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Ifo Economic Climate for the Euro Area

Advance results of the Ifo World Economic Survey (WES) of the 1st quarter 2010, in co-operation with the International Chamber of Commerce (ICC), Paris

Euro Area: Further Rise in the Ifo World Economic Climate Indicator

The Ifo indicator for the economic climate in the *euro area* rose in January for the fourth time in succession. Both the assessments of the current economic situation as well as the expectations for the coming six months brightened noticeably. The latest results are an indication that the economic recovery that became evident already in mid-2009 will continue in the first half of 2010.

The economic climate improved particularly in *Germany* and *Italy*, as well as in *Austria*, *Belgium* and the *Netherlands*. In contrast, the indicator worsened in *France*, *Portugal*, *Slovenia*, *Greece* and *Cyprus*. *Greece* and *Cyprus* are the only countries in the *euro area* in which the WES experts see a further worsening during the coming six months. In all other countries of the *euro area* the expectations are decidedly optimistic. In contrast to the expectations, the current economic situation is assessed as improved over the previous quarter in many *euro area* countries, but remains at still quite an unfavourable level. The WES experts continue to give poor marks to the present economic situation in *Ireland*, *Spain* and *Portugal*. In *Greece* the present situation even worsened further.

Inflation expectations for 2010, at 1.3% on average for the year, are somewhat above the reference value for 2009 (0.7%), but still clearly below the medium-term target level of the ECB. In the course of the coming six months slightly increasing prices are expected. A growing number of WES experts expect that *key interest rates* will be increased in the coming six months. An even more pronounced increase is expected in the next six months for the *long-term interest rates*. The *US dollar* is viewed as undervalued in relation to the *euro*.

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

Euro area (Index, new base year: 2005 = 100)

Quarter/year	I/08	II/08	III/08	IV/08	I/09	II/09	III/09	IV/09	I/2010
Climate	99.2	93.0	75.5	62.0	55.8	67.2	77.5	91.0	101.3
Situation	167.8	151.0	125.9	92.3	61.5	44.8	42.0	53.1	72.7
Expectations	59.0	59.0	45.9	44.3	52.5	80.3	98.4	113.1	118.0

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 17 February 2010.

The 1st quarter 2010 euro area results, which are published here in advance, are based on the responses of 286 economic experts. WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris.

Fig. 1

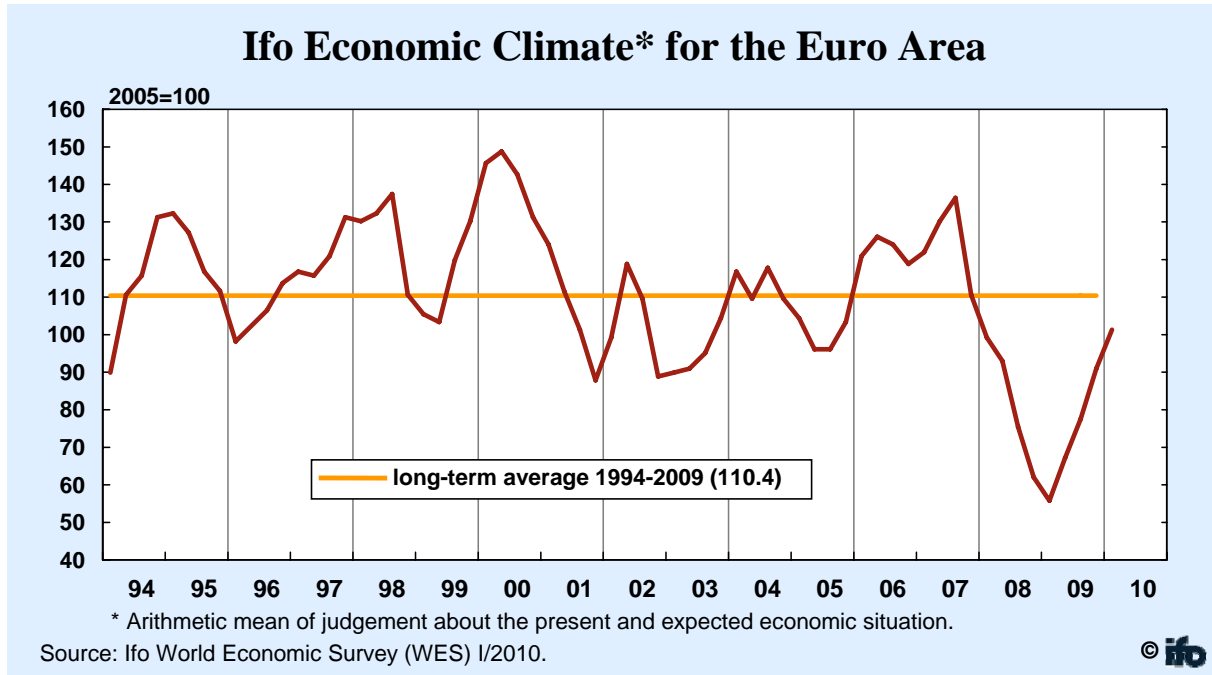


Fig. 2

