Ifo Business Climate Germany

Results of the August 2007 Ifo Business Survey

Ifo Business Climate Again Slightly Weaker

The Ifo Business Climate Index for German industry and trade fell slightly in August. The current situation has even been assessed somewhat more positively than in July. The outlook for the coming six months is still marked by optimism, albeit somewhat weaker. Here the turbulences in financial markets may have played a role. Both survey components are clearly above the long-term average and point to a further robust economic upswing.

In *manufacturing* the business climate worsened somewhat in August. Whereas the firms have assessed the current business situation just as positively as in July, they are no longer quite so optimistic with regard to the six-month outlook. Also with regard to exports, the survey participants are less optimistic despite the weaker euro. Plans for increases in personnel are also somewhat less numerous than in July.

In *construction* the decline in the business climate index evident since the beginning of the year continued in August after the interruption in July. The assessments of the current situation remained unchanged, but business expectations are again somewhat more reserved. The business climate in *wholesaling* has stabilised. The firms assessed their current situation slightly more pessimistically than in July, however with regard to the six-month outlook they are somewhat more optimistic. In *retailing* the climate indicator rose slightly. This is the result of the more favourable assessment of the current business situation whereas scepticism regarding the business outlook showed a slight increase.

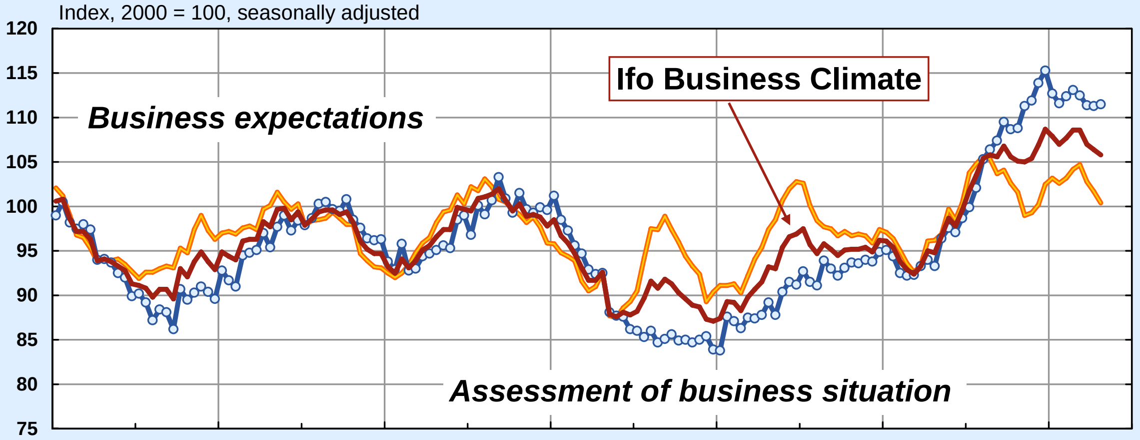
Hans-Werner Sinn
President of the Ifo Institute for Economic Research at the University of Munich

Germany (Index, 2000 = 100, seasonally adjusted)

Month/year	08/06	09/06	10/06	11/06	12/06	01/07	02/07	03/07	04/07	05/07	06/07	07/07	08/07
Climate	105.1	105.0	105.4	106.9	108.7	107.9	107.0	107.7	108.6	108.6	107.0	106.4	105.8
Situation	108.8	111.3	111.9	113.9	115.3	112.7	111.6	112.4	113.1	112.5	111.4	111.3	111.5
Expectations	101.6	99.0	99.3	100.2	102.5	103.2	102.6	103.2	104.2	104.7	102.8	101.7	100.4

Ifo Business Survey

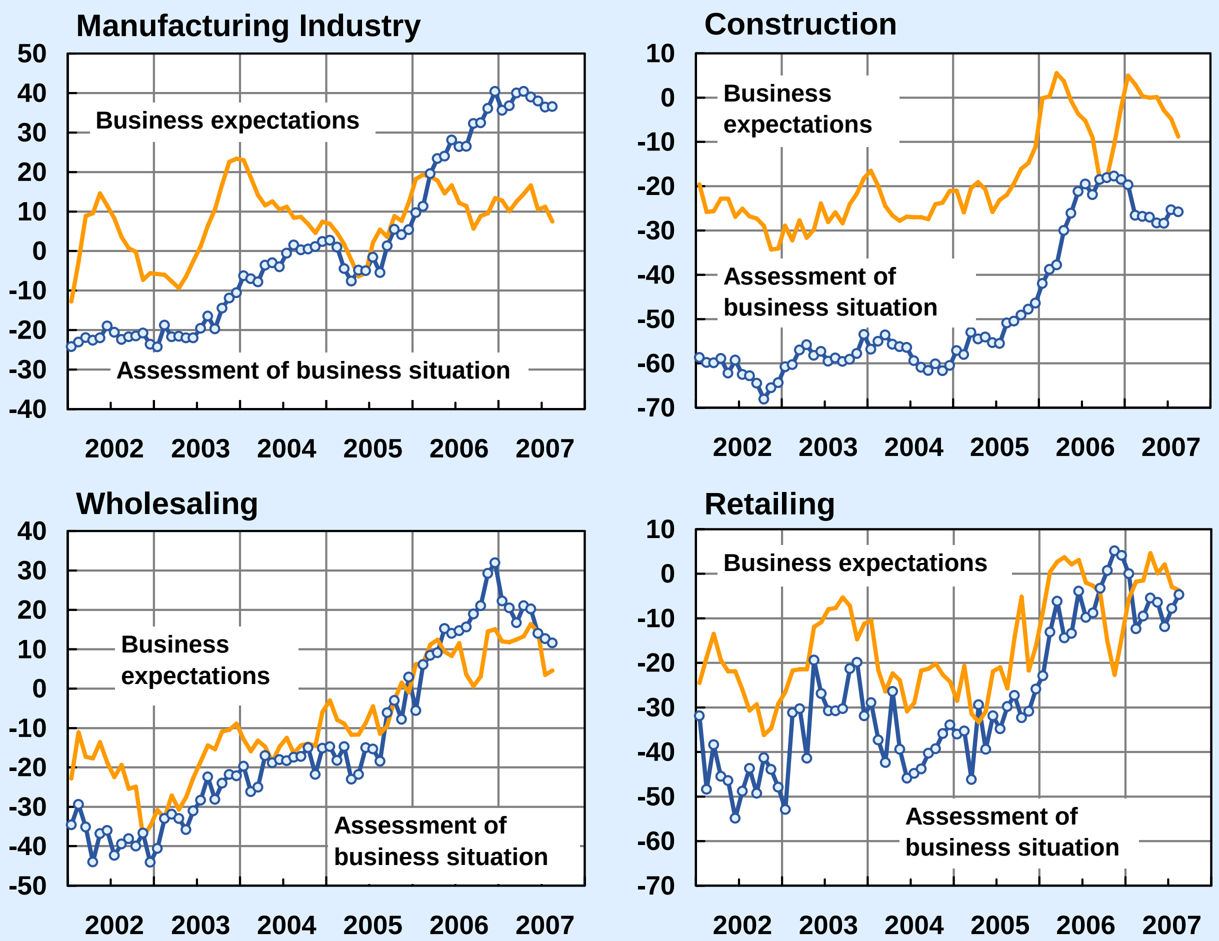
Trade and Industry,[1] August 2007



1) Manufacturing, construction, wholesaling and retailing.

Source: Ifo Business Survey. 28/08/2007 © ifo

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



Source: Ifo Business Survey.

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Ifo Business Climate Germany (Balances, seasonally adjusted)

Month/year	08/06	09/06	10/06	11/06	12/06	01/07	02/07	03/07	04/07	05/07	06/07	07/07	08/07
Trade and Industry	9.4	9.1	10.0	12.9	16.6	14.9	13.2	14.6	16.4	16.3	13.2	12.0	10.8
Manufacturing	18.9	18.6	20.3	22.5	26.5	23.9	23.1	25.8	27.1	27.5	23.9	23.5	21.5
Construction	-15.5	-18.4	-18.1	-14.3	-10.5	-7.8	-12.4	-13.7	-14.0	-14.7	-16.1	-15.3	-17.5
Wholesaling	9.5	9.5	11.8	21.7	23.3	17.0	16.1	14.6	17.1	18.3	14.1	8.0	8.1
Retailing	-5.7	-3.8	-7.4	-9.3	-5.3	-2.8	-7.2	-5.6	-0.5	-3.2	-5.0	-5.4	-4.2

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 August 2007 Ifo Business Survey

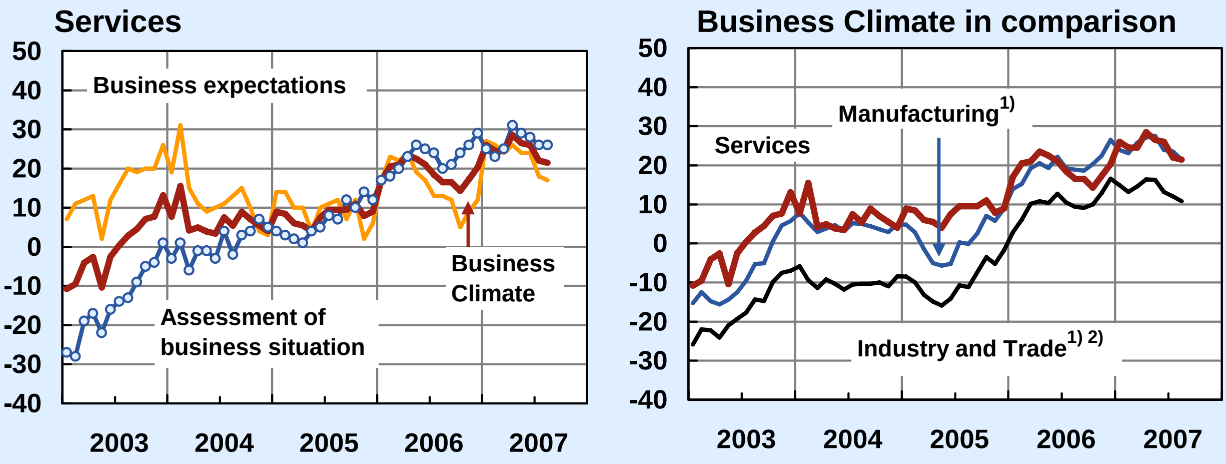
Ifo Business Climate in the Services Worsens Slightly

The Ifo Business Climate indicator for the German service sector has weakened somewhat in August. The service providers have again assessed the current situation as favourable but are somewhat less optimistic regarding the six-month outlook. Both survey components continue to be in positive territory and point to a robust economic situation. The plans of the firms indicate further increases in employment.

Hans-Werner Sinn
President of the Ifo Institute for Economic Research at the University of Munich

Ifo Business Climate in the Services, August 2007

Balances, not seasonally adjusted



1) Seasonally adjusted. – 2) Manufacturing, construction, wholesaling, retailing.

Source: Ifo Business Survey. 28/08/2007 © ifo

German Services Sector (Balances, not seasonally adjusted)

Month/Year	08/06	09/06	10/06	11/06	12/06	01/07	02/07	03/07	04/07	05/07	06/07	07/07	08/07
Climate	16.5	16.5	14.3	17.3	20.3	26.0	24.5	24.5	28.5	26.5	26.0	22.0	21.5
Situation	20.0	21.0	24.0	26.0	29.0	25.0	23.0	25.0	31.0	29.0	28.0	26.0	26.0
Expectations	13.0	12.0	5.0	9.0	12.0	27.0	26.0	24.0	26.0	24.0	24.0	18.0	17.0

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.