

Embargo: Wednesday, 15 February 2006, 10 am GMT

Ifo Economic Climate for the Euro Area

Advanced results of the Ifo World Economic Survey (WES) of 1st quarter 2006,
in co-operation with the International Chamber of Commerce (ICC), Paris

Euro area: clear improvement in the economic climate

The Ifo indicator for the euro-area economic climate rose clearly in January 2006, continuing the recovery that became evident in mid-2005. Both the assessments of the current economic situation as well as the expectations for the coming six months brightened noticeably. Even though the assessment of the current economic situation is still in negative territory, it is the best survey result in more than three years.

The economies of Ireland, Finland and Luxembourg are still in the top group in the appraisals of the WES experts, followed by Spain, Austria and more recently Belgium. The economic outlook for the coming six months has improved in all countries of the euro area with the exception of Spain. Even in those member states in which the current economic situation is not yet seen as satisfactory, an improvement of the economic climate was registered, being particularly strong in Germany, France and the Netherlands. Only slight improvements were reported for Italy and Portugal, which currently receive the most unfavourable assessments from the WES experts.

The inflation expectations for 2006 stand at 2.2% – matching that of the entire year 2005 – and are somewhat above the target level of the ECB. More experts now believe that central bank and capital market interest rates will increase in the course of the next six months.

In comparison to the euro, the US dollar is no longer regarded as undervalued. The Japanese yen is still seen as undervalued, and even more experts now regard the British pound as overvalued.

Hans-Werner Sinn

President of the Ifo Institute for Economic Research at the University of Munich

Euro area (Index, 1995 = 100)

Quarter/year	I/04	II/04	III/04	IV/04	I/05	II/05	III/05	IV/05	I/06
Climate	95.8	89.8	96.6	89.8	85.6	78.8	78.8	84.8	99.2
Situation	67.3	63.6	76.6	84.1	74.8	65.4	59.8	67.3	86.0
Expectations	119.4	111.6	113.2	94.6	94.6	89.9	94.6	99.2	110.1

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 21 February 2006.

The 1st quarter 2006 euro area results, which are published here in advance, are based on the responses of 314 economic experts. WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris and receives financial support from the European Commission.

Fig. 1

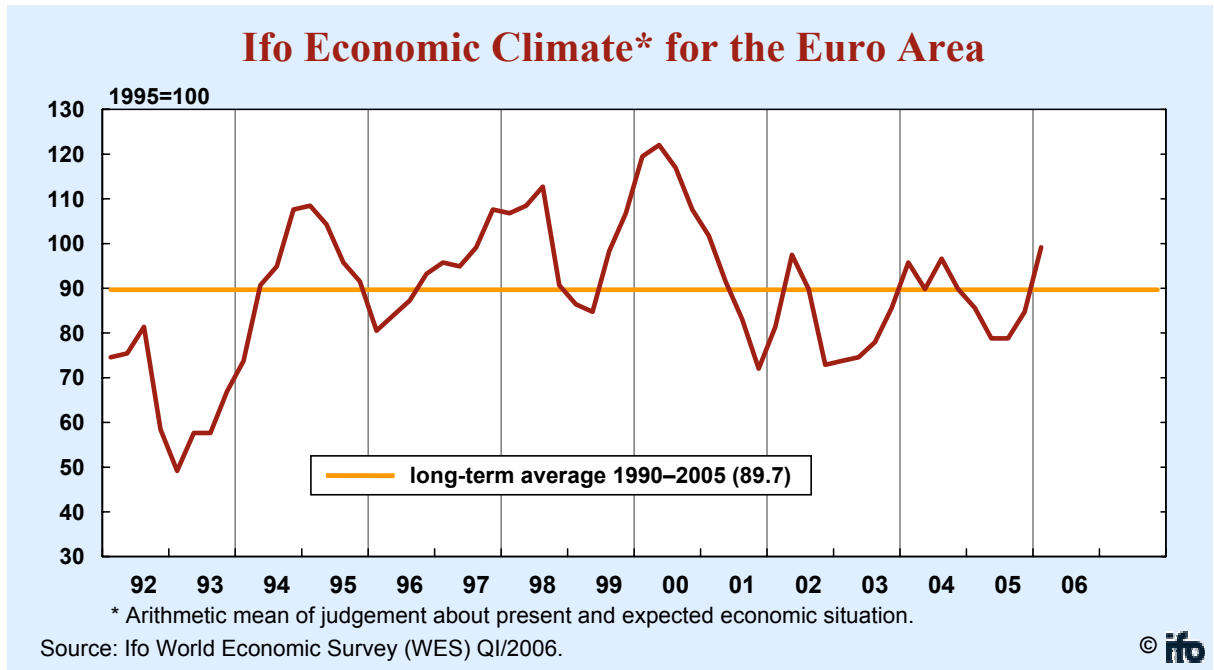


Fig. 2

