Business expectations have plummeted

DIHK Business Survey Early Summer 2022

DIHK Deutscher Industrie- und Handelskammertag

IHK Deutsche Industrie- und Handelskammern

Current business situation of the companies

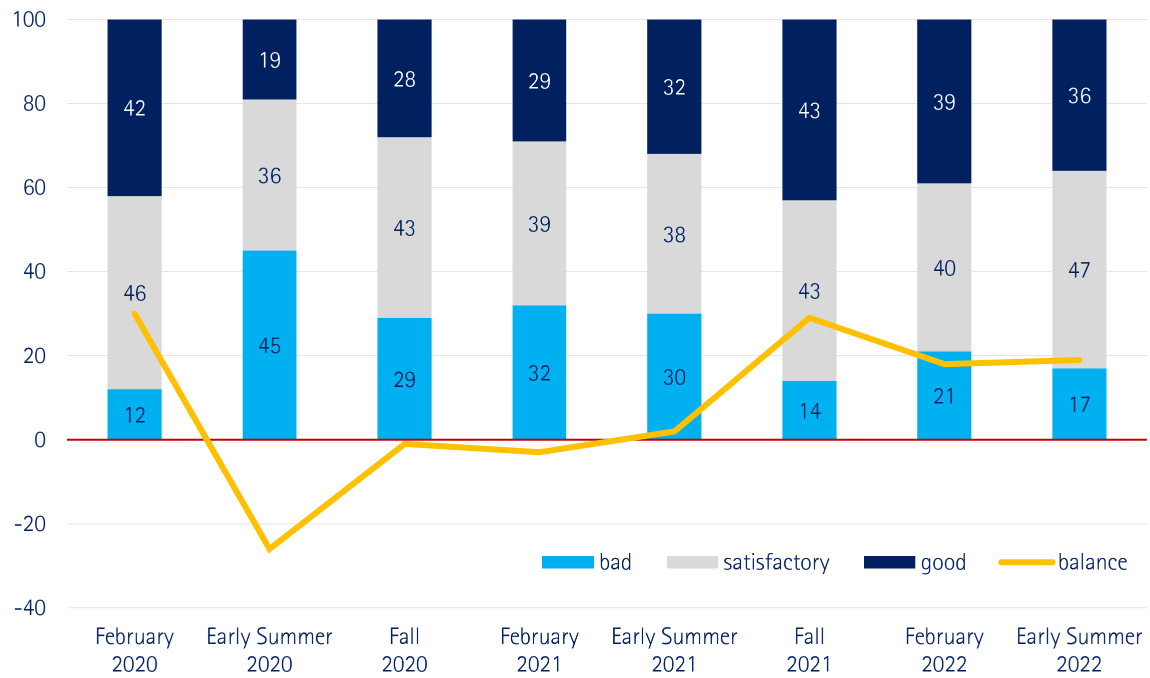
The business situation in the economy is characterised by rising energy and commodity prices due to the war in Ukraine, increasing supply bottlenecks due to harsh lockdowns in China and an end to the domestic Covid restrictions. This affects the individual sectors to a different extent.

Across the economy, 36 percent of companies assess their business situation in early summer as "good". This is three percentage points less than in the previous survey at the beginning of the year. However, the proportion of companies reporting a poor business situation also fell overall to 17 percent (previously 21 percent). The balance of good and poor assessments of the situation thus improves slightly compared to the early summer by one point to 19 points and is thus slightly below the long-term average (22 points).

However, a look at the sectors indicates that the development of the individual industries is currently shifting: the situation is brightening for consumer-related service providers. In industry and construction, against the backdrop of price increases and bottlenecks in energy, raw materials and intermediate inputs, the business situation has clouded over, in some cases significantly. Although the business situation in the latter two sectors is significantly better than the average for the economy as a whole, the mood in both construction and industry is deteriorating:

The share of **industrial companies** with a positive assessment of the situation declines by five percentage points to 42 percent compared to the previous survey, while the share of those with a negative assessment rises by one percentage point to thirteen percent. The balance of good and bad assessments of the situation in industry thus falls to 29 points (after 35 points previously). The worst assessment of the situation is among manufacturers of consumer goods. Only 28 percent now assess their business situation as good, while 22 percent have already reached a negative assessment. The balance declines to six points after twelve previously - well below the long-term average of fifteen points. By contrast, the current business situation among intermediate goods producers and manufacturers of capital goods is still much better (positive assessment by 45 percent and 44 percent, respectively). However, the order books remain full. Nevertheless, the situation here has also clouded over facing supply chain problems. The balance of good and bad assessments of the situation has fallen to 35 points for intermediate goods producers after 40 points previously and from 32 points to 40 points for capital goods manufacturers.

Business situation of companies - shares in percent, balance in points

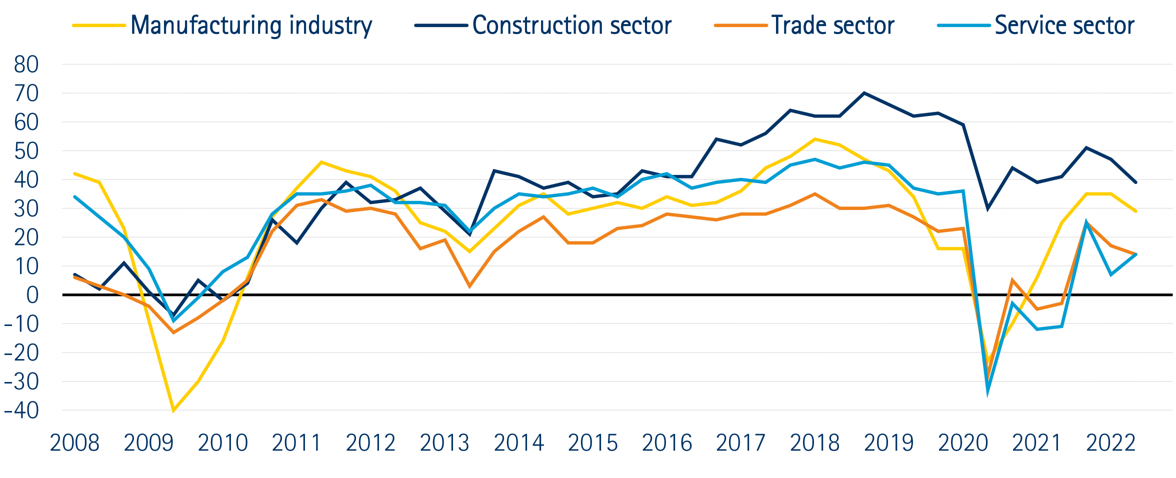


Although business is still good in the **construction industry**, the continuing bottlenecks and price jumps, e.g. for steel and bitumen, are leaving their mark, especially in building construction and civil engineering. At 46 percent, 6 percentage points fewer construction companies report a good business situation than in the previous survey. By contrast, the proportion of construction companies with a poor business situation rose from five to seven percent. The assessment of the business situation thus falls to a balance of 39 points after 47 points previously. In the building construction sector, the balance of good and poor assessments of the business situation falls to 38 from 50 points, while in the civil engineering sector the balance drops by ten points to 32. The finishing trade is less affected by bottlenecks and can look forward to order books that remain full. Here the business situation worsens by only 4 points compared to the previous survey to a balance of 43 points.

In **trade,** price increases and bottlenecks also weigh on business. However, the appraisal is somewhat better than in the construction or industry sector: one-third (33 percent after 37 percent previously) assess the business situation as good, just under one-fifth (19 percent after 20 percent previously) assess the situation as poor. The balance of good and bad assessments thus falls by 3 to 14 points, but is still slightly above the long-term average (twelve points). Three out of five wholesalers (60 percent) have already been able to pass on at least part of the price increases to customers, while only 45 percent of retailers have been able to do so. Therefore, there are also clear differences in the level of the business situation. While in retail only slightly more companies report a good situation (28 percent) than a bad one (23 percent; balance of five points after eight points previously), in wholesale still significantly more companies see a good business situation (39 percent after 43 percent; balance of 25 points after 29 points previously).

In contrast to the remaining sectors, the situation in the **service sector** is brightening somewhat compared to the beginning of the year. This is due in particular to the withdrawal of Covid restrictions (mask requirement, proof requirements or visitor caps), which allows many consumer-related service providers, such as restaurateurs, fitness studios or cinemas, to resume business without restrictions. Only one fifth of the service providers (20 percent) still assess their situation as bad, compared to 27 percent at the beginning of the year. At the same time, the share of service providers reporting a good business situation has remained constant. The balance of good and poor assessments has thus risen by seven points to 14 points compared to the previous survey. This slight brightening in the service sector is due in particular to the improvement in the situation in the hotel and restaurant industry or other tourism-related sectors. With the expiry of the Covid measures, these sectors can breathe a little easier. Businesses assess their business situation as poor much less frequently than at the beginning of the year. Compared to the previous survey, "only" 40 percent of the companies in the hospitality industry report a poor business situation, 33 percentage points less than at the beginning of the year. The balance of good and bad assessments of the situation has therefore risen to minus 23 after minus 67 previously. The situation is similar for travel agents, where the balance of good and bad assessments of the situation has risen to minus 27 points from minus 72 points previously.

Business situation of companies - balance in points



Balance of good and bad valuations

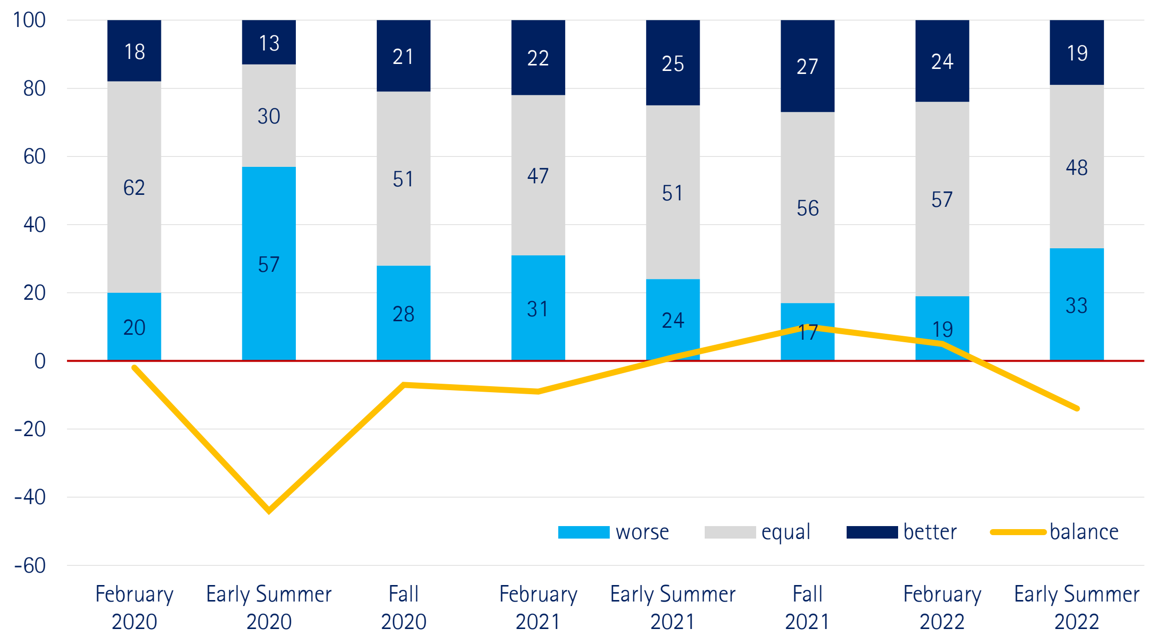
Business expectations of the companies

Business expectations show opposite developments: The removal of CovidCovid restrictions is leading to a much more optimistic outlook among tourism-related service providers, such as restaurateurs. However, in view of the Russian invasion of Ukraine and the hard lockdown in China, business expectations have plummeted in almost all other sectors, especially in the energy-intensive industries. Overall, negative expectations dominate when looking at the economy as a whole: Across all sectors, only just under one-fifth of the companies (19 percent) are optimistic about the business outlook for the next twelve months, compared to just under a quarter (24 percent) at the beginning of the year. On the other hand, one third (33 percent) expect business to worsen, compared to only 19 percent in the previous survey. Overall, the balance of positive and negative business expectations turned negative and declined to minus 14 points from five points previously. This is also well below the long-term average of 6 points.

The slump in business expectations is particularly serious in the **industry** sector. Only 14 percent expect their situation to improve. That is only half as many as at the beginning of the year (27 percent). On the other hand, 37 percent of the industrial companies have negative expectations, more than twice as many as in the previous survey (15 percent). The balance of business expectations thus turns clearly negative, to a balance of minus 23 points after twelve previously.

For **intermediate goods producers,** the price jumps and shortages in energy and raw materials are particularly depressing and lead to a dramatic slump in business expectations of 39 points to a balance of minus 29 points. Only one in ten intermediate goods producers (11 after 25 percent previously) is optimistic. Forty percent are pessimistic about the future (down from 15 percent). Companies in the metal production and processing sector are particularly affected: the balance of positive and negative expectations has fallen by 56 to minus 38 points. This slump in expectations is even greater than the decline at the beginning of the Covid pandemic in 2020 or during the financial crisis. The outlook for the next twelve months is only marginally lower for other intermediate goods producers. For companies in the quarrying and mining sector, the balance drops to minus 40 from 2 points previously, in the rubber and plastics industry to minus 33 from 9 points previously and in the chemical industry to minus 29 from 7 points previously.

Business expectations of companies - shares in percent, balance in points

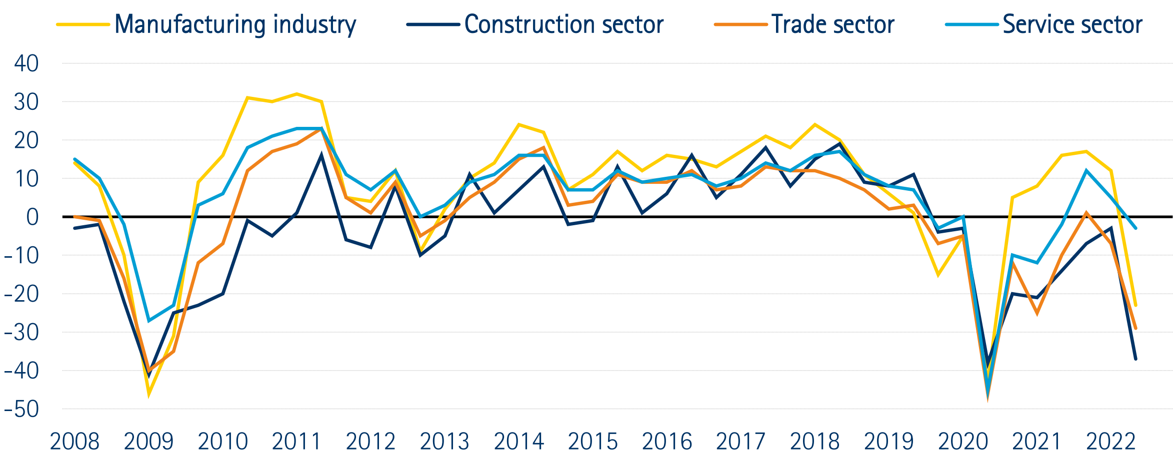


Among **capital goods manufacturers,** the outlook for the coming year has also deteriorated significantly: 17 percent (after 33 percent previously) expect business to improve, but twice as many (34 percent after 12 percent previously) expect it to worsen. The balance of positive and negative assessments turns negative and drops to minus 17 points from 21 points previously. The industry has been hit particularly hard by the renewed disruption of supply chains in Asia and the resulting bottlenecks in inputs such as semiconductors. Expectations in mechanical engineering (balance of minus 18 after 25 points previously) and motor vehicle manufacturing (balance of minus 21 after 21 points previously) have slumped the most. Companies in the electrical engineering sector are also predominantly pessimistic about the coming months (balance of minus 14 after 19 points previously).

Expectations among manufacturers of **durable and non-durable consumer goods are** also clearly in the red, albeit to a slightly lesser extent than in the intermediate goods industry: just under one-fifth (19 after 26 percent previously) are still hopeful about the future 12 months, while 38 percent (after 19 percent previously) expect business to deteriorate. On balance, business expectations have dropped to minus 19 points from seven previously. In particular, companies from the textile, clothing and leather industry (balance of minus 20 after eleven points previously) and the food and feed industry (balance of minus 31 after minus three points previously) expect business to deteriorate significantly. The pharmaceutical industry stands out positively. Here, despite the gloomy mood, the optimists still outweigh the pessimists (balance of three points after 24 previously). The continuing high demand for pharmaceutical products due to the pandemic may play a role here. Companies in the clothing industry (balance of two after 24 points previously) and the beverage industry (balance of seven after twelve points previously) also still have weakly positive expectations. Breweries in particular are hoping for a summer with strong sales (balance of 35 points after 23 previously).

Companies in the **construction sector** consider their prospects to be particularly bleak. The war in Ukraine and the sanctions are leading to shortages of timber, steel, bitumen and other building materials. Added to this is the continuing shortage of skilled workers, which makes it even more difficult to process orders. The proportion of construction companies with positive expectations has halved (seven after 14 percent previously), while the proportion of pessimists has risen from 17 percent to 44 percent. The balance sank by 34 to minus 37 points. The sharpest drop in expectations was recorded in the building construction sector (balance of minus 48 after minus two points previously). Rising interest rates on building loans put a damper on private residential construction. Civil engineering follows closely with a decline from 35 to a balance of minus 43 points. By contrast, business expectations among firms in the finishing trade declined somewhat less sharply (balance of minus 22 after minus two previously).

Business expectations of companies - balance in points



Balance of better and inferior valuations

Companies in the **retail sector** also expect business to worsen in the current year. On the one hand, they fear a dampened consumer mood in view of the war and rising prices. On the other hand, delivery problems are also causing grief. Overall, only 13 percent of the companies have optimistic business expectations (compared to 18 percent before), while 42 percent expect a decline in sales (25 percent before). The balance of positive and negative expectations sinks from minus seven to minus 29 points. The outlook is particularly poor in the motor vehicle trade and repair sector (balance of minus 43 after minus 19 points previously). Among other things, orders cannot be fulfilled because of a lack of spare parts. Retailers and wholesalers are equally gloomy about their prospects, although retailers were already more pessimistic at the beginning of the year (balance of minus 28 after minus eleven points previously and minus 28 after minus one point previously).

Among the **service providers,** business expectations are very different. Across the sector as a whole, just under a quarter (23 percent) of firms in the services sector still hope for better business in the coming months (previously 25 percent). A deterioration is expected by 26 percent, compared to 20 percent previously. The balance thus declined only slightly by eight points to minus three. After the expiry of the Covid restrictions, businesses in the hotel and restaurant sector in particular are more optimistic than they have been for years. Their balance of positive and negative business expectations rises by 27 to 22 points. This is only slightly below the record level (24 points in early summer 2011). Travel agents (balance of 18 after ten points previously), companies in the arts, entertainment and recreation sector (balance of ten after minus two points previously) and especially trade fair, exhibition and congress organisers (balance of 42 after 20 points previously) also expect better business. In contrast, the business expectations of mainly business-related service providers have dimmed (balance of minus two points after 14 points previously). The poor outlook in manufacturing also puts a damper on the turnover expectations of business-related service providers. In the transport and storage sector, rising energy prices, the shortage of skilled workers and supply chain difficulties are depressing expectations. The balance drops by 23 to minus 26 points.

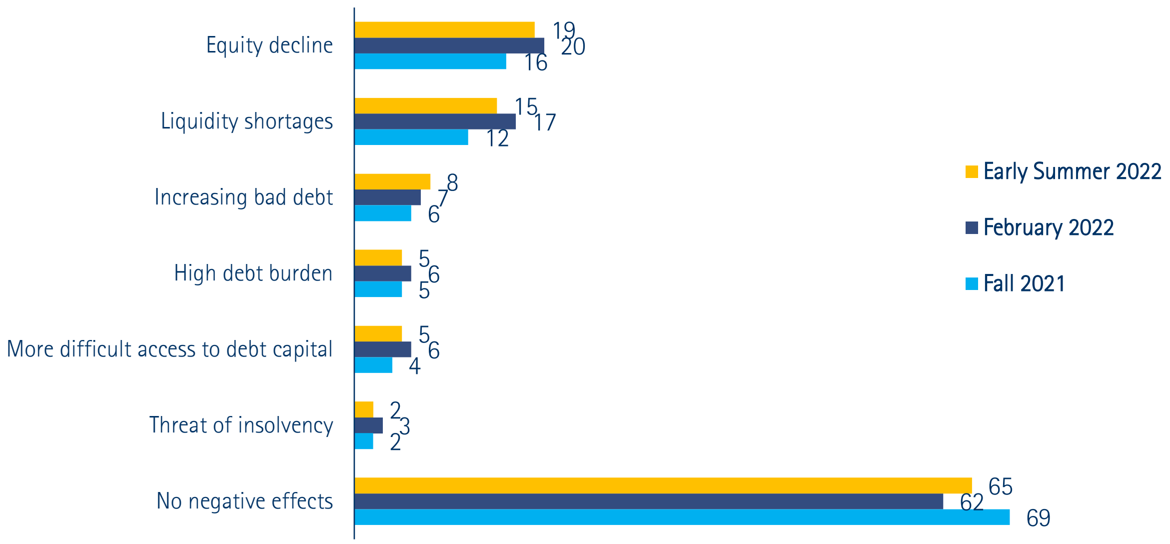
Current financing situation of the companies

The financial situation of many companies remains difficult. One third of the companies (35 percent) describe their financing situation as problematic. At the beginning of 2022, it was almost two-fifths (38 percent). After almost two years of a reserve-sapping pandemic, the decline in equity capital is predominant (19 percent). The still significant proportion of companies reporting liquidity bottlenecks (15 percent) is due to the continuing and worsening supply chain disruptions as well as sharply rising prices, especially for energy, but also for raw materials, intermediate products and logistics services. This is also accompanied by a slight increase in companies facing bad debt losses (eight percent). Slightly fewer companies than at the beginning of 2022 see themselves threatened by insolvency: across the entire economy, two percent of businesses are at risk. Access to debt capital has worsened for five percent of companies. The smaller the company, the more critical its financial situation. Financing problems are reported by 42 percent of small enterprises with up to 19 employees compared to only 18 percent of large enterprises with 1,000 or more employees. For the small enterprises, the decline in equity capital (25 percent) and liquidity bottlenecks (17 percent) are the main challenges.

A look at the economic sectors shows that the financial situation in industry, construction and trade is almost unchanged compared to the beginning of 2022. In construction it deteriorates by one percentage point, in trade it improves by one percentage point. At the industry level, it is mainly the services sector that reports a slightly improved financial situation with the removal of pandemic-related restrictions - although the last two years have also left the deepest marks there. Among the service providers, the highest share of companies with a decline in equity capital continues to be found.

About a quarter of the **construction companies** assess their financial situation as problematic (28 after previously 27 percent). The share of companies facing a decline in equity capital rose from twelve to 15 percent. More construction companies than at the beginning of the year report more difficult access to debt capital and a high overall debt burden. Among building construction companies in particular, the share of those already having to pay higher interest rates for their borrowed capital has more than doubled compared to the previous year.

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



Share in %, multiple answers possible

In **industry,** just under a third of companies continue to report a problematic financial situation (31 percent), and the share of companies reporting liquidity bottlenecks (15 percent) and a decline in equity capital (14 after previously 13 percent at the beginning of 2022) has also remained almost the same. But especially in industry, the picture varies greatly by sector. Rising energy costs and sharply increasing prices of raw materials and intermediate products are leading to considerable burdens in individual industrial sectors. The difference between production becoming more expensive and the lack of or incomplete possibilities to pass on the increased prices in the value chain is reflected in the balance sheets.

More companies than at the beginning of the year in the chemical industry (29 after 24 percent at the beginning of 2022), rubber and plastics producers (36 after 29 percent previously) and metal production and processing (41 after 35 percent previously) are confronted with a problematic financial situation. While in the chemical industry it is mainly the decline in equity that is causing problems (15 after nine percent previously), in the rubber and plastics producers it is a mixture of a decline in equity (18 after 15 percent previously), liquidity bottlenecks (17 after 15 percent previously) and increasing bad debt losses (eleven after five percent at the beginning of the year). A strong increase in the number of companies reporting liquidity bottlenecks can be seen in core industrial sectors such as motor vehicle manufacturing (25 after 12 percent at the beginning of the year). In addition, for more companies in these sectors, access to debt capital is becoming more difficult and its costs higher.

In the **trade sector,** the share of companies with financing difficulties is almost unchanged compared to the beginning of 2021, at 35 percent after 36 percent previously. Rising purchase prices and costs for energy and logistics on the one hand and labour costs on the other, combined with a limited and delayed passing on of additional costs to customers, are leaving their mark on balance sheets. More than other sectors, retail is already affected by rising interest rates and demands for stronger collateralisation of their loans.

While almost one fifth of the companies (unchanged at 19 percent) are facing dwindling equity capital, the share of companies reporting liquidity bottlenecks has fallen slightly from 16 to 13 percent. In wholesale and among commercial intermediaries, the financial situation looks somewhat better. Here, however, significantly more companies are able to pass on cost increases more quickly to the downstream economic stages: While three out of five wholesalers have already passed on cost increases, only 45 percent of retailers have done so. In the retail sector, which is coming out of a tense pandemic situation and which assesses the risks of rising energy and raw material costs and rising labour costs at an all-time high, 41 percent of the companies therefore report a problematic financial situation, which is mainly characterised by a decline in their equity capital (26 percent).

In a comparison of the economic sectors, the financial situation of the predominantly small and medium-sized **service providers** is the most strained. At the same time, however, there is a recovery now that restrictions on business operations have largely been lifted and Covid aid is being paid out. Now 38 percent of the service companies report a problematic financial situation. At the beginning of 2022, the figure was 43 percent. Both the decline in equity capital (22 percent after 24 percent previously) and liquidity bottlenecks (15 percent after 19 percent previously) continue to be a concern for the companies. In the case of travel agents, catering businesses and businesses in the arts, culture and recreation sectors, the restrictions ended only a few weeks ago. Accordingly, their financial situation remains critical. In almost every second business, equity has declined due to the pandemic restrictions. Risk factors for their financially sustainable recovery are now the shortage of skilled workers, rising energy and labour costs as well as domestic demand, which is assessed more critically by the catering industry at the start of the season than at the beginning of the year.

The assessment of the financial situation in the transport, logistics and warehousing sector is particularly tense - almost every second company (48 percent) reports financing problems here. In this sector, fixed prices for services often come up against skyrocketing energy costs. In addition, there are shortages due to logistics disruptions such as the congestion of international ports and the lack of availability of containers or simply pallets. The proportion of companies that feel threatened by liquidity shortages has risen from 17 to 20 percent compared to the beginning of 2022. In addition, financing via bank loans is becoming more expensive - although only just under one in ten companies in this sector is affected, the proportion has doubled compared to early summer 2021. The financing situation has changed particularly strongly among companies in the road freight transport sector. Every second company (52 percent) reports financing problems, which is ten percent more than at the beginning of the year. The focus is on the decline in equity capital (28 after 24 percent at the beginning of the year), followed by liquidity bottlenecks (22 after 13 percent) and rising bad debt losses (15 after ten percent). Particularly critical is the fact that the opportunities to use debt financing to bridge bottlenecks and for necessary investments have also worsened for the companies in the road freight transport sector compared to the previous year. In each case, 10 percent of the companies experience financing impairments due to rising interest rates, higher collateral requirements and a demand for a higher share of their own financing.

Business risks of the companies for the coming 12 months

Current events, especially the war in Ukraine and price spikes due to supply chain disruptions, are reflected in companies' business risks and depress business expectations. The risk of rising **energy and commodity prices** - already at the highest level measured so far in the previous survey - climbs again to a peak value (78 after 64 percent previously). They are the most serious challenges in all sectors. However, industry is the most affected (93 after 85 percent previously). The energy- and raw material-intensive intermediate goods manufacturers (95 after 90 percent previously) are particularly affected by the cost increases for gas, oil and electricity. Not only rising energy costs, but also supply problems for metals are darkening the business outlook. Almost all construction companies are also affected by price increases, with increasing bottlenecks in steel and bitumen, in addition to energy, having a particularly negative impact on expectations. In addition, energy and commodity prices are now also the top risks cited by trading and service companies (82 percent after 69 percent previously and 69 percent after 51 percent previously). In trade, the pressure is stronger among wholesalers and trade intermediaries, who are even more involved in international trade (84 percent after 73 percent), than in retail (79 percent after 64 percent). Among the service providers, companies in the transport and warehousing sector as well as the hotel and restaurant industry in particular fear rising energy and commodity prices (91 percent after 79 percent previously and 91 percent after 73 percent previously, respectively), while predominantly business-related service providers suffer less (54 percent after 37 percent previously).

TOP business risks by sector
Share of mentions in percent; multiple mentions possible, all-time high

	Manufacturing Industry	Construction	Trade	Services
1.	93% Energy and commodity prices	91% Energy and commodity prices	82% Energy and commodity prices	68% Energy and commodity prices
2.	52% Skilled labour shortage	71% Skilled labour shortage	53% Domestic demand	59% Skilled labour shortage
3.	43% Labour costs	50% Labour costs	47% Skilled labour shortage	47% Labour costs
4.	43% Economic policy	42% Economic policy	45% Economic policy	44% Economic policy
5.	40% Domestic demand	37% Domestic demand	44% Labour costs	38% Domestic demand

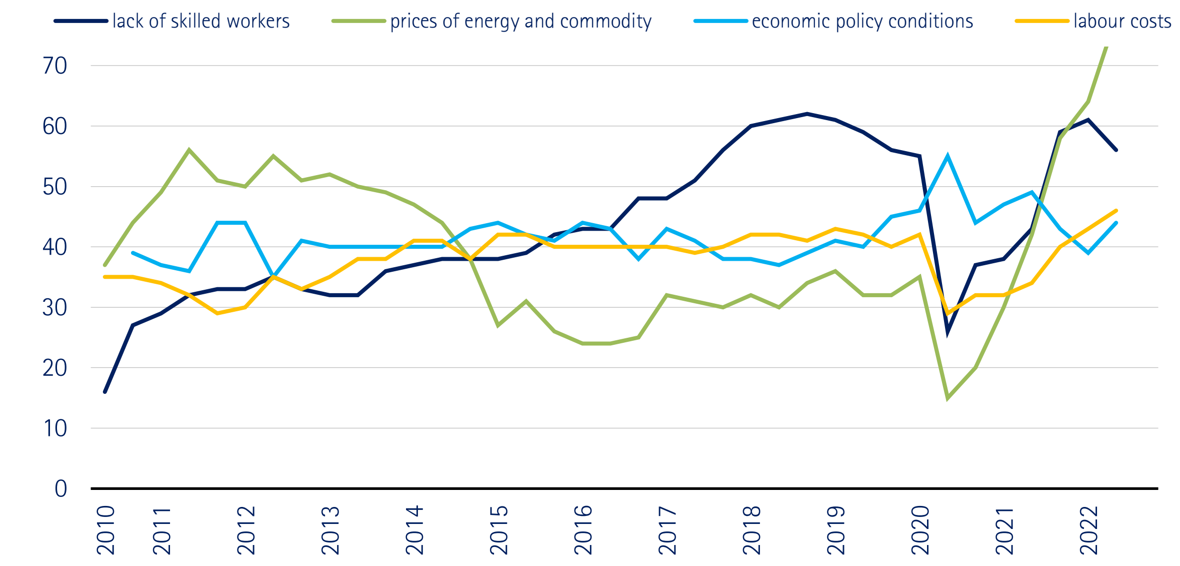
The risk of **labour costs** has also risen to a new all-time high, with 46 percent of companies citing it, up from 43 percent previously. It is true that it is often service companies with below-average wage levels, such as the hospitality industry or the security industry, that cite labour costs as a risk (67 percent and 65 percent respectively). However, when looking at the average values, the sectors are not far apart. About half of the companies in the construction industry (50 percent, down from 48 percent) and the service providers (47 percent, down from 43 percent) fear significant increases in personnel costs. In trade and industry the figures are only slightly lower at 44 percent and 43 percent respectively. This may already reflect concerns about a price-wage spiral. Especially in the low-wage sector, the upcoming minimum wage increase may also play a role.

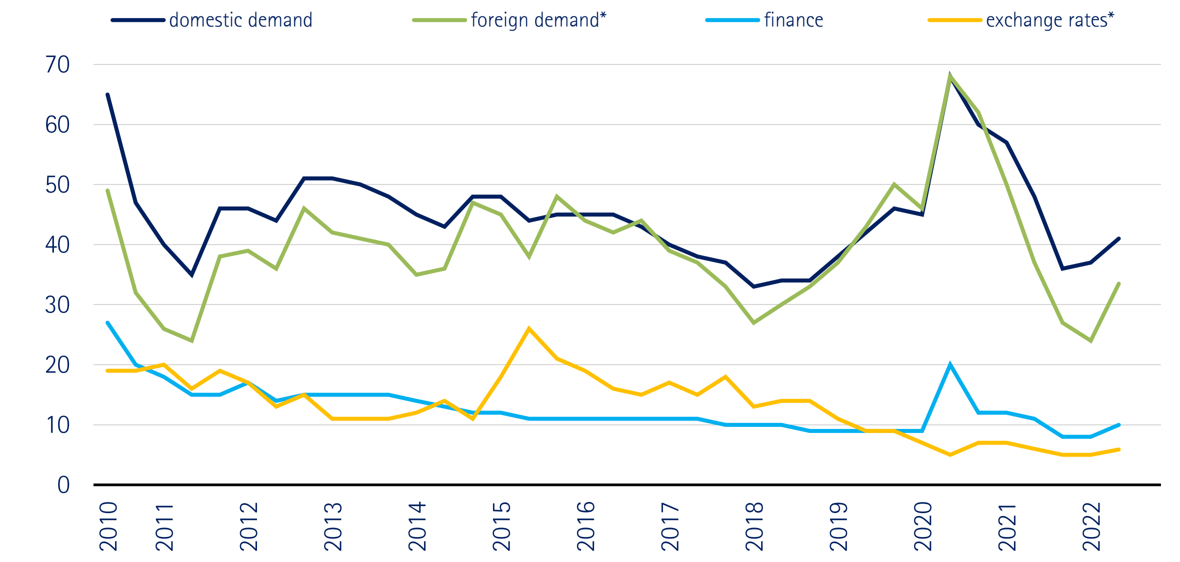
The **shortage of skilled workers** remains the second biggest business risk (56 after 61 percent previously). Only in trade does it fall to third place with 47 percent (after 52 percent previously). Although the fear of not finding enough qualified skilled workers takes a back seat to concerns about energy security and current economic and geopolitical developments, the shortage of skilled workers remains the second most important business risk. However, in view of the demographic development, the shortage of skilled workers will become one of the main structural challenges for companies. Especially the construction industry (71 percent after 78 percent before) or companies in the transport and warehousing sector (69 percent after 73 percent before) are struggling with the lack of personnel. In the hotel and restaurant industry, the pressure has decreased slightly compared to the previous survey (63 after 67 percent previously). Among industrial companies, it is particularly companies in the quarrying and mining sector (59 after 66 percent previously), but also the pharmaceutical industry (55 after 49 percent previously), that complain about a shortage of skilled workers.

In view of the geopolitical situation and the global economic slowdown, economic risks are also increasing. 41 percent of all companies are again concerned about **domestic demand** (after 37 percent previously). This is also reflected in the declining business expectations of the individual sectors. Trade in particular fears less domestic turnover (53 percent after 48 percent). However, the fear of a decline in orders jumps the most in the construction industry, by 10 percentage points to 37 percent. Rising construction loan interest rates play a role here, putting a damper on demand in private residential construction. More than one-third (34 percent) of the industrial companies fear a decline in **foreign demand** (after 24 percent previously), which also has a negative impact on export expectations. 44 percent of all companies name the **economic framework conditions** as a business risk (compared to 39 percent previously), with the war in Ukraine, the sanctions and the associated bottlenecks being named as particular risks.

Business risks for the overall economy

Percentage of responses; multiple responses possible; *export industry





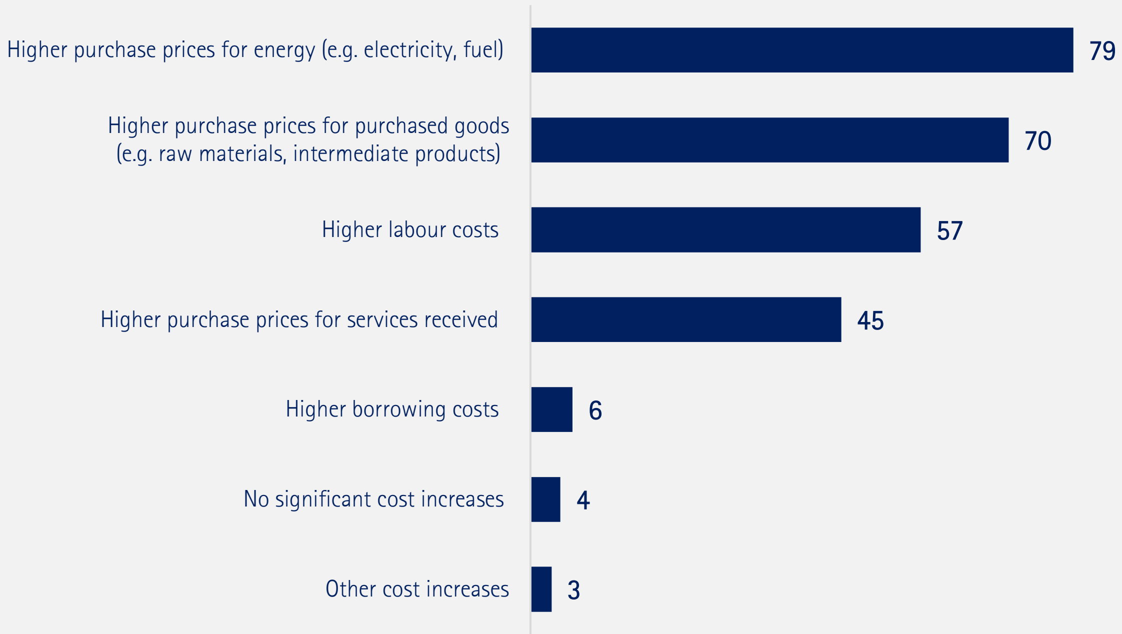
Cost increases due to supply bottlenecks and price increases

Rising prices have been particularly hard on businesses recently. For example, according to Destatis, producer prices rose by 33.5 percent in April 2022 compared to the previous year. In a special question in this survey, companies were asked which price increases they were particularly affected by:

The companies most frequently mention higher **purchase prices for energy** (79 percent). This cost factor is particularly noticeable in construction (92 percent) and industry (87 percent), somewhat less so in trade (83 percent) and service providers (73 percent).

In second place for the economy as a whole are higher **purchase prices for purchased goods** (70 percent). If service providers were disregarded here, this factor would even be the largest cost block. This is because 95 percent of industrial and construction companies and 90 percent of traders report particularly increased prices for raw materials, goods and intermediate products. In the service sector, only every second company (51 percent) reports this.

Which cost increases is your company particularly affected by? (Multiple answers possible, in percent)



Fifty-seven percent of the companies are affected by particularly increased **labour costs**, slightly above average in construction (64 percent) and service providers (59 percent). Below average is industry (50 percent) and trade (53 percent).

Higher **purchase prices for services received are** felt above all by construction companies (52 percent) and industrial companies (49 percent). Traders (41 percent) and service providers (43 percent) are affected somewhat less often (all sectors 45 percent).

Higher **borrowing costs** (6 percent) and **other cost increases** (three percent) do not play a significant role. Only four percent see **no significant cost increase**.

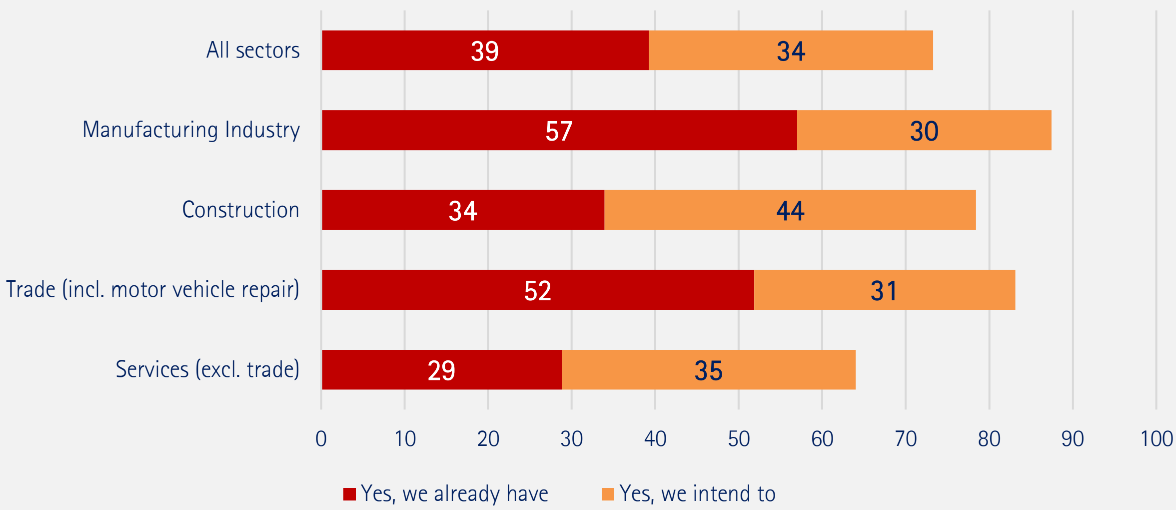
Passing on the cost increase to the customer

The cost increases that the economy is facing on a massive scale are cutting into margins and can pose serious existential problems for many companies. The only way out is often to pass on the cost increases to customers. In the early summer business survey, a special question was therefore asked whether the companies had implemented price increases or were still planning to do so. It is not always possible to pass on rising costs. This may be due to a lack of acceptance by the customer or to international competitive pressure, because not all economies are affected by the same price increases as Germany. In addition, there are also long-term contracts that do not allow prices to be raised - at least in the short term.

Overall, almost three quarters of the companies say they want to increase prices in the future (34 percent) or have already done so (39 percent). Fifteen percent cannot pass on their cost increases to customers and six percent have not yet decided. Only six percent of all companies report not being affected by any significant cost and price increases.

Do you pass on cost increases to your customers? (multiple answers not possible, in percent)

Do you pass on cost increases to your customers? (multiple answers not possible, in percent)



In **industry**, where the burden of higher energy and commodity prices is particularly high, 57 percent of the companies have already raised their prices and 30 percent still plan to do so. The situation is similar in **trade**. Here, too, more than half of the companies have already made price adjustments (52 percent), with wholesalers (60 percent) being significantly faster than retailers (45 percent). In addition, 31 percent still have a price increase in the pipeline (wholesale: 28

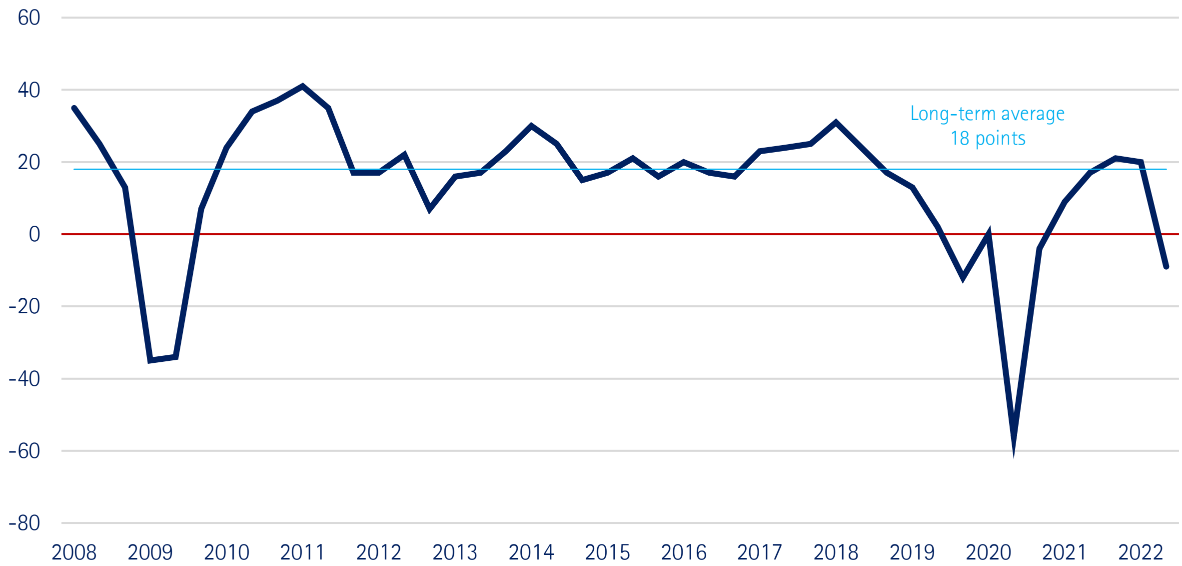
percent; retail 33 percent). In the **construction industry,** where a price adjustment during the construction phase is usually not so easy, only one-third of the companies (34 percent) have so far been able to pass on their additional costs to customers, but 44 percent of the construction companies are planning to do so. In the **service sector,** price increases are less frequent on average, 29 percent have already done so, a good third (35 percent) still plan to do so. However, especially in the heterogeneous service sector the range is very different: 37 percent of the companies in the hotel and restaurant industry have already passed on costs to customers, while almost half (48 percent) have yet to do so. This contrasts with companies that predominantly offer personal services. Here, 28 percent of the companies are not able to pass on any price increases to their customers. Only one-fifth (21 percent) have already raised prices. Just under a third (31 percent) still want to do so.

Export expectations of industrial companies for the coming 12 months

A weaker global economy and continuing supply chain disruptions due to lockdowns in China as well as the effects of the Russian war in Ukraine are causing export expectations of the internationally networked German economy to slump: Only one-fifth (20 percent) of companies expect exports to rise in the coming months - significantly less than in the previous survey (33 percent). Whereas at the beginning of the year only one in ten companies (13 percent) expected their exports to decline in the course of the year, the figure is now more than twice as high at 29 percent. The balance of positive and negative export expectations declined significantly compared to the previous survey to minus nine points (after 20 points previously).

Due to the weakening economic dynamics in important sales markets, 34 percent of the industrial companies see foreign demand as a business risk. Compared to the previous survey, the number of companies naming this risk has risen by ten percentage points (beginning of the year: 24 percent).

Export expectations of industrial enterprises - balance in points

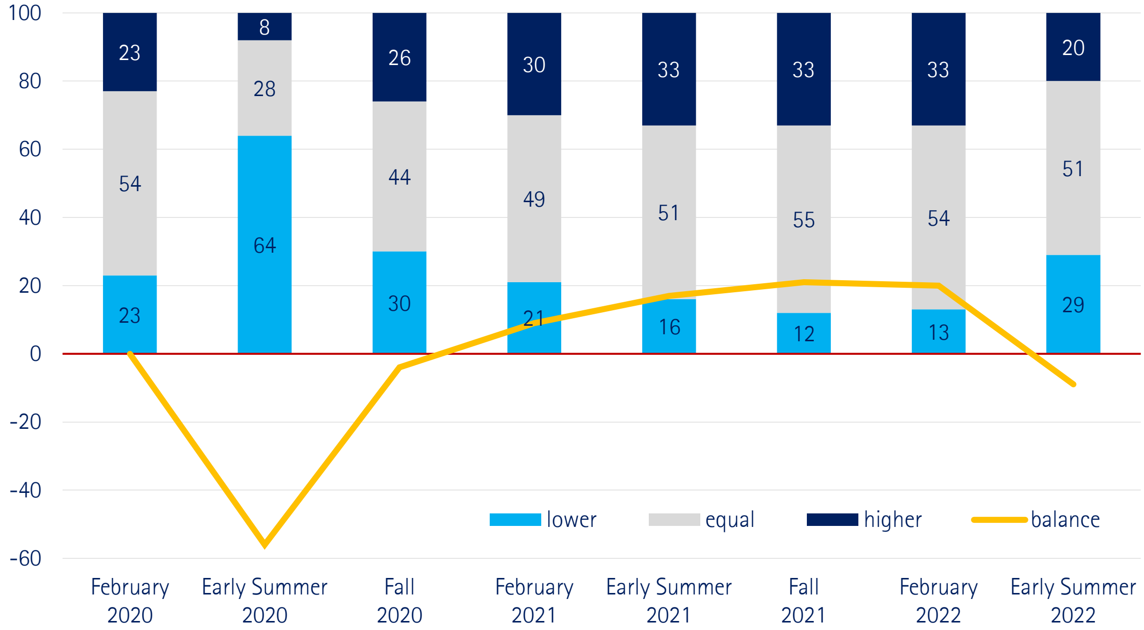


The concerns are most pronounced among **intermediate goods producers**, whose export expectations are below the industry average: only 16 percent expect exports to increase. At 30 percent, almost twice as many companies expect their exports to be weaker in the coming months (balance of minus 14 after 15 points previously). Rising costs for energy and raw materials are a much greater burden on companies in this country than on competitors on the world market. Companies in the metal production and processing sector in particular hardly expect any growth: only eight percent of the companies with positive expectations compare with 35 percent with negative expectations (balance of minus 27 after ten points previously). The outlook for the rubber and plastics industry is similarly negative, with 14 percent expecting exports to rise and 32 percent expecting them to fall (balance of minus 18 after 12 points previously), as is the chemical industry (balance of minus 16 after 18 points previously).

Among the **capital goods producers,** positive and negative expectations almost balance each other out: 24 percent of the companies expect exports to increase, 27 percent expect them to decrease. However, compared to the previous survey, export expectations in these sectors have fallen more significantly than in industry as a whole (balance of minus three points after 31 points previously). Manufacturers of automotive parts and accessories are particularly suffering from the ongoing supply chain disruptions: Among them, 17 percent expect exports to rise and 43 percent to fall (balance of minus 26 after 20 points previously). Among motor vehicle manufacturers, 18 percent have positive and 35 percent negative expectations (balance of minus 17 after 25 points previously). The outlook is only slightly better for mechanical engineering (balance of minus two after 36 points previously) and electrical engineering (balance of two after 27 points previously). However, the outlook in these sectors has also deteriorated noticeably compared to the beginning of the year.

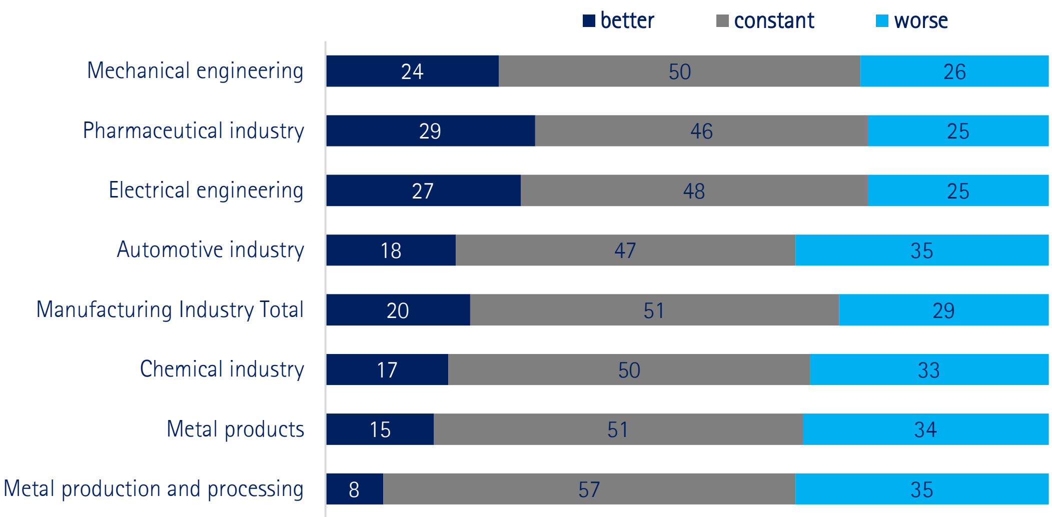
Among the **producers of goods and consumer goods,** 21 percent expect higher and 30 percent lower exports in the coming twelve months (balance of minus nine points after 17 points previously). In the pharmaceutical industry, the optimists are still slightly in the majority: 29 percent expect exports to increase, one quarter to decrease (balance of four points after 28 points previously).

Export expectations of industrial companies - shares in percent, balance in points



Export expectations for the coming 12 months in selected sectors

Shares in percent



Companies' investment intentions for the coming 12 months

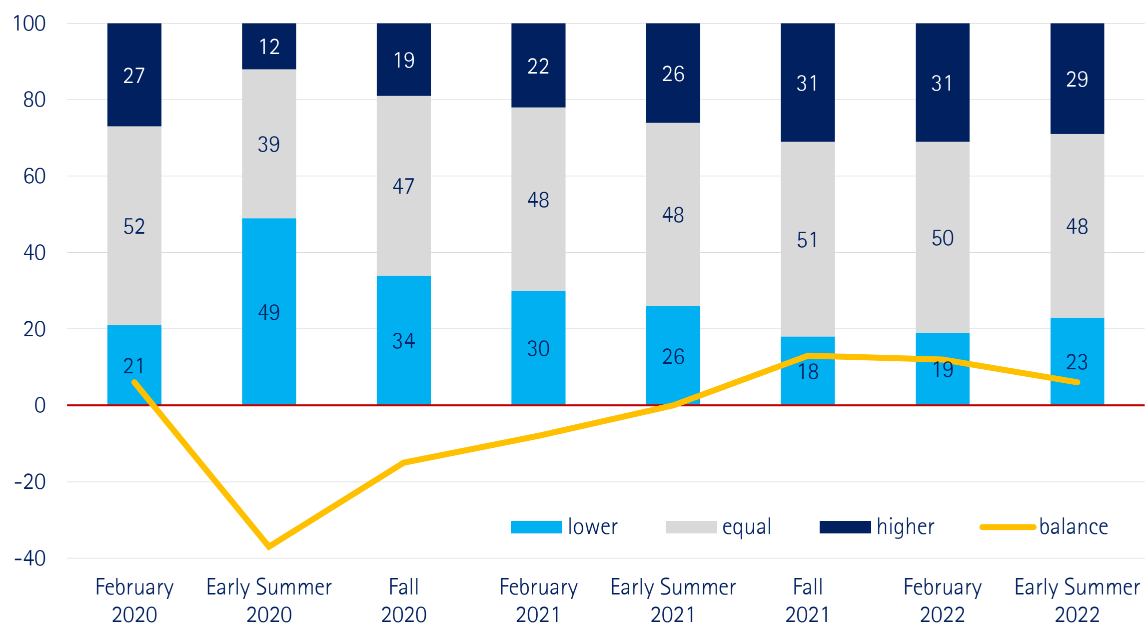
The noticeably gloomier business expectations are dampening companies' propensity to invest. In the early summer of 2022, 29 percent of companies want to expand their investments (previously 31 percent) and 23 percent want to invest less (previously 19 percent). The resulting investment balance halves to six points compared to the previous survey - and is thus just above the long-term average of four points.

Industrial companies are cutting back sharply on their investment plans. The balance drops by 14 points to nine. This brings to an end the continuous improvement in investment plans since the slump at the beginning of the Covid pandemic. Capital goods manufacturers in particular are cutting back in view of the gloomy business and export expectations (balance of seven after 24 points previously). Mechanical engineering companies are cutting their investment plans particularly sharply (balance of nine points, down from 30). The motor vehicle and metal products industries also made significant downward adjustments (down eleven points from eight and seven from 23, respectively). By contrast, the pharmaceutical industry continues its investment plans unchanged from the beginning of 2022 (balance again at 24 points), while the breweries even want to expand their investments slightly (balance of one after minus one point).

While the **construction industry is** also adjusting its investment plans noticeably downwards (balance of minus nine points after five points previously), the cutbacks among **traders are** not quite as severe (balance of zero after seven points previously). In wholesaling and retailing, investment intentions fall by nine and four points respectively to a balance of three and minus two points. Trade intermediaries, on the other hand, cut back more significantly (balance of minus two after previously twelve points).

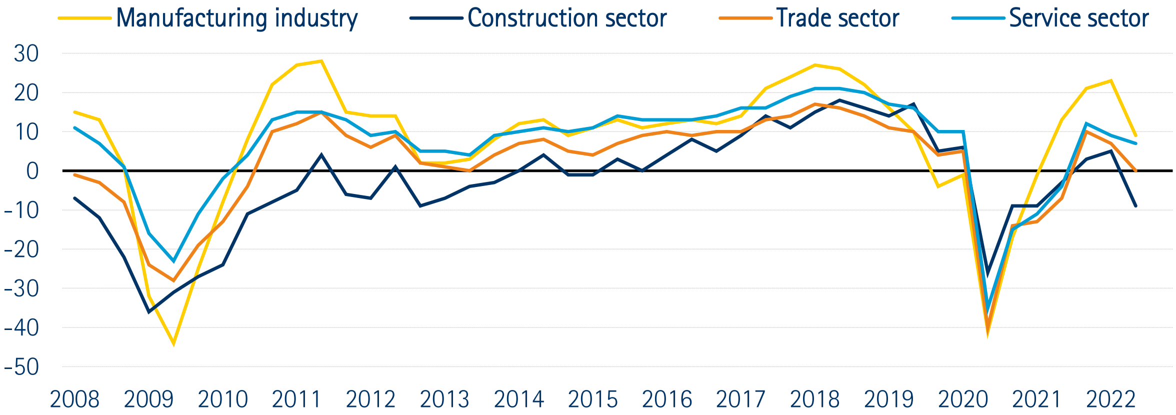
Among the **service providers,** those with a more positive business outlook are also more likely to expand their investment plans. In the hospitality industry, for example, expansionary and restrictive companies are again in balance, after investment intentions were still clearly in the red at the beginning of the year (balance of zero after minus eleven points previously). Similarly, trade fair, exhibition and congress organisers, who were particularly hard hit by the Covid pandemic (balance of 21 after two points previously), as well as companies in the arts, entertainment and recreation sector (balance of two after minus 18 points previously), are increasing their investment budgets in view of the abolition of CovidCovid measures.

Investment intentions of companies - shares in percent, balance in points



Transport companies, e.g. road transport and local rail transport (balance of one, after eight points previously) - and road freight transport (balance of minus four after seven points previously) - show noticeable gloom. The worsened business expectations of these sectors (road transport: balance of business expectations minus 29 after previously minus eleven points; road freight transport: balance of minus 36 after previously minus ten points) are noticeable in their investment plans. Above all, rising energy and commodity prices (92 percent risk rating in each case) are likely to tie up considerable capital that will not be available for investment. Investment plans are also somewhat reduced in the predominantly business-related services (balance of eight points after previously twelve points). The companies' need to cut costs is noticeable in many places. For example, service providers for research and development or for the education industry are planning noticeably fewer investments in the coming months (balance of six after 28 points previously and balance of four after 21 points previously, respectively). The security industry and cleaning services (balance of two after 20 points previously and balance of minus three after 20 points previously) are also postponing their investment plans.

Investment intentions of companies - balance in points



Balance higher valuations minus lower valuations

Whether it's the energy crisis, the CovidCovid crisis or the uncertainties about the development of demand on the markets - all this is putting pressure on the investment mood and cost savings are coming more to the fore. While **environmental protection** (all sectors 28 percent, industry: 36 percent) is once again at a record level, not even one in three industrial companies wants to invest in **product innovations** (32 percent after 36 percent) - less than ever before. This is a worrying development, since industry shoulders 85 percent of private R&D expenditure in this country. In the automotive industry, traditionally the sector with the highest R&D expenditure, only four out of ten companies (40 percent after 54 percent previously) want to invest in product innovations - the lowest point since the survey began. At the same time, it is evident that especially the large industrial companies want to reduce their investment plans in innovations for the coming months (investment motive product innovation among industrial companies with 1,000 or more employees: 46 percent after 58 percent previously; 200-999 employees: 38 percent after 40 percent previously). Fewer than one in three industrial companies - and thus again fewer than recently - want to invest in **capacity expansion** (32 percent after 35 percent). The figure is even lower for companies in glass, ceramics and stone processing (22 percent after 31 percent), machine tool manufacturing (23 percent after 30 percent) and metal production and processing (25 percent after 33 percent). The chemical and pharmaceutical industries (44 percent after 42 percent) and electrical equipment manufacturers (44 percent after 43 percent) are planning to expand capacity. Demand for chemical and pharmaceutical products is likely to remain high worldwide or even increase in some cases, and electrical equipment manufacturers are supplying important components with a view to digitalisation or climate protection.

Main motives for domestic investments (in percent; multiple answers are possible, value of previous survey in brackets):

	Rationalisation	Product innovation	Capacity expansion	Environmental protection	Replacement demand
All sectors	31 (31)	29 (31)	25 (28)	28 (27)	65 (63)
Industry	41 (42)	32 (36)	32 (35)	36 (35)	64 (63)
Construction	23 (22)	20 (19)	19 (22)	25 (23)	79 (78)
Trade	29 (28)	24 (26)	22 (25)	26 (25)	64 (64)
Services	26 (27)	29 (32)	23 (25)	24 (24)	64 (62)

Companies' employment intentions for the coming 12 months

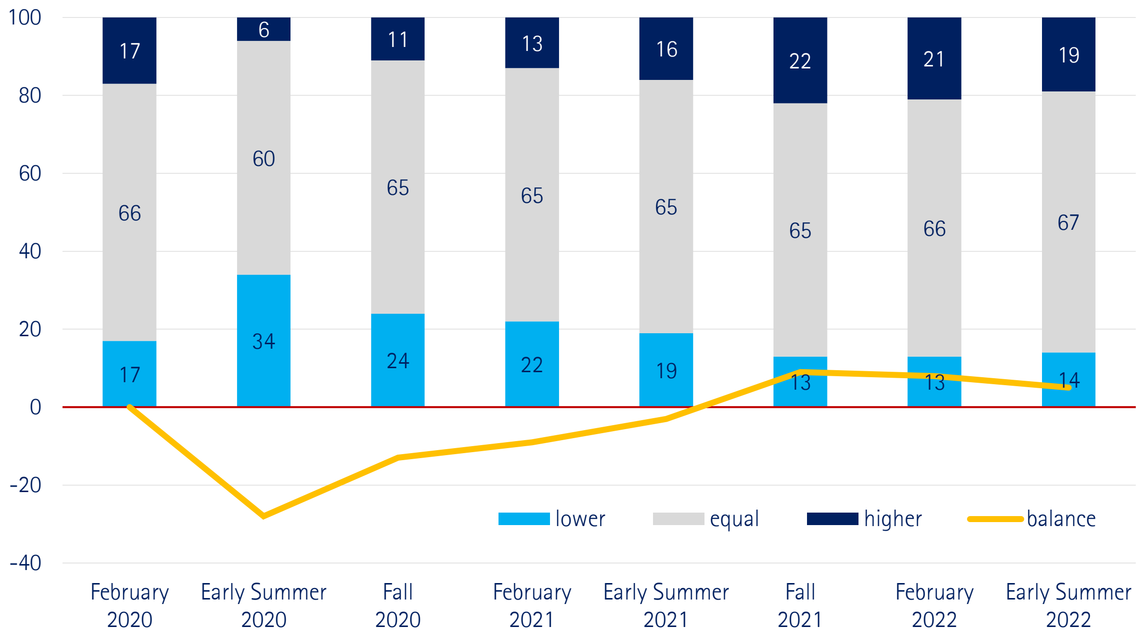
Companies' employment intentions are robust in the face of the gloomy business outlook. About one in five companies (19 after 21 percent previously) intend to hire more staff, while 14 percent (after 13 percent previously) expect a reduction. Thus, the balance of positive and negative employment intentions declines slightly by three to five points, but is still above the long-term average of zero points.

This decline in the economy as a whole is due to industry (balance of eight points after 15 points previously), construction (balance of minus one after five points previously) and trade (balance of minus two after five points previously), where negative export and business expectations are also depressing employment plans. In the services sector, after the withdrawal of the pandemic measures, companies plan to employ slightly more people than at the beginning of the year (balance of 7 after five points previously).

In energy-intensive **industries** in particular, plans to hire staff are being scaled back. In the rubber and plastics industry, for example, the balance of employment intentions fell by 14 to four points and in the chemical industry as well as among companies in metal production and processing by eleven to four points in each case. However, these values are still well below the declines recorded in the wake of the Covid shock or the financial crisis. One reason for this is the shortage of skilled workers, which was mentioned somewhat less frequently as a business risk than at the beginning of the year, but which continues to be the second biggest business risk. After all, even in economically uncertain times, companies cannot afford to cut staff on a large scale in the long run. Also worth mentioning are the positive employment intentions in the pharmaceutical industry, which have fallen slightly compared to the previous survey, but still remain at a high level (balance of 26 after 30 points previously).

In the **construction industry,** too, hiring intentions have declined (balance of minus one after previously five points), but are still slightly above the long-term average of minus five points. Although the transformation towards climate neutrality fundamentally increases the demand for construction services - and thus also the corresponding labour force - rising interest rates on loans could already put the brakes on further construction investments. This confirms the already significantly increased risk of weakening domestic demand (37 percent after 27 percent previously). Within the sector, the finishing trade still has the highest balance of employment intentions with two points (after seven points previously).

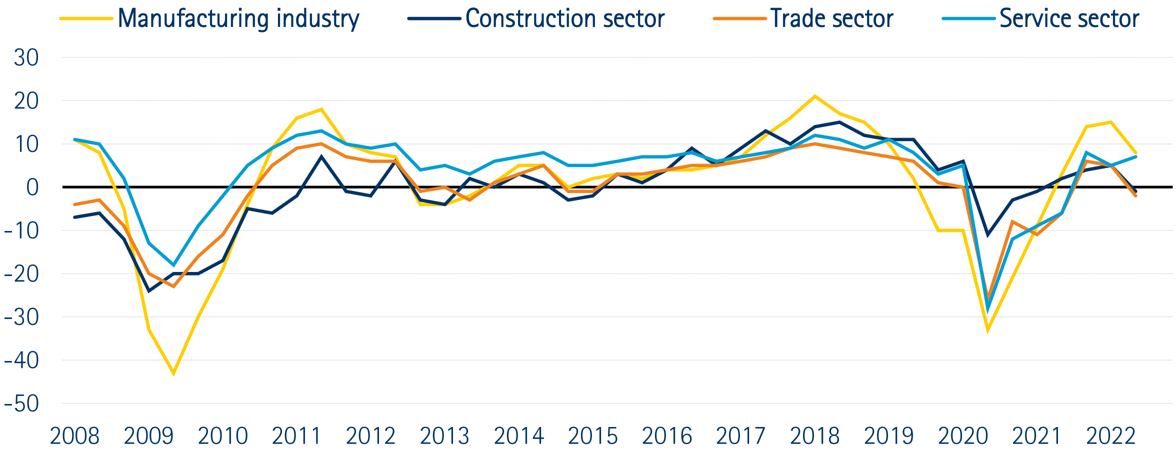
Companies' employment intentions - shares in percent, balance in points



With the clouding of the business outlook, hiring plans in **trade have** declined by seven points compared to the previous survey to a balance of minus two points and are thus only just above the long-term average of minus three points.

More than half of the trading companies see the risk of weaker domestic demand (53 percent after 48 percent previously). Accordingly, the need for personnel is also decreasing somewhat. After the pandemic has subsided, traders of health-related goods in particular want to reduce staffing levels significantly (balance of minus six points after 13 points previously).

Companies' employment intentions - balance in points



Balance higher valuations minus lower

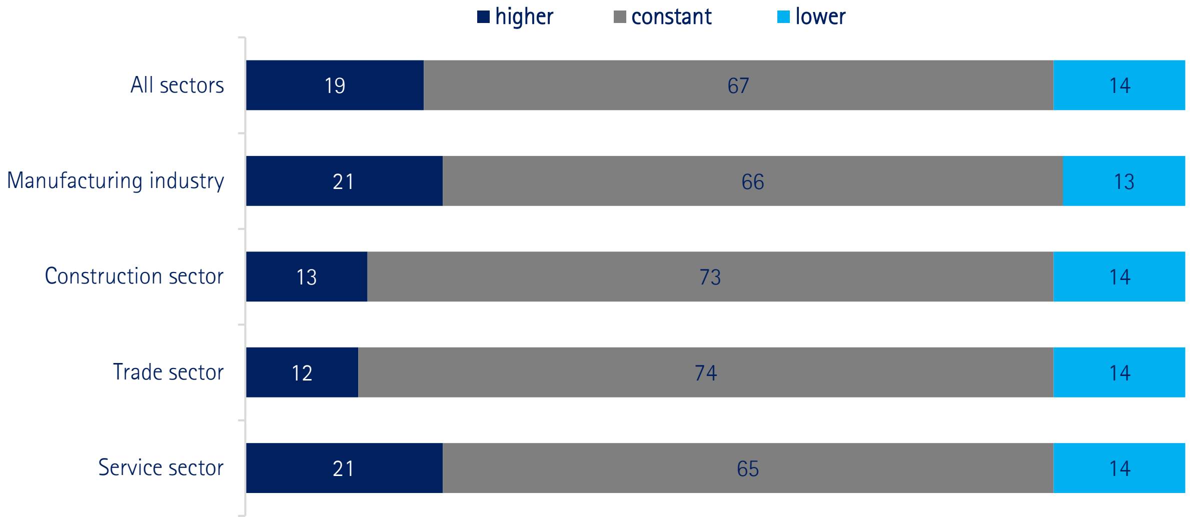
The **service sector**, on the other hand, plans to employ slightly more people than in the previous survey (balance of 7 points after 5 points previously). Especially those sectors that were heavily affected by the Covid measures are breathing a noticeable sigh of relief and want to increase their staff again. The balance of employment intentions in the hotel and restaurant industry rose by 15 points to seven. For trade fair, exhibition and congress organisers the balance even increases by 19 to 30 points.

Despite the pessimistic business outlook in the industry sector, some business-related sectors continue to maintain predominantly expansive hiring plans. This is particularly true for sectors with a digitalisation focus, such as telecommunications (balance of 31 after previously 25 points), IT service providers (balance of 30 after previously 35 points) and programmers (balance of 20 after previously 34 points) still have very expansive plans. The same applies to service providers who are in demand with a view to the ecological transformation, such as research and development (balance of 26 after previously 32 points) as well as architecture and engineering firms (balance of 15 after previously 17 points). On the other hand, temporary employment agencies are significantly reducing their staffing plans compared to the beginning of the year (balance of 12 after 28 points previously), which is also due to a cooling of the business outlook, especially in industry.

For health and social services, hiring continues to be in the majority on the employment agenda (balance of 19 after previously 13 points). Demographic change is making itself felt here with increasing demand for health and care services. The sector does not have to fear weakening domestic demand (business risk domestic demand 18 percent after previously 20 percent).

Employment intentions 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
Change from previous year, in percent, price-adjusted, chained

	2020	2021	DIHK forecast 2022
GDP	-4.6%	2.9%	**1.5%**
Private consumer spending	-5.9%	0.1%	**3.0%**
Government consumption expendi-ture	3.5%	3.1%	**0.0%**
Gross fixed capital formation	-2.2%	1.5%	**1.2%**
- outfits	-11.2%	3.4%	**2.0%**
- Other plants	1.0%	0.7%	**2.0%**
- Buildings	2.5%	0.7%	**0.0%**
Export (goods and services)	-9.3%	9.9%	**0.0%**
Import (goods and services)	-8.6%	9.3%	**0.5%**
Employed persons (change in thousands)	-370	+7	**+400**
Consumer prices	0.6%	3.1%	**7.0%**

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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.