ifo Business Climate Remains Gloomy

Munich, October 25, 2022 – Sentiment in the German economy continues to be grim. The ifo Business Climate Index dipped to 84.3 points in October, following 84.4 points[1] in September. Companies were less satisfied with their current business. Their expectations improved, but they are still worried about the coming months. The German economy is facing a difficult winter.

In *manufacturing*, the index fell again due to companies' more pessimistic expectations. In contrast, they assessed their current situation as somewhat better. Order books are still full, although fewer and fewer new orders are coming in. Capacity utilization sank from 85.3 percent to 84.6 percent, but is still above the long-term average of 83.6 percent.

Following the previous month's nosedive, the business climate in the *service sector* improved slightly. Service providers were less pessimistic in their view of the coming months, but they assessed their current business as somewhat worse.

In *trade*, the index rose thanks to slightly better assessments of the current situation. Expectations remain markedly bleak, however, especially in retail.

The index in *construction* declined once more. Assessments of the current business situation fell to their lowest level since January 2016. Expectations continued to deteriorate and order backlogs decreased.

Clemens Fuest
President of the ifo Institute

ifo Business Climate Germany[a]

Seasonally adjusted
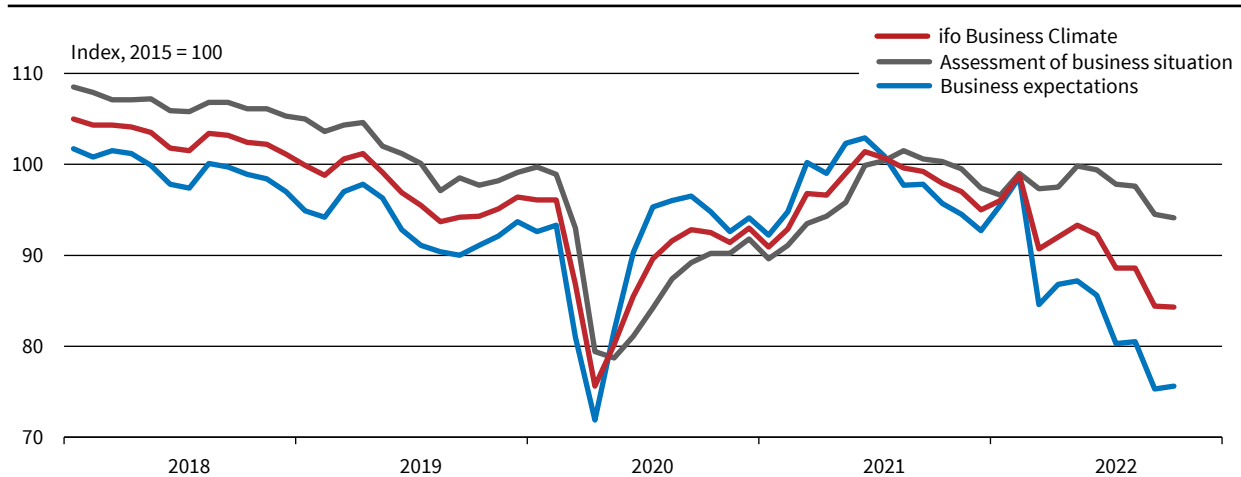
Index, 2015 = 100

[a] Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, October 2022.   © ifo Institute

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

Month/year	10/21	11/21	12/21	01/22	02/22	03/22	04/22	05/22	06/22	07/22	08/22	09/22	10/22
Climate	97.9	97.0	95.0	96.0	98.8	90.7	92.0	93.3	92.3	88.6	88.6	84.4	84.3
Situation	100.3	99.5	97.4	96.6	99.0	97.3	97.5	99.8	99.4	97.8	97.6	94.5	94.1
Expectations	95.7	94.5	92.7	95.5	98.6	84.6	86.8	87.2	85.6	80.3	80.5	75.3	75.6

Source: ifo Business Survey, October 2022   © 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

— ifo Business Climate   — Assessment of business situation   — Business expectations
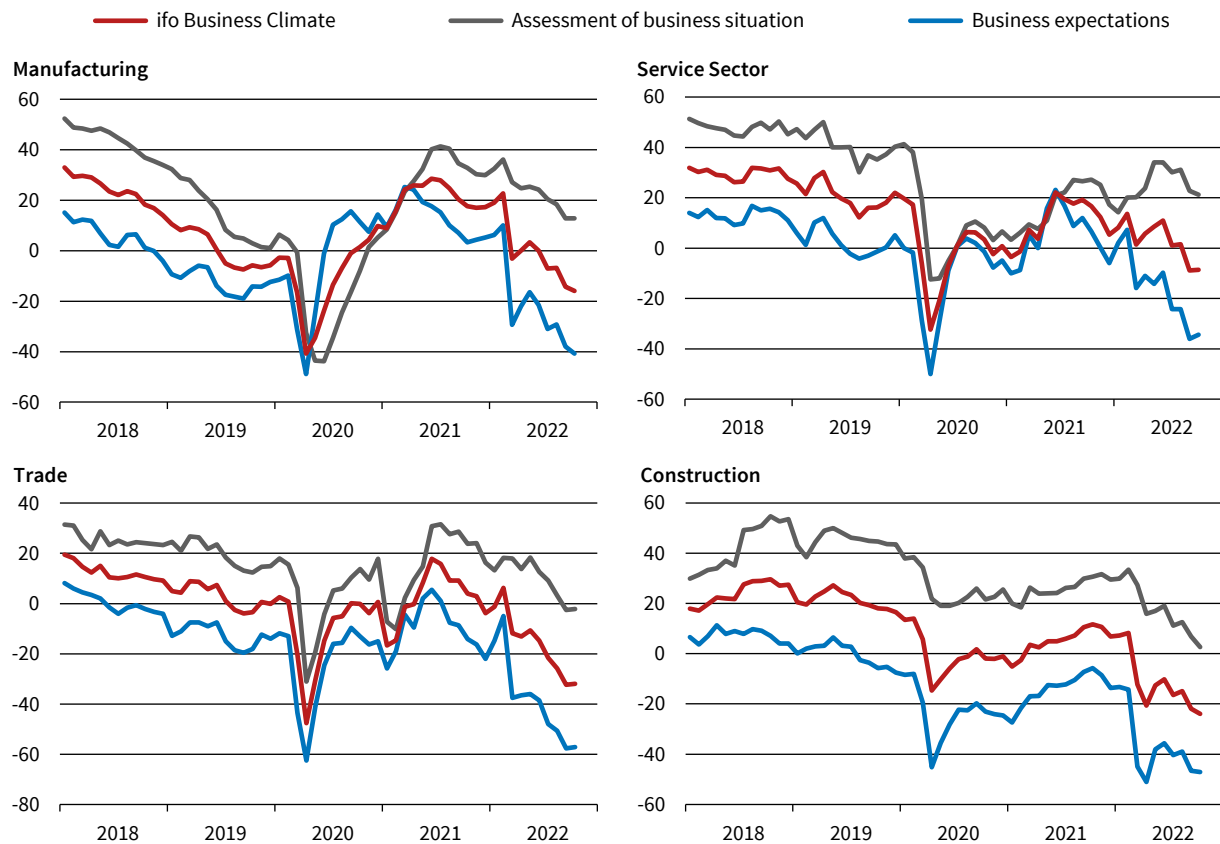
Source: ifo Business Survey, October 2022.   © ifo Institute

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

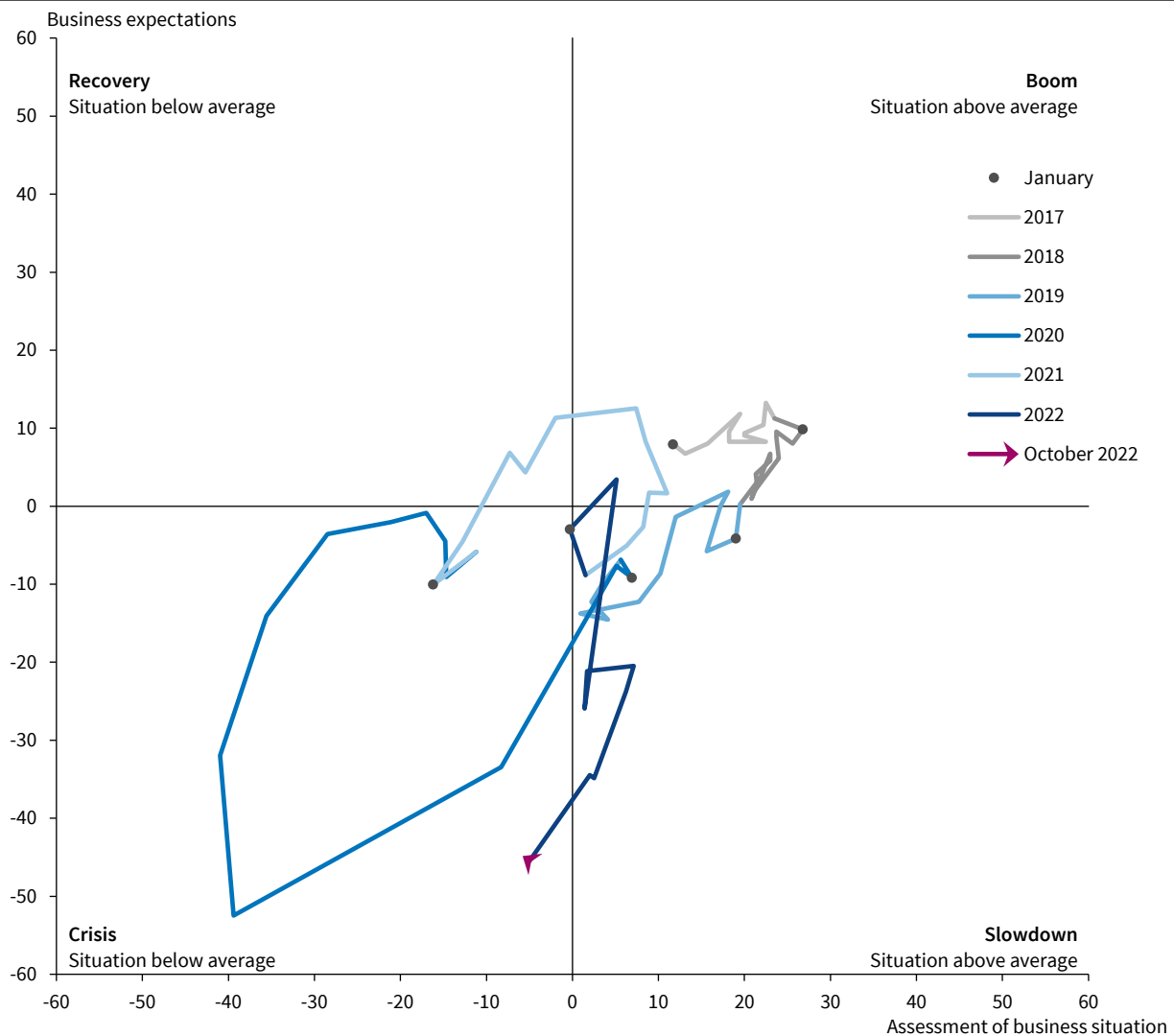| Month/year	10/21	11/21	12/21	01/22	02/22	03/22	04/22	05/22	06/22	07/22	08/22	09/22	10/22
Germany	14.1	12.0	7.7	10.0	15.9	-1.7	1.1	3.9	1.7	-6.2	-6.3	-15.6	-15.6
Manufacturing	17.7	17.0	17.3	19.0	22.7	-3.1	0.0	3.4	0.0	-7.0	-6.8	-14.3	-15.9
Service sector	16.7	12.4	5.4	8.1	13.6	1.4	5.7	8.5	11.0	1.1	1.5	-8.9	-8.6
Trade	4.0	2.9	-3.8	-1.3	6.3	-11.8	-13.1	-10.7	-14.7	-21.6	-25.8	-32.3	-31.9
Construction	11.7	10.6	6.8	7.2	8.2	-12.2	-20.7	-12.6	-10.2	-16.4	-14.9	-21.9	-24.0

Source: ifo Business Survey, October 2022.   © ifo Institute

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 adjusted for mean value, seasonally adjusted

Recovery
Situation below average

Boom
Situation above average

Crisis
Situation below average

Slowdown
Situation above average

Business expectations

Assessment of business situation

Legend:
- January
- 2017
- 2018
- 2019
- 2020
- 2021
- 2022
- October 2022

[a] Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, October 2022.

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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 current situation against expectations – passes through quadrants labeled with the different phases of activity, namely recovery, boom, slowdown, and crisis; provided that the expectations indicator sufficiently precedes the current business situation indicator. If survey participants' assessments of the current business situation and their business expectations are both below average on balance, economic activity is plotted in the "crisis" quadrant. If the expectations indicator is above average (with an improving but below average business situation on balance), economic activity moves to the "recovery" quadrant. If the business situation and expectations are both above average on balance, economic activity appears in the "boom" quadrant. If, however, the expectations indicator falls below average (with a deteriorating but above average business situation on balance), economic activity slips into the "slowdown" quadrant.

## ifo Business Uncertainty Germany[a]
Original values
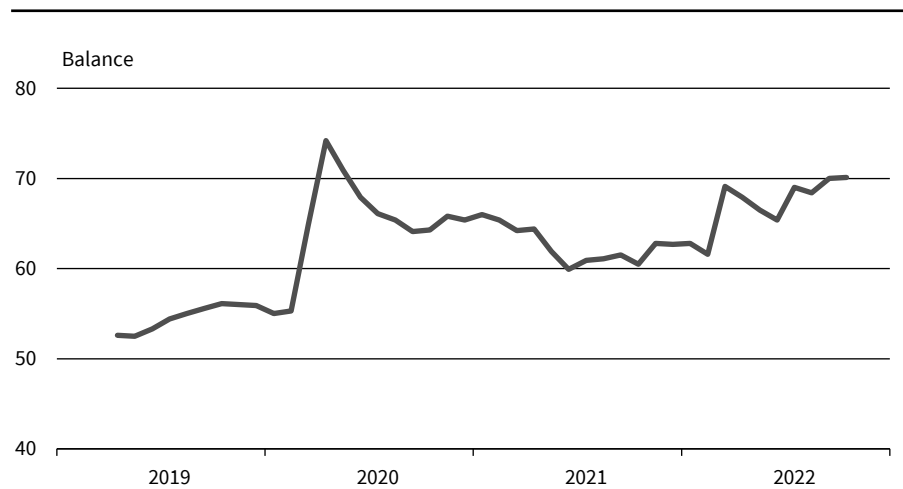
Balance

[a] Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, October 2022.

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The ifo Business Uncertainty measures how difficult it is for managers to predict the development of their company's business situation over the next six months. The measure is calculated based on the weighted fractions of companies that fall into the answer options "easy," "fairly easy," "fairly difficult," and "difficult" of a corresponding question in the ifo Business Survey. To this end, the answer categories are mapped onto a numerical scale with equally spaced intervals. Theoretically, the ifo Business Uncertainty can range from 0 to 100. Higher values indicate higher uncertainty: the future business situation is more difficult to predict.

ifo Business Cycle Traffic Lights Germany
Monthly probability for economic expansion[a]

%
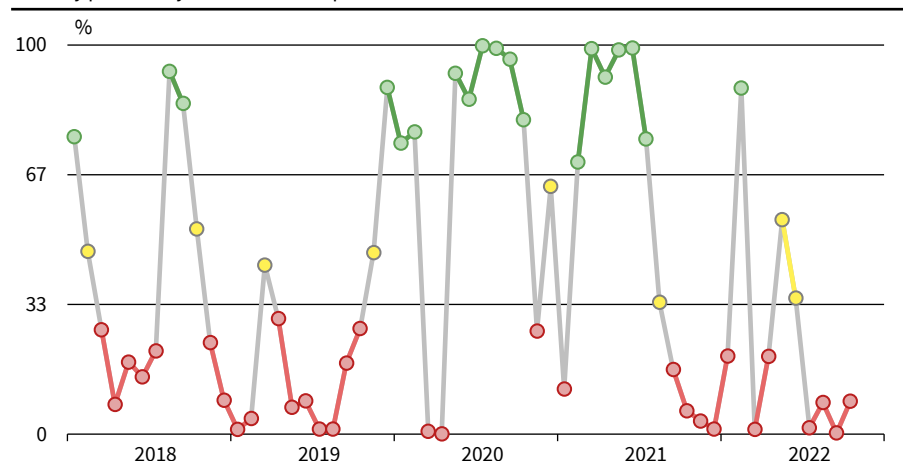
[a] Green = high, yellow = medium, red = low. Calculated on the basis of monthly movements in the ifo Business Climate Index Germany.
Source: ifo Business Survey, October 2022.

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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 percent mark signal an economic expansion (green lights); probabilities under the 33 percent 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.