

# Ifo Business Climate Germany

Results of the October 2008 Ifo Business Survey

## Ifo Business Climate Worsens

The Ifo Business Climate for industry and trade in Germany clearly declined in October, continuing its downward development. The current business situation has been assessed by the firms as nearly unchanged but they are considerably more sceptical regarding the outlook for the coming six months. German firms are anticipating declining business activity.

In *manufacturing* the decline in the business climate index has continued. The current business situation has again been assessed by the firms as more unfavourable than the previous month although on the whole as satisfactory. However, they anticipate a clear worsening of their business over the coming six months. Exports will weaken in the opinion of the surveyed manufacturers. Their production capacities are being utilised at a clearly lower rate and they are no longer planning to hire additional personnel.

In *construction* the business climate has worsened somewhat. The current business situation has been appraised as hardly changed. Over the course of the year thus far, the business situation in construction has been nearly stable. But with regard to the six-month outlook, construction firms are more critical than they were in September. In *retailing*, the business climate has cooled marginally but in *wholesaling* very clearly. In both distribution sectors the surveyed firms have assessed their current business situation somewhat more favourably than in the previous month, but the business outlook is seen more negatively.

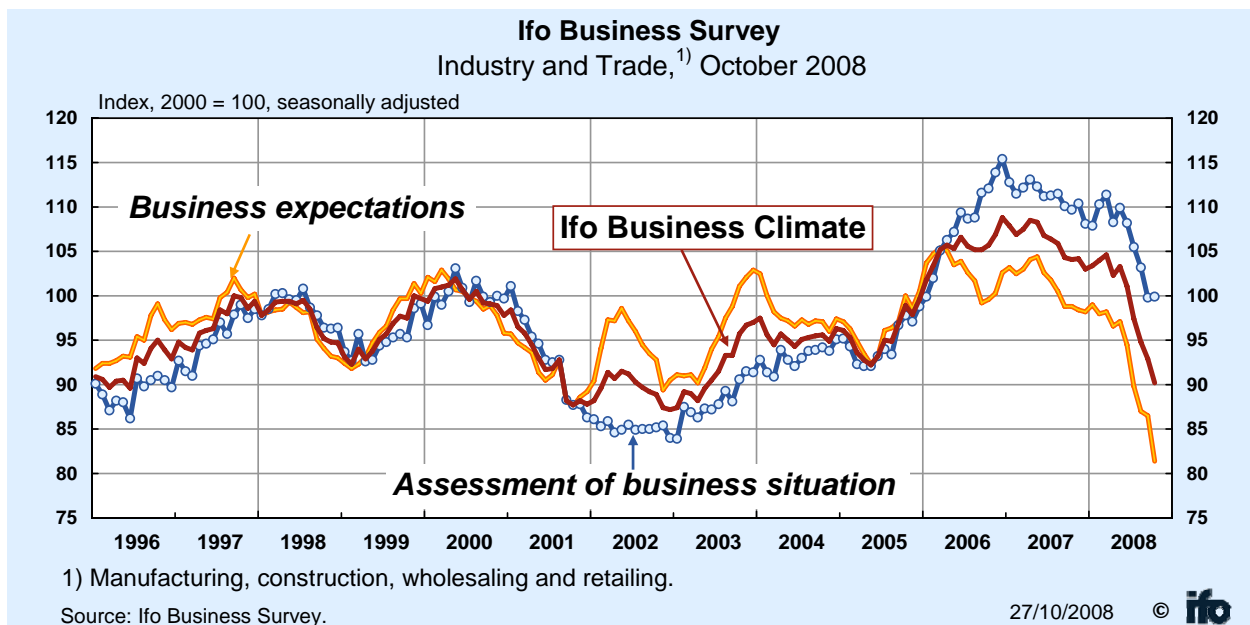
Hans-Werner Sinn

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

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

Month/year	10/07	11/07	12/07	01/08	02/08	03/08	04/08	05/08	06/08	07/08	08/08	09/08	10/08
Climate	104.1	104.2	103.0	103.4	104.0	104.6	102.3	103.3	101.1	97.4	94.8	92.9	90.2
Situation	109.7	110.4	108.1	107.9	110.3	111.4	108.3	109.9	108.2	105.5	103.2	99.8	99.9
Expectations	98.8	98.4	98.2	99.0	98.0	98.2	96.6	97.1	94.5	89.8	87.0	86.5	81.4

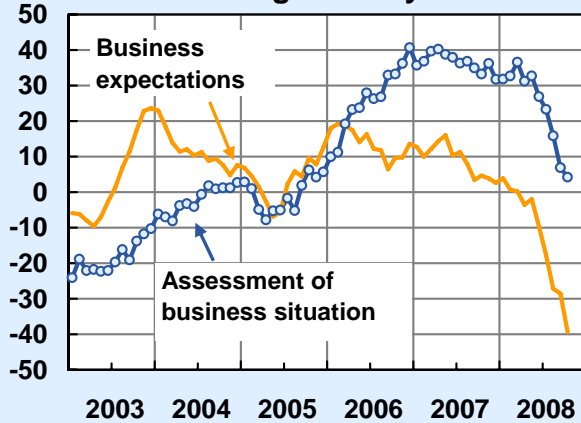
Source: Ifo Business Survey



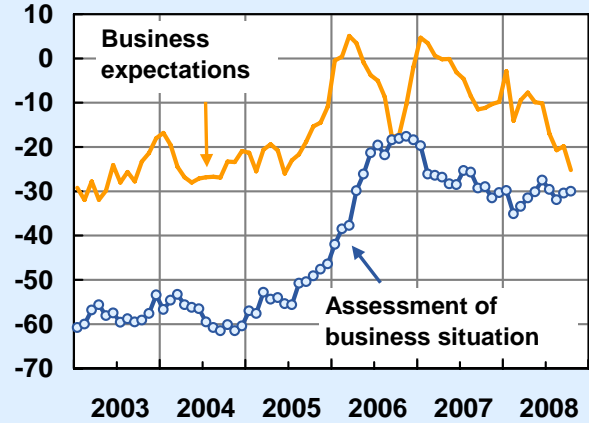


## Business Situation and Expectations by Sector October 2008; balances, seasonally adjusted

### Manufacturing Industry



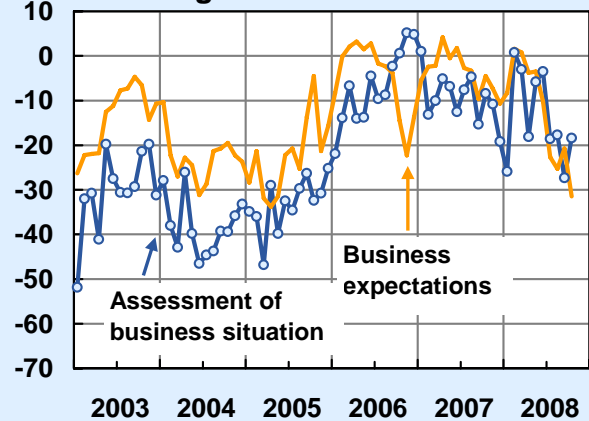
### Construction



### Wholesaling



### Retailing



Source: Ifo Business Survey.

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

Month/year	10/07	11/07	12/07	01/08	02/08	03/08	04/08	05/08	06/08	07/08	08/08	09/08	10/08
Trade and Industry	7.5	7.7	5.4	6.0	7.2	8.5	3.8	5.9	1.5	-6.0	-11.2	-14.9	-20.2
Manufacturing	18.4	19.4	16.7	17.4	16.1	17.6	13.1	14.7	7.8	1.7	-6.9	-11.7	-18.9
Construction	-20.3	-21.2	-20.4	-16.8	-24.9	-21.8	-20.0	-20.3	-19.0	-23.4	-26.4	-25.2	-27.6
Wholesaling	2.6	3.1	3.2	3.2	5.8	7.6	1.5	3.9	1.9	-7.4	-5.5	-10.3	-15.1
Retailing	-6.4	-9.1	-15.0	-17.3	1.2	-1.1	-11.1	-4.7	-6.9	-20.7	-21.6	-24.1	-25.0

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

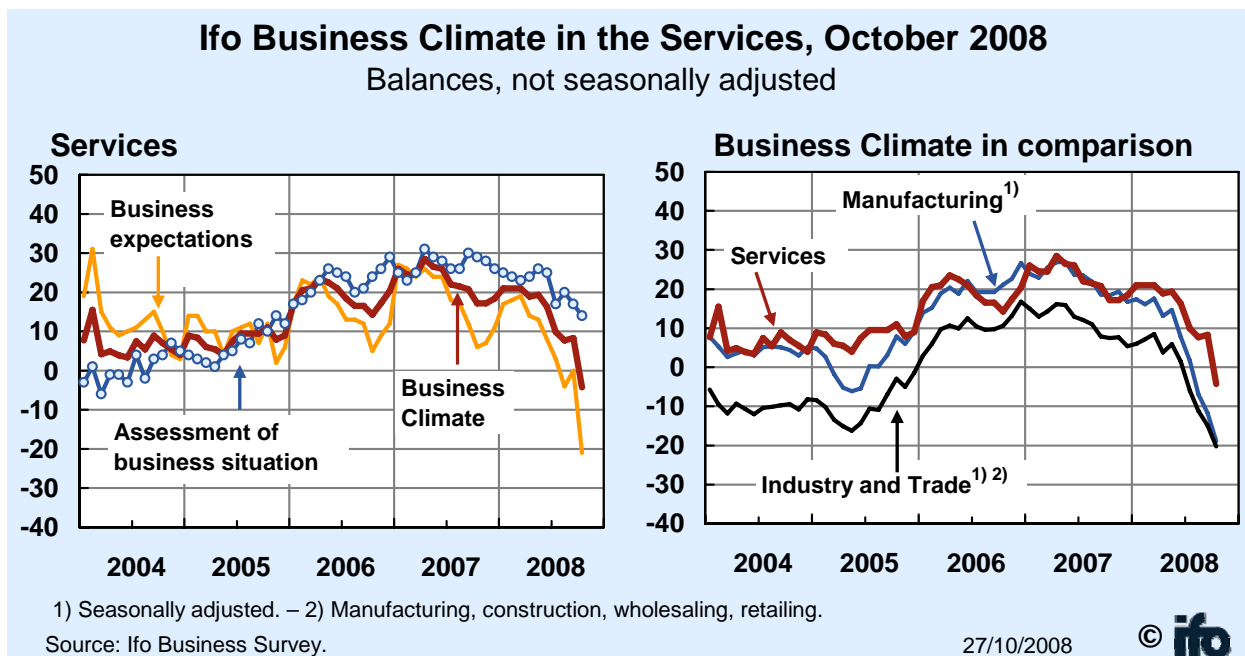
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### Cooler Business Climate in the Service Sector

The Ifo Business Climate indicator in the German service sector fell clearly in October. The current business situation has again been assessed by the survey participants as less positive but on the whole as still good. However, the service providers anticipate considerably weaker business activity in the coming six months. In the service sector for personnel placement, which includes temporary employment firms, the business expectations have been adjusted downwards significantly. In the service sector as a whole, the willingness to hire additional staff has clearly continued to weaken.

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	10/07	11/07	12/07	01/08	02/08	03/08	04/08	05/08	06/08	07/08	08/08	09/08	10/08
Climate	17.2	17.2	18.4	21.0	21.0	21.0	18.9	19.4	16.3	9.9	7.7	8.3	-4.3
Situation	29.0	28.0	26.0	25.0	24.0	23.0	24.0	26.0	25.0	17.0	20.0	17.0	14.0
Expectations	6.0	7.0	11.0	17.0	18.0	19.0	14.0	13.0	8.0	3.0	-4.0	0.0	-21.0

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.