



Munich Annual Economic Report

2017



Munich Annual Economic Report 2017

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Abridged version of the Munich Annual Economic Report 2017

The Munich Annual Economic Report 2017 provides a comprehensive overview of economic development in Munich in 2016 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.

Munich's economy has plotted an exceptionally positive trajectory in recent years and has thus outperformed the benchmarks for the rest of Germany and Bavaria. Positive development in all of the city's key economic indicators was again evident in 2016. This applies in particular to growth in employment levels, which was once again high and above the national average.

The Bavarian capital is one of the foremost venues for economic activity and innovation in both Germany and Europe. 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 are the main ingredients in Munich's recipe for lasting success. Together, they create an environment that is singularly conducive to the development of new products and services.

Munich – A dynamic und 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. In particular, Munich and the surrounding region have established a leading position compared to other large German cities in the field of digitization.

Figure 1 Munich's position in city rankings

Institute and customer	Sample	Ranking based on	Position
"City Rankings 2016" IV Consult, commissioned by Wirtschaftswoche and ImmobilienScout 24 (10/2016)	69 large German cities	Assessment of the level, dynamism and sustainability of economic devel- opment and prosperity based on socioeconomic indicators	First place for the City of Munich for level and dynamism, third place for sustainability
„European Regional Economic Growth Index – E-REGI 2016" LaSalle Investment Management (10/2016)	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	Fourth place for the Munich region
"Prognos Future Atlas 2016 and Digi- tization Compass – Ranking Table for German Regions" Prognos AG (6/2016)	402 administra- tive districts in Germany	Assessment of the economic situation and development in rural and urban administrative districts in terms of demographics, the labor market, competition, innovation, prosperity and social conditions	First place for the admin- istrative district of Mu- nich; second place for the City of Munich; first place by a considerable distance in digitization
"Digital Competitiveness Index – Comparison of German Cities" Deloitte Germany (2/2016)	30 large German cities	Assessment of cities based on a selection of digital location factors in the fields of innovation, attractiveness and the labor market	First place for the City of Munich
„Mercer Quality of Living Ranking 2016" Mercer – global management consultant (2/2016)	230 cities worldwide	Assessment of quality of life based on political, social, economic and environ- mental considerations	Fourth place for the City of Munich

Source: Munich as a business location. Facts and Figures, 2017

A population of 1.55 million (in June 2017) makes Munich Germany's third-largest city, after Hamburg (1.77 million) and Berlin (3.65 million). Current population forecasts indicate that the number of residents will probably top the 1.7 million mark by the end of 2022, rising to 1.8 million by the end of 2030 and 1.85 million by 2035. That equates to an increase of 16.4% between 2015 and 2030, and of 19.3% between 2015 and 2035. Munich's current growth phase has continued unbroken for more than 15 years. Since the most recent population forecast in 2013, the number of residents has grown by around 30,000 per annum. In the process, Munich is becoming more cosmopolitan and the proportion of young people is increasing.

Large cities like Munich are preferred destinations for migrants. Heavy inward migration to Munich is attributable to concurrent migration flows from a variety of source regions: the countries added to the EU in the course of its eastward expansion, the EU's own Mediterranean countries in relation to the euro crisis; and the Middle East and Africa. The rise in inward migration is driving up both population figures and birth rates. Munich's birth rate has now exceeded its death rate, leading to what demographers refer to as "natural" population growth. A total of 18,107 children were thus born in the city in 2016, breaking the preceding year's record birth rate for the tenth time in a row.

Such forceful population growth is not unique to Munich alone, but can also be observe in other large, attractive German cities – especially Berlin. The Germans speak of "favored cities" in this context: large cities where inward migration causes certain age brackets (mostly younger ones such as career beginners in the 25 to 34-year age group) to virtually double in size. Aspects that add to the attraction of a large city include a sizable university community, a plentiful selection of jobs, aesthetic architecture and, in particular, the reputation of a youthful lifestyle, all of which in turn leads to corresponding (inward) migration. In Munich, the growing population finds itself juxtaposed with growing demand for labor. The current forecast for gainful employment in Munich and the surrounding region concludes that the rise in employment in both will far exceed the national trend. According to this forecast, the number of socially insured employees looks set to jump by 14.6% – equivalent to 113,000 more socially insured persons – 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.

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 500,000 or more inhabitants.

Labor market and employment

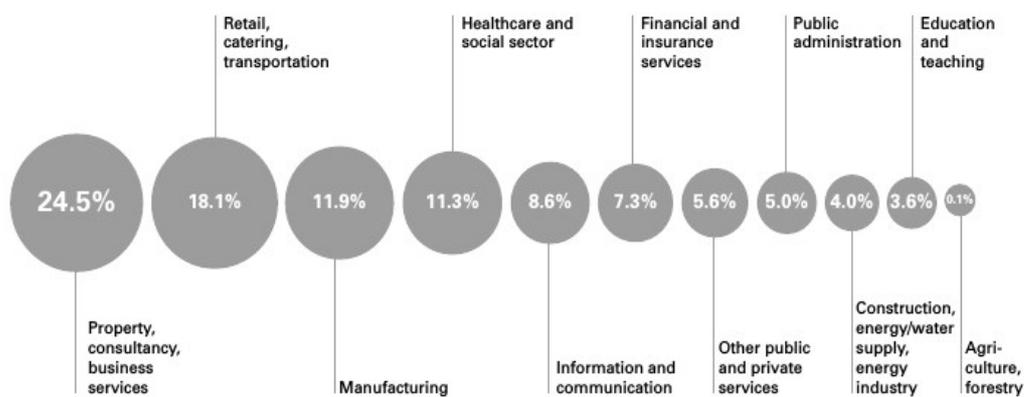
Last year, socially insured employment in Munich rose by 3.1%, an increase of around 24,900 jobs. In both absolute and relative terms, this figure marked the strongest gain in employment since the year 2000. In the past five years alone, more than 88,500 new socially insured jobs have been created in Munich, an increase of 12.1%. All in all, 821,971 people were employed in socially insured jobs in 2016 – a new record for the Bavarian capital.

Most new jobs in 2016 were created in the service sector (22,563), equivalent to growth of 3.4%. At the same time, manufacturing too added 2,302 new jobs, reflecting an increase of 1.8%.

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 Breakdown of employment by economic sectors in Munich, 2016

Employees registered for social security



Source: Federal Employment Agency

Figure 3 Breakdown of employment by economic sectors in Munich, 2016

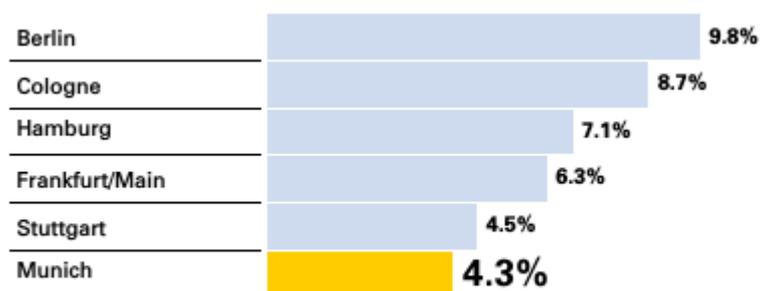
Agriculture, forestry	576
Manufacturing	97 883
Construction, energy/water supply, energy industry	33 275
Retail, catering, transportation	149 154
Information and communication	70 735
Financial and insurance services	60 359
Property, consultancy, business services	201 039
Public administration	40 742
Education and teaching	29 439
Healthcare and social sector	92 935
Other public and private services	45 834
Total	821 971

Source: Federal Employment Agency

Conversely, unemployment declined in the period under review. On average for the year as a whole, a total of 42,938 people were registered as jobless – 2,001 fewer than a year earlier. The average unemployment rate for the year fell by 0.3 percentage points to 4.3%. Munich thus continues to have the lowest unemployment rate of any German city that has 500,000 or more inhabitants.

Figure 4 Unemployment rates in large German cities, 2016

Annual averages



Source: Federal Employment Agency

Economic growth and purchasing power

Gross domestic product (GDP), a traditional indicator for national economies, is also calculated for cities and rural districts. However, the exact figures are only available after a considerable time lag.

Munich's nominal GDP in 2014, for example, was EUR 99.8 billion, reflecting a year-on-year increase of 4.4%. This gain puts Munich ahead of the corresponding national (3.5%) and Bavarian growth rates (3.7%). Munich's share of Bavaria's GDP is 18.9%, while the wider Munich region accounts for 31.2% of Bavaria's GDP. Measured in terms of the relative share of the population – 11.3% of the Bavarian population live in the city of Munich and about 22% in the Munich region – the economic potency of the Bavarian capital stands out even more clearly. GDP per gainfully employed person is an especially telling figure in this context, as it reflects labor productivity among the gainfully employed population of a city or region. In 2014, this indicator stood at EUR 95,182 in Munich, fully 30% higher than the Bavarian average and 39% higher than the national average. Year on year, labor productivity in Munich improved by 2.6%.

Figure 5 Economic growth in Munich and the surrounding region

	2000	2005	2011	2012	2013	2014
GDP in € billion (at current prices in each year)	70.49	75.63	87.09	91.24	95.60	99.76

	Population (2015)	GDP in million € (2014)	GDP per gainfully employed person in € (2014)
Bavaria	12 843 514	526 740	73 330
Munich region	2 848 906	164 668	92 876
City of Munich	1 450 381	99 764	95 182
Outlying districts	1 398 525	64 904	89 547

Source: Bavarian Office of Statistics and Data Processing

For many years, Munich has enjoyed the highest purchasing power of any large German city. Compared to the previous year, purchasing power in the Bavarian capital rose by 0.4% and now stands at EUR 30,901 per capita – 37% higher than the national average. Purchasing power is measured as the sum of all net income and government transfer payments available to private households less all costs such as rent, the cost of living and insurance etc..

Figure 6 Purchasing power in large German cities, 2016



Source: Acxiom Deutschland GmbH

Munich's corporate sector

The register compiled by the Bavarian Office of Statistics shows that 96,092 companies were based in Munich in 2014. Of these, about 45,000 employed a total of 821,971 socially insured persons (in 2016), while the remaining roughly 41,000 businesses were sole proprietorships.

Seven of the nine Bavarian companies listed on the DAX index of Germany's blue-chip companies are headquartered in Munich – more than in any other German city. They are: Allianz Deutschland AG, BMW AG, Infineon Technologies AG, Linde AG, Munich Re AG, Siemens AG and ProSiebenSat.1 Media SE (the latter being based in Unterföhring).

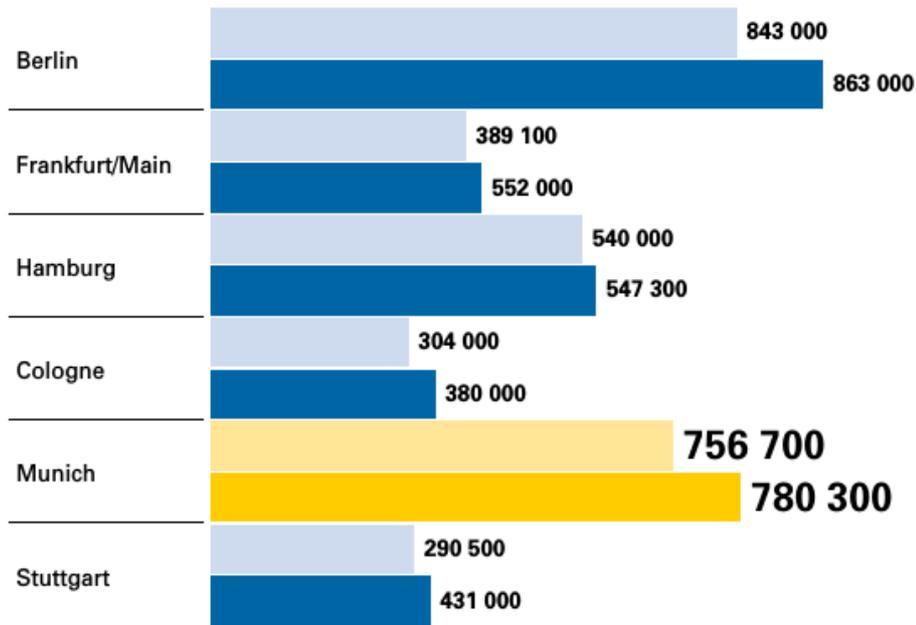
Other Munich firms are listed on the midcap MDAX index (CTS Eventim München AG & Co. KGaA, Deutsche Pfandbriefbank AG, MTU Aero Engines AG, Osram GmbH, Wacker Chemie AG, Rational AG) and the technology-oriented TecDAX index (ADVA Optical Networking SE, Cancom SE, MorphoSys AG, Nemetschek AG, Telefónica Germany GmbH & Co. OHG, Siltronic AG, Wirecard AG). Due to the large number of DAX-listed companies in Munich, 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 2016, the Munich-based companies listed on the DAX, MDAX and TecDAX indices had a cumulative market capitalization of EUR 277 billion. Bonn came second, with EUR 102 billion.

Given its large number of major companies and, in particular, the broad spread of industries represented here, Munich is less dependent on the economic performance of individual players. By contrast, it is noticeable that other cities focus very substantially on a single industry or, in some cases, a single company.

Office property market

Munich's office property market remained very dynamic in 2016. A total of 780.300 m² of office space changed hands, up 3.1% from 2015. This figure positions Munich as Germany's second-largest office property market, after Berlin.

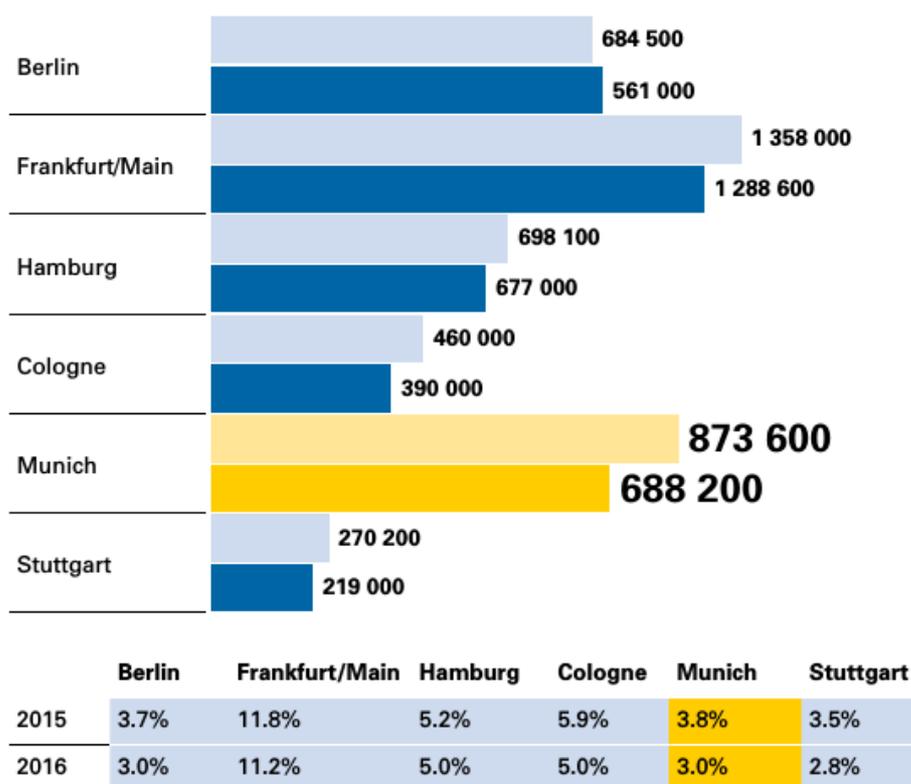
Figure 7 Office space turnover (in m²), 2015-2016



Source: Colliers International

Munich's vacancy rate – an important aspect on the supply side – dropped sharply on average for the year across Germany's foremost office property venues. In particular the supply of modern office space, for which strong demand exists, experienced a further decline in the year under review. The vacancy rate in Munich fell to 3.0% in Munich and was thus 185,400 m² down year on year. At year-end 2016, a total of 688,200 m² of office space stood empty in Munich.

Figure 8 Vacant office space (in m²) and office vacancy rates, 2015-2016



Source: Colliers International

Stable and relentless economic growth coupled with a positive trend in employment is driving this boom in office property markets, and especially so in Munich. This pattern is expected to continue in 2017. Increasingly, however, the (lack of) availability of suitable space will become a bottleneck that could curb the ongoing development of the market.

Local government finance

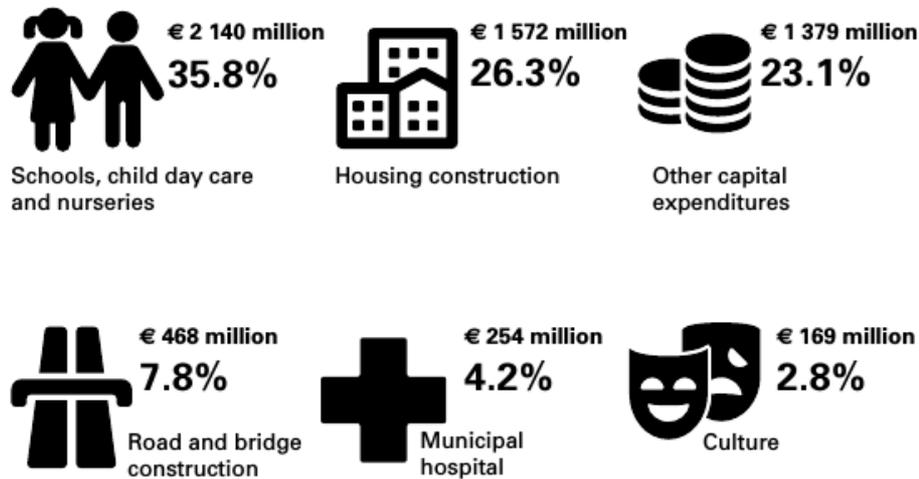
Healthy economic development overall is also continuing to ensure a substantial flow of revenue into local government coffers in Munich. A total of around EUR 6.5 billion flowed into the public purse in 2016, exactly the same amount as in the previous year. Tax receipts – primarily from trade tax and income tax – are traditionally the most important source of the city's funding. Trade tax brought approximately EUR 2.58 billion into local government coffers in 2016 (previous year: EUR 2.45 billion), while income tax revenue rose to EUR 1.08 billion (previous year: EUR 1.05 billion). Both figures set new records.

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 stood at EUR 1.1 billion in 2016. The City Council ratified a volume totaling EUR 6.1 billion for a multi-year invest-

ment program for the years from 2016 to 2020, once again giving Munich a leading position in terms of capital spending compared to other German cities.

Investment 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.

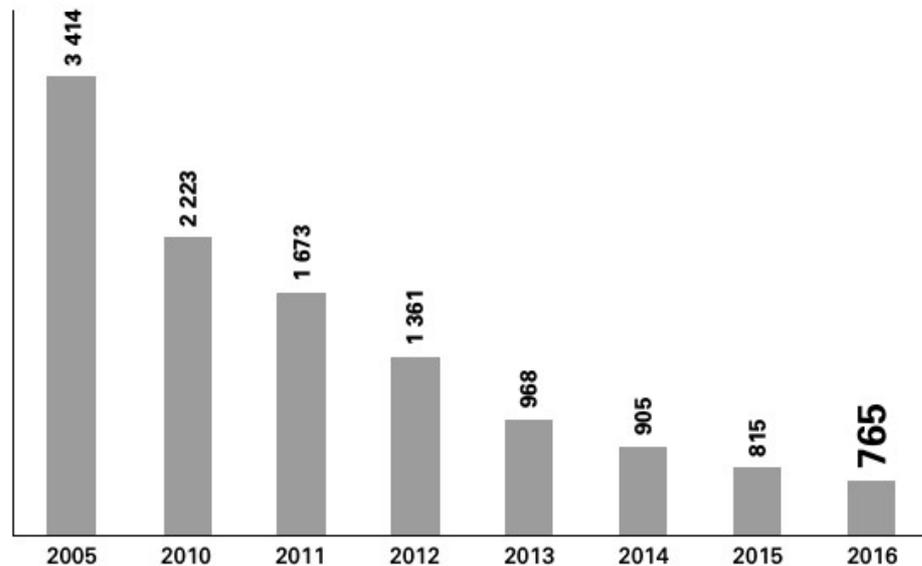
Figure 9 Planned local government investments, 2016-2020



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 to take out new net borrowings. In 2016, its public debt was thus reduced by a total of EUR 49 million to EUR 765 million. Per-capita debt is now down to EUR 498 – the lowest figure since 1981. As in the preceding years, no new borrowings are planned for 2017.

Figure 10 Local government debt in the City of Munich
(EUR million)



Source: City of Munich, City Treasury

Summary and outlook

What is behind the consistently positive development the Munich economy has enjoyed in recent years? Munich's success as a business location is rooted first and foremost in its broad and diverse economic structure. 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. They include electrical engineering, information and communication, the media sector, automotive engineering, medical engineering and biotechnology. At the same time, Munich is excellently placed as a service hub, especially as a one-stop shop for financial and insurance services, as well as in 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: Seven of Bavaria's nine DAX-listed companies are headquartered in Munich, as are a broad base of healthy SMEs and a singularly active start-up community. The latter was drawn to Munich in particular by the presence of so many "industry heavyweights".

In order to ensure that Munich remains an attractive and dynamic place to do business and upholds its outstanding quality of life in the future, the city is compelled to press ahead with and ramp up its proactive location and business development policy, especially with a view to cushioning the side-effects of its current flourishing development:

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. An ade-

quate manufacturing base adds considerable value and facilitates the development of the corporate service sector – including applied research – that has for years driven constant growth in employment. 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, with automotive engineering, financial services and the media in particular experiencing the rapid advance of digitization. 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. Improving the IT infrastructure and delivering broadband access are key issues if Munich-based companies are to stay competitive: The rapid and large-scale expansion of broadband access – driven forcefully by municipal utility company SWM in particular – is an essential precondition for dynamic digitization across all branches of industry.

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 start-up 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. The cultural and creative industries in particular inject innovative stimulus into the regional economy. These fast-growing sectors are experiencing rapid change and serve as a powerful image factor for the entire city.

Small and medium-sized companies (SMEs) form the backbone of the German economy. They are an engine of job creation, but are also 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 highly 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 30 years. Taken together, Munich's eight industry centers are currently home to around 450 firms on rented premises totaling 97,000 m². Especially for small and medium-sized skilled craft firms, industrial companies and wholesalers that require specially fitted buildings and spaces, this concept is a good way to make suitable space available in densely built-up areas of the city. An additional industry center that will provide roughly 10,000 m² of new space for rent in the north of Munich has been ratified by the City Council. The ground was broken for this project in September 2016. Alongside the industry centers, the Munich

Technology Center (MTZ) provides 9,345 m² of space for small start-ups with a focus on technology and innovation, giving them an ideal facility concept and intensive coaching during the start-up phase.

The boom that Munich has experienced in recent years is leading to bottlenecks and shortages, especially with regard to space. Forceful demand for rented apartments has prompted further significant increases in rents and property prices, not only in the core city itself, but also in the surrounding region. Munich's population is still growing strongly and is forecast to continue to do so, which will only further add to spiraling demand. Local government must therefore continue to play its part in setting aside land and constructing suitable buildings in order to ease the pressure on the housing market.

The labor market is already showing signs of the challenges that lie ahead: The shortage of skilled labor will place 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.

It should nevertheless be noted 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 growing unemployment accompanies an increasing shortage of skilled labor. Greater use must therefore also be made of endogenous potential on the local labor market. 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.

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 for the long term in order to underwrite Munich's unique qualities going forward. As a player in the global context, the city thus needs flexibility, speed and above all a willingness to accept and embrace the necessary changes.

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