3 October 2024

Research Euro Area

Moderating labour market with downside risks

- The euro area labour market looks historically strong based on unemployment and latest employment data. However, survey indicators into Q3 2024 show that recent employment growth has cooled. The totality of data points to downside risks to the labour market outlook.
- Significant differences between euro area countries and sectors exist. German employment is declining, French employment growth is deteriorating, while growth in Southern Europe is solid. Employment growth is held up by services and the public sector while manufacturing experiences declining employment.

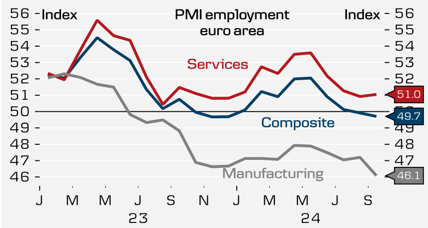
The euro area unemployment rate remained all-time low at 6.4% in August and the latest national account data showed continued employment growth at 0.2% q/q in the second quarter of the year, indicating a historically strong labour market. However, recent survey indicators show that employment growth has cooled in the third quarter of the year.

Two key gauges to assess the employment situation is from the PMI survey and the European Commission's business survey. The composite PMI employment indicator, which has had a good correlation to employment growth (see appendix), has dipped below 50 in the past three months, signalling a cooling of the labour market. **The PMI composite indicator is driven by very weak manufacturing employment at 46.1, clearly signalling a deteriorating employment situation, while the service sector employment indicator is still at 51.0, indicating continued demand for additional labour, albeit weaker than in the first half of the year.** As the service sector has the largest share of private employment in the euro area economy (57%) it supports the aggregate employment numbers together with public employment.

The European Commission's business survey does not paint as dire picture as the PMIs. The employment expectations indicator (EEI) remains at levels historically associated with employment growth, albeit the trend is clearly pointing down. In combination with PMI employment, these point to cooling aggregate euro area employment growth and highlights downside risks to the labour market outlook.

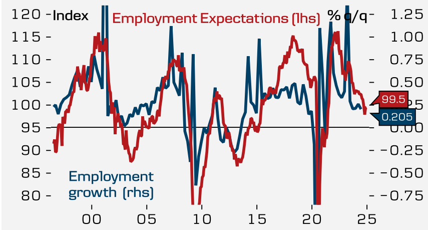
The recent moderation in the labour market is primarily due to Germany and France, while the labour markets in Southern Europe remain strong. PMI employment has been below 50 in Germany in the past four months and the EEI employment expectations are levels only recently seen during COVID and the financial crisis. **In contrast, employment expectations are high in Spain and Greece and the PMI employment is above 50 in Italy.** Spain even recorded the highest services employment PMI in 17 months at 56.1 in September. The differences in the labour markets across the euro area countries are explained by the differences in growth. Southern Europe currently witnesses strong growth while Germany and France struggle. For more details, see *Research euro area: Southern Europe to continue outperforming*, 23 September.

PMI employment indicate cooling labour markets



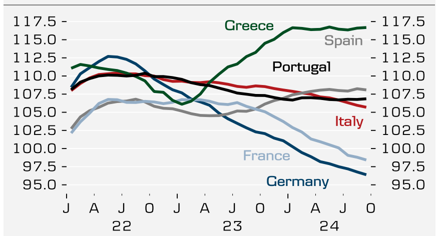
Source: S&P Global, Macrobond Financial

ESI indicates rising employment



Source: Eurostat, Macrobond Financial

France and Germany weak, Southern Europe strong



Source: Eurostat, Macrobond Financial

Analyst
Rune Thyge Johansen
+45 40 26 04 37
rujo@danskebank.dk

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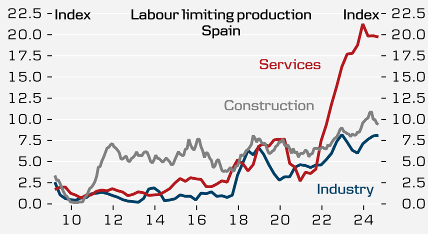
A final gauge to take the temperature on the labour market is the EU's survey on what is limiting companies' production. The survey shows that the labour shortages are particularly noteworthy in the Spanish service sector and Greek industry, which continues to have issues finding enough employees (see appendix), indicating high labour demand. In contrast, companies reporting labour shortages has declined significantly in France and Germany, also in the service sectors. **Hence, we identify Germany and France to have the weakest labour markets and to be the countries with largest risks of declines in employment. In contrast, employment is expected to continue to grow in Spain, Portugal, and Greece.**

Service providers in Spain face shortages on labour



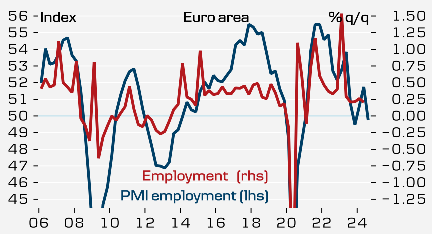
Source: Eurostat, Macrobond Financial

Appendix: Chart pack

Decent correlation between PMI employment and employment growth

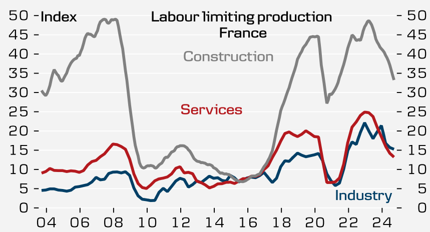
Source: S&P, Eurostat, Macrobond Financial

Correlation between PMI employment and employment growth



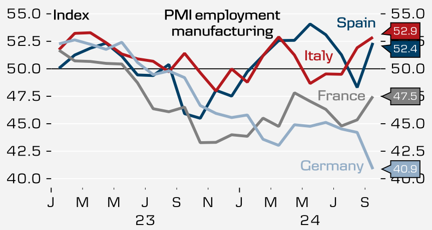
Source: S&P, Eurostat, Macrobond Financial

Low French services labour shortages



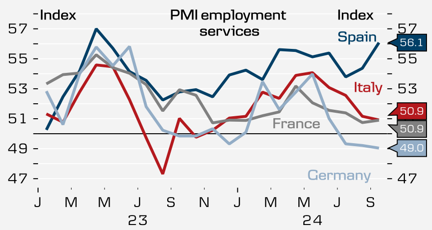
Source: Eurostat, Macrobond Financial

Manufacturing employment weak in France and Germany



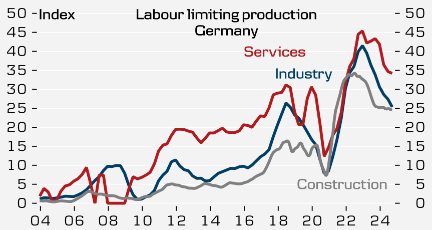
Source: S&P, Macrobond Financial

Services employment strong despite in Germany



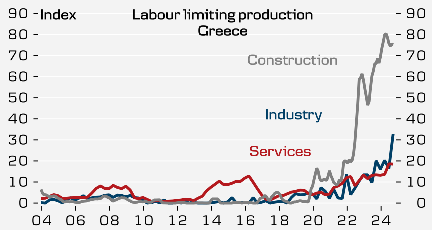
Source: S&P, Macrobond Financial

German labour shortages declining



Source: Eurostat, Macrobond Financial

Large labour shortages in Greek industry and construction



Source: Eurostat, Macrobond Financial

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None

Date of first publication

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