

Small recovery after a big crisis

By the Analysis and Forecasting Department

[This text summarizes the 2016-2017 outlook for the global economy and the euro zone. Click here to consult the complete version \[in French\].](#)

Global growth is once again passing through a zone of turbulence. While growth will take place, it is nevertheless being revised downwards for 2016 and 2017 to 2.9% and 3.1%, respectively. The slowdown is first of all hitting the emerging countries, with the decline in Chinese growth continuing and even worsening (6.1% anticipated for 2017, down from 7.6% on average in 2012-2014). The slowdown in Chinese demand is hitting world trade and fuelling lower oil prices, which in turn is exacerbating the difficulties facing oil and commodity producers. Finally, the prospect for the normalization of US monetary policy is resulting in a reflux of capital. The dollar is appreciating even as the currencies of the emerging countries of Asia and Latin America are depreciating. While the industrialized countries are also suffering from the Chinese slowdown through the demand channel, growth is resilient there thanks to falling oil prices. The support provided by monetary policy is being cut back in the US, but is strengthening in the euro zone, keeping the euro at a low level. Countries are no longer systematically adopting austerity policies. In these conditions, growth will slow in the US, from 2.4% in 2015 to 1.9% in 2016 and then 1.6% in 2017. The recovery will pick up pace slightly in the euro zone, driven mainly by the dynamism of Germany and Spain and the improved outlook in France and Italy. For the euro zone as a whole, growth should come to 1.8% in 2016 and 1.7% in 2017. This will push down the unemployment rate, although by year-end 2017 it will still be

2 points above its pre-crisis level (9.3%, against 7.3% at year-end 2007).

While the United States seems to have avoided the risk of deflation, the euro zone is still under threat. Inflation is close to zero, and the very low level of expectations for long-term inflation reflects the ECB's difficulty in regaining control of inflation. Persistent unemployment indicates some continuing shortcomings in managing demand in the euro zone, which has in fact been based entirely on monetary policy. While the ECB's actions are a necessary condition for accelerating growth, they are not sufficient, and must be supplemented by more active fiscal policy.

At the level of the euro zone as a whole, overall fiscal policy is neutral (expansionary in Germany and Italy in 2016 but restrictive in France and even more so in Greece), whereas it needs to be more expansionary in order to bring unemployment down more rapidly and help to avert deflationary risks. Furthermore, the continuing moderate growth is leading to the accumulation of current account surpluses in the euro zone (3.2% in 2015). While imbalances within the euro zone have been corrected to some extent, this mainly took place through adjustments by countries in deficit prior to the crisis. Consequently, the surplus in the euro zone's current account will eventually pose risks to the level of the euro, which could appreciate once the monetary stimulus ends, thereby slowing growth.

Table. Outlook for world growth

Annual growth rate (%)

	Weight in the total(1)	GDP in volume		
		2015	2016	2017
DEU	3,7	1,4	1,9	1,6
FRA	2,6	1,2	1,6	1,6
ITA	2,3	0,6	1,2	1,0
ESP	1,6	3,2	3,3	2,4
EUZ	13,4	1,5	1,8	1,7
GBR	2,4	2,3	2,1	1,7
NPM(2)	2,4	3,8	3,1	3,2
UE 28	18,6	1,9	2,0	1,8
USA	17,2	2,4	1,9	1,7
JPN	4,8	0,5	0,7	0,4
Developed countries	44,5	1,9	1,7	1,6
RUS	3,6	-3,7	-1,0	1,0
CHN	14,9	6,9	6,3	6,1
Other Asian countries	16,6	5,2	5,2	5,4
Latin America	8,8	-0,4	-0,9	1,5
World	100	2,9	2,9	3,1

(1) Weight according to GDP and PPP estimated by the IMF for 2008.

(2) Poland, Hungary, Czech Republic, Romania, Bulgaria and Croatia.

Sources: IMF, OECD, national sources, OFCE calculations and forecast, April 2016.

Unemployment: beyond the (good) figures from France's job centre

Analysis and Forecasting Department (France team)

The 60,000 person decline in March for the number of people

registered in Category A at France's Pôle emploi job centre is exceptional. One has to go back to September 2000 to find a fall of this magnitude. There is some natural volatility in the monthly statistics for job seekers, but the fact remains that the trajectory has changed noticeably. In the last year, the number registered in Category A at the job centre rose by 17,000. A year earlier, from March 2014 to March 2015, the increase was 164,000. Better yet, over the last six months the number registered fell by 19,000.

Nevertheless, the number of Category A job seekers is a relatively poor reflection of the multiple dynamics at work in the labour market. If, in addition to job seekers registered in Category A, we add those working reduced hours (categories B and C), the March upturn remains visible, but smaller. The number registered in categories A-B-C falls slightly in March (8700 people) but also over 3 months (down 23,900).

Once again, however, beyond the good results in March, given the continuing deterioration of the labour market and the emergence of more precarious situations with regard to employment over the last eight years, there will be no lasting improvement in households' job situation until these "good figures" have accumulated over a medium-term horizon.

More relevant statistical sources ...

These monthly figures provide only a partial representation of unemployment. They omit in particular people seeking employment who are not registered at the job agency. As for those registered in Category A, people are also counted who are not performing a real job search because they are close to retirement (see [The elimination of the job search exemption: When governments voluntarily increase the jobless count! – in French](#)). In addition, the figures released by the job centre can be distorted by changes in administrative practices and by occasional technical problems that affect the management of the job centre's files.

The quarterly figures provided by the INSEE are a more reliable source for the analysis of unemployment. According to the employment survey, a person is considered “unemployed within the meaning of the [International Labour Office \(ILO\)](#)” if he or she meets the following three conditions:

- being unemployed, that is to say, not having worked at least one hour during the reference week of the survey;
- being available to take a job within 15 days;
- having actively sought work in the month preceding the survey or having found a job that begins within three months.

Based on these criteria, the unemployment rate in metropolitan France in the fourth quarter of 2015 stood at 10% of the active population (+871,000 people since Q4 2007).

...that help to better measure the precarity of the labour market

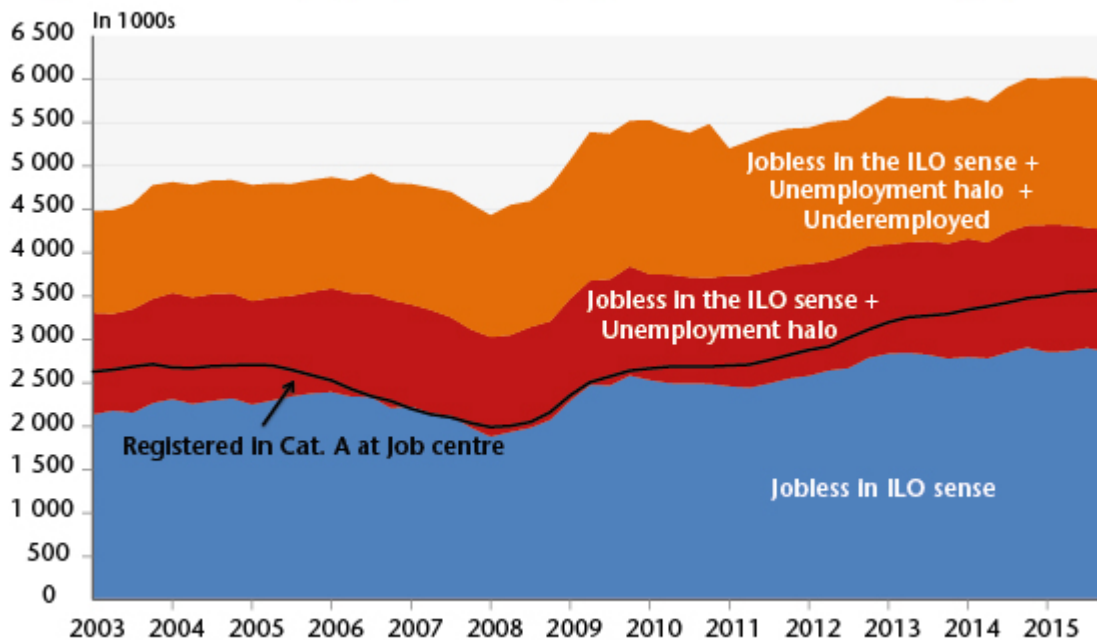
But this definition is still restrictive. It still fails to take into account situations at the margins of unemployment. Thus people who want to work but are considered inactive in the ILO sense, either because they are not readily available for work (within two weeks) or because they are not actively seeking a job, form what is called the unemployment “halo”. In the fourth quarter, this halo included 1.41 million people (+25% over the fourth quarter of 2007, i.e. an additional 279,000 people).

Similarly, the strict ILO definition does not include people who are working part-time but want to work more, or people who are in a situation of partial unemployment. In the fourth quarter of 2015, these situations of “underemployment” involved 1.7 million people (up 18% compared to the fourth quarter of 2007, i.e. by 254,000).

In total, by incorporating underemployment and the “halo” into the strict definition of ILO-measured unemployment, 5.9

million people are in a weakened position with regard to employment, 31% more than eight years ago, i.e. 18.8% of the workforce broadly speaking (Figure 1) [1].

Figure 1. The unemployed, the unemployment halo and underemployment



Source : INSEE, DARES, Pole emploi.

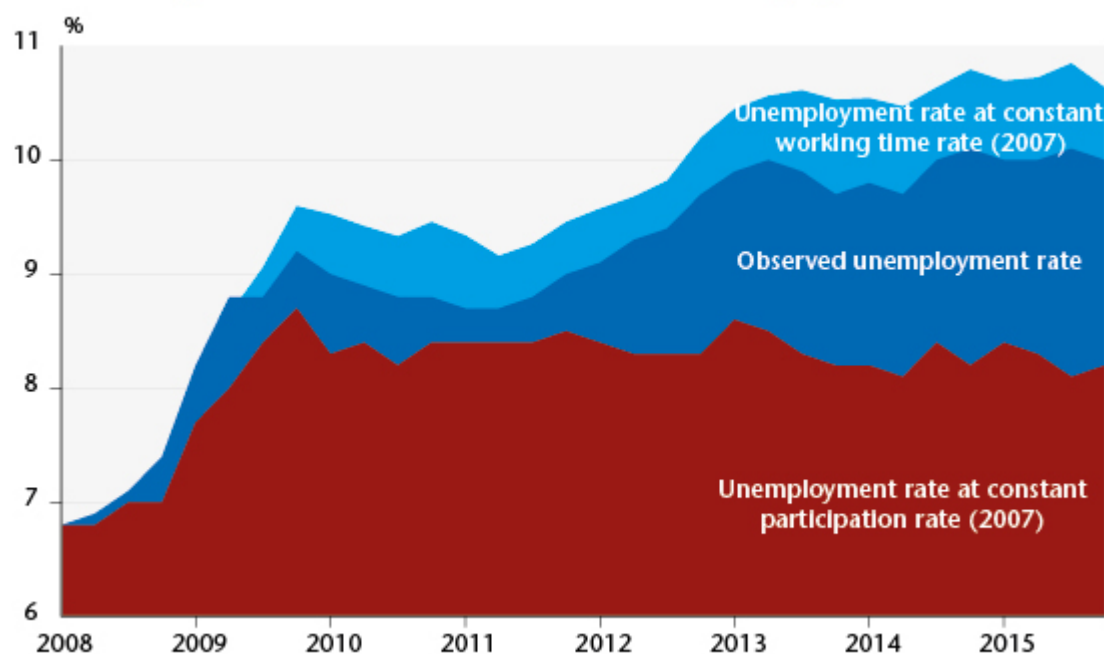
Multiform unemployment, with a transforming labour market

The analysis of the unemployment rate does not therefore include all the dynamics at play in the labour market. The increase in the number of people experiencing underemployment is partly explained by adjustments in the effective working time, via the policy on partial unemployment, the reduction of overtime and the use of working-time accounts, but also through the expansion of part-time work, including on an involuntary basis. While these adjustments increased underemployment, they also helped slow the rise in unemployment (in the strict sense) that started in mid-2008. Without these adjustments, in other words, if the hours worked had remained stable between 2007 and 2015, the ILO-based unemployment rate in France would have been 0.6 points higher in the fourth quarter of 2015 (Figure 2).

Along with these adjustments in working time, since the beginning of the crisis France has also experienced greater

growth in the labour force (employed + unemployed) than in its overall population. This is attributable partly to the implementation of pension reforms that delay seniors' exit from the workforce. Mechanically, without the creation of new jobs, this growth in the labour force has had the effect of pushing up the unemployment rate. In the case of France, the impact has been massive. Indeed, if the participation rate had remained at its 2007 level, the unemployment rate in France would be, all else being equal, 8.2%, i.e. 1.6 points lower than the unemployment rate observed in the fourth quarter of 2015.

Figure 2. Observed and "theoretical" unemployment rate



Source : INSEE.

It must nevertheless be noted that while these adjustments are important, the developments on which they are based are not fully due to the crisis. Indeed, there has been a tendency for working time to decrease since 1990. Between 1990 and 2002, the effective working time decreased on average by 0.9% per year. While this decline has certainly been less rapid since 2003, it is continuing (-0.2% per year). At the same time, the participation rate has been rising continuously, due to the combined effects of the increase in women's participation in the labour market and the successive reforms of the pension

system. The participation rate in France, which stood at 67.1% in 1990, reached 69.7% in 2007, and in the fourth quarter of 2015 had risen to 71.5%.

The national living wage: a new means to boost low wages in the United Kingdom

By [Catherine Mathieu](#)

On 1 April 2016, a national living wage (NLW) took effect in the United Kingdom. This may come as a surprise to France, where the UK labour market is considered the epitome of a deregulated market. This new minimum wage, the NLW, adds 50 pence to the existing minimum hourly wage (the National Minimum Wage, NMW) for those over age 25, meaning a rise from £6.70 to £7.20, or 7.5%. This follows a 3.1% increase in the minimum wage in October 2015 for those over age 25 (from £6.50 to £6.70), for a total increase in one year of 10.8%. This sharp increase in the minimum wage does not represent a sudden change of course by the government. The Conservative election platform for the 2015 parliamentary elections already promised a raise in the minimum wage and pointed towards the introduction of a living wage. The announcement that the NLW would be established was made in July 2015, during the presentation of the budget by George Osborne, Chancellor of the Exchequer, following the Conservatives' election victory. This is simply the first step in an effort to raise low wages, as the government has a target of increasing the NLW to 60% of the median wage by April 2020 (up from 55% at present), to

about 9 pounds.[\[1\]](#)

This boost for low wages is part of a broader strategy of the British government: first, the government says it wants to “reward work”; not only has the minimum wage been increased, but eventually employees at the minimum wage level will no longer pay income tax (this was one of the Tories’ campaign promises in 2015). Furthermore, the government is taking measures to reduce taxes on business, including a symbolic cut in the corporation tax rate, which will be only 17% in 2020 (instead of only 20% currently), which will offset the increase in wages, at least for some companies (those that are most profitable). Finally, the government has set an ambitious target for reducing the public deficit, i.e. from 5% of GDP in 2015 to a balanced budget in 2020, in part by lowering public spending, particularly on social welfare. Raising the minimum wage would thus seem to be intended to offset, at least partially, a future reduction in benefits.

The UK’s process for setting the minimum wage is well codified. Every year the government revises the minimum wage on October 1st, based on the recommendations of the Low Pay Commission (LPC), an independent body composed of academics and representatives of employee trade unions and employers. The UK has had a minimum wage only since 1999. It was implemented according to the recommendations of the Low Pay Commission at levels that matched the low wages of that time, after broad consultation with the business sectors concerned. The implementation of the minimum wage failed to spark waves of protests from employers, nor did it have a significant impact on employment, according to various assessments by the LPC over the years. The minimum wage level was initially low, and included separate rates for adults and young people. The LPC is mandated to produce an annual report on low wages and to make recommendations to the government on adjusting the minimum wage so as to ensure that low wages do not have significant adverse impacts on the employment of the employees

concerned. The government has now also charged the LPC with monitoring the implementation of the NLW and proposing future adjustments, which will take place every year in April.

The NLW applies only to those over age 25. The minimum wages of young people remain at the level set last October. There are currently five minimum wages: for apprentices (£3.30 per hour); for age 16-17 (£3.87 per hour); age 18-20 (£5.30); age 21-25 (£6.70); and over 25 (£7.20). These differences are substantial; the analyses by the LPC since 1998 have argued for lower wage rates for young people, so as to prevent them from being squeezed out of the labour market because of high salaries. This gap has won acceptance, unlike the situation in France, on the grounds that it promotes the growth of “odd jobs” for young people. The employment rate of British young people (15-24 years old) is very high (51.4% at end 2015, against 27% in France and 31% in the euro zone), and it is up significantly (it was 46.8% at end 2010).

In its March 2016 report, [\[2\]](#) the LPC drew some initial conclusions on the possible impacts of the NLW. In April 2016, about 1.8 million employees (out of 29 million salaried jobs) benefited from the NLW, while in 2015 one million adults over age 25 earned the minimum wage. The NLW represents an increase in the annual salary of 680 pounds (for the average working hours of the persons concerned, 1360 hours per year, 26h15 per week). The impacts will vary greatly depending on the sector. It is in the service sectors that low wages are most common (40% of jobs are paid the minimum wage in cleaning companies, 30% in the hotel-café-restaurant sector, and 34% in hairdressing). According to the LPC, this year the implementation of the NLW will impact payroll by around 0.7 billion pounds over the full year, i.e. 0.1% [\[3\]](#); raising the NLW to 60% of the median wage will cost another 2.4 billion pounds, which by April 2020 will represent 0.4% of the total annual payroll. These figures include a diffusion effect on the first 25 percentiles of wage-earners. The impact of

introducing the NLW on wages paid will be close to 4% in the cleaning sector and 3% in the hotel-café-restaurant and hairdressing sectors. Assuming a similar diffusion effect, the Bank of England [4] also estimated that the NLW would lead to a gradual increase in payroll of less than 0.5% in five years. About 3 million people would receive the NLW in 2020.

In July 2015, the Office for Budget Responsibility estimated that by 2020, the introduction of the NMW could result in the loss of 60,000 jobs, according to average assumptions of the elasticity of employment to its cost of -0.4 [5], while also forecasting that over that same period the UK economy would create 1.1 million jobs. The national living wage is coming into force after several years of growth and job creation that has reduced the unemployment rate (by the ILO definition) to its pre-crisis level (5.2%), meaning that any job losses in certain sectors should be very manageable.

Criticism of the NLW is currently coming from two camps: first, the trade unions are accusing the measure of further widening the gap between the wages of young people and adults; and second, employers, particularly in low-wage sectors, are warning of the risk of expanding the informal economy if the NMW is effectively increased to 9 pounds per hour by 2020, although the current level of the NLW is generally considered acceptable.

These adjustments in the British minimum wage have led the UK to join the ranks of the OECD countries with the highest minimum wage levels, although it remains behind France, for example (Figure 1). The new national living wage still leaves the British minimum wage lower than the French minimum wage (the SMIC, which represents 60% of the median wage). At £7.20, or 9 euros, the hourly rate of the British national living wage is currently almost 7% lower than the level of France's SMIC. After taking into account employer social contributions, the hourly cost of the NLW is also below the SMIC, because, even though France has enacted important exemptions from

employer social contributions (Fillon exemption, Responsibility Pact, CICE credit, prime zero charge) on low wages, social contributions are also very low in the UK. Take the case of an adult over age 25, unmarried and childless, who works 35 hours per week (Table). The hourly cost to the employer is 9.48 euros in the UK against 10.43 euros in France; the hourly cost to the employer falls to 9.21 euros in the UK if the employee works 26h15 per week, which represents the average working time of employees on the minimum wage in the UK. If we now consider the salary received by the employee, net of employee social contributions and income tax, the NLW is higher than France's SMIC, especially if the employee works more than 30 hours per week, which makes them eligible for the Working tax credit, which is more generous than France's *prime d'activité* credit. On the other hand, French employees are entitled to a much more generous public system of pension and unemployment benefits.

The establishment of the national living wage in the UK thus represents an effort to catch wages up in sectors where low wages and part-time and precarious work are most common. This increase, in its current form, will have only a marginal macroeconomic impact on the British economy.

**Table. Minimum hourly wage in the United Kingdom and in France, April 2016
(case of an adult over age 25, single and childless)**

In euros*				
	United Kingdom NLW, 26h**	United Kingdom NLW, 35h***	France 35h****	Difference UK-Fr 35h
Gross hourly wage, euros	9,0	9,0	9,67	-6,9 %
Rate of employer social charges	2,4 %	5,3 %	8,6 %	
Rate of employee social charges/CSG	2,1 %	4,6 %	22,9 %	
(Income tax) - (Working tax credit or French PA credit)****	0 %	3,2 % - 11,7%	-7 %	
Hourly cost (employer)	9,21	9,48	10,43	-9,6%
Hourly gain (employee)	8,80	9,35	8,13	15 %

Note: * Based on an exchange rate for the pound sterling at start April 2016 of 1.25 euros. If the average exchange rate for 2015 is used, which is similar to the average exchange rate since 1999, the gross British wage would currently be 2% higher than the French rate.

** Average working time of an employee on the minimum wage, which does not give a right to the Working tax credit for an unmarried person over age 25 without a child.

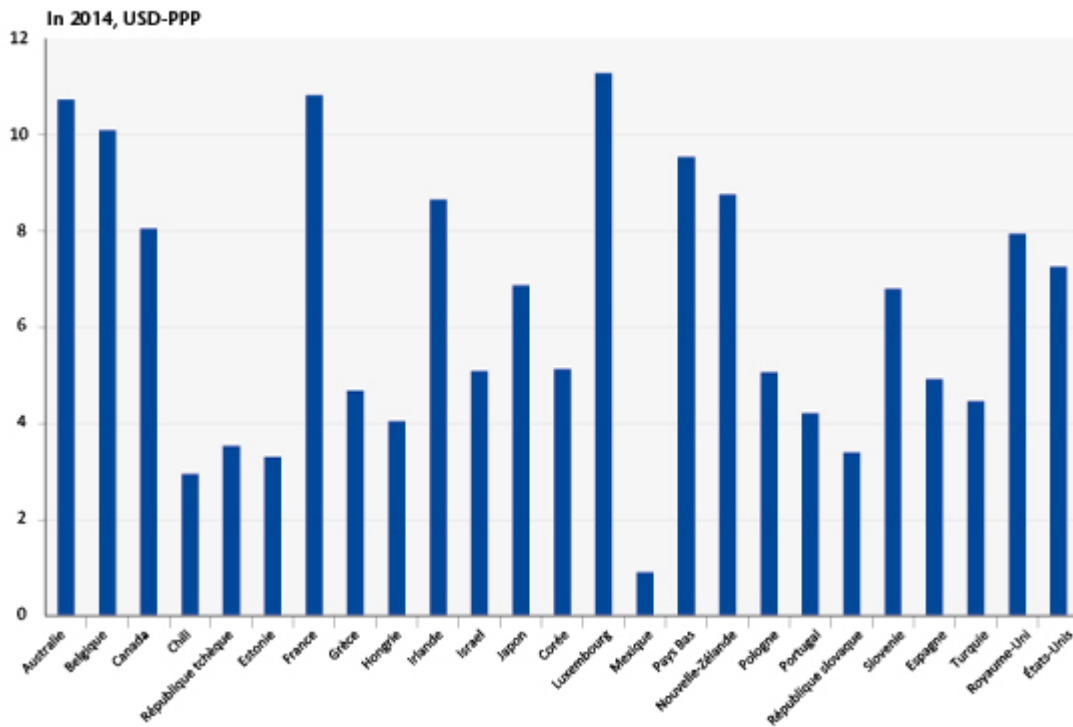
*** Based on an average working time of 35 hours per week.

**** I would like to thank Henri Sterdyniak, who provided me the apparent contribution rates for France. The employer contribution rate takes into account the Fillon exemption, the Responsibility Pact, the CICE credit and the 'prime zero' charge.

***** income tax - Working tax credit / income tax - PA credit.

Source : Author's calculations.

Figure. Hourly minimum wage rates in the OECD countries



Source : OECD.

[1] As the aim is to reach 60% of the median wage, this figure of £9 is simply indicative, based on the projections of wage increases performed in March by the Office for Budget Responsibility (OBR). The OBR is an independent body that has been responsible since 2010 for performing the medium-term macroeconomic forecasts used for drawing up the UK budget and for analysing the UK public finances.

[2] See [National minimum wage](#), *Low Pay Commission Report Spring 2016*, March 2016.

[3] Given the low levels of working hours and hourly wages, workers on the minimum wage earned only a quarter of the average salary at end 2015. The minimum hourly wage represented only 42.8% of the average hourly wage (£6.70 against £15.70).

[4] See Inflation report, Bank of England, August 2015.

[5] This elasticity corresponds to the median of the empirical

estimates made using British data. Job losses rise to 110,000 if we use the hypothesis of an elasticity of -0.75 but are only 20,000 for an elasticity of -0.15 .