

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.

Author

Carsten Brzeski

Global Head of Macro

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 <http://www.ing.com>.