

ifo Business Climate Index Rises at Year-End

Munich, December 18, 2019 – In the run-up to Christmas, sentiment among German executives has improved noticeably. The ifo Business Climate Index rose from 95.1 points¹ in November to 96.3 points in December. The indicator of the current situation rose. Expectations also improved. The German economy is heading into the New Year with more confidence.

In *manufacturing*, the index recovered somewhat. This was due to companies' considerably less pessimistic expectations. In contrast, their assessment of the current situation worsened a little. Planning still foresees production cutbacks. In addition, it is currently harder for companies to access credit.

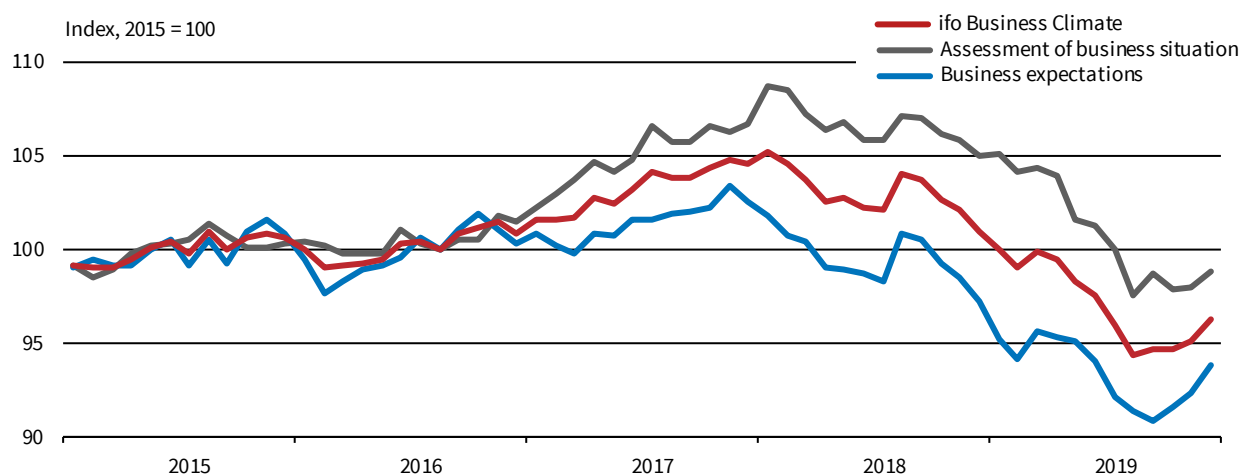
In the *service sector*, the indicator rose to its highest level of the past six months. Service providers were clearly more satisfied with their current situation. Meanwhile, cautious optimism returned concerning their business expectations.

In *trade*, the business climate fell back. Traders were slightly more satisfied with the current situation. However, their expectations for the coming months deteriorated.

In *construction*, the index declined once more owing to more pessimistic expectations. In contrast, companies' assessment of their current business situation remained very upbeat.

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, December 2019.

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

Month/year	12/18	01/19	02/19	03/19	04/19	05/19	06/19	07/19	08/19	09/19	10/19	11/19	12/19
Climate	101.0	100.0	99.0	99.9	99.5	98.3	97.6	96.0	94.4	94.7	94.7	95.1	96.3
Situation	105.0	105.1	104.1	104.4	103.9	101.6	101.3	100.0	97.5	98.7	97.9	98.0	98.8
Expectations	97.2	95.2	94.2	95.6	95.3	95.1	94.0	92.1	91.4	90.9	91.6	92.3	93.8

Source: ifo Business Survey

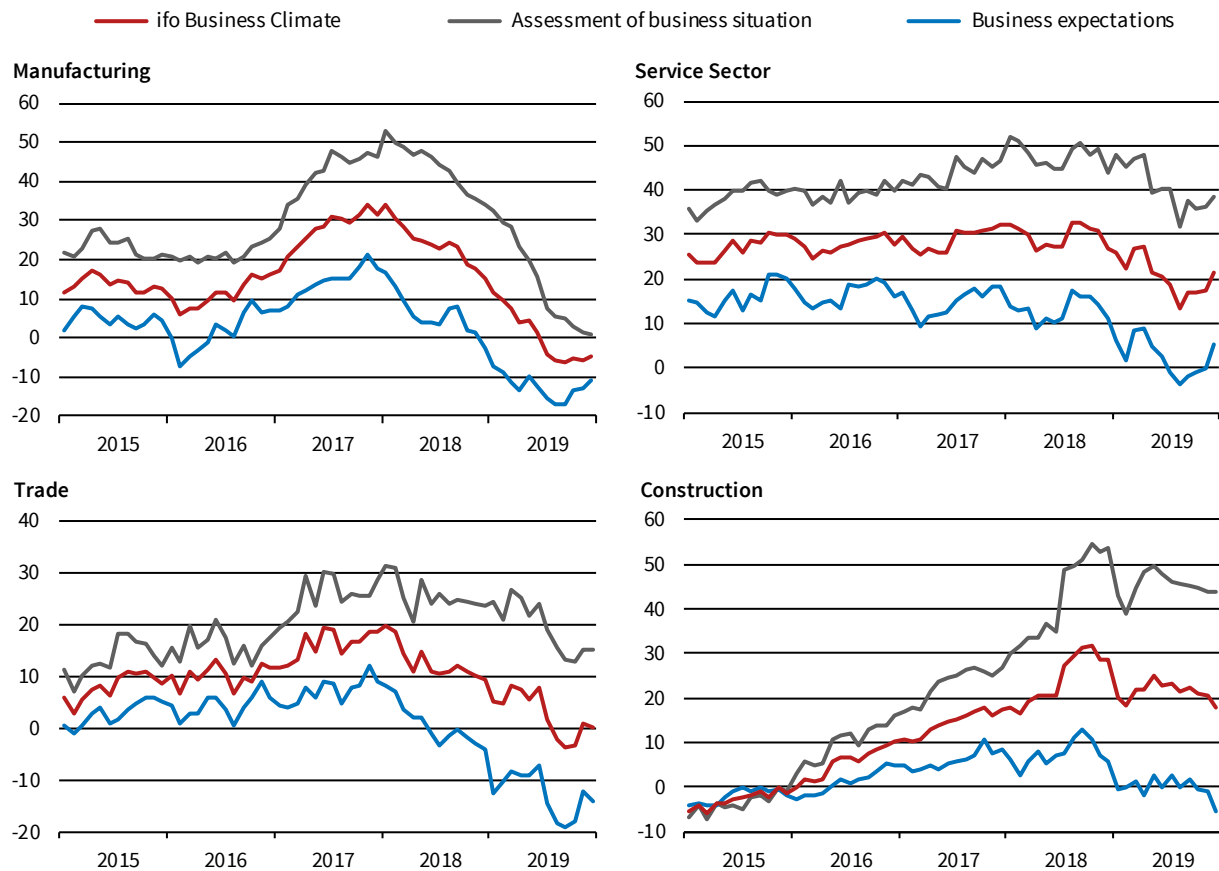
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For long time-series in Excel format, please see <https://www.ifo.de/en/umfragen/time-series>.

¹ Seasonally adjusted

ifo Business Climate, Business Situation, and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, December 2019.

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

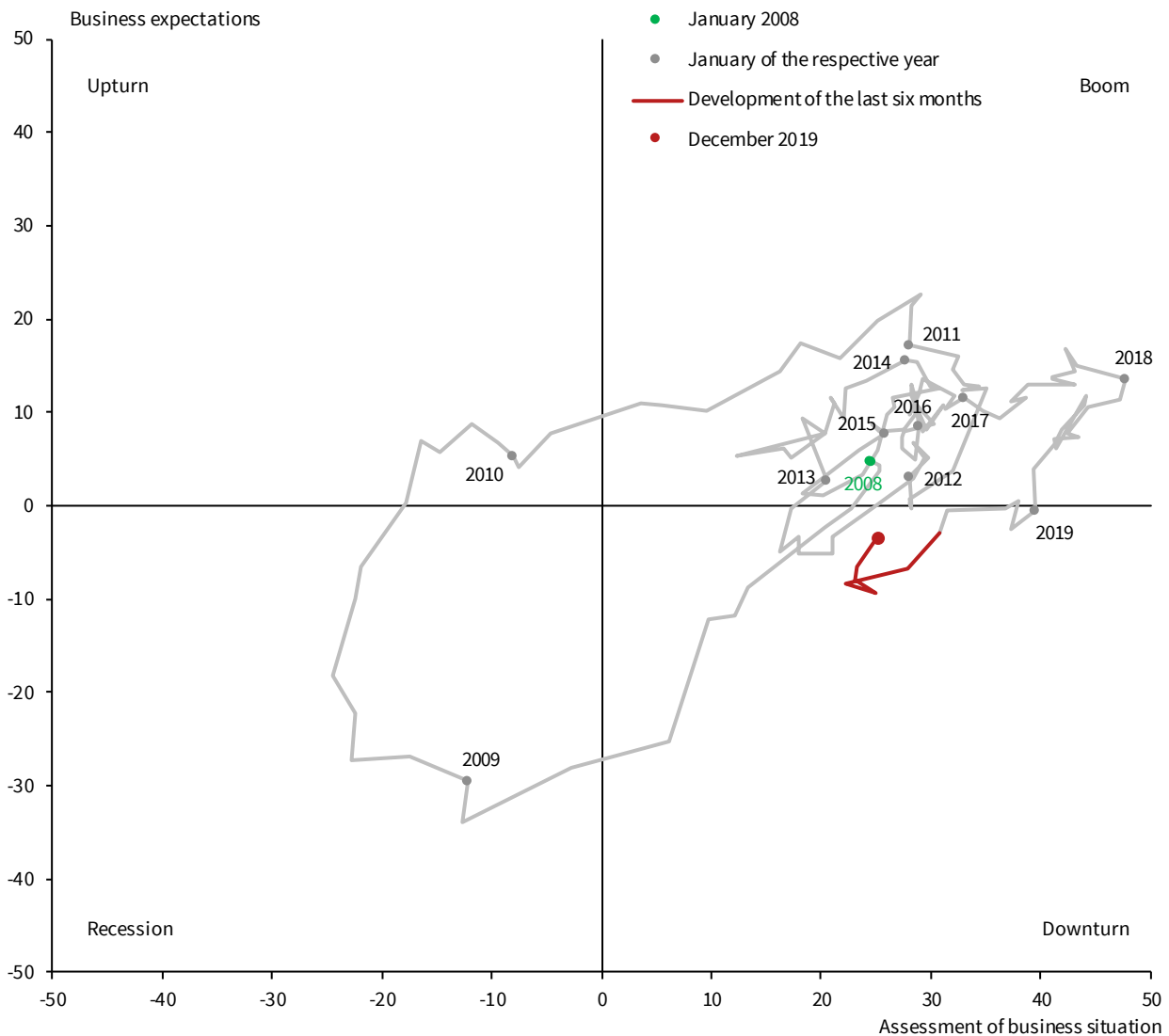
Month/year	12/18	01/19	02/19	03/19	04/19	05/19	06/19	07/19	08/19	09/19	10/19	11/19	12/19
Germany	20.9	18.7	16.5	18.5	17.5	14.9	13.3	9.8	6.3	7.0	7.0	7.9	10.5
Manufacturing	15.0	11.7	9.6	7.5	4.1	4.4	1.3	-4.3	-5.9	-6.4	-5.3	-5.8	-5.0
Service sector	26.9	26.0	22.4	26.9	27.5	21.5	20.7	18.7	13.3	16.9	16.8	17.4	21.3
Trade	9.3	5.0	4.7	8.3	7.3	5.5	7.9	1.6	-2.3	-3.7	-3.3	0.9	0.0
Construction	28.6	20.1	18.5	21.8	21.8	24.9	22.7	23.3	21.6	22.2	21.0	20.3	17.9

Source: ifo Business Survey.

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The ifo Business Climate is based on approx. 9,000 monthly responses from businesses in manufacturing, the service sector, trade, and construction. Companies are asked to give their assessments of the **current business situation** and their **expectations** for the next six months. They can describe their situation as “good,” “satisfactory,” or “poor” and their business expectations for the next six months as “more favorable,” “unchanged,” or “less favorable.” The **balance value** of the current business situation is the difference in the percentage shares of the responses “good” and “poor”; the balance value of expectations is the difference in the percentage shares of the responses “more favorable” and “less favorable.” The **business climate** is a transformed mean of the balances of the business situation and the expectations. To calculate the **index values**, the transformed balances are all normalized to the average for the year 2015.

ifo Business Cycle Clock Germany^a
 Balances, seasonally adjusted

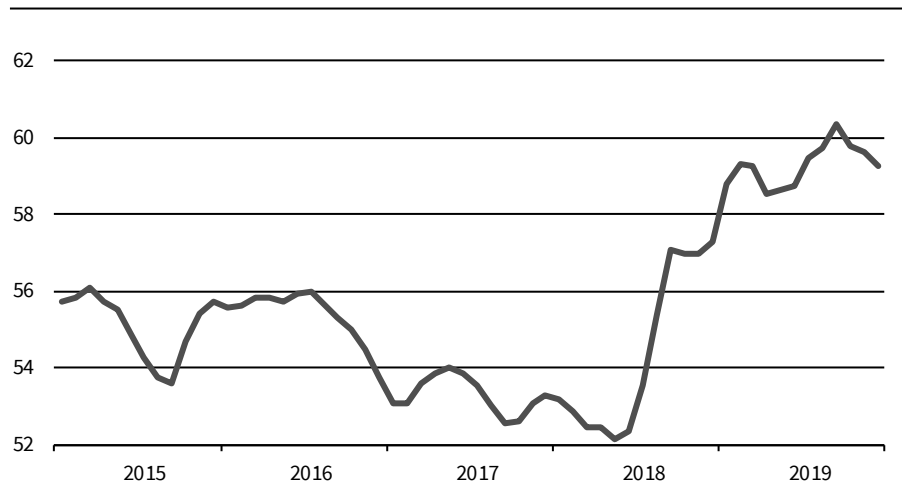


^a Manufacturing, service sector, trade, and construction.
 Source: ifo Business Survey, December 2019.

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 labeled with the different phases of activity, namely upturn, boom, downturn, and recession; provided that the expectation indicator sufficiently precedes the current business situation indicator. If survey participants' assessments of both the current business situation and business expectations are negative on balance, the economic situation indicator is in 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 is shown in the "boom" quadrant. If, however, the expectations indicator turns negative (with a good but deteriorating business situation on balance), economic activity slips into the "downturn" quadrant.

ifo Dispersion Germany^a

Seasonally adjusted and three months moving average



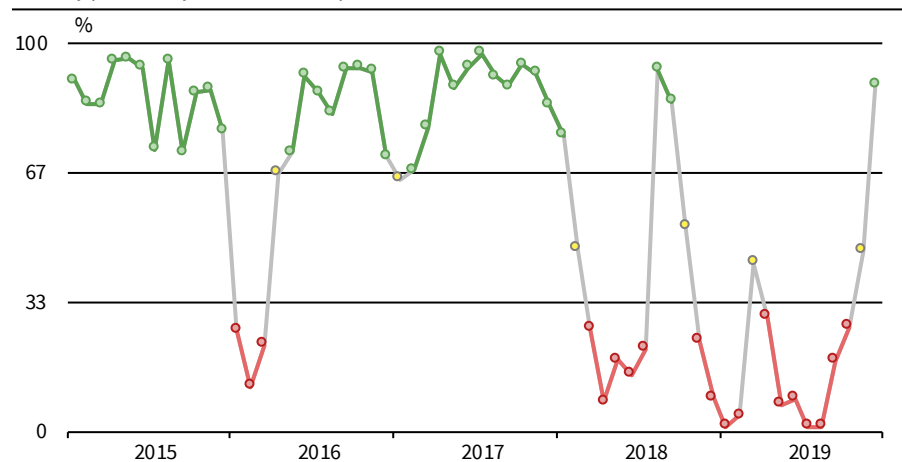
^a Manufacturing, service sector, trade, and construction.
 Source: ifo Business Survey, December 2019.

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An increase in the dispersion measure signals greater uncertainty on the part of companies. Values can range between 0 and 100. The measure is based on responses to the question relating to expectations regarding the six-month business outlook and is generated from the dispersion of these expectations at any 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 monthly movements in the ifo Business Climate Index Germany.

Source: ifo Business Survey, December 2019.

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Monthly movements in the ifo Business Climate Index Germany can be translated into probabilities for the two cyclical regimes expansion and contraction using a Markov switching model. The ifo Business Cycle Traffic Lights show the monthly regime probabilities for the expansion phase. Probabilities exceeding the 66% mark signal an economic expansion (green lights); probabilities under the 33% mark signal a contraction (red lights); probabilities in the range in between those two marks signal indifference (yellow lights). This indifference 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.