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Ifo Economic Climate for the Euro Area

Advanced results of the Ifo World Economic Survey (WES) of the 1st quarter 2007, in co-operation with the International Chamber of Commerce (ICC), Paris

Euro Area: Slight Rise in the Economic Climate Indicator

The Ifo Economic Climate in the euro area improved in the first quarter of 2007 after having worsened somewhat in the second half of 2006. The improvement applied to both the assessments of the current economic situation as well as the expectations for the coming six months. The latest survey results indicate a continuation of the economic rebound in the first half of 2007.

The appraisals of the current economic situation improved over the October survey especially in *Germany, Belgium* and *Austria*. In *Ireland* and the *Netherlands*, the assessments of the current situation weakened somewhat but remained positive overall. Only in *Portugal* was the general economic situation again assessed as poor. Assessments falling also clearly below the euro-area average came from *Italy, Greece* and *France*. Whereas the great majority of euro-area countries expect a stable upswing, the surveyed experts in *Germany, France* and *Belgium* see a slight slowing of the pace of economic expansion in the first half of 2007.

The inflation expectations for 2007 stood at 2.1%, which was slightly lower than for 2006 as a whole (2.2%) but still somewhat above 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 slightly undervalued. 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 strongly 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	I/05	II/05	III/05	IV/05	I/06	II/06	III/06	IV/06	I/07
Climate	85.6	78.8	78.8	84.8	99.2	103.4	101.7	97.5	100.0
Situation	74.8	65.4	59.8	67.3	86.0	97.2	108.4	125.2	129.0
Expectations	94.6	89.9	94.6	99.2	110.1	108.5	96.1	74.4	76.0

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 20 February 2007.

The 1st quarter 2007 euro area results, which are published here in advance, are based on the responses of 271 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

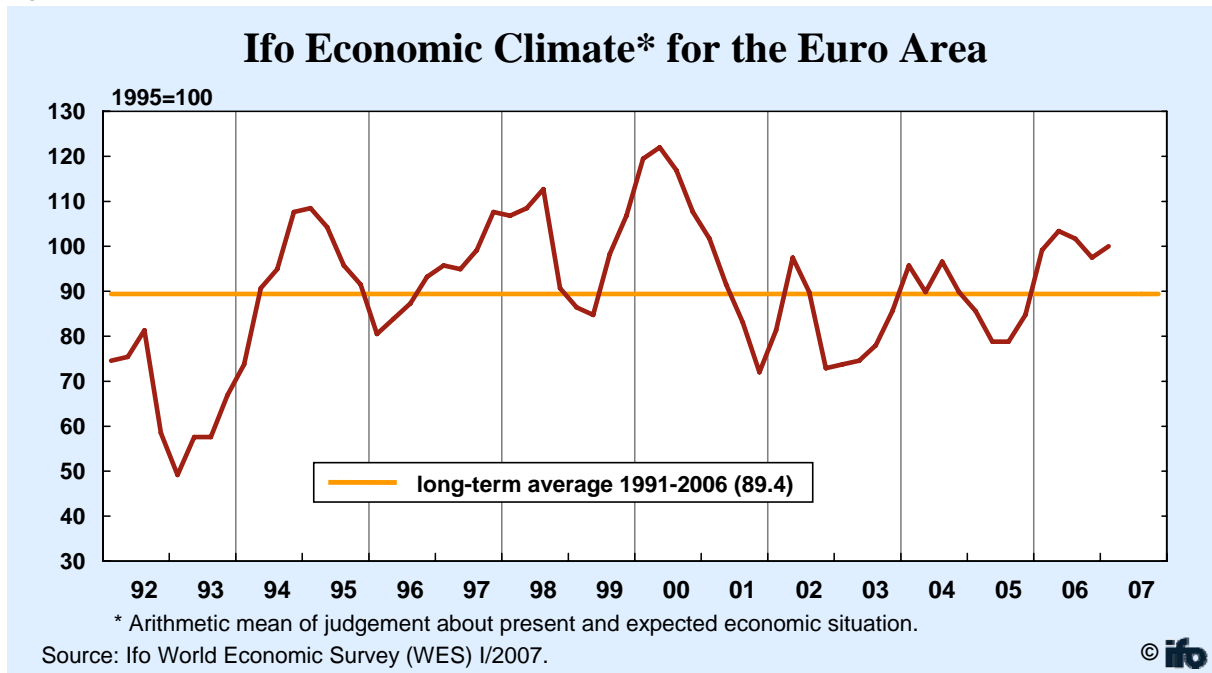


Fig. 2

