EU Predicts Exit From Recession In 3Q

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BRUSSELS (AP) — The European Union said Monday that the recession in the euro-zone and EU will likely have ended in the third quarter with the resumption of modest economic growth.

In an update to its May forecast, the EU cast doubt on strength of the upswing, saying it won't change its prediction for the euro-zone and EU economies to shrink by 4 percent this year.

The EU executive sees both the euro-zone and the EU growing 0.2 percent in the third quarter compared to the three months before, and improving just 0.1 percent in the final quarter of the year.

Official statistics for the third quarter have not yet been published and the EU's figure is an estimate based on growth in the seven largest EU nations.

The European Commission said it was not changing its forecast for the year because the economy fared worse at the end of 2008 and the beginning of 2009.

It warned that "uncertainty remains rife" on how strong the recovery will be.

"While the recovery may surprise on the upside in the very short term, how sustainable it will be remains to be seen," it said. "The situation has improved ... but the weak economy will continue to take its toll on jobs and public finances."

The 16 nations that use the euro fell into recession in the second quarter of 2008, the first since the currency was launched in 1999 and the worst for euro nations Germany and France since World War II.

Both France and Germany pulled out of recession in the second quarter as their economies returned to growth. The EU sees Germany growing a strong 0.7 percent in the third quarter and by 0.1 percent in the fourth quarter with France growing O.4 percent in Q3 and 0.3 percent in Q4.

The forecast also sees inflation returning after a summer where prices shrank due to a sharp drop in energy prices from record highs a year ago. The EU predicts euro-zone deflation of 0.3 percent in the third quarter and inflation of 0.7 percent in the fourth quarter.

The EU executive called for economic stimulus packages to stay in place throughout 2010 and for a clear exit strategy for EU nations to start repaying public debt.

The EU's top economy official, Joaquin Almunia, said EU governments are spending more than expected to boost the economy: 1.4 percent of gross domestic product this year and 1.1 percent next year. This is on top of growing welfare and health payments to workers who lose their jobs.

Almunia also repeated an EU call for the Group of 20 of the world's leading economies to start talking now about how they will withdraw economy support measures — a debate he also said was needed among the EU's 27 countries.

He said central banks needed to think how they would inform financial markets about the end of measures to increase the monetary supply and governments should discuss how and where they would end aid to the financial sector.

"We will have to define what we mean by an exit strategy," Almunia told reporters. "Financial repair and financial normalization should be agreed before adopting decisions ... that if not coordinated can create tensions, can create financial protectionism."

The EU also said governments needed to step up measures to kickstart bank lending to make sure that they are "ready to lend at reasonable terms when companies and households resume their investment plans."

Separately, the EU statistics agency Eurostat said industrial production in the euro area fell 0.3 percent in July compared to June, or 15.9 percent from a year ago. Energy output shrank 1.2 percent from a month earlier as factories slowed for the summer and demand remained low.

Production of non-durable consumer goods grew 0.7 percent from June but output of higher-priced durable goods — such as refrigerators or furniture — fell 0.8 percent. Output of factory machinery fell 1.8 percent from the month before.

Eurostat also reported that some 702,000 fewer workers were on euro-zone payrolls in the second quarter compared to the first three months of this year. It said the number of employed people shrank by 0.5 percent from the previous quarter and 1.8 percent from a year ago.

Manufacturing, construction, financial services, agriculture and trade, transport and communication services shed the most jobs, it said. The public sector, health and education added workers.

Almunia said he expected the number of unemployed to keep mounting because the labor market usually lags two or three quarters behind changes in economic activity.