Rapid decline throws Germany into recession
Ralph Atkins

Germany has officially plunged into recession with economic activity contracting much faster than expected in the third quarter, intensifying fears about the depth and duration of continental Europe's downturn.

Gross domestic product in Europe's largest economy fell by 0.5 per cent in the three months to September, extending a 0.4 per cent drop in the previous quarter, the German statistical office reported.

Eurozone data today would show the 15-country region also in technical recession, defined as two consecutive quarterly falls in GDP, economists forecast.

It could show a decline of as much as 0.3 per cent in the third quarter, after a 0.2 per cent contraction in the second quarter, they said.

The rapid pace of the deterioration raised fears that the final three months of this year and early 2009 would be even bleaker, with effects of the recent near-collapse of the banking system still to hit. "The worst is yet to come," warned Gilles Moec, European economist at Bank of America. "After September and October, we will have a very sharp contraction in corporate investment because of funding difficulties."

Signs of a turnround are not expected until well into 2009, raising the prospect of a downturn across Europe on a scale not seen since the early 1990s. The Paris-based Organisation for Economic Co-operation and Development yesterday forecast the eurozone economy would shrink by 0.5 per cent next year, driving unemployment significantly higher.

The speed of the decline, which accelerated after the collapse of Lehman Brothers in mid-September, will add to the pressure on governments to kick-start growth through fiscal stimulus packages. The European Central Bank has already signalled it will cut official interest rates further in December, after cutting its main policy rate by half a percentage point twice within a month in the most aggressive policy loosening phase in its 10-year history.

In Germany, the shock waves created by Lehman Brothers' collapse severely jolted business confidence at a time when the country's reliance on global growth was already proving a weakness, with even emerging market economies slowing. Andreas Rees, German economist at Unicredit, said the traditional German economic motor - by which demand for its exports feeds through into investment and jobs - had been thrown into reverse. "The big problem is that fiscal policy is not that powerful against a downturn in the global economy," he warned.

The Bundesbank agreed that "the broad global economic slowdown is becoming increasingly noticeable". The German statistics office reported consumer spending had seen a "slight increase" probably as a result of tumbling oil prices. French GDP figures today could also show households faring relatively well but economists warned that, as in Germany, the fourth quarter could prove much worse.

The sharp economic deterioration and lower oil prices have transformed the euro-zone inflation outlook. Lucas Papademos, ECB vice-president, yesterday told a Frankfurt conference marking 10 years of the euro that if inflation was under control, interest rates could "be employed to mitigate the impact of financial market stresses" a clear sign that the ECB is willing to play a part in reviving growth.

Fonte: Financial Times, London, November 14 2008, Primeiro Caderno, p. 3.