

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

ifo Business Climate Index Falls

Munich, 25 June 2018 – The ifo Business Climate deteriorated this month. The index fell to 101.8 points in June from 102.3¹ points in May. Companies were less satisfied with their current business situation. Their business expectations, by contrast, remained slightly optimistic. The tailwind enjoyed by the German economy is calming down.

In *manufacturing*, the index fell due to poorer assessments of the current business situation. Manufacturers' business expectations, by contrast, remained slightly optimistic. More manufacturers plan to ramp up production in the months ahead.

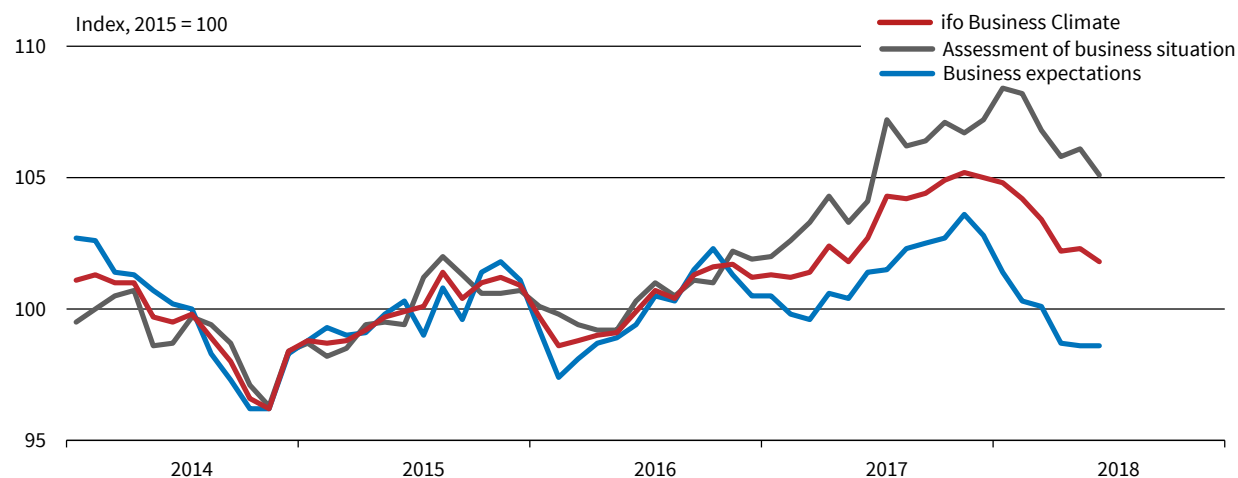
In the *services* sector the business climate deteriorated. Service providers were slightly less satisfied with their current business situation, which nevertheless remains very good. They also scaled back their expectations for the months ahead somewhat.

The index fell markedly in *trade*. Companies downwardly revised their very good assessments of the current business situation. Their business outlook turned slightly pessimistic for the first time since February 2015. Indicators dropped far more sharply in retailing than in wholesaling.

In *construction* the business climate index edged downwards. Contractors were less satisfied with their current business situation. Their business expectations, by contrast, remained slightly optimistic.

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, June 2018.

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

Month/year	06/17	07/17	08/17	09/17	10/17	11/17	12/17	01/18	02/18	03/18	04/18	05/18	06/18
Climate	102.7	104.3	104.2	104.4	104.9	105.2	105.0	104.8	104.2	103.4	102.2	102.3	101.8
Situation	104.1	107.2	106.2	106.4	107.1	106.7	107.2	108.4	108.2	106.8	105.8	106.1	105.1
Expectations	101.4	101.5	102.3	102.5	102.7	103.6	102.8	101.4	100.3	100.1	98.7	98.6	98.6

Source: ifo Business Survey.

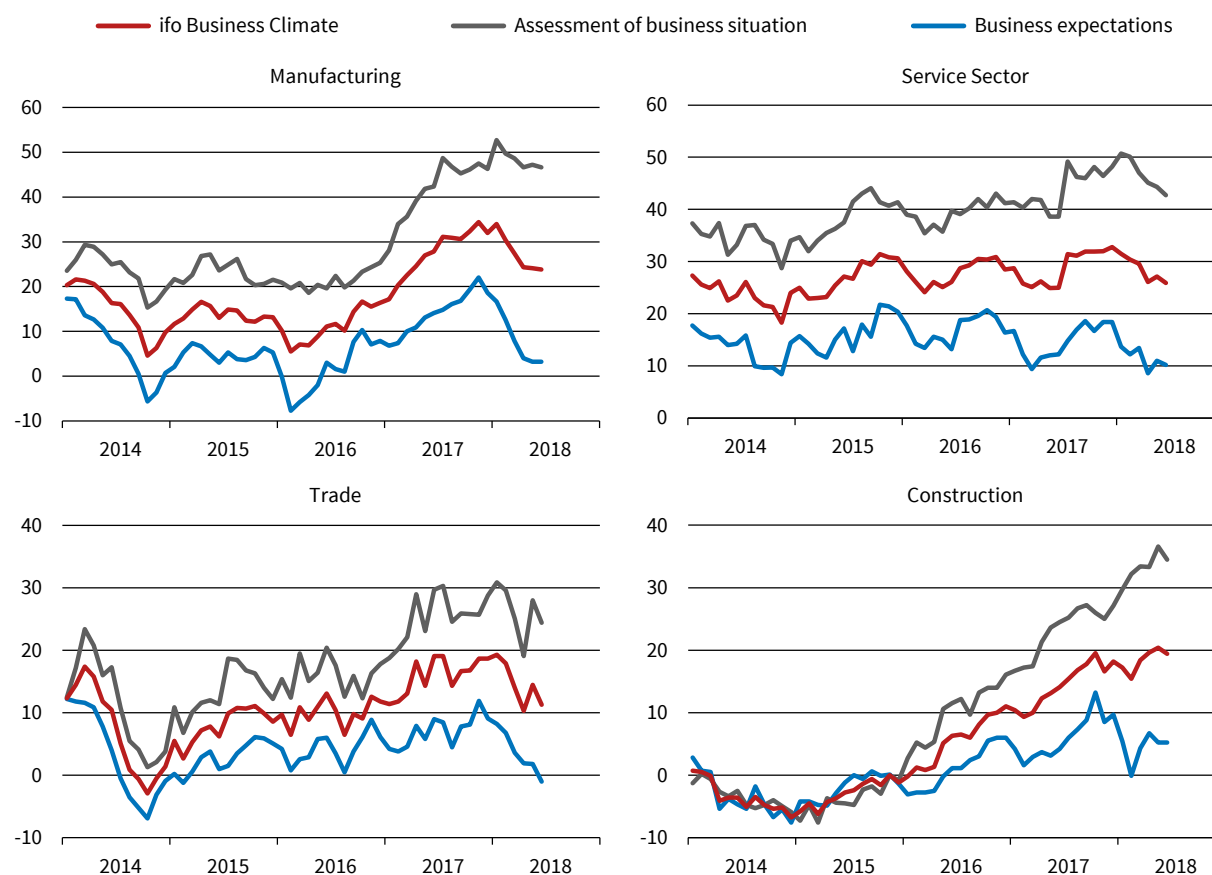
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For long time-series in Excel format consult www.cesifo-group.de/langereihen.

¹ The May figure has been revised due to our seasonal adjustment procedure.

ifo Business Climate and Business Situation and Expectations by Sector

Balances, seasonally adjusted



Source: Ifo Business Survey, June 2018.

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

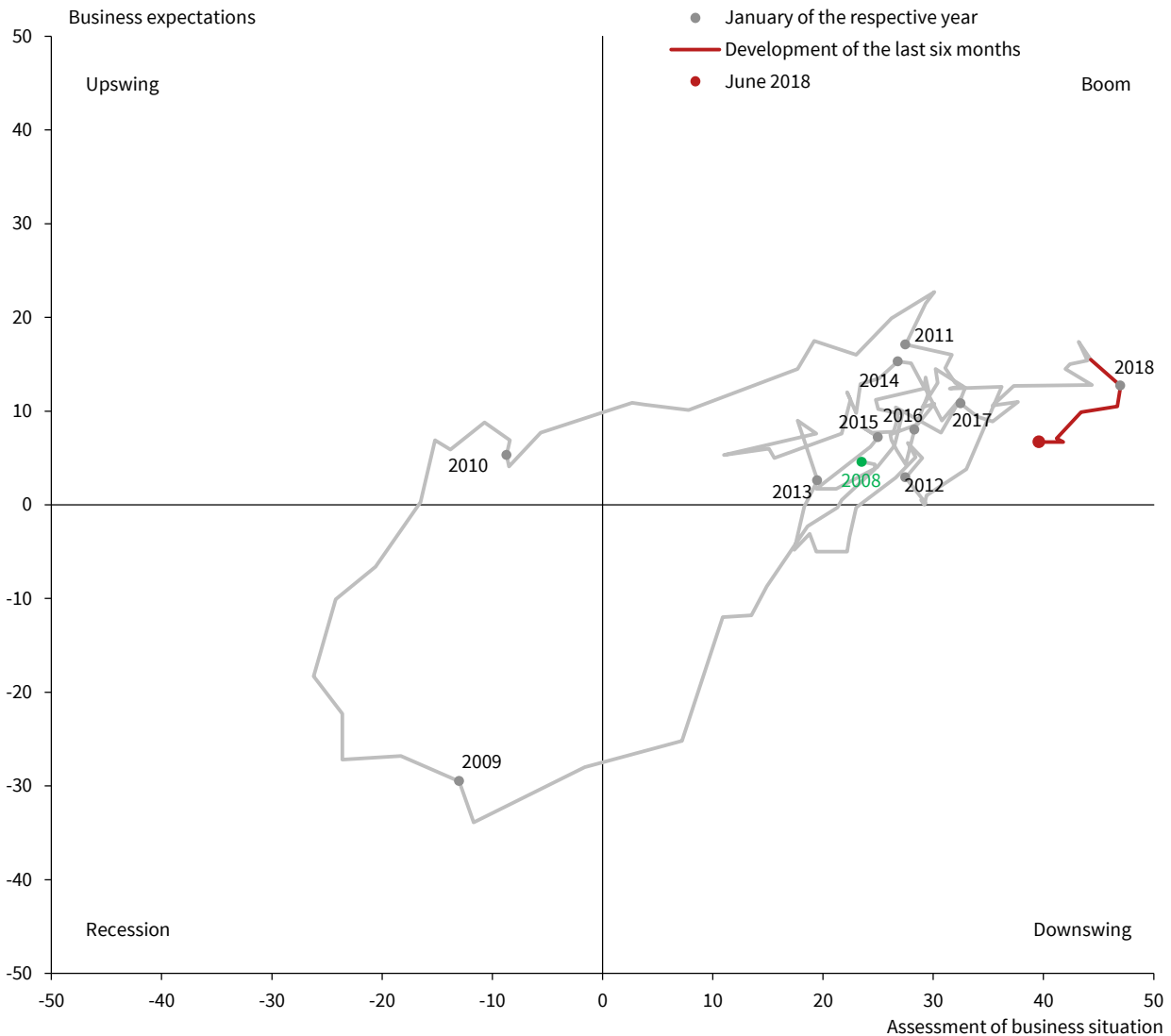
Month/year	06/17	07/17	08/17	09/17	10/17	11/17	12/17	01/18	02/18	03/18	04/18	05/18	06/18
Germany	24.6	28.1	27.8	28.3	29.3	29.9	29.5	29.2	27.8	26.0	23.5	23.6	22.5
Manufacturing	27.8	31.1	30.9	30.6	32.3	34.4	32.0	34.0	30.4	27.4	24.3	24.1	23.8
Service Sector	25.0	31.4	31.1	31.9	31.9	32.0	32.8	31.5	30.4	29.6	26.1	27.1	25.9
Trade	19.1	19.1	14.3	16.7	16.8	18.7	18.7	19.3	17.9	14.0	10.3	14.5	11.3
Construction	14.1	15.4	16.8	17.8	19.5	16.6	18.2	17.2	15.4	18.4	19.6	20.4	19.4

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

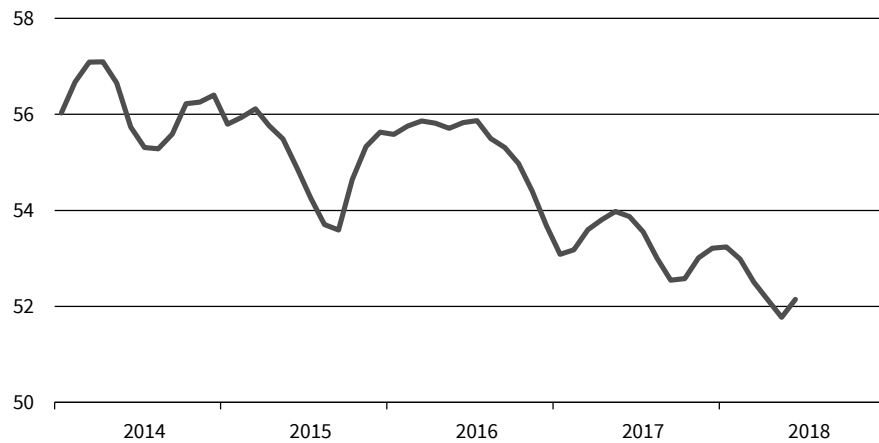


^a Manufacturing, service sector, trade and construction.
 Source: ifo Business Survey, June 2018.

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.

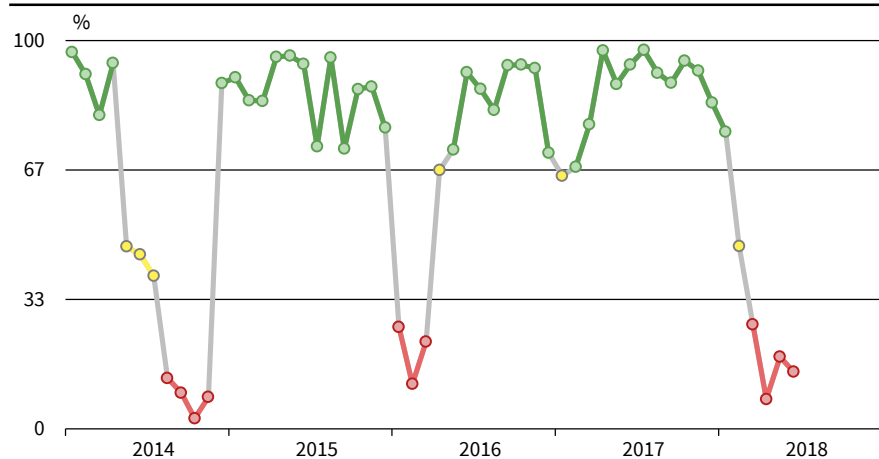
Source: ifo Business Survey, June 2018.

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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, June 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.