



To the point!

Cross-Asset- and Strategy-Research

Record on the German labor market



Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

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However, this year
the tide could turn

The German labor market has had a surprising year. Despite the recession, the number of people in employment in Germany continued to rise in 2023 by 333 thousand people. This is roughly equivalent to the population of a medium-sized city like Mannheim, Nottingham (UK) or Orlando (FL). On average over the year, almost 46 million people in Germany were in gainful employment. As the German Federal Statistical Office points out, this was the highest number since reunification in 1990.

In contrast, the long-term downward trend in self-employment continued: The number decreased by 0.8% to 3.9 million.

The service sector in particular is growing

The increase in employment was spread across all sectors – with the exception of agriculture and forestry as usual. Three quarters of all employees now work in the service sector. This is also where 90% of all additional jobs were created last year.

Even in the beleaguered manufacturing sector, there were still 0.3% more people in employment on average in 2023 than in the previous year. However, with almost 7.5 million employees, industry is still 3.5% below its record year of 2019. And, hard to believe: even the ailing construction industry saw employment growth during 2023 (plus 0.6%).

Productivity growth weak

Immigration of foreign workers and a higher labor force participation rate were the main drivers of the strong labor market. But don't rejoice too early. As economic output actually dropped last year (presumably by 0.3%), the increase in the working population can have two reasons: on the one hand, the part-time rate

46 million!
Never before
have so many
people worked
in Germany

could have risen further – and it was already at a record high of 30% in 2022. Or on the other hand, productivity could have fallen. Both would be worrisome in view of the imminent intensification of demographic change.

Stagnation is now also reaching the labor market

There is a lot to be said for the "decline in productivity growth" explanation. Firstly, employment in the "public services, education, health, and other services" category has accounted for almost 80% of the increase in all service jobs over the last five years. These jobs are of course important. But productivity growth in daycare centers or nursing homes, for example, is often limited.

In the wake of the rampant shortage of skilled workers, private companies have also hoarded employees and continued to keep them on the payroll, even when the order book was rather slim. However, the longer the economic downturn lasts, the more costly it becomes to hoard employees. Cutting staff is no longer taboo. This is also supported by the fact that the shortage of workers has eased recently (see chart).

The number of unemployed rose by 183 thousand to 2.64 million over the course of 2023. With the German economy continuing to stagnate (we are forecasting just 0.3% growth for 2024), the labor market is likely to disappoint this year. This is because companies will increasingly "de-choard" 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 labor market. This is not going to be fun.

Shortage of Workers Index



Source: Institute for Labor Market and Occupational Research of the Federal Employment Agency. A higher value means a tighter labor market.

The unemployment rate is likely to rise again this year

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