Upswing threatened to be slowed down – Making Germany more attractive as a business location

DIHK Economic survey fall 2021

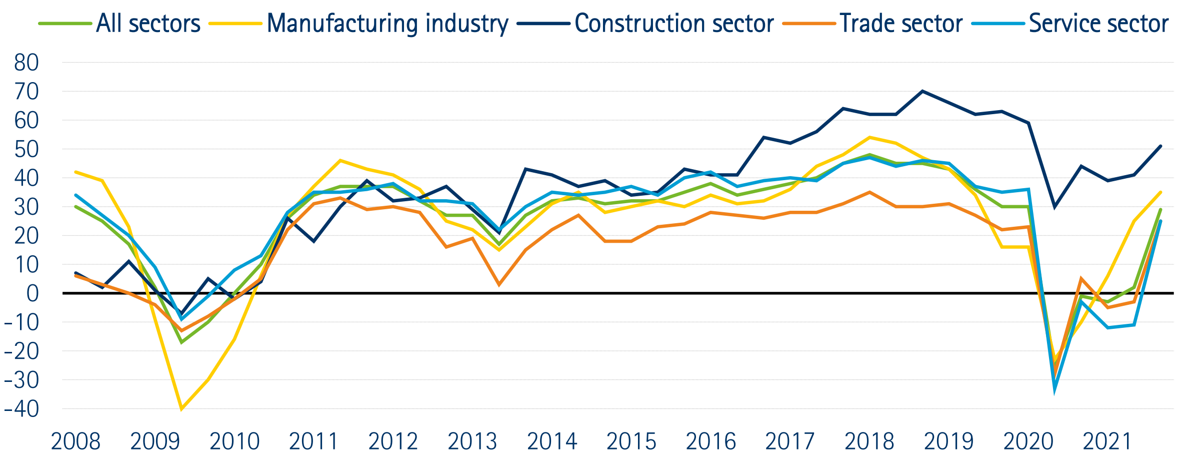
Deutscher Industrie- und Handelskammertag

Deutsche Industrie- und Handelskammern

Current business situation of the companies

Assessments of the current business situation are improving compared with the survey from early summer, which was still under the impression of the second lockdown. Almost half (43 percent) of the companies assess their current situation as good, while 14 percent speak of a poor business situation. The balance of good and bad assessments jumps to 29 points, up from two points in the previous survey. This is the first time that the indicator has reached a value similar to that before the Corona pandemic (30 points at the beginning of 2020) and is above the long-term average (22 points).

The positive assessment of the situation is shared by all sectors of the economy, but varies in strength. Sentiment remains particularly good in the construction sector (balance of 51 points after 41 points previously). However, industry also assesses its situation as better than in the early summer. The indicator improved from 25 to 35 points. The strongest increase in the current situation assessment is seen in trade and services, the sectors that had to struggle the longest and most severely with restrictions on their business operations in the Corona pandemic. Both sectors are now also dominated by companies with a good situation rating. The retail sector rated its situation at 25 points, compared to minus three points previously, while the service providers rated their situation at 25 points, compared to minus eleven points previously.



Balance of good and bad valuations

A look at industry shows that both the producers of intermediate goods and of capital goods assess their situation more positively on balance. However, within these sectors, the assessment of the situation varies considerably: In the capital goods sector, for example, mechanical engineering companies (balance of 43 after 22 points previously) and electrical engineering manufacturers (balance of 43 after 31 points previously) report good business. In other sectors such as vehicle construction, however, the positive assessment of the situation in the early summer has cooled off considerably in some cases (balance of six points after 23 points previously). The reasons for this include global supply bottlenecks for important components such as electronic chips, but also the challenges posed by the rapid switch to electromobility.

Compared with the early summer, the positive assessment of the situation is also somewhat more subdued among some companies in the upstream industries, including those in the rubber and plastics industry (balance of 33 points compared with 36 previously), the paper industry (balance of 27 points compared with 32 previously) and the wood industry (balance of 53 points compared with 59 previously). Here, supply bottlenecks and higher raw material and energy prices are particularly noticeable. The assessment of the situation among companies in the metal production and processing sector (balance of 44 points after 25 points previously) and in the extraction of earth and stone (balance of 57 points after 49 points previously) has risen more sharply.

The producers of consumer goods (balance of 15 after previously minus four points) are back in positive territory with their assessment of the situation. The situation has improved particularly in companies that were able to generate more turnover after the opening of the catering trade, such as the beverages industry (balance of zero after previously minus 44 points), including in particular breweries (balance of minus three after previously minus 65 points).

The current situation of construction companies is the best in a comparison of economic sectors - only six percent of the companies have a negative assessment (balance of 51 after previously 41 points). In addition to the usual seasonal upturn in construction activity, this is being driven by the continued buoyancy in residential construction and orders from the public sector. In view of the easing of the business climate in recent months, the retail sector is breathing a noticeable sigh of relief and assesses its current situation as visibly better than in the previous survey (balance of 25 points, compared with minus three points previously). The strongest increase in sentiment was recorded by the retail sector (balance of 23 points after minus 17 points previously), but wholesalers and trade intermediaries (balance of 32 points after 14 points previously) are also benefiting from the recovery after the end of the lockdown.

The greatest differences within an economic sector can be seen among service companies. Almost all service providers report an improvement in their situation compared with the early summer. The majority of firms offering predominantly business-related services have a positive assessment of the situation (balance of 34 points, compared with 18 previously). On the other hand, despite the improvement in the situation, the majority of firms offering mainly personal services continue to assess their situation negatively (balance of minus 19 points after minus 53 points previously). In contrast to business services, catch-up effects are only possible to a limited extent here.

The assessment of the situation is good in those sectors whose business models benefit from the increased demand from industry, such as rental and leasing (balance of 20 after previously minus seven points) or also the placement and leasing of personnel (balance of 32 after previously minus four points). The same applies to research and development (balance of 34 after previously 12 points), legal and tax consultancy (balance of 57 after previously 46 points) and architectural and engineering offices (balance of 45 after previously 34 points). Sectors that are only slowly gaining ground include advertising and market research (balance of zero after minus 26 points previously) and security (balance of 10 after one point previously).

The travel industry (balance of minus 66 points after minus 92 points previously), trade fair and congress organisers (balance of minus 46 points after minus 73 points previously) and companies in the arts, entertainment and recreation sector (balance of minus 23 points after minus 76 points previously) continue to assess their current situation as poor. However, gastronomy (balance of ten points after minus 84 points previously) and especially the accommodation sector (balance of 23 points after minus 91 points previously) are benefiting from the resumption of their business activities and the summer season.

Current financing situation of companies

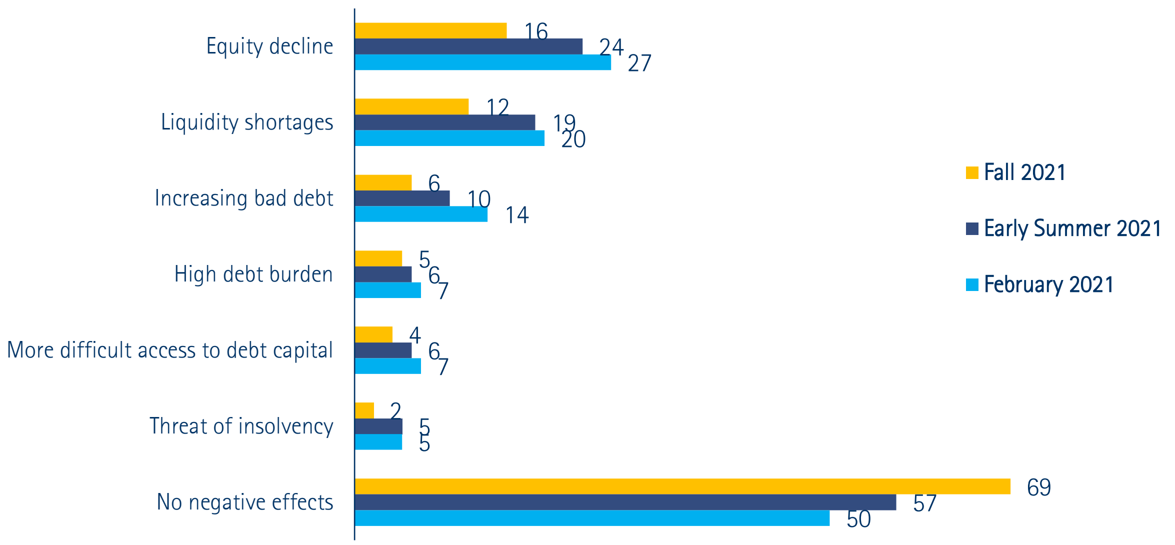
The financial situation of companies is recovering. The proportion of companies describing their financial situation as problematic has fallen from 43 to 31 percent. This means that almost every third company continues to report challenges. The main difficulties continue to be a decline in equity capital (16 percent) and liquidity bottlenecks (12 percent). Across the board, two percent of companies see themselves threatened by insolvency. The smaller the company, the more critical its financial situation. More than one-fifth of small companies with up to 19 employees are confronted with a decline in equity capital.

A look at the sectors shows that three quarters of companies in both industry and construction regard their financial situation as unproblematic. Nevertheless, eleven percent of companies in both sectors are confronted with a decline in equity. Liquidity bottlenecks threaten one in ten construction companies and eleven percent of industrial companies.

In the retail sector, the proportion of companies experiencing financing difficulties has fallen from 42 percent to 30 percent compared with the early summer. The biggest challenges here are the decline in equity (16 percent), liquidity bottlenecks (ten percent) and increasing bad debt losses (seven percent).

The situation has also improved in services, with just over a third (35 percent) of companies now reporting a problematic financial situation instead of half. However, the situation remains tense, especially in personal services, where more than half of the companies (55 percent) have difficulties with financing: just under a third (32 percent) report a decline in equity capital, and just under a quarter (23 percent) report liquidity bottlenecks.

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

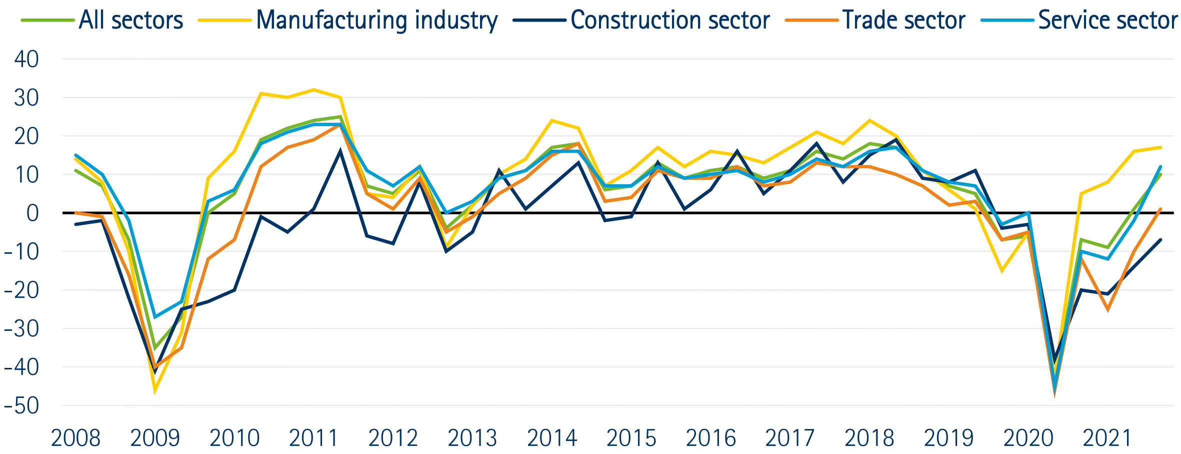


Share in %, multiple answers possible

Business expectations of the companies

The balance of business expectations for the coming twelve months improved by nine points to ten points and is thus slightly above the long-term average of seven points. Nevertheless, expectations are much more subdued compared with the good assessment of the situation.

Industry in particular hardly expects a stronger recovery compared with the early summer (balance of 17 points after 16 points previously). In construction and trade, expectations for the coming months are improving at a low level: although construction companies are less negative than in early summer 2021, the shortage of skilled workers and the risk of rising energy and commodity prices mean that the sceptics remain in the majority (balance of minus seven after minus 14 previously). In the retail sector, companies with positive and negative expectations almost balance each other out (balance of one after minus ten points previously). Service providers, on the other hand, anticipate significantly more business opportunities as a result of the absence of pandemic-related restrictions and are more optimistic about future business (balance of twelve points, compared with minus two previously).



Balance of better and inferior valuations

In the industrial sector, a deterioration in sentiment is particularly noticeable among energy- and raw material-intensive intermediate goods manufacturers (balance deterioration by four points to eleven points). In the chemical industry (balance worsening by seven to 14 points), in glass, ceramics and stone processing (balance worsening by eight to zero points) as well as in metal production and processing (balance worsening by five to 18 points), the share of companies with positive business expectations is declining compared to the early summer. For companies in the mining and quarrying sector, the previously positive business expectations even turn slightly negative (balance of minus one after previously three points).

On balance, capital goods producers are somewhat more optimistic (balance improved by two points to 26 points). However, important sectors such as machine tool manufacturing (balance of 41 points after 57 points previously) and manufacturers of automotive parts and accessories (balance of 6 points after 16 points previously) are less optimistic about the coming months than they were in early summer.

Business-related service providers anticipate stronger demand. Companies active in the leasing and rental sector (balance of 24 after previously minus ten points) are raising their expectations, as are IT service providers (balance of 28 after previously 17 points), research and development (balance of 31 after previously 15 points), and legal and tax consultancy (balance of 18 after previously three points). Above all, trade fair and congress organisers - starting from an almost complete standstill - expect better business in the next 12 months (balance of 47 after previously minus eight points).

The outlook for companies that predominantly offer personal services remains challenging. Although companies in the arts, entertainment and recreation sector (balance of 18 points after minus 27 points previously) and travel agents (balance of 16 points after minus 27 points previously) are expecting a significant recovery, the hotel and restaurant sector (balance of three points after minus 18 points previously) and the accommodation sector (balance of two points after minus 18 points previously) remain sceptical. However, gastronomy (balance of three after minus 18 points) and the accommodation sector (balance of two after minus ten points) remain sceptical. Despite the recovery, business expectations here are only cautiously positive, partly because the risk of a lack of skilled workers has risen sharply and hygiene measures are causing additional costs. In addition, expectations in the hospitality industry are always somewhat more subdued in autumn due to seasonal factors.

In construction, a critical view of business in the coming months also predominates, driven by the considerable shortage of skilled workers and burdens from high energy and raw material prices. This applies in particular to civil engineering, where more than a quarter of all companies expect lower sales (balance of minus 19 after minus 24 points previously). The balance of business expectations also remains negative for companies in the building construction sector (balance of minus six points after minus 14 points previously) and the finishing trade (balance of minus five points after minus nine points previously).

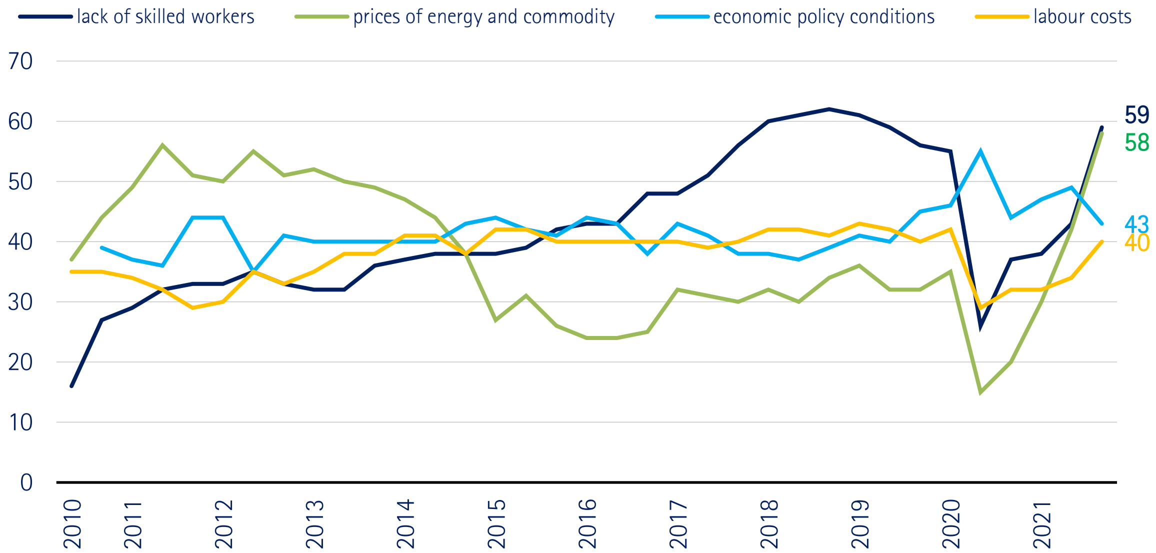
In the trade sector, trade intermediaries in particular, who are heavily involved in international supply chains, are more optimistic about the coming months (balance of 17 points compared with 6 previously). By contrast, the outlook for wholesalers has improved only slightly compared with the early summer of 2021 (balance of four points, compared with zero previously). In the retail sector, the positive assessments of future sales development just outweigh the clearly pessimistic expectations in early summer (balance of one after minus 21 points previously).

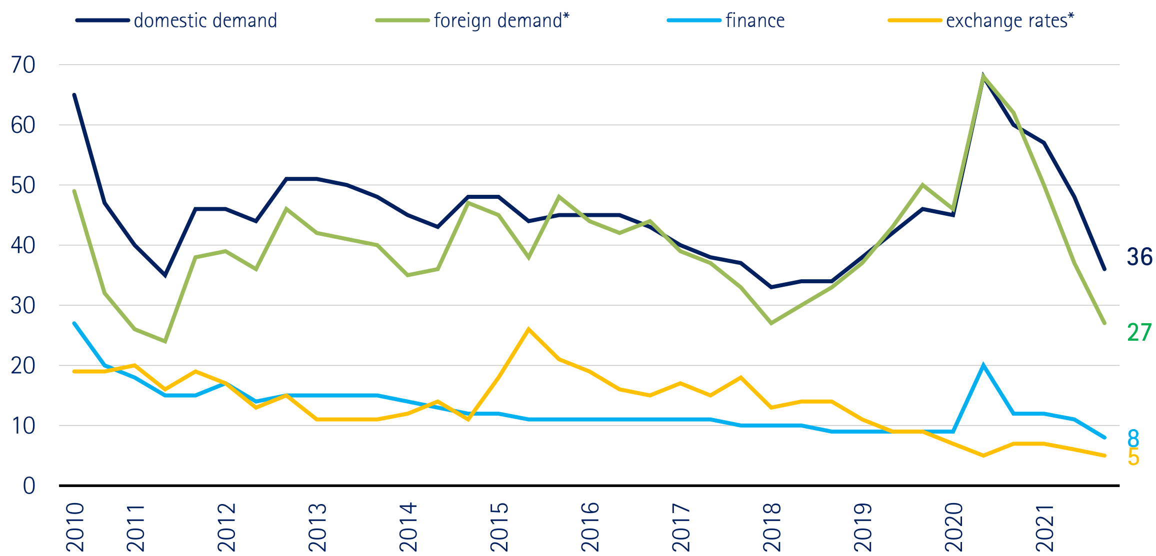
Business risks of the companies for the coming 12 months

In terms of risks, economic concerns such as weakening domestic demand or declining foreign demand are receding into the background (36 percent, down from 48 percent previously, and 27 percent, down from 37 percent previously). Instead, two structural risks now dominate: The shortage of skilled workers is again named as the biggest challenge (59 after 43 percent previously), closely followed by energy and raw material prices (58 after 42 percent previously, an all-time high). Both risks have become significantly more important compared to the early summer of 2021. Economic policy conditions (43 percent after 49 percent previously) and labor costs (40 percent after 34 percent previously) follow at some distance. The latter played a subordinate role during the pandemic, but are now becoming more significant again. Risks relating to financing or exchange rates, however, are becoming less important.

Business risks for the economy as a whole

Percentage of responses; multiple responses possible; *export industry





The proportion of companies citing energy and commodity prices as a risk is at an all-time high in industry, trade and construction and just below the record level in services. In the case of the shortage of skilled workers, the proportion in all sectors of the economy is only just below the all-time high at 59 percent (62 percent in autumn 2018 across all sectors).

Concerns about the development of energy and commodity prices are putting the brakes on business expectations in particularly energy- and commodity-intensive industries such as quarrying and mining (93 percent), metal production and processing (93 percent) or the rubber and plastics industry (91 percent). On the one hand, companies are facing global supply chain disruptions and related price increases for metal, plastic, rubber or wood. On the other, rising energy prices are also becoming a burden on business. Another factor is the uncertainty of many companies as to what costs they will face with the transformation to a climate-neutral economy, e.g. through carbon $_2$pricing and the implementation of the Green Deal.

In the retail sector, wholesalers and trade intermediaries are once again significantly more affected by rising energy and commodity prices (69 percent) than retailers (55 percent). In the construction industry, the pressure is greatest in building construction (78 percent), followed by civil engineering (73 percent) and finishing trades (69 percent). Particularly affected industries in the service sector are warehousing and transport services (67 percent), but also the hospitality industry (63 percent).

The shortage of skilled workers is a particular concern for industries such as construction (80 percent), hospitality (75 percent) and lodging (76 percent). However, companies in the warehousing and transport services sectors also fear that they will not have enough staff available to process their orders (75 percent). Among industrial companies, it is particularly companies in the quarrying and mining sector (65 percent), but also medical technology (62 percent), that complain about a shortage of skilled workers.

TOP business risks by sector

Percentage of responses; multiple responses possible

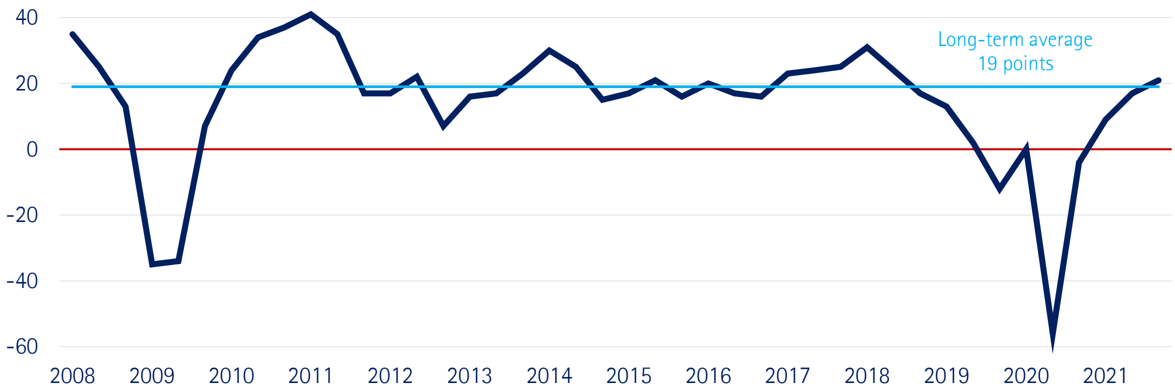
	Manufactoring	Construction	Trade	Services
1.	**81% prices of energy and commodity**	**80% lack of skilled workers**	**62% prices of energy and commodity**	**60% lack of skilled workers**
2.	56% lack of skilled workers	74% prices of energy and commodity	52% lack of skilled workers	45% economic policy conditions
3.	40% labour costs	44% labour costs	46% domestic demand	43% prices of energy and commodity
4.	40% economic policy conditions	36% economic policy conditions	44% economic policy conditions	40% labour costs
5.	36% domestic demand	29% domestic demand	37% labour costs	35% domestic demand

Marked in red: All-time high

Export expectations of industrial companies for the coming 12 months

Although companies' export expectations brightened again (balance of 21 points after 17 points previously), the increase is relatively small. The balance is only slightly above the long-term average of 19 points. German exports increased steadily in the first half of the year. Recently, growth has slowed considerably. However, this is not so much due to a decline in foreign demand. Only 27 percent (down from 37 percent) of companies now see foreign demand as a business risk - and thus as few as last at the start of 2018. Rather, the export industry is also being held back by the ongoing problems in international supply chains, such as disruptions in container shipping, travel restrictions or rising commodity and energy prices.

Across almost all size classes, companies' export expectations are slightly more positive than in early summer. For the first time since the beginning of 2019, the positive expectations of small companies with up to 19 employees predominate (balance of three points after minus one point previously). Companies with more than 200 employees (balance unchanged at 35 points) and with more than 1,000 employees (balance of 43 after previously 39 points) have above-average expectations for exports in the coming twelve months.



Balance of higher reports minus lower reports in points

While the export expectations of the producers of intermediate goods rose only slightly compared to the previous survey (balance of 16 points after 15 points previously), the producers of capital goods (balance of 31 points after 24 points previously) and the producers of goods and consumer goods (balance of 18 points after eight points previously) raised their expectations more significantly.

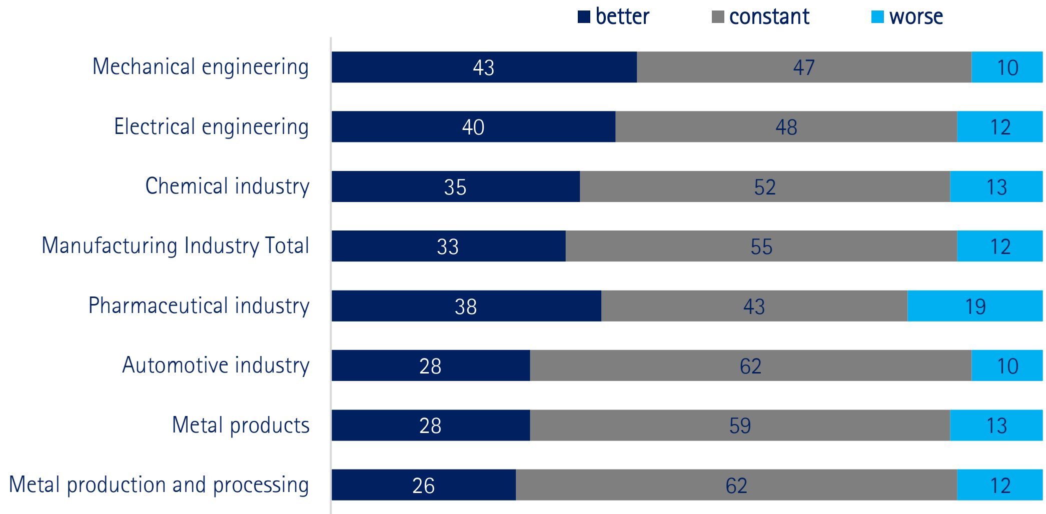
Among intermediate goods producers, supply bottlenecks for raw materials and intermediate products are significantly dampening expected exports: for example, companies in metal production and processing are reducing their export expectations (balance of 14 points, down from 19 points previously). The decline is even more drastic for the wood industry (balance of one point after 27 points previously). Manufacturers of rubber and plastic products are more pessimistic about their export expectations than the industry average (balance unchanged at ten points). The chemical industry, on the other hand, is slightly more optimistic than recently in its export plans (balance of 22 points after 20 points previously).

Capital goods producers are raising their export expectations, as they stand to benefit from the economic recovery in parts of the global economy. Mechanical engineers (balance of 33 points, up from 28) and electrical engineers (balance of 28 points, up from 23), for example, have an above-average positive view of their expected exports over the next twelve months. Companies in the cutting-edge technology (balance of 33 points after 26 points previously) and high-tech (balance of 30 points after 28 points previously) sectors are also more optimistic about their foreign business in the coming months than the manufacturing industry as a whole.

By contrast, motor vehicle manufacturers are more cautious about their export prospects than in early summer (balance of 18 points after 23 points previously). Due to the ongoing supply difficulties for semiconductors, some companies are forced to cut back or halt production.

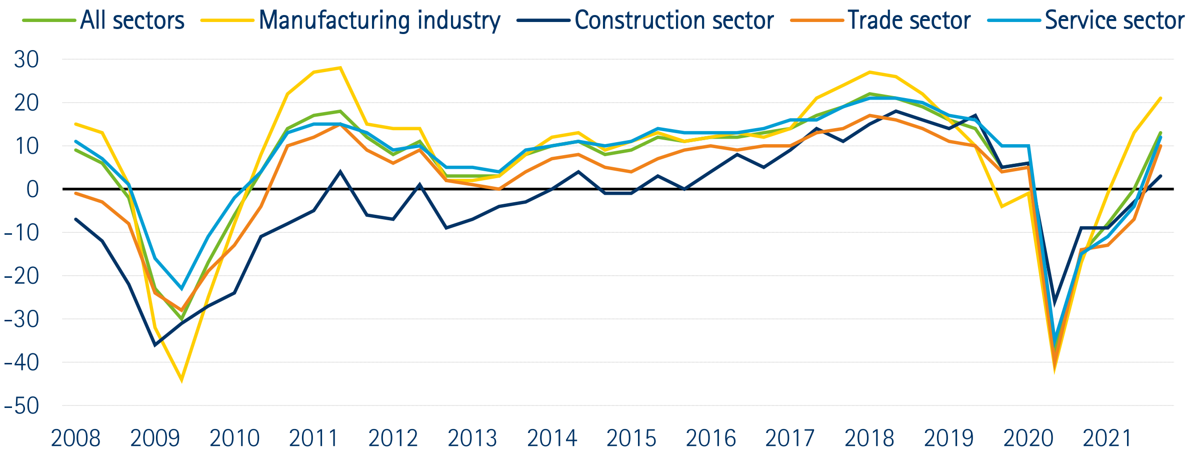
Export expectations for the coming 12 months in selected industries

Shares in percent



Investment plans of companies for the next 12 months

Compared with the previous survey, companies' investment plans have brightened across all sectors of the economy. Just under one-third of companies (31 percent) are aiming to expand their investments, while around one-fifth (18 percent) are planning to cut back (balance of 13 points compared with zero points previously). Industrial companies have the most optimistic investment plans (balance of 21 points after 13 points previously). However, the increase in investment plans compared to the previous survey is also strongly based on an improved situation in trade (balance of ten points after minus seven points previously) and services (balance of twelve points after minus four points previously). These sectors - along with the construction industry - had planned to cut their investment budgets in the early summer and throughout the pandemic. The construction industry remains rather cautious in its investment plans (balance of three points after minus three points previously). Across all sectors of the economy, the larger the company, the higher its investment plans.



Balance higher valuations minus lower valuations

Investment plans in industry have improved once again, particularly in view of the increase in demand, foreign and domestic demand are seen much less as a risk, and order books are well filled. Nevertheless, the outlook for industry is mixed. Raw material and supply bottlenecks are hampering production, and industrial companies are also feeling the pressure of the shortage of skilled workers. This could also ruin investment plans. For example, industrial companies that want to invest more are feeling a more pronounced shortage of skilled workers. While companies in the electrical engineering sector (balance of 27 points, up from 17 points) and in mechanical engineering (balance of 22 points, up from ten points) are significantly increasing their investment plans, other sectors are only slightly expanding their investment plans: In the automotive industry, for example, one-third of the firms are increasing their investments (33 percent), but around one-fourth (22 percent) are planning cutbacks (balance of eleven points after six points previously). Here, manufacturers of motor vehicle parts and accessories are particularly cautious (balance of minus one after previously two points). Investment plans are also comparatively restrained in the area of consumer goods producers (balance of twelve after two points previously).

The changes in investment plans are particularly strong in the retail sector and among service providers, where investment sentiment had previously been depressed due to the pandemic-related restrictions. For the first time since the beginning of 2020, the retail sector is no longer planning any cuts for the coming year (balance of five points, compared with minus 14 previously). In wholesaling (balance of 16 points, up from one) and among trade intermediaries (balance of 17 points, up from two), which are benefiting from the brighter situation in industry, investment plans for the coming months are more positive than in early summer. Among the service providers, warehousing companies, for example, are noticeably expanding their investment plans (balance of 40 after previously minus seven points), already reflecting the effects of the supply chain difficulties. Investment plans are also better than before in the hotel and restaurant industry (balance of seven after minus 23 points previously) or the culture and creative industries (balance of twelve after minus seven points previously), which were particularly affected by the lockdowns. In contrast, sectors such as travel agents continue to cut back on investments despite a more optimistic assessment (balance of minus 29 after minus 43 points previously).

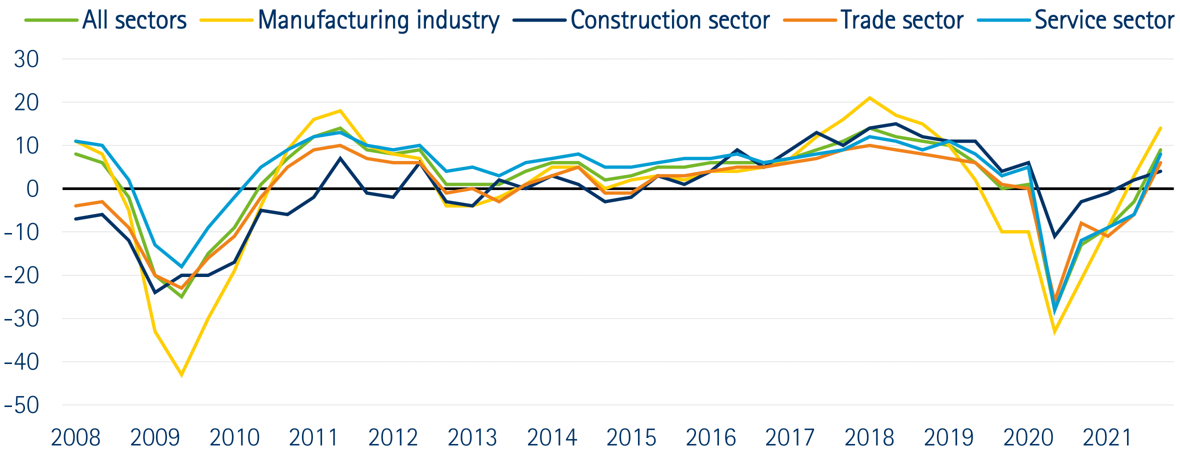
In terms of investment motives, environmental protection is clearly gaining in importance across all sectors of the economy compared with the previous survey. The current high energy and raw material prices are also having an impact here. This is a continuation of a long-term trend whereby companies are having to shoulder ever greater expenses for climate and environmentally friendly production. The current figure of 26 percent (up from 21 percent) is well above the long-term average of 14 percent. Among industrial companies, as many as 33 percent (up from 28 percent) cite environmental protection as a motive for future investment. The figure is particularly high in the mining and quarrying sector (54 percent after 57 percent previously). A sharp increase compared to the previous survey can be observed among motor vehicle manufacturers (42 after 31 percent previously). However, the investment motives of rationalisation (48 after previously 46 percent) and product innovation predominate here with a constant 53 percent.

Main motives for domestic investment (in percent; multiple answers possible, value of previous survey in parentheses):

	Streamlining	Product innovation	Capacity expansion	Environmental protection	Replacement demand
All industries	31 (33)	32 (31)	29 (25)	26 (21)	63 (64)
Manufacturing	42 (44)	35 (36)	36 (31)	33 (28)	62 (64)
Construction	23 (24)	23 (21)	22 (20)	23 (20)	77 (79)
Trade	28 (30)	27 (26)	28 (24)	24 (18)	63 (62)
Services	27 (28)	32 (31)	25 (22)	23 (18)	62 (63)

Companies' employment plans for the next 12 months

Companies' hiring plans are clearly turning positive again, after having been consistently negative in the last four surveys during the pandemic (balance of nine points after minus three points previously). This means that they are once again noticeably above the long-term average (zero points). Nearly one in four firms (22 percent) plan to increase employment (up from 16 percent in early summer 2021), while 13 percent anticipate fewer staff (down from 19 percent in early summer 2021). Plans were last this expansive at the start of 2019, with a particularly large number of industrial companies planning to increase staff (balance of 14 points, up from three points previously). The biggest jump compared to the previous survey was made by service providers (balance of eight points after minus six points previously). Companies are aware that hiring new employees can become a challenge, particularly in light of demographic developments - for the first time since the beginning of 2020, the shortage of skilled workers is once again the biggest business risk for them. The issue is once again occupying a dominant place in the economy.



Balance higher valuations minus lower

In the industrial sector, current staffing plans point to an increase in employment, after these plans had been drastically reduced in some cases during the previous months of the crisis. At 14 points, the current balance is noticeably above the level of the previous survey (balance of three points) and thus higher than at any time since autumn 2018. Retailers and service providers, which have been hit harder and for longer by the Corona effects, are also scaling up their staffing plans again. The service providers show the largest increase compared to the previous survey (balance of eight points after minus six points previously). In the retail sector, the balance rose from minus six to plus six points. In the construction industry, hiring plans are also on the rise, albeit less markedly. The balance is lower at four points, while the assessment of the situation remains good. The high level of employment, which has also grown in the past crisis months in contrast to other sectors, as well as the pronounced labour bottlenecks and material shortages in the construction industry may be leaving their mark here.

A look at industry shows that producers of intermediate goods and capital goods are planning to employ more staff (balance of 15 after six points previously and 17 after three points previously). Companies in the cutting-edge and high-tech sectors (balance of 19 after nine points previously and 14 after three points previously) also intend to increase their workforces. Motor vehicle construction, on the other hand, is reticent, although there is also an increase there (balance of minus four points after minus eight points previously).

In the area of service providers, sectors with a strong link to information and communication technologies or digitisation in particular have expansive staffing plans. These include IT service providers (balance of 37 after previously 27 points), telecommunications (balance of 28 after previously 31 points), the information economy (balance of 29 after previously 18 points) and programming (balance of 30 after previously 28 points). During the pandemic, the use of these technologies was significantly intensified, e.g. to limit contacts, thus accelerating the already ongoing development. The high demand for personnel in this area indicates that the successful implementation of digitalisation in companies depends not least on the availability of the skilled workers required for this.

Companies are also looking for staff in the health and social service providers (balance of 16 after previously eleven points) and in the entire health economy (balance of 16 after previously eight points). This is partly due to the current Corona crisis and, in the medium and long term, to demographic developments with increasing demand for healthcare services in an ageing society.

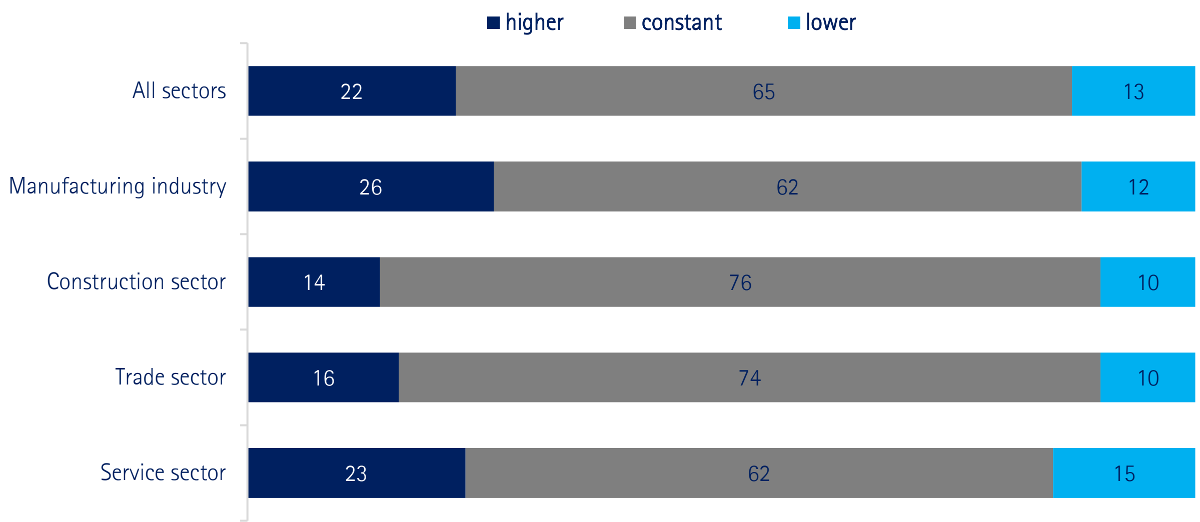
Employment plans in the hospitality sector, which was particularly affected by the pandemic and the lockdown measures to contain it and where employment was lost on a larger scale, are brightening again (balance of two after minus 24 points previously). The value is thus above the pre-crisis level (autumn 2019: balance of minus one point). Trade fair, exhibition and congress organisers, which also had to suspend their business activities for much longer than other sectors, intend to increase their staff significantly in the coming months (balance of 17 after previously minus 25 points).

Retailers are also planning to recruit more staff - the balance has even reached its highest level (balance of 5 after minus 11 points previously). There, too, the pandemic had left clear traces and led to a decline in employment; now companies are trying to fill positions again.

Overall, the quite expansive employment plans of companies are subject to the shortage of skilled labour, which is once again gaining in importance as demand for personnel rises and can make the planned filling of vacancies more difficult. Added to this is the risk of rising labour costs - thus those companies that fear the shortage of skilled workers as a business risk particularly frequently see rising labour costs as such a risk at the same time.

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 Year-on-year change, in percent, price-adjusted, chained			
	2020	DIHK forecast 2021	DIHK forecast 2022
GDP	-4.6%	2.3%	3.6%
Private consumer spending	-5.9%	0.0%	6.2%
Government consumption expenditure	3.5%	2.0%	0.0%
Gross fixed capital formation	-2.2%	2.3%	3.1%
- Equipments	-11.2%	5.5%	6.0%
- Other plants	1.0%	1.0%	3.0%
- Buildings	2.5%	1.0%	1.5%
Export (goods and services)	-9.3%	7.5%	7.0%
Import (goods and services)	-8.6%	7.5%	7.5%
Employed persons (change in thousands)	-370	0	+400
Consumer prices	0.5%	3.0%	2.5%

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