

Europe's Economies Show Signs Of Weakness

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LONDON (AP) — Europe's biggest economies are showing increasing signs of weakness, a sign that the struggles of their heavily-indebted neighbors are spreading across the region.

The central banks of France and Britain, Europe's second- and third-largest economies, made grim forecasts on Wednesday, while data out of Germany, its largest economy, showed a weakening in manufacturing.

Europe — which includes the 17 troubled countries that uses the euro — has been struggling for the past three years as economies across the region face deepening recessions. Spain and Italy, the two current chief trouble spots, are threatened with a financial collapse and could soon join Greece, Portugal, Ireland and Cyprus in seeking financial assistance so that they can pay their way. This will stretch the eurozone's already fragile economy to breaking point.

A continued recession in Europe would be felt around the world. The region is U.S.'s largest export customer. Any fall-off in demand in Europe will hit order books, and jobs, back in the U.S. Leading companies across the world have recently warned that any continued contraction in Europe will dent their bottom lines.

McDonald's, the global fast food chain, reported flat growth in its sales for July Wednesday — pushed down, in part, by a 0.6 percent dip in meals served in Europe. The region accounts for 40 percent of McDonald's business and the company saw guest traffic down in several southern European markets.

Last week, Germany's Volkswagen saw its sales in Europe drop by 1.5 per cent in the second quarter in an overall market that has shrank 8.6 percent. It was only the German carmaker's business in North America and Asia that helped the company record a 19 percent increase in sales for the quarter.

Markets across Europe gave up the gains they had made earlier on in the week on the latest round of figures. In Germany, the DAX stock index was broadly flat at 6,966 while France's CAC40 off 0.4 percent at 3,438.

Here's a look at the latest economic news from Europe:

—UNITED KINGDOM

One of Europe's leading economies, the U.K. looks set to stagnate this year, according to the Bank of England. In its quarterly Inflation Report released Wednesday, the U.K.'s monetary authority, scaled back its forecast for 2012, saying that the economy will not grow overall in 2012 in spite of staging a return to growth in the second half of the year. The country, though not a member of the 17-country

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euro bloc, has been feeling the effects of the downturn in the rest of Europe and has been in recession since the last quarter of 2011.

Three months ago, the Bank had forecast growth of 0.8 percent for the year. Those hopes evaporated as the U.K.'s economic output fell by 0.3 percent in the first quarter and 0.7 percent in the second quarter. The U.K.'s economic output for 2011 stood at €1.7 trillion (\$2.1 trillion).

"Unlike the Olympians who have thrilled us over the past fortnight, our economy has not yet reached full fitness. But it is slowly healing," said Mervyn King, the Bank's governor.

The downbeat forecast supported expectations that the Bank may extend its program of asset purchases, or quantitative easing. "The door is clearly open to more stimulus," said Vicky Redwood, chief U.K. economist at Capital Economics.

—GERMANY

Industrial production and exports in Germany, dropped in June— highlighting concerns that Europe's debt crisis is increasingly weighing on the region's biggest economy.

Industrial production was down 0.9 percent in June compared with the previous month, the Economy Ministry said. That figure, which was roughly in line with economists' expectations, followed a 1.7 percent increase in May. Production of capital goods such as factory machinery was down 1.6 percent in June.

The German economy, Europe's biggest with a 2011 gross domestic product of €2.5 trillion, so far has been escaped relatively unscathed from the debt crisis afflicting its eurozone partners.

But second-quarter output figures due next week are expected to show growth slowing from the healthy first-quarter figure of 0.5 percent, and business confidence is fading.

"The million-euro question is whether and how long German companies and consumers can keep the pace in the face of eurozone turbulence," said Andreas Rees, an economist at UniCredit in Munich.

—FRANCE

France's central bank added a further note of pessimism Wednesday when it predicted that the country would slip into recession during the third quarter.

The Banque de France said Wednesday that it the country's economy to contract by 0.1 percent in the third quarter. The bank had already predicted that the economy would shrink the same amount in the second quarter. France is Europe's second biggest economy, after Germany with a 2011 gross domestic product of €1.9 trillion.

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The Banque's numbers are estimates but are more pessimistic than the country's national statistics agency, Insee. In June, that agency predicted no growth for the second quarter and a slight rebound of 0.1 percent in the third. The government will publish its own preliminary figures for the second quarter next Tuesday.

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