

Labour Market Monitor

Issue No. 113 | December 2016

Key points of the month

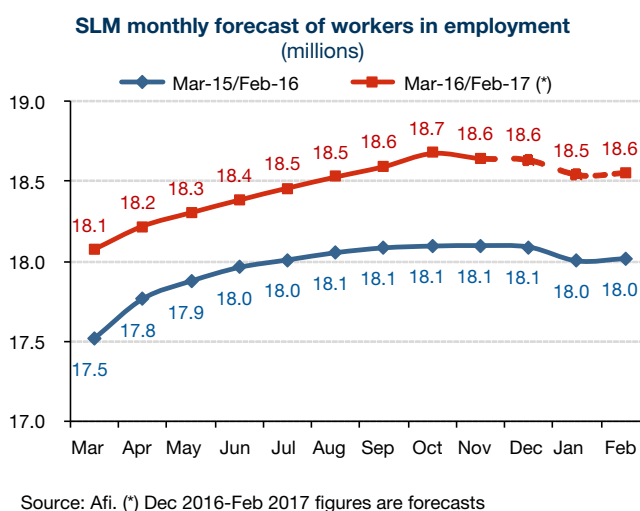
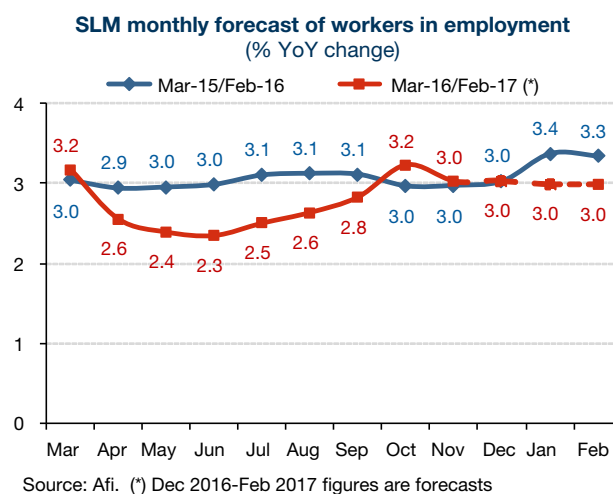
- In November, Social Security enrolment fell by 32,900 over the previous month, with the YoY growth rate standing at 3%.
- On a seasonally-adjusted basis, the reading is favourable, with an increase of 22,000 in Social Security enrolment, indicating the strength of the labour market.
- The Afi-ASEMPLEO SLM Indicator forecasts that job creation will continue at the current rate into the early part of 2017.

The rate of job creation will be maintained until the early part of 2017

Social Security enrolment declined by 32,832 in November with regard to the previous month. The biggest fall was in the services sectors, with a fall of almost 38,300. This decline corrected part of the extraordinary rise in October (101,335), meaning that the past two months have maintained the positive trend seen throughout the year in the labour market, with an average YoY growth of 3.1%. In the past 12 months, Social Security enrolment has risen by 557,400 to 17.78 million.

The leading indicators available to date (business confidence and consumer confidence, which were even better in November than the previous month) show no signs that the economy is weakening in 4Q16. Thus, the Afi-ASEMPLEO SLM Indicator is forecasting that the current rate of job creation will be maintained until the end of the year, with average YoY growth of 3%. This confirms once again that, in 2016 as a whole, employment (according to the EPA labour force survey) will increase by some 560,000 over the previous year (see our in-depth report below).

This positive trend in job creation will continue into the first months of 2017, with the Afi-ASEMPLEO SLM Indicator pointing to YoY growth remaining at 3%.

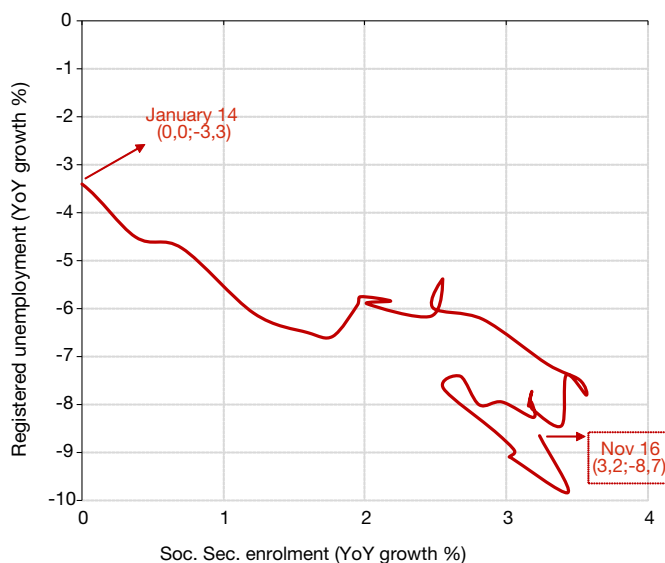


In November, Social Security enrolment fell by almost 32,900 over the previous month, with the YoY growth rate standing at 3.2%. This figure offsets the acceleration seen in October. In the September-November period, the Social System added 48,400 enrolments, compared to 11,700 the same period last year. There is a clear difference between hotels & catering and the other sectors: while the former saw enrolment fall by over 90,000, the others continue to create employment even more strongly than last year, due to the Black Friday phenomenon and the beginning of the Christmas season. On a seasonally-adjusted basis, the reading is favourable, with an increase of 22,600 in Social Security enrolment, indicating the capacity of the labour market to continue creating jobs at a strong rate.

The monthly result for registered unemployment was negative, with a rise of 24,800 in the month (14,500 after seasonal adjustment), a much bigger November increase than in the two previous years.

Permanent recruitment increased by 16.5% YoY, due mainly to full-time contracts, which were up 17.6% YoY.

Afi-ASEMPLEO SLM 'clock' 2014-2016



Source: Ministry of Employment and Social Security

The assessment of ASEMPLEO

The last gust of the tail wind

2016 is leaving a bitter-sweet taste. Growth in employment has exceeded all expectations, with very positive results in manufacturing industry and construction, while the service sector seems to have found Shangri-La, the valley of eternal youth. And as if that were not enough, the prospects for the first part of next year are the best in Europe. However, at ASEMPLEO we think it would not be prudent, sensible or reasonable to put our faith in the boost provided by the economic recovery. An important part of the labour market reforms remain to be tackled, those which have to do with reorienting and strengthening the employability of our human capital and everything regarding the provision of work experience and taking advantage of the job offers generated by the economy. It is a question of mobilising all the resources of intermediation, diagnosis and training, and doing so in a coherent and coordinated way, with an eye to the future. By now, no one, neither employers nor workers, has any doubt that there have been changes in both employment and, more importantly, in the very concept of work. Hence, what is needed is a great social and political commitment to a reform of the so-called active employment policies and to the private and public sector instruments that must enable them to function at least as well as they do in the rest of the European Union. This is why we at the temporary employment and placement agencies have repeatedly offered, nay, demanded to form part of the solution.

Andreu Cruañas. President of Asempleo

The highlight of Afi

Is unemployment disappearing?

No, unfortunately, unemployment is not disappearing. However, 2016 is going to end with better results, in terms of job creation, than 2015, which in itself seemed "unbeatable". The unemployment rate will end this year at close to 19% and, if our forecasts for 2017 are correct, with GDP growth of 2.5% and a rise of 430,000 in employment, the unemployment rate will fall well below 18%. At that point, the rate will be close to what is known as the "natural" unemployment rate of the Spanish economy, estimated to lie between 16% and 18%. This could put pressure on wages, prices and companies' competitiveness, which has cost so much to recover during the crisis. Obviously, such a high equilibrium unemployment rate (or "full employment", as it is also known) is not at all satisfactory, not only in itself, but because it leads to the unpleasant circumstance in which expansive policies not only fail to reduce it, but put growing pressure on wages. The time is probably not far off when Europe, and Spain too, will consider that austerity has gone far enough and, if that happens, we shall discover, with great frustration, that it is very difficult to reduce unemployment below that level. In that case, what would be advisable, and it would also be advisable to start beforehand, would be to implement structural policies to remove the regulatory and functional obstacles to workers' employability, adequate job-seeking guidance and, above all, a dynamic matching of supply and demand for the services of unemployed workers. Delay is not advisable.

José Antonio Herce, Associate Director Afi

Labour Market Review

Issue No. 113 | December 2016

Employment will grow by 560,000 in 2016

Spain's GDP will grow by 3.3% in 2016 and 2.5% in 2017, above the European average in both cases. Employment will rise by 560,000 this year and 430,000 next year. The unemployment rate will fall to 17.8%, close to its structural level, making it desirable to strengthen active employment policies if it is to continue declining.

Spain's GDP will grow by 3.3% in 2016 and 2.5% in 2017

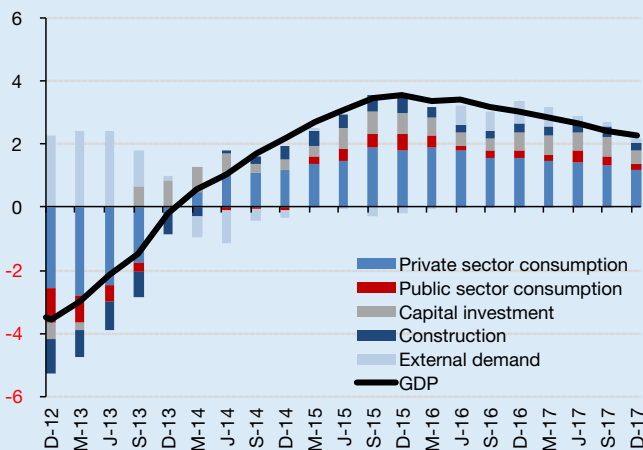
The good performance of the Spanish economy up to the third quarter of 2016, and of the leading indicators for the rest of the year, point to growth reaching 3.3% for the year as a whole, 0.10 pp more than last year.

Looking forward to 2017, forecasts point to more moderate progress, with a weaker contribution from domestic demand, as the tail winds that have been driving the economy lose strength. These include the oil price, the rise in which will have a negative impact on the gross disposable income of households, and the positive effects of monetary policy which, though it will remain expansionary, has limited additional scope to boost growth.

Household consumption, a fundamental component of Spanish economic growth in the past two years, will slow its rise to 2.4% in 2017, compared to a likely 3.1% this year, the same as in 2015. Construction, in turn, will continue to grow (2.4% in 2017), slower than this year, due among other factors to slow growth in household incomes. However, a slight acceleration in capital goods investment is expected in 2017, with growth of 7.6%, compared to a forecast 6.6% this year.

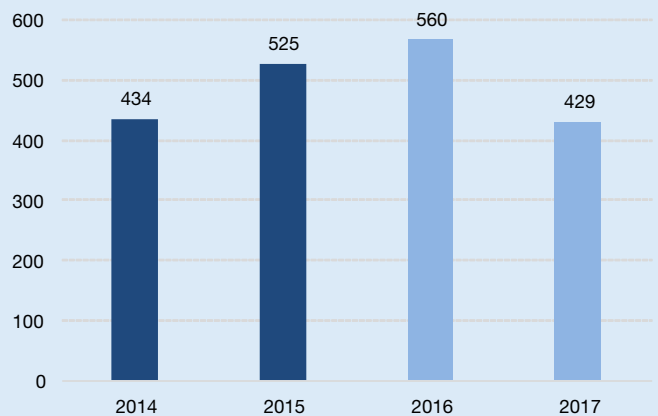
In short, the 2017 forecasts point to average annual growth of 2.5% in the Spanish economy.

Contribution to Spanish YoY GDP growth by components (Afi forecasts 2016-17)



Source: Afi, INE

EPA employment (thousands, Afi forecasts 2016-17)

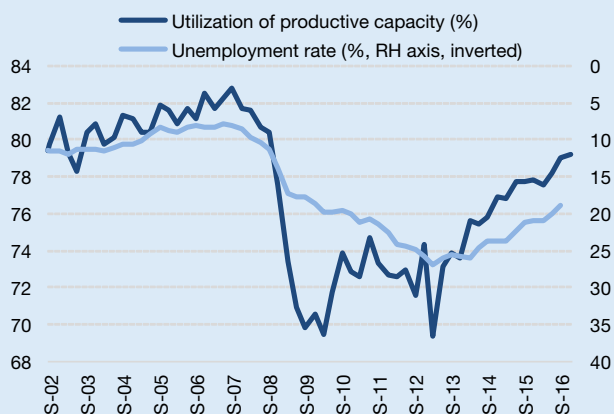


Source: Afi, INE

Employment will rise by 560,000 this year and 430,000 next year

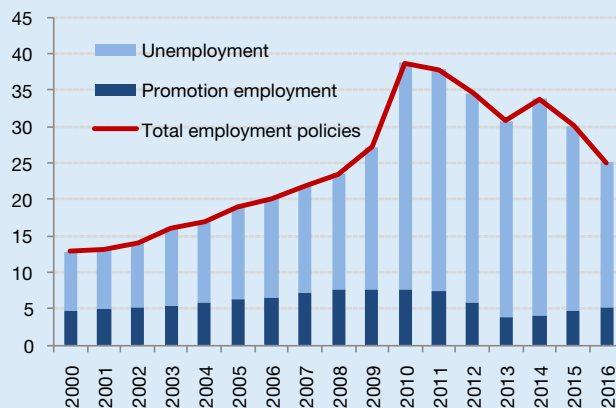
The economic recovery will continue to drive strong growth in employment. It has grown continuously for over two years and we expect this trend to continue for the rest of this year and next year. In particular, we forecast the creation of 560,000 jobs in 2016 and 430,000 the following year. The unemployment rate will reflect this positive trend by declining 1.8 percentage points (pp) to 17.8% next year.

Utilization of productive capacity and unemployment rate (%)



Source: Ministry of Economy and Competitiveness, INE

Spending on state employment policies (State Budget, €bn)



Source: Ministry of Finance, Public Admins

The unemployment rate will fall to 17.8%, close to its structural level...

This is still a high level and efforts to reduce it must continue. However, we must be aware that we will be close to the structural unemployment rate. The trend in the capacity utilisation rate points to a structural unemployment rate in the Spanish economy of 16% (the European Commission puts it at 18.4%). The policies needed to reduce the structural unemployment rate fall into three categories: protection of competition, enhancement of productivity and labour market liberalisation. Greater attention to active employment promotion policies will be required, as the focus has not been on these in recent years. The subsidies for hiring unemployed workers should be abandoned, as the results have fallen far short of expectations.

... making it desirable to strengthen active employment policies if it is to continue declining.

The Joint Action Program to Improve Assistance for the Long-term Unemployed, recently approved by the government, seeks to improve the support provided by the Public Employment Services (SEPE) to the long-term unemployed in the 30-54 age group by personalising it and introducing continuous monitoring. Such personalised coaching is necessary but will lack budgetary support, judging by the €515 million allocated up to 2018: considering that in 3Q16 there were 1.5 million unemployed in that age group, that works out to only €336 per head. The staff allocated also appear insufficient: each SEPE worker will be responsible for up to 120 long-term unemployed; though half as many as has been usual, it is still much higher than in Germany or the UK, with 50 and 20 unemployed respectively per public employment service worker.

Compared to the rest of the European Union, the Spanish economy continues to advance towards a more mature phase of its economic cycle with growth that is considerably higher than the European average. For the EU-28 as a whole, the European Commission is forecasting GDP growth of 1.8% in 2016 and 1.6% next year. The economic outlook is overshadowed by political uncertainty, slow growth outside the region and the weakness of world trade.

Macroeconomic indicators for the Spanish economy. Afi, Forecasts 2016-17

| Annual variation (%) | 2014 | 2015 | 2016 | 2017 |
|-------------------------------|------|------|------|------|
| GDP | 1.4 | 3.2 | 3.3 | 2.5 |
| Final consumption | 0.9 | 3.0 | 2.6 | 2.2 |
| Households | 1.2 | 3.1 | 3.1 | 2.4 |
| Pub. Admin. | 0.0 | 2.7 | 1.4 | 1.5 |
| FBCF | 3.5 | 6.4 | 4.0 | 4.3 |
| Capital goods | 10.7 | 10.1 | 6.6 | 7.6 |
| Construction | -0.1 | 5.3 | 2.4 | 2.7 |
| Domestic demand (1) | 1.6 | 3.7 | 2.8 | 2.3 |
| Exports | 5.1 | 5.4 | 4.2 | 3.2 |
| Imports | 6.4 | 7.5 | 3.1 | 2.7 |
| External demand (1) | -0.3 | -0.5 | 0.5 | 0.3 |
| CPI | -0.2 | -0.5 | -0.2 | 1.4 |
| Employment (EPA) | 1.2 | 3.0 | 3.0 | 2.3 |
| Unemployment rate (%) | 24.4 | 22.1 | 19.6 | 17.8 |
| Public sector balance (% GDP) | -5.8 | -5.0 | -4.6 | -3.6 |
| Ext. Funding surp./def. | 1.0 | 1.5 | 1.8 | 1.6 |

(1) Contribution to GDP growth

Source: Afi forecasts 2016-17

Spain will grow above the European average.

Meanwhile, in the coming years, the European economy can no longer count on the exceptional support it has received from external factors, such as the fall in oil prices and the depreciation of the currency. Inflation is expected to pick up, albeit from a very low level, due to rising energy prices.

The European commission's current forecasts for Spain are less optimistic than previously but, in any case, they are substantially better than those for the other European countries, especially those of central Europe. The challenges still facing the Spanish economy have not diminished, but the structural reforms of recent years, with benefits including the gain in competitiveness and the rebalancing of economic sectors, should serve to support a solid growth rate in the coming years.

