Eurozone: stable unemployment is no miracle but still helps the recovery

The unemployment rate still did not rise meaningfully in June. As short-time work schemes keep people employed, household income remains solid, which provides a tailwind for the domestic demand recovery

As double-digit GDP declines for the second quarter across the eurozone make headlines today, eurozone unemployment is turning into the truly remarkable story. Increasing from 7.7 to 7.8%, but holding steady below 8% at the end of the historically weak quarter, means that household incomes have not been affected by the lockdowns as much as GDP has, which is helpful for the recovery of domestic demand. With incomes retained, the recovery of household consumption should happen more quickly than initially expected, which also has a dampening impact on second round effects that could make the economic slump last longer.

It's not that the labour market hasn't been affected at all of course. The unemployment rate is being kept artificially low by two factors.

First is the huge amount of people on short-time work schemes, for many countries around 20% of the total number of employees. This government support scheme bridges the depth of the recession – if lockdowns do not return later that is – and therefore eliminates the need for certain layoffs, although others will occur later on when the schemes end.

The second is that many people are not considered unemployed according to the statistics if they are not looking for work, which many people haven't been due to the lockdowns. In Italy, this has actually brought down unemployment in the first months but is now rapidly increasing again. At 8.8%, it is still below the pre-crisis unemployment rate of 9.5%, so expect it to continue to rise as jobs continue to be lost and people return to the job market to look for work.

The outlook for unemployment is one of subdued steady increases over the coming months. While economies are reopening, many businesses indicate that they are still looking to lay off employees given the substantially lower output compared to the pre-crisis situation. Besides that, more people will return to the job market, and short-time work schemes will start to come to an end in the second half of the year, causing increased risk of further layoffs. Still, the fact that a labour market shock has not occurred at times of historic output loss has been of help in the current phase of economic recovery, which helps the outlook for GDP in the third quarter.

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