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Eurozone unemployment rate edges up in May, but remains at historic low

The unemployment rate increased from 6.2% to 6.3% in May. This increase was mainly driven by a jump in unemployment in Italy, but overall, the labour market remains strong with significant shortages across the eurozone



The Italian unemployment rate has been volatile

In the major eurozone economies, unemployment rates remained relatively stable, except Italy, which experienced an increase from 6.1% to 6.5% in May. The Italian unemployment rate has been volatile, though, and employment expectations in Italy have remained strong in recent months. Overall, southern European labour markets have been stronger in recent months and are expected to remain so in the months ahead.

As eurozone unemployment rates remain near historic lows, shortages in the labour market remain. While vacancy rates continue to fall, they are still far higher than before 2018, for example. This means that while wage growth is still declining from post-inflation shock highs, expectations are that wage growth will continue to trend higher than before the Covid-19 pandemic.

For the end of the year, we expect wage growth to drop to around 3% or slightly below. With productivity growth picking up, this means that inflationary pressures from the labour market are actually fading and should align with the ECB's 2% inflation target. So, despite a continued heated

labour market, wage pressures are likely to pose a lesser immediate risk to the ECB's inflation outlook.

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