

ifo Business Climate Index Continues Record Run

Munich, 24 November 2017 – Sentiment among German businesses is very strong. The ifo Business Climate Index rose to a new record high of 117.5¹ points in November from 116.8² points in October. This was due to far more optimistic business expectations. Companies' assessments of the current business situation were no longer as positive as last month. The German economy is on track for a boom. The latest figures indicate economic growth of 0.7 percent in the fourth quarter, pointing to growth of 2.3 percent for 2017 as a whole.

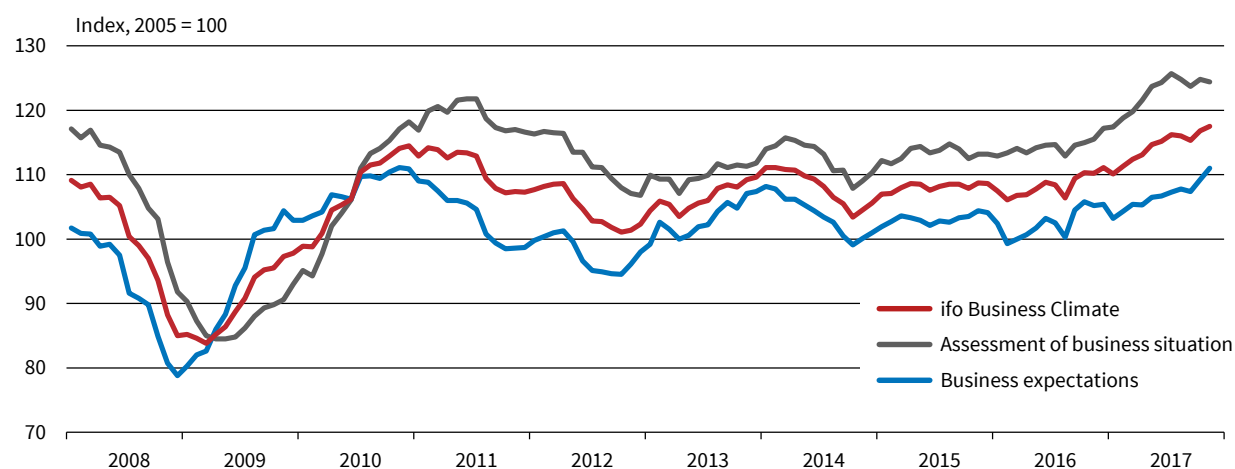
In *manufacturing* the index also hit a new record high thanks to far more optimistic expectations. Manufacturers slightly scaled back assessments of their current business situation, which nevertheless remain at a high level. A growing number of manufacturers plan to increase prices.

In *wholesaling* the business climate index rose markedly and is now just slightly below its historical record high. Wholesalers were considerably more satisfied with their current business situation. They also expect business to pick up further over the next six months. In *retailing*, by contrast, the business climate deteriorated. Retailers' assessments of their current business situation were far poorer, but they expressed greater optimism about the next six months.

In *construction* the business climate index fell. Contractors slightly scaled back assessments of both their current business situation and their expectations, which nevertheless remain at a high level.

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, November 2017.

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

Month/year	11/16	12/16	01/17	02/17	03/17	04/17	05/17	06/17	07/17	08/17	09/17	10/17	11/17
Climate	110.2	111.1	110.1	111.3	112.4	113.1	114.7	115.2	116.2	116.0	115.3	116.8	117.5
Situation	115.5	117.2	117.4	118.8	119.8	121.6	123.7	124.3	125.7	124.8	123.7	124.8	124.4
Expectations	105.2	105.4	103.2	104.3	105.4	105.3	106.5	106.7	107.3	107.8	107.4	109.2	111.0

Source: ifo Business Survey.

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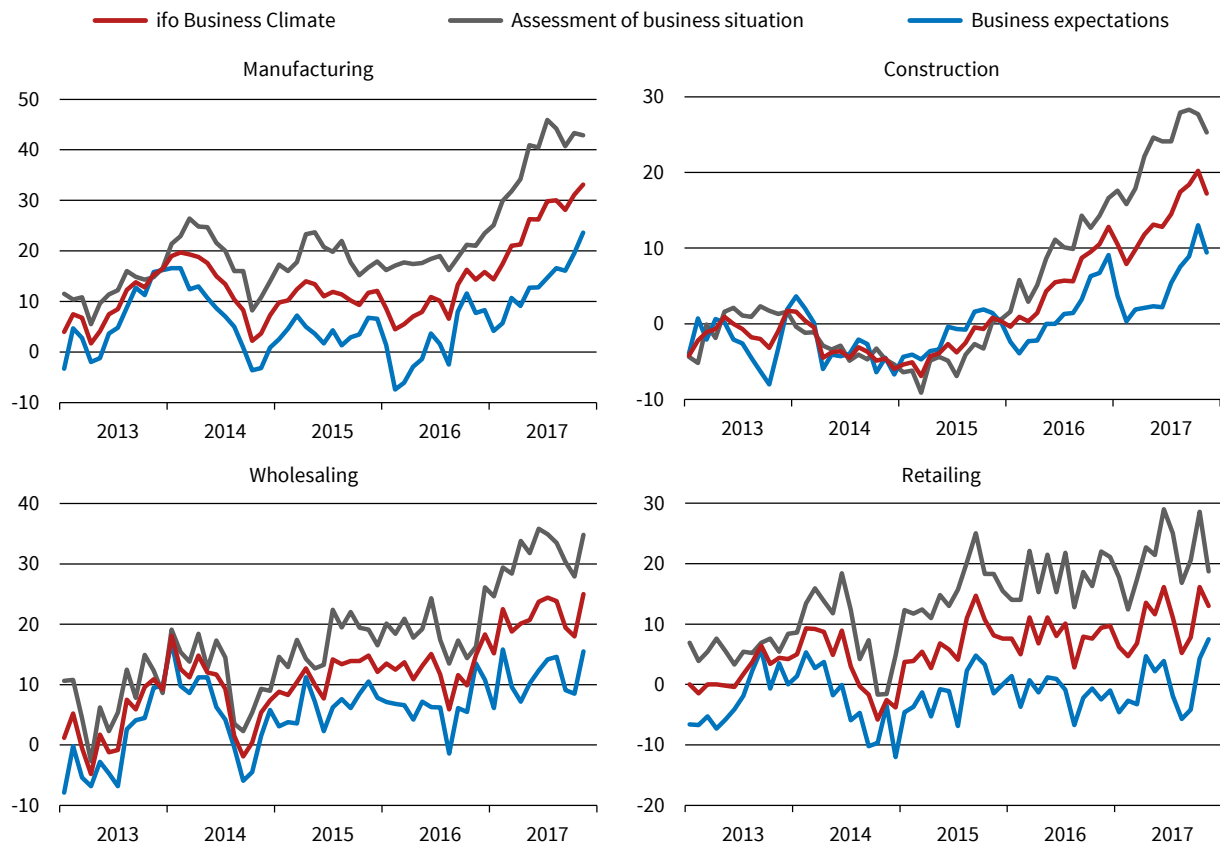
For long time-series in Excel format consult www.cesifo-group.de/langereihen.

¹ Around 90% of responses were submitted before the end of the "Jamaica" coalition talks on Sunday.

² Seasonally adjusted.

ifo Business Climate and Business Situation and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, November 2017.

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ifo Business Climate by Sector (Balances, seasonally adjusted)

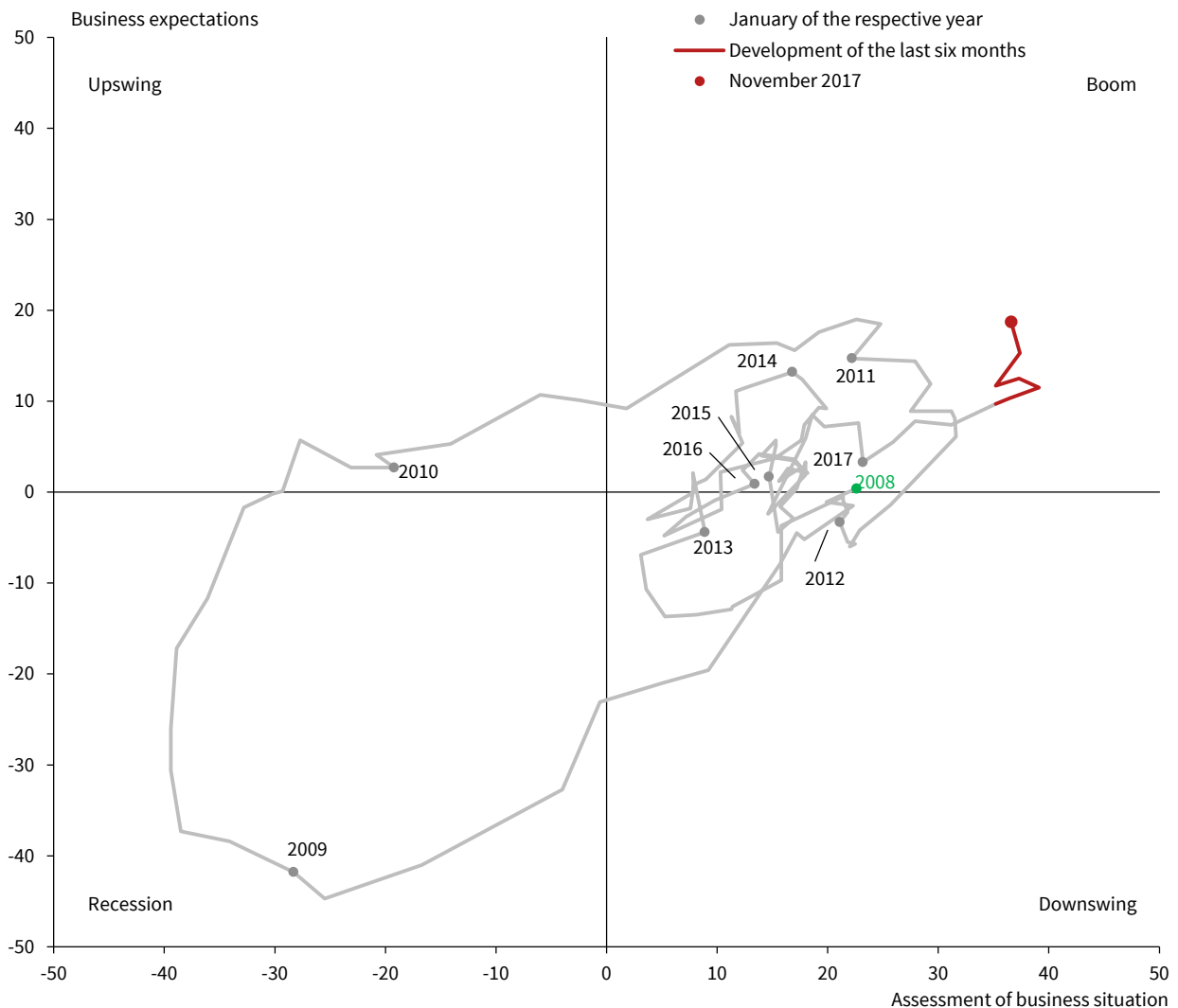
Month/year	11/16	12/16	01/17	02/17	03/17	04/17	05/17	06/17	07/17	08/17	09/17	10/17	11/17
Industry and Trade	13.3	15.1	13.0	15.5	17.6	19.0	22.1	23.0	24.8	24.5	23.1	26.0	27.5
Manufacturing	14.3	15.8	14.4	17.4	21.0	21.3	26.3	26.2	29.8	30.0	28.1	31.1	33.1
Construction	10.5	12.8	10.5	7.9	9.8	11.8	13.1	12.8	14.5	17.4	18.4	20.2	17.2
Wholesaling	14.9	18.3	15.2	22.5	18.8	20.1	20.7	23.7	24.4	23.8	19.4	18.0	25.0
Retailing	9.4	9.7	6.2	4.7	6.8	13.5	11.6	16.1	11.1	5.2	7.8	16.1	13.0

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.

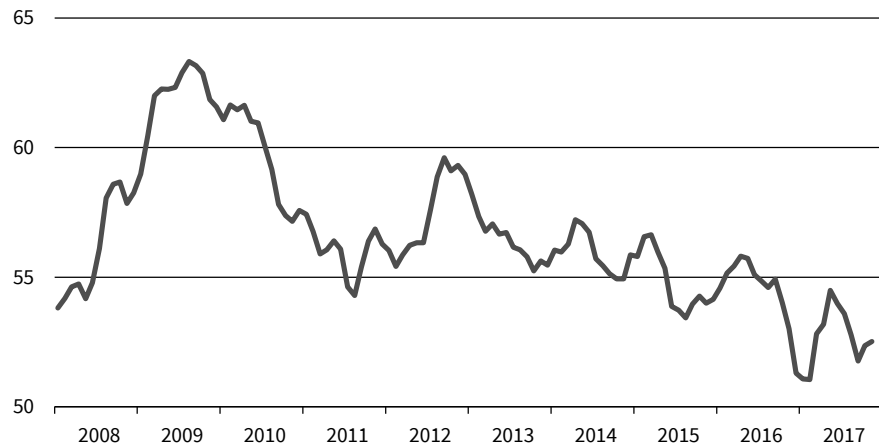
ifo Business Cycle Clock for Industry and Trade^a
 Balances, seasonally adjusted



^a Manufacturing, construction, wholesaling and retailing.
 Source: ifo Business Survey, November 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 Dispersion for Industry and Trade^a
 Seasonally adjusted and three months moving average

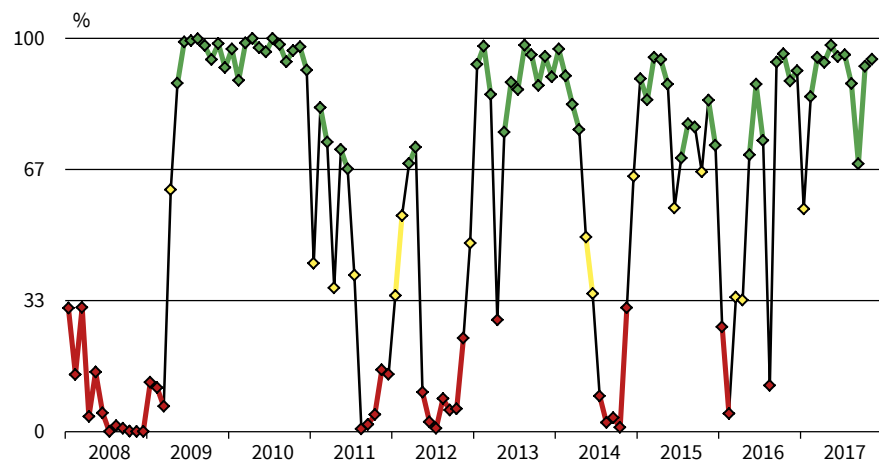


^a Manufacturing, construction, wholesaling and retailing.
 Source: ifo Business Survey, November 2017.

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Increases in dispersion measure signals greater uncertainty on the part of firms. Values can range from between 0 and 100. The measure is based on responses to questions related to expectations regarding the six-month business outlook and is generated from the dispersion of these expectations at any given time.

ifo Business Cycle Traffic Lights for Industry and Trade^a



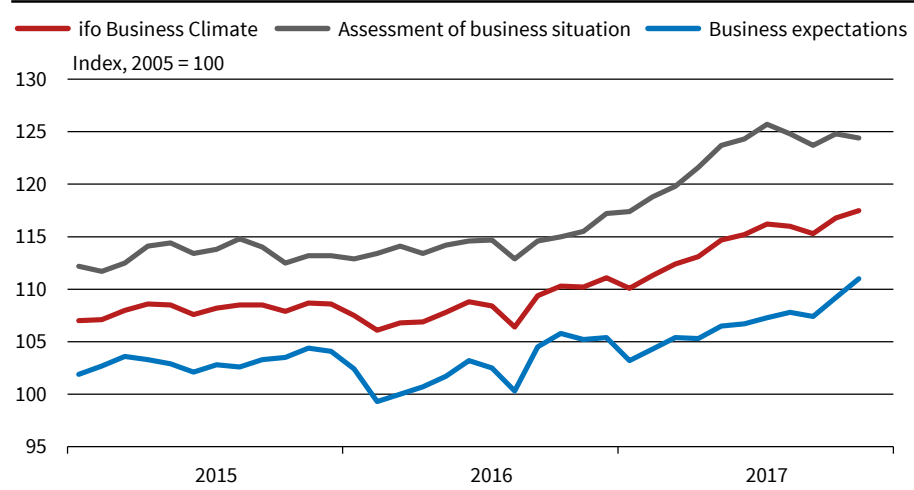
^a The probabilities are calculated on the basis of the monthly changes of the ifo Business Climate Index.
 Probability for expansion: green = high, yellow = medium, red = low.
 Source: ifo Business Survey, November 2017.

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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, November 2017.

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