

## German labour market records worst December reading since 2010

Germany's labour market continues to worsen, with nearly 3 million people registered unemployed. We are hopeful of an eventual recovery, but conditions may deteriorate further before they get better



Germany's labour market continues to worsen. Pictured: people in Frankfurt

German unemployment increased by 22,900, bringing the unemployment figure to 2.908 million, the highest December level since 2010. According to the just-released data, seasonally adjusted unemployment increased by 3,000, leaving the unemployment rate unchanged at 6.3%.

Over the last four years, German unemployment has increased by some 500,000 people. This gradual worsening reflects textbook economics: with the economy effectively stagnating for more than five years and industry facing severe structural challenges, a deterioration in the labour market was inevitable.

### Things will get worse before they could get better

The gradual worsening of the labour market is likely to continue in 2026. While more experimental indicators based on job sites suggest a stabilisation, more traditional forward-looking indicators,

such as the Ifo and the federal labour agency's own employment expectations indicators, continue to move downward. Add to that ongoing announcements of potential cost-cutting measures across the automotive and other industries, and the continuing increase in bankruptcies, and it appears that conditions will first worsen before they improve. If we are right and the cyclical recovery of the German economy unfolds over the coming months, the labour market should stabilise by mid-year.

With the worsening labour market, political uncertainty about the future of Germany's pension system, and a broader sense of sombreness in the economy, it is no surprise that private consumption has also worsened again. After a brief indulgence at the turn of last year, German consumers have basically closed their wallets. This morning's news that 2025 retail sales were up by 2.4% masks the fact that this increase was driven by a short surge at the start of the year. Since the second quarter, private consumption in Germany has again been sluggish, and consumer confidence at the end of 2025 dropped to the lowest level in almost two years. What is striking, however, is that for the full year 2025, real wage growth should have been close to 3%, and the savings rate has nearly returned to pre-pandemic levels. It appears that any excess money is currently going into real estate, whether through higher rents or mortgage payments.

Overall, the gradual deterioration of the German labour market is likely to persist, clearly complicating any recovery of private consumption in 2026.

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