

HSBC Global Connections

Trade Forecast Update: Germany

February 2012

Forecast exploring the future of world trade and the opportunities for international businesses

- World trade to grow by 86% in the next 15 years (2012-2026)
- International trade growth will accelerate from 2014
- Companies to increase trade activity by 4.70% annually to achieve projected growth
- Fastest growing emerging sectors support trade infrastructure and the transportation of goods around the world
- Germany's trade forecast to grow 79.34% to 2026
- German companies to increase trade activity annually over the next 15 years by 4.18%
- Germany's fastest growing large export sector is semi-conductors and diodes at 10.37% annualised over the next five years

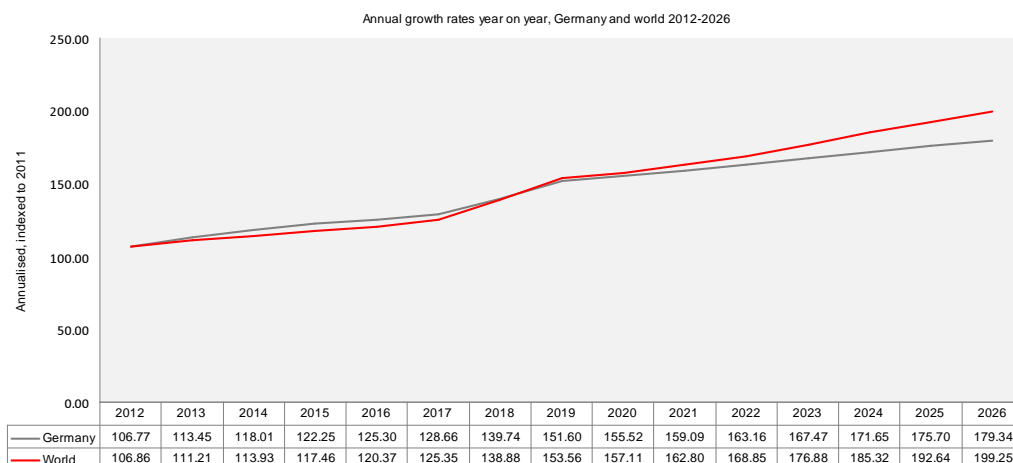
Trade overview

As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. After 2014 the global economy ends a period of slow growth and contraction and sees an upturn in trade in line with GDP forecasts. Over the next five years it is forecast that world trade will grow at an annualised rate of 3.78% (see below graph for year-on-year predictions), due primarily to the expectation of an earlier recovery of the overall global economy. In the period 2017-2021, the Forecast predicts even more rapid annualised growth at 6.23%, as world demand for traded goods recovers its dynamism. As a result world trade is predicted to grow by 86.00% in the next 15 years, taking total trade activity in that year to \$53.8 trillion.

The Trade Forecast predicts that trade in Germany will grow at an annualised rate of 3.19% to 2016. This is forecast to increase substantially at 5.60% between 2017 and 2021. This equates to growth of 79.34%. This is as a result of Germany's historically robust export sector, as well as measures implemented by the government to expand trade relationships within the eurozone and the EU27, but also with other global traders such as China and the US. Annualised total trade growth over the next 15 years will be 4.18%, which is the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Germany's trade outlook

Germany is one of the only European countries with a trade index that has increased since the previous forecast. This reinforces Germany's role as one of the most important trading economies and the third largest exporter in the world. German exports continue to be driven by a strong global demand for some of its largest sectors such as automobiles, chemicals and machinery. Germany's trade is forecast to grow at a rate which is slightly faster than average world growth until 2019. The deceleration of growth from that point does not reflect a decline in Germany's position as a trading nation but simply a reallocation of supply chains to emerging European economies and Asia Pacific.



Alan Keir, Group Managing Director and Global Head, HSBC Commercial Banking:

"Where once businesses followed economic investment, now, forward-thinking companies lead, taking matters into their own hands and making business happen. Whether that's taking advantage of shorter-term growth in international trade, which despite economic uncertainty sits at \$1trillion a year, or by creating new supply chains that open up trade corridors, businesses are connecting themselves to future opportunities. The reality is that growth opportunities lie internationally. The companies that succeed will be planning for that today."

Trade corridors and trends

Germany's largest export partners are France, the Netherlands and Austria. The Trade Forecast predicts that exports to all of these countries will increase annually over the next five years. The fastest growing large export destination is China. This can be attributed to growth in exports of car parts (5.83%) and aircraft and satellites (5.83%) to 2016. Trade with Poland is also growing more rapidly than average (6.92% annually to 2016), reflecting its role in the German car supply chain. With annual export growth to 2016 forecast at 9.56%, Brazil's growth reflects the export of infrastructural equipment, engineering and cars. Germany's largest import partners are China, the Netherlands and France. China is the fastest growing and the largest import partner. Some of this is accounted for by rapid forecast increases in imports of boats and ships (13.47%) and printing and ancillary machinery (13.56%) to 2016. Emerging import partners like Qatar, Kuwait and the UAE reflect an increased demand for oil.

Germany's Emerging Growth Importers and Exporters (2012-2016)

Germany's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Germany's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
France	3.81%	Bermuda	15.74%	China	7.70%	Qatar	18.00%
Netherlands	4.61%	Brunei Darussalam	15.33%	Netherlands	4.74%	Bolivia	13.26%
Austria	3.88%	Cayman Islands	12.58%	France	3.41%	Bermuda	12.54%
Italy	3.69%	Cambodia	10.94%	Italy	3.62%	Kuwait	12.27%
USA	2.11%	Paraguay	10.77%	USA	5.12%	Jordan	11.11%
United Kingdom	2.80%	Ecuador	10.70%	Switzerland	6.30%	Uruguay	10.82%
China	8.33%	Uruguay	10.63%	Belgium	4.48%	UAE	9.90%
Poland	6.92%	Bolivia	10.24%	Austria	4.42%	Lithuania	9.73%
Switzerland	5.81%	Libya	9.71%	Poland	6.59%	Romania	9.45%
Belgium	3.76%	Brazil	9.56%	Czech Republic	6.36%	Peru	9.29%

N.B. Emerging Growth Import and Export Partners are trade partners that are growing most quickly over the period, albeit potentially from a small base.

Sector watch

The table below shows Germany's fastest growing export and import sectors by partner:

Germany's Fastest Growing Export and Import Sectors by Partner (2012-2016)

Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partners	CAGR (2012-16)
Turbo-jets, turbo-propellers/other gas turbine engines	France	13.42%	Gold, unwrought, semi-manufactured, powder form	Switzerland	15.93%
Printing and ancillary machinery	United Kingdom	10.02%	Printing and ancillary machinery	China	13.56%
Medicaments, therapeutic, prophylactic use, in dosage	Netherlands	9.71%	Passenger and goods transport ships, boats	China	13.47%
Motor vehicles for transport of persons (except buses)	Poland	9.11%	Printing and ancillary machinery	Japan	13.35%
Motor vehicles for transport of persons (except buses)	Australia	8.47%	Blood, antisera, vaccines, toxins and cultures	Switzerland	10.84%
Medicaments, therapeutic, prophylactic use, in dosage	France	7.55%	Diodes, transistors, semi-conductors, etc	China	9.64%
Medicaments, therapeutic, prophylactic use, in dosage	Italy	6.59%	Electric apparatus for line telephony, telegraphy	China	9.62%
Blood, antisera, vaccines, toxins and cultures	Netherlands	6.42%	Petroleum oils, oils from bituminous minerals, crude	Nigeria	8.89%
Oils petroleum, bituminous, distillates, except crude	Switzerland	6.31%	Passenger and goods transport ships, boats	South Korea	8.60%
Medicaments, therapeutic, prophylactic use, in dosage	United Kingdom	6.17%	Medicaments, therapeutic, prophylactic use, in dosage	USA	8.54%

N.B. Germany's fastest growing import and export sectors by partner are developed from the top 50 export and import partners and are selected alongside the trade sectors that constituted values of above \$100 million at the end of 2010. The top ten fastest growing partners by sector were selected for this table.

Sector opportunities

Engineering: Electrical and mechanical engineering are at the heart of the German industrial machine and imports and exports reinforce one another to generate trade in the country. Brazil will increase its imports of iron and steel into Germany by 7.13% annually over the next five years as part of the increase in semi-manufactured metals; a key emerging sector. Imports of diodes, transistors and semiconductors and electrical apparatus for mobile telephones, largely from China, are set to increase by 9.64% and 9.62% annually. There are also forecast annual increases in trade of aircraft, spacecraft and satellites. This feeds into exports of turbo jets to France, and aircraft and satellites to China. This reflects a highly complex web of inter-sectoral relationships integrated through the global supply chains of Germany's largest businesses. Companies need to be highly innovative and fit into specific market niches within those supply chains.

Medicine: Germany's pharmaceutical sector is world-class and highly internationalised. For example, exports of medicines across Europe are set to increase rapidly at annualised rates over the next five years: to the UK by 6.17%, to the Netherlands by 9.71%, and to France, by 7.55%. Imports from the USA in blood products are set to increase by 8.44% annually over the same period. This illustrates the European-North America focus of the global pharmaceutical and biopharmaceutical sector. As demand for medicines grows globally, businesses in these sectors internationalising their activities need to be aware of longer term trends, including the emergence of China and Brazil as core export destinations and India as a potential competitor, especially in the generic drugs sector.

Automotive: The automotive sector dominates Germany's trade. Because of the high value of its cars across the world it also dominates global trade here too. For example, exports of cars to Poland are forecast to increase by 9.11%, to Australia by 8.47% and to Canada by 5.87% annually over the next five years. Similarly, exports of car components to China are set to increase by 6.06% and to Russia by 5.59% suggesting both deepening and broadening of the automotive supply chain in those countries. Germany's overall growth of exports (3.54%) and imports (4.06%) in the sector represent huge increases in the value of trade in this sector. Businesses providing niche products into these supply chains are already aware of its global nature and need to work with global businesses to ensure that their international activities also expand at this rate.

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Trade Forecast

The Trade Forecast predicts how trade is going to develop over the next five, 10 and 15 years. It forecasts overall trade growth (exports, imports and total trade) globally, in global regions, and individual countries. Spanning 37 countries, it covers the top 10 sectors for exports and imports for each of these. The forecast has a unique approach to understanding the drivers of trade from a business perspective, informed by: trade trends, macroeconomic and market influences trade (for example GDP, oil prices, inflation, foreign direct investment), and business environment influences on trade (including regulation, demographics, access to capital and finance). The research has been commissioned by HSBC and undertaken by Delta Economics. The economic and business narratives stem from a broader documentary search that includes material from National Statistical Offices, the World Bank and International Monetary Fund, economic blogs, the Economist Intelligence Unit, Bloomberg, the Financial Times and other professional and financial services news websites.

About HSBC Commercial Banking

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