

Germany: The expected increase

The former stronghold of the economy is weakening, with another increase in unemployment. The real number to watch, however, is the applications for short-term work schemes



German unemployment increased by 169,200 in May, pushing the number of unemployed to 2.813 million; the highest level since March 2016. The increase in unemployment over the last two months is now only slightly below the two-month increase seen in December 2008 and January 2009. In seasonally-adjusted terms, the unemployment rate increased to 6.3% in May, from 5.8% in April. According to the German Labour Agency, the new applications for short-time work schemes slowed down significantly in May, to 1 million, from 8 million in April. This still makes a total of 10 million applications for short-time work schemes since the start of the lockdown measures. However, not all filed applications will eventually be admitted.

According to a recent study from the Ifo institute, 7.3 million employees were in short-time work in May. 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. Currently, the crisis has hit almost all sectors, with between 25% and 31% of all employees in the manufacturing sector, trade and services, working under short-time schemes. The construction sector is one of the few positive exceptions, hardly hit by the crisis so far.

The 2008/9 crisis was only a brief interruption of a 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 had returned to its pre-crisis level. This time around, however, there is an increasing risk that the Covid-19 crisis could rather be an enhancer. The labour market had already started to bottom out and to show some surreptitious signs of worsening prior to the Covid-19 crisis. The longer the crisis lasts, the higher the chances the German labour market could relive some memories of a long-forgotten past: hysteresis.

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