

## Ifo World Economic Climate

Results of the Ifo World Economic Survey (WES) of the 2<sup>nd</sup> quarter 2006 in co-operation with the International Chamber of Commerce (ICC), Paris

### World Economic Climate Remains Favourable

**The Ifo indicator for the world economic climate improved in the second quarter 2006 for the third time in succession. The slight rise in the climate index was due to better assessments of the general economic situation, which have now reached a five-year high. The expectations for the coming six months remain optimistic. Consequently, the upswing of the world economy continues to be robust.**

Positive trends were again evident in the three major regions of the world economy. In *Western Europe*, as on the world average, the assessments of the general economic situation improved, and the expectations for the second half of 2006 are still optimistic. In *North America* the appraisals of the current economic situation remained at the highest level since 2001, with the economic expectations now even more positive than during the entire past year. In *Asia* the world economic climate indicator did not rise further, but both components – the appraisals of the current economic situation and the six-month outlook – are at a favourable level.

Inflation expectations for 2006 have weakened somewhat on a world-wide average in comparison to the January survey but at 3.1% are still relatively high. Price expectations remain unchanged in Western Europe (at 2.1%) and in Asia (at 2.8%) but have increased slightly in the US (to 3.0% after 2.9% in January 2006). Since inflation expectations on the whole are still high and since the economic outlook is largely viewed as favourable, more WES experts than in the past survey expect further central bank and capital market rate hikes, especially in Asia and the euro area.

The *US dollar* is still considered to be slightly overvalued, in an all-country average, having been assessed as undervalued by the WES experts for more than two years. Also the *euro* and even more so the *British pound* appear to the WES experts to be somewhat overvalued. The *Japanese yen* – and also other Asian currencies – were considered to be even more undervalued than in the previous surveys.

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

Quarter/year	II/04	III/04	IV/04	I/05	II/05	III/05	IV/05	I/06	II/06
<b>Climate</b>	110.1	109.2	103.8	101.1	97.5	97.5	99.3	109.2	111.0
<b>Situation</b>	95.0	102.3	105.9	102.3	96.8	93.2	98.6	109.6	113.2
<b>Expectations</b>	124.6	115.8	101.8	100.0	98.2	101.8	100.0	108.8	108.8

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 April 2006 survey received responses from 1,087 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

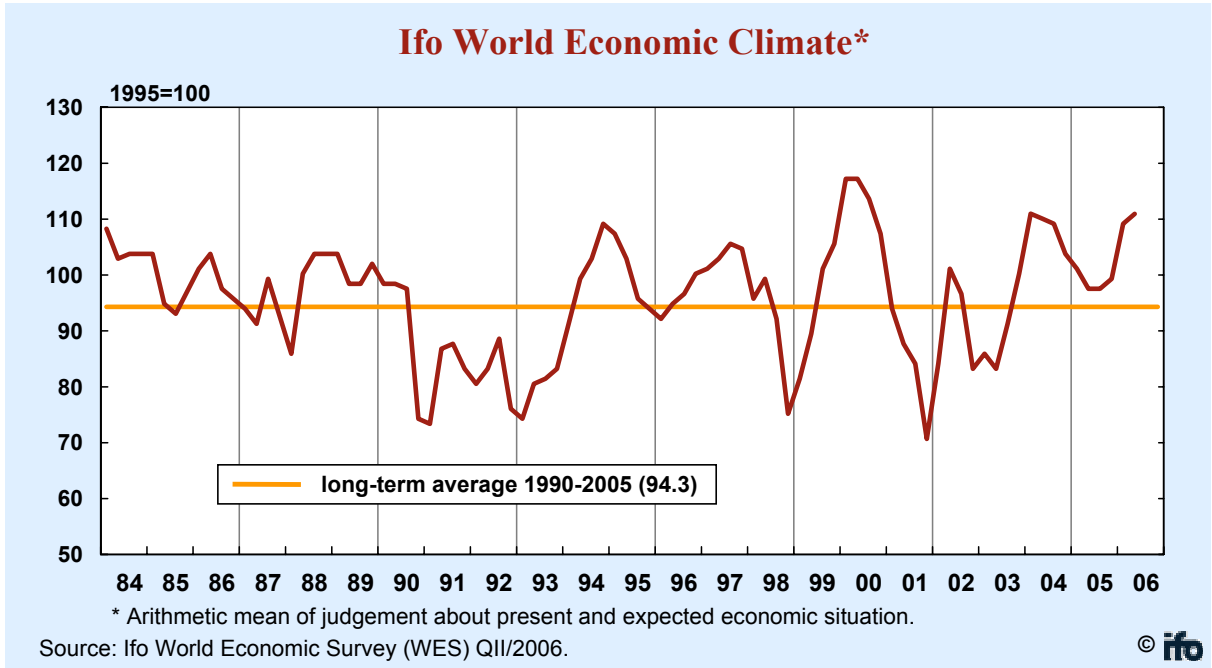


Fig. 2

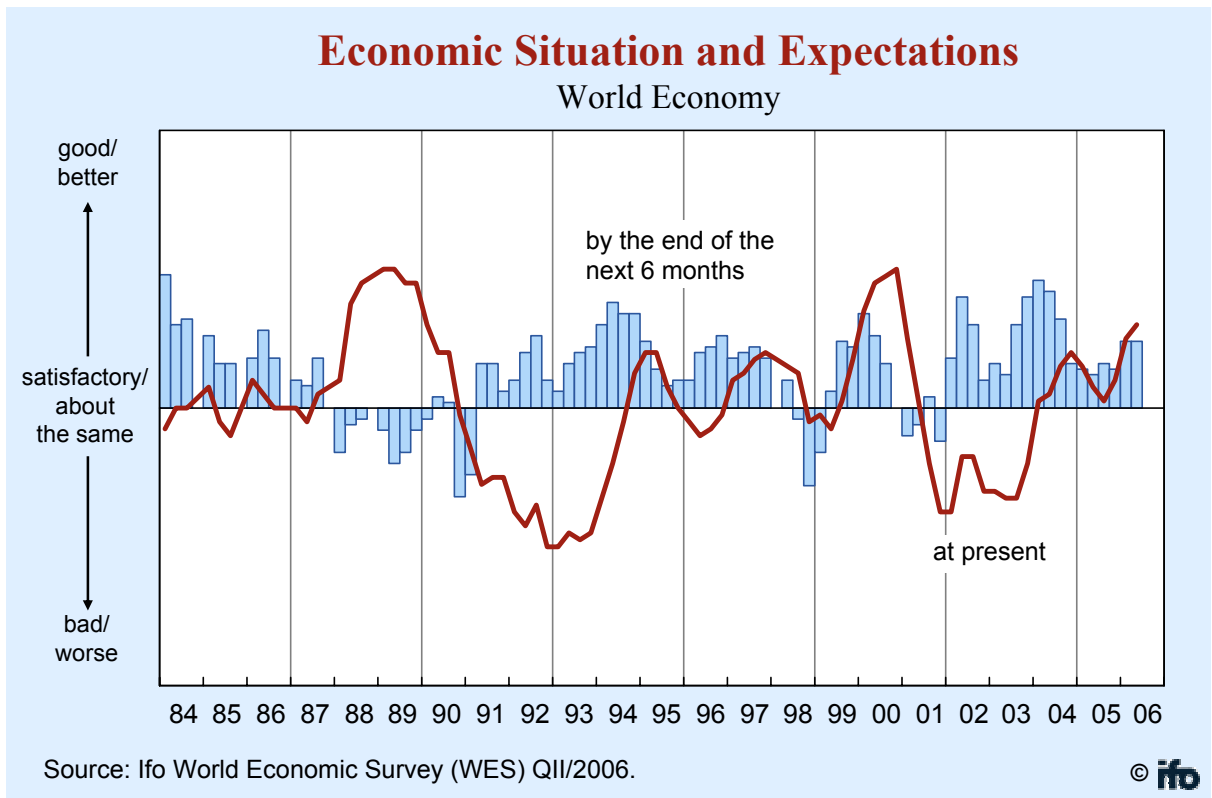
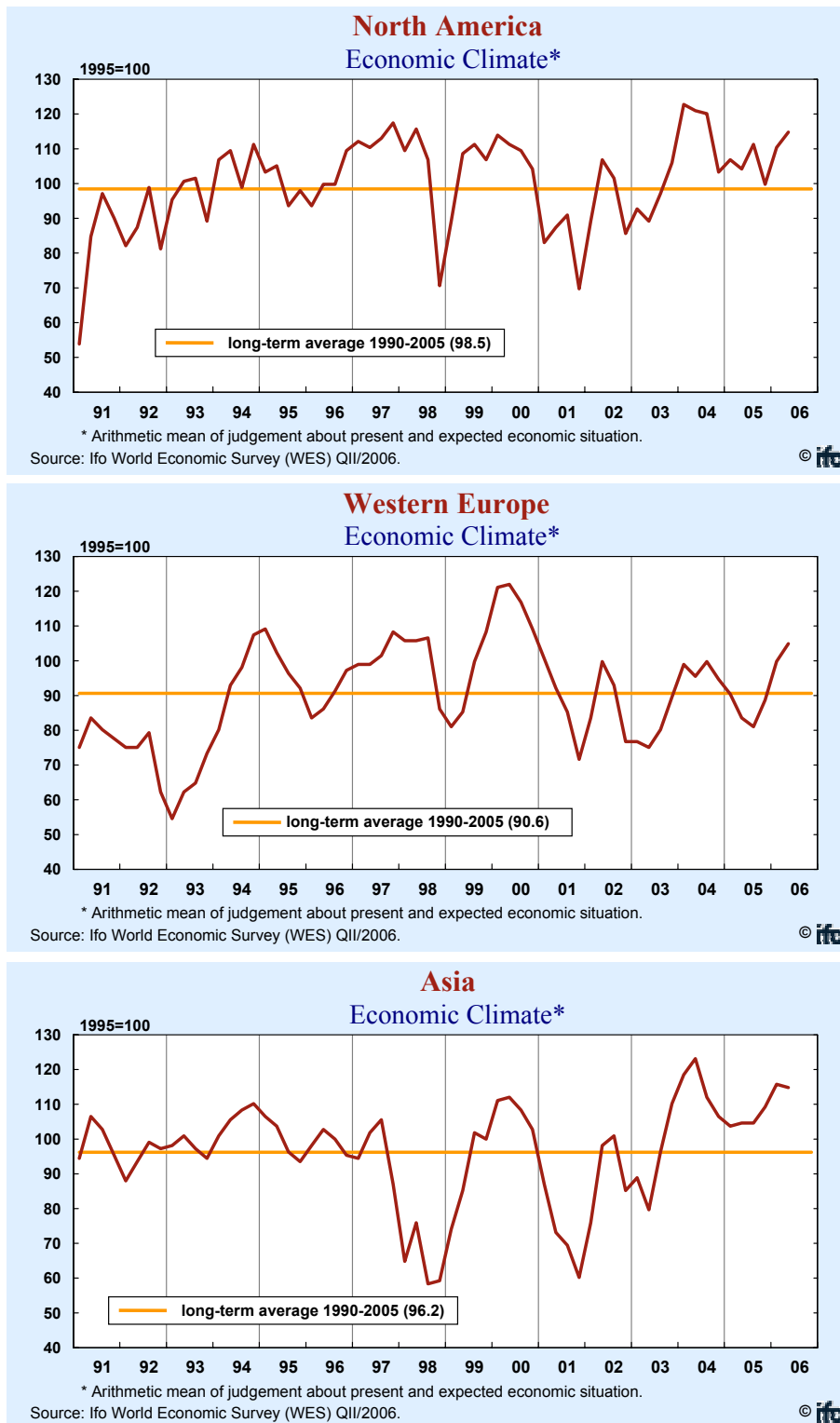


Fig. 3



Climate (1995=100)	II/04	III/04	IV/04	I/05	II/05	III/05	IV/05	I/06	II/06
<b>North America</b>	121.0	120.1	103.3	106.8	104.2	111.3	99.8	110.4	114.8
<b>Western Europe</b>	95.5	99.8	94.7	90.4	83.6	81.0	88.7	99.8	104.9
<b>Asia</b>	123.1	112.0	106.5	103.7	104.6	104.6	109.3	115.7	114.8