

ifo Business Climate Germany
Results of the ifo Business Survey for January 2022

ifo Business Climate Recovers

Munich, January 25, 2022 – Sentiment among German companies has brightened at the beginning of the year. The ifo Business Climate Index rose to 95.7 points in January, up from 94.8 points¹ in December. While companies' assessments of the current situation were somewhat less positive, their expectations improved considerably. The German economy is starting the new year with a glimmer of hope.

In *manufacturing*, the index jumped significantly higher. Companies were more satisfied with their current business. They were also more optimistic about the coming months. The situation regarding supply bottlenecks in intermediate products and raw materials eased a little. Capacity utilization rose from 84.9 percent to 85.6 percent.

In the *service sector*, the Business Climate Index rose again after falling for three consecutive months. Pessimism disappeared from companies' expectations. The tourism industry is looking forward to a promising summer. However, service providers were less satisfied with their current situation. Hospitality remains stuck in crisis.

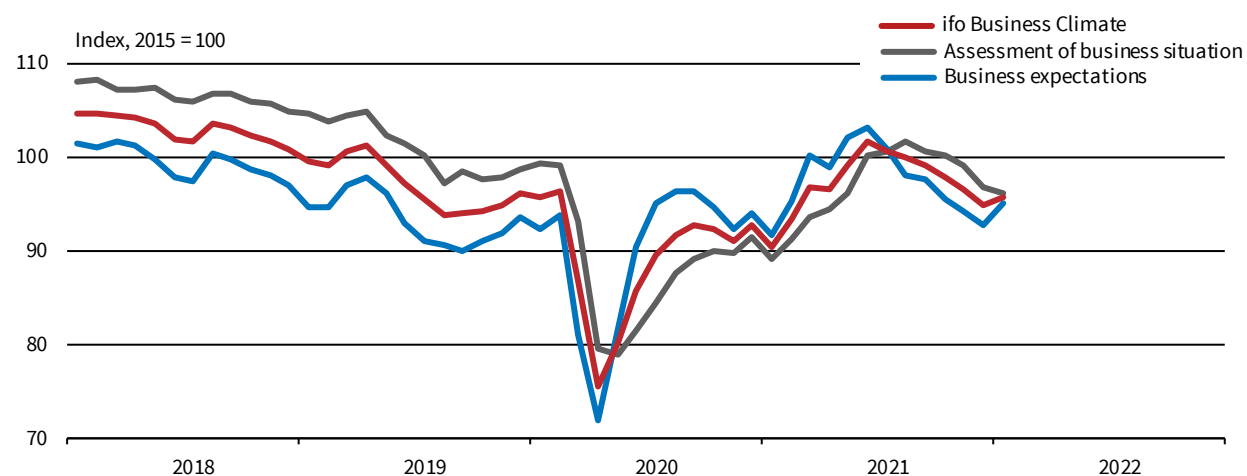
The business climate improved in *trade*, too. While companies' assessments of their current situation were slightly worse, their expectations brightened noticeably. Especially in retail, pessimism about the future was markedly reduced.

In *construction*, the index rose. Companies were somewhat more satisfied with their current business. The expectations indicator also rose. Material shortages eased further.

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, January 2022.

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

| Month/year | 01/21 | 02/21 | 03/21 | 04/21 | 05/21 | 06/21 | 07/21 | 08/21 | 09/21 | 10/21 | 11/21 | 12/21 | 01/22 |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Climate | 90.5 | 93.3 | 96.9 | 96.7 | 99.1 | 101.7 | 100.7 | 99.9 | 99.1 | 97.9 | 96.6 | 94.8 | 95.7 |
| Situation | 89.1 | 91.3 | 93.6 | 94.4 | 96.1 | 100.2 | 100.6 | 101.6 | 100.6 | 100.2 | 99.1 | 96.9 | 96.1 |
| Expectations | 91.8 | 95.4 | 100.2 | 98.9 | 102.2 | 103.2 | 100.8 | 98.1 | 97.7 | 95.6 | 94.2 | 92.7 | 95.2 |

Source: ifo Business Survey, January 2022.

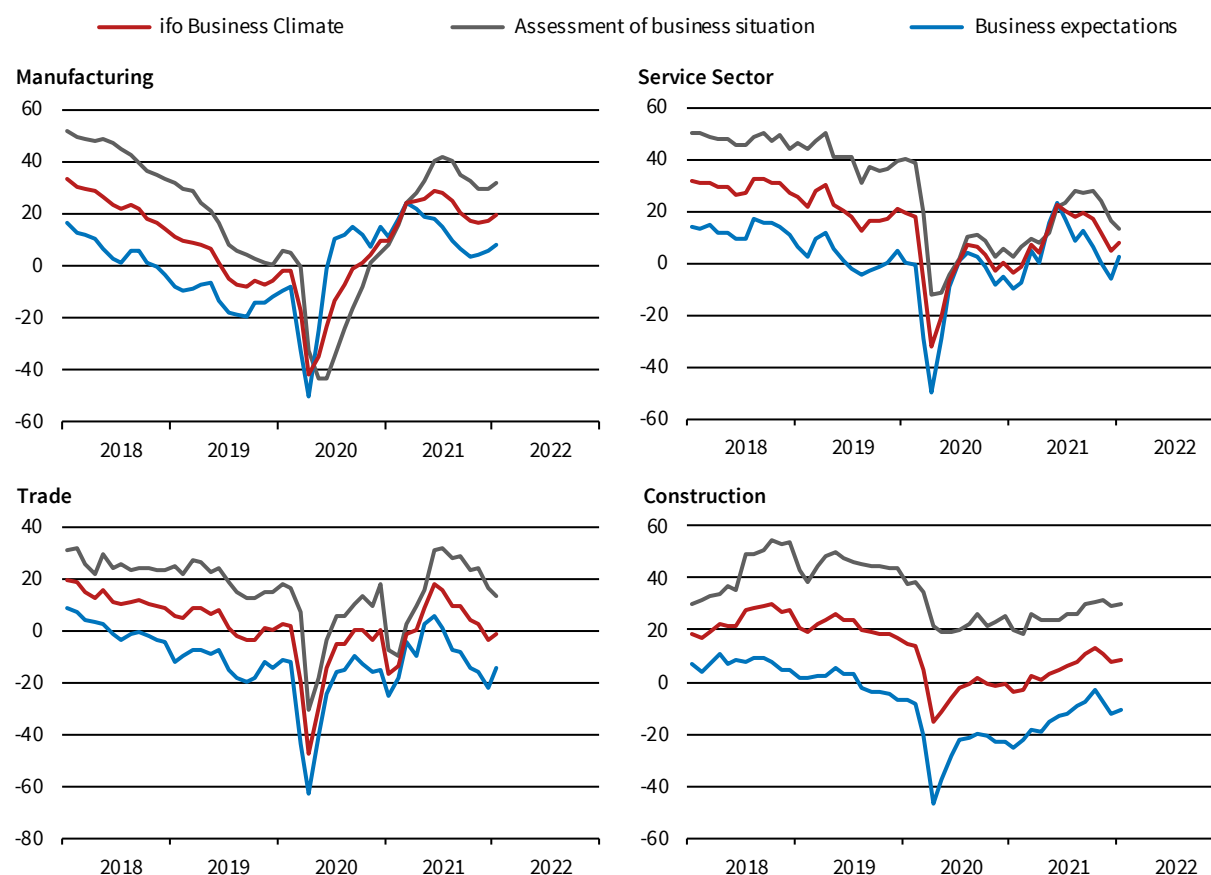
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For long time-series in Excel format, please see <https://www.ifo.de/en/umfragen/time-series>.

¹ Seasonally adjusted

ifo Business Climate, Business Situation, and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, January 2022.

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

| Month/year | 01/21 | 02/21 | 03/21 | 04/21 | 05/21 | 06/21 | 07/21 | 08/21 | 09/21 | 10/21 | 11/21 | 12/21 | 01/22 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Germany | -2.2 | 4.0 | 11.7 | 11.3 | 16.7 | 22.3 | 20.2 | 18.3 | 16.6 | 14.0 | 11.2 | 7.2 | 9.1 |
| Manufacturing | 9.5 | 16.8 | 24.0 | 25.0 | 25.8 | 29.0 | 27.7 | 24.7 | 20.1 | 17.6 | 16.7 | 17.4 | 19.9 |
| Service sector | -3.9 | -1.1 | 7.0 | 3.9 | 13.8 | 22.5 | 19.8 | 18.1 | 19.4 | 16.7 | 11.7 | 4.6 | 7.7 |
| Trade | -16.8 | -14.1 | -1.1 | -0.3 | 8.5 | 17.9 | 15.8 | 9.2 | 9.1 | 3.8 | 2.7 | -4.1 | -1.3 |
| Construction | -3.8 | -2.8 | 2.6 | 1.1 | 3.3 | 4.5 | 6.1 | 8.0 | 10.4 | 13.1 | 11.1 | 7.6 | 8.7 |

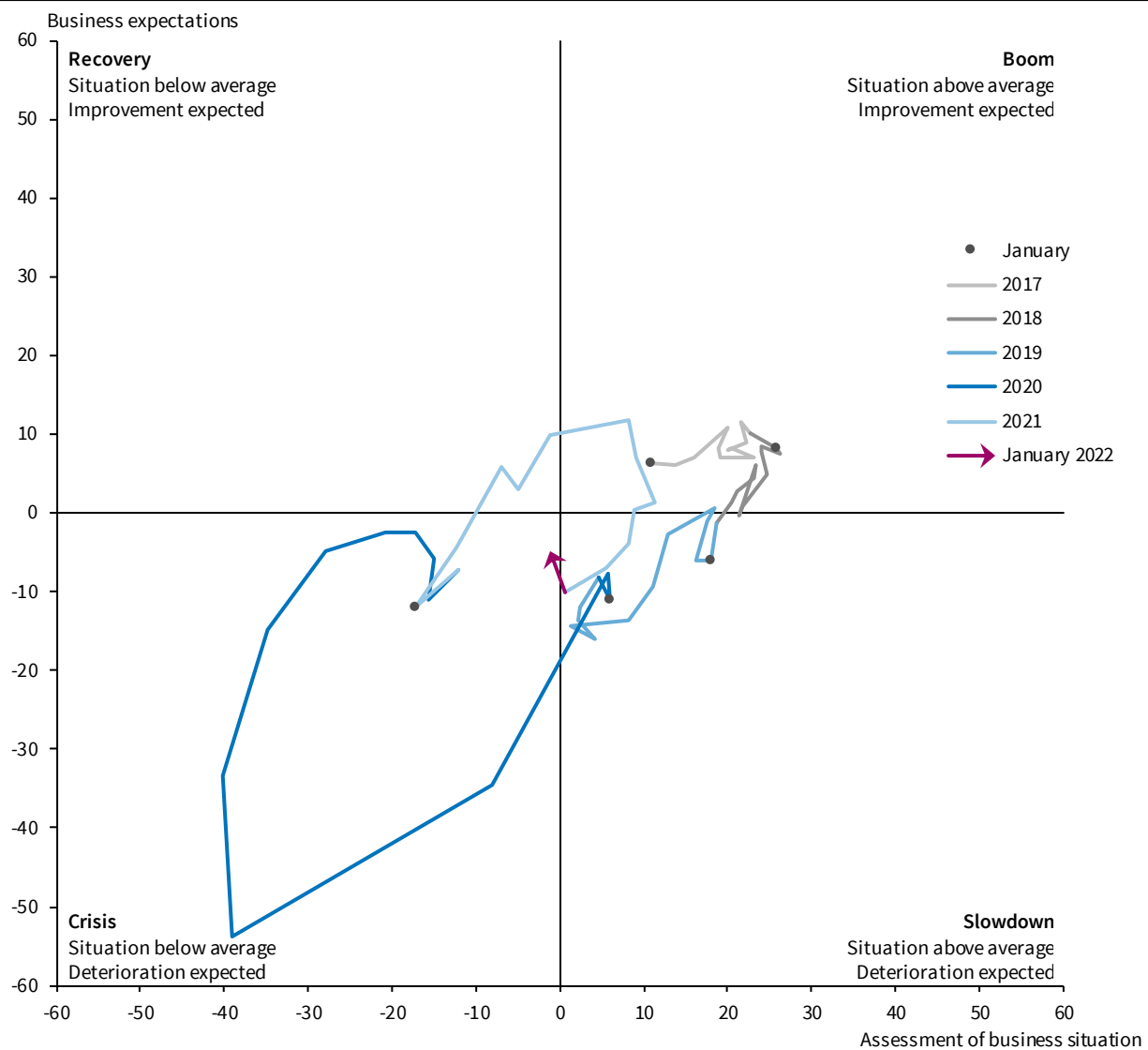
Source: ifo Business Survey, January 2022.

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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

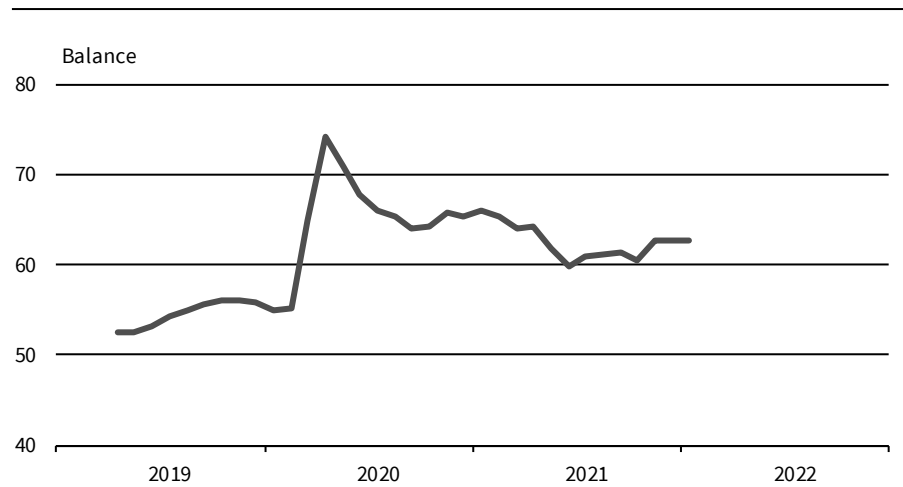


^a Manufacturing, service sector, trade, and construction.
 Source: ifo Business Survey, January 2022.

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



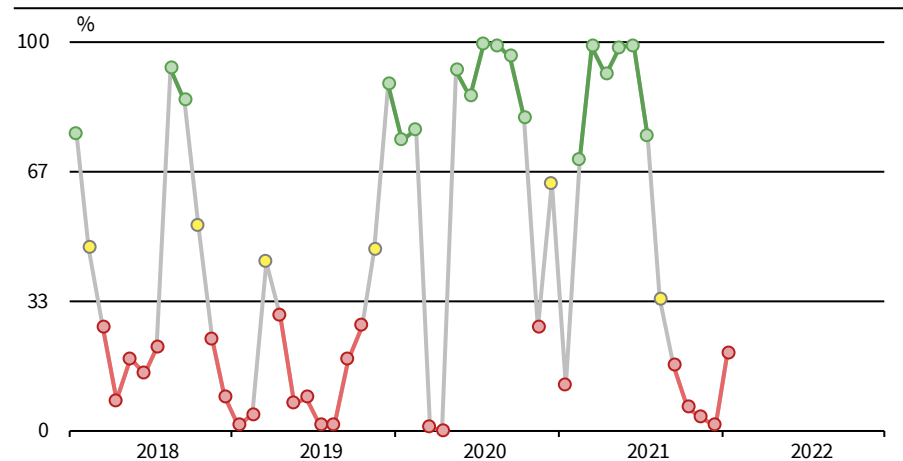
^a Manufacturing, service sector, trade, and construction.
 Source: ifo Business Survey, January 2022.

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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, January 2022.

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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.