Euro zone economy posts worst contraction since 2009

Andre Damon
15 February 2013

The economy of the 17-member euro zone contracted 0.6 percent in the last three months of 2012, while that of Japan shrank 0.1 percent, officials said Thursday, underscoring the depth of the economic slump gripping the world economy.

The euro zone and Japan are only the latest large economies to announce contractions in the fourth quarter of last year. The US announced a surprise 0.1 percent contraction in its economy last month, and the British government said its economy shrank 0.3 percent.

The euro zone figures show the most drastic single-quarter fall in economic output in four years. Even worse, the eurozone economy contracted 0.5 percent in all of 2012. It was the first full year in which the area did not post a single quarter of economic growth on records going back to 1995.

European countries responded to the escalation of the sovereign debt crisis last year with a combination of bailouts, expansionary monetary policy, and unprecedented austerity measures, dictated by the financial speculators and banks. These measures have had a disastrous impact on the European population and economy.

The release of the Thursday data prompted speculation of a further devaluation of the euro to provide the region with a competitive economic advantage. The euro tumbled in the expectation of interest rate cuts by the European Central Bank, which in a recent statement said it would make fighting deflation more of a priority.

"We remain of the view that the ECB will attempt to counter [the euro's] strength," Nick Kounis, economist at ABN Amro, said in a note quoted in the *Financial Times*. "Verbal intervention has already begun, but if that does not work, interest rate cuts will come back on to the table."

The euro hit its lowest level in three weeks against the US dollar Thursday, and fell further against the yen in response to the data.

European stocks slipped after the release of the figures, with the FTSE 250 down by 0.75 percent and the DAX down by 1.05 percent. Global stocks have been soaring, fueled by cash infusions by global central banks. In the past three months, the US S&P 500 climbed 11.88 percent, while the British FTSE 250 is up by 16.6 percent.

Growth figures are similarly disastrous in the 27-member European Union as a whole. The economy of the EU contracted 0.5 percent, compared to the 0.6 percent slump in the 17-member euro area. In the previous quarter, the 17-member area contracted 0.1 percent, while the 27-member EU expanded by the same amount.

Economic Output for Germany and France, the euro area's two largest economies, suffered significant contractions, with Germany's GDP falling 0.6 percent, and that of France 0.3 percent.

Last month French automaker Renault announced plans to eliminate 7,500 jobs, or 14 percent of its workforce of 44,000 in the country, by 2016. This comes after the loss of 4,000 jobs through attrition over the last two years.

Last June, General Motors announced plans to shut down its Opel factory in Bochum, Germany, the first auto plant to be closed in Germany since the end of the Second World War, together with a wage freeze for its 20,000-member German workforce.

Italy's economy also contracted, falling 0.9 percent in the fourth quarter, its sixth consecutive quarter of economic decline. Portugal's economy fell sharply by 1.8 percent.

Between the fourth quarter of 2011 and that of 2012, GDP, Greece's economy shrank 6 percent, Italy's contracted 2.7 percent, and Portugal's shrank 3.8 percent.

Last month, the US Commerce department announced that the US economy shrank in the fourth quarter of 2012, the first decline in the country's gross domestic product (GDP) since the second quarter of 2009.

The US report came as a shock to economists, who were expecting an expansion at a rate of 1.1 percent. Official commentators dismissed the figures as a fluke related to weather and the "fiscal cliff." However, the latest figures from the EU show unequivocally, contrary to these claims, that the disastrous US numbers are part of a much broader economic slump.

Far from an "economic recovery," proclaimed by Obama in his second inaugural address earlier this week, the world economy remains mired in a worsening slump, with the ruling class presenting no solution to the crisis besides mass layoffs, austerity and currency war.