

Embargo: Wednesday, 13 February 2008, 10am GMT

## Ifo Economic Climate for the Euro Area

Advance results of the Ifo World Economic Survey (WES) of the 1<sup>st</sup> quarter 2008, in co-operation with the International Chamber of Commerce (ICC), Paris

### Euro Area: Ifo Economic Climate Indicator Falls Again

**The Ifo Economic Climate in the euro area has clearly worsened again in the first quarter of 2008, falling to its lowest level since mid-2005. The decline in the Ifo indicator was the result of both less positive assessments of the current economic situation as well as less favourable economic expectations for the coming six months.**

The economic climate worsened in the first quarter of 2008 in all countries of the euro area. Especially in *Belgium, Spain, Ireland, Austria, Italy* and *Greece*, the WES experts anticipate a clear cooling off of the economy in the coming months. Also in *Finland, Germany, the Netherlands* and *Slovenia*, optimism has weakened, although the current economic situation is still assessed very positively in these countries. In *Italy* and *France*, however, both the assessments of the current situation as well as the economic outlook are negative for the first half of 2008. In *Portugal* the current economic situation continues to be assessed unfavourably.

Inflation expectations, at 2.5% on average for 2008, are clearly above the inflation target of the European Central Bank. In the opinion of the WES experts, policy interest rates will decline in the course of the next six months; capital market rates are expected to remain stable.

The *US dollar* continues to be seen as clearly undervalued vis-à-vis the *euro* in terms of fundamentals; nevertheless, the majority of WES experts expect a further weakening of the *US dollar* in the coming six months. The *Japanese yen* also continues to be seen as undervalued. The *British pound* is now regarded as fairly valued vis-à-vis the euro, after having been regarded for a long time as overvalued.

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

### Euro area (Index, 1995 = 100)

Quarter/year	I/06	II/06	III/06	IV/06	I/07	II/07	III/07	IV/07	I/08
<b>Climate</b>	99.2	103.4	101.7	97.5	100.0	106.8	111.9	90.7	81.4
<b>Situation</b>	86.0	97.2	108.4	125.2	129.0	130.8	138.3	123.4	112.1
<b>Expectations</b>	110.1	108.5	96.1	74.4	76.0	86.8	89.9	63.6	55.8

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 20 February 2008.

The 1<sup>st</sup> quarter 2008 euro area results, which are published here in advance, are based on the responses of 238 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

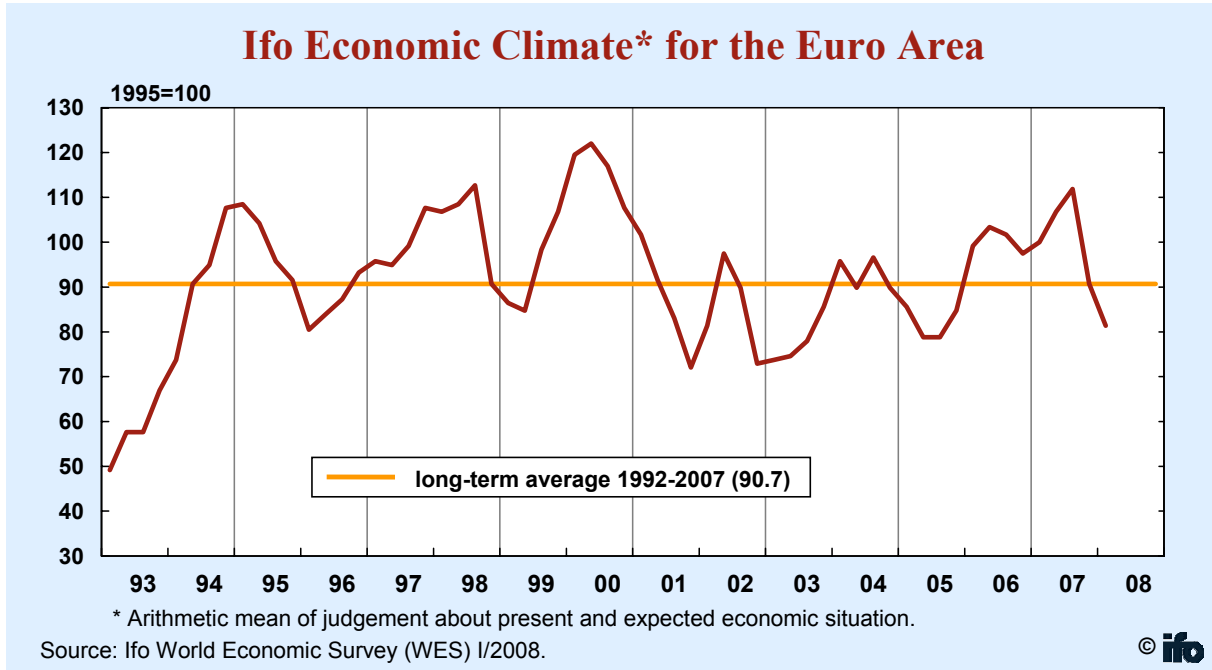


Fig. 2

