

Eurozone unemployment drops in December

Eurozone unemployment continues to drop and ended 2021 below its pre-crisis level. This strong performance is thanks to furlough scheme support and rapid demand recovery



Eurozone unemployment continues to fall

Unemployment continued its rapid decline in December and dropped to 7.0%, from 7.2% in November. Except for the Netherlands, all eurozone economies saw unemployment rates dropping or at least remaining constant in December. Still, there are significant differences across the eurozone with unemployment rates ranging from 3.2% in Germany to 13% in Spain.

Demand for workers remains strong, resulting in vacancy rates breaking pre-pandemic highs. Admittedly, furlough schemes still support – part of – the job market, but the support has been reduced and we expect a further drop in furlough schemes in the coming months without adverse effects on unemployment.

Labour shortages are a growing concern

As the eurozone labour market leaves the pandemic behind, countries with particularly low unemployment rates like Germany and the Netherlands are increasingly confronted with labour shortages. In fact, labour shortages are said to be limiting production more than ever in the eurozone, according to a business survey by the European Commission. This suggests that vacancies are hard to fill, resulting in supply problems. On average, the labour market seems already about as tight as it was at the end of 2019. Labour shortages are driven by several factors:

a drop in active population, a drop in (cross-border) mobility, and a skill mismatch. Needless to say that not all of these factors can be changed easily.

Back in 2019, labour shortages did not lead to supply problems or a huge jump in wages. But this period was also interrupted by the Covid-19 pandemic. This time around, those bottlenecks in the labour market could worsen if labour demand continues to recover quickly, which could eventually lead to more upward pressure on wages.

The labour market is key for the ECB's next steps

For the European Central Bank (ECB), the labour market and wage developments will be key going forward. There is very little the ECB can do against the current inflation drivers, but once inflation expectations start to move up and wage growth accelerates, a rate hike will no longer be far away. Until then, inflation at elevated levels, inflation projections surrounded by high uncertainty, and the real economy leaving the pandemic behind all argue in favour of speeding up the reduction of asset purchases.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.