Euro Zone’s Fizzling Growth Seen to Back Draghi Cut Case

By Stefan Riecher and Kristian Siedenburg - Nov 10, 2013

Euro-area growth data this week may show the region’s nascent recovery slowing to a crawl, supporting Mario Draghi’s case for an interest-rate cut to help the economy get back to its feet.

Gross domestic product in the region rose just 0.1 percent in the third quarter, according to the median forecast of 41 economists in a Bloomberg News survey. In the 3 1/2 hours before that report on Nov. 14, economists predict a series of data releases to show growth slowing in Germany and stalling in France, with Italy remaining mired in an unprecedented slump.

Such an outcome would confirm that the recovery is grinding after a second-quarter growth spurt of 0.3 percent that ended the region’s record-long recession. The data are due one week after the European Central Bank president’s surprise rate cut to 0.25 percent. Draghi said at the time that the euro zone faces the danger of a “prolonged” period of low inflation.

“There are a few minor bright spots, for example Spain, but Italy will continue to remain in contraction and growth in France will likely be flat at best,” said Nick Matthews, a London-based economist at Nomura International Plc. “That plays into the scenario the ECB is seeing, which is a very weak and fragile recovery.”

GDP Marathon

The European Union’s statistics office in Luxembourg will publish GDP data for the 17-nation euro area at 11 a.m. on Nov. 14, part of a marathon of releases that begin with France’s report at 7:30 a.m. in Paris. That economy probably stagnated, according to the median forecast of 22 economists.

The French data will follow less than a week after the country’s Nov. 8 downgrade to AA by Standard and Poor’s, which said that the current policies of President Francois Hollande’s government are “unlikely to substantially raise France’s medium-term growth prospects.”

Italy, which releases data in Rome at 10 a.m. on the same day, probably suffered a ninth straight quarter of contraction. Antonio Golini, acting chairman of Istat, the country’s national statistics office, told lawmakers on Oct. 29 that the economy shrank in the three months through September, and predicted that GDP will slump 1.8 percent this year.

While those two countries represent the region’s second and third-biggest economies, Holger Schmieding, chief economist at Berenberg Bank in London, said there’s enough momentum elsewhere in the currency bloc to drive an acceleration in growth toward the end of the year.
'Modest Clip'

“Of course, the weakness in France and Italy poses a downside risk,” he said. “But the euro zone economy is expanding at a modest clip. Most crisis countries have left their savage adjustment-recession behind and now seem to be growing again. Leading indicators project a further gradual firming of economic growth.”

Spain emerged from recession during the quarter, according to data already released. Portugal, which publishes its GDP report an hour after the euro area on Thursday, escaped from its own slump during the prior three months.

For Germany, the region’s largest economy, economists predict growth slowed to 0.3 percent in the quarter, less than half of the 0.7 percent pace seen in the prior three months. Those data are due for release the same day at 8 a.m. by the Federal Statistics Office in Wiesbaden.

Forecast Cut

While Germany’s economic strength does continue to support the region’s recovery, the European Commission last week cut its forecast for euro-zone growth in 2014, anticipating 1.1 percent expansion instead of the 1.2 percent forecast in May. Officials see unemployment averaging 12.2 percent next year, higher than the 12.1 percent they predicted six months ago.

The ECB halved its benchmark rate with a quarter-point cut to a record low on Nov. 7 after inflation slowed to 0.7 percent in October, less than half the central bank’s target level of just under 2 percent. Draghi kept up his pledge to keep rates at current levels or lower for an extended period and repeated the ECB’s view that economic risks remain “on the downside.”

“Further ECB policy support is needed to support the economy,” said Ben May, an economist at Capital Economics Ltd. in London. At the same time, “even if the ECB does loosen monetary policy in the next month or two, it is unlikely to resolve the fundamental economic problems that the euro-zone still faces.”

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