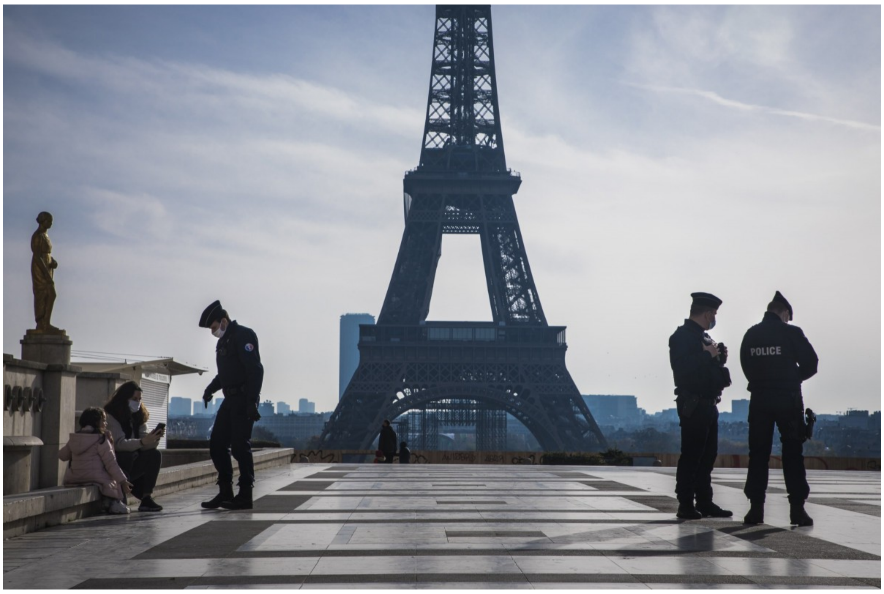
France: What the falling unemployment rate means for the recovery

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.

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