Shutdowns, production cuts hit German industry

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The recession has hit Germany far more seriously than analysts had expected. According to the latest reports, economic activity in the fourth quarter 2008 fell by 2.1 percent compared to the previous quarter, the strongest decrease since German reunification in 1990.

This is now the third quarter in a row that has seen negative growth, with economic activity shrinking by around half a percent in the two previous quarters, meaning Germany is now officially in a serious recession. The federal government is now also forecasting the worst recession since 1949.

Increasingly, many of Germany's long-standing companies and family businesses are being hit by the crisis. Names such as Märklin, Schiesser or Rosenthal—companies that have existed since 1880 or even longer—are being hard hit as a result of the financial crisis.

At **Märklin**, famous for its model trains, financial investors Kingsbridge Capital and Goldman Sachs pushed through a rationalization program in 2006. Over 300 jobs were cut from a workforce of 1,400 at that time. Now Landesbank Baden-Wuerttemberg (LBBW), itself battered by the crisis, is refusing to advance any more credit. Last week, Märklin announced bankruptcy. Some prospective buyers are said to have already announced an interest, but the remaining 650 jobs in Göppingen are anything but secure.

Rosenthal, a family business based in the Upper Franconia district of Bavaria, has manufactured porcelain since 1879. But the collapse of its Irish parent company, Waterford Wedgwood, which has held a majority of shares since 1997, means Rosenthal itself now faces insolvency.

Like many other enterprises that have been refused further credit from the banks, the company announced January 9: "Despite ongoing efforts, the board of Rosenthal AG has been unable to reach an agreement for the provision of liquid means for a transitional phase up to the conclusion of a sale to a strategic investor."

The insolvent company, with 1,600 workers and which also owns the Hutschenreuther and Thomas brands, has been up for sale for months. At parent company Waterford Wedgwood, insolvency will mean 7,700 workers losing their livelihoods.

Schiesser, the garment manufacturer based by the Bodensee (Lake Constance), has just announced its insolvency. The banks, and Schiesser Swiss parent company Hesta Tex, have refused to advance any more funds to the enterprise, directly threatening 600 of the 2,300-strong workforce at company headquarters in Radolfzell. Some 90 workers have already been sacked.

As throughout Germany, the Works Councils and the trade unions have taken on the task of preventing a struggle to defend jobs. In the three cases cited above, the unions are encouraging illusions that new investors may come forward, or in the liquidators, with whom they are cooperating closely.

Johann Blaschke, the IG Metal union leader in Singen in the very south of Baden Württemberg, has declared he is "cautiously optimistic," saying that Schiesser liquidator Volker Grub has an excellent reputation and has had enormous success in the region.

Works Council chairman Hans Dieter Schädler is also trying to present the insolvency proceedings as a solution. Since announcing the downsizing in December, and giving out 90 redundancy notices in mid-January, the mood at the firm has been very strained, he said. But following this disappointment, many workers are now experiencing a certain relief, he claims. He is certain that the restructuring of the company will not mean mass sackings, and is confident that Schiesser is not planning to close down.

Such behaviour conforms to the pattern that the Works Councils and unions have used in the past to keep the workforce quiet, in order then to agree further dismissals. In the end, the factory closes down.

The full force of the economic crisis has now also hit the engineering sector. For a long time, this sector was largely responsible for making Germany a world export leader. Alongside auto manufacturing, engineering is the second most important branch of industry in Germany. Providing work for over a million, it grew to become the largest industrial employer. In the last five years, turnover at Germany's 6,000 engineering and plant manufacturers rose by more than 50 percent.

In December, order books had fallen fully 40 percent below their value one year ago. In the fourth quarter the decline amounted to 29 percent. Such a collapse in orders was only seen 50 years ago.

Less than a year earlier, engineering companies had complained they lacked thousands of skilled workers and engineers. Now the employers' federation VDMA is forecasting the loss of 25,000 jobs this year. The extremely high dependence on exports—three quarters of machinery is sent abroad—means an even larger loss of jobs is feared. According to the VDMA, there is no improvement in sight.

The engineering industry is no exception. A recent poll conducted by KPMG found that 43 percent of all enterprises in Germany are planning dismissals this year. Some 48 percent of those companies polled are expecting to see profits sink and only 9 percent expect to take on new staff in 2009.

Last week, Eurostat, the European Union statistics authority, announced that manufacturers in the EU had produced 2.6 percent less in December than in November. Compared to the previous year, production decreased by 12 percent, the sharpest fall since records began in 1990.

The European Union Commission is now expecting all industrial sectors to face a serious decline. The *Financial Times Deutschland* (FTD) quoted EU Industry Commissioner Günter Verheugen saying that the extent and speed of the crisis were a new phenomenon. According to the FTD, the processing and construction industries face a collapse in production and sales, the scale of which is unknown. The business climate index, which has been calculated by the European Union since 1985, is now at the lowest level since the index was introduced.

At the same time, the European Central Bank is warning governments in the European Union to limit the level of national indebtedness despite the economic crisis. The European Commission expects that in 2009, seven EU member states will exceed the upper limit for their budgetary deficit of 3 percent of gross domestic product, as laid down by the EU stability pact.

The reason given by the Central Bank for governments adhering to the stability criteria is revealing: "In order to strengthen confidence in the sustainability of the public finances, it is crucial that governments pledge themselves as soon as possible to medium-term budgetary goals."