2 The ifo Business Survey

The ifo Business Survey is the oldest and best-known of the ifo Institute's surveys. Since 1949, it has been conducted monthly to collect a broad spectrum of information on the current economic situation as well as plans and expectations for the near future (Langelütke and Marquardt 1951). The ifo Business Climate Index for Germany, which is considered the most important leading indicator for the German economy, is calculated from the responses of the participating companies. First, an explanation of the basic objectives, the methodology, and the processes of the monthly survey are explained. Following this, the various survey areas, as well as regional results, supplementary questions, and numerous other results and indicators are discussed in detail. In this way, the user of the data can gain insight into the survey results, their interpretation, and potential for analysis.

2.1 Concept of the ifo Business Survey

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2.1.1 Objective and History of the ifo Business Survey

Initially, the ifo Business Survey was set out to close gaps in the official statistics for post-war Germany and to reduce uncertainty in the country's economic developments. Collecting information about current economic developments still is one of the main goals of the survey, as official figures are often only available after a considerable delay and are revised retrospectively. Furthermore, the survey's results can be used to provide early indications of economic turning points or disturbances in the economic cycle of upswing and downswing phases, contributing to the quality of forecasts overall.

Anderson (1952a) was the first to use the data of the ifo Business Survey for scientific analyses. Using correlation analyses, he showed that the survey's time series were a very good approximation of official statistics for many industries. Since then, close connections between time series from the Business Survey and official key figures have been shown in numerous studies. Abberger and Wohlrabe (2006) provide an overview of these studies regarding the ifo Business Climate Index. Moreover, Lehmann (2023b) additionally sums up the scientific literature from recent years about the forecasting power of various other indicators from the ifo Business Survey.

In line with the primary objective of recording economic developments, the selection of the sectors to be surveyed had to include those that react particularly promptly and clearly to new economic impulses or produce these impulses themselves through their business activities. Thus, a panel of companies from the manufacturing industry was first set up, among whom the monthly ifo Business Survey was conducted from 1949 onwards. In autumn 1949, the first questionnaire was sent out to a limited number of manufacturing companies throughout Germany, with a total of 88 questionnaires completed in response.

Shortly after the survey was introduced, there was no longer any doubt about its usefulness. Consequently, in 1950 the ifo Institute expanded the monthly survey to the retail trade sector and, in 1951 to the wholesale trade sector. The construction industry was added in 1956. In the service sector, the survey was started in 2001, though its results have only been published since 2005, following a start-up phase. Previously, there had only been separate quarterly surveys in individual areas of the service sector, such as architects, IT service providers, or leasing companies.

A third goal of the survey that has become increasingly important over the past decades is the collection of microdata for research projects (Becker and Wohlrabe 2008). Response rates from these projects are uncommonly high and attrition is low compared to other business surveys (Link 2020), making this data a treasure-trove for all kind of analyses. The advantages of these microdata sets include the high number of monthly responses (about 9000) from a set of firms that are representative of the German economy, the extensive set of questions answered by every firm, and the large number of observations-by-firm. Researchers can access the data free of charge at the LMU-ifo Economics & Business Data Center at the ifo Institute.

The monthly ifo business survey is also part of the Joint Harmonised EU Programme of Business and Consumer Surveys in the EU Member States and in the Candidate Countries of the European Commission.

2.1.2 Questionnaire Based on Qualitative Questions

The main objective of the ifo Business Survey is a good reflection of key economic variables. Therefore, the questions of the survey are mainly about current developments, such as demand, production, or capacity utilization, but also about plans and expectations for the near future, for example regarding business activity, price setting, or exports. Since there are numerous topics that promise interesting results for economic analyses and forecasts as well as for other research projects, the questionnaires were divided into questions with different frequencies (monthly, quarterly, semi-annually, or once a year). The classification is mainly based on the importance of a variable or topic and the resulting urgency for up-to-date information. In addition, one-time supplementary questions on current economic topics can also be inserted if needed.

From the very beginning of the survey, the questions have been almost exclusively qualitative, with participants being able to choose between predefined answer options. At the time of the conception and introduction of the ifo Business Survey, however, a qualitative approach for data collection was not unprecedented. For example, qualitative data had been used in agricultural statistics since the middle of the nineteenth century, as the harvest prospects in the latter cannot be subjectively expressed in figures (Wohlfahrt 1940). Sporadic qualitative surveys have also previously been conducted in economic statistics, such as, for example, those conducted by the Department of Labour Statistics of the Imperial Statistics Office from 1903 onwards. For company surveys, however, there were no comparable models, neither in Germany nor abroad, regarding the scope of the questions, periodicity, panel size, or methodological analysis of the survey results.

A major advantage of qualitative business surveys is the flexibility of this approach. The participating companies can base the assessment of their situation on individual factors that have the highest importance for them. This considerable advantage over traditional quantitative surveys, especially in times of major structural changes, contributed to the almost worldwide establishment of business surveys based on the methods developed at the ifo Institute. For example, during the transformation from a centrally planned economy to market economy structures, the economic policy authorities in Russia and China quickly recognized that the existing statistics were no longer suitable. Qualitative business surveys proved to be an important supplement to official statistics and were of enormous value for business cycle analysis and forecasting.

The decision to conduct qualitative surveys was made because many variables, such as the assessment of incoming orders or stocks, can be recorded more accurately by predefining response categories (Langelütke and Marquardt 1951). It also resulted in simpler and more time-saving answers for the survey participants. This was intended to lessen companies' aversion to surveys and questionnaires, which was particularly wide-spread in the post-war period. This decision has not been changed in the more than seven decades since then.

However, the wording of the questions has evolved. The constant monitoring of the collected data, as well as suggestions from the survey participants, led to frequent changes, especially in the first years. Around the year 2000, the EU also endeavored to standardize the questionnaire of economic surveys in all member states, leading to further amendments to the questions. Since then, however, there have been only minor changes to a few regular questions. These regular questions are harmonized as far as possible over all surveyed sectors, which allows the calculation of overall indicators for the German economy as a whole.

2.1.3 Monthly Survey Process

The ifo Business Survey process is structured identically every month: At the beginning of the month, the questionnaires are set with the monthly standard questions and, if necessary, with supplementary questions. They are then sent to a fixed panel of more than 10,000 companies, which is continuously updated. The participants can choose whether they receive the questionnaire by post or by e-mail. Online participants receive a personal link that leads to a questionnaire assigned to the company on a web portal. This has now become the main form of participation.

The answers of the survey participants are usually received by the ifo Institute in two larger waves. Most of the questionnaires are returned within the first days after sending them out. In the middle of the month, those companies that have not yet replied are reminded to participate. As a result, a high number of completed questionnaires arrive in the following days. About one week before the end of the month, the survey is completed. Questionnaires received any later cannot be included in the calculation of the time series and indicators. Nevertheless, they can still be used for research with the microdata.

While the answers received online can be imported directly into the microdata pool, the paper questionnaires must first be digitized. The day before the results are published, an automatic plausibility check of the microdata is carried out. This reveals any inconsistencies in the answers or possible errors in the digitization of the paper questionnaires and corrects them if necessary. The aggregation of the data, including seasonal adjustment, indexing, and generating the output of results (tables, graphs, etc.) is then processed automatically overnight. The aggregation of the data and the calculation of the various business cycle indicators is elaborated in detail in the following chapters.

2.1.4 Publication of the Results

The monthly publication dates of the ifo Business Survey results are always fixed in advance for the entire calendar year. As part of the harmonization of surveys in Europe, the European Commission coordinates these dates, which are set a few workdays before the end of every month. This early availability of the results is one of the main advantages of the ifo Business Survey over other economic information, such as official statistics. On the day of the publication, at exactly 10 a.m., the ifo Business Climate for Germany as well as the indicators on the current situation and the expectations for the next months are announced to news agencies in a telephone conference. The press release with commented results is then sent electronically a minute later (ifo Institute 2022a). Since the ifo Business Climate receives a lot of attention and has a direct influence on the financial markets (Mittnik et al. 2013a), before 10 a.m. the new values of the indicators are only known to a small group of people responsible for the preparation of the press release. Finally, the press release is uploaded to the ifo Institute's website together with other selected graphs and time series, and is also posted on social media channels. The publication of further indicators, such as the ifo Employment Barometer or the ifo Export Expectations, as well as regional Business Climates, takes place in the following days in the form of press releases and on the ifo website. In addition, detailed comments on selected results are published in the ifo Schnelldienst (e.g. Demmelhuber and Wohlrabe 2020) and in graphical and tabular form in the ifo Konjunkturperspektiven (ifo Institute 2022b).

An essential purpose for which the ifo Business Survey was created is the mutual exchange of information between companies and the ifo Institute. Since there is no data without the cooperation of the participating companies, the participants receive the results of the survey free of charge in return for their cooperation. This is usually done via an online platform on which selected content such as time series, tables, and graphs are uploaded. In addition to the survey participants, many other costumers are interested in the time series from the ifo Business Survey. Most of them obtain the data for a fee and then use it for their own purposes or as distributors of the results for others. The largest customers include various data providers as well as research institutes, ministries, or banks, which use the results for their own business cycle analyses and forecasts. Finally, the microdata together with the time series is archived every month at the LMU-ifo Economics & Business Data Center (EBDC), where they can be analyzed by researchers free of charge.

2.1.5 Data Protection

The ifo Institute pays particular attention to data protection in the ifo Business Survey, as in all other surveys. High standards are ensured regarding data protection and data security in any handling of personal data, both in the online surveys and in the paper questionnaires sent by post. The ifo Institute has built up an extensive pool of survey data over decades and therefore has great experience in handling sensitive data. Personal data is only collected to the extent necessary, and all information is treated in strict confidence. For the research with the microdata, all data sets are anonymized to make conclusions about the identity of the respective company impossible. Therefore, legal data protection is always fully guaranteed.