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Explaining Business Sentiment: Insights from the ifo Business Survey

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Explaining Business Sentiment: Insights from the ifo Business Survey

Stefan Sauer, Klaus Wohlrabe*
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July 18, 2025

Abstract

The *ifo Business Climate Index* is one of the most important leading indicators for the German economy. It is based on a monthly survey of approximately 9,000 firms and reflects responses to two core questions: the assessment of the firms' current business situation and their expectations for the next six months. These questions are deliberately formulated without precise definitions, allowing each respondent to draw on its own relevant factors. This paper investigates which factors firms actually consider, whether they differ across sectors and firm types, and how their importance has changed over time. To this end, we conducted a dedicated meta-survey in 2019 and repeated it as part of the regular ifo Business Survey in 2025. Our results show that internal factors – such as profit situation, demand, and turnover – are the primary drivers of firms' assessments. However, external influences, particularly the economic policy framework and general economic sentiment, have gained importance in recent years. These findings enhance the interpretability of the index and contribute to understanding its strong forecasting performance. The identified factors may also prove valuable for applied business cycle analysis.

JEL: C53, C83, L20.

Keywords: business climate, economic sentiment, expectation formation, firm survey, ifo Business Survey.

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1 Introduction

The *ifo Business Climate Index*, derived from the ifo Business Survey (IBS), is widely recognized as one of the most important leading indicators for the German economy due to its ability to influence financial markets and provide early signals of economic shifts (Mittnik et al., 2013; Kerstenfischer and Schmeling, 2024). Each month, approximately 9,000 companies across Germany participate in the survey, yielding a sample that is broadly representative of the German economy, albeit with a slight over-representation of larger firms (Hiersemenzel et al., 2022). Initially launched in 1949 for the manufacturing sector, the IBS has been progressively expanded to include retailing (1950), wholesaling (1951), construction (1956), and, more recently, the service sector in 2001. The harmonization of survey questions across all sectors enables comprehensive analyses of the overall economy (Sauer et al., 2023).

Recent survey evidence from 2019 and 2023 show that over 90% of respondents hold senior management positions, such as owners, CEOs, or department heads (Sauer and Wohlrabe, 2019; Hennrich et al., 2023), thereby enhancing the credibility and reliability of the survey data. The IBS encompasses a wide range of qualitative questions, including assessments of current business conditions (status quo), recent developments (ex post), and future expectations (ex ante). The survey places particular emphasis on core variables such as production levels, pricing strategies, and employment figures. In addition, supplementary questions are regularly included to cover topics of current economic relevance or to support specific research projects (Demmelhuber et al., 2023).

At the core of the IBS are two fundamental questions: the assessment of the current business situation and expectations for the next six months. These form the basis of the *ifo Business Climate Index* (Sauer and Wohlrabe, 2018), and are phrased as follows:

- *Business situation*: “We assess our current business situation as: good / satisfactory / bad.”
- *Business expectations*: “The expectations for the next 6 months: Our business situation is expected to: become more favorable / remain roughly the same / become more unfavorable.”

All questions explicitly refer to the respondent’s own enterprise rather than to the general economy. This distinction is crucial for interpreting the results as firm-specific assessments.

However, the survey does not define the terms “business situation” and “business expectations,” allowing respondents to interpret them in light of their own operational realities. While this openness may introduce heterogeneity in response behavior, the index has

consistently demonstrated strong predictive power for macroeconomic developments (e.g., Lehmann, 2023). This raises important research questions: What factors do firms consider when answering these questions? Do these factors vary across sectors and firm types? And how do changes in the broader economic environment affect the relevance of these factors?

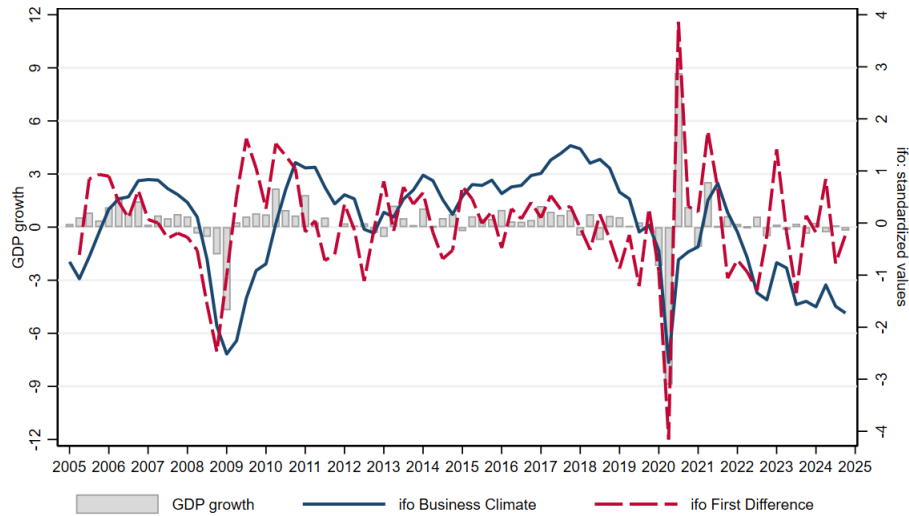
To address these questions, the monthly *ifo Business Survey* in 2025 included two special waves that asked firms to evaluate the importance of various internal and external influences – such as profit situation, demand, sector sentiment, and the general economic outlook – when assessing their business situation and expectations. Firms were also asked about the benchmarks they use and how they interpret the expectation horizon.

These questions replicate those from a dedicated meta-survey conducted in 2019 (Sauer and Wohlrabe, 2024), allowing for a direct comparison over time. This comparison helps to assess how recent crises – including the COVID-19 pandemic, global supply chain disruptions, the war in Ukraine, and Trumps re-election – have influenced firms’ assessment logic and the salience of specific drivers.

The widespread use of IBS data in forecasting, business cycle research, and applied economic analysis underscores the importance of understanding the underlying response behavior.¹ Figure 1 illustrates the empirical co-movement between the *ifo Business Climate Index* and quarterly real GDP growth. The correlation with the level of the index is 0.37, increasing to 0.72 when using its first difference. These strong associations highlight the index’s value for real-time economic monitoring. A full evaluation of its forecasting accuracy lies beyond the scope of this paper, but see Lehmann (2023) for a comprehensive review.

¹Recent examples include Bachmann et al. (2013), Balleer et al. (2024), Buchheim et al. (2022), Enders et al. (2022), Doovern et al. (2023), Link et al. (2023b), and Link (2024).

Figure 1: ifo Business Climate vs. GDP growth in Germany



Our results show that internal company factors – such as profit situation, demand, and turnover – remain the most influential drivers of firms’ assessments. However, compared to 2019, external factors such as the economic policy framework and general economic sentiment have gained noticeable importance, particularly in shaping expectations. These insights help to explain the strong informational content of the index and provide a more nuanced understanding of its components’ role in economic forecasting and business cycle analysis.

The paper proceeds as follows: Section 2 describes the survey design, implementation, and sample structure. Section 3 presents the main empirical findings. Section 4 discusses their implications for economic forecasting and policy-making and outlines directions for future research.

2 Survey design and sample composition

In April and May 2025, we included a set of additional questions in the regular monthly ifo Business Survey (IBS) to investigate how firms assess their current business situation and their expectations for the next six months. These questions replicate the core elements of a dedicated meta-survey conducted in autumn 2019.² This continuity allows us to assess whether the relative importance of internal and external factors has changed over time.

In 2025, a total of 6,308 firms answered the extended questionnaire. As shown in Table 1,

²Sauer and Wohlrabe (2024) provide detailed results on this meta-survey.

Table 1: Sample composition

	Total	Manufacturing	Services	Wholesaling	Retailing	Construction
2025 Survey						
Questionnaires received	6,308	2,078	2,265	750	570	645
Share by sector	100.0%	33.0%	35.9%	11.9%	9.0%	10.2%
Share by sector and firm size						
small	58.3%	12.0%	25.5%	8.1%	7.0%	5.7%
medium	28.3%	12.6%	7.6%	3.0%	1.5%	3.6%
large	13.4%	8.4%	2.8%	0.8%	0.5%	0.9%
2019 Survey						
Questionnaires received	4,046	1,158	1,192	587	619	490
Share by sector	100.0%	28.6%	29.5%	14.5%	15.3%	12.1%

Note: Definition of firm size: small: 1–49 employees, medium: 50–249 employees, large: 250 and more employees.

most responses came from the service sector (2,265) and manufacturing (2,078), followed by wholesaling (750), construction (645), and retailing (570). A majority of responses (58.3%) came from small firms with fewer than 50 employees. The high number of responses reflects the fact that the questions were integrated into the regular monthly survey, which reaches the full IBS sample. In contrast, the 2019 version was a separate one-time survey with a lower overall response rate (39.3%).

The 2025 module focused on three core topics:

1. **Underlying factors of the business situation and expectations:** Firms were asked to assess the importance of various factors (e.g., profit situation, demand, economic sentiment, and policy framework) for their current business situation and for their expectations over the next six months. Respondents assigned an importance score to each factor on a scale from 0 (no importance) to 6 (very high importance), where only the endpoints were labeled. Intermediate values were unlabeled and allowed for nuanced differentiation.
2. **Comparative benchmarks for assessing the current business situation:** Firms indicated which reference points they use when evaluating their current situation. Options included expectations and goals for the current month, the previous month, the same month in the previous year, and the usual situation in previous years.
3. **Time perspective in forming expectations:** The standard IBS wording refers to "expectations for the next six months." To examine how firms interpret this phrasing, we asked whether they think about the situation at a specific point in time (in six months) or about developments over the six-month period. In addition, we asked whether they focus on the absolute level of the future business situation or on the expected change from the current situation.

The selection of influencing factors was based on prior internal analyses of firm-level responses in the ifo Business Survey and previous research on determinants of business sentiment, such as an earlier meta-survey in the trade sector from 2009 (Abberger et al., 2011). As part of the preparation for the 2019 meta-survey, the ifo Institute conducted pre-tests with selected participants from each sector. These pre-tests took place in the form of interviews by email or by phone to validate the survey questions, detect ambiguities in the wording, and identify potentially missing answer categories (Sauer and Wohlrabe, 2024). The results of these pre-tests informed several adjustments to the final questionnaire, which was replicated in the 2025 module. While we are confident that the list of factors covers the most relevant dimensions for firms’ assessments, we cannot entirely exclude the possibility that some firms considered additional factors not captured by the survey. However, the low number of zero responses across all items suggests that the provided list resonated well with firms’ actual assessment logic.

The exact wording of the questions, both in German and in English translation, is provided in the Appendix.³ It is worth noting that the influencing factors for expectations were not explicitly defined as referring to current or future values (e.g., current turnover versus expected turnover in six months). This ambiguity reflects the reality that firms are likely to consider both current conditions and forward-looking assessments when forming expectations. For example, a firm’s expected business situation may be shaped by its current order book as well as anticipated demand trends. The survey design intentionally preserves this openness to allow firms to integrate both perspectives. This openness also extends to the interpretation of timing – whether the factors mentioned are viewed as generally relevant or specifically salient at the time of the survey. In practice, firms may find it difficult to draw a clear line between structural and situational influences. By not imposing a rigid temporal framing, the survey captures the assessment logic as it naturally occurs in firms’ decision-making processes.

Some of the included factors, such as turnover, demand, and stock of orders, are conceptually related and may naturally exhibit correlated responses. While these variables all capture aspects of the firms’ revenue-generating environment, they reflect different temporal or operational perspectives. Turnover represents realized sales, demand signals anticipated customer interest, and stock of orders refers to the existing backlog of contracted work. Their separate inclusion in the questionnaire was intended to capture the multidimensional nature

³While we cannot fully rule out differences in the interpretation of the importance scale across firms or sectors, the distribution of responses appears consistent across sectors and firm sizes, suggesting that the 0–6 scale was used in a broadly comparable manner.

of firms’ market conditions and to allow for a more granular assessment of which operational levers matter most in shaping business sentiment.

Our empirical analysis focuses on the 2025 data. Only for the assessments of the current business situation and expectations at the aggregate level do we compare responses with those from 2019 to explore potential shifts over time.

3 Results

3.1 Overall Importance of Influencing Factors

The participating companies rated the importance of various factors influencing their assessments of the current business situation and of business expectations on a scale from 0 (no importance) to 6 (very high importance). Figure 2 presents the arithmetic mean for each factor.⁴ It is immediately apparent that the differences between the importance ratings for the business situation and for expectations are generally small, suggesting that firms apply largely similar criteria when evaluating both their current position and their short-term outlook.

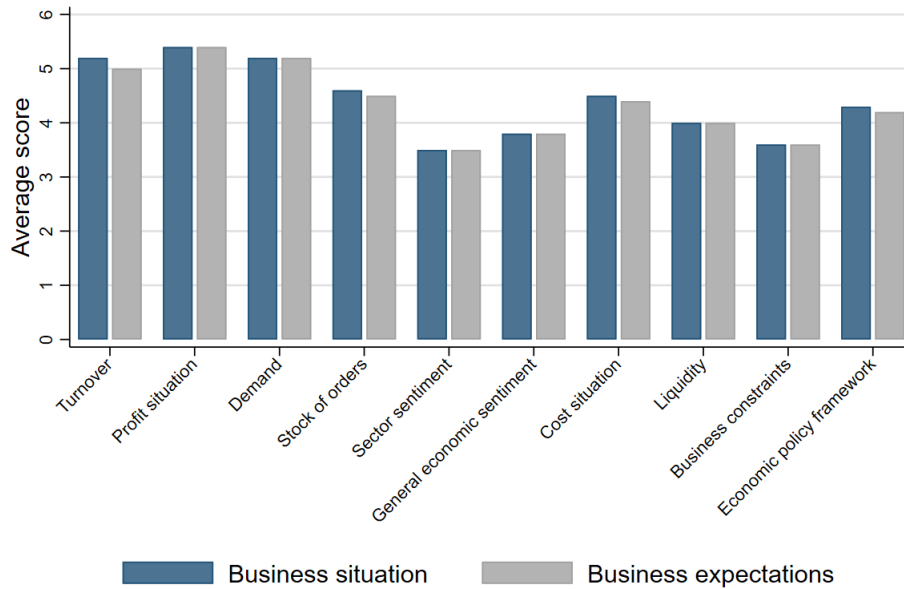
Internal company factors dominate the ranking. *Profit situation* received the highest average rating for both the current business situation and expectations (5.4 each), followed closely by *demand* (5.2 for both) and *turnover* (5.2 situation, 5.0 for expectations). This highlights that firms’ assessments are primarily grounded in operational and financial realities.

Mid-ranked are factors such as *stock of orders*, *cost situation*, *economic policy framework*, and *liquidity*, all with average ratings between 4.0 and 4.7. These factors remain relevant, though they appear somewhat less central in shaping firms’ overall sentiment.

Other external influences were rated lower, but still show meaningful variation. *Business constraints*, for instance, receive an average score of 3.6 for both the business situation and expectations, suggesting that firms perceive them as consistently relevant obstacles rather than outlook-specific concerns. *General economic sentiment* and *sector sentiment* receive identical scores for situation and expectations – 3.8 and 3.5, respectively – highlighting their stable but moderate influence on firms’ perceptions.

⁴Missing responses were treated as missing values and excluded from all calculations. They were not recoded as zero, as this would have implied that the corresponding factor was judged to be of no importance, which cannot be inferred from the absence of a response. More than 97% of the participants answered all categories and there were no apparent patterns in the missing values.

Figure 2: Importance of the factors for the business situation vs. expectations



While internal company factors are the most influential in shaping firms’ assessments, it is also important to acknowledge the contextual role played by broader macroeconomic or sectoral factors. Although these external dimensions receive lower average scores, they contribute meaningfully to the perception of the overall business climate. Firms are not entirely insulated from general economic conditions or industry trends. These factors often provide a backdrop against which internal developments are evaluated – especially in uncertain or volatile environments. For instance, a worsening macroeconomic outlook might temper otherwise positive internal assessments, while a supportive environment could reinforce firm-level optimism. Thus, although internal drivers remain paramount, the moderate weight assigned to external elements underscores their supplementary role in refining and contextualizing firms’ evaluations.

This finding highlights the value of the ifo Business Survey: it captures firm-specific information not yet reflected in public macroeconomic data. If external conditions dominated firm responses, the survey might simply replicate already known economic signals. The emphasis on internal factors, however, points to the survey’s unique ability to reveal proprietary, forward-looking firm-level insights – enhancing the predictive content of the ifo Business Climate Index.

To better understand the distribution of responses beyond average ratings, Figures 3 and 4 display histograms of the importance scores assigned to each factor. These histograms show

that a large majority of participants attribute at least some level of importance to all factors; ratings of 0 (no importance) are rarely selected. For the most influential internal factors – *profit situation*, *turnover*, and *demand* – the response distributions are strongly skewed toward the upper end of the scale. Specifically, 65.7% of firms assigned the highest score (6) to *profit situation*, 55.8% did so for *turnover*, and 49.9% for *demand* when assessing the current business situation. These values underscore the central role of operational indicators in shaping business sentiment. In contrast, external factors such as *business constraints*, *sector sentiment*, and *general economic sentiment* show more dispersed patterns. For instance, only a small share of firms – typically around 10 to 15% – rated these with the maximum score. Instead, responses tend to peak around mid-range values like 3 or 4, reflecting a more moderate perceived relevance.

A broadly similar distributional pattern emerges for business expectations (Figure 4), although importance scores are slightly lower across most factors. The share of firms assigning a score of 6 is consistently smaller than for the current situation, indicating somewhat greater uncertainty or variation in how firms evaluate the outlook.

Figure 3: Business situation: Distribution of the response behavior of the participants

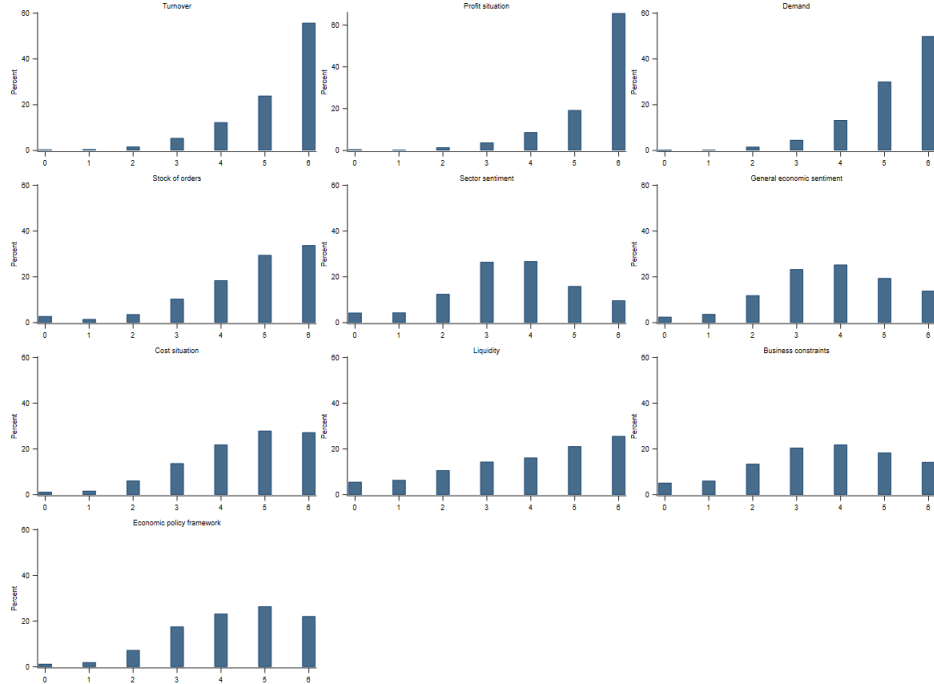
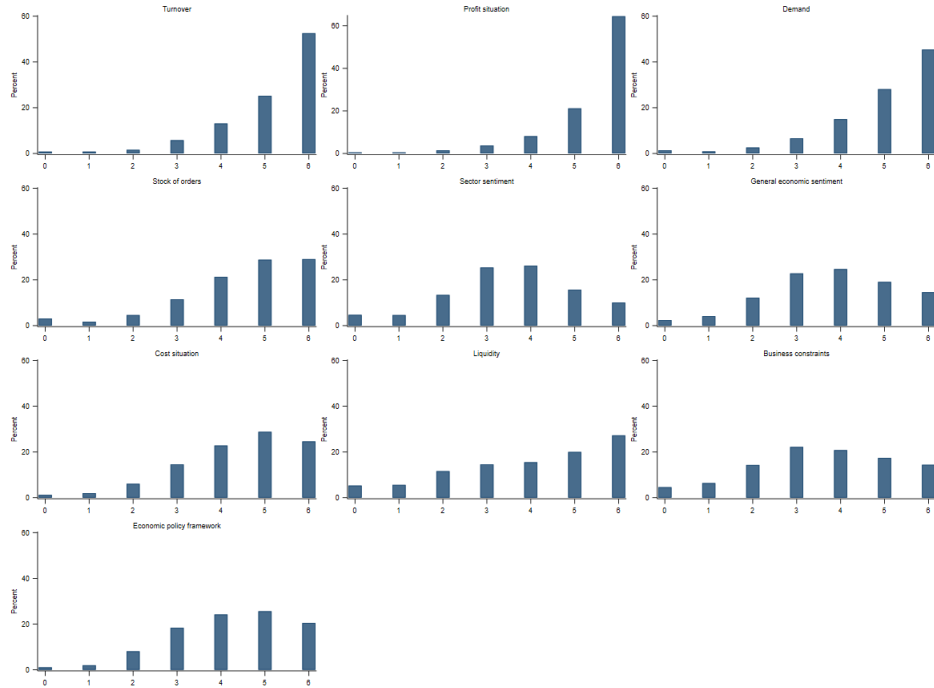


Figure 4: Business expectations: Distribution of the response behavior of the participants



3.2 Comparison to the 2019 survey

Figure 5 illustrates how the importance ratings of individual factors have changed since the 2019 survey, focusing on aggregate responses across all firms. While the majority of factors exhibit only marginal changes, some moderate shifts are observable.

Most internal factors such as *profit situation*, *turnover*, *demand*, and *stock of orders* show very small increases in their average importance – typically below 0.3 points – for both the business situation and expectations. This stability suggests a high degree of continuity in how firms evaluate their internal environment.⁵ Likewise, the relevance of *sector sentiment* and *cost situation* remains essentially unchanged.

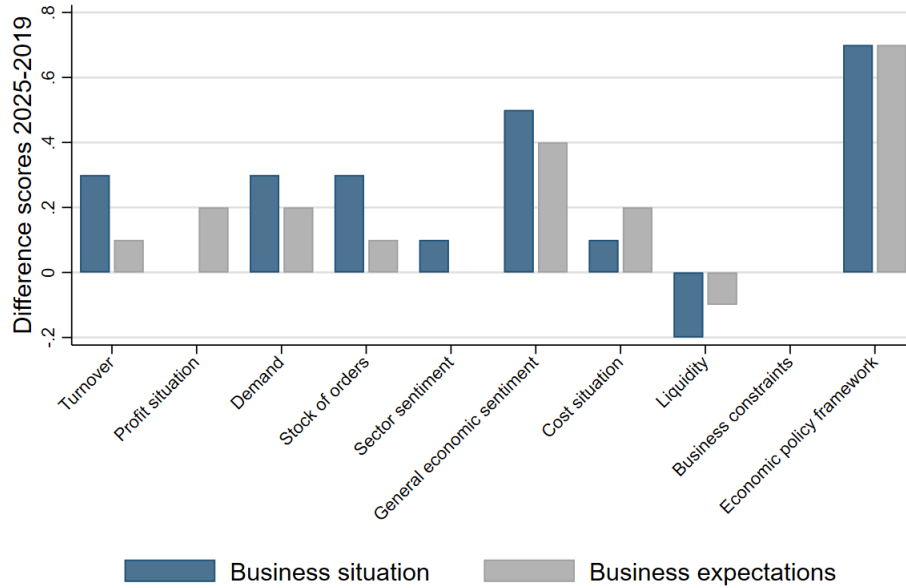
By contrast, the *economic policy framework* and *general economic sentiment* have gained somewhat in importance – by around 0.5 to 0.7 points – across both dimensions. These moderate increases suggest that firms have become more attentive to broader macroeconomic signals and policy conditions since 2019. However, the relevance of *business constraints* has remained virtually unchanged.

⁵This is also consistent with the results of an earlier meta-survey from 2009 for the trade sector, where companies also rated turnover and profit as the most important factors for their business situation and expectations. For detailed results, see Abberger et al. (2011).

Interestingly, the importance of *liquidity* has slightly decreased, perhaps indicating that acute liquidity concerns – prominent during the early stages of the COVID-19 crisis – have become less salient in 2025.

In sum, internal company indicators remain the primary reference point for firms, while external factors – particularly those reflecting macroeconomic sentiment and policy frameworks – have modestly increased in relevance. This points to a nuanced expectation formation process that continues to be grounded in firm-specific realities, but also reflects an elevated sensitivity to the economic environment.

Figure 5: Differences in in scores between 2025 and 2019



3.3 Results by Sector and Firm Size

In addition to the overall results, we conducted further analysis by disaggregating the data by economic sector and firm size to explore how these dimensions influence the perceived importance of different factors in assessing the business situation and business expectations. Table 2 presents the arithmetic means for each factor across sectors, allowing for a comparison of factor relevance in different industry contexts.

The results indicate that while the general prioritization of factors is consistent across sectors, notable sector-specific differences emerge. In the construction sector, for example, *stock of orders* and *liquidity* are rated significantly higher than in other sectors, while *turnover*

plays a less important role. This likely reflects the project-based nature of the industry, where a steady inflow of orders and cash flow are essential for operational continuity. By contrast, in the retail sector, *turnover* stands out as particularly important, emphasizing the sector’s strong focus on sales performance as a key business indicator. In this sector, *stock of orders* is rated lower than in others, consistent with the typically fast inventory cycles in retail.

In the service sector, the importance assigned to *sector sentiment* is somewhat below average, which may indicate that service firms rely more heavily on direct customer interaction and firm-specific factors rather than general industry trends. The factor *stock of inventory*, included only for the trade sectors, is rated moderately important – reflecting its relevance in wholesale and retail operations where inventory management plays a central role.

It is also noteworthy that *general economic sentiment* receives comparatively high ratings in the retail sector. One possible explanation is that retailers perceive consumer demand to be particularly sensitive to macroeconomic developments, which may heighten their attention to broader economic signals when forming assessments.

Table 3 reports the average scores for each factor by firm size. Several clear patterns emerge. Smaller firms place greater emphasis on *liquidity* and *stock of orders*, likely due to their heightened sensitivity to cash flow volatility and more limited buffers. Larger firms, in contrast, assign slightly less importance to these factors – possibly because of more diversified operations and greater financial resilience.

In summary, while the overall assessment framework appears stable across firms, sectoral context and firm size introduce meaningful variation in the relative weighting of influencing factors. These nuances underscore the importance of considering structural firm characteristics when interpreting aggregate survey results.

3.4 Heterogeneity by Ownership, Cyclical Sensitivity, and Export Orientation

To assess the heterogeneity in firms’ business assessments, we explore three firm characteristics: (i) whether a company is family-owned, (ii) whether it perceives its performance to be strongly dependent on the general economic situation in Germany, and (iii) whether it reports generating sales from foreign markets. All three indicators are based on self-reported survey information.

Family ownership is based on a direct self-identification. Firms were asked in the IBS in February 2023 whether they consider themselves family-owned. Export activity is proxied by a positive share of foreign sales, which was collected in the IBS in February 2025 for

Table 2: Importance of the influencing factors by sector

	Manufacturing	Services	Wholesaling	Retailing	Construction
Business situation					
Turnover	5.3	5.2	5.2	5.5	4.8
Profit Situation	5.5	5.2	5.6	5.5	5.4
Demand	5.3	5.1	5.3	5.4	5.0
Stock of Orders	4.9	4.6	4.4	3.5	5.2
Cost Situation	4.7	4.1	4.5	4.7	4.7
Sector sentiment	3.7	3.3	3.9	3.4	3.6
General economic sentiment	3.8	3.8	3.8	4.1	3.7
Liquidity	4.1	3.6	3.9	4.1	4.6
Business constraints	3.7	3.4	3.7	3.6	4.0
Economic policy framework	4.4	4.1	4.4	4.3	4.4
Stock of inventory			3.3	3.1	
Business expectations					
Turnover	5.2	5.2	5.2	5.4	4.8
Profit Situation	5.4	5.2	5.6	5.6	5.4
Demand	5.3	4.7	5.1	4.9	4.8
Stock of Orders	4.7	4.5	4.2	3.5	5.0
Sector sentiment	3.6	3.3	3.8	3.5	3.5
General economic sentiment	3.7	3.8	3.8	4.2	3.7
Cost Situation	4.6	4.1	4.5	4.8	4.6
Liquidity	4.0	3.7	4.0	4.4	4.5
Business constraints	3.6	3.4	3.6	3.6	4.0
Economic policy framework	4.3	4.1	4.3	4.3	4.3
Stock of inventory			3.3	3.2	

Table 3: Importance of the influencing factors by firm size

	Situation				Expectations			
	Small	Medium	Large	Overall	Small	Medium	Large	Overall
Turnover	5.2	5.2	5.3	5.2	5.2	5.2	5.1	5.2
Profit Situation	5.3	5.5	5.5	5.4	5.3	5.5	5.5	5.4
Demand	5.2	5.2	5.2	5.2	4.9	5.0	5.1	5.0
Stock of Orders	4.7	4.6	4.5	4.6	4.5	4.5	4.3	4.5
Sector sentiment	3.5	3.5	3.7	3.5	3.5	3.5	3.6	3.5
General economic sentiment	3.8	3.7	3.8	3.8	3.8	3.8	3.7	3.8
Cost Situation	4.3	4.6	4.7	4.5	4.3	4.6	4.6	4.4
Liquidity	3.9	4.1	3.8	4.0	4.0	4.0	3.7	4.0
Business constraints	3.6	3.6	3.5	3.6	3.6	3.6	3.5	3.6
Economic policy framework	4.3	4.3	4.3	4.3	4.2	4.2	4.2	4.2
Stock of inventory	3.2	3.4	3.2	3.2	3.3	3.5	3.0	3.3

Note: Definition of firm size: small: 1-49 employees, medium: 50-249 employees, large: 250 and more employees.

all participating firms. Cyclical sensitivity is derived from the following survey question from February 2025: “*How important is the general economic situation in Germany for the business situation of your company?*” Firms could choose among five categories (*very important, important, limitedly important, less important, unimportant*). We classify firms as highly sensitive if they responded with “*very important*” or “*important*”; all other responses form the comparison group.

Tables 4 and 5 show the average importance ratings for the different influencing factors, separately for the business situation and business expectations. This presentation allows direct comparisons across the various firm types for each individual factor.

Family ownership: Overall, family-owned and non-family-owned firms exhibit broadly similar patterns in the importance assigned to internal and external factors. For both groups, *profit situation, turnover, and demand* are the top three drivers. However, family firms assign slightly higher scores to *liquidity* and *general economic sentiment* than non-family firms, particularly in their expectations. This may reflect more cautious financial planning and greater sensitivity to macroeconomic narratives among family-run businesses. In contrast, non-family firms place slightly more weight on the *economic policy framework*, potentially indicating closer links to regulatory environments or more formalized strategic planning.

Business cycle sensitivity: More substantial differences emerge when comparing firms by their self-assessed cyclical dependence. Companies that describe the general economic situation in Germany as very important or important for their own business performance assign considerably higher importance to nearly all factors. The differences are particularly large for *cost situation, liquidity, and general economic sentiment*, both in the assessment of the current situation and expectations. For example, firms with high cyclical sensitivity rate *liquidity* at 4.0 versus 2.9 among less dependent firms (expectations). Similarly, *general economic sentiment* is rated 4.4 versus 3.5. These deviations suggest that highly cyclical firms systematically integrate external signals and short-term risks more intensively into their business outlook than firms with a more stable demand base.

Foreign sales: Firms with foreign sales differ only marginally from those operating exclusively on the domestic market. Internal factors remain the dominant drivers across both groups. Still, demand appears slightly more important for exporters than non-exporters, particularly with regard to expectations (5.2 vs. 4.7). This may reflect their stronger exposure to international market developments and external demand shocks. In contrast, assessments

Table 4: Importance of factors by firm characteristics (Business Situation)

Factor	Family	Non-Family	Cyclical High	Cyclical Low	Foreign Sales Yes	Foreign Sales No
Turnover	5.2	5.3	5.3	5.1	5.3	5.1
Profit situation	5.5	5.3	5.5	5.2	5.5	5.4
Demand	5.2	5.2	5.3	4.9	5.3	5.1
Stock of orders	4.6	4.7	4.7	4.4	4.7	4.6
Cost situation	4.5	4.3	4.6	4.0	4.4	4.5
Sector sentiment	3.3	3.3	3.2	3.1	3.3	3.1
General economic sentiment	3.8	3.7	4.0	2.9	3.8	3.8
Liquidity	4.0	3.8	4.0	3.5	3.9	4.0
Business constraints	3.6	3.4	3.7	3.2	3.6	3.6
Economic policy framework	4.3	4.0	4.4	3.6	4.3	4.3
Stock of inventory	3.5	3.6	3.7	3.0	3.6	3.4

Note: *Family* stands for family-owned businesses, *Cyclical high* are firms that are sensitive to the general economic situation in Germany, *Foreign Sales Yes* are firms that generate sales in foreign markets.

Table 5: Importance of factors by firm characteristics (Business Expectations)

Factor	Family	Non-Family	Cyclical High	Cyclical Low	Foreign Sales Yes	Foreign Sales No
Turnover	5.1	5.2	5.2	4.9	5.2	5.1
Profit situation	5.5	5.3	5.5	5.1	5.4	5.4
Demand	5.0	4.9	5.1	4.6	5.2	4.7
Stock of orders	4.5	4.6	4.6	4.2	4.6	4.5
Sector sentiment	3.5	3.5	3.7	2.9	3.6	3.5
General economic sentiment	3.8	3.6	4.0	2.8	3.7	3.8
Cost situation	4.4	4.3	4.5	4.0	4.3	4.4
Liquidity	4.0	3.7	4.0	3.6	3.9	4.0
Business constraints	3.6	3.4	3.7	3.2	3.5	3.7
Economic policy framework	4.3	4.0	4.4	3.5	4.2	4.2
Stock of inventory	3.4	3.3	3.3	3.2	3.3	3.3

Note: *Family* stands for family-owned businesses, *Cyclical high* are firms that are sensitive to the general economic situation in Germany, *Foreign Sales Yes* are firms that generate sales in foreign markets.

of external factors such as *economic policy* or *business constraints* are nearly identical, suggesting that exporters do not perceive significantly greater regulatory or structural burdens than domestic firms.

Taken together, these results confirm the robustness of the overall pattern: internal factors are central to firms' assessments, regardless of ownership structure, cyclical exposure, or internationalization. Nevertheless, the weight assigned to specific dimensions – especially liquidity, cost structures, and general sentiment – varies with firm characteristics. These variations underline the importance of accounting for heterogeneity in interpreting aggregate indicators, such as the ifo Business Climate Index.

3.5 Benchmarks for the Business Situation

For the business situation, our second research question focused on identifying which comparative benchmarks companies use for their assessments. The survey results indicate that

the vast majority of companies (96.4%) rely on one or more benchmarks when evaluating their current business situation, highlighting the importance of contextual comparisons in their assessment processes.

Among the various benchmarks, the most commonly used is a comparison with the business situation in the same month of the previous year, cited by 60.1% of respondents. This suggests that firms often look at historical data from the same period to gauge performance, likely to account for seasonal variations and cyclical trends. Additionally, expectations and goals for the current month are also a significant reference point, utilized by 57.2% of companies, indicating that many firms align their assessments with their internal targets and short-term strategic objectives. An overview of the benchmark usage across sectors and firm sizes is provided in Table 6.

More than half of the firms (54.6%) also consider their usual situation in previous years for a broader historical context. Slightly less than half of the participants (48.7%) use comparisons with the previous month. Meanwhile, comparing to the usual situation in the same month of previous years is the least commonly used benchmark, referenced by only 39.4% of companies. This suggests that while year-over-year comparisons are valuable, firms may prefer more dynamic or immediate benchmarks when assessing their current situation.

When examining benchmark usage by sector, notable differences emerge. In the retail and wholesaling sectors, firms rely most on comparisons with the same month of the previous year. This may reflect these sectors' sensitivity to seasonal patterns and consumer behavior. In contrast, manufacturing firms most commonly use expectations and goals for the current month as their benchmark, suggesting a stronger focus on internal performance targets. Construction and service companies, on the other hand, most frequently compare their current business situation to previous years.

Analysis by firm size also reveals distinct patterns. The larger the firm, the more frequently expectations and goals for the current month are used as a benchmark. This may indicate that larger firms, with more resources and strategic flexibility, focus more on achieving immediate operational goals and are less reliant on historical comparisons. However, larger firms also compare their situation more often than small and medium-sized enterprises with the previous month and with the same month of the previous year. Smaller firms, on the other hand, tend to rely more on comparisons with previous years.

These findings support the notion that firms rely on contextual benchmarks when evaluating their current business situation. The prevalent use of internal reference points – such as goals for the current month or the situation in the same month of the previous year – suggests that firms draw primarily on self-generated performance expectations and histor-

Table 6: Benchmarks used to assess the current business situation

Benchmark	Overall	Manuf.	Services	Sectors			Firm size		
				Wholesale	Retail	Constr.	Small	Medium	Large
Expectations/Goals for the current month	57.2%	66.8%	51.2%	57.7%	52.3%	51.3%	45.6%	69.2%	81.3%
Business situation of the previous month	48.7%	58.5%	42.4%	47.4%	40.7%	47.2%	43.5%	54.2%	58.9%
Business situation in the respective month of the previous year	60.1%	60.1%	57.1%	73.9%	78.4%	39.7%	56.4%	64.5%	66.6%
Usual situation in previous years	54.6%	53.2%	58.5%	48.4%	49.2%	57.0%	57.5%	52.3%	47.1%
Usual situation in the respective month of previous years	39.3%	37.4%	37.9%	44.1%	49.6%	36.3%	39.1%	40.4%	38.4%
We do not make any comparisons	3.6%	1.9%	5.2%	1.9%	1.6%	7.4%	5.1%	2.1%	0.5%

Notes: Multiple answers possible.

ical comparisons. This behavior is consistent with evidence from Link et al. (2023a), who document that firms allocate substantial attention to macroeconomic developments but also anchor their expectations in firm-specific and familiar reference points. From a theoretical perspective, the reliance on past values and internal targets aligns with heuristic-based models of expectation formation, in which economic agents simplify complex forecasting tasks by referring to salient or easily accessible information. In the context of business surveys, such anchoring may serve as a cognitively efficient way for managers to assess performance and formulate expectations in an uncertain environment.

3.6 Time Perspective for the Business Expectations

Another intriguing aspect of the business expectations concerns the time perspective that firms adopt when responding to the ifo Business Survey. The survey specifically inquires about firms' 'expectations for the next six months', a phrasing that can be interpreted in two distinct ways: either as a 'point in time', referring to the expected situation exactly six months from now, or as a 'time period' referring to the expected situation throughout the upcoming six months. The results indicate a clear preference among firms for the 'time period' interpretation, with 74.7% of respondents opting for this view. This strong inclination towards the 'time period' suggests that most firms are more concerned with the overall trend or evolution of their business conditions over the coming months rather than focusing on a specific future point. Table 7 provides a detailed breakdown of these time-related interpretations across sectors and firm sizes.

In addition to the time frame, the survey also explores whether firms are more focused on 'the change in the business situation' or 'the upcoming business situation'. Here, a majority of

firms (63.2%) indicated that they focus on 'the change in the business situation', suggesting an emphasis on how their circumstances might shift from the current state. Meanwhile, 36.8% of firms think more about 'the upcoming business situation', implying a focus on the anticipated state of affairs in the future, irrespective of past or current conditions.

Differences across economic sectors and firm sizes in terms of these perspectives are mostly minor. However, construction companies somewhat less often emphasize 'the change in the business situation' and also consider their anticipated situation in absolute terms.

Table 7: Perspective and content focus of business expectations

	Sectors						Firm size		
	Overall	Manuf.	Services	Wholesale	Retail	Constr.	Small	Medium	Large
Time horizon									
(expectations refer to...)									
...a specific point in time	25.3%	25.6%	26.9%	19.4%	21.1%	28.6%	24.1%	26.7%	27.5%
...a time period of 6 months	74.7%	74.4%	73.1%	80.6%	78.9%	71.4%	75.9%	73.3%	72.5%
Content focus of expectations									
...the future business situation	36.8%	36.5%	37.0%	32.6%	33.0%	44.4%	36.3%	37.1%	37.9%
...the change in business situation	63.2%	63.5%	63.0%	67.4%	67.0%	55.6%	63.7%	62.9%	62.1%

4 Discussion and Outlook

Business cycle indicators, such as the ifo Business Climate Index, are invaluable tools for both analyzing the current state of an economy and forecasting its near-term development. Many of these indicators rely on survey data, which offers timely and often unique insights into economic conditions not immediately captured by traditional quantitative sources. Examples of similar instruments include the European Commission's Joint Harmonised EU Programme of Business and Consumer Surveys (BCS)⁶ and the Purchasing Manager Indices (PMIs), both of which are widely used across Europe and globally. Extensive research has demonstrated the value of such survey data for macroeconomic forecasting, as shown by Claveria et al. (2007), Carstensen et al. (2011), Girardi et al. (2016), Basselier et al. (2018), de Bondt (2019), Garnitz et al. (2019), Lehmann and Reif (2021), and Lehmann and Möhrle (2024), among others.

Despite their widespread use, a key question remains: What underpins the strong predictive performance of the ifo Business Climate Index, as comprehensively reviewed by Lehmann

⁶For more details on the BCS Programme, see: http://ec.europa.eu/economy_finance/db_indicators/surveys/index_en.htm

(2023)? This paper contributes to answering that question by leveraging additional questions in the monthly ifo business survey to uncover the factors that firms consider when evaluating their current business situation and expectations for the next six months. Our findings suggest that the forecasting power of the underlying time series stems from several interrelated aspects.

First, the survey responses show that firms predominantly rely on internal criteria when assessing both their current situation and near-term outlook. Key elements – such as profit situation, turnover, and demand – receive consistently high importance ratings. These operational and financial variables are closely monitored within firms and often provide early signals that are not yet reflected in official statistics or public reporting. This firm-level perspective enables the ifo Business Climate Index to deliver timely insights into economic developments and turning points in the business cycle.

At the same time, our results indicate that assessments are not made in isolation from the broader environment. Compared to our 2019 meta-survey, external influences, such as the economic policy framework and general economic sentiment, have gained in relevance. This shift likely reflects a post-crisis environment marked by heightened uncertainty, geopolitical tensions, and evolving policy regimes. As a result, the survey increasingly captures macroeconomic signals alongside firm-specific dynamics.

This combination of internal and external reference points enhances the interpretive value of the survey results. Internal indicators ensure that the index reflects the operational realities of businesses, while external factors provide a broader context that incorporates systemic risks and policy uncertainties. This dual anchoring helps explain the indicator’s sustained forecasting performance, especially in volatile environments.

Moreover, our findings reveal that firms use a wide array of benchmarks when evaluating their current business situation. These include comparisons to the same month in the previous year as well as internal goals for the current month. This diversity introduces a broad range of perspectives into the survey responses and strengthens the robustness of the indicator by mitigating potential biases from overly narrow reference frames. As a result, the indicator captures both structural and short-term economic signals.

Linking these findings to our research questions, the analysis shows that the forecasting accuracy of the ifo Business Climate Index largely stems from its ability to synthesize firm-level insights with broader economic developments. Its dual emphasis on internal and external factors, combined with forward-looking assessments, makes it a uniquely valuable tool for economic analysis. It not only reflects the current business conditions from the firm’s perspective but also integrates their anticipations and strategic responses to likely future

developments.

These insights carry important implications for both economic forecasting and policy-making. For policymakers, understanding the specific elements that shape firms' expectations is essential for interpreting survey movements. A decline in the index driven by deteriorating internal conditions may require different policy responses than one prompted by rising macroeconomic uncertainty. The early-warning function of the indicator is especially valuable during downturns, enabling timely and targeted policy interventions.

Our results also provide a foundation for further research aimed at refining the interpretation of changes in the index. Specifically, linking qualitative assessments to the factors firms deem important could help disentangle the drivers of fluctuations. For instance, if declining expectations coincide with heightened emphasis on external factors like global uncertainty, this may point to different underlying causes than a drop tied to internal metrics such as profitability or liquidity. A promising avenue would be to integrate the 2025 module responses with the longitudinal firm-level panel of the ifo Business Survey to explore whether changes in perceived factor relevance correlate with shifts in the index at aggregate or sectoral levels.

Looking ahead, future studies could deepen our understanding of these mechanisms by examining how the importance of individual factors evolves over different phases of the business cycle or in response to extraordinary events. Further, investigating the roles of digitalization, technological change, and globalization in shaping business sentiment could yield valuable insights for modern forecasting models.

While our results are based on the German institutional context, the survey design is broadly comparable to business tendency surveys in other countries. Future research could explore whether the observed response patterns, such as the use of internal benchmarks or the interpretation of expectation questions, are specific to Germany or reflect general features of how firms form expectations. Comparative studies using harmonized data across countries (e.g., EU Business Tendency Surveys) would offer valuable insights into potential cross-country differences in interpretive frameworks.

The micro-data from the 2025 survey module and the 2019 meta-survey are accessible via the LMU-ifo Economics & Business Data Center (EBDC). The data is available free of charge for non-commercial scientific use and can be linked to the main ifo Business Survey for further empirical analysis (Wichert et al. (2023)).

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Appendix

A Questions - Original German version

1. Geschäftslage

(a) Bitte geben Sie an, wie wichtig Ihnen die folgenden Einflussfaktoren für die Beurteilung Ihrer aktuellen Geschäftslage sind. Tragen Sie für jede Kategorie einen Wert zwischen 0 und 6 ein (0 = keine Bedeutung, 6 = sehr hohe Bedeutung).

- Umsatz
- Ertragslage
- Nachfrage
- Auftragsbestand
- Stimmung in der Branche
- Stimmung in der Gesamtwirtschaft
- Kostensituation
- Liquidität
- Behinderung der Geschäftstätigkeit
- wirtschaftspolitische Rahmenbedingungen
- Lagerbestand (*only for retailing and wholesaling firms*)

(b) Welche Vergleichsmassstäbe nutzen Sie zur Beurteilung ihrer aktuellen Geschäftslage? (Mehrfachnennungen möglich)

- Erwartungen/Ziele für den Berichtsmonat
- Geschäftslage des Vormonats
- Geschäftslage des Vorjahresmonats
- Übliche Geschäftslage in den vorangegangenen Jahren
- Übliche Geschäftslage im entsprechenden Monat der vorangegangenen Jahren
- wir führen keine Vergleiche

2. Geschäftserwartungen

(a) Bitte geben Sie an, wie wichtig Ihnen die folgenden Einflussfaktoren für die Beurteilung Ihrer Geschäftserwartungen für die nächsten 6 Monate sind. Tragen Sie für jede Kategorie einen Wert zwischen 0 und 6 ein (0 = keine Bedeutung, 6 = sehr hohe Bedeutung).

- Umsatz
- Ertragslage
- Nachfrage
- Auftragsbestand
- Stimmung in der Branche
- Stimmung in der Gesamtwirtschaft
- Kostensituation
- Liquidität
- Behinderung der Geschäftstätigkeit
- wirtschaftspolitische Rahmenbedingungen
- Lagerbestand (*only for retailing and wholesaling firms*)

Wenn Sie die Fragen zu Ihren Geschäftserwartungen in den nächsten 6 Monaten beantworten:

(b) Denken Sie eher an die Situation zum Ende der Periode (Zeitpunkt) oder an die Situation während dieses Zeitraums?

- Wir denken daran, wie die Situation in 6 Monaten sein wird (Zeitpunkt).
- Wir denken daran, wie die Situation innerhalb der nächsten 6 Monate sein wird (Zeitraum).

(c) Denken Sie eher an ...

- die zukünftige Geschäftslage
- die Veränderung der Geschäftslage ausgehend von heute

B Questions - English Translation

1. Business Situation

(a) Please specify how important you consider the following factors for your assessment of the current business situation. Please enter a value from 0 to 6 for each category (0 = no importance, 6 = very high importance).

- Turnover
- Profit situation
- Demand
- Stock of orders
- Sector sentiment
- General economic sentiment
- Cost situation
- Liquidity
- Business constraints
- Economic policy framework
- Stock of inventory (*only for retailing and wholesaling firms*)

(b) Which benchmarks do you use for the assessment of your current business situation? (multiple answers possible)

- Expectations/Goals for the current month
- Business situation of the previous month
- Business situation in the respective month of the previous year
- Usual situation in previous years
- Usual situation in the respective month of previous years
- We do not make any comparisons

2. Business Expectations

(a) Please specify how important you consider each of the following factors for your assessment of the business expectations for the next 6 months. Please enter a value from 0 to 6 for each category (0 = no importance, 6 = very high importance).

- Turnover
- Profit situation
- Demand
- Stock of orders
- Sector sentiment
- General economic sentiment
- Cost situation
- Liquidity
- Business constraints
- Economic policy framework
- Stock of inventory (*only for retailing and wholesaling firms*)

When you answer questions about the business expectations for the next 6 months:

(b) Are you thinking about the situation at the end of the period (point of time) or the situation within that period?

- We think about the situation in 6 months' time (point of time).
- We think about the situation within the next 6 months (time period).

(c) Are you thinking more about ...

- the future business situation
- the change of the business situation from today's perspective