

ifo Business Climate Germany
Results of the ifo Business Survey for October 2020

ifo Business Climate Index Falls

Munich, October 26, 2020 – Sentiment among business leaders has clouded over. The ifo Business Climate Index fell from 93.2 points¹ in September to 92.7 points in October. This is the first fall after five consecutive increases. Companies are considerably more skeptical regarding developments over the coming months. In contrast, they gave a slightly more positive assessment of their current situation than last month. In view of rising infection numbers, German business is becoming increasingly worried.

In *manufacturing*, the business climate indicator is back in positive territory for the first time since June 2019. A great many more companies were satisfied with their current situation. In the last quarter, companies managed to increase their capacity utilization considerably from 75.3 points to 79.8 points. However, recent optimism about the coming months has evaporated.

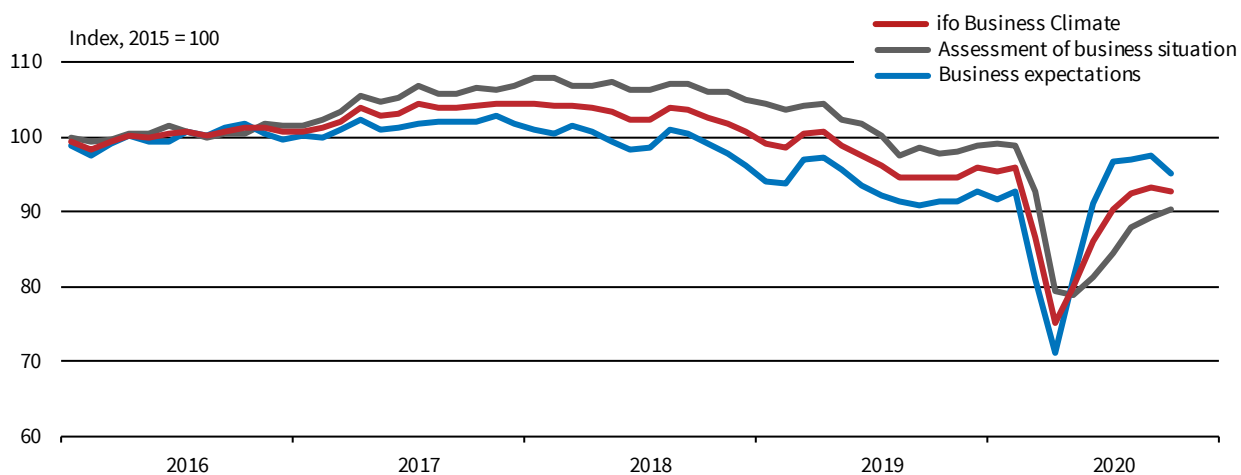
In the *service sector*, however, the business climate worsened notably. Service providers were less satisfied with their current situation. Moreover, their optimism of recent months with regard to the business outlook has disappeared.

In *trade*, the Business Climate Index fell slightly. While companies are more pessimistic about the coming months, they were more satisfied with their current business situation.

In *construction*, too, the business climate stopped climbing. Companies corrected their very strong assessments of the current situation noticeably downward. Their expectations also turned somewhat more pessimistic.

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, October 2020.

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

Month/year	10/19	11/19	12/19	01/20	02/20	03/20	04/20	05/20	06/20	07/20	08/20	09/20	10/20
Climate	94.5	94.7	95.8	95.3	95.8	86.7	75.2	79.9	86.1	90.4	92.4	93.2	92.7
Situation	97.7	98.0	98.8	99.1	98.8	92.8	79.4	78.9	81.4	84.5	87.9	89.2	90.3
Expectations	91.3	91.4	92.8	91.6	92.8	81.0	71.3	80.9	91.0	96.6	97.1	97.4	95.0

Source: ifo Business Survey

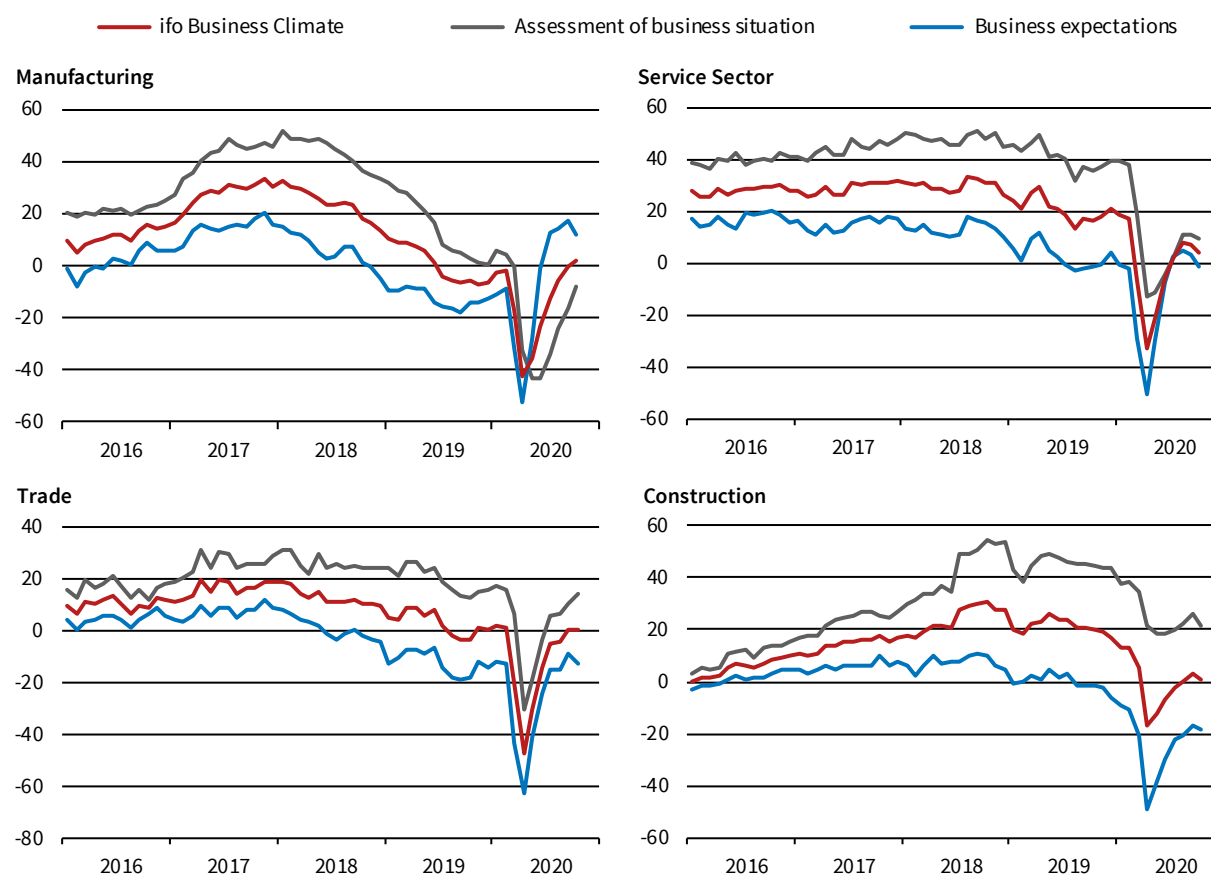
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For long time-series in Excel format, please see <https://www.ifo.de/en/umfragen/time-series>.

¹ Seasonally adjusted

ifo Business Climate, Business Situation, and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, October 2020.

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

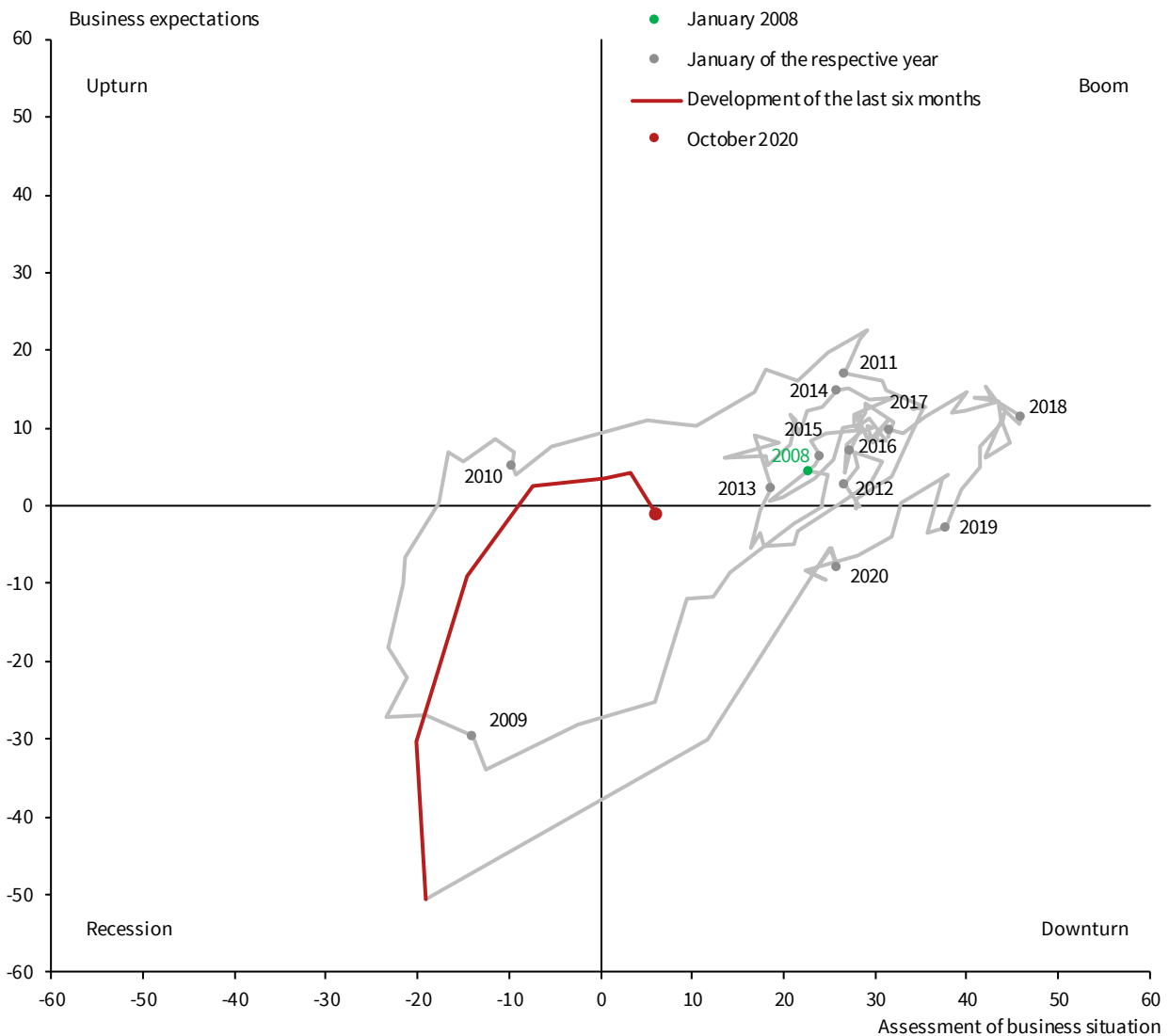
Month/year	10/19	11/19	12/19	01/20	02/20	03/20	04/20	05/20	06/20	07/20	08/20	09/20	10/20
Germany	6.5	6.9	9.4	8.3	9.3	-10.4	-35.5	-25.3	-11.9	-2.5	2.0	3.8	2.6
Manufacturing	-5.8	-6.9	-6.4	-2.9	-2.2	-16.9	-42.5	-35.7	-23.5	-12.4	-5.8	-0.5	1.6
Service sector	16.5	17.4	20.9	18.5	16.9	-6.9	-32.6	-21.0	-6.0	2.0	7.6	6.9	3.9
Trade	-3.5	0.7	-0.2	1.9	0.7	-20.6	-47.7	-30.5	-14.2	-5.2	-4.9	0.3	-0.1
Construction	20.2	19.4	17.2	13.0	12.7	5.1	-17.1	-12.0	-7.0	-2.2	-0.2	3.3	0.8

Source: ifo Business Survey

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The ifo Business Climate is based on approx. 9,000 monthly responses from businesses in manufacturing, the service sector, trade, and construction. Companies are asked to give their assessments of the **current business situation** and their **expectations** for the next six months. They can describe their situation as “good,” “satisfactory,” or “poor” and their business expectations for the next six months as “more favorable,” “unchanged,” or “less favorable.” The **balance value** of the current business situation is the difference in the percentage shares of the responses “good” and “poor”; the balance value of expectations is the difference in the percentage shares of the responses “more favorable” and “less favorable.” The **business climate** is a transformed mean of the balances of the business situation and the expectations. To calculate the **index values**, the transformed balances are all normalized to the average for the year 2015.

ifo Business Cycle Clock Germany^a
 Balances, seasonally adjusted

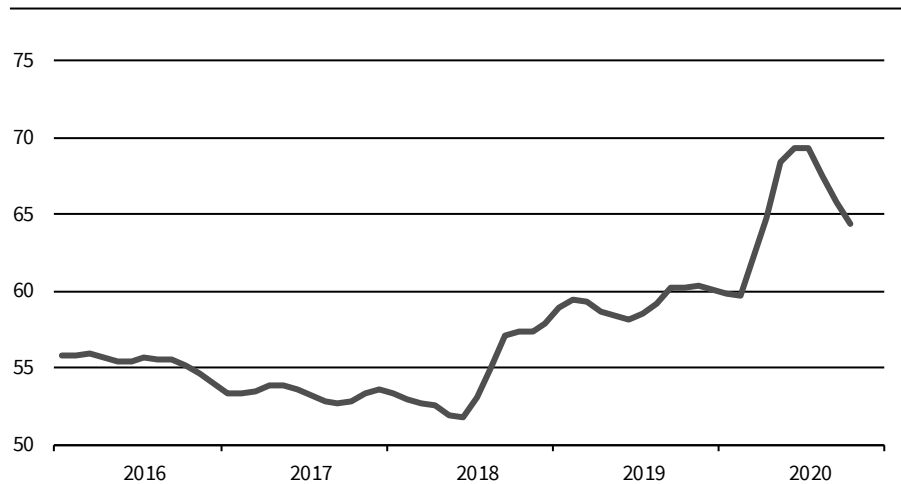


^a Manufacturing, service sector, trade, and construction.
 Source: ifo Business Survey, October 2020.

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 labeled with the different phases of activity, namely upturn, boom, downturn, and recession; provided that the expectation indicator sufficiently precedes the current business situation indicator. If survey participants’ assessments of both the current business situation and business expectations are negative on balance, the economic situation indicator is in 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 is shown in the “boom” quadrant. If, however, the expectations indicator turns negative (with a good but deteriorating business situation on balance), economic activity slips into the “downturn” quadrant.

ifo Dispersion Germany^a

Seasonally adjusted and three months moving average



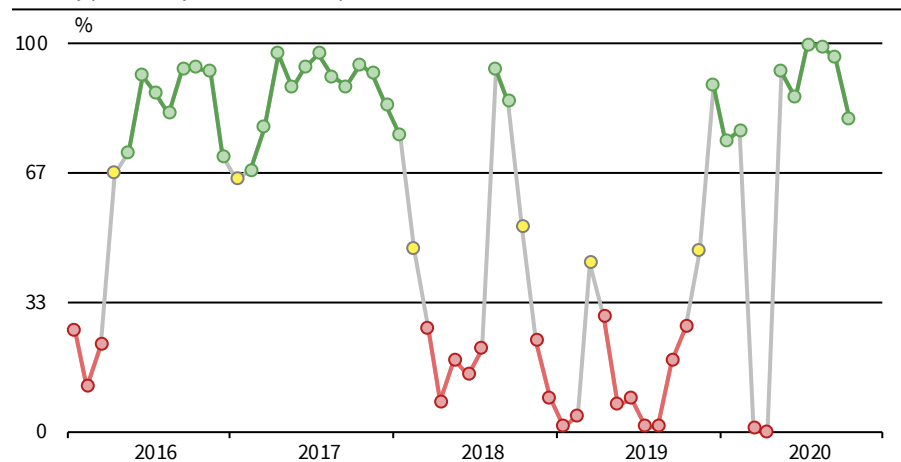
^a Manufacturing, service sector, trade, and construction.
 Source: Ifo Business Survey, October 2020.

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An increase in the dispersion measure signals greater uncertainty on the part of companies. Values can range between 0 and 100. The measure is based on responses to the question relating to expectations regarding the six-month business outlook and is generated from the dispersion of these expectations at any 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 monthly movements in the Ifo Business Climate Index Germany.

Source: Ifo Business Survey, October 2020.

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Monthly movements in the Ifo Business Climate Index Germany can be translated into probabilities for the two cyclical regimes expansion and contraction using a Markov switching model. The Ifo Business Cycle Traffic Lights show the monthly regime probabilities for the expansion phase. Probabilities exceeding the 66% mark signal an economic expansion (green lights); probabilities under the 33% mark signal a contraction (red lights); probabilities in the range in between those two marks signal indifference (yellow lights). This indifference 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.