

24 September 2008

Economic News

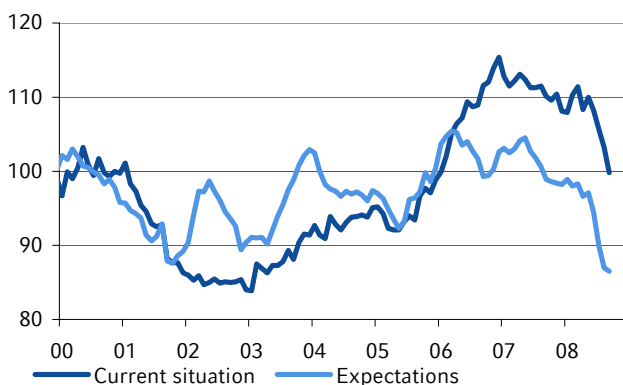
IFO BUSINESS CLIMATE IN SEPTEMBER

Sentiment gradually signalling recession

- German economic sentiment has continued to turn sharply lower. The **Ifo Business Climate Index** declined from 94.8 to 92.9 points in September, following the already significant pullback in the preceding month. The companies surveyed assessed both their current business situation and their business expectations for the coming six months more sceptically than in August.
- The **“business situation”** sub-index dropped sharply from 103.2 to 99.8 points. As a result, the index is still considerably above its long-term average. However, given the weak economy we will have to prepare ourselves for the fact that in the months ahead companies will assess their current business situation increasingly pessimistically.
- By contrast, **business expectations** were corrected only slightly downward. While lower oil prices and the stronger US dollar will probably have had a positive impact, the decline reflects increasingly more sceptical global growth prospects and the more difficult financing conditions likely to result from the financial market crisis. We believe a further decline in business expectations is likely in October as a major part of the survey results were already available before the latest escalation of the financial market crisis.
- Following a lengthy period during which the sentiment was quite robust, it has deteriorated noticeably in recent months. Even if the Ifo Business Climate Index is currently still some way from its low watermark, it is likely to gradually move in this direction in the near future because we specifically expect a marked worsening in the assessment of the business situation and there is little to suggest an improvement in business expectations.
- We will have to brace ourselves for **Germany's GDP being down in the third quarter as well**. Thus, this would fulfil the technical definition of a **recession** in Germany. As the situation in many other EMU countries is no better either – as the significant decline in the business climate in France and Italy reported today indicates – GDP in the eurozone in Q3 is likely to decline overall as well in line with our forecast. Given this, it is becoming increasingly probable that the **ECB** will ease its monetary policy before the end of the year, all the more so if the inflationary pressure moderates.

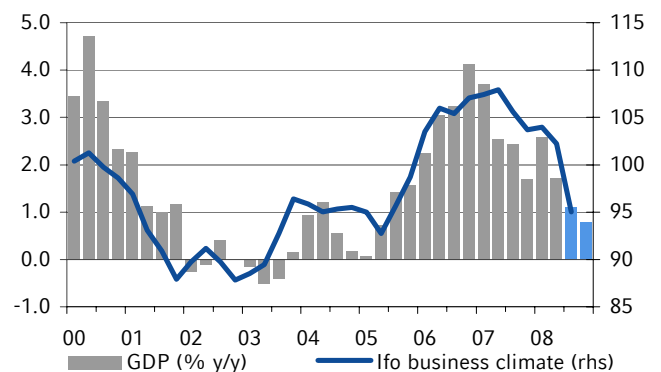
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ifo business climate



Source EcoWin, WestLB Research

GDP and ifo business climate



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