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Economic News

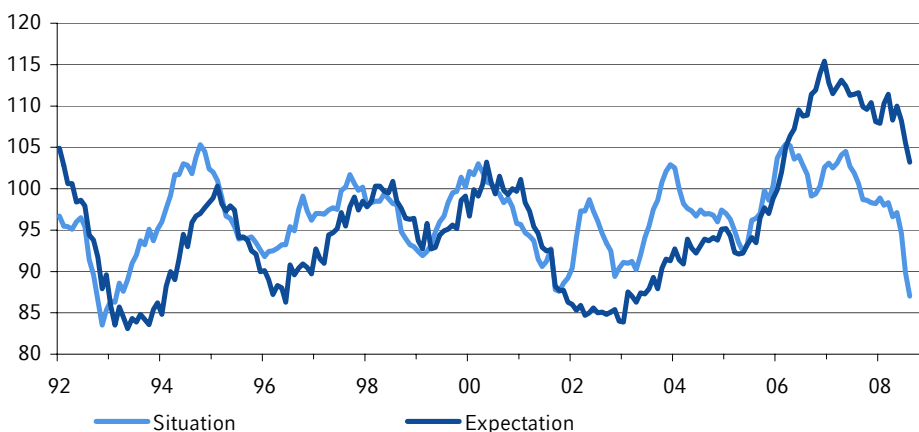
AUGUST IFO BUSINESS CLIMATE

Ifo Business Climate nurtures scepticism about growth

- The **Ifo business climate** worsened again significantly in August. The overall Ifo index sank by 2.7 points to 94.8. Accordingly, the indicator fell back below its long-standing average of 96.6 for the first time since 2005, which we view as appropriate given the current economic situation. The decline was based on the deterioration both of the current business situation and of expectations.
- The **Ifo situation component** fell to 103.0, down from 105.7 in July, which was primarily due to the sluggish flow of orders over the past seven months. The order backlog from last year is dwindling appreciably. Overall, companies' assessment of the current business situation will probably continue to weaken in the coming months against the backdrop of slower economic growth.
- **Expectations** for the coming six months did not deteriorate as sharply as in July, declining to 87 points from 90 last month. However, given the stronger US dollar and the commodity and energy price trends of recent weeks, today's results are alarming nonetheless, particularly as firms assessed their export prospects more unfavourably than last month. In addition, the willingness to hire new employees has declined dramatically, according to Ifo. Consequently, the positive labour market trend is likely to come to an end in the foreseeable future.
- On balance, today's Ifo business climate results show that the German economy is in a downturn. Overall, the available economic indicators suggest that **little more than stagnation can be expected for the current quarter**. A recession in Germany – if only a technical one – can no longer be ruled out. Furthermore, we have to get used to the **weak phase continuing into next year**.

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Ifo business climate and expectations



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