ifo Business Climate Index Rises Despite Ukraine Crisis

Munich, February 22, 2022 – Sentiment in the German economy has improved appreciably. The ifo Business Climate Index rose to 98.9 points in February, up from 96.0 points[1] in January. Companies were more satisfied with their current business. There was a marked improvement in expectations. The German economy is betting on an end to the coronavirus crisis. However, the escalation of the crisis engulfing Ukraine remains a risk factor.

In *manufacturing*, the index rose sharply. Companies were clearly more satisfied with their current situation. Their expectations were also more optimistic. Order books grew once again. However, material shortages continue to hamper production.

In the *service sector*, the business climate improved considerably. The indicators of the current business situation and of expectations jumped higher. The Business Climate Index rose in almost all service industries. Optimism has returned to hospitality.

The business climate indicator rose in *trade*, too. Businesses were much more satisfied with their current situation. Their expectations also brightened tangibly. Year-over-year sales grew sharply. However, both wholesalers and retailers continue to report supply bottlenecks.

In *construction*, the business climate improved somewhat. This was due to more positive assessments of the current business situation. The outlook, however, was a little more pessimistic.

Clemens Fuest
President of the ifo Institute

ifo Business Climate Germany[a]

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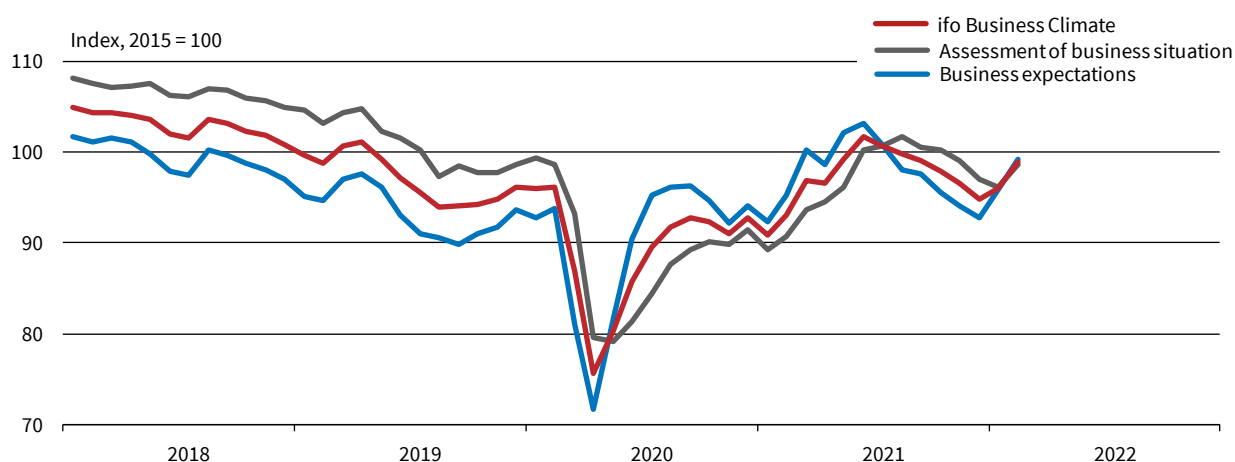
[a] Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, February 2022.   © ifo Institute

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

Month/year	02/21	03/21	04/21	05/21	06/21	07/21	08/21	09/21	10/21	11/21	12/21	01/22	02/22
Climate	93.0	96.9	96.6	99.2	101.7	100.7	99.8	99.1	97.9	96.6	94.8	96.0	98.9
Situation	90.7	93.6	94.5	96.2	100.3	100.7	101.7	100.6	100.3	99.1	97.0	96.2	98.6
Expectations	95.3	100.2	98.7	102.2	103.1	100.8	98.0	97.6	95.5	94.1	92.7	95.8	99.2

Source: ifo Business Survey, February 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
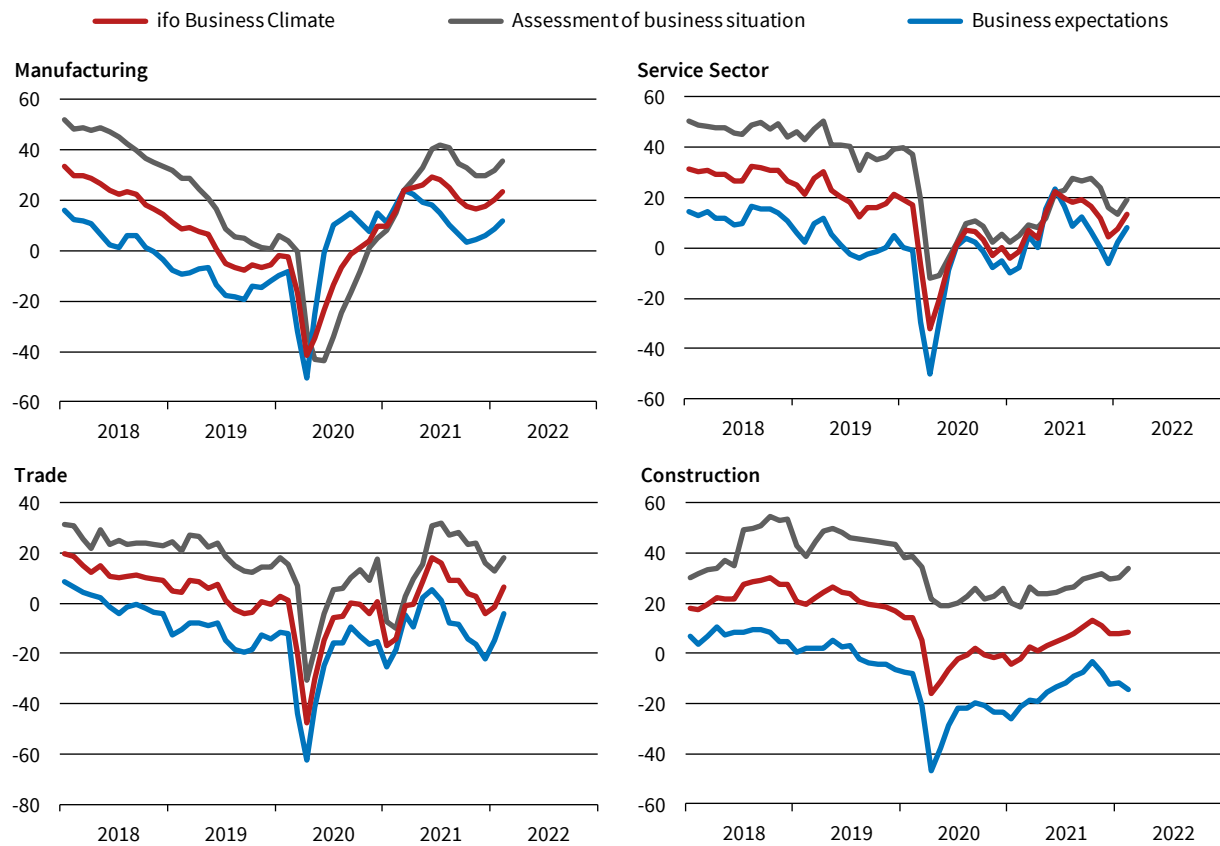
Source: ifo Business Survey, February 2022.

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

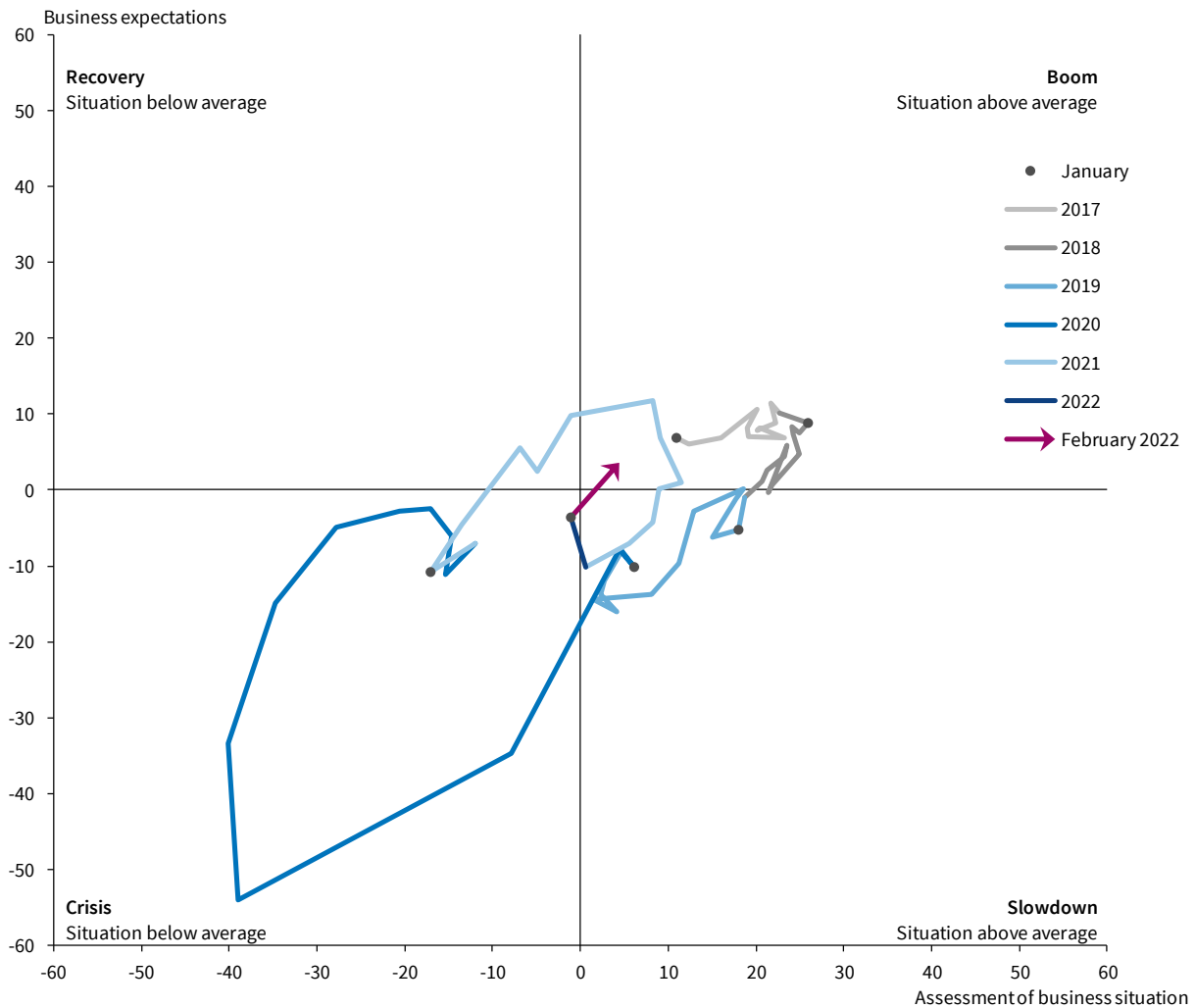| Month/year	02/21	03/21	04/21	05/21	06/21	07/21	08/21	09/21	10/21	11/21	12/21	01/22	02/22
Germany	3.3	11.8	11.1	16.8	22.3	20.2	18.3	16.6	14.0	11.1	7.3	9.9	16.3
Manufacturing	16.2	24.0	25.0	25.8	29.0	27.9	24.9	20.2	17.6	16.7	17.4	20.0	23.5
Service sector	-1.6	7.0	4.0	13.9	22.5	19.8	18.1	19.4	16.8	11.7	4.6	7.7	13.5
Trade	-14.3	-1.1	-0.3	8.5	17.9	15.8	9.2	9.1	3.8	2.7	-4.1	-1.3	6.6
Construction	-2.4	2.7	1.0	3.3	4.5	6.2	7.9	10.5	13.1	11.2	7.6	8.0	8.3

Source: ifo Business Survey, February 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

Business expectations

Recovery
Situation below average

Boom
Situation above average

Crisis
Situation below average

Slowdown
Situation above average

Assessment of business situation

Legend:
- ● January
- 2017
- 2018
- 2019
- 2020
- 2021
- 2022
- → February 2022

[a] Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, February 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 Germany[a]

Original values
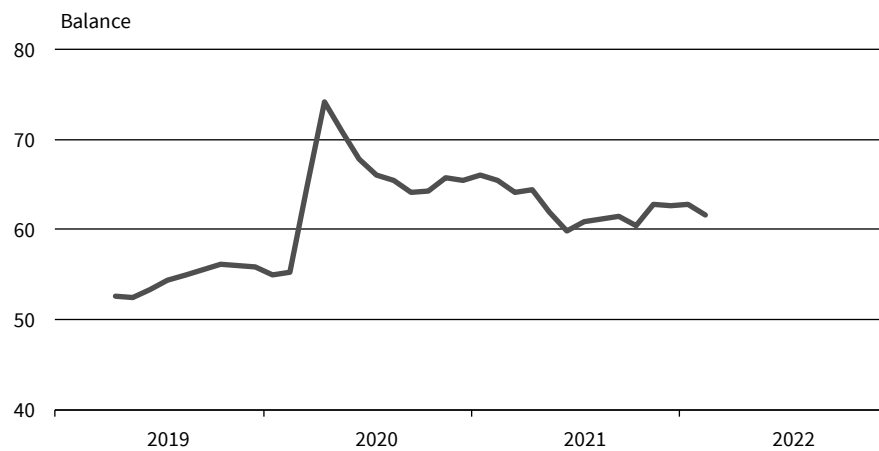
ª Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, February 2022.

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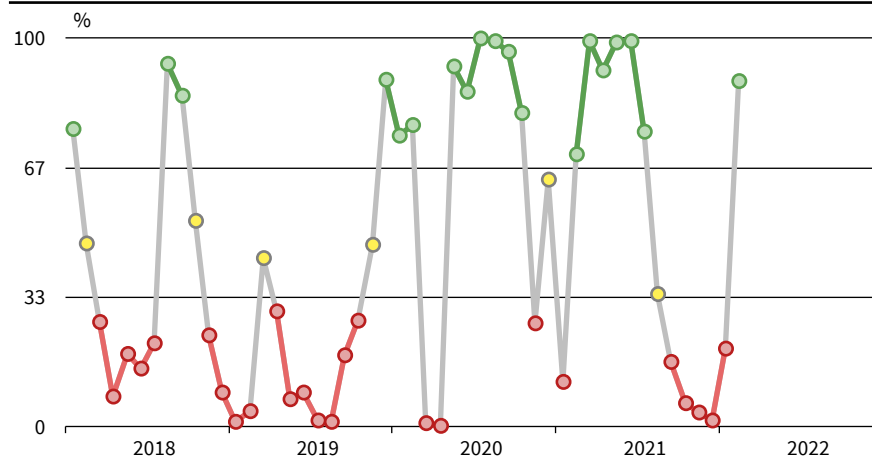
ª Green = high, yellow = medium, red = low. Calculated on the basis of monthly movements
in the ifo Business Climate Index Germany.
Source: ifo Business Survey, February 2022.

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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.