

Germany: Labour market gives hope in times of concerns

The strong labour market shows minimal signs of levelling off and is welcome positive news after recent disappointment from Germany



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German unemployment dropped by 74,400 in April (not seasonally adjusted), bringing the total number of unemployed to 2.384 million; the lowest number since the all-time low of November last year.

In seasonally-adjusted terms, unemployment dropped by 7,000, leaving the seasonally-adjusted unemployment rate unchanged at 5.3%. The number of vacancies reached another all-time high of 784 000. More impressive evidence that the German labour market remains solid as a rock. With a bit of fishing for any signs of levelling off, the only negative aspect of the report is the fact that it was the weakest April improvement in the labour market since 2012.

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Continued strong headline figures are masking the fact that the German labour market is going through a longer period of transition. Since March 2009, total German employment increased by more than four million. Most jobs have been created in the service sector, many of them in the healthcare and social sector.

The financial industry, as well as most parts of the manufacturing industry, however, saw employment dropping during the same period. Interestingly, some slack in the labour market gradually seems to disappear as the number of people working in the low-wage sector has started to drop since last year and currently stands at some 7.4 million people. While this structural change of the labour market and particularly the lack of qualified workers in some sectors should normally pose an enormous upward pressure on wages, actual data tell a different story.

Yes, nominal wages have and should continue to increase at higher rates than the rest of the Eurozone, but recent wage settlements still look moderate compared with the economic situation. While employment in Germany has grown by some 8% since 2010, labour costs have increased by some 2.2% on an annual average. This compares with 3% employment growth in the entire Eurozone and 1.6% average wage growth.

In our view, these numbers and the broader case of the German labour market nicely show that structural factors are limiting upward pressure on wages despite low unemployment. We think these structural factors include increased globalisation, automation and digitalisation and all three are increasing competition and putting jobs above pay rises.

All in all, the German labour market remains an impressive engine for the entire economy and brings some positive news after a period of rather disappointing macro data. At the same time, however, the German labour market also suggests that significant wage increases for the entire Eurozone could still be way off.

According to the principle of “if you can’t make it here, you will not make it anywhere”, the German labour market provides further arguments for a dovish tapering by the ECB in the months ahead.

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