

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

ifo Business Climate Index Rises

Munich, September 24, 2020 – Sentiment among German managers has further improved: the ifo Business Climate Index climbed to 93.4 points in September, after 92.5 points¹ in August. The companies once again assessed their current situation as better than in the previous month. They also expect their business to recover further. The German economy is stabilizing despite rising infection numbers.

In *manufacturing*, the Business Climate Index saw a noticeable increase. Significantly fewer companies assessed their current business situation as difficult. At the same time, more industrial companies expected that their business situation will improve further in the near future. The electrical and electronics industries in particular are optimistic.

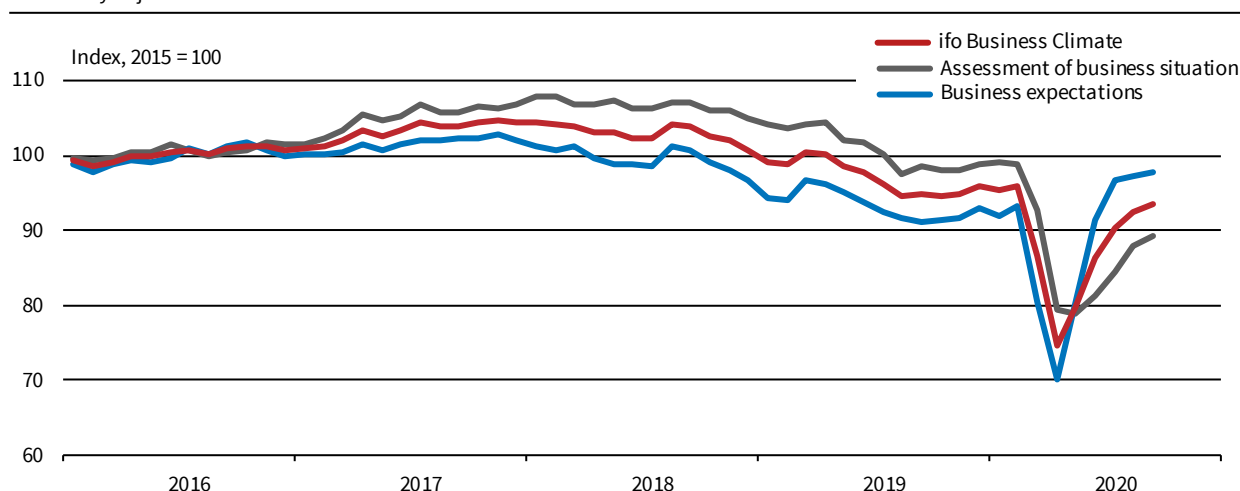
In the *service sector*, by contrast, the index fell after rising four times in a row. This is due to less optimistic expectations. The companies deemed their current situation to be marginally better, however.

In *trade*, the business climate brightened significantly. Companies were considerably more satisfied with their current business situation, and many of them assume it will improve further over the next few months.

In *construction*, the index rose again. The indicator for the current situation climbed to its highest value since March of this year. Although the outlook remains pessimistic, it is somewhat less so than in August.

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, September 2020.

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

Month/year	09/19	10/19	11/19	12/19	01/20	02/20	03/20	04/20	05/20	06/20	07/20	08/20	09/20
Climate	94.8	94.6	94.8	95.9	95.4	95.9	86.5	74.6	79.6	86.3	90.4	92.5	93.4
Situation	98.6	97.9	98.0	98.8	99.1	98.8	92.8	79.4	78.9	81.3	84.5	87.9	89.2
Expectations	91.1	91.5	91.6	93.1	91.9	93.2	80.5	70.0	80.3	91.5	96.8	97.2	97.7

Source: ifo Business Survey

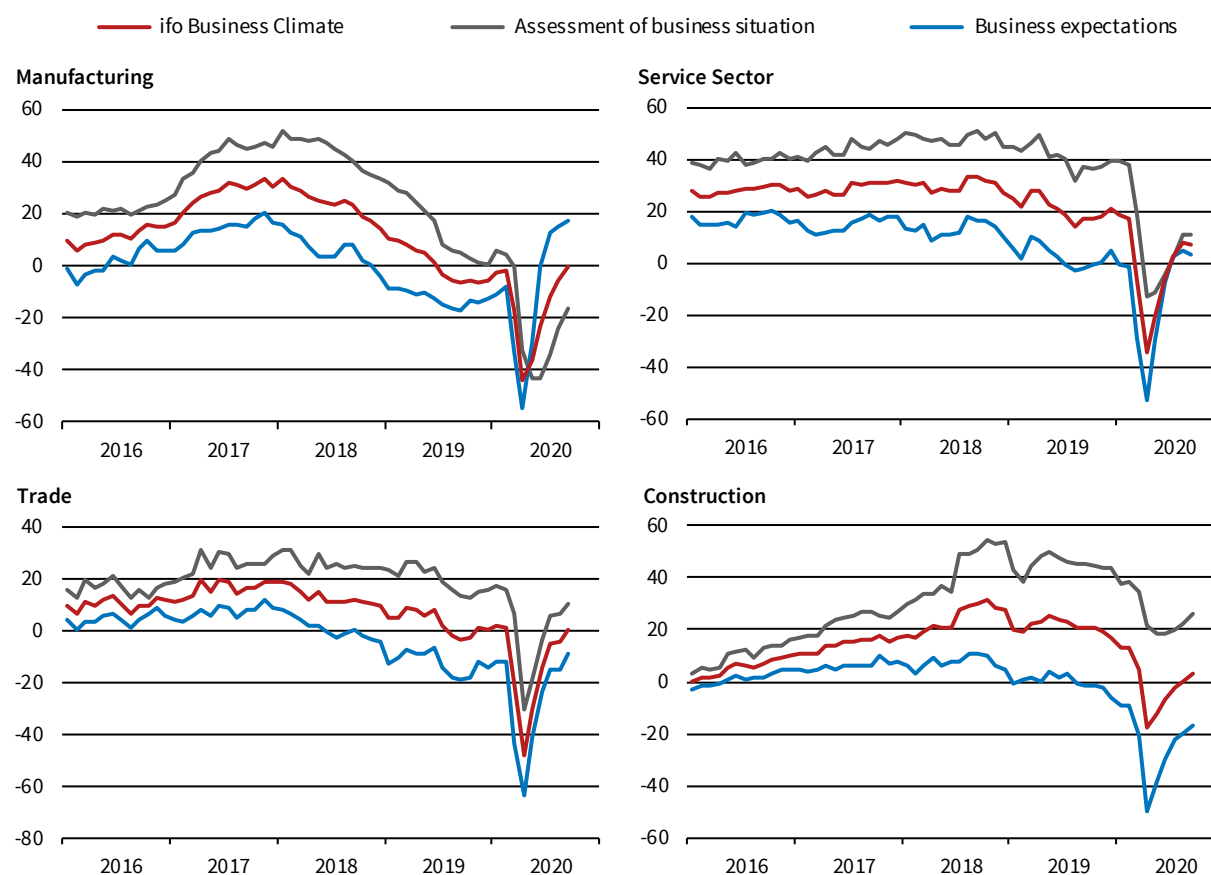
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For long time-series in Excel format, please see <https://www.ifo.de/en/umfragen/time-series>.

¹ Seasonally adjusted

ifo Business Climate, Business Situation, and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, September 2020.

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

Month/year	09/19	10/19	11/19	12/19	01/20	02/20	03/20	04/20	05/20	06/20	07/20	08/20	09/20
Germany	7.2	6.9	7.2	9.7	8.6	9.7	-11.0	-37.0	-26.0	-11.4	-2.3	2.1	4.1
Manufacturing	-6.5	-5.6	-6.6	-6.1	-2.6	-1.8	-17.6	-44.0	-36.3	-23.1	-12.2	-5.6	-0.2
Service sector	16.9	16.9	17.5	21.0	18.5	17.0	-6.8	-34.1	-20.9	-5.9	2.1	7.7	6.9
Trade	-3.7	-3.3	0.8	-0.1	1.9	0.8	-20.6	-48.4	-30.5	-14.2	-5.2	-4.8	0.3
Construction	20.5	20.5	19.5	17.3	12.9	13.1	4.9	-17.5	-12.2	-7.2	-2.3	0.0	3.3

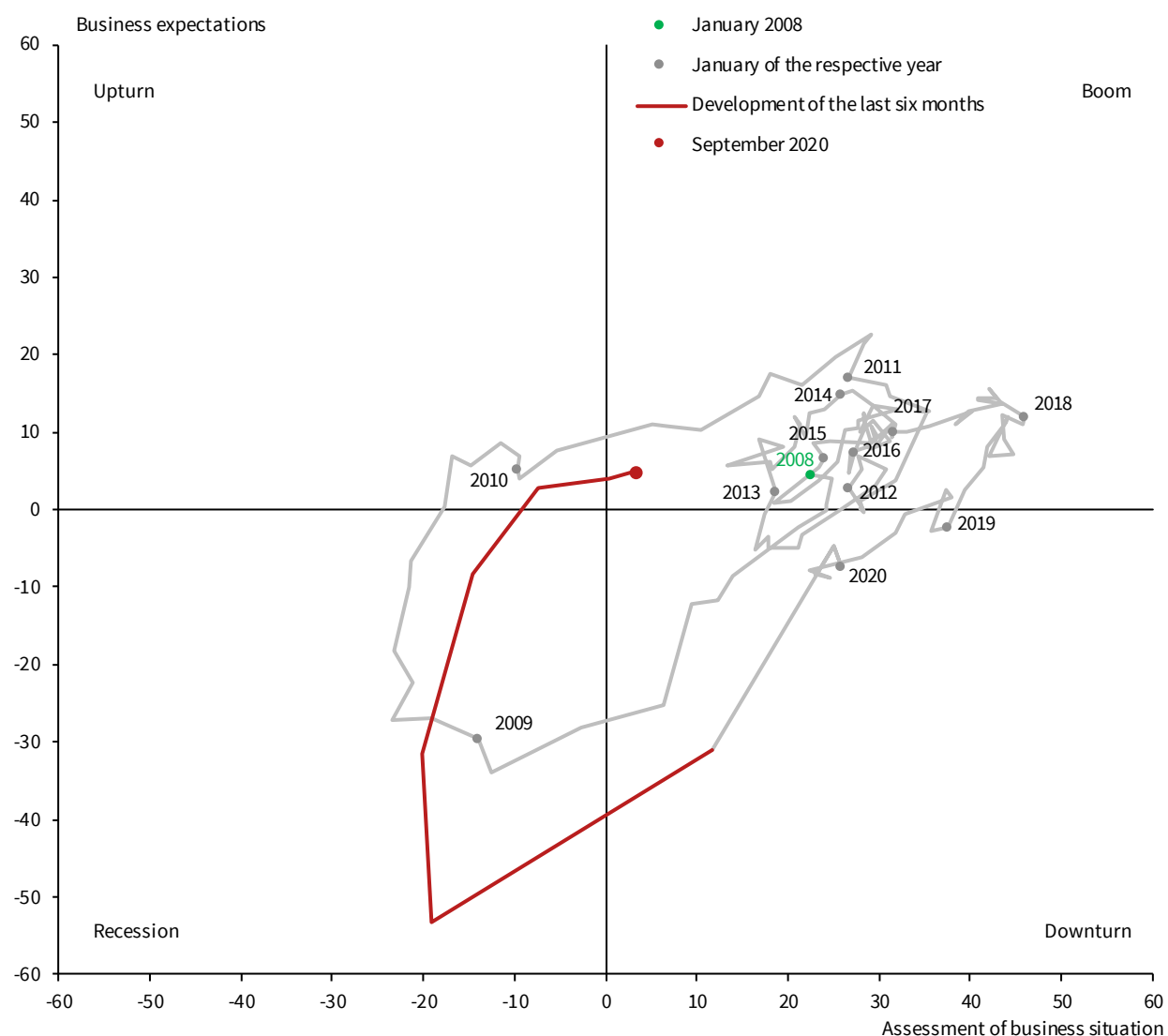
Source: ifo Business Survey

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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.

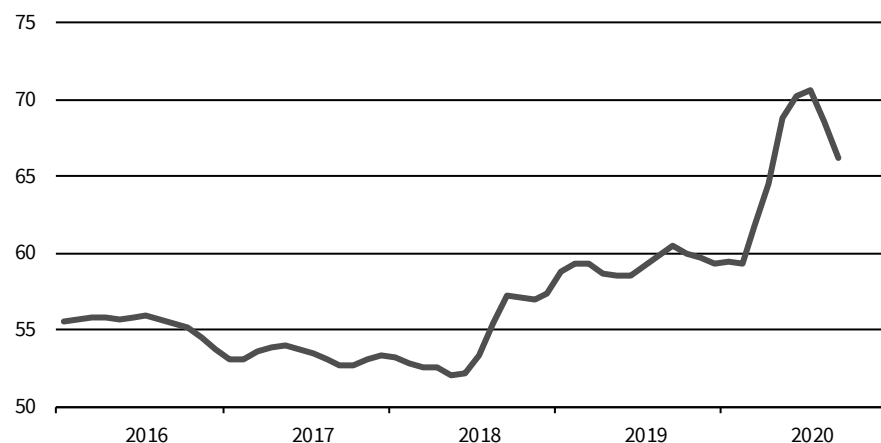
Source: ifo Business Survey, September 2020.

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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



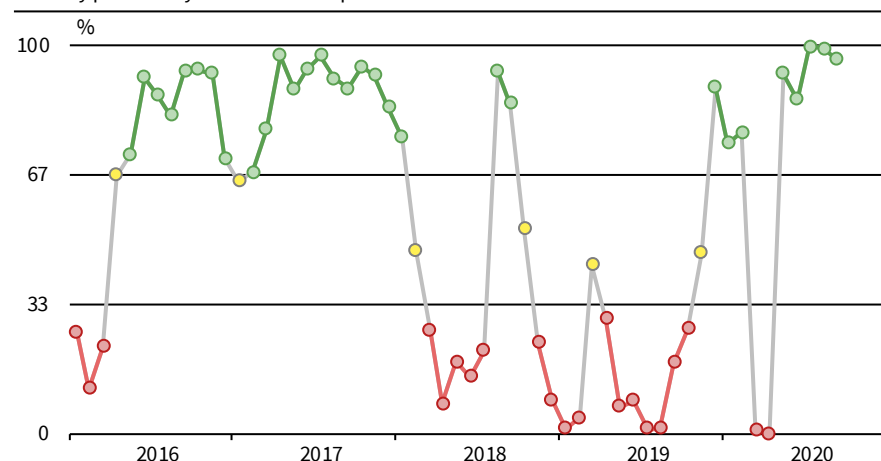
^a Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, September 2020.

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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, September 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.