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GERMAN UNEMPLOYMENT UP: DO NOT GET TOO WORRIED

Berenberg Macro Flash

The economic slowdown is finally starting to weigh on the German labour market: Recent survey data had suggested that employment growth was not only slowing and vacancies would fall, but businesses were about to curb jobs. That seems to have happened in May. According to the German Federal Labour Agency the number of unemployed persons rose by 60k and the jobless rate picked up for the first time since 2013 – from 4.9% to 5% (see chart 1). Employment gains slowed further in April (latest available data) to 32k from 35k in March and 45k in Q1 (see chart 2).

Despite the headlines, we have to put these numbers into perspective:

- 1) The Federal Labour Agency pointed out that roughly 2/3 of the increase in the number of unemployed was due to reclassifications.
- 2) With employment still rising and joblessness very low, the German labour market remains in excellent shape. The internationally more comparable ILO unemployment rate at 3.2% remains below those for the US or UK.
- 3) While job openings fell from 800k to 794k, labour demand is close to the September-2018 peak of 808k (see chart 3). It is going to take some time before Germany's current problem – a lack of labour – turns into the opposite problem – broad unemployment and underemployment.

So, do not get too worried: That the weaker economy would be a drag on the German labour market is not surprising. Surprising was rather that employment continued to grow at a still encouraging pace. Robust domestic demand over the last 12 months and a tendency to hold on to workers amid labour shortages probably contributed to the labour market's reaction being more muted and coming with a longer lag than expected. While the first rise in the German unemployment rate is a warning shot, we should not overestimate it. Chances are that the external headwinds fade and we get used to the constant noise a little bit more in H2. Consequently, the German and Eurozone economy as a whole could find their mojo back and return to growth at around trend on a more sustained basis – not just driven by positive one-offs as in Q1. That should restrain further near-term jobless increases and support continued employment gains.



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Chart 1

Germany: Civilian Unemployment Rate, % of Labor Force: Total

SA, %

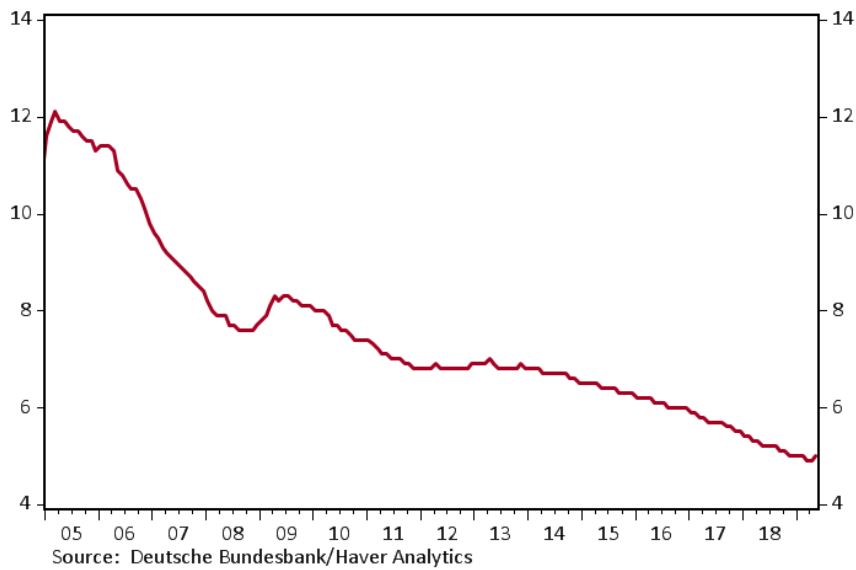
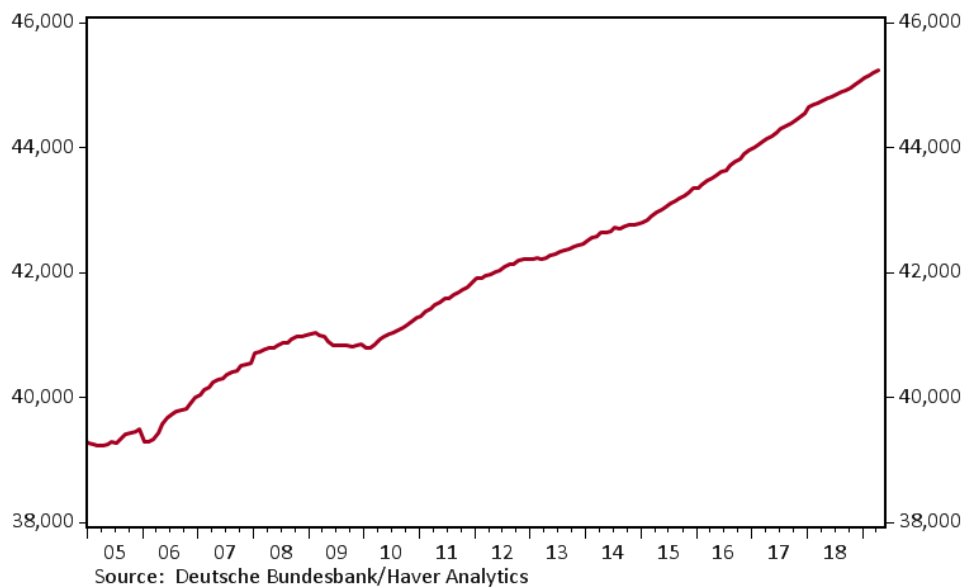


Chart 2

Germany: Total Domestic Employment

SA, Thous



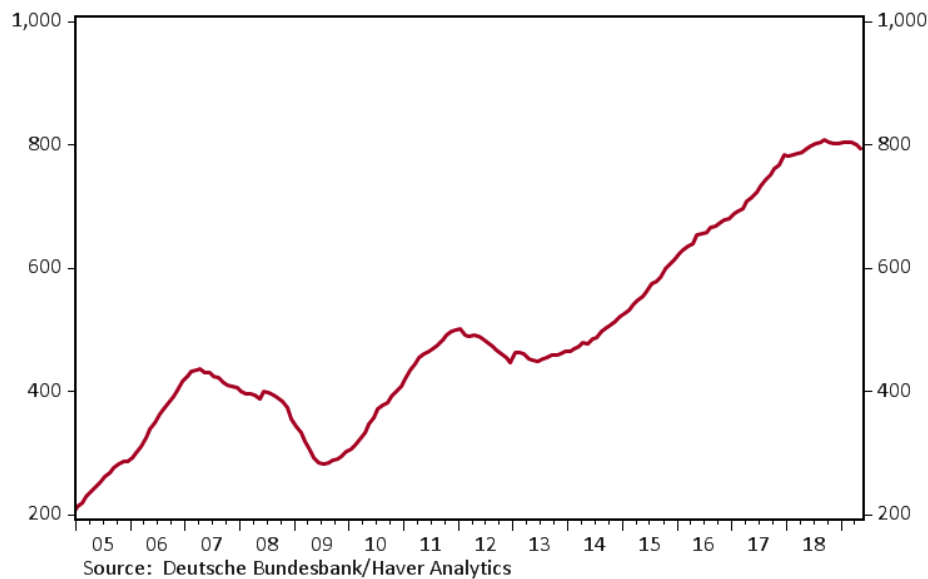


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Chart 3

Germany: Job Vacancies [Unsubsidized]

SA, Thous



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