Germany: Domestically strong

Still defying increased external uncertainties, the labour market remains the stronghold of the German economy

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German unemployment dropped by 32,900 in February (not seasonally adjusted), bringing the total number of unemployed down to 2.373 million, the lowest February reading since reunification. In seasonally-adjusted terms, unemployment dropped by 2,000, leaving the seasonally-adjusted unemployment rate unchanged at 5.0%. The number of vacancies increased for the first time since September last year and stood at 784,000, from 757,700 in January.

Stronghold

The strong labour market is a perfect illustration of the current divide between the domestic and external side of the German economy. While external uncertainties and a series of one-off factors brought the German economy close to a technical recession at the end of 2018, the labour market is still extremely strong, with unemployment numbers at record lows and the number of vacancies and employment at record highs. Inflation is also low and nominal wages are higher. There is hardly any better insurance against recession fears.

Looking ahead, readers of any macro-economics textbook know that the labour market is a lagging, not a leading indicator. Therefore, despite all enthusiasm about its current strength, it is far from certain that the German labour market will remain this powerhouse in the event of a negative sentiment loop or a hard economic impact from Brexit and the current trade conflicts. If these external uncertainties eventually have a rather benign outcome, the labour market will continue to thrive. If the outcome turns out to be adverse, the labour market will eventually weaken as well. For the time being, however, the reforms of the 2000s, as well as the strengthening of the domestic economy, seem to have made the labour market more resistant to external shocks. It currently needs a much more severe cooling of the economy than during previous cycles to see the labour market turn.

All in all, the German labour market remains an impressive growth engine for the entire economy, currently defying all external downside risks and uncertainties. It is a perfect illustration of the current divide of the German economy between a strong domestic and stuttering external part.

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