

ifo Business Climate Germany
Results of the ifo Business Survey for February 2021

ifo Business Climate Index Rises

Munich, February 22, 2021 – Sentiment among managers in Germany has improved noticeably. The ifo Business Climate Index rose from 90.3 points¹ in January to 92.4 points in February. Assessments of the current business situation were more positive. Moreover, pessimism regarding the coming months was markedly reduced. The German economy is proving robust despite the lockdown, especially thanks to strength in industry.

In *manufacturing*, the index jumped to its highest value since November 2018. Assessments of the current situation improved. Companies were also notably more optimistic about the coming months. The Business Climate Index rose across all major branches of industry.

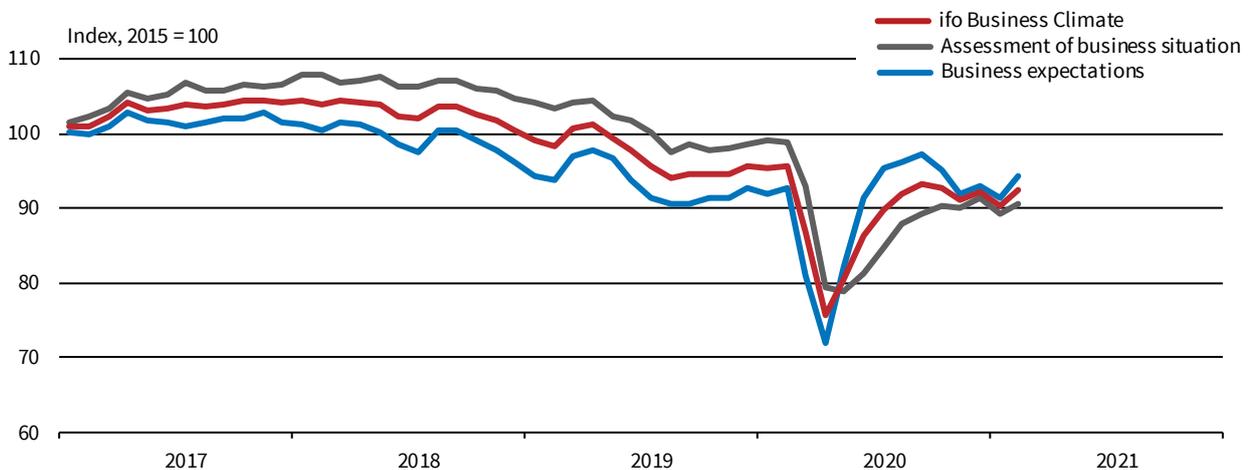
In the *service sector*, the Business Climate Index rose. Service providers were more satisfied with their current situation. What's more, their business expectations were less pessimistic. The situation remains difficult in hospitality. For the first time, the tourism industry is showing cautious optimism regarding the coming vacation season.

In *trade*, the Business Climate Index rose a little following last month's slump. Expectations are still pessimistic, but not to the same degree as last month. In contrast, companies' assessments of their current situation were worse. Sales plummeted as a result of the lockdown.

The business climate improved in *construction*, too. This was due to less pessimistic expectations. However, construction companies assessed their current situation as somewhat worse, above all because of unusually cold weather.

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, February 2021.

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

Month/year	02/20	03/20	04/20	05/20	06/20	07/20	08/20	09/20	10/20	11/20	12/20	01/21	02/21
Climate	95.7	86.8	75.6	80.5	86.2	89.9	92.0	93.2	92.7	91.0	92.2	90.3	92.4
Situation	98.7	92.9	79.4	79.0	81.4	84.6	88.0	89.2	90.4	90.0	91.3	89.2	90.6
Expectations	92.8	81.1	71.9	82.1	91.3	95.5	96.3	97.3	95.1	91.9	93.0	91.5	94.2

Source: ifo Business Survey

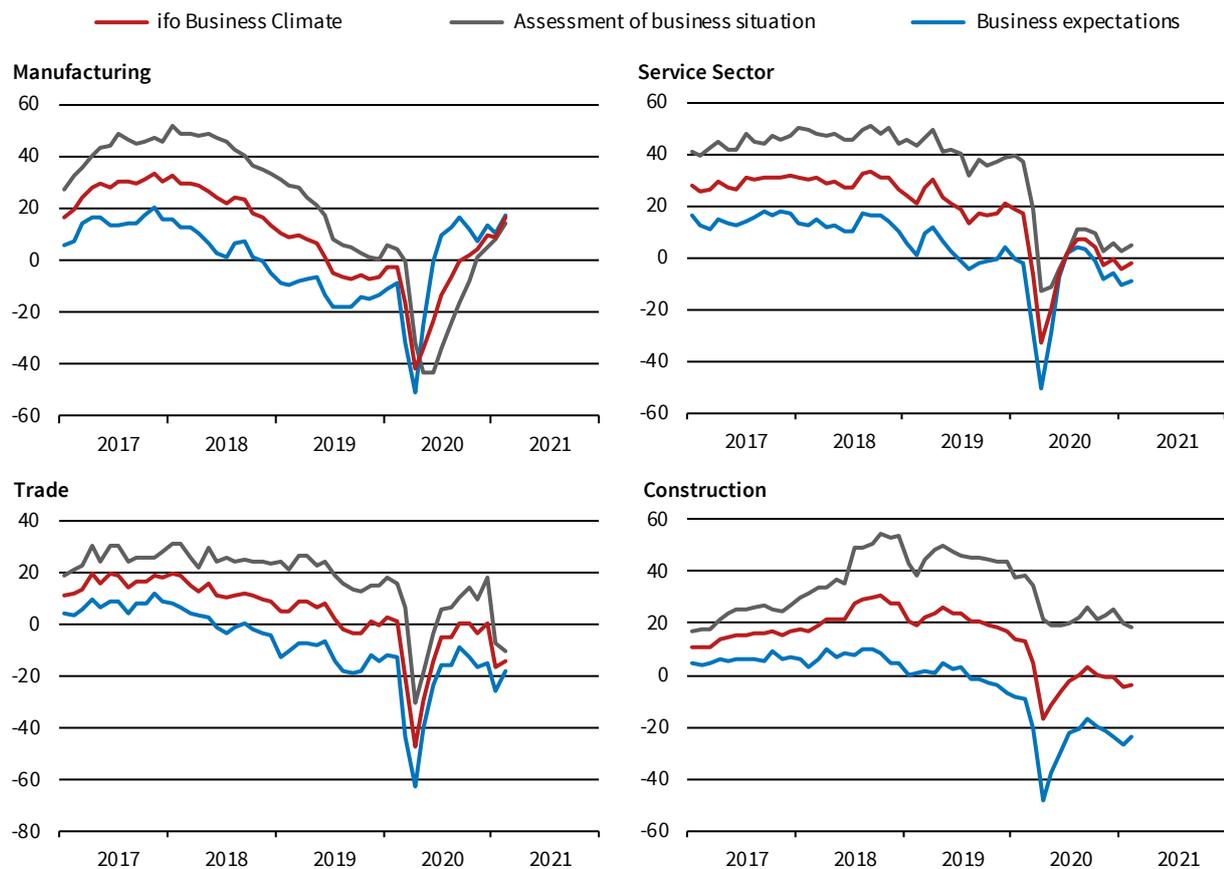
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For long time-series in Excel format, please see <https://www.ifo.de/en/umfragen/time-series>.

¹ Seasonally adjusted

ifo Business Climate, Business Situation, and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, February 2021.

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

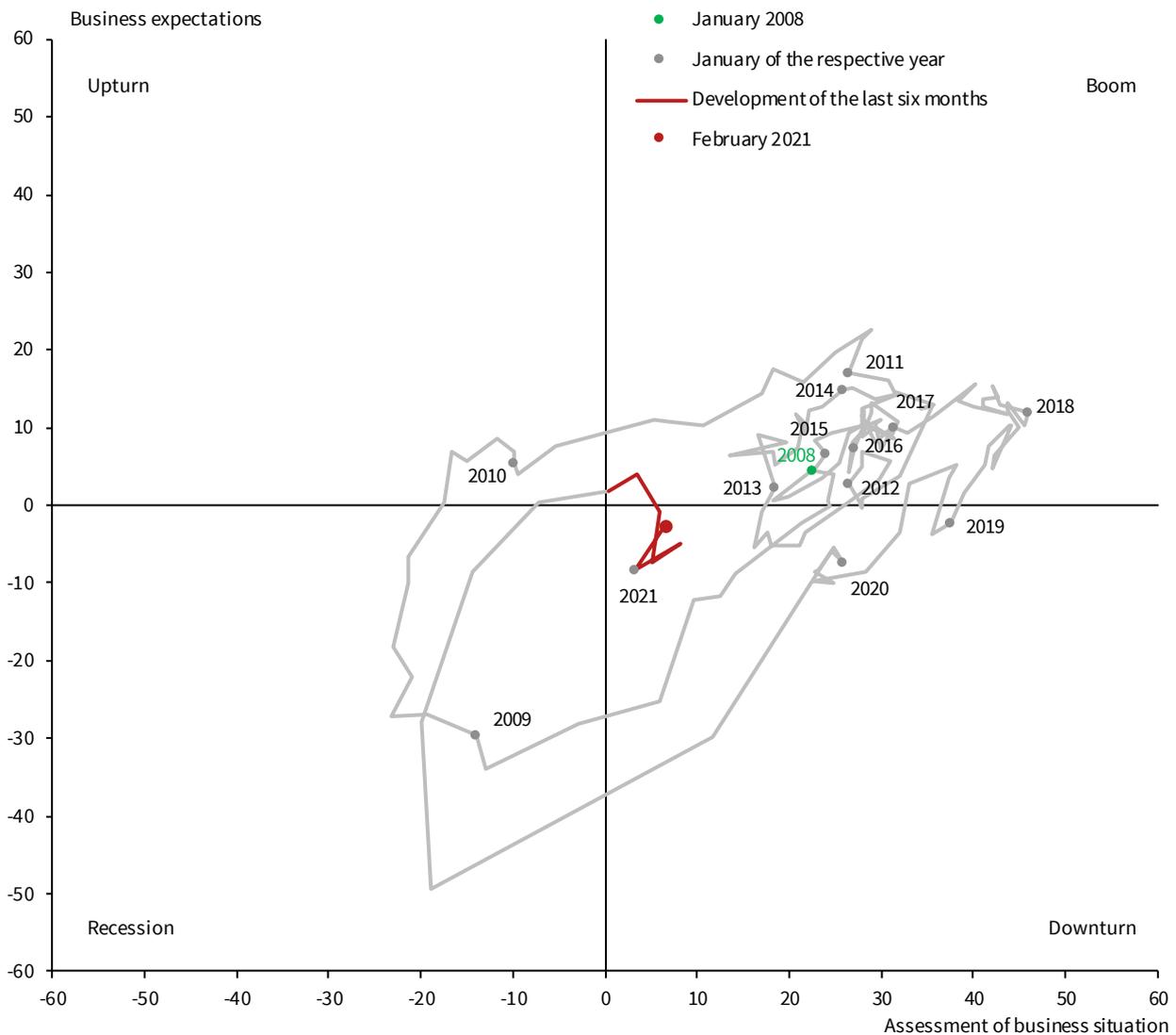
Month/year	02/20	03/20	04/20	05/20	06/20	07/20	08/20	09/20	10/20	11/20	12/20	01/21	02/21
Germany	9.1	-10.2	-34.8	-24.0	-11.5	-3.5	1.2	3.6	2.7	-1.2	1.5	-2.5	1.9
Manufacturing	-2.3	-16.7	-41.6	-34.4	-23.3	-13.6	-6.5	-0.6	1.6	4.1	9.2	9.1	16.1
Service sector	16.9	-6.8	-32.6	-20.2	-6.0	1.7	7.2	6.9	4.0	-3.0	-0.3	-4.4	-2.2
Trade	0.9	-20.6	-47.7	-30.1	-14.2	-5.3	-5.1	0.3	-0.1	-4.0	0.3	-17.2	-14.6
Construction	13.1	5.0	-16.9	-11.5	-6.5	-2.1	-0.2	3.2	0.0	-0.7	-0.8	-4.9	-3.6

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

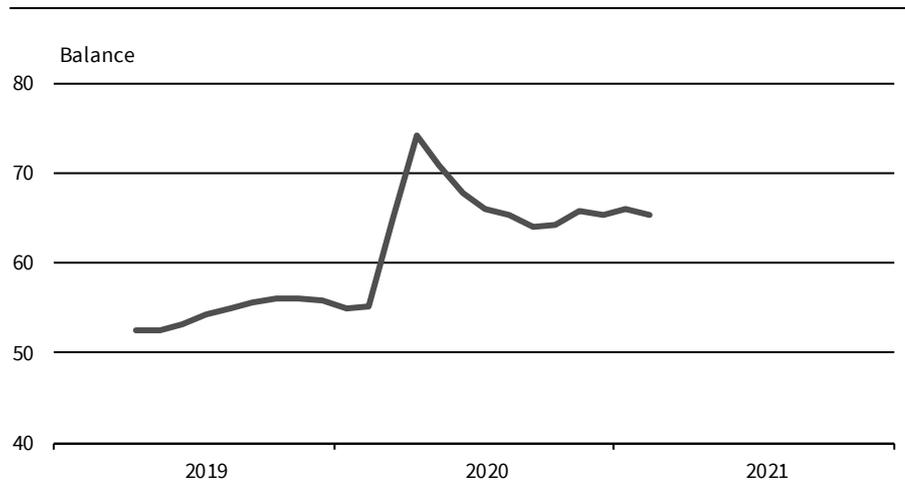


^a Manufacturing, service sector, trade, and construction.
 Source: ifo Business Survey, February 2021.

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 Business Uncertainty Germany^a

Original values



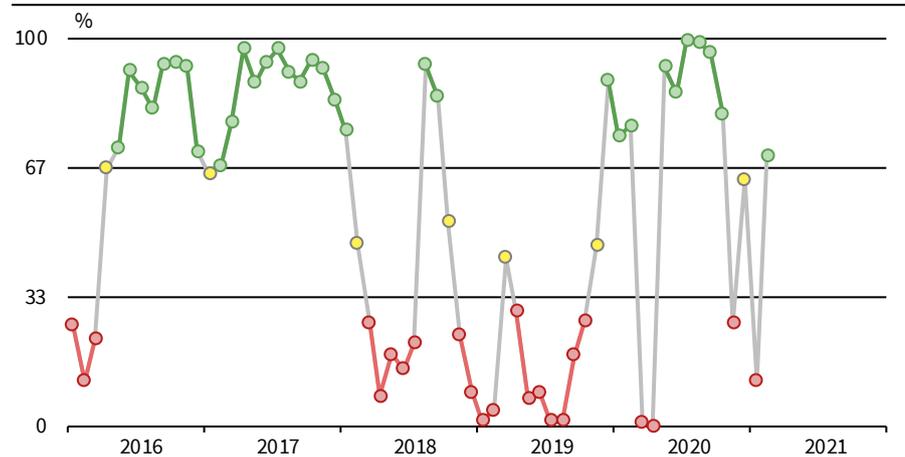
^a Manufacturing, service sector, trade, and construction.
 Source: ifo Business Survey, February 2021.

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The ifo Business Uncertainty measures how difficult it is for managers to predict the development of their company's business situation over the next six months. The measure is calculated based on the weighted fractions of companies that fall into the answer options "easy," "fairly easy," "fairly difficult," and "difficult" of a corresponding question in the ifo Business Survey. To this end, the answer categories are mapped onto a numerical scale with equally spaced intervals. Theoretically, the ifo Business Uncertainty can range from 0 to 100. Higher values indicate higher uncertainty: the future business situation is more difficult to predict.

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, February 2021.

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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 percent mark signal an economic expansion (green lights); probabilities under the 33 percent 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.