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To the point!

Cross-Asset- and Strategy-Research

# Germany slides into the demographic trap

Workers are getting scarcer, and it's only going to get worse

Staff shortages everywhere you look. Where have all the workers gone since Covid? This is one of the most frequently asked questions I receive. Unfortunately, I cannot provide a satisfactory answer. At 45.9 million, more people were employed in Germany in November than ever before. Employment subject to social security contributions are also at record levels. Maybe more part-time work? Higher sick leave? Migration to the public sector? The data does not tell a compelling story. But let's look ahead!

## Germany is aging at a record pace

My generation, born in the 1960s and socialized in the 1980s with good music and questionable hairstyles, was the largest in Germany's history. The birth rate plummeted abruptly in the late 1960s. And the age cohorts have become smaller and smaller ever since. In 2022, fewer children were born than at any time since 1948! (By the way, the Federal Statistical Office offers a wonderfully [animated population pyramid](#)).

Therefore, for the foreseeable future, the number of people leaving the labor market due to age will be significantly higher than the number of young, new entrants.

The adjacent figure shows the profile and extent of this demographic "deficit." For every 100 people in Germany between the ages of 63 and 65, there were only 68 between the ages of 17 and 19 in 2022. Last year, this resulted in a decrease of approximately 370.000 workers. Beginning in 2026, the annual deficit will exceed 500.000. Stabilization will not become apparent until the 2040s at the earliest. The figures already assume a "moderate" influx from abroad of just under [300.000 per year in the long term](#).



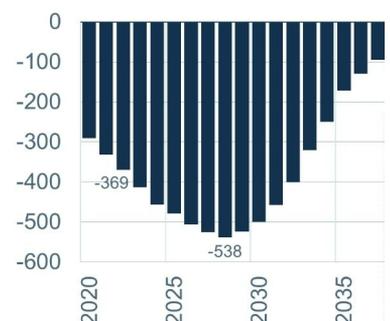
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Soon, half a million people will be lost to the labor market – every year!

## Germany: Annual net decline in labor force potential (in thousands)\*



Source: Destatis, LBBW Research

\*Definition: Number of 17-19 year old minus 63-65 year old (divided by three since three cohorts are subsumed in every case)

## The meaning of worsening labor shortages

It goes without saying that such a shift in the generational tectonic plates will have a strong impact on society and the economy. All the more so if it were true what we "Boomers" (enviously) worry about: that Generation Z is less and less interested in full-time employment. That would make the labor market even tighter. What are the consequences?

1. **Lower growth.** The working-age population will decline by 6% in the coming decade. Potential growth would drop to just a little above zero!
2. **Higher inflation.** The ever-increasing scarcity of labor will give a structural boost to wages and thus also to prices.
3. **Public finances are coming under pressure**, when more and more people are growing old and in need of care, but are being met by fewer and fewer taxpayers. According to estimates from the [European Commission](#), public spending will increase by 1.5% to 2% of GDP between 2019 and 2030 due to aging.
4. **Innovation push.** Necessity is the mother of invention. The chronic labor shortage will sharpen incentives for innovation. Productivity increases of the (remaining) employees will rise more rapidly again. In recent decades, however, productivity growth has tended to fall. Currently, it runs at less than 1% per year.

Politics and business must pull together to encourage innovation. It must be the centerpiece of economic policy making. The reason is simple: apart from technical progress, we do not have much to counter the economically negative consequences of an aging society.

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More and more social benefit recipients, fewer and fewer taxpayers...

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Without more innovation, the economy will stagnate

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