

Negative territory

By Richard Milne

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On a sunny but frosty December day in the City of London, Paul Collins is waiting outside an employment agency. The recent graduate is one of the victims of the **recession sweeping across Europe**: he lost his temporary administrative job in the headquarters of a large multinational company.

"It wasn't that long since we had been hired," he says, shivering in the morning cold. "But then suddenly they announced that a big part of the temps were to be let go."

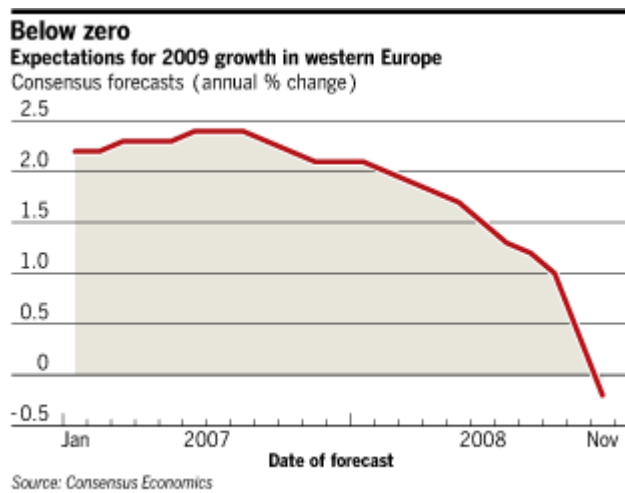
Cuts like that are being **repeated across the UK** in a shake-out of temporary employment that traditionally precedes a wider downturn. Revenue received in November by placing temps plunged to a record low for the 11 years of collecting figures, according to a survey this week by the Recruitment and Employment Confederation and KPMG.

A look at the real economy across western Europe – talking to people involved in typical activities in some of the largest countries – shows the occasional defiant insistence that certain lines of business will be more resilient than others. But the dominant mood is one of uncertainty about the future, accompanied by a large degree of pessimism: as the recession deepens, 2009 is thought likely to be a miserable year for many companies, large and small, as well as for those who find themselves no longer working for them.

What shocks even seasoned businessmen is how fast the good times have turned to bad. Jorma Ollila, as chairman of **Nokia** and **Royal Dutch Shell** as well as head of the European Round Table of Industrialists, which represents Europe's top four dozen industrial companies, has a better overview than most. "The speed with which the economic situation has deteriorated is something none of us has ever experienced before," he says.

The "number one concern" for companies that manufacture and sell goods is the withdrawal of credit, especially from small companies and suppliers, Mr Ollila adds.

But even this is contentious. Both Jean-Claude Trichet and Josef Ackermann, heads of the European Central Bank and Deutsche Bank respectively, insist that there is no evidence of a European "credit crunch". Certainly, banks are becoming more cautious about who they lend to and are perhaps less willing than before to prop up struggling companies. What Mr Trichet and Mr Ackermann say is happening is that companies are in many instances simply borrowing less because they are investing less, as they become pessimistic about their prospects in a recession.



What is clear, however, is that what started as a financial crisis has mutated into a deepening trauma for the European economy at large. With the car industry among the earliest to feel the pain, the woes of the likes of **Daimler**, **Renault** and **Peugeot** are feeding through the supply chain, hurting suppliers such as **GKN** and **BASF**, both of which have given two profit warnings in recent months.

Job and production cuts across Europe and across a wide range of industries are likely to increase in the coming months. "There is a lot of restructuring to come in Europe," says Elga Bartsch, economist at Morgan Stanley.

The question is whether this will be a normal recession or something more severe. Ms Bartsch plumps for the former: "It is a recession. It will be tough. Companies will go bankrupt. But it is a function of a recession to weed out the weakest companies." Mr Ollila,

for his part, says he believes the recession will be deep and long: "We are facing a real crisis. We don't have to wait for one: it is here with us now."

Delayed metal damage

That much is borne out by Diether Klingelberg, chairman of the eponymous German maker of machine tools, who says: "I have led this company for 35 years but I have never experienced something like this. The

speed and depth of this downturn is just terrifying. And nobody knows how long this scare will last.”

This, moreover, comes from somebody whose own company is doing well, in common with many capital goods businesses in Europe’s largest economy. Order books are full at more than a year’s revenues and are expected to grow by 15 per cent this year. “Yes, we will be hit – but not before spring 2010, as we lag the industrial cycle,” Mr Klingenberg says of his Cologne-based company.

Others echo his words. Schuler, a producer of industrial presses based in the small town of Göppingen in southern Germany, is still optimistic. The company’s machines take up to three years to produce, an official says, meaning any effects from the troubles now will be felt much later. Compared with other sectors, “the clocks are ticking a lot slower for us”.

Klingenberg and Schuler exemplify how Germany’s machine tool makers, which form the heart of the country’s industrial base, are used to weathering cyclical downturns. Third-quarter orders in the industry, which employs more than 66,000 people, fell by 12 per cent. But Mr Klingenberg insists: “An engineering company can cope with a demand drop of 15-20 per cent without further ado.”

Moribund monuments

Rather less adept at responding to shrinking demand is Europe’s property business. In better times, Parque de Valdebebas might have been a symbol of Spanish prosperity: one of the continent’s most ambitious works programmes, it was meant to reshape the north-eastern fringe of Madrid. Instead the €6bn (\$7.6bn, £5.2bn) project threatens to become a monument to past excesses.

Funcas, a banking foundation, estimates that investment in Spanish residential construction will shrink 10 per cent this year, followed by a 20 per cent contraction next year. If early setbacks are any indication, developments such as Valdebebas will bear their share as Spain’s construction downturn turns into a full-blown recession.

In the first blow, **Metrovacesa** and **Colonial**, two debt-saddled property companies, in September announced their withdrawal from a centrepiece shopping centre development in the new suburb, citing the “current economic situation”. Madrid’s regional government is the latest investor to throw a spanner in the works: last month it announced a go-slow on an ambitious “justice campus”, which aims to pull together disparate regional courts into a complex of 15 buildings. Lack of financing is to blame: plans to sell prime real estate in central Madrid to help pay for the buildings have been suspended until conditions improve.

Knock-on effects are rippling through the project. Work on an office block for civil servants and professionals will be hit, as will home sales. That in turn could bring trouble for the primary developers, mostly private landowners.

Slippery slopes

Property is also of concern in Verbier, among the best known of the upmarket ski resorts in the French-speaking part of Switzerland. Prices have surged in recent years, partly due to foreign buying. “We do expect more calls this winter, and especially in the first quarter of next year, from owners telling us they’d like to sell – and perhaps fast,” says Daniel Guinnard, director of a leading local estate agency and property management company.

Mr Guinnard’s main clients are financial professionals and few European ski resorts are so obviously identified with the people most likely to be affected by the financial markets crisis as Verbier, with its focus on City of London types. But in the small village, publicly discussing a downturn is about as unwelcome a subject as admitting to no snow.

“There are no alarming facts so far. But it’s true there’s been less interest. Not zero, but there’s not much happening”, he says.

Pierre Yves Délèze at Verbier’s tourist office says: “It’s true people are talking about the crisis here too. But as yet, although there’s some slowdown, there’s no sign of catastrophe.” He adds that while bookings for the Christmas-New Year and February half-term periods remain buoyant, there are signs of weakness at other times.



Not yet cut and dried

Elsewhere on the European tourist circuit, trade is thin at the floating flower market on Amsterdam’s Singel canal. I must say it is very quiet but we haven’t seen anything dramatic yet,” says Anja Rijn, surrounded by garden plants that she sells alongside tulip bulbs and cut flowers.



This reflects a feeling among stallholders in this most traditional Dutch business activity that it is too early to blame the economy in what is a seasonally quiet period for selling flowers. Kees Bevaart, who has run his business for nearly 40 years from a spot just along the canal, is also

phlegmatic. He says he has noticed a sharp fall in the number of British customers, who normally account for much of the tourist portion of his trade, but overall he is trading in line with expectations.

The anecdotal evidence is reflected in the broader picture from the Dutch flower industry. The most recent report from HBAG, an industry group, showed that Dutch flower exports fell 13 per cent to €412m in October compared with last year. That was mainly driven by a 26 per cent drop in exports to the UK, a 15 per cent fall in sales to France and a 13 per cent slide to Germany, the three largest flower importers. But strong rises to Russia and Poland meant that in the year to date exports have fallen only 2 per cent.

Made in penury

Is fashion holding up any better? It appears not, as Italy's famed textiles and apparel industry is starting to hurt. Below the very high end of the luxury goods market, factories that make clothing and footwear for Italian designer labels are shedding workers as profits are squeezed out of existence.

Sales and margins are shrinking in the traditional "Made in Italy" sectors encompassing textiles, footwear, and leather goods. Sace, the country's import-export agency, says these "may face a further fall in their pricing power in the near future, owing to sluggish global demand and fierce competition".

According to trade union officials and industry groupings, some 13,000 jobs have been lost in Italian textiles as a result of the global crisis. Valeria Fedeli, a senior official at the CGIL union confederation, says another 30,000 could be at risk going into 2009.

The vast majority of these workers are in tiny businesses: Sistema Moda Italia, the Italian textile and fashion federation, reckons that "more than nine firms in 10 have nine workers or fewer" and that margins have been shrinking over a long period, leaving many companies in dire straits.



Sinking in drink

Nor is solace to be found even in alcohol – at least for businesses that were set up in northern France to cater to British thirsts. The days of the booze cruise are all but over. The weak pound against the euro is in part responsible, having fallen from €1.30 to €1.15 in just a few weeks.



Nowhere is this more apparent than Calais, home to several ferries and Eurotunnel. "It is dire," says Ray Culver, former UK manager for Cheers, a booze cruise shop. "Normally there are 400-500 cars in the car park of one of the shops and there were only about 40 when I was there recently." David West, son of the owner of Eastenders, another alcohol shop in Calais, says: "Money is tight in England. The bad pound isn't helping things."

Elsewhere in Calais, however, it is a different story. A worker at Atac, a private supermarket that sells predominantly to French rather than British shoppers, says there has been no drop in demand: "We have not seen the impact from the crisis really. We still have attractive prices."

That bodes well for France, which is heavily dependent on domestic demand. But French consumer spending is on the decline – figures for October showed a 0.4 per cent dip. That may not be as dramatic as for the booze cruise shops but it will be more meaningful for the French economy.

Back in London, the job-hunting Mr Collins is optimistic, maintaining: "There is always work around for a temp if you have the right skills." Carl Camden, the chief executive of Kelly Services, a global employment agency, says that just as temporary workers act as an early warning for recession, they also precede a recovery by about six months.

The bad news is there is no sign of that revival. "Employment is still in decline and we are not seeing any uptick," says Mr Camden: "2009 will be very tough for many companies."

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