

## German labour market remains resilient on the outside but shows weakening from the inside

Unemployment this month dropped less than it generally has done in March since the financial crisis, suggesting that the very gradual cooling or turning of the labour market continues



Source: istock

The German labour market shows resilience. But only at first glance. In March, German unemployment decreased by 44,500, lowering the unemployment figure to 2.769 million. The seasonally adjusted unemployment rate remained unchanged for the fourth consecutive month at 5.9%.

With this drop in unemployment, how could anyone not talk about the remarkable resilience of the German labour market? Well, this drop, along with the March numbers last year, represent the weakest spring revival that the German labour market has seen since the financial crisis. Compared with last year, unemployment is still up by almost 200,000.

## Gradual cooling of labour market continues

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 the current private consumption slump. Why? A large part of 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. The number of vacancies is down to the lowest level since the autumn of 2021 and recruitment plans have also come down, despite some stabilisation in the last two months. The assessment of the lack of skilled workers being a limit to production has also eased to the lowest level since late 2021. Finally, the increase in the number of insolvencies suggests a further increase in unemployment. Let's also not forget that the labour market has always been a lagging and not a leading indicator.

On a more 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.

Pointing to the cracks in the German labour market may feel a bit like sophisticated whining. However, underneath the surface of resilience, a gradual weakening or at least cooling has already started.

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