

WAYES Jahresausblick 2023



Rarely have ups and downs been so close together. The year 2022 was supposed to be a year of recovery after the Corona pandemic, but instead the Ukraine war, rising inflation and skyrocketing energy prices impacted every single branch and social life. Nevertheless, 2023 can be a recovery year for all sectors that have suffered losses due to Corona in recent years - because people increasingly want to get back to pre-Corona life. The topics of sustainability, digitalization and climate protection will continue to be key drivers of change and growth in 2023. In particular, the urgency of innovation is reinforced by the current shortage of skilled workers.

Before we come to an assessment of the economic environment and an insight into individual sectors, here are a few theses for the year 2023:

- We can gradually leave Corona behind. Life is once again more about getting together and social exchange - on site.
- Even during crises, plans for climate and environmental protection are being pursued with vigor in many places.
- Demographic change and the shortage of skilled workers are significantly changing the labor market.
- The shift to resilient processes and structures is a decisive competitive advantage for coming crises.
- We fear that we will have to prepare for a long war. There is a high probability that it will last for years.

Global economy

The economy faces major challenges in 2023. Global economic growth will fall from 3.2% in 2022 to 2.7% in 2023.¹ The OECD expects rather lower growth of 2.2% worldwide, in the euro zone even only 0.5%.² The fact that the USA, China and the euro zone are all in crisis at the same time is a major factor here. In the context of the crisis, the USA has continued to embrace protectionism. As a result, multilateralism (solving problems together) no longer works. This can be seen in the fact that institutions such as the UN, WHO and also WTO are increasingly reaching their limits and losing importance. The trading powers tend to rely on bilateral agreements.

The appreciation of the US dollar against the euro increases the prices of US imports into the euro zone. Due to the strong inflation in the USA, the Federal Reserve had to raise the key interest rate several times in 2022. As a result of the rate hike, the US economy is currently heading for recession. Although the increase in the key interest rate has reduced inflation somewhat, real incomes continue to erode and citizens are increasingly drawing on their savings. It is expected that the crisis will also reach the labor market in the coming months. Developments in China are currently characterized by the sharp rise in Corona figures following the abandonment of the zero-covid strategy. It is expected that the healthcare system will be overloaded in the short term. With a share of approx. 30% of total economic value added, the crisis in the real estate market is still a major problem in China. Tensions with Taiwan make forecasts for the coming year difficult. With growth below 5% in 2023, China continues to lose importance as a global growth engine. India will replace China as the most populous country in the first half of 2023. The onset of the Chinese demographic crisis means that the population will shrink to 766 million by 2100 if birth rates remain constant. India is currently benefiting significantly from China's weakness and various companies are beginning to shift production from China to India, where they will encounter a young and increasingly well-educated population. India is expected to be the third largest economy as early as 2027.

In particular, the war in Ukraine as well as ongoing supply chain problems and the rising costs of food, energy and raw materials continue to create a tense situation in the global economy. The outcome of the Ukraine war remains uncertain. Various scenarios show the uncertainty and insecurity involved. However, Europe's only cautious military intervention dampened the build-up. The path of diplomacy characterizes the conflict on the part of the West.

National economy

While industry and the retail sector had to contend primarily with restrictions caused by Corona last year, the three biggest challenges for 2023 are the extreme rise in energy prices, the shortage of skilled workers and high inflation. Particularly in energy-intensive sectors such as the chemical, paper and metal industries, high energy costs can have an existential impact on companies. Rising energy prices will lead to a competitive disadvantage for Germany as a business location in international comparison. In addition, the high prices are also having a negative impact on the purchasing power of consumers in Germany. The German economy is likely to slip into recession for the second time in three years.

¹ <https://de.statista.com/statistik/daten/studie/197039/umfrage/veraenderung-des-weltweiten-bruttoinlandsprodukts/>

² https://www.zeit.de/wirtschaft/2022-11/oecd-wirtschaftswachstum-weltweit-2023-rueckgang?utm_referrer=https%3A%2F%2Fwww.google.com%2F

The shortage of skilled workers is in obvious conflict with the high cost of labor. Although skilled workers are desperately sought and needed, especially in sectors that have to develop at breakneck speed as a result of new technologies, many companies can hardly afford the high wage costs. Demographic change and the dynamic development of digitization are contributing to the fact that vacancies are being created faster than they can be filled. But many other sectors, such as the skilled trades, catering, childcare and geriatric care, are also increasingly suffering from the shortage of skilled workers. Despite the stagnating economy, the number of vacancies remains at an unprecedented level. With collective bargaining agreements being renegotiated this year for some 11 million employees, the risk of a wage-price spiral continues to rise.

The German government's electricity price cap is intended to offset high energy prices from March 2023. This support could also increase purchasing power in Germany again and boost the economy. To further counter the persistently high inflation rate, the ECB has already announced further interest rate steps. A further rise in interest rates to 3% is likely. Further liquidity will be withdrawn from commercial banks as a result of the tapering of bond holdings from March. This is likely to further dampen economic activity. The lower inflation rates in 2023 will mainly be due to a statistical effect, as the prior-year comparatives from March already include the effects of the Ukraine war. A further effect will result from price declines for raw materials, semiconductors and falling freight rates in global shipping. Given the current growth in the money supply, it can be assumed that the inflation rate will remain at around 7% in the next two years. This is also due to the fact that companies have so far only passed on a third of their increased costs to customers.

The German business model, which is characterized by innovation and has benefited in the past from low energy costs and open global markets, is thus facing a transformation process in 2023.

Logistics

The Supply Chain Due Diligence Act (LkSG) will come into force on January 01, 2023. This is intended to improve the international human rights situation by making companies responsible for ensuring that human rights are observed and protected within the supply chain.³ From 2023, companies with a workforce of at least 3,000 - and from 2024 of at least 1,000 - must fulfill this due diligence obligation. The due diligence obligations include, among other things, the establishment of a risk management system and a risk analysis, as well as the anchoring of preventive measures in the company's own business operations and vis-à-vis direct suppliers.⁴

The high demand for consumer goods in 2020 and 2021 resulted in a strong increase in freight rates. This circumstance, together with the limited capacity of old container ships, therefore led to a sharp rise in container freight prices. Shipyards responded to this change in demand by increasing the production of container ships with higher capacities, so that order books are in some cases significantly full. In the meantime, the congestion off the major seaports has eased and new, shorter supply chains have been formed as a result of the

³ <https://www.bmas.de/DE/Service/Gesetze-und-Gesetzesvorhaben/gesetz-unternehmerische-sorgfaltspflichten-lieferketten.html>

⁴ <https://www.bmas.de/DE/Service/Gesetze-und-Gesetzesvorhaben/gesetz-unternehmerische-sorgfaltspflichten-lieferketten.html>

delivery problems. This has brought about a massive drop in freight rates, which in turn presents shipping companies with new problems.



The topic of digitization is also driving logistics. In the USA, for example, Amazon is currently testing delivery by drone under the name "Prime Air". After placing an order, the customer receives a status tracker and the package is then sent by airmail to the specified location, such as the garden. Freight shipments could soon be sent by drone system on a larger scale as well. The Californian start-up Natilus is developing a drone system that will be able to carry up to 130 tons of freight over long distances.⁵

Retail

Supply chain problems, high costs for resources, increasing online trade and the dwindling supply in the city centers are challenging the retail sector. Downtowns are changing: in addition to small stores, large chain stores such as Görtz and Galeria Karstadt Kaufhof are particularly affected by insolvency. Retailers are looking ahead to the current year with great concern. Many consumers will be shocked when they receive their notices of additional payments and higher charges for electricity and gas in the coming weeks. This will lead to permanent savings in consumption.

High energy and raw material prices have also reached the retail sector and are making food significantly more expensive. More and more consumers are turning to low-priced private labels and conventional fruits and vegetables instead of brand-name products and organic produce. Consumers' perception of sustainability has not changed, but buying more expensive organic and environmentally friendly products is becoming increasingly difficult for many. Reduced purchasing power will be a challenge for both producers and retailers in 2023.

⁵ <https://www.trendsderzukunft.de/ab-2023-drohnen-in-rochenform-sollen-autonom-bis-130-t-fracht-transportieren/>



Construction industry and real estate

The end of the zero interest rate policy is having an impact on real estate prices. As a result of the rise in inflation, the ECB has had to raise the key interest rate significantly. Pressure from the increase in the key interest rate by the FED is also leading to the ECB wanting to raise the key interest rate even further in order to compensate for the inflation of US imports. The construction industry is more dependent on interest rate developments than any other sector. Interest rates for ten-year mortgages have tripled in 2022.⁶

In addition to higher financing costs, the construction industry and the real estate market are also being negatively impacted by material shortages, delivery difficulties, funding restrictions for energy-efficient new buildings and the shortage of skilled workers. The construction industry is talking about a wave of cancellations. The government's target of 400,000 new homes will probably only be met in half by 2024. The shortage of housing and the slowdown in construction activity are therefore counteracting the sharp drop in property prices, and properties with a high level of energy efficiency continue to command prices that are up to 35% higher.⁷ In contrast, demand for rental housing is rising significantly, partly due to growing immigration from Ukraine.⁸ All in all, the housing industry is facing a severe crisis. In commercial construction, the situation is no better due to increased costs, as a large number of companies have drastically reduced planned investments. Public construction cannot compensate for this. Higher construction costs are leading to fewer construction projects, as the investment budgets of the federal, state and local governments are limited. In contrast to previous years, the construction sector will now put the brakes on the economy.

⁶ https://www.interhyp.de/ratgeber/was-muss-ich-wissen/zinsen/zins-charts/#hl_48146_2

⁷ https://buveg.de/wp-content/uploads/2022/09/Studie_BuVEG_IS24_Preisstegierungen_Nachfrage_2022.pdf

⁸ <https://www.manager-magazin.de/finanzen/immobilien/immobilien-preise-fuer-wohnmobilien-fallen-2023-um-bis-zu-sechs-%a-c9f042df-780c-465e-a7f9->



Automotive industry

The automotive industry is also feeling the challenges in terms of supply chain problems and high energy prices. In November 2022, 16% of automakers were reducing their production, and 17% were even planning to relocate it altogether.⁹ Automotive manufacturers were confronted with lower demand for new cars and rising labor costs due to new labor contracts, which resulted, among other things, in fewer new cars being sold worldwide than at any time in the last ten years. However, despite the low supply, cars were sold at lower discounts than in previous years. High-margin models in particular achieved higher sales volumes, as these were also more readily available due to preferential production conditions. Overall, this resulted in record profits for the auto manufacturers, despite higher costs for energy, inflation and production downtime. The picture for automotive suppliers, on the other hand, is different. They continue to face enormous cost pressure, supply chain problems and a shortage of skilled workers. Above all, the higher costs can only be passed on to OEMs and Tier 1s to a limited extent. The effect will be intensified by the further transformation to e-mobility.

However, the automotive industry is also part of the solution to climate change, which creates opportunities. Investments in electromobility, battery technology and digitalization are historically high in the automotive sector at 220 billion euros by 2026.¹⁰ However, this is countered by the reduction in the government subsidy for the purchase of electric cars. This is set to fall from 9,000 to 4,500 euros in 2023.¹¹ From September 2023, the environmental bonus will also be restricted to private individuals. In particular, the spread between the new car prices of electric cars and internal combustion vehicles in the small car segment is too wide without the environmental bonus and reduces the attractiveness of small electric cars. Demand for purely electric cars will therefore probably stagnate in 2023.¹²

⁹ <https://www.handelsblatt.com/politik/deutschland/dihk-konjunkturumfrage-industrie-steckt-in-der-energiefalle-unternehmen-drosseln-produktion/28780328.html>

¹⁰ <https://www.herz-der-wirtschaft.de/die-automobilindustrie-teil-der-loesung-im-klimawandel/>

¹¹ <https://www.handelsblatt.com/unternehmen/industrie/autoindustrie-studie-sagt-ende-des-elektroauto-booms-fuer-2023-voraus/28838980.html>

¹² <https://www.zeit.de/mobilitaet/2016-01/elektroauto-nachfrage-verkauf-batterie-leistung>

Mobility

The law on automated driving, which already came into force in 2017, is to be extended in 2023. Up to now, vehicles have only been allowed to drive on German roads up to level 3 of autonomous driving. Here, the vehicle is allowed to take over driving tasks independently under certain conditions. However, a driver is permanently required. From 2023, level 4 vehicles will also be permitted. This means that autonomous vehicles "will be able to drive in defined operating areas on public roads in regular operation."¹³ With this regulation, Germany is to be the first country in the world to take on a pioneering role.



The 9-euro ticket is to be replaced by the 49-euro "Deutschland-Ticket" from spring 2023. However, there is criticism that differences in the quality of public transport services can no longer be represented by the price.¹⁴ It is feared that quality will suffer as a result of the Deutschlandticket, especially in cities. It could also result in additional costs due to higher passenger volumes, especially in the areas of cleaning and safety. With the increase in capacity and attractiveness of rail, a trend away from short-haul air travel to rail has been set in motion in recent months.

The signs for air traffic are pointing to a cautious recovery, supporting the industry's hopes for 2023 that air traffic will slowly return to pre-Corona levels. Because of the Corona pandemic, the airline industry remains in the midst of the greatest crisis in its history, even at this moment. Many airlines continue to operate only a fraction of their fleet.¹⁵ It remains to be seen how passengers will react to further increases in airfares.

Energy

The summer and fall were used to fill the gas storage facilities, which resulted in a high increase in gas prices, among other things. However, even though the German gas storage facilities have been filled for the time being and will probably be sufficient for the current winter, they will have to be refilled again for the winter of 2023/2024. Since gas supplies from Russia have ceased completely, it remains to be seen which natural gas suppliers will

¹³ <https://bmdv.bund.de/SharedDocs/DE/Artikel/DG/gesetz-zum-autonomen-fahren.html>

¹⁴ <https://www.faz.net/aktuell/wirtschaft/49-euro-ticket-risiken-der-flatrate-18523561.html>

¹⁵ <https://www.abendblatt.de/reise/article229052149/Normalisierung-des-Flugverkehrs-koennte-Jahre-dauern.html>

replace Russia. A contract has already been signed with Qatar to supply LNG over the next 15 years, and the first LNG terminal has been built in Wilhelmshaven.



Even though the signs point to renewable energies, the share of coal energy for power generation has increased in 2022.¹⁶ However, wind power is moving into second place for energy generation, showing that electricity from renewable energies is feasible and should be further expanded. The "Wind-an-Land-Gesetz" is intended to do just that. The law, which comes into force on February 1, 2023, is intended to designate 2% of the land area in Germany for wind power at the state level.¹⁷ In addition, planning and approval procedures are to be accelerated in order to be able to generate electricity from renewable energies more quickly. In 2022, 14% more electricity was generated from renewable energies than in 2021. Binding area targets are to ensure that 1.4% of Germany's land area is available for wind energy by 2027.¹⁸

In the private sector, too, the new EEG will make it easier to commission photovoltaic systems, for example. Solar modules will continue to be subsidized and, if installation on the roof is not possible, may be installed in the garden as an alternative. The aim of the EEG 2023 is to significantly boost the expansion of photovoltaic systems - initially from 7 to 9 gigawatts, and from 2026 even up to 22 gigawatts.¹⁹

Pharmaceuticals and healthcare

Rising costs for energy, medicines and technology, the shortage of skilled workers, the after-effects of the Corona pandemic and digitization are topics that will occupy the healthcare sector in 2023. Hospital insolvencies are direct consequences of these factors - it is expected that one in three hospitals could face serious liquidity difficulties in 2023.²⁰ Hospitals are under economic pressure but, unlike companies, cannot simply raise prices. The sharp rise in costs thus becomes a downward spiral.

¹⁶ <https://www.tagesschau.de/wirtschaft/technologie/stromerzeugung-erdgas-atomkraft-erneuerbare-energie-kohle-strommix-windkraft-wasserkraft-101.html>

¹⁷ <https://www.bundesregierung.de/breg-de/themen/klimaschutz/wind-an-land-gesetz-2052764>

¹⁸ <https://www.bundesregierung.de/breg-de/themen/klimaschutz/wind-an-land-gesetz-2052764>

¹⁹ <https://www.verbraucherzentrale.de/wissen/energie/erneuerbare-energien/eeg-2023-das-aendert-sich-fuer-photovoltaikanlagen-75401>

²⁰ <https://www.tagesspiegel.de/berlin/berliner-wirtschaft/insolvenzexperte-uber-klinik-pleiten-jedem-dritten-krankenhaus-drohen-liquiditatsprobleme-8963182.html>



According to Karl Lauterbach, the Federal Minister of Health, the biggest hospital reform in 20 years is to be implemented in 2023. The aim of this reform is that hospitals will no longer be financed via so-called flat rates per case, or that the flat rates will be increased to such an extent that the hospitals can support themselves. In the current situation, the amount of hospital remuneration is based on the diagnosis treated. As a result, less lucrative areas are often neglected.²¹ Small hospitals in rural areas in particular can hardly treat enough lucrative cases to be in the black. Linking reimbursement to treatment creates high economic pressure. In addition, fewer patients are to be admitted as inpatients. According to Lauterbach, nursing staff is being used inefficiently, which puts an additional burden on them.²² The new hospital reform is intended to change exactly that. From January 1, 2023, the trial phase will start with a practical test of the Hospital Care Relief Act (KHPfIEG). This is intended to shift the focus from economic constraints to medical necessity.²³

The Hospital Future Act (KHZG) already came into force on October 29, 2020. This will provide hospitals in Germany with 3 billion euros to invest in modern emergency capacities, digitization and IT security.²⁴ To this end, a new position has also been created for each hospital - "Head of Clinical Processes & Digitization". This is responsible for coordinating the design and change processes. The KHZG is intended to modernize workflows and processes in the long term and implement future-proof technology. But implementation is a mammoth task for hospitals.²⁵

Trade fairs, tourism and gastronomy

Significantly more trade shows are to be held in 2023 than in 2022. 340 trade shows are already planned in 2023, and as many as 120 in the first quarter. In comparison, only 18 trade shows were planned in 2022 in the same period, due to Corona restrictions.²⁶ From this point of view, 2023 could be a good trade show year again for the first time since the start of the Corona pandemic. However, the energy price issue also diminishes hopes for a smooth trade show year in this industry.

21 <https://www.tagesschau.de/inland/innenpolitik/fallpauschalen-lauterbach-101.html>

22 <https://www.merkur.de/wirtschaft/krankenhausreform-lauterbach-pflegekraefte-ambulante-behandlungen-entlasten-91858496.html>

23 <https://www.bundesgesundheitsministerium.de/ministerium/gesetze-und-verordnungen/guv-20-lp/khpfleg.html>

24 <https://www.bundesgesundheitsministerium.de/krankenhauszukunftsgesetz.html>

25 <https://www.management-krankenhaus.de/restricted-files/152439>

26 <https://www.presseportal.de/pm/166321/5383100>

The tourism industry is gradually recovering from the lockdowns and travel restrictions of the past two years. In December 2022, the number of bookings for summer 2023 was already 50% higher than at the same time in 2021.²⁷ However, the Corona years were formative and flexibility and security in particular continue to be important factors when booking a trip.



For the hotel industry, rising energy costs and the shortage of skilled workers are the biggest challenges in 2023. However, price increases in general and inflation are also critical or even threaten the existence of many businesses. 40% of all businesses in the hospitality industry fear losses in the current year due to high costs for energy, food and rent. This is exacerbated by the lack of personnel. To counter customer reticence, the hospitality industry will also have no choice but to digitize further and develop new ideas. In hotels, for example, the first robots are already working in the service area.

Challenges across industries

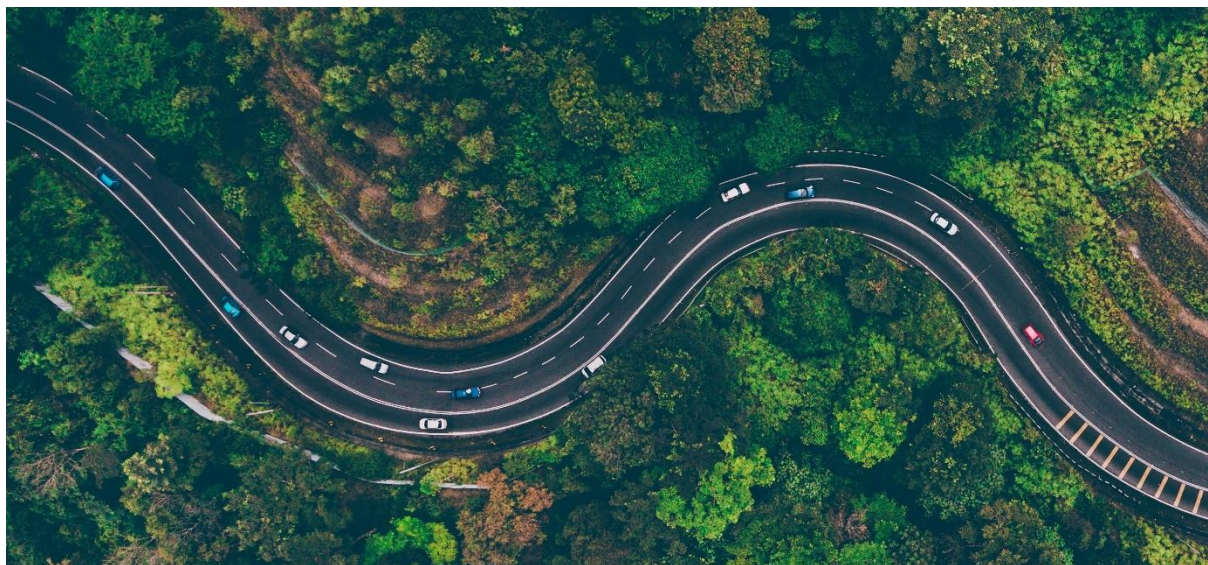
In 2023, sustainability and digitization will remain the top issues for the economy and society. However, the energy crisis, increasing armed conflicts (economic and military), demographic change and the shortage of skilled workers are challenges that affect every sector in Germany.

From January 01, 2023, further parts of the European regulation on sustainability will come into force. The ESG regulations cover the areas of environment (Environmental), social (Social) and responsible corporate management (Governance). In addition to the two existing environmental goals - climate protection and adaptation to climate change - four further goals will be added: (1) the transition to a circular economy, (2) the prevention and control of environmental pollution, (3) the protection of water and marine resources, and (4) the protection of biodiversity and ecosystems. In addition, from 2023, companies with 250 or more employees will also have to provide information on environmental, employee and social issues and on combating corruption and bribery in a sustainability report. The obligation to provide this information was previously limited to companies with 500 or more employees.²⁸

²⁷ <https://www.presseportal.de/pm/111415/5393453>

²⁸ <https://www.csr-berichtspflicht.de/csr-d>

High energy prices are putting the brakes on investment in climate and environmental protection at many companies. In recent years, it has become increasingly clear that climate protection is not only indispensable for companies, but also worthwhile. A lot of money can be saved, for example, by converting to lower-CO2 heating systems or to electric vehicles in the company pool. However, the high energy prices are threatening the existence of many companies and the goal of climate neutrality is moving down the list of priorities in some areas. Many companies will hardly be able to compensate for the permanently higher energy prices and are at risk of insolvency. The question of the economy's fate will be: Can the companies that profit from the "green" transformation compensate for the losses that are to be expected from the migration of particularly energy-intensive sectors?



Demographic change will continue to fuel the shortage of skilled workers in the coming years. But one result of this will also be that we will increasingly have to deal with robots in restaurants and factories - just a few years ago, scientists were predicting that robots and AI would soon put millions of people out of work. Now they can't come fast enough to take over all the jobs that no human is applying for anymore. While recruiting will thus be one of the most pressing personal issues in the coming years, if there are too few applicants on the market, it is important, especially in the coming years, to rely on the resources you have - your own employees. Promoting and developing skills and competencies, as well as expanding and restructuring corporate processes to create more resilient structures, are among the most important means of gaining a sustainable competitive advantage and compensating for the shortage of skilled workers.