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GERMAN LABOUR MARKET STABILISERS KICKING IN

Berenberg Macro Flash

Economic policy works: As Covid-19 containment measures cripple economic activity across the world, the prospect of a near-term surge in unemployment looms large. Germany has, however, powerful fiscal stabilizers to limit the impact of the downturn on the labour market. Data published today show a surge in applications by firms for federal support to pay their workforces that are currently sitting idle. This underpins our call that, despite the massive sudden hit to economic activity, the total rise in unemployment for Germany and other major European economies may remain modest.

Historic jump: Germany's labour agency received and approved 55k applications for employment support for 1m workers through the "Kurzarbeitergeld" scheme, according to preliminary data as of 25 March. The number of to-be-approved applications even skyrocketed to 470k. That is an unprecedented jump of applications for Germany's government support for temporary under- or unemployment on the job from 2k and 42k respectively in February. The labour agency stressed that these numbers would probably understate total applications. We expect the numbers of applications to rise further in April.

Lessons from the global financial crisis (GFC): Job retention schemes can limit the number of dismissals, even in a sharp downturn. Partly due to Kurzarbeitergeld, German employment fell by just 1% during the GFC of 2008/09, despite a 7% peak-to-trough plunge in real GDP. During the 2008/09, some 1.4m workers were registered for the reduced/no working hours subsidy. To fight the economic fallout of the Covid-19 pandemic a number of countries (UK, France etc.) have introduced similar job retention schemes.

German labour market data for March (published earlier today) surprised a little on the upside. But they largely reflected the pre-lockdown period. The cut-off date is usually mid-month. Unemployment fell to 2.335m, while the rate was stable at 5%.

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