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Press Release

GBP Monitor: No All-Clear for Inflation in 2024

In December 2022, the German Bundesbank predicted a significant decline of the inflation rate to 4.1 percent for 2024. According to the April report of the German Business Panel (GBP), however, it is too soon to give the all-clear. Despite the prognosis, companies are still expecting an inflation rate of more than 8 percent for 2024 and are increasing their prices further. Energy-intensive companies are not the only ones planning to substantially increase their prices. They justify the increase in prices with higher costs for material, energy, and labor. If the current negotiations of collective bargaining agreements result in hefty salary rises, this price dynamic can even be intensified.

In the fall and winter of 2022, companies expected an inflation rate of 11.4 percent. Since the beginning of the year, this number has declined. According to the current GBP report, companies now expect an inflation rate of 9.3 percent. But in contrast to the common forecasts, the companies participating in the survey do not expect that the inflation rate declines quickly and considerably. For 2024, companies are still expecting a high inflation rate of more than 8 percent. This is considerably higher than the Bundesbank's prognosis (4.1 percent). "The large difference between the prognosis and the companies' expectations shows that higher costs must be expected, despite the energy prices which have dropped considerably", explains Professor Davud Rostam-Afschar. "Two thirds of the companies are planning to increase their sale prices in the next twelve months, on average by 12.6 percent", says the academic director of the GBP at the University of Mannheim.

Energy-intensive companies are not the only ones to increase prices even further
If and how much companies adjust their prices mainly depends on the sector. In the energy-intensive industries (processing industry and commerce) an above-average number of companies (71 percent) intends to increase their prices by an above-average amount (17.9 percent) in the next twelve months. In comparison, the planned price increases in the sectors heavily affected by the coronavirus crisis - including the hospitality industry and restaurants in particular - are much lower at 9 percent, even though significantly more businesses (around 77.2 percent) want to increase their prices. "This shows that the hospitality industry and restaurants are unable to pass on the cost increase to their customers to the same extent as other sectors", says Professor Philipp Dörrenberg, holder of the chair of Business Administration and Taxation at the University of Mannheim. "Whether and to which extent cost increases can be passed on to customers depends largely on the

price elasticity of demand. Price elasticity refers to the extent to which changes in prices affect the demand for a product", says the co-director of the study.

The current data show that the sales volume currently changes less if prices are increased instead of decreased. "Consumers are not able to avoid the general increase in prices and choose cheaper products, which causes this asymmetry. This applies, in particular, to essential products for daily use", says Rostam-Afschar. Consumers are reacting sensitively to price increases in the construction industry. Due to massively increased purchasing prices and higher interest rates, the demand is decreasing considerably. This could also explain why the share of companies in the construction industry increasing their prices has decreased significantly and above average since summer 2022 (by 25 percentage points).

Costs for material, energy, and labor lead to increased sale prices
The main reason for companies to increase prices are higher costs for material and energy (64 percent) and labor (61 percent). However, this also differs across sectors. While energy-intensive companies must compensate for higher purchasing costs for material and energy, prices in the hospitality industry and restaurants are increased due to higher labor costs.

The complete report on company trends in April 2023 can be found here:
https://www.accounting-for-transparency.de/wp-content/uploads/2023/04/gbp_monitor_2023_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, GBP reports on particularly relevant questions once per month.

Background information on the German Business Panel
The GBP is the long-term survey panel of the trans-regional Collaborative Research Centre "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. 100 researchers from the following nine universities are involved 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. 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. EUR 12 million.

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