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GERMANY

German labour market sends mixed messages in February

Germany unemployment dropped in February but the overall trend in the German labour market remains downbeat



Today's labour market report sends a mixed message, but definitely no signs of a turning point

German unemployment dropped by 14,700 in February, the best February performance of the labour market since 2022. At the same time, however, the fact that the absolute number of those unemployed remains above the politically important 3 million is anything but good news. The seasonally adjusted unemployment rate remained unchanged at 6.3%.

No turning point in sight, yet

Over the last four years, German unemployment has increased by some 500,000. 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. At the same time, employment has started to gradually drop since last summer, providing additional evidence of a structurally changing labour market: a shrinking working force due to demographics, sectoral and geographical shifts due to the industrial transition and higher entrance barriers for graduates due to AI.

Looking ahead, the number of vacancies has come down further and even if employment plans in both manufacturing and services have started to rebound, we see the gradual worsening of the labour market continuing throughout the year. Previous and potential additional announcements of cost-cutting measures across the automotive and other industries as well as the continuing increase in bankruptcies suggest that conditions will first worsen before they improve. The AI disruption of the labour market could add to this. If we are right and the cyclical recovery of the German economy unfolds over the coming months, the labour market, however, should stabilise towards the end of the year.

All in all, today's labour market report sends a mixed message but definitely no signs of a turning point. Instead, the gradual worsening looks set to continue.

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