

Eurozone unemployment dropped to new low in July

The eurozone labour market remains historically tight despite a rapidly slowing economy. While the strong labour market increases the risk of rapid wage growth fuelling inflation further, there is no evidence of that so far



Eurozone unemployment is at a historically low rate, but a recession could change that

Unemployment fell from 6.7% to 6.6% in July, continuing the steady trend of declining unemployment. The rate is currently well below the natural rate of unemployment, which suggests upward pressure on wages. At the same time though, there is little evidence of this happening so far. Negotiated wage growth – most Europeans see wages adjusted by collective bargaining agreements – grew at an annual rate of 2.1% in 2Q, which is still well below what is to be expected given labour shortages and high inflation.

The labour market is at an interesting crossroads at the moment. Employment expectations from businesses are dropping moderately and the economy is moving towards recession at the moment. Given the tight labour markets in most eurozone economies, the expectation is that some degree of labour hoarding will take place to ensure adequate staffing once the economy recovers.

Where wages are headed is uncertain in these times. We do expect the tight labour market and high inflation rate to result in further rises in wage growth. A recession will dampen the prospects for increases but is unlikely to nullify them all together. Still, signs of a wage-price spiral remain absent. If a recession indeed materializes, expect an unemployment rate slightly creeping up from

current historically low levels.

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