

Ifo Business Climate Germany

Results of the December 2008 Ifo Business Survey

Renewed Decline of the Ifo Business Climate

The Ifo Business Climate for industry and trade in Germany has clearly fallen in December, continuing its decline of more than one year. The dominant feature of the December decline is the worsening of the firms' current business situation. With regard to the six-month business outlook, the scepticism of the survey participants remains nearly unchanged. A similarly low level of the business climate index was last reached during the second oil crisis at the end of 1982. The downturn is affecting above all the manufacturers of export and capital goods and less, up until now, retailing and construction.

In *manufacturing* the business climate has cooled considerably. The pessimistic expectations of past months are becoming reality as more and more of the firms report an unsatisfactory business situation. Their further business development has been assessed as somewhat more difficult, and in their estimation export business will continue to weaken. Their personnel plans signal staff reductions.

The survey participants in *retailing* have assessed their current business situation somewhat more negatively than in November but are less critical in their appraisal of the six-month business outlook. For this reason, the business climate in retailing has improved slightly. In *wholesaling*, however, the business climate index has fallen. Both the current situation as well as the outlook have received poorer assessments. In *construction*, the business climate remains nearly stable. The firms have assessed their current business situation slightly less favourably and they are just as cautious regarding the business outlook as they were in November.

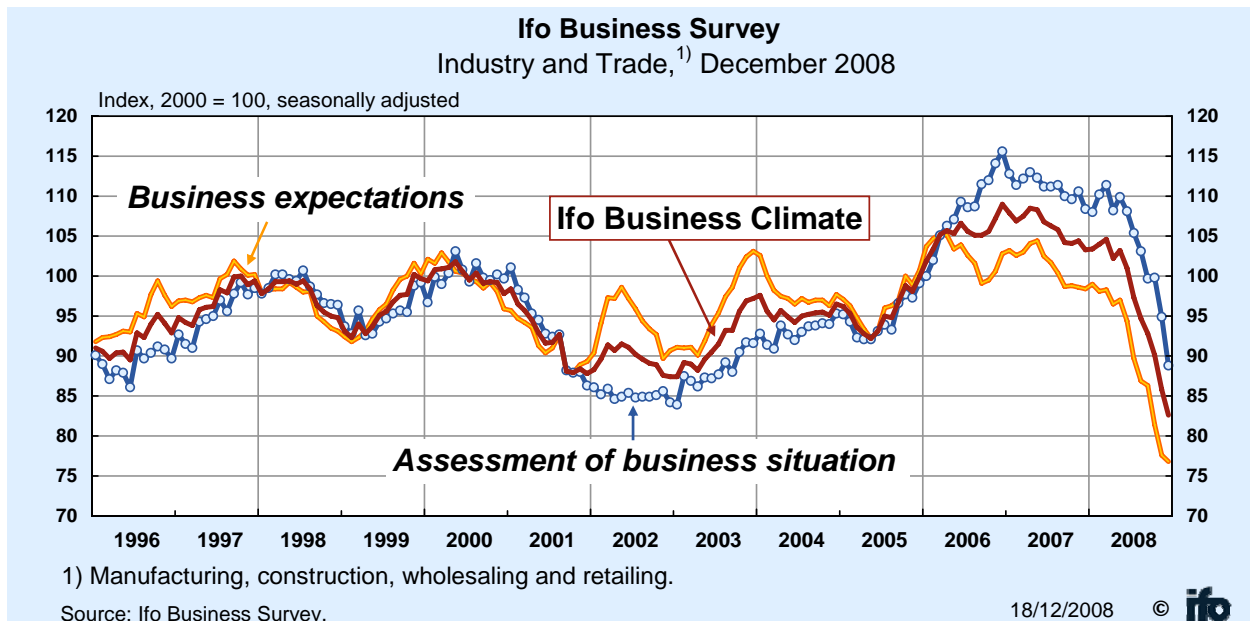
Hans-Werner Sinn

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

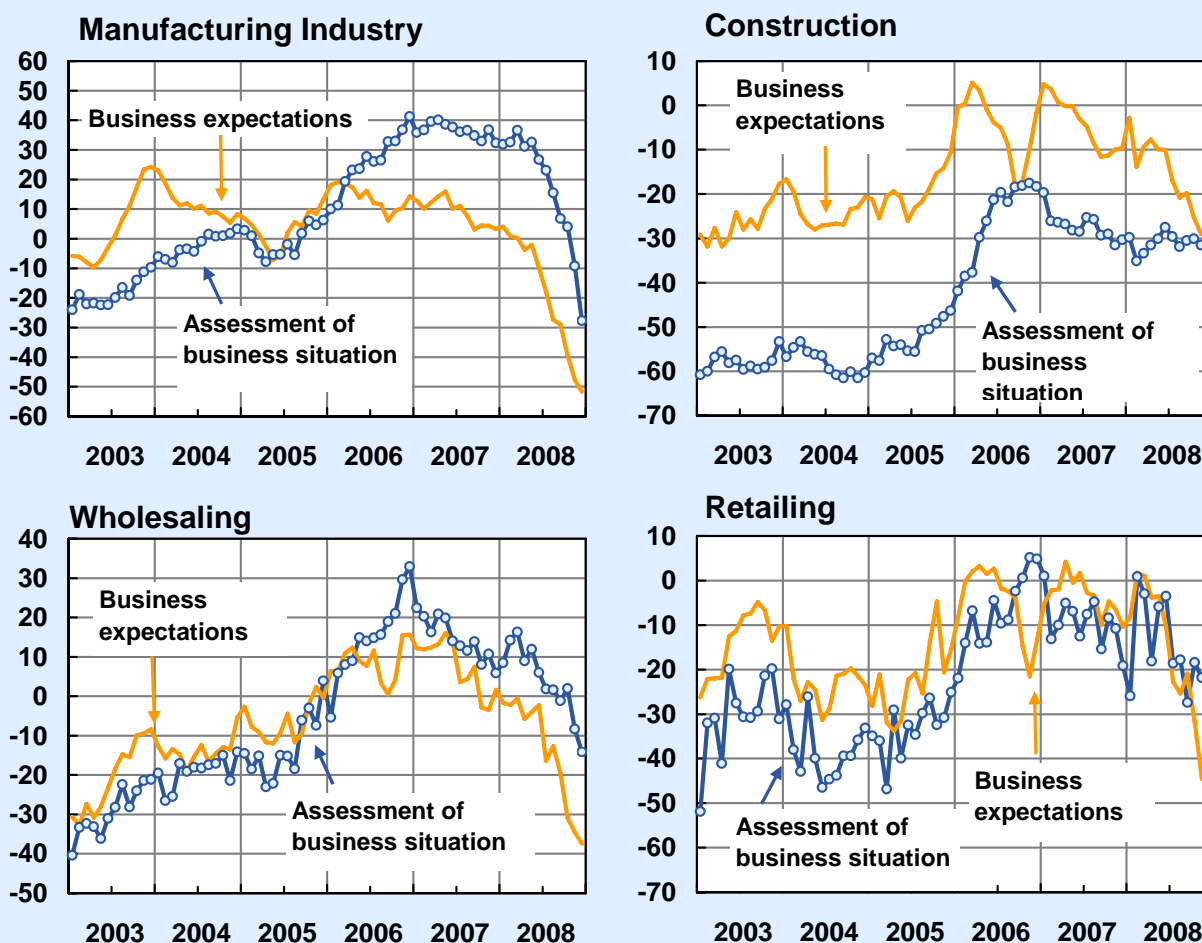
Germany (Index, 2000 = 100, seasonally adjusted)

Month/year	12/07	01/08	02/08	03/08	04/08	05/08	06/08	07/08	08/08	09/08	10/08	11/08	12/08
Climate	103.3	103.4	104.0	104.6	102.2	103.2	101.0	97.3	94.7	92.8	90.1	85.8	82.6
Situation	108.4	108.0	110.2	111.4	108.2	109.9	108.1	105.4	103.1	99.7	99.8	94.9	88.8
Expectations	98.4	99.0	98.1	98.3	96.5	97.0	94.4	89.7	86.9	86.3	81.4	77.6	76.8

Source: Ifo Business Survey



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



Source: Ifo Business Survey.

18/12/2008 © ifo

Ifo Business Climate Germany (Balances, seasonally adjusted)

Month/year	12/07	01/08	02/08	03/08	04/08	05/08	06/08	07/08	08/08	09/08	10/08	11/08	12/08
Trade and Industry	5.9	6.1	7.3	8.5	3.8	5.8	1.3	-6.1	-11.3	-15.0	-20.3	-28.9	-35.4
Manufacturing	17.3	17.5	16.1	17.7	13.0	14.6	7.6	1.5	-7.1	-11.9	-19.1	-29.5	-40.2
Construction	-20.2	-16.8	-24.9	-21.7	-20.0	-20.3	-19.0	-23.4	-26.4	-25.2	-27.7	-30.2	-30.5
Wholesaling	3.7	3.3	5.8	7.7	1.5	3.8	1.8	-7.6	-5.7	-10.5	-15.2	-21.9	-26.1
Retailing	-14.8	-17.3	1.3	-1.0	-11.1	-4.7	-6.9	-20.7	-21.6	-24.2	-25.2	-33.5	-30.9

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

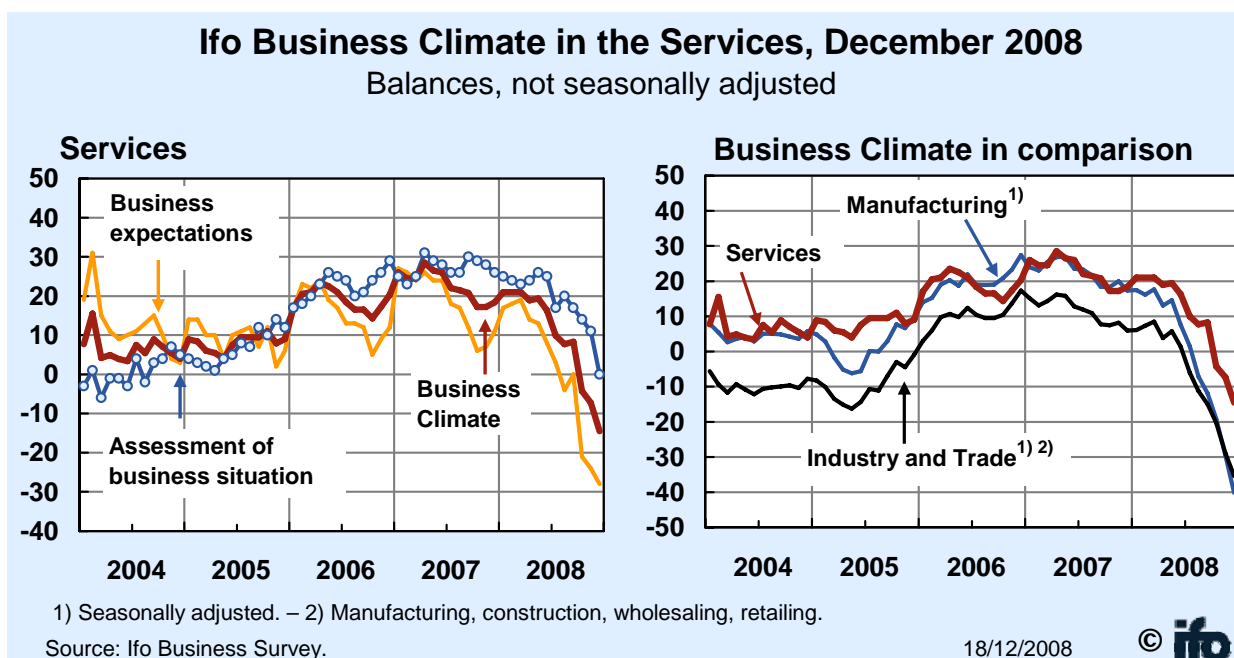
Results of the December 2008 Ifo Business Survey

Business Climate Indicator in the Service Sector Falls Further

The Ifo Business Climate in the German service sector has worsened significantly in December. The surveyed service providers have assessed their current business situation considerably more unfavourably and have reported, for the first time in more than three years, a merely satisfactory business situation. With regard to the business outlook for the coming six months, they are somewhat more sceptical than in November. The service companies plan to reduce the number of employees in the coming months.

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	12/07	01/08	02/08	03/08	04/08	05/08	06/08	07/08	08/08	09/08	10/08	11/08	12/08
Climate	18.4	21.0	21.0	21.0	18.9	19.4	16.3	9.9	7.7	8.3	-4.3	-7.3	-14.5
Situation	26.0	25.0	24.0	23.0	24.0	26.0	25.0	17.0	20.0	17.0	14.0	11.0	0.0
Expectations	11.0	17.0	18.0	19.0	14.0	13.0	8.0	3.0	-4.0	0.0	-21.0	-24.0	-28.0

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.