ifo Business Climate Germany
Final Results of the ifo Business Survey for March 2020

ifo Business Climate Index Collapses

Munich, March 25, 2020 – Sentiment among German managers has become extraordinarily dire. The ifo Business Climate Index collapsed from 96.0 points[1] in February to 86.1 points in March. This is the steepest fall ever recorded since German reunification and the lowest value since July 2009. Companies' expectations in particular have darkened as never before. Assessments of the current situation have also worsened considerably. The German economy is in shock.

Since its preliminary publication on March 19, when it stood at 87.7 points, the Business Climate Index has fallen by a further 1.6 points. Assessments of the current situation have fallen since then by 0.8 points and expectations by 2.3 points.

In *manufacturing*, the index fell to its lowest level since August 2009. Never in the history of a reunified Germany has it fallen so far. The drop in expectations is the single most precipitous in 70 years of industry surveys. The fall in the indicator of the current situation was less pronounced. The index fell across all branches of industry, in some cases considerably. Many companies have announced plans to curtail production.

In the *service sector*, the business climate indicator saw the greatest fall since this data was first recorded in 2005. This applies both to the assessment of the current situation and to expectations.

In *trade*, the business climate indicator collapsed. Expectations tumbled to their lowest level since German reunification. Companies also revised their assessment of the current situation markedly downward. This development was equally negative across wholesale and retail. Food retailers and drugstores were positive exceptions.

In *construction*, the index fell comparatively moderately. Companies are still very satisfied with their current situation. However, the outlook has worsened notably.

Clemens Fuest
President of the ifo Institute

ifo Business Climate Germany[a]

Seasonally adjusted
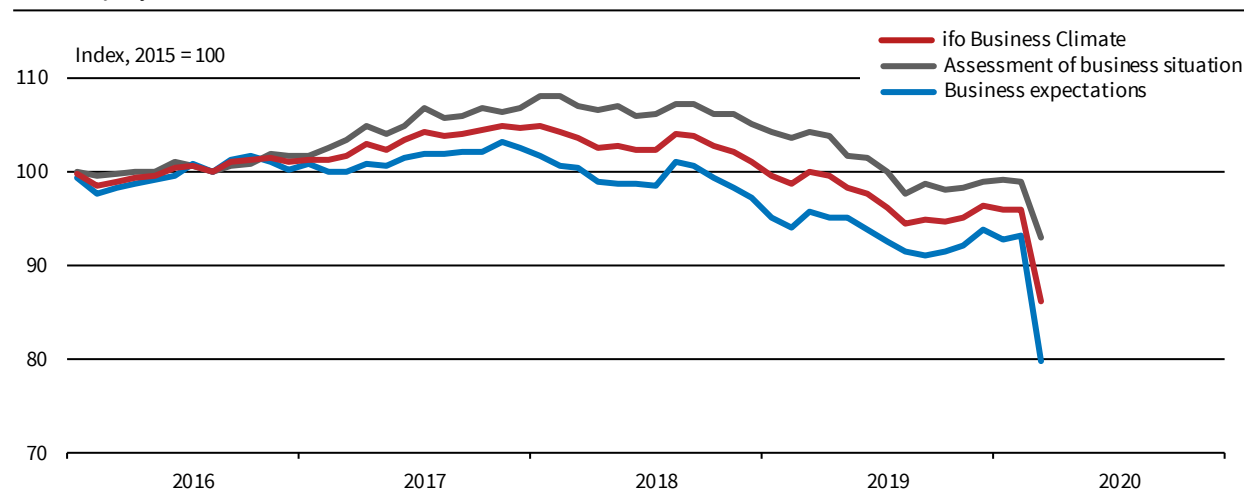
[a] Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, March 2020.   © ifo Institute

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

Month/year	03/19	04/19	05/19	06/19	07/19	08/19	09/19	10/19	11/19	12/19	01/20	02/20	03/20
Climate	99.9	99.5	98.3	97.7	96.1	94.5	94.9	94.7	95.1	96.3	95.9	96.0	86.1
Situation	104.3	103.9	101.7	101.5	99.9	97.7	98.8	98.0	98.2	98.9	99.2	99.0	93.0
Expectations	95.8	95.2	95.0	93.9	92.5	91.4	91.1	91.5	92.1	93.8	92.7	93.1	79.7

Source: ifo Business Survey   © ifo Institute

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

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[1] Seasonally adjusted

ifo Business Climate, Business Situation, and Expectations by Sector
Balances, seasonally adjusted
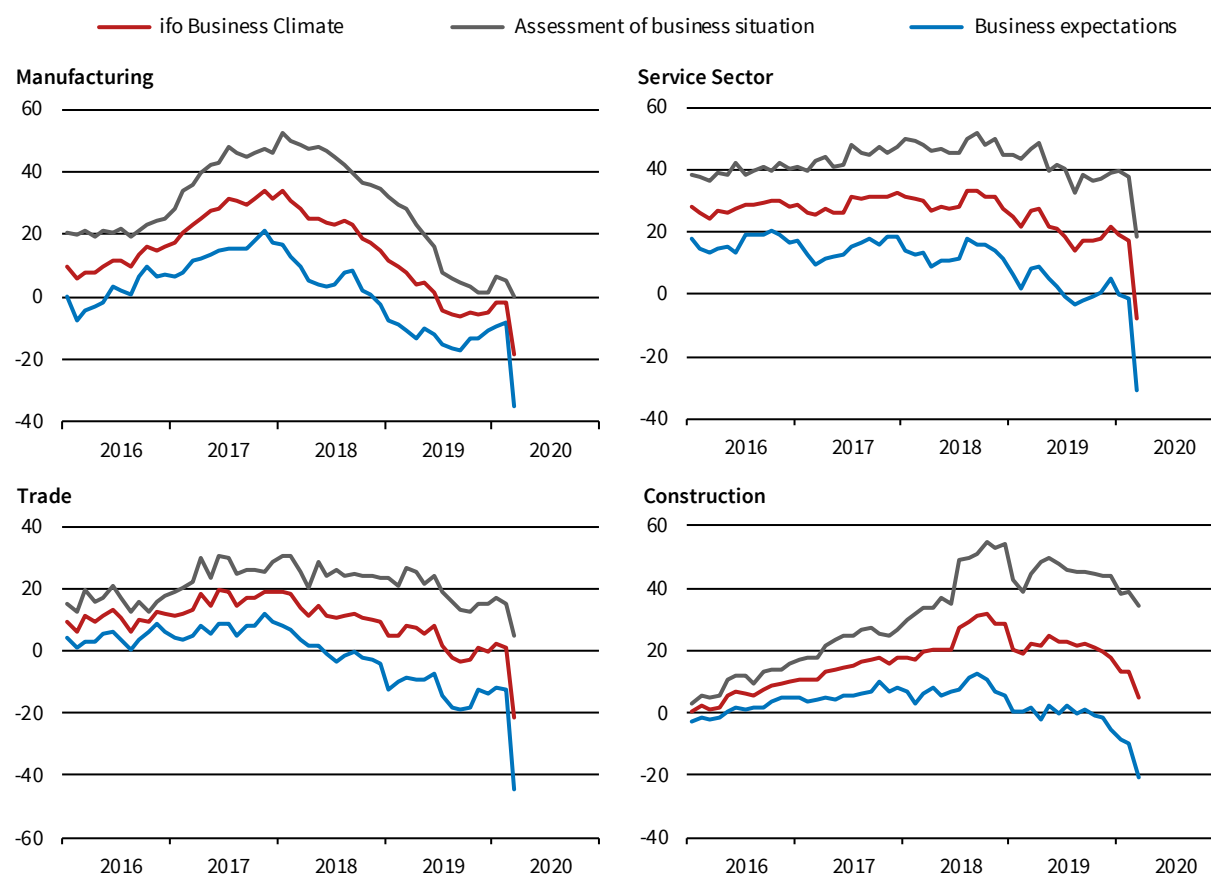
Source: ifo Business Survey, March 2020.

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

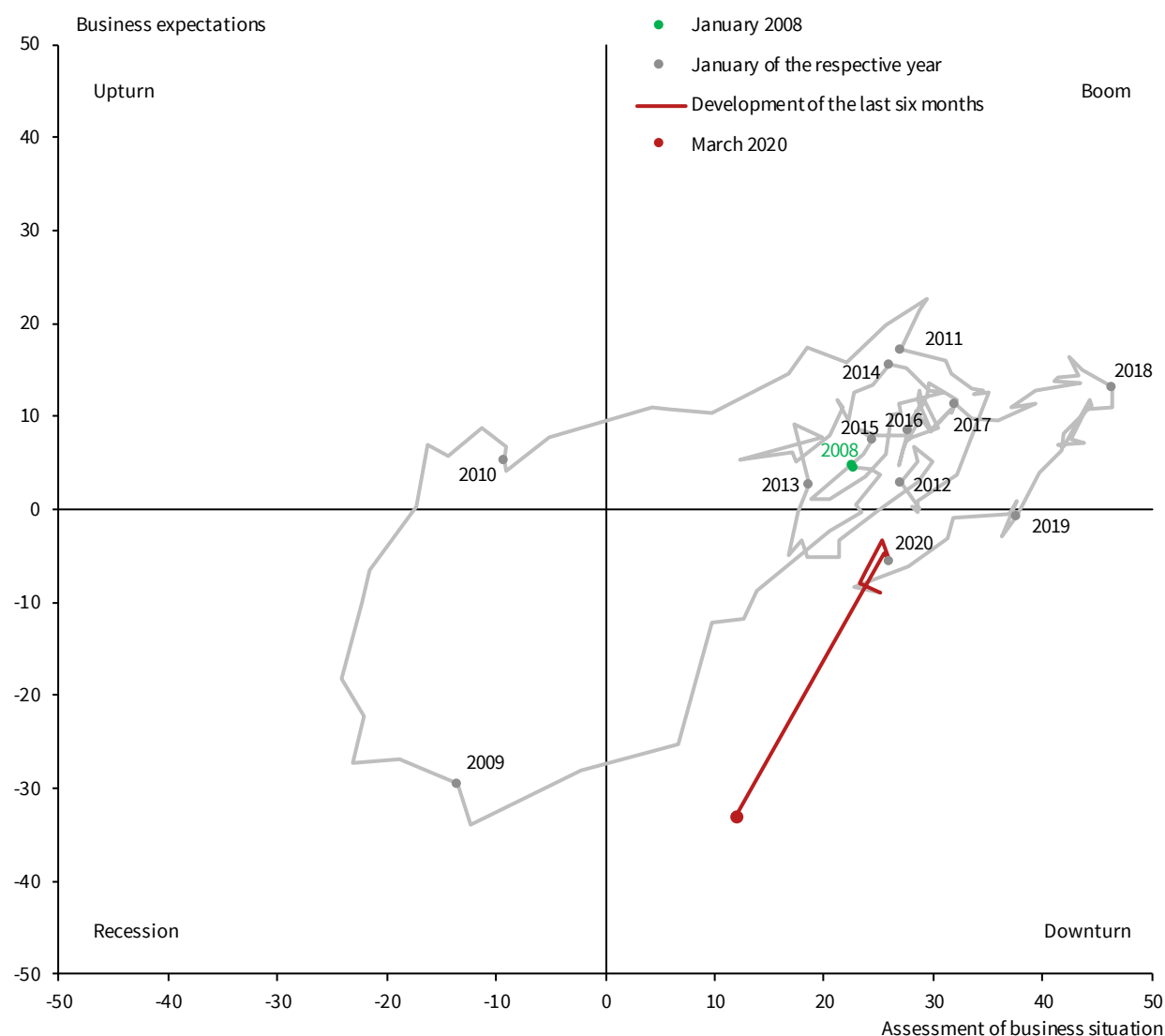| Month/year	03/19	04/19	05/19	06/19	07/19	08/19	09/19	10/19	11/19	12/19	01/20	02/20	03/20
Germany	18.5	17.5	14.9	13.5	10.2	6.6	7.4	7.1	7.9	10.6	9.6	9.9	-11.8
Manufacturing	7.8	4.1	4.3	1.3	-4.1	-5.6	-6.5	-5.3	-5.9	-5.0	-1.7	-1.6	-18.2
Service sector	26.6	27.6	21.7	21.0	18.7	13.8	17.2	16.9	17.7	21.4	18.8	17.4	-7.6
Trade	8.3	7.3	5.6	8.0	1.5	-2.2	-3.6	-3.2	1.0	0.0	2.2	1.0	-21.4
Construction	22.2	21.7	24.9	22.6	23.1	21.5	22.1	20.7	19.9	17.8	13.4	12.9	5.0

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[a]
Balances, seasonally adjusted

Business expectations

Upturn

● January 2008
● January of the respective year
— Development of the last six months
● March 2020

Boom

2011
2014
2015 2016 2017
2008
2013 2012
2010
2020
2019
2018

2009

Recession

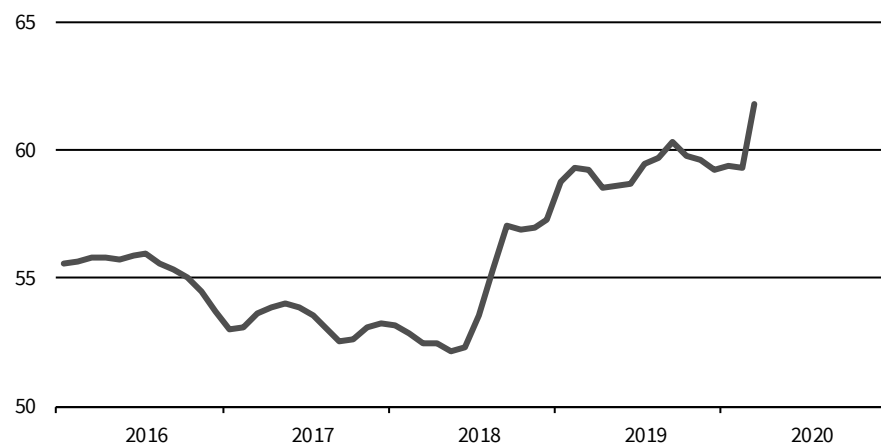Downturn

Assessment of business situation

[a] Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, March 2020.

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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 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, March 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]
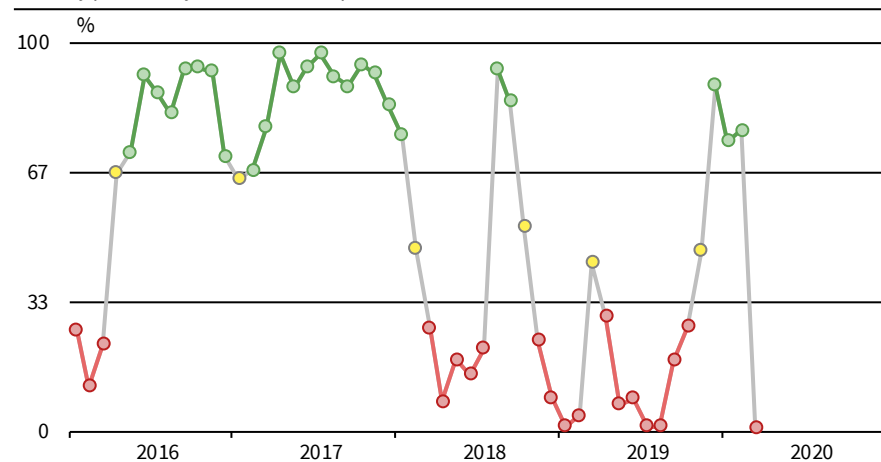
[a] Green = high, yellow = medium, red = low. Calculated on the basis of monthly movements in the ifo Business Climate Index Germany.
Source: ifo Business Survey, March 2020.

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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.