

Ifo World Economic Climate

Results of the Ifo World Economic Survey (WES) of the 2nd quarter 2007
in co-operation with the International Chamber of Commerce (ICC), Paris

Ifo World Economic Climate remains stable

The Ifo World Economic Climate indicator remained at a high level in the second quarter and is clearly above its long-term average. The very positive assessment of the current economic situation weakened only slightly. The expectations for the coming six months have improved further and point to a robust world economic development in the second half of 2007.

The Ifo World Economic Climate Index displayed varying results in the three major economic regions: Western Europe, North America and Asia. In *Western Europe* the Ifo climate indicator rose again, reaching a six-year high. The current economic situation has been assessed especially favourable in the *Scandinavian countries* as well as in *Germany* and the *Netherlands*. In the *United Kingdom*, *Ireland* and *Spain*, the surveyed experts foresee a cooling of the economy over the coming six months. In *North America*, the climate indicator has fallen clearly and is now for the first time in four years below its long-term average. In the *US* both the assessments of the current economic situation as well as the six-month expectations have been revised downwards. Also in *Asia*, the climate indicator has fallen but is still clearly above its long-term average. Especially in *Japan*, *India* and *Hong Kong*, the economic expectations are less optimistic than they were at the beginning of the year. In *China*, however, the economic outlook remains positive. On the whole, the WES experts foresee a stable economic development in Asia.

Inflation expectations for 2007 have risen slightly in the *US* (2.9% vis-à-vis 2.5% in January 2007) and are stable in *Western Europe* (at 2.1%). In *Asia* they have weakened somewhat (at 2.5% compared to 2.8% in January). More WES experts than in the previous survey anticipate a rise in key interest rates, but long-term rates are expected to remain unchanged.

On a country average, the *US dollar* is seen as slightly and the Japanese yen as clearly undervalued. The *euro* and the *British pound* are still considered to be overvalued.

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

World Economy (Index, 1995 = 100)

Quarter/year	II/05	III/05	IV/05	I/06	II/06	III/06	IV/06	I/07	II/07
Climate	97.5	97.5	99.3	109.2	111.0	105.6	104.7	106.5	106.5
Situation	96.8	93.2	98.6	109.6	113.2	115.1	120.5	122.4	120.5
Expectations	98.2	101.8	100.0	108.8	108.8	96.5	89.5	91.2	93.0

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 2007 survey received responses from 1.024 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

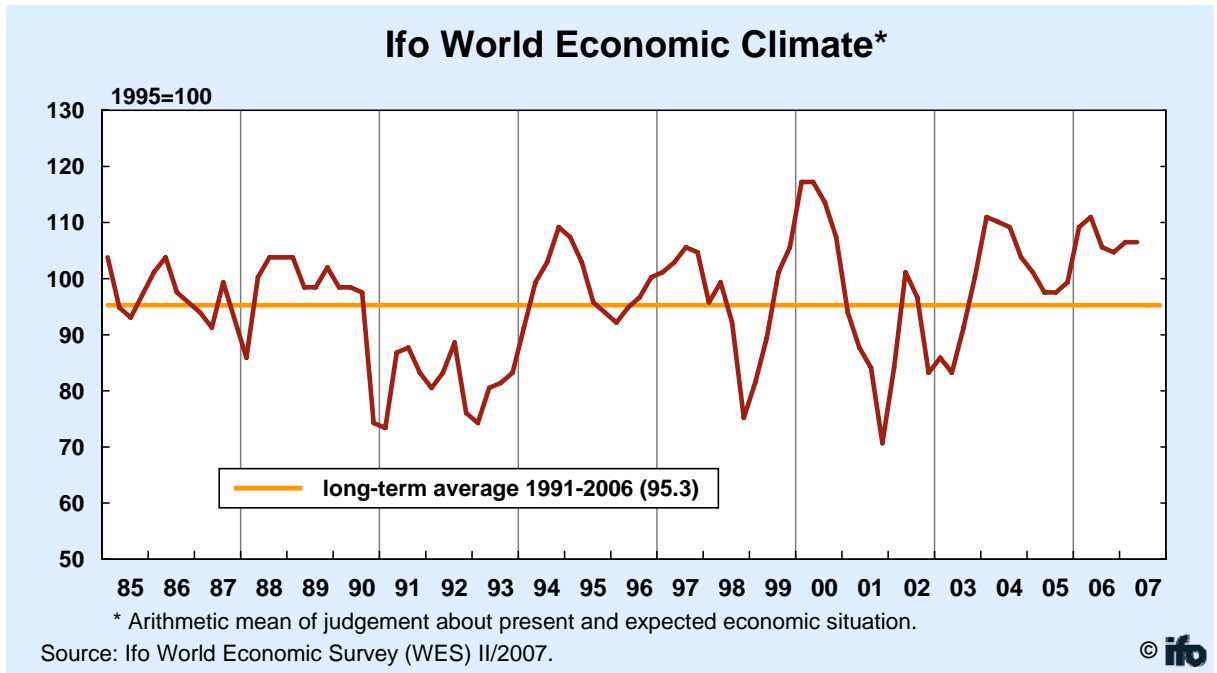


Fig. 2

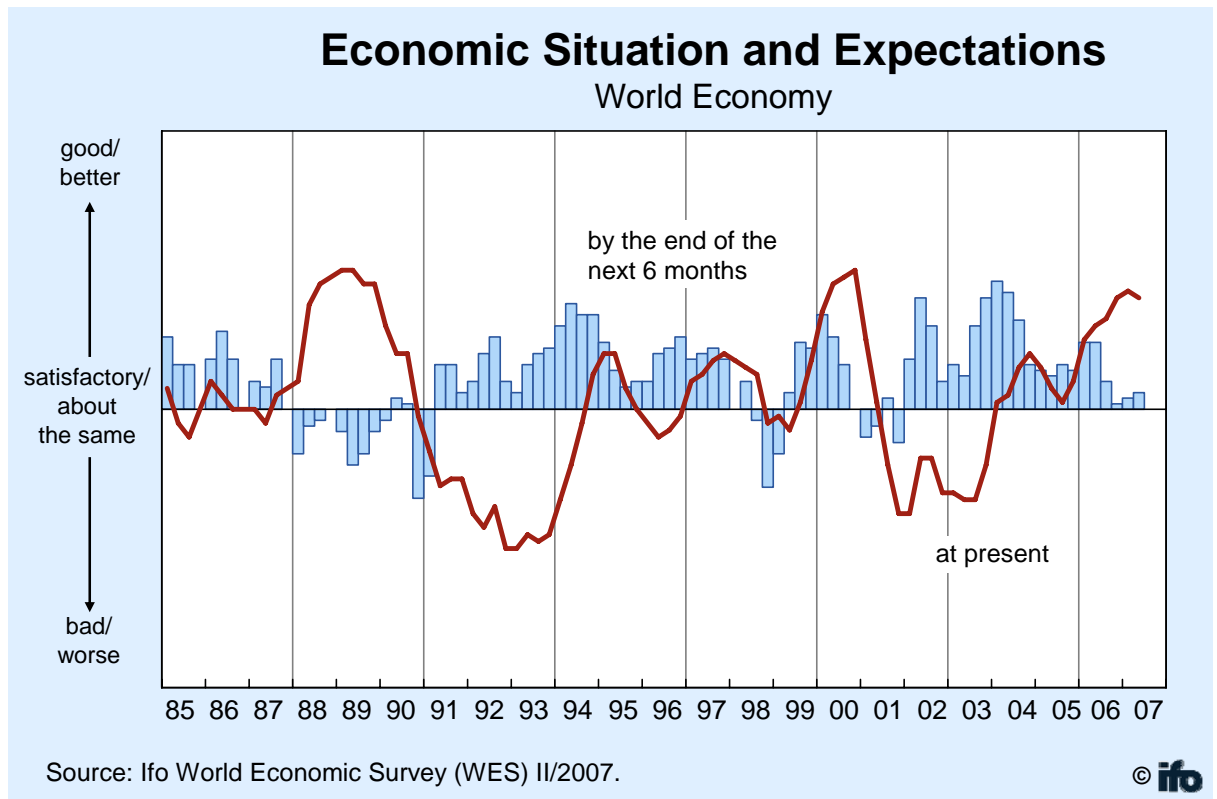
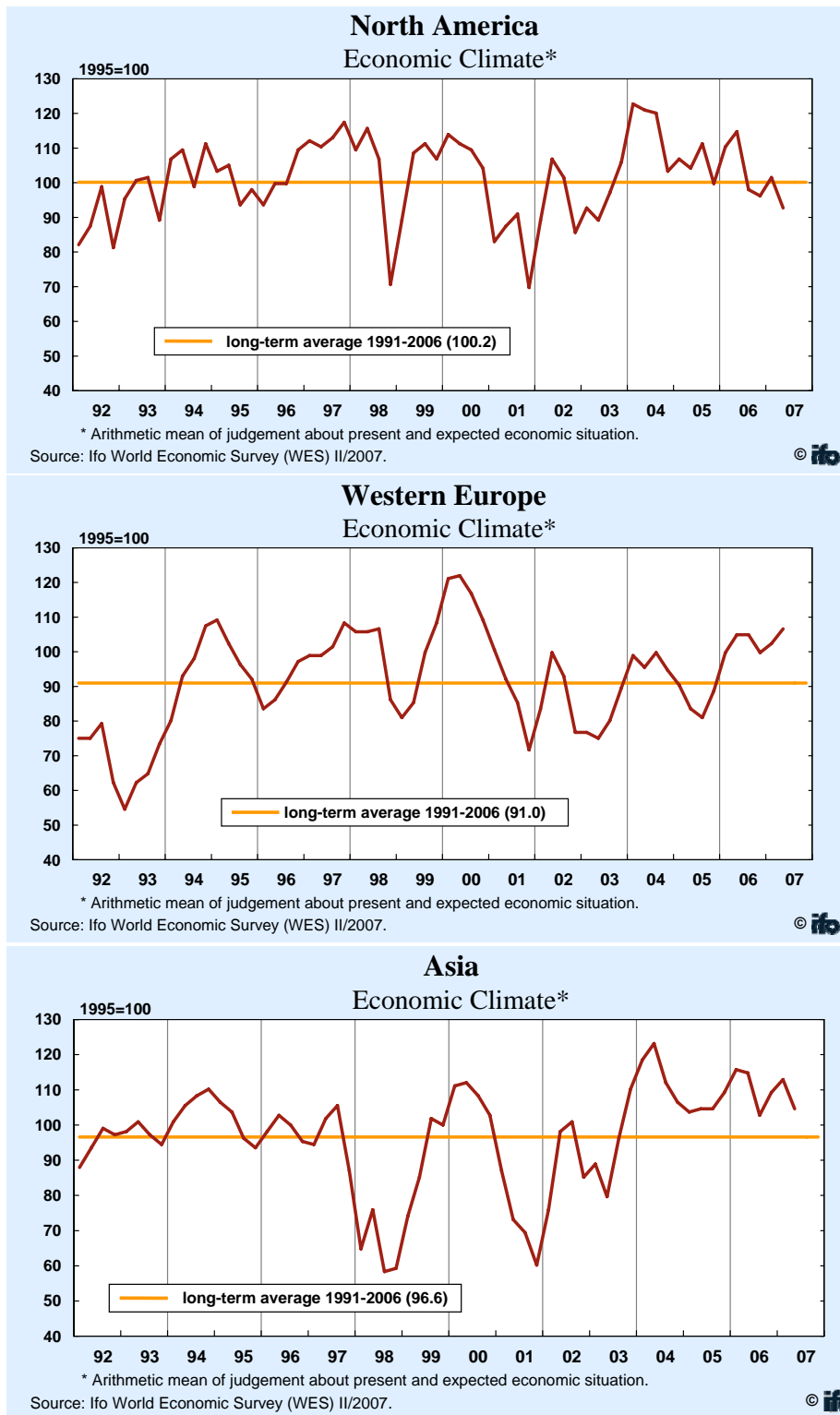


Fig. 3



Climate (1995=100)	II/05	III/05	IV/05	I/06	II/06	III/06	IV/06	I/07	II/07
North America	104.2	111.3	99.8	110.4	114.8	98.0	96.2	101.5	92.7
Western Europe	83.6	81.0	88.7	99.8	104.9	104.9	99.8	102.3	106.6
Asia	104.6	104.6	109.3	115.7	114.8	102.8	109.3	113.0	104.6