German, French GDP Cast Shadow Over Euro Zone

Economic Activity Slows in Both Countries, Indicating the Bloc's Nascent Recovery Faltered in Summer

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FRANKFURT—Economic activity slowed in Germany and declined in France and Italy during the three months through September, indicating that the euro zone's nascent recovery faltered in the summer.

Economists forecast that activity will pick up again toward year-end, albeit very modestly, in light of rising business sentiment and reduced tensions in the euro zone's government bond markets.

Germany's gross domestic product—the broadest measure of goods and services produced across the economy—increased 0.3% in the third quarter from the preceding period, the federal statistics office said Thursday. The outcome met economists' forecasts.

But it marked a significant slowdown from the second quarter, when German GDP swelled 0.7% from the preceding period, buoyed by a rebound in construction and other production after a harsh winter.

France's GDP unexpectedly contracted by 0.1% in the third quarter, after expanding by a quarterly rate of 0.5% in the second quarter, data from the country's Insee statistics bureau showed Thursday.
According to JP Morgan, in annualized terms the German economy grew by 1.3% in the third quarter, while the French economy contracted by 0.6%. By comparison, the U.S. economy grew by 2.8% in the same period, while figures released earlier Thursday showed Japan’s economy grew by 1.9%.

French finance minister Pierre Moscovici said the economy will still meet the government’s forecast and record slight growth for the whole of 2013.

“We had an excellent second quarter and we knew the third would be close to flat so I reiterate that we will have between 0.1% and 0.2% growth in 2013.”

Weak French and German activity mean that the euro zone failed to boost its fragile recovery in the third quarter, economists said. A poll by Dow Jones Newswires of 24 European analysts forecast a slowdown in quarterly GDP growth, to 0.1% from 0.3% in the second quarter. An official estimate is due at 1000 GMT (5 a.m. ET) Thursday.

Although economic activity is expected to pick up toward year-end, economists said that the overall growth momentum will remain weak, varying markedly across the euro member states.

Stubbornly high unemployment in Southern Europe and ongoing fiscal and structural adjustments will continue to weigh on private consumption there.

“The weakness of the upturn means that not much is needed to stop it,” said ING’s chief euro-zone economist Peter Vanden Houte.

The European Union’s official economists last week forecast that the euro zone in 2013 will suffer its third year of economic contraction out of the last five. They peg 2014 GDP growth at 1.1%, as years of recession in Greece, Portugal and Spain end.

Germany’s statistics office, meanwhile, said that growth in the third quarter was solely driven by domestic demand, as both private consumption and public spending slightly increased. The recovery in investment, which started in the second quarter, continued, as investment in machinery, equipment and construction increased from the preceding quarter.

Net exports, however, were a drag on GDP growth in the third quarter.

"While imports registered further gains, exports showed little dynamism, in a quarterly comparison," the statistics office said.

That echoed the experience of France, where exports fell by 1.5% over the third quarter, and trade reduced GDP by 0.7 percentage point.

German GDP was up 0.6% from the third quarter of 2012, when taking account of the number of working days in each quarter.

The German government forecast GDP growth of 0.5% this year and 1.7% in 2014.

As expected, Italy’s economy remained in a long contraction during the third quarter, although the 0.1% quarter-to-quarter decline in GDP was smaller than in the previous three-month period. It was the ninth straight quarter of declining output, and left GDP 1.9% lower than in the third quarter of 2012.
The government has forecast a 1.8% drop for 2013 as a whole, signaling it is counting on an expansion in the final three months of the year.

The service and farming sectors, both sensitive to domestic demand, shrank in the third quarter while the industrial sector, oriented to exports and beginning to invest again after a long decline, posted growth, according to national statistics agency Istat.

"It does seem the worst is past and we are slowly getting out of a tunnel," said Rosario Sgroi, owner of So.Tel, a Rome-based telecommunications network provider.

Austria’s economy returned to growth in the third quarter, having stalled in the second. The Austrian Institute of Economic Research said the Alpine nation's GDP rose by 0.2% on the quarter, despite a slight slowdown in export growth. Austria accounts for only 3.2% of total euro-zone GDP.

The Dutch economy also returned to growth in the three months through September, although after a long period of contraction, and only very modestly. GDP rose by 0.1% from the second quarter, but was still down 0.6% from the third quarter of 2012. The return to growth was expected. The Dutch economy accounts for 6.3% of total euro-zone output.

Portugal's economy grew for the second straight quarter, although at a considerably slower pace than in the three months through June. The statistics agency said GDP was up 0.2% from the second quarter, but was still 1.0% lower than in the third quarter of 2012.

The euro zone's economic woes have long been a drag on its eastern neighbors, for which it is the main export market. But Hungary appears to be holding up well. Figures released Thursday showed the economy grew by 0.8% in the third quarter, boosted by agricultural output, as well as car making and construction.

The country's gross-domestic product rose in unadjusted terms by 1.7% in the third quarter of 2013 versus the same period the previous year, more than 10 analysts’ median forecast for 0.7% polled by The Wall Street Journal, the central statistics office, or KSH, said Thursday. That was the strongest rate of year-to-year growth since the first quarter of 2011.

Polish economic growth also sped up in the third quarter. The statistics office said GDP was 0.6% higher than in the third quarter, and up 1.9% on the third quarter of 2012. In the second quarter, the economy grew by 0.4%.

By contrast, the economy of the Czech Republic contracted again after a brief respite in the second quarter, to the surprise of most economists. The Czech Statistics Office, or CSU, said the central European nation's GDP fell by 0.5% from the second quarter, and was down 1.6% from the third quarter of 2012. Economists had expected an quarter-on-quarter expansion of 0.5%.

In the second quarter of this year, the Czech economy looked to have emerged from a slump that began in late 2011 and was caused by a fall in exports and by weak domestic demand after three years of reduced fiscal spending.

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