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## Euro zone unemployment hits 10-year high in May, could weigh on any recovery

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LONDON (AP) -- Unemployment in the 16 countries that use the euro spiked to a ten-year high in May, reinforcing concerns any recovery will take time now that more than 15 million people are out of work.

Eurostat, the statistics office of the EU, said Thursday the seasonally-adjusted unemployment rate for the euro zone in May stood at 9.5 percent of the work force, up from April's 9.3 percent. It said just over 15 million people were unemployed in May, up 273,000 on April's figure.

The increase was expected in the markets in light of the ongoing fall in output across Europe -- in the first quarter of 2009, the euro zone economy saw output plunge by 2.5 percent as the global recession hit the industrial sector in particular.

The unemployment rate was at its highest level since May 1999.

Spain is the euro zone's biggest casualty. Its jobless rate rose to 18.7 percent in May from 18 percent in April.

The lowest unemployment rate in the euro zone was in the Netherlands where only 3.2 percent of the working population were without a job in May, and Austria, where only 4.3 percent were jobless.

The unemployment rate in Germany, Europe's biggest economy, was unchanged at 7.7 percent in May.

Unemployment is a lagging indicator, so the number of jobless will likely continue to rise for a while even when the recession officially ends. Recent economic releases have stoked hopes that the euro zone may start to see some sort of recovery towards the end of the year but that high unemployment levels will continue to weigh on consumption and sentiment.

"Given that labor market developments tend to lag behind those in the wider economy, unemployment almost certainly has considerably further to rise," said Jennifer McKeown, European economist at Capital Economics. Mckeown said she expects euro zone unemployment to hit 12 percent next year, the level many people think the U.S. will hit too.

The unemployment news comes just hours ahead of the European Central Bank's latest interest rate decision. Though the rate-setting governing council is set to keep its benchmark rate unchanged at the record low of 1 percent, its president Jean-Claude Trichet is expected to note the recent improving economic signals though maintaining his view that recovery will take time.

Including the eleven countries that don't use the euro but are in the EU, such as Britain and Sweden, the unemployment rate rose to 8.9 percent in May from 8.7 percent in the previous month. May's rate was the highest since June 2005.

The EU-wide rate has been swelled by the Baltic countries, which are in a deep recession following the collapse of debt-fueled economic boom. Latvia, whose economy slumped by a staggering 18 percent year-on-year in the first quarter, saw its unemployment rate, climb to 16.3 percent in May from 15.3 percent in April.

Thursday's European unemployment figures will be followed by June figures for the United States.

Analysts expect June's U.S. unemployment rate to rise around 0.3 of a percentage point to 9.7 percent and that another 400,000 jobs were lost during the month. Though still high, the job losses are way down on the numbers recorded earlier in the year. That improving trend was evident in a survey Wednesday from the ADP private payrolls firm, which showed that private sector employment fell by 473,000 in June, down on the 532,000 jobs shed in May.

Elsewhere, Eurostat said the industrial producer price index -- a broad gauge of price pressures within industry -- fell by 0.2 percent in the euro zone in May from the previous month and by 0.4 percent across the EU as a whole.

On a year-on-year basis, industrial prices were down 5.8 percent in the euro zone and by 5.7 percent in the EU.

Capital Economics' McKeown said the unemployment and producer price data have combined to stoke renewed fears about a damaging deflationary spiral of falling prices, that may require the European Central Bank to do more to stoke the economy. Higher unemployment tends to reduce the bargaining power of those in work, causing wage pressures to ease. It also cuts into consumption.

"While the ECB seems unlikely to cut interest rates or announce new unconventional measures today, bolder policy support might be needed in future," she said.