

# Labour Market Monitor

Issue No. 114 | January 2017

## Key points of the month

- Social Security enrolment rose by some 68,500 in December, confirming the slowdown forecast by the Afi-ASEMPLEO SLM Indicator.
- The year 2016 ended with an extraordinary result in job creation, with Social Security enrolment up 541,000, beating the figure for the previous year
- The 4Q16 labour force survey (EPA) is estimated to show an increase in employment of 120,000 and a reduction in the unemployment rate to 18.5%, 0.4 percentage points (pp) less than in 3Q16.
- The Afi-ASEMPLEO SLM Indicator points to a gradual deceleration in the labour market in the first part of 2017.

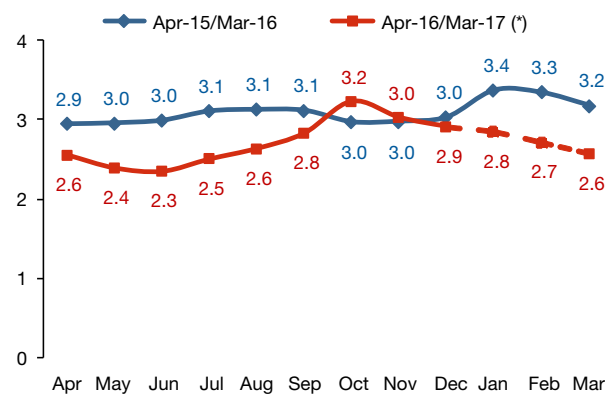
## The unemployment rate will fall to 18.5% in 4Q16

December's Social Security enrolment figures show a monthly increase of some 69,000. Given the favourable seasonality of that month, the figure implies that job creation is slowing slightly, but remains above 3% on a YoY basis. As a result, Social Security enrolment has risen by 541,000 in the past 12 months, exceeding even the 2015 figure. Meanwhile, registered unemployment fell by 391,000, compared to a decline of 354,000 the previous year.

The Afi-ASEMPLEO SLM Indicator points to growth of 120,000 in EPA employment in 4Q16, notably more than the 46,000 in the same quarter last year, due mainly to an exceptional result in October. With regard to EPA unemployment, we estimate the fall in the quarter to have been some 70,000, implying that the unemployment rate would decline from the 18.9% recorded in 3Q16 to 18.5% in 4Q16, a decline of 0.4 pp. For the year as a whole, it is estimated that over 550,000 jobs were created, an increase in employment of close to 3% YoY. The Afi-ASEMPLEO SLM Indicator points to average annual growth in employment of 19.6%.

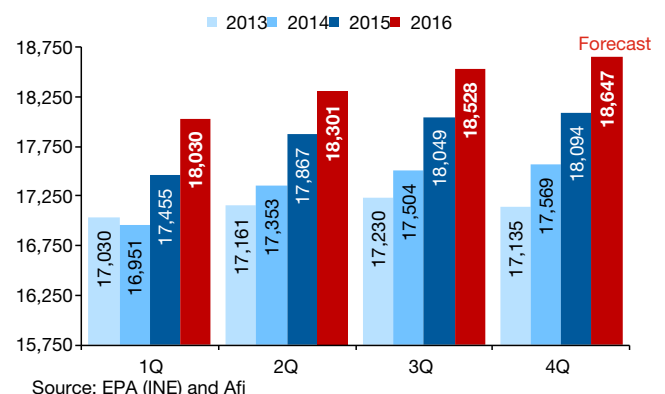
With regard to the coming months, the Afi-ASEMPLEO SLM Indicator outlines a gradual slowdown in the labour market, in line with the trend in the economy as a whole; even so, employment growth will remain well above 2.5% YoY.

SLM monthly forecast of workers in employment (% YoY change)



Source: Afi. (\*) Jan 2017-Mar 2017 figures are forecasts

EPA employment (thousands)



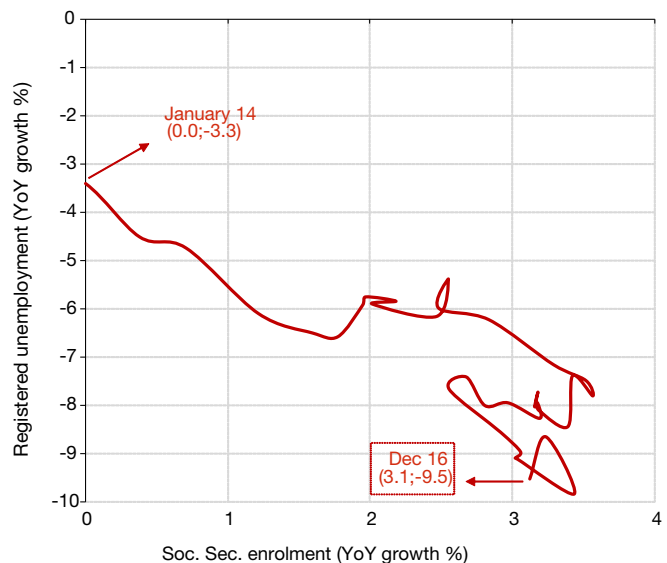
Source: EPA (INE) and Afi

Social Security enrolment rose by some 68,500 in December, less than the same month of the previous year (some 85,000), confirming the forecast of deceleration in YoY growth (3.12%). The number of enrolments in retailing rose by 34,800 during the month in the general scheme, but this was insufficient to offset the falls seen in other sectors, such as construction (down 17,600), hotels & catering (down 13,800 in the general scheme) and manufacturing industry (6,900). Compared to December 2015, Social Security enrolment grew by 541,000, even more than the previous year (533,000), making 2016 an "unbeatable" year with regard to job creation.

Unemployment fell by 86,800 during the month, a further acceleration in the rate of decline (9.5% YoY), ending the year with 3.7 million people out of work, a fall of 391,000 over December 2015.

The December recruitment brought the annual total to almost 20 million. It increased in all types of contract, especially permanent ones.

**Afi-ASEMPLEO SLM 'clock' 2014-2016**



Source: Ministry of Employment and Social Security

## The assessment of ASEMPLEO

### Mountain pass

The insistence on introducing changes into labour market regulation and employment policy could hardly be more widespread. Employers' associations point to the need to take training for employment seriously, in order to take on new projects and stimulate economic growth; the unions, in turn, call for policies to improve the security and stability of employment; international bodies, such as the OECD, insist that the sustainability of growth requires increased competition, training and innovation, without which it will be impossible to improve productivity and wages. And now it seems that the government and the main parties have included it in their road map.

Is it possible to reconcile all these aspirations? Not only is it possible, it is absolutely essential. We have to keep pedalling in the intensive creation of employment but, now that we have passed this first stage of maximum emergency, new goals appear: to train those workers with jobs, to integrate the unemployed rapidly into the labour market and to do everything necessary to lift productivity. At ASEMPLEO, we believe it is essential to facilitate the entry (or re-entry) of workers, especially the young ones, into the labour market, for example, with the experience that temporary work agencies can provide. It is also necessary to stop being afraid of temporary work and to see it as an opportunity, because it is managed by serious professionals who add value, in the form of flexibility, to companies and employability to workers. Temporary work agencies are committed to facilitating employment, experience and training that provide a bridge into the labour market, and they guarantee efficacy, quality and legality.

**Andreu Cruañas**, President of Asempleo

## The highlight of Afi

### Target: full employment?

According to the forecasts of the Afi-ASEMPLEO SLM Indicator, the fourth quarter EPA could show an unemployment rate of 18.5% or less, with over 18.6 million workers in employment and, still, 4.2 million unemployed. It has not been easy to reach this point, in spite of everything, if we think of the employment abyss of mid-2013, with an unemployment rate of 26.1%, only 17.2 million in work and 6 million out of work.

On its own, this comparison leads to the hope that, if similar progress can be achieved in the next three years, the unemployment rate could stand at 12%, employment at 20 million and unemployment at 2.6 million. This will not happen unless major reforms are undertaken in the labour market in the right direction.

The paradox is that, according to official estimates, the "full employment" unemployment rate must be around 16%, i.e. we are getting close to it. The acid test will be if wages begin to rise, causing a wage-price spiral, and we could see this happening as soon as the end of this year.

We are now in a phase in which, together with the headline unemployment rate, the structural unemployment rate, i.e. the rate compatible with full employment, should also decline. Hence, the labour market reforms must not only persevere in introducing greater wage flexibility (to avoid the alternative of redundancy plans), but they must be accompanied by comprehensive reforms in employment services and the liberalisation of markets in goods and services.

**José Antonio Herce**, Associate Director Afi

# The Specialized Labour Market Review

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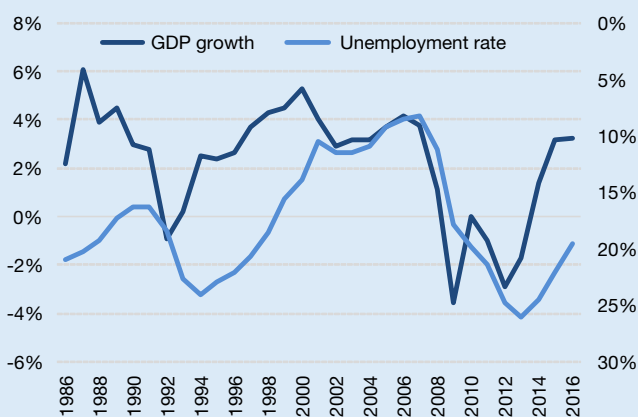
## Spain is approaching its structural unemployment rate

The structural unemployment rate, which has been around 18% in recent years, rose by almost 6 percentage points (pp) as a result of the crisis, though the increase has not been uniform across the regions. There is little margin left for reducing the total unemployment rate, and this is likely to be exhausted in the coming quarters, giving rise to pressure on wages and prices. Moreover, other groups in addition to the long-term unemployed could be excluded from the labour market, making it essential to strengthen the skills and knowledge of all the unemployed to avoid the situation becoming entrenched.

**The structural unemployment rate, which has been around 18% in recent years, rose by almost 6 percentage points as a result of the crisis...**

As we noted in our previous issue, many sources suggest that Spain is close to its structural unemployment rate. The Bank of Spain puts this rate at 16%, while the European Commission estimates it at 18.4%. Whichever estimate is correct, considering that the Afi-ASEMPLEO SLM Indicator for 4Q16 estimates the end-year unemployment rate at 18.5%, everything suggests that the rate is approaching its structural level. It is difficult to reduce the rate below this level without wage pressures appearing and certain types of workers becoming harder to recruit, even while others, under-qualified and hard to place, remain abundant, unless extraordinary measures are taken to stimulate employment. As the actual and structural unemployment rates vary widely between regions, such measures require different actions in each case. The approach taken in our previous issue, which put the structural rate at 16%, considered the use of productive capacity. However, the lack of statistical data at regional level means that the regional structural unemployment rates have to be inferred using the Phillips curve, which describes the relationship between changes in the inflation rate and the unemployment rate.

**GDP growth (annual) and unemployment rate (annual avg.), 1986-2016**



Source: INE

**Phillips Curve of the Spanish economy, 3Q86-3Q16**

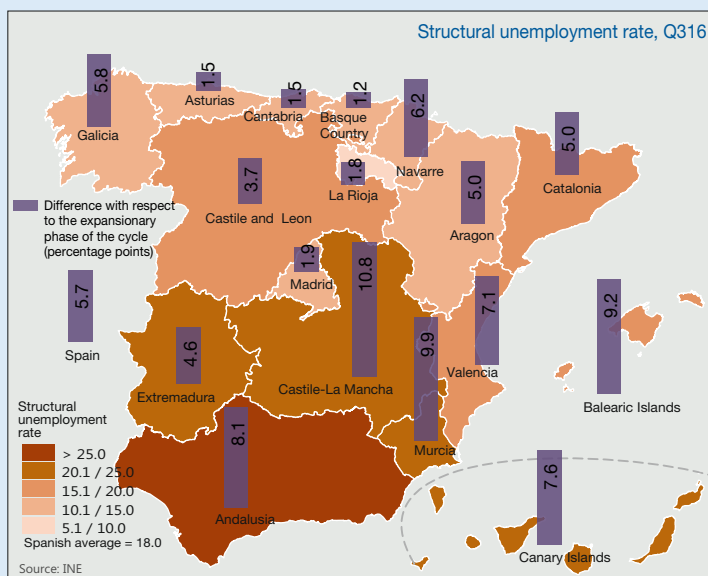


Source: INE

This relationship allows periods of economic growth to be distinguished from those characterised by crisis, leading to the conclusion that the latter shift the Phillips curve to the right or, in other words, cause an increase in the structural unemployment rate, in our case by almost 6 pp to 18%. This means that the coming months could see increases in wages (and hence in prices), indicating a shortage of "employable" labour, while the number of unemployed workers remains very high.

**... though the increase has not been uniform across the regions.**

This increase in the structural unemployment rate has occurred in all Spanish regions, though the increase has not been uniform across the regions. The rise in the structural unemployment rate was greater in the regions most affected by the crisis and where the unemployment rate was already above the national average. Such cases include Castile-La Mancha, Murcia and Andalusia in particular. At the other extreme, the Basque Country, Asturias, Cantabria and La Rioja have seen smaller increases in their structural unemployment rates (between one and two percentage points) during the recession.



**The narrow margin left for reducing the total unemployment rate...**

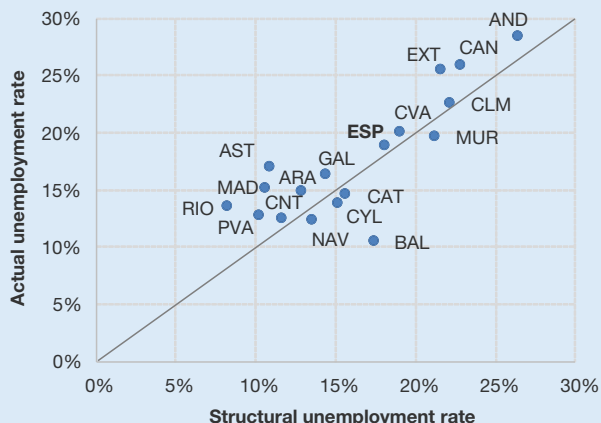
In regions where the actual unemployment rate is above the estimated structural rate, there could still be margin for reductions (shown top left in the charts below). Thus, Asturias, La Rioja, Madrid and Extremadura would have the most scope for further reductions. Others, such as Castile-La Mancha, would need to implement employment policies quickly in order to break through the structural unemployment barrier without provoking inflationary pressure in their labour markets, despite their still high unemployment. Probably because of their economy has received an extraordinary boost from the tourism sector, the Balearic Islands have achieved this breakthrough, bringing their actual unemployment rate below the structural threshold without apparent wage pressures.

**... could exclude other groups in addition to the long-term unemployed...**

If measures are not taken, the rigidities of the Spanish labour market will exclude other groups in addition to workers who have spent over a year in unemployment and are, by definition, of low "employability". The fact is that, in all the Spanish regions, the proportion of long-term unemployed, though still high, is smaller than the threshold marked by the structural unemployment rate. In other words, even though the short-term unemployed have a greater probability of finding work than those who have been out of work for over a year, the market could still deny them work, meaning that the rates of long-term unemployment would become a chronic issue.

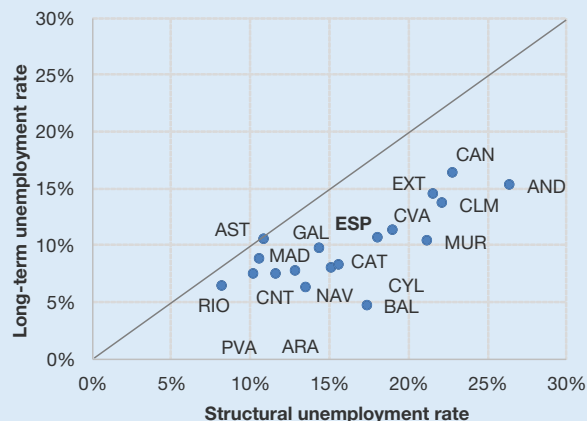
The profile of those who have been out of work for over a year is different to that of the long-term unemployed (see our November 2016 issue), as no gender predominates and the majority are young. It should be remembered that Spain has the highest youth employment rate in the European Union. Our study suggests that part of this group is affected by some specific form of "unemployability" that could reveal itself when their respective labour market reaches its structural employment rate.

**Actual and structural unemployment rates by region in 3Q16**



Source: INE

**Tasa de paro de larga duración (más de un año desempleado) y estructural por CC.AA., 3T16**



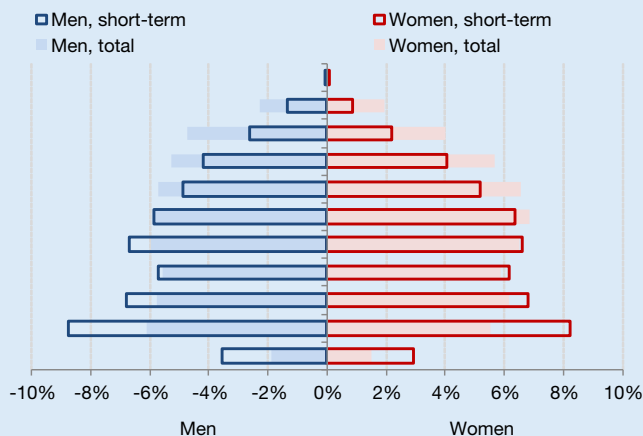
Source: INE

**... making it essential to strengthen their skills and knowledge ...**

The Council of Ministers' decision, at its last meeting of 2016, to launch an aid programme to promote the training and employment of young people in the digital economy is a step in the right direction to address this problem. This programme has a budget of €20 million: However, bearing in mind that over a million young people (under 30) are out of work, the programme's budget cannot be sufficient (it translates into a maximum of 200 grants to companies); though the plan moves in the right direction and its aims are correct, more initiatives, resources and programmes of this type will be needed.

Spain needs more investment in training, especially for improving the digital skills of young people, given that the majority of future jobs will be related to the digital economy. Neither should it be forgotten that there is a pressing need to insist on the continuous training of those in work and to train the unemployed, thus mitigating the possible adverse effects of this digital transformation. In this aspect, the temporary work agencies play an essential role, as they have first-hand knowledge of employers' requirements, they provide training adapted to these requirements and they have experience of managing mediation in the job market.

**Unemployment pyramid by age and gender: total and short-term (< 1 year seeking employment)**



Source: INE