ifo Business Climate Index Falls Considerably

Munich, July 25, 2022 – Sentiment in German business has cooled significantly. The ifo Business Climate Index fell to 88.6 points in July, down from 92.2 points[1] in June, to reach its lowest value since June 2020. Companies are expecting business to become much more difficult in the coming months. They were also less satisfied with their current situation. Higher energy prices and the threat of a gas shortage are weighing on the economy. Germany is on the cusp of a recession.

In *manufacturing*, the index plummeted. Pessimism regarding the coming months reached its highest level since April 2020. This pessimism extends across almost all industries. Companies also assessed their current situation as worse. For the first time in two years, new orders fell slightly.

In the *service sector*, the business climate worsened substantially. The collapse was particularly pronounced in companies' expectations. The mood turned even in tourism and hospitality, despite great recent optimism here. Service providers assessed their current business as worse, but the indicator remains at a high level.

In *trade*, the indicator once again took a nosedive. Businesses were less satisfied with their current situation. They are also increasingly concerned about the coming months. At the present time, not a single retail segment is optimistic about the future.

Following a brief recovery in the previous month, the business climate in *construction* again deteriorated notably. Assessments of the current situation fell to their lowest level since April 2016. Expectations, too, are marked by deep pessimism.

Clemens Fuest
President of the ifo Institute

ifo Business Climate Germany[a]
Seasonally adjusted
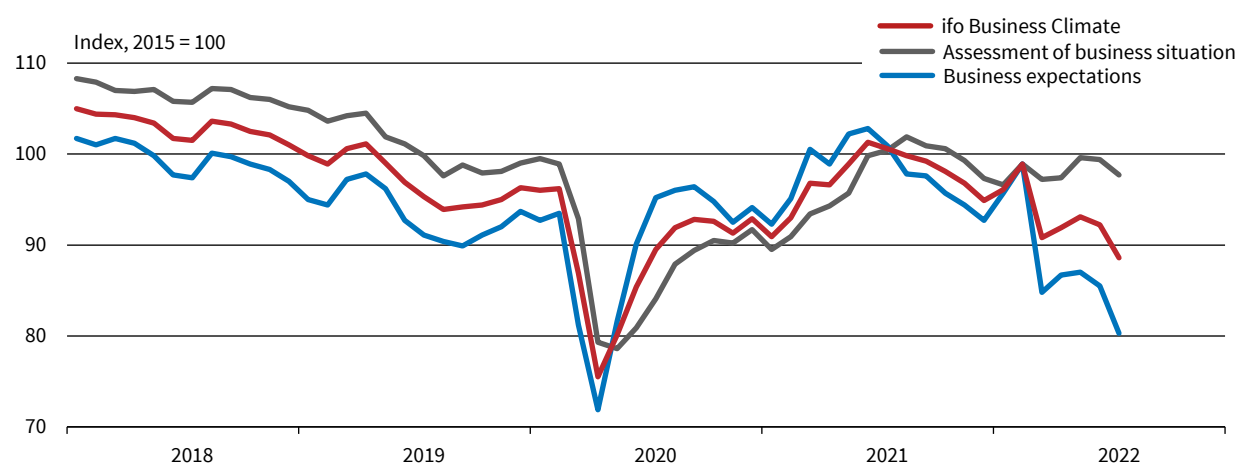
[a] Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, July 2022.   © ifo Institute

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

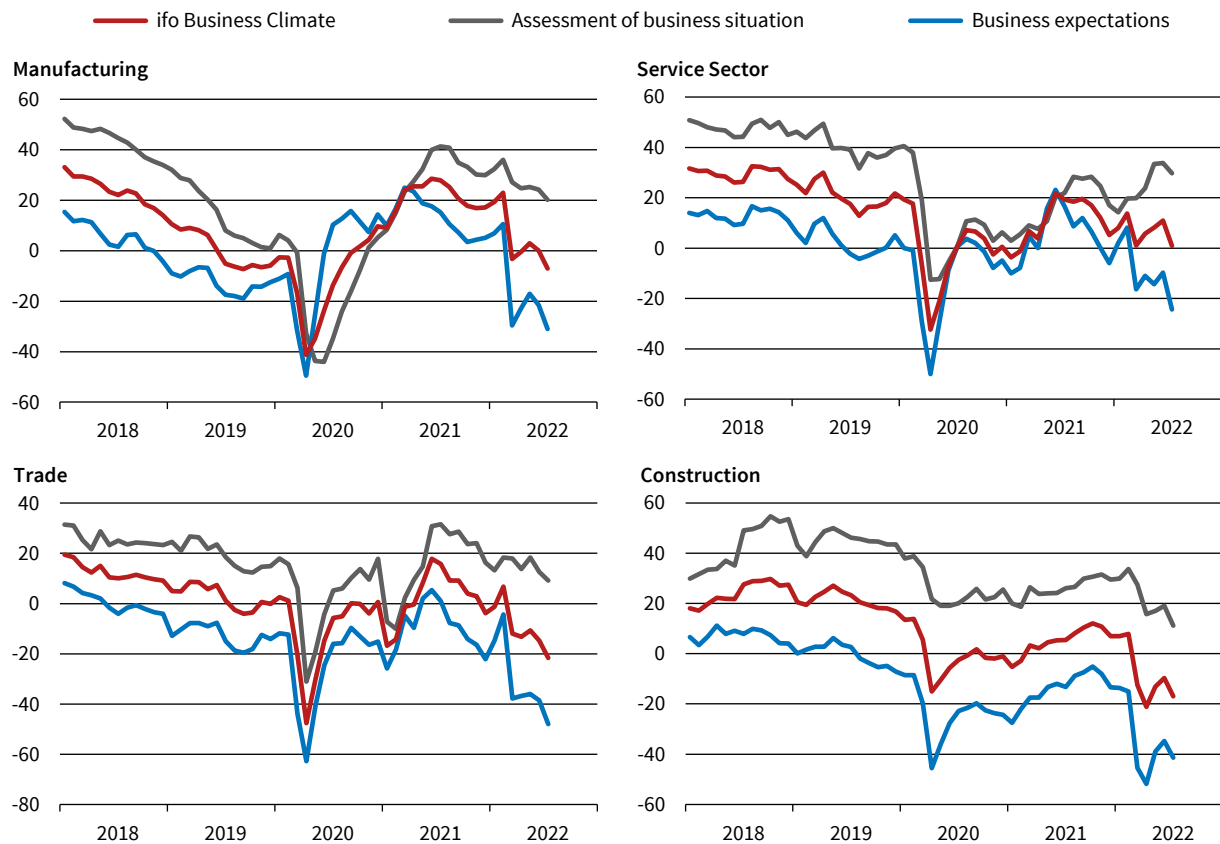| Month/year	07/21	08/21	09/21	10/21	11/21	12/21	01/22	02/22	03/22	04/22	05/22	06/22	07/22
Climate	100.6	99.8	99.2	98.1	96.8	94.9	96.1	98.9	90.8	91.9	93.1	92.2	88.6
Situation	100.4	101.9	100.9	100.6	99.3	97.3	96.6	98.9	97.2	97.4	99.6	99.4	97.7
Expectations	100.9	97.8	97.6	95.7	94.4	92.7	95.7	98.9	84.8	86.7	87.0	85.5	80.3

Source: ifo Business Survey, July 2022   © ifo Institute

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

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[1] Seasonally adjusted

ifo Business Climate, Business Situation, and Expectations by Sector

Balances, seasonally adjusted

Source: ifo Business Survey, July 2022.

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

| Month/year	07/21	08/21	09/21	10/21	11/21	12/21	01/22	02/22	03/22	04/22	05/22	06/22	07/22
Germany	19.9	18.3	16.9	14.4	11.7	7.6	10.1	16.2	-1.5	1.0	3.5	1.5	-6.4
Manufacturing	27.9	25.2	20.7	17.8	16.9	17.2	19.3	23.0	-3.3	-0.5	3.0	0.0	-7.1
Service sector	19.3	18.4	19.6	17.1	12.1	5.2	8.0	13.8	1.0	5.7	8.2	10.9	0.9
Trade	15.8	9.2	9.2	3.9	2.9	-3.8	-1.3	6.7	-12.0	-13.2	-10.7	-14.7	-21.6
Construction	5.5	8.1	10.4	12.0	10.8	7.0	7.0	7.9	-12.5	-21.2	-13.1	-9.7	-17.0

Source: ifo Business Survey, July 2022.

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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]

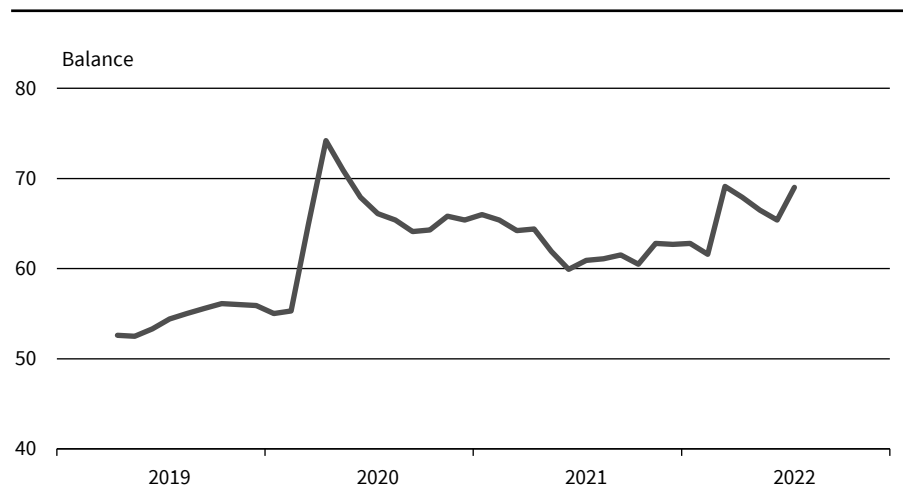Balances adjusted for mean value, seasonally adjusted
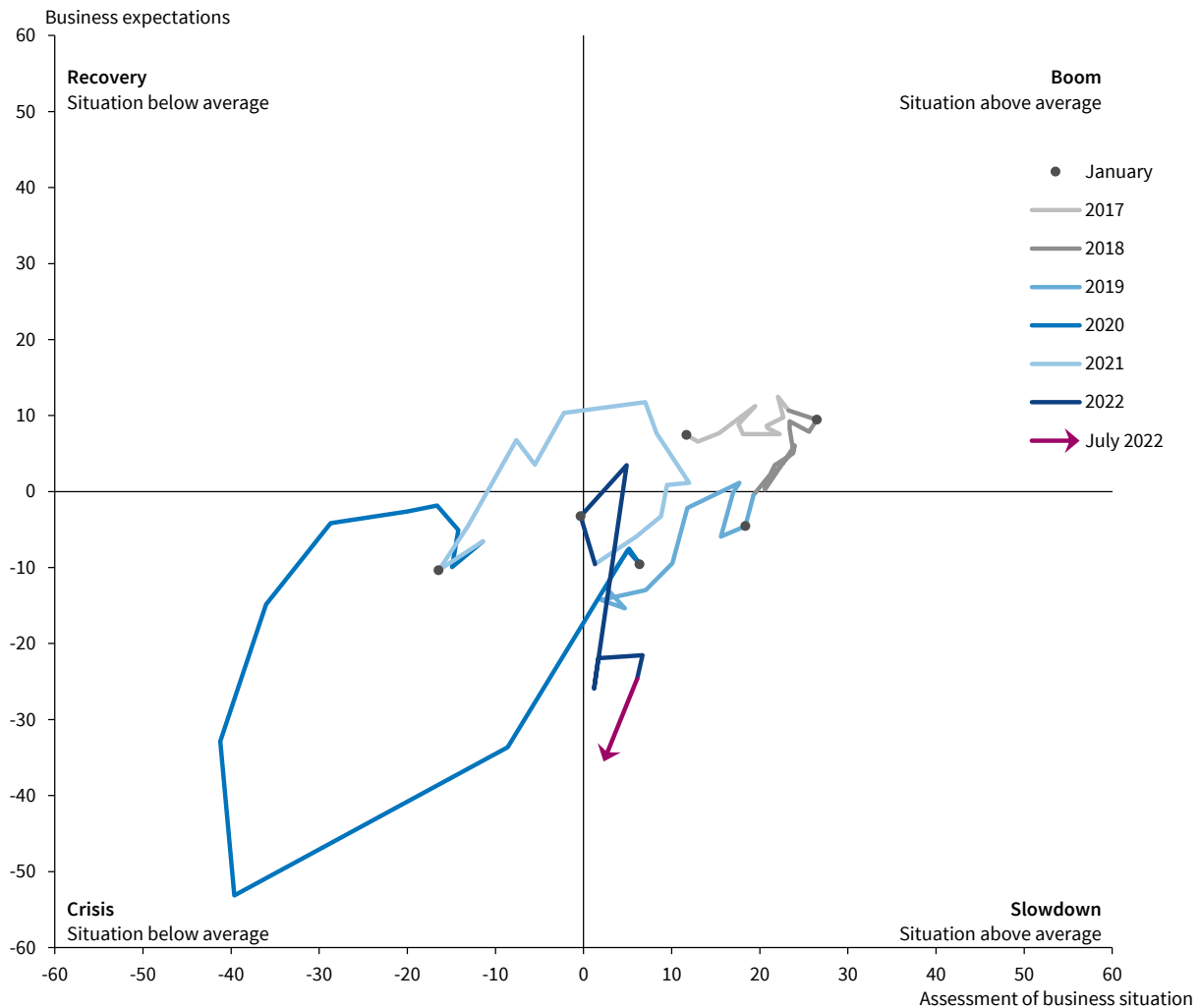
[a] Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, July 2022.

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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 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 Germanyª

Original values

Balance

ª Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, July 2022.

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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 expansionª

%
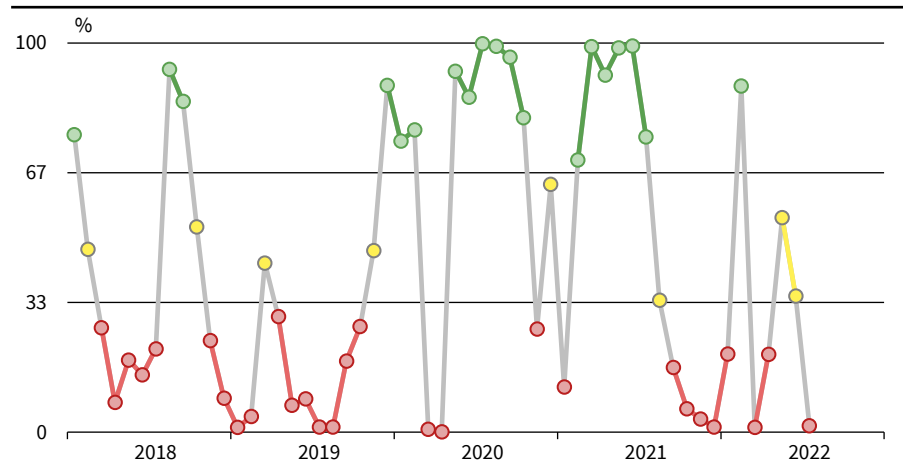
ª Green = high, yellow = medium, red = low. Calculated on the basis of monthly movements in the ifo Business Climate Index Germany.
Source: ifo Business Survey, July 2022.

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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.