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A German union's risky strategy

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The metalworkers' union puts its members' jobs at risk

That was a close call. Germany's manufacturing output has been falling for almost a decade, yet IG Metall, the union for metal and electrical workers, including those in the auto industry, had embarked on its largest strike campaign in almost a decade. It demanded a 5% pay raise from November onwards for the 3.7 million workers in the industries it represents, a job guarantee and extra support for those in lower pay grades. Employers had offered a voluntary one-time payment in July 2027 and a 1.3% pay increase – but not until July 2028. They also wanted more flexibility to offer terms below those set by collective bargaining agreements when business conditions were tough. Rarely have the two sides been so far apart.

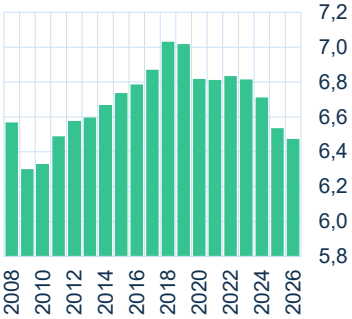
Now, in the fourth round of negotiations, the two sides have managed to meet in the middle. They reached a regional agreement for the German states of Baden-Württemberg and North Rhine-Westphalia, intended to set the pattern for settlements elsewhere. The union can present pay raises totaling 4.3%, phased in over two stages, as a victory for its members. Employers, in turn, secured greater flexibility.

German industry's pulse is barely detectable

Under other circumstances, this would have been a welcome compromise without too much collateral damage in the form of prolonged strikes. Even so, one might ask whether the union recognizes how precarious conditions have become for many companies, particularly among automakers and their suppliers. Employers' warning that IG Metall's escalation would further accelerate Germany's deindustrialization was not unfounded.

Escalation loomed

Fig. 1: Employment in German industry (millions, through Q1 2026)



Source: Destatis, LBBW Research

The number of industrial jobs covered by Germany's mandatory social insurance system has fallen by about 8% since 2018 (see fig. 1). The automotive industry alone lost more than 42,000 jobs between June 2025 and June 2026, a decline of 5.8%. Employment in the sector is at its lowest since 2005. And the steep decline continues. According to the fall survey by the German Economic Institute (IW), an employer-funded economic research institute, twice as many industrial companies plan to cut staff as to hire. Three-quarters cite rising labor costs as a reason why they expect no recovery in 2027. Across 72 German administrative districts and cities, manufacturing employment fell by at least 10% between 2014 and 2024; in 16 districts, the decline exceeded 20%. In four areas – Erlangen, Gelsenkirchen, Groß-Gerau and Offenbach – it topped 30%. Deindustrialization is in full swing.

Investment moves abroad

Meanwhile, German companies doubled their stock of investment abroad between 2010 and 2024. High labor costs are certainly not the only reason investment is moving overseas. But they are an important driver. Wages in Germany's automotive industry are already the highest in Europe. In Hungary or Poland, hourly wages are only about a third of Germany's (see fig. 2). Germany's higher productivity cannot make up the difference.

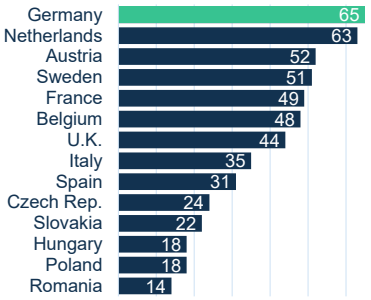
The deal could backfire

With industry mired in a prolonged recession, excessive pay demands could accelerate manufacturing's exodus. In recent months, German companies have shown that they are prepared to lay off workers and close plants despite shortages of skilled labor.

There is, of course, ample room to debate whether German automakers owe their current predicament primarily to poor management decisions. And a case can certainly be made that the leadership of Mercedes, Volkswagen and their peers failed to respond quickly enough to changes in what consumers worldwide want from their cars. It is also true that, according to Germany's Federal Statistical Office, inflation-adjusted wages remain just below their 2019 level (see fig. 3). Workers' sense that they have not shared fairly in economic gains is understandable.

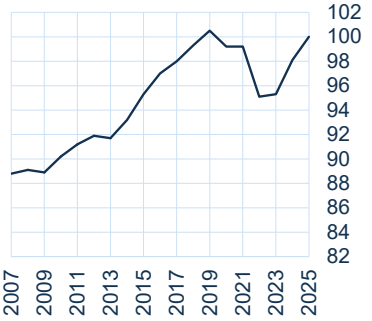
Even so, greater loyalty from employees might have been appropriate this time. In the present circumstances – perhaps Germany's deepest industrial crisis in many decades – the agreement, arguably extracted from employers under duress, could still backfire. Whether the union's hard-line approach truly represents a victory for its members, or ultimately proves a poisoned chalice by making their jobs even less secure, remains to be seen.

Fig. 2: Average labor cost in the automotive industry (€/hour, 2025)



Source: DW.com, LBBW Research

Fig. 3: Index of real wages in Germany (2025 =100)



Source: Destatis, LBBW Research

Victory or a poisoned chalice?

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