FINANCIAL TIMES

Last updated: May 15, 2012 11:05 am

Germany keeps eurozone from recession

ρα
3

By Ralph Atkins in Frankfurt

An unexpectedly robust performance by Germany's export-powered economy has allowed the eurozone to escape technical recession, despite contraction in the region's south and stagnation in France.

German gross domestic product expanded 0.5 per cent in the first quarter of the year compared with the previous three months, a much stronger pace of growth than economists had forecast.

As a result, eurozone GDP remained flat – rather than contracting as had been widely expected – according to data from Eurostat, the EU's statistical office.

The data highlight Germany's position as one of the world's best-performing advanced industrial economies, which has so far escaped relatively unscathed from the eurozone debt crisis.

Its economy contracted 0.2 per cent in the final three months of last year, which largely explained a 0.3 per cent fall in eurozone GDP, and raised fears of a technical recession, defined as two quarters of negative growth. But Tuesday's news suggests Germany's weakness was temporary.

In contrast, France's economy – the eurozone's second largest – saw zero growth in the first quarter, after a modest 0.1 per cent expansion in the final three months of last year. Italy reported a 0.8 per cent first quarter fall – its third consecutive quarterly contraction. Spain had already reported a 0.3 per cent drop.

The wide divergences have complicated the task of the European Central Bank. Although its interest rate policy is widely seen as too loose for Germany, the rest of the bloc is not yet ready for any tightening. Jens Weidmann, Bundesbank president, has indicated that he is prepared to tolerate a German inflation rate above the eurozone average – but Germans' deep-seated worries about inflation trends limit the ECB's room for manoeuvre.

The main driver of German growth in the first quarter was exports, according to the country's statistical office. That reflected German companies' success in selling industrial goods and services outside the eurozone – especially to China and Russia.

But German growth is having a ripple effect across the eurozone, with a pick-up in domestic demand in the first quarter sucking in exports from other parts of the bloc. Italy's exports to Germany in the first quarter were almost 11 per cent higher than a year before, while Spanish exports were up by more than 4 per cent.

Andreas Rees, European economist at UniCredit in Munich, said: "There is definitely some rebalancing going on between Germany, Italy, Spain and Portugal at least, but very few people seem to notice."

However, the latest data are unlikely to dispel worries about the impact of the eurozone's re-escalating debt crisis and the economic "shock" effect of a possible Greek exit.

Carsten Brzeski, economist at ING in Brussels, warned that Germany's "immunity against downward trends in most other eurozone countries is vanishing". Recent falls in companies' order books showed "that the euro crisis is getting closer".

Eurozone purchasing managers' indices have pointed to economic activity weakening further at the start of the second quarter – but Tuesday's official growth figures suggest the PMIs may be overstating the extent of the slowdown.

Elsewhere, the US economy expanded 0.5 per cent in the first quarter, but the eurozone outpaced the UK, which saw a 0.2 per cent contraction.

I