Sailing away

France and Germany are drifting out of recession. The rest of Europe is stuck in the doldrums.

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At last, a fairer wind. Figures released on Thursday August 13th showed that the euro area's GDP shrank by just 0.1% in the three months to the end of June, far less than the 2.5% slump in the previous quarter. The near stability was the result of an early exit from recession in the region's two largest economies. The economies of both France and Germany grew by 0.3% in the quarter, surprising analysts who had expected the figures to show small contractions in output for both. As badly as these economies have suffered in the past year, there will be some pride that the economies have started to grow before those of America or Britain. Britain's economy shrank by 0.8% in the second quarter, although it is likely to recover somewhat in this one.

Germany and France have started moving again for similar reasons. Consumer spending picked up, helped by government subsidies for car sales. Foreign trade also helped. In France it added 0.9 percentage points to GDP, accounting for all and more of the growth in the quarter; in Germany exports fell but by less than imports, so the overall contribution of trade was positive. Firms were still running down stocks in both France and Germany. That augurs well for recovery, at least in the near term. As confidence strengthens businesses will restock, which should further fill the sails of the economy in the current quarter. Orders for German manufacturers are picking up, helped in part by China's state-sponsored investment boom.

These signs of movement are particularly welcome in Germany, which has been among the hardest hit of the big rich countries. Even after the better news of the second quarter, its GDP is still more than 6% below the level reached at the beginning of 2008. The French economy has been more resilient: at its nadir it was down by "only" 3.4% from its peak.

The worry now is the outlook for the euro zone's next largest countries, Italy and Spain. Italy's GDP fell by 0.5% in the second quarter and figures released on Friday August 14th are expected to show that Spain's economy shrank by around 1% in the same period. Spain is struggling to find a new and reliable means of getting its economy going, now that housing and credit bubbles have popped. As the budget deficit expands, the government will find it harder to offer further direct support to the economy. High levels of public debt in Italy stopped its government offering much in the way of fiscal stimulus. Its exporters are hamstrung by high wage costs and the strong euro hurts them more than German's capital goods and luxury-car firms, because Italian makers of textiles and furniture compete more directly with low-cost producers in emerging economies.

The prospect of growing divergence between the countries at Europe's core and periphery will worry officials in Brussels and Frankfurt, taking the edge off the good news from France and

Germany. If Spain and Italy continue to struggle, it will be hard for the euro area as a whole to recover quickly. A longer-term worry is that rising unemployment will temper the pace of recovery in the core countries. Despite a sharp downturn, Germany's job losses have been stemmed by a government scheme that subsidises the wages of those working shorter hours. Employment levels are little changed from a year ago, even though output is well down. If GDP cannot regain its previous level quickly, unemployment will rise as job-saving schemes start to expire.

In France, too, labour hoarding comes at a cost. French firms still spend more than they earn on aggregate. Unless there is generous bank finance, dealing with that is likely to mean job cuts. Yet even these anxieties seem luxurious compared with the fears that were rife at the start of the year. Worrying about how strong recovery will be is preferable to worrying about whether recovery will ever start.

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