

# As euro crisis worsens, new signs of world downturn

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Yields on government debt in Europe soared Wednesday after a failed auction of German bonds. The German government managed to sell less than two thirds of the bonds it had put up for auction Wednesday—the worst such sale since the creation of the euro in 1999—as investors weighed the consequences of a potential breakup of the Euro.

Euro-area manufacturing orders, meanwhile, fell at the sharpest rate in three years, the European Union's statistical office reported Wednesday. An index of Chinese economic activity likewise saw its worst monthly decline in three years.

In its Wednesday debt auction, Germany was only able to sell €3.64 billion of the €6 billion in 10-year bonds it put on the market. Commentators noted that the turn away from German government debt reflected a move from doubts about the creditworthiness of individual countries to skepticism about the viability of the European project as a whole.

“The auction reflects the deep mistrust [of the] euro project rather than a mistrust [of] German government bonds,” one analyst for Danske bank told the *Wall Street Journal*.

The potential disintegration of the eurozone, regarded as a fringe possibility just weeks ago, is now actively being considered by banks and major investors.

“This is just one auction, but there is a growing feeling among many in the markets that the crisis is heading one way—and that is towards the break-up of the eurozone,” one economist told the *Financial Times*.

The failed auction followed a warning from the Bank of Greece that Greece would be forced to leave the euro unless conditions improved. Failure to secure a bailout would set Greece on “an uncontrolled downward trajectory that would... drive the country out of the euro area and set Greece's economy, standard of living,

society and international standing back many decades,” the bank said.

In recent weeks, the yields on German debt have fallen below 2 percent as investors fled the debt of other European countries. But the outcome of the bond sale pushed yields back up above 2 percent.

The cost of insuring Italian, Spanish, and French debt hit all-time highs Wednesday. The euro likewise suffered its largest one-day fall against the dollar so far this year.

The sell-off of Spain's debt has reached such a pace that the country was forced to pay a higher yield on three-month debt than Greece paid last week. Yields on 10-year Spanish government bonds hit over five percent, more than double the rate Spain paid last month.

The failed German bond sale built on fears that Dexia, the Franco-Belgian bank, would ask the French government to take greater losses as a component of its ongoing bailout, again putting France's debt rating in question.

Concerns about banks were not confined to the eurozone. The cost of protecting debt issued by Bank of America grew to record levels Wednesday amid concerns over its exposure to European bank debt. Credit default swaps on Bank of America rose to 495 basis points, up from 300 basis points in October and significantly higher than the previous daily record. The cost of protecting debt issued by European banks surged even higher.

Growing worries about the breakup of the euro came against a backdrop of a series of disastrous economic reports.

New manufacturing orders in the euro area fell by the sharpest rate since December 2008, in the aftermath of the collapse of Lehman Brothers, according to Eurostat,

European Union's statistical office, said Wednesday. New orders plunged 6.4 percent in September, compared to August, pointing to a renewed economic downturn in the eurozone.

The data followed the announcement by the European Commission that its index of consumer confidence fell in November for the fifth month in a row, hitting the lowest level since late 2009.

The new data points to the fact that the euro area is already in recession, with no recovery in sight. Notably, Germany had a 4.4 percent fall in orders, showing that Europe's strongest economy is being dragged down amid the general downturn.

The slowdown is by no means confined to Europe. The HSBC China Manufacturing Purchasing Managers' Index, released Wednesday, showed that Chinese manufacturing contracted this month for the first time since 2009.

The index, a closely-watched indicator of factory activity, fell to 48 in November, down from 51 in October. Readings under 50 indicate a contraction. The index had been falling for months, but this month marked the first time that that particular threshold had been breached. China is highly dependent on exports, including to Europe.

The US economy grew slower than originally estimated in the third quarter of this year. The Commerce Department said Wednesday that third-quarter growth was 2 percent, compared to the earlier estimate of 2.5 percent.

In a sign that the US is preparing for a sharp economic downturn, the Federal Reserve announced a new set of "stress tests," in which banks's balance sheets were tested in a scenario with a deep crisis in the eurozone and unemployment of up to 13 percent in the US.

Against this backdrop, Nokia, the phone manufacturer, said it would fire nearly one quarter of its global workforce, or 17,000 people, worldwide by 2013.

The latest round of figures points to the deep and intractable crisis confronting the European and world economy. Every round of austerity called for by governments has only exacerbated the economic downturn, which in turn has led to sell-offs of government debt, and to renewed calls for austerity.



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