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## Ifo Business Climate Germany

Results of the November 2005 Ifo Business Survey

### Business Climate Index Falls

The Ifo Business Climate Index for German industry and trade fell in November, after strong increases in the preceding two months. The assessments of the current situation of the surveyed firms as well as their business expectations for the next six months were less favourable than in October. Despite this decline, the Business Climate Index is still above the September level. The latest data confirm a continuation of the current moderate economic recovery.

In manufacturing the business climate weakened slightly. The firms were less satisfied with their current situation than in October and their business expectations were also somewhat more reserved. Their export expectations remain optimistic, however. In wholesaling the business climate was virtually unchanged, with somewhat weaker appraisals of the current situation and slightly more favourable expectations. In retailing the business climate worsened noticeably in November, with both more sceptical assessments of the current situation as well as the six-month outlook. In contrast, the business climate in construction improved somewhat; the current situation and the business outlook were seen here less pessimistically.

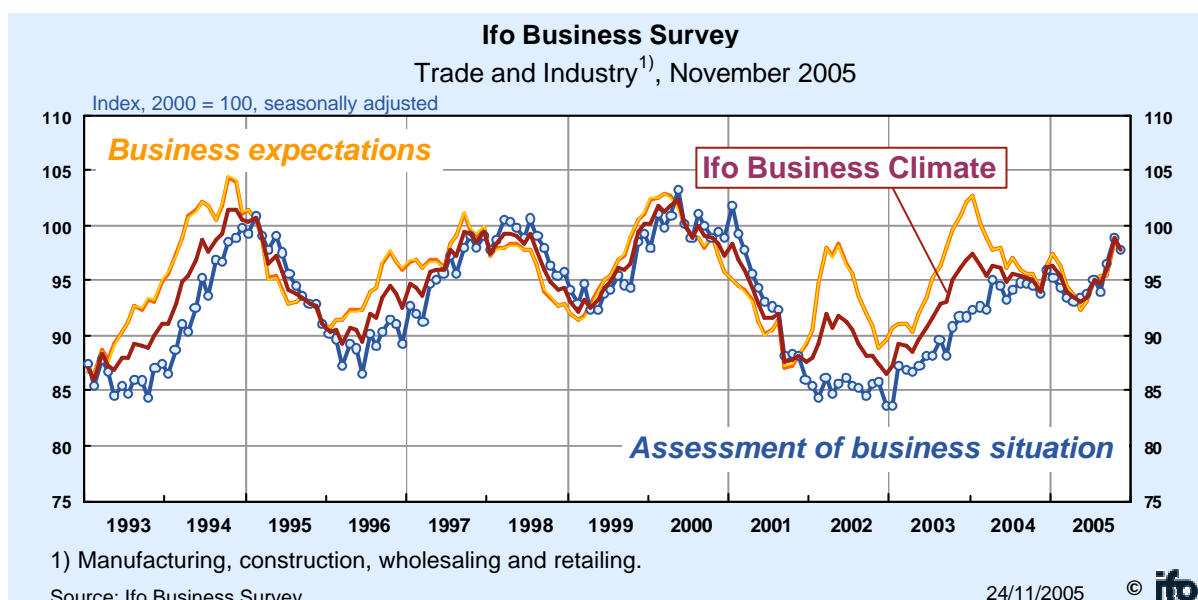
In eastern Germany the decline in the business climate index was similar to the federal average.

Hans-Werner Sinn

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

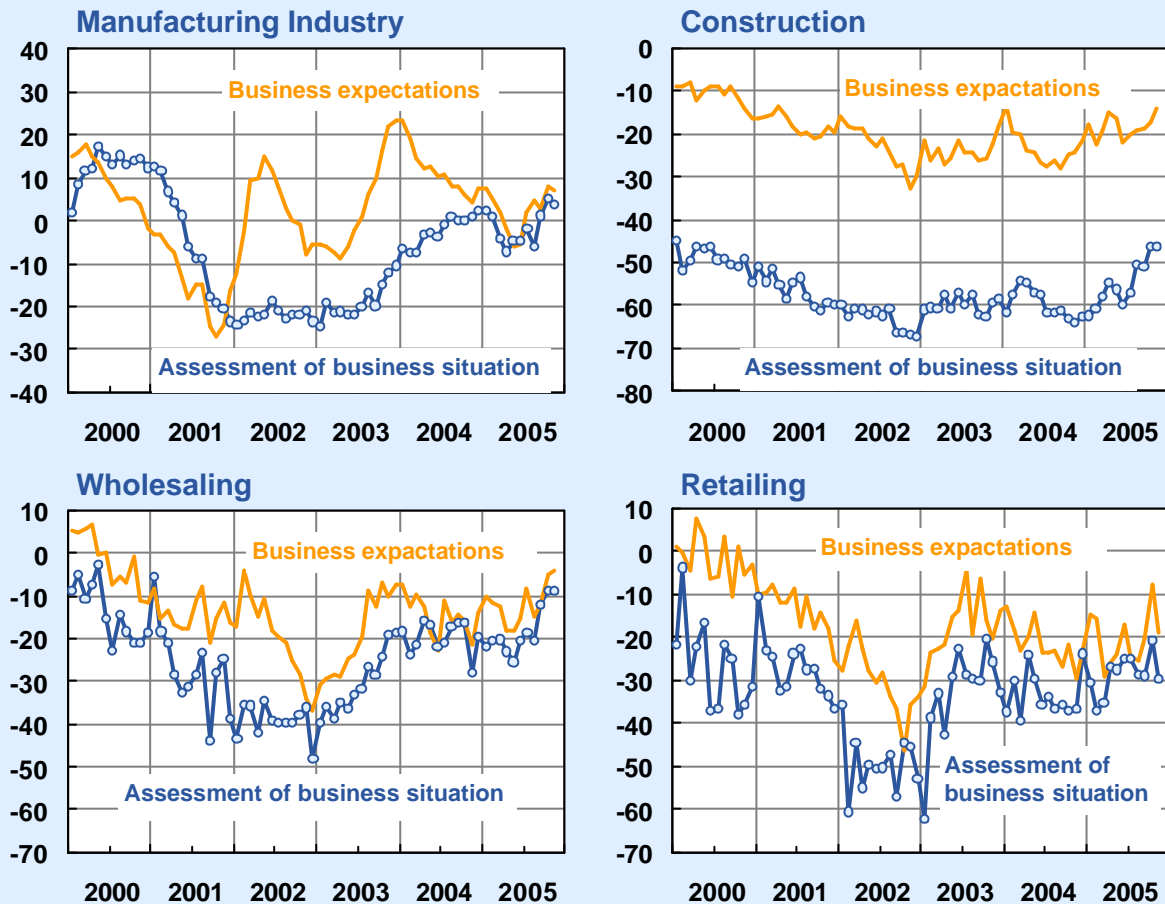
### Germany (Index, 2000 = 100, seasonally adjusted)

| Month/year   | 11/04 | 12/04 | 1/05 | 2/05 | 3/05 | 4/05 | 5/05 | 6/05 | 7/05 | 8/05 | 9/05 | 10/05 | 11/05 |
|--------------|-------|-------|------|------|------|------|------|------|------|------|------|-------|-------|
| Climate      | 94.0  | 96.2  | 96.3 | 95.4 | 94.0 | 93.4 | 93.0 | 93.4 | 95.1 | 94.7 | 96.0 | 98.8  | 97.8  |
| Situation    | 93.8  | 95.9  | 95.2 | 94.4 | 93.4 | 93.1 | 93.5 | 93.8 | 95.0 | 93.9 | 96.5 | 98.9  | 97.8  |
| Expectations | 94.2  | 96.4  | 97.5 | 96.3 | 94.6 | 93.6 | 92.4 | 93.0 | 95.1 | 95.5 | 95.5 | 98.6  | 97.7  |



## Business Situation and Expectations by Sectors

November 2005; balances, seasonally adjusted



Source: Ifo Business Survey.

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

| Month/year         | 11/04 | 12/04 | 1/05  | 2/05  | 3/05  | 4/05  | 5/05  | 6/05  | 7/05  | 8/05  | 9/05  | 10/05 | 11/05 |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Trade and Industry | -12.9 | -8.6  | -8.2  | -10.1 | -12.9 | -14.1 | -15.0 | -14.1 | -10.8 | -11.5 | -8.8  | -3.4  | -5.4  |
| Manufacturing      | 2.5   | 5.0   | 4.9   | 2.9   | -1.1  | -4.6  | -5.5  | -5.2  | 0.0   | -0.6  | 2.0   | 6.7   | 5.5   |
| Construction       | -45.3 | -43.5 | -41.6 | -42.8 | -39.6 | -36.0 | -37.5 | -41.9 | -39.8 | -35.4 | -35.6 | -32.5 | -30.9 |
| Wholesaling        | -24.6 | -16.8 | -16.1 | -16.0 | -16.3 | -20.6 | -21.8 | -18.0 | -13.5 | -17.7 | -12.0 | -6.8  | -6.4  |
| Retailing          | -33.3 | -23.4 | -22.8 | -26.8 | -32.1 | -26.3 | -25.7 | -20.9 | -24.7 | -27.2 | -24.7 | -14.3 | -24.5 |

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 normalized to the average of the year 2000.

## Ifo Business Climate in the German Services Sector

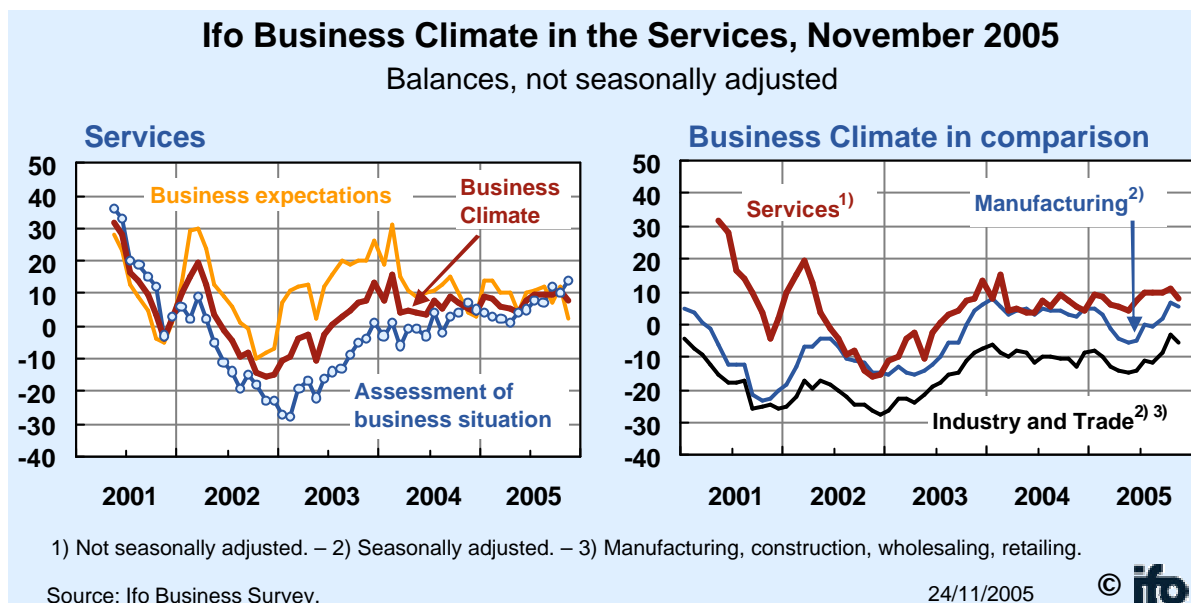
Results for November 2005

### Ifo Business Climate in the Services Worsens

The Ifo Business Climate in the German services sector worsened in November, after having improved in the previous month. The surveyed firms were less satisfied with their current situation than in October, and there was a significant decline in their expectations for the coming six months.

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

| Month/Year          | 11/04 | 12/04 | 1/05 | 2/05 | 3/05 | 4/05 | 5/05 | 6/05 | 7/05 | 8/05 | 9/05 | 10/05 | 11/05 |
|---------------------|-------|-------|------|------|------|------|------|------|------|------|------|-------|-------|
| <b>Climate</b>      | 5.5   | 4.0   | 8.9  | 8.4  | 6.0  | 5.5  | 4.0  | 7.5  | 9.5  | 9.5  | 9.5  | 11.0  | 7.9   |
| <b>Situation</b>    | 7.0   | 5.0   | 4.0  | 3.0  | 2.0  | 1.0  | 4.0  | 5.0  | 8.0  | 7.0  | 12.0 | 10.0  | 14.0  |
| <b>Expectations</b> | 4.0   | 3.0   | 14.0 | 14.0 | 10.0 | 10.0 | 4.0  | 10.0 | 11.0 | 12.0 | 7.0  | 12.0  | 2.0   |

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.