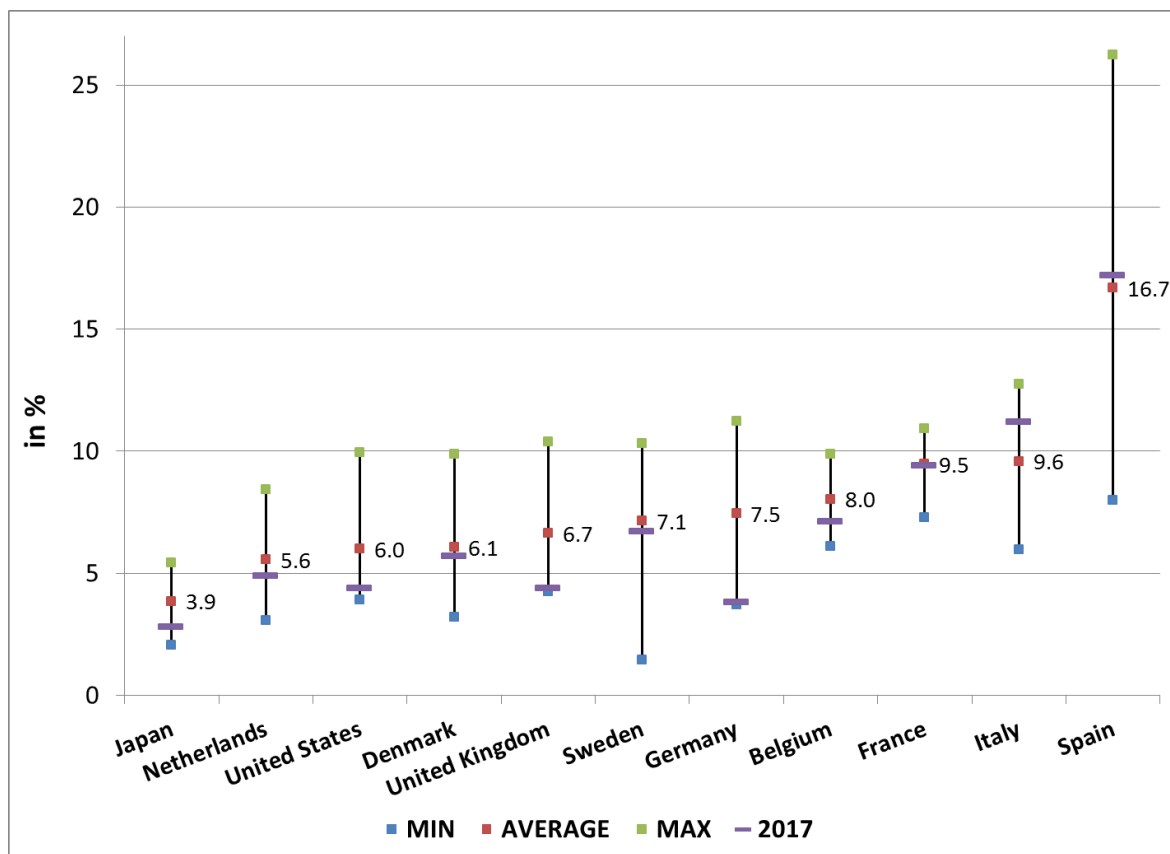


Is the French labour market under pressure?

By Françoise Drumetz and [Rémy Lecat](#)

Despite persistent high unemployment, recruitment difficulties have already started to arise in France. The current unemployment rate is approaching its structural level, but wages have been relatively sluggish. These pressures partly reflect temporary effects that are common during periods of intense job creation. In the medium term, more effective vocational training would help to lower the level of unemployment at which these pressures begin to emerge.

Chart 1: Downward unemployment rigidity in France?
Minimum, maximum and average unemployment rates for the 1985-2017 period



Source: Eurostat.

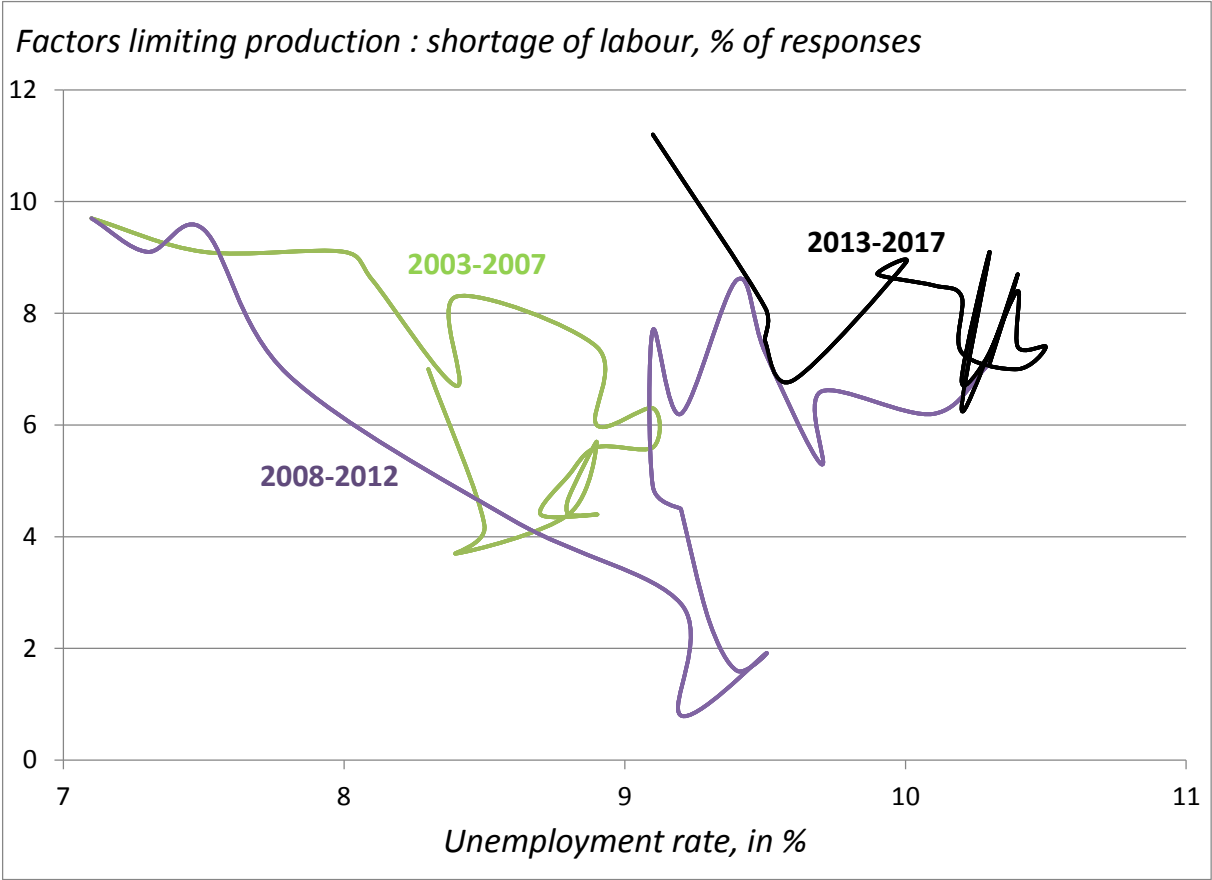
Recruitment difficulties have not had yet major effect on wages

The average rate of unemployment in France for the 1985-2017 period amounted to 9.5% of the working population (Chart 1). During this period, unemployment never fell below 7%, in contrast to the trends observed in Germany, the Netherlands and the Nordic and Anglo-Saxon countries, which experienced unemployment rates of less than 5%.

Furthermore, while unemployment was still high in 2017 at 9.4%, numerous job vacancies remained unfilled (300,000 out of the 3.2 million openings handled by [Pôle Emploi](#), 150,000 of which were due to a lack of suitable candidates) and the job vacancy rate went up. But can we say that the structural unemployment rate has increased in France?

The Beveridge curve connects, over the business cycle, the unemployment rate and job vacancy rate, proxied in this case by the proportion of companies citing labour force pressures as a factor limiting production (Chart 2). This relationship, which is an indicator of the effectiveness of labour market functioning, is generally trending downwards. Over the cycle, periods of recession, normally characterised by high unemployment and low job vacancies, follow expansionary periods with lower unemployment and greater pressures.

Chart 2: Upward shift in the Beveridge curve



Source: Eurostat, business survey.

An upward shift in the curve such as that observed during the 2013-17 period is indicative of a deterioration in the French labour market matching mechanisms. Greater pressures are observed for the same rate of unemployment. Furthermore, the curve has steepened, meaning that an improvement in employment causes labour market pressures more quickly than in the past. This situation reflects a mismatch between the characteristics of labour supply and demand. Nevertheless, this does not necessarily mean that the French economy is overheating. Increasing labour force constraints can be the result of temporary effects that are common during periods of intense job creation such as those experienced in France at the end of the 1990s. Indeed, changes in the nominal per capita wages were more

subdued over the 2013-17 period, with annual average growth in average per capita wage for the economy overall at 1.4% compared with 2.0% for the 2008-12 period.

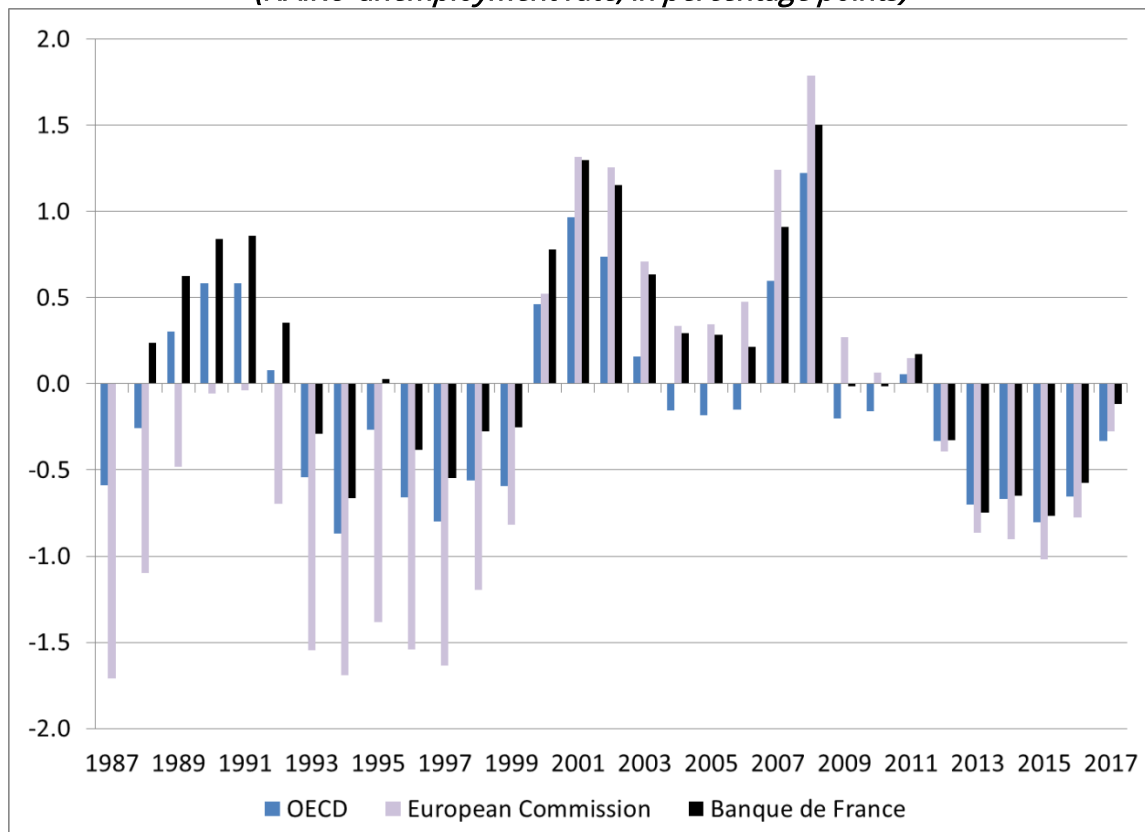
A significant contraction in labour market slack since 2015

These stylised facts indicate an increase in labour market pressures. It is useful to quantify them more precisely and consider their duration more closely.

The tool used to quantify labour market pressures is the gap between the structural unemployment rate and the observed unemployment rate. This "structural" rate does not constitute a floor, but rather the level below which inflation picks up (hence its other name, Non-Accelerating Inflation Rate of Unemployment – NAIRU). In order to estimate the structural unemployment rate, we use an unobservable component model including a Phillips curve, connecting the movement in inflation to the unemployment rate, to changes in imported inflation and to the capacity utilisation rate. This model is subject to a significant margin of error related to the degree of smoothing and the model specification.

According to our estimates and those – broadly convergent – of international organisations, while the 2017 unemployment rate in France of 9.4% was still slightly higher than its structural level (estimated at a little over 9%), the gap is expected to close this year reflecting a labour market now under pressure (see Chart 3).

*Chart 3: Gap between the unemployment rate and its structural level
(NAIRU-unemployment rate, in percentage points)*



Key: A positive gap between NAIRU and the unemployment rate indicates labour market pressures.

Source: OECD, EC and the Banque de France, for NAIRU and unemployment rates.

How long could it take for labour market pressures to cause more wage increases and subsequently price hikes?

There is a certain degree of leeway that can be leveraged to counter these pressures, particularly boosting the capital utilisation rate and decreasing short-time work and involuntary part-time work, which would help to increase hours worked. The employment survey for example estimated that [under-employment](#) (involuntary part-time work or partial unemployment) amounted to 6.0% of employment during first-quarter 2018, higher than the level recorded in first-quarter 2008 (5.4%), when the unemployment rate was at its lowest point of the previous cycle (7.3%).

It should be noted that labour market pressures are not the only wage determinants: other factors could be a drag on wages. For example, during a period of recovery, less skilled workers re-enter the workforce and thus bring down the average wage ([Verdugo, 2013](#)). Furthermore, downward nominal wage rigidities during periods of economic slowdown lead to slower wage growth during an economic recovery as companies anticipate the difficulty of future wage reductions ([Marotzke et al., 2017](#)).

Certain labour market pressures could also be attenuated in the short to medium term through vocational training to develop skills that are better tailored to job vacancies, which

would bring down structural unemployment. Of the 10 job categories expected to face recruitment difficulties in 2018 according to the [Besoin en main d'œuvre](#) (labour force requirement) survey, there is a profession requiring long-term training (dentist), an occupation requiring a two-year training (electrical and electronic designers), and also jobs for which less than one year's training is required according to the French government training body, the AFPA (home help, pipe fitters, roofers, vehicle body repairers, etc.). The vocational training reform and the EUR 15 billion set aside as part of the French government's major investment plan (*grand plan d'investissement*) to create a skilled society, particularly by financing long training programmes that end with a qualification, could speed up this process. A reduction in structural unemployment could also be achieved in the shorter term by enhancing job search incentives as part of unemployment benefit reform or through reforms promoting geographical mobility.

Part of the pressures observed today could thus disappear in the short or medium term, but another part certainly reflects the effect of the economic recovery on the labour market. According to the [Banque de France macroeconomic projections](#), nominal per capita wages for the economy as a whole are expected to gradually grow from 1.1% in 2016 to a little over 2% in 2018 and almost 2.5% at the end of the projection horizon in 2019-20.