Exporters sell right products in tight times
Daniel Schäfer

Emerging markets are keeping some order books full, says Daniel Schäfer

As an Englishman, David Haines is not afraid of being infected by Ger-angst. Even so, the chief executive of Grohe, a private-equity owned producer of sanitary fittings, has become markedly more pessimistic recently. "Times will get tougher - a lot tougher than they are right now," he says.

As global growth slows, German exporters cannot escape the fallout of the financial crisis. The latest data pointed to a dramatic weakening in the third quarter. Orders - an indicator of likely future trends in activity - fell in July for the eighth consecutive month.

The deteriorating economic situation has already taken its toll on many consumer related industries, such as cars and retail groups. Some of Germany's renowned car companies such as BMW and Daimler have warned on profits lately and many suppliers have followed suit.

Europe's economic slowdown has not left the backbone of the country's industrial sector unscathed, either: Germany's engineering companies - which employ more than 900,000 workers and have been a job-creation engine in the past - felt the five-year long boom in their industry starting to peter out in May as order intake fell three months in a row.

But this is only one side of the coin. A string of German basic industrial companies is still weathering the economic storm. Industry bellwethers such as ThyssenKrupp and Salzgitter, Germany's first and second largest steelmaker, and Hochtief, the biggest national construction company, have even raised their profit targets recently.

Their confidence illustrates how Europe's largest economy may prove better able to cope with the downturn than some of its neighbours.

It is true that economic difficulties are spreading to emerging market economies, which have been some of Germany's fastest-growing export markets. Russia has been hit by financial market turbulence as well as falling oil prices. The Chinese and Indian markets, both crucial for German export growth, could soon face problems. "Some still hold on to the theory that the emerging markets will decouple from the US and Europe. They better go back to sleep and dream on," says the executive of a large industrial company. However, a number of industrial companies are still profiting from a wide-range of products that are in strong demand for infrastructure projects in emerging market economies.

Mostly paid for by governments and often long-term, such investment spending is not expected to fall dramatically, even in the face of the current global slowdown.

Take Siemens, Europe's largest engineering group. Peter Löscher, the conglomerate's chief executive, recently said that Siemens already felt weakening demand in consumer-related businesses such as its subsidiary Osram, the lightning company, and in some US operations. But he also pointed out that about 70 per cent of the conglomerate's business was based on long-term infrastructure projects. "Siemens' growth story remains intact," he said.

Another example is Demag Cranes. Sitting in his Düsseldorf office on a production site for mobile harbour cranes that weigh up to 600,000 tonnes and cost about €2.5m each, Harald Joos, chief executive, says he has twice raised profit targets this year on the back of an "exorbitant" order intake in recent months. Again, that suggests Germany is selling the right products at a difficult time.

After years of restructuring, Germany's companies are also in much better shape than they have been for decades.

"Ten years ago, the three big negative factors - the financial crisis, the weak dollar and the high oil price - would have hit the German economy dramatically," Mr Joos says, adding that other European economies did not undergo the same restructurings many German companies went through in recent years. "The Italians and the French are not very well prepared for a cold snap," Mr Joos argues.

Manfred Wittenstein, head of the engineering association VDMA, says that Germany's engineering groups can cope well with the global headwinds. "We are still optimistic."

He says that companies have broadened their high-quality product range in recent years, improved their cost base and revamped their balance sheets.

One of German managers' biggest fears is that high inflation rates caused by surging energy prices will lead to demands for big wage increases. IG Metall, the powerful German engineering union, said it would push for a 7 per cent to 8 per cent increase in forthcoming wage negotiations.

Mr Wittenstein says that would threaten the resilience and competitiveness of the engineering sector, which has profited from moderate wage increases in recent years.

The financial meltdown is a drag on Germany's companies, too. For one thing, financing is an issue. "We do not see a credit squeeze," says Mr Wittenstein. "But what we do feel is higher financing costs."

In his environment, new jobs are being created rather reluctantly - even in industry sectors that have in the past scrambled to recruit enough engineers. "The companies have become more cautious in hiring people," Mr Wittenstein says.

But, David Haines argues that companies like Grohe can even profit from the slump. In Germany, its business is growing at a rate of 8 per cent, picking up significant shares of a shrinking market. "We call this 'leaning into the recession'," he says.

As Mr Haines points out, in these gloomy times, some of Germany's perceived weaknesses can turn into strengths: "We never had radical boom and bust cycles in Germany. The growth here is steady and moderate -and so is the downturn."

Fonte: Financial Times, London, September 30 2008, Germany, p. 4.