German labour market shows very first cracks

Under the surface of strong headline numbers, the labour market is starting to show the first cracks. This should limit the risk of a textbook-style wage-price spiral

German unemployment increased by 62,000 in July, raising the number of unemployed to 2.617 million. The seasonally-adjusted unemployment rate, however, dropped to 5.6%, from 5.7% in June. For those who want to find some sign of weakening in the labour market, today's report brought some reassurance: the July increase was the second largest July increase of the last 10 years. Compared with last year, unemployment was up by almost 150,000.

FIrst cracks in the labour market

The strong labour market has been an important driver of the economy's resilience over the last few years. A combination of fiscal stimulus, furlough schemes and demographic change seems to have made the German labour market almost invincible. Now, however, it is showing some cracks. For the current wage negotiations, these first signs of cooling will be too small to have a significant impact. We still expect wage growth of around 5% this year and 4% in 2024. Not included in these numbers are one-off payments that have become more popular in wage bargaining since the government announced it would exempt one-off payments of up to 3000 euros from taxes and social contributions to help alleviate the impact of rising inflation.

The stagnating economy has dampened recruitment plans, both in the manufacturing and services sectors. The longer economic growth remains sluggish and uncertainty persists, the higher the likelihood that unions and employees will increasingly opt again for job security rather than high wage growth. As a result, the current wave of surging wages should be temporary and will represent more of a 'catch-up' after years of falling purchasing power, rather than a textbook-style wage-price spiral.

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