

# Ifo Business Climate Germany

Results of the June 2008 Ifo Business Survey

## Significant Cooling of the Ifo Business Climate

The Ifo Business Climate Index for industry and trade in Germany has fallen significantly in June. The firms have assessed their current business situation clearly less favourably than in the previous month, and they are more sceptical regarding the six-month outlook. The sharp hike in oil prices is evidently becoming an increasing burden on the German economy.

In *manufacturing* the business climate has worsened significantly. The firms have assessed both their current situation as well as the six-month business outlook considerably less favourably than in May. They expect weaker stimulus from export business in the coming months, but despite the strong euro, they do not fear a slump in exports. Increases in employment will be weaker, according to the survey responses.

In the *construction* industry the business climate has improved somewhat. For the fourth time in succession, the firms have assessed their current business situation more favourably. Their expectations with regard to the six-month outlook continue to be cautiously optimistic. In *wholesaling* and in *retailing*, however, the business climate index has fallen. Although retailers have assessed their current situation more favourably than in May, they are clearly more cautious regarding business in the coming six months. Wholesalers are clearly less satisfied with the current business situation, although their expectations for the coming months are less sceptical.

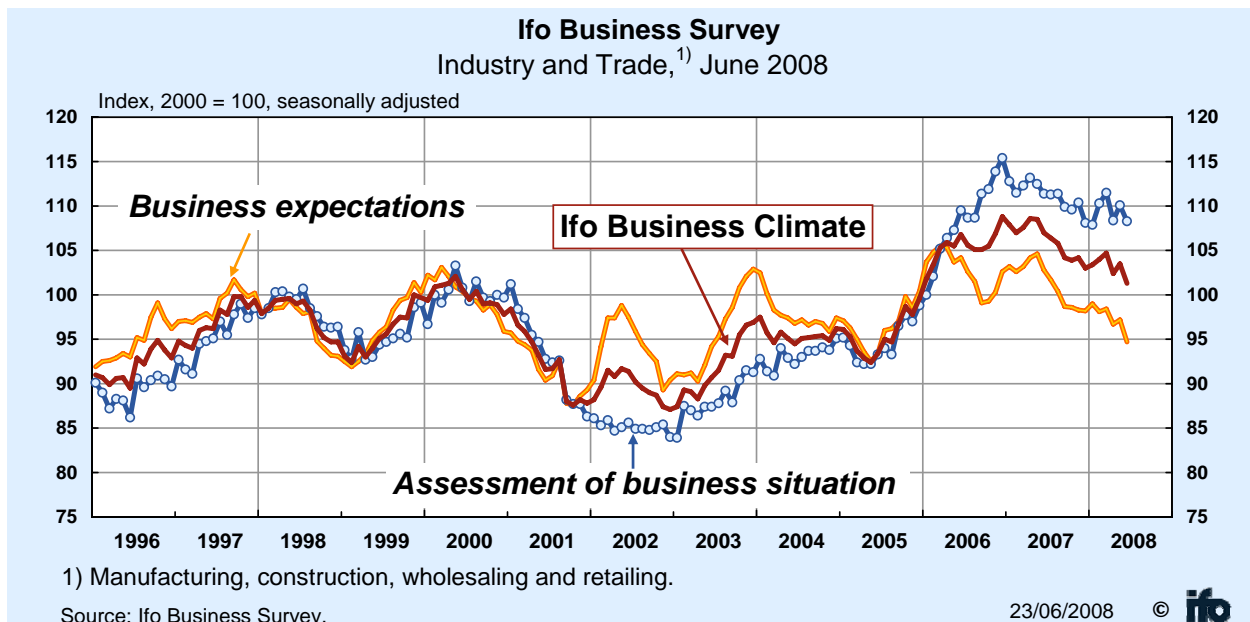
Hans-Werner Sinn

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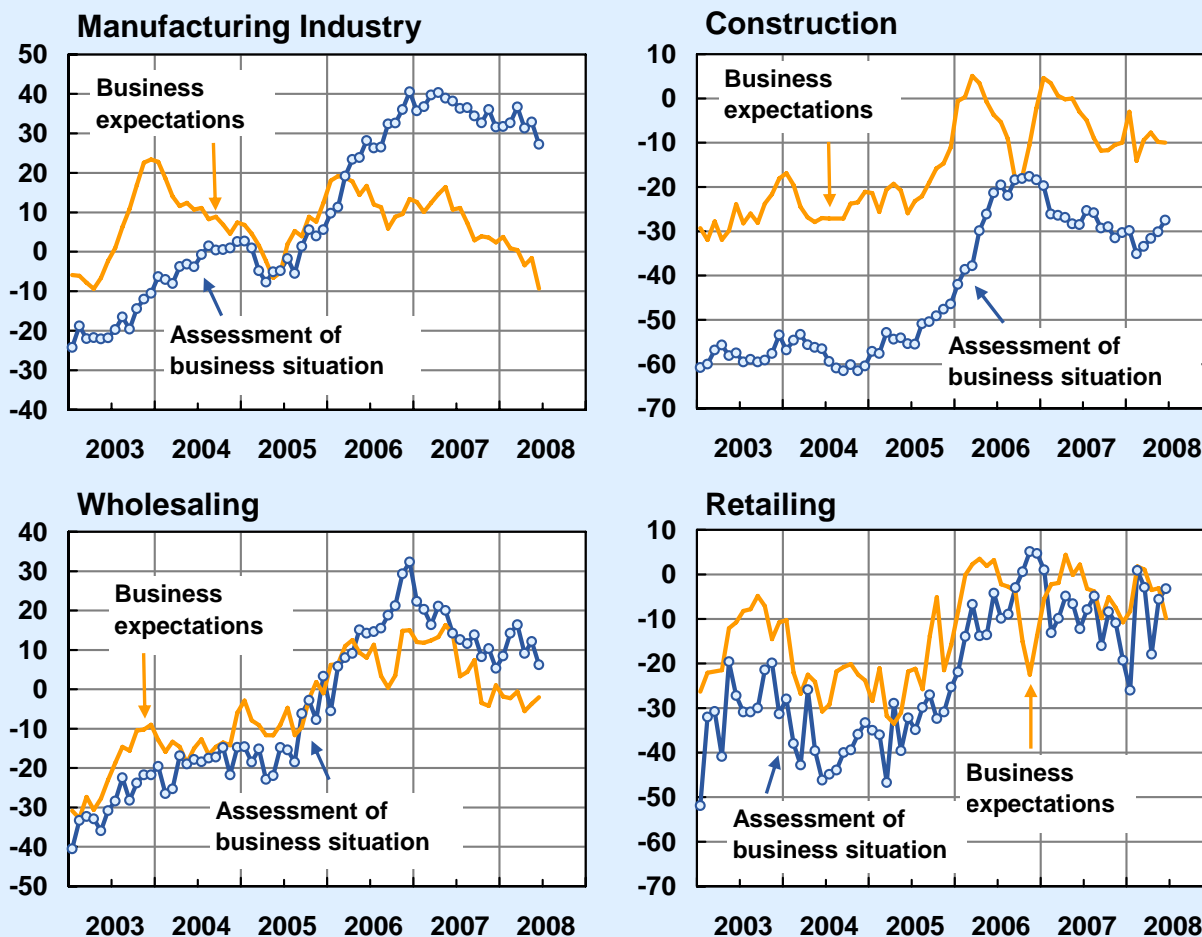
### Germany (Index, 2000 = 100, seasonally adjusted)

Month/year	06/07	07/07	08/07	09/07	10/07	11/07	12/07	01/08	02/08	03/08	04/08	05/08	06/08
<b>Climate</b>	107.0	106.4	105.8	104.2	103.9	104.2	103.0	103.4	104.0	104.7	102.4	103.5	101.3
<b>Situation</b>	111.4	111.3	111.4	109.9	109.6	110.4	108.1	107.9	110.3	111.5	108.4	110.1	108.3
<b>Expectations</b>	102.8	101.7	100.4	98.7	98.6	98.3	98.2	99.0	98.1	98.4	96.7	97.2	94.7

Source: Ifo Business Survey



## Business Situation and Expectations by Sector June 2008; balances, seasonally adjusted



Source: Ifo Business Survey.

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

Month/year	06/07	07/07	08/07	09/07	10/07	11/07	12/07	01/08	02/08	03/08	04/08	05/08	06/08
Trade and Industry	13.2	11.9	10.7	7.5	7.0	7.5	5.2	5.9	7.3	8.6	3.9	6.1	1.7
Manufacturing	24.0	23.3	21.4	18.1	17.8	19.2	16.5	17.3	16.2	17.8	13.3	15.0	8.2
Construction	-16.2	-15.4	-17.6	-20.8	-20.5	-21.3	-20.5	-16.9	-24.9	-21.8	-20.0	-20.2	-18.9
Wholesaling	14.1	7.9	8.0	10.6	2.2	2.9	3.1	3.2	5.8	7.7	1.6	4.0	2.1
Retailing	-5.1	-5.5	-4.3	-12.9	-6.7	-9.2	-15.1	-17.4	1.3	-0.9	-10.9	-4.4	-6.5

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

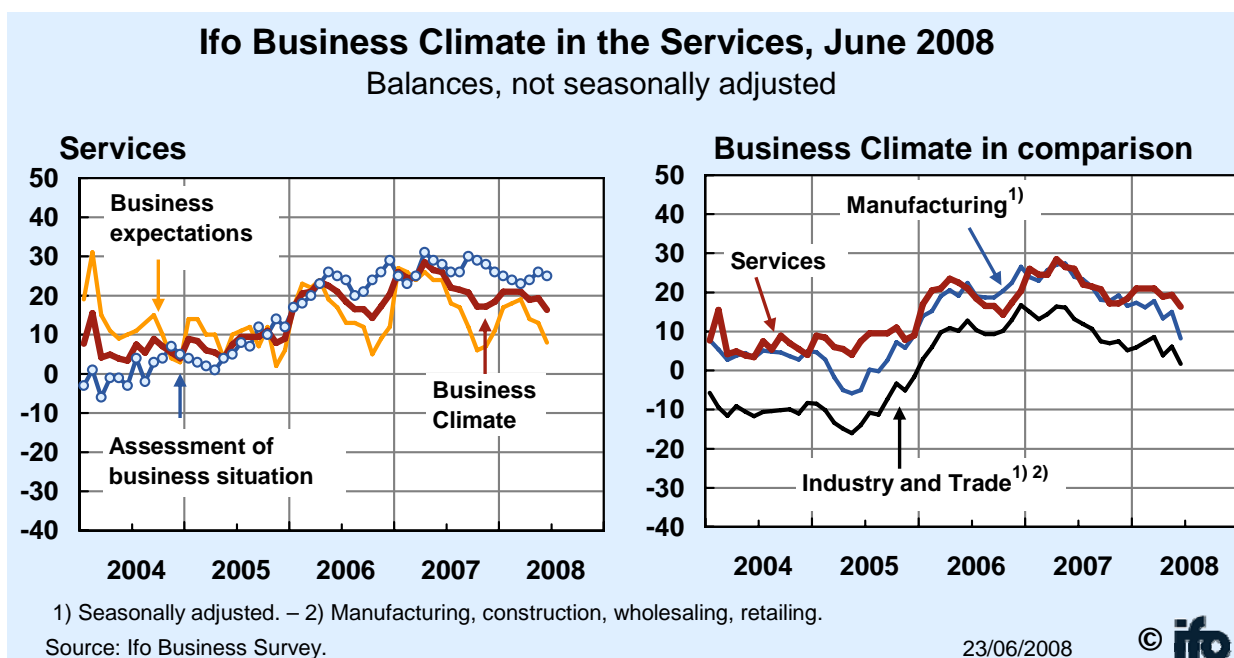
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### Cloudy Business Climate in the Service Sector

The Ifo Business Climate indicator for the German service sector has clearly fallen in June. Although the current business situation has been assessed only slightly less favourably than in May, optimism has clearly declined regarding the business expectations for the next six months. For the third time in succession, the outlook has been judged less favourably in comparison to the previous month. Nevertheless, the surveyed firms still plan to hire additional staff in the coming months.

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### German Services Sector (Balances, not seasonally adjusted)

Month/Year	06/07	07/07	08/07	09/07	10/07	11/07	12/07	01/08	02/08	03/08	04/08	05/08	06/08
<b>Climate</b>	26.0	22.0	21.5	20.8	17.2	17.2	18.4	21.0	21.0	21.0	18.9	19.4	16.3
<b>Situation</b>	28.0	26.0	26.0	30.0	29.0	28.0	26.0	25.0	24.0	23.0	24.0	26.0	25.0
<b>Expectations</b>	24.0	18.0	17.0	12.0	6.0	7.0	11.0	17.0	18.0	19.0	14.0	13.0	8.0

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.