

Germany – will labor become scarce again?

Even though the labor market has not yet responded to the economic upturn, labor shortages are likely to reemerge soon in many sectors. This is due to unfavorable demographic trends and the growing number of workers without formal qualifications. Even the increasing use of artificial intelligence is unlikely to prevent these bottlenecks, which are likely to slow economic growth, fuel inflation, and stoke political conflicts.

The economic upturn has not yet reached the labor market, ...

Despite the economic recovery seen in recent quarters, there was once again bad news from the German labor market this week. While the number of unemployed appears to have stabilized, the number of employed persons continues to decline. The overall loss of jobs has been slowed by the fact that the government and government-affiliated sectors such as health care, education, and long-term care have created new jobs in recent years. In contrast, the number of employees subject to social insurance contributions in the private sector has fallen by more than 400,000 since early 2023, when the recession began – with manufacturing particularly hard hit – and there is no sign yet of a slowdown in job losses (Chart 1).

1 October 2026

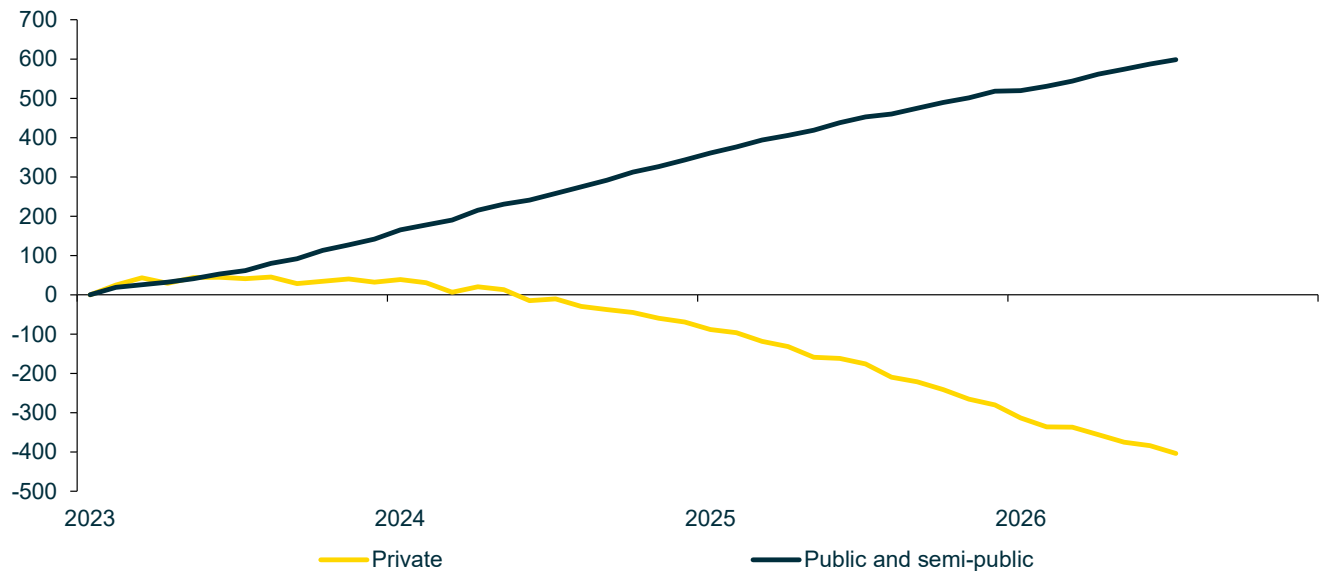
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Chart 1 - More government jobs have masked the bad performance of the labor market
Employees subject to social security contributions, seasonally adjusted monthly figures, change from January 2022 in thousands; government and government-affiliated sector: public administration, defense, education, health care, residential care facilities



Source: BfA, Commerzbank Research

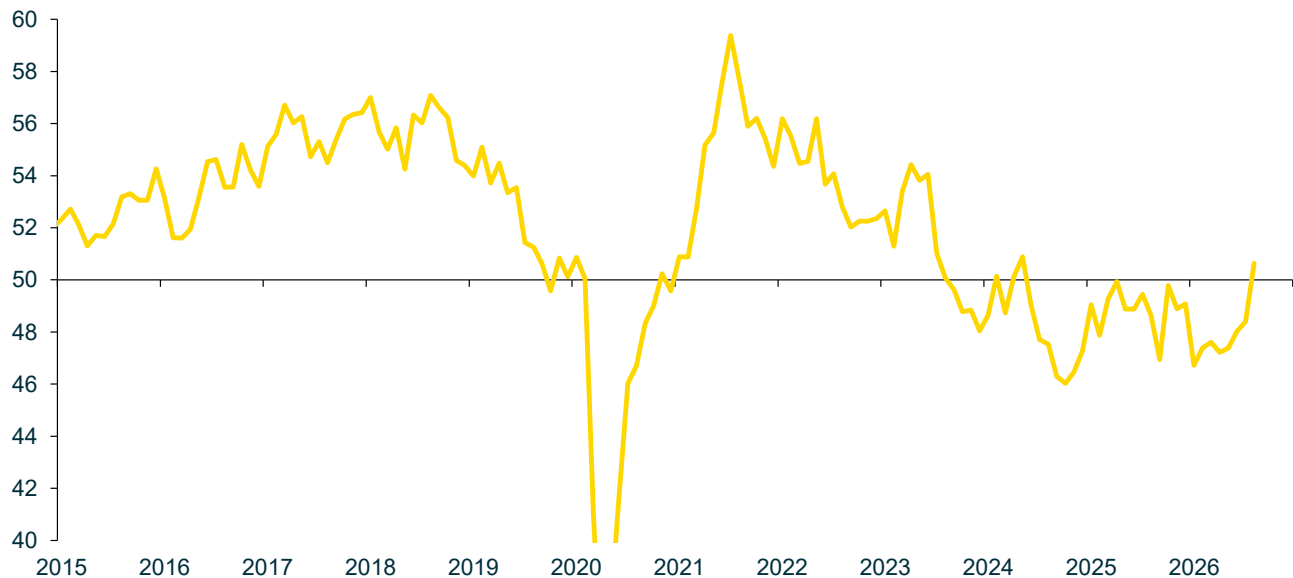
... but signs of stabilization

However, some indicators offer hope that employment in the private sector will soon stabilize. For example, the employment components of the Ifo Business Climate Index and the Purchasing Managers' Indices have recently risen (Chart 2), and the BA-X indicator from the Federal Labor Agency, which reflects trends in job openings, has been stable for several months. This suggests that the economic recovery will also become evident in the labor market as the year progresses and that the number of people employed will rise again.



Chart 2 - Hope for an end to job cuts

Employment component of the composite Purchasing Managers' Index for manufacturing and services sectors, seasonally adjusted monthly figures



Source: S&P Global, Commerzbank Research

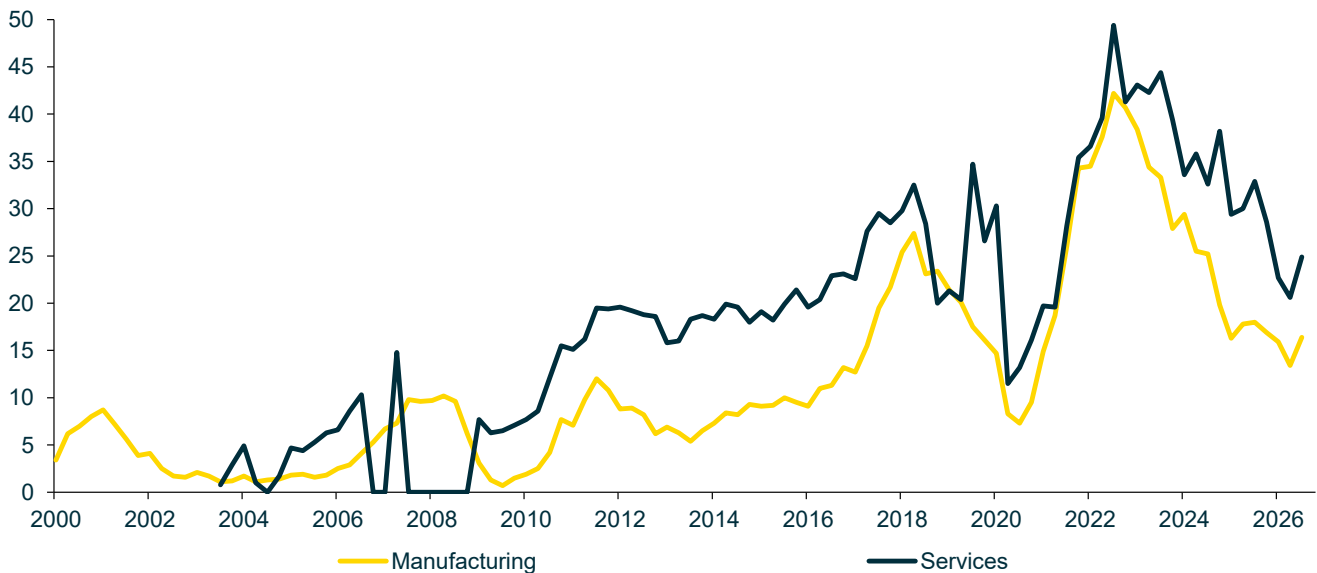
(Skilled) workers remain in short supply

If the labor market turns around, the shortage of skilled workers is likely to quickly become a major issue again. This is because many companies are already facing labor shortages. According to a survey commissioned by the European Commission, one-quarter of industrial firms and one in six service firms still report that a shortage of workers is hampering their production (Chart 3). While the proportion of affected companies is lower than in 2022/23, it remains significantly higher than it has been for much of the past 25 years. The BA-X index from the Federal Labor Agency is also currently significantly higher than it has been in comparable economic phases in the past.



Chart 3 - Labor shortage despite a weak economy

Share of companies where a labor shortage is hindering business operations; survey commissioned by the European Commission, seasonally adjusted quarterly figures



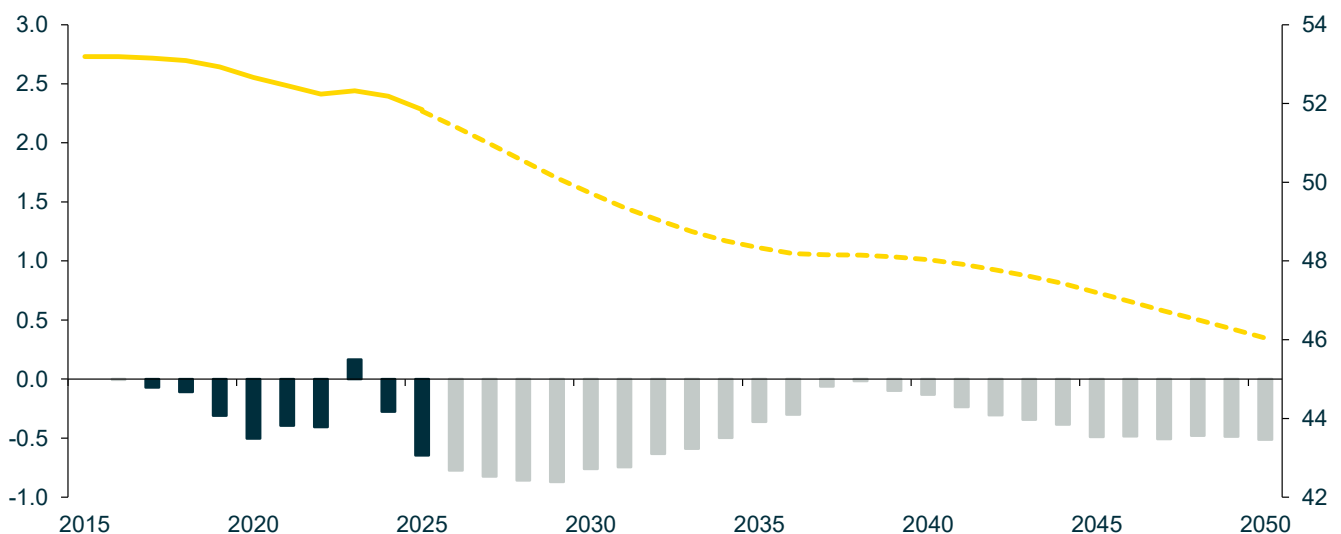
Source: EU commission, S&P Global, Commerzbank Research

Demographics are reducing the labor supply ...

One reason for this is Germany's unfavorable demographic situation. For example, the number of residents aged 16-64 – who are often equated with the labor force – has declined in recent years (with the exception of 2023) and is projected to fall by an average of 0.8% per year through 2030 (Chart 4). Immigration, which has at times been massive, has only mitigated this trend, but has not prevented it.

Chart 4 - Labor supply is already declining

Number of residents aged 16 to 64, in millions (right scale), and year-over-year change in percent (left scale); starting in 2026, population projections from the Federal Statistical Office



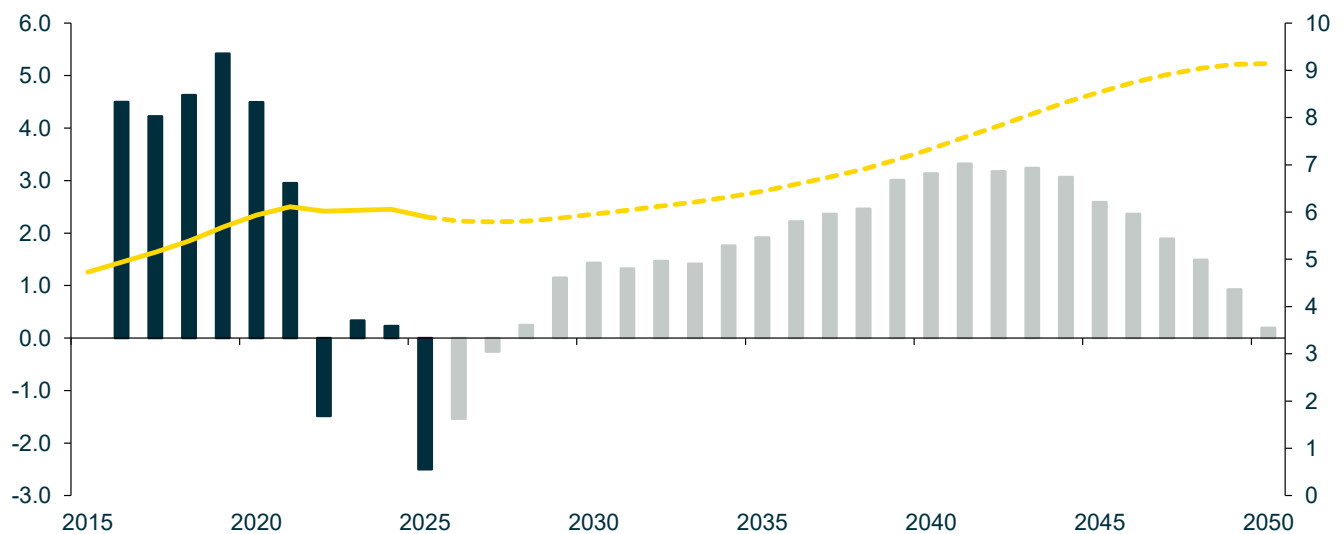
Source: Destatis, Commerzbank Research

... and increases demand in labor-intensive sectors



At the same time, the number of older residents will rise in the coming years. Although the number of people over 80 has recently fallen due to a one-time effect [1], it will begin to rise again starting in 2029. This will cause demand for labor-intensive services such as long-term care to rise further, which in turn will increase the demand for labor.

Chart 5 - The number of people over 80 will increase significantly in the coming years
Number of residents over the age of 80, in millions (right scale) and year-over-year change in percent (left scale); starting in 2026, population projections from the Federal Statistical Office



Source: Destatis, Commerzbank Research

More young workers without formal qualifications

The supply of skilled workers is also being affected by the fact that an increasing number of workers lack vocational qualifications. According to a study by the Institute for Employment Research, the proportion of “those without formal qualifications” among the workforce aged 20 to 34 rose from just under 10% to 13% between 2013 and 2024. To a considerable extent, this increase is due to the fact that many immigrants lack a vocational qualification.

And what about AI?

The increasing use of artificial intelligence (AI) will potentially replace many jobs. However, it is also likely to create new jobs, though it is unclear whether the demand for labor will increase or decrease on balance. At least in the short to medium term, as with previous structural changes, there is likely to be a “mismatch”: workers who are no longer needed in some sectors may not necessarily have the qualifications to fill jobs in the growing sectors. Consequently, labor shortages are likely to arise, particularly in the growing sectors.

And what does this mean?

The shortages of skilled workers that are expected to reemerge soon are likely to have a significant impact on economic and political developments:

- **A brake on growth:** A labor shortage, particularly in the growing sectors, will slow the growth of the German economy. In the coming years, productivity will have to increase by an average of just under 1% for this reason alone to prevent a decline in economic activity – and this amid the increasing importance of sectors such as long-term care,



which are labor-intensive and generally exhibit low productivity growth.

- **Stronger wage growth drives inflation:** Due to the emerging excess demand for labor, wages – and thus consumer prices – are expected to rise more rapidly.
- **Political conflicts over immigration:** Given the tight labor market, business associations are likely to push for increased immigration, a move that is likely to meet with resistance from many domestic residents.

[1] In recent years, the cohorts born during the war and shortly thereafter—when birth rates were very low—have reached the age of 80. As a result, these age cohorts are significantly smaller than the cohorts before and after them. However, this effect will fade in the coming years. ([back to text](#))



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