

ifo Business Climate Index Falls

Munich, April 24, 2019 – The mood among German managers became slightly gloomier this month. The ifo Business Climate Index fell from 99.7 points¹ in March to 99.2 points in April. Companies are less satisfied with their current business situation. March's gentle optimism regarding the coming months has evaporated. The German economy continues to lose steam.

In *manufacturing*, the business climate has again worsened markedly. Once more, companies rated their current situation less favorably. Pessimism has also grown regarding the coming months. Capacity utilization fell by 0.8 percentage points to 85.4 percent. This is still higher than the long-run average of 83.7 percent.

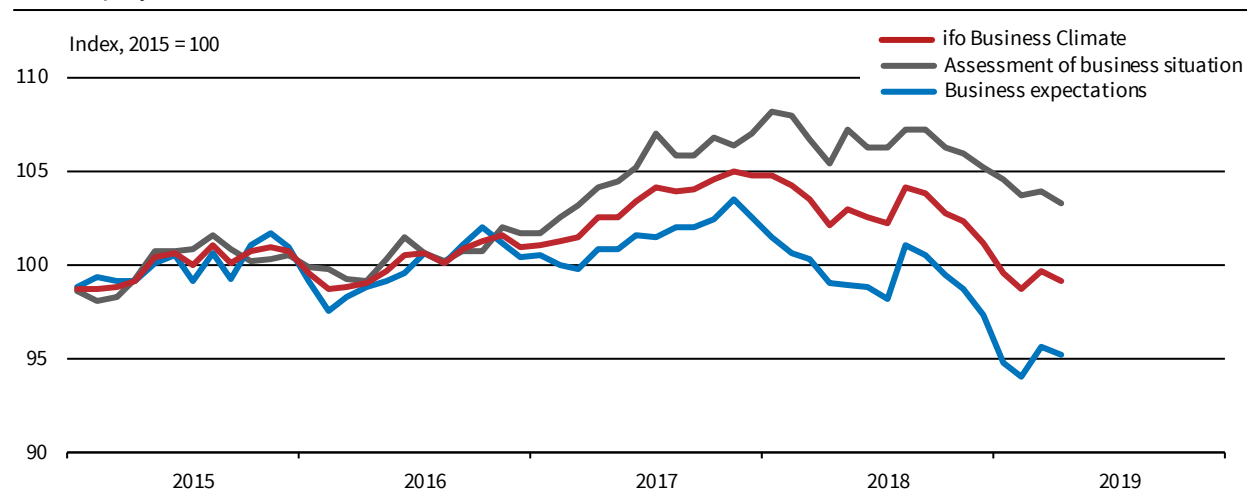
In the *services*, the index has risen slightly due to more optimistic expectations. However, service providers rated their current situation somewhat less favorably, although still at a high level.

In *trade*, the business climate has weakened somewhat. Companies still saw their current situation as very positive, but made downward corrections both to this assessment and to their business expectations. This development was driven by retail trade. Among wholesalers, the index in fact rose slightly.

In *construction*, the business climate index rose once again. Companies were considerably more satisfied with what was already a very good business situation. However, doubts are growing that the construction boom will continue.

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, April 2019.

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

Month/year	04/18	05/18	06/18	07/18	08/18	09/18	10/18	11/18	12/18	01/19	02/19	03/19	04/19
Climate	102.1	103.0	102.5	102.2	104.1	103.8	102.8	102.3	101.2	99.6	98.7	99.7	99.2
Situation	105.4	107.2	106.3	106.3	107.2	107.2	106.3	106.0	105.2	104.6	103.7	103.9	103.3
Expectations	99.0	98.9	98.8	98.2	101.1	100.5	99.5	98.7	97.3	94.8	94.0	95.6	95.2

Source: ifo Business Survey.

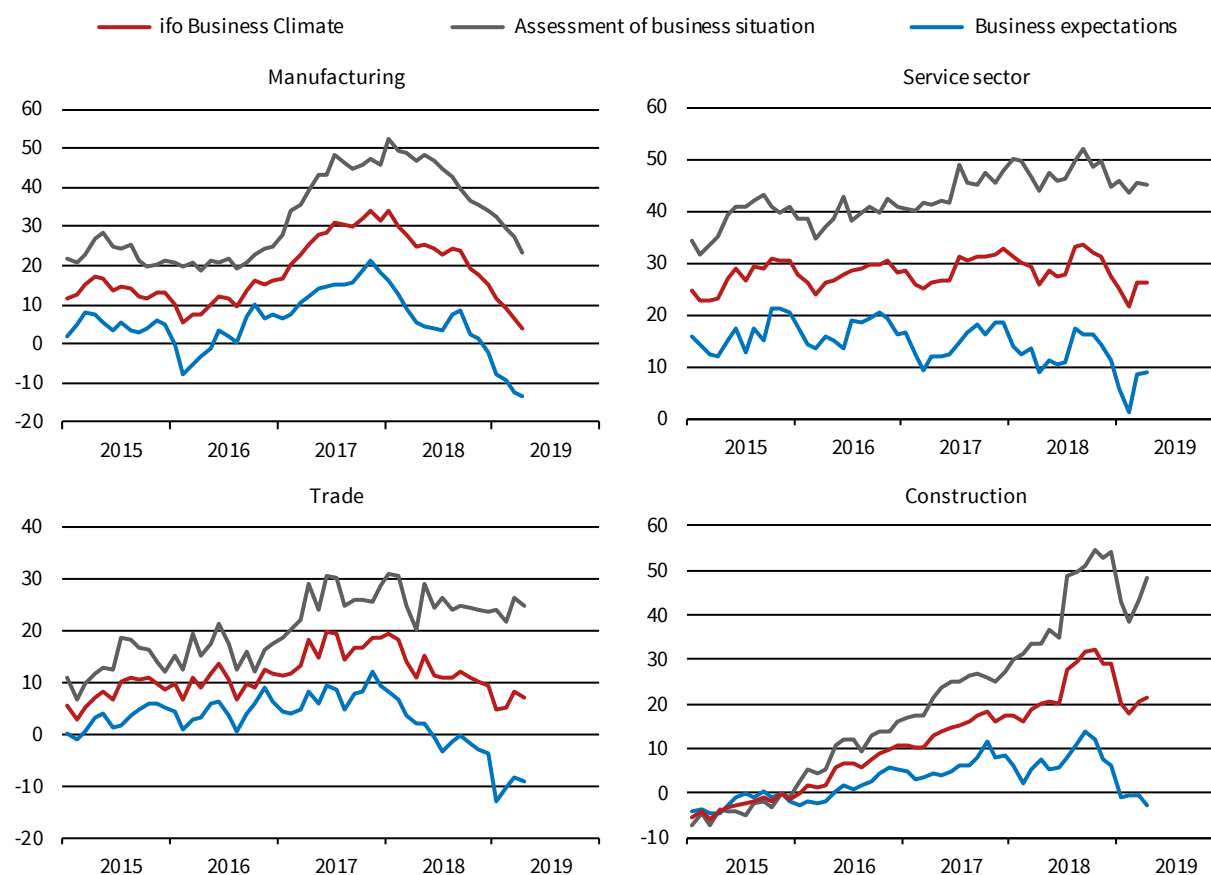
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For long time-series in Excel format consult www.cesifo-group.de/langereihen.

¹ Seasonally adjusted

ifo Business Climate, Business Situation and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, April 2019.

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

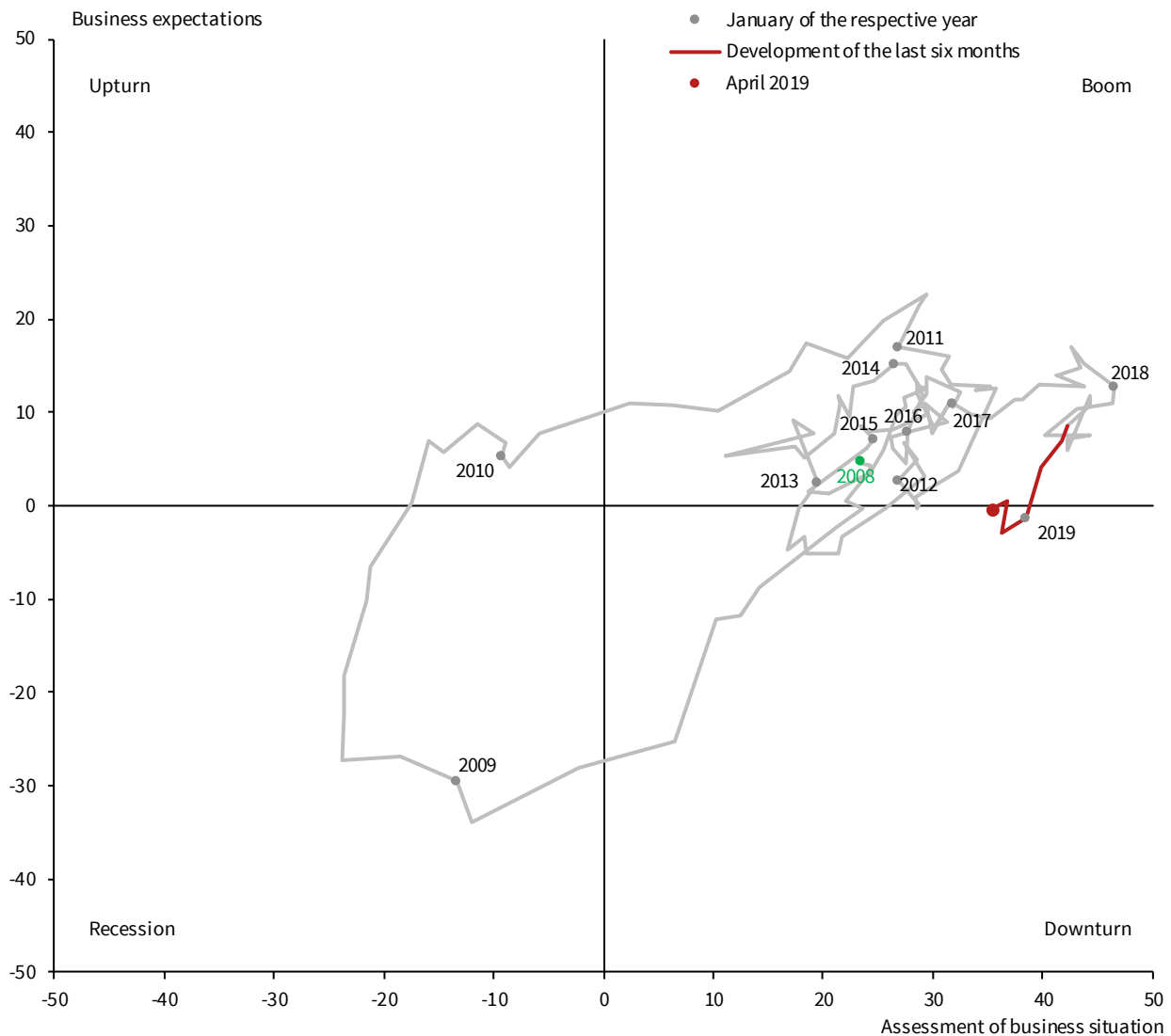
Month/year	04/18	05/18	06/18	07/18	08/18	09/18	10/18	11/18	12/18	01/19	02/19	03/19	04/19
Germany	23.3	25.2	24.0	23.4	27.6	27.0	24.8	23.6	21.2	17.7	15.8	17.9	16.9
Manufacturing	25.1	25.2	24.2	23.0	24.2	23.7	19.0	17.8	15.1	11.4	9.2	6.7	4.0
Service sector	25.7	28.6	27.4	27.9	33.1	33.4	31.8	31.4	27.4	24.9	21.5	26.1	26.3
Trade	10.8	14.9	11.3	10.8	10.8	11.9	10.7	10.0	9.4	4.7	5.0	8.2	7.1
Construction	20.1	20.4	19.9	27.6	29.5	31.7	32.4	29.2	28.9	19.9	18.0	20.4	21.4

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



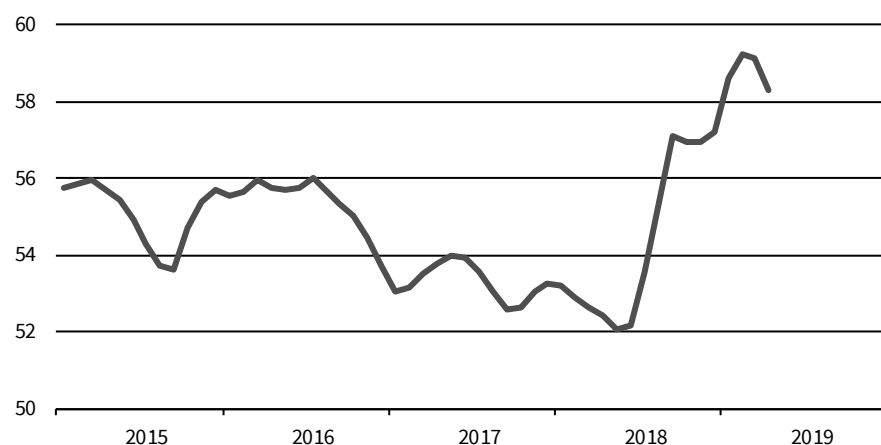
^a Manufacturing, service sector, trade and construction.
Source: ifo Business Survey, April 2019.

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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 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



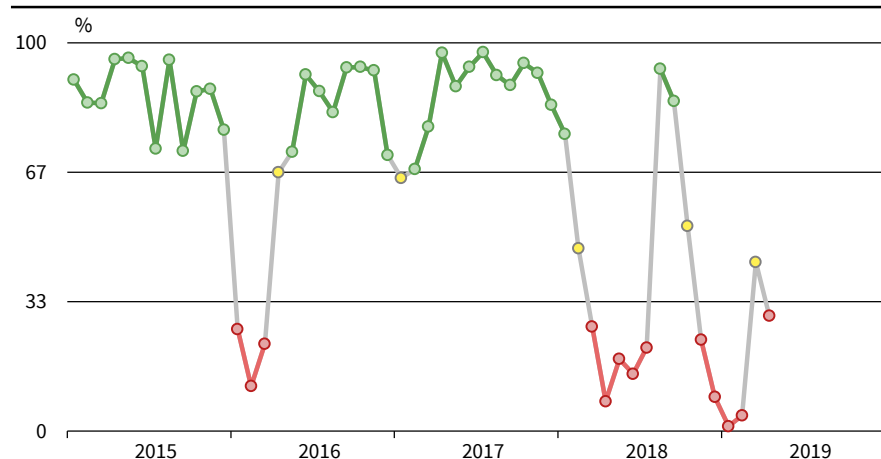
^a Manufacturing, service sector, trade and construction.
Source: ifo Business Survey, April 2019.

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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, April 2019.

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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.