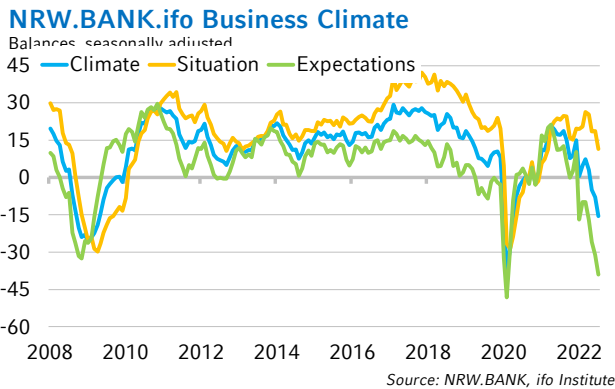


North Rhine-Westphalia sliding into recession

September was the fourth month in a row to see the sentiment in the North Rhine-Westphalian economy deteriorate. The companies surveyed not only rated their current business situation noticeably worse but again were also clearly more pessimistic about the coming months. The sentiment deteriorated across all sectors. The economy is heading for an economic slump in the winter.



The **NRW.BANK.ifo Business Climate** dropped by a high 7.7 points to -15.5 balances in September, as companies rated both their current situation and their expectations much worse than in the previous month. Only at the beginning of the pandemic in spring 2020 were companies more pessimistic about the future than today. Meanwhile, the business climate is clearly pointing to a recession. The economic downturn is primarily attributable to the strong and broad-based increase in prices. Inflation is not only eating into real purchasing power but also making production in energy-intensive sectors less profitable.

The business climate in the **construction** sector has virtually collapsed. Never before have construction companies been more pessimistic about the future. Besides the high cost of materials, the turnaround in interest rates has become an additional burden. Most recently, more and more orders have been cancelled not least due to increased financing costs. All segments of the construction industry are expecting a decline in construction activity in the next three months. The sentiment in the North Rhine-Westphalian housing construction sector is particularly bad.

The services sector also recorded a noticeable decline in sentiment, as service providers rated their current situation much worse than before and even expect it to deteriorate further in the

coming months. In view of the high loss of purchasing power, the hospitality sector is particularly concerned that times will become extremely difficult. The same applies to the logistics sector, which is suffering from the high fuel prices.

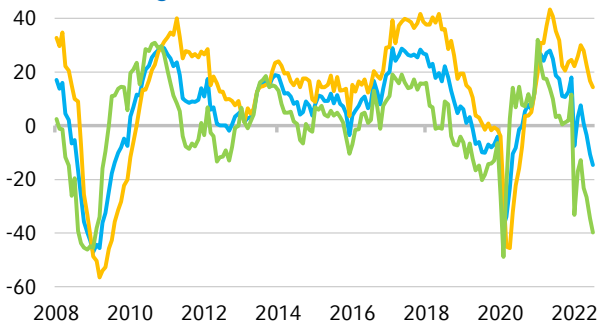
Inflation is making life difficult also for **wholesalers and retailers** in North Rhine-Westphalia. For the first time in more than two years, the majority of them rated their situation negatively again, as there are hardly any post-pandemic catch-up effects left to drive consumption. Trading firms' outlook has also deteriorated further. Many retailers and wholesalers therefore plan to reduce their workforces.

The sentiment in the **manufacturing sector** also declined, as companies were less satisfied with their current business situation. The renewed decline in order backlogs is making them look at the next six months with concern. April 2020 was the last time when expectations were so pessimistic. The sentiment deteriorated across nearly all lines of industry. The situation is particularly difficult in the chemical industry, where the climate fell to the lowest level in over ten years. Heavily dependent on gas, chemical companies are planning to cut production on a historic scale in the coming months. The sentiment is gloomy also among manufacturers of food and metal products, whose business expectations dropped across the board to a new all-time low. By contrast, the sentiment improved in the electrical industry in September, where production recently picked up noticeably.

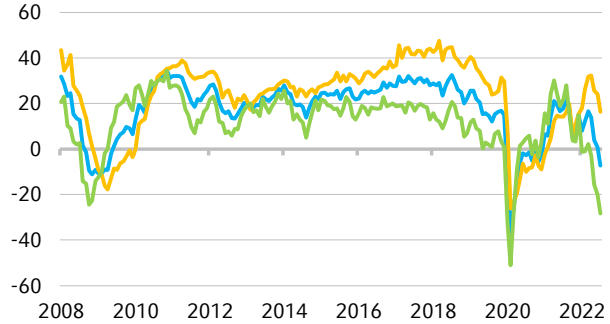
Business Climate by Sector

Balances, seasonally adjusted

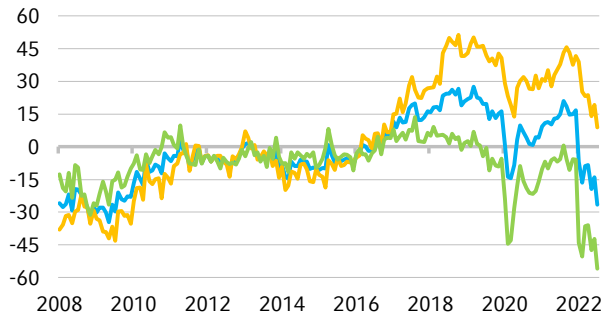
Manufacturing



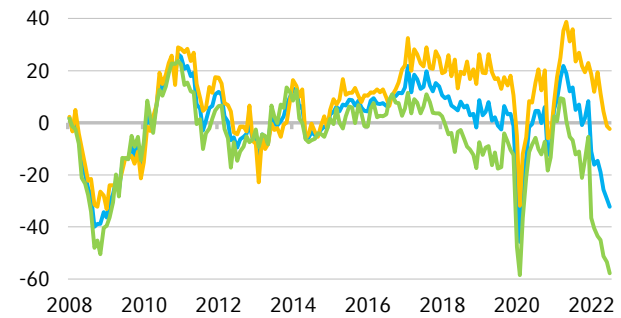
Service Sector



Construction



Trade



— Business Climate — Business Situation — Business Expectations

Source: NRW.BANK, ifo Institut

NRW.BANK.ifo Business Climate

Balances, seasonally adjusted

Sector	Indicator	09/21	10/21	11/21	12/21	01/22	02/22	03/22	04/22	05/22	06/22	07/22	08/22	09/22
Entire Economy	Climate	17.1	18.6	15.2	7.7	8.7	14.9	0.5	4.8	7.4	3.0	-5.0	-7.8	-15.5
	Situation	23.2	24.8	24.5	15.9	15.3	19.7	19.5	20.5	26.2	25.3	18.5	18.7	11.4
	Expectations	11.2	12.7	6.3	-0.1	2.4	10.3	-16.9	-9.9	-9.8	-17.0	-26.0	-31.2	-39.0
Manufacturing	Climate	18.7	17.4	11.2	10.7	12.7	18.0	-7.5	3.3	7.6	0.8	-3.6	-10.6	-14.6
Service Sector	Climate	17.9	21.9	17.7	4.7	7.1	15.1	8.0	12.0	16.5	13.8	3.9	0.7	-7.3
Construction	Climate	15.0	20.9	18.5	14.7	14.9	16.7	-6.9	-16.4	-8.9	-8.4	-19.3	-14.0	-26.4
Trade	Climate	13.5	4.9	7.0	-0.9	1.8	8.4	-11.0	-16.2	-14.7	-19.0	-25.7	-29.3	-32.3

Source: NRW.BANK, ifo Institute

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