

## 2004: UNEMPLOYMENT STABLE THANKS TO A DECLINE IN DEMAND FOR JOBS

- Although employment stagnated in 2004, unemployment as measured by the IMO stabilised. This was due to the sudden dip in demand for jobs as a result of the bottle neck in the ageing population and, more especially, the pension reforms adopted in 2003, with employees who started work at a young age retiring after a long working life.
- The number of jobs on offer should increase in 2005. However, unemployment will only decrease slightly because of a steady acceleration in market jobs and a halt to the fall in the number of assisted public-sector jobs.

### Virtual stagnation in employment ...

Revised by INSEE, the unemployment rate will have reached 10 % as of October 2003 whereas one estimated up to now to have touched this level only at the beginning of 2005. After having stabilized at the end of 2003 and in 2004, it hit 10,1 % last January.

Unemployment remained stable despite the weak job creation rate. Against the backdrop of the economic recovery since mid-2003, companies have concentrated primarily on increasing productivity and boosting their financial position. The number of salaried market jobs increased by a mere 0.1 % in 2004. Disappointingly enough, the number of salaried market jobs stagnated in the fourth quarter of 2004, while GDP increased considerably (+0.8 %); this was even more disheartening considering that the recovery started eighteen months ago.

Over 2004 as a whole, the increase in salaried jobs in the tertiary sector (+0.8 %) and construction (+1.3 %) was not enough to offset the ongoing decline in the number of jobs in industry (-1.9 %). The specific measures for assisting recruitment in the private sector had a moderate impact — CIE or *Contrats Initiatives Emploi* (assisted job creation schemes) ; CJE or *Contrats jeunes en entreprises* (company youth employment schemes) —.

There is nothing to suggest that the number of salaried private sector jobs will increase in the near future, because companies are continuing to focus on productivity increases; on top of this, trend economic growth is unlikely to exceed an annualised 2 %. The employment outlook in both the service and industrial sectors remains lacklustre and uncertain. The number of salaried private sector jobs is only likely to rise by a modest 0.2 % in the first half of the year. During the year, job creation will be supported by the measures to boost employment in the private sector introduced as part of the Borloo social cohesion plan (*Revenu minimum d'Activité* or RMA —minimum employment income — for those entitled to basic welfare benefits and the new *Contrat Initiative Emploi*).

The rise in public sector employment was offset by the sharp drop in assisted employment in subsidised jobs, such as youth employment schemes, CEC, CES (Solidarity Job Contracts) and CIVIS (Workforce Entry Contracts), with the focus of employment policy starting to shift to the private sector. Overall employment also stagnated last year.

In 2005, subsidised jobs employment should benefit from the provisions of the social cohesion plan. These include the new 'contract of the future' for those entitled to minimum welfare benefits (185 000 people should be eligible in 2005) and the CAE (*Contrat d'accompagnement à l'emploi* or public-sector work assistance scheme), which replaces the CES and CEC. However, there has been a delay in implementing these measures and they will not come into force until April. Unassisted employment in the public sector, which received a boost when local authorities adopted the 35-hour week in 2003 and 2004, is likely to slow significantly.

Finally, overall employment is only likely to improve slightly in 2005 - by some 0.5 % - with most of the increase forecast for the second half of the year.

### ... and marked dip in demand for jobs

According to Insee, only 35 000 people joined the job market in 2004, as against 105 000 in 2003.

Sa, 000s; annualised, then six-monthly

	2002	2003	2004	2003 2 <sup>nd</sup> half	2004 1 <sup>st</sup> half	2004 2 <sup>nd</sup> half	2005 1 <sup>st</sup> half
(1) Trend working population	150	125	108	61	58	49	39
(2) Flexion effects	-24	-28	-1	-8	-1	0	2
(3) Impact of retirement	58	9	-71	1	-33	-38	-13
Of which: Early retirees	45	12	9	4	6	3	5
(4) Potential labour force = (1)+(2)+(3)	183	105	35	54	24	11	28
(5) Total employment	137	-90	20	-23	-1	21	45
Of which: salaried market jobs	29	-73	17	-10	14	3	35
Assisted non-market sector jobs	-13	-102	-79	-55	-58	-22	-20
(6) Contingent	0	0	0	0	0	0	0
(7) ILO unemployed	163	190	5	56	6	-1	-17
(8) Actual working population	299	100	25	33	5	20	28
(9) residue = (8)-(4)	116	-5	-10	-21	-19	9	0

Insee, March 2005 economic survey; Société Générale

The potential labour supply depends first and foremost on the trend supply, which is based on a combination of trends involving the total population and employment rates by age group. Economic factors such as the impact of employment policy and the flexion effects (a positive economic environment encourages the unemployed to seek work) then come into play. The residue, positive or negative, is the difference between the potential and actual working population.

The trend working population has fallen considerably in recent years. The age category with the highest employment rate (25-49 years) now accounts for a lower percentage of the total population. This is due to the effect of the ageing population, marking a continuation of the trend that started in early 2000. In addition, the flexion effect has been very slightly negative: the poor labour-market trend has discouraged some 1 000 people from entering the labour market. But retirement (-71 000 people) has had the most marked impact on reducing the labour supply. The fall in the number of people qualifying for early retirement and insertion or training courses has been more than offset by the significant number of early retirees that have had a long working life, under the pension reforms passed in 2003: of a possible 180 000 people affected by this measure, 90 000 took up their right to retire in 2004.

The potential labour supply should improve in 2005. The potential working population will probably continue to fall, but at a lesser rate than in 2004 due to the increase in the employment rate among certain population groups. The employment rate for those aged 50+ is likely to increase slightly, since the pension reforms may well encourage some of those that could retire in 2005 to continue working in order to qualify for the premium. Likewise, the employment among those categories characterised by relatively high unemployment (young people, women, the disadvantaged, etc.) is also likely to increase due to employment policy encouraging public-sector employment. In addition, the economic flexion effect should in future have an increasingly positive impact on the labour supply because of the steady improvement in the labour market, while the impact of early retirement measures will diminish.

What is more, given the modest rate of job creation in 2005, the unemployment rate is only likely to fall by a few tenths of a percent over the year, reaching 9.8 % at the end of the year.

Caroline de TINGUY – +33 1 42 14 93 49

---

All opinions and estimations included in the report represent the judgment of the sole Economics Department of Société Générale and do not necessarily reflect the opinion of the Société Générale itself or any of its subsidiaries and affiliates. These opinions are subject to change without notice. It does not constitute a commercial solicitation, a personal recommendation or take into account the particular investment objectives, financial situations.

Although the information in this report has been obtained from sources which are known to be reliable, we do not guarantee its accuracy or completeness. Neither Société Générale nor its subsidiaries/affiliates accept any responsibility for liability arising from the use of all or any part of this document.

Société Générale may both act as a market maker or a broker, and may trade securities issued by issuers mentioned in this report, as well as derivatives based thereon, for its own account. Société Générale, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any issuer mentioned in this report.

Additional note to readers outside France : The securities that may be discussed in this report, as well as the material itself, may not be available in every country or to every category of investors.

© [2005] Société Générale, All rights reserved.

