
# The long way out of the crisis

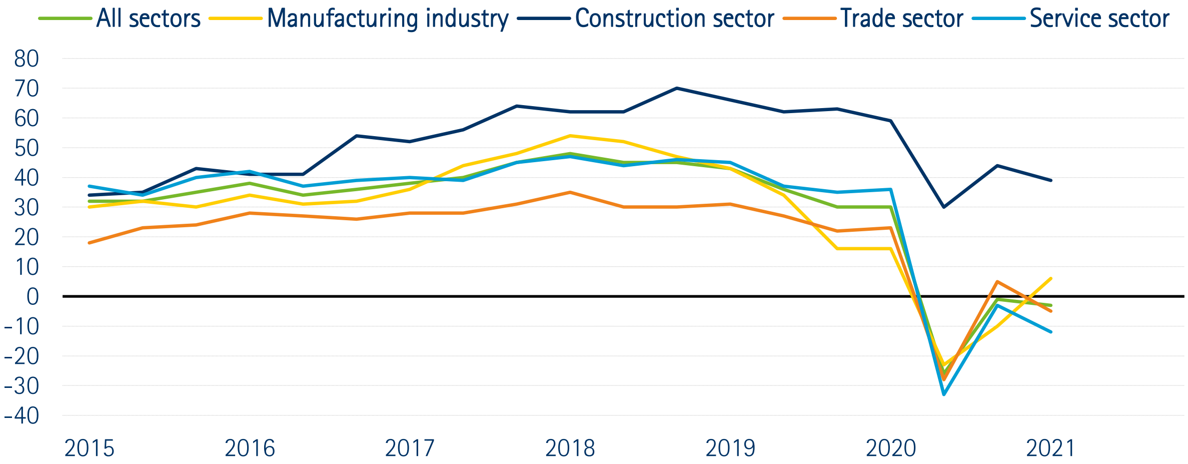
**DIHK Economic Survey February 2021**

Deutscher
Industrie- und Handelskammertag

Deutsche
Industrie- und Handelskammern

## Current business situation of the companies

In the midst of the renewed lockdown in numerous sectors of the economy, German companies overall assess their current situation worse than in fall 2020. At the beginning of 2021, 29 percent of companies across all sectors of the economy assess their situation as good and 32 percent as poor. The balance of good and poor assessments is thus minus three points (fall 2020: minus one point). The economic sectors assess their situation very differently. The situation in the construction industry remains good (balance 39 after 44 points previously) and that of manufacturing industry has brightened considerably with a positive balance of six points (fall 2020: minus 10 points). However, the manufacturing industry is still below the long-term average of 23 points. The trade and services sectors, which have been particularly affected by the renewed lockdown, have given significantly worse assessments of the situation: The trade sector assesses its situation with a balance of minus five points (fall 2020: plus five points). With a balance of minus 12 points (fall 2020: minus three points), service providers are currently facing even greater challenges.



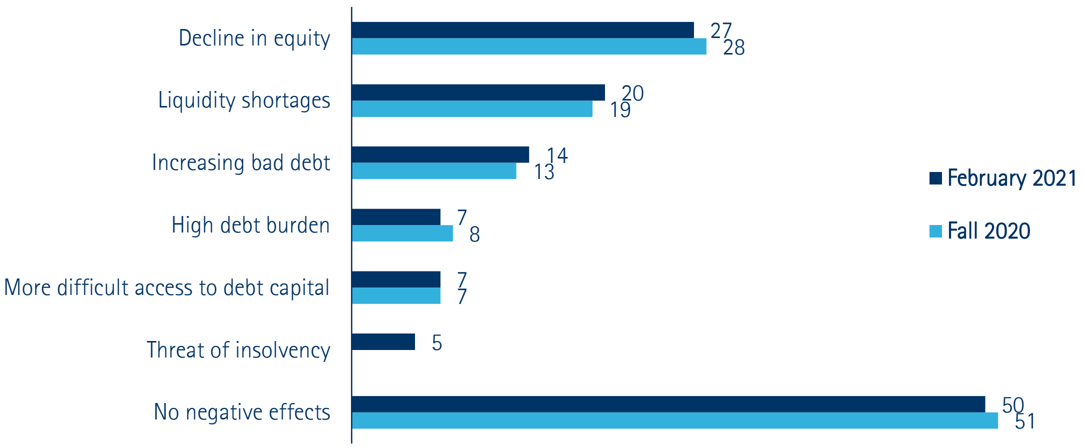

Balance of good and bad valuations

There are also major differences within the economic sectors: In manufacturing industry, mechanical engineering companies (balance minus one point) report a difficult situation much more frequently than companies in chemicals (balance 22 points) and pharmaceuticals (balance 33 points). In the services sector, only a few industries report a positive situation. These include above all IT service providers (balance 24 points) as well as companies in legal and tax consultancy and auditing (balance 51 points). Among conference and event organizers (balance minus 83 points), the assessment of the situation has fallen to its lowest value since the survey began. The situation is also very poor among companies in the arts and creative industries (balance minus 74 points). The share of companies that assess their situation positively in these sectors is in the lower single-digit range. In trade, too, the assessment of the situation varies greatly: Companies in wholesale and trade intermediaries (balance eight points) as well as traders in health-related goods (balance 10 points) assess their situation much more positively than retailers (balance minus 13 points).

## Current financing situation of the companies

For half of the companies, the financial situation remains tense. The smaller the company, the more difficult the financial situation in its many facets. Slightly fewer industrial companies (15 after 17 percent in fall 2020) and construction companies (10 after 13 percent previously) report liquidity bottlenecks. In trade and services, on the other hand, the share of companies with liquidity shortages has increased (trade: 20 after 16 percent last time; services: 24 after 22 percent last time.) More than a quarter of all companies currently report a decline in equity capital. In the branches of trade (29 percent) and service providers (30 percent), which are particularly affected by the lockdown, the figure is higher than in construction (15 percent). In the manufacturing industry, almost a quarter of the companies are affected by a decline in equity (23 percent). Except for the manufacturing industry, the share of companies reporting defaulting receivables has also increased in all economic sectors compared to fall 2020. Five percent of all companies see themselves threatened by insolvency. However, the degree of concern differs greatly depending on the industry. For example, 33 percent of creative and artistic businesses, 30 percent of travel agents, 27 percent of taxi businesses and 20 percent of businesses from the catering industry see themselves confronted with the threat of insolvency.

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



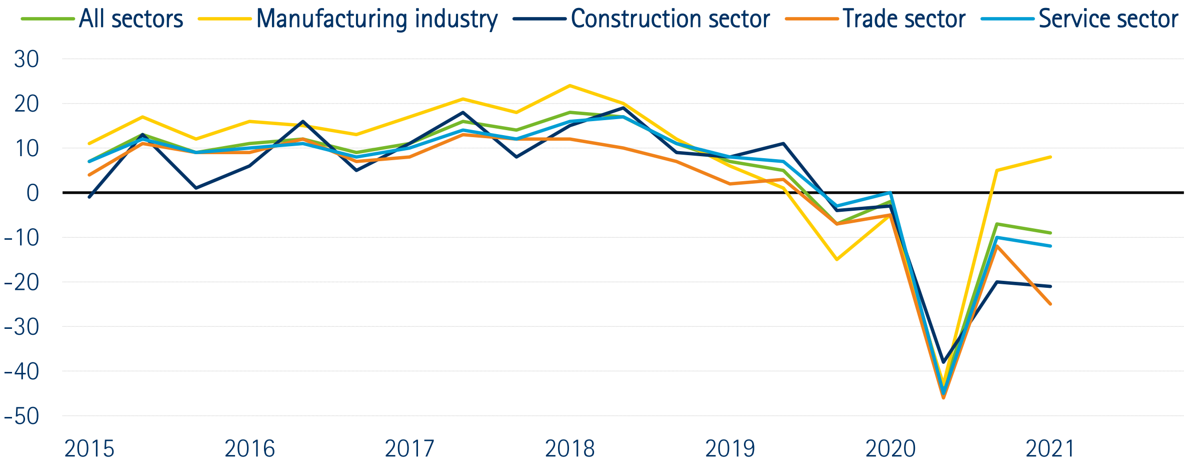

Share in %, multiple answers possible

## Business expectations of companies for the coming 12 months

Business expectations are slightly gloomier at the beginning of 2021. Across all economic sectors, just under one-third of the companies surveyed expect a negative development in the coming 12 months. Around one-fifth expect a favorable development. The balance of positive and negative reports thus amounts to minus nine points (fall 2020: minus seven points).

The companies' expectations differ significantly between the individual economic sectors. With a balance of eight points, manufacturing companies are somewhat more optimistic than in fall (balance plus five points). 29 percent of the companies expect a favorable development, 21 percent an unfavorable one. In the other branches of the economy, the negative reports increase compared to fall. In the trade sector, the balance drops by 13 points compared to the previous survey to minus 25 points. Service providers are also skeptical about their future development: the balance falls to minus 12 points (fall 2020: minus ten points). Negative reports also predominate in the construction industry: At minus 21 points, the balance of expectations is somewhat lower than in the previous survey (balance minus 20 points).

Expectations within the individual economic sectors are also heterogeneous. The medical technology sector is particularly positive among manufacturing companies (balance 26 points), but companies in the metal production and processing sector also anticipate a favorable development (balance 26 points). In mechanical engineering the optimistic voices are increasing, the balance rises from five points in fall to 17 points. In vehicle construction, however, the balance is only 13 points - two points less than in fall 2020. The printing industry is one of the most pessimistic industrial sectors: The balance here drops from minus four points in fall to minus 22 points at the beginning of the year. In the services sector, negative reports predominate in most areas. In particular, the sectors affected by the Corona lockdown, hospitality industry (balance minus 25 points) and land transport (balance minus 26 points), are even more pessimistic than in fall last year. Only IT service providers are optimistic (balance plus nine points). The trade sector is also losing confidence: Wholesalers (balance of minus 15 points after minus ten before) are not quite as negative as car dealers (balance minus 35 points after minus 18 before) and retailers (balance minus 33 after minus twelve before).




Balance of better and inferior valuations

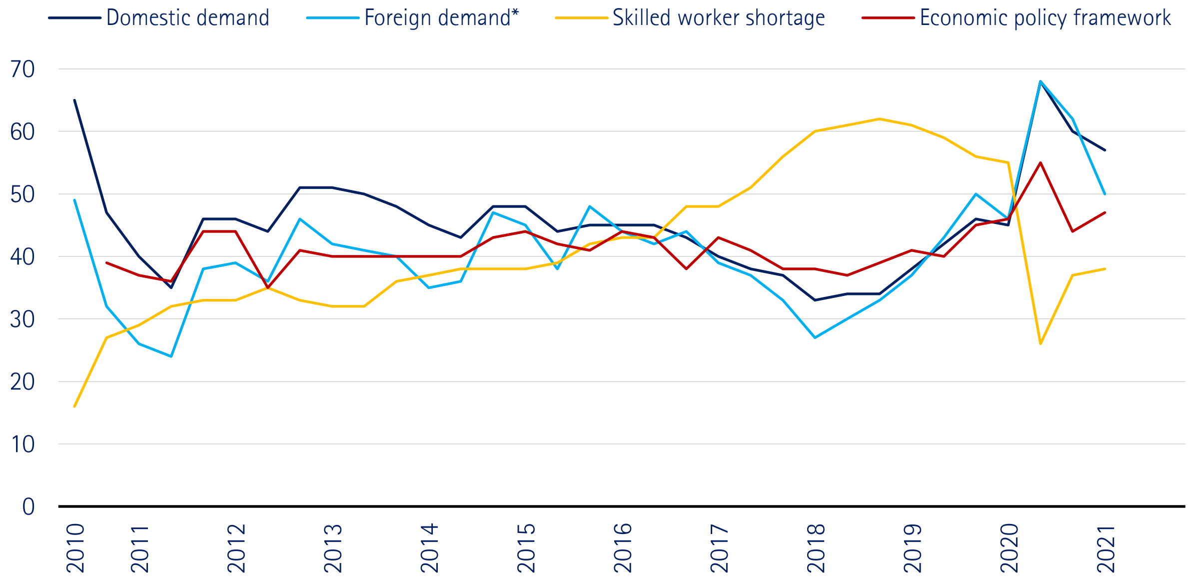
The most frequently cited business risk for economic development in the coming 12 months is the demand for products, goods, and services. A total of 57 percent of the companies are concerned about domestic demand (including trade: 65 percent; manufacturing: 61 percent) and 50 percent of the exporting manufacturing companies about demand from abroad. The third most frequently cited risk factor is the economic policy framework. Almost every second company sees this as a risk to economic development. Despite the current economic challenges, the shortage of skilled workers is again mentioned somewhat more frequently as a risk (38 after 37 percent previously). In the construction industry, this remains the main risk with as many as 67 percent.

## Companies' business risks for the coming 12 months

Share of mentions in percent; multiple answers are possible; *Data from the export manufacturing industry

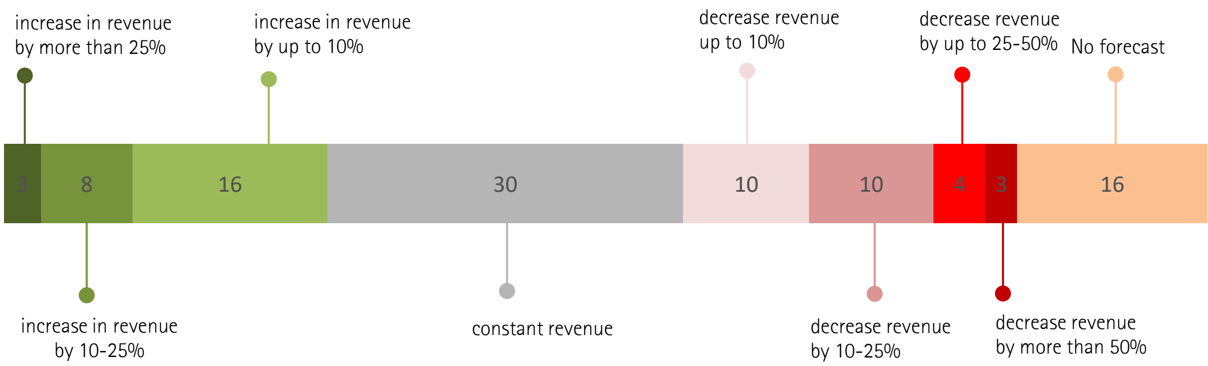
| | Domestic demand | Foreign demand* | Finance | Labour costs | Skilled worker shortage | Exchange rate* | Energy and commodity prices | Economic policy framework conditions |
|---|---|---|---|---|---|---|---|---|
| Beginning of 2020 | 45 | 46 | 9 | 42 | 55 | 7 | 35 | 46 |
| Early summer 2020 | 68 | 68 | 20 | 29 | 26 | 5 | 15 | 55 |
| Fall 2020 | 60 | 62 | 12 | 32 | 37 | 7 | 20 | 44 |
| Beginning of 2021 | 57 | 50 | 12 | 32 | 38 | 7 | 30 | 47 |

### Most frequently mentioned risks over time:



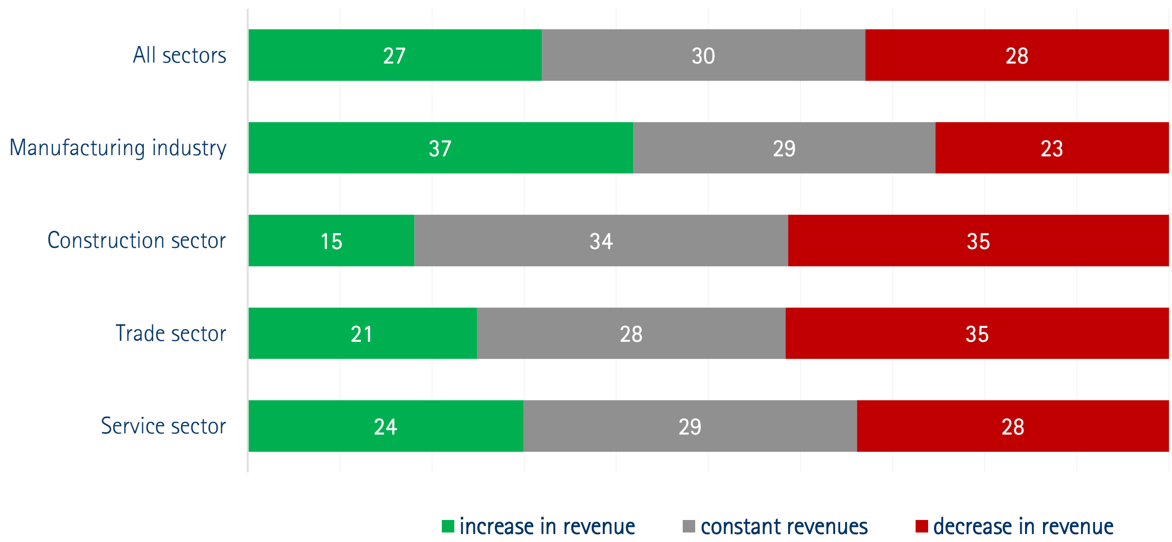
# Expected development of revenue for the year 2021

More than a quarter (28 percent) of the companies expect a decline in revenue in 2021 compared to the previous year - although the pandemic-related measures 2020 have already led to a significant drop in revenue in many sectors and companies. In fall 2020, 61 percent of businesses already reported declines in revenue. The share of companies expecting increases in revenue is 27 percent. Thirty percent of the companies expect their revenue to stagnate. Twenty percent of the companies expect a decline in revenue by up to 25 percent. Another seven percent expect even more significant declines between 25 and even more than fifty percent.



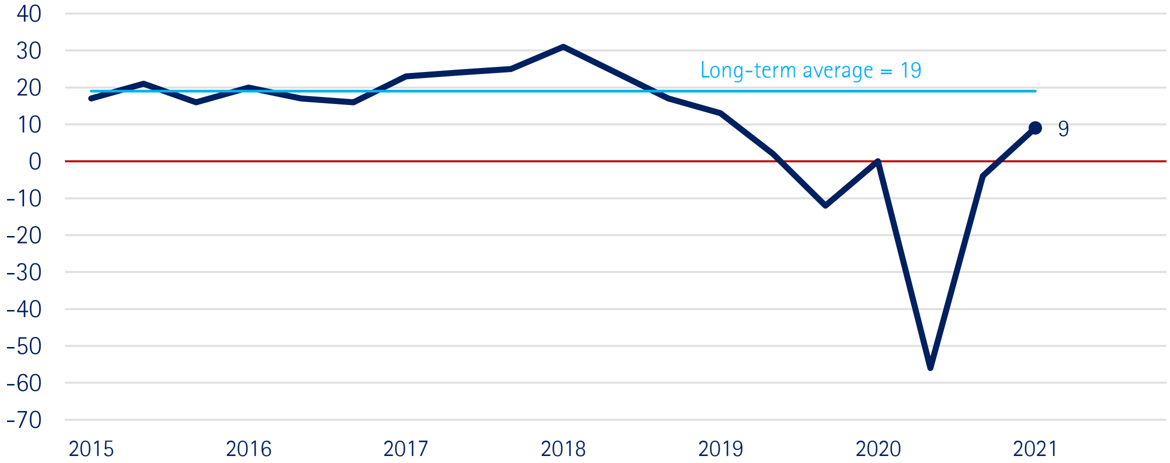

In the construction industry, 35 percent of companies expect their revenue to decline in 2021, while only 14 percent anticipate increases. In the trade sector, too, companies expect the air to be thin: 35 percent anticipate declines in revenue in the current year, while 21 percent expect increases. With a positive share of 37 percent, industrial manufacturing companies see the most potential for increases in revenue. In contrast, 23 percent expect losses compared to the previous year. Among the service providers, about a quarter of the companies expect increases or decreases in revenue. However, in this branch of the economy in particular, revenue expectations are heterogeneously distributed. Almost half of the companies in the arts and creative industries expect their revenue to more than halve again. In the research and development sector, on the other hand, more than half of the companies expect their revenue to increase. Twenty-one per cent even expect growth beyond the 25 per cent mark.

Shares in percent, rest to 100 = no forecast



## Export expectations of industrial companies for the coming 12 months

The positive trend in manufacturing industry export expectations from the fall survey continues. The balance rises to nine points (fall 2020: minus four points). This brings export expectations to their highest level since early summer 2019. Despite this renewed rise, expectations for foreign business are still 10 points below the long-term average. Concerns about downside risks also remain: One in two exporting manufacturing firms see foreign demand as a risk to their business (fall 2020: 62 per cent). One in five manufacturing industrial companies with foreign business accordingly expects their exports to decline in the coming twelve months and one in two expect it to stagnate.

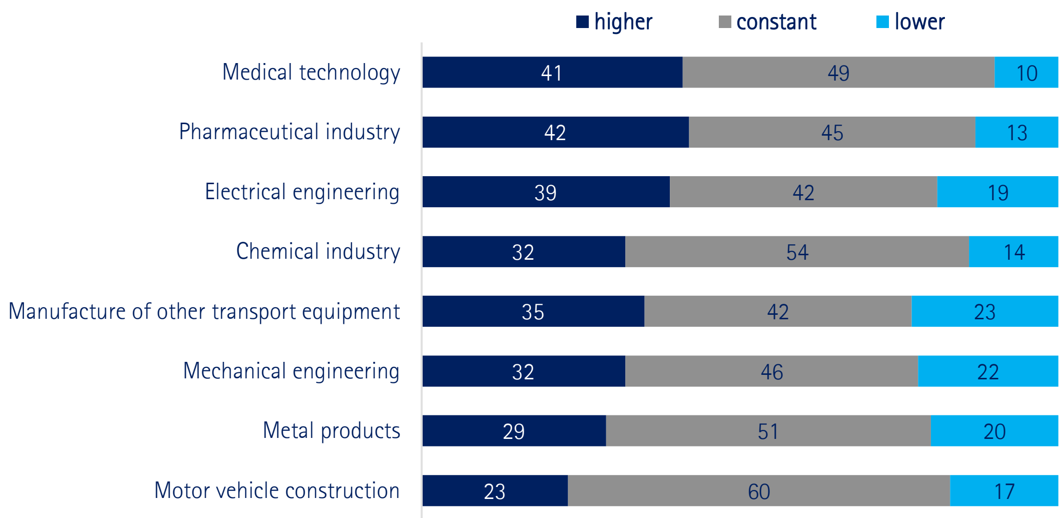



Balance of higher valuations minus lower valuations in points

The pharmaceutical and chemical industries are much more optimistic about exports this year than the industry as a whole (balance 21 points after two points previously). The export expectations of the electrical engineering industry have also brightened considerably (balance 20 after five points previously). Still rather pessimistic in fall, more mechanical engineering companies (balance of ten points) and manufacturers of metal products (balance of nine points) now expect an increase in their exports. However, the positive expectations in motor vehicle manufacturing from fall cannot be maintained. The balance falls from 26 points to currently six points.

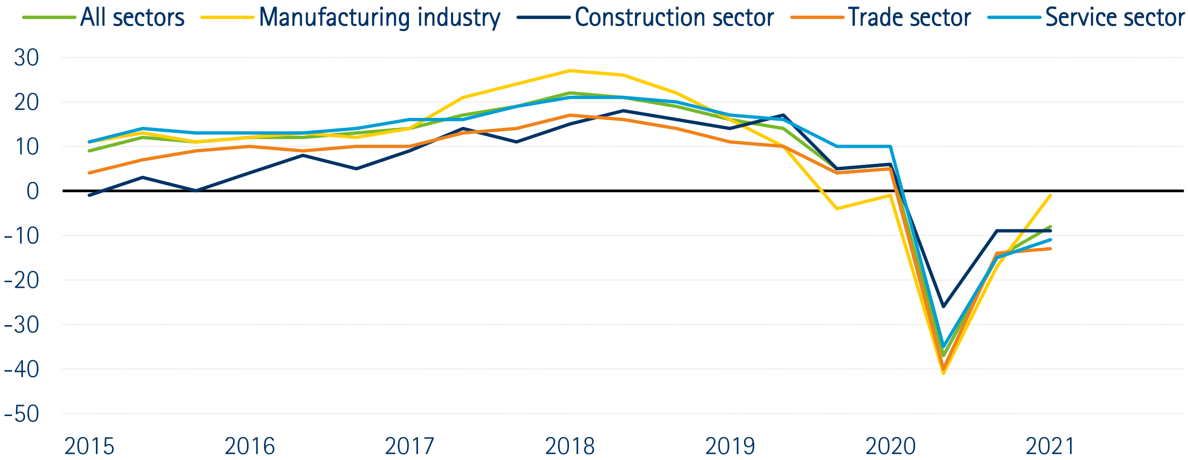
### Export expectations for the coming 12 months in selected sectors

Shares in percent



## Companies' investment plans for the coming 12 months

Starting from a low level, companies' investment plans improve slightly. 22 percent of companies intend to invest more in the coming months, 30 percent less. The balance is minus eight points (fall 2020: minus 15 points). This means that the investment plans of the economy as a whole remain well below their long-term average of plus four points.




Balance higher valuations minus lower valuations

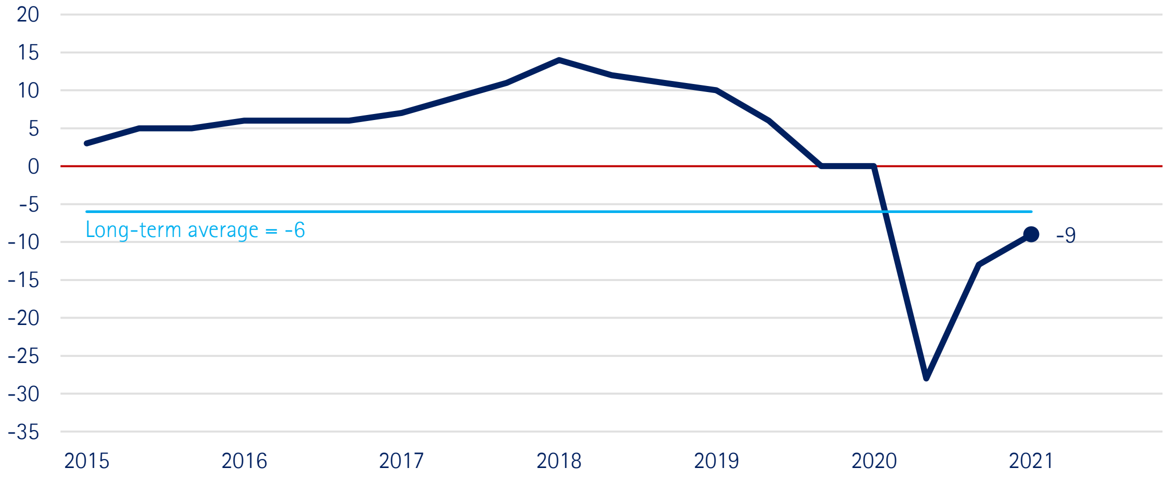
In a comparison of the economic sectors, manufacturing industry is raising its investment plans the most (balance minus one, after minus 17 points). With their expanded investment plans of currently one balance point, the manufacturers of intermediate goods are noticeably above the value of fall 2020 (balance minus 18 points). The chemical industry and manufacturers of electrical equipment plan to invest slightly more (balance of eight and nine points, respectively). The investment plans of the capital goods manufacturers also look less contracted than in the fall of 2020 (fall 2020: balance minus 28 points). However, the new level of minus seven points does not yet indicate expansion). Especially manufacturers of metal products (balance minus one after minus 27 points previously) and electrical engineering (balance five after minus 22 points previously) brighten their investment plans. In mechanical and vehicle engineering, investment plans again remain below the average for the industry as a whole (balance minus six and minus 14 points, respectively). More manufacturing companies than last time want to invest in capacity expansion (26 after 22 percent previously) and in environmental protection (27 after 25 percent previously). Trade and service providers remain cautious in their investment plans (balance minus 13 and minus 11 points, respectively). While investment plans improve slightly in wholesale trade (balance minus eight points after minus 14 points), they decline in retail trade (balance minus 17 points after minus twelve points). The taxi industry significantly reduces its investment budgets for the coming twelve months (balance minus 44 after minus 20 points previously). Companies in the hospitality industry are also cutting back (balance minus 36 after minus 29 points). Among the business-related service providers (balance minus seven points), companies offering research and development services in particular want to invest more (balance 16 after six points). In construction, investment plans remain at the low level of the previous survey (balance minus nine points).

**Principal motivations for domestic investments** (in percent; multiple answers are possible):

| | Rationalisation | Product innovation | Capacity expansion | Environmental protection | Replacement demand |
|---|---|---|---|---|---|
| All sectors | 33 | 32 | 23 | 21 | 64 |
| Manufactoring | 44 | 37 | 26 | 27 | 64 |
| Construction | 25 | 21 | 19 | 20 | 79 |
| Trade | 31 | 27 | 23 | 18 | 63 |
| Services | 28 | 31 | 22 | 18 | 63 |

## Companies' employment plans for the coming 12 months

Companies' employment intentions have increased slightly compared to fall 2020 (balance minus nine points after minus 13 points previously). However, they are significantly below the value of the previous year and the long-term average (balance minus six points in each case). Every seventh company plans to increase employment in the coming twelve months, while around one-fifth expect fewer employees. About two-thirds of the companies expect their workforce to remain unchanged.



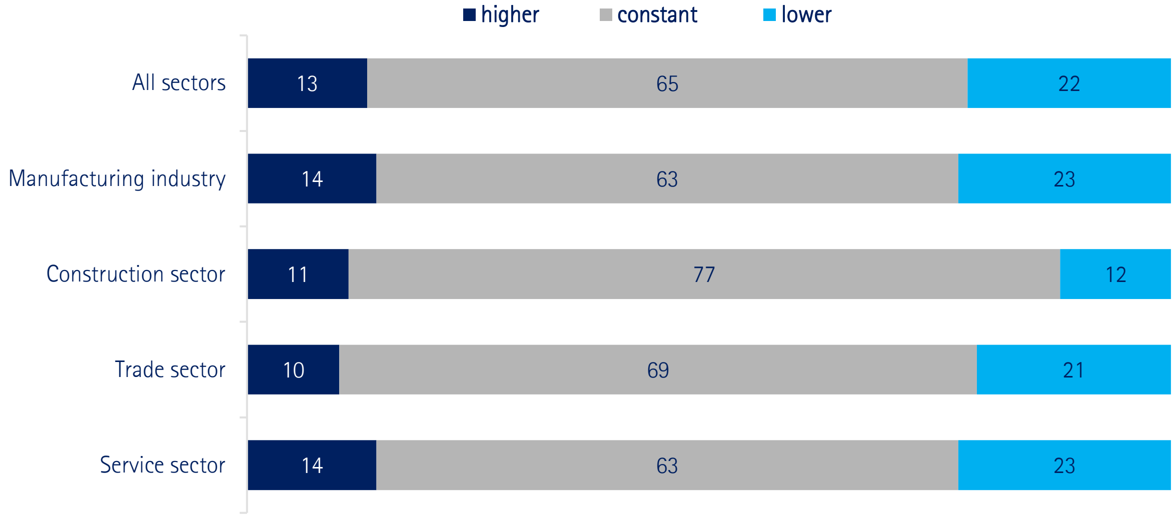

Balance higher valuations minus lower valuations in points

In the manufacturing industry, employment plans have increased most significantly compared to the previous survey and are even slightly higher than in the previous year, but remain at a low level (balance minus nine points after minus 21 points previously; long-term average: minus two points). Service providers slightly increase their employment intentions, but here the balance remains negative as well (minus nine points after minus twelve points). Construction also increases its hiring plans, but they remain below the pre-crisis level (balance minus one point, after minus three points previously). Trade reduces its employment plans (balance minus eleven after minus eight points).

In contrast to the overall picture, employment intentions are clearly expansive in individual sectors, such as information and IT service providers (balance of 22 and 24 points respectively) and health and social service providers (balance of 17 points). Among R&D service providers, too, the signs are pointing to an increase in personnel (balance 24 points). However, in sectors that have been particularly negatively affected by the consequences of the COVID-19 crisis, such as travel agencies (balance minus 43 points) or the hospitality industry (balance minus 31 points), a reduction in employment is to be expected. The same applies to machine tool manufacturing (balance minus 35 points) and vehicle manufacturing (balance minus 25 points).

The shortage of skilled labor remains a business risk for almost four out of ten companies (38 percent) despite the overall lower cyclical demand for labor compared to previous years - which is slightly increasing again compared to fall 2020 (37 percent). A year ago, however, labor shortages were still considered a business risk for more than half of the companies (55 percent). Currently, companies see domestic demand (57 percent) and the economic policy framework (47 percent) as greater risks - whereas the shortage of skilled workers was the greatest risk in recent years. This is currently only the case in the construction industry (67 percent). Among service providers, 39 percent see the lack of skilled workers as a business risk, in the manufacturing industry it is 34 percent and in trade 32 percent.

**Employment plans in the next 12 months by sector**
Shares in percent



## DIHK forecast for economic development in Germany

| Use of gross domestic product (GDP) in Germany<br>Change from previous year, in percent, price-adjusted, chained | 2019 | 2020 | DIHK forecast 2021 |
|---|---|---|---|
| GDP | 0.6% | -5.0% | 2.8% |
| Private consumption | 1.6% | -6.0% | 4.0% |
| Public spending | 2.7% | 3.4% | 1.6% |
| Gross fixed capital formation | 2.5% | -3.5% | 3.1% |
| - equipment | 0.5% | -12.5% | 6.0% |
| - Other fixed investments | 2.7% | -1.1% | 2.5% |
| - Buildings | 3.8% | 1.5% | 1.8% |
| Export (goods and services) | 1.0% | -9.9% | 6.0% |
| Import (goods and services) | 2.6% | -8.6% | 5.3% |
| Labor force (change in thousands) | +401 | -477 | +60 |
| Consumer prices | 1.4% | 0.5% | 1.6% |

## Imprint

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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.