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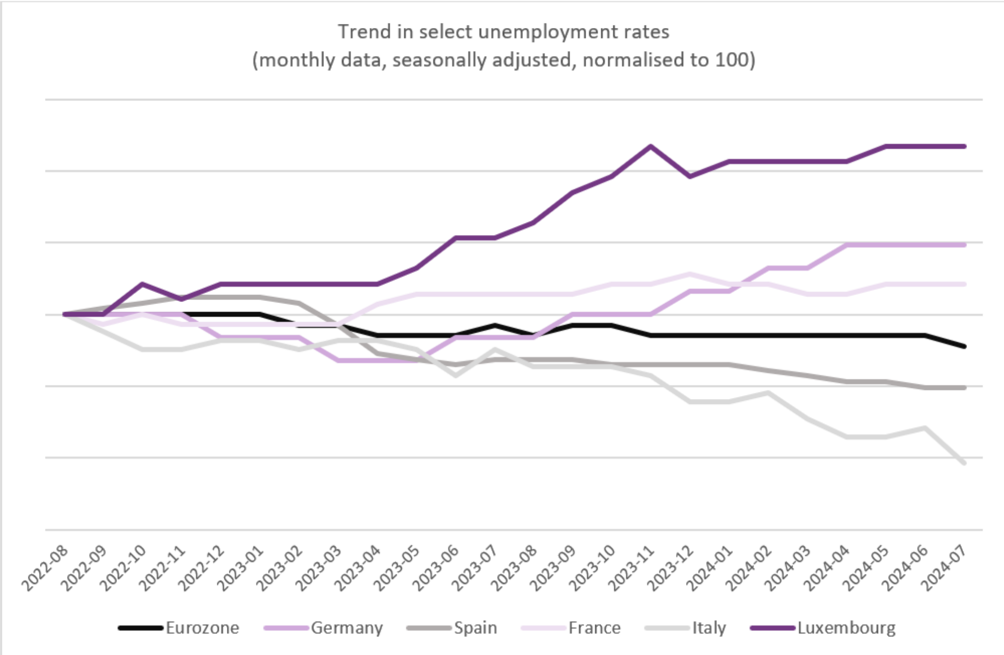
What lies behind recent trends in the Eurozone's labour market? How does Luxembourg compare?

At 6.4%, the Eurozone unemployment rate currently sits at its all-time low, but the picture varies from country to country. Labour market trends will influence the pace of the ECB's rate cutting campaign to support the Eurozone economy. We take the pulse of the dynamics in some of the bloc's main economies and see how Luxembourg's compares.

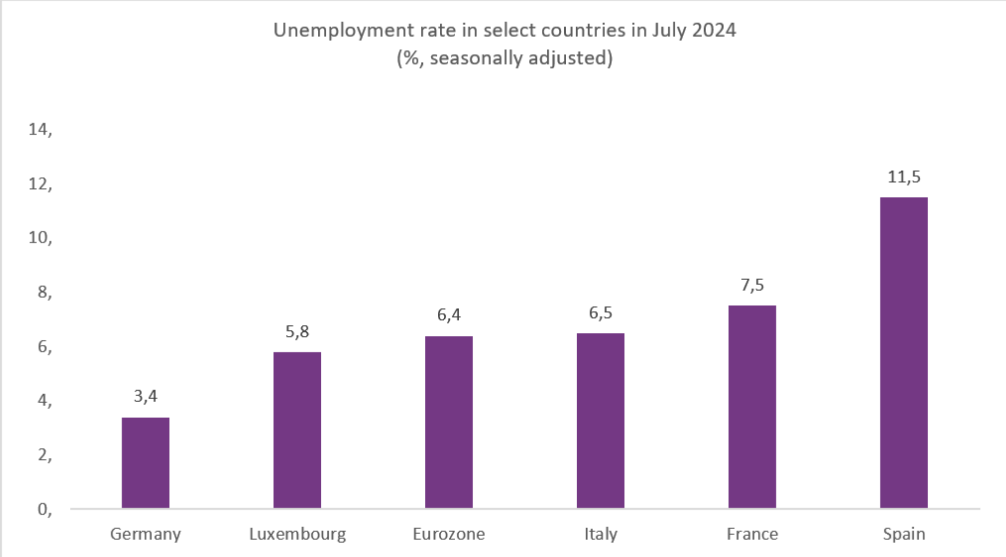
In July, the Eurozone unemployment rate fell back to a record low of 6.4%, down from 6.5% in June. This is somewhat surprising given meagre growth, weak demand and a period of tight monetary policy aimed at cooling inflation. While demographics are causing structural tightness, on a more cyclical basis, the low unemployment rate is partly due to the fact that companies have been hoarding workers in the hope that demand will soon rebound.

ECB policymakers have, on several occasions, noted the risk that a "surprisingly strong" labour market pushes up wage growth. Complicating matters for the ECB, is the fact that the situation is not harmonious across Eurozone states. As the below chart shows, some countries have enjoyed a downward trend in unemployment over the past two years, while some have seen the opposite, quite notably Luxembourg.



Source: Eurostat, Bloomberg, BIL

Readers should note that Luxembourg's unemployment rate has trended up relative to its own history but is still below that of other countries as shown in the second chart below.



Source: Eurostat, BIL

A QUICK READ OF THE EUROZONE DATA

If we make broad generalisations, we can say economies that are more services-oriented (especially those with burgeoning tourism industries), are seeing unemployment move in the right direction. In Italy and Spain, for example, unemployment rates have fallen to levels unseen since 2008. Germany, on the other hand, is seeing unemployment tick up amid ongoing malaise in industry (which accounts for almost one quarter of overall GDP). The unemployment rate is still low overall, however, and Germany's trade unions continue to push for higher pay. This year, the country is expected to see one of the fastest paces of real income growth since 2000 as workers try to regain the purchasing power lost in the aftermath of the pandemic. In France, the unemployment rate sits at 7.4% today, versus 7.2% in August 2022. Labour reforms put in place by Macron, aimed at achieving full employment by 2027, have made it easier for companies to negotiate salaries and wages directly with employees, without the need for trade unions and collective deals impacting entire sectors. They have also attempted to make it easier for companies to hire and fire workers.

A CLOSER LOOK AT LUXEMBOURG

Luxembourg's economy is predominantly services-oriented but the sector has been hit with idiosyncratic issues.

Looking at the facts, as at the end of July, the number of resident jobseekers registered with ADEM stood at 17,901, representing an increase of 11.1% from July 2023. The most highly qualified jobseekers (higher education graduates) saw the biggest increases. Over the same period of time, job vacancies dropped by 20.8%, bringing the total to 7,539.

Many positions remain unfilled due to **mismatches in skill sets**, particularly in areas such as language proficiency. By sector, ‘professional, scientific, and technical services’ is most affected by labour shortages. On this front, efforts are now being made to attract more non-EU experts in “highly-skilled occupations considered to be in short supply”.[1]

Digging into the data, it is clear that the decline in vacancies and the rise in jobseekers can, to a large extent, be traced back to the ongoing **real estate downturn** and **restructuring in financial services**.

Luxembourg’s **real estate sector** was one of the first to be impacted by higher interest rates. To illustrate the extent of the downturn, at the end of last year, transactions for apartments fell to the lowest level seen in any quarter since the Land Registry was created in 2007. This has had clear downstream effects across a range of professions, from real estate brokerage to promotion to construction to installation.

The **financial sector accounts for 25% of the country's GDP**. Over the past years, amid a more challenging macroeconomic context, various banks and financial institutions have restructured or refocused their operations. Digitalisation is also becoming more pertinent. Mechanically, a reduction in workforce in Luxembourg has a bigger impact on the overall unemployment rate due to the country’s size. If 200 workers suddenly become unemployed tomorrow in the Grand Duchy, the total number of jobseekers would hypothetically rise 1.12% to 18,101. If a bank in Germany laid off the same amount of people, the impact on the unemployment rate would be a drop in the ocean given that there, 2.6 million people are registered as unemployed.

WHAT NEXT FOR THE LUXEMBOURG LABOUR MARKET?

Looking ahead, the Chamber of Commerce’ latest Barometer of the Economy, published in June 2024, found that despite the difficult economic climate, 65% of companies plan to keep their workforce stable over the next six months. 17% of companies are planning to reduce their workforce, while 18% are planning to increase it, pointing to sluggish job creation ahead. Employment prospects differ significantly between sectors. Those in industry, construction and commerce are more inclined to forecast a decline in staff numbers (29%, 27% and 22%, respectively) than increases (12%, 10% and 14%). On the other hand, the financial and non-financial services sectors are more optimistic, with 23% and 22% of companies anticipating an increase in their workforce, compared to just 8% and 12% forecasting a reduction.

Overall, the European Commission expects the Luxembourgish unemployment rate to level off at 5.8% this year, before declining slightly to 5.7% in 2025.

Lower interest rates will certainly help. With interest rate differentials in mind, the fact that the Fed has signalled it is ready to begin cutting rates is good news as the ECB is now more free to continue with its own rate cutting campaign to support the Eurozone economy. If the Fed had remained on hold, further easing by the ECB would likely weaken the euro, which in turn could rekindle inflation in the bloc.

[1] https://www.luxembourgforfinance.com/en/news/easier-and-faster-access-to-employment-for-non-eu-nationals/

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