

Germany: Domestically strong

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



Source: Shutterstock

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.

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 www.ing.com.