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Ifo Economic Climate for the Euro Area

Advance results of the Ifo World Economic Survey (WES) of the 1st quarter 2009, in co-operation with the International Chamber of Commerce (ICC), Paris

Euro Area: Ifo Economic Climate Indicator Falls Further

The Ifo Economic Climate in the euro area has worsened again in the first quarter of 2009 for the sixth time in succession. The decline in the Ifo indicator is solely the result of less favourable assessments of the current economic situation; the expectations for the coming six months improved somewhat but are still in strongly cloudy territory.

The economic climate indicator deteriorated in the first quarter of 2009 in all countries of the euro area and has now reached a historic low. The current economic situation worsened most markedly since the last survey in *Germany* and *the Netherlands*. But the most unfavourable assessments of the economic situation still come from *France, Ireland, Portugal, Spain* and *Italy*. The economic situation is clearly above the euro-area average especially in *Finland* and *Austria*, but also in the youngest euro member states, *Slovakia* and *Slovenia*. In the coming six months, in the opinion of the WES experts, the weakening of the economy will continue in the euro area albeit at a slower pace.

Average inflation expectations for 2009 are at 1.6%, which is below the ECB target. In the course of the coming six months a declining inflationary tendency is anticipated. A clear majority of WES experts expect that key interest rates will be lowered further during the coming six months; capital market interest rates are also expected to decline, but not to the same extent as for short-term interest rates.

In comparison to the euro, the *US dollar* is assessed as largely properly valued. The *Japanese yen*, after its increase in value, is seen for the first time since 2002 as slightly overvalued. In contrast, the *British pound*, after the clear decline in the past months, is seen as undervalued vis-à-vis the *euro*.

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

Euro area (Index, 1995 = 100)

Quarter/year	I/07	II/07	III/07	IV/07	I/08	II/08	III/08	IV/08	I/09
Climate	100.0	106.8	111.9	90.7	81.4	76.3	61.9	50.8	45.8
Situation	129.0	130.8	138.3	123.4	112.1	100.9	84.1	61.7	41.1
Expectations	76.0	86.8	89.9	63.6	55.8	55.8	43.4	41.9	49.6

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 18 February 2009.

The 1st quarter 2009 euro area results, which are published here in advance, are based on the responses of 268 economic experts. WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris.

Fig. 1

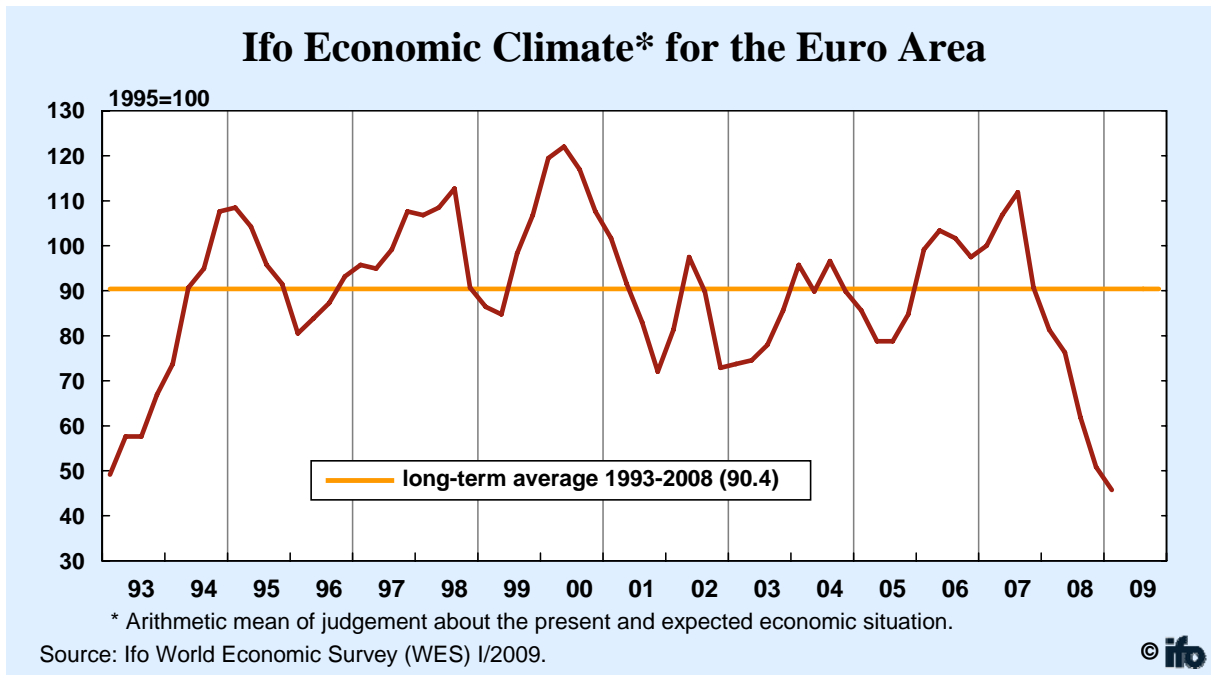


Fig. 2

