Eurozone unemployment dips under 7% for the first time ever

The unemployment rate fell to 6.8% in January, down from 7% in December. Labour demand continues to boom at the moment, putting further pressure on wage growth

The eurozone unemployment rate is rapidly falling

The unemployment rate remains on a trend of rapid decline as the economy did not slow as much as expected from the Omicron wave and employers continued to hire. All major eurozone economies saw dropping unemployment rates, so the decline in joblessness was broad-based in January.

The tight labour market means that wage pressures continued to mount at the start of the year. Businesses indicate that they are looking to continue to hire in the months ahead as well, which corresponds with a further declining unemployment rate and further labour shortages emerging.

Wage growth has not moved in tandem so far as negotiated wages in the eurozone grew by just 1.5% in the fourth quarter of last year, up from 1.4% in the third quarter. If the economy maintains decent speed over the course of the year, we do expect wage growth to trend up faster, especially as high current inflation rates will be used as an input to collective agreement negotiations over the course of the year.

The question is of course how the current war in Ukraine will affect the eurozone economy and whether that will result in a cooling of the labour market. It is very early to draw any meaningful conclusions around this, but for the European Central Bank (ECB) it is clear that besides wage-price spiral risk, a stagflationary scenario has also quickly emerged on the radar as a key risk to its outlook.

This means that the ECB will not commit to a clear path of tightening next week before knowing more about the economic impact of the crisis. That will be key to see whether the strong labour market at the start of the year will indeed ultimately be converted into higher wages. As said before though, it is still far too early to tell.

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