

ECO FLASH

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France: stand-out labour market performance in 2019

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- Employment and unemployment figures for Q4 2019 and the year as a whole in France were surprisingly strong, especially since growth weakened markedly, despite showing some resilience.
- The preliminary Q4 2019 growth estimate fell well short of expectations (GDP contraction of 0.1% q/q), but private payroll employment (up 0.2% q/q, preliminary estimate) and the unemployment rate (-0.4 points to 8.1%) were far better than expected.
- Growth averaged 1.3% over 2019 as a whole – nearly a half-point lower than in 2018. Conversely, private payroll employment barely lost any traction (up 1.1% after a 1.2% rise), and the drop in the unemployment rate was slightly larger in 2019 than it was in 2018 (-0.6 points to 8.4%, after a 0.4-point decline in 2018).
- The labour market's strong showing, broadly consistent with resilient growth, has also gained succour from the slower increase in the labour force, the structural downtrend in labour productivity gains and measures to ensure growth creates more jobs.
- In 2020, we expect the same causes to produce the same effects. Based on a forecast of a minor weakening in growth, we expect only a moderate easing in the pace at which employment rises and unemployment falls. However, this forecast carries a downside risk linked to the economic impact of the coronavirus outbreak.
- The target of an unemployment rate of 7% in 2022 is achievable, but it is based on an ambitious assumption of growth holding up fairly significantly above 1%.

■ Employment and unemployment rate

■ Quarterly change in private payroll employment (thousands, LHS) — Unemployment rate, France excluding Mayotte (% of labour force, RHS)

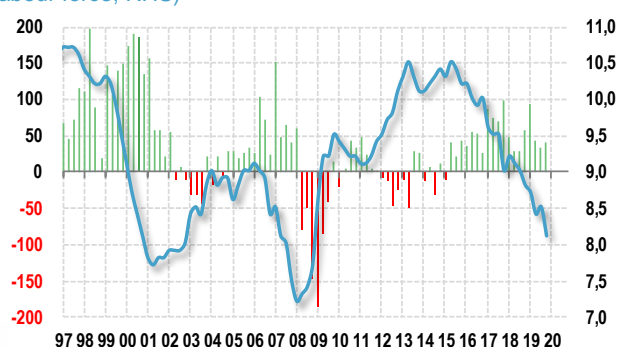


Figure 1

Source: INSEE, BNP Paribas

The main indicators for the French labour market for 2019 are available. Overall, both employment and unemployment data were positive. The upbeat labour market picture is broadly consistent with growth, which has also held up relatively well.

The labour market's stand-out performance is illustrated by the following figures. Between 2018 and 2019, growth slowed significantly (from an annual average of 1.7% to 1.3%), but private payroll employment¹ barely lost any of its traction (up 1.1% vs. 1.2% in 2018). The unemployment rate fell more sharply in 2019 than in 2018 (-0.6 points to 8.4% on average, after a 0.4-point fall in 2018), falling as much as in 2017, although growth was much firmer then (2.4%). The data for 2017 and 2018 shows the same pattern of employment growth weakening only modestly (-0.2 points) by comparison

¹ Scope considered in this article, for which we have data for 2019 as a whole.

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with growth (-0.7 points). Lastly, the preliminary Q4 2019 growth estimate fell well short of expectations (GDP down 0.1% q/q), while private payroll employment (+0.2% q/q, preliminary estimate) and the unemployment rate (8.1%, -0.4 points) were surprisingly strong.

Before we attempt to explain these apparently contradictory trends, we will begin by presenting an overview of the labour market and then conclude by reviewing the short-term and medium-term prospects.

Healthy employment...

In 2019, the French economy created 217,000 jobs, following on from 227,000 in 2018 and 262,000 in 2017. These figures are not as high as they were in the most recent period of robust job creation, usually regarded as a benchmark, namely the late 1990s (figure 1). Yet they represent an encouraging performance, as growth is weaker now (it averaged 1.8% p.a. between 2017 and 2019²) than it was before (3.7% between 1998 and 2000). 2019 was also the sixth year in a row in which employment rose. It got off to a very slow start in 2014 and 2015, before gaining strength from 2016, but no similar run has been recorded since the 1990s cycle. The jobs created during 2019 brought the total created since the Q3 2014 low close to the 1 million mark and to almost 500,000 since Q3 2017, the beginning of Emmanuel Macron's five-year term.

An analysis by sector shows that job creation is to a very large extent powered by market services excluding temporary employment (figure 2). The jobs created in construction and manufacturing, for the third and second consecutive years respectively, have also contributed. Although they are barely in positive territory, this turnaround is notable because it comes after 8 years in negative territory for construction and 16 for manufacturing. Conversely, 2019 stands out from the previous four years for negative reasons owing to the (slight) fall in employment in the temporary employment sector, reflecting the weaker economic conditions.

Since 2017, the quality of the jobs created has increased, judging by the pick-up in the permanent contract employment rate (after flat-lining for 6 years) and the fall in the fixed-term or temporary employment rate, after an almost continuous rise since 2003³. Other statistics also head in the right direction, like the declining shares of fixed-term and seasonal contracts and of temporary work as a percentage of employment. The higher proportion of apprenticeships is good news, too, while the increase in the number of self-employed people has both positive and negative aspects, and the proportion of permanent staff has barely moved. The sharp slowdown in recruitment on fixed-term contracts of both less than and more than one month, along with the sharp acceleration in the number of recruitment on permanent contracts, also points to an improvement in job quality. It remains cyclical though as evidenced by the figures for 2019, which show the scars of the slowdown (significant loss of momentum in recruitment on permanent contracts and (slight) pick-up in short-term contracts).

The shifting structure of employment by socio-professional category also indicates a higher level of job quality, with

Private payroll employment by sector of activity

Average annual change in thousands

■ Temporary employment ■ Market services excl. temporary employment ■ Non-market services ■ Construction ■ Industry ■ Agriculture — Total private payroll employment

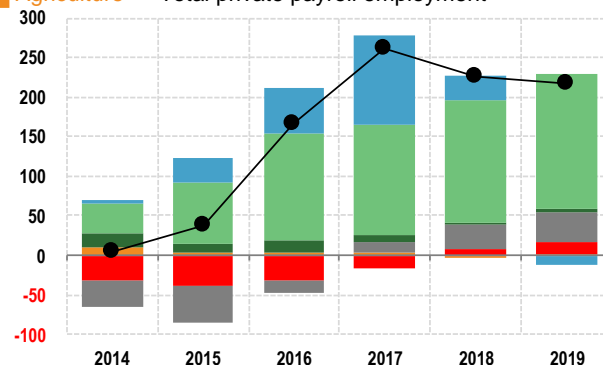


Figure 2

Source: INSEE, BNP Paribas

Change in the structure of employment

Share of total employment by socio-professional category, %

— Intermediate occupations — Managers and senior intellectual occupations — Skilled workers — Unskilled workers — Skilled labourers — Unskilled labourers — Craft workers, merchants and business heads — Farmers and farm labourers — Other (conscripts, no information)

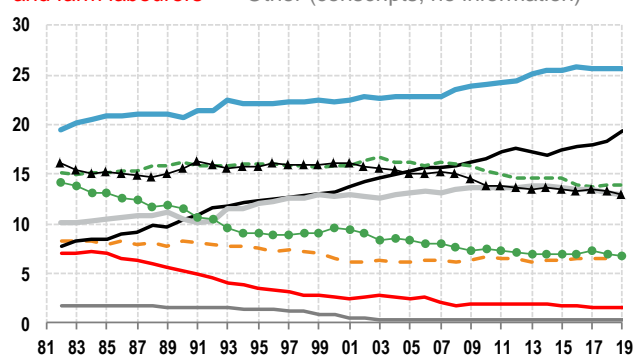


Figure 3

Source: INSEE (employment survey), BNP Paribas

higher qualifications demonstrated by the larger proportion accounted for by managers and intermediate occupations (figure 3). This increase, together with the higher proportion of unskilled workers and the lower share of skilled and unskilled labourers and skilled workers, reflects a phenomenon that has been described as job polarisation. In France, it has not been as pronounced as elsewhere, and the curve is more J-shaped than U-shaped⁴.

...and unemployment figures

Unemployment sank to 8.1% in Q4 2019, its lowest level since late 2008. As it was still moving higher at the time, we consider comparisons to be more appropriate with mid-2007, when it was in the final downswing that took it to 7.2% in early 2008, its lowest level since 1983. The current decline has been gradual but steady, and has in the end been significant since the unemployment rate has pulled back 2.4 points from its peak of 10.5% in Q2 2015. This decline is larger than that

² Biased upwards by strong growth in 2017.

³ The employment rate is measured by INSEE as the ratio of the number of employees on permanent or fixed-term/temporary contracts to the total population.

⁴ See H. Baudchon, 2019, *The scope of jobs polarization in France*, Conjoncture no. 7, September

seen at the end of the previous cycle (-1.9 points between Q1 2006 and Q1 2008) and it came within 0.6 points of the record set in the cycle before last (-3 points between Q1 1997 and Q2 2001).

The unemployment rate has fallen across all age brackets, but not to the same extent. The unemployment rate for 15-24 year-olds has dropped the furthest (-4.6 points from its Q2 2015 peak, to 20% in Q4), and least far among the over-49s (-1.4 points, to 5.7%), with the rate for 25-49 year-olds mirroring the fall in the headline figure (-2.4 points, to 7.4%). The unemployment rate among women and men was at a similar level⁵ (respectively 8% and 8.3% in Q4 2019), after a slightly larger fall for men than for women (-2.3 and -1.5 points respectively).

Job gains and a lower unemployment rate are not the sole indicators pointing to the French labour market's improved bill of health. Other evidence includes:

- a distinct rise in the employment rate (+2.2 points since Q2 2015 to almost 66% in Q4 2019, its highest level since 1980);
- a decline, albeit modest, in the proportion of part-time work (close to 1 point, 18.1% in 2019);
- a marked decrease in underemployment⁶ (-1.4 points since Q2 2015 to 5.3% of those in employment in Q4 2019, i.e. 1.4 million, marking a return to pre-crisis levels);
- stabilisation in the halo⁷ at 3.8% of economically inactive 15-64 year-olds in 2019, sustaining the trend in place since 2016, after a near-continuous increase between 2008 and 2015;
- a tangible fall in long-term unemployment (-1.4 points since Q2 2015 to 3.2% in Q4 2019, nearing its pre-crisis level);
- the reduction in the number of jobseekers, albeit a smaller one than the fall in the number of unemployed according to the ILO definition (see figure 4)⁸;
- an acceleration in wages, albeit to a limited extent for the time being: the year-on-year growth in basic monthly wages rose from an all-time low of 1.2% in Q3 2016 to 1.8% in Q4 2019 (compared with growth averaging 2.5% in the previous cycle);
- a clear improvement in sentiment among households according to INSEE's monthly consumer confidence survey concerning trends in unemployment, with far fewer people worrying about an increase.

While the glass half-full view is clearly prevailing, there is still some way to go. The French unemployment rate still cannot be described as low. It remains high in absolute terms and, unusually, stands above the eurozone average (see figure 5).

⁵ From a gap of around 3 points on average between 1975 and 2001, the difference between the two unemployment rates has narrowed significantly since 2009 and even became inverted between 2012 and 2017 and then again in 2019.

⁶ Underemployment is a situation where someone working part-time would like to work more and is available to do so, and also includes those individuals who have been obliged to work less than usual (as a result of a partial lay-off or bad weather).

⁷ The halo reflects people verging on unemployment but not counted in the figures because they do not meet all the ILO criteria (no job, actively seeking employment and available within two weeks).

⁸ The concepts of unemployment according to the ILO definition (which INSEE uses) and jobseeker (as counted by Pôle emploi) do not overlap completely, yielding the significant differences in level and trends. See Coder *et al.* "Unemployed persons within the meaning of the ILO and jobseekers registered with Pôle emploi: divergence in unemployment measurements with multiple causes", INSEE References, *Employment, unemployment and earned income*, 2019 edition.

Number of unemployed and jobseekers

In thousands

— Number of category A jobseekers

— Number of unemployed based on the ILO definition

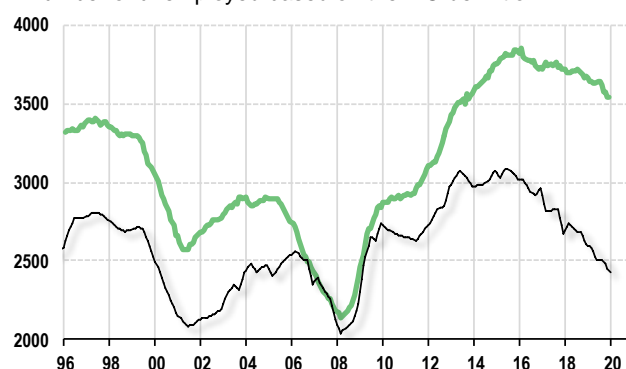


Figure 4

Source: INSEE, Pôle emploi, BNP Paribas

Unemployment rate in France and the eurozone

As a % of the labour force

— France — Eurozone

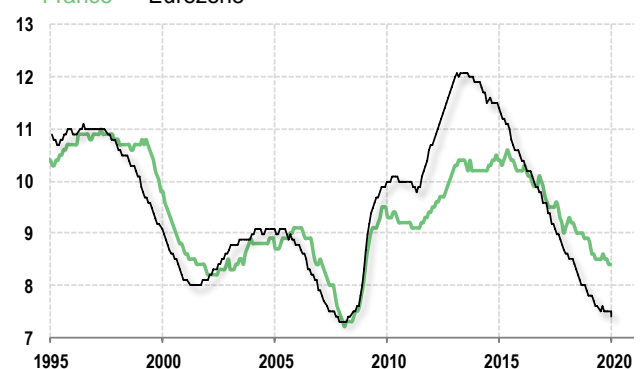


Figure 5

Source: Eurostat, BNP Paribas

Growth that creates more jobs

The upbeat employment and unemployment figures in recent years, 2019 among them, may look astonishingly positive, but they are broadly consistent with GDP growth (see figure 6). While growth may have faltered since 2017, it has remained strong enough to create jobs. The growth effect is not the only one that has contributed to the firmer conditions in the labour market. It has also gained succour from the slower increase in the labour force, the structural downtrend in labour productivity gains and measures to boost the jobs created by growth (which have also capped productivity gains, see figure 7). For a given pace of growth, even the relatively weak growth we are currently experiencing, that means more jobs, and fewer extra jobs are needed to cut the unemployment rate, since the weaker labour force rise (0.2% p.a. on average since 2014) has lowered the hurdle to be met for this to occur.

The measures taken to boost the jobs created by growth include efforts to reduce labour costs and labour market reforms. The first heading encompasses the CICE (tax credit for competitiveness and employment) and its conversion in January 2019 into a cut in employer social security contributions, together with a further cut in October 2019 on those payable on the SMIC minimum salary. The latter measure has not long been introduced, so it has not yet produced its full effects, but it should be effective in boosting employment, especially in the low-skilled category. The



positive effect of the transitory cash boost provided by the conversion of the CICE tax credit and its simpler new incarnation (lower payroll charges rather than a tax credit) is more of a hypothetical possibility.

The other heading of labour market reforms comprises changes to the labour code, vocational training and apprenticeships, and unemployment insurance. These form a three-pronged coherent and complementary approach. Certain measures aim to enhance flexibility while others are geared towards job security, with the overall goal of making the labour market more fluid, secure, effective and dynamic. Or, put simply, creating jobs. The initial benefits of these reforms may well have played a part in the latest encouraging employment and unemployment figures, but we cannot be certain yet because the measures have not been in place for very long. For the same reason, any positive effects that have arisen will only have been modest.

Employment has also received a shot in the arm from the support to growth delivered by fiscal policy and, perhaps, the initial benefits of the PACTE law (action plan for growth and business transformation). The same proviso nonetheless applies here as for the reforms we mentioned earlier because the law was only enacted very recently. There is no need for the same degree of caution however when it comes to the measures aimed at boosting entrepreneurship, given the rapid pace of new business creation. And new businesses are synonymous with new jobs.

What is the current outlook?

In the short to medium term, we anticipated further improvement in the labour market, albeit at a more moderate pace, but that was before the coronavirus outbreak. The epidemic's economic consequences have downgraded the outlook, but their extent and duration are hard to predict as things stand.

As hypothetical as it may be, we will now review the factors that prompted us to anticipate a continuing improvement in the labour market. As regards the short-term outlook, the latest economic indicators, such as INSEE's employment climate composite index, and the "employment" sub-component of the composite PMI, were moving in the right direction until February, with the exception of jobs in temporary employment. For the current and future years, our basic thesis was that the same causes would produce the same effects. The three "facilitating" parameters we referred to above (modest increase in the labour force and productivity, and measures to ensure growth creates more jobs) would continue to have a positive effect in our scenario. We were also forecasting a limited drop in the pace of growth during 2020 (1.1%) ahead of a modest uptick in 2021 (1.3%). As a result, the pace of employment growth (between 0.9% and 1%) and of the fall in unemployment (-0.3 points p.a.) were expected to pull back only moderately.

Looking ahead to 2022, the issue is whether the objective of an unemployment rate of 7% targeted by Emmanuel Macron is achievable. The answer is in the affirmative if it continues to decline at the same average pace of a half-point p.a. at which it has fallen since 2015. But can it continue to do so when recruitment can be a struggle, and the unemployment rate is already below its structural level (see figure 8)? We would say so. Given the scale of underemployment and the unemployment halo, we believe there is still a major pool of labour, which the reforms introduced may help to release,

Growth and unemployment

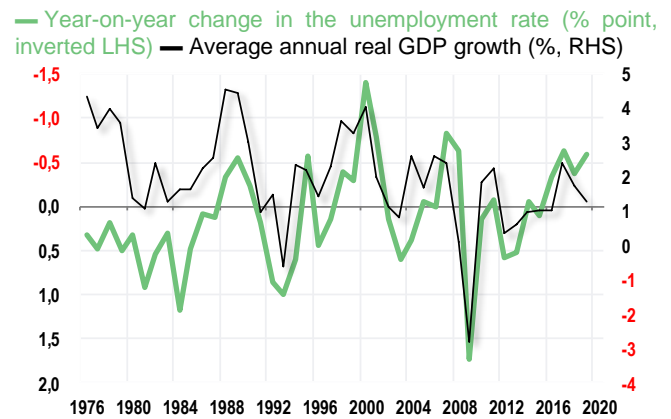


Figure 6

Source: INSEE, BNP Paribas

Labour productivity gains

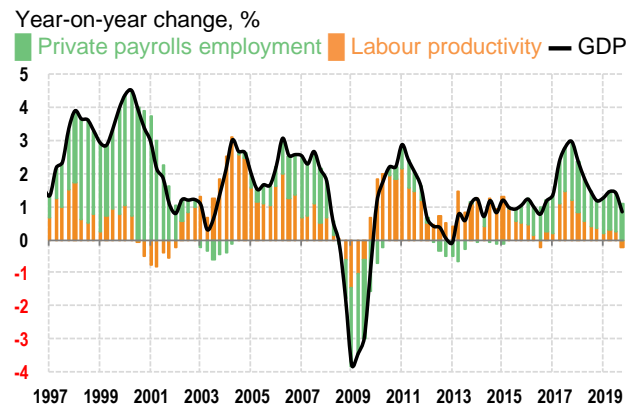


Figure 7

Source: INSEE, BNP Paribas

Observed and structural unemployment rate

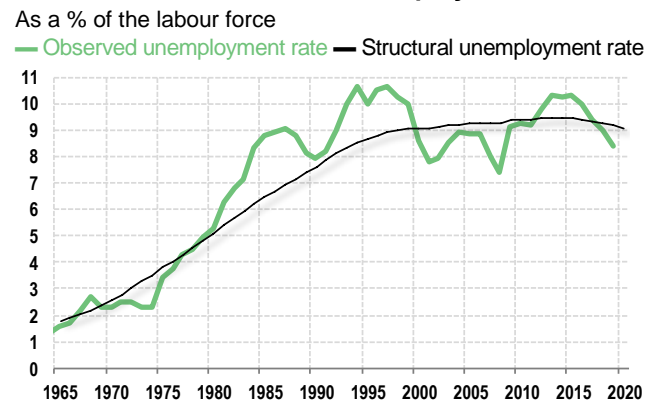


Figure 8

Source: INSEE, European Commission, BNP Paribas

while contributing to the fall in the structural unemployment rate. The objective will be hard to reach however because it depends on growth. It will need to hold up fairly well above the 1% mark, which means closer to 1.5% than 1%. And that's a fairly ambitious figure. That's why the 7% target cannot be taken for granted. But at least it appears within the realms of possibility, which is a new and salutary development.

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