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TAKING A HARD LOOK AT GERMANY AND ITALY:
PLUMS, RIPE FOR THE PICKING ?

Two of Europe's largest economies are teetering on the proverbial brink.

They are, in order of growing economic strife: Italy and Germany.

The questions are, of course:

1. How will the failures, or partial failures, of these 2 economies affect the rest of the world? and,

2. How can Asia benefit from the chronic problems of these 2 countries?

Germany

According to The Federal Statistical Office of the Government of Federal Republic of Germany, the **G**ross **D**omestic **P**roduct* (GDP) for Fiscal 2004 was 1.60 percent.

That figure was almost unchanged from Fiscal 2003 and was about 25 basis points higher than the GDP Growth for Fiscal 2000 and Fiscal 2001.

In Fiscal 2004, the Federal Statistical Office discovered that consumption in the country fell by about one tenth of a percentage point, indicating that the rate of savings fell by about one tenth of a percentage point, also, to 10.60 percent.

Overall, the economy of the largest exporter in the world, today, was little changed from 2003.

Which does not say much for the government.

The growth in the economy was due, in large part, to net exports – which was to be expected, in any event – and the build-up of inventories in the country.

Domestic demand shrank in Fiscal 2004, Year-On-Year.

In spite of what must be considered continuing booming exports, which contributed about 1.10 percent to the growth of the GDP in 2004, the economy of Germany did not make an economic recovery, contrary to that which some internationally renowned economists had been predicting in late 2003 and early 2004.

The growth in exports has not been the flame to light up the economy of this country, as had, hitherto, been forecast.

A major problem in Germany is that there is insufficient private consumption, relative to the size of the economy.

Higher wages do not appear to be the panacea for the economy, but a drop in the ratio of savings of the average resident of the country would be of great assistance.

Consumer confidence in April 2005, according to the latest statistics, produced by the Federal Statistical Office, indicates that buyers of consumables are hard to find: Confidence in the economy is very low.

Investment spending on machinery and equipment in Germany, therefore, will remain subdued until structural economic changes become evident.

In other words, if there are no, or few, buyers on the immediate horizon, there would appear to be little reason for making new investments in machinery and equipment.

In view of the aforementioned lack of consumption in the country, one may expect investment spending and replacement spending in Germany to be no higher than 3 percent, Year-On-Year, for Fiscal 2005.

Italy

Turning **TARGET**'s telescope in the direction of the Italian Republic, with its leader, popularly known as the unofficial leader of the mafia, the very transparent, media magnate, Prime Minister Silvio Berlusconi, one notes that the economy is, once again, teetering on the brink of recession.

Inflation is, just about, out of control, as prices continue to rise at such a furious level that it is frightening off a very important source of revenue: Tourism.

In fact, the growth rate of prices in Italy is the highest in eurozone.

Labour costs in the country are spiralling out of control, unlike the majority of the rest of Europe where, for the most part, they are well contained.

The Government of Silvio Berlusconi has cut social service benefits to the population and, at the same time, working hours have been increased – without workers, being compensated for the longer working week.

The European Union, of which Italy is a member, has issued stern warnings to the Government of Italy, stating, categorically, that economic imperatives must be adopted forthwith, especially in respect of the European Monetary Union.

All to no avail.

Aggressive price gouging of tourists is, now, legend in the most popular cities of the country, causing many would-be visitors to look for alternate destinations where the euro has more buying power and where one is able to obtain value for money.

Italian vintners are of the mistaken impression that Italian wines are the only wines in the world and, as such, they may charge whatever they like.

The reality of the situation is that Italy has many competitors in this field, Spain, being but one such country where quality wines are plentiful and where prices are but a fraction of that which Italy is charging.

Portugal, Germany, Turkey, New Zealand, and Australia are but 5 other countries, whose vintners are nipping at the ankles of Italian wine producers.

In other areas, the economy of Italy is suffering badly, with few, if any, entrepreneurs, having surfaced during the past decade.

Italy is unable, even, to win Formula One races, these days.

There is a decided dearth of dynamism in the country.

Italy is losing the competitive fight and does not appear, even, to have the urge to compete aggressively on an international scale.

As long as Prime Minister Silvio Berlusconi stays as head of the government of Italy, one may expect more of the same.

The crisis of Fiscal 2005 could well become terminal.

Without constraints on prices and wages in the country, and without the liberalisation of the ownership of companies in Italy, there would appear to be little hope for the country's economy in the year ahead.

Prices and wages would, automatically, be restrained if the country were open to international competition, but the present government of the country is unlikely to have the courage to introduce such a move.

Italy will remain, most likely, a mama-and-papa shop, with mama, sitting at the cash register, counting the dwindling supply of euros, while papa continues to hand-cranks the wheels of family business.

The Effect

While Italy continues to sink deeper and deeper in its own economic excrement, and while Germany fights in vain to bring up the growth of its GDP, it leaves the door ajar for Asia to jump in and to take a slice of segments of the traditional markets of these 2 economic powers.

Although this may appear, initially, to be a far-out concept, Detroit has come to learn that the Japanese, in just 50 years, has taken a goodly slice of the US, motor-vehicle market, much to the consternation of General Motors Corporation and Ford Motor Company.

The growth in Asian exports of textiles and garments to the US since the beginning of 2005 is good for the economy of the country because it will result in the creative destruction of some of the industries, which are no longer viable.

If the US Government were to proclaim that, henceforth, imports of Chinese-produced garments and textiles were to be curtailed or subject to a new US quota system, the Government of President George W. Bush would find itself with much higher interest rates, as inflation would heat up to unbearable levels.

Competition is good not evil because, among other things, it flushes out the old and ushers in the new.

Italy is ripe for radical economic change and, if the present government does not resign, it may well find itself unable to hold onto the reins of power as the people take to the streets, demanding radical change – yesterday.

*__Gross Domestic Product__ =
The annual, total value of goods produced and services provided in the country, excluding transactions with other countries

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