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GERMANY

German unemployment drops in September

The post-summer revival of the German labour market was not too bad. However, looking ahead, tentative signs of cyclical improvement could be offset by continued structural weakness



German unemployment dropped by 67,000 in September, bringing the total number of unemployed to slightly below three million for the first time since June. Compared with previous September performances, this is a relatively middle-of-the-road post-summer revival of the labour market. There have been better and worse September numbers in recent years. It looks as if the gradual worsening of the labour market has paused. The seasonally adjusted unemployment rate actually came down to 6.4%, from 6.5% in August.

Cyclical upswing in a structural downswing

Over the last four years, German unemployment has risen by some 500,000. This gradual worsening reflects textbook economics; with the economy effectively stagnating for more than five years and industry facing severe structural challenges, a deterioration in the labour market was inevitable. At the same time, employment has gradually fallen since 2024 and is down by some 300,000 people. This provides additional evidence of a structurally changing labour market: a shrinking working force due to demographics, sectoral and geographical shifts as a result of the industrial transition and the influence of AI raising entry barriers for

graduates. Today's numbers have only paused this trend, not ended it.

Looking ahead, according to more experimental indicators like hiring rates and job offers on online platforms, the worsening of the labour market has at least come to a halt. This is echoed by the traditional indicators, showing a bottoming out in hiring plans in industry and a slight improvement in services. A cyclical stabilisation should be in the making. However, the structural trends are likely to continue. Previous and potential additional announcements of cost-cutting measures across the automotive industry, among others, will only show up in labour market statistics with a delay. The high level of bankruptcies also suggests that any cyclical improvement could be easily derailed by more negative trends. AI disruption in the labour market could add to this.

Even with the slight improvement, the German labour market is currently not in a state that could give rise to second-round effects from higher energy prices. The increase in unemployment in recent years, combined with job insecurity, offers little room for higher wage demands.

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