

# Labour Market Monitor

Issue No.116 | March 2017

## Key points of the month

- Social Security enrolment rose by 74,100 in February, a further acceleration in its YoY growth, to 3.4%.
- The Afi-ASEMPLEO SLM Indicator points to this quickening continuing until after Easter week.
- We have revised upwards our forecast for job creation for the year as a whole to 2.5%.

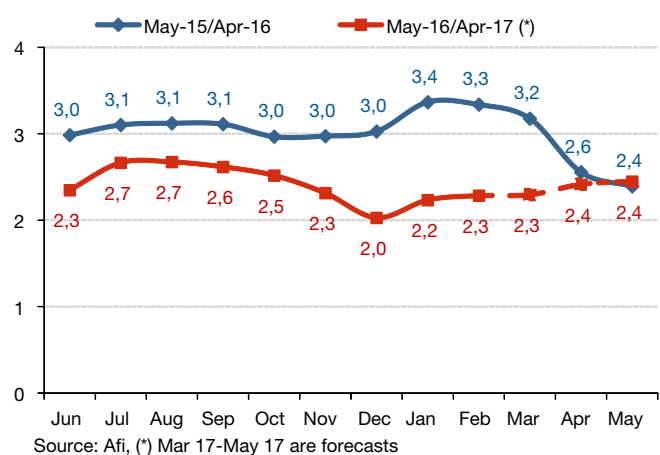
## Job creation will continue to accelerate

The Social Security enrolment data for February show an increase of 74,000, larger than that seen in 2016. Meanwhile, unemployment fell by 9,300, compared to the slight increase in February last year. After seasonal adjustment, the rise in employment in the first two months of the year stands at 114,000, almost double the equivalent figure in 2016.

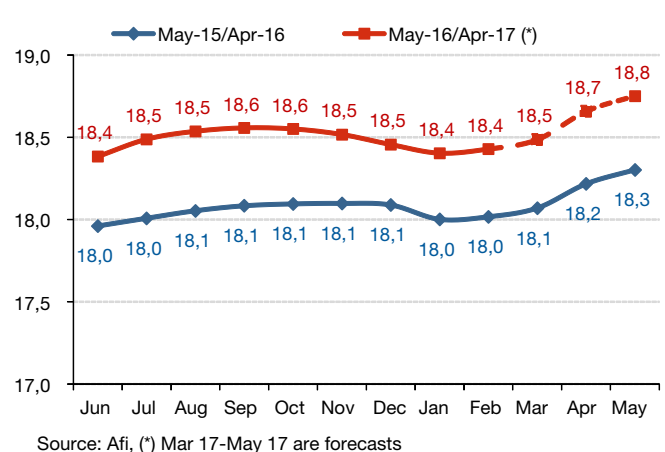
We are seeing a quickening in the labour market, as shown by the YoY growth in Social Security enrolment, which rose to 3.4%, compared to 3.1% in December and 3.3% in January. The Afi-ASEMPLEO SLM Indicator points to this quickening continuing until after Easter week.

In terms of employment, the Afi-ASEMPLEO SLM Indicator forecasts the continuation of the trend of recent months. We expect growth in employment to rise to 2.4% YoY in April and May, compared to 2% in December. The robust performance of the labour market, together with the economic indicators for the beginning of the year, have led us to increase our forecast for job creation for the year as a whole to 2.5% YoY, with GDP growth of 2.8%. This would translate into 450,000 new jobs.

SLM forecast of workers in employment (% YoY change)



SLM forecast of workers in employment (millions)

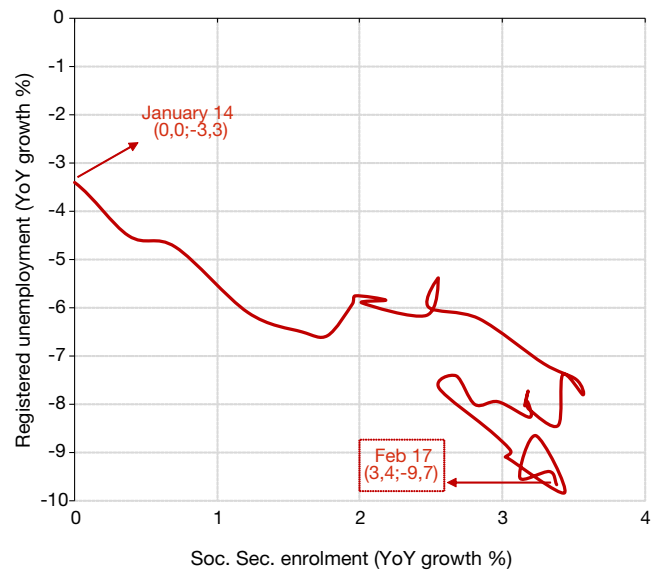


Social Security enrolment rose by 74,100 in February, maintaining the gradual quickening in YoY growth seen the previous month. This is consistent with leading indicators already published and the forecasts of the Afi-ASEMPLEO SLM Indicator. On a seasonally-adjusted basis, the growth in enrolment (up 46,100) is also vigorous, even exceeding the average of 43,800 recorded between 2001 and 2007. By sectors, the monthly increase in enrolment is based on construction, together with related professional services (technical services in architecture and engineering) and hotels & catering.

Registered unemployment declined by 9,400, in line with the forecast of a 10,000 fall. Thus, the YoY fall in unemployment quickened from 9.4% in January to 9.7%.

Recruitment rose by 5.4% YoY, less strongly than the previous month. The growth was due in particular to permanent contracts (up 8.4% YoY) and full-time work (7.0%).

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



Source: Ministry of Employment and Social Security

## The assessment of ASEMPELO

### Let's not allow the good news to distract us

2017 has begun better than expected. Social Security enrolment is rising and we continue to create jobs at such a positive rate that the outlook has cleared with regard to the signs of slowdown that the experts had been predicting for some time. Everything points to a positive first quarter this year, ending with YoY employment growth of around 3%. The run of good data will continue after March, as Easter week falls in April, giving a boost to employment that will ensure that the current positive trend is maintained in the second quarter, when the summer sales and holiday seasons will continue to stimulate job creation. Thus the outlook is for a good year in the labour market and we believe that the number of new contracts mediated by the sector will continue to grow, as will job creation, which we see accelerating in the second quarter. However, the good performance of employment should not lead us to lower our guard, because the trend could reverse at any moment. There are still a number of risk factors to be taken into account, both internal (the state budget, labour reform, compensation of interim civil servants, tax policy could still spring surprises, etc.) and external (the impact of Brexit, decisions of European courts, etc.), and the market will have to adapt to needs as they arise, providing the flexibility needed to allow the economy to continue growing and taking advantage of everyone's resources and talent.

**Andreu Cruañas**, President of Asempleo

## The highlight of Afi

### E pur si muove

The publication of the February labour market data coincided with the long-awaited estimate of full-time equivalent (FTE) jobs included in the national accounts. The February figures show that growth in Social Security enrolment maintains the acceleration seen at the end of last year, while the FTE data confirm the slowdown in job creation indicated in the 4Q16 labour market survey (EPA); they grew by 2.7% in 4Q16, after rising 2.9% in the previous quarter.

While the behaviour of the labour market data is consistent with the leading indicators published in the first two months of the year (confidence indices closely correlated with the economic cycle), the national accounting employment data inevitably follow the trend in economic activity. In 2011, they anticipated the second recession of the crisis in Spain, when Social Security enrolment and even the EPA did not. The national accounting data also show that the YoY performance of productivity in 4Q16 (a rise of 0.3%) that is much more consistent with a growth phase in the Spanish economic cycle, such as the present, than that to be deduced from Social Security enrolment and the EPA (down 0.3% and up 0.7% respectively), though the latter two are not the most suitable indicators for this purpose.

In short, these are two somewhat contradictory readings, one being the rise in Social Security enrolment reported by the Social Security enrolment and the other the restraint in employment shown by the national accounts (and even the EPA). However, even proceeding with the necessary prudence, this is not an obstacle to revising up the forecasts for growth in labour market indicators and in the economy for the year as a whole. Thus, the Spanish labour market "si muove" in the right direction in the fourth year of its recovery.

**José Antonio Herce**, Associate Director Afi

## A greater presence of the temporary work agencies could reduce the unemployment rate and the incidence of temporary working

Increased intermediation by the temporary work agencies (TWAs) is usually reflected in lower rates of unemployment, which would free up funds that could be spent on unemployment benefits and the reinforcement of active employment policies, enhancing the employability of the unemployed. The provinces in the south of the Iberian peninsula would benefit the most from an increased presence of the TWAs.

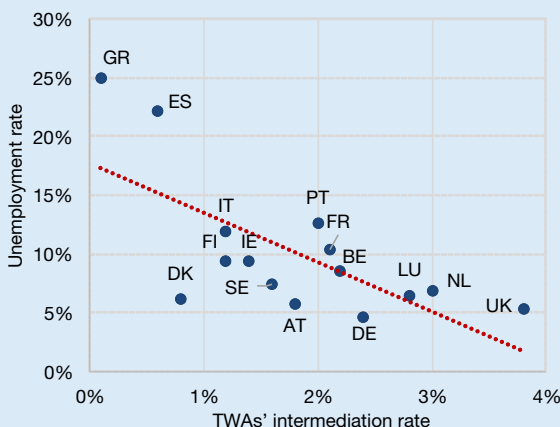
**Increased intermediation by the temporary work agencies...**

Throughout the economic recovery, it has been observed that the sector of employment-related activities, i.e. that which includes the temporary work agencies and placement agencies, has been a significant driver of employment in Spain. Indeed, it was the sector which created most jobs directly between 2012 and the present time. Moreover, it should be borne in mind that they are engaged in job placement and hence constitute a powerful instrument for finding work and filling vacancies in other sectors. Thus, if their presence were increased, this would have a positive impact on the economy.

**... is usually reflected in lower rates of unemployment...**

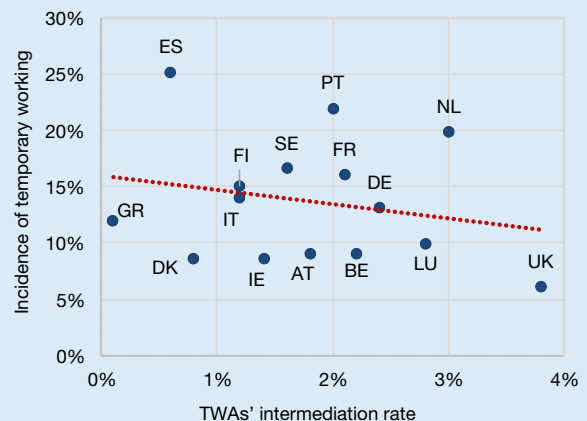
However, the level of intermediation by TWAs in the Spanish labour market is low compared to the leading EU countries: an intermediation rate (i.e. as a percentage of total employment) of 0.6%, compared to an average of 1.9% for the EU-15. The other countries also have lower rates of unemployment. In addition, though it may seem counter-intuitive, in these countries the greater activity of TWAs coexists with lower incidences of temporary working. It seems reasonable to suppose that this situation is due to the efficiency of their labour markets, due partly to the professional intermediation by these companies and, in particular, to a regulatory environment that has a differential impact on the performance of the labour market.

**Relationship between unemployment rate and TWAs' intermediation rate in EU-15 countries in 2015**  
(latest available data)



Source: WE C, Eurostat

**Relationship between incidence of temporary working and TWAs' intermediation rate in EU-15 countries in 2015**  
(latest available data)



Source: WE C, Eurostat

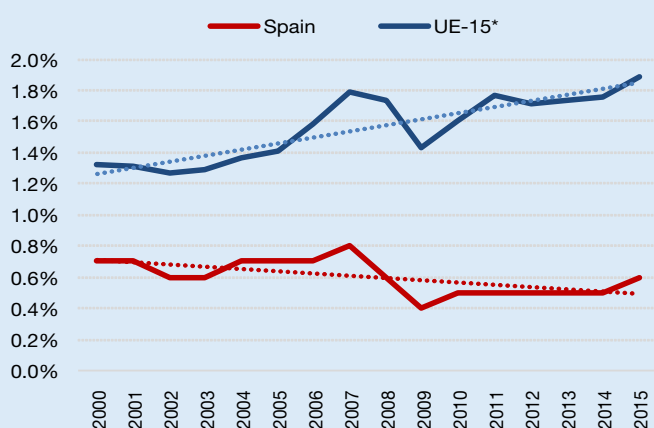
\* AT: Austria, BE: Belgium, DE: Germany, DK: Denmark, ES: Spain, FI: Finland, FR: France, GR: Greece, IE: Ireland, IT: Italy, LU: Luxembourg, NL: Netherlands, PT: Portugal, SE: Sweden, UK: United Kingdom.

**... which would free up funds that could be spent on unemployment benefits and the reinforcement of active employment policies...**

Though an increase in the TWAs' intermediation rate could benefit the Spanish labour market, this indicator decreased from 0.7% to 0.6% during the 2000-2015 period, while the EU-15 average rose from 1.3% to 1.9% in the same period.

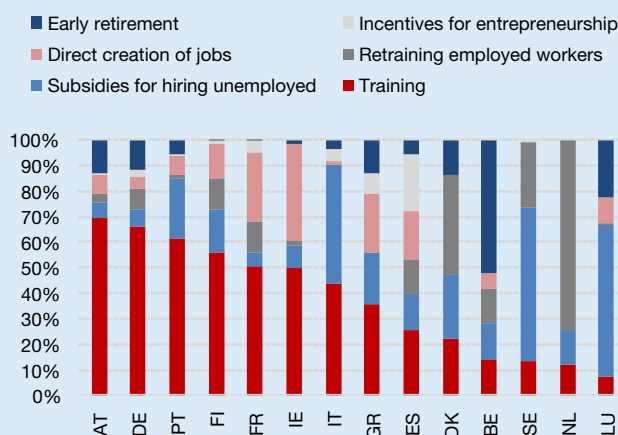
A significant reduction in the unemployment rate, in addition to incorporating the unemployed into the labour market, would mean a major relief in the financial burden of the passive employment policies (i.e. unemployment benefit). The enormous expenditure of recent years (€19.8 billion in Spain in 2016), in line with the high level of unemployment, has reduced the scope for other important actions in the labour market, such as active employment policies (AEPs). A reduction in spending on unemployment benefits, such as would result from greater intermediation in the labour market by the TWAs (due to the fall in employment that this could produce), would permit increased AEP spending per unemployed worker (currently one of the lowest in the EU-15), allowing the implementation of more and better active employment policies. It would also be desirable for the distribution of AEP spending in Spain to be more similar to the EU-15 average, with more emphasis on training for the unemployed and retraining for those in work, and less on subsidies for the hiring of unemployed workers.

**TWAs' intermediation rates in EU-15 countries and Spain**



Source: Cieltt, WE C

**Distribution of AEP spending in EU-15 (% of total) in 2014 (latest available data)**

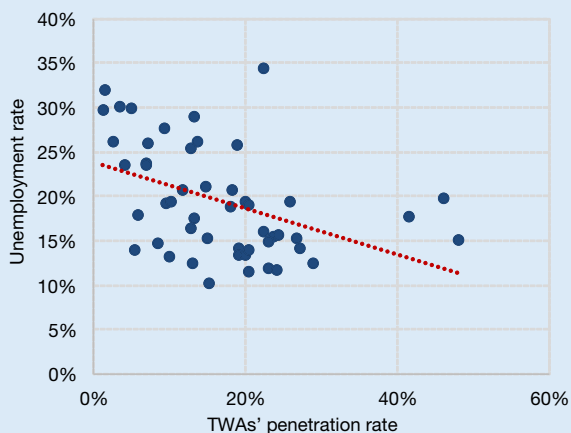


Source: Eurostat

**... enhancing the employability of the unemployed.**

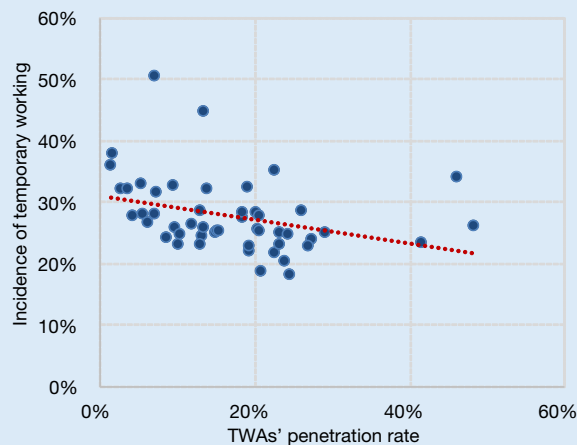
One of the examples that could be followed, as it is the opposite to what happens in the Spanish labour market, is the British labour market, where the TWAs mediated in 3.8% of temporary employment contracts in 2015; with more flexible labour legislation, it had one of the lowest unemployment rates (5.3%) and incidences of temporary working (6.1%) in the EU-15 in the same year. It would take a great effort for Spain to converge with this best practice, given that it finds itself at the other end of the spectrum with regard to rates of intermediation, unemployment and temporary working, though the benefits would be obvious. Such an effort would be very uneven in different parts of Spain, due to the marked geographical differences. Hence, it is important to study this relationship at the provincial level in order to identify the provinces that would need to make the greatest effort but would, at the same time, be those that reaped the greatest reward from increased levels of intermediation by the RWAs. In this case, the statistics available require us to look at the penetration rate which, unlike the intermediation rate, takes account of the TWAs' share of temporary contracts.

**Relationship between unemployment rate and TWAs' penetration rate in Spanish provinces in 2016**



Source: Ministry of Employment and Social Security, INE

**Relationship between incidence of temporary working and TWAs' penetration rate in Spanish provinces in 2016**



Source: Ministry of Employment and Social Security, INE

**The provinces in the south of the Iberian peninsula would benefit the most from an increased presence of the TWAs.**

In general, in the provinces forming part of regions such as the Basque Country, Catalonia and others in the north of Spain, which traditionally have lower rates of unemployment and temporary working, the TWAs have penetration rates above the national average (17.7% in 2016). At the other extreme, the provinces belonging to the regions with the highest unemployment rates, such as Andalusia and Extremadura (over 20% in 2016) could benefit from an increase in intermediation by TWAs. The presence of these agencies is surprisingly low compared to the national average) in some provinces, the TWAs mediated in less than 5% of temporary contracts in 2016), bearing in mind that a greater role for the TWAs would help to reduce their high rates of unemployment. Such a reduction in the number of unemployed would free up public funds, allowing greater spending on active employment policies and increasing their effectiveness. The European evidence suggests that temporary working could also be better adjusted to employers' needs if the TWAs mediated in a higher proportion of temporary contracts.

