

Germany: From smart lockdown to lockdown 2.0

Latest German labour market data confirms the continued strengthening of the economy but the new lockdown announcement is likely to bring the improvement to an abrupt halt. A double-dip now looks unavoidable



German Chancellor, Angela Merkel, talks to lawmakers before her speech on the latest coronavirus restrictions

While Germany discusses last night's lockdown announcements, the labour market surprises positively.

German unemployment dropped by 87,400 in October, lowering the number of unemployed to 2.760 million - the lowest level since April this year. The seasonally-adjusted unemployment rate dropped to 6.2%, from 6.3% in September. This is actually the best October performance since 2009, suggesting that the negative impact of the Covid-19 crisis is gradually weakening, at least for now.

According to the German labour agency, new applications for short-time work schemes increased somewhat in October to 96,000 from 85,000 in September but 1 million in May and 8 million in April. Remember that not all filed applications will eventually be admitted. This is why, officially, 2.6 million employees received short-time work subsidies in August, from 4.2 million in July and

almost 6 million in April. According to recent estimates by the Ifo institute, on the back of their own business survey, the number of people in short-time work schemes has dropped to 3.3 million in October, from 3.7 million in September and 4.7 million in August. to 3.7 million in September.

In most industrial sectors, still between 20% and 30% of all employees work in short-time.

Lockdown 2.0

The big news out of Germany is not October labour market data but last night's announcement by chancellor Angela Merkel, about the country moving from a 'smart lockdown' to 'lockdown 2.0'.

As of Monday next week, restaurants, bars and cafes will be closed entirely. Hotels will be closed for tourism, all cultural and sports events (except for professional sports) will be cancelled. In total, more than 5 million people work in these sectors (more than 10% of total employment).

The biggest difference between now and the Spring lockdown is that retail stores and hairdressers will remain open

Meetings in public will be restricted to just two households of up to 10 people in total. Retail stores will remain open. Even though it is called a light lockdown, it is not so much different from the Spring lockdown. Remember that back then, production facilities voluntarily reduced working hours, it was not part of the lockdown. The biggest difference between now and then is that retail stores and hairdressers will remain open.

The sharp fall in economic activity in the second quarter was not only driven by the lockdowns but also by supply chain disruptions and fading external demand. While the former doesn't seem to be the case, the risk that at least the rest of Europe will follow Germany, France and Ireland is high. Even if the German government announced to pay companies hit by the second lockdown a grant of 75% of their November 2019 turnover (around 10bn euro in total), renewed uncertainty, lockdown-fatigue, job losses and bankruptcy fears will dent confidence, spending and investment.

A double-dip now looks unavoidable.

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>.