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Eurozone unemployment falls to a ten-year low

McKinsey's latest Global Economics Intelligence report reveals a postcrisis high in eurozone employment, brightening the 2019 outlook.

Alan FitzGerald, Vivien Singer, and Sven Smit

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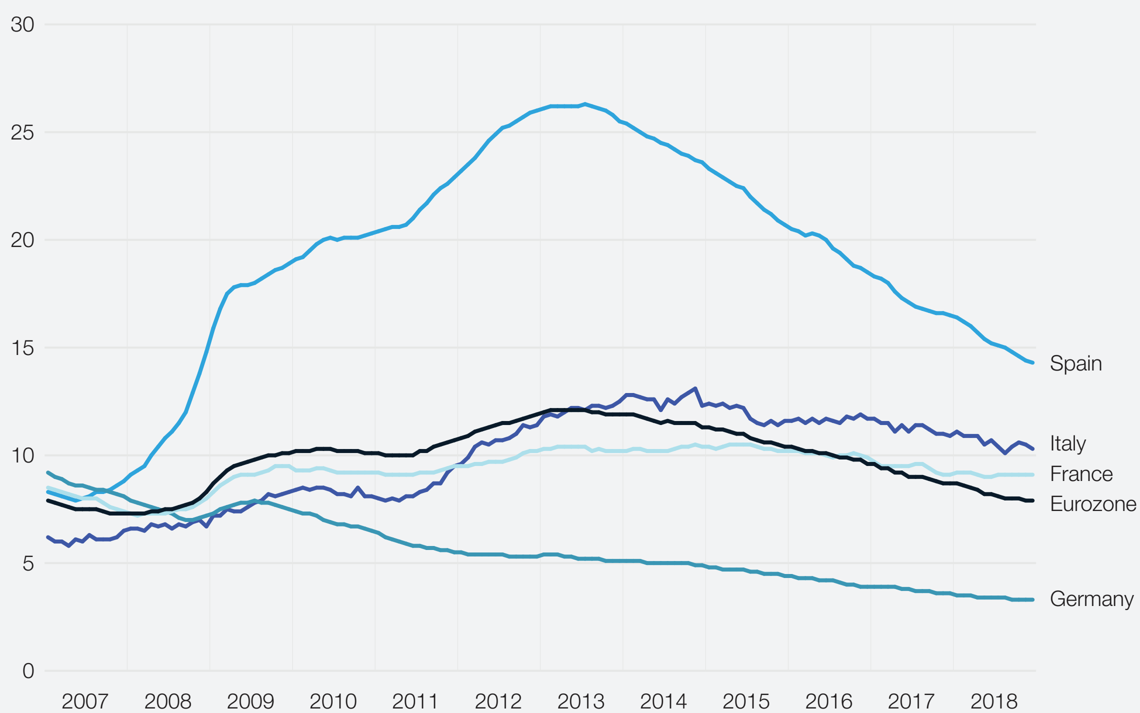
Notable in this month's release of McKinsey's Global Economics Intelligence (GEI) report is the unemployment rate in the euro area of 7.9 percent for November 2018, the lowest level since 2008. The seasonally adjusted index, maintained by Eurostat, held steady in December.[1] Joblessness has fallen by more than one-third since September 2013, when the index was at 12 percent. The improvement has been slow but steady since that time—a point regarded as the nadir of Europe's recession within a recession in the early 2010s. And in the wider European Union (EU-28), which includes high-employment countries such as Hungary, Poland, and the United Kingdom, the unemployment rate is even lower, at 6.6 percent, the lowest EU reading since recording began in January 2000.

To be sure, the rate of improvement has varied by country (exhibit). While unemployment was 3.3 percent in Germany in December 2018, the three next-largest economies, France, Italy, and Spain, clocked rates of 9.1, 10.3, and 14.3 percent, respectively. These higher readings all reflect slower national job growth since the dark days of 2013,

Exhibit

Declining eurozone unemployment rates brighten an uncertain growth outlook for 2019.

Harmonized unemployment rate, %, monthly, seasonally adjusted



Source: Eurostat; Haver Analytics; Organisation for Economic Co-operation and Development when overall unemployment in Spain was above 25 percent and youth unemployment (ages 16–24) topped a shattering 56 percent.

The employment picture has furthermore continued to improve despite uncertainties around eurozone growth in 2019. The European Commission's flash estimate of growth in the fourth quarter of 2018 is 0.2 percent, repeating the lackluster performance in the third quarter. Recent GEI reports have highlighted the challenges Europe faces, including ongoing Brexit uncertainty, declining overall demand from China, disruption in the German auto sector, and economic unrest in France. A debt-constrained Italian economy formally fell into recession at the end of 2018, as GDP contracted by –0.2 percent for a second consecutive quarter.

The latest GEI report offers insights into this paradox. At the end of 2018, retail sales showed continuous improvement, with 0.7 percent year-over-year growth, industrial orders increased, and construction output expanded slightly. While the forward-looking purchasing managers indexes have been in decline, readings remain above 50, indicating near-term expansion. External trade remains a question mark, with outlooks narrowing in respect of a new wave of global protectionism. But strong domestic demand, reflected in expanding consumer spending and the improved jobs outlook, is seen as an important signpost for continued momentum in the coming year. ■

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[1] "An unemployed person is defined by Eurostat, according to the guidelines of the International Labour Organization, as: someone aged 15 to 74 (in Italy, Spain, the United Kingdom, Iceland, Norway: 16 to 74); without work during the reference week; available to start work within the next two weeks (or has already found a job to start within the next three months); actively having sought employment at some time during the last four weeks. The unemployment rate is the number of people unemployed as a percentage of the labour force." Eurostat, ec.europa.eu.

Alan FitzGerald is a senior expert in McKinsey's New York office, **Vivien Singer** is an expert in the North America Knowledge Center, and **Sven Smit** is a senior partner in the Amsterdam office.

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