

## Ifo World Economic Climate

Results of the Ifo World Economic Survey (WES) of the 4<sup>th</sup> quarter 2006 in co-operation with the International Chamber of Commerce (ICC), Paris

### World Economy: Slight Weakening of the Climate Indicator

**The Ifo indicator for the world economic climate weakened slightly in the fourth quarter of 2006. The decline was again solely due to less confident expectations for the next six months. In contrast, the assessments of the current economic situation have improved for the fifth time in succession, reaching a six-year high. This data constellation indicates that the expected slowing of world economic growth will only involve a moderate cooling phase of the economic cycle in the next six months.**

In *Western Europe* the climate indicator weakened but remained clearly above its long-term average. This was the sole result of less optimistic expectations for the coming six months, whereas the appraisals of the current situation again improved over the July survey. In *North America* the climate index fell only slightly but now for the first time in three years is below its long-term average. The assessments of the current economic situation have worsened in both the *US* and in *Canada*. However, the six-month outlook in the *US* has been revised upward somewhat and is now only slightly negative. An improvement in the climate indicator was registered in *Asia*. Both the assessments of the current economic situation and the expectations for the next six months improved there.

Price anticipations for all of 2006 slightly declined both in the *US* (3.1%), *Western Europe* (2.2%) and also in *Asia* (2.8%). In the light of a reduced danger of inflation and the somewhat less favourable economic outlook, fewer WES experts than in the previous survey anticipate rising interest rates. In *North America* they even see an imminent end to the rise in key rates.

Since the beginning of the year, the *US dollar* has been seen as properly valued. In contrast, the WES experts see the *euro* and the *British pound* as somewhat overvalued. For more than a year the *Japanese yen* has been considered to be undervalued.

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

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

Quarter/year	IV/04	I/05	II/05	III/05	IV/05	I/06	II/06	III/06	IV/06
<b>Climate</b>	103.8	101.1	97.5	97.5	99.3	109.2	111.0	105.6	104.7
<b>Situation</b>	105.9	102.3	96.8	93.2	98.6	109.6	113.2	115.1	120.5
<b>Expectations</b>	101.8	100.0	98.2	101.8	100.0	108.8	108.8	96.5	89.5

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 October 2006 survey received responses from 1,060 experts in 89 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

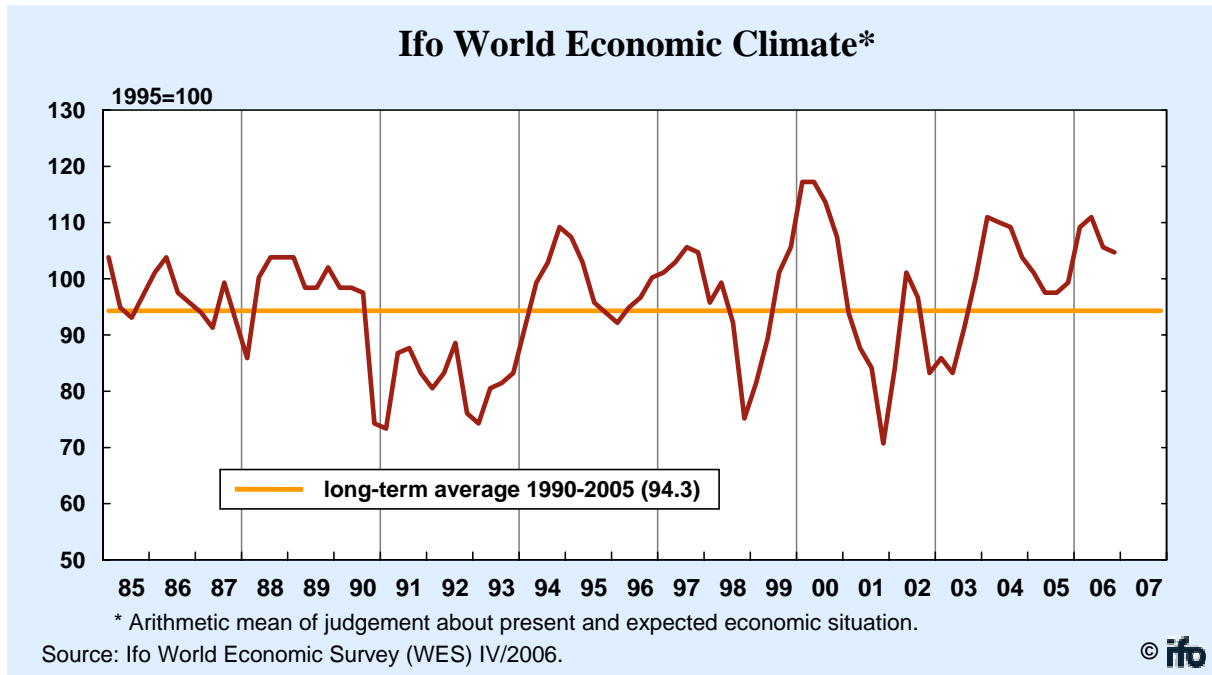


Fig. 2

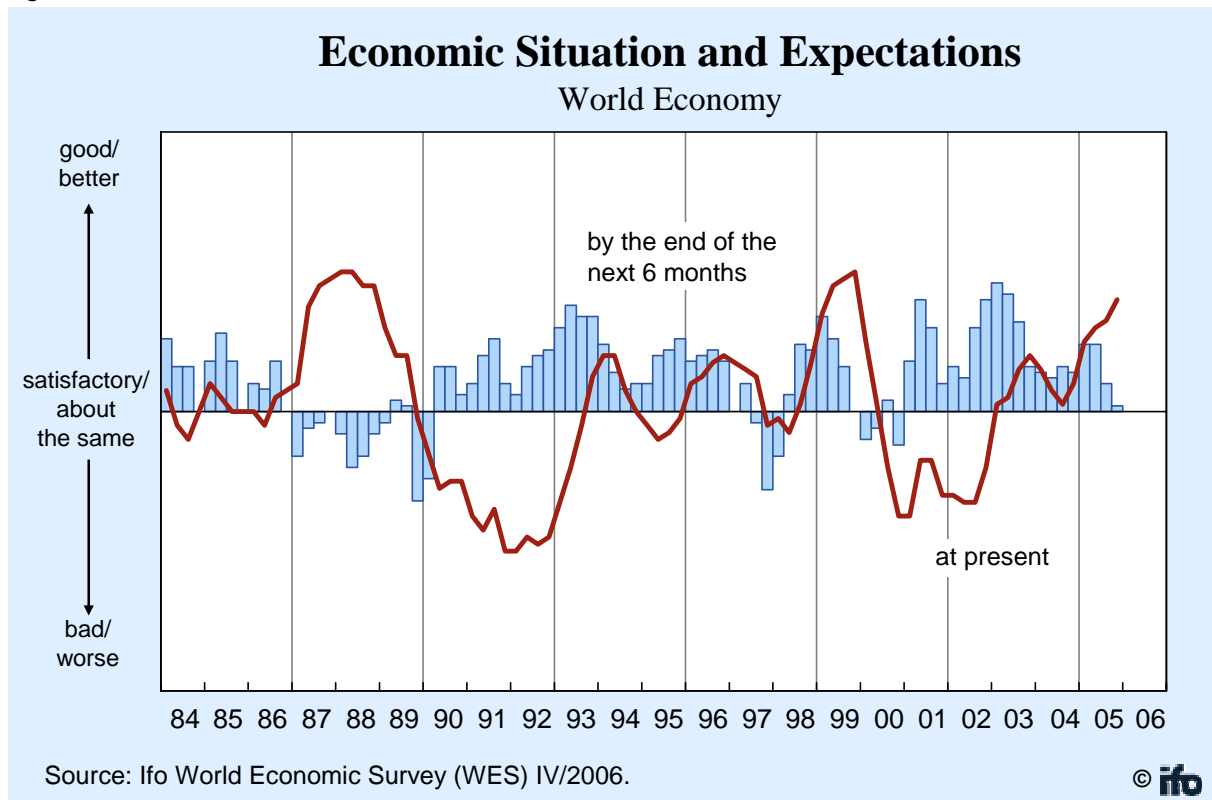
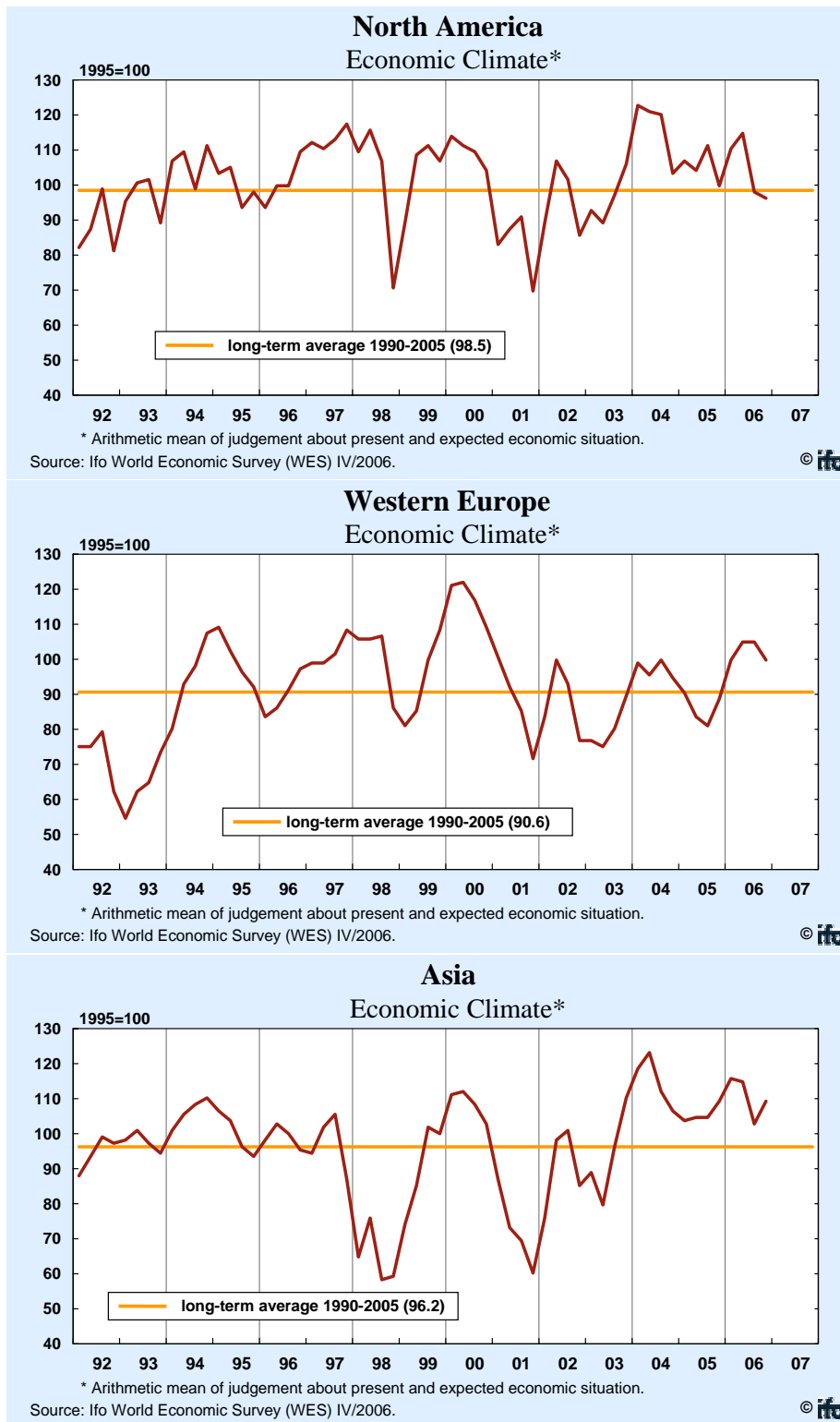


Fig. 3



Climate (1995=100)	IV/04	I/05	II/05	III/05	IV/05	I/06	II/06	III/06	IV/06
<b>North America</b>	103.3	106.8	104.2	111.3	99.8	110.4	114.8	98.0	96.2
<b>Western Europe</b>	94.7	90.4	83.6	81.0	88.7	99.8	104.9	104.9	99.8
<b>Asia</b>	106.5	103.7	104.6	104.6	109.3	115.7	114.8	102.8	109.3