

## UNEMPLOYMENT IN AN INTERNATIONAL COMPARISON

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At the beginning of 2009, the global financial and economic crisis finally reached the German labour market. Generally, the labour market reacts to the short-term economic trend with a time lag of almost two quarters. In Germany it has so far resisted fairly well to the economic distortions. This article deals with the development of unemployment rates in Germany, the USA and the European Union states. The data source used for the German unemployment figures and for those of the other EU member states is the Labour Force Survey conducted in a harmonised way across the EU. In Germany, it is integrated into the Microcensus. The data source for the unemployment figures of the USA is the monthly household survey "Current Population Survey".

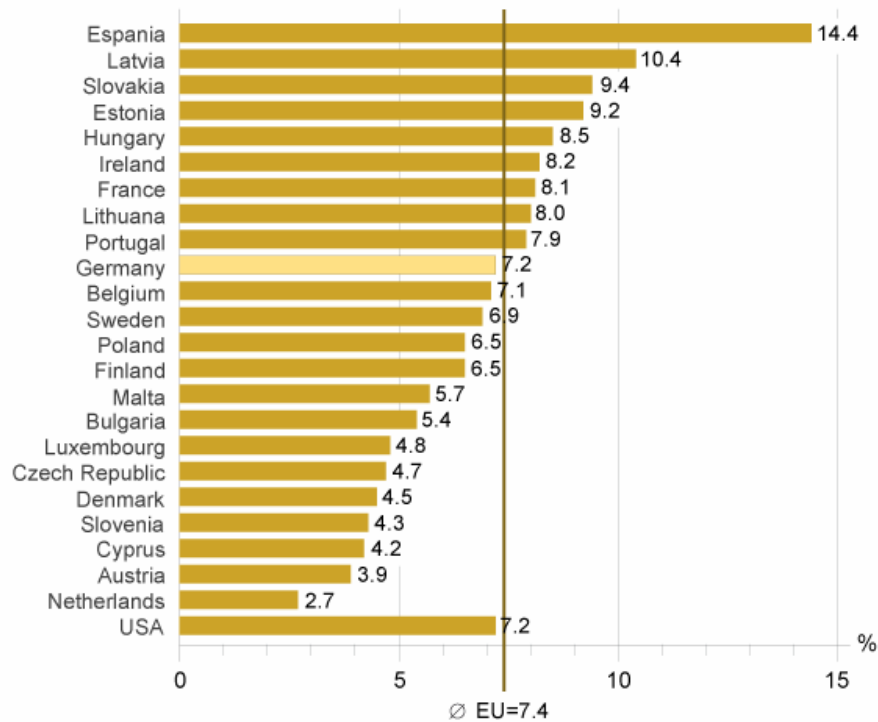
### German economy shrinking

For a long time, the crisis seemed to be restricted mainly to the financial markets and to the USA, where it started. It started in spring 2007 with the so-called subprime crisis, which began to spread all over the world through the manifold interactions between financial markets. By September 2008 it had escalated, so that some American financial institutions were nationalised or had to file for insolvency. At the same time, it emerged in Germany that German banks had got under serious pressure, too. At that time, the financial crisis already had some impact on the real economy. Since the second quarter of 2008, Germany has recorded a decrease in the gross domestic product from one quarter to another, showing the economy has been shrinking.

### Labour market in Germany so far robust

On the German labour market, the positive overall trend has continued beyond the third quarter. However, the increase in the number of persons in employment in Germany has been slowing down since April 2008. In March, the number of persons in employment was up by 1.7 % compared with March of the previous year. By December, that year-on-year increase was down to 0.9%. If we wish to compare the month-on-month change in the number of persons in employment that is due to the short-term economic trend, that figure must be adjusted for purely seasonal changes. For example, at the beginning of any year, unemployment rises due to the end of the Christmas business and negative influences of the cold weather. When adjusted for such seasonal effects, the number of persons in employment was slightly down from its peak level of 40.41 million in October 2008 to 40.37 million in December.

### Unemployment rates in December 2008



For Greece, Italy, Romania and the United Kingdom, no results were available at the time of publication.

Source: Eurostat.

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The development of the number of unemployed reflects the same general trend on labour market. When examining the values adjusted for seasonal effects, there were 3.12 million unemployed persons in Germany in December 2008. In December of the previous year, the figure was by 290,000 higher. In the course of 2008, the number of persons without employment gradually fell to 3.09 million until October. Then it rose again by some 30,000 persons until December. The relevant unemployment rate decreased from 7.9% in December 2007 to 7.2% in December 2008.

The last peak level of the seasonally adjusted unemployment rate was reached in March 2005 (10.8%). This means that in the past phase of economic upturn, the German unemployment rate fell by 3.6 percentage points until December 2008. In March 2005, 4.64 million persons in Germany were without employment. In December 2008, the figure was by 1.52 million or 32.8% lower. In terms of unemployment, men and women benefited almost equally from the past upturn. In December 2008, the unemployment rate of women was 7.0%, that of men 7.5%. In both cases, the rate was by approximately one third lower than in March 2005.

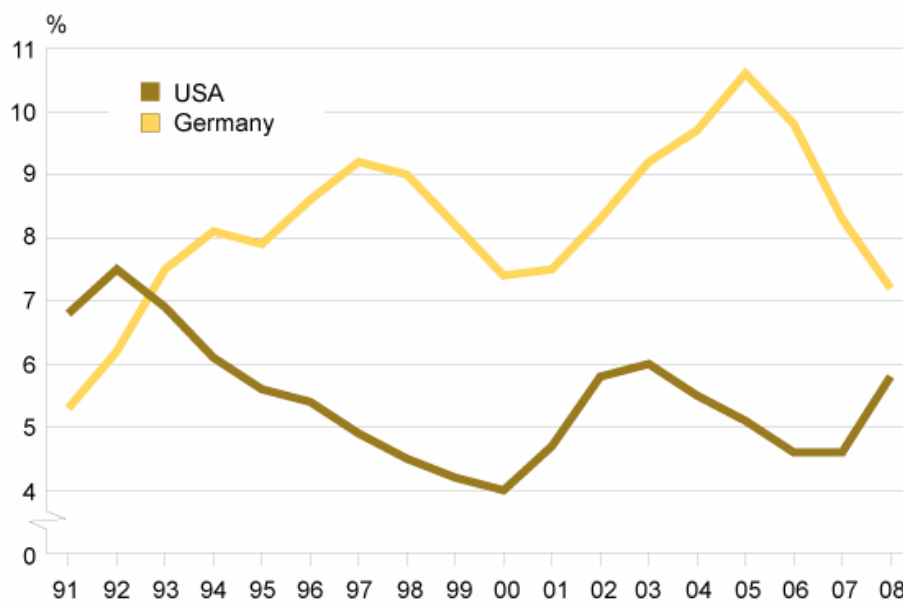
### German rate lower than American rate for the first time in 16 years

In the discussion on economic and labour market policies, the United States of America are often considered as a benchmark for Germany and the relatively low unemployment figures there are taken as a positive example. Internationally comparable concepts allow drawing such comparisons as, for example, the following unemployment rate based on the labour status concept of the International Labour Organization (ILO).

Until 1992, the USA had a similar, or even a higher unemployment rate than Germany. Between 1992 and 2000, the USA succeeded in continuously reducing their unemployment rate from an annual average of 7.5% to 4.0%. An increase resulting from the phase of economic weakness at the beginning of the new millennium was reduced nearly to the initial level of 2000. Only in 2008 the unemployment rate in the USA rose markedly to an annual average of 5.8%.

### Unemployment rates in the USA and in Germany

Annual average results



Source: Eurostat.

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In Germany, however, unemployment increased at the beginning of the 1990s and, in the subsequent phase of economic upturn, it could not be reduced to the initial level. The German unemployment rate peaked in 1997 (9.2%) and 2005 (10.6%). In 2005, the German unemployment rate was more than twice as high as the American one. Then the German rate fell continuously and reached an annual average of 7.2% in 2008.

The development in the course of 2008 regarding the monthly rates shows more clearly the deterioration on the American labour market. In the first four months, the seasonally adjusted rate was a rather constant 5%. In May it started rising markedly and increased continuously until it reached 7.2% in December. Compared with December 2007, it was up by 2.3 percentage points or by 47 per cent.

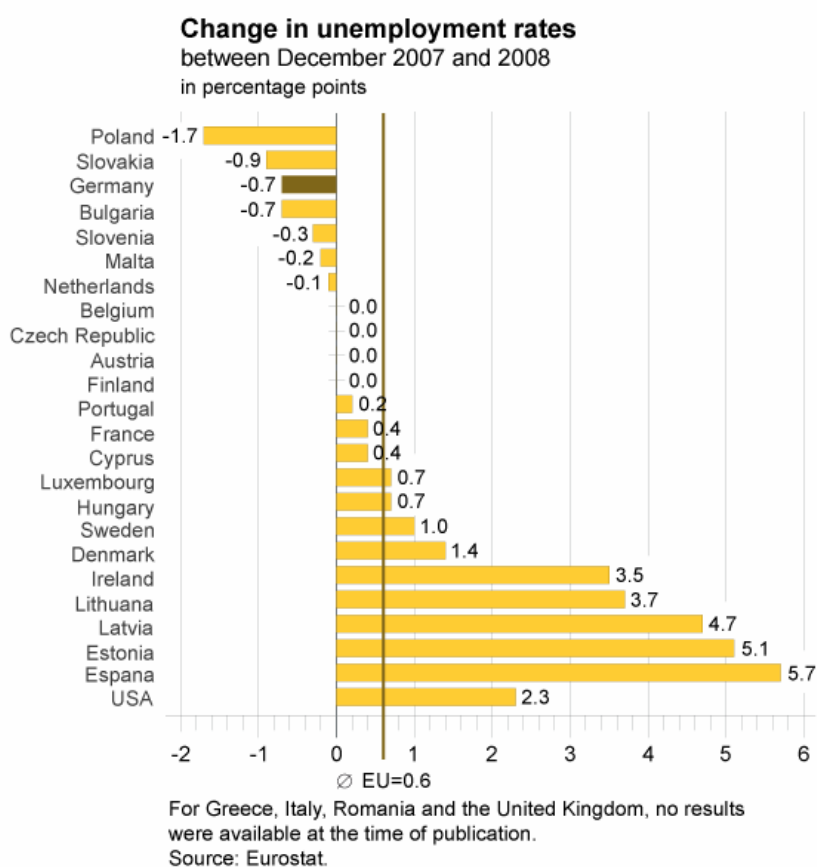
For comparison: In the same period, the German unemployment rate decreased by 0.7 percentage points or by 9%.

The figures for January 2009 that are already available for the two countries show that, following equal unemployment rates in December 2008, Germany had a lower unemployment rate (7.3%) than the USA for the first time in 16 years. The US rate in January was 7.6%.

## German unemployment rate below average when compared with the European Union

For the European Union member states, unemployment rates are currently available until December 2008. For Greece, Italy, Romania and the United Kingdom, they are not available yet, so that those countries cannot be included in the following study.

In the European Union, the unemployment rate was 7.4% in December 2008. It started rising in August 2008, while it had been rather constant at 6.9% in the months before. Compared with December 2007, it was up 0.6%. In Germany, the unemployment rate in December 2007 was by more than one percentage point higher than the EU average. In December 2008, it was below the average of the member states.



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The unemployment rates in the EU member states are quite different, both in terms of level and change in the course of 2008. The countries with the lowest rates in December 2008 were the Netherlands (2.7%) and Austria (3.9%). As many as half of the member states of the last two EU enlargement waves had an unemployment rate that was below the EU average. Despite its success in reducing unemployment, Germany is ranking 14<sup>th</sup>. Spain is bottom of the list with an extremely high unemployment rate of 14.4%. It is preceded by Latvia (10.4%), Slovakia (9.4%) and Estonia (9.2%).

## Different unemployment trends in Europe

Despite all differences, four development patterns for the rates can be identified for the EU member states. The first group consists of countries which succeeded in markedly reducing their unemployment rates on balance in 2008. That group comprises just four countries. Apart from Germany, that is Bulgaria, Poland and Slovakia. In those countries, the unemployment rates decreased until September or October, before they stagnated or slightly increased. On an annual balance, Poland (-1.7 percentage points) and Slovakia (-0.9 percentage points) recorded the largest decreases.

In a second group of states, unemployment remained at a constant level over the year. Hence, on an annual balance, those states show no changes at all, or very small changes, in their unemployment rates. An impact of the economic crisis on the unemployment rates cannot be identified. Those countries are Belgium, Slovenia, the Czech Republic, Malta, the Netherlands, Austria, Portugal and Finland.

Most EU states are in a group where the trend of unemployment rates started to worsen in the course of the year. Before, the unemployment rates had been constant or slightly decreasing. Those countries are Denmark, Estonia, France, Latvia, Lithuania, Luxembourg, Sweden, Hungary and Cyprus. In most of the states of that group, the reversal occurred in the second quarter. The extent differs considerably. In the three Baltic states, a very sharp increase started in June, so that, on an annual balance, the Estonian unemployment rate grew by 5.1 percentage points, the Latvian by 4.7 and the Lithuanian by 3.7 percentage points. In Denmark and Sweden, the unemployment rates rose a good one percentage point. The above-described development pattern for the USA in 2008 corresponds to that of this group.

The fourth and last group is characterised by continuously rising unemployment rates from the beginning of 2008. It includes Spain and Ireland. The increase in the unemployment rate in those countries also accelerates during the year. However, no exact point in time can be identified at which the impact of the economic crisis is added to the negative overall trend. Among all countries examined, the trend of the unemployment rate is most negative in Spain (+5.7 percentage points). In Ireland the rate increased by as much as 3.5 percentage points.

## Conclusion

Comparing the unemployment rates of the European Union and the USA shows that no impact of the worldwide economic crisis has been observed so far which would be the same everywhere. Also, the monthly results of 2008 do not allow making any statement on the further trend. It can be observed, however, that towards the end of 2008 the reduction of unemployment has ceased in all countries examined.

In this context, Germany is among the countries which so far have held their ground most successfully. Compared with the same month a year earlier, Germany succeeded in reducing unemployment even in 2008, has an unemployment rate below the EU average now and, in this respect, is at the same level as the USA for the first time in 16 years. The coming months will show whether the German labour market will continue to be relatively robust against the short-term economic trend.