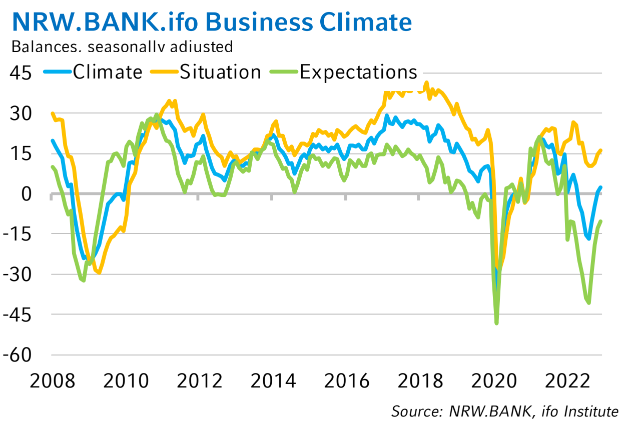
NRW economy stabilising

The sentiment in the North Rhine-Westphalian economy improved for the fourth month in a row in February. The companies surveyed were not only less pessimistic about their future prospects but were also more satisfied with their current business situation. The North Rhine-Westphalia economy is gradually working its way out of the economic trough.



In February 2023, the NRW.BANK.ifo Business Climate picked up by 1.9 points and is currently slightly positive at 2.4 points. While companies' business expectations for the next six months improved by 2.3 points, they remain negative at -10.4 points. This shows that, although their outlook for the future is somewhat more optimistic, most companies remain pessimistic. The assessment of the current situation improved by 1.5 points to +16.1 points.

In early 2023, the North Rhine-Westphalian economy is in a much better position than feared at the beginning of the Ukraine war. The renewed increase in the business climate can be interpreted as a sigh of relief on the part of many companies in NRW. They are relieved because the gas supply remains stable and there will probably be no deep recession. But it is too early to sound the all-clear for the economy. Besides geopolitics, the future inflation and interest rate trends are other risks that are difficult to assess.

The business climate for the service providers increased at an above-average rate, as they were clearly more satisfied with their current situation. Moreover, only few of them were still pessimistic about their future business prospects. In view of solid sales, the sentiment in the hospitality sector showed a particularly good trend.

The business climate in the trade sector also picked up noticeably in February, with expectations improving in particular. Companies were also more satisfied with their current business situation. More and more wholesalers and retailers are leaving the previous year's poor sentiment behind them. They even plan to hire new staff for the next three months.

The climate in the construction sector has brightened somewhat. While companies' expectations improved, they are still very pessimistic and were less satisfied with their current business situation than in January. According to the survey, construction activity is expected to decline in the coming months. However, the sharp rise in construction prices seems to have come to a halt for the time being. The sentiment in the housing construction sector is currently the worst. By contrast, civil engineering in North Rhine-Westphalia has been able to hold its ground quite well so far.

The manufacturing sector was the only sector to see the sentiment deteriorate. In February, manufacturers primarily rated their current business situation much worse than in the previous month, whereas their expectations for the next six months improved. The negative business sentiment in the manufacturing sector was mainly driven by the chemical industry, which plays an important role throughout Germany and whose assessment of the current business situation dropped by over 40 points. The industry was primarily affected by a renewed decline in incoming orders. Moreover, prices declined month-on-month for the first time since the end of 2020, which ate into companies' profits. The sentiment in the food industry, which also recorded a lower order intake in February, deteriorated even more strongly than in the chemical industry.

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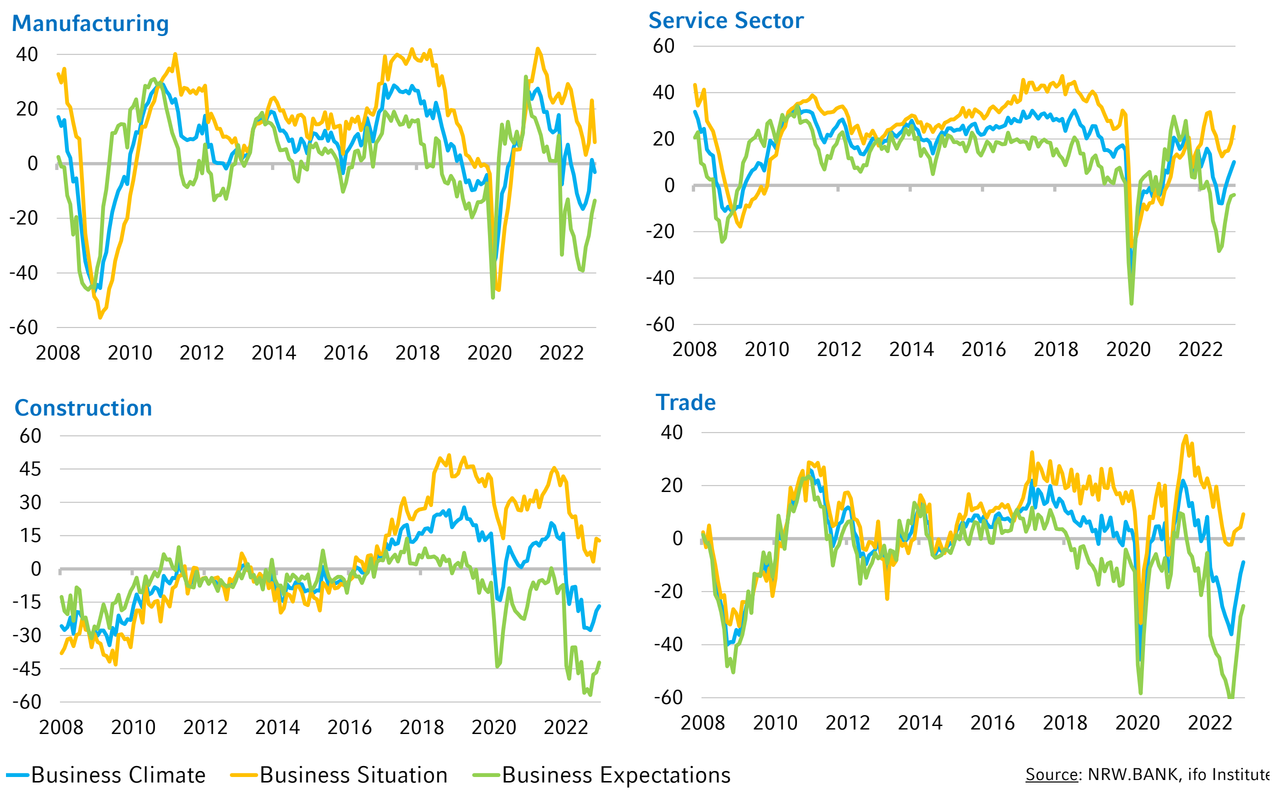
Business Climate by Sector

Balnces, seasonally adjusted



Source: NRW.BANK, ifo Institute

NRW.BANK.ifo Business Climate

Balances, seasonally adjusted

Sector	Indicator	02/22	03/22	04/22	05/22	06/22	07/22	08/22	09/22	10/22	11/22	12/22	01/23	02/23
Entire Economy	Climate	14.8	0.5	4.6	7.1	3.1	-4.2	-7.0	-15.4	-16.9	-10.5	-4.5	0.5	**2.4**
	Situation	19.1	19.8	20.7	26.7	25.7	18.8	19.0	11.6	10.5	10.3	11.4	14.6	**16.1**
	Expectations	10.5	-17.0	-10.3	-10.7	-17.3	-24.7	-29.9	-39.0	-40.7	-29.2	-19.2	-12.7	**-10.4**
Manufacturing	Climate	17.8	-7.6	2.7	7.0	-0.1	-4.2	-10.9	-14.4	-16.6	-14.4	-10.1	1.4	-3.1
Service Sector	Climate	15.4	8.0	11.7	15.8	13.4	3.5	-0.2	-7.6	-7.8	-1.4	2.9	6.4	10.1
Construction	Climate	15.9	-6.6	-15.9	-8.3	-8.0	-19.0	-13.9	-26.5	-26.6	-27.6	-24.0	-19.0	-16.8
Trade	Climate	8.2	-11.0	-16.1	-14.6	-19.0	-25.6	-29.2	-32.3	-36.1	-27.0	-20.3	-13.4	-8.9

Source: NRW.BANK, ifo Institute

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