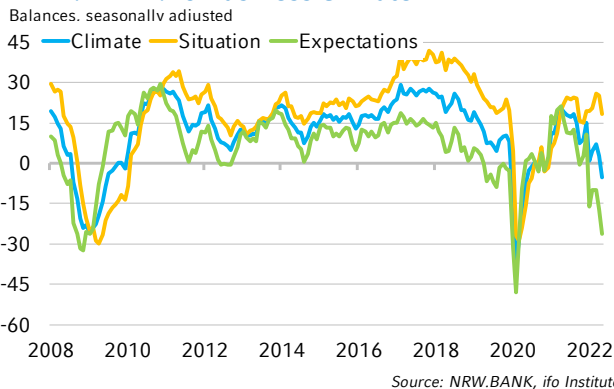


Growing fear of recession in NRW economy

In view of high energy prices and a looming gas shortage, the sentiment in the North Rhine-Westphalian economy deteriorated noticeably in July. All sectors expect their business to deteriorate considerably in the coming months. The companies surveyed were also less satisfied with their current business situation. The NRW economy is in a downturn, and even a recession cannot entirely be ruled out.

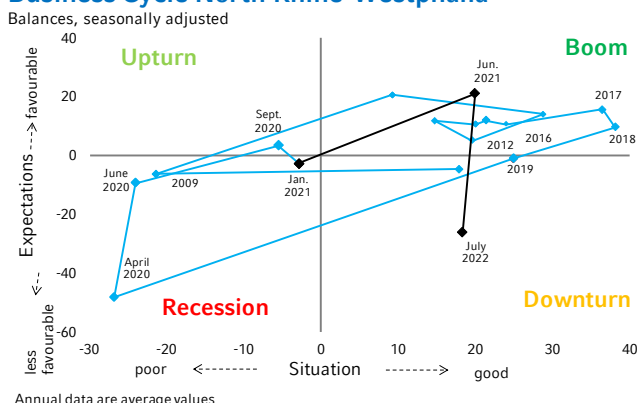
NRW.BANK.ifo Business Climate



July saw the **NRW.BANK.ifo Business Climate** drop by 8.1 points to -5.2 points, the lowest level since July 2020. The expectations for the next six months declined most sharply. While the current business situation also deteriorated noticeably for the first time since the beginning of the year, it can still be described as good.

Never before has the difference between the continued good assessment of the current situation and the very pessimistic expectations been greater. This situation indicates strong **uncertainties and a high downside risk** to the economy. All in all, the NRW economy is probably already in the midst of a downturn, which is also reflected on the Ifo Business Cycle Clock. The severity of the downturn or even whether there will be a recession solely depends on political factors and/or the stable supply of the German economy with natural gas.

Business Cycle North Rhine-Westphalia



The climate in the **construction sector** deteriorated most strongly. The business situation dropped to the lowest level since February 2017. Construction firms' expectations became even more pessimistic. This is attributable to a slump in incoming orders, which may put a damper on construction activity in the future. Construction prices, in turn, are likely to have passed their peak. The share of companies expecting further increases declined once again. The materials shortage on NRW's construction sites also eased in July.

The business climate for the **services sector** also deteriorated considerably, with expectations plummeting above all. While the service providers also rated their current situation less favourably than before, the indicator remains at a high level. The sharpest drop was suffered by the hospitality sector, where the post-pandemic euphoria has largely faded. The business climate in the logistics segment also deteriorated noticeably. The low water in the Rhine might be one of the reasons for this, as it is already affecting the inland shipping.

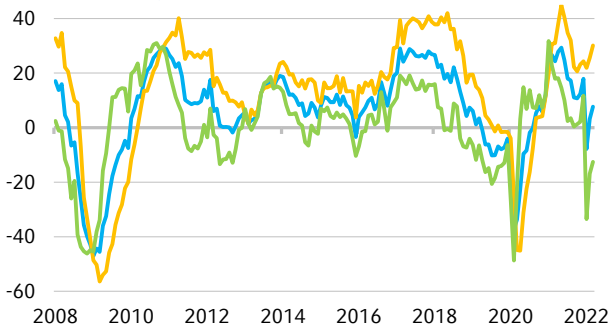
The business climate in the **manufacturing sector** declined somewhat less sharply. Both the current situation and expectations deteriorated. In the wake of lower demand, the order backlog dropped to the lowest level in more than two years. The situation is particularly difficult in the food industry, where the business climate fell to an all-time low. While the shortage of materials has eased somewhat lately, a high 64% (previous quarter: 76%) of the companies surveyed still reported supply problems.

The indicator for the **trade sector** again declined noticeably, as both wholesalers and retailers were less satisfied with their current business. In the context of weak sales, stocks were replenished for the first time in a year.

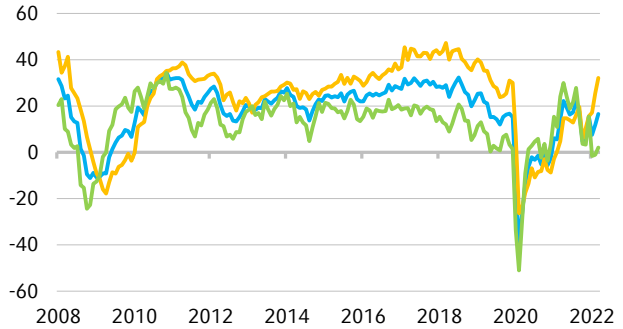
Business Climate by Sector

Balances, seasonally adjusted

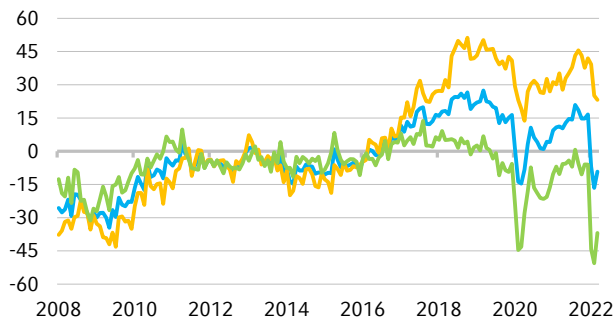
Manufacturing



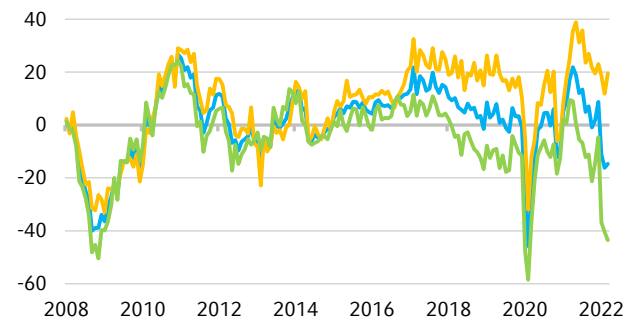
Service Sector



Construction



Trade



— Business Climate — Business Situation — Business Expectations

Source: NRW.BANK, ifo Institut

NRW.BANK.ifo Business Climate

Balances, seasonally adjusted

Sector	Indicator	07/21	08/21	09/21	10/21	11/21	12/21	01/22	02/22	03/22	04/22	05/22	06/22	07/22
Entire Economy	Climate	19.2	17.9	17.2	18.5	15.0	7.5	8.8	15.0	0.8	4.7	7.2	2.9	-5.2
	Situation	22.5	24.6	23.6	24.7	24.3	15.8	15.2	19.6	19.4	20.5	26.0	25.2	18.3
	Expectations	15.9	11.4	11.0	12.5	6.1	-0.4	2.6	10.6	-16.2	-9.9	-10.1	-17.3	-26.2
Manufacturing	Climate	29.3	24.7	18.0	17.3	11.0	10.7	12.4	17.9	-7.8	3.2	7.7	1.5	-2.2
Service Sector	Climate	19.5	16.3	17.2	21.8	17.7	4.7	6.9	15.5	7.6	11.8	16.6	14.9	3.9
Construction	Climate	12.8	14.6	14.3	20.9	18.5	14.7	14.7	16.6	-6.9	-16.6	-9.2	-8.3	-19.6
Trade	Climate	18.9	12.0	13.4	4.9	7.0	-0.9	1.8	8.7	-11.1	-16.2	-14.7	-19.0	-25.7

Source: NRW.BANK, ifo Institut

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