

# Europe

The Eurozone recorded its first quarter of negative growth since 2003. Annual growth had peaked in 2006 at 3.3% and is currently 1.5% and slowing. The distribution of growth was not uniform with Spain and Italy clearly slipping towards recession. France and Germany continued to report stable albeit slowing growth. The UK also was slipping towards recession.

Domestic consumption saw a similar picture. Spain saw particular weakness, as did Italy, France and the UK. Germany registered robust growth. In retail sales, Spain has fallen off a cliff. Italy and France were also very weak. UK retail sales appeared to be holding steady while in Germany, retail sales accelerated.

In Exports, Germany, the UK and Italy registered steady growth. France saw some weakening. German trade balance has been in surplus and steady since 2000. In France the trade balance has been volatile, in Italy it has been steadily deteriorating while the UK has recorded a persistent deficit.

Economic confidence peaked in Summer 2007 and has since slumped across Europe. Business Confidence has been very weak in the UK and in Spain has nose dived. In Germany and France it declines but remains positive.

Consumer confidence tracked business confidence, collapsing in all except Germany where it is just beginning to turn down.

Employment numbers had been positive for the last 7 years averaging 7.2% unemployment in the EU and 5.2% in the UK. The current economic slowdown has not impacted employment yet but signs that it is beginning to are showing, particularly in Spain.

The one bright spot in Europe is Germany where a significant

external sector fuelled by demand for capital goods from emerging economies continues to support the economy, this despite a strong EUR and disadvantageous terms of trade.

Already the German Ifo business climate and expectations lead indicators have fallen sharply in the last month. Construction holds steady but has never really been a source of strength, manufacturing, wholesale and retail indicators were all substantially weaker. Industrial production has fallen sharply from 5% to 1%.

The currency will be an important factor as the recessionary economies of the US and Europe vie for the emerging market dollar.