

Ifo Business Climate Germany

Results of the October 2007 Ifo Business Survey

Ifo Business Climate Index weakens slightly

The Ifo Business Climate for industry and trade in Germany has weakened slightly in October. The companies have assessed their current situation somewhat less positively than in September, but the value is still far above the long-term average. There was almost no change in the cautious assessments of the six-month business outlook. The results indicate that the upswing will continue but at a slower pace.

In *manufacturing* the business climate remains largely stable. Although the current situation has again been assessed somewhat less positively, in the business expectations slightly increased confidence is evident. However, regarding future exporting business optimism has weakened marginally. Personnel plans point to a slightly weakened hiring propensity.

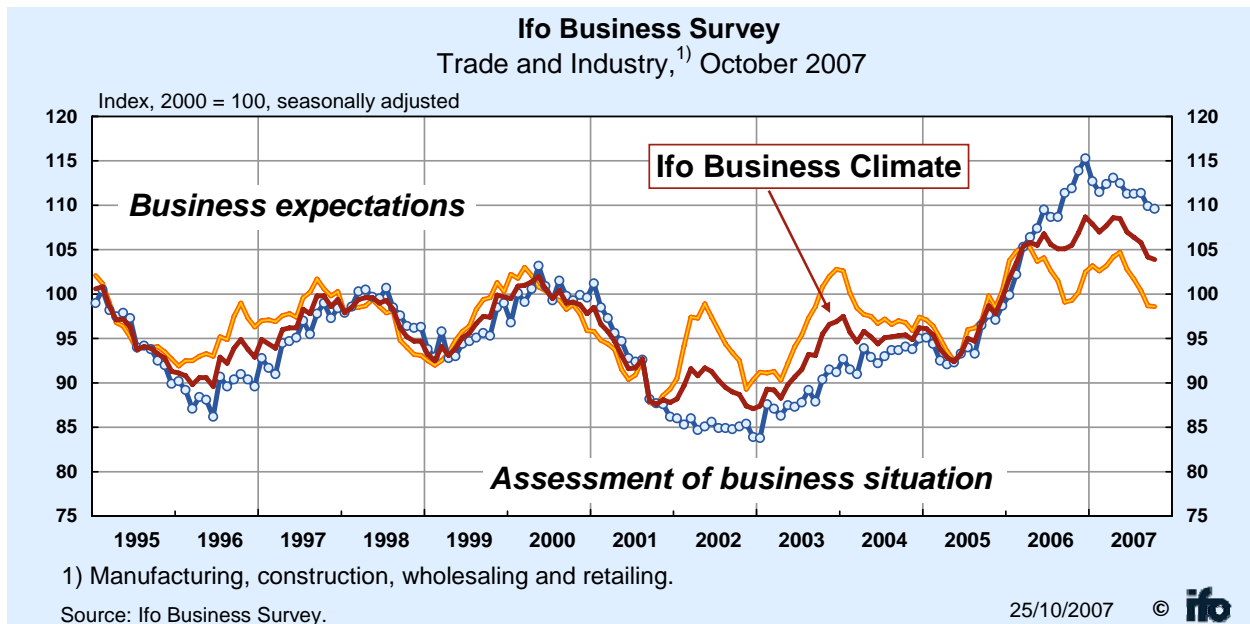
The business climate in the *construction* industry remains largely unchanged. The firms have expressed a similar dissatisfaction with their current business situation as in September, and their scepticism with regard to their future business remains. In *wholesaling* the business climate has cooled perceptibly after some improvement in September. Current business has been assessed less favourably and the expectations reveal, for the first time again, a sceptical attitude. In contrast, the business climate in *retailing* has improved again. Especially the current situation is seen as improved, and the outlook has also brightened.

Hans-Werner Sinn

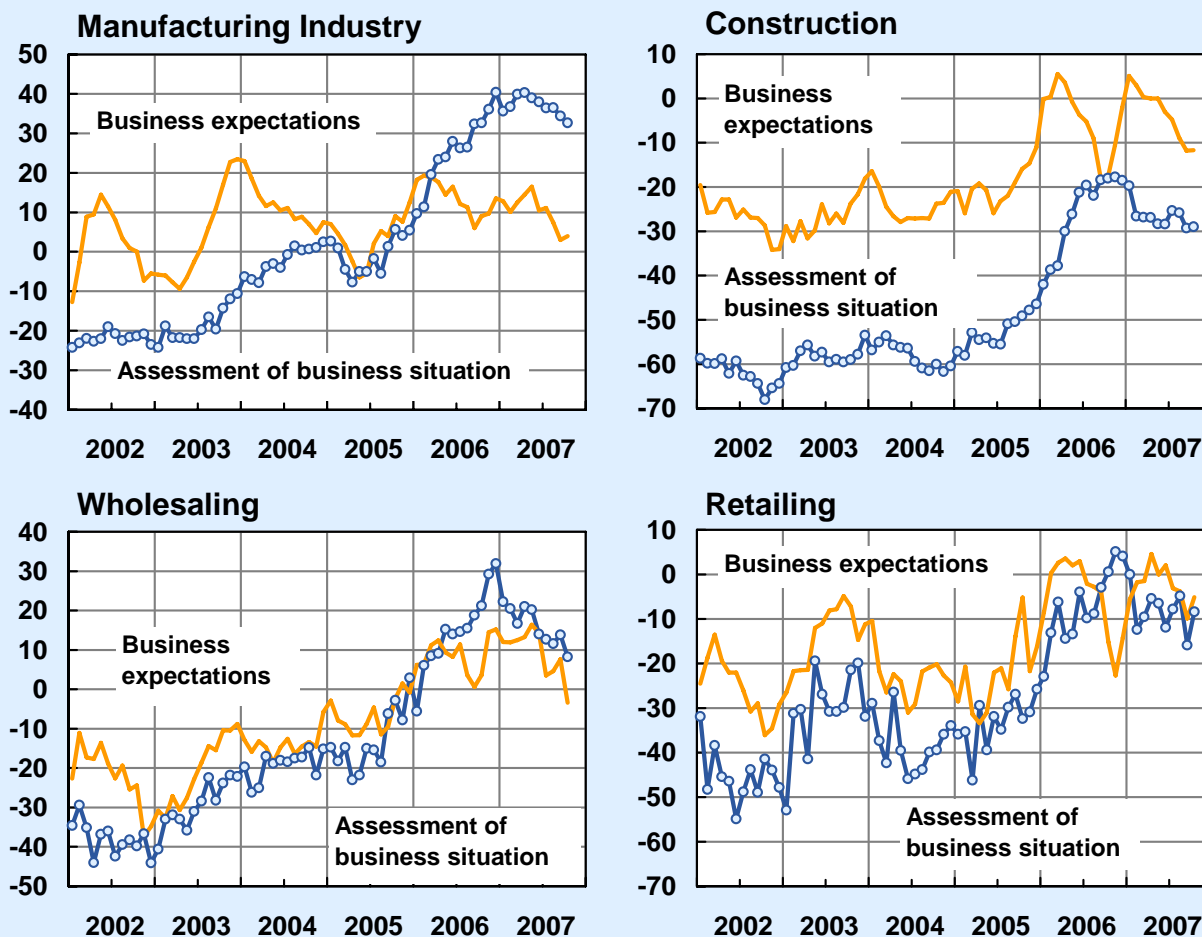
President of the Ifo Institute for Economic Research at the University of Munich

Germany (Index, 2000 = 100, seasonally adjusted)

Month/year	10/06	11/06	12/06	01/07	02/07	03/07	04/07	05/07	06/07	07/07	08/07	09/07	10/07
Climate	105.5	106.9	108.7	107.9	107.0	107.7	108.6	108.5	107.0	106.4	105.8	104.2	103.9
Situation	111.9	113.9	115.3	112.7	111.5	112.4	113.1	112.5	111.3	111.3	111.4	109.9	109.6
Expectations	99.3	100.2	102.5	103.2	102.6	103.2	104.2	104.7	102.8	101.7	100.4	98.7	98.6



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



Source: Ifo Business Survey.

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Ifo Business Climate Germany (Balances, seasonally adjusted)

Month/year	10/06	11/06	12/06	01/07	02/07	03/07	04/07	05/07	06/07	07/07	08/07	09/07	10/07
Trade and Industry	10.1	12.9	16.6	15.0	13.2	14.5	16.3	16.2	13.1	11.9	10.7	7.5	7.1
Manufacturing	20.5	22.5	26.6	23.9	23.0	25.8	27.1	27.5	23.8	23.4	21.4	18.1	17.9
Construction	-17.9	-14.2	-10.5	-7.7	-12.4	-13.7	-14.0	-14.7	-16.1	-15.4	-17.5	-20.8	-20.5
Wholesaling	12.2	21.8	23.4	17.1	16.1	14.6	17.1	18.2	14.1	8.0	8.0	10.7	2.3
Retailing	-7.4	-9.3	-5.2	-2.8	-7.1	-5.5	-0.5	-3.2	-5.1	-5.5	-4.3	-12.9	-6.8

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

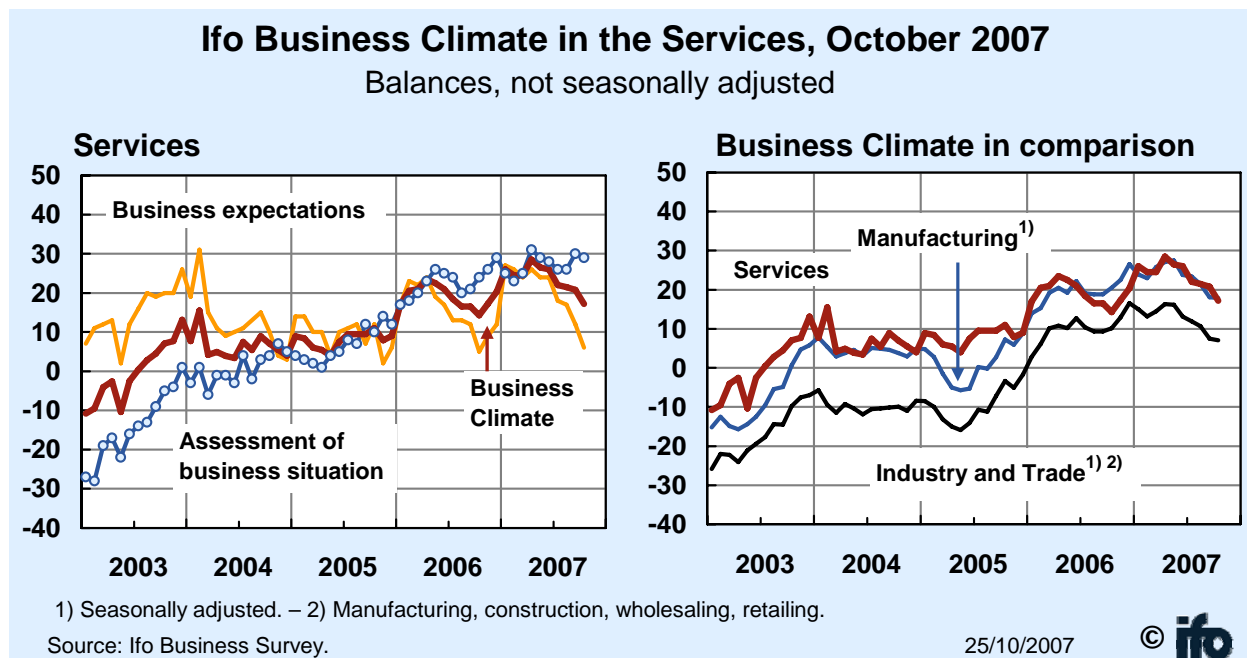
Results of the October 2007 Ifo Business Survey

Cooling of the Ifo Business Climate for the Service Industry

The Ifo Business Climate indicator for the German service industry has fallen in October but still clearly remains in positive territory. The companies assess their current business situation only somewhat less favourably than in the previous month, but their optimism regarding the coming six months has clearly weakened. Staff levels should increase again, according to the companies' plans.

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	10/06	11/06	12/06	01/07	02/07	03/07	04/07	05/07	06/07	07/07	08/07	09/07	10/07
Climate	14.3	17.3	20.3	26.0	24.5	24.5	28.5	26.5	26.0	22.0	21.5	20.8	17.2
Situation	24.0	26.0	29.0	25.0	23.0	25.0	31.0	29.0	28.0	26.0	26.0	30.0	29.0
Expectations	5.0	9.0	12.0	27.0	26.0	24.0	26.0	24.0	24.0	18.0	17.0	12.0	6.0

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.