Germany’s Resiliency Buoys Europe

By BRIAN BLACKSTONE And MARCUS WALKER

Germany—buoyed by its cadre of family-owned niche companies—appears to be weathering the global slowdown, countering fears that Europe’s economic powerhouse faces a sharp downturn that could deepen the region’s debt crisis.

A pair of bullish reports, on German employment and manufacturing, were reassuring on Wednesday: Unemployment remained at its lowest level in nearly two decades last month, while July machine orders jumped 9% from a year earlier.

The latest data suggest that Europe’s largest economy, which is expected to grow 3% this year, remains resilient, even as evidence mounts that the U.S. and much of the rest of the world are cooling.

The German news offered a ray of optimism for the rest of Europe as it struggles to overcome its debt crisis.

A downturn in Germany, which accounts for about a third of the euro-zone’s economy, would likely worsen the malaise in the Continent’s struggling economies, including important export markets such as Spain and Italy.

An economic slowdown in Germany would make it even harder for Chancellor Angela Merkel to justify spending billions in German taxes to prop up countries such as Greece that are buckling under a mountain of debt.

In recent weeks, a string of bearish data fueled fears among investors that Germany’s economic recovery was petering out. The country’s economy grew at just 0.5% at an annualized rate last quarter after a sizzling first quarter. Surveys since then suggest the economy has lost much of its strength.

Yet a number of economists now say predictions that Germany’s economy could fall off a cliff as Asia and the U.S. slow were overdone. Wednesday’s employment report bolstered that view. Unemployment stayed at 7% in August, according to Germany’s labor office. (It is even lower when calculated using common European methods.)

"Growth may not be buoyant, but it’s rather stable," says Michael Heise, chief economist at German insurer Allianz SE. "There’s a new flexibility of the German economy."

That flexibility is rooted in a system in which businesses and employees frequently agree to changes in wages and the workweek, if needed, to respond to an unexpected drop in demand. In 2008 and 2009, this arrangement, known as Kurzarbeit, or "short work," kept factories humming and workers in their jobs until conditions improved.

Until 2005, Germany was written off by some as almost an industrial museum, suffering from unemployment above five million, excessive regulation and welfare burdens. Now, some observers talk instead of a new Wirtschaftswunder, an economic miracle echoing the postwar boom that re-established Germany as Europe’s economic motor.

The global economy "will have its ups and downs...but there will be opportunities as well," says Bernd Suppe-Dienes, a 53-year-old managing partner of Dienes Group, a knife and cutting-systems company located just outside Cologne in northwestern Germany.

His business is one of an army of German midsize companies, known collectively as the Mittelstand. The success these little-known companies have had in exploiting niches in the global economy is often credited for turning once-sluggish Germany into Europe’s economic bulwark.

A closer look inside Dienes’s unassuming factory just outside the small Rhineland town of Overath offers clues to the secrets of Germany’s resilience. It also shows its limits.
Inside the low, whitewashed building, employees in overalls operate heavy equipment that crafts the components of Dienes’s products: machines bristling with rows of circular blades that can cut newspapers, adhesive tape and copper.

The precision components are made with tolerances as small as one thousandth of a millimeter. One machine, recently sold to a Japanese paper company, was worth €600,000 ($865,000).

Dienes, which now has 500 employees, has been making pretty much the same thing since Mr. Supe-Dienes’s grandfather founded it in 1913.

The family business has been through ups and downs, tracking Germany’s turbulent history. By seeking out new overseas markets and new uses for its cutting machines, it survived two world wars, the Great Depression, the 1970s oil crises and Germany’s brief post-unification bubble.

Many factory workers spend their whole careers at Dienes, gaining such skill that they often suggest improvements to the designs they are given by the company’s engineers, says Karl-Willi Lob, head of the plant’s union.

The workers view Dienes’s family owners as benevolent patriarchs, says Mr. Lob. “The Supe-Dienes brothers have an ear for the people. If you have a problem, you go to Bernd or Rudolf,” he says. “Because the brothers are like that, the labor cooperation is very good here.” A portrait of the brothers’ grandfather, company founder Karl Rudolf Dienes, hangs beside the pin-up calendar in the union head’s office.

Such cozy labor relations, typical of many midsize German companies, are harder to find in most other European countries, where labor conflicts have hampered companies’ flexibility.

In recent years, close cooperation with in-house labor representatives allowed German companies to make themselves more efficient within Europe’s system of strong labor rights.

Many businesses have even persuaded employees to work longer hours for less money in response to rising global competition.

This flexibility “has lessened the fear in the corporate sector of aggressive wage demands that could punish them if they have too much labor,” says Mr. Heise, the economist at Allianz.

At Dienes, employees willingly made sacrifices two years ago to steer the company through the financial crisis and global recession.

In 2009, orders slumped by about one-third, prompting the company to put many of its workers on short hours for less pay. A German government program that compensated workers on short hours for their lost wages helped ease the pain.

But shorter hours weren’t enough to curtail costs at Dienes. Bernd Supe-Dienes told staff representatives that 32 of the 196 jobs at the Overath factory would have to go.

The workers’ reps didn’t denounce the plan or call for strikes: “It’s not our way,” says Mr. Lob, adding: “We preferred instead to do what we can to turn this ship around.” Mr. Lob helped negotiate severance for his laid-off colleagues.

Business bounced back in 2010, and Dienes’s workers began working full hours again, even with an occasional overtime shift.

The company has cautiously started hiring again, bringing about 20 jobs back. Orders have climbed most of the way back to their peak before the crisis, thanks in part to strong demand from China and other fast-developing countries.

Though orders have softened of late, Mr. Supe-Dienes says he isn’t worried. The company is revamping its software systems that manage inventories and accounting.

http://online.wsj.com/article/SB1000142405311190389504576542763247872044.html?mod=WSJEurope_hpp_LEFTTopStories 01.09.2011 08:18:02