



Macroeconomic trends in the British-German corridor

Quarterly newsletter of KPMG in Germany and the BCCG

Q1/2024 – including extracts from German British Business Outlook 2024

published May 2024



Key observations in Q1/2024

- The **German-British Business Outlook 2024** (GBBO 2024) was released in mid-April by KPMG in Germany and the British Chamber of Commerce in Germany (BCCG) for the sixth consecutive year. The [survey](#) highlights that Brexit continues to pose challenges, yet it also identifies emerging opportunities for collaboration. A selection of key insights from the survey is provided on slides 3-7.
- The influx of new unharmonized regulations slated for introduction in 2024 and beyond, both in the UK and the EU, is poised to exert a substantial impact on businesses operating within the German-British corridor. In tandem with the release of the GBBO 2024, KPMG in Germany has issued a [whitepaper](#) titled 'Brexit 2.0 – The next round of decoupling is approaching.' The publication delves into the forthcoming regulatory landscape and its implications.
- The **German economy continues to weaken**, with GDP declining by -0.3% in Q4/2023 compared to Q3/2023. Despite this, Germany's inflation rate decreased to 2.2% in March 2024. Similarly, the UK experienced a -0.3% decrease in economic output in Q4/2023 compared to Q3/2023. While the UK's inflation rate is also on the decline, at 3.2% in March 2024, it remains significantly above the targeted 2% mark and surpasses Germany's inflation rate.
- Germany and the UK are still grappling with economic challenges, with the **IMF predicting modest growth for both nations in 2024**. Despite experiencing negative growth in 2023, Germany is projected to achieve a 0.5% growth rate this year. Further insights into Germany's macroeconomic landscape can be found [here](#). The UK economy is also likely to grow by just 0.6% in 2024, despite a positive result in the previous year 2023.
- After five consecutive years of declining rankings among Germany's most important trading partners, **German foreign trade with the UK is now experiencing a resurgence**. The British Isles have ascended from 11th to 9th place among Germany's trading partners in 2023. This resurgence is primarily attributed to a substantial increase in German exports (+6.2%). Conversely, imports from the UK have once again seen a significant decline (-8.8%) following a one-time increase in the previous year. The factors contributing to the **surge in imports from the UK in 2022** are detailed on slide 6.
- Since 31 January 2024, health certificates have been required as part of the **UK Border Target Operating Model** for imports from the EU of animal products, plants and plant products with medium risk as well as food and feed of non-animal origin with high risk. The fees for new border checks could leave supermarket shelves empty and lead to small business closures in the UK.



Survey GBBO 2024



Whitepaper Brexit 2.0 – The next round of decoupling is approaching



Impressions from the **German-British #Freundship Award 2024** (13 March 2024)

From left to right: Ilka Hartmann, Managing Director BCCG; Michael Schmidt, President BCCG; Tacita Dean, artist and winner of the 2nd German-British #Freundship-Award; H.E. Jill Gallard CMG CVO, Ambassador of the UK in Germany; Lord McDonald of Salford GCMG KCVO, House of Lords

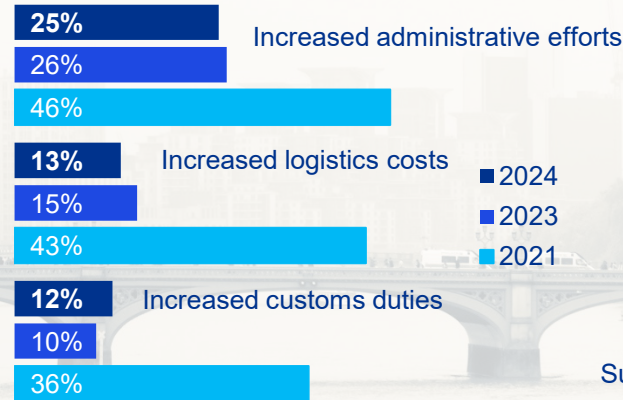
GBBO 2024: Executive Summary (1/2)



Burdens of Brexit become permanent



All burdens due to Brexit are less severe than in 2021, but on a rather stable level if compared with last year. **Increased administrative efforts, logistics costs and customs duties** are still perceived as painful



New regulations in 2024 are impacting businesses in German-British corridor



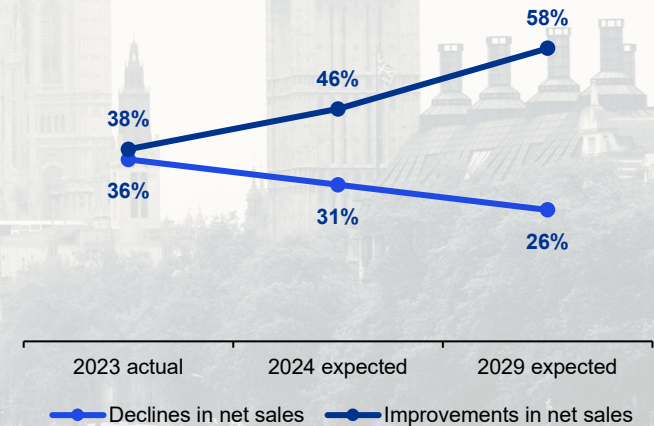
34% state that the introduction of the **Border Target Operating Model** will have a particularly significant impact on their business activities in the German-British corridor. Further 28% also state the same for the **substitution of the so-called “Retained EU-Laws” by UK regulations** and 24% for the introduction of the **EU Supply Chain Act**



Trend of declines continues but smoothens over time



Brexit still impacts the business in the UK-Germany corridor: The **trend of declining net sales continues** but gets smaller over time.

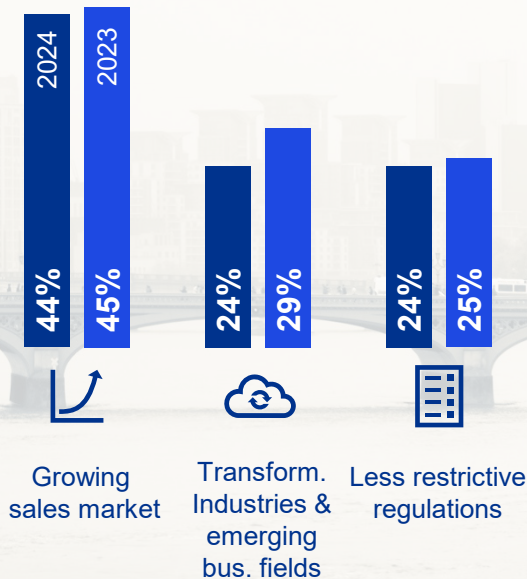


GBBO 2024: Executive Summary (2/2)



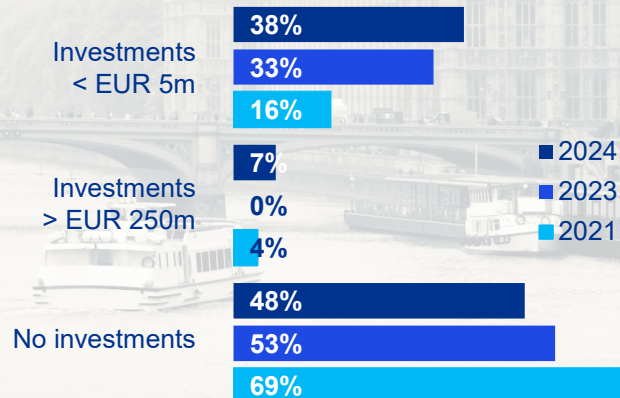
Opportunities in the UK

The UK as a **growing sales market** is the biggest business opportunity for 44% (2023: 45%). The opportunity to engage in **transforming industries and emerging business fields** and **less restrictive regulations** represent the next biggest opportunities for 24% each (2023: 29% and 25%, respectively)



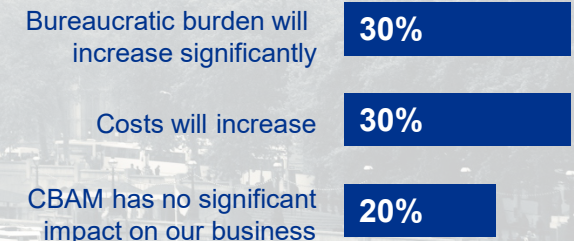
Investment projects on the rise

Over the next three years, the companies surveyed plan to **increase** their **investments in the UK** both in the form of small projects (volume < EUR 5m) but also large projects with a volume of > EUR 250m. The reluctance to invest in the UK gradually reduces since 2021; however, **nearly half of the respondents** (48%) still have **no investment plans in the UK**



Introduction of EU-CBAM challenges companies in UK-German corridor

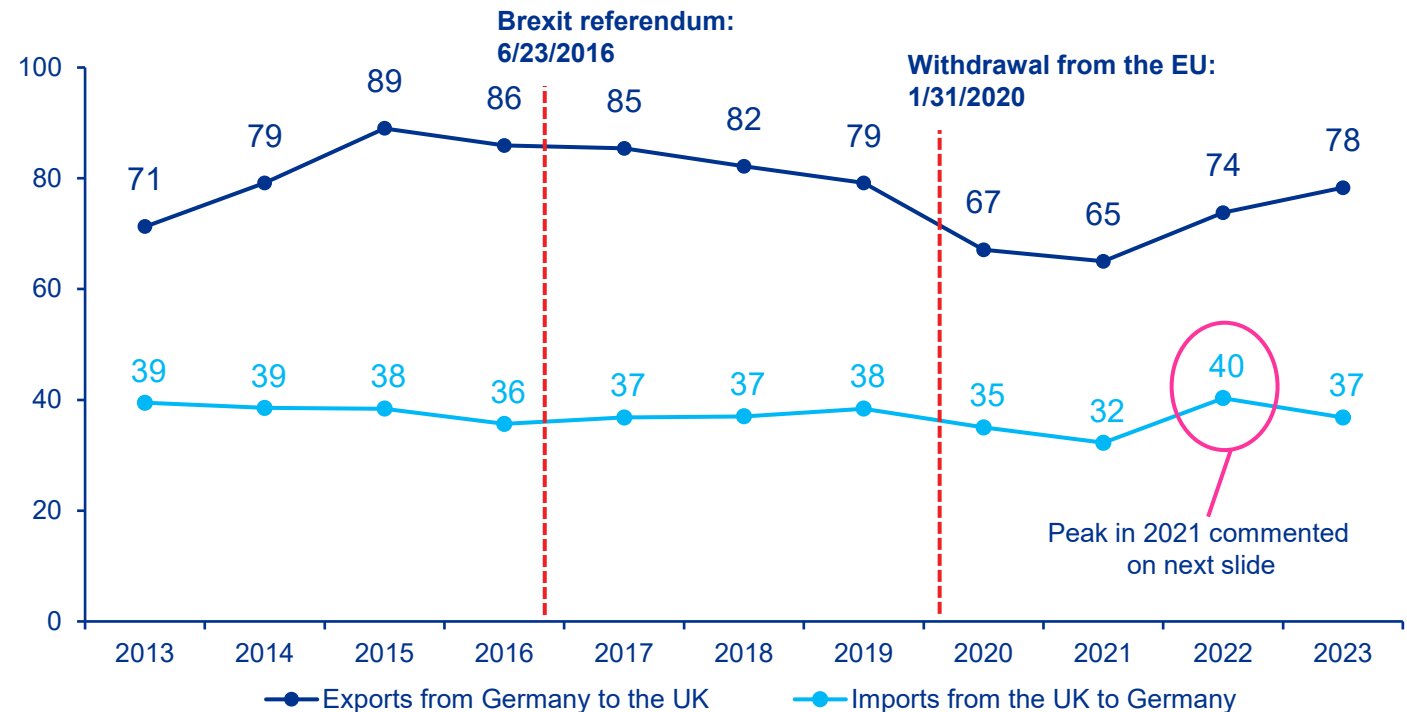
Almost a third of the companies surveyed (30%) expect the introduction of CBAM to result in **considerable additional bureaucracy** as well as a **significant increase in costs**. One in five companies (20%), on the other hand, do not yet feel any impact of the regulations on their own business activities



GBBO 2024: Exports to the UK rise, but imports drop

GBBO 2024
SPECIAL

Foreign trade Germany-UK (in EUR billion)



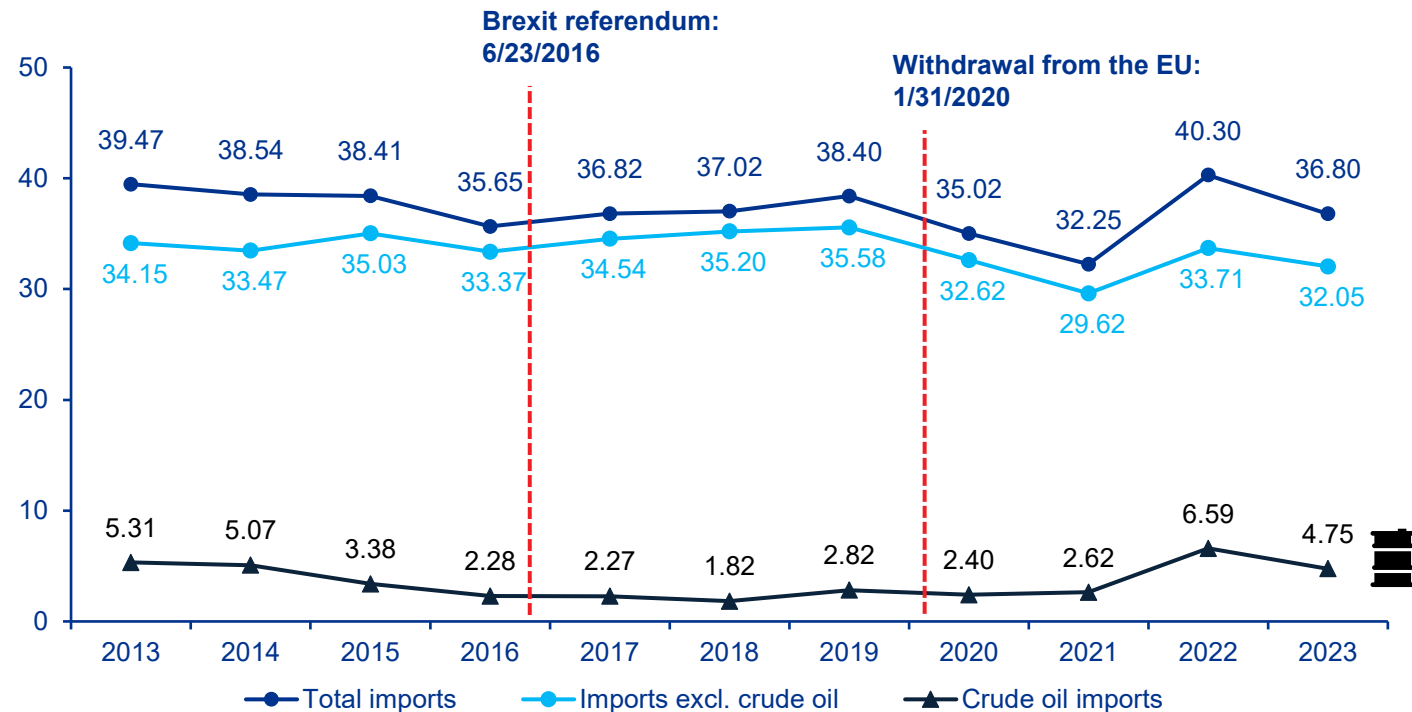
- Due to Brexit, costs of importing/exporting between Germany and the UK rose significantly and non-tariff trade restrictions were introduced. This caused a clear **drop in bilateral trade between 2016 and 2021**
- **2022** appeared to be a **turning point** as foreign trade volume rose again for the first time since the Brexit referendum in 2016 – imports as well as exports improved
- **2023**, however, showed that although **exports to the UK continued to rise, imports from the UK to Germany fell** again
- Since 2016, the **UK** has slipped from 5th to **9th place** among Germany's most important trading partners, accounting for just 3.9 % of total German trade in 2023
- However, **Germany** was still the UK's **2nd largest trading partner** in 2023, accounting for 8.3 % of total UK trade

Source: Federal Statistical Office of Germany

GBBO 2024: Rising imports in 2022 were caused by oil imports at peak prices

GBBO 2024
SPECIAL

Imports from the UK to Germany (in EUR billion)



- The sharp rise in imports from the UK to Germany in 2022 by EUR 8 billion (+25.0 %) was mainly caused by rising imports of crude oil – at peak prices – in connection with the war in Ukraine and gas delivery shortages from Russia to Germany
- Crude oil imports in 2022 were 2.5 times more than in 2021
- Although crude oil imports fell again in 2023 they are still 2 times the level before the outbreak of the war in Ukraine. The drop in 2023 was caused by somewhat decreasing prices and the use of further sources
- Adjusted for crude oil imports, imports of goods from the UK to Germany in 2023 were therefore 10 % below the level before the UK withdrew from the EU

Source: Federal Statistical Office of Germany

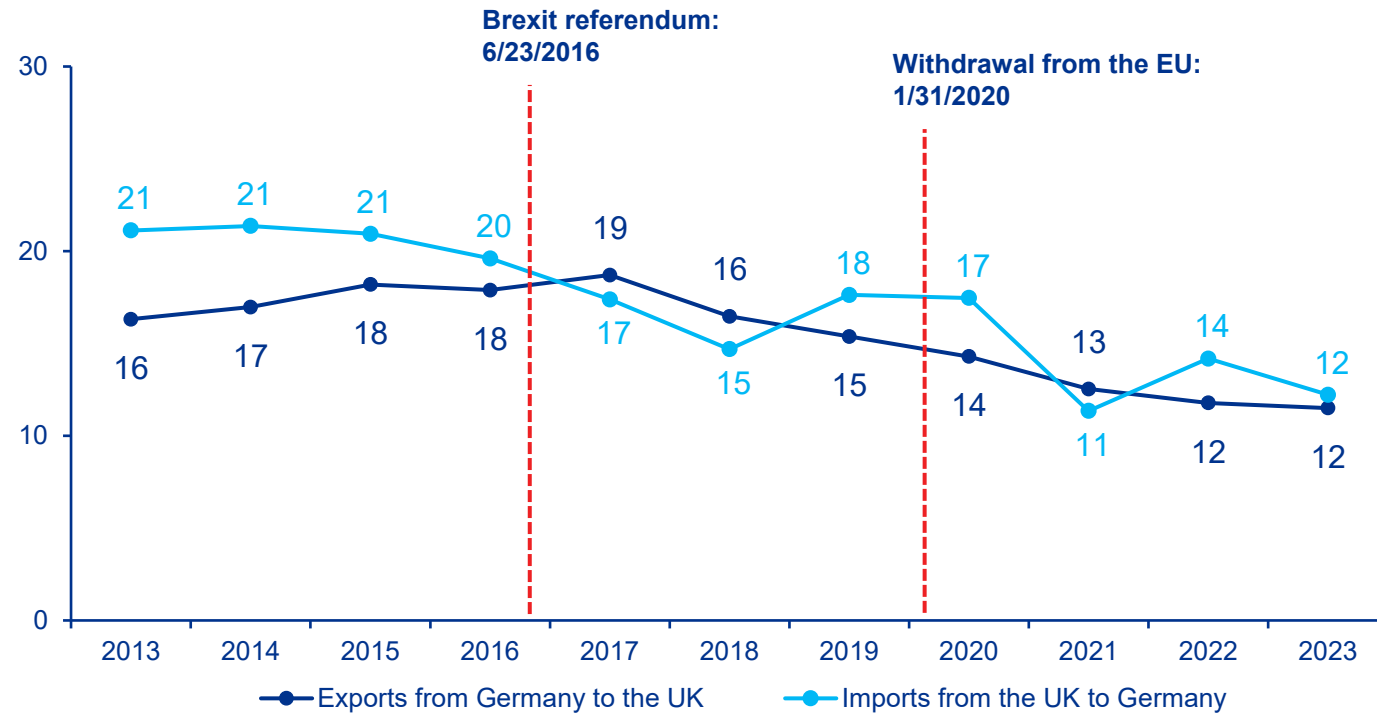


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GBBO 2024: Continuous decline in volume of traded goods

GBBO 2024
SPECIAL

Foreign trade Germany-UK (in million of tons)



Source: Federal Statistical Office of Germany



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- While exports and imports in 2022 and exports in 2023 grew by value (see two slides before), the **volume of traded goods has continued to decline** since the Brexit referendum. **Rising prices and inflation partly masked the strong decline in trade volumes**
- In particular, the **volume of imports from the UK to Germany almost halved over the past ten years** from 21 million tons in 2013 to just 12 million tons in 2023
- **Exports from Germany to the UK have been falling steadily** since the Brexit referendum **without exception**

News in the German-British corridor (Jan.- March 2024)

Inbound from the UK to Germany	Outbound from Germany to the UK	General news in the British-German corridor
<p>Vodafone streicht jede achte Stelle in Deutschland Handelsblatt, 26 March 2024</p>	<p>Siemens to invest £100m in Chippenham rail factory site in Wiltshire Business Matters, 5 March 2024</p>	<p>Britische Bauern protestieren gegen EU-Importe ntv, 26 March 2024</p>
<p>Vodafone tauscht Deutschland-Chef aus Frankfurter Allgemeine Zeitung, 16 March 2024</p>	<p>Berenberg eyes expansion in the UK Finance Magnates, 26 February 2024</p>	<p>UK leaves pro-fossil fuel Energy Charter Treaty Deutsche Welle, 22 February 2024</p>
<p>Britisches Finanzportal Tide kommt auf den deutschen Markt Börsen-Zeitung, 11 March 2024</p>	<p>Aldi will in Großbritannien weiter wachsen Tagesschau, 21 February 2024</p>	<p>'Strong beer': UK issues special travel advisory for Germany TheLocal.de, 8 February 2024</p>
<p>„Der große Wumms ist ausgeblieben“ [Rolls-Royce Power Systems] Frankfurter Allgemeine Zeitung, 24 February 2024</p>	<p>Tui investors vote to leave London Stock Exchange amid record results The Guardian, 13 February 2024</p>	<p>Britain hails economic revival as France and Germany stumble The Telegraph, 5 February 2024</p>
<p>Bund prüft Wintershall-Verkauf an das britische Ölunternehmen Harbour Energy Handelsblatt, 19 January 2024</p>	<p>Haribo gets green light for expansion in Yorkshire The Grocer, 23 January 2024</p>	<p>Die neue Tech-Supermacht [Tech-Sektor in UK doppelt so groß wie in Deutschland] Handelsblatt, 1 February 2024</p>
		<p>Britische Industrie bewertet Standort optimistischer Börsen-Zeitung, 9 January 2024</p>
		<p>Immer mehr englische Städte und Dörfer sind pleite Handelsblatt, 18 March 2024</p>

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

Germany and the UK are # 3 and # 6 of the largest economies in the world

In 2023, the two countries ranked third and sixth globally with a GDP of USD 4.43 and 3.30 trillion, respectively. Together, the GDP of Germany and the UK accounts for more than 7% of the global economy.

Population in both countries on different trajectories

The population in Germany has reached an all-time high of 84.7 million people (due to high levels of immigration). In the UK, the population growth rate has slowed steadily since the Brexit referendum in 2016.

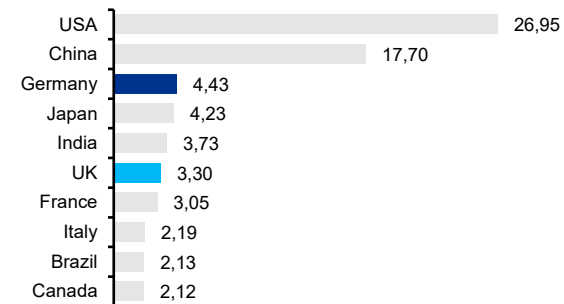
Real GDP growth weakens

The IMF lowered its growth forecasts for both the UK and Germany. While the UK was able to avoid a recession in 2023, the country's economy was also only able to record minimal growth. Both economies are also likely to grow only minimally this year.

Unemployment remains low

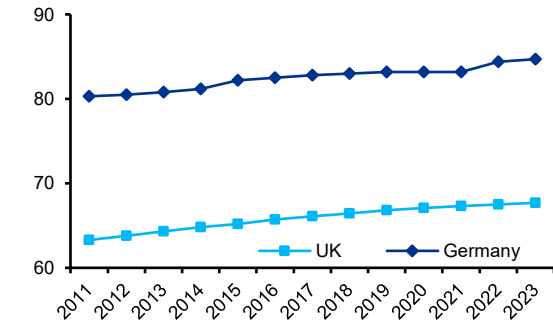
The labour markets remain tight in both countries, with many employers facing hiring problems. Nevertheless, both countries have relatively low unemployment rates compared to the rest of the EU.

Largest economies by GDP, 2023 (in USD trillion)



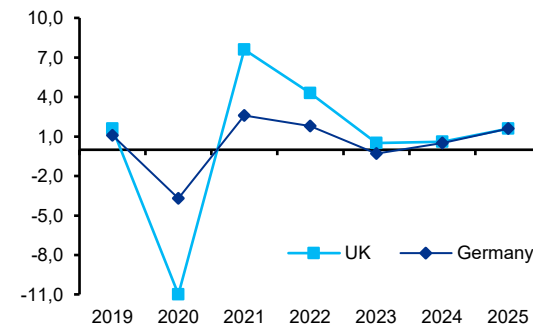
Source: IMF 2024

Population (in million)



Source: Statistisches Bundesamt, United Nations

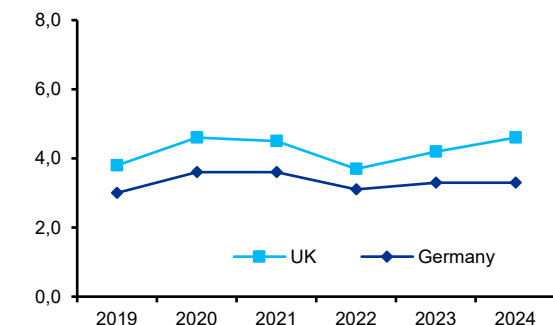
Real GDP growth (in %)



Source: IMF, Jan. 2024

Projections (Jan. 2024)

Unemployment rate (in %)



Source: IMF, Oct. 2023

Projections (Oct. 2023)

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

Cost of living rises

With prices soaring, the cost of living is increasing in the UK and Germany. London clearly outstrips Munich as the #1 city in terms of living costs. Also overall, living costs in larger UK cities are exceeding those in Germany.

GBP remains stable

The British pound remained relatively stable against both the EUR and the USD in the first quarter of 2024. Possible interest rate cuts by the (central) banks could have an impact on exchange rates in the coming months.

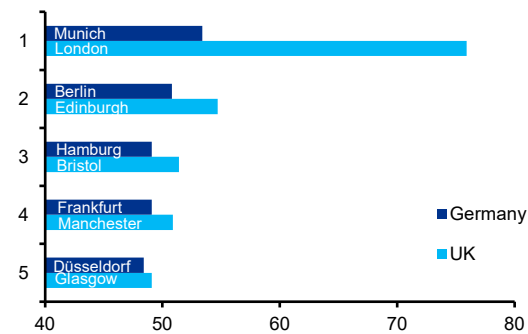
Stock markets

The end of interest rate hikes and the expectation of a possible interest rate cut in 2024 continue to have a positive effect on the German DAX40 index, which is currently at an all-time high. The FTSE 100 is also at record highs as hopes of interest rate cuts increase after official data suggests the UK has emerged from recession.

Inflation declines significantly

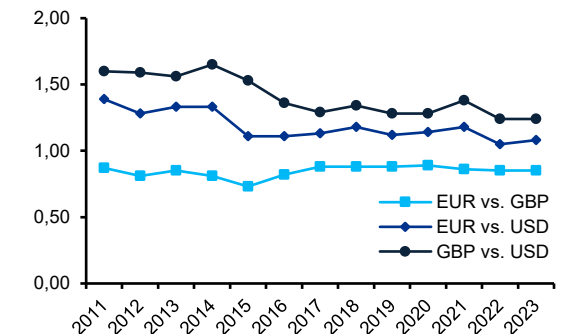
Persistently high interest rates and further falls in energy and food prices are causing inflation rates in the UK and Germany to fall further. However, while Germany is already close to the targeted 2% mark, the rate of inflation in the UK is still significantly higher.

Cost of living plus rent index



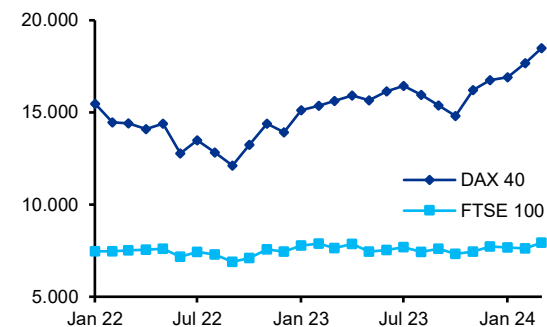
Source: Numbeo (Apr. 2024)

Exchange rates



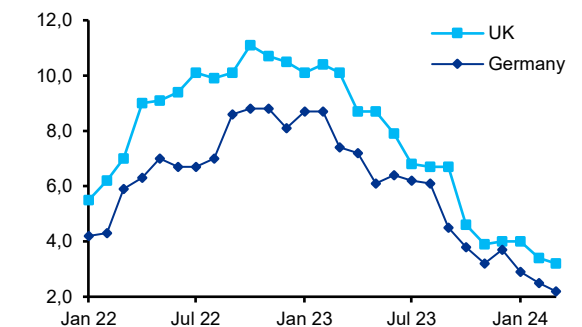
Source: Exchange Rates UK

DAX 40 and FTSE 100



Source: FTSE, Ariva

Inflation rate/CPI (in %)



Source: Office for National Statistics, Statistisches Bundesamt

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

Foreign trade recovering after Brexit

Due to Brexit, costs of importing/exporting between Germany and the UK rose significantly and non-tariff trade restrictions were introduced which caused a drop in bilateral trade.

In 2022 the foreign trade volume rose again for the first time since the Brexit referendum in 2016. While in 2023 exports to the UK continued to increase, imports from the UK to Germany, however, decreased again. For more details see slides 5-7.

Since 2016, the UK has slipped from 5th to 9th place among Germany's most important trading partners, accounting for just 3.9% of total German trade in 2023. Germany, on the other hand, is still UK's 2nd largest trading partner in 2023, accounting for 8.3% of total UK trade

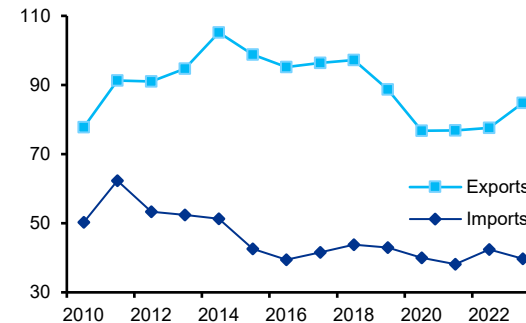
Inward FDI in the UK appears to stabilise

From the 1970s until Brexit, the UK consistently attracted more FDI than other comparable economies. After the Brexit referendum and until 2018, FDI inflows to the UK plummeted. Since then, FDI inflows have recovered and have almost returned to pre-Brexit-levels. Inward FDI flows to Germany have remained relatively stable over the past decade, but in recent years with a declining trend.

Greater fiscal flexibility in Germany than in the UK

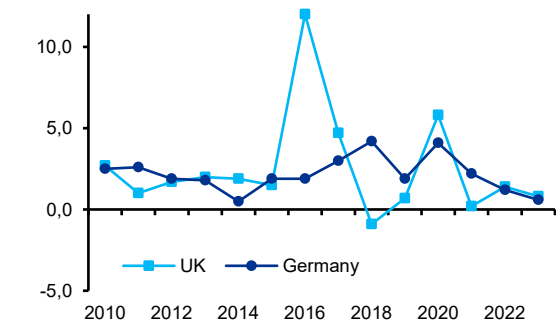
While the level of public debt to GDP in Germany declined steadily until the outbreak of the pandemic and stood at ~66% in 2023, public debt to GDP in the UK has risen further, reaching ~104% in 2023.

Foreign trade Germany-UK (from German perspective) (in USD billion)



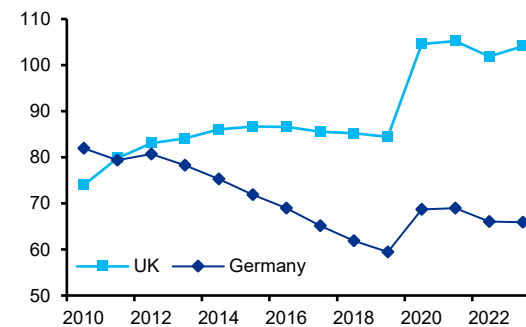
Source: Statistisches Bundesamt

Inward FDI flow/GDP (in %)



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

Government gross debt (% of GDP)



Source: IMF

M&A deals from the UK to Germany

Target nation: Germany
Acquiror nation: United Kingdom
Date effective: 1 January 2024 – 31 March 2024
Rank value: Greater than or equal to USD 5 million
Deal status: Completed

Date effective	Rank value (USD million)	Target full name	Target industry	Acquiror full name	Acquiror industry
4 March 2024	43.49	European Homecare GmbH	Consumer Products and Services	Serco Group PLC	Consumer Products and Services
24 Jan. 2024	6.51	deeploi GmbH	High Technology	Investor Group	Financial services/PE
23 Jan. 2024	16.50	Morressier GmbH	High Technology	Investor Group	Financial services/PE
16 Jan. 2024	8.76	Infinity Financial Technologies GmbH	High Technology	Investor Group	Financial services/PE
9 Jan. 2024	341.81	GfK SE-Consumer Panel Business	Media and Entertainment	YouGov PLC	Media and Entertainment

Source: Refinitiv

New investments from the UK to Germany (1/2)

Date	Investor	Industry sector	Type	Capital investment (in USD million)
March 2024	Rolls-Royce Holdings PLC	Aerospace	Expansion	27.5
March 2024	Inflexion Private Equity Partners	Financial services	New	Unknown
March 2024	Hyve Managed Hosting	Communications	New	Unknown
March 2024	Boost Bikes	Non-automotive transport OEM	New	Unknown
March 2024	Tide Banking	Software & IT services	New Investment Strategy	Unknown
March 2024	Protega Global	Paper, printing & packaging	New Investment Strategy	Unknown
Feb. 2024	Linde	Chemicals	Expansion	Unknown
Feb. 2024	Business Services Group	Business services	New	0.5
Feb. 2024	Shell PLC (Royal Dutch Shell)	Renewable energy	New	99.1
Feb. 2024	Air Charter Service (ACS)	Transportation & Warehousing	New	3.5
Feb. 2024	Key Production	Paper, printing & packaging	New	1.9
Feb. 2024	Blackbrook Capital	Real estate	Expansion	89.2
Jan. 2024	BlueLayer	Software & IT services	Expansion	1.4

Source: fDi Markets

New investments from the UK to Germany (2/2)

Date	Investor	Industry sector	Type	Capital investment (in USD million)
Jan. 2024	Certa Insurance Partners	Financial services	New	3.7
Jan. 2024	Karl Kollner	Financial services	New	3.7
Jan. 2024	Bumper	Software & IT services	New Funding/Resources for Expansion	Unknown
Jan. 2024	Wrisk	Software & IT services	New	12.1
Jan. 2024	Addleshaw Goddard	Business services	New	0.5

Source: fDi Markets

M&A deals from Germany to the UK

Target nation: United Kingdom
Acquiror nation: Germany
Date effective: 1 January 2024 – 31 March 2024
Rank value: Greater than or equal to USD 5 million
Deal status: Completed

Date effective	Rank value (USD million)	Target full name	Target industry	Acquiror full name	Acquiror industry
26 Jan. 2024	12.96	HDM Solar Yorkshire Ltd	Energy and Power	Investor Group	Financial services/PE
4 Jan. 2024	50.00	Beckley Psytech Ltd	Healthcare	ATAI Life Sciences NV	Healthcare

Source: Refinitiv

New investments from Germany to the UK (1/3)

Date	Investor	Industry sector	Type	Capital investment (in USD million)
March 2024	RWE Renewables	Renewable energy	New	Unknown
March 2024	DHL Supply Chain	Transportation & Warehousing	Expansion	Unknown
March 2024	E.On UK	Renewable energy	New	Unknown
March 2024	Rheinmetall	Space & defence	New	Unknown
March 2024	CMS UK	Business services	New	Unknown
March 2024	Rhenus Logistics UK	Transportation & Warehousing	Expansion	Unknown
March 2024	Yasa Motors	Automotive components	New	Unknown
March 2024	Siemens Mobility	Non-automotive transport OEM	Expansion	126.77
Feb. 2024	ArvatoConnect	Business services	Expansion	0.5
Feb. 2024	Aldi	Food & Beverages	Expansion	25.0
Feb. 2024	Becketts Foods	Food & Beverages	Expansion	26.9
Feb. 2024	Hapag-Lloyd	Transportation & Warehousing	Expansion	2.7

Source: fDi Markets

New investments from Germany to the UK (2/3)

Date	Investor	Industry sector	Type	Capital investment (in USD million)
Feb. 2024	One Hotels & Resorts (Motel One)	Hotels & tourism	New	61.6
Feb. 2024	Berenberg Bank	Financial services	Expansion	8.0
Feb. 2024	Schwarz Produktion	Food & Beverages	New	48.3
Feb. 2024	ib vogt	Renewable energy	New	853.8
Feb. 2024	Merkur Slots	Leisure & entertainment	Expansion	7.4
Feb. 2024	Berlin Global Advisors (BGA)	Business services	New	3.5
Feb. 2024	Myosotis (Myo)	Software & IT services	New Funding/Resources for Expansion	Unknown
Jan. 2024	WAGO UK & Ireland	Electronic components	Expansion	15.3
Jan. 2024	KloECKner Metals UK	Metals	New	11.2
Jan. 2024	Mercedes-AMG Petronas Formula One Team	Automotive OEM	Expansion	89.0
Jan. 2024	MAN Truck & Bus (MAN Nutzfahrzeuge)	Electronic components	New	20.2

Source: fDi Markets

New investments from Germany to the UK (3/3)

Date	Investor	Industry sector	Type	Capital investment (in USD million)
Jan. 2024	Uniper	Renewable energy	New	10.0
Jan. 2024	Janus Worldwide	Business services	New Investment Strategy	Unknown
Jan. 2024	Haribo	Food & Beverages	Co-Location	40.1

Source: fDi Markets

Upcoming events in the German-British corridor

Title	Date	Location
Bank of England – Interest Rate Decision	9 May 2024	UK
BCCG General Meeting	5 June 2024	Frankfurt, Germany
ECB – Interest Rate Decision	6 June 2024	Frankfurt, Germany

Statement of the quarter

German-British trade is gaining momentum, driven by the automotive sector and new bilateral framework agreements on energy and climate. Against this backdrop Germany Trade & Invest reinforced its commitment to bilateral economic ties with a new, expanded office in London's German Business Hub.

"We are currently observing an upswing in German-British business relations. The European-British political climate significantly improved with the agreement of the Windsor Framework and the UK rejoining the EU's Horizon R&D scheme. In 2023, bilateral trade of goods developed more robustly than with many of Germany's other top trading partners, even if close margins and ongoing revisions prevent us from knowing where the UK stands in Germany's top trading partner rankings. From the British perspective, Germany remains its second largest trading partner after the US. Against this backdrop, Germany Trade & Invest (GTAI) has underscored its commitment to supporting British-German economic ties with a brand new, expanded office set-up in London's new German Business Hub.

We currently see strong automotive demand as a likely driver for this year's growth in German-British trade. The automotive industry remains a strong influencing factor on bilateral trade, while the introduction of new import requirements for specific food products in the UK may carry a downward risk. The medium-term outlook remains positive, as last year's announced partnerships between Germany and the UK on energy and climate, and specifically hydrogen, reinforce existing collaboration. German companies are actively investing and engaging in the transformation of the UK's energy sector, especially regarding offshore wind and hydrogen."



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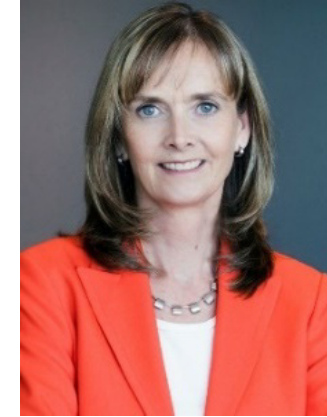
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