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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.

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