

26 March 2008

Economic news

MARCH IFO BUSINESS CLIMATE

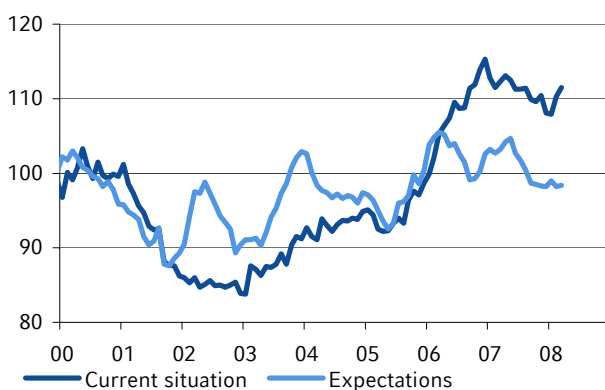
Ifo index continues to withstand negative impacts

The German Ifo business climate surprised again to the upside in March, marking the third rise in succession. This is evidence that the German economy is coping with the numerous negative impacts better than widely feared. With sentiment in France also having picked up, undue pessimism regarding Eurozone growth is not warranted at present. Accordingly, the ECB will probably leave policy rates unchanged for the foreseeable future.

- The business climate for industry and trade in Germany surprised again to the upside in March. As in the two previous months, the Ifo index rose surprisingly (104.8, after 104.1 points). The companies polled assessed their current business situation much more favourably compared to last month (111.5, after 110.3). Their assessment of business expectations came in slightly above that of February (98.4, after 98.2).
- The rise in the Ifo index is especially remarkable given that general economic conditions such as slowing global growth, the buoyant euro, extremely high crude oil and commodity prices and the persistent financial market crisis signalled a decline. This suggests that the turmoil on the financial markets has had a very limited impact on the economy so far. The fact that the outlook for exports has improved despite the firm euro also reflects the success of many years' restructuring measures, which have ensured that the German export economy can offset adverse effects on competitiveness stemming from the exchange rate.
- In addition to the Ifo index, business climate indicators for Italy and France were also published today. Although it continued to deteriorate in Italy, sentiment unexpectedly improved in France. Without wishing to play down concerns about Italy's growth trend, overall the results show that concerns regarding Eurozone growth are currently less pronounced than some experts claim. Given the heightened concerns over inflation, the ECB is unlikely to change its policy rates in the foreseeable future.

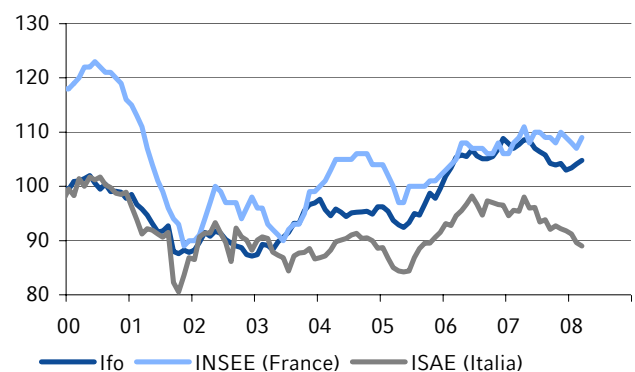
Jörg Lüschow
+49 211 826-2034
joerg.lueschow@westlb.de

Ifo business situation and expectations



Source EcoWin, WestLB Research

Business climate in major EMU countries



Source EcoWin, WestLB Research

WestLB AG
Herzogstraße 15
D-40217 Düsseldorf

T: +49 (0)211 826 71841
F: +49 (0)211 826 6154

WestLB AG
London Branch
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA
United Kingdom

T: +44 (0)20 7020 2000
F: +44 (0)20 7020 4209

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