

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

ifo Business Climate Index Recovers

Munich, May 25, 2020 – Sentiment among German companies has recovered somewhat after a catastrophic few months. The ifo Business Climate Index rose from 74.2 points¹ in April to 79.5 points in May. Even though companies once again assessed their current situation as slightly worse, their expectations for the coming months improved considerably. Nevertheless, many companies are still pessimistic about their business. The gradual easing of the lockdown offers a glimmer of hope.

In *manufacturing*, the Business Climate Index rose appreciably. However, this was due only to companies' much improved expectations. Industrial companies are still a long way from optimism. Their assessment of the current situation was once again markedly worse.

In the *service sector*, the business climate recovered notably from its historic low in April. This is primarily the result of a strong rise in expectations. Service providers also assessed their current situation as slightly better. However, companies are on balance still pessimistic.

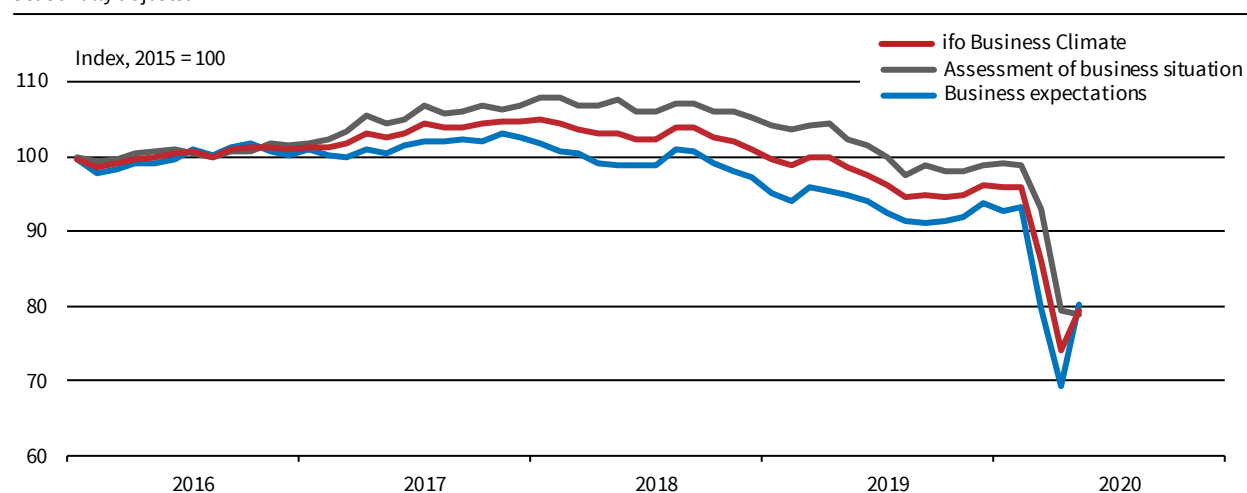
In *trade*, too, the Business Climate Index rose substantially. There was a tangible recovery both in companies' assessments of the current situation and in their expectations. The easing of the lockdown is improving sentiment among retailers in particular.

In *construction*, the index rose for the first time after seven consecutive months of falls. This was due to an unprecedented improvement in expectations. However, construction companies assessed their current situation as somewhat worse.

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, May 2020.

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

Month/year	05/19	06/19	07/19	08/19	09/19	10/19	11/19	12/19	01/20	02/20	03/20	04/20	05/20
Climate	98.5	97.6	96.1	94.5	94.8	94.6	94.9	96.2	95.9	96.0	86.0	74.2	79.5
Situation	102.2	101.4	99.8	97.6	98.7	97.9	98.1	98.8	99.1	98.9	92.9	79.4	78.9
Expectations	94.9	94.0	92.5	91.4	91.1	91.4	91.8	93.8	92.8	93.2	79.7	69.4	80.1

Source: ifo Business Survey.

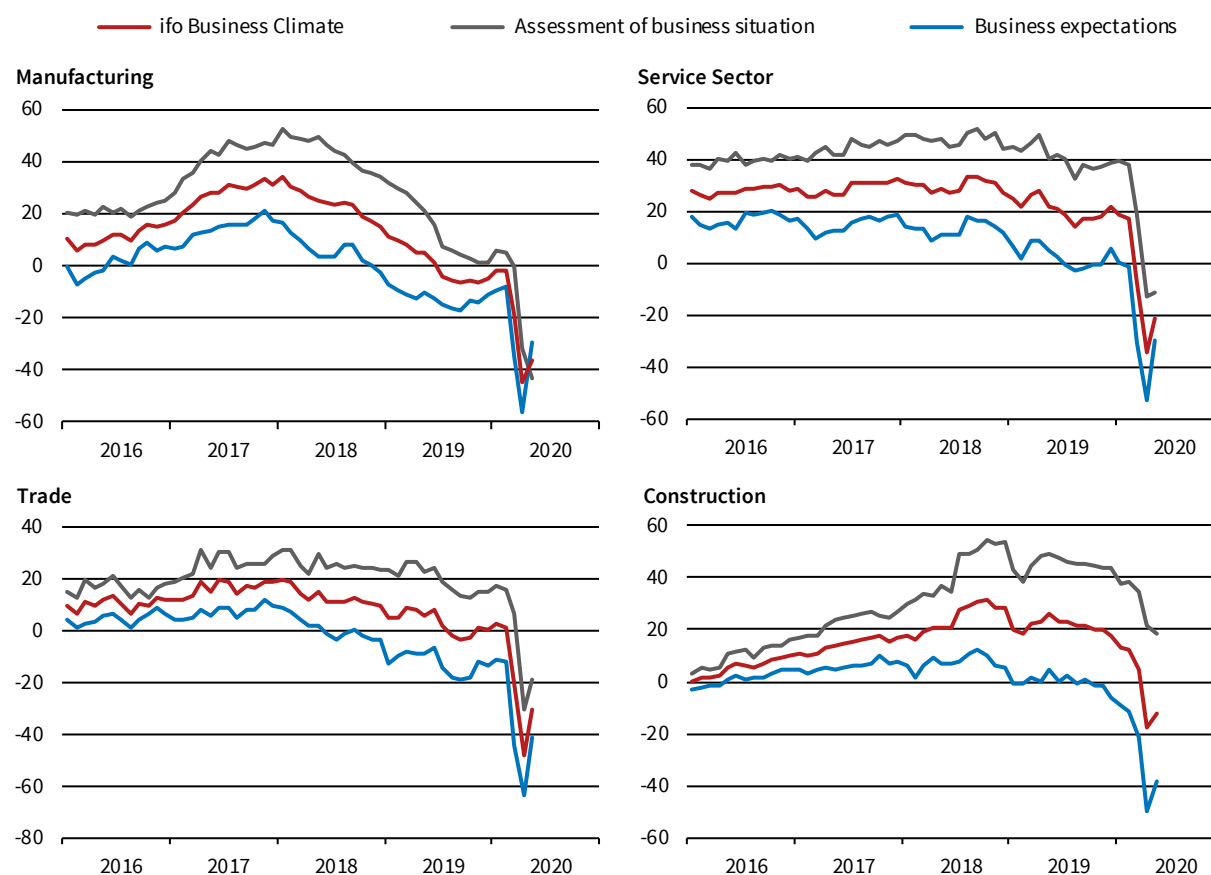
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For long time-series in Excel format, please see <https://www.ifo.de/en/umfragen/time-series>.

¹ Seasonally adjusted

ifo Business Climate, Business Situation, and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, May 2020.

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

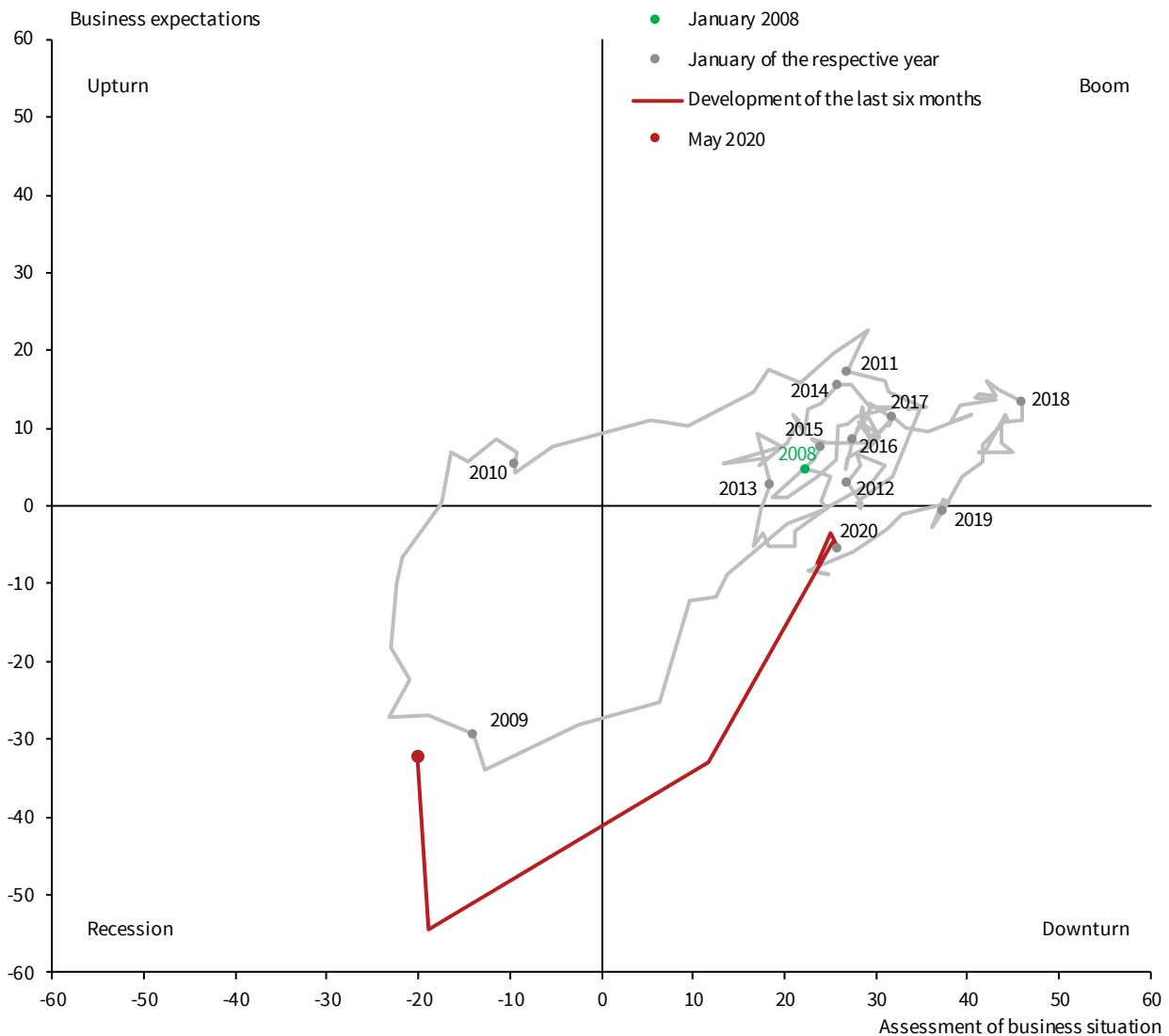
Month/year	05/19	06/19	07/19	08/19	09/19	10/19	11/19	12/19	01/20	02/20	03/20	04/20	05/20
Germany	15.3	13.4	10.1	6.6	7.3	6.7	7.5	10.4	9.6	9.8	-12.0	-37.7	-26.2
Manufacturing	4.7	1.3	-4.1	-5.7	-6.5	-5.6	-6.4	-5.2	-1.7	-1.8	-18.4	-44.5	-36.4
Service sector	22.0	21.0	18.6	13.8	17.1	16.8	17.4	21.4	18.8	17.3	-7.6	-34.2	-21.0
Trade	5.8	7.9	1.4	-2.2	-3.6	-3.3	0.8	0.0	2.1	1.0	-21.0	-48.4	-30.5
Construction	25.9	22.8	23.2	21.4	21.7	20.3	19.8	17.6	12.9	12.2	4.7	-17.7	-12.0

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



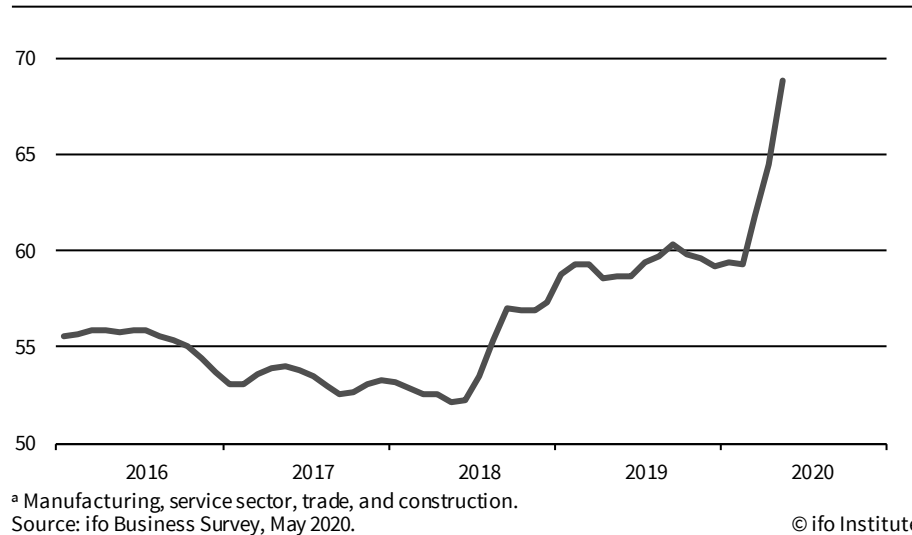
^a Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, May 2020.

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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 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

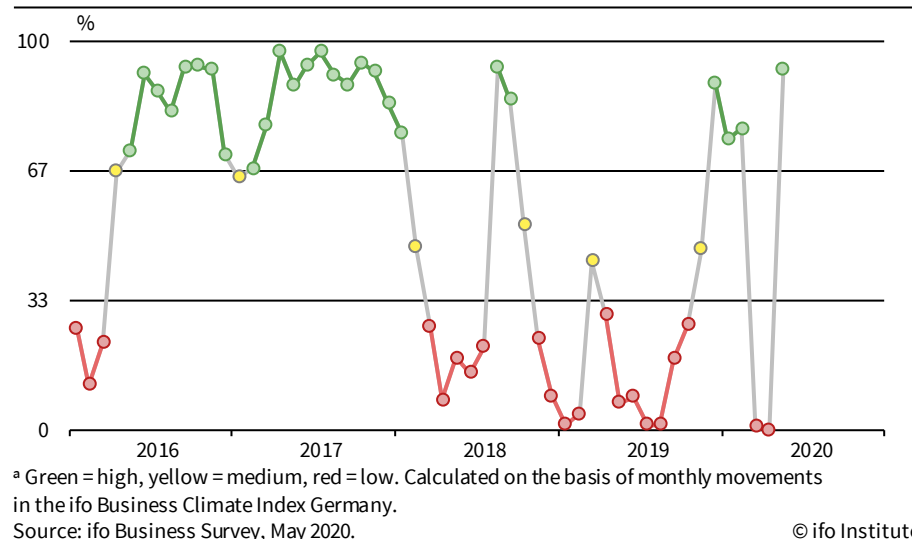
Seasonally adjusted and three months moving average



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



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.