

## The French labour market weakens still further

France's unemployment rate rose in the third quarter to 7.4% of the active population, confirming the weakening of the labour market. And that weakening is set to continue in the coming months due to weak growth and the rise in the active population



Unemployment in France has risen more quickly than expected

### Unemployment rate up more than expected

France's unemployment rate rose slightly more than expected in the third quarter to 7.4% of the active population. This represents an increase of 0.2 points over the quarter, or 64,000 more unemployed people. The unemployment rate nevertheless remains well below its pre-pandemic level (8.2%). The employment rate also fell slightly over the quarter, by 0.2%, to 68.3% of people aged 15 to 64. The decline was most marked in the 50-64 age group.

This data confirms that the labour market is indeed weakening in France and that the weakening is even happening a little faster than expected. This is probably a turning point. For two years, employment growth in France had been much more dynamic than economic growth. Now, weak growth (French GDP rose by 0.1% in the third quarter) and a gloomy outlook appear to be leading to a weakening of the labour market. What's more, the leading indicators suggest that this is only the beginning of a rise in unemployment, which is likely to continue over the coming quarters.

Payroll employment in the private sector fell in the third quarter, and hiring intentions are down in most sectors, signalling that the decline in the workforce could continue. Temporary employment, generally considered to be a good leading indicator of the labour market as a whole, fell sharply and is now back below its pre-pandemic level. In addition, the lack of labour is much less of a constraint on production for companies in all sectors than it was a few quarters ago.

Added to this is the expected impact of pension reform on the active population. With the increase in the retirement age, older people will be working longer than before, and a marked increase in the active population is therefore expected in 2023 and 2024 (the effect of the reform on the active population being estimated at 0.2 points in 2023 and 0.4 points in 2024). There would have to be a very strong dynamic of job creation for such an increase in the active population not to lead to an increase in the unemployment rate. However, under current conditions, job destruction is more likely in the coming quarters.

## Unemployment will continue to rise, limiting the rebound in consumption in 2024

Ultimately, the unemployment rate will probably continue to rise in France. We are forecasting an unemployment rate of 7.6% at the end of 2023 and 7.9% at the end of 2024, which would be a significant step away from the government's target of 5% for 2027. Although significant, the scale of the expected rise in the unemployment rate remains limited given the economic slowdown, and unemployment should remain below its pre-pandemic level.

In terms of growth prospects, the weakening of the labour market is likely to weigh on household purchasing power, but this impact will probably be offset by the expected rise in real wages in the context of lower inflation. The downward impact on household consumption should, therefore, be limited. Nevertheless, the weakening labour market will probably prevent a dynamic rebound in consumption in 2024.

We expect GDP to grow by 0.9% in 2023 and 0.6% in 2024.

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