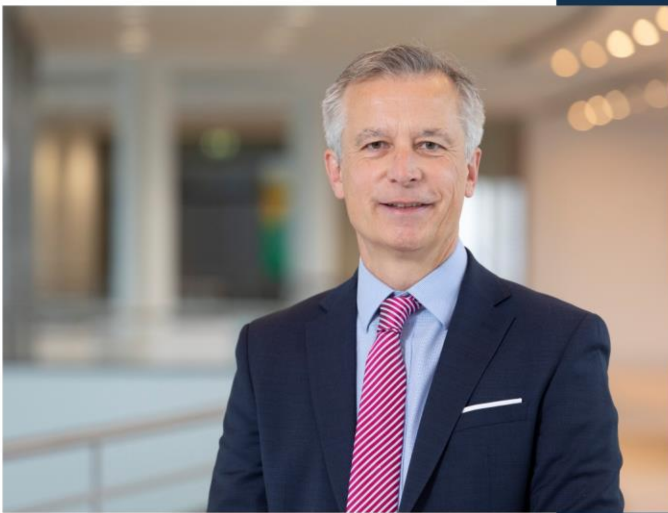

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To the point!

Cross-Asset- and Strategy-Research

Stagnation reaches German labour market

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Adverse demographics call for smarter employment policy

For two years, the German economy has essentially been marking time. It has been swinging from a quarter of minimal growth to one of slight contraction, then back to modest expansion, and so on. This pattern, which I refer to as a "corrugated iron economy," resembles waves in its regular peaks and troughs, but fundamentally, the German economy is lying flat.

Until recently, the job market had seemed to dodge the bullet of economic stagnation. It was only a matter of time before it also felt the impact. As I predicted in the first "To the point" column of the year: "Companies will increasingly 'un-hoard' workers, and the public sector will also have to hold back on adding jobs in the face of constitutional fiscal constraints. Following a recent ruling of the German Federal Constitutional Court, the government has rather embarked on an austere budgetary course. The skid marks of stagnation are slowly reaching the labour market." And that's precisely what has happened.

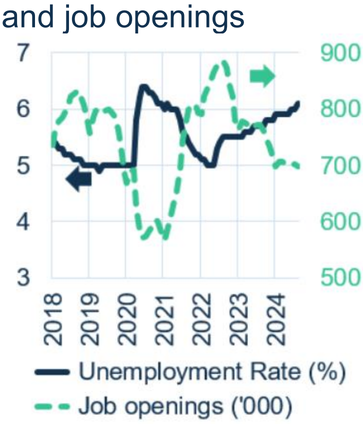
The job market begins to weaken

In July, the number of unemployed individuals in Germany reached 1.65 million, marking an increase of over 300,000 compared to the previous year. Simultaneously, the number of job vacancies has decreased by a total of twenty percent over the past two years (see Fig. 1).

Increasingly, even well-established companies announce large-scale job cuts, a measure that for quite a long time seemed to be a relic of the past. At the same time, corporate bankruptcies have surged to their highest monthly level in a decade.

German economy is hovering around the zero-line

Fig. 1: Unemployment and job openings



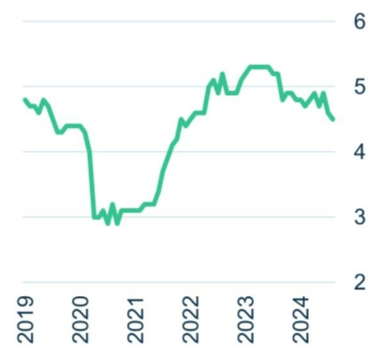
Quelle: Destatis, LBBW Research
(last observation: August 2024)

When firms lay off part of their workforce, they often resort to seemingly convenient solutions like early retirement or part-time work schemes for older employees. This approach appears to offer mutual benefits, as employees generally agree to these measures willingly. And companies can thus strategically shed older, more costly staff while avoiding the pitfalls of wrongful dismissal lawsuits. However, the overall economy suffers. Employees sometimes opt for these schemes as early as 55, effectively removing themselves from the job market for good, thereby depriving other companies, which are still looking for workers, of potentially valuable employment.

Meanwhile, a skilled workers shortage persists

While an increasing number of companies require fewer workers due to economic circumstances, others are still in dire need of staff. The labour shortage index, while having decreased slightly, remains on a relatively high level (see Fig. 2). The occurrence of jobs disappearing in certain sectors and companies while appearing in others is a natural aspect of the ebb and flow within a market economy undergoing structural change. What is abnormal, however, is the rapid rate at which Germany's working-age population is shrinking due to an aging society – a significant obstacle for the country's economic development.

Fig. 2: Labour shortage index Germany



Source: Institute for Employment Research (IAB), LBBW Research

No subsidies for sidelining skilled workers

In this context, it is indefensible to push urgently needed skilled workers into early retirement. Moreover, it is particularly egregious for the state to effectively subsidize this sidelining by forgoing taxes and social security contributions on some payments under early retirement schemes. Such policies are profoundly outdated and artificially compress the already shrinking labour force, thereby also limiting Germany's growth potential. It is high time for the government to remove such harmful incentives.

Decline in labour supply puts the brakes on the economy