

## Ifo World Economic Climate

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

### Ifo World Economic Climate Index Falls Clearly

The Ifo World Economic Climate has worsened clearly in the first quarter of 2008. The indicator fell to its lowest level since mid-2003. Both the assessments of the current economic situation as well as the expectations for the coming six months are more unfavourable than in the previous survey. In the opinion of the WES experts, the US subprime crisis is critically affecting, apart from the US, the financial systems of the UK, Switzerland, Ireland and Germany. The negative impact will be concentrated on the first half of 2008 and will weaken thereafter.

The worsening in the Ifo World Economic Climate affected primarily *North America* and *Western Europe* and much less *Asia*. The strongest decline in the climate indicator occurred, as in the previous survey, in the *US*. In *Western Europe* the climate indicator fell at an above-average pace in the *UK* and *Ireland*. The worsening was relatively weaker in *Denmark* and *Germany*. In *Asia* the climate indicator worsened especially in *Japan*, *Thailand* and *Taiwan*; otherwise *Asia* has been largely unaffected by the economic weakening.

Inflation expectations for 2008 in the *US* at 2.9% are similarly high as the price increase reported by WES experts for 2007 (2.8%). In *Western Europe* inflation expectations for 2008 stand at 2.5%, but considerably above the reported rate of inflation for 2007 (2.1%). In *Asia* the picture is similar, where the inflation expectations for 2008 are a half a percentage point higher than the average price increase for 2007 (2.9% vis-à-vis 2.4% in 2007).

For the first time since the end of 2003, a majority of WES experts expects a decline in *central bank interest rates*. In their opinion, the increase in *long-term interest rates* should come to a standstill in the coming six months.

The *US dollar* and the *Japanese yen* are still seen as undervalued. In contrast, the *euro* and the *British pound* are still considered to be overvalued by the WES experts. Independent of the fundamental assessments of the currencies, they expect the *US dollar* to continue to weaken 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	I/06	II/06	III/06	IV/06	I/07	II/07	III/07	IV/07	I/08
<b>Climate</b>	109.2	111.0	105.6	104.7	106.5	106.5	113.6	99.3	90.4
<b>Situation</b>	109.6	113.2	115.1	120.5	122.4	120.5	127.9	118.7	109.6
<b>Expectations</b>	108.8	108.8	96.5	89.5	91.2	93.0	100.0	80.7	71.9

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 January 2008 survey received responses from 1,004 experts in 90 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

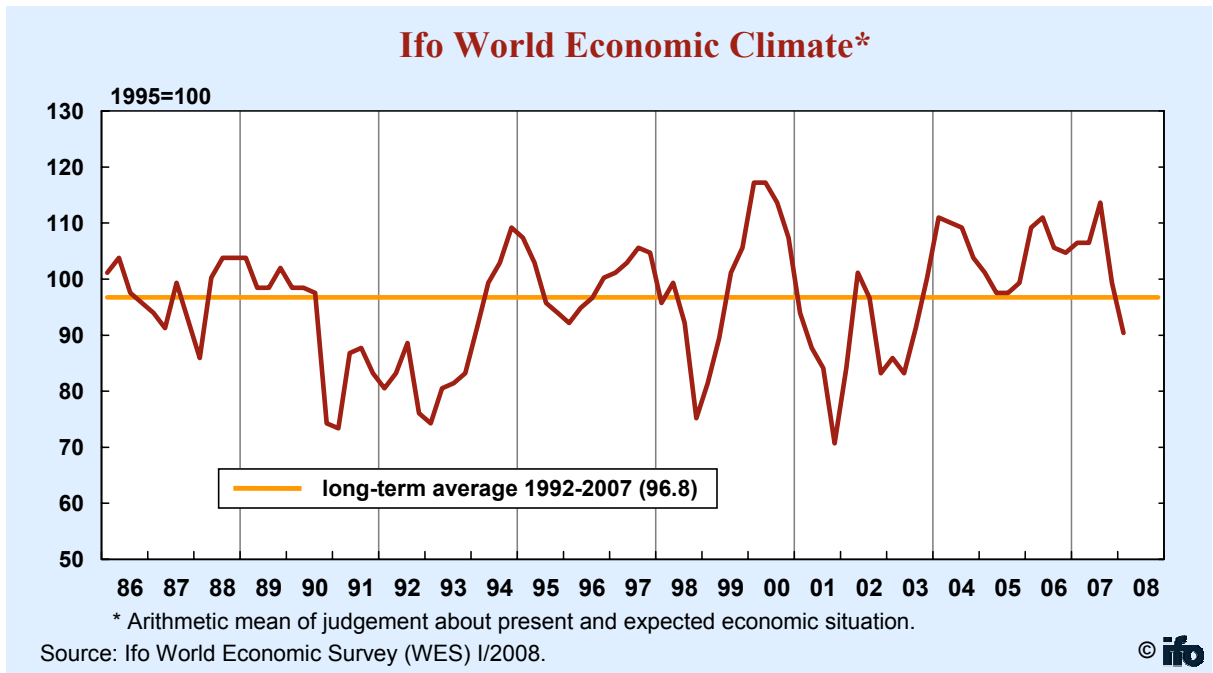


Fig. 2

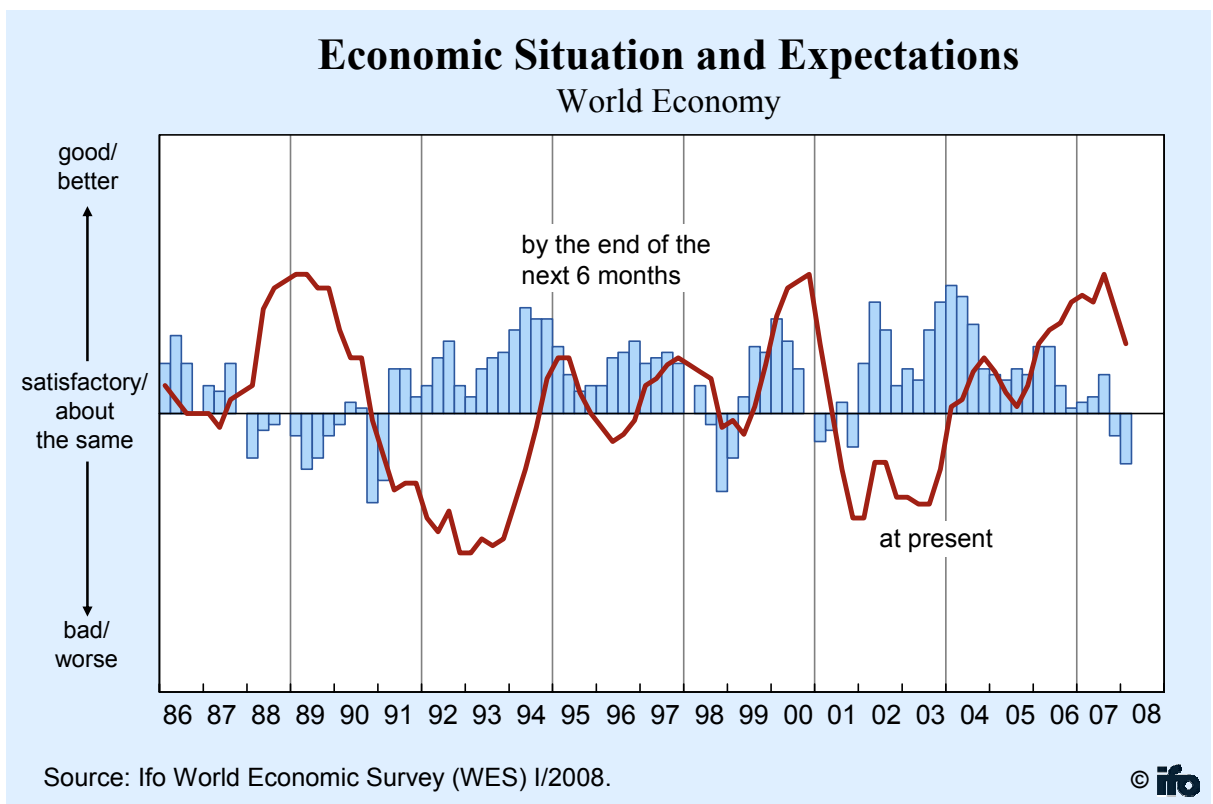
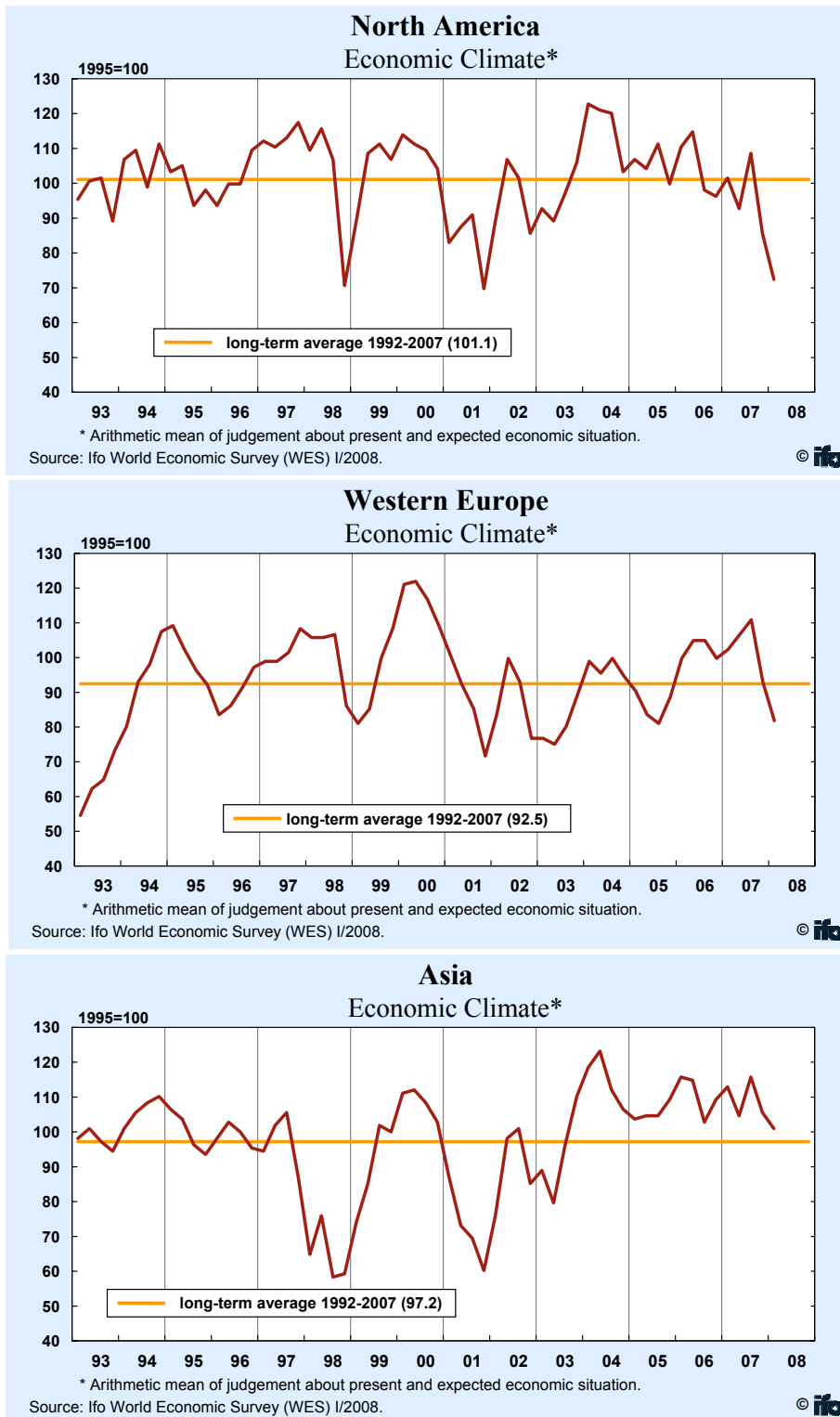


Fig. 3



Climate (1995=100)	I/06	II/06	III/06	IV/06	I/07	II/07	III/07	IV/07	I/08
<b>North America</b>	110.4	114.8	98.0	96.2	101.5	92.7	108.6	85.7	72.4
<b>Western Europe</b>	99.8	104.9	104.9	99.8	102.3	106.6	110.9	93.0	81.9
<b>Asia</b>	115.7	114.8	102.8	109.3	113.0	104.6	115.7	105.6	100.9