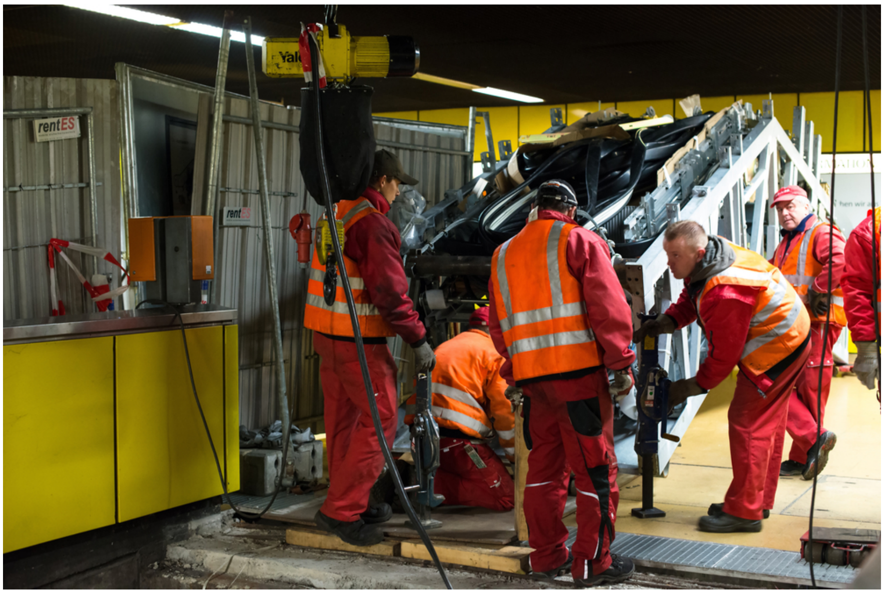
Germany: Labour market almost back to pre-crisis level

The labour market performance in June almost brings German unemployment back to its pre-crisis level



German unemployment dropped by 73,400 in June, lowering the number of unemployed to 2.614 million. The seasonally-adjusted unemployment rate dropped to 5.9%. With the best June performance since 2010, the number of unemployed has now almost returned to its pre-crisis level. The reopening of the economy has clearly boosted labour market developments.

Back at pre-crisis level but some risks remain

As we know since the start of the crisis, headline unemployment data has to be taken with a big spoonful of salt. The real impact of the crisis on the labour market can be found in short-time work schemes.

According to the German labour agency, the (lagging) number of people in short-time work continued to drop in April, to 2.34 million. In April last year, the number stood at 6 million. The number of new applications has dropped significantly to 59,000 in June, from 96,000 in May. The fact that furlough schemes are not a full substitute for full-time work was reflected in the drop by 2% year-on-year in German real wages in the first quarter of the year. Interestingly and according to media reports, short-time work schemes are no longer being used to exclusively tackle the fallout from the crisis but also as a result of increasing supply chain disruption, particularly in the German automotive and shipbuilding industry.

Looking ahead, for the German labour market, the worst seems to be over. Employment expectations in both the manufacturing and services sector have continued to improve and are approaching all-time highs quickly. With improving employment prospects and the expected strong rebound of the economy, the risk of bankruptcies and a potential second unemployment wave are decreasing. In fact, as the economy is likely to return to its pre-crisis level before the end of the year, previous threats of surging unemployment once government support schemes end have become less frightening. In the short run, the lack of skilled workers in certain sectors could become a more pressing issue than any increase in unemployment.

At first glance, today's numbers suggest that the German labour market has already left the crisis behind. At second glance, however, the high number of short-time workers should still be a good reminder of potential risks going forward, even if these risks look less threatening by the month.

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