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Economic News

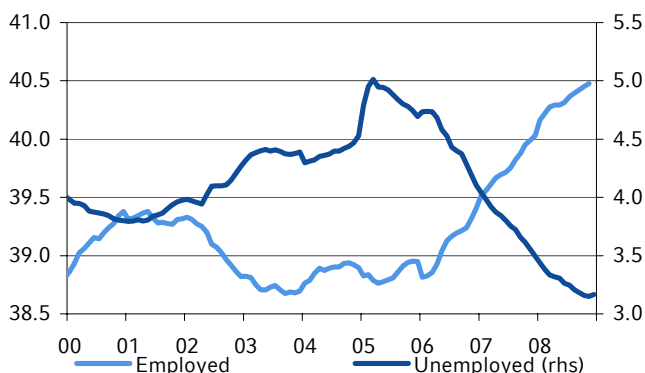
THE GERMAN LABOUR MARKET IN DECEMBER

Economic downturn reaches labour market

- In December, the number of registered unemployed increased by 18,000 compared to the previous month. Thus, the economic slump has now reached the labour market. At the same time, a success story boasting remarkable results has come to an end. Since the beginning of 2005 the number of unemployed has fallen by nearly 1.9m, and last October the number of registered unemployed fell back below the three-million mark for the first time since autumn 1992. At 3.27m, the average annual number of unemployed was at the lowest level since 1992.
- Unemployment will continue to rise in the course of this year. This is already becoming clearly evident in the labour demand, which is decreasing more and more. Right now, it is very difficult to give a reliable estimate of how high the increase in unemployment will be. Besides the considerable uncertainty about the economic trend, the expected "Economic Stimulus Programme II" will play a key role. Should the German government manage, in the face of the different positions held by the coalition parties, to put together a comprehensive package that provides positive economic momentum before the end of this year, the rise may well be limited in extent.
- In this context, it should also not be forgotten that the extension of and simplified procedure for claiming short-time working benefit will ease the pressure on the labour market anyway. Further relaxations of the short-time working benefit rules for corporations are under discussion as part of the "Economic Stimulus Programme II". The demographic trend (i.e. the increased rate of retirement of older workers from the workforce) will provide some relief. As such, for now we continue to assume that the unemployment figure will "merely" increase by 250,000 to 300,000 in the course of this year. However, we will have to be prepared to see a much sharper increase if the measures introduced to bolster the economy fail to provide the effects hoped for. In particular, unemployment may well soar in the coming year because the relief provided by short-time working benefit will then run out.

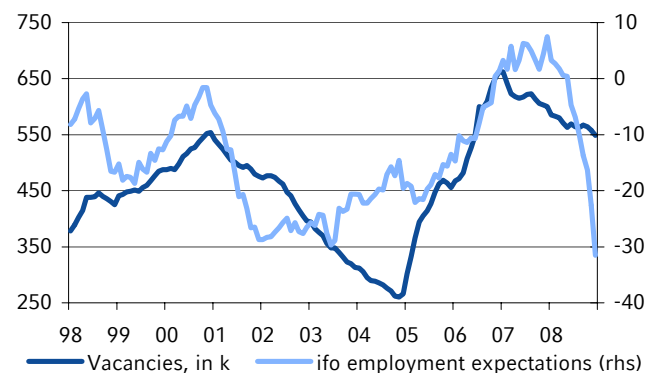
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Unemployed and employed
(in millions)



Source EcoWin, WestLB Research

Labour demand
(in 000's and balance)



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