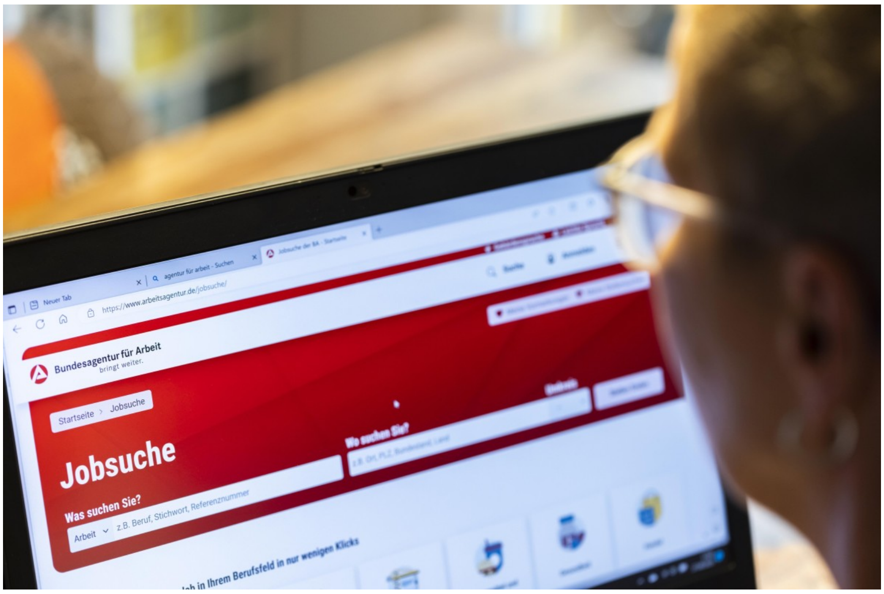
Eurozone unemployment rate stabilises at historic low for fifth straight month

The eurozone unemployment rate remained at a historic low of 6.5% in March. At the same time, the number of unemployed decreased from February. While recent indicators point to some softening in labour demand, demographics preclude any significant increase in the unemployment rate in the coming quarters



Tight labour market, but some signs of easing

The eurozone unemployment rate remained at a historic low of 6.5% in March for the fifth consecutive month. Compared with February, the number of unemployed decreased by 51k. The eurozone labour market is currently influenced by two conflicting forces. On the one hand, there is still the demographically-induced scarcity of labour. On the other hand, the recession in the second half of last year and especially the continuing downturn in industry is likely, albeit with some delay, to make itself felt in the labour market. Some companies can no longer afford to continue to hoard labour in the wake of weak activity. The European Commission's labour hoarding indicator fell in April and is now clearly below last year's level. Job vacancies, though still high, are falling and the Employment Expectation Index is now also in a downward trend. To be sure, all those indicators are still above historic levels, but they are clearly past their peak.

Wage agreements remain key

While the stagnating working-age population and the subdued economic recovery preclude a significant increase in the unemployment rate, slightly softer labour demand might have an impact on wage agreements going forward. The Indeed wage tracker stood at 3.3% year-on-year in March, down from 4% in January and 4.9% a year ago. While this is not a perfect reflection of the dynamics in negotiated wages, it surely seems to indicate that wage inflation is coming down.

In recent comments, some members of the European Central Bank's governing council indicated that, barring any unforeseen surprises, a June rate cut was a "fait accompli". Today's data offers very little new information in that regard. The question is pretty much what happens after June. A continuing recovery could lead to a tightening labour market again, reversing the downward trend in wage growth. Sufficient reason for the ECB to tread carefully in its rate normalisation process.

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