



Written by [Bruce Walker](#) on May 4, 2012

Euro Zone Manufacturing Down Sharply

Among the myriad economic problems that Europe is facing, the production in its factories declined according to a May 1st report. Two of the most troubled nations among what have collectively been labelled “PIGS”: Portugal, Ireland, Greece and Spain (which is now more appropriately the “PIIGS”: Portugal, Ireland, Italy, Greece and Spain) have been [particularly hard hit with this decline in the manufacturing sector](#), and now the relatively stronger economies of France and Germany are being hit as well.



Peter Dixon at Commerzbank advised: “The numbers coming out of the euro zone give no cause for comfort. The China economy is holding up, but the debt crisis in Europe is weighing on growth and its rippling across the world. Global concerns on growth are there, despite stellar numbers from the United States.”

One indicator of production, Markit’s Eurozone Manufacturers Purchasing Managers’ Index or PMI dropped to 45.9 points in April, which was lower than the preliminary estimate and a decline from 47.7 points in March. The April numbers were also the lowest since June 2009. Factory orders have dropped for the 11th consecutive month. What makes these numbers even more troubling is that policymakers had counted on manufacturing to help lift Europe out of its current malaise. Manufacturing in Spain, which has been teetering on the edge, shrank at a faster rate than anytime in the last three years. In Italy, orders for manufactured goods were at their lowest level since March 2009. Manufacturing in Germany fell for the second straight month and the same was true in France.

This is also affecting employment in the Euro zone, which rose in the Euro zone to 10.9 percent, which is the highest level in 15 years, with much of the decline in the Spain and Italy. Out of only a handful of nations in the 17 member Euro zone are conditions improving. The figures, which were released on May 2nd, showed that there are more than 17 million people in the euro zone who are unemployed. There is wide disparity in unemployment rates in different regions of the euro zone. The jobless rate in Germany, for example, is 5.6% while the jobless rate in Spain is a whopping 24.1% and it is little better in Greece, where unemployment is at 21.7%.

These new numbers have come just as the European Central Bank is scheduled to convene in Barcelona for its monthly meeting on monetary policy. Stella Wand, who is an analyst at Nomura, advised her clients to expect a rate cut, but cautioned that the European Central Bank may wait for more data on the overall condition of the economic in the euro zone.

Mario Draghi, who is President of the European Central Bank, asked members last week for a “growth compact,” and this was interpreted as meaning that Greece and Spain, in particular, should implement reforms which will make it easier for new businesses to start and make it easier for existing businesses to fire employees.

Pending elections are complicating matters. There will be national elections in France and in Greece on Sunday. The political parties in Greece have promised to strike better deals with the euro zone in



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anticipation of new elections. The French presidential race pits Socialist Party candidate Francois Hollande against President Nicolas Sarkozy, and the Socialist candidate is promising more subsidies for industry.

There is a little bit of positive news, however, in the euro zone. Standard & Poor's upgraded Greek government bonds to "CCC" which is still well within junk bond territory. That has been overshadowed, however, by big hits to the stock markets in Europe. Voters in Europe, who have come to rely upon government to create and manage prosperity, show little patience with the politicians, and there have been several changes in government since the economic crisis in the euro zone began. The elections on Sunday are unlikely to produce any positive results, but rather new governments which will make more promises to voters. There is still really no light at the end of the tunnel, for the euro zone, and as economic news consistently comes in worse than expected, it is hard to see what the politicians can do about it.

Photo: Participants gather at a meeting of EU finance ministers at the EU Council building in Brussels on May 2, 2012: AP Images



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