Eurozone recovery falters, Germany flat

Eurozone economy grows by only 0.1 percent in fourth quarter as Germany disappoints

By Pan Pylas, AP Business Writer, On Friday February 12, 2010, 7:58 am EST

BRUSSELS (AP) -- The 16 countries that use the euro barely grew in the fourth quarter, as a modest recovery stalled amid turmoil in financially troubled members such as Greece and a disappointingly flat performance from Germany, the biggest euro economy.

The figures lagged well behind fourth-quarter growth in the United States and raised concerns that Europe could slip back into recession as government stimulus efforts expire and the continent struggles with a government debt crisis in some countries.

Eurozone gross domestic product grew by only 0.1 percent in the last three months of 2009 from the previous three-month period, EU statistics agency Eurostat said Friday.

Export powerhouse Germany turned in zero growth as consumption levels remained weak -- reinforcing analysts' thinking that sustained growth in Europe will have to wait until household spending picks up decisively.

The eurozone growth figure fell short of expectations for a 0.4 percent increase and stoked worries the eurozone may dip back into recession.

The euro took a further battering for the euro on currency markets. By late morning London time, the euro was trading at near nine-month lows $1.3535, a full cent lower than where it was when the German figures came out.

"Today's data shows that the recovery in the euro area is a long way off from being self-sustained," said Jorg Radeke, an economist at the Centre for Economic and Business Research.

The third quarter increase of 0.4 percent had encouraged hopes that the eurozone recovery would be solid, especially as U.S. growth spiked sharply higher -- it was up a quarterly 1.4 percent -- during the period and China continues to grow strongly.

However, the recovery in the third quarter now appears likely to have been due to temporary factors like government spending boosts, a build-up in inventory levels and car scrappage schemes that pay people to trade in old cars, particularly in Germany.

A real concern in the markets now is that upcoming austerity programs in places like Greece, Spain, Portugal and Ireland will continue to depress activity in those countries and further undermine the overall eurozone recovery.

"Given the state of the public finances across many euro member states, fiscal tightening may be too early in many of those countries struggling to maintain growth," said Radeke from the Centre for Business and Economic Research.

The Eurostat figures clearly showed that the countries most affected by the debt crisis are struggling.

Greece, which is in the midst of a debt crisis that made EU leaders to pledge support on Thursday, saw its output shrink by 0.8 percent. Portugal's output was unchanged following two solid quarterly increases, and Spain's economy contracted by a further 0.1 percent as it continues to suffer from its property market collapse and near 20 percent unemployment levels.

The third quarter recovery in Italy also proved to be short-lived as the eurozone's third largest economy shrank by 0.2 percent during the period.

France, the eurozone's second-largest economy, appears to have been the main reason behind the overall rise in the fourth quarter in the eurozone, as it posted a respectable 0.6 percent increase in output.

The fourth quarter figures cap a miserable economic year -- for 2009 as a whole, the eurozone economy, which includes around 330 million people, contracted by a massive 4 percent.

Though most economists as well as the European Central Bank expect growth this year, it's unlikely to be remarkable, especially as there are signs of underlying weakness in France -- much of the growth there in the fourth quarter was due to car sales, which were boosted by the upcoming scaling back of the car scrappage scheme at the end of the year.

"An anaemic core and a deflating periphery point to weak eurozone GDP growth this year," said Michael Taylor, an economist at Lombard Street Research.

As if further proof were needed that the euro area recovery is not going to plan, separate Eurostat figures showed that industrial production plunged 1.7 percent in December from the previous month.

The wider 27-country EU, which includes non-euro members such as Britain and Sweden as well as east European countries including Poland and Hungary, saw fourth quarter GDP rise by 0.1 percent, the same as the eurozone.