The poor sentiment among companies is solidifying

DIHK Economic Survey February 2024

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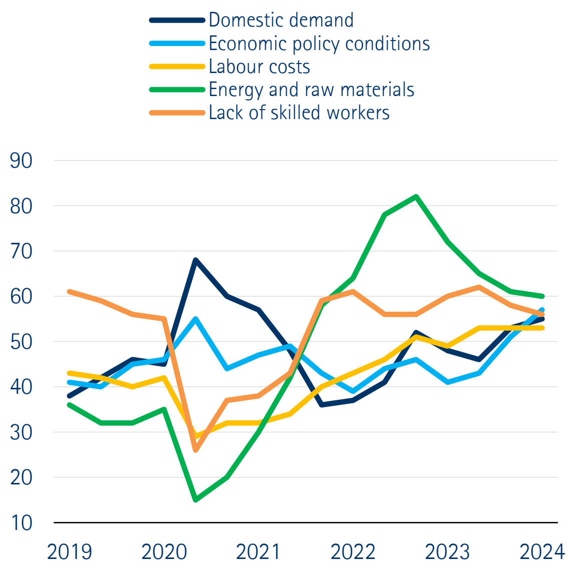
Further results, the questionnaire and information on the survey methodology can be found at www.dihk.de/konjunktur

Key results

- The **negative sentiment among businesses is solidifying.**
- **Business expectations** remain bleak. Over a third of all companies (35 percent) have negative business expectations for the next twelve months. Only one in seven (14 percent, up from 13 percent previously) expects better business. Overall, business expectations increase only slightly by one point to minus 22.
- Companies still rate their **current business situation** slightly positively: 29 percent (down from 30 percent previously) describe the current business as "good," 21 percent (down from 22 percent previously) as "bad." The balance of the situation rating drops again from nine to seven points. This is significantly below the long-term average of 21 points.
- However, contrary to the trend in the overall economy, large **companies with more than 1,000 employees** are developing positively: here, the balance of the situation rating increases from 16 to 23 points. Expectations also brighten significantly and improve by seven points to zero. They benefit from significantly improved export expectations, given a surprisingly resilient development of the global economy: the balance of export expectations of exporting large companies in the industry increases by 14 to 23 points. In contrast, the export expectations of the entire export industry brighten less strongly and are still predominantly pessimistic (balance increases by eight to minus seven points).
- **Risks** and uncertainties remain high. On average, companies tick more than three (3.1) out of a total of eight different business risks in our survey. Before the pandemic, the average was 2.4.
- More than half cite energy and commodity prices (currently 60 percent compared to 61 percent in autumn 2023), economic policy framework conditions (57 percent compared to 51 percent previously), skills shortages (56 percent compared to 58 percent), domestic demand (55 percent compared to 53 percent), and labor costs (stable at 53 percent, a record high) as the biggest business risks.
- More than 7,600 companies have used the opportunity of free-text responses regarding economic policy framework conditions. By far, the most frequently mentioned keyword is "**bureaucracy**." Approximately 41 percent of the free-text responses contain bureaucracy-related topics, whereas in the previous survey, it was "only" 38 percent.
- **Forecast**: Given the overall gloomy outlook and weak start to the year, the DIHK also expects a decline in economic output by 0.5 percent this year. This would mark the second phase with two consecutive years of recession in post-war German history (lastly in 2002/2003).

Bad mood solidifies

Business situation: balance of good minus bad reports; business expectations: Balance of better minus lower reports, risks Percentage of responses



Current business situation of companies

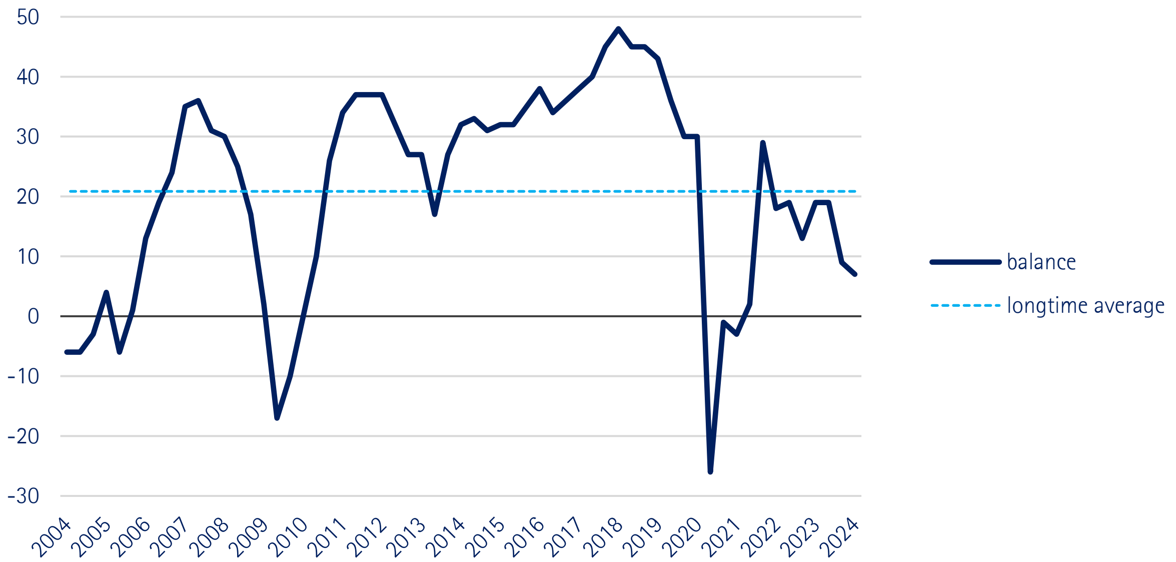
The sentiment of the economy has further deteriorated. While companies still predominantly rate their business situation positively, the downward trend persists. The recession last year, ongoing high costs for energy, financing as well as personnel coupled with skills shortages and enormous bureaucratic burdens leave their marks. Uncertainty among businesses is growing.

Nevertheless, nearly three out of ten companies (29 percent, down from 30 percent previously) still rate the current business situation as "good." In contrast, the proportion of businesses rating their situation as "bad" has slightly increased from 21 percent to 22 percent. As a result, the balance of the situation rating decreases from nine to now seven points. This is noticeably below the long-term average of 21 points. This downturn is felt across almost the entire economy.

A look at the sizes of companies shows that the deterioration in the situation particularly affects small and medium-sized enterprises (SMEs), while the business outlook brightens somewhat for larger medium-sized companies and large corporations: After a significant worsening of the business situation in the previous survey, the balance for medium-sized companies with 200 to 999 employees slightly improves from nine to twelve points. For large corporations with more than 1,000 employees, the balance increases from 16 to 23 points. SMEs with up to 199 employees, on the other hand, experience a deterioration in their situation from a balance of nine points in the previous survey to five points now.

The sentiment in the industry is slightly worse compared to autumn 2023. The proportion of businesses describing their business situation as "bad" remains unchanged at 26 percent. However, only 25 percent of industrial companies now speak of a good situation (previously 26 percent). The balance minimally decreases to minus one point. It is thus well below the long-term average of 22 points. In the industry, new orders continue to remain at a low level, while costs for energy and raw materials, inputs, loans, or wages have remained high or even increased further. Added to this are uncertainties in supply chains, increasingly perceived bureaucracy as an impediment, weak domestic demand, and ongoing skills shortages.

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)

In the frequently energy-intensive intermediate goods producing companies, the situation is even bleaker than in the entire industry. The persistently high energy prices are affecting the competitiveness of the sector. Additionally, the weakness of the overall industry is also impacting the order situation of the suppliers. The balance of the business situation continues its downward trend, decreasing slightly by one point to minus 14 points. Particularly negative situations arise in the paper industry (balance of minus 34 compared to previously minus 35 points), in metal production and processing (balance of minus 26 compared to previously minus 16 points), and in the glass, ceramics, and stone processing sector (balance of minus 24 compared to previously minus 18 points). The situation is slightly less dire for manufacturers of electrical equipment (balance of one point compared to previously five points).

Investment propensity, especially domestically, remains stagnant at a low level, compounded by the sluggish global economy, resulting in subdued demand for capital goods manufacturers. Initially, the positive balance of 13 points seems good. Compared to the previous survey, the sentiment remains steady. However, looking at the past three years, business has noticeably deteriorated and is well below the long-term average of 28 points. The situation assessment in individual sectors of capital goods manufacturers changes only slightly compared to autumn 2023: In automotive manufacturing (balance of 13 points compared to previously seven points) and in electronics (balance of eight points compared to previously six points), the situation improves slightly. In mechanical engineering, business is slightly worse than in the previous survey (balance of ten points compared to previously 14 points).

The ongoing consumer restraint burdens the business of consumer goods producers. The situation assessment decreases slightly by two points to minus one. Particularly in the beverage industry, the situation assessment deteriorates (balance of minus nine compared to previously minus two points). Conversely, due to decreased producer prices for agricultural products, the situation in the food and feed industry stabilizes. The balance thus increases from two to 15 points. This is only slightly below the long-term average of 18 points.

Retailers feel the impact of consumer restraint and increased prices in their registers at the beginning of 2024. Additionally, personnel costs are increasingly burdensome. About one in five retailers still considers their business situation "good" (21 percent compared to previously 20 percent). The proportion of those with a negative situation assessment remains unchanged at 27 percent. Consequently, the balance of the situation assessment improves slightly by one point to minus six points. The retail sector is burdened by consumers' low spending mood. Nominal wage increases in recent months have not yet translated into a real increase in retail sales. Therefore, the balance of the situation assessment only rises from minus nine to minus eight points. Wholesalers continue to be affected by high purchase prices. Moreover, their customers from the industry and construction sectors are currently reducing their inventories rather than ordering new goods. The situation assessment in wholesale remains predominantly negative. The balance increases only slightly by two points to minus seven points.

Sharply increased building interest rates and still high prices for building materials darken the business situation in the construction industry. Only three out of ten construction companies (30 percent compared to previously 34 percent) now rate their situation positively. More than a fifth now speak of a bad situation (22 percent compared to previously 18 percent). As a result, the balance of good and bad situation assessments decreases from 16 to eight points. However, the differences between the individual construction sectors are significant. Due to the collapse in orders in residential construction, the downward trend in civil engineering continues. The balance here decreases from zero to minus seven points. This value was last this low during the financial crisis in early summer 2009. In civil engineering and finishing trades, where the order situation is better due to infrastructure projects and the need for energy renovation, the situation assessment remains predominantly positive (balance of 19 compared to previously 29 points and balance of 24 compared to previously 33 points, respectively).

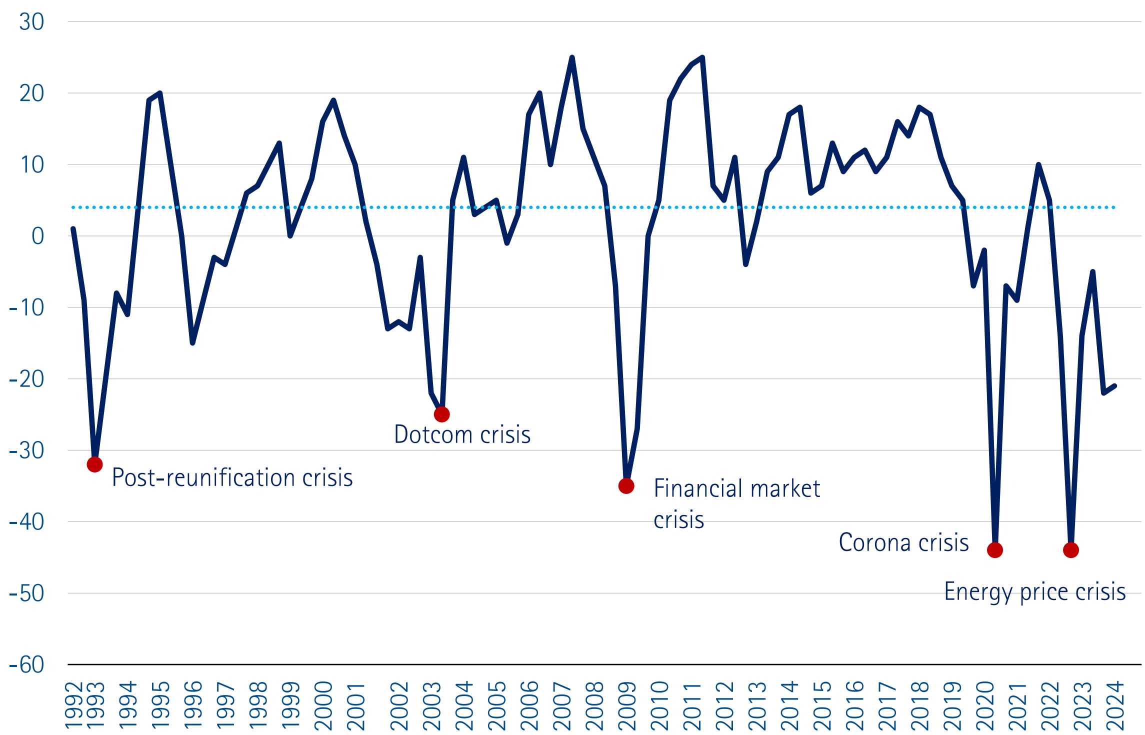
The service sector, while showing the best business situation compared to other sectors, still faces challenges: One-third of companies still rate their current situation as "good" (33 percent), while 19 percent (compared to previously 17 percent) rate it as "bad." The balance thus decreases by four to 14 points, which is below the long-term average of 23 points. The relatively high value compared to other main sectors is due, among other things, to predominantly business-related service providers. The situation assessment, with a balance remaining constant at 24 points, is only slightly below the long-term average (31 points). The German economy is driving digitalization to counteract pervasive crises and skills shortages. IT service providers, in particular, benefit from this. The situation balance in the IT industry increases by six to 32 points. Similarly, trade fair, exhibition, and congress organizers report consistently good business, benefiting from a post-corona catch-up demand. The situation balance of the business situation increases by four to 30 points. Contrary to the stabilization trend in autumn 2023, the mood in the hospitality industry is now significantly deteriorating. Accommodation and gastronomy businesses not only feel the consumer restraint but also the end of the reduced VAT as well as increased costs for energy, materials, or personnel. Accordingly, the balance of the business situation decreases significantly by 26 to minus four points. This is considerably below the long-term average of ten points. However, travel agents experience a ray of hope. Here, the effects of the corona period are still evident. Despite difficult economic conditions, little is being saved on vacation travel – the balance remains constant over the past three surveys at 36 points. However, in the service sector, transport companies are particularly hard hit. In the transportation and storage sector, besides the significant increase in truck tolls, numerous bottlenecks in rail and road infrastructure or skills shortages, e.g., for drivers, are taking their toll. The balance of the situation assessment decreases significantly from minus two to minus ten points.

Business expectations of the companies

The business expectations of companies remain bleak. Uncertainty among businesses remains high. Weak domestic economic conditions and structural issues such as skills shortages, rising labor costs, and persistently high energy and raw material prices are causing significant concerns for businesses. In addition, uncertain economic policy conditions are increasingly acting as a hindrance for many enterprises. However, there is a silver lining: While the global economy is sluggish, it is performing better than expected, providing slightly less gloomy prospects for the export sector. Consequently, the number of companies with negative business expectations still significantly outweighs those with positive expectations. More than a third of companies (35 percent, unchanged) anticipate a deterioration in their business over the next twelve months. As in the previous survey, only about one in seven (14 percent, up from 13 percent previously) expects better business. Thus, the persistently very negative expectations improve only minimally by one point to minus 21.

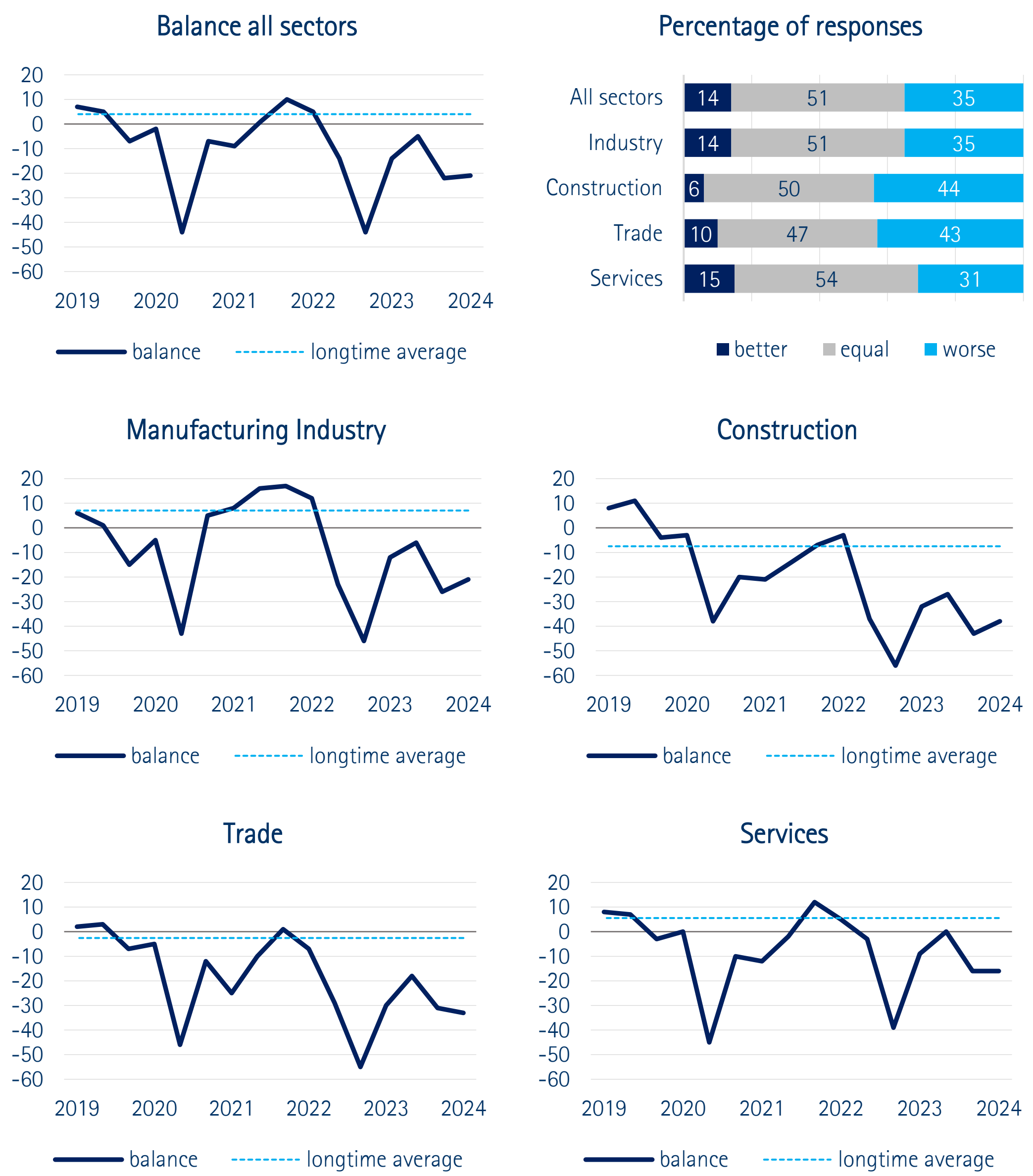
Business expectations vary depending on the size of the company. Large corporations, in particular, benefit from the surprising resilience of the global economy and therefore have not only optimistic export expectations but also overall better business expectations compared to smaller enterprises. While the balance of business expectations remains unchanged at minus 24 points for small and medium-sized enterprises with fewer than 200 employees, expectations brighten significantly for large corporations with 1,000 or more employees, improving by seven points to zero.

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



In the face of the ongoing economic downturn, industrial companies are increasingly concerned about domestic demand. Moreover, more and more of them feel hindered by excessive bureaucracy. The business risk posed by economic policy conditions has once again reached a new high (58 percent compared to previously 51 percent). At the same time, high energy prices, labor costs, and skills shortages remain pressing issues for many industrial enterprises. The only glimmer of hope is the prospect of improved export business. Overall, business expectations among companies remain at a similarly pessimistic level as in the previous survey in autumn 2023: More than a third (35 percent compared to previously 39 percent) anticipate a deterioration in their business.

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



The proportion of positive expectations increases marginally to 14 percent (previously 13 percent). However, the balance improves only slightly by five points to minus 21. It still remains significantly below the long-term average of seven points!

For frequently energy-intensive producers of intermediate goods, the persistently high energy prices are particularly burdensome. Additionally, the weak industrial economy is exerting pressure on the demand for intermediate goods. The risk associated with domestic demand stands at 71 percent, just below a peak (74 percent). Two out of five companies (40 percent, down from 43 percent) anticipate a worsening of business in the next twelve months. Only one in seven businesses (14 percent, up from eleven percent) expects an improvement. The balance of positive and negative expectations improves slightly by six to minus 26. Particularly poor sentiment prevails among companies in the glass, ceramics, and stone processing sector (balance of minus 49, down from minus 56). Comparatively less pessimistic expectations are observed in the chemical industry (balance of minus ten, up from minus 16) and among manufacturers of electrical equipment (balance of minus seven, up from minus 13).

The sentiment among producers of capital goods improves only marginally. High energy and raw material prices, coupled with sluggish demand, continue to weigh on businesses. New orders are declining, and order backlogs are slowly but steadily decreasing. Just under a third of companies anticipate worse business in the next twelve months (32 percent, down from 35 percent). There is no change in the proportion expecting improvement, remaining at 16 percent. The balance of positive and negative expectations increases only slightly by three to minus 16. Minor improvements, albeit at very low levels, are evident in the electrical engineering sector (balance of minus six, up from minus ten) and in mechanical engineering (balance of minus 19, up from minus 24). However, expectations in the automotive industry decline significantly again. The industry is in the midst of a transformation process, and the recent suspension of the electric vehicle subsidy at the end of last year is further dampening expectations. The balance drops significantly by nine to minus 33.

Expectations also improve slightly for manufacturers of consumer goods and semi-finished goods, but overall sentiment remains pessimistic. Weak consumer demand, coupled with persistently high energy and raw material prices and concerns about rising labor costs, are weighing on business. One-third of consumer goods producers (33 percent, down from 34 percent) expect a deterioration, while only 15 percent (up from twelve percent) anticipate an improvement in business over the next twelve months. Consequently, the balance of business expectations increases by four to minus 18. Among the industries, pharmaceutical companies are particularly optimistic about the future, with the balance increasing sharply by 15 to 16. In contrast, expectations in the food and animal feed industry are slightly dampened, with the balance decreasing by three to minus 19. Minor improvements, although at very low levels, are evident in the textile, clothing, and leather industry (balance of minus 23, up from minus 31).

The construction industry has a very pessimistic outlook for the coming months. The slight decrease in construction interest rates has not yet significantly brightened the outlook. The interest rate level is still high, as are the prices for certain building materials such as cement. Almost half of companies expect worse business (44 percent, down from 48 percent). Only six percent (up from five percent) remain optimistic about the future. Consequently, the balance of expectations improves only marginally to still very low 38. In building construction, the collapse in building permits for residential units is particularly depressing. The risk associated with domestic demand remains near its all-time high of 63 percent (down from 64 percent). Accordingly, the balance of positive and negative expectations remains deeply negative at 45 (previously minus 50). Companies in civil engineering (balance of minus 27, up from minus 37) and in the finishing trades (balance of minus 33, down from minus 34) also anticipate declining business, indicating that the industry continues to struggle.

The trade sector revises its already significantly reduced business expectations slightly downward once again. Weak consumer sentiment, high cost burdens, and increasing uncertainty about economic policy conditions continue to weigh on the mood of both customers and businesses within the industry. Only one in ten retail companies is optimistic about the future (ten percent, down from eleven percent). Two out of five businesses (43 percent, up from 42 percent) expect their business to deteriorate. Consequently, the balance of business expectations decreases by two to minus 33. Apart from the still-high energy and raw material prices, concerns about high labor costs are also weighing on retailers. The business risk of "labor costs" is reaching new highs, most recently at 57 percent. Additionally, despite significant nominal wage increases, the industry does not expect a surge in consumer spending in the near future. On the contrary, the business risk of "domestic demand" is increasing slightly (62 percent, up from 61 percent). Consequently, the balance of business expectations in retail decreases from minus 27 to minus 31. Wholesalers are even more likely to anticipate a downturn in domestic demand than retailers (risk of domestic demand remains unchanged at 68 percent), as their customers from the industry are refraining from placing new orders amidst the economic downturn. Furthermore, the risk associated with economic policy conditions reaches a new high (61 percent, up from 53 percent). Consequently, the balance of business expectations remains unchanged at minus 33.

Compared to other sectors, the business expectations in the heterogeneous services sector are the least subdued. However, pessimists still significantly outnumber optimists, with 31 percent (up from 30 percent) compared to 15 percent (up from 14 percent). Consequently, the balance remains unchanged at minus 16. The outlook remains particularly bleak in the hospitality industry, for example. High costs for energy and intermediate goods, rising labor costs, and economic policy conditions continue to pose significant challenges for businesses, which are becoming increasingly pronounced. Guest numbers, however, remain stable and close to pre-crisis levels. Consequently, the balance of business expectations decreases again from minus 32 to minus 37. A similar picture emerges among companies in the transportation and storage sector. High personnel costs, as well as fuel costs and the increase in truck tolls, are contributing to a consistently bleak sentiment. The balance of business expectations decreases by one to minus 35.

Expectations are somewhat less pessimistic among business-related service providers, but there is no widespread optimism here either. The balance of business expectations remains almost unchanged at minus six (previously minus seven). Insurers are bucking the negative trend, benefiting from higher interest rates. Expectations here are not only predominantly optimistic, but have also significantly improved compared to the previous survey (balance of 17, up from seven).

Business risks of the companies

In many areas of the economy, the pressure of problems is growing. Hardly any business risk is decreasing significantly. Not only cyclical risks, such as weak domestic demand, are affecting the economy, but also and especially structural problems such as high energy and raw material prices, economic policy conditions, or the shortage of skilled workers continue to worry businesses. In the survey, a total of eight different business risks are available for selection. Five of these risks are already mentioned by more than half of the participating companies. On average, a company identifies 3.1 different risks, which is almost a record high. In the industry, it's even 3.5 (a record high).

While energy prices are currently lower than a year ago, they still remain significantly above pre-crisis levels. Even in the long-term price perspective, a higher level is expected. This is also reflected in the business risks identified by companies. Overall, energy and raw material prices remain the most commonly cited business risk. However, the pressure has slightly decreased compared to the previous survey (60 percent, down from 61 percent).

In the industry, 70 percent of companies consider energy and raw material prices as a business risk, which is only one percentage point less than in the previous survey in autumn 2023. Especially in energy-intensive industries, over three-quarters see it as the number one risk. Here, the value even increases again (79 percent, up from 77 percent). High energy prices have also driven up producer prices for agricultural products. Therefore, in the food and animal feed industry, the business risk of energy and raw material prices remains high (83 percent, up from 82 percent).

Persistently high prices for building materials such as cement, gypsum, timber, or bitumen continue to pose challenges for construction companies. Prices are still above pre-crisis levels, although there has been some relief in prices for certain materials in recent months. Accordingly, with 68 percent (up from 66 percent), still an above-average number of construction companies cite energy and raw material prices as a business risk. Thus, energy and raw material prices remain at the top of the list of business risks in the construction industry, followed by the shortage of skilled workers (62 percent, down from 64 percent) and economic policy conditions (57 percent, up from 48 percent). Among retailers, energy and raw material prices, as in the previous autumn survey, rank second (61 percent, down from 62 percent). For service providers, who are generally less energy-intensive, energy and raw material prices are only mentioned in third place (54 percent, down from 55 percent).

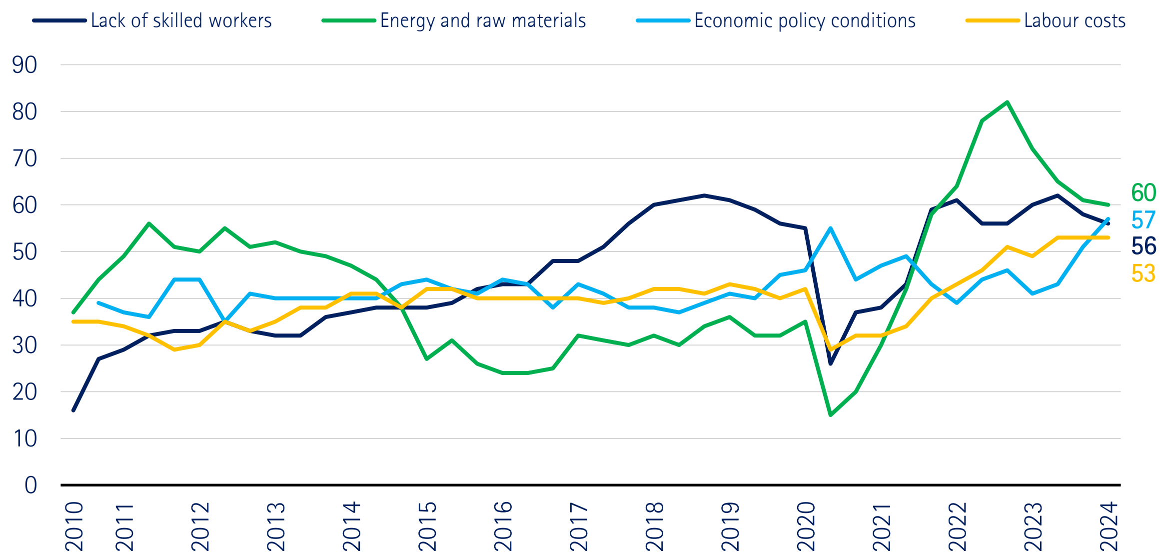
TOP business risks by sector

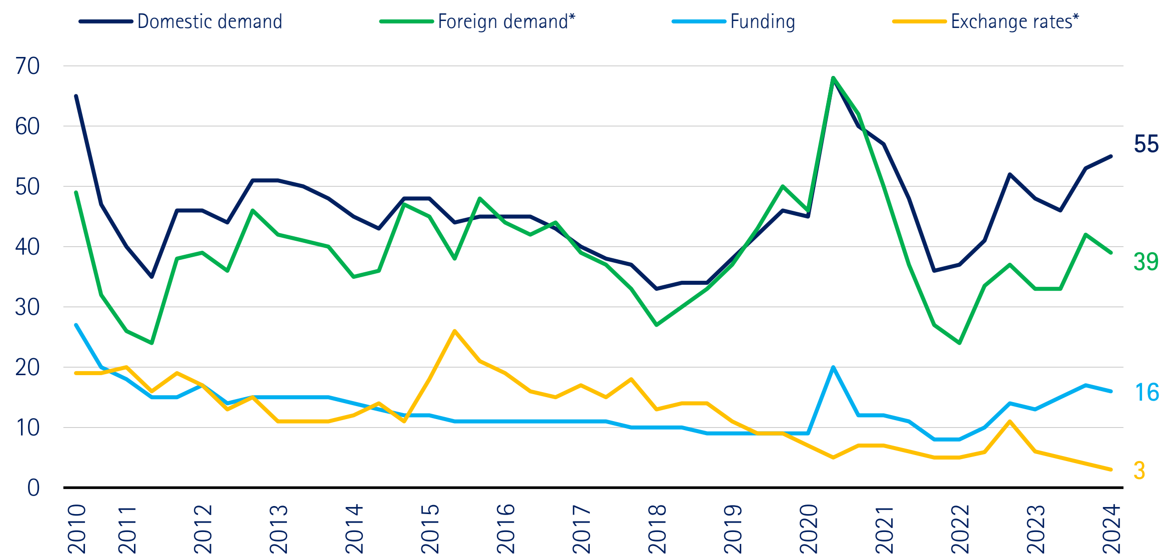
Percentage of responses; multiple responses possible, in brackets value of previous survey, all-time high

	Industry	Building	Trade	services
1.	70% (71%) Energy and commodity prices	68% (66%) Energy and commodity prices	65% (65%) Domestic demand	58% (60%) Shortage of skilled labour
2.	65% (64%) Domestic demand	62% (64%) Shortage of skilled labour	61% (62%) Energy and commodity prices	56% (51%) Economic policy
3.	58% (51%) Economic policy	57% (48%) Economic policy	59% (52%) Economic policy	54% (55%) Energy and commodity prices
4.	56% (55%) Labour costs	55% (58%) Domestic demand	53% (51%) Labour costs	52% (52%) Labour costs
5.	54% (57%) Shortage of skilled labour	54% (52%) Labour costs	49% (50%) Shortage of skilled labour	47% (45%) Domestic demand

Business risks for the economy as a whole

Percentage of responses; multiple answers possible; *Export industry





The economic policy conditions are increasingly perceived as a burden by companies, across all sectors. Never before have they been cited as a business risk as frequently as in the current survey (57 percent, up from 51 percent). The value reaches an all-time high in all four main sectors. Thus, economic policy conditions are currently the second most commonly cited business risk. This was last the case during the second lockdown at the beginning of 2021. Nearly 7,600 companies have used the opportunity to provide free-text responses regarding economic policy conditions. By far the most commonly mentioned keyword is "bureaucracy." Approximately 41 percent of the free-text responses include bureaucracy-related issues, compared to "only" 38 percent in the previous survey. Other economic policy risks identified by companies include energy, taxes, and inflation.

Keywords most frequently mentioned by companies when describing economic risks
(analysis of around 7,600 free text responses)

Due to demographic changes, even during the currently challenging economic phase, the shortage of skilled workers only decreases slightly. Over half of the companies (56 percent, down from 58 percent) cite a shortage of skilled workers as a business risk. Thus, while the shortage of skilled workers is "only" the third most common business risk, the five largest risks are already closely aligned, with energy and commodity prices being mentioned only slightly more often at 60 percent. Given the aging population, the lack of qualified labor will remain one of the significant structural challenges for companies in the future. In the service sector, the shortage of skilled workers remains the most frequently cited risk, as it has been in the last two surveys. Nearly three out of five companies see it as a significant challenge (58 percent, down from 60 percent). For the construction industry, the shortage of qualified labor, along with economic policy conditions, is the second most pressing issue. Despite a weak construction sector, three out of five companies (62 percent, down from 64 percent) complain of a lack of skilled workers. In industry and trade, the shortage of suitable personnel is somewhat less prominent compared to other business risks, ranking fifth in each sector (industry: 54 percent, down from 57 percent; trade: 49 percent, down from 50 percent).

The ongoing economic downturn, consumer reluctance to spend, and business reluctance to invest continue to drive the risk of domestic demand to above-average levels (55 percent, up from 53 percent; long-term average at 46 percent). In the retail sector, the inflation-induced consumer restraint has been the main concern for months. Over two-thirds of retailers still cite domestic demand as a business risk (unchanged from the previous survey at 65 percent). Given the downward trend in new orders in manufacturing, almost two-thirds of industrial companies see it as a threat to their business (65 percent, up from 64 percent). Despite still high mortgage rates and the slump in private residential construction, the risk of domestic demand in the construction industry is slightly decreasing from a high level (55 percent, down from 58 percent). However, in civil engineering, companies report an almost record level at 63 percent (down from 64 percent). In the service sector, concern about declining demand is least pronounced compared to other sectors, although the business risk increases from 45 percent to 47 percent.

The global economy has proven to be more resilient than feared. This is also reflected in the risk of foreign demand. Thirty-nine percent of export-oriented industries fear declining orders from abroad, which is three percentage points lower than in autumn 2023 and exactly in line with the long-term average.

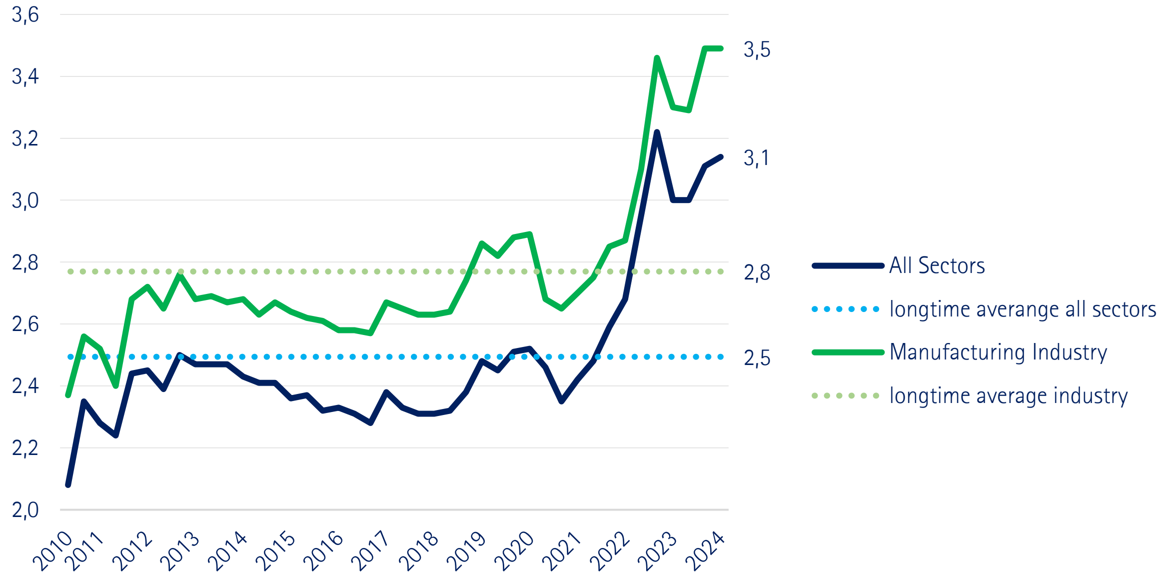
Due to the increased consumer prices and the associated concern about a wage-price spiral, as well as the ongoing shortage of skilled workers, over half of the companies (unchanged from the previous survey at 53 percent) cite labor costs as a business risk. This is a new record high across all industries. The sectoral differences are minimal. In all four main sectors, more than half of the companies are concerned about the development of labor costs.

With the increased interest rates as part of inflation control, an above-average number of companies cite access to financing as a risk factor (16 percent, down from 17 percent; long-term average at 13 percent). However, the slight decrease compared to the previous survey also reflects the preliminary end of the ECB's interest rate hikes. Particularly affected are companies in the real estate industry and civil engineering due to high mortgage rates (38 percent, down from 41 percent and 32 percent, down from 35 percent, respectively), as well as energy suppliers (31 percent, down from 37 percent).

The reactions of central banks in major currency areas and the resulting effects on exchange rates have led to a relaxation in exchange rate risk. Only three percent of exporting industrial companies see significant exchange rate risks for their business, well below the long-term average of twelve percent.

DIHK risk Indicator

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



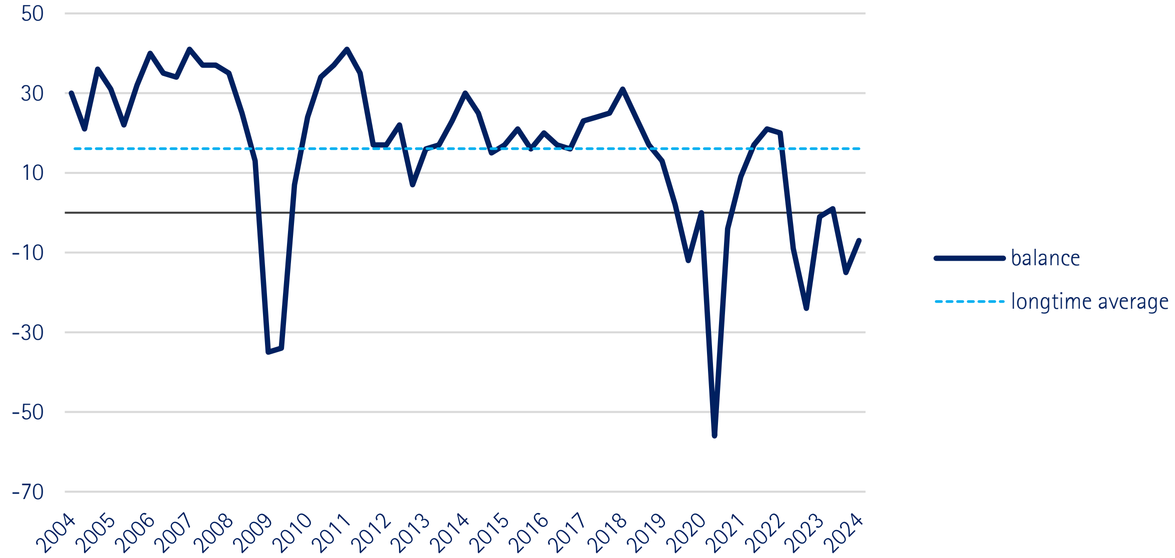
* In each wave of the DIHK business survey, the following eight business risks are surveyed: domestic demand, foreign demand, shortage of skilled labour, labour costs, energy and raw material prices, financing, exchange rate, economic policy conditions.

Export expectations of industrial companies

For the year 2024, the export expectations of industrial companies remain at a low level. However, there is some improvement in assessments across most sectors: 28 percent of companies expect declining exports in the next twelve months (compared to 33 percent in autumn 2023). One-fifth of companies (21 percent, compared to 18 percent in autumn 2023) anticipate increasing exports. More than half of the companies (51 percent) expect stable foreign trade (compared to 49 percent in autumn 2023). The balance of higher and lower export expectations increases by eight points from minus 15 to minus seven points – still significantly below the long-term average of 16 points.

Companies' export expectations

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

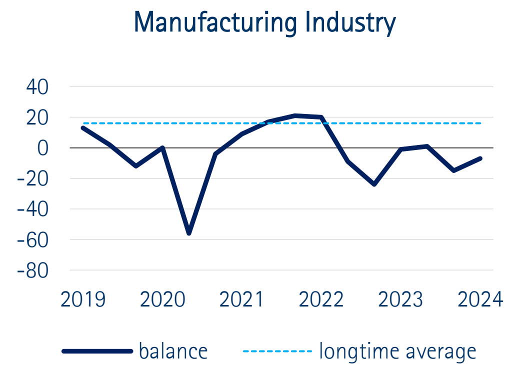


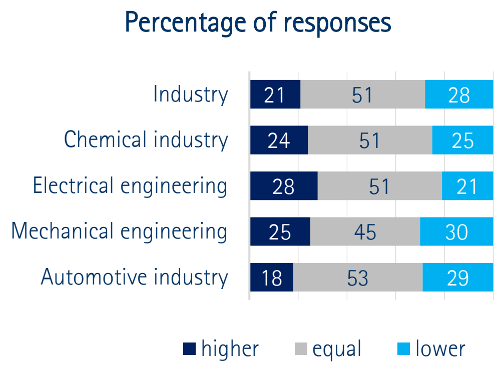
In light of the crises of recent years, the global economy has demonstrated resilience. However, the global economic environment remains characterized by uncertainty. High inflation rates and thus high interest rates in key markets for German exporters continue to dampen demand. Thirty-nine percent of companies see weak foreign demand as a risk to their business development in the next twelve months, similar to the previous survey (Autumn 2023: 42 percent). However, declining inflation rates and possible initial interest rate cuts by the European and US central banks during the year could provide a positive impetus for German foreign trade. Nevertheless, the industry continues to face high energy prices compared to international standards, which weaken competitiveness. In addition, there is uncertainty about the economic development of China and geopolitical risks, including the currently tense security situation in the Middle East and the Red Sea, the effects of which on the German economy are not yet fully assessable.

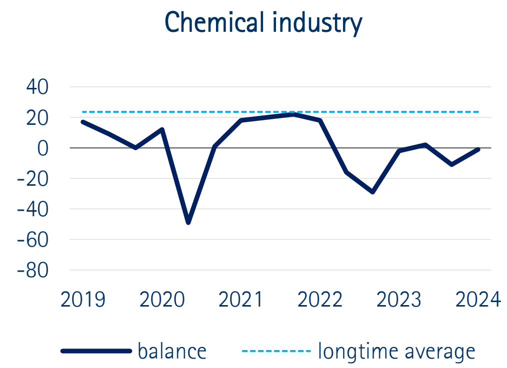
Both industrial goods producers and producers of intermediate goods as well as producers of consumer goods and durables have, on average, better expectations for their foreign business than in autumn. However, the balance remains negative in all industrial main groups. Looking at the size classes, the increase in export expectations is particularly attributable to companies with 1,000 or more employees, which, due to their international diversification, generally have more optimistic expectations for their foreign business. With a balance of plus 23 points, they are significantly more confident than small and medium-sized enterprises with up to 199 employees (balance minus 12 points).

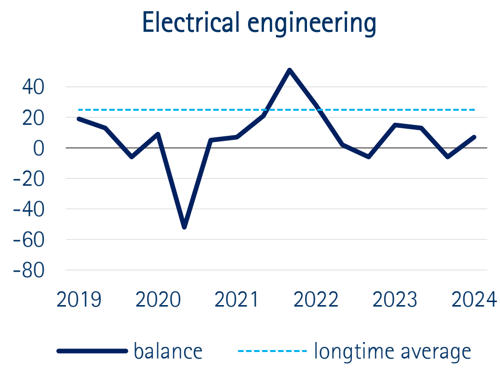
Companies' export expectations

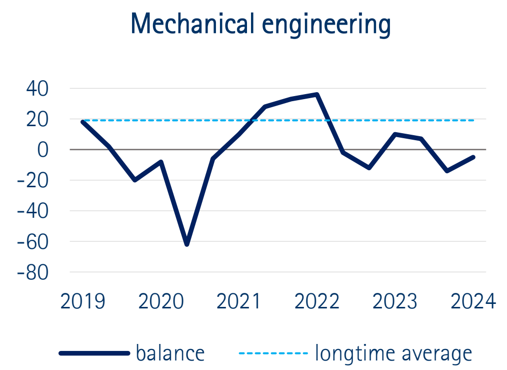
(balance of higher minus lower responses, long-term average since 2003)

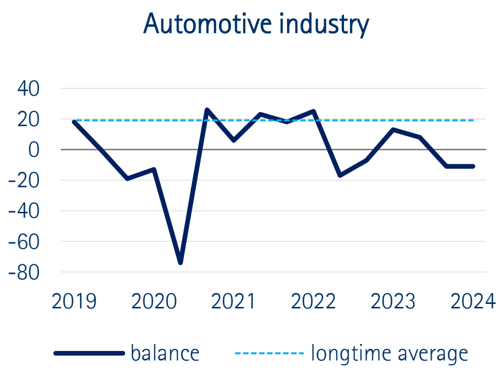












Due to the recent decline in orders from abroad and the sluggish industrial production of key trading partners such as the USA and China, capital goods producers still predominantly have a negative outlook on the development of their exports. Twenty-six percent of companies expect increasing exports, while 27 percent anticipate lower exports. The balance of higher and lower expectations thus increases from minus seven points to minus one point.

Automobile manufacturers and mechanical engineers are two of the most important export sectors of the German economy. They perceive a predominantly negative development in their foreign business. Unlike the majority of industries, export expectations in the automotive industry have not improved compared to the previous survey but stagnate. After benefiting from more stable supply chains and the processing of existing orders last year, there is currently no further positive momentum coming from abroad for the industry. Eighteen percent of companies expect export growth, while 29 percent expect declining exports. The industry's balance stagnates at minus eleven points. The long-term average is 13 points. Expectations among mechanical engineers, however, improve. One in four companies expects increasing exports in the coming months, while 30 percent anticipate declining exports. The balance improves to minus five points (Autumn 2023: minus 14 points), but still remains well below the long-term average of 19 points. Manufacturers of electrical engineering are significantly more optimistic about their foreign business, with positive export expectations outweighing negative ones. Twenty-eight percent expect increasing exports, while 21 percent anticipate declining ones. The balance increases from minus six to plus seven points, thus turning back into positive territory.

Although intermediate goods producers remain the most pessimistic among the industrial main groups regarding their export expectations, the balance has improved the most compared to the previous survey. Eighteen percent of companies expect export growth, while 30 percent anticipate declining exports. The balance increases from minus 23 to minus twelve points. In the chemical industry, companies with increasing and decreasing expectations are almost evenly balanced. The balance improves significantly by ten points to now minus one point compared to the previous survey, but still remains well below the long-term average of 24 points. High energy prices continue to put pressure on companies compared to international standards. In the rubber and plastics industry, 19 percent expect increasing exports, while 31 percent anticipate declining ones. The balance increases from minus 20 to minus twelve points, remaining in the negative balance area. The long-term average is 13 points. Metal production and processing companies are even more pessimistic about their foreign business: the balance increases from minus 27 to just minus 21 points.

Due to expectations of declining inflation rates abroad, the export expectations of consumer goods and durable goods producers improve slightly: one-fifth of companies (19 percent) expect higher exports, while 24 percent anticipate declining exports in the next twelve months. The balance increases from minus nine to minus five points. The pharmaceutical industry shows above-average positivity compared to the entire industry. While 39 percent expect increasing exports, only eight percent anticipate a decrease. The balance increases from six to 31 points, thus remaining just below the long-term average of 33 points. No other industry currently has a more optimistic outlook on its foreign business.

Investment intentions of the companies

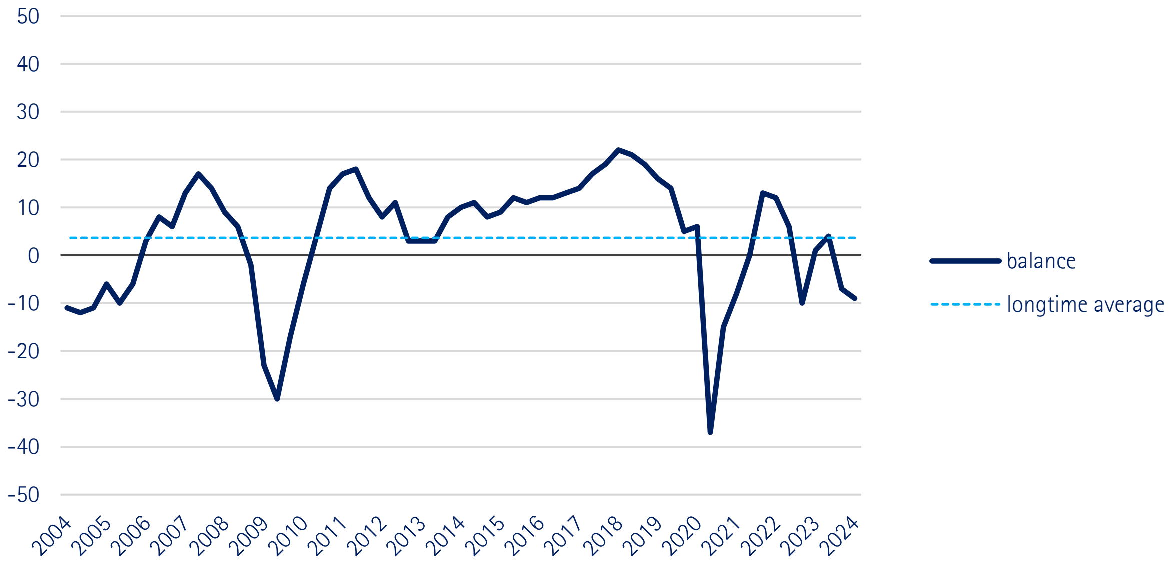
Weak domestic demand, high costs for energy, capital, and personnel, as well as excessive bureaucracy, are dampening investment intentions among companies in this country. Overall, a third (33 percent, up from 31 percent previously) now indicate a desire to reduce investments, while only a small quarter (24 percent, remaining steady) plans to increase their investment intentions. The balance of investment intentions decreases by an additional two points to minus nine points compared to autumn 2023.

Large companies with 1,000 or more employees still predominantly plan to expand their investments. The balance of investment intentions remains at eight points. However, small and medium-sized enterprises (SMEs) with fewer than 200 employees see their balance slip further into the negative (minus twelve points, down from minus nine points previously).

The ongoing investment weakness is also evident in investment motives. The motive of capacity expansion is becoming less common and is significantly below its long-term average (20 percent, down from 21 percent previously and below the long-term average of 26 percent). While investments in environmental protection have steadily increased over the past five years, a declining trend is now emerging. For the second time in a row, the proportion of companies whose investment motive is in environmental protection decreases to 25 percent (previously 27 percent). Only the proportion of companies wanting to invest in product innovations is thankfully increasing slightly again (to 28 percent, up from 27 percent previously). However, the most frequently mentioned motive, reaching a new all-time high, is replacement demand (67 percent, up from 65 percent previously).

Investment intentions of companies

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

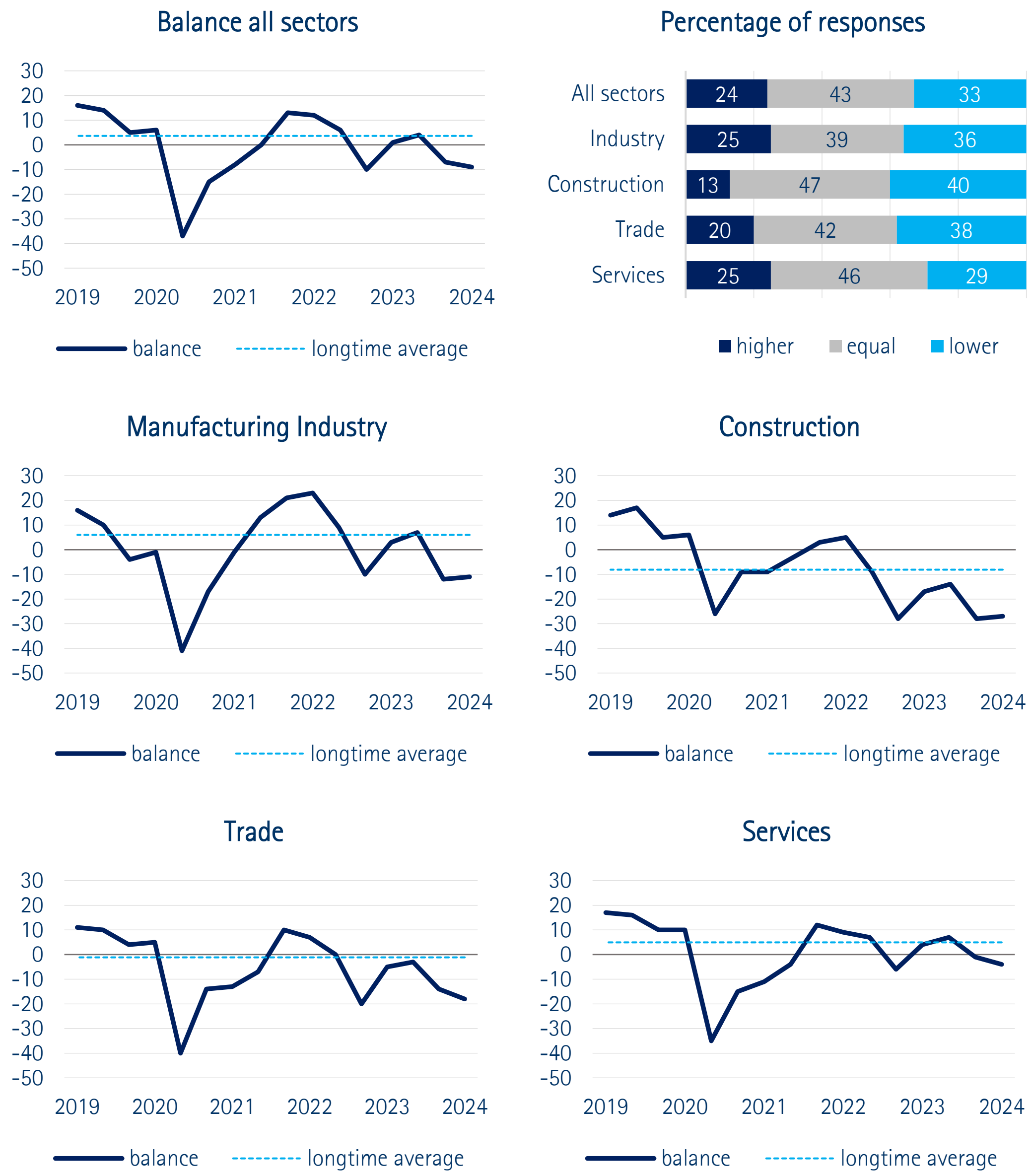


The risks to business development also frequently act as investment inhibitors. Companies that see domestic demand as a business risk have a significantly lower investment balance (minus 22 points) than the overall economy average (minus nine points). The investment intentions of companies concerned about energy and raw material prices, labor costs, or economic policy conditions are also significantly lower compared to the overall economy (balances of minus 16, minus 15, and minus 16 points, respectively).

Economic policy conditions are increasingly becoming a brake on investments. Companies that see this as a risk intend to reduce their investments much more frequently, at 39 percent, than companies that have not identified this risk, at only 29 percent. This is a difference of ten percentage points. Prior to the pandemic, the difference was comparatively small, at around two percentage points. This means that currently, companies are much more likely to reduce their investments due to inhibiting economic policy conditions than they were just a few years ago.

Investment intentions of companies

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



The subdued sentiment in the industry and predominantly negative expectations continue to lead to persistently low investment plans among companies. Unchanged from the previous survey in autumn, 36 percent of industrial firms intend to reduce their investments, with only a quarter (25 percent, up from 24 percent) planning expansively. The investment intentions balance only marginally increases by one point to minus eleven points, well below the long-term average of six points. Particularly in the manufacturing of intermediate goods, companies with restrictive investment plans dominate, with the balance remaining at minus 21 points. There is a slight improvement among producers of consumer and capital goods, with the balance increasing by one point to minus six points. However, among producers of investment goods, the balance declines to its lowest level since the onset of the COVID-19 pandemic in early summer 2020, dropping by two points to minus ten points.

The motives of companies also indicate that the industry is currently not focused on expansion: The emphasis is on replacement needs, with the value reaching a record high of 67 percent. Conversely, motives such as environmental protection (34 percent, down from 36 percent) and capacity expansion (22 percent, down from 24 percent) are receding into the background. This caution in investment is particularly evident in the chemical and rubber/plastics industries, where the motive of replacement needs is at record highs (67 percent and 71 percent, respectively), while the motive of capacity expansion is at record lows (20 percent and 19 percent, respectively).

In stark contrast, energy providers are investing heavily. The investment intentions balance reaches a new record level of 58 points (up from 54 points), with motives for capacity expansion and environmental protection climbing to new highs (56 percent and 60 percent, respectively).

The investment climate continues to deteriorate in the services sector as well. While about a quarter of companies (25 percent, down from 26 percent) still plan to increase their investment budgets, the proportion of companies needing to cut investments rises to 29 percent (up from 27 percent). Consequently, the investment intentions balance decreases slightly by three points to minus four points. The pessimistic business outlook in the industry also significantly impacts investment plans in leasing/rental services, with the balance dropping from minus four to minus 19 points. Overall, motives for environmental protection and capacity expansion are slightly decreasing (22 percent and 19 percent, respectively), while the motive of product innovation is slightly increasing (29 percent). This increase is particularly pronounced among IT service providers, with product innovation reaching an above-average level of 55 percent (up from 51 percent).

Investment plans in the retail sector continue their downward trend. Currently, 38 percent intend to reduce their investments, while only a fifth (20 percent, down from 21 percent) aim to expand their investments. Consequently, the investment intentions balance decreases by four points to minus 18 points.

In the construction industry, companies remain cautious with investments due to pessimistic business expectations and poor order books. Two out of five companies need to reduce their investment plans (unchanged at 40 percent), with only 13 percent (up from twelve percent) anticipating an increase. Consequently, the investment intentions balance increases only slightly by one point to minus 27 points. The balance is particularly below average in the construction of buildings (balance of minus 32, down from 37 points). The motive of capacity expansion also remains significantly below the long-term average of 19 percent, staying constant at twelve percent.

Main motives for investments in Germany

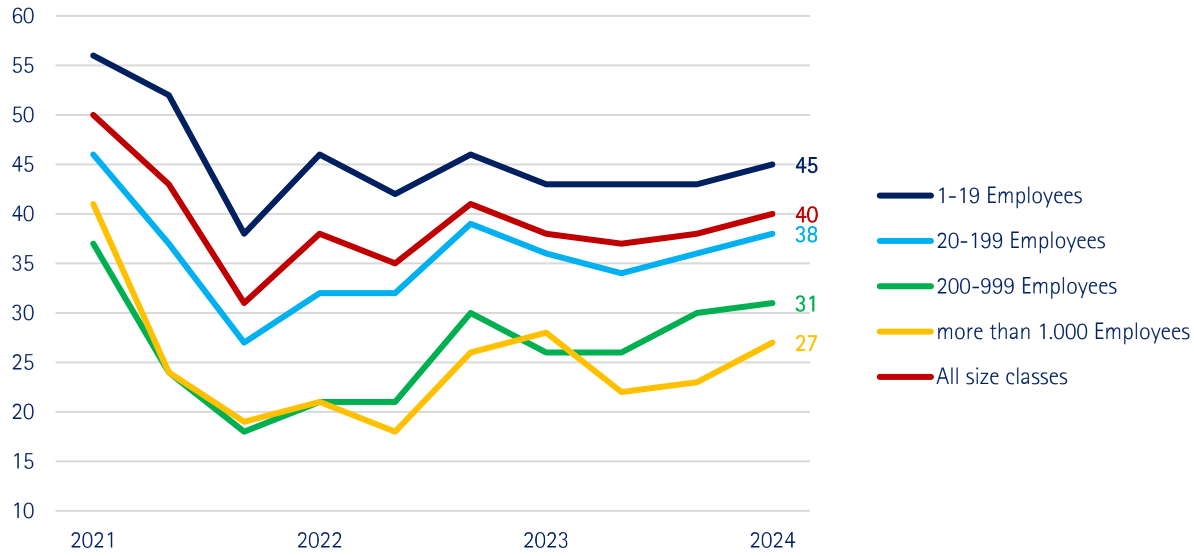
(in per cent; multiple answers are possible, values from previous survey in brackets)

	Rationalisation	Product innovation	Capacity expansion	Environmental protection	Replacement requirements
All sectors	32 (33)	28 (28)	20 (19)	25 (24)	67 (67)
Industry	43 (44)	32 (33)	22 (22)	34 (32)	67 (66)
Building trade	23 (23)	19 (16)	16 (14)	19 (19)	80 (83)
Trade	31 (32)	23 (24)	19 (19)	21 (20)	65 (65)
services	28 (29)	29 (29)	19 (18)	22 (21)	66 (67)

Current financing situation of companies

A weak business environment, persistently high interest rates, and more restrictive lending by financial institutions have led to a slight deterioration in the financial situation of companies. While 60 percent of companies have an unproblematic financial situation, two out of five firms (40 percent, up from 38 percent in autumn 2023) consider their financial situation problematic. This is a similar assessment to autumn 2022, during the peak of uncertainty caused by the consequences of the Ukraine conflict and energy supply security concerns, affecting the continuity of production in many sectors of the economy.

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



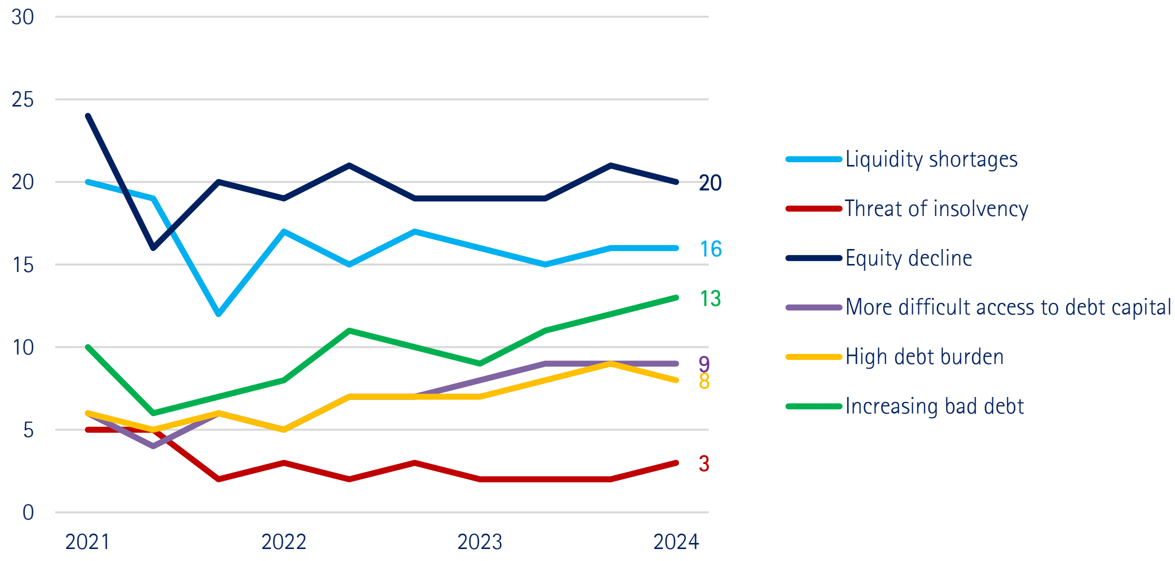
Most commonly, the decline in equity remains the primary concern (20 percent, up from 19 percent previously). The proportion of companies reporting liquidity shortages remains significant at 16 percent. There has been a more notable increase in the proportion of companies facing bad debt issues (13 percent, up from eleven percent). The percentage of firms struggling with high levels of debt has slightly decreased by one point to eight percent. Nine percent of companies report experiencing difficulties in accessing debt financing. Against the backdrop of increasing challenges in corporate financing, the number of companies perceiving themselves as threatened by insolvency has slightly risen (three percent, up from two percent previously).

While the observation that smaller companies face a more critical financial situation remains unchanged over time, it is primarily large companies with over 1,000 employees that have experienced a noticeable deterioration in their financial situation compared to autumn 2023. Now, 27 percent of these firms report at least one problem with their financial situation. These issues encompass the entire spectrum of financial impairments—from increased liquidity shortages to greater difficulties in obtaining debt financing, higher interest expenses, increased bad debts, dwindling equity, and a heightened risk of insolvency. In small companies with up to 19 employees, nearly half of the businesses (45 percent) are affected by financing difficulties. Particularly, the decline in equity (25 percent) and liquidity shortages (19 percent) remain significant challenges for small businesses.

A closer look at individual sectors reveals that, despite the decrease in energy prices compared to the previous year and diminishing material shortages, the proportion of companies facing problematic financial situations in the industry has increased from 36 percent to 39 percent. Businesses are burdened by liquidity shortages (17 percent, up from 16 percent), declining equity (18 percent, up from 16 percent), restricted access to debt financing (ten percent, up from nine percent), and rising bad debts (eleven percent, up from ten percent).

The following financial problems are a burden on companies

(in per cent, multiple answers possible)



Particularly, the more challenging access to debt financing and increased burden from higher interest rates are evident across nearly all industrial sectors. This corresponds to the decline in corporate lending and the tightened lending conditions imposed by banks. Investments and ongoing operations in the industry rely more heavily than other sectors on a long-term stable and affordable energy supply. The prevailing uncertainty in this regard not only affects investment projects themselves but also how they are evaluated by credit institutions. Furthermore, there are increasingly potential regulatory requirements for the banking sector regarding climate-neutral portfolios. Especially transformational financings, not yet covered by taxonomy, face difficulties entering bank portfolios in the current environment, particularly those with longer-term horizons.

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

Analysis by company size class, figures in per cent, multiple answers possible

	1-19 employees	20-199 employees	200-999 employees	1000 employees or more	All classes
Liquidity bottlenecks	19	15	10	11	16
Impending insolvency	4	2	0	2	3
Decline in equity	25	18	12	10	20
More difficult access to debt capital	9	8	10	10	9
High debt burden	7	9	10	10	8
Increasing bad debt losses	13	13	11	11	13
Our financial situation is unproblematic	55	62	69	73	60
Our financial situation is problematic	45	38	31	27	40

The financial situation has deteriorated most significantly among consumer goods and capital goods manufacturers (42 percent, up from 37 percent previously). In the pharmaceutical industry, although still relatively good on average among sectors, the financial situation has also deteriorated significantly: 26 percent, up from 15 percent previously, of companies report In particular, a rising burden of external debt (eight percent, up from two percent previously) and increasing bad debts (five percent, up from one percent) pose significant challenges. The textile, clothing, and leather industry, in particular, feels the impact of weakened demand in retail. Currently, 60 percent of businesses cite financial issues (up from 43 percent previously). Bad debts (22 percent, up from ten percent) have increased significantly, as have liquidity shortages (25 percent, up from 19 percent).

Similarly, the assessment of financial conditions has become slightly more critical for intermediate goods manufacturers (39 percent, up from 38 percent) and capital goods producers (37 percent, up from 35 percent) compared to autumn 2023. Despite lower energy costs, the assessment has slightly improved for energy-intensive sectors such as metal production and processing (42 percent, down from 45 percent), but challenges remain high compared to other industrial sectors. Electrical equipment companies also report a slight relaxation (35 percent, down from 37 percent previously), whereas machinery manufacturers report a worsening financial situation (36 percent, up from 33 percent previously).

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

Analysis by sector, figures in per cent, multiple answers possible

	Industry	Building	Trade	Service provider	All industries
Liquidity bottlenecks	17	13	18	16	16
Impending insolvency	2	2	3	3	3
Decline in equity	18	19	21	21	20
More difficult access to debt capital	10	9	7	9	9
High debt burden	9	8	9	8	8
Increasing bad debt losses	11	14	14	12	13
Our financial situation is unproblematic	61	63	58	59	60
Our financial situation is problematic	39	37	42	41	40

In the construction industry, the overall assessment of financial conditions remains unchanged compared to autumn 2023, with 37 percent of companies reporting problematic financial situations. While the assessment in the construction of buildings has deteriorated further due to numerous project cancellations and increasing bankruptcies among investors (41 percent of companies report financial difficulties), the financial situation of civil engineering companies has improved significantly, with only 24 percent reporting difficulties (down from 31 percent previously). Corresponding to the problems faced by construction companies, more companies in the finishing trades are confronted with challenges in corporate finance. Common issues across all construction companies include declining equity (19 percent) and increasing bad debts (14 percent, up from twelve percent previously).

The ongoing subdued domestic demand, high labor and energy costs, leave their mark on the balance sheets of the retail sector. Therefore, the proportion of companies with strained financial situations has risen again to 42 percent compared to autumn 2023. Difficulties span across all problem areas: more companies than in autumn report liquidity shortages (18 percent, up from 16 percent) and equity problems (21 percent, up from 20 percent). Additionally, the proportion of companies facing a looming insolvency has slightly increased (three percent, up from two percent). Alongside construction, the retail sector has the highest rate of bad debts (14 percent). Wholesale trade and trade intermediation, acting as intermediaries between producers and consumers, feel these problems particularly quickly. Nearly every fifth company already experiences increasingly defaulting receivables (18 percent).

The cautious consumer behavior and uncertainty about future-proof business concepts in the field of stationary and online retailing keep the proportion of companies reporting liquidity shortages in retail at a level of 22. The proportion facing declining equity even rises to 27 percent.

After a brief respite in autumn 2023, the financing conditions of predominantly small and medium-sized service providers have clouded over again. Now, 41 percent of companies report problems. Especially the gastronomy sector feels the high cost pressure in procurement and labor and energy costs. Now, 60 percent (up from 58 percent previously) are facing financing problems. A significant increase in companies reporting liquidity shortages (26 percent, up from 22 percent) is met with an unchanged high proportion of companies facing declining equity (42 percent). Therefore, the proportion of companies seeing themselves threatened by insolvency rises (seven percent, up from five percent). In comparison, sectors like the cultural and creative industries fare better—the improved assessment contributes to a slight decrease in the proportion of companies reporting financial problems (38 percent, down from 39 percent previously). The sustained desire for travel and stable market conditions also contribute to a stable financing situation for travel agents: one-third of companies still report problems. Particularly, the equity decline accumulated during the COVID-19 pandemic continues to affect around one-quarter of companies.

Employment intentions of the companies

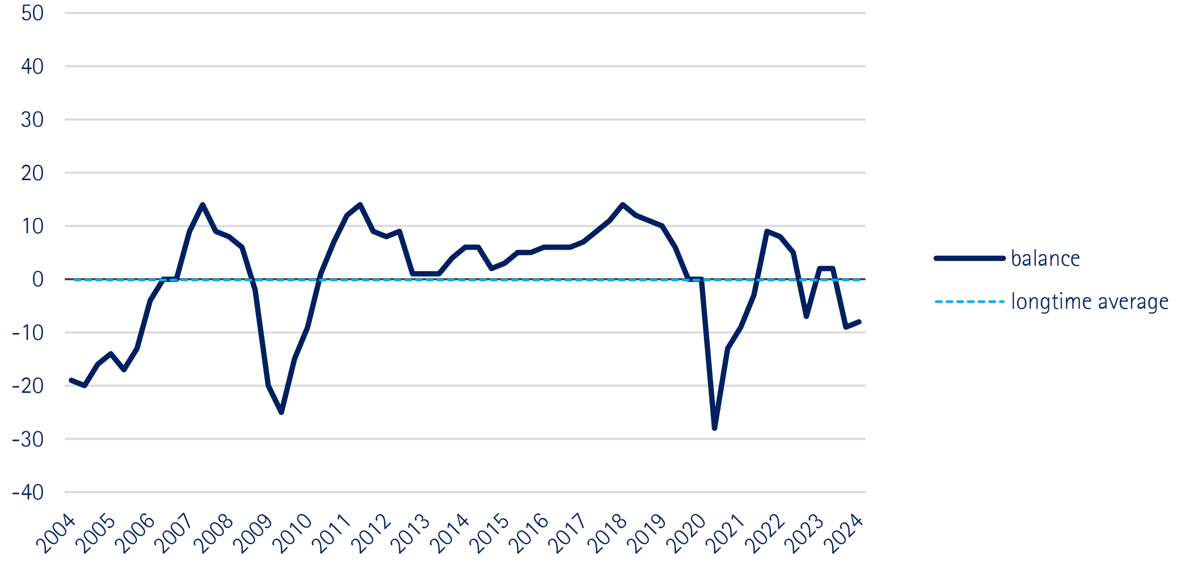
The hiring intentions of companies remain almost unchanged, reflecting the continued economic downturn compared to the previous survey (Autumn 2023). While 14 percent intend to increase staff (up from 13 percent), an unchanged 22 percent expect to reduce their workforce. The resulting balance stands at minus eight points, still significantly below the long-term average of zero points, but slightly up by one point compared to Autumn 2023. However, there is a notable decrease of ten points compared to the previous year's survey. Nevertheless, despite the challenging economic conditions, the overall labor market development can be considered relatively stable. While the pace of job creation in recent years has slowed, a significant reduction in employment has not yet been observed.

In large companies with 1,000 or more employees, more firms plan to hire rather than downsize, showing the most significant increase in hiring plans compared to the previous survey (balance increase from minus two to one point). One in four companies in this size category plans to increase staff. Skill shortages remain the top business risk for large companies, with 71 percent, significantly higher than in the overall economy, ahead of economic policy conditions (60 percent), energy and commodity prices (54 percent), and domestic demand (53 percent) in this size category. Due to their size, large companies hire more frequently than small businesses and are therefore much more likely to face labor shortage issues.

In the manufacturing sector, employment intentions continue to decrease slightly. The balance decreases by one point compared to the previous survey, standing at minus 13 points - a stark contrast to plus four points a year ago. More than a quarter of manufacturing companies (unchanged at 26 percent) plan to reduce staff, while 13 percent anticipate an increase (down from 14 percent in the previous survey). Particularly, the automotive industry plans for reduced personnel, with the balance in automobile manufacturing dropping drastically by 19 points to minus 39. Similarly, manufacturers of automotive parts and accessories see a decrease of 26 points to minus 46. The shift towards electromobility, which is less labor-intensive in production, along with intense international competition, is reflected in the employment intentions. Likewise, in upstream industries such as metal production and processing (balance minus 26 points, down from minus 25), glass, ceramics, stone processing (balance minus 32 points, down from minus 35), and the rubber and plastics industry (balance minus 17 points, down from minus 25), the focus is on reducing personnel, partly due to high energy prices. Conversely, energy suppliers (balance 38 points, down from 41 points) and the pharmaceutical industry (balance ten points, down from 23 points) plan for some noticeable employee growth.

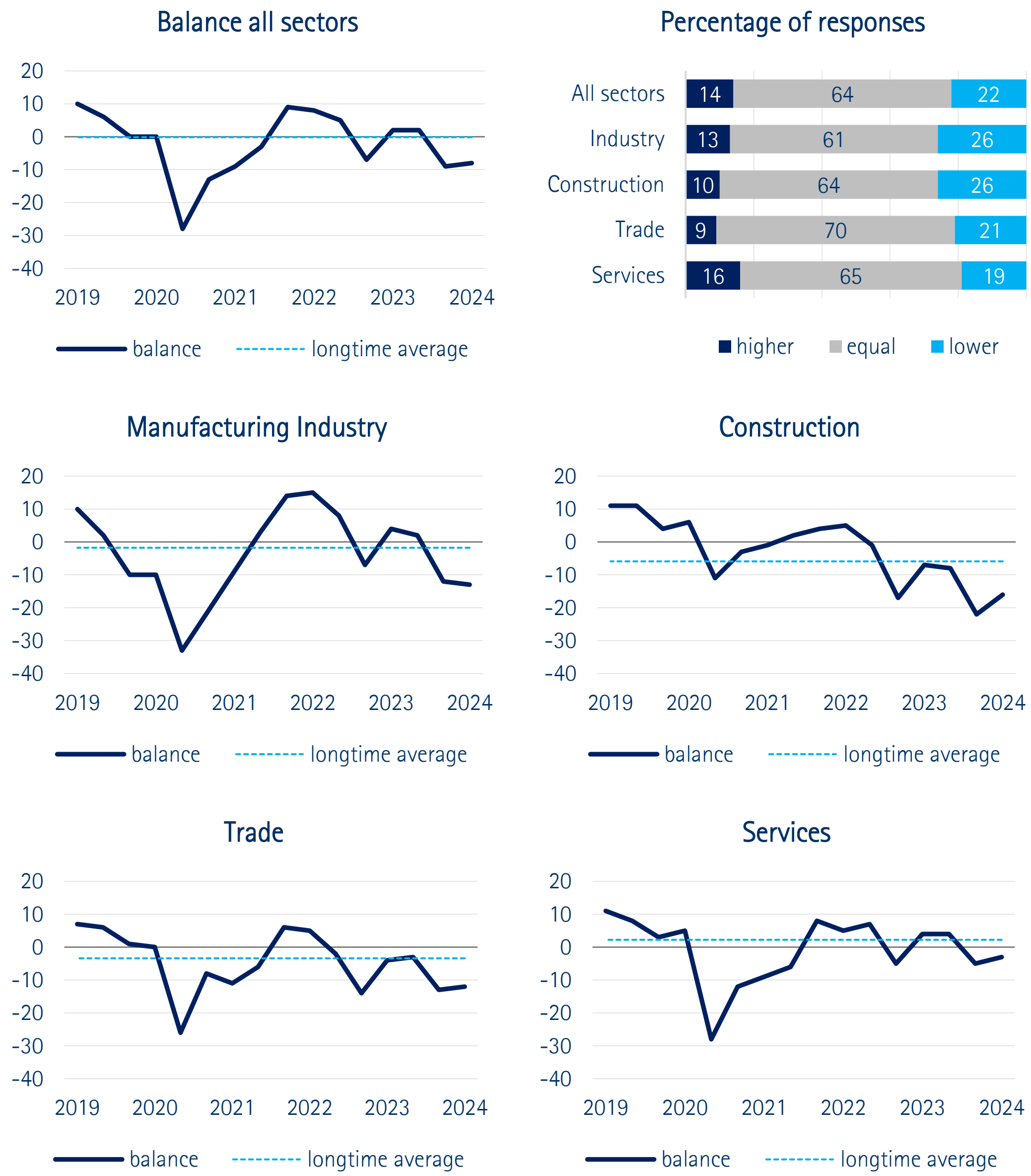
Employment intentions of companies

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



Employment intentions of companies

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



In the construction industry, employment plans remain significantly negative but have improved marginally at the current juncture. The balance stands at minus 16 points (previously minus 22 points), with ten percent of firms planning to increase staff (previously six percent) and 26 percent anticipating a decrease (previously 28 percent). High interest rates and material costs continue to characterize the construction sector, reflecting in the hiring intentions, particularly impacting the stagnant residential construction. However, plans are more favorable in civil engineering (balance minus one point), significantly surpassing both the previous survey (balance minus eleven points) and the previous year's survey (balance minus ten points). Infrastructure projects and digitalization-related construction (e.g., fiber optic expansion) contribute to this trend. In the construction industry, skill shortages are the second-largest business risk at 62 percent and the largest in civil engineering at 71 percent (alongside energy and raw material prices). Many companies are filling positions vacated by retiring employees to ensure they have enough skilled workers when orders resume.

Employment plans in the retail sector show a slight increase compared to the previous survey but remain low. Nine percent of firms plan to increase their workforce, while 21 percent (down from 22 percent) expect to reduce staff (balance minus twelve points; long-term average: minus three points). Low consumer spending due to high inflation weighs on sentiment and consequently on workforce planning in retail businesses (domestic demand is the biggest business risk in retail at 65 percent). However, employment plans have improved in the trade of health-related goods (from minus 17 to minus ten balance points), which are generally less sensitive to economic cycles.

Similarly, in the services sector, employment intentions have improved slightly but remain below the long-term average (balance minus three, previously minus five points; average: two points). They are at the highest level compared to other sectors. Sixteen percent of companies plan to expand their workforce (previously 15 percent), while 19 percent foresee a reduction (previously 20 percent). Employment plans in knowledge-intensive services are positive compared to the overall economy and have increased slightly since Autumn 2023 (from one to four balance points). For example, IT service providers (balance 20 points, previously 15 points) plan to increase employment due to ongoing digitization. Employment plans are also positive in legal and tax consultancy and auditing (balance 22 points, previously 17 points), research and development (balance twelve points, previously nine points), and health and social services (balance steady at three points). However, skill shortages often complicate planned employment increases; for example, 82 percent of legal and tax consultancy and auditing firms and 81 percent of health and social services firms cite this as a business risk.

In the hospitality sector, however, employment plans have further reduced (from minus 16 to minus 17 balance points). The subdued consumer spending and high costs for businesses leave their mark: 82 percent see high energy and raw material prices as business risks, while 71 percent cite labor costs. The transportation sector presents a mixed picture. While public transportation companies overall plan to hire (balance one point), the road freight transport sector is likely to see reductions (balance minus 29 points). Increased tolls, high fuel prices, and intense cross-border competition pose significant challenges for many road freight transport businesses. In the personnel recruitment and leasing services sector, employment intentions have slightly improved compared to the previous survey (from minus eight to minus five points) but remain well below the previous year's mark (13 points) and the long-term average (21 points). The developments there can serve as an early indicator in the labor market - the current sideways movement suggests the aforementioned diminishing dynamism.

DIHK forecast for economic development in Germany

Utilisation of gross domestic product (GDP) in Germany
Year-on-year change, in per cent, price-adjusted, chained

	2022	2023	DIHK forecast 2024
GDP	1.8	-0.3	-0.5
Privat consumption	3.9	-0.8	0.5
Public consumption	1.6	-1.7	0.0
Gross fixed capital formation (GFCF)	0.1	-0.3	-0.9
- GFCF in machinery and equipment	4.0	3.0	0.5
- Other fixed assets	-0.7	-0.6	2.0
- GFCF in construction	-1.8	-2.1	-2.5
Exports	3.3	-1.8	0.5
Imports	6.6	-3.0	0.0
Employed persons (change in thou-sands)	+612	+333	+50
Inflation rate	6.9	5.9	2.7