

Eurozone unemployment reaches new all-time low despite economic slowdown

Unemployment fell to 6.6% in May, keeping pressure on wage growth despite the economy showing signs of weakening



The outlook for the eurozone labour market is rosy

Despite a weakening economy, the labour market continues to outperform. At 6.6%, the eurozone unemployment rate has reached a new low. The widespread increases in employment are cushioning the negative impact of the Ukraine war and inflation on the economy and will therefore soften the blow to GDP in the second quarter and over the course of the summer.

While surveys do show that hiring intentions are slowing at the moment, we don't see a large turnaround happening in the eurozone labour market. Vacancy rates are at all-time highs and even if the economy were to fall into a mild recession, we expect the impact on unemployment to be modest. With shortages so rampant at the moment, businesses are likely to try to hold onto staff at the start of a downturn to make sure that they don't have to rehire shortly after. Only if a prolonged or deep slump were to occur, we expect a substantial cooling of the labour market.

At this point, wage pressures from the labour market persist. While substantially higher wages still have to materialise, wage growth is still set to trend markedly higher in the quarters ahead. So while the economy is already slowing significantly, the labour market's traditional lag keeps the unemployment outlook quite rosy for the coming period.

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