

## Ifo World Economic Climate

Results of the Ifo World Economic Survey (WES) of the 3<sup>rd</sup> quarter 2005  
in co-operation with the International Chamber of Commerce (ICC), Paris

### World economy: Stabilising Trend

**The indicator for the Ifo World Economic Climate stabilised in July at the level of the April survey, after having fallen five times in succession. More favourable expectations for the coming six months were offset by again worsened assessments of the current economic situation. This confirms the impression that the slowdown in world economic growth since mid-2004 is a temporary disturbance and not the beginning of a decline in worldwide economic activity. In the course of the second half of 2005, a further revival of the world economy is expected, according to the WES results.**

Improvement is especially marked in North America: In the USA and in Canada the assessments of the current economic situation and the expectations for the next six months both pointed upwards. The climate indicator in Asia remained unchanged over the April survey: Much more confident expectations were offset by a more cautious appraisal of the current economic situation. Only in Western Europe did the climate indicator continue to decline: The clearly worsened appraisals of the current situation were not compensated by the more favourable expectations. Within Western Europe the climate indicator remained unchanged in the euro area, but it worsened in Sweden, Switzerland and most strongly in the United Kingdom.

In spite of the sudden hike in oil prices, inflation is not expected to increase for the world economy. As already in the April survey, the WES experts expect a 2.9% increase in consumer prices for 2005, which would be exactly the same inflation rate as in 2004.

In the next six months the WES experts see an increase in central-bank interest rates only in the USA and some Asian countries. In the euro area the experts assume stable short-term rates, and in the United Kingdom official interest rates will continue to fall.

After the recent rise in the value of the US dollar, it is now regarded as nearly adequately valued. Accordingly, the euro was seen as overvalued far less frequently than in previous surveys. The Japanese yen is at a fair value, but the British pound continues to be overvalued.

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

### World Economy (Index, 1995 = 100)

Quarter/year	III/03	IV/03	I/04	II/04	III/04	IV/04	I/05	II/05	III/05
<b>Climate</b>	91.3	100.2	111.0	110.1	109.2	103.8	101.1	97.5	97.5
<b>Situation</b>	67.6	76.7	93.2	95.0	102.3	105.9	102.3	96.8	93.2
<b>Expectations</b>	114.0	122.8	128.1	124.6	115.8	101.8	100.0	98.2	101.8

Since 1981 the Ifo Institute has conducted a quarterly survey in numerous countries on business cycle developments and other economic factors in the experts' home countries. The July 2005 survey received responses from 1,051 experts in 95 countries. The survey is conducted in co-operation with the International Chamber of Commerce in Paris (ICC) and with financial support from the European Commission.

A detailed regional analysis appears in the quarterly journal, *CESifo World Economic Survey*. This report contains advance information on the most important results.

Fig. 1

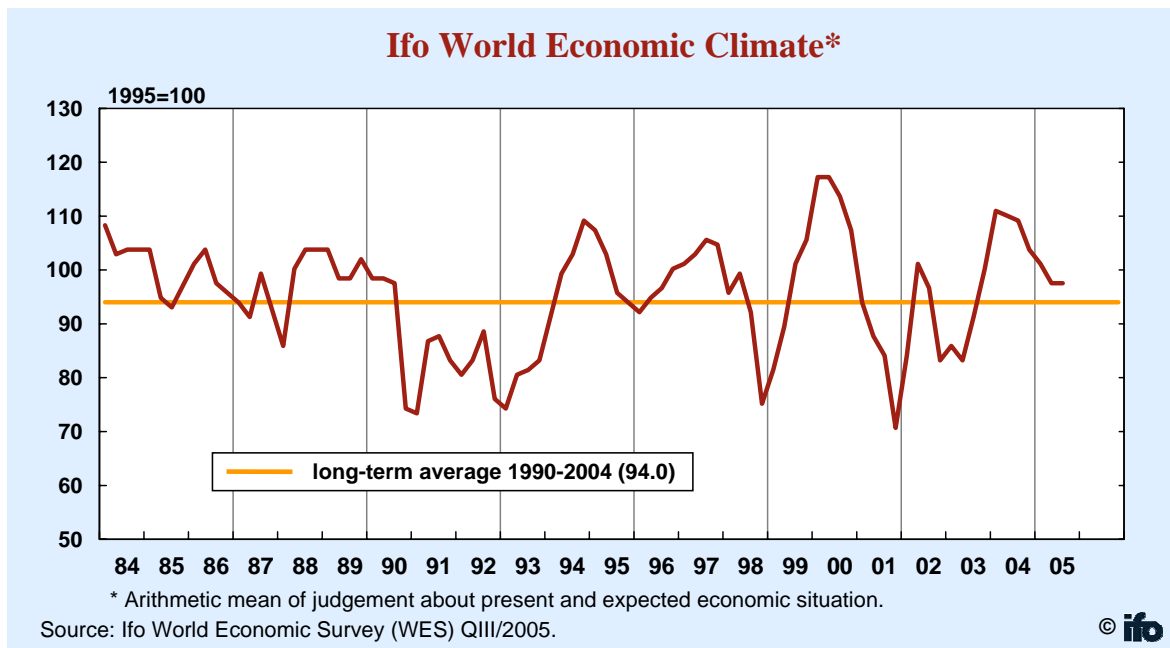


Fig. 2

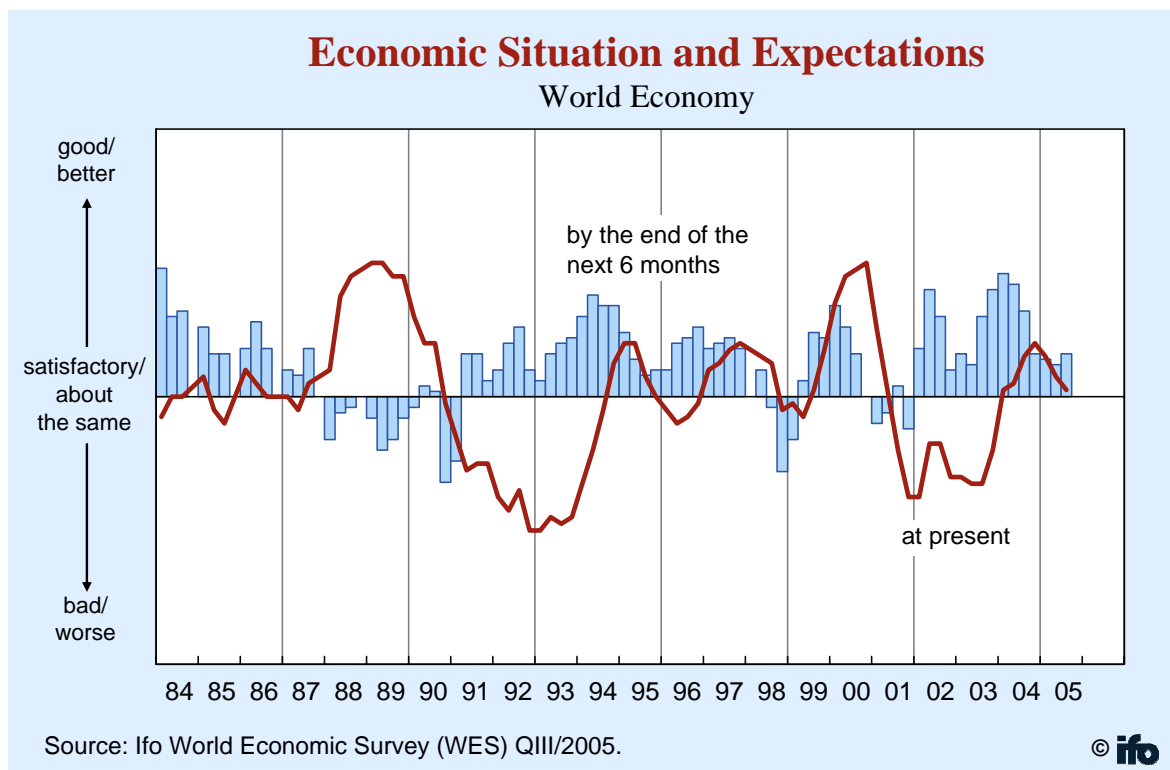
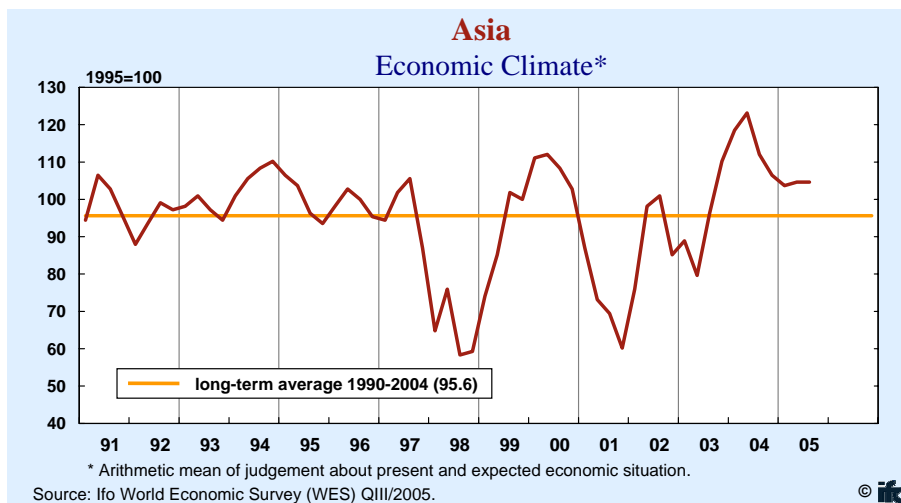
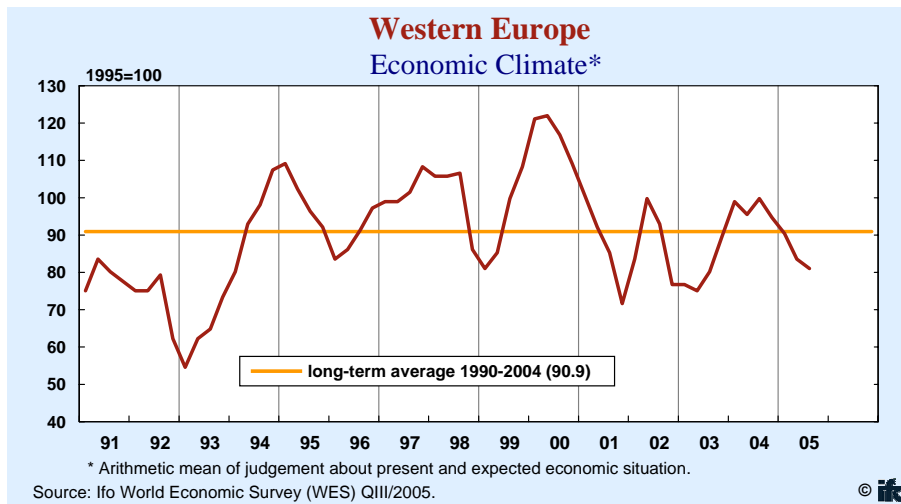
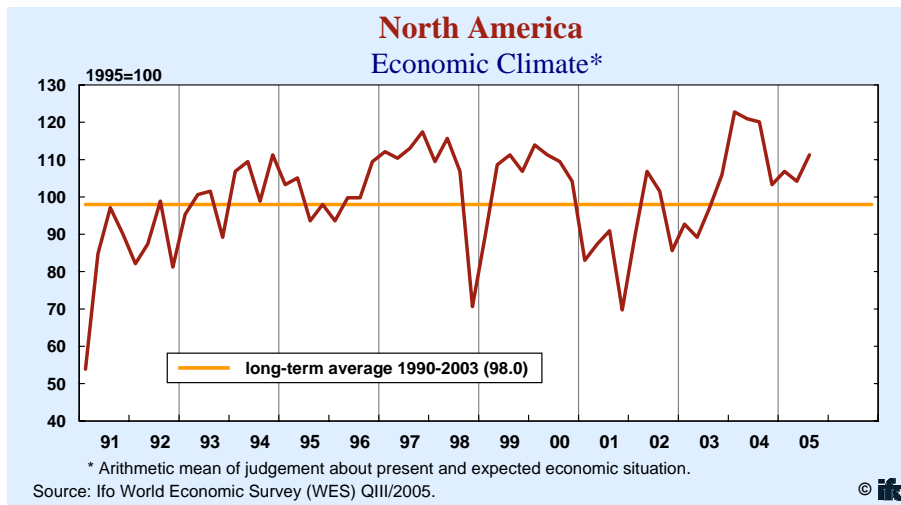


Fig. 3



Climate (1995=100)	III/03	IV/03	I/04	II/04	III/04	IV/04	I/05	II/05	III/05
<b>North America</b>	97.1	106.0	122.7	121.0	120.1	103.3	106.8	104.2	111.3
<b>Western Europe</b>	80.2	89.6	98.9	95.5	99.8	94.7	90.4	83.6	81.0
<b>Asia</b>	96.3	110.2	118.5	123.1	112.0	106.5	103.7	104.6	104.6