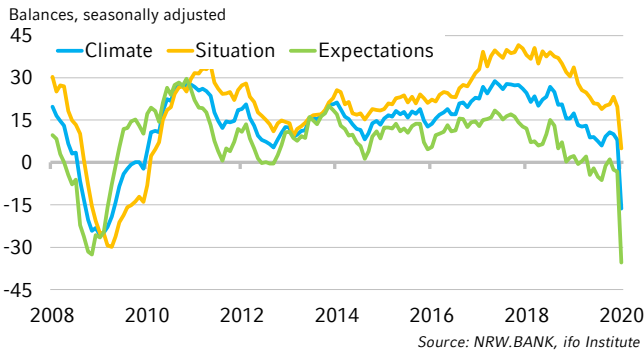


NRW economy sliding into recession

As expected, the coronavirus epidemic caused the NRW.BANK.ifo Business Climate to collapse in March. In particular, companies' expectations for the next six months deteriorated to an extent never seen before. Companies also rated their current business situation much worse than in February. The North Rhine-Westphalian economy is facing a downturn across all sectors.

NRW.BANK.ifo Business Climate



The **NRW.BANK.ifo Business Climate** dropped from 8.0 to -16.3 points in March. This is the strongest decline since the 1991 survey and the lowest level since March 2009. Expectations have deteriorated much more sharply than the assessment of the current situation. All sectors are affected. The decline is comparable to that following the late 2008 Lehman bankruptcy, which was the prelude to a severe recession.

The sharpest decline was recorded by **service providers**, both in terms of their view of their current situation and their future business prospects. Many companies can no longer provide their services because of the shutdown. The hospitality sector is hit particularly hard, with the climate indicator dropping by a dramatic 70 points to -57 points. The sentiment is worse in no other sector. The real estate and housing sector was able to more or less hold its ground.

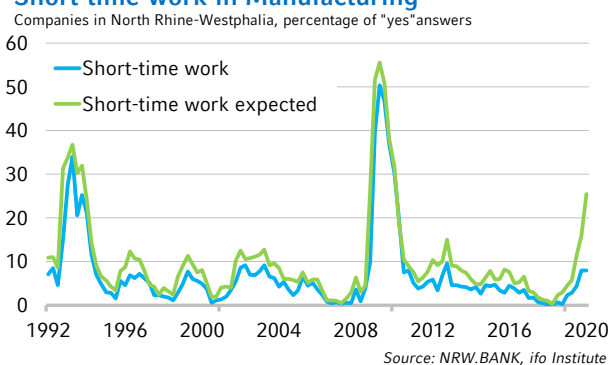
Due to the ordered closure of most stores, the business climate in the **trade sector** has also collapsed, with expectations hitting the lowest level in ten years. Retailers and wholesalers also regard their current situation far less favourably and are affected by equal measure.

The business climate in the **construction sector** dropped somewhat less sharply. The current situation is still rated very positively. And also where expectations are concerned, scepticism has not gained the upper hand yet. The construction sector is only marginally affected by the public shutdown. Global supply chains

also hardly play a role. However, the sentiment in the cyclically sensitive commercial building construction sector has deteriorated considerably.

The business climate in the **manufacturing sector** has fallen the least, although this is also due to the fact that the industry has been in a phase of weakness since mid-2018 anyway. Important export markets such as China or Italy have been hit hard by Covid-19 and their demand for goods has declined significantly. In addition, the manufacturing sector is increasingly suffering from the disruption of value chains. Individual companies in North Rhine-Westphalia have therefore already been forced to cut back or even completely stop production. The chemical industry, which plays an important role for NRW, is sending a ray of hope, as the business climate deteriorated only relatively moderately.

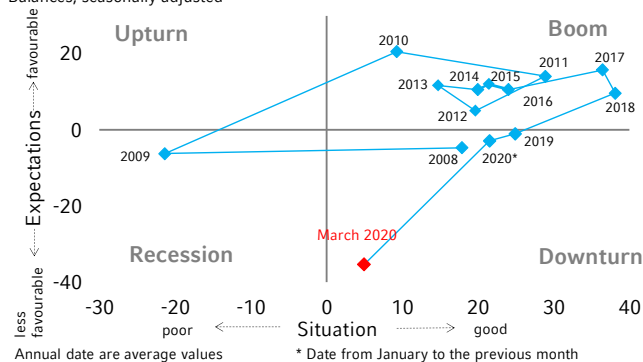
Short-time work in Manufacturing



Short-time work in the industrial sector is likely to increase sharply in the wake of the coronavirus epidemic. More than 25% of all companies expect to work short time in the coming months. This is the highest level since 2010. Metal production (61%), mechanical engineering (34%) and automotive (29%) are affected exceptionally strongly. By contrast, only one in ten companies in the chemical industry expects to have to apply for short-time work.

Business Cycle North Rhine-Westphalia

Balances, seasonally adjusted



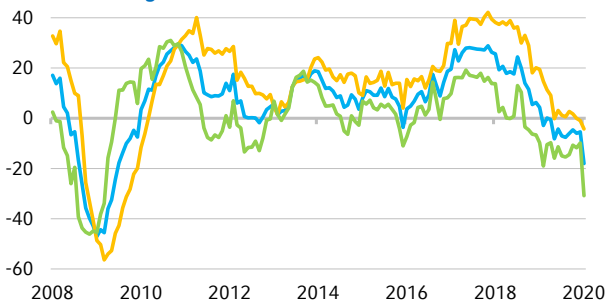
The NRW.BANK.ifo Business Climate indicates a **sharp drop in North Rhine-Westphalia's gdp** for the first half of 2020. The further development is subject to many risks that are difficult to quantify. Nevertheless, there is a lot to suggest that the NRW economy will get back on track after the coronavirus crisis is over or after the shutdown, respectively. After all, unlike during the financial and sovereign debt crisis in 2009, the causes of the crisis are not of a structural nature. The North Rhine-Westphalian economy is generally healthy and competitive. The billions in financial aid quickly made available to the corporate sector and the extension of short-time work also give cause for hope. The primary goal now is to bridge liquidity bottlenecks in the economy to secure as many jobs as possible.

The **NRW.BANK.ifo Business Climate** is based on the ifo Business Climate for the whole of Germany. For this purpose, approximately 1,500 companies from North Rhine-Westphalia are surveyed each month on behalf of NRW.BANK. The companies give their assessment of the current business situation (choice of answers: good / satisfactory / poor) and their expectations for the next 6 months (more favourable / unchanged / less favourable). From the differences between the positive and negative answers, a balance for the current situation and the expectations is formed. The business climate is an average of these two balances. The NRW.BANK.ifo Business Climate is thus an early indicator of the economic trend in North Rhine-Westphalia. A comparison between the situation and the expectations gives an indication of the state of the North Rhine-Westphalian economy in the business cycle.

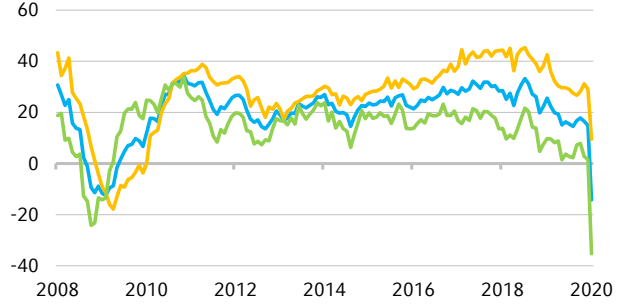
Business Climate by Sector

Balances, seasonally adjusted

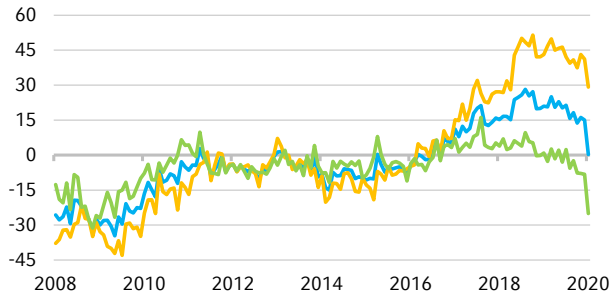
Manufacturing



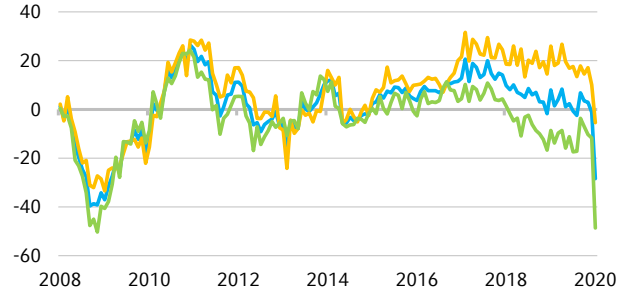
Service Sector



Construction



Trade



— Business Climate — Business Situation — Business Expectations

Source: NRW.BANK, ifo Institute

NRW.BANK.ifo Business Climate

Balances, seasonally adjusted

| Sector | Indicator | 03/19 | 04/19 | 05/19 | 06/19 | 07/19 | 08/19 | 09/19 | 10/19 | 11/19 | 12/19 | 01/20 | 02/20 | 03/20 |
|----------------|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Entire Economy | Climate | 17.5 | 13.2 | 12.7 | 13.1 | 8.9 | 9.1 | 7.5 | 6.0 | 9.2 | 10.7 | 10.0 | 8.0 | -16.3 |
| | Situation | 33.7 | 28.0 | 25.6 | 24.8 | 23.2 | 20.9 | 20.8 | 18.9 | 20.0 | 20.7 | 23.2 | 19.7 | 5.0 |
| | Expectations | 2.3 | -0.6 | 0.6 | 2.1 | -4.4 | -2.0 | -5.0 | -6.2 | -1.2 | 1.1 | -2.5 | -3.2 | -35.4 |
| Manufacturing | Climate | 4.3 | -2.9 | 0.1 | -0.6 | -8.2 | -4.3 | -7.1 | -7.6 | -6.0 | -4.6 | -6.0 | -5.4 | -18.0 |
| Service Sector | Climate | 25.6 | 22.4 | 19.9 | 19.3 | 15.1 | 16.3 | 15.5 | 14.5 | 16.8 | 17.8 | 16.5 | 14.9 | -14.2 |
| Construction | Climate | 21.0 | 20.7 | 25.0 | 20.5 | 22.9 | 20.3 | 21.3 | 15.7 | 18.2 | 13.7 | 16.1 | 15.1 | 0.2 |
| Trade | Climate | 8.0 | 1.5 | 4.2 | 8.3 | 1.1 | 2.4 | -0.7 | -2.5 | 6.8 | 3.5 | 3.0 | -1.1 | -28.4 |

Source: NRW.BANK, ifo Institute

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