

# G20

## Statistical Update



International  
Labour  
Office

### GERMANY: STEEP CONTRACTION IN REAL GDP YIELDED LOWER HOURS OF WORK

**The stimulus package coupled with automatic stabilizers has helped soften the impact of the recession on the German labour market**

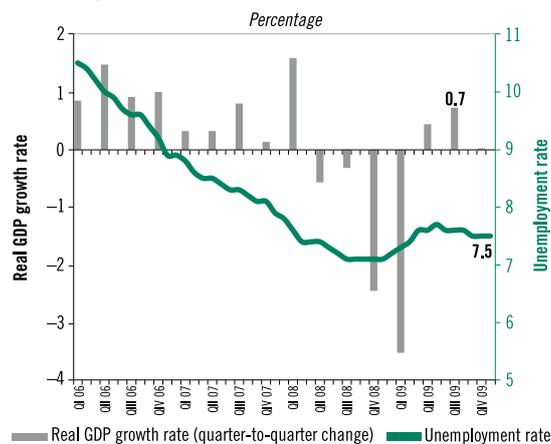
**Stimulus programme has included subsidies to employers who reduce working hours rather than laying-off workers**

- Real GDP declined sharply (-6.7 per cent) from its peak in the first quarter of 2008 to the trough in the first quarter of 2009, but the impact on the unemployment rate has been relatively modest.
- Labour market measures in the stimulus package which encourage employers to retain workers through short-time work incentives have been quite effective in minimizing unemployment increases.
- The unemployment rate increased from 7.3 per cent in 2008 to 7.5 per cent in 2009, well below the recent peak of 10.7 per cent in 2005.

Germany reacted to the crisis with a total of four stimulus programmes and some additional measures, adopted between October 2008 and November 2009.

- The total stimulus package was valued at €100 billion, or about 4 per cent of 2008 GDP.
- Cuts in taxes and social security contributions (including a smaller amount of direct transfers) accounted for about 66 per cent of the package, with the remaining portion allocated to government expenditure. This included investments, labour market measures and measures for the automotive sector, such as tax cuts for new cars and a €5 billion cash for clunkers scheme.
- Green measures, which covered energy efficiency and transportation, were estimated at about 13 to 15 per cent of the package.
- Labour market measures, most notably short-time work incentives (*Kurzarbeit*), an extension of training and the hiring of 5,000 new employees for Public Employment Services, accounted for an estimated 6 per cent of the package.
- In addition to the discretionary programmes under the stimulus package, the German welfare and tax system provides for automatic stabilizers that are estimated to have a fiscal impact of 2.5 per cent of GDP in each of the years 2009 and 2010.
- Strong employment protection established prior to the crisis combined with internal adjustment possibilities has helped ensure greater employment security for workers.

Figure 1. Monthly unemployment rate and quarterly real GDP growth rate, 2006–2009

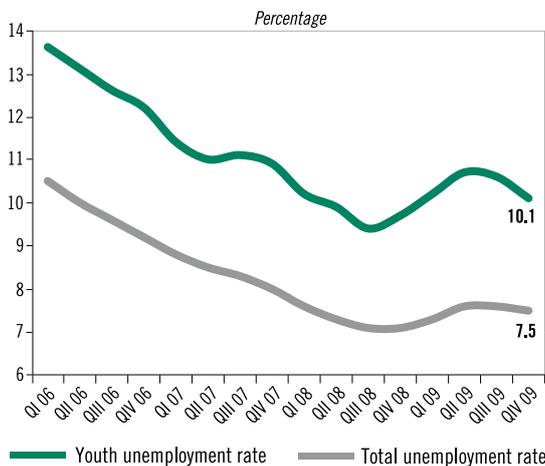


Source: EUROSTAT and official country information. Seasonally adjusted data.

## Youth unemployment rates temporarily increased more than those of the total population during the crisis

- Youth unemployment rates rose from a recent low of 9.4 per cent in the third quarter 2008 to 10.7 per cent in the second quarter 2009. It since declined to 10.1 per cent in the fourth quarter 2009, helped by the positive impact of vocational training and long-term population declines, and remains far below pre-crisis levels.
- The gap between youth unemployment and total unemployment widened slightly during the crisis as the youth unemployment rate was 1.4 times higher than the total unemployment rate from the fourth quarter 2008 to the third quarter 2009. This ratio declined to pre-crisis levels (1.3 times) in the fourth quarter 2009.

Figure 2. Total and youth unemployment rates, by quarter, 2006–2009

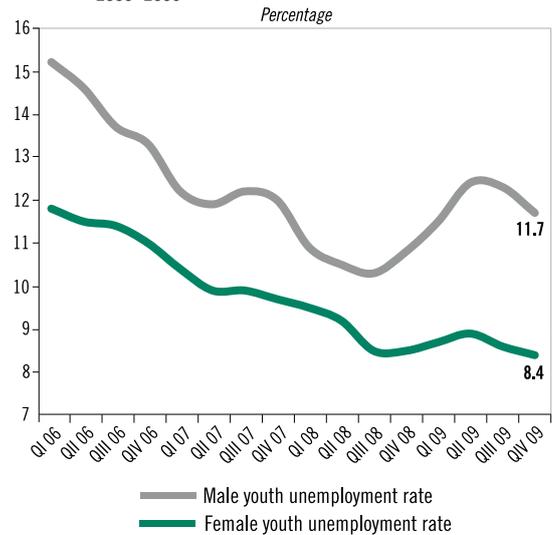


Source: EUROSTAT and official country information. Seasonally adjusted data. Youth covers persons aged 15–24 years.

## Male youth unemployment rate increased sharply during the crisis

- Male youth unemployment rate was on average 2.4 percentage points higher than female youth rate during the pre-crisis period of 2006–2007; the gap widened in 2009 to 3.3 percentage points on average, as male youth unemployment rate rose faster during the crisis than female youth rate.
- The male youth unemployment rate increased 2.1 percentage points from the most recent low in the third quarter 2008 to a high of 12.4 per cent in the second quarter 2009; the female youth unemployment rate increased only slightly (0.4 percentage points to 8.9 per cent) over the same period from its minimum to maximum. Both rates declined in the second half of 2009.

Figure 3. Male and female youth unemployment rates by quarter, 2006–2009

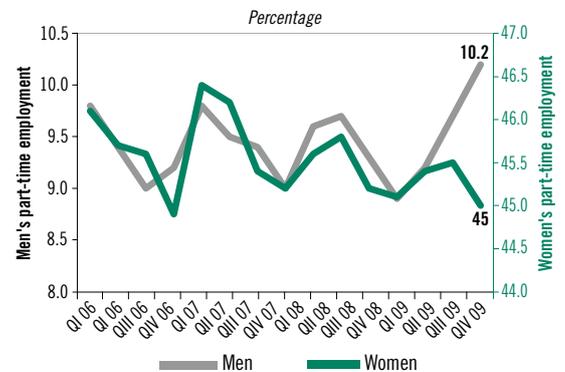


Source: EUROSTAT and official country information. Seasonally adjusted data. Youth covers persons aged 15–24 years.

## Women's part-time employment remains high while part-time employment among men increased above recent historical levels in the third quarter of 2009

- Women's part-time employment (which includes those who wish to work more hours) represents a substantial share of total women's employment in Germany (45 per cent in the third quarter of 2009). It declined modestly (0.2 percentage points) in this quarter from its level a year earlier.
- Men's part-time employment rose from 9.3 to 10.2 per cent between the third quarter 2008 and the same quarter of 2009, likely reflecting a deteriorating labour market situation among this group.

Figure 4. Part-time employment as a percentage of total employment by sex, by quarter, 2006–2009



Source: EUROSTAT and official country information. Data are not seasonally adjusted.

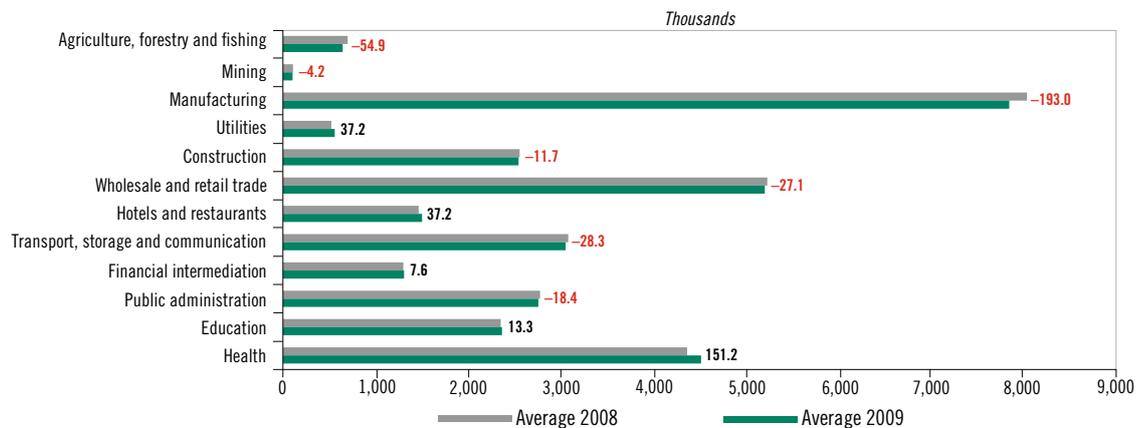
## The combination of short-time working schemes and stimulus incentives helped to contain job losses across sectors

- Employment declines have been highest in manufacturing and agriculture sectors of the German economy. On average, job losses reached 193,000 and 54,900, respectively in these sectors comparing the average of the first three quarters of 2009 and the same period in 2008.
- In the third quarter 2009, employment continued to decline across most of the sectors of the economy, albeit at a slower pace. In that

quarter, employment remained significantly below the level of a year earlier in manufacturing (6 per cent), financial intermediation (5.9 per cent) and wholesale and retail trade (2.2 per cent). During the same period, signs of deterioration in employment levels emerged for the first time in public administration and education.

- In addition to the success of short-term working schemes, the progressive implementation of large infrastructure and construction projects envisaged in the stimulus plan, as well as cash incentives for new car purchases have helped to ease job pressures, especially in the construction and automotive sectors.

Figure 5. Average employment by economic activity, level and change. Average of first three quarters of 2009 and the same period in 2008



Source: EUROSTAT. Figures next to the bars indicate changes in employment between the two periods.

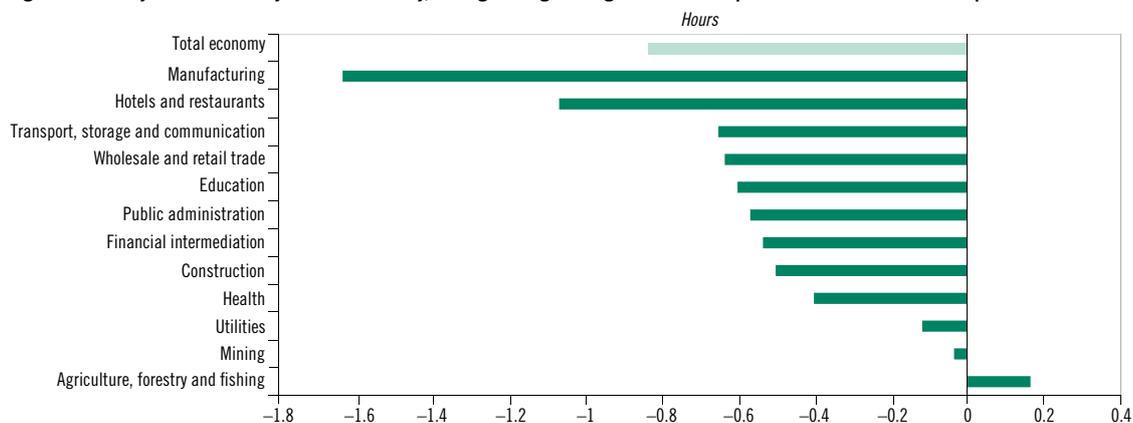
## Weekly hours of work declined across all sectors except for agriculture, reflecting short-time work schemes

- The decline in hours of work has been the key mechanism of adjustment in the German labour market with the onset of the crisis and reflects the successful results of short-time work incentives. At the total economy level, hours of work

fell 0.8 hour on average during the first to third quarters of 2009 compared to the same period in 2008.

- Weekly hours fell most sharply in manufacturing (1.6 hours) and hotels and restaurants (1.1 hours) during this period, with lesser declines in nearly all other sectors.
- Only agriculture, forestry and fishing activities experienced increases in hours of work (0.2 hours) over the period.

Figure 6. Weekly hours of work by economic activity, average change during the first three quarters of 2009 and the same period in 2008

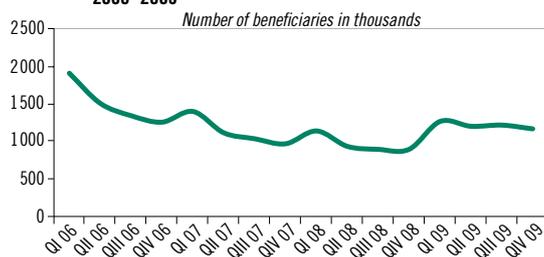


Source: EUROSTAT.

## The number of unemployment assistance beneficiaries remained stable but unemployment insurance beneficiaries rose in 2009

- The German unemployment system consists of two complementary parts: an insurance system for the first year of unemployment, with wage replacement rates related to former wages (extension possible for older workers) and an assistance system with lump sum benefits and enforced work conditionality (*Hartz IV*).
- As of February 2010, 37 per cent of the total number of unemployed (3,643,000) fell under the insurance system, while 63 per cent fell under the assistance system.
- The impact of the crisis has up to now mostly been observed in the insurance system (see figure 7), while the number of unemployed in the assistance system remained rather stable. This will change once the unemployed of the insurance system exhaust their benefits.
- The number of persons who received benefits under the unemployment insurance scheme increased by 243,000 on average in 2009 to 1.2 million, still well below the pre-crisis level in 2006 (1.5 million).

**Figure 7. Unemployment insurance beneficiaries, by quarter, 2006–2009**



Source: ILO, based on official administrative records from the Federal Employment Agency. Data are not seasonally adjusted.

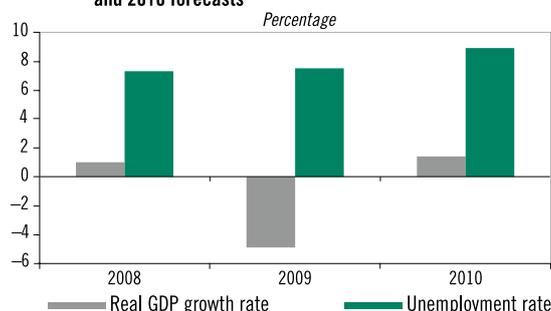
## Outlook suggests slight GDP growth in 2010, but also an increase in unemployment

- Economic growth has begun to pick up in Germany and GDP is forecast to grow by

1.4 per cent in 2010, compared to a decline of 4.9 per cent in 2009.

- The unemployment rate is nonetheless projected to rise from 7.5 per cent in 2009 to about 8.9 per cent in 2010.

**Figure 8. Real GDP growth rate and unemployment rate, 2008–2009, and 2010 forecasts**



Source: Statistisches Bundesamt Deutschland (real GDP growth rates) and EUROSTAT (unemployment rates) for 2008 and 2009 figures. Federal Ministry of Economics and Technology for 2010 forecast (January 2010).

- The German stimulus package has been working well to support workers and households by providing continued employment through work-sharing schemes. However, the number of short-time workers is anticipated to decline in 2010. Ensuring that such workers remain integrated in the labour market will become a key challenge.
- While the declining youth population will ease labour supply pressures, youth unemployment should remain a top policy priority, targeted through job retention, training and job creation schemes.
- As unemployment rises, it is expected that the incidence of long-term unemployment will increase as well as the number of discouraged workers. Addressing the particular needs of these groups will be important in 2010.
- It would be important for policymakers to take into account structural imbalances including poverty and income inequality which may result from higher projected unemployment in the near term.
- Incentives to firms that focus on productivity growth and job retention will support stable economic growth.