Current Economic Situation

The Economic Situation in the Euro Area – Nov. 2013

The global financial crisis has had a huge impact on the economy of the euro area (the 17, soon to be 18, EU countries that use the euro). It led to the deepest recession since the 1930s, with real GDP shrinking by some 4% in 2009, in the first phase of the crisis. Though a gradual economic recovery began in 2010, euro area GDP growth deteriorated again in a second phase, due to a worsening debt crisis and a weak global recovery. Growth performance is very uneven across Member States. Some were more vulnerable (e.g. Greece, Ireland, Portugal), the situation was particularly challenging due the specific problems these countries were facing, that led to a need for strict budget cuts to bring deficit and debt levels down. Vulnerable economies were helped by specific financial assistance an adjustment programs. Due to the highly integrated nature of the Euro Area, solving these issues were importance to stem contagion and bring confidence back for the region as a whole. Resolving the debt crisis involved a comprehensive response, a plan to set up a permanent assistance fund; to recapitalize and strengthen banks; to promote economic growth; and deepen euro area economic governance.

The November 2013 European Commission economic forecast predicts a slight contraction in 2013 as a whole, noting that the area has gradually been growing again since the second quarter of 2013. Unemployment has stabilized at a high level, some Member States and young workers therein are particularly hard hit. Inflation remains low, as the impact of previous rises in energy prices are fading, on the back of very slow growth and low price pressures. The 2013 inflation rate is anticipated at 1.5% - somewhat below the ECB's target of "below, but close to, 2% over the medium term“. Deficits and debt indicators are set to improve.

Euro Area Economic Indicators

Forecast

	2011	2012	2013	2014	2015
GDP growth (real)	1.6%	-0.7%	-0.4%	1.1%	1.7%
Unemployment rate	10.1%	11.4%	12.2%	12.2%	11.8%
Inflation	2.7%	2.5%	1.5%	1.5%	1.4%

Sources: Eurostat, European Commission

Key concepts

Gross Domestic Product (GDP) is the value of all goods and services produced in a geographical region over a period of time (years, quarters, months).

GDP growth tells you by how much GDP increased in a given year or quarter. It is usually expressed as a percentage. In normal times, GDP growth is positive. In a recession, it turns negative.

Part of the increase in GDP over a given period may be due to increases in the prices of goods and services (inflation). **Real GDP growth** tells you how much of the increase in GDP is due to increased production of goods and services, i.e. after stripping out inflation.

The **unemployment rate** is a measure of how much of the labor force is not employed. An unemployed worker is someone who is without a job, but has been actively seeking one.

Inflation is the rise in the general level of prices of goods and services in an economy over a period of time.

GDP Growth

After the deep recession caused by the economic and financial crisis, during which the euro area economy shrank by some 4% in 2009, the recovery of the euro area economy is gradual and remains fragile. The latest forecast from the European Commission shows that economic growth is going to be slow in the coming years. The European Commission now anticipates that GDP growth in the euro area will be strengthening gradually in the latter part of 2013. For 2014, euro area real GDP growth is expected to be just 1.1%, and slightly higher in the EU.

Unemployment Rate

During the recession, the **unemployment rate** rose from 7.5% in 2008 to 12.2% in 2013. It appears as if on average the euro area unemployment rate has stabilized at this high level and is expected to remain at that level since it will take time to re-absorb the workers into the labour market. The good news is that the unemployment rate is no longer rising; however, it remains far too high. Unemployment will respond to GDP growth with a lag, and the current environment is still fraught with the uncertainty of a sustainable recovery, and extremely high youth unemployment in some Member States. A large disparity exists in unemployment rates between euro area countries. Unemployment in Austria is only around 5%. But it is around 26% in Spain.

Inflation

In recessions, **inflation** tends to fall. This is because consumers cut back on their spending, which makes it harder for firms to raise prices. In 2009, inflation fell to only 0.3% as a result of the recession. Since then, inflation has increased again, mainly due to a recent surge in energy and commodity prices. It rose above the ECB's target of an inflation rate of "close to, but below 2% over the medium term“, but then dipped below the 2% mark again recently. The ECB monitors price developments closely, in keeping with its mandate of ensuring low and stable inflation ("price stability").

Charts and Figures

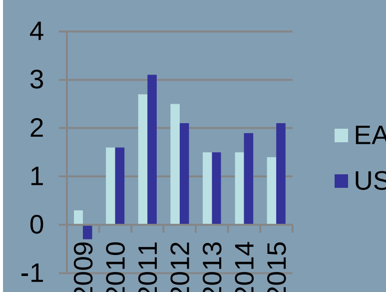
Euro Area (17 countries)

United States

Real GDP Growth Rate (%)

Unemployment Rate (%)

Inflation Rate (%)



Source:
European Commission