Global Growth Glimmers as Manufacturing Picks Up Speed: Economy
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(For more on the euro-area debt crisis, see TOP CRIS.)

By Fergal O'Brien and Scott Hamilton

Jan. 24 (Bloomberg) -- China's manufacturing grew at the fastest pace in two years and euro-area services and factory output shrank less than economists forecast in surveys for January, adding to signs of resilience in the global economy.

A euro-area composite index based on responses from purchasing managers in both industries rose to 48.2 from 47.2 in December, London-based Markit Economics said today. Economists forecast a reading of 47.5, according to the median of 22 estimates in a Bloomberg News survey. Markit's factory survey in China was at 51.9, up from 51.5 in December.

European Central Bank President Mario Draghi suggested this week that the worst of the debt crisis may be over, while investor confidence in Germany, Europe's largest economy, rose to the highest in 2 1/2 years. That optimism and the prospect of China keeping up its growth pace are encouraging economists even after the International Monetary Fund cut its forecast for global expansion and Spain's unemployment reached a record.

"There is a sense that we have reached at least a turning point," Jens Larsen, chief European economist at RBC Capital Markets in London and a former Bank of England official, said by telephone. "You can't be very confident yet it will turn into very strong macroeconomic growth, but from a market perspective the fact that it's clearly stopped getting worse is really important."

The euro gained against the dollar after the European data were released before trading at $1.3326 at 12:28 p.m. in Brussels, up less than 0.1 percent on the day. The Stoxx Europe 600 Index was down less than 0.1 percent to 288.

Economic Stagnation

The euro-area services index improved to 48.3 in January from 47.8 a month earlier, Markit said. The manufacturing gauge rose to 47.5 from 46.1.

Economists in a separate Bloomberg News survey published on Jan. 17 forecast that the euro-region economy will stagnate this quarter and resume expansion in the three months through June. The economy probably shrank 0.4 percent in the final three months of 2012, according to the median of 26 estimates in the survey. The European Union's statistics office in Luxembourg will publish its first estimate for fourth-quarter gross

domestic product on Feb. 14.
"We can begin 2013 on a more confident note, precisely because significant progress was made during 2012," Draghi said on Jan. 22. "The darkest clouds over the euro area subsided."

Record Unemployment

Nestle SA Chief Executive Officer Paul Bulcke says he expects European consumer confidence to slowly return. Confidence "is going to come back," he said yesterday in an interview at the World Economic Forum in Davos, Switzerland. "It's going to take years though. It's not going to be a fast-going out of the woods."
Still, record euro-area unemployment of 11.8 percent and continued austerity measures by governments may undermine consumer sentiment and spending. Aline Schuiling, an economist at ABN AMRO, said in a report yesterday that as many countries have fallen behind in their fiscal targets, additional tightening will be needed.
"Another factor that will continue to weigh on domestic demand is that unemployment is expected to remain at very high levels in most countries and will probably continue to rise well into 2014," she said.

Spanish Unemployment

Spanish data today showed unemployment rose to a record in the final quarter of 2012 as Prime Minister Mariano Rajoy's government imposed the deepest budget cuts in the country's democratic history. The number of jobless approached 6 million people, or 26.02 percent.
"The scale and severity of the downturn in Spain shows no signs of abating and is likely to persist for some time yet," Nicholas Spiro, managing director of Spiro Sovereign Strategy in London, said by e-mail. "Spain has become one of the most glaring examples of the disconnect between liquidity-driven sentiment and economic fundamentals. The two are becoming increasingly and dangerously detached from one another."
The IMF yesterday forecast a second year of contraction in the euro region as progress in battling Europe's debt crisis fails to produce an economic recovery. The world economy will expand 3.5 percent this year, less than the 3.6 percent forecast in October, the Washington-based IMF said.
Today's Chinese data still suggest that the economy's expansion at the start of 2013 will equal or exceed its 7.9 percent clip in the fourth quarter. Sliding Japanese exports and below-forecast growth in South Korea reported today underscore Asian economies' dependence on China as austerity in Europe

limits demand.
“There’s plenty of potential for stronger domestic growth in China if they avoid a hard landing, and it looks like they have,” said RBC’s Larsen.

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