# The economy proves more resilient than expected but less dynamic than hoped for

## DIHK Economic Survey Early Summer 2023

DIHK German Chamber of Commerce and Industry

IHK German Chambers of Commerce and Industry

# Content

Current business situation of the companies ..... 3
Business expectations of the companies ..... 6
Current financing situation of companies ..... 10
Business risks for the coming 12 months ..... 14
Export expectations of industrial companies for the coming 12 months ..... 17
Companies' investment intentions for the coming 12 months ..... 20
Companies' employment intentions for the next 12 months ..... 23
DIHK forecast for economic development in Germany ..... 26

# Imprint

**German Chamber of Industry and Commerce**

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**Status:** May 2023

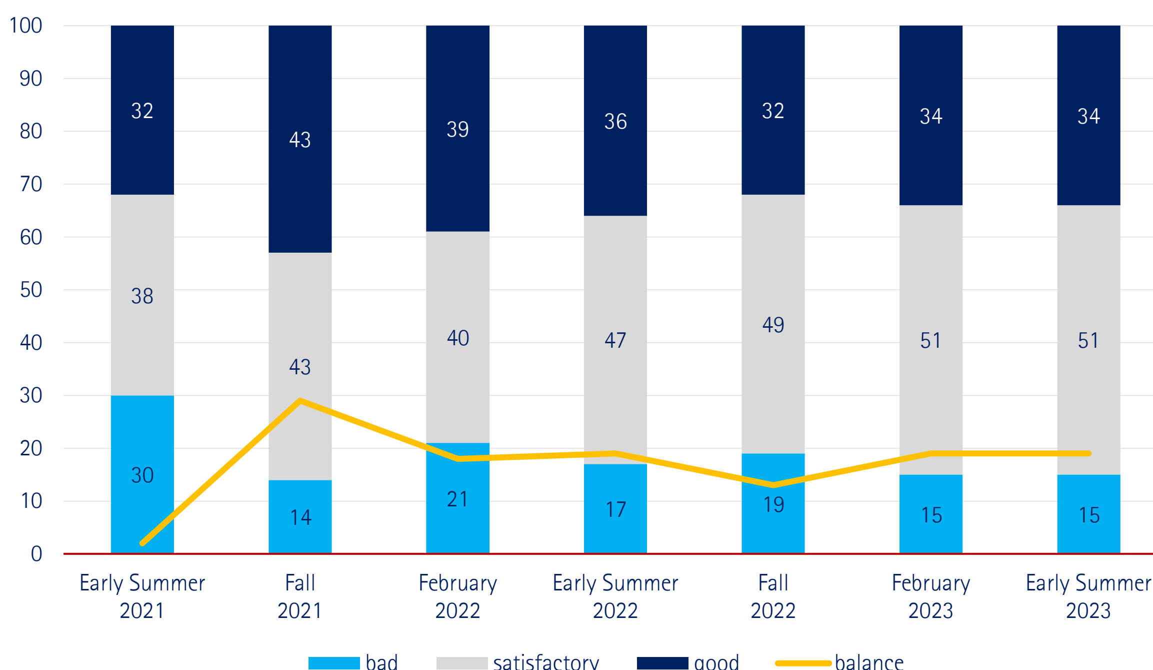
Further results, the questionnaire as well as notes on the methodology of the survey can be found at www.dihk.de/konjunktur.

# Current business situation of the companies

Despite a generally challenging environment, companies overall demonstrate remarkable resilience. There is a noticeable easing of supply shortages, although supply chain disruptions have not been fully overcome yet. Energy prices have stabilized and recently declined at a high level, alleviating some pressure in certain industries. However, the rising interest rates as part of necessary inflation control measures, along with persistently high energy and producer prices, and a sluggish global economy, pose significant challenges for many businesses.

Overall, companies maintain a consistently average assessment of their situation, which remains below par. The weak positive trend observed at the beginning of the year does not continue. Like at the start of the year, 34 percent of companies rate their situation as "good," while 51 percent consider their current business situation as "satisfactory." 15 percent of companies describe their situation as "poor." The resulting balance between "good" and "poor" responses remains unchanged at 19 points, slightly below the long-term average of 21 points.

## Business situation of companies – shares in percent, balance in points




Changes compared to the beginning of the year can be observed when looking at the **industries**: Retail companies, in particular, report a deterioration in their situation. Only a little over a quarter of retailers (26 percent, down from 30 percent) describe their business as good, while nearly one-fifth perceive their current situation as "poor" (19 percent, up from 18 percent). Retail companies have revised their assessment from a previous 12 balance points at the beginning of the year to seven balance points. The wholesale sector is particularly affected by this decline (reduced from 19 to ten balance points). The ongoing high cost pressure on purchase prices is likely the main cause. In the retail sector, the dampened consumer sentiment is noticeable. One-fifth of retailers rate their situation as poor. The increased price levels, especially for energy and food, also weigh on consumers' disposable incomes, leading them to cut back on other goods, such as clothing. Additionally, consumers hold back money for potential energy bill payments. The balance in the retail sector decreases from five to four balance points.

In the **manufacturing industry**, the situation assessment deteriorates slightly. Although there is already some relief in terms of material shortages, a sluggish global economy combined with rising interest rates also dampen business in the industry. The proportion of companies with a good situation decreases marginally from 36 to 35

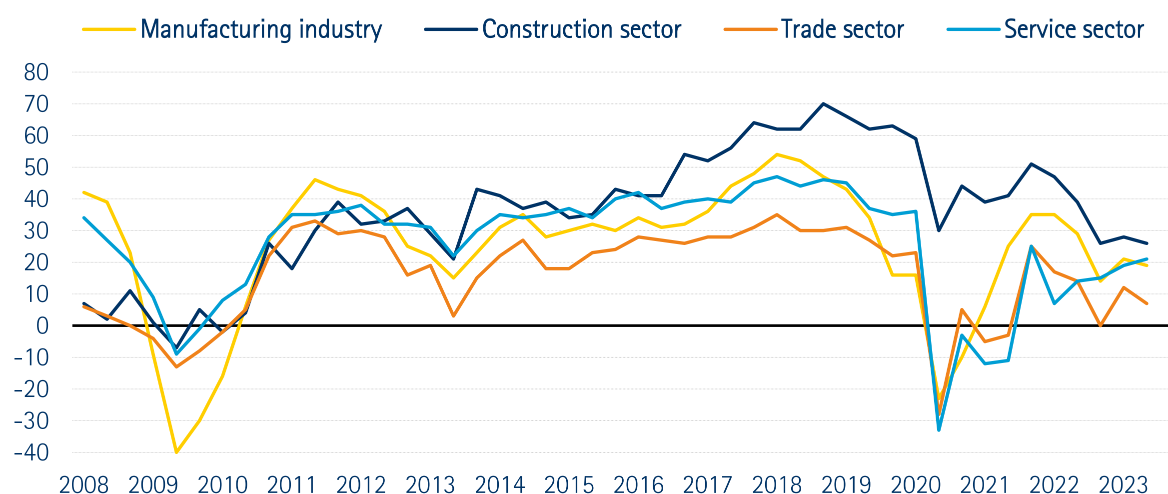
percent, while the proportion with a negative assessment increases slightly by one percentage point to 16 percent. Manufacturing companies thus slightly adjust their situation assessment from a previous 21 balance points to 19 balance points.

The frequently energy-intensive **intermediate goods producers** still suffer from the persistently high energy prices. Their business situation worsens from 15 to twelve balance points. The decline is particularly significant in the chemical industry, where the balance even falls into negative territory at minus three points (compared to a previous one balance point). The situation is even more strained in the paper industry, with the balance decreasing significantly by 14 to minus 19 points.

**Capital goods manufacturers** assess their situation slightly better than at the beginning of the year, as material and supply shortages have recently eased, allowing existing orders to be processed more effectively. The balance of the situation assessment increases by two to 35 balance points. Companies in the mechanical engineering sector, in particular, assess their current situation above average, with the balance slightly increasing by three to 39 points. There is no further improvement in the automotive industry. As at the beginning of the year, almost nine out of ten automotive manufacturers rate their current situation as good or satisfactory (31 percent "good," 56 percent "satisfactory"). The balance remains unchanged at 18 points compared to the previous survey, but it is below the long-term average of 24 points.

**Consumer goods manufacturers** are experiencing the consequences of weak consumer sentiment. The balance of the business situation decreases by three points to five balance points. The decline is particularly pronounced, for example, in the clothing industry, where the balance decreases by ten to one point. On the other hand, business in the pharmaceutical industry is improving compared to the beginning of the year. The balance of the situation assessment increases from 29 to 34 points, corresponding to the long-term average.

## Business situation of companies – balance in points




Balance of good and bad valuations

In the **service sector**, business conditions are improving somewhat. Over a third of companies (35 percent, up from 34 percent) rate their current situation as "good," while 14 percent (down from 15 percent) consider it "poor." The balance increases by two to 21 points. The positive development is particularly attributed to predominantly person-oriented services, benefiting from post-pandemic catch-up effects. One-third of personal service providers report a good situation, while 16 percent note a deterioration. The balance increases significantly by eleven to 18 points. However, reaching the pre-pandemic level (beginning of 2020: 31 balance points) is still far off. This also applies to the gastronomy sector (twelve balance points, up from six) and accommodation providers (eight balance points, up from one). The situation remains subdued in these sectors, still lagging behind the pre-pandemic benchmark. Nevertheless, both industries show a slight positive trend in assessing the business situation. Travel agencies, in particular, are very satisfied

with the current booking situation, with an increase of 21 points to a balance of 36. Consumer concerns about ongoing price increases led to high demand for early booking offers in the first quarter.

Business-related service providers present an unchanged picture, with their situation assessment remaining at 33 balance points. Among research and development service providers, 39 percent report a good situation, which is eight percentage points higher than at the beginning of the year. Only ten percent (up from nine percent) complain about poor business (balance of 29, up from 22 points). IT services continue to be in high demand (balance of 44, up from 38 points).

The situation has deteriorated for companies in the transportation and storage sector. The balance decreases by three to four points compared to the previous survey and is significantly lower than in other segments of the service sector. The industry continues to be marked by problems with transportation infrastructure, high fuel prices, and labor shortages, particularly the shortage of professional drivers. Although transportation service providers still predominantly rate their situation positively, the outlook has worsened compared to the beginning of the year (two balance points, down from 12 balance points). Companies in the storage sector also report good business (27 balance points, up from 11 balance points). In response to supply chain disruptions, companies are increasingly relying on storing both raw materials and finished products, thus mitigating the risk of production downtime and inadequate delivery capacity.

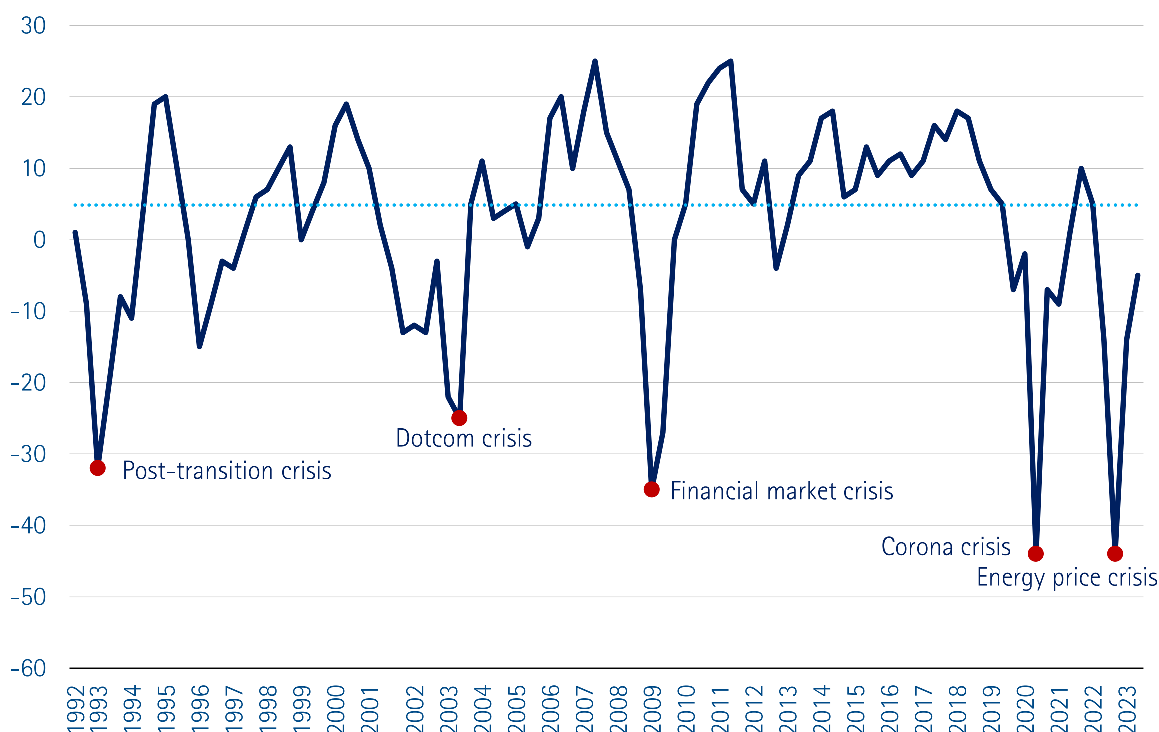
In the **construction industry**, the situation remains predominantly good despite shortages, high material prices, and significantly increased construction loan interest rates. Companies still benefit from their order backlogs. 39 percent of companies (down from 40 percent) rate their situation positively, while only 13 percent (up from twelve percent) rate it negatively. The balance of the business situation decreases only slightly by two to 26 points, which is slightly above the long-term average (25 points). Particularly in the finishing trades, which include tasks such as energy-efficient renovations and the installation of smart, interconnected applications in buildings, there is a "boom" (39, up from 38 balance points). The situation in civil engineering (30 balance points) remains good as well. However, in the construction of new buildings, the situation is significantly deteriorating. The balance decreases from 21 to 14 points. Rising interest rates and high material costs are mainly responsible for the decline in new orders and an increase in cancellations.

# Business expectations of the companies

The outlook for the coming months improves somewhat in early summer. Energy prices have stabilized and recently declined. There is also a noticeable relaxation in supply chain constraints. This also has a stabilizing effect on business expectations for companies. However, there is no reason for exuberant optimism. Businesses continue to face immense challenges that have not yet been resolved: persistently high energy prices, rising interest rates due to inflation, subdued global demand, skilled labor shortages, lengthy planning processes, and the war in Ukraine and other geopolitical tensions.

Therefore, pessimists still outweigh optimists when it comes to business prospects. Just under a quarter of companies (23 percent, down from 30 percent) expect their business to worsen in the next twelve months. 18 percent (up from 16 percent) anticipate better business this year. As a result, the business expectations increase by nine points to minus five points. This is still in the negative range and significantly below the long-term average of five points. In the industry and services sectors, the outlook is noticeably less bleak than in trade and construction.

## Business expectations of companies – balance in points



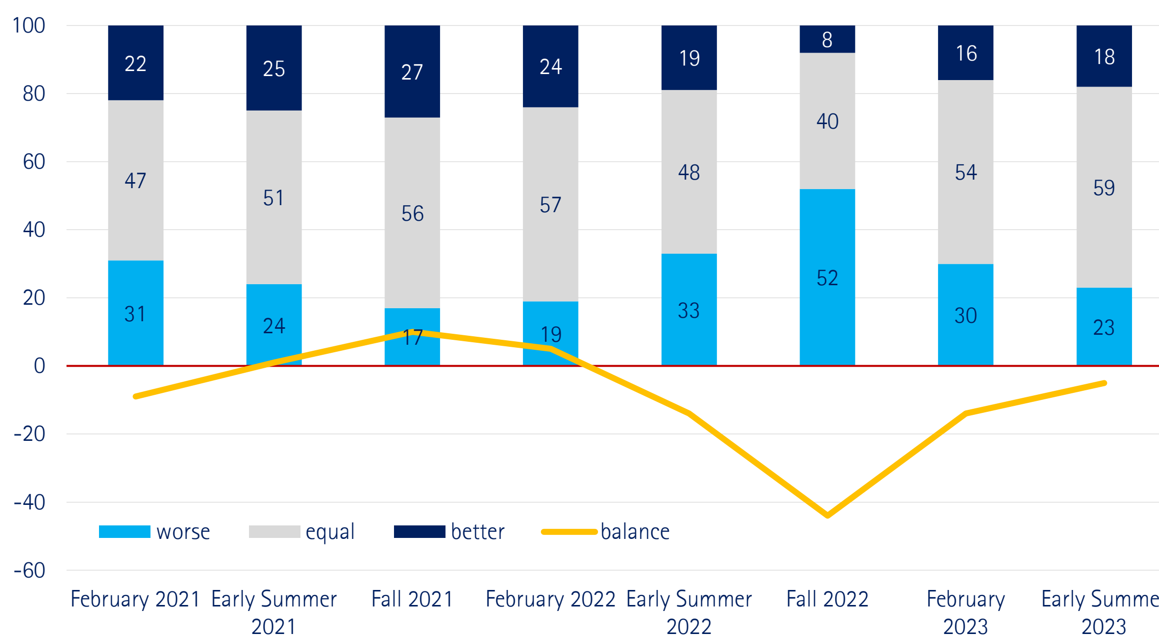

Decreasing material shortages, existing order backlogs, and a decline in energy prices are brightening expectations in the **industry**. However, energy and raw material prices remain high. Additionally, labor shortages and labor costs are becoming increasingly burdensome for the industry. Both business risks are reaching new highs (63 percent and 56 percent, respectively). Industrial companies, therefore, anticipate only a slight improvement in their business. The number of pessimists decreases, with only just under a quarter of companies (23 percent, down from 29 percent) having negative outlooks. The proportion of industrial companies with positive expectations remains unchanged at 17 percent. As a result, the balance increases by six points to minus six points.

Among the three main industrial groups, **manufacturers of capital goods** have the most positive sentiment. Many companies in this sector still have high order backlogs, which they can more easily process thanks to the relaxation of supply chains. However, new orders are weakening. The number of optimists only slightly outweighs the pessimists. Just over a fifth of capital goods manufacturers anticipate an improvement in their situation (unchanged at 21 percent), while less than a fifth (19 percent, down from 22 percent) expect a deterioration. The

balance of positive and negative expectations increases slightly from minus one to two points. The balance is particularly high in the medical technology sector (balance of 14, up from eleven points) and the machine tool industry (balance of twelve, up from seven points). However, business expectations in the automotive industry have received a slight setback, with the balance decreasing from seven to three points.

The frequently energy-intensive **intermediate goods manufacturers** have been particularly hard hit by the sharp increase in prices for gas, oil, and electricity during the energy price crisis. Although expectations have brightened again due to the recent decline in energy prices, the price level is still significantly higher than before the crisis, and a difficult supply situation is not ruled out in the coming winter. Therefore, intermediate goods manufacturers still predominantly view the future with concern. Over a quarter of companies (27 percent, down from 33 percent) expect a deterioration in business conditions in the next twelve months, while only 17 percent (up from 15 percent) anticipate an improvement. The balance of positive and negative expectations increases by eight to minus ten points. The paper industry (balance of one, up from minus 21 points) and the chemical industry (balance of minus one, up from minus 14 points) stand out, with positive and negative expectations nearly balanced. The outlook has worsened for the metal production and processing sector due to high costs and lower demand from the construction sector (balance of minus 15, up from minus eleven points). Despite a slight improvement, very bleak expectations persist for companies in the glass, ceramics, and stone processing sector (balance of minus 35, up from minus 37 points), companies involved in the extraction of stones and minerals and mining (balance of minus 35, down from 43 points), as well as the wood industry (balance of minus 21, up from minus 41 points).

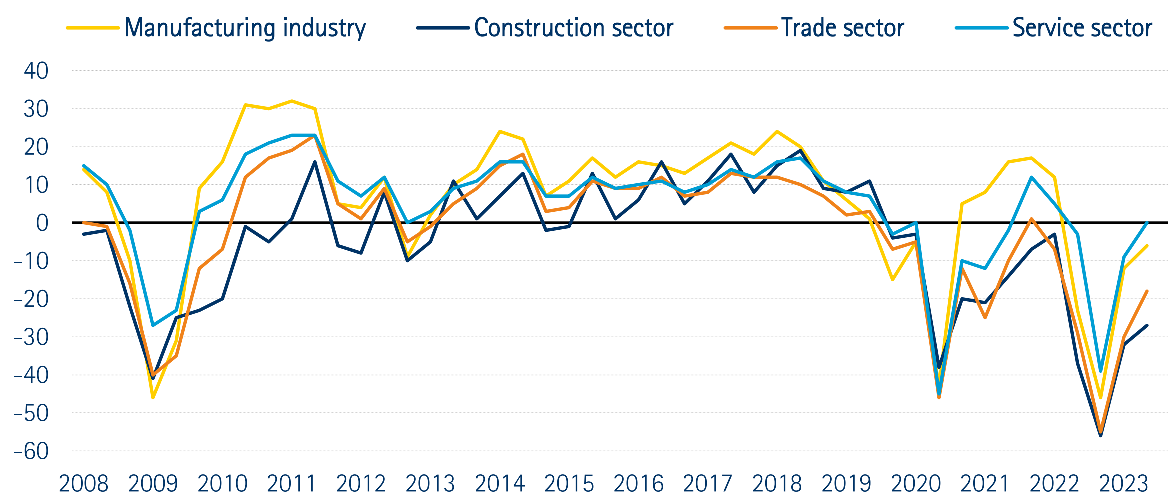
## Business expectations of companies – shares in percent, balance in points




**Manufacturers of consumer and durable goods** have continued to recover their expectations. However, weak consumer demand and growing concerns about labor costs and labor shortages still pose a burden on the business. Still, over a fifth of consumer and durable goods producers (21 percent, down from 32 percent) remain pessimistic about the future, while only 16 percent (up from 15 percent) anticipate an improvement in business in the next twelve months. This increases the balance of business expectations from minus 17 to minus five points. The pharmaceutical industry stands out positively. Here, the optimists outweigh the pessimists, with the balance of business expectations increasing from zero to five points. On the other hand, prospects in the food and feed industry are below average, given the persistently high producer price levels for agricultural products (balance of minus twelve, down from minus 24 points).

The **construction industry** fears a downturn. Rising construction interest rates and dwindling new orders weigh on business expectations. Additionally, there's a labor shortage and concerns about increasing labor costs. However, the decrease in material shortages is leading to declining prices of construction materials, although pre-crisis levels have not yet been reached. Furthermore, sentiment usually brightens somewhat in the early summer due to seasonal factors. This results in a slight improvement in the overall gloomy business expectations. Only every twelfth company expects better business in the next twelve months (eight percent, up from seven percent in the previous survey). Over a third anticipate a deterioration (35 percent, down from 39 percent). The balance of expectations thus increases from minus 32 to minus 27 points, remaining significantly negative and well below the long-term average (minus six). Persistent high order cancellations in residential construction particularly contribute to a pessimistic outlook for civil engineering, with the balance of positive and negative expectations increasing only to minus 36 points (previously minus 41 points). The prospects of companies in civil engineering, on the other hand, brighten, also due to seasonal factors. There, the balance increases by 18 points to minus 20. Businesses in the finishing trades also report slightly improved expectations. The prospect of orders in the building renovation and energy efficiency sectors partially compensates for the unfavorable construction climate caused by interest rates. The balance increases from minus 21 points to minus 17 points.

## Business expectations of companies – balance in points




Balance of better and inferior valuations

In the **retail sector**, business expectations have only slightly improved compared to the beginning of the year and remain overall pessimistic. While retailers have also experienced some relief from rising energy and raw material prices, labor costs in the retail industry are increasingly causing concern, and labor shortages remain a challenge. Additionally, the industry fears reduced consumer spending due to persistently high inflation rates. Only one in seven retail companies has an optimistic outlook (14 percent, up from eleven percent). Two-thirds (32 percent, down from 41 percent) anticipate a deterioration in their business. The balance of business expectations thus increases only from minus 30 points to minus 18 points. The differences between wholesale and retail are minimal (retail: balance of minus 18, up from minus 30 points; wholesale: balance of minus 16, up from minus 27 points).

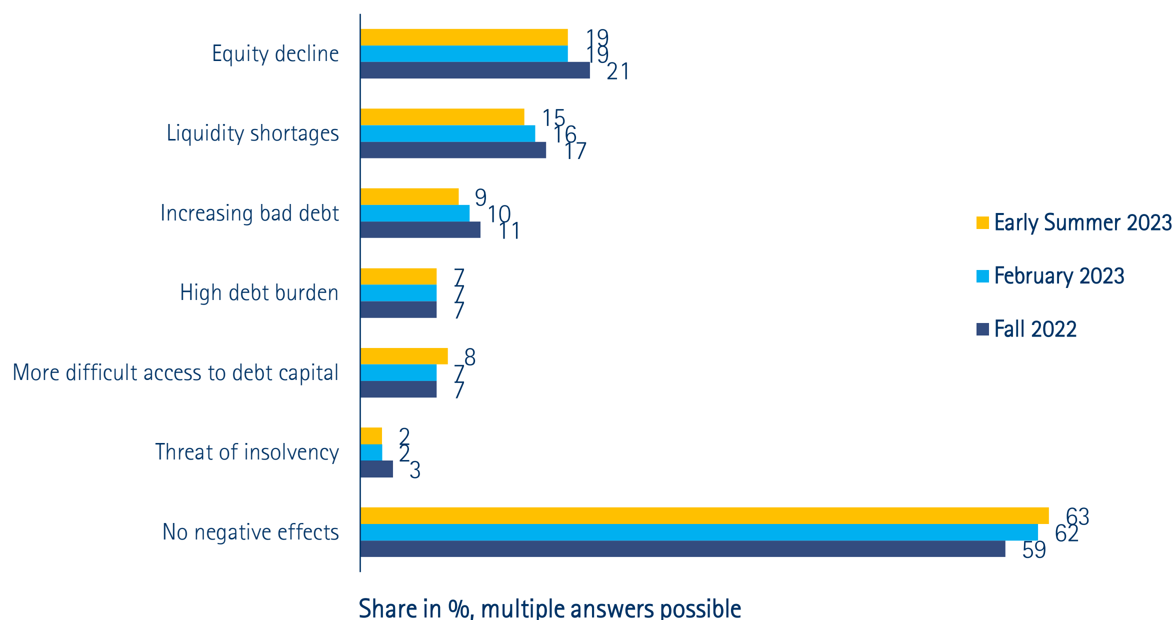
In the **service sector,** business expectations for the next twelve months continue to brighten. The proportion of pessimists decreases from 27 percent to 20 percent, while the proportion of optimists slightly increases by one percentage point to also reach 20 percent. The balance improves by nine points to zero. However, companies in the service sector have varying assessments of their prospects. Among predominantly business-related service providers and in the financial and insurance sector, the optimists prevail – reflecting the changing interest rate environment as well. Among predominantly business-related service providers, the balance increases by five points to five, while in the financial and insurance industry, it rises by twelve points to nine. The hospitality industry sees a continuation of the improvement in business expectations. Despite significant challenges such as labor costs, labor shortages, and persistently high energy and raw material prices, the optimists now outnumber

the pessimists (26 percent, up from 17 percent), with a balance of five, up 18 points. In the transportation and storage sector, high fuel prices and a lack of qualified workers contribute to persistently gloomy outlooks. The balance of positive and negative expectations only increases to minus 16 points (previously minus 27 points), well below the long-term average of minus five points. Sentiment remains very poor in the real estate sector: two out of five companies see their financing particularly affected by high interest rates (39 percent, up from 11 percent last year). Additionally, the gloomy prospects for residential construction dampen expectations in the real estate sector. The balance of business expectations increases only from minus 23 to minus 17 points.

# Current financing situation of the companies

A severe recession was fortunately avoided in winter. Energy prices have also declined recently, leading to some financial relief for companies. However, the risk of difficult financing, especially through bank loans, is increasing. Two out of five businesses (37 percent) still consider their overall financial situation problematic, with only a slight improvement compared to the beginning of the year (38 percent). The decrease in equity capital remains a major concern (19 percent). The percentage of companies facing liquidity constraints (15 percent) remains significant. Across the broader economy, the slight decrease in liquidity constraints has also led to a slight decrease in the number of companies experiencing payment defaults (nine percent, down from ten percent). The proportion of companies burdened by high levels of debt remains unchanged at seven percent, compared to the beginning of the year.

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




Share in %, multiple answers possible

The financial situation appears more critical for smaller companies. 43 percent of small businesses with up to 19 employees report a problematic financial situation, compared to only 22 percent of large companies with 1,000 or more employees. The decline in equity capital (remaining at 24 percent) and liquidity constraints (17 percent, down from 18 percent) continue to pose challenges for small businesses.

Looking at different sectors, the **industrial** sector shows only a slight decrease in the proportion of companies with a problematic financial situation, despite lower energy prices, reduced material shortages, and relatively high order backlogs. The percentage drops from 36 percent to 33 percent. The percentage of companies reporting liquidity constraints (14 percent, down from 17 percent) and equity capital decline (14 percent, down from 15 percent at the beginning of 2023) also decreases slightly.

The situation has improved significantly for **capital goods manufacturers** (29 percent, down from 34 percent), who are able to work through their still well-filled order books due to improved supply chains. In core industrial sectors such as mechanical engineering (28 percent, down from 34 percent), electrical engineering (28 percent, down from 35 percent), manufacturers of electrical equipment (30 percent, down from 36 percent), and medical technology (24 percent, down from 31 percent), fewer companies report a problematic financial situation compared to the beginning of the year. Intermediate goods manufacturers remain in line with the industrial average (33 percent, down from 36 percent) but energy-intensive intermediate goods producers, such as companies in the glass, ceramics, and stone processing sectors, face more difficult access to credit (seven percent, up from one percent).

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

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

| | 1-19 Employees | 20-199 Employees | 200-999 Employees | from 1000 Employees | all Classes |
|---|---|---|---|---|---|
| Liquidity shortages | 17 | 14 | 11 | 9 | 15 |
| Threat of insolvency | 3 | 1 | 0 | 1 | 2 |
| Equity decline | 24 | 15 | 10 | 8 | 19 |
| More difficult access to debt capital | 8 | 7 | 8 | 6 | 8 |
| High debt burden | 6 | 8 | 8 | 6 | 7 |
| Increasing bad debt | 9 | 9 | 6 | 6 | 9 |
| No negative effects | 57 | 66 | 74 | 78 | 63 |

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

Evaluation by industry, figures in percent, multiple answers possible

| | Industry | Construc-tion | Trade | Service provider | all Industries |
|---|---|---|---|---|---|
| Liquidity shortages | 16 | 13 | 15 | 15 | 15 |
| Threat of insolvency | 1 | 1 | 2 | 2 | 2 |
| Equity decline | 14 | 18 | 19 | 21 | 19 |
| More difficult access to debt capital | 8 | 8 | 7 | 8 | 8 |
| High debt burden | 7 | 7 | 8 | 6 | 7 |
| Increasing bad debt | 7 | 11 | 11 | 9 | 9 |
| No negative effects | 67 | 66 | 61 | 61 | 63 |

**Intermediate goods manufacturers** are in line with the industry average (33 percent, down from 36 percent) in terms of a problematic financial situation. However, energy-intensive intermediate goods producers, such as companies in the glass, ceramics, and stone processing sectors, are facing more difficult access to credit (seven percent, up from one percent).

Contrary to the trend, the financial situation has slightly deteriorated for **capital and consumer goods manufacturers** (40 percent, up from 39 percent). Particularly for energy-intensive companies in the printing industry and the food and feed industry, which continue to cope with significantly higher energy prices, the situation has become somewhat more tense. The percentage of companies with a problematic financial situation increases from 43 percent to 51 percent and from 40 percent to 42 percent, respectively. Among consumer goods producers, the percentage of companies facing difficulties in obtaining credit has nearly doubled, from four percent to seven percent.

The overall assessment of the financial situation in the **construction industry** remains unchanged compared to the beginning of 2023: 34 percent of companies report a problematic financial situation. The main concerns for construction companies are a decline in equity capital (18 percent, up from 16 percent) and liquidity constraints (consistent at 13 percent). Due to a more stable order situation, such as orders from the public sector or utility companies for infrastructure renewal, companies in the civil engineering sector have a slightly better assessment of their financial situation (problems for 31 percent of companies) compared to companies in the building construction sector (problems for 37 percent of companies).

In the **retail sector**, the percentage of companies with a strained financial situation remains high at 39 percent, unchanged from the beginning of 2023. High levels of energy prices and continued price dynamics on one side, along with labor shortages and rising labor costs on the other side, coupled with customer hesitation to make purchases, leave their mark on the balance sheets. The retail sector is more affected by rising interest rates and demands for stronger loan collateral than other industries.

Nearly one in five trading companies (19 percent, down from 20 percent at the beginning of 2023) are facing declining equity capital. The percentage of companies reporting liquidity constraints has slightly decreased from 16 percent to 15 percent. The financial situation appears slightly better for wholesale trade and trade intermediaries compared to retailers. In the retail sector, which is experiencing changes in consumer behavior due to the persistently high inflation, 19 percent of companies (down from 20 percent) are facing liquidity constraints, and 26 percent of companies (down from 28 percent) are experiencing a decline in equity capital.

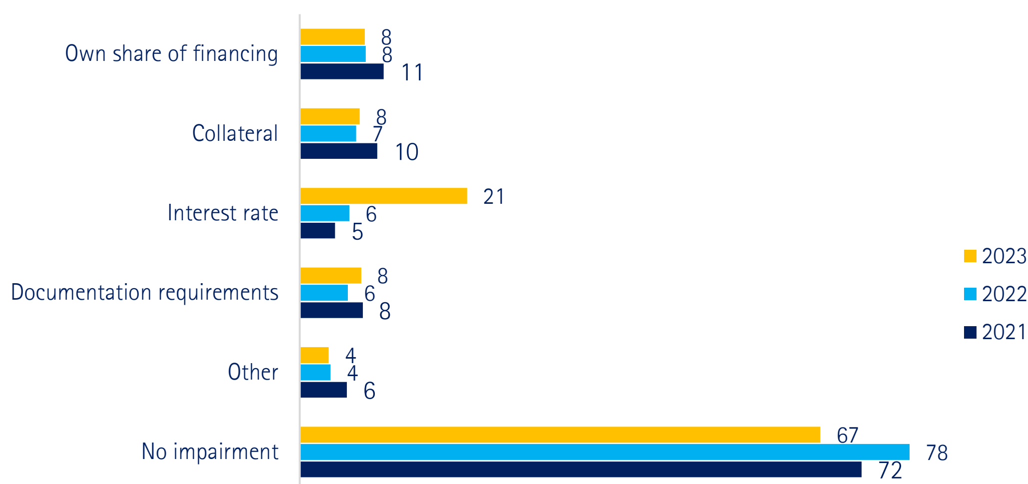
The financial situation for predominantly small and medium-sized **service providers** has only improved minimally. 39 percent (down from 40 percent) report problems. There are significant differences between predominantly business-oriented service providers (33 percent) and predominantly person-oriented service providers (45 percent). The predominantly small and medium-sized companies in the latter category have a more vulnerable financing structure. They have been affected not only by the lockdowns during the COVID-19 pandemic and the resulting migration of workers to other industries but also by the increased energy prices and high inflation due to the war. While the percentage of companies reporting liquidity constraints has slightly decreased from 21 percent to 18 percent compared to the beginning of the year, the percentage of companies with declining equity capital remains high at 26 percent.

The situation remains even more strained in the **hospitality industry**: high prices for energy and intermediate products, labor shortages, high inflation, and resulting consumer reluctance have led to 37 percent of establishments (down from 38 percent) experiencing declining equity capital and 18 percent (down from 21 percent) reporting liquidity constraints. Overall, more than half of the establishments (53 percent, down from 57 percent) still consider their financial situation problematic.

## Difficulties in raising debt capital are increasing

The more detailed survey conducted by the German Chambers of Commerce and Industry (DIHK) each summer on challenges in raising debt capital shows that significantly more companies are facing problems in this area compared to the previous year. The percentage of companies reporting a particular impairment of their financing has risen significantly from 22 percent to 33 percent compared to the previous year.

### For companies whose financing is currently particularly impaired, the following aspects play a role (figures in percent, multiple answers possible)




Share in %, multiple answers possible

Working capital and investments are affected the most. It is feared that investment projects will become partially unprofitable and may even be abandoned altogether: 36 percent of companies whose financing is particularly affected by high interest rates intend to reduce their investments. For all other companies, it is just under a quarter (24 percent).

The level of interest rates is now considered problematic by 21 percent of companies. In the summer of 2022, this was only the case for six percent of businesses. This assessment applies across all sectors and company sizes. Companies in the real estate industry (39 percent, up from 11 percent), the transportation and storage sector (31 percent, up from eight percent), especially road freight transport (38 percent, up from ten percent), as well as the automotive industry (35 percent, up from three percent), and companies in metal production and processing (28 percent, up from five percent) report particularly high burdens due to rising interest rates.

## For companies whose financing is currently particularly impaired, the following aspects play a role Figures in percent, multiple answers possible

| | Industry | Construction | Trade | Service provi-der | all Industries |
|---|---|---|---|---|---|
| Interest rate | 22 | 25 | 22 | 21 | 21 |
| Collateral | 8 | 8 | 8 | 7 | 8 |
| Documentation requirements | 7 | 9 | 8 | 8 | 8 |
| Own share of financing | 6 | 7 | 8 | 10 | 8 |
| Other | 3 | 3 | 3 | 4 | 4 |
| No impairment | 68 | 66 | 66 | 66 | 67 |

# Business risks for the coming 12 months

Long-term structural challenges for the economy are coming into focus for businesses. Despite the ongoing war in Ukraine, uncertain geopolitical conditions, and a weakened global economy, the cyclical business risks are somewhat receding for companies.

Energy price brakes and a mild winter have contributed to a stabilization in the energy markets. Currently, gas and electricity prices on the futures markets are significantly lower than at the end of 2022. On the short-term markets, they have even fallen to pre-crisis levels in some cases. However, a higher level is expected in the long-term price perspective. The supply situation remains uncertain, especially with regard to the next winter. This is also reflected in the business risks faced by companies. Overall, energy and raw material prices remain the most frequently mentioned business risk. However, the pressure has decreased across all sectors compared to the previous survey (65 percent, down from 72 percent).

In the overall industry, the assessment is declining (76 percent, down from 85 percent). Nevertheless, energy and raw material prices remain the number one risk for over four out of five energy-intensive intermediate goods manufacturers, such as metal production and processing (83 percent, down from 89 percent), the chemical industry (82 percent, down from 91 percent), and the glass, ceramics, and stone processing industry (88 percent, down from 92 percent). The consistently high producer prices continue to be a concern for the food and feed industry regarding the price development of energy and raw materials (89 percent, down from 93 percent). The issue remains relevant.

High producer prices for construction materials such as steel, cement, or bitumen continue to pose challenges for construction companies. Prices are still above pre-crisis levels, although there has been some relaxation in recent months. Accordingly, the percentage of construction companies citing energy and raw material prices as a business risk decreases from 79 percent to 72 percent. Thus, energy and raw material prices are now narrowly ahead of labor shortage as the highest business risk in the construction industry. Among service providers, energy and raw material prices slide to second place (58 percent, down from 64 percent). Traders still see energy and raw material prices as the greatest business risk (66 percent, down from 75 percent).

## TOP business risks by sector

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

| | Industry | Construction | Trade | Services |
|---|---|---|---|---|
| 1. | 76% (85%) Energy and raw material | 72% (79%) Energy and raw material | 66% (75%) Energy and commodity prices | 62% (61%) Lack of skilled workers |
| 2. | 63% (61%) Lack of skilled workers | 70% (72%) Lack of skilled workers | 60% (60%) Domestic demand | 58% (64%) Energy and raw material |
| 3. | 56% (51%) Labour costs | 53% (50%) Labour costs | 53% (52%) Lack of skilled workers | 52% (48%) Labour costs |
| 4. | 50% (51%) Domestic demand | 47% (50%) Domestic demand | 51% (46%) Labour costs | 44% (41%) Economic policy |
| 5. | 42% (40%) Economic policy | 39% (37%) Economic policy | 43% (43%) Economic policy | 40% (43%) Domestic demand |

The demographic trends ensure that even during economic downturns, the shortage of skilled workers remains high. Three out of five companies (62 percent, up from 60 percent) cite a shortage of skilled workers as a business risk. This is a record high, previously reached only in autumn 2018. Thus, the shortage of skilled workers is the second-largest business risk for all companies. Given the aging of society, the lack of qualified workers will remain one of the key structural challenges for businesses in the future. In the service sector, the shortage of skilled workers is now once again the most frequently mentioned risk, surpassing the risk of energy and raw material prices. Almost two-thirds of businesses see it as a significant challenge (63 percent, up from 61 percent).

For industrial and construction companies, the shortage of skilled workers is the second most pressing issue. In the industrial sector, mentions have reached a new high at 63 percent, up from 61 percent. Despite a weak construction industry, seven out of ten companies (70 percent, down from 72 percent) report a lack of skilled workers. In the retail sector, the shortage of skilled workers has increased slightly from 52 percent to 53 percent, just below the record high (54 percent).

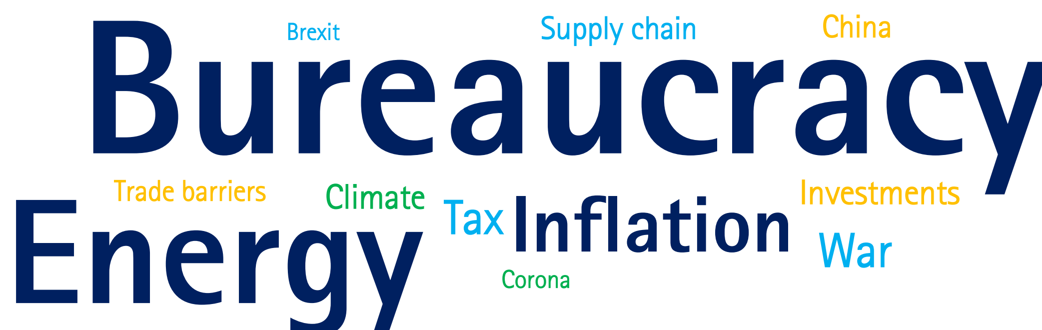
Due to the rising core inflation rate and concerns about a wage-price spiral, as well as the ongoing shortage of skilled workers, over half of the companies (53 percent, up from 49 percent) mention labor costs as a business risk. This is a new high in the IHK business survey. The sectoral differences are minimal. In all four sectors, more than half of the companies are concerned about the development of labor costs. Some service industries with below-average wage levels, which have lost a significant number of personnel during the COVID-19 pandemic and now have a high demand for workers, frequently name labor costs as a risk, such as the security industry (65 percent, down from 73 percent), gastronomy (73 percent, up from 68 percent), or the taxi industry (67 percent, down from 68 percent).

The decline in energy prices, the gradual normalization of international supply chains, and the end of the COVID-19 pandemic are gradually pushing the cyclical business risks into the background. However, the geopolitical situation and further inflation developments remain uncertain. Therefore, domestic demand is a concern for just under half of the companies (46 percent, down from 48 percent). Rising construction costs, especially construction interest rates, order cancellations, and declining order intake, contribute to an above-average number of construction companies perceiving a risk in a weakening domestic demand (47 percent, down from 50 percent; long-term average at 40 percent). This is particularly true for residential construction, which is suffering from a slump in new orders (57 percent, down from 60 percent). Traders continue to fear that inflation will reduce consumers' purchasing power and, therefore, their willingness to consume (unchanged at 60 percent; long-term average at 56 percent). In the service sector and the industry, however, the risk of domestic demand remains at an average level (40 percent, down from 43 percent, and 50 percent, down from 51 percent, respectively).

Despite a globally subdued growth and recently significantly decreased new orders from abroad, concerns about declining foreign demand remain limited for exporting industrial companies. Due to the relaxation of international supply chains, only a below-average number of companies (33 percent, unchanged from before) cite foreign demand as a business risk (long-term average at 39 percent).

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

**Keywords most frequently mentioned by companies when describing economic risks**
(evaluation of around 4,000 free text responses)

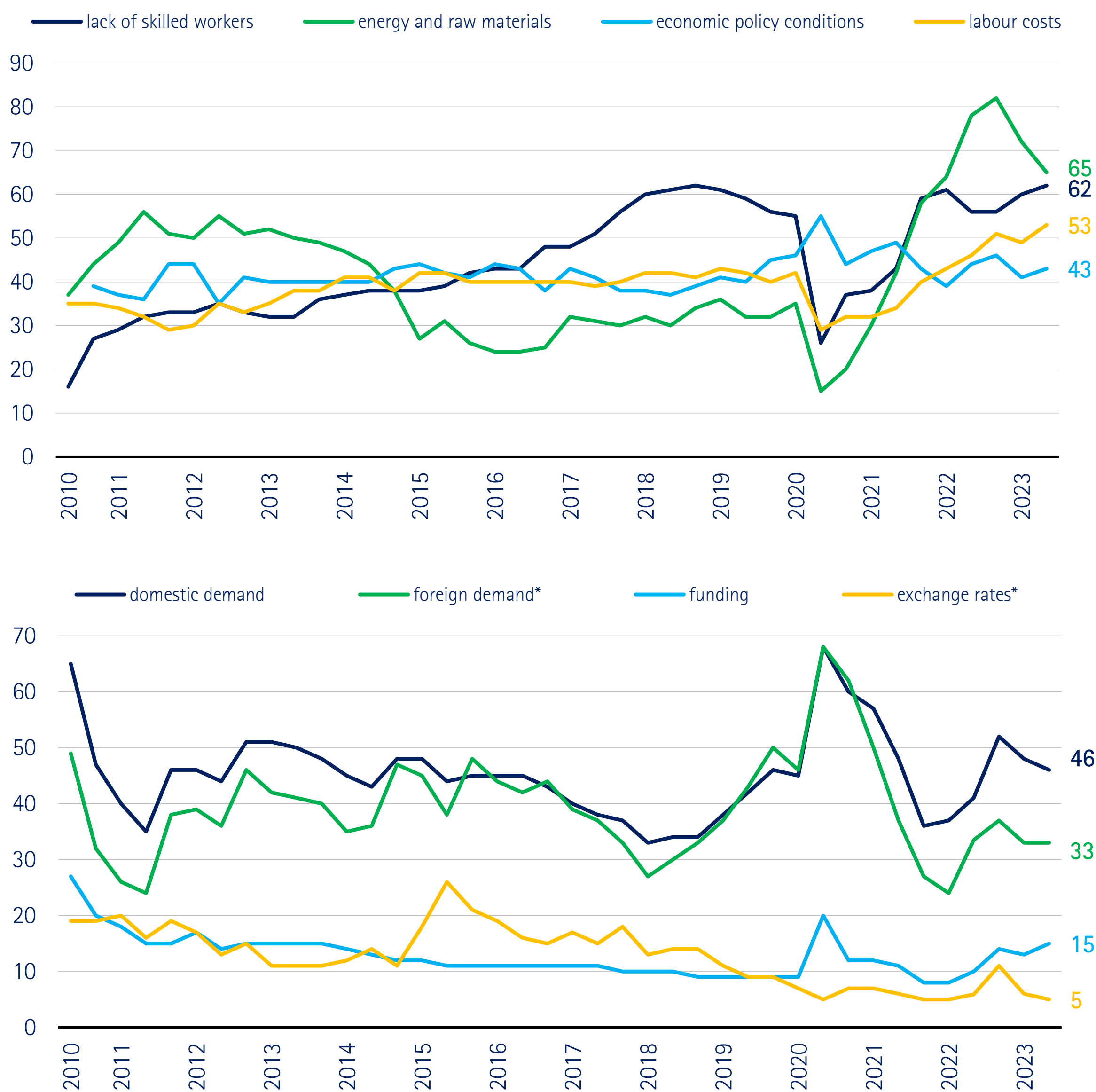



Just under half of the companies (43 percent, up from 41 percent) cite economic conditions as a business risk. Bureaucracy is by far the most frequently mentioned risk, and companies also see other economic policy risks in energy, inflation, war, and taxes.

With the rising interest rates as part of the fight against inflation, slightly more companies now consider access to financing as a risk factor for their business in the next twelve months compared to a year ago (15 percent, up from 13 percent at the beginning of the year and 10 percent in the early summer of 2022). Companies in the real estate sector and construction industry are particularly affected due to high construction interest rates (33 percent, down from 38 percent, and 39 percent, down from 38 percent, respectively), as well as energy providers (remaining at 32 percent). However, the real estate sector is even more affected (39 percent, up from 38 percent).

## Business risks for the overall economy

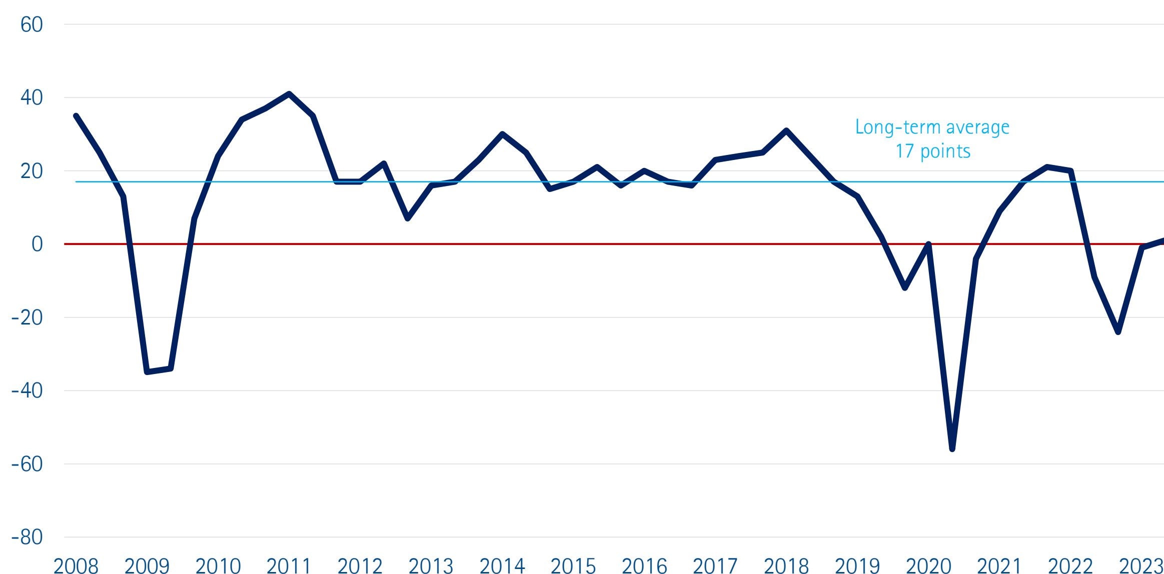
Percentage of responses; multiple responses possible; *export industry



# Export expectations of industrial companies for the coming 12 months

In the early summer, there is still little momentum in the export business. Geopolitical risks, high inflation rates, restrictive monetary policies, and occasional nervousness in global financial markets weigh on global economic development. Despite the end of China's zero-COVID policy and the resulting stabilization of international supply chains, there are no major impulses for the German economy coming from there. In fact, exports to China have recently declined. Globally, the restrictive monetary policies of central banks dampen economic growth, especially in the Eurozone and in Germany's most important export market, the United States. German companies operating internationally are facing challenging global conditions, not least due to the high price level of energy sources, which impairs the international competitiveness of "Made in Germany" goods.

## Export expectations of industrial enterprises – balance in points




Balance of higher reports minus lower reports in points

Against the backdrop of the uncertain global economic environment, the export expectations of industrial companies remain stagnant. Companies with better and worse expectations are evenly balanced. While pessimists were slightly more prevalent at the beginning of the year, now it is the optimists. In the early summer, similar to the beginning of the year, just under a quarter of companies (23 percent) expect higher export sales in the next twelve months, while 22 percent (beginning of the year: 24 percent) anticipate declining exports. The majority of companies (55 percent) expect no change based on their current foreign business. The balance between higher and lower export expectations increases from minus one point to plus one point. Thus, the expectations are still far from the long-term average of 17 balance points.

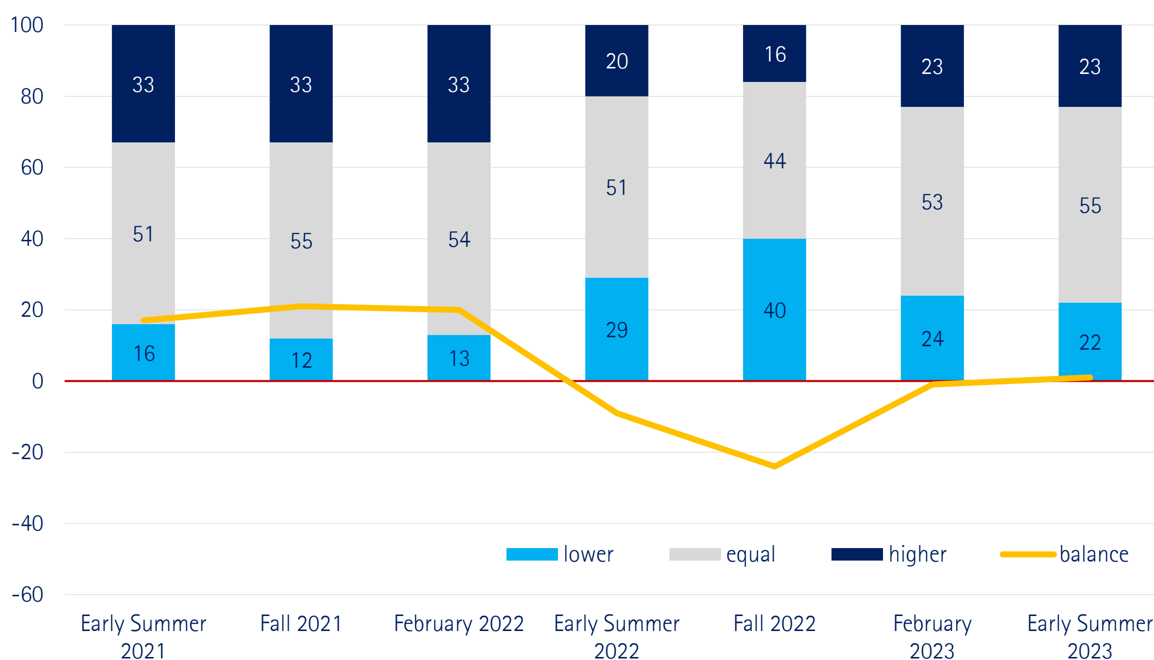
There is also no movement in the business risks faced by exporting industrial companies. Consistent with the beginning of the year, one-third of companies consider foreign demand as a business risk. Five percent (beginning of the year: six percent) see exchange rate fluctuations, which lead to planning uncertainties in conducting international business, as a business risk. According to the AHK World Business Outlook Spring 2023, companies in China and the EU particularly see demand risks.

The slightly improved export expectations of the overall industry can be attributed to intermediate goods producers and consumer goods producers, both of which show a slightly more optimistic outlook for their foreign business compared to the beginning of the year. Although the expectations of capital goods producers are generally more optimistic than those of other industrial sectors, they have slightly declined compared to the previous survey.

Capital goods producers have predominantly positive export expectations. The companies can benefit from the ongoing stabilization of supply chains and fulfill existing orders. However, the uncertain global economic environment slightly dampens expectations compared to the previous survey. Twenty-nine percent expect better export business in the coming months, while 19 percent anticipate declining exports. The balance between higher and lower export expectations decreases slightly from eleven to ten points compared to the previous survey, which is significantly below the long-term average of 20 points. Machinery manufacturers are slightly more pessimistic than at the beginning of the year: 28 percent of companies expect higher exports, while 21 percent anticipate lower exports (balance: seven points, previously ten points). For automotive manufacturers, 21 percent expect an increase in exports, while 13 percent anticipate a decline. The balance of eight points is also below the level of the previous survey and the long-term average of 13 points. Twenty-nine percent of exporting electrical engineers expect export growth for their companies, while 16 percent anticipate declining exports. The balance between higher and lower export expectations decreases from 15 to 13 points, which is only half of the long-term average of 26 points.

Intermediate goods producers are somewhat more optimistic than in the previous survey, but not yet optimistic about their foreign business. For frequently energy-intensive companies, the lower price level for electricity and gas is a positive impetus. However, compared to the international level, energy costs remain high. Nineteen percent of companies expect increasing exports, while 24 percent anticipate reduced export growth. As a result, the balance improves from minus eight to minus five points, but still remains significantly below the average for this industrial sector of 14 points. Among metal production and processing companies, pessimists dominate even more: 28 percent of companies expect worse export business, while only nine percent expect improvement. The balance increases from minus 21 to minus 19 points. In the rubber and plastics industry, export expectations still remain in negative territory, albeit slightly: 20 percent have higher export expectations, while 21 percent anticipate lower exports. The balance increases from minus eleven points to currently minus one point. In this sector as well, expectations are still significantly below the average of 14 points.

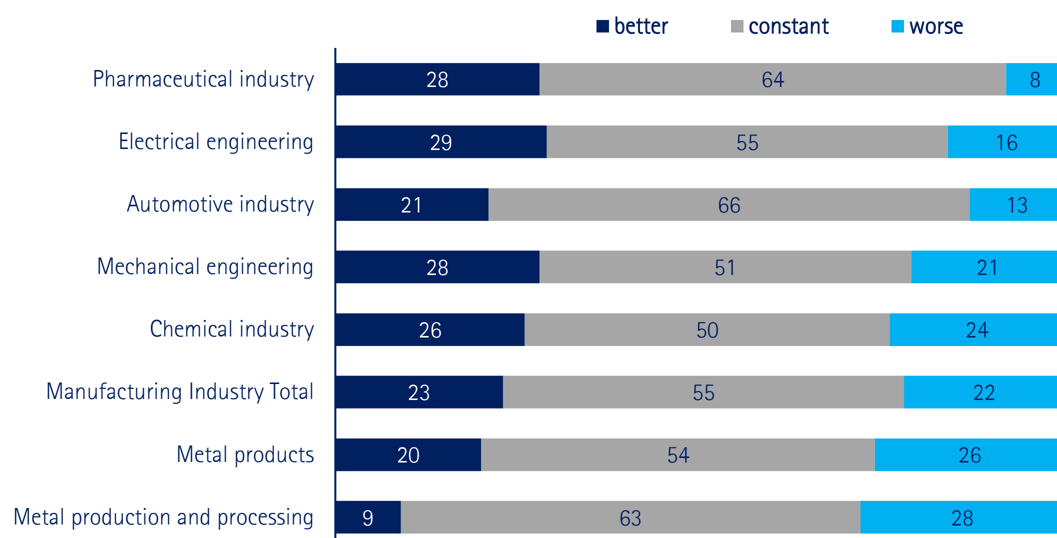
## Export expectations of industrial companies – shares in percent, balance in points



Consumer goods producers also raise their export expectations, despite high inflation rates and consumer restraint. Twenty-one percent of companies expect an increase in exports, while 19 percent anticipate a decrease in the next twelve months. Sixty percent expect stable export revenues. The balance increases from minus four points to two points. For the first time since the beginning of 2022, companies have predominantly positive expectations for their foreign business. However, the long-term average is much higher at 19 points. Among companies in the food industry, those with higher export expectations prevail, as the recent decline in producer prices for agricultural products has a positive impact: 24 percent have positive expectations, while 19 percent have negative expectations. The balance increases from minus six points in the previous survey to currently five points. Export expectations in the textile, leather, and clothing industry remain mostly pessimistic: 17 percent of companies have positive expectations, while 22 percent have negative expectations (balance: minus five points, previously minus ten points). The pharmaceutical industry looks slightly more optimistic than in the previous survey: 28 percent expect increasing exports, while only eight percent anticipate a decline. The balance increases from 19 points to currently 20 points.

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

Shares in percent



# Companies' investment intentions for the coming 12 months

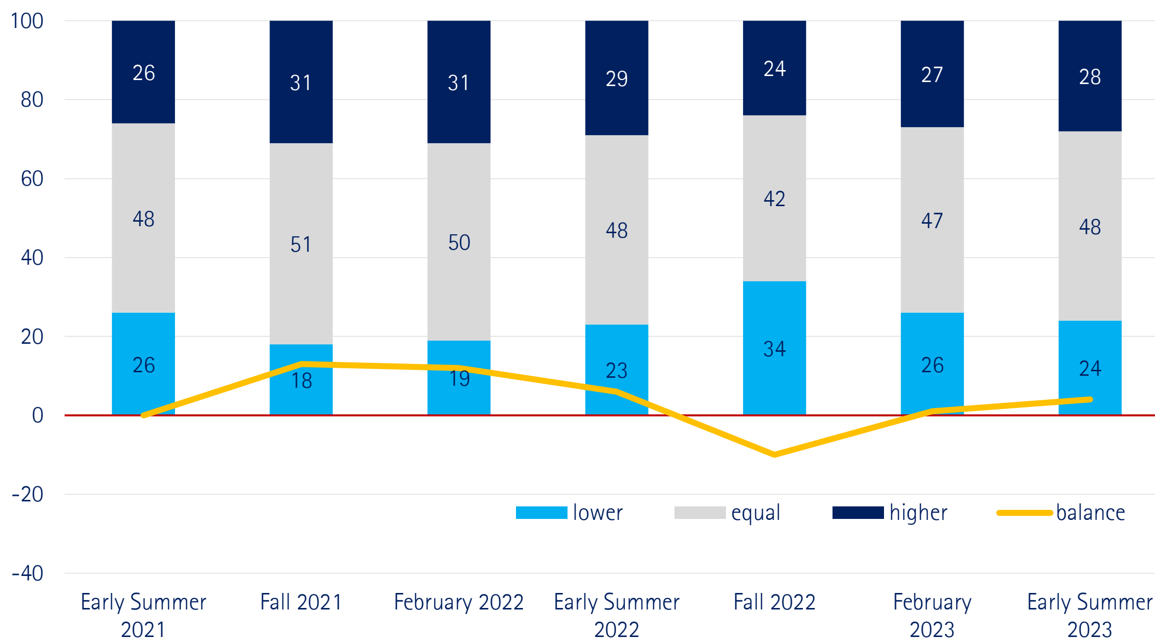
The overall challenging economic environment - sluggish global economy, high energy prices, rising labor costs, and increased interest rates - is leading to a mixed investment climate. Uncertainty remains high, causing companies to remain hesitant in their investment intentions.

Illustrating the stagnant situation is the fact that 48 percent (previously 47 percent) of companies do not plan to change their investment volume in the next twelve months. At the same time, nearly a quarter of companies (24 percent) indicate a desire to reduce their investments, only slightly less than in the previous survey (26 percent). In particular, companies that perceive their financing to be affected by current interest rates are more likely to reduce their investment budgets (36 percent). Meanwhile, only slightly more companies, 28 percent (previously 27 percent), plan to increase investments in the next twelve months. The balance of investment intentions increases only slightly by three to four points, reaching nearly the long-term average. This is concerning because three years after the outbreak of the COVID-19 pandemic, equipment investments have not yet reached pre-crisis levels. Above-average investment intentions would be necessary for a rapid closure of the investment gap. The cautious investment climate in Germany is also reflected in the investment motives of companies. Investments in product innovation and capacity expansion are declining. Instead, companies are focusing their investment intentions on maintenance of existing assets, such as energy efficiency investments and compliance with increasing environmental regulations, as well as ensuring replacement needs.

The slightly more optimistic business expectations of the **industry** are also reflected in slightly more positive investment intentions. The proportion of industrial enterprises planning to reduce their investment budgets decreases slightly from 27 percent to 24 percent. However, it is still only just under a third (31 percent, previously 30 percent) that plan additional investments in the next twelve months. Consequently, the balance of investment intentions increases by four to seven points, reaching the long-term average. Among the three main industrial sectors, capital goods manufacturers have the most positive business and export expectations. Accordingly, investment intentions are predominantly positive, with the balance increasing by two to ten points. Machinery manufacturers have more expansionary investment plans (balance of eleven, previously seven points) compared to, for example, automotive manufacturers, who are scaling back their domestic investment plans (balance of four, previously 13 points). In contrast, investment climates remain mixed for intermediate goods and consumer goods manufacturers (intermediate goods: balance of two, previously minus one point; consumer goods manufacturers: balance of minus one, previously minus three points). Given the currently gloomy business situation and expectations, investment plans in the chemical industry (balance of one, previously minus one point) remain significantly below the long-term average (eleven points). Particularly noteworthy are the investment intentions of the energy industry. In light of very ambitious expansion targets for renewable energies, the future need for hydrogen-capable power plant capacities, and increasing investments in network infrastructure, the already high balance of investment intentions increases from 41 to 45 points.

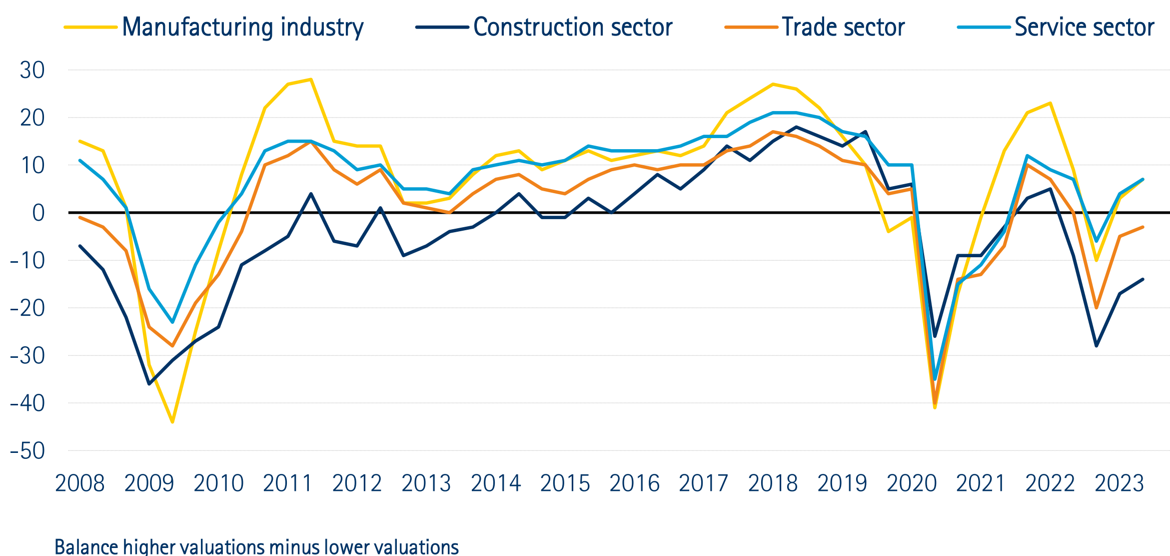
Companies in the **construction industry** are anticipating a construction recession. A low order intake due to high financing costs and elevated construction expenses is causing a collapse in the construction industry. This is also keeping planned investments in construction at a low level. Only 17 percent (previously 15 percent) of companies in the construction industry intend to increase their investments. However, nearly a third (31 percent, previously 32 percent) have to reduce their investment budgets. As a result, the construction industry cannot offset the significant declines in investment intentions at the turn of the year. The balance of investment intentions decreases by only three to minus 14 points, falling behind trade, services, and industry.

## Investment intentions of companies – shares in percent, balance in points




The ongoing high inflation and fear of consumer restrictions from customers continue to dampen sentiment in the **retail sector** and burden the industry's investment plans. Consequently, just under a third (29 percent, previously 30 percent) of companies plan to make investment cuts in the next 12 months. Meanwhile, only a quarter of retailers (26 percent, previously 25 percent) expect an expansion of their investments. Overall, the balance of investment intentions in the retail sector remains below average, at minus three points, compared to the beginning of the year (long-term average of minus one point).

## Investment intentions of companies – balance in points




Balance higher valuations minus lower valuations

Sentiment in the **service sector** has improved somewhat compared to the previous survey, especially in terms of business expectations, which are less gloomy than before. However, this only partially affects the balance of in-

vestment intentions. Over a quarter of companies (29 percent, previously 27 percent) plan to increase their investment budgets. Meanwhile, 22 percent of companies intend to make cuts. In total, the balance increases minimally by three to seven points.

The sluggish economy is evident in the investment motives. While future-oriented investments for capacity expansion and product innovation as motives decrease, investments in replacement needs and environmental protection are on the rise. Consequently, asset preservation remains the top priority for companies amidst uncertain business expectations.

Replacement needs remain the most frequently cited investment motive (66 percent, previously 65 percent). Investments for streamlining remain in second place, unchanged from the beginning of the year, at 31 percent. Capacity expansion drops back to 22 percent, significantly below the long-term average of 27 percent. The motive of production innovation falls to 27 percent, after a slight recovery in the spring, in relation to the overall economy. In the industry, this motive drops to 30 percent, only one percentage point above the previous autumn's record low. Despite the overall cautious investment climate, companies are taking environmental protection more seriously than ever. The investment motive of environmental protection remains at an all-time high, mentioned by 29 percent of companies, as it was at the beginning of the year. This is especially true for the industry, where nearly two out of five companies (37 percent) cite environmental protection as a motive.

## Main motives for domestic investment

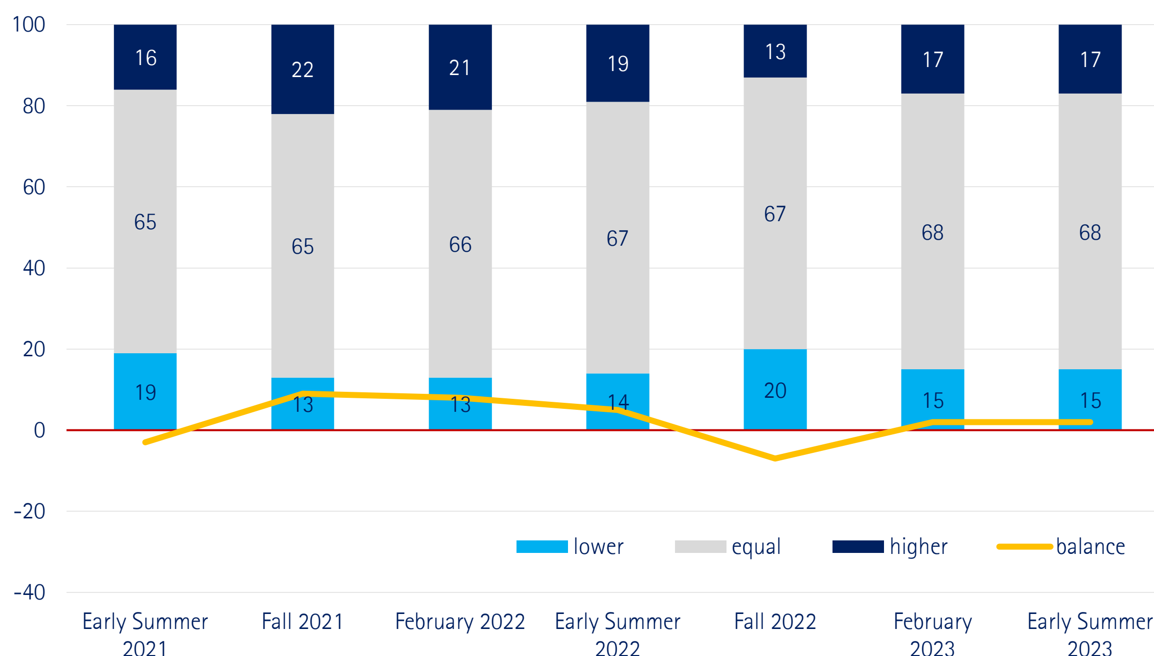
**(in percent; multiple answers are possible, value of previous survey in brackets)**

| | Rationalisation | Product innovation | Capacity expansion | Environmental protection | Replacement demand |
|---|---|---|---|---|---|
| All sectors | 31 (31) | 27 (28) | 22 (23) | 29 (29) | 66 (65) |
| Manufacturing Industry | 42 (41) | 30 (31) | 29 (28) | 37 (37) | 64 (65) |
| Construction | 21 (24) | 16 (18) | 17 (16) | 23 (23) | 80 (79) |
| Trade | 28 (31) | 24 (24) | 22 (21) | 26 (25) | 64 (64) |
| Services | 27 (27) | 28 (29) | 20 (21) | 26 (26) | 65 (64) |

# Companies' employment intentions for the coming 12 months

The employment intentions of companies remain cautiously positive. As in the previous survey, 17 percent plan to increase their workforce, while 15 percent anticipate a reduction. The resulting balance remains unchanged at two points, slightly above the long-term average of zero points. However, the implementation of these plans and overall job creation may be hindered by the current challenges of skill shortages and high labor costs, both of which are at record levels from the companies' perspective. Despite significant economic challenges and uncertainties, the job market remains robust.

## Companies' employment intentions – shares in percent, balance in points



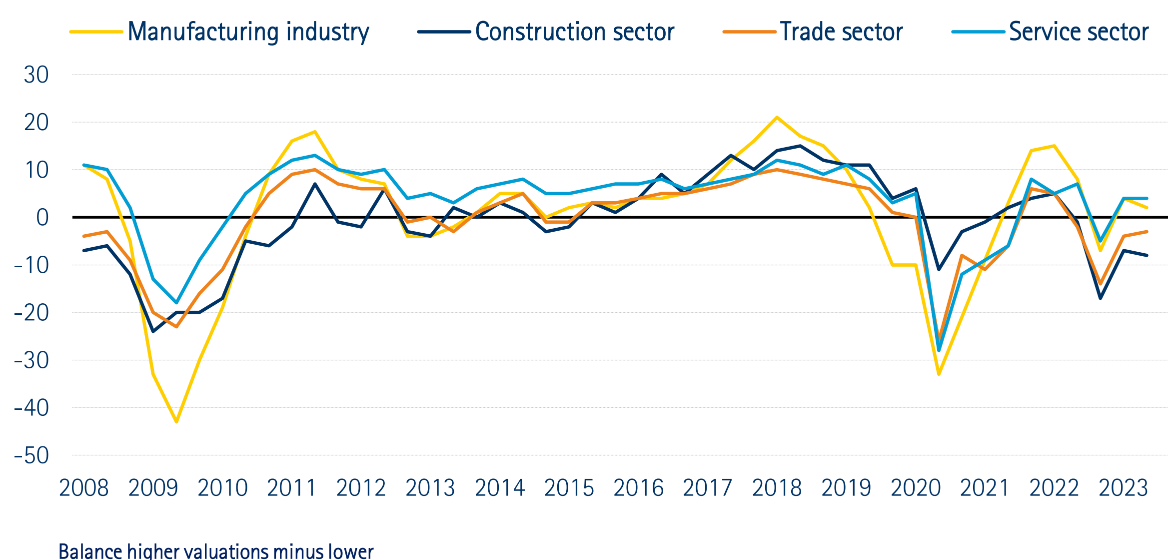

Differences in employment plans can also be observed based on company size. The balance value is negative for small companies with less than ten employees, at minus three points. For medium-sized companies with 20 to 199 employees, the value is four points, and for large companies with 1,000 or more employees, it is eleven points. After employment plans in the industry had increased significantly in the previous survey (balance of minus seven points to four points), there is a slight decline to two balance points currently. The plans are significantly expansive in the high-tech manufacturing sector (20 balance points, previously 21 points), in the field of electrical engineering (18 balance points, previously 21 points), as well as in the production of computer equipment, electrical and optical products (22 balance points, previously 21 points). Slightly less expansive but still positive are the employment intentions in the electrical equipment sector (13 balance points, previously 12 points) and mechanical engineering (14 balance points, previously 17 points). Thus, the digitization and electrification of the economy and society are also reflected in the personnel search in the affected industrial sectors.

The subdued sentiment among intermediate goods manufacturers is reflected in their employment plans. The balance of employment intentions falls into the negative range (minus three points, previously zero points). Companies in energy-intensive sectors, such as the paper industry (consistently minus twelve points) and glass, ceramics, and stone processing (balance of minus twelve, previously minus three points), as well as in stone and earth extraction and mining (balance of minus eleven, previously minus nine points), expect to have fewer employees. Employment intentions in the chemical industry are slightly below average (balance of zero, previously minus one point; average: two points).

The persistently gloomy business expectations in the construction industry are also reflected in the employment plans of these companies. The balance stands at minus eight points, lower than in other sectors, and has slightly decreased compared to the previous survey (by one point). Rising construction costs and increasing interest rates overall dampen demand, which hampers the hiring plans of firms that are also heavily affected by a shortage of skilled workers (70 percent). While the intentions in residential construction and finishing trades have remained unchanged or worsened compared to the beginning of 2023, with balances of minus 13 and minus five points, respectively, the value in civil engineering has increased quite significantly from minus ten to plus one point, indicating an increase in employment in that sector. The prospect of government infrastructure projects may be one of the reasons for this.

The employment intentions in the retail sector remain almost unchanged. The balance stands at minus three points (previously minus four points), indicating little movement in employment. The customer restraint resulting from inflation affects the plans of retailers and car dealerships (both at minus six balance points). On the other hand, wholesale trade and trade intermediation, which are more involved in international business, show slightly more expansive plans (one balance point).

## Companies' employment intentions – balance in points




Balance higher valuations minus lower

Additional employment is on the agenda for the service sector, albeit at a relatively low level. Unchanged from the previous survey, 18 percent intend to expand their workforce, while a consistent 14 percent anticipate a reduction. The balance remains at four points, the highest among the compared sectors. A closer look at individual service industries reveals significant differences within this heterogeneous sector.

The employment intentions in the retail sector remain almost unchanged. The balance stands at minus three points (previously minus four points), indicating little movement in employment. The customer restraint resulting from inflation affects the plans of retailers and car dealerships (both at minus six balance points). On the other hand, wholesale trade and trade intermediation, which are more involved in international business, show slightly more expansive plans (one balance point). Additional employment is on the agenda for the service sector, albeit at a relatively low level. Unchanged from the previous survey, 18 percent intend to expand their workforce, while a consistent 14 percent anticipate a reduction. The balance remains at four points, the highest among the compared sectors. A closer look at individual service industries reveals significant differences within this heterogeneous sector.

In the information and IT services sector, employment intentions are generally much higher than in the overall service sector. However, the balances of employment plans for both IT services (29 balance points, previously 27 points) and information services (21 balance points, previously 17 points) are only slightly above the long-term average (28 points and 22 points, respectively). Here, the high demand for IT professionals in the course of digitalization meets a shortage of available skilled personnel. Legal and tax consultants as well as auditors (28 balance points, previously 22 points) also intend to expand their workforce, as do trade fair, exhibition, and congress organizers (24 balance points, previously 22 points) - especially for the latter, catch-up processes after the COVID-19 crisis may play a role, as the value is well above the long-term average of only eight points.

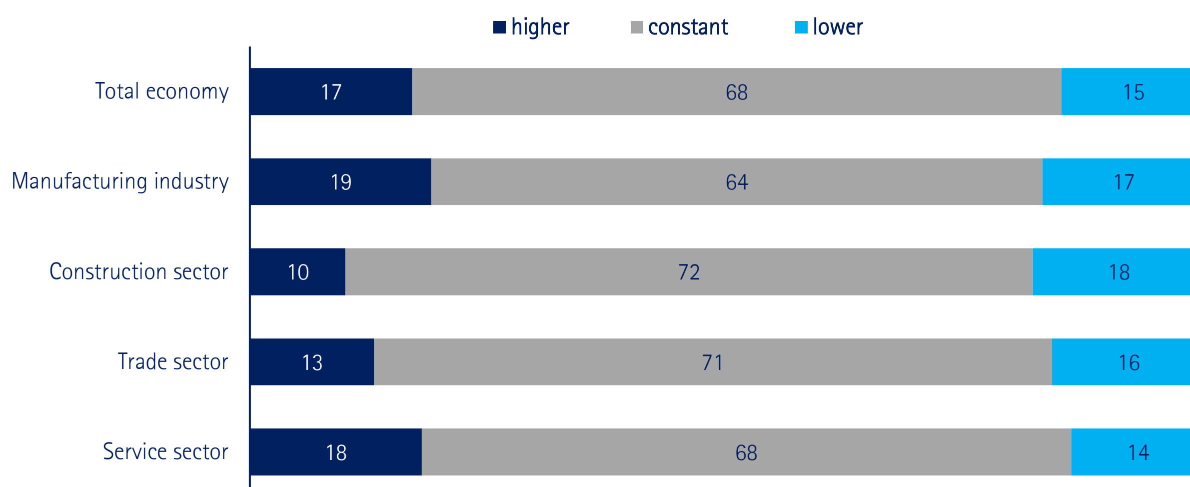
Healthcare and social service providers also plan for an increase in employment (ten balance points), not least due to demographic trends driving up demand for their services. However, the shortage of skilled workers is likely to make the implementation of these plans challenging, as 82 percent of companies in this sector consider this shortage a business risk, which is significantly higher than in many other industries.

On the other hand, some sectors anticipate a decrease in employees over the next twelve months. This includes the banking sector (minus 13 balance points) and road freight transport (minus ten balance points). While the challenging economic environment with high interest rates is expected to influence the former, the latter is affected by the shortage of skilled workers—three-quarters of road freight transport companies see it as a business risk—as well as persistently high fuel prices.

The banking sector (minus 13 balance points) and road freight transport (minus ten balance points) are among those anticipating a decrease in employees over the next twelve months. While the challenging economic environment with high interest rates is expected to have an impact on the banking sector, the shortage of skilled workers is a factor for road freight transport—three-quarters of companies in this industry see it as a business risk—as well as the persistently high fuel prices.

## 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

| | 2021 | 2022 | DIHK forecast 2023 |
|---|---|---|---|
| GDP | 2,6% | 1,8% | **0,0%** |
| Privat consumption | 0,4% | 4,3% | **0,5%** |
| Public consumption | 3,8% | 1,2% | **0,0%** |
| Gross fixed capital formation (GFCF) | 1,2% | 0,4% | **-1,8%** |
| - GFCF in machinery and equipment | 3,5% | 3,3% | **1,0%** |
| - Other fixed assets | 1,0% | 2,1% | **2,0%** |
| - GFCF in construction | 0,0% | -1,7% | **-4,5%** |
| Exports | 9,7% | 2,9% | **1,0%** |
| Imports | 9,0% | 6,0% | **0,5%** |
| Employed persons (change in thousands) | +65 | +590 | **+100** |
| Consumer prices | 3,1% | 6,9% | **6,0%** |