

# Ifo Business Climate Germany

Results of the January 2007 Ifo Business Survey

## Ifo Business Climate Index Declines Slightly, Expectations Remain Positive

The Ifo Business Climate Index for German industry and trade fell slightly in January. The surveyed firms still reported a very positive current business situation although giving not quite so favourable assessments as in the previous month. This is probably in part the result of the increase in VAT. With regard to the outlook for the coming six months, however, the firms are somewhat more confident: The business expectations have risen for the fourth time in succession. This indicates that after a brief pause the cyclical recovery will continue in the coming months.

In manufacturing, the business climate index declined because the business situation is regarded as less positive than in December. Also for the coming six months the manufacturing firms are slightly less optimistic. They continue to see good opportunities for their export business, but here too the appraisals were not quite so confident as in the previous month. Moreover, in wholesaling, the business climate index declined slightly.

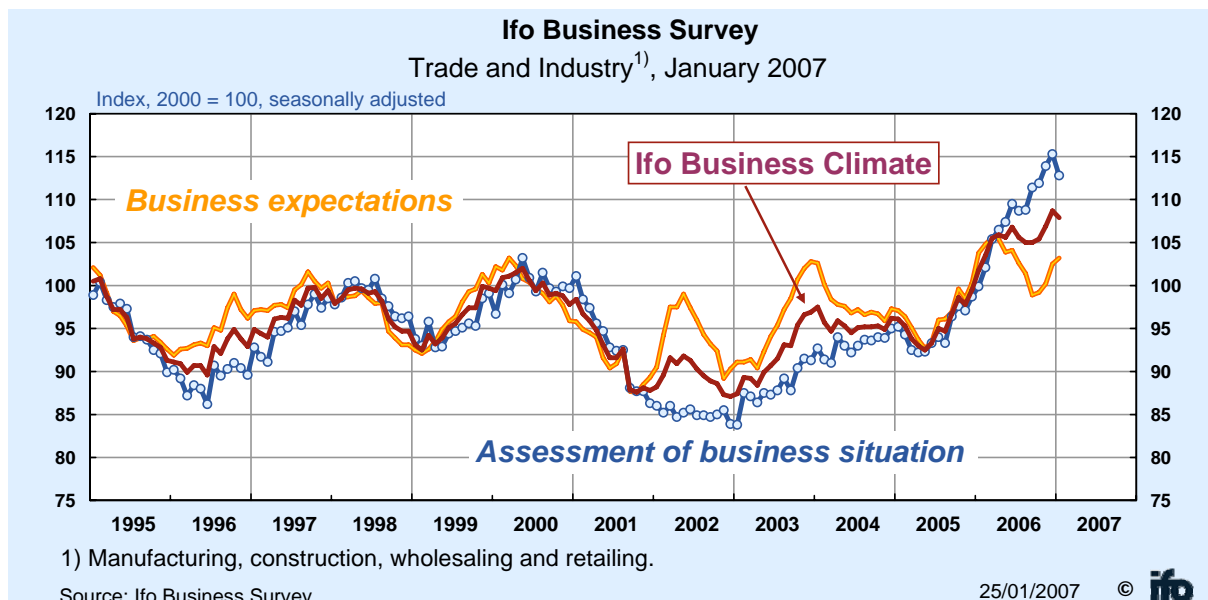
Business confidence comes mainly from construction and retailing. Here the business climate index rose because the expectations improved strongly. This too is an indication that the dampening effect of the VAT increase will be limited.

Hans-Werner Sinn

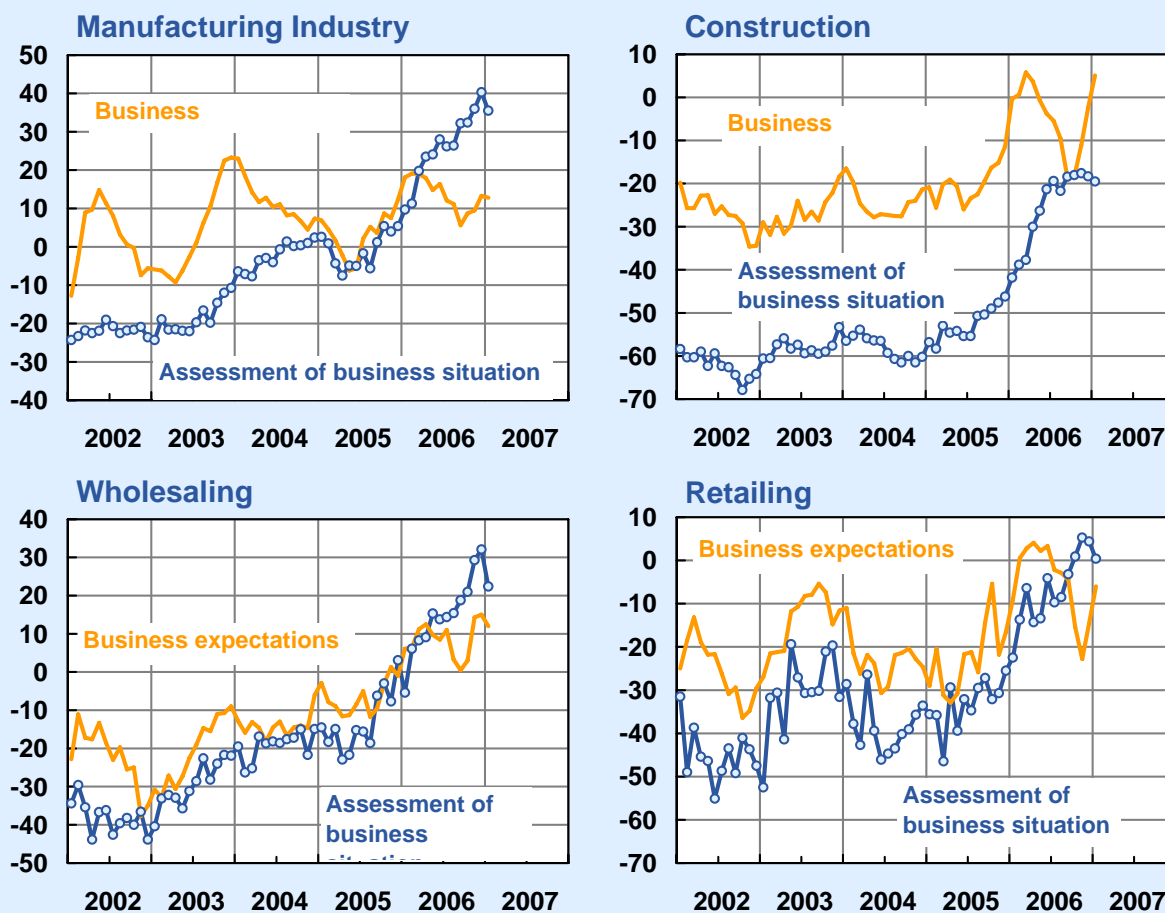
President of the Ifo Institute for Economic Research at the University of Munich

### Germany (Index, 2000 = 100, seasonally adjusted)

Month/year	01/06	02/06	03/06	04/06	05/06	06/06	07/06	08/06	09/06	10/06	11/06	12/06	01/07
<b>Climate</b>	101.8	103.5	105.5	105.9	105.6	106.8	105.6	105.0	105.0	105.4	106.9	108.7	107.9
<b>Situation</b>	99.9	102.1	105.4	106.5	107.4	109.5	108.7	108.8	111.4	111.9	113.9	115.3	112.8
<b>Expectations</b>	103.8	104.8	105.6	105.4	103.9	104.1	102.6	101.4	98.9	99.2	100.2	102.5	103.2



## Business Situation and Expectations by Sector January 2007; balances, seasonally adjusted



Source: Ifo Business Survey.

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### Ifo Business Climate Germany (Balances, seasonally adjusted)

Month/year	01/06	02/06	03/06	04/06	05/06	06/06	07/06	08/06	09/06	10/06	11/06	12/06	01/07
Trade and Industry	2.8	6.1	10.1	11.0	10.4	12.7	10.3	9.2	9.1	9.9	12.8	16.5	14.9
Manufacturing	13.8	15.2	19.4	20.7	19.4	22.2	19.1	18.7	18.5	20.2	22.4	26.4	23.9
Construction	-22.2	-20.2	-17.3	-13.9	-13.9	-12.7	-12.6	-15.7	-18.4	-18.1	-14.3	-10.5	-7.6
Wholesaling	0.3	6.2	9.7	10.8	12.5	11.1	12.7	9.2	9.5	11.8	21.7	23.4	17.1
Retailing	-15.9	-6.7	-1.9	-5.3	-5.7	-0.5	-6.0	-5.7	-3.8	-7.4	-9.2	-5.3	-2.8

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

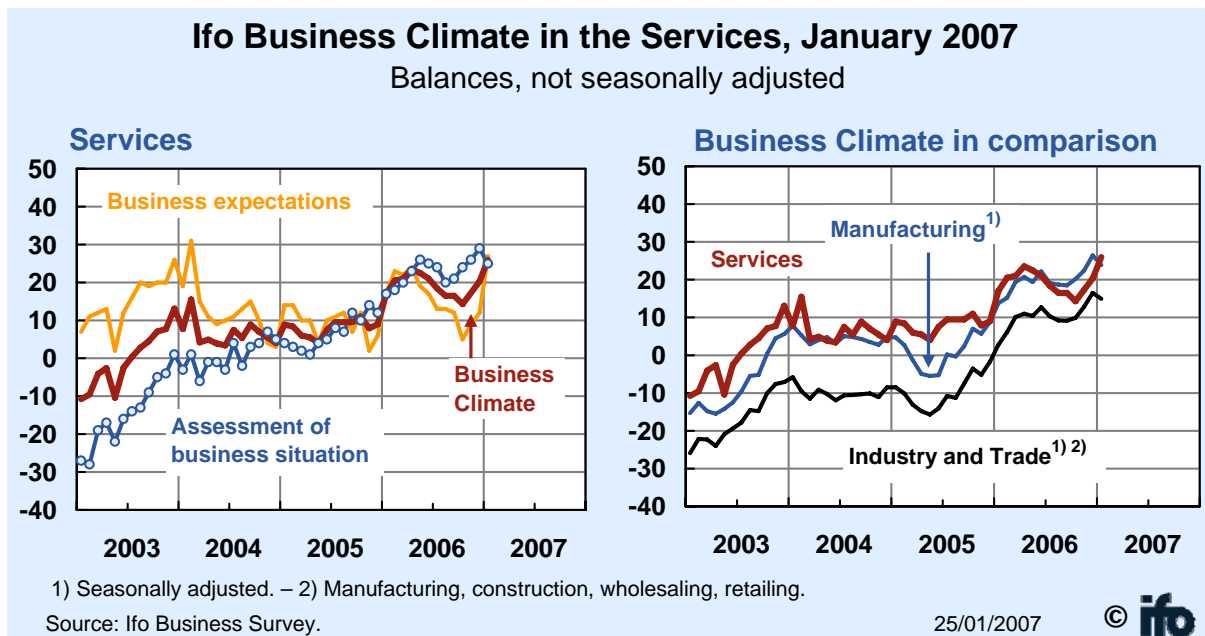
## Results for January 2007

### Ifo Business Climate Indicator for the Services Improves Again

The business climate in the German service sector clearly improved in January. Although the surveyed service providers assessed their current situation somewhat less favourably, they are considerably more optimistic regarding the six-month business outlook than in December. The improvement in business expectations may be somewhat overstated, however, due to seasonal effects. The employment outlook is also favourable with more firms planning to hire new staff than in the previous month.

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	01/06	02/06	03/06	04/06	05/06	06/06	07/06	08/06	09/06	10/06	11/06	12/06	01/07
<b>Climate</b>	17.0	20.5	21.0	23.5	22.5	21.0	18.4	16.5	16.5	14.3	17.3	20.3	26.0
<b>Situation</b>	17.0	18.0	20.0	23.0	26.0	25.0	24.0	20.0	21.0	24.0	26.0	29.0	25.0
<b>Expectations</b>	17.0	23.0	22.0	24.0	19.0	17.0	13.0	13.0	12.0	5.0	9.0	12.0	27.0

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.