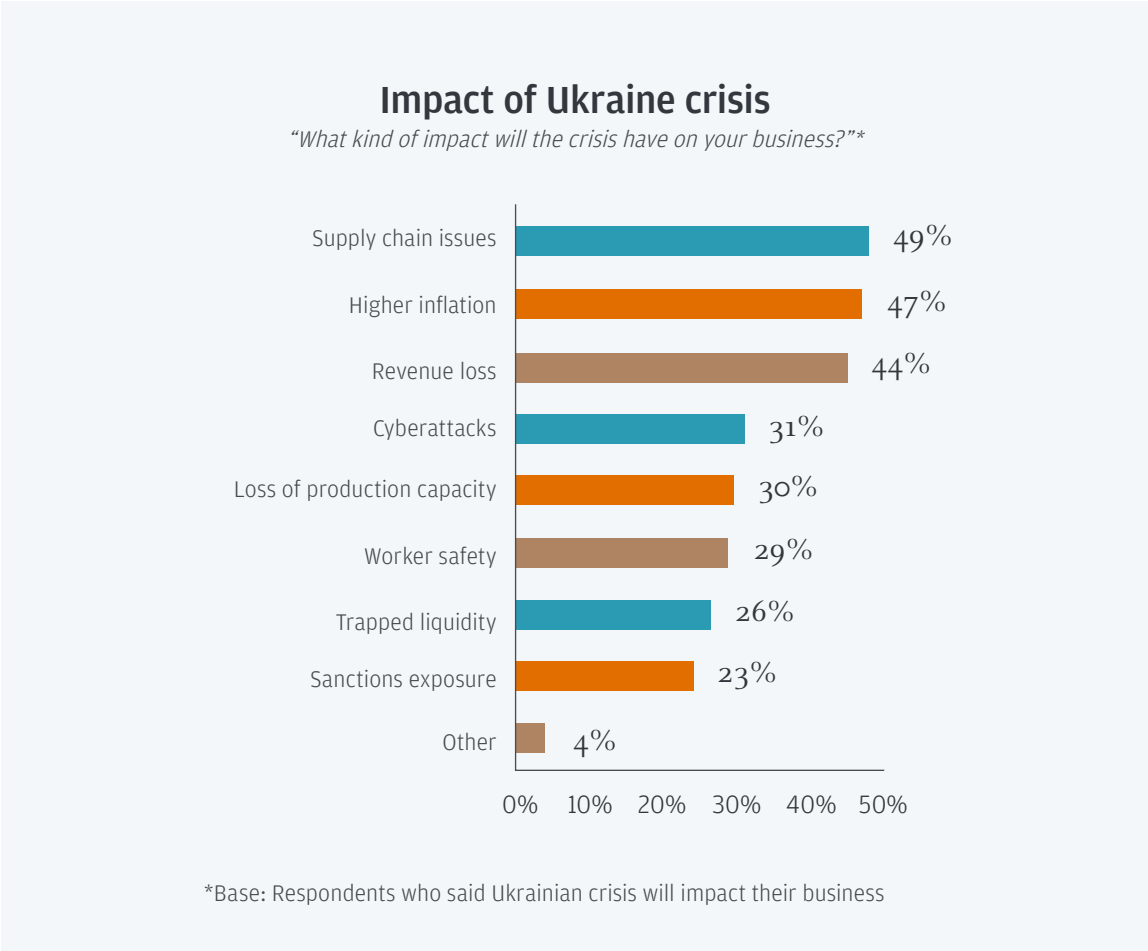


Ukraine conflict impact on business

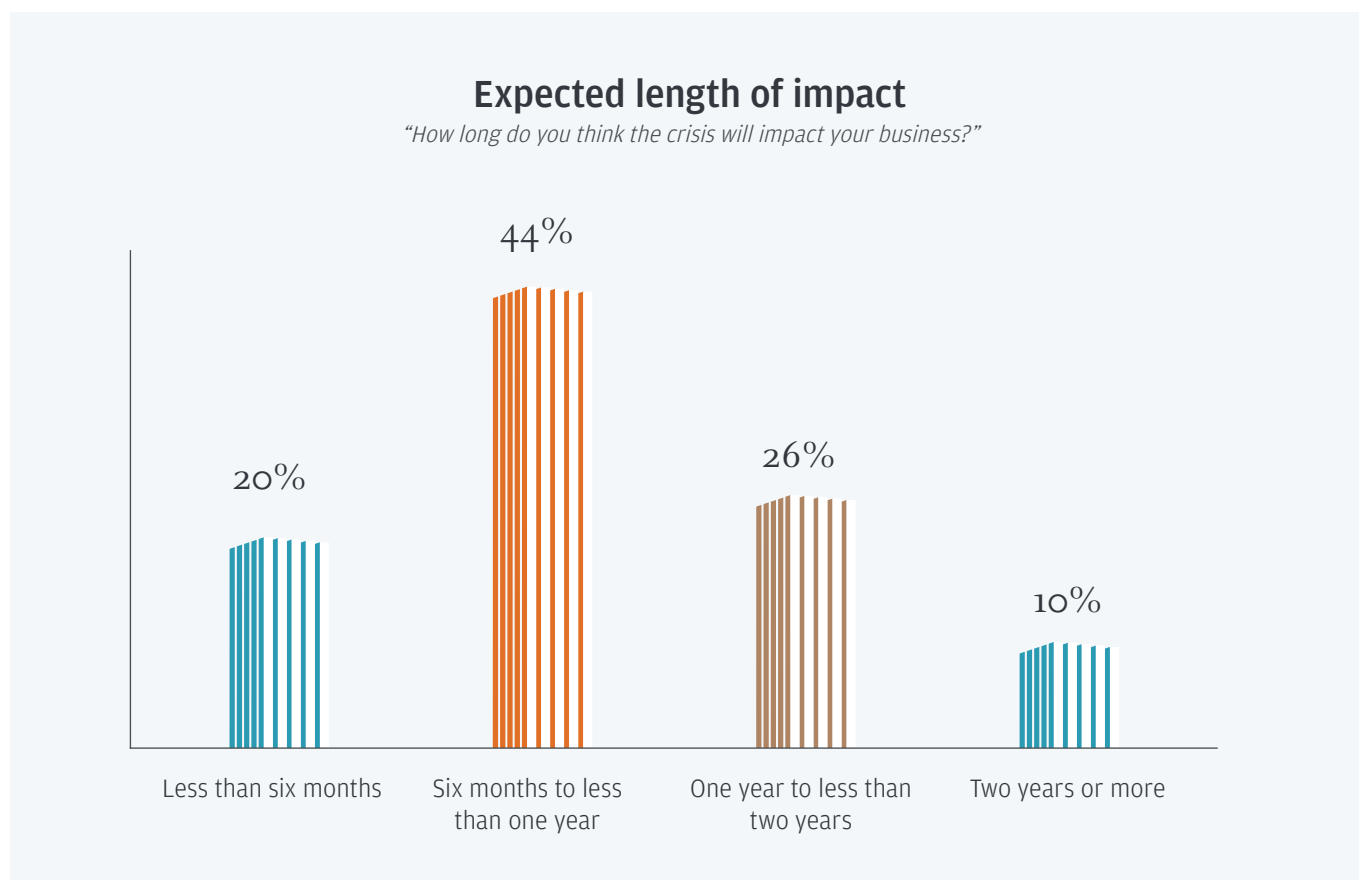


War in Ukraine cont.

Leaders see a link between the Ukraine conflict and several business challenges, including supply chain issues, inflation and cyber risks. And from the outset of the war, they generally expect it to be a lingering challenge, with 80% saying they anticipate the crisis will impact their business for six months or longer.



War in Ukraine cont.



"We expect the fallout from the war and resulting sanctions to reduce Russia's GDP by 12.5% by midyear (a decline worse than the 10% drop after the 1998 default). Our economists currently think that the euro area, highly dependent on Russia for oil and gas, will see GDP growth of roughly 2% in 2022, instead of the elevated 4.5% pace we had expected just six weeks ago".

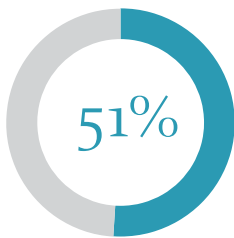
Jamie Dimon, CEO & Chairman
JPMorgan Chase & Co.
In letter to shareholders dated 4 April

Supply chain, cybersecurity and fraud

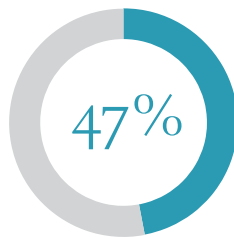
The snarled global supply chain caused by COVID-19 restrictions and intensified by the war in Ukraine provided plenty of headaches for businesses in 2021 into 2022, as containers clogged ports and pent-up consumer demand for goods far outgrew supply. Business leaders adjusted in several different ways, and a majority of executives (51%) say raising prices was part of the solution.

Adjustments made due to supply chain issues

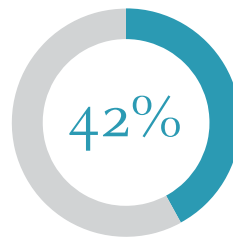
*"How have you had to adjust to account for supply chain issues?"**



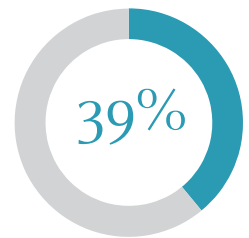
Increasing our prices for goods and services



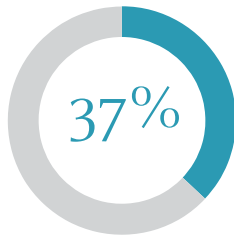
Replaced or stopped doing business with certain suppliers



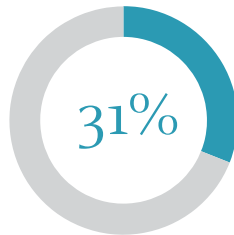
Added suppliers from new geographies



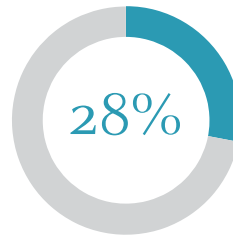
Allocating more capital to cover increased costs related to moving products



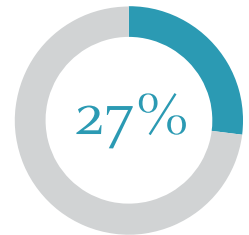
Strategic stockpiling



Shifting manufacturing/distribution closer to key markets, i.e., near shoring



Changing materials or manufacturing processes



Changed marketing/sales approach

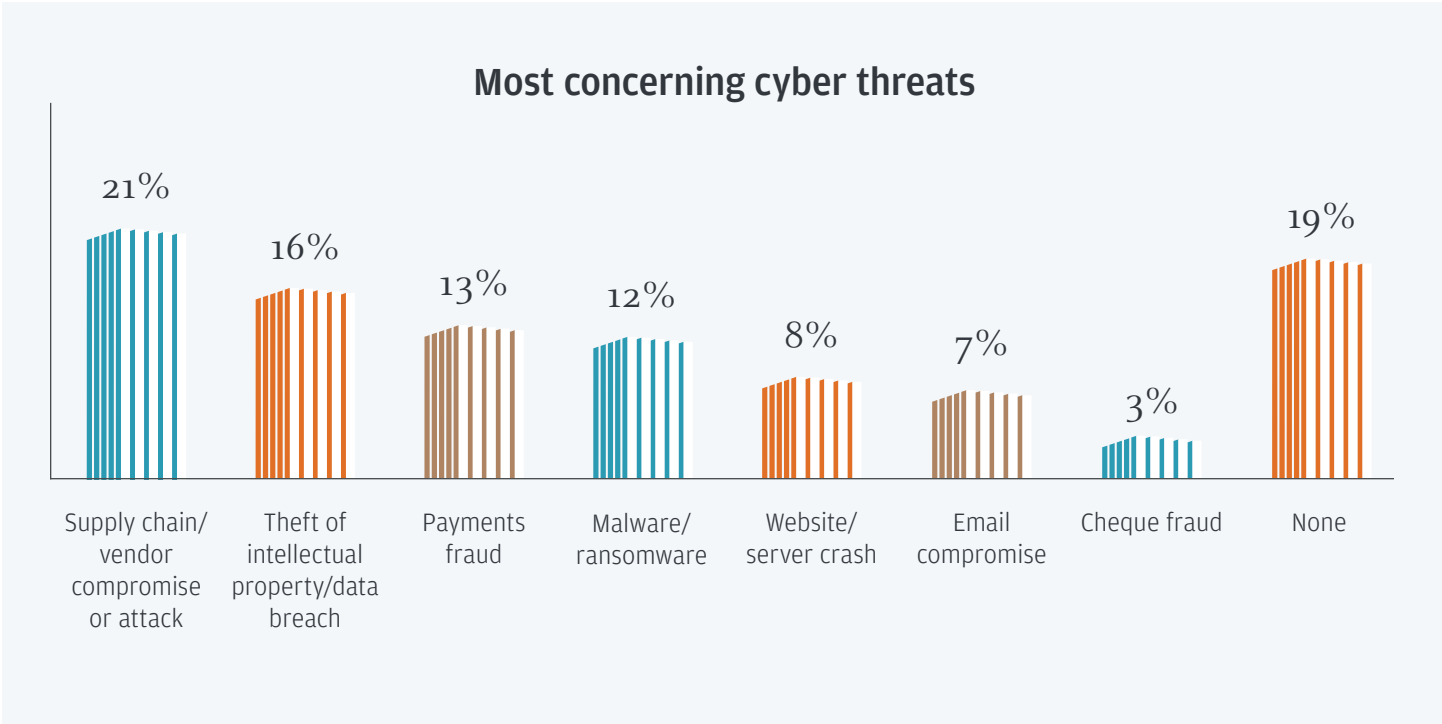
*Base: Respondents who mentioned supply chain as a growing pain

Supply chain, cybersecurity and fraud cont.

“Businesses around the globe are more aware than ever about how delicate the supply chain can be, and midsize German businesses are feeling the same pressures. But more than ever these companies are also considering diversifying their supply chains so they can be better prepared for future disruptions”.

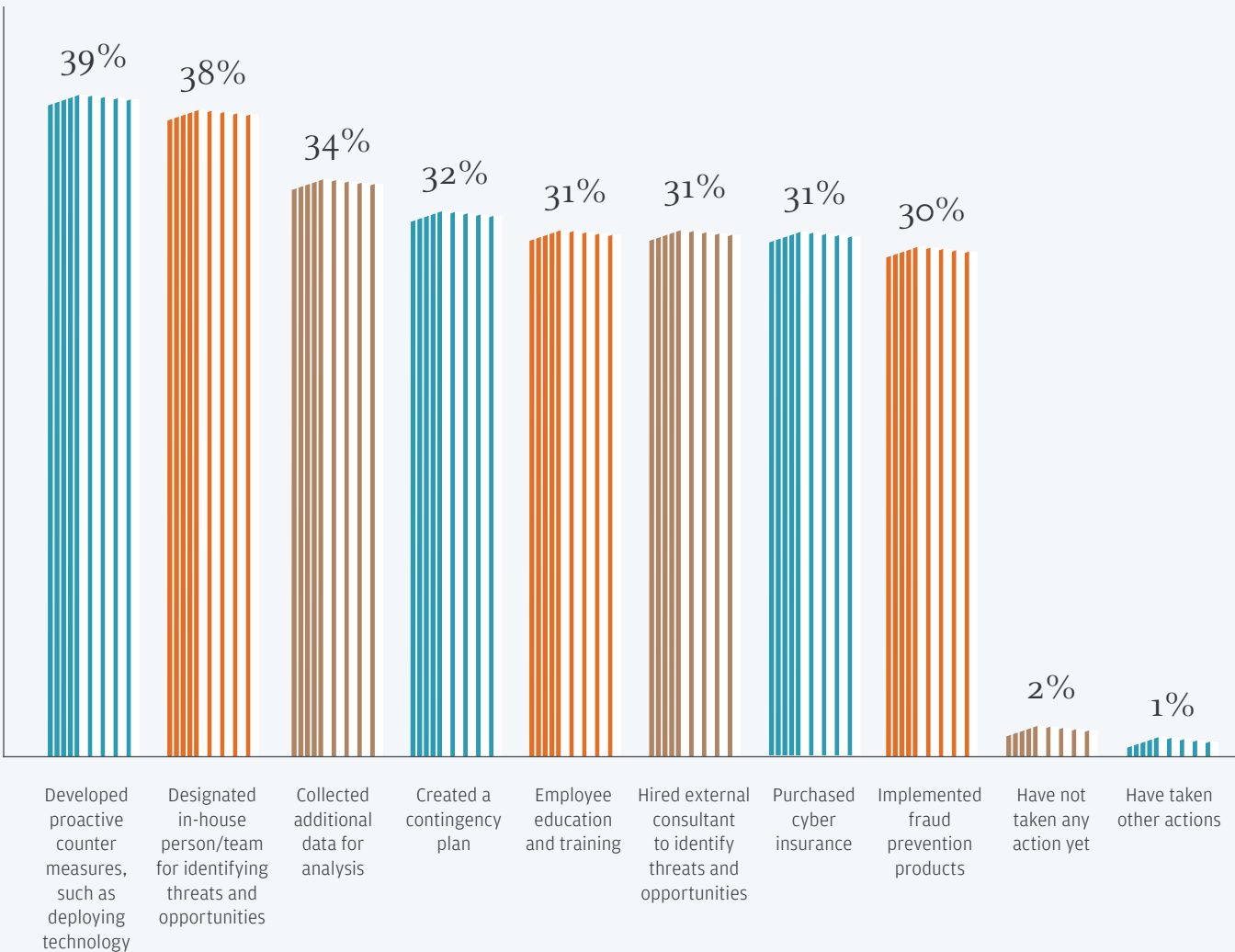
**Bernhard Brinker, Head of Commercial Banking, DACH Region
J.P. Morgan**

As companies evolve, so do the bad actors attempting cybercrime and other fraud against them. About 21% of leaders say supply chain or vendor compromise poses the greatest risk, and about 8 in 10 say they’re concerned about any type of cyberattack.



Supply chain, cybersecurity and fraud cont.

What businesses are doing about it*

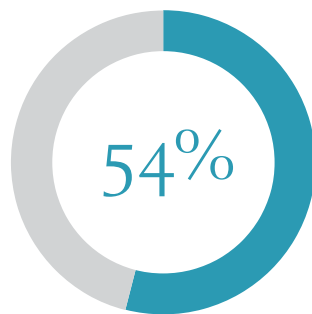


Base: Respondents who indicated they are concerned about cyber-related attacks

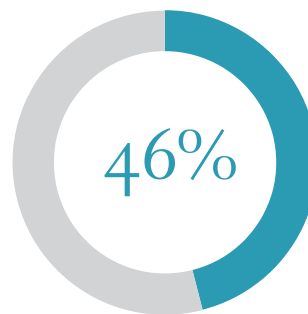
German government

About 80% of business leaders expect Chancellor Olaf Scholz's new government to affect their organisations' bottom lines. Nearly half (47%) say they hope the 'traffic light' coalition will focus on reducing energy prices for the Mittelstand, and about the same number (46%) cited tax reductions. Meanwhile, the government is intent on securing Germany's energy supply.

Expect to benefit from Germany's Investment Plan or EU Recovery Funds



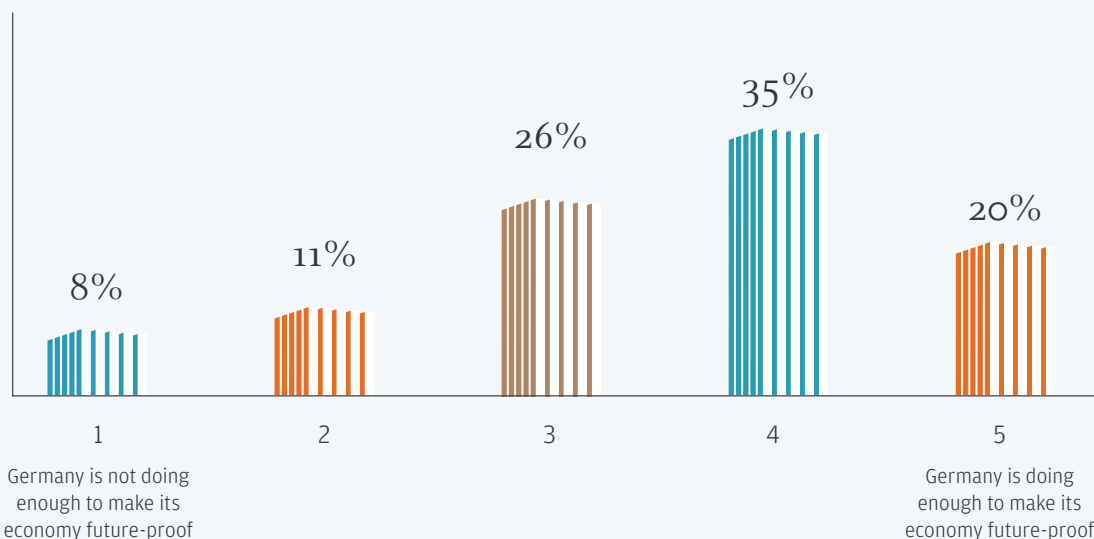
Yes



No

Future-proofing the economy

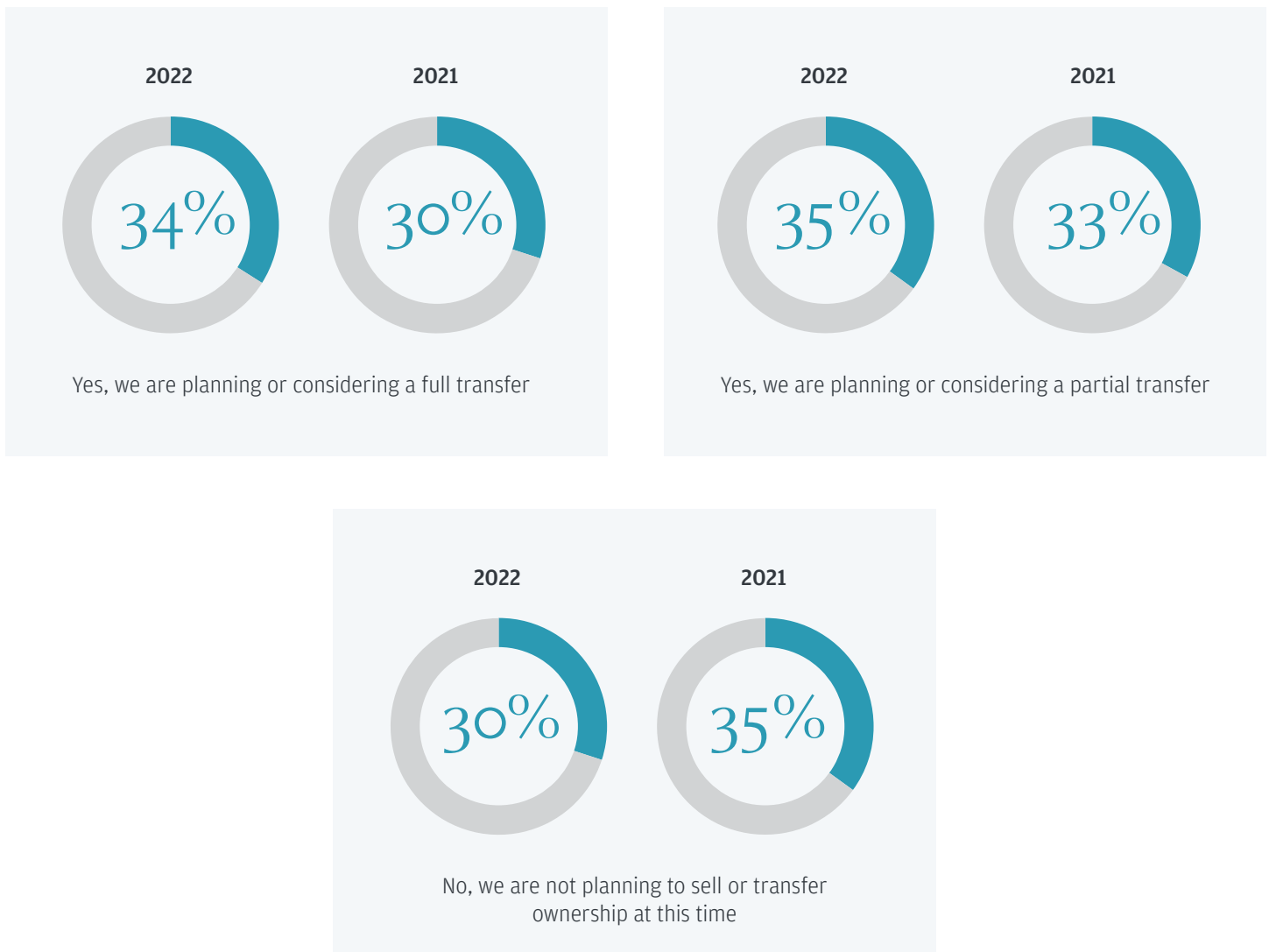
"On a scale of 1 to 5, how well is Germany doing to future-proof its economy?"



Business transfers

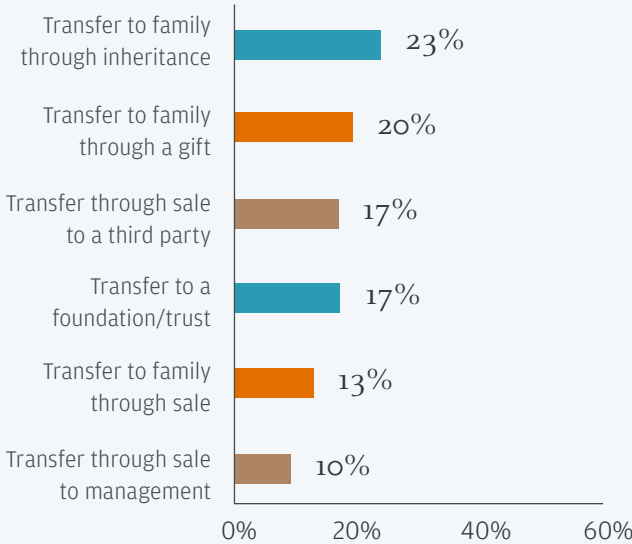
More than two-thirds of German businesses (69%) are planning full or partial transfers of ownership in the coming years, largely to family members, foundations, trust or existing management. About 17% would consider a sale to a third party. Among the companies expecting to change hands, about 46% expect to complete the transition within the next two years.

Business transition plans

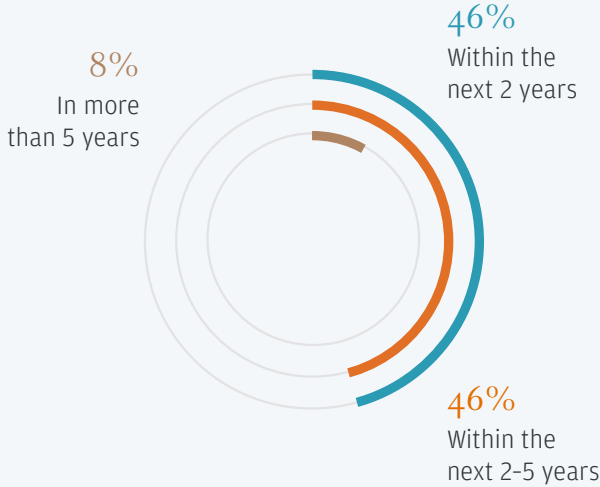


Business transfers cont.

Expected business transition



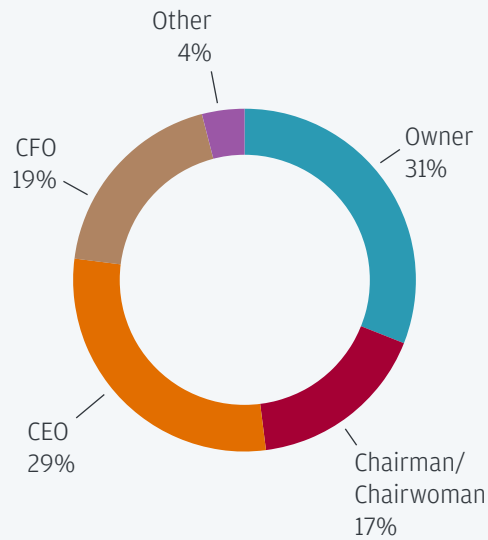
Transition timing



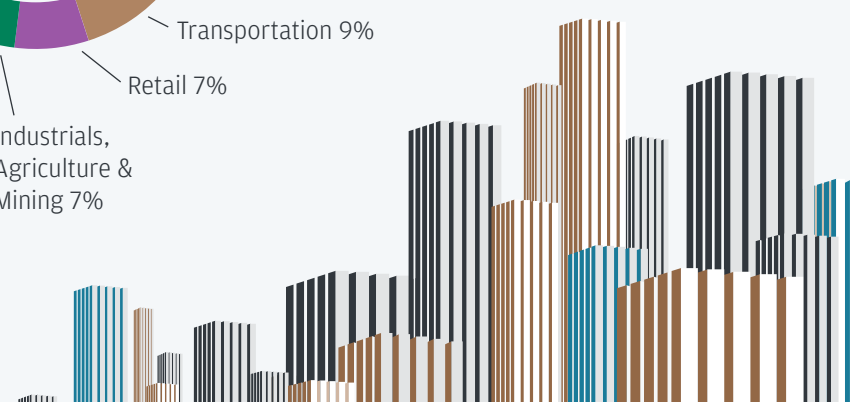
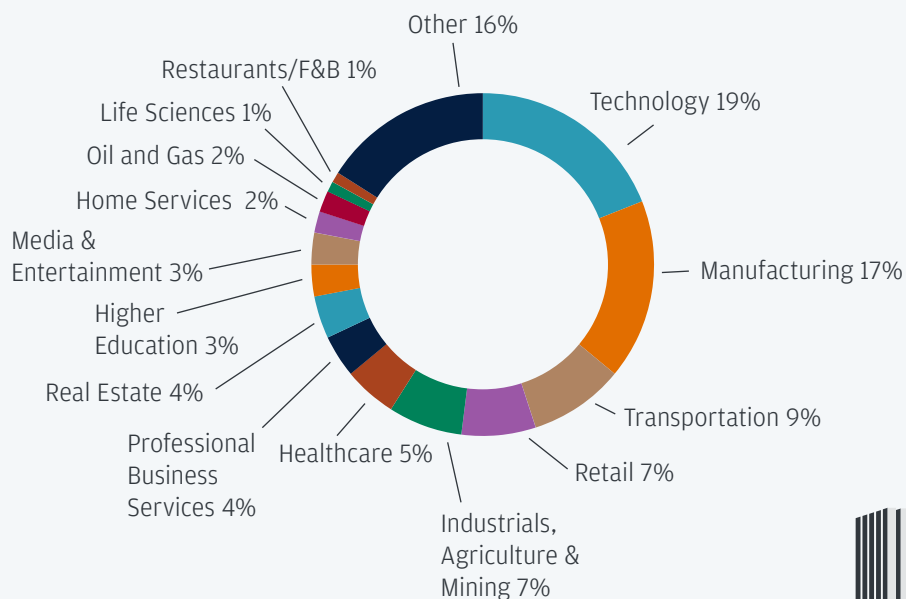
About the survey

The 2022 J.P. Morgan Business Leaders Outlook: Germany survey is in its second year. Conducted between 10 March and 28 March 2022, during the initial shock of the war in Ukraine, the survey is a snapshot of the perspectives of 242 senior business executives at companies with annual revenues between €20 million and €2 billion.

Who took the survey

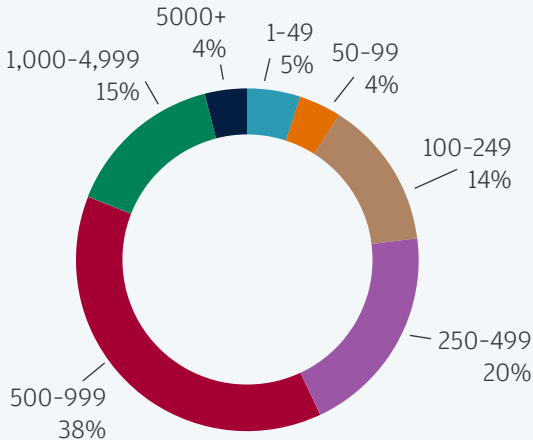


Companies by industry

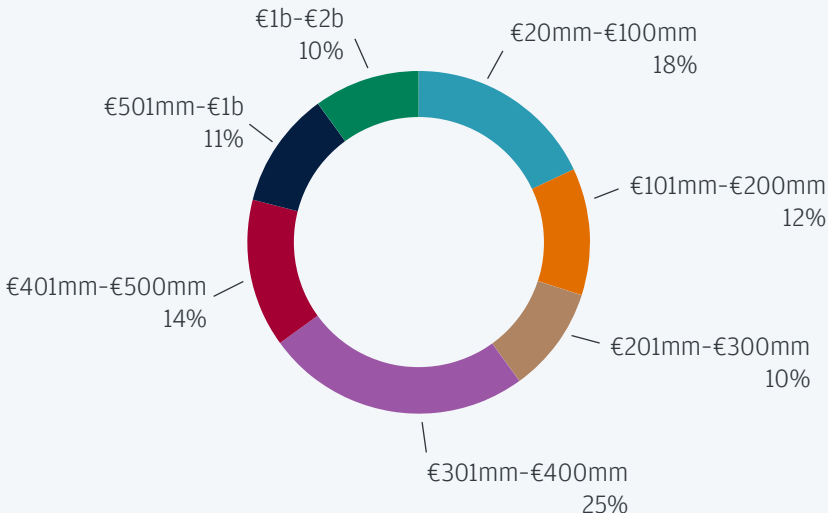


About the survey cont.

Company size by number of employees

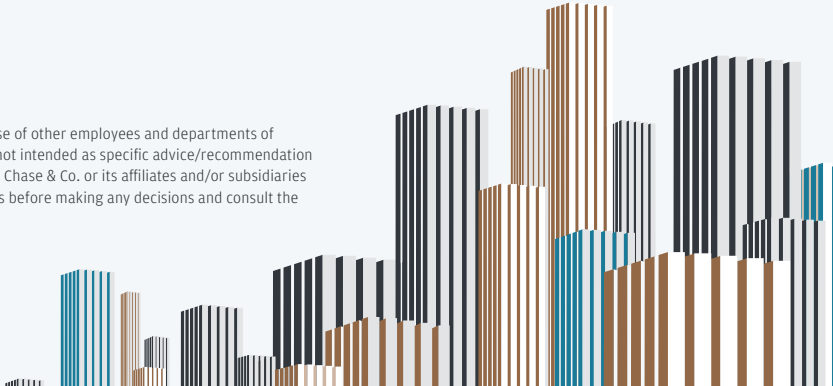


Company size by annual revenue



J.P.Morgan

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