Uncertain framework conditions slow down German economy

DIHK Economic Survey Fall 2023

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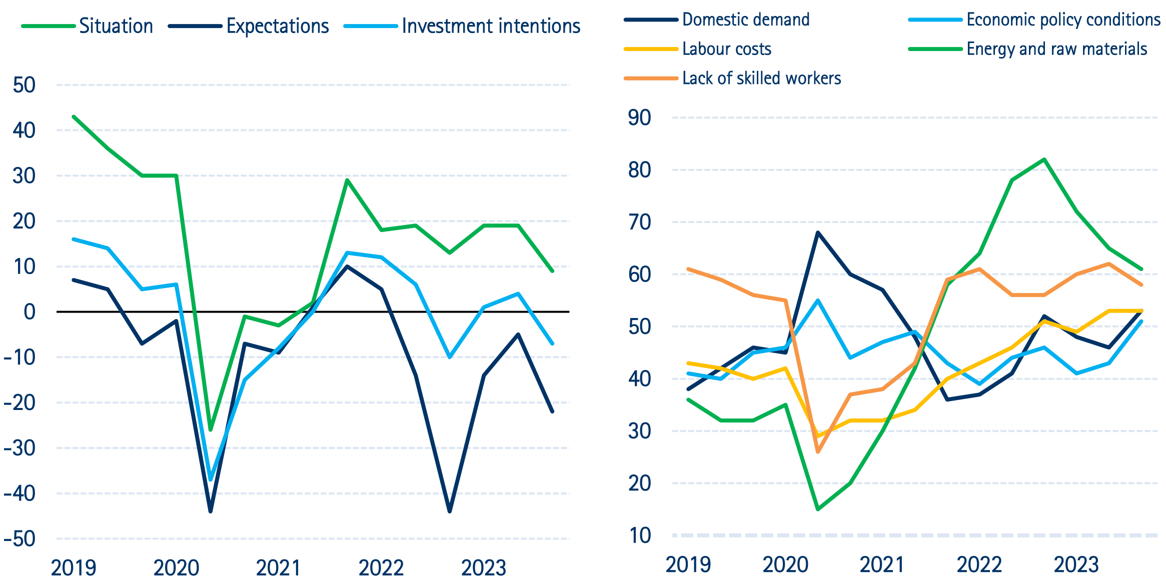
Further results, the questionnaire as well as notes on the methodology of the survey can be found at www.dihk.de/konjunktur.

Main results

- Companies assess their **current business situation** slightly positively across all sectors: 30 percent (previously 34 percent) rate the current business as "good." However, the proportion of businesses that rate their situation as "poor" has increased noticeably, from 15 percent to 21 percent. The balance of the situation assessment drops from 19 to nine points. This is well below the long-term average of 21 points. This downturn affects almost the entire spectrum of the economy and all business sizes.
- **Business expectations** are significantly deteriorating. Over a third of companies (35 percent, up from 23 percent) have negative business expectations for the next twelve months. Only one in eight (13 percent, down from 18 percent) anticipates better business. As a result, the business expectations decline significantly from minus five to minus 22 points.
- Risks and uncertainties are increasing and becoming more diverse. On average, companies mark more than three (3.1) out of a total of eight different **business risks**. Before the pandemic, the average was 2.4.
- More than half mention energy and raw material prices as the biggest business risks (currently 61 percent, down from 65 percent in early summer), a shortage of skilled workers (58 percent, down from 62 percent), domestic demand (53 percent, up from 46 percent), labor costs (remaining at 53 percent, at a record high), and economic policy conditions (51 percent, up from 43 percent). More than 5,800 companies used the option for free-text responses regarding economic policy conditions. The most frequently mentioned keyword by far is "**bureaucracy**." About 38 percent of the free-text responses include bureaucracy-related topics, while in the previous survey, it was "only" 35 percent.
- 24 percent of companies (down from 28 percent) plan to make additional **investments**. Almost a third (31 percent, up from 24 percent) indicate a desire to reduce investments. The balance of investment intentions drops from four to minus seven points.
- **Forecast**: Given the overall gloomy outlook, the German Chambers of Commerce and Industry (DIHK) expects a 0.5 percent decline in economic output this year. In the next year, the DIHK anticipates stagnation (0.0 percent).

Expectations diminish, risks rise

Business situation: balance of good minus bad reports; business expectations and investment intentions: Balance of better minus less reports, risks share of mentions in percent



Current business situation of the companies

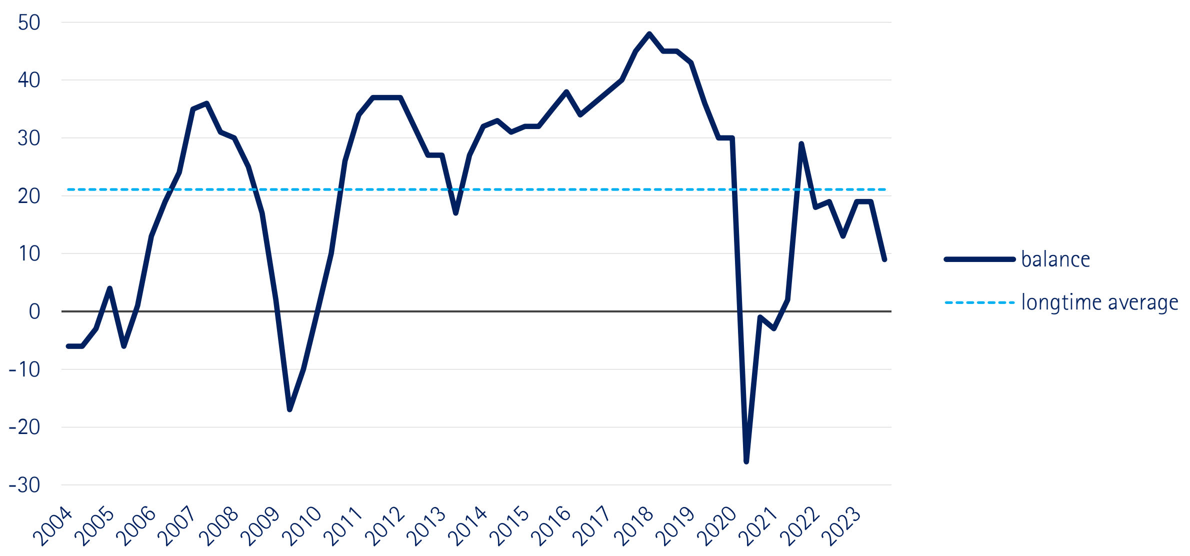
The business sentiment is clouding over. The effects of the COVID-19 pandemic and the war in Ukraine continue to burden businesses, particularly with persistently high prices and increased interest rates. Additionally, structural challenges such as a shortage of skilled workers, the transition to renewable energy, and excessive bureaucracy contribute to increased costs in inputs, energy, labor, and financing. Simultaneously, there are no positive impulses from foreign trade at the moment, as global economic conditions are sluggish. Moreover, geopolitical uncertainties are on the rise.

Still, three out of ten companies (30 percent, down from 34 percent) rate the current business as "good." In contrast, the proportion of businesses rating their situation as "poor" has increased significantly, from 15 percent to 21 percent. Consequently, the balance of the situation assessment has dropped from 19 to now nine points. This is well below the long-term average of 21 points. This downturn affects almost the entire spectrum of the economy and all business sizes.

A closer look at company sizes reveals that the situation deteriorated more significantly in medium-sized enterprises (200 to 999 employees) compared to large enterprises with more than 1,000 employees. In medium-sized enterprises, the balance dropped from 15 to nine points, while in large enterprises, the balance only decreased from nine to a relatively high 16 points. In small and medium-sized enterprises (SMEs) with up to 199 employees, the balance of business expectations also dropped to nine points (down from 17 points).

The deterioration in the situation is particularly pronounced among industrial companies. The proportion of companies with a poor business situation is now as high as 26 percent (up from 16 percent), equal to the proportion of industrial firms reporting a good situation (26 percent, down from 35 percent). Consequently, the balance has fallen from 19 to zero points (compared to a long-term average of 23 points). In the industrial sector, new orders remain at a low level, while costs for energy, inputs, loans, and wages are high or have even further increased.

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



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

The high prices of energy and raw materials, coupled with challenging corporate financing and weak demand, are having a significant impact on many energy-intensive intermediate goods producers. Production, especially among the energy-intensive sector, has been curtailed due to the high energy prices. Overall, among intermediate goods producers, the balance of business conditions falls from twelve to minus 13 points. This is the lowest value since the COVID-19 pandemic (the balance was also minus 13 points in the autumn of 2020). The situation assessment in metal production and processing deteriorates the most, dropping by 39 points to minus 16. For a long time, the industry could offset the high energy price level, but now these prices are affecting their situation. The gloomiest business conditions, however, prevail in the paper industry. Here, the balance drops from minus 19 to minus 35 points. In the chemical industry, companies also assess their business much worse than in the previous survey (balance of minus 16, down from minus three points).

A significantly subdued domestic investment climate, coupled with a sluggish global economy, is slowing down demand among capital goods manufacturers. However, despite the low level of incoming orders, order backlogs remain above average. Consequently, capital goods manufacturers rate their business significantly worse than in the early summer, but they still mostly arrive at a positive situation assessment. The balance drops by 22 to 13 points. The declines are particularly pronounced in the electrical engineering sector (balance falls by 30 to six points) and mechanical engineering (balance falls by 25 to 14 points). The decrease is somewhat less pronounced among automobile manufacturers, although the business situation was already gloomier in the early summer compared to other capital goods manufacturers (balance drops by eleven to seven points).

The continuously depressed consumer sentiment continues to weigh on the business of consumer goods and intermediate goods producers. The situation assessment deteriorates by eight points to minus three in balance. The downturn is particularly pronounced in sectors such as the furniture industry (balance of minus six, down from 17 points previously) and the clothing industry (balance of minus ten, down from one point previously). However, a slight improvement is noticeable in the food and animal feed industry (balance of two, up from minus eight points previously). Pharmaceutical companies rate their business situation most positively, with the balance remaining almost unchanged (balance of 33, down from 34 points previously), just slightly below the long-term average (balance of 34 points).

The consequences of rising consumer and purchasing prices, as well as weak domestic economic conditions, are also felt in the retail sector. Only one in five retailers now rates their business situation as "good" (20 percent, down from 26 percent). Conversely, the proportion of those with a negative situation assessment has increased from 19 percent to 27 percent. As a result, the balance of the situation assessment has fallen to its lowest point since the beginning of the COVID-19 pandemic (balance of minus seven, down from seven points previously). In retail, the reduced purchasing power and consumer sentiment of consumers due to high inflation are particularly burdensome. The balance drops from four to minus nine points. Wholesalers are grappling with high procurement prices, and their customers from the industry and construction sector are reducing their inventories rather than placing new orders. As a result, the balance of the situation assessment in wholesale falls significantly from ten to minus nine points.

Significantly increased construction interest rates and persistently high prices for building materials are dampening the overall business situation in the construction sector. Only one-third of construction companies (34 percent, down from 39 percent) now arrive at a positive situation assessment. Nearly one-fifth now describe the situation as poor (18 percent, up from 13 percent previously). Consequently, the balance of good and poor situation assessments has decreased by ten to 16 points. This is the lowest value since the early summer of 2010 (balance of four points). There are, however, considerable differences between individual construction sectors. Due to a decline in new orders in residential construction, the business situation has become particularly gloomy in the construction of buildings. The balance drops from 14 to zero points, the lowest since the end of the financial crisis (balance of minus four points at the beginning of 2010). In civil engineering, where the order situation is stable due to public infrastructure projects, companies rate their situation significantly more positively. The balance of the business situation only drops by one point to 29. In the finishing trades, companies are benefiting from a consistently rising demand for building renovations despite a weak economy. The balance drops by only six to 33 points compared to the previous survey.

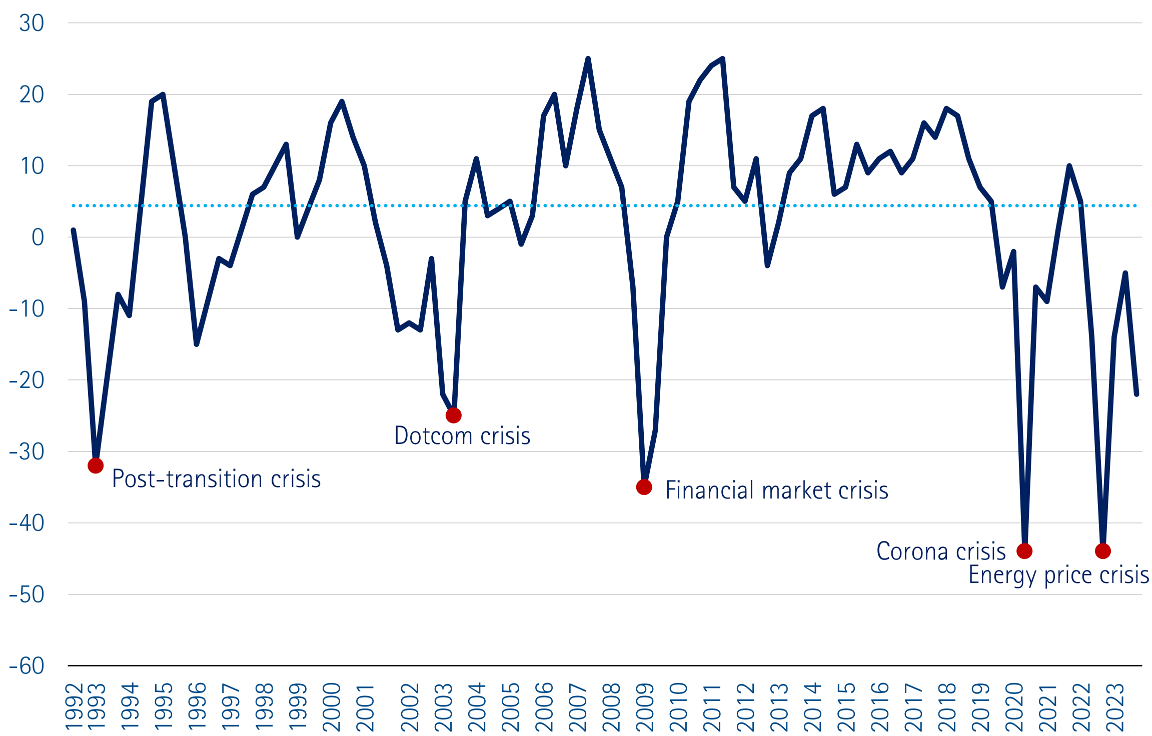
In the service sector, the business situation has deteriorated the least compared to other sectors. Just over one-third of companies still rate their current situation as "good" (remaining at 35 percent), while 17 percent (up from 14 percent) rate it as "poor." The balance drops by three to 18 points, which is only slightly below the long-term average (balance of 23 points). The relatively stable situation, compared to other major sectors, is mainly attributed to the hospitality sector and, to a lesser extent, to personal services providers. These industries are still benefiting from the after-effects of the pandemic. In the hospitality sector, there is a stabilization in guest numbers, resulting in an increase of twelve points to 22 in the balance of the situation assessment after a good overall summer season. This is significantly above the long-term average of eleven points. Among personal services providers (e.g., artistic or entertainment activities), companies with a positive situation assessment significantly outnumber those with a negative assessment, and the balance remains constant at 18 points. For mostly business-related service providers, the subdued sentiment in industry and retail leaves its mark. The balance of good and poor situation assessments for business-related service providers drops by nine to 24 points, which is below the long-term average of 31 points. The situation has further deteriorated for companies in the transportation and warehousing sector. The balance falls from four to minus two points compared to the previous survey and is significantly lower than in other sectors of the service industry. The industry continues to be affected by problems in transportation infrastructure, high fuel prices, and staffing shortages, particularly the shortage of professional drivers.

Business expectations of the companies

Companies' business expectations are noticeably darkening. Business uncertainty is high, and the combination of slow global growth and a weak domestic economy is clouding the outlook. Additionally, structural issues such as a shortage of skilled workers, rising labor costs, and persistently high energy and raw material prices are causing significant concerns for companies. Added to these challenges are growing bureaucratic burdens that hinder entrepreneurial activities.

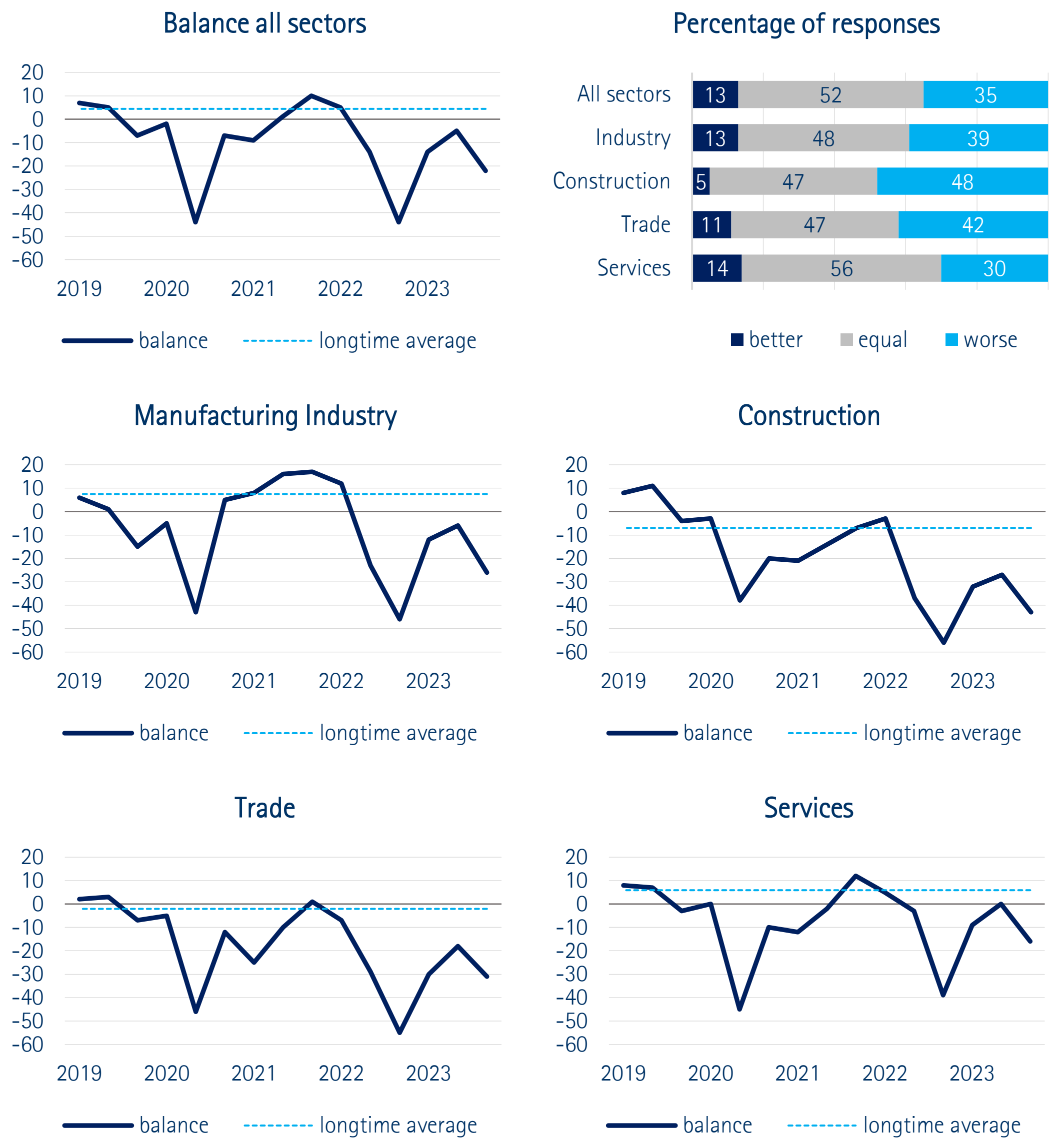
The number of companies with negative business expectations significantly exceeds those with positive expectations. More than a third of companies (35 percent, up from 23 percent) expect their business to deteriorate in the next twelve months. Only one in eight (13 percent, down from 18 percent) anticipates better business. As a result, business expectations have fallen by 17 to minus 22 points. Concerning company size, small and medium-sized enterprises (SMEs) with up to 199 employees have significantly darker and somewhat lower business expectations (balance of minus 24, down from minus seven points) compared to large enterprises, which may find it easier to diversify risks. Among large enterprises with 1,000 or more employees, the balance has shifted from plus six to minus seven points.

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



Industrial companies, amid the persistent economic downturn, are increasingly concerned about domestic demand. Moreover, many feel hindered by excessive bureaucracy. The business risk associated with economic policy conditions has reached a new high (51 percent, up from 42 percent). At the same time, high energy prices, labor costs, and the shortage of skilled workers remain pressing issues for many industrial companies. Overall, companies are expecting a significant deterioration in their business. The number of pessimists is noticeably increasing, with almost four out of ten industrial companies (39 percent, up from 23 percent) having negative expectations. The proportion with positive expectations has dropped from 17 percent to 13 percent. Consequently, the expectation balance has fallen by 20 to minus 26 points.

Business expectations of companies (balance of better minus worse answers, long-term average since 2003)



Intermediate goods manufacturers, who are often energy-intensive, are particularly affected by persistently high energy prices. Additionally, order receipts remain at a low level because many industrial customers are first depleting their stocks of raw materials built up during supply chain disruptions last year. Two out of five companies (43 percent, up from 27 percent) expect their business to worsen in the coming twelve months. Only just over one in ten (eleven percent, down from 17 percent) anticipates an improvement. The balance between positive and negative expectations has significantly fallen by 22 to minus 32 points. Expectations are particularly bleak among companies in the glass, ceramics, and stone processing sector (balance of minus 56, up from minus 35 points) and in companies engaged in metal production and processing (balance of minus 36, up from minus 15 points). Expectations are somewhat less pessimistic in the chemical industry (balance of minus 16, up from minus one point) and among manufacturers of electrical equipment (balance of minus 13, down from six points).

The sentiment is also cooling off among capital goods manufacturers. Here, high energy and raw material prices and sluggish demand are affecting business, but the most significant risk is now the shortage of skilled workers (63 percent). The proportion of companies with negative expectations has nearly doubled, going from 19 percent to 35 percent. Only 16 percent expect an improvement (previously 21 percent). Consequently, the balance between positive and negative expectations has dropped from two to minus 19 points. Expectations are particularly dampened among machinery manufacturers (balance of minus 24, down from two points) and automobile manufacturers (balance of minus 24, down from three points). While both sectors have order backlogs, the low order receipts are causing concerns. Expectations are somewhat less pessimistic in the electrical engineering sector (balance of minus ten, down from four points).

Expectations among manufacturers of consumer goods and capital goods have also decreased significantly. Weak consumer demand, coupled with persistently high energy and raw material prices, as well as concerns about rising labor costs, are weighing on businesses. Currently, one-third of consumer goods producers (34 percent, up from 21 percent) look pessimistically towards the future. Only one in eight (twelve percent, down from 16 percent) still anticipates an improvement in their business over the next twelve months. As a result, the balance of business expectations has fallen from minus five to minus 22 points. The textile, clothing, and leather industry appears particularly pessimistic about the next twelve months, with the balance declining by 20 to minus 31 points. One of the few consumer goods sectors where positive expectations still narrowly outweigh the negative is the pharmaceutical industry. There, the balance of business expectations has only dropped by four points to one.

Rising mortgage rates and declining new orders are creating a tense atmosphere in the construction industry. The shortage of skilled workers and concerns about rising labor costs further add to the challenges. Additionally, material prices remain high, despite decreases in recent months. Almost half of the companies expect worse business (48 percent, up from 35 percent). Only five percent (down from eight percent) are still optimistic about the future. Consequently, the expectation balance has significantly dropped from minus 27 to minus 43 points. In the construction of residential buildings, the collapse in building permits is causing pessimism, with the balance of positive and negative expectations falling further to minus 50 points (down from minus 36 points). Companies in civil engineering (balance of minus 37, down from minus 20 points) and building completion (balance of minus 34, down from minus 17 points) also expect declining business.

The retail sector has significantly reduced its business expectations compared to the early summer. High cost burdens, a weak consumer climate, and uncertainty about economic policy conditions are dampening the mood. Only one in ten retail companies looks optimistically towards the future (eleven percent, down from 14 percent). Two out of five businesses (42 percent, up from 32 percent) anticipate a deterioration in their business. Consequently, the balance of business expectations has dropped from minus 18 to minus 31 points. In addition to persistently high energy and raw material prices, retailers are concerned about high labor costs, making labor costs the greatest business risk (54 percent) in the industry. Moreover, despite significant nominal wage increases, the industry does not anticipate a rapid increase in consumer spending. In fact, more companies currently see a weak domestic demand as a business risk (61 percent, up from 58 percent). Therefore, the balance of business expectations in retail has fallen from minus 18 to minus 27 points. Wholesalers are even more frequently concerned about a domestic demand decline than retailers (business risk of domestic demand is at 68 percent, up from 63 percent). Their industrial customers are reducing their inventories as supply chains normalize. Furthermore, the business policy conditions risk has reached a new high (53 percent, up from 43 percent). Consequently, the balance of business expectations has dropped from minus 16 to minus 33 points.

Compared to other sectors, expectations in the diverse services sector are the least clouded. However, here as well, the proportion of pessimists has increased significantly from 20 percent to 30 percent. The proportion of optimists has decreased from 20 percent to 14 percent. This results in a deteriorating balance of 16 points to minus 16. For instance, in the hospitality sector, business expectations have plummeted. Companies in this sector particularly see a shortage of skilled workers and labor costs as risks. Guest numbers remain stable and close to pre-crisis levels. The balance of business expectations has significantly shifted from five to minus 32 points. A similar situation is seen in businesses related to transportation and storage. Rising personnel costs, fuel, and a severe shortage of skilled workers are dampening the mood. Additionally, more companies than ever see business policy conditions as a risk (51 percent, up from 41 percent). Particularly, the increase in truck tolls has caused dissatisfaction. The balance of business expectations for businesses in the transportation and storage sector has significantly decreased by 18 to minus 34 points. Business expectations are somewhat less pessimistic for companies in business-related services, even though these companies cannot completely evade the overall economic downturn. The balance has decreased from five to minus seven points. Conversely, companies in the field of arts, entertainment, and recreation are resisting the negative trend. The industry has suffered greatly during the pandemic, and there is still a backlog of demand. Business expectations are gradually improving (balance of zero, up from minus six points). Companies in the security industry also expect a slight improvement in business. The balance of business expectations has increased slightly from one to four points.

Business risks of the companies

There is significant uncertainty among companies, and in many areas, the pressure of problems is growing, with very few business risks diminishing appreciably. The challenges facing the economy are not only cyclical risks, such as weak demand domestically and abroad, but also structural problems like labor shortages and high energy or financing costs continue to concern businesses.

Compared to the previous year, energy prices have decreased. However, prices are still significantly above pre-crisis levels. In the long-term price perspective, it is expected to remain at a higher level. The supply situation remains uncertain, particularly concerning the upcoming winter. This uncertainty is reflected in the business risks faced by companies. Overall, energy and raw material prices are still the most frequently cited business risk. However, the pressure has slightly eased across all sectors compared to the previous survey (61 percent, down from 65 percent).

In the industrial sector, the assessment of the risk related to energy and raw material prices is declining (71 percent, down from 76 percent). Nevertheless, for three out of four energy-intensive intermediate goods manufacturers (76 percent), energy and raw material prices remain the number one risk: for example, in glass, ceramics, and stone processing (80 percent, down from 88 percent), metal production and processing (79 percent, down from 83 percent), and the chemical industry (74 percent, down from 82 percent). High energy prices are also driving up producer prices for agricultural products, which is why in the food and animal feed industry, the business risk of energy and raw material prices remains high (82 percent, down from 89 percent).

Continuously high producer prices for construction materials such as cement, glass, gypsum, or steel continue to pose challenges for construction companies. Prices are still above pre-crisis levels, although there has been some relaxation observed in recent months. Consequently, the percentage of construction companies citing energy and raw material prices as a business risk has decreased from 72 percent to 66 percent. This places energy and raw material prices as the primary business risk in the construction industry, closely followed by labor shortages (64 percent, down from 70 percent). Similar trends can be seen in the retail sector, where weakening domestic demand has replaced energy and raw material prices (62 percent, down from 66 percent) as the top business risk. Among service providers, energy and raw material prices remain in the second position (55 percent, down from 58 percent).

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% (76%) Energy and raw material prices	66% (72%) Energy and raw material rices	65% (60%) Domestic demand	60% (62%) Shortage of skilled workers
2.	64% (50%) Domestic demand	64% (70%) Shortage of skilled workers	62% (66%) Energy and raw material prices	55% (58%) Energy and raw material prices
3.	57% (63%) Skills shortage	58% (47%) Domestic demand	52% (43%) Economic policy	53% (52%) Labour costs
4.	55% (56%) Labour costs	52% (53%) Labour costs	51% (51%) Labour costs	51% (44%) Economic policy
5.	51% (42%) Economic policy	48% (39%) Economic policy	50 (53%) Shortage of skilled workers	45% (40%) Domestic demand

Demographic changes ensure that even during economic downturns, the shortage of skilled labor only diminishes slightly. Nearly three out of five companies (58 percent) cite a shortage of skilled labor as a business risk. This value is only slightly below the previous record from the previous survey in the early summer (62 percent). Consequently, the shortage of skilled labor remains the second-largest business risk across all companies. Given the aging of society, the lack of qualified workers will remain one of the key structural challenges for companies in the future. In the service sector, the shortage of skilled labor is cited as the most common risk, just as it was in the early summer. Three out of five companies consider it a significant challenge (60 percent, down from 62 percent). The shortage of qualified workers is also the second most pressing issue for the construction industry. Despite a weak construction sector, two-thirds of companies (64 percent, down from 70 percent) report a lack of skilled workers. In the industrial and retail sectors, the shortage of appropriate personnel is somewhat overshadowed by other business risks, with the domestic demand becoming more pressing in the industrial sector, while retailers are more concerned about economic policy conditions and labor costs. Nevertheless, the values for the business risk of a shortage of skilled labor are only slightly below their peaks. Among retailers, half of them complain about a lack of qualified personnel (50 percent, down from 53 percent; highest point: 54 percent). In the industrial sector, it's nearly three out of five companies (57 percent, down from 63 percent; highest point: 63 percent).

Businesses are increasingly feeling the burden of economic policy conditions. Over half of the companies (51 percent, up from 43 percent) see this as a business risk. This is just below the record high of 55 percent during the height of the COVID-19 pandemic in the early summer of 2020. In the current survey, the industrial sector, with 51 percent, hits an all-time high in terms of perceiving economic policy conditions as a risk. More than 5,800 companies have used the opportunity for free-text responses to address economic policy conditions. By far, the most commonly mentioned keyword is "bureaucracy." Approximately 38 percent of the free-text responses contain issues related to bureaucracy, up from 35 percent in the previous survey. Companies also see other economic policy risks related to energy, inflation, taxes, and interest rates.

Keywords most frequently mentioned by companies when describing economic risks

(evaluation of around 5,800 free text responses)

The economic slowdown, persistently high inflation rates, and rising interest rates have driven the business risk of domestic demand to an above-average level (53 percent, up from 46 percent; long-term average at 46 percent). The retail sector has been feeling the effects of consumer restraint due to inflation for several months. Now, more than two-thirds of retailers cite domestic demand as a business risk (65 percent, up from 60 percent). As the manufacturing industry experiences a declining trend in new orders, the percentage of industrial companies seeing it as a threat to their business has jumped from 50 percent to 64 percent. Due to high mortgage rates and a downturn in private residential construction, the risk of domestic demand in the construction sector has risen to 58 percent (up from 47 percent). In the construction sector, companies in the high-rise construction subsector report a peak of 64 percent. In the service sector, the concern about declining demand is relatively lower compared to other sectors, but the business risk has increased from 40 percent to 45 percent. Also, the risk of foreign demand in the manufacturing industry has reached an above-average level due to the globally restrained growth and decreasing foreign orders (42 percent, up from 33 percent; long-term average at 39 percent).

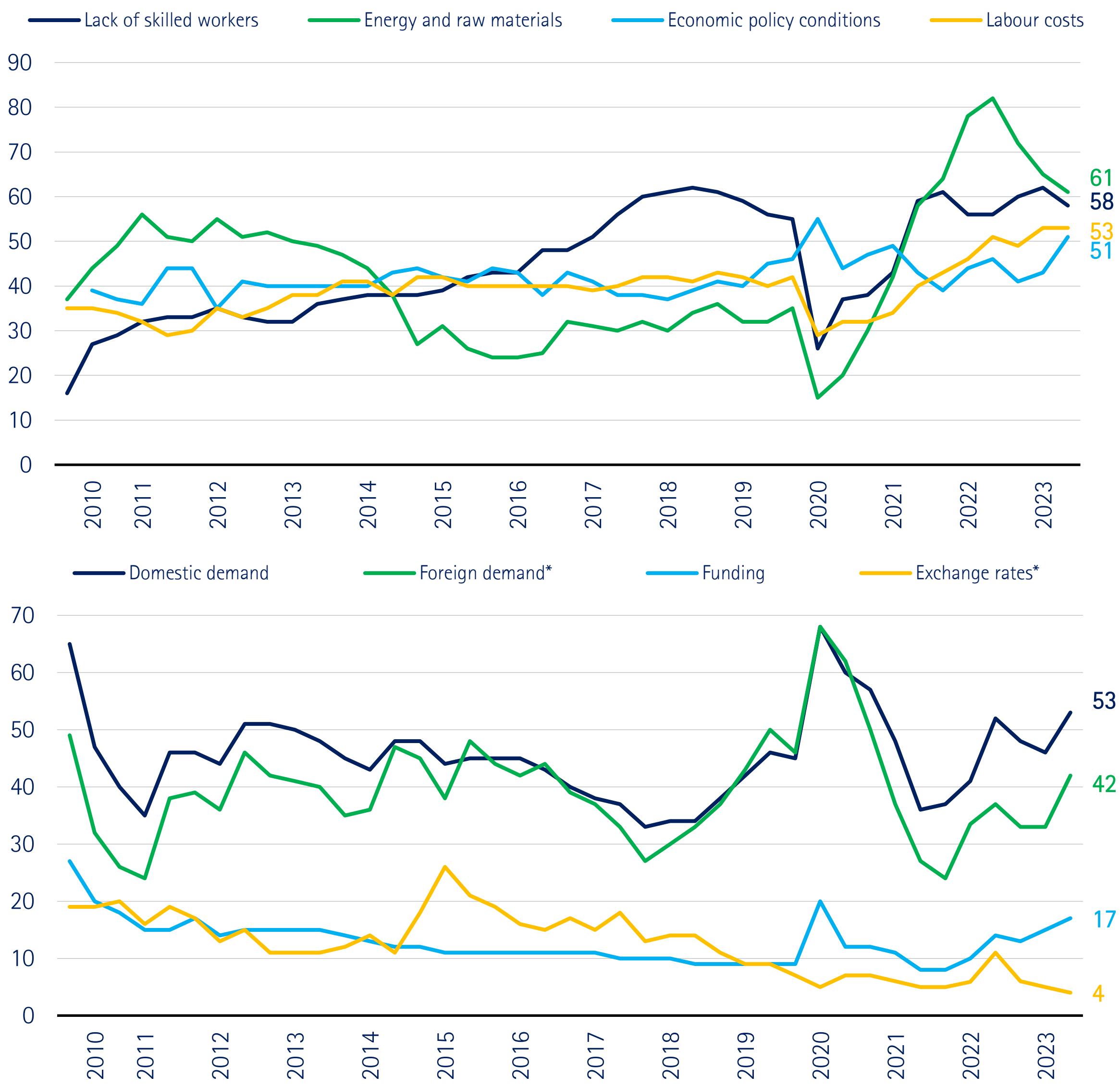
Due to increased consumer prices and concerns about a wage-price spiral, as well as the ongoing shortage of skilled labor, over half of the companies (53 percent) cite labor costs as a business risk. This is a record high, similar to the previous survey. Sectoral differences are minimal, with more than half of companies in all four main sectors concerned about labor cost developments.

With rising interest rates as part of inflation control measures, more companies now mention access to financing as a risk factor for their business in the next twelve months (17 percent, up from 15 percent). In the early summer of 2022, when the ECB's policy rate was still at zero, only one in ten companies (10 percent) saw it as a risk. The sectors most affected by high mortgage rates include real estate companies and high-rise construction companies (41 percent, up from 39 percent, and 35 percent, up from 33 percent, respectively), as well as energy suppliers (37 percent, up from 32 percent).

The responses of central banks in major currency areas and their impact on exchange rates have led to a relaxation of exchange rate risks. Only four percent of companies see significant exchange rate risks for their business. This is significantly below the long-term average of 13 percent.

Business risks for the overall economy

Percentage of responses; multiple responses possible; *Export industry



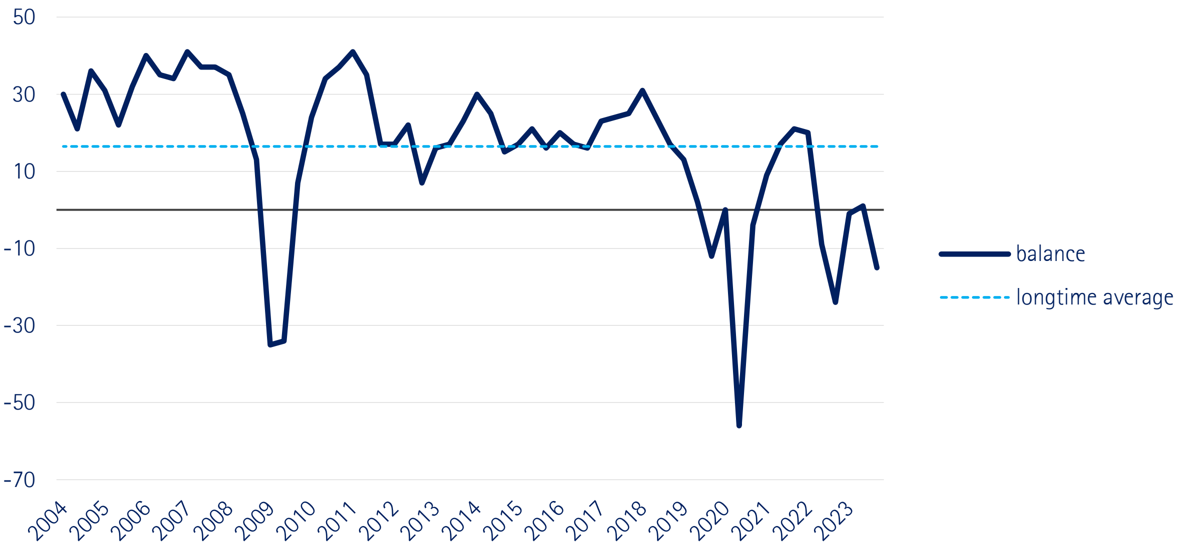
Export expectations of industrial companies

The dynamics in the global economy have diminished over the course of the year. Germany, as an export-oriented country and the most open economy among the G7 nations, is particularly dependent on the development of the global economy. Consequently, the sluggish growth of the global economy is reflected in the weakened export expectations of industrial companies in the autumn: One-third of companies (33 percent) expect declining exports in the next twelve months (compared to 22 percent in the early summer). Eighteen percent of companies (compared to 23 percent in the early summer) anticipate export growth, and 49 percent expect stable export business. The balance of higher and lower export expectations decreases by one point to minus 15 points. While international supply chains have stabilized, and energy and raw material prices and inflation rates, although coming from a high level, are declining, the increased interest rates in key markets, especially in the Eurozone and the USA, China's economic weakness, and geopolitical risks are affecting the foreign business of German companies.

In the context of the globally cooled economic environment, 42 percent of companies now see low foreign demand as a business risk, which is nine percentage points more than in the previous survey in the early summer (33 percent). At the beginning of the year 2021, the risk was even higher. In important export sectors, such as the automotive industry and mechanical engineering, foreign orders are below the previous year's level. The risk of fluctuating exchange rates, which leads to uncertainty in international business planning, has taken a back seat compared to other risks and is only mentioned by four percent of companies—a new low.

Companies' export expectations

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

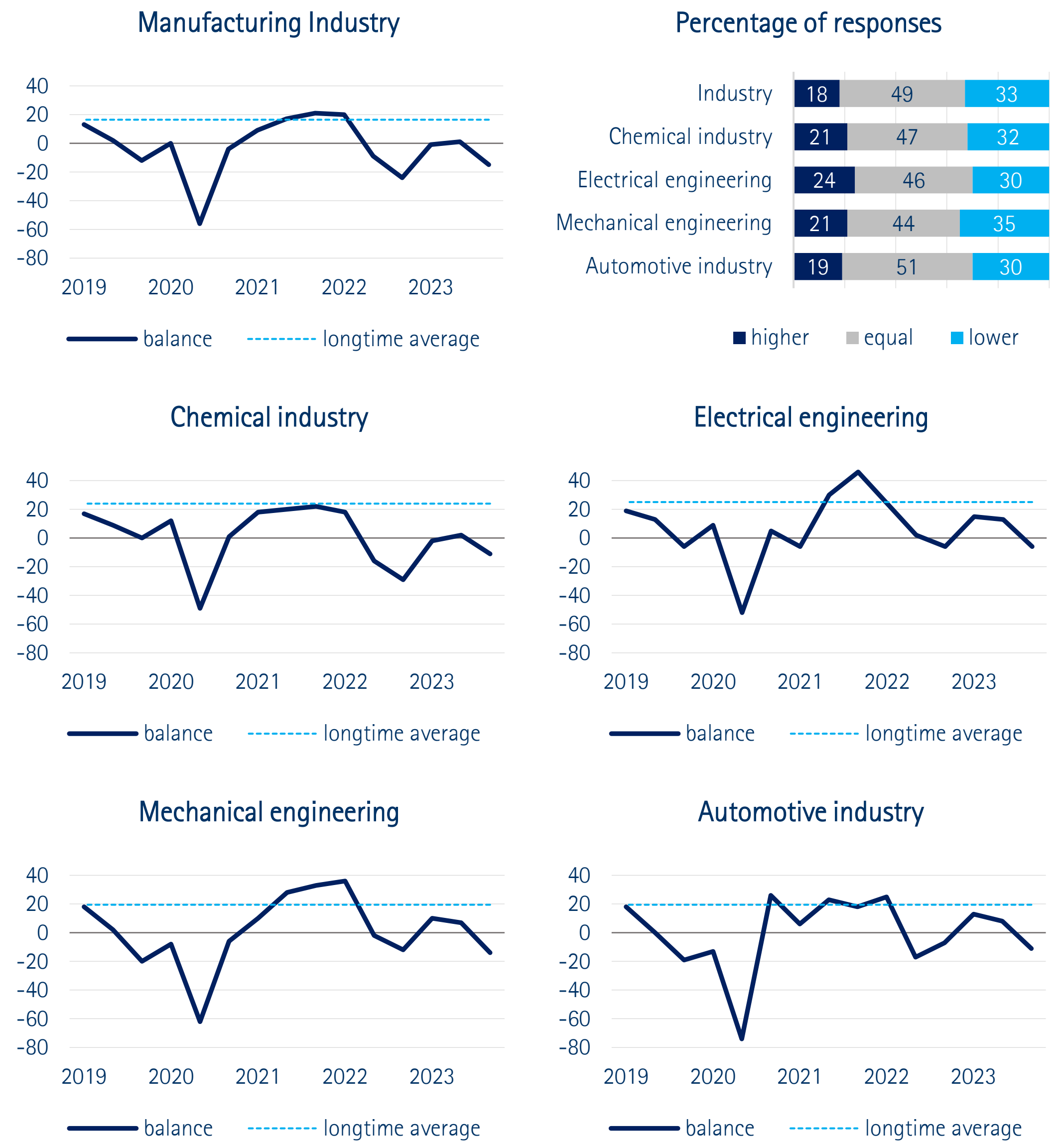


In all industrial sectors, companies' export expectations have worsened. While pessimistic expectations outweighed among manufacturers of intermediate goods in the early summer, the expectations of capital goods manufacturers and consumer goods manufacturers have returned to the negative range.

Capital goods manufacturers can benefit from more stable international supply chains and fulfill the remaining orders. However, the decreasing new orders cast a shadow on the coming months. Twenty-five percent of companies expect better export business, and 32 percent anticipate declining exports. Compared to the previous survey, the balance of higher and lower export expectations has dropped from ten to minus seven points. Machinery manufacturers are even more pessimistic than the average of capital goods manufacturers: One in five companies (21 percent) expects higher exports, while 35 percent foresee lower exports (balance of minus 14 points, down from seven points previously). In the case of automakers, slightly fewer companies now expect their exports to rise (19 percent, down from 21 percent in the early summer), while 30 percent (compared to 13 percent in the early summer) anticipate a decrease. The balance stands at minus eleven points, also below the average of capital goods manufacturers. Twenty-four percent of exporting electrical equipment manufacturers expect an increase in exports for their companies, while 30 percent predict declining exports. The balance of higher and lower export expectations has dropped from 13 to minus six points.

Companies' export expectations

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



Intermediate goods manufacturers have significantly lowered their expectations for foreign business compared to the previous survey among the industrial sectors. The continuing high energy prices are eroding the competitiveness of often energy-intensive companies. Only 14 percent of companies expect increasing exports, while 37 percent anticipate lower export growth. Thus, the balance has fallen significantly from minus five to minus 23 points. Among manufacturers of metal products, pessimists dominate even more: 39 percent of companies expect worse export business, while only twelve percent expect improvements. The balance has dropped from minus six to minus 27 points. Export expectations are also decreasing in the rubber and plastic industry: 17 percent expect higher export expectations, and 37 percent expect lower ones. The balance has fallen from minus one to minus 20 points.

Due to high inflation rates still prevalent in many export markets and the resulting decrease in consumer purchasing power, export expectations of consumer goods manufacturers have also dropped. Eighteen percent of companies expect an increase in their exports, while 27 percent expect a decrease in the next twelve months. The balance has fallen from two to minus nine points. The pharmaceutical industry still looks predominantly optimistically at its foreign business: 24 percent expect increasing exports, while 18 percent expect decreases. The balance has fallen from 20 to six points. Here, as one of the few sectors, optimists still outweigh pessimists.

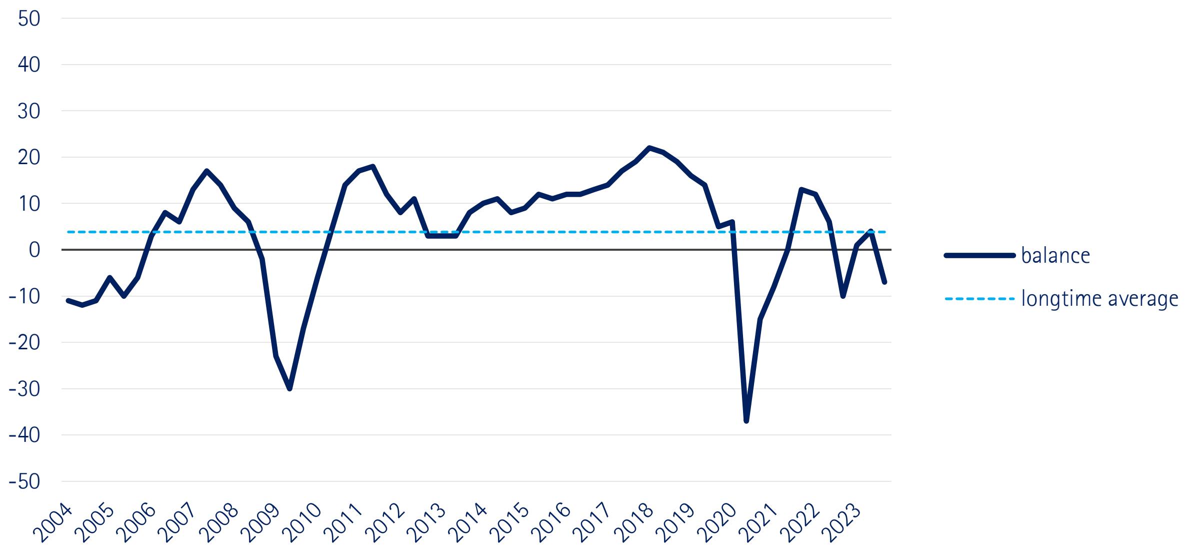
Investment intentions of the companies

High energy prices and a volatile economic environment are currently weighing on businesses. Economic policy conditions are increasingly perceived as a business risk. The high costs of operating in Germany are dampening companies' investment intentions. Less than a quarter (24 percent, down from 28 percent) - as little as a year ago - plan to make additional investments. Nearly a third (31 percent) indicate a desire to reduce investments. The balance of investment intentions has dropped to minus seven points, which is a significant deterioration from the previous survey (down from four points). In the industrial sector, the balance has even plunged by 19 points to minus twelve. The construction industry must also significantly cut back on its investment plans (down to minus 28 points). Both the retail and service sectors are also hitting the brakes (minus 14 points and minus one point, respectively).

For those companies that are still making investments, the focus is currently more on necessary measures rather than seizing new opportunities. The most commonly cited investment motives are replacement and rationalization investments (65 percent and 32 percent, respectively). Investments in environmental protection (27 percent), including legal requirements and in response to increased business risks in the energy and raw material supply sector, are also planned. However, there is a lack of enthusiasm for investments that promote growth, such as expanding capacity (21 percent) or product innovations (27 percent).

Investment intentions of companies

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



Large companies with over 1,000 employees are still mostly planning to expand their investments. However, the balance of investment intentions has dropped significantly to eight points (down from 27 points in the previous survey). Large companies are also increasingly looking to invest in product innovations. This motive is mentioned by almost half (47 percent) of the companies with over 1,000 employees, up from 41 percent previously. In contrast, the balance of investment intentions for small and medium-sized enterprises (SMEs) has dropped by ten points to minus nine. Rationalization is the only motive that has slightly increased for SMEs (30 percent, up from 28 percent).

The risks to business development are often perceived as investment obstacles. Companies that see business risks in domestic demand have a significantly lower investment balance (minus 21 points) than the overall economy (minus seven points). The investment intentions of companies concerned about energy and raw material prices, labor costs, or economic policy conditions are also significantly lower compared to the overall economy (with balances of minus 14, minus twelve, and minus 15 points, respectively).

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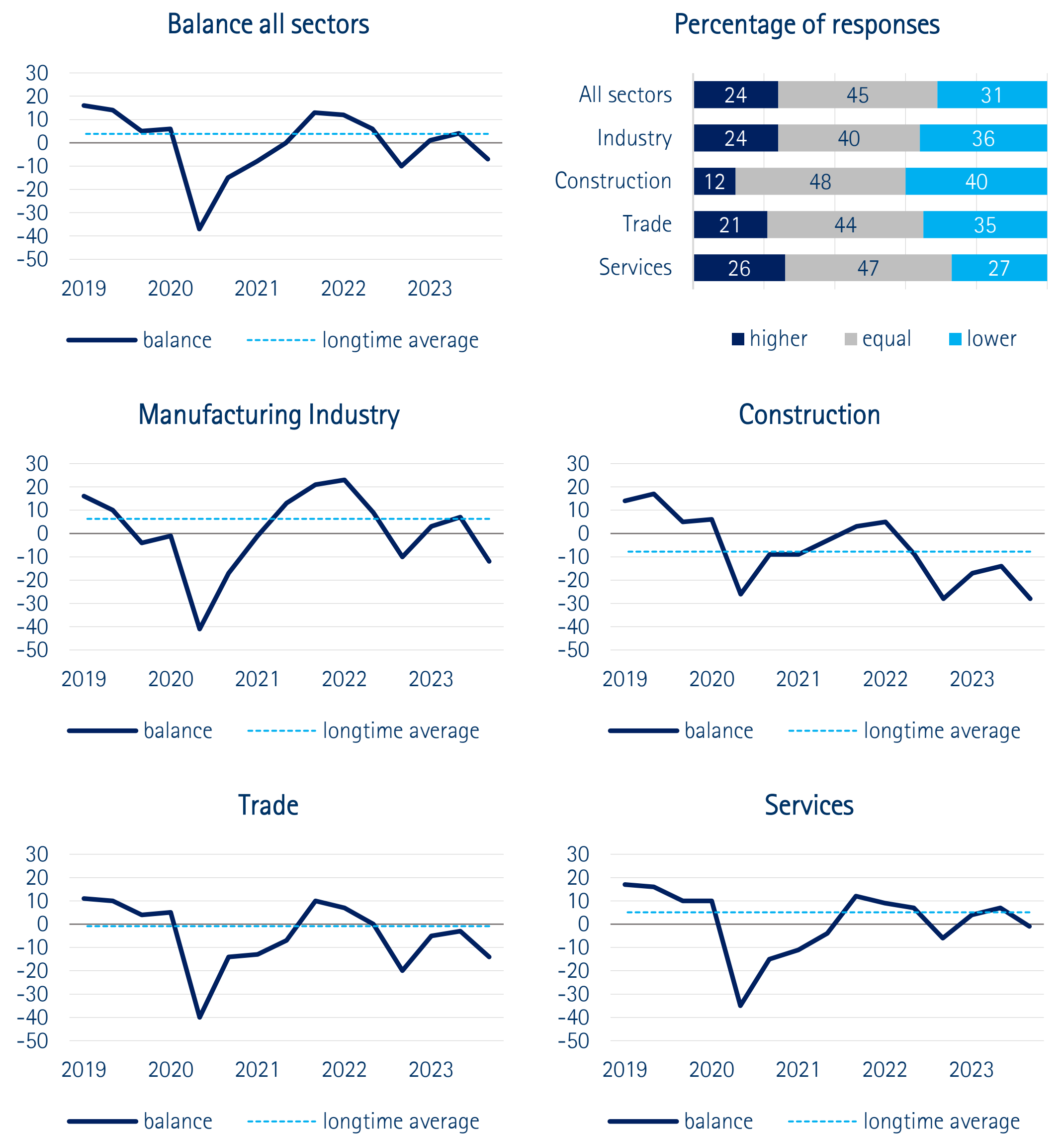


Economic policy conditions are increasingly becoming a hurdle for investments. Companies who see this as a risk intend to significantly reduce their investments, with 38 percent planning to do so, compared to companies that have not identified this risk, of which only 28 percent intend to reduce their investments. This represents a difference of ten percentage points. Just before the pandemic, the difference was relatively small, at around two percentage points. This means that companies are now much more likely to reduce their investments due to inhibiting economic policy conditions than just a few years ago.

Pharmaceutical companies are expected to provide some investment impetus within the industry (balance of 16 points, down from 18 points). However, the motives for rationalization (38 percent, up from 29 percent), environmental protection (55 percent, up from 43 percent), and replacement needs (74 percent, up from 65 percent) have noticeably increased. The automotive industry's reluctance to invest is not as pronounced as the overall industry (balance of minus three points, down from four points, compared to the industry's overall balance of minus twelve points). There are no cuts in investments from the food and feed industry (with the balance remaining at one point), and they intend to invest more in rationalization (49 percent, up from 43 percent), as well as in product innovations (23 percent, up from 19 percent) and capacity expansion (32 percent, up from 28 percent). Investments in innovation are particularly important for industrial companies as drivers of research and development to stay competitive internationally. In the industry, there is still room for improvement with only 31 percent of companies citing this motive. This puts them below the long-term average (37 percent in the industry). An innovation-friendly environment with low bureaucracy, technology-neutral funding programs, and greater collaboration opportunities between business and academia, as well as the increased use of experimental spaces such as real laboratories, are helpful for fostering innovation.

The investment sentiment in the service sector has also darkened. Investment motives show a high degree of consistency. The motives for rationalization (28 percent), environmental protection (24 percent), capacity expansion (20 percent), product innovations (28 percent), and replacement needs (64 percent) have hardly changed compared to the early summer. Over a quarter of companies (26 percent) plan to increase their investment budgets. However, an equally large proportion (27 percent) of companies in the service sector plans to cut back on their investment plans. The resulting balance of minus one point is significantly lower than in the previous survey (seven points), but the decline in the balance for service providers is the smallest among the main sectors.

Investment plans in the retail sector have deteriorated significantly (down to minus 14 points from minus three points), especially in the wholesale and retail trade (down to minus 15 points and minus 17 points, respectively), while the automotive trade and repair sector has only made slight cuts (with a balance of three points). The motives for investments in the retail sector are similarly prioritized compared to the early summer. With the exception of replacement needs, all values have dropped slightly.

Investments in the construction industry are following another decline in business expectations. Persistently high costs for building materials like cement, rising interest rates, and a lack of demand, especially in residential construction, are slowing down the construction industry. Only twelve percent (down from 17 percent) of companies in the construction industry plan to expand their investments. However, 40 percent (up from 31 percent) indicate a desire to reduce investments. As a result, the balance of investment intentions has dropped again, from minus 14 to minus 28 points. When investments are made in the construction industry, they are primarily focused on replacement needs (80 percent). The motives of capacity expansion and environmental protection have decreased to 14 percent and 19 percent, respectively, compared to the early summer.

Main motives for domestic investment

(in percent; multiple answers are possible, value of previous survey in brackets)

	Rationalisation	Product innovation	Capacity expansion	Environmental protection	Replacement demand
All sectors	32 (31)	27 (27)	21 (22)	27 (29)	65 (66)
Manufacturing Industry	42 (42)	31 (30)	24 (29)	36 (37)	65 (64)
Construction	23 (21)	17 (16)	14 (17)	19 (23)	80 (80)
Trade	31 (28)	23 (24)	18 (22)	22 (26)	66 (64)
Services	28 (27)	28 (28)	20 (20)	24 (26)	64 (65)

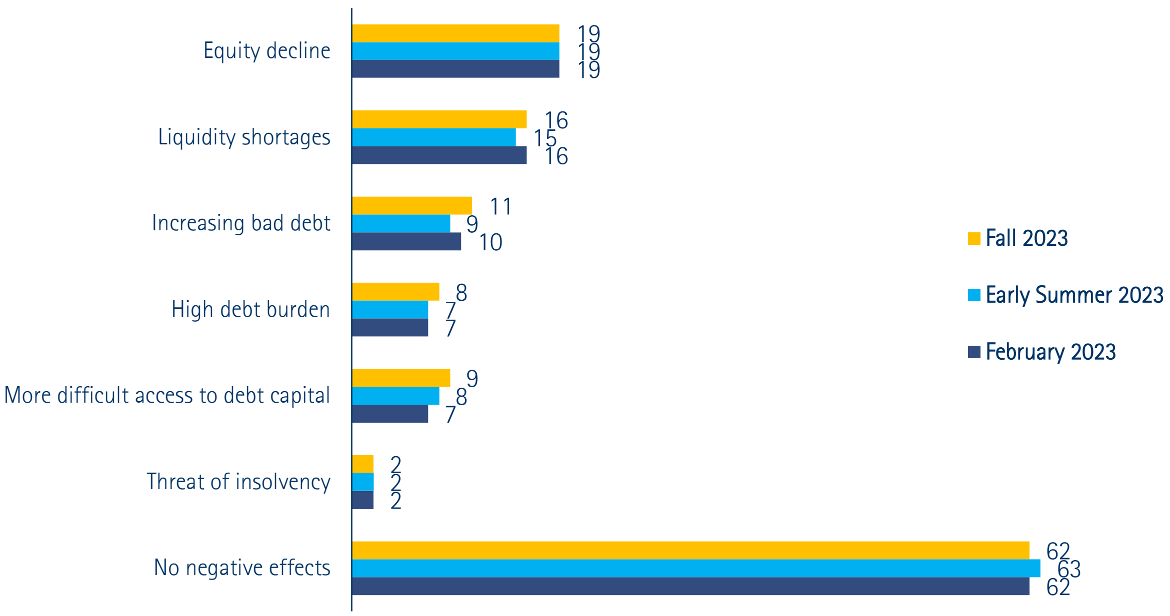
Current financing situation of the companies

Rising interest rates and increased barriers to obtaining external capital continue to strain the financial situation of companies. 62 percent of businesses have a stable financial position. However, 38 percent of companies, up from 37 percent in the previous survey, consider their financial situation problematic. This is a similar assessment to the beginning of the year when concerns about energy supply security and the continuity of production in many sectors were at their highest.

The most common ongoing issue is still the decline in equity (remaining at 19 percent). The proportion of companies facing liquidity problems remains significant at 16 percent. The percentage of companies experiencing receivables defaults has increased (eleven percent, up from nine percent). Additionally, the number of companies burdened by high levels of debt has increased to eight percent. Correspondingly, the number of companies reporting difficulties in accessing external capital has also risen to nine percent.

While the observation that smaller businesses face more critical financial situations remains unchanged over time, this autumn, it is primarily the upper middle class of companies with 200-999 employees that is reporting a worsened financial situation. Unchanged, 43 percent of small companies with up to 19 employees report at least one problem in their financial situation. In contrast, it's only 23 percent for large companies with over 1,000 employees. In particular, the decline in equity (remaining at 24 percent) and liquidity shortages (18 percent) continue to be a challenge for small businesses. Among the large middle-class companies, 30 percent now report problematic financial situations, up from 26 percent in the previous survey. The higher capital intensity of these predominantly industrial companies, combined with the rising interest rate environment, has led to twelve percent of companies now reporting high levels of debt, up from eight percent. Meanwhile, one in ten companies is now dealing with increased receivables defaults (ten percent, up from six percent).

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



Share in %, multiple answers possible

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

Evaluation according to company size class, figures in percent, multiple answers possible

	1-19 employees	20-199 employees	200-999 employees	From 1000 employees	All classes
Liquidity shortages	18	14	11	7	16
Threat of insolvency	4	1	1	0	2
Equity decline	24	17	11	8	19
More difficult access to debt capital	9	9	9	9	9
High debt burden	7	9	12	7	8
Increasing bad debt	11	11	10	9	11
Our financial situation is unproblematic	57	64	70	77	62
Our financial situation is problematic	43	36	30	23	38

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

Evaluation by industry, figures in percent, multiple answers possible

	Industry	Construc-tion	Trade	Service provider	all sectors
Liquidity shortages	16	15	16	15	16
Threat of insolvency	2	2	2	3	2
Equity decline	16	19	20	20	19
More difficult access to debt capital	9	11	7	9	9
High debt burden	10	8	8	8	8
Increasing bad debt	10	12	13	10	11
Our financial situation is unproblematic	64	63	60	61	62
Our financial situation is problematic	36	37	40	39	38

A closer look at individual sectors shows that in the industrial sector, despite lower energy prices compared to the previous year, decreased material shortages, and partly well-stocked order books, the proportion of companies with a problematic financial situation has increased from 33 percent to 36 percent. Companies are grappling with increasing receivables defaults (ten percent, up from seven percent), a higher debt burden (ten percent, up from seven percent), and more challenging access to external capital (nine percent, up from eight percent).

The more challenging access to external capital and increased interest costs are affecting almost all sectors of the industry. This corresponds with the decline in corporate lending and the tightened lending conditions set by banks. Investments and operations in the industrial sector depend more on long-term stable and affordable energy supply than in other sectors. The prevalent uncertainty in this sector impacts not only investment plans but also assessments by credit institutions. Additionally, there are increasing potential regulatory requirements for the financial industry regarding climate-neutral portfolios. Especially transformation financing, which currently does not fall under the taxonomy, faces challenges entering bank portfolios, especially if they are long-term in nature.

The financial situation has significantly darkened for capital goods manufacturers (35 percent, up from 29 percent). This applies to core industrial sectors such as mechanical engineering (33 percent, up from 28 percent), electrical engineering (37 percent, up from 28 percent), and manufacturers of electrical equipment (35 percent, up from 30 percent).

Similarly, intermediate goods manufacturers also assess their financial situation as more challenging (38 percent, up from 33 percent). Companies involved in energy-intensive intermediate goods production, such as metal production and processing, report the most problems (45 percent, up from 31 percent).

Contrary to the trend, the financial situation for consumer goods and durable goods manufacturers has slightly improved (37 percent, down from 40 percent). In particular, companies in the food and feed industry (37 percent, down from 42 percent) have seen their financial situation ease somewhat due to falling producer prices for agricultural products in recent months.

Against the backdrop of the challenging economic situation, increased interest rates, ongoing high prices for building materials, and decreased lending in the real estate sector, the overall assessment of the financial situation in the construction industry has worsened compared to the early summer of 2023: 37 percent of companies (up from 34 percent) report a problematic financial situation. The high-rise construction sector, which has already been affected by numerous project cancellations, reports that 40 percent of the companies are dealing with financial difficulties. Overall, challenges in all areas have increased: liquidity shortages (16 percent, up from 13 percent), equity problems (20 percent, up from 19 percent), and concerns about potential insolvency (three percent, up from one percent). Given the high debt utilization in the industry, debt burdens (twelve percent, up from ten percent) have increased due to higher interest rates. The most significant growth in problems is related to obtaining new external capital (14 percent, up from twelve percent). The stricter lending conditions set by banks, especially for real estate loans, mean that more than one in ten companies are concerned about this.

In the trade sector, the proportion of companies with a strained financial situation has increased slightly to 40 percent compared to the early summer of 2023. The cautious domestic demand, sustained high inflation, and rising labor costs have left their mark on balance sheets. As a result, the number of retail companies reporting liquidity shortages and equity problems has increased (16 percent and 20 percent, respectively). Thirteen percent of retail companies are also dealing with an increase in receivables defaults - the highest value among all economic sectors. Wholesale trade and trade mediation, as intermediaries between producers and consumers, feel these problems particularly quickly. One in six companies is already experiencing an increase in receivables defaults (16 percent).

The restrained consumer behavior in retail has led to a rise in the percentage of companies reporting liquidity shortages, from 19 percent to 22 percent - the highest level in two years. The proportion of those facing a decline in equity remains at a high level of 26 percent.

The improved overall assessment of the financial situation has given predominantly small and medium-sized service providers a reprieve when it comes to financing. The financial situation remains unchanged. However, 39 percent of companies continue to report problems.

Among personal service providers, it is the companies in the arts, culture, and entertainment sector that have seen the improved situation reflected in reduced financial difficulties. Only 35 percent, down from 47 percent in the early summer, report financial problems. Liquidity shortages and decreasing equity have decreased, and the risk of impending insolvency has reduced. In the gastronomy sector, however, the improved business of the summer is less apparent in an improved financial situation. In fact, more companies (58 percent, up from 55 percent) are now facing financial difficulties. The sustained high prices for energy and raw materials, as well as rising labor costs, have resulted in 42 percent of companies (up from 41 percent) reporting a decrease in equity, and 22 percent (up from 21 percent) report liquidity shortages.

Employment intentions of the companies

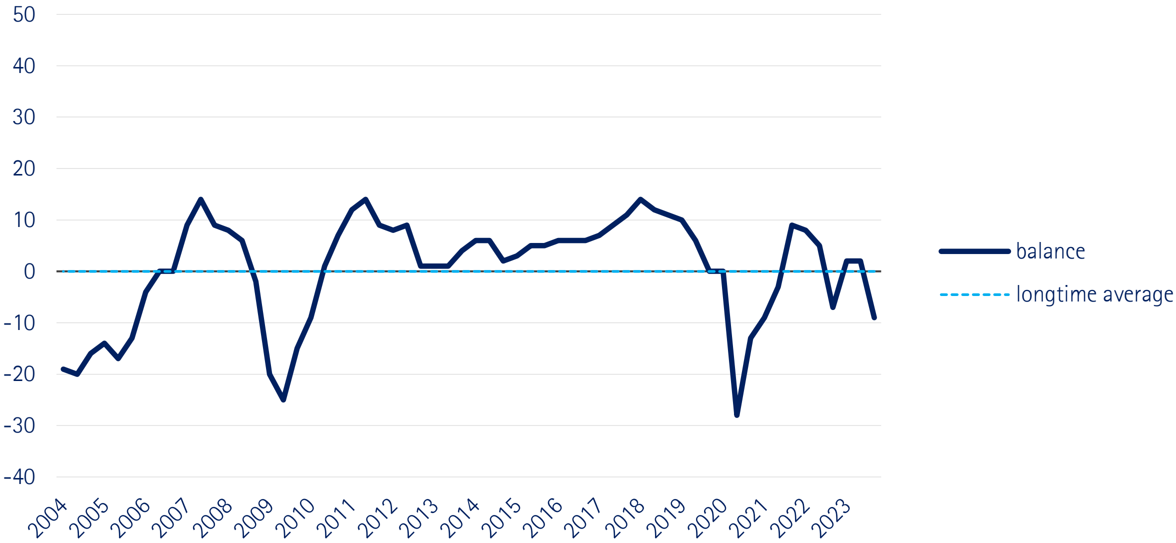
The deteriorating business conditions and significantly clouded business expectations are now significantly impacting companies' employment intentions. Despite a high level of skilled labor shortages, more companies are anticipating a decrease in employment rather than an increase. The percentage of companies planning to increase their workforce has decreased from 17 percent to 13 percent. Conversely, the percentage anticipating a reduction in staffing has increased by nine percentage points to 22 percent. The employment intention balance has declined from two to minus nine points, falling below the long-term average of zero points.

In terms of company size, only the employment plans of large corporations deviate slightly from the overall trend. While employment intentions have also decreased among companies with over 1,000 employees, the balance only just turns negative (from eleven to minus two points).

Given the significantly lowered expectations and restrained investment plans, employment intentions in the industrial sector have also declined and turned negative. Only 14 percent (down from 19 percent) anticipate an increase in staffing, while a quarter (26 percent, up from 17 percent) expect a reduction. The employment intention balance has dropped by 14 points to minus twelve points, which is significantly below the long-term average. The most substantial decline in employment expectations is observed among energy-intensive intermediate goods manufacturers, such as metal production and processing (balance dropping by 24 to minus 25 points), or companies in the glass, ceramics, and stone processing sector (balance dropping by 23 to minus 35 points). In these sectors, companies also cite skilled labor shortages as a business risk less frequently than in the previous survey (53 percent, down from 68 percent, and 48 percent, down from 58 percent). Employment intentions vary among capital goods manufacturers. In the automotive industry, companies expect significantly fewer employees due to the structural transformation in the automotive sector and the transition to mobility, as well as the sluggish global economy (balance dropping by 14 to minus 20 points). In contrast, employment intentions in the electrical engineering sector still remain slightly positive (balance of one, down from 18 points).

Companies' employment intentions

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



Overall, the construction industry is experiencing a negative sentiment, which is significantly reflected in the employment intentions of construction companies. Only six percent (down from ten percent) of companies anticipate an increase in staffing. More than a quarter of construction companies (28 percent, up from 18 percent) expect a decrease in employees. The employment intention balance has fallen from minus eight to minus 22 points, which is significantly below the long-term average of minus six points. Especially in high-rise construction, concerns about weak domestic demand are significant due to rising interest rates and significantly slowed

Companies' employment intentions

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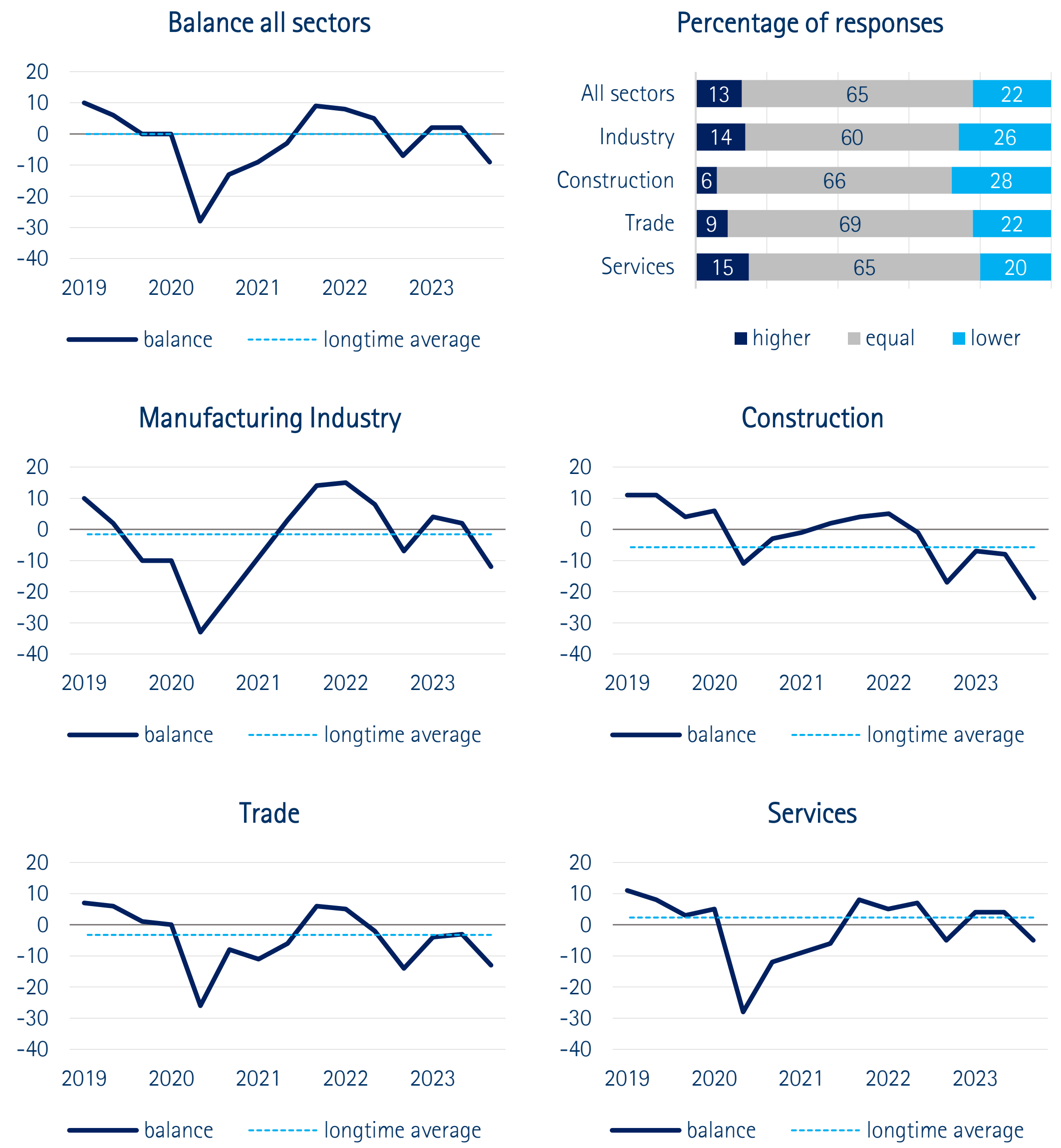

orders. As a result, businesses in that sector need to plan for reduced staff in the next twelve months. The employment intention balance falls to minus 30 points (down from minus 13 points, with the long-term average at minus seven points). In civil engineering, the situation is significantly better due to infrastructure projects, so employment intentions in civil engineering are much less restrictive than in high-rise construction, with the balance dropping by twelve to minus eleven points, only slightly below the long-term average of minus seven points.

The trade sector is suffering due to the continued high inflation and consumer reluctance to spend. This is impacting not only business conditions and expectations but also the employment intentions of companies. Only one in eleven retailers (nine percent, down from 13 percent) expect an increase in staffing over the next twelve months. The percentage of companies anticipating a decrease in employees, on the other hand, has increased from 16 to 22 percent. Consequently, the employment intention balance has dropped by ten points to minus 13, significantly below the long-term average of minus three points.

With declining business expectations and investment intentions across the heterogeneous service sector, employment plans have also decreased: one-fifth of companies (20 percent, up from 14 percent) expect a reduction in staff, while only 15 percent (down from 18 percent) anticipate increased employment. The employment intention balance has fallen by nine points to minus five points, the highest among the compared sectors. Looking at individual service industry branches reveals significant differences:

The predominantly personal service providers are maintaining stable sentiment, in contrast to the general trend in the economy. In the sector, the shortage of skilled labor has reached a new record level (59 percent, up from 55 percent). The employment intention balance has only slightly decreased by one point to two points, consistent with the long-term average. Employment intentions for business-related service providers are overall positive. However, the balance here, at five points (down from 13 points), is already below the average (14 points). Hospitality businesses, which experienced substantial staff losses during the COVID-19 pandemic, continue to face challenges in filling their positions. Two-thirds of these companies report a shortage of skilled labor. As a result, these businesses are planning for reduced staffing, and the employment intention balance has decreased by 15 points to minus 16 points.

DIHK forecast for economic development in Germany

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

	2022	DIHK forecast 2023	DIHK forecast 2024
GDP	1,8%	-0,5%	0,0%
Privat consumption	3,9%	-0,5%	1,0%
Public consumption	1,6%	-1,5%	0,5%
Gross fixed capital formation (GFCF)	0,1%	0,5%	-0,6%
- GFCF in machinery and equipment	4,0%	3,5%	0,5%
- Other fixed assets	-0,7%	0,0%	2,0%
- GFCF in construction	-1,8%	-1,0%	-2,0%
Exports	3,3%	-0,5%	1,0%
Imports	6,6%	-1,5%	1,0%
Employed persons (change in thousands)	+612	+300	+50
Consumer prices	6,9%	6,2%	3,0%