

## **Climate indicator rises but concerns remain on strength of recovery**

Paris, 17 February 2010

The World Economic Climate Indicator rose in the first quarter of the year for the fourth consecutive time due primarily to positive assessments of the current economic situation in Asia, but the expectation of a continued rise in unemployment, and other factors, raised concerns about the strength of the recovery.

“After four consecutive positive results the latest survey results can be interpreted as a clear sign of a global economic recovery,” concluded the International Chamber of Commerce (ICC) and the Ifo Institute for Economic Research, who jointly conduct the global economic survey each quarter.

“While the world economy is clearly recovering, national and international economic policies will need to address challenges including rising unemployment and high levels of public debt if the global economy is to return to balanced and sustained economic growth,” ICC Secretary General Jean Rozwadowski said.

The climate indicator rose to 99.5 compared with 91.4 in October, exceeding its long-term average of 96.9 during the 1991 to 2009 period for the first time in two years. “Above all, developments in Asia have contributed to the better-than-average economic climate,” the report said. “In all other major economic regions, however, the indicator is still below its long-term average.”

But the experts questioned said that even in Asia the six-month outlook, though optimistic, is expected to be less favourable than in the previous quarter. The experts have less optimistic expectations for North America but confidence with regards to the coming six months is higher for both western and eastern Europe.

The report warned that while “the acute phase of the financial crisis is behind us” a number of factors raise concerns about the strength of the current recovery. These include rising unemployment in many regions, insufficient demand, large deficits in public finances, and the pressure of fiscal consolidation that will force many economies to scale down the fiscal and monetary measures taken during the crisis.

The survey, which polled 1,057 experts in 94 countries in January, said the majority of those questioned expected both short and long-term interest rates to rise this year, another element that may affect economic growth. The experts also said they expected a worldwide inflation rate of 2.9% this year, compared with an estimated rate of 2.5 % for 2009.

### **Asia leads the way**

As has been the case in the recent past, Asia was the region with the highest level of economic confidence. The report assessed the situation as particularly strong in China, where the present economic situation stabilized at a favourable level, as well as in Hong Kong, Vietnam and India. Both the Chinese and the Indian economies are expected to grow substantially this year.

“Although economic growth in China is partly attributed to its high fiscal stimulus and credit easing, there are also chances for positive multiplier effects on private consumption, which is expected to remain buoyant in the first half of 2010,” the report said.

The current economic situations of the Philippines, South Korea and Malaysia were upgraded considerably by the polled experts. But while the forecast for Japan is optimistic, the present economic situation in that country remains very weak.

## **Optimism in Western Europe and North America**

The climate indicator for Western Europe improved significantly, and economic expectations continued improving as they had throughout 2009. But the climate did not improve in all of the countries of the euro area, deteriorating in France, Greece, Portugal, Slovenia and Cyprus. The current situation was assessed as being weakest in Ireland, Spain and Portugal, while economic expectations were upgraded for the Netherlands, Belgium, the United Kingdom and Ireland.

The economic climate indicator for Canada and the United States improved for the fourth consecutive quarter but only because of a better assessment of the current situation even as economic expectations remained positive. "However, particularly in the US, the present economic performance is still assessed with very low marks," the report said.

The ICC-Ifo report said the present economic situation in Russia remained weak, although considerably less so than last year. The driving engine of the economy continues to be the export sector, which is expected to continue growing during the next six months.

The present economic situation in the vast majority of central and Eastern European countries remains weak, with particularly low marks given to Romania, Latvia, Estonia, and Lithuania, which along with Bulgaria were hit particularly hard by the economic crisis.

In Latin America the climate indicator improved in January, with assessments of the present economic situation strongly upgraded and expectations for the next six months seen strengthening further. The economic climate is particularly favourable in Brazil, Chile, Peru and Uruguay.

## **G20 expected to improve coordination of world economy**

The vast majority of the surveyed economists replied positively to an ICC special question asking whether they believe that the emergence of the G20 as the premier forum for international economic cooperation will lead to better coordination of the world economy.

In Asia 80 % of respondents either strongly agreed or agreed that the G20 will lead to better coordination, followed by the Near East (77%); respondents from the G20 countries themselves (76%); North America and Latin America (both with 72%); and Western Europe (71%).

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