

Luxembourg Business Compass

16th Survey Wave

May 2017

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INTRODUCTION

In April 2009, top decision-makers at the largest companies in Luxembourg, as defined by the number of employees, were interviewed for the first time within the framework of the *Luxembourg Business Compass*. Using this instrument, the aim was to establish an economic indicator—for the first time ever—that could be employed to ascertain Luxembourg business leaders' expectations regarding the future economic trend in Luxembourg at regular intervals. The survey focuses particularly on how business leaders expect the Luxembourg economy will develop in the next 12 months, along with their expectations and plans for their own companies' future development. These core questions are supplemented by varying questions pertaining to business or politics.

In May 2017, the survey for the *Luxembourg Business Compass* was conducted for the sixteenth time. As with the prior survey waves, the INSTITUT FÜR DEMOSKOPIE ALLENSBACH was commissioned by KPMG S.A.R.L. to design the survey methodologically, develop the questionnaire in cooperation with the client, confidentially process the anonymous data collected and compile a report on the findings. After being notified about the survey in writing or by telephone, a total of 59 top decision-makers were interviewed using an online questionnaire in English in the time from May 2 – 26, 2017. As in all of the previous survey waves, it was also possible to draw a top-notch sample for the present survey: in 15 percent of the cases, the interview was completed by the company owner him- or herself, while about three quarters of the respondents either belong to the executive board or top management of their companies (76 percent), and the remaining 9 percent hold other executive positions.

The companies were selected based on the STATEC directory, "Les principaux employeurs au Luxembourg d'après l'effectif classés par branche d'activité économique de la NACE Rév.2, Situation au 1er janvier 2016 (édition juin 2016)." In drawing the sample, companies were selected from the different business sectors in line with these sectors' share of the gross domestic product in Luxembourg. Within

the different economic sectors, the largest companies—as determined by the number of employees—were included in the investigation.

The present report summarizes the most important findings of the study and presents them in graphic form. The report is supplemented by a basic volume of tables showing the responses to all questions in tabular form.

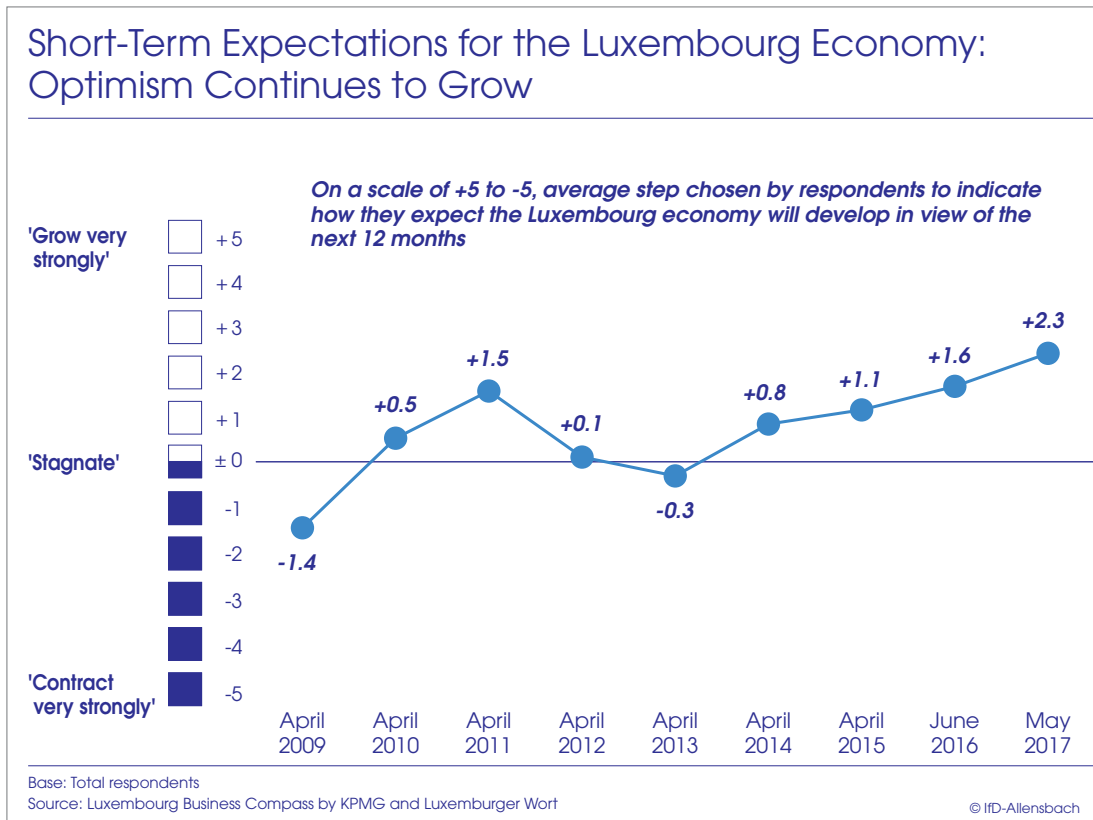
Allensbach on Lake Constance, INSTITUT FÜR DEMOSKOPIE ALLENSBACH
June 8, 2017

FINDINGS

Luxembourg business leaders are highly optimistic about the economic outlook

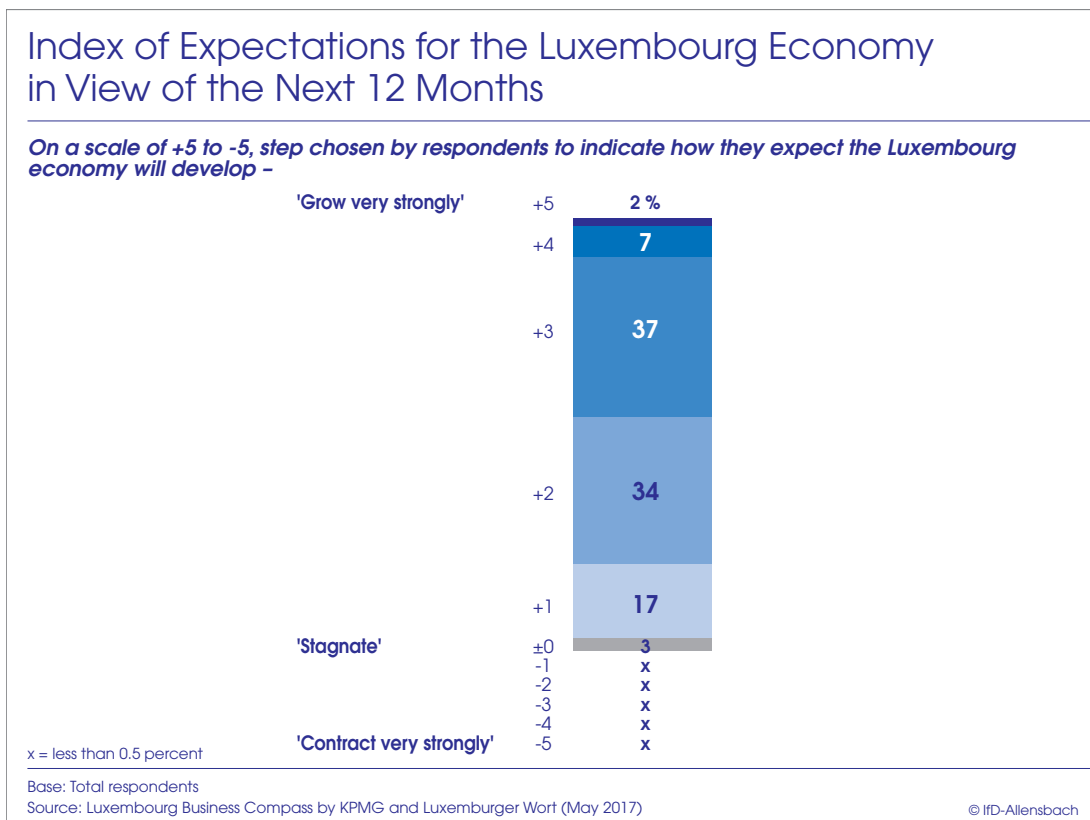
Luxembourg business leaders anticipate strong economic growth in the coming year. Their expectations for the economic development over the next 12 months are currently more positive than they were in any previous waves of the *Luxembourg Business Compass*. On an 11-step scale ranging from '-5' ("economy will contract very strongly") to '+5' ("economy will grow very strongly"), respondents currently choose an average value of +2.3. Their expectations have thus improved for the fourth year in a row (Figure 1).

Figure 1



In this regard, business leaders' expectations for the next 12 months are very homogeneous: almost three quarters choose steps +2 and +3 on the scale (71 percent), along with 9 percent who expect even stronger economic growth. Only 17 percent anticipate a somewhat lower level of growth and a mere 3 percent believe the economy will stagnate. Remarkably, none of the business leaders interviewed expect that the economy will contract over the next 12 months (Figure 2).

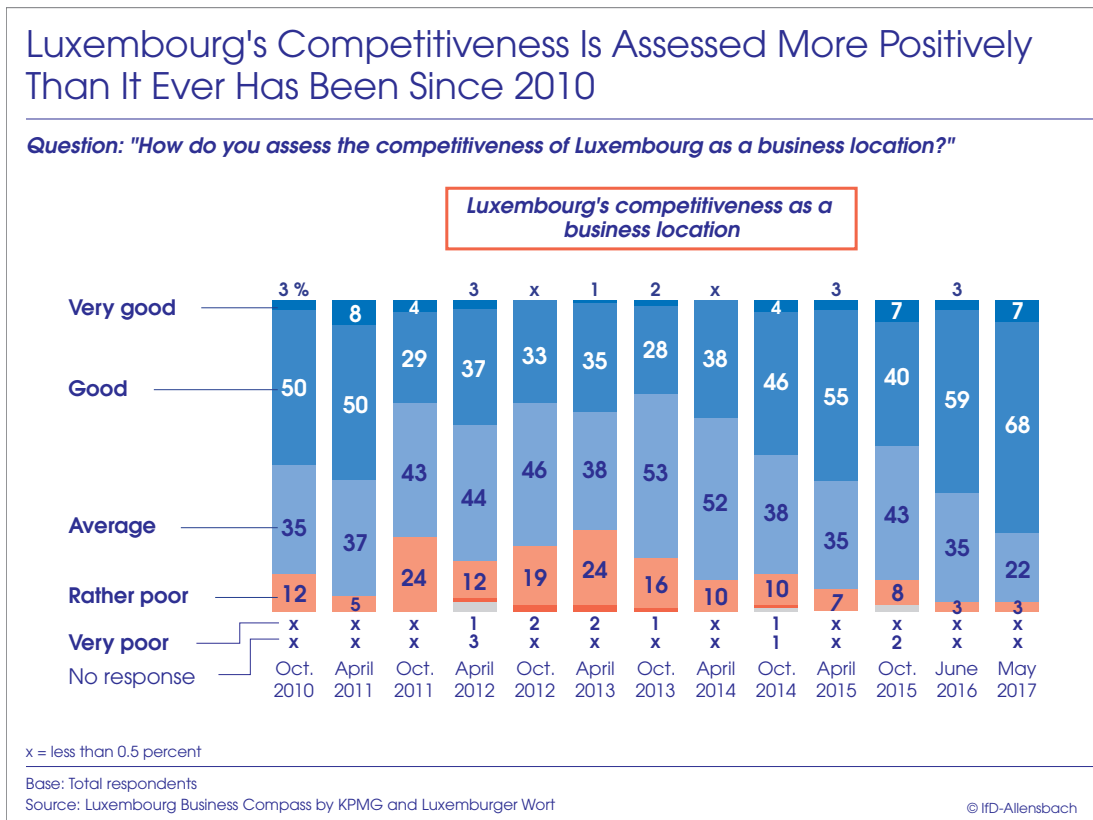
Figure 2



Luxembourg's competitiveness is assessed more positively than ever before, although business leaders also perceive a need for major reforms in the long run

When it comes to Luxembourg's competitiveness as a business location, the assessments given by Luxembourg business leaders are currently more positive than they have ever been since the year 2010, when this indicator was first ascertained within the framework of the *Luxembourg Business Compass*. Three quarters of top decision-makers now assess the country's competitiveness as either "good" (68 percent) or "very good" (7 percent). Only 22 percent rate the country's competitiveness as "average," while just 3 percent say it is "rather poor" (Figure 3).

Figure 3



At the same time, a vast majority of business leaders do perceive—particularly in light of Jeremy Rifkin's study, "The Third Industrial Revolution," which was published a few months ago—either a great (74 percent) or very great (10 percent) need to reform the Luxembourg economy in the long run (Figure 4). When it comes to the reform measures suggested in the Rifkin study, about one third of the business leaders interviewed say that these measures are pointing in the right direction and an additional 39 percent believe they are pointing at least partly in the right direction. None of the top decision-makers interviewed think that the measures are pointing in the wrong direction on the whole. Nevertheless, it should be noted that about one quarter of all respondents say they are not sufficiently familiar with the study and thus cannot express any opinion on it (Figure 5).

Figure 4

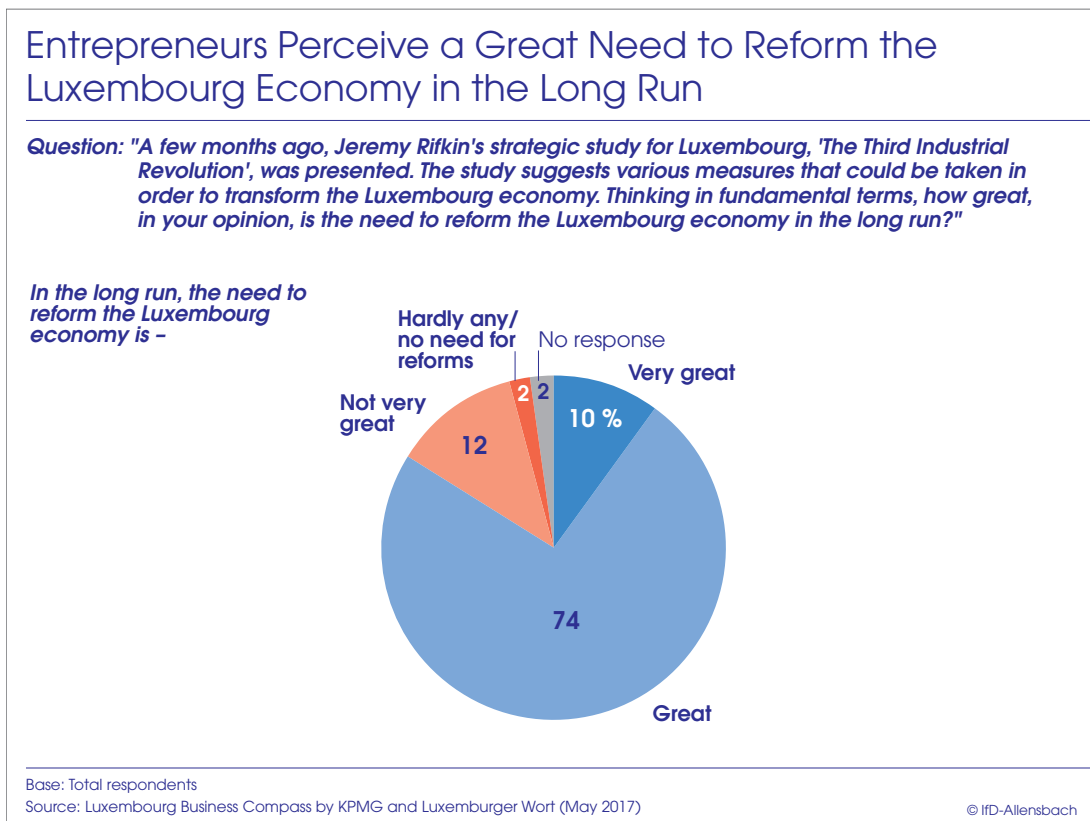
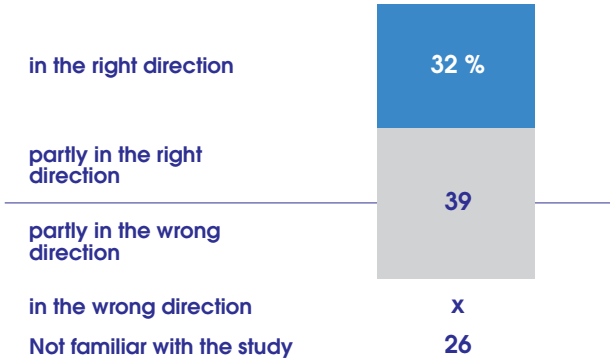


Figure 5

The Measures Suggested in the Rifkin Study Are Pointing At Least Partly in the Right Direction

Question: "Thinking of the measures suggested in the Rifkin study, would you say on the whole that these measures are pointing ...?"

On the whole, the measures suggested in the Rifkin study are pointing –



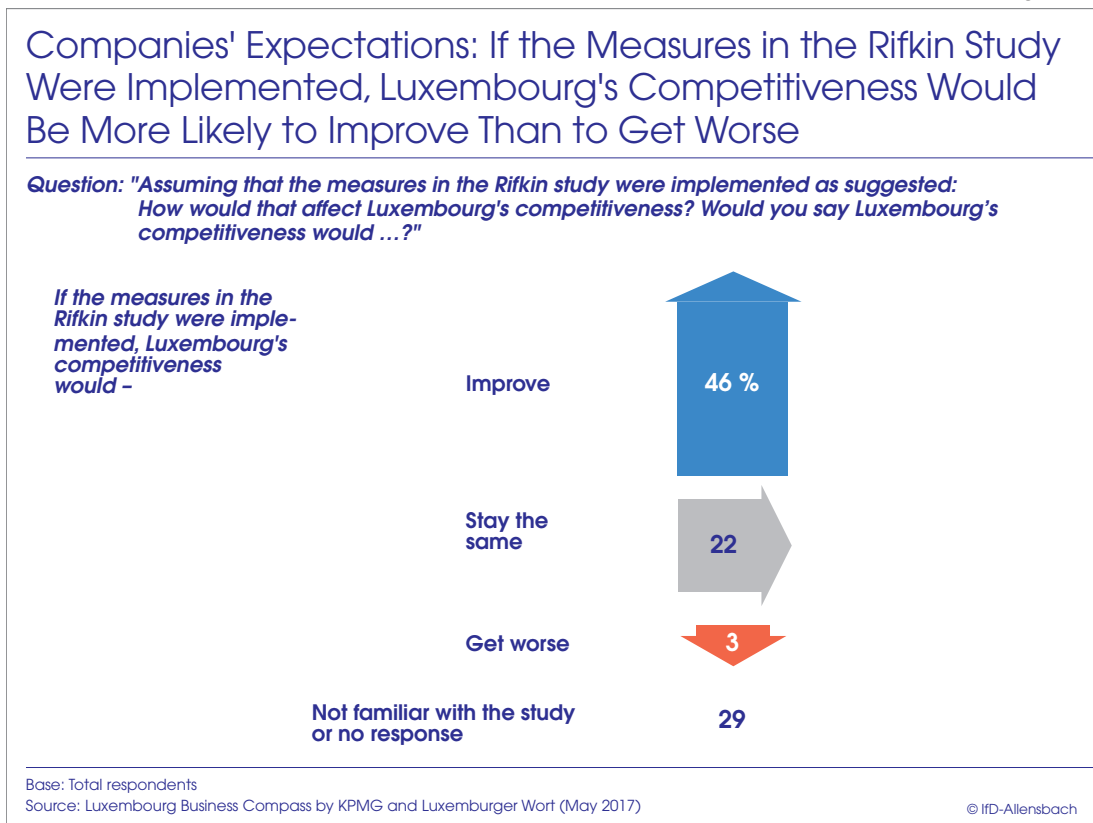
x = less than 0.5 percent
Difference between the percentages shown and 100 percent: no response

Base: Total respondents
Source: Luxembourg Business Compass by KPMG and Luxemburger Wort (May 2017)

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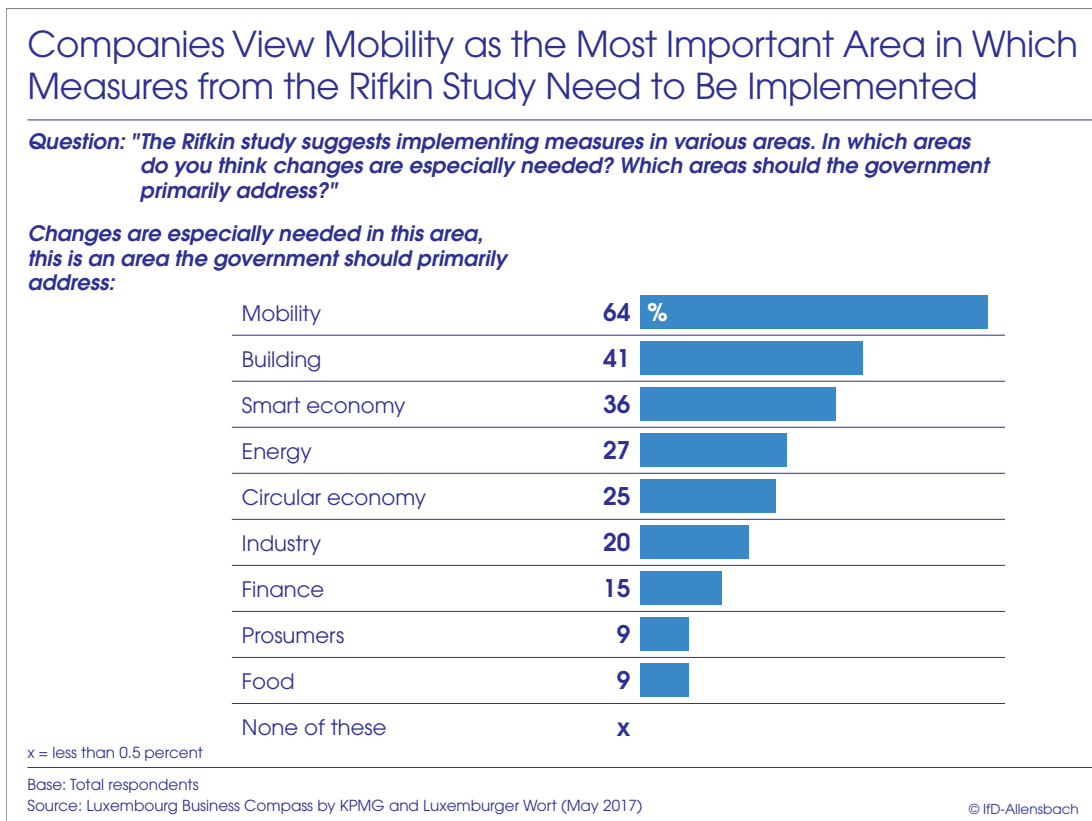
Accordingly, a relative majority of 46 percent of all respondents expect that the country's competitiveness would improve if the measures suggested in the Rifkin study were implemented. 22 percent assume that implementing these measures would have hardly any influence on Luxembourg's competitiveness and only 3 percent expect a negative impact in this regard (Figure 6).

Figure 6



Of the various economic and social areas examined in the Rifkin study, Luxembourg business leaders are by far most likely to perceive a need for reform in the area of "mobility." About two thirds are of the opinion that reforms are especially needed in this area (64 percent). This is followed by the areas of "building" and "smart economy," which are cited by 41 and 36 percent, respectively. In contrast, only few respondents perceive any urgent need for reforms in the areas of "food" and "prosumers" (9 percent each). Likewise, when it comes to the area of "finance," only 15 percent feel there is a need for major changes (Figure 7).

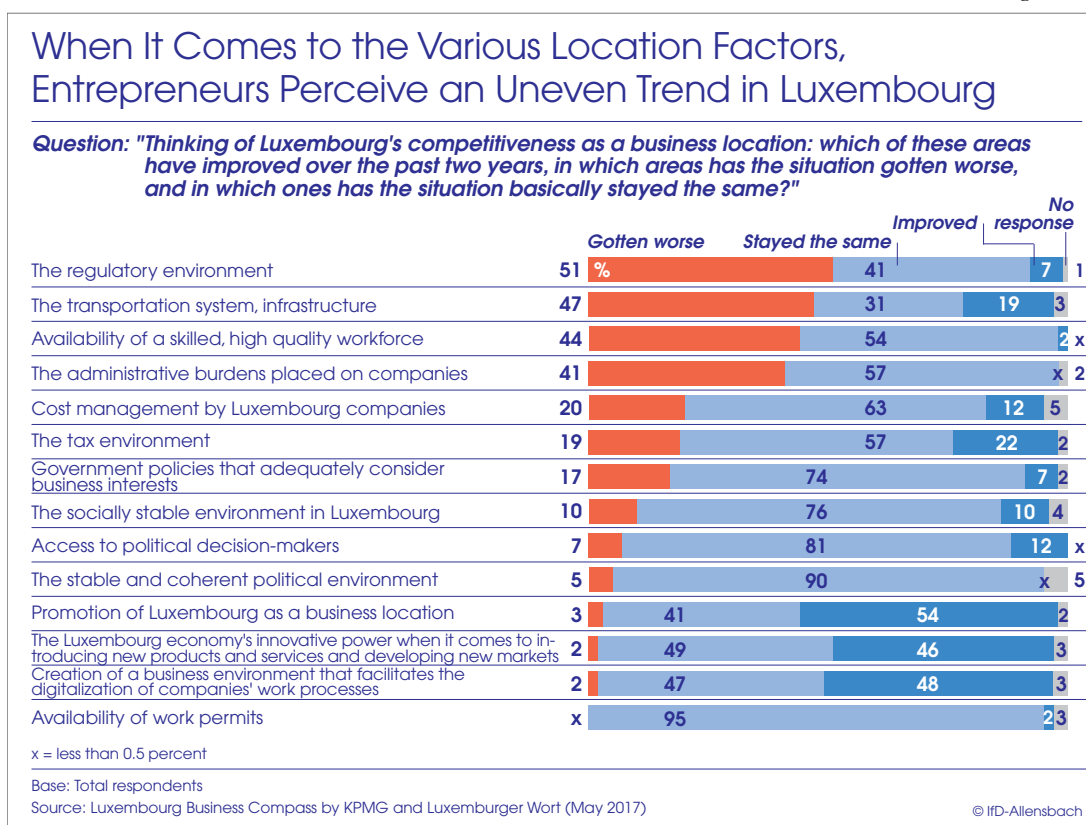
Figure 7



When it comes to how the various factors that contribute to Luxembourg's competitiveness as a business location have developed over the past two years, Luxembourg business leaders tend to perceive very uneven trends. Thus, assessments of how these areas have developed are clearly negative on balance with respect to the regulatory environment, the infrastructure, the availability of a skilled, high quality workforce, along with the administrative burdens placed on companies.

In contrast, top decision-makers perceive a clearly positive trend on balance in connection with the promotion of Luxembourg as a business location, the innovative power of the Luxembourg economy and the creation of a business environment that facilitates the digitalization of companies' work processes (Figure 8)

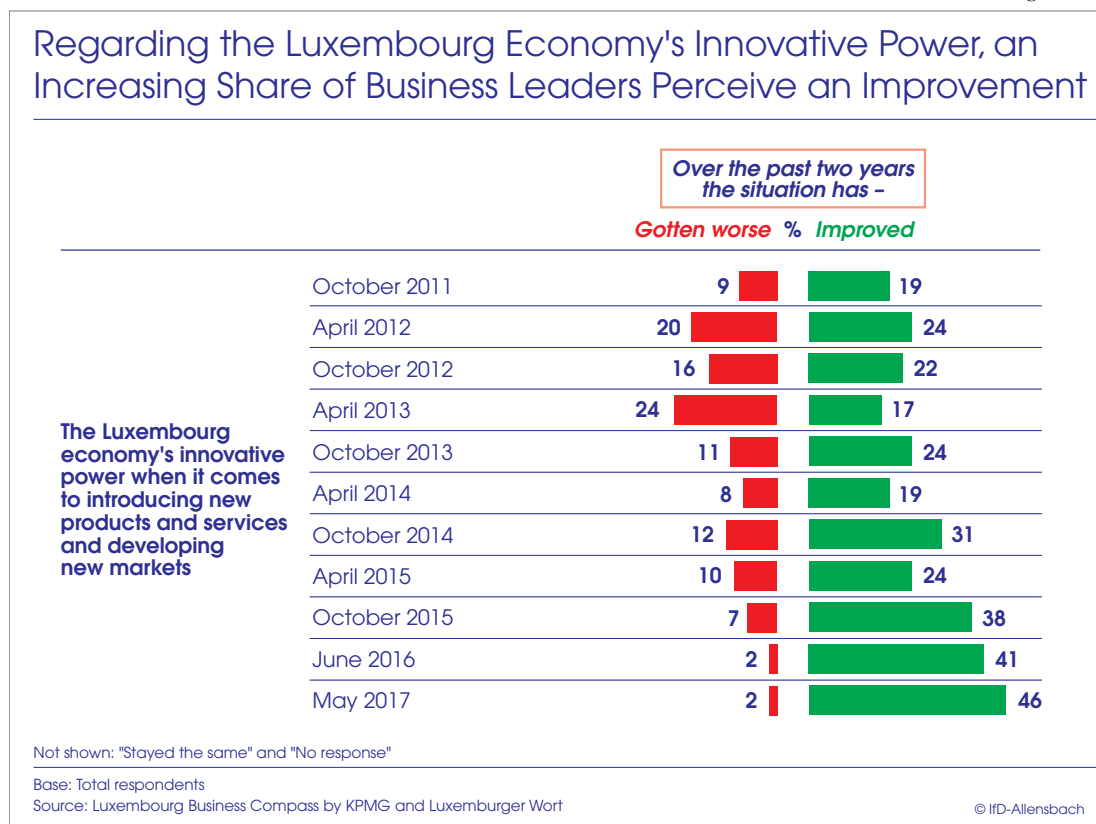
Figure 8



On the whole, assessments of the development of the various location factors are remarkably positive in comparison with the assessments given in prior years, a finding which is in line with the highly positive assessments of Luxembourg's competitiveness ascertained in the current survey wave (see Figure 3 above).

Thus, the share of business leaders who perceive a positive trend with respect to the Luxembourg economy's innovative power has grown even more in comparison with prior years (Figure 9).

Figure 9



For the first time since these location factors were ascertained within the framework of the *Luxembourg Business Compass*, assessments of the development of the tax environment are now positive on balance (Figure 10), while opinions on the socially stable environment are—also for the first time—not negative (Figure 11). Moreover, opinions on the stable political environment are not negative for the first time in six years (Figure 12).

Figure 10

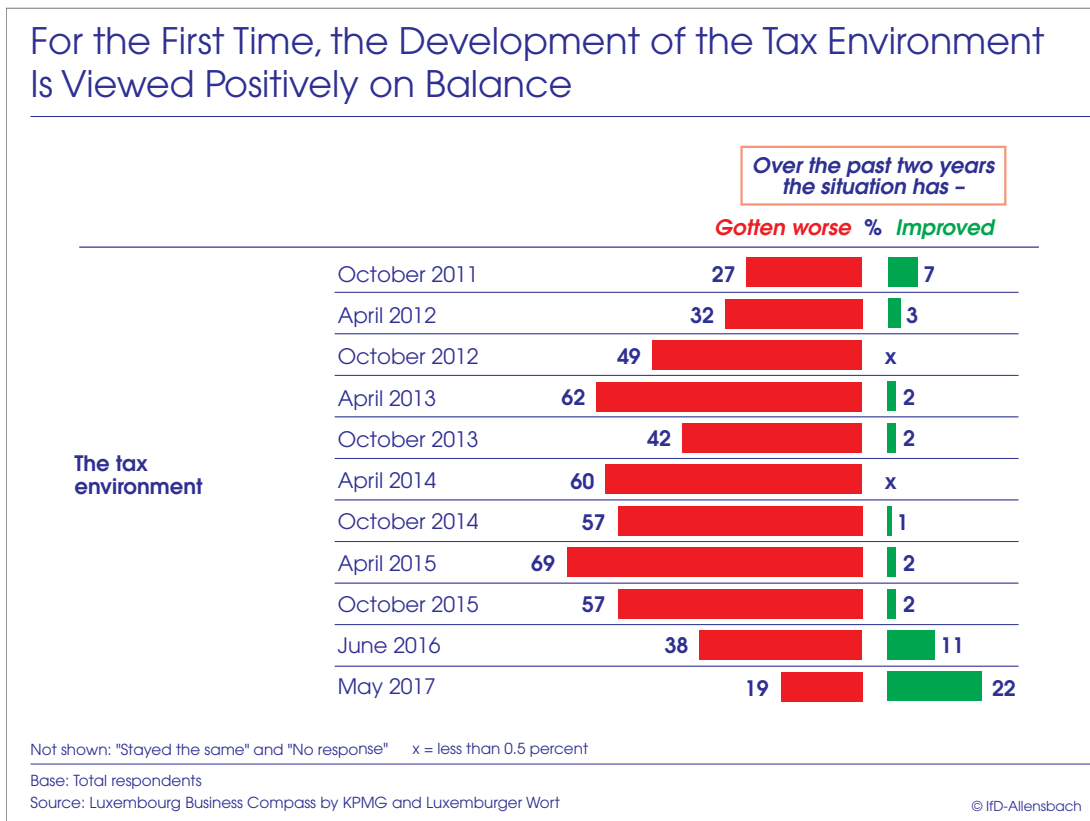
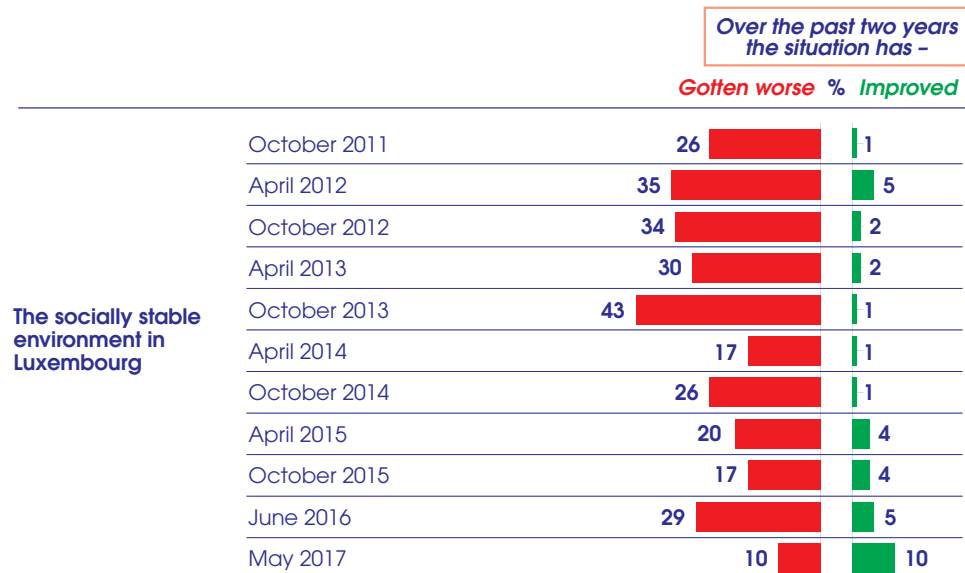


Figure 11

For the First Time, Views on the Development of the Socially Stable Environment in Luxembourg Are Not Negative



Not shown: "Stayed the same" and "No response"

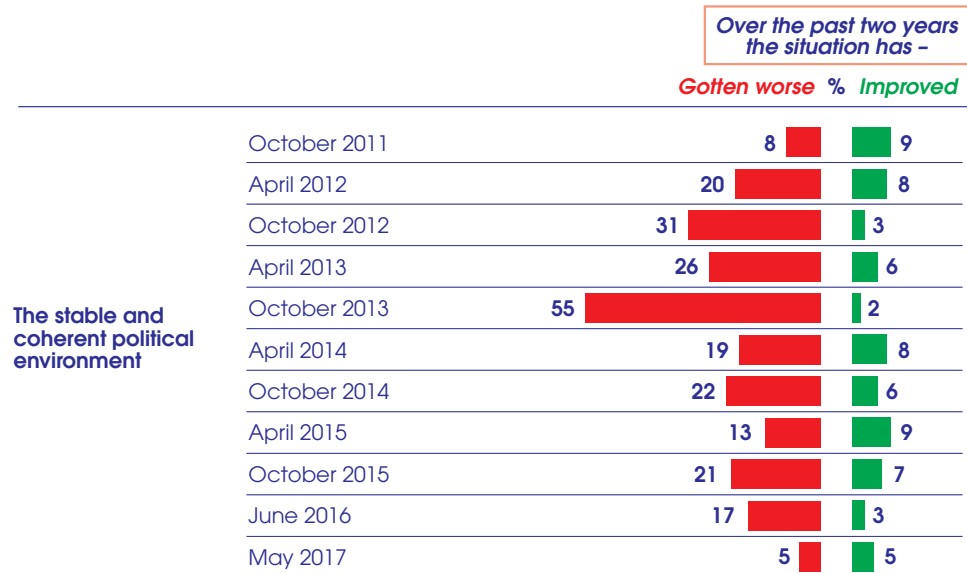
Base: Total respondents

Source: Luxembourg Business Compass by KPMG and Luxemburger Wort

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Figure 12

The Political System Is Perceived as Stable and Coherent



The stable and coherent political environment

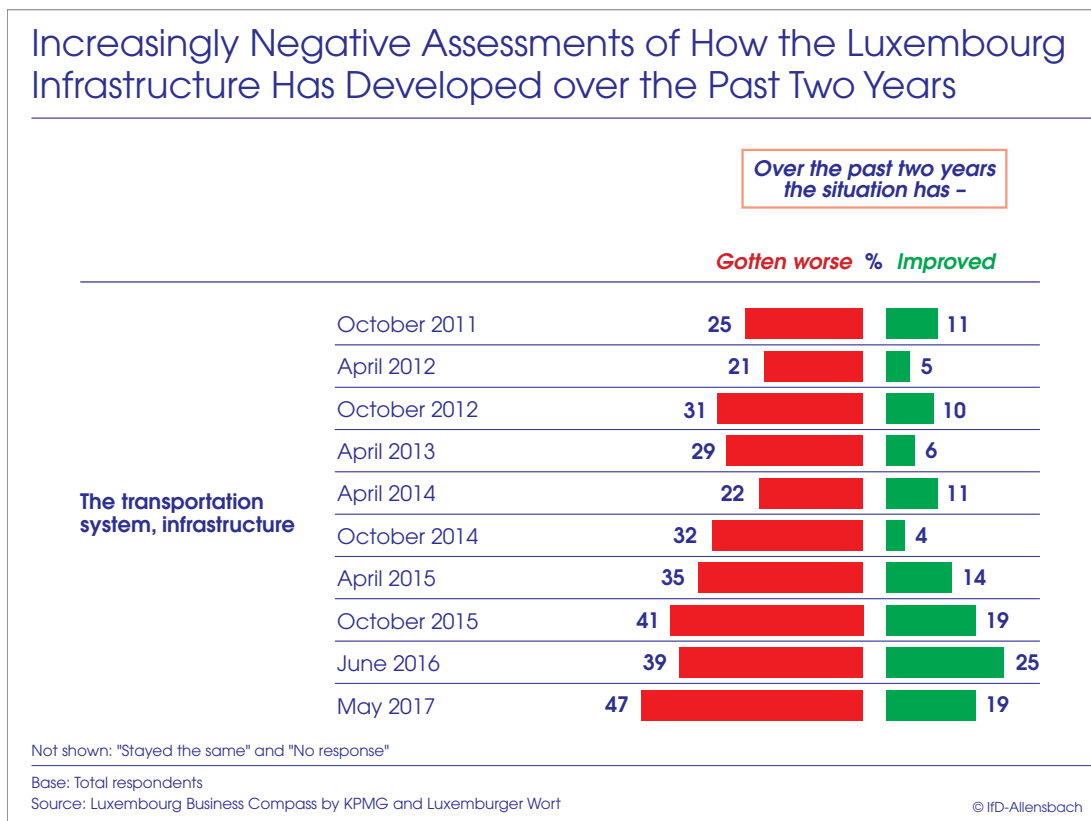
Not shown: "Stayed the same" and "No response"

Base: Total respondents
Source: Luxembourg Business Compass by KPMG and Luxemburger Wort

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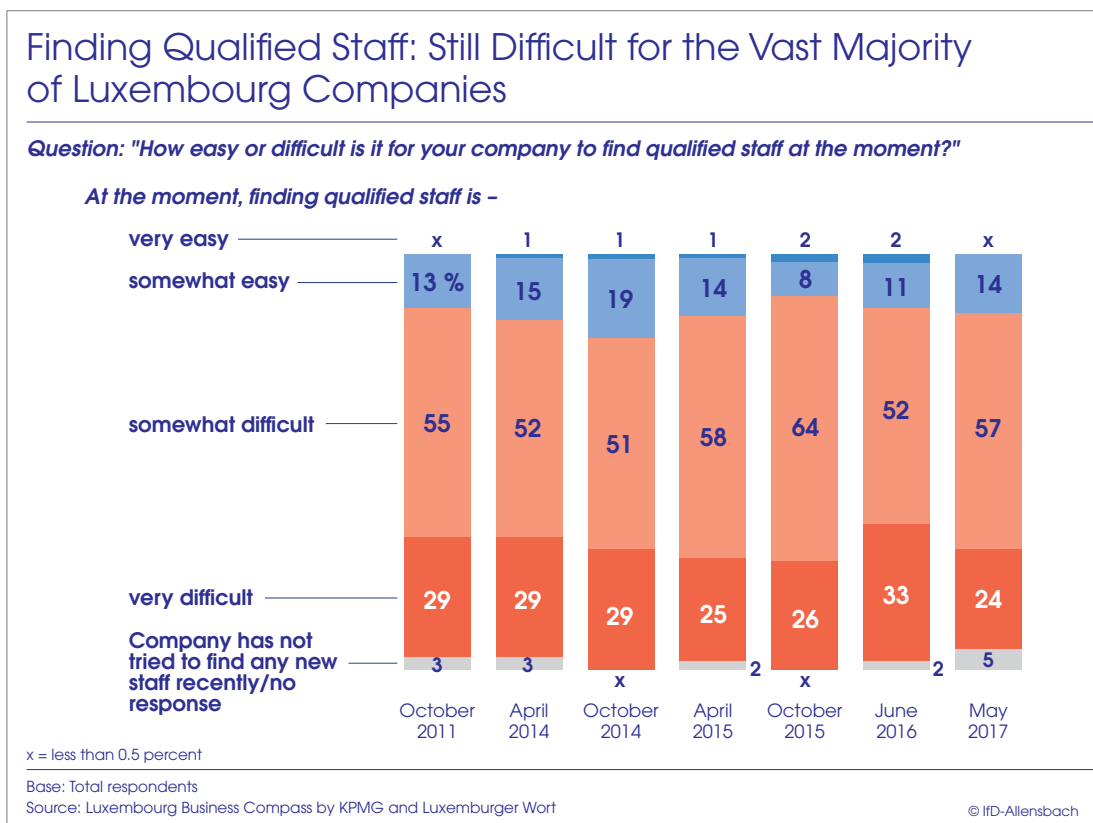
In light of these positive developments, the decision-makers' increasingly critical evaluation of the development of the infrastructure in Luxembourg is striking: the share of respondents who say this location factor has developed negatively over the past two years is larger than it was in any prior survey waves, their assessment has never been more negative on balance (Figure 13).

Figure 13



In the current survey wave, 44 percent of Luxembourg business leaders rate the availability of a skilled, high quality workforce as worse than it was two years ago.¹ Accordingly, a large share of business leaders continue to report that their companies have difficulties finding qualified staff: only 14 percent of major Luxembourg companies currently say that finding qualified staff is somewhat easy; none of them state that it is very easy. In contrast, more than half say that finding qualified staff is "somewhat difficult," and about a quarter even say it is very difficult (Figure 14).

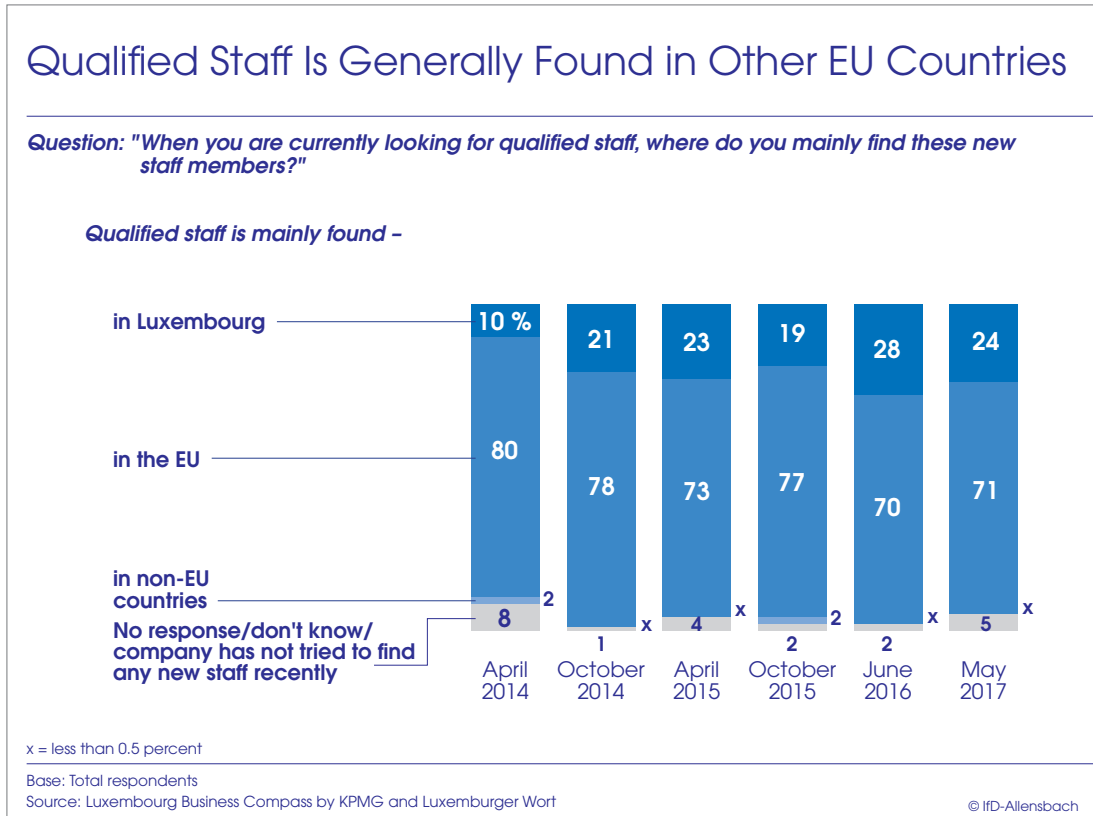
Figure 14



¹ See Figure 8

About two thirds of major Luxembourg companies primarily find qualified staff in other EU countries. The share of companies that mainly find qualified staff in Luxembourg is currently 24 percent, which is about the same level that was ascertained in previous years (Figure 15).

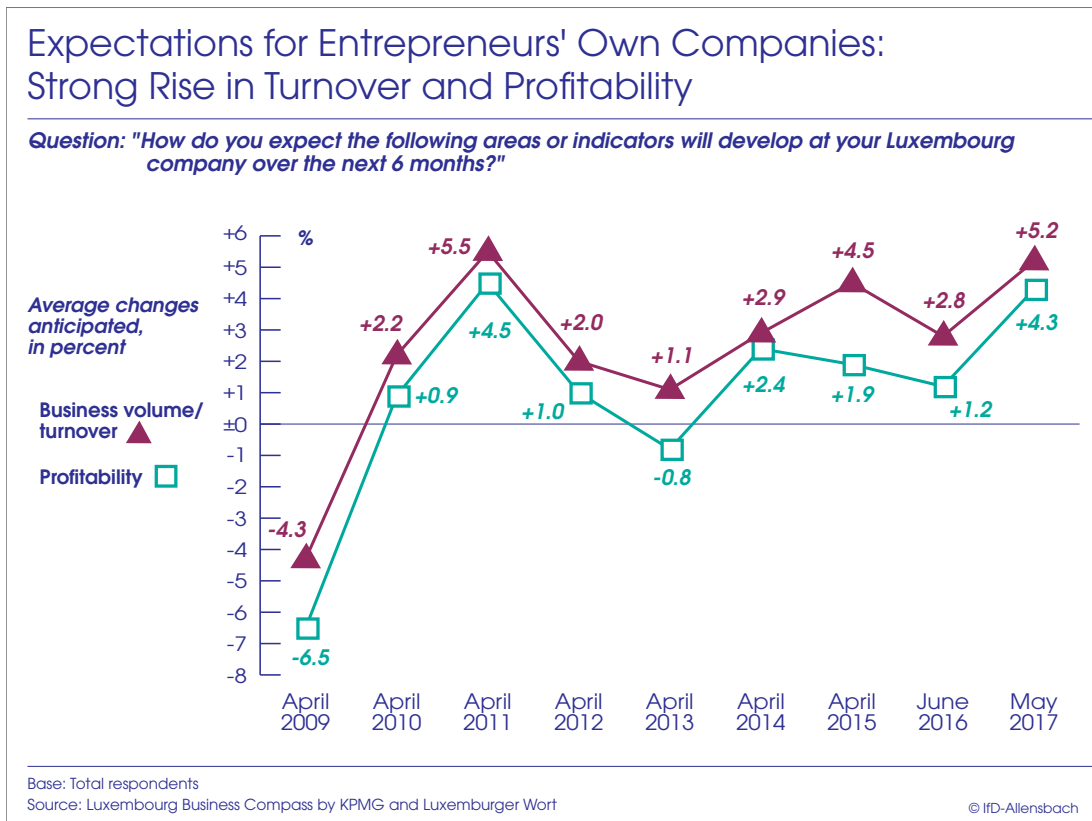
Figure 15



Business leaders anticipate strong increases in turnover, profitability and investments

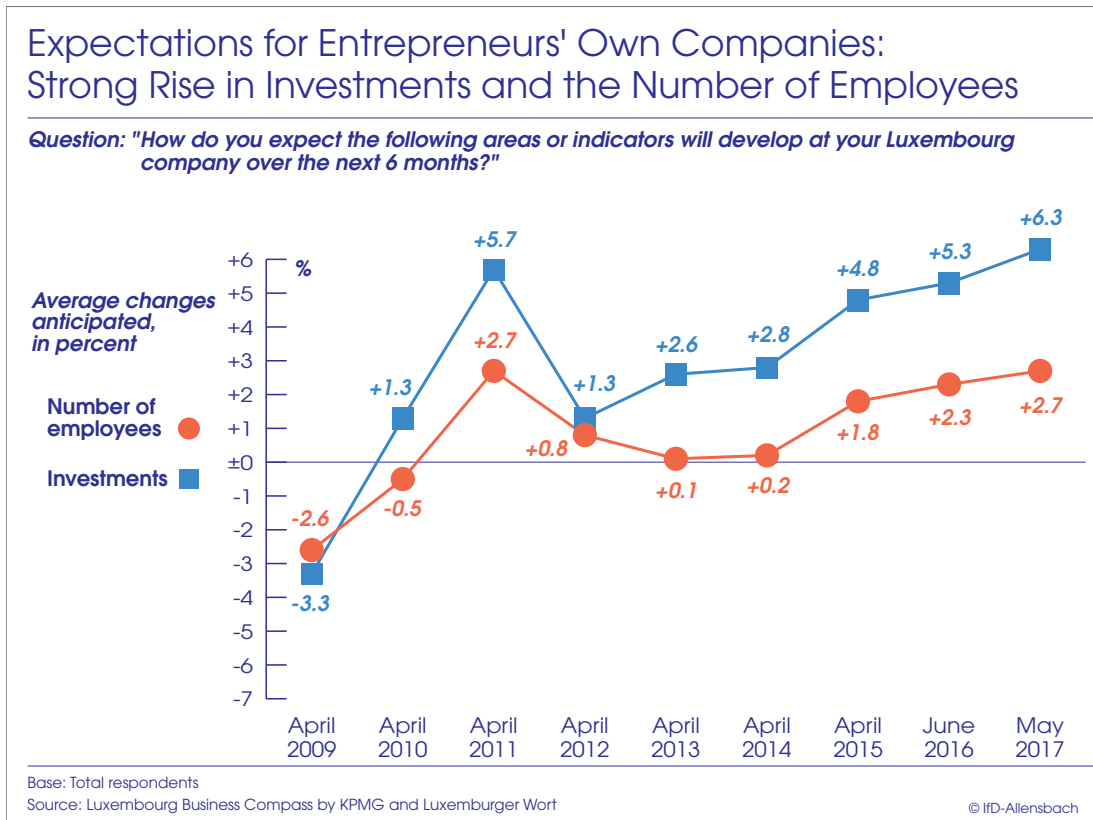
Luxembourg decision-makers' increasingly optimistic outlook regarding the general economic trend is also reflected in their positive expectations when it comes to the development of key indicators at their own companies. Thus, turnover is expected to increase by an average of 5.2 percent over the next 6 months, while profitability is expected to increase by 4.3 percent. These are the highest values ascertained in the spring of any year since April 2011 (Figure 16).

Figure 16



The number of employees is also expected to increase substantially over the next 6 months: specifically, by an average of +2.7 percent. This increase could further exacerbate the situation regarding the market for skilled workers, which is already perceived as being very tight. In the current survey wave, respondents' expectations in connection with the development of investments at their own companies have reached an all-time high within the framework of the *Luxembourg Business Compass*: over the next six months, decision-makers are planning to increase their companies' investment volume by 6.3 percent on average, which clearly surpasses the previous peak value of 5.7 percent ascertained in April 2011 (Figure 17).

Figure 17



A more differentiated analysis shows that about two thirds to three quarters of major Luxembourg companies anticipate growing turnover, profitability and investments and a majority also expects an increase in the number of employees. In each case, only small minorities foresee a downward trend with respect to these indicators (Figure 18).

Figure 18

Only Few Luxembourg Entrepreneurs Expect Decreases in Investments and Turnover				
<i>Question: "How do you expect the following areas or indicators will develop at your Luxembourg company over the next 6 months?"</i>				
	Profitability	Business volume/ turnover	Investments	Number of employees
	%	%	%	%
Increase:	62	76	72	56
+20% or more	3	x	5	x
+10% to less than +20%	14	13	17	7
+5% to less than +10%	25	41	37	19
less than +5%	20	22	13	30
No change	24	14	24	27
Decrease:	14	10	4	17
less than -5%	7	7	x	15
-5% to less than -10%	5	3	2	2
-10% to less than -20%	2	x	2	x
-20% or more	x	x	x	x
No response	x	x	x	x
	100	100	100	100
On average	+4.3	+5.2	+6.3	+2.7

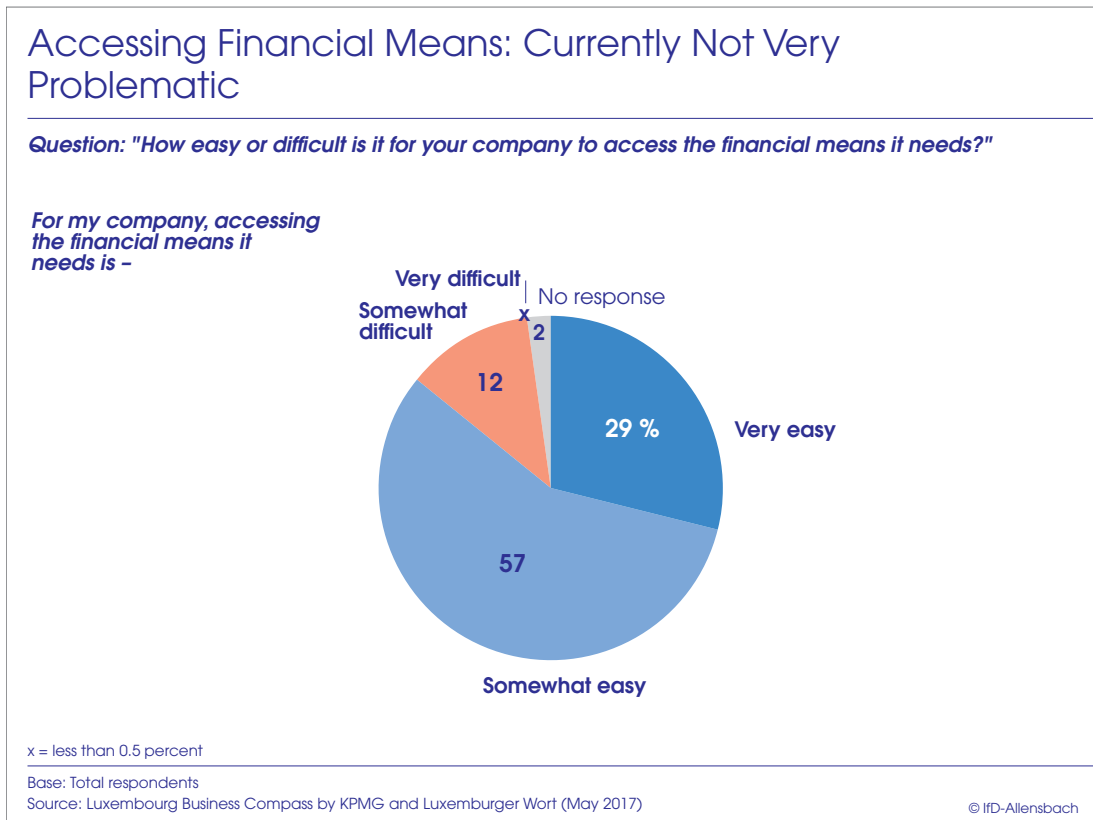
x = less than 0.5 percent

Base: Total respondents
Source: Luxembourg Business Compass by KPMG and Luxemburger Wort (May 2017)

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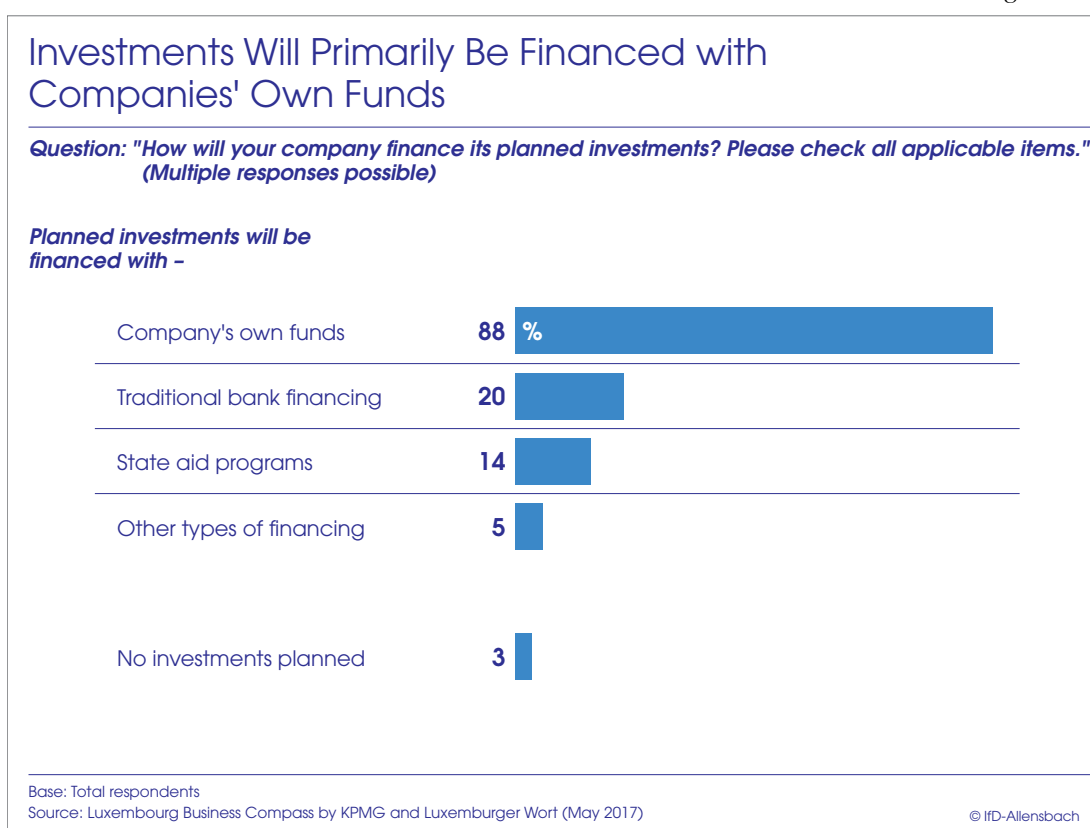
As a rule, major Luxembourg companies are able to access the financial means needed to realize their investment plans: 29 percent of the business leaders interviewed say it is very easy for their companies to access the financial means required and an additional 57 percent say it is somewhat easy. Only 12 percent of respondents say accessing such financial means is somewhat difficult, while no respondents say it is very difficult (Figure 19).

Figure 19



One reason for this could be that 88 percent of the companies surveyed report that they are planning to finance their investments at least in part with their company's own funds, whereas 20 percent will (also) resort to traditional bank financing and 14 percent will make use of state aid programs (Figure 20). If multiple responses are excluded from the calculation, we find that two thirds of major Luxembourg companies (66 percent) are able to finance their planned investments wholly by means of their own funds.²

Figure 20

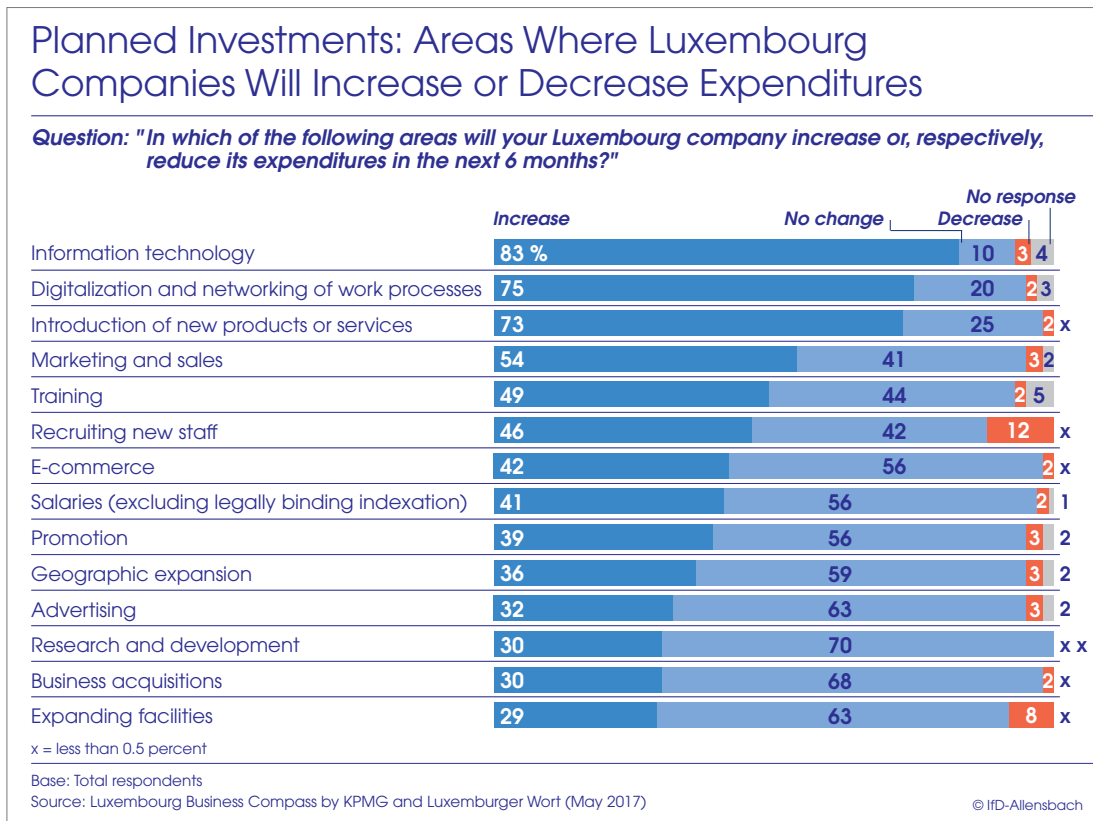


² *Special analysis*

The majority of companies are planning to expand their budgets for IT, digitalization, introducing new products and services, and for marketing and sales

The largest Luxembourg companies are generally planning to increase rather than reduce their budgets for all areas of operations over the next six months. Particularly large shares anticipate increases in connection with information technology (83 percent), digitalization and networking of work processes (75 percent), introducing new products or services (73 percent), along with marketing und sales (54 percent). Business leaders are least likely to be planning to increase their budgets for expanding facilities, business acquisitions, and research and development (Figure 21).

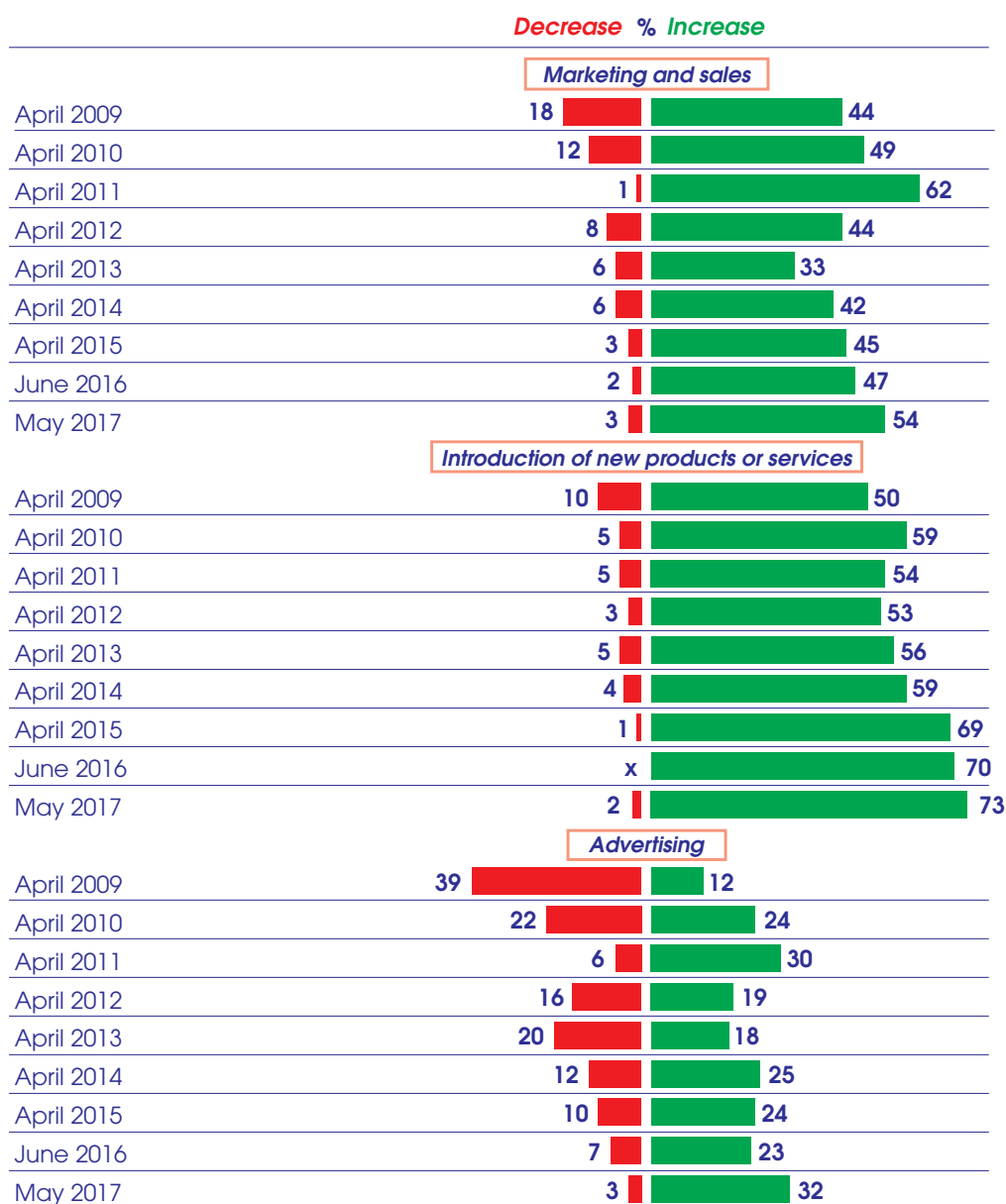
Figure 21



Moreover, in comparison with the planned increases measured in previous years, the share of companies that are planning to expand their marketing-oriented budgets is remarkably high: the share of companies that intend to increase their budgets for introducing new products or services over the next 6 months is larger than it has ever been in any of the prior spring survey waves of the *Luxembourg Business Compass*. The same applies to planned expenditures for advertising. And the share of companies planning to increase their investments in marketing and sales was only higher in April 2011 (Figure 22).

Figure 22

Changes in Companies' Planned Expenditures – I: A Large Share of Companies Intend to Invest More in New Products and Marketing



x = less than 0.5 percent

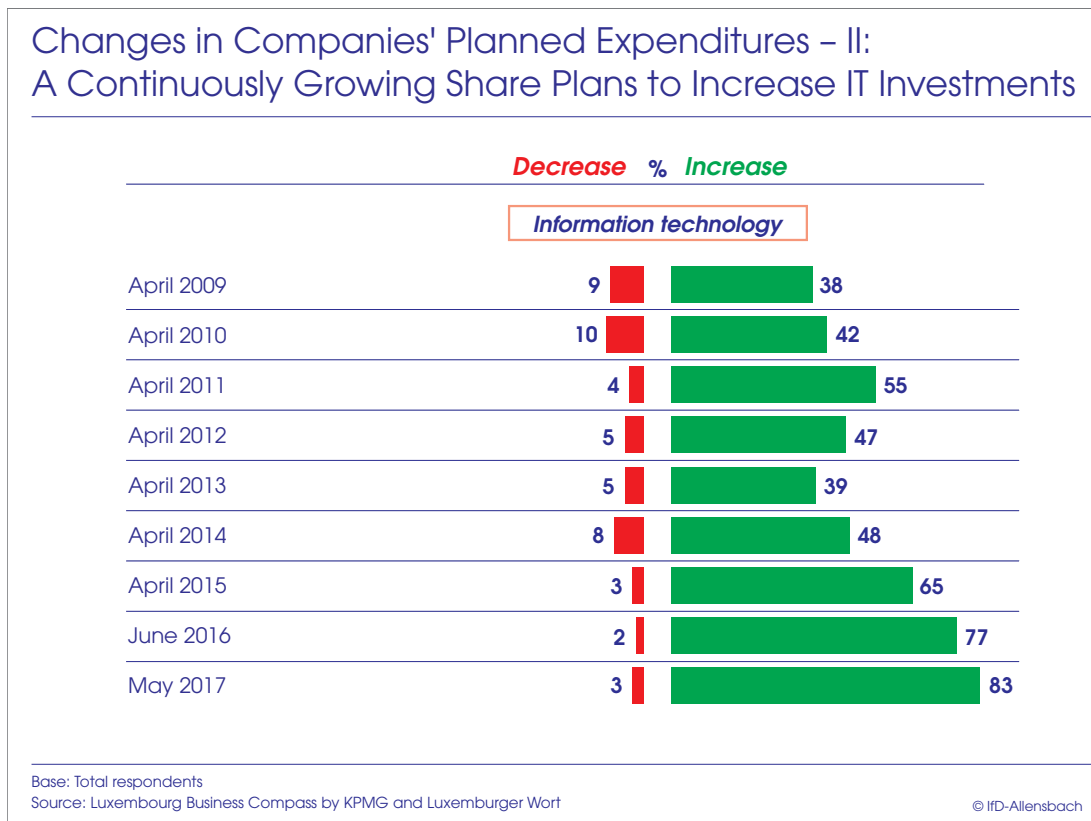
Base: Total respondents

Source: Luxembourg Business Compass by KPMG and Luxemburger Wort

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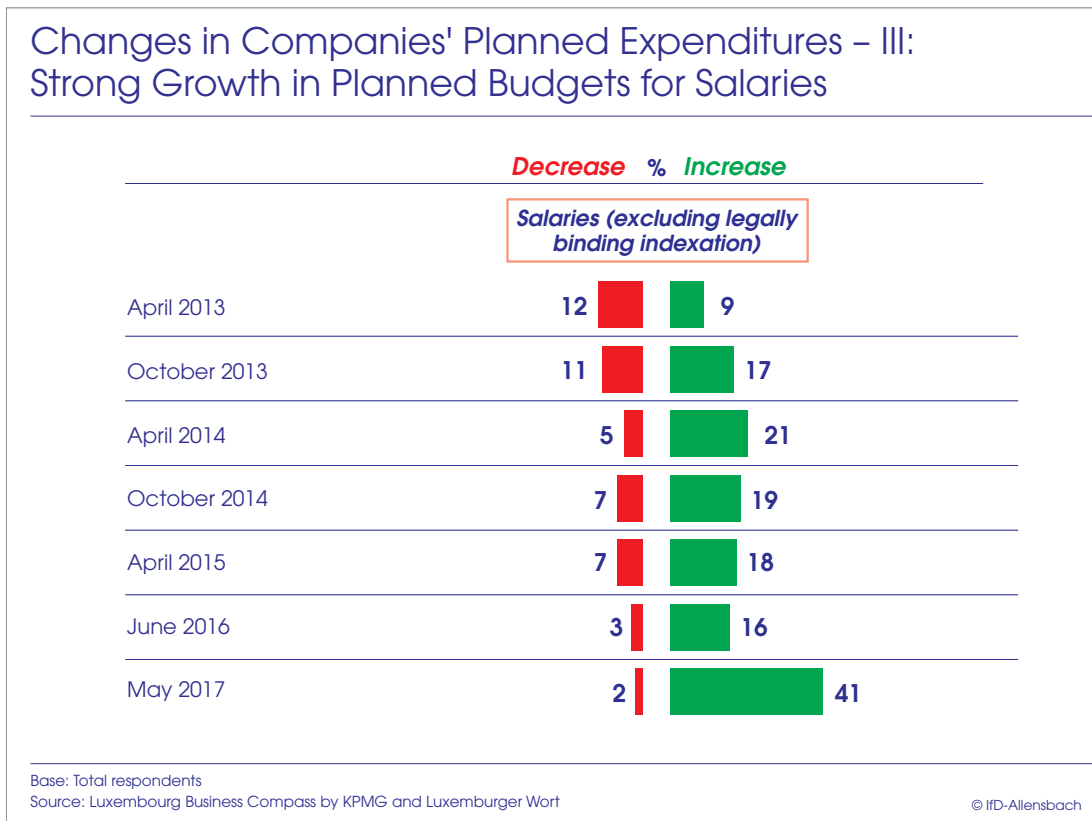
Likewise, the share of companies that are planning to increase their IT budgets has grown even more since the last survey wave and is now also at the highest level ever measured in the *Luxembourg Business Compass* (Figure 23).

Figure 23



In comparison with the prior survey wave, the share of companies that anticipate increasing expenditures for salaries and wages is substantially larger, climbing from 16 to 41 percent. In view of business leaders' plans to increase the number of employees at their companies, along with the widely reported lack of qualified staff, this is hardly surprising (Figure 24).³

Figure 24



³ See Figures 17 and 14

The lack of qualified staff continues to be an important barrier to growth, along with legislative and regulatory pressures

In the view of Luxembourg business leaders, the lack of qualified staff is currently one of the most important barriers to growth at their companies. The leaders of 41 percent of the largest Luxembourg companies expect that the lack of qualified staff will significantly hamper their company's growth over the next 6 months. Only legislative and regulatory pressures are cited more frequently as one of the "most important barriers to growth" at Luxembourg companies (Figure 25). The importance of the lack of qualified staff as a barrier to growth thus remains at the high level that was already ascertained in recent survey waves.

In contrast, limited access to new capital or bank loans is only cited as a barrier to growth in a few isolated instances (Figure 25). This confirms the findings cited above regarding the relative ease with which Luxembourg companies are currently able to procure the funds needed for their planned investments.⁴

⁴ See Figure 19

Figure 25

Most Important Barriers to Growth

Question: "Thinking again of the next 6 months: Which of the following represent the most important barriers to growth at your Luxembourg company?"

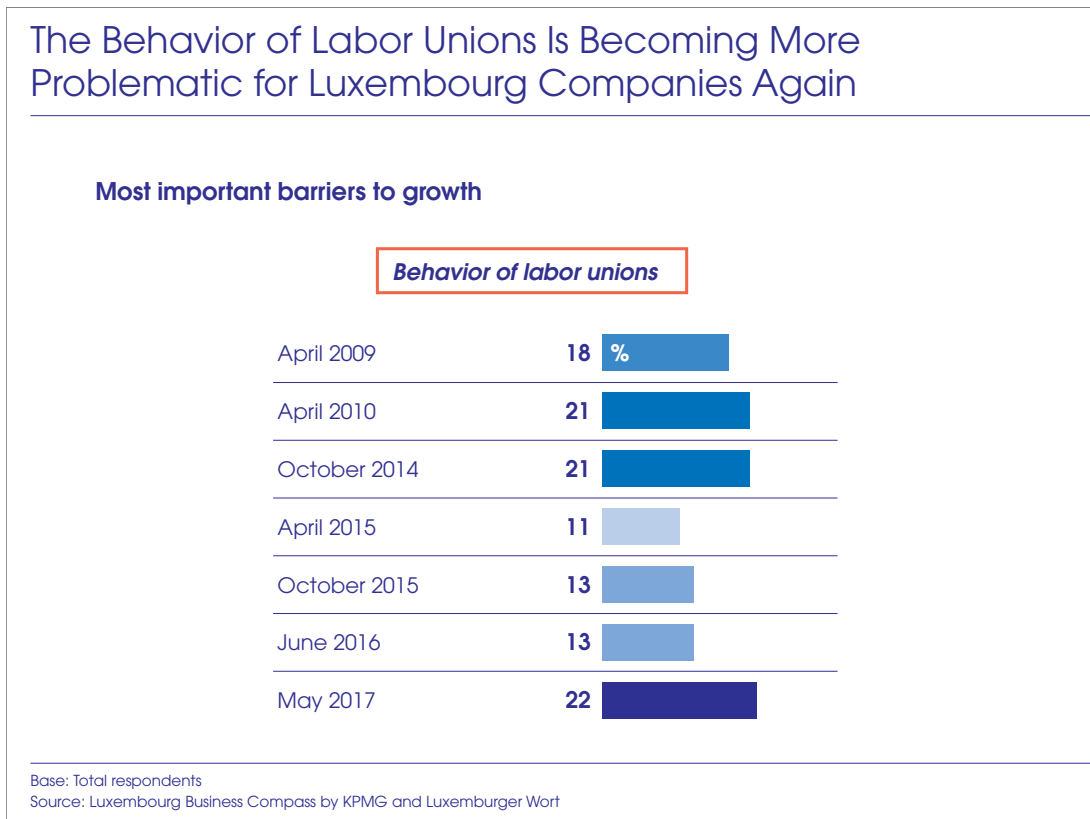


Base: Total respondents
 Source: Luxembourg Business Compass by KPMG and Luxemburger Wort (May 2017)

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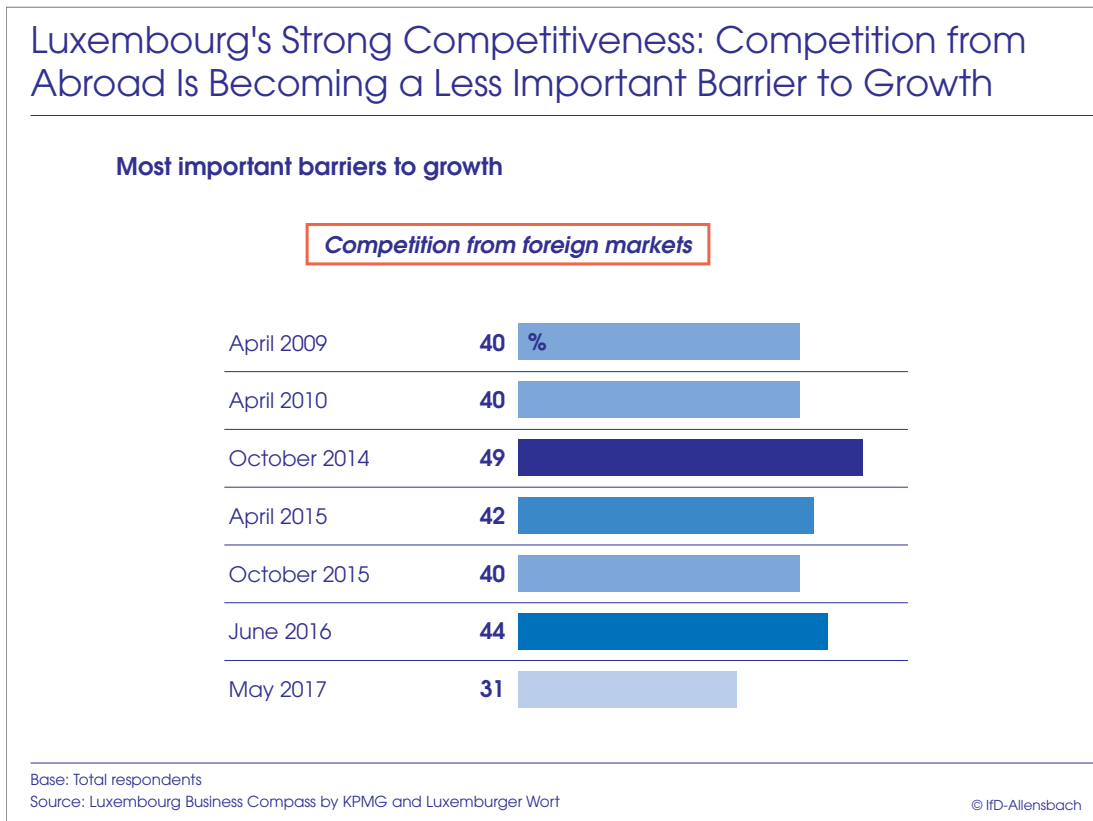
In this context, business leaders are increasingly critical when it comes to the behavior of labor unions. One out of every four or five business leaders—a share that is considerably higher than in recent survey waves—now say that this factor represents an important barrier to growth at their Luxembourg companies (Figure 26).

Figure 26



Although competition from abroad is cited by about one third of the entrepreneurs interviewed—making this factor the third most frequently cited barrier to growth—this share has nevertheless declined significantly in comparison to all prior survey waves (Figure 27). This finding is in line with business leaders' highly positive assessments of the Luxembourg economy's competitiveness at present.⁵

Figure 27



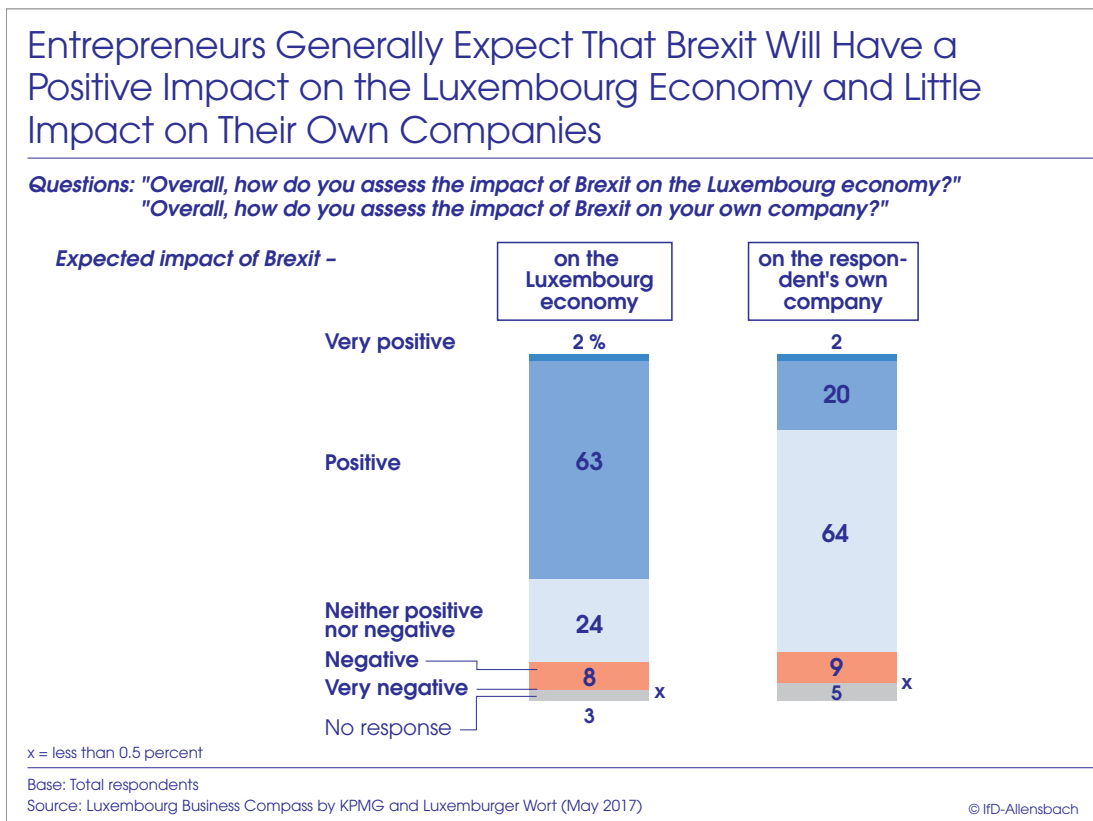
⁵ See Figure 3

Luxembourg business leaders are optimistic about the impact of Brexit

Only a small minority of business leaders expect that Brexit will have a negative impact on their own companies (14 percent), including a mere 5 percent who anticipate a very negative impact. In contrast, the share of respondents who expect Brexit to have a positive impact on their own companies is as high as 22 percent. The remaining share of about two thirds of respondents expect that Brexit will have neither a positive nor negative impact on their own company.

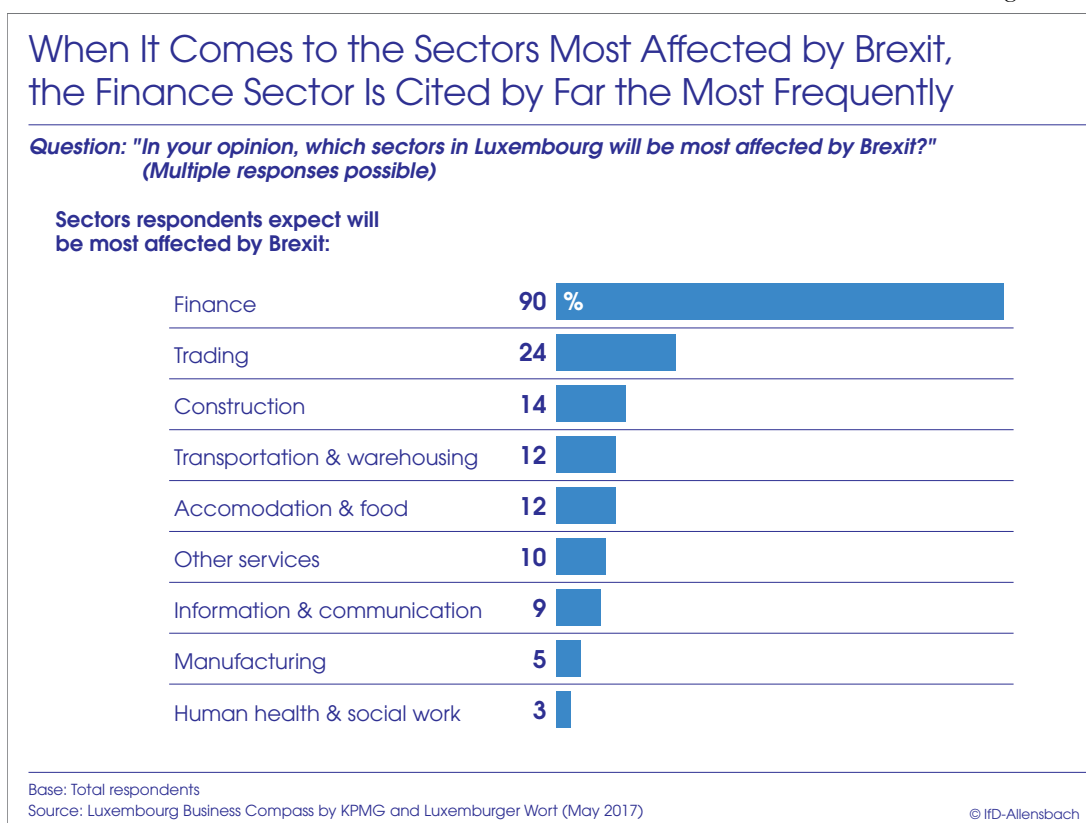
The consequences for the Luxembourg economy in general are assessed considerably more positively: about two thirds of the top decision-makers interviewed expect Brexit will have a positive impact on the economy as a whole, while only 11 percent foresee a negative impact (Figure 28).

Figure 28



When asked which sectors in Luxembourg will be affected most by Brexit, the financial industry is cited by far the most often: 90 percent of the business leaders interviewed expect this sector will be affected by Brexit. Trailing far behind in second place is the trading sector, which is cited by 24 percent. In comparison, only few business leaders anticipate any significant impact on sectors such as health and social work, manufacturing or the information and communication industry (Figure 29).

Figure 29



When it comes to the impact of Brexit on their own companies, business leaders are most likely to anticipate that transactions with Great Britain will become more expensive, although this potential consequence is also cited by just under one third of the entrepreneurs interviewed. Only about one out of six respondents expect that exchanging data with companies in Great Britain will be more difficult, that it will be more difficult to employ British citizens in Luxembourg, or that it will be more difficult or more expensive to export their products or services to Great Britain. At the same time, however, 14 percent of the business leaders interviewed assume that Brexit will lead to greater demand for their products and services.

Only few business leaders believe, however, that Brexit will make it easier for their companies to find qualified staff, nor do they expect that their companies will face less competition from Great Britain due to Brexit.

No business leaders expect that their company headquarters will be relocated to Luxembourg, a finding that is also attributable to the fact that only one of the companies included in the survey currently has its headquarters in Great Britain (Figure 30).

Figure 30

Although Entrepreneurs Expect Only Few Consequences for Their Own Companies, They Are Most Likely to Say That Transactions with Great Britain Will Be More Expensive

Question: "Thinking of the various possible consequences of Brexit, which ones do you think will be most relevant for your company?"

The most relevant consequences of Brexit for the respondent's company:



x = less than 0.5 percent

Base: Total respondents

Source: Luxembourg Business Compass by KPMG and Luxemburger Wort (May 2017)

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APPENDIX

Survey data

SURVEY DATA

Overall responsibility for methods:	Institut für Demoskopie Allensbach
Planning and drawing the sample:	KPMG Luxemburg
Group of persons interviewed (universe):	Top decision-makers at the largest companies in Luxembourg, as defined by the number of employees
Sampling method:	<p><u>Top-down approach stratified according to business sectors</u> The sample was drawn based on the directory^(*) of the Luxembourg statistics bureau (Statec), which lists companies with 90 employees or more in Luxembourg. For each business sector, the number of companies included in the survey was roughly commensurate with the sector's share of the gross domestic product (GDP) of Luxembourg, whereby the companies were selected in descending order according to the number of employees.</p> <p>In the companies selected to participate, every effort was made to persuade a representative of the upper management (owner, CEO, CFO, COO, etc.) to complete the online survey.</p>
Number of respondents:	59
Type of interviews:	Online survey completed after prior notification in writing or by telephone
Fieldwork dates:	May 2 – 26, 2017
IfD Archives Survey No.:	7266

(*) Les principaux employeurs au Luxembourg d'après l'effectif classés par branche d'activité économique de la NACE Rév.2 Situation au 1er janvier 2016 (édition juin 2016)