4 The labour market in the eurozone is definitely improving, and a little less slowly at that

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After the double-dip recession in recent years and the recovery that started in the beginning of 2013, in early 2016 the eurozone's GDP returned to a level close to its pre-crisis peak in Q1 2008. However, the same does not hold true for the major labour market indicators, which, despite unquestionable signs of improvement, remain far removed from the levels they were at eight years ago.

There has been a substantial recovery of the labour market, but it is lagging significantly behind GDP. Starting with the most commonly observed labour market indicators, on a eurozone-wide scale, **full employment** has only erased just over **two-thirds** of the maximum loss seen during the crisis years (generally between Q1 2008 and mid-2013), while the **unemployment rate and the total number of unemployed** have declined by just over **one-third** (see Chart 1 and the table at the end of this article).[1]

A slightly closer examination of jobs lost and created demonstrates that these initial indicators, as poor as they may be, still paint an **overly positive picture of the real situation**, primarily for the following reasons:

1. **1/Most of the improvement is due to an increase in part-time employment.** Therefore, the ground that remains to be recovered is far greater if measured in terms of hours worked than in number of jobs (Chart 1). Whether we consider hours worked or full-time employment only (graph 2), barely one-third of the loss has been recovered today. Likewise, adding people working part-time because they could not find full-time jobs to the numbers of unemployed, the reduction in this hence "augmented" unemployment rate (20.6% in 2015 after a peak of 21.1% in 2013) is considerably less impressive than that of the "headline" unemployment rate - see table at the end of the article.

2. **2/The labour market is one area where divergences between eurozone member states are very stark.** In fact, eurozone figures are being driven higher by the numbers in Germany, where the major labour market variables were only slightly (and briefly) impacted by the crisis and which, in reality, experienced a very different employment cycle (its unemployment rate was among the highest in the eurozone in the early 2000s). Apart from Germany, the eurozone has not recovered half the jobs lost during the crisis years (particularly if we only include full-time jobs, see Chart 2).

As a result, the eurozone labour market still seems quite distant from a situation that would generate widespread wage pressures. It is true that the unemployment rate (10.1% at the end of May) is no longer so far from official estimates of the level that is supposed to trigger an acceleration of inflation (NAIRU[2] reported by the OECD at 9.4% and NAWRU[3] reported by Eurostat at 9.7%). However, in light of the factors mentioned above (the pool made up of people working part-time for economic reasons, other indicators that remain very depressed in some countries), it seems likely that the NAIRU will be revised downward (as has occurred in the United States several times in recent years), without, however, excluding pockets of localised (especially in Germany, although the gradual entry of refugees into the labour market could be a moderating factor of wage growth) or sector wage pressures.

However, despite this very incomplete repair, the recovery has been reflected in the labour market in increasingly tangible ways since 2015. Because employment and unemployment rates typically lag behind GDP, they usually react slowly during the initial phase of a recovery (and this all the more

[1] *The differences among these degrees of recovery are mostly due to the fact that the labour force continued to increase during this period.*

[2] *Non-accelerating inflation rate of unemployment.*

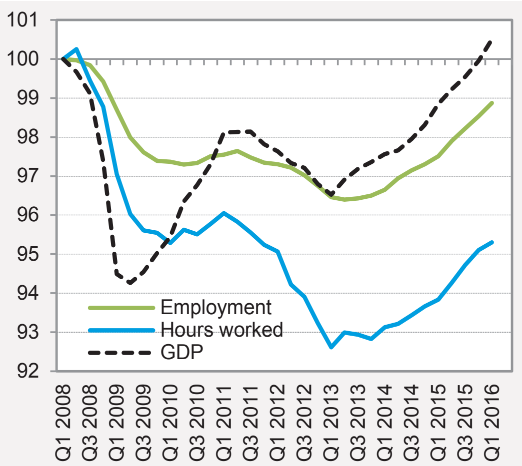
[3] *Non accelerating wage rate of unemployment.*

The essential

Unlike GDP, key labour market indicators in the eurozone still have a long way to go to return to their pre-crisis levels. Total employment volume, much as its improvement remains limited, still paints an overly optimistic picture of the situation, which is in fact considerably worse once we factor in indicators such as full-time employment rates and divergences between Member States.

Nonetheless, the positive spill-over of the economic recovery to the labour market is taking place, with clear signs of acceleration over recent quarters. This trend is one of the reasons why we think the recovery in the eurozone is now strong enough to withstand the forthcoming major political uncertainties. On the other hand, a situation where the labour market could, on a eurozone scale, generate genuine inflationary pressures is still a dim and distant prospect.

1 Eurozone, employment and hours worked vs GDP, volume, basis 100 in Q1 2008



Source: Eurostat, Amundi Research

> Unemployment has fallen and is no longer so far from the NAIRU

when the recovery itself is slow). As the new European growth cycle is now in its fourth year, some signs of acceleration have started to show in several major indicators, including those reflecting the most deleterious and lasting consequences of the crisis.

Firstly, the unemployment rate itself has begun falling more rapidly over the last 12 months (-0.9pp between May 2015 and May 2016, after -0.6pp between May 2014 and May 2015) while the GDP growth rate was not accelerating to the same extent. Looking at the last projections published before the Brexit shock, we note that although the ECB had considerably lowered its 2016 and 2017 growth forecasts relatively to those published 12 months ago (from 1.9% and 2.0% in June 2015 to 1.6% and 1.7% in June 2016), it had not simultaneously increased its unemployment rate projections (down slightly, on the contrary, from 10% to 9.9%).

What's more, we note that 2015 marked the beginning of a positive re-correlation among Member States: the unemployment rate fell in Italy, which was not the case in 2014 (the Italian economy took a very long time to return to growth), and even in France starting in late 2015 (a country where the relative demographic strength means that a higher pace of job creation is required, relatively to neighbouring countries, for the unemployment rate to decline).

Furthermore, among the indicators reflecting the lasting effects of the crisis, the long term and very long term unemployment rates, which declined only very modestly in 2014, **fell significantly in 2015** after having doubled (or more) with the onset of the crisis (see Chart 4). While it is wise to be cautious with these figures (many very long-term unemployed workers have probably dropped out of the labour force), labour market reforms implemented in recent years probably played a part. In particular, we note that France, which implemented only modest labour reforms, is hardly touched by this improvement.

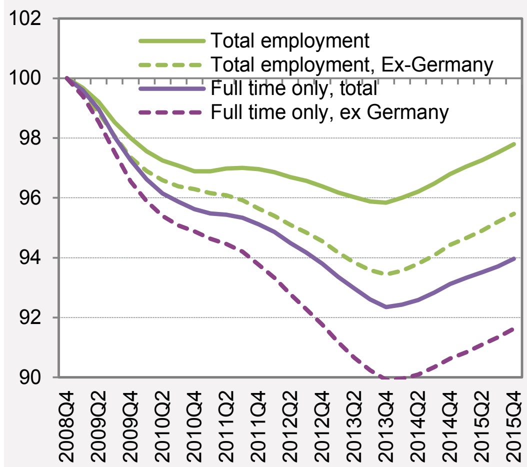
Lastly, the percentage of NEETs (Youth Not in Employment, Education or Training) **fell faster in 2015 than in previous years**. We also saw a few signs of a falling NEET in Italy, where this indicator is particularly high (casting youth into a situation that in many respects is more worrisome than that prevailing in Spain, where the youth unemployment rate is significantly higher but because youth participation in the labour force is higher - see Chart 5). It is a particularly important factor in an environment where the challenges posed by "anti-system" political forces, fuelled largely by the disappointment of people who are not seeing the positive impacts of the economic recovery, figure prominently among the main factors of uncertainty weighing on economic confidence.

Therefore, overall, improvement in the labour market is mixed. If you base the comparison on the situation prevailing prior to the crisis, much more time is certainly needed to return to the levels that existed eight years ago. Regarding some indicators (in particular full-time employment), it is not even certain that pre-crisis levels can be reached during the current cycle given the structural changes in the labour market and demographic trends.

Nonetheless, a careful examination of the trends in the last few quarters shows that a clearly positive dynamic has taken hold and is accelerating slightly. This is a fundamental consideration since, in the next few months, the eurozone economy will have to cope with the challenge posed by *Brexit* (through exports, confidence and, possibly, financial channels). With positive effects on consumer spending, this less depressed labour market looks more and more capable of fuelling a self-perpetuating domestic demand trend that is likely to be healthier and more sustainable than the temporary factors that supported the recovery until recently (a lower euro and lower oil prices). **It is** (alongside the recent improvement in corporate investment in Germany and France) **among the main reasons why we think that the economic recovery in the eurozone may be slowed but not interrupted by the overt political crisis with the United Kingdom.**

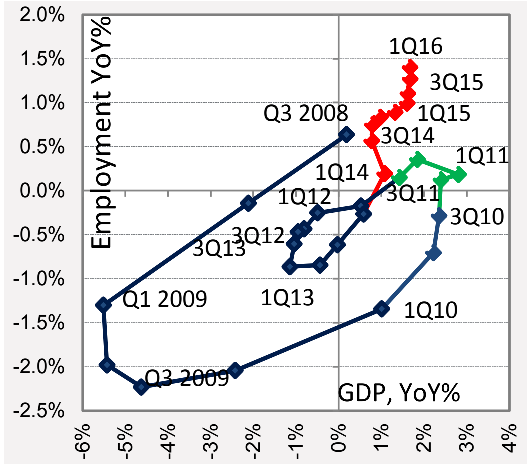
On the other hand, turning to the outlook for inflation, the improvement in the labour market remains, for now, a factor that is more likely to limit deflationary pressures rather than fuelling genuinely inflationary pressures, which still remain a distant prospect. Wage developments (Chart 6) in fact show the lack

2 **Eurozone, total employment and full-time employment, volume, 4QMA, basis 100 in Q4 2008**



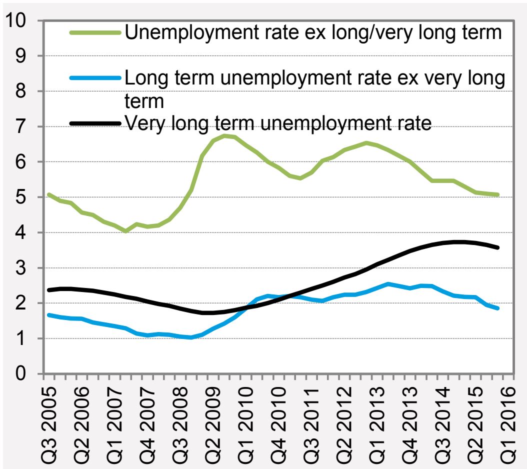
Source: Eurostat, Amundi Research

3 **Eurozone, YoY real GDP and employment growth**



Source: Eurostat, Amundi Research

4 **Eurozone, short/medium term, long term, very long term unemployment rate, %**



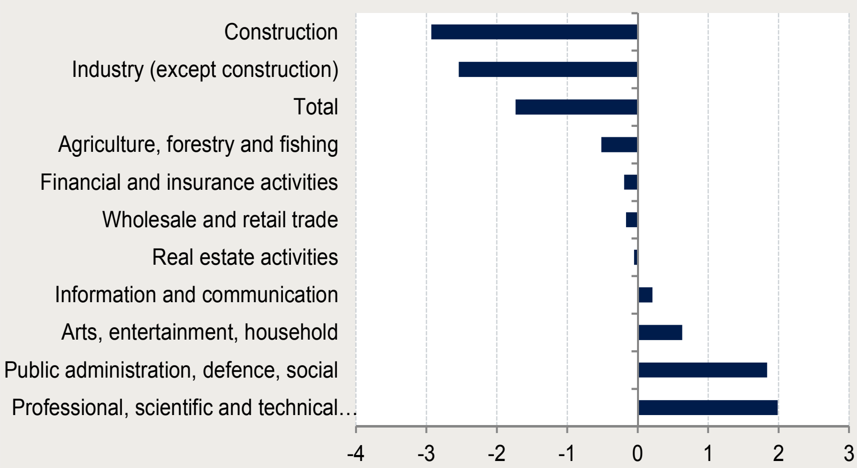
Source: Eurostat, Amundi Research

of progress in this direction. Germany could be an exception, which may raise significant challenges for both monetary and general policy, but on balance it is unlikely that improvement in the labour market will be a factor likely to prompt the ECB to scale back its unconventional monetary support measures.

	Pre-crisis best	Crisis worst	Last
Employment, volume, 000s	154,360	148,797	152,624
Unemployment rate, %	7.2	12.1	10.1
Unemployed, volume, 000s	11,393	19,333	16,267
Hours worked, volume, million	62,730	57,950	59,630
Full-time jobs, volume, 000s	118,597	109,527	111,446
Part time jobs, volume, 000s	28,159	/	32,069
Participation rate, % of labour force	71.3	/	72.4
Employment rate, % of 15-64 y/o pop.	65.9	63.4	64.7
Long term unemployment rate, %	2.8	6.1	5.4
Very long term unemployment rate, %	1.7	3.7	3.6
Unemployment rate, 16-24 y/o, %	15.1	24.6	21
"Augmented" unemployment rate*	18.3	21.1	20.6

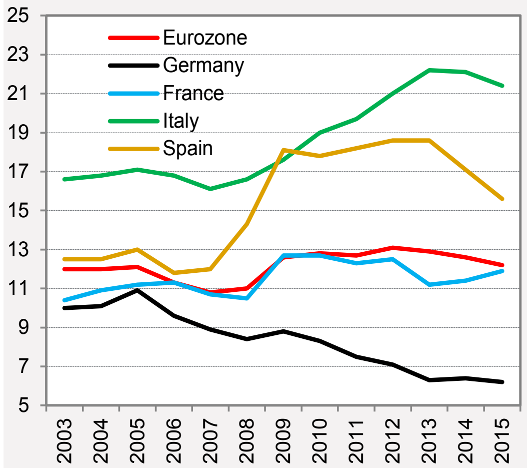
**Unemployed + people working part time because they could not find a full time job*
Source: Eurostat, figures unadjusted for seasonal variations have been smoothened with a 4 quarter moving average

Employment by sector, variation from Q1 2008 to Q1 2016



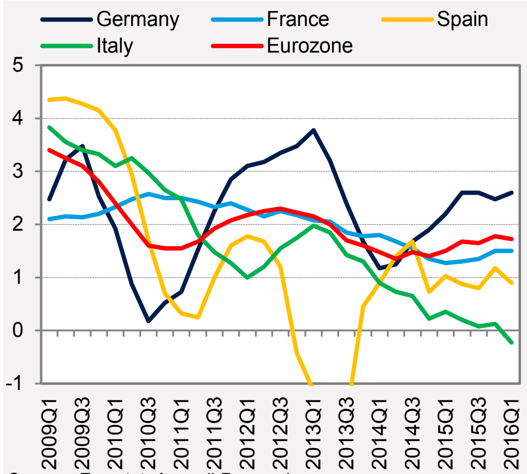
Source: Eurostat, Amundi Research

5 NEETs (Not in Education, Employment or Training), % of 16-24 y/o pop.



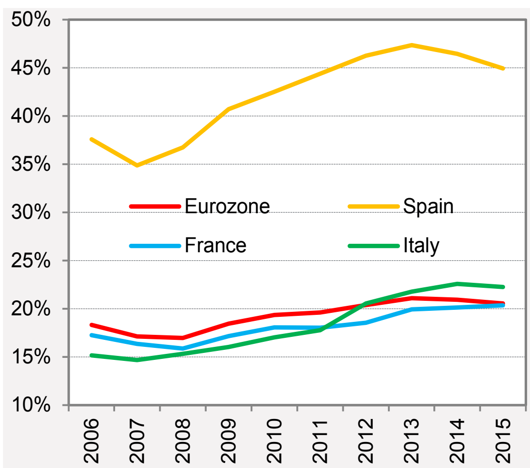
Source: Eurostat, Amundi Research

6 Nominal hourly wates, YoY%, 4QMA



Source: Eurostat, Amundi Research

7 "Augmented" unempl. rate (unemployment and part time for economic reasons)



Source: Eurostat, Amundi Research

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