

German labour market shifts from pandemic to structural challenges

The German labour market has almost left the pandemic crisis behind and is immediately facing new challenges; labour shortages are the most pressing



German unemployment increased by 132,600 in January, increasing the number of unemployed to 2.462 million. The seasonally-adjusted unemployment rate, however, dropped to 5.1%, from 5.2% in December. Don't be fooled by the increase in unemployment. This was the best January performance of the German labour market since reunification.

Shift from crisis mode to labour shortages

The German labour market has almost left the pandemic behind. However, we should not forget that some 900,000 employees are still working under the furlough schemes. Interestingly, it is not only sectors such as retail or hospitality with a high share of furlough schemes but also the automotive industry with more than 5% of employees currently working part-time.

A good example of the two main channels through which the pandemic is harming the German economy: lockdowns and supply chain frictions.

Looking ahead, an end to lockdown restrictions and improvements in global supply chains should further support the German labour market. At the same time, however, the labour market will be facing not so new problems: labour shortages. It was already a pressing issue for the German economy in 2018 and 2019. It is even more pressing now. The sectors hit the most by lockdown measures, retail and hospitality, have seen employees leaving to other sectors for good. Labour shortage could clearly hamper the rebound in these sectors after full reopenings.

But there is more, with demographic trends and the green transition both accelerating, the problem of labour shortages will rather worsen than improve over the coming years. As a result, we expect wage pressure, at least at the sector level, to increase.

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