

Snap | 2 July 2020

## Eurozone unemployment posts another surprisingly mild rise

As the economy goes through a historically steep and deep recession, the increase in unemployment in May from 7.3 to 7.4% can be considered a great success. Don't cheer too early though, we think eurozone unemployment is set to rise for a while to come



Source: Shutterstock

Compared to the US, the eurozone labour market looks very strong at the moment.

While unemployment has been edging up, the rise is extremely mild compared to the severity of the economic decline. This is mainly due to the huge number of people on short-time work at the moment, which is suppressing the actual number of unemployed massively. These programs are set to continue for the coming months, which means they bridge the period of the worst economic fallout and therefore prevent people from becoming unemployed altogether, although that certainly won't be the case for everyone.

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At individual country levels, there are some wild swings to be noted, which are masked by the aggregate eurozone figure.

In Italy, unemployment had been declining as people massively refrained from looking for work, which left them out of the official unemployment definition. These people seem to be returning to the labour market, which caused unemployment to increase from 6.6 to 7.8%. In France, unemployment fell from 8.7 to 8.1% in the month of reopening of the economy. Here the unemployment figures suggest somewhat lower labour market participation in May, meaning that people are not looking for jobs which impacts the unemployment rate positively, at least momentarily.

The only very mild increase in unemployment has contributed to the fact that most households have maintained income levels and this is reflected in a strong bounce back in retail sales data for May in quite a few countries. This shows that short-time work has been beneficial in dampening the blow during the deep crisis.

In the months ahead, the surprisingly stable eurozone unemployment rate is likely to continue to creep up. This is simply because the economy is unlikely to reach the level of pre-crisis output anytime soon, leading to inevitable job losses especially when short-time work schemes draw to a close.

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