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Ifo Business Climate Germany

Results of the January 2006 Ifo Business Survey

Upswing gains momentum

The Ifo Business Climate Index for German industry and trade rose again clearly in January, after a significant improvement in the previous months. The surveyed firms expressed greater satisfaction with their current business situation than in December, and they again gave more favourable assessments of their business expectations for the next six months. Doubts regarding the durability of the upswing, which has been observable since last summer, should be further dispelled by these results. The upswing has gained both in breadth and momentum.

In manufacturing more favourable assessments of the current situation and more optimistic expectations led to a strong improvement of the business climate. Export expectations have also improved. Particularly, the producers of investment and intermediary goods reported a better situation and outlook. In construction and in retailing especially business expectations improved. Only in wholesaling did the business climate cool slightly. Although the surveyed wholesalers gave more confident appraisals of their business prospects, they were more reserved regarding their current situation than they were last month.

In eastern Germany the rise in the business climate index was similar to the federal average.

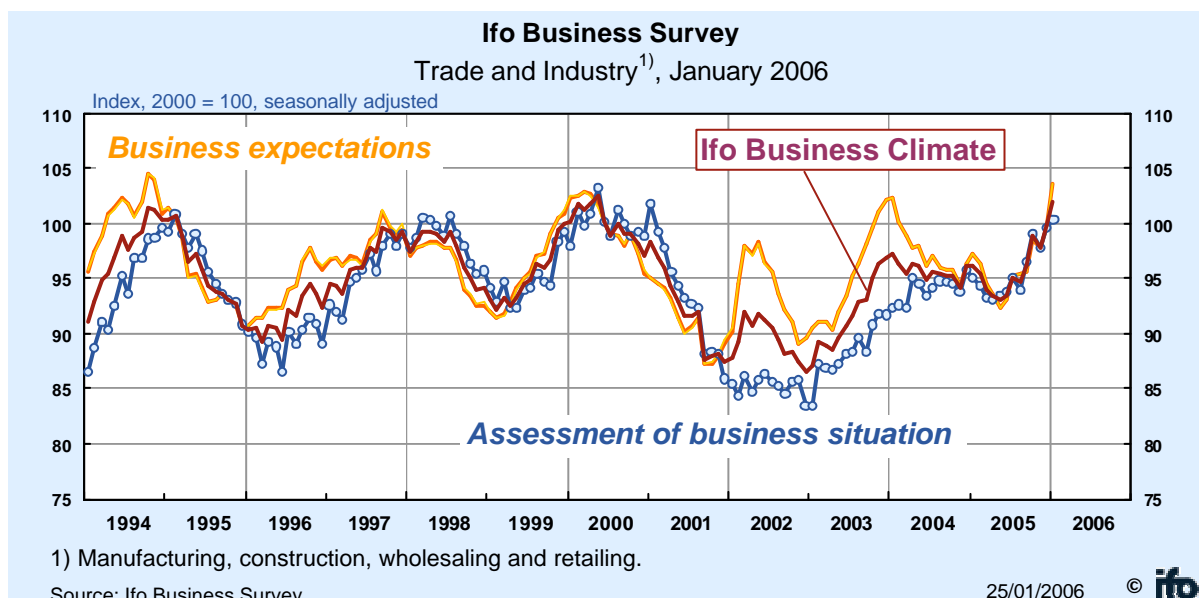
Hans-Werner Sinn

President of the Ifo Institute for Economic Research at the University of Munich

P.S.: As of February the time series of the Business Survey will be slightly revised on the basis of updated aggregation and weighting methods.

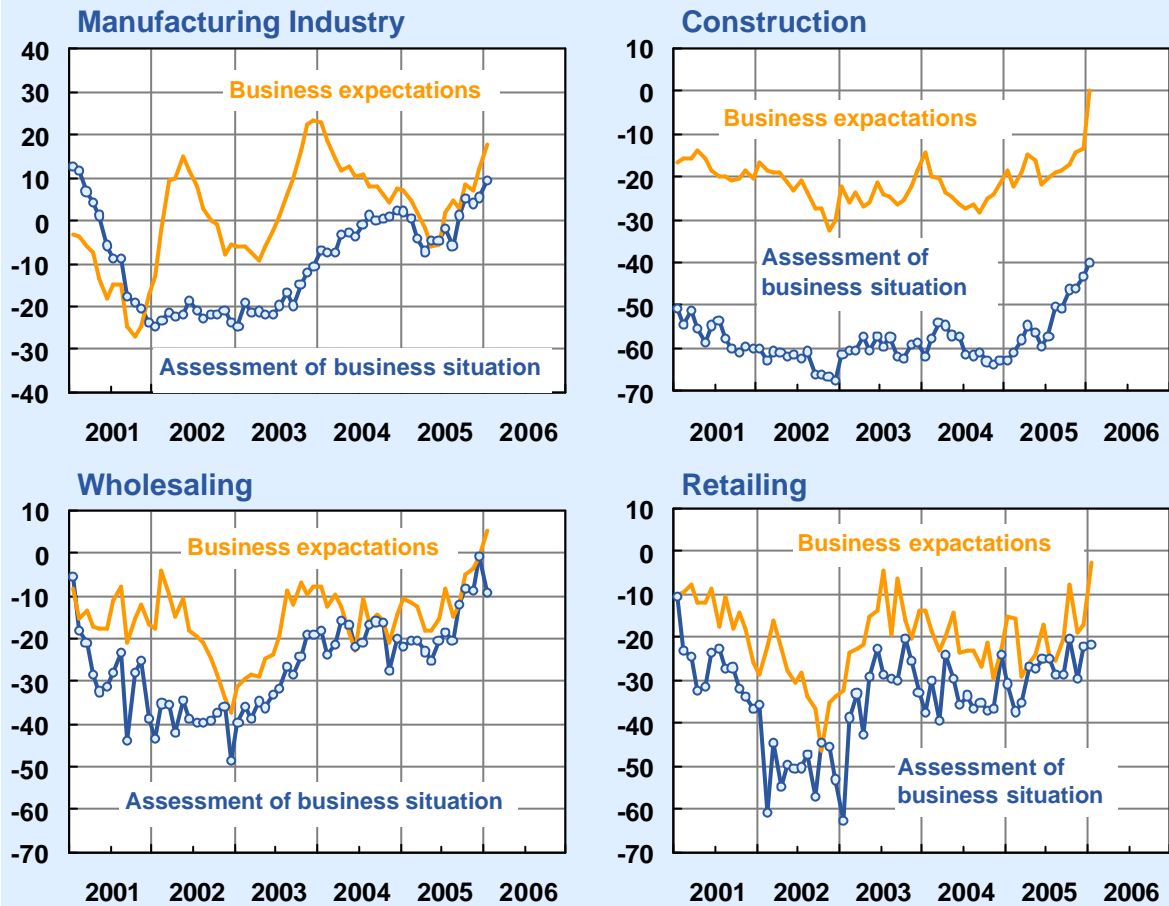
Germany (Index, 2000 = 100, seasonally adjusted)

Month/year	1/05	2/05	3/05	4/05	5/05	6/05	7/05	8/05	9/05	10/05	11/05	12/05	01/06
Climate	96.2	95.4	94.0	93.4	93.0	93.4	95.1	94.7	96.1	98.8	97.8	99.7	102.0
Situation	95.1	94.4	93.3	93.1	93.5	93.8	95.0	93.9	96.5	99.0	97.8	99.6	100.4
Expectations	97.2	96.3	94.6	93.6	92.4	93.0	95.2	95.5	95.6	98.6	97.8	99.6	103.6



Business Situation and Expectations by Sectors

January 2006; balances, seasonally adjusted



Source: Ifo Business Survey.

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Ifo Business Climate Germany (Balances, seasonally adjusted)

Month/year	1/05	2/05	3/05	4/05	5/05	6/05	7/05	8/05	9/05	10/05	11/05	12/05	01/06
Trade and Industry	-8.6	-10.2	-13.0	-14.2	-14.9	-14.1	-10.7	-11.5	-8.8	-3.4	-5.3	-1.7	3.0
Manufacturing	4.5	2.8	-1.2	-4.6	-5.5	-5.1	0.0	-0.5	2.1	6.8	5.6	8.8	13.6
Construction	-42.1	-42.8	-39.7	-36.0	-37.5	-41.9	-39.7	-35.4	-35.5	-32.4	-30.8	-29.0	-21.2
Wholesaling	-16.3	-16.0	-16.4	-20.6	-21.8	-17.9	-13.4	-17.6	-11.9	-6.7	-6.2	-0.8	-2.1
Retailing	-23.3	-26.9	-32.1	-26.3	-25.7	-20.9	-24.6	-27.1	-24.6	-14.2	-24.3	-19.5	-12.4

Source: Ifo Business Survey

Legend: The Ifo Business Climate Index is based on ca. 7,000 monthly survey responses of firms in manufacturing, construction, wholesaling and retailing. The firms are asked to give their assessments of the **current business situation** and their **expectations** for the next six months. They can characterise their situation as "good", "satisfactorily" or "poor" and their business expectations for the next six months as "more favourable", "unchanged" or "more unfavourable". The **balance value** of the current business situation is the difference of the percentages of the responses "good" and "poor", the balance value of the expectations is the difference of the percentages of the responses "more favourable" and "more unfavourable". The **business climate** is a transformed mean of the balances of the business situation and the expectations. For calculating the **index values** the transformed balances are all normalized to the average of the year 2000.

Ifo Business Climate in the German Services Sector

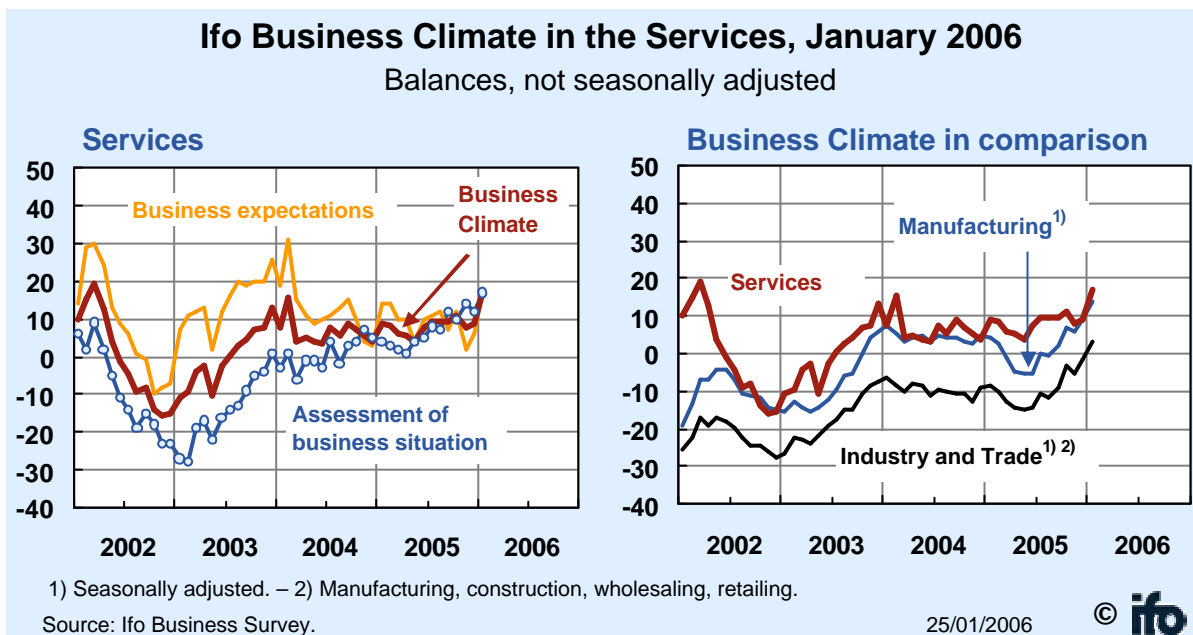
Results for January 2006

Continued Upswing of the Ifo Business Climate in the Services

The Ifo Business Climate in the German services sector brightened further in January following the improvement in December. The surveyed firms expressed greater satisfaction with their current situation than in December and also their expectations for the coming six months were more confident.

Hans-Werner Sinn

President of the Ifo Institute for Economic Research at the University of Munich



German Services Sector (Balances, not seasonally adjusted)

Month/Year	1/05	2/05	3/05	4/05	5/05	6/05	7/05	8/05	9/05	10/05	11/05	12/05	01/06
Climate	8.9	8.4	6.0	5.5	4.0	7.5	9.5	9.5	9.5	11.0	7.9	9.0	17.0
Situation	4.0	3.0	2.0	1.0	4.0	5.0	8.0	7.0	12.0	10.0	14.0	12.0	17.0
Expectations	14.0	14.0	10.0	10.0	4.0	10.0	11.0	12.0	7.0	12.0	2.0	6.0	17.0

Source: Ifo Business Survey

Explanatory note: The Ifo Business Survey in the Services is based on ca. 2,000 monthly survey responses of firms in important, especially business-oriented segments of the tertiary sector (excl. distribution, financial services, leasing, insurance and government). The survey is conducted and calculated analogously to the Ifo Business Survey in industry and trade. In comparing the various curves of the Business Climate, it must be kept in mind that for methodological reasons the results of the Business Survey in the Services are not yet seasonally adjusted. The indicator for the Business Climate in the services has not yet been incorporated into the Ifo Business Climate Index for industry and trade.