ifo Business Climate Index Rises Again

Munich, August 25, 2020 – Sentiment among German business leaders is continuing to improve. The ifo Business Climate Index rose from 90.4 points[1] in July to 92.6 points in August. Companies assessed their current business situation markedly more positively than last month. Their expectations were also slightly more optimistic. The German economy is on the road to recovery.

In *manufacturing*, the business climate improved considerably. Companies' assessments of their current situation jumped higher. Nevertheless, many industrial companies still consider their current business to be poor. The outlook for the coming months was again more optimistic. Order books are filling once more.
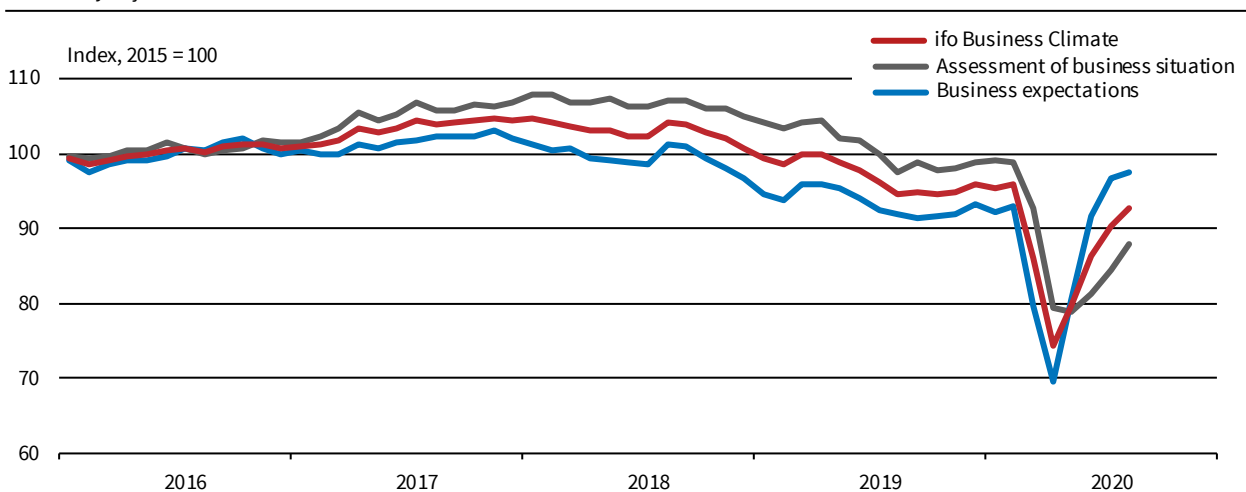
In the *service sector*, the Business Climate Index rose strongly. Service providers were decidedly happier with their current business situation. Their outlook for the coming six months also improved further.

In *trade*, the upward trend in the business climate flattened noticeably. Companies were somewhat more satisfied with their current situation. However, their pessimism regarding the coming months was almost unchanged. In wholesale, the business climate in fact fell back.

In *construction*, the business climate continues to improve. Construction companies were again happier with their current situation. However, their expectations are still pessimistic, albeit less so than last month.

Clemens Fuest
President of the ifo Institute

ifo Business Climate Germany[a]
Seasonally adjusted

Index, 2015 = 100

Legend: ifo Business Climate; Assessment of business situation; Business expectations

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

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

Month/year	08/19	09/19	10/19	11/19	12/19	01/20	02/20	03/20	04/20	05/20	06/20	07/20	08/20
Climate	94.6	94.9	94.7	94.9	96.0	95.5	95.8	86.1	74.4	79.7	86.3	90.4	92.6
Situation	97.6	98.7	97.8	98.0	98.8	99.1	98.8	92.8	79.4	78.9	81.3	84.5	87.9
Expectations	91.8	91.3	91.6	91.8	93.2	92.1	92.9	79.8	69.7	80.6	91.6	96.7	97.5

Source: ifo Business Survey   © ifo Institute

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
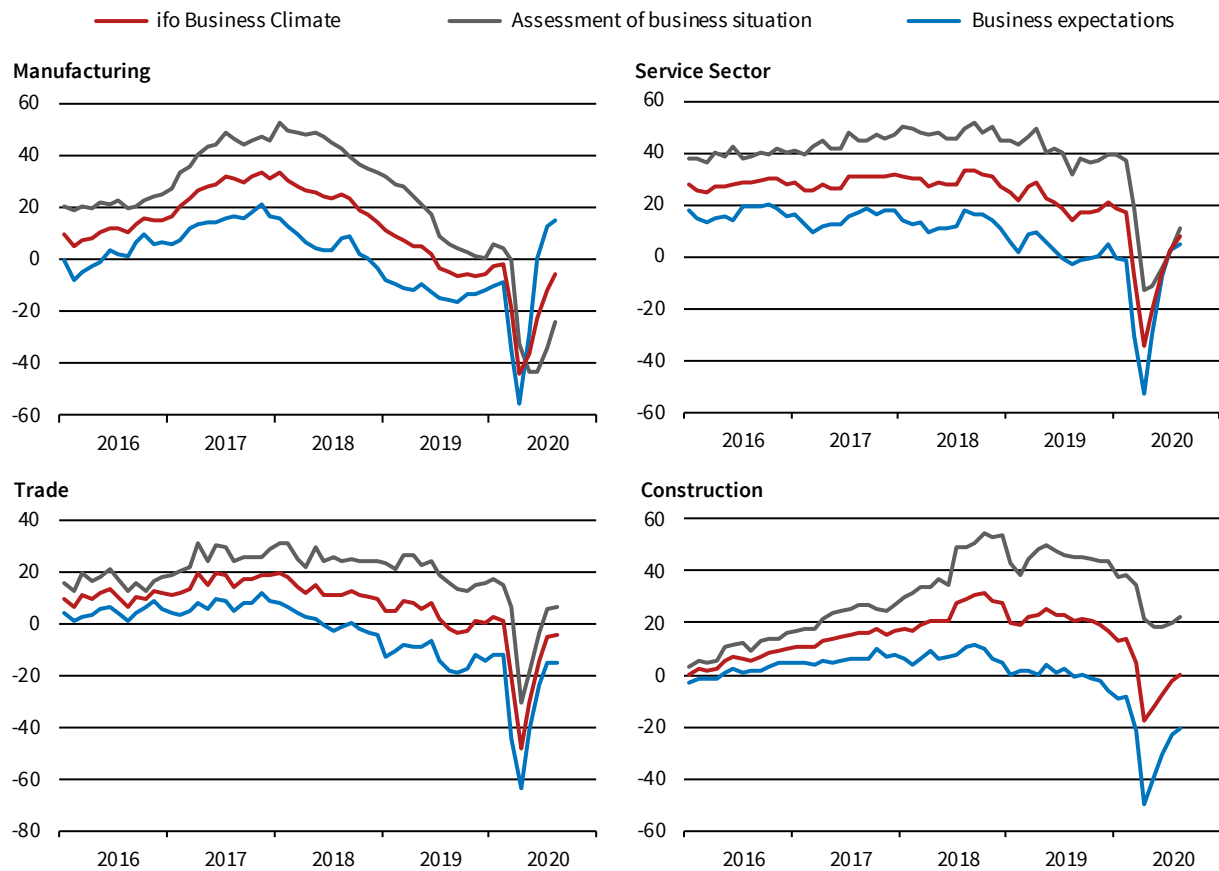
Source: ifo Business Survey, August 2020.   © ifo Institute

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

Month/year	08/19	09/19	10/19	11/19	12/19	01/20	02/20	03/20	04/20	05/20	06/20	07/20	08/20
Germany	6.9	7.5	7.0	7.4	9.8	8.9	9.4	-11.9	-37.4	-25.7	-11.3	-2.5	2.4
Manufacturing	-5.2	-6.5	-5.5	-6.4	-5.8	-2.4	-2.1	-18.5	-44.4	-36.0	-22.9	-12.1	-5.4
Service sector	13.6	17.3	16.9	17.5	21.0	18.6	17.1	-7.5	-34.1	-20.9	-5.9	2.1	7.8
Trade	-2.2	-3.5	-3.3	0.8	-0.1	2.0	0.8	-21.0	-48.4	-30.4	-14.2	-5.1	-4.8
Construction	21.0	21.4	20.4	19.5	17.2	13.1	13.6	4.8	-17.8	-12.5	-7.7	-2.5	0.0

Source: ifo Business Survey   © 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.

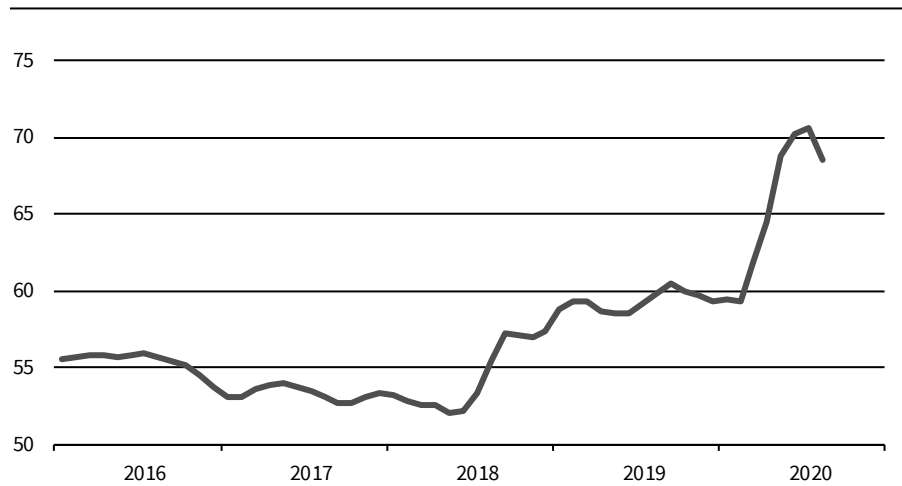## ifo Business Cycle Clock Germany[a]
Balances, seasonally adjusted
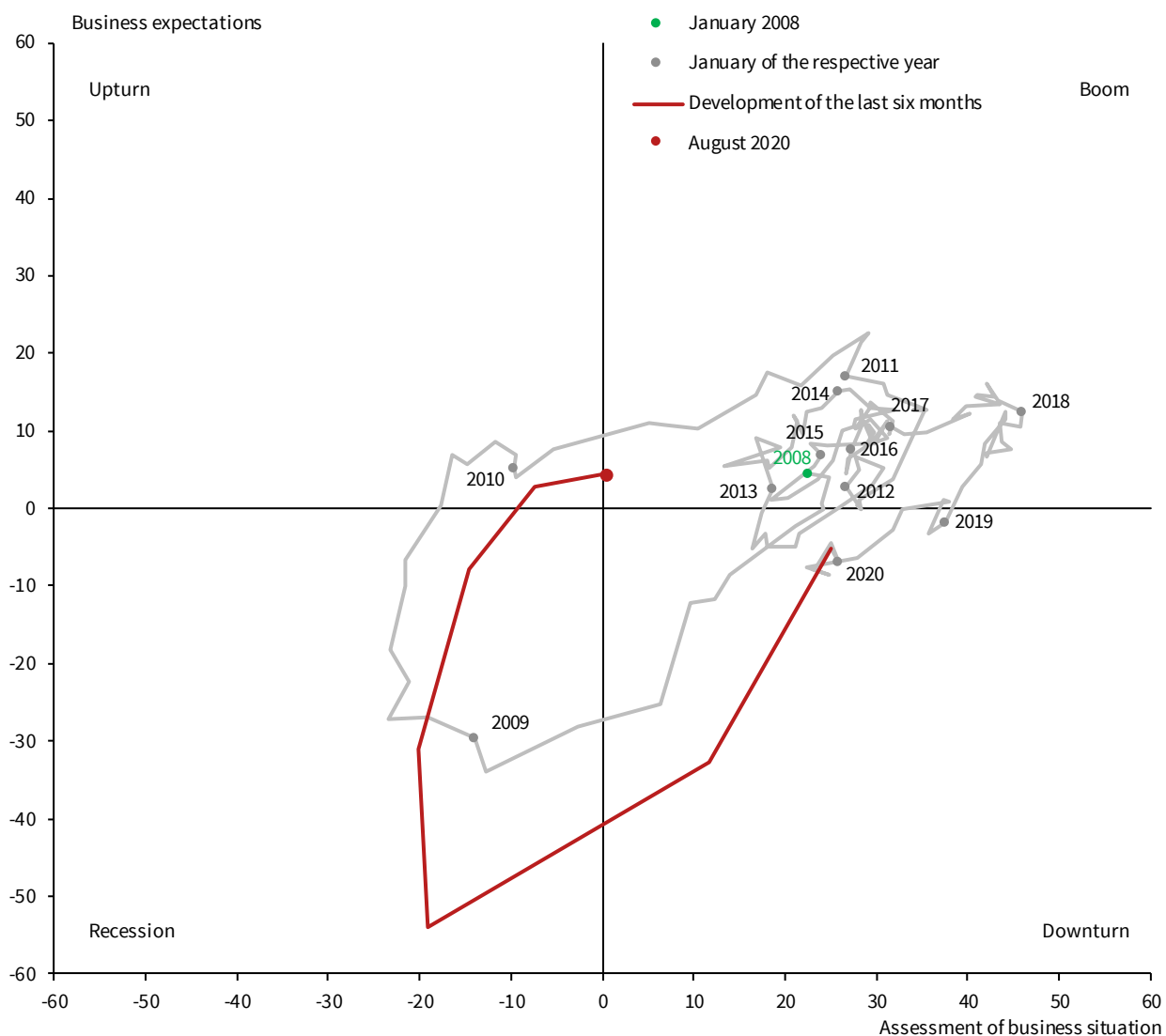
ª Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, August 2020.

© ifo Institute

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 Germanyᵃ

Seasonally adjusted and three months moving average

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

© ifo Institute

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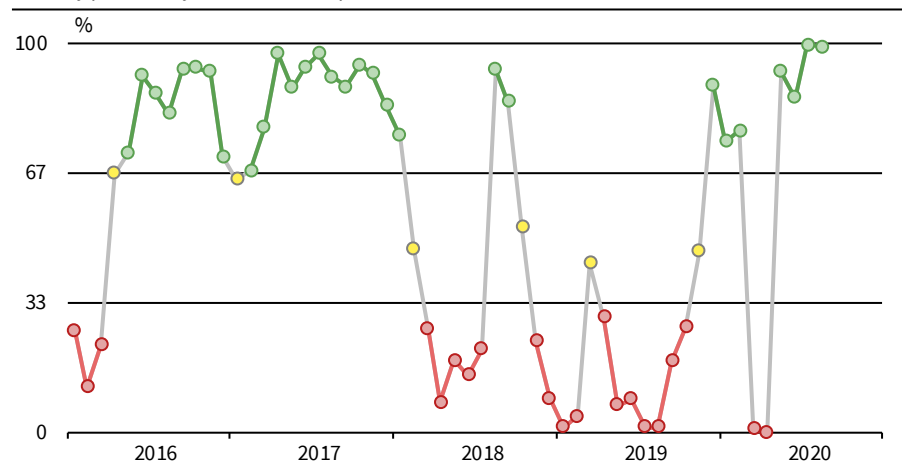
ᵃ Green = high, yellow = medium, red = low. Calculated on the basis of monthly movements in the ifo Business Climate Index Germany.
Source: ifo Business Survey, August 2020.

© ifo Institute

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.