

France's super strong labour market gives the green light to economic recovery

All indicators are flashing green for the French labour market. This will support the recovery in the coming months, but will also lead to higher inflation



All indicators are flashing green for the French labour market

2021, a record year for the labour market

The labour market statistics published today by INSEE confirm what the partial results and surveys already suggested: all indicators are green on the French labour market! We already knew that job creation had been particularly dynamic in 2021, with 648,000 jobs created in one year; that's an annual growth of 3.3%. The number of jobs at the end of 2021 was therefore 1.5% higher than its pre-crisis level. This is faster than how GDP growth has evolved, which at the end of 2021 was 0.9% above its pre-crisis level. The statistics on unemployment are also very positive:

- The unemployment rate in France (as defined by the ILO) fell by 0.6 points in the fourth quarter to 7.4%, thanks to a sharp drop in youth unemployment. The unemployment rate is now 0.8 points below its pre-crisis level and, above all, is at its lowest level since 2008.
- The percentage of 15-64 year-olds wanting a job but not looking hard enough to be registered in the unemployment statistics is also below its pre-crisis level, by 0.2 percentage points

- The employment rate of 15-64 year-olds is on the rise and now stands at 67.8%, its highest level ever. This increase is due to an increase in the full-time employment rate, the part-time employment rate being down and below its pre-crisis level.
- The share of underemployment in employment, i.e. people who are not working as much as they would like (part-time when full-time is desired or fewer hours than usual due to short-time working), is also declining and is now 0.8 percentage points below its pre-crisis level and at its lowest level since the series began in 2003.
- In total, 17.2% of labour market participants are constrained in their labour supply, either by the absence of a job or by being underemployed. This share decreased by 0.6 percentage points over the quarter and reached its lowest level since 2008.

It can be concluded from these data that the labour market has emerged very strongly from the pandemic. As far as we know, in March 2020 when France went into lockdown, no one had envisaged such a performance for the labour market. The memories of 2008 and the very negative consequences on employment made everyone fear the worst, but the labour market ended 2021 in an even better shape than economic activity. This great performance is obviously the consequence of French, European and global public policies implemented during the pandemic, notably the temporary unemployment schemes. But it also reflects all the actions that enabled the production framework to be preserved which led to a very strong global recovery as soon as health restrictions were relaxed. These policies have allowed the labour market to emerge stronger from the crisis, not only in France but also throughout Europe and elsewhere in the world.

In 2022, the labour market will support growth, but also inflation

The good shape of the labour market is undoubtedly great news for the French economy, as it should support household consumption and therefore activity in the coming months. Consumer confidence should benefit, and people's savings rate will likely gradually return to a more normal situation, boosting consumption in the process. This is one of the reasons why we expect GDP growth to be around 3.7% in 2022. We expect the labour market to remain strong in 2022, with job creation still dynamic even if the pace slows and become more in line with activity.

The tight labour market will probably lead to companies having to fight even harder to attract and retain workers. In a context where 61% of manufacturing companies and 54% of service companies indicate that they are having difficulty recruiting (according to the January INSEE survey) and where inflation is rising (2.9% in January), this should lead to higher negotiated wage increases. This could keep inflation above 2% for much of the year, even after the contribution of energy prices to inflation has started to fall.

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

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