

EURO ZONE

Euro zone officially in recession

HIGHLIGHTS

- The euro zone's real GDP fell by a non-annualized 0.2% in the third quarter of 2008, following a 0.3% decline in the second quarter.
- Germany and Italy recorded the euro zone's worst results: their economies have contracted by 0.5%.
- France saw slight 0.1% growth in Q3. The previous quarter had posted a decline of 0.3%.
- The slowdown has not spared Spain, whose real GDP contracted 0.2% during the quarter that ended in September.

COMMENTS

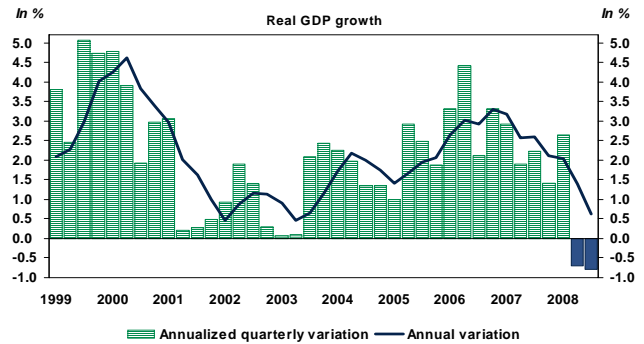
The real GDP is down for a second quarter, confirming a technical recession in the euro zone. It is the first period of contraction since the young monetary zone was created. It saw a trough in 2003, but had never recorded a negative quarter.

The data released today do not indicate which components of the national accounts were the hardest hit. However, the movement of the economic indicators, such as the drop in consumer and business confidence, suggests that the negative contributions from consumption and investment recorded in the second quarter continued in the third.

Germany and Italy had also seen real GDP contract in the second quarter, joining the United Kingdom in the ranks of G7 nations that are officially in recession. France barely escaped appearing on the list. The economic problems are not only affecting the euro zone's three pillars. Spain's economy contracted in the third quarter, Ireland already has one foot in recession and the economies of Portugal and the Netherlands are showing zero growth.

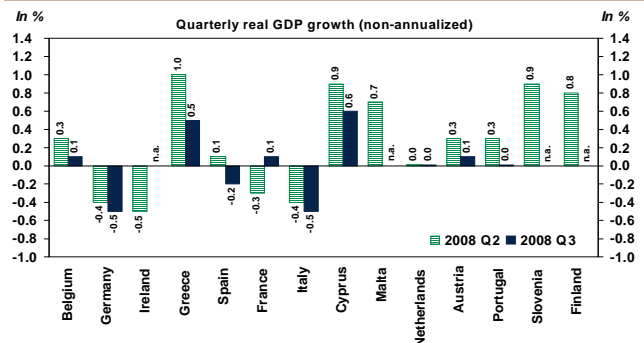
Implications: Today's results did not take anyone by surprise. Several euro zone indicators had been declining for several months, including industrial production. The contraction period could last for a while yet. The latest projections from the International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development

The first recession since the zone was created



Sources: Eurostat and Desjardins, Economic Studies

Several of the zone's countries are in major slowdowns: Italy and Germany are now in recession



n.a.: not available
Sources: Eurostat and Desjardins, Economic Studies

(OECD) are consistent with this. In this context, the European Central Bank will have no choice but to continue to ease its monetary policy, lowering its key rate toward 2%.

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