

Euro zone joblessness at 10-year high, prices slip

Euro zone sees jobless rate at 10-year high, consumer prices fall in challenge for ECB

- By Aoife White and Pan Pylas, AP Business Writer
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BRUSSELS (AP) -- The European Central Bank will have to be on the lookout that a dangerous spiral of falling prices and output does not establish itself in the 16 countries that use the euro after figures Friday showed consumer prices slipping more than expected and unemployment spiking to a ten-year high.

Eurostat, the EU's statistics office, revealed that consumer prices in the euro zone fell for the second month running in July. The 0.6 percent annual decline was double the fall expected in the markets and compares with the 0.1 percent drop recorded in the year to June.

No breakdown was available -- a more detailed analysis will be published on August 14 -- but the fall in energy costs on a year-on-year basis is expected to have been the main reason behind the further drop in inflation below zero percent. A year ago, oil prices were trading at an all-time high of around \$147 a barrel, compared with the current rate around \$65.

Analysts noted that the downward pressure coming from oil prices will disappear in the months ahead as last year's sharp increases drop out of the annual comparison. But they warned of signs that the recession is reining in underlying inflation pressures in the economy, which could keep prices falling for a while yet.

In particular, higher unemployment lowers the ability of workers or unions to negotiate big wage increases -- and with a time lag between rising unemployment and wages, this downward pressure on inflation may continue for a long time to come.

"Meanwhile, spare capacity has continued to rocket and consumers' inflation expectations have taken a worrying downward turn over the past few months," said Jennifer McKeown, European economist at Capital Economics.

"This all suggests that the ECB should be much more concerned about downward pressure on underlying prices in the medium-term than a renewed pick-up in inflation," she said.

The ECB has been criticized in many quarters for not being as aggressive in cutting interest rates or in pushing unorthodox measures to expand the money supply as the U.S. Federal Reserve and the Bank of England.

The European Central Bank is biding its time and is widely expected to keep its benchmark interest rate unchanged at 1 percent when it concludes its latest monthly meeting next Thursday. No new measures to stimulate the euro zone economy are anticipated.

The central bank may well note that there are some signs that the euro zone economy is stabilizing -- business and consumer confidence figures earlier this week rose to an 8-month high in July as companies and shoppers were more optimistic about coming months.

The European Central Bank has also argued that low or negative inflation can help boost the economy by cutting costs.

The easiest way for firms to cut costs is to take an axe to its workforce and the figures from Eurostat Friday confirmed that that's exactly what they're doing.

Unemployment rose 0.1 percentage point to a ten-year high of 9.4 percent in June after a monthly 158,000 increase to 14.89 million. Some 3.17 million more people are out of work compared to June last year.

Across the 27-nation European Union, the jobless rate rose to 8.9 percent in June from 8.8 percent in May.

Spain had Europe's highest unemployment rate in June at 18.1 percent, followed by Baltic nations Latvia at 17.2 percent and Estonia at 17 percent. A third of Spanish under-25s can't find a job, it said.

Jobs are disappearing in all EU nations, Eurostat said, but Germany has seen the smallest rate of increase in its employment rate over the year, growing from 7.3 percent to 7.7 percent.

"Expect unemployment to rise further well into 2010," said Jorg Radeke, economist at the Centre for Economic and Business Research.

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