# Latest Numbers from Germany Confirm Recession


The announcement from the German Economy Ministry over the weekend confirmed that the long-awaited European recession has officially begun: German factory orders dropped to the lowest level in three years, down nearly five percent in the past month. The ministry also revealed that orders from outside the EU dropped by 10.3 percent.

Said Jennifer McKeown, an economist at Capital Economics Ltd. in London, "It's quite clear that we're heading into a pretty sharp downturn in Germany, which has been one of the strongest of the euro zone's economies. Orders are very clearly on a downward trend, as is industrial production itself."

The German economy is the fourth largest in the world, generating nearly $3.5 trillion in goods and services annually. Most of its trade is inside the eurozone, resulting in its position as the second-largest exporter in the world. Despite its strong economy relative to its neighbors, its debt-to-GDP ratio is 142 percent, and it is running an annual deficit of almost nine percent of GDP. It nevertheless retains its AAA rating from the three major credit rating agencies, which is strong enough compared to its eurozone partners to have caused a strange anomaly in the markets: yields on its six-month bonds have gone negative.

Translation: Banks are so nervous that they would rather pay for the privilege of keeping their reserves safe than run the risk of lending to each other. Banks buying those bonds are earning a minus 0.0122 percent.

This revelation came on top of an announcement that the European Central Bank itself is now keeping record amounts of cash in overnight deposits from those same banks — some $600 billion worth. On top of that came more evidence that a "transaction tax" will be foisted upon those same banks by the European Union.

Difficulties in Germany are reflected by European economic confidence dropping to the lowest level in more than two years. IMK Economic Institute announced that the German economy will shrink by at least 0.1 percent in 2012, making a recession in the eurozone "unavoidable."

Mike Shedlock, writing for Townhall, looked at these pronouncements and concluded as well that "the European recession will be extremely harsh and Germany will not escape."

All this comes in the face of continuing attempts by members of the European Union, the International Monetary Fund, and the European Central Bank to head off the recession by lowering interest rates and imposing increasingly onerous austerity measures on the member states. The "contagion" warned about — the spreading of economic and consequent financial difficulties from one member to another — is now here. Now that it has hit the strongest economy in Europe, it’s just a matter of time before natural market forces will institute their own measure of austerity on the banks themselves. With the coming bankruptcy of states such as Greece will come also the increasingly obvious bankruptcy of the Keynesian economic policies — creating and then spending paper money to restore prosperity — that caused and exacerbated the recession in the first place.

*Photo: Entrance to the Deutsche Bank trading floor in Frankfurt*