

27 Oktober 2008

# Economic News

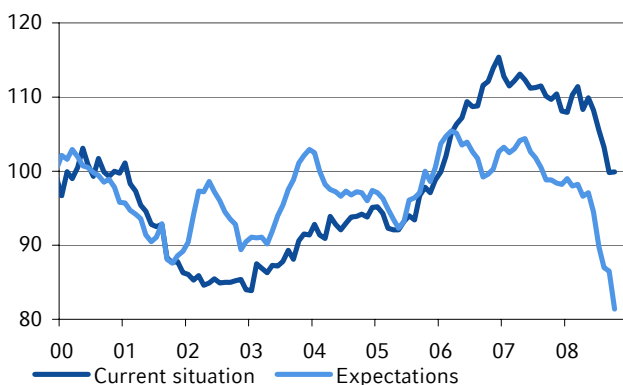
## OCTOBER IFO BUSINESS CLIMATE

### Business climate frosty in Germany

- Business sentiment in German industry and trade continued to deteriorate in October. The **Ifo Business Climate Index** fell from 92.9 to 90.2 points. This is its lowest level since the summer of 2003. While the surveyed companies' assessment of their **current business situation** was largely in line with last month's, they have once again significantly lowered their **business expectations for the coming six months**. Sentiment deteriorated most in the industrial and wholesale sectors. Conversely, it is only mildly worse in the retail sector.
- Despite the markedly lower price of crude oil and the weaker euro, corporate **business expectations** have well-nigh collapsed. They have fallen to 81.4 points and therefore the lowest level since the ifo index has been calculated for the whole of the Federal Republic of Germany. The m-o-m fall (-5.1 points) was even more dramatic than what followed 11 September 2001, and is therefore also a new negative record. Besides the subdued growth prospects for the global economy, concerns about a looming credit squeeze were responsible for this, even though in our view the financial markets stabilisation programme has reduced the risk of a credit crunch.
- Without doubt, it is a major surprise that companies' assessment of their **current business situation** is just as positive as last month's. After all, at close to 100 points, the business situation index is still well above its long-term average figure of 95.7 points.
- Today's ifo results do not bode well for the future economic trend. The recent downgrade in business expectations suggests that an improvement cannot be expected in the foreseeable future and that consequently this phase of weakness will last well into next year. As the situation in most other EMU countries is just as bad, it is becoming increasingly likely that the **ECB** will ease its monetary policy next week, assuming it doesn't take part in a concerted action with other central banks first. There is also a greater likelihood that, following the stabilisation programme to aid the financial industry, the **German federal government** may soon launch a programme to help support the economy.

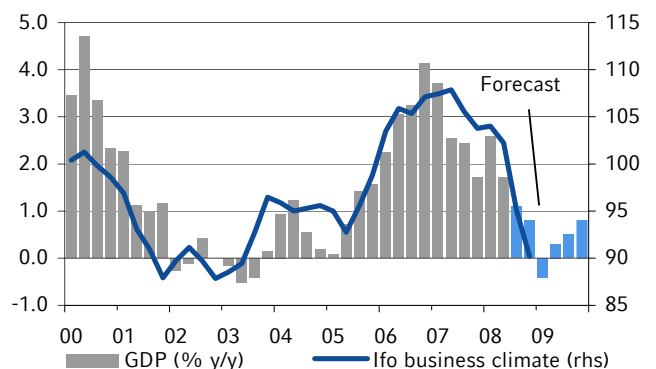
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Ifo business climate and expectations



Source EcoWin, WestLB Research

GDP and ifo business climate



Source EcoWin, WestLB Research

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