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=DJ As Euro-Zone Jobless Rate Falls, So Too Does Nairu

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LONDON (Dow Jones)--French September unemployment data to be released Tuesday are expected to resume a downward trend interrupted in August. They will reflect a euro-zone-wide trend that has also seen some improvements in labor market flexibility.

Though there is some way to go, better flexibility has given the European Central Bank room for maneuver because the so-called non-accelerating inflationary rate of unemployment, or Nairu, is lower than it used to be. Nairu is that rate of unemployment at which inflation is stable.

The French jobless rate is expected to come in at 9.5%, still high by the standards of Anglo-Saxon and some smaller euro-zone economies, but down from a pre-euro and politically problematic 12.7% in 1997. Euro-zone unemployment has declined to 8.3% from 10.7% over the same period.

All forecasts see euro-zone unemployment continuing to fall over the next two years at least. The U.K.'s National Institute for Economic and Social Research last week reported it sees the euro-zone jobless rate stabilizing around 7.25% in 2002.

This year, total employment will rise by about 2.25%, Schroder Salomon Smith Barney estimates. This will be the best result for 35 years, following rises of 1.5% and 1.7% in the previous two years.

The substantial job creation seen over the past three years has been achieved without any major wage increases, so that euro-zone inflation since 1997 has averaged just 1.6%. And it's the weak euro and oil prices that are having a greater impact than wages on pushing the current annual rate to 2.8%.

There are early indications that there are pressures building in some parts of the job market, in the larger euro economies, particularly in IT. But the job growth has been widespread, and has included an increase in the participation rate and more part-time and casual work.

Germany, for example, revised its employment figures upward to capture new information on part-time workers. This raised total employment by about 4.5% in 1999. The increase in part-time and temporary jobs is also shown by the fact that in the first six months of this year, total hours worked increased by 0.8%, while employment grew 1.7%. In Italy, the number of jobs grew by 2% in the first half of 2000, one-third of which were part time.

France has also seen a reduction in hours worked while employment has increased, though the compulsory 35-hour week introduced by Prime Minister Lionel Jospin's government may have had an impact. Part-time and temporary jobs are characteristics of a more flexible labor market, a vital element in lowering Nairu.

The ECB and the Organization for Economic Cooperation and Development have estimated that Nairu jumped from around 6% in the early 1980s to about 10% in the mid-1990s, on increasingly sclerotic labor markets. The OECD reckons it's now on the way down, which is surely the case, with unemployment at 8.3% and tame core inflation.

Just where Nairu is at present will be a matter of academic conjecture and will be more easily seen in hindsight. On OECD figures, it could be between 6.2% and 8.2%. But confidence that Nairu is lower, whatever it actually is, is one factor allowing the ECB to delay pulling the interest rate trigger to preempt inflationary pressure.

The fall in Nairu is led by more efficient labor markets in some of the smaller euro-zone economies, like the Netherlands and Spain, where unemployment this year is likely to average 2.9% and 13.9%, respectively. Spain's rate has been falling steadily from its 1994 peak of 24.4%. Greater flexibility in these markets is spreading to others.

Another benefit of a lower Nairu is that stronger job markets increase consumer, and voter, confidence. For the euro-zone governments, timing is looking propitious. France, Germany and Italy face elections in 2001 and 2002. Center-left governments, traditionally sensitive to unemployment, in power in those countries will be hoping that no oil price shock, or implosion of the euro halts the trend.

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