Rare Good News For Eurozone Economy

Pan Pylas, Associated Press

LONDON (AP) — Mention it quietly, but there were rare hopeful signs for Europe's struggling economy on Friday.

Three pieces of economic news for the 17 European Union countries that use the euro were all slightly better than hoped — in sharp contrast to some of the grim days the eurozone has witnessed over the last three years of its crisis over too much debt.

Unemployment was lower than feared in December, though still high at 11.7 percent; a survey raised hopes of some growth in the manufacturing sector; and inflation unexpectedly fell, easing the headwinds on hard-pressed consumers and raising speculation of more help from the European Central Bank.

No one is in any doubt though that the eurozone's economy, which is currently stuck in recession, has a long way to go before it can even get out of intensive care let alone on the road to full recovery. Debt levels remain high, governments continue to cut services and raise taxes and communities across the region are suffering as the region struggles to solve the crisis that's threatened the euro's very survival.

In that context, any bit of good news is welcomed with open arms and potentially could give the eurozone some breathing space as it tries to fix its myriad of problems.

The euro and European stock markets tracked higher after the figures' release.

"It's not as bad as it was and that's probably the best one can say, which is a good thing, but it doesn't mean happy days are near," said Marc Ostwald, market strategist at Monument Securities.

One of the eurozone's problems remains sky-high unemployment, with 18.7 million out of work, according to Friday figures from Eurostat, the EU's statistics office. In 2012 as a whole, eurozone unemployment rose by nearly 1.8 million.

Though the 11.7 percent unemployment rate for December was below market expectations for a rise to 11.9 percent, it still remains the highest level since the euro was launched 14 years ago, as November's original estimate of 11.8 percent was revised down.

James Ashley, senior European economist at RBC Capital Markets, said the figures are "notably better than the consensus" and noted that the 16,000 monthly increase was the smallest since unemployment started rising again in May 2011.

Worthy of note, according to Ashley, is the 0.1 percentage point drop in the Spanish unemployment rate to 26.1 percent, the first monthly decline since the "pre-crisis halcyon days" of early 2007.

"It is still premature to call a turning point in the labor market cycle — both for the euro area and for Spain — but recent weeks do lend support to our forecast that conditions should begin to stabilize in the first half of 2013," said Ashley.

The unemployment numbers vary widely across the eurozone. While Greece's level in October was 26.8 percent (the country's statistics are compiled on a different timeframe), Austria enjoys under near full-employment levels with a 4.3 percent rate in December.

And while Greece's youth unemployment rate — for those of working age but under 25 — stands at a staggering 57.6 percent, Germany's is just 8 percent.

Unemployment across the broader 27-country EU also remained steady at 10.7 percent. This, according to Eurostat, compares with 7.8 percent in the U.S. and 4.1 percent in Japan.

The best way to get unemployment down is economic growth and there has been little sign of that over the last few months. Even Germany, Europe's largest economy, has been slowing down sharply. Figures later this month are expected to show that the eurozone economy remained in recession in the final three months of 2012.

However, a closely-watched survey of current conditions in the manufacturing sector, suggested that there was reason for optimism.

The monthly purchasing managers index — a gauge of business activity — from financial information firm Markit rose to an 11-month high of 47.9 in January from December's 46.1. Though the measure remains below the 50 threshold that divides expansion from contraction, the index's trend points to the sector growing again over the coming months.

"Manufacturers appear to be benefiting increasingly from a sustained easing of sovereign debt tensions, reducing uncertainty and lifting business confidence," said Howard Archer, chief European economist at IHS Global Insight. "If this continues, businesses should become increasingly more prepared to place manufacturing orders that have been delayed or cancelled."

Further good news emerged with Eurostat reporting that inflation in the eurozone fell to 2 percent in the year to January, well below expectations for a modest increase from the previous month's 2.2 percent. As a result, prices are rising more or less in line with the European Central Bank's mandate of "close to, but below 2 percent."

The figures may prompt speculation that the ECB could cut borrowing costs further at its next rate-setting meeting on Thursday. Currently, its benchmark rate is at its record low of 0.75 percent and many economists argue that it should be cut further to help stimulate the ailing economy of the eurozone.