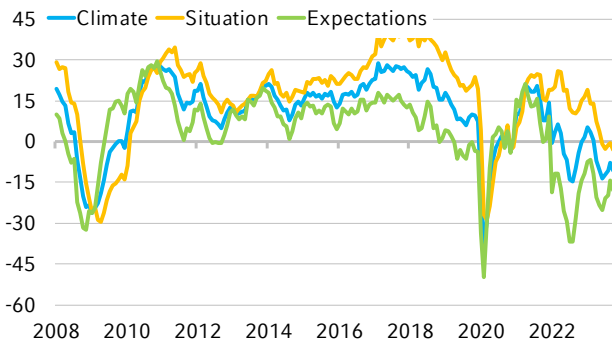


Stabilization of the NRW economy receives a slight damper

After three consecutive increases, the sentiment in the North Rhine-Westphalian economy deteriorated again at the end of the year. Companies were less satisfied with their current business activities. They were also noticeably more sceptical about the first half of 2024. The deteriorating mood was evident across all sectors.

NRW.BANK.ifo Business Climate

Balances, seasonally adjusted



Source: NRW.BANK, ifo Institute

The **NRW.BANK.ifo Business Climate** deteriorated by 3.1 balances to -10.7 points in December, thus losing the strong increase of the previous month. At the end of the year, the companies surveyed were again increasingly dissatisfied with their current business situation. The corresponding survey value fell by 2.6 points to -3.1 points. Expectations for the next six months deteriorated even more. With a new score of -18.0 points (previous month: -14.4 points), pessimism continues to predominate among companies.

The recent decline in the business climate has put a damper on the stabilization of the NRW economy. The previously forecast of an economic recovery in 2024 is no longer certain. In addition to the weak global economy, subdued demand from domestic consumers is also weighing on the economic outlook. On the other hand, the hope that interest rates will not rise any further is a positive factor.

The business climate in the **retail sector** fell by far the most in December, from -26.8 to -31.9. Companies assessed the current situation as noticeably worse. The corresponding survey value fell to its lowest level since April 2020 due to very weak sales in the important Christmas time. Furthermore, retailers' expectations deteriorated further.

Sentiment also deteriorated in the **service** sector. This was due to a 7.5-point drop in business expectations. With a new level of -7.8 points, the majority of service providers are once again pessimistic about their prospects. By contrast, companies were somewhat more satisfied with the current situation, even if the level of the situation indicator remains below average at 14.0 points. In the hospitality industry, the business climate deteriorated considerably. The optimism that prevailed there recently turned into noticeable skepticism. In view of the German government's decision to phase out the reduced VAT rate of 7.0% at the end of the year, many hospitality businesses expect their business activities to slow down.

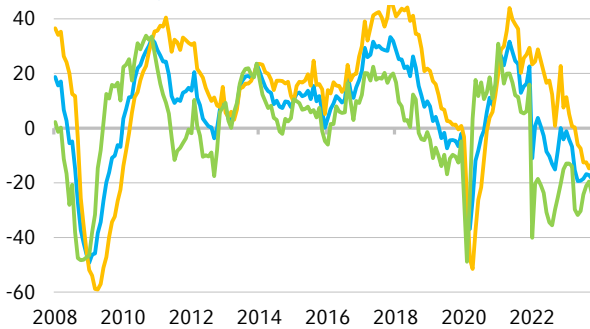
In the **manufacturing industry**, the climate deteriorated noticeably from -17.2 to -18.6. Companies assessed their current business situation slightly less negative. At the same time, however, pessimism regarding expectations increased disproportionately. Sentiment deteriorated particularly sharply in the metal industries. In contrast, there was an increase in the mechanical engineering and chemical industries. After eight price cuts in a row, selling prices for industrial goods were recently increased again in some cases. Further slight increases have also been announced for the near future.

The business climate in the **construction** industry has fallen to its lowest level since July 2009. Companies not only assessed their current situation as worse. In view of the high level of interest rates and the weak construction activity, around one in two companies expect business to deteriorate further. On the other hand, construction prices are showing signs of bottoming out.

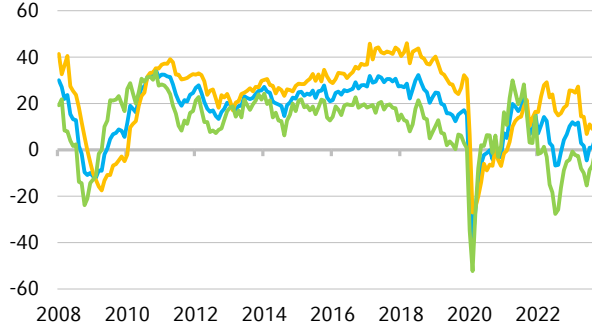
Business Climate by Sector

Balances, seasonally adjusted

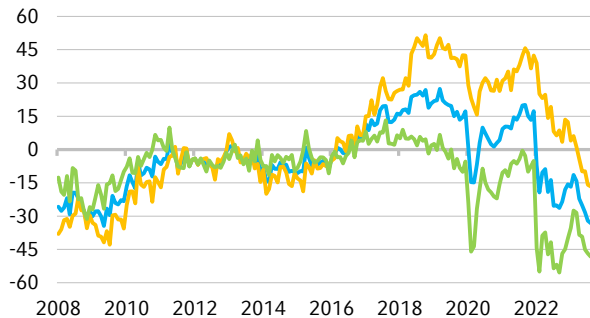
Manufacturing



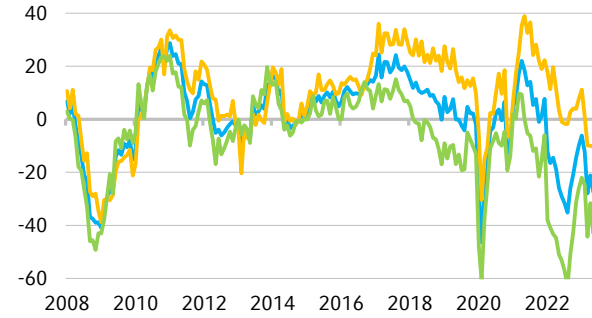
Service Sector



Construction



Trade



— Business Climate — Business Situation — Business Expectations

Source: NRW.BANK, ifo Institut

NRW.BANK.ifo Business Climate

Balances, seasonally adjusted

Sector	Indicator	12/22	01/23	02/23	03/23	04/23	05/23	06/23	07/23	08/23	09/23	10/23	11/23	12/23
Entire Economy	Climate	-4.3	-0.1	1.8	5.4	3.5	0.6	-7.0	-10.3	-13.4	-12.0	-10.7	-7.6	-10.7
	Situation	11.9	15.1	16.4	19.2	14.1	13.9	7.5	3.9	-0.8	-2.9	-1.3	-0.5	-3.1
	Expectations	-19.2	-14.2	-11.9	-7.4	-6.6	-11.8	-20.4	-23.5	-25.2	-20.7	-19.7	-14.4	-18.0
Manufacturing	Climate	-8.3	0.0	-4.1	-1.2	-4.1	-6.8	-15.4	-19.4	-19.2	-18.5	-16.8	-17.2	-18.6
Service Sector	Climate	4.2	6.7	10.1	11.9	10.8	11.8	2.9	1.7	-4.6	0.9	1.0	5.2	2.8
Construction	Climate	-23.5	-18.0	-15.7	-16.7	-11.5	-14.2	-22.2	-25.1	-28.4	-32.0	-33.2	-32.9	-33.8
Trade	Climate	-20.8	-14.5	-9.9	-6.2	-12.3	-27.9	-21.2	-27.3	-29.1	-29.4	-31.9	-26.8	-31.9

Source: NRW.BANK, ifo Institut

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