

Ifo Business Climate Germany

Results of the August 2006 Ifo Business Survey

Ifo Index Weakens Slightly

The Ifo Business Climate Index for industry and trade in Germany fell slightly in August but is still at a high level following the rise in the first half of the year. The somewhat weakened expectations for the coming six months was the reason for the cooling. The surveyed firms gave the same positive assessments of their current business situation as last month. The German economic recovery remains robust.

In manufacturing the fall in the business climate index was barely noticeable. The survey participants still assessed their current business situation favourably but are somewhat more sceptical regarding the six-month business outlook. Their export expectations were somewhat weaker than in the previous month. In construction and wholesaling the business climate worsened. Both building contractors and wholesalers were more reserved regarding the business outlook than in July. The contractors also gave weaker assessments of their current situation but wholesalers gave their current business somewhat better marks. In retailing the business climate improved slightly. Retailers reported a more positive business situation but were less optimistic regarding the six-month outlook.

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

Gebhard Flaig

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

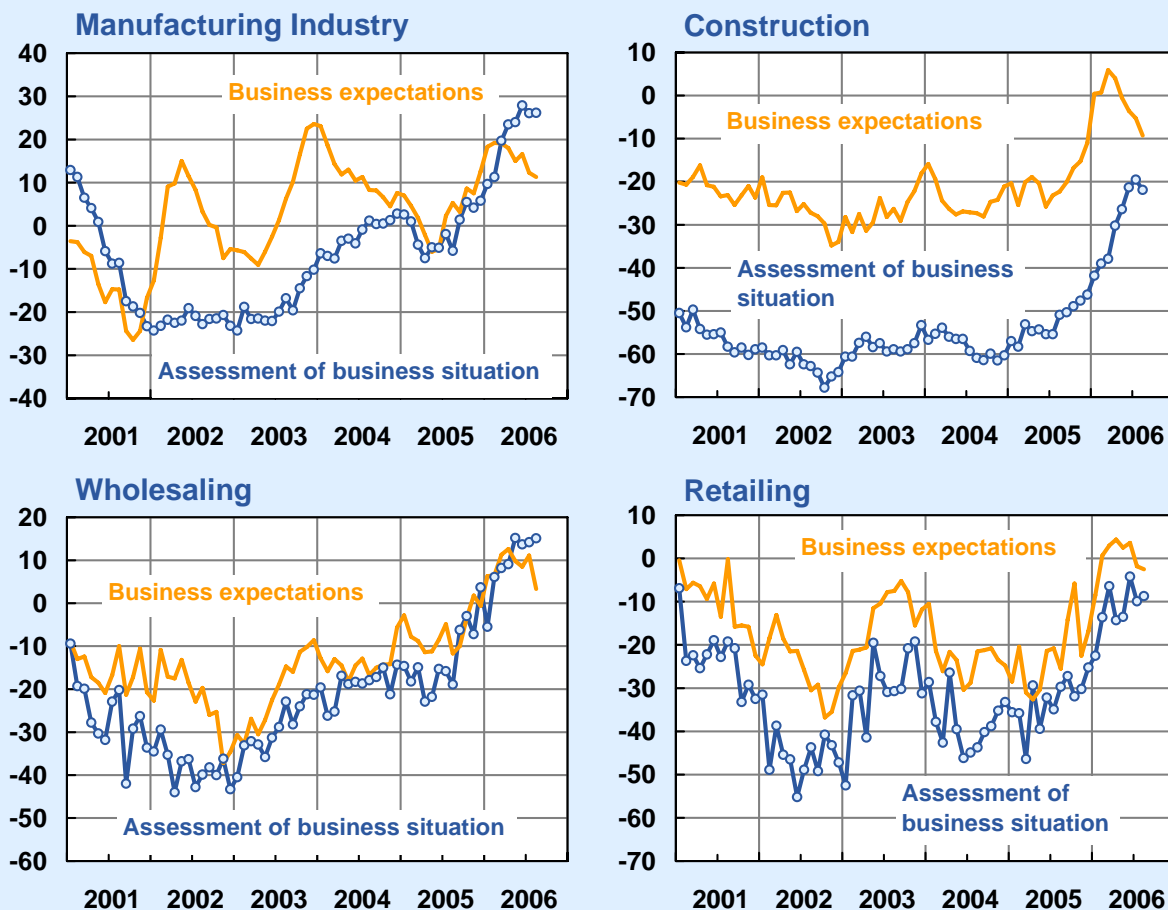
Germany (Index, 2000 = 100, seasonally adjusted)

Month/year	8/05	9/05	10/05	11/05	12/05	01/06	02/06	03/06	04/06	05/06	06/06	07/06	08/06
Climate	94.7	96.6	98.6	97.8	99.7	101.9	103.5	105.5	105.9	105.6	106.8	105.6	105.0
Situation	93.2	96.5	97.7	97.2	98.9	99.9	102.1	105.3	106.4	107.4	109.4	108.6	108.6
Expectations	96.2	96.7	99.5	98.4	100.4	103.9	104.8	105.6	105.4	103.9	104.2	102.6	101.5



Business Situation and Expectations by Sectors

August 2006; balances, seasonally adjusted



Source: Ifo Business Survey.

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Ifo Business Climate Germany (Balances, seasonally adjusted)

Month/year	8/05	9/05	10/05	11/05	12/05	01/06	02/06	03/06	04/06	05/06	06/06	07/06	08/06
Trade and Industry	-11.4	-7.6	-3.6	-5.1	-1.4	2.9	6.1	10.2	11.0	10.5	12.7	10.3	9.2
Manufacturing	-0.3	2.3	7.0	5.8	9.2	13.9	15.2	19.4	20.7	19.5	22.2	19.1	18.6
Construction	-37.2	-35.9	-33.6	-32.2	-29.5	-22.0	-20.2	-17.3	-13.9	-13.9	-12.7	-12.5	-15.7
Wholesaling	-15.3	-8.1	-3.2	-2.8	1.5	0.3	6.3	9.8	10.9	12.5	11.1	12.7	9.1
Retailing	-27.6	-20.8	-19.3	-26.4	-21.0	-15.6	-6.6	-1.7	-5.2	-5.6	-0.3	-5.9	-5.6

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

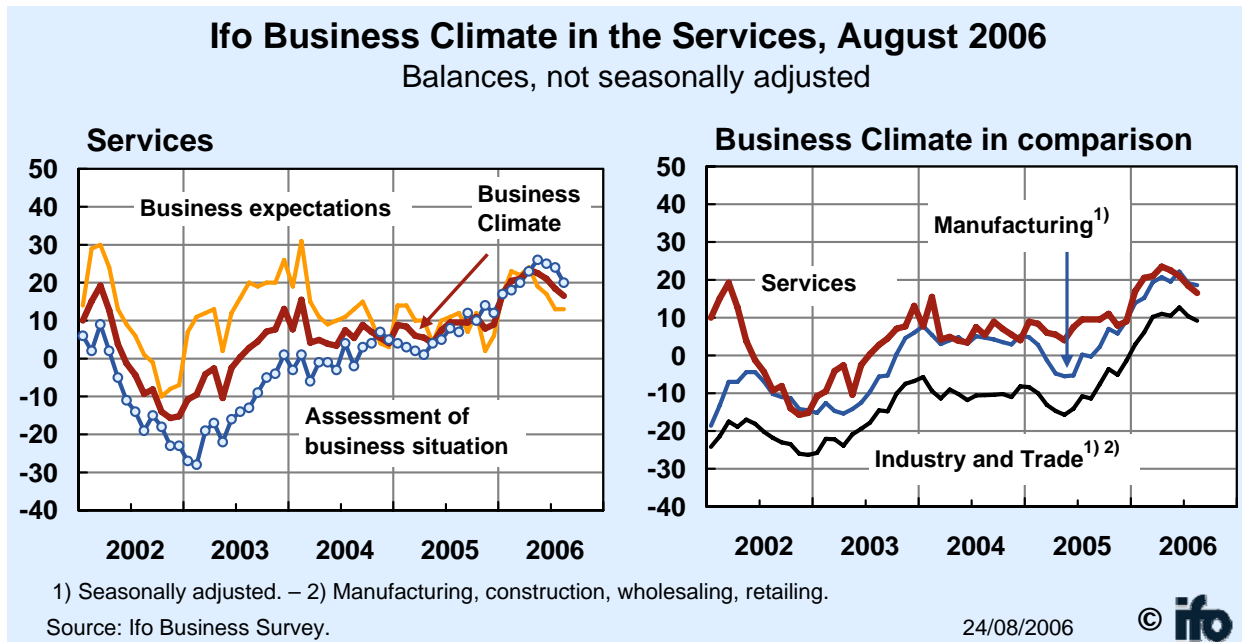
Results for August 2006

Ifo Business Climate Indicator in the Services Declines

The business climate index in the service sector in Germany weakened in August. The firms were less satisfied with their current business situation than in July. Their expectations for the coming six months remained unchanged. This halted the weakening of the businesses expectations that occurred over the past three months.

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German Services Sector (Balances, not seasonally adjusted)

Month/Year	8/05	9/05	10/05	11/05	12/05	01/06	02/06	03/06	04/06	05/06	06/06	07/06	08/06
Climate	9.5	9.5	11.0	7.9	9.0	17.0	20.5	21.0	23.5	22.5	21.0	18.4	16.5
Situation	7.0	12.0	10.0	14.0	12.0	17.0	18.0	20.0	23.0	26.0	25.0	24.0	20.0
Expectations	12.0	7.0	12.0	2.0	6.0	17.0	23.0	22.0	24.0	19.0	17.0	13.0	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.