Results of the January 2012 Ifo Business Survey (Summary)[1]

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The **Ifo Business Climate** for trade and industry in Germany brightened for the third time in succession in January. Less cautious business expectations on the part of firms were the main reason for this improvement. However, reports by survey participants indicate that the current business situation is less favourable than in December. Overall the German economy nevertheless made a robust start to the year.

The business climate index increased in manufacturing and construction. Firms' business expectations in particular reflect greater optimism in both sectors. Wholesalers have also upwardly adjusted their expectations. However, since their current situation is less favourable, the business climate fell in this sector. Assessments of the current situation and business expectations in retailing are more cautious than in December.

The **Ifo Employment Barometer** increased again slightly in January, after falling steeply in December. The positive trend in the German labour market continued at the beginning of 2012. Staffing plans were also reported to be more positive in manufacturing, following three

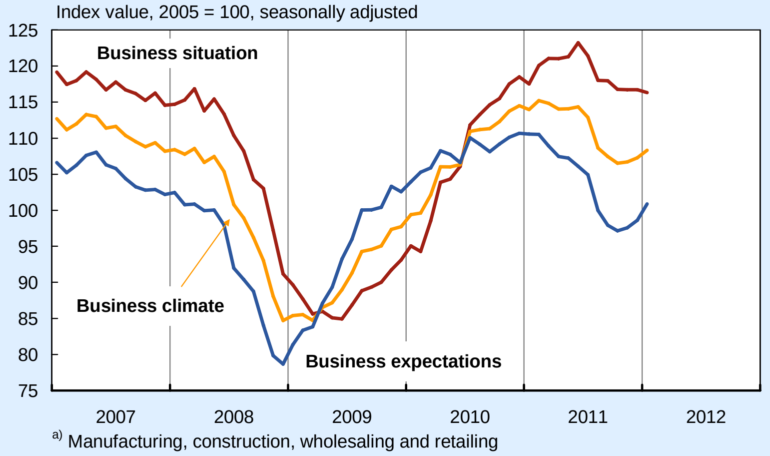
[1] Detailed results (in German) of the Ifo Business Survey and business surveys in other EU countries are published in the journal »ifo Konjunkturperspektiven«.

successive falls in the employment barometer. There are still plans to increase staff numbers substantially, especially in the capital goods sector, while mechanical engineering firms reported significant additional staff requirements. After pursuing a slightly conservative staffing policy towards the end of last year, a growing number of automotive manufacturers now wish to look for extra staff. The employment barometer also rose in the construction sector. Retailers and wholesalers, on the other hand, expressed greater caution in terms of recruiting additional staff.

The business climate improved in **manufacturing**. Manufacturers see their current business situation as slightly improved and their business outlook as clearly more favourable than last month. Export expectations are somewhat more positive, but firms struggled to improve their competitive situation within and outside the EU. Overall demand picked up slightly, while pressure due to high inventories dropped somewhat, with firms once again reporting expansive production plans. Capacity utilization in manufacturing is currently slightly lower than in autumn. However, the capacity utilization of equipment and machinery remains above-average and, in view of forecast demand, available capacity was rarely assessed as too high. Intermediate goods suppliers reduced their capacity utilization significantly. The degree of capacity utilization on the part of capital goods and consumable goods producers, on the other hand, fell slightly.

The business climate in **construction** improved for the third month in succession. The current business situation, however, is no longer as favourable as in the previous month. The constructors surveyed are nevertheless significantly more confident about their six-month business outlook. Although machinery utilisation sank significantly compared to last month, production plans for the forthcoming months are less constrained than previously. An improvement in the business climate can also be seen in the civil and the structural engineering sectors. The current situation in both sectors was assessed as less favourable, while perspectives were deemed better. Fewer civil engineering firms reported constraints on building activities than previously, while structural engineering firms are mainly planning to expand their activities. The business climate improved in public-sector structural engineering and residential construction, but cooled very slightly in commercial construction.

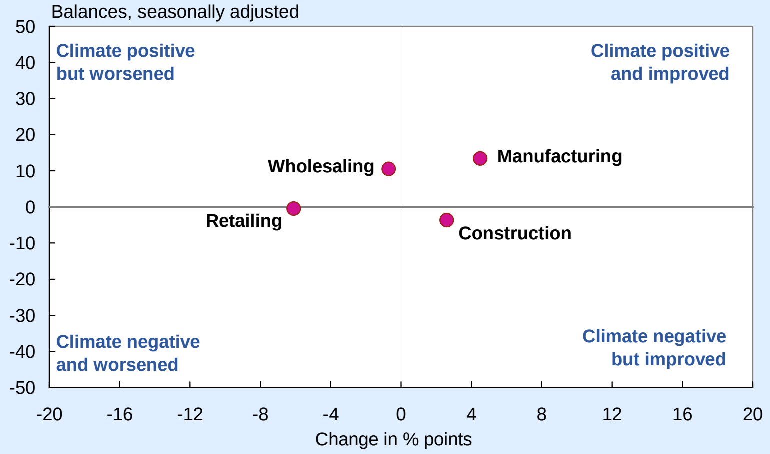
Industry and trade[a)]
Business development



[a)] Manufacturing, construction, wholesaling and retailing

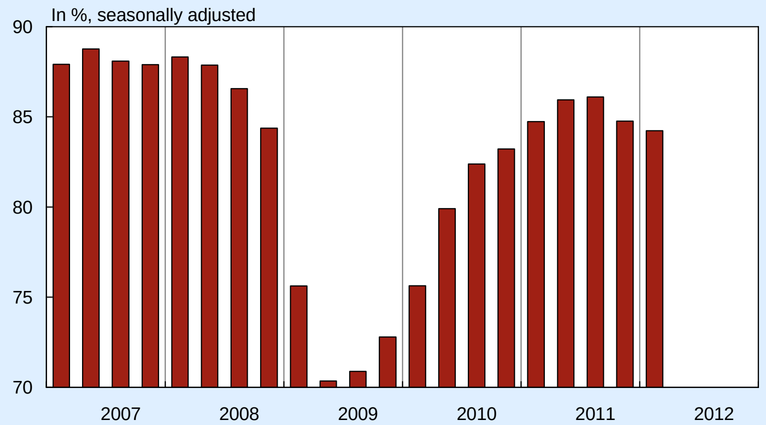
Source: Ifo Business Survey, January 2012.

Business climate in economic sectors
in January 2012



Source: Ifo Business Survey.

Manufacturing[a)]
Capacity utilisation rate



[a)] Excluding food, beverages and tobacco

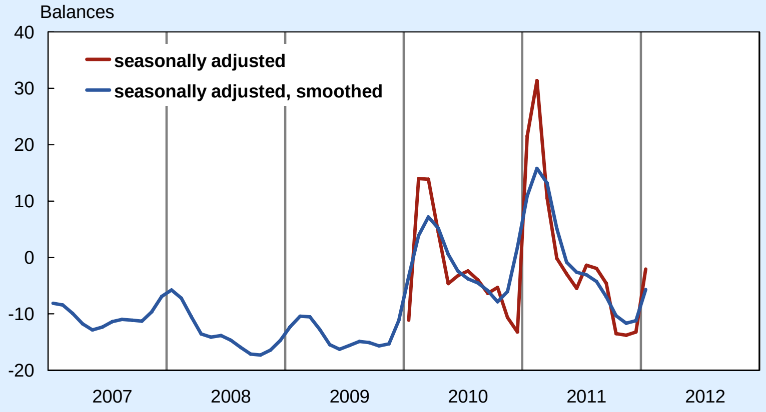
Source: Ifo Business Survey, January 2012.

In **retailing** the business climate index fell. The business situation here is no longer as favourable as it was in December. Moreover, retailers are more sceptical about their short-term business outlook. A growing number of retailers reported excessively high inventories and greater caution when ordering new goods, but planned price increases were nevertheless more widely reported among survey participants. The deterioration in the business climate was particularly marked in food and beverage retailing. The business climate index also fell slightly in vehicle retailing and consumables. In durable goods, on the other hand, the business climate brightened, although inventories have swollen as in other sectors. A stronger trend towards price increases can be seen across the board, especially among food retailers.

In **wholesaling** the business climate deteriorated slightly. The wholesalers surveyed continued to assess their current business situation very favourably, but less so than last month. Their business expectations, on the other hand, are slightly more confident. Pressure due to high inventories barely increased and a growing number of wholesalers plan to order goods a little more generously and to increase their sales prices. The business climate cooled slightly in the consumer goods sector, where the current business situation is no longer as favourable as previously. As far as short-term developments are concerned, however, survey participants once again expressed greater optimism. A far greater number of firms now believe that they will be able to implement sales price increases than in recent months. The business climate in production-related trade improved slightly, although companies were no longer quite as satisfied with their business situation as in December. They are, however, more optimistic in terms of their business expectations. Reports of excessive inventories were less frequent and a growing number of firms wish to implement price increases.

Construction

Expected construction activity

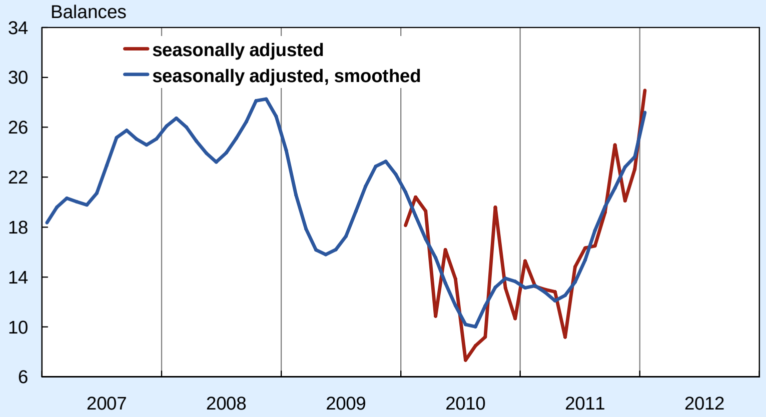


Balances of the percentage of responses of increasing and declining construction activity

Source: Ifo Business Survey, January 2012.

Retailing

Assessment of order stocks

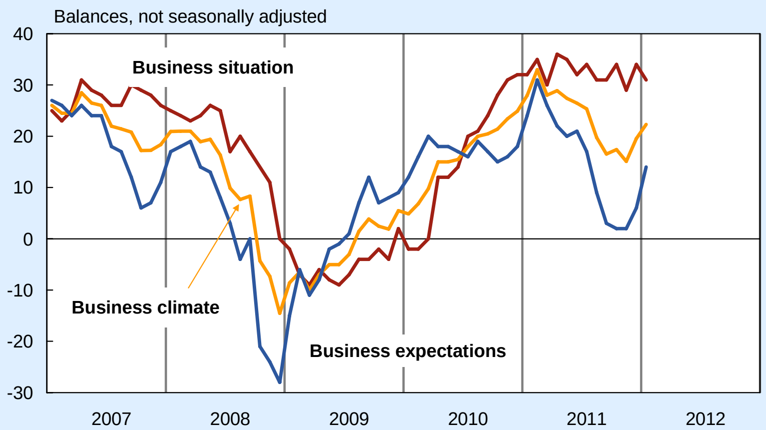


Balances of the percentages of responses off too large and too small order stocks

Source: Ifo Business Survey, January 2012.

Services

Business development



Source: Ifo Business Survey, January 2012.

In the **service sector**[2] the business climate index continued to rise in January. The increase was primarily due to far more optimistic business expectations. However, slightly fewer survey participants assessed the current business situation as favourable. More firms nevertheless wish to increase their staff numbers. The business climate brightened considerably in the *transport and logistics* sector. The business situation in this sector is almost as favourable as last month and firms' expectations are more optimistic than to date, which is reflected in widespread reports of plans to increase staff numbers. The business climate has also improved considerably for *travel agencies and tour operators*. Survey participants assessed both the current business situation and their perspectives much more favourably than previously. Tour operators expected demand to pick up substantially in the near future and plan to recruit additional staff. The business climate index also rose sharply for *architects and engineering firms*, which reported an improved business situation and more favourable perspectives. A growing number of offices are looking to recruit additional staff as a result. In the *computer equipment and services* sector the business climate remains favourable and almost unchanged. Although their business situation was even better in December, survey participants are nevertheless more confident that business will be brisker in the near future. As far as their staffing policy is concerned, expansion plans remain unchanged.

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[2] *Not contained in the results for German trade and industry; not seasonally adjusted*