

Snap | 1 September 2021

## Eurozone unemployment is rapidly declining as economies reopen

The unemployment rate fell by 0.2 percentage points to 7.6% in July, continuing a rapid decline since economies reopened from the second wave. This adds to medium-term inflation pressures, which will no doubt fuel further hawkish concerns about ECB policy at next week's meeting



The eurozone unemployment rate decreased to 7.6% in July. This is down from 8.2% in April as the monthly pace of reduction has been 0.2ppt a month since then. That rapid decline in unemployment has come on the back of a rapid return for labour demand from businesses as economies have reopened. This leaves eurozone unemployment just 0.5ppt above the record low of March 2021.

With more and more businesses reporting labour shortages as problematic to their output, a logical conclusion would be to say that labour market tightness has returned far more quickly than expected. In the short term, this is probably right, but the jury is still out for the medium-term. A misallocation of labour on the economic reopening is causing shortages to increase – also seen in the US – but the question is how long this will last. Furthermore, unemployment is still being kept artificially low by furlough schemes that have yet to end in most eurozone economies and

cover a substantial amount of employment.

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### *Evidence of a price-wage spiral has yet to be seen*

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From here on it gets interesting. Countries are getting closer to ending furlough schemes and we'll soon find out whether this will result in delayed restructuring and layoffs. If it doesn't, labour market tightness could turn out to be more structural, which in turn would push wage growth higher. This is a key condition for more structural high inflation. Given the quick declines in unemployment of late, we do expect any unemployment increases after furlough schemes end to be moderate, bar any large economic setbacks, of course.

For now, though, wage growth remains below 2019 rates, so evidence of a price-wage spiral has yet to be seen. The next half year will be key in this regard. Still, the quick decrease in unemployment recently will no doubt add to hawkish concerns about the European Central Bank's policy next week.

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