Eurozone unemployment declines further, opening door to higher wage growth

Unemployment fell from 7.6 to 7.5% in August, closing in on the all-time low of 7.1%. Wage growth is set to increase on the back of this, but don't expect anything like a wage-price spiral

The rapid decline in unemployment on the back of reopening economies is extraordinary given the double dip in GDP over the course of the pandemic. It shows once more that this is no ordinary recession and opens the door to a modest recovery in wage growth as the vacancy rate has already recovered to pre-crisis levels.

The 0.1 percentage point drop in unemployment was mainly thanks to a rapid labour market recovery in Spain. Spain saw its unemployment rate decrease from 14.5 to 14%, while Germany, France and Italy had stable unemployment rates compared to June.

Furlough schemes are coming to an end in the coming months for many countries, or will persist in a reduced form. This means that some delayed restructuring among businesses could cause the rapid labour market recovery to pause or temporarily reverse a bit. Still, with unemployment this low and hiring expectations still strong, we don't expect a strong effect from furlough schemes ending at this point.

The relatively low unemployment rate combined with higher vacancy rates puts moderate pressure on wages. We expect wages to have the potential to return to growth rates seen in 2019 or slightly higher. It's important to keep in mind that this is far from a wage-price spiral. Still, it does add to modestly higher medium-term inflation expectations, which only adds to the importance of the coming European Central Bank meetings.

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