

## Germany: Positive surprise

The German labour market has posted its best September performance since 2012 but structural transitions could still push up unemployment in 2021



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German unemployment dropped by 108,000 in September, lowering the number of unemployed to 2.847 million - the lowest level since May this year. This is actually the best September performance since 2012, suggesting that the negative impact from the Covid-19 crisis is gradually weakening. At least for now.

According to the German labour agency, new applications for short-time work schemes slowed further in September to 85,000 from 1 million in May and 8 million in April. Remember that not all filed applications will eventually be admitted. This is why, officially, 4.2 million employees received short-time work subsidies in July, from 5.4 million in June and almost 6 million in April. According to recent estimates by the Ifo institute, on the back of their own business survey, the number of people in short-time work schemes has dropped from 4.7 million in August to 3.7 million in September.

Looking ahead, ongoing structural transitions in many sectors as well as the longer-term impact from social distancing and Covid-19 restrictions are likely to increase unemployment in the course of 2021. The 2008/9 crisis was only a brief interruption of the structural improvement in the

German labour market, driven by structural changes in the mid-2000s and a 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, structurally pushing up the unemployment level.

Currently, short-time work schemes and a relatively stable labour market are supportive for private consumption, as illustrated, for example, in this morning's positive retail sales numbers (+3.1% month-on-month). However, don't forget that the labour market is no longer a natural stronghold of the economy but rather a stronghold supported by fiscal steroids.

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