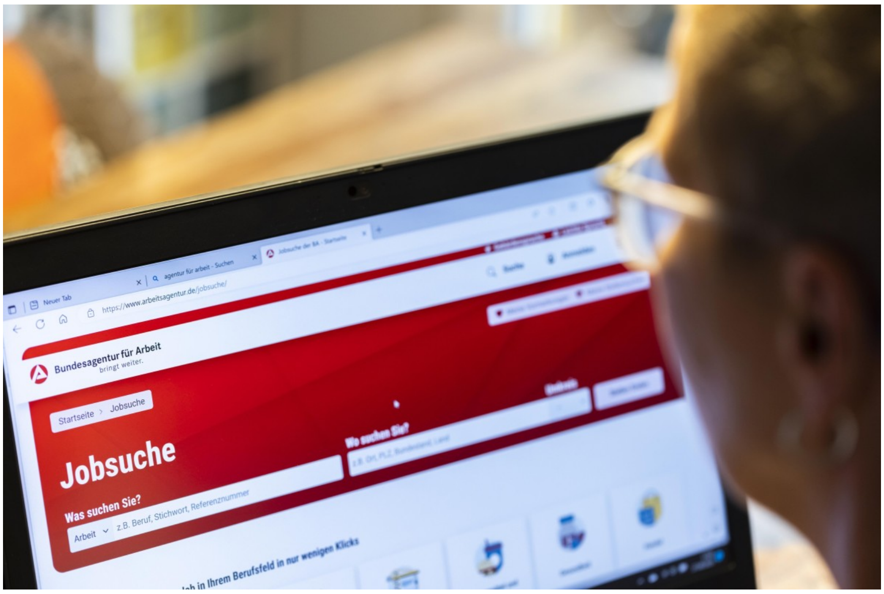
Eurozone unemployment rate falls to historic low in November

Even though eurozone GDP was virtually stagnant over the year to the third quarter of 2023, the eurozone unemployment rate fell to a new historic low of 6.4% in November. With employment expectations rising again, a significant increase in unemployment looks very unlikely over the coming quarters



Labour market remains historically tight

The eurozone unemployment rate fell to a new low of 6.4% in November. Compared with October 2023, the number of unemployed decreased by 99,000. Although the eurozone has been going through a soft patch with year-on-year GDP growth in the third quarter, and likely also in the fourth quarter, close to zero, this has not had any impact on the unemployment rate, which has fallen over the year. There have been several explanations for this. The economic weakness has been predominantly in the manufacturing sector, while the more labour-intensive services sector has fared better. On top of that, there has been a preference for shorter work hours, negatively affecting productivity growth per employee and exacerbating the demographically-induced tightness in the labour market.

ECB will be eying upcoming wage agreements

It doesn't look as if a significant increase in the unemployment rate is in the offing. While the job vacancy rate has come down a bit since the peak in 3Q 2022, it remains historically high at 2.9%.

The employment expectations index in the European Commission's survey slightly increased in December, though there are some differences across sectors. While expected employment increased in both services and construction, it stagnated in retail trade and fell back in manufacturing. So, labour market weakness remains essentially concentrated in industry, but that is only a small part of total employment.

While this relatively tight labour market will continue to support consumption, it also raises some crucial questions for the European Central Bank. To what extent has the speed limit for the eurozone economy been lowered by a dwindling labour supply? And what will be the impact on inflation? No wonder several members of the Governing Council have stated that the ECB will first want to have a good view of the wage agreements in the first half of 2024 before it can give the all-clear on inflation.

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