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.

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