Euro Area Exits Record Slump Led by Largest Economies: Economy
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By Angeline Benoit

Aug. 14 (Bloomberg) -- The euro area's economy emerged from a record-long recession in the second quarter, led by Germany and France, amid the first sustained period of financial-market calm since the start of the debt crisis.

Gross domestic product in the 17-nation euro area rose 0.3 percent in the April-June period after a 0.3 percent contraction in the previous three months, the European Union's statistics office in Luxembourg said today. That exceeded the median estimate of 0.2 percent growth in a Bloomberg News survey of 41 economists and brought to a close six straight quarters of contraction, the longest slump since the euro's debut in 1999.

Germany and France, the euro area's two largest economies, both showed faster-than-projected expansions in the quarter.

While the overall outlook has improved, the recession pushed the unemployment rate to a record and parts of southern Europe remain mired in a slump, with more than half of young people in Spain and Greece out of work.

"The upside surprise shows an underlying improvement in the euro zone as strong exports weakened the contraction in Spain and Italy and spurred growth in core countries, especially France," said Ricardo Santos, an economist at BNP Paribas SA in London. "We'll have to wait more to see any improvement in the labor market, but this shows the worst part of the recession is probably over."

European Stocks

European stocks moved higher after the data, with the Stoxx Europe 600 Index up less than 0.1 percent to 308.11 at 10:50 a.m. in London. The euro was little changed $1.3254 and 130.19 yen, while the Swiss franc fell to the weakest in a month.

In Germany, GDP increased 0.7 percent in the second quarter, more than the 0.6 percent gain forecast by economists.

The French economy expanded 0.5 percent after two quarters of contraction. Still, at least four of the euro area's 17 member countries remain in recessions, including Italy and Spain.

"This slightly more positive data is welcome, but there is no room for any complacency whatsoever," EU Economic and Monetary Affairs Commissioner Olli Rehn said in a blog post. "A sustained recovery is now within reach, but only if we persevere on all fronts of our crisis response."

The European Central Bank has cut interest rates to a record low and pledged to keep them there or lower for an "extended period" to bolster the economy. With the jobless rate at 12.1 percent, the highest since the euro's inception, ECB President Mario Draghi this month described progress as "tentative."

Global Growth

The International Monetary Fund last month cut its global growth projections, while the U.S. Treasury Department's top international official, Lael Brainard, said Europe faces the risk of prolonged economic stagnation unless policy makers encourage domestic demand. Euro-area unemployment has held at a record since March and almost a quarter of young people across the bloc are without jobs. The ECB forecasts that the euro economy will shrink 0.6 percent this year.

"The growth rates we're currently seeing are still far too low and we're seeing an increasing gap between financial and political hope on the one side and economic reality on the other," Stephen King, U.K.-based chief global economist at HSBC Holdings Plc, told Bloomberg Television on Aug. 12. "The problem is the gap between the growth that's being delivered and the growth that's required to make the fiscal numbers add up in the medium term."

Export Markets

Elsewhere in the region today, Britain's unemployment rate remained at 7.8 percent in the latest quarter amid signs the labor market is improving. U.K. unemployment claims fell twice as much as predicted in July.

Bank of England Governor Mark Carney has made unemployment a focal point of monetary policy by pledging for the first time to refrain from raising interest rates until joblessness falls to 7 percent. The Monetary Policy Committee voted 8-1 to link the outlook for its benchmark interest rate to unemployment, according to the minutes of its Aug. 1 meeting.

While Europe's recovery inches forward, conditions in major export markets such as the U.S. and China are improving.

In China, July industrial output rose more than economists expected after a larger-than-forecast rebound in exports eased concern that a credit squeeze in the world's second-biggest economy would curb growth sharply. Elsewhere in Asia today, India's wholesale price index rose a faster-than-forecast 5.79 percent in July and retail sales in New Zealand advanced 1.7 percent in the second quarter from three months earlier.

Gradual Recovery

The U.S. economy, the world's largest, grew at a 1.7 percent annualized rate from April through June after a 1.1 percent pace in the first quarter.

"Euro-area export growth should benefit from a gradual recovery in global demand, while domestic demand should be supported by the accommodative monetary-policy stance as well as recent gains in real income owing to generally lower inflation," Draghi said on Aug. 1. The ECB cut its benchmark interest rate to a record low of 0.5 percent in May and committed in July to keep it at the present level or lower for "an extended period" to foster growth.

Global companies' second-quarter earnings suggest the worst may be over for Europe. The continent's second-biggest automaker, PSA Peugeot Citroen, reported a smaller operating loss for the second quarter than analysts had projected and French car sales rose in July for the first time in almost two years. Henkel AG, the German maker of Loctite glue, reported second-quarter earnings that beat estimates.

Yield Premium

Sovereign borrowing costs have dropped across the bloc this year. Italy's and Spain's 10-year yield premium over benchmark German bunds shrank to the smallest in two years yesterday. The spread narrowed to 237 basis points for Italy, the least since July 22, 2011, and compared with a euro-era record of 575 basis points in November 2011. For Spain, it shrank to 265 basis points, the tightest since Aug. 16, 2011, down from 650 basis points in July 2012, when Draghi pledged to do whatever was necessary to hold the single currency together.

The yield on Spain's 10-year debt was at 4.45 percent at
11:35 a.m. in Brussels. The yields for similar maturities were at 1.81 percent for Germany, 2.35 percent for France and 4.21 percent for Italy.

From a year earlier, the euro-area economy shrank 0.7 percent in the second quarter, according to today's report, which is a first estimate for the April-June period. The statistics office is scheduled to publish a breakdown of second-quarter GDP next month.

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