

ifo Business Climate Index Edges Downwards

Munich, 25 August 2017 – The ifo Business Climate Index edged downwards from 116.0 points last month to 115.9 points in August. But sentiment among German businesses remains very strong. The decline was due to slightly less positive assessments of the current business situation. Companies' short-term business outlook, by contrast, improved. Germany's economy remains on track for growth.

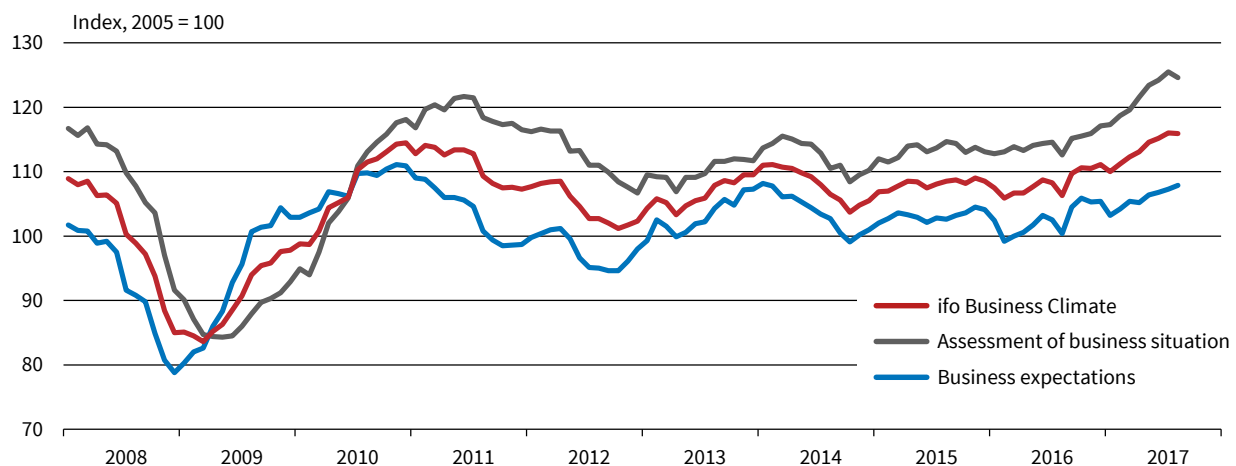
In *manufacturing* the index once again broke last month's record. Companies were slightly less satisfied with their current business situation, which nevertheless remains strong. They expressed greater optimism about the short-term outlook. In the automotive sector cartel allegations and the diesel affair have not been reflected in the survey results to date, with the business climate index remaining at a very high level.

In *wholesaling* the business climate deteriorated slightly. This was due to markedly poorer assessments of the current business situation. Business expectations, by contrast, were adjusted slightly upwards. In *retailing* the index dropped significantly. Retailers were clearly less satisfied with their current business situation. Their optimism about the short-term business outlook also waned. Car dealers were largely responsible for the downswing.

In *construction* the index continued its record-breaking run. Contractors were far more satisfied with their current business situation. They also expect business to pick up in the months ahead.

Clemens Fuest
 President of the ifo Institute

ifo Business Climate for Industry and Trade^a Seasonally adjusted



^a Manufacturing, construction, wholesaling and retailing.
 Source: ifo Business Survey, August 2017.

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ifo Business Climate for Industry and Trade (Index, 2005 = 100, seasonally adjusted)

Month/year	08/16	09/16	10/16	11/16	12/16	01/17	02/17	03/17	04/17	05/17	06/17	07/17	08/17
Climate	106.3	109.7	110.6	110.5	111.1	110.0	111.2	112.3	113.1	114.6	115.2	116.0	115.9
Situation	112.6	115.2	115.5	115.9	117.1	117.3	118.7	119.6	121.6	123.4	124.2	125.5	124.6
Expectations	100.4	104.5	105.9	105.3	105.4	103.2	104.2	105.4	105.2	106.4	106.8	107.3	107.9

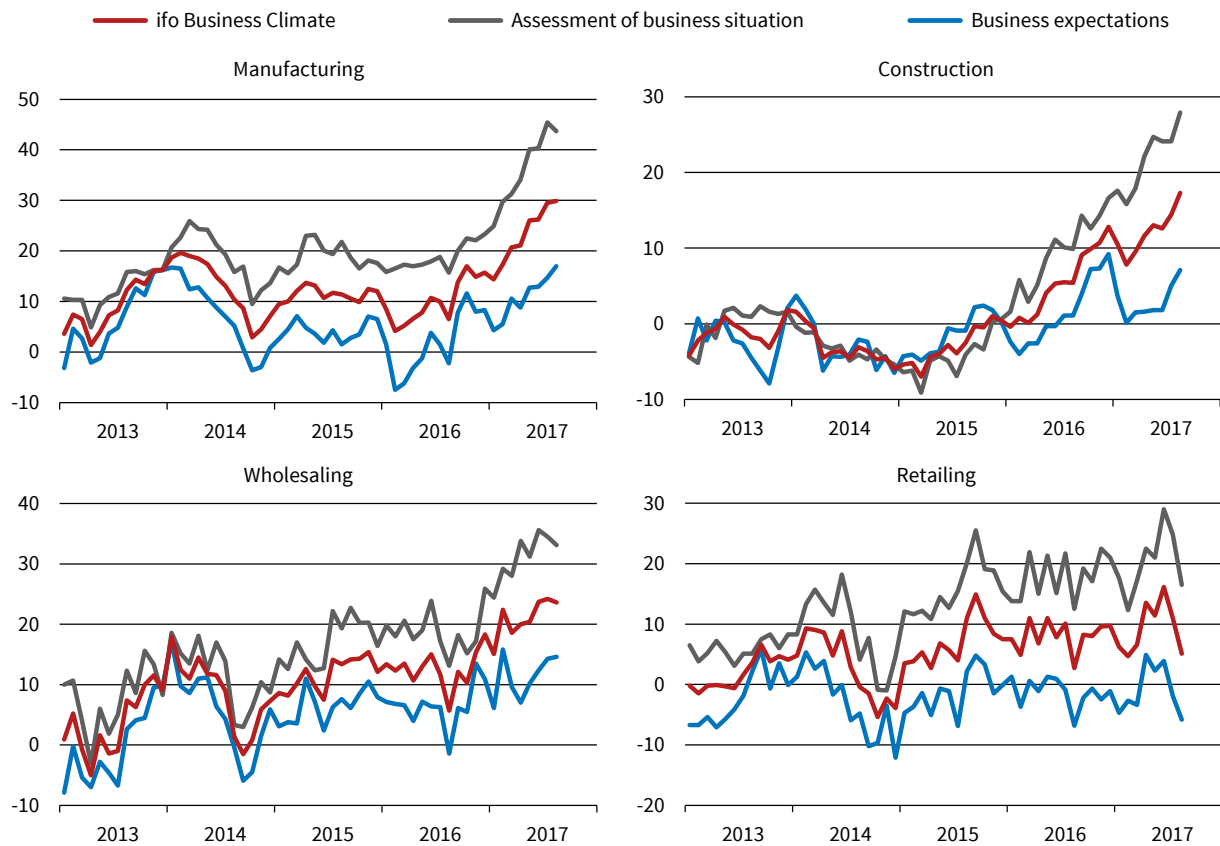
Source: ifo Business Survey.

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For long time-series in Excel format consult www.cesifo-group.de/langereihen.

ifo Business Climate and Business Situation and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, August 2017.

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ifo Business Climate by Sector (Balances, seasonally adjusted)

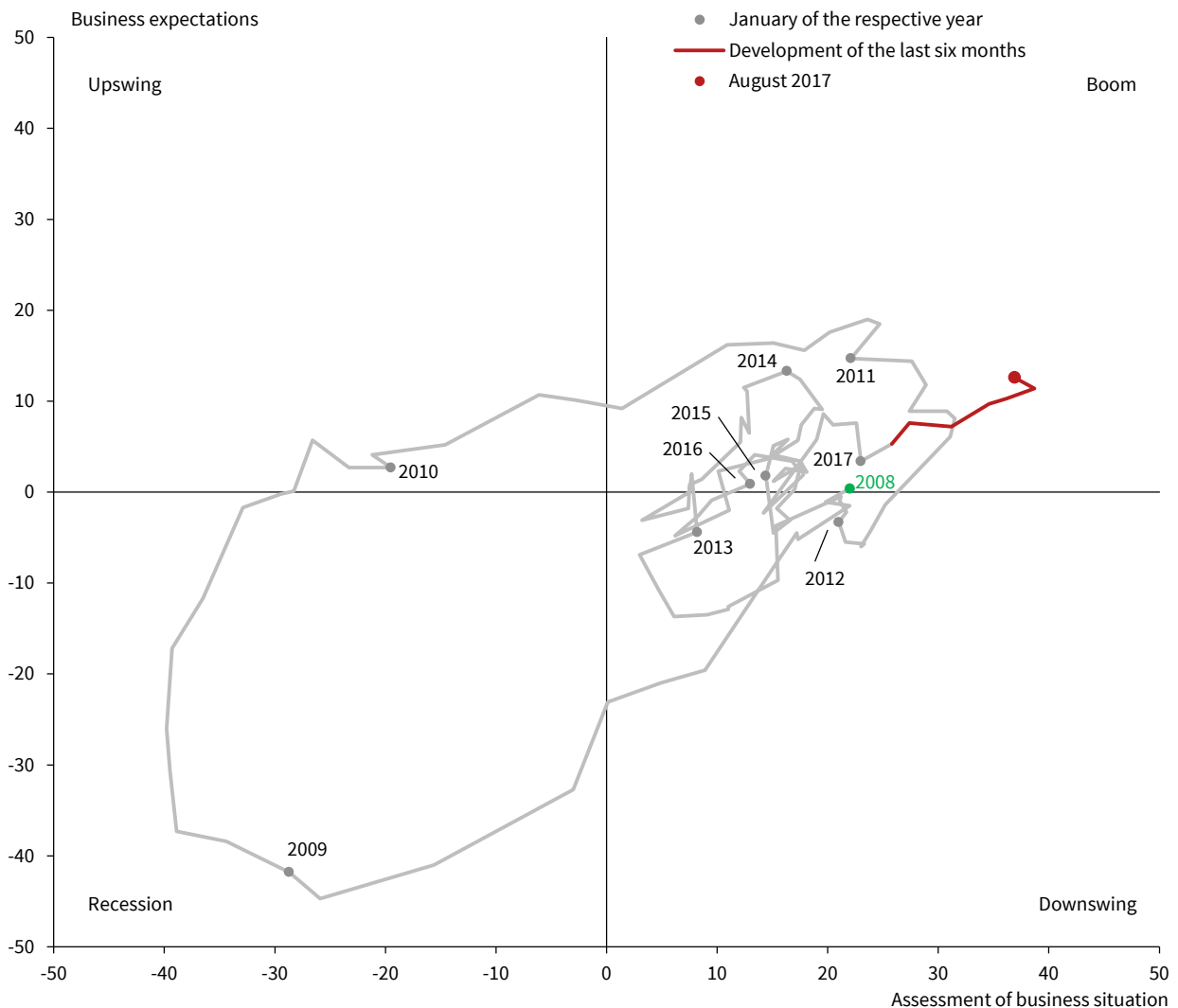
Month/year	08/16	09/16	10/16	11/16	12/16	01/17	02/17	03/17	04/17	05/17	06/17	07/17	08/17
Industry and Trade	5.8	12.3	14.0	13.8	15.0	13.0	15.3	17.3	18.8	21.8	22.9	24.6	24.4
Manufacturing	6.5	13.8	17.0	14.9	15.7	14.4	17.3	20.7	21.1	26.0	26.2	29.5	29.9
Construction	5.4	9.1	9.9	10.7	12.8	10.5	7.8	9.5	11.6	13.0	12.6	14.4	17.3
Wholesaling	5.7	12.1	10.3	15.4	18.3	15.1	22.4	18.6	20.0	20.4	23.7	24.2	23.6
Retailing	2.7	8.2	8.0	9.6	9.7	6.2	4.7	6.6	13.5	11.4	16.1	11.0	5.1

Source: ifo Business Survey.

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The ifo Business Climate is based on ca. 7,000 monthly survey responses from firms in manufacturing, construction, wholesaling and retailing. The firms are asked to give their assessments of the **current business situation** and their **expectations** for the next six months. They can characterise their situation as “good”, “satisfactory” or “poor” and their business expectations for the next six months as “more favourable”, “unchanged” or “more unfavourable”. The **balance value** of the current business situation is the difference between the percentages of the responses “good” and “poor”; the balance value of the expectations is the difference between the percentages of the responses “more favourable” and “more unfavourable”. The **business climate** is a transformed mean of the balances of the business situation and the expectations. For the purpose of calculating the **index values**, the transformed balances are all normalised to the average of the year 2005.

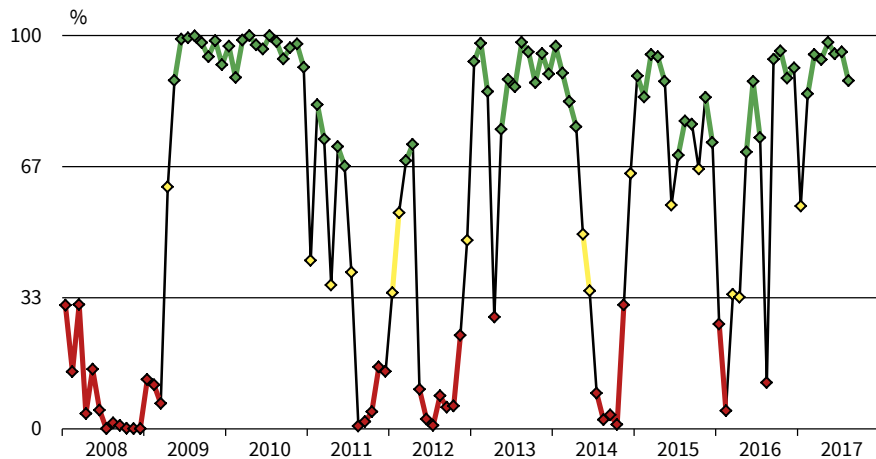
ifo Business Cycle Clock for Industry and Trade^a
 Balances, seasonally adjusted



^a Manufacturing, construction, wholesaling and retailing.
 Source: ifo Business Survey, August 2017.

The ifo Business 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 labelled with the different phases of economic activity, namely upturn, boom, downturn, recession; provided that the expectation indicator sufficiently precedes the current business situation indicator. If survey participants' assessments of the current business situation, and thus of business expectations, are negative on balance, the economic situation indicator moves into 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 enters the "boom" quadrant. If, however, the expectations indicator turns minus (with the business situation remaining good on balance, but deteriorating), economic activity slips into the "downturn" quadrant.

ifo Business Cycle Traffic Lights for Industry and Trade^a



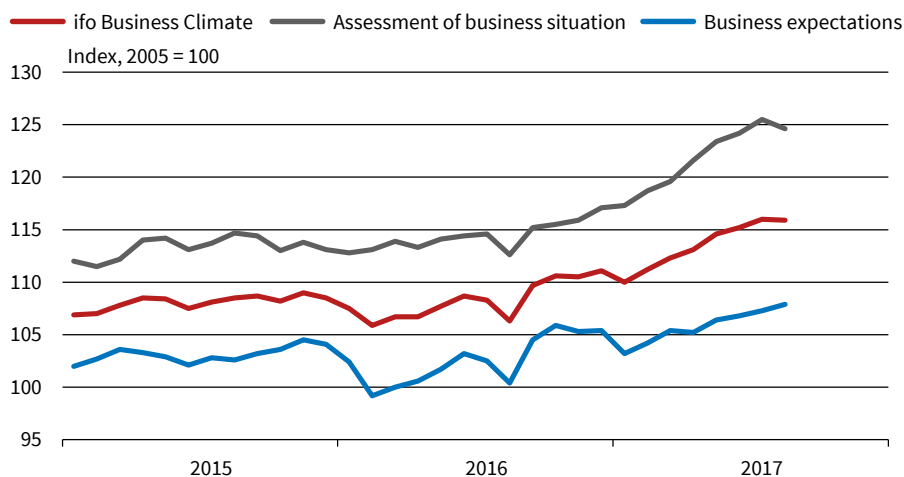
^a The probabilities are calculated on the basis of the monthly changes of the ifo Business Climate Index.
 Probability for expansion: green = high, yellow = medium, red = low.
 Source: ifo Business Survey, August 2017.

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Monthly movements of the ifo Business Climate Index for Industry and Trade can be transformed with the help of Markov Switching Models into probability statements for the two cyclical regimes expansion or contraction. The ifo Business Cycle Traffic Lights provides the monthly regime probabilities for the expansion phase. The probabilities signal an economic expansion (green lights) insofar as they exceed the 66% mark; contractions insofar as they are under the 33% mark (red lights); or indifference (yellow lights) when in the range in between. This indifference interval 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.

ifo Business Climate for Industry and Trade^a

Seasonally adjusted



^a Manufacturing, construction, wholesaling and retailing.
 Source: ifo Business Survey, August 2017.

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