

Ifo World Economic Climate

Results of the Ifo World Economic Survey (WES) of the 2nd quarter 2008 in co-operation with the International Chamber of Commerce (ICC), Paris

Renewed Decline in the Ifo World Economic Climate Index

The Ifo World Economic Climate has worsened further in the second quarter of 2008, the indicator having fallen to its lowest level in six years. The decline is mainly due to more unfavourable assessments of the current economic situation, but also the expectations for the coming six months have again been revised downwards.

The worsening in the Ifo World Economic Climate has again affected above all *North America* and *Western Europe*. The strongest decline in the climate indicator, as in the previous survey, was in the *US*. Here, however, the fall was attributable exclusively to the clearly less favourably assessments of the current situation whereas the expectations for the coming six months are no longer quite so pessimistic. In *Western Europe* above-average declines in the indicator have been reported in *France, Italy* and *Spain*. The indicator has worsened relatively less strongly in *Germany, Austria* and *Switzerland*. The climate indicator has also fallen in *Asia*, especially in *South Korea* and *Hong Kong*. Also in *Japan* negative economic expectations continue to prevail.

Inflation expectations in the *US* for 2008 at 3.5% are much higher than the price increases reported by WES experts for 2007 (2.8%). Also in *Western Europe* inflation expectations for 2008 at 2.9% are considerably above the reported rate of inflation for 2007 (2.1%). In *Asia* the picture is similar, where the inflation expectations for 2008 are one percentage point higher than the average price increase for 2007 (3.9% vis-à-vis 2.4% in 2007).

As in the previous survey, a majority of WES experts expects a decline in *central bank interest rates*. In contrast, *long-term interest rates* will rise at a moderate pace in the coming six months, in their opinion.

Especially the *US dollar* and to a lesser extent the *Japanese yen* are still seen as undervalued. In contrast, the WES experts consider the *euro* to be overvalued. Independent of the fundamental assessments of the currencies, they expect the *US dollar* to continue its weakening trend 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	II/06	III/06	IV/06	I/07	II/07	III/07	IV/07	I/08	II/08
Climate	111.0	105.6	104.7	106.5	106.5	113.6	99.3	90.4	81.4
Situation	113.2	115.1	120.5	122.4	120.5	127.9	118.7	109.6	96.8
Expectations	108.8	96.5	89.5	91.2	93.0	100.0	80.7	71.9	66.7

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 April 2008 survey received responses from 1,002 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

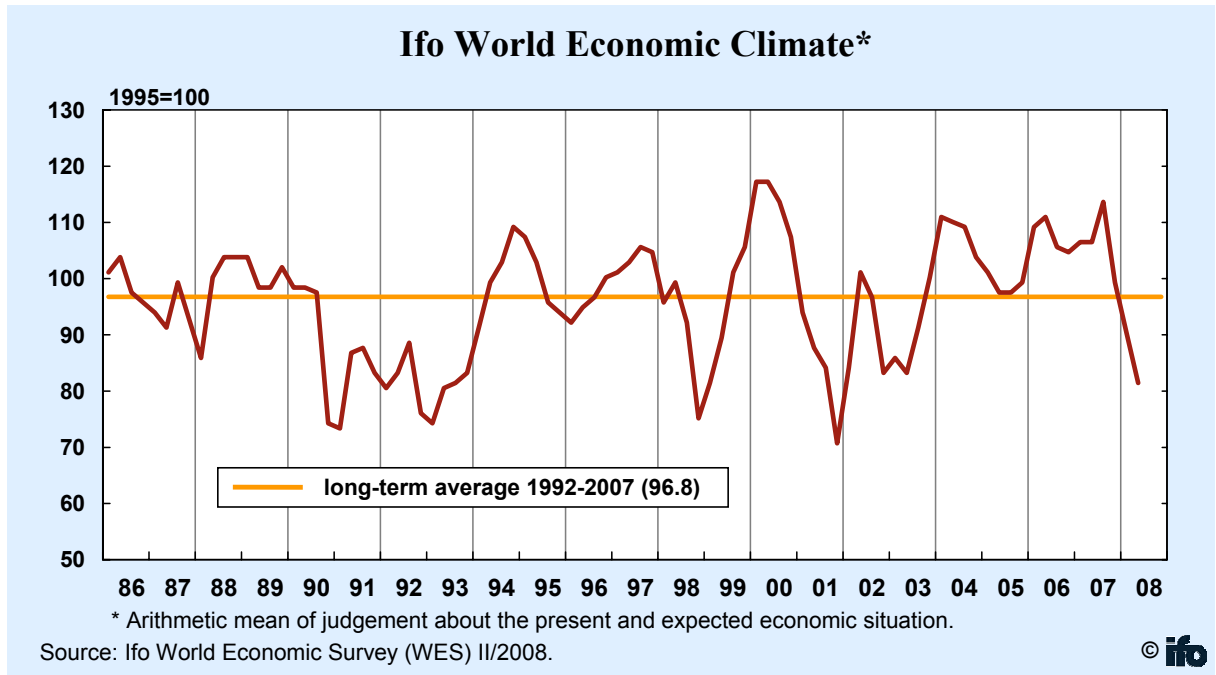


Fig. 2

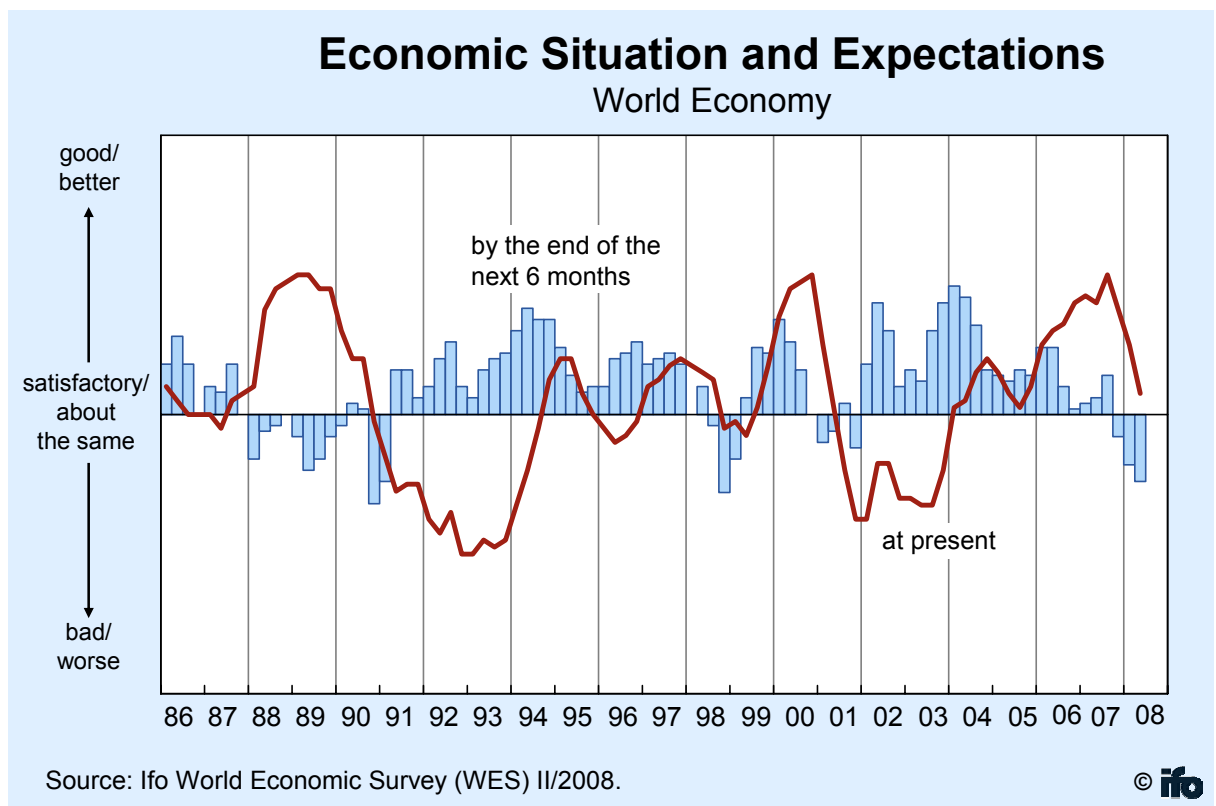
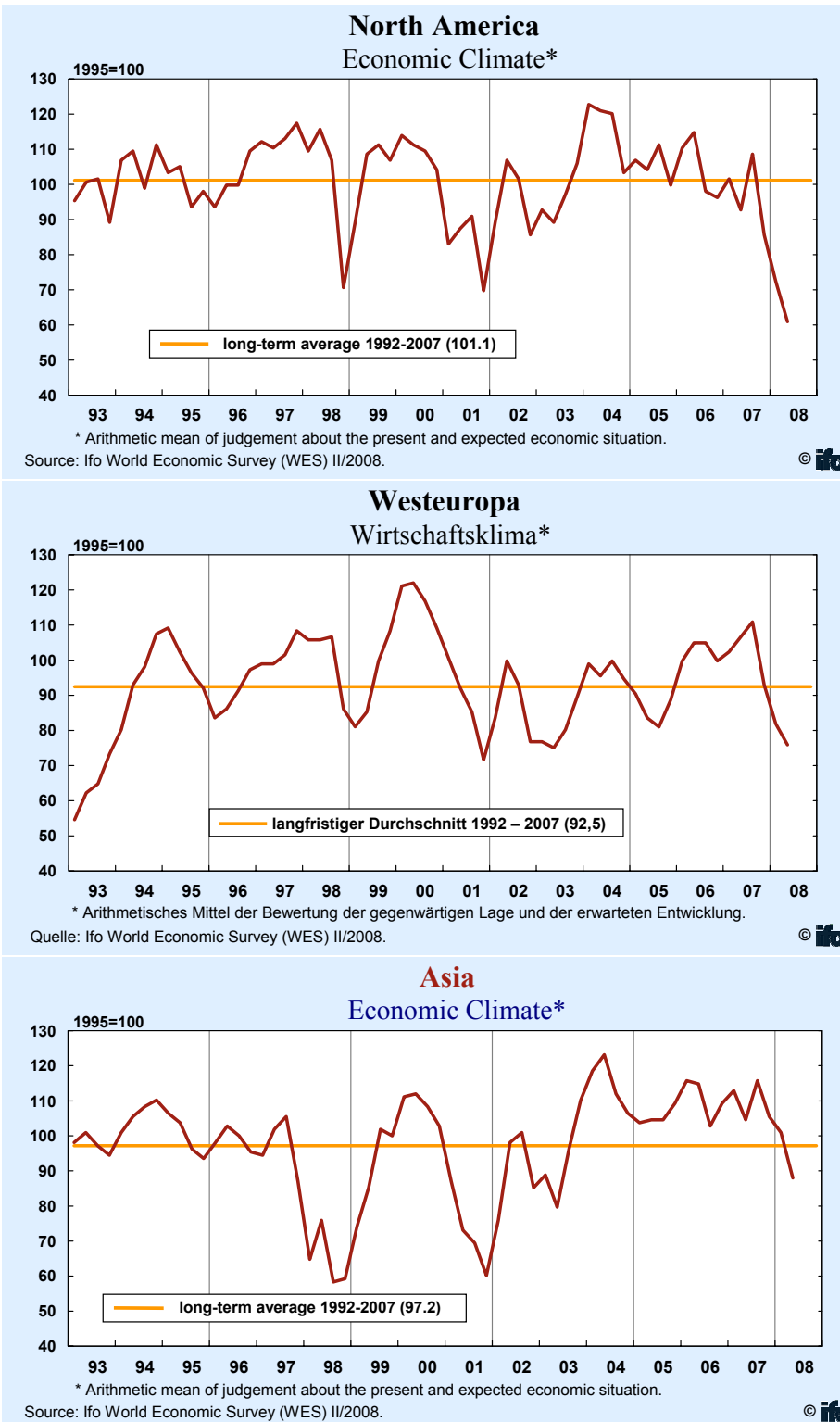


Fig. 3



Climate (1995=100)	II/06	III/06	IV/06	I/07	II/07	III/07	IV/07	I/08	II/08
North America	114.8	98.0	96.2	101.5	92.7	108.6	85.7	72.4	60.9
Western Europe	104.9	104.9	99.8	102.3	106.6	110.9	93.0	81.9	75.9
Asia	114.8	102.8	109.3	113.0	104.6	115.7	105.6	100.9	88.0