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## Summary

- The German economy has been hit hard by the pandemic, but it is widely expected to recover faster than many other industrialised countries. Major recovery and stimulus packages are underway that provide new opportunities including for New Zealand exporters.
- German businesses are cutting their investment overall, but the pandemic is also pushing them towards more digitalisation. They are also reviewing and diversifying their supply chains, creating opportunities for businesses from countries that have managed Covid-19 well.
- Consumer confidence has dropped markedly, but the outlook for German consumers looks better than elsewhere in Europe. Germans will tend to be more targeted buyers and rely much more on online shopping and cashless payment.
- Some relevant sectoral trends are also emerging. The F&B sector sees a greater nutritional awareness, the health sector will invest more in digital solutions, and the GreenTech sector should benefit from Germany's increased climate ambitions related government spending.

## Report

Germany is the world's fourth largest economy and third largest importer (and exporter). As a result of Covid-19 the German economy is facing the deepest recession since WWII. The Government itself [expects](#) a >6% contraction in 2020. However, the European Commission [predicts](#) that the German economy will take less of a hit than most of the EU or the UK. Deutsche Bank Research argues that Germany's recovery will be one of the fastest among industrial countries. A solid if not strong recovery is expected for 2021, when the economy [could grow](#) again by up to 10%. The Government has had the firepower to come out with a combined >€2 trillion in liquidity support and [economic stimulus](#).

### *Emerging business trends*

2 The vast majority of German businesses are [expecting](#) declining revenues, both domestically and from exports. They are responding with investment cuts, but the pandemic is also pushing them towards more digitalisation and rationalisation. Germany has been a bit of a laggard in [digitalisation](#) but has been catching up recently, a trend expected to continue. As part of its recent stimulus package, the Government will invest >€10 billion in digital infrastructure (including 5G rollout and uptake), Artificial Intelligence and e-government solutions. More generous asset depreciation rules should also incentivise continued investment more broadly. Furthermore, many businesses are now trying to find new suppliers, to mitigate current and potential future supply chain issues. They are looking for those mainly in Europe, but also overseas. Suppliers from countries that managed the pandemic well could have an advantage here. New Zealand's successes in this respect have been

noticed in Germany, and a EU-NZ Free Trade Agreement should once concluded provide another impetus.

### *Emerging consumer trends*

3 As a result of Covid-19, German consumer confidence dropped to an all-time low, from which it is now [recovering](#) slowly. The level of uncertainty remains high and consumers' already high propensity to save has increased markedly. However, German consumers are less concerned about their future income than consumers in other European markets, and their willingness to spend is now growing again. Going forward, experts believe that German consumers will be more targeted buyers, focusing more on items they really feel a need for (such as IT, media, household appliances). Going through the lockdown, German consumers have also become more accustomed to buying online, and this significant trend is expected to continue, creating new opportunities including for exporters and niche products. Where they continue to buy in shops, they increasingly tend to [pay cashless](#).

### *Initial sectoral observations*

4 Food & beverages: Germany is the world's third largest importer of food, but it has not been a particular easy market in the past, due to strong retail competition and price-sensitive consumers. Their preferences have been shifting, towards convenience and/or locally produced food and away from a [meat-heavy diet](#), but they still remain very open to trying new products. During the pandemic, general nutritional awareness has grown and both cooking at home and delivery services (of either food or ingredients) have become more popular. Food prices have increased overall in recent months, in particular for fresh food. This trend may not last, but a recently announced temporary cut of VAT rates for food (to 5%) should boost consumption, including of higher-priced quality products.

5 Health: Germany is the largest health market in Europe, by market volume as well as by number of patients. Major market drivers have included an ageing society and the need to increase the uptake of digital solutions. The pandemic has created both challenges and opportunities. Going forward, pressure to control expenditure will be high, but there is also a growing awareness and willingness to maintain a reasonably dense health infrastructure and to invest further in digital and other smart solutions. The Government's recent stimulus package includes €3 billion for additional investment in emergency capacity and digital infrastructure (including for local health authorities) in particular. Consumers report a greater awareness for their physical and mental health, and fitness.

6 Green Tech: Germany is committed to becoming carbon-neutral by 2050. In order to achieve this, it has rolled out bold policies - an exit from coal, a national emissions trading scheme for housing and transport, a strategy to boost hydrogen - that provide lots of new opportunities for businesses active in these fields. Similarly, ambitious targets have been announced for other sectors such as waste management and recycling. The Government has made it clear that the pandemic will be no reason for a rollback, quite to the contrary. Its recent stimulus package provides billions of Euros of additional spending to support the sale of electric vehicles, the roll-out of e-charging points,

the modernisation of bus and truck fleets, or the promotion of hydrogen infrastructure both in Germany and abroad.

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