German economy is losing ground

DIHK Economic Survey Fall 2024

DIHK German Chamber of Commerce and Industry

IHK German Chambers of Commerce and Industry

Contents

Imprint

German Chamber of Commerce and Industry

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Status: October 2024

Further results, the questionnaire and information on the survey methodology can be found at www.dihk.de/konjunktur

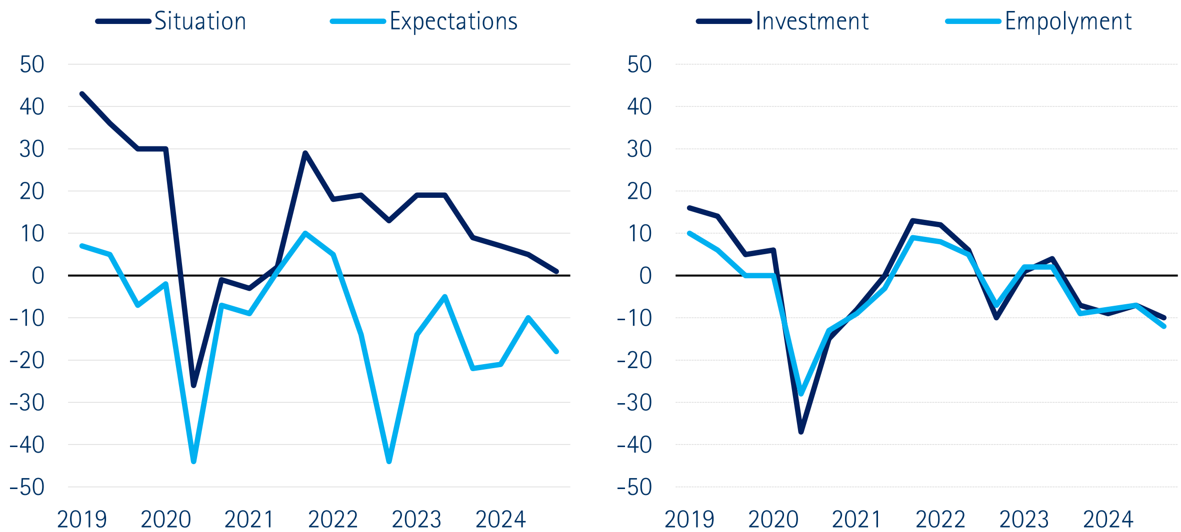
Key results

Forecast: The figures give no cause for optimism. The DIHK has lowered its forecast for 2024 to a "red zero" at best (-0.2%). Zero growth is also expected for the coming year (0.0%):

- The poor expectations from early summer have become operational reality. The **business situation** continues to deteriorate. 26 percent of companies report a good situation, 25 percent a poor one. The balance of the situation assessment continues the downward trend, falling from five to just one point.
- Companies' **business expectations** are becoming gloomier. The proportion of companies with negative business expectations has risen to 31 percent (after 26 percent). Only 13 percent of companies expect an improvement in the next twelve months (after 16 percent). On balance, the already negative expectations fell from minus ten to minus 18 points.
- The most common **business risk** is once again domestic demand (59 percent after 55 percent), followed by economic policy framework (57 percent, highest level) and labour costs (54 percent, highest level). Around one in two companies also complained about a shortage of skilled labour (51 percent) and Energy and raw material prices (49 percent). More than 6,600 companies made use of the free text response option for the economic policy framework. The most frequently mentioned keyword by far was "bureaucracy".
- Despite an overall robust global economy, Manufacturing Industry's **export expectations** are deteriorating: 31 percent of companies expect exports to fall over the next twelve months, while only 19 percent expect them to rise. The balance of export expectations fell by seven points to minus twelve points.
- The **propensity to invest** is deteriorating: while 23 percent of companies are once again planning to increase investment, 33 percent will have to reduce investment. The balance of investment plans fell from minus seven to minus nine points.
- Companies' **personnel plans** remain restrictive. Only twelve percent want to increase staff, while 24 percent expect to employ fewer people. The resulting balance of minus twelve points (after previously minus seven points) is still noticeably below the long-term average of zero points.
- Overall, the **financial situation** of companies remains virtually unchanged: 41 percent (previously 40 percent) consider their financial situation to be problematic.

German economy is losing ground

Business situation: balance of good minus bad reports; business expectations: Balance of better minus worse reports; investment and employment plans: Balance of higher minus lower reports

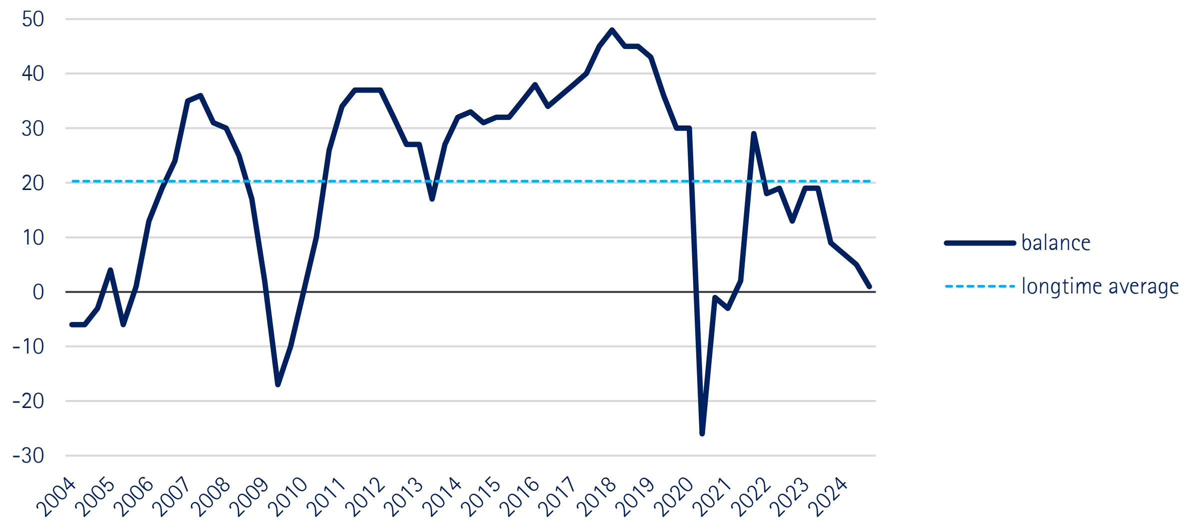


Current business situation of companies

The economic situation in the German economy has visibly deteriorated across all sectors within just a few months. The negative business expectations manifested themselves in a poorer assessment of the business situation in autumn 2024. This points to far-reaching structural problems in the domestic economy. High costs for energy, personnel and taxes, excessive bureaucracy and geopolitical uncertainties are weighing on companies. Added to this is weak demand from Germany and abroad. Only 26 percent of companies (down from 28 percent in early summer) rate their current business situation as "good". At the same time, the proportion of companies that rate their situation as poor has risen further (25 percent compared to 23 percent previously). The balance thus fell to one point (compared to five points in early summer).

The economic gloom extends across all size categories. While in the previous surveys small and medium-sized companies reported a poor business situation to a much greater extent, large companies have now also revised their assessment sharply downwards. In the size category with 1,000 employees or more, the balance fell from 13 to five points. At the same time, the deterioration in the situation is also continuing in medium-sized companies: In companies with up to 19 employees, the balance falls by two points to one, in companies with 20 to 199 employees by six points to zero and in companies with 200 to 499 employees by as many as nine points to zero.

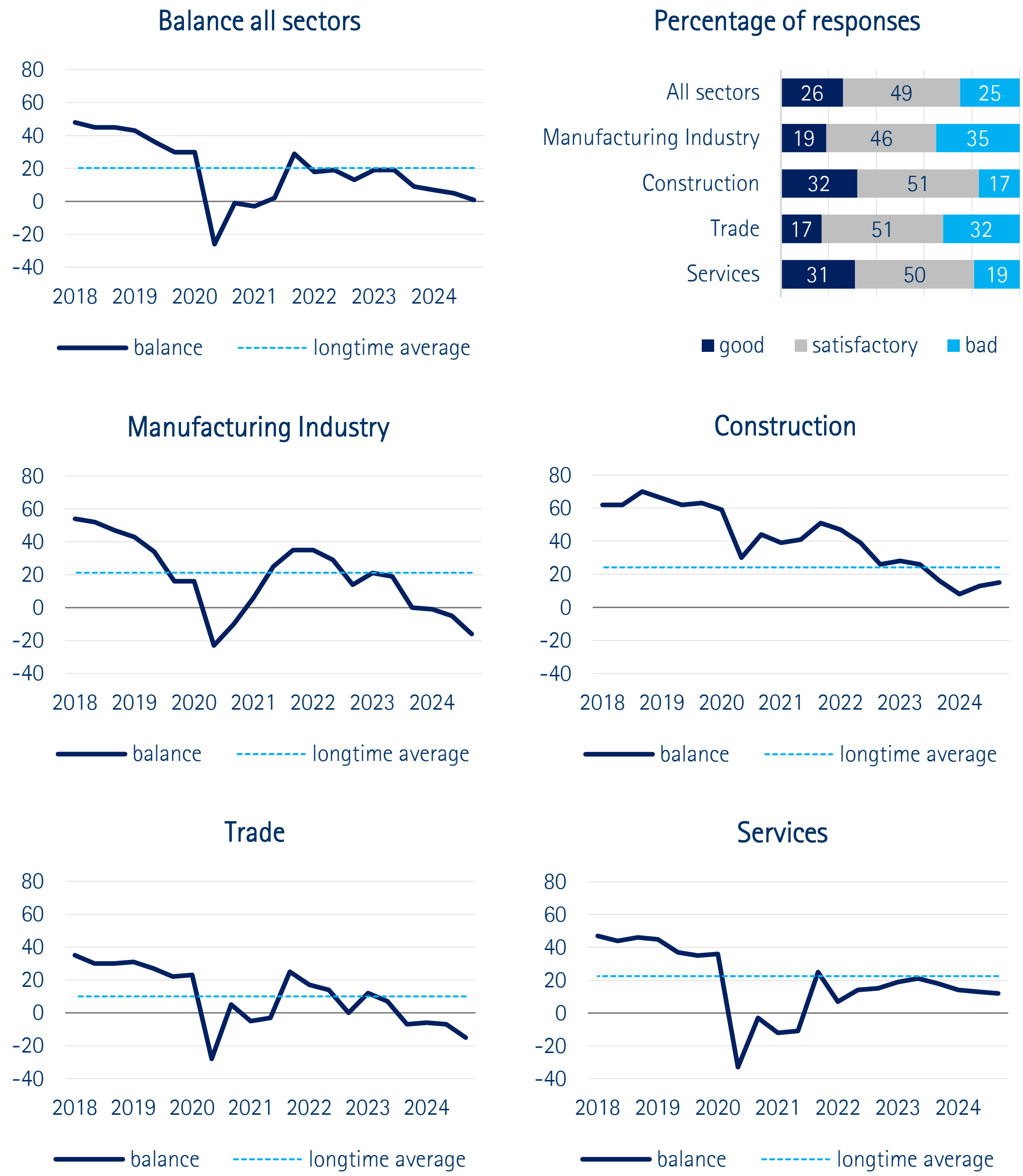
Business situation of companies (balance of good minus bad responses, long-term average since 2003)



The situation in **Manufacturing Industry** is the worst of all economic sectors. The continuing weakness in orders coupled with high costs and bureaucratic burdens are increasingly reflected in the books. Only 19 percent of companies still rate their current situation as "good", while 35 percent rate it as "poor". The balance drops significantly to minus 16 points (after previously minus five points) and is well below the long-term average of plus 21 points. With this development, Manufacturing Industry is roughly at the level recorded during the structural crisis in 2002/2003 (balance of minus 19 points at the beginning of 2003).

The situation is particularly difficult for the more energy-intensive **producers of intermediate goods**. The balance of minus 30 points (after previously minus 16 points) speaks for itself. The high energy costs and the lack of planning security in the energy supply are considerably limiting the competitiveness of companies. Metal producers and processors were hit particularly hard. The balance collapsed further to minus 44 points (previously minus 28 points). The situation is also deteriorating again in the chemical Manufacturing Industry. The upward trend observed there since autumn 2023 is not continuing. Instead, the balance fell again by 14 points to minus 13 points and is therefore only slightly higher than a year ago (minus 16 points).

Business situation of companies (balance of good minus bad responses, long-term average since 2003)



The mood among **capital goods manufacturers** is also gloomy. They are confronted with weak domestic demand. Due to the persistently sluggish global industrial production, orders from abroad also remain at a low level. The situation assessment fell to minus eleven balance points (after two points previously). A particularly dramatic slump was recorded in the automotive industry: the balance plummeted to minus 31 points (previously four points). This reflects the far-reaching challenges facing the industry: high production costs and the transformation to e-mobility, which entails additional adaptation and investment requirements. Added to this is the trend towards "local for local" production, as well as growing and serious competition on the global markets.

Weak consumption and the general uncertainty among consumers are having a negative impact on **producers of consumer durables and consumer goods**. The balance fell from minus five to minus eight points. The furniture industry (minus 27 balance points after previously minus twelve points) and the textile industry (minus 21 balance points after previously minus 14 points) are doing particularly badly. The situation is also deteriorating in the food and animal feed industry. The balance fell from nine to five points. Only a few sectors were able to buck the downward trend, such as the pharmaceutical industry (41 balance points after previously 21 points).

The mood in the **retail** sector has also deteriorated significantly. Only 17 percent of retailers now have a positive assessment of the situation (previously 20 percent). 32 percent speak of a poor situation (previously 27 percent). This means that the balance has deteriorated significantly since early summer from minus seven to minus 15 points. Wholesale is suffering particularly badly due to the poor industrial development (minus 22 after previously minus ten balance points). However, the retail trade is also struggling with demand problems (minus twelve after previously minus six balance points) due to weak consumer sentiment and higher prices.

The **construction industry** recorded a slight improvement in the situation overall. Almost a third (unchanged at 32 percent) of construction companies rate their situation as good, 17 percent (previously 19 percent) as poor. The balance thus rose from 13 to 15 points. However, the differences between the individual construction sectors are considerable. Civil engineering is benefiting from stable demand in the infrastructure sector. Long-term major projects and government investments such as the expansion of transport routes, the renovation of bridges and the expansion of energy infrastructure are ensuring relatively satisfactory capacity utilisation and planning security. Accordingly, civil engineering takes a positive view of the current situation (30 balance points after 28 points previously). Building construction, on the other hand, is predominantly gloomy about its business situation (minus two after previously minus three balance points). Numerous challenges such as rising construction costs, persistently high interest rates, a shortage of skilled labour and uncertainties on the property market are having a negative impact on the order situation and planning security.

The **service sector** is still proving to be robust overall. Just under a third of businesses (31 percent after 32 percent previously) rate their situation as "good", while one in five (unchanged at 19 percent) report a poor situation. The balance fell slightly from 13 to twelve points.

The predominantly business-related service providers are following the trend in Manufacturing Industry - albeit with a delay. Their business situation is deteriorating. The balance fell from 21 to fifteen points. The predominantly negative employment plans of companies are being felt in particular by companies in the labour supply and temporary employment sector, which is also an indicator of the economic situation. Their business situation has deteriorated further, from minus 27 to minus 32 points. This is the lowest value since the pandemic (balance in autumn 2020: minus 39 points). In the area of research and development, the reduced investment plans of industrial companies are making themselves felt. The balance fell from 13 to two points. While some service sectors are under great pressure, others are reporting a good business situation. Business is excellent for legal and tax consultancies (55 after previously 56 balance points). For example, they are benefiting from the increasing bureaucracy and complexity of tax law.

The recent increase in consumer purchasing power has also led to predominantly positive and stable situation assessments among personal service providers. At 17 points, the balance of the business situation remains slightly above the long-term average (19 points). In the hospitality industry, pleasing overnight stays and guest numbers have led to an improvement in the business situation, despite high costs for energy, food and staff. The balance rose by seven points to four points.

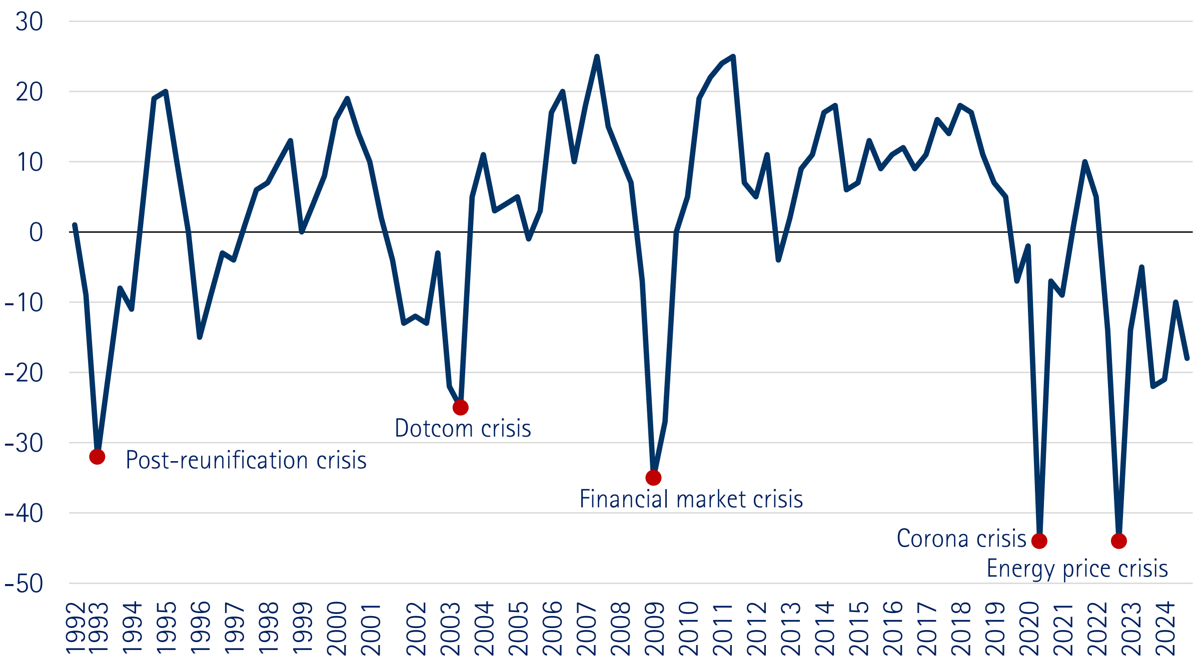
The situation in the transport sector has improved slightly compared to early summer (balance minus six points after previously minus seven points). Despite this slight recovery, the mood in the sector remains very subdued, particularly in comparison to the economy as a whole. One of the main reasons for the overall negative assessment in the transport sector is the sharp rise in costs and the challenge of passing these on to shippers. The changes to the HGV toll alone in December 2023 and July 2024 will cost road freight transport €8 billion a year. The increase in the air traffic tax in May 2024 will weaken Germany as an air transport location in international competition. The renovation of ailing transport routes and the elimination of bottlenecks is only making slow progress and is currently leading to further restrictions. The transport industry is also concerned about the shortage of skilled labour and the switch to alternative drive systems and fuels. The willingness to switch is there, but high costs, long planning and authorisation procedures, inadequate power grids and the low availability of non-fossil fuels are hampering implementation.

Business expectations of the companies

Companies' business expectations in autumn have deteriorated significantly again compared to early summer. In particular, the proportion of companies with negative business expectations has risen noticeably (31 percent compared to 26 percent previously). In contrast, the proportion of companies expecting business to improve over the next twelve months has fallen (13 percent compared to 16 percent previously). On balance, the already negative expectations fell from minus ten to minus 17 points. A weak domestic economy, subdued demand from abroad and structural problems such as a shortage of skilled workers, rising labour costs and continued high Energy and raw material prices are causing companies great concern. In addition, uncertain economic policy framework are proving to be a stumbling block for many companies. At least the ECB has made its first interest rate cuts in view of falling inflation rates, but this is not yet reflected in more positive expectations among companies.

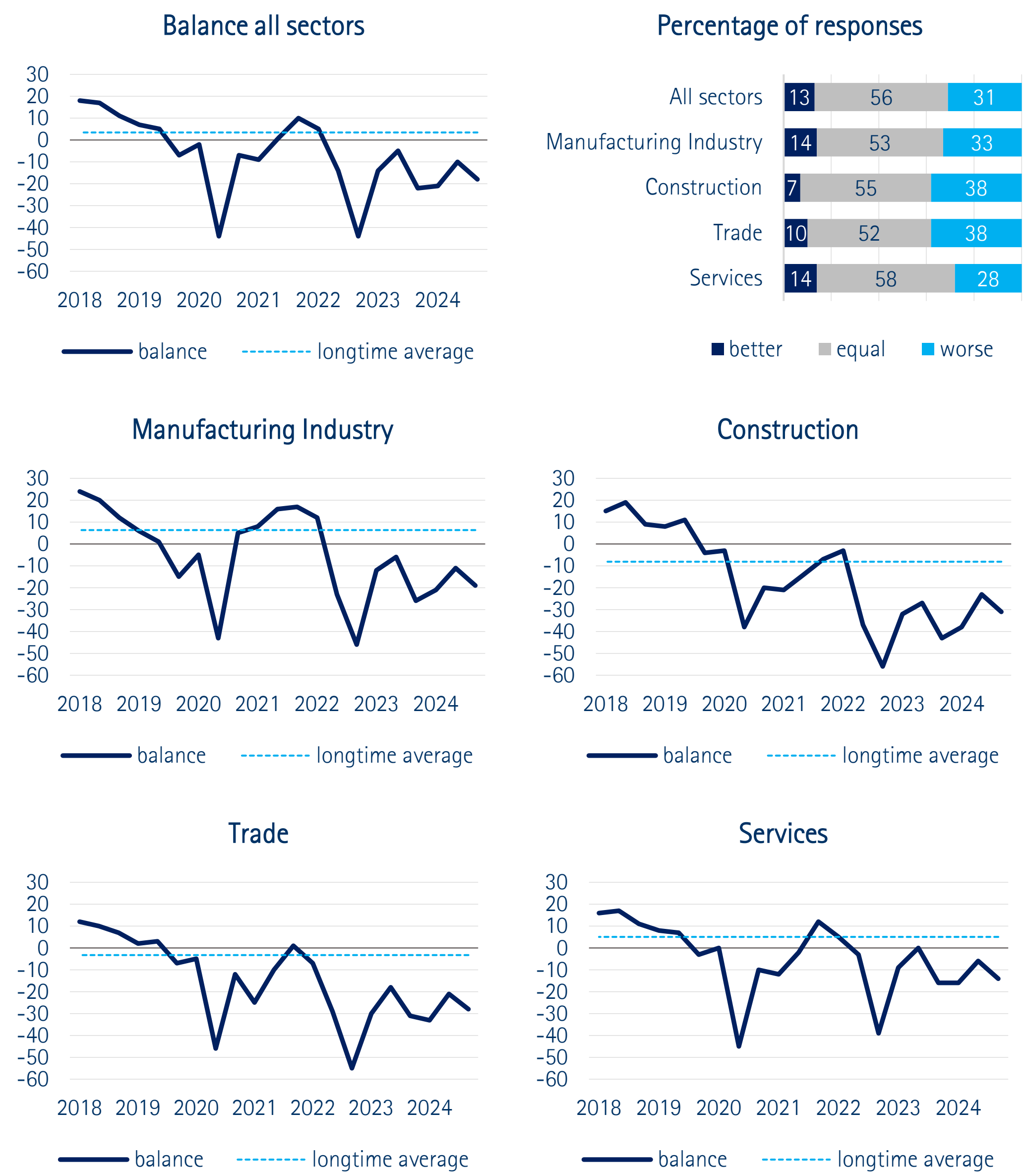
Business expectations deteriorated in all company size categories. Large companies (more than 1,000 employees) also saw their expectations turn negative (balance of minus two points after previously plus five points). SMEs with fewer than 200 employees are the most pessimistic in their assessment of business in the coming twelve months, with the balance falling from minus twelve to minus 20 points. This is well below the long-term average of two points.

Business expectations of companies (balance in points, long-term average since 2003)



Manufacturing Industry is suffering from a lack of domestic orders, in addition to numerous structural concerns, such as high labour costs or uncertain economic policy framework. Despite the robust global economy, companies in the manufacturing sector are also expecting little impetus from foreign business. This is having a negative impact on business expectations: Only 14 percent of companies expect an improvement in the coming twelve months (previously 17 percent). On the other hand, a third (33 percent after 28 percent previously) expect business to deteriorate. The balance has therefore fallen noticeably by eight points to just minus 19 points. This is well below the long-term average of plus six points.

Companies' business expectations (balance of better minus worse responses, long-term average since 2003)



The often energy-intensive **manufacturers of intermediate goods** see their competitiveness threatened, e.g. due to the continuing high energy costs in international comparison. Two thirds cite Energy and raw material prices as a business risk. As a result, more than a third of companies (37 percent, up from 30 percent previously) expect their business to deteriorate over the next twelve months. Only 13 percent (previously 16 percent) expect an improvement.

The balance of positive and negative expectations fell by ten points to minus 24 points. The already poor sentiment among companies in the glass, ceramics and stone processing sector (balance of minus 39 after previously minus 25 points) and in metal production and processing (balance of minus 22 after previously minus 15 points) fell particularly sharply. Although expectations in the chemical industry have recently recovered, they are now deteriorating again, falling by 13 points to minus nine points, which also represents a significant deterioration compared to the manufacturing industry as a whole.

Despite robust growth in the global economy, global industrial production is not picking up. This is depressing the business expectations of **capital goods manufacturers** in addition to the structural problems in Germany. A third of companies expect business to deteriorate over the next twelve months (33 percent compared to 27 percent previously). Only 16 percent (previously 18 percent) expect an improvement. The balance of positive and negative expectations has therefore fallen from minus nine to minus 17 points. This is only two balance points more than a year ago - when the economy in this industrial sector was in a deep slump. Expectations are collapsing again, particularly in the automotive industry. The structural change to electromobility, increasing competition, e.g. from Chinese manufacturers, and the trend towards production close to the sales markets with rising costs in Germany have caused business expectations in the automotive industry to fall by 18 points to minus 34 points. Expectations also deteriorated again in the mechanical engineering and electrical engineering sectors (balance of minus 18 points after previously minus eleven points and balance of minus eight points after previously two points).

Expectations are least gloomy among manufacturers of **consumer goods.** More than a quarter (28 percent compared to 25 percent previously) expect a deterioration. 15 percent (previously 17 percent) expect business to improve over the next twelve months. This means that the balance of business expectations has fallen by five points to minus 13 points. Manufacturing Industry stands out positively. The sector is not only one of the beneficiaries of the demographic trend, but is also hoping for an improvement in the general conditions as a result of the German government's pharmaceutical strategy. The balance of business expectations rose by five points to 21 points, which is even higher than the long-term average of 16 points.

High interest rates, high costs, e.g. for building materials, and a shortage of skilled labour are further dampening business expectations in the **construction industry**. Added to this are seasonal effects, as construction orders are harder to process in the winter months due to the weather. Not even one in ten companies (seven percent after eleven percent previously) expect business to improve over the next twelve months. On the other hand, two out of five companies (38 percent compared to 34 percent previously) expect a deterioration. The balance of expectations stands at minus 31 points. This is eight points lower than in early summer, but still nine points higher than a year ago. Business expectations are particularly gloomy in building construction. Companies do not yet expect the interest rate cuts heralded by the ECB to bring them an increase in orders in the short term. The order situation in residential construction remains poor, with domestic demand still cited as the most frequent risk (61 percent after 62 percent previously). The balance of positive and negative expectations in building construction is accordingly at minus 34 points (previously minus 29 points), but still higher than in autumn 2023 (balance: minus 50 points). In civil engineering, the outlook for orders is better in view of the high need for investment in transport and energy infrastructure. However, uncertainties regarding the financing of public projects are weighing on expectations. The balance fell by twelve points to minus 26 points. Expectations in the finishing trade are also falling significantly again (balance of minus 28 points after previously minus 18 points).

Business expectations are also darkening in the **retail** sector. Companies are particularly concerned about weak demand. For 70 percent (previously 65 percent), domestic demand is a business risk. Accordingly, almost two in five traders (38 percent compared to 34 percent previously) expect business to deteriorate, while only one in ten (ten percent compared to 13 percent previously) anticipate an improvement. The balance fell by seven points to minus 28 points. The differences between wholesale and retail are rather small (retail balance of minus 26 points after previously minus 21 points; wholesale balance of minus 28 points after previously minus 22 points).

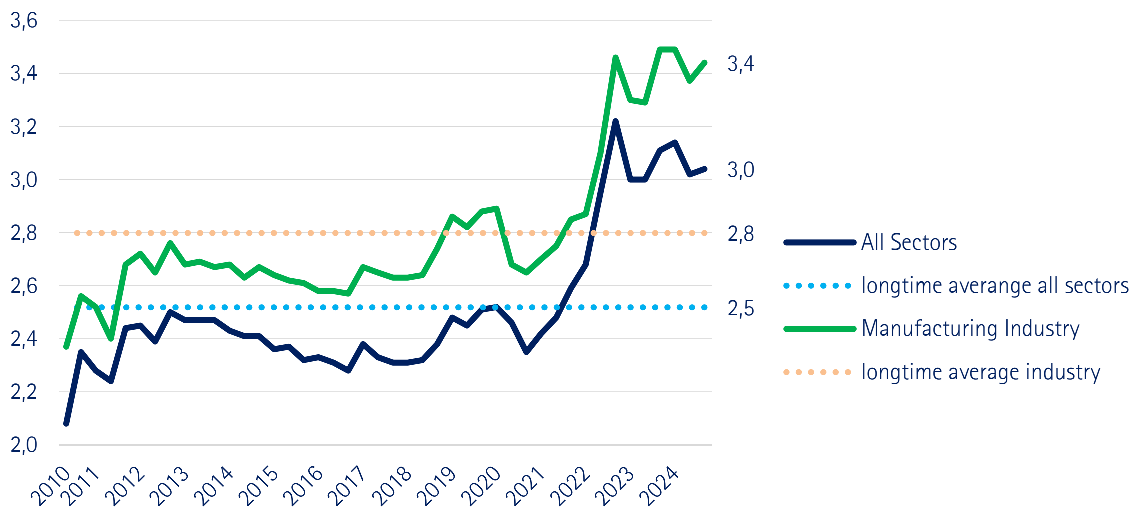
Compared to the other economic sectors, business expectations in the heterogeneous **service sector** are still the least gloomy. However, the proportion of pessimists is also increasing here. More than a quarter (28 percent compared to 23 percent previously) now expect business to deteriorate. Only 14 percent (previously 17 percent) have positive expectations. The balance thus falls from minus six to minus 14 points. Due to seasonal factors, expectations in the hospitality industry are falling again. After a good summer, the outlook for the autumn and winter months is gloomy. Added to this are concerns about rising costs, particularly with regard to staff deployment. At 74 percent, more businesses in the hospitality industry now cite labour costs as a business risk than ever before. This has caused business expectations to drop significantly, from minus ten to minus 22 points. Companies in the transport and logistics sector are also pessimistic, with the balance falling by nine points to minus 26 points. In contrast, financial and insurance service providers are reasonably optimistic about the future. The balance of business expectations rose by two points to four points, which is slightly above the long-term average of two points.

Business risks of the companies

The pressure of problems remains high in many areas of the economy. Since the start of the Russian war in Ukraine, the number of business risks facing companies has skyrocketed. However, it is not only economic risks, such as weakening domestic demand, that are putting pressure on the economy. Structural problems such as uncertain economic policy framework, labour costs, a shortage of skilled workers and the continuing high Energy and raw material prices are also causing concern. There are a total of eight different business risks to choose from in the survey. On average, a company currently names 3.0 different risks. In Manufacturing Industry, the figure is 3.4, which is almost the highest level ever recorded by the DIHK Risk Indicator (3.2 and 3.5 respectively).

DIHK Risk Indicator

Number of business risks mentioned (8 risks to choose from, multiple answers possible)



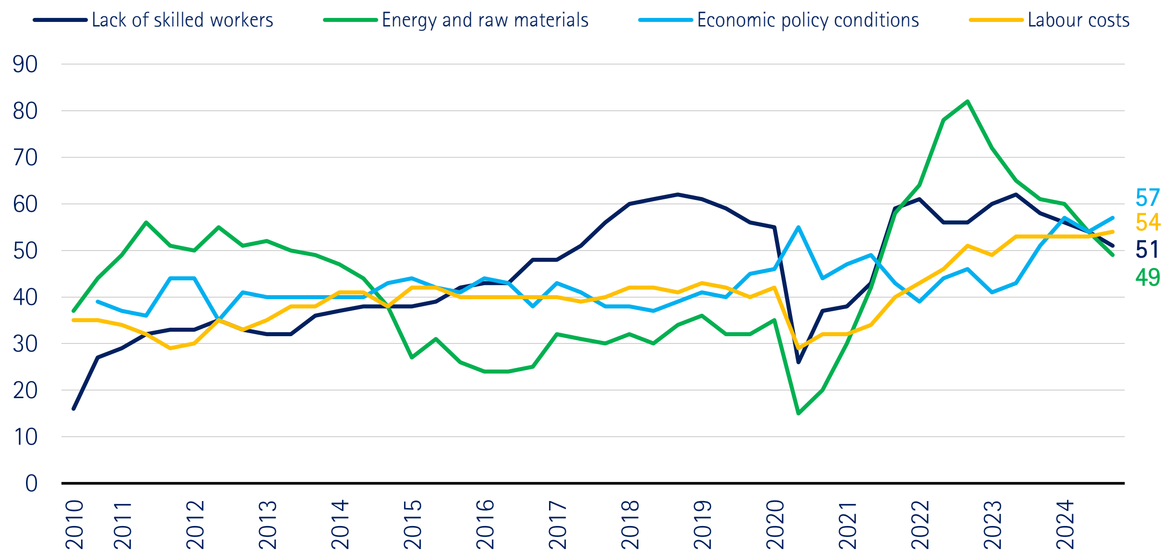
* In each wave of the DIHK Economic survey, the following eight business risks are surveyed: Domestic demand, foreign demand, lack of skilled workers, labour costs, energy and raw materials, funding, exchange rates, economic policy conditions.

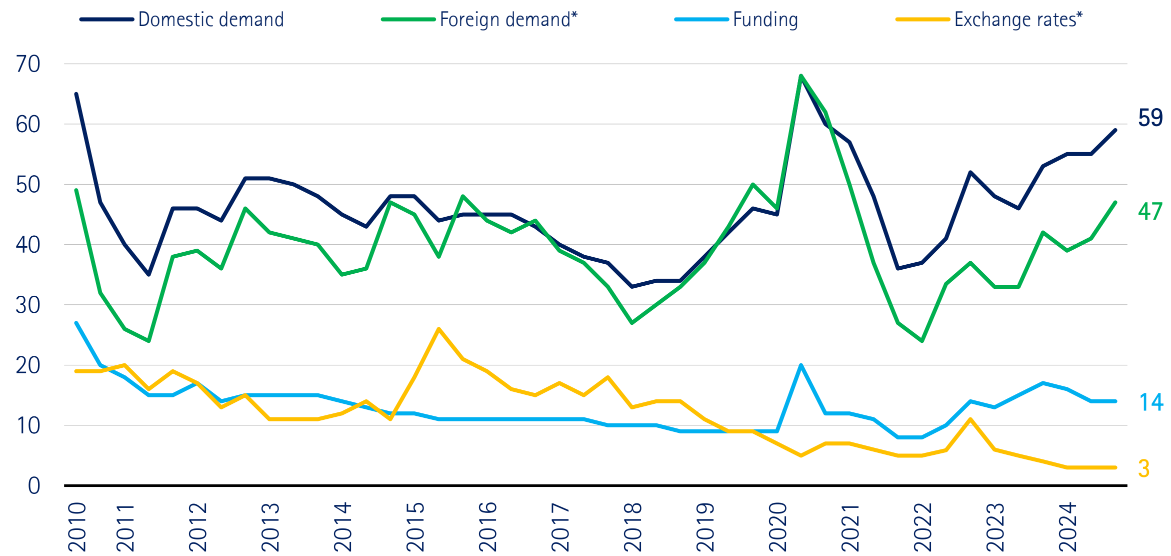
There has been a shift in the business risks faced by companies since the beginning of the year. Until then, Energy and raw material prices were the biggest risk - driven by the sometimes dramatic rise in the cost of electricity and gas. In the meantime, many companies have become "accustomed" to the higher level of energy, have reorganised production, in some cases relocated or attempted to pass on additional costs to customers. As a result, the business community no longer sees Energy and raw material prices as the biggest business risk, but rather demand. This is because rising costs have reduced the competitiveness of companies and products "Made in Germany" - and not all customers are prepared to bear the price increases.

Domestic demand is now the most frequent business risk at 59 percent (previously 55 percent). This not only reflects the reluctance of consumers to spend, but also the weakness and slump in orders in German Manufacturing Industry. Seven out of ten **industrial companies** (71 percent compared to 66 percent previously) cite domestic demand as a business risk, which is only just below the high of 74 percent in early summer 2020. The reason for this is not only the persistently low investment plans in Germany, but also the decline in competitiveness. In addition to the structural challenges in Germany, sluggish global industrial production is also putting pressure on incoming orders abroad. This is evidenced by the fact that almost half (47 percent) of companies, and thus an above-average number of export industry companies, see **foreign demand** as a business risk (previously 41 percent, long-term average at 40 percent).

Business risks for the economy

Percentage of responses; multiple answers possible; *Export industry





At 70 percent (previously 65 percent), businesses in the **retail** sector also cite domestic demand as the most frequent business risk. Despite rising incomes, consumers are continuing to hold back on spending. Companies are also exercising purchasing restraint in view of the poor economy. In the construction industry as a whole, domestic demand is not the most frequent concern (56 percent after 54 percent previously), but the order situation remains poor. Especially in building construction (61 percent). Concerns about falling demand are least pronounced in the service sector, although almost half of companies here now also mention the risk (49 percent compared to 47 percent previously).

The second most common business risk among all economic sectors is the **economic policy framework.** At 57 percent, they are at an all-time high, as they were at the beginning of the year. More than 6,600 companies took advantage of the opportunity to provide free text responses on the economic policy framework. The most frequently mentioned keyword by far was "bureaucracy". Around 46 percent of the free text responses included bureaucracy issues, almost as frequently as in the previous survey (47 percent). Companies see further economic policy risks in energy, taxes, planning uncertainty and investments.

Keywords most frequently mentioned by companies when describing economic risks
(analysis of around 6,600 free text responses)

The third most frequently cited business risk, at 54 percent, is **labour costs**. In all four economic sectors, more than every second company is concerned about the development of labour costs. In Manufacturing Industry, the figure is almost three in five (58 percent). This is not only due to wage increases as a result of high inflation rates. Demographically induced labour shortages are also making skilled workers scarcer and therefore more expensive.

The prolonged period of economic weakness is slowly making itself felt on the labour market. Demographic trends are ensuring that even in the current difficult economic phase, the **shortage of skilled labour** remains a challenge for many companies. However, the pressure is currently easing somewhat. Nevertheless, one in two companies (51 percent, up from 54 percent previously) still cites a shortage of skilled workers as a business risk. In view of the ageing society, the lack of qualified labour will remain a structural challenge for companies. As in previous surveys, the shortage of skilled labour is the most frequently cited risk in the construction industry. Despite the weak construction sector, almost two thirds of companies (65 percent compared to 64 percent previously) complain about a lack of qualified staff.

Right after the start of Russia's war of aggression in Ukraine more than two years ago, Energy and raw material prices were the biggest business risk for the German economy for a long time. Gas and electricity prices are still well above pre-crisis levels. However, a familiarisation effect has increasingly set in. The higher prices have now become a permanent cost item in company calculations and have led to price increases, changes in the production chain, relocations or reductions in production. Accordingly, only just under half of companies now perceive higher prices as a business risk (49 percent compared to 54 percent previously). However, where energy is one of the major cost blocks, a clear majority of companies still cite Energy and raw material prices as a risk. In Manufacturing Industry, the figure is 58 percent (down from 63 percent previously) and among energy-intensive companies it is still two thirds (66 percent, down from 73 percent previously).

TOP business risks by sector

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

	Manufacturing Industry	Construction	Trade	Services
1.	71% (66%) Domestic demand	65% (64%) Lack of skilled labour	70% (65%) Domestic demand	56% (53%) Economic policy framework
2.	60% (56%) Economic policy framework	56% (54%) Domestic demand	58% (55%) Economic policy framework	53% (52%) Labour costs
3.	58% (55%) Labour costs	54% (55%) Economic policy framework	52% (52%) Labour costs	53% (56%) Lack of skilled labour
4.	58% (63%) Energy and raw material prices	54% (54%) Labour costs	49% (55%) Energy and raw material prices	49% (47%) Domestic demand
5.	47% (41%) Foreign demand	51% (59%) Energy and raw material prices	46% (48%) Lack of skilled labour	44% (49%) Energy and raw material prices

The proportion of companies that see access to **financing** as a risk factor remains at 14 percent. The long-term average is 13 percent. This suggests that companies are becoming accustomed to the higher interest rates. In addition, falling inflation rates are also fuelling hopes of a further easing of monetary policy in the medium term. However, the risk remains above average in those sectors that are particularly affected by the high interest rates (property industry: 35 percent after 36 percent previously; building construction: 25 percent after 33 percent) and energy suppliers (38 percent after 33 percent).

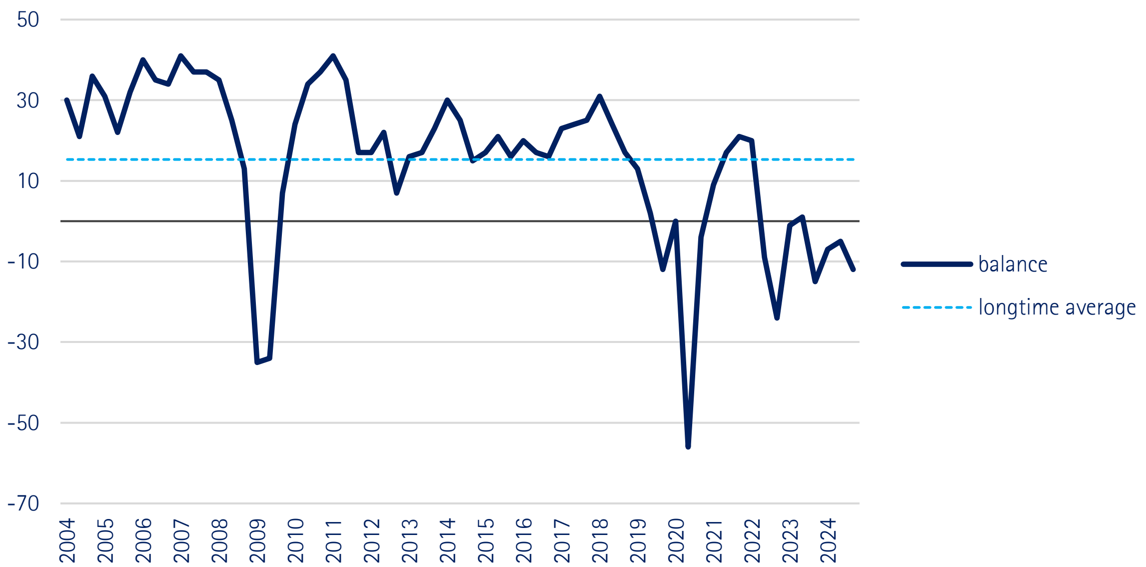
Exchange rate risks hardly play a role for companies at present, with only a constant three percent of exporting industrial companies citing this as a business risk. The reactions of the ECB and the Federal Reserve in particular to combat inflation have contributed to the stability of the most important exchange rates for German exporters.

Export expectations of industrial companies

The generally unexpectedly robust growth of the global economy is not currently reflected in the order books of German exporters. The already gloomy export expectations of German Manufacturing Industry are deteriorating further. The structural challenges here are gnawing away at the competitiveness of the export industry. Growing global protectionism and the continuing trend towards "local for local" production are putting additional pressure on foreign business. For example, 31 percent of companies expect exports to fall over the next twelve months (early summer 2024: 26 percent). Only just under one in five companies (19 percent after previously: 21 percent) expect an increase. Half of companies (50 percent) expect foreign business to remain stable (early summer 2024: 53 percent). The balance of higher and lower export expectations fell from minus five to minus twelve points. Current assessments of export business remain well below the long-term average of plus 15 points.

Companies' export expectations

(balance of higher minus lower responses, long-term average since 2003)

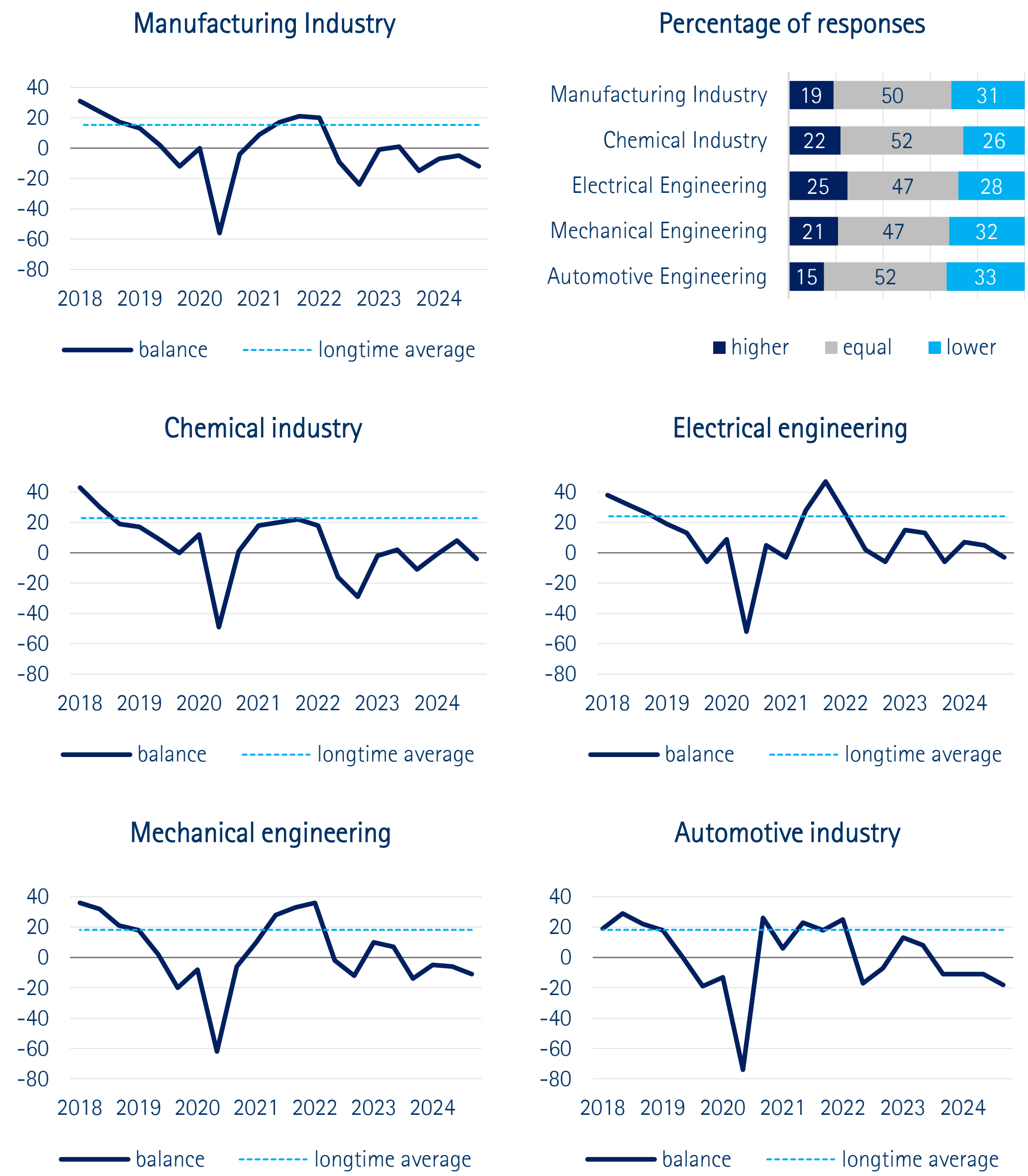


While export expectations deteriorated sharply across all size classes, the expectations of companies with 1,000 or more employees have only fallen slightly compared to early summer, and larger companies are still anticipating slight export growth (balance of eight points after ten points previously). In contrast, the balance of export expectations among small and medium-sized industrial companies with up to 200 employees fell by six points to minus 18 points.

Although the weak phase in global industrial production continues, the development of the global economy as a whole can be described as robust. However, this should not obscure the fact that Manufacturing Industry in Germany is facing massive structural challenges. This is also having an impact on foreign business. **Manufacturers of intermediate goods** are particularly pessimistic about their export expectations. They are under particular competitive pressure due to the high energy costs in international comparison. Only 15 percent (previously 18 percent) of companies expect export growth, 32 percent (previously 27 percent) anticipate lower exports. The balance falls from minus nine to minus 17 points. The export expectations of the **chemical industry**, which had previously been more confident, also deteriorated significantly: the balance even turned negative from eight points to minus four points, which is well below the long-term average of 23 points. Companies in the **metal production and processing** sector are also adjusting their already low expectations for foreign business even further downwards. The balance fell significantly from minus 19 to minus 28 points. Expectations in the **rubber and plastics industry** remained stable in comparison to the previous survey, although still in negative territory. The balance remains at minus 13 points.

Companies' export expectations

(balance of higher minus lower responses, long-term average since 2003)



Stagnating global industrial production combined with major structural challenges at home and growing competition abroad are hitting **capital goods manufacturers** hard. Their outlook for the development of their exports is predominantly negative. Only 22 percent of companies expect exports to increase, while 31 percent anticipate lower exports. The balance of higher and lower expectations has thus fallen significantly from minus three points in the previous survey to minus nine points at present. Two of the German economy's most important export sectors, the automotive and mechanical engineering industries, are also forecasting a negative trend in their foreign business: the balance of expected exports for **automotive manufacturers** fell significantly from minus eleven to minus 18 points. This is the lowest value in five years (autumn 2019: minus 19 points). Export expectations for the next twelve months are also deteriorating in the **mechanical engineering** sector. The balance fell from minus six to minus eleven points, well below the long-term average of plus 18 points. Assessments of foreign business among **electrical engineering manufacturers** are slightly better, although their outlook for foreign business is also deteriorating: the balance turned negative from five points in early summer to minus two points. **Medical technology manufacturers** stand out positively. Here, companies are predominantly anticipating rising exports. The balance rose noticeably from twelve to 18 points.

Export expectations are also clouding over in the **consumer goods** sector. Despite falling inflation rates worldwide and the associated increase in consumer purchasing power, the outlook for consumer goods manufacturers has even darkened again from zero to minus five points. Contrary to the general trend, however, the **pharmaceutical manufacturing industry** is more confident about its exports. The sector is benefiting from rising life expectancy worldwide and improvements in medical care. The balance rose from 13 points to 26 points, bringing it closer to the long-term average of 33 points.

Companies' investment plans

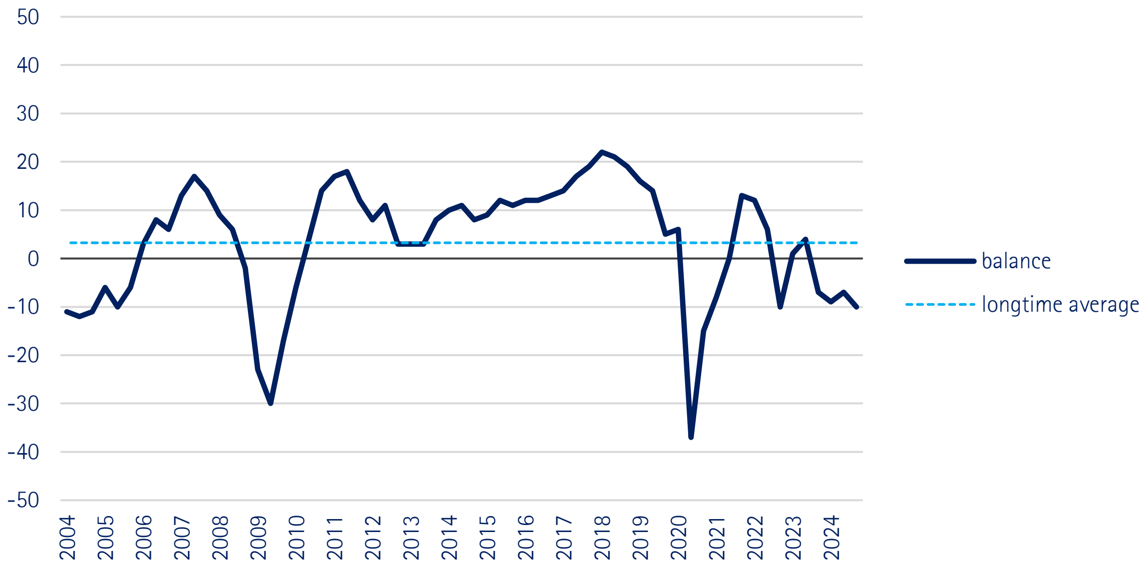
The poor economic situation and the major structural problems at the domestic location are weighing on companies' investments in Germany. After a slight recovery in early summer, investment plans will decline again in autumn 2024. While 23 percent (previously 24 percent) of companies are planning to increase investment, a third (33 percent after 31 percent previously) say they intend to reduce investment. The balance of investment plans fell to minus ten points, which is well below the long-term average of plus three points.

The risks to business development are dampening companies' investment plans. Companies that see a business risk in both domestic and foreign demand have a significantly lower investment balance (minus 25 and minus 29 points respectively) than the average for the economy as a whole (minus ten points). Companies that are concerned about Energy and raw material prices, labour costs and the economic policy framework also have noticeably reduced and below-average investment plans for domestic locations.

In terms of company size, companies with more than 1,000 employees still have the most expansive investment plans, although these plans are also more restrained compared to the previous survey. The balance falls from eleven to four points. Small and medium-sized companies are much more restrictive, lowering their already low investment plans by three points to minus twelve balance points.

Companies' investment plans

(balance of higher minus lower responses, long-term average since 2003)



The current economic weakness and reluctance to invest is also reflected in companies' investment motives. The most common motives are replacement requirements (67 percent after previously 66 percent) and, by some distance, rationalisation (unchanged at 32 percent). In view of the weak demand, only a small proportion of companies are planning to expand capacity. The proportion has fallen from a weak 20 percent to 19 percent. This is the lowest figure since the 2008/2009 financial crisis. The motive to invest in environmental protection, for example to meet the numerous legal requirements for energy efficiency and climate protection in companies or to meet the increased customer demand for sustainable products (23 percent, down from 24 percent previously), is also receding further into the background. The motive of product innovation is increasing slightly, but remains below average (28 percent compared to 27 percent previously, long-term average 30 percent).

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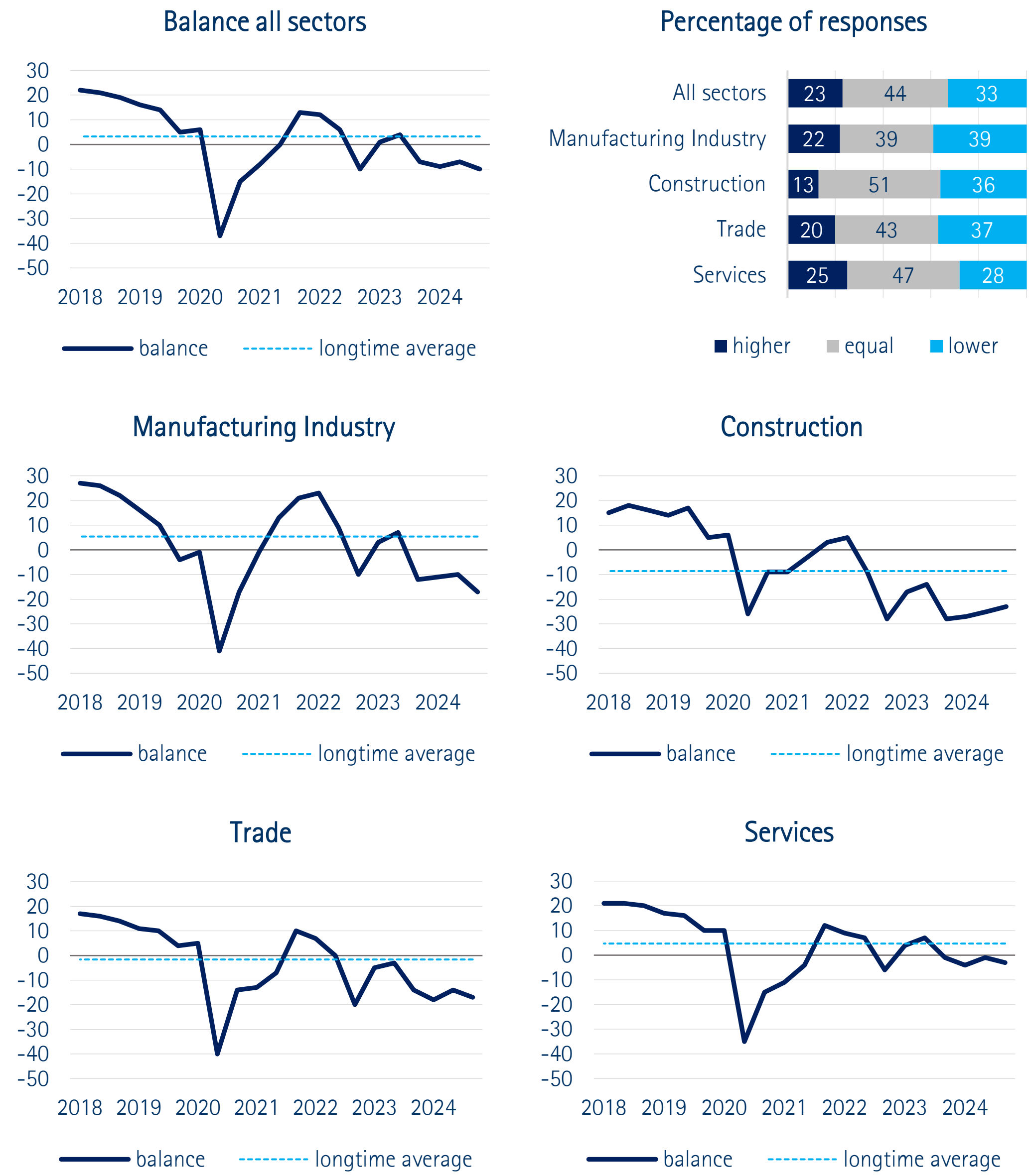
(balance of higher minus lower responses, long-term average since 2003)

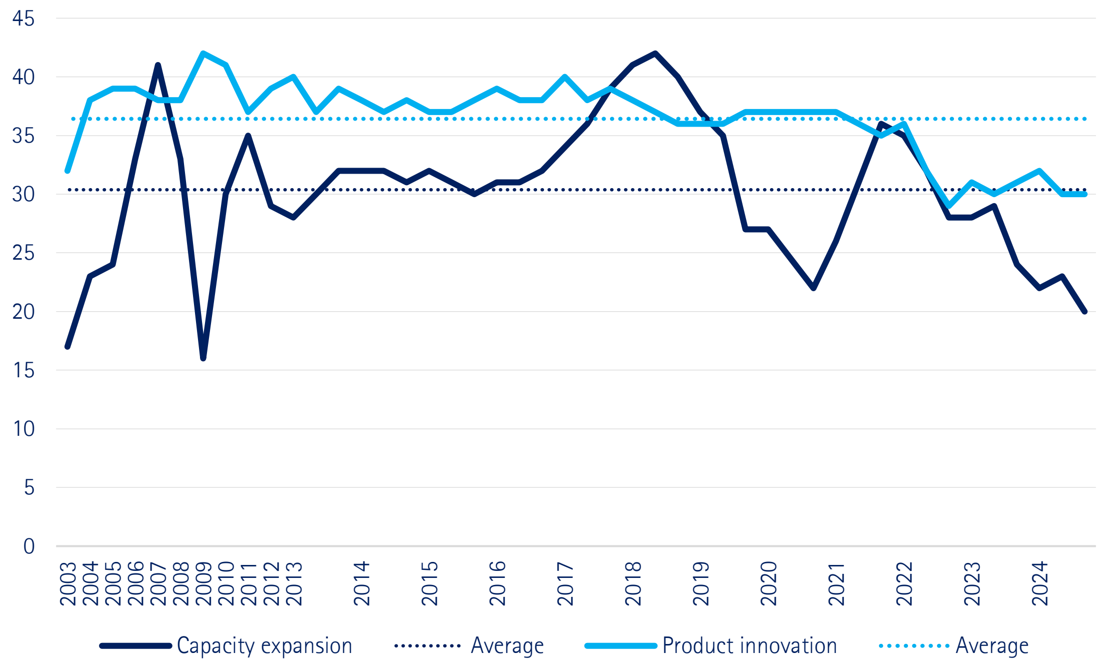


In view of the particularly poor sentiment, investment plans in **Manufacturing Industry** have fallen the most compared to other sectors of the economy. Two out of five companies have restrictive investment plans (39 percent compared to 34 percent previously), while only 22 percent have expansive plans (previously 24 percent). The balance of investment plans in Manufacturing Industry thus fell significantly from minus ten points to minus 17 points. While the investment plans of manufacturers of durable and non-durable goods have only deteriorated slightly (balance of minus five points after previously minus two points), significant cuts in investment budgets are expected for upstream suppliers and manufacturers of capital goods (balance of minus 26 points after previously minus 17 points and balance of minus 20 points after previously minus eleven points). Companies in the metal production and processing sector are seeing themselves forced to cut back their domestic investments particularly dramatically (balance falls by 13 points to minus 30 points). The reasons for this are the tense demand situation and energy costs, which remain uncompetitive. In the automotive industry, the shift towards electromobility is leaving deep marks on investment plans. The balance plummeted by 14 points to minus 29 points. Companies in the pharmaceutical industry and energy suppliers stand out positively. In contrast to the economy as a whole, they intend to significantly increase their investments (balance of 34 points after 19 points previously and balance of 55 points after 61 points previously).

The proportion of companies planning to invest in capacity expansion remains below average in Manufacturing Industry (20 percent compared to 23 percent previously). The figure was only lower during the financial crisis in 2009 and the structural crisis in 2003. The proportion of companies planning to invest in product innovation also remains unchanged at 30 percent, only just above the historic low of 29 percent (in fall 2022).

Investment motive Capacity expansion and product innovation in Manufacturing Industry

(Percentage, multiple answers possible, 2003 to 2012 surveyed annually, from 2012 three times a year)



In the **service sector**, not only are the business situation and expectations more positive than in the other economic sectors, but also the companies' investment plans. A quarter intend to expand their investments (25 percent after 26 percent), while 28 percent plan to cut back (after 27 percent). The balance of investment plans thus fell slightly by two points to minus three points. Companies in the health and social services sector have predominantly expansive investment plans (balance of 22 after 17 points previously). The same applies to financial and insurance service providers (balance of 21 points after previously 24 points). By contrast, companies in the leasing/rental sector, which account for around 20 percent of annual investment in equipment across the economy as a whole, are planning to make drastic cuts to their investment budgets (balance of minus 22 points after previously minus six points; long-term average of minus three points). In terms of motives, there is hardly any change in the services sector compared to the previous survey.

Investment plans in the **retail** sector are deteriorating again. Only one in five retailers (20 percent compared to 22 percent previously) intend to expand their investment budget, while 37 percent (compared to 36 percent previously) will have to make cuts. The balance has therefore fallen slightly by three points to minus 17 points. The most common motive for investment is the need for replacement, which remains unchanged at 65 percent; only in autumn 2024 was this proportion even higher. Retailers cut back particularly on the topics of capacity expansion (17 percent after 19 percent) and environmental protection (17 percent after 20 percent).

The slight brightening of the business situation in the **construction industry** has also resulted in a slight improvement in investment plans, although construction companies are still predominantly planning restrictively. The proportion of companies planning to cut back fell slightly from 38 to 36 percent, while 13 percent intend to increase their investment budget. The investment balance improved by two points to minus 23 points, which is slightly above the previous year's figure (minus 28 points). There was little change in the investment motives in the construction industry compared to the previous survey. Only the motive of environmental protection is mentioned noticeably less frequently compared to early summer (18 percent after 21 percent previously).

Main motives for investments in Germany

(in percent; multiple answers are possible, values from previous survey in brackets)

	Rationalisation	Product inno-vation	Capacity expansion	Environmental protection	Replacement requirements
All sectors	32 (32)	28 (27)	19 (20)	23 (24)	67 (66)
Manufacturing In-dustry	42 (42)	30 (30)	20 (23)	30 (31)	66 (65)
Construction	23 (23)	18 (18)	17 (18)	18 (21)	81 (80)
Trade	31 (31)	23 (22)	17 (19)	17 (20)	65 (65)
Services	29 (38)	28 (28)	19 (19)	21 (22)	66 (65)

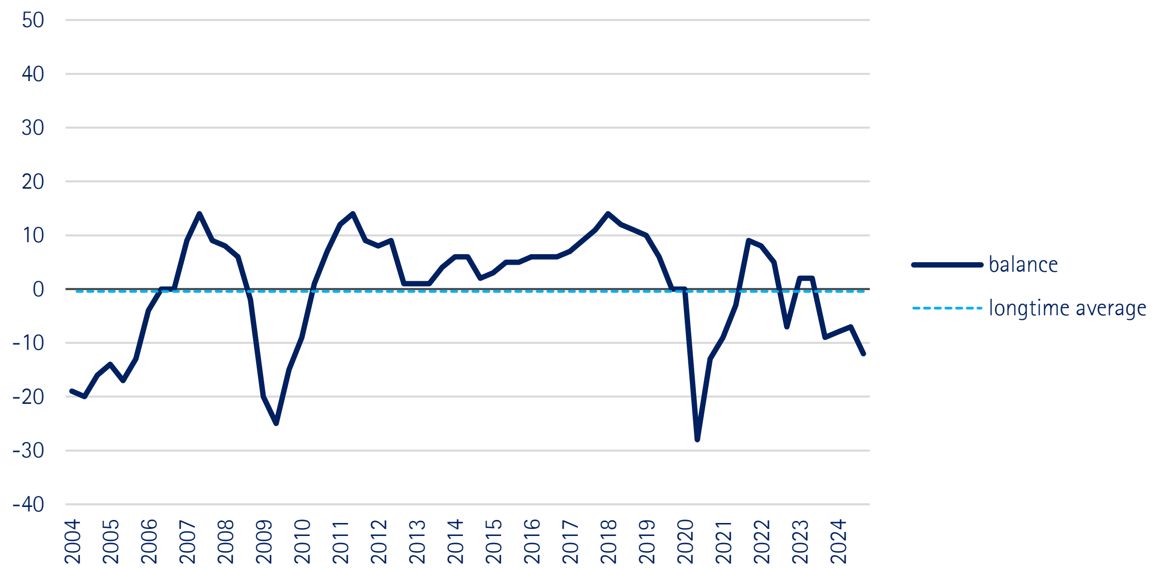
Employment plans of the companies

The poor mood in the economy is leaving ever deeper marks on employment. While the labour market has come through the coronavirus pandemic and energy price crisis surprisingly unscathed, companies are now increasingly scaling back their employment plans. Only twelve percent of companies are planning to take on more staff (previously 13 percent), while a quarter (24 percent compared to 20 percent previously) expect to employ fewer people. At minus twelve points, the resulting balance is noticeably below the long-term average of zero points and also three points below the previous year's figure.

In terms of company size, employment plans are similar across all size classes. Only large companies (more than 1,000 employees) are planning somewhat less restrictively. At minus four points (after three points previously), the balance is even slightly above the long-term average (minus seven points). Companies' generally weak propensity to invest is also having a negative impact on employment plans. The balance of employment plans of companies that want to reduce investment is minus 40 points. On the other hand, companies that want to increase investment also tend to want to increase employment (employment balance at 17 points).

Employment plans of companies

(balance of higher minus lower responses, long-term average since 2003)

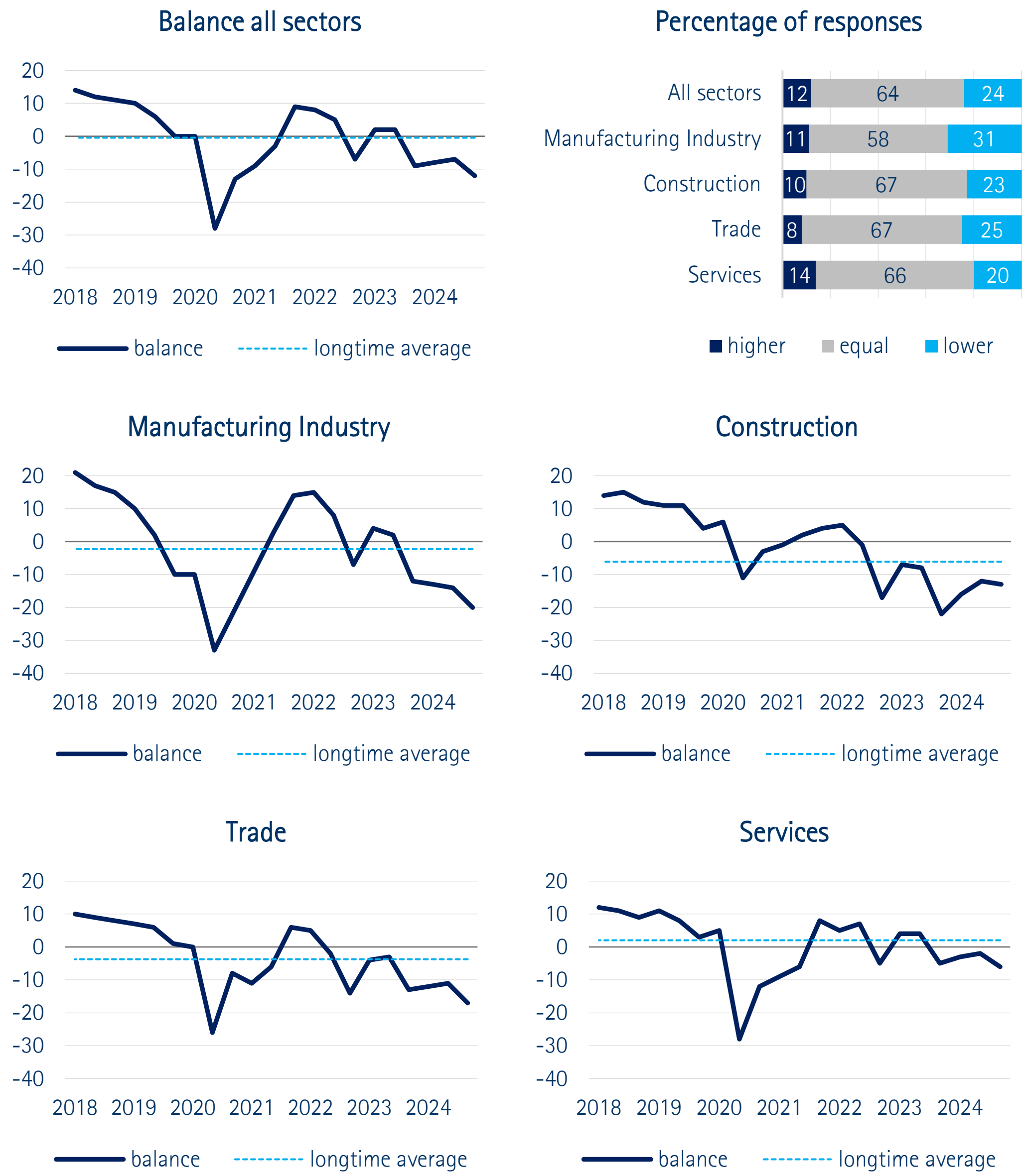


The long-standing weak order situation coupled with high costs is leading to negative employment plans at the domestic location, particularly in **Manufacturing Industry**. A third of industrial companies are planning to reduce staff (31 percent compared to 26 percent previously), while only eleven percent expect to increase staff (compared to twelve percent previously). The balance of employment plans has therefore fallen from minus 14 to minus 20 points. Just one year ago, the balance was only minus five points. Medium-sized industrial companies with 200 to 1,000 employees are cutting their job plans particularly sharply. The balance fell by nine points to minus 24 points.

Employment expectations in the automotive industry are particularly negative. The transition to electromobility in particular is leading to significant adjustments in personnel, especially in the supplier industry. More than half of the companies in the automotive industry are planning to reduce their workforce (51 percent compared to 41 percent previously), while only seven percent (compared to nine percent previously) expect to increase employment. The balance of employment plans in the automotive industry has thus fallen by twelve points to minus 44 points. This is the lowest level since the peak of the pandemic (autumn 2020: minus 60 points). Among the various industrial sectors, the pharmaceutical industry stands out positively alongside energy suppliers. The positive business expectations and planned increases in investments are also leading to predominantly expansive employment plans.

Employment plans of companies

(balance of higher minus lower responses, long-term average since 2003)



The balance of employment plans rose by 13 points to 19 points, which is even higher than the long-term average of 12 points. Energy suppliers are also planning a significant increase in employees. The need for personnel to master the energy transition remains high: the balance rose from 33 to 38 points, which is only slightly below the record level of a year ago (41 points).

Employment plans in the **construction industry** also remain subdued. However, there are also seasonal reasons for this. Despite the current weakness in the construction industry, the shortage of skilled labour remains the biggest business risk in the sector (65 percent compared to 64 percent previously). A number of companies need to fill positions that become vacant due to employees retiring in order to have sufficient skilled labour available when new orders become available. Accordingly, the balance of employment plans remains almost constant at minus 13 points compared to the previous survey (minus twelve). Compared to the previous year, however, there is a pleasing increase of nine balance points.

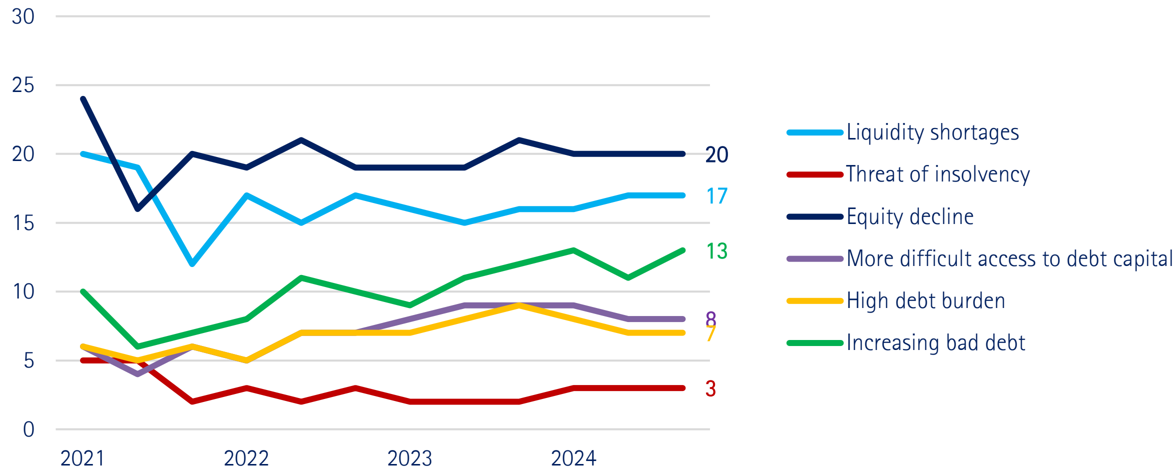
The poor business situation and the predominantly negative expectations are also depressing employment plans in the **retail** sector. Not only weak domestic demand, but also labour costs and uncertain economic policy framework are causing problems for companies. Only eight percent of companies (down from ten percent previously) are planning to increase the number of employees, while a quarter (25 percent, down from 21 percent previously) are expecting to take on fewer staff (balance minus 17 points, down from minus eleven points previously; long-term average: minus four points).

Hiring intentions are also leaning towards the negative in the **services** sector. Only 14 percent (down from 16 percent) expect an increase in jobs. One in five companies (20 percent compared to 18 percent previously), on the other hand, expect employment to fall over the next twelve months (balance minus six points compared to minus two points previously). The heterogeneous service sector is therefore still the least restrictive of all economic sectors in terms of employment plans. Contrary to the general trend, the trend of slightly expanding employment plans in the finance and insurance industry, which has been observed for the past year, continued in the autumn (balance rose from three to five points). The same applies to the health and social services sector. The sector does not have a major demand problem due to demographic change. On the contrary, more than three quarters of companies cite the shortage of skilled labour as by far the greatest business risk (78 percent). In the hospitality industry, however, recruitment plans have become somewhat gloomier again. The majority of businesses are planning to take on fewer staff. The balance fell slightly by five points to minus 19 points. The high costs for companies are leaving their mark: at 74 percent, more companies than ever before see labour costs as a business risk, while for 73 percent it is the high prices for energy and raw materials.

Current financing situation of companies

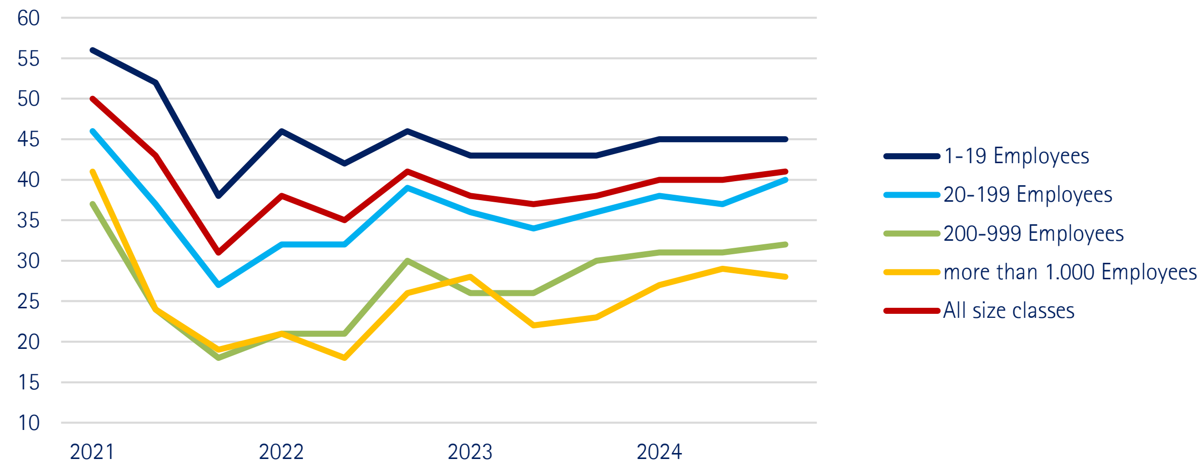
Despite the weak economy, the deteriorating business situation and negative business expectations, at least the financial situation of companies has hardly changed overall compared to the previous survey. Two out of five companies (41 percent) rate their financial situation as problematic. In line with the significant deterioration in the industrial economy in particular, Manufacturing Industry rates its financial situation as significantly worse: 41 percent of companies rate their financial situation as problematic, compared to only 37 percent in early summer.

The following financial problems are a burden on companies (in percent, multiple answers possible)



The decline in equity remains at the forefront of the specified financial problems in the economy as a whole (unchanged at 20 percent). The proportion of companies reporting liquidity bottlenecks also remains significant at 17 percent. Across the economy as a whole, the proportion of companies facing bad debt losses has increased again (13 percent compared to 11 percent previously). The proportion of companies whose balance sheets are already burdened by high levels of debt remains at seven percent. Eight percent of companies report more difficult access to bank financing. The number of companies that feel threatened by insolvency remains constant at three percent.

Share of companies with a problematic financial situation by employee size class (in percent)



In terms of company size, smaller companies generally have a more critical financial situation than larger ones. However, it is worth noting that the financial situation of companies with 1,000 employees or more has deteriorated noticeably since mid-2023. Now, 28 percent of these companies (previous year: 22 percent) report at least one problem with their financial situation. The problems cover the entire set of impairments - from increased liquidity bottlenecks to more difficulties in obtaining debt capital, rising interest charges, higher bad debt losses, dwindling equity and a slight increase in the threat of insolvency. In small companies with up to 19 employees, every second company (45 percent) continues to be affected by financing difficulties. The decline in equity (25 percent) and liquidity bottlenecks (19 percent) in particular are a major challenge for small companies.

An increasing deterioration in the financial situation is particularly evident in core industrial sectors. Companies in the automotive industry, for example, are reporting increasing financing difficulties. Financing conditions have tightened in line with a significantly worse assessment of the situation and falling business expectations. Half of vehicle manufacturers (51 percent) are now facing obstacles in corporate financing, compared to 39 percent in the previous survey. In the case of manufacturers of automotive parts and accessories, this even applies to 54 percent of companies (43 percent in the previous survey). Rising bad debt losses, increasing liquidity bottlenecks and a decline in equity are the main reasons cited. These companies also have more difficulties accessing fresh debt capital than other industries (21 percent in the automotive industry).

Financing conditions in the construction industry are slightly better than in Manufacturing Industry. Compared to the previous survey, fewer companies are reporting financing difficulties. Bad debt losses and liquidity bottlenecks have decreased, the loss of equity is lower and fresh debt capital is also easier to obtain.

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

(Analysis by company size class, figures in percent, multiple answers possible)

	1-19 employees	20-199 employees	200-999 employees	1000 employees or more	All classes
Liquidity bottlenecks	19	17	10	14	17
Impending insolvency	4	2	2	2	3
Decline in equity	25	18	13	8	20
More difficult access to debt capital	8	8	7	9	8
High debt burden	6	8	8	9	7
Increasing bad debt losses	12	14	14	8	13
Our financial situation is unproblematic	55	60	68	72	59
Our financial situation is problematic	45	40	32	28	41

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

(Analysis by sector, figures in percent, multiple answers possible)

	Manufacturing Industry	Construction	Trade	Services	All sectors
Liquidity bottlenecks	17	14	18	17	17
Impending insolvency	3	2	3	3	3
Decline in equity	18	17	22	22	20
More difficult access to debt capital	9	7	7	8	8
High debt burden	8	6	7	7	7
Increasing bad debt losses	13	15	15	12	13
Our financial situation is unproblematic	59	63	57	60	59
Our financial situation is problematic	41	37	43	40	41

DIHK forecast for economic development in Germany

Use of Gross Domestic Product (GDP) in Germany

Change compared to previous year, in percent, adjusted for price changes, chained

	2023	DIHK forecast 2024	DIHK forecast 2025
GDP	-0,3	-0,2	0,0
Household final consumption expenditure	-0,4	0,0	+0,5
Government final consumption expenditure	-0,1	+2,0	+1,0
Gross fixed capital formation	-1,2	-3,2	-0,1
- Gross fixed capital formation in machinery and equipment	-0,8	-6,5	-1,0
- Other fixed assets	+4,7	+3,5	+2,5
- Gross fixed capital formation in construction	-3,4	-3,5	-0,5
Exports (goods and services)	-0,3	0,0	0,0
Imports (goods and services)	-0,6	-0,5	+1,0
Employment (change in thousands)	+336	+170	+50
Consumer prices	5,9	+2,2	+2,0