# Cooling of German labour market continues in September

The gradual cooling of the German labour market continues, providing further arguments for the European Central Bank doves to put an October rate cut back on the table

In September, German unemployment decreased by 65,600, lowering the unemployment figure to 2.806 million. If you're wondering how this number could suggest a cooling in the market, consider this, compared with September last year, unemployment was up by almost 180,000 and today's September improvement was the third weakest September improvement since 2001. Finally, seasonally-adjusted unemployment in September increased by 17,000.

## More cooling of the labour market in the offing

The strong labour market has been an important driver of the economy's resilience over the last few years. Until this summer, total employment was moving from one all-time high to another, with almost 46 million people working. However, while this job growth seems to have been enough to limit any sense of urgency to react to four years of economic stagnation and an even longer period of deteriorating international competitiveness, it was not enough to prevent the current private consumption slump. Why? A large part of the recent job growth took place in part-time and low-wage jobs.

Looking ahead, the gradual weakening of the labour market looks set to continue. Recruitment plans in both industry and services have already fallen to the lowest level in a year. Also, the number of vacancies is gradually coming down and alternative labour market measures, for example, the LinkedIn Hiring Rate index, are pointing to a clear cooling. And there's more, the recent announcements of potential cost-cutting measures in the automotive industry will push up unemployment. This may not happen overnight because of German labour laws but could be seen gradually over several years. Finally, the number of bankruptcies has been increasing by low double-digit percentages since last summer. It is easy to see how this trend will also push up unemployment. Today's bankruptcy is tomorrow's unemployment.

On a more positive note, the impact of demographics on the labour market and labour shortages should prevent a sharp worsening of the labour market. Still, even if the increase in the number of unemployed is gradual, don't forget that the risk of an underlying loss in disposable income and broader economic prosperity is high. It is difficult to imagine an automotive engineer earning the same salary as a barista in a trendy cafe.

## A dovish week for the ECB

Let's not forget that the labour market is always a lagging and not a leading indicator. For the European Central Bank, today's German labour market data ends a week which has brought a rate cut at the October meeting back on the table. When leading indicators like this week's PMIs and Ifo index as well as lagging indicators like today's German labour market data and actual inflation data out of France and Spain all point to weak growth and faster disinflation, ECB doves will clearly be flying high.

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