Euro-Zone Business Activity Expands

Surveys Indicate Bloc Could Emerge From Economic Contraction in Third Quarter

By

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Euro-zone business activity expanded in July for the first time in 18 months, according to a closely watched survey, adding to recent evidence that the region's economy is finally stabilizing after a recession that began in late 2011.

But the euro-currency area looks set for feeble growth at best, without enough momentum to bring down its record-high unemployment or resolve the debt crisis in southern Europe.

The giant Euro symbol outside the headquarters of the European Central Bank in November in Frankfurt, Germany.

The purchasing managers' index for the euro zone rose to a 18-month high of 50.4 in July. Scores above 50 in the survey indicate expanding activity.

That followed the release of a survey by the European Commission on Tuesday showing consumer confidence improved for the eighth straight month in July, reaching its highest level since August 2011.
The latest data are leading many economists to believe the euro-zone economy may well have stabilized in the second quarter or even grown slightly following six consecutive quarters of contraction.

They also suggest a further pickup at the start of the third quarter. But any recovery is likely to be anemic in the near term, as the euro zone continues to grapple with an array of problems.

Governments in the 17-nation currency bloc are fighting to bring down debts, sharply limiting the scope for public spending to fuel growth. Unemployment is at a euro-era high. Weakened banks have curbed the supply of credit to many businesses, suppressing investment.

"The return to growth will likely be slow and uneven," said Martin Van Vliet, economist at ING. "Fiscal policy will remain a drag on growth, especially in the periphery. High unemployment and still-weakening housing markets will also help keep domestic demand in many euro-zone countries subdued."

The euro enjoyed a brief pickup after individual data on France and Germany were released, peaking at a one-month high against the dollar of $1.3255 before slipping.

Data company Markit said its PMI survey showed manufacturers reporting wafer-thin levels of expansion, but still a sharp improvement from previous declines. Activity at services companies continued to shrink.

The surveys are "encouraging evidence to suggest that the euro area could—at long last—pull out of its recession in the third quarter," said Chris Williamson, chief economist at Markit.

The surveys indicate that the modest expansion in activity in July might be sustained in coming months. New orders reported by manufacturers rose for the first time since May 2011, although there was another modest fall for service providers.

Businesses continued to cut jobs, but at the slowest pace since March 2012. That suggests that it might be some time before economic growth translates into a decline in unemployment, which is likely to hit record highs before it starts to fall.
The surveys indicated that any recovery will be led by Germany, the euro zone's biggest and strongest economy. German purchasing managers reported that activity rose at the fastest pace since February, driven by increased domestic demand that reflects a low unemployment rate and a recent pickup in wage growth.

EU data show the economy shrank for 18 straight months between the fourth quarter of 2011 and the first quarter of 2013. Data for second-quarter gross domestic product won't be available until mid-August.

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Signs of economic expansion in July will be welcome to the European Central Bank, which has predicted a return to growth in the second half of 2013, having calmed market tensions surrounding the euro zone with a vow last year to keep the bloc intact.

But economists said the bank will have to do more if the recovery is to be strong enough to help repair some of the economic damage done, including very high levels of unemployment among young people.

"Much more remains to be done by both the ECB and governments if the recovery in the coming 12-18 months is not to be weak and prone to setbacks," said Tom Rogers, a senior economic adviser to accounting group Ernst & Young. "A real recovery remains some way off."

The continued inability of the banking system to provide credit to businesses at affordable rates in many places is one of the biggest hindrances to a robust recovery.

A survey by the ECB also released Wednesday showed banks continue to expect demand for loans from firms to weaken in the third quarter as they further tighten standards, albeit at a slower pace than earlier in the year.

Slowing world demand for European exports could also dampen the recovery. A similar survey of purchasing managers released Wednesday pointed to a further slowdown in China's economy, long a source of strong growth for German exporters.

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