

Snap | 31 July 2019

Germany: Domestic stronghold starts to crumble

The labour market is losing steam again, indicating that external woes are gradually leaving their mark on the domestic economy



German unemployment increased by 59,200 in July (not seasonally adjusted), bringing the total number of unemployed up to 2.275 million, the highest level since March this year. In seasonally-adjusted terms, unemployment increased by 1,000, keeping the seasonally-adjusted unemployment rate stable at 5.0%. It is the worst July performance of the German labour market since 2015.

The industrial slowdown of the last 12 months is finally leaving its mark on the domestic economy and more particularly on the labour market. Employment expectations in the manufacturing industry have already fallen sharply since the end of 2017 and are currently at their lowest level since early 2010. In recent months, the service sector has also seen some signs of dampening. Employment expectations, though still at positive levels, have dropped since last August and are now at the weakest level since November 2017. Combined with an increase in short-time work schemes, yesterday's drop in consumers' willingness to buy did not come as a surprise.

Currently, the increase in short-time work schemes is still only a fraction of the increase seen during the 2009 recession. Currently, some 50,000 employees are running under the shorter

working hours scheme. In 2009, it was more than 1.5 million. However, the domestic shield against external risks and uncertainties is clearly crumbling. To make things worse, the current heatwave and the third consecutive dry summer are very likely to slow down growth in the second half of the year (again). The water levels in the Rhine have started to fall at a similar magnitude to last summer. The economic harm last year was only done when water levels dropped further during the very dry autumn season. Therefore, it is too early to panic. However, if water levels were to drop further, leading to a repetition of the 2018 events, the entire economy would suffer. Last year, the low water levels reduced quarterly GDP growth by a total of 0.3 percentage points in the second half of the year.

All in all, the outlook for the German economy has become grimmer. While there is no reason to panic and the situation is definitely not as critical as in 2009, the risk of a longer stagnation is increasing. Today's labour market data indicate that in the months ahead, private consumption will no longer be the powerful growth driver it used to be in recent years.

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