

1 July 2008

Economic News

LABOUR MARKET TREND IN GERMANY

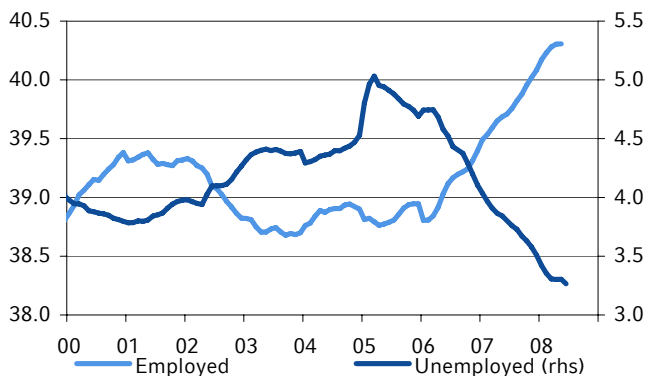
Fewer than 3 million unemployed likely this autumn

The labour market extended its recovery into the start of the summer. The coming months should see unemployment decline further despite the slower pace of growth. For this autumn, we see good chances of unemployment falling back below the 3 million level for the first time since 1992.

- Despite the slower pace of growth, the labour market continued to improve at the start of the summer. In June, the number of unemployed was down 38,000 from May and declined by nearly 530,000 compared to the corresponding month a year earlier. In seasonally adjusted terms, unemployment fell to 7.8%, its lowest level since August 1992.
- We are optimistic that unemployment will continue to decline over the rest of the year. Based on current surveys, the majority of companies plan to take on more staff in view of the high level of capacity utilisation. Although in all probability growth will moderate over the coming quarters, current order book levels remain very good for many companies. The number of job vacancies increased in June, which also argues for a long-term improvement in the labour market. Although the rate of decline in unemployment will tend to slow in the months ahead, we expect the average annual unemployment to stand at nearly 3.3 million. For this autumn, we even see a realistic chance of the official figure falling from currently 3.16 million to below 3 million for the first time since the summer of 1992.
- The current figures convey a sense of optimism with regard to the income trend in private households. On the one hand, the decline in unemployment and the corresponding increase in employment cause aggregate wages to rise. On the other hand, the sustained positive labour market trend increases the scope for a reduction in the unemployment contribution rate. Following the negative news flow of rising inflation, this is a fresh glimmer of hope for private consumption.

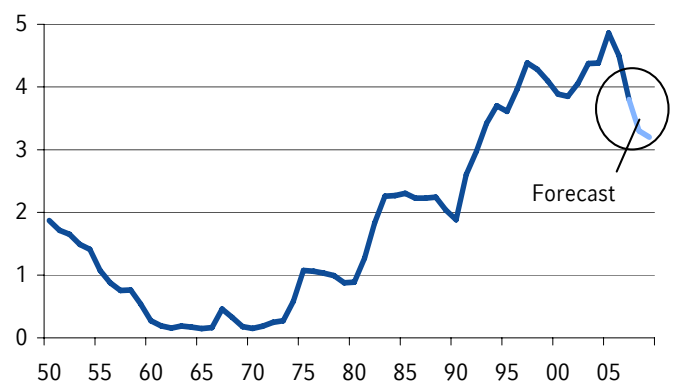
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Unemployed and employed
(in millions)



Source EcoWin, WestLB Research

Long-term unemployed trend
Annual average (in millions)



Source EcoWin, WestLB Research

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