

# Ifo Business Climate Germany

Results of the February 2007 Ifo Business Survey

## Ifo Business Climate Weakens Slightly

The Ifo Business Climate Index for German industry and trade fell slightly in February. The surveyed firms give somewhat less favourable assessments of their current business situation than in January. Retailers report clearly weaker business but expect a recovery in the coming six months. This is an indication that the increase in VAT is only having a temporary dampening effect. Nevertheless, the other surveyed firms, excluding retailing, are not as confident for the future as before.

In manufacturing, the business climate index declined. The manufacturing firms judge their business more favourably than in the previous month, but they are now somewhat less confident regarding the business outlook for the coming six months. They also give less optimistic appraisals of their export opportunities than in January.

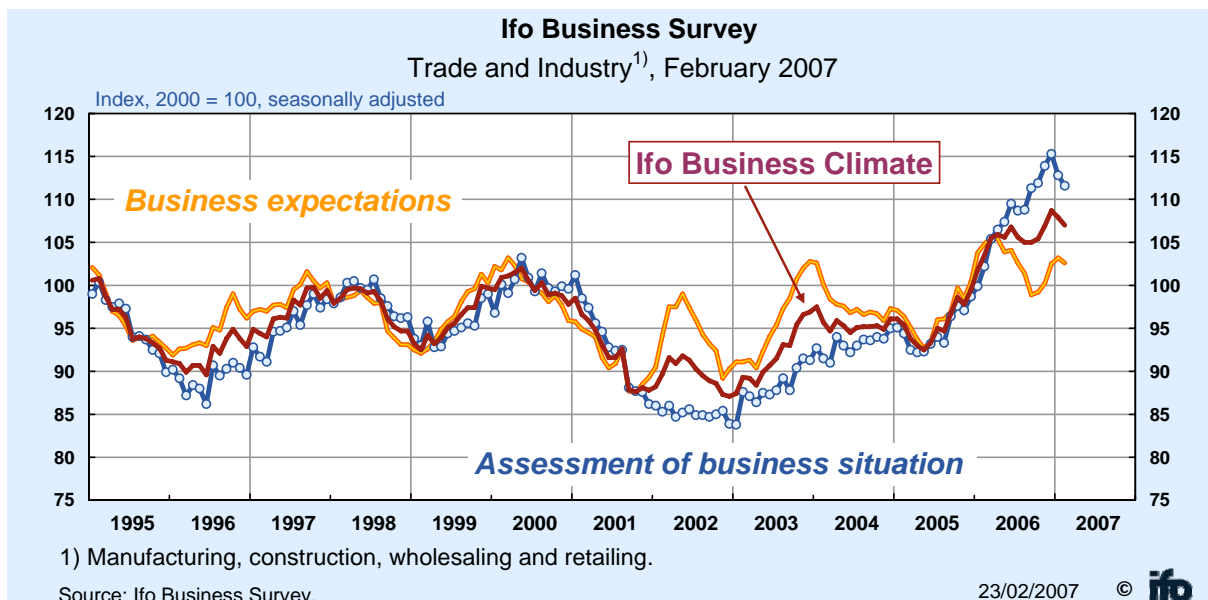
In construction and in retailing the business climate also worsened. In these two sectors the surveyed firms are clearly less satisfied with their current business situation than in January. With regard to the six-month outlook, however, retailers now express more confidence for the third time in a row. In construction the expectations declined marginally but still remain at a high level. In wholesaling the business climate is largely unchanged.

Hans-Werner Sinn

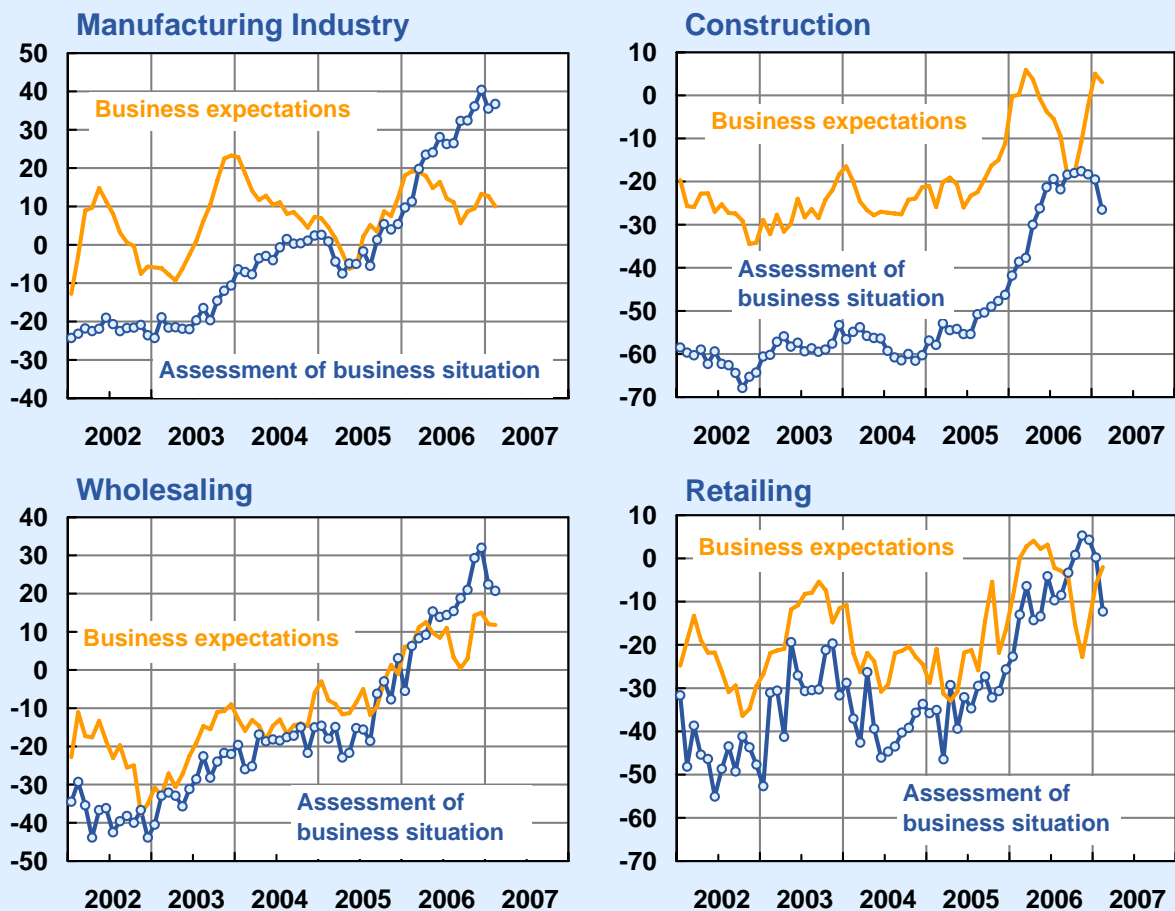
President of the Ifo Institute for Economic Research at the University of Munich

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

Month/year	02/06	03/06	04/06	05/06	06/06	07/06	08/06	09/06	10/06	11/06	12/06	01/07	02/07
Climate	103.5	105.5	105.9	105.6	106.8	105.6	105.0	105.0	105.4	106.9	108.7	107.9	107.0
Situation	102.2	105.4	106.5	107.4	109.5	108.7	108.8	111.3	111.9	113.9	115.3	112.8	111.6
Expectations	104.8	105.6	105.4	103.9	104.1	102.6	101.4	98.9	99.2	100.2	102.5	103.2	102.6



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



Source: Ifo Business Survey.

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

Month/year	02/06	03/06	04/06	05/06	06/06	07/06	08/06	09/06	10/06	11/06	12/06	01/07	02/07
Trade and Industry	6.1	10.1	11.0	10.4	12.7	10.3	9.2	9.1	9.9	12.8	16.5	14.9	13.1
Manufacturing	15.2	19.4	20.7	19.4	22.2	19.1	18.7	18.5	20.2	22.4	26.4	23.8	23.0
Construction	-20.3	-17.2	-13.9	-13.9	-12.7	-12.5	-15.7	-18.4	-18.1	-14.3	-10.5	-7.6	-12.3
Wholesaling	6.3	9.7	10.8	12.5	11.1	12.7	9.2	9.5	11.8	21.7	23.4	17.1	16.2
Retailing	-6.6	-1.9	-5.3	-5.7	-0.5	-6.0	-5.7	-3.8	-7.4	-9.3	-5.3	-2.9	-7.2

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

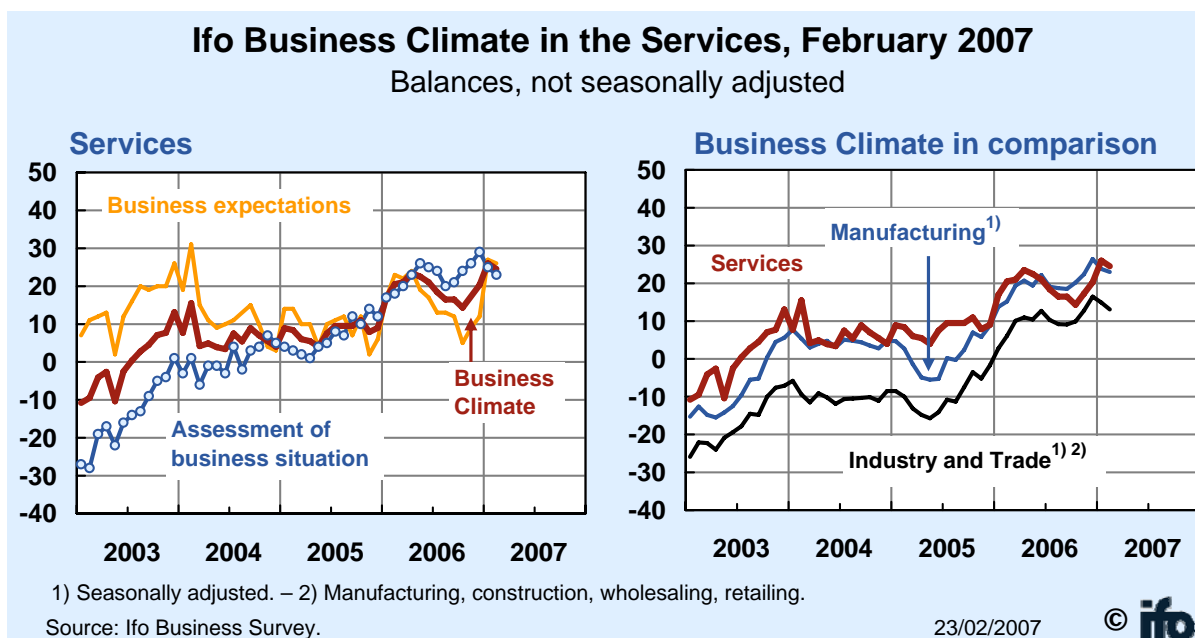
Results for February 2007

### Ifo Business Climate Cools Slightly

The business climate indicator in the German service sector fell slightly in February. The surveyed firms assess their current situation not quite so favourably as in January, and they are also less optimistic regarding the six-month business outlook. In January the service providers started the new year with strong confidence. Despite the slight weakening, the business climate indicator is still above its year-end 2006 level. The willingness to hire additional staff also persists and has increased in comparison to 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	02/06	03/06	04/06	05/06	06/06	07/06	08/06	09/06	10/06	11/06	12/06	01/07	02/07
<b>Climate</b>	20.5	21.0	23.5	22.5	21.0	18.4	16.5	16.5	14.3	17.3	20.3	26.0	24.5
<b>Situation</b>	18.0	20.0	23.0	26.0	25.0	24.0	20.0	21.0	24.0	26.0	29.0	25.0	23.0
<b>Expectations</b>	23.0	22.0	24.0	19.0	17.0	13.0	13.0	12.0	5.0	9.0	12.0	27.0	26.0

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.