



Macroeconomic trends in the British-German corridor

Quarterly newsletter of KPMG
in Germany and BCCG

Q1/2023

published April 2023



Key observations in Q1/2023

- The state visit of HM King Charles III and his wife Camilla to Germany end of March is a powerful testament to the strong relationship between the two countries. This meaningful diplomatic gesture provides additional confidence for future economic cooperation.
- GDP in Germany decreased by -0.2% in Q4/2022 compared with Q3/2022. In February 2023, the inflation rate remained at 8.7%. In comparison the Britain's economy showed zero growth in Q4/2022 after a 0.2% fall in Q3/2022. In February 2023, the inflation rate increased again to 10.4%.
- Contrary to forecasts in recent months, Germany and the UK may avoid recession in 2023. However, both economies will experience stagnation rather than an upswing in 2023.
- With the COVID crisis over, the economic consequences of Brexit are now becoming apparent. The UK has been the only G20 country not to reach pre-pandemic GDP levels.
- UK concluded 71 trade agreements since the Brexit, however 68 are copies of former EU trade agreements. New agreements were concluded with Japan, Australia and New Zealand, however with limited effect. Agreements with USA and India are not in sight.
- Despite raising the corporate tax rate from 19% to 25% in April 2023, the UK still has the lowest corporation tax rate of all G7 countries.
- The UK and the EU reached a Northern Ireland trade deal in February 2023 (Windsor Framework), but it is yet unsure when it will be applied.
- In Q1/2023 limited volume of M&A deals in the British-German corridor. Greenfield investments mainly from Germany to UK in the food & beverages sector as well as by BioNTech.



Note: King Charles III: Deutscher Bundestag, Berlin/30th March 2023. Foto: BCCG

News in the German-British corridor (Jan. – March 2023)

Inbound from UK to Germany	Outbound from Germany to UK	General news in the British-German corridor
Synlab confirms Cinven takeover offer Reuters, March 13, 2023	BioNTech plans to invest in a UK Research and Development (“R&D”) hub in Cambridge Press release BioNTech Jan. 5, 2023	Großbritannien tut sich schwer bei Suche nach neuen Handelspartnern (Global Britain) Handelsblatt, March 22, 2023
German InsurTech Baobab lands €3m investment Fintech Global, Jan. 31, 2023	Größter Zukauf in der Geschichte von Biontech : Mainzer Unternehmen übernehmen britisches Start-up InstaDeep Handelsblatt, Jan. 10, 2023	Deal mit royaalem Glanz (Nordirland-Frage, Windsor-Abkommen) FAZ, March 01, 2023
Sorge um Panzermotoren (MTU Friedrichshafen, Rolls-Royce) FAZ, Jan. 28, 2023	Lidl GB raises spending commitment to UK food suppliers Reuters, Jan. 30, 2023	Brexit-Showdown in Westminster (DUP) Börsenzeitung, March 22, 2023
National Express erhält Milliardenauftrag für Rhein-Ruhr-Express Marketscreener.com, Jan. 23, 2023	Bayer erwirbt KI-Spezialisten für Radiologie Blackford Analysis Börsen-Zeitung, Jan. 19, 2023	Britannien kann Rezession umgehen FAZ, March 16, 2023
	German software firm (Alaiko) signals UK expansion with Birmingham launch Business Live, Feb. 21, 2023	UK and Germany agree closer cooperation in first ever UK-Germany annual Dialogue UK Government, Jan. 05, 2023
		Brexit zieht Kreise FAZ, Jan. 03, 2023
		Neue Freihandelsabkommen für das Vereinigte Königreich GTAI, Febr. 21, 2023

Economic Trends in Germany and the UK in comparison (1/3)

Germany and the UK are # 4 and # 5 of the largest economies in the world

In 2021, the two nations ranked fourth and fifth globally with a real GDP of 4,00 and 2,83 trillion USD respectively. Together the GDP of Germany and the UK made up nearly 8% of the global economy.

Population in both countries develops differently

The population in Germany reached an all time high with 84.3 million people (due to high level of immigration). In the UK, however, the population growth rate has decreased steadily since the Brexit referendum in 2016.

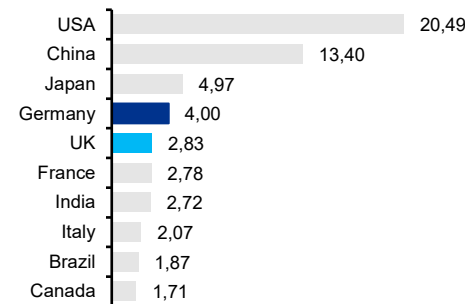
Real GDP growth weakens

The growth outlooks for the UK as well as for Germany have deteriorated. While Germany could escape a recession, negative growth is forecast for the UK in 2023. Economic growth in both countries will only slowly recover in 2024.

Unemployment remains at low levels

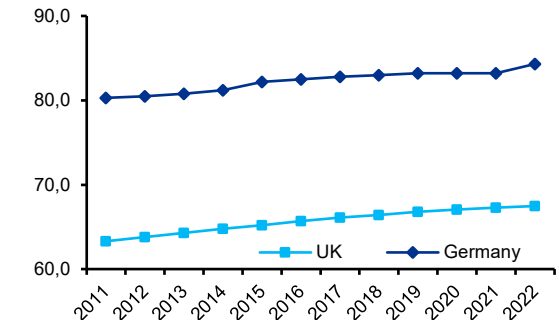
Labour markets remain tight in both countries. Many employers are facing hiring problems. Low rates of unemployment and pay rises edging upwards are fuelling inflation.

Largest Economies by Real GDP, 2021 (in trillion USD)



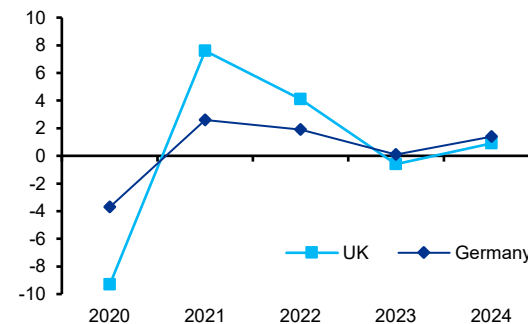
Source: IMF 2022

Population (in million)



Source: Statistisches Bundesamt, (United Nations)

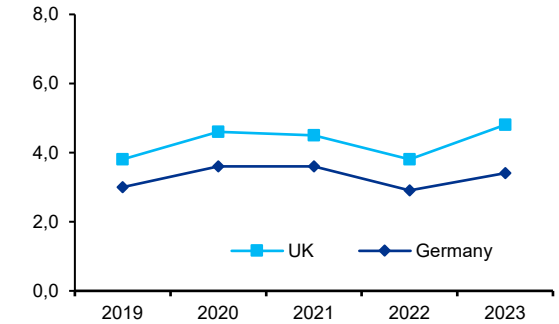
Real GDP Growth (in %)



Source: IMF, January 2023

Estimates (January 2023)

Unemployment Rate (in %)



Source: IMF, October 2022

Estimates (October 2022)

Economic Trends in Germany and the UK in comparison (2/3)

Cost of living rises

With the soaring inflation, cost of living is increasing in the UK and Germany. While London exceeds Munich as the # 1 city in each country in terms of living costs, living in the UK is on average still slightly cheaper than it is in Germany.

EUR weakens against USD, but GBP weakens even stronger

As a consequence of the political turbulences in the UK, the GBP weakened severely. The Euro also suffered from a strong negative "terms of trade" shock. In this process, import prices rise relative to export prices, which is accompanied by considerable losses in prosperity.

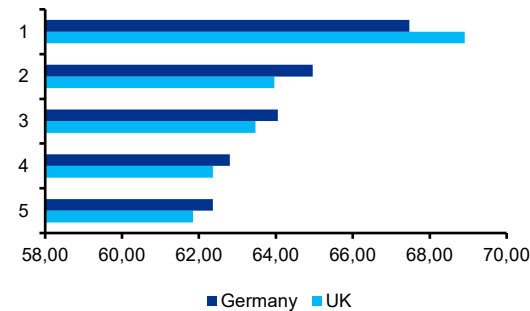
Stock markets

With the falling pound, the UK's FTSE 100 index hit a record high. China's decision to relax Covid restrictions and drop in US inflation had positive effects. In Germany falling gas prices and hopes that inflation will subside did also positively impact the stock market. Market sentiment is however fragile due to recent turbulences in the banking sector in March 2023.

Inflation rates at record highs

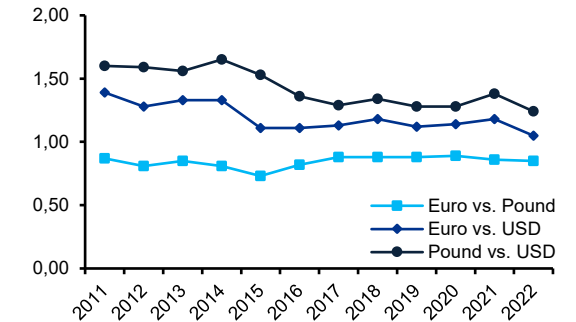
Increased costs for energy and shortages of raw materials due to the Russia-Ukraine-war have led to sky-rocketing inflation rates in both countries. Price increases are projected to remain at high levels in 2023 before normalizing in 2024.

Cost of Living Index - Top 5 cities



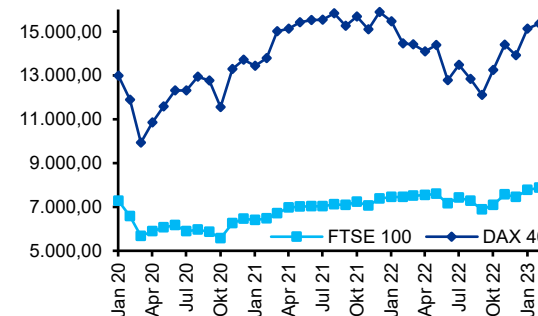
Source: Numbeo

Exchange rates



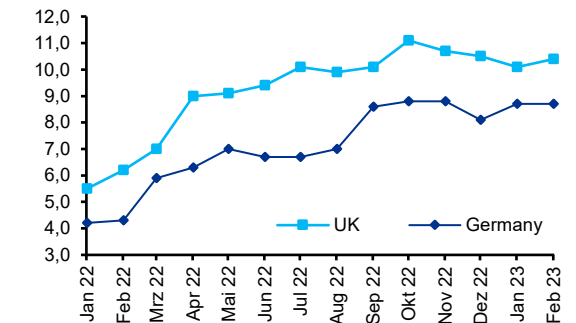
Source: Bundesbank, FED

DAX 40 and FTSE 100



Source: FTSE, Ariva

Inflation Rate (in %)



Source: Office for National Statistics, Statistisches Bundesamt

Economic Trends in Germany and the UK in comparison (3/3)

Foreign trade in downturn since 2016

Due to Brexit, costs of importing/exporting between Germany and UK rose significantly and non-tariff trade restrictions were introduced. This caused a clear drop in bilateral trade. This trend already started in 2016 when the UK voted in favour of the Brexit.

Since the Brexit referendum in 2016, the UK has slipped from 5th to 11th place among the most important trading partners, accounting for just 3.6% of total German trade in 2022.

Germany, on the other hand, was still UK's second largest trading partner in 2021, accounting for 8.7% of total UK trade.

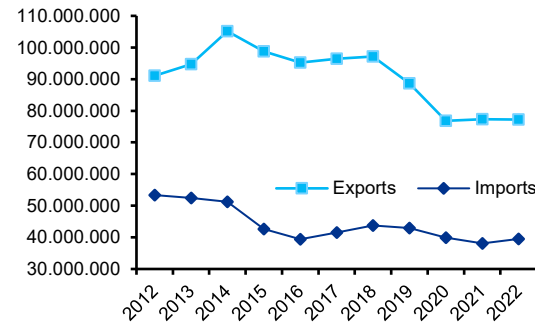
Foreign direct investments in UK submerge

Since the 1970s and until Brexit, the UK consistently attracted more FDI than other comparable economies. After the Brexit referendum, between 2017 and 2020, average UK FDI inflows as a share of GDP plummeted to its lowest level since the 1980s.

More remaining "fire power" in Germany than in UK

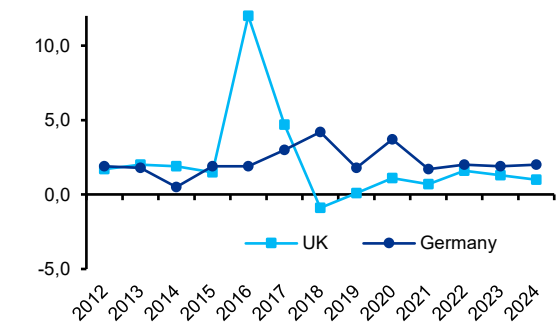
While the debt level in Germany declined steadily until the outbreak of the pandemic and stood at ~67% in 2022, the level in the UK has further increased, standing at ~105% in 2022.

Foreign Trade Germany – UK
(from German perspective) (in '000 USD)



Source: Statistisches Bundesamt)

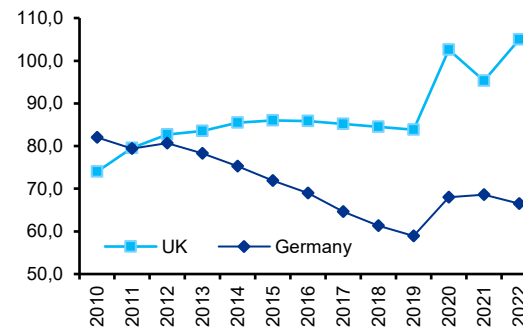
Inward FDI flow/GDP
(in %)



Source: IMF, International Financial Statistics;
Office of National Statistics

Estimates

Public debt (% of GDP)



Source: Eurostat, IMF

M&A deals from UK to Germany

Target Nation: Germany
Acquiror Nation: United Kingdom
Date Announced: Last 3 months (01/2023-03/2023)

Rank Value: Greater than or equal 5 million USD
Deal Status: Completed

Date Announced	Rank Value (Mio. USD)	Target Full Name	Target Industry	Acquiror Full Name	Acquiror Industry
01.02.2023	54,31	Iwoca Deutschland GmbH	Financial Services/PE	Pollen Street Capital Ltd	Financial Services/PE
09.01.2023	255,46	Brack Capital Properties-Residential Real Estate Portfolio	Real Estate	Investor Group	Financial Services/PE
09.01.2023	228,85	Enpal GmbH	Energy and Power	Investor Group	Financial Services/PE

Source: Refinitiv

Greenfield investments from UK to Germany

Date	Investing company	Industry sector	Type	Capital Investment (in Mio. USD)
Feb 2023	Verdion (Helios Europe)	Real estate	Expansion	Unknown
Feb 2023	The Carbon Trust	Business services	New	Unknown
Feb 2023	Secure IT Services	Business services	New	Unknown
Feb 2023	Liberis	Financial services	New Funding/Resources for Expansion	Unknown
Jan 2023	Oxera	Business services	New	0.5
Jan 2023	GP Bullhound	Financial services	New	7.8
Jan 2023	Myenergi	Electronic components	New	0.8
Jan 2023	Tenzing	Financial services	New	7.8

Source: fDi Markets

M&A deals from Germany to UK

Target Nation: United Kingdom

Acquiror Nation: Germany

Date Announced: Last 3 months (01/2023-03/2023)

Rank Value: Greater than or equal 5 million USD

Deal Status: Completed

Date Announced	Rank Value (Mio. USD)	Target Full Name	Target Industry	Acquiror Full Name	Acquiror Industry
21.02.2023	50,56	Quantum Motion Technologies Ltd	High Technology	Investor Group	Financial Services/PE
11.01.2023	140,00	Oxbotica Ltd	High Technology	Investor Group	Financial Services/PE

Source: Refinitiv

Greenfield investments from Germany to UK

Date	Investing company	Industry sector	Type	Capital Investment (in Mio. USD)
March 2023	Live Fast Die Young (LFDY)	Textiles	New	Unknown
Feb 2023	Aldi	Food & Beverages	Expansion	Unknown
Feb 2023	Lidl	Food & Beverages	Expansion	Unknown
Feb 2023	Alaiko	Software & IT services	New	Unknown
Feb 2023	Alaiko	Transportation & Warehousing	New	Unknown
Feb 2023	Helsing	Software & IT services	Expansion	Unknown
Feb 2023	Lidl	Food & Beverages	New	Unknown
Feb 2023	ALSO Holding	Business machines & equipment	New	Unknown
Feb 2023	BioNTech	Biotechnology	Considering Project (New or Expansion)	Unknown
Jan 2023	BioNTech	Biotechnology	New	5.3
Jan 2023	BioNTech	Biotechnology	New	32.5
Jan 2023	Aldi	Food & Beverages	New	7.7
Jan 2023	Politico	Business services	New Investment Strategy	Unknown

Source: fDi Markets

Upcoming events in the German-British corridor

Title	Date	Place
2023 UK local elections	May 4, 2023	United Kingdom
Coronation of Charles III and Camilla	May 6, 2023	Westminster Abbey, London
2023 Northern Ireland local elections	May 18, 2023	Northern Ireland
Annual General Meeting, British Chamber of Commerce in Germany	May 25, 2023	Stuttgart

Question of the Quarter

Labour markets are still tight in both countries, the UK and Germany. How do you expect the situation to impact the economy and inflation in the future?

“Labour markets in the EU and the UK are fairly robust. Unemployment rates are low and the number of job vacancies is high. Labour market performance has been an important pillar in stabilising macroeconomic developments. Owing to labour shortages in a number of key areas, EU and UK workers currently have a fair amount of bargaining power to regain some of the purchasing power they have lost to high inflation. In addition, demographic developments suggest that labour supply is declining. This could exert additional upward pressure on wages. In short, wage developments may amplify inflationary pressures. Central banks therefore need to monitor not only firms’ price setting and profits, but also wage developments in order to bring inflation down in a timely manner and ensure that inflation expectations remain firmly anchored.”



Burkhard Balz

Member of the
Executive Board,
Deutsche Bundesbank

Your opinion matters!

German-British Business Outlook 2023 – survey open now!

As an important member of the UK-German corridor, we would very much appreciate your participation in the annual survey on UK-German economic relations: **German-British Business Outlook 2023**.

While last year Brexit played a prominent role, we are eager to learn what will be driving your business this year.

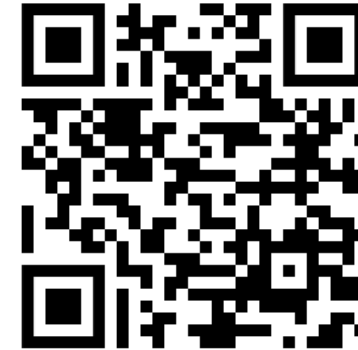
Results will be shared **at the upcoming BCCG Annual Member Meeting in Stuttgart** in May 2023.

Thank you very much for your kind **participation** and support!

Survey results 2022: Status and outlook of German companies regarding their activities in the UK.



**Please tell us
what you think!**



The survey will only take 10 minutes of
your time and can be accessed here!



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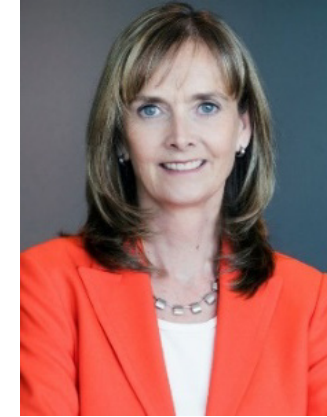
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Have a look at our latest German-British Business Outlook.





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