

WAITING FOR EMPLOYMENT...

Despite the gradual upturn in the French economy, the job market remains sluggish. The mechanics of the productivity cycle are amplified both by previous financial constraints and current uncertainty weighing on businesses, particularly with regard to currency fluctuations. If strong employment growth implies a lower growth threshold than is necessary for job creation, it also implies a slowdown in productivity gains, which would have a long-term negative impact on the economy.

The recovery has not yet fed through employment figures

Recovery in the French economy has been underway since mid-2003. However, the job market has not yet started to benefit from the economic turnaround. The number of employees fell by 0.1% in the third quarter (20,000 job losses in the manufacturing non-farm sectors), and at the end of December 2003, the number of job seekers rose 6% over the year (137,900 additional people out of work). The job market's delayed reaction to the pick-up in the economy is not really surprising: it is not only due to the productivity cycle, but also to certain characteristics of the French economy.

A question of time: the mechanics of the productivity cycle

The first reason is simply a question of mechanics. Employment always has a delayed response to changes in production: the employment factor is regulated by increasing the intensity of use of labour force (rise in productivity) in a recovery phase or by keeping employment high (drop in productivity) during an economic slowdown. Redundancy costs, hiring and training costs account for this phenomenon. In early 2002, the economic recovery (+0.7% of GDP in the first two quarters) typically led to a sharp increase in hourly productivity gains and a stagnation in manufacturing employment, similar to the bright spell in the third quarter of 2003 which prompted a 0.4% rise in hourly productivity gains (following a marked decline in the previous three quarters) and a drop in the number of employees (-0.1%). In the current phase of recovery, the productivity cycle will have a stronger impact because companies were slow to adjust the number of employees in 2002-2003 in response to the slowdown in activity. What we are now seeing is an employment 'overhang': the drop in retail employment was smaller in the third quarter of 2003 (at 0.4 points) than forecast by Insee.

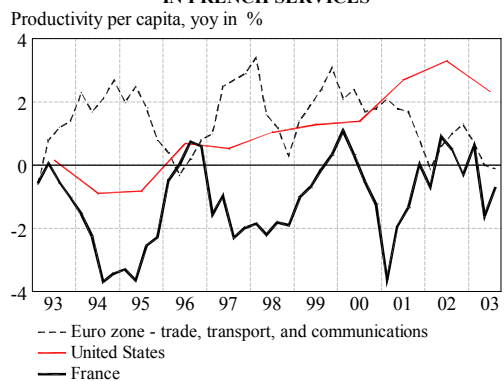
The current burden: financial situation and currency fluctuations

Apart from the consequences of keeping employment unusually high in 2002-2003, the decision for companies to start hiring is influenced by other factors. The first is the recollection of the aborted recovery in 2002, which partly accounts for companies' hesitancy with regard to the strength of the present recovery. The second reflects uncertainty surrounding the trends of the euro versus the dollar: long-term euro appreciation (i.e. above 1.30), would seriously damage the prospects for export companies. The third is the yet-to-be-completed process of improving the financial situation of businesses, which does not argue in favour of a speedy job market recovery. The latest quarterly business survey by Insee reflects a wait-and-see attitude regarding the workforce: both the recent trend component (-24) and the expected trend component (-21) for employees are well below their long-term averages (-15 and -16 respectively). Recent changes in temporary employment, a good leading indicator of job market trends, also point to a delayed recovery in employment because, at the end of November 2003, temporary jobs increased slightly over the month (+2.2%) but recorded a considerable drop over the year (-5.9%).

Productivity data points to strong employment growth

In the longer term, the impact of increased activity on employment is dependent on the extent of employment growth, which itself is dependent on productivity gains: therefore, for a given degree of economic growth, the stronger the growth in productivity, the fewer the number of job offers. France has undergone a trend reversal in productivity gains in the 90s: in the 70s and 80s output grew by an annual average of 2.0%, whereas in the last ten years it has only risen an annual 0.8%.

SIGNIFICANT WEAKNESS IN PRODUCTIVITY GAINS IN FRENCH SERVICES



There are a number of factors behind stronger employment growth: employment policies on the one hand (reduction in unskilled labour costs, increase in part-time work and the 35-hour week – although the impact of the latter has been ambivalent, lowering productivity gains per capita but increasing hourly productivity gains), and more structural factors on the other (low investment, strong growth in sectors with low productivity gains – services, construction- which are protected from international competition) have led to the slowdown in productivity gains. With regard to the role of protected sectors, productivity in France's services sector has been much lower than in the United States, and to a lesser extent, than in the Euro zone.

While strong employment growth is desirable in the short term for fulfilling the needs of an economy suffering from major structural unemployment, a slowdown in productivity gains implies very low purchasing power gains per capita. Moreover, it would be a future cause of economic weakness were it to continue: low productivity gains imply a slower rate of increase in potential growth, a constraint on profits and investment, a moderate rise in purchasing power and difficulty in financing pension and healthcare expenditure. Economic policy has to have two objectives: it has to promote the 'employability' of the unemployed and salaried employees and support activities necessary for a future recovery in productivity (R&D, higher education...).

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