

News Release

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S&P Global Germany Business Outlook

German business sentiment rocked by the fallout from the war in Ukraine

Key findings

Growth expectations sink to lowest since mid-2020

Investment recovery set to stall amid concerns for profits

Firms see wage pressures building

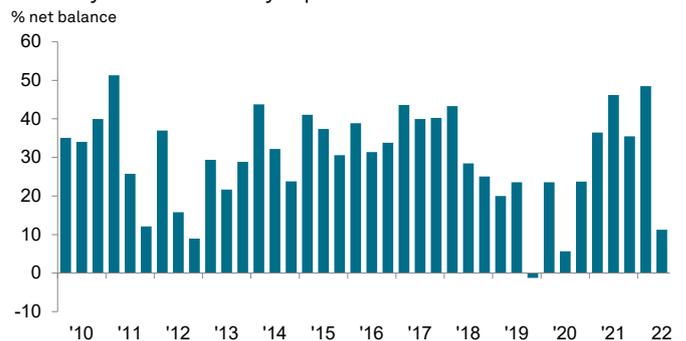
Latest Business Outlook data from S&P Global showed a substantial drop in German business confidence since Russia's invasion of Ukraine in February, with the ensuing turmoil in energy markets, supply chain disruptions and associated spike in inflation having dampened growth expectations to their lowest for two years. Amid concerns over increasing wage pressures, costs are forecast to rise sharply in the coming year, thereby serving as an additional brake on firms' investment plans.

The net balance of German private sector firms expecting a rise in activity in the year ahead fell sharply from a near-record high of +48% in February to +11% in June [note that most responses for February's survey were collected prior to Russia's invasion of Ukraine on 24th February]. The decline in confidence was the largest seen among the 12 economies for which comparable data are available.

After outperforming for almost two years, manufacturing expectations fell particularly sharply in the four months to June. Optimism among service providers was also subdued, having plunged to the lowest since mid-2020. Whilst the survey indicated growing concerns about the threat to demand from rising prices and heightened uncertainty, many firms still saw skill shortages as a key risk to growth prospects.

On the flip side, participants in the survey identified several potential supportive factors for activity in the year ahead. Among these were progress in digitalisation, the transition towards sustainability – including a shift to alternative energy sources and the

Germany Business Activity expectations



Source: S&P Global.
Data were collected 13-27 June 2022.

Comment

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

"The war in Ukraine has taken the wind out of the sails of Germany's economic recovery. On the eve of the Russian invasion, German business confidence towards growth prospects was at a near-record high, but fast-forward four months and there's a very different feeling among companies, owing to a backdrop of soaring prices, tightening monetary policy, renewed supply chain disruption and uncertainty around future gas supplies.

"Notably, the loss of confidence in Germany is greater than in any other economy where comparable data are available. Manufacturers' expectations have fallen particularly sharply, but the outlook for the service sector has also worsened as domestic demand comes under pressure from the soaring cost of living.

"Firms' expectations for costs and prices were at their highest on record in June, with the survey also indicating the risk of second-round inflation effects as the proportion of companies predicting wage rises climbed once again.

"German firms foresee a squeeze on profits in the year ahead and have scaled down their plans for investment accordingly. This comes at a time when progress in digitalisation and the green transition are seen as key growth opportunities."

development of greener products – and an alleviation of supply chain pressures.

Cost and price expectations at record highs

A prominent feature of June's survey was a rise in wage expectations among businesses. The net balance of firms expecting an increase in average staffing costs in the coming year climbed to a fresh series high of +77% (albeit with this particular series stretching back only to the start of 2019). Alongside this, firms anticipated an equally sharp increase in non-staff costs (net balance also at +77%).

With many companies looking to pass through higher costs to customers in the coming year, output price expectations likewise remained elevated. They even crept up slightly to a fresh series peak due to a rise in the number of services firms forecasting higher charges (+45%). This offset a slight fall in manufacturers' output price expectations (+66%) to the lowest since early-2021 (although they were still higher than any point prior to this since 2006).

Employment forecast to rise modestly; investment recovery expected to stall

The net balance of German private sector firms planning to increase employment levels in the coming year was +11% in June. This was down sharply from +31% in February and the lowest overall since late-2020. Manufacturers in particular were less confident about adding to their workforce numbers than in the previous survey (net balance at +10% from 41%).

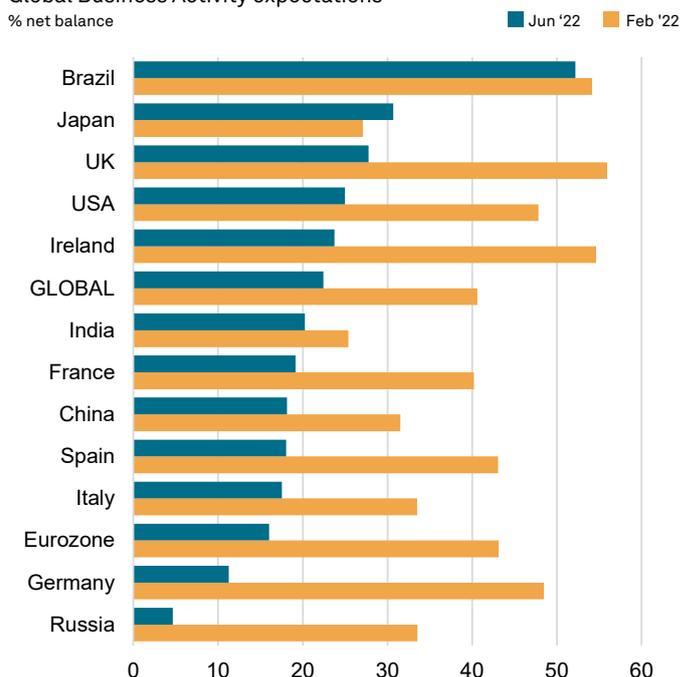
Data on firms' intentions towards capital expenditure (capex) and research & development (R&D) meanwhile hinted at a potential stalling of business investment in the coming year, with the respective net balances coming in at -1% and 0% in June.

Businesses anticipating a sharp squeeze on profits

The combination of elevated cost expectations and a gloomy outlook for activity weighed on profit forecasts in June, with far more firms expecting a decline in the coming year than those anticipating a rise. At -29%, down sharply from +8% in February, the net balance was the lowest since records began in 2009 and indicated the weakest sentiment among the 12 monitored economies for which comparable data are available.

German manufacturers (net balance at -31%) and service providers (-28%) were similarly downbeat in regard to expected changes in profitability.

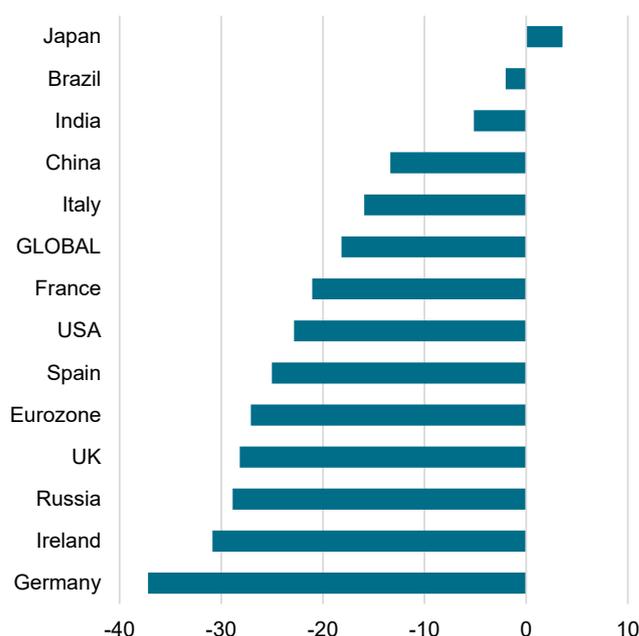
Global Business Activity expectations



Source: S&P Global.

Global Business Activity expectations

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



Source: S&P Global.

Full data available on request from 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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