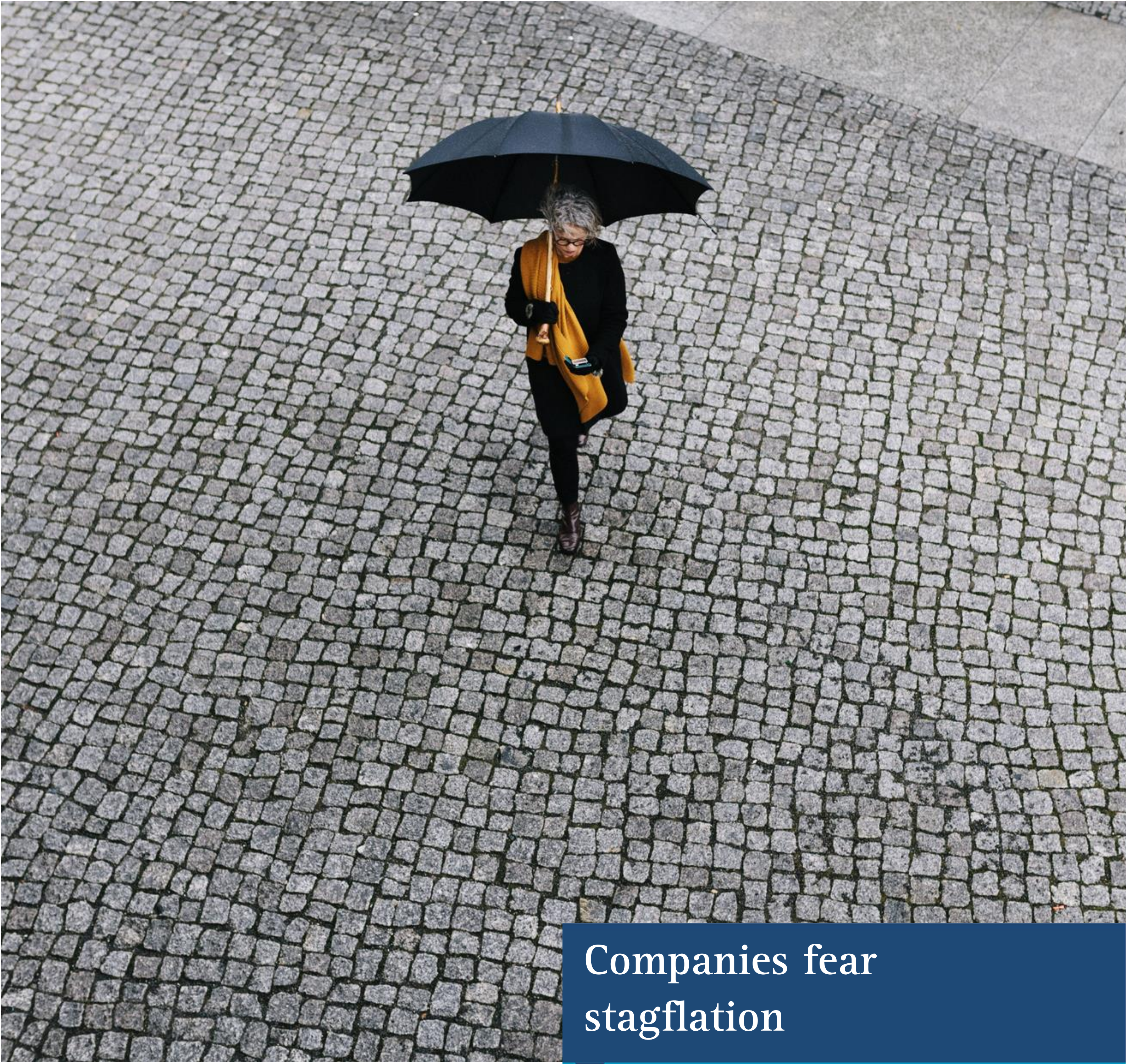

Companies fear stagflation

DIHK Economic Survey February 2023

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Further results, the questionnaire as well as notes on the methodology of the survey can be found at www.dihk.de/konjunktur.

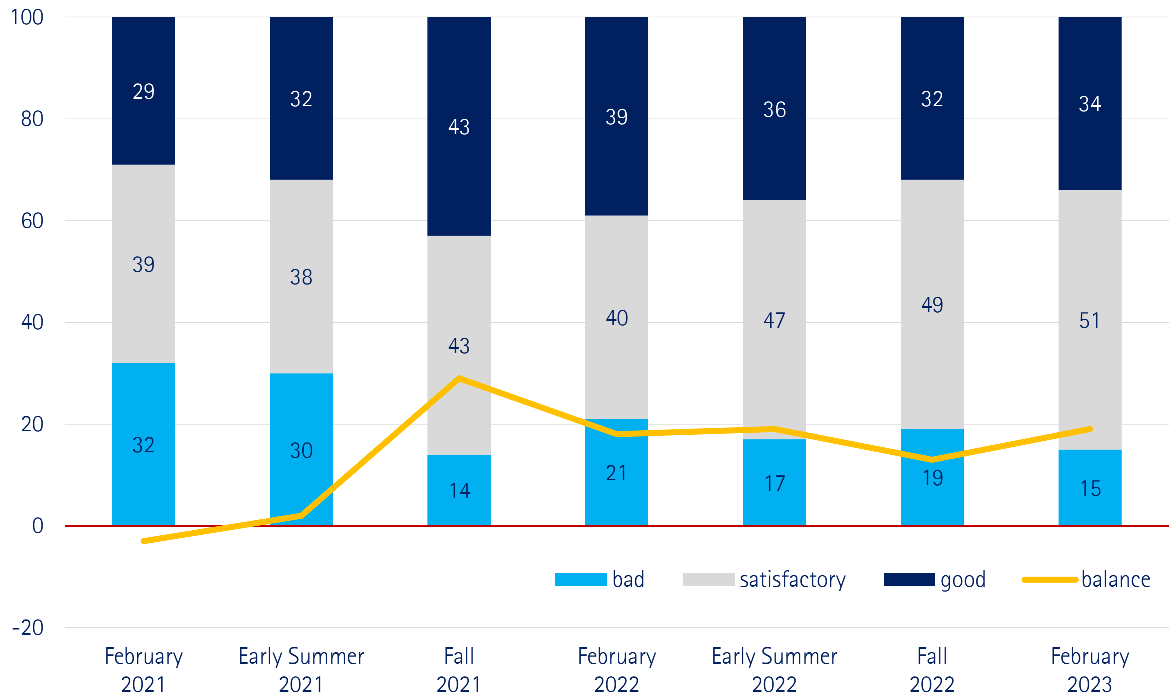
Current business situation of the companies

The German economy came through the crisis better in 2022 than the historically poor business expectations had led us to fear in the autumn. The policy support programmes announced at the end of September and then gradually implemented have certainly contributed to this. Nevertheless, the current situation remains tense: High energy prices, inflation and a noticeably slower growth worldwide continue to weigh on many companies. In addition, there are long-term challenges such as structural and climate change, demographics and digitalisation.

In view of the less severe course of the crisis so far and the government support measures, the assessments of the situation are stabilising. Across all sectors, a good third of the companies (34 percent) assess their business situation at the beginning of the year as "good". That is two percentage points more than in the previous survey in autumn. By contrast, the share of companies reporting a poor business situation fell slightly to 15 percent (previously 19 percent). The balance of good and poor assessments of the situation improved by six points to 19 points compared to the autumn and is thus only slightly below the long-term average (21 points).

A look at the sectors shows that the assessment of the situation has improved slightly everywhere. The price brakes and the recent decline in producer prices, but also decreasing material shortages, have contributed to this. In addition, the decline in private consumption at the end of last year was significantly less than expected.

Business situation of the companies - shares in percent, balance in points



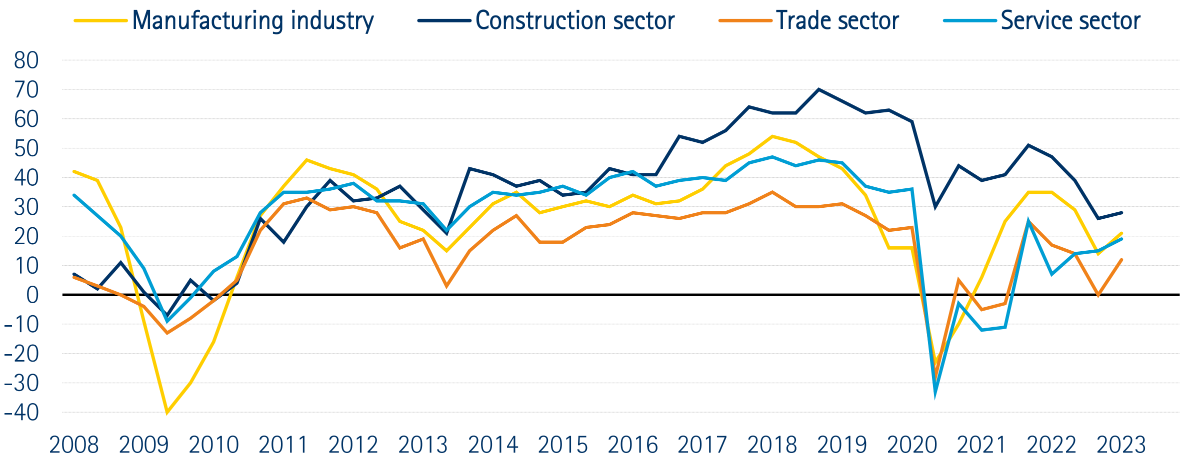
Industrial companies, in particular, can benefit from an incipient easing in international delivery traffic and better process their orders. Despite the cooling global economy and declining order intake, companies' order books are still full. This is currently helping to cushion the weakening demand for industrial goods. Uncertainties about electricity and gas prices have been reduced by the price brakes. Nevertheless, energy prices are still at a very high level. Overall, therefore, more than one-third (36 percent) of the industrial companies report good business, which is three percentage points more than in autumn. By contrast, the share of companies with a poor business situation fell from 19 percent to 15 percent. The balance of good and poor assessments of the situation has thus improved slightly by seven points to 21 points and is only slightly below the long-term average of 23 points.

The **intermediate goods producers** are among the most energy-intensive sectors and feel the high costs for gas and electricity particularly acutely. It is true that even after the introduction of the gas and electricity price brake, the burden on these companies is high. However, the trend of monthly rising energy prices has been broken. Moreover, the intermediate goods suppliers were able to pass on at least part of the additional costs to their customers. Therefore, the assessment of the business situation has improved somewhat. The balance of positive and negative assessments of the situation has risen by four to 15 points compared to autumn. The improvement in the situation in metal production and processing is particularly above average (balance of 20 after 13 points previously). In contrast, the situation in the paper industry, which is also energy-intensive, deteriorated slightly (balance of minus five points after minus six points previously). Among the companies in the chemical industry, a quarter report a good situation (25 percent after 21 points previously) and just under a quarter (24 percent after 28 percent previously) report a poor situation; the balance is thus almost balanced and is only one point (after minus seven points previously).

The upward trend in industry is also evident among **manufacturers of goods and consumer goods**. Here, too, the brightening of the situation is mainly due to a decline in the number of companies reporting a poor business situation (19 percent after 24 percent previously). The share of companies with a good business situation, on the other hand, increases only slightly from 24 percent to 27 percent. The balance consequently increases from zero to eight points and is thus clearly below the long-term average of 15 points.

Capital goods manufacturers in particular are benefiting from the incipient easing of material and supply bottlenecks. Despite declining incoming orders, order backlogs there are still high. Companies can now work off their orders. 44 percent of the capital goods producers report a good business situation (after 39 percent previously). Only eleven percent now assess their situation negatively (after 16 percent previously). The balance of the business situation thus rises by ten points to 33. Companies in the electrical engineering sector give an above-average positive assessment of their current situation: almost half (49 percent after 42 percent previously) report a good business situation, only eleven percent (after 14 percent previously) a poor one (balance of 38 after 28 points previously). Among the motor vehicle manufacturers, on the other hand, both the proportion of firms with a good situation assessment (31 percent after 32 percent previously) and the proportion with a poor situation (13 percent after 20 percent previously) are declining. The balance rises by six points to 18.

Business situation of the companies - balance in points



Balance of good and bad valuations

Despite high construction prices, rising construction interest rates and the loss of new orders, the current business situation in the **construction industry** is still good. This is due to relatively mild weather so far, decreasing material shortages, but also a comparatively high order backlog. 40 percent of the construction companies report good business. This is three percentage points more than in the previous survey. The proportion of construction companies with a negative situation has risen minimally by one percentage point to twelve percent. The balance of good and bad assessments thus rises slightly from 26 to 28 points. In a comparison of the sectors, this is the most positive value. However, this is far removed from the pre-crisis level, which in some cases was at balances well above 60 points. Even during the 2020 and 2021 pandemics, the situation in the construction industry was better than it is now. The situation assessment in building construction (balance of 21 after previously 19 points) and civil engineering (balance of 22 after previously 22 points) is roughly the same. The business situation in the finishing trade is much better. The high energy prices are currently also creating high demand from companies, but also from private households, for energy-efficient renovation and retrofitting. Despite rising costs and bottlenecks in materials, almost half (47 percent, up from 46 percent) of the companies in the finishing trade consider their situation to be good, and only nine percent (unchanged) are doing badly. Accordingly, the balance of positive and negative assessments of the situation rose by one to 38 points.

Decreasing supply bottlenecks and an easing of increases in energy and producer prices are also reflected in an improvement of the business situation in **trade.** Just under one-third of the retailers (30 percent, up from 25 percent) assess the situation as good, while 18 percent report a poor situation (up from 25 percent). The balance of good and bad assessments thus improves from zero to twelve points. This is even above the long-term average (eleven points). Wholesalers (balance of 19 after previously seven points) have a much better situation assessment than retailers (balance of five after previously minus six points).

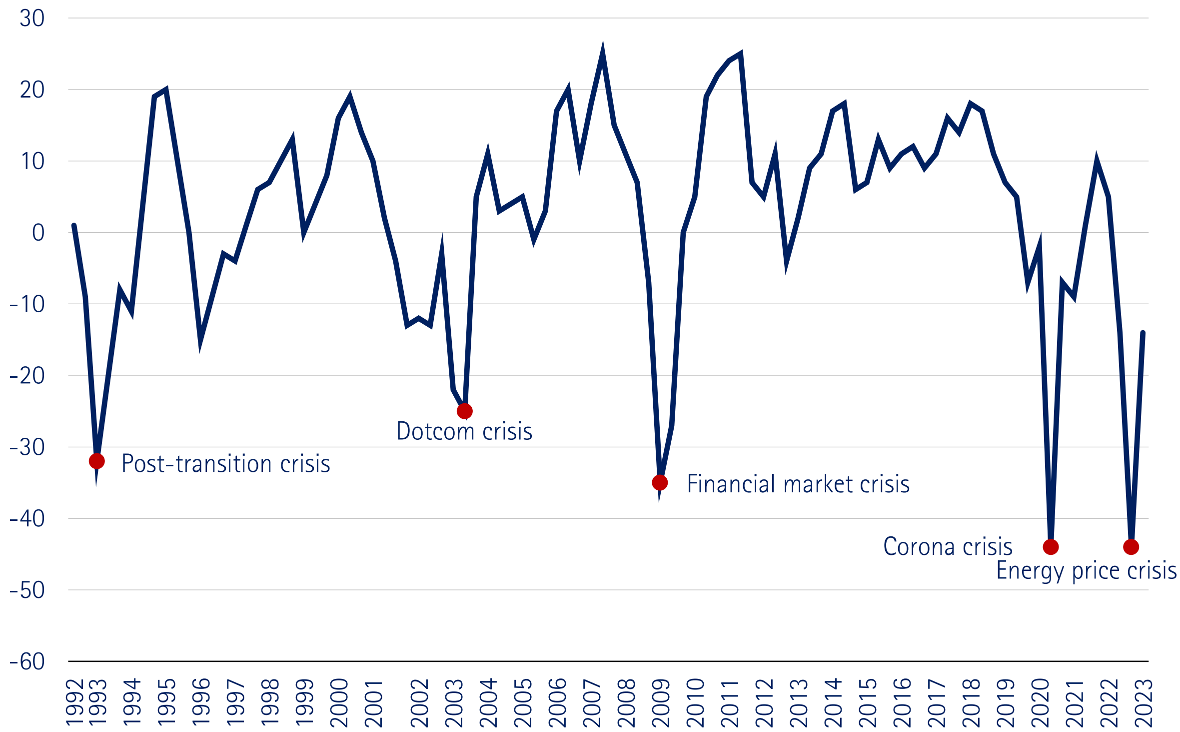
A further brightening of the business situation is also evident in the **service sector.** Business-related service providers in particular are benefiting from a stabilisation of the business situation in industry. Overall, more than one-third (34 per cent, up from 33 per cent) of companies in the services sector report a good business situation at the beginning of the year. 15 percent (after 18 percent previously) report a poor situation. The balance of good and bad assessments rises slightly by four points to 19 points - slightly below the long-term average (23 points). The predominantly business-related service providers fared better than average. Their assessment of the situation improved by eight points to 33 points. In contrast, the situation in the hotel and restaurant industry deteriorated. High cost pressure in food prices and labour costs, recently declining turnover and staff shortages are weighing on the business of restaurateurs and hoteliers: in the hospitality industry, the balance of good and bad situation assessments sinks from 18 points in autumn to only three points. The situation for companies in the transport and storage sector remains almost unchanged. Supply chain disruptions are gradually decreasing. However, the sector continues to suffer from high fuel prices and staff shortages (balance of business situation of seven points after eight points previously).

Business expectations of the companies

At the beginning of the year, the outlook for the next few months is significantly less pessimistic than it was in autumn 2022, when the mood among companies in Germany had reached a low point due to dramatic price increases and fears of energy shortages. In the meantime, the energy price increases have been halted and, with the brakes on electricity, gas and heating prices, more planning certainty has returned to companies. In addition, domestic consumption has not experienced any excessive slumps despite record inflation. Nevertheless, there is no reason for companies to be overly optimistic, because a gloomy global economy, high price levels and continuing economic and structural risks will accompany companies this year as well.

In terms of business prospects, the pessimists continue to clearly outweigh the optimists. Instead of half, just under a third of the companies (30 percent after 52 percent previously) expect their business to deteriorate in the next twelve months. 16 percent (after eight percent previously) expect better business this year. On balance, business expectations thus rise strongly by 30 points to minus 14 points. This is still very clearly in negative territory and far below the long-term average of five points. In industry and among service providers, the outlook is much less gloomy than in trade and construction.

Business expectations of the companies - balance in points

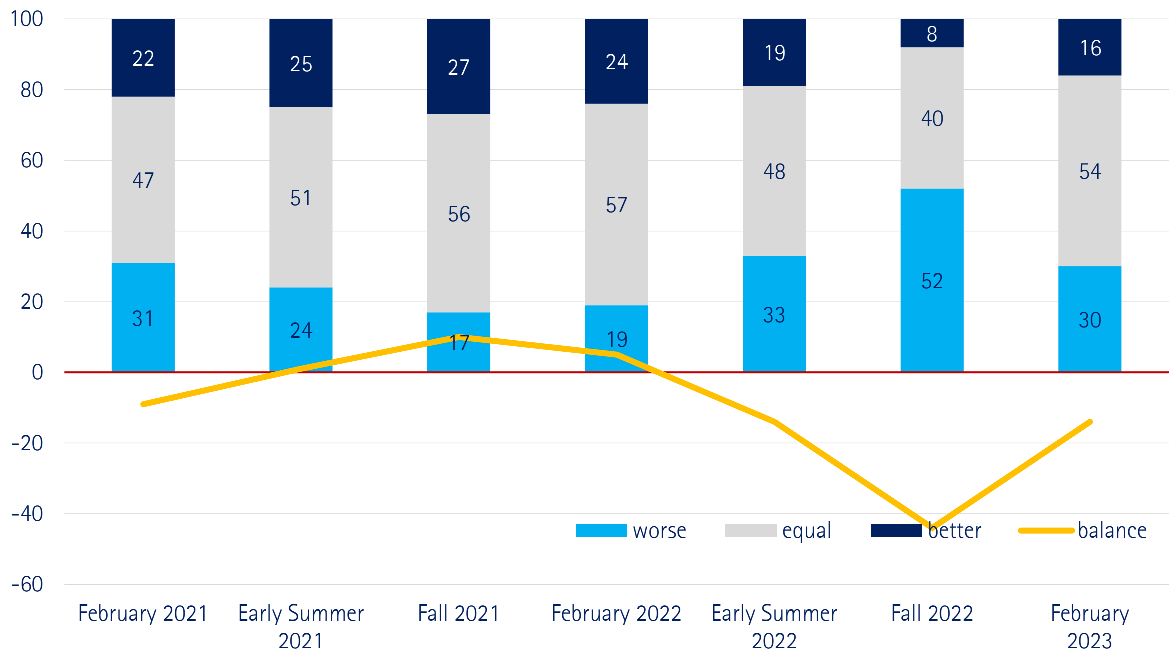


With the easing of supply shortages, **industry** is expecting better business again. In addition, the majority of industrial companies have managed to pass on at least some of the increased costs for energy and inputs to their customers. Despite declining demand, companies still have an order cushion. An increasing burden for industry, however, is the lack of skilled workers, which is now cited as a business risk by 61 percent of the companies (highest value). Overall, however, the number of pessimists is decreasing. Only three out of ten companies (29 percent after 54 percent previously) have a negative outlook. The share of industrial companies with positive expectations, on the other hand, has more than doubled from eight to 17 percent. The balance thus rises by 34 to minus 12 points.

Especially the manufacturers of **capital goods** are almost back in positive territory with their expectations. They hope to finally work off their backlog of orders in the course of the year. One-fifth of the capital goods producers expect the situation to improve (21 percent, up from 12 percent), while 22 percent (up from 46 percent) expect it to worsen. The balance of positive and negative expectations rises sharply by 33 to minus one point. The motor vehicle industry in particular stands out, with the balance of business expectations rising by as much as 47 points to seven points and thus moving into positive territory. Significant increases in expectations can also be observed in electrical engineering (balance of two points after minus 27 points previously) and in mechanical engineering (balance of minus one point after minus 34 points previously).

The extreme scenario of a gas shortage was avoided this winter. This is another reason why the business expectations of the often energy-intensive **intermediate goods manufacturers** are significantly higher than they were in autumn 2022. However, the long-term electricity and gas prices exceed the pre-pandemic level by a factor of three and five respectively. Therefore, intermediate goods manufacturers are still predominantly pessimistic about the future. One-third of the companies (33 percent, up from 59 percent) expect the business situation to worsen in the next twelve months, while only 15 percent (up from seven percent) anticipate an improvement. The balance of positive and negative expectations rises by 34 to minus 18 points. Companies in the metal production and processing sector fared better than average. The balance rises by 42 to minus eleven points. In the chemical industry the balance rises from minus 53 to minus 14 points. Companies in the glass, ceramics and stone processing sector continue to have a very gloomy outlook (balance of minus 37 points after minus 65 points previously).

Business expectations of the companies - shares in percent, balance in points



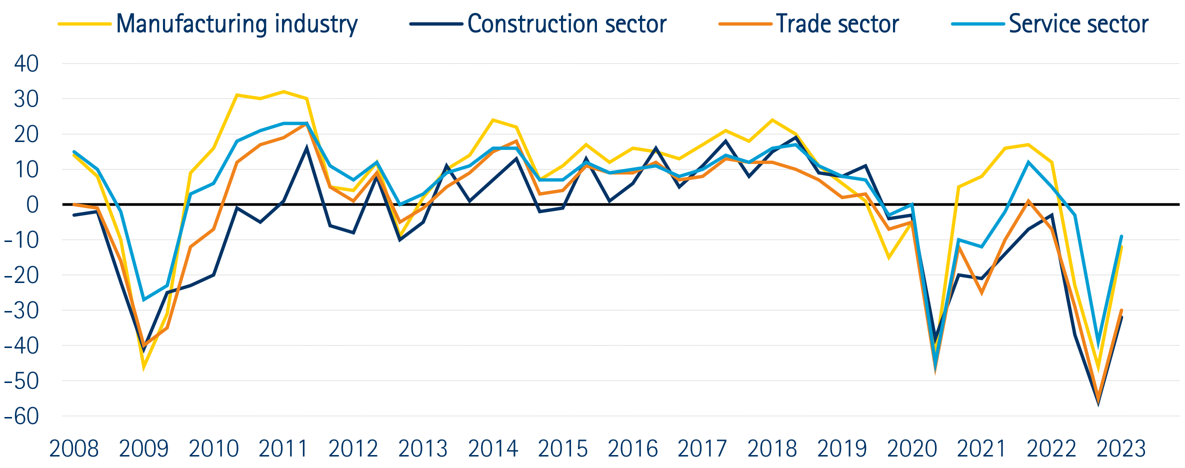
Expectations among **manufacturers of goods and consumer goods** have also recovered somewhat compared to the record low in autumn 2022. A good third of the manufacturers of goods and consumer goods (32 percent, up from 55 percent) are pessimistic about the future, while only 15 percent (up from eight percent) expect business to improve in the coming twelve months. The balance of business expectations thus rises from minus 47 to minus 17 points. The pharmaceutical industry stands out positively, with balanced business expectations (balance of zero after minus 33 points previously). In contrast, the outlook in the **printing industry is** below average (balance of minus 23 after minus 47 points previously).

While the **construction industry** was able to enjoy a comparatively good business situation even in the pandemic years, there is now the threat of an end to a long-lasting good construction boom. Rising construction interest rates, rising construction prices and a declining order situation are causing pessimism among construction companies. Even though expectations in the construction industry have also improved somewhat compared to the low in autumn, only a small minority of companies (seven percent) expect their business to improve in the next twelve months (after three percent in the previous survey). Almost two out of five companies expect a deterioration (39 percent after 59 percent previously). The balance of expectations thus rises from minus 56 to minus 32 points and remains well into negative territory. Concerns about a decline in orders in residential construction make building construction in particular pessimistic about the future - the balance of positive and negative expectations only rises to minus 41 points (after minus

62 points previously). Companies in the civil engineering sector are slightly less gloomy about their prospects (balance of minus 39 after 58 points previously). The companies in the finishing trade are somewhat less pessimistic than those in building construction and civil engineering. However, with a balance of minus 21 points (after minus 49 points previously), business expectations here are also well below the long-term average of minus four points.

In **trade**, business expectations are recovering only slightly compared to the low point in autumn. The pressure from rising energy and raw material prices has eased somewhat among retailers. But the industry still fears a decline in demand due to record inflation. In addition, retailers have to cope with a growing lack of skilled workers. Only one in ten retailers is optimistic about the future (eleven percent after six percent previously). Two out of five (41 percent after 61 percent previously) expect their business to deteriorate. The balance of business expectations thus only rises from minus 55 points to minus 30 points. The differences between wholesalers and retailers are small (retail: balance of minus 30 after minus 56 points previously; wholesale: balance of minus 27 after minus 53 points previously).

Business expectations of the companies - balance in points



Balance of better and inferior valuations

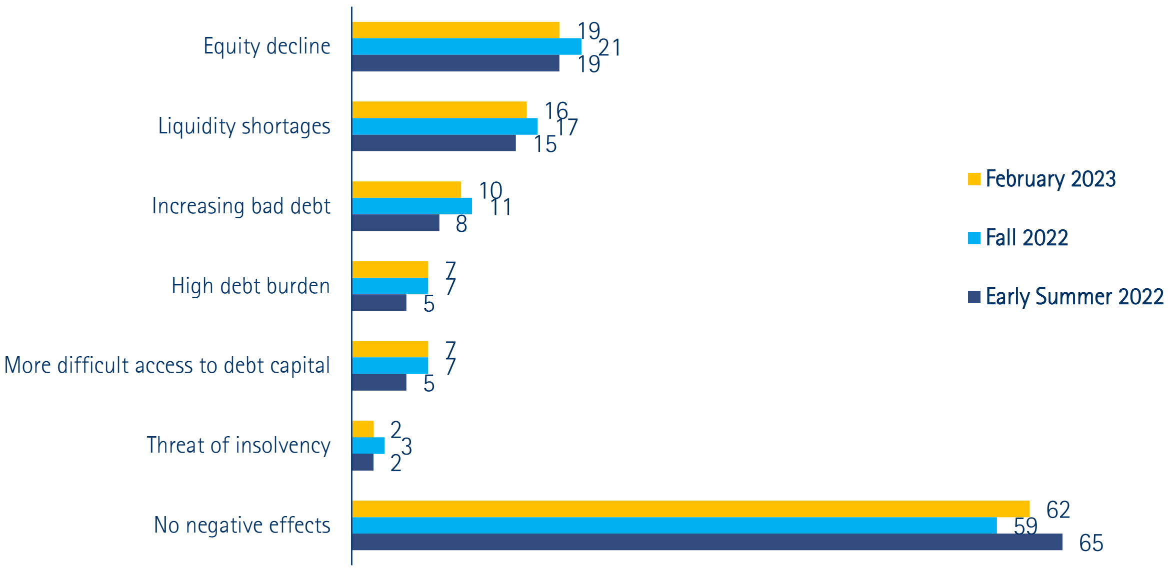
Business expectations in the **services sector** are also stabilising in the coming twelve months. The share of pessimists declines significantly from just under half (48 percent) in autumn 2022 to 27 percent. The share of optimists, on the other hand, rises from nine percent to 18 percent. The balance thus rises sharply by 30 points to minus nine. However, the companies in the services sector assess their prospects very differently. For example, in view of rising interest rates, financial and insurance service providers hope for much better business than before; the balance of business expectations rises from minus 38 to minus three and is thus comparatively close to the long-term average of one point. The outlook for the predominantly business-related service providers is above average. Optimists and pessimists balance each other out (balance of zero after minus 26 points previously). In the hospitality industry, high labour costs and food prices, staff shortages and concerns about a lack of customers are having a negative impact on the mood. Here, too, the outlook is improving from a record low in the previous survey. However, the share of companies with negative expectations (30 percent, up from 63 percent) still clearly outweighs the share of companies with positive prospects (17 percent, down from five percent), so that the overall balance is minus 13 points (down from minus 58 points in the previous survey). Companies in the real estate industry are even more worried about the future. The gloomy outlook for residential construction is also dampening business expectations in the real estate sector. The balance of business expectations rises by only 21 to minus 23 points.

Current financial situation of the companies

The improved assessment of the situation by the companies is reflected in the evaluation of the current financial situation. Almost two-thirds of all companies (62 percent) describe their financial situation as unproblematic, which is a slight improvement compared to autumn 2022 (59 percent). However, 38 percent of businesses continue to face a difficult financial situation (up from 41 percent previously). The most pressing problem is the decline in equity capital (19 percent after 21 percent previously). The continuing price pressure for energy, raw materials and intermediate goods, as well as increased labour costs, leads to a still high percentage of companies reporting liquidity shortages (16 percent after previously 17 percent). On the other hand, this is also reflected in bad debt losses, which ten percent of companies are facing (eleven percent in autumn 2022). In total, the share of companies that see themselves threatened by insolvency declines from three to two percent.

The results clearly show that after years of easy access and comparatively low interest rates, debt financing is once again becoming a serious issue for many companies. After having had to raise more debt capital to secure their business activities during the Corona pandemic, many companies are now again faced with the challenge of absorbing rising costs, e.g. with more working capital loans. At the same time, due to the decline in equity in the last two years, they need more debt capital for investments, e.g. in transformation. They are thus starting from a higher level of debt than in the past and at the same time are feeling the tightened lending guidelines of the banks as well as rising interest rates. Accordingly, the share of companies whose access to debt capital has become more difficult remains at seven percent. The overall higher level of debt, together with rising interest rates, also increases the debt burden for seven percent of the companies.

The current financial situation of the companies is characterized by ...



Share in %, multiple answers possible

In principle, the smaller the company, the more critical its financial situation. Financing problems are reported by 43 percent of small enterprises with up to 19 employees compared to 28 percent of large enterprises with 1,000 or more employees. For the small enterprises, the decline in equity capital (24 percent) and liquidity shortages (18 percent) are the main challenges. What is striking, however, is the deterioration of the liquidity situation in the large enterprises with 1,000 or more employees, the vast majority of which are based in industry. Due to the sharp rise in energy prices, 10 percent of large enterprises now report liquidity shortages, compared to only eight percent previously. In contrast to the other size classes, the share of companies facing more difficult access to debt capital (seven percent, up from six percent) and a higher debt burden (nine percent, up from eight percent) has therefore risen slightly.

The current financial situation of the companies is characterised by ...

Evaluation by company size class, figures in percent, multiple answers possible

	1-19 employees	20-199 employees	200-999 employees	From 1000 employees	All classes
Equity decline	24	16	10	9	19
Liquidity shortages	18	16	11	10	16
Increasing bad debt	10	10	9	9	10
More difficult access to debt capital	7	7	7	7	7
High debt burden	6	7	7	9	7
Impending insolvency	3	2	1	2	2
No negative effects	57	64	74	72	62

A **look at the economic sectors** shows that the financial situation has improved slightly in all four sectors compared to autumn 2022. This is especially true for trade (improvement of four percentage points), construction (improvement of three percentage points) and industry (improvement of three percentage points). In services, the number of companies reporting a problematic financial situation decreases only slightly by one percentage point.

Among the predominantly small and medium-sized **service providers,** the financial situation remains critical. They have thus had to cope with the economic constraints of the Corona pandemic for the longest time and have been less able than other sectors to pass on increased costs to customers. They are also the first to be affected by shifts in consumer demand in response to inflation. Now 40 per cent of service companies report a problematic financial situation, up from 41 per cent previously. In contrast to the other sectors, the share of companies struggling with liquidity shortages has not decreased (16 percent). In addition, the high debt burden (six percent) is a concern for the companies. The share of companies reporting a decline in equity capital, on the other hand, is slightly lower (21 percent after 23 percent previously). Three percent of service providers, and thus slightly more than in the other sectors, face the threat of insolvency.

The assessment of the **hospitality industry**'s own financial situation is particularly critical. Strongly increased purchase prices for food, higher energy and labour costs meet companies that are still struggling with the burdens from the Corona crisis. Added to this are changing consumer preferences in the face of falling real incomes. Thus, despite a seasonally stronger sales period around the turn of the year, more businesses report a problematic financial situation than in autumn 2022 (57 compared to 50 per cent previously). After a brief recovery at the beginning of 2022, businesses are now again facing a stronger decline in equity capital (38 percent after 33 percent previously). At the same time, access to debt capital is also deteriorating (nine after seven percent), and the burden of interest payments remains a problem for ten percent of companies (previously eleven percent). Correspondingly, the share of companies facing imminent insolvency has risen from three to four percent.

Despite the immense cost increases for energy and raw materials, rising construction interest rates on the part of customers and an increasing number of cancellations of construction projects, the **construction industry** assesses its financial situation as better than in autumn 2022 and better than all other sectors. But still one third of construction companies (34 percent) assess their financial situation as problematic (up from 37 percent previously). While all other problematic situations such as liquidity shortages (13 after 16 percent previously), equity decline (16 after 19 percent previously) and bad debts (elt after 12 percent previously) improve compared to autumn 2022, the proportion of those complaining about a high debt burden remains constant (5 percent).

The current financial situation of the companies is characterised by ...

Evaluation by industry, figures in percent, multiple answers possible

	Industry	Construction	Trade	Service provider	all sectors
Equity decline	15	16	20	21	19
Liquidity shortages	17	13	16	16	16
Increasing bad debt	8	11	11	10	10
More difficult access to debt capital	8	6	7	7	7
High debt burden	8	5	6	6	7
Impending insolvency	1	1	2	3	2
No negative effects	64	66	61	60	62

After a significant deterioration in the financial situation in the **industry** due to the rapid and strong increase in energy costs since summer 2022, the overall financial situation in the industry has improved slightly. But more than a third of companies continue to report problems (36 percent after 39 percent previously). The proportion of companies reporting liquidity shortages (17 percent after 18 percent previously), a decline in equity (15 percent after 17 percent previously) and increased bad debt losses (eight percent after 10 percent previously) has declined slightly in each case.

In **industry,** the picture remains very different according to sector. High energy costs and strong price increases for raw materials and intermediate products lead to more burdens in some industrial sectors than in others. The difference between production becoming more expensive and the lack of or incomplete possibilities to pass on the increased prices in the value chain puts a strain on balance sheets. In addition, there are also structural factors such as the transformation of entire value chains.

This difficult situation affects the motor vehicle industry in particular. Their financial situation remains critical. Although the overall assessment of companies in the automotive industry has brightened somewhat: 37 percent of companies report a problematic financial situation, compared to 43 percent previously. But just under a quarter (22 percent) of them still face liquidity shortages. The energy-intensive industry continues to report a tight financial situation, although the share of companies reporting problems with financing has declined. This applies to metal production and processing (39 percent after 46 percent previously) as well as to companies in glass, ceramics and stone processing (31 percent after 35 percent previously).

Due to the immense increases in prices for energy products since mid-2022, the financial situation of **energy suppliers** had deteriorated particularly quickly and significantly. Changed market prices at the end of the year are now leading to a slight improvement. But still just under half of the companies (49 percent) are facing a difficult financial situation. 26 percent alone are already facing bad debts from their customers. The more difficult debt financing conditions are particularly striking. More than one in five energy suppliers (21 percent, up from 20 percent) have difficulties accessing bank loans. The increased purchase prices with simultaneous strong delays in passing them on to customers, especially until autumn 2022, which many energy suppliers have already shouldered with greater debt, are now causing the interest burden to rise significantly (15 percent compared to eight percent previously).

In the **retail sector,** the share of companies with financing difficulties has fallen by four percentage points compared to autumn 2022, to 39 percent. But retailers in particular continue to struggle with the consequences of rising purchase prices, costs for energy and logistics, labour costs and changing consumer preferences due to general price increases. A still very high proportion of 28 percent of retailers, compared to other sectors, report a decline in equity. The resolution of numerous disruptions in international supply chains and also the ability to better pass on increased costs to downstream stages make the financial situation for wholesalers and trade intermediaries look better. Nevertheless, 33 percent (after 38 percent previously) report a problematic financial situation.

Business risks of the companies for the coming 12 months

The war in Ukraine, the continuing high energy and raw material prices, the lack of skilled workers and the continuing uncertainty about developments in the coming months dominate the companies' risk assessment. The feedback from the companies does not give any reason to sound the all-clear. Both the cyclical demand risks and the structural, supply-side risks continue to reach high levels.

The calming of prices on the energy markets in recent weeks, the high levels in gas storage facilities and the absence of a gas shortage this winter, as well as the announcements by the federal government that it intends to cushion cost increases in particular with energy price brakes, are alleviating some of the pressure on **energy and raw material prices**. Compared to its peak in autumn 2022, the risk is now seen by just under three-quarters of the companies (72 percent after 82 percent previously). Rising energy and raw material prices thus remain the most highly rated risk.

In industry as a whole, the assessment is declining, although the energy-intensive branches such as the chemical industry (91 percent after 96 percent previously), glass, ceramics and stone processing (92 percent after 98 percent previously) and also the paper industry (89 percent after 97 percent previously) see further rising cost burdens for gas, oil and electricity as an outstanding risk for their economic development. The food and animal feed industries also continue to be concerned about the price development for their intermediate products (93 percent after 97 percent previously).

The majority of construction companies are also concerned about price increases; in addition to energy, existing bottlenecks in glass, steel and bitumen are a particular burden on expectations. Even if slightly fewer companies name prices as a risk than in the autumn, it remains the biggest risk (79 percent after 90 percent previously). Energy and raw material prices are also named first among the risks by trading and service companies (75 after 85 percent previously and 64 after 74 percent previously).

TOP business risks by sector

Percentage of responses; multiple responses possible, in brackets value of previous survey, all-time high

	Industry	Construction	Trade	Services
1.	85 (93) Energy and raw materials	79 (90) Energy and raw materials	75 (85) Energy and raw materials	64 (74) Energy and raw materials
2.	61 (54) Lack of skilled workers	72 (70) Lack of skilled workers	60 (65) Domestic demand	61 (58) Lack of skilled workers
3.	51 (51) Labour costs	50 (54) Labour costs	52 (48) Lack of skilled workers	48 (50) Labour costs
4.	51 (56) Domestic demand	50 (53) Domestic demand	46 (49) Labour costs	43 (47) Domestic demand
5.	40 (45) Economic policy	37 (44) Economic policy	43 (46) Economic policy	41 (47) Economic policy

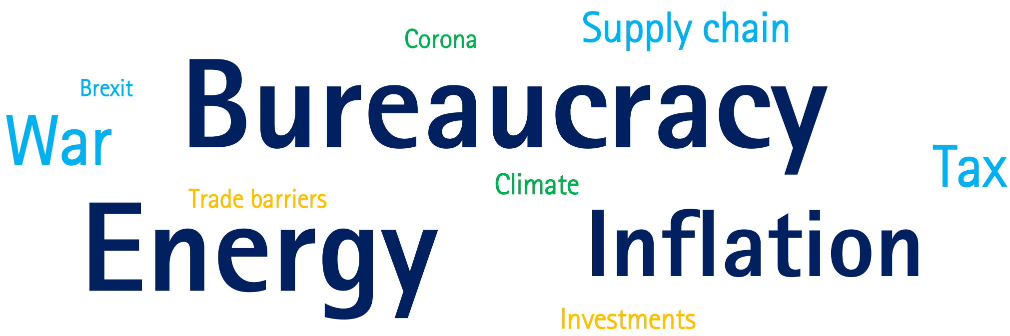
The **lack of skilled workers is** cited as a business risk by 60 percent of the companies and thus more frequently than in autumn 2022 (56 percent). Even in the current crisis, the lack of skilled workers is the second biggest business risk according to the companies. Particularly in view of demographic developments, the issue of skilled labour will remain one of the key structural challenges for companies in the future. The lack of skilled labour has reached a new all-time high in industry (61 percent after 54 percent). Especially in industrial companies that want to expand their investments, the concern about too few workers is pressing (69 percent). The risk of a lack of skilled workers has also increased significantly among capital goods producers. Companies in the mechanical engineering sector (68 percent, up from 63 percent) and manufacturers of metal products (65 percent, up from 55 percent) face a significantly higher risk. In the construction industry, almost three-quarters of the companies complain about staff shortages (72 percent after 70 percent previously). Even in trade (52 per cent), the lack of skilled workers has now climbed to third place among the risks for business expectations in the coming months.

The risk of **labour costs** for all companies is only two percentage points away from its all-time high in autumn 2022 and is mentioned by just under half of the companies (49 percent after 51 percent previously). In industry (51 percent), the risk is rated as high as never before. Some service industries with rather below-average wage levels, which lost a lot of staff during the Corona pandemic and now have a high demand for labour, name labour costs as a risk particularly frequently - for example in the security industry (73 percent) and cleaning services (65 percent).

The geopolitical situation, the inflation trend and the uncertainty about the global economic development mean that the original economic risks remain at a high level. Almost half of all companies (48 percent after 52 percent previously) are concerned about **domestic demand.** Trade in particular fears lower domestic sales (60 percent after 65 percent). In view of increasing cancellations of construction projects due to sharply rising construction costs and especially construction interest rates, half of the construction companies see domestic demand as a risk (50 percent after 53 percent previously). In industry, too, the risk assessment remains at a high level (51 after 56 percent previously).

In view of a slowed global growth and the burden on many foreign markets with energy costs, some of which are also rising, as well as high inflation, one third of industrial companies (33 percent after 37 percent) fear a decline in **foreign demand.** The reactions of the central banks in important currency areas and the associated effects on exchange rates have led to an easing of the exchange rate risk (six percent after eleven percent previously). 41 percent of all companies name the **economic environment** as a business risk (after 46 percent previously). In particular, bureaucracy, energy, inflation, war and taxes are named as risks.

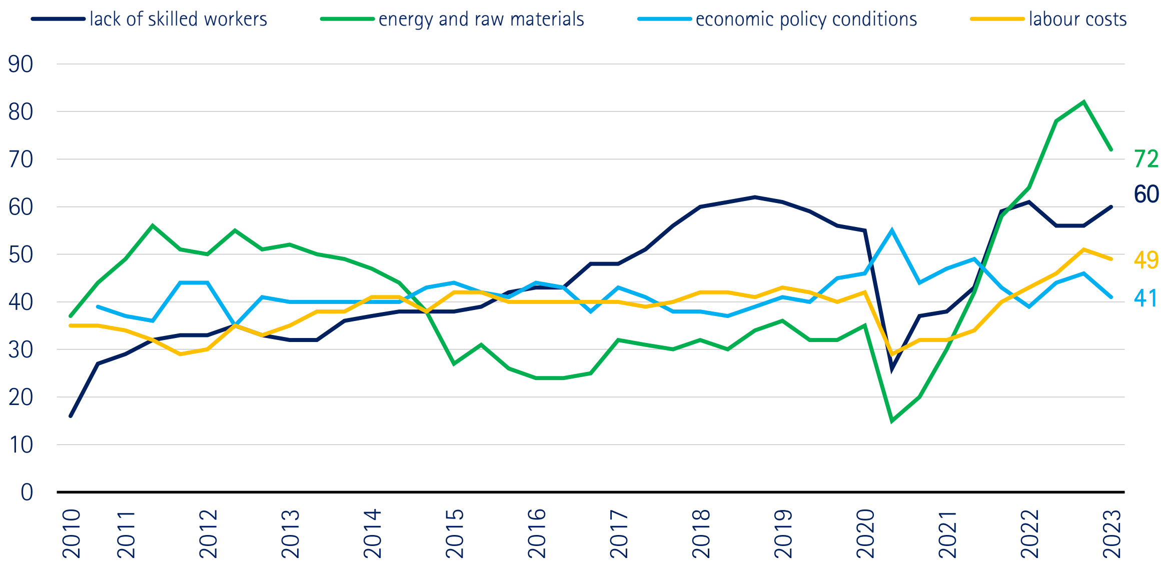
Keywords most frequently mentioned by the companies when describing the economic risks
(Evaluation of 5,440 free text responses)

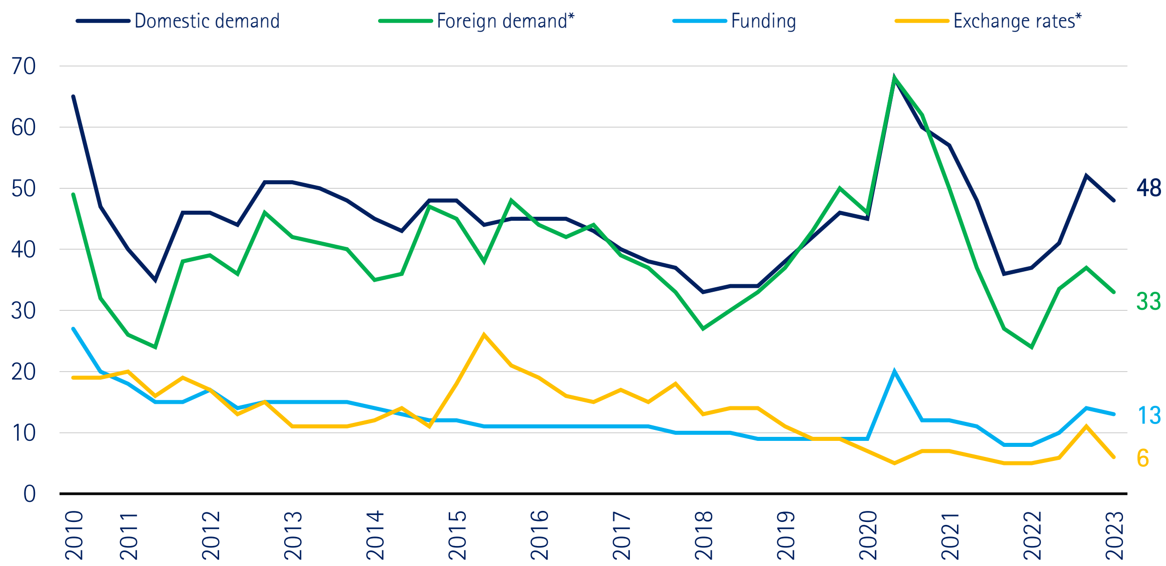


While the risk assessment of more difficult access to **financing** is more moderate in the overall economy (13 percent, compared to 14 percent previously), some service sectors face particular challenges in financing their projects. These include companies from the energy supply sector (32 percent after 37 percent previously), but even more so than in autumn 2022 the real estate industry (38 percent after 37 percent previously).

Business risks for the overall economy

Percentage of responses; multiple responses possible; *Export industry

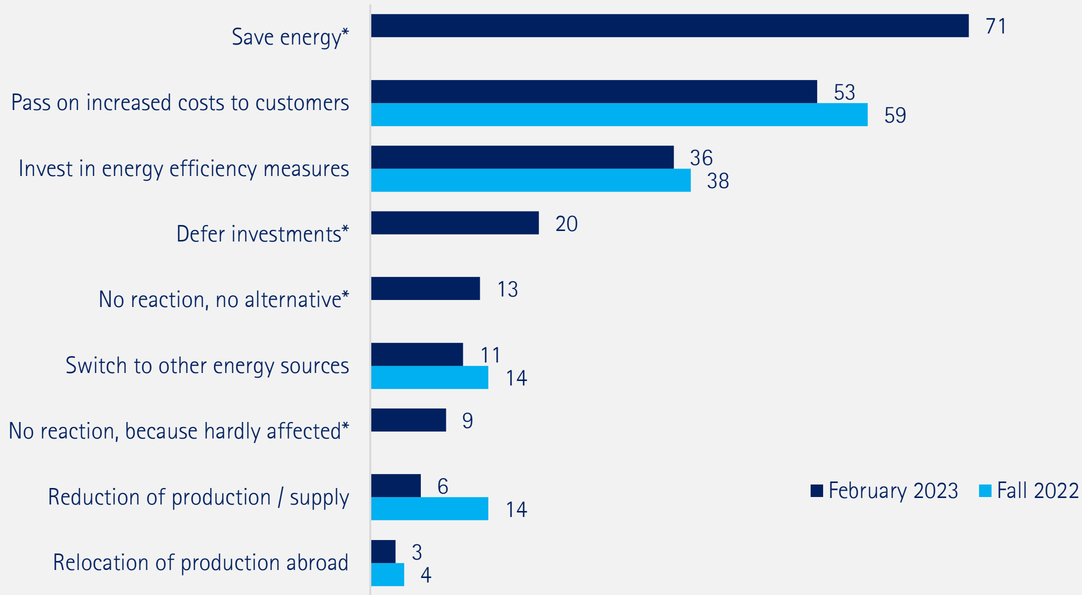




How are companies responding to high electricity, gas and fuel prices?

Producer prices for energy peaked in September 2022. Since then, they have fallen again, but are still around five times higher than the pre-crisis level. Since early summer 2021, Energy and raw materials have been the biggest business risk in the industry. The cost situation remains oppressive. Most recently, 72 percent of all companies and 85 percent of industrial companies cited energy and raw material prices as a business risk. For this reason, a special question was asked in the autumn business survey 2022 and the business survey at the beginning of 2023 to find out how companies are reacting to the rise in electricity, gas and fuel prices. However, a comparison with the previous survey is not possible for all answer options, as new answer options have been added:

How do you react to the high electricity, gas and fuel prices?
(Multiple answers possible, in percent, * not asked in the previous survey)



The most frequently mentioned response is to **save energy**. Especially in industry (77 percent) and among traders (75 percent), businesses are making efforts to save. Service providers (69 percent) and construction (58 percent) are somewhat less likely to do so.

More than half of the companies (53 percent, up from 59 percent) want to **pass on most of** their **increased energy costs to their customers**. Industrial and construction companies mention this most frequently (70 percent after 73 percent previously and 62 percent after 72 percent previously). This is somewhat less likely to be the case for companies in trade or the service sector (47 percent after 58 percent previously and 45 percent after 50 percent previously).

Investments in energy efficiency measures are an option for a good third of the companies (36 percent after 38 percent previously). In industry, every second company mentions this as a reaction (52 percent after 50 percent previously). In the other sectors, however, it is only about a quarter to a third (trade: 34 percent after previously 37 percent; services: 31 percent after previously 32 percent; construction 26 percent after previously 27 percent).

One fifth of construction and industrial companies have to **postpone investments** due to energy prices. The figure is slightly higher in trade (22 percent) and slightly lower in the service sector (19 percent).

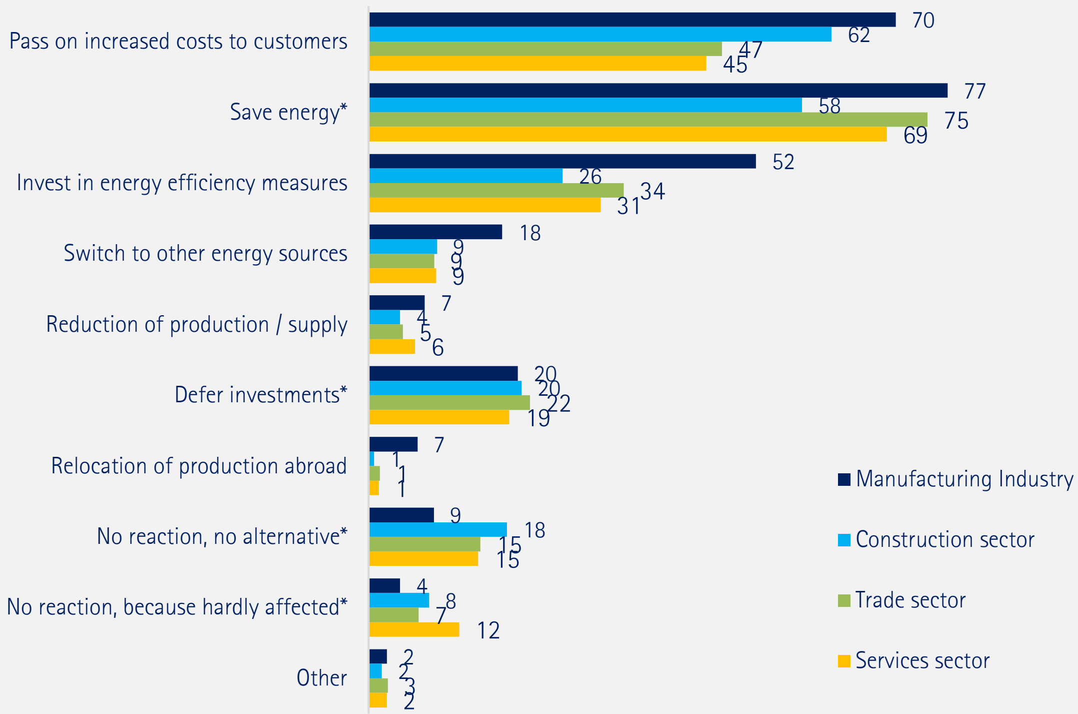
No reaction due to lack of alternative options is seen by 13 percent of the companies. In particular, 18 percent of the construction companies see no alternative options for action. In industry, the figure is only nine percent, in trade and among service providers it is 15 percent.

Overall, eleven per cent (compared to 14 per cent previously) of the companies are switching to other energy sources. This is more common than average in industry, where just under one-fifth (18 percent after 21 percent previously) of the companies want to **switch to other forms of energy**. In the other three sectors, the figure is nine percent each, compared to ten percent each in the previous survey.

At six percent, significantly fewer companies are reacting with a **reduction in their production or offerings** than in autumn 2022 (14 percent). The industrial sector is still slightly above average here (seven percent after 17 percent previously). Particularly affected are intermediate goods manufacturers and producers of consumer goods (ten percent after 21 percent previously and ten percent after 18 percent previously).

Seven per cent of industrial companies (compared to eight per cent previously) want to **relocate** their **production due to increased costs**. Individual sectors stand out, such as the manufacturers of automotive accessories (14 percent after 19 percent previously). In the other sectors, there are significantly fewer, as relocation of production is often technically impossible. In trade, construction and the service sector, only one percent mention relocations.

How are the companies reacting to the high electricity, gas and fuel prices?
(in percent, multiple answers are possible)



Export expectations of industrial companies for the coming 12 months

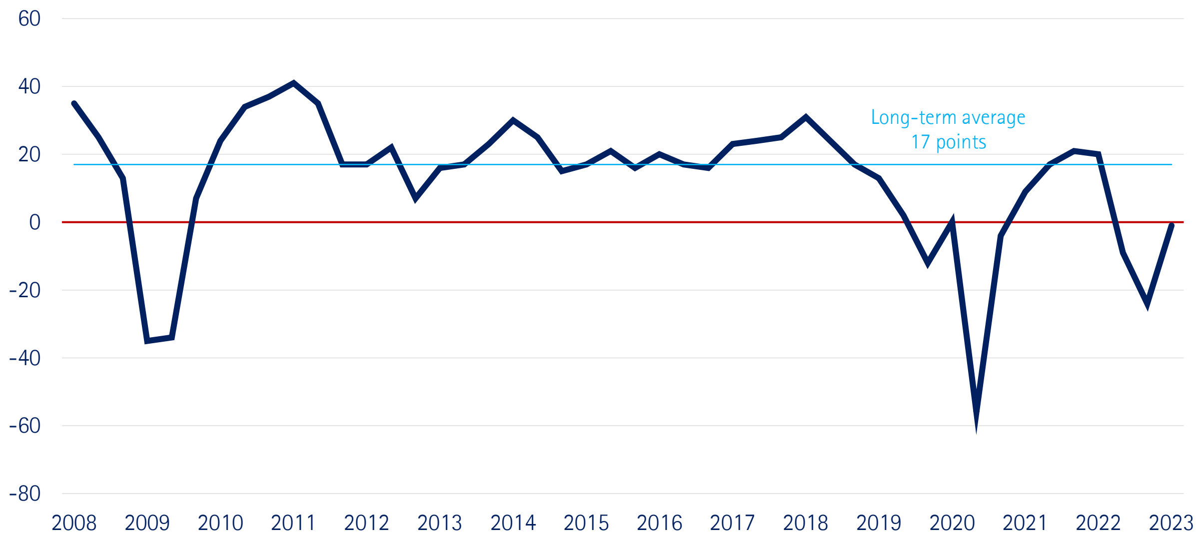
High inflation rates and a restrictive monetary policy in major economies as well as geopolitical risks have caused the global economy to cool down. Uncertainty about the economic development in important sales markets in 2023 is high. In the USA and the Eurozone, key interest rate hikes by the Fed and ECB are having a dampening effect. In China, high infection rates following the lifting of the zero-covid policy pose the risk of production losses and associated disruptions in global supply chains, which had eased significantly in recent months. In addition, a persistently low level of consumption and the existing weakness of the real estate sector pose further challenges for Germany's most important trading partner, China. Even though energy prices have eased recently, the high energy costs in international comparison continue to weigh on the international competitiveness of German companies.

Despite the continuing uncertainties, German foreign trade has developed more stably than was expected in the previous survey. Companies' export expectations brightened at the beginning of the year, but the pessimistic voices remain slightly in the majority. More than one-fifth of the companies (23 per cent, up from 16 per cent) expect exports to grow in the coming twelve months, while almost one-fourth expect exports to decline (24 per cent). In the previous survey in autumn 2022, 40 percent had still assumed a decline in exports in their company. The resulting balance of higher and lower export expectations is still just in negative territory at minus one point - but well below the long-term average of 17 points.

Although foreign orders have been declining in recent months, slightly fewer companies than in the previous survey see low foreign demand as a business risk - just over one-third of companies (33 percent, down from 37 percent) still cite this concern.

The risk of fluctuating exchange rates has fallen from eleven percent in autumn 2022 to six percent - and thus back well below the level of the long-term average (13 percent). After reaching a low in September 2022, the euro has appreciated again against the US dollar. Although a stronger euro reduces the price competitiveness of German exports to third countries, a more stable exchange rate increases planning security for companies doing business internationally and dampens the price development of raw materials and supplies from outside the euro area.

Export expectations of industrial companies - balance in points



Balance of higher reports minus lower reports in points

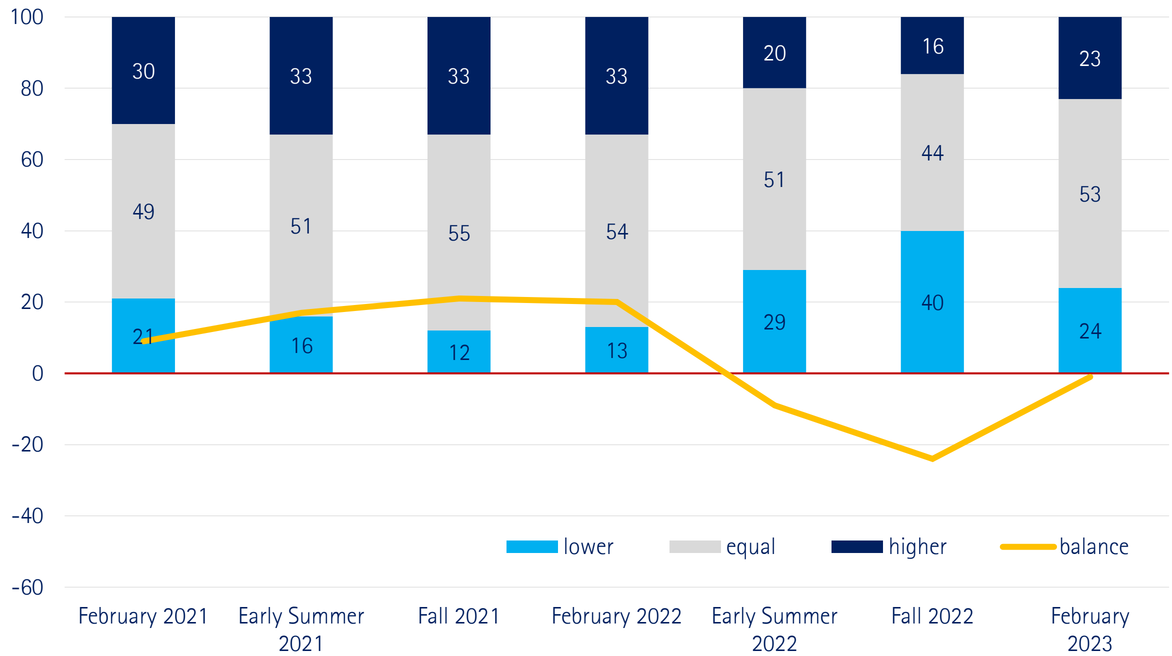
Expectations for foreign business are improving significantly across all main industrial groups. While the manufacturers of capital goods now mainly expect exports to increase again, pessimistic business opinions still predominate among the producers of intermediate goods as well as goods and consumer goods.

As before, **intermediate goods producers** are the most pessimistic compared to the other main industrial groups. The continuing high energy prices are a particular burden for energy-intensive companies in international competition.

One-fifth (20 percent) of the companies expect their exports to increase in the coming twelve months, while 28 percent expect a decline. Despite the continued negative outlook, the balance improves significantly to minus eight points (previous survey minus 35 points). The metal production and processing companies are still worried about their foreign business: while only nine percent of the companies expect a plus in the coming months, almost one in three (30 percent after 53 percent before) expect a minus (balance minus 21 points after minus 44 points before). In the rubber and plastics industry, too, export expectations remain in negative territory (balance minus eleven points after minus 38 points previously): 18 percent with higher expectations are compared to 29 percent with lower expectations.

Among **capital goods producers**, for the first time since the start of the Russian war in Ukraine, the share of companies that expect exports to rise again predominates. Companies can benefit from the easing disruptions in supply chains and work off their high order backlog. Three out of ten (30 percent) expect higher exports, one in five companies (19 percent) anticipate lower exports (balance eleven points after previously minus ten points). Among the mechanical engineering firms, 30 percent expect higher and 20 percent lower exports (balance of ten points after previously minus twelve points). Motor vehicle manufacturers have raised their export expectations for the second time in a row: 25 percent with better expectations contrast with 12 percent with worse ones (balance 13 points after minus seven points previously). Companies in the electrical engineering sector are similarly positive about their foreign business. A good third (34 percent) expect higher exports, 19 percent lower (balance 15 points after previously minus six points). While the motor vehicle manufacturers are almost at the long-term average of 14 balance points, the expectations of the electrical engineering companies are still below the average of 26 balance points.

Export expectations of industrial companies - shares in percent, balance in points

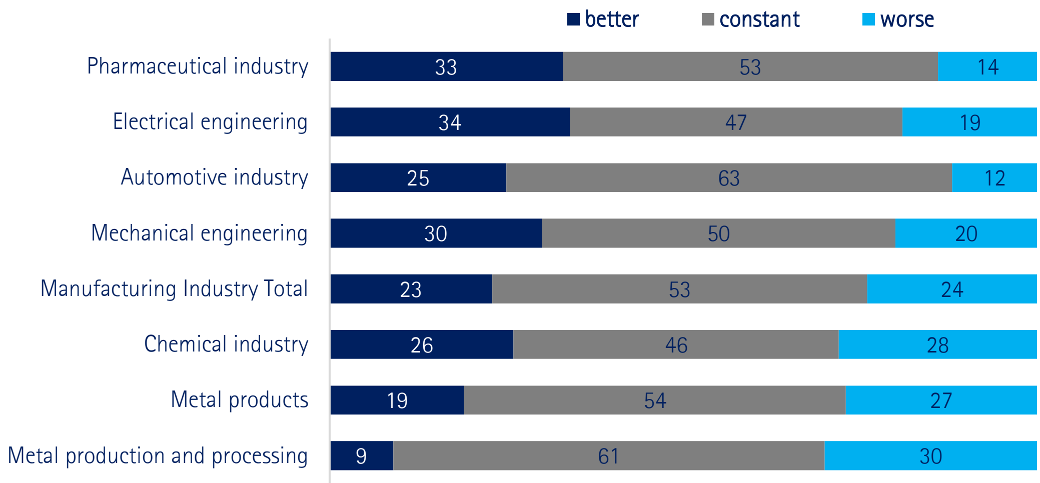


Manufacturers of goods and consumer goods are raising their export expectations significantly, but still have a negative outlook below average. High inflation rates worldwide are reducing consumers' purchasing power, which is particularly noticeable in this sector of the economy. One fifth (20 percent) expect higher exports, 24 percent lower (balance minus four points after minus 21 points before). The bottom line is more pessimistic in the food industry, where only 16 percent have positive expectations, but 22 percent have negative ones (balance minus six points after minus 15 points before). In the textile, leather and clothing industry, 21 percent have positive expectations compared to 31 percent with negative ones (balance minus ten points after minus 37 points before). Pharmaceutical companies, on the other hand, have a predominantly positive outlook on their export development: one third (33 percent) expect exports to increase, only 14 percent expect them to decrease (balance 19 points after minus five points previously).

Large companies with more than 1,000 employees are the most optimistic about their exports (balance 30 points after five points previously). Small companies with up to 19 employees (balance minus 15 points after previously minus 35 points) and medium-sized companies with 20 to 199 employees (balance minus eight points after previously minus 32 points) continue to expect exports to decline.

Export expectations for the coming 12 months in selected sectors

Shares in percent

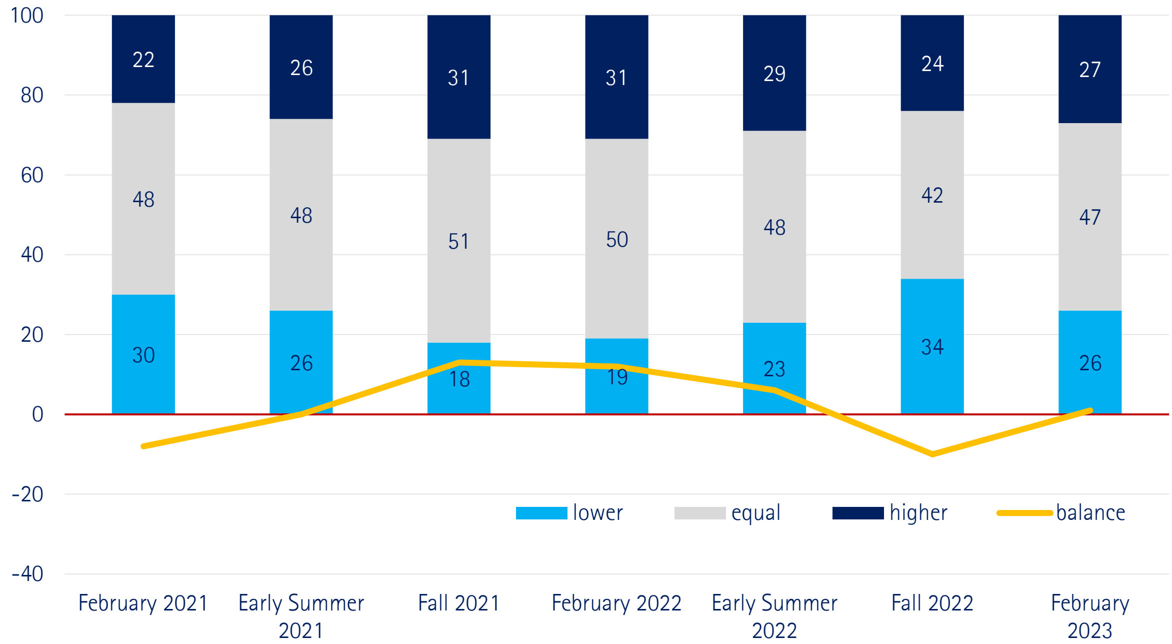


Companies' investment intentions for the coming 12 months

The improvement in business expectations is having an impact on the companies' investment plans. In particular, slightly fewer companies now want to scale back their investments than was the case in the previous survey. However, uncertainty remains high. In addition to economic risks, such as falling demand at home and abroad, there are also structural risks, such as the lack of skilled workers or the high level of labour and energy costs. In addition, the budgets of many companies continue to be burdened by high energy, material, labour and, more recently, borrowing costs. One fifth of all companies have to postpone investments due to the high cost burden. As a result, the share of companies that expect investments to increase in the coming twelve months has risen only slightly from 24 percent in the previous survey to 27 percent. In Germany there is thus still great reluctance to invest. Nevertheless, the share of companies that will have to reduce their investments has fallen from 34 percent to 26 percent. The balance of positive and negative investment intentions rises by ten to one point. In view of the investment backlog - in 2022 equipment investment was still 5.5 percent below the pre-crisis level according to the Federal Statistical Office - this means that investment is not expected to catch up.

The gloomier the business expectations, the more cautious companies are in their investment plans. This is particularly reflected in the **construction industry** - the sector with the most pessimistic outlook. Although a slight stabilisation of investment intentions can be seen here compared to autumn 2022. However, concerns about a construction recession are preventing an expansion of investments. While only 15 percent (after 14 percent previously) of construction companies intend to increase their investment budgets, more than twice as many (32 percent, after 42 percent previously) are planning cuts. The balance of investment intentions rises by eleven to only minus 17 points.

Investment intentions of the companies - shares in percent, balance in points

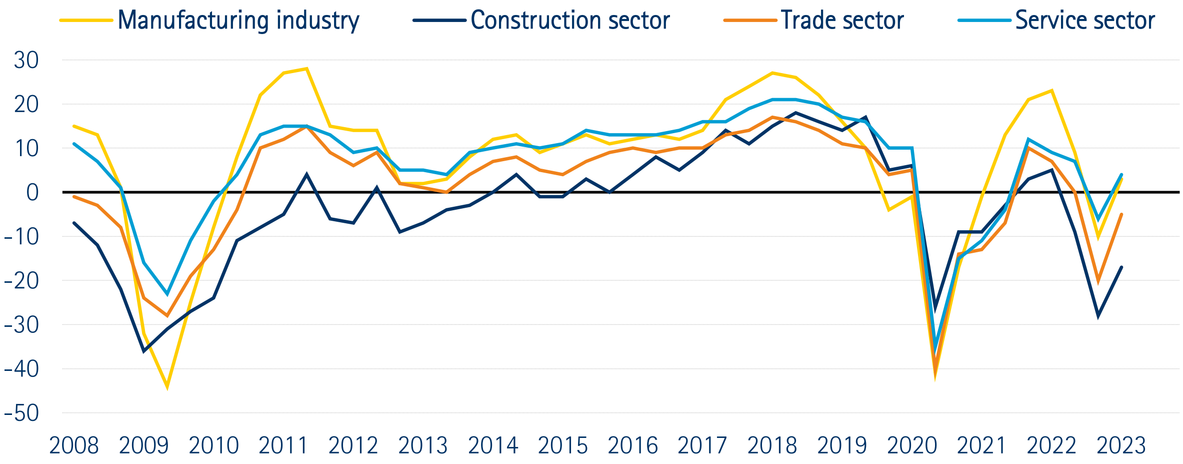


Investment has stabilised in **industry**, where the business outlook is no longer as gloomy as in the previous survey. The share of industrial companies that want to cut their investment budgets falls from a good third (35 percent) to a good quarter (27 percent), while the share of those that want to invest more in the coming twelve months increases by five percentage points to 30 percent. The balance of investment intentions thus turns just into positive territory and rises by 13 to three points. The manufacturers of capital goods are planning much more expansively (balance of eight points after minus five points previously) than the producers of intermediate goods (balance of minus one point after minus 14 points previously) or the producers of consumer goods (balance of minus three points after minus 16 points previously).

Retailers' investment plans reflect the continued negative business outlook and concerns about consumer restraint as a result of higher prices. The share of retailers that will increase their investment budgets rises only slightly by four percentage points to 25 percent. Nevertheless, the share of companies planning to cut back also decreases from 41 percent to 30 percent. This means that trade is planning lower investments overall (balance of minus five points after minus 20 points previously).

In the **service sector,** investments are stabilising at an average level. More than a quarter of the companies (27 percent after 24 percent previously) plan to increase their investment budgets. Just under a quarter (23 percent after 31 percent previously) plan to make cuts. Overall, the balance of investment plans turns positive by ten points to a value of four points (average: five points). Especially in the service sectors with above-average business expectations, investments tend to increase. Thus, companies with expansive investment plans predominate both in financial and insurance services (balance of 15 after previously zero points) and in predominantly business-related services (balance of six after previously minus four points). In the hotel and restaurant industry, on the other hand, where business expectations remain gloomy and the financial situation is tight, investment intentions hardly change (balance of minus five after minus nine points previously).

Investment intentions of the companies - balance in points



Balance higher valuations minus lower valuations

A look at the **investment motives** shows that companies are still very uncertain and cautious. Business expectations do not point to an upswing. As in autumn 2022, motives that are geared towards maintaining substance dominate. Motives pointing to expansion and growth are increasing only hesitantly. In industry in particular, energy prices play a major role in investment: More than half of the companies (52 percent) want to invest in more energy efficiency because of the high prices, and one fifth (18 percent) are planning to switch to alternative energy sources.

The need for replacement continues to be the most frequently cited investment motive (65 percent after 64 percent previously). This also includes measures within the framework of the "fuel switch", for example a change from gas-fired plants to alternative energy sources such as oil and coal or the replacement of energy-consuming equipment with more efficient equipment. In second place come investments for **rationalisation,** although the importance decreases at the beginning of the year (31 percent after 33 percent previously). In industry, the motive reaches an all-time low of 41 percent (after 42 percent previously).

Companies are currently planning only a minimal expansion of production. Admittedly, only six percent, and thus significantly fewer than in the autumn (14 percent), want to restrict their production or offerings due to the high energy prices. However, the motive of **capacity expansion**, i.e. the establishment and expansion of production in Germany, only increases by one percentage point to 23 percent. The value is thus significantly below the long-term average of 27 percent. In industry, the motive remains constant at 28 percent and is also below the long-term average of 31 percent.

Innovation projects are also on the rise again from a low level. At 28 percent, only slightly more companies than in autumn (26 percent) say they want to invest in product innovation. In the service sector, this motive is increasing by three percentage points.

As in the previous survey, the investment motive of **environmental protection** remains at an all-time high and is named by 29 percent of the companies. Although the high energy prices and the associated lack of a calculation and capital basis are tying up investments in additional environmental protection measures and thus preventing greater leaps in this investment motive, companies have no doubts about the necessity of environmental and climate protection even in the current situation. This is especially true in industry, where the importance of environmental protection remains at 37 percent.

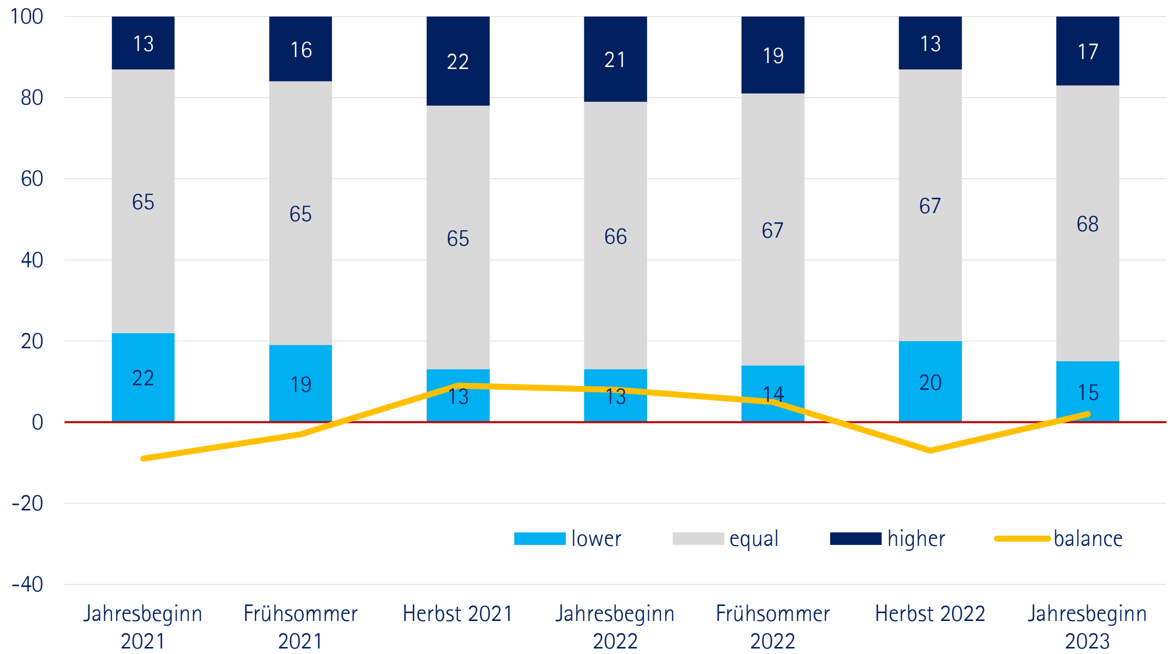
Main motives for domestic investments (in percent; multiple answers are possible, value of previous survey in brackets):

	Rationalisation	Product innovation	Capacity expansion	Environmental protection	Replacement demand
All sectors	31 (33)	28 (26)	23 (22)	29 (29)	65 (64)
Manufacturing Industry	41 (42)	31 (29)	28 (28)	37 (37)	65 (62)
Construction sector	24 (25)	18 (17)	16 (15)	23 (24)	79 (78)
Trade sector	31 (31)	24 (23)	21 (20)	25 (25)	64 (61)
Services sector	27 (29)	29 (26)	21 (20)	26 (26)	64 (64)

Companies' employment intentions for the coming 12 months

The dwindling pessimism in business expectations is also reflected in companies' employment plans. The demand situation continues to be a concern for many companies, and rising labour costs are limiting their options. However, many are also forced to fill their staffing gaps due to the lack of skilled workers and demographic change. Overall, after the noticeable decline in the autumn survey, more companies are again planning to increase their staff in the next twelve months (17 percent after 13 percent previously). Every sixth company (15 percent) expects a lower number of employees in the future - in autumn 2022 it was still 20 percent. As a result, the balance of positive and negative employment intentions recovers by nine points to two points. The balance has thus climbed back above the long-term average of zero points.

Companies' employment intentions - shares in percent, balance in points



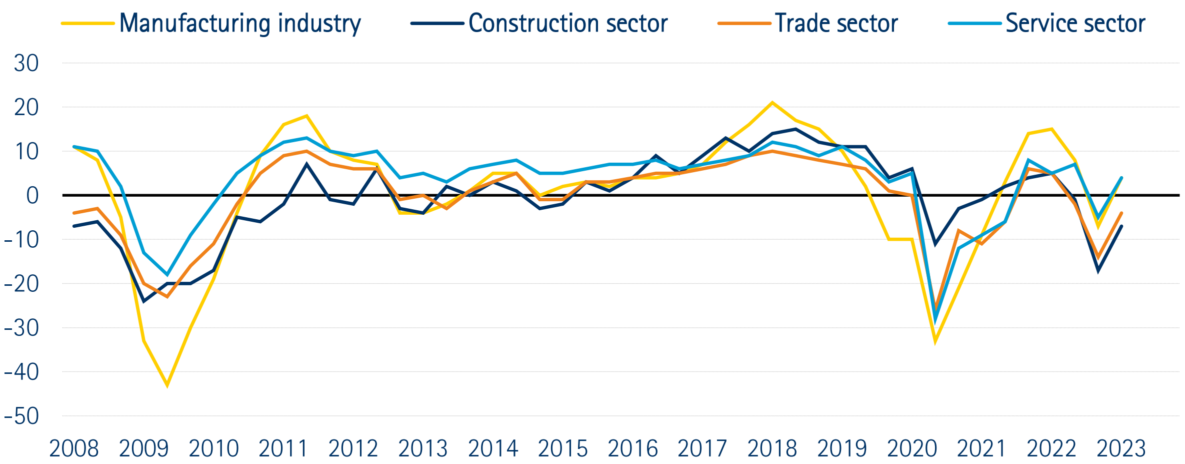
While high energy prices and labour costs continue to be a burden on **industry**, less gloomy business and export expectations are having a positive impact on employment plans. In addition, the demographically induced lack of skilled workers is reaching record levels in industry and is already making it difficult to replace employees who retire. Accordingly, almost one in five industrial firms (19 per cent, up from 15 per cent) are looking to increase their workforce in the next twelve months. Fifteen percent (down from 22 percent) expect to employ fewer people. The balance rises by eleven to four points. In view of cautious optimism about export business, capital goods producers in particular are looking for more staff compared to autumn 2022. The balance of employment expectations rises from two to 15 points. Electrical engineering companies (balance of 21 points, up from eleven), mechanical engineering (balance of minus 17 points, up from seven) and medical technology companies (balance of 16 points, up from minus 14) stand out positively. The employment plans of producers of goods and consumer goods are much less expansive. Here there is still concern about falling domestic demand (60 percent) and the overall business outlook is also below average compared to industry as a whole. Accordingly, the balance of employment intentions here only rises to minus six points after minus 14 points previously.

With the improved plannability of energy supply at the beginning of 2023, companies from the energy-intensive sectors have initially left the trough behind them in their business expectations. In particular, companies in the metal production and processing industry expect to increase staff numbers again (balance of five points after minus eight points previously). In the very important chemical industry, significantly fewer companies now expect to cut staff (balance of minus one point after minus 15 points previously). However, the balance remains negative.

The general stabilisation of business expectations is also reflected in employment intentions in the **construction industry.** In addition, companies need to fill their demographically induced staff gaps. However, the willingness to hire in the construction industry remains pessimistic overall due to the poor state of the construction sector: almost one in five companies (19 per cent after 24 per cent previously) expect fewer employees, while twelve per cent (after seven per cent previously) plan an increase. The balance rises by ten points to minus seven. Building construction and civil engineering in particular are worried about new orders in view of the high construction prices and interest rates. Accordingly, employment intentions are somewhat more restrained here (building construction balance of minus ten points after minus 18 points previously; civil engineering balance of minus ten points after minus twelve points previously) than in the finishing trade. Due to the continuing high demand for energy-saving renovations, for example, the companies' employment expectations are somewhat better there (balance of minus five points after minus 16 points previously).

Employment plans are also mixed in the **retail** sector. It is true that the lack of skilled workers is also increasing slightly there. However, not only the fear of consumer reticence, but also labour costs are slowing down employment intentions. Sixteen per cent of retailers plan to employ fewer people - a slightly lower figure than in autumn 2022 (22 per cent). This contrasts with twelve percent of businesses that expect to increase employment. The balance climbs by ten points to minus four. On average, retail companies expect slightly fewer employees (balance of minus eight points after minus 17 points previously) than wholesalers (balance of minus one point after minus eleven points previously).

Companies' employment intentions - balance in points



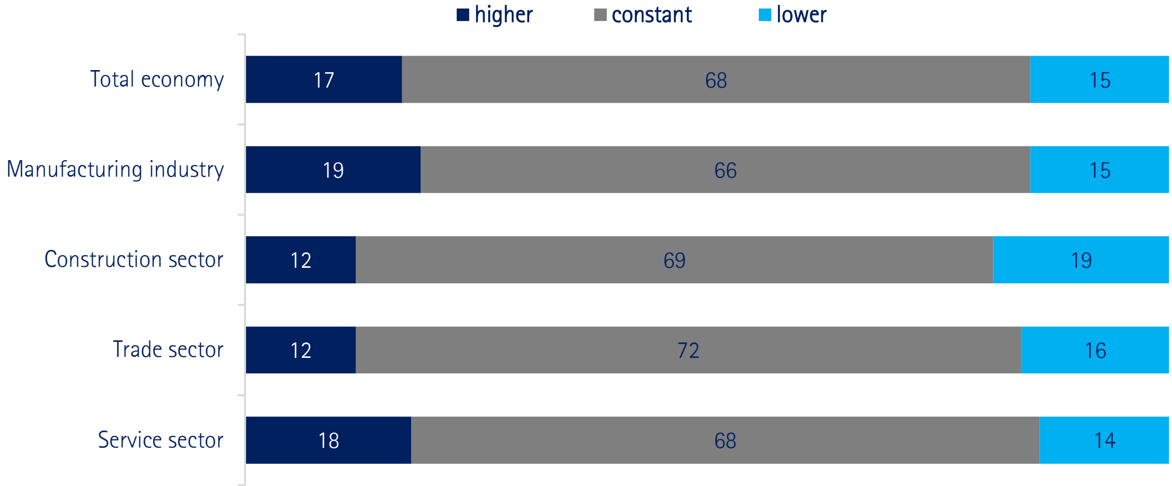
Balance higher valuations minus lower

At the beginning of the year, some optimism returned to the **service sector**. In addition to the companies that expect an increase in employment (18 percent after 14 percent previously), the companies that expect a decline (14 percent after 19 percent previously) are in the majority. The balance of employment intentions rises from minus five to four points. Nevertheless, the multiple economic challenges have different effects on the very heterogeneous sector: In the hospitality industry, for example, many employees who left the industry during the Corona pandemic are still missing. At the same time, labour costs, which have risen both with the increase in the minimum wage and due to the lack of skilled workers, are depressing the willingness to hire. Added to this is the concern about a decline in demand. Overall, the balance of employment intentions in the hospitality industry rises by 14 to minus one point. The trade fair, exhibition and congress organisers, who have also been hit by the pandemic, want to expand their staff strongly again and fill staff gaps. In view of the stabilisation of the outlook in the industry, the fear of a slump in demand has fallen significantly here (from 62 percent in autumn to currently 44 percent). Specifically, the balance of employment plans reached a value of 22 points after twelve points in autumn 2022.

The increasing optimism in industry compared to autumn 2022 also has a positive effect on the employment plans of business-related service providers. Companies in research and development, which are closely linked to investment activity in industry, are again planning to employ significantly more staff (balance of twelve points after two points previously). The improved ability to plan in industrial production is also leading to a renewed search for personnel in the placement and leasing of labour. The balance rises strongly by 33 to 13 points and is thus clearly in positive territory again. The stabilisation of companies' investment intentions also leads to rising employment expectations for IT service providers (balance of 27 after 18 points previously). Despite the tense overall situation in the construction industry, significantly more staff are being sought in architecture and engineering firms than in autumn 2022 due to the rising lack of skilled workers. The balance rises from seven to 19 points. This is significantly above the long-term average (balance of 15 points).

Employment intentions in the next 12 months by sector

Shares in percent



DIHK forecast for economic development in Germany

Use of gross domestic product (GDP) in Germany
Change from previous year, in percent, price-adjusted, chained

	2021	2022	DIHK forecast 2023
GDP	2.6%	1.8%	**0.0%**
Final consumption expenditure of private households	0.4%	4.6%	**1.0%**
Government final consumption ex-penditure	3.8%	1.1%	**0.0%**
Gross fixed capital formation (GFCF)	1.2%	0.2%	**-1.1%**
- GFCF in machinery and equipment	3.5%	2.5%	**0.0%**
- Other fixed assets	1.0%	2.1%	**1.5%**
- GFCF in construction	0.0%	-1.6%	**-2.5%**
Exports	9.7%	3.2%	**2.5%**
Imports	3.2%	6.7%	**3.0%**
Employed persons (change in thou-sands)	+65	+589	**+50**
Consumer prices	3.1%	7.9%	**6.0%**