Global manufacturing slumps as European banks seek bailouts

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Signs of a deepening global slump mounted this week, as manufacturing activity in Europe and Asia contracted and banks in Spain and France requested further bailouts.

Manufacturing in the 17-nation euro zone shrank for the thirteenth consecutive month, according to figures released Friday. The Markit manufacturing Purchasing Managers' Index (PMI) for the euro zone was revised down to 45.1 from an earlier estimate of 45.3. Any number under 50 indicates contraction.

Germany, the region's most powerful economy, was notably hard hit, as exports fell to their lowest level in three years amid a fall-off in demand from countries hit by the European debt crisis. While the German PMI ticked up slightly, it was only to 44.7.

Last week, the European Union's (EU) statistical agency, Eurostat, announced that unemployment in the euro zone hit 11.3 percent, the highest level of unemployment since the launching of the euro in 1999.

Some 88,000 more euro zone residents were without work in July, bringing the total to 18 million. The unemployment rate grew by 0.2 points in Spain, to 25.1 percent, while Greece's unemployment rate grew 0.5 points to 23.1 percent, up from 16.8 percent a year earlier.

Youth unemployment is even worse. Fully 52.9 percent of Spanish residents under 25 were unemployed, as well as 53.8 of those in Greece.

While the European economy shrank in the second quarter of this year, Germany managed to avoid contraction. However, such an outcome looks increasingly unlikely for the third quarter amid a string of mass layoffs and cutbacks.

Germany's second largest energy group RWE said August 14 that it plans to cut 10,400 jobs from its total workforce of 72,000 by 2014. Last month, General Motors shortened the workday at two of its Opel plants, affecting 15,500 workers.

France's manufacturing PMI, at 46, likewise pointed to economic contraction. Auto maker Peugeot, one of the country's major employers, announced plans to lay off 6,500 workers earlier this year.

Analysts are expecting the euro zone economy to once again contract in the third quarter, an event that would mark the official beginning of the area's second recession in three years. The euro zone economy shrank 0.2 percent in the second quarter of this year, compared to a 0.1 percent growth the year before.

The slump in the euro zone is part of a global downturn. Manufacturing in China, the powerhouse of the Asian economy, contracted at its sharpest rate since the depths of the 2008-2009 downturn. HSBC said its China manufacturing Purchasing Managers' Index for August fell to 47.6, the lowest level since March 2009. This was down from 49.3 the month before.

Chinese officials attributed the slump to the slowdown in the euro zone, which is dragging down Chinese exports. The manufacturing contraction in major exporters such as Germany and China is in turn dragging down primary-goods producers such as Australia, whose economy has been hurt by falling iron ore prices.

Manufacturing in South Korea and Taiwan likewise contracted. South Korea's Purchasing Managers Index was 47.5 in August, while the PMI for Taiwan fell to 46.1 from 47.5. South Korean export countries were down by 6.2 percent last month from a year earlier, led by exports to the euro zone, which fell by 9.3 percent.

Last week, the Japanese government cut its economic outlook for the first time in ten months after the economy shrank at a 3.4 percent rate in May and grew only 0.4 percent in June.

The slew of negative economic figures came amid a renewal of financial turmoil in the euro zone. The French government announced Saturday that it would bail out mortgage lender *Crédit Immobilier de France* after attempts to find a buyer for the troubled lender failed.

The Spanish government's bank bailout fund meanwhile announced that it would pay another €4.5 billion (US$5.66 billion) into Bankia, which took a €19.5 billion state bailout in May. The announcement of the new bailout came after the bank announced a €4.5 billion loss for the first half of the year as the default rate on its loans soared.

Amid an accelerating global slowdown and an intensifying European debt crisis, banks and major corporations are drawing up plans for how to respond to an exit of Greece from the euro zone. In such a scenario, the EU would cut off credit to Greece, forcing it to print drachma to prevent mass bankruptcies and the breakdown of its financial system.

"Bank of America Merrill Lynch has looked into filling trucks with cash and sending them over the Greek border so clients can continue to pay local employees and suppliers in the event money is unavailable," the *New York Times* reported Monday. "Ford has configured its computer systems so they will be able to immediately handle a new Greek currency."

The *Times* likewise reported that JPMorgan Chase has created accounts for major corporations denominated in a new drachma. Corporate Executive Board, an advisory company, said that 80 percent of its clients expect Greece to exit the euro zone, and that another fifth expected other countries to leave as well.

The ongoing economic downturn and strains in the European financial system cast the spotlight on the next meeting of the European central bank, which is scheduled for Thursday. While investors are clamoring for a cut to the euro zone's benchmark interest rate, which is currently set at 0.75 percent, there are deep divisions between the euro member states and no firm consensus on how to respond to the crisis.

Four years since the collapse of Lehman brothers, there is every indication that the world is headed for another downturn, perhaps on a scale comparable to that of 2008. The ruling classes of Europe have responded to the crisis with wage-cutting and austerity, handing trillions of euros to the banks while exacerbating the economic downturn.

The impact of mass unemployment and austerity was starkly presented in comments by Jan Zijderveld, CEO of Unilever, who proclaimed in an interview with the *Financial Times*, "Poverty is back in Europe."

He said his company would exploit this new reality by importing distribution methods pioneered in developing countries into Europe. "In Indonesia we sell shampoo samples for 2-3 cents each, and yet we make money," he said.