

# 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.

## Author

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).