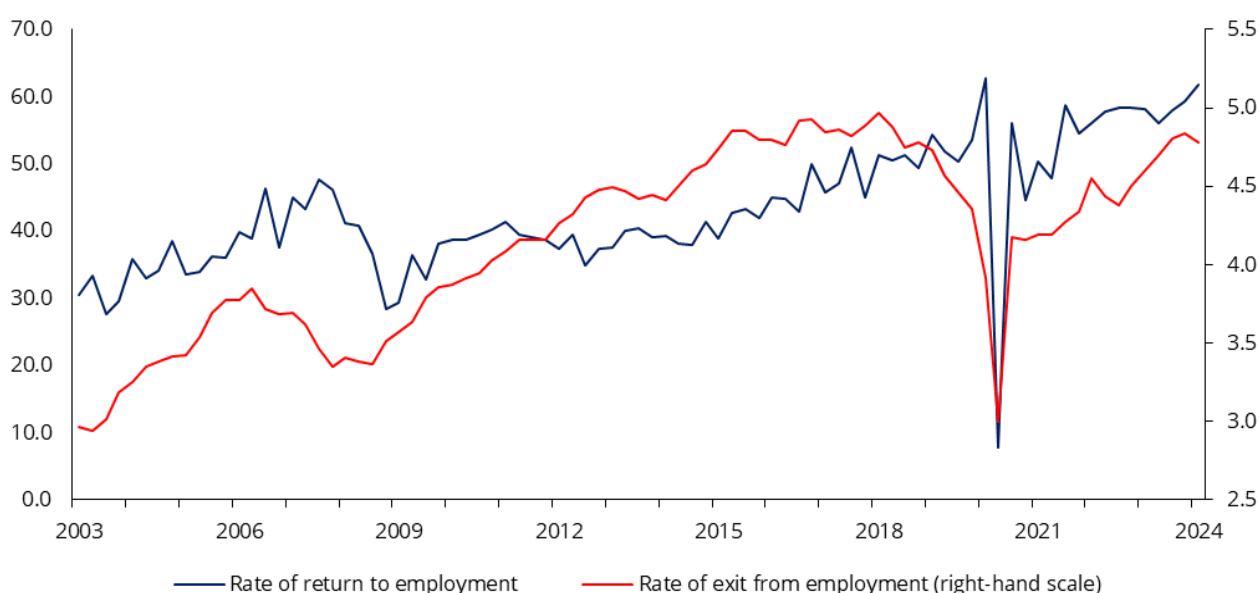


From employment to unemployment and vice versa: impact and trends

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This post explores changes in the French unemployment rate over the past twenty years, focusing on the role of transitions between employment and unemployment. The significant drop in unemployment since 2015 largely reflects better reintegration of unemployed people into the labour market and it highlights the impact of structural factors and public policies on these dynamics.

Chart 1 – Trends in French unemployment flows (%)



Source: France Travail, INSEE, authors' calculations.

Note: Rate of return to employment from unemployment, and rate of exit from employment into unemployment. These rates are calculated using the Shimer method (2012), which is based on changes in the ratio between total and short-term unemployment. Quarterly data from Q1 2003 to Q2 2024.

After peaking at over 10% between 2012 and 2016, the French unemployment rate has been falling almost continuously since 2016, reaching a historic low of 7.1% at the end of 2022, and standing at 7.3% in Q2 2024. While this fall is partly due to cyclical factors - the [Banque de France](#) forecasts a slight temporary rise in unemployment to 7.6% in 2025 - it is primarily the result of structural factors that can be understood by analysing the movements of workers between employment and unemployment. Leaving aside the increase in the participation rate [measured by the ratio (employment + unemployment)/working-age population], which has not directly contributed to the change in the unemployment rate since 2015, the change in unemployment is a function of two factors: the number of unemployed people who find a job on the one hand, and the number of 'newly-unemployed people' who have lost their jobs on

the other. In practice, these flows are expressed in terms of the rate at which the unemployed return to work, and the rate at which people leave employment and become unemployed. These rates are calculated using the Shimer method (2012), which uses the equilibrium relationship that exists between the levels of total unemployment and short-term unemployment. The rate of return to employment measures the proportion of unemployed people who find a job. The rate of exit from employment measures the proportion of workers who become unemployed. At any point in time, the unemployment rate reflects these two opposing flows. This post aims first to analyse the influence of fluctuations in these rates on the actual unemployment rate, and then to explore the underlying forces that drive these variations.

Changes in the rate of return to employment account for most of the recent fall in unemployment

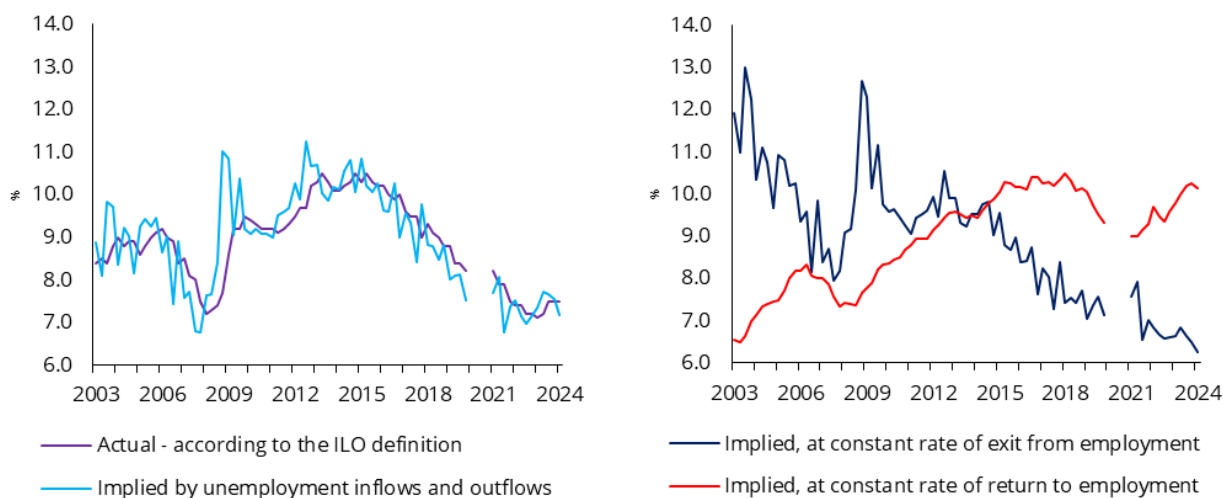
Chart 1 shows changes in unemployment-to-employment and employment-to-unemployment flows between 2003 and 2023. These flows are calculated using the [Shimer method \(2012\)](#), which measures changes in the rate of return to employment based on changes in the share of short-term unemployment, assuming a constant participation rate. We observe that, despite fluctuations, the rate of return to employment has generally trended upwards since 2015, indicating a gradual improvement in unemployed people's chances of finding a job again. At the same time, the rate of exit from employment rose significantly after the economic crisis from 2009 on, peaking in 2015 before levelling off. After plunging during the Covid-19 pandemic, it now seems to be gradually returning to its pre-crisis level.

As Chart 2 shows in the left-hand panel, the unemployment rate implied by flows into and out of the labour market faithfully reproduces the actual dynamics noted in the unemployment rate, while exhibiting slightly higher volatility. This confirms the relevance of unemployment inflows and outflows in understanding the actual level of unemployment, despite the strong assumption concerning the participation rate. Indeed, the participation rate has increased by around 3 percentage points over the period under consideration, due to the increased participation of women and workers aged between 50 and 64 (as a result of the gradual increase in the retirement age). However, this increase is very gradual and is driven by people moving directly between inactivity and employment, which means that the flows between unemployment and employment account for most of the changes in the unemployment rate over the cycle. 2020 is excluded from our analysis because of the public policy choices made during the Covid-19 pandemic, which temporarily froze the labour market, leading to an artificial fall in exit and return-to-work rates, unlike what happened in the United States, for example.

The right-hand panel of Chart 2 reproduces [Shimer's \(2012\)](#) counterfactual exercise, which consists in simulating what the observed unemployment rate would have been if either of the two flows had been fixed at their average over the entire period under consideration. The idea is to highlight the significance of fluctuations in the rate of return to employment and in the rate of exit from employment, for fluctuations in unemployment. Therefore, the blue curve represents the implied unemployment rates when only fluctuations in the rate of return

to employment are considered, while the red curve represents the implied unemployment rates when only changes in the rate of exit from employment are considered. We note that it is the blue curve that best reflects the overall dynamics of unemployment over the period in question. More specifically, this exercise shows that most of the variation in the unemployment rate (82%) is attributable to fluctuations in the rate of return to employment, while the remainder is accounted for by fluctuations in the rate of exit from employment. This result for France is consistent with Shimer's findings for the United States. We also note that the fall in unemployment that began in 2015 is entirely attributable to the increase in the rate of return to employment over the period.

Chart 2 – Actual unemployment rate, implied unemployment rate and counterfactual exercises (%)



Source: INSEE, France Travail; authors' calculations.

Note: Left-hand panel: comparison of the actual unemployment rate and the rate implied by unemployment flows (Shimer, 2012). Right-hand panel: two counterfactual exercises on the implied unemployment rate. Interruption in 2020 due to the freezing of flows between employment and unemployment during Covid.

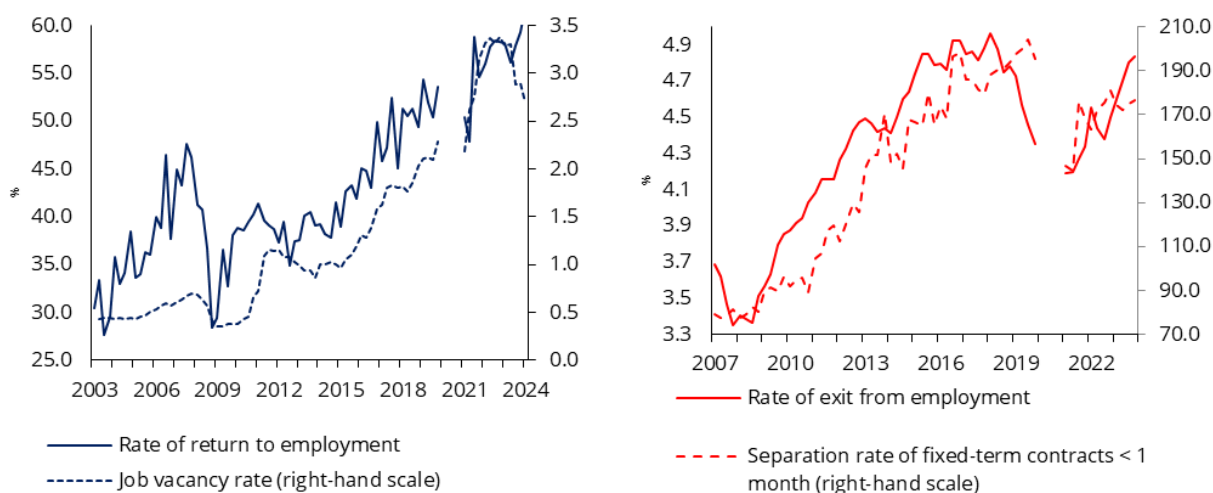
The role of demand and very short fixed-term contracts

How should we interpret the changes in employment flows over the period? Chart 3 attempts to highlight the underlying forces driving return-to-work and exit from employment rates. The left-hand panel shows the close relationship between the rate of return to employment (left-hand scale) and the job vacancy rate (right-hand scale). This job vacancy rate is obtained by expressing the number of vacancies as a percentage of the sum of the number of jobs filled and the number of vacancies. It measures the intensity of demand for labour from businesses. There is a strong correlation between these two indicators, demonstrating that aggregate labour demand is a determining factor in reintegrating unemployed people into employment.

To understand trends in the rate of exit from employment, which rose sharply until 2015, we have analysed the potential impact of the increased use of very short fixed-term contracts

(less than one month). The right-hand panel of Chart 3 shows that the number of fixed-term contracts of less than one month that expired as a proportion of total employment under fixed-term contracts increased substantially over the period. The shift in the structure of employment towards very short-term contracts is the main factor driving the increase in the rate of exit from employment up to 2015. Since then, the upward trend in the number of short-term contracts has halted, amidst an increase in the proportion of people hired on permanent contracts.

Chart 3 - Factors explaining changes in the rates of return to and exit from employment (%)



Source: INSEE, France Travail, Dares; authors' calculations.

Note: Left-hand panel: comparison of rate of return to employment and the job vacancy rate. Right-hand panel: comparison of rate of exit from employment and the expiry rate of fixed-term contracts of less than one month (different temporal coverage depending on the availability of movement of labour - Dares data). Interruption in series in 2020 due to Covid.

The role of public policies

The increase in the rate of return to employment since the mid-2010s is partly attributable to labour market reforms that have simultaneously impacted supply (unemployment insurance) and demand (redundancy costs, reduction in employer contributions). Although the effects of some reforms are inherently difficult to quantify (for example, the impact of reducing uncertainty over redundancy costs), others have had a non-negligible effect on net job creation. [Aldama, Cochard and Ouvrard \(2020\)](#) estimate that policies designed to reduce the cost of labour helped create 240,000 market sector salaried jobs between 2016 and 2019, or 25% of total jobs created over the period.

While part of the improvement in the rate of return to employment since 2015 is certainly linked to a more positive economic environment, public policies (i.e. reduced labour costs, aid for apprenticeships, less uncertainty regarding the redundancy process) have played a role by generating extra demand for labour, which has translated into higher net job creation. In the

absence of a concomitant increase in the rate of redundancies or a reduction in the term of contracts, which are not apparent in the rate of exit from employment since 2015, this increase in demand and in the rate of return to employment has contributed to the lasting decrease in the French unemployment rate.