

ifo Business Climate Index Falls

Munich, May 23, 2019 – The mood among company managers has weakened further. The ifo Business Climate Index fell from 99.2 points in April to 97.9 points in May. This was due to a considerably worse assessment of the current business situation. The outlook for the coming months, however, was unchanged. The German economy is still lacking in momentum.

In *manufacturing*, the business climate index fell slightly. Once more, companies rated their current situation less favorably. However, their expectations rose for the first time since September 2018. One bright spot this month was the chemical industry, where optimism has taken the place of recent pessimism.

In the *services*, the business climate took a substantial hit. Not since April 2013 has the indicator of current sentiment fallen as far as it did this month. Optimism with regard to the coming months also declined.

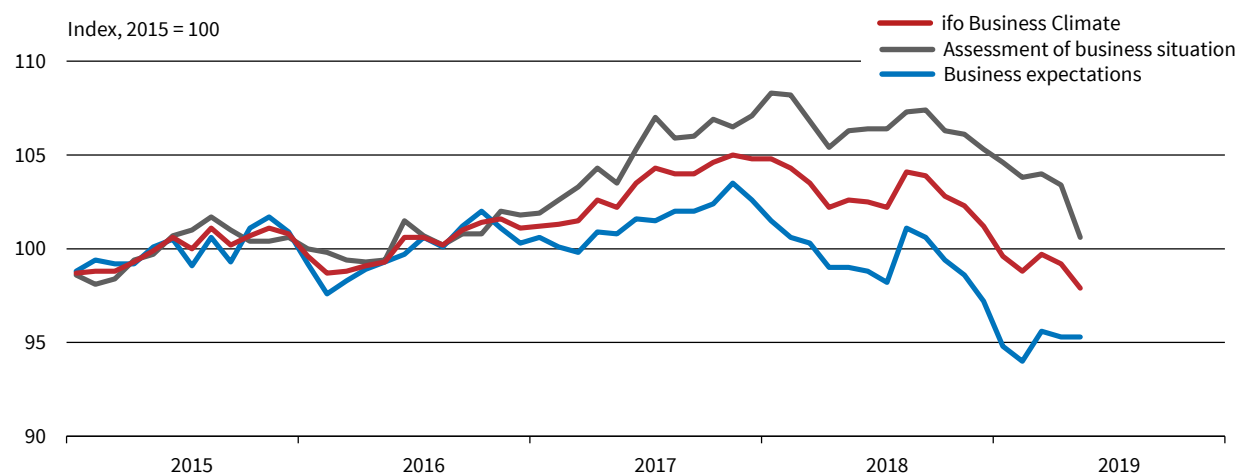
In *trade*, the business climate worsened. This fall was due to developments in wholesale. In contrast, retailers were noticeably more satisfied with their current situation. They also adjusted their business expectations for the coming months upwards.

In *construction*, the business climate index rose for the third time in succession. Companies' already very positive assessments of the current business situation improved further. Gentle optimism also returned to their business expectations. The construction boom continues.

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, May 2019.

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

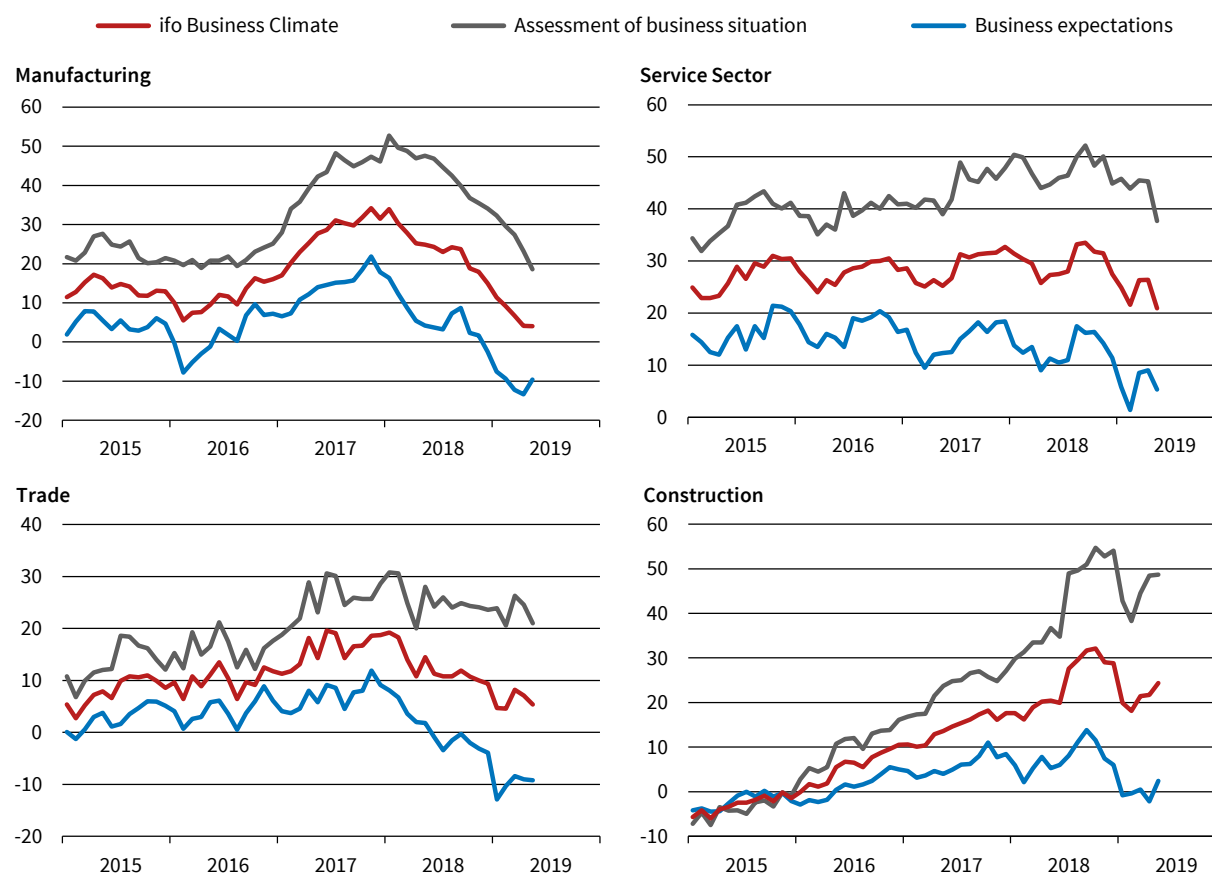
Month/year	05/18	06/18	07/18	08/18	09/18	10/18	11/18	12/18	01/19	02/19	03/19	04/19	05/19
Climate	102.6	102.5	102.2	104.1	103.9	102.8	102.3	101.2	99.6	98.8	99.7	99.2	97.9
Situation	106.3	106.4	106.4	107.3	107.4	106.3	106.1	105.3	104.6	103.8	104.0	103.4	100.6
Expectations	99.0	98.8	98.2	101.1	100.6	99.4	98.6	97.2	94.8	94.0	95.6	95.3	95.3

Source: ifo Business Survey.

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ifo Business Climate, Business Situation and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, May 2019.

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

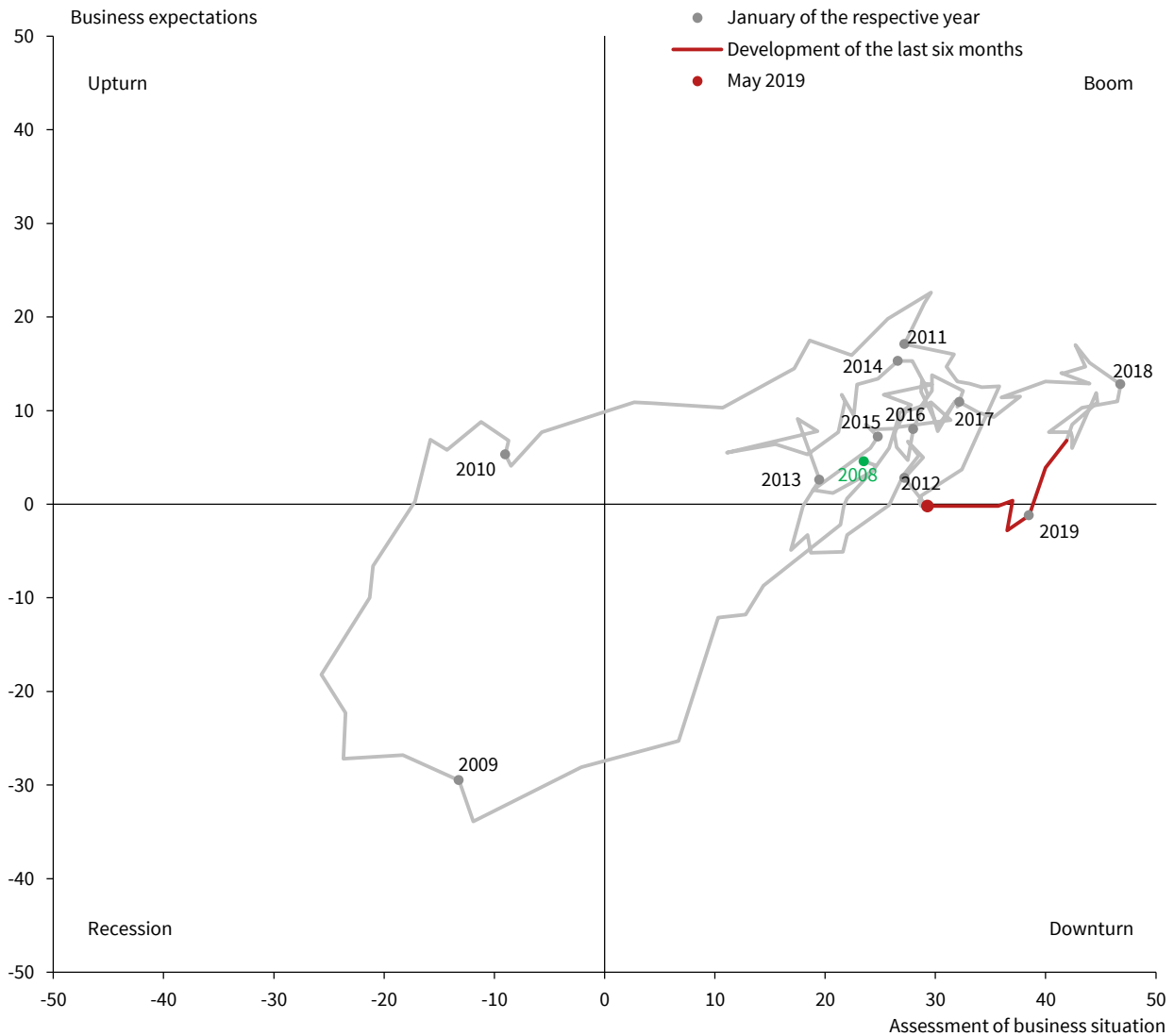
Month/year	05/18	06/18	07/18	08/18	09/18	10/18	11/18	12/18	01/19	02/19	03/19	04/19	05/19
Germany	24.3	24.1	23.4	27.7	27.2	24.8	23.7	21.2	17.7	16.0	17.9	17.0	14.1
Manufacturing	24.9	24.3	23.0	24.2	23.7	18.8	17.9	15.0	11.4	9.2	6.7	4.1	4.0
Service sector	27.3	27.5	28.0	33.2	33.5	31.8	31.5	27.5	24.9	21.6	26.3	26.4	20.9
Trade	14.5	11.3	10.8	10.8	11.9	10.7	10.0	9.4	4.7	4.6	8.2	7.1	5.4
Construction	20.4	19.9	27.6	29.5	31.7	32.1	29.0	28.8	19.9	18.1	21.4	21.7	24.4

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

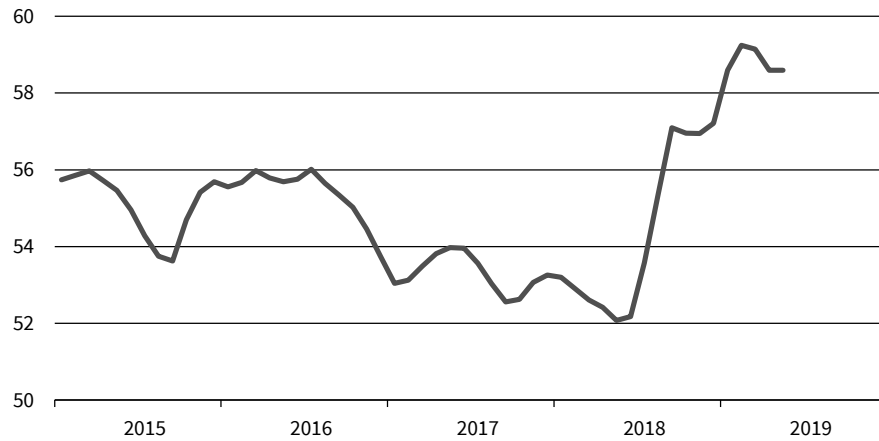


^a Manufacturing, service sector, trade and construction.
 Source: ifo Business Survey, May 2019.

The ifo Business Cycle 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



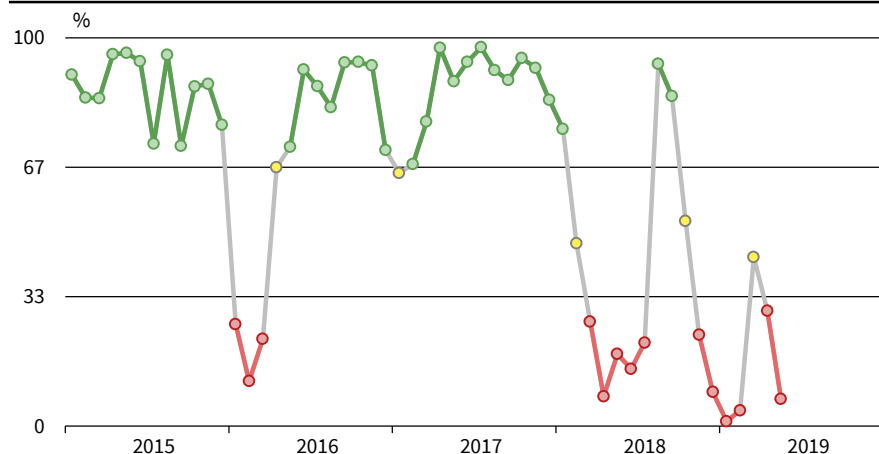
^a Manufacturing, service sector, trade and construction.
 Source: ifo Business Survey, May 2019.

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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, May 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.