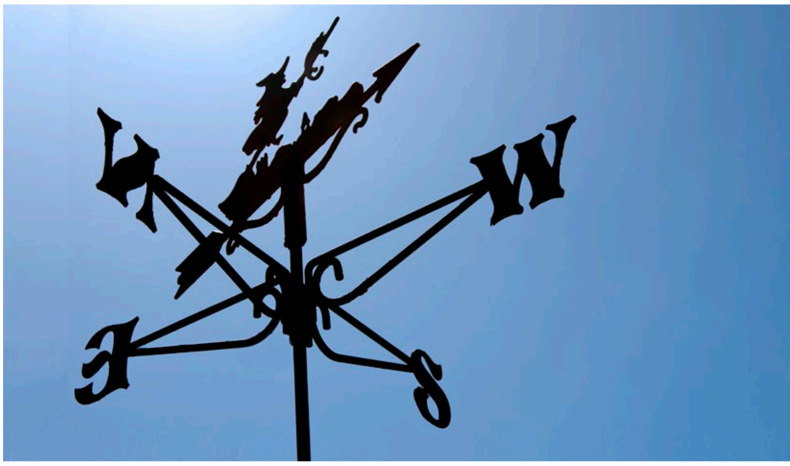

Outlook darkens

DIHK-Economic-Survey February 2019

DIHK Deutscher Industrie- und Handelskammertag

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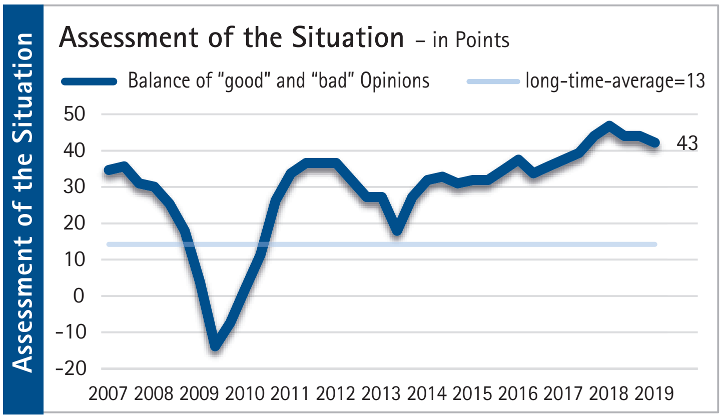
February 2019

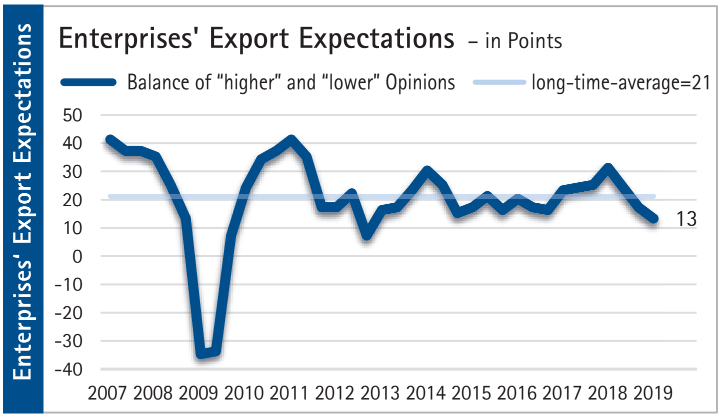
Germany at a Glance

February 2019

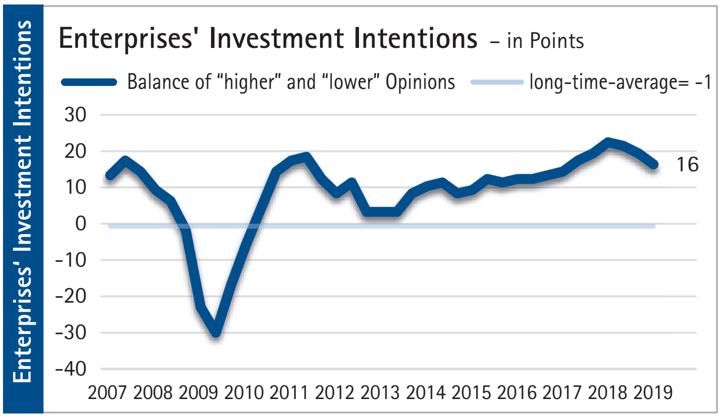


Companies are again rating their **business situation** worse than before, but still at a high level. Manufacturing industry is showing clearer signs of slowing down. Large and export-oriented companies in the manufacturing sector in particular are experiencing a slowdown in their business. On the other hand, the construction industry, as well as retailers and service providers, are reporting good business.

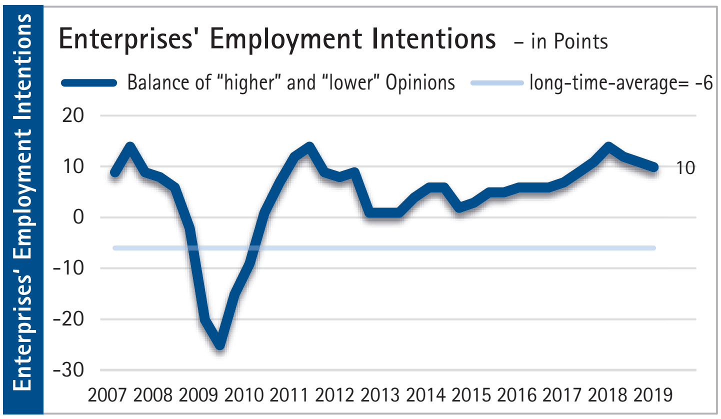
The outlook for companies is becoming gloomier. **Business expectations** are significantly worse in all sectors of the economy. Concerns about domestic and foreign demand are growing noticeably. The economic policy framework conditions are also increasingly becoming a risk factor from the point of view of companies. Global trade conflicts are slowing down business developments – especially in the manufacturing industry. Furthermore, companies see the need for a lot of catching up to do at home – for example in the areas of bureaucracy, taxes and digital infrastructure. At the same time, more companies than in the recent survey cite labor costs, energy and raw material prices as obstacles. The greatest risk remains the shortage of skilled workers.



For the third time in succession, manufacturing industry's **export expectations** are declining significantly. The balance is now well below the long-term average and lower than at any time since 2012. The proportion of companies expecting poorer export business has doubled within a year. The external economic environment is increasingly harboring incalculable risks. The ongoing smoldering trade conflicts and the upcoming Brexit are major challenges for internationally active companies. Some stability emanates from the European Union and South-East Asia. However, additional impulses for foreign business are hardly to be expected at present.



The pace of **investment** is slowing to a significant extent. Growing demand concerns mean that fewer companies are expanding their investments than in the last survey. At the same time, the proportion of companies that are reducing their budgets is increasing. Industrial companies in particular are significantly reducing their investment intentions. An obstacle to enlargement may not least be the continuing shortage of skilled labor and increased concern about the development of labor costs. Environmental protection is becoming increasingly important when investing.



The **employment intentions** of enterprises have slightly declined for the third time in a row. This points to a slower pace, but not yet to a halt in employment growth. The recruitment intentions of manufacturing industry are falling particularly sharply, while service providers are even looking for more personnel. Especially in times when skilled workers are scarce, companies have a strategic interest in finding and retaining good personnel. However, from the point of view of companies, the development in labor costs is increasingly representing a risk.

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Current business situation

How do you assess the current situation of your company?

Cooling reaches more and more sectors

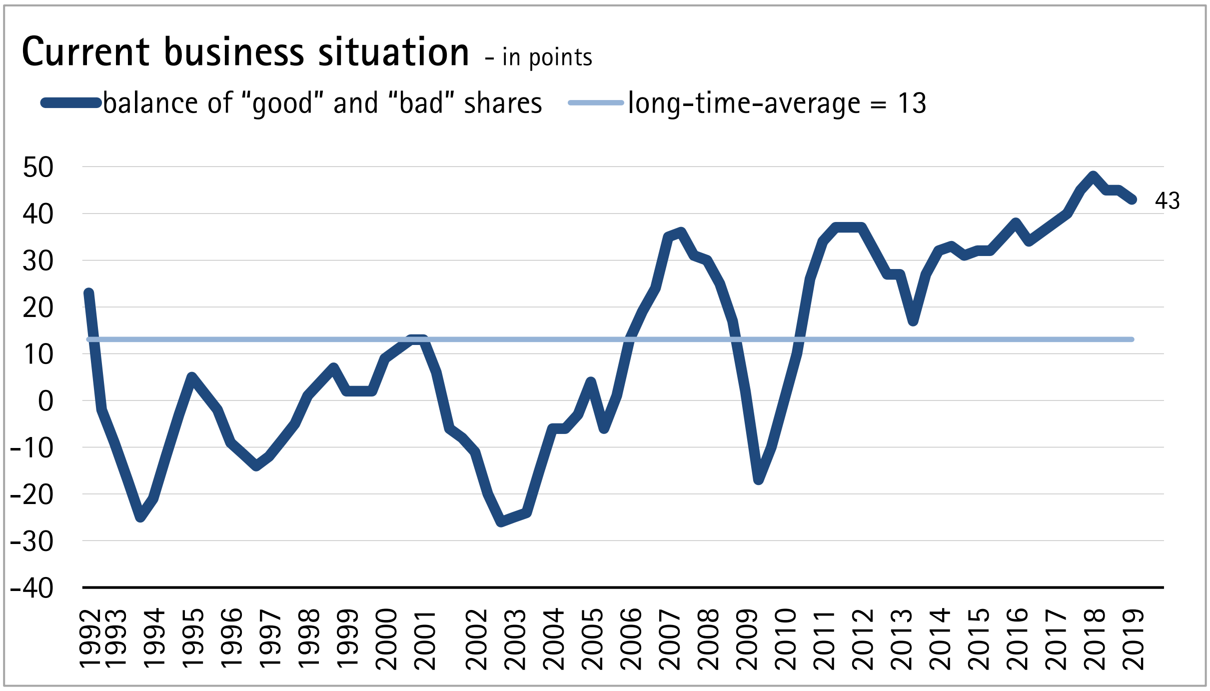
Companies are again rating their business situation worse than before, but still at a high level. Manufacturing industry is showing clearer signs of slowing down. Large and export-oriented companies in the manufacturing sector in particular are experiencing a slowdown in their business. On the other hand, the construction industry, as well as retailers and service providers, are reporting good business.

Good, but not untroubled situation

Half of the companies currently rate their situation as "good", while seven percent speak of a "bad" situation. The situation balance, as the difference between these shares, is 43 points, which is still well above the long-term average of 13 points. Compared to 2018, however, the business situation has cooled down noticeably (fall: 45 points, beginning of 2018: 48 points). However, the very clear downturn in expectations in the previous survey has – at least until now – not reached the entire breadth of the economy. Domestic demand is having a stabilizing effect, supported by the good development of the employment market and the continuing very low interest rates. Particularly within the international and European context, however, business is no longer running as smoothly as before.

Skid marks in industry

Manufacturing industry is the main sector to show clear signs of a slowdown in business. Since fall 2018, the assessment of the business situation has deteriorated by four points – and even by eleven points compared to the previous year. Industrial companies are particularly export-oriented and therefore particularly affected by trade policy uncertainties and the global slowdown. Furthermore, manufacturing industry has had to struggle with some special effects in the last six months. On the one hand, the conversion to the WLTP standard for exhaust gas testing has led to difficulties in the automotive industry. The reduced production levels was also felt by the suppliers. Furthermore, the low water levels in some parts of Germany have led to supply problems and complications in the value chain. Particularly significant reductions can be seen in the case of intermediate goods producers (balance decline from minus six or minus twelve points compared to the previous year), who are not only facing tough international competition, but also operate using large amounts of energy. They are therefore particularly affected by last year's energy price increases. The wholesale prices for electricity, for example, have risen by around 40 percent within a



Current business situation (in percent, balance in points)

	good	satisfactory	bad	balance
February 2017	46	46	8	38
Early Summer 2017	48	44	8	40
Fall 2017	51	43	6	45
February 2018	54	40	6	48
Early Summer 2018	51	43	6	45
Fall 2018	52	41	7	45
February 2019	43	66	31	45

Current business situation (balance in points)

	Manufacturing industry	Construction sector	Trade sector	Service sector	All
February 2017	36	52	28	40	38
Early Summer 2017	44	56	28	39	40
Fall 2017	48	64	31	45	45
February 2018	54	62	35	47	48
Early Summer 2018	52	62	30	44	45
Fall 2018	47	70	30	46	45
February 2019	50	43	7	43	50

year, in particular as a result of higher certificate prices in European emissions trading.

Little new momentum for retailers and service providers

Both trade (balance increase from 30 to 31 points) and service providers (balance decrease from 46 to 45 points) are able to maintain their good business situation. In some sectors, however, business is no longer quite as good as it was: trade brokers, whose work has a strong international orientation, are already seeing a marked slowdown in their business (42 after 50 points). This is in line with the development of the business situation in the export-oriented industry. Based on Christmas business, retailers and wholesalers are typically starting the new year stronger. With a plus of one point (retail trade) or two points (wholesale trade), however, the sector is unable to match the growth of previous years. In the services sector, the business of the logistics companies in particular is not doing as well as before (32 points after 38 points).

Construction: slight winter downturn

With a situation balance of 66 points, business in the construction industry remains at an extraordinarily good level, albeit somewhat lower than before for seasonal reasons (minus four points). In the year-on-year comparison, the business situation – unlike in manufacturing industry, trade and the service sector – has even improved once again. Industries that are relatively closely linked to the construction industry, such as the extraction of stone and earth and building management, are also continuing to benefit from the construction boom.

Business expectations

How do you expect your company to develop in the coming 12 months?

Outlook darkens

The outlook for companies is becoming gloomier. Business expectations are significantly worse in all sectors of the economy. Concerns about domestic and foreign demand are growing noticeably. The economic policy framework conditions are also increasingly becoming a risk factor from the point of view of companies. Global trade conflicts are slowing down business developments – especially in the manufacturing industry. Furthermore, companies see the need for a lot of catching up to do at home – for example in the areas of bureaucracy, taxes and digital infrastructure. At the same time, more companies than in the recent survey cite labor costs, energy and raw material prices as obstacles. The greatest risk remains the shortage of skilled workers.

End of the boom

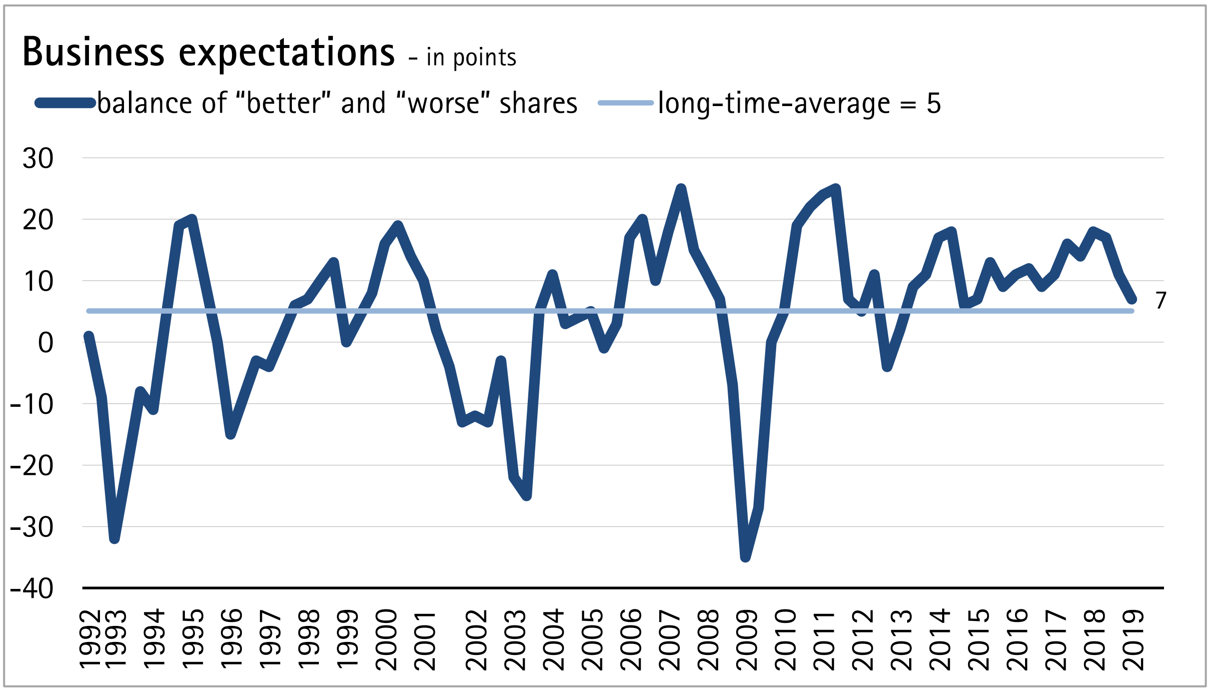
Companies are assessing their business prospects as being significantly worse than in the fall of last year. Although 22 percent still expect their business to improve, the proportion of those who expect the situation to deteriorate has again increased significantly (15 percent after 11 percent in the previous survey; at the beginning of 2018: nine percent). Apparently, companies are becoming increasingly skeptical about how long their still relatively good business situation will last. At seven points, the expectation balance – as the difference between the "better" and "worse" shares – is only slightly above the long-term average (five points) and lower than it has been for four years. Overall, confidence has fallen significantly over the course of the last year (previous year: 18 points), especially in manufacturing industry (six points after 24 points in the previous year).

Concerns about demand gaining in importance ...

The business environment for companies is becoming increasingly difficult. Concerns about the development in demand are increasing significantly. Since the beginning of last year, foreign demand has steadily gained in importance as a risk factor. Almost four out of ten exporting industrial companies are now again concerned about their foreign business (37 percent; start of 2018: 27 percent). The uncertainty caused by the distortions in trade policy and the Brexit crisis are just as noticeable here as the slower pace of the global economy.

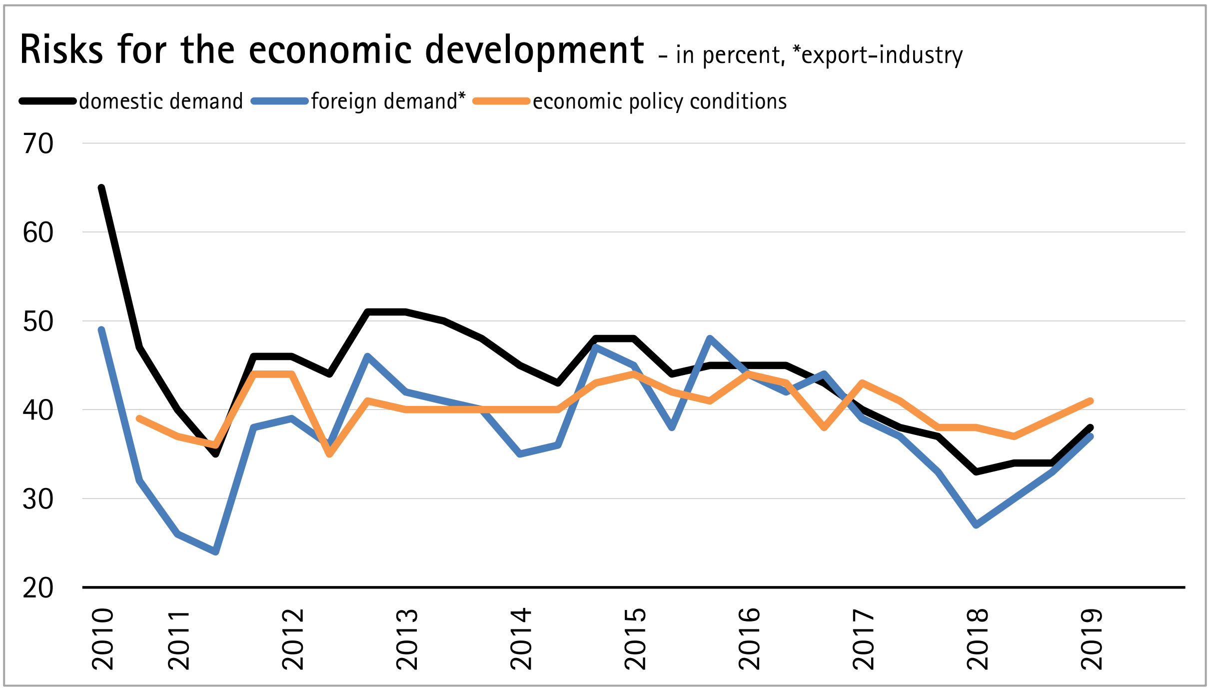
... also at home

The proportion of companies that see a risk in the developments in domestic demand is also increasing (38 percent after 34 percent). This had remained close to the historic low (33 percent) until recently



Risks for the economic development (in percent; *Manufacturing Industry)

	domestic demand	foreign demand*	financing conditions	labor costs	lack of skilled workers	exchange rates*	prices of energy and raw materials	economic policy conditions
February 2017	40	39	11	40	48	17	32	43
Early Summer 2017	38	37	11	39	51	15	31	41
Fall 2017	37	33	10	40	56	18	30	38
February 2018	33	27	10	42	60	13	32	38
Early Summer 2018	34	30	10	42	61	14	30	37
Fall 2018	34	33	9	41	62	14	34	39
February 2019	38	37	9	43	61	11	36	41

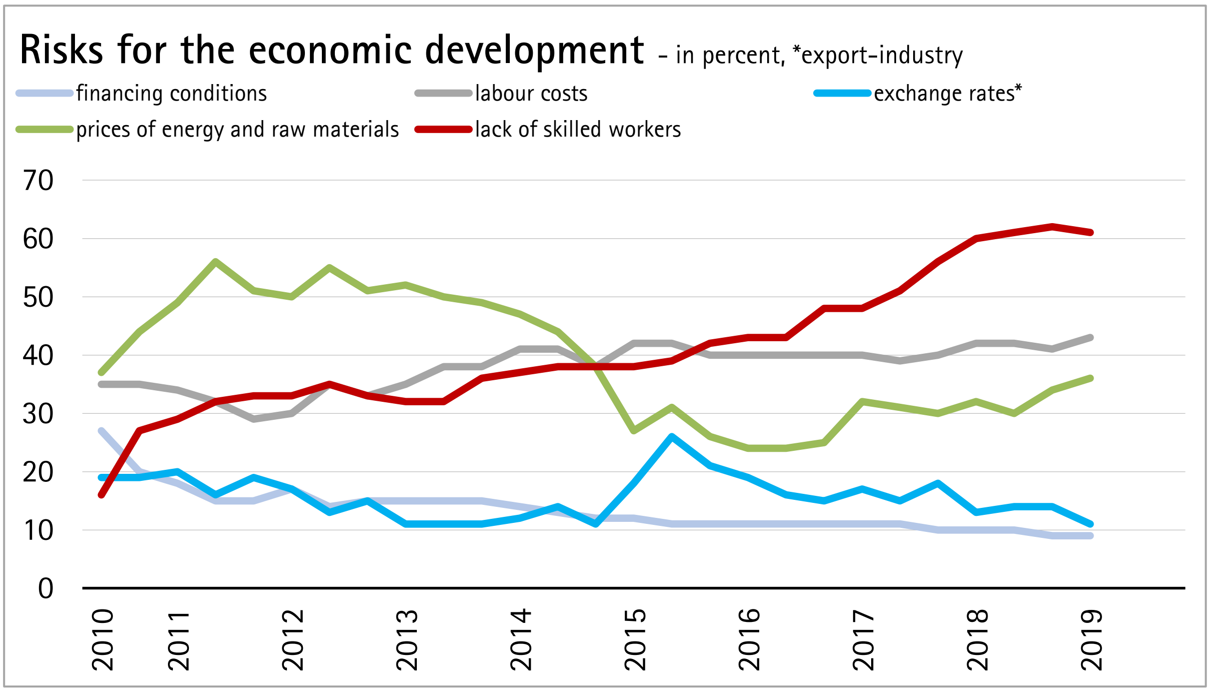


(fall 2018: 34 percent). On the one hand, second-round effects are becoming noticeable here: suppliers to exporters are feeling the complications of the export business after a delay. However, concerns about domestic demand are also gaining in importance in more domestic-oriented sectors (retail: 51 after 48 percent previously; hospitality: 21 after 15 percent; personal service providers: 33 after 31 percent).

International economic policy becoming increasingly incalculable

41 percent of companies refer to the economic policy framework conditions as a risk to their business development. The share is therefore continuing to rise (previous survey: 39 percent, early summer 2018: 37 percent). The focus is on concerns about international trade policy. In the development of the global economy, the introduction of US customs tariffs for the EU and China and uncertainty about the continuing smoldering trade conflicts of the USA have already left their mark. Further escalations cannot be excluded. The US sanctions against Iran are also affecting German companies in the area of foreign trade.

Furthermore, Brexit is approaching at a fast pace, without any solution for the economy being within reach. The question remains completely open as to



how relations between the EU and the UK will look like in the future.

Several construction sites in the home location

The concerns about the domestic location and local economic policy also remain high. The central issue here is bureaucracy. In this survey, too, companies are reporting an increase in the effort needed to comply with official requirements. Bureaucratic processes are slowing down the requisite business processes unnecessarily, e.g. in the form of lengthy approval procedures for building applications or complex registrations due to the new packaging law. The reduction in bureaucracy proclaimed by politicians is scarcely noticeable for most companies. The tax burden is also an important issue. Relief for companies in other European countries, the USA and China means that Germany will soon be at the top of the list of burdens on companies in the international comparison of tax rates.

Cost risks increasing

Companies are currently operating in a difficult situation that involves conflicting priorities. Demand is again often seen as an obstacle. At the same time, the cost risks are increasing. More companies than ever before see the development of labor costs as an obstacle to their business development (43 percent after 41 percent in the last survey). This is also a consequence of the intensive recruitment of scarce skilled workers (risk: shortage of skilled workers: 61 percent after 62 percent last time). Furthermore, 36 percent of companies cite the development of energy and raw material prices as a risk (fall 2018: 34 percent). This level was last reached in 2014. In manufacturing industry it is even more than every second company (51 after 50 percent in the last survey). Electricity costs for medium-sized industrial companies are higher in Germany than in all other EU countries. The EEG levy and other charges on the electricity price therefore represent a cost disadvantage compared with competitors from abroad. Companies are currently feeling the effects of the rise in CO_2 certificate prices in particular.

Export expectations

How do you expect exports to develop for your company in the coming 12 months?

Exports thwarted

For the third time in succession, manufacturing industry's export expectations are declining significantly. The balance is now well below the long-term average and lower than at any time since 2012. The proportion of companies expecting poorer export business has doubled within a year. The external economic environment is increasingly harboring incalculable risks. The ongoing smoldering trade conflicts and the upcoming Brexit are major challenges for internationally active companies. Some stability emanates from the European Union and South-East Asia. However, additional impulses for foreign business are hardly to be expected at present.

Exporters facing major challenges

Industrial companies are expecting significantly worse business abroad. Only 28 percent of companies still expect more turnover abroad (previous survey: 30 percent). On the other hand, 15 percent expect exports to decline. At 13 points, the balance is now well below the level of fall 2018 (17 points) and the long-term average of 21 points.

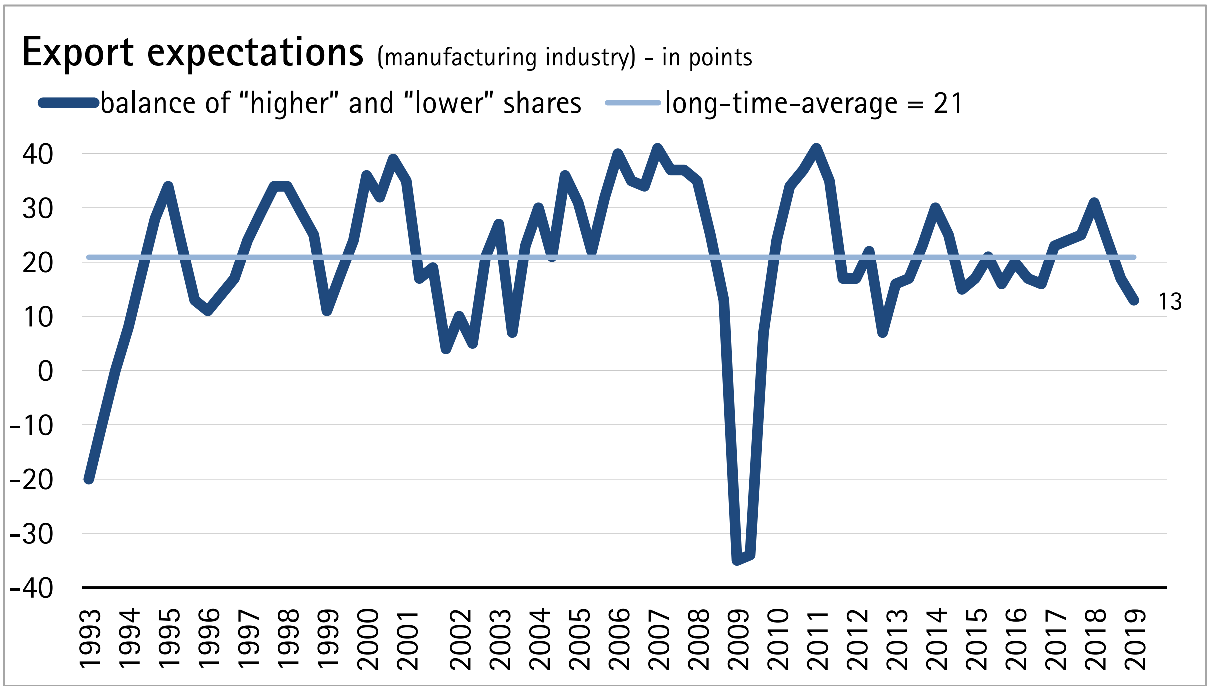
Global economy under pressure – high level of uncertainty

The intensive trade conflicts remain unresolved. It is true that the EU and the USA are now talking about finding ways to make trading easier again. However, punitive customs duties and countermeasures in the case of customs duties on steel remain in force. Furthermore, US automobile tariffs are not off the table yet. In the current dispute between China and the USA there is at best only breathing space at the moment – and further escalations cannot be ruled out. Question marks remain over the future viability of the World Trade Organization (WTO).

Uncertainty will therefore remain high in 2019. Brexit is just around the corner. Even just a few weeks before the exit date, companies are still completely uncertain as to what form it will take. Overall, foreign trade business is becoming increasingly incalculable for companies. As a result, 37 percent of exporting companies now see foreign demand as a risk – significantly more than in the fall of 2018 (33 percent) and ten percentage points more than a year ago.

Slowdown in economic activity worldwide

As early as 2018, the emerging uncertainty led to slower growth in the global economy. The resulting uncertainty has led to a widespread reluctance to



Export expectations (balance in points)

	Intermediate goods-producers	Capital goods producers	Industrial and consumer goods producers	Industry
February 2017	21	26	24	23
Early Summer 2017	22	28	21	24
Fall 2017	24	28	25	25
February 2018	31	34	29	31
Early Summer 2018	21	30	21	24
Fall 2018	13	22	19	17
February 2019	9	18	17	13

invest. No improvement is in sight in 2019 either. This particularly affects the strongly export-oriented German economy. The economic heavyweights – China and the USA – are also experiencing structural difficulties. In the USA, in addition to tax reform, there is a lack of other economic policy measures to strengthen growth over the long term. The government standstill at the beginning of the year is also contributing towards this. The Chinese government has taken up the cause of strengthening domestic demand. However, the Chinese economy's dependence on exports remains high for the time being. Accordingly, the economic impact of the trade conflict with the USA is clearly noticeable. All in all, the global economy is showing indications of a much slower pace, which is also being felt by internationally active German companies.

Broad-based deterioration ...

Export expectations are declining across manufacturing industry as a whole. Assessments are deteriorating in all main groups of the manufacturing industry. The reductions of four points are most pronounced among the manufacturers of intermediate goods and capital goods manufacturers (export balance: nine and 18 points respectively). The decline is somewhat more moderate for the manufacturers of consumer goods (17 after 19 points in the last survey). The assessments of companies therefore illustrate the current global reluctance to invest. The global economy is again being supported more by consumption at the moment.

... and in companies of all size

A look at the size classes reveals a downturn in export expectations by almost all sectors. In spite of a decline (minus four points), large companies with more than 1,000 employees are at the top of the pile. Nevertheless, the balance represents the lowest value since 2013 and a year-on-year decline of 19 points. Only small companies with fewer than 10 employees have increased their estimates for foreign business in the coming months (seven after one point). This is where the stronger orientation on the European market comes into play. Expectations are not soaring here either, but the trade conflicts are currently affecting them even less and their growth remains at least solid.

Currency risk declining

In the assessments of companies, the development in exchange rates represents a risk to their business development to a lesser extent. At the beginning of the year, only eleven percent still refer to this risk. This means, this figure is as low as it last was at the end of 2014. On the one hand, interest rate increases in the USA have resulted in a comparatively low euro-dollar exchange rate, thereby supporting the exporters' price competitiveness. On the other hand, some emerging market currencies have at least stabilized. However, the fact that other business risks currently dominate is probably also contributing to the decline in risk.

View of the World Regions

The assessments are based among other things on the impressions of the German Chambers of Commerce Abroad (AHK), delegations and representative offices and the "AHK World Business Outlook.

Global economic climate cooling down significantly

The growth in the global economy and world trade has slowed significantly over the past year. The increasing economic policy uncertainty – for example as a result of the trade conflict between China and the USA or Brexit – is slowing down the global economy. The EU and other industrialized countries are growing less vigorously. Furthermore, the positive impetus provided by the tax reforms is coming to an end in the United States. The Chinese economy has also lost momentum. Furthermore, the economic climate in many emerging markets has deteriorated. As a result, the global economic expectations of German companies have deteriorated considerably.

Europe growing more slowly

The upswing in the EU has clearly lost momentum and has returned to a slower expansion path. The most important driver of growth continues to be consumption. Investment activity is also developing solidly, but is not very dynamic, except in some Eastern European member states. Less buoyant export business out of the EU is slowing down economic development. Furthermore, companies are particularly concerned about the economic policy framework conditions. In particular, the threat of Britain's disorderly withdrawal from the EU poses a considerable risk to the European economy. The high national debt of some member states also continues to create uncertainty.

In France, the positive growth expectations for 2018 were not fulfilled. The economy cooled noticeably during the course of last year. In particular, the industrial sector is developing at a below-average rate. Currently, the economic mood is being negatively affected by the nationwide strikes, the relatively weak export business and the only slight increase in consumption. The President's reform program is stalling, particularly with a view to reducing public debt and the high youth unemployment rate.

By the end of last year, the Italian economy had already slipped into recession. A lack of enthusiasm for reform and low productivity are slowing down economic development. The government's erratic policies are having a particularly negative impact on the propensity to invest. Despite the agreement reached in the budget dispute with the EU, uncertainty about the new government's fiscal policy remains. Combined with low growth levels and high government debt, the government's decision to increase government spending could well create uncertainty in the financial markets. However, the business conducted by German companies is doing comparatively well in this difficult environment.

The Central and Eastern European EU states continue to grow at an above-average rate. However, the momentum is slowing to some extent here as well. In the Czech Republic, the upswing is now entering its sixth year. Employment and wages continue to rise in the wake of the good economic situation. However, the shortage of skilled workers is making it increasingly difficult to expand capacities.

A similar picture is emerging in Poland and Hungary. Furthermore, companies are increasingly concerned about the economic policy framework conditions in the two countries. The downturn in the German economy will probably also make itself felt in the Eastern European economies in the medium term due to the close economic ties.

"No deal" scenario weighing heavily on the economy

Below-average growth rates and weak investment rate: the British economy has been feeling the effects of Brexit since the referendum. Furthermore, the risk of a disorderly exit is strengthening the negative effects. Gross domestic product growth this year will continue to be well below the EU average. Uncertainty about future economic and trade relations with the EU among businesses and private households is high and growing every day. Without a "divorce agreement", only WTO rules would apply to trade matters between Great Britain and the EU as of April. This would result in billions of euros in customs duties for both sides and a significant increase in bureaucracy simply for complying with customs formalities.

Turkey: danger of stagflation

The economic situation in Turkey remains tense. The lira is ailing and therefore hampering private consumption and corporate investment. The measures taken by the Turkish government to stabilize the Turkish currency, such as the conversion obligation, have not been able to stop the flight of capital and have also deterred potential investors. Recently however, the tight monetary policy of the central bank and the good stock market prices have provided some slight relief for the lira. Nevertheless, the Turkish economy will develop weakly at best in 2019. Furthermore, the domestic political situation and the disputes with the EU – particularly with regard to the joint customs union – entail risks for the business activities of companies.

Russia's economy will continue to grow only slowly in 2019. In particular, the recent sharp decline in the price of oil could have a negative impact on the Russian economy. Furthermore, the high inflation rate is hampering private consumption, including that in the food sector. The US sanctions are also continuing to put a strong brake on growth. Local German companies are therefore concerned about further developments in this area. From the perspective of German companies, currency uncertainty and the economic policy framework conditions remain the country's biggest concerns.

North America: US economy with question marks

The strong growth of the US economy last year was driven above all by the impetus provided by the tax reforms. However, this momentum is likely to ease this year. Furthermore, the higher interest rates, the trade conflicts and the stalemate associated with the budget, including the shutdown, are acting as brakes. However, the labor market is continuing to develop solidly for the time being.

In Mexico there is a sense of relief after the agreement on the new USMCA trade pact. Nevertheless, the agreement is weakening the location compared to NAFTA. Corruption also remains a major risk factor. Within this context, the new President Obrador has announced a package of measures. Its effectiveness now remains to be seen.

Argentina: improvement a long time coming

Argentina is in a deep recession. Inflation continues to rise. This is also problematic because a large share of government spending and the current account deficit are traditionally financed by foreign debt in US dollars. Despite the financial assistance of the International Monetary Fund, it has not been possible to stop the flight of capital.

In Brazil, on the other hand, the economy will probably pick up some momentum. However, there is still a question mark about the new government's economic policy course. Among other things, a comprehensive tax reform is being planned. However, this measure is likely to make the urgently needed consolidation of government budgets considerably more difficult. In opening up the Brazilian economy, the President is relying primarily on bilateral agreements. However, the new head of state has not rejected the Mercosur negotiations with the EU, so there is still hope.

China's growth increasingly under pressure

The negative effects of the trade conflict with the USA are influencing the export-dependent Chinese economy, especially as the USA is the country's most important trading partner. However, domestic factors such as the relatively weak consumption and investment developments are also putting the brakes on the economy. The pace of growth is therefore likely to slow further. However, the government is trying to stabilize growth with the selective easing of monetary policy. The success of these measures will also depend to a large extent on trade policy developments. If there is no agreement with the USA after the 90-day break agreed on tariffs, a new escalation in the trade dispute threatens in March. A renewed increase in US import duties on numerous Chinese products from the current ten percent to 25 percent is likely to exacerbate the economic situation.

JEFTA free trade agreement in force

The rate of expansion of Japan's economy will remain low in 2019. The main reasons are the difficult foreign trade environment and weaker consumption. Investment, on the other hand, is a stabilizing factor for the Japanese economy. In view of the low momentum, the mood among German companies has also cooled slightly, but remains good overall. Companies are hoping for positive impulses from the trade agreement with the EU which recently entered into force. The extent of the trade dispute between the USA and China will also be decisive for further economic development. Both countries are close economic partners of Nippon.

Free trade agreement with Singapore showing potential in Southeast Asia

Economic growth in Singapore continues, albeit somewhat weaker than in the previous year. Even the Asian city-state is no longer being left unscathed by the smoldering trade disputes. However, the conclusion of the Free Trade Agreement with the EU should give an additional boost to economic development over the medium term. Singapore is the most important trading partner within ASEAN not only for the EU, but also for Germany. Many German companies use the location as a "regional hub". The free trade agreement between the EU and Vietnam planned for 2019 is also opening up further economic potential in the Southeast Asian region. Furthermore, the Vietnamese economy could benefit from the American-Chinese trade dispute in the medium term due to evasive reactions by American companies from the Middle Kingdom to the Republic on the South China Sea.

India's gross domestic product continues to grow at a high level. Domestic demand and lower oil prices are stimulating the economy. The main problem is the willingness to invest. The private sector in particular is cutting back on its investments on the subcontinent. The Indian currency has also come under pressure from last year's key interest rate rise in the US. Concerns about the exchange rate are therefore growing among companies. The economic policy framework conditions also remain a decisive risk factor.

High spirits in Australia

On the fifth continent, all signs continue to point to growth. Businesses are increasing their investment spending and the government is pushing ahead with infrastructure development. Furthermore, the health and tourism sectors and the revived mining industry are important growth drivers. In particular, the raw material exports of the world's largest country for lithium production are rapidly gaining momentum. The transpacific trade agreement CPTPP, ratified in October 2018, is expected to further stimulate the economy. Moreover, the planned free trade agreement with the EU holds further potential for Australian-German economic relations in the medium term.

Iran sanctions with drastic consequences

As a result of the US sanctions that were re-activated in August and November 2018, Iran is on course for recession. The economy is likely to shrink in the foreseeable future. Exports have fallen sharply, particularly in the oil, gas and petrochemical industries. However, the domestic economy is also being significantly affected by the high rate of inflation. Payment transactions have become very difficult in the meantime, as hardly any banks conduct business with Iran. There is slight hope in view of the special-purpose vehicle created by the EU to initiate an exchange market.

South Africa not gaining momentum

The country on the Cape of Good Hope is struggling with economic difficulties. Structural unemployment and the weak South African rand are a problem for the country. The largest risk factors at present are the exchange rate, followed by economic policy framework conditions and demand. The eminent domain of private land owners brought into play by President Ramaphosa in particular is discouraging international investors. In 2019, the African G20 state will grow somewhat faster again, but will lag well behind emerging African countries such as Egypt and Morocco.

The Egyptian economy is on course for growth. Higher investment expenditure and planned (partial) privatizations of state-owned enterprises are providing impetus on the part of the state. Furthermore, major infrastructure projects such as the construction of the new administrative capital are likely to increasingly attract foreign investors. Now that the inflation rate has stabilized, private consumption is slowly picking up again. The business prospects of German local companies are therefore good. Despite the recovery of the Egyptian pound, German companies are worried about the exchange rate.

Investment intentions

How will your company's expenditures on domestic investments develop in the coming 12 months?

Less momentum for investment

The pace of investment is slowing to a significant extent. Growing demand concerns mean that fewer companies are expanding their investments than in the last survey. At the same time, the proportion of companies that are reducing their budgets is increasing. Industrial companies in particular are significantly reducing their investment intentions. An obstacle to enlargement may not least be the continuing shortage of skilled labor and increased concern about the development of labor costs. Environmental protection is becoming increasingly important when investing.

Weaker momentum once again

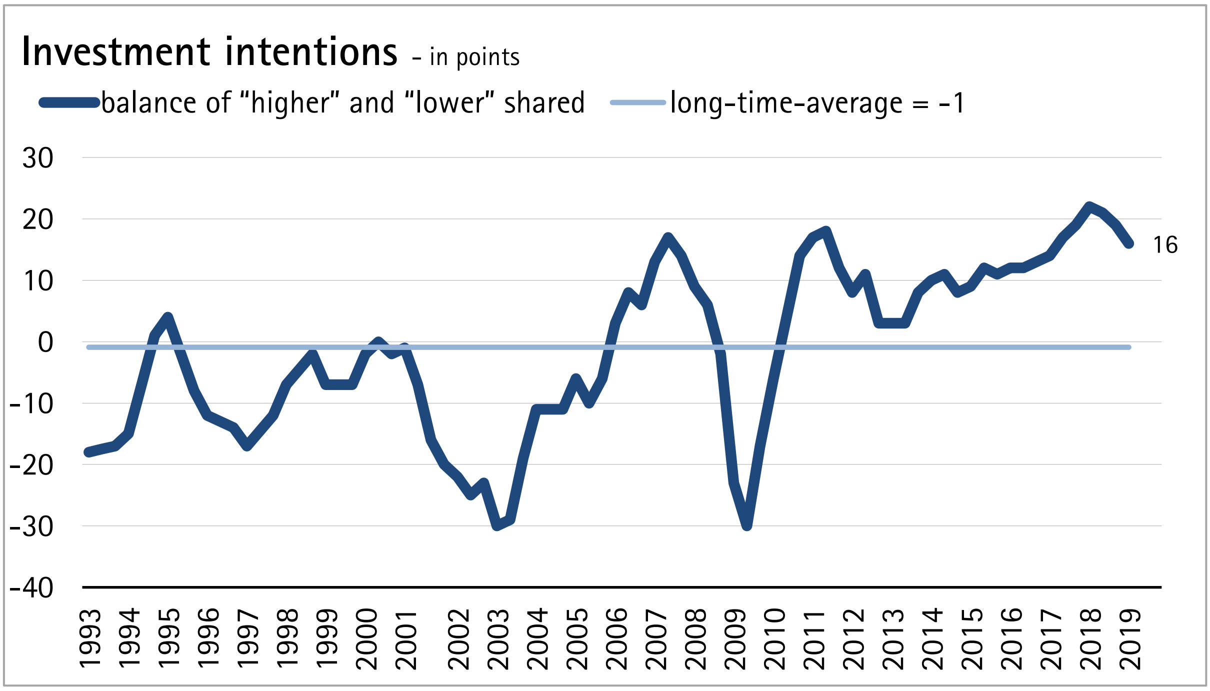
The investment intentions in the German economy are experiencing a noticeable decline. For the third time in a row, companies are planning lower investments (balance: 16 points after 19 previously, beginning of 2018: 22 points). The proportion of companies wishing to expand their investment budgets has fallen by one percentage point to 31 percent. In contrast, the proportion of companies that want to invest less has risen from 13 to 15 percent. This is all the more alarming as the structural investment requirements remain high as a result of the digital transformation.

Concerns about domestic demand

The range of factors inhibiting investment is widening compared to the previous survey. For companies with expansive investment plans, worries about a shortage of skilled workers and labor costs predominate. Those with unchanged or even reduced investment budgets are increasingly concerned about domestic demand and labor costs. Uncertainty about economic policy framework conditions is rising again among all investing companies. Only financing is still rarely a problem. Only nine percent of companies – for the second time in a row at an all-time low – are expecting to encounter difficulties here. This means that the financing environment continues to be generally investment-friendly.

Innovations remain important

The weaker investment momentum has so far only been reflected to a limited extent in changes in investment motives. Capacity expansions are losing some of their significance (31 percent after 32 percent in the previous survey, beginning of 2018: 33 percent). Investments in environmental protection and replacement requirements have increased by



Investment intentions (in percent; balance in points)

	higher	about equal	lower	balance
February 2017	29	56	15	14
Early Summer 2017	31	55	14	17
Fall 2017	32	55	13	19
February 2018	34	54	12	22
Early Summer 2018	34	53	13	21
Fall 2018	32	55	13	19
February 2019	31	54	15	16

Investment intentions (balance in points)

	Manufacturing industry	Construction sector	Trade sector	Service sector	All
February 2017	14	9	10	16	14
Early Summer 2017	21	14	13	16	17
Fall 2017	24	11	14	19	19
February 2018	27	15	17	21	22
Early Summer 2018	26	18	16	21	21
Fall 2018	22	16	14	20	19
February 2019	16	14	11	17	16

one percentage point. The proportion of companies investing in innovation remains unchanged and at a high level compared with the long term (32 percent; long-term average: 30 percent). Digitalization is leading to new product requirements in many areas. Companies are increasingly aware that digitalization is increasing their investment needs. They must invest here to take advantage of the opportunities offered by new technologies and remain competitive – even in uncertain times. However, this group is also particularly concerned about the shortage of skilled workers (64 percent). In the worst-case scenario, innovation projects might only be delayed or not implemented at all due to a lack of specialist personnel.

Manufacturing industry cutting capacity expansions

Industrial companies are making the biggest cuts in their investment budgets. The investment balance has fallen for the third time in a row (16 after 22 points, beginning of 2018: 27 points). On a cross-sector comparison, the share of capacity expansions in manufacturing industry has also fallen most sharply (37 percent after 40 percent).

Environmental protection slowly gaining in importance

Environmental protection is continuing to gain importance slowly over time and has again reached a new record level of 16 percent (previous survey 15 percent). Above all in the larger medium-sized businesses with up to 499 employees, investments in environmental protection have increased significantly (20 percent after 17 percent). To a certain extent, this also includes the commercial diesel fleets affected by the imminent driving bans. Companies investing in environmental protection are also more critical than others about the development of energy and raw material prices. In the medium term, electricity prices will continue to rise, partly due to the now foreseeable reduction in coal-fired power generation in Germany. This is also having an impact on the propensity of companies to invest.

Large companies more skeptical ...

In all size classes the investment intentions have declined. In the case of companies with more than 1,000 employees they have fallen significantly, as they did in the fall of 2018 (23 after 27 points). These companies are often globally active and therefore particularly affected by the uncertainty caused by international trade policy. At the same time, however, they have a particularly high influence on overall development due to the extensive investment budgets.

... but SMEs also acting cautiously

Compared to the previous survey, however, the downturn in investment has now also reached small and medium-sized enterprises (SMEs; up to 500 employees; 15 after 19 points previously). They often operate as suppliers to large companies and are already feeling the effects of slower business there. This fits in well with the fact that the investment intentions of the manufacturers of intermediate goods have declined again even more sharply (15 points compared to 23) than those of the capital goods producers (17 points after 22 previously). Furthermore, the risks of digitalization, the developments in energy prices, but also such factors as the availability of space and – even more so than in the case of large companies – the shortage of skilled workers are adding up, especially in the case of medium-sized companies. In the group of companies with between 20 and 199 employees, the risk of a shortage of skilled workers is estimated to be considerably higher at 69 percent than in large companies with more than 1,000 employees (57 percent).

Employment intentions

How is the number of employees of your company within Germany expected to develop in the coming 12 months?

Employment growth less buoyant

The employment intentions of enterprises have slightly declined for the third time in a row. This points to a slower pace, but not yet to a halt in employment growth. The recruitment intentions of manufacturing industry are falling particularly sharply, while service providers are even looking for more personnel. Especially in times when skilled workers are scarce, companies have a strategic interest in finding and retaining good personnel. However, from the point of view of companies, the development in labor costs is increasingly representing a risk.

Companies planning a little more cautiously

More than every fifth company plans to increase its workforce next year (as in the previous survey). 12 percent expect that they will have to reduce their personnel planning. This is the third time in succession that the employment balance as the difference between these proportions has fallen (ten after eleven points in the previous survey; start of 2018: 14 points). However, it remains well above the long-term average (minus six points). This points to a continuation of 13 years of employment growth, albeit at a slower pace.

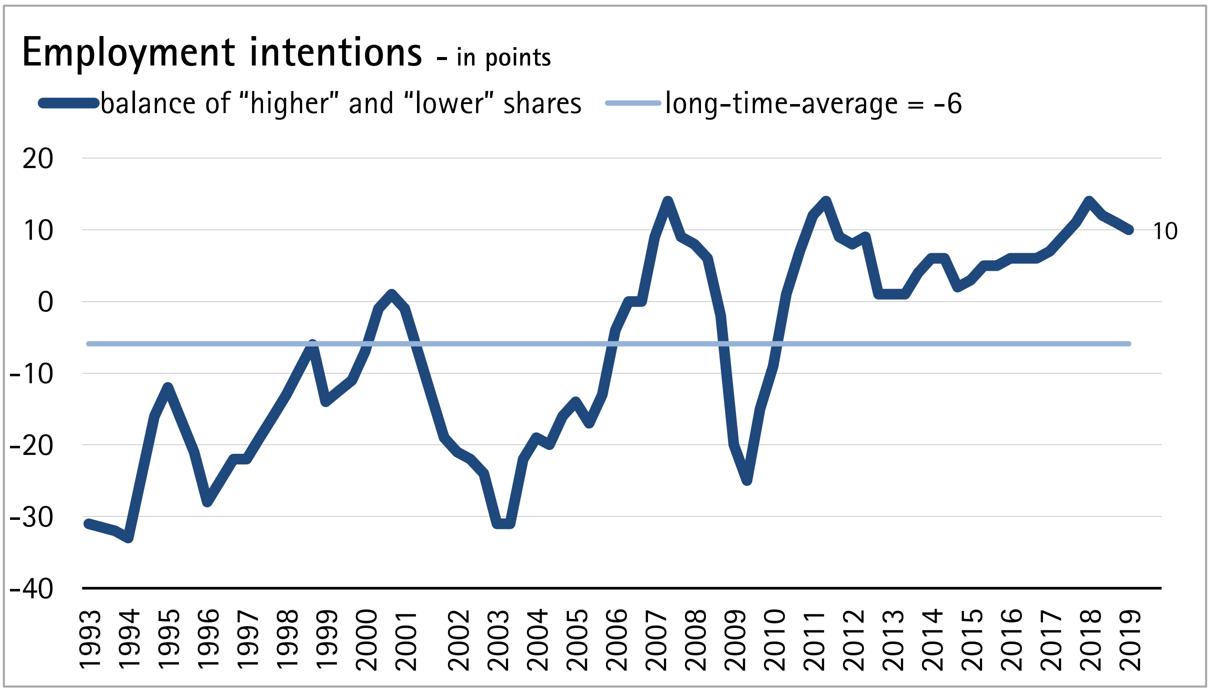
Skilled workers still required

From the companies' point of view, the shortage of skilled workers continues to be the greatest risk to business development (61 percent after 62 percent previously). In many cases, vacancies are advertised for a long time before they can finally be filled. In the worst case, companies cannot find any suitable candidates at all. With a view to demographic change, it is also foreseeable that the problems will become even worse in the future.

The challenges in attracting and retaining skilled workers should also help to ensure that employment intentions remain expansionary despite the fall in expectations. Companies are increasingly considering the securing of skilled workers as a strategic task. Economic fluctuations in the capacity utilization of the plants are therefore not having such a strong impact on personnel planning at present.

Worries about labor costs have never been greater

43 percent of companies cite the development of labor costs as a business risk. This is the highest share ever in the DIHK survey since 2010 (previous survey: 41 percent). Competition for suitable specialists is fierce. In order to increase their attractiveness as employers, companies are making wage concessions or other offers that are reflected in labor costs. However, cost increases can become a challenge for



Employment intentions (in percent; balance in points)

	higher	about equal	lower	balance
February 2017	20	67	13	7
Early Summer 2017	21	67	12	9
Fall 2017	22	67	11	11
February 2018	25	64	11	14
Early Summer 2018	23	66	11	12
Fall 2018	22	67	11	11
February 2019	22	66	12	10

Employment intentions (balance in points)

	Manufacturing industry	Construction sector	Trade sector	Service sector	All
February 2017	7	9	6	7	7
Early Summer 2017	12	13	7	8	9
Fall 2017	16	10	9	9	11
February 2018	21	14	10	12	14
Early Summer 2018	17	15	9	11	12
Fall 2018	15	12	8	9	11
February 2019	10	11	7	11	10

business development, especially in times of economic slowdown. Large companies, which are often increasingly exposed to international competition, are particularly concerned about this risk (41 out of 34 points).

Manufacturing industry planning more cautiously

The decline in employment intentions in manufacturing industry is particularly marked (ten after 15 points in the last survey, beginning of 2018: 21 points), while the service providers are even more enthusiastic about hiring again (eleven after nine points, beginning of 2018: twelve points). Industrial activity cooled off considerably last year as a result of the difficult external economic environment. Accordingly, the increase in personnel is no longer quite as dynamic.

SMEs continue to be drivers

Small and medium-sized enterprises (SMEs) are continuing to plan more expansively in terms of personnel than large enterprises (up to 500 employees: eleven points, over 1000 employees: five points as in the last survey). At the same time, they are more concerned than large companies about the shortage of skilled workers (61 versus 57 percent). SMEs are often less well known and therefore have greater difficulty in reaching potential employees.

Economic activity in the sectors

Manufacturing industry

Manufacturing industry experiencing significant setbacks

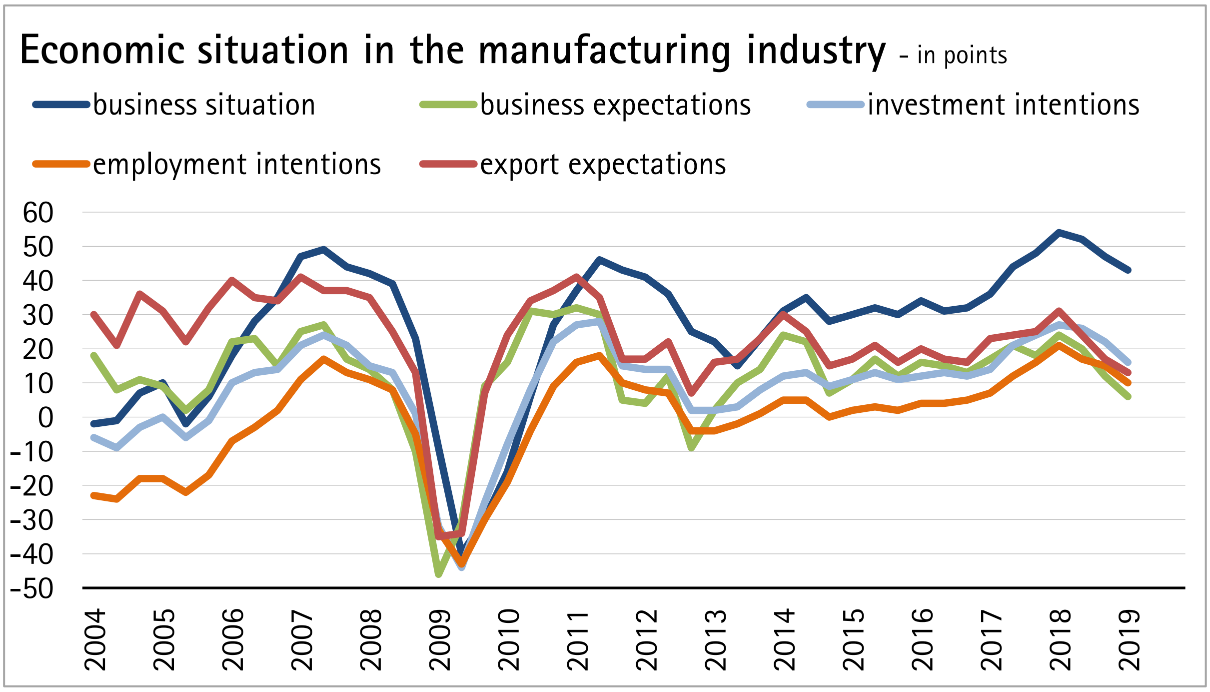
The worries of manufacturing industry are becoming more intense. Expectations are as cautious as they last were in 2012. From the perspective of companies, the development of demand in particular is increasingly becoming a risk. Exporters are feeling the effects of the slowdown in the international economy and the uncertainty caused by global trade conflicts. The expectations of the manufacturers of intermediate goods are particularly gloomy. These often experience the weaker economy before other industries. Overall, the difficult situation is also clearly reflected in the investment and employment intentions. In both areas a considerably weaker dynamic is emerging.

Manufacturing Industry in low spirits

The mood in manufacturing industry has deteriorated significantly. The assessment of the situation continues to be predominantly positive. However, the situation balance has now fallen for the third time in a row (43 after 47 points, beginning of 2018: 54 points). The same picture is emerging with respect to expectations (six after twelve points in the last survey; beginning of 2018: 24 points). The outlook for the coming months is more cautious than it has been since 2013.

Worried outlook

Over the course of last year, the development in foreign demand has gained significantly in importance as a risk factor (foreign demand: 37 percent after 33 percent; beginning of 2018: 27 percent). The global economy has cooled down. This was due not least to the US trade conflicts. Further aggravations cannot be ruled out. And a Brexit solution is not yet in sight either. Overall, economic policy framework conditions are more often seen as an obstacle (42 percent after 39 percent, beginning of 2018: 34 percent). In addition to the international imponderables, there are challenges at home – such as the burden of bureaucracy, the need to modernize infrastructure or the comparatively high tax burden. Meanwhile, more than every second company refers to the development of the costs for energy and raw materials as a risk to its business development (51 after 50 percent previously). Lower demand from abroad is also being



felt indirectly by domestic suppliers (domestic demand: 44 percent after 37 percent; start of 2018: 34 percent).

Plans being scaled back

The deterioration in the outlook is also being reflected in significantly reduced investment and employment plans. At 16 points, the investment balance is still clearly in the expansionary range and well above the long-term average (eight points). However, last year's decline is striking (beginning of 2018: 27 points; previous survey 22 points). Capacity expansions are becoming less important as investment motives (37 after 40 percent in the previous survey). Despite the continuing high level of capacity utilization, industrial companies seem to be refraining from investing in expansion due to the high level of uncertainty.

Employment intentions are also declining noticeably (ten points after 15 in the previous survey; beginning of 2018: 21 points). In view of this, the shortage of skilled workers is a little less serious (58 percent after 61 percent in the last survey). The development of labor costs, on the other hand, is gaining once more in importance as a risk factor (44 percent after 42 percent). Especially in view of the declining demand, the increased costs can become a liability.

Manufacturers of intermediate goods particularly affected

In a comparison of the main groups of the manufacturing industry, the cuts are greatest among the manufacturers of intermediate goods. Not only do they rate their situation (42 points after 48) and expectations (three points after ten) significantly worse than they did last time, they are also making significant cutbacks in their plans. Their investment plans are less dynamic (15 after 23 points) and they are investing less in capacity expansion (37 after 41 percent). They are also less expansive in their personnel planning (six after 13 points). Concerns about demand are rising significantly (domestic demand: 45 percent after 36 percent).

Industrial core areas making significant cutbacks

Mechanical engineering and electrical engineering are among the focal points of German manufacturing industry. At the beginning of 2019, however, these sectors are also having to make significant cutbacks. Expectations (seven after 17 and twelve after 21 points) and investment intentions (16 after 23 and 28 points respectively) are declining noticeably. The electrical engineering companies are also significantly reducing their recruitment plans (15 after 24 points).

Worries in the automotive industry greater than ever before

Motor vehicle construction companies are rating their situation (41 after 49 points) and expectations (ten after twelve points) even worse than last time. At the same time, concerns about the economic policy framework conditions have reached a new high since the start of the query in 2010 (49 after 37 points). The introduction of automobile tariffs by the USA has still not been ruled out and is likely to be accompanied by significant cuts for local companies. Many manufacturers are still struggling with the problems of switching to the WLTP approval standard. Furthermore, there are questions regarding the future viability of diesel engines as a whole. Employment intentions (two after six points in the previous year) and investment intentions (21 points after 28 points) have declined significantly over the last year.

Construction Industry

Building boom losing some momentum

Business in the construction industry is currently running in high gear. For the future, however, companies are expecting less dynamic development in terms of construction activity. The shortage of skilled workers continues to be the central challenge for the construction industry. Four out of five companies see this as a risk. No other industry rates this risk higher. Furthermore, energy and raw material costs are becoming increasingly important as an obstacle to the further economic development of this industry. More cautious business expectations are being accompanied by declining investment intentions. On the other hand, employment intentions remain at a high level.

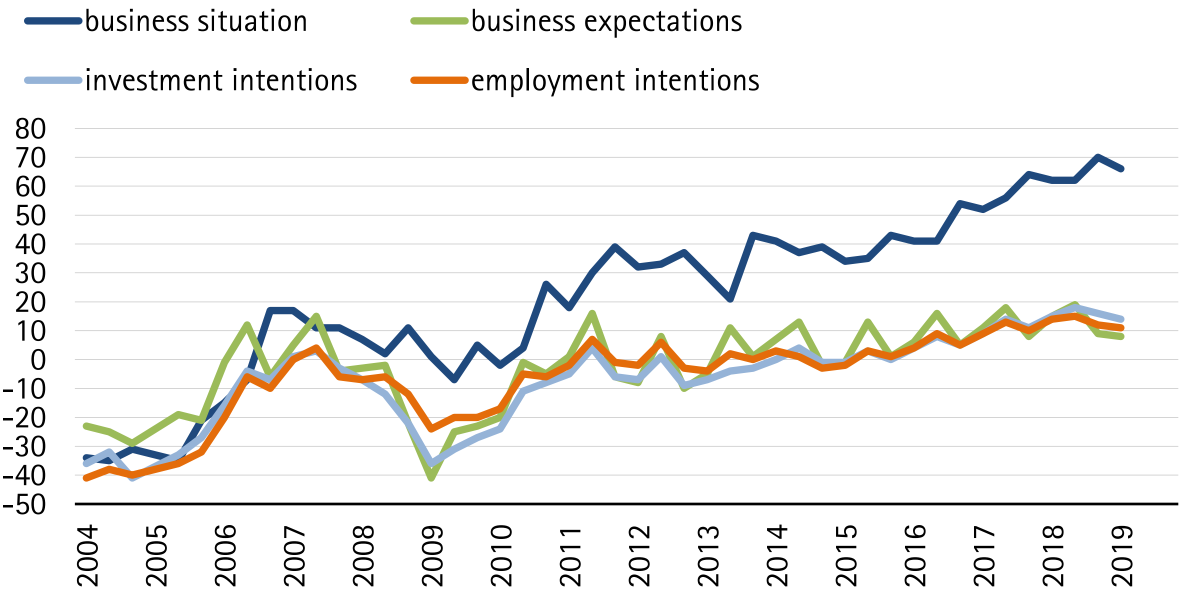
Slight winter downturn

The current business of the construction industry continues to be extraordinarily good (situation balance: 66 points), although seasonally somewhat lower than in the fall (minus four points). In a year-on-year comparison, the business situation – unlike in manufacturing industry, trade and the service sector – has even improved once again (balance at the beginning of 2018: 62 points). The high demand for construction services is being supported by low interest rates. Furthermore, there is the growing population, the inflow of people to the metropolises and increased incomes. Last but not least, the expansion of public-sector infrastructure investments is also having a positive effect on the business situation of construction companies.

Building boom continuing

High capacity utilization in the construction industry is also expected for 2019. Only eight percent of companies expect their business to be worse than before, while 16 percent expect it to improve again. The overwhelming majority (76 percent) are putting their faith in consistently good business. Expectations (balance: eight points) are therefore well above the long-term average of minus three points. No major changes are to be expected in the near future in terms of factors supporting the construction industry – in addition to low interest rates, among other things, the support provided by a high employment rate and rising investment expenditure by the public sector. At the same time, construction companies currently see little scope for further expansion of their business activities. Companies are going into the new year with lower expectations (eight after 15 points at the beginning of 2018), with the pace also slowing down. Although only a quarter of companies see domestic demand as a risk to their business developments, the proportion has risen slightly compared with the previous survey (plus

Economic situation in the construction sector - in points



three percentage points). At the same time, the investment intentions of construction companies have also declined slightly (balance: 14 after 16 points previously). Particularly significant cuts were recorded in the planned investments in civil engineering (balance decline by seven to ten points).

Cost risk energy and raw materials

Energy and raw material costs are once again becoming a challenge for the business development of the construction industry. 45 percent of companies see this as a risk, compared with only 36 percent at the beginning of 2018. In addition to high energy prices, this was primarily due to the significant rise in the cost of raw and other materials used in construction. Together with the rise in labor costs, which half of the companies regard as a risk (49 percent after 48 percent previously), these are an important factor in the significant rise in construction prices over the past two years.

Tight squeeze caused by the lack of skilled workers

The greatest risk to business development remains the shortage of skilled workers (81 percent after 82 percent). In no other sector are the risks of a shortage of skilled workers rated higher. The competition for personnel in the construction industry has intensified recently, as the current bottleneck analysis by the Federal Employment Agency[1] confirms. Accordingly, the employment intentions have changed only slightly despite the lower business expectations, remaining at a high level for the construction industry (eleven after twelve points). Companies are trying to fill the gaps in their workforce. For the time being, however, the shortage of skilled workers remains an obstacle to growth.

Included: construction-related industries

The sectors upstream and downstream of the construction industry, such as the quarrying of stones and earths (situation balans: plus five to 56 points), glass, ceramics and stone processing (53 points as previously), architects (unchanged at 66 points) and building management (plus eight to 58 points) rate their business situation as good or even better than before. All of these have reached their highest levels for many years. For the future, however, these companies are also expecting business developments to deteriorate. Expectations have fallen significantly in some cases compared to the previous year (stones and earths from five to minus ten points, glass and ceramics from 22 to three points). The same applies to investment intentions and, to a lesser extent, employment intentions. One exception is building management companies, which once again show a slightly more positive overall outlook (expectations plus one to 13 points, investments minus two to 15 points, employment plus seven to 14 points). For these companies, the market will continue to expand in the light of the current high level of construction activity.

[1] Cf. https://statistik.arbeitsagentur.de/Navigation/Footer/Top-Produkte/Fachkraefteengpassanalyse-Nav.html

Trade

Trade losing confidence

The mood in the retail sector is clearly deteriorating. On the basis of a good assessment of the situation, the retail trade is expecting a somewhat weaker mood among consumers. Wholesalers and trade brokers are also expecting business to develop more weakly in view of the risks to the global economy. The motor vehicle trade even expects a deterioration in business for the most part. Overall, investment planning and job creation are on a weaker growth path.

Domestic demand concerns on the rise

Business in the trade sector continues to perform well (situation balance: 31 points). The assessment of the situation therefore remains well above the long-term average (twelve points). In recent years, consumption has been an important pillar of the economy, as the positive labor market situation has led to an increase in purchasing power. Many dealers have been able to profit from this. Expectations in the retail sector as a whole, however, are noticeably worsening compared to the fall (two after seven points previously). Concerns about domestic issues have moved up to second position among the risks to business development (50 percent after 46 percent) – after the shortage of skilled workers (54 percent). The development of the economic policy framework conditions is also being viewed more critically (41 percent after 37 percent). In the free text replies, companies mention not only bureaucracy and taxes, but also concerns about unequal competitive conditions – for example for providers from third countries.

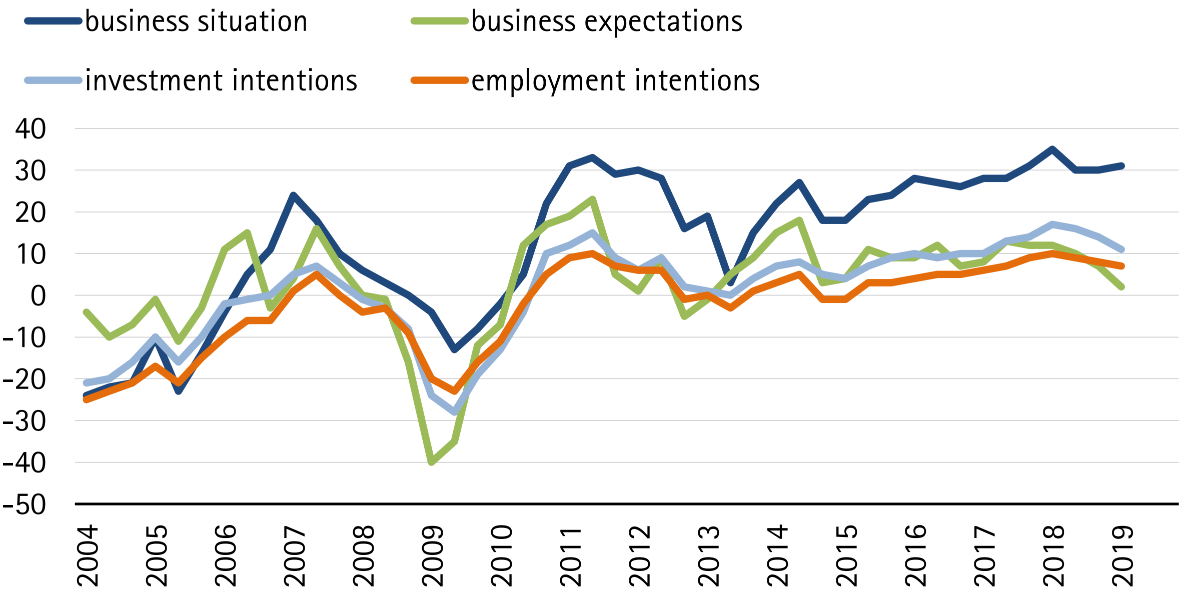
Incalculable global economy slowing down the wholesale trade

Wholesalers and trade brokers, which are strongly intertwined with world trade, have adjusted their expectations for business in the coming months downwards to a particularly large extent (balance: seven after eleven points). Unresolved trade conflicts and Brexit are causing considerable uncertainty.

Buying mood deteriorating

However, the retail sector is also more skeptical about future business (expectation balance: minus two after five points). The business outlook for this year is therefore even more critical than the long-term average (minus one point). Despite the good framework conditions, such as high employment, rising collective wages and financial relief for citizens, concerns about domestic demand are growing in this sector (51 percent after 48 percent, long-term average: 56 percent). The buying mood seems to be waning.

Economic situation in the trade sector – in points



The trade in health-related goods assesses its business prospects even more critically than in the previous survey (minus one after zero points). It is primarily the economic policy framework conditions that are causing this (67 after 60 percent). It remains unclear how the dispatch of prescription medicines will be handled in the future.

Innovations high on the agenda

Investment momentum in the retail sector as a whole is slowing and falling below the previous year's level (investment balance: eleven after 14 points). Trade intermediaries are again stepping on the brakes particularly strongly in their investment intentions (zero after nine points). The massive uncertainty about developments in world trade is making itself felt here. Accordingly, capacity expansions are becoming less important as investment motives (25 percent after 32 percent).

The retail sector is also planning somewhat more cautiously (six after eight points previously). The increasing competition associated with digital opportunities and business models requires investment from many retailers. Uncertainties and concerns about demand are making many companies more cautious in their investment planning. However, investment intentions remain well above the long-term average (minus three points). Furthermore, the proportion of retailers who have set up their investment budgets for product innovations remains at a high level of 30 percent. Above all, the intense competition in this sector requires investments in attractive business premises and complex digital business models. Wholesalers, on the other hand, are distributing their investments comparatively evenly between rationalization, capacity expansion and innovation (investment balance: 15 after 17 points; share of product innovations: 28 percent). Only the trade in health products is planning to expand slightly (14 after 13 points) and is increasing its intentions to invest in rationalization measures (34 after 30 percent).

Employment remains high

Despite reduced expectations and weaker investment dynamics, employment plans are not experiencing any major cutbacks (balance: seven after eight points; long-term average: minus three points). Almost three-quarters of companies plan to keep their employment constant. At 18 percent, the proportion of companies wishing to create even more employment is significantly higher than the proportion of companies expecting employment to fall (eleven percent). More than half of retail companies (54 percent as previously) are concerned about the lack of skilled workers.

Car trade in the dumps

Motor vehicle dealers and repairers still assess their situation as moderate and only slightly worse than previously (26 after 28 points). Expectations, on the other hand, have once again fallen sharply from a low level (minus five after two points in the previous survey). The industry is characterized by a deep feeling of uncertainty. The unresolved questions about the future of diesel propulsion in particular are likely to be contributing to this. Sales of diesel vehicles in Germany collapsed last year. The coming into force and threat of further driving bans, as well as uncertain options for possible retrofitting, have left car dealerships and repair shops looking to the future with concern. Many companies have had to make substantial write-downs on diesel vehicles in their inventory. In the leasing business, the number of returns of diesel-powered cars is increasing. Furthermore, fewer cars are being delivered due to the new WLTP standard for exhaust gas testing. Other types of drive, such as the electric motor, do not yet have the potential to absorb losses in business with conventional vehicles. Accordingly, risks to the business outlook are being dominated by the developments in domestic demand (50 points after 46 previously) and the economic policy framework conditions (45 points after 40). Although this industry wants to build up employment levels, but at a less dynamic rate. The employment balance remains positive, although the proportion of companies planning to engage more staff is declining (employment balance: five after eleven points). The investment balance has fallen sharply from a high level (16 after 25 points). In addition to replacements, product innovations remain an important motive for investment, and are even increasing slightly (25 percent after 24 percent previously). Investments in capacity expansion, on the other hand, have declined significantly (28 percent after 33 percent).

Service Sector

Restrained outlook

Service providers assess their current business situation as being almost as good as in the fall. IT service providers stand out, and their business situation has even clearly improved as a result of the digitalization of the economy. However, service companies as a whole are less optimistic about the future. Domestic demand is gaining in importance as a risk. Credit institutions in particular have significantly more pessimistic expectations. But the outlook is also much more cautious for companies in the transport industry and for company-related service providers such as trade fair exhibitors. The investment intentions of the service industry have declined noticeably. On the other hand, the pace of employment growth is picking up, almost reaching its peak of a year ago. In many areas of the service sector, companies are still recruiting, as many vacancies could not be filled last year.

The mood is still good – but question marks concerning the future

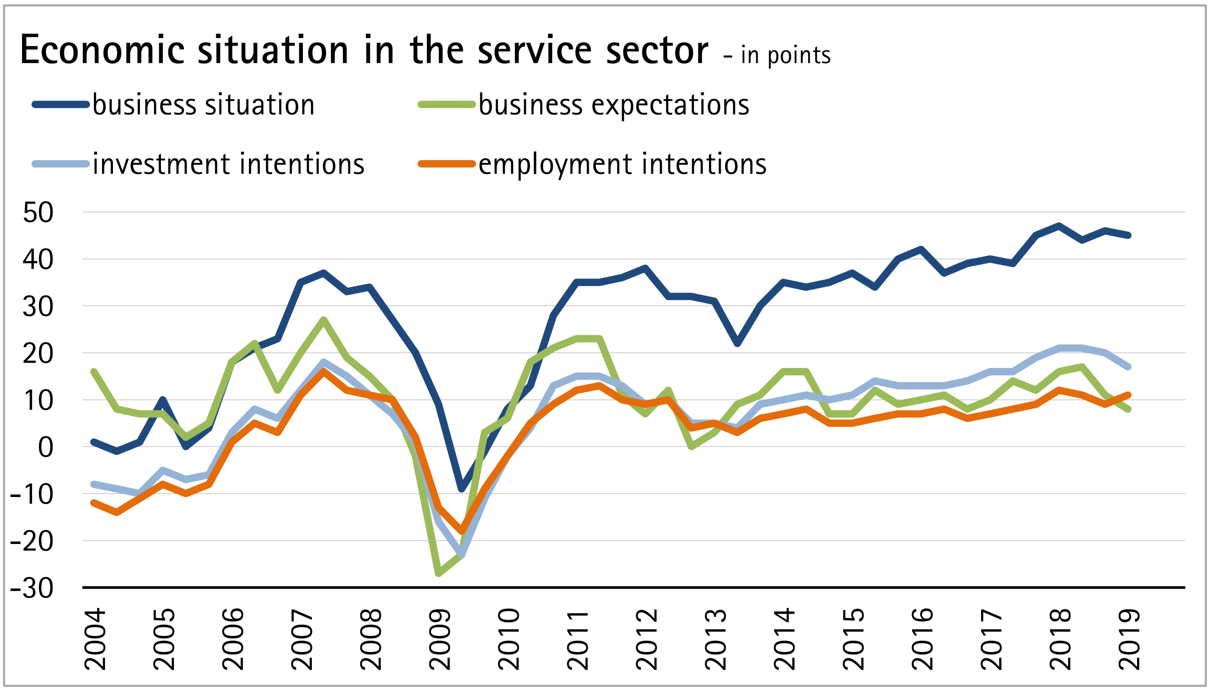
The business situation of the service companies is still very good. At 45 points, the situation balance is one point below that of fall 2018, but only two points off its peak at the beginning of 2018. However, more than one in three companies is now concerned again about the development of domestic demand (34 after 30 percent in the previous survey). This is reflected in the falling business expectations of service providers (expectation balance: eight after eleven points). The industry's expectations concerning future business have now fallen for the third time in a row.

Service providers recruiting

The employment balance has risen from nine to eleven points and almost reached its highest level of twelve points a year ago. However, by no means are all companies able to implement their employment plans. The shortage of skilled workers remains the dominant risk. 63 percent of companies see this as an obstacle to their business development; last fall this figure was just as high. In second place are labor costs, which represent a risk for 43 percent (previous survey 41 percent).

Investments: decline in dynamism

The investment momentum of service providers continues to weaken. The investment balance has dropped noticeably by three points to 17. In the long-term comparison, however, the propensity of service providers to invest is still at a high level



(long-term average: seven points). Product innovations (33 after 32 percent) are the second most important investment motive for service providers after replacement requirements (64 after 63 percent).

Personal service providers currently doing good business

The business situation of individual-related service companies, such as laundries, solariums, social services, private tuition and educational institutions, remains good (38 points). A few structural changes have contributed to the good situation. The acceptance of seeking help is increasing. The sector is also benefiting from demographic trends and the population growth in recent years. However, this sector is skeptical as to whether the good business can be continued in this way. For the third time in a row, their expectations have fallen to eight points now, representing a decline of ten points within a year. Accordingly, the propensity to invest has also declined somewhat (17 after 19 points in the previous survey). However, skilled workers are still being urgently sought. The recruitment intentions have even increased again (from twelve to 14 points).

Fear of the future in the transport industry: skilled workers urgently needed

The mood among companies in the transport industry has deteriorated. At 32 points, the situation balance is still well above its long-term average of twelve points. Compared to the previous survey, however, it has dropped significantly (by six points). Furthermore, manufacturing industry is looking to the future with concern. Here again, the proportion of companies expecting a deterioration (18 percent) outweighs those expecting an improvement (15 percent). The resulting expectation balance has dropped by four to minus three points. This is the negative record since 2015. Transporters are also a little more worried about the order situation again (domestic demand risk: 24 percent after 19 percent). The industry's assessment is regarded as an early economic indicator, as it feels a slowdown in economic momentum directly and across industries. Many companies also see an obstacle in the development of energy and raw material prices (57 percent after 56 percent, beginning of 2018: 48 points). Fuel prices have risen significantly over the past year. The additional costs for the road toll have contributed the rest (risk of the economic policy framework conditions: 39 percent after 36 percent previously). Since the middle of last year, the truck toll has also applied to federal roads. Added to this is the increase in toll rates at the beginning of the year. Furthermore, road haulage and taxi companies are affected by driving bans in some German cities. This is also reflected in the planning of companies: the investment intentions of companies are declining (14 after 17 points previously), but remain historically well above average. Environmental protection is becoming a much more important investment motive (23 after 20 points). For haulage companies and taxi companies, the purchase of vehicles of a higher European standard may also be worthwhile because they are not subject to driving bans or enjoy more favorable toll rates.

The greatest risk to economic development in the transport sector remains the shortage of skilled workers (74 percent after 77 percent), with labor costs (50 percent after 48 percent) also representing a concern for companies. Despite declining expectations and investment intentions, employment intentions continue to increase (eight after seven points in the previous survey). Many freight forwarders have long regarded the securing of skilled workers as a strategic task that is to be pursued independently of cyclical fluctuations. In view of the age structure of professional drivers, there is an urgent need for action, as almost 30 percent of drivers are over 55 years old.

Hospitality sector: cost pressure and labor shortages darkening the horizon

The business situation of companies operating in the hospitality industry has deteriorated (decline from 46 to 42 points). In particular, a lack of employees (74 percent), high energy and raw material prices (48 percent) and rising labor costs (63 per cnt) are reducing the expectations of restaurant owners (two after six points previously). Accordingly, investment intentions are also falling (18 points after 22 points). Replacement investments are the dominant investment motive for 70 percent of the hospitality industry. The changeover to fiscally secure cash registers is forcing companies to invest. In spite of all the uncertainties, companies want to continue to build up their employment levels on balance. The employment balance is almost at the same level as a year ago (rise from two to three points).

Corporate services: employment plans unchanged with a good business situation

The company-related service providers such as leasing companies, management consultants and research and development companies have slightly improved their business situation against the trend (from 53 to 54 points). The significantly worse situation in the manufacturing industry has therefore so far had only a limited impact on the associated service providers. The increasing complexity of industrial value chains means that complementary services are becoming structurally more important. However, companies are somewhat more cautious with their expectations (fall by two points to 17). This reflects the recent rise in concerns about domestic demand (39 points after 36 in the fall). Investment plans have declined significantly (from 21 to the current level of 15 points), while recruitment plans remain constant (23 points).

Major exception: the education industry

The only industry that has once again recorded significant gains in this survey is the education sector. The companies again assess their situation (39 after 34 points previously) and their outlook (21 after eleven points) more positively. Concerns about domestic demand have reached a new low (39 percent after 44 percent). Fewer companies also regard the economic policy framework conditions as a risk (43 percent after 48 percent). As a result, investment and employment intentions are again increasing significantly (16 points after nine and 14 points after ten). The sector is benefiting from the high demand for qualifications – accelerated by the digital transformation and technological progress. The demands placed not only on technical, but also on methodological and social skills are constantly increasing. Companies in particular are therefore exposed to the need for growing investment in continuing vocational training.

IT services in an excellent mood

The mood among IT service providers has improved noticeably and has reached a high level. Companies assess their business situation significantly more positively than recently (61 after 56 points) and therefore as being almost as good as a year ago, which was their all-time high (63 points). The trend towards digitalization in the economy is responsible for the good situation. However, companies are being somewhat more cautious in their outlook (27 after 29 points in the fall, partly because the one-off effect of the introduction of the GDPR is now ebbing away. Domestic demand is also viewed more cautiously, with 43 percent of IT service providers currently considering it to be a risk. 68 percent consider a lack of employees to be the biggest problem for the next 12 months.

Credit industry must continue to reduce employee numbers

The business situation in the banking industry has brightened somewhat. Companies assess their current situation better than in the fall of 2018 (31 after 28 points). The outlook for the future, on the other hand, remains gloomy. The expectation balance remains in negative territory (minus 16 after minus eleven points previously). The economic policy framework conditions are seen as a risk by 79 percent of credit institutions – a negative record in the sector comparison. In addition to the challenges posed by low interest rates, the looming, unregulated Brexit is also casting its shadows ahead. The high pressure to digitalize is also posing a challenge to established companies and being accompanied by high investment requirements. Accordingly, the institutions are planning higher investments (18 after twelve points previously). Replacement demand is the strongest motive at 72 percent, followed directly by rationalization at 53 percent. The employment plans of the companies remain deep in the red (minus 46 after minus 49 points previously).

Economic surveys of IHKs

The regional business surveys of the 79 Chambers of Industry and Commerce can be accessed at:
http://www.dihk.de/konjunktur

Questionnaire

How do you assess the current situation of your company?

- good business situation
- satisfactory business situation
- poor business situation

How do you expect your company to develop in the coming 12 months?

- better business situation
- unchanged business situation
- worse business situation

Where do you see the greatest risks in the economic development of your company in the coming 12 months? (more than one answer is possible)

- domestic demand
- foreign demand
- financing
- labor costs
- shortage of skilled workers
- exchange rate
- energy and raw material prices
- economic policy framework conditions, if so...

How do you expect exports to develop for your company in the coming 12 months?

- higher exports
- unchanged exports
- fewer exports

How will the expenditure of your company on domestic investments probably develop in the coming 12 months?

- higher expenditure
- unchanged expenditure
- lower expenditure

What are the main motives on which the planned domestic investments of your company in the next 12 months are based? (more than one answer is possible)

- rationalisation
- product innovation
- capacity expansion
- environmental protection
- replacement requirements

How is the number of employees of your company within Germany expected to develop in the coming 12 months?

- higher number of employees
- unchanged number of employees
- lower number of employees

Methodology

With the current **"Outlook darkens"** evaluation, the Association of German Chambers of Commerce and Industry (GCCI) is presenting the results of its latest business survey among the Chambers of Commerce and Industry (CCIs) in Germany. The survey was conducted for the first time in the fall of 1977 (until the early summer of 2013 under the title "Economic Situation and Expectations "). Since the year 2000 it has been conducted three times a year, and before that twice.

The basis of the GCCI results is surveys of companies conducted by a total of 79 CCIs. In february of 2019 the CCIs evaluated round **27,000 responses**. The regional evaluations of the CCIs can also be retrieved on the Internet at www.dihk.de/konjunktur. The breakdown of the company assessments according to **regions** is also a special feature of the GCCI survey. Here the North is made up of the federal states of Bremen, Hamburg, Lower Saxony and Schleswig-Holstein, the West of the federal states of Hesse, North Rhine-Westphalia, the Rhineland Palatinate and the Saarland, the East of Berlin, Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt and Thuringia and the South of the federal states of Baden-Württemberg and Bavaria.

According to **sectors** the replies come from manufacturing industry (28 percent), the construction industry (seven percent), the trade sector (22 percent) and service providers (43 percent). The classification of the industrial sectors in the GCCI business survey is based according to the official statistics on the classification of the industrial sectors of 2008. According to **size classes** the replies are divided up as follows: 34 percent companies with up to nine employees, 13 percent companies with ten to 19 employees, 42 percent companies with 20 to 199 employees, seven percent companies with 200 to 499 employees, two percent companies with 500 to 999 employees, two percent companies with more than 1,000 employees.

The CCIs carry out their random sample in such a way that a representative snapshot of the current situation of local commercial companies is provided (random sample stratified according to sectors, regions and company sizes). The aggregation at the federal level is carried out by means of a regional and sector-related **weighting**. The responses to the regular economic questions (see questionnaire in the attachment) of businesses with more than 500 employees are weighted with the factor 2 and the responses from businesses with more than 1,000 with the factor 3.

Where the text refers to a long-term average, this relates in the various sectors of the economy to the period from the autumn of 1991 (situation, expectations) or the autumn of 1992 (export expectations, investment and employment intentions). For the individual sectors, the data that reaches back to 2003 is used to calculate the average value.

When asked about business risks, companies can write a free text on the answer option "Economic policy framework conditions". In the current survey, around 4,400 free text answers were available. These were categorised as precisely as possible on the basis of the terms mentioned and the topics dealt with. The most frequent answers are represented as a word cloud. The larger a term is, the higher the number of free text answers on this topic.

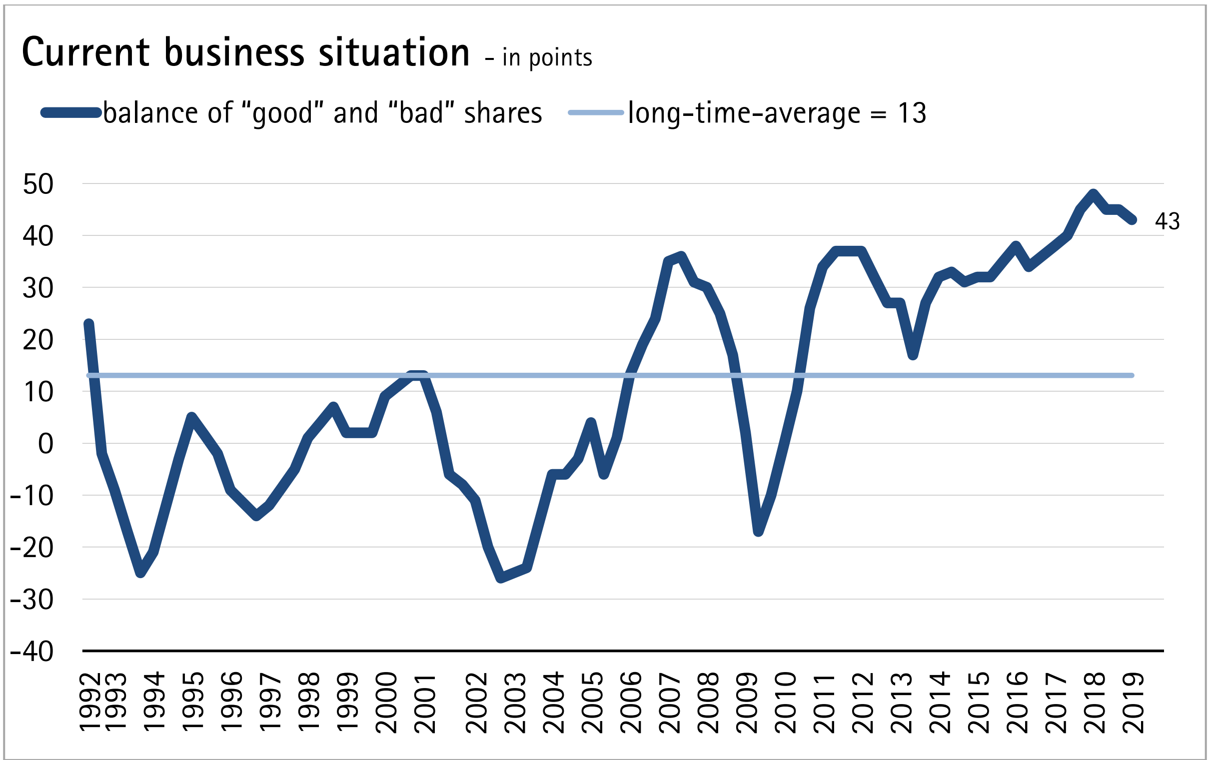
The IHK business climate indicator is calculated as a geometric mean of the situation and expectation balances. The indicator therefore has the following mathematical form: $\sqrt{(L_1 - L_3 + 100) * (E_1 - E_3 + 100)}$ where L1 represents the proportion of enterprises with a good estimate of the situation, L3 the proportion of enterprises with a bad estimate of the situation, E1 the proportion of enterprises with better business expectations and E3 the proportion of enterprises with worse expectations.

The survey was conducted from middle of December 2018 to middle of January 2019.

DIHK-Surveys - time series data

Current business situation (in percent; balance in points)

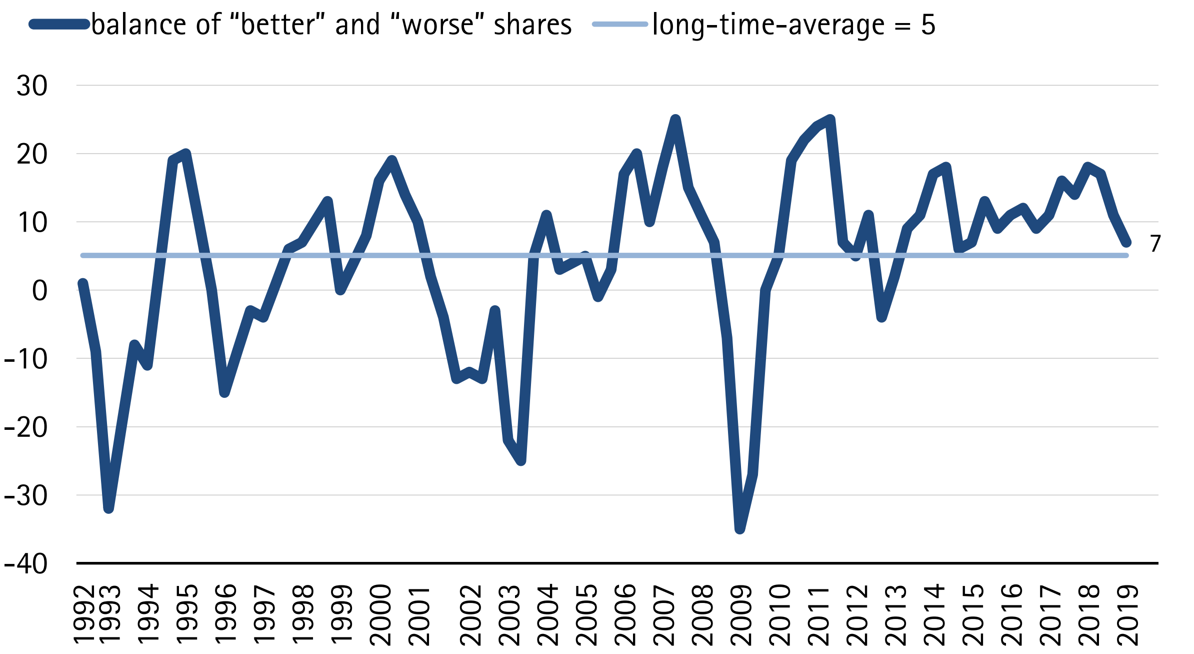
	Germany total				Economic sectors				Company size classes			
	good	satisfactory	bad	balance germany	balance manufacturing industry	balance construction	balance trade sector	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
February 2013	38	51	11	27	22	29	19	31	24	26	28	29
Early Summer 2013	32	53	15	17	15	21	3	22	14	16	20	20
Fall 2013	38	51	11	27	23	43	15	30	24	26	30	25
February 2014	41	50	9	32	31	41	22	35	27	31	35	37
Early Summer 2014	42	49	9	33	35	37	27	34	26	32	40	43
Fall 2014	40	51	9	31	28	39	18	35	26	29	34	38
February 2015	41	50	9	32	30	34	18	37	26	31	37	37
Early Summer 2015	41	50	9	32	32	35	23	34	25	30	37	42
Fall 2015	44	47	9	35	30	43	24	40	31	35	37	36
February 2016	46	46	8	38	34	41	28	42	33	37	40	44
Early Summer 2016	43	48	9	34	31	41	27	37	29	33	40	38
Fall 2016	44	48	8	36	32	54	26	39	33	36	36	41
February 2017	46	46	8	38	36	52	28	40	33	37	41	43
Early Summer 2017	48	44	8	40	44	56	28	39	32	38	48	47
Fall 2017	51	43	6	45	48	64	31	45	39	49	51	48
February 2018	54	40	6	48	54	62	35	47	41	53	55	53
Early Summer 2018	51	43	6	45	52	62	30	44	38	50	52	53
Fall 2018	52	41	7	45	47	70	30	46	40	51	47	47
February 2019	50	43	7	43	43	66	31	45	39	49	44	42



Business expectations (in percent; balance in points)

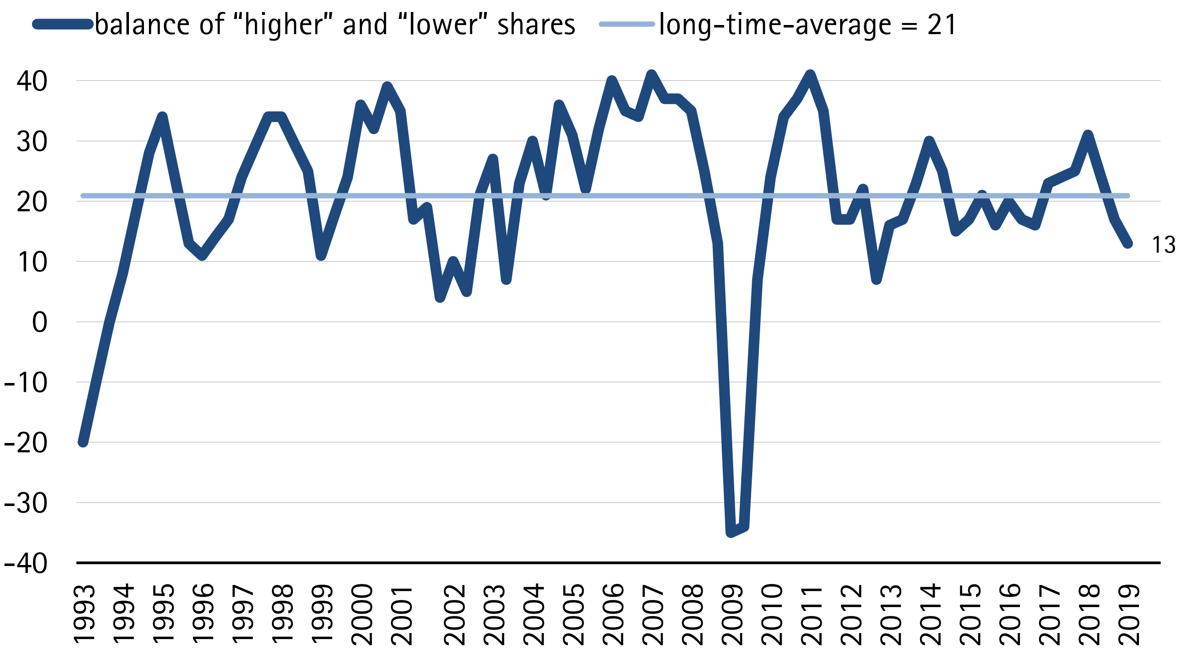
	Germany total				Economic sectors				Company size classes			
	better	about equal	worse	balance germany	balance manufacturing industry	balance construction	balance trade sector	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
February 2013	20	62	18	2	2	-5	-1	3	3	3	0	-1
Early Summer 2013	25	59	16	9	10	11	5	9	6	11	9	10
Fall 2013	24	63	13	11	14	1	9	11	7	12	16	18
February 2014	28	61	11	17	24	7	15	16	13	20	23	22
Early Summer 2014	29	60	11	18	22	13	18	16	12	21	22	24
Fall 2014	21	64	15	6	7	-2	3	7	4	8	7	9
February 2015	22	63	15	7	11	-1	4	7	5	9	9	10
Early Summer 2015	26	61	13	13	17	13	11	12	10	17	13	17
Fall 2015	23	63	14	9	12	1	9	9	6	12	9	11
February 2016	24	63	13	11	16	6	9	10	8	14	11	10
Early Summer 2016	25	62	13	12	15	16	12	11	10	15	12	14
Fall 2016	22	65	13	9	13	5	7	8	7	12	6	11
February 2017	24	63	13	11	17	11	8	10	9	14	12	13
Early Summer 2017	27	62	11	16	21	18	13	14	14	20	15	14
Fall 2017	25	64	11	14	18	8	12	12	10	17	17	12
February 2018	27	64	9	18	24	15	12	16	13	21	21	22
Early Summer 2018	26	65	9	17	20	19	10	17	14	20	16	19
Fall 2018	22	67	11	11	12	9	7	11	9	12	11	13
February 2019	22	63	15	7	6	8	2	8	5	9	6	9

Business expectations - in points



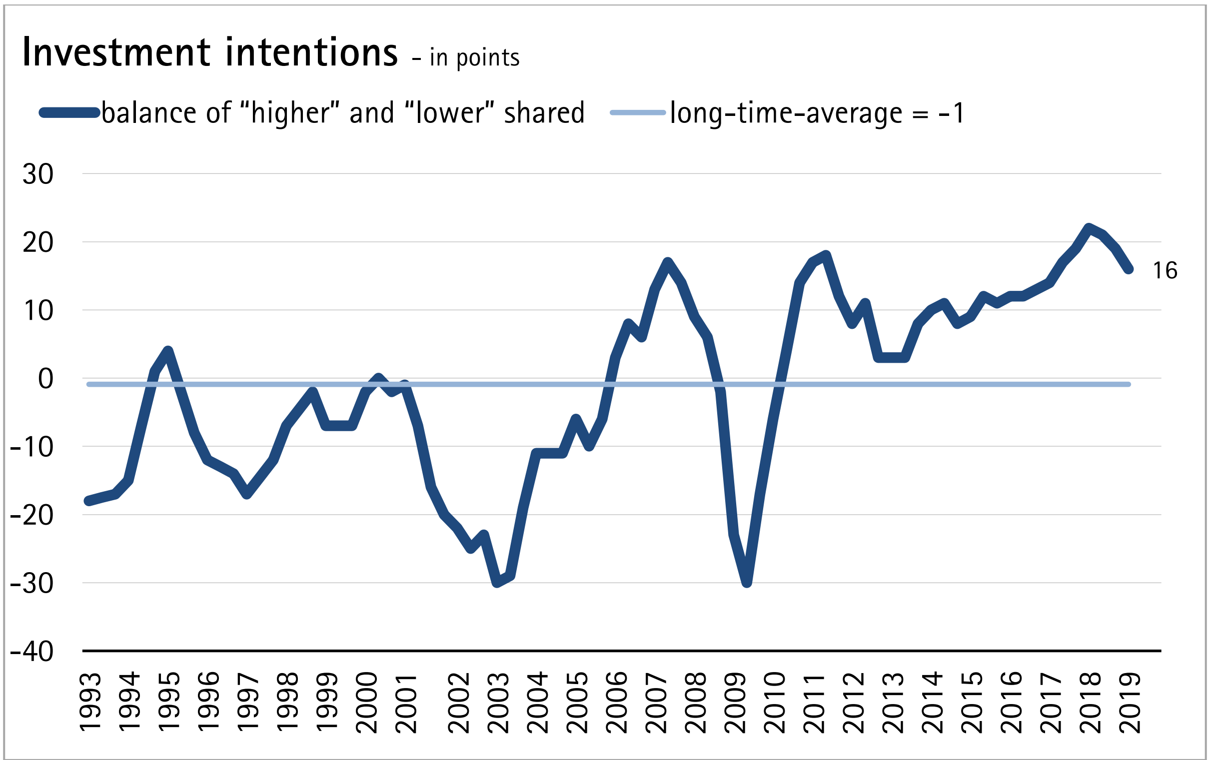
Export Expectations (industry; in percent; balance in points)											
	Germany total				Economic sectors			Company size classes			
	higher	about equal	lower	balance germany	balance Intermediate goods-producers	balance I capital goods producers	balance Industrial and consumer goods producers	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
February 2013	30	56	14	16	12	17	25	8	12	22	20
Early Summer 2013	30	57	13	17	14	20	20	10	10	26	26
Fall 2013	32	59	9	23	20	28	25	12	19	31	36
February 2014	37	56	7	30	30	32	29	16	27	40	40
Early Summer 2014	34	57	9	25	24	27	27	11	21	36	33
Fall 2014	30	55	15	15	12	15	22	2	9	25	28
February 2015	30	57	13	17	16	19	18	3	14	26	32
Early Summer 2015	31	59	10	21	20	23	20	8	17	28	37
Fall 2015	30	56	14	16	14	17	21	7	12	22	32
February 2016	32	56	12	20	19	21	24	7	16	30	37
Early Summer 2016	29	59	12	17	15	18	23	6	13	24	35
Fall 2016	29	58	13	16	13	18	19	3	14	21	29
February 2017	34	55	11	23	21	26	24	8	18	33	42
Early Summer 2017	33	58	9	24	22	28	21	12	19	36	34
Fall 2017	34	57	9	25	24	28	25	9	20	40	34
February 2018	38	55	7	31	31	34	29	19	26	44	44
Early Summer 2018	33	58	9	24	21	30	21	5	21	34	43
Fall 2018	30	57	13	17	13	22	19	2	15	26	29
February 2019	28	57	15	13	9	18	17	5	9	22	25

Export expectations (manufacturing industry) - in points



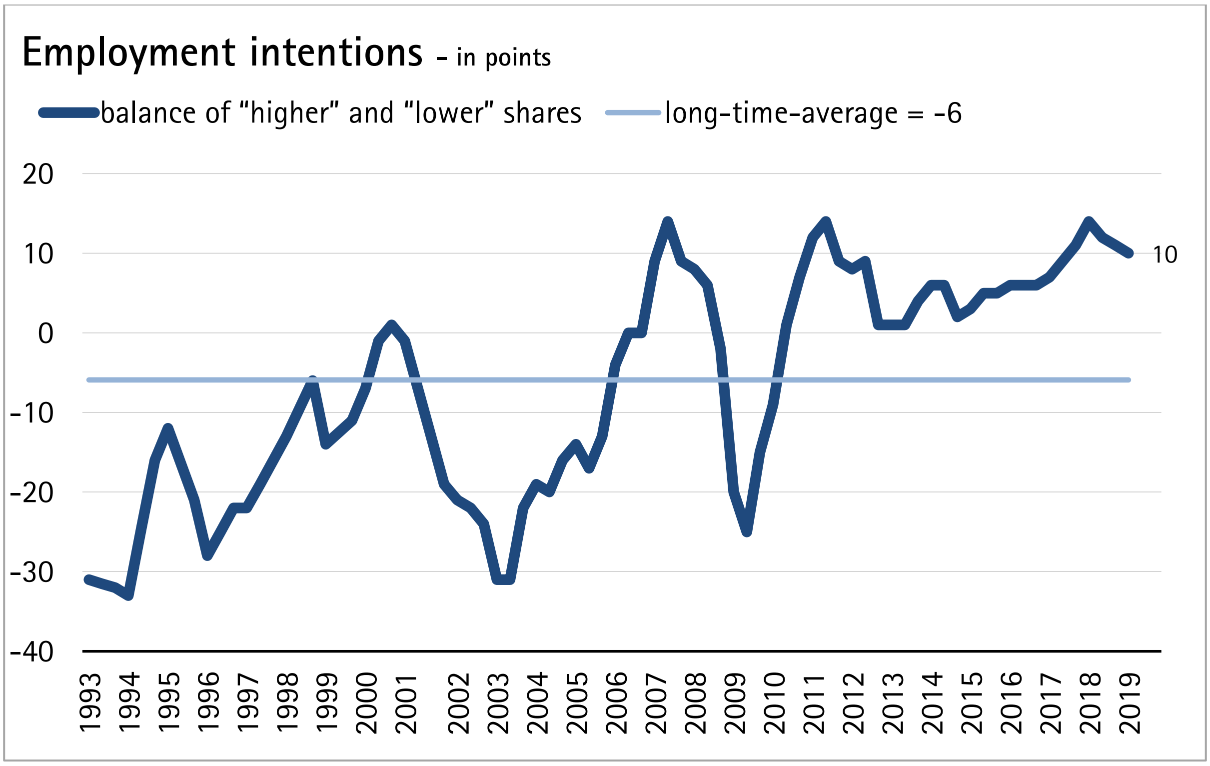
Investment intentions (in percent; balance in points)

	Germany total				Economic sectors				Company size classes			
	better	about equal	lower	balance germany	balance manufacturing industry	balance construction	balance trade sector	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
February 2013	23	57	20	3	2	-7	1	5	0	4	5	9
Early Summer 2013	23	57	20	3	3	-4	0	4	-2	4	7	8
Fall 2013	25	58	17	8	8	-3	4	9	4	9	11	15
February 2014	26	58	16	10	12	0	7	10	5	12	14	15
Early Summer 2014	27	57	16	11	13	4	8	11	5	13	14	19
Fall 2014	25	58	17	8	9	-1	5	10	2	10	11	19
February 2015	26	57	17	9	11	-1	4	11	3	11	13	22
Early Summer 2015	27	58	15	12	13	3	7	14	6	15	16	23
Fall 2015	26	59	15	11	11	0	9	13	6	15	15	15
February 2016	27	58	15	12	12	4	10	13	6	15	17	18
Early Summer 2016	27	58	15	12	13	8	9	13	6	15	18	22
Fall 2016	28	57	15	13	12	5	10	14	8	16	15	15
February 2017	29	56	15	14	14	9	10	16	8	18	17	18
Early Summer 2017	31	55	14	17	21	14	13	16	10	22	22	24
Fall 2017	32	55	13	19	24	11	14	19	12	22	26	31
February 2018	34	54	12	22	27	15	17	21	14	25	30	32
Early Summer 2018	34	53	13	21	26	18	16	21	14	25	29	32
Fall 2018	32	55	13	19	22	16	14	20	13	24	26	27
February 2019	31	54	15	16	16	14	11	17	10	18	21	23



Employment intentions (in percent; balance in points)

	Germany total				Economic sectors				Company size classes			
	better	about equal	lower	balance germany	balance manufacturing industry	balance construction	balance trade sector	balance services	balance 1-19 employees	balance 20-199 employees	balance 200-999 employees	balance more than 1000 employees
February 2013	15	71	14	1	-4	-4	0	5	2	4	-4	-5
Early Summer 2013	15	71	14	1	-2	2	-3	3	1	3	-2	-5
Fall 2013	16	72	12	4	1	0	1	6	3	6	1	-5
February 2014	17	72	11	6	5	3	3	7	4	9	3	1
Early Summer 2014	17	72	11	6	5	1	5	8	4	10	6	-1
Fall 2014	15	72	13	2	0	-3	-1	5	1	5	1	-3
February 2015	17	69	14	3	2	-2	-1	5	2	5	1	-6
Early Summer 2015	17	71	12	5	3	3	3	6	3	9	3	-7
Fall 2015	17	71	12	5	2	1	3	7	4	8	4	-4
February 2016	18	70	12	6	4	4	4	7	5	10	1	-8
Early Summer 2016	18	70	12	6	4	9	5	8	6	10	1	-6
Fall 2016	19	68	13	6	5	5	5	6	5	9	1	-5
February 2017	20	67	13	7	7	9	6	7	6	11	0	-2
Early Summer 2017	21	67	12	9	12	13	7	8	7	15	7	-1
Fall 2017	22	67	11	11	16	10	9	9	8	15	10	6
February 2018	25	64	11	14	21	14	10	12	10	20	14	11
Early Summer 2018	23	66	11	12	17	15	9	11	8	19	12	5
Fall 2018	22	67	11	11	15	12	8	9	7	16	8	5
February 2019	22	66	12	10	10	11	7	11	8	14	6	5



Risks for the economic development and domestic investment motives (in percent; *Industry)

	Risks for the economic development								domestic investment motives				
	domestic demand	foreign demand*	financing condi-tions	labor costs	lack of skilled workers	exchange rates*	prices of energy and raw materials	economic policy conditions	rationalization	product innovation	capacity expansion	environmental Protection	replacement de-mand
February 2013	51	42	15	35	32	11	52	40	32	29	26	13	64
Early Summer 2013	50	41	15	38	32	11	50	40	32	27	25	13	65
Fall 2013	48	40	15	38	36	11	49	40	32	29	27	13	66
February 2014	45	35	14	41	37	12	47	40	31	29	27	13	66
Early Summer 2014	43	36	13	41	38	14	44	40	30	28	27	12	66
Fall 2014	48	47	12	38	38	11	38	43	31	30	26	13	66
February 2015	48	45	12	42	38	18	27	44	31	30	26	14	66
Early Summer 2015	44	38	11	42	39	26	31	42	31	30	26	13	66
Fall 2015	45	48	11	40	42	21	26	41	32	31	27	14	65
February 2016	45	44	11	40	43	19	24	44	32	31	27	14	66
Early Summer 2016	45	42	11	40	43	16	24	43	31	31	27	14	66
Fall 2016	43	44	11	40	48	15	25	38	32	32	28	14	65
February 2017	40	39	11	40	48	17	32	43	33	33	30	15	67
Early Summer 2017	38	37	11	39	51	15	31	41	31	32	30	14	66
Fall 2017	37	33	10	40	56	18	30	38	32	33	32	15	64
February 2018	33	27	10	42	60	13	32	38	31	33	33	14	65
Early Summer 2018	34	30	10	42	61	14	30	37	31	32	32	14	64
Fall 2018	34	33	9	41	62	14	34	39	32	32	32	15	64
February 2019	38	37	9	43	61	11	36	41	32	32	31	16	65

Risks for the economic development - in percent, *export-industry