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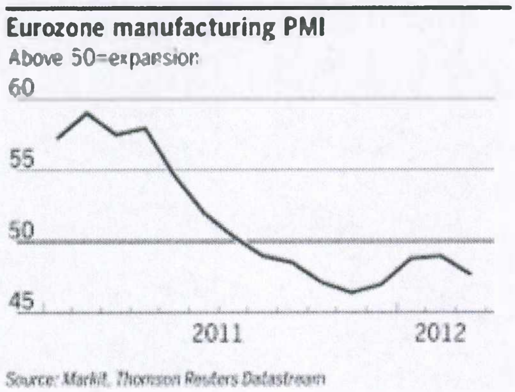
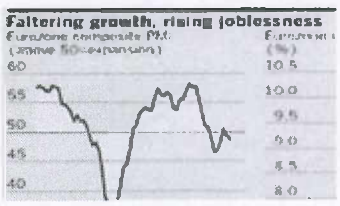
Weak eurozone data point to recession

By Ralph Atkins in Frankfurt



The eurozone economy contracted unexpectedly sharply this month, all but confirming that the region has fallen into recession, with France and Germany reeling from the effects of the debt crisis hitting much of southern Europe.

The falls in eurozone purchasing managers' indices for March will dent hopes that falls in economic activity late last year, when the eurozone crisis was at its most intense, had given way to a recovery.



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Much of the latest weakness was concentrated in France and Germany, with German manufacturing output contracting unexpectedly. Indices for the rest of the region improved, but still showed a steep contraction in private sector activity.

The setback, which contrasted with recent improvements in US economic prospects, came despite the European Central Bank's injections of more than €1trn in three-year loans into the eurozone banking system, which have helped revive financial market confidence.

The ECB's action to stabilise the financial system had led to "totally misplaced euphoria" in France and Germany, said Gilles Moec, European economist at Deutsche Bank.

"It's a big case now of 'let's get back to reality'. [The eurozone is] still reeling from the collapse in credit flows in late 2011, together with sustained fiscal austerity," Mr Moec said.

Chris Williamson, chief economist at Markit, which produces the indices, added that the latest drop was "clearly a disappointment following the brief return to growth seen in January, and suggests that policy makers will need to seek ways to revive economic growth across the region again".

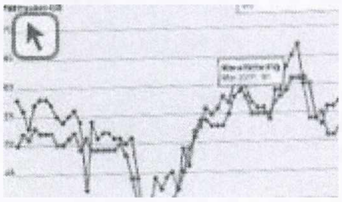
Separately, Ireland reported it had experienced a "technical" recession, defined as two successive quarters of economic contraction, in the second half of 2011. Irish gross domestic product fell 0.2 per cent in the fourth quarter, extending a 1.1 per cent decline over the previous three months.

Adding to the gloom, eurozone industrial orders – which offer a guide to future production levels – fell 2.3 per cent in January, according to Eurostat, the European Union's statistical office.

The purchasing managers' indices are regarded as early indicators of trends in economic activity. Economists said the readings were consistent with eurozone GDP contracting by about 0.2 per cent in the first three months this year. That would follow the 0.3 per cent fall seen in the fourth quarter of 2011.

Although the eurozone recession remains relatively mild, economists fear the outlook is lacklustre, even if the region's debt crisis continues to recede. Slower growth in China and higher oil prices would add to the eurozone's woes.

Interactive PMI tracker



Interactive tool tracking Markit's Purchasing Managers' Indices and ISM's purchasing managers' and non-manufacturers' survey indices

The ECB has predicted only a gradual economic recovery in the course of this year. However, the latest data contrast with the optimistic tone struck by Mario Draghi, ECB president, in an interview with Germany's Bild newspaper published on Thursday.

"The worst is over but there are still risks," he said. "The situation has stabilised. The key data for the eurozone – such as inflation, the current account and, crucially, the public deficit – are better than in, for example, the US. Investor confidence is returning."

The eurozone composite purchasing managers' index, covering manufacturing and service industries, fell from 49.3 in February to 48.7 in March, the lowest for three months. A figure below 50 represents a contraction in activity.

The surveys indicated Germany and France were likely to have escaped a technical recession. France's economy continued to expand at the end of last year. But its composite purchasing managers' index dropped from 50.2 in February to 49.0 in March. German's composite index fell from 53.2 to 51.4.

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