Germany labour market - running on steroids

German unemployment increased to the highest level in more than five years, as short-time work schemes prevent a more severe increase

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German unemployment increased by 45,500 in August, pushing the number of unemployed to 2.955 million - the highest level since February 2015.

Interestingly, the German labour office said that this increase was not coronavirus driven and a more usual increase. According to our data, however, this is still the worst August performance since reunification. The increase in unemployment since the start of the crisis is now higher than during the 2008/9 recession. In seasonally-adjusted terms, the unemployment rate remained unchanged at 6.4%.

The longer this crisis lasts, the more the chances the German labour market could relive some memories of a long-forgotten past

According to the German labour agency, the new applications for short-time work schemes slowed further down in August, to 170 000, from 1 million in May and 8 million in April. Remember that not all filed applications will eventually be admitted. This is why officially 5.4 million employees received short-time work subsidies in June, from 5.8 million in May and almost 6 million in April.

During the financial crisis, some 1.5 million employees were subject to short-time work schemes at the peak of the crisis. However, back then, it was mainly the manufacturing sector which suffered from the global financial crisis, with some 80% of all employees in the manufacturing sector working in short-term work schemes. According to a recent study from the Ifo Institute, 37% of all German companies have employees under short-time schemes. Back in July, it was 42%. This number, however, masks enormous, though not surprising, differences across sectors. It ranges from 4% in the pharmaceutical industry to 7% in the construction sector, 34% in the chemical industry to 65% in the automotive industry and almost 90% in the travel industry.

The 2008/9 crisis was only a brief interruption of structural improvement of the German labour market, driven by structural changes in the mid-2000s and long-lasting economic recovery. Still, it took almost two years before the unemployment rate returned to its pre-crisis level. This time around, however, there is an increasing risk that the Covid-19 crisis could enhance structural shifts.

The labour market had already started to bottom out and was showing some surreptitious signs of worsening prior to the Covid-19 crisis. The longer this crisis lasts, the more the chances the German labour market could relive some memories of a long-forgotten past.

These fears explain why the German government decided to ramp up and increase the size and duration of short-time work last week. Instead of 12 months, short-time work will now be possible for 24 months. While this is good news for employees, private consumption and the short-term outlook for the entire economy, it also increases the risk of delaying (possibly necessary) structural change.

In the past, the labour market was the natural stronghold of the German economy, even during the worst of times. Currently, the labour market is still a stronghold but not naturally, instead, it is supported by fiscal steroids.

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