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Ifo Economic Climate for the Euro Area

Advance results of the Ifo World Economic Survey (WES) of the 3rd quarter 2008, in co-operation with the International Chamber of Commerce (ICC), Paris

Euro Area: Ifo Economic Climate Indicator Falls Further

The Ifo Economic Climate in the euro area has worsened again in the third quarter of 2008 for the fourth time in succession. The decline in the Ifo indicator is both the result of less positive assessments of the current economic situation as well as clearly more pessimistic expectations for the coming six months.

The economic climate has further clouded over in nearly all countries of the euro area in the third quarter of 2008. Particularly negative assessments of the current economic situation have come from *Italy, Spain, Portugal, Ireland* and Belgium. Favourable assessments of the current situation continue to come from *Finland, Austria, Germany* and the *Netherlands*, however. In the opinion of the WES experts, the slowing in economic activity will continue in all countries of the euro area in the coming six months.

At 3.6%, the inflation expectations exceed the ECB target even more so than at the beginning of the year (2.5%). In contrast to the previous survey, the WES experts anticipate an increase in key lending rates in the course of the come six months.

The *US dollar* is assessed as undervalued vis-à-vis the *euro*. In the coming six months, a slight strengthening of the *US dollar* is expected. Also the *Japanese yen* and the *British pound* are seen as undervalued vis-à-vis 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	III/06	IV/06	I/07	II/07	III/07	IV/07	I/08	II/08	III/08
Climate	101.7	97.5	100.0	106.8	111.9	90.7	81.4	76.3	61.9
Situation	108.4	125.2	129.0	130.8	138.3	123.4	112.1	100.9	84.1
Expectations	96.1	74.4	76.0	86.8	89.9	63.6	55.8	55.8	43.4

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 August 2008.

The 3rd quarter 2008 euro area results, which are published here in advance, are based on the responses of 273 economic experts. WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris.

Fig. 1

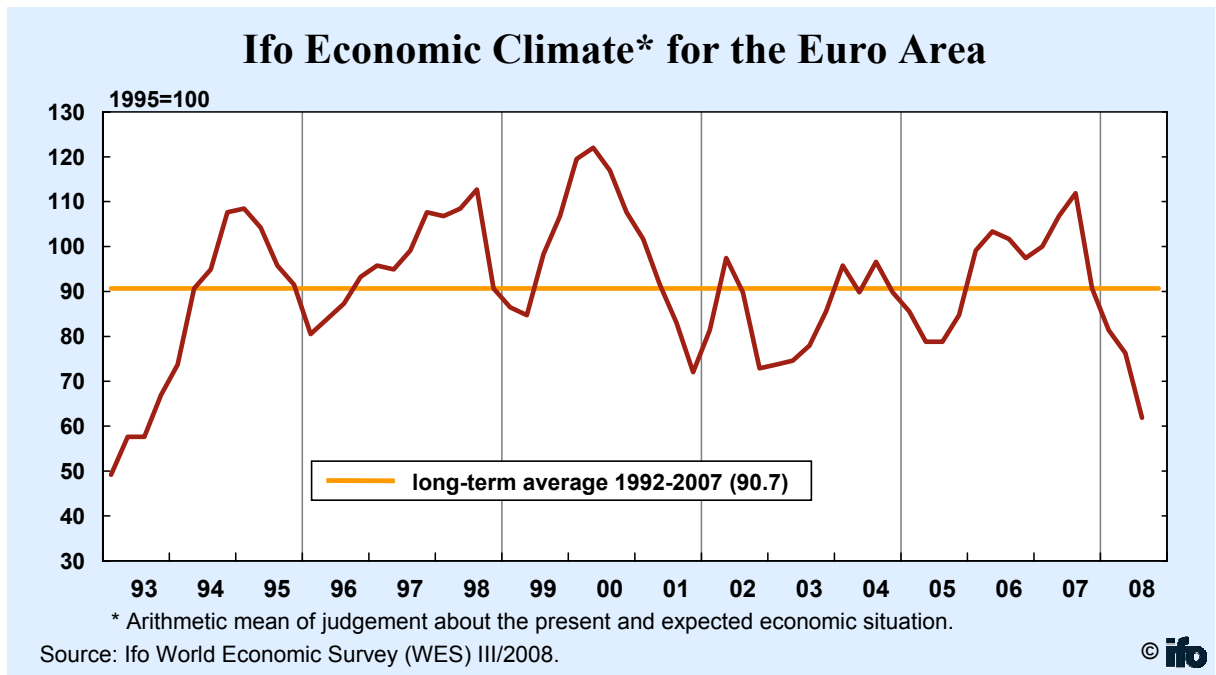


Fig. 2

