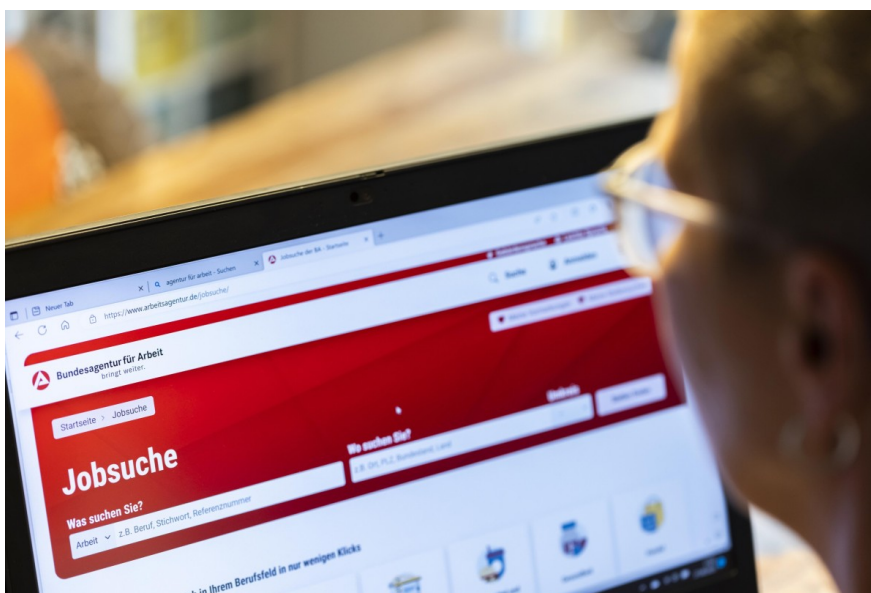


Higher unemployment in eurozone threatens consumption recovery

The eurozone unemployment rate increased in June to 6.5%, jeopardising the desired acceleration in household consumption



Unemployment rate increases in June

The seasonally-adjusted unemployment rate in the eurozone increased to 6.5% in June, from 6.4% in May. The number of unemployed was 41K higher than in May. Structural tightness in the labour market is likely to persist due to the demographics. This doesn't take away the fact that some cyclical variations in unemployment will still be seen. At the current juncture, it seems that we can expect some further increase, as in July's European Commission Survey employment expectations in both manufacturing and services deteriorated. According to the PMI survey, stagnating business activity discouraged firms in the eurozone from hiring additional staff in July, resulting in unchanged employment, ending a six-month sequence of job creation. This means that new entrants into the labour market will have more trouble landing a job.

More savings instead of consumption?

The European Central Bank is banking on household consumption to underpin the recovery amid higher real disposable income. However, if households have less confidence in the strength of the labour market, this might result in higher savings and weaker consumption. In the European

Commission's consumer survey, unemployment expectations have been creeping up since April. So while the current unemployment rate remains historically low, some signs of labour market softening have started to pop up, probably leading to a further increase in unemployment in the coming months. This is yet another reflection of a rather muted economic recovery.

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