

German labour market ends 2023 on a negative note

The gradual worsening of the German labour market continued in December



Commuters at Ostkreuz station, Berlin

The German labour market ended the year on a negative note. In December, German unemployment increased by 31,000, raising the unemployment figure to 2.637 million. The seasonally adjusted unemployment rate increased to 5.9% from 5.8% in November. For those who want to find some sign of weakening in the labour market, today's report brought some reassurance; the December increase was the largest December increase seen since 2019. Compared with last year, unemployment was up by more than 150,000.

Stronghold shows first cracks

The strong labour market has been an important driver of the economy's resilience over the last few years. 2023 employment reached a new all-time high, with almost 46 million people working. However, even this job growth was not enough to prevent private consumption from shrinking in 2023, suggesting that job growth also took place in part-time and low-wage jobs.

Looking ahead, the labour market is likely to weaken. Let's not forget that it has always been a lagging and not a leading indicator. The impact of ongoing structural transitions – as well as weaker global and domestic demand – will only gradually affect the labour market. To some extent, recent months have already shown these negative consequences for the German labour market, as illustrated by the increase in the unemployment rate since mid-2022. And this trend

looks set to continue. Companies in both manufacturing and services have scaled down their recruitment plans since the summer, insolvencies have gradually increased, and the structural transition is far from over.

On a positive note, any worsening of the labour market should be gradual, so real wage growth should remain positive in 2024. The impact of demographics on the labour market and labour shortage will also remain in full swing. In turn, the next challenge for the German labour market will probably be how to close an increasing mismatch between vacancies and job seekers.

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