



## Focus Germany

# COVID causes dip in migration. Higher wage pressure likely

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- **Net migration to Germany came to approximately 220,000 in 2020.** Migration was curbed in particular by the months under lockdown. The figures show a massive decline compared to previous years, when more than 300,000 and as many as 400,000 people migrated to Germany annually.
- **In particular, migration from outside of the EU is down significantly year on year.** The top 20 countries of origin are now made up only of European and Asian countries. Migration from within the EU was also down overall compared to previous years.
- **There were considerable differences in terms of EU countries of origin. Migration from the UK, Spain and Portugal were up compared to 2019.** The number of people migrating to Germany from the likes of Romania and Bulgaria, two important countries of origin, remained relatively stable at 67,000 net. On the whole, migration from other major European countries was significantly lower in 2020 than it was in 2019 and fell by 5% across all EU member states.
- **Migration from Asia declined sharply. In fact, migration figures for China, Japan and South Korea actually show net emigration.** Migration from India remained positive but fell by almost 70%. Migration from Afghanistan rose, likely as a result of the planned withdrawal of allied troops from the country. The emerging humanitarian crisis in Afghanistan may cause migration to Germany to rise sharply in 2021.
- **Nevertheless, we are still likely to see a dip in migration in 2021.** Coronavirus-related restrictions at the beginning of the year saw migration fall by half year on year in the first few months of the year compared to 2019. According to our calculations, migration to Germany is likely to increase by only a small margin in 2021 compared to 2020.
- **Given that the coronavirus crisis has barely had an impact on residential building activity, the lower level of migration should help to alleviate the housing shortage in 2021, as it did in 2020.** However, the migration trend means that there will be a shortage of many thousands of labourers and skilled workers in the employment market, where labour demand has risen sharply again over the past few months. Due to the coronavirus crisis, the number of people working may have already peaked on account of the large number of people expected to retire in the future, exacerbating the shortage of labourers and skilled workers and increasing wage pressure over the remainder of the decade.



## 2020 and 2021: Migration down due to lockdowns

In 2020, Germany recorded its lowest migration figures since 2010. Net migration stood at around 220,000, a fall of more than 30% compared to 2019. Migration has been compensating for the natural decline in the German population since the 1970s. The number of inhabitants remained at a stable 83.2 million, with migration curbed in 2020 due to border closures and other factors. Migration fell sharply during the first lockdown from March to June 2020, but remained roughly on a par with previous years in the remaining months of the year. The periods of lockdown in 2021 also had an adverse impact on inward migration, with net migration totalling approximately 54,000 in the period from January to March – down by almost a half on 2019. Migration is likely to have remained below average in April and May in the wake of the third wave of the coronavirus and the resulting lockdown. If the figures follow the same trend over the rest of the year as they did in 2019, net migration is likely to total just 230,000 in 2021. As a result, the population of Germany would remain stable at roughly 83.2 million, alleviating the pressure on the housing market but negatively impacting the employment market due to the lack of thousands of skilled workers. After bottoming out at approximately 560,000 in July 2020, the number of job vacancies is rising sharply again on the back of the current economic upturn. By June 2021, the number of vacancies had risen to 683,000 and was almost back at the pre-crisis level of around 710,000.

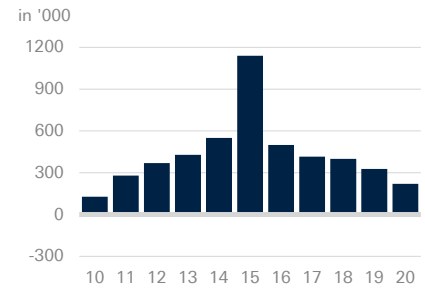
### 2020: Migration within the EU down by only around 5%

The coronavirus pandemic, lockdowns and border closures not only impacted inward migration, they also resulted in some significant changes to countries of origin. Migration from Europe, for instance, was down by just 18% compared to 2019, whereas the number of people migrating to Germany from the Americas, Asia and Africa tumbled by some 50%. As a result, Nigeria has slipped out of the list of top 20 countries of origin, with only 272 people migrating from there to Germany in 2021. In previous years, migration from Nigeria has been measured in the thousands. All in all, this means that the top 20 countries of origin in 2020 comprise only European and Asian nations. Within Europe, migration flows from within the EU (-5%) declined by a much lower margin compared to migration from outside the EU (-25%).

### Eastern Europe: Migration from Romania and Bulgaria remains stable

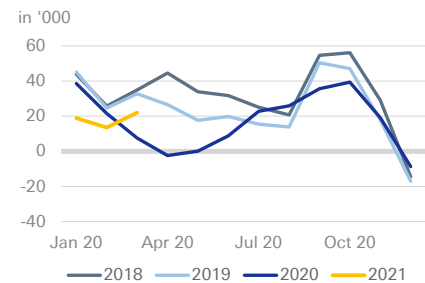
As in the previous decade, Romania and Bulgaria were once again among the main countries of origin, with some 67,000 people migrating to Germany from the two countries in 2020 – exactly the same figure as in the previous year. Migration from states comprising the Visegrad Group (Poland, Slovakia, Czech Republic and Hungary) increased following the slump in the previous year. Net migration stood at over 29,000 in 2018 before declining to 2,500 in 2019 and recovering somewhat to 7,200 in 2020. In the past, migration from Visegrad states has exceeded 100,000 in some years. However, thanks to relatively robust economic development and sharp declines in unemployment, significant migration flows from these countries may be a thing of the past. Political friction with the EU could also play a part, with Hungary, for instance, perceiving said friction in a vastly different way to many in western Europe. Net migration to Hungary totalled 1,400 in 2019 and just under 700 in 2020. Other factors, including geographical advantages partly caused by extremely ambitious climate targets in Germany, could bolster the Visegrad countries' status in the manufacturing industry and curtail migration to Germany from these nations.

Figure 1: Net migration



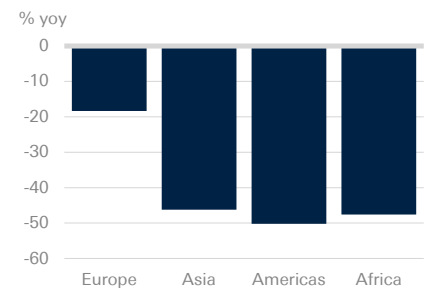
Source : Deutsche Bank Research, Federal Statistical Office

Figure 2: Net migration per month



Source : Deutsche Bank Research, Federal Statistical Office

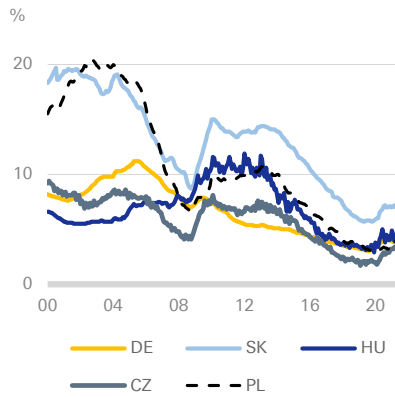
Figure 3: Net migration 2020 by continent



Source : Deutsche Bank Research, Federal Statistical Office

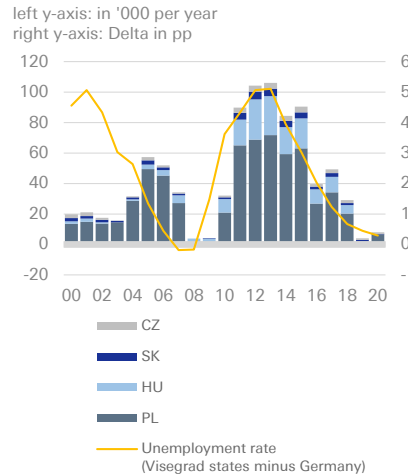


Figure 4: 2000-2021 Unemployment rate: Germany vs. Visegrad states



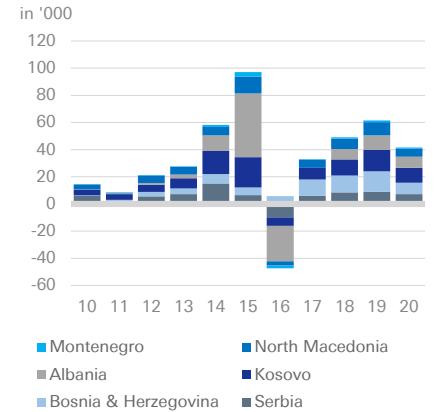
Source : ILO

Figure 5: Visegrad states: Migration and employment rate relative to Germany



Source : Deutsche Bank Research, Federal Statistical Office

Figure 6: Net migration from western Balkan states



Source : Deutsche Bank Research, Federal Statistical Office

### Significant drop in migration from southern Europe, western Balkan countries and major non-EU member states, with the exception of the UK

Migration from EU member states in southern Europe (Croatia, Greece, Italy, Portugal, Slovenia, Spain) declined by approximately 30% compared to 2019 to around 22,100 people, even though migration from Spain and Portugal doubled to more than 5,600. This could be due to the extremely high rates of infection and the fact that one of the most important industries in both countries, the hotel and restaurant industry, was running significantly below capacity. Some employees in the sector may have followed the German tourists to holiday destinations in Germany. Migration from western Balkan countries (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) also fell sharply by approximately 30% to around 41,500. The “West Balkan regulation” on legal labour migration was due to expire at the end of 2020 but was extended until the end of 2023 in November 2020. Under the new regulations, annual inward migration is capped at just 25,000 but will be reviewed on an annual basis. With the shortage of skilled workers rising significantly again at the moment, it would come as no surprise if the cap were to be raised promptly after the German elections. Construction and hospitality are two industries reliant on labour from the western Balkans. Migration from Russia, Ukraine and Turkey declined by a particularly large margin of 60% to around 21,600 in 2020. Net migration from the UK, on the other hand, almost doubled from 2,300 to a new all-time high of 4,500, likely as a result of extremely high rates of coronavirus infection in some cases and, above all, the looming threat of Brexit. That being said, migration is likely to normalise again moving forward following the completion of the UK’s formal withdrawal from the EU customs union and the single market on 1 January 2021. Between 2010 and 2015, migration from the UK averaged 2,360 per year.

Figure 7: 2020: Top 20 countries of origin

	2018	2019	2020
1 Romania	68.1	46.2	42.7
2 Bulgaria	26.8	21.2	24.5
3 Syria	34.4	31.3	21.1
4 Kosovo	11.9	15.7	11.1
5 Croatia	28.9	17.9	9.1
6 Afghanistan	5.0	5.9	8.4
7 Bosnia & Herzegovina	12.4	14.9	8.3
8 Turkey	16.5	18.4	8.2
9 Albania	7.5	10.8	8.1
10 India	16.9	21.7	7.8
11 Serbia	8.5	9.1	7.3
12 Poland	20.2	2.0	6.7
13 North Macedonia	7.8	9.7	5.9
14 Iraq	11.8	8.3	5.6
15 Vietnam	5.5	5.5	5.2
16 Iran	14.3	11.0	5.0
17 Spain	3.9	2.5	4.9
18 Italy	15.5	8.5	4.8
19 Ukraine	6.5	6.8	4.5
20 UK	3.6	2.3	4.5

Source : Federal Statistical Office, Deutsche Bank Research



## Asia: Extremely low migration from high-population countries, and in some cases net emigration

Figures indicating net emigration to China, Japan and South Korea reveal how much of an anomaly 2020 was in terms of migration flows. Migration to Germany from these countries has been consistently positive over the years, but, in a year dominated by the coronavirus pandemic, almost 10,000 people emigrated in the opposite direction in 2020. The majority of people migrate from these countries to complete their studies. Despite the increasing popularity of online courses, migration to Germany from these countries should pick up again once societies have adapted to dealing with the coronavirus. Some courses continue to be held in person, despite a huge increase in the volume of online education, but another factor away from the classroom is the importance of cultural exchange and having the opportunity to live and work abroad.

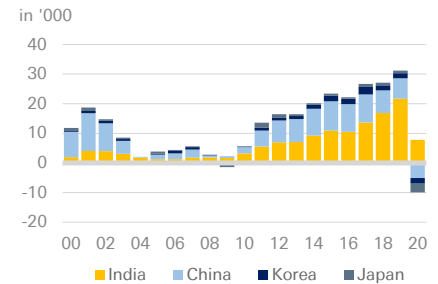
Migration was also low from other Asian countries. India, for instance, was the third most common country of origin after Romania and Syria in 2019, with 21,700 people migrating to Germany, but this figure tumbled to just 7,800 in 2020. Interestingly, India remains the main country of origin from migration to Berlin; the decline in the number of people migrating from India to the German capital was less marked than the figures for the rest of Germany (2020: approx. 2,000, 2019: approx. 3,400). This is likely due to the capital's start-up scene and the many digital companies based there. Migration from India is likely to increase markedly in future nationwide. Not only is India the world's most populous country, its competitive IT sector can also support Germany in its efforts to modernise its digital infrastructure and close the knowledge gap. As a result, we continue to believe that India will reclaim its status as an important country of origin and may even become the main country of origin for migration to Germany.

Net migration from Syria also declined, falling to the lowest value recorded since 2013 of 22,100. Before the advent of civil war in the country in 2011, net migration was measured in the hundreds per year. Afghanistan was the only Asian nation to see migration to Germany rise. The imminent withdrawal of allied troops is likely to be the reason for the 40% increase in inward migration to 8,400 people. Afghanistan has the potential for significant inward migration to Germany in view of the emerging humanitarian crisis there. In 2015 and 2016, net migration from Afghanistan to Germany totalled approximately 135,600.

## The decade ahead: Considerable migration likely to increase population further

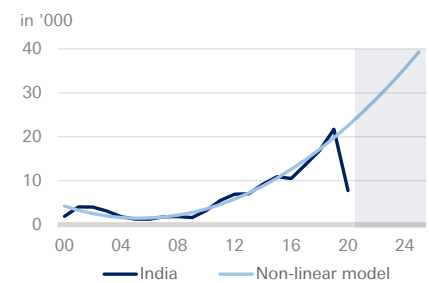
We expect migration to pick up significantly once the coronavirus crisis has abated. In particular, migration from outside of the EU – from western Balkan states and populous nations such as Russia, Turkey and Ukraine – should accelerate again, as should migration from Asia. India is likely to become an increasingly relevant country of origin for the reasons described above. The German Immigration Act for Skilled Workers, which came into force in March 2020, is likely to drive this trend, as it opens up the possibility for skilled workers to migrate to Germany outside of what are known as bottleneck professions. In addition, the act also abolished the priority review for EU citizens.

Figure 8: 2000-2020 Migration from and to East European countries



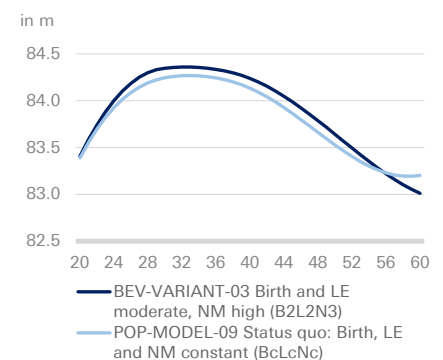
Source: Deutsche Bank Research, Federal Statistical Office

Figure 9: Germany: Net migration from India



Source: Deutsche Bank Research, Federal Statistical Office

Figure 10: Official population projections



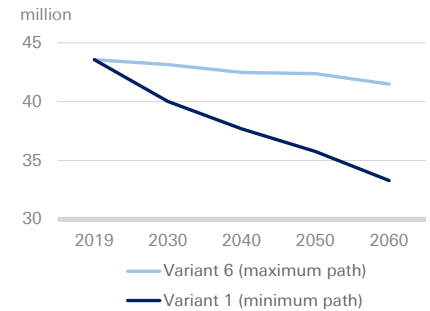
POP=Population off. projection, LE=Life expectancy, NM=net migration. B2L2N3=Birth version 2, Life expectancy version 2, Net migration version 3. c=constant.

Source: Deutsche Bank Research, Federal Statistical Office



Based on projections from the Federal Statistical Office (Destatis) assuming annual net migration of 311,000 people, the population of Germany will climb beyond the 84-million mark by the start of the 2030s and only then begin to slowly subside. This trend should boost demand for housing even further. Even on the basis of such high net migration figures, the Federal Statistical Office (Destatis) calculations – which do not take the coronavirus crisis into account – indicate that the number of people working will only increase marginally up to the midway point of the decade before gradually declining. The number of people working is likely to have already peaked due to the COVID-related dip in inward migration in 2020 and 2021. As a consequence, the lack of labourers and skilled workers should remain a defining issue of the current decade. Many workers could see their bargaining power increase significantly, leading to an uptick in wage growth compared to the previous decade, when collectively agreed wages rose by an average of roughly 2.4% per year.

Figure 11: Labour force projection 2020



Source : Deutsche Bank Research, Federal Statistical Office



# Appendix 1

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