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THE FRENCH LABOUR MARKET (PART 1): 2020 IN REVIEW

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In 2020, the Covid-19 pandemic had a much smaller impact on the French labour market than on GDP. On an average annual basis, GDP growth plunged 8.2% while private payroll employment declined by only 1.7%. The unemployment rate even fell slightly compared to 2019 (-0.4 points on an average annual basis).

Employment was buffered by emergency support measures, notably the massive use of job retention schemes, which is the main reason why the overall negative impact was so mild.

Yet the impact was disproportionate by sector: in Q4 2020, compared to the year-earlier period, 75% of payroll job losses were concentrated in the four sectors hit hardest by the crisis (hotel & restaurant services, household services, transport services and transport equipment manufacturing), even though their employment share is 5 times smaller (16%).

The counterintuitive fluctuations in the unemployment rate can be attributed to the misleading effects of methodology. During lockdowns, numerous jobseekers exit the labour force because they cannot actively seek work and/or show that they are available to work. As a result, they no longer qualify as jobseekers according to ILO criteria. Instead, they are counted as part of the halo around unemployment, which has increased sharply. Underemployment, which includes short-time work, has also risen rapidly.

The impact of the crisis on hiring declarations and the number of category A jobseekers is more in line with what one would expect.

CHANGE IN GDP AND PRIVATE PAYROLL EMPLOYMENT

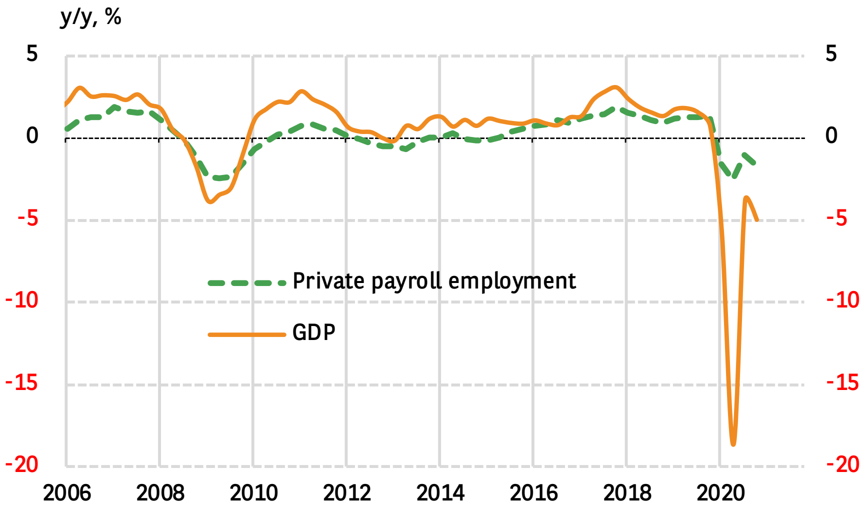

CHART 1

SOURCE: INSEE, BNP PARIBAS

After a stand-out performance in 2019[1], the labour market's 2020 performance was even more remarkable given the circumstances and the massive recessionary shock that hit the French economy. As the following figures illustrate, the labour market was buffered from the shock, and the overall impact was relatively mild. On a year-on-year basis, GDP contracted 5% in Q4 2020 relative to pre-crisis Q4 2019, but private payroll employment[2] declined only 1.6%. The unemployment rate even declined slightly, down 0.1 points to 8% of the labour force. On an average annual basis, GDP plunged 8.2% in 2020, but employment fell only 1.7%, and the jobless rate even managed to decline 0.4 points to 8% compared to 2019.

Now that the main labour market indicators for 2020 are available, in this article we will draw up a preliminary assessment of this very unusual year. In a second article, we will present the 2021 outlook.

Employment: muted trends

In 2020, an average of 332,000 private payroll jobs were lost during the year. This was a real achievement considering the circumstances. Although the figure is high, it is not as bad as the 420,000 job losses reported in 2009, even though GDP contracted by an unprecedented 8.2% in 2020 (compared to -2.8% in 2009). Compared to GDP, employment trends were remarkably muted, both downwards and upwards, which is one of the most striking characteristics of the crisis (see chart 1).

1 EcoFlash, *France: stand-out labour market performance in 2019*, n°2, 28 February 2020
2 Scope used in this article (except when mentioned otherwise).

They can be attributed to the massive use of short-term work schemes, made possible by the government's decision to facilitate retention schemes as part of emergency measures to buffer the impact of the lockdown (see box at end of this article for a summary of modifications to short-term work schemes and other measures to support the labour market[3]).

The muted nature of employment variations relative to growth rates is even more striking in the four sectors hit hardest by the crisis (hotel & restaurant services, household services, transport services and transport equipment manufacturing, see chart 2). Even so, the impact was highly disproportionate by sector. In Q2 2020, the French economy destroyed nearly 700,000 payroll jobs compared to Q4 2019. The hardest hit sectors accounted for 35% of these job destructions, or nearly 240,000 jobs, even though their share of payroll employment was only about half that size (16%). By Q4 2020, the impact was even more disproportionate: whereas the total number of job losses had diminished relative to Q4 2019 (to about 280k), job destructions did not shrink by as much in the hardest hit sectors (roughly 215k). As a result, the hardest hit sectors accounted for three-quarters of total job losses.

Temporary work, which also played its usual role as an adjustment variable, paid a heavy price: of the 332,000 job destructions in 2020 (average annual basis), half were in this segment alone (-166k). Market services excluding temporary work accounted for nearly all of the remainder (-156k). There were fewer job destructions in agriculture (-5k) and industry (-36k). In contrast, construction and non-market services stand out for their net job creations (+28k and +2k, respectively).

Although these average annual figures provide a preliminary idea of the scope of the shock, they must be analysed more closely because they mask the very jagged quarterly trends that hit employment (see chart 3). In particular, unlike GDP, the decline in employment was sharpest in Q1 and not in Q2. Moreover, all of the drop-off in temporary work occurred in Q1, which explains the difference with GDP trends.

In contrast, according to hiring declarations reported by Acoss, the impact of the crisis on hiring does not seem to have been buffered in the manner presented above. Hiring reports, all types of job contracts combined, plummeted at an average annual rate of nearly 30% in 2020. Echoing the collapse of temporary work, 80% of this decline can be attributed to hiring reports for fixed-term contracts of less than a month, while hiring reports for fixed-term contracts of more than a month and permanent job contracts did not decline as sharply (accounting for 9% and 12%, respectively, of the total decline). Permanent job contracts benefited from the buffer effect of short-term work schemes. Without providing an explanation, we simply note the relatively stronger showing of hiring reports for fixed-term employment contracts of more than a month. In Q3 2020, they briefly rose above pre-crisis levels, while the two other types of hiring remained far below previous levels.

Unemployment: counter-intuitive trends due to misleading methodological effects

Throughout 2020, the fluctuations in the unemployment rate were as remarkable as they were counterintuitive. The jobless rate fell sharply in H1 (when economic growth plummeted) before rising strongly in Q3 (when GDP rebounded) and then declined again in Q4 (just as GDP fell again). The main explanation for these counterintuitive trends is the definition of a jobseeker based on International Labour Office (ILO)

CHANGE IN VALUE ADDED AND PAYROLL EMPLOYMENT BY SECTOR
GAP WITH PRE-CRISIS LEVELS (Q4 2020 RELATIVE TO Q4 2019, %)

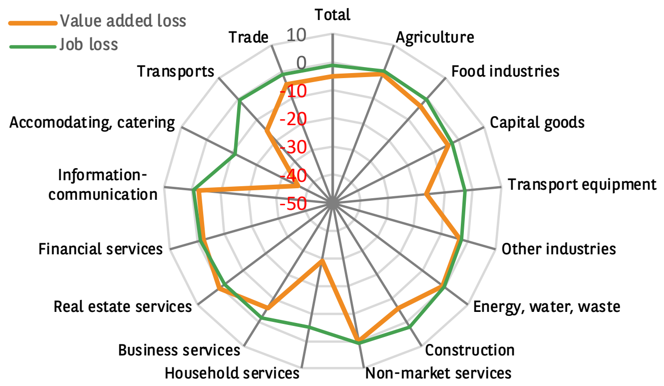

CHART 2 SOURCE: INSEE, BNP PARIBAS

SECTOR BREAKDOWN OF QUARTERLY EMPLOYMENT BUMPS

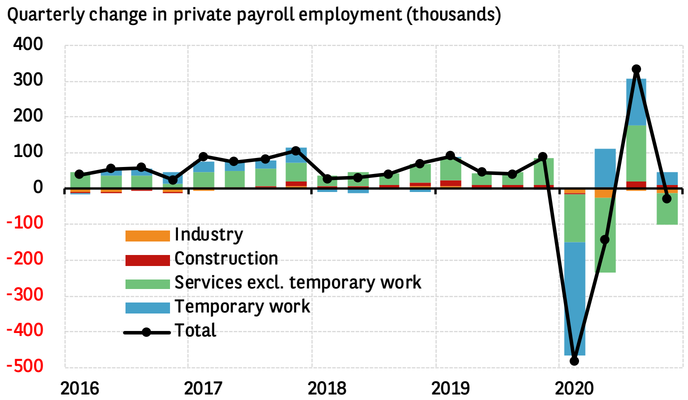

CHART 3 SOURCE: INSEE, BNP PARIBAS

criteria: to be without work, actively seeking work and rapidly available to work. During lockdowns, especially the first one last spring, it was difficult if not impossible to be actively seeking work and/or to be available to work. This resulted in a sharp decline in the labour force in H1 followed by a major upward correction in Q3 and another decline in Q4. These trends helped shape the dynamics of the unemployment rate. Yet the Q4 decline (-1.1 points) is less misleading than in Q1 and Q2 (-0.3 and -0.7 points, respectively) since it is mainly due to an increase in the employment rate.

Despite the massive recessionary shock that hit the French economy in 2020, the unemployment rate still managed the difficult feat of ending the year at the same level as one year ago (0.1 points lower, to be exact) and to average 0.4 points less (8%, vs. 8.4% in 2019, the lowest level since 2007). But there were two drawbacks:

3 For a descriptive assessment of the use of short-time working schemes see Unedic, *Short-time work: preliminary review since the start of the Covid-19 crisis, Eclairages*, September 2020.

- A sharp rise in the halo around unemployment (which comprises people who are out of work and want to work, but do not meet the ILO criteria for actively seeking work or being available to work soon, and are consequently not included among jobseekers): +0.8 points for the year; 4.6% of people in the 15-to-64 age group, which is the highest proportion since the series began in 2003, and a little more than a point higher than the 2003-2019 average.
- A sharp increase in underemployment (which comprises short-time workers who would like to be working more as well as those who have been furloughed or are working shorter hours): +3.7 points for the year; 7.3% of people in the 15-to-64 age group, which is also the highest level since the series began in 2003, and significantly higher than the 2003-2019 average of 3.9%. Furloughed or short-time workers, who usually make up a very minor share of employment (0.4%), accounted for 15% when these schemes peaked in Q2 2020.

The impact of the crisis on the number of category A jobseekers was more in keeping with what one might expect, moving in line with the different lockdown and reopening phases (see chart 4). There was an historic increase in March and April 2020 (a cumulative rise of 33%), followed by a sharp decline from May to October (-18%), a rebound in November (+1% m/m, a normal increase usually seen in crisis situations), stability in December, and an easing trend in January 2021 (-0.9% m/m). For Q4 2020 as a whole, the declines won out (-3% q/q): although smaller than in Q3 (-11% q/q), this quarterly decline nonetheless caught our attention given the simultaneous decline in GDP. On an average annual basis, the number of category A jobseekers increased by 8.8% in 2020. This is also a remarkable performance since it is much smaller than the one reported in 2009 (+22%), even though the contraction in GDP (-2.8%) was not as severe as in 2020. To conclude, it is worth noting that in January 2021 (latest data point available), the number of category A jobseekers was still 8% above the pre-crisis level of Q4 2019.

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In a forthcoming article, we will review the labour market prospects in 2021. In summary, employment and the jobless rate are both expected to rise, but there is great uncertainty over the size of these movements, which could be small for employment, but large for the unemployment rate. Uncertainty over the size of the rebound in employment is linked in part to the vigour of the recovery. The France Relance recovery plan will surely fuel growth in employment. But employment will continue to be curtailed by the lagging impact of the massive recessionary shock in 2020, the negative impact of higher corporate bankruptcies, persistent sector disparities, the return to work of furloughed or short-time workers, and corporate efforts to restore productivity and margins. As to the unemployment rate, there is uncertainty over the dynamics of both employment and the labour force.

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UNEMPLOYMENT RATE AND CATEGORY A JOBSEEKERS

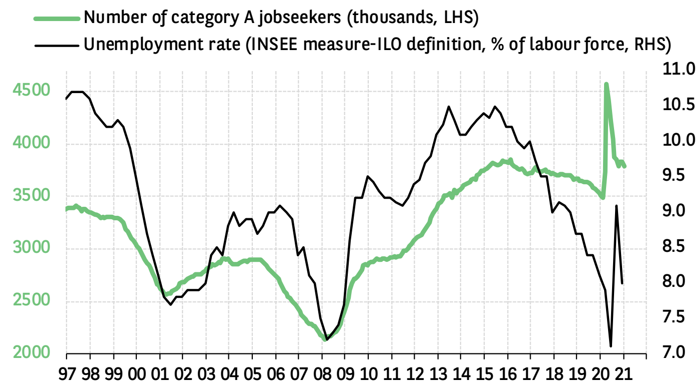

CHART 4 — SOURCE: INSEE, PÔLE EMPLOI, BNP PARIBAS

TWO NEW GAUGES TO ASSESS THE HEALTH OF THE FRENCH LABOUR MARKET

CHART 5 — SOURCE: ACOSS, PÔLE EMPLOI, BNP PARIBAS

JOB PRESERVATION AND SUPPORT MEASURES

			Employee compensation (% of gross wage)	Employer allocation (% of benefit paid to employee)	Duration
Short-time working pre-crisis			70%; minimum at net SMIC	Flat rate	6 months renewable
Prior to 1 June 2020			70%; minimum at net SMIC	100%; up to 4.5xSMIC; minimum at €8.03	12 months renewable
Short-time working general law	From 1 June 2020	Companies legally required to close or with 80% loss of revenue and protected sectors	70%; minimum at net SMIC	100%; up to 4.5xSMIC; minimum at €8.03	12 months renewable
		Unprotected sectors	70%; minimum at net SMIC	85%; up to 4.5xSMIC; minimum at €8.03	
	From 1 April 2021	Companies legally required to close or with 80% loss of revenue	70%; up to 70% of 4.5xSMIC; minimum at net SMIC	100%; up to 70% of 4.5xSMIC; minimum at €8.11	12 months renewable
		Protected sectors		85%; up to 60% of 4.5xSMIC; minimum at €8.11	
		Unprotected sectors	60%; up to 60% of 4.5xSMIC; minimum at net SMIC	60%; up to 36% of 4.5xSMIC; minimum at €7.30	
	From 1 May 2021	Companies legally required to close or with 80% loss of revenue	70%; up to 70% of 4.5xSMIC; minimum at net SMIC	100%; up to 70% of 4.5xSMIC; minimum at €8.11	12 months renewable
		Protected and unprotected sectors	60%; up to 60% of 4.5xSMIC; minimum at net SMIC	60%; up to 36% of 4.5xSMIC; minimum at €7.30	
	From 1 July 2021		60%; up to 60% of 4.5xSMIC; minimum at net SMIC	60%; up to 36% of 4.5xSMIC; minimum at €7.30	3 months renewable (6 months max over 12 months)
Long-term short-time working	From 1 July 2020	Protected sectors and related	70%; up to 70% of 4.5xSMIC; minimum at net SMIC	100%; up to 70% of 4.5xSMIC; minimum at €8.11	6 months renewable (2 years max over 36 months)
		Other sectors	70%; up to 70% of 4.5xSMIC; minimum at net SMIC	85%; up to 60% of 4.5xSMIC; minimum at €8.11	
	From 1 April 2021	Companies legally required to close or with 80% loss of revenue	70%; up to 70% of 4.5xSMIC; minimum at net SMIC	100%; up to 70% of 4.5xSMIC; minimum at €8.11	6 months renewable (2 years max over 36 months)
		Protected sectors		85%; up to 60% of 4.5xSMIC; minimum at €8.11	
		Unprotected sectors		85%; up to 60% of 4.5xSMIC; minimum at €7.30	
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		Protected and unprotected sectors		85%; up to 60% of 4.5xSMIC; minimum at €7.30	
	From 1 July 2021		70%; up to 70% of 4.5xSMIC; minimum at net SMIC	85%; up to 60% of 4.5xSMIC; minimum at €7.30	6 months renewable (2 years max over 36 months)

Numerous measures were adopted to limit the impact of the Covid-19 crisis on the economy in general and the labour market in particular. One of the most important measures was to bolster short-time work schemes. The table presents the various changes that were made and illustrates the increase in government support and the extension of the terms of compensation. To address the more durable decline in activity in certain sectors, a long-term short-time working status was also introduced, which was conditioned on reaching a collective bargaining agreement.

In addition to these job retention measures aiming to safeguard jobs and preserve human capital, direct support measures were also introduced to help young people join the workforce (1-youth, 1-solution job insertion plan). Starting on 1 August 2020, a company that hires someone under the age of 26 with a job contract of more than 3 months benefits from a EUR4000 reduction in charges. Initially expiring on 31 March 2021, this measure was extended by two months (up to 1.6x the minimum wage, and no longer 2x). Major bonuses were provided to support apprenticeship and vocational training contracts (EUR5000 for youth under age 18, EUR8000 for older work/study participants). These bonuses started in July 2020 and will run through 31 December 2021. New training programmes were created to orient and train 200,000 young people to help them enter the sectors and professions of the future. Young people with the lowest employability will benefit from 300,000 customised job insertion paths.

Supporting employment lies at the heart of the France Relance plan: in addition to the direct measures of the "1-youth, 1-solution" plan (social cohesion segment), measures to boost corporate competitiveness and facilitate the energy transition, and more generally, the plan's efforts to fuel growth, should be key drivers of employment.

Precarious workers are supported through exceptional monthly financial aid of EUR900. Available from November 2020 to May 2021, this aid is means tested (gross monthly income of less than EUR 900) and conditioned on labour market participation (recipients must have worked at least 138 days in 2019, including more than 70% as part of short-term contracts).

As to unemployment insurance, the benefits of jobseekers reaching the end of their rights were extended during the lockdown periods, through 30 June 2021. The application date was modified for the 2019 reform calling for tighter eligibility requirements for unemployment benefits. Initially the contribution period was to be extended from 4 to 6 months over a 24-month period, but the conditions were eased by introducing a benchmark interval extended by the duration of the lockdown. For jobseekers under age 57 with gross monthly income of more than EUR 4500, the 30% digression of benefits after 6 months was revised to 8 months as of 1 April 2021. Both of these measures will be tightened according to the initial terms of the 2019 reform once two conditions will have been met: 1) the number of category A jobseekers declines by 130,000 over 6 months, and 2) hiring reports of more than 1 month (excluding temporary work) has exceeded 2.7 million contracts over a moving average 4-month period. As to chart 5, it will not be easy to meet the conditions for returning to a healthy job market. The new calculation of jobless benefits (which calls for benefits to be the same for the same number of hours worked) will apply as of 1 July, although a more watered-down version will be used to avoid an overly sharp reduction in benefits for the most precarious workers. A bonus-malus system for employer unemployment contributions was introduced to combat the abusive use of short-term contracts, but its start-up has been postponed until 2022.

* Based on information available as of 25 March 2021. Sources: daily press, the French government. BNP Paribas Box written by Julie Bouvry (intern).

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