ifo Business Climate Index Falls

Munich, July 25, 2019 – The mood in German C suites is growing uneasy. The ifo Business Climate Index fell in July from 97.5[1] to 95.7 points. Companies were less satisfied with their current business situation and are also looking ahead with increased skepticism. The German economy is navigating troubled waters.

In *manufacturing*, the business climate indicator is in freefall. The situation index took a serious tumble; such a major decline was last seen in February 2009. No improvement is expected in the short term, as businesses are looking ahead to the next six months with more pessimism. Capacity utilization fell from 85.3 to 83.9 percent and is now just slightly above the long-term average.

In *services*, the business climate has clouded over. Service providers were somewhat less satisfied with their current situation. Their expectations are slightly pessimistic for the first time since July 2009.

In *trade*, the index has slid sharply. Companies are assessing their current situation as considerably less positive, and their outlook for the coming months is markedly more skeptical. The decline in the business climate indicator was more pronounced in wholesale than in retail.

Construction proved to be the positive exception this month, with an increase in the business climate index. Although companies assess their current situation as somewhat less positive, they are still looking to the coming months with optimism.

Clemens Fuest
President of the ifo Institute

ifo Business Climate Germany[a]

Seasonally adjusted
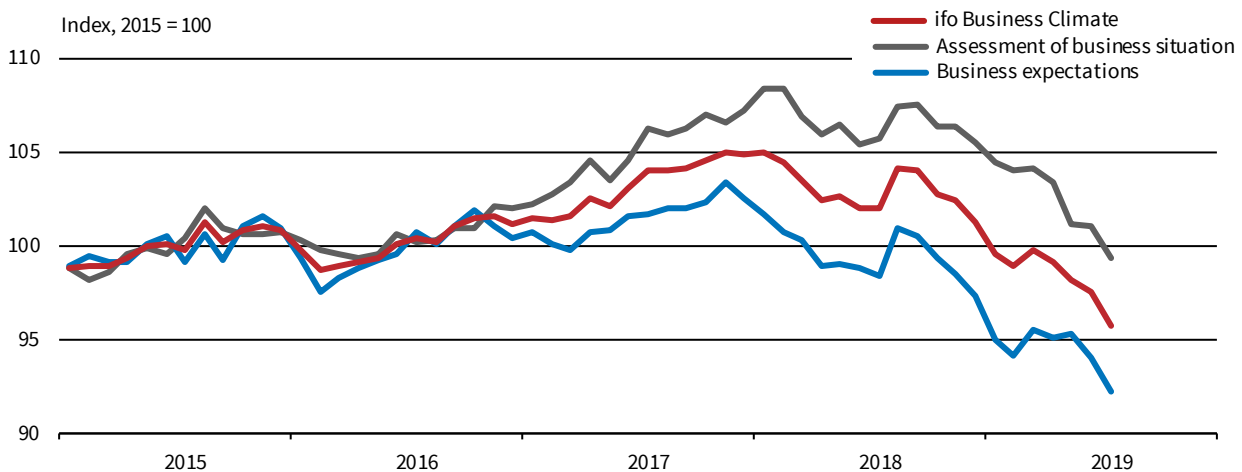
[a] Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, July 2019.   © ifo Institute

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

Month/year	07/18	08/18	09/18	10/18	11/18	12/18	01/19	02/19	03/19	04/19	05/19	06/19	07/19
Climate	102.0	104.2	104.0	102.8	102.4	101.3	99.6	98.9	99.8	99.2	98.2	97.5	95.7
Situation	105.7	107.5	107.6	106.4	106.4	105.5	104.5	104.0	104.2	103.4	101.2	101.1	99.4
Expectations	98.4	101.0	100.5	99.4	98.5	97.3	95.0	94.1	95.5	95.1	95.3	94.0	92.2

Source: ifo Business Survey.   © ifo Institute

For long time-series in Excel format consult https://www.ifo.de/en/umfragen/time-series.

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[1] Revised value due to seasonal adjustment.

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

Legend: — ifo Business Climate   — Assessment of business situation   — Business expectations

Manufacturing, **Service Sector**, **Trade**, **Construction**
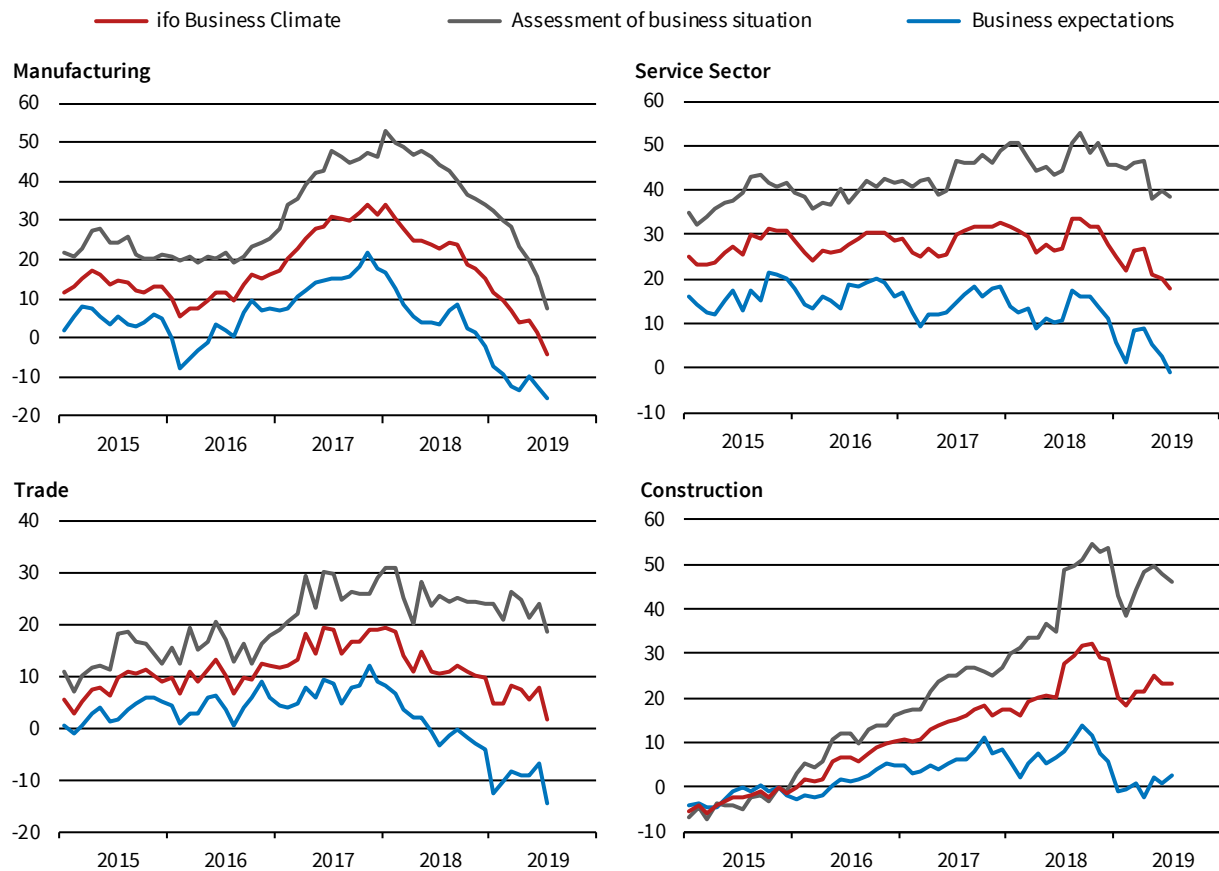
Source: ifo Business Survey, July 2019.

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

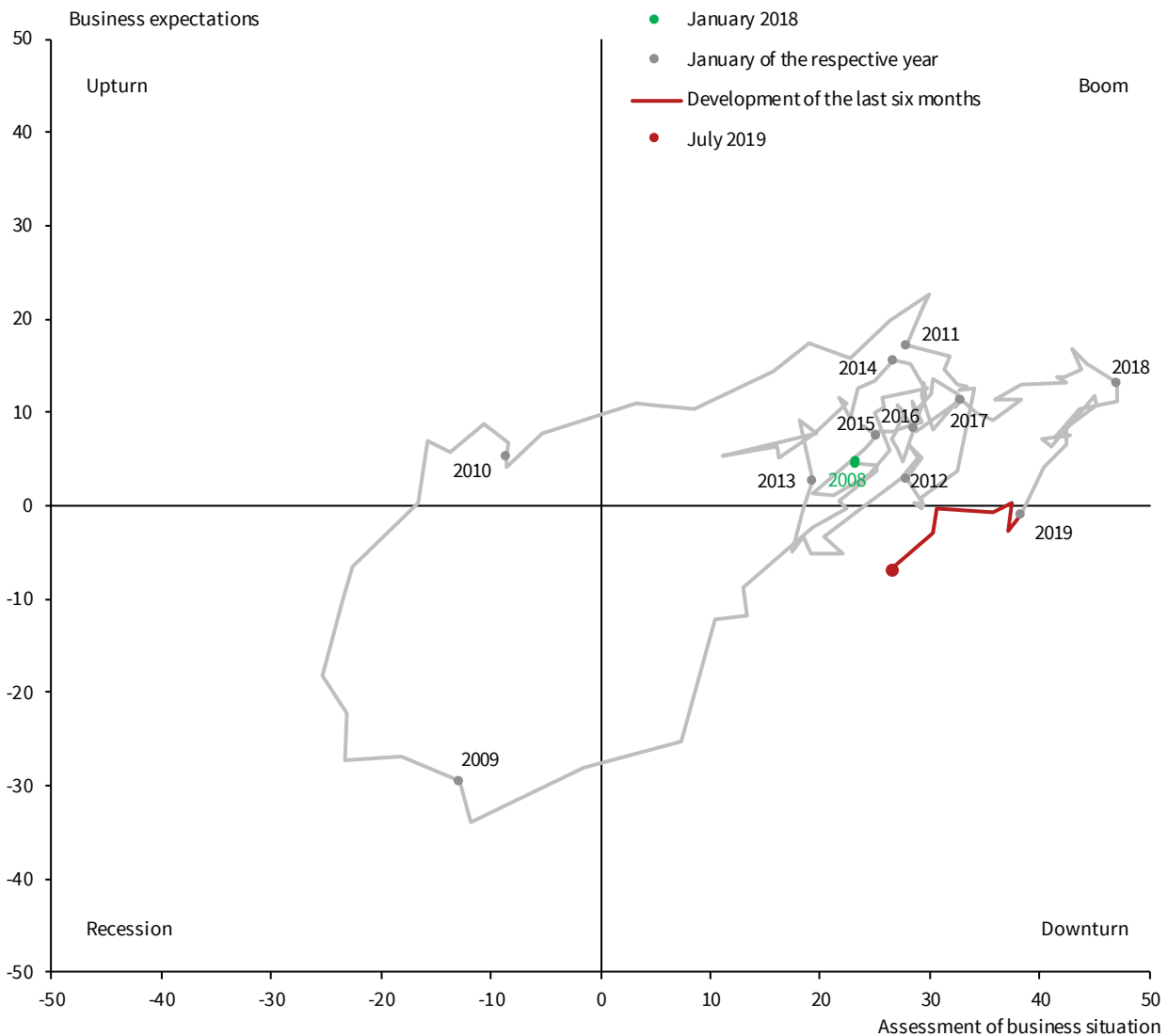| Month/year	07/18	08/18	09/18	10/18	11/18	12/18	01/19	02/19	03/19	04/19	05/19	06/19	07/19
Germany	23.0	27.8	27.3	24.8	23.8	21.5	17.9	16.3	18.1	16.8	14.7	13.1	9.3
Manufacturing	23.0	24.2	23.7	18.8	17.9	15.1	11.6	9.3	7.1	4.0	4.4	1.3	-4.3
Service sector	27.0	33.4	33.8	31.8	31.8	27.8	24.9	21.9	26.5	26.9	21.1	20.3	17.7
Trade	10.5	10.9	12.0	10.7	10.1	9.5	4.8	4.7	8.2	7.2	5.4	7.9	1.4
Construction	27.5	29.5	31.6	32.1	28.9	28.6	20.0	18.1	21.5	21.6	24.8	23.0	23.3

Source: ifo Business Survey.

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The ifo Business Climate is based on approx. 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 characterize their situation as "good", "satisfactory" or "poor" and their business expectations for the next six months as "more favorable", "unchanged" or "more unfavorable". 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 favorable" and "more unfavorable". 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 normalized to the average of the year 2015.

## ifo Business Cycle Clock Germany[a]
Balances, seasonally adjusted

Business expectations

● January 2018
● January of the respective year
— Development of the last six months
● July 2019

Upturn

Boom

Recession

Downturn

Assessment of business situation

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

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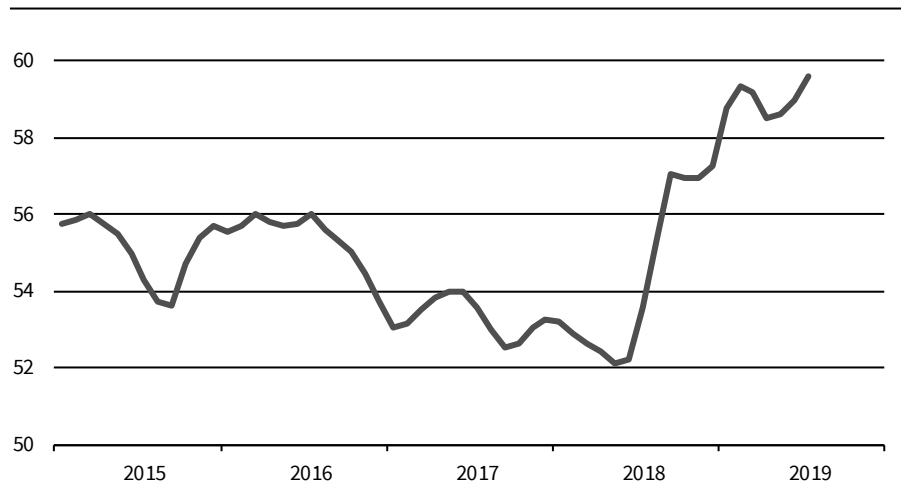
[a] Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, July 2019.

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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]
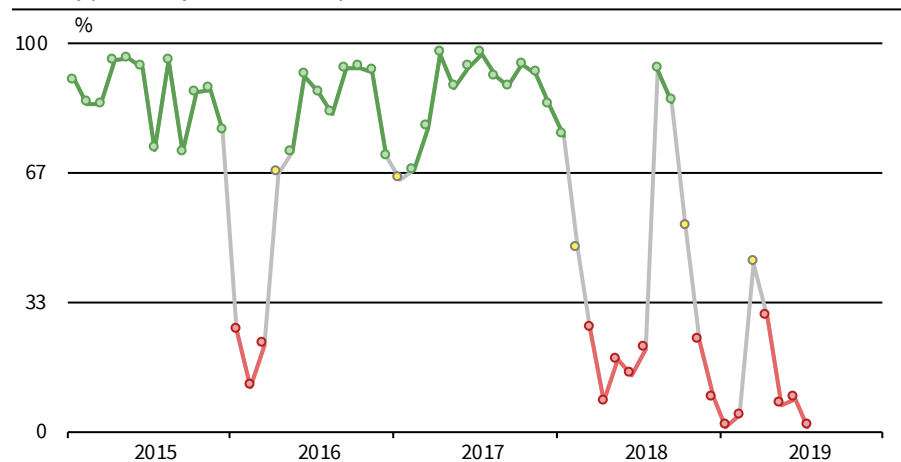
[a] Green = high, yellow = medium, red = low. Calculated on the basis of the monthly changes of the ifo Business Climate Index Germany.
Source: ifo Business Survey, July 2019.

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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.