

Ifo World Economic Climate

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

World economy: clear recovery trend

The Ifo indicator for the world economic climate continued its recovery course with stronger momentum, after having weakened since the beginning of 2004. The improvement applies to both the assessments of the current economic situation and to the expectations for the coming six months.

Signs of improvement this time are again especially evident in Western Europe, where both the assessments of the current situation and the expectations for the next six months point clearly upwards. Also in North America, the trend of the climate indicator is again rising; the setback in October last year was apparently only temporary. In Asia, the economic climate also improved: the WES experts assessed the current economic situation clearly more positively, but their expectations were only slightly more favourable.

Although average world inflation expectations for 2006 are marginally lower than in 2005, at 3.2%, they still remain high. The slight decline is due to North America, where for 2006 price increases of 2.8% are expected, after 3.2% in 2005. Whereas inflation expectations for Western Europe are unchanged at 2.1%, they have increased somewhat for Asia (to 2.8% after 2.7% in 2005). Since average world inflation expectations have weakened only slightly, more WES experts than in previous surveys anticipate rising central bank and capital market interest rates. This is especially true for Western Europe and Asia. In contrast, in North America – Canada and the United States – fewer WES experts than before expect further hikes in interest rates.

On average for all countries, the US dollar is regarded as slightly overvalued, after having been seen by the WES experts as undervalued for more than two years. They regard the exchange rate of the euro as slightly and the British pound as clearly overvalued. Only the Japanese yen, as in the previous survey, is appraised as undervalued.

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World Economy (Index, 1995 = 100)

Quarter/year	I/04	II/04	III/04	IV/04	I/05	II/05	III/05	IV/05	I/06
Climate	111.0	110.1	109.2	103.8	101.1	97.5	97.5	99.3	109.2
Situation	93.2	95.0	102.3	105.9	102.3	96.8	93.2	98.6	109.6
Expectations	128.1	124.6	115.8	101.8	100.0	98.2	101.8	100.0	108.8

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 January 2006 survey received responses from 1,080 experts in 90 countries. The survey is conducted in co-operation with the International Chamber of Commerce in Paris (ICC) and with financial support from the European Commission.

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

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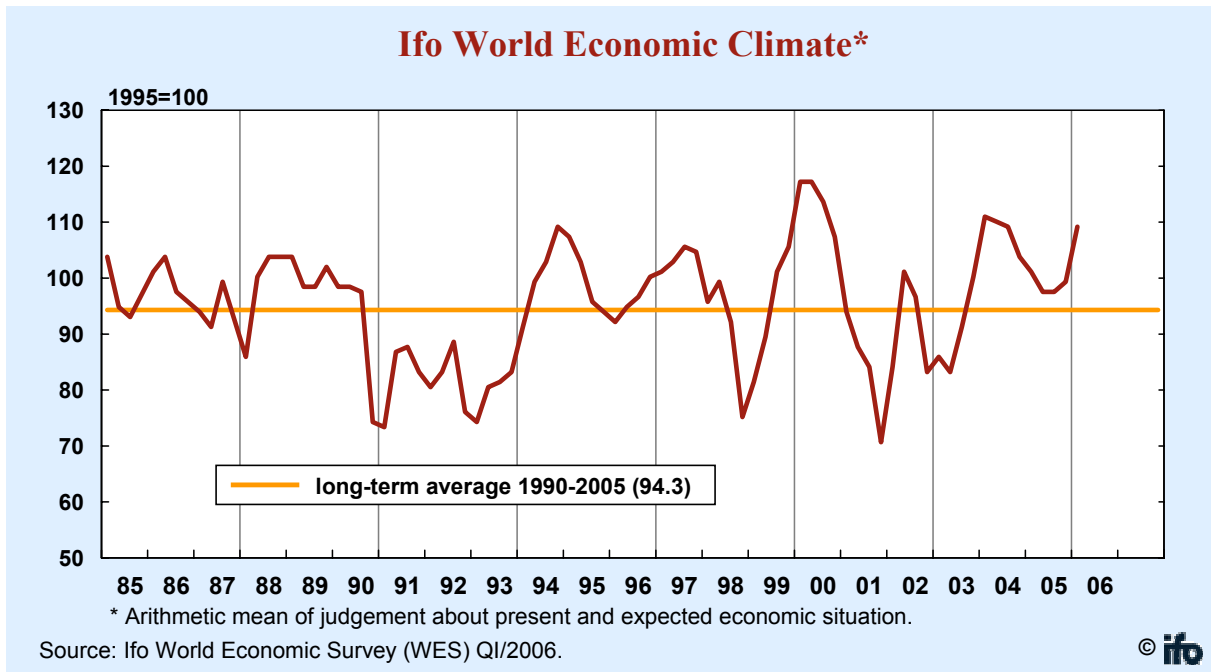


Fig. 2

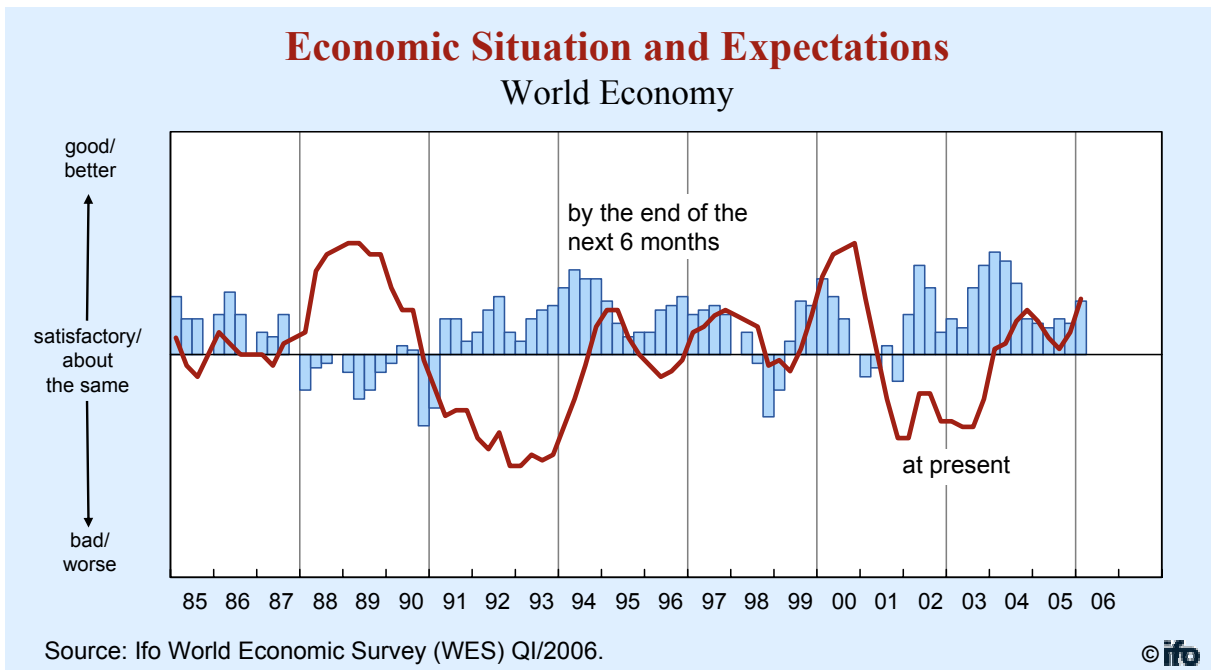
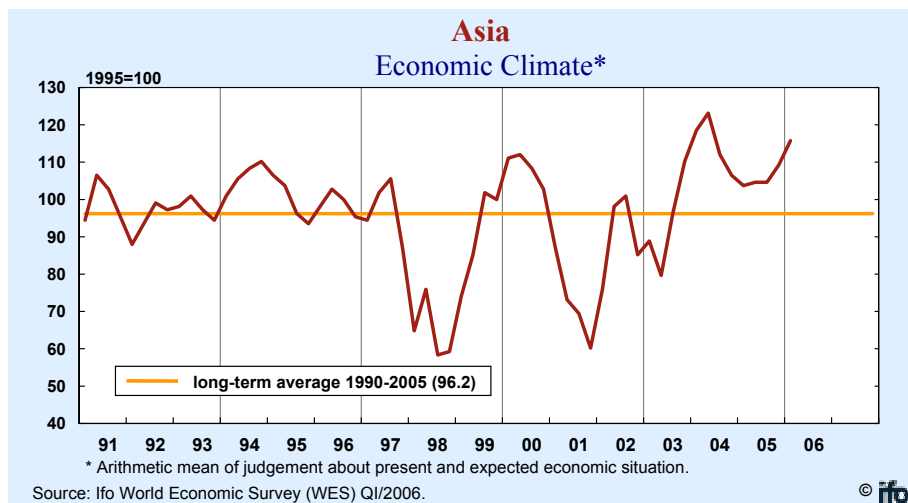
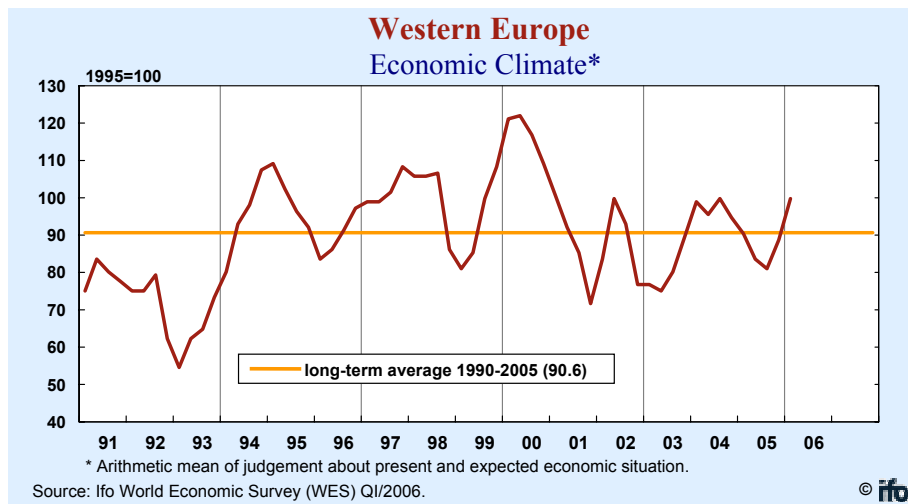
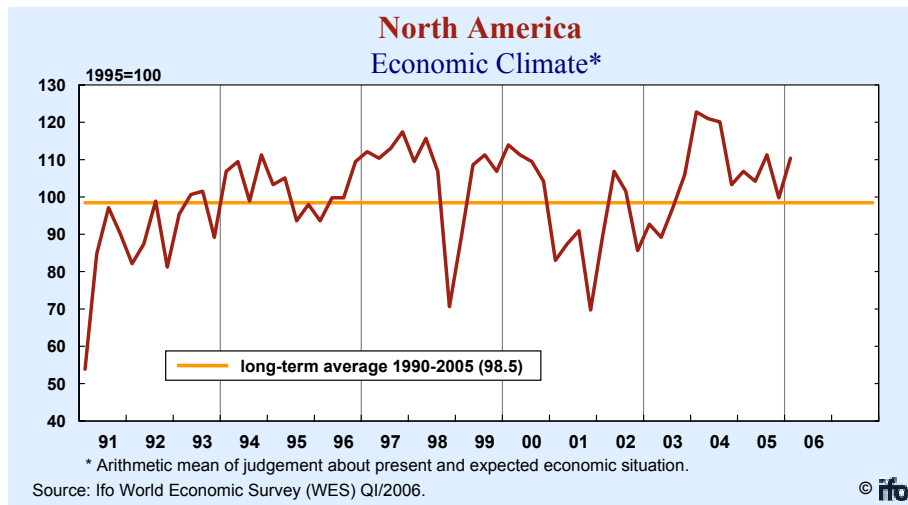


Fig. 3



Climate (1995=100)	I/04	II/04	III/04	IV/04	I/05	II/05	III/05	IV/05	I/06
North America	122.7	121.0	120.1	103.3	106.8	104.2	111.3	99.8	110.4
Western Europe	98.9	95.5	99.8	94.7	90.4	83.6	81.0	88.7	99.8
Asia	118.5	123.1	112.0	106.5	103.7	104.6	104.6	109.3	115.7