German unemployment at lowest level since 1990

Solid as a rock. The strong German labour market remains an important growth engine, but also shows why significant wage increases in the entire Eurozone are still way off.

German unemployment dropped by 60,200 in October (not seasonally adjusted), bringing the total number of unemployed to 2.389 million; the lowest number since November 1990. In seasonally-adjusted terms, unemployment dropped by 11,000, leaving the seasonally-adjusted unemployment rate unchanged at 5.6%

Solid as a rock

The German labour market remains solid as a rock. In fact, survey indicators suggest that the positive trend will continue. Recruitment plans in the manufacturing sector are at their highest level since 2011 and the Federal Labour Agency's official index for labour demand has been on a continuous upward trend since early 2015, reaching new all-time-highs almost every month. Against this backdrop, the labour market will remain an important growth driver for the entire economy. Interestingly, the influx of refugees has so far hardly appeared in the labour market data; a sign that asylum applications and integration take longer than previously anticipated.

Low unemployment does not equal higher wages

The German labour market is not only the showcase for the entire Eurozone, it is also the best illustration of why wage increases are unlikely to accelerate anytime soon in the Eurozone. Since March 2009, total German employment increased by more than four million. Most jobs have been created in the service sector, many of them in the healthcare and social sector. The financial industry, as well as most parts of the manufacturing industry, however, saw employment dropping by some 200 000 during the same period. Also, the size of the low-wage sector is currently still close to its all-time high from 2014 when some 7.8 million people were employed in a so-called low-wage job.

German case illustrates structural factors limiting room for higher wages

In our view, these numbers and the broader case of the German labour market nicely show the structural factors limiting upward pressure on wages despite low unemployment. We believe these structural factors are globalisation, automation and digitalisation, all three are increasing competition and putting jobs above pay rises. This is why, on average, nominal wages have only increased by some 2% per year since 2009 and why significant wage increases are unlikely. The fact that German IG Metall, one of the strongest unions, is not only pleading for higher wages but also for reduced working weeks seems to strengthen our argument.

All in all, the German labour market remains an impressive engine for the entire economy. At the same time, the German labour market also illustrates why significant wage increases are still way off for the entire Eurozone, providing further analytical arguments for the ECB's dovish tapering.

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