EMEA Labour Market Outlook

October 2026

OCTOBER 2026

SUMMARY

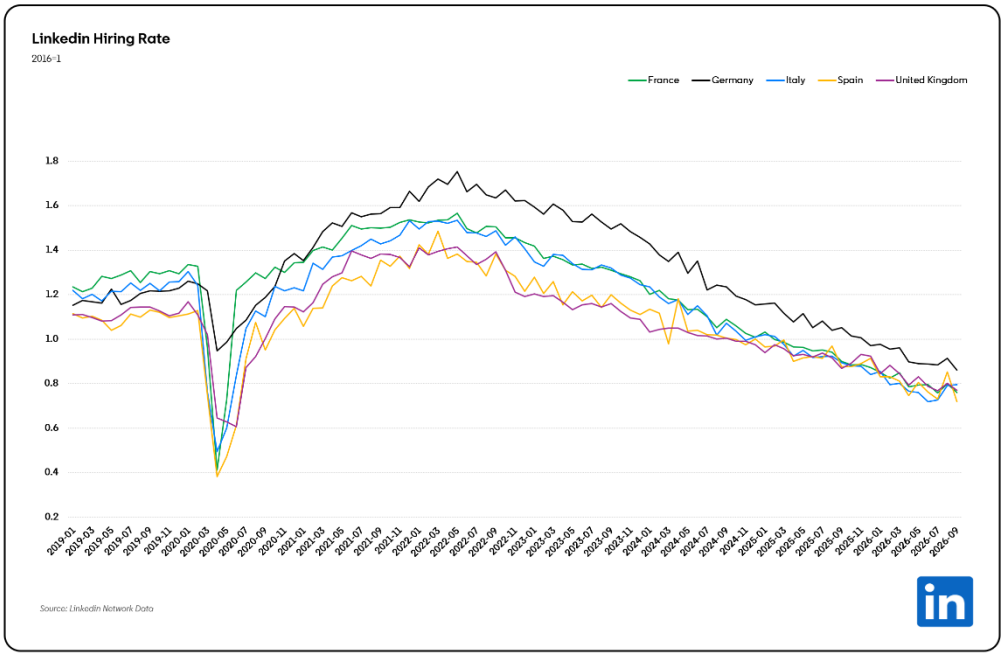
Hiring weakened again across Europe in September, with Germany (-5.7%), the UK (-4.0%), France (-4.9%) and Spain (-15.7%) all recording month-on-month declines. The major European economies are once again seeing hiring fall, continuing the broader slowdown that began after the 2022 hiring boom.

One bright spot in Europe is the Nordic region, where hiring has begun to stabilise after reaching a low in April. Hiring in the Nordics was around 60% of pre-pandemic levels at that point, among the weakest rates globally, which likely partly reflected unusually high labour-market participation and a limited pool of available workers. Since April, hiring has increased across Finland (+7%), Sweden (+3.5%), Denmark (+2.9%), Norway (+2.4%) and the Netherlands (+1.4%), suggesting that the Nordic labour markets may be turning a corner.

months of relatively broad-based recovery, including in Construction. Hiring, however, remains less than halfway back to its March level, before the current Middle East conflict began, leaving a long road to full recovery.

Despite persistent inflation and tighter financial conditions, we do not expect further significant weakening in hiring. Expected interest-rate increases remain below the peaks reached in 2022–23, while weak labour-market conditions have already suppressed wage growth. Most European economies are growing faster than expected, supporting investment and consumption.

Hiring is unlikely to recover quickly to pre-pandemic or even post-pandemic recovery levels, but stabilization may be likelier than a further significant downturn.



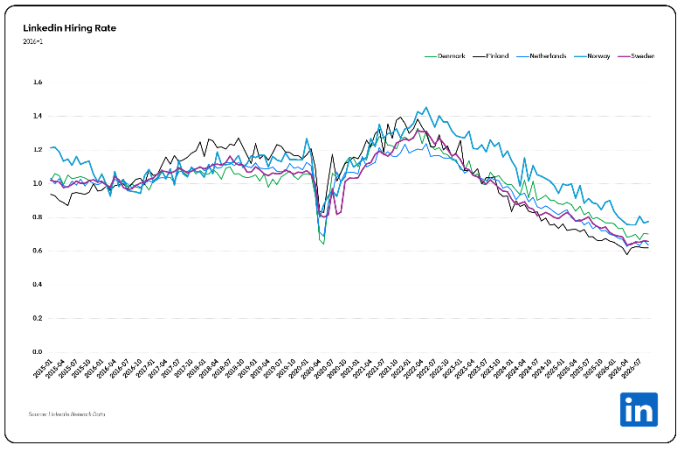
EMEA HIRING WEAKENS AGAIN IN SEPTEMBER, BUT SIGNS OF STABILIZATION EMERGE

Hiring weakened again across several major EMEA markets in September: -5.7% month-on-month in Germany, -4.0% in the UK, -4.9% in France and -15.7% in Spain. Spain's particularly sharp decline follows two months of strong gains, so the September drop should be taken with some caution. Month-to-month hiring data can be volatile.

With this decline, the largest European economies are firmly back on the downward trajectory in hiring that has prevailed since the peak of the hiring boom in 2022.

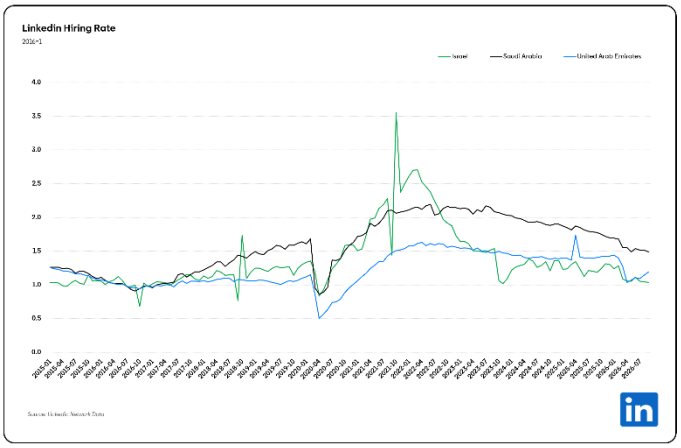
The Nordic countries offer a glimmer of hope, with hiring showing signs of stabilisation. While hiring rates there were among the weakest globally - at around 60% of pre-pandemic levels - this may partly reflect unusually high labour-market participation, which leaves fewer people available to be hired. In Sweden, for example, nearly 95% of people aged 35–54 participate in the labour market, while hiring in September was just 66% of its pre-pandemic level.

In recent months, however, hiring across the Nordics has started improving after hitting a low in April – with hiring now 7% above the low in April in Finland, 3.5% in Sweden, 2.9% in Denmark, 2.4% in Norway and 1.4% in the Netherlands.



Middle Eastern hiring also remained slow in September, with the exception of the United Arab Emirates. Despite continued uncertainty in the Middle East and elevated oil prices, hiring in the United Arab Emirates has now improved for several months. Hiring is still well below where it was before the current conflict began, but the direction is encouraging.

The improvement is also showing up across sectors. Hiring has picked up in most areas, including Construction, while Hospitality and Administration remain below pre-conflict levels.

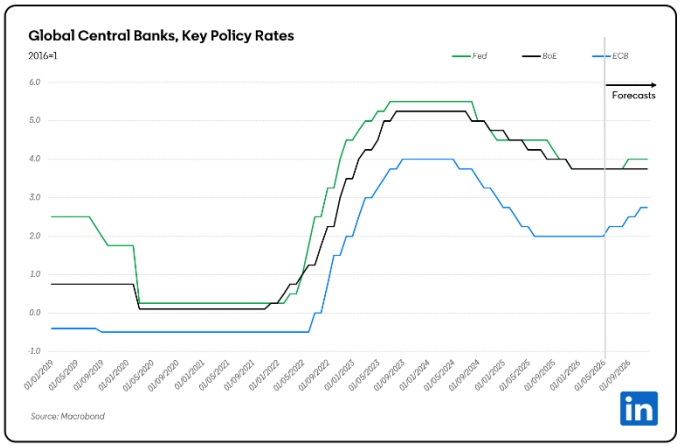


HIGHER INTEREST RATES MAY HURT HIRING LESS THAN USUAL

The Middle East crisis has kept energy prices high for more than six months, pushing inflation higher for longer than expected. Central banks are responding by raising interest rates, or preparing to do so.

The ECB has already increased its policy rates twice and is expected to increase them at least once more, while the Bank of England has yet to start increasing the policy rate but is widely expected to do so in its next policy meeting. Nordic central banks, too, have either already started increasing policy rates or are expected to do so in the near future.

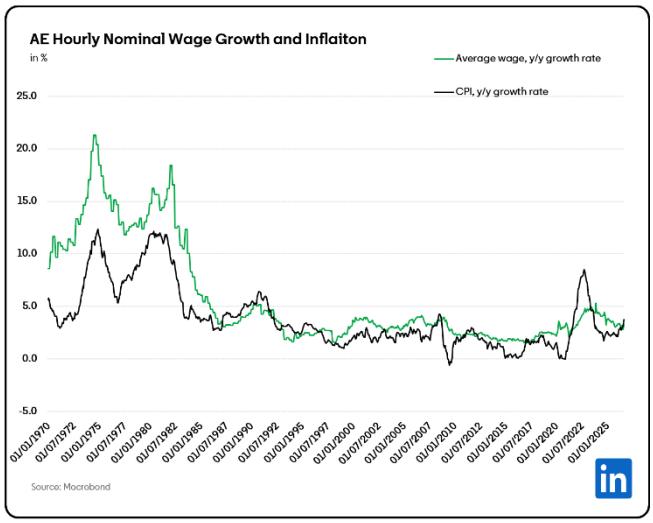
So, what will higher interest rates mean for an already weak hiring market?



We believe the answer is – less than we would normally expect, and for several reasons. First, rates aren't expected to climb back to their recent peaks. Even after all the expected increases, policy rates would not return to the levels seen during 2022 and 2023. Markets expect the ECB to raise its key policy rate to 3% or, at most, 3.25% in 2027, still well below its recent high of 4%. The Bank of England is expected to raise rates to 4.25%, again well below its recent high of 5.25%.

Higher interest rates normally hurt hiring by making it more expensive for businesses to borrow, which can lead them to invest and hire less. But some of that economic cooling has already happened. Weak hiring has slowed wage growth, even before central banks started raising rates. Inflation is back above 3% in several major European economies - 3.3% in Germany, 3.1% in the UK and France, and 4.9% in Spain - but wage growth continues to slow and is now below inflation on average. That's another sign that the weak hiring market is already easing wage pressure.

Economic growth across most of Europe has also been stronger than expected. With the exception of France, which will likely continue to experience very low growth until its political gridlock is resolved, most European economies are now growing at rates that markets were not expecting at the beginning of the Middle East and energy crisis. This, too, should help stabilize inflation without excessively constraining labour markets.



Finally, broader financial conditions are also different this time. A rise in policy rates is coinciding with higher government bond yields, as it normally would: the two typically move together as investors demand higher compensation for buying government bonds when policy rates are higher.

But stock prices are rising too, even though they would normally be expected to weaken once policy rates start rising. This enables both higher business investment and stronger household consumption than would normally be the case given higher interest rates.

Taken together, these factors should support growth, businesses and, ultimately, hiring more than would normally be expected in a policy-tightening environment. Perhaps hiring is still unlikely to return to the levels we would like to see - or those we became accustomed to both in the pre-pandemic era and especially during the post-pandemic recovery. But at least for now, we do not expect further significant weakening.

For employers and policymakers, the near-term message is one of stabilisation rather than recovery. Hiring may stop weakening, but a strong rebound is not yet in sight.