



Macroeconomic trends in the British-German corridor

Quarterly newsletter of KPMG
in Germany and BCCG

Q2/2023

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Key observations in Q2/2023

- GDP in Germany declines by -0.3% in Q1/2023 compared with Q4/2022. In June 2023, Germany's inflation rate increased again to 6.4%. In comparison, the UK economy showed negligible GDP growth of +0.1% in Q1/2023 compared to Q4/2022. In May 2023, the UK inflation rate also increased again to 7.9%.
- Both Germany and the UK face economic difficulties. It remains to be seen whether recession can be averted. Both economies will experience stagnation rather than an upswing in 2023.
- Germany recorded its highest level of foreign direct investment last year, with a surge in UK companies setting up operations to maintain a post-Brexit presence in the EU.
- The UK and the EU reached a Northern Ireland trade deal in February 2023 (Windsor Framework). This will be implemented in stages through to 2025, to provide businesses with time to adapt to new arrangements.
- After Brexit, "Orkxit" is now making headlines. The Orkney Islands in the Northern Isles of Scotland are discussing possible independence from the United Kingdom. It is to be decided whether to become part of Norway in the future.
- German car makers are ramping up pressure on Brussels to avoid a post-Brexit "cliff edge" for the auto industry. Under new "rules of origin", 45% of the value of an electric vehicle must originate from either the UK or the EU. Vehicles that fail to achieve this threshold will be hit with a 10% tax if shipped to the EU from Britain, or vice versa. The industry fears that massive price rises will crush sales, warning that jobs will be lost without action.



Note: Annual General Meeting BCCG, Stuttgart/ May 25, 2023. Foto: BCCG
From left to right: Miguel Berger, Natalie Toms, Ola Källenius, Michael Schmidt, Dr. Florian Stegemann

News in the German-British corridor (April – June 2023)

Inbound from UK to Germany	Outbound from Germany to UK	General news in the British-German corridor
Centrica signs 5-year corporate PPA with Fraport AG in Germany for renewable power from onshore wind farm developed by PNE AG Centrica, May 20, 2023	Billions of energy investment 'delayed by bureaucratic electricity grid' (RWE) The Telegraph, June 13, 2023	Stimmung in Großbritannien sinkt Börsen-Zeitung, June 23, 2023
Vodafone's tasty dividend hinges on German turnaround Proactive Investors, May 12, 2023	Merck invests €35m into Scottish drug test sites Daily Business, May 31, 2023	EU-UK relations: EU takes further steps to implement the Windsor Framework Council of the EU, May 30, 2023
Premier Inn to expand budget hotel empire in Germany through acquisitions Just Food, April 20, 2023	EON weighs sale of UK business energy supplier Npower BNN Bloomberg, May 18, 2023	Autoindustrie fürchtet neue Zollbarrieren FAZ, May 23, 2023
ABF invests in German food start-up KoRo Skift, April 25, 2023	Deutsche Bank invests in Britain with \$511 million Numis deal Reuters, April 28, 2023	UK Labour would seek security and defense treaty with Germany Politico, May 16, 2023
Primark booms in UK, Europe, has plan for Germany, will expand in US Fashion Network, April 25, 2023	Deutsche Bahn renews plans to offload Arriva Proactive Investors, April 03, 2023	UK and Germany mark next phase in joint tank ammunition programme UK Government, April 27, 2023

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

Germany and the UK are # 4 and # 6 largest economies in the world

In 2022, the two nations ranked fourth and sixth globally with GDP of 4.08 and 3.07 trillion USD, respectively. Together the GDP of Germany and the UK accounts for nearly 7% of the global economy.

Population in both countries on different trajectories

The population in Germany reached an all-time high with 84.4 million people (due to high level of immigration). In the UK, population growth rate has slowed steadily since the Brexit referendum in 2016.

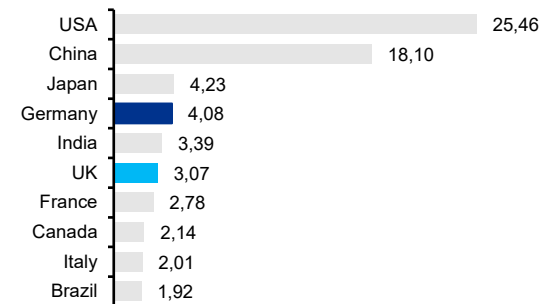
Real GDP growth weakens

The growth outlook for the UK and Germany has deteriorated. Both countries could face recession in 2023. Economic growth in both countries will only slowly recover in 2024.

Unemployment remains at low levels

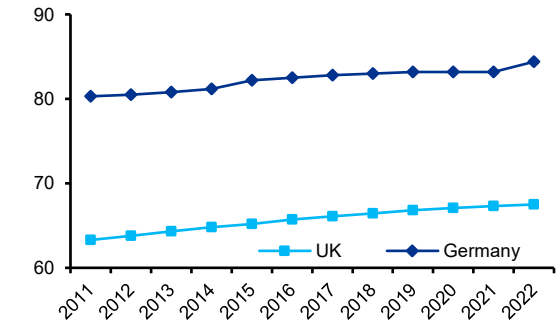
Labour markets remain tight in both countries. Many employers face hiring problems. Low rates of unemployment and pay rises edging upwards are fuelling inflation.

**Largest economies by GDP, 2022
(in trillion USD)**



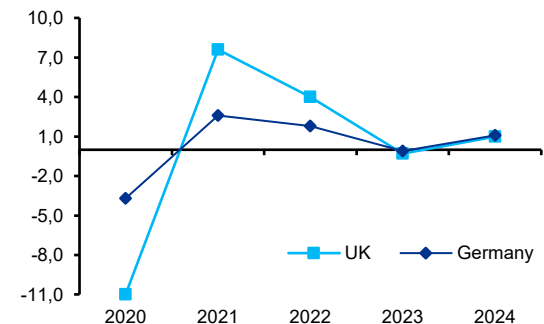
Source: IMF 2023

**Population
(in million)**



Source: Statistisches Bundesamt, United Nations

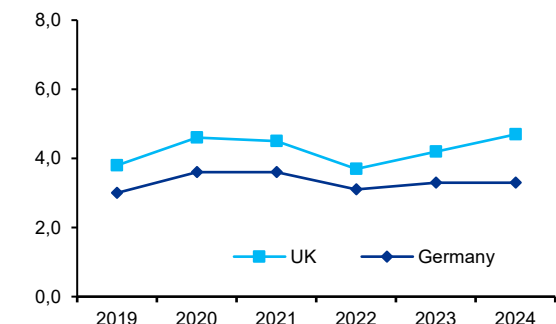
Real GDP growth (in %)



Source: IMF, April 2023

Projections (April 2023)

Unemployment rate (in %)



Source: IMF, April 2023

Projections (April 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 exceeds Munich as the # 1 city in terms of living costs. Overall, the cost of living in the UK is on average more expensive than it is in Germany.

GBP and EUR strengthen against USD

The British pound gained against the EUR and the USD in 2023. New figures from the labour market point to a continued robust development. Following the ECB's latest interest rate hike in June 2023, the EUR has also risen again against the USD.

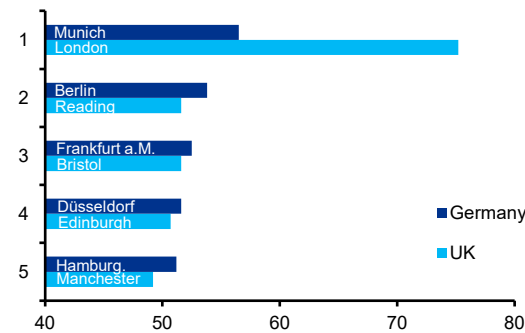
Stock markets

With the rise in the British pound, persistent inflation and further interest rate hikes, the FTSE 100 index is trending downwards. The German stock market is stable despite major economic concerns. U.S. economic data will also play a decisive role in further developments.

Inflation rates rise again

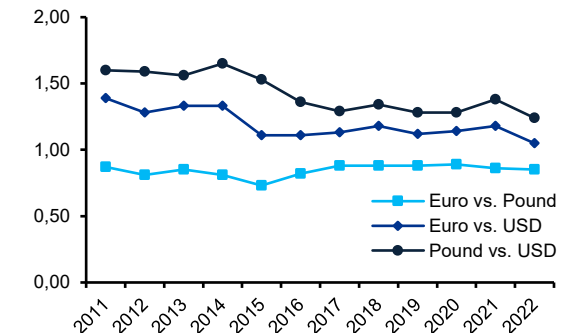
The impact of base effects and a further sharp rise in food prices caused inflation in Germany to rise again in June. In the United Kingdom, core inflation in May reached its highest level since 1992.

Cost of Living Plus Rent Index – Top 5 cities



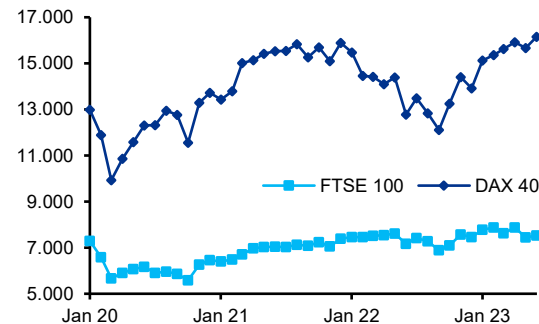
Source: Numbeo

Exchange rates



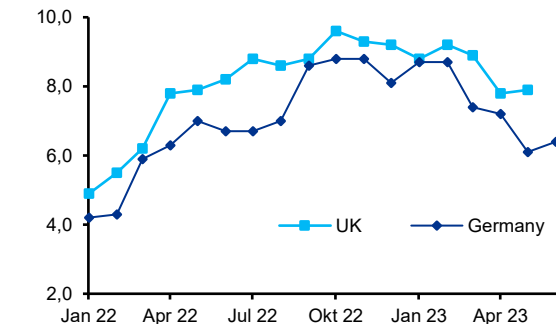
Source: Bundesbank, FED

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 recovering after Brexit

Due to Brexit, the costs of trade between Germany and UK rose significantly and non-tariff trade restrictions were introduced. This caused a clear drop in bilateral trade between 2016 and 2021.

In 2022, the foreign trade volume rose again for the first time since the Brexit referendum in 2016. However, since 2016 the UK has slipped from 5th to 11th place among Germany's most important trading partners. Germany, on the other hand, was still the UK's second largest trading partner in 2022.

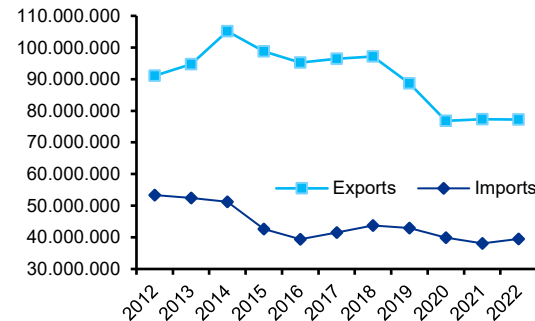
FDI in the UK appears to stabilise

Since the 1970s and until Brexit, the UK consistently attracted more FDI than other comparable economies. After the Brexit referendum, between 2016 and 2018, FDI inflows to the UK plummeted. Since then, FDI inflows have recovered again and are back at pre-Brexit-levels. Inward FDI flows to Germany have been relatively stable over the past decade.

Greater fiscal flexibility in Germany than in UK

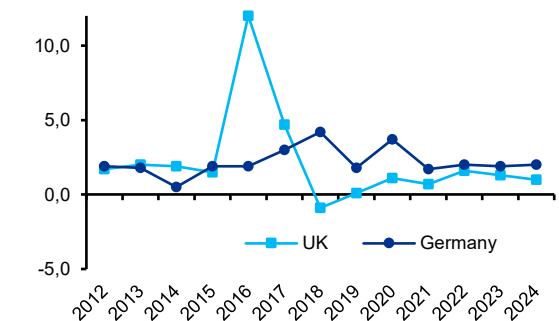
While the level of public debt/GDP in Germany declined steadily until the outbreak of the pandemic and stood at ~67% in 2022, public debt/GDP in the UK has risen further, reaching ~105% in 2022.

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



Source: Statistisches Bundesamt

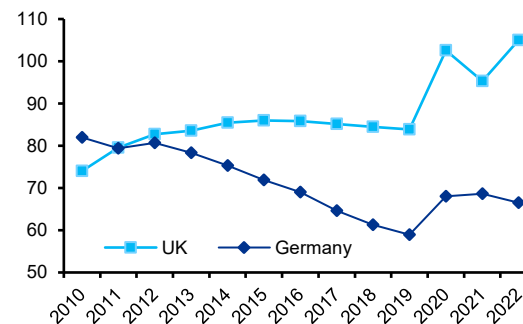
Inward FDI flow/GDP
(in %)



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

Projections

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 (04/2023-06/2023)

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
28.06.2023	10.96	Service4Charger GmbH	Industrials	Investor Group	Financial Services/ PE
05.05.2023	165.17	Jolt Energy Ltd	Industrials	Infrared Capital Partners Ltd	Financial Services/ PE
03.05.2023	35.20	Pflege-Residenz-Beuren GmbH	Healthcare	Investor Group	Financial Services/ PE
06.04.2023	18.32	UniCredit Bank AG-Non Performing Loan Portfolio	Financial Services	LCM Partners Ltd	Financial Services/ PE
04.04.2023	7.63	BioWink GmbH	High Technology	Investor Group	Financial Services/ PE

Source: Refinitiv

Greenfield investments from UK to Germany (1/2)

Date	Investing company	Industry sector	Type	Capital investment (in USD million)
Jun 2023	Ligentia	Transportation & Warehousing	New	Unknown
Jun 2023	Salt	Business services	New	Unknown
Jun 2023	LHi Group	Business services	Expansion	Unknown
Jun 2023	LHi Group	Business services	New	Unknown
May 2023	Envisics (DAQRI Automotive) (Two Trees Photonics)	Electronic components	New	Unknown
May 2023	Coca-Cola European Partners Deutschland	Food & Beverages	Expansion	43.72
May 2023	Travelex Worldwide Money	Financial services	New	Unknown
May 2023	Love Holidays	Hotels & tourism	New	Unknown
Apr 2023	Dr. Martens	Textiles	New	2.4
Apr 2023	Intralink	Business services	New	0.5
Apr 2023	Actimed Therapeutics	Pharmaceuticals	New	1.5

Source: fDi Markets

Greenfield investments from UK to Germany (2/2)

Date	Investing company	Industry sector	Type	Capital investment (in USD million)
Apr 2023	Atomico Investment	Financial services	New	7.8
Apr 2023	Doctify	Software & IT services	Expansion	1.5
Apr 2023	JCW	Business services	Expansion	0.5
Apr 2023	Lightsource BP (Lightsource Renewable Energy)	Renewable energy	Considering Project (New or Expansion)	Unknown

Source: fDi Markets

M&A deals from Germany to UK

Target Nation: United Kingdom

Acquiror Nation: Germany

Date Announced: Last 3 months (04/2023-06/2023)

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
01.06.2023	44.00	Theragnostics Ltd	Healthcare	Ariceum Therapeutics GmbH	Consumer Products and Services
25.04.2023	8.36	Ist Fresh Ltd	Consumer Staples	Investor Group	Financial Services/PE

Source: Refinitiv

Greenfield investments from Germany to UK

Date	Investing company	Industry sector	Type	Capital investment (in USD million)
Jun 2023	Pyrum Innovations	Industrial equipment	New	Unknown
Jun 2023	Continental	Automotive components	New	Unknown
Jun 2023	Puma	Textiles	New	Unknown
Jun 2023	Deichmann Schuhe (Deichmann Group)	Textiles	New	Unknown
May 2023	Merck KGaA	Pharmaceuticals	Expansion	18.7
May 2023	Alutech	Consumer Products	New	Unknown
May 2023	Merck KGaA	Chemicals, Pharmaceuticals, Semiconductors	Considering Project (New or Expansion), New Investment Strategy	3,000.0
Apr 2023	Lidl	Food & Beverages	New	20.0
Apr 2023	Patrizia UK	Real estate	New	549.1
Apr 2023	Beumer	Industrial equipment	New	15.2
Apr 2023	RWE	Renewable energy	New	0.44

Source: fDi Markets

Upcoming events in the German-British corridor

Title	Date	Place
British German Forum 2023	July 3-5, 2023	Wilton Park, UK
European Central Bank – Interest Rate Decision	July 27, 2023	Frankfurt am Main, Germany
Bank of England – Interest Rate Decision	August 3, 2023	UK

Statement of the Quarter

Exploring Possibilities of AI

“As the European Union passes the landmark Artificial Intelligence Act (AIA), regulating the use of AI, and the UK announced to host the first global summit on AI regulation, the possibilities for growth in a decade of crisis have come into focus.

Europe has set the standard with an extensive set of rules aiming to strike a balance between harnessing the potential of AI and mitigating its risks for consumers. This will create a clear framework for using AI in Europe and help companies to minimize risks.

The UK government's approach to AI regulation has evolved from a more laissez-faire stance to recognizing the need for governance due to the potential risks associated with AI technologies. While the government has invested significantly in AI innovation, recent surveys indicate public support for regulating AI.

Both the EU and the UK recognize the need for global cooperation in AI regulation. The UK's proposed global summit on AI safety and the EU's discussions on a voluntary AI code of conduct demonstrate the shared goal of addressing the challenges posed by AI technologies.

As the UK only recently seeks to position itself as the geographical home of global AI safety regulation, the EU's AIA is the results of a multilateral collaboration starting already in 2020. With both UK and EU member states struggling to activate economic growth, the race for the right regulatory framework might be a helpful impulse putting the spotlight onto the region for future investments.

It remains intriguing to observe whether Great Britain, with its newfound liberties, will achieve better outcomes than the EU's AIA.”



**Dr. Jens
Zimmermann**

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