

ifo Business Climate Germany
Results of the ifo Business Survey for May 2018

Declining Trend in the ifo Business Climate Stopped

Munich, 25 May 2018 – The declining trend in the ifo Business Climate has stopped. The index held steady at 102.2 points¹, after having fallen five months in succession. The very good current business situation improved slightly, but the optimistic expectations weakened slightly. The German economy is performing well in a difficult international situation. The current business survey and other indicators point to economic growth of 0.4 percent in the second quarter.

In *manufacturing*, the index has fallen slightly. The expectations weakened again somewhat, but the assessments of the current situation have been revised upwards. Demand and order backlogs increased.

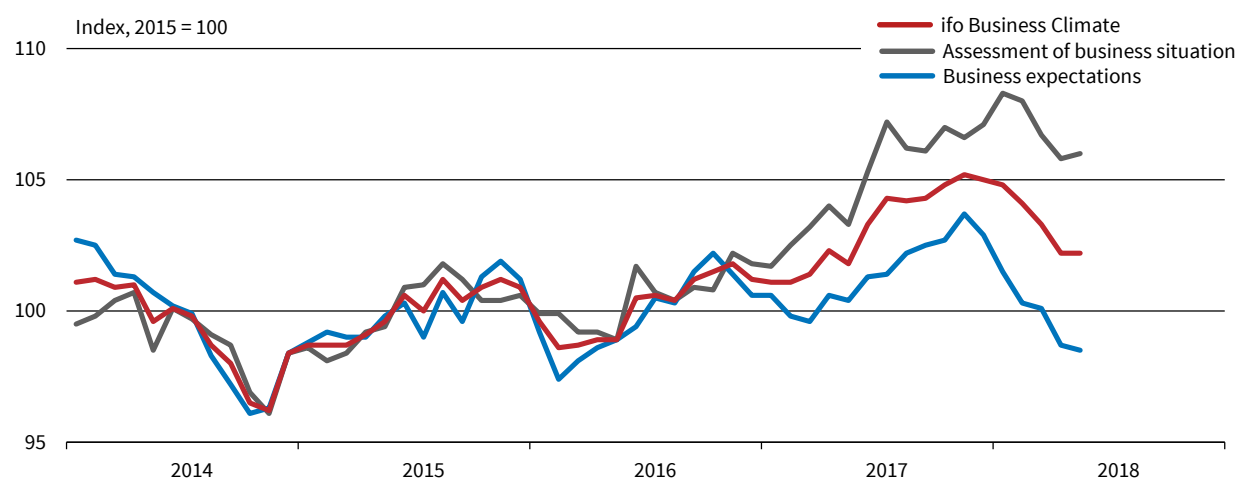
In the *services*, the business climate has improved. The service providers are noticeably more optimistic with regard to the coming months. However, they are less satisfied with their current business situation.

The index has also risen sharply in *trade*. This was due to a much more positive assessment of the current business situation. The business outlook, however, remains largely unchanged. This was the case for both wholesaling and retailing. Price increases are being planned more and more in retailing.

In *construction*, the business climate has reached a new record high. The contractors were noticeably more satisfied with their current business situation. Their optimistic expectations, however, weakened somewhat.

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 2018.

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

Month/year	05/17	06/17	07/17	08/17	09/17	10/17	11/17	12/17	01/18	02/18	03/18	04/18	05/18
Climate	101.8	103.3	104.3	104.2	104.3	104.8	105.2	105.0	104.8	104.1	103.3	102.2	102.2
Situation	103.3	105.3	107.2	106.2	106.1	107.0	106.6	107.1	108.3	108.0	106.7	105.8	106.0
Expectations	100.4	101.3	101.4	102.2	102.5	102.7	103.7	102.9	101.5	100.3	100.1	98.7	98.5

Source: ifo Business Survey.

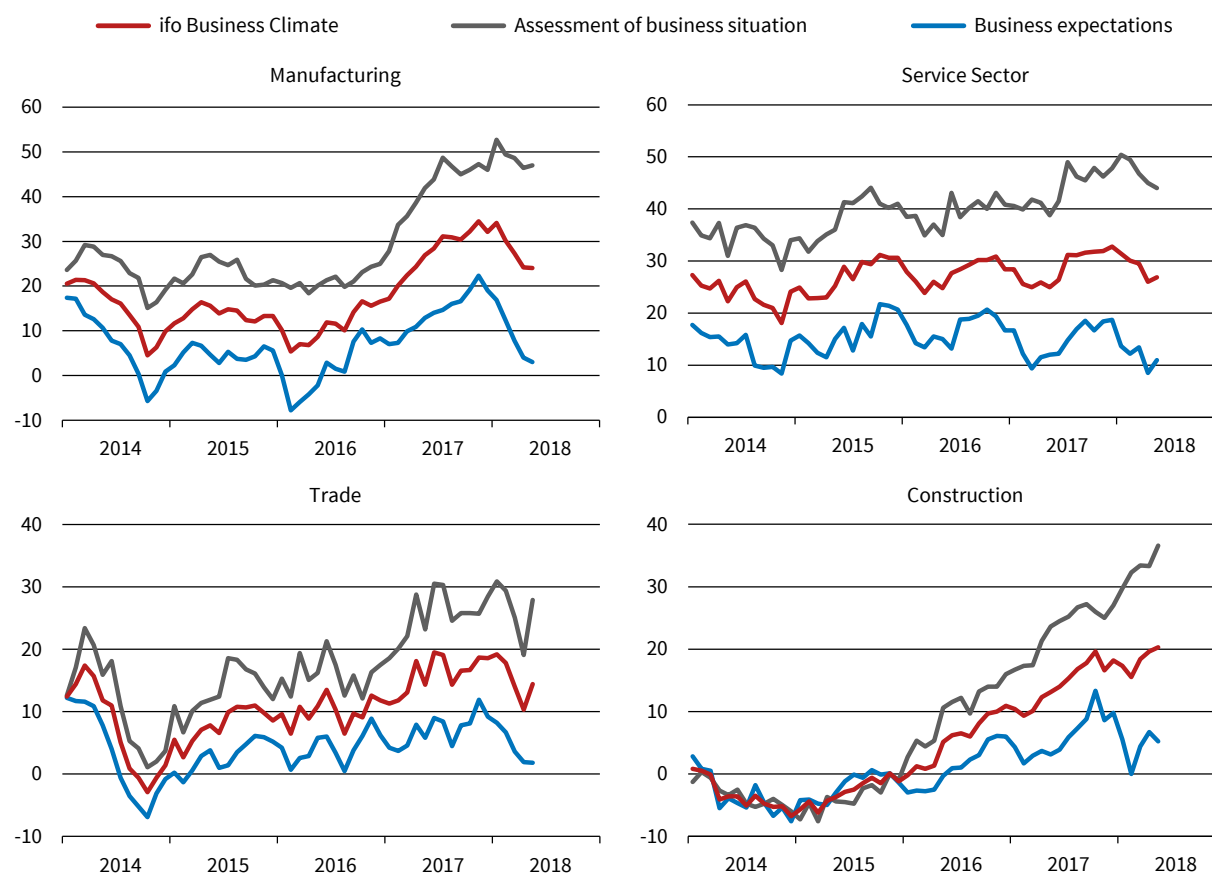
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For long time-series in Excel format consult www.cesifo-group.de/langereihen.

¹ The April value was seasonally corrected.

ifo Business Climate and Business Situation and Expectations by Sector

Balances, seasonally adjusted



Source: Ifo Business Survey, May 2018.

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

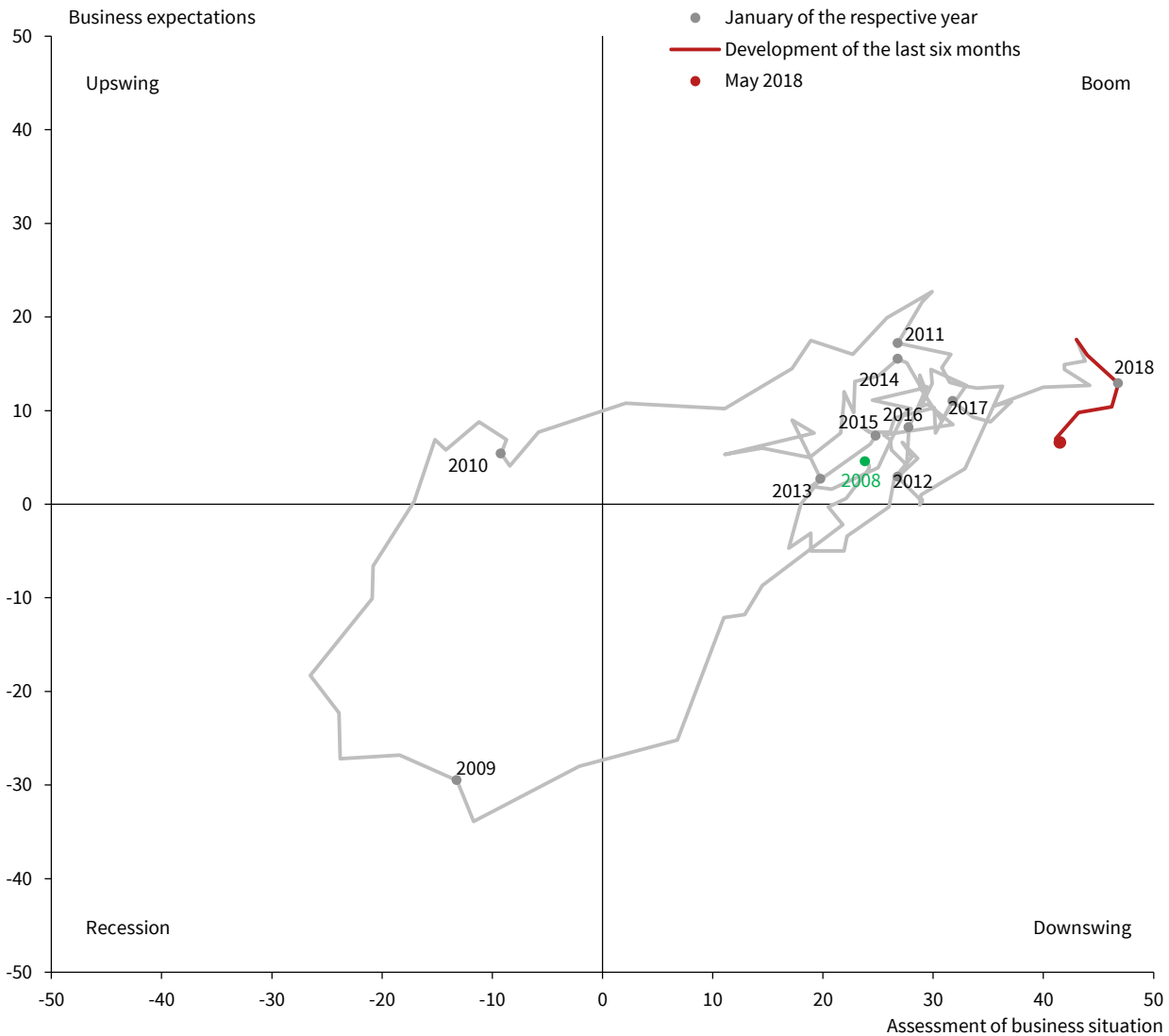
Month/year	05/17	06/17	07/17	08/17	09/17	10/17	11/17	12/17	01/18	02/18	03/18	04/18	05/18
Germany	22.6	25.9	27.9	27.8	28.0	29.1	29.9	29.5	29.2	27.6	25.9	23.4	23.4
Manufacturing	26.9	28.4	31.1	30.9	30.4	32.2	34.5	32.1	34.1	30.2	27.3	24.2	24.0
Service Sector	25.0	26.4	31.2	31.1	31.6	31.8	31.9	32.8	31.4	30.1	29.5	26.0	26.9
Trade	14.3	19.5	19.1	14.3	16.6	16.7	18.7	18.6	19.2	17.8	14.0	10.3	14.4
Construction	13.1	14.0	15.3	16.8	17.8	19.6	16.6	18.2	17.3	15.5	18.4	19.6	20.3

Source: Ifo Business Survey.

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The Ifo Business Climate is based on ca. 9,000 monthly survey responses from firms in manufacturing, service sector, trade and construction. 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 2015.

ifo Business Cycle Clock Germany^a
 Balances, seasonally adjusted

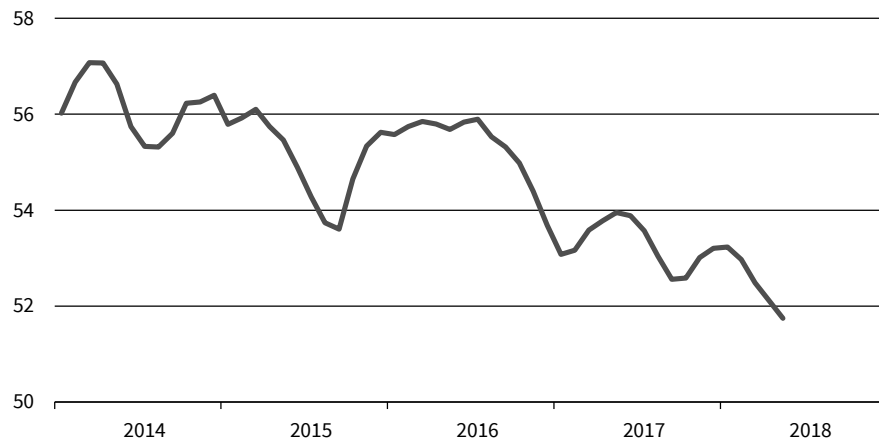


^a Manufacturing, service sector, trade and construction.
 Source: ifo Business Survey, May 2018.

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 Germany^a

Seasonally adjusted and three months moving average



^a Manufacturing, service sector, trade and construction.

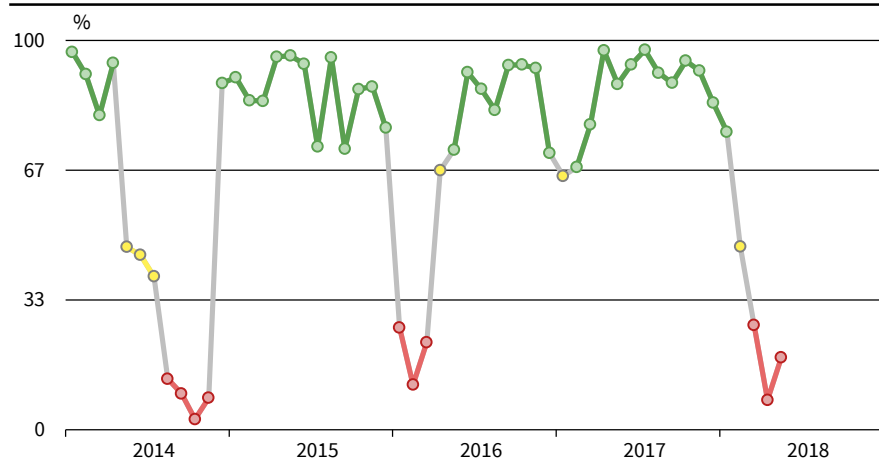
Source: ifo Business Survey, May 2018.

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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 Germany

Monthly probability for economic expansion^a



^a Green = high, yellow = medium, red = low. Calculated on the basis of the monthly changes of the ifo Business Climate Index Germany.
 Source: ifo Business Survey, May 2018.

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Monthly movements of the ifo Business Climate Index Germany 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.