

Ifo Business Climate Germany

Results of the October 2006 Ifo Business Survey

Ifo Index Rises

The Ifo Business Climate Index for industry and trade in Germany improved in October. The surveyed firms again assessed their current business situation somewhat more positively. For the first time in three months their business expectations were also more confident. These survey results indicate that the economic expansion will continue despite the increase in VAT next year.

In manufacturing the business climate index rose. While the assessments of the current business situation remained favourable, firms were more confident regarding the six-month outlook than in September. Their export expectations were also more favourable than in the previous month. In construction the business climate improved minimally, with slightly more positive appraisals of the current situation and similar business expectations than in the previous month. In wholesaling the responses were clearly more positive than in September both with regard to the current situation and the business outlook. Retailers also reported an improved business situation, but their appraisal of the business outlook was clearly more pessimistic, leading to an overall worsening of the business climate in retailing.

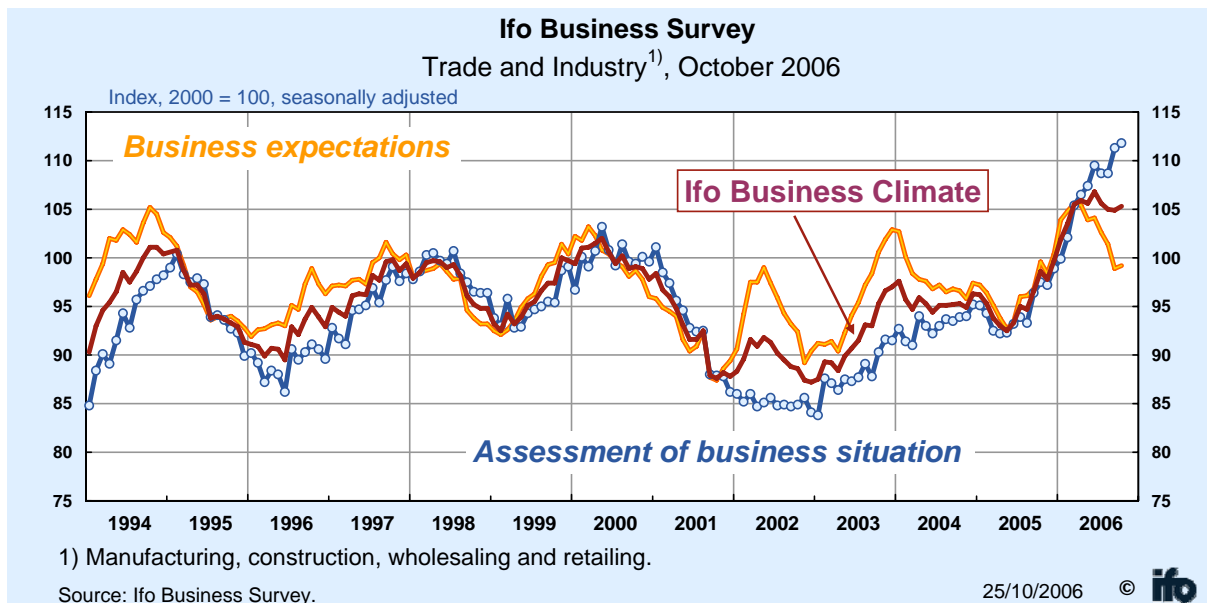
In eastern Germany, in contrast to the federal average, the business climate index fell slightly.

Hans-Werner Sinn

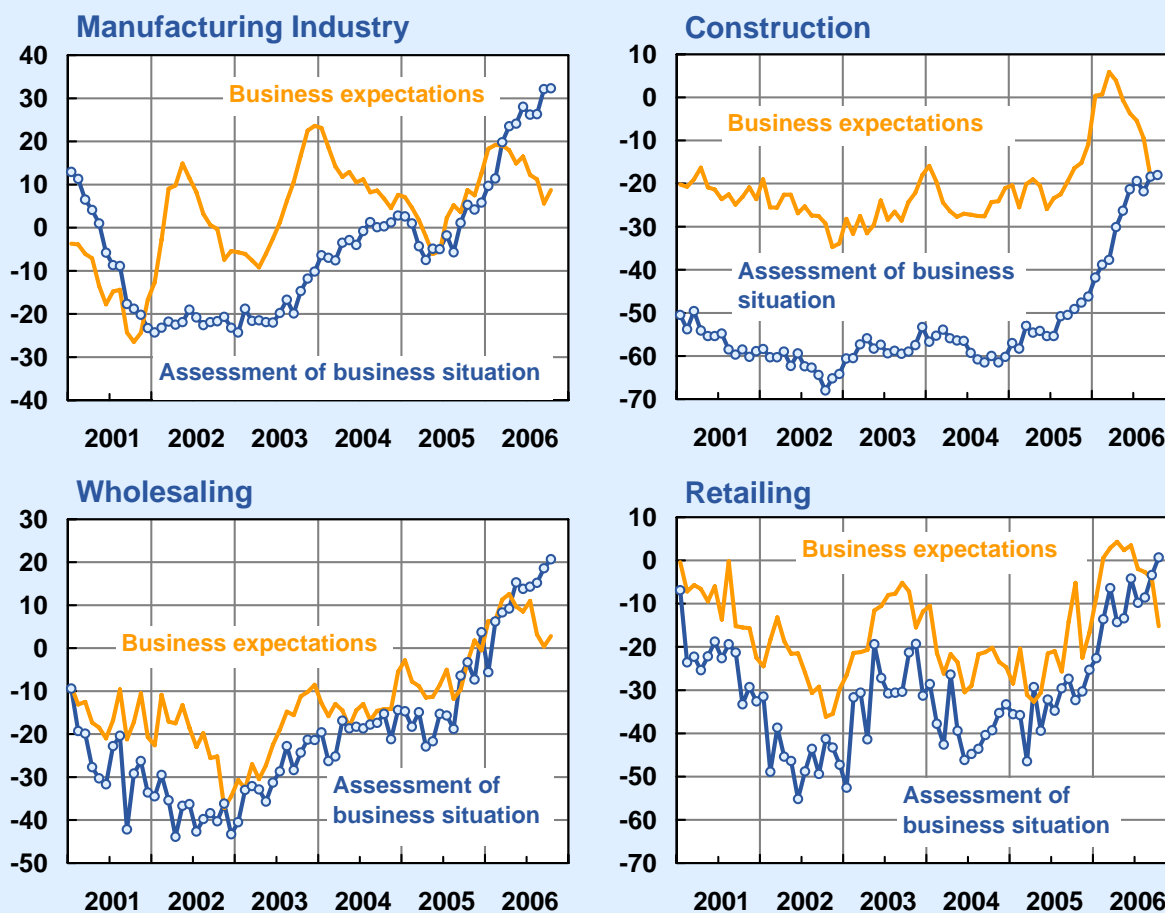
President of the Ifo Institute for Economic Research at the University of Munich

Germany (Index, 2000 = 100, seasonally adjusted)

Month/year	10/05	11/05	12/05	01/06	02/06	03/06	04/06	05/06	06/06	07/06	08/06	09/06	10/06
Climate	98.6	97.8	99.7	101.9	103.5	105.5	105.9	105.6	106.8	105.6	105.0	104.9	105.3
Situation	97.5	97.2	98.9	99.9	102.1	105.4	106.5	107.4	109.5	108.7	108.7	111.3	111.8
Expectations	99.6	98.4	100.4	103.9	104.8	105.6	105.4	103.9	104.1	102.6	101.4	98.9	99.2



Business Situation and Expectations by Sector October 2006; balances, seasonally adjusted



Source: Ifo Business Survey.

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Ifo Business Climate Germany (Balances, seasonally adjusted)

Month/year	10/05	11/05	12/05	01/06	02/06	03/06	04/06	05/06	06/06	07/06	08/06	09/06	10/06
Trade and Industry	-3.6	-5.1	-1.4	2.9	6.2	10.2	11.0	10.4	12.7	10.3	9.2	9.0	9.8
Manufacturing	7.0	5.8	9.2	13.9	15.3	19.4	20.7	19.5	22.2	19.1	18.6	18.4	20.2
Construction	-33.5	-32.2	-29.5	-21.9	-20.1	-17.2	-13.9	-13.9	-12.7	-12.6	-15.8	-18.5	-18.2
Wholesaling	-3.3	-2.8	1.6	0.3	6.3	9.8	10.9	12.5	11.1	12.7	9.1	9.3	11.6
Retailing	-19.2	-26.4	-21.1	-15.7	-6.6	-1.8	-5.2	-5.7	-0.4	-5.9	-5.7	-3.8	-7.4

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 normalised to the average of the year 2000.

Ifo Business Climate in the German Service Sector

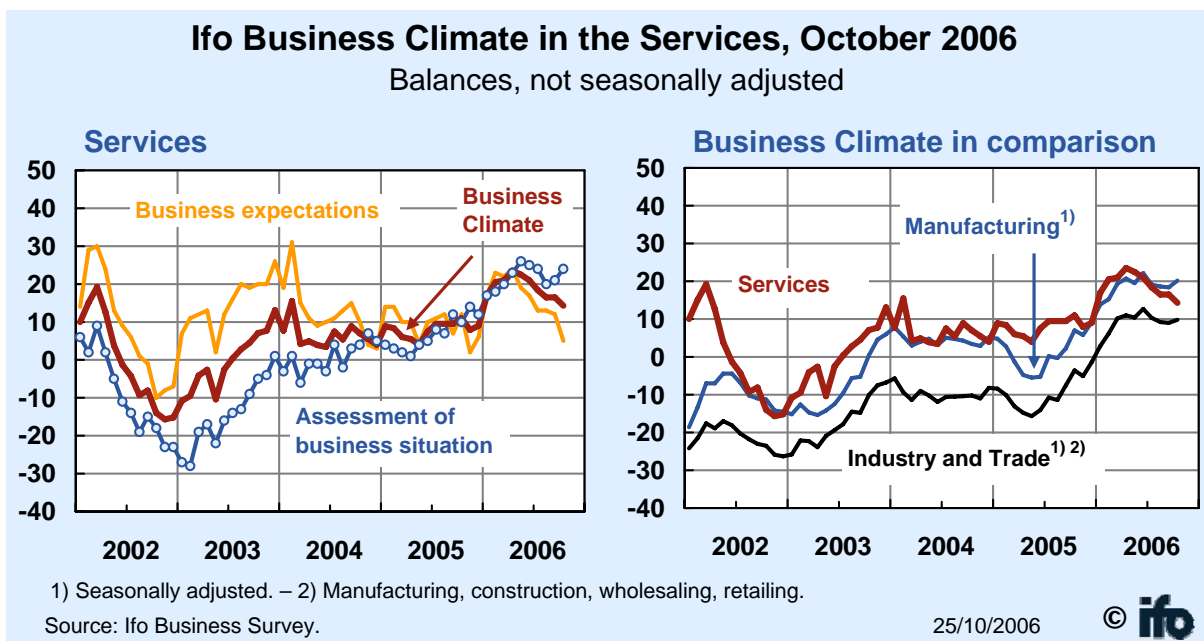
Results for October 2006

Business Climate in the Services Worsens

The business climate indicator for the service sector in Germany fell in October. Although the surveyed firms were slightly more satisfied with their current business situation, their expectations were clearly less confident. Employment plans in the service sector remained positive on the whole, even though the willingness to hire new staff weakened somewhat in comparison to September.

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	10/05	11/05	12/05	01/06	02/06	03/06	04/06	05/06	06/06	07/06	08/06	09/06	10/06
Climate	11.0	7.9	9.0	17.0	20.5	21.0	23.5	22.5	21.0	18.4	16.5	16.5	14.3
Situation	10.0	14.0	12.0	17.0	18.0	20.0	23.0	26.0	25.0	24.0	20.0	21.0	24.0
Expectations	12.0	2.0	6.0	17.0	23.0	22.0	24.0	19.0	17.0	13.0	13.0	12.0	5.0

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.