

## ifo Business Climate Index Falls

Munich, January 27, 2020 – At the start of the year, sentiment among German managers is somewhat diminished. The ifo Business Climate Index fell from 96.3 points in December to 95.9 points in January. This was due to companies' more pessimistic outlook for the coming months. In contrast, the indicator of the current situation rose slightly. The German economy is starting the year in a cautious mood.

*Manufacturing* is showing signs of recovery. The business climate has improved markedly. There was a particularly notable increase in the index of the current situation, which has not risen so strongly since February 2017. Moreover, companies were once again less pessimistic regarding the coming months. Capacity utilization rose from 82.6 percent to 83.1 percent.

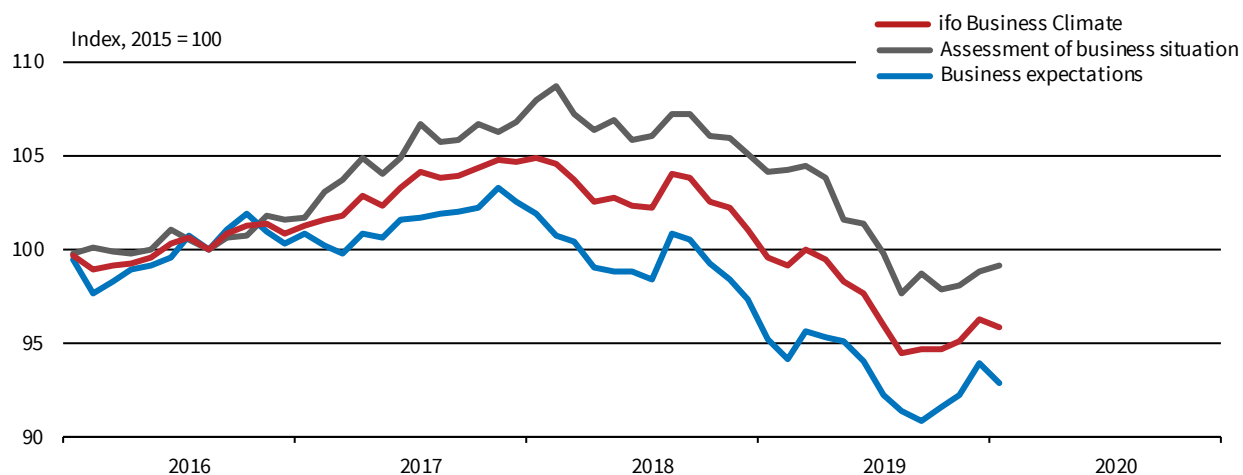
In the *service sector*, the indicator fell noticeably. This was due to companies' considerably more restrained expectations. However, they were somewhat more satisfied with their current situation.

In *trade*, the business climate improved. The indicators of the current situation and of expectations were both higher than in the previous month. However, this was due solely to wholesalers; retailers were more reserved.

In *construction*, the index fell back. Companies' assessments of the current situation dropped to their lowest level since June 2018. In addition, they were even more skeptical about the coming months.

Clemens Fuest  
President of the ifo Institute

### ifo Business Climate Germany<sup>a</sup> Seasonally adjusted



<sup>a</sup> Manufacturing, service sector, trade, and construction.  
Source: ifo Business Survey, January 2020.

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

Month/year	01/19	02/19	03/19	04/19	05/19	06/19	07/19	08/19	09/19	10/19	11/19	12/19	01/20
<b>Climate</b>	99.6	99.1	100.0	99.5	98.3	97.7	96.0	94.5	94.7	94.7	95.1	96.3	95.9
<b>Situation</b>	104.2	104.3	104.5	103.8	101.6	101.4	99.8	97.7	98.7	97.9	98.1	98.8	99.1
<b>Expectations</b>	95.2	94.2	95.6	95.3	95.1	94.0	92.2	91.4	90.9	91.6	92.2	93.9	92.9

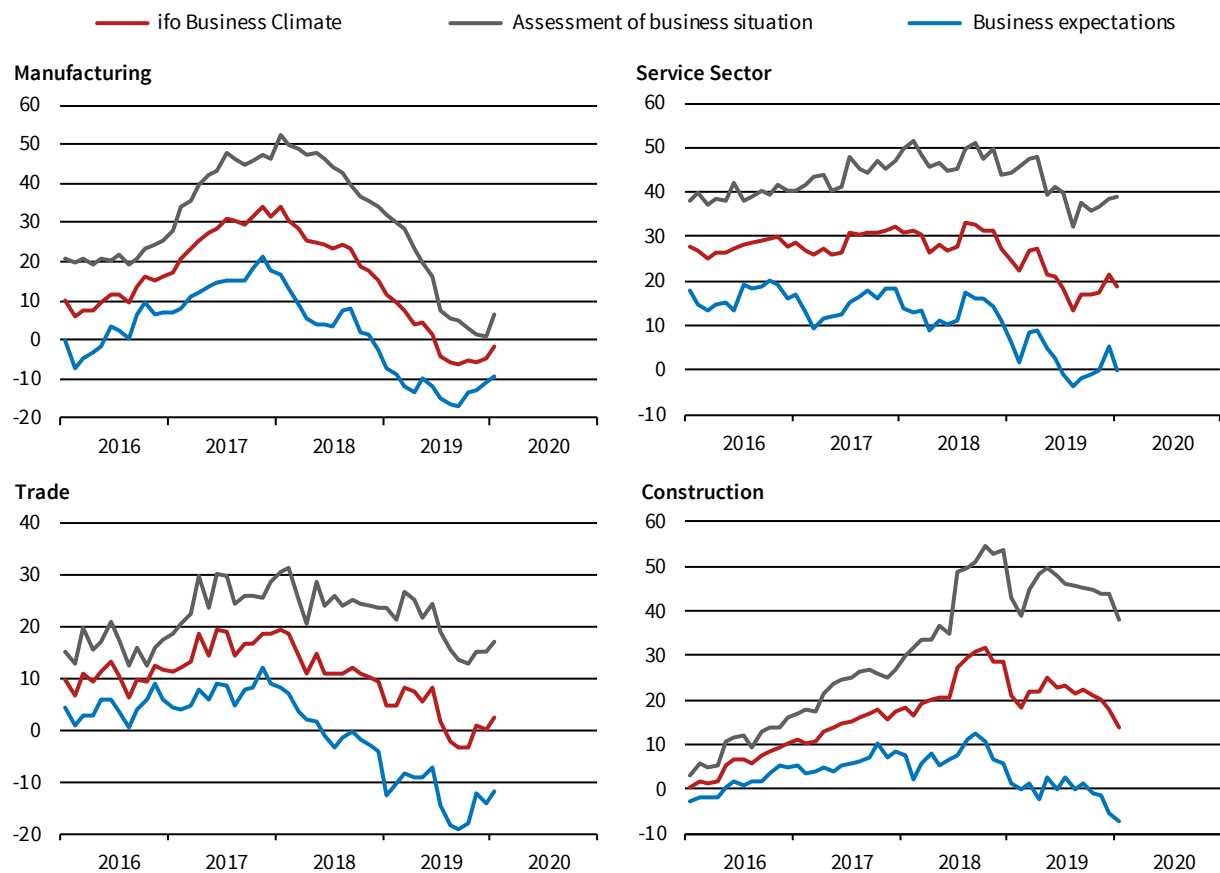
Source: ifo Business Survey

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

## ifo Business Climate, Business Situation, and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, January 2020.

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

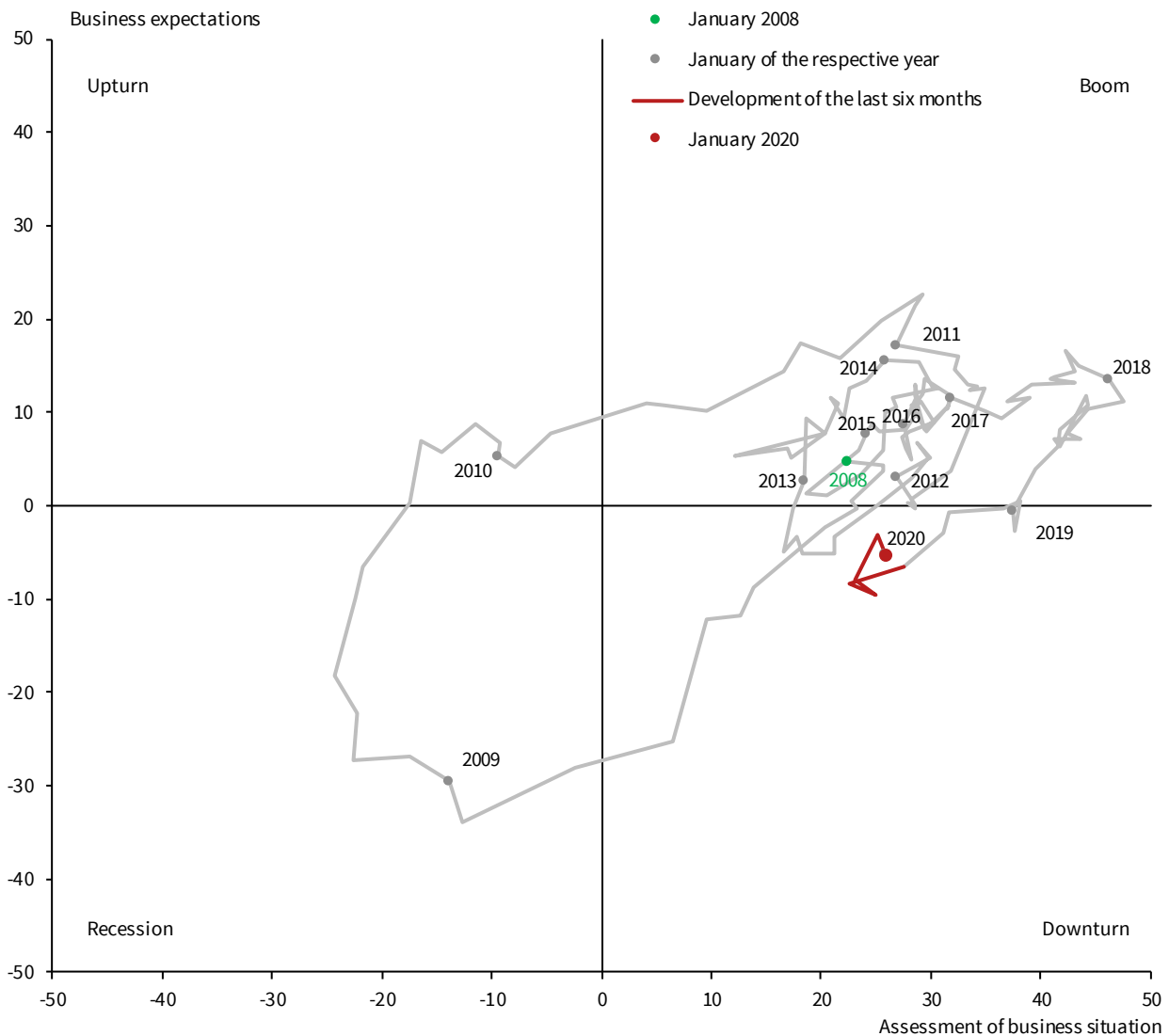
Month/year	01/19	02/19	03/19	04/19	05/19	06/19	07/19	08/19	09/19	10/19	11/19	12/19	01/20
<b>Germany</b>	17.7	16.6	18.5	17.5	14.9	13.5	9.8	6.5	7.0	7.0	7.9	10.6	9.7
<b>Manufacturing</b>	11.5	9.6	7.4	4.1	4.4	1.4	-4.1	-5.8	-6.4	-5.4	-5.8	-5.0	-1.6
<b>Service sector</b>	24.5	22.6	27.0	27.5	21.6	20.9	18.5	13.6	16.9	16.8	17.6	21.3	18.7
<b>Trade</b>	4.6	4.8	8.3	7.3	5.5	8.0	1.5	-2.3	-3.6	-3.3	1.0	0.0	2.2
<b>Construction</b>	21.1	18.4	21.8	21.7	24.8	22.6	23.2	21.6	22.1	20.8	20.0	17.9	14.0

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<sup>a</sup>**  
 Balances, seasonally adjusted

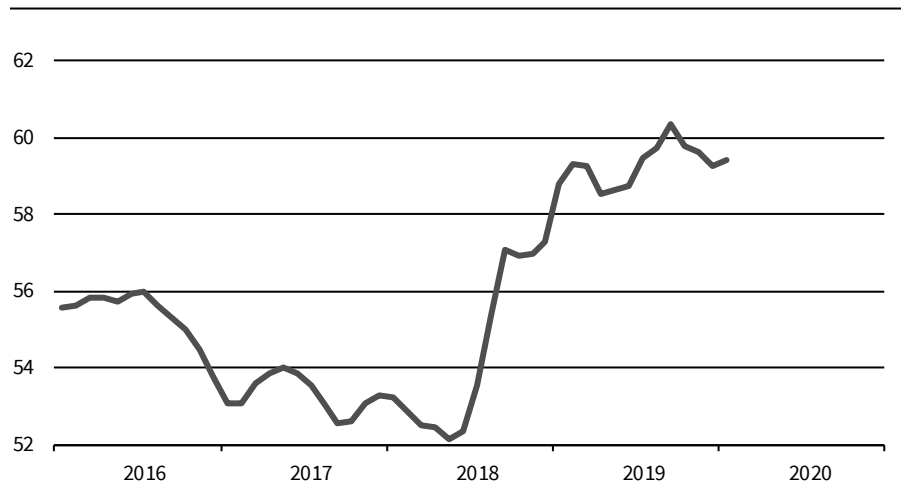


<sup>a</sup> Manufacturing, service sector, trade, and construction.  
 Source: ifo Business Survey, January 2020.

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<sup>a</sup>**

Seasonally adjusted and three months moving average



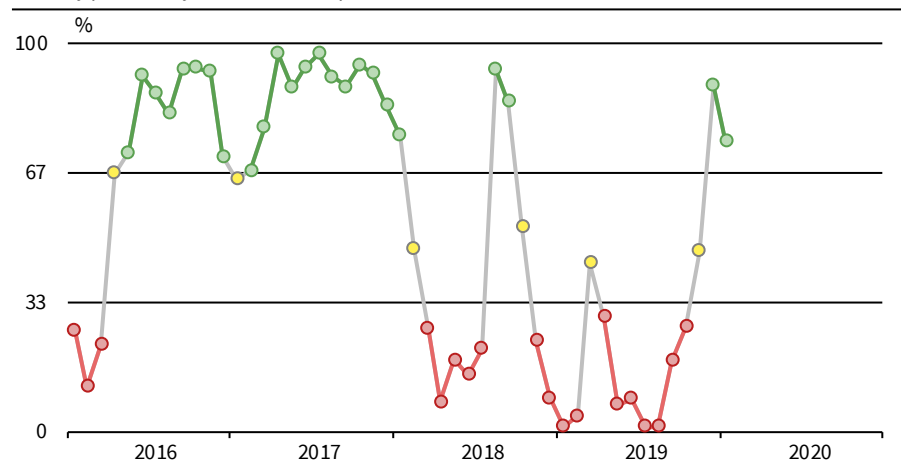
<sup>a</sup> Manufacturing, service sector, trade, and construction.  
 Source: ifo Business Survey, January 2020.

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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<sup>a</sup>



<sup>a</sup> Green = high, yellow = medium, red = low. Calculated on the basis of monthly movements in the ifo Business Climate Index Germany.

Source: ifo Business Survey, January 2020.

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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.