

French economic outlook

The sectors most affected by hiring problems are also those in which most companies expect significant wage increases

In January 2022, INSEE's business tendency surveys asked business leaders in the building construction and services sectors for the first time about their expectations for change in wages in their sector. This was in addition to leaders in industry who have already been asked this question for several years. The sectors in which companies most often expect significant wage hikes are also those most affected by hiring problems (agrifood, road transport, accommodation-catering). More generally, the answers to this question in industry proved interesting for completing the outlook diagnosis on wage trends.

In January 2022, INSEE made a slight change to the questionnaire in their business tendency surveys, by questioning companies in building construction and services on their expectations for change in wages in their sector, in the next three months ("significant increase", "small increase" or "stability", ► **Box**). This qualitative question will now be asked every quarter, as is already the case since 1991 in the manufacturing industry.

Contrasting expectations for wage increases between sectors in January 2022

In light of the answers to this question, expectations for wage increases seem contrasted, depending on the sector of activity. At the aggregated level, they are highest in construction, with 38% of companies in this sector declaring that they anticipate a significant rise in wages in the next three months. This proportion is smaller in services (17%). The manufacturing industry is in an intermediate position, with 31% of business leaders expecting major wage increases in their sector (► **Figure 1**).

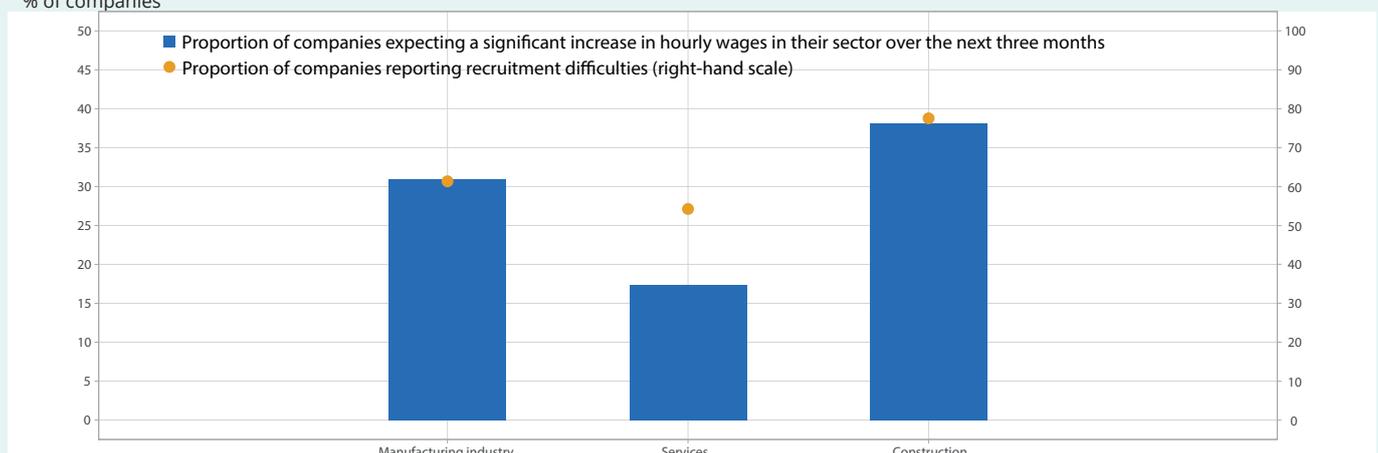
At a more disaggregated level, contrasts can be more pronounced. Among industry sub-sectors (► **Figure 2**), expectations of significant increases are currently more frequent in agrifood (38%) than in the manufacture of transport equipment (25%), which is still affected by supply chain problems. In services, it is in the road transport of goods that most companies expect a significant rise in wages (44% of them). This proportion is also relatively high in accommodation-catering (25%). Conversely, only 8% of companies in real estate activities expect strong wage increases in their sector (► **Figure 3**).

Expected changes in wages can be considered alongside hiring difficulties

There are several factors that can account for these contrasting expectations, for example, the outcome of wage negotiations in the different branches, but also the degree of tension over hiring. According to the business tendency surveys, the sectors of activity most affected by hiring difficulties are indeed also those where business leaders most frequently expect large wage increases.

► 1. Wage expectations and hiring problems by sector, in January 2022

% of companies



Source: INSEE, business surveys

Expectations of high wages in agrifood, for example, go hand in hand with serious hiring difficulties: 72% of companies in the sector say they encounter them, i.e. the highest proportion among industry sub-sectors. The same correlation is found in services: road freight transport entrepreneurs report both the highest proportion of hiring difficulties (71%) and the highest proportion of large wage increases (44%).

However, some sectors remain exceptions, including, for example that of “other services” where hiring difficulties are particularly high (71% of companies concerned) while the proportion of companies expecting large increases remains close to the average measured in services. Analysis can be complex for such a sector that groups together some relatively diverse activities.

In the manufacturing industry, data are available over a longer period and it is therefore possible to highlight the link between hiring problems and the expected trend in wages in this sector in the longer term (► [Figure 4](#)).

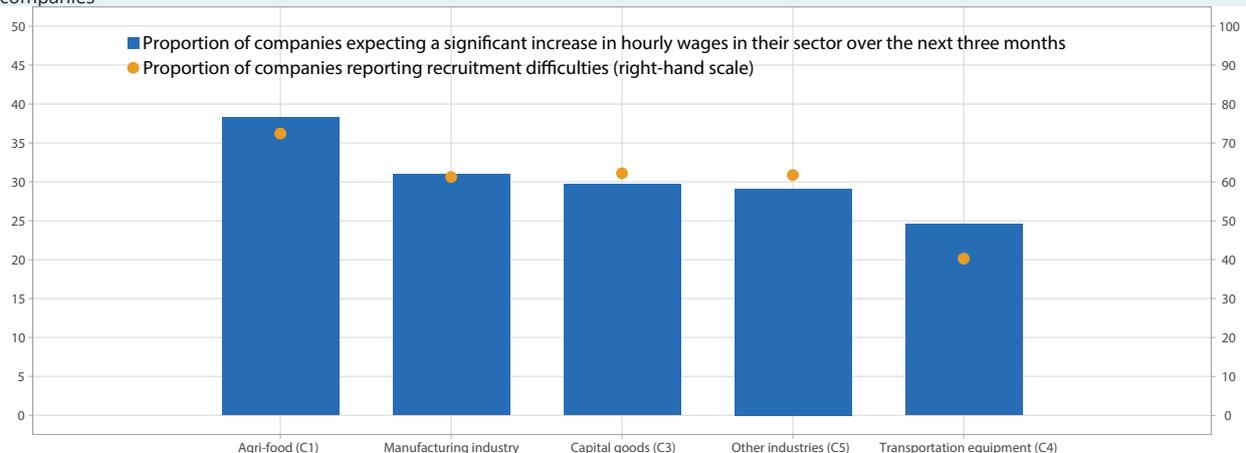
Over the recent period, there is still a marked correlation but it should be remembered that the strong rebound in hiring problems is strongly influenced by short-term factors linked to the health crisis (catch-up of hiring that did not happen during the crisis, unavailability linked to the epidemic, etc.).

Results from the business tendency surveys complete the outlook diagnosis on changes in wages

The wage forecasts presented in the *Economic Outlook* are traditionally based on an equation linking variations in actual wages and various macroeconomic indicators (change in consumer prices, change in the minimum wage, level of unemployment; ► [Wages Sheet](#)). The diagnosis based on this equation is supplemented by analysis of the balances of opinion taken from the business tendency surveys. Although they are qualitative, the answers to the question on expectations for wages in

► 2. Wage expectations and hiring problems in industry, in January 2022

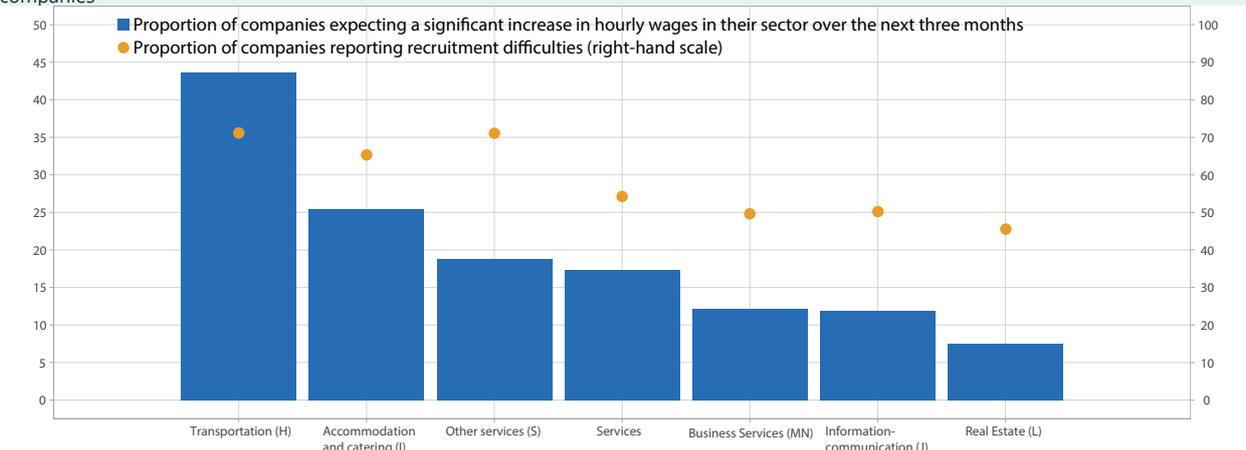
% of companies



Source: INSEE, business surveys

► 3. Wage expectations and hiring problems in services, in January 2022

% of companies



Source: INSEE, business surveys

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the sector in three months' time appear to be fairly well correlated with changes observed in the basic monthly wage (► **Figure 5**).

In addition, these results have the advantage of being available from the first month of the quarter and they can therefore be an advance indicator of wage changes. However, as the scope of the questioning has been limited until now to industry, at this stage this restricts the use of these results for forecasting. In any case, previous studies have shown that introducing survey results on hiring difficulties into the model duplicates information from the unemployment rate (► **Focus** Do recruitment difficulties help to explain

recent wage trends in France?, *Conjoncture in France* June 2019). Thus the business tendency surveys provide information that is relevant, but not exclusive for forecasting.

Despite these limitations, the latest survey data suggest significant wage increases, at least in nominal terms. However, this development must be interpreted with caution since wage increases will not necessarily be synonymous with improved purchasing power. In particular, as the threshold beyond which an increase can be described as "significant" is qualitative (► **Box**), it does not necessarily reflect an expectation of increases higher than inflation. ●

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► 4. Wage expectations and hiring problems in manufacturing industry since 2005

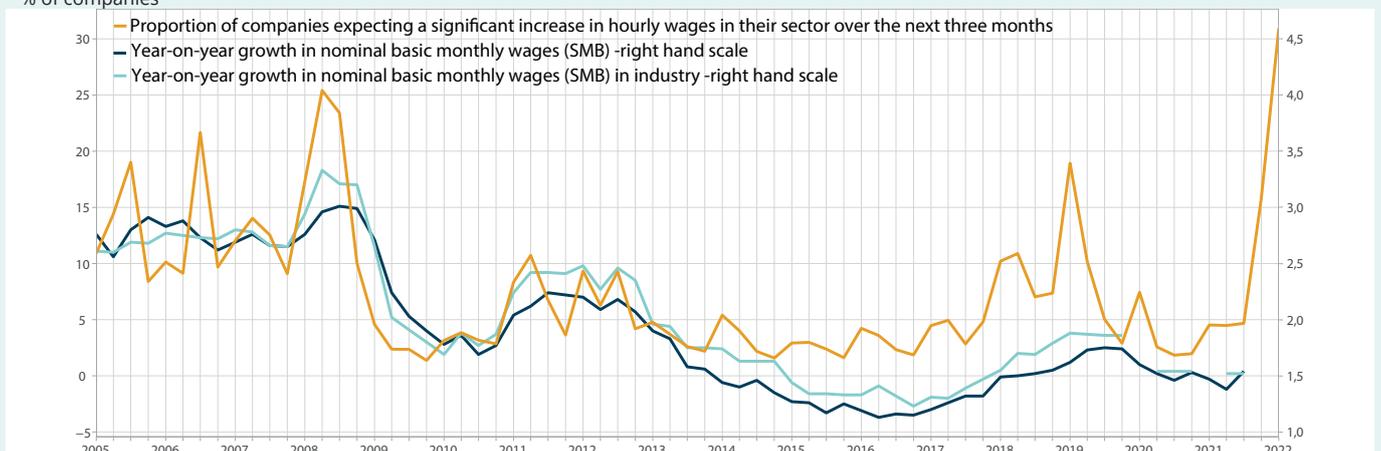
% of companies



Source: INSEE, business surveys

► 5. Wage expectations in the manufacturing industry and observed wage trends

% of companies



Note: the quarterly ACEMO survey by DARES was stopped in Q2 2020 (data relating to Q1 2020). The growth rate of the basic monthly wage (SMB) in the first quarters of 2020 and 2021 shown here are the result of estimates and figures for the SMB in industry are not available.

Source: INSEE, business surveys

Since 1991 in industry, and 2022 in services and the building industry, the business tendency survey questionnaires have included a qualitative question, asked every quarter, on probable wage trends over the next three months. The questions concern the outlook for change in hourly wages across the entire sector of activity of each company surveyed (and not wage trends specific to each company).

The question has three response options: “significant increase”, “small increase” and “stability” (Figure 6). These three modalities are slightly different from the usual questions in the business tendency surveys, where responses usually take the form of “increase”, “stability” and “decrease”. This is justified above all by the fact that nominal wages are generally downwardly rigid. Obviously, this methodological decision does not rule out downturns in real wages.

In practice, assessment of the threshold above which an increase can be described as “significant” is left to the discretion of the responding company. The question remains qualitative, with the main aim being to record a perception, which may therefore differ, depending on the respondent.

► 6. Wording of the question on wages in the Services questionnaire

2. What change do you currently think is most probable, in the next 3 months, in hourly wages in your sector?

- significant increase
- small increase
- stability

The balance of opinion disseminated on the basis of this question is calculated as the difference between the share of companies declaring that they anticipate a significant increase and those that anticipate a small increase, while the stability modality can be interpreted as an opinion that is not very decisive. Alongside this balance of opinion, it may also be relevant to look at the distribution of responses across the three modalities and especially at the share of companies that expect significant wage increases in their sector. This is what we have done in this Focus, comparing this proportion with companies reporting that they are experiencing hiring difficulties. ●