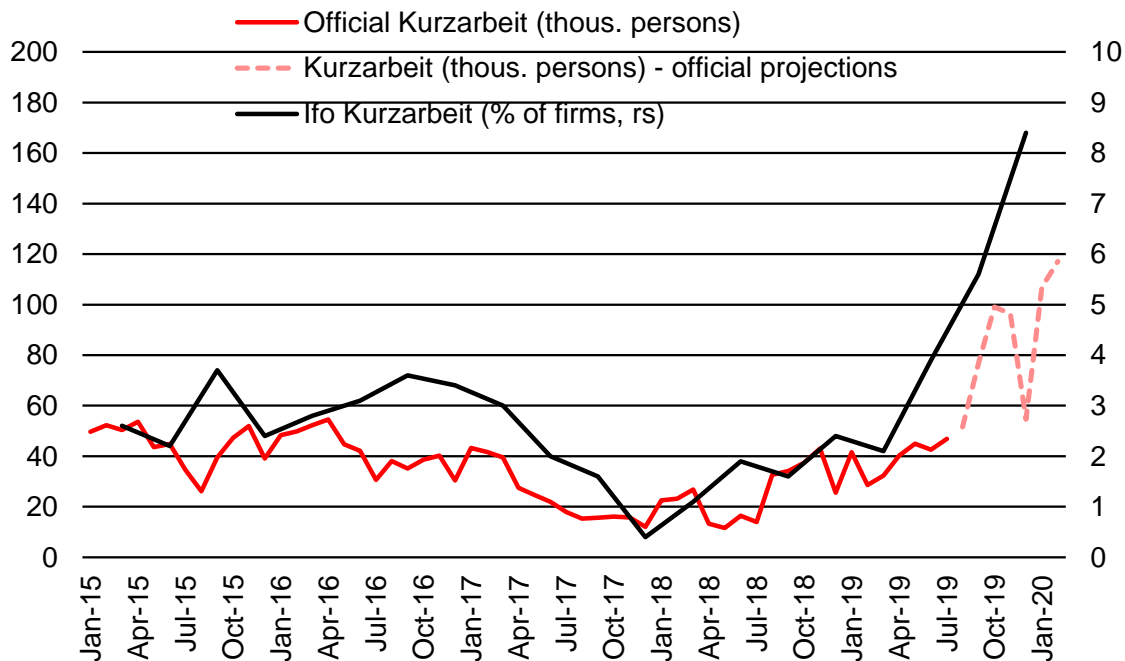


## Germany: “Kurzarbeit” set to rise further



Source: German federal employment agency, Ifo Institute, UniCredit Research

- The latest release of the Ifo index showed that German business sentiment declined somewhat in January. While we think that a continuation of the bottoming-out in German business sentiment over the next few months is still likely, weak economic activity is set to cool the German labor market further. However, companies will probably refrain from laying-off staff and hold-on to more workers than necessary during the slowdown (so-called “labor hoarding”) to avoid losing skilled workers and incurring the costs of re-hiring staff when growth picks up again in the medium term.
- As shown in our *Chart of the Week*, the effect of labor hoarding is reflected in an increase in “Kurzarbeit”. The German “Kurzarbeit” (short-time) system provides – under certain conditions – a federal subsidy to companies that reduce the working hours of their employees while keeping them on the payroll. However, this development cannot be traced accurately from official statistics provided by the German federal employment agency, since data on the numbers of workers affected by Kurzarbeit is published with a significant delay. The latest official numbers indicate that the number of such workers was 46,827 in July 2019. Agency projections suggest an increase to 117,100 in February 2020.
- A similarly strong increase is suggested by a recent Ifo survey, according to which more than 8% of firms in the manufacturing sector reported that they were reducing working hours. Although the official data on Kurzarbeit from the German federal employment agency relates to the whole economy, around 85% of this is attributable to the manufacturing sector, which is why we consider the Ifo figures to be a fairly good indicator of reduced working hours in the German labor market. The Ifo survey also suggests that current projections by the German federal employment agency might underestimate the actual extent of Kurzarbeit participation, and that there might be some upward revisions. Moreover, the increase in Kurzarbeit may partly explain why the spillover of manufacturing weakness to more consumer-related services has been rather contained so far, as it tends to stabilize employee income and private consumption.

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