

German jobs resilience offers scant support for private consumption

Unemployment in Germany fell slightly in March, suggesting the labour market is holding up better than feared. However, the trend is still negative, and there is very little hope that private consumption can become a growth driver any time soon



Berlin's Brandenburg Gate

The German labour market is still holding up. Unemployment actually dropped by 48,700 in March, the best March 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 for the third month in a row is anything but good news. In fact, the last time the total number of unemployed was above 3 million for three consecutive months was in 2014.

Another wasted year for private consumption

Over the last two months, the gradual worsening of the labour market has taken a breather. However, this does not take away the fact that over the last four years, German unemployment has increased by some 500,000, following textbook economic mechanisms: with the economy effectively stagnating for more than five years and industry facing severe structural challenges, a

deterioration in the labour market was inevitable. Since 2019, for example, some 270,000 industry jobs have been cut, and more seem to be in the making. While a growing part-time work sector had helped total employment grow continuously until summer last year, this labour market cushion is also weakening. Since last summer, employment has gradually declined, providing additional evidence of a structurally changing labour market: a shrinking workforce due to demographics, sectoral and geographical shifts driven by the industrial transition, and higher entry barriers for graduates due to AI.

Looking ahead, the number of vacancies has come down, and employment plans in both manufacturing and services have also taken a hit on the back of the war in the Middle East. With weaker-than-expected economic activity, the rising threat of AI and ongoing structural transition, we continue seeing a 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.

Earlier today, retail sales fell for the second month in a row, underscoring the protracted weakness in German private consumption at the start of the year. With the weakening labour market and increasing inflation, it is hard to see how private consumption could become a growth driver for the German economy this year.

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