# EDITORIAL



## FRANCE: NO RECESSION WITHOUT JOB DESTRUCTIONS

**The French labour market continues to be surprisingly strong with 42,000 net job creations in the first quarter of 2023 according to the INSEE, even though the economy has shown numerous signs of cooling off for more than a year. There is nothing abnormal about the labour market's resilience, which has still benefited from post-Covid catching-up effects, notably in market services. Yet several driving forces have seized up, especially in construction, and the labour market could begin to deteriorate.**

When it comes to avoiding recession, the labour market situation plays a decisive role. Household's unemployment fears and wage growth are essential because both factors shape household purchasing power and the savings rate. Labour hoarding in response to a mild deterioration in demand could be enough to prevent a recession. Indeed, it is rather rare that a recession is not accompanied by a contraction in employment (chart 1).

Several fundamentals explain the persistently high number of job creations in early 2023. Labour shortages are still the biggest factor limiting production in key sectors, notably construction (chart 2). The first signs of an upcoming deterioration are all the more noteworthy given the growing constraints on demand.

The INSEE monthly business climate survey is yet to show any broader signs of a deterioration in the job market. As the survey reveals, the job market has been hit by several blips since early 2022, but they have been highly concentrated around certain components and have dissipated before spreading further. In the first half of 2022, for example, temporary employment declined (chart 3), an early warning that had often implied a more widespread deterioration in payroll employment, as in 2007-08 and 2011-12. Yet the downturn in temporary employment reversed itself even before payroll employment showed any real signs of deterioration.

One could argue that the job market continued to benefit from post-Covid catching-up effects in 2022 and was bolstered by the rebound in activity in the services sector. Output in services increased in such a way that by year-end 2022, it had returned to the levels it would have reached if pre-Covid growth trends had continued (chart 4). Employment in market services benefited from this catching-up effect, but this now seems to be over. At the same time, industry and construction both reported strong years in 2022, which enabled them to shorten some of the delays in implementing order books, and companies were able to rebuild their inventories. Once again, employment benefited from this momentum and continued to grow.

**FRANCE: EVOLUTION OF EMPLOYMENT IN THE PRIVATE SECTOR**

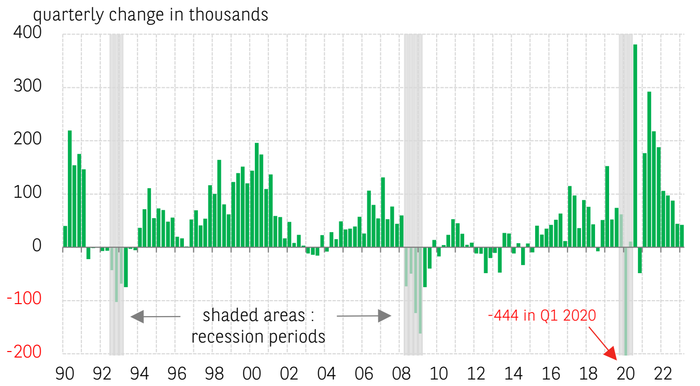


CHART 1 SOURCE: INSEE, BNP PARIBAS CALCULATIONS

Another blip was recession fears before fall and winter 2022 due to possible energy shortages, which led some industries to scale back production. This factor hit subcontractors particularly hard and explains the loss of momentum in job creations in market services in Q4. Once again, the blip proved to be short-lived, and the sector saw a sharp uptick in new job creations in Q1 2023, at the same time as a strong rebound in the production of services. Consequently, employment in market services (excluding temporary employment) rebounded in first quarter 2023 with 58,000 job creations, similar to the number of job creations in Q3 (vs. only 18,000 new jobs in Q4).

Recent change in temporary employment could be another negative signal (chart 3). Will this early warning signal of a job market slowdown pull down regular payroll employment? The recent deterioration in economic surveys is also another source of concern, since it is the case for both industry and services[1], even though it is still relative.

1 See "France: running out of steam", EcoBrief of 20 April 2023.

> The most recent indicators for the French labour market are still favourable, although they do not mask the first signs of a noteworthy deterioration in temporary employment and construction. For companies, higher constraints on demand suggest that these difficulties could spread further, albeit without a contraction in total payroll employment, which should protect the French economy from recession.

# EDITORIAL



A sector-by-sector analysis of survey data on employment shows that the situation in retailing has been deteriorating for nearly 5 years, with a series of major challenges for the sector: from the yellow vest protests to the inflation of 2022-23, not to forget the Covid-19 crisis. These sector-specific factors did not trigger a decrease in employment but rather slower-than-normal job growth.

Employment dynamics in the construction sector, in contrast, could signal that the "happy days" are over. According to the INSEE economic survey on carcase work, there has been a net deterioration in the balance of opinions on employment, both in terms of past and expected workforce size. This is in keeping with demand-side constraints, which have increased markedly in the construction of buildings and civil engineering (chart 2), unlike specialised construction activities, which benefits from the thermal renovation of buildings (which is not a cyclical factor). All in all, the sector saw the destruction of 3,000 jobs in Q1 2023, for the first time since Q4 2016.

This convergence of more negative factors suggests that a transition is underway and it could spread to more sectors in the months ahead: the growing importance of demand-side constraints points to a deterioration in the job market. Yet hiring difficulties recently experienced by companies argue more towards a levelling off rather than a decline in the job market as of H2 2023.

What level of GDP growth is likely to follow this potential cooling off of the job market? Stagnation seems more plausible than recession. The absence of employment contraction should limit the rebound in the unemployment rate. As a result, household's unemployment fears will not reach the levels reported during previous recessions (chart 5), which should prevent another contraction in consumer spending.

**Stéphane Colliac**

FRANCE: MAIN FACTORS LIMITING BUILDING ACTIVITY IN CONSTRUCTION

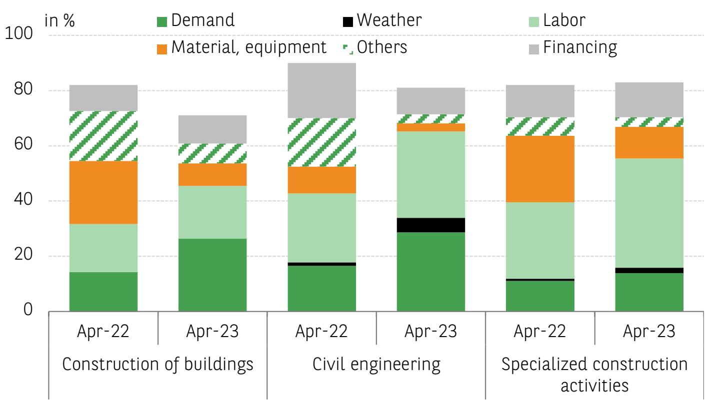


CHART 2 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS CALCULATIONS

FRANCE: EVOLUTION OF TEMPORARY EMPLOYMENT

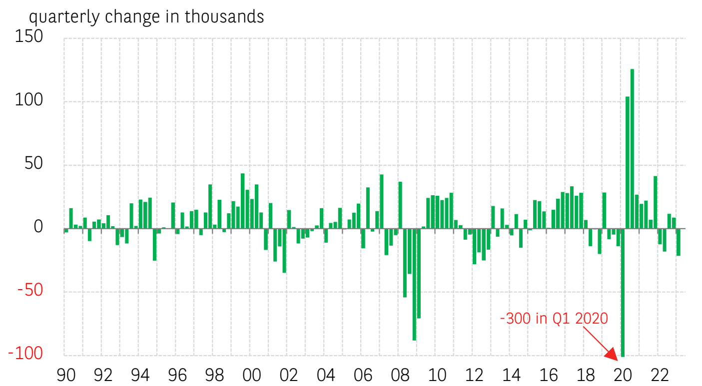


CHART 3 SOURCE INSEE, BNP PARIBAS CALCULATIONS

FRANCE: SERVICES PRODUCTION INDEX

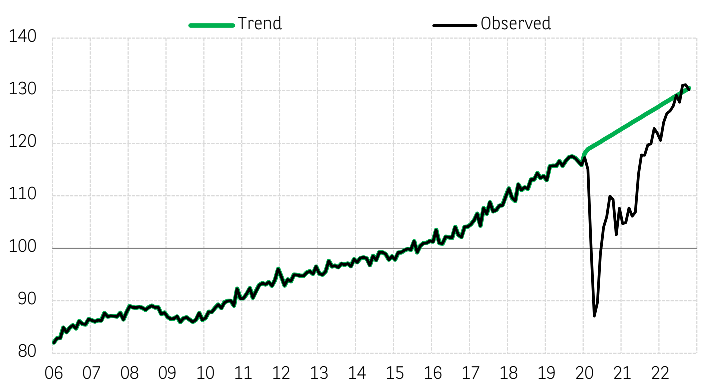


CHART 4 SOURCE: INSEE, BNP PARIBAS CALCULATIONS

FRANCE: HOUSEHOLD EXPECTATIONS ON THE EVOLUTION OF UNEMPLOYMENT

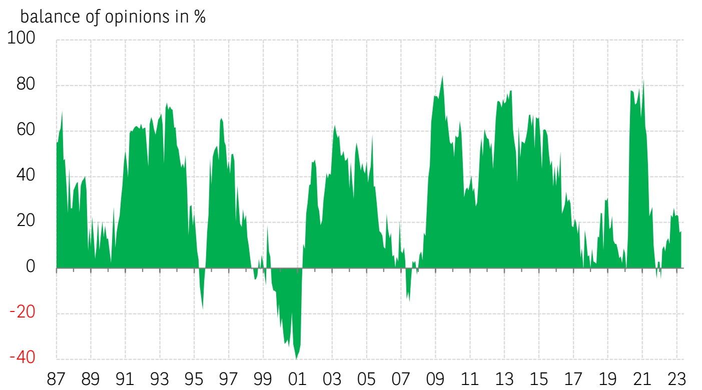


CHART 5 SOURCE: INSEE, BNP PARIBAS