

## Eurozone unemployment: small second wave impact without wage pressures

Continued declines in unemployment don't yet indicate that inflationary pressures are coming from the labour market. The ending of furlough schemes clouds the prospect of a labour market rebound, although the outlook is improving



Workers from the entertainment industry demand more government support at a demonstration in Paris

Unemployment in the eurozone remained stable in February at 8.3%, but revisions to previous months have changed the picture of labour market developments over the winter. The unemployment rate now shows a tiny second wave effect as January is now reported to have seen a small tick up in unemployment from 8.2 to 8.3%. While the curve has changed a bit, it hardly changes the picture. Given the contraction in activity and the long closures of certain sectors, the second wave labour market impact remains mild.

So the resilience in the labour market remains strong but continues to be driven by furlough schemes. Unemployment is only modestly above pre-crisis levels, but negotiated wage growth has fallen below 2019 averages. This shows that the policy focus on job retention has not caused structural labour market tightness and that medium-term inflation pressures from the labour market have not increased but fallen. A quick labour market recovery could cause pressures to return, but that is not our base case for the months ahead.

How the labour market performs when the economic rebound starts remains a big question. A quick bounce back is unlikely given how employment usually recovers from a recession but also because furlough schemes still need to be wound down. Things are starting to look better though as businesses indicate improved hiring plans for the months ahead, especially in manufacturing. This provides further upside to the recovery prospects of the eurozone economy but we do stress that real employment recovery is unlikely before labour productivity recovers to pre-crisis levels. With furlough schemes still in place, that moment is still a while away.

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