



To the point!

Cross-Asset- and Strategy-Research

German companies are well positioned

In the medium term, labor shortage and bureaucracy weigh on firms

The worst could be prevented. Thanks to prudent political planning, an agile response by companies and efforts by the population to save energy, Germany never even came close to the nightmare of a gas shortage. Of course, the mild winter has also helped mightily (and I don't mean the sub-zero temperatures we're experiencing in the mornings right now!).

Accordingly, the mood among companies has brightened again. The ifo Business Climate Index pointed upward in March for the fifth time in a row. The expectations component is at a 12-month high. But comparing it with last year means setting the bar awfully low. At 91.2, the ifo index of expectations in March was still well below the long-term average since 2005 (96.7) and the 100 mark that separates the wheat from the chaff, namely genuine optimism from pessimism. Negative reports still predominate in all sectors of the economy. It is therefore more accurate to state that while no real confidence is yet apparent, the deep pessimism of the past year is melting in the spring sunshine.

German companies' balance sheets are robust

Accordingly, the consensus forecast of the economists' guild assumes zero growth for Germany in 2023. LBBW Research sees a "red zero" of minus 0.5%. This is anything but a dramatic slump. All the less so as this is likely to be the first recession with quasi-full employment. If the Federal Statistical Office did not compile national accounts, we would probably not notice the economic retrenchment at all. Don't be afraid of the R-word!

But a stagnating or even shrinking economy is certainly not a nullity either. And it is by no means impossible that new challenges



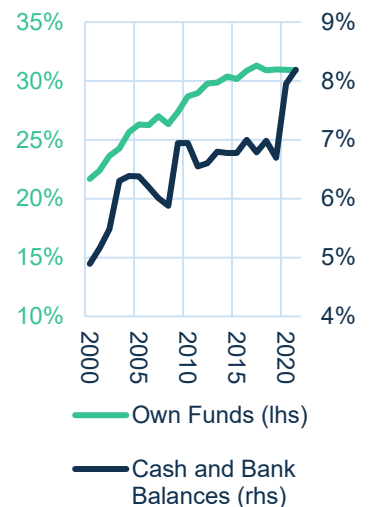
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April 6, 2023

Companies' expectations brighten

Balance sheet ratios of German companies (% of total assets)



Source: Deutsche Bundesbank, LBBW Research

to financial market stability or further geopolitical escalations will cloud the picture once more.

How resilient are German companies to the slowdown and maybe even renewed shocks? Overall, the companies are in a fairly robust financial position. Aggregate data for year-end 2022 are not yet available. But trends for key metrics about companies' financial strength have pointed consistently upward over the past two decades. Equity capitalization has increased from a good 20% of total assets at the turn of the millennium to over 30%. The situation is similar for liquidity (see figure). Particularly in the context of the pandemic, companies have provided themselves with liquidity on a large scale as a precautionary measure. The downturn in 2023 should therefore pass off without major waves of insolvencies and unemployment

Caution behind the curve

It is good that the downturn should proceed without high unemployment. On the other hand, this is also a reflection of the chronic [labor shortage](#), which will become increasingly dominant due to the rapid aging of the resident population. Likewise, the [bureaucracy](#) and the escalating reporting requirements are putting a strain on companies. The comparatively high domestic energy costs also represent a structural constraint.

German companies are likely to weather a mild recession well. But beware: the real challenges lurk behind the current slowdown. Without real reforms in these areas, potential economic growth will continue to decline.

Corporate balance sheets enter the downturn stronger

Without structural reforms, potential growth will continue to decline

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