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Single currency gloom goes viral

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Those who worry that the old continent no longer has influence on world affairs are wrong. The impact of Europe's inability to sort out its problems is clearer by the day, and the diagnosis is indisputable: the entire world is now contaminated with the eurozone virus.

The uncertainty shrouding the single currency's future is, of course, most damaging for Europe. Surveys published this week showed that eurozone manufacturers perceive business conditions to be at their worst in three years. This gloomy outlook is not unique to the periphery – German producers are now as worried as those in the other big eurozone economies.

Elsewhere, too, signs of slowdown are coming hard and fast. As neighbours to a house on fire, the British are feeling the heat. Until recently, encouraging purchasing managers' indices had suggested light at the end of the UK's double-dip recession. Then the manufacturing PMI plunged to a three-year low on Friday, with new orders contracting at the steepest rate since the nadir of the global financial crisis in March 2009.

The uncertainty that has roiled global markets is now manifesting itself in hard economic numbers as well. The US created only 69,000 new jobs in May – about half the expected number, itself insufficient for healthy growth. The US growth rate for the first quarter was also revised down to 1.9 per cent. This is still a far cry better than stagnation (at best) in Europe. But if the US grows faster, its unemployment problem is as stubborn. Of the 8.2 per cent without a job – more still have given up looking for one – almost half are long-term unemployed and may find it hard to return to work when the jobs eventually come back.

Even emerging markets, hailed as the saviours of the global economy for their performance through the crisis, are not immune to the slowdown made in Europe. While China can be relied on to sport solid official growth figures, other data have been disappointing. The latest is the manufacturing PMI, which dropped to 50.4 – barely consistent with growth. Brazil's economy hardly grew at all in the first quarter. And India's economy, which was growing at 9.2 per cent just a year ago, expanded at an annual rate of 5.3 per cent in the first quarter – the worst quarterly rate since 2003.

Not all of this bad news can be laid at the door of leaders bickering about how to shore up the euro. But they shoulder the greatest responsibility for the strengthening undertow in global economic waters. Until they act the best that can be hoped for is that central bankers – especially the European Central Bank – intensify their injections of liquidity to revive economic activity. But real confidence requires a long-term solution for the eurozone – for its own sake and rest of the world's.

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