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Eurozone jobless at euro-era peak

By Ralph Atkins in Frankfurt, Chris Giles in London and Victor Mallet in Madrid



Eurozone unemployment has risen to its highest level since the launch of the euro as inflation remained high, intensifying the dilemma facing Mario Draghi, who takes over on Tuesday as president of the European Central Bank.

Highlighting the region's deteriorating economic prospects, seasonally adjusted unemployment in the 17-country bloc rose to 16.2m in September, 188,000 higher than in August and the highest since comparable

data started in the late 1990s, reported Eurostat, the European Union's statistical office. It was the biggest monthly rise in two years.

The surge in joblessness came amid mounting evidence that a recession looms in much of continental Europe. To avoid a crunch, eurozone leaders' response to the debt crisis agreed last week had to be implemented "promptly and forcefully", the Paris-based Organisation for Economic Co-operation and Development warned on Monday. It also recommended that the ECB cut interest rates rapidly.

The OECD slashed its growth forecasts to show the eurozone economy expanding by only 0.3 per cent in 2012, assuming there is no sudden crisis. In June, it had forecast 2 per cent growth. Failure to restore confidence and a repeat of the financial turmoil seen in recent years could see some large OECD economies contracting by as much as 5 per cent by the first half of 2013, it added.

In early October, the ECB's 23-strong governing council split over whether to cut the central bank's main interest rate, currently 1.5 per cent, before deciding to leave it unchanged. Mr Draghi chairs his first interest rate setting meeting on Thursday and the decision could be a similarly close call.

Separate Eurostat data on Monday showed eurozone inflation remained at 3 per cent in October, the highest for three years. That strengthened the case for shelving an interest rate cut until December, when revised ECB forecasts should provide reassurance that price pressures had peaked and would fall sharply next year.

"My money would be on no change this week but possibly a narrative that makes it completely possible to cut in December," said Erik Nielsen, chief economist at UniCredit.

Waiting could also help boost Mr Draghi's credentials in Germany, where industry remains relatively upbeat about economic prospects and where the ECB is widely criticised for the help it has given less fiscally responsible countries – including Italy, the new president's home country.

But economists were split on Mr Draghi's debut – with some expecting action this week. "If you cut by 25 basis points it also builds confidence in a president as someone who is not afraid of criticism," said Jacques Cailloux, a Europe economist at the Royal Bank of Scotland.

In September, eurozone unemployment was equivalent to 10.2 per cent of the labour force – the same as in June last year but otherwise the highest since June 1998. The equivalent US unemployment rate in September was 9.1 per cent.

Unemployment remains highest in Spain, where the rate reached 22.6 per cent in September on a comparable basis. Hopes of a rapid fall are likely to have been dashed by preliminary estimates on Monday from the Bank of Spain on the performance of the country's economy.

Spanish gross domestic product saw zero growth in the third-quarter compared with the previous three months and remained only 0.7 of a percentage point higher than a year earlier, the central bank said in its latest quarterly report. In the three months to June, quarter-on-quarter growth had been 0.2 per cent.

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