Industry Shuts Down, Unemployment Soars

by Our Wiesbaden Bureau

April 8—The dramatic decline of the real economy in Europe is much worse than the crisis in the financial world, which only involves worthless paper. The accelerating collapse in Germany and elsewhere shows that money-pumping and consumer-oriented crisis packages are unable to cope with the collapse. The Berlin government's "scrapping bonus"—which is supposed to stimulate the auto sector by paying people EU2,500 for each used car they turn in, to buy a new one—has not compensated for the collapse of export markets. Now the long neglect of the "forgotten economy," namely the productive sectors and infrastructure, is hitting us all hard.

Although the German machine-building sector is in the worst crisis in living memory, this was of no interest to the participants in the April 2 G20 Summit, who were obsessed with saving the current world financial system, even at the price of hyperinflation. The German Machine-Building Association, VDMA, announced on April 1, that in February, for the third month in a row, new orders had declined by more than 40% compared to the same month of the previous year. Orders plunged by 49% in February, with an average of 44% for December, January, and February.

And that is really only the average: For example, producers of machines for wood-cutting, the iron and steel industry, and the automobile industry reported declines of 70% and more in February, year-on-year. The VDMA's forecast, that 2009 will see a net 20% in drop production, is thus a trifle over-optimistic. Nobody knows what the global financial crisis will bring, said the VDMA's Olaf Wortmann. Already 10% of the machine-building workforce of 976,000 is working reduced hours.

Auto in Free Fall

German automotive exports collapsed 38% in the first quarter of 2009. This is particularly alarming since three out of four automobiles manufactured in Germany were previously being exported. Now the future of auto production in Germany—which in 2008 was about 6 million vehicles—is anything but certain, and that also goes for employment in the sector. Reduced work schedules, announced by almost all the car producers, will be maintained through the rest of the year, and the Summer months will bring the first layoffs. It does not bode well for Opel, that the government's task force on solving the problem is to be led by Jörg Asmussen, the Finance Ministry's "Mr. Bank Bailout," assisted by Lazard Frères. This implies that Opel will be given the GM treatment.

IG Metall

Workers from the IG Metall union in the German state of Thüringia demonstrate against the impending bankruptcy of auto-parts supplier Dagro, March 3, 2009.

But it's not only production of personal autos that is collapsing; the commercial vehicle sector is being hit even harder, where there has been a 61-68% downturn, depending on category of vehicle, from last March to this. Daimler-Benz has already announced that it wants to continue reduced working hours through June, and is seeking further deep cuts in wages and expenditures. March 2009 was the first month since 1928 in which there was no Springtime rise in the number of jobs in Germany, but rather, an increase in unemployment.

The Eurozone: Boom to Bust

Related to the worsening situation of the auto producers, the Arcelor-Mittal steel company announced that it will cut its production in Europe by 50%. The blast furnaces in Liège (Belgium) and Florange (France), which have been closed for two months, will not reopen, and others, such as in Eisenhüttenstadt (Germany), will be closed too.

In Spain, the economic collapse is also accelerating. March was Spain's worst month in recent history, with 123,000 jobs lost, raising the official unemployment rate to more than 15%. One of the reasons is the 20% decline in industrial production, particularly in construction, but also in the auto sector. In February alone, Spain reported 75% of the newly unemployed in the entire Eurozone.

The boom in construction and real estate had employed many young Spaniards who lacked vocational training. That amounts to a third of all Spaniards under 25 years of age, who are having a hard time finding work ever since the real estate bubble collapsed. Many of them are being forced to search for work outside their country. (The same is true in Ireland, where many young people have been emigrating to find jobs since the Dublin bubble burst.) Out of 3.6 million registered unemployed in Spain, no fewer than 900,000 lack any state assistance, since they are not covered by any social safety-net.

The low-wage countries are particularly hard hit. Ukrainian President Victor Yushchenko accused Prime Minister Yulia Timoshenko of concealing the fact that the country's GDP had fallen 30% in January and February, year-on-year. The London *Financial Times* reported that unemployment there had doubled in recent months. Timoshenko opposes the budget cuts that the International Monetary Fund is demanding, which would only make the situation worse, but which is the condition for IMF financial assistance—a foretaste of what the entire world faces, if the role of the IMF is expanded, as the London G20 Summit decided to do.