

WHAT CAN BE LEARNED FROM 2007 JOB CREATION FIGURES?

⊕ *Waged employment in the competitive sector accelerated for the fourth year running in 2007: +1.8% vs. +1.3% in 2006. The figure is all the more impressive that the real GDP slowed from 2.2% in 2006 down to 1.9% in 2007.*

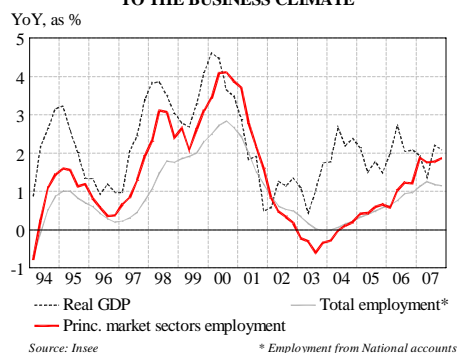
⊕ *However, two points cast this performance in a slightly less favourable light. Firstly, the sectors that have provided the employment upward momentum tend to be those which employ lowly qualified labour and in which productivity gains are relatively weak – which explains the slowdown in productivity gains in France last year. Secondly, due to the deterioration in the business climate since mid-2007, recruitment is already starting to slow down.*

⊕ *A number of factors can be expected to act as brakes on employment in 2008: the property market trend reversal expected this year will depress recruitment in the construction sector; reduced household purchasing power spells bad news for spending on personal services and on leisure activities; the appreciation of the euro and slacker world trade will lead to a reduction in industrial production and in productive investment.*

2007, good vintage for jobs

Job creations proved buoyant in 2007: according to INSEE, growth in total employment accelerated (+1.4% vs. 1.1% in 2006), with net recruitments amounting to 361,000. The competitive sector was particularly dynamic (+1.8% i.e. 327,800 new jobs) thanks to private sector services (+3.4%) and to the construction sector (+4.2%). Job destructions in industry slowed for the fourth year running: -1.1%. In contrast, public sector services employment growth was less vigorous than in 2006 (+0.9% vs. +1.2%): the number of beneficiaries of subsidised contracts tumbled by 13.5%.

EMPLOYMENT IS CLOSELY CORRELATED TO THE BUSINESS CLIMATE



In tandem with the steady reduction in the working-age population (ageing of the population and success of pre-retirement facilities for those with long careers) and with the dynamism of company creations (+12.2% in 2007), the unemployment rate fell down to the lowest level on record since 1983 at the end of 2007: 7.5% of the working-age population in Metropolitan France vs. 9.1% early 2006 – which means that the ranks of the unemployed were reduced by 240,000 people. Including French Overseas Departments, the unemployment rate decreased to 7.8% at the end of 2007.

Hence, poor productivity gains

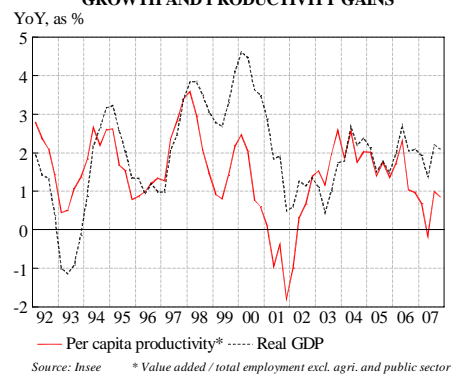
In the late 1990s, hourly productivity received a boost from the reduction of working hours while per capita productivity gains weakened. The soft patch in 2001/03 and its delayed impact on recruitment gradually resulted in a cyclical slowdown in hourly productivity. The “recovery without job creation” in 2003/04 was gradually transformed into a period of significant growth in job creations.

Beyond the better orientation of the job market, two observations need to be underlined:

1) Until 2002, trends in employment, GDP and per capita productivity were closely correlated. Since then, the enrichment of growth in employment has severely undermined per capita productivity.

2) Since mid-2007, when the business climate started clouding over, it would appear that employment has been on a downward trend: YoY employment growth rate has been flattening out.

GROWTH AND PRODUCTIVITY GAINS



Over and above the trend in employment, which would appear to have become de-correlated to some extent from GDP growth since 2005, what are the lessons to be learned from the link between employment, productivity and growth over the last few years?

What are the reasons for low productivity gains?

Whilst it is clear that moderate GDP growth has played a role in the weakness of productivity gains over the last few years, a number of structural factors also explain the situation.

1) The impact of employment policy

Since 2004, the unemployment rate has been falling and workers who are intrinsically less productive than the average – because they are the furthest from the job market and lowly qualified – have been finding work. This trend has been facilitated by subsidised contracts as well as by the reduction in social security contributions on low wages implemented by previous governments.

Moreover, various means have been employed to make the job market more flexible: the increase in short-term contracts and in temporary jobs (*see below*), the expansion of which is also linked to the subcontracting and outsourcing of non-core activities, notably in industry (property caretaking, cleaning and catering). As a result, job insecurity has increased. According to an Insee employment survey, 77.1% of jobs were accounted for open-ended contracts in 2006. However, Dares estimates that fixed-term contracts represented 72% of recruitments in the same year. The percentage of jobs accounted for by fixed-term contracts increased from 7.7% of total employment in 2002 up to 8.2% in 2006. Since 2000, this trend has been most palpable in the services sector: industry and the construction and public works sector have preferred the temporary employment solutions.

The TEPA law (Labor, Employment, Purchasing Power), exempting overtime from welfare contributions and taxation, which was introduced at the end of 2007, could underpin per capita productivity if it were to result in a significant increase in the number of worked hours.

2) The sectors which are creating jobs are those in which per capita productivity and productivity gains are the lowest

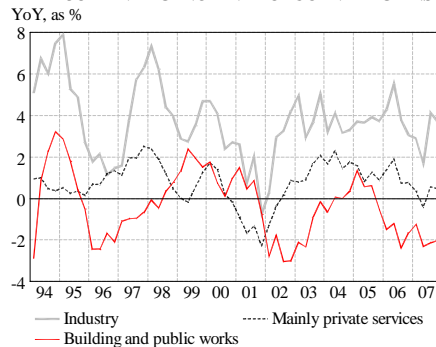
A FEW SECTORS UNDERPINNED EMPLOYMENT IN 2007

	Level ('000)	As % of private employment	07/06	Contrib. 07/06	06/05
Construction	1,469.8	9.2%	4.2%	0.4%	4.4%
Personal services	931.0	5.8%	6.4%	0.4%	6.1%
Consulting and assistance	1,373.5	8.6%	4.1%	0.3%	3.6%
Trade	3,081.6	19.2%	1.5%	0.3%	0.6%
Temporary employment	653.1	4.1%	4.6%	0.2%	2.9%
Hotels/restaurants	880.9	5.5%	3.4%	0.2%	2.3%
Principally market sectors	16,020	-	1.9%	-	1.2%

Sources: Insee, SG calculations

The six sectors included in the table below are the main employment drivers. In contrast, three sectors are destroying jobs: the automobile, consumer goods and intermediate goods industries.

MAJOR DIVERGENCE IN PRODUCTIVITY GAINS



Sources: Insee, SG calculations

In general, productivity gains vary significantly from one sector to another. They are highest in industry (which is destroying jobs), low in the services sector and depend upon the investment cycle in the building and public works sector.

SUBSTANTIAL DIFFERENCES IN PER CAPITA WAGES* FROM ONE SECTOR TO ANOTHER

Manufacturing industry	45.9
Agri-food industry	35.0
Consumer goods	50.9
Automobile industry	46.4
Capital goods	46.2
Intermediate goods	43.8
Energy	68.3
Building and public works	38.7
Mainly private services	43.8
Trade	38.8
Transports	42.0
Financial services	69.8
Property services	47.7
Business services	48.4
Personal services	32.3
Total	42.9

*Annual wages / average wages workers ratio (as equivalent full-time), as '000 EUR

Sources: Insee, SG calculations

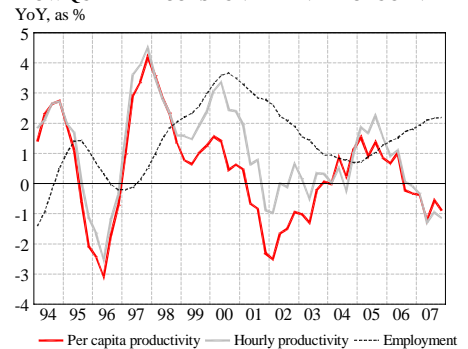
The sectors that have been driving employment over the last few years – personal services, trade, transports and building and public works – are also those in which productivity levels are low and gains in productivity are minor or even negative. This provides two explanations for the slowdown in average gains in productivity.

The differences in productivity levels can be demonstrated (see table below) by inter-sector comparisons of per capita wages which are theoretically linked to the productivity of waged workers. It transpires that the sectors in which employment has been particularly dynamic are also those in which – along with AFIs – per capita wages are below average levels. The structure of the job market is therefore shifting towards jobs that are relatively less productive. Since 1980, the percentage of private sector jobs accounted for by “lowly qualified” workers has been increasing from 42% up to 48.9% late 2007, and the trend has been gathering pace since 2001. These sectors have received a boost from the rise in standards of living. Moreover, government policies have encouraged the development of this category of jobs via subsidised jobs and development plans to stimulate the expansion

of personal services first introduced in the 1990s¹.

Moreover, the productivity gains of these sectors, which generally employ lowly qualified persons, are weak. Some of the main reasons for this are as follows: difficulties to professionalize these jobs; the high percentage of part-time and/or fixed-term contracts; and high workforce turnover. To be more specific, per capita productivity gains in these sectors have been on the decrease over the recent period. In the transport and trade sectors, there was no productivity gain in 2007 while, in the construction and personal services sectors, they have been negative since 2006.

LOW QUALIFIED JOBS* UNDERPINE PRODUCTIVITY



Source: Insee * Building and public works, trade, personal services and transports

Furthermore, in 2006/2007, the trends in per capita and hourly productivity were virtually identical in these sectors. This shows that low productivity gains – and, in the same vein, the high number of job creations – are not due to the reduction in the per capita number of hours worked, as was the case when the 35-hour working week was implemented

3- The percentage of jobs accounted for by temporary work has been rising – notably during the second half of the 1990s.

Since 1979, temporary jobs have been accounting for an increasing percentage of total employment. Three main trends can be identified:

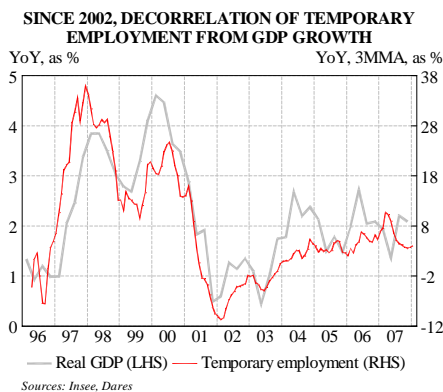
- 1) Moderate growth until 1993 (the Compound Annual Growth Rate was close to 2%, but employment remained static).
- 2) A sharp acceleration up to 2000 (CAGR was in the region of 16%, whereas private sector employment rose by only 1.8%) due to the introduction of the 35-hour working week and increased recourse to outsourcing, notably in industry.
- 3) From 2001 to date, growth in temporary employment slackened (CAGR of 2.6%), but gathered pace towards the end of the period (CAGR of 4.6% in 2007), while private sector employment edged up by a meagre 0.6%.

Between 1984 and 2007, the percentage of total employment accounted for by temporary work rose from 0.7% up to 4.1%. The sectors which have the greatest recourse to temporary employment are the automobile sector (quest for flexibility), the construction industry (seasonal activity) and the intermediate goods sector (chemicals and electronic components in particular).

Industry's growing recourse to temporary employment (almost 8% of jobs at the end of 2007) influences the interpretation of employment productivity gains in this sector as the later incorporates the effects of the modification of industrial employment structure, and of their split between qualified and unqualified jobs. Hence, productivity gains in sectors relying most on temporary employment may be slightly overestimated.

¹ A number of steps culminated in the introduction of an instrument to meet demand: the Universal Employment Service Voucher (CESU) launched in February 2006, such as the services voucher was introduced in December 1993 and the employment-service voucher in January 1996. One of the results of these measures was the declaration of former black market jobs. This means that a certain amount of jobs created in the personal services sector are simply due to the declaration of jobs that already existed.

Due to the fact that it is a flexible means of dealing with fluctuations in activity, temporary employment has always been closely correlated to the production cycle. That said, the correlation has been slightly looser recently.

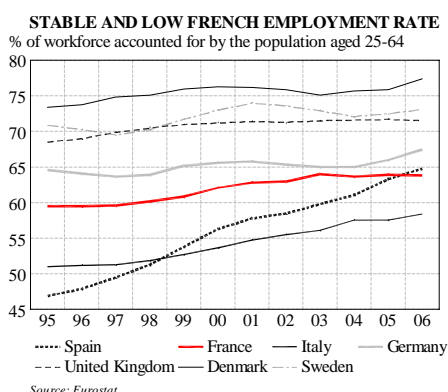


Based on Dares data, the following long-term trends emerge:

- 1) Strong sector concentration: construction (almost 21% of temporary workers at the end of 2007); intermediate goods (18%); business services (10.5%); capital goods (9.6%); trade (9%); and transports (8 %).
- 2) Close correlation between construction sector temporary jobs and the investment cycle: decline between 1995 and 2001, sharp acceleration ever since.
- 3) A shift from the secondary sector (54.5% of temporary jobs in 1995, 46% at the end of 2007) to the tertiary sector (24% in 1995, 33.3% at the end of 2007).
- 4) Whilst temporary workers remain less highly qualified than waged workers, temporary employment is attracting increasingly highly qualified persons. Unqualified workers accounted for 46.6% of temporary workers in 1995, but the percentage fell down to 38.3% late 2007. In contrast, the percentage of management level temporary workers rose from 0.3% to 1.7% over the same period (from 3.7% to 7.4% in the case intermediate professions and from 33.5% to 40.1% in the case of qualified workers).

Productivity levels are still relatively high, but the employment rate remains too low

If a high level of hourly productivity is desirable and constitutes an indicator of employment efficiency in an economy – a factor that underpins high standards of living – France has, so far, failed to combine good productivity figures with a satisfactory employment rate.



The tighter the job market, the greater the number of lowly productive workers who find jobs. The French employment rate is significantly lower than the eurozone average: 63.8% in 2006 vs. 64.8%. Moreover, it has been static over the last few years in contrast to the upward trend in the rest of the European Union. This attests to the shortcomings of the reforms implemented to date. The two segments of the population where the differences are the most striking are the young and the over-50s. After Malta,

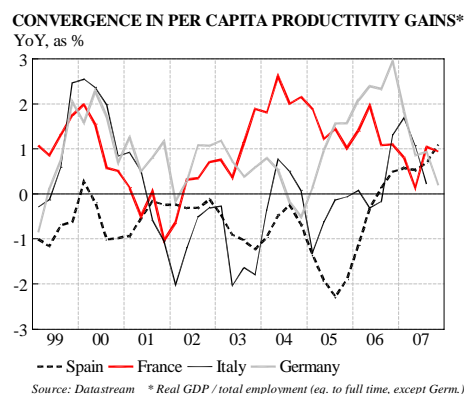
France is the EU-25 country where the retirement age is the lowest: 58.9 years in 2006 vs. an average of 60 years and 61.9 years both in Germany and Denmark.

(%)	EMPLOYMENT RATE		
	Total	15-24 years	55-64 years
France	63.8	29.3	37.3
EU-25	64.8	37.3	41.0
Germany	67.5	43.3	41.8
Denmark	77.4	64.6	60.3

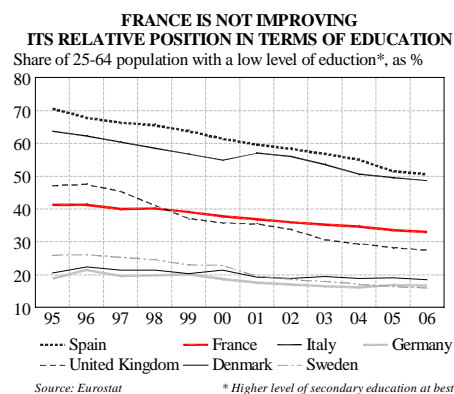
Source: Eurostat

Part-time work is, in all probability, partially responsible for the relatively low employment rate in France. Since the early 1980s, the part-time employment rate has increased sharply: from 8.5% in 1982 to almost 18% in the early 2000s. It has subsequently remained close to this level: 17.2% in 2006. The rate is nonetheless below the European average of 18.2%. Some European countries have great recourse to part-time work (Denmark: 23.6%, Germany: 25.8%) and this enables to boost the employment rate *via* a higher female participation rate.

However, relative employment productivity in France – which Eurostat measures by the difference between GDP produced per worked hour in a given country and the EU average – is one of the highest: 118.4 in 2005 vs. 101.8 in the eurozone and 111.5 in Germany (EU-15 = 100 base).



Although per capita productivity gains in France are still at the upper end of the eurozone range, it would appear that, since 2006, productivity gains have been converging downwards. Unless there is a reversal in trend over the next few years, weaker productivity will result in a severe decrease in EU-15 growth potential due to the ageing of the population.



In terms of the level of qualification of the working-age population, France is in line with the eurozone average. However, its relative position is weakening. And so, the split between productive people in work and the high share of the working-age population which is either excluded from the job market or can only find "lowly qualified" employment would appear to be linked, to some degree, to the relatively low qualification of the working-age population.

Laure de BATZ +33 1 42 14 93 49

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