

France: growth as inheritance

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This text summarizes the OFCE's 2017-2019 forecast for the French economy; the full version can be found [here](#).

After five years of sluggish growth (0.8% on average over the period 2012-16), a recovery is finally taking shape in France, with GDP expected to rise by 1.8% in 2017, 1.7% in 2018 and 1.9% in 2019. Some negative factors that affected 2016 (a fall in agricultural production, impact of terrorist attacks on tourism, etc.) were no longer at work in 2017, and the economy should now feel the full benefit of the supply-side policies implemented during the Hollande presidency. Added to this is the ripple effect from stronger growth in the European economies. Fiscal consolidation should be at a lower level in the coming two years [\[1\]](#) (0.3 GDP point over 2018-2019), and should not jeopardize the ongoing recovery or the fall in unemployment that started in 2015. In total, by incorporating the delayed impact of past supply-side policies, fiscal policy will have a neutral impact on GDP growth in 2018 and a slightly positive one in 2019 (+0.2 GDP point). The reduction of the public deficit will be slow (2.9% of GDP in 2017, 2.6% in 2018 and 2.9% in 2019), but this masks a sharp improvement in the public balance in 2019, excluding the one-off impact from the conversion of the CICE tax credit. The reduction should be sufficient to stay below the 3% mark and ensure the exit from the corrective arm of the Stability Pact.

The brighter financial prospects for French business and the pick-up in productive investment since 2015 should boost export market shares. Given the more buoyant economic environment in the euro zone, foreign trade should no longer be a drag on France's growth. Ultimately, economic growth will be relatively robust, creating jobs in the commercial sector (247,000 in 2017, 161,000 in 2018 and 223,000 in 2019) and

bringing down the unemployment rate in metropolitan France to 9.2% by the end of the second quarter 2017, to 8.9% by the end of 2018 and to 8.5% by the end of 2019. But the sharp decline in new subsidized contracts in the second half of 2017, which will continue in 2018 (falling from 320,000 in 2017 to 200,000 in 2018) and the completion of the implementation of tax plans to enrich job growth (the CICE, Liability pact), and sometimes their elimination (hiring bonus), will be a significant drag on efforts to cut unemployment in 2018.

[\[1\]](#) This forecast does not take into account measures included in the 2018 supplemental Budget Bill (PLFR).

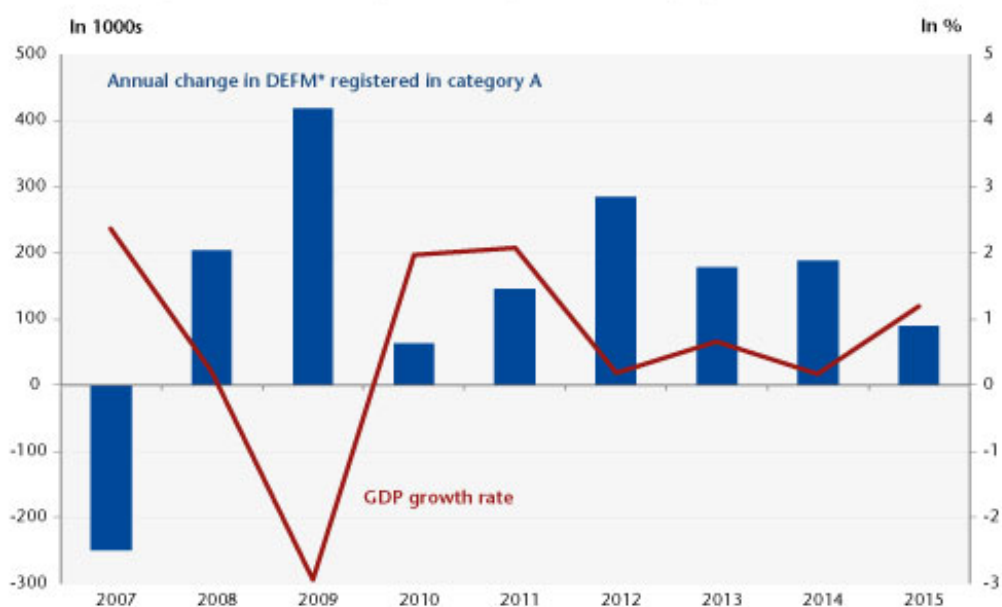
2015: An eighth year of rising unemployment in France

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Since June 2015, the number of job seekers at the end of the month (the number of “DEFM”, in French) in Category A registered with Pôle Emploi has swung from month to month, rising and falling. This high volatility, which reflects a sluggish labour market in which there is insufficient job creation to make a long-term reduction in unemployment, is directly related to the sluggish growth in the French economy overall. So after a relatively favourable November 2015 (15,000 DEFM fewer in category A), December once again saw an increase in the number of unemployed (+15,800), offsetting the previous month’s fall. In addition, for the first time since May 2015, all age groups experienced an increase in the number of category A DEFM in December.

Ultimately, the number of jobseekers registered in category A with the Pôle Emploi job center increased for the eighth consecutive year in metropolitan France. With the return of higher growth, this increase has nevertheless been less than in previous years: +90,000 in 2015, versus +200,000 on average between 2011 and 2014. The increase has massively affected job seekers aged 50 and over (+69,000 in 2015), while the numbers under age 25 were down (22,000 fewer in 2015).

Annual change in the number of jobseekers registered in category A and annual GDP growth



* Jobseekers enrolled at end of month.
Sources: Pôle Emploi, Dares, Insee, OFCE calculations.

The implementation of successive pension reforms (2003, 2010), coupled with the elimination of exemptions on job-seeking by seniors, has led to a longer duration of economic activity and to putting off the age of retirement. In a context of weak growth, the rise in the employment rate for seniors has been insufficient to absorb the increase in the workforce for that age group, with a consequent increase in unemployment of those over age 50.

The decreasing number of unemployed young people is due to two main factors. First, the employment policies enacted since 2013 have targeted youth in particular through the Jobs of the future (*emplois d'avenir*) programme. Second, the low job

creation in the market sector is mainly taking the form of temporary jobs (fixed-term CDD contracts, temping), a type of employment in which young people are heavily represented (34.2% of young people in employment are on CDD contracts or temping versus 8.4% for other age groups). This development can be compared to the observed increase in categories B and C (+170,000 in 2015 against 97,000 on average between 2011 and 2014). Thus, while some return to work has been observed, this has not resulted in exits from unemployment as measured by the job center, and has not led to halting the continuing rise in the number of long-term unemployed (+9.5% in a year).

The year 2015 therefore did not see a reversal in the unemployment curve. Recall that it takes a GDP growth rate of over 1.4% to create enough jobs to begin to roll back unemployment, and only an extended return to growth over that threshold would be sufficient to lead to a sustained drop in the number of category A jobseekers enrolled in the job center.