

ifo Business Climate Germany
Results of the ifo Business Survey for February 2020

ifo Business Climate Index Rises Marginally

Munich, February 24, 2020 – Sentiment among German managers has improved somewhat. The ifo Business Climate Index rose from 96.0 points¹ in January to 96.1 points in February. Although companies assessed their current situation as a little worse, they are less pessimistic about the next six months. The German economy seems unaffected by developments surrounding the coronavirus. The survey results and other indicators suggest economic growth in the first quarter will amount to 0.2 percent.

In *manufacturing*, the Business Climate Index rose for the third consecutive month. This was due to considerably less pessimistic expectations. However, companies' assessment of their current situation was worse. Demand and order volumes recovered a little.

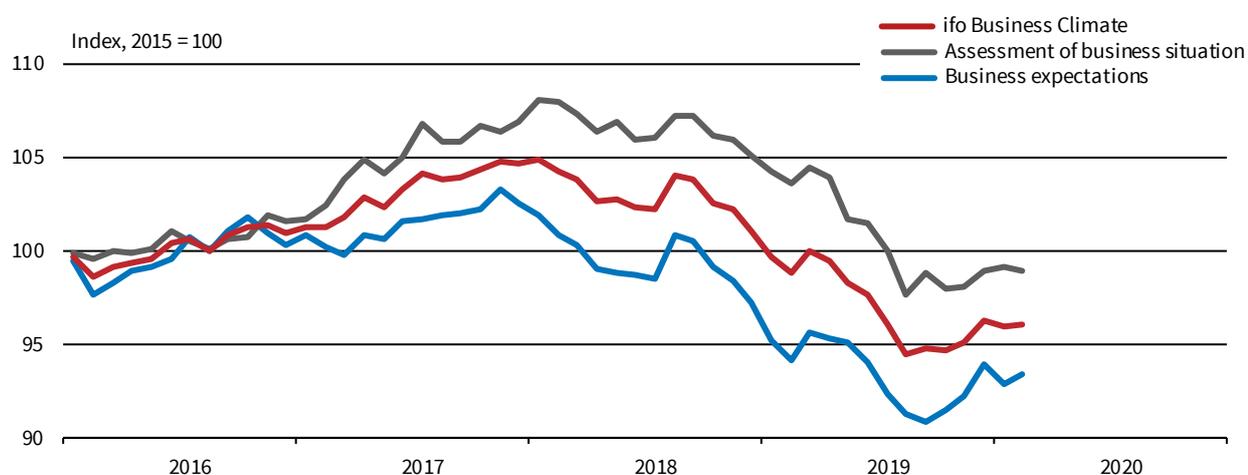
In the *service sector*, the indicator fell again. Service providers were somewhat less satisfied with their current situation. They are also more skeptical concerning the coming months.

In *trade*, the business climate worsened. Recent improvements in the current situation and in expectations suffered a setback. Only in retail did the expectations index rise.

In *construction*, the index declined once more. This was a result of companies' more pessimistic expectations. In contrast, their assessment of the current situation was slightly better.

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, February 2020.

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

Month/year	02/19	03/19	04/19	05/19	06/19	07/19	08/19	09/19	10/19	11/19	12/19	01/20	02/20
Climate	98.8	100.0	99.5	98.3	97.7	96.1	94.5	94.8	94.7	95.1	96.3	96.0	96.1
Situation	103.6	104.5	103.9	101.7	101.5	100.0	97.7	98.8	98.0	98.1	98.9	99.2	98.9
Expectations	94.2	95.6	95.3	95.1	94.0	92.3	91.3	90.9	91.5	92.2	93.9	92.9	93.4

Source: ifo Business Survey

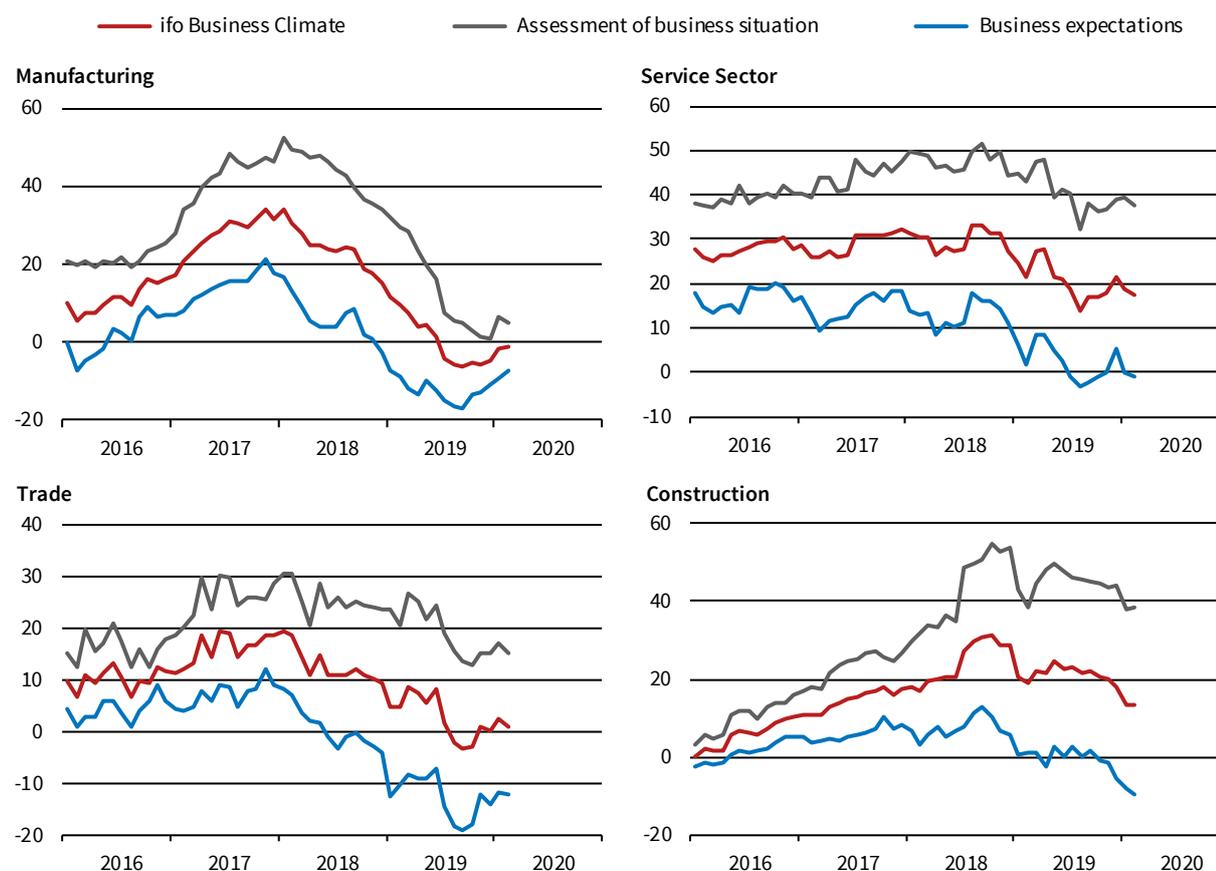
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For long time-series in Excel format, please see <https://www.ifo.de/en/umfragen/time-series>.

¹ Seasonally adjusted

ifo Business Climate, Business Situation, and Expectations by Sector

Balances, seasonally adjusted



Source: Ifo Business Survey, February 2020.

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

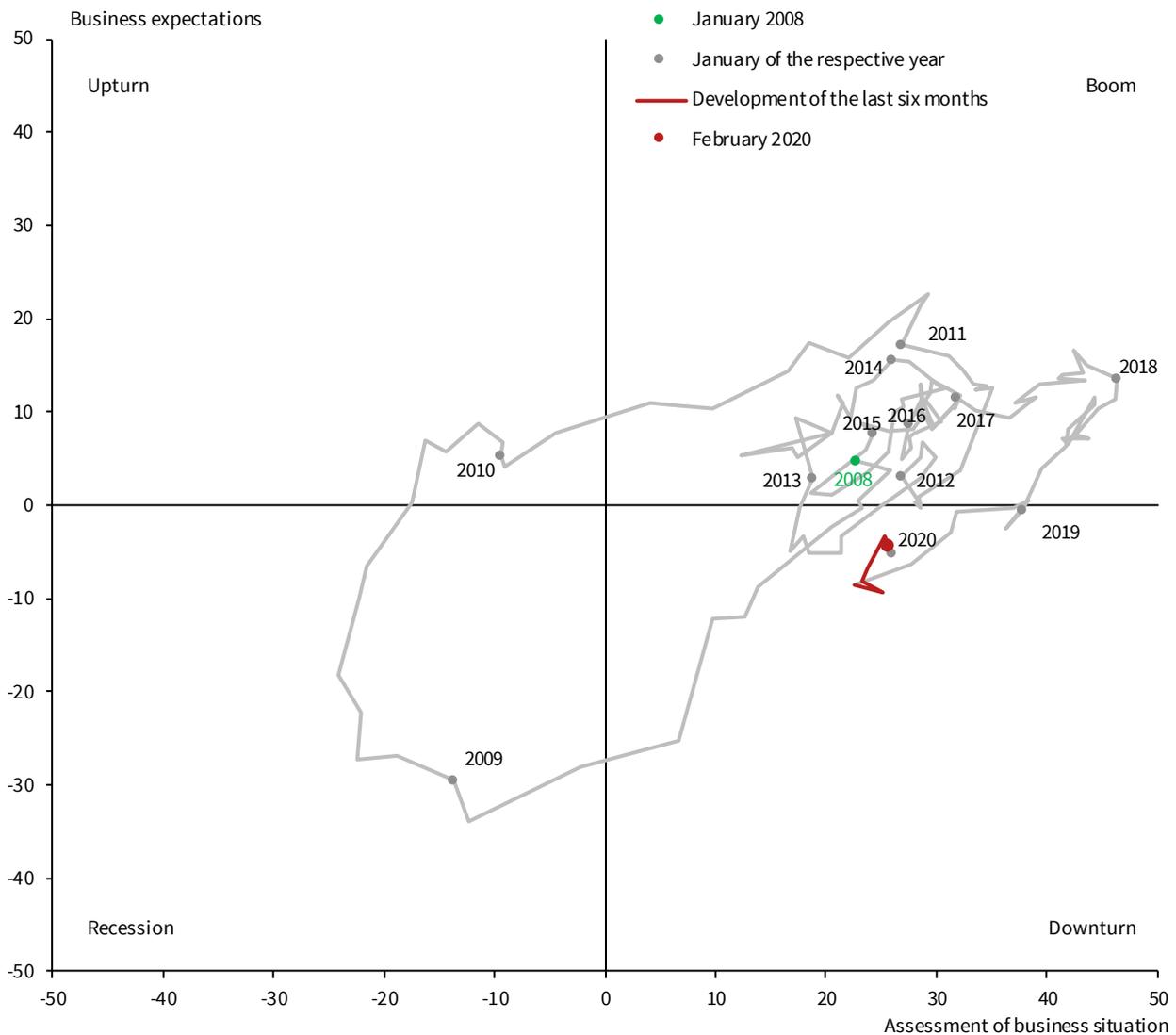
Month/year	02/19	03/19	04/19	05/19	06/19	07/19	08/19	09/19	10/19	11/19	12/19	01/20	02/20
Germany	16.0	18.6	17.5	14.9	13.5	10.0	6.5	7.2	7.0	8.0	10.6	9.8	10.1
Manufacturing	9.6	7.4	4.0	4.3	1.3	-4.0	-5.7	-6.4	-5.4	-5.8	-5.0	-1.6	-1.3
Service sector	21.6	27.1	27.6	21.7	21.0	18.7	13.8	17.0	16.9	17.7	21.4	18.8	17.3
Trade	4.6	8.4	7.3	5.6	8.0	1.5	-2.2	-3.6	-3.2	1.0	0.0	2.2	1.0
Construction	18.9	21.8	21.6	24.8	22.6	23.2	21.6	22.1	20.7	20.0	17.8	13.5	13.1

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

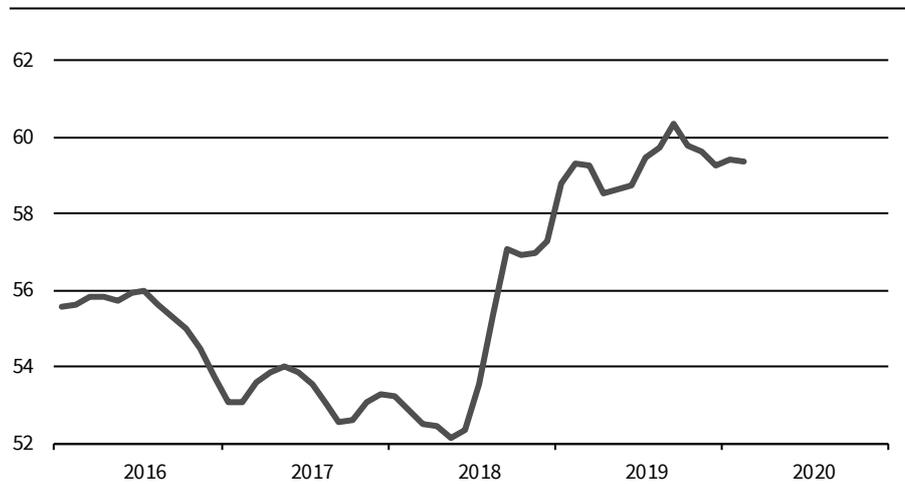


^a Manufacturing, service sector, trade, and construction.
 Source: ifo Business Survey, February 2020.

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^a

Seasonally adjusted and three months moving average



^a Manufacturing, service sector, trade, and construction.

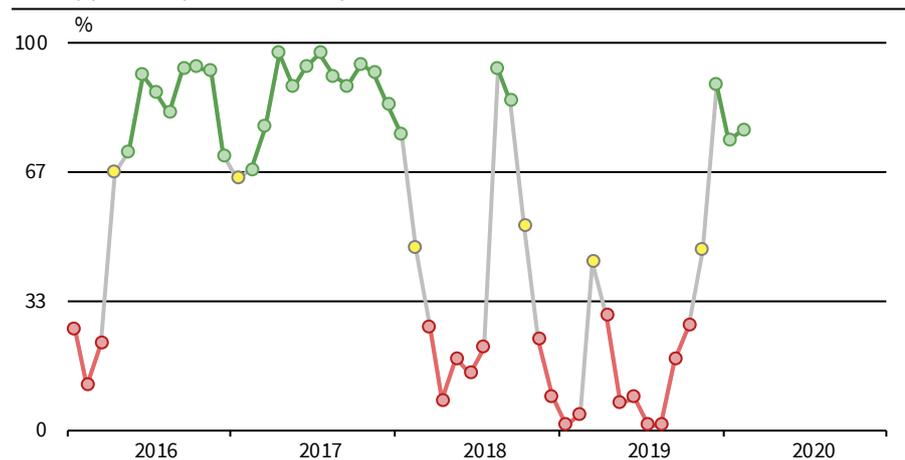
Source: ifo Business Survey, February 2020.

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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^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, February 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.