Eurozone Set For Q4 Economic Contraction

Pan Pylas, Associated Press

LONDON (AP) — A run of downbeat economic news Tuesday reinforced expectations that the 17-nation eurozone's economy shrank during the last three months of 2011 as the government debt crisis dragged on even the biggest and richest countries.

During the final months of last year, financial turmoil in Europe intensified due to fears that the debt crisis was spreading from smaller economies like Greece to larger ones like Spain and Italy. Though those fears have subsided somewhat this year, they likely pushed the region's economy to the verge of another recession.

Analysts expect official figures due Wednesday from Eurostat, the EU's statistics office, to show that the eurozone's economy shrank by around 0.4 percent in the final three months of 2011 after growing only 0.1 percent in the third quarter.

That would leave the eurozone with one foot in recession, which is officially defined as two consecutive quarters of economic contraction.

Indicators released Tuesday provided yet more evidence that the headline number will be negative — another poor set of eurozone industrial figures was accompanied by confirmation that Greece and Portugal remain mired in deep recessions.

Eurostat reported that industrial production shrank by 1.1 percent in December. The decline was in-line with market expectations and confirmed that the recovery in the industrial sector, which has been largely behind the eurozone's overall recovery from recession over the past couple of years has stalled. December's decline was the third monthly fall in four months.

"These figures offer an important perspective on the ongoing sovereign debt crisis — the eurozone has failed to recover and is now backtracking rather than making progress," said Tom Ohlenburg, senior economist at the Centre for Economics and Business Research in London.

The industrial figures also provide mounting evidence that Germany's economy has been hit hard by the raging debt crisis around the eurozone. While debt-crippled countries such as Greece and Portugal have seen their economies implode, Germany's has been buoyant as its high-end businesses have benefited from the rebound in global trade.

German figures on Wednesday are expected to show that Europe's largest economy shrank by around 0.3 percent during the fourth quarter following a 0.5 percent expansion in the previous quarter.

Germany's anticipated decline is dwarfed by the scale of the recessions that continue to grip Greece and Portugal.

Greece's statistics office revealed Tuesday that the Greek economy shrank by an annualized rate of 7 percent on the year in the fourth quarter of 2011. Though Greece only accounts for around 2 percent of the eurozone economy and the figures have not been adjusted for seasonal factors, they do provide yet further evidence of the scale of the retrenchment in the country that's struggling to convince creditors to give it more bailout cash.

Greece has been shut out of long-term debt markets since 2010, and is surviving on rescue loans from European Union countries and the International Monetary Fund. But harsh austerity measures demanded in return for the emergency loans have hammered the economy. Greece's economy has been in decline since late 2008, with successive quarterly contractions since then, with the exception of the first quarter of 2010.

The latest figures for Portugal, about the size of Greece, also made for grim reading. Official data showed the country's economy contracted by 1.3 percent in the fourth quarter, far more than the 0.6 percent fall recorded in the previous three-month period. Like Greece, Portugal is relying on bailout funds to pay down debts.