

# News Release

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## S&P Global Germany Business Outlook

### Ukraine war, inflation and energy crisis drive German business outlook to record low

#### Key findings

Germany posts weakest confidence among all nations covered in global outlook survey

Manufacturers especially downbeat regarding 12-month expectations

Record non-staff cost inflation expectations; wage pressures unchanged from June high

Business confidence in Germany sank to a record low in October as the economy faced an energy crisis and possible recession, with high inflation and rising interest rates set to severely hinder business and consumer spending power over the next 12 months. Inflationary pressures were at or close to record levels, and profits forecasts were the worst ever recorded. Moreover, Germany was the most pessimistic nation among 12 comparable economies covered by the S&P Global Business Outlook survey.

The net balance of German private sector firms expecting a rise in activity in the year ahead fell further from +11% in June to -7% in October. This signalled the most pessimistic mood among companies since the series began in late-2009. The 18-point fall in the net balance was around half the record plunge seen in June, but still among the largest to date.

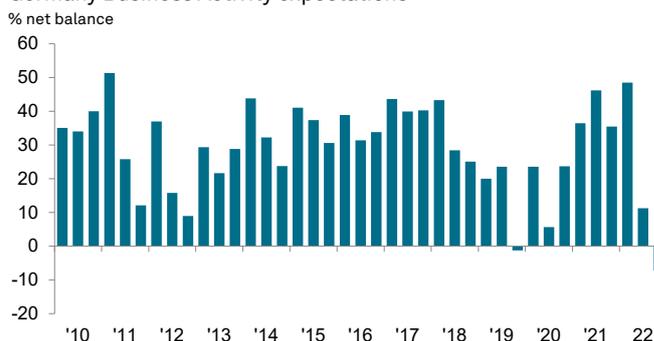
Germany posted the weakest outlook of all 12 nations monitored globally in October. Moreover, Germany's October reading was the second-lowest seen across all nations since the series began in October 2009, with only India in June 2020 posting a more pessimistic outlook (-30%).

German manufacturers were notably downbeat regarding future output in October with the respective net balance falling to -25%, a record low. Service providers were, on balance, neutral regarding growth prospects (+1%), the weakest position since April 2009 during the global financial crisis.

Anecdotal evidence provided by survey respondents highlighted a wide range of threats to the business outlook, including the war in Ukraine and related energy crisis, supply chain problems, high inflation, rising interest rates, staff shortages, wage pressures and reduced consumer spending power. These all added up to expectations of a recession in Germany and possibly at the global level.

A number of companies were hopeful of a recovery towards the end of 2023, however, with the likelihood of inflation

Germany Business Activity expectations



Source: S&P Global.  
Data were collected 12-26 October 2022.

#### Comment

Commenting on the Germany Business Outlook survey data, Phil Smith, Economics Associate Director at S&P Global Market Intelligence, said:

*“German business confidence collapsed further to a record low at the start of the final quarter of 2022, in a complete reversal since February prior to Russia’s invasion of Ukraine. The post-COVID bounce in confidence has evaporated as the war triggered an energy crisis which has compounded steeply rising inflation.*

*“Germany’s particular vulnerability to tensions with Russia has been borne out by the global survey, with German firms the most pessimistic among all 12 nations monitored in terms of output, capex and profits, and having the second-weakest jobs forecasts. Germany also has the highest non-staff cost inflation expectations globally, and the joint-highest wage pressures.*

*“There were glimmers of hope in the latest findings, however, as some firms see opportunities arising from the energy transition, sustainability and digitisation drives and a focus on flexibility towards customers. There were some reports of a possible recovery beginning towards the end of 2023 as inflation begins to correct, and if the war in Ukraine shows signs of ending.”*

easing and a possible cessation of hostilities in Ukraine. Sustainability and digitisation efforts, a renewable energy transition and flexibility towards customers were also put forward as business opportunities.

### Jobs forecasts turn negative, while investment outlook is weakest globally

Private sector firms in Germany were pessimistic with regards to both employment and investment in October, with capital spending forecasts being the weakest in the global survey.

The net balance of German private sector firms planning to increase employment levels in the coming year was -4% in October, down from +11% in June. This marked the first pessimistic outlook for hiring since June 2020 and was only the fourth negative reading in the series history. Expected job shedding at manufacturers outweighed a marginally positive services jobs outlook.

The German employment outlook was the second-weakest in the global survey, ahead of Spain (-8%). The eurozone and global averages were +2% and +9%, respectively.

The 12-month forecast for capital spending was even weaker, with the net balance falling to -15%, the second-lowest on record and the weakest in the global survey. Similarly, spending on research & development was set for cutbacks (-8%).

### Price pressures remain at record highs

Inflation expectations remained at or close to record highs in October, linked to the energy crisis and worker pay demands arising from soaring living costs. Meanwhile, the profits outlook was the worst on record.

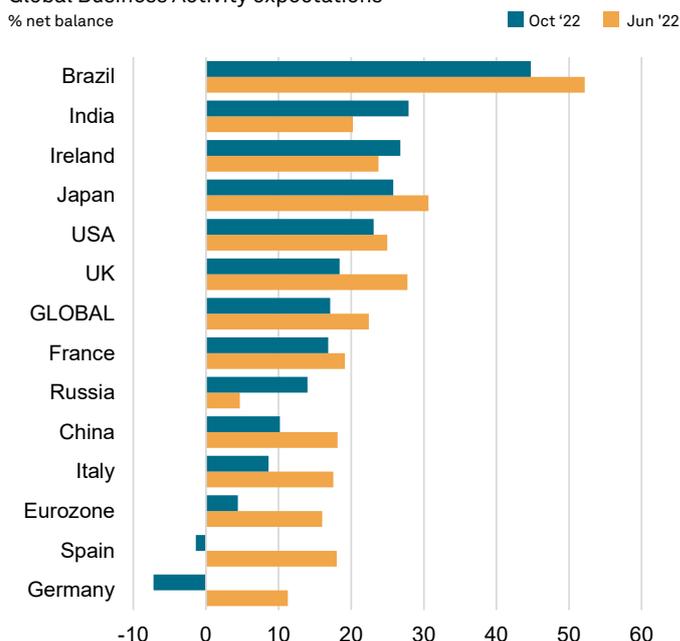
The unfolding energy crisis brought on by the in Ukraine and persistent global supply chain problems led to companies upwardly revising their cost projections further in October. The non-staff input costs net balance rose to a new high of +78%, despite a slight easing of inflation expectations in the manufacturing sector. Moreover, Germany's figure remained the highest in the global survey, as has been the case since February 2021.

German firms were expecting record upward pressure on labour costs over the next 12 months, as workers demand pay increases to cope with soaring living costs. The staff costs net balance was unchanged on June's record high of +77% (since 2019), and was the joint-highest globally (with the UK).

Companies expect to hike their own prices for goods and services in response to surging costs. The net balance stood at +50%, little-changed from June's record high of +52% and above the eurozone average of +41%. Service providers' expectations for charges hit a record high (+50%), although this was still below the equivalent manufacturing reading of +51%, which was the lowest since February 2021.

The weakening demand outlook impacted profits forecasts, with the net balance of firms expecting a rise in the year ahead falling to a record low of -43% in October. This was also the lowest figure across the 12 nations monitored. Manufacturers remained more pessimistic than their service sector counterparts.

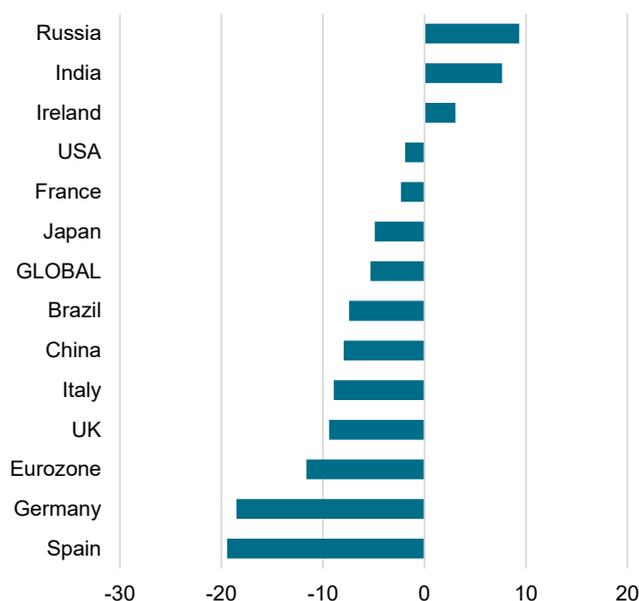
Global Business Activity expectations



Source: S&P Global.

Global Business Activity expectations

Change in % net balance, Oct '22 vs. Jun '22



Source: S&P Global.

Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

## Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that S&P Global operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 8,000 firms.

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