Economic decline deepens in Europe, with German exports in free fall

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The latest figures from Eurostat, the statistical arm of the European Commission, reveal the extent of the decline of the European economy following the eruption of the international economic and finance crisis.

According to Eurostat figures issued at the beginning of April, the economy of the 16 European nations that are part of the eurozone shrank 1.6 percent in the last three months of 2008 compared to the previous quarter. Compared to the same period in 2007, eurozone GDP shrank by 1.5 percent.

The combined economy of all 27 European Union nations also contracted, down 1.5 percent at the end of 2008 compared to the previous quarter, and 1.4 percent down compared to the last three months of 2007.

The main reason for the decline in the eurozone economies in 2008 was a sharp fall in export revenues for major European exporters. Throughout the eurozone, exports fell by 6.7 percent, while business investment declined by 4.0 percent. Germany, in particular, experienced an above average economic decline for the last quarter of 2008—2.1 percent.

German exports in free fall

The most recent figures for Germany—Europe's biggest exporter and the continent's largest economy by far—reveal that its economic decline is accelerating with a number of reports speaking of the country's exports in "free fall."

Figures released by Germany's statistics bureau on Tuesday revealed that exports were down 23 percent in February compared to a year ago. Exports to EU countries (two-thirds of the total) dropped by 24.4 per cent, compared to a 20.6 decline of exports to non-EU countries. The fall-off in German exports in the first two months of 2009 represents the most dramatic collapse since the 1950s.

As a result of the slump in exports, Germany's trade surplus has been nearly halved to 8.9 billion euro in February 2009, down from 17.1 billion euro a year ago.

This decline in exports in February is virtually identical to the drop registered in January and clearly indicates the shrinking demand on world markets for Germany's highly-developed, but expensive, cars, heavy machinery and engineering products. The BGA association of German exporters and wholesalers declared that the latest figures reflected a massive worldwide slump that would result in large profit losses for its members.

The German economy is heavily dependent on revenues from its exporting industries. Its exports were equivalent to more than 47 percent of national GDP in 2008. This is more than double the total of its leading competitors. The comparable figure for Japan is less than 20 percent, and for the US about 13 percent.

Separate figures from the German economic ministry indicate that the country's manufacturing orders were down 38 percent in February compared to the same month in 2008.

The problems confronting the German economy were underlined by the latest numbers released by the Daimler auto company.

At the company's shareholder meeting on Wednesday, Daimler chairman Dieter Zetsche revealed that the concern's global sales fell 23 percent in the first three months of this year. While some German auto makers producing cheaper cars have been able to profit from the German government's generous subsidy program to the car industry, demand for Mercedes-Benz cars, Daimler's two-seater Smart and big trucks has slumped significantly. The group sold just 244,800 cars, compared with 318,000 a year ago.

Zetsche declared that the company would confront the slump in demand for its products with a drastic savings program. Many of the company's workers are already on short-time working with no corresponding wage compensation and the firm is no longer ruling out compulsory redundancies.

On the same day as the Daimler announcement, the Osnabrück-based Karmann company declared it was filing for bankruptcy protection. Karmann is an independent contract carmaker and supplier which has been in business since 1901. The company is now undergoing bankruptcy because of the slump in demand for its products—particularly from Daimler and Audi.

Formerly the "pride" of its economy, Germany's reliance on exports is increasingly proving to be its Achilles heel. German banks have less exposure to the "toxic debts" run up by US and British banks, and the country has not experienced the sort of housing bubble and consumer booms that affected the US, Britain and EU countries such as Spain, but the longer and deeper the world recession lasts, the more painful the consequences will be for the export-driven German economy.

It is already reckoned that the German economy will suffer a more pronounced economic decline than the US and Britain this year. The most recent figures from the Organisation for Economic Co-operation and Development anticipate a 5.3 percent contraction of the German economy for 2009—compared to 4 percent for the US and 3.7 percent for the U.K. Some German sources envisage an ever steeper level of decline. "Our destiny hangs on exports," says Jörg Krämer, chief economist at Commerzbank in Frankfurt, who reckons German GDP could fall by up to 7 percent in 2009.

The social and political implications of such an economic decline are underlined by the fact that since the Second World War the German economy has never contracted by more than 1 percent in a single year.

The slump in the German and European economies has inevitably led to a significant rise in unemployment. According to IHS Global Insight economist Howard Archer: "Extended and now deep economic contraction, extremely weak business confidence and deteriorating profitability is weighing down ever harder on labour markets."

So far Germany has kept a massive rise in unemployment at bay with the widespread introduction of short-time working in many of its factories. Even so the unemployment rate in Germany rose from a 16-year low of 7.6 percent last September to 8.1 percent in March as a series of companies either closed down completely or implemented significant job cuts.

The president of Germany's central bank the Bundesbank, Axel Weber, warned last week that the severity of the recession had been consistently underestimated and "the labour market could face the threat of a massive hit if the expectations of companies are repeatedly dashed."

Unemployment in the EU

The growth of unemployment in Germany is matched by a rise in unemployment across Europe. After gradually falling in recent years to record lows of less than 7 percent at the start of 2008, the official unemployment rate in the 27 nation European Union (which excludes a number of hidden forms of unemployment) rose to 7.9 percent in February. This is an increase of over one percent compared to February 2008 (6.8 percent).

According to Eurostat an estimated 19.2 million people were without jobs in February across the EU, of whom 13.5 million were in the eurozone. This latter figure represents 8.5 percent of the total workforce in the eurozone countries.

The figures for unemployment are expected to rise to double figures within the coming months when countries such as Germany ditch their existing forms of short-time working and enforce mass redundancies.

Jennifer McKeown at Capital Economics predicts that "given the usual lag between developments in the labour market and those in wider activity, we see the unemployment rate rising to 10 percent by around the middle of this year."

The combination of economic slowdown, reduced consumer spending and soaring unemployment is fuelling explosive political clashes across the European continent. As is clear from the case of Germany, the crisis which began last year with the collapse of leading banks and financial institutions has long since spread to the "real economy" with disastrous consequences for broad layers of the working population.

The economic crisis has already claimed the governments of Latvia, Iceland and Belgium, produced serious political tremors in Hungary, and led to major demonstrations or riots in a number of countries, including Bulgaria, Greece, Ireland, Lithuania and now, Moldova. France and Italy have witnessed mass protests and demonstrations, and a series of militant industrial actions has recently taken place in France.

Under conditions where European elections are due to take place at the start of June and federal elections in September, leading political figures in Germany are already warning of the danger of social breakdown and "massive political conflicts."

These were the words used by the head of the IG Metall union, Berthold Huber, in an interview with the *Stuttgarter Zeitung* this week in which he made clear that the union bureaucracy would do everything in its power to stabilise the situation. In the same interview Huber called for closer collaboration between the trade unions and the Social Democratic Party (SDP) and appealed for workers to make sacrifices in response to the crisis.

The trade union bureaucracy can rely on a positive response from Germany's leading political parties. According to a recent report in the *Wirtschaftswoche*, the weekly business news magazine: "In the mega-election year of 2009 trade unions are in demand like never before. Whoever wants to win elections is keen to show themselves alongside trade union functionaries this year—rather than business bosses. For months the SPD and the Left Party have been courting the favours of the trade union lobby. In the meantime the conservative union parties and the (free market) Free Democratic Party are also infected."