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Press Release

GBP Monitor: War Consequences and a Possible Raw Material Embargo Dampen Profit Expectations

On 20 March, the government has lifted most of the coronavirus restrictions. However, lifting the restrictions has not eased the burden on the companies, as it was expected. Profit expectations, in particular, are dampened by the war in Ukraine. According to the April report of the German Business Panel (GBP), corporate profits are reduced by 4.7 percent, as compared to April 2021. In addition, not all companies are still in favor of the planned economic sanctions. Most companies still support the sanctions which have been imposed up to now. The opinions on a possible raw material embargo, however, are mixed. Most of the companies using gas in their production or along the value-added chain evaluate an embargo negatively. 31 percent of those companies expect that it will take them more than two years to compensate for the disrupted gas supply.

The German Business Panel at the University of Mannheim asks companies in Germany daily what changes they expect with regard to sales, profits, and investments. The current data, collected in April, show that the war in Ukraine continues to have a considerable impact on key business figures. Since the war started, the expectations for profits, investments and sales have decreased considerably. Since Russia invaded Ukraine, the expected rate of profit growth has fallen from +5 percent to -4,7 percent. The same applies to investments and sales. Lifting most of the coronavirus containment measures could stop this trend only for a short amount of time and only in the event and hospitality industry that were particularly affected by the pandemic closures.

The profound consequences of the war in Ukraine and the sanctions that have already been imposed as well as those that are planned are the reasons for this. Almost 80 percent of the companies expect that the war will be a financial burden, especially due to rising energy prices (86 percent), supply chain issues (41 percent) and higher prices for material and procurement (24 percent). Despite the enormous burden, the majority of study participants still support the economic sanctions that have been imposed up to now. However, the opinions on the planned embargo on oil and gas are mixed. 41 percent of the companies support an oil and gas embargo and almost as many (36 percent) are against such an embargo. The number of those not in favor has increased as the war has dragged on.

The degree to which the company is affected plays a significant effect when evaluating the embargo: “As it was the case with the coronavirus measure, approval is particularly high if the own company does not bear the financial burden”, explains Professor Dr. Jannis Bischof, holder of the chair of Business Administration and Accounting at the University of Mannheim and project manager of the GBP. “The financial burden can be significant. Companies using gas for their production are directly affected and expect that their profits will be cut in half. More than 50 percent of the companies are expecting that their profits will be considerably reduced due to problems in their supply chains”, says Bischof.

In the new report, the GBP has also focused on finding out how quickly the companies could compensate for a lower supply of gas and oil. “For evaluating a possible raw material embargo, empirical results on the companies’ adaptability are indispensable”, says Professor Dr. Philipp Dörrenberg, holder of the chair of Business Administration and Taxation at the University of Mannheim and Research Fellow of the GBP. “Our data show that more than 50 percent of the companies would need one year to adapt to a gas supply reduced by 50 percent. About 25 percent of the companies expect that it would take them more than two years to adapt.

The complete report on company trends in April 2022 can be found here:

https://www.accounting-for-transparency.de/wp-content/uploads/2022/04/gbp_monitor_2022_04.pdf

Further information on the GBP monitoring report

The German Business Panel interviews more than 800 companies per month on the economic situation in Germany and collects data on 1) any expected changes in revenue, profit, and investments, 2) economic decisions, 3) the expected default probability in the sector and 4) the satisfaction with the economic policy. Furthermore, the GBP reports includes current questions each month. This month, we also asked the following questions: Is the war in Ukraine threatening the existence of German companies? What are the expected burdens for companies due to the current crisis? How do they evaluate a raw material embargo?

Background information on the German Business Panel

The German Business Panel is the long-term survey panel of the trans-regional project “Accounting for Transparency” (www.accounting-for-transparency.de).

The Collaborative Research Centre (CRC) “TRR 266 Accounting for Transparency” started in July 2019 and is funded by the German Research Foundation (DFG) for four years. It is the first CRC with a focus on business administration. Approx. 80 researchers from the following eight universities participate in the CRC: Paderborn University (host university), Humboldt-Universität zu Berlin, University of Mannheim, Ludwig-Maximilians-Universität München, ESMT Berlin, Frankfurt School of Finance & Management, Goethe University Frankfurt am Main, WHU - Otto Beisheim School of Management and the Carl von Ossietzky University of Oldenburg. The researchers examine how accounting and taxation affect the transparency of companies and how regulation and firm transparency impact our economy and society. The CRC is funded with approx. 12 million euros.