

Berlin *Konjunktur*

The second coronavirus wave slows down recovery

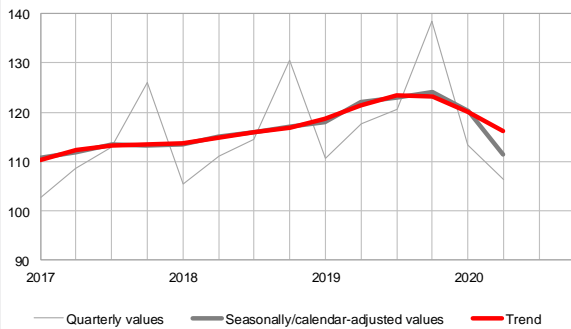
November 2020

Contents

Trends	3
Summary	
The Covid crisis is not over	4
Business services	
Coronavirus hits the industry hard	6
The digital economy as a driving force	6
Industry	
Industry in Berlin holds its own against coronavirus	8
Exports	
Coronavirus slows down Berlin's exports	10
Strong demand for pharmaceutical products	10
Main construction trades	
Building permits stagnate	12
Slowdown due to capacity bottlenecks and corona	12
Tourism	
Guest numbers plummet to 3.9 million by August	14
Bleak prospects for tourism	14
Retail	
Revenues stagnate until August	16
Hospitality sector	
Sales up to August slump by 44.9%	18
Start-ups and insolvencies	
Up until August, 13.5% fewer company registrations	20
Obligation to file for insolvency still suspended	20
Labour market	
Coronavirus puts a halt to Berlin's job miracle	22
Taxes and loans	
Tax revenues down due to coronavirus	24
Loan portfolios down by 5.3%	24
Conclusion	
The second wave slows down recovery	26

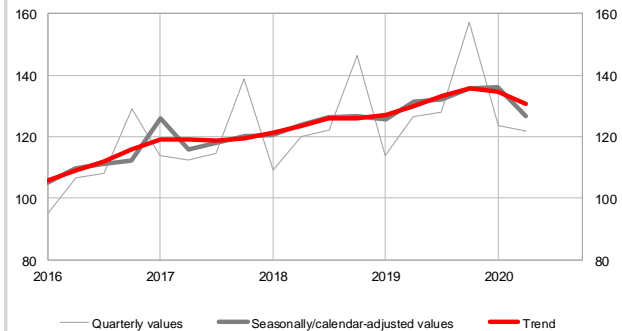
Seasonally and calendar-adjusted economic data/trends

Total business services
Sales/revenues from self-employed activity, (2015 = 100)



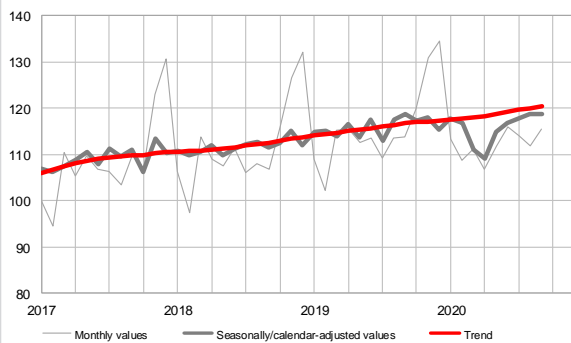
Source: Statistical Office for Berlin-Brandenburg, calculations by IBB

Including freelance, scientific and technical services
Sales/revenues from self-employed activity, (2015 = 100)



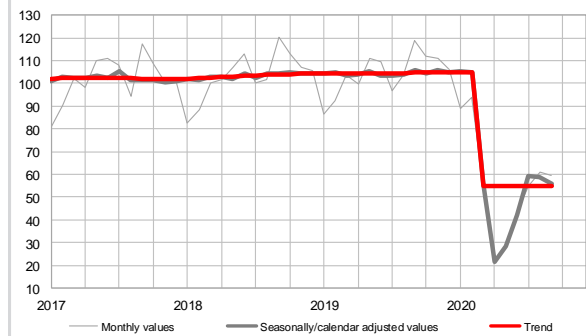
Source: Statistical Office for Berlin-Brandenburg, calculations by IBB

Retail trade
Sales (2015 = 100)



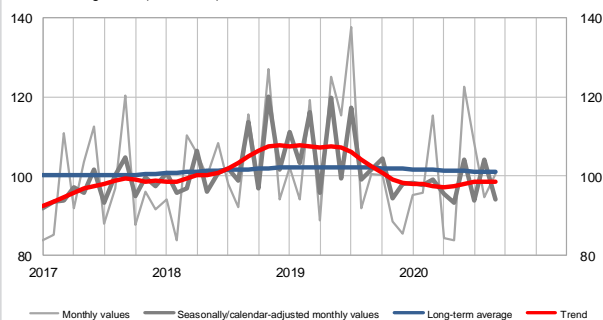
Source: Statistical Office for Berlin-Brandenburg, own calculations

Hospitality sector
Sales (2015 = 100)



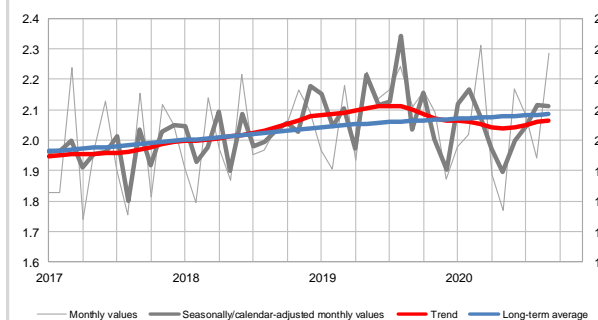
Source: Statistical Office for Berlin-Brandenburg, own calculations

Manufacturing sector
Total incoming orders (2015 = 100)



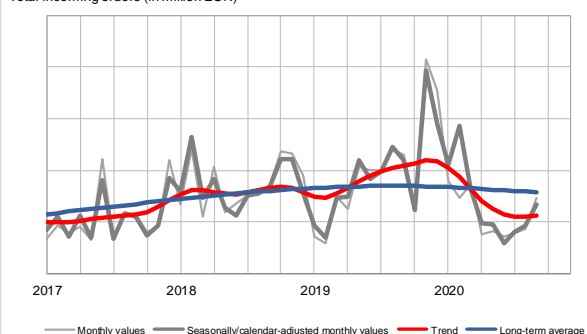
Source: Statistical Office for Berlin-Brandenburg, own calculations

Manufacturing
Total sales (in billion EUR)



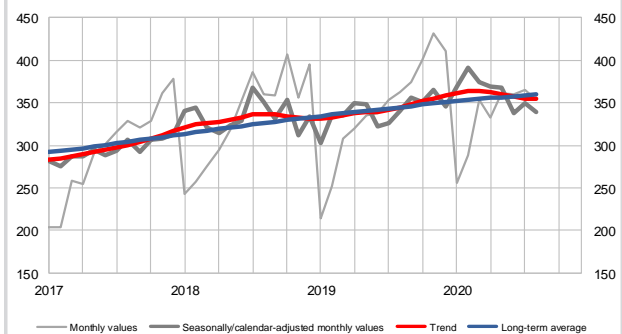
Source: Statistical Office for Berlin-Brandenburg, own calculations

Main construction trades
Total incoming orders (in million EUR)



Source: Statistical Office for Berlin-Brandenburg, own calculations

Main construction trades
Turnover (in million EUR)



Source: Statistical Office for Berlin-Brandenburg, own calculations

Summary

The Covid crisis is not over

Following a severe slump of 5.1% in the first half of 2020, Berlin's economy initially recovered faster than forecast at the start of the third quarter. However, rapidly rising infection figures in October highlight the risks for the last quarter. Restrictions in public and private life as well as for parts of the hospitality sector are again increasing significantly. Another lockdown in the last two months of the year would certainly have a negative impact on economic recovery in the fourth quarter, which would be more hesitant with a somewhat flatter growth trend. Moreover, the uncertainty brought about by the pandemic will put a damper on investment, thus leading to a decline in demand for financing, especially since the reintroduction of the obligation to file for insolvency will increase the number of insolvencies.

During the 2009 crisis, despite a 1.1% decline in GDP, Berlin's economy was still able to maintain a 4.6 percentage point lead over the national figure (-5.7%). In 2019, GDP in Berlin grew by 3.0%, marking a 2.4 percentage point lead over the growth recorded by the federal government. This positive difference compared to growth for the rest of the country is largely based on the above-average development recorded by many of Berlin's service sectors. During the Covid crisis, this difference has now narrowed to just 1.5 percentage points. Looking at the year as a whole, Berlin's GDP is likely to decline by around 6% in 2020 with 4% growth expected for 2021. That being said, the economic levels reached in 2019 are not likely to be seen again until 2022.

Hotels and restaurants particularly hard hit

The hospitality sector together with the arts, recreation and entertainment sector account for an above-average share of Berlin's overall economic output, i.e. 2.5% and 6.2% respectively (Germany: 1.6% and 3.8%), and will continue to feel the effects of Covid-19 for a long time to come. After all, travel restrictions and quarantine rules will continue to slow down international tourism for a long time to come. Due to the crisis, many people also lack the money to travel. Restaurants and entertainment businesses have been required to close down for the most part due to the second wave of coronavirus in November. In 2020, the hospitality sector could lose more than 30% of the previous year's gross value added. In the period from January to August, sales were already down by 44.9% compared to the same period of the previous year.

Coronavirus puts the brakes on job miracle

By August 2020, the number of people in regular jobs once again rose compared to the previous year, up by 10,910 to 1.55 million. With a growth rate of 0.7%, Berlin continues to lead the field and

is 1.0 percentage points above the average for all of Germany's federal states combined. The sharp rise in unemployment figures at the beginning of the Covid crisis declined slightly in autumn. In October 2020, 204,792 people were still registered as unemployed. This corresponds to an unemployment rate of 10.2% (Germany: 6.0%) – 0.3 percentage points below the previous month's figure and up 2.4 percentage points against the same month of the previous year. If the number of people undergoing vocational integration or continuing professional development is also included in the unemployment figure, the number increases to 256,078 underemployed people (12.4%). The crisis is also reflected by the number of applications for short-time work. In Berlin, 39,965 companies applied for short-time work for 417,462 people during the crisis up until October.

Services sector impacted by coronavirus

Business services are an important pillar of Berlin's economy and account for almost 30% (EUR 70 billion in 2019) of sales recorded in Berlin. However, this sector has been particularly hard hit by the consequences of the coronavirus pandemic. Revenues in the first half of 2020 fell by 3.7% year-on-year, slightly less than the figure for Germany as a whole (-6.5%). The industry, however, has been hard hit by measures to contain coronavirus and by declines in industrial production. According to the latest coronavirus survey by Berlin's Chamber of Industry and Commerce, one fifth of service companies currently fear insolvency.

Industry in Berlin faring better than the rest of the country

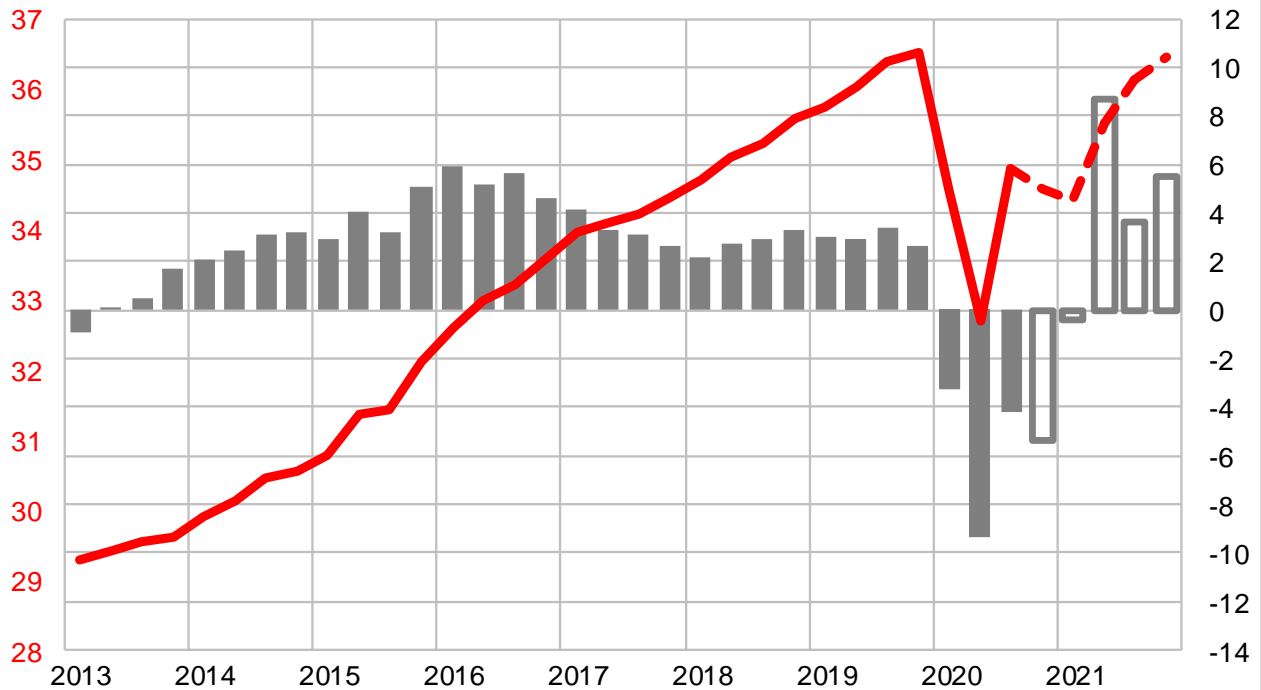
Although Berlin's industry is not immune to the effects of the Covid crisis, good order intake in the traditionally strong pharmaceutical industry and the electrical industry is likely to lessen the blow for this sector. By August 2020, sales figures for industrial companies in Berlin fell by only 3.5% compared to the same period of the previous year, whereas Germany as a whole recorded a decline of 13.2%. Orders were down by 8.5%. In contrast, manufacturers of electrical equipment (+16.2%), chemical products (+4.2%) and pharmaceutical products (+2.6%) recorded more orders during the pandemic period. But the closure of production plants, interrupted supply chains and the collapse in demand due to the coronavirus pandemic are hitting Berlin's industry hard in 2020.

Construction industry feeling the effects of capacity bottlenecks

Building permits for apartments stagnated at 14,550 (+0.2%) in the first eight months of 2020. Due to the Covid crisis, public offices were only able to work to a limited extent and the approval backlog is likely to increase.

GDP development in Berlin

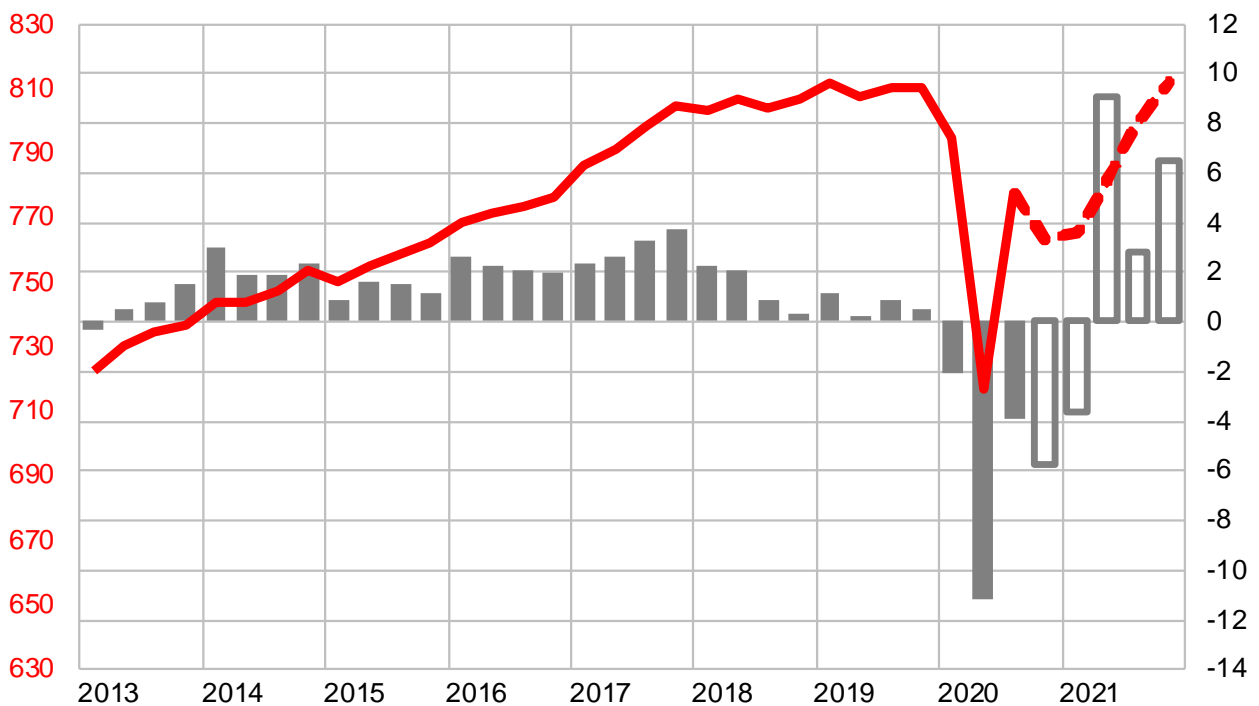
Billion EUR in 2015 prices (left scale), growth rates against the previous year in % (right scale)



Source: Statistical offices of the federal states, own calculations

GDP development in Germany

Billion EUR in 2015 prices (left scale), growth rates against the previous year in % (right scale)



Source: Destatis; own calculations

Business services

Coronavirus hits the industry hard

Business services are an important pillar of Berlin's economy and account for almost 30% (EUR 70 billion in 2019) of sales recorded in Berlin. However, this sector is particularly hard hit by the consequences of the coronavirus pandemic. Revenues in the first half of 2020 fell by 3.7% year-on-year, slightly less than the figure for Germany as a whole (-6.5%). Restrictions on travel and public transport are a burden on service companies, and the decline in production in industry is also likely to have a delayed effect.

In the first half of the year, the complete discontinuation of international tourism, trade fairs and business trips already weighed heavily on aviation (-56.3%) and travel agency revenues (-49.5%). Sales recorded by other services for companies, which include secretarial services and trade fair and congress organisers, were also down (-23.4%). Passenger and freight transport (-15.6%) was impacted by the interruption in logistics chains as well as the decline in travel and general demand. By contrast, postal and courier services benefited from the exceptional situation (+20.0%).

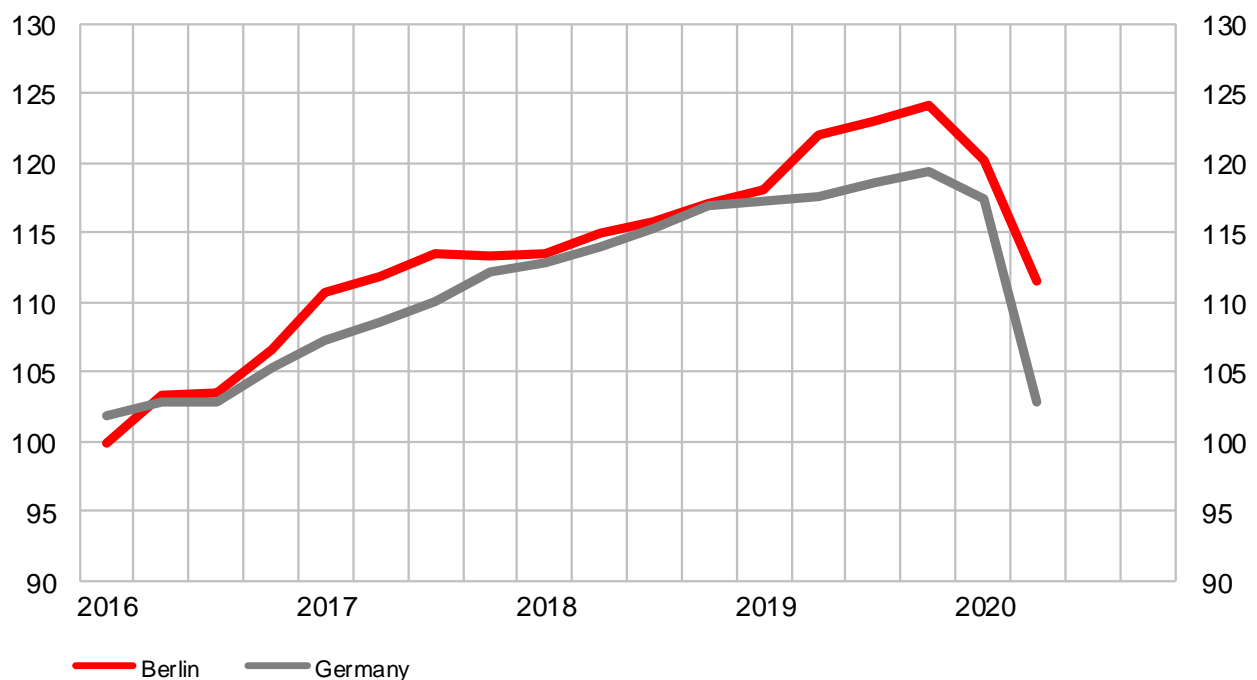
The digital economy as a driving force

The digital economy has expanded its role as a growth driver. Information services (+16.2%) and information technology (+6.0%) recorded rising sales. Auditors and tax auditors are also doing well in the crisis (+5.7%). Berlin's digital economy is likely to continue to profit from the digitalisation push being pursued by companies.

In recent years, business service companies were responsible for the majority of new jobs in Berlin. A total of 633,400 people are employed in this sector. In the first half of 2020, the number of people working in this sector was up 1.9% against the previous year. Employment growth is thus much stronger than the growth recorded for service companies in Germany as a whole (-0.9%) and for overall employment in Berlin (+0.7%). This growth was driven by new jobs in the information and communication sectors (+6.8%). According to a survey by Berlin's Chamber of Industry and Commerce, however, small service companies, in particular, are planning to cut back on staff in the future due to coronavirus.

Business services – sales development

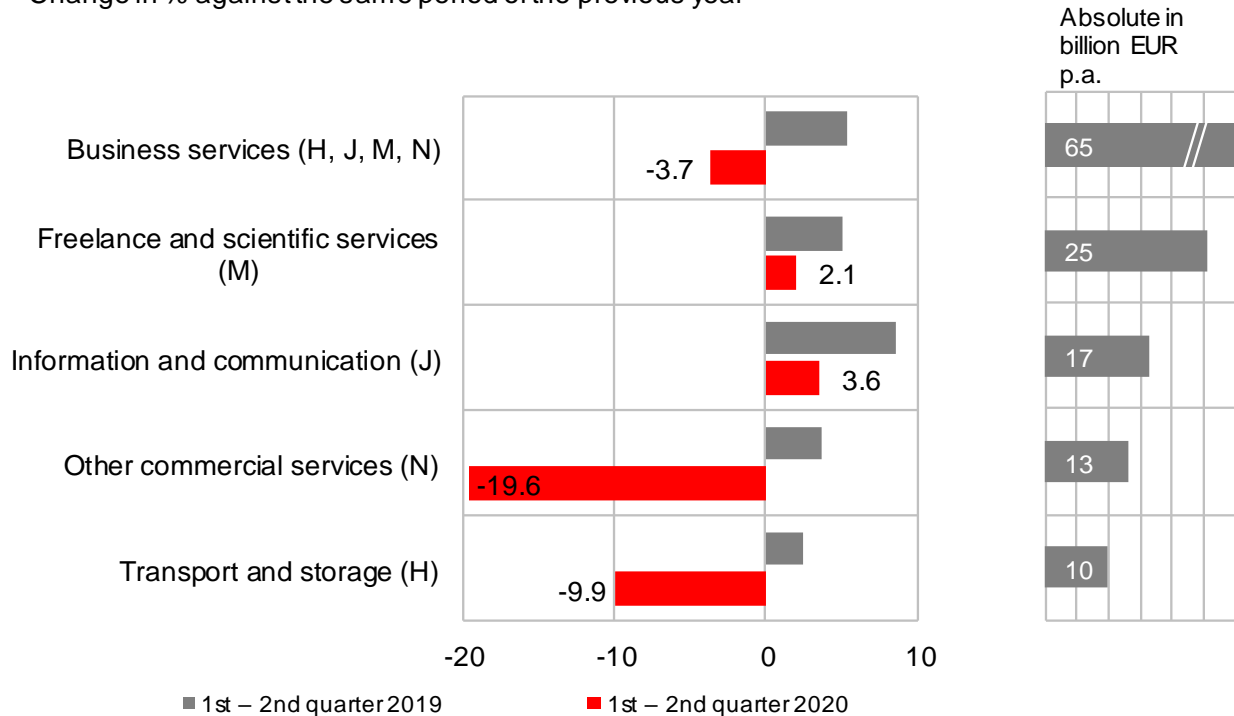
2015 = 100; seasonally/calendar-adjusted quarterly values



Source: Statistical Office for Berlin-Brandenburg, Destatis, own calculations

Business services – sales trend

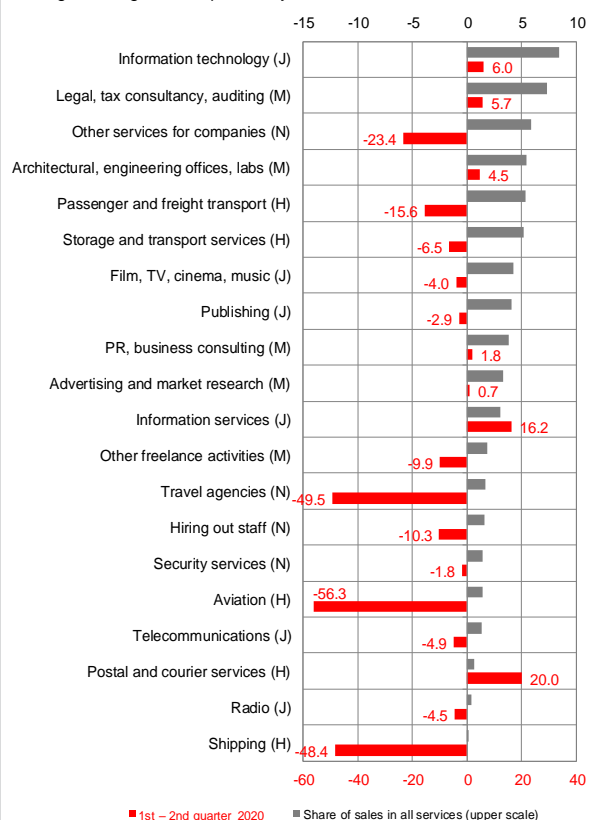
Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Selected services sectors – sales trends

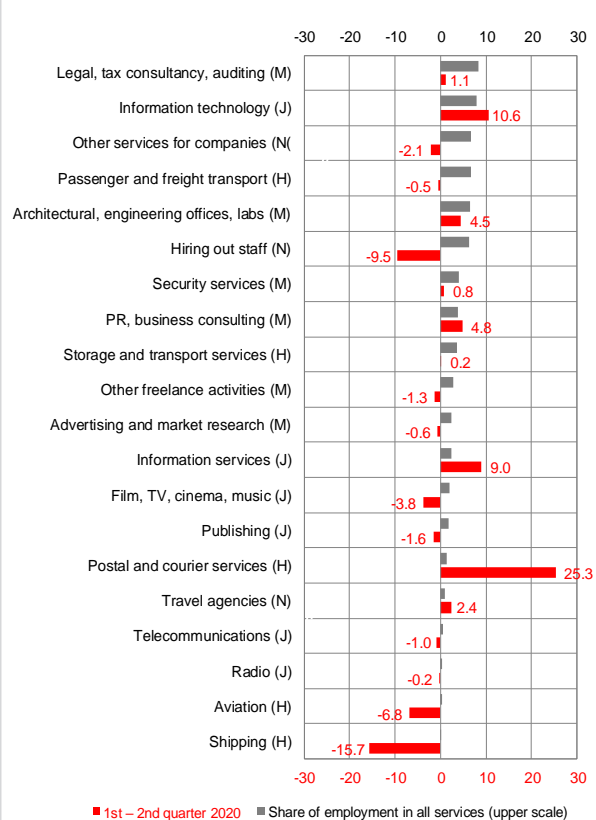
Change in % against the previous year; % share in sales



Source: Statistical Office for Berlin-Brandenburg, own calculations

Selected services sectors – employment trends

Change in % against the previous year; % share in employment



Source: Statistical Office for Berlin-Brandenburg, own calculations

Industry

Industry in Berlin holds its own against coronavirus

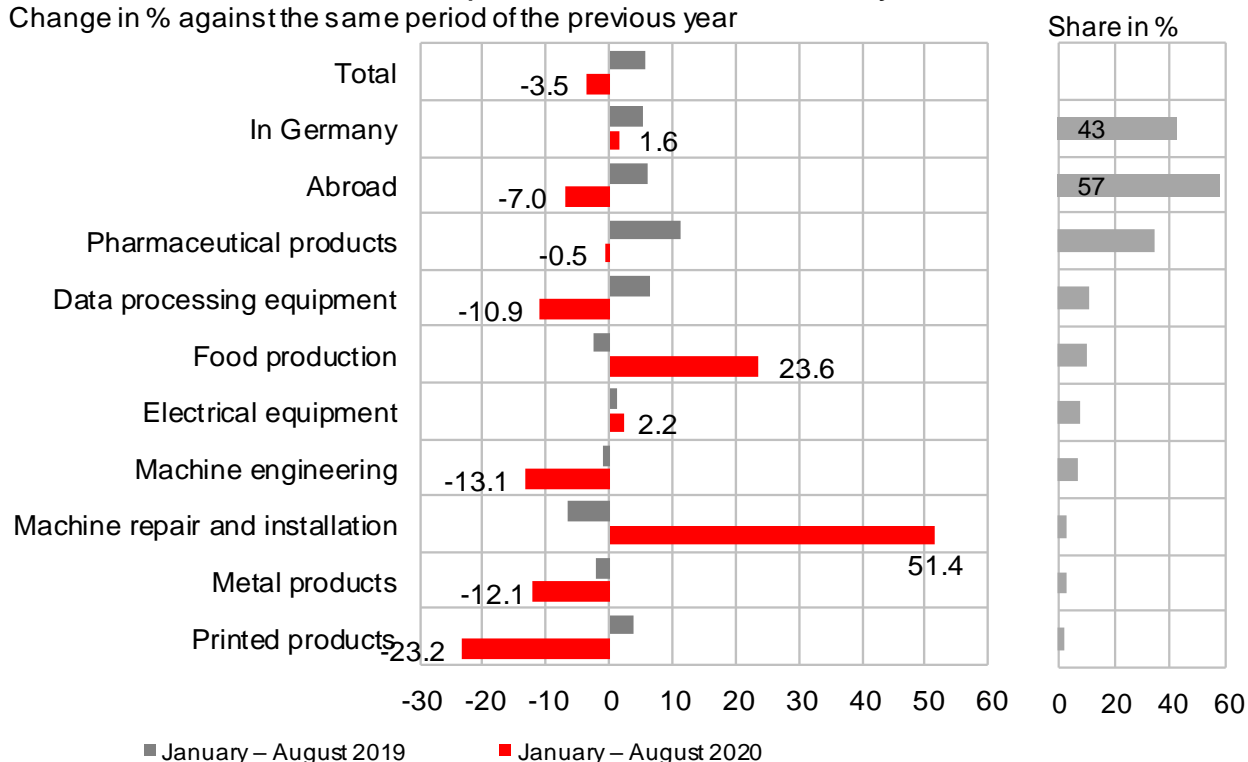
Although Berlin's industry sector is not immune to the effects of the Covid crisis, good order intake in the traditionally strong pharmaceutical industry and the electrical industry is likely to soften the blow. By August 2020, sales figures for industrial companies in Berlin fell by only 3.5% compared to the same period of the previous year, whereas Germany as a whole recorded a decline of 13.2%. The 336 industrial companies in Berlin with 50 or more employees recorded sales of EUR 16.2 billion with domestic sales accounting for EUR 6.9 billion (share: 43%) and EUR 9.3 billion in foreign sales (share: 57%). While foreign sales fell by 7.0%, domestic sales rose by 1.6%. Increases were recorded by food producers (a plus of EUR 305 million or 23.6%), repair businesses (EUR 177 million or 51.4%) and electrical equipment manufacturers (EUR 36 million or 2.2%). The pharmaceutical industry, Berlin's strongest industrial sector in terms of sales, recorded only a slight drop in sales of EUR 29 million (-0.5%). All other industrial sectors reported losses, some of them drastic, like manufacturers of data processing equipment (down by EUR 210 million), mechanical engineering (EUR 168 million) and printing works (EUR 122 million).

In the first eight months of the year, orders recorded by industrial companies in Berlin were down by 8.5% against the same period of the previous year. Domestic orders fell by 6.0% and foreign orders by 8.9%. This decline was largely due to vehicle construction (-32.0%), manufacturers of textiles and clothing (-24.9%), paper and cardboard (-20.9%) and mechanical engineering (-16.9%). In contrast, manufacturers of electrical equipment (+16.2%), chemical products (+4.2%) and pharmaceutical products (+2.6%) recorded more orders during the pandemic period. The number of employees fell by a total of 7,200 (-9.0%), mainly due to a change in statistical classification in the pharmaceutical sector (-3,200) and in mechanical engineering (-2,600), but also due to a significant reduction in the tobacco industry.

The closure of production plants, interrupted supply chains and the slump in demand due to the coronavirus pandemic have had a severe impact on parts of Berlin's industry. At the same time, this sector faces challenges related to structural change. In the second half of the year, some recovery is to be expected albeit based on the lower baseline of the first six months. However, a second pandemic wave could jeopardise this recovery.

Sales trends of the most important sectors of industry

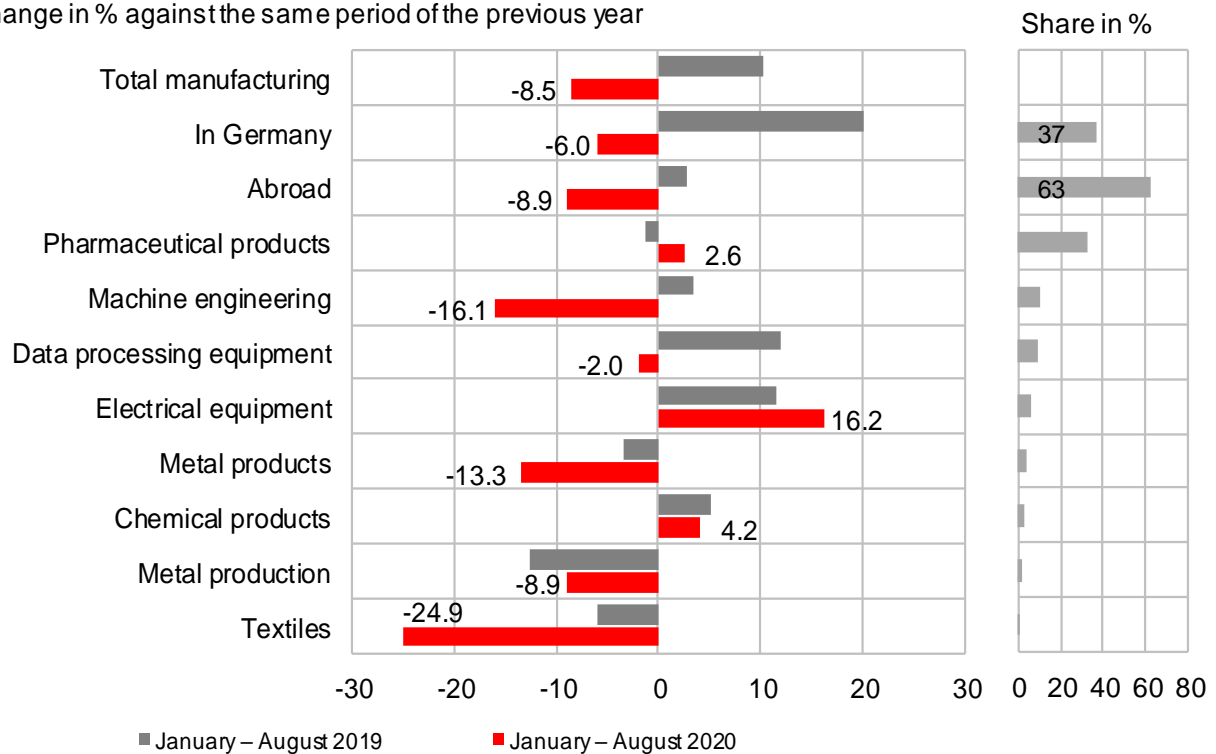
Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Incoming orders – important sectors of industry

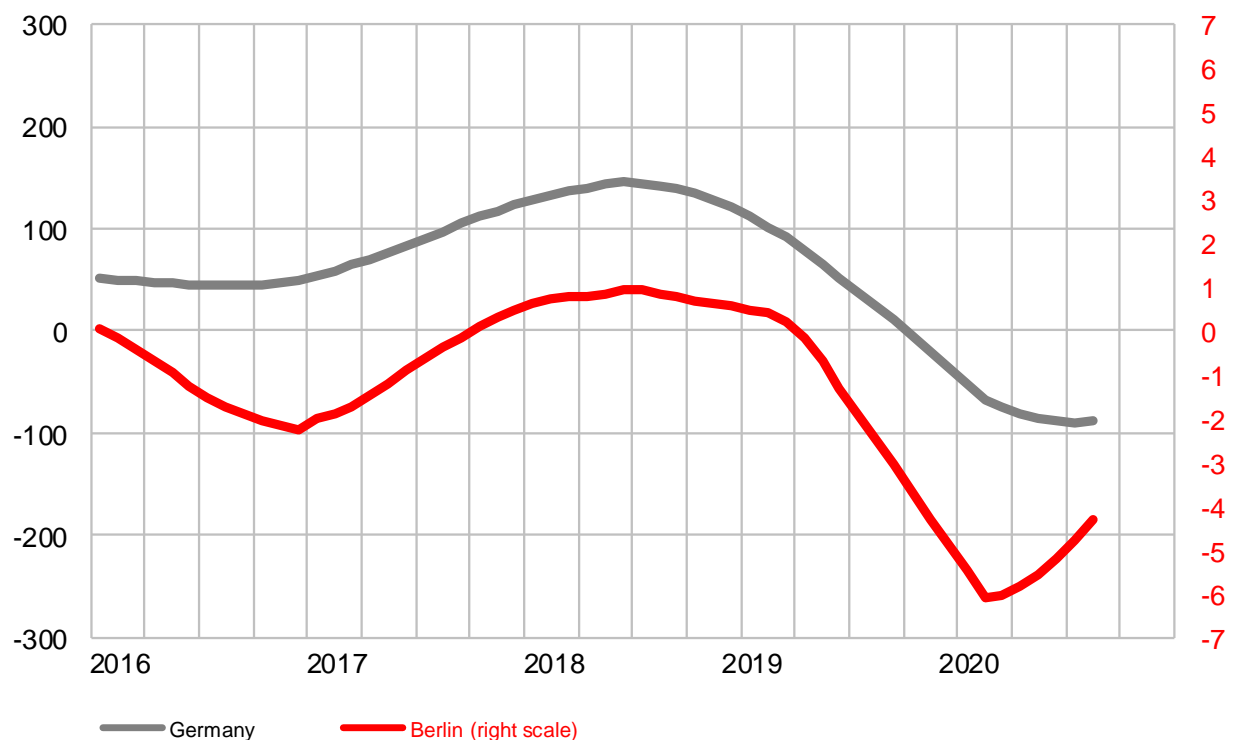
Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Jobs in industry

Moving 12-month average, change in 1,000s against the same month of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Exports

Coronavirus slows down Berlin's exports

In Berlin, too, export-oriented industrial companies are suffering from disruptions in international supply chains and lower demand as a result of the coronavirus pandemic, but less severely than in Germany as a whole. In the period from January to August, Berlin's exports fell by EUR 517 million (-5.4%) compared to the same period of the previous year. In Germany, exports were down by as much as 12.7%.

Berlin exported goods worth EUR 920 billion to the US, 20.3% less than in the same period of the previous year. For more than a decade now, the US has been by far the most important export country for Berlin (export share: 10.1%). However, even before the Covid crisis, growing uncertainties had a curbing effect on US demand for goods from Berlin. France overtook China to take second place with an export volume of EUR 710 million. On the whole, Berlin's exports to its neighbouring country rose by a fifth (+20.4%), while demand from China collapsed (-3.4%). China, now the third most important export partner, saw its exports fall by a total of EUR 651 million.

Exports to neighbouring Poland also rose sharply by 16.9% to EUR 629 million. Exports to the euro zone fell moderately by 1.1% to EUR 2.6 billion.

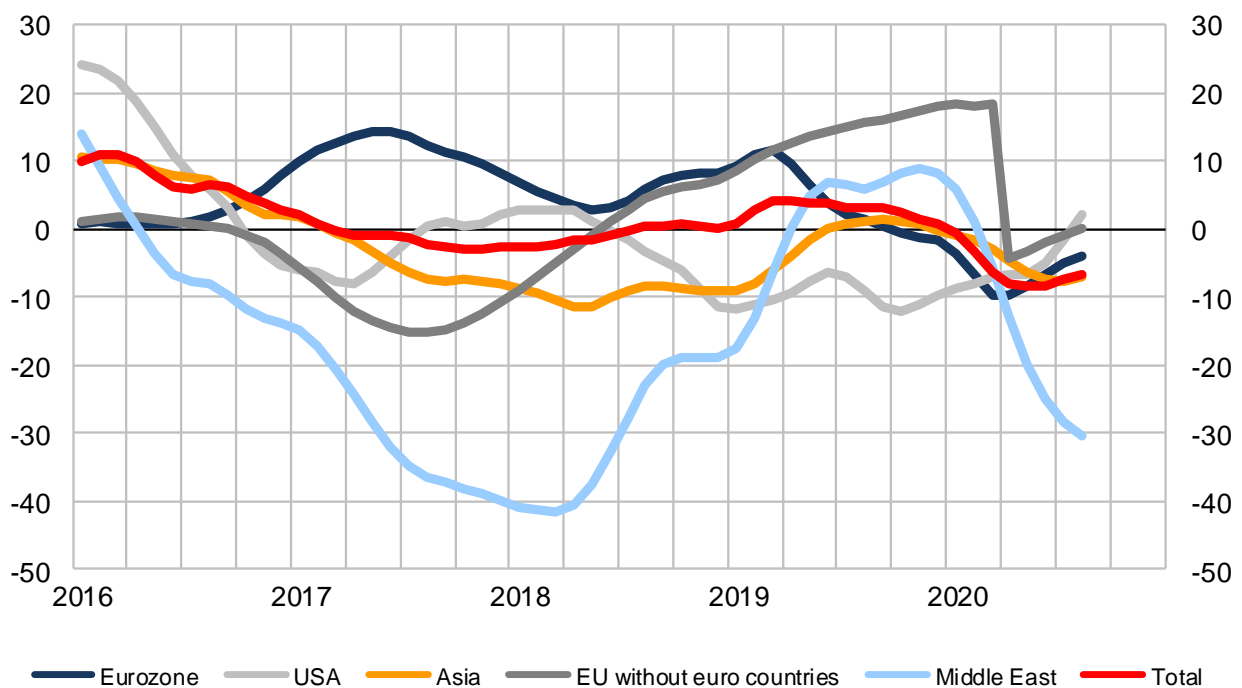
Strong demand for pharmaceutical products from Berlin

Berlin has an excellent international reputation as a specialised site for pharmaceuticals and medical technology. During the Covid crisis, worldwide demand for pharmaceutical and chemical products from Berlin rose significantly. The strongest product group is pharmaceuticals where exports increased by EUR 620 million or 52.8% in the first eight months of 2020 compared to the same period of the previous year. Exports of finished chemical products (up by EUR 65 million or 29.5%) and basic pharmaceutical products (up by EUR 32 million or 73.1%) also rose strongly. Sales of bearings, gear units and drive elements also rose significantly by EUR 93 million or 172.8%.

As the global economy gradually reawakens, demand should recover slightly in the second half of 2020. However, Berlin's total exports in 2020 are likely to be negative due to the consequences of the coronavirus pandemic.

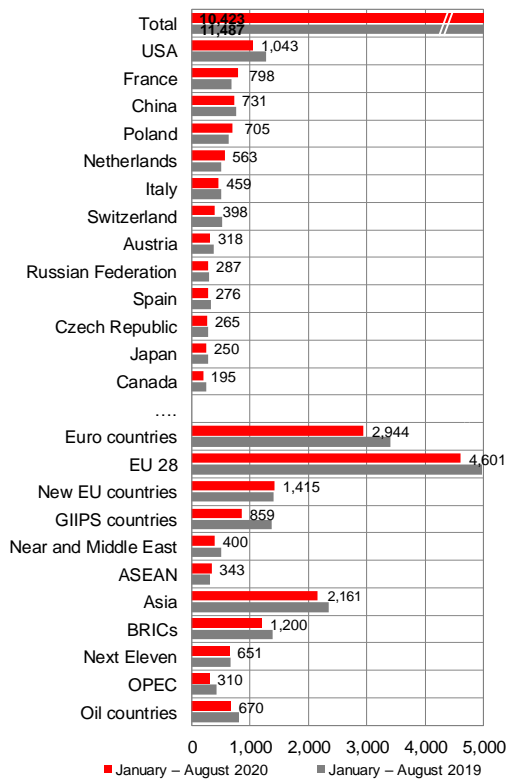
Berlin's exports

Monthly trends, change in % against the previous year



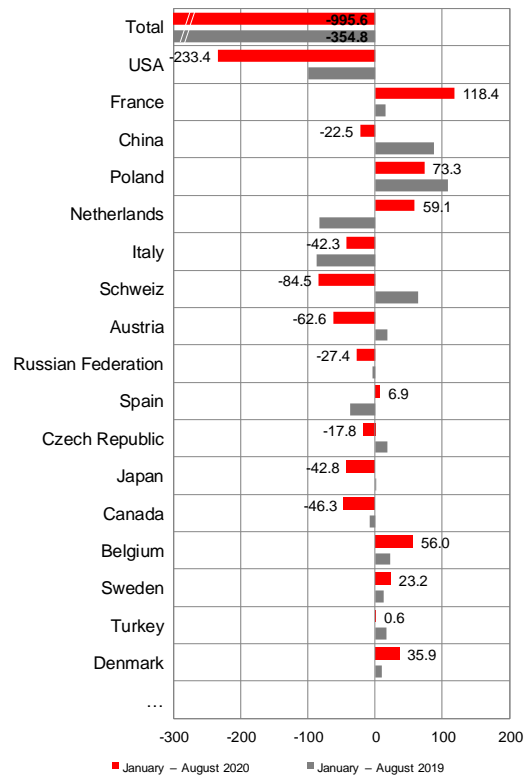
Source: Statistical Office for Berlin-Brandenburg, own calculations

Berlin's exports according to main customers in million EUR



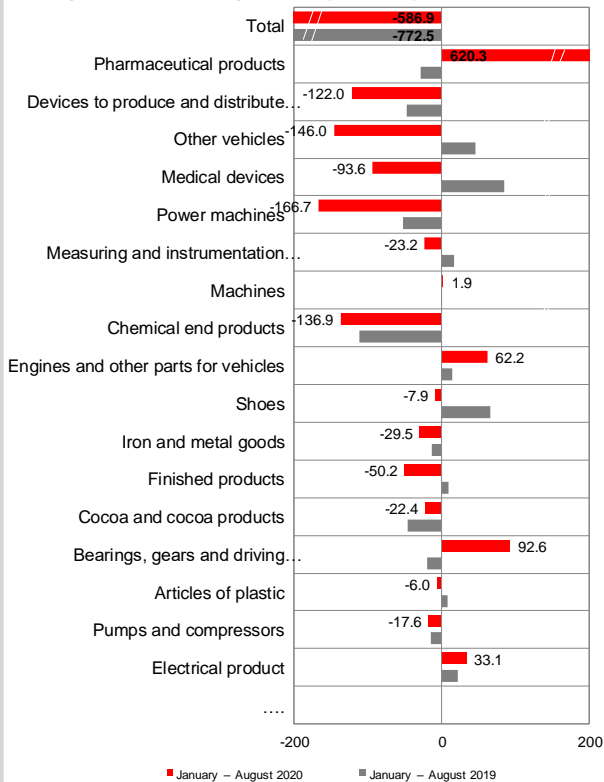
Source: Federal Statistical Office; own calculations

Export trends: most important export countries Change in million EUR against the previous year



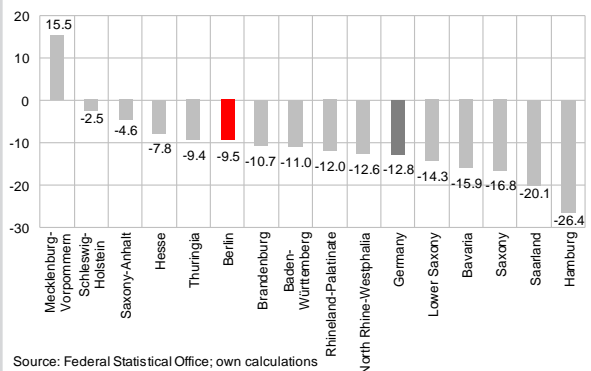
Source: Federal Statistical Office; own calculation

Export trends: most important material groups Change in million EUR against the previous year



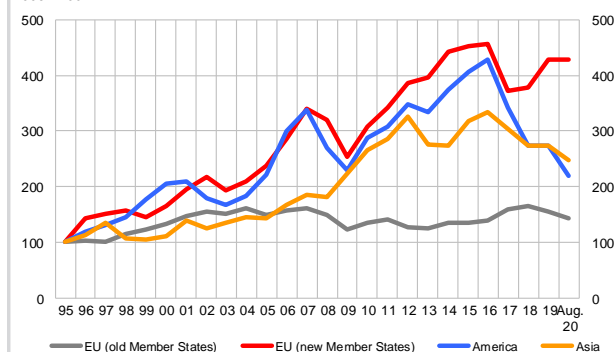
Source: Federal Statistical Office; own calculation

Exports August 2020 Change in % against the same period of the previous year



Source: Federal Statistical Office; own calculations

Exports acc. to groups of countries 1995 = 100



Source: Statistical Office for Berlin-Brandenburg, own calculations

Main construction trades Building permits stagnate

Since 2011, an average of 40,000 people have moved to Berlin each year and demand for housing is growing continuously, even though the Covid crisis has temporarily put a stop to this influx. At least 20,000 new apartments would be needed to house this number of people each year. In 2019, 18,999 new apartments were in fact completed. However, the record backlog of approved but not yet completed apartments has risen once again to 65,047 (+2.6% compared to the previous year). What's more, in the first eight months of 2020, building permits for apartments stagnated at 14,550 (+0.2%) compared to the same period of the previous year, including 89% new buildings. Due to the Covid crisis, public offices were only able to work to a limited extent and the backlog of permits has increased. The demand gap cannot be closed in the short term. Construction activity has been slowed down by the shortage of skilled workers, over-utilised capacities and Covid-related restrictions. As a result of this, the order backlog in the main construction trades rose by 29.9% to EUR 1.9 billion in first half of 2020 – the highest level in 20 years. The situation is also being exacerbated by increasingly complex building regulations, land that is more difficult to develop and rising construction costs.

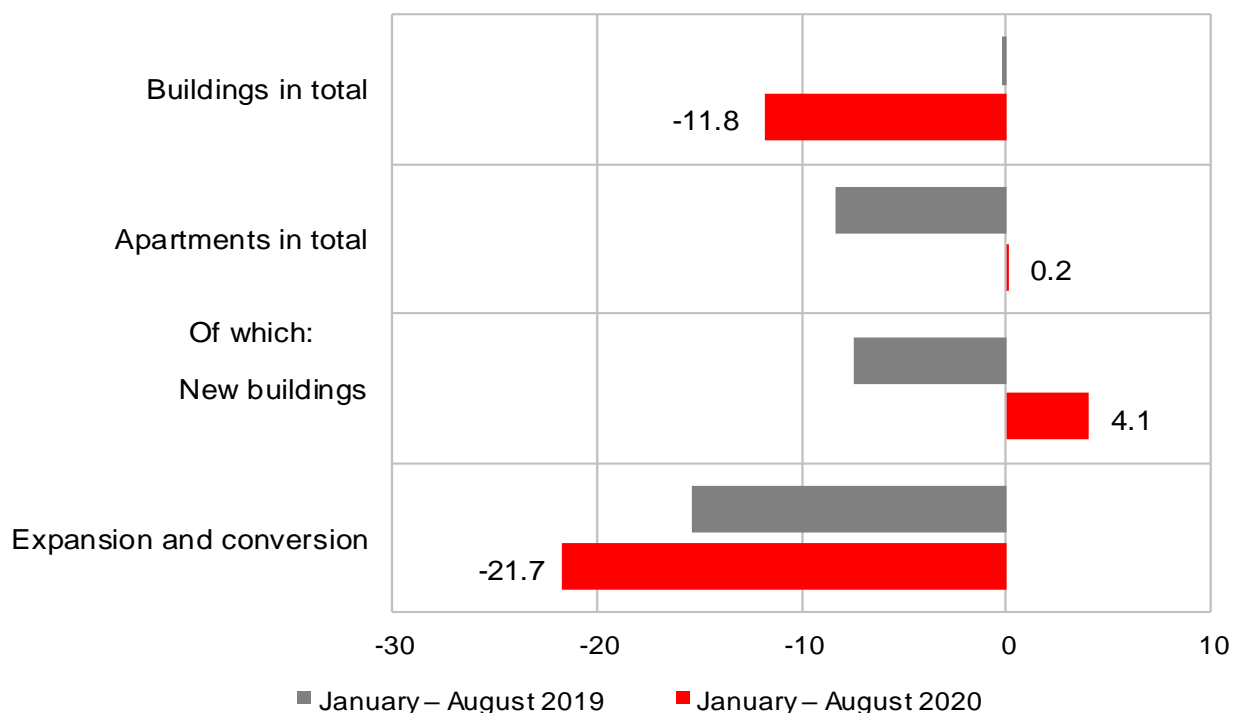
Slowdown due to capacity bottlenecks and coronavirus

The pandemic-related closures of restaurants and schools often led to this time being used for construction and renovation measures and work on construction sites continued in most cases. From January to August, revenues in this industry rose by 7.9% to EUR 2.9 billion. Revenues in public-sector construction rose by EUR 1.5 billion (+36.3%), in residential construction by EUR 61.0 million (+4.5%) and in commercial construction by EUR 5 million (+0.5%). In the finishing trades, strong demand in the first half of 2020 saw revenues up to EUR 994 million, EUR 31 million higher than in the same period of the previous year (+3.2%).

Incoming orders in the construction industry have collapsed due to the Covid crisis. In the first eight months of 2020, construction contracts worth EUR 1.7 billion were recorded (-17.5%). Residential construction accounted for EUR 662 million of this figure, commercial construction for EUR 632 million and public construction for EUR 398 million. Excess demand in residential construction will continue in 2020. That being said, however, investment in the construction sector is likely to decline in response to coronavirus and the rent cap.

Building permits

Change in % against the same period of the previous year

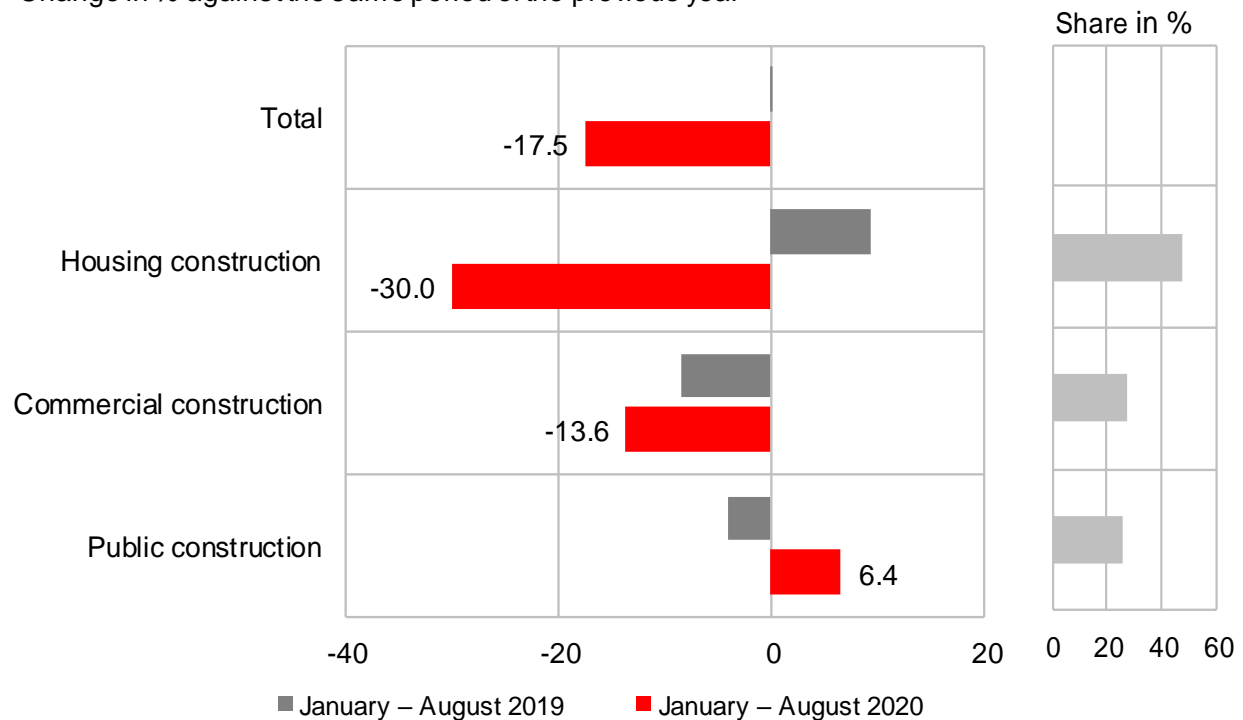


Source: Statistical Office for Berlin-Brandenburg, own calculations

Incoming orders trends

Main construction trades

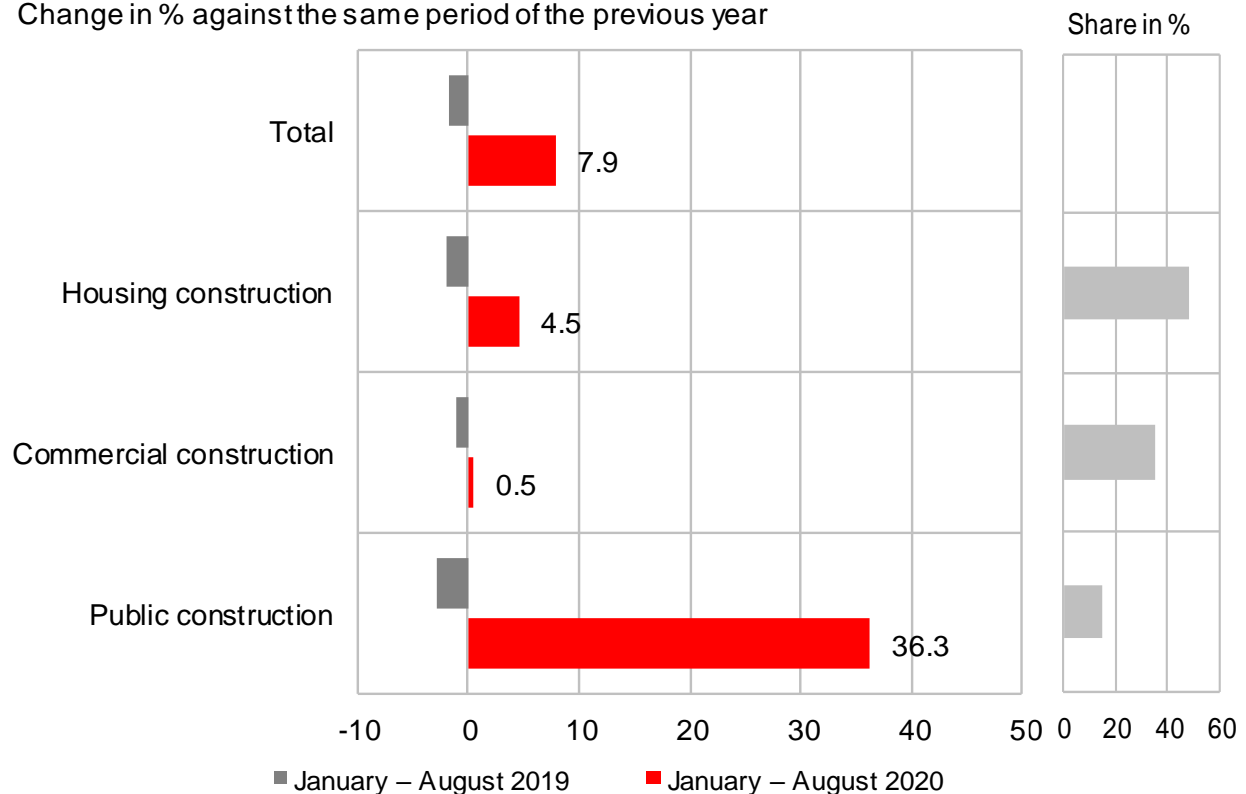
Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Sales trends – main construction trades

Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Tourism

Guest numbers plummet

Due to coronavirus, the number of guests reported by the Statistical Office fell dramatically in the first eight months of 2020 by 57.9% compared to the same period of the previous year. This corresponds to a decline of 5.3 million to only 3.9 million guests. Even though hotels were allowed to take in guests again in the meantime, in August alone 52% fewer guests came than in the same month of the previous year. In particular, there were far fewer foreign guests from January to August (-2.6 million, -69.9%). However, despite a slight recovery in summer, the number of domestic guests also declined by almost half (-2.6 million, -49.8%). Significantly fewer guests came from key countries like Italy (-73.4%) and Spain (-75.1%) as well as the US (-78.8%) than in the previous year, while guests from China and Hong Kong were down by as much as 85.9%. The largest number of guests (111,400) came from the United Kingdom, but this number also declined considerably by 269,000 or 70.7% year-on-year. In addition to coronavirus, Brexit is also having a dampening effect.

As guests stayed at home, the number of overnight stays also collapsed. By May of this year, 9.5 mil-

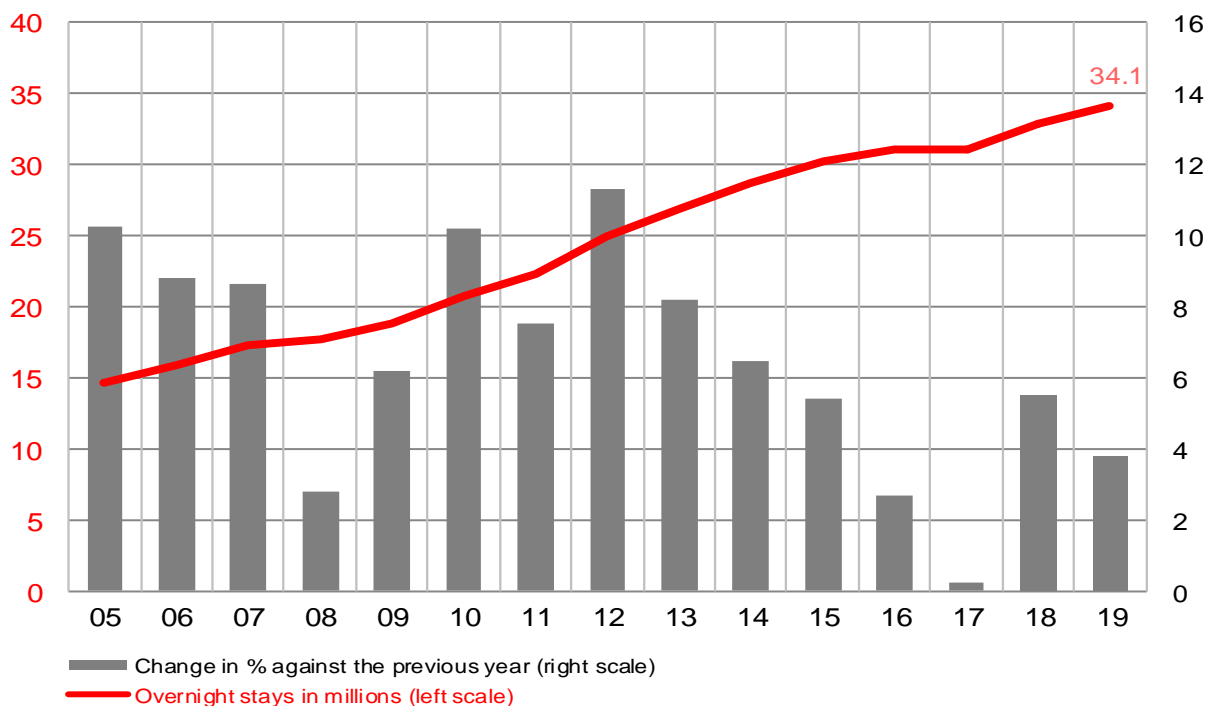
lion overnight stays were recorded, around 13.3 million fewer than in the previous year (-58.4%). Due to the low number of overnight stays, bed occupancy rates at Berlin's 751 hotels also fell by 32.8 percentage points to just 31.0%. The average length of stay of a registered Berlin guest was 59 hours (2.4 days). Total tourism expenditure amounted to around EUR 1.9 billion. Compared to the previous year, this marked a decline of EUR 2.7 billion (-58.4%).

The number of passengers at Berlin's airports fell by 14.3 million (-68.7%) to 6.5 million in the first eight months of the year. In April and May, air traffic almost came to a complete standstill and has been slow to restart. At the end of October 2020, the new BER airport will open and Tegel airport will close.

Bleak prospects for tourism

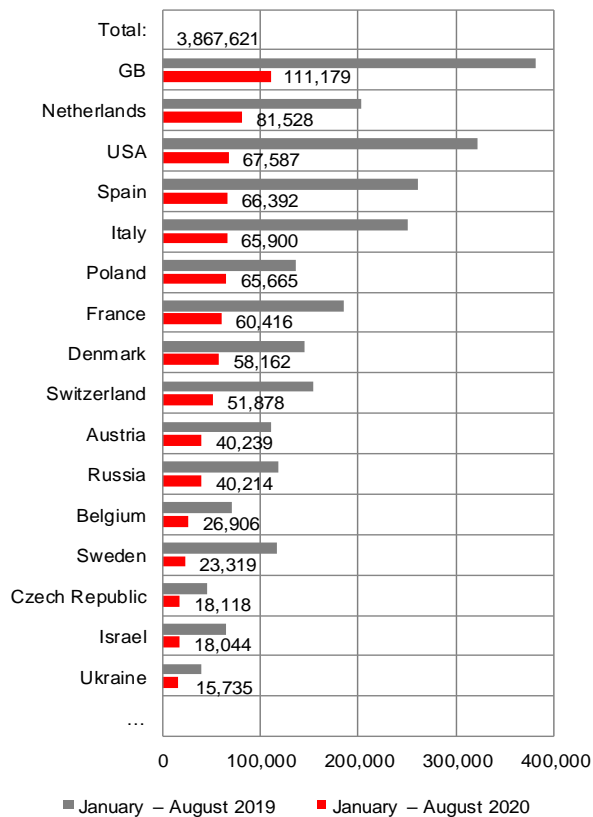
The coronavirus pandemic brought international and national tourism to a complete standstill. International tourism, in particular, is likely to be slowed down by travel restrictions for a long time to come. What's more, many people will lack the money to travel.

Overnight stays in Berlin
in millions



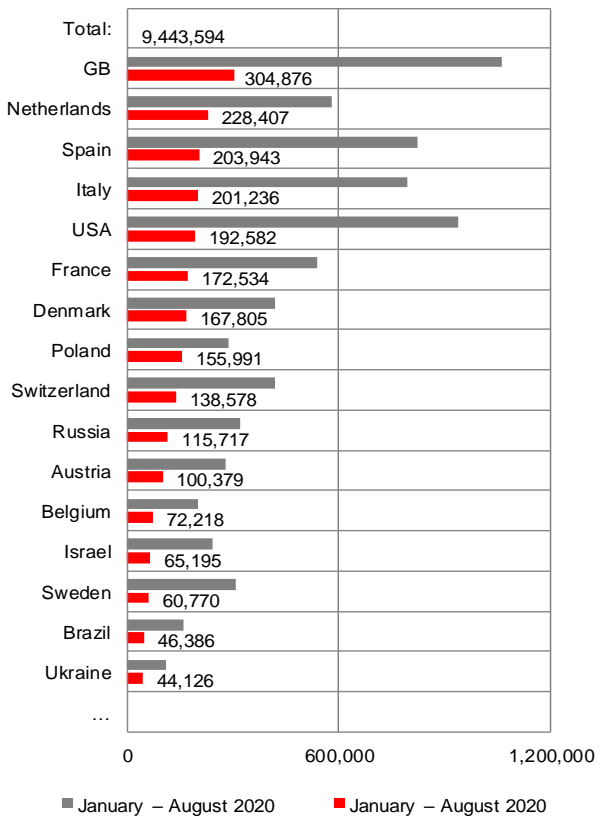
Source: Statistical Office for Berlin-Brandenburg, own calculations

Guests



Source: Federal Statistical Office; own calculations

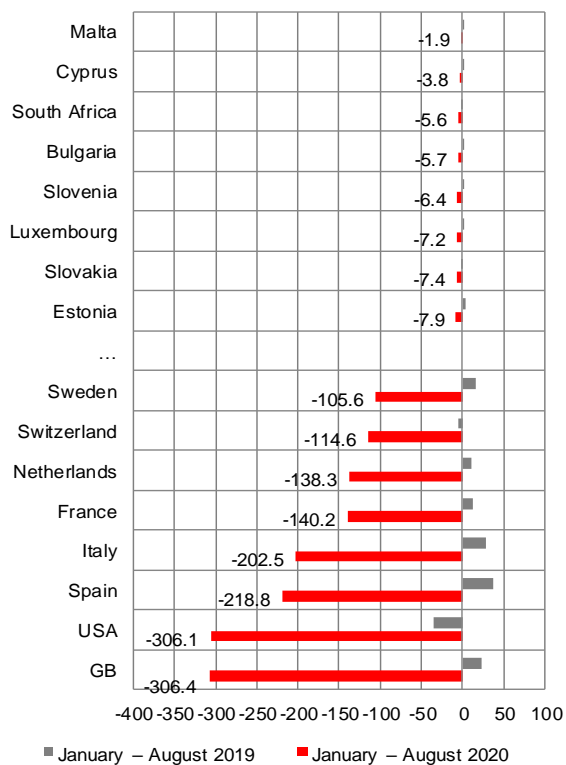
Overnight stays



Source: Federal Statistical Office; own calculations

Guest figures

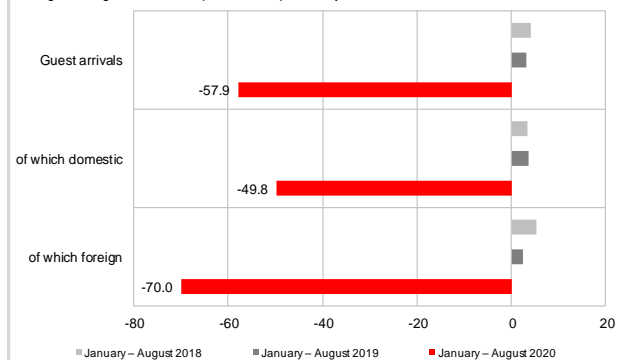
Change compared to the same period of the previous year in 1,000s.



Source: Federal Statistical Office; own calculations

Guests

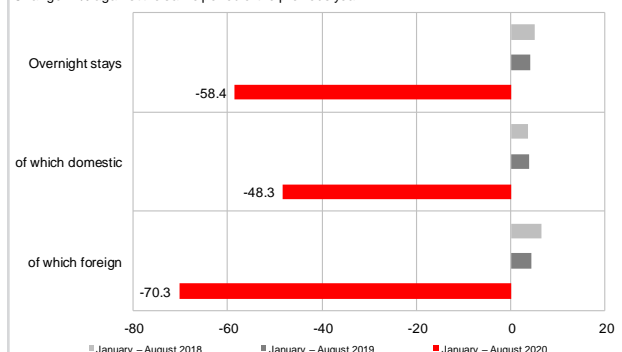
Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Overnight stays

Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Retail sector

Revenues recover by August

According to preliminary calculations by the Statistical Office for Berlin-Brandenburg, Berlin's retail trade managed to make up for the steep drop in sales in the spring and reach the previous year's level (+0.3%). That being said, closures to contain the coronavirus pandemic, the decline in demand due to the absence of tourists and a drop in income did have a negative impact on sales. However, pandemic-related demand also increased in some areas, such as food and home office equipment. On the whole, Berlin's retail trade development was weaker than the national average (+2.9%).

Numbers were up significantly in retail sales in non-specialised stores and at petrol stations (+1.1%), with food (+4.4%) and in e-commerce (+17.3%). In recent years, many business models were established in Berlin as innovative start-ups in e-commerce and mail order business and are now operating out of Berlin on an international scale. Nevertheless, e-commerce growth in Berlin was below that for Germany as a whole (+19.4%), as international demand, in particular, remained restrained. Due to temporary closures, sales declines for Berlin's specialist retailers in technology, household

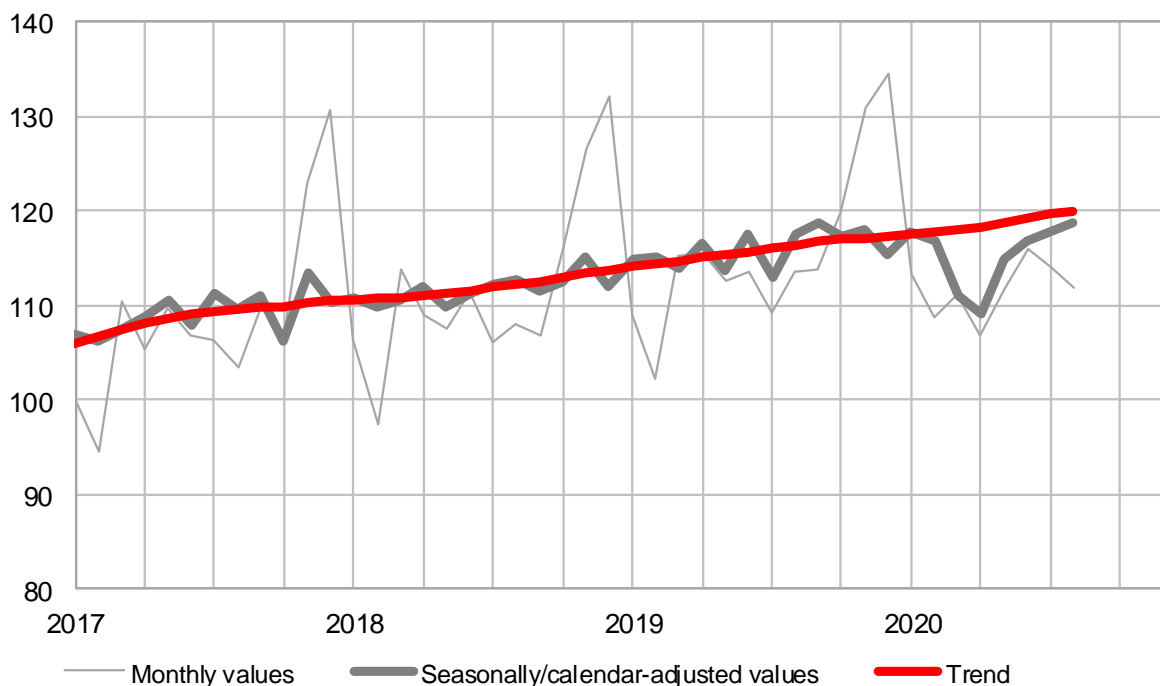
and DIY supplies (-2.0%) and in publishing products, sports and game equipment (-13.4%). Sales in motor vehicle trade and repair were also down; by 5.0% up to July (latest available data).

The number of people working in retail remained almost constant in the first eight months of the year (-0.1%). Employment was up at retailers with non-specialised stores and at petrol stations (+2.1%), as well as in e-commerce (+3.4%), however, employment stagnated at specialist retail companies. Employment figures were down at retailers in food and tobacco (-1.8%) and in publishing products and sports goods (-2.9%).

The impact of the coronavirus pandemic is likely to continue to affect the retail sector, depending on the severity of the second wave. Although supermarkets and discounters were able to sell more food and online trading was able to compensate for some of the shortfall, the economic downturn, loss of income and the lack of tourists are likely to hit many retailers very hard this year.

Retail trade

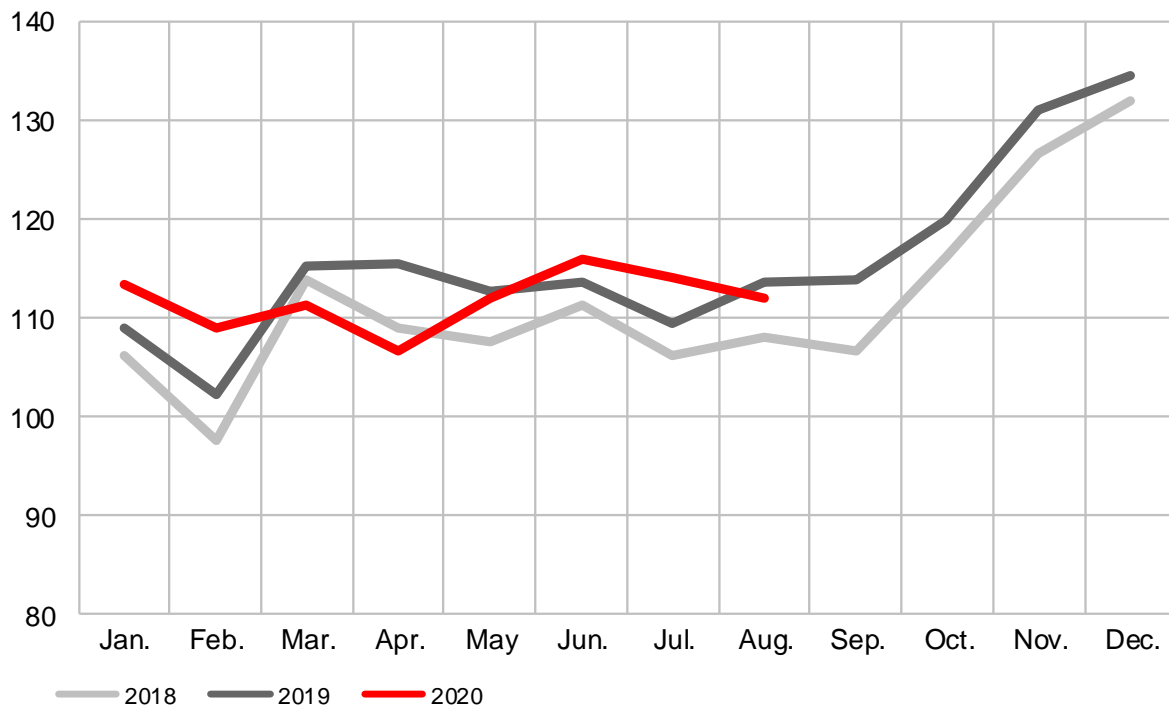
Sales (2015 = 100)



Source: Statistical Office for Berlin-Brandenburg, own calculations

Retail trade – total sales

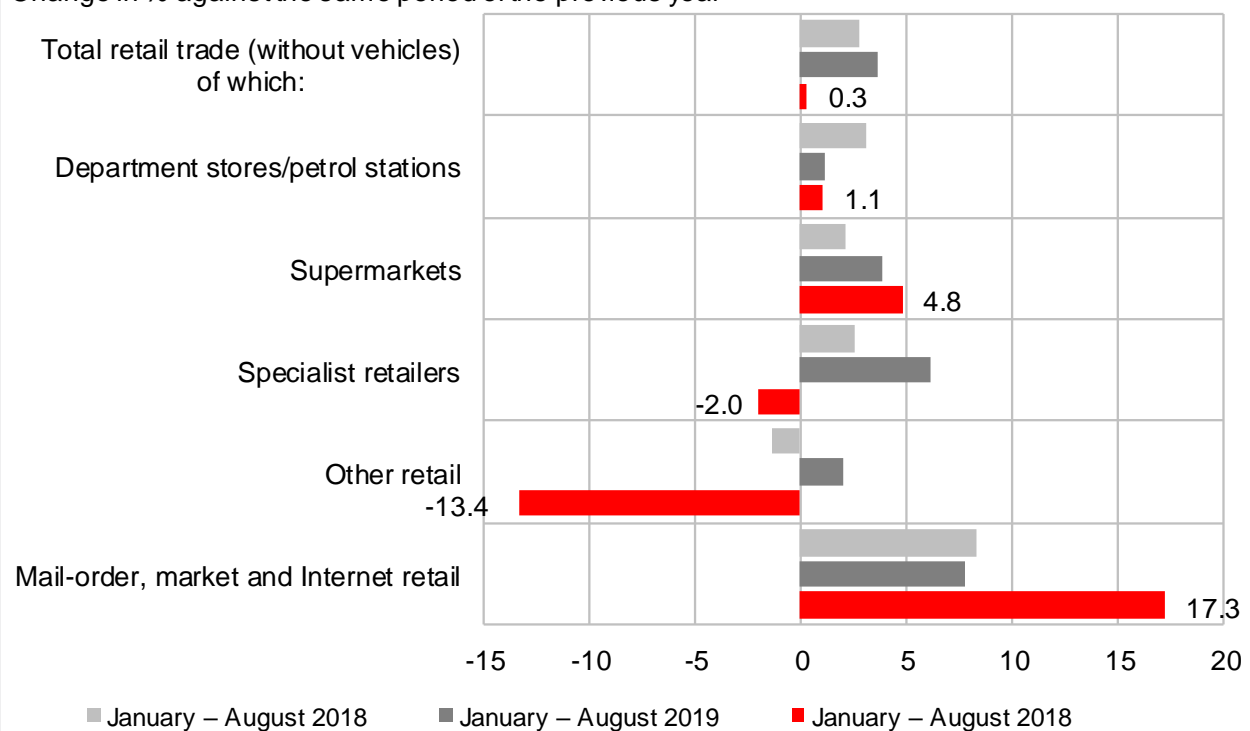
2015 = 100



Source: Statistical Office for Berlin-Brandenburg, own calculations

Retail trade – sales trends

Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Hospitality sector

Sales up to August slump by 43.9%

Berlin's hospitality sector (consisting of the hotel and catering trade) was the sector hardest hit by the Covid crisis. According to preliminary figures from the Statistical Office for Berlin-Brandenburg, sales up to August were down by 43.9% (Germany: 35.0%). Berlin's hotels and guest houses were particularly hard hit, recording a 55.8% decline in sales compared to the same period of the previous year (Germany: -43.1%). Due to the closures ordered and with international tourism brought to a halt, business for hotels and guest houses came to a virtual standstill from April to June. Even after the restart, foreign tourists are still non-existent and domestic guests remain reluctant to visit due to the uncertain situation.

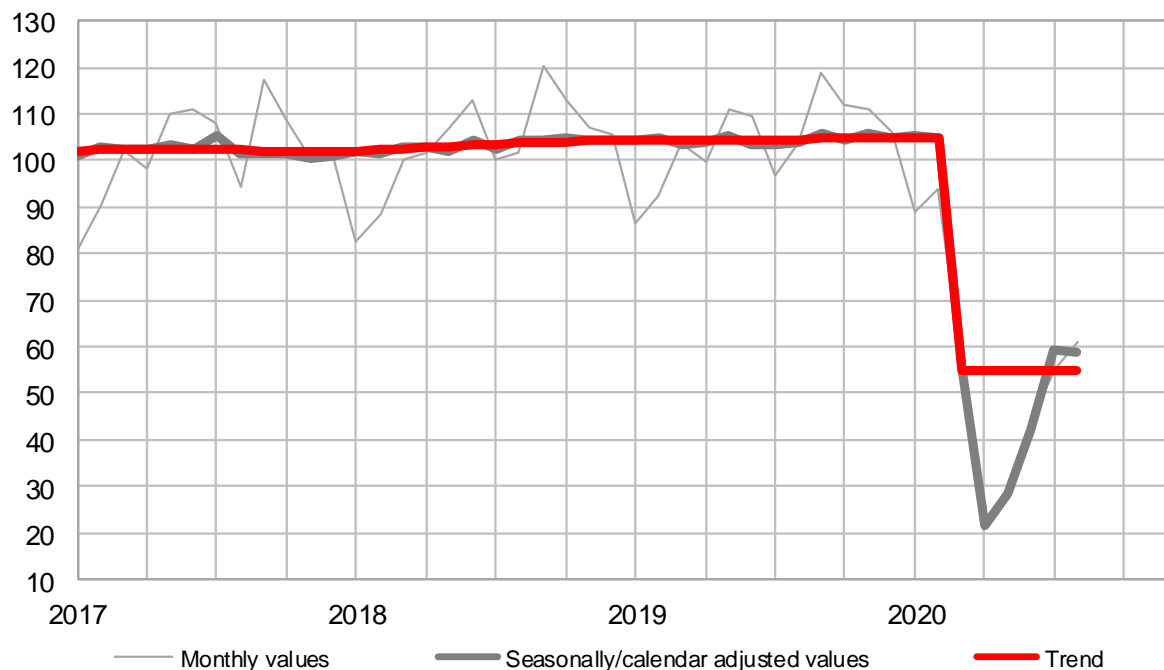
Berlin's restaurant sector also reported a sharp decline in sales in the period from January to August (-36.9%; Germany: -31.2%). Sales recorded by Berlin's restaurants, bars, snack bars, cafés and ice cream parlours fell by 36.5%, while caterers reported a decline of 35.7%.

The number of people working in the hospitality sector up to August fell by 11.4%. In Berlin's hotels and guest houses, this figure was down by 6.5%, in restaurants by 13.3% and in caterers by 3.7%. These companies strongly focused on reducing the number of part-time employees (-17.2%), while full-time employment (-4.0%) was maintained at least in the short term thanks to short-time work.

The year 2020 will probably go down as the worst crisis year in recent history for Berlin's hospitality industry. Despite the gradual relaxation, the cancellation of innumerable events and the slump in international tourism will continue to have a long lasting impact. It will not be possible to make up for the many cancelled trips, overnight stays, events and consumption. Tourism is likely to remain restricted for some time to come and many people will lack the money to travel. According to the latest coronavirus survey by the Chamber of Industry and Commerce, 62% of companies in the hospitality sector fear losing more than half of their sales this year. Almost half of all companies (46%) even fear going bankrupt – a record figure among the sectors. That's why jobs will continue to be cut in this sector in the future.

Hospitality sector

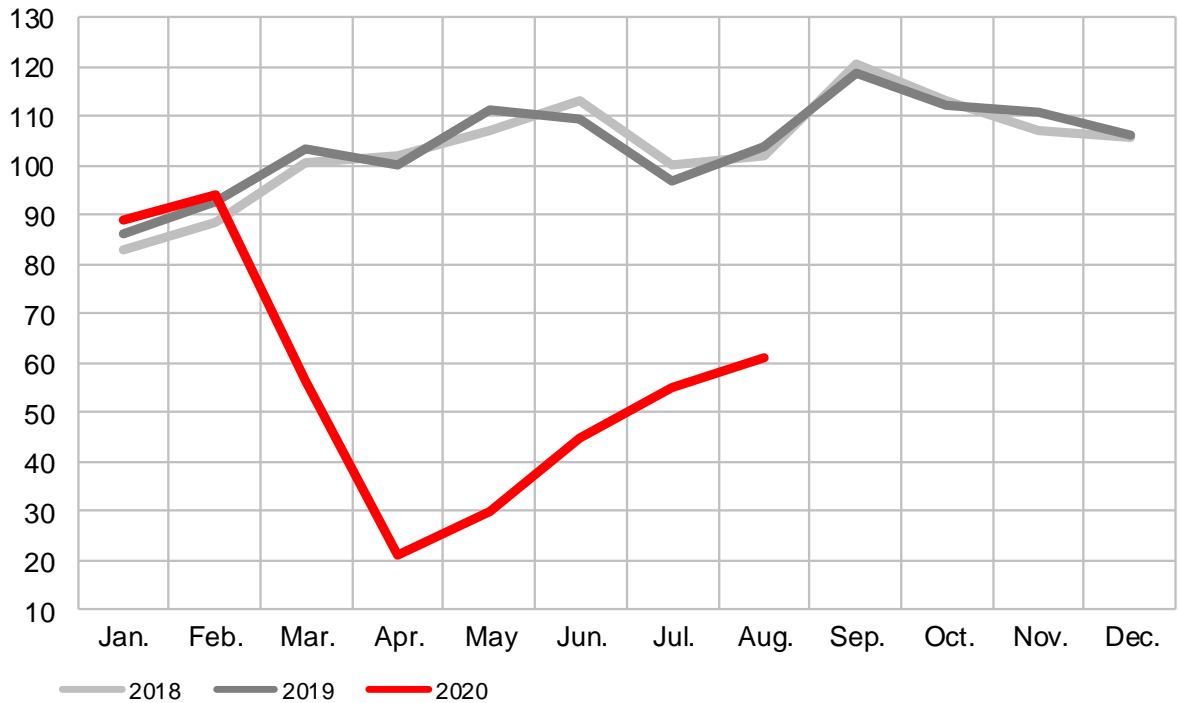
Sales (2015 = 100)



Source: Statistical Office for Berlin-Brandenburg, own calculations

Hospitality sector sales

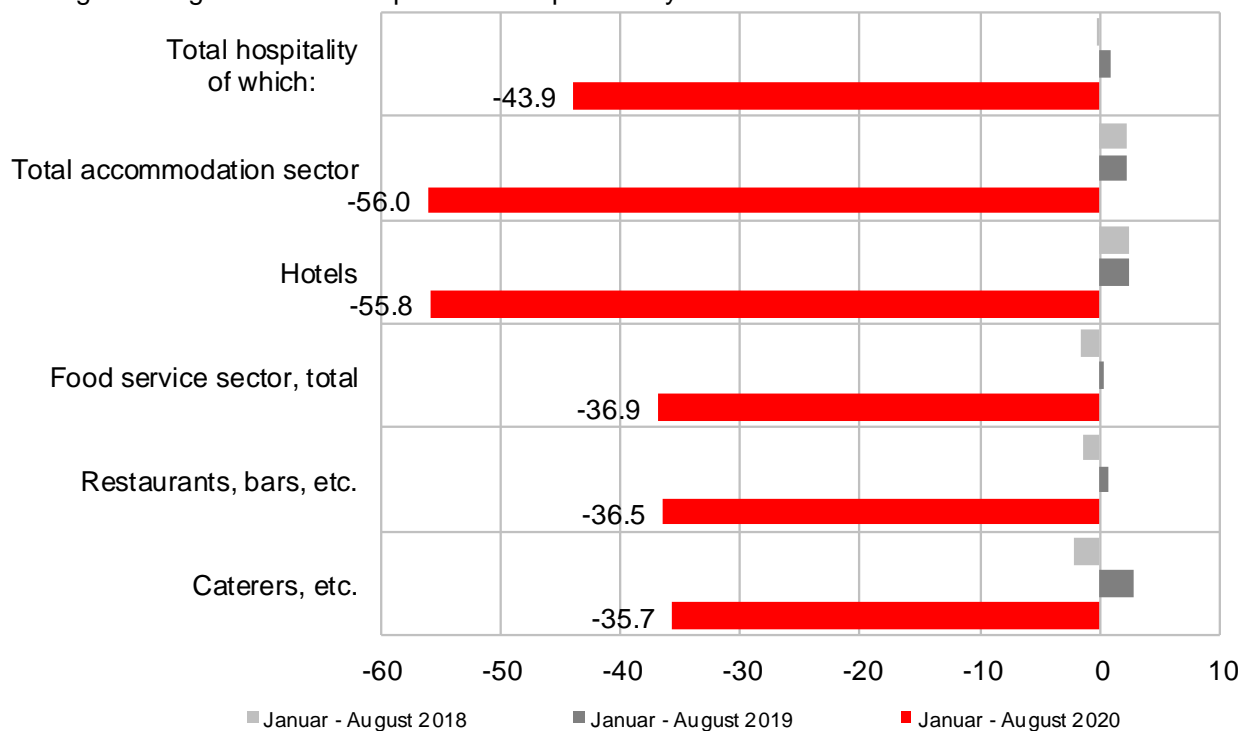
2015 = 100



Source: Statistical Office for Berlin-Brandenburg, own calculations

Hospitality sector – sales trends

Change in % against the same period of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

Start-ups and insolvencies

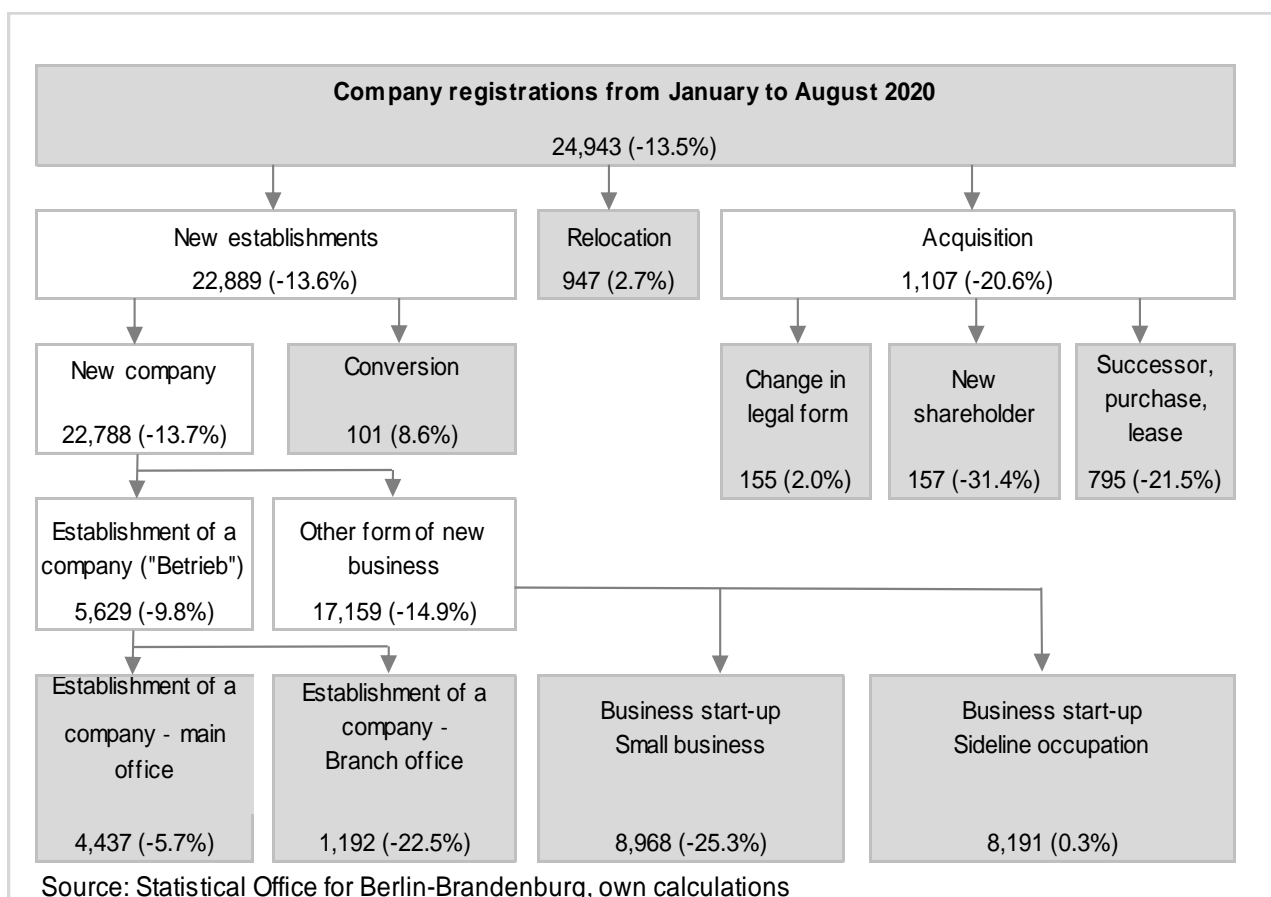
Up until August, 13.5% fewer company registrations

In the first eight months of 2020, 24,943 companies were registered with the commercial registers in Berlin. That was 13.5% fewer than in the same period of the previous year (-3,880); on a national average, company registrations fell by only 5.8%. This trend already began last year and can be attributed to the good situation on Berlin's labour market at that time, when skilled workers were in desperate demand. Now, however, many start-ups are being postponed or completely reconsidered due to the Covid crisis. At the same time, 19,064 businesses were de-registered, leaving a positive balance of 5,879 more company registrations. The balance was particularly high in professional, scientific and technical services as well as in trade, maintenance and repair (1,298 each). In the information and communication sector, start-ups were also dynamic with a balance of 925 (+32.0%). However, the true extent of crisis-related closures will only become apparent when the obligation to file for insolvency is reintroduced in 2021. The balance of important company start-ups also rose to 1,905 (+18.8%). Of these companies, 75% are corporations that create a particularly high number of jobs.

Obligation to file for insolvency still suspended

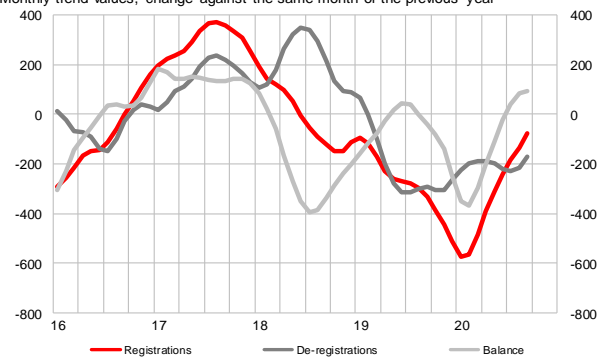
From January to July 2020, the number of corporate insolvencies reported fell slightly (-3.5%) to 802 compared with the same period of the previous year, which can be attributed to the suspension of the obligation to file for insolvency that has been in effect since March. The sum of creditors' claims actually fell against the same period of the previous year by 42.3% to EUR 324 million. The majority of insolvencies were reported by companies in the retail trade and motor vehicle repair (127), construction (118), the hospitality sector (108) and other business services (104). In the information and communication sector, 54 companies had to close shop (+4).

Due to coronavirus, the Federal Ministry of Justice and Consumer Protection has extended the obligation to file for insolvency until the end of 2020. It will take some time before we can see how many companies will survive the crisis and this depends heavily on the further course of the pandemic. Business models now have to be adapted or abandoned, supply chains and demand are collapsing, and venture capitalists are increasingly withdrawing. Short-time work benefits and state aid provide short-term assistance for many companies. However, if the crisis persists for too long, some companies will not be able to survive even with help. According to the coronavirus survey by Berlin's Chamber of Industry and Commerce, 17% of the companies expect to go bankrupt.



Company registrations

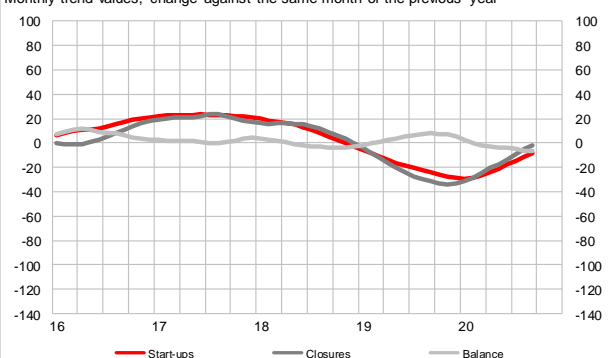
Monthly trend values, change against the same month of the previous year



Source: Statistical Office for Berlin-Brandenburg, own calculations

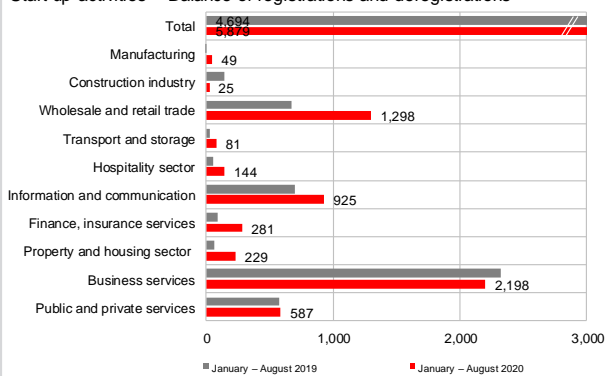
Companies set up and closed down ("Betrieb")

Monthly trend values, change against the same month of the previous year



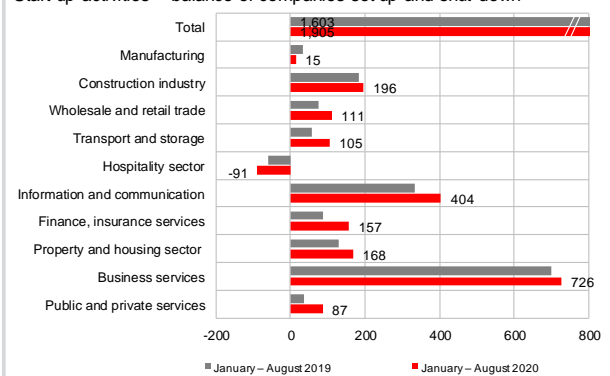
Source: Statistical Office for Berlin-Brandenburg, own calculations

Start-up activities – Balance of registrations and deregistrations



Source: Statistical Office for Berlin-Brandenburg, own calculations

Start-up activities – balance of companies set up and shut down



Source: Statistical Office for Berlin-Brandenburg, own calculations

Company bankruptcies



Source: Statistical Office for Berlin-Brandenburg, own calculations

Labour market

Coronavirus puts a halt to Berlin's job miracle

Following a sharp rise in unemployment figures, numbers are falling again as recovery progresses. In October 2020, 204,792 people were registered as unemployed. This corresponds to an unemployment rate of 10.2% (Germany: 6.0%) – 0.3 percentage points below the previous month, but 2.4 above the same period of the previous year. If the number of people undergoing vocational integration or continuing professional development is also included in this figure, the number of people underemployed increases to 256,078 (12.4%).

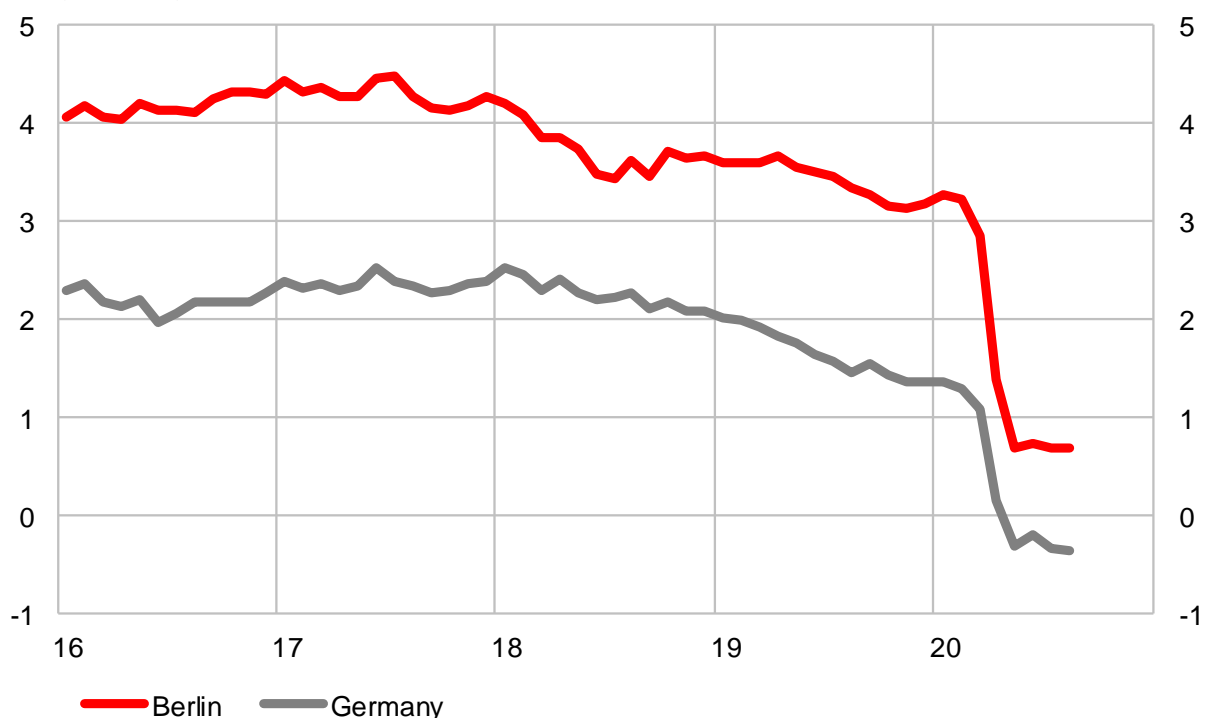
Despite higher overall unemployment during the crisis, employment figures in Berlin continue to rise. After all, almost 12,500 people moved from unemployment to dependent employment in October. By August of this year, the number of people in regular jobs once again rose against the previous year, up by 10,910 to 1.55 million. With a growth rate of 0.7%, Berlin was the only federal state to record positive growth, leading the field with 1.0 percentage points above the average for all federal states combined. This is proof of a resilient economy, especially in Berlin's digital economy. Over the past three years, every 5th new job in Berlin was created in the information and communication sector with its

above-average salaries. Demand by companies for personnel, especially for skilled workers, remained high. In October, the Federal Employment Agency reported 18,249 vacancies, 9,557 fewer than in the previous year. Most vacancies (3,453) were reported in the health, education and social professions.

The increase in the number of applications for short-time work slowed down in the autumn. According to the Federal Employment Agency, 188 companies in Berlin applied for short-time work for a total of 1,960 employees in October. This means that from March to October there were a total of 39,965 applications for short-time work for 417,462 people. In July (latest available data) 16,800 of these applications were actually implemented, with a total of 132,300 people on short-time work. This corresponds to a share of 8.6% of all employees in regular jobs, which is lower than the figure for Germany as a whole (10.0%). This is also due to the structure of employment in Berlin, with many low-skilled jobs and self-employed people who are directly threatened by unemployment during the crisis. Prospects remain subdued in the face of a second pandemic wave. According to the latest survey by the Berlin Chamber of Industry and Commerce, the employment barometer is at its lowest level since the crisis in 2008/09.

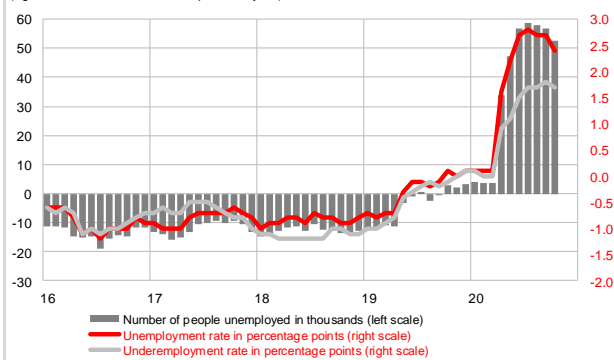
Regular employment

Change in % against the previous year



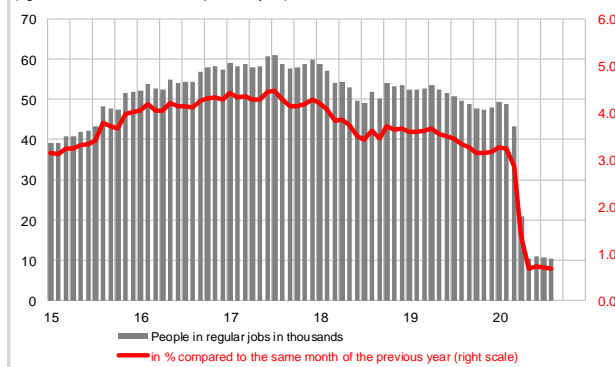
Source: Federal Employment Agency; own calculations

Change in unemployment
(against the same month of the previous year)



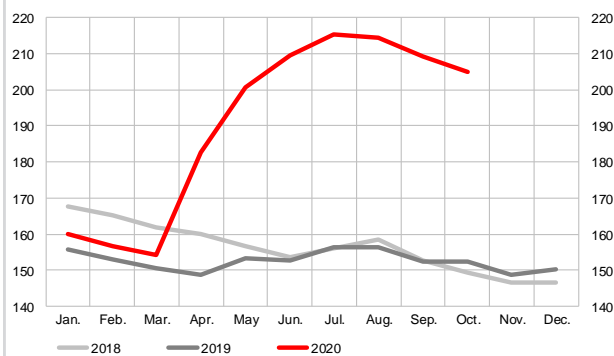
Source: Federal Employment Agency, own calculations

Change in employment
(against the same month of the previous year)



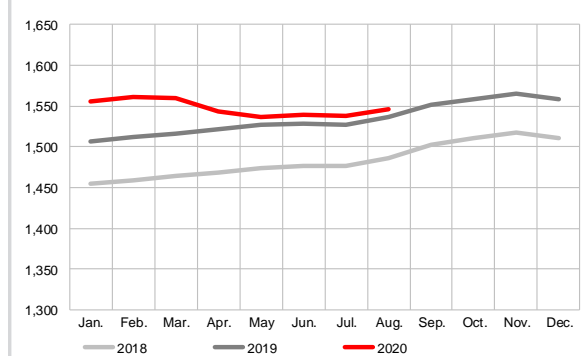
Source: Federal Employment Agency, own calculations

People registered as unemployed
in thousands



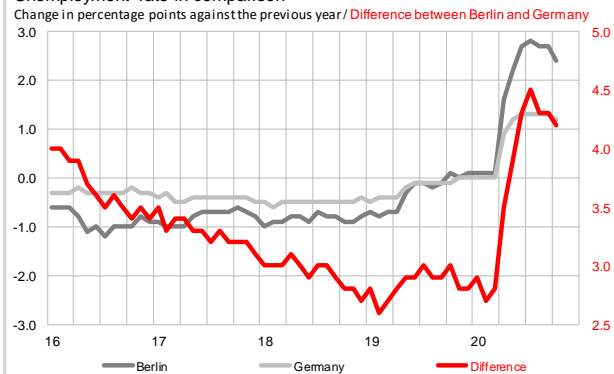
Source: Federal Employment Agency, own calculations

Regular employment
in thousands



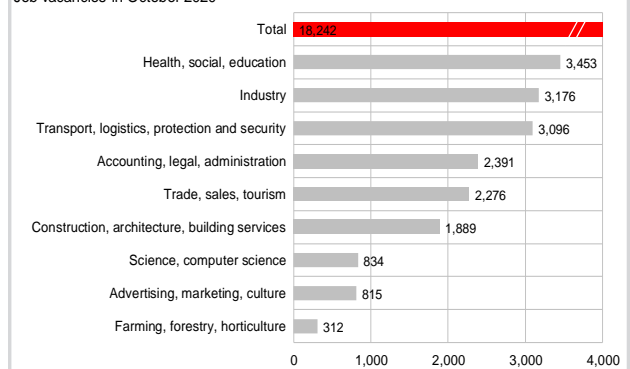
Source: Federal Employment Agency, own calculations

Unemployment rate in comparison



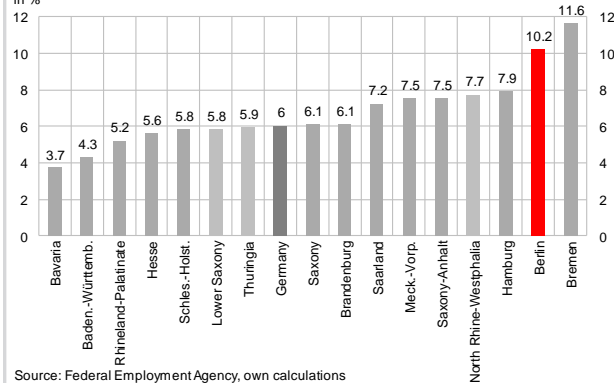
Source: Federal Employment Agency, own calculations

Job vacancies in October 2020



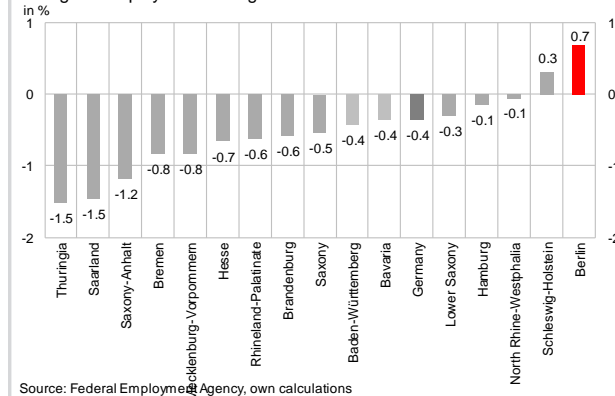
Source: Federal Employment Agency, own calculations

Unemployment rates in October 2020
in %



Source: Federal Employment Agency, own calculations

Change in employment in August 2020
in %



Source: Federal Employment Agency, own calculations

Taxes and loans

Tax revenues down due to coronavirus

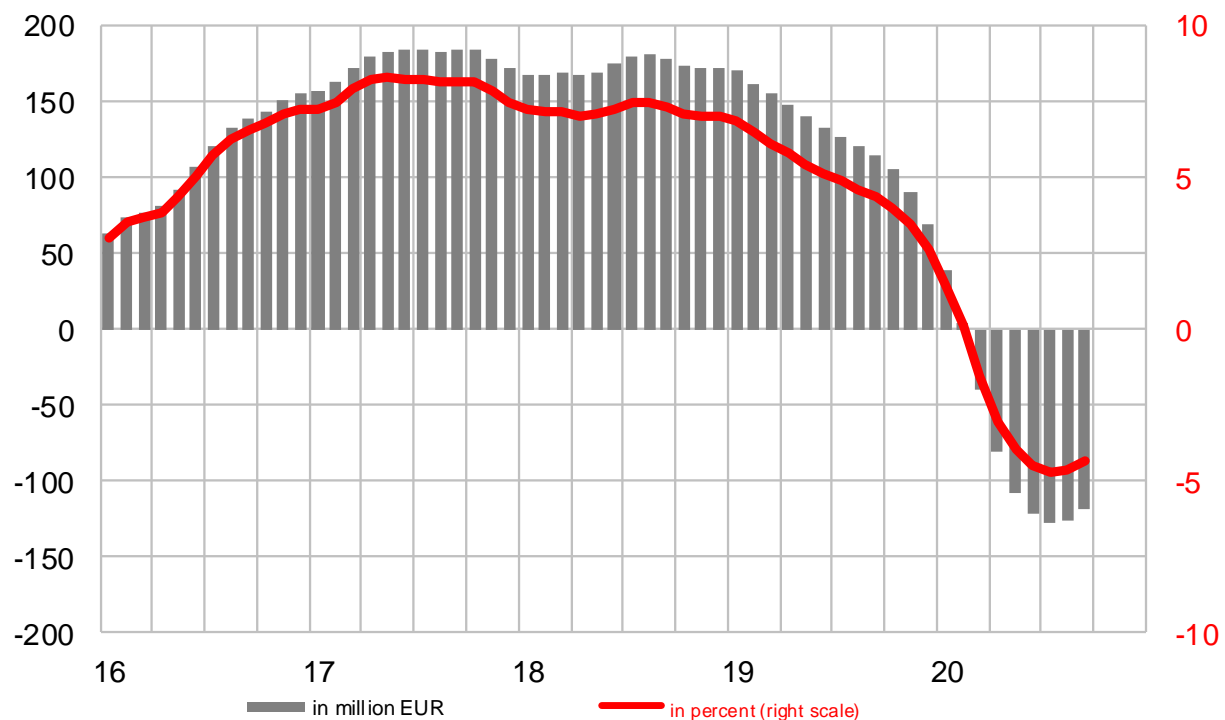
The Covid crisis has temporarily interrupted recent record tax revenues in Berlin which were driven by above-average economic and employment developments. Up until September 2020, tax revenues before tax distribution fell compared to the same period of the previous year by EUR 1.2 billion to EUR 23.0 billion (-5.0%). Significant increases were still recorded for wage tax (+4.3% to EUR 10.1 billion) and settlement tax (+68.9% to EUR 90.8 million). However, some of these revenues are advance payments based on previous year figures. However, revenues from income tax were down (-14.3% to EUR 1.8 billion), as were sales tax (-12.8% to EUR 6.4 billion), income tax on dividends not yet assessed (-10.7% to EUR 551.5 million) as well as corporate income tax (-3.5% to EUR 1.1 billion). In addition to the Covid crisis, uncertainties surrounding the rent cap are also a burden. Real estate transfer tax, for example, slumped by EUR 292 million (-28%) due to a reluctance to buy. While the Federal State of Berlin still expected a surplus of EUR 983 million in 2019, the coronavirus pandemic is now likely to lead to an increase in debt.

Loan portfolios down by 5.3%

According to the German Bundesbank, the loan portfolios of banks operating in Berlin totalled EUR 134 billion at the end of the second quarter of 2020. This represents a decline of 5.3% compared to the previous year's quarter. Corporate loans (EUR 67 billion) fell by 1.1%. The biggest declines were recorded in loans to financial institutions and insurance companies (down by EUR 1.5 billion or 13.9%) and to energy and water utilities (down by EUR 853 million or 18.9%). By contrast, loans to service companies rose by 1.9% to EUR 59 billion. Demand for real estate loans also remained high. For example, housing loans in the second quarter increased by 1.3% to EUR 37 billion compared to the same quarter of the previous year. These include, in particular, large loan items of housing construction companies. However, consumer sentiment remained cautious in view of the Covid crisis. Consumer loans, for instance, stagnated at EUR 9.7 billion (-0.1%). Some companies will have to take out support loans and postpone repayments as a result of the Covid crisis, or will default completely due to insolvency. This means that the burden on banks is also likely to increase in the months ahead.

Berlin's tax revenues before tax distribution

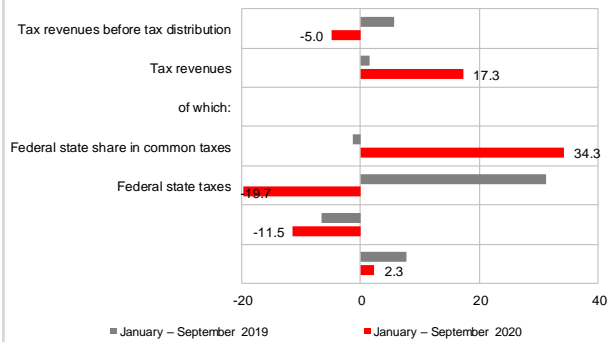
Monthly trend values, change against the same month of the previous year



Source: Senate Department of Finance; own calculation

Berlin tax revenues

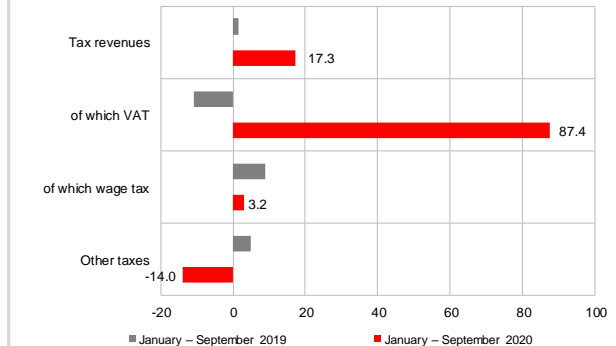
Change in % against the same period of the previous year



Source: Senate Department of Finance; own calculations

Tax revenues broken down according to types of taxes

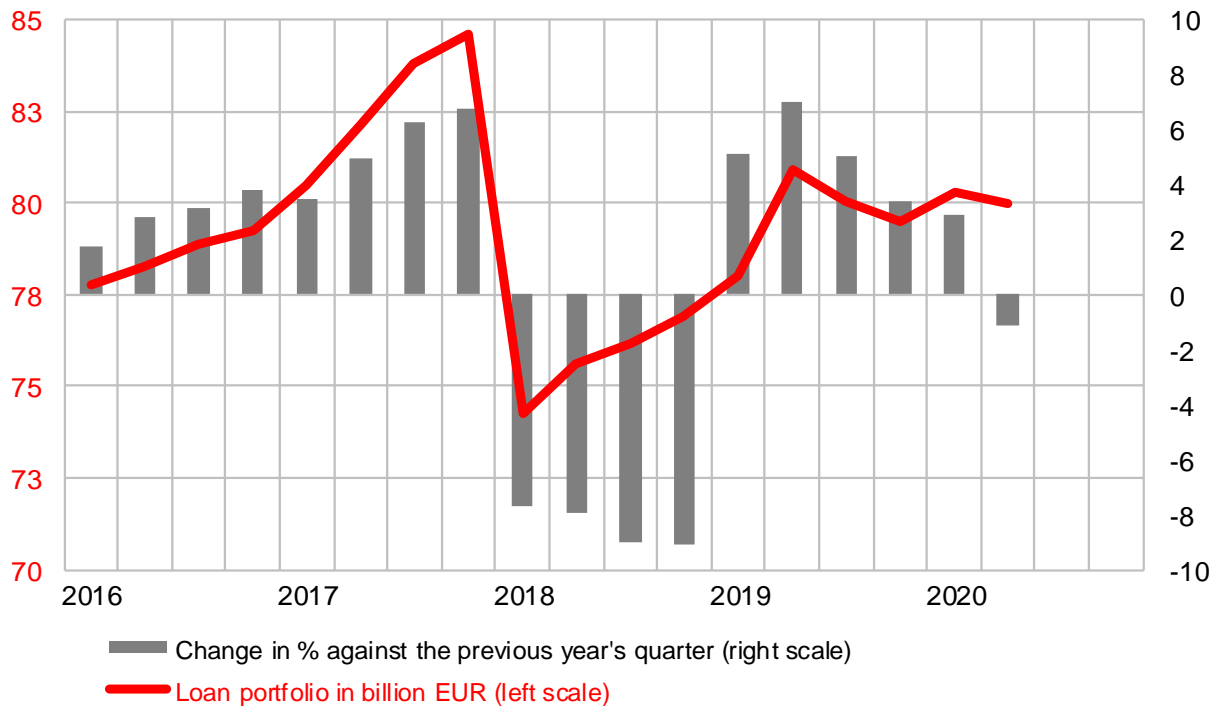
Change in % against the same period of the previous year



Source: Senate Department of Finance; own calculations

Corporate loans

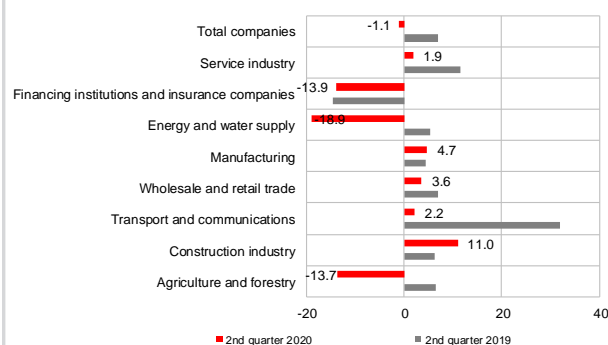
Loan portfolio of all bank branches in Berlin



Source: Deutsche Bundesbank, own calculations

Loans to companies

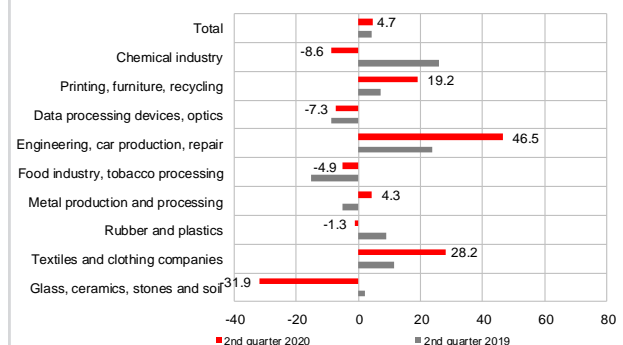
Loan portfolio of all bank branches in Berlin; Change against the previous year in percent



Source: Deutsche Bundesbank, own calculations

Loans to industrial companies

Loan portfolio of all bank branches in Berlin; Change against the previous year in percent



Source: Deutsche Bundesbank, own calculations

Conclusion

The second wave is slowing down recovery

The slump in the global economy caused by the pandemic remains difficult to calculate in terms of its extent due to the uncertain medical forecasts. However, we can expect to see damage that far exceeds that of the 2008/2009 financial crisis. Thanks to a slowdown in infection rates during the summer months, the economy was able to recover slowly after the spring slump. This recovery has now been abruptly halted with the outbreak of the second wave. Renewed restrictions and partial lockdowns are hitting an already weakened economy particularly hard.

As the recent crisis has impressively demonstrated, Berlin's economy is not developing independent of supra-regional contexts. The global economy is currently dominated by the Covid 19 pandemic. The launch of comprehensive assistance programmes marked a change in the course of economic policy. This year, all major industrialised countries and regions are likely to run high budget deficits. The central banks should ensure the financing of these deficits with sufficiently flexible purchasing programmes.

The phase of low interest rates is likely to continue for several more years. Central banks around the world are doing everything they can to keep interest rates low at the present time in an effort to prevent the crisis from spilling over to the financial sector and to avoid a credit crunch. The ECB has increased its liquidity by EUR 1.35 billion with the help of the Pandemic Emergency Purchase Programme (PEPP) and seems set to increase it further in December.

In response to this move, the interest rate differential between the dollar and the euro zone has almost halved so far this year – the difference between 10-year US treasuries and comparable 10-year German government bonds is currently only around 140 basis points. However, the recently strengthened euro did not benefit from this to the same extent, because the economic hardships triggered by coronavirus are also considered a risk factor for the cohesion of the Monetary Union. In addition, the flight to safe havens, coupled at times with strong capital outflows from emerging markets, have so far tended to benefit the dollar, which has also benefited from the rapidly falling oil price. The US presidential election at the beginning of November is likely to have only a short-term unsettling effect on markets.

The Covid crisis is changing the inflation environment at both the supply and demand end. At the supply end, pressure on prices can be expected to increase due perhaps to current supply bottlenecks, in the longer term, to higher production costs. Above all, the future intensification of preventive measures and the relocation of sensitive production could lead to price increases. At the same time, however, the pandemic is dampening price developments at the demand end as consumption becomes more difficult or even completely impossible and corporate investments are being postponed. The reduced purchasing power is also leading to an increased propensity to save.

Up to now, the economic damage caused by the Covid crisis can be largely estimated on the basis of industry-specific revenue losses. Consumer-near sectors of the economy have suffered the sharpest losses within a very short time. In addition, the disruption of supply chains and the slump in demand are causing considerable tension among manufacturing companies. Following a strong recovery over the summer, sentiment indicators are now once again pointing downwards.

The dynamism of Berlin's economy, a predominantly service-oriented economy with a low share of industry, is causing the previously above-average growth to fall back to same level as the rest of the country. This time, Berlin has been hit harder than in the financial and economic crisis of 2008. In 2020, the slump in gross domestic product in Berlin could be on par with the rest of the country at 6%. However, any return to pre-crisis economic levels is not expected to be achieved until 2022.

Compared to the rest of Europe, Germany is likely to benefit doubly from a rapid recovery after the crisis. As labour markets are often very rigid, especially in the European countries particularly hard hit by coronavirus, youth unemployment could rise again there. This is likely to encourage young workers to emigrate to Germany. Berlin will also benefit from this, where demand for well-trained specialists persists. Gearing Berlin's economic structures more towards specialised clusters, such as the healthcare industry, could further sharpen Berlin's profile and accelerate the catch-up process in the aftermath of the Covid crisis.

Published by :
Investitionsbank Berlin
Volkswirtschaft

Bundesallee 210
10719 Berlin
volkswirtschaft@ibb.de

Authors:
Sarah Kopp
Claus Pretzell
Phone 030/2125-4752

Further publications at
www.ibb.de/volkswirtschaft



Investitionsbank Berlin
This work is licensed under a Creative Commons
Attribution 3.0 Germany License.
<http://creativecommons.org/licenses/by/3.0/de/>