

# Labour Market Monitor

Issue No. 115 | February 2017

## Key points of the month

- The 4Q16 Labour Force Survey (EPA) surprised with net job losses of almost 20,000, unexpected at this point in the Spanish economic cycle.
- In January, Social Security enrolment again surprised with a further acceleration in its YoY growth rate (to 3.3%).
- The Afi-ASEMPLEO SLM Indicator points to a gradual acceleration in employment growth in the coming months (to 2.4% YoY in April) due to the Easter week effect.

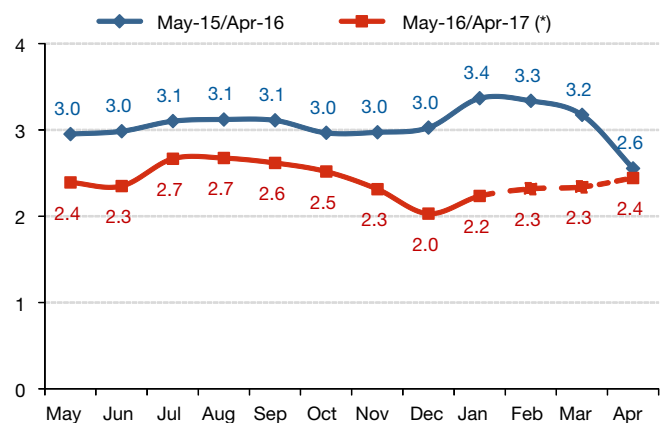
## A gradual acceleration in employment growth is forecast in the coming months

Social Security enrolment fell by 175,000 in January. Given the unfavourable seasonality of this month, this is a relatively good figure. In fact, this is the best result since 2007. Registered unemployment was down by 57,000, very similar to the change seen in January last year.

In YoY terms, Social Security enrolment growth accelerated to 3.3% from the 3.1% recorded in December, in contrast to the message sent by the 4Q16 EPA. The reason for this discrepancy is to be found in the good start to 2017, and especially in the peculiar behaviour of the education and healthcare sectors in the final months of 2016. If these two sectors are excluded from the EPA figures, employment would have followed the same trend as Social Security enrolment, consistent with the available indicators of economic activity.

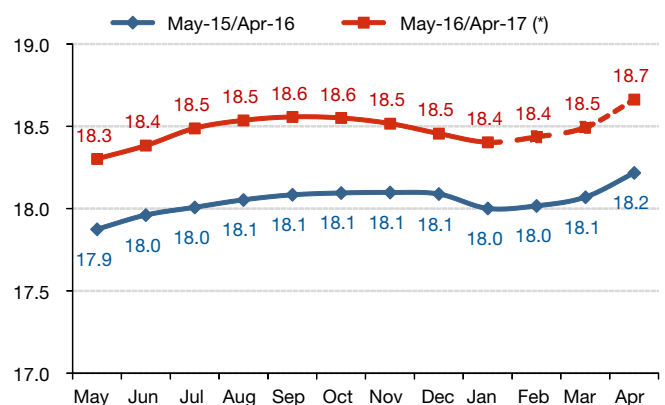
The Afi-ASEMPLEO SLM Indicator points to a gradual acceleration in employment growth in the coming months, which would tend to correct the 4Q16 EPA results. Employment growth (YoY) is seen rising to 2.4% in April (from 2% in December), due to Easter week falling in that month this year. The Afi-ASEMPLEO SLM Indicator forecasts an annual average increase in employment of close to 2.4% in 2017, which would translate into 400,000 new jobs.

SLM forecast of workers in employment (% YoY change)



Source: Afi, (\*) Feb 17-Apr 17 are forecasts

SLM forecast of workers in employment (millions)

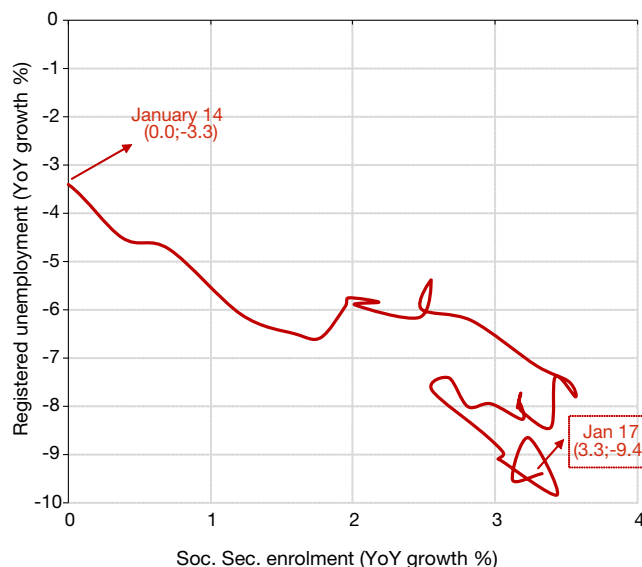


Source: Afi, (\*) Feb 17-Apr 17 are forecasts.

In January, Social Security enrolment again surprised with a further acceleration in its YoY growth rate (to 3.3%), though the monthly result was a fall of 174,900, similar to those recorded in the same month before the crisis (an average of 165,700 in the 2001-20017 period). In seasonally-adjusted terms, this is almost double the declines seen in the growth phase of the previous cycle (64,100 this year compared to an average of 38,700 in the 2001-20017 period). There are two effects that account for this behaviour. Firstly, enrolment fell less in the first days of the month than last year, pushing up the average for the month. Secondly, the good performance of less seasonal sectors (construction and manufacturing industry) makes a flattening of growth in Social Security enrolment less likely.

Registered unemployment performed slightly better than expected, rising by some 57,200 over the previous month, while the YoY rate was unchanged at 9.4%. Recruitment again accelerated, to 16.9% YoY, one of the best results of the past three years, driven by both permanent and temporary contracts.

**Afi-ASEMPLEO SLM 'clock' 2014-2017**



Source: Ministry of Employment and Social Security

## The assessment of ASEMPLEO

### The new year demands more flexibility

2016 was a very positive year, but the currents that have brought us this far will be weaker in 2017 and the outlook calls for measures to adapt the labour market to the realities of our economy, to the labour force and the demands of the market.

The homework has been done and the marks, as we saw in January with the EPA data, were good. However, we now have to study new subjects and we must continue working to avoid job creation stagnating and to bring into the market all those who have been left behind, in many cases with obsolete training and skills.

As we warned at the beginning of the year, the current framework now has little margin to create more jobs. Structural employment stands at 18% and our concern grows as we consider the employment crisis that we have been living with for the past few years, with the lack of fit between the profiles of the workers and those that companies are demanding.

This calls for a profound reform of the active employment policies, adjusting the framework to the reality of the market, which demands greater flexibility and an earlier and more exact forecast of future needs, together with personalised monitoring of the unemployed, in order to foster their incorporation into the labour market. These measures are essential, but they will not be sufficient if they are not accompanied by policies for the improvement of competitiveness and the professionalisation of job placement.

**Andreu Cruañas**, President of Asempleo

## The highlight of Afi

### Cum grano salis

Locating our exact position in the economic and employment cycles is an exercise whose results should always be treated with caution. Moreover, it requires a dose of subjective judgement that allows it to be resolved but at the same time complicates matters. This is a price to be paid. In this framework, reconciling the EPA data for the fourth quarter of 2016, with those for Social Security enrolment and the registered unemployment figures of the state employment service (SEPE) for the same period is no simple task. Notwithstanding the different methodologies of these sources (survey vs census), the results would be expected to broadly coincide. Moreover, the January Social Security enrolment and registered unemployment data validate, and even reinforce, the thesis that the labour market is shown as more vigorous in these census data than in the survey. It is generally accepted that economic and employment growth will slow in 2016 (just as, in January last year, it was accepted that it would slow in 2016), but the start to the year has already given an initial signal contradictory to that 'certainty'. The aspect of the fourth quarter EPA results changes from "surprising" to "wait and see". We shall see. Meanwhile, perhaps it would be a good idea to begin officially to study carefully which of the many explanations of why the EPA and SEPE figures naturally differ remains valid today, after the enormous structural changes in the economy, the labour market and the technical bases of the two statistical sources. For the time being, any forecast of employment in Spain should be taken cum grano salis (with a grain of salt)... and a half.

**José Antonio Herce**, Associate Director Afi

# Labour Market

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## The 4Q16 EPA does not reflect this point in the economic cycle

The 4Q16 EPA surprised with job losses of almost 20,000, due to calendar effects in the education sector, and we have to await the publication of the national accounts in order to know the details. The unemployment rate fell to 18.6%.

### The 4Q16 EPA surprised with job losses of almost 20,000...

The 4Q16 EPA recorded a QoQ fall in employment of 19,400. Employment ended the year at 18.5 million, a yearly increase of 2.3%, notably less than the 3% rise in 2015. The figure was in line with the forecasts of the Afi-ASEMPLEO SLM Indicator and with the consensus of analysts.

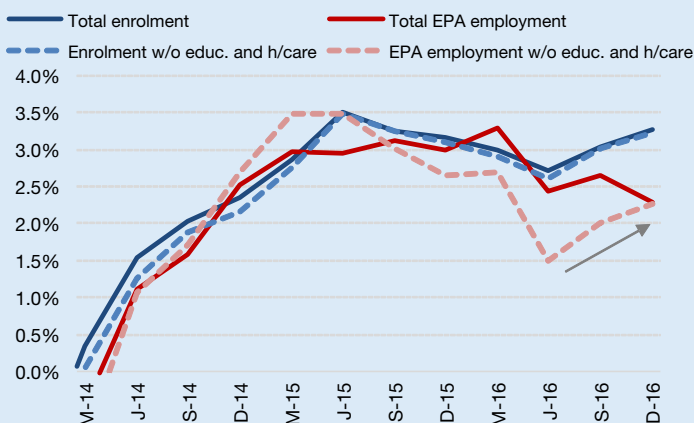
The deviation was caused by the behaviour of the education and healthcare sectors, especially the former, in the final months of the year. If these two sectors are excluded from the EPA figures, employment would have followed the same trend as Social Security enrolment, consistent with other indicators of activity during the quarter (manufacturing and services PMIs, business and consumer confidence, etc.), which have not showed signs of slowing, but rather the contrary.

Indeed, if the education and healthcare figures are adjusted as if they had performed like the rest of the economy, EPA employment would have grown by around 134,000, consistent with the trend in Social Security enrolment. If this had happened, then EPA employment would have performed in line with expectations.

### ... due to calendar effects in the education sector...

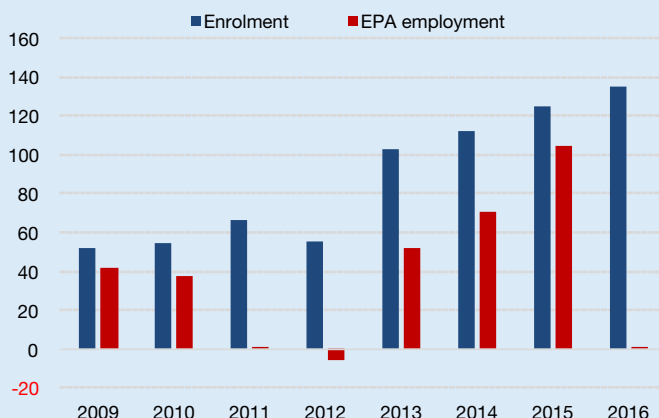
The education sector is strongly affected by seasonal factors, and especially by changes in holiday dates. The divergence between the quarterly variation in Social Security enrolment and EPA employment in the fourth quarter is higher in those years with more bank holidays.

Soc. Sec. and EPA employment with and without education and healthcare sectors (% YoY change)



Source: INE, Ministry of Employment and Social Security

Soc. Sec. and EPA employment in the education and healthcare sectors (QoQ change, thousands) in Q4



Source: INE, Ministry of Employment and Social Security

In particular, the public holidays on 6th and 8th December affected a whole week in 2016, as also occurred in 2011 and 2012. The reduction in the number of school days, in conjunction with the Christmas holidays, could have affected the programming of training courses in December and, therefore, the hiring of staff, and consequently the responses of workers surveyed for the EPA in that period.

This can be seen in the increase in those who state that they are employed but did not work in the week in question (prior to the week in which the survey was conducted) because they were on holiday (23% of the total in this sector), reducing the number of hours they worked.

On the other hand, the number of workers with temporary contracts declined by 79,000 during the quarter, with the incidence of temporary working falling to 26.5% (0.5 percentage points down on the previous quarter). The annual average, however, grew by some 253,000, more than half the jobs created in 2016.

All in all, the annual variation in employment was reduced to 413,900, compared to the forecast of 553,000. This figure is undoubtedly disconcerting, given that in 2015 525,000 jobs were created on the back of GDP growth of 3.2%, similar to the 3.3% estimated for 2016. We will have to await the publication of the 2016 national accounts in order to know the details, as everything (e.g. the profile of the employed) suggests that labour productivity has not increased as much as implied by the latest EPA numbers (almost a percentage point).

In the last three months of the year, the number of unemployed fell by 83,000. As a consequence of the fall in employment, the labour force declined by some 102,000, helping to reduce the unemployment rate to 18.6% in 4Q16 from 18.9% the previous quarter. This takes the annual average rate to 19.6% in 2016.

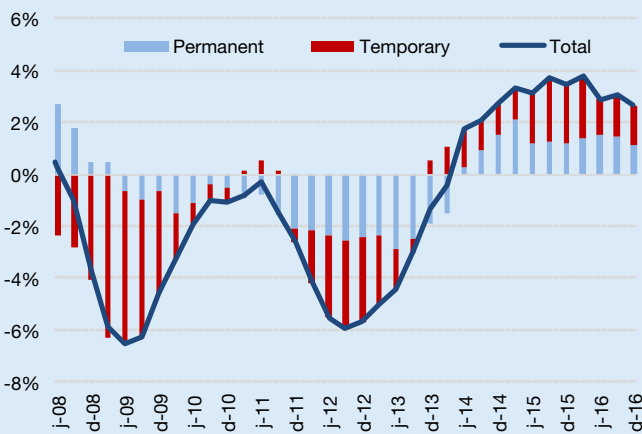
The labour force stood at 22.7 million, the lowest figure since 2007. Young people in particular left the labour market in the final quarter, with a fall of 184,500 in the 16-34 age group.

In the year as a whole, unemployment fell by 541,700 to 4.2 million.

**... and we have to await the publication of the national accounts in order to know the details.**

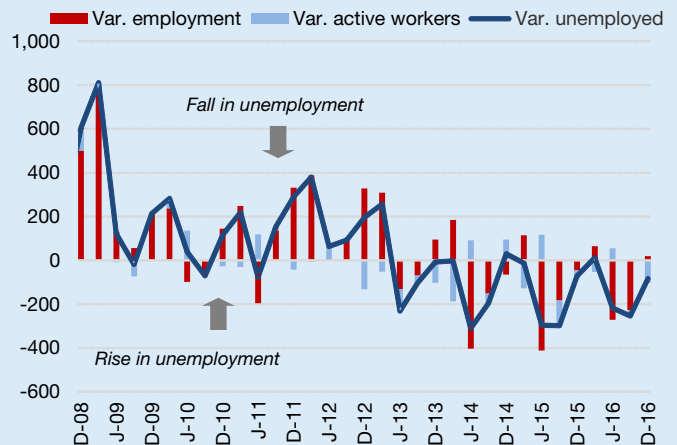
**The unemployment rate fell to 18.6%.**

**Contribution to YoY change in number of wage workers by type of contract**



Source: INE

**Contribution to QoQ variation in number of unemployed (thousands)**



Source: INE

# The Specialized Labour Market Review

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## The number of overqualified workers has risen by 12% since 2013

The jobs created during the economic recovery have been filled predominantly by overqualified workers, though the recent trend has increasingly been towards workers qualified in line with their jobs, which has benefited male workers and the over 55s. This improved fit is seen in temporary workers, in construction and professional services, and in the regions of Madrid and Murcia.

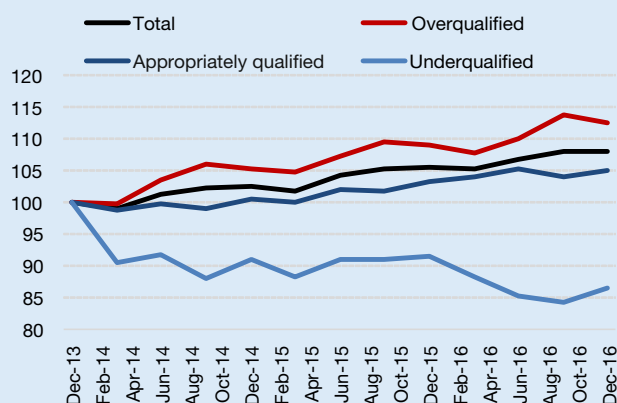
**The jobs created during the economic recovery have been filled predominantly by overqualified workers...**

**... though the recent trend has increasingly been towards workers qualified in line with their jobs...**

The growth in recruitment over the past three years has meant an increase in employment of 1.4 million (8%), but at the present time the debate centres on the quality of employment. One of the variables in the quality of employment is the match between workers' training and the positions they occupy. In the same period, the number of overqualified workers has risen by over 12% to 53.3% of those in work, while those appropriately qualified have increased by only 5% to 43.2% of the total; on the other hand, the number of underqualified workers has fallen by over 13% to 3.6%. In the initial phase of the recovery, all the newly employed workers were overqualified, due to the high level of unemployment and the need to find a job. During the consolidation phase of the recovery, a certain trend to better matching was detected, though in the past two quarters this seems to have reversed somewhat, with overqualification on the rise again.

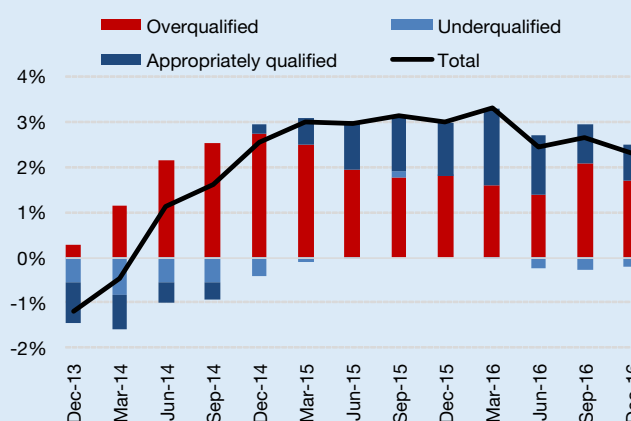
Although, as noted above, overqualification has helped to launch the decline in unemployment, if it persists it would limit significant progress in productivity or promote increased turnover among workers. Hence, it is necessary to identify the types of jobs in which overqualification has been more pronounced, in order to try to reverse this trend and design measures to take better advantage of the available human capital as jobs are created.

Contribution to change in employment by education/occupation match (4Q13 = 100)



Source: INE

Contribution to YoY change in employment by education/occupation match (4Q13 = 100)



Source: INE

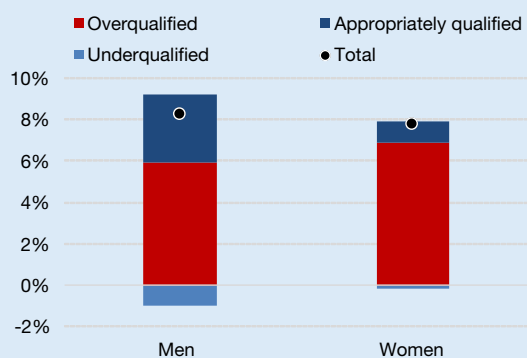
**... which has benefited male workers...**

By gender, men, whose unemployment rate has fallen one and a half percentage points more than that of women, have found jobs that match their training better than is the case for women. The latter are more likely to be over qualified, i.e. the majority are employed in jobs with skill requirements inferior to their level of training.

**... and the over 55s.**

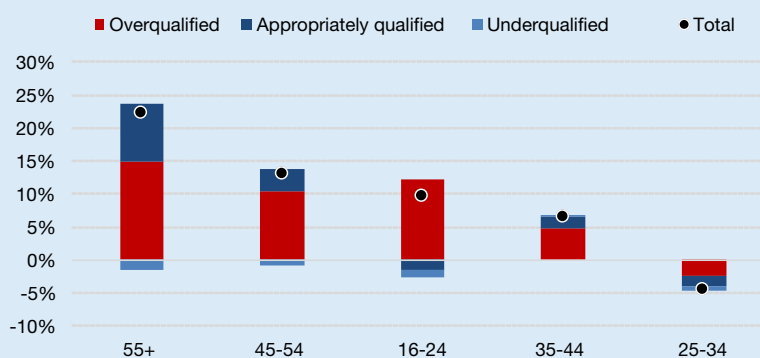
By age group, it is the over 55s who have found most jobs, though they too have had to take jobs for which they were overqualified to some extent. However, the problem is much more evident among the under 25s (at end 2016, 68% of young workers were overqualified), and they also have the highest unemployment rate of all groups. The need to support young workers' employability and the quality of the jobs they find is an issue that has yet to be resolved by the active employment policies.

**Contribution to change in employment by education/occupation match and gender (ordered from highest to lowest growth), 4Q13-4Q16**



Source: INE

**Contribution to change in employment by education/occupation match and age group (ordered from highest to lowest growth), 4Q13-4Q16**



Source: INE

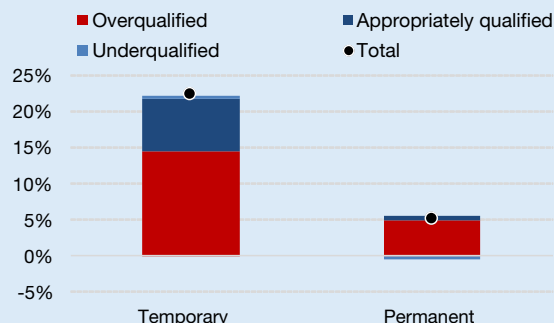
**Temporary work has achieved a better match between training and job...**

In terms of the characteristics of the work found, it can be seen that temporary work has not only had a greater potential for creating employment than permanent work during the recovery phase (temporary waged jobs have increased four times faster than the permanent equivalent), helping to break the vicious circle of unemployment, but the skills demanded by employers have also been better matched to workers qualifications, thus increasing the proportion of appropriately qualified workers. In the case of the employment agencies, their close contacts with employers, familiarity with their needs and the provision of training for workers to improve their employability are some of the factors behind this situation.

**... in construction and professional services...**

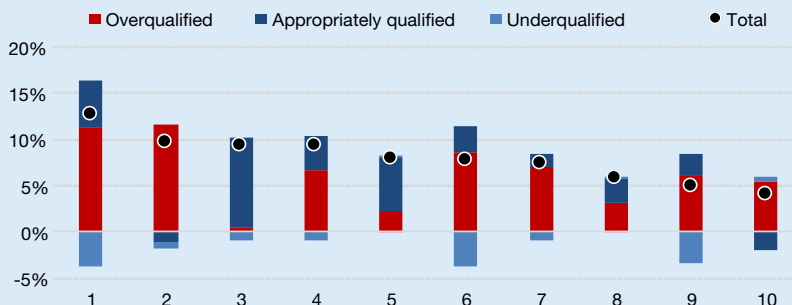
This trend is consistent with those seen in each economic sector. The sectors generating most jobs between 4Q13 and 4Q16 were manufacturing industry, retailing and hotels & catering, though they did not have the best matches between worker's qualifications and their jobs. The sectors in which the jobs created were best matched to workers' skills were construction and professional services, probably because they usually demand a series of specific attributes for a position. Manufacturing industry and transport still have a high proportion of overqualified workers, though it is declining. In contrast, retailing and hotels & catering have grown in recent years on the basis of overqualified labour, though this has been usual in other (growth) phases of the business cycle.

**Contribution to change in employment by education/occupation match and type of contract (ordered from highest to lowest growth), 4Q13-4Q16**



Source: INE

**Contribution to change in employment by education/occupation match and economic sector\* (ordered from highest to lowest growth), 4Q13-4Q16**



Source: INE

\* 1: Manuf. Industry; 2: Retailing, repairs and hotels & catering; 3: Construction; 4: Transport & communications; 5: Professional services; 6: Machinery Ind.; 7: Extractive Ind.; 8: Pub. admin., educ. and healthcare; 9: Primary; 10: Other services.

**Job creation in the regions of Madrid and Murcia has been in line with the average, but with a better fit between education and occupation.**

By regions, those which have been able to grow employment in this phase of the recovery by over 10% and above the national average are Valencia, the Balearic Islands, the Canary Islands and Murcia. They also have higher proportions of overqualified workers, except for Murcia (where appropriately qualified employment has been more important, due to the recovery in the construction sector), because employment growth in these regions is closely linked to tourism and retailing.

The regions which have created employment in line with the national average show greater variability with regard to the fit between education and occupation in the jobs created. While Navarre has a bias towards overqualification in new jobs, which has increased its importance in the workforce as a whole, the breakdown of Madrid's workforce is more balanced, with similar proportions of overqualified and appropriately qualified workers in the new jobs created in this phase of the recovery. This latter region also has the lowest proportion of overqualified workers in the total workforce.

