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Ifo Economic Climate for the Euro Area

Advanced results of the Ifo World Economic Survey (WES) of 4th quarter 2005,
in co-operation with the International Chamber of Commerce (ICC), Paris

Euro area: Ifo economic indicator rises slightly

The economic climate for the euro area brightened in October 2005 for the first time in more than a year. Both the assessments of the current economic situation as well as the expectations for the coming six months improved. Despite this sign of recovery, in the majority of the euro member states the current economic situation is still assessed, on balance, as unfavourable.

The economies of Ireland, Luxembourg and Finland continue to hold the top positions in the appraisals of the WES experts. Whereas further cyclical expansion in the coming six months is expected in Finland, for Ireland and Luxembourg the survey participants see a stabilisation of the economic situation at the present very positive level. With these three exceptions, the current economic situation is assessed positively only in Spain, and in Austria it is still considered to be satisfactory.

Nevertheless, in those member states in which the current economic situation is still assessed as unsatisfactory, a slight economic recovery was also apparent. This is especially the case for the Netherlands and Belgium but also for France and Germany. In Italy and Portugal, the current economic laggards in the euro area, an improvement is hardly evident.

The inflation expectations for 2005 were raised by the WES experts from 2.0% to 2.2%. Accordingly, in the course of the next six months central bank and capital market interest rates are expected to increase slightly. The US dollar and the Japanese yen are still regarded as undervalued against the euro, and the British pound is viewed as overvalued.

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

Euro area (Index, 1995 = 100)

Quarter/year	IV/03	I/04	II/04	III/04	IV/04	I/05	II/05	III/05	IV/05
Climate	85.6	95.8	89.8	96.6	89.8	85.6	78.8	78.8	84.8
Situation	48.6	67.3	63.6	76.6	84.1	74.8	65.4	59.8	67.3
Expectations	116.3	119.4	111.6	113.2	94.6	94.6	89.9	94.6	99.2

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 22 November 2005.

The 4th quarter 2005 euro area results, which are published here in advance, are based on the responses of 306 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

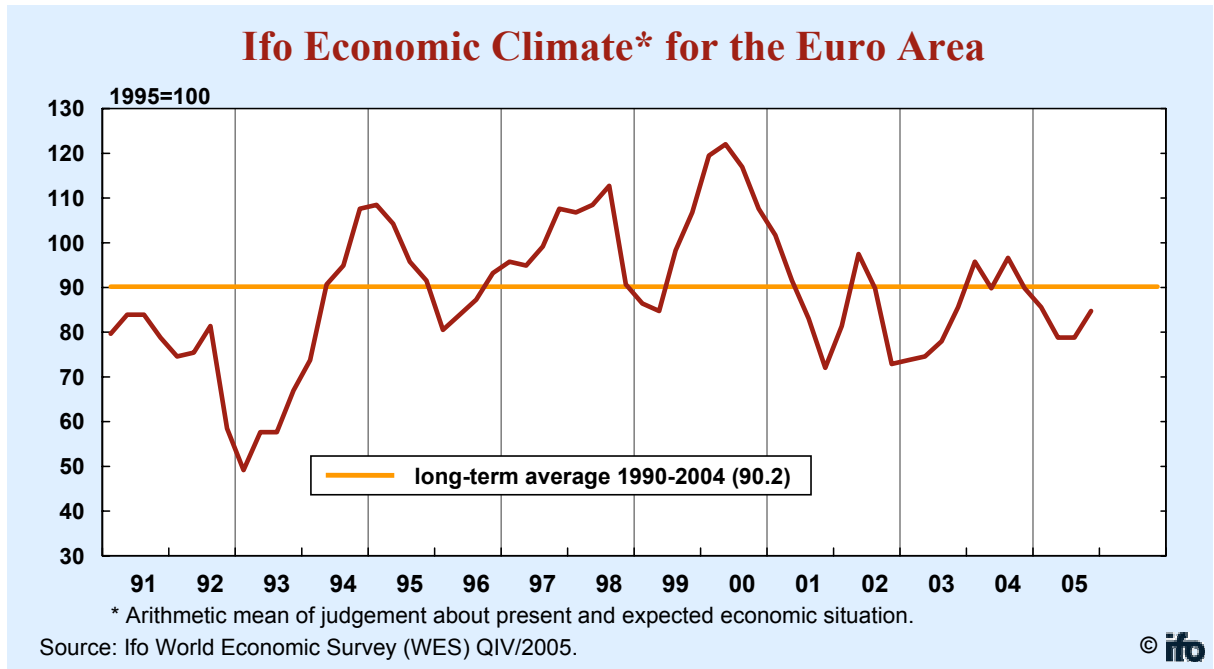


Fig. 2

