

Eurozone unemployment continues to trend down rapidly

Eurozone unemployment has now almost closed the gap with its best pre-pandemic reading. This strong performance is thanks to furlough scheme support and rapid demand recovery. The low unemployment rate opens the door further for sustained higher medium-term inflation



Spain has seen a big drop in unemployment. Pictured, people in Vendrell, Tarragona

Unemployment continued its rapid decline in November as it fell from 7.3 to 7.2%. Despite restrictions still in place and slowing GDP growth, the labour market continues to boom. All large economies saw declining rates in November, with the most notable drop coming from Spain where unemployment fell from 14.4 to 14.1%. The Netherlands at 2.7 and Germany at 3.2% are among the strongest labour markets in the eurozone at the moment.

Demand for workers remains strong, resulting in vacancy rates breaking pre-pandemic highs. With furlough schemes still supporting – part of – the job market, there remains some concern about what will happen when this support ends. We're not too worried about this anymore as labour demand seems so strong at the moment and take-up of the schemes has already declined dramatically over the course of the pandemic.

That means that the outlook for unemployment remains quite bright. Continued declines over the coming months are likely, although the re-entry of people to the labour market could slow the pace over the course of 2022. Nevertheless, this job market strength is set to feed through to wage negotiations and adds to medium-term expectations of inflation of around 2%. The ECB will take note as it considers the next steps in policy normalisation after its recent announcement of reducing asset purchases.

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