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Ifo Economic Climate for the Euro Area

Advanced results of the Ifo World Economic Survey (WES) of the 4th quarter 2006, in co-operation with the International Chamber of Commerce (ICC), Paris

Euro Area: Slight Clouding of the Economic Climate

The Ifo indicator for the economic climate in the euro area weakened again slightly in the fourth quarter of 2006. As in the previous quarter, this decline was solely the result of less optimistic expectations for the coming six months. The assessments of the current economic situation have improved further and are now at a five-year high. The latest survey results indicate a continuation of the economic recovery, which will however weaken during the first half of 2007.

The appraisals of the current economic situation improved over the July survey in most euro countries. Above the euro-area average were Ireland, Finland, the Netherlands, Austria, Spain, Belgium and Germany. Only in Portugal was the general economic situation assessed as poor. Whereas the six-month outlook again worsened in the majority of the euro countries, the surveyed experts in Austria and Greece were somewhat more optimistic than in the third quarter. An economic slowdown is expected by the WES experts in the first half of 2007 especially in Germany, Belgium and Spain.

The inflation expectations for 2006– as throughout all of 2005 – stood at 2.2%, slightly higher than the ECB's target. An increase in the key rates in the next six months was anticipated by fewer experts than in the previous survey.

In comparison to the euro, the US dollar was seen to be nearly properly valued. Nevertheless, the majority of WES experts expect a slight weakening of the US dollar in the coming six months. The Japanese yen was still seen to be undervalued and the British pound as overvalued in comparison to the euro.

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

Euro area (Index, 1995 = 100)

| Quarter/year | IV/04 | I/05 | II/05 | III/05 | IV/05 | I/06 | II/06 | III/06 | IV/06 |
|---------------------|-------|------|-------|--------|-------|-------|-------|--------|-------|
| Climate | 89.8 | 85.6 | 78.8 | 78.8 | 84.8 | 99.2 | 103.4 | 101.7 | 97.5 |
| Situation | 84.1 | 74.8 | 65.4 | 59.8 | 67.3 | 86.0 | 97.2 | 108.4 | 125.2 |
| Expectations | 94.6 | 94.6 | 89.9 | 94.6 | 99.2 | 110.1 | 108.5 | 96.1 | 74.4 |

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 21 November 2006.

The 4th quarter 2006 euro area results, which are published here in advance, are based on the responses of 258 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

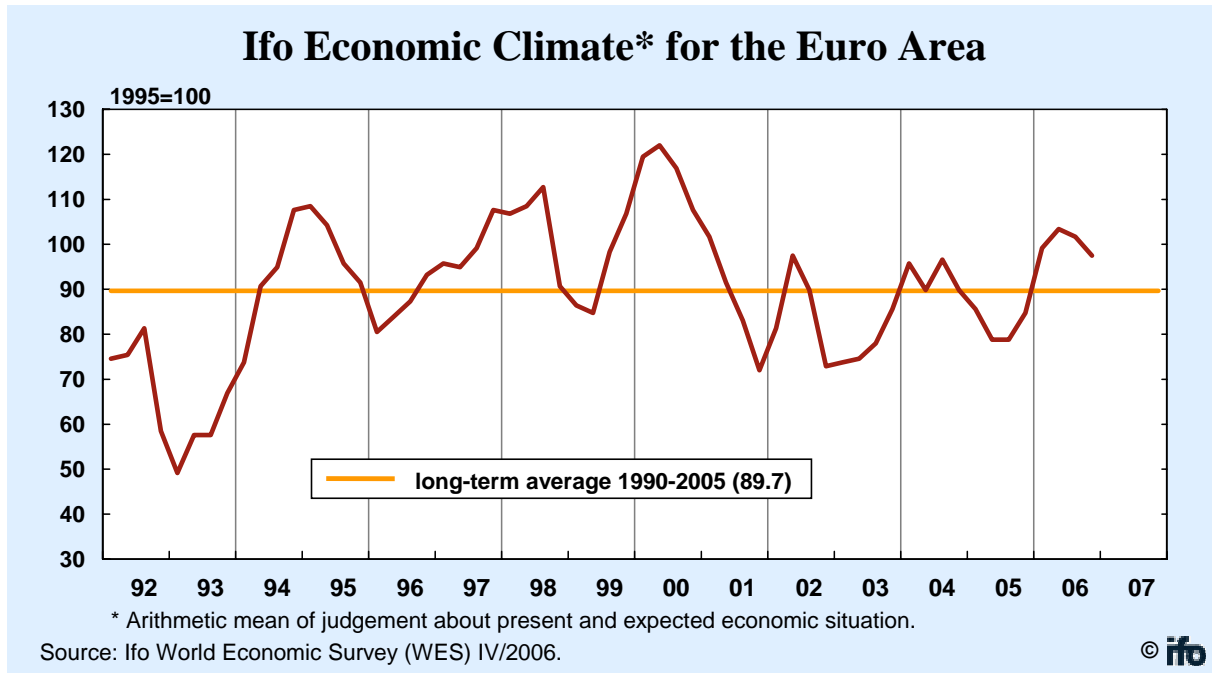


Fig. 2

