

Embargo: Wednesday, 16 May 10am GMT

## Ifo Economic Climate for the Euro Area

Advance results of the Ifo World Economic Survey (WES) of the 2<sup>nd</sup> quarter 2007, in co-operation with the International Chamber of Commerce (ICC), Paris

### Euro Area: Renewed increase in the Ifo Economic Climate Indicator

**The Ifo Economic Climate in the euro area has improved again in the second quarter of 2007. The improvement applies to both survey components: the assessments of the current economic situation that have reached a new a six-year high and the expectations for the coming six months. The latest survey results indicate a robust economic upswing also in the second half of 2007.**

The appraisals of the current economic situation were particularly favourable in *Finland*, *Germany* and the *Netherlands*. Also in *Austria*, *Belgium* and *Greece* the WES experts expect stable development in the coming six months. In *Ireland* and *Spain*, however, the survey participants foresee a slight weakening of the economic upswing in the second half of 2007. Also in *France*, the experts remain sceptical with regard to an acceleration of economic activity in the coming six months. In *Slovenia*, which joined the euro area on 1 January 2007, the current economic situation has been assessed quite favourably and the six-month outlook remains positive. Within the euro area, only in *Portugal* was the general economic situation again assessed as poor.

The inflation expectations for 2007 stood at 2.1%, which is slightly lower than for 2006 as a whole (2.2%) but still somewhat above the ECB inflation target. The WES experts still anticipate an increase in the key interest rates in the next six months; capital market rates should also rise somewhat.

In comparison to the euro, the *US dollar* was seen to be clearly undervalued. Nevertheless, the majority of WES experts expect a further weakening of the *US dollar* in the coming six months. The *Japanese yen* is seen as even more strongly undervalued than the dollar, whereas the *British pound* is still regarded 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	II/05	III/05	IV/05	I/06	II/06	III/06	IV/06	I/07	II/07
<b>Climate</b>	78.8	78.8	84.8	99.2	103.4	101.7	97.5	100.0	106.8
<b>Situation</b>	65.4	59.8	67.3	86.0	97.2	108.4	125.2	129.0	130.8
<b>Expectations</b>	89.9	94.6	99.2	110.1	108.5	96.1	74.4	76.0	86.8

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 22 May 2007.

The 2<sup>nd</sup> quarter 2007 euro area results, which are published here in advance, are based on the responses of 264 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

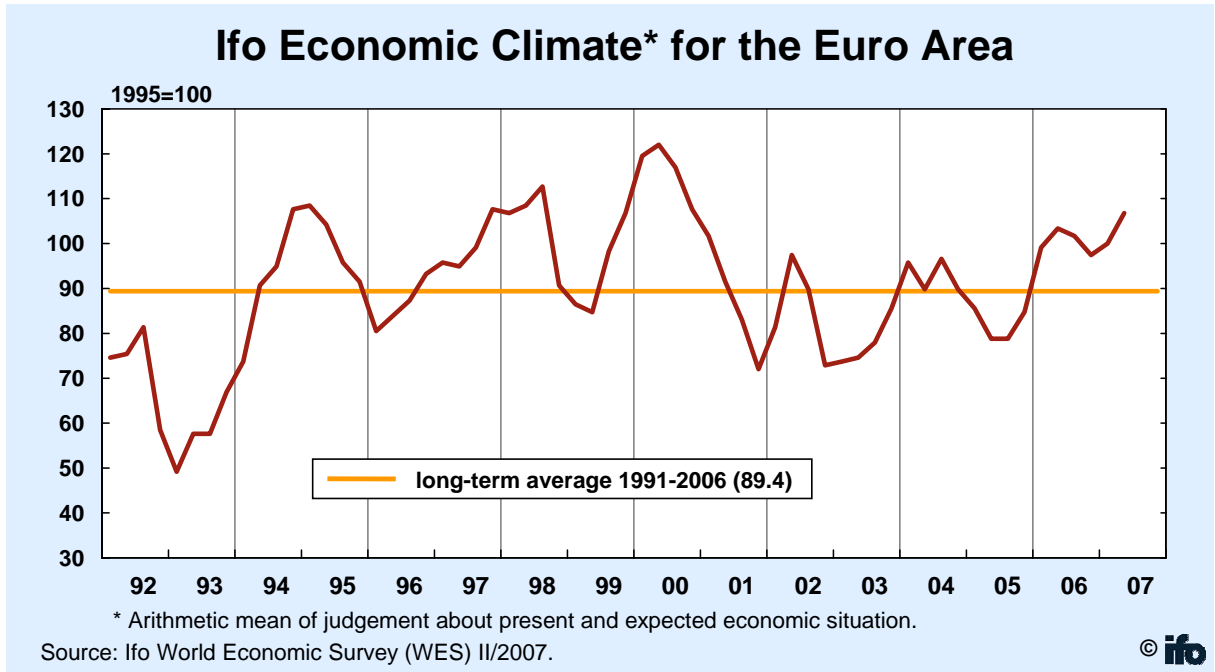


Fig. 2

