

Ifo World Economic Climate

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

Improvement in the Ifo World Economic Climate

The Ifo World Economic Climate Index rose for the first time since the beginning of 2004, after having continuously weakened from a high level in previous surveys. The 3rd quarter results first signalled an end to the downturn in the indicator. The improvement applied only to the assessments of the current economic situation, however. The expectations for the coming six months weakened slightly. Overall, the World Economic Survey signals a continuingly robust international economy. The slight weakening in the world economy in 2004 was presumably only temporary. WES experts now see this weakening replaced by an acceleration of economic growth.

Signs of improvement are especially evident in Western Europe, where both the assessments of the current situation and the expectations for the next six months were stronger. In Asia as well, the climate indicator rose, even though the more confident appraisals of the current economic situation were partly offset by more cautious expectations. Only in North America did the climate indicator decline as a result of clearly worsening expectations as well as less positive appraisals of the current economic situation.

In contrast to the survey results of the previous three quarters, now a clear rise in inflation is expected. Whereas the WES experts assumed in the past surveys that the consumer prices would increase worldwide by 2.9%, they now anticipate a rise of 3.3%. The sharp price increases for oil and other raw materials are now expected to have a stronger effect on consumer prices than assumed in the previous surveys.

Certainly as a result of the rising inflation expectations, the WES experts anticipate further hikes in interest rates, especially in North America and Asia but also in Western Europe. The US dollar is regarded as adequately valued, after having been seen as undervalued for two years. The euro and the British pound were appraised less frequently as overvalued than in the previous surveys. For the first time since the beginning of 2004, the Japanese yen has been appraised as slightly undervalued.

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

World Economy (Index, 1995 = 100)

Quarter/year	IV/03	I/04	II/04	III/04	IV/04	I/05	II/05	III/05	IV/05
Climate	100.2	111.0	110.1	109.2	103.8	101.1	97.5	97.5	99.3
Situation	76.7	93.2	95.0	102.3	105.9	102.3	96.8	93.2	98.6
Expectations	122.8	128.1	124.6	115.8	101.8	100.0	98.2	101.8	100.0

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 October 2005 survey received responses from 1,100 experts in 91 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 press release contains advance information on the most important results.

Fig. 1

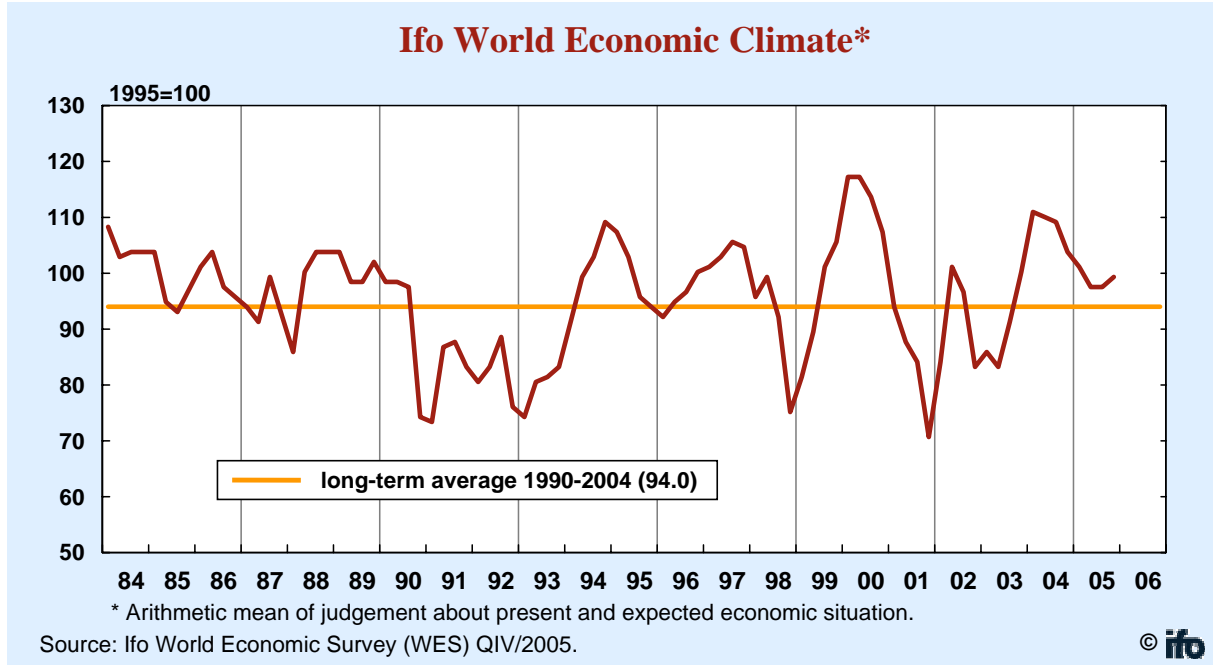


Fig. 2

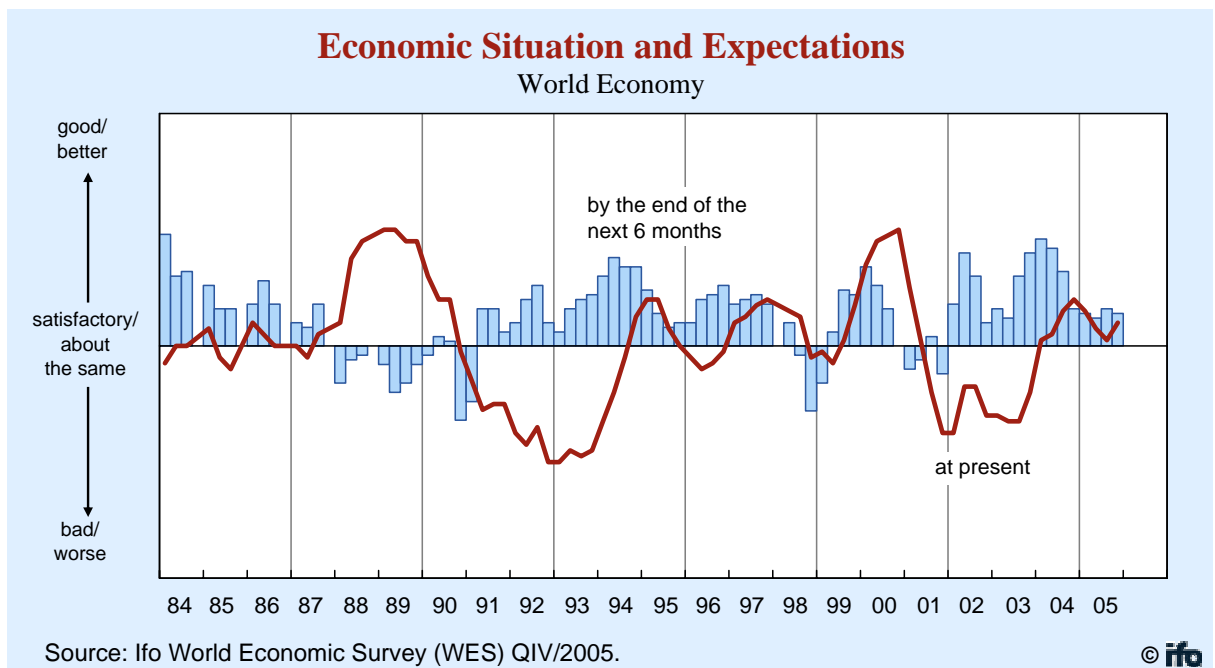
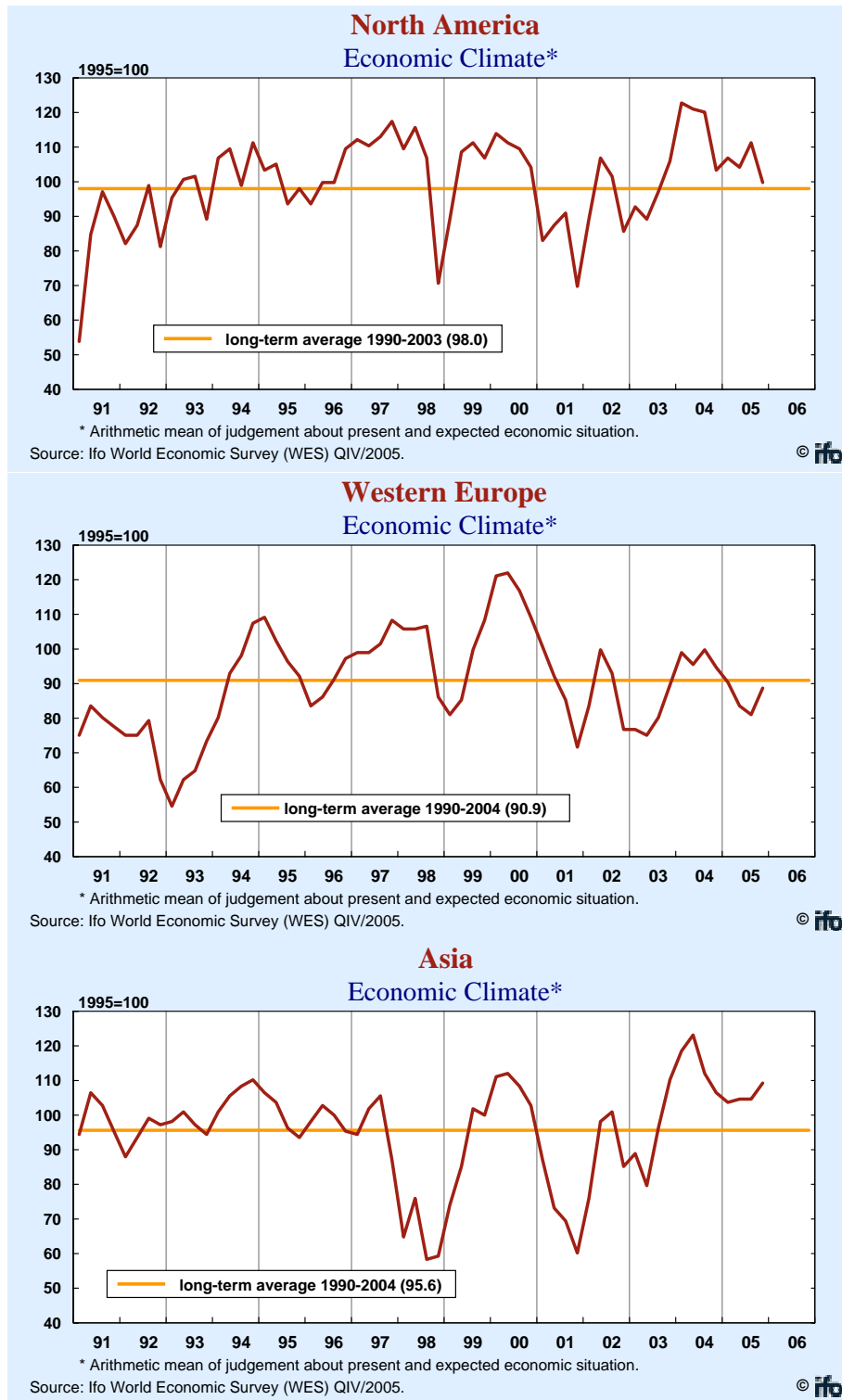


Fig. 3



Climate (1995=100)	IV/03	I/04	II/04	III/04	IV/04	I/05	II/05	III/05	IV/05
North America	106.0	122.7	121.0	120.1	103.3	106.8	104.2	111.3	99.8
Western Europe	89.6	98.9	95.5	99.8	94.7	90.4	83.6	81.0	88.7
Asia	110.2	118.5	123.1	112.0	106.5	103.7	104.6	104.6	109.3