

# European economy contracting

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A number of recent reports confirm that the European economy is contracting. Years of austerity have pushed a number of countries into prolonged recession, depressing incomes and consumer spending across the continent. Now Europe as a whole confronts negative growth.

On Thursday, the European Commission revised downward its growth forecast for the euro zone for 2012, saying it expects the European economy to contract by at least 0.3 percent. In the autumn of last year the Commission was predicting positive growth for the European region.

Figures for the final quarter of 2011 revealed that the European economy had contracted by 0.3 percent. In addition, the purchasing managers' index was in negative territory in February, falling to 49.7. Any valuation under 50 is regarded as an indicator of negative growth.

European stock markets have generally been buoyant over the first two months of the year, with bank stocks particularly bullish, but this bears little relation to the real state of the European economy. The upturn in bank stocks is rather a consequence of the policy of the European Central Bank, which has flooded the financial markets with cheap money since December of last year. A second factor is the feverish efforts of the European Union to ensure that the banks get the most favourable deal possible for their investments in Greek government bonds.

The figure of 0.3 percent negative growth for Europe as a whole obscures large variations between individual economies. The European Commission anticipates a huge 1.3 percent contraction for the Italian economy this year and a 1 percent decline for Spain. The previous forecast by the Commission anticipated 0.7 percent growth for the Spanish economy.

Greece is undergoing the most severe economic contraction in Europe. It has been singled out by the

banks and the European Union as the testing ground for their strategy of social counterrevolution in Europe.

Earlier this month, the Greek economics ministry announced revised figures for the downturn in gross domestic product (GDP) for the last quarter of 2011. Instead of the anticipated 5.5–6.0 percent drop, GDP fell by an estimated 7 percent. Since 2009, Greek GDP has fallen by a staggering 13 percent. The latest figures for 2011 confirm that this tendency downwards is accelerating and sending the Greek economy into free-fall.

During the Great Depression of the 1930s, major economies such as Britain experienced a total fall in GDP of around 10 percent. By the end of this year, Greek GDP is expected to have plunged by double that amount.

While the eye of the storm is in southern Europe, northern economies are also being drawn into the maelstrom.

In Britain, a new survey of managers (the Institute of Directors) showed 35 percent of those questioned believing the UK to face a high risk of recession in 2012, with 53 percent concluding the risk to be moderate. The threat of recession prompted the Bank of England to call upon the British government to pump another 50 billion pounds into the economy.

In one of Europe's most prosperous economies, Sweden, which grew faster than any other European Union economy in 2010, the finance minister announced that the government is slashing its economic growth forecast for 2012. According to the Swedish Central Bank: "Sluggish growth in the euro area has subdued the demand for Swedish exports, which slowed down significantly in 2011. The weaker outlook means households are spending less and companies are delaying investment."

A similar trend is at work in Europe's biggest economies, Germany and France. The German and

French purchasing managers' index figures showed a fall-off in February from the previous month, with private-sector companies reducing their workforces in both countries.

As a result of the deteriorating economic situation, German tax revenues fell in January for the first time since 2010. Major German companies such as Siemens are planning large-scale restructurings of their operations, involving thousands of new redundancies. The major printing press manufacturer Manroland recently declared bankruptcy and sacked thousands of its workers. In Central Europe, the Czech Republic, which has close economic ties to Germany, also slid into recession.

In France, Europe's second-largest carmaker, Peugeot, last week announced plans to slash spending by 1 billion euros to offset huge losses incurred in 2011. It is now in talks with General Motors to rationalise its European operations.

In recent years, Germany has successfully worked to increase its market share in Asian countries, particularly China. The latest figures from China, however, reveal a significant drop in exports. This will have significant negative repercussions for Germany and Europe as a whole. Europe is China's biggest export market.

Bound up with the statistics of economic decline is the destruction of the livelihoods of millions of workers across Europe. In many countries, unemployment is reaching levels not seen since the 1930s.

In Greece, the official unemployment rate has topped 20 percent; in Spain, 23 percent; and in neighbouring Portugal, 14 percent. Youth unemployment is much higher, ranging between 35 and 50 percent in the above-mentioned countries, with many other nations recording record highs.



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