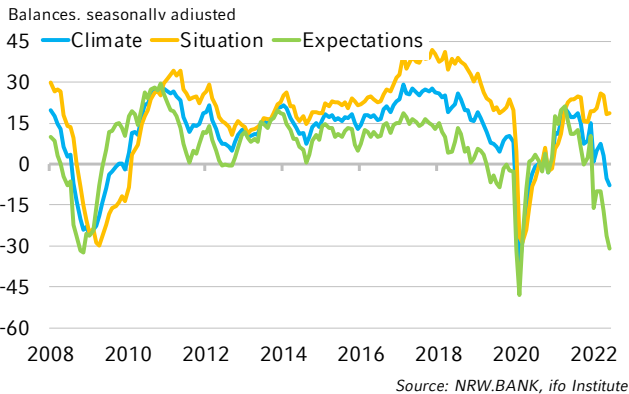


Recession looms for NRW economy

The sentiment in the North Rhine-Westphalian economy deteriorated for the third month in a row in August. While companies assessed their current business marginally better, they are increasingly pessimistic about the future. The high gas and electricity prices are increasingly causing problems for enterprises. A recession of the regional economy in the winter half-year has become likely.

NRW.BANK.ifo Business Climate



August saw the NRW.BANK.ifo Business Climate drop by 2.7 points to -7.8 balances. The sentiment in the economy was thus at its worst since June 2020. The latest decline is entirely attributable to the expectations, which slumped from -26.2 points to -31.1 points. Only at the beginning of the COVID-19 pandemic in March 2020 and during the global financial market crisis at the end of 2009 were expectations even worse. Post-pandemic catch-up effects in the consumption and services sector have meanwhile largely been completed. The economic headwind is steadily gaining the upper hand. A contraction in economic output in the second half of the year is therefore becoming increasingly likely.

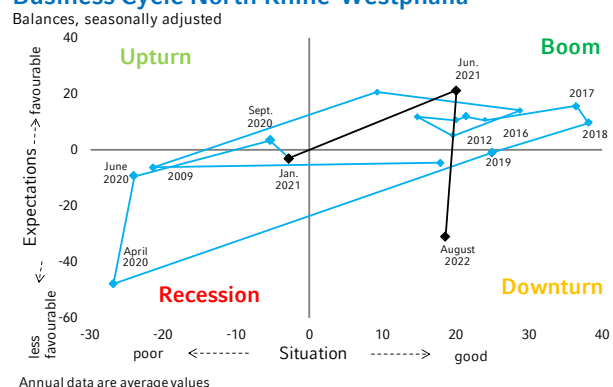
The business climate for the manufacturing sector recently showed the sharpest drop. Both the current situation and business expectations were rated significantly worse. Industrial companies cut their production for the first time since June 2020. The rise in the order backlog also came to an end in August, which affects the outlook. The situation is particularly difficult in the chemical industry, where expectations fell to their lowest level in over ten years. Expectations among manufacturers of metal products even fell to a new all-time low. There was a slight improvement in sentiment in the motor vehicle construction sector, where production has recently picked up noticeably.

The sentiment in the trade sector also deteriorated noticeably in August. Fewer and fewer retailers and wholesalers report that business is going well. Moreover, the downward trend in the extremely pessimistic expectations of the past months continued. In the context of weak sales, stocks were replenished again. While price pressure in the wholesale sector recently eased somewhat, a new high was reached in the retail sector.

The business climate for the services sector deteriorated as well. In particular, expectations clouded over. While the service providers also rated their current situation slightly less favourably than before, the indicator remains at a high level. The information and communications sector suffered the greatest decline. In the hospitality sector, on the other hand, sentiment recovered thanks to solid sales.

Following last month's sharp drop, the climate in the construction sector improved noticeably again in August. Construction firms deemed their current situation more favourably. Their pessimism about the next six months also decreased somewhat. Price pressure eased in all construction segments. This could also be due to the renewed decline in the order backlog, which may put a damper on construction activity in the coming months.

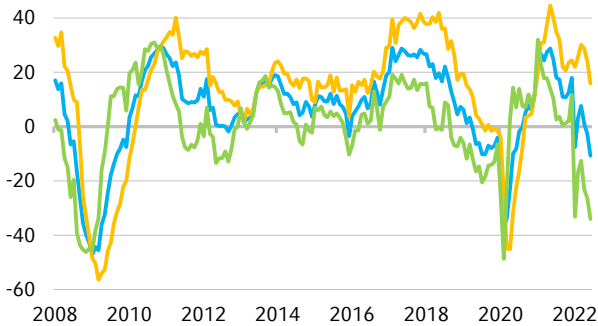
Business Cycle North Rhine-Westphalia



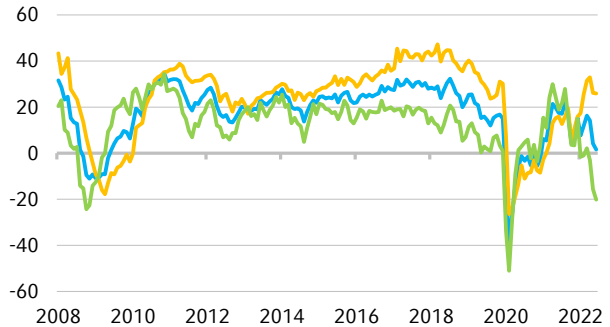
Business Climate by Sector

Balances, seasonally adjusted

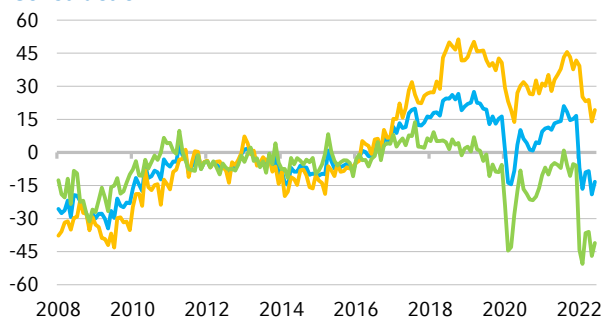
Manufacturing



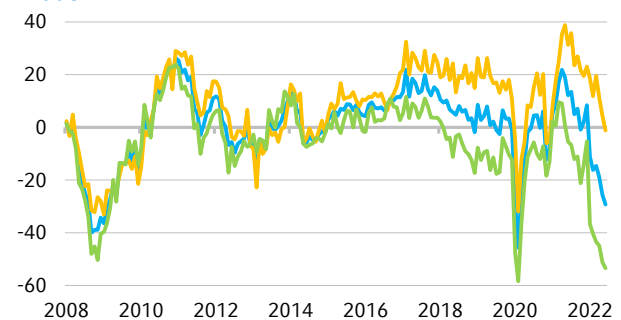
Service Sector



Construction



Trade



— Business Climate — Business Situation — Business Expectations

Source: NRW.BANK, ifo Institute

NRW.BANK.ifo Business Climate

Balances, seasonally adjusted

Sector	Indicator	08/21	09/21	10/21	11/21	12/21	01/22	02/22	03/22	04/22	05/22	06/22	07/22	08/22
Entire Economy	Climate	17.4	17.3	18.6	15.1	7.6	8.7	14.9	0.9	4.8	7.3	3.0	-5.1	-7.8
	Situation	23.7	23.7	24.8	24.4	15.8	15.3	19.6	19.5	20.5	26.1	25.3	18.4	18.6
	Expectations	11.2	11.1	12.5	6.2	-0.3	2.3	10.4	-16.1	-9.8	-10.0	-17.2	-26.2	-31.1
Manufacturing	Climate	24.8	18.1	17.4	11.0	10.8	12.6	18.0	-7.6	3.3	7.7	1.2	-2.8	-10.7
Service Sector	Climate	17.4	17.1	21.8	17.6	4.6	7.0	15.4	7.7	11.8	16.3	14.2	4.2	1.6
Construction	Climate	13.8	14.2	21.0	18.4	14.6	15.1	16.6	-6.9	-16.5	-9.0	-8.4	-19.0	-13.3
Trade	Climate	12.1	13.5	4.9	7.1	-0.9	1.8	8.4	-11.1	-16.2	-14.7	-19.0	-25.7	-29.3

Source: NRW.BANK, ifo Institute

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