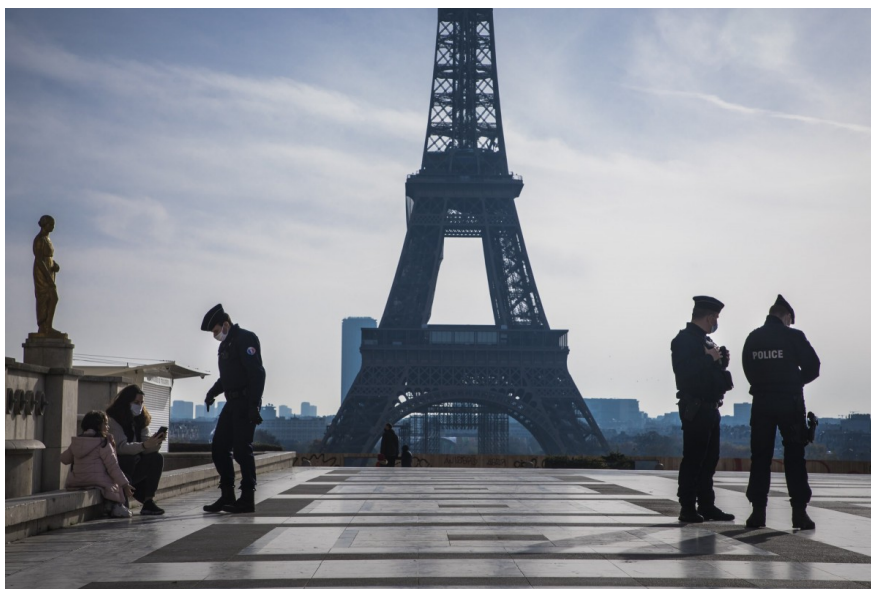


## France: What the falling unemployment rate means for the recovery

A recovery is beginning to take hold in the French labour market. After excellent job creation figures in the second quarter, the unemployment rate has fallen slightly - but promisingly - to 8%. Paradoxically, companies' recruitment difficulties could become the main threat to the recovery



Covid-19 Second wave lockdown in Paris, France - 07 Nov 2020

Source: Shutterstock

# 8%

Unemployment rate in France (excluding Mayotte)

2Q 2021

The figures for the creation of private salaried employment in the second quarter (+1.2% quarter-on-quarter, i.e. 239,500 net new jobs) had already illustrated the very dynamic recovery of the labour market. The unemployment figures published this morning by INSEE confirm this. With a drop of 0.1 percentage point in 2Q 2021, the unemployment rate stands at 8% of the active

population in France (excluding Mayotte), i.e. a decrease of 16,000 people over the quarter. The unemployment rate is thus a little closer to its pre-crisis level at the end of 2019 and is being driven down by the return of young people to the labour force.

## A positive signal that boosts participation in the labour market

This data sends a very positive signal about the state of the labour market and indicates that the economic recovery is indeed real. This "signalling effect" could also encourage more people out of work to return to the labour force, after being left out of the statistics either because they had stopped looking for a job or because retraining had been interrupted. The relatively small decrease in the unemployment rate this quarter compared to the rate of net job creation can therefore be explained by the fact that the labour force had already grown in the second quarter.

While this implies that the unemployment rate is falling less quickly than the pace of net job creation might suggest, the increase in the labour force is a very positive element for the French economy. It should lead to an increase in income received by all French households, which gives us confidence that growth in household consumption will be strong in the second quarter of 2021.

## The labour market should continue to support the recovery, but watch out for business bankruptcies

We are also optimistic about the labour market in the coming months, although the number of business bankruptcies will determine the path of the unemployment rate going forward. The number of business failures is currently at historically low levels, month after month. Compared with the levels observed in July 2019, i.e. before the start of the pandemic, there are almost half as many (-47.9%). With the end of the four major public support measures - partial activity, the solidarity fund, state-guaranteed loans and the deferral of social security contributions - suspensions of payment should gradually return to the pre-crisis level.

Nevertheless, with the very gradual end of aid, the prospect of a "wall of bankruptcies" in the autumn seems to be receding. The catch-up effect of business failures should be spread over several quarters once the aid is definitively withdrawn. Bruno Le Maire, the Minister for the Economy, has already announced that safety nets will be maintained for companies affected by the recent health pass. A progress report is also planned on the possible extension of public support at the end of August. As a result, we estimate that the number of bankruptcies will gradually return to the pre-crisis trend, but that it will be out of proportion to the loss of activity observed following the pandemic.

### **Recruitment difficulties will be the main threat to the recovery**

We anticipate very dynamic growth (around 5.6% of GDP) for France in 2021, but risks continue to weigh on our forecast. In addition to the risk of a resurgence of the pandemic and the risk of inflation, which have been present for several months now, the dynamism of the labour market could, paradoxically, also weigh on the recovery. Indeed, companies are increasingly reporting significant difficulties in recruiting labour. Banque de France surveys show that 53% of companies in services, 54% in construction and 31% in industry were experiencing recruitment difficulties in July, compared with 39%, 47% and 24%, respectively in May. The continuing fall in the number of unemployed is therefore likely to

reinforce this problem, making it even more difficult for companies to meet high demand in the context of strong supply difficulties. A paradox for France where the unemployment rate remains relatively high.

## Author

### Charlotte de Montpellier

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.