German business confidence rose for a third month in July, indicating that Europe’s largest economy is recovering as the 17-nation euro region tries to shake off its longest-ever recession.

The Ifo institute’s business climate index, based on a survey of 7,000 executives, rose to 106.2 from 105.9 in June. Economists predicted an increase to 106.1, according to the median of 45 forecasts in a Bloomberg News survey.

German unemployment unexpectedly declined in June and the nation led the first expansion in euro-area manufacturing in two years in July. The Bundesbank said this week that the domestic economy grew “strongly” in the second quarter, while warning of signs of a summer slowdown.

“There might be one or more potholes on the road but in general the German economy is moving in the right direction,” said Mario Gruppe, an economist at NordLB in Hanover. “For the euro area, there’s hope that the economy emerged from recession in the second quarter or at least flirted with stagnation.”

Manufacturing in the euro area, Germany’s biggest trading partner, unexpectedly expanded this month for the first time since July 2011, according to a survey of purchasing managers published yesterday by London-based Markit Economics. That lends support to European Central Bank President Mario Draghi’s prediction of an economic recovery later this year.

Growth Return

The region’s economy, which has contracted for six straight quarters, probably stagnated in the three months through June and will return to growth this quarter, according to a separate Bloomberg survey.

“The hope for the euro zone is that current gradually rising confidence encourages businesses to increasingly pare back their job cutting and become more prepared to invest, and also encourages consumers to spend a little more,” said Howard Archer, chief European economist at IHS Global Insight in London.

Euro-area banks eased their credit standards for loans to consumers in the second quarter for the first time since the end of 2007, the ECB said yesterday. Financial institutions continued to tighten their policies for mortgages and company loans, it said.

Car Demand

Daimler AG (DAI), the world’s third-largest maker of luxury vehicles, yesterday forecast “significant improvements” in its second-half earnings amid signs the western European auto market has bottomed out. Vehicle sales dropped to a two-decade low in June, according to data from the European Automobile Manufacturers’ Association.

At the same time, growth is slowing in China, Germany’s third-biggest export destination. Manufacturing in the Asian country weakened more than estimated this month, a preliminary purchasing managers index by Markit Economics and HSBC Holdings Plc showed yesterday.

The Bundesbank last month cut its forecast for Germany’s economic growth this year to 0.3 percent from 0.4 percent, and for 2014 to 1.5 percent from 1.9 percent, citing downside risks from European and global demand. The ECB in June predicted a 0.6 percent contraction for the euro-area economy in 2013 and an expansion of 1.1 percent next year.

Draghi on July 4 made an unprecedented commitment to keep interest rates low for an extended period of time and said domestic demand should be supported by the accommodative monetary policy stance.

“Negative impulses from China will increasingly be offset by a stabilization in the euro area,” said Lothar Hessler, an economist at HSBC Trinkaus & Burkhardt AG in Dusseldorf. “That means the German economy should be able to maintain
its growth momentum and move toward more normal growth rates.”

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