



Macroeconomic trends in the British-German corridor

Quarterly newsletter of KPMG
in Germany and the BCCG

Q3/2024

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Key observations in Q3/2024

- The **German economy contracted unexpectedly** in the second quarter. Gross domestic product fell by 0.1% in Q2/2024 compared to Q1/2024. Investments in equipment such as machinery and buildings in particular declined. Germany's inflation rate decreased further to 1.6% in September 2024. The **UK**, on the other hand, **experienced a +0.6% growth in economic output** in Q2/2024 compared to Q1/2024. The UK's inflation rate remained unchanged at 2.2% in August 2024.
- Germany and the UK are still grappling with economic challenges. While the IMF still only expects minimal growth for Germany (+0.2%) in its World Economic Outlook July Update, it raised its forecast for the UK to +0.7% (+0.2 percentage points compared to April 2024). However, several economic research institutes in Germany are now predicting stagnation in German economic output or even a renewed recession. Further insights into Germany's macroeconomic landscape can be found [here](#). By contrast, the outlook for the UK is much more optimistic: the OECD also raised its forecast for the British economy significantly to +1.1% (+0.7 percentage points).
- On 12 September 2024, the European Central Bank (ECB) further lowered the **key interest rate**. The deposit rate relevant for the financial markets was reduced from 3.75 to 3.50%. By contrast, the Bank of England (BoE) decided on 19 September 2024 to leave interest rates unchanged at 5.00%. Monetary policy will remain restrictive until inflation has fallen sustainably to the BoE's two percent target.
- Less than two months after the Labour Party's election victory, British Prime Minister Keir Starmer made his **official inaugural visit** to Berlin on 28 August 2024. Starmer does not want to reverse his country's exit from the EU, but he hopes for better relations with Europe. Together with German Chancellor Olaf Scholz, Keir Starmer led negotiations on a **bilateral treaty** to strengthen the economy, defence and cooperation against irregular migration.
- The UK Home Office in London announced on 14 September 2024 that travellers from countries that do not require a visa in the UK – including all EU countries – will in future require an **electronic travel authorisation (ETA)** in addition to a valid passport. Travellers from EU countries, including Germany, will need the electronic entry permit **from 2 April 2025**. For other nationalities, it will come into force on 8 January 2025.



Impressions from the panel discussion:
**Understanding the impact of the EU elections
– What is the future of the EU and UK's
relationship?** (10 July 2024, London)

From left to right: **Alan Donnelly**, Executive Chairman, Sovereign Strategy; **Prof. Sarah Hall**, Deputy Director, UK in a Changing Europe; **Stella Creasy MP**, Labour MP for Walthamstow and Chair of the Labour Movement for Europe; **H.E. Miguel Berger**, German Ambassador to the United Kingdom and BCCG patron; **York-Alexander von Massenbach**, Chairman of the UK London Regional Committee and a member of the Board of BCCG; **Ralf Lange**, BCCG Trade & FDI expert, member of the Board of BCCG; **Elmar Brok**, Former Member of the European Parliament; **David McAllister MEP**, Member of the European Parliament and Chair of the Foreign Affairs Committee

News in the German-British corridor (July – Sept. 2024)

Inbound from the UK to Germany	Outbound from Germany to the UK	General news in the British-German corridor
BASF schließt Verkauf von Wintershall an Harbour Energy ab Handelsblatt, 4 September 2024	German giant METRO acquires Cumbria firm Caterite In-Cumbria, 3 September 2024	Großbritannien will engere Zusammenarbeit bei Rüstungsprojekten Zeit Online, 26 September 2024
Esprit rights sold to British investor Alteri , German stores to close Fashion United, 9 August 2024	Vegan brand The Tofoo Co (the UK's second biggest meat-free brand) acquired by Comitis Capital Plant Based News, 21 August 2024	UK economy to grow faster than Japan, Italy and Germany this year, says OECD The Guardian, 25 September 2024
BP acquires GETEC ENERGIE to bolster its position in Germany Offshore Technology, 6 August 2024	Luxury automotive rims manufacturer [Dymag] acquired by German firm [BORBET] Business Sale, 5 August 2024	Londons neuer Mann in Berlin [Andrew Mitchell] becomes new British ambassador in Berlin Handelsblatt, 1 September 2024
Shell to build a 100-megawatt renewable hydrogen electrolyser in Germany Reuters, 25 July 2024	Serviced Apartments: NUMA Group schluckt Native Places Business Traveller, 9 July 2024	Großbritanniens Neustart in Europa Handelsblatt, 29 August 2024
UK's Barclays to sell German consumer finance business to Austrian bank BAWAG Group Reuters, 4 July 2024	Berliner Fintech Taxfix übernimmt die britische Taxscouts Börsen-Zeitung, 2 July 2024	Labour stellt erste Weichen mit Baureform Frankfurter Allgemeine Zeitung, 10 July 2024

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

Germany and the UK rank as the third and sixth largest economies in the world, respectively

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 84.5 million people (due to high levels of immigration). In the UK, the population growth rate has slowed steadily since the Brexit referendum in 2016.

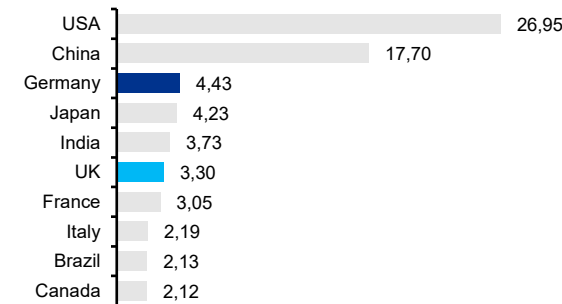
Real GDP growth weakens

While the IMF kept its growth forecast for Germany at +0.2%, it increased its projection for the UK to +0.7% (+0.2 percentage points). Although the IMF still predicted minimal growth for Germany in its last forecast in July 2024, several economic research institutes in Germany now expect German economic output to stagnate or even decline again.

Unemployment remains low

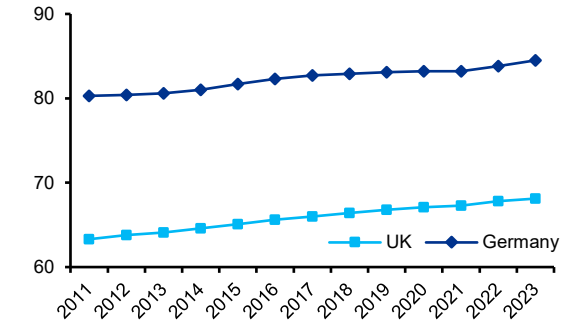
The labour markets remain tight in both countries, with many employers facing hiring problems, especially when it comes to skilled workers. Compared to the rest of Europe, both countries show relatively low unemployment rates.

Largest economies by GDP, 2023 (in USD trillion)



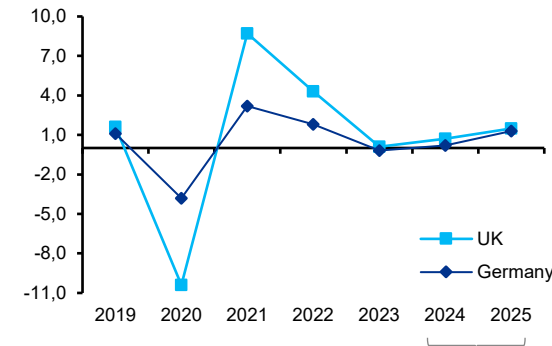
Source: IMF, 2024

Population (in million)



Source: IMF, 2024

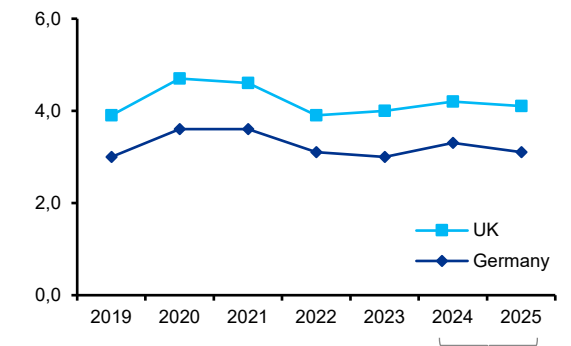
Real GDP growth (in %)



Source: IMF, July 2024

Projections (July 2024)

Unemployment rate (in %)



Source: IMF, Apr. 2024

Projections (Apr. 2024)

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

Cost of living rises

The shortage of supply on the housing market and the sharp rise in prices in recent years are particularly evident on the housing market in large cities. London by far outstrips Munich as the #1 city in terms of living costs. Also, overall living costs in other larger UK cities also greatly exceed those in larger German cities.

GBP rallies against EUR and USD

In September 2024, the euro fell to its lowest against the pound since March 2022 (1 EUR = 0.83 GBP). This is due in particular to the Bank of England's (BoE) reluctance to ease monetary policy. The Federal Reserve Bank in the US, on the other hand, cut interest rates further, which led to a further rise in the pound against the US dollar.

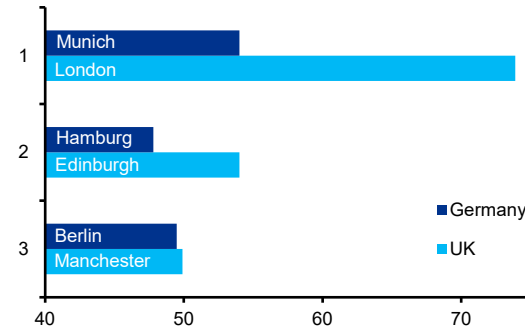
Stock markets

Despite the negative economic news in Germany, the DAX is still at a record high. This is partly due to falling interest rates, as well as the fact that DAX companies generate a large part of their turnover and profit abroad. In the UK, the prime rate remained unchanged, keeping the FTSE 100 trapped in its now five-month sideways movement.

Inflation in Germany and the UK close to target

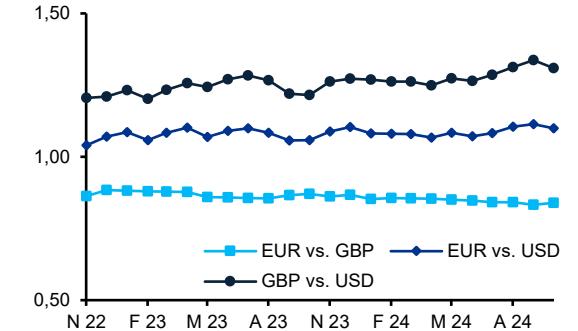
While the inflation rate in Germany is now below the ECB's target of two percent (Sept. 2024: 1.6%), inflation in the UK rose again slightly to 2.2% in August 2024. While the ECB is therefore lowering its key interest rate further, the BoE is cautious with regard to further interest rate cuts.

Cost of living plus rent index



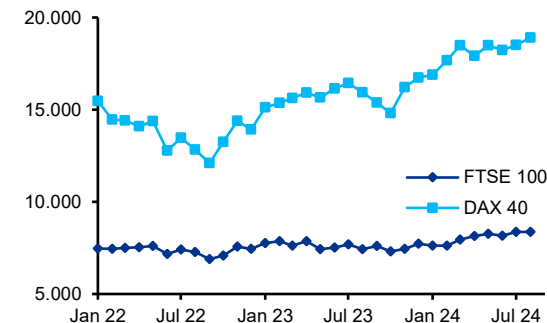
Source: Numbeo (Sept. 2024)

Exchange rates



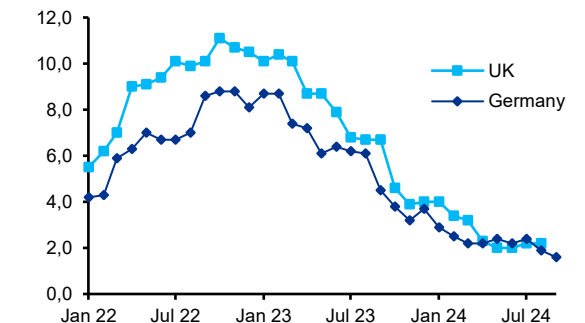
Source: Investing.com

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 still impacted by Brexit

Due to Brexit, the cost of importing and exporting between Germany and the UK has risen significantly. Non-tariff trade restrictions have also been introduced, causing a drop in bilateral trade.

In 2022 the volume of foreign change 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 decreased again.

Since 2016, the UK has slipped from fifth to ninth place among Germany's most important trading partners, accounting for just 3.9% of total German trade in 2023. Germany, on the other hand, was still the UK's second-largest trading partner in 2023, accounting for 8.3% of total UK trade.

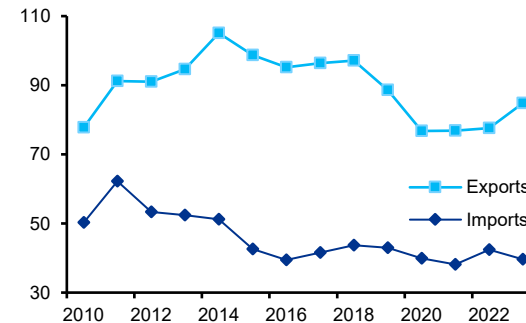
Inward FDI in the UK appears to be stabilising

From the 1970's until Brexit, the UK consistently attracted more FDI than other comparable economies. Between the Brexit referendum and 2018, the inflow of FDI into the UK plummeted. Since then, FDI inflows have recovered and have almost returned to their pre-Brexit levels. Inward FDI flows to Germany have remained relatively stable over the past decade, but since 2020 have witnessed a downward trend.

Greater fiscal flexibility in Germany than in the UK

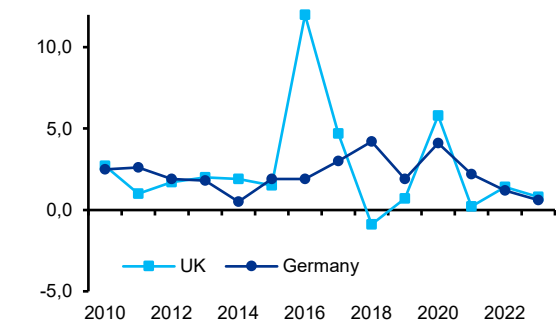
While the ratio of public debt to GDP in Germany declined steadily until the outbreak of the pandemic and stood at ~66% in 2023, public debt to GDP in the UK has risen further, reaching ~104% in 2023.

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



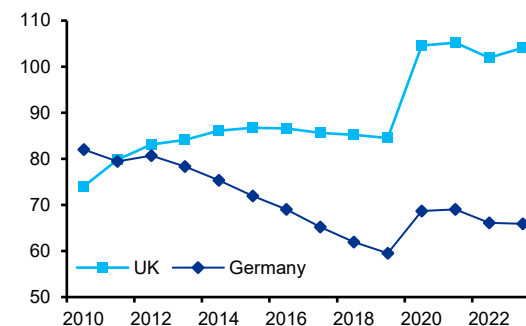
Source: Statistisches Bundesamt

**Inward FDI flow/GDP
(in %)**



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

Government gross debt (% of GDP)



Source: IMF

M&A deals and investments from the UK to Germany (1/2)

Date effective	Deal value (USD mil.)	German target	Target industry	UK acquiror	Acquiror industry	In the press
24.09.2024	> 100	Quantum-Systems GmbH	Industrials	Notion Capital/Porsche SE	Financials	Quantum Systems increases Series B Financing Volume to over 100M € <i>Quantum Systems, 24.09.2024</i>
18.09.2024	n/a	AccorInvest Group Sa-Hotel	Media and Entertainment	BC Partners Real Estate/Hova Hospitality	Financials	BC Partners and Hova acquire AccorInvest's German hotel portfolio <i>Yahoo Finance, 19.09.2024</i>
05.09.2024	14.41	Reonic GmbH	High Technology	Investor group (a.o. Northzone)	Financials	German climate tech Reonic raises €13 million to integrate renewables into households and businesses <i>EU-Startups, 05.09.2024</i>
03.09.2024	n/a	Omnevo GmbH	High Technology	Ventiga Capital Partners LLP	Financials	Omnevo receives Investment from Ventiga Capital Partners <i>Omnevo, 03.09.2024</i>
03.09.2024	n/a	Alltrotec GmbH Softwaresystemhaus	High Technology	Forterro UK Ltd	High Technology	Forterro Acquires Alltrotec, Expanding Its Portfolio with Groundbreaking APS Technology <i>Abas Forterro, 03.09.2024</i>
22.08.2024	n/a	ZeKju GmbH	High Technology	Investor group (a.o. 20VC)	Financials	ZeKju completes a Funding Round led by 20VC to accelerate the digitalization of road transport communication <i>ZeKju, n.d.</i>
15.08.2024	n/a	FXFlat Bank GmbH	High Technology	Trading 212 Group Ltd	High Technology	Übernahme der FXFlat Bank GmbH durch die Trading 212 Group Limited <i>FXFlat Bank, 15.08.2024</i>
01.08.2024	31.07	Black Forest Labs	High Technology	Investor group (a.o. Andreessen Horowitz)	Financials	Black Forest Labs bags €28M to advance Generative AI Research <i>FoundersToday, 06.08.2024</i>

Source: Refinitiv (LSEG), KPMG research

M&A deals and investments from the UK to Germany (2/2)

Date effective	Deal value (USD mil.)	German target	Target industry	UK acquiror	Acquiror industry	In the press
01.08.2024	n/a	GETEC ENERGIE GmbH	Energy and Power	BP plc	Energy and Power	Übernahme der GETEC Energie GmbH durch BP beschlossen <i>GETEC Gruppe, 31.07.2024</i>
31.07.2024	20.01	Checkly Inc.	High Technology	Investor group (a.o. Balderton Capital)	Financials	Berlin-based Checkly secures €18.4 million Series B to slash website downtime with 10x faster issue resolving <i>EU-Startups, 31.07.2024</i>
17.07.2024	6.21	VARM GmbH	Industrials	Investor group (a.o. Foundamental, A/O)	Financials	Berlin-based VARM raises seven-figure pre-seed to train and connect insulation installers with homeowners <i>EU-Startups, 09.10.2023</i>
15.07.2024	n/a	ABA Beul GmbH	Industrials	IBP Global Trading Ltd	Industrials	ABA Beul findet neuen Eigentümer <i>Unternehmeredition, 01.08.2024</i>
11.07.2024	n/a	AVM Computersysteme Vertriebs GmbH	High Technology	Imker Capital Partners	Financials	Investor übernimmt Mehrheit des Fritzbox-Herstellers AVM <i>Zeit Online, 10.07.2024</i>
10.07.2024	10.81	epilot GmbH	High Technology	Expedition Growth Capital Ltd	Financials	epilot erhält 10 Millionen Euro von Expedition Growth Capital, um Energiewende zu beschleunigen <i>Epilot, 10.07.2024</i>
09.07.2024	4.98	allo Technology GmbH	Retail	Investor group (a.o. 20VC)	Financials	allo erhält 5 Millionen <i>Deutsche Startups, 09.07.2024</i>
01.07.2024	n/a	PPA Gesellschaft für Finanzanalyse und Benchmarks mbH	High Technology	Acuity Knowledge Partners (UK) Ltd	Media and Entertainment	Acuity Knowledge Partners acquires PPA Group to expand automation capabilities for commercial lenders <i>Acuity, 01.07.2024</i>

Source: Refinitiv (LSEG), KPMG research

M&A deals and investments from Germany to the UK

Date effective	Deal value (USD mil.)	UK target	Target industry	German acquiror	Acquiror industry	In the press
28.08.2024	n/a	Caterite Food & Wineservice Ltd	Consumer Staples	METRO AG	Retail	METRO expands food service distribution business in the United Kingdom through acquisition of Caterite <i>Metro, 29.08.2024</i>
20.08.2024	n/a	The Tofoo Co Ltd	Consumer Staples	Comitis Capital GmbH	Financials	New investment to drive further growth for The Tofoo Co <i>Tofoo, 20.08.2024</i>
02.08.2024	n/a	Dymag Technologies Ltd	Retail	BORBET Leichtmetallräder GmbH	Materials	BORBET GmbH expands its product portfolio with the acquisition of Dymag Technologies Limited <i>BORBET, 02.08.2024</i>
22.07.2024	n/a	Smart TMS Ltd	Healthcare	neurocare group AG	Healthcare	neurocare group erwirbt Smart TMS Zentren in Großbritannien <i>Neurocare, 23.07.2024</i>
09.07.2024	n/a	Native Places Ltd	Media and Entertainment	NUMA Group GmbH	Media and Entertainment	NUMA Group Announces Strategic Acquisition of UK's Lifestyle Apart Hotel & Serviced Apartment Brand Native Places <i>Numa Stays, 09.07.2024</i>
02.07.2024	n/a	Positron Technologies Ltd	High Technology	Taxfix SE	High Technology	Taxfix Group baut europäische Marktführerschaft aus: Übernahme von TaxScouts und Expansion nach Großbritannien <i>Taxfix, 02.07.2024</i>
02.07.2024	n/a	Whetman Plants International Ltd	Consumer Staples	Selecta Klemm GmbH & Co KG	Consumer Staples	Whetman Plants International wird in Selecta Gruppe integriert <i>Selecta one, 03.07.2024</i>

Source: Refinitiv (LSEG), KPMG research

Upcoming events in the British-German corridor

Title	Date	Location
International Investment Summit	14 October 2024	UK
ECB – Interest Rate Decision	17 October 2024	Frankfurt, Germany
Meeting of the European Political Community	7 November 2024	Hungary
Bank of England – Interest Rate Decision	7 November 2024	UK
G20 Summit	18-19 November 2024	Rio de Janeiro, Brazil

Statement of the quarter

„German-British economic relations are highly important for both partners – especially after Brexit. The trade volume in 2023 totalled 78.5 billion euros. Of course, the consequences of the UK leaving the EU are still being felt in trade relations. However, the relevance of our economic and social exchange has become all the more important as a result. The German core industry is currently benefiting in particular from the exchange of goods. Last year, demand for cars in the UK increased. They account for 19 per cent of German exports, which shows how significant the industry is for both countries. Trade in this and other economic sectors must be expanded and deepened for the benefit of both partners.

The German engine is currently stalling in many areas, which was particularly evident in the second quarter of 2024 with a 0.1 per cent drop in GDP. The forecast for this year is not looking good, meaning that structural reforms are necessary for Germany.

The UK economy is also in troubled waters, but with an optimistic outlook for the future. I am convinced that the UK will remain a key partner for us following the elections with an open economic policy course and as a trustworthy partner. A gradual rapprochement with the European Economic Area would be welcomed. The British Chamber of Commerce in Germany plays a key role in maintaining these relations. As a partner for institutions and companies in both countries, it actively and successfully promotes exchange.”



Julia Klöckner

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Economic Policy
Spokesperson of the
CDU/CSU parliamentary
group

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