Unemployment rises sharply across Europe

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Figures released last week by the European Union's statistical agency Eurostat show that unemployment continued to rise across Europe in June. The seasonally adjusted official unemployment level for the 27-member European Union (EU) rose to 8.9 percent, reflecting a 246,000 increase in the number of jobless people. The June figure was 2 percent higher than June of 2008 and meant that more than 21.5 million Europeans were without work last month.

The percentage of those without work in the Eurozone—the 16 nations that use the euro as their currency—was even higher, at 9.4 percent, representing an increase of 158,000 jobless people. Unemployment in the Eurozone stood at 7.5 per cent in June 2008.

Youth unemployment in the Eurozone is over double the figure for adult workers, and stands at 19.5 percent.

The European jobless data comes on the heels of the latest unemployment statistics for Japan, which notched up a six-year high of 5.4 percent in June, and the US, where unemployment hit a 26-year high of 9.5 percent.

The latest figures show that while a number of major banks and financial institutions are posting massive—and, in some cases, record—profits, the industrial, commercial and service companies that constitute the so-called "real economy" are continuing to shed jobs at an alarming rate.

The official figures issued by Eurostat have to be taken with a large grain of salt. They are based on workers who register as unemployed and do not include a huge grey area of workers who have either given up looking for work or are not registered because they do not qualify for benefits. Nor does Eurostat index take into account the millions of underemployed throughout Europe—those working part-time or in low-paid jobs that barely enable workers and their families to survive.

European politicians are claiming that the latest unemployment increase should be regarded in a positive light and shows a decline in the rate of jobless growth compared to previous months in 2009. In May, the number of newly unemployed throughout the EU topped 600,000.

However, a number of leading EU countries, in particular Germany and the Netherlands, have introduced extensive short-time working schemes that provide government assistance to firms that cut the work hours of their employees rather than laying them off. As a result, the official jobless figures underestimate even further the scale of social misery and poverty caused by the economic crisis.

The funds for such schemes are expected to run out soon, leading to a fresh wave of redundancies and factory closures in the coming months.

When short-time workers and non-registered unemployed are included in the jobless figure, the rate rises dramatically. In Germany, those officially counted as unemployed rose by 52,000 in June to total 3,460,000. When one includes the jobless who are not counted and the underemployed, the figures rises to nearly 6 million.

According to ING Bank economist Martin van Vliet, "With the economy still in recession and any recovery likely to be sluggish, unemployment, unfortunately, looks set to continue to rise this year and next."

A number of recent statistics released by other international economic institutions indicate that the current crisis may be even more prolonged and deeper in Europe than in the US. According to forecasts issued by International Monetary Fund, the economy of the 16 Eurozone nations will contract by 4.8 percent this year. This compares to an IMF forecast of a 2.6 percent economic contraction in the US in 2009.

The increase in long-term unemployment is also expected to be far more dramatic in European countries compared to the US. The Organization for Economic Cooperation and Development (OECD) calculates that long-term unemployment in the EU could rise by 1.5 percentage points to 9 percent by the end of 2010, about seven times the increase anticipated in the US and Japan.

At the same time, European industries face additional knock-on effects due to the deepening of the banking crisis. European corporate debt stands at record levels, already constituting 96 percent of gross domestic product (GDP) at the end of 2008. US corporate debt stood at 50 percent of the country's GDP at the end of 2008.

While a number of major banks have been able to register huge profits, many are still harboring high levels of toxic assets and are reluctant to lend to firms confronting insolvency. According to a paper issued by the European Central Bank in June, European banks may lose $283 billion by the end of 2010. This is in addition to the $365 billion they have lost since the crisis began in 2007.

A further indication of growing deflationary pressure in Europe was the report Tuesday that factory prices in the Eurozone had decreased by 6.6 percent compared to a year earlier. This is a much more pronounced decline than that registered in May (5.9 percent), and represents the biggest decline since data collection began in 1981. Producer prices in Europe have now fallen each month of 2009.

Against this background, a number of major European industries have made clear that they are planning for further contraction.

Europe's biggest airline, the Air France-KLM Group, reported a net loss of 431 million euro for the three months ended June 30. The losses were much higher than expected, and the airline plans to respond to plunging revenues and falling demand with an extensive reorganization of its business, which will inevitably entail large job losses. The problems facing Air France are typical of those confronting airlines throughout Europe, as business traffic slumps and even demand for holiday flights is ebbing.

The share price of Belgium's biggest supplier of pharmaceuticals, Omega Pharma NV, fell steeply in July following a sharp drop in its second-quarter sales. The company abandoned its forecast of a "slight" increase for the full year and is also planning restructuring measures.

On July 22, Munich-based Siemens AG, Europe's largest engineering company, said it planned to axe an additional 1,400 jobs from its 409,000 workforce. The company announced 17,000 job cuts a year ago and a total of 19,000 employees are currently working short-time.

ArcelorMittal, the world's largest steelmaker, has also announced plans for major cut-backs, including slashing work hours at its Spanish plant by 40 percent and idling a part of the workforce for the rest of the year. Nicolas Correa SA, Spain's largest milling machines maker, declared at the end of July that it would lay off workers at its plant in northern Spain, with additional redundancies planned for September.

While no European country is exempted from the consequences of declining economic growth across the continent, some nations have been hit especially hard. According to the Eurostat figures, unemployment in some European countries is over double the EU average.

In Spain, unemployment hit 18.1 percent in June. In Central Europe, Latvia recorded an official jobless level of 17.2 percent, and Estonia posted a rate of 17 percent.

Spain has lost hundreds of thousands of jobs in its construction sector, which has virtually collapsed this year, and its youth unemployment rate of 36.5 percent is the highest in Europe. According to a European Commission forecast in May, Spain's jobless rate will continue to rise to over 20 percent in the coming period.

The figures for Lithuania, Latvia and Estonia are even more dramatic. Last week, Lithuania, announced that its economy had shrunk by 22.4 percent during the second quarter of 2009, with similar declines expected to be announced by Latvia and Estonia. Latvia has already applied for two emergency loans from the International Monetary Fund (IMF) and Lithuania is contemplating applying for such a loan.

Loans from the IMF and EU are inevitably bound up with punitive economic measures and budget cuts. The Latvian government has already cut public-sector wages by a third this year and drastically reduced pension payments.

Unemployment benefits in Latvia last just nine months, meaning that the tens of thousands who lost their jobs at the start of the year will soon be deprived of any income. Costs for heating have sky-rocketed, and many Latvians face a harsh winter without heat. As part of its latest loan, the IMF is demanding that Latvia slash its state budget by a further 10 percent this year.

Writing in the *Financial Times* on the situation in Central Europe, Gideon Rachman warned that the crisis in the region "could threaten the fragile prospect of recovery in the rest of Europe." He added that the Latvian government should prepare for a "winter of discontent." Under such circumstances, Rachman advised, "Cutting police pay by 30 percent...is slightly foolhardy."