

Ifo Business Climate Germany

Results of the May 2007 Ifo Business Survey

Ifo Business Climate Remains Favourable

The Ifo Business Climate Index for German industry and trade remains unchanged in May. The surveyed firms have assessed the current situation slightly less favourably than in April but see the outlook for the coming six months somewhat more optimistically. The economic outlook thus remains positive.

In *manufacturing* the business climate index has risen again. Although the manufacturing firms have assessed their current business somewhat less positively, with regard to business in the coming six months they are even more confident than in April. They are also more optimistic regarding exports than they were a month ago. The share of firms that plan to hire additional staff has also increased.

In *retailing* the business climate index fell. The firms have given poorer assessments of both the current situation and the six-month outlook. In *wholesaling*, however, the business climate has brightened again. Although the assessments of the current situation have worsened slightly, the business expectations have clearly improved.

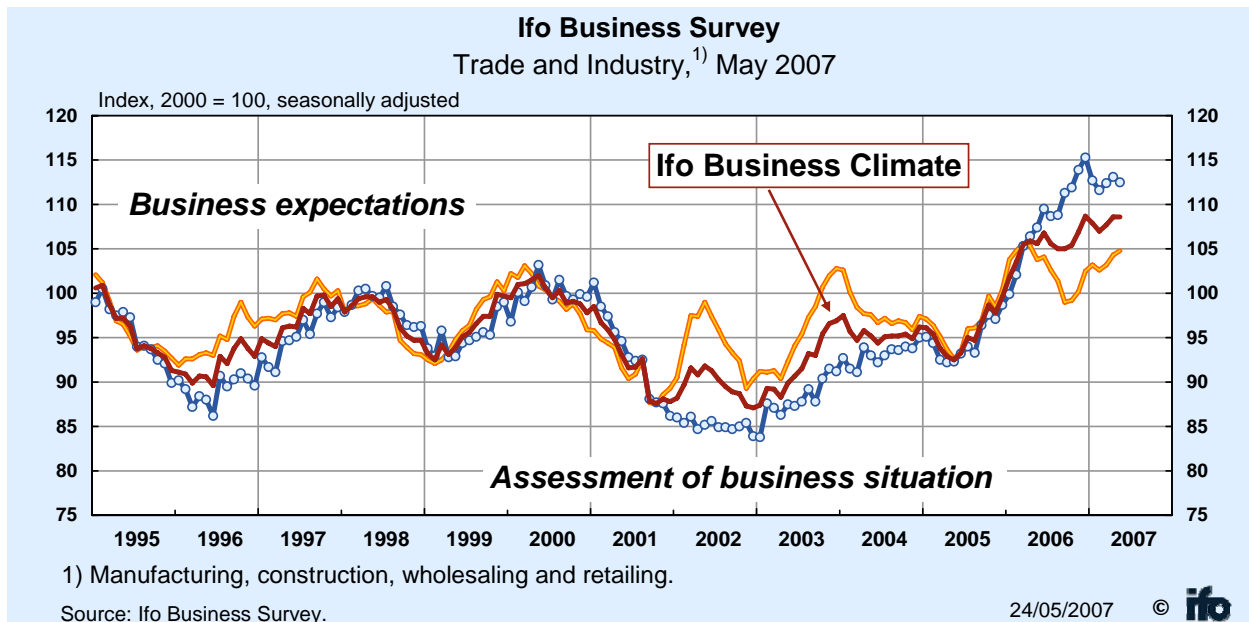
In *construction* the business climate has clouded over slightly. The survey participants have appraised their current situation somewhat less favourably than in April but their expectations remain nearly unchanged.

Hans-Werner Sinn

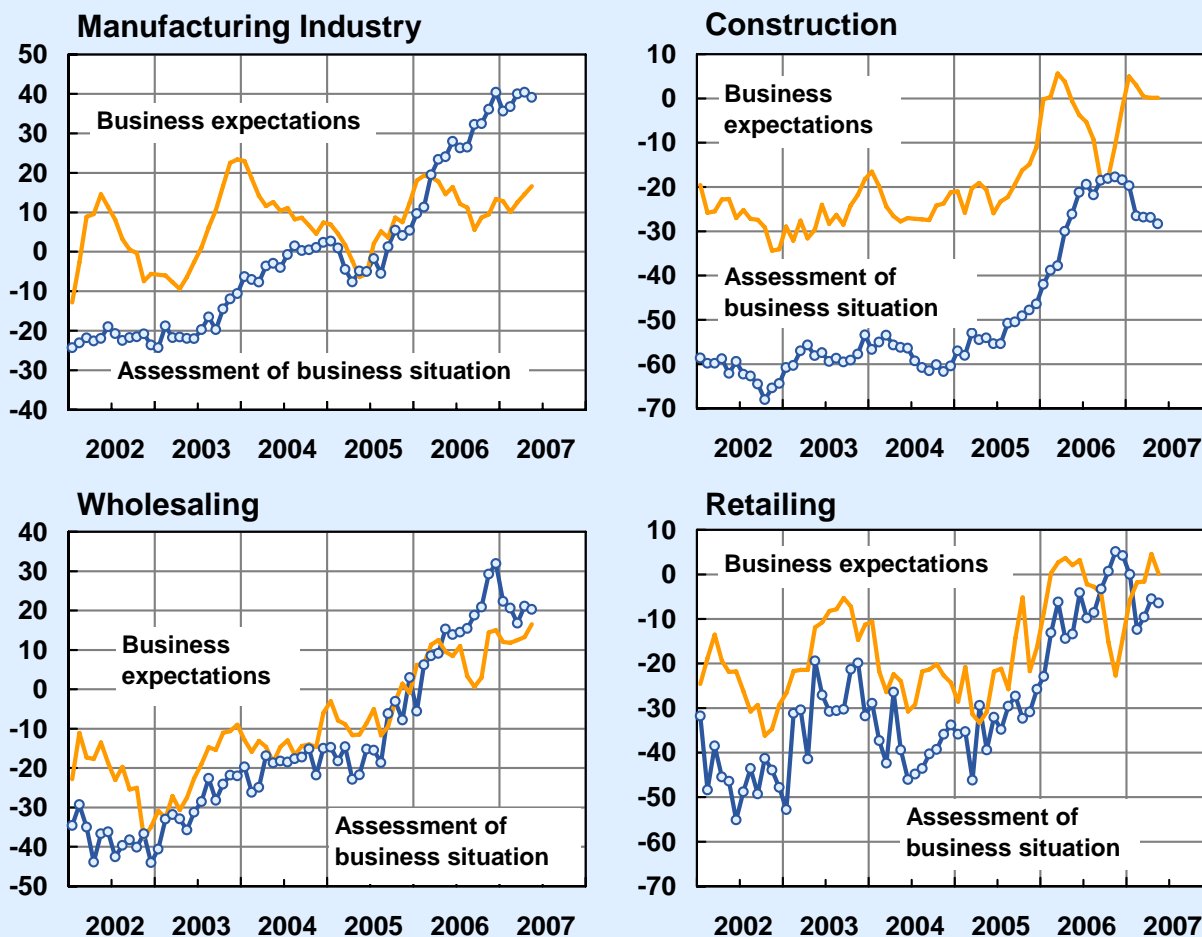
President of the Ifo Institute for Economic Research at the University of Munich

Germany (Index, 2000 = 100, seasonally adjusted)

| Month/year | 05/06 | 06/06 | 07/06 | 08/06 | 09/06 | 10/06 | 11/06 | 12/06 | 01/07 | 02/07 | 03/07 | 04/07 | 05/07 |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Climate | 105.6 | 106.8 | 105.6 | 105.0 | 105.0 | 105.4 | 106.9 | 108.7 | 107.9 | 107.0 | 107.7 | 108.6 | 108.6 |
| Situation | 107.4 | 109.5 | 108.7 | 108.8 | 111.3 | 111.9 | 113.9 | 115.3 | 112.7 | 111.6 | 112.4 | 113.1 | 112.5 |
| Expectations | 103.8 | 104.1 | 102.6 | 101.4 | 99.0 | 99.2 | 100.2 | 102.5 | 103.2 | 102.6 | 103.2 | 104.3 | 104.8 |



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



Source: Ifo Business Survey.

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Ifo Business Climate Germany (Balances, seasonally adjusted)

| Month/year | 05/06 | 06/06 | 07/06 | 08/06 | 09/06 | 10/06 | 11/06 | 12/06 | 01/07 | 02/07 | 03/07 | 04/07 | 05/07 |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Trade and Industry | 10.3 | 12.7 | 10.3 | 9.2 | 9.1 | 9.9 | 12.9 | 16.5 | 14.9 | 13.2 | 14.6 | 16.4 | 16.3 |
| Manufacturing | 19.3 | 22.1 | 19.1 | 18.7 | 18.5 | 20.3 | 22.4 | 26.5 | 23.9 | 23.1 | 25.9 | 27.1 | 27.6 |
| Construction | -13.8 | -12.7 | -12.5 | -15.6 | -18.4 | -18.1 | -14.3 | -10.5 | -7.7 | -12.4 | -13.7 | -13.9 | -14.6 |
| Wholesaling | 12.4 | 11.1 | 12.7 | 9.2 | 9.5 | 11.8 | 21.7 | 23.3 | 17.0 | 16.2 | 14.6 | 17.2 | 18.4 |
| Retailing | -5.8 | -0.5 | -6.0 | -5.7 | -3.8 | -7.4 | -9.3 | -5.3 | -2.9 | -7.2 | -5.6 | -0.5 | -3.2 |

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

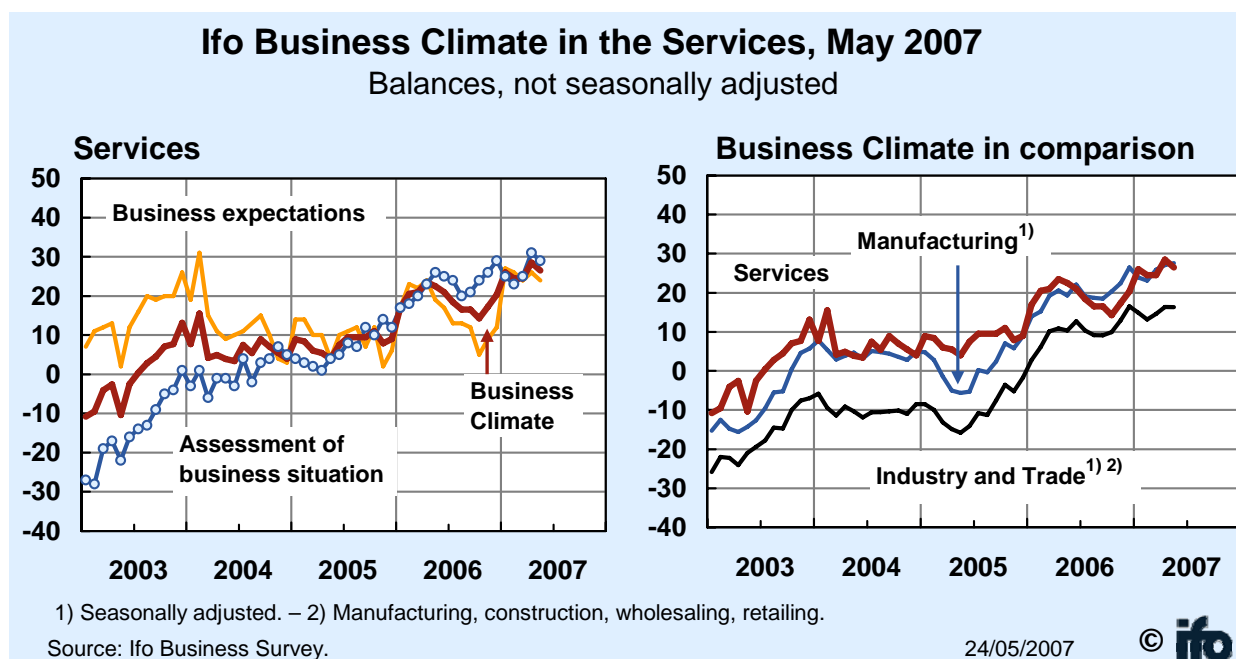
Results of the May 2007 Ifo Business Survey

Ifo Business Climate in the Services Worsens Slightly

The Ifo Business Climate indicator for the German service sector has fallen slightly in May after a noticeable improvement in April. The current situation as well as the business outlook have been assessed somewhat more negatively than in April. Both components are still at a very high level, however, which points to a continuingly positive business development in the service sector in the coming months. The increase in employment is likely to continue.

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 | 05/06 | 06/06 | 07/06 | 08/06 | 09/06 | 10/06 | 11/06 | 12/06 | 01/07 | 02/07 | 03/07 | 04/07 | 05/07 |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Climate | 22.5 | 21.0 | 18.4 | 16.5 | 16.5 | 14.3 | 17.3 | 20.3 | 26.0 | 24.5 | 24.5 | 28.5 | 26.5 |
| Situation | 26.0 | 25.0 | 24.0 | 20.0 | 21.0 | 24.0 | 26.0 | 29.0 | 25.0 | 23.0 | 25.0 | 31.0 | 29.0 |
| Expectations | 19.0 | 17.0 | 13.0 | 13.0 | 12.0 | 5.0 | 9.0 | 12.0 | 27.0 | 26.0 | 24.0 | 26.0 | 24.0 |

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.