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Ifo Business Climate Germany

Results of the December 2005 Ifo Business Survey

Upswing in the Business Climate Index

The Ifo Business Climate Index for German industry and trade rose clearly in December, after a temporary decline in the previous month. The surveyed firms reported an improved current business situation and also gave more favourable assessments of their business expectations for the next six months than in November. The latest data confirm the upturn of the Ifo Business Climate Index that began late spring this year.

In manufacturing the business climate improved, with the firms assessing their current situation somewhat more favourably. They are clearly more confident regarding their business expectations for the next six months. The manufacturing firms expect even stronger impulses from export business. In the other three sectors of the Ifo Business Survey – construction, wholesaling and retailing – the index also rose. In all three sectors the survey participants were more satisfied with their current business situation than in November, with significant improvement in wholesaling and retailing. The business outlook for the next six months was seen somewhat more positively in construction and in distribution compared to the previous month.

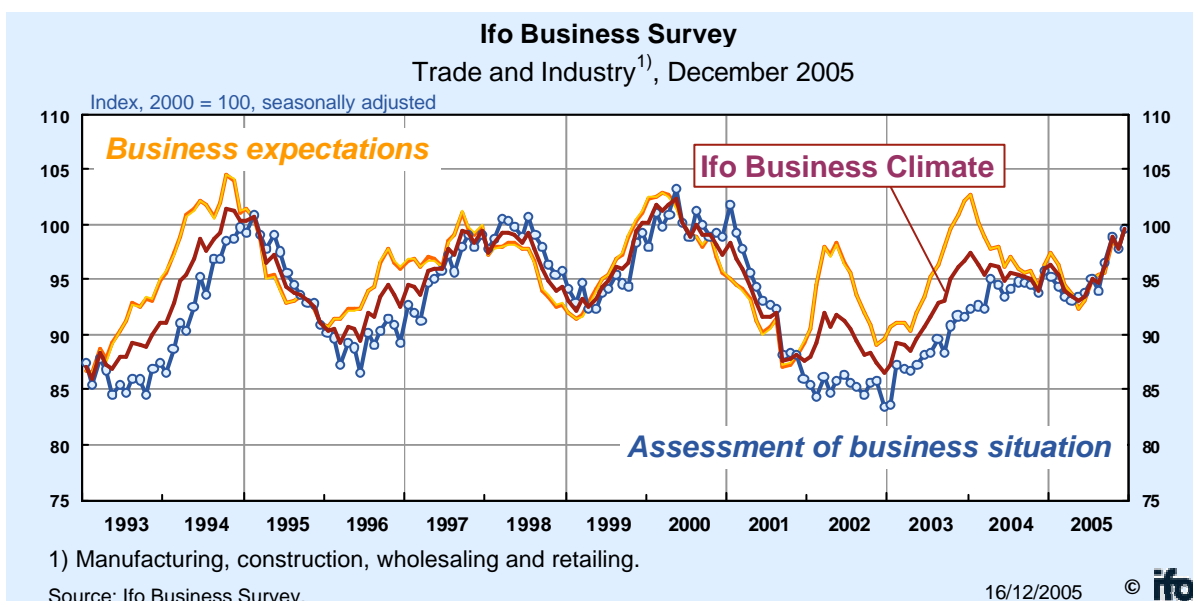
In eastern Germany the rise in the business climate index was similar to the federal average.

Hans-Werner Sinn

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

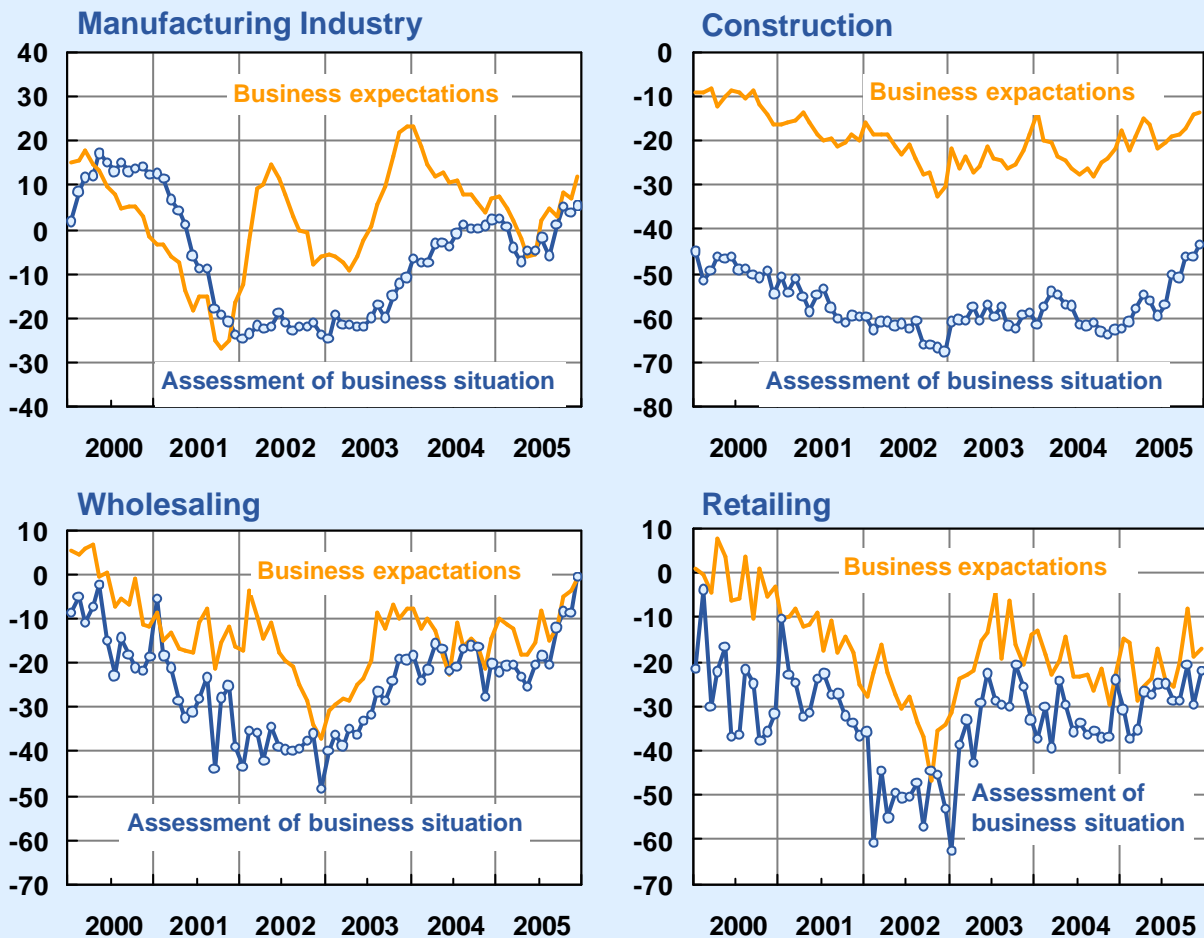
Germany (Index, 2000 = 100, seasonally adjusted)

Month/year	12/04	1/05	2/05	3/05	4/05	5/05	6/05	7/05	8/05	9/05	10/05	11/05	12/05
Climate	96.0	96.3	95.4	94.0	93.4	93.0	93.4	95.1	94.7	96.1	98.8	97.8	99.6
Situation	95.8	95.2	94.4	93.4	93.1	93.5	93.8	95.0	93.9	96.5	98.9	97.8	99.6
Expectations	96.3	97.4	96.3	94.6	93.6	92.4	93.0	95.1	95.5	95.6	98.6	97.8	99.6



Business Situation and Expectations by Sectors

December 2005; balances, seasonally adjusted



Source: Ifo Business Survey.

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Ifo Business Climate Germany (Balances, seasonally adjusted)

Month/year	12/04	1/05	2/05	3/05	4/05	5/05	6/05	7/05	8/05	9/05	10/05	11/05	12/05
Trade and Industry	-8.8	-8.2	-10.2	-13.0	-14.2	-14.9	-14.1	-10.7	-11.5	-8.8	-3.4	-5.3	-1.7
Manufacturing	4.8	4.9	2.9	-1.1	-4.6	-5.5	-5.1	0.0	-0.5	2.1	6.8	5.5	8.8
Construction	-43.7	-41.6	-42.8	-39.6	-36.0	-37.5	-41.9	-39.8	-35.4	-35.5	-32.5	-30.9	-29.0
Wholesaling	-17.2	-16.2	-16.0	-16.4	-20.6	-21.8	-18.0	-13.4	-17.6	-11.9	-6.7	-6.3	-0.9
Retailing	-23.5	-22.9	-26.8	-32.1	-26.3	-25.7	-20.9	-24.6	-27.1	-24.7	-14.3	-24.4	-19.7

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

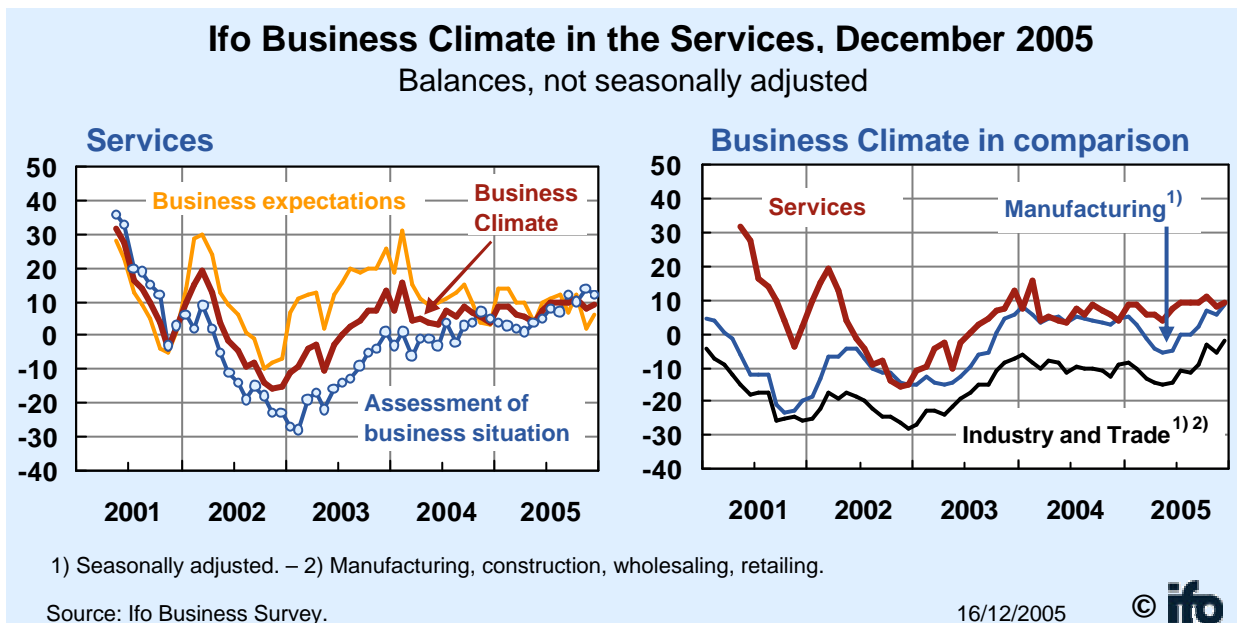
Results for December 2005

Ifo Business Climate in the Services Improves

The Ifo Business Climate in the German services sector improved in December, after the cooling in the November survey. Although the surveyed firms were less satisfied with their current situation than in November, their expectations for the coming six months are more confident.

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	12/04	1/05	2/05	3/05	4/05	5/05	6/05	7/05	8/05	9/05	10/05	11/05	12/05
Climate	4.0	8.9	8.4	6.0	5.5	4.0	7.5	9.5	9.5	9.5	11.0	7.9	9.0
Situation	5.0	4.0	3.0	2.0	1.0	4.0	5.0	8.0	7.0	12.0	10.0	14.0	12.0
Expectations	3.0	14.0	14.0	10.0	10.0	4.0	10.0	11.0	12.0	7.0	12.0	2.0	6.0

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.