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Ifo Economic Climate for the Euro Area

Advance results of the Ifo World Economic Survey (WES) of the 3rd quarter 2010, in co-operation with the International Chamber of Commerce (ICC), Paris

Euro Area: Ifo Economic Climate Indicator Continues to Rise

The Ifo Economic Climate indicator for the *euro area* has risen again slightly in the third quarter but has not yet reached its long-term average. The assessments of the current economic situation have improved clearly over the second quarter of 2010. The expectations for the coming six months, however, have weakened again but remain positive on the whole. These survey results indicate that the economic recovery will continue in the second half of the year but at a slower pace.

In the majority of the euro countries, the current economic situation is still assessed as unfavourable. Only in *Germany, Austria* and *Slovakia* are the assessments of the current economic situation now in positive territory. In contrast, particularly poor assessments of the current economic situation have been given in *Greece, Ireland, Spain* and *Portugal*. In *Spain* and *Greece* the WES experts foresee a further worsening of the economic situation in the second half of 2010. In all other countries of the *euro area*, however, the expectations for the coming six months are positive although they are not quite as optimistic as in the first half of the year.

Inflation expectations for 2010 at 1.6% are above the comparable value for 2009 (0.7%) but still clearly below the medium-term ceiling of the ECB.

A declining portion of WES experts expects *key interest rates* to be raised in the coming half year. In accord with the less favourable economic outlook and no growth in inflation, fewer WES experts than in the previous survey anticipate rising *long-term interest rates* in the coming six months.

The *US dollar* is not longer considered to be undervalued in relationship to the *euro*. A stable dollar–euro exchange rate is expected in the coming six months

Hans-Werner Sinn, President of the Ifo Institute for Economic Research at the University of Munich

Euro area (Index, new base year: 2005 = 100)

| Quarter/year | III/08 | IV/08 | I/09 | II/09 | III/09 | IV/09 | I/2010 | II/2010 | III/2010 |
|---------------------|--------|-------|------|-------|--------|-------|--------|---------|----------|
| Climate | 75.5 | 62.0 | 55.8 | 67.2 | 77.5 | 91.0 | 101.3 | 102.3 | 106.5 |
| Situation | 125.9 | 92.3 | 61.5 | 44.8 | 42.0 | 53.1 | 72.7 | 78.3 | 109.1 |
| Expectations | 45.9 | 44.3 | 52.5 | 80.3 | 98.4 | 113.1 | 118.0 | 116.4 | 104.9 |

The Ifo World Economic Survey (WES) investigates world-wide economic trends by polling transnational as well as national organisations in different countries. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. The full set of results will be published on 18 August 2010.

The 3rd quarter 2010 euro area results, which are published here in advance, are based on the responses of 265 economic experts. WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris.

Fig. 1

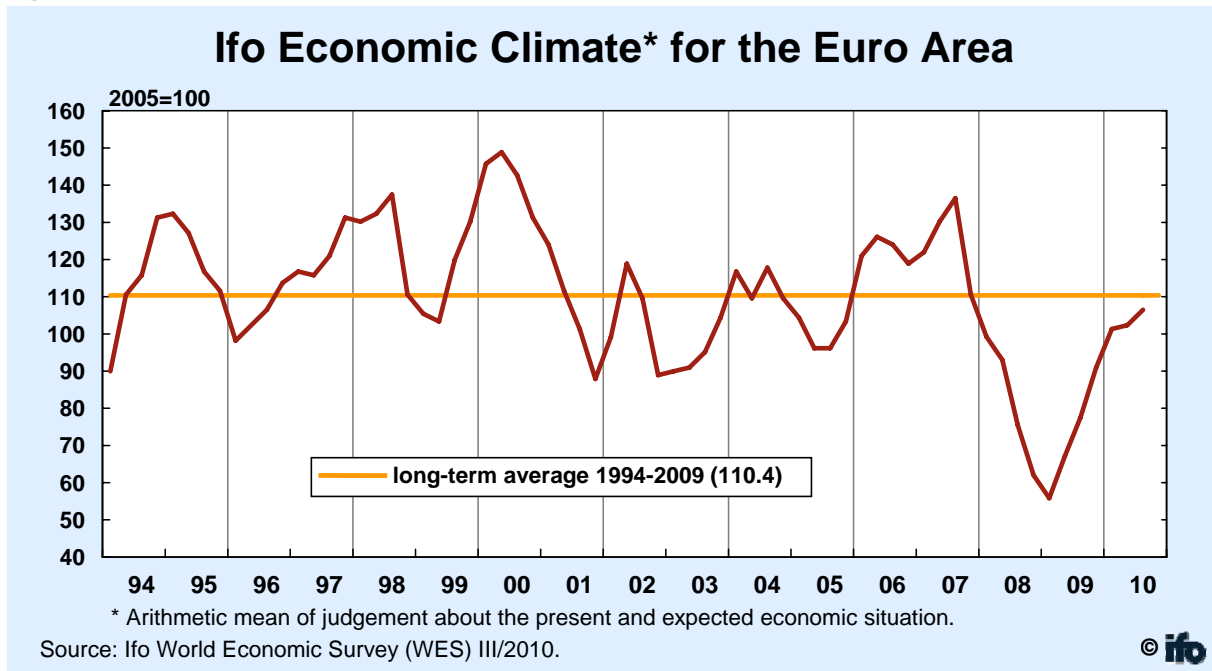


Fig. 2

