

## Germany: First blemish in biggest stronghold

Strong labour market data show first tentative signs of weakening



Shoppers in Lubeck, Germany

German unemployment dropped by 72,200 in April (not seasonally adjusted), bringing the total number of unemployed down to 2.229 million, the lowest April reading since reunification. In seasonally-adjusted terms, unemployment dropped by 12,000, keeping the seasonally-adjusted unemployment rate stable at 4.9%. The number of vacancies dropped for the first time since December last year. For those looking for some signs of weakness, this improvement was the weakest April improvement since 2012. While for optimists, this is simply a sign that the everlasting improvement has come to an end and that the labour market has reached the state of full employment, pessimists might see this as a tentative sign of a starting weakening.

Earlier today, stable consumer confidence and an increased willingness to spend provided further evidence that, at least for the time being, the labour market remains a perfect insurance against any recession fears.

### Dichotomy continues

At the same time, the dichotomy between the export-oriented industry and the domestic-oriented service industry has also reached the labour market. While in the manufacturing industry, recruitment plans turned negative in March, for the first time since July 2016, employment

expectations in the service industry remain close to all-time highs. This brings back some memories of text book lessons that the labour market simply reacts with a lag to external changes. Remember that after the severe downswing of the economy in 2008, the labour market only started to weaken in 2009. The same holds for the slowdown of 2001, which only started to show in the unemployment data in 2002. However, given that some 80% of total German employment is in the service industry, positive factors currently outweigh the negative.

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*For the time being, the labour market shows remarkable resistance to the global slowdown and is a perfect insurance against a recession. Today's data, however, also suggests that this insurance will not hold forever.*

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While it would be premature to call a complete decoupling of the domestic part from the export-oriented part of the German economy, there are reasons to believe that a slowdown in employment growth is not necessarily a concern. Don't forget that the German economy is subject to demographic changes which should naturally lead to a slowdown in employment growth. Also, there is room for more than seven million people working in the low wage sector to move to better paid jobs. And 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.

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