Eurozone unemployment green shoots as new number of unemployed levels off

The unemployment rate increased from 8% to 8.1% in August. With the monthly number of new unemployed decreasing though, it seems that short-time work schemes have effectively suppressed the labour market impact of the lockdowns earlier this year. However, downside risks to the labour market outlook remain

The gradual but slow increase in unemployment continued in August, creeping up to 8.1%. This means that the historic economic shock of March and April has still only had a very moderate effect on the labour market. The increase from 7.2% in March to 8.1% in August shows how short-time work schemes have been able to suppress job losses. This has been beneficial for the recovery of domestic demand as jobs and incomes have largely been maintained despite the large shock to GDP.

Over the past few months of reopening, we also see that the pace of the increase in unemployment has been dropping. Most recently, the monthly new number of unemployed has fallen from 363,000 in July to 251,000 in August. This indicates that short-time work schemes have managed to flatten the curve substantially as the need for layoffs has diminished now that the economy has recovered significant ground in the first months after the lockdown. This has resulted in improved expectations about the peak in unemployment during this crisis, which we expect to remain well below euro crisis levels if second wave effects do not cause further significant shocks to the economy.

Second wave effects carry a lot of uncertainty about the growth environment though. A new round of more national lockdowns could have a serious impact on the labour market again, which is not our base case, but cannot be ruled out either. Still, as short-time work schemes have been lengthened in most large economies, and even into 2022 for France and Germany, a cliff-edge increase in unemployment has become much less of a concern for 2021.

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