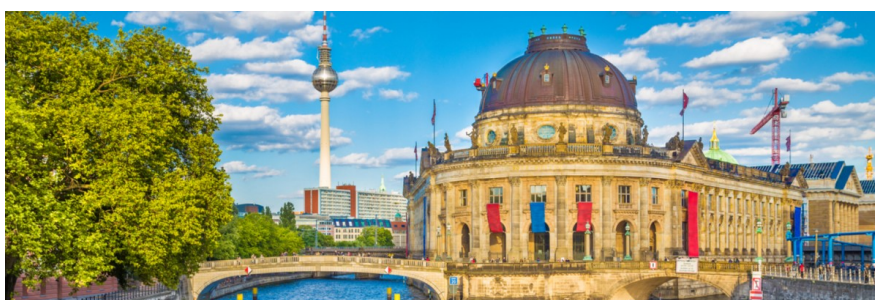


## Germany: Recession insurance

The labour market remains the best possible insurance against recession fears, even though very tentative signs of a cooling have emerged



German unemployment dropped by 71,600 in March (not seasonally adjusted), bringing the total number of unemployed down to 2.301 million, the lowest March reading since reunification. In seasonally-adjusted terms, unemployment dropped by 7,000, bringing the seasonally-adjusted unemployment rate down to 4.9%. The number of vacancies increased for the second month in a row and stood at 797,500, from 757,700 in January. For those looking for some signs of weakness, this year's March improvement was the weakest March improvement since 2016.

### Labour market also illustrates increasing dichotomy

For the time being, the labour market remains a perfect insurance against any recession fears. With unemployment numbers at record lows, the number of vacancies and employment at record highs, low inflation and higher nominal wages, private consumption should be a growth driver this year, unless global uncertainties start denting consumer sentiment and lead to precautionary savings.

At the same time, the dichotomy between the export-oriented industry and the domestic-oriented service industry has also reached the labour market. While in the manufacturing industry, recruitment plans turned negative in March, for the first time since July 2016, employment expectations in the service industry remain close to all-time highs. However, given that some 80% of total German employment is in the service industry, positive factors currently outweigh the negative.

Obviously, readers of any textbooks on macro-economics know that the labour market is a lagging, not a leading indicator. Therefore, some caution is needed and some loss of the positive momentum should gradually disappear in the coming months. A slowdown in employment

growth, however, would in our view not necessarily be a reason for concern. Don't forget that the German economy is subject to demographic changes which should naturally lead to a slowdown in employment growth. Also, there is room for more than seven million people working in the low-wage-sector to move to better paid jobs. And the reforms of the 2000s, as well as the strengthening of the domestic economy, seem to have made the labour market more resistant to external shocks. It currently needs a much more severe cooling of the economy than during previous cycles to see the labour market turn.

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