

## France

### Labour market: a mild but virtuous improvement

- The French labour market continues to show signs of improvement, both on the jobs front and in terms of unemployment.
- Between Q2 2015 and Q2 2016, the unemployment rate declined by half a point to just below 10%, and 120,000 non-farm payroll jobs were created.
- Since the beginning of 2016, there has been a 2% decline in the number of category A jobseekers registered with *Pôle Emploi*, the French employment agency.
- Although the signs of improvement are still mild due to the lack of more robust growth, they are nonetheless reinforcing growth via a positive feedback loop.

The very first signs of improvement in the French labour market date back to year-end 2014 for non-farm payroll employment and to year-end 2015 for the jobless rate. Since then they have gained in strength. Employment has risen continuously since Q2 2015 with an average of about 30,000 net job creations per quarter, with a total of 120,000 job creations in the year to Q2 2016 (see chart 1). Though mild, this is nonetheless the strongest improvement observed since the very ephemeral rebound of 2011, and before that, 2006, the most recent extended period of job creations.

The unemployment rate fell by half a point in the year to Q2 2016, bringing it just below 10% (9.9%) for the first time since Q3 2012 (see chart 2). Moreover, this decline occurred for the right reasons, i.e. thanks to a bigger increase in employment than in the labour force. Lastly, the number of category A jobseekers registered with *Pôle Emploi*<sup>1</sup>, the French employment agency, has also begun to fall since early 2016. It declined 2.1% between December 2015 and July 2016. The decrease can be seen in all age groups albeit to a lesser extent for the older jobseekers: -2.9% for the under-25 age group, -2.4% for the 25-49 age group, and -0.6% for the over-50 age group. Another encouraging trend is that the duration of unemployment is on a declining trend for the first time since year-end 2006 (the average duration was 574 days in July 2016, a decline of 9 days in 3 months).

The upturn in the labour market is being due to the uptick in growth in 2015 (average annual growth of 1.3%<sup>2</sup>, up from 0.5% per year on average in 2012-2014) and to various government measures to support and enrich the job content of growth. Government-subsidised job contracts in the public sector provide direct support. The other measures are not quite as direct but are also known to be effective

<sup>1</sup> Category A, B and C jobseekers are required to be looking for work, which is not the case for categories D and E. Category A is comprised of those that have not worked for the past month, category B, of those who have worked for short periods, and category C of those having worked for longer periods. Category D is comprised of jobseekers in training programmes or internships, and category E is made up of those with government-subsidised job contracts.

<sup>2</sup> Data adjusted for seasonal fluctuations but not for the number of working days.

#### France: quarterly change in non-farm payroll employment by sector

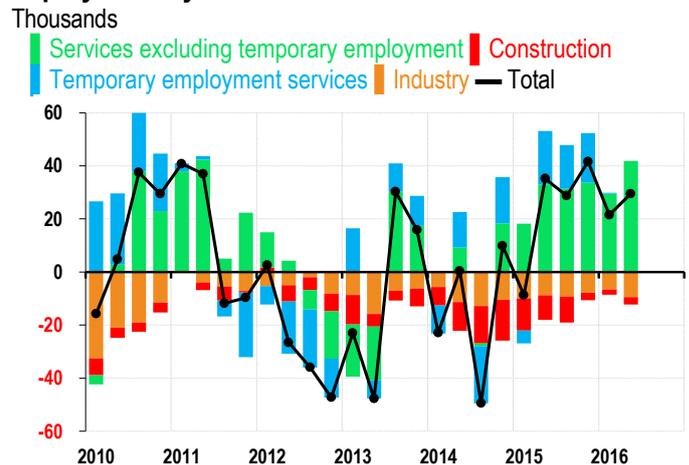


Chart 1

Source: INSEE

#### Unemployment rate

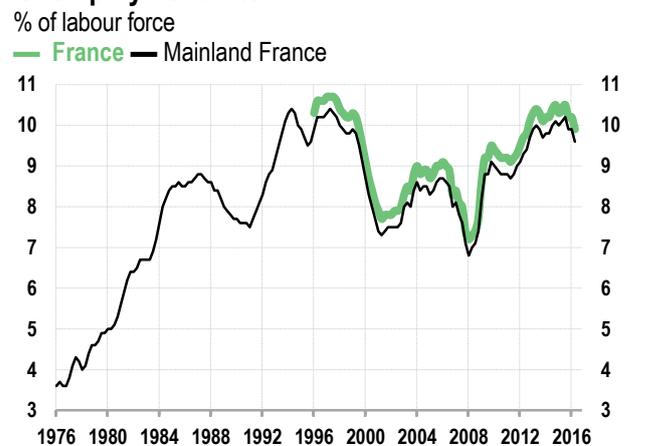


Chart 2

Source: INSEE

tools: measures to reduce the cost of labour through the CICE (i.e. competitiveness and employment tax credit) and the cuts in employer contributions through the Responsibility and Solidarity Pact; a bonus for small businesses that hire workers<sup>3</sup>; and efforts to promote and expand apprenticeships and training.

<sup>3</sup> The hiring bonus is fixed at EUR2,000 a year and paid quarterly for two years. Companies with less than 250 employees are eligible for the bonus for any hiring made between January 2016 and December 2017 under permanent or fixed-term job contracts with a duration of 6 months or more, with remuneration ranging between 1 and 1.3 times the minimum wage. The bonus is paid on top of other measures to lower labour costs (general cutbacks, CICE tax credit, reductions under the Responsibility Pact), and thus results in the total exoneration of employer charges for workers earning the minimum wage.



Yet, since the improvement in the labour market is recent and fairly mild, payroll employment still has not returned to pre-crisis levels and is about 3% short of the early 2008 figure. Since early 2015, there have been a cumulative total of 156,000 net job creations, but this still fails to offset the 206,000 job destructions of the period Q1 2012 and Q3 2014. Most importantly, job creations have yet to spread to all sectors of the economy: the services sector (excluding temporary help) is the main job provider while creations in the temporary help services sector have fallen back to zero for the past two quarters and industry and construction are still in negative territory.

The unemployment rate is still high. It stands about 3 points above pre-crisis levels, and more or less in line with the 2012 figure. Moreover, the recent decline in the number of unemployed – as measured by the INSEE using the ILO definition – must be kept in perspective given the smaller decrease in the number of category A jobseekers registered with *Pôle Emploi*, the lack of decrease so far in the all-categories figure, as well as the increase in the number of under-employed individuals and the unemployment halo (see chart 3). Under-employment, as defined and measured by the INSEE, is comprised of individuals working part time but who would like to work more, as well as those involuntarily working fewer hours than usual (notably due to partial unemployment). The unemployment halo is comprised of individuals out of work but that are not counted as unemployed because they do not meet all the ILO criteria: 1) to be out of work, 2) to be available to work within a two-week period, and 3) to be actively seeking work (i.e. to have undertaken specific job-hunting procedures over the past four weeks).

The existence of several different measures of unemployment makes the situation on the labour market harder to gauge. It fuels a recurrent debate on what is “the” right measure of unemployment, one that resonates particularly strongly today in the light of the important gap between the INSEE’s figure of 2.8 million unemployed and the 3.5 million category A jobseekers registered with *Pôle Emploi* (see chart 4). A series of regulatory or institutional changes introduced in 2009-2010 can have contributed to the widening of this gap – to an unknown extent however – by pushing up the number of jobseekers<sup>4</sup>. This gap is also due to the fact that jobseekers are not necessarily considered to be unemployed according to the ILO’s strict definition if they are not actively seeking employment and/or are unavailable to work within 15 days. This behaviour may be a sign of discouragement or of a difficulty to reconcile private life and working. In that case, these persons end up most often in the unemployment halo.

To conclude, we would nonetheless like to see the glass as half full. The improvement in the labour market is significant because it reinforces growth by creating positive spill overs that lay the foundations for a self-sustained, virtuous circle. The rebound in employment and the decline in unemployment support personal income and soften the downward pressures on wages growth. These

<sup>4</sup> The creation of an earned income supplement (*revenu de solidarité active* or RSA); the decrease in the minimum qualification period for receiving jobless benefits; the expiration of the measure dispensing unemployed seniors from seeking work; the pension reform; and the introduction of contractual termination (*rupture conventionnelle*), i.e. the termination of job contracts through mutual consent. See “Recent comparison of unemployment trends based on the ILO definition and the number of job seekers at the end of the month registered with *Pôle Emploi*”, INSEE, *Note de Conjoncture*, June 2016.

### France: Narrow and broad measures of unemployment

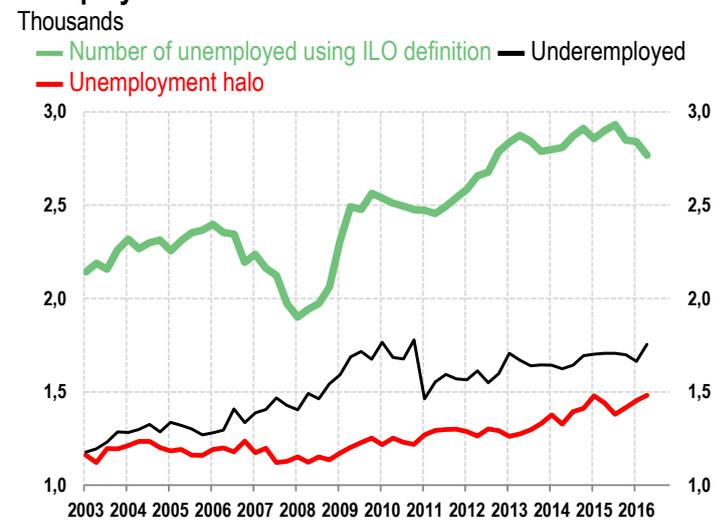


Chart 3

Source: INSEE

### France (mainland): unemployed vs. jobseekers

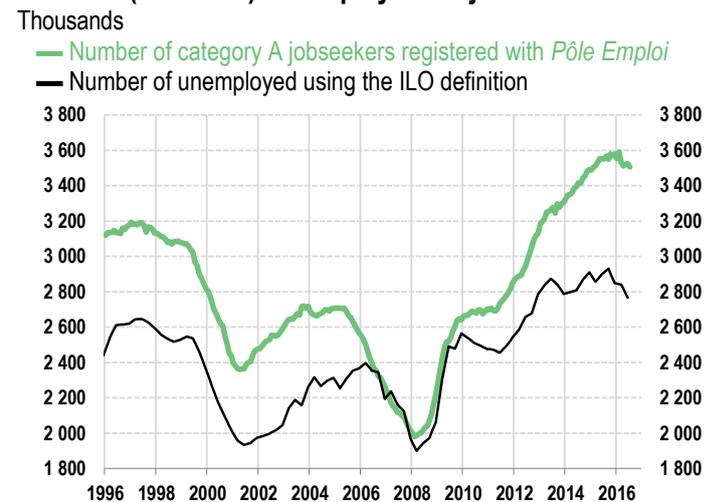


Chart 4

Sources: INSEE, Pôle emploi

trends also boost household confidence. Together they provide key, ongoing support for household consumption. More consumption means more growth, and more growth means more jobs and less unemployment. It also means more corporate investment (also bolstered by an upturn in profit margins), which further strengthens this dynamic momentum, creating a virtuous circle in which growth breeds more growth. Yet since this positive feedback loop is only just getting underway and starting from a rather deteriorated situation, we should not expect it to rapidly produce very rapid growth rates, especially since there are major headwinds (the negative impact expected from Brexit; sluggish world growth; the expected upturn in inflation; and fiscal consolidation). At the end of the day, although French growth might not be very strong yet, it nonetheless seems to be a bit more solid.