Germany: Appearances can be deceptive

Strong labour market data and accelerating inflation, despite stagnating economic growth, illustrate that appearances can be deceptive

Labour market remains solid as a rock

The German labour market ended 2019 with no problem. For the time being, the manufacturing slump and the entire economy flirting with stagnation has left the labour market almost unaffected. At least on the surface. Unemployment increased by 47,200 in December, bringing the total number of people out of a job to 2.227 million; the highest level since August but still the second lowest December reading since German reunification. The seasonally-adjusted unemployment rate remained unchanged at 5.0%.

At least at the headline level, the German labour market seems to be immune to the knock-on effects of the ongoing trade conflict, the global economic slowdown and disruption in the automotive sector. Not only was 2019 a year with record low unemployment and record high employment, the slowing of the improvement has been relatively mild as well. For example, today's December performance was not weaker than in 2014 or 2015.

However, under the surface of these strong headline numbers, there are some cracks in what currently is Germany's strongest anti-recession insurance: unemployment has actually increased in five regional states; employment in the manufacturing sector has started to drop and recruitment plans have been on a downward trend since the end of 2017. Also, several manufacturing companies have announced gradual job cuts over the coming years, the number of vacancies continued its recent decline, dropping to the lowest level in December since 2016 and short-time work schemes have started to increase. According to estimates by the Ifo institute, some 100,000 people worked in short-time schemes in December, up from 25,000 in December 2018. In 2009, however, almost 1.5 million people worked in such schemes. In short, the labour market has clearly reached its peak but evidence of a significant reversal in the trend is still scarce.

Inflation - Christmas mark-up or more?

Also today, the first estimate for December inflation based on several regional state data was released, showing an acceleration in headline inflation on the back of higher prices for food, clothing and leisure. At the same time, the negative base effect from lower energy prices almost petered out entirely in December. Headline inflation came in at 1.5% year-on-year, from 1.2% YoY in November; the highest level since June 2019.

The price increases for consumer goods should be of particular interest to the European Central Bank. For the time being, this increase could be related to special Christmas factors, with retailers and producers trying to use the festive season for significant mark-ups. However, it could also be the first sign that inflation is not entirely dead.

> *All in all, today's data perfectly illustrates the German economy's current state: solid and stable on the surface but rumbling underneath with (possibly) remarkable shifts going into the new year. Another example of how appearances can be deceptive. In the course of 2020, something's gonna give. It will be either a weakening in the labour market and private consumption or GDP growth rebounding.*

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