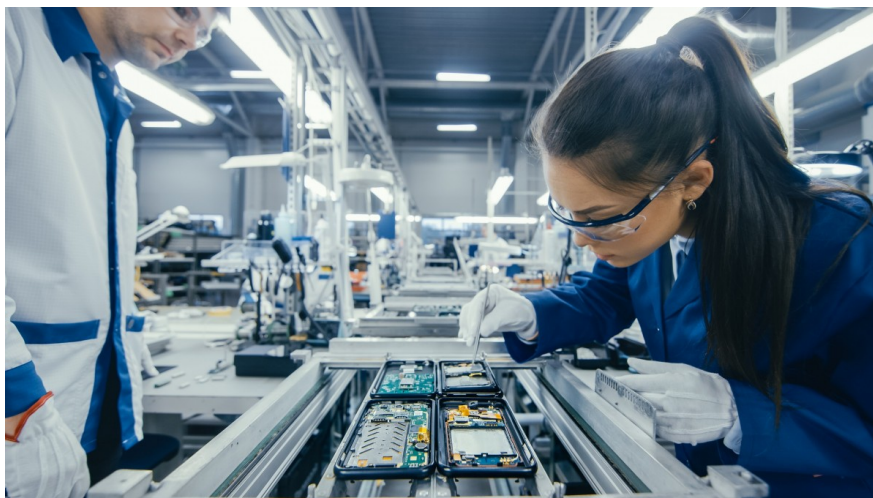


# German labour market starts the year off strongly

Only a small increase in unemployment in January shows that the labour market remains an important source of resilience in the economy



German unemployment increased by 162,100 in January, increasing the number of unemployed to 2.616 million. The seasonally-adjusted unemployment rate, however, dropped to 5.3%, from 5.5% in December. Don't be fooled by the increase in unemployment. This was still the second-best January performance of the German labour market since reunification, with a small caveat that the number of people working in furlough schemes has increased significantly over the last few months.

## Source of resilience

The strong labour market was an important driver of the economy's resilience last year. A combination of fiscal stimulus, furlough schemes and demographic change seems to have made the German labour market almost invincible. It, therefore, doesn't come as a surprise that wage pressure has picked up. We expect wage growth of around 5% this year and 3% 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.

Earlier this morning, however, the sharp drop in retail sales (-5.3% month-on-month in December) showed that even the solid labour market cannot prevent high inflation and uncertainty from denting private consumption.

Looking ahead, the lack of skilled workers remains a huge burden for the German economy. This has been driven not only by the end of lockdowns but also by structural trends like demographic change and it is a problem that is more likely to worsen than improve over the coming years. As a result, Germany will either witness additional wage pressure or a shrinking of the supply side as companies have to scale down production.

The labour market has been an important driver of the economy's resilience over the last few years. In the coming years, the labour market will be another symbol of the structural transition that the entire economy will have to undergo.

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