

Ifo World Economic Climate

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

Ifo World Economic Climate Index Declines Again

The Ifo World Economic Climate has worsened in the third quarter of 2008 for the fourth time in succession. The decline is primarily the result of more unfavourable assessments of the current economic situation, but also the expectations for the coming six months have been revised downwards.

The worsening of the Ifo World Economic Climate has affected above all *Western Europe* and *Asia*. In *North America*, however, the indicator has not worsened further. In the *US* the economic expectations for the coming six months are no longer as pessimistic as in the first half of the year. The current economic situation continues to be assessed unfavourably, however. In *Western Europe* the economic climate indicator has worsened in nearly all countries. Especially the economic expectations for the coming six months have been clearly revised downwards. However, in many countries, the current economic situation is still regarded as favourable, especially in *Finland, Austria, Germany* and the *Netherlands*. In contrast, the WES experts gave poor assessments to the economic situation especially in *Italy, Spain* and the *UK*. The climate indicator fell also in *Asia*, particularly in *India, Malaysia, Taiwan, Thailand, South Korea* and the *Philippines*. In *Japan*, the climate indicator worsened marginally but remained at a very low level.

Inflation expectations for 2008 in the *US* at 3.8% are clearly higher than the price increases for 2007 (2.8%). Also in *Western Europe* inflation expectations for 2008 at now 3.5% are considerably above inflation registered for 2007 (2.1%). A similar picture was determined for *Asia*, where inflation expectations for 2008 are nearly three percentage points higher than price increases in 2007 (5.3% vis-à-vis 2.4% in 2007).

In contrast to the previous survey, the WES experts expect an increase in *central bank interest rates*. Also *long-term interest rates* will rise in the coming six months, in their estimation.

Especially the *US dollar* and to a lesser extent the *Japanese yen* continue to be seen as undervalued. The *euro* is regarded as overvalued. On a world-wide average, WES experts see no further weakening of the *US dollar* in the coming six months.

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

World Economy (Index, 1995 = 100)

Quarter/year	III/06	IV/06	I/07	II/07	III/07	IV/07	I/08	II/08	III/08
Climate	105.6	104.7	106.5	106.5	113.6	99.3	90.4	81.4	73.4
Situation	115.1	120.5	122.4	120.5	127.9	118.7	109.6	96.8	85.8
Expectations	96.5	89.5	91.2	93.0	100.0	80.7	71.9	66.7	61.4

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 July 2008 survey received responses from 1,025 experts in 92 countries. The survey is conducted in co-operation with the International Chamber of Commerce in Paris (ICC).

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

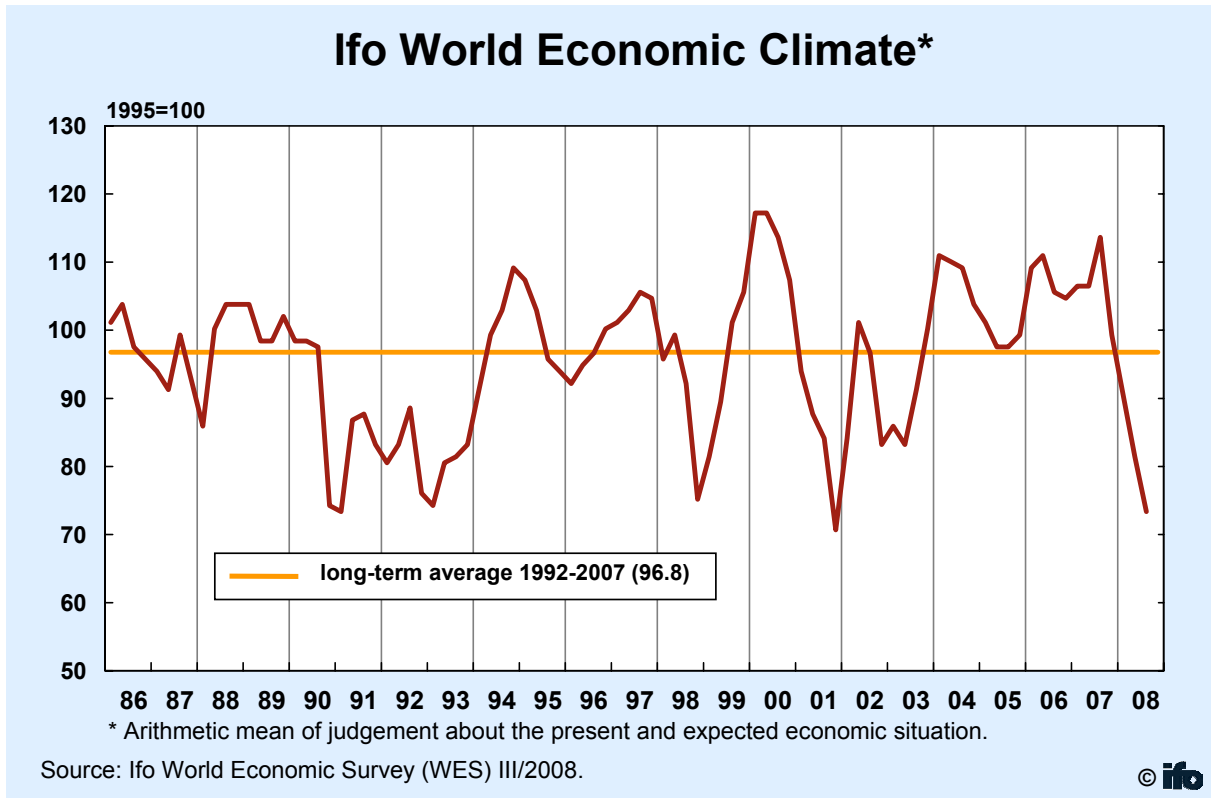


Fig. 2

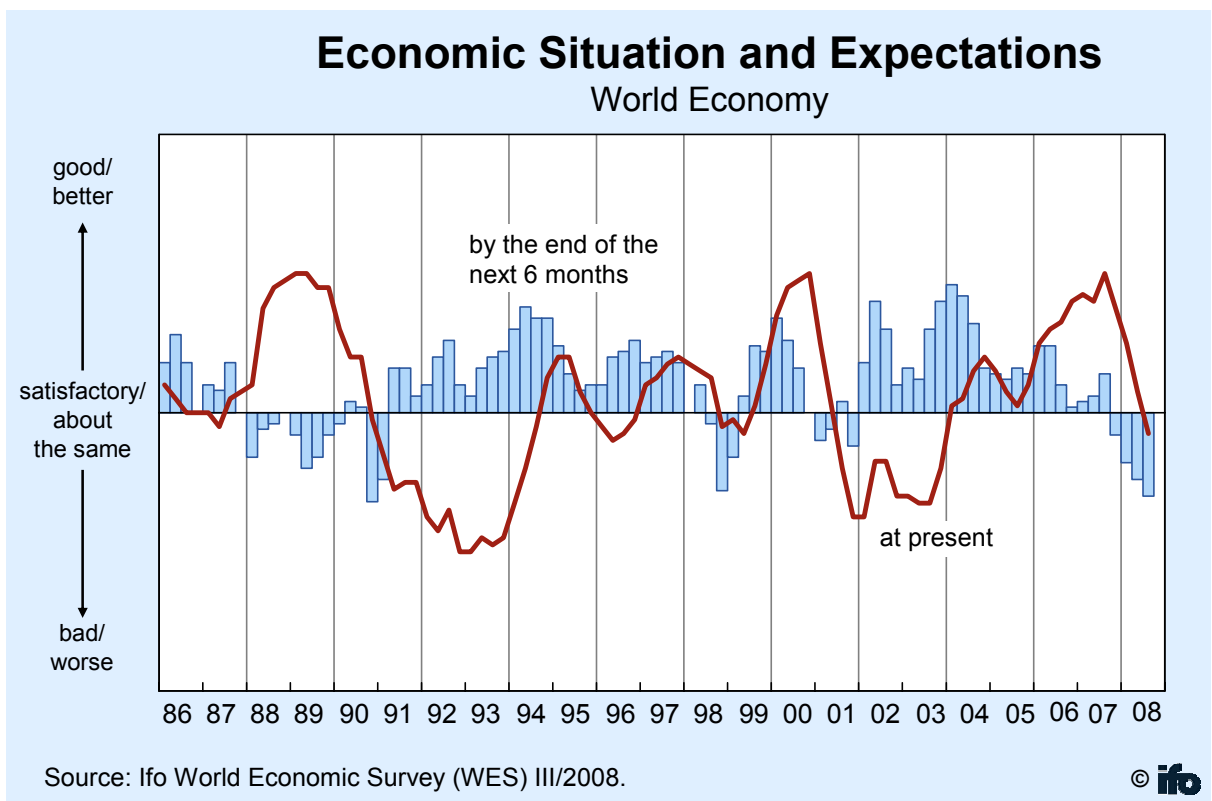
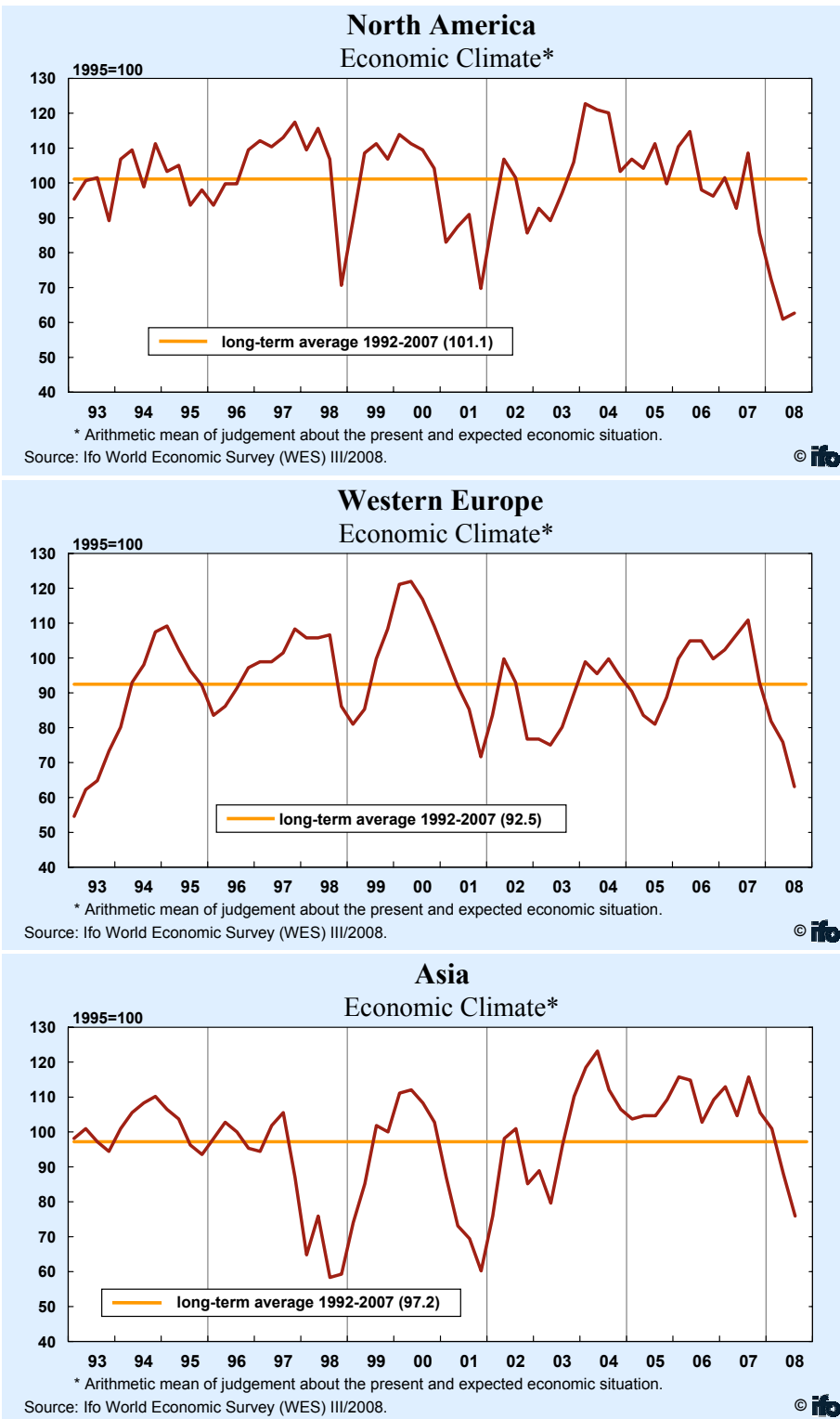


Fig. 3



Climate (1995=100)	III/06	IV/06	I/07	II/07	III/07	IV/07	I/08	II/08	III/08
North America	98.0	96.2	101.5	92.7	108.6	85.7	72.4	60.9	62.7
Western Europe	104.9	99.8	102.3	106.6	110.9	93.0	81.9	75.9	63.1
Asia	102.8	109.3	113.0	104.6	115.7	105.6	100.9	88.0	75.9