

Ifo Business Climate Germany

Results of the July 2006 Ifo Business Survey

Ifo Index Weakens

The Ifo Business Climate Index for industry and trade in Germany fell slightly in July but is still at a high level. The surveyed firms were no longer quite so satisfied with their current business situation. Their business expectations for the coming six months were clearly less optimistic than in June. The economic situation is still marked by recovery.

In manufacturing the business climate has cooled down. The survey participants assessed their current business situation somewhat less favourably. Their business outlook for the coming six months also weakened. The export expectations of the industrial firms were still very positive although less so than in the previous months. In construction the business climate remained virtually unchanged. A more satisfactory assessment of the current situation was offset by more reserved business expectations. In retailing the business climate index declined. Both the current situation and the six-month outlook were assessed less favourably by the surveyed retailers. In wholesaling, however, the business climate index rose. After a decline in June, the firms assessed both their current situation and outlook more positively.

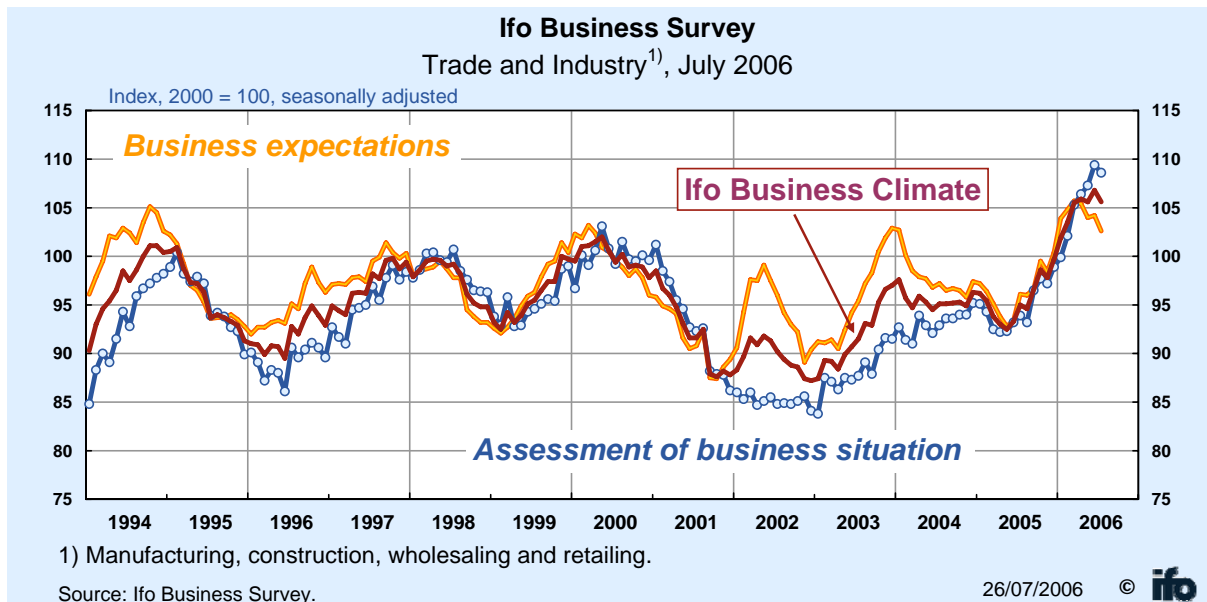
In eastern Germany the decline in the business climate index was weaker than the federal average.

Gebhard Flaig

Member of the Executive Board, Ifo Institute for Economic Research at the University of Munich

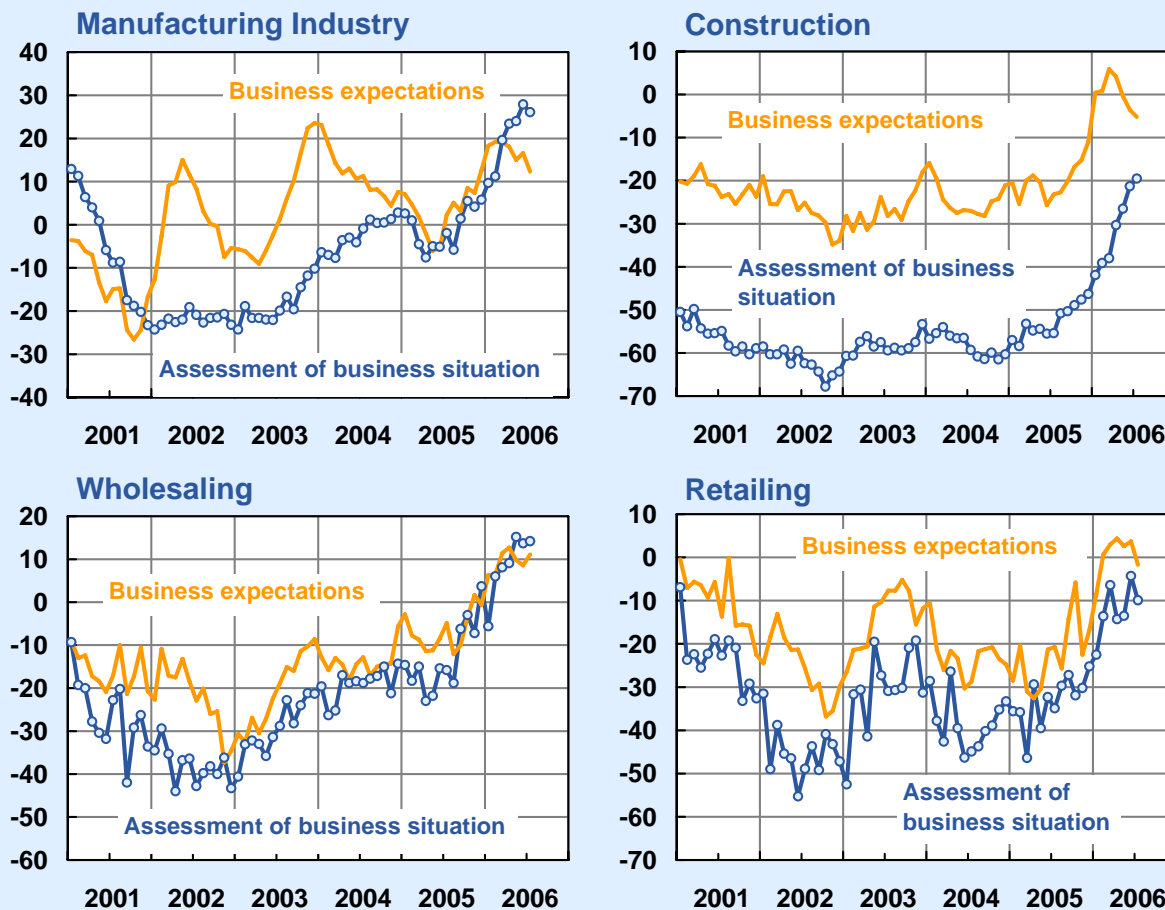
Germany (Index, 2000 = 100, seasonally adjusted)

Month/year	7/05	8/05	9/05	10/05	11/05	12/05	01/06	02/06	03/06	04/06	05/06	06/06	07/06
Climate	95.0	94.6	96.6	98.6	97.8	99.7	101.9	103.5	105.5	105.9	105.6	106.8	105.6
Situation	93.9	93.2	96.5	97.7	97.2	98.9	99.9	102.1	105.3	106.4	107.3	109.4	108.6
Expectations	96.1	96.0	96.7	99.5	98.4	100.4	103.9	104.8	105.7	105.4	104.0	104.2	102.6



Business Situation and Expectations by Sectors

July 2006; balances, seasonally adjusted



Source: Ifo Business Survey.

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Ifo Business Climate Germany (Balances, seasonally adjusted)

Month/year	7/05	8/05	9/05	10/05	11/05	12/05	01/06	02/06	03/06	04/06	05/06	06/06	07/06
Trade and Industry	-10.8	-11.5	-7.6	-3.6	-5.1	-1.4	2.9	6.1	10.1	11.0	10.5	12.7	10.4
Manufacturing	0.2	-0.4	2.3	7.0	5.8	9.2	13.9	15.2	19.4	20.7	19.5	22.2	19.1
Construction	-40.1	-37.4	-35.9	-33.6	-32.2	-29.5	-22.0	-20.2	-17.4	-13.9	-13.9	-12.7	-12.5
Wholesaling	-10.4	-15.5	-8.1	-3.2	-2.8	1.5	0.3	6.3	9.7	10.8	12.5	11.1	12.7
Retailing	-28.0	-27.7	-20.8	-19.3	-26.4	-21.1	-15.7	-6.6	-1.7	-5.2	-5.6	-0.3	-5.9

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 normalised to the average of the year 2000.

Ifo Business Climate in the German Service Sector

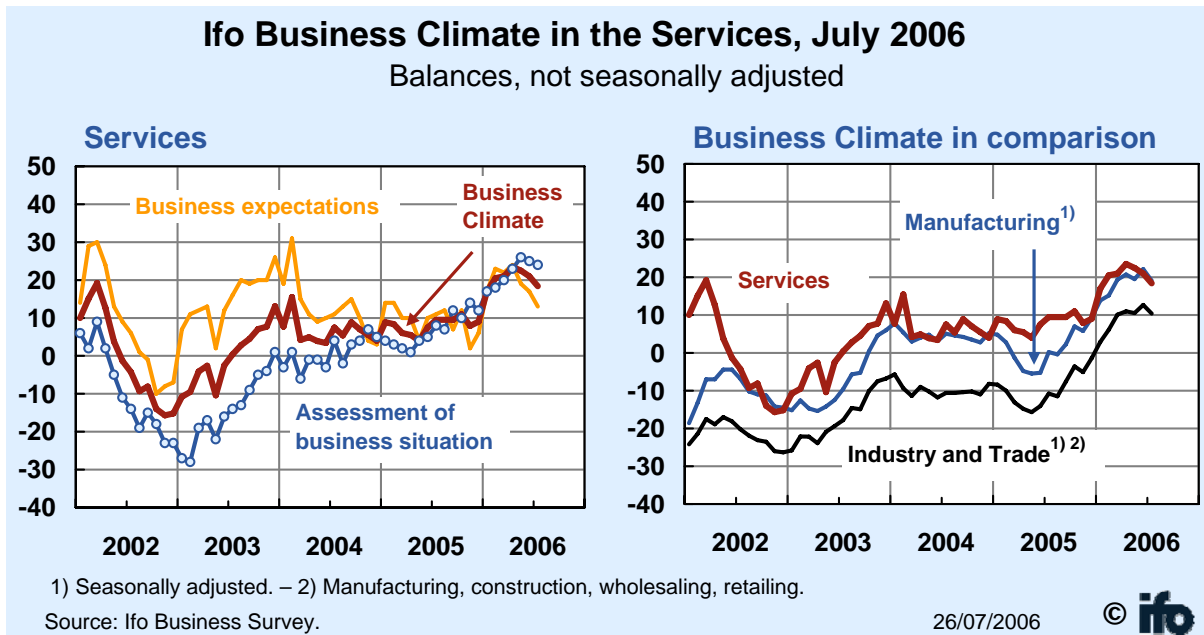
Results for July 2006

Ifo Business Climate Indicator in the Services Declines

The business climate in the service sector in Germany cooled off slightly in July. The firms assessed their current business situation somewhat less favourably than in June. Their expectations for the coming six months were less confident for the third time in succession.

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German Services Sector (Balances, not seasonally adjusted)

Month/Year	7/05	8/05	9/05	10/05	11/05	12/05	01/06	02/06	03/06	04/06	05/06	06/06	07/06
Climate	9.5	9.5	9.5	11.0	7.9	9.0	17.0	20.5	21.0	23.5	22.5	21.0	18.4
Situation	8.0	7.0	12.0	10.0	14.0	12.0	17.0	18.0	20.0	23.0	26.0	25.0	24.0
Expectations	11.0	12.0	7.0	12.0	2.0	6.0	17.0	23.0	22.0	24.0	19.0	17.0	13.0

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.