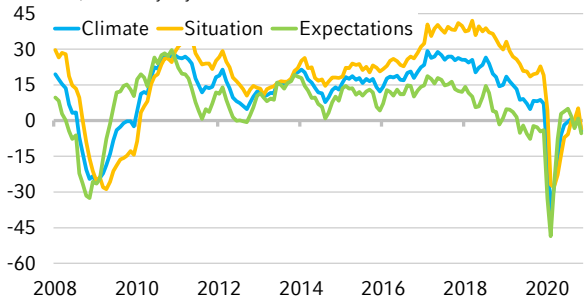


Upturn in NRW economy halted by lockdown

The sentiment in the North Rhine-Westphalian economy deteriorated markedly in January, as companies rated both their current business situation and the outlook for the next six months much worse than before. The second coronavirus wave has interrupted the recovery of the NRW economy for the time being.

NRW.BANK.ifo Business Climate

Balances, seasonally adjusted



Source: NRW.BANK, ifo Institute

January saw the **NRW.BANK.ifo Business Climate** drop sharply by 7.8 points to -4.4 points. This wiped out the recovery seen in the previous months, and the indicator is now back at around the level of July 2020. With the renewed lockdown in place throughout January, the recent deterioration in the business situation came as no surprise. By contrast, the sharp drop in business expectations had not been expected and gives cause for concern. Until now, companies apparently assumed that the lockdown would be lifted soon due to the soon-to-be milder weather and the latest vaccine approvals. But recent events have obviously put a noticeable damper on this optimism. On the one hand, the highly infectious mutations are increasingly spreading in Europe. On the other hand, there have been more and more setbacks in vaccine procurement lately, which means that herd immunity will probably not be achieved before the second half of the year.

The **trade sector** recorded the sharpest drop, with companies describing their current situation as unfavourable for the first time since June 2020. Their scepticism about the coming six months increased significantly. The retail sector, whose climate indicator plunged by close to 40 points, has been hit particularly hard. Due to the restrictions imposed, physical retail stores can generate hardly any revenues, which is why inventories have also increased sharply recently. The sentiment among NRW's wholesalers did not deteriorate quite as strongly, as the sector is not directly affected by the lockdown.

The climate indicator for the **services sector** also dropped noticeably, as more and more companies rated their current situation negatively. Most of them were also sceptical about the business outlook for the next six months. Logistic providers reported a strong drop in orders. The situation in the hospitality sector remains dramatic.

The climate indicator for the **manufacturing sector**, which had previously picked up eight times in a row, declined only slightly. While the decline was attributable to manufacturers' clearly less optimistic expectations, they even rated their current situation somewhat more favourably than in the previous month. Capacity utilisation rose by 1.5 percentage points to 80.8% at the beginning of the year. While this is still below the long-term average, capacity utilisation in the sector is now back to almost pre-crisis levels. Export expectations have also improved noticeably. This cautious optimism is attributable to clarity on Brexit and the US presidency as well as to the start of vaccinations among the major trading partners.

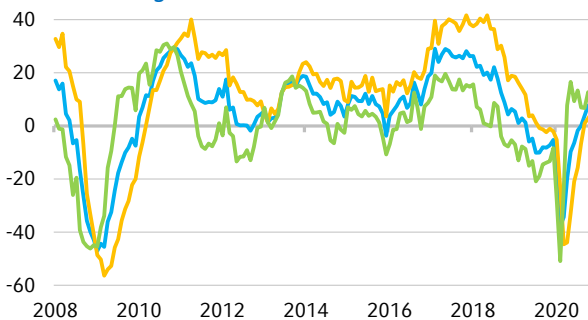
The **construction sector** was the only sector in North Rhine-Westphalia which saw the business climate improve in January. The current business situation was rated increasingly favourably and the pessimism about the future has eased somewhat. The positive development was driven solely by building construction, whereas the climate in the civil engineering segment deteriorated in view of declining orders.

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.

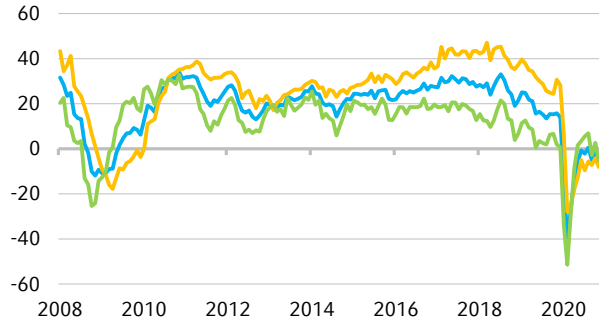
Business Climate by Sector

Balances, seasonally adjusted

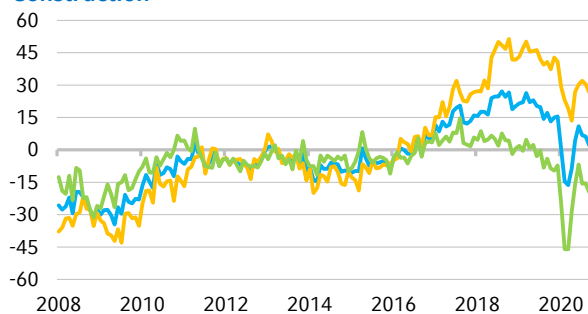
Manufacturing



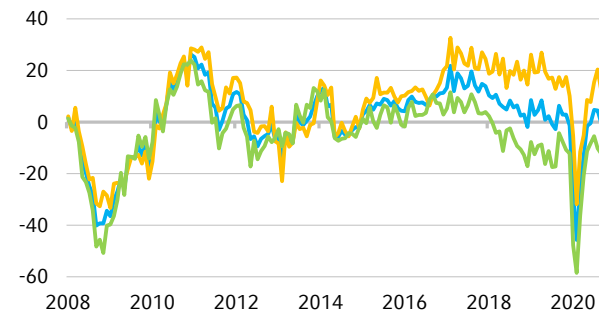
Service Sector



Construction



Trade



— Business Climate — Business Situation — Business Expectations

Source: NRW.BANK, ifo Institute

NRW.BANK.ifo Business Climate

Balances, seasonally adjusted

Sector	Indicator	01/20	02/20	03/20	04/20	05/20	06/20	07/20	08/20	09/20	10/20	11/20	12/20	01/21
Entire Economy	Climate	8,7	7,2	-15,1	-38,1	-28,1	-15,4	-6,2	-1,8	-0,4	0,8	-1,4	3,0	-4,4
	Situation	22,8	19,1	4,4	-26,8	-28,1	-22,8	-14,8	-7,2	-5,8	-0,3	0,3	5,3	-3,5
	Expectations	-4,6	-4,0	-32,7	-48,7	-28,1	-7,7	2,8	3,8	5,1	1,9	-3,2	0,8	-5,3
Manufacturing	Climate	-7,3	-5,3	-16,8	-37,7	-34,3	-19,9	-9,7	-6,4	-1,8	0,1	3,8	7,7	6,2
Service Sector	Climate	15,8	14,1	-14,7	-40,1	-26,6	-13,2	-5,7	-0,8	-2,2	0,6	-5,0	-0,8	-6,6
Construction	Climate	15,0	15,5	0,4	-14,7	-16,3	-8,7	4,3	10,9	6,8	6,2	2,3	1,0	4,4
Trade	Climate	2,9	-1,3	-27,8	-45,7	-24,3	-13,1	-1,6	-0,4	4,7	4,5	-0,4	5,7	-12,7

Source: NRW.BANK, ifo Institute

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