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Ifo Economic Climate for the Euro Area

Advance results of the Ifo World Economic Survey (WES) of the 3rd quarter 2009, in co-operation with the International Chamber of Commerce (ICC), Paris

Euro Area: Ifo World Economic Climate Indicator Rises Clearly

The Ifo World Economic Climate for the euro area improved in the third quarter of 2009 for the second time in succession. The increase in the Ifo indicator was solely the result of more favourable expectations for the coming six months; the assessments of the current economic situation, in contrast, still remain at an historical low.

The current economic situation is still assessed as definitely unfavourable in almost all countries of the *euro area*. The expectations for the coming six months, however, have brightened in the *euro area*. Especially in *Germany, Austria, France* and the *Netherlands*, the WES experts anticipate a clear improvement, and in *Italy, Portugal, Slovenia, Slovakia, Belgium, Spain* and *Finland* they foresee at least a stabilisation of the economic situation in the coming six months. A continued pessimistic view, albeit somewhat weaker than in the previous quarter, prevails among WES experts in *Ireland* and *Greece*.

The *inflation* expectations for 2009 stand at 0.7% on average for the year, which is clearly below the ECB target. Little change in the *inflation* rate is expected in the coming six months. The majority of WES experts expect that *key lending rates* will remain stable in the next half year. In contrast, for *capital market interest rates* an increase is foreseen.

The major world currencies, *US dollar, British pound* and the *Japanese yen*, are considered to be slightly undervalued vis-à-vis the *euro*. Nevertheless, the WES experts do not expect the *US dollar* to appreciate over the *euro* in the coming six months.

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

Euro area (Index, 1995 = 100)

Quarter/year	III/07	IV/07	I/08	II/08	III/08	IV/08	I/09	II/09	III/09
Climate	111.9	90.7	81.4	76.3	61.9	50.8	45.8	55.1	63.6
Situation	138.3	123.4	112.1	100.9	84.1	61.7	41.1	29.9	28.0
Expectations	89.9	63.6	55.8	55.8	43.4	41.9	49.6	76.0	93.0

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 19 August 2009.

The 3rd quarter 2009 euro area results, which are published here in advance, are based on the responses of 255 economic experts. WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris.

Fig. 1

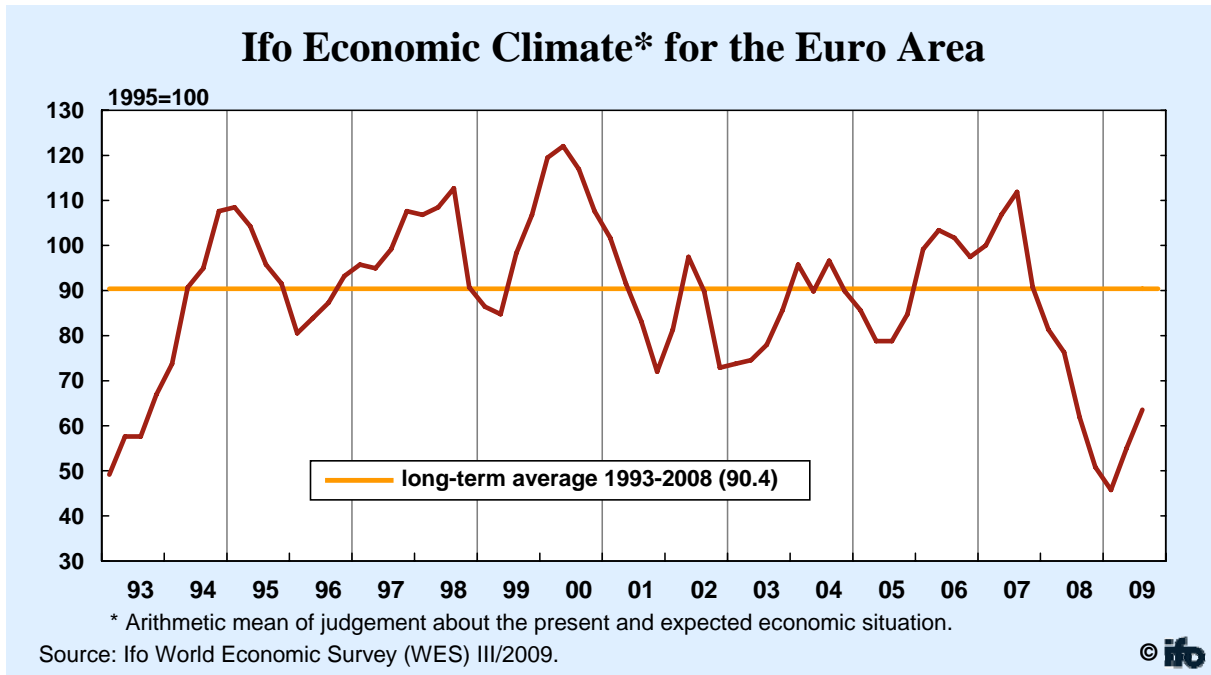


Fig. 2

