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Ifo World Economic Climate

Results of the Ifo World Economic Survey (WES) of the 3rd quarter 2006
in co-operation with the International Chamber of Commerce (ICC), Paris

Slight Cooling of the World Economic Climate

The Ifo indicator for the world economic climate fell somewhat in the third quarter of 2006. The decline in the climate indicator was solely due to less confident expectations for the coming six months. The assessments of the current economic situation improved again, after having reached a five-year high in the second quarter. These results point to a flattening of the economic upswing in the coming months.

In the survey regions, the relative fall of the climate indicator was strongest in *North America* because of the less optimistic expectations for the coming six months, whereas the judgements of the current situation improved slightly over the April survey. In *Asia* as well, the results of the Ifo World Economic Survey indicate that the strong economic expansion will weaken somewhat over the coming six months. Both components of the economic climate – the assessments of the current situation and the six-month outlook – were revised downwards for this region. In contrast, in *Western Europe* the climate indicator maintained the high level of the second quarter and continues to stand at a five-year high. As in North America the expectations were less optimistic than in the previous survey, but this was offset by an equally strong improvement in the assessments of the current economic situation.

The *inflation expectations* for 2006 continue to be relatively high at 3.5% on a world-wide average. For the *United States* (at 3.2%), *Western Europe* (at 2.2%) as well as for *Asia* (at 2.9%) slightly increased price anticipations were reported. Since inflation expectations are high on the whole, more WES experts than in the previous survey believe that, despite the somewhat less favourable economic outlook, *central-bank* and *capital-market interest rates* will continue to rise.

The *US dollar* is seen to be slightly overvalued since the beginning of this year, on average for all surveyed countries, after having been viewed by the WES experts as undervalued for more than two years previously. Also the *euro* and the *British pound* were seen as slightly overvalued by the WES experts. The *Japanese yen* – and with it other Asian currencies – were regarded as undervalued, as also in previous surveys.

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World Economy (Index, 1995 = 100)

Quarter/year	III/04	IV/04	I/05	II/05	III/05	IV/05	I/06	II/06	III/06
Climate	109.2	103.8	101.1	97.5	97.5	99.3	109.2	111.0	105.6
Situation	102.3	105.9	102.3	96.8	93.2	98.6	109.6	113.2	115.1
Expectations	115.8	101.8	100.0	98.2	101.8	100.0	108.8	108.8	96.5

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 2006 survey received responses from 1,005 experts in 90 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

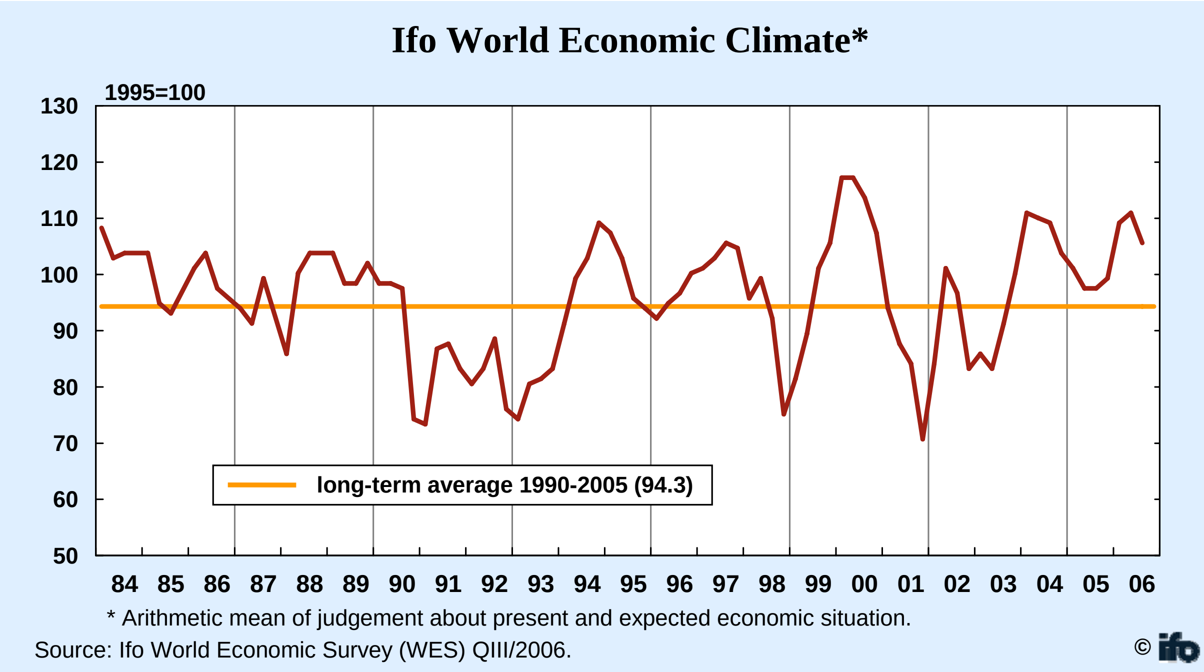
Ifo World Economic Climate*
1995=100
130
120
110
100
90
80
70
60
50
long-term average 1990-2005 (94.3)
84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06
* Arithmetic mean of judgement about present and expected economic situation.
Source: Ifo World Economic Survey (WES) QIII/2006.
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Fig. 2

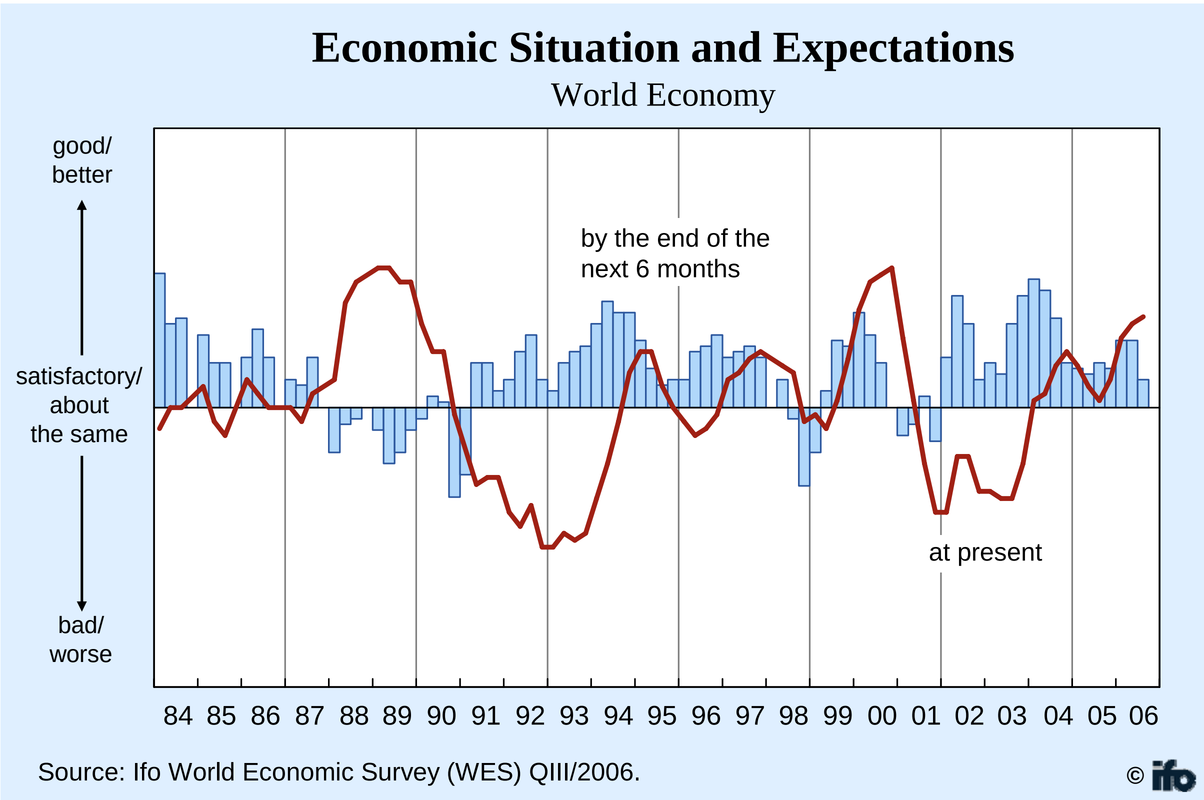
Economic Situation and Expectations
World Economy
good/
better
satisfactory/
about
the same
bad/
worse
by the end of the
next 6 months
at present
84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06
Source: Ifo World Economic Survey (WES) QIII/2006.
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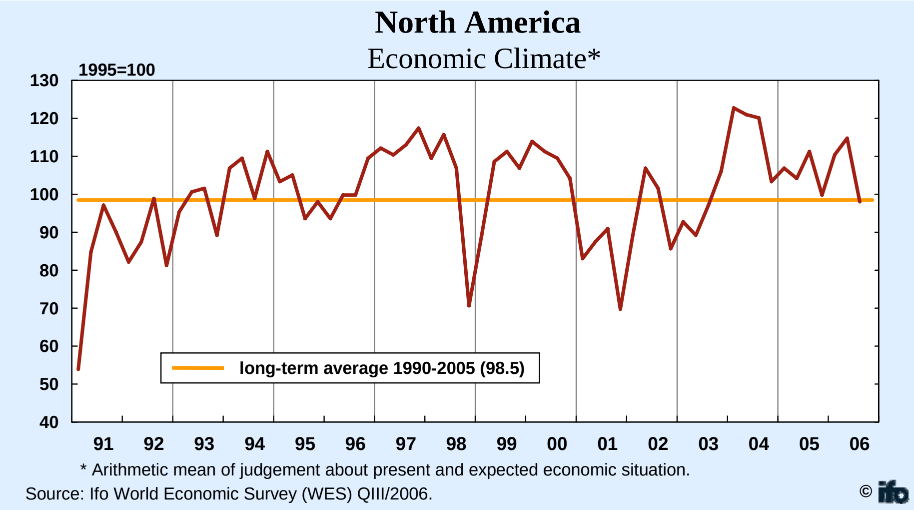
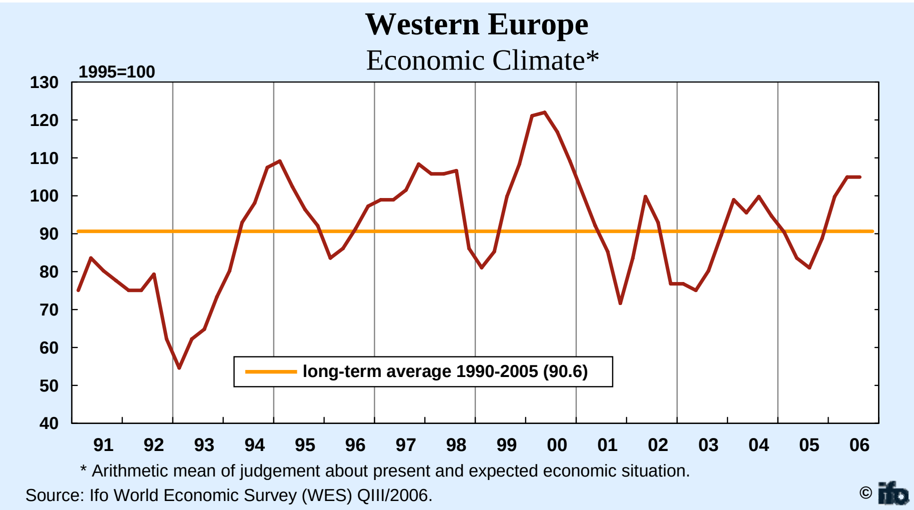
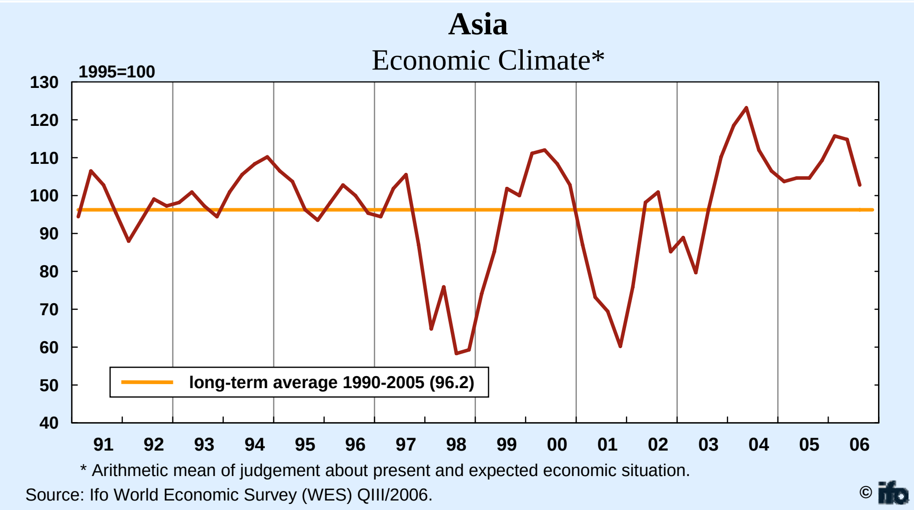
Fig. 3







Climate (1995=100)	III/04	IV/04	I/05	II/05	III/05	IV/05	I/06	II/06	III/06
North America	120.1	103.3	106.8	104.2	111.3	99.8	110.4	114.8	98.0
Western Europe	99.8	94.7	90.4	83.6	81.0	88.7	99.8	104.9	104.9
Asia	112.0	106.5	103.7	104.6	104.6	109.3	115.7	114.8	102.8