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Western European Indicators and Insights

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Germany: Solid labor market not boosting the consumer!

Showing an unexpectedly large further drop, unemployment decreased by 34 000 in January, a larger fall than the 25 000 slide seen in the previous month. As a result, the level of joblessness (at 2.85 mln) hit a fresh 20-year low, while the 0.1 percentage point drop in the adjusted unemployment rate (to 6.7%) merely accentuating the drop of the previous month.

In addition, there was also a further rise in vacancies. Moreover, (December) employment continued to grow, even though the Y/Y growth rate remained at 1.2%.

According to Federal Statistics Office data, real retail sales (excluding auto and petrol sales) dropped 1.4% in M/M terms in December, a much softer-than-expected outcome after the unrevised October fall of 1.0%. Regardless, the data remains highly volatile and prone to revision, albeit with very little sign of any uptrend, the latter underscored by the still-soft Y/Y rate of growth (which moved back to the negative at -0.9%). Even so, the data imply a clear fall back in sales occurred in Q4, something that will have contributed to the likely drop in GDP during the quarter.

All of which implies that the better labor market is not boosting German consumer spending, with it likely that the still high level of inflation is acting to erode spending power, even in relatively resilient economies such as Germany (NB the inflation rate is still well above the growth in jobs). Quite possibly the data of late may have been distorted by the mild weather so far this winter, the latter acting to depress sales of seasonal goods while simultaneously shoring up employment in the likes of construction. Regardless, the question is the extent to which the relatively fragile German consumer acts as a restraint on the whole economy or adds to the disinflationary pressures that are now clearly re-emerging in Germany and the Eurozone generally.