Tender optimism – but by far not everywhere

DIHK Economic Survey Early Summer 2021

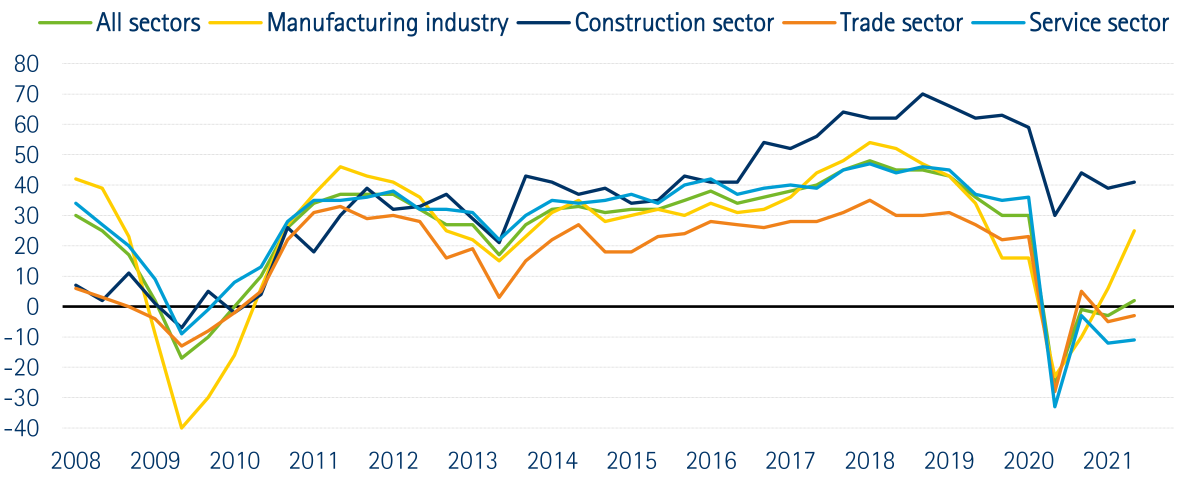
Deutscher Industrie- und Handelskammertag

Deutsche Industrie- und Handelskammern

Current business situation of the companies

Assessments of the current business situation have improved since the beginning of the year. Just under a third (32 percent) of companies assess their current situation as good, while 30 percent say it is poor. The balance of good and poor assessments rises to two points after minus three in the previous survey. This means that the indicator has returned to the positive range for the first time in over a year, but the result is still far from the long-term average (21 balance points).

The sectors of the economy assess their situation very differently, mainly according to how severely they continue to be affected by restrictions on business activity. The improvement in the manufacturing industry is particularly clear. The indicator improved from six to 25 points. In the construction sector, the mood brightened slightly (balance of 41 points, up from 39 previously). In the service sector, however, the situation remains almost unchanged at a poor level (balance of minus eleven points, compared with minus 12 previously). The retail sector also continues to rate its situation poorly, at minus three points (previous survey: minus five balance points). Both sectors are dominated by small and medium-sized enterprises, which are finding it more difficult to recover from the pandemic crisis than large industrial companies.



Balance of good and bad valuations

This differentiation of the picture is also due to very different assessments within the sectors themselves: Companies in upstream industries such as the chemical industry (balance of 37 points, up from 22), the rubber and plastics industry (balance of 36 points, up from ten) and producers in the glass, ceramics and stone processing sectors (balance of 39 points, up from 31) gave a good assessment of the situation. However, companies in mechanical engineering (balance of 22 after previously minus one point), vehicle manufacturing (balance of 23 after previously four points) and electrical engineering (balance of 31 after previously seven points) also report an improved situation. In the machine tool sector, on the other hand, the situation has already improved, but negative assessments still predominate (balance of minus nine points after minus 38 points previously). The situation also remains difficult for producers of consumer goods (balance of minus four points, compared with minus three previously). In particular, sectors such as the beverage industry (balance down four points) and breweries (balance down three points) are struggling with the loss of sales opportunities due to the lockdown in the hospitality industry.

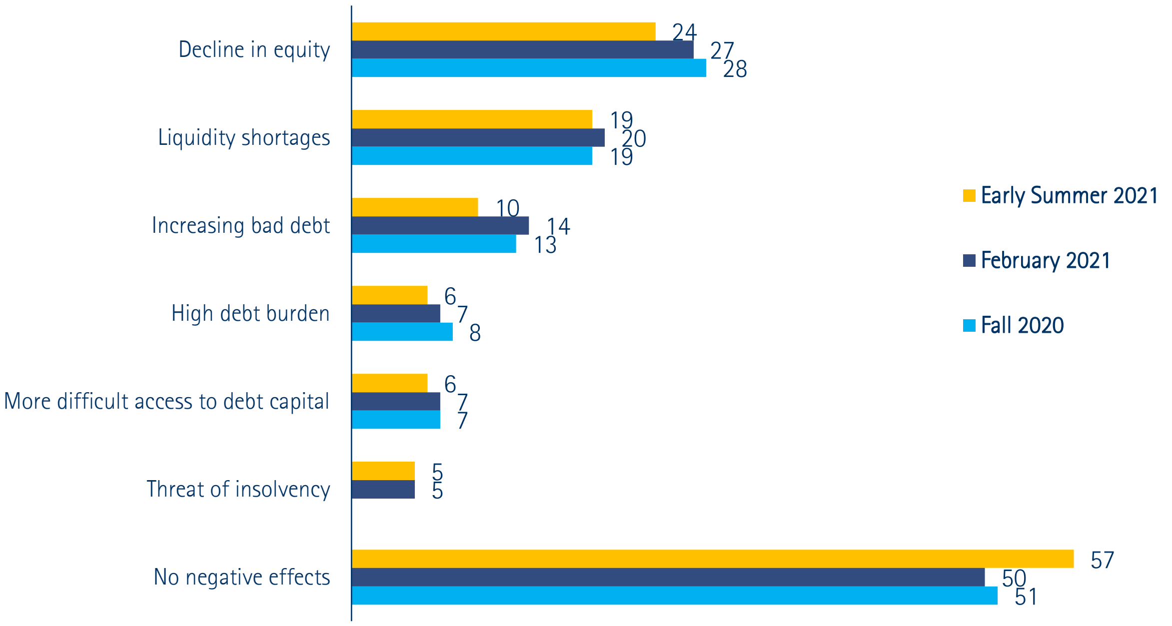
In the services sector, the situation continues to be assessed as good in those sectors whose business models are in particularly high demand under the current restrictions imposed by the pandemic. For example, telecommunications companies (balance of 57 points) and IT service providers (balance of 34 points) assess their business situation as good. There was an overall upward trend among business-related service providers (balance of 18 points, up from twelve). The situation is different for the sectors affected by the lockdown. The situation assessment for the travel industry (balance of minus 92 points), catering (balance of minus 84 points), the accommodation sector (balance of minus 91 points) remains historically poor and has not improved compared with the previous survey at the beginning of 2021. On the contrary, the situation assessment has worsened once again, particularly among companies in the arts, culture and recreation sector (balance of minus 76 points, compared with minus 74 points previously) and among predominantly personal services in general (balance of minus 53 points, compared with minus 51 points previously).

And in the retail sector, too, companies assess their situation differently depending on whether they are close to or far away from continuing restrictions on business activity: While sentiment in the wholesale sector and among commercial intermediaries has benefited from the industrial recovery and brightened once again (balance of 14 points compared with eight previously), the consumer-oriented retail sector assesses its situation even worse (balance of minus 17 points compared with minus 13 previously).

Current financing situation of companies

The financial situation of companies is currently recovering only very slowly. 43 percent of companies still see their own financing situation as problematic. The main concerns are a decline in equity capital (24 percent) and liquidity bottlenecks (19 percent). Overall, five percent of companies see themselves threatened by insolvency.

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

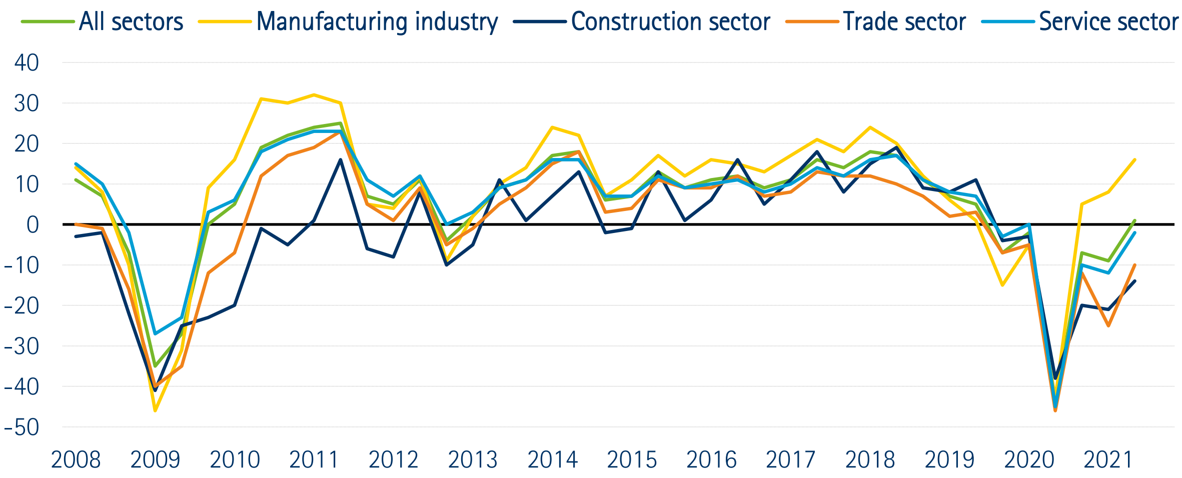


Share in %, multiple answers possible

Business expectations of companies for the next 12 months

Pessimism is declining regarding business expectations for the next twelve months. The balance improved by ten points and was minimally positive at one point.

In particular the manufacturing industry expects business to improve (balance of 16 points, up from eight). In the other sectors, expectations for the next 12 months are improving at a still low level: Although companies are less negative than at the beginning of 2021, they remain pessimistic (balance of service providers minus two after minus twelve previously; balance of trade minus ten after minus 25 previously; balance of construction minus 14 after minus 21 previously).



Balance of better and inferior valuations

The manufacturing industry overall is optimistic. Major sectors such as mechanical engineering (30 points), machine tools (57 points) and overall capital goods producers (24 points) expect a strong boost. Vehicle manufacturers also assess their expectations as predominantly positive. The balance is currently 13 points, which is above the long-term average of eight points. The intermediate goods producers also expect better business (balance of 15 points, up from eleven), including the chemical industry (balance of 21 points, up from 19), companies in the glass, ceramics and stone processing sectors (balance of eight points, up from minus nine) and companies in the mining and quarrying sector (balance of three points, up from minus 16). The improved expectations of industry are also reflected in the business-related service providers. For example, companies involved in the placement and supply of labor expect demand to be stronger (25 points). Expectations are also rising in business-related sectors such as telecommunications (23 points), IT service providers (17 points) and research and development (15 points). Trade show and congress organizers continue to take a critical view of the future (balance of minus eight points after minus 13 points previously). The outlook for companies offering mainly personal services remains challenging. Here, the outlook for travel agents and businesses in the culture, entertainment and recreation sector (balance minus 27 points in each case) remains at a very low level. Business expectations in the hospitality sector also remain negative (minus 13 points after minus 25 points previously). In construction, too, a critical view of business in the coming months predominates. This applies in particular to civil engineering, where almost a quarter of all companies expect lower sales (minus 24 points). The balance of business expectations also remains negative among companies in the building construction (minus 14 points) and finishing trades (minus nine points) sectors. In the retail sector in particular, trade intermediaries, who are heavily involved in international supply chains, are cautiously optimistic about the coming months (balance improved to six points from minus seven points previously). Wholesalers are also more confident than at the beginning of the year, albeit at a low level (balance improvement to zero from minus 15 points previously). There is an upward trend in the retail sector. However, two out of five companies also expect business to deteriorate in the near future (minus 21 points, compared with minus 33 previously).

Business risks of the companies for the next 12 months

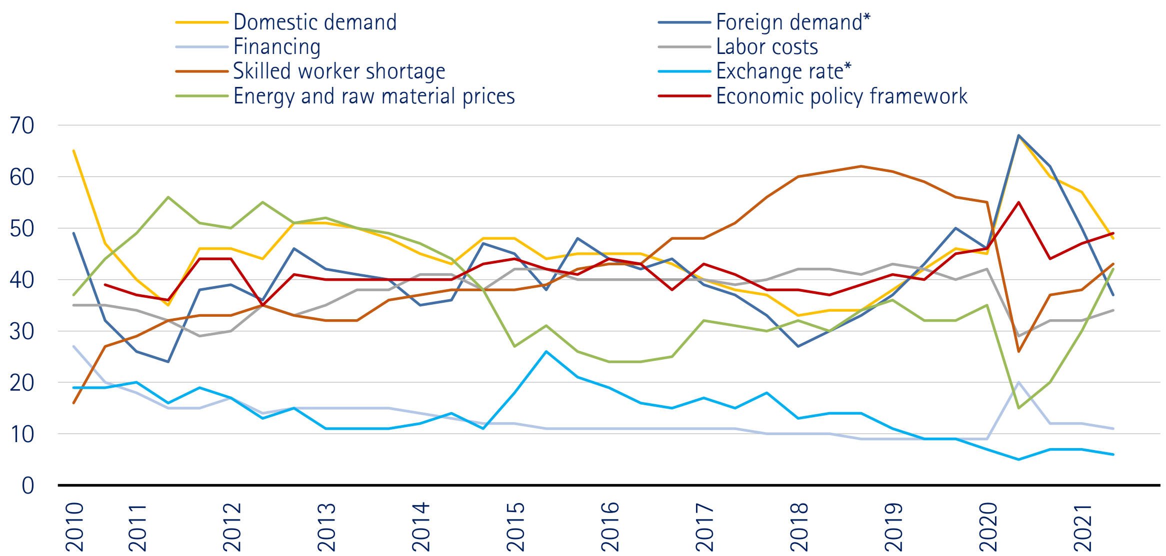
The key business risk is the economic policy framework, the importance of which has increased compared with the beginning of the year (49 percent). Domestic demand remains similarly important, although the assessment here is better than at the beginning of the year. Almost every second company still sees this as a risk to business development (48 percent, compared with 57 percent previously). The shortage of skilled workers has again increased as a risk (43 percent compared with 38 percent previously). By contrast, business risks relating to foreign demand are becoming less important.

Significantly more companies are concerned about the development of energy and raw material prices than at the beginning of 2021 (42 percent, up from 30 percent previously), the highest number since early summer 2014. Shortages of raw materials such as metal, plastic, rubber or wood and supply chain disruptions have led to a rapid increase in prices in recent months.

Percentage of responses; multiple responses possible; *Data from export industry

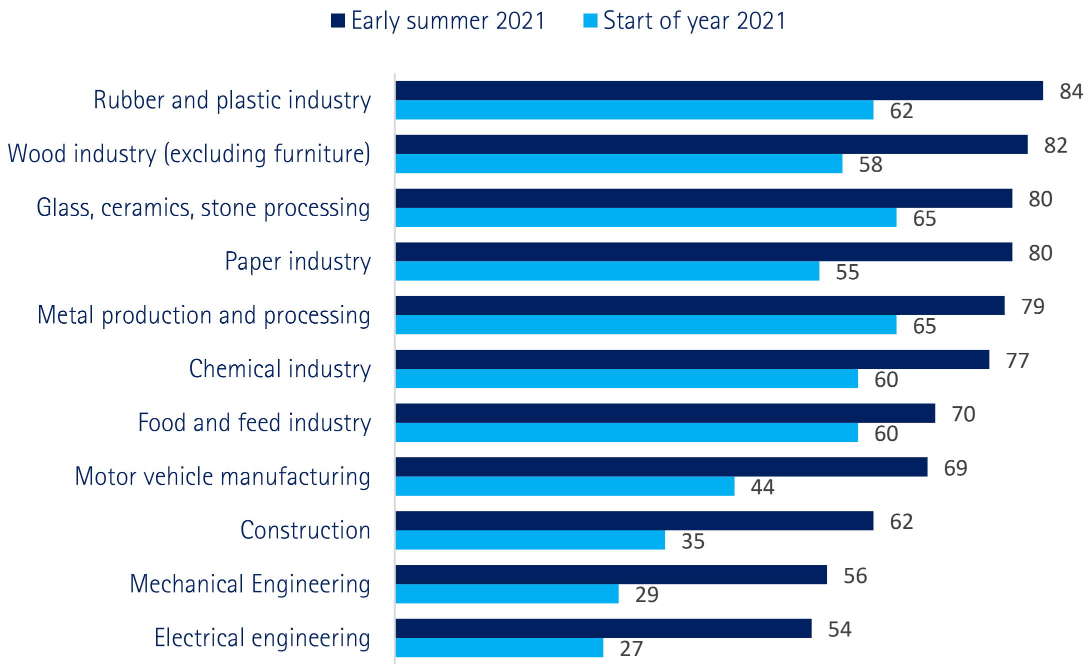
	Domestic demand	Foreign demand*	Funding	Labor costs	Skills shortage	Exchange rate*	Energy and raw material prices	Economic policy framework
Beginningof the year 2020	45	46	9	42	55	7	35	46
Early summer 2020	68	68	20	29	26	5	15	55
Fall 2020	60	62	12	32	37	7	20	44
Beginning of the year 2021	57	50	12	32	38	7	30	47
Early summer 2021	48	37	11	34	43	6	42	49

Business risks - in percent; multiple answers possible; *Export industry



The sharp rise in energy and commodity price risk is particularly evident among industrial and construction companies. Two thirds of all industrial companies and 62 percent of companies in the construction sector specify this as a risk to the economic development of their business. At the beginning of the year, only 45 percent of companies in industry and 35 percent of companies in construction had indicated this. Producers of intermediate goods such as the chemical industry or metal production and processing are affected with above-average frequency.

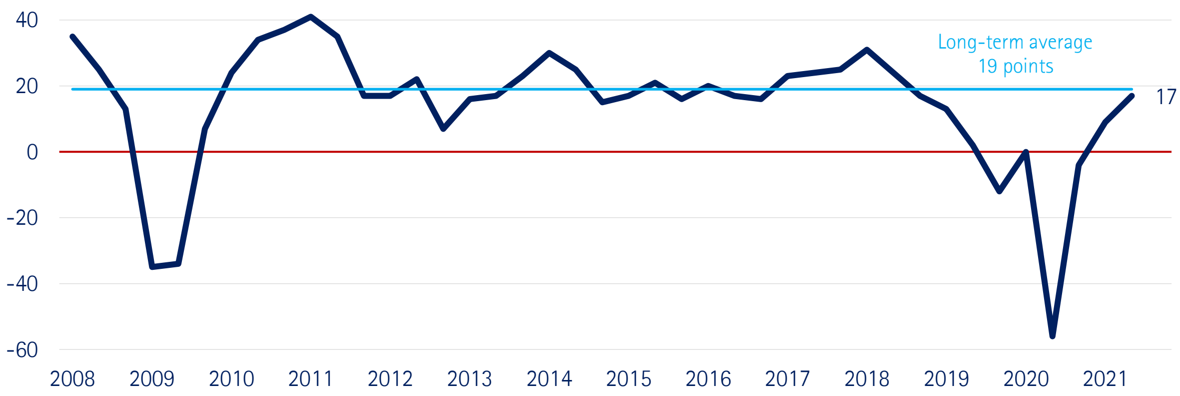
Industrial and construction companies' assessment of the business risk of energy and raw material prices
Share in percent



Export expectations of industrial companies for the next 12 months

Companies' export expectations are once again more confident than in previous surveys. The economic recovery in parts of the global economy - particularly in the key sales markets of China and the USA - is boosting demand for German products. The balance of export expectations has risen to 17 points (beginning of 2021: nine points) and is approaching the long-term average of 19 points. Significantly fewer companies than recently see foreign demand as a risk to their business. Whereas at the beginning of the year one in two exporting industrial companies cited this concern, the figure is now 37 percent, the lowest since early summer 2019.

However, the stabilization in foreign markets has so far mainly benefited medium-sized and large companies, as they are also active in more distant markets. Most companies with 200 to 999 employees expect higher exports in the coming months (balance 35 points, up from 25). Despite an improvement on the previous survey, negative export expectations predominate among small companies with up to 19 employees (balance minus one point compared with minus seven points previously).



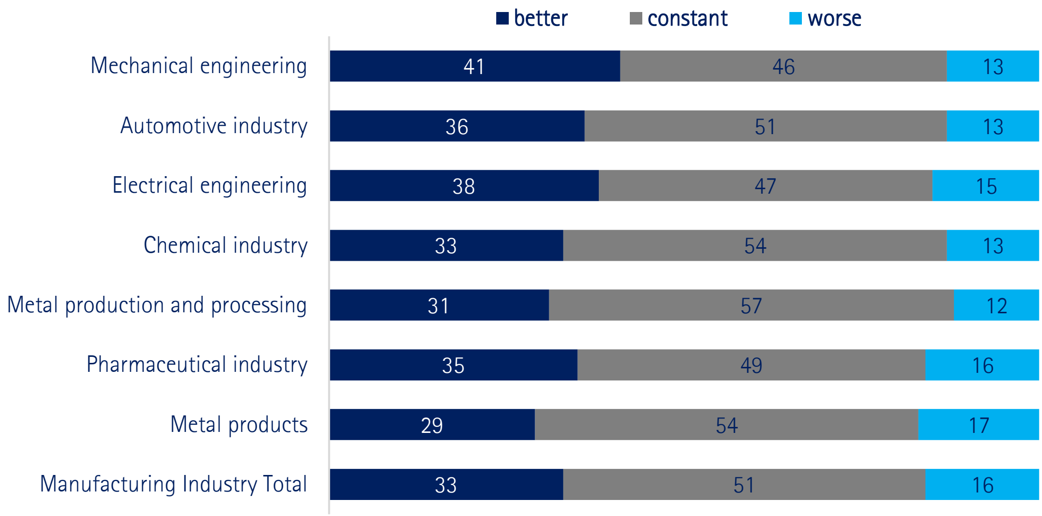
Balance of higher messages minus lower messages in points

Particularly the export expectations of capital goods producers have brightened and are more optimistic than those of manufacturing industry in total (balance 24 points, up from ten points previously). 41 percent of mechanical engineering companies expect their exports to increase (balance 28 points compared with ten points previously). Motor vehicle manufacturers have also raised their expectations for the coming months. The balance has risen from six to 23 points. Starting from the high level at the beginning of the year, electrical engineers are also raising their export expectations slightly (balance 23 points, up from 20 points).

Producers of intermediate goods (balance of 15 points, up from ten) and of consumer goods (balance of eight points, up from one) raised their expectations only slightly. For example, slightly more companies in the chemical industry expect their exports to increase (balance 20 points after 18 points previously), as do rubber and plastics manufacturers (balance ten points after eight points previously) and metal producers and processors (balance 19 after 14 points previously). Pharmaceutical companies, on the other hand, significantly lowered their export expectations (balance of 19 points, down from 29).

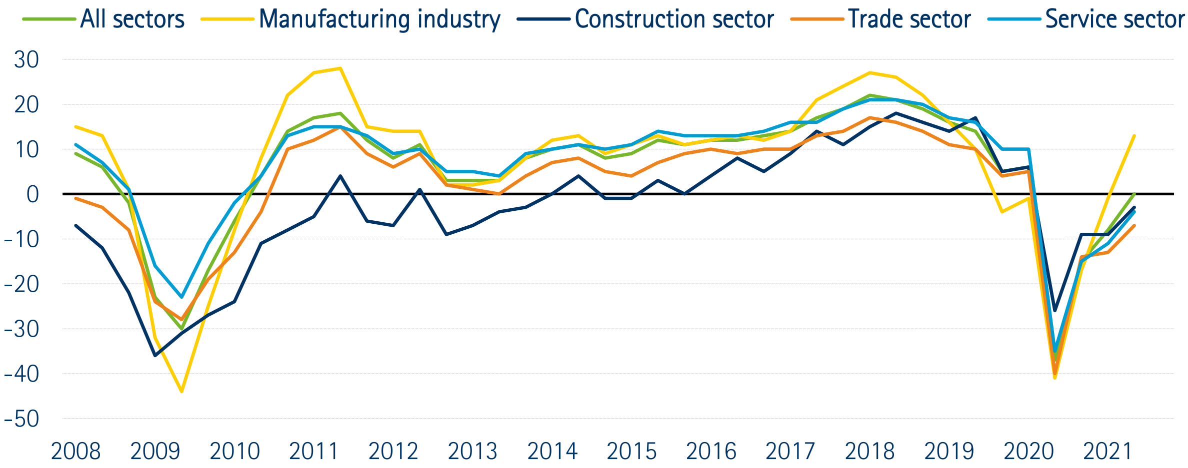
Export expectations for the next 12 months in selected sectors

Shares in percent



Companies' investment plans for the next 12 months

Companies' investment plans are improving but remain cautious (balance zero after previously minus eight points) and are still below the long-term average of four points. Around a quarter of companies (26 percent) are planning to expand or cut back investments in the coming months. In a comparison of economic sectors, investment restraint continues to be most pronounced in the retail sector (balance minus seven points after minus 13 points previously). Services (balance minus four after minus eleven points previously) and construction (minus three after minus nine points previously) increased their investment plans more significantly but remain in the negative range. Industry, on the other hand, is planning to expand again (balance 13 points after minus one previously) and is thus also setting itself apart from other sectors in terms of investment plans.



Balance higher valuations minus lower valuations

In the trade sector, it is particularly the retail sector which, as before, is reluctant to invest (balance of minus 14 after previously minus 17 points). Only in wholesale (balance of one point) and commercial intermediaries (balance of two points), both of which are dominated by business-to-business transactions, are investment plans for the coming months slightly positive. In the services sector, the development of investment plans continues to be strongly influenced by the restrictions imposed to contain the Corona pandemic. Better than before but still at a very low level are investment plans in the hotel and restaurant industry (balance minus 23 after minus 36 points previously), travel agents (balance minus 43 points after minus 57 previously) and local passenger transport (minus 15 after minus 22 previously). The investment plans of organizers and the cultural and creative industries (minus seven after minus ten previously), especially the leisure industry (balance minus 47 points after minus 44 previously), have hardly improved compared with the previous survey. By contrast, some of the business-related service providers, such as research and development (balance 19 points) and the placement and supply of workers (balance five points), are planning expansively.

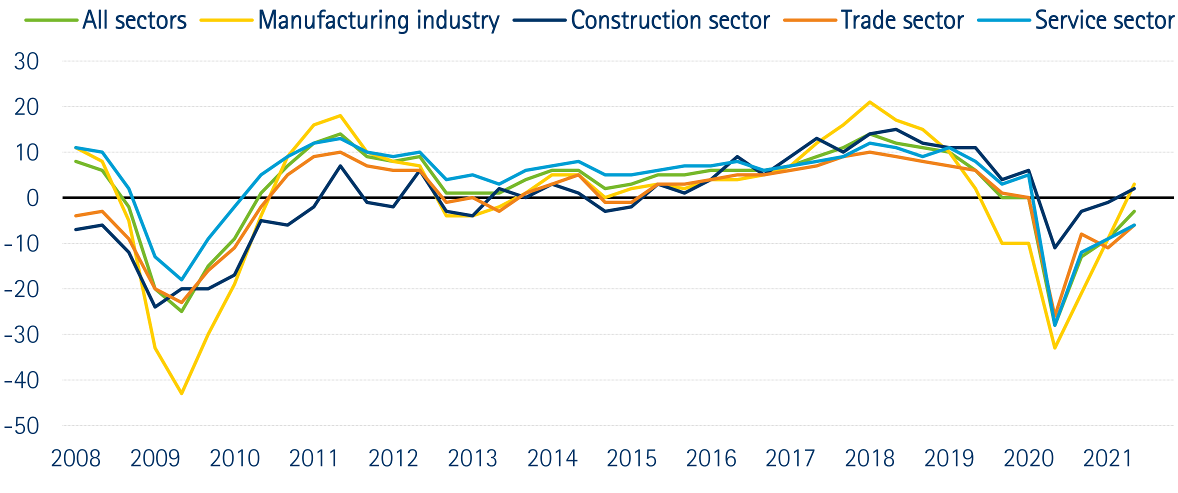
The improved investment plans in industry are concentrated on manufacturers of intermediate goods (balance of 17 after previously one point) and capital goods (balance of nine after previously minus seven points). The propensity to invest is thus higher in these sectors than before the crisis. Metal production and processing (balance of eleven after previously minus ten points), glass and ceramics (balance of 22 after previously two) and paper (balance of 17 after previously minus ten) are planning to increase investment. The same applies to mechanical engineering (balance of ten after minus six) and electrical engineering (balance of 17 points after five). More than before, these sectors are again planning to expand capacity (capital goods producers' 29 percent after 24 percent previously, intermediate goods producers 32 percent after 25 percent previously). By contrast, investment plans among consumer goods producers (balance of two points after minus three points previously) are developing less positively and remain well below the pre-crisis level (balance of 15 points at the beginning of 2020). More frequently than in the past, environmental protection is the reason for investment in industry (28 percent, long-term average 18 percent). By contrast, product innovations (36 percent) are not yet gaining in importance as an investment motive (long-term average 38 percent).

Main motives for investing in Germany (in percent; multiple answers possible):

	Rationalization	Product innovation	Capacity expansion	Environmental protection	Replacement demand
All industries	33	31	25	21	64
Manufactoring Industry	44	36	31	28	64
Construction	24	21	20	20	79
Trade	30	26	24	18	62
Services	28	31	22	18	63

Companies' employment plans for the next 12 months

Compared with the beginning of 2021, companies are again somewhat more optimistic (balance minus three points, previous survey minus nine points). However, plans remain below the average since 2003 and also below the pre-crisis level (zero balance points in both cases). 16 percent of companies are aiming to increase employment in the next twelve months, 65 percent expect their workforce to remain unchanged and 19 percent anticipate a reduction. This means that the proportion planning to hire additional staff has almost reached pre-pandemic levels (Beginning of 2020: 17 percent). By contrast, the proportion planning to employ fewer staff is higher (Beginning of 2020: 17 percent), while slightly fewer expect the workforce to remain unchanged (Beginning of 2020: 66 percent) - a sign of the different situations in the individual sectors of the economy.



Balance higher valuations minus lower

Compared with the previous survey, employment plans have recovered most strongly in industry (balance plus three points after minus nine points previously). Almost one in five companies there is planning to recruit more staff. Hiring plans are significantly more pronounced than in fall 2019 and at the beginning of 2020 (balance minus ten points in each case) and are also above the average since 2003 (balance minus two points). Employment plans are also on the rise in the construction sector - the balance is back in the positive range for the first time since the start of the pandemic (plus two points after minus one point previously), although still below the pre-crisis level (plus six points at the beginning of 2020). In the retail sector, employment plans are also improving compared with the previous survey (balance minus six points after minus eleven previously). In this sector, there had still been a reduction in employment plans at the beginning of the year compared with the previous survey. Among service providers, staffing plans show a slight upward trend, although the balance remains negative (minus six points compared with minus nine previously). Here, more than one in five companies anticipate lower staffing levels in the next twelve months - more than in any other sector of the economy.

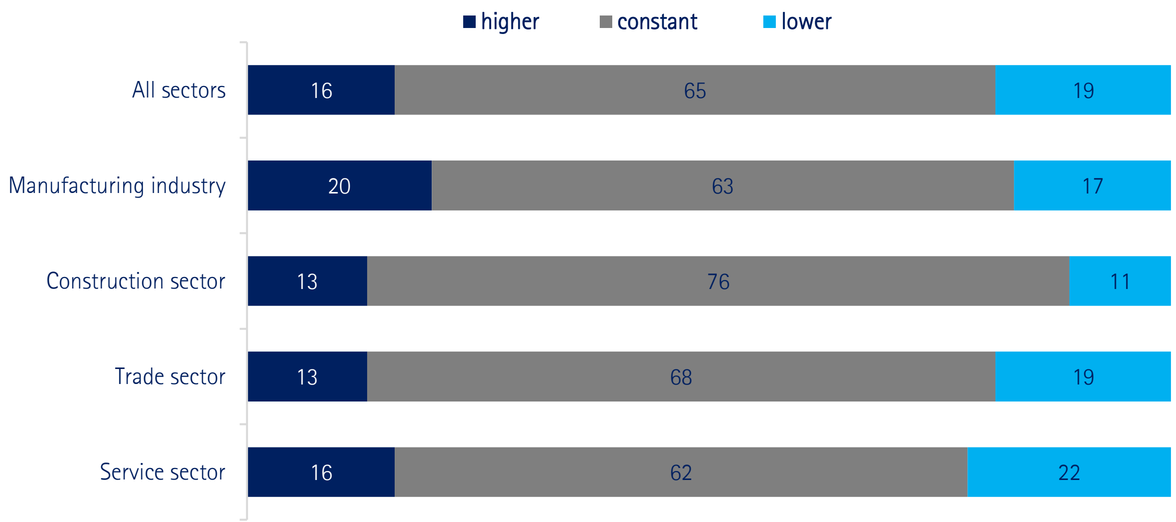
Employment plans are particularly pronounced in industries related to digitalization - such as programming (balance 28 points), IT services (balance 27 points) and information services (balance 29 points). This reflects the trend toward digitalization, which has received an additional boost in times of the pandemic. Depending on how long-lasting pandemic-related market changes such as online retailing, delivery services, virtual conferences as well as home office work become established, employment demand will develop here in the long term. However, the values are also clearly positive in the placement and leasing of workers (balance 19 points) as well as legal and tax consultancy, auditing (balance 12 points).

By contrast, the plans of companies in the banking industry (balance minus 48 points), travel agencies (balance minus 39 points) and the hospitality industry (balance minus 24 points) point to job cuts. While the consequences of the lockdown are particularly evident in the latter two sectors, structural change is having an impact in the banking industry - here digitalization is having a negative effect on employment.

At 43 percent, more companies again see the shortage of skilled workers as a business risk. Although this is significantly fewer than before the crisis at the beginning of 2020 (55 percent), the value is gradually increasing again following the sharp decline as a result of the pandemic outbreak (26 percent in early summer 2020). Only in the construction industry does the shortage of skilled workers remain the biggest business risk (67 percent). Among service providers, the value is 44 percent, in industry 39 percent and in retail 35 percent.

Employment plans in the next 12 months by sector

Shares in percent



DIHK forecast for economic development in Germany

Use of gross domestic product (GDP) in Germany Change versus previous year, in percent, price-adjusted, chained			
	2019	2020	DIHK forecast 2021
GDP	0.6%	-4.8%	3.0%
Private consumer spending	1.6%	-6.1%	0.6%
Government consumption expenditure	2.7%	3.3%	3.0%
Gross fixed capital formation	2.5%	-3.1%	3.0%
- Equipments	0.5%	-12.1%	7.5%
- Other plants	2.7%	-1.1%	3.2%
- Buildings	3.8%	1.9%	0.5%
Export (goods and services)	1.0%	-9.4%	8.0%
Import (goods and services)	2.6%	-8.5%	6.5%
Employed persons (change in thousands)	+401	-487	+60
Consumer prices	1.4%	0.4%	2.2%

Imprint

Association of German Chambers of Industry and Commerce e. V.
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Postal address: 11052 Berlin | House address: Breite Straße 29 | Berlin-Mitte
Phone 030 20308-0 | Fax 030 20308-1000

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