

Friday, 16 November 2007, 10am GMT

Ifo Economic Climate for the Euro Area

Advance results of the Ifo World Economic Survey (WES) of the 4th quarter 2007,
in co-operation with the International Chamber of Commerce (ICC), Paris

Euro Area: Ifo Economic Climate Indicator Falls

The Ifo Economic Climate in the euro area has clearly worsened in the fourth quarter of 2007. The decline in the Ifo indicator is attributable to both less positive assessments of the current economic situation as well as less favourable economic expectations for the coming six months. The latest survey results indicate a slowdown in economic growth in the coming half year.

The economic climate worsened in the fourth quarter of 2007 in all countries of the euro area. Especially the economic expectations for the coming six months have been revised downwards. In *Belgium, Spain, Austria, Italy* and *Ireland* in particular, the WES experts expect a significant cooling in the coming months. Optimism has also waned in *France, Germany* and the *Netherlands*. Despite a weakening over the previous quarter, the current economic situation has received largely positive assessments, especially in *Finland, the Netherlands, Ireland, Austria* and *Germany*. Only in *France* and *Portugal* were the appraisals of the current situation unfavourable.

The inflation expectations for 2007 stand at 2.1%, which is somewhat above the inflation target of the European Central Bank. Nevertheless, far fewer WES experts anticipate rising capital market rates in the coming six months. Key interest rates will remain stable, in their opinion.

In comparison to the euro, the *US dollar* was seen to be undervalued in terms of fundamentals. Nevertheless, the majority of WES experts expect a weakening of the *US dollar* in the coming six months. The *Japanese yen* is seen as even more strongly undervalued than the US 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	IV/05	I/06	II/06	III/06	IV/06	I/07	II/07	III/07	IV/07
Climate	84.8	99.2	103.4	101.7	97.5	100.0	106.8	111.9	90.7
Situation	67.3	86.0	97.2	108.4	125.2	129.0	130.8	138.3	123.4
Expectations	99.2	110.1	108.5	96.1	74.4	76.0	86.8	89.9	63.6

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 November 2007.

The 4th quarter 2007 euro area results, which are published here in advance, are based on the responses of 263 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

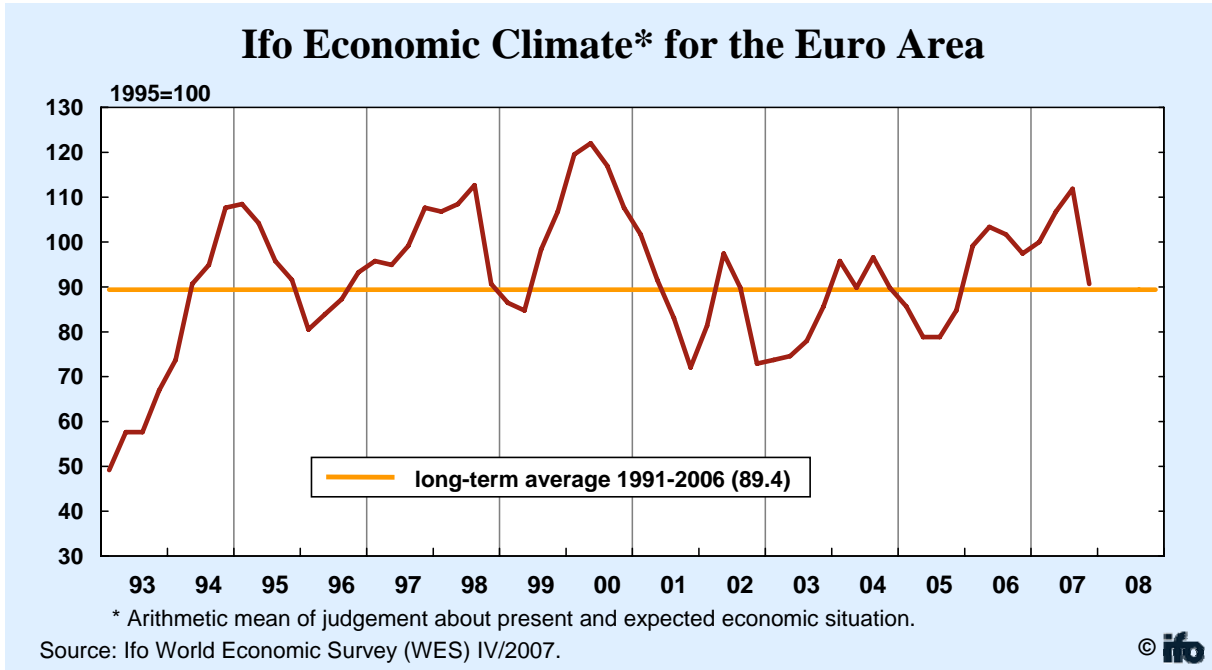


Fig. 2

