

## French employment take-off delayed

The employment figures show the economic recovery hasn't reached the labour market. However, we expect things to turn a corner in the second half of 2018, bringing the unemployment rate back to 9%



Source: Shutterstock

# 575,000

Jobs created

In the last three years in the private sector, or a 3.1% growth

### French unemployment remains sticky

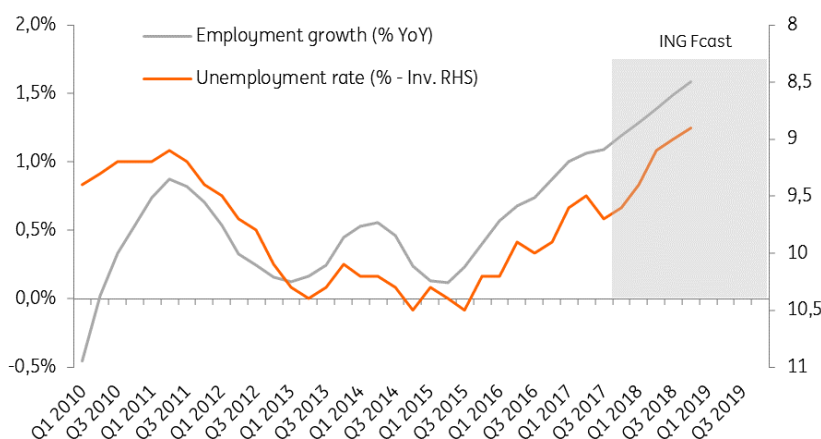
French employment increased by 0.2% in 3Q17, reaching 27.95 million people while yearly growth was stable at 1.1%. Private payrolls increased by 50k, the weakest pace in two years, while public employment declined slightly. The slower growth in private payrolls may seem worrying as a lot of French economic indicators are back in the green zone. However, employment is a lagging indicator that will take time to be supported by the French recovery.

French unemployment was still at 9.4% in 3Q17, higher than at the beginning of this year. An explanation is that 72.4% (on average) of unemployed people that were on one of President

Hollande's subsidised job schemes or training did not find a job after that period and are now flowing back into the unemployment statistics.

Over the first ten months of 2017, this amounted to 65k, which explains why the unemployed population has increased by 16k so far in 2017 after the 113k decline in 2016, despite the acceleration of the recovery in the second half of this year.

## Employment growth should bring unemployment down in 2018



Source: Thomson Reuters, Datastream

## But the story could change in the second half of 2018

As employment is a lagging indicator of economic recovery, the current situation is not puzzling. The French recovery started at a slow pace in 2014, boosting private employment growth only very slowly. It took three years to go from no growth on average to 1.4% YoY so far in 2017.

This rhythm is however still too low to trigger a fast decline in unemployment. However, with GDP growth accelerating towards 2.0% in 2018 and supportive labour market reforms, employment growth should accelerate further in the second half of next year. This should allow for unemployment to decrease to 9%.

The political context will remain supportive of the labour market reform materialising in 2018 and tax cuts on low wages will stay on the menu for coming years. Finance Minister Le Maire recently suggested that this reduction of French labour costs through tax cuts could be extended to higher salaries (currently it is limited to 2.5 times the minimum wage).

Moreover, President Macron has pledged a large investment plan in training which aims at increasing the hiring rate of trained unemployed and broadening their number. We believe that these measures will push up hiring intentions which peaked in the service sector last March.