

**ifo Business Climate Germany**  
**Results of the ifo Business Survey for December 2020**

## ifo Business Climate Index Rises

Munich, December 18, 2020 – Sentiment among German managers has improved. The ifo Business Climate Index rose to 92.1 points in December from 90.9 points<sup>1</sup> in November. Companies were more satisfied with their current business situation. They were also less skeptical about the coming six months. While the lockdown is hitting certain sectors hard, overall the German economy is showing resilience.

In *manufacturing*, the index rose markedly. Assessments of the current situation climbed to their highest level since January. Optimism regarding the coming six months also increased noticeably. This development was due in particular to the chemical industry and mechanical engineering.

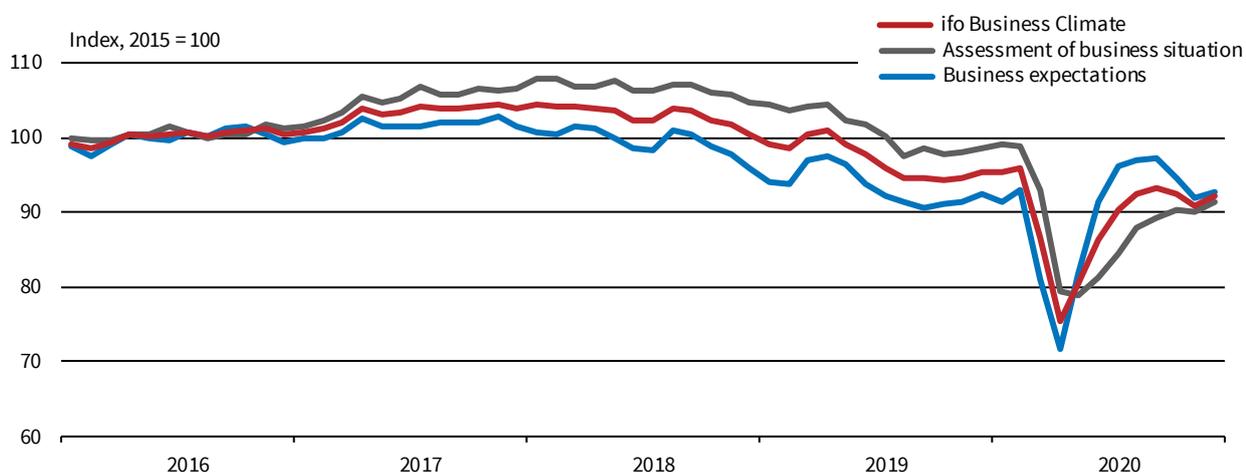
In the *service sector*, the business climate indicator recovered somewhat. Companies were more satisfied with their current situation. Their expectations were also a little less pessimistic. This development was largely thanks to transport and logistics companies and to real estate activities. However, the crisis is still hurting tour operators, accommodation services, and creative artists.

In *trade*, the business climate improved. Companies' assessments of their current situation were decidedly more positive. Their expectations also brightened somewhat. The rise of these indicators was driven primarily by wholesalers serving the manufacturing sector. In retail, the current situation improved, but expectations clouded over. A large majority of answers were received prior to the latest tightening of the lockdown.

In *construction*, the Business Climate Index remained unchanged. While assessments of the current situation were more positive, pessimism grew with regard to the coming half year.

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, December 2020.

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

Month/year	12/19	01/20	02/20	03/20	04/20	05/20	06/20	07/20	08/20	09/20	10/20	11/20	12/20
<b>Climate</b>	95.5	95.3	95.8	86.7	75.4	80.4	86.2	90.2	92.4	93.2	92.5	90.9	92.1
<b>Situation</b>	98.6	99.2	98.8	92.9	79.4	79.0	81.4	84.5	87.9	89.2	90.4	90.0	91.3
<b>Expectations</b>	92.4	91.5	92.9	80.9	71.7	81.8	91.3	96.3	97.1	97.3	94.7	91.8	92.8

Source: ifo Business Survey

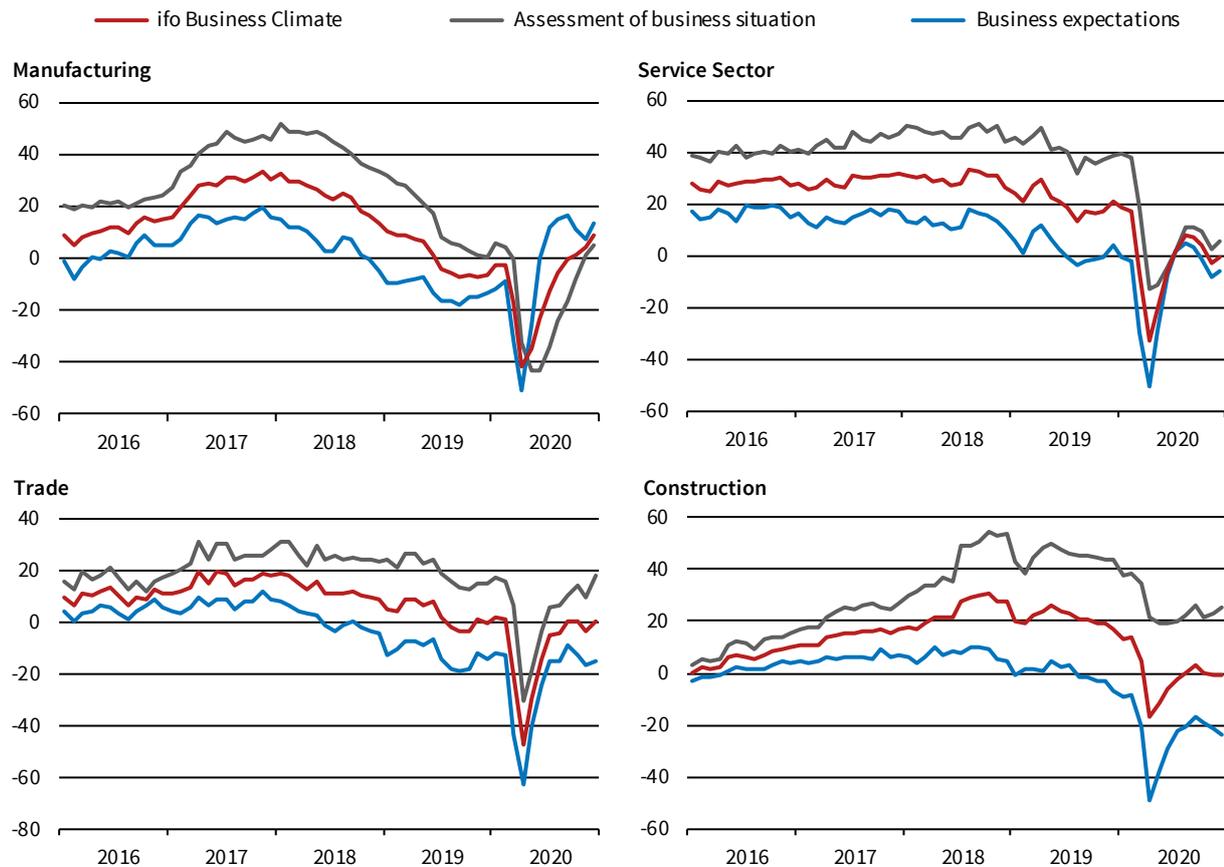
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For long time-series in Excel format, please see <https://www.ifo.de/en/umfragen/time-series>.

<sup>1</sup> Seasonally adjusted

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

Balances, seasonally adjusted



Source: ifo Business Survey, December 2020.

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

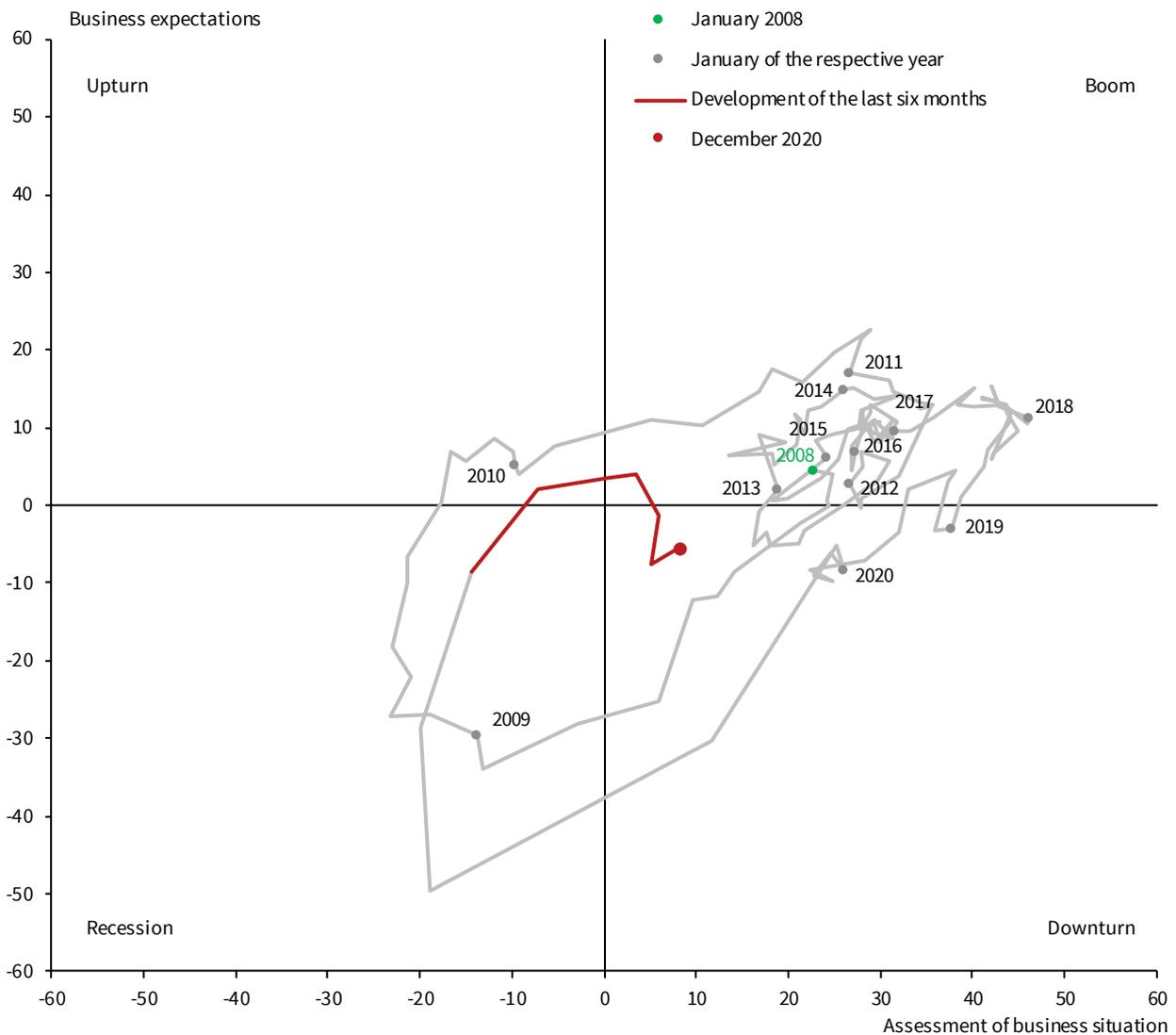
Month/year	12/19	01/20	02/20	03/20	04/20	05/20	06/20	07/20	08/20	09/20	10/20	11/20	12/20
<b>Germany</b>	8.7	8.2	9.4	-10.5	-35.1	-24.3	-11.5	-2.7	2.0	3.7	2.3	-1.3	1.2
<b>Manufacturing</b>	-6.8	-3.0	-2.3	-17.1	-41.9	-34.8	-23.3	-12.7	-5.7	-0.6	1.3	4.0	8.9
<b>Service sector</b>	20.7	18.4	16.9	-6.9	-32.7	-20.3	-6.1	2.0	7.6	6.9	3.9	-3.1	-0.4
<b>Trade</b>	-0.5	1.9	0.7	-20.6	-47.7	-30.1	-14.2	-5.2	-4.9	0.3	-0.1	-4.0	0.3
<b>Construction</b>	17.1	12.9	13.5	5.0	-17.0	-11.6	-6.5	-2.3	-0.2	3.2	0.1	-0.5	-0.5

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

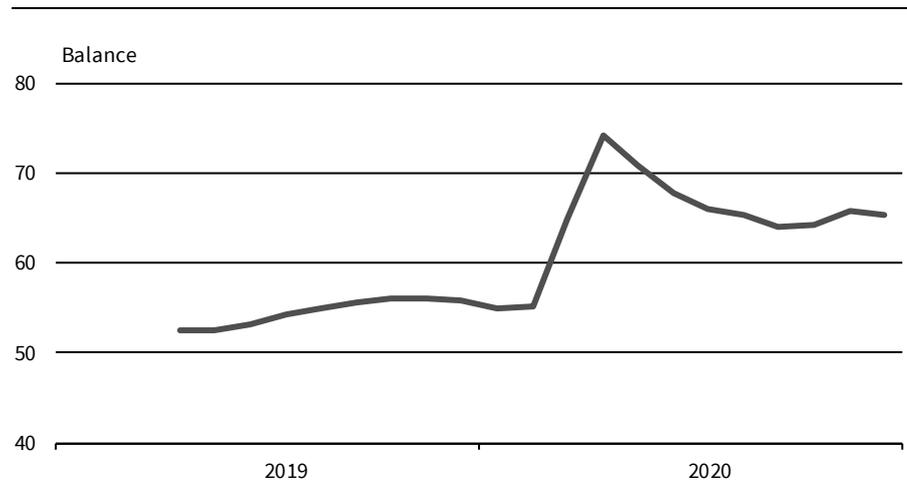


<sup>a</sup> Manufacturing, service sector, trade, and construction.  
 Source: ifo Business Survey, December 2020.

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 Business Uncertainty Germany<sup>a</sup>

Original values



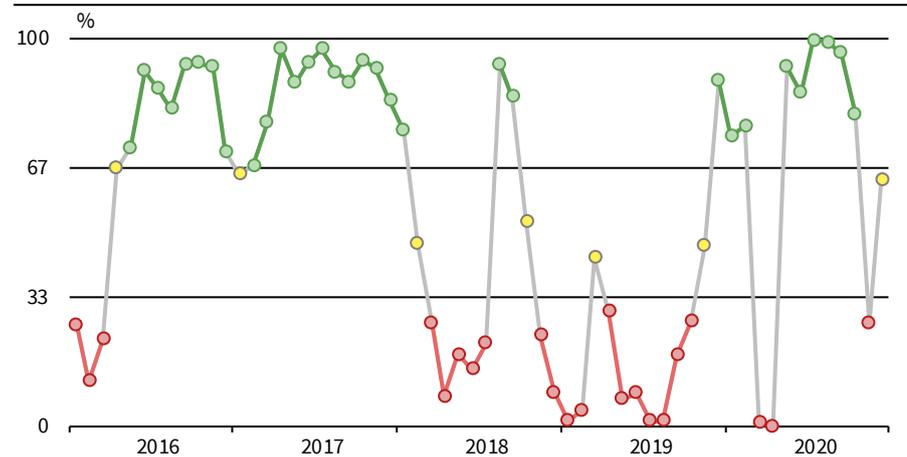
<sup>a</sup> Manufacturing, service sector, trade, and construction.  
 Source: ifo Business Survey, December 2020.

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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<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, December 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 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.