

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

ifo Business Climate Index Rises

Munich, May 23, 2022 – Sentiment in the German economy has brightened. The ifo Business Climate Index rose to 93.0 points in May, after 91.9 points¹ in April. The companies were above all much more satisfied with their current business. In contrast, expectations barely changed, with companies remaining skeptical. The German economy has proven itself resilient in the face of inflation concerns, material bottlenecks, and the war in Ukraine. There are currently no observable signs of a recession.

In *manufacturing*, the index increased markedly. Companies assessed their current situation as somewhat better, and their expectations rose considerably as well. However, they are still skeptical with regard to the coming months. Demand slowed down significantly and incoming orders declined.

The business climate in the *service sector* improved. Service providers were much more satisfied with their current business. The last larger rise in this indicator was observed in June 2021. Expectations, however, turned more pessimistic. Transport and logistics companies in particular have concerns.

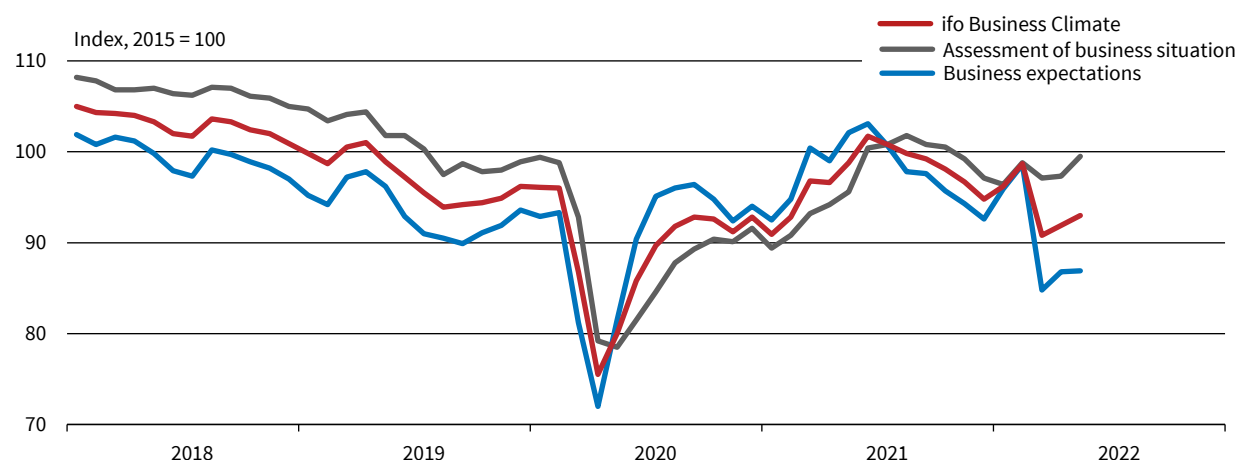
The index in *trade* rose again after two consecutive declines. Assessments of the current situation in particular improved. Expectations tended somewhat upward as well, although were still clearly pessimistic.

In *construction*, the business climate has recovered somewhat from its slump in April, driven by an improvement in expectations. Assessments of current business were also slightly better. Nonetheless, the majority of companies are still pessimistic.

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, May 2022.

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

Month/year	05/21	06/21	07/21	08/21	09/21	10/21	11/21	12/21	01/22	02/22	03/22	04/22	05/22
Climate	98.8	101.7	100.8	99.8	99.2	98.1	96.7	94.8	96.2	98.7	90.8	91.9	93.0
Situation	95.6	100.4	100.8	101.8	100.8	100.5	99.2	97.1	96.4	98.8	97.1	97.3	99.5
Expectations	102.1	103.1	100.7	97.8	97.6	95.7	94.3	92.6	95.9	98.6	84.8	86.8	86.9

Source: ifo Business Survey, May 2022

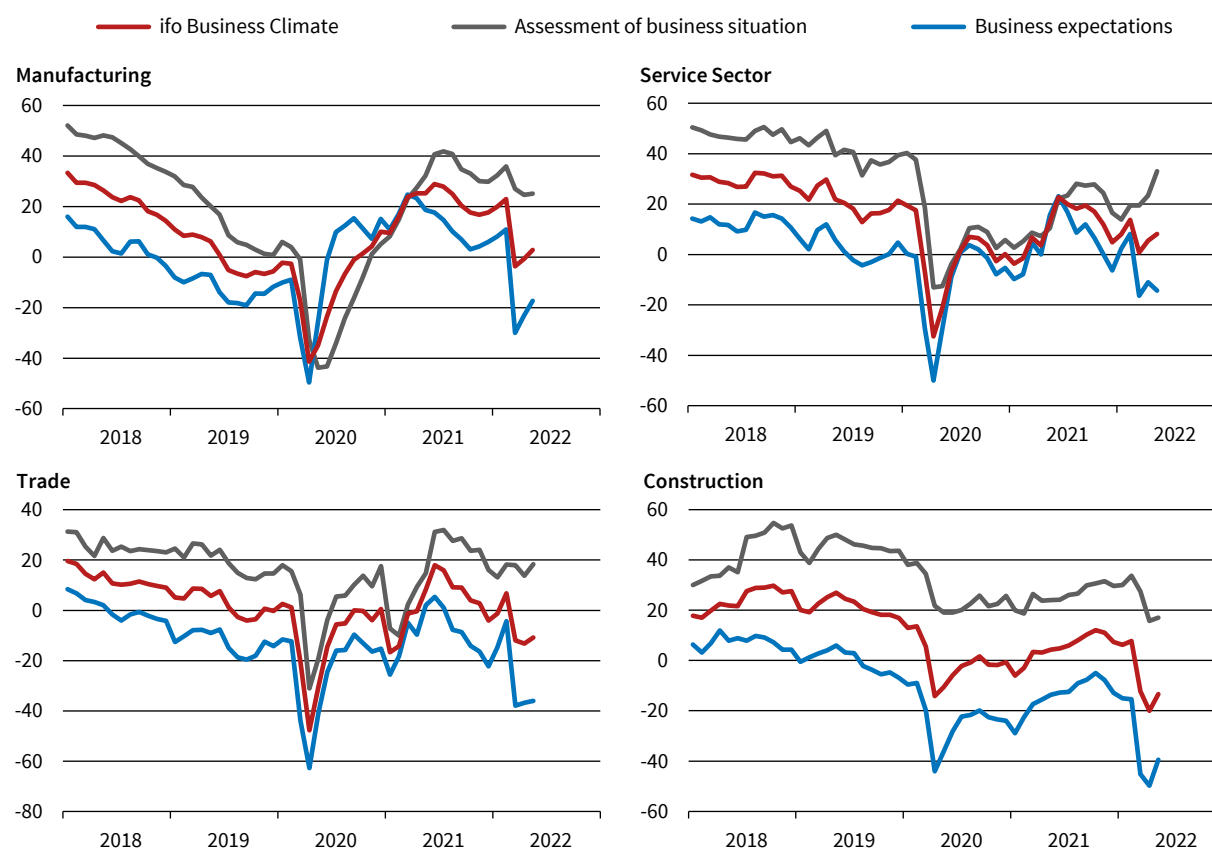
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For long time-series in Excel format, please see <https://www.ifo.de/en/umfragen/time-series>.

¹ Seasonally adjusted

ifo Business Climate, Business Situation, and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, May 2022.

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

Month/year	05/21	06/21	07/21	08/21	09/21	10/21	11/21	12/21	01/22	02/22	03/22	04/22	05/22
Germany	16.0	22.4	20.3	18.2	16.8	14.4	11.4	7.3	10.3	15.7	-1.6	0.9	3.3
Manufacturing	25.3	28.9	27.9	25.0	20.4	17.6	16.8	17.6	19.9	23.0	-3.6	-0.7	2.8
Service sector	13.0	22.7	20.0	18.2	19.5	17.0	12.0	4.8	8.0	13.7	0.8	5.5	8.1
Trade	8.3	17.9	15.9	9.2	9.1	3.9	2.8	-4.0	-1.2	6.7	-12.0	-13.2	-10.8
Construction	4.3	4.8	5.9	8.0	10.3	12.1	11.0	7.3	6.2	7.7	-12.3	-20.0	-13.4

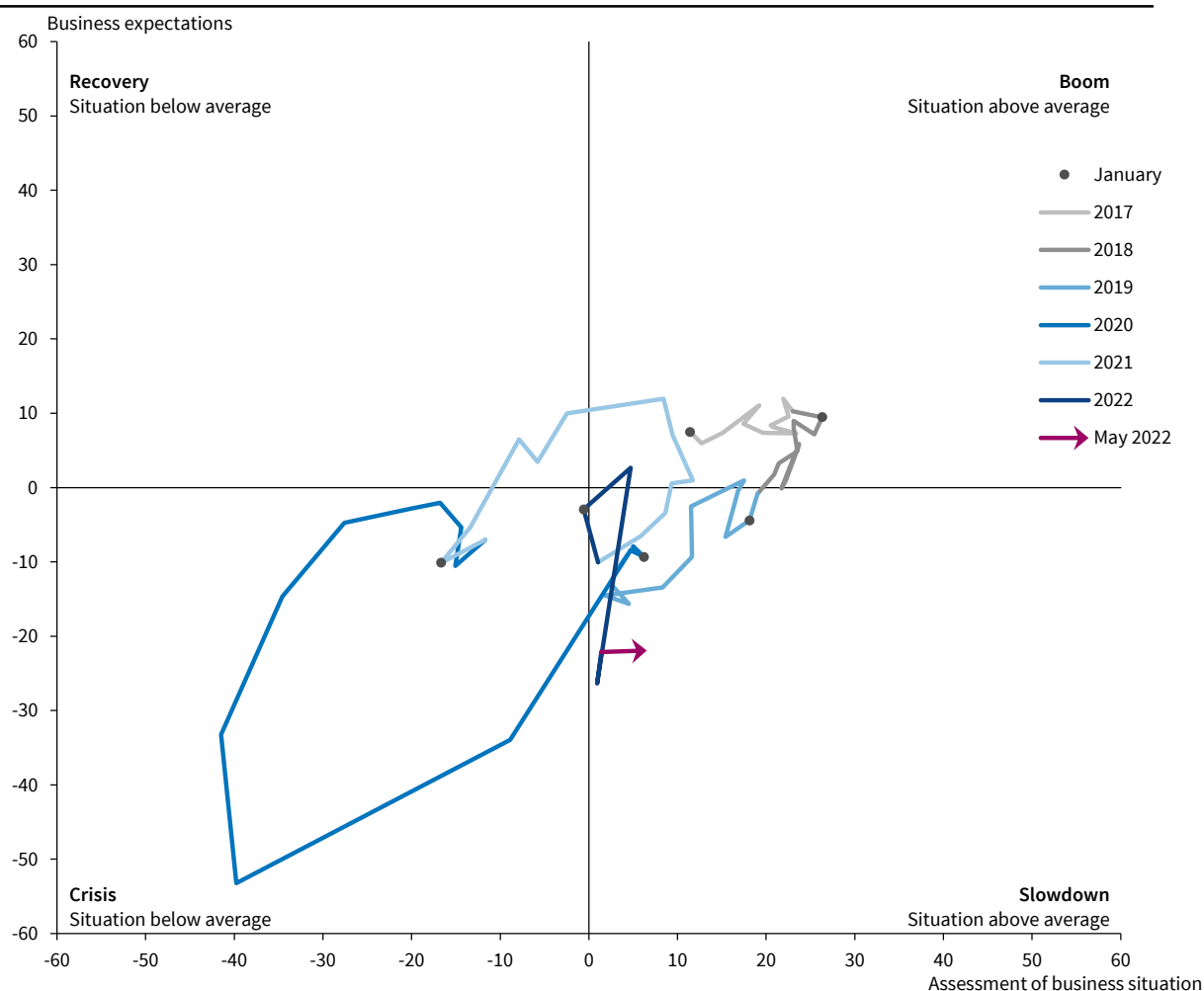
Source: ifo Business Survey, May 2022.

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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



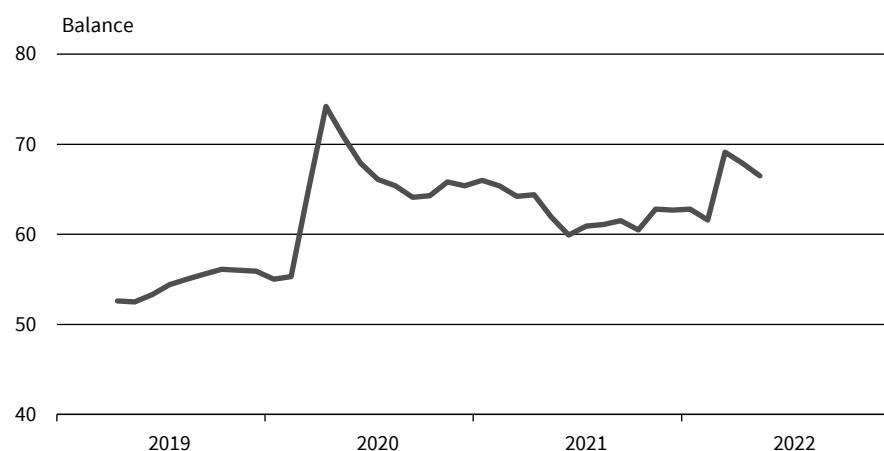
^a Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, May 2022.

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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



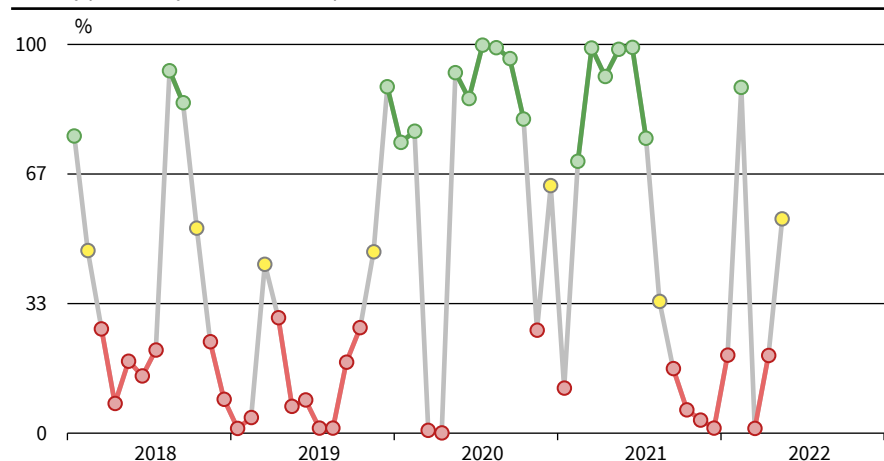
^a Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, May 2022.

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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, May 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.