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Unemployment tests eurozone austerity drive

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By Ralph Atkins in Frankfurt

Relentless rises in eurozone unemployment, which official data on Wednesday showed had never been higher since the euro's launch, will intensify pressure for a broader European growth strategy less focused on fiscal austerity, analysts said.

Joblessness across the 17-country bloc rose in March by a seasonally adjusted 169,000 to 17.4m – the 11th consecutive monthly increase. At 10.9 per cent of the workforce, the region's unemployment rate was the highest since April 1997 – almost two years before the euro's launch – according to comparable figures compiled by Eurostat, the EU's statistical office reported.

The upward trend contrasted with steady declines reported in the US. Much of the rise was due to lengthening jobless queues in southern Europe, especially in Spain, where the eurozone debt crisis has been most intense. More than half, or 51.1 per cent, of Spaniards aged under 25 were out of employment in March.

That highlighted structural problems across southern Europe, but also provided "a clear indication of the short-term economic pain inflicted by the draconian austerity measures", said Martin van Vliet, economist at ING in Amsterdam.

"The whole debate between the Keynesians and austerity-ists is moving towards a victory for the Keynesians, " he said.

Jörg Krämer, chief economist at Commerzbank, expected "a collective shift in the eurozone towards more understanding of a slower pace of budget-balancing. Even in Germany, the government is more sympathetic to looking more at growth."

The jobless figures provide a gloomy backdrop to Thursday's European Central Bank interest rate meeting in Barcelona – one of two meetings a year outside Frankfurt, the ECB's home city.

Last week, Mario Draghi, ECB president, called for a eurozone "growth compact". But his policy prescription, like that of the German government, centres on structural reforms to boost competitiveness rather than a relaxation of fiscal consolidation plans.

Although no policy changes are expected on Thursday, Mr Draghi is likely to keep the ECB options open for coming months. While some on its 23-strong governing council may wish to signal a willingness to cut interest rates from the current 1 per cent – a record low – others are sceptical about whether such a move would make much difference and would prefer to keep pressure on governments to implement labour market and fiscal reforms.

The ECB injected a total of more than €1tn in three-year loans into the eurozone financial system in December and February. Although there are signs that supply constraints on bank lending to businesses and consumers are improving, the impact on the real economy may have yet to feed through. The ECB has also pledged to meet in full banks' demands for shorter term liquidity until at least the end of June – a deadline that is almost certain to be extended.

Spain's unemployment rate reached 24.1 per cent in March, or almost one in four workers, according to Wednesday's Eurostat data. But Italian unemployment also rose sharply, to 9.8 per cent in March – the highest since 2000.

Likely to alarm policymakers were signs that the impact of fiscal austerity was hitting "core" eurozone economies, including Germany's, with greater ferocity. The Eurostat data showed German unemployment, at 5.6 per cent in March, remained among the lowest in the 27-country EU. German youth unemployment is just 7.9 per cent.

But national figures for April, calculated on a different basis, suggested an end was in sight to the steady falls seen in German joblessness over the past three years. German seasonally adjusted unemployment rose unexpected by 19,000 in April to 2.88m – the highest since December, according to Bundesbank data. Officials warned, however, the data could have been distorted by the Easter holidays and the running down of government labour market measures.