News Release

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S&P Global Germany Business Outlook

German business confidence rebounds from record low last October but remains weak by international standards

Key findings

Optimism returns to German businesses as energy-crisis fears ease...

...but confidence still the second-lowest among all nations covered in global outlook survey

Sharp wage pressures expected amid tight labour market

The easing of the energy crisis and fading concerns about a deep recession prompted a substantial increase in business confidence in Germany compared to the lows late last year, February's S&P Global Business Outlook survey showed. That said, the country's growth prospects remained subdued due to a number of ongoing headwinds that include elevated inflation, high energy costs, rising interest rates and a tight labour market.

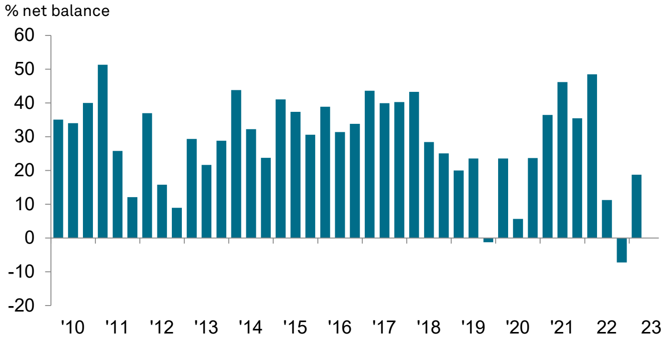
After hitting a record low last October, the net balance of German private sector firms expecting a rise in activity in the year ahead rebounded sharply in February, up from -7% to +19%. The rise in the index was the most marked amongst the 12 nations for which comparable data are available. That said, it was still the second-lowest in February, ahead of only France's +18%, and well below the level seen a year earlier on the eve of Russia's invasion of Ukraine (+48%).

Expectations rebounded particularly strongly in the German manufacturing sector (up 42 points), though the country's service providers were also more confident about the year-ahead outlook (up 18 points).

The survey showed an easing of concerns towards the price and supply of energy compared to last October, when widespread gas rationing over the winter remained a possibility. The fading of supply-chain bottlenecks and the reopening of the Chinese economy also helped to lift business confidence. Surveyed companies continued to cite several long-standing growth opportunities in the form of digitalisation, the green transition and the development of new products.

Growth expectations nevertheless remained subdued by historical standards. The war in Ukraine continues to underpin heightened business uncertainty and thereby bode ill for investment prospects, as does the tightening of monetary policy to combat still-high inflation and the risk of a wage-price spiral.

Germany Business Activity expectations



Source: S&P Global.
Data were collected 10-23 February 2023.

Comment

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

“The rationing of gas and deep recession that many firms had been fearing back in October when the survey was last conducted haven't materialised, which alongside the easing of supply chain bottlenecks and reopening of the Chinese economy has led to a sizeable rebound in German business confidence in recent months – the most marked improvement of all the countries covered by the Business Outlook survey. That being said, expectations in Germany still haven't fully recovered to the level seen prior to the war in Ukraine, and they remain among the lowest globally, with elevated inflation, high energy costs, rising interest rates, geopolitical tensions and a tight labour market each seen as constraints on the country's growth outlook.

"German firms are anticipating strong wage pressures in the coming year, in a sign that second-round effects are in full swing. Furthermore, the country's labour market looks set to remain tight, with businesses showing a willingness to take on additional staff in the year ahead in spite of concerns for profitability. However, the investment outlook remains somewhat more muted, amid a backdrop of tightening financial conditions and geopolitical tension."

Price expectations ease but remain high, with staff costs anticipated to rise sharply

At +35%, the net balance of German private sector firms expecting a rise in selling prices remained historically elevated in February and was above the euro area average of +32%. That said, it was down from +50% last October and the lowest for two years. Both manufacturers and services providers were less confident about the prospect of raising output prices than they were in the previous survey.

This partly reflected lower expectations towards non-staff costs, which eased to the weakest since February 2021 (although they remained higher than at any time in the series history prior to June 2021). The net balance of firms anticipating an increase in staff costs, on the other hand, remained at a near-record high in February, ticking down only slightly from +77% in October to +73%. This was the second-highest among the comparable countries covered by the survey, behind the UK's +77%.

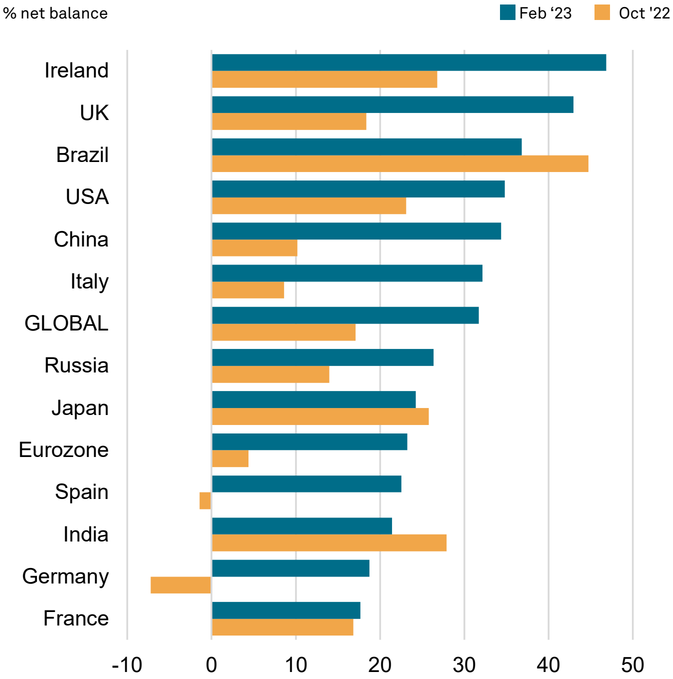
Firms intend to expand workforce numbers, whilst also expecting slight uplift in investment

Expectations of fierce wage pressures tallied with businesses' concerns about a tight labour market and a lack of available qualified staff. Even so, the survey showed that firms plan to take on new staff in the year ahead, with the respective net balance recovering from -4% in October last year to +14%. This was in line with its long-run average. At the sector level, service providers (+16%) were slightly more confident of increasing workforce numbers than their manufacturing counterparts (+10%).

Turning to investment, the survey also signalled renewed optimism towards both capital expenditure (capex) and research and development (R&D) in the coming 12 months. The net balance of companies planning to raise capex returned to positive territory for the first time in a year, registering +7% from October's -15%. Expectations towards future R&D spending likewise reached the highest for a year, though they remained muted overall (net balance at +3%) due in large part to a lack of willingness to invest amongst services firms (net balance at 0%).

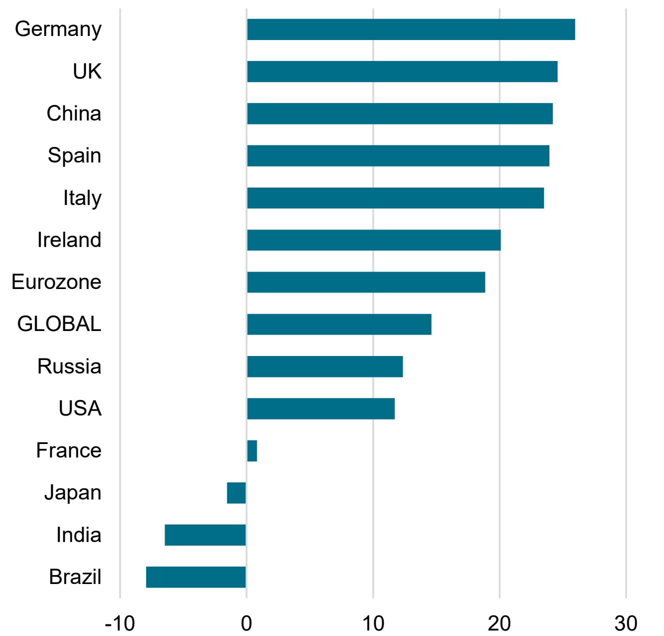
Weighing on firms' appetite for investment were concerns towards future profitability. Although rebounding from a record low of -43% last October, the net balance remained in negative territory at -12%. Manufacturers and services firms were almost equally pessimistic about profits in the year ahead.

Global Business Activity expectations
% net balance



Source: S&P Global.

Global Business Activity expectations
Change in % net balance, Feb '23 vs. Oct '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*. 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.

** The countries with manufacturing and service sector surveys are Brazil, China, France, Germany, India, Italy, Japan, Russia, Spain, the Republic of Ireland, the UK and the USA. Manufacturing data are collected for the Netherlands, Austria, Greece, Poland and the Czech Republic.*

Contact

Phil Smith
Economics Associate Director
T: +44 149 146 1009
E: phil.smith@spglobal.com

Chris Williamson
Chief Business Economist
T: +44-20-7260-2329
M: +44-779-5555-061
E: chris.williamson@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44-7967-447-030
sabrina.mayeen@spglobal.com

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