



Landeshauptstadt  
München  
**Referat für Arbeit  
und Wirtschaft**

Munich Annual Economic Report

# 2019



# Munich Annual Economic Report 2019

## Preface

The economic upswing that Germany has enjoyed for several years eased off noticeably in 2018. While the economy grew by 1.4 percent in the year under review, expansion of only 0.8 percent is expected this year. Bucking this trend toward slower economic development, the labor market nevertheless scaled new heights – both for the increase in gainful employment and with a further decline in joblessness. Especially in light of global political risks, it is difficult to assess where the German economy will go from here.

Munich is a part of these developments and cannot escape their impact. That said, the Bavarian capital is a powerful source of economic stimulus not just for Bavaria, but for Germany and Europe as a whole. Last year alone, the number of socially insured jobs in Munich increased by 23,704, a year-on-year gain of 2.8 percent. This means that, over the past five years, the addition of nearly 97,700 socially insured jobs has boosted employment in Munich by 12.6 percent. At the same time, the annual average unemployment rate dropped further to just 3.5 percent in the Bavarian capital. Successful corporate performance is normally reflected in municipal finances – above all in business tax, which indeed hit a new record of EUR 2.7 billion in 2018! This gives local government the financial leeway it needs to keep pace with the investments that are needed by a growing business hub.

Munich is not merely a potent economic powerhouse, however, but also a dynamic hub of innovation that is excellently placed for the future. In digitization in particular, the Bavarian capital occupies an outstanding position among Germany's large cities. All the relevant conditions are in place: a creative and active startup community, a broad base of innovative midcaps, global leading corporations and a dynamic labor market, served not least by the outstanding local academic and research landscape. Munich is, in other words, ideally placed to remain a successful place to do business going forward.

Clemens Baumgärtner  
Head of the Department of Labor and Economic Development

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# Abridged version of the Munich Annual Economic Report 2019

The Munich Annual Economic Report 2019 provides a comprehensive overview of economic development in Munich in 2018 and looks ahead to what the current year has in store. Key regional indicators for the City of Munich itself and the surrounding region are presented and analyzed.

This English translation provides a brief summary of the most important findings of the city's current Annual Economic Report, which is published in German only.

Above all in the second half of 2018, Germany saw its economy cool off noticeably after an economic upswing that had continued for several years. While Munich itself is a part of these developments, it is also a powerful source of economic stimulus not just for Bavaria, but for Germany and Europe as a whole. Many of the economic indicators discussed in this report bear impressive testimony to this fact.

The Bavarian capital is not only one of the foremost venues for economic activity and innovation in Germany: It is also seen as Germany's leading digital technology hub. Locally based global players, a broad spread of innovative SMEs, a creative and agile start-up community and a plethora of research organizations and institutes of higher education put in place the conditions for Munich's lasting success. Together, they create an environment that has enabled new products and services to be developed with great success over many years.

## Munich – a dynamic and innovative business location

Numerous national and international studies and location benchmark tests have for many years consistently confirmed the outstanding quality of this location and have given Munich top rankings. The selection of ranking tables listed below substantiates this claim in no uncertain terms:

Figure 1 A place at the top table – how Munich compares with other cities

Institute and customer	Sample	Basis for rankings	Position
"City Rankings 2018" IW Consult, commissioned by Wirtschafts- woche and Immobilienscout 24 (11/2018)	71 large German cities	Assessment of the level, dynamism and sustainability of economic de- velopment and prosperity based on socioeconomic indicators	First place for the City of Munich for level and dynamism, fourth place for sustainability
"European Regional Economic Growth Index – E-REGI 2018" LaSalle Investment Management (11/2018)	295 regions in 32 European countries	Identification of those regions/cities with the greatest short- to medium- term development potential based on economic and structural indicators	Fifth place for the Munich region
"Dataland Germany. Germany's Tech Hubs – Performance and Potential of German Cities" Deloitte (11/2018)	30 German metropolitan regions	Assessment of digital tech hubs in Germany and their future potential for innovation based on economic indica- tors and labor market data	First place for the City of Munich
"Digital Regions in Germany – IW Regional Rankings 2018" IW Consult (4/2018)	401 admin- istrative districts in Germany	Assessment of the economic situation and development in light of special provision for regions' digital opportu- nities	First place for the administrative district of Munich; third place for the City of Munich
"Comparative Study of the 30 Largest Cities in Germany" HWWI and the Berenberg private bank (6/2017)	30 largest German cities	Assessment of economic performance, demographic development and other key location factors such as education, innovation, international character and accessibility	First place for the City of Munich

Source: Munich as a business location. Facts and Figures, 2019

A population of 1.54 million (in December 2018) makes Munich Germany's third-largest city, after Hamburg (1.88 million) and Berlin (3.71 million). Published in May 2019, the latest population forecast points to modest growth in Munich averaging +0.75 percent per year in the period through 2040. Accordingly, the number of residents could top the 1.7 million mark by 2030, rising to 1.8 million by 2037 and 1.85 million by 2040. That equates to an increase of 14.7 percent between 2017 and 2035, and of 18.8 percent between 2017 and 2040.

Natural population fluctuation and both inflows and outflows determine the size of a population. One reason for the increase in Munich's population is a positive migration balance that is typical of large cities in industrialized countries which are highly attractive to young adults. Another is what is known as the birth surplus. Around 17,600 children were born in Munich in 2018, for example, where birth rates have been on the rise for more than ten years.

Population growth is not confined to the city of Munich alone, however, but is also observable in the surrounding region. Over the past decade alone, the number of people living in the region around Munich has swelled by roughly 260,000. The roughly 2.62 million people who lived here in 2007 had increased to 2.88 million by 2017. The population forecast produced by the Bavarian Statistical Office for the year 2037 puts the figure for the region at 3.2 million inhabitants – a net gain of about 320,000 compared to 2017.

The growing population also finds itself confronted by increasing demand for labor. This is one finding of the current forecast for gainful employment in Munich and the surrounding region, which covers the period through 2030. Indications are that employment levels in and around the city will increase significantly faster than the national trend. According to the forecast, the number of socially insured employees looks set to jump by 14.6 percent - equivalent to 113,000 more socially insured persons in the Bavarian capital – by 2030. Such dynamic growth is rooted in the modernization of Munich's economic structure, which has gained considerable fresh momentum in recent years especially. An expected gain of 19 percent between now and 2030 means that, in the years ahead, the service sector will once again be a pivotal source of stimulus for employment growth. Manufacturing will see its employment base erode. Labor market demand will exist above all for a well-educated labor force – especially specialists and skilled workers who have completed vocational training. For this group in particular, demand is expected to be strong on the labor market. And if this demand cannot be satisfied, the resultant bottleneck could choke off growth going forward.

Munich is already the second-largest venue for employment in Germany and has for years boasted the highest employment rate of all German cities that have 600,000 or more inhabitants.

### **Labor market and employment**

Socially insured employment in Munich rose by 2.8 percent in 2018 as 23,704 new jobs were added. The Bavarian capital has been experiencing above average gains in employment for many years. Yet not since 1974 has Munich had a time when employment growth came anywhere near the current exceptionally high level. In the past five years, around 97,700 new socially insured jobs have thus driven employment in Munich up by 12.6 percent.

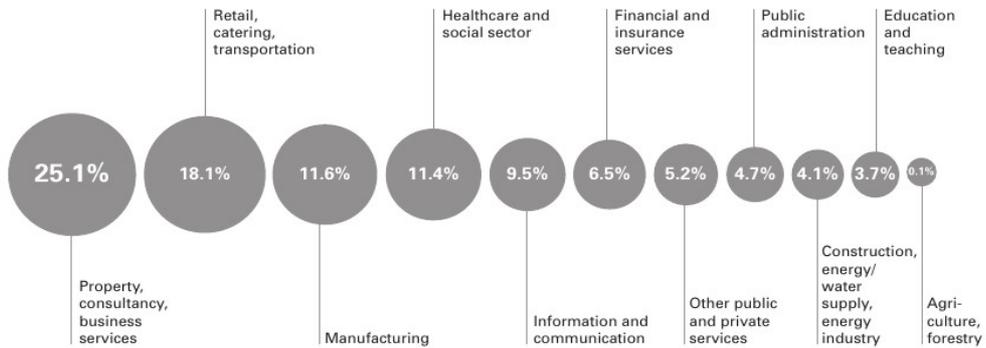
Most new jobs in 2018 were created in the service sector (21,739), equivalent to growth of 3.0 percent. At the same time, manufacturing too saw its employment base increase by 0.9 percent. Analysis of the individual sectors of industry reveals that 'Information and Communication' once again accounted for by far the largest gain in employment (+7.5 percent), followed by 'Education' (+4.0 percent) and 'Cor-

porate Services' (+3.5 percent). Among those sectors in which employment declined, 'Financial and Insurance Services' experienced the sharpest drop (-1.7 percent).

The breakdown of employment across the various sectors in Munich is shown in figure 2. Figure 3 depicts the corresponding absolute numbers in each sector.

Figure 2 Distribution of employment in 2018

Employees registered for social security



Source: Federal Employment Agency

Figure 3 Breakdown of employment by economic sectors in Munich in 2017

		Change from previous year
Agriculture, forestry	537	-2.5%
Manufacturing	101 380	0.9%
Construction, energy/water supply, energy industry	35 550	3.1%
Retail, catering, transportation	158 138	3.4%
Information and communication	82 990	7.5%
Financial and insurance services	56 892	-1.7%
Property, consultancy, business services	219 820	3.5%
Public administration	41 110	1.6%
Education and teaching	32 476	4.0%
Healthcare and social sector	99 616	2.4%
Other public and private services	45 590	0.0%
<b>Total</b>	<b>874 099</b>	<b>2.8%</b>

Source: Federal Employment Agency

Figure 4 highlights those sectors of industry that have experienced above-average growth rates in recent years.

Figure 4 Employment in selected growth sectors

Employees registered for social security

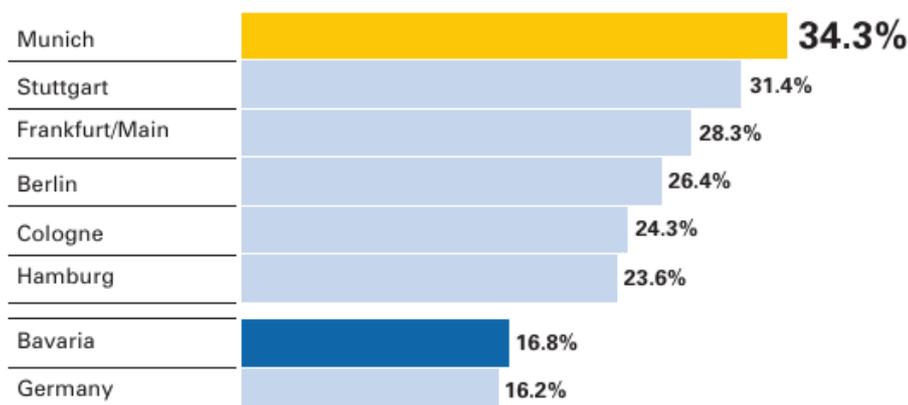
	2013	2018	Absolute increase	Increase in %
Manufacturing, total	89 375	101 380	12 005	13.4%
Automobile production and other automotive engineering	45 768	60 024	14 256	31.1%
Information and communication, total	60 665	82 990	22 325	36.8%
Provision of information technology services	34 246	50 844	16 598	48.5%
Corporate services, total	186 729	219 820	33 091	17.7%
Architects and engineering offices; laboratories	22 900	30 772	7 872	34.4%
Healthcare and social services	80 190	99 616	19 426	24.2%
<b>Total employment</b>	<b>754 269</b>	<b>874 099</b>	<b>119 830</b>	<b>15.9%</b>

Source: Federal Employment Agency

One remarkable aspect of the Munich labor market is the high standard of qualifications and the high proportion of academics: 34.3 percent of all socially insured employees in Munich have completed higher education – more than the figure for any other German city. Stuttgart ranks second with a score of 31.4 percent. The Bavarian average is 16.8 percent, while the national average is 16.2 percent.

Figure 5 University graduates in 2018

Percentage of all employees registered for social security who are university graduates

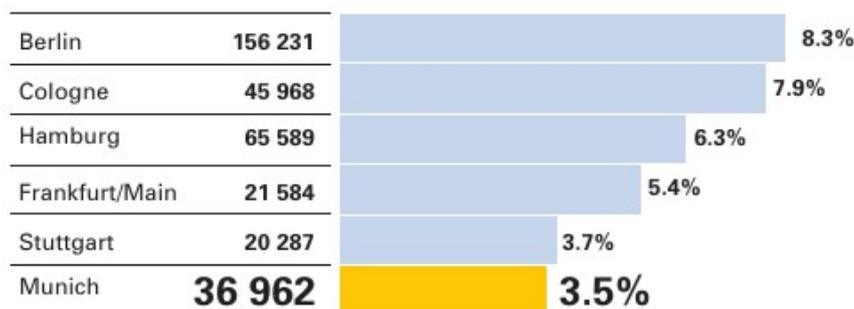


Source: Federal Employment Agency

Unemployment again fell sharply in Munich in 2018. An average jobless rate of 3.5 percent marked the lowest figure for over 20 years in the period under review. On average for the whole of the year, 36,962 people were registered as unemployed. Munich thus continues to have the lowest unemployment rate of any German city with 500,000 or more inhabitants.

Figure 6 Unemployment rates in large German cities in 2018

Annual averages



Source: Federal Employment Agency

Employment is expected to increase further in 2019, accompanied by a continuing fall in employment. This development will exacerbate the challenges caused by the shortage of specialist labor. It is already becoming difficult to fill vacancies and apprenticeships. The Chamber of Industry and Commerce for Munich and Upper Bavaria constantly monitors demand for specialist labor and estimates that the Munich region is currently short of about 82,000 skilled workers and specialists. By 2030, it projects that unmet demand will rise as high as 137,000.

### Economic growth and purchasing power

Traditionally, gross domestic product (GDP) is the standard measure of the economic performance of a given city, region or country. It is thus a key performance indicator (KPI) in economic reporting. The GDP figures for Munich and the surrounding region are supplied by the Bavarian Office of Statistics and Data Processing, although the exact figures are available only after a considerable time lag. Munich's nominal GDP in 2016, for example, was EUR 109.6 billion, reflecting a year-on-year increase of 3.9 percent. This figure puts Munich ahead of the corresponding Bavarian (+3.1 percent) and national growth rates (+3.3 percent).

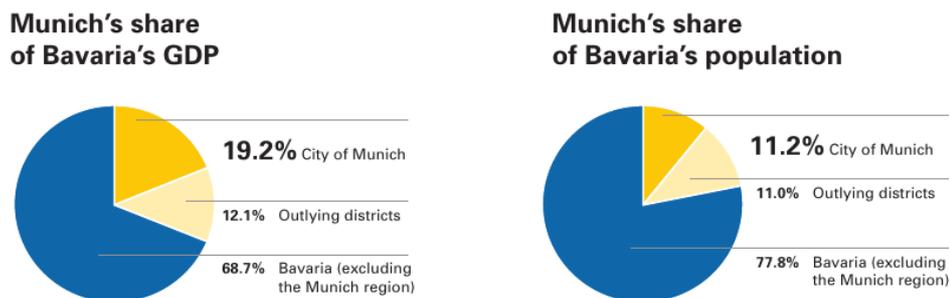
Figure 7 Munich's GDP

	2000	2005	2012	2013	2014	2015	2016
GDP in € billion (at current prices in each year)	70.49	75.69	91.33	95.68	100.42	105.5	109.57

Source: Bavarian Office of Statistics and Data Processing

Munich's importance to the Bavarian economy is clearly illustrated by the following ratio: Munich accounts for only 11.2 percent of the Bavarian population but generates 19.2 percent of its GDP.

Figure 8 Munich's share of Bavaria's population and GDP in 2016



Source: Bavarian Office of Statistics and Data Processing

Munich's purchasing power has for years easily topped the rankings across all of Germany's large cities. Compared to the previous year, purchasing power in the Bavarian capital rose by 2.3 percent in 2018 and now stands at EUR 32,856 per capita – 39 percent above the national average. In addition, Munich is flanked by two of the rural districts with the strongest purchasing power in Germany: The Starnberg rural district (EUR 32,901 per capita) comes top of the list, with the Munich rural district (EUR 32,650 per capita) in second place. The City of Munich itself ranks fourth in this comparative analysis.

Purchasing power is measured as the sum of all net income and government transfer payments. Households are expected to pay for the cost of living, insurance, rent and ancillary charges and to save appropriately out of this disposable income. It is nevertheless important to remember that a region's purchasing power is an average figure that says nothing about the purchasing power of specific individuals, about concrete purchasing power per household or about the underlying income distribution and, hence, the gap between poor and rich.

Figure 9 Purchasing power in large German cities in 2018



Source: Acxiom Deutschland GmbH

### Munich's corporate sector

The register compiled by the Bavarian Office of Statistics and Data Processing shows that 91,202 companies were based in Munich in 2018. Broken down by workforce size, the vast majority of these companies (90.7 percent) are micro-enterprises with up to nine socially insured employees. 8.8 percent of the firms resident in Munich are classed as small or medium-sized enterprises (SMEs). The remaining roughly 0.5 percent – 472 companies in all – are large corporations with more than 250 socially insured employees each.

Six of the eight Bavarian companies listed on the DAX index of Germany's blue-chip companies are headquartered in or around Munich – more than in any other major German city. Allianz SE, BMW AG, Munich Re AG and Siemens AG are all

based in the city itself, while Infineon Technologies AG and Wirecard AG are located in the surrounding region. The TecDAX index lists the 30 biggest German and foreign technology firms, of which seven are represented in the Bavarian capital: Cancom SE, Infineon Technologies SE, MorphoSys AG, Nemetschek SE, Siltronic AG, Telefónica Deutschland AG and Wirecard AG.

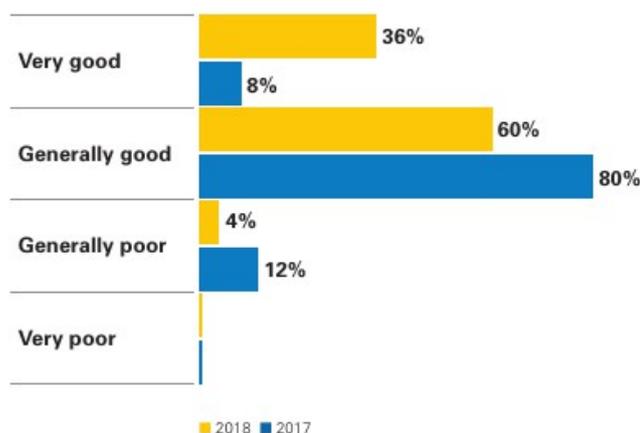
Due to the large number of companies in Munich that are listed in various lead indices, the Bavarian capital has for many years commanded first place in German cities' "stock market league", in which companies' market capitalization is attributed to their home city. In 2018, the Munich-based companies listed on the DAX, MDAX and TecDAX indices had a cumulative market capitalization of EUR 309 billion. Walldorf – home to ERP software giant SAP – came second with EUR 122 billion.

These numbers highlight an important success factor for the Munich economy: Thanks to its large number of prominent companies and, in particular, the broad spread of market leaders across the various industries represented here, Munich is less dependent on the economic performance of individual players. This sets the city apart from other business hubs in Germany, most of which are concentrated more heavily around a small number of industries or even companies.

### Startups and new businesses

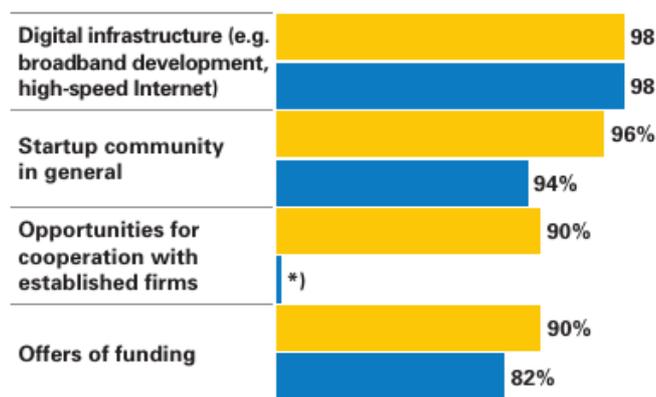
Munich boasts a singularly vibrant startup community. According to one recent PwC study, 96 percent of the startups based here rate the regional startup ecosystem in and around Munich as good to very good. At the same time, the Bavarian capital is home to a series of big-name and internationally successful companies (see above). The region also has a first-rate university and research landscape, plus a substantial supply of talented and highly qualified labor. Close links between startups, universities, investors, the political arena and incumbent firms is regarded as a special strength of the local startup ecosystem. Startup entrepreneurs themselves give positive ratings above all to the digital infrastructure and good opportunities to collaborate with established players.

Figure 10 Satisfaction with Munich – Startups value Munich's startup climate



Source: PwC Communications: "Startup Companies in and around Munich in 2018"

Figure 11 Verdict on the local startup ecosystem



\*) 2017 question not raised.

Source: PwC Communications: "Startup Companies in and around Munich in 2018"

The Bavarian capital is increasingly gaining international visibility too as a startup hotspot. For the first time, Munich thus also appears in the "Global Startup Ecosystem Report 2018 (GSER)", produced by the research institute Startup Genome. The GSER study highlights success factors for startup ecosystems and identifies the most successful locations in the world for various industries. It is based on data culled from more than 10,000 startup entrepreneurs at 45 hubs around the globe. In it, Munich is singled out as a startup venue of global standing for three sectors in which startups are active.

Figure 12 Munich startups rank among the best in the world

Study investigates success factors for the development of the startup ecosystem and identifies successful ecosystems in different industries; based on the analysis of data from more than 10,000 startups in 45 cities worldwide



Source: Startup Genome LLC "Global Startup Ecosystem Report (GSER) – Succeeding in the New Era of Technology"

The Department of Labor and Economic Development plays a dedicated, active role in many areas that are important to a healthy, vibrant startup environment. Together with the Chamber of Industry and Commerce (IHK) for Munich and Upper Bavaria, it has for over 20 years successfully operated the Munich Business Startup Office (MEB), a well-established first port of call in the city that conducts over 1,000 consulting sessions a year. It also holds weekly information events and produces how-to videos, helping would-be startup entrepreneurs to find out everything they need to know as they prepare for self-employment.

In relation to crowdfunding as a source of startup finance, the Department of Labor and Economic Development has launched a funding program that is unique in Germany:<sup>1</sup> Startup entrepreneurs based in Munich can receive subsidies of up to EUR 3,000 for creative services that are needed to successfully implement a crowdfunding campaign. Crowdfunding – also referred to as swarm financing – has become established as a new kind of collective funding with the aid of the Internet.

<sup>1</sup>See [www.muenchen.de/crowdfunding](http://www.muenchen.de/crowdfunding)

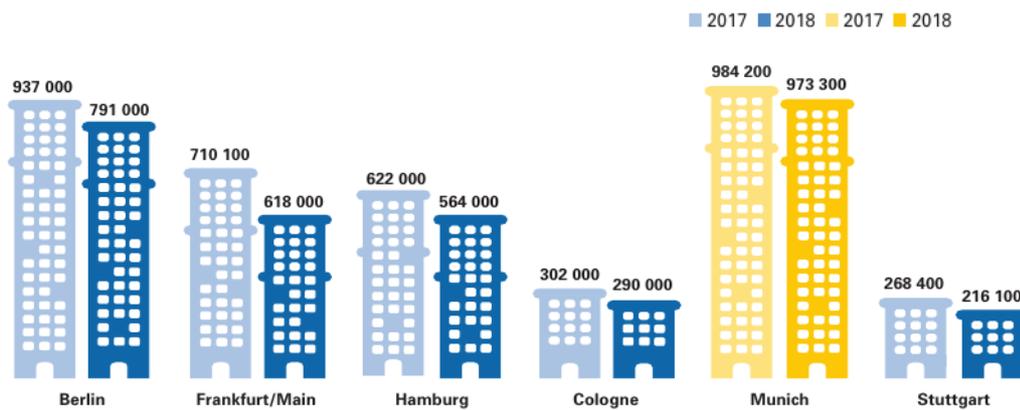
It combines the factors funding, customer retention, marketing and market testing, which makes it attractive both to startups and existing firms.

The local startup community receives additional support from the online portal Munich Startup, which, in its capacity as a media partner, pools information on activities in the startup scene, forges networks between startup entrepreneurs and reports on regional startup events. The Munich Startup portal<sup>2</sup> has carved out a niche for itself as the first virtual port of call for innovative, technology-oriented startups in and around the city. It is also part of the wider "Entrepreneurship Strategy Munich", to which local government, the Chamber of Industry and Commerce for Munich and Upper Bavaria and the cross-university organization 4Entrepreneurship are committed alongside all key stakeholders in the Munich startup community.

### Office property market

Developments on the office property markets in Germany's six largest cities (Berlin, Cologne, Frankfurt, Hamburg, Munich and Stuttgart) were decidedly robust in 2018. Office space turnover of 3.8 million m<sup>2</sup> across these six cities fell short of the records set a year earlier, but was still the third-best result since the turn of the millennium. The ten-year average was exceeded by 17 percent. Turnover of around 980,000 m<sup>2</sup> meant that Munich was again top of the list and just about repeated its performance in the prior year.

Figure 13 Office space turnover  
in m<sup>2</sup>



Source: Colliers International

The vacancy rate – an important aspect on the supply side – decreased further across Germany's most important office property venues. In Munich, it fell to 1.8 percent, leaving the volume of vacant office property at 410,600 m<sup>2</sup>. The supply of modern office space in particular has shrunk further throughout the country in the face of vigorous demand.

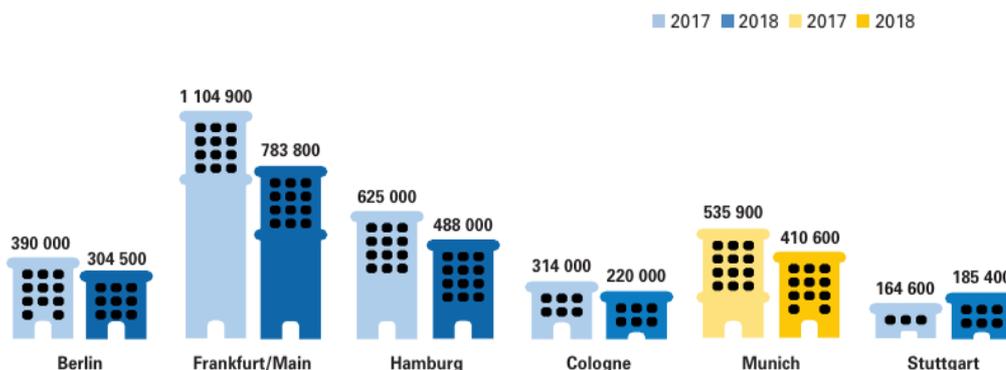
<sup>2</sup>See <http://www.munich-startup.de/>

Figure 14 Office vacancy rates

	Berlin	Frankfurt/Main	Hamburg	Cologne	Munich	Stuttgart
2017	19.15	20.00	15.40	12.90	17.30	13.40
2018	21.70	20.30	15.70	13.80	19.00	14.00

Source: Colliers International

Figure 15 Vacant office space in m<sup>2</sup>



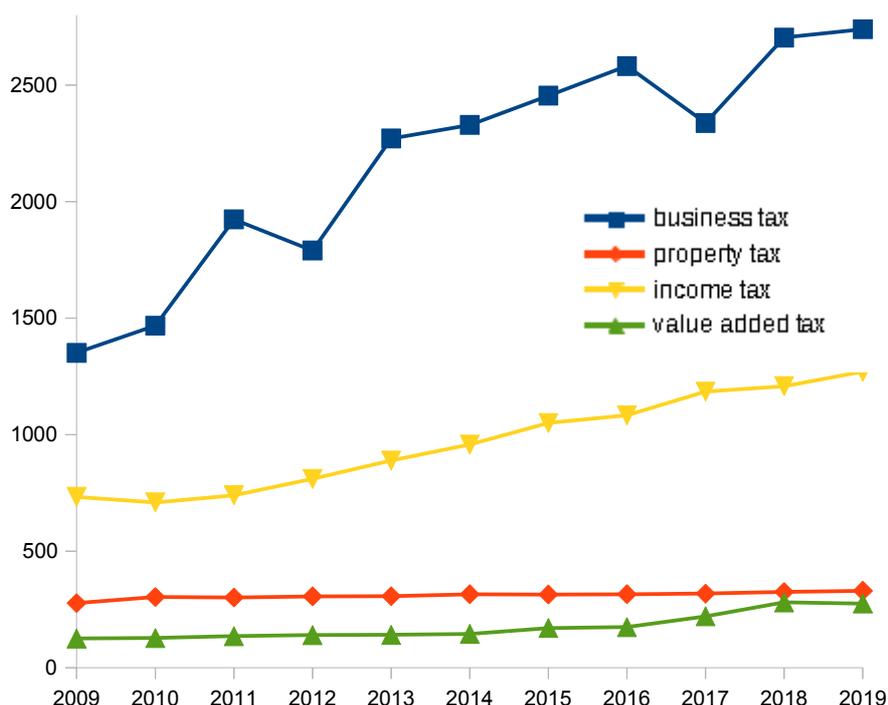
Source: Colliers International

Although the economy appears to be faltering, demand on Germany's office property markets is expected to remain strong in 2019.

### Local government finance

Like other cities, Munich too benefited from positive development in public finance in Germany in the year under review. A total of around EUR 7.4 billion flowed into the city's public purse in 2018, 9.1 percent more than in the previous year. Tax receipts, the most important source of the Bavarian capital's funding, accounted for approximately 61.2 percent of cash inflows from current administrative activities in 2018. Business tax – Munich's single most important levy – hit a new peak, bringing about EUR 2.70 billion into local government coffers in 2018 (up from EUR 2.34 billion a year earlier). Income tax revenue rose to EUR 1.21 billion (previous year: EUR 1.19 billion).

Figure 16 Receipts from business, income, property and value added tax

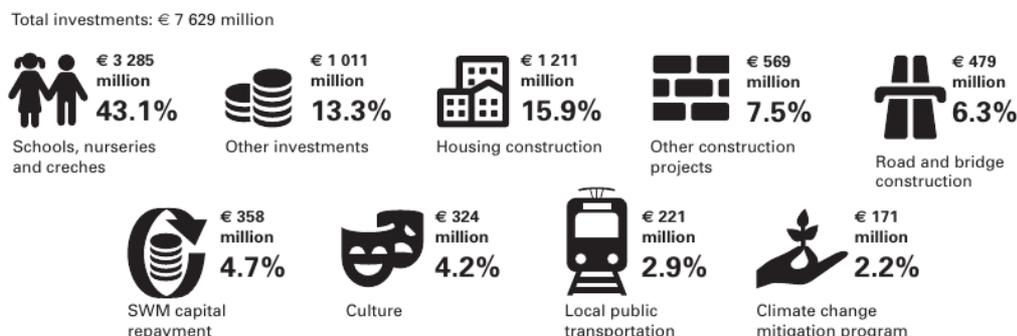


Source: City of Munich, City Treasury

A local government's financial resources are essentially channeled into two main areas: ongoing expenditures for administrative activities (e.g. to cover personnel expenses, material costs, rent, subsidies, social welfare benefits etc.) and investment in the local infrastructure (e.g. in new school buildings, child care facilities and traffic routes). The city's capital spending volume rose to EUR 1.27 billion in 2018 (compared to EUR 870 million in 2017). Budget planning for 2019 envisages a further significant increase that will bring the total investment volume to EUR 1.48 billion.

The City Council ratified a volume of EUR 7.6 billion for a multi-year investment program for the years from 2018 to 2022. This spending will focus on child care and education, the expansion of a modern traffic and transport infrastructure, efforts to step up housing construction and the development of Munich's cultural offerings.

Figure 17 Planned investments in the City of Munich in 2018 - 2022

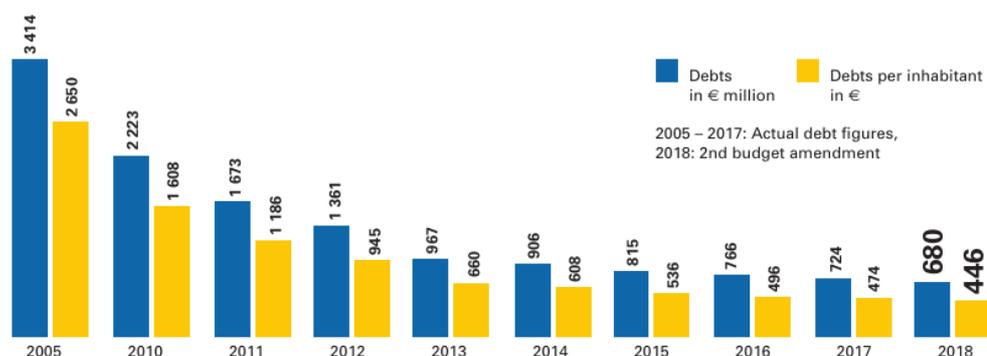


Source: City of Munich, City Treasury

Besides investing heavily in infrastructure development, Munich has for years been systematically scaling back its debts. The exceptionally positive revenue situation

experienced in recent years has been put to good use to continually and significantly reduce the city's level of debt. Since 2006, Munich has been able to fund all investments without the need for new net borrowings. Its public debt was thus reduced by EUR 44 million last year, leaving the city's public debt at EUR 680 million at year-end 2018. Per-capita debt is now down to EUR 446 – the lowest figure since 1980. As in the preceding years, no new net borrowings are planned for 2019.

Figure 18 The City of Munich's local government debt



Source: City of Munich, City Treasury

## Summary and outlook

The economic upturn that has persisted for many years in Germany cooled noticeably in 2018, especially in the latter half of the year. The country's economy grew by 1.4 percent in the year under review, although considerably stronger growth had been expected. The main reason for this discrepancy was slower growth in manufacturing in general and automotive engineering in particular. A rate of growth of 0.8 percent is projected for 2019, after which the economy is expected to recover in 2020, provided that political and foreign trade risks do not materialize. 2018 was, however, a very gratifying year as far as the labor market is concerned: Unemployment receded further to a new national low of 5.2 percent, while gainful employment hit a new peak of 44.83 million jobs.

The Bavarian capital is not merely carried along by these developments, but is actively shaping and driving them far beyond its own immediate region. What are the reasons for sustained, positive development in the Munich economy – development that has consistently outstripped the national average in recent years? A cornerstone of its success as a business location is the broad and diverse structure of the local economy. Virtually all branches of industry that are of significance to the German economy and are regarded as lucrative sectors for the future are not merely represented, but are focal activities in the Bavarian capital. Examples include electrical engineering, I&C and the media industry, automotive engineering, biotechnology and environmental engineering, to name but a few or the most important sectors. On top of these activities, Munich is a key player in the service industry, especially in finance, insurance and the vast corporate services segment. It is also important to note that many of these industries concentrate their research and development activities in Munich. Here too, the city's standing as an excellent venue for higher education, science and innovation provides ideal conditions for locally based companies. Lastly, a vibrant corporate mix adds to the attraction of the Bavarian capital: Six of Bavaria's eight DAX-listed companies are headquartered in and around Munich, as are a broad base of healthy SMEs and a singularly active start-up community.

In the interests of maintaining a balanced economic structure, it is also important for the manufacturing industry to defend its position in the local economy. Recent years have shown that manufacturing is well able to add both value and jobs. An adequate manufacturing base likewise facilitates the development of the corporate service sector, especially in the area of applied research and development. For this reason, the City of Munich must do everything in its power to provide special support to the manufacturing industry and maintain its local footprint.

Driven by stimulus from the information and communication sector, the digital transformation of the economy will gather further momentum going forward. It is indeed now making inroads into all areas of economic activity, especially in automotive engineering, financial services and the media. Digitization opens up new opportunities and is creating new areas of business and new business models. Those companies that move quickly to adapt and position themselves as powerful players will be the winners of this transformation process.

Public administrations, too, are thus called on to face up to the ongoing digital transformation. Under the rubric “e-government”, local governments are thus offering more and more services online. Improving the IT infrastructure and delivering broadband access are key issues if Munich-based companies are to stay competitive.

The focus here is on young technology-driven firms that seize these opportunities and penetrate new lines of business. That is why it is vital for the public sector to provide long-term support to Munich's potent startup scene. One aspect of this support is the “Munich Startup” internet platform, set up by local industry center operator MGH on behalf of the City of Munich to foster networking in the entrepreneurship community and pool the services provided by players in this segment.

Knowledge and creativity are indispensable if Munich is to continue to play a leading role as international competition between companies and business locations becomes increasingly intense. Munich's universities, public and private research institutions, general and vocational schooling systems and cultural and creative industries leave it extremely well placed to do so.

Small and medium-sized companies (SMEs) continue to form the backbone of the German economy. They are an engine of job creation and a cornerstone of the system of innovation. In Munich, too, they are a key pillar of the economic structure. Accordingly, promoting these companies in the region, preserving them as a stabilizing factor for the labor market in general and the education market in particular – and thereby safeguarding the city's economic potency – are important objectives of Munich's economic policy. Despite the fraught situation on the city's commercial property market, local government must therefore continue to develop and provide a reasonable supply of suitably dimensioned (i.e. small) commercial spaces. The commercial space development program is putting in place the conditions needed to satisfy this need.

One successful tool of local government's economic policy – an excellent example of SME support in action – is the Munich industry center concept, which has proven itself over more than 35 years. The concept proves that it is indeed still possible to create space for traditional industries, even in a very densely populated urban setting. Taken together, Munich's eight industry centers are currently home to around 450 firms on rented premises totaling 97,000 m<sup>2</sup>. Capacity utilization runs as high as 97 percent. Especially for small and medium-sized skilled craft firms, industrial companies and wholesalers that require specially fitted buildings and spaces, this is an excellent way to make suitable space available that is still close to the inner city. The space already available will soon be complemented by another project: The “Gewerbehof Nord” (“North-End Industry Center”) is currently under construction and should be completed in summer 2019. It will add around 11,000 m<sup>2</sup> floor space

for around 50 small to medium-sized enterprises.

Private providers of co-working spaces too are increasingly entering the market-place, armed with flexible offerings of small units for which demand is brisk.

The boom that Munich has experienced in recent years is leading to bottlenecks and shortages, especially with regard to space. Office turnover rates have been breaking record after record for a number of years. Persistent strong demand for rented apartments has likewise prompted further significant increases in rents and property prices, not only in the core city itself, but also in the surrounding region. Local government must therefore continue to play its part in setting aside land and constructing suitable buildings in order to relieve the pressure on the housing market. Innovative solutions from all stakeholders are needed.

The labor market is indicative of the challenges that lie ahead: The shortage of skilled labor has placed a burden on the supply side. For this reason, it is imperative to keep young talents here and cement their loyalty to the region, as well as keeping the city attractive to new reserves of skilled labor from elsewhere. Especially in large cities, it is noticeable that demand for labor does not necessarily lead to a drop in unemployment on the same scale. On the contrary, it is important to avoid a widening rift in the labor market as unemployment persists alongside an increasing shortage of skilled labor. Further training and qualifications must continue to be provided in a suitable way to unemployed persons and those with few qualifications to help them find permanent employment on the labor market. The Munich Employment and Qualification Program (MBQ) has for years been local government's response to this challenge.

Digitization too is driving structural changes on the labor market – and will do so even more going forward. Some qualifications are becoming surplus to requirements; new ones are emerging in their place. Here again, local government can influence developments via the agency of its training and qualification strategies.

Despite gloomier economic expectations, Munich is flourishing and the outlook for the future is bright. The city's ability to innovate and its ability to compete are crucial to its continued economic success. These capabilities must therefore be secured and further developed for the long term in order to underwrite Munich's unique qualities going forward. Munich – a player in the global context with countless potential rivals – needs flexibility, speed and above all a willingness and sufficient courage to be open to and embrace the necessary changes.

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