

# Eurozone Labour Market

## Eurozone unemployment rising sharply

### Key findings

- **Employment growth plummets.**
- **Spain continues to be the main source of job shedding.**

### Steep fall in employment levels

The Employment Index from the Markit Eurozone PMI survey pointed to a further steep drop in employment in January, with the rate of job shedding reaching a new survey high for the third month running.

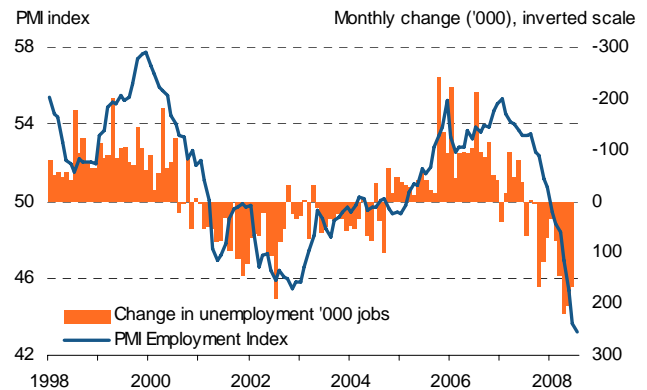
The survey covers manufacturing and private sector services and provides a useful advance indication of changes in the labour market across the whole economy. Charts in this note plot PMI Employment Indexes for the Eurozone against actual changes in the number of people unemployed according to official labour market data (charted using an inverted scale).

The Eurozone PMI Employment Index was below the critical no-change mark of 50.0 throughout the second half of 2008, with the rate of job shedding accelerating each month. The fall indicated by the PMI in January extends the current period of job losses to seven months. This tallies with official data, which showed a steep rise in unemployment in the fourth quarter of 2008. In December, the number of unemployed increased by 166,000 after two successive months in which it rose by more than 200,000.

### Unemployment rate continues to climb

These successive large rises in unemployment caused the Eurozone unemployment rate to increase in November to 7.8%, from 7.7% in October (and 7.2% just eight months previously). The growth made it four months in a row in which the unemployment rate has risen. Official unemployment growth averaged 196,000 during the fourth quarter of 2008, which equated to an unemployment rate of 7.9%.

### Eurozone PMI and unemployment



### Job shedding strongest in Spain, but all of the big-four face rising unemployment

Spain continued to contribute most to the increase in unemployment, as highlighted both by the PMI and official data. Q4 official employment data indicated that Spanish unemployment increased by a massive 609,100 over the quarter. This led the unemployment rate to surge to 13.9%, from 11.3% in the previous quarter. The rise was widespread, with over 200,000 jobs lost in the service sector, around 140,000 in the construction sector and 80,000 in industry.

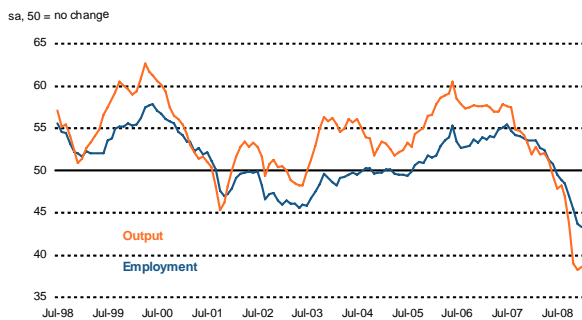
However, the flash PMI data for January suggested that employment levels are now falling sharply in each of the big-four eurozone economies, and official data – particularly in Germany and France – are also now beginning point to a weakening labour market. While unemployment had actually been falling in Germany up to October, it was unchanged in November and the trend now points to rising official unemployment for the end of 2008. French unemployment has now increased for six months in succession, with 33,000 extra unemployed in November. In contrast to the other nations and the PMI data, Italian official unemployment actually fell slightly in the third quarter of 2008.

## Further falls in output set to lead to drop in employment in 2009

PMI data suggest that unemployment will continue to rise at the start of 2009 as the recession extends. The PMI Output Index for January signalled a further severe contraction during the month, at a similar pace to December's series-record fall. Should employment continue to lag output, sharp rises in unemployment can be expected throughout Q1.

With unemployment rising sharply, and an upward trend in official unemployment in the largest euro area economy (Germany) as well as elsewhere, an unemployment rate of 9% by the end of 2009 is looking increasingly possible. In fact, the European Commission recently forecast an unemployment rate of 9.3% in 2009. A rate of 9% would require just under 2 million more unemployed. This equates to an average rise of around 165,000 per month over the year, below the average monthly increase in Q4 2008.

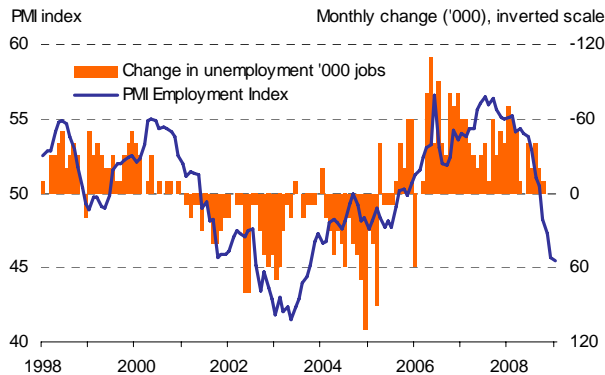
### Eurozone PMI Output and Employment



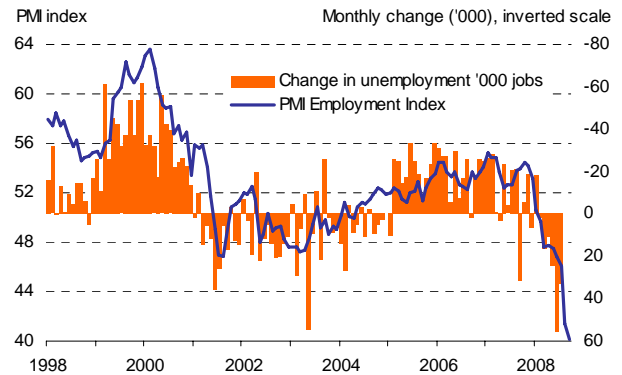
## Unemployment trends in the big-four Eurozone countries

(Unemployment data shown using inverted scales)

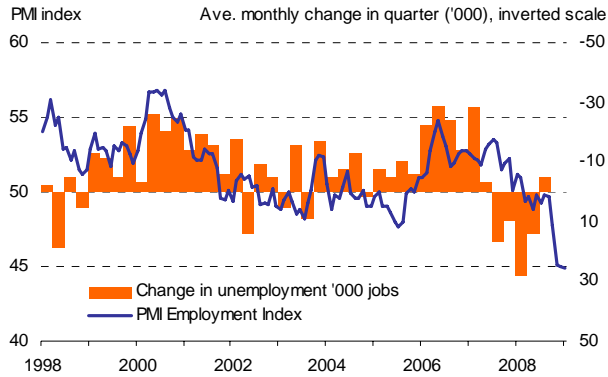
### Germany



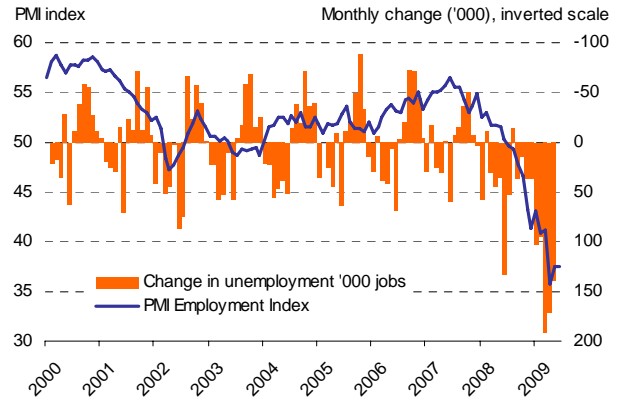
### France



**Italy**



**Spain**



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