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Ifo World Economic Climate for the Euro Area

Advanced results of the Ifo World Economic Survey (WES) of 3rd quarter 2005,
in co-operation with the International Chamber of Commerce (ICC), Paris

Euro area: No further worsening of the economic climate

The Ifo Economic Climate indicator for the euro area remained stable in July 2005 after having fallen three times in succession (Fig. 1). While the assessments of the current economic situation continued to worsen, the expectations for the coming six months improved.

The economy of Ireland continues to hold the top position in the appraisals of the WES experts: The assessments of the current economic situation here reached the highest possible level on the WES scale. The already positive expectations also improved. Except for Ireland the macroeconomic situation is viewed positively only in Finland and Spain. In Austria, Greece and Luxembourg, the present economic situation was at least considered to be satisfactory.

For the first time in many months, the judgments of the current economic situation improved somewhat also in Germany and France, and the economic expectations for the next six months also brightened. But despite these positive results, the economic climate in both countries is still in negative territory, according to the WES survey experts. The same applies to Belgium and even more so to the Netherlands, Italy and Portugal.

Central bank interest rates will remain stable in the next six months, according to the WES experts, and capital market interest rates will increase only slightly. The US dollar is still regarded as undervalued against the euro but to a much lesser extent than in the April survey. The inflation rate (consumer prices) will settle at 2.0% in 2005, according to the WES survey responses.

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

Euro area (Index, 1995 = 100)

Quarter/year	III/03	IV/03	I/04	II/04	III/04	IV/04	I/05	II/05	III/05
Climate	78.0	85.6	95.8	89.8	96.6	89.8	85.6	78.8	78.8
Situation	48.6	48.6	67.3	63.6	76.6	84.1	74.8	65.4	59.8
Expectations	102.3	116.3	119.4	111.6	113.2	94.6	94.6	89.9	94.6

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 August 23, 2005.

The July 2005 euro area results, which are published here in advance, are based on the responses of 275 economic experts. WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris and receives financial support from the European Commission.

Fig. 1

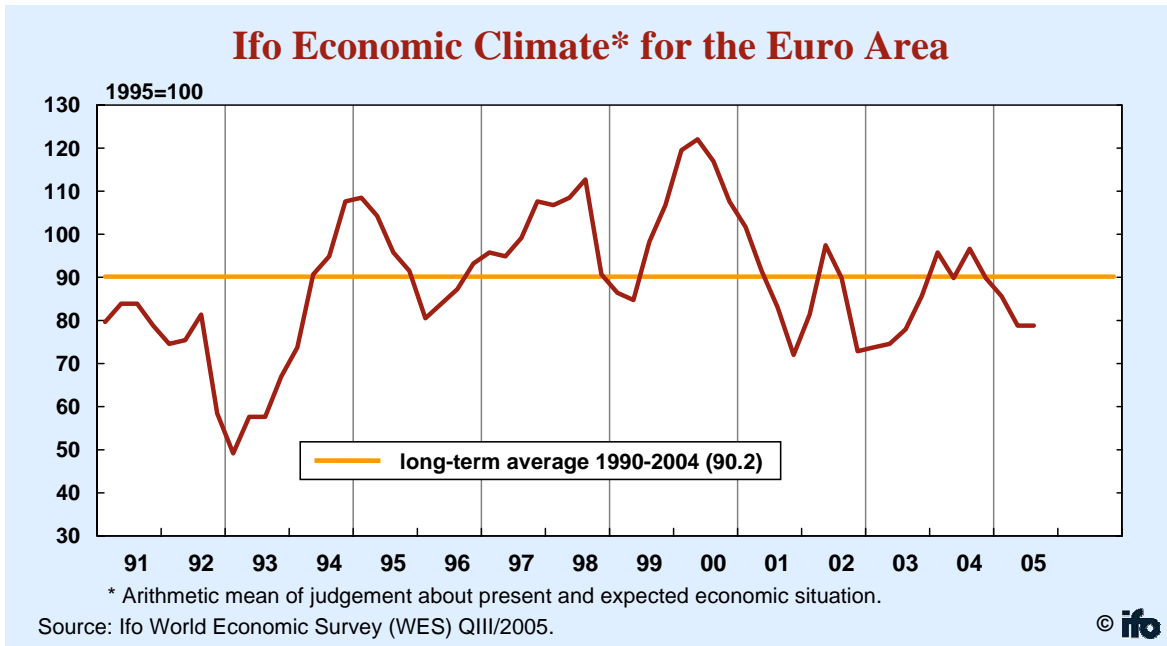


Fig. 2

