FINANCIAL TIMES

7

Last updated: November 15, 2011 7:45 pm

Growth data fail to dispel eurozone fears

By Ralph Atkins in Frankfurt

The eurozone economy managed only modest growth in the third quarter of this year, with a rebound in Germany and France failing to dispel fears of a looming recession across the 17-country region.

Eurozone gross domestic product expanded by 0.2 per cent compared with the previous three months – the same pace as in the second quarter, according to Eurostat, the European Union's statistical unit. But economists warned that the effects of the escalating eurozone debt crisis, and sweeping fiscal austerity measures across the continent, had yet to feed through and growth would soon go into reverse.

"The third quarter was still pretty much shielded from the financial market turbulence," said Marco Valli, eurozone economist at Unicredit in Milan. "The impact will be felt fully in the fourth quarter."

Eurostat gave no details but country reports suggested consumer spending had largely driven third quarter eurozone growth. A sharp fall in eurozone industrial production in September, reported on Monday, indicated the pace of expansion had already weakened by the end of the quarter.

Germany reported third quarter growth of 0.5 per cent, and revised second quarter figures to show an expansion of 0.3 per cent – compared with 0.1 per cent originally reported. France saw 0.4 per cent growth, although revised second quarter data showed a 0.1 per cent contraction, compared with the previously reported flat growth.

Click to enlarge

That put Germany and France on a par with the US economy, which expanded by 0.6 per cent in the third quarter, and the UK at 0.5 per cent growth.

However, the pick-up in the eurozone's two largest member states was exaggerated by one-off factors, such as the Japanese earthquake, which had hit second quarter growth and came as crisis-hit southern European economies continued to contract. Portugal this week reported its fourth consecutive quarter or economic contraction, Spain saw zero growth, while Greek GDP in the third quarter was 5.2 per cent lower than a year before.

Highlighting how the crisis had already spread to better-performing northern European economies, the Netherlands reported a surprise 0.3 per cent third quarter contraction, with local economists blaming falling wages and economic uncertainty, and thus may have already fallen into recession. The rest of the eurozone could soon follow.

Earlier this month, Mario Draghi, the new European Central Bank president, forecast a "mild recession" by the end of the year. Even though the eurozone debt crisis still does not appear as big an economic "shock" as the collapse of Lehman Brothers investment bank in late 2008, forward-looking indicators and confidence surveys suggest Mr Draghi's comments might prove over-optimistic. Eurozone purchasing managers' indices fell sharply in October and indicated the region's economy was contracting at a quarterly rate of about 0.5 per cent.

Italy has yet to report third quarter GDP data, but may also have fallen into recession already – and is widely expected to see a sharp contraction in the final three months of the year.

In coming months, the effects of the escalation of the eurozone debt crisis since August are expected to act as a significant brake on growth, with weakened banks curbing loans to businesses and consumers, while plunging economic confidence leads to spending and investment plans being shelved.

Eurozone growth would also be hit by fiscal consolidation measures equivalent to 1.4 per cent of GDP this year, and 1.3 per cent GDP in 2012, said Nick Kounis at ABN Amro in Amsterdam. "As the debt crisis has intensified, Europe's response is always 'we need more cuts'. There is not really a growth agenda, there is an austerity agenda."

A bright spot in the latest data was an apparent rebalancing in Germany's economy, where consumer spending was the main factor powering growth, according to the country's statistical office. That suggested steady falls in unemployment over the past two years had reduced the country's reliance on exports to support growth. Germany's economy saw one of the sharpest recoveries after the recession that followed the collapse of Lehman Brothers.

According to Tuesday's revised data, German GDP had exceeded its early-2008 peak by the second quarter of this year – while eurozone GDP was still significantly below the pre-crisis level.

But with German business confidence also falling, Europe's largest economy is not expected to escape a significant slowdown. "Even the very competitive German economy is now faced with a higher risk of a recession," said Jörg Krämer, chief economist at Commerzbank in Frankfurt.