



Road To Recession Getting Crowded With Europeans

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We currently have two European members in the global technical recession club. Estonia recently joined Denmark as one of only two countries to have entered technical recession in the first half of this year, with the former reporting that its economy shrank by 0.9% from the previous quarter in which it posted a 0.5% contraction. There will almost certainly be more to come: the economies of Japan and the UK are poised to enter technical recession, Australia and New Zealand are on the cusp, and the eurozone as a whole is getting beaten up, with a 0.2% contraction posted in Q2. (With apologies to the likes of Zimbabwe and the US territory of Puerto Rico, both of which entered recession awhile ago).

Note that this list does not include the United States. To be sure, the history books will probably end up registering a recession in the US in the 2007-09 period, as I've long believed. But at least the US will have the luxury of an accomodative central bank, a weak currency to encourage exports, and a flexible labour force to get it out of a rut. The eurozone has none of these benefits. Among eurozone members, the go-go economies of Spain and Ireland are getting slammed by housing market depressions, the credit crunch, and an unhelpful European Central Bank. And the old guard are not having it much better, with the economies of Italy, France and Germany all contracting in Q2. With ECB members still sounding hawkish in the face of what is looking increasingly like a deflationary scenario, respite may be hard to come by.

But one comforting thought for policymakers in these countries: at least they're not running Jamaica, which appears to have contracted in the second quarter (by 0.2%, according to the Planning Institute of Jamaica), with inflation of over 26% and one of the world's highest murder rates. Fortunately for the Jamaicans, their 2008 will best be remembered for the Olympic exploits of Usain Bolt.