

ifo Business Climate Germany
Results of the ifo Business Survey for August 2021

ifo Business Climate Index Has Dropped

Munich, August 25, 2021 – The mood in the German economy has clouded over again. In August, the ifo Business Climate Index fell to 99.4 points, after 100.7 in July.¹ This decline was due mainly to significantly less optimism in companies' expectations. Concerns are growing in the hospitality and tourism sectors in particular. By contrast, companies assessed their current situation as somewhat better than in the previous month. Supply bottlenecks for intermediate products in manufacturing and worries about rising infection numbers are putting a strain on the economy.

In *manufacturing*, the business climate was noticeably worse. Assessments of the current situation declined, but were still largely positive. The outlook for the coming months, however, took a clear dip, as the expectations indicator fell to its lowest level since November 2020. Companies also reported weaker demand.

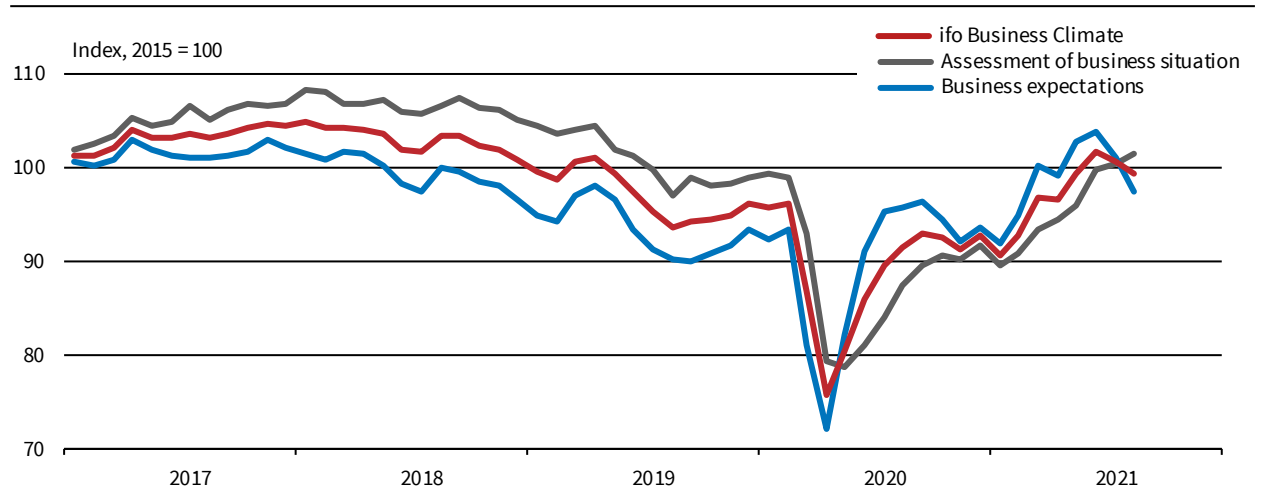
The business climate indicator in the *service sector* dropped as well. The optimism with regard to future business development has faded. However, companies still assess their current situation as much better than in the previous month.

The index fell in *trade* also. Companies were less satisfied with their current business situation, and their expectations also turned more pessimistic. Retail especially is apprehensive about the coming months.

In *construction*, the index rose. Companies here were somewhat more satisfied with their current business, and their expectations were also much brighter.

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, August 2021.

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

Month/year	08/20	09/20	10/20	11/20	12/20	01/21	02/21	03/21	04/21	05/21	06/21	07/21	08/21
Climate	91.5	92.9	92.6	91.2	92.7	90.7	92.8	96.8	96.7	99.3	101.8	100.7	99.4
Situation	87.4	89.6	90.7	90.3	91.7	89.5	90.8	93.3	94.4	95.9	99.8	100.4	101.4
Expectations	95.8	96.4	94.4	92.2	93.7	92.0	94.8	100.3	99.1	102.8	103.8	101.0	97.5

Source: ifo Business Survey

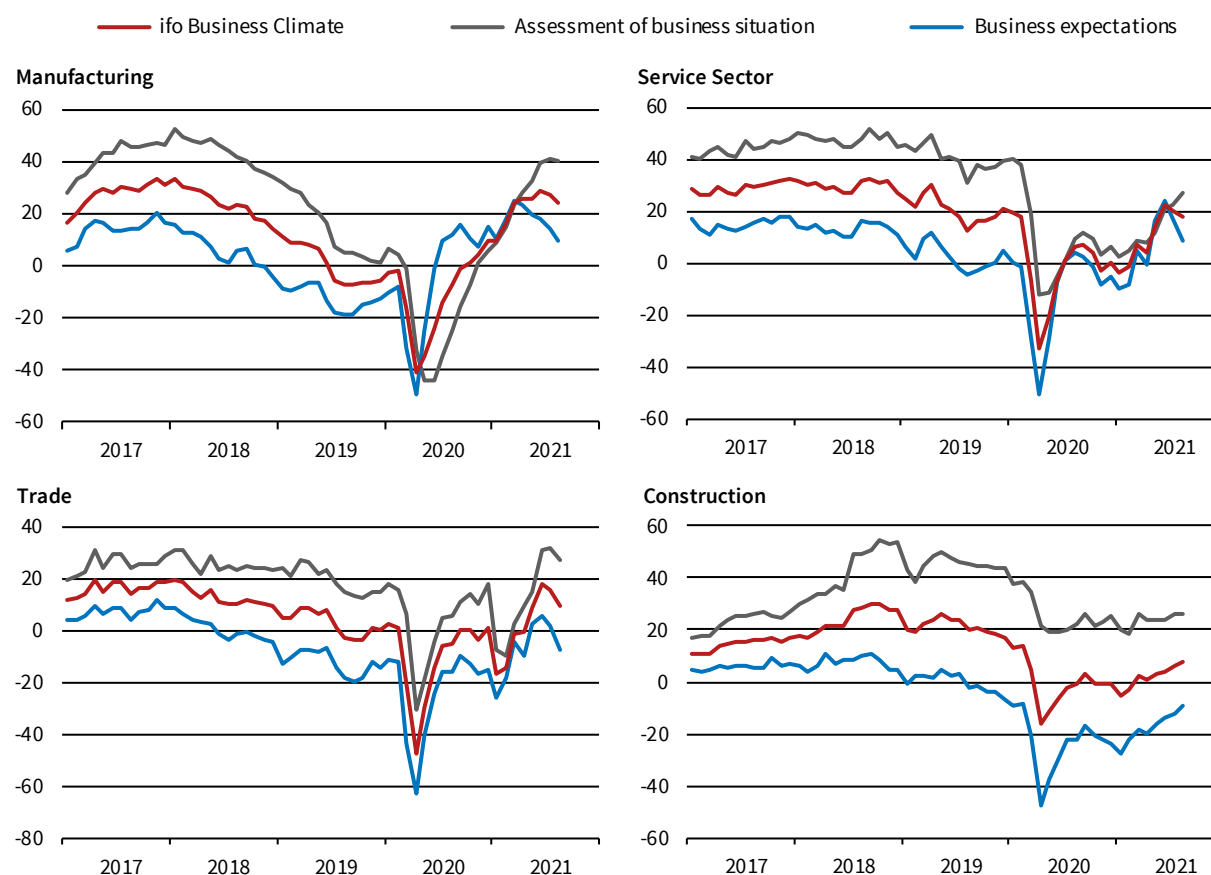
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For long time-series in Excel format, please see <https://www.ifo.de/en/umfragen/time-series>.

¹ Seasonally adjusted.

ifo Business Climate, Business Situation, and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, August 2021.

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

Month/year	08/20	09/20	10/20	11/20	12/20	01/21	02/21	03/21	04/21	05/21	06/21	07/21	08/21
Germany	0.0	3.1	2.3	-0.6	2.6	-1.7	2.9	11.5	11.4	17.0	22.5	20.1	17.3
Manufacturing	-7.4	-0.9	1.3	4.6	9.9	9.6	16.5	24.0	25.4	25.9	28.6	27.4	24.1
Service sector	6.5	6.7	4.0	-2.6	0.1	-3.8	-1.7	6.7	3.6	13.8	22.5	19.8	17.7
Trade	-5.4	0.2	-0.1	-3.8	0.6	-16.7	-14.3	-1.3	-0.4	8.5	17.9	15.8	9.0
Construction	-1.0	3.3	-0.5	-0.9	-0.7	-5.4	-2.7	2.6	0.8	3.1	4.2	6.0	7.8

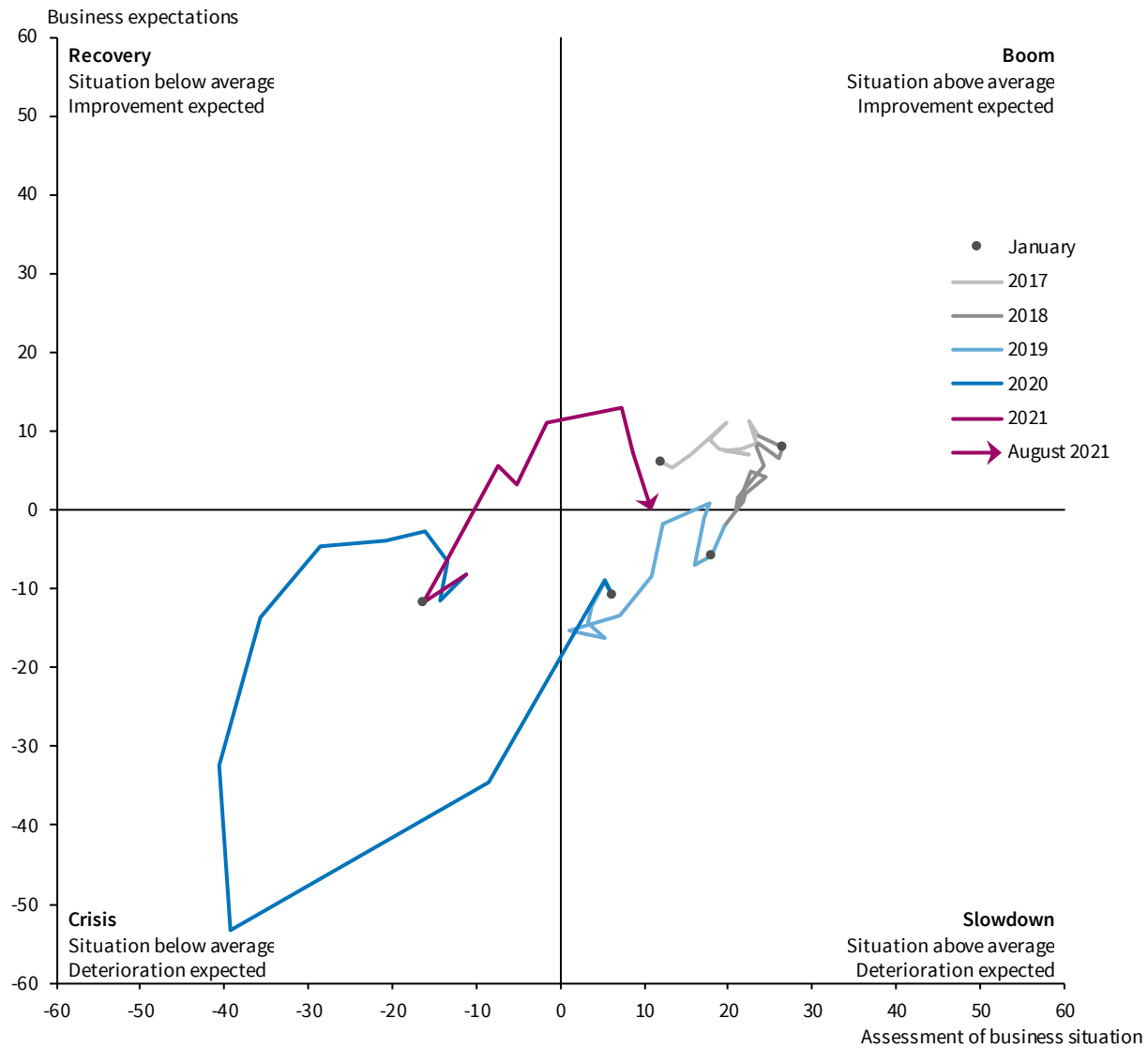
Source: ifo Business Survey, August 2021.

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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 adjusted for mean value, seasonally adjusted



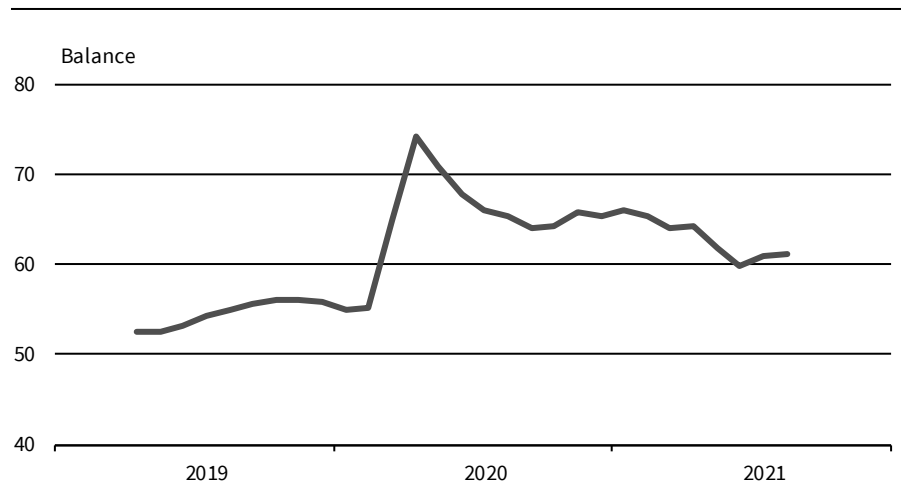
^a Manufacturing, service sector, trade, and construction.

Source: ifo Business Survey, August 2021.

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



^a Manufacturing, service sector, trade, and construction.

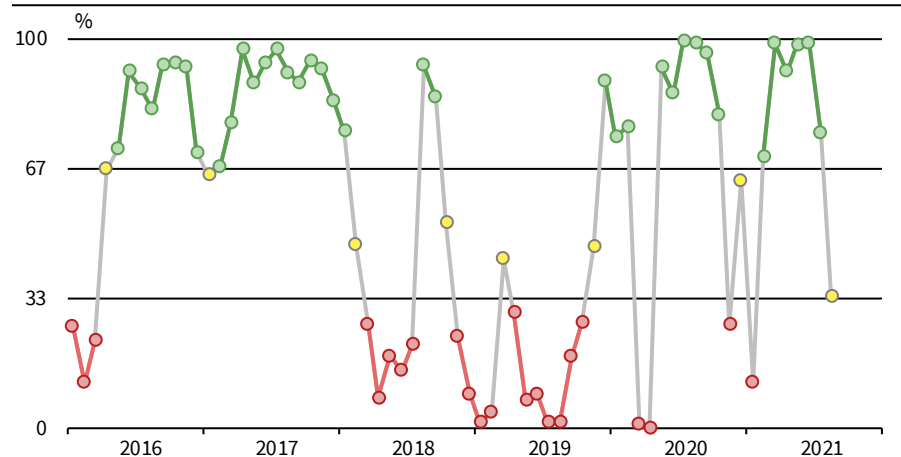
Source: ifo Business Survey, August 2021.

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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, August 2021.

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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.