

Global Economic Outlook

December 2023



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Cut-off date for data

8 December 2023

CF survey date

4 December 2023

GEO publication date

15 December 2023

Notes to charts

ECB, Fed, BoE and BoJ: midpoint of the range of forecasts.

The arrows in the GDP and inflation outlooks indicate the direction of revisions compared to the last GEO. If no arrow is shown, no new forecast is available. Asterisks indicate first published forecasts for given year. Historical data are taken from CF, with exception of MT and LU, for which they come from OE.

Leading indicators are taken from Bloomberg and Refinitiv Datastream.

Forecasts for EURIBOR and LIBOR rates are based on implied rates from interbank market yield curve (FRA rates are used from 4M to 15M and adjusted IRS rates for longer horizons). Forecasts for German and US government bond yields (10Y Bund and 10Y Treasury) are taken from CF.

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I. Introduction

December 2023 will go down in history as the month a provisional agreement on the regulation of artificial intelligence (AI) was concluded on the first continent. Europe therefore became the first continent with clear rules regulating systems such as ChatGPT. These rules should become a notional springboard for EU start-ups and researchers, so that they do not fall behind in the global AI race. A race that started a long time ago. The massive expansion of AI can be compared to the effects of the mass expansion of the internet, if not larger.

A consensus on the parameters of the reform of EU fiscal rules should also emerge at the end of the year. The time-tuning of the agreement is now about finding a consensus about the speed of return to the Maastricht fiscal rules (deficit and debt relative to GDP). Europe is therefore harvesting the unwanted fruit of non-compliance with them during the euro area’s past.

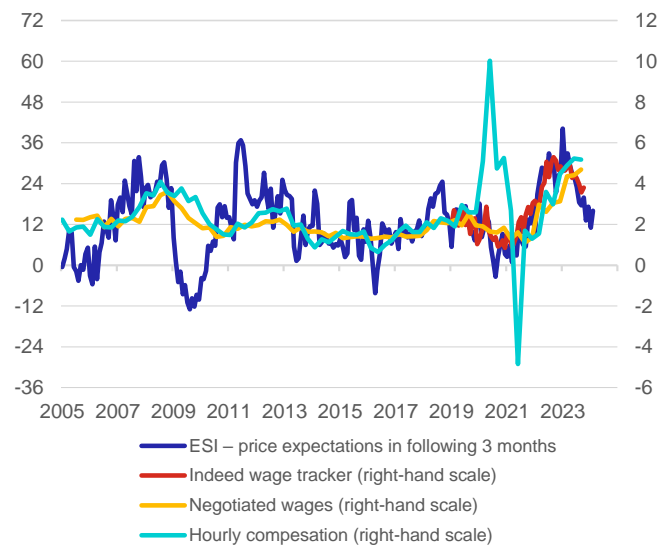
The inflation tsunami is behind us; in most developed countries, inflation is expected to start with a 2 in 2024, although prices are likely to rise slightly faster than central banks’ inflation targets. A trend that was unimaginable until recently, specifically the deflationary tendencies in the Chinese economy, is worth mentioning.

Key central banks are now eyeing the path to the interest rate valley. The last meetings of key central banks (Fed, ECB, BoE and BoJ) this year were held in mid-December. The market rate outlooks for the Fed and the ECB indicate that 2024 will be a year of dovish monetary policy, with rates falling by more than 1 pp. The start of the cutting cycle can be estimated to be in March 2024. For the BoJ, by contrast, 2024 should be the year it exits negative interest rates. Some central banks, especially in small open economies, have already implemented this easing, and some are firmly on track. The question remains how high key central banks’ balance sheets will feed into the future conduct of their monetary policy as part of the ongoing quantitative tightening programmes and the global monetary conditions they affect.

The chart in the current issue shows several euro area labour market wage indicators. Although current wage growth indicates an upward trend, a leading view indicates that a downturn may soon occur. Wage growth is important for household consumption, which would support weak economic growth in the euro area. The labour market is also the subject of an **analysis in this issue of GEO** entitled: [“Unemployment in the euro area: Why is it so low and when will it start to rise?”](#) The article maps out, from various perspectives, the causes of the current record-low unemployment in the euro area, as well as noting the emerging signs of a cooling of the labour market, now at a turning point and undergoing gradual structural changes.

Euro area wage indicators

(left-hand scale: balance of responses; right-hand scale: % year on year)



Source: European Commission, Eurostat, Indeed wage tracker
 Note: ESI indicator for price expectations in the employee activity sub-index; data are shifted forward by three months. Inspired by Oxford Economics and ING.

GEO barometer for selected countries

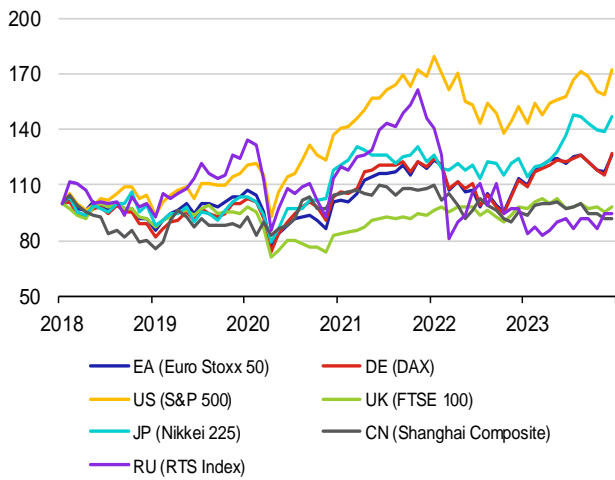
		EA	DE	US	UK	JP	CN	RU
GDP (%)	2023	0.5 →	-0.3 ↗	2.4 →	0.5 ↗	1.7 ↘	5.2 →	1.9 ↗
	2024	0.5 ↘	0.4 ↘	1.2 ↗	0.3 ↗	0.9 ↘	4.6 ↗	1.5 ↗
Inflation (%)	2023	5.5 →	6.0 →	4.1 ↘	7.4 →	3.2 →	0.5 →	6.5 ↗
	2024	2.4 ↘	2.6 ↘	2.6 ↘	3.1 →	2.3 ↗	1.4 ↘	5.1 ↗
Unemployment (%)	2023	6.5 →	5.7 ↗	3.7 →	4.2 →	2.6 →	3.5 →	3.3 →
	2024	6.8 ↗	5.8 ↗	4.3 →	4.2 →	2.5 →	3.4 →	3.3 →
Exchange rate (against USD)	2023	1.10 ↗	1.10 ↗		1.26 ↗	137.8 ↗	7.15 ↘	91.4 ↘
	2024	1.14 ↗	1.14 ↗		1.30 ↗	128.5 ↗	7.07 ↘	95.8 ↘

Source: Consensus Forecasts (CF)

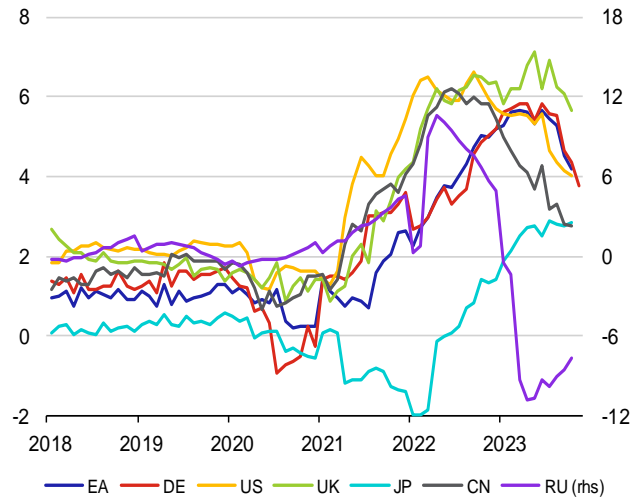
Note: The arrows indicate the direction of the revisions compared with the last GEO.

II. Macroeconomic barometer

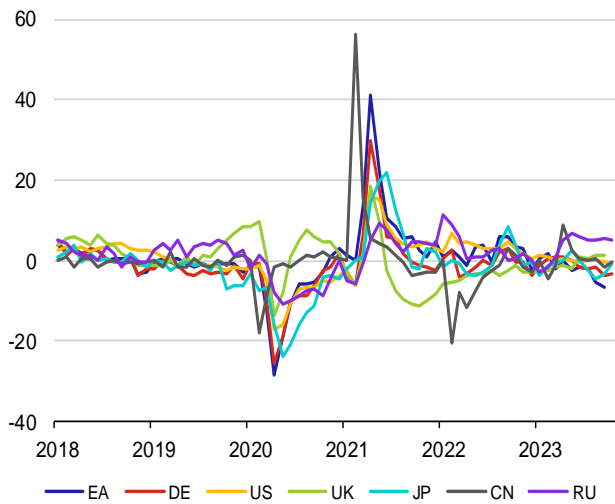
Equity markets development, index 100 = January 2018



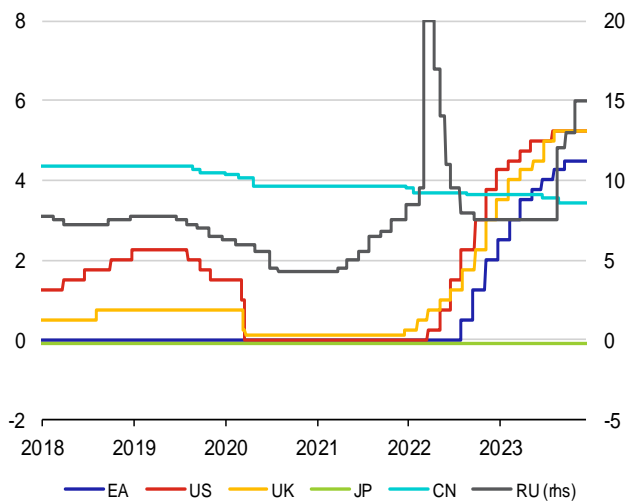
Core inflation, %



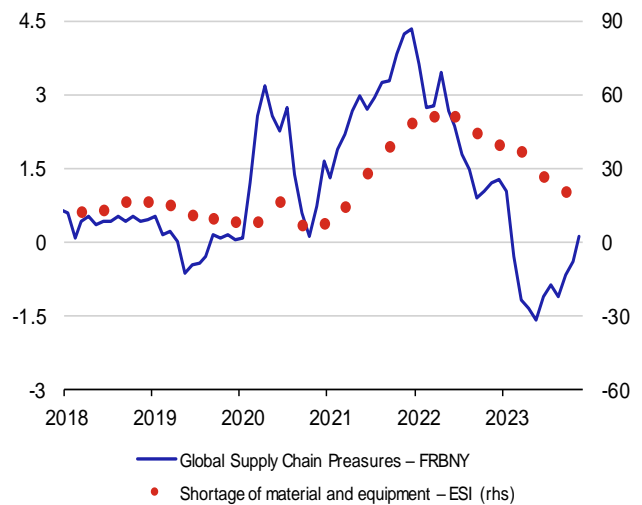
Manufacturing production, yoy %



Monetary policy rates, %



Supply chains development



Source: Refinitiv Datastream, European Commission.

III.1 Euro area

The economic growth forecasts for the euro area for next year have been lowered. The final GDP growth estimate for 2023 Q3 confirmed the previous figure (-0.1% quarter on quarter), while the result for the second quarter was revised back (to 0.1%). The euro area economy has been flat for a year now. The slight decline in output in Q3 was due primarily to a decline in inventories. By contrast, real household consumption rose for the first time since last summer, and the contribution of government consumption was also positive. The contribution of investment and, this time, also foreign trade was negligible. The newly published data suggest that a broadly similar outcome can be expected at the end of this year. Retail sales rose slightly in October (interrupting the three-month-long decline). Retailers did well mainly in Germany. By contrast, sales in France fell. Overall, economic sentiment continues to recover slightly. According to the November ESI, sentiment recovered in all the categories monitored, except manufacturing. According to the PMI, the decline in private sector activity also moderated, as the pace of decline in new orders slowed. However, for the first time in the last three years, the survey points to a decline in employment. The euro area labour market is thus likely to go into reverse. There are no major growth impulses in the medium term. The new OECD forecast from the end of November therefore lowered the outlook for economic growth next year to 0.9%. According to the respondents in the December CF, however, the growth rate will be just 0.5%, the same as this year.

The inflation outlooks for next year decreased slightly due to a better-than-expected disinflation rate. According to preliminary data, consumer price inflation slowed to 2.4% year on year in November. In addition to a deepening annual decline in energy prices, this was due to slower growth in the prices of food, services and manufactured goods. Core inflation slowed to 3.6%. In month-on-month terms, the HICP fell by 0.5%, with only food prices increasing. A temporary rise in annual inflation is expected in December due to technical factors. The OECD forecast expects average inflation of 2.9% next year. The new CF, which takes into account data for November, lowered its outlook to 2.4%.

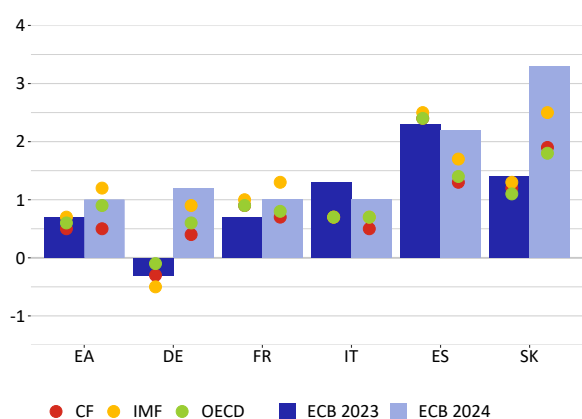


III.2 Germany

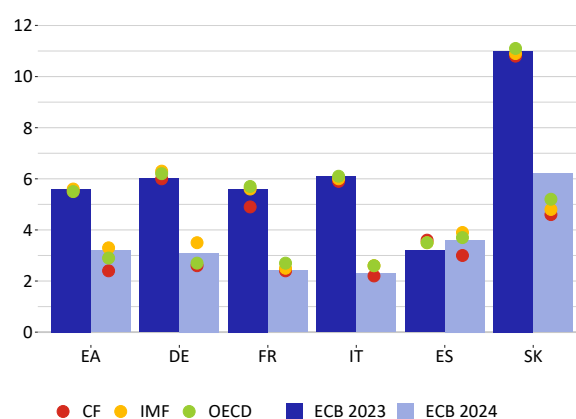
Detailed results for the third quarter confirmed a slight quarter-on-quarter decrease in the German economy’s output. Following weak results in the first half of this year, when economic output was virtually flat, GDP started the second half of the year with a slight fall of 0.1%. The problems were a decline in consumption expenditure, as well as in foreign trade. By contrast, investment provided positive impulses. The new OECD and CF predictions expect the economy to contract slightly this year and return to growth in 2024, although it will remain subdued (around 0.5%). Despite a decline in the third quarter, leading indicators bottomed out, suggest a stabilization of the German economy, albeit at a low level. According to the Ifo and ZEW indices, German business sentiment improved slightly in November. Businesses viewed their current situation more positively and had less pessimistic expectations for the coming months. Consumer sentiment stabilised as the year-end approached and its downward trend halted, at least for now. The decline in German private sector activity moderated in November, with the composite PMI indicator rising to 47.8 points. This was due to a slower pace of decline in both manufacturing (42.6) and the services sector (49.6), which even showed signs of approaching stabilisation. Despite the improvement, however, the indicators remain low, mainly due to weak demand.

Disinflation continued, as consumer price inflation declined further in November. According to the harmonised index, annual inflation reached 2.3%, which was less than expected. According to the German Federal Statistical Office, price growth slowed in all categories. Energy prices declined further, while food prices rose at a slower pace. In addition, the decline in services inflation is an encouraging sign that underlying price pressures are diminishing. Core inflation fell below 4%. According to the Bundesbank, however, the cancellation of energy subsidies should lead to a renewed slight rise in inflation. Both the OECD and CF expect prices to rise by around 6% this year and less than 3% next year in their new estimates. Industrial producer prices fell again year on year in October, albeit more moderately – by 11%, still thanks to energy prices.

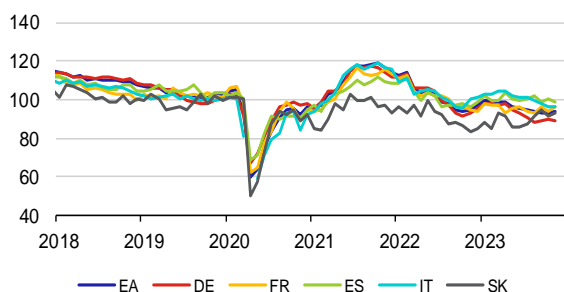
GDP growth in selected euro area countries in 2023 and 2024, %



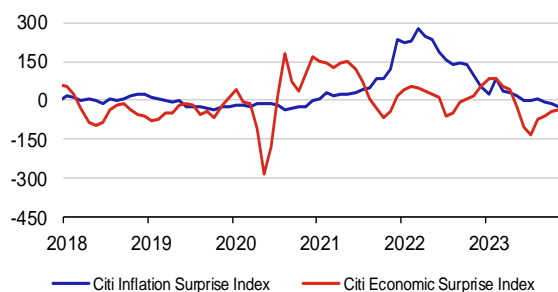
Inflation in selected euro area countries in 2023 and 2024, %



ESI leading indicators



Economic and inflation surprises in the euro area, %



Inflation expectations based on 5 year inflation swap and SPF

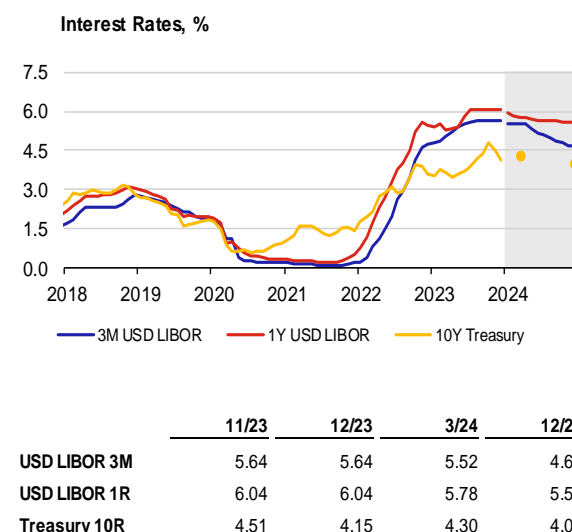
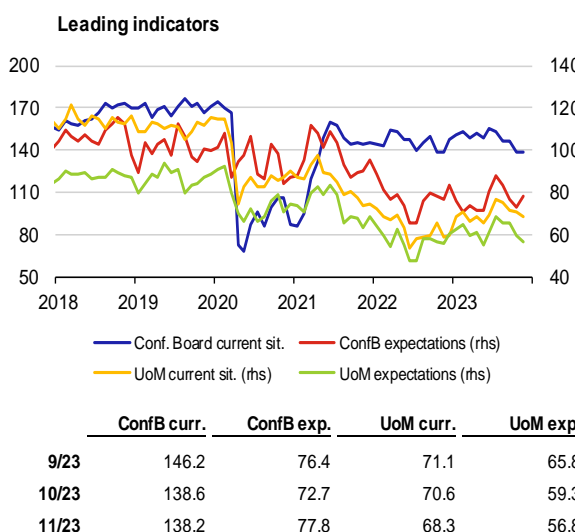
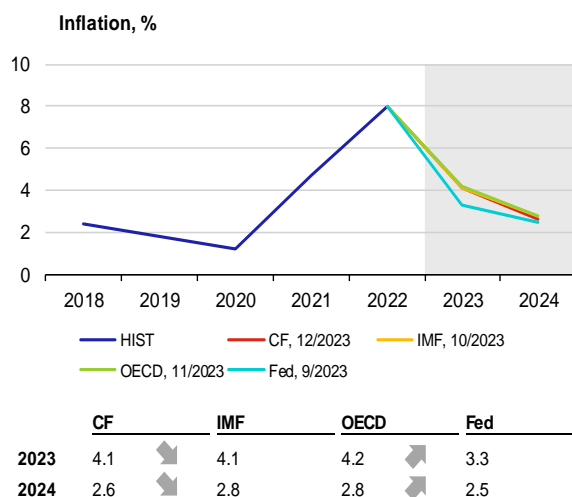
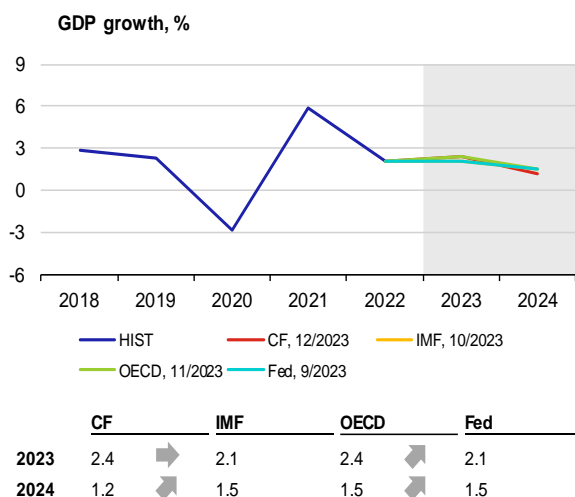
	EA	DE	FR	ES	IT	SK	5y5y	SPF	
9/23	93.4	89.0	96.4	99.0	97.7	95.1	10/23	2.51	2.14
10/23	93.5	89.6	94.1	100.3	96.8	91.4	11/23	2.42	2.14
11/23	93.8	89.1	96.1	98.8	96.5	93.4	12/23	2.37	2.14

III.3 United States

The forecasts for the US economy are shifting upwards at the end of the year. The new forecasts for this year expect overall growth of 2.4%. The new outlooks for next year have been shifted slightly higher and the OECD is the most optimistic institution monitored, expecting GDP growth of 1.5%. On the other end of the spectrum we find ING, which expects the US economy to grow by only 0.5% next year in its global forecast and expects a recession in the second and third quarters. Exactly a year ago, many analysts predicted a recession in 2023, but the US economy surprised with its resilience, not only from the perspective of household consumption, but also investment supported mainly by the Inflation Reduction Act.

The labour market is showing signs of a slight cooling. This is indicated by the number of unemployed persons, where there is no large increase in redundancies, but it is harder for the unemployed to find work. Firms are therefore not making lay-offs yet. The numbers of newly created jobs also indicate that the economy is growing – in November, almost 200,000 new jobs were created in non-agricultural sectors, i.e. more than expected. The wage growth rate rose to 5.7% year-on-year in October.

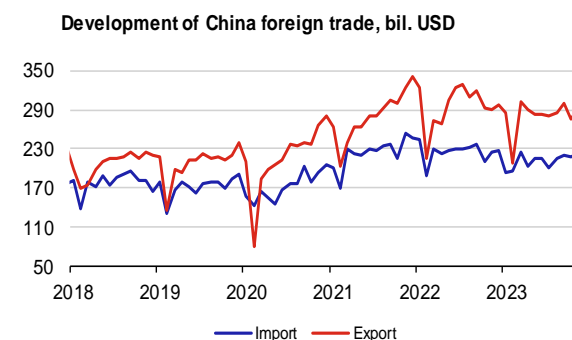
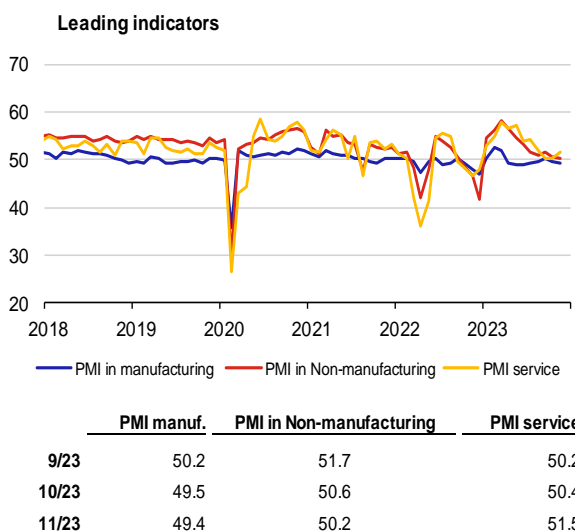
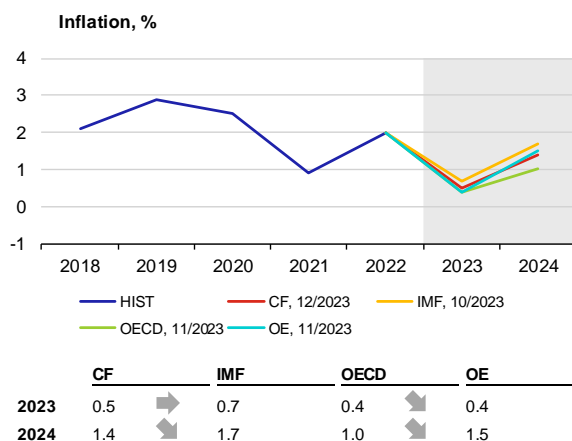
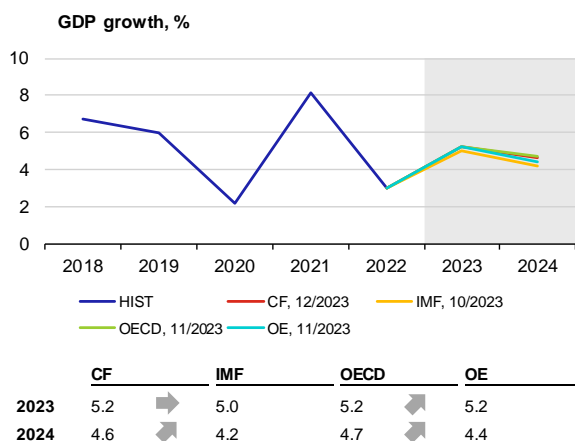
The Fed’s monetary policy meeting in December is expected to leave rates within the range of 5.25%–5.5%. Markets are starting to be very optimistic about the inflation outlook and with a more than 50% probability they expect the first rate cut to take place as early as March 2024, with further cuts expected so that rates will be just above 4% at the end of 2024. This is a relatively fast pace and, so far, the Fed’s representatives have not voiced such a vision. Inflation is falling faster, but remains high in the forecast. The new OECD outlook expects inflation of 2.8% next year and 2.2% in 2025. A Bloomberg survey of analysts also sees inflation above 2% in 2025. At the same time, they expect the first rate cut not to occur until the second quarter of next year and that there will only be one..



III.4 China

The Chinese services sector, stimulated by extensive government measures, is helping to offset weak manufacturing, which is suffering mainly from subdued foreign demand. The Purchasing Managers' Index (PMI) in manufacturing is in the economic contraction band and, according to the National Bureau of Statistics, it fell from 49.5 in October to 49.4 in November. The decrease was due to the weaker values of new export orders and production. In non-manufacturing sectors, the PMI fell to 50.2 in November and recorded its weakest level in the last 12 months. By contrast, the Caixin Services Purchasing Managers' Index – which focuses more on smaller private business – surprisingly rose to 51.5 in November, confirming a continuing recovery from the downturn recorded at the start of this year. Government stimulus measures are thus helping to improve domestic demand, leading to the services sector being the only bright point in the Chinese economy this year, as it has been expanding for 11 consecutive months. A large part of this recovery was stimulated by consistent liquidity injections by the Chinese government, which is ready to issue further bonds in the months ahead. The trade balance increased slightly in November compared to the previous month, to USD 68.4 billion. Exports rose by 0.5% year on year for the first time in six months, whereas imports lagged behind expectations, falling slightly (by 0.6%). According to the December CF analysts' outlook, the annual growth rate of the Chinese economy will reach 5.2% this year and slow to 4.6% next year.

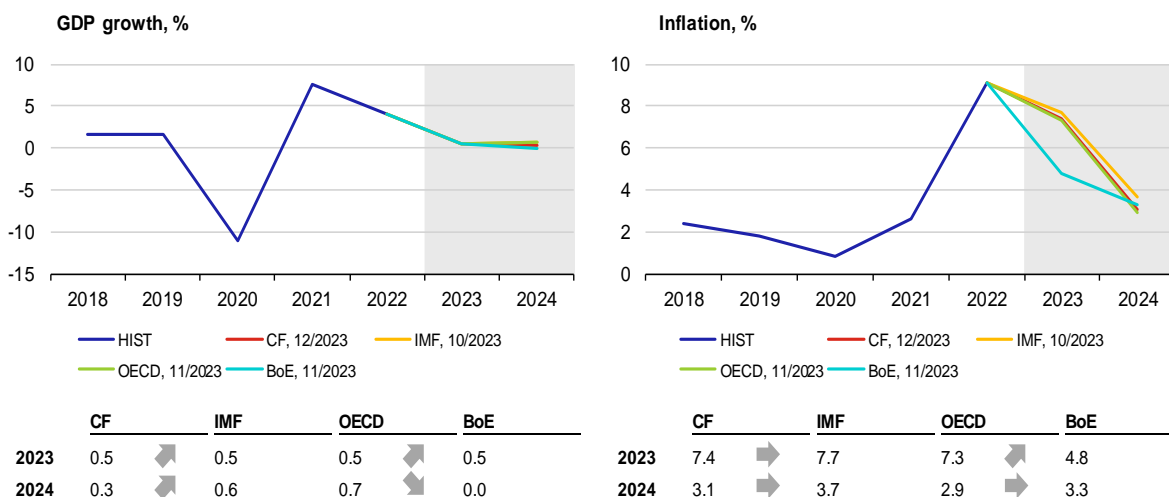
Consumer prices fell the most in three years in November and producer price deflation also deepened. Consumer price inflation fell by 0.5% year on year; according to the December CF analysts' outlook, it will rise by 0.5% for this year as a whole and accelerate to 1.4% next year. Producer prices fell by 3% year on year in November, down by 0.4 pp from the previous month. The deflation, reflecting weak domestic demand, will probably require further government support to strengthen the economy, including monetary policy easing, in the months ahead.



Source: Bloomberg

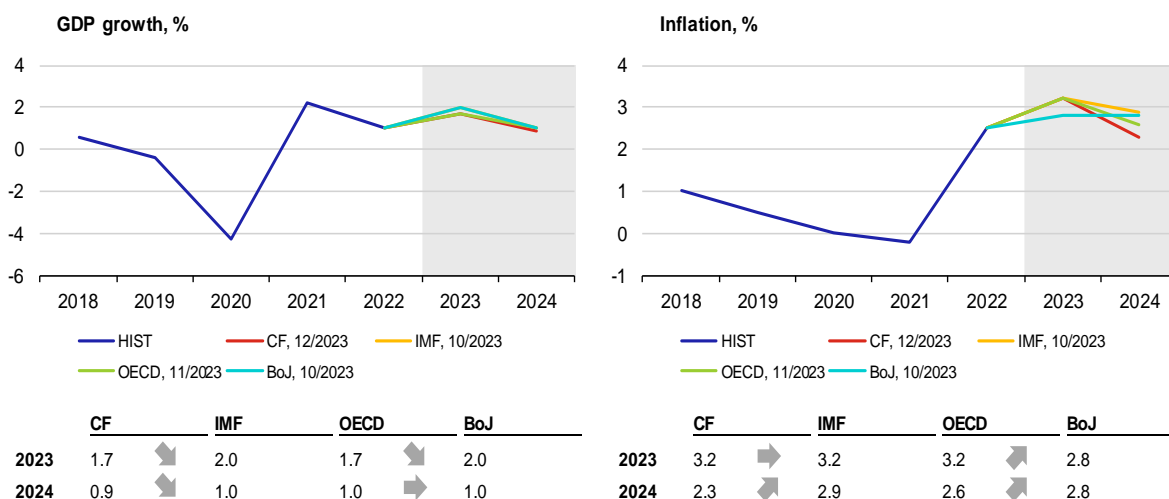
III.5 United Kingdom

The UK economy is showing some signs of resilience amid falling inflation. Inflation slowed from its peak of 11.1% in October 2022 to 4.6% in October and is expected to reach the 2% target in 2025 according to the new government forecast. In the autumn statement, Chancellor Jeremy Hunt targeted to boost economic growth, primarily through tax cuts, but also by supporting business investment in the context of the economic consequences of Brexit. November also saw the first expansion of private sector activity since July, when the composite PMI rose to 50.7. This is due to a return to growth in the services sector, but also a slower decline in manufacturing sector. Modest growth in business sentiment and a sharp rise in consumer sentiment in November are signs of the resilience of the UK economy, increasing hopes for its performance in the fourth quarter. According to new OECD and CF estimates, the economy will grow by about 0.5% this year. The CF predicts lower GDP growth in 2024 (0.3%), while the OECD is much more optimistic (0.7%).



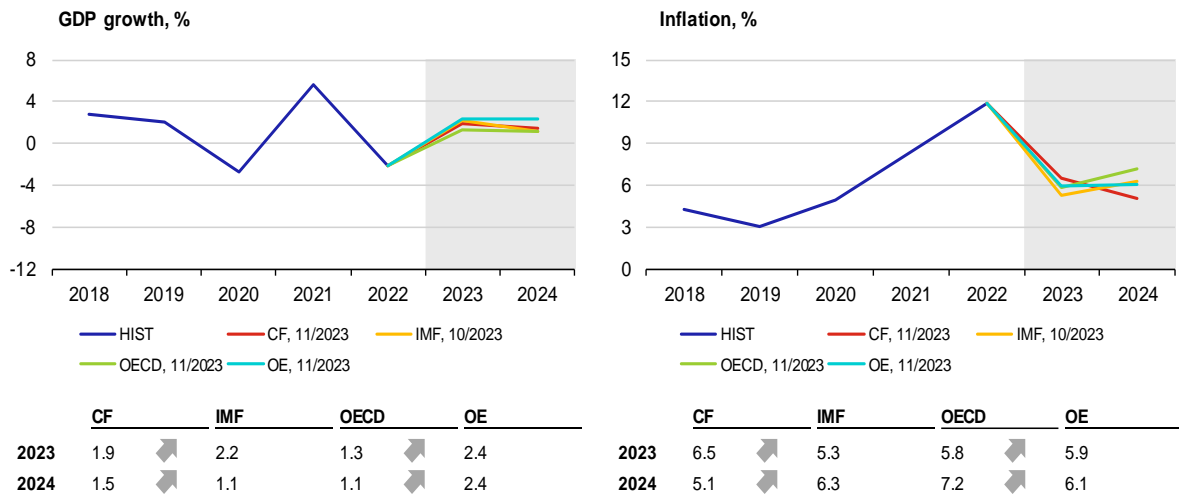
III.6 Japan

Monetary policy expectations trigger turbulent financial market movements. Japan's 7-year experiment with ultra-slack monetary policy using a full range of unconventional instruments is evidently close to its conclusion. The incoming macroeconomic data and comments from BoJ representatives therefore give rise to particular attention and market reactions. A growing body of evidence that the economy is succeeding in kick-starting a favourable cycle of wages and prices, as well as loose budgetary policy, is pushing inflation forecasts upwards. The words of BoJ Governor Ueda regarding the complexity of maintaining monetary policy further strengthened the betting on an early rate rise. The implied probability of tightening rose sharply to 35% this month. The Japanese yen also appreciated to a three-month high. However, the real economy is a key dovish signal. The revised GDP estimate for Q3 showed an even sharper slowdown (0.7% year on year) than suggested by the surprisingly weak first estimate. Private consumption is particularly subdued, which may limit further room for price growth.



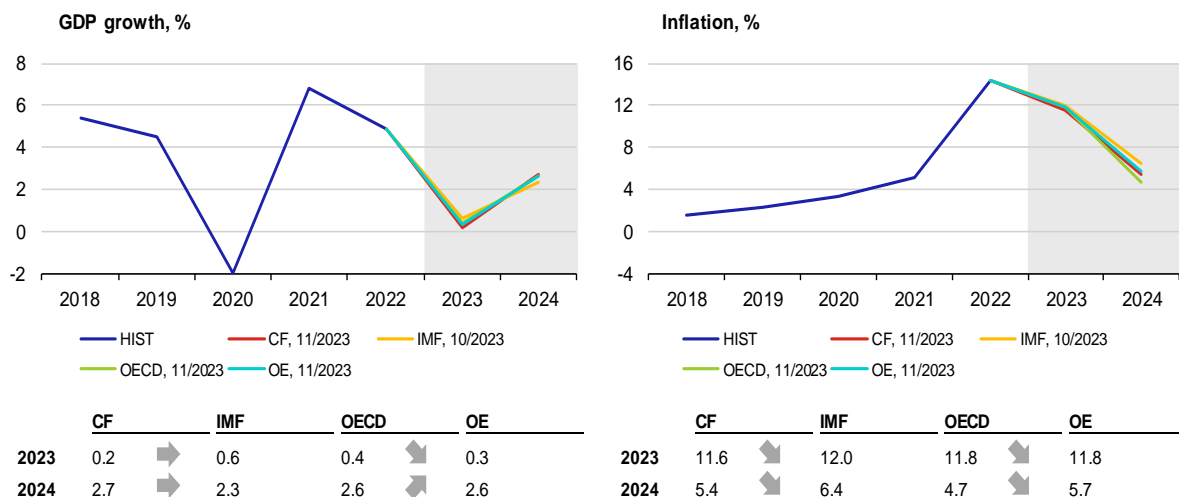
III.7 Russia

The price of Russian Urals crude oil fell below the price ceiling of USD 60 a barrel in the first week of December, which the G7 countries imposed exactly a year ago. The price had stayed above the ceiling since July this year. However, re-involvement of firms based in Member States in the international trade of Russian oil cannot be automatically expected. Russian exports adjusted to the price cap and, thanks to the creation of the shadow fleet, it is less dependent on cooperation with Western companies than in the past. Falling oil prices worldwide are not a good sign for the Russian state budget, where military spending is expected to account for more than 30% next year. This was also the reason for Putin's visit to the United Arab Emirates and Saudi Arabia. Following the discussions, representatives of the participating countries confirmed the possible extension of the oil production cut by OPEC+, which is expected to last for the first quarter of 2024. Domestic inflation is not yet receding. GDP this year is likely to make up for last year's decline.



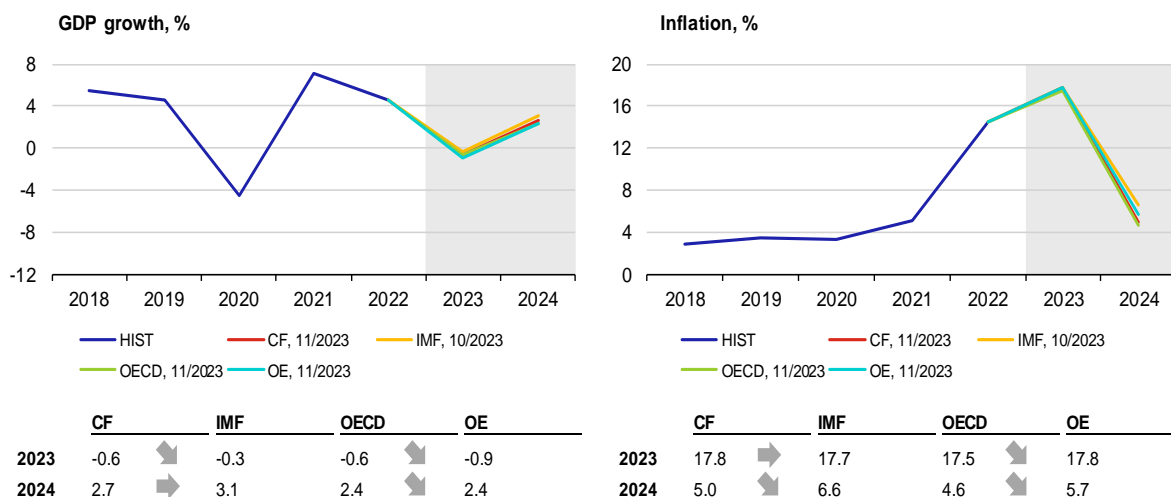
III.8 Poland

The NBP left its key interest rate at its current level (5.75%) at its December meeting. This continues to be justified by concerns about the uncertainty surrounding budgetary policy for the following year due to the outcome of the parliamentary elections. However, the victory of the coalition of parties supporting the European Union has so far resulted mainly in the sharp appreciation of the zloty and the Polish currency is thus at its strongest since the start of the pandemic. This is helping to combat inflation, whose year-on-year growth fell to 6.5% in November, the lowest price increase in two years. Food price inflation moderated, while energy commodity prices for passenger transport continue to fall. Consumer confidence is gradually recovering as inflation pressures are lower. The manufacturing PMI climbed to 49 points, after 19 months below this value, while firms reported a recovery in demand from the European Union, the United Kingdom and Ukraine. In line with market expectations, GDP data for Q3 point to moderate annual growth (0.5%), following a downturn in the first half of the year.



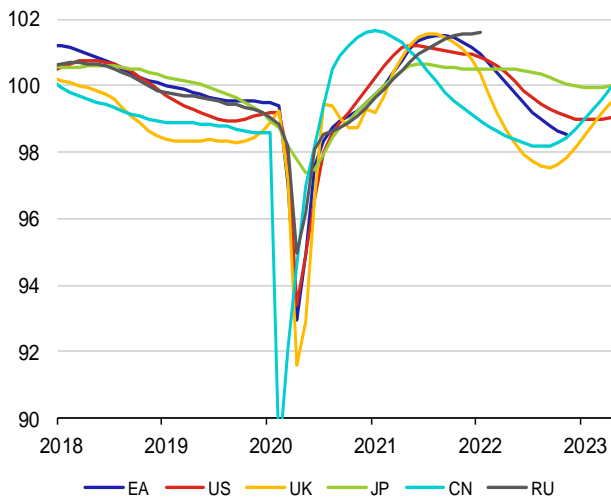
III.9 Hungary

The MNB lowered its key interest rate by 75 basis points at its November meeting. This means that it now stands at 11.5%. The two boundaries of the interest rate band decreased by the same extent. The reduction is in line with market expectations, in response to continued disinflation and a further deterioration of the economic situation. Inflation returned to single figures (9.9%) in October, staying there in November (7.9%), whereas GDP fell for the third consecutive quarter in year-on-year terms. However, the technical recession for Hungary appears to have come to an end. GDP rose by 0.9% quarter on quarter and leading indicators also show good news for the last quarter. The manufacturing PMI was in the expansion band for the second consecutive month. The consumer confidence index is also returning from highly negative levels. Hungary’s trade balance, which recorded a surplus for the ninth consecutive month in the environment of a weak forint and lower prices of imported energy, is also doing well. By contrast, the labour market is sending a warning signal, as unemployment has been rising steadily since the middle of last year and is slowly approaching pandemic levels.

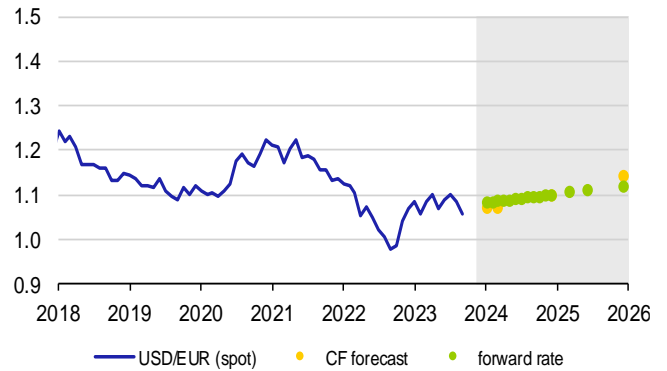


IV. Leading indicators and exchange rate outlooks

OECD Composite Leading Indicator

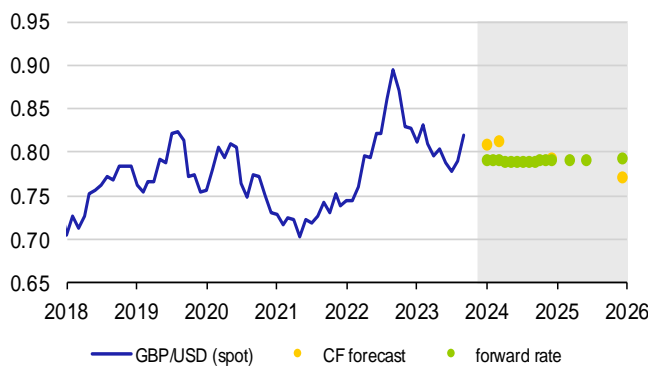


The US dollar (USD/EUR)



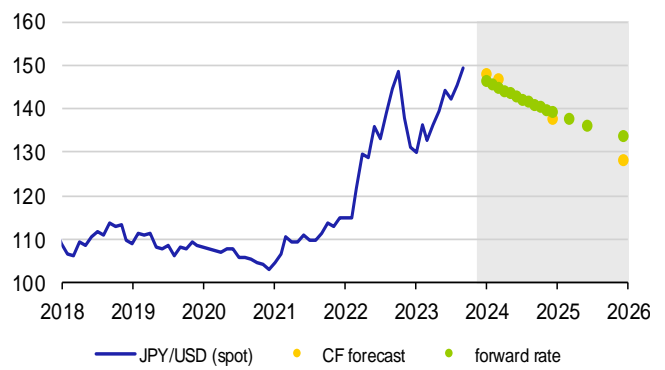
	4/12/23	1/24	3/24	12/24	12/25
spot rate	1.082				
CF forecast		1.074	1.073	1.102	1.143
forward rate		1.085	1.088	1.102	1.121

The British pound (GBP/USD)



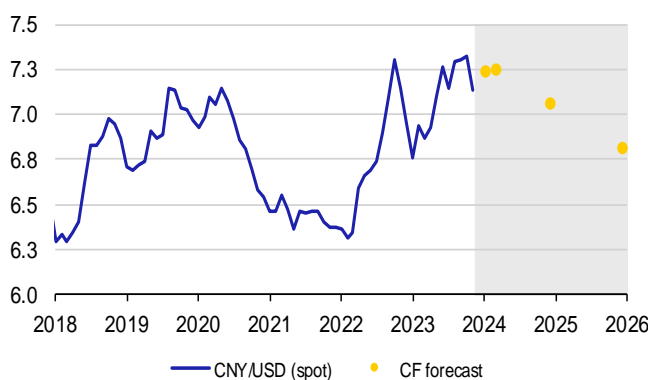
	4/12/23	1/24	3/24	12/24	12/25
spot rate	0.793				
CF forecast		0.810	0.814	0.795	0.772
forward rate		0.791	0.791	0.791	0.794

The Japanese yen (JPY/USD)



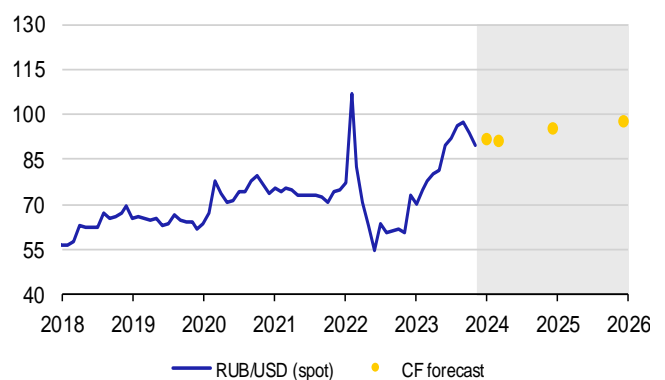
	4/12/23	1/24	3/24	12/24	12/25
spot rate	147.1				
CF forecast		148.2	146.9	137.8	128.5
forward rate		146.4	145.1	139.5	133.9

The Chinese renminbi (CNY/USD)



	4/12/23	1/24	3/24	12/24	12/25
spot rate	7.152				
CF forecast		7.239	7.257	7.070	6.821

The Russian rouble (RUB/USD)



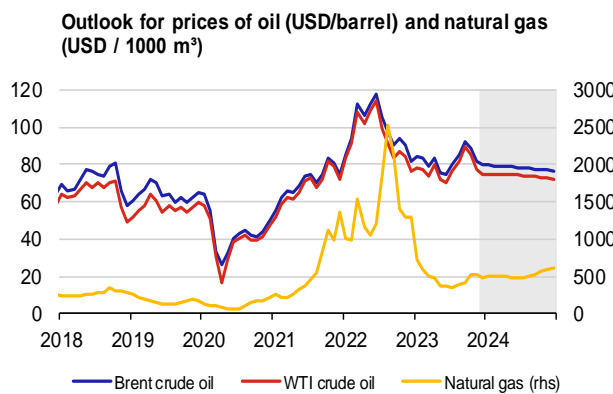
	4/12/23	1/24	3/24	12/24	12/25
spot rate	91.38				
CF forecast		91.93	91.48	95.83	98.18

Note: Exchange rates as of last day of month. Forward rate does not represent outlook; it is based on covered interest parity, i.e. currency of country with higher interest rate is depreciating. Forward rate represents current (as of cut-off date) possibility of hedging future exchange rate.

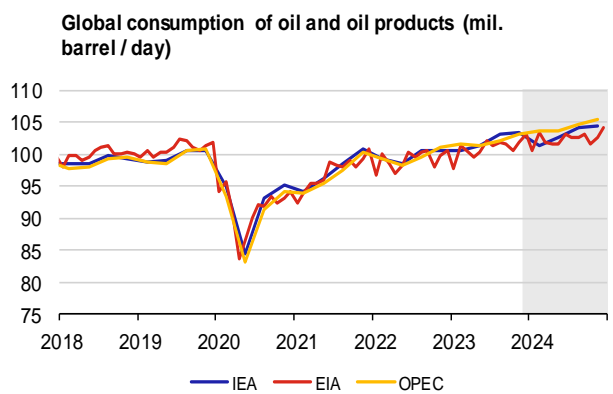
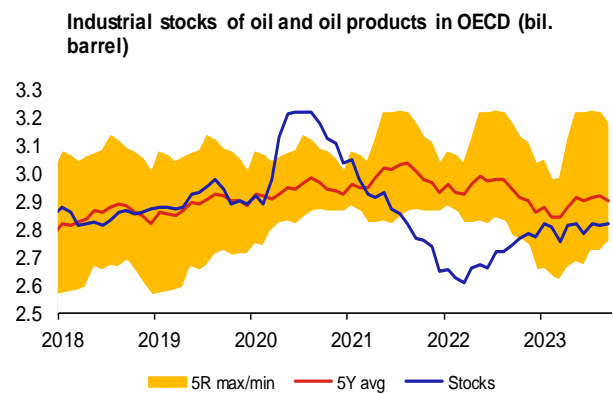
V.1 Oil

The Brent crude oil price fluctuated just above USD 80 a barrel most of the time in November, but fell sharply in early December. Physical market tensions are gradually easing, thanks mainly to strong oil exports from the USA and Iran, extraction in Brazil and the North Sea is also rising solidly. Following a meeting at the end of November, OPEC+ announced a plan to cut production further (by around 900,000 barrels a day), which should last at least until the end of March 2024 and maintain a slight oil deficit on the market even during a period of seasonally lower demand. Nor do the cartel's representatives rule out its extension beyond that horizon. However, most analysts view this outcome as insufficient and untrustworthy. The meeting did not reach a unified, unambiguous and binding conclusion, with only a few other countries announcing output cuts on a voluntary basis, in addition to Saudi Arabia and Russia. The oil price thus dropped to USD 75 a barrel in early December. The outlook for demand for oil next year is highly uncertain, as analysts from commercial institutions and the main energy agencies disagree. It is unclear what impact the high interest rates of large central banks will have on the global economy next year, and future trends in the Chinese economy are also highly uncertain. The investors' sentiment in oil futures markets thus remains highly pessimistic and is pushing oil prices down.

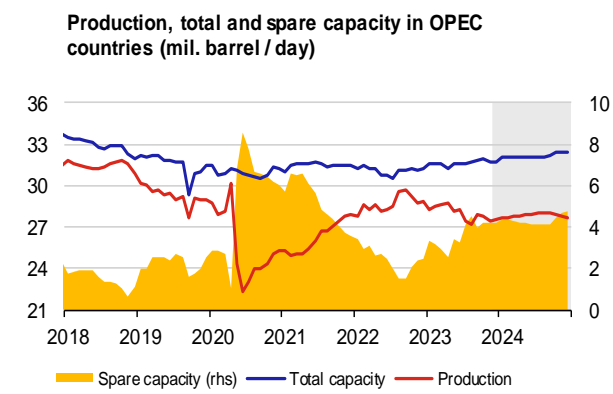
The market curve for Brent crude oil futures contracts in early December shifted downwards again and its downward slope moderated further. Its path signals a Brent crude oil price of USD 76.7 a barrel at the end of next year. The December CF outlook for the 12 months horizon is significantly higher at USD 83.6 a barrel. The EIA has also revised its forecast downwards, but expects the price of Brent crude to rise gradually in response to the announced OPEC+ production cuts to USD 86 a barrel in March 2024, before declining to near USD 81 a barrel at the end of the year.



	Brent		WTI		Natural gas	
2023	82.43	↔	77.84	↔	477.61	↔
2024	78.22	↔	74.00	↔	522.96	↔



	IEA	EIA	OPEC			
2023	102.07	↔	101.05	↔	102.11	↔
2024	103.22	↔	102.44	↔	104.35	↔



	Production	Total capacity	Spare capacity			
2023	27.98	↔	31.63	↔	3.65	↔
2024	27.83	↔	32.14	↔	4.31	↔

Source: Bloomberg, IEA, EIA, OPEC, CNB calculation

Note: Oil price at ICE, average natural gas price in Europe – World Bank data. Future oil and gas prices (grey area) are derived from futures. Industrial oil stocks in OECD countries – IEA estimate. Production and extraction capacity of OPEC – EIA estimate.

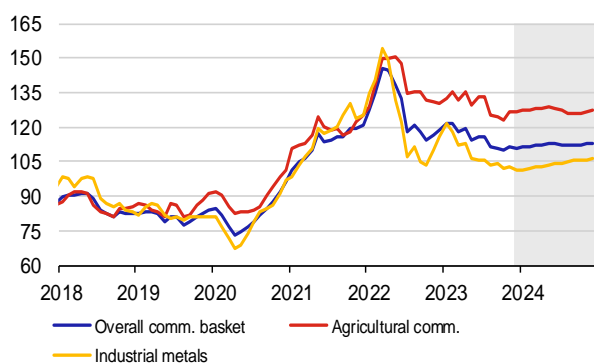
V.2 Other commodities

The price of natural gas in Europe fell in November, reaching below EUR 40/MWh in early December. Despite the temporarily cold weather in the north of the continent, there was not a sharper decline in above-standard inventories, as higher heating requirements are offset by weak demand from industry. The price of coal for the European market fell slightly in November together with the price of natural gas, although the price for the Asian market started to rise at the end of November, as demand from China rose before the winter period.

The industrial metals price index edged up in November but dropped again in the first half of December to its lowest level since January 2021. This is due to still-weak industrial demand, as the JPMorgan Global Manufacturing PMI edged up in November, but has stayed below the neutral level of 50 points for 15 months in a row. The downward trend in nickel prices has continued for almost a year due to growth in production exceeding weak demand. The price of lead has fallen sharply since mid-November. By contrast, prices of copper and steel rose and the price of iron ore continued to increase in November thanks to new infrastructure investment by the Chinese government to offset the still-poor situation in the construction and real estate sectors in China.

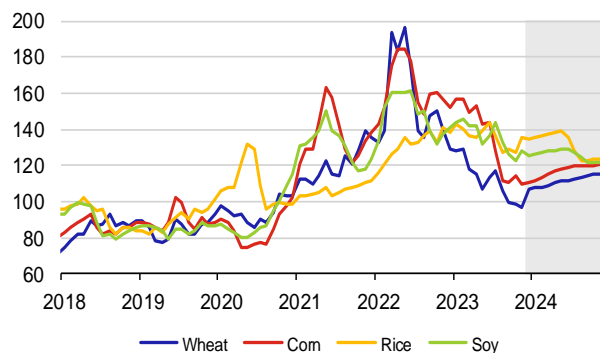
The food commodity price index rose in November and continued to show weaker growth in the first half of December. This was due mainly to prices of rice (due to an expected decline in yields in India and Thailand because of adverse weather), coffee and cocoa. Wheat prices surged in early December due to strong purchases from China. The index was pushed down only by the prices of sugar (due to strong growth in production in Brazil) and beef, which, however, remains close to a historical high.

Non-energy commodities price indices



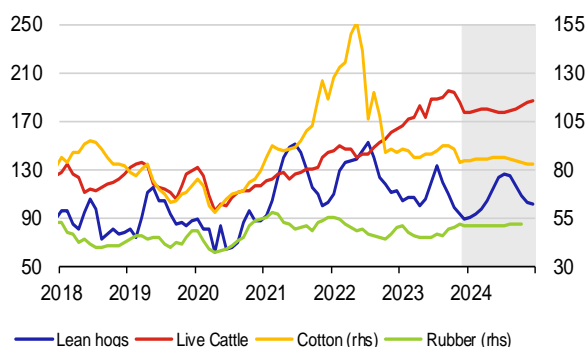
	Overall	Agricultural	Industrial
2023	115.1	129.9	108.0
2024	112.3	127.3	104.1

Food commodities



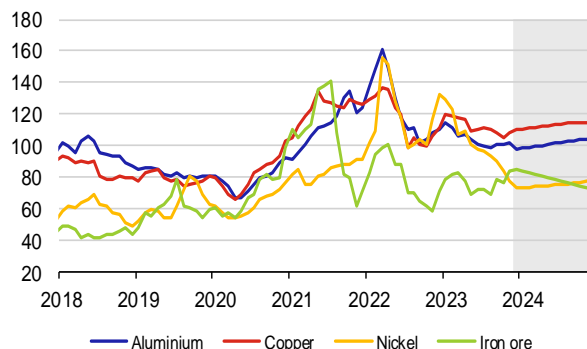
	Wheat	Corn	Rice	Soy
2023	111.3	132.3	135.6	135.2
2024	112.0	117.9	130.5	125.5

Meat, non-food agricultural commodities



	Lean hogs	Live Cattle	Cotton	Rubber
2023	107.1	181.7	88.4	47.6
2024	108.1	180.1	84.6	51.1

Basic metals and iron ore



	Aluminium	Copper	Nickel	Iron ore
2023	103.7	112.4	98.6	77.7
2024	102.0	113.4	75.7	78.3

Source: Bloomberg, CNB calculations.

Note: Structure of non-energy commodity price indices corresponds to composition of The Economist commodity indices. Prices of individual commodities are expressed as indices 2010 = 100.

Unemployment in the euro area: Why is it so low and when will it start to rise?¹

The economic situation in the euro area has not exactly been dazzling recently. Output is stagnating – production is being dampened by weakening external demand, and investment is being adversely affected by tightened monetary policy. Since the services sector has also weakened, the only admirable area of the economy remains the strong labour market. This article maps out, from various perspectives, the causes of the current record-low unemployment in the euro area. It discusses both cyclical and structural factors, and also provides a glimpse below the surface of the overall figures, focusing on the diverse developments across Member States. At the same time, it notes the emerging signs of an incipient cooling of the labour market in the euro area, now at a turning point. It therefore does not neglect estimates of near-term future developments.

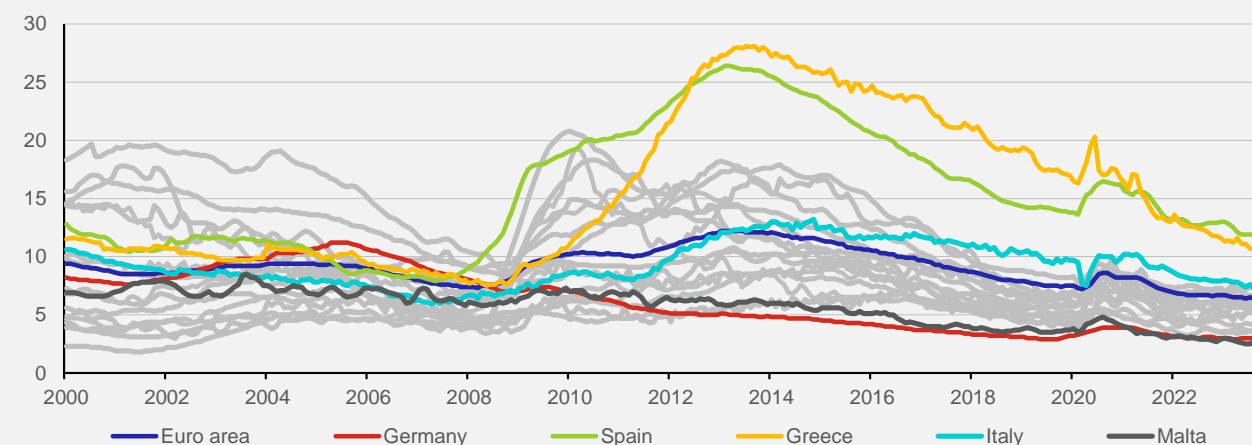
Miracle: Never before have so few people been out of work in the euro area

The unemployment rate has now stayed at a record low for six months. Since the creation of the euro area, it has never been as low as in recent months, when it has fluctuated at around 6.5%² (see Chart 1). This may not seem such an exceptional figure at first glance, especially given that the unemployment rate in the United States has been below 4% for several years and is not even 3% in Japan. However, it is an unprecedented success for the euro area, especially for those countries that have battled unemployment for many years.

The aggregate euro area figure masks the significant heterogeneity across the Member States. Spain has had the highest unemployment rate for more than a year. It was closely followed by Greece, which dominated the ranking for most of the last decade. The unemployment rate remains at double digits in both countries, 12% in Spain and 10% in Greece. At the other end of the spectrum, Germany has a 3% unemployment rate, and Malta, especially in recent months, is even slightly lower.

Chart 1 – Unemployment rates across euro area countries

(%, seasonally adjusted)



Source: Eurostat

Note: Chart depicts the evolution of unemployment rate in euroarea and each of their 20 members; selected countries are highlighted.

The recent decline in the unemployment rate to its current historical lows in the euro area is mainly due to a significant improvement in the situation in Greece and, in particular, in Spain, with its large population. Ten years ago, unemployment stood at over 25% in both these countries. One in four people of working age who wanted to be employed could not find work. Since then, however, unemployment in these countries has been steadily and significantly declining (except for a small break at the beginning of the COVID pandemic). Similarly, although from a much lower unemployment base, this has also been the case in Portugal, Cyprus and Croatia. However, given their small populations, the impact of these last two countries on the euro area aggregate was much smaller. With the exception of Italy, the southern periphery of the euro area is experiencing a great period. These economies have posted the highest year-on-year economic growth of any euro area country.³ One definite reason for this is the fact that they were generally significantly less impacted by last year's energy crisis than their more northerly neighbours.

¹ Written by Pavla Růžicková. The views expressed in this article are those of the author and do not necessarily reflect the official position of the Czech National Bank.

² The specific values may differ slightly. The time series is subject to frequent revisions which, however, are usually only in the order of 0.1 pp.

³ At the time of writing, the latest available data for all euro area countries were for 2023 Q2. The fastest-growing economies in the euro area were: Malta, Greece, Portugal, Croatia, Cyprus and Spain.

There has thus been clear convergence in unemployment rates among the Member States over the last ten years.

In September 2013, at the time of the debt crisis, the difference in unemployment rates between the hardest-hit Greece and Germany at the other end was more than 23 percentage points, and the standard deviation exceeded 6 pp. Currently⁴, Spain and Malta are separated by only 9 pp. At the same time, the standard deviation has fallen to 2.2 pp. This is great news for the monetary union, because the more homogeneous it is, the easier it will be to find the optimal economic policy settings. However, it is still far from ideal and is not even close to its best moments in this regard. In the spring of 2008, before the outbreak of the global financial crisis, the difference in the unemployment rates between the worst-performing Slovakia and the best-performing Cyprus was less than 7 pp, and the standard deviation decreased until August 2008, when it was only 1.9 pp. Nevertheless, the period of convergence or divergence of unemployment rates among euro area countries mainly reflects the significantly higher volatility of this statistical variable in some euro area economies.

How is it possible that unemployment is not rising in the current difficult economic situation?

The last three years can hardly be characterised as a particularly bright period for the euro area economy. After some relatively successful years, it began to run out of steam in 2019. The difficulties of the low-performing industrial sector were puzzling. Yet it still had no idea that the COVID pandemic, the associated supply-chain problems and, on top of all that, the energy crisis triggered by the war in Ukraine were on the way. These three horrors brought huge supply-side inflation pressures and, together with the demand pressures stemming from the savings accumulated during the COVID pandemic, catapulted consumer price growth in the euro area to unprecedented heights.

However, in the flood of bad news and pessimistic sentiment, it is easy to lose sight of the fact that not much actually happened. The euro area's gross domestic product returned to its pre-pandemic level as early as in the third quarter of 2021 and then continued to grow quite well until last autumn. The European Central Bank, the euro area governments and the European Union reacted very quickly to the recent crises and with great vigour. Both monetary and fiscal policies were loosened in an unprecedented manner, and only history will show whether this was too much in some cases. Active economic policy thus sustained the euro area at the right time and did not let normal economic operations fall by the wayside.⁵ The potential consequences of economic stagnation in 2023 will only appear in the labour market with a lag due to the usual delays. Nevertheless, GDP has not yet declined significantly, and there is therefore no reason to lay off too many workers yet.

Chart 2 – Bankruptcies and registrations of new firms in the euro area

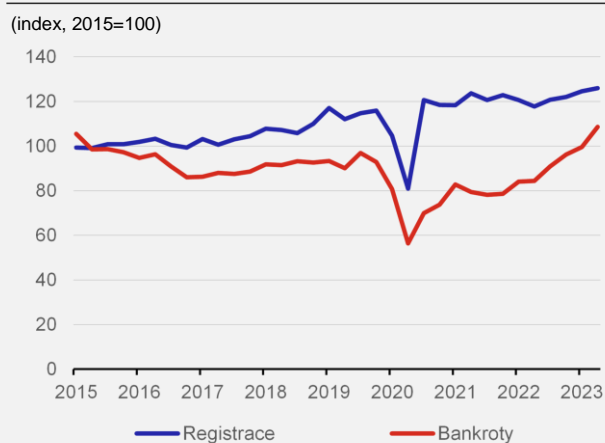
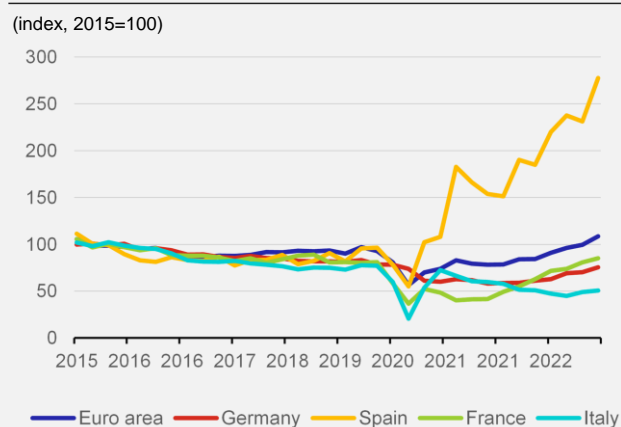


Chart 3 – Bankruptcies across selected euro area countries



We have not seen wild waves of company bankruptcies causing queues at labour offices. On the contrary, during the COVID pandemic, the number of euro area legal persons that commenced bankruptcy⁶ proceedings fell sharply (by almost half) and only very gradually returned to their long-standing usual levels (see Chart 2). These did not reach this level until the end of last year. However, growth in the number of new bankruptcies picked up somewhat this spring (to 9% quarter-on-quarter). This growth is being driven mainly by Spain, where the number of bankruptcies has risen sharply every quarter since the summer of 2020 and has roughly tripled compared to the pre-COVID level (see Chart 3). The increasing number of bankruptcies is not only a problem in Spain, but in no other country has it been nearly as pronounced. For example, Germany and Italy have not yet reached their pre-COVID bankruptcy levels.

⁴ At the time of writing, the latest available data were for September 2023.

⁵ Still, all three crises had their economic losers, who fell through all sorts of safety nets and will not agree with the overall optimistic assessment.

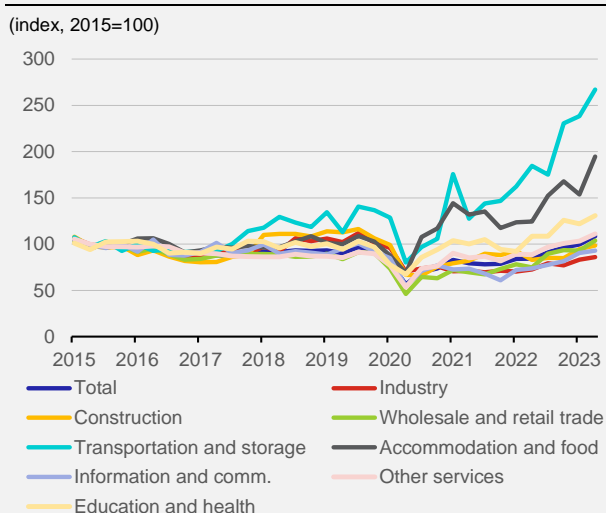
⁶ However, such declarations may only be provisional and do not always mean the end of business activity.

The number of bankruptcies of firms in services is growing in particular, while industrial firms appear resilient.

Looking at the sectoral structure of bankruptcies in more detail, it is clear that more and more transport and storage operations are disappearing in the euro area, followed by accommodation and food service activities (see Chart 4). The beginning of this trend coincided with the outbreak of the pandemic, yet did not stop after it subsided and was actually encouraged by last year's energy crisis. This spring⁷, almost twice as many firms from the above two service sectors declared bankruptcy than was normal before COVID (autumn 2019). By contrast, although the number of bankruptcies in industry is rising slightly, they remain around 15% below the pre-COVID level.⁸

Bankruptcy alone may not be a problem for the labour market if enough new firms are being created at the same time. In the case of creative destruction, this would even be a welcome step forward. The number of newly registered legal persons in the euro area has been rising steadily, with the exception of the break during the pandemic (see Chart 2).⁹ Thus, until recently, the overall situation of the corporate sector did not appear to have deteriorated significantly in this respect. At the start of this year, the creation and dissolution of firms was still balanced. In the first quarter of this year, 7% more new companies were registered than at the end of 2019. The situation was similar for bankruptcies. However, their rapid quarter-on-quarter growth this spring draws attention to the topic of the pace of closure of operations.

Chart 4 – The sectoral structure of bankruptcies in the euro area



Source: Eurostat

Note: Seasonally adjusted. Structure according to the economic activities NACE Rev. 2. The original codes are as follows: B-S_X_O_S94, B-E, F, G, H, I, J, K-N, P-S_X_S94.

they can. With labour demand in terms of job vacancies still near record levels in the euro area, reluctance to lay off workers remains understandably high. A similar picture is offered by the European Commission's regular survey of companies asking about the factors limiting their production. It shows that while labour shortages were an obstacle for around 15% of them in the euro area before the pandemic, today, despite a certain decline in the past year, this is a problem for almost a quarter of respondents in industry, while no less than one in three firms in services are struggling with a shortage of people (see Chart 5). Of course, the situation is much worse in the economies with the lowest unemployment rates. A survey by the German Ifo Institute¹² shows that as many as half the country's companies in the service industry and a third in manufacturing are affected by the shortage of skilled labour.¹³

⁷ At the time of writing, the latest available data were for Q2 2023.

⁸ In Spain, the structure of bankruptcies is similar, the only difference being that the pre-COVID level was very soon surpassed by all sectors and, most recently, the number of bankruptcies declared in accommodation and catering, as well as in transport and storage, was almost five times higher than in the last quarter of 2019.

⁹ And this has been the case since the very beginning of Eurostat's monitoring of this statistic. The time series of bankruptcies and registrations of legal persons have been available since 2015.

¹⁰ Margins in the euro area have already been analysed in an article by Soňa Benecká, "How have firms' price increases contributed to the current inflation in the euro area?" in the September 2022 issue of *Global Economic Outlook* https://www.cnb.cz/export/sites/cnb/en/monetary-policy/galleries/geo/geo_2022/qev_2022_09_en.pdf

¹¹ ECB (2023).

¹² Garnitz et al. (2023).

¹³ For low-skilled workers, this is only 15% in both sectors.

The sharp increase in corporate profit margins has also contributed to the absence of reasons for dismissal.¹⁰

Profit margins have been exceptionally high in the euro area over the past three years, making them a useful medium-term buffer for firms.¹¹ They can thus very well enable firms to retain existing staff during a period of substantial economic uncertainty. However, this buffer will not last indefinitely. On the contrary. The ECB's September macroeconomic forecast assumed that the unit profit of euro area firms had already declined in the second half of this year, and this situation was expected to persist until the summer of 2024.

Another reason why the unemployment rate is not inclined to rise is labour hoarding.

This is a well-described economic phenomenon where firms are not willing to reduce employee numbers even in a situation where their production is falling. There are many rational reasons for such hoarding. The fixed costs of hiring and firing themselves are significant, and there is also the fact that for a long time the productivity of a new employee may, depending on the nature of the work done, be lower than that of their experienced colleagues. The tendency for labour hoarding is particularly high in periods of tight labour market conditions. Firms are aware that if they need to re-hire an employee, it will be very difficult to do so and so they prefer to keep their existing workforce as long as

Or is it not so miraculously low after all?

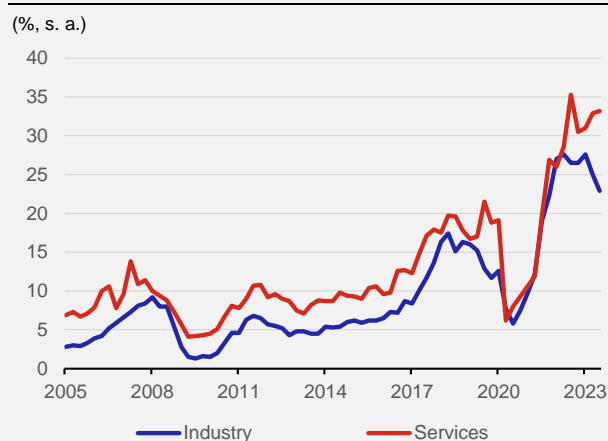
At the same time, the labour market is undergoing deeper structural changes. The current record-low unemployment rate in the euro area is thus not necessarily linked solely with the position of the euro area economy in the business cycle. On the contrary. Labour market developments very often reflect deeper structural changes over time in society. From this perspective, the current situation may not seem so striking.

More and more people are employed in the euro area, but they are working less. The employment rate in the euro area has been rising over a long period.¹⁴ The share of workers in the total population rose from 68% to 72% between 2010 and 2019. Although a downturn due to the pandemic followed, this was quickly offset and employment indicators are now close to 75%. And this is not due to a fall in the labour force: the participation rate in the euro area is also steadily increasing.¹⁵ At the same time, however, the average number of hours worked per person employed is falling in parallel. According to Botelho et al. (2021), the decline in the euro area was 2.5% between 2010 and 2019. There was a short-term sharp fall with the advent of the coronavirus, but it then quickly recovered and subsequently, as Arce et al. (2023) show, it stabilised at around 1.5% below the pre-COVID level. Both trends – the rise in the employment rate and the reduction in average working hours – are evident across euro area countries, yet there are significant differences in the levels common in each country. However, there is a clear inverse proportion: countries with lower employment rates tend to have higher average working hours. The employment rate in the euro area, as expected, is the lowest in Italy (66%), followed by Greece and Spain. By contrast, it exceeds 80% in the Netherlands and Germany.¹⁶ Botelho et al. (2021) show that the number of hours worked per worker in Germany is about one-fifth lower than in Italy and Spain, while France remains roughly in the middle and close to the levels for the euro area as a whole in terms of both employment rate and average hours worked.

The reasons for the falling average hours worked vary. For a part of workers, lower working hours reflect a shift in preference from work towards free time. For others, the increasing willingness of employers to offer part-time work is their ticket to enter the labour market (e.g. for carers and people with disabilities) as they would not be able to work full-time. This is confirmed by an analysis by Botelho et al. (2021), which concluded that the main factor behind the long-term (based on the analysis of data from 1995–2019) decline in the average number of hours worked per worker in the euro area was the increase in women's labour market participation rate. They identified, as another structural cause, a decrease in the proportion of self-employed people among workers, as they have on average higher numbers of hours worked per person than regular employees. However, there remains a certain proportion of workers who, on the contrary, work part-time involuntarily and would actually like to spend more hours at their jobs. However, the significance of this mismatch in the euro area is diminishing over time (and with rising labour market tightness). There is a phenomenon behind the lower average number of hours worked per worker, especially recently, that is completely outside the above-mentioned range of longer-term factors: higher sickness rates in the sense of people taking time off for health reasons. Arce et al. (2023) report that the use of sickness benefits in the largest euro area countries increased by between 10% and 30% between 2021 and 2022.¹⁷

The low unemployment rate may thus reflect the increasing inclusiveness of the euro area labour market. We can, with slight exaggeration, perceive it as a consequence of the gradual shifting of roles in society, when instead of the previously common division of the population into those who formally work and those who do not, society increasingly

Chart 5 – The labour force as a factor limiting production in the euro area



Source: European Commission – Business and consumer survey
Note: Firms may give more than one factor in their response.

¹⁴ The values differ depending on the statistics chosen. Data for total employment in the 20–64 age category were used here based on the European Labour Force Survey, which uses the concept of residency.

¹⁵ In the same age group, the participation rate in the labour market rose from 75% to 78% between 2010 and 2019. After the COVID slump, it has returned to growth, the pace of which has been accelerating in recent quarters. The participation rate currently stands at 80%. Developments in other age categories (e.g., 15–64 or 15–74) are qualitatively similar.

¹⁶ The employment rates are also above 80% in Malta and Estonia. Malta is exceptional in the way its labour market has changed significantly over the past 15 years. In fact, the employment rate in Malta was the lowest in the euro area (59%) in 2009. Since then, however, it has grown steadily and Malta is now in second place, just behind the Netherlands.

¹⁷ This does not necessarily have to be purely a matter of higher worker morbidity in terms of their objective health (although it seems that the thoroughness of the anti-COVID measures at the beginning of the pandemic has inadvertently led to a significant reduction in the population's defences against common viral infections, and the higher morbidity is also due to post-COVID syndrome (sometimes also called 'chronic' or 'long' COVID)), but also a shift in work culture in terms of a change in the perception of the state of health in which it is still permissible for a worker to be present at the workplace.

prefers a situation in which as many of its members as possible can work, at least to a certain extent. This topic combines a number of modern phenomena that could be summarised more generally under the concept of increasing inclusion. The changing form of economic activity and the ever-new technical achievements are bringing the possibility of including in the work process those who in the past remained outside it. The long-term shift of employment from agriculture and industry to the services sector, coupled with the ongoing digitalisation across economic sectors, have enabled changes in the organisation of work. Part-time work or remote work have thus become common in many fields without major problems. This means that, for many people, participation in the labour market is no longer the challenge of: 'either – or', but rather 'how much'. The employment rate of women in general and older people is increasing. Paid activity can also be more easily pursued by people who take care of someone or those whose state of health would not allow them to work full-time. This makes it easier for those looking for a job to find one that matches their limitations. Society is emphasising a reconciliation of the private and professional life and is seeking to break down the remnants of discriminating restrictions, and is thus moving closer to full employment.

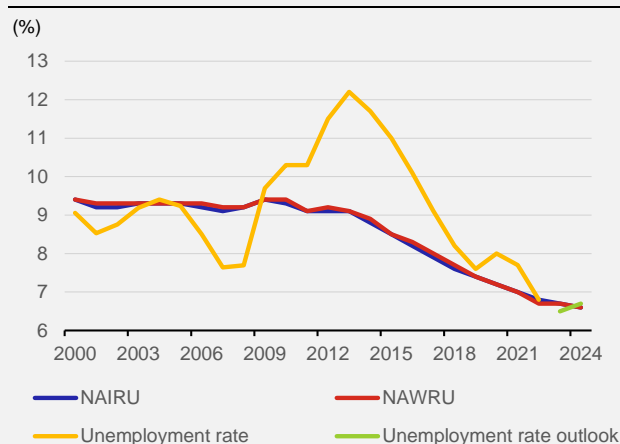
In line with this, the equilibrium unemployment rate estimates in the economy are also falling.¹⁸ This can be illustrated by the NAIRU – the non-accelerating inflation rate of unemployment.¹⁹ To estimate this type of structural unemployment, the relationship between the change in the unemployment rate and inflation (the Phillips Curve) is used, or a modification replacing consumer inflation with wage inflation (in accordance with the original idea described by W. H. A. Phillips). The NAWRU – the non-accelerating wage (inflation) rate of unemployment – is then used for this. The available estimates of the NAIRU and the NAWRU for the euro area show that between 2000 and 2013 the equilibrium unemployment rate hovered slightly above 9% and, despite its slightly downward trend, was surprisingly stable over time²⁰ (see Chart 6). After the debt crisis in the euro area faded, the equilibrium unemployment rate began to fall systematically.

This can be attributed to a gradual easing of the relationship between unemployment and wage growth.

This may be a manifestation of employees' diminishing bargaining power in the face of monopsony demand from employers, as reported by Blanchflower and Bryant (2019). However, it is affected by a wide range of factors, including slowing labour productivity growth, population ageing and many institutional²¹ and technological factors that lead to a reduction in labour market rigidity and facilitate the matching process between labour supply and demand. This also applies to the trend towards increasing inclusiveness in the euro area labour market described above. However, the fall in the equilibrium unemployment rate over the last ten years has also been a reflection of the observed hysteresis in the labour market.²² According to this theory, a change in the unemployment rate results in a change in its neutral rate in the same direction with the passage of time. At the same time, Ball and Onken (2021) showed, in a sample of 29 OECD countries, that this relationship is stronger when unemployment falls than when it rises.

The euro area unemployment rate is currently only slightly below its estimated equilibrium level. The latest available NAIRU and NAWRU forecasts for the euro area estimate the equilibrium unemployment rate for this year at 6.7%. So far, however, the average unemployment rate²³ this year has been 6.5% in the countries that use the euro. However, it would be risky, or at least premature, to draw conclusions from this about inflation pressures stemming from the labour market. The

Chart 6 – Equilibrium unemployment rate in the euro area



Source: European Commission – AMECO, Oxford Economics, Eurostat, Consensus Forecast

Note: Annual data

¹⁸ There are multiple concepts for the equilibrium unemployment rate. For more information on this topic, see for example Pošta (2008).

¹⁹ The authors of the term are Modigliani and Papademos (1975) and, unlike many others, it is an empirical rather than a theoretical concept of the approach to the equilibrium unemployment rate. For a more detailed description of the concept and its role in macroeconomic analysis, see e.g. Ball and Mankiw (2002). For a discussion of methods for estimating NAIRUs and their evolution over time, see e.g. Fabiani and Mestre (2000).

²⁰ Estimates dating back to before the creation of the euro area show a steady increase in the NAIRU from at least the 1970s to about the mid-1980s, and then again from 1990 onwards. See e.g. Fabiani and Mestre (2000).

²¹ However, institutional factors reducing the structural unemployment rate also include legislative changes that result in the departure of some of the unemployed from the labour market, most often members of those social groups in which the unemployment rate is typically higher than the society-wide average. For example, a more generous approach to the allocation of invalidity pensions or more severe sanctions on criminal activities leading to a higher number of convicts may be examples of such policy actions. For more details, see Ball and Mankiw (2002). However, these structural factors were more likely to be reflected in the equilibrium unemployment rate in the deeper past.

²² This phenomenon was first highlighted by Blanchard and Summers (1986). This term, originally drawn from physics, describes a situation in which the natural unemployment rate depends on the previously observed unemployment rate.

²³ At the time of writing, the latest available data were for September 2023.

NAIRU concept was actually initially used to analyse sources of inflation pressures. Over time, however, a number of empirical studies have pointed out that NAIRU estimates are highly inaccurate and that the degree of uncertainty about the accuracy of the estimate increases towards the current point in time. Comparing the latest data on the unemployment rate with the NAIRU estimates for the same date may therefore be highly misleading.²⁴ Thus, the usefulness of NAIRU estimates now lies primarily in the fact that they provide information on longer-term trends in the unemployment rate. As a result, the fact that the unemployment rate in the euro area is now close to the NAIRU and NAWRU estimates can be interpreted as meaning that, despite its record low level, it may not be “unhealthily” low unemployment but rather a kind of new normal that is more or less in line with the equilibrium state.

No major imbalances are apparent across the euro area countries. In most Member States, the average unemployment rate in 2023 has not significantly deviated from the NAWRU level predicted for them this year (see Chart 7). In only five economies does the gap between the unemployment rate and the NAWRU reach more than one percentage point. The unemployment rates in Slovenia, Cyprus and Italy are more markedly below the estimated equilibrium level. By contrast, only Greece and Spain remain above it, with the estimated NAWRU in the former having been very stable (around 10%) over the last ten years while falling by almost a third in Spain over the same period.

In only five economies does the gap between the unemployment rate and the NAWRU reach more than one percentage point. The unemployment rates in Slovenia, Cyprus and Italy are more markedly below the estimated equilibrium level. By contrast, only Greece and Spain remain above it, with the estimated NAWRU in the former having been very stable (around 10%) over the last ten years while falling by almost a third in Spain over the same period.

Will it rise or not? That’s the question!

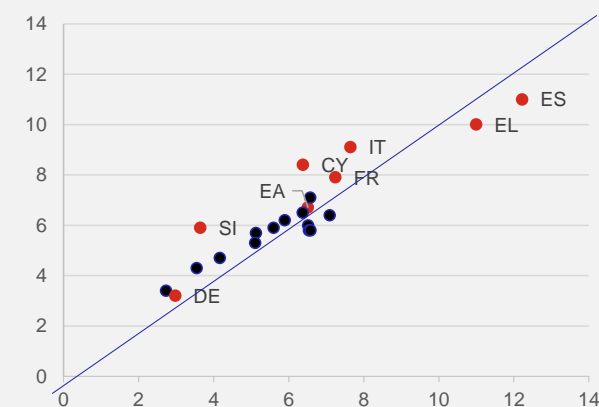
The euro area is unlikely to enjoy its record-low unemployment levels for very long. A more detailed look at developments in individual countries shows an increasing tendency to reverse the trend. Unemployment rates have now been rising for some months in the Baltic states, Luxembourg and Austria. Less significant increases have been recorded in Finland and the Netherlands. With the exception of Estonia, however, the increases have been rather modest so far. This should also be the case in the near future for the overall figures for the euro area, which are expected to rise only by tenths of a percentage point. In its September projections, the ECB estimated that the unemployment rate would reach 6.7% next year and remain at that level in 2025. The CF²⁵ respondents’ outlook expects the same figure for 2024.

The observed fall in demand for labour also suggests more about the future development of unemployment. The fall in the unemployment rate in the euro area has been accompanied by a fall in job vacancies for several quarters (see Chart 8). Looking at the Beveridge curve, which illustrates the relationship between unemployment and the number of job vacancies, it seems that the previous upward movement to the left in the chart, corresponding to a theoretical movement along the curve, symbolising a cyclical shift in terms of an improving economic situation, has been replaced by a downward movement to the left, which is interpreted in theory as a structural shift towards greater labour market efficiency.²⁶ In practice, however, this may not be so black and white, especially in the short term. From the employer’s point of view, if the economic situation deteriorates, it is rational to first withdraw its offer of job vacancies and only then proceed with redundancies, which would be reflected in an increase in unemployment. Thus, a short-term downward movement within the Beveridge curve chart may indicate, instead of a structural shock, an approaching turning point in the movement along the curve in the opposite direction.

The share of vacancies has been falling mainly in the north-westerly part of the euro area for some time now. In Germany, the share of vacancies fell from 4.6% to 4.1% between the middle of last year and the middle of this year,²⁷ with a simultaneous fall in the absolute number of vacancies and an increase in the number of positions filled. Similarly, albeit to a slightly lesser extent, the share of vacancies also fell in the Netherlands, Belgium, Austria, Luxembourg and Ireland. Finland has recorded a sharper fall in demand for labour. By contrast, the countries of the euro area’s southern flank are not yet following a similar trend. In Spain, demand for labour remains stable, in Greece it is growing steadily, and Italy is also still on a growth trend. However, the vacancy rate in all these economies is significantly lower than in Germany, Austria, Belgium or the Netherlands, where it remains well above 4%. Overall, the Beveridge curves suggest that as long as employer optimism

Chart 7 – Unemployment vs the NAWRU in the euro area – 2023

(%; x-axis: 2023 average unemployment, y-axis: NAWRU 2023 prediction)



Source: European Commission – AMECO, Eurostat
Note: Values for every eurozone member is depicted; selected countries are highlighted.

²⁴ For the same reason, the use of the NAIRU to calculate potential output and fiscal position is being abandoned. For example, the OECD, which had previously published NAIRU estimates for individual countries, revised its methodology in 2018 to take into account anchored inflation expectations (see Rusticelli et al. (2015)) and renamed the time series as the “equilibrium unemployment rate”. However, in 2021, it also refrained from publishing it and no longer uses the NAIRU for its potential output calculations. (OECD, 2023)

²⁵ At the time of writing, the latest available data were from the October survey.

²⁶ For more details, see e.g. ECB (2002).

²⁷ At the time of writing, the latest available data were for 2023 Q2.

Chart 8 – Beveridge curve

(%)

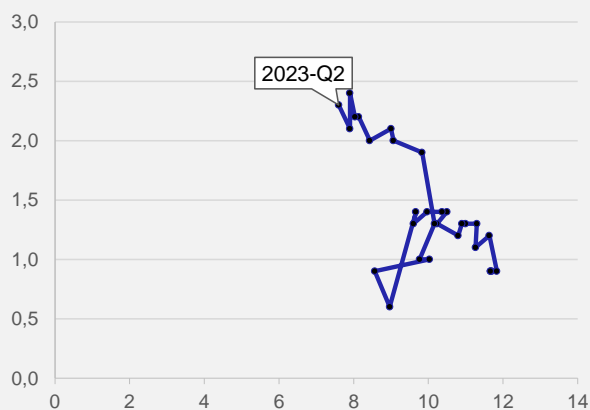
Euroarea



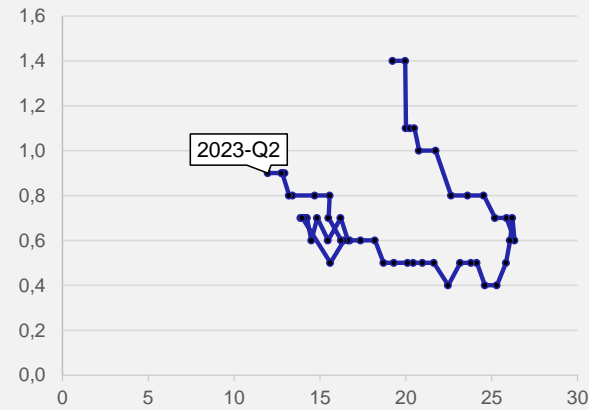
Germany



Italy



Spain



Source: Eurostat

Note: x-axis: unemployment rate; y-axis: share of unfilled vacancies.

persists in southern Europe and the supply of new jobs tends to grow, the overall unemployment rate in the euro area cannot be expected to increase dramatically, despite its gradual increase in many countries further north.

Conclusion

The current record-low unemployment rate in the euro area is due to many factors. From a regional perspective, it is mainly due to the current economic resilience of the southern flank of the euro area (with the exception of Italy). These economies have been much less affected by the energy crisis than the industrialised countries of Central and Western Europe, led by Germany. This has led to a convergence of unemployment rates across euro area countries, with unemployment rates falling in the countries with the highest unemployment rate levels, while unemployment in countries at the other end of the spectrum has recently tended to turn towards moderate growth. The evolution of the overall unemployment rate in the euro area will depend to some extent on which trend prevails in the near future. Particular attention should be paid to the current driver of the fall in unemployment in the euro area – Spain – where the fall in the unemployment rate has stopped in recent months, as has growth in demand for labour, and where the rate of growth of bankruptcies is accelerating.

The last two shocks – COVID and the war in Ukraine – were not of economic origin and, given their size, required significant policy interventions that shook the established paradigms of the business cycle. Paradoxically, the series of negative external supply shocks did not lead to such a serious increase in unemployment in the euro area as could have been expected if the responsible institutions had not been so active. This was not just a case of “kurzarbeit” measures. Rescue programmes prevented a wave of corporate bankruptcies that would otherwise have been likely to occur. It should be noted that none of this was for free. The smoothing out of the cyclical slump was done, and not only in the euro area, using debt.²⁸ Another specificity was that the inflationary tsunami caused by the explosion in energy commodity prices tended to sweep away consumers, while many producers rode the wave as they were able to increase their profit margins. However, the war in Ukraine has also affected the euro area labour market in other ways. The Member States, led by

²⁸ This topic was discussed in more detail in the article by Martin Kábrt “Who will pay the COVID debt?” in the October 2023 issue of *Global Economic Outlook*. https://www.cnb.cz/export/sites/cnb/en/monetary-policy/galleries/geo/geo_2023/gev_2023_10_en.pdf

Germany, have accepted a significant number of refugees into their territory in a short period of time. However, it seems that the exceptionally tight labour market may be able to absorb them.²⁹

At the same time, the euro area labour market is going through gradual structural changes. These are also changing the normative perception of how low the unemployment rate can be while still benefiting the economy, or when concerns about the excessive overheating of the economy are appropriate. The current level of unemployment appears to be close to its equilibrium level estimates and should not pose a threat to the euro area. There is still room for a further fall, especially in some countries. In others, the situation is tighter. At the same time, in countries with very low unemployment, there is a shortage of skilled labour. This structural mismatch between demand and supply could be at least partially reduced by the ongoing technological developments that could help address the lack of human capital. Rationalisation, innovation, automation, robotisation... All these “sensations” promise to increase productivity. Recently, they have also been joined by artificial intelligence, which is finding its place in economic production and promises to unlock growth potential again.

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Keywords

euro area, unemployment, bankruptcies, NAIRU, Beveridge curve

JEL Classification

E24, J23, J63

²⁹ There are more than a million Ukrainian refugees in Germany, while a large proportion are children and women caring for them. According to the July study by Brücker et al. (2023), 18% of Ukrainian refugees in the 18-64 age group are already employed. The language barrier remains a major obstacle for the time being, but Germany is nevertheless providing language courses to refugees.

A1. Change in predictions for 2023

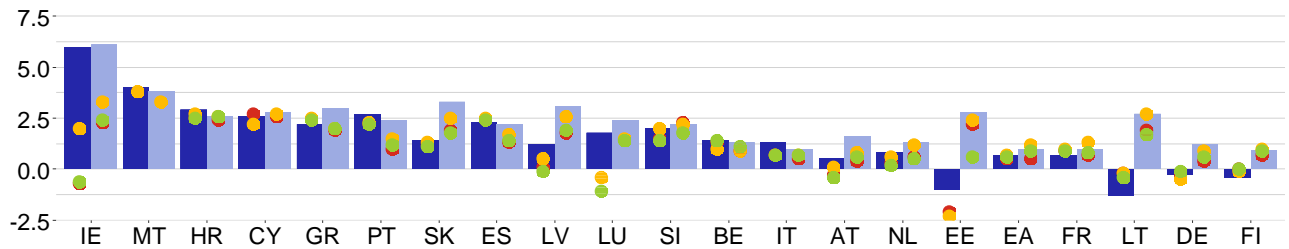
	GDP growth, %				Inflation, %			
	CF	IMF	OECD	CB / OE	CF	IMF	OECD	CB / OE
EA	0	-0.2	0	-0.2	0	+0.3	0	+0.2
US	0	+0.3	+0.2	+1.1	-0.1	-0.4	+0.4	+0.1
UK	+0.1	+0.1	+0.2	0	0	+0.9	+0.1	-0.2
JP	-0.2	+0.6	-0.1	+0.7	0	+0.5	+0.1	+0.3
CN	0	-0.2	+0.1	+0.1	0	-1.3	-0.1	-0.1
RU	+0.2	+0.7	+0.5	+0.2	+0.3	-1.7	+0.6	+0.1

A2. Change in predictions for 2024

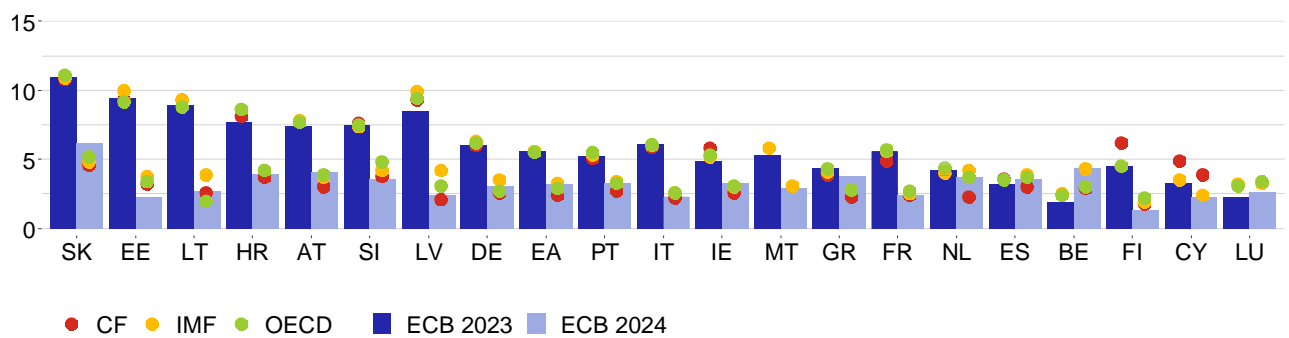
	GDP growth, %				Inflation, %			
	CF	IMF	OECD	CB / OE	CF	IMF	OECD	CB / OE
EA	-0.1	-0.3	-0.2	-0.5	-0.2	+0.4	-0.1	+0.2
US	+0.1	+0.5	+0.2	+0.4	-0.1	+0.5	+0.2	0
UK	+0.1	-0.4	-0.1	-0.5	0	+0.7	0	+1.0
JP	-0.1	0	0	-0.2	+0.1	+0.7	+0.5	+0.9
CN	+0.1	-0.3	+0.1	0	-0.2	-0.5	-0.3	-0.2
RU	+0.1	-0.2	+0.2	+1.3	+0.2	+1.7	+1.7	-0.3

A3. GDP growth and inflation outlooks in the euro area countries

GDP growth in the euro area countries in 2023 and 2024, %



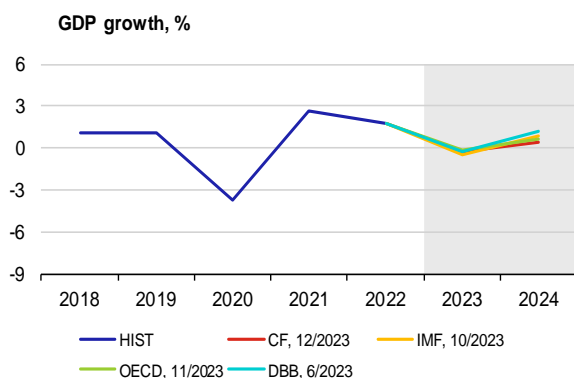
Inflation in the euro area countries in 2023 and 2024, %



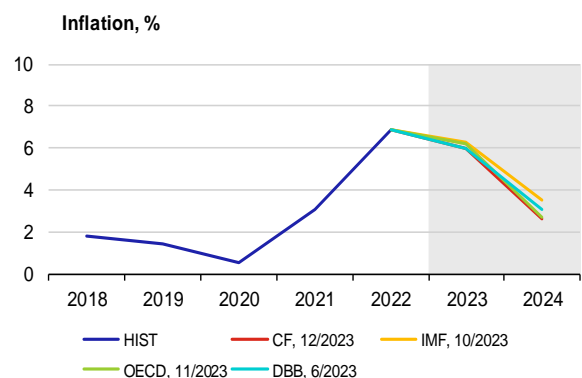
Note: Charts show institutions' latest available outlooks of for the given country.

A4. GDP growth and inflation in the individual euro area countries

Germany

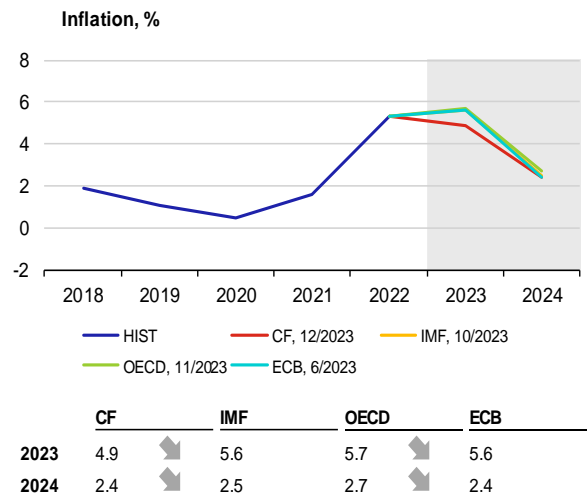
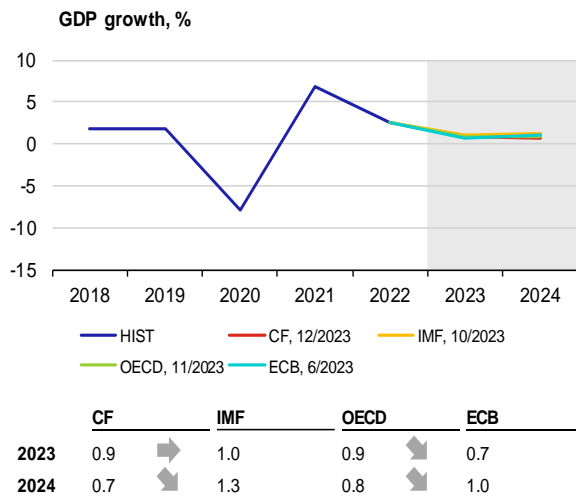


	CF	IMF	OECD	DBB
2023	-0.3	-0.5	-0.1	-0.3
2024	0.4	0.9	0.6	1.2

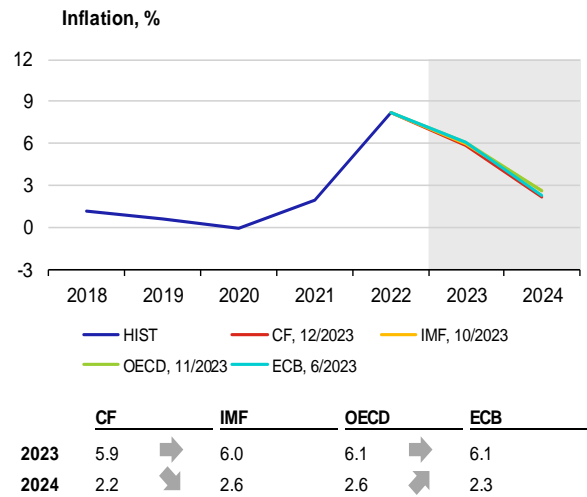
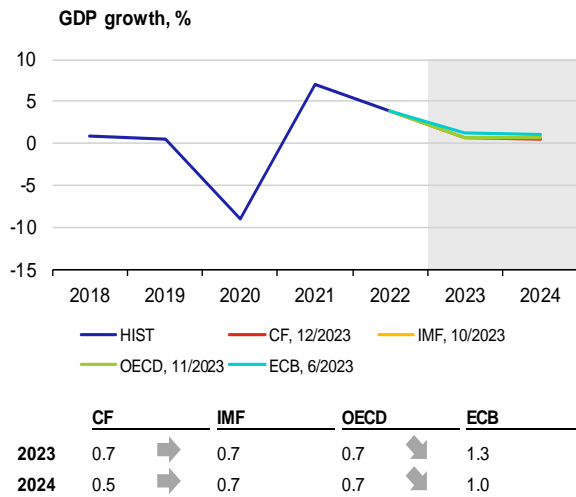


	CF	IMF	OECD	DBB
2023	6.0	6.3	6.2	6.0
2024	2.6	3.5	2.7	3.1

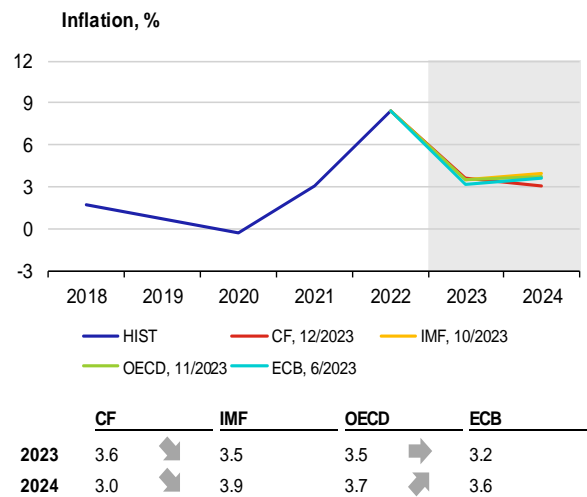
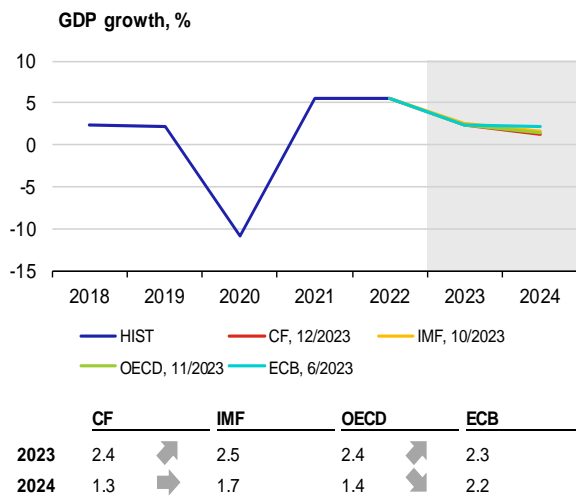
France



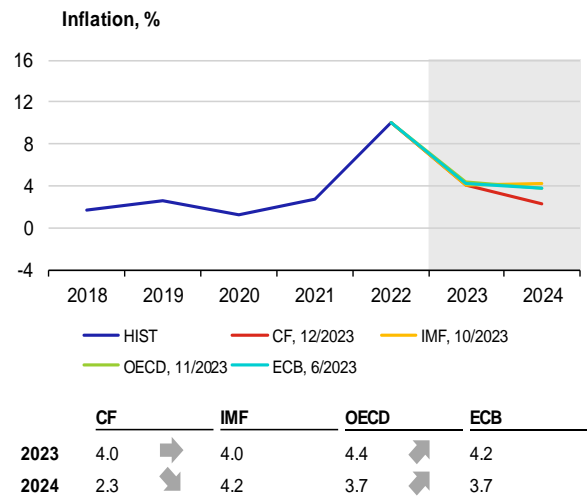
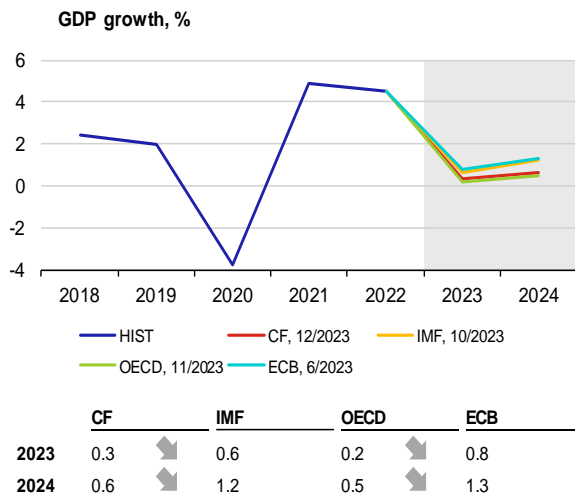
Italy



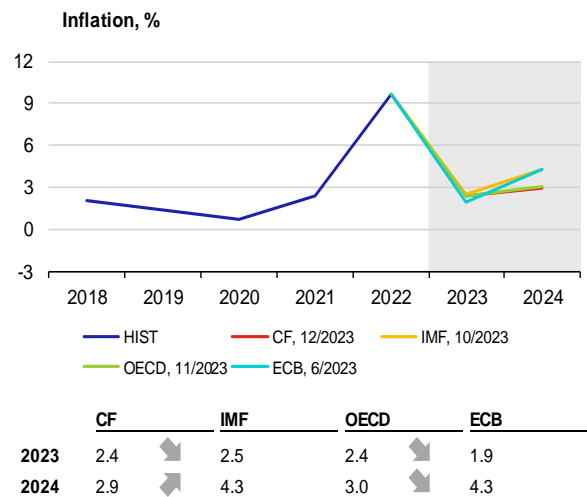
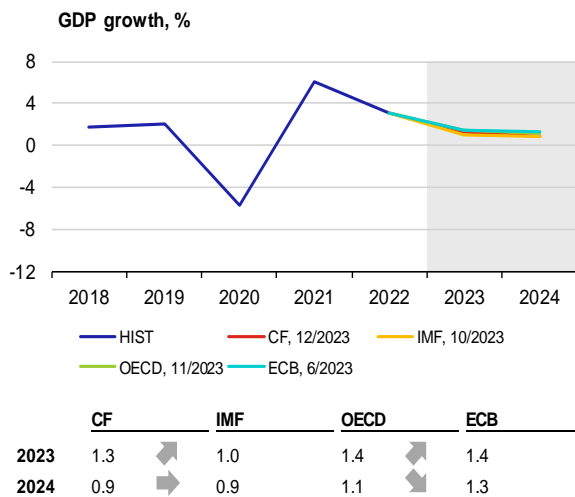
Spain



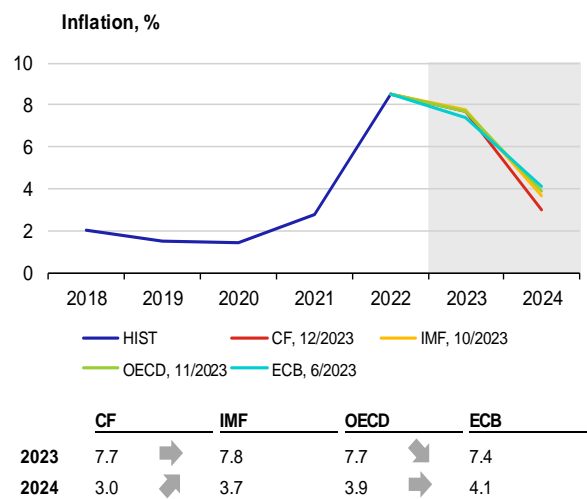
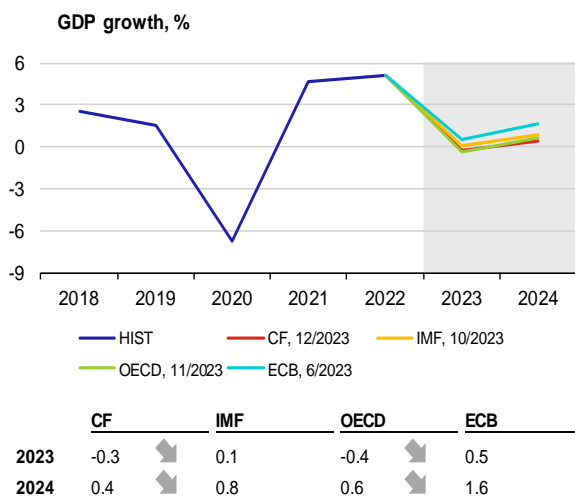
Netherlands



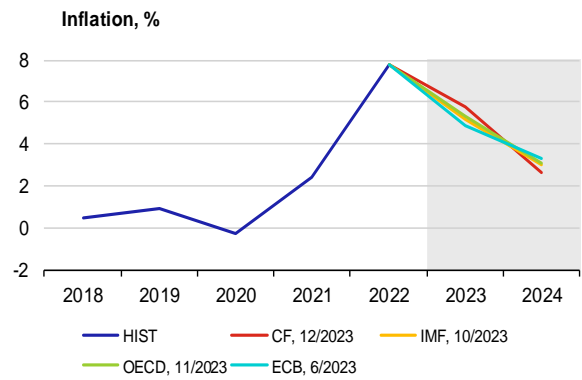
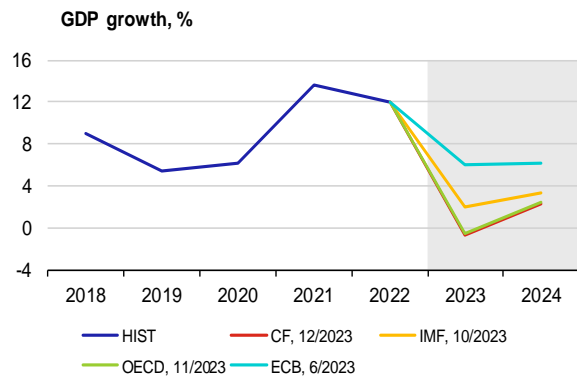
Belgium



Austria



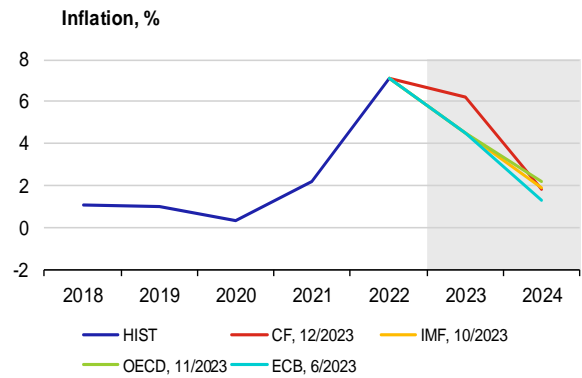
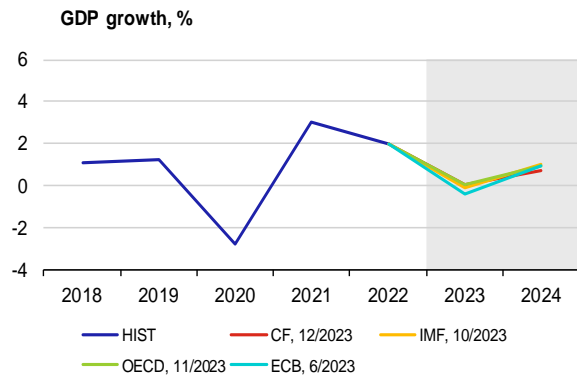
Ireland



	CF	IMF	OECD	ECB
2023	-0.7	2.0	-0.6	6.0
2024	2.3	3.3	2.4	6.1

	CF	IMF	OECD	ECB
2023	5.8	5.2	5.3	4.9
2024	2.6	3.0	3.1	3.3

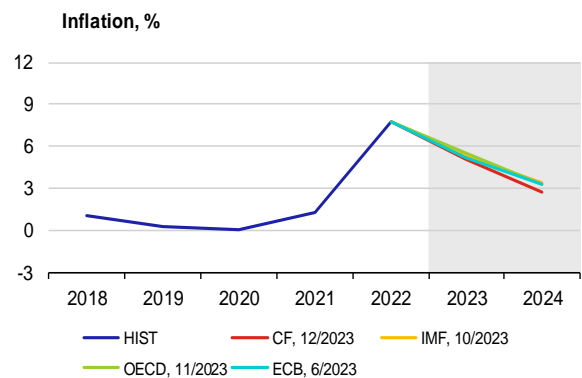
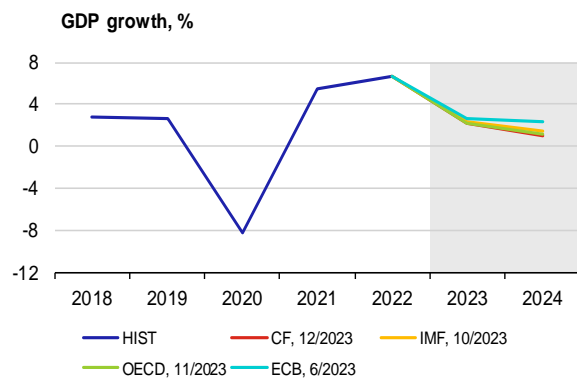
Finland



	CF	IMF	OECD	ECB
2023	0.0	-0.1	0.0	-0.4
2024	0.7	1.0	0.9	0.9

	CF	IMF	OECD	ECB
2023	6.2	4.5	4.5	4.5
2024	1.8	1.9	2.2	1.3

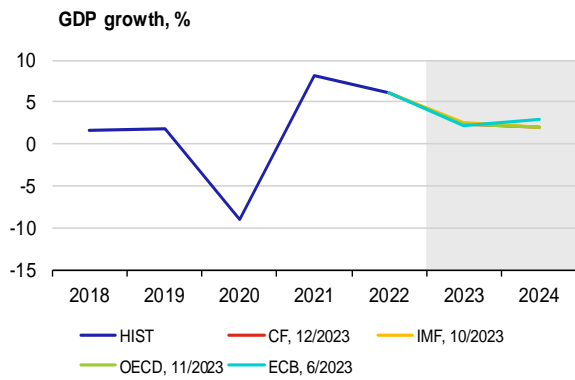
Portugal



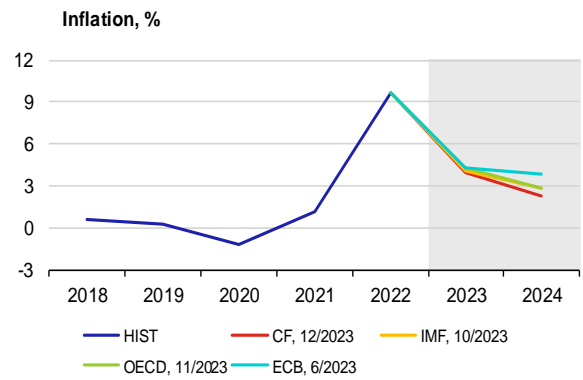
	CF	IMF	OECD	ECB
2023	2.2	2.3	2.2	2.7
2024	1.0	1.5	1.2	2.4

	CF	IMF	OECD	ECB
2023	5.1	5.3	5.5	5.2
2024	2.7	3.4	3.3	3.3

Greece

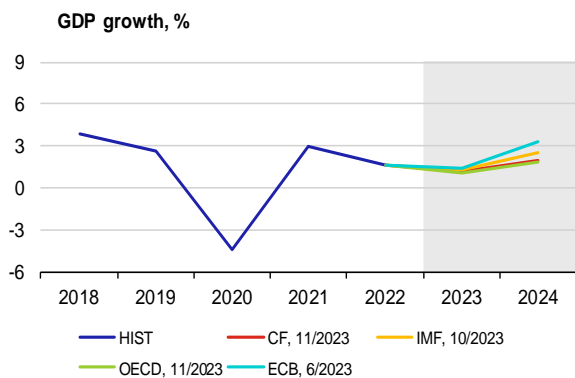


	CF	IMF	OECD	ECB
2023	2.4	2.5	2.4	2.2
2024	1.9	2.0	2.0	3.0

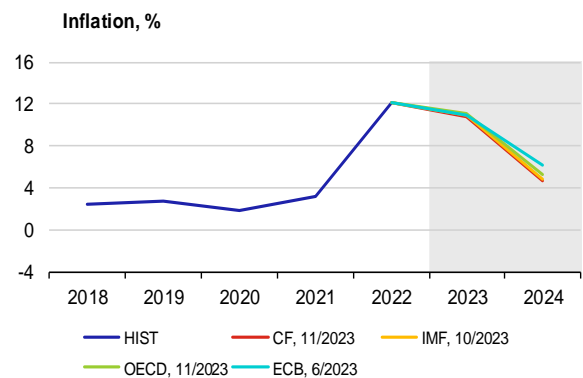


	CF	IMF	OECD	ECB
2023	3.9	4.1	4.3	4.3
2024	2.3	2.8	2.8	3.8

Slovakia

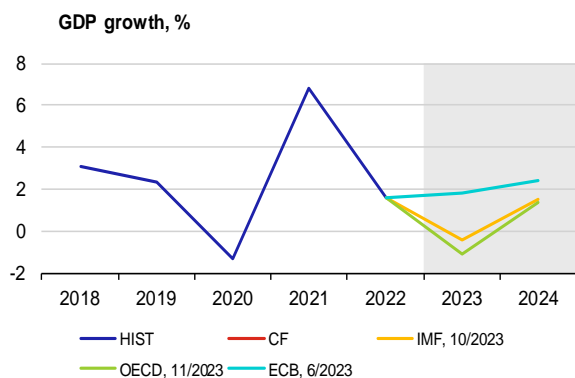


	CF	IMF	OECD	ECB
2023	1.2	1.3	1.1	1.4
2024	1.9	2.5	1.8	3.3

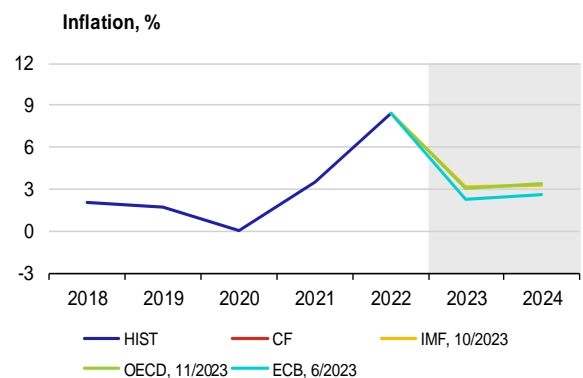


	CF	IMF	OECD	ECB
2023	10.8	10.9	11.1	11.0
2024	4.6	4.8	5.2	6.2

Luxembourg

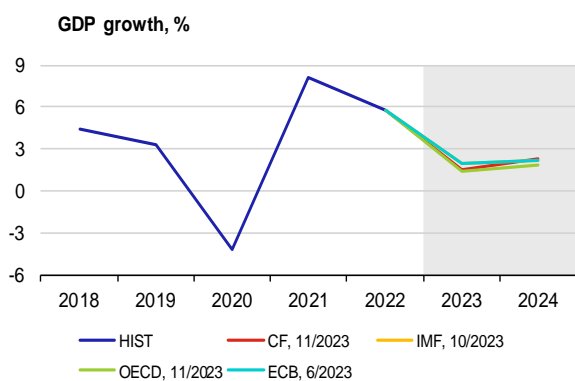


	CF	IMF	OECD	ECB
2023	n. a.	-0.4	-1.1	1.8
2024	n. a.	1.5	1.4	2.4

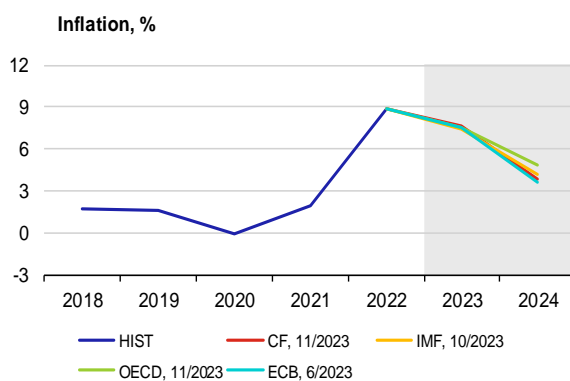


	CF	IMF	OECD	ECB
2023	n. a.	3.2	3.1	2.3
2024	n. a.	3.3	3.4	2.6

Slovenia

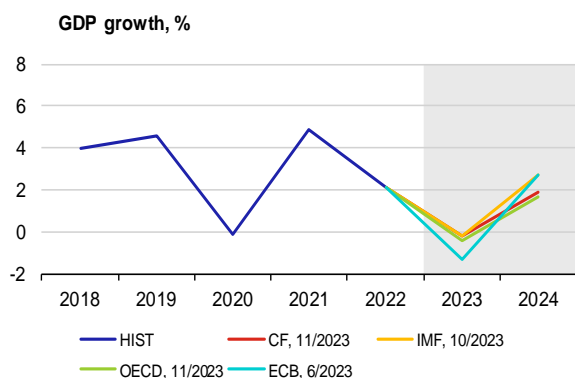


	CF	IMF	OECD	ECB
2023	1.5	2.0	1.4	2.0
2024	2.3	2.2	1.8	2.2

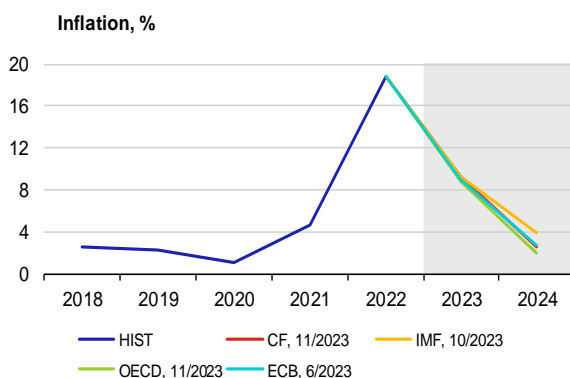


	CF	IMF	OECD	ECB
2023	7.6	7.4	7.5	7.5
2024	3.8	4.2	4.8	3.6

Lithuania

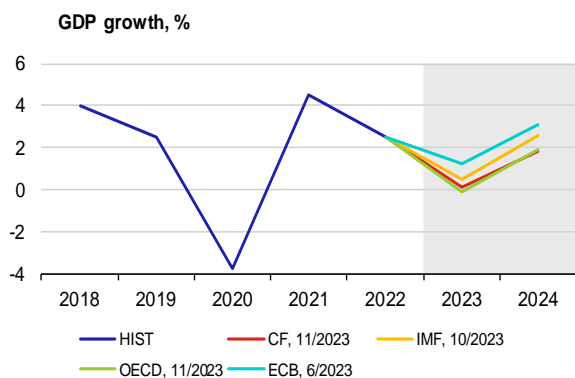


	CF	IMF	OECD	ECB
2023	-0.2	-0.2	-0.4	-1.3
2024	1.9	2.7	1.7	2.7

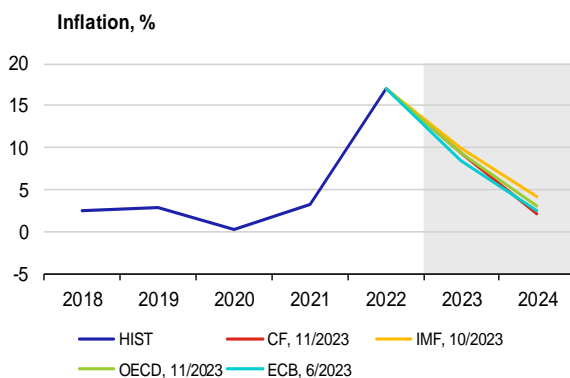


	CF	IMF	OECD	ECB
2023	9.3	9.3	8.8	8.9
2024	2.6	3.9	2.0	2.7

Latvia

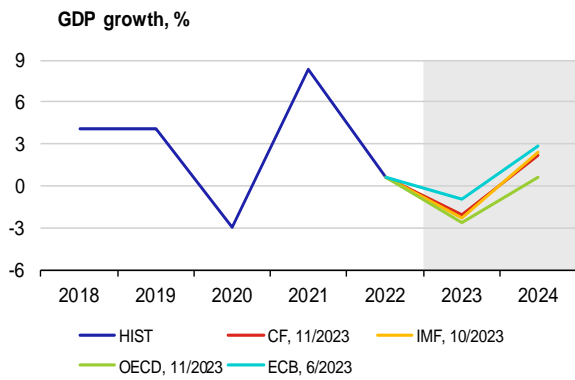


	CF	IMF	OECD	ECB
2023	0.1	0.5	-0.1	1.2
2024	1.8	2.6	1.9	3.1

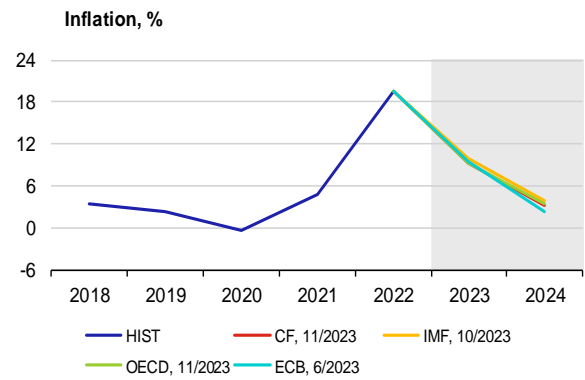


	CF	IMF	OECD	ECB
2023	9.3	9.9	9.4	8.5
2024	2.1	4.2	3.1	2.4

Estonia

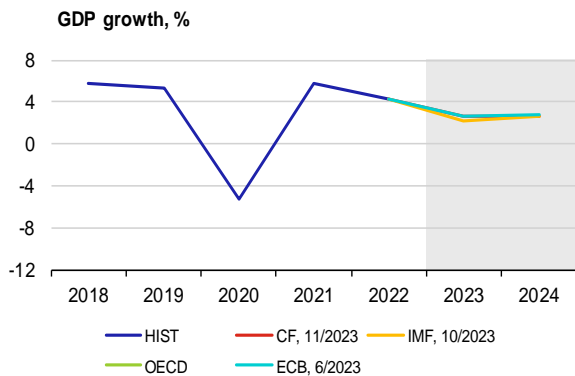


	CF	IMF	OECD	ECB
2023	-2.1	-2.3	-2.6	-1.0
2024	2.2	2.4	0.6	2.8

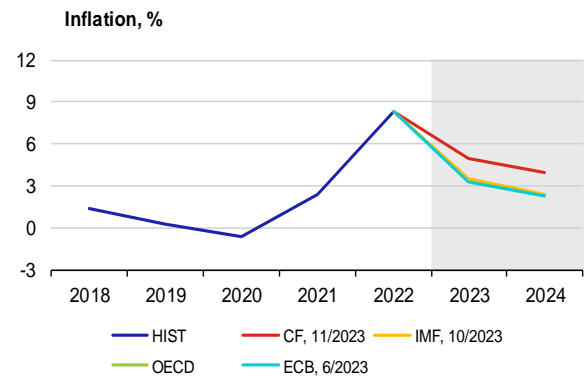


	CF	IMF	OECD	ECB
2023	9.3	10.0	9.2	9.4
2024	3.2	3.8	3.4	2.3

Cyprus

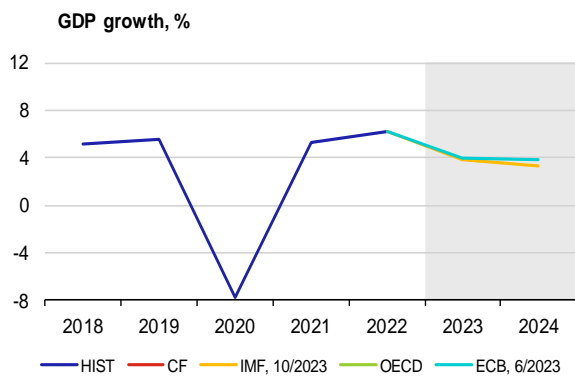


	CF	IMF	OECD	ECB
2023	2.7	2.2	n. a.	2.6
2024	2.6	2.7	n. a.	2.8

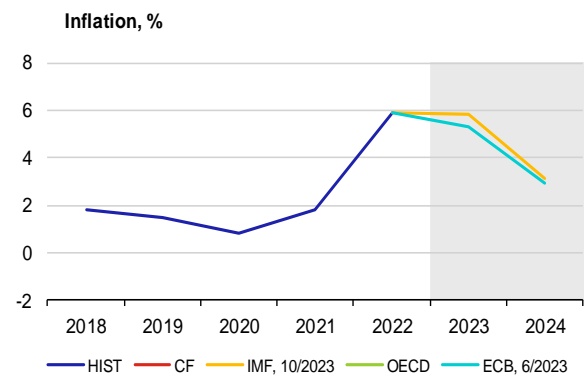


	CF	IMF	OECD	ECB
2023	4.9	3.5	n. a.	3.3
2024	3.9	2.4	n. a.	2.3

Malta



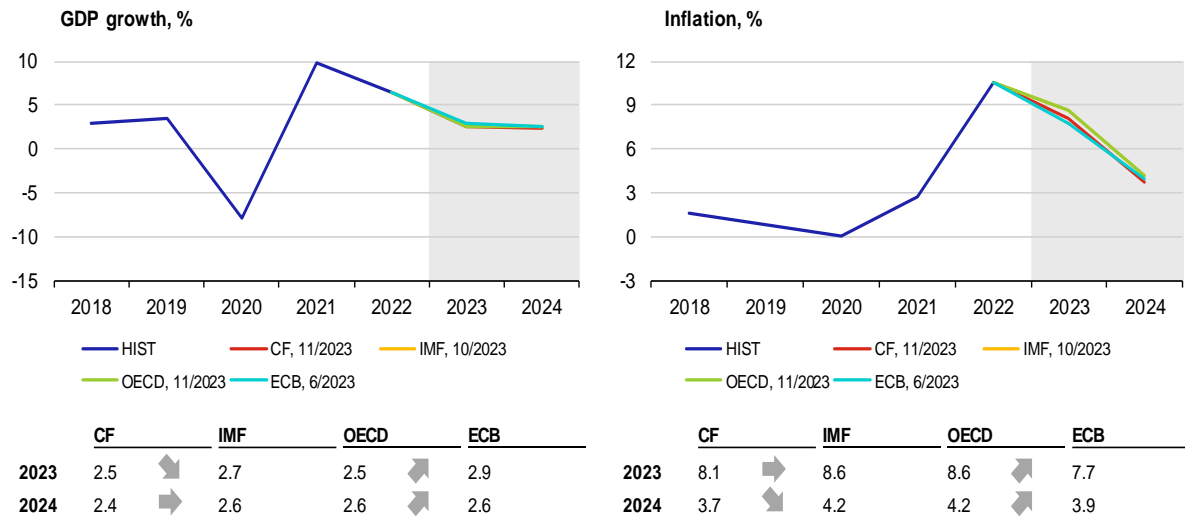
	CF	IMF	OECD	ECB
2023	n. a.	3.8	n. a.	4.0
2024	n. a.	3.3	n. a.	3.8



	CF	IMF	OECD	ECB
2023	n. a.	5.8	n. a.	5.3
2024	n. a.	3.1	n. a.	2.9

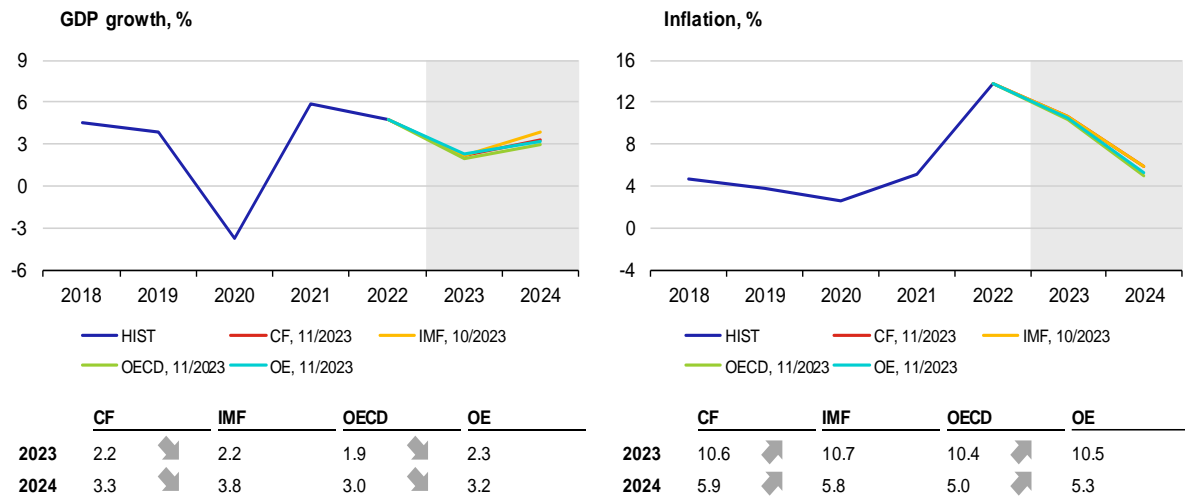
Ddd

Croatia



A5. GDP growth and inflation in other selected countries

Romania



A6. List of abbreviations

AT	Austria	IRS	Interest Rate swap
bbi	barrel	ISM	Institute for Supply Management
BE	Belgium	IT	Italy
BoE	Bank of England (the UK central bank)	JP	Japan
BoJ	Bank of Japan (the central bank of Japan)	JPY	Japanese yen
bp	basis point (one hundredth of a percentage point)	LIBOR	London Interbank Offered Rate
CB	central bank	LME	London Metal Exchange
CBR	Central Bank of Russia	LT	Lithuania
CF	Consensus Forecasts	LU	Luxembourg
CN	China	LV	Latvia
CNB	Czech National Bank	MKT	Markit
CNY	Chinese renminbi	MNB	Magyar Nemzeti Bank (the central bank of Hungary)
ConfB	Conference Board Consumer Confidence Index	MT	Malta
CXN	Caixin	NBP	Narodowy Bank Polski (the central bank of Poland)
CY	Cyprus	NIESR	National Institute of Economic and Social Research (UK)
DBB	Deutsche Bundesbank (the central bank of Germany)	NKI	Nikkei
DE	Germany	NL	Netherlands
EA	euro area	OE	Oxford Economics
ECB	European Central Bank	OECD	Organisation for Economic Co-operation and Development
EE	Estonia	OECD-CLI	OECD Composite Leading Indicator
EIA	Energy Information Administration	OPEC+	member countries of OPEC oil cartel and 10 other oil-exporting countries (the most important of which are Russia, Mexico and Kazakhstan)
ES	Spain	PMI	Purchasing Managers' Index
ESI	Economic Sentiment Indicator of the European Commission	pp	percentage point
EU	European Union	PT	Portugal
EUR	euro	RU	Russia
EURIBOR	Euro Interbank Offered Rate	RUB	Russian rouble
Fed	Federal Reserve System (the US central bank)	SI	Slovenia
FI	Finland	SK	Slovakia
FOMC	Federal Open Market Committee	SPF	Survey of Professional Forecasters
FR	France	TTF	Title Transfer Facility (virtual trading point for natural gas in the Netherlands)
FRA	forward rate agreement	UK	United Kingdom
FY	fiscal year	UoM	University of Michigan Consumer Sentiment Index - present situation
GBP	pound sterling	US	United States
GDP	gross domestic product	USD	US dollar
GR	Greece	WEO	World Economic Outlook
HICP	Harmonised Index of Consumer Prices	WTI	West Texas Intermediate (crude oil used as a benchmark in oil pricing)
HR	Croatia	ZEW	Centre for European Economic Research
ICE	Intercontinental Exchange		
IE	Ireland		
IEA	International Energy Agency		
IFO	Leibniz Institute for Economic Research at the University of Munich		
IMF	International Monetary Fund		

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