

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

Manufacturing Weighs on ifo Business Climate

Munich, September 24, 2021 – Sentiment in the German economy has suffered another setback. The ifo Business Climate Index fell from 99.6 points in August¹ to 98.8 points in September. This is the third consecutive fall. Companies were less satisfied with their current business. They were also more skeptical about the coming months. Problems in the procurement of raw materials and intermediate products are putting the brakes on the German economy. Manufacturing is experiencing a bottleneck recession.

In *manufacturing*, the Business Climate Index fell sharply. Companies were noticeably less satisfied with their current business. Not since March 2020 have assessments fallen so far. Last spring's great optimism in expectations has almost completely evaporated. Order books are still relatively full, but order intake is leveling off.

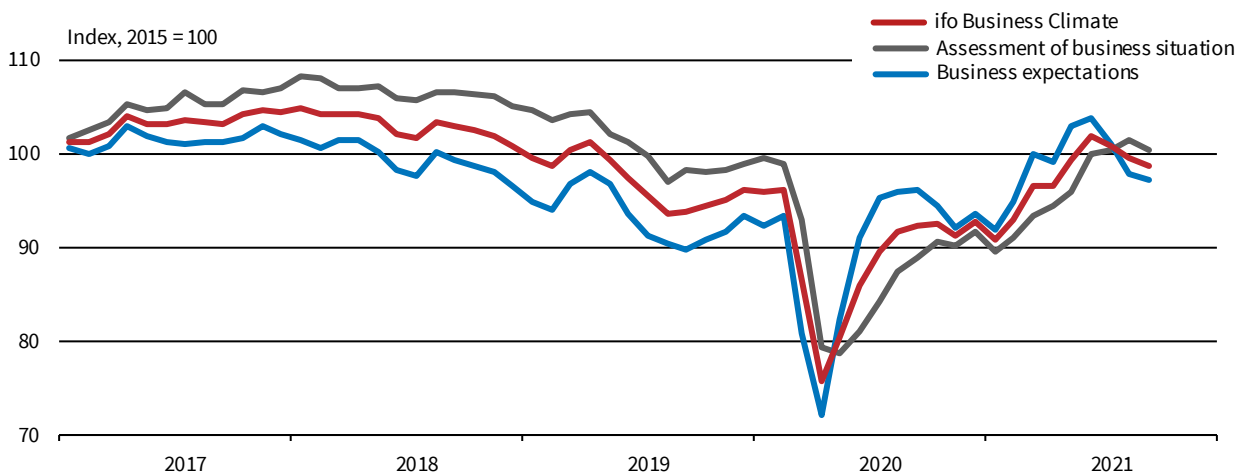
In the *service sector*, the business climate improved. This was due to companies' appreciably more confident expectations. Their assessments of the current situation, however, were slightly worse. In hospitality and tourism, a degree of optimism has returned after last month's major skepticism. In contrast, expectations in logistics deteriorated in parallel with manufacturing.

In *trade*, the index was almost unchanged. While businesses were a little more satisfied with their current situation, their pessimism concerning the coming months grew somewhat. A large majority of businesses reported supply problems with their orders.

In *construction*, the business climate improved markedly. Assessments of the current situation rose to their highest level since March 2020. Expectations, too, brightened considerably.

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 2021.

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

Month/year	09/20	10/20	11/20	12/20	01/21	02/21	03/21	04/21	05/21	06/21	07/21	08/21	09/21
Climate	92.4	92.6	91.3	92.7	90.8	92.9	96.7	96.7	99.4	101.9	100.8	99.6	98.8
Situation	88.9	90.7	90.3	91.7	89.5	91.0	93.4	94.4	95.9	99.9	100.4	101.4	100.4
Expectations	96.1	94.5	92.2	93.7	92.0	94.8	100.1	99.1	102.9	103.9	101.1	97.8	97.3

Source: ifo Business Survey, September 2021.

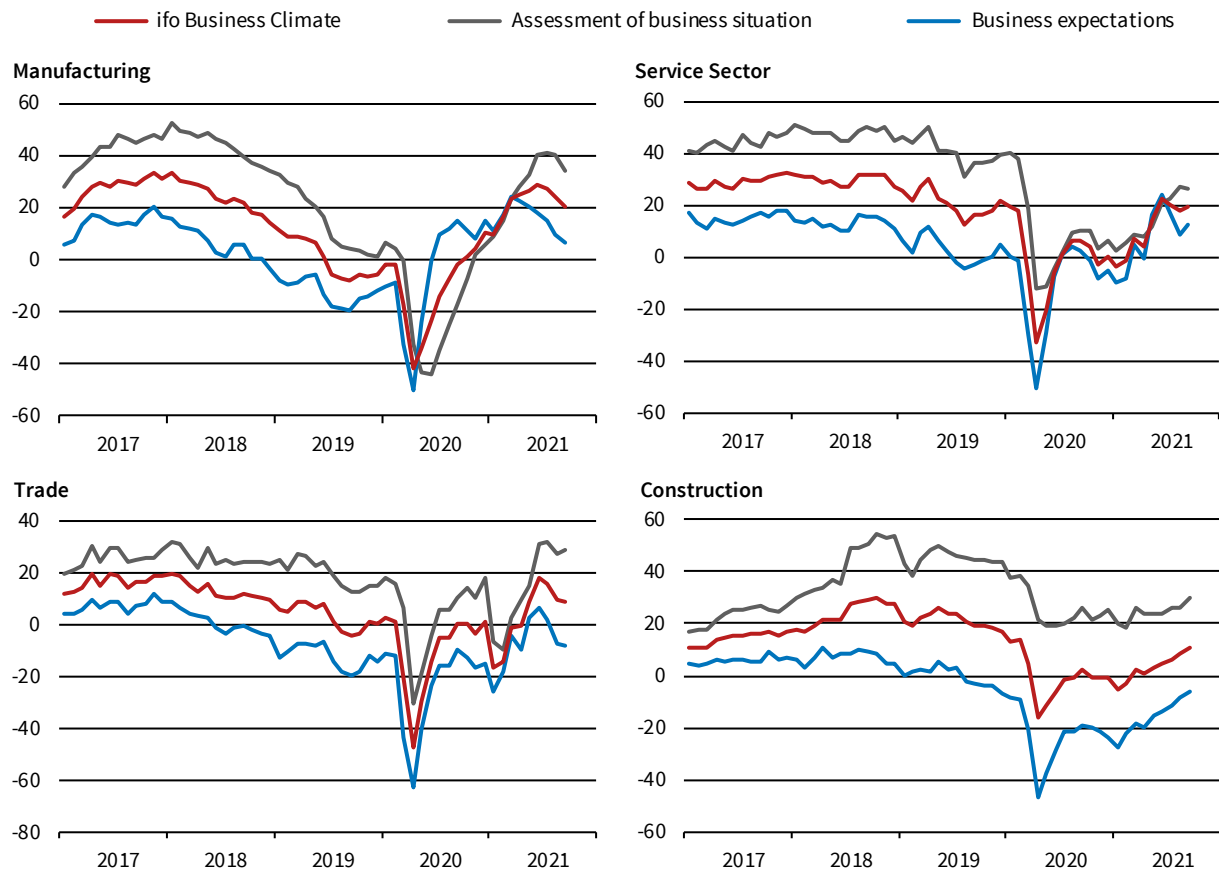
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For long time-series in Excel format, please see <https://www.ifo.de/en/umfragen/time-series>.

¹ Seasonally adjusted

ifo Business Climate, Business Situation, and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, September 2021.

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

Month/year	09/20	10/20	11/20	12/20	01/21	02/21	03/21	04/21	05/21	06/21	07/21	08/21	09/21
Germany	2.0	2.4	-0.5	2.6	-1.6	3.0	11.4	11.4	17.2	22.7	20.2	17.7	16.0
Manufacturing	-1.6	1.5	4.6	10.1	9.8	16.4	23.7	25.2	26.1	28.8	27.5	24.2	20.0
Service sector	6.0	4.0	-2.6	0.2	-3.7	-1.5	6.7	3.7	13.9	22.7	19.9	17.8	19.1
Trade	-0.2	-0.1	-3.8	0.6	-16.7	-14.3	-1.3	-0.4	8.5	17.9	15.8	9.0	8.9
Construction	2.2	-0.4	-0.8	-0.6	-5.2	-3.0	2.6	0.9	3.2	4.4	6.3	8.1	10.9

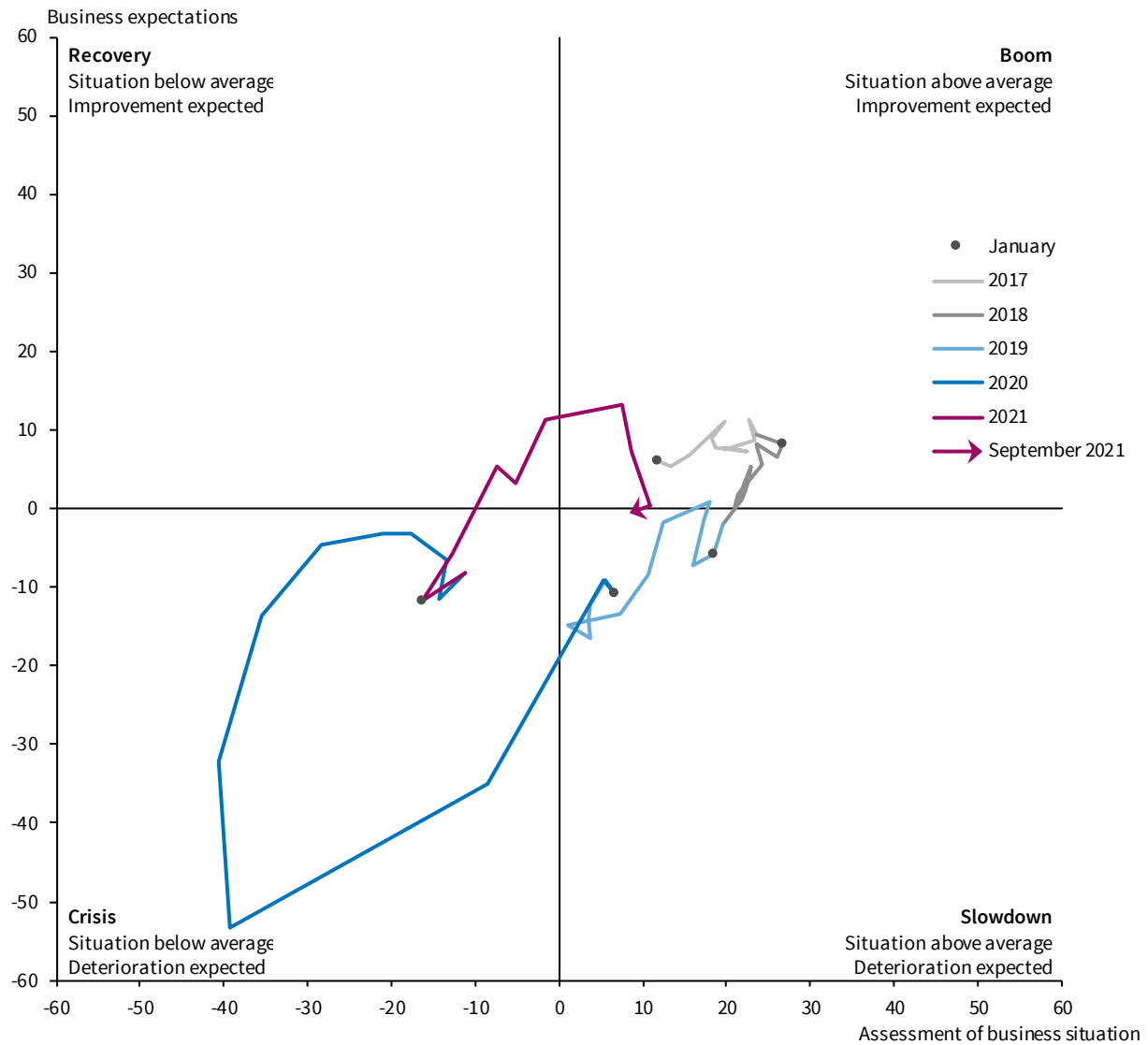
Source: ifo Business Survey, September 2021.

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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.

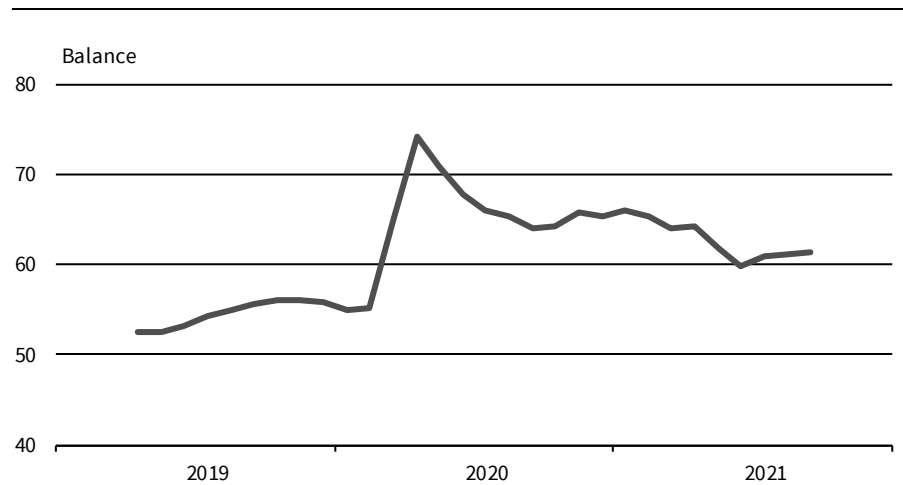
Source: ifo Business Survey, September 2021.

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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



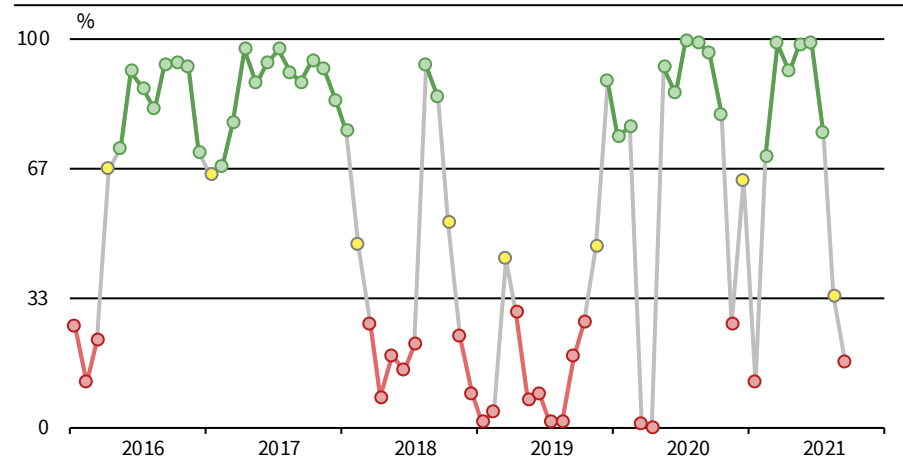
^a Manufacturing, service sector, trade, and construction.
 Source: ifo Business Survey, September 2021.

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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, September 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.