

Munich Annual Economic Report 2018

Preface

Germany is experiencing a boom phase that will continue through 2018. Its economy grew by 2.2 percent in 2017, and similarly strong expansion is expected for 2018. The current upswing has been in progress for years, and is remarkable in particular for the continuous and vigorous increase in employment it has seen. Last year alone, the number of gainfully employed persons rose by a further 1.5 percent to 44.3 million. Conversely, the unemployment rate for Germany as a whole dropped to 5.7 percent – a new record low since reunification.

Munich is both participating in and driving this upturn. Virtually every regional economic indicator aligns – impressively, in some cases – with this positive development. In 2017 alone, socially insured employment in Munich increased by another 3.3 percent, equivalent to 27,300 more regular jobs. This means that, over the past five years, the addition of nearly 95,000 socially insured jobs has boosted employment in Munich by 12.5 percent, with unemployment declining at the same time. The annual average jobless rate in the Bavarian capital stood at 3.9 percent. Local and regional economic players and associations – whose assessment of the economy is surveyed each year in the preparation of this report are well satisfied with both overall developments and the trend in their specific industries. In the current year (2018), they also expect the stable economic uptrend to continue. That said, the bottlenecks associated with a boom are becoming ever more apparent: Skilled and specialist workers are now very difficult to find on the labor market, depending on the industry. At the same time, both housing and work space is in ever shorter supply.

Munich is, however, not merely a potent economic powerhouse, but also a dynamic hub of innovation that is well placed for the future too. In the field of digitization in particular, the Munich region 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, nourished not least by the first-rate local academic and research landscape. The Bavarian capital is thus ideally placed to remain a successful place to do business going forward.



Josef Schmid
Deputy Mayor and
Head of the Department of Labor and Economic Development

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Abridged version of the Munich Annual Economic Report 2018

The Munich Annual Economic Report 2018 provides a comprehensive overview of economic development in Munich in 2017 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 2017. 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 Germany. 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 factors in Munich's lasting success. Together, they create an environment that is singularly conducive to the development of new products and services.

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 provides forceful testimony to this claim:

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

Institute and customer	Sample	Ranking based on	Position
"City Rankings 2017" IW Consult, commissioned by Wirtschaftswoche and ImmobilienScout24 (11/2017)	70 large German cities	Assessment of the level, dynamism and sustainability of economic development and prosperity based on socioeconomic indicators	First place for the City of Munich for level, second place for dynamism and future sustainability
"European Regional Economic Growth Index – E-REGI 2017" LaSalle Investment Management (10/2017)	300 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	Seventh place for the Munich region
"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
"Mercer Quality of Living Ranking 2017" Mercer – global management consultant (3/2017)	231 cities worldwide	Assessment of quality of life based on political, social, economic and environ- mental considerations	Fourth place for the City of Munich compared with cities worldwide; first place for quality of life in Germany
"Prognos Future Atlas 2016 and Digitization 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 ad- ministrative district of Munich; second place for the City of Munich; first place by a huge 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

Source: Munich as a business location. Facts and Figures, 2018

A population of 1.55 million (in April 2018) makes Munich Germany's third-largest city, after Hamburg (1.88 million) and Berlin (3.71 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 the context of 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 17,629 children were thus born in the city in 2017, yielding a very high birth surplus of 6,130.

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. The indication is 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% - 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% 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 500,000 or more inhabitants.

Labor market and employment

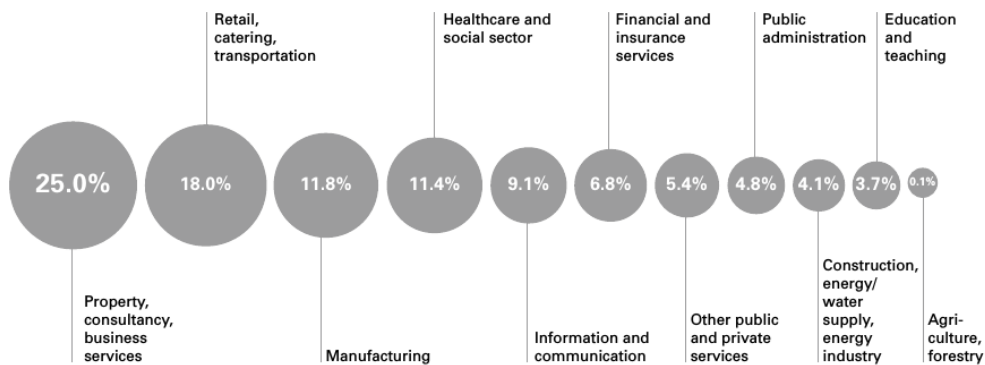
Last year, socially insured employment in Munich rose by 3.3%, an increase of around 27,300 jobs. In both absolute and relative terms, this figure marked the strongest gain in employment since the year 2000, when nearly 33,000 new jobs were created (a gain of 5.1%). For seven years now, the Bavarian capital has been enjoying above-average employment growth well in excess of the 2 percent mark and, in three of those seven years, even above the 3 percent mark. Since 1974, Munich has never had a time when employment growth came anywhere near this exceptionally high level.

Most new jobs in 2017 were created in the service sector (23,635), equivalent to growth of 3.4%. At the same time, manufacturing too added 3,693 new jobs, reflecting an increase of 2.8%.

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

Figure 2 Distribution of employment in 2017

Employees registered for social security



Source: Federal Employment Agency

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

Agriculture, forestry	551
Manufacturing	100 474
Construction, energy/water supply, energy industry	34 477
Retail, catering, transportation	152 973
Information and communication	77 175
Financial and insurance services	57 850
Property, consultancy, business services	212 328
Public administration	40 454
Education and teaching	31 215
Healthcare and social sector	97 287
Other public and private services	45 611
Total	850 395

Source: Federal Employment Agency

Figure 4 Employment in selected growth sectors

Employees registered for social security

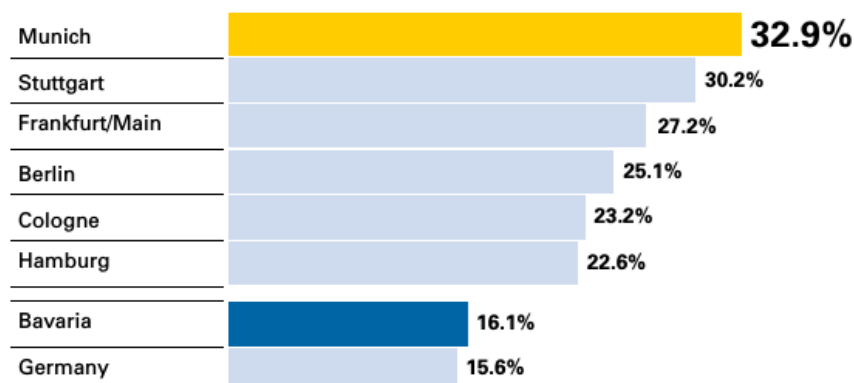
	2012	2017	Increase absolute	Increase in %
Construction	18 194	21 610	3 416	18.8%
Legal advice, tax consultancy and auditing	22 702	27 423	4 721	20.8%
Business services	173 687	212 328	38 641	22.2%
Healthcare and social services	78 613	97 287	18 674	23.8%
Information and communication	57 761	77 175	19 414	33.6%
Architects, consulting engineers and laboratories	20 769	29 382	8 613	41.5%
Total employment	733 967	850 395	116 428	15.9%

Source: Federal Employment Agency

One remarkable aspect of the Munich labor market is the high level of employees' qualifications. The proportion of employees who have completed higher education stands at 32.9% in Munich – by far the highest figure in any large German city. The comparative proportional figures for Bavaria and Germany stand at 16.1% and 15.6% respectively.

Figure 5 University graduates in 2017

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

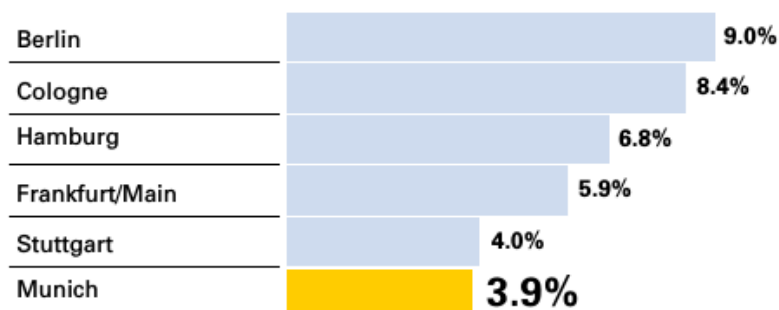


Source: Federal Employment Agency

The positive trend on the labor market is likewise reflected in the unemployment statistics, which once again fell sharply in Munich in 2017. An annualized average jobless rate of 3.9% marked the lowest figure for 20 years in the period under review. On average for the whole of 2017, 40,500 people were registered as unemployed – a year-on-year decline of 2,438 or 5.7%. 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, 2017

Annual averages



Source: Federal Employment Agency

On the downside, these positive developments are worsening the shortage of skilled and specialist labor, such that it is already becoming difficult to fill vacancies and apprenticeships. Efforts must thus be stepped up to harness the labor potential of older people, women, the long-term unemployed and migrants, and to provide these people with suitable qualifications. The Chamber of Industry and Commerce for Munich and Upper Bavaria puts unmet demand for skilled and specialist labor in the Munich region – the city itself plus the surrounding rural districts – at around 71,000 people. That said, the Munich region is suffering slightly less from the shortage of specialist labor than Bavaria as a whole, a fact attributable to the region's attraction as a place to live and work and the associated inward migration to the Munich area.

Economic growth and purchasing power

Gross domestic product (GDP) is the standard measure of a given region's economic performance. As such, it is a key performance indicator (KPI) in economic reporting and is therefore also calculated for cities and rural districts. However, the exact figures at this level are only available after a considerable time lag. Munich's nominal GDP in 2015, for example, was EUR 104.2 billion, reflecting a year-on-year increase of 4.3%. This gain puts Munich ahead of the corresponding national (3.7%) and Bavarian growth rates (3.7%). Munich's share of Bavaria's GDP is 19.0%, while the wider Munich region accounts for 31.1% 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 22.2% 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 2015, this indicator stood at EUR 98,041 in Munich, fully 30% higher than the Bavarian average and 39% above the national average. Year on year, labor productivity in Munich improved by 2.6%.

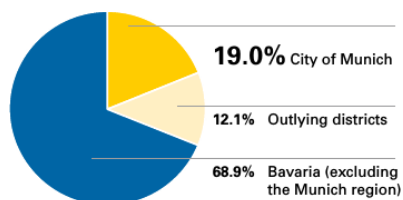
Figure 7 Economic growth in Munich and the surrounding region

	Population (2016)	GDP in million € (2015)	GDP per gainfully employed person in € (2015)
Bavaria	12 916 927	548 360	75 387
Munich region	2 870 585	170 581	94 553
City of Munich	1 457 856	104 192	98 041
Outlying districts	1 412 729	66 389	89 557

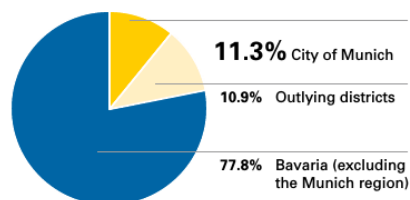
Source: Bavarian Office of Statistics and Data Processing

Figure 8 Munich's share of Bavaria's population and GDP, 2015

Munich's share of Bavaria's GDP



Munich's share of Bavaria's population



Source: Bavarian Office of Statistics and Data Processing

For many years, Munich has enjoyed by far the highest purchasing power of any large German city. Compared to the previous year, purchasing power in the Bavarian capital rose by 4.0% and now stands at EUR 32,139 per capita – 40% higher than the national average. Moreover, Munich is also flanked by two of the rural districts with the strongest purchasing power in Germany: The Starnberg rural district (EUR 32,190 per capita) comes top of the list, with the Munich rural district ranking

fourth among the rural districts and regions in Germany with the highest purchasing power. The city of Munich itself has moved up to second place in this comparative table, no least due to the exceptionally strong gain in purchasing power witnessed over the past year.

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. To arrive at a realistic estimate of purchasing power, it is necessary to juxtapose the cost of living in a region with that in a city. These figures vary considerably from region to region, and the cost of living is not documented by regional statistical offices. A number of financial service providers do, however, supply relevant indicators: In 2016, online bank VEXCASH calculated the cost of living in Germany's ten largest cities¹ and came to the conclusion that Munich has the third-highest cost of living in the country, after Frankfurt and Stuttgart. In contrast, FinanceScout24 lists the Bavarian capital in first place with the highest cost of living.² What all studies and investigations have in common, however, is a clear reference to the high cost of housing in Munich, which drives up the general cost of living.

Figure 9 Purchasing power in large German cities, 2017



Source: Acxiom Deutschland GmbH

Munich's corporate sector

The register compiled by the Bavarian Office of Statistics shows that 94,200 companies were based in Munich in 2016. Broken down by workforce size, 91% of these companies are micro-enterprises with up to nine socially insured employees. 8.5% of the firms resident in Munich are classed as small or medium-sized enterprises (SMEs), with between ten and 250 employees on their payroll. The remaining 0.5 percent – 458 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 Munich – more than in any other German city. They are: Allianz SE, BMW AG, Linde AG, Munich Re AG, Siemens AG and Infineon Technologies AG in Neubiberg.

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, Pro Sieben Sat1.Media SE and Wacker Chemie AG) and the technology-oriented TecDAX index (ADVA Optical Networking SE, Cancom SE, MediGene AG, MorphoSys AG, Nemetschek AG, Siltronic AG, Telefónica Germany GmbH & Co. OHG and 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

¹ See https://www.vexcash.com/blog/wp-content/uploads/2016/08/Infografik_VEXCASH_Lebenskosten-in-Deutschland-2016.png (in German only)

² See <https://www.financescout24.de/wissen/studien/lebenshaltungskosten> (in German only)

cities' "stock market league", in which companies' market capitalization is attributed to their home city. In 2017, the Munich-based companies listed on the DAX, MDAX and TecDAX indices had a cumulative market capitalization of EUR 350.1 billion. Bonn came second, with EUR 120 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 concentrate very substantially on a single industry or, in some cases, a single company.

Startups and new businesses

At the same time, Munich is also a major venue for startups and new businesses. The local startup ecosystem boasts a vibrant, innovative entrepreneurial culture that creates ideal climate for ambitious startups. One reason is a balanced mix of conducive conditions that combines success factors such as talents, successful international companies, capital, infrastructure and extensive networks with a strong commitment on the part of local government. Other key contributors to the region's startup success are Munich's outstanding array of universities, together with their potent entrepreneurship centers.

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 Californian 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 of the twelve sectors in which startups were found to be active. The Bavarian capital was thus acknowledged to have a leading position in financial technology and insurance technology (fintech and insurtech), medicine and mobility. Eleven percent of the venture capital invested in Munich between 2012 and 2017 targeted the fintech and insurtech sector, for example. Ten percent was channeled into the mobility sector, which is also named as a major driver of startup activities in the area of "advanced manufacturing and robotics". Exceptional strength in comparison with other global locations is also attributed to Munich's biotechnology and pharmaceutical industries, in which more than 350 locally based companies operate.

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 met with great success in operating the Munich Business Startup Office (MEB),³ 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 to make it easier for 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:⁴ 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. It combines the factors funding, customer retention, marketing and market testing, which makes it attractive both to startups and existing firms.

³See www.gruenden-in-muenchen.de/en/

⁴See www.muenchen.de/crowdfunding

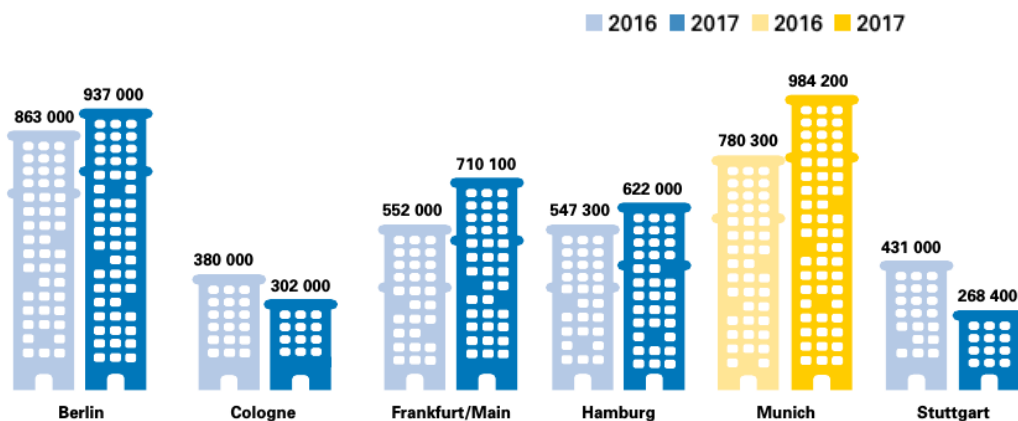
The local startup community receives additional support from the online portal Munich Startup, which, in its capacity as a media partner, pools information on activities in the startup scene, forges networks between startup entrepreneurs and reports on regional startup events. The Munich Startup portal⁵ 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

The office property markets in Germany's six largest cities (Berlin, Cologne, Frankfurt, Hamburg, Munich and Stuttgart) reflect the boom in the German economy. Office space turnover rose to around 3.8 million m² in the period under review, equivalent to year-on-year growth of 6 percent. The ten-year average was exceeded by 31 percent. Turnover of more than 980,000 m² projected Munich to the top of the table. Berlin, which has been the front-runner for some years, was pushed back into second place.

Figure 10 Office space turnover, 2016-2017

in m²



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 2.4 percent, leaving the volume of vacant office property at 536,000 m². The supply of modern office space in particular has shrunk further throughout the country in the face of vigorous demand.

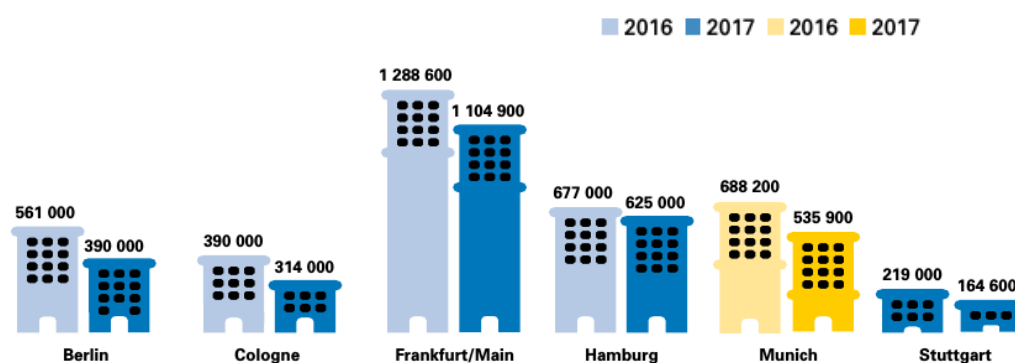
⁵ see: <http://www.munich-startup.de/>

Figure 11 Office vacancy rates

	Berlin	Cologne	Frankfurt/Main	Hamburg	Munich	Stuttgart
2016	3.0%	5.0%	11.2%	5.0%	3.0%	2.8%
2017	2.0%	4.0%	9.6%	4.5%	2.4%	2.1%

Source: Colliers International

Figure 12 Vacant office space in m²



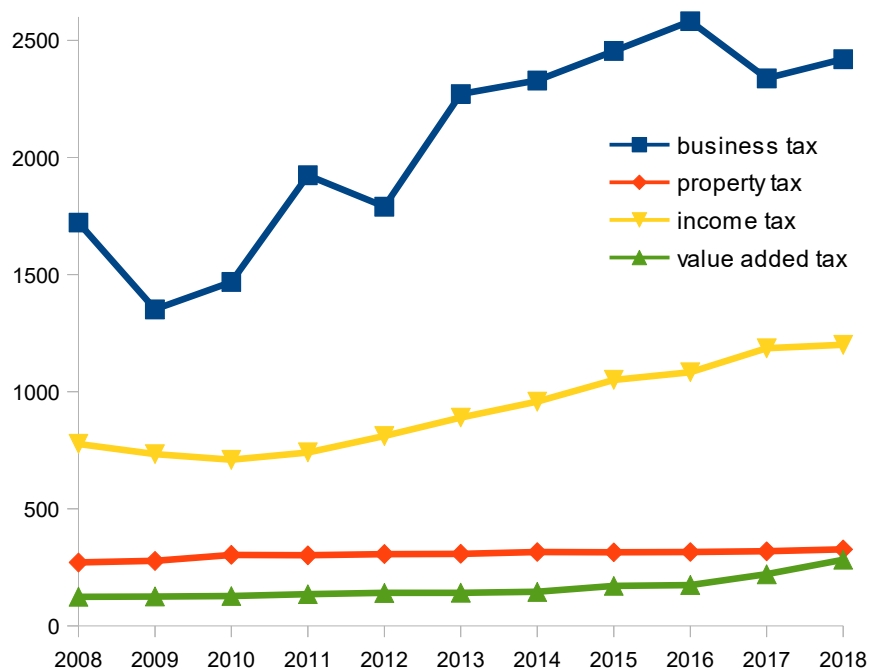
Source: Colliers International

Stable and relentless economic growth coupled with the positive trend in employment is driving this boom in office property markets, especially so in Munich. This pattern is expected to continue in 2018. 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

Like that of other cities, the financial situation of the City of Munich benefited from generally positive economic development in Germany in the year under review. A total of around EUR 6.7 billion flowed into the public purse in 2017, 3.3 percent more than in the previous year. Tax receipts, the most important source of the city's funding, accounted for 60.3 percent of total receipts in 2017. Business tax is the most important single levy, but dipped slightly year on year in 2017 for the first time since 2011. Business tax brought approximately EUR 2.34 billion into local government coffers in 2017 (previous year: EUR 2.68 billion), while income tax revenue rose to EUR 1.19 billion (previous year: EUR 1.08 billion).

Figure 13 Receipts from business, income, property and value added tax

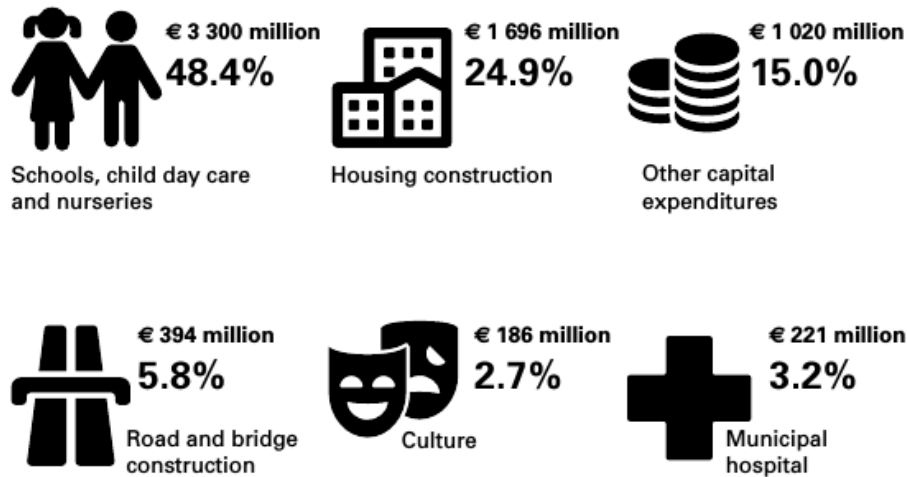


Source: City of Munich, City Treasury

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 stood at EUR 790 million in 2017, with capital expenditure of EUR 1.1 billion planned for 2018. The City Council ratified a volume totaling EUR 7.3 billion for a multi-year investment program for the years from 2017 to 2021, as a result of which Munich will in future maintain its 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 14 Planned local government investments, 2017 - 2021

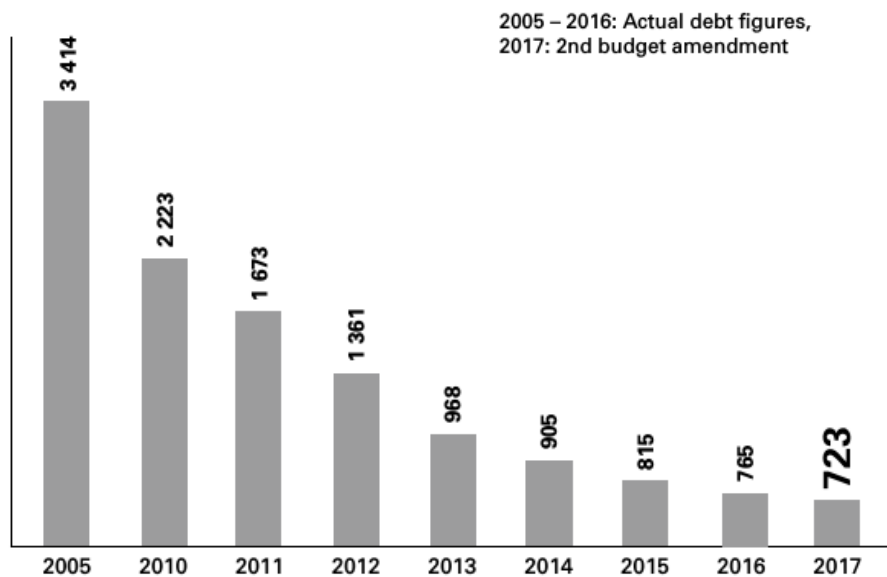


Source: City of Munich, City Treasury

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 2017, its public debt was thus reduced by a further EUR 42 million, leaving the city's public debt at EUR 724 million at year-end 2017. Per-capita debt is now down to EUR 474 – the lowest figure since 1981. As in the preceding years, no new net borrowings are planned for 2018.

Figure 15 The City of Munich's local government debt

in € million



Source: City of Munich, City Treasury

Summary and outlook

Given that the economic upturn that has persisted for many years in Germany gained still further momentum in the period under review, it is certainly not unreasonable to speak of a boom. The country's economy grew by 2.2 percent in 2017; a similar pattern of expansion is expected in 2018. One remarkable feature of the current upswing is a strong and continuous increase in employment, coupled with shrinking unemployment. The German jobless rate fell to 5.7 percent in 2017 – the lowest level since reunification. The Bavarian capital is not merely being carried along by these developments, but is actively shaping and driving them far beyond its own immediate region. Yet again, the above-average gain in employment in Munich remains astonishing.

What are the reasons for such 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. They include information and communication in particular, but also electrical engineering, 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: Six of Bavaria's eight DAX-listed companies are headquartered in Munich, as are a broad base of healthy SMEs and a singularly active start-up community.

To ensure that Munich remains an attractive and dynamic business hub 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 negative side-effects of its 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 adequate 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. 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 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.

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 m². 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 m² floor space for around 50 small to medium-sized enterprises.

Alongside the industry centers, the Munich Technology Center (MTZ) provides 9,400 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.

Private providers of coworking spaces too are increasingly entering the marketplace, 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. On the office property market, turnover hit a new record in 2017. Forceful 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. 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 unemployment persists alongside 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 is 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. As a player in the global context, the city thus needs flexibility, speed and above all a willingness to be open to and embrace the necessary changes.

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