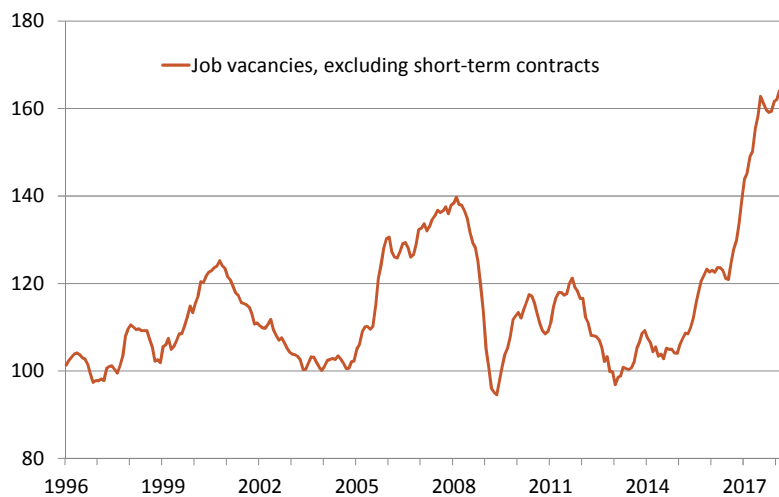


22 June 2018

France: on track to unlock its potential

French labour market: job vacancies rising



3-month average of job vacancies excluding less than 6-month contracts, in thousands. Source: INSEE

- **On track for a golden decade:** More than a year after we made our call that France is heading for a golden decade courtesy of the Macron reforms, the evidence still supports our view. Following up on the labour market reform and corporate tax cut passed in H2 2017, President Emmanuel Macron has not slackened his efforts this year.
- **Macron holds firm:** One of his signature proposals was to overhaul the national railway company SNCF and open the railway monopoly up to future competition, as required by EU law. Opposing the reform and Macron's overall agenda, labour unions initiated the biggest strikes since 1995. Unlike the government of 1995, Macron did not cave in, broadly supported by the general public. Last week, both houses of the French parliament approved the reform. With modest concessions such as taking over some of SNCF's legacy debt, Macron has prevailed.
- **Is the future starting to happen?** Supply-side reforms to strengthen a country's growth potential usually take time to work. Interestingly, the French labour market already started to recover three years ago. Between 2010 and summer 2015, employment grew by 116k per year. Since then, the pace of job creation has picked up to an average 350k yoy increase in the last four quarters. Unemployment has dropped from 10.5% in summer 2015 to 9.2% in April 2018. Labour demand points to further gains: registered vacancies for jobs with a contract of more than six months have risen to more than 160k, a level not seen over the last 20 years (see chart).
- **Previous reforms are helping:** The change started under President François Hollande. Some labour market reforms spearheaded by the then economics minister, Emmanuel Macron, and the then labour minister, Myriam El Khomri, pushed the country towards the top of the OECD's reform league table for major advanced economies for 2015/2016. In combination with Macron's labour reform in 2017, these measures inject the much needed flexibility into the French labour market. The reforms open up professions, simplify dismissal procedures, streamline negotiations at the company level and make it easier for firms to strike tailor-made deals with their own workers.
- **Lucky France:** While the labour market is improving, it is far too early to assess with any degree of certainty to what extent this reflects the supply-side reforms beyond the mere cyclical upswing in demand. The chart provides some very tentative evidence that the change goes beyond the normal cyclical swings. In any case, luck is with Macron: the cyclical upturn helps to ease the pain of reforms and make the gains visible early.
- **Rising vacancies can be a two-edged sword:** While they signal strong labour demand, they can also point to skill mismatches at high unemployment. France needs to get better at integrating the young, low-skilled and immigrant population into the labour market. Macron plans to improve the professional training and education system. If he succeeds, jobs growth could accelerate further, as it did in other major European countries after key reforms.

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