

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

ifo Index Declines

Munich, July 26, 2021 – Sentiment in the German economy has clouded over. The ifo Business Climate Index for Germany fell to 100.8 points in July, down from 101.7 points in June.¹ Companies evaluated their current business situations as somewhat better, but their expectations for the coming months were significantly less optimistic. Supply bottlenecks and concerns over newly rising infection numbers are weighing on the German economy.

The index in *manufacturing* fell, due to a distinct decrease in optimism in companies' expectations. That indicator declined for the fourth time in a row. In contrast, companies' assessments of the current situation rose to their highest level since August 2018. Capacity utilization managed to rise from 85.9 to 87.1 percent, a figure that is considerably higher than the long-term average of 83.5. The scarcity of intermediate products is becoming more critical, and more and more companies complain of a lack of skilled workers.

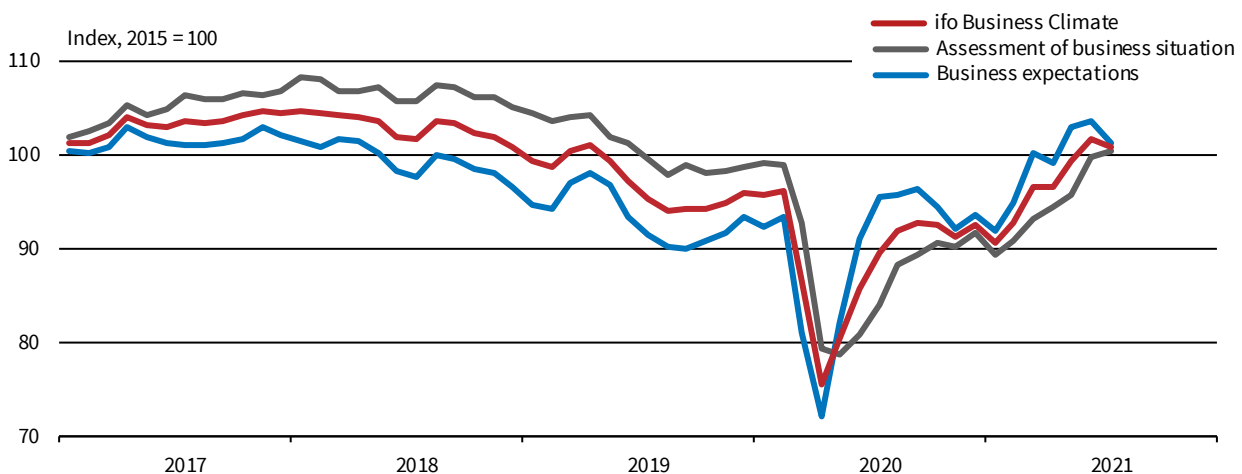
In the *service sector*, the business climate deteriorated. Although service providers were more satisfied with their ongoing business, their view of the coming months is much less optimistic. Companies continue to expect rising sales figures, even if not as strong as in the previous month.

The Business Climate Index in *trade* took a downturn as well. The cautiously optimistic expectations of the previous months declined. In contrast, the indicator for the current situation rose somewhat. More and more companies in retail are also reporting supply bottlenecks.

In *construction*, the business climate improved. Companies were more satisfied with their current situation, and the expectations indicator rose for the third time in a row.

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, July 2021.

© ifo Institute

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

| Month/year | 07/20 | 08/20 | 09/20 | 10/20 | 11/20 | 12/20 | 01/21 | 02/21 | 03/21 | 04/21 | 05/21 | 06/21 | 07/21 |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Climate | 89.6 | 92.0 | 92.8 | 92.5 | 91.2 | 92.6 | 90.6 | 92.8 | 96.7 | 96.7 | 99.3 | 101.7 | 100.8 |
| Situation | 84.0 | 88.2 | 89.4 | 90.7 | 90.3 | 91.6 | 89.4 | 90.8 | 93.2 | 94.4 | 95.8 | 99.7 | 100.4 |
| Expectations | 95.6 | 95.8 | 96.4 | 94.4 | 92.2 | 93.7 | 91.9 | 94.9 | 100.2 | 99.1 | 102.9 | 103.7 | 101.2 |

Source: ifo Business Survey

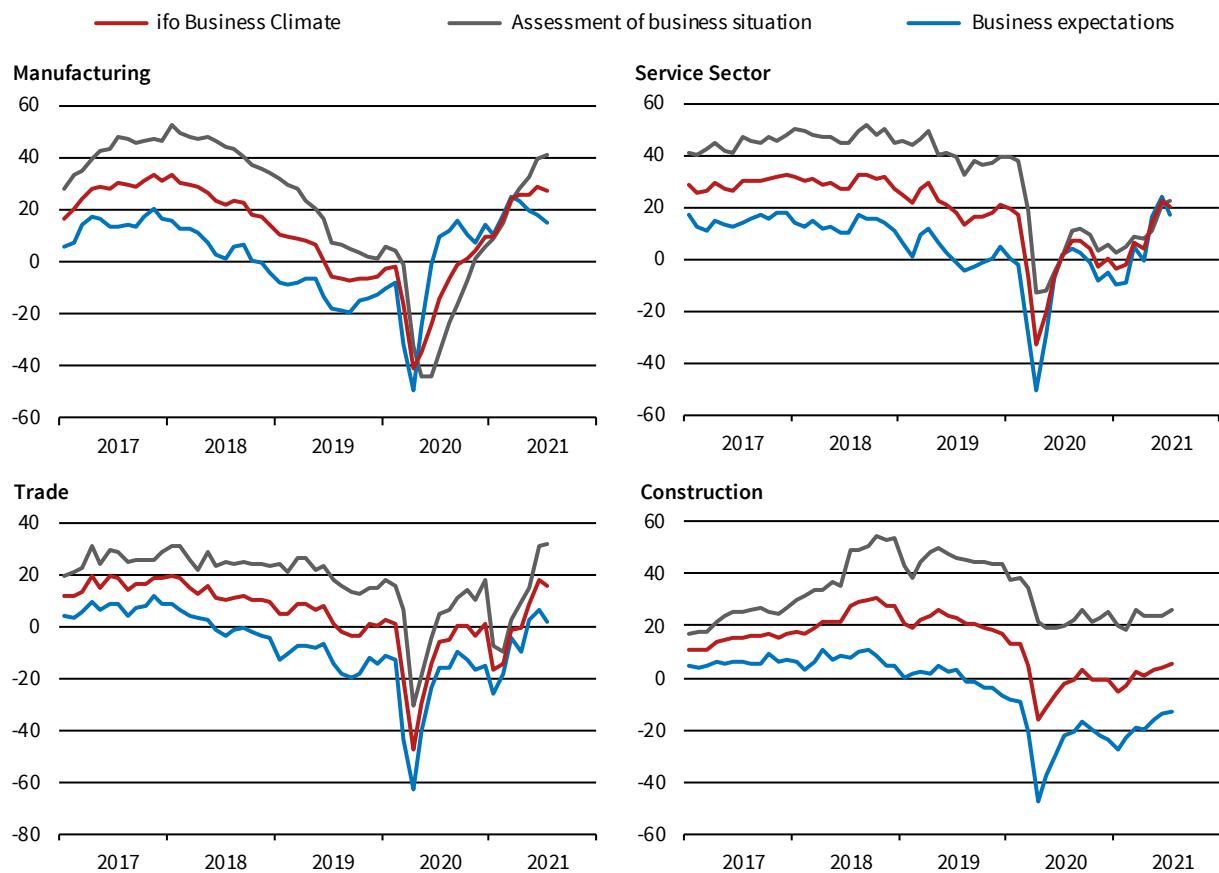
© ifo Institute

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, July 2021.

© ifo Institute

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

| Month/year | 07/20 | 08/20 | 09/20 | 10/20 | 11/20 | 12/20 | 01/21 | 02/21 | 03/21 | 04/21 | 05/21 | 06/21 | 07/21 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Germany | -4.1 | 1.0 | 2.9 | 2.3 | -0.6 | 2.5 | -1.8 | 2.8 | 11.3 | 11.4 | 17.0 | 22.3 | 20.3 |
| Manufacturing | -14.1 | -6.7 | -1.0 | 1.3 | 4.4 | 9.8 | 9.6 | 16.5 | 24.0 | 25.3 | 25.8 | 28.5 | 27.4 |
| Service sector | 1.1 | 7.4 | 6.7 | 4.0 | -2.6 | 0.0 | -3.8 | -2.1 | 6.6 | 3.7 | 13.8 | 22.5 | 19.8 |
| Trade | -5.7 | -5.0 | 0.1 | -0.1 | -3.8 | 0.6 | -16.8 | -14.5 | -1.3 | -0.4 | 8.5 | 17.8 | 15.8 |
| Construction | -2.4 | -0.5 | 3.2 | -0.4 | -0.9 | -0.8 | -5.2 | -3.2 | 2.5 | 0.8 | 3.1 | 4.2 | 5.7 |

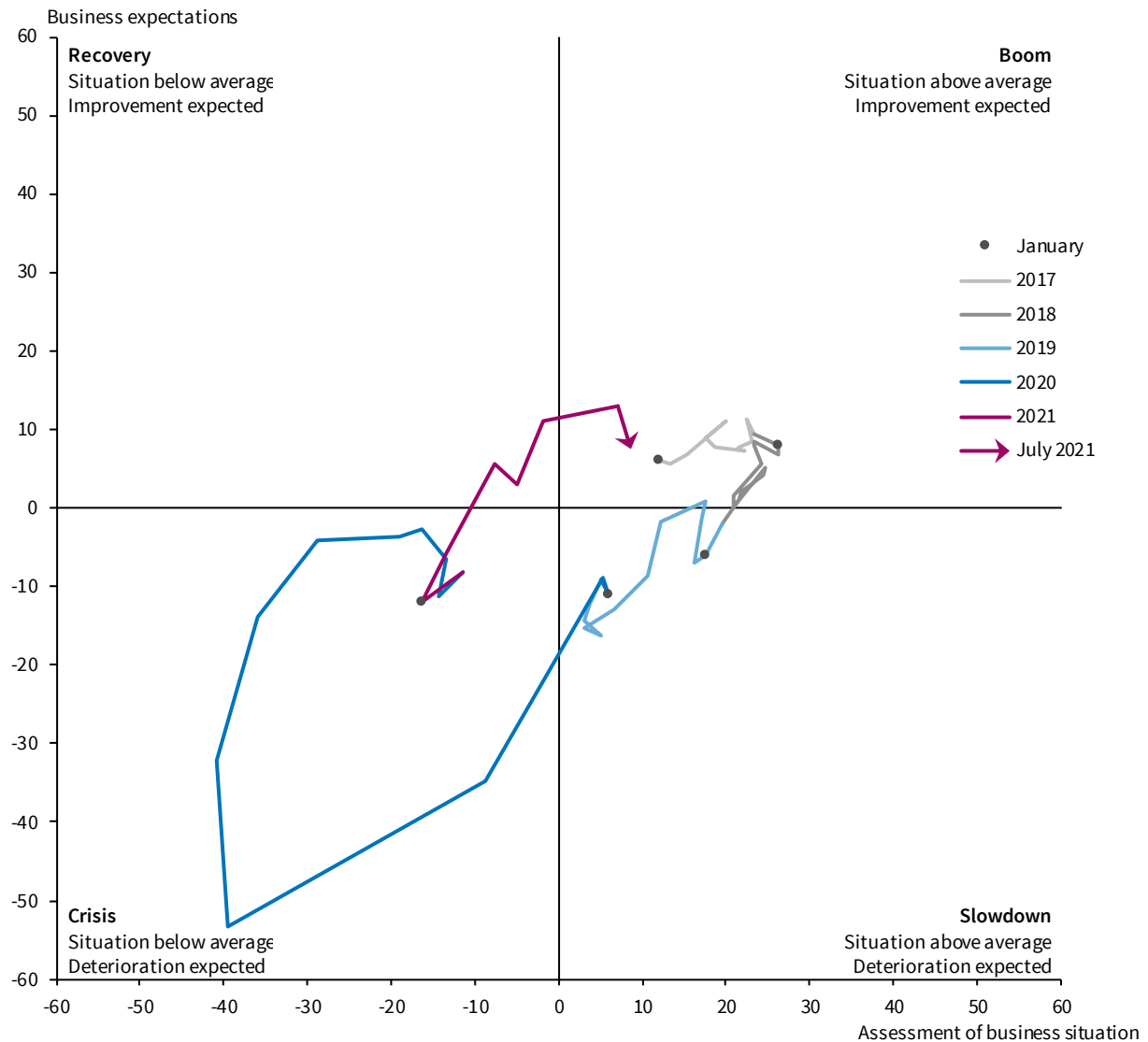
Source: ifo Business Survey

© ifo Institute

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 adjusted for mean value, seasonally adjusted



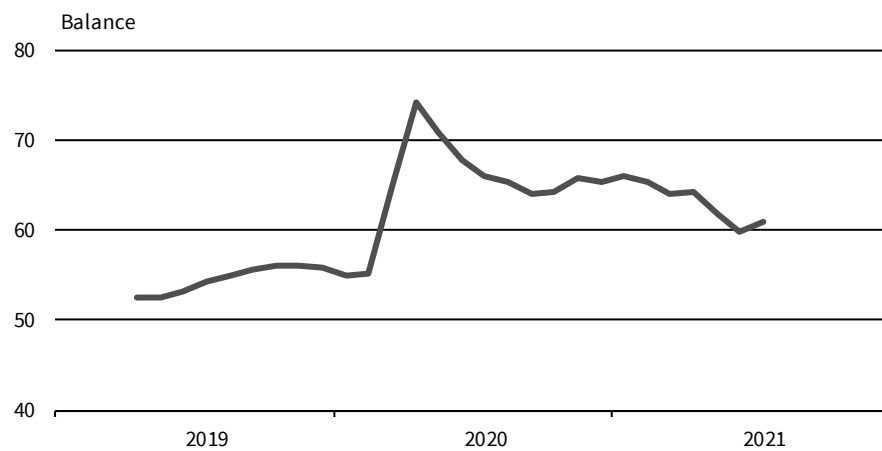
^a Manufacturing, service sector, trade, and construction.

Source: ifo Business Survey, July 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 current situation against expectations – passes through quadrants labeled with the different phases of activity, namely recovery, boom, slowdown, and crisis; provided that the expectations indicator sufficiently precedes the current business situation indicator. If survey participants’ assessments of the current business situation and their business expectations are both below average on balance, economic activity is plotted in the “crisis” quadrant. If the expectations indicator is above average (with an improving but below average business situation on balance), economic activity moves to the “recovery” quadrant. If the business situation and expectations are both above average on balance, economic activity appears in the “boom” quadrant. If, however, the expectations indicator falls below average (with a deteriorating but above average business situation on balance), economic activity slips into the “slowdown” quadrant.

ifo Business Uncertainty Germany^a

Original values



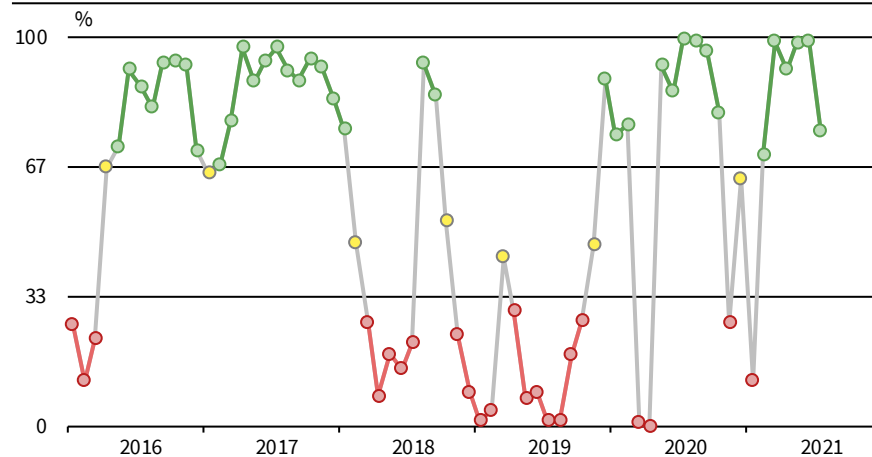
^a Manufacturing, service sector, trade, and construction.
 Source: ifo Business Survey, July 2021.

© ifo Institute

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, July 2021.

© ifo Institute

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.