

Ifo Business Climate Germany

Results of the July 2008 Ifo Business Survey

Ifo Business Climate Index Falls

The Ifo Business Climate Index for industry and trade in Germany has fallen again significantly in July following a clear worsening in the previous month. The firms are much more dissatisfied with their current business situation and they are clearly more reserved regarding the six-month outlook. These results suggest that the economic upswing is coming to an end.

In *manufacturing* the business climate index has fallen noticeably. Satisfaction with the current business situation has declined among the survey participants. They also anticipate weaker business in the coming six months. Export business will no longer expand so rapidly, in the estimation of the manufacturers. Their willingness to take on additional staff has weakened somewhat.

In the other three survey sectors – construction, retailing and wholesaling – the business climate index is clearly trending downwards. In both trade sectors, *wholesaling and retailing*, the business climate index has fallen significantly. The trading firms have assessed both their current business situation as well as the six-month outlook clearly more pessimistically than in June. In *construction* the business climate has clouded somewhat. The current business situation has been assessed more unfavourably and the business expectations are more cautious than in the previous month.

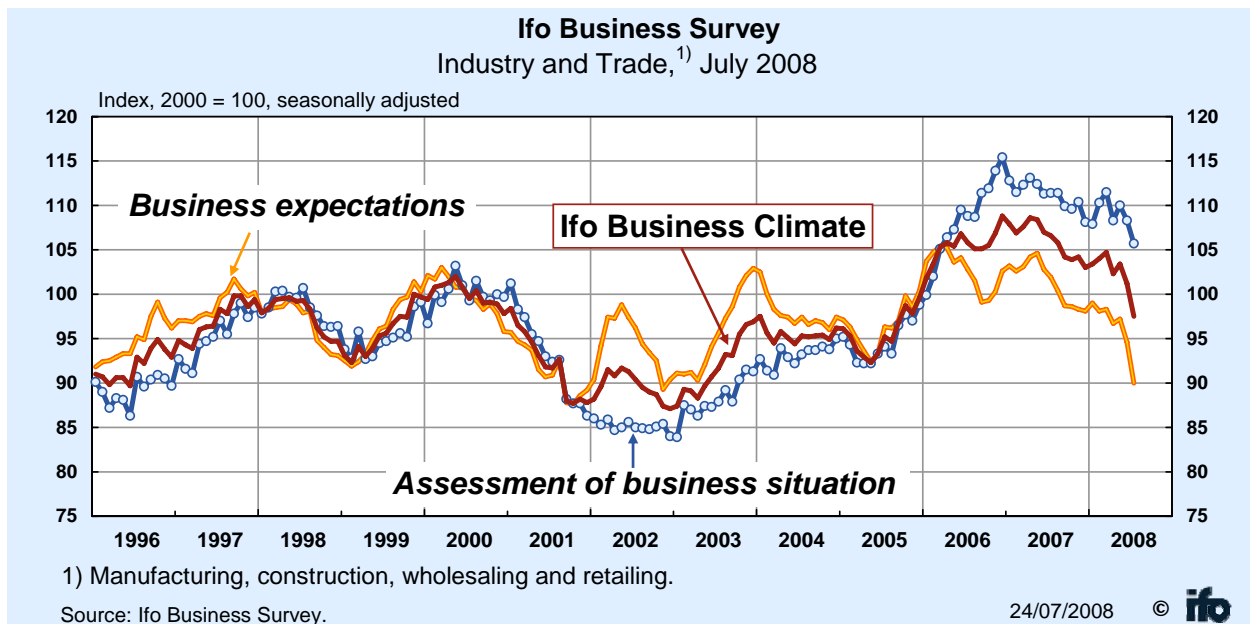
Hans-Werner Sinn

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

Germany (Index, 2000 = 100, seasonally adjusted)

Month/year	07/07	08/07	09/07	10/07	11/07	12/07	01/08	02/08	03/08	04/08	05/08	06/08	07/08
Climate	106.6	105.8	104.2	103.9	104.2	103.0	103.4	104.0	104.7	102.3	103.4	101.2	97.5
Situation	111.4	111.4	109.9	109.6	110.4	108.1	107.9	110.3	111.5	108.3	110.0	108.3	105.7
Expectations	101.9	100.4	98.7	98.6	98.3	98.1	99.0	98.1	98.3	96.7	97.2	94.6	90.0

Source: Ifo Business Survey

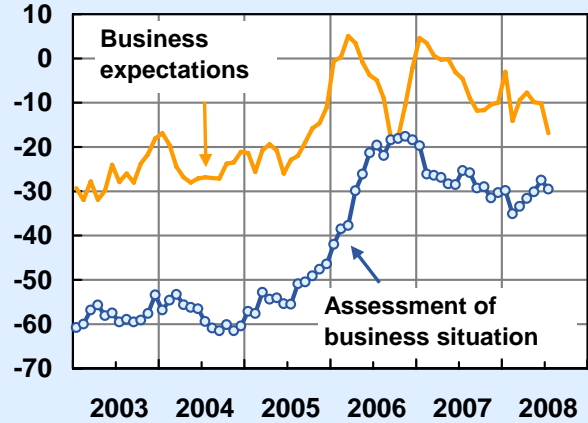


Business Situation and Expectations by Sector July 2008; balances, seasonally adjusted

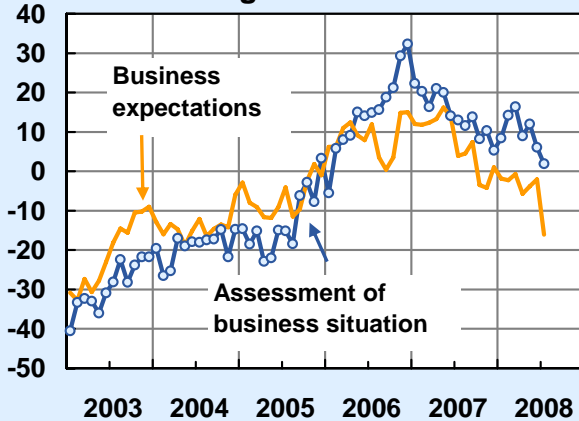
Manufacturing Industry



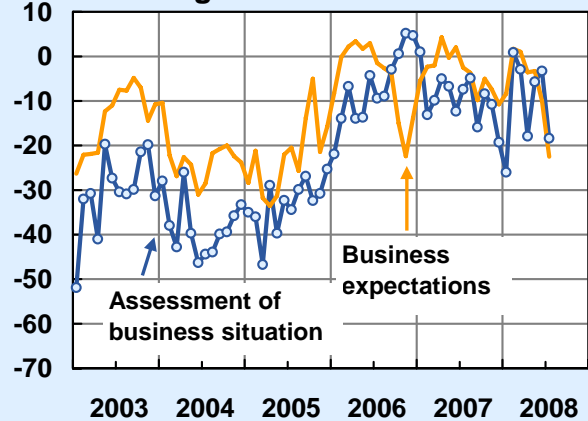
Construction



Wholesaling



Retailing



Source: Ifo Business Survey.

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Ifo Business Climate Germany (Balances, seasonally adjusted)

Month/year	07/07	08/07	09/07	10/07	11/07	12/07	01/08	02/08	03/08	04/08	05/08	06/08	07/08
Trade and Industry	12.3	10.7	7.5	7.1	7.6	5.2	5.9	7.2	8.6	3.9	6.0	1.6	-5.7
Manufacturing	23.8	21.4	18.1	17.8	19.3	16.5	17.3	16.2	17.8	13.2	14.9	8.1	2.1
Construction	-15.2	-17.5	-20.8	-20.5	-21.3	-20.4	-16.9	-25.0	-21.8	-20.0	-20.3	-19.0	-23.3
Wholesaling	8.4	8.0	10.6	2.3	3.0	3.1	3.2	5.8	7.7	1.5	4.0	2.0	-7.3
Retailing	-4.9	-4.3	-12.9	-6.7	-9.1	-15.1	-17.4	1.3	-1.0	-10.9	-4.5	-6.7	-20.4

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

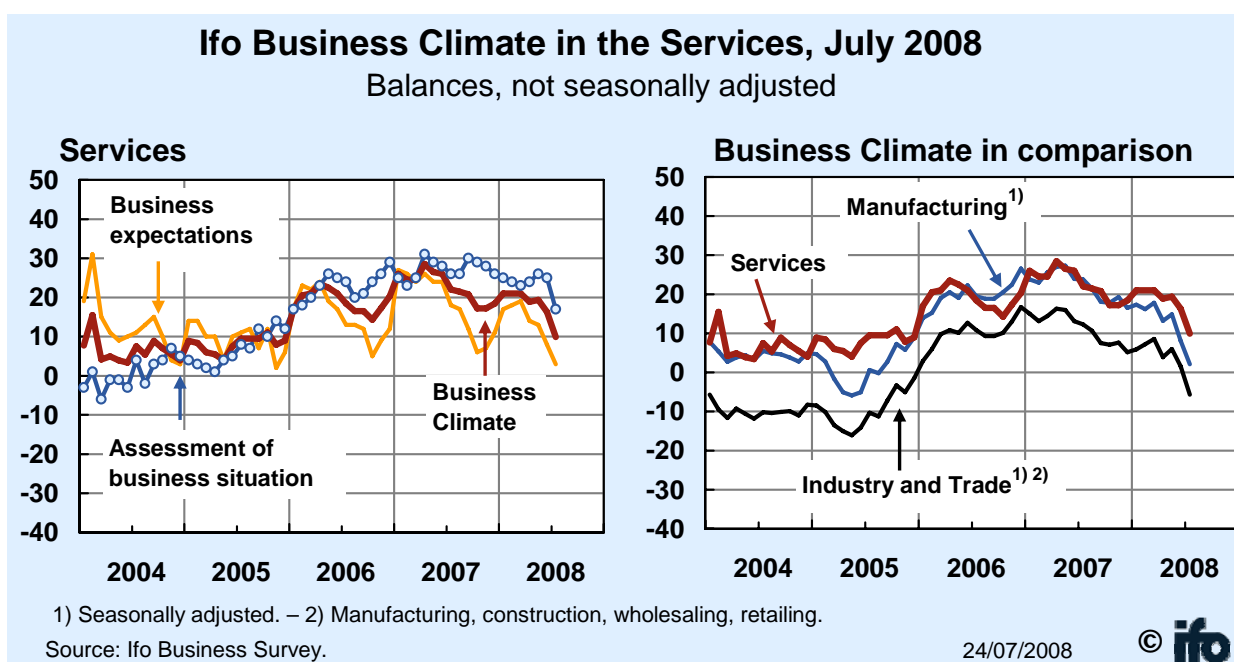
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Cooling of the Business Climate in the Service Sector

The Ifo Business Climate indicator for the German service sector has fallen in July. Already in the previous month a worsening had occurred. The surveyed service providers have assessed their current business situation clearly more cautiously than in June. In addition, their confidence in the six-month business outlook has weakened for the fourth month in succession. The surveyed firms plan to exercise more caution in hiring additional staff.

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	07/07	08/07	09/07	10/07	11/07	12/07	01/08	02/08	03/08	04/08	05/08	06/08	07/08
Climate	22.0	21.5	20.8	17.2	17.2	18.4	21.0	21.0	21.0	18.9	19.4	16.3	9.9
Situation	26.0	26.0	30.0	29.0	28.0	26.0	25.0	24.0	23.0	24.0	26.0	25.0	17.0
Expectations	18.0	17.0	12.0	6.0	7.0	11.0	17.0	18.0	19.0	14.0	13.0	8.0	3.0

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.