

Ifo Business Climate Germany

Results of the December 2007 Ifo Business Survey

Ifo Business Climate Index Falls

The Ifo Business Climate Index for industry and trade in Germany has fallen further in December after a brief improvement in November. The companies have assessed their current situation less positively, but the rating is still clearly above the long-term average. The outlook for the coming six months continues to be assessed cautiously. The cyclical dynamics are weakening.

In *manufacturing* the business climate indicator fell. The current situation has been assessed clearly less positively than in November. Confidence in the six-month outlook has weakened somewhat, however, even more firms are planning to hire additional staff. The survey participants remain optimistic with regard to future exports, however.

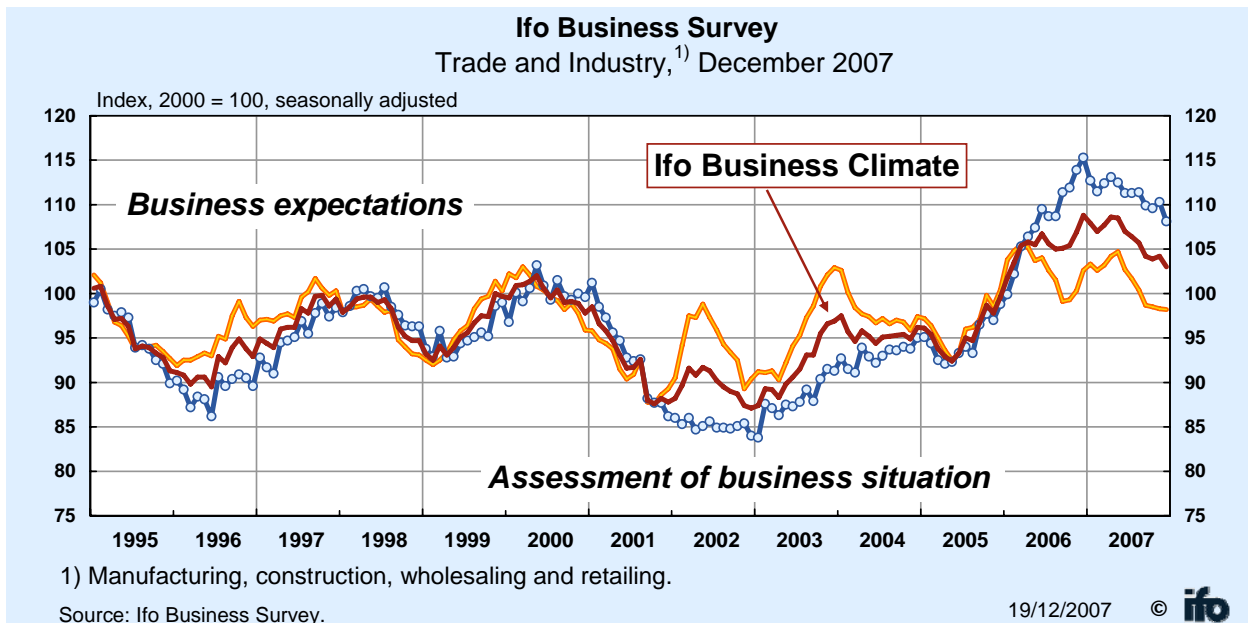
The business climate in the *construction* industry has improved slightly. The current business situation has been assessed somewhat less unfavourably than in November, and the contractors have also expressed more confidence regarding future business development. The business climate in *wholesaling* remains largely unchanged. Current business has been assessed less positively than in November, but the six-month outlook has improved. In contrast, the business climate in *retailing* has again clouded over, with a particular worsening in assessments of the current situation, which has been given the most unfavourable marks in the past two years. Scepticism regarding the six-month outlook has also increased.

Hans-Werner Sinn

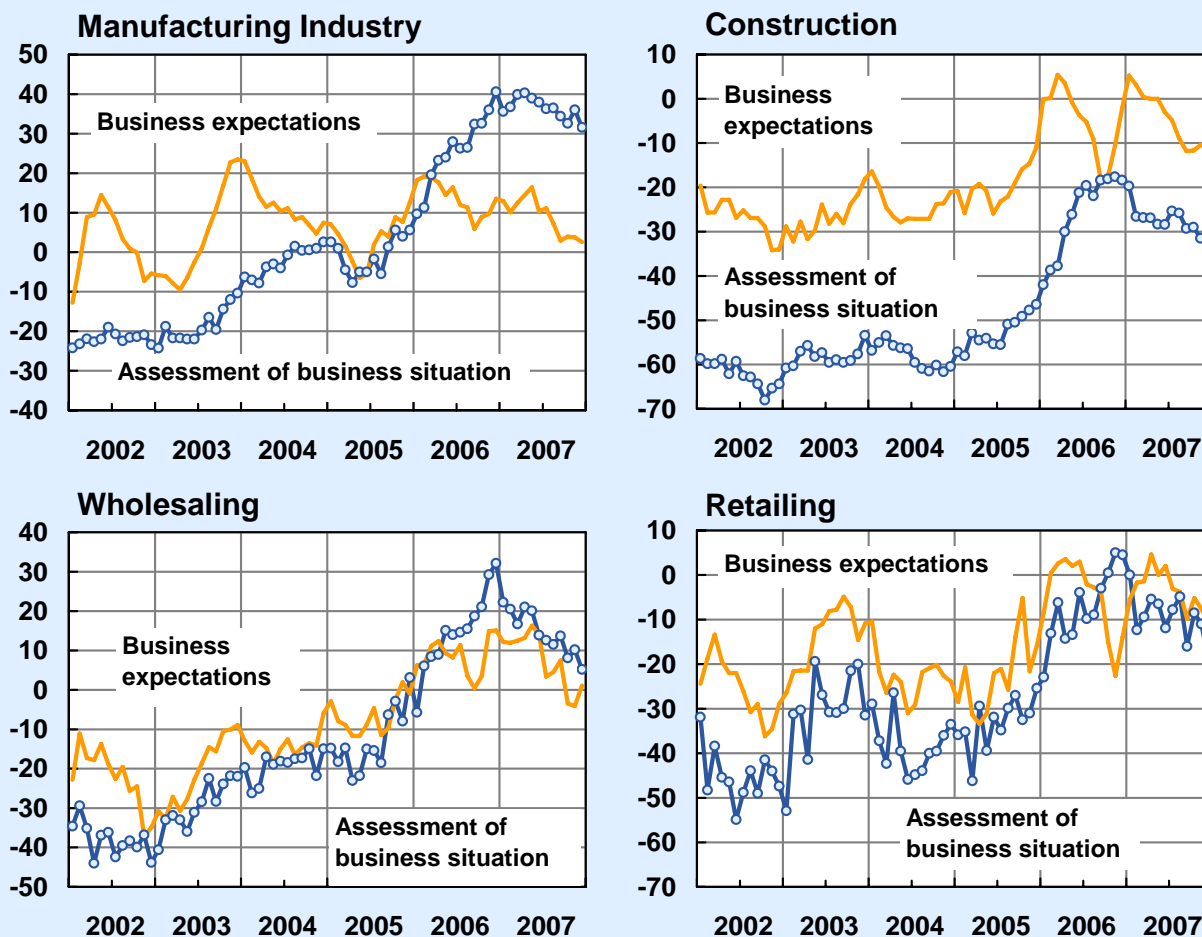
President of the Ifo Institute for Economic Research at the University of Munich

Germany (Index, 2000 = 100, seasonally adjusted)

Month/year	12/06	01/07	02/07	03/07	04/07	05/07	06/07	07/07	08/07	09/07	10/07	11/07	12/07
Climate	108.8	107.9	107.0	107.7	108.6	108.5	107.0	106.4	105.7	104.2	103.9	104.2	103.0
Situation	115.3	112.7	111.5	112.4	113.1	112.5	111.3	111.3	111.4	109.9	109.6	110.3	108.1
Expectations	102.6	103.3	102.6	103.2	104.2	104.7	102.7	101.7	100.4	98.7	98.5	98.3	98.2



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



Source: Ifo Business Survey.

19/12/2007 © ifo

Ifo Business Climate Germany (Balances, seasonally adjusted)

Month/year	12/06	01/07	02/07	03/07	04/07	05/07	06/07	07/07	08/07	09/07	10/07	11/07	12/07
Trade and Industry	16.7	15.0	13.2	14.6	16.3	16.2	13.1	11.9	10.7	7.5	7.0	7.5	5.2
Manufacturing	26.7	23.9	23.0	25.8	27.0	27.4	23.8	23.4	21.4	18.1	17.8	19.3	16.6
Construction	-10.4	-7.7	-12.4	-13.7	-13.9	-14.7	-16.1	-15.4	-17.6	-20.8	-20.6	-21.3	-20.5
Wholesaling	23.4	17.1	16.1	14.6	17.1	18.2	14.0	7.9	8.0	10.6	2.2	2.9	3.1
Retailing	-4.9	-2.7	-7.1	-5.5	-0.5	-3.2	-5.1	-5.5	-4.3	-13.0	-6.8	-9.3	-15.2

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

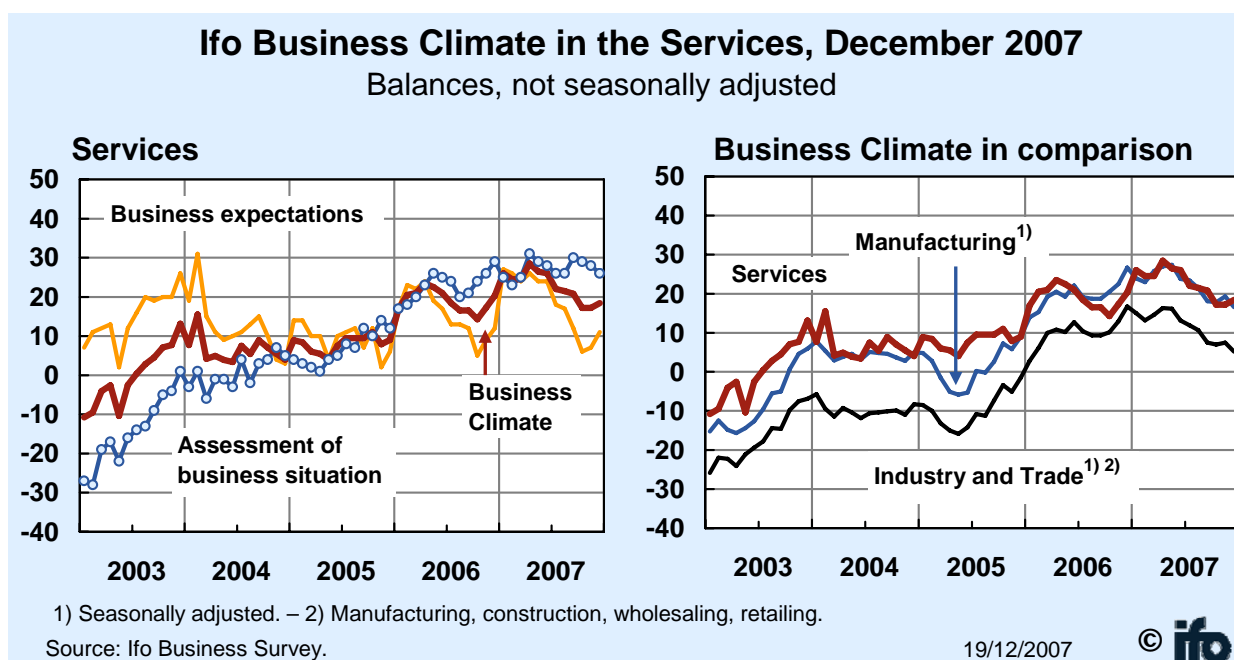
Results of the December 2007 Ifo Business Survey

Ifo Business Climate Indicator for the Service Sector Rises Slightly

The Ifo Business Climate indicator for the German service sector has improved somewhat in December. Although the companies have again assessed their current business situation less favourably than in November, they are increasingly more confident regarding the coming six months. The propensity to hire additional staff has weakened, however.

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	12/06	01/07	02/07	03/07	04/07	05/07	06/07	07/07	08/07	09/07	10/07	11/07	12/07
Climate	20.3	26.0	24.5	24.5	28.5	26.5	26.0	22.0	21.5	20.8	17.2	17.2	18.4
Situation	29.0	25.0	23.0	25.0	31.0	29.0	28.0	26.0	26.0	30.0	29.0	28.0	26.0
Expectations	12.0	27.0	26.0	24.0	26.0	24.0	24.0	18.0	17.0	12.0	6.0	7.0	11.0

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.