Germany: Stable on the outside but shaky inside

German official unemployment data remained just about stable in December. However, another increase in short-time working as well as the impact from the ongoing second lockdown caution against too much optimism

German unemployment increased by 8,000 in December, increasing the number of unemployed to 2.707 million. The seasonally-adjusted unemployment rate remained unchanged at 6.1%. Despite the small increase, this is the best December performance of the German labour market since reunification.

Before getting too carried away by this still strong labour market performance, don't forget that since the start of the crisis headline unemployment data has to be taken not only with a pinch but a big spoon of salt. The real impact of the crisis on the labour market can be found in short-time work schemes. According to the German labour agency, new applications for short-time work schemes increased again in December to 666,000, from 537,000 in November. However, this is still far below the numbers seen during the first lockdown. According to recent estimates by the Ifo institute, on the back of their own business survey, the number of people in short-time work remained broadly stable in December at close to 2 million. While the numbers dropped in manufacturing, the sectors hit most by the second lockdown saw sharp increases, notably in retail, restaurants and travel.

While today's labour market data is clearly backwards-looking, even before the second lockdown, a meeting today of the federal government with regional state governors will shape the short-term outlook for the German economy. It is widely expected that the current lockdown, which is due to end on 10 January, will be extended at least until the end of the month. This is not only due to still high numbers of new infections but also due to the constitutional fact that emergency laws cannot be announced for longer than four weeks. In today's decision, the most important part will be schools. A likely extension of school closures could have the most significant impact on the economy.

At face value, this morning's headline numbers suggest that the German labour market could go through the crisis almost unharmed. However, the rising number of short-time workers, as well as the longer-term impact from the ongoing second lockdown and a high risk of insolvencies in 2021, clearly argue against too much optimism.

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