ifo Business Climate Index Falls

Munich, 25 January 2019 – Disquiet is growing among German businesses. The ifo Business Climate Index fell from 101.0 points in December to 99.1 points in January, dropping to its lowest level since February 2016. Companies assessed their current business situation slightly less favourably. Their business expectations also deteriorated sharply and turned pessimistic for the first time since December 2012. The German economy is experiencing a downturn.

In *manufacturing* the business climate index fell markedly once again this month. This was primarily due to far more pessimistic business expectations. Manufacturers also assessed their current business situation slightly less favourably. The business climate deteriorated in all of the key business sectors apart from the chemicals industry. Capacity utilisation fell by 0.7 percent to 86.3 percent, but remains above its long-term average of 83.7 percent.
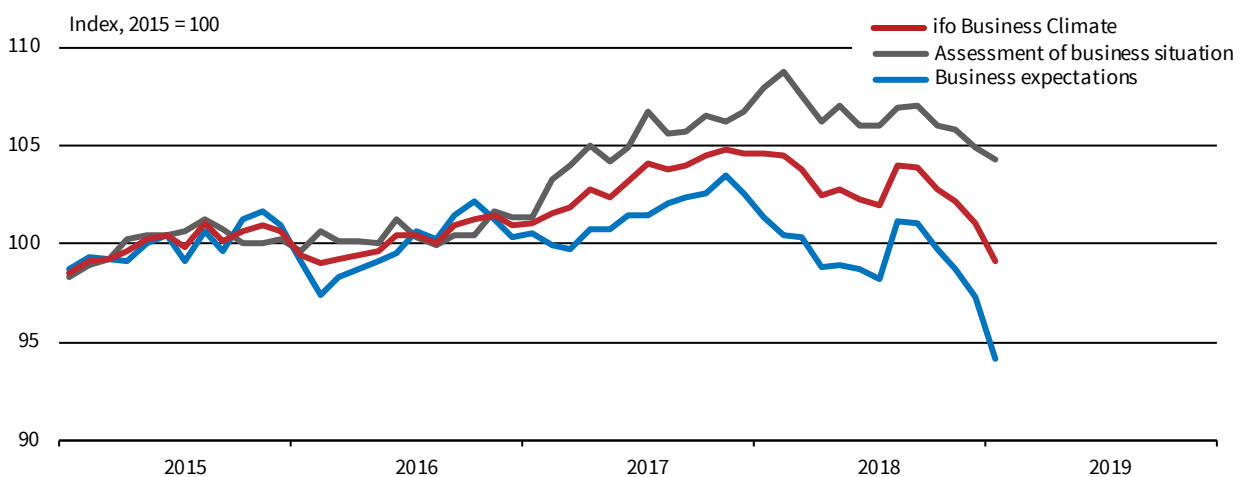
In the *service* sector, the business climate index declined due to less optimistic business expectations, but remained at a high level. However, service providers assessed their current business situation more favourably.

The index also dropped markedly in the *trade* sector. The business outlook clouded over, but traders were slightly more satisfied with their current business situation.

In *construction* there was a clear setback for the first time in years and the business climate deteriorated significantly. Both climate components fell markedly. Assessments of the current business situation nevertheless remain at a very high level.

Clemens Fuest
President of the ifo Institute

ifo Business Climate Germany[a]
Seasonally adjusted

ª *Manufacturing, service sector, trade and construction.*
Source: ifo Business Survey, January 2019. 　　　　　　　　　　　　　　　　　　© ifo Institute

ifo Business Climate Germany (Index, 2015 = 100, seasonally adjusted)

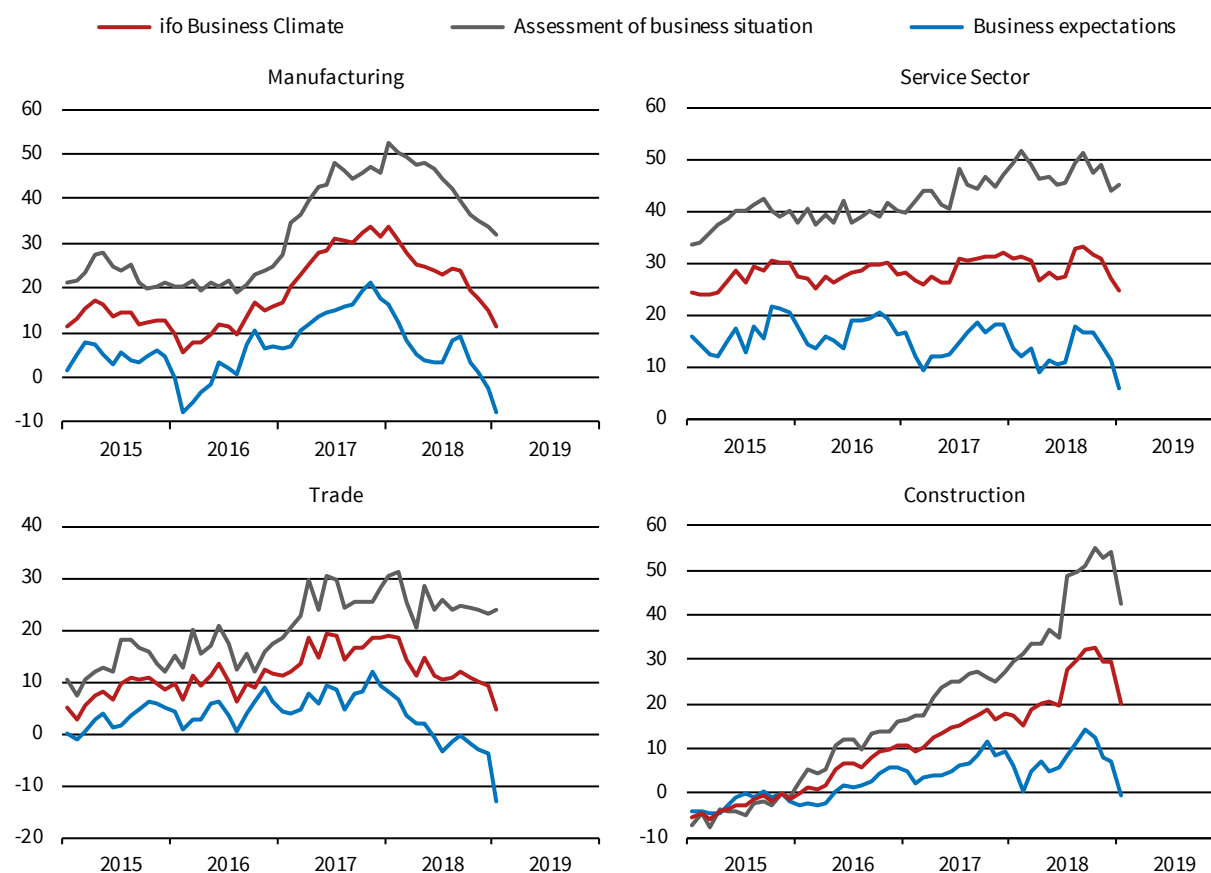| Month/year	01/18	02/18	03/18	04/18	05/18	06/18	07/18	08/18	09/18	10/18	11/18	12/18	01/19
Climate	104.6	104.5	103.8	102.5	102.8	102.3	102.0	104.0	103.9	102.8	102.2	101.0	99.1
Situation	107.9	108.8	107.5	106.2	107.0	106.0	106.0	106.9	107.0	106.0	105.8	104.9	104.3
Expectations	101.4	100.4	100.3	98.8	98.9	98.7	98.2	101.1	101.0	99.7	98.7	97.3	94.2

Source: ifo Business Survey. 　　　　　　　　　　　　　　　　　　　　　　　© ifo Institute

For long time-series in Excel format consult www.cesifo-group.de/langereihen.

ifo Business Climate and Business Situation and Expectations by Sector
Balances, seasonally adjusted

Source: ifo Business Survey, January 2019.

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## ifo Business Climate Germany by Sector (Balances, seasonally adjusted)

Month/year	01/18	02/18	03/18	04/18	05/18	06/18	07/18	08/18	09/18	10/18	11/18	12/18	01/19
Germany	28.7	28.5	27.0	24.0	24.8	23.6	23.1	27.4	27.2	24.8	23.4	20.9	16.8
Manufacturing	33.6	30.5	28.0	25.2	24.9	24.0	22.9	24.5	23.9	19.4	17.6	14.9	11.2
Service Sector	30.8	31.1	30.5	26.8	28.1	27.0	27.5	32.9	33.1	31.5	31.0	27.0	24.5
Trade	19.0	18.5	14.3	11.1	14.8	11.2	10.6	10.7	11.8	10.7	9.9	9.2	4.6
Construction	17.6	15.3	18.6	19.9	20.3	19.8	27.6	29.8	32.0	32.7	29.4	29.3	20.0

Source: ifo Business Survey.

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The ifo Business Climate is based on ca. 9,000 monthly survey responses from firms in manufacturing, service sector, trade and construction. 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", "satisfactory" 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 between the percentages of the responses "good" and "poor"; the balance value of the expectations is the difference between 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 the purpose of calculating the **index values,** the transformed balances are all normalised to the average of the year 2015.

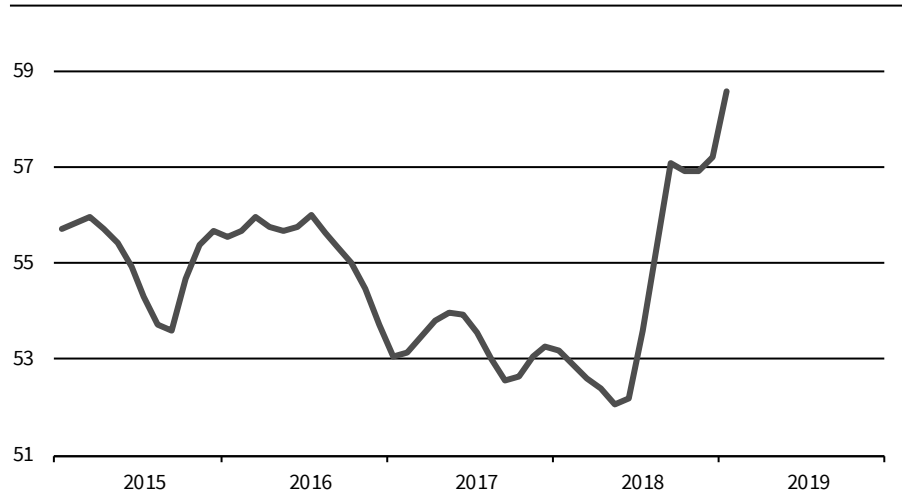## ifo Business Cycle Clock Germany[a]
Balances, seasonally adjusted
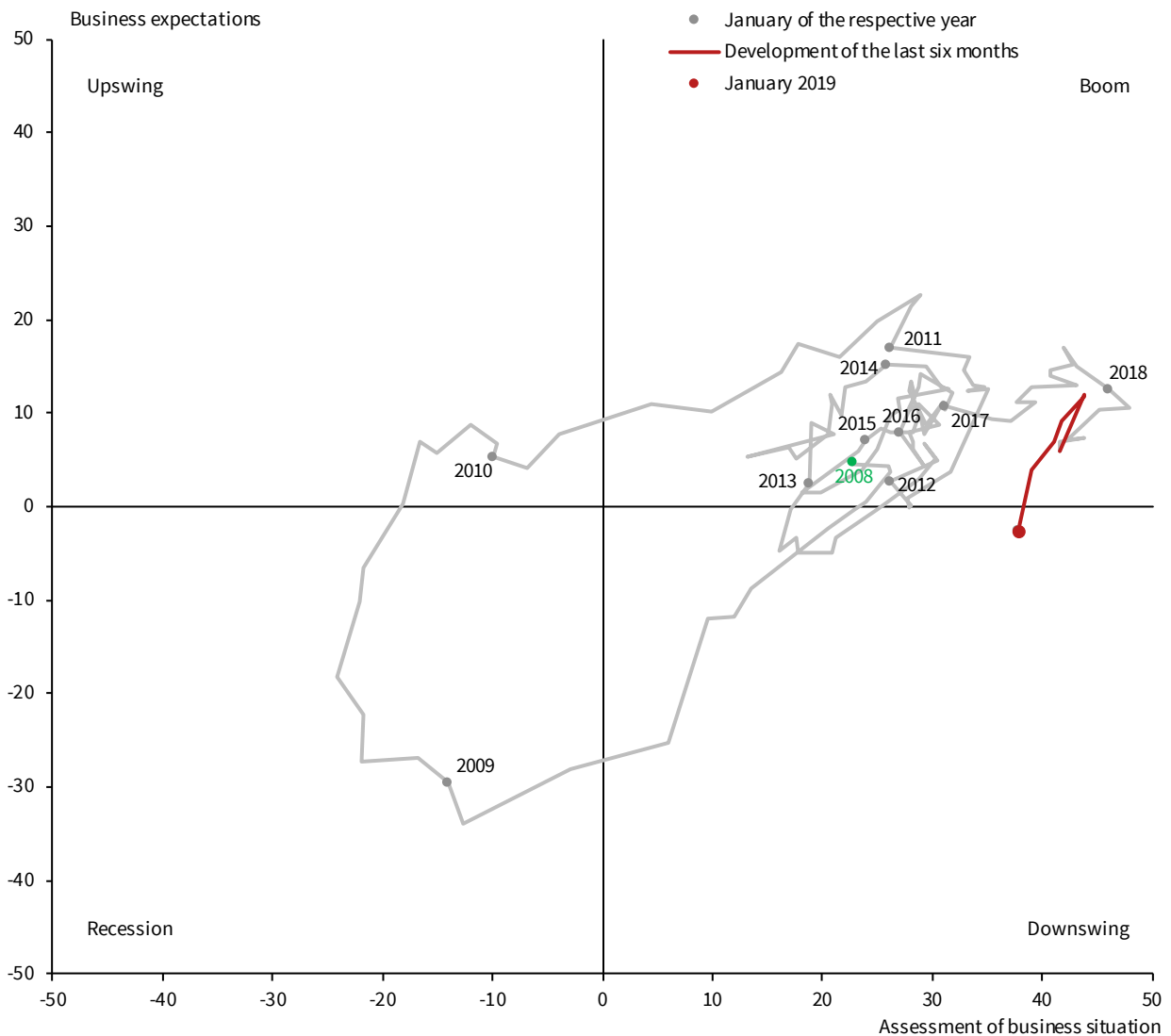
ª Manufacturing, service sector, trade and construction.
Source: ifo Business Survey, January 2019.

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The ifo Business Clock shows the cyclical relationship between the current business situation and business expectations in a four-quadrant diagram. In this diagram economic activity – shown on a graph plotting the economic situation against expectations - passes through quadrants labelled with the different phases of economic activity, namely upturn, boom, downturn, recession; provided that the expectation indicator sufficiently precedes the current business situation indicator. If survey participants' assessments of the current business situation, and thus of business expectations, are negative on balance, the economic situation indicator moves into the "recession" quadrant. If the expectations indicator is positive (with a poor, but improving business situation on balance), economic activity is shown in the "upturn" quadrant. If the business situation and business expectations are both positive on balance, economic activity enters the "boom" quadrant. If, however, the expectations indicator turns minus (with the business situation remaining good on balance, but deteriorating), economic activity slips into the "downturn" quadrant.

ifo Dispersion Germany[a]
Seasonally adjusted and three months moving average

[a] Manufacturing, service sector, trade and construction.
Source: ifo Business Survey, January 2019.

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Increases in dispersion measure signals greater uncertainty on the part of firms. Values can range from between 0 and 100. The measure is based on responses to questions related to expectations regarding the six-month business outlook and is generated from the dispersion of these expectations at any given time.

ifo Business Cycle Traffic Lights Germany
Monthly probability for economic expansion[a]
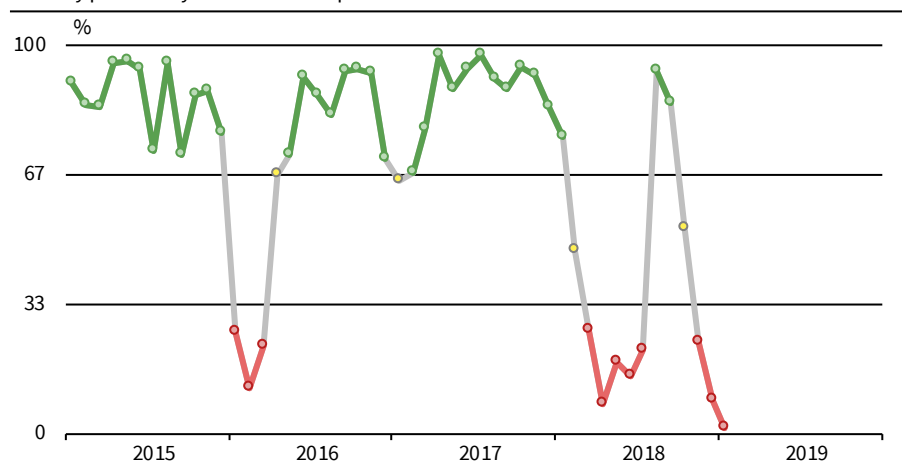
[a] Green = high, yellow = medium, red = low. Calculated on the basis of the monthly changes of the ifo Business Climate Index Germany.
Source: ifo Business Survey, January 2019.

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Monthly movements of the ifo Business Climate Index Germany can be transformed with the help of Markov Switching Models into probability statements for the two cyclical regimes expansion or contraction. The ifo Business Cycle Traffic Lights provides the monthly regime probabilities for the expansion phase. The probabilities signal an economic expansion (green lights) insofar as they exceed the 66% mark; contractions insofar as they are under the 33% mark (red lights); or indifference (yellow lights) when in the range in between. This indifference interval can be interpreted as a buffer zone between the regimes expansion and contraction, in which particularly great uncertainty exists about the state of the economy.