

# Labour Market Monitor

Issue No. 101 | December 2015

## Key points of the month

- Social Security enrolment again grew in November at a YoY rate of around 3.2%.
- The Afi-ASEMPLEO SLM Indicator points to this growth in employment being maintained in the coming months.
- If this forecast is confirmed, employment will remain above the 18.1 million mark at the end of 2015.

## Employment continues to grow strongly

In November, Social Security enrolment recorded an increase similar to that of the same month last year, with YoY growth standing at 3.2%. In the past 12 months, it has grown by 526,715.

The smaller rise in enrolment in November was due largely to seasonal effects. According to the Ministry of Employment and Social Security, the seasonally-adjusted increase was of some 59,600 (compared to 35,300 in October).

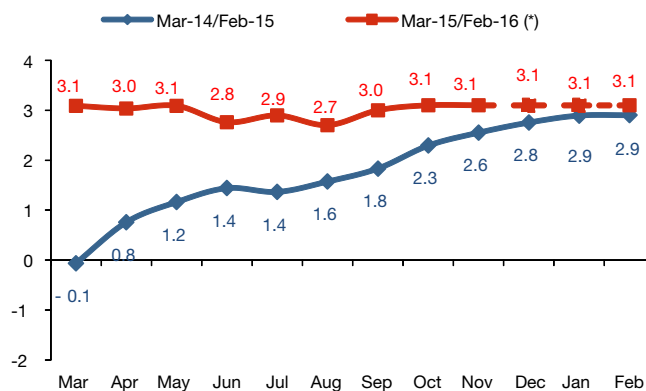
The breakdown by economic sector reveals that the overall increase was due to growth in retail trading and agriculture, partly offset by job losses in hotels & catering.

The Afi-ASEMPLEO SLM Indicator points to this growth in employment being maintained in the coming months, with YoY growth in employment expected to exceed 3% until February.

The forecast steadiness of the growth in employment is due to the new round of stimuli benefiting the Spanish economy, such as the depreciation of the euro and the fall in the oil price since August.

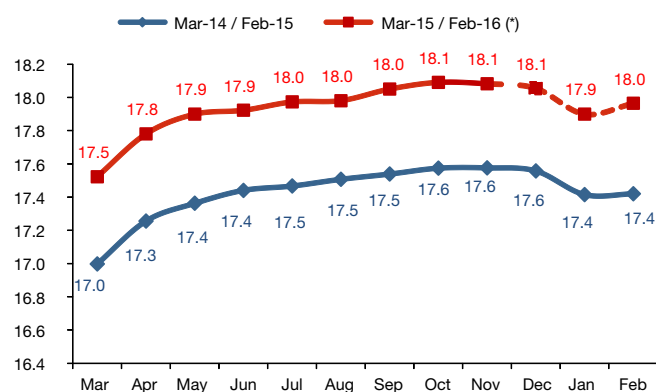
If this forecast is confirmed, employment will remain above the 18.1 million mark at the end of 2015.

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



Source: Afi. (\*) Dec 2015-Feb 2016 figures are forecasts

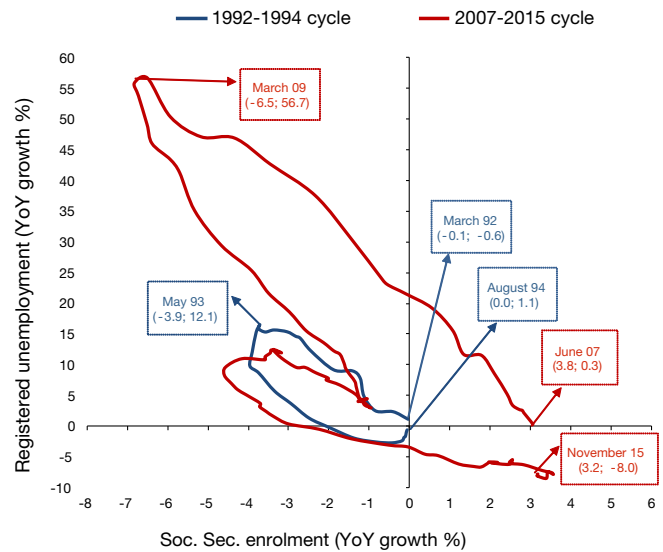
SLM monthly forecast of workers in employment (millions)



Source: Afi. (\*)Dec 2015-Feb 2016 figures are forecasts

Enrolment rose by 1,600 in November. The trend is positive both in YoY terms (it remains at around 3.2%) and on a seasonally-adjusted basis (up 59,600 on the month). In hotels & catering, job losses are even higher than the same month of last year, but the annual balance is positive, as the sector is likely to be having one of the best years in recent times. The retail trade, in turn, is creating more jobs than a year ago, supported by the increased purchasing power of households and by the marketing campaigns at the end of November. The primary sector is also seeing increases in Social Security enrolment, though less strongly than in 2014. Meanwhile unemployment saw the biggest November fall since the year 2000, both with and without seasonal adjustment (47,400 and 27,100 respectively). This is a significant fall that, together with the modest growth in employment during the month, could signal further declines in the labour force. Lastly, recruitment accelerated in November, in all types of contract and working day.

Afi-ASEMPLEO SLM 'clock'



Source: Ministry of Employment and Social Security

## La valoración de ASEMPELO

### We must continue sowing

2015 will end with better figures than we expected at the beginning of the year. While last year confirmed the beginning of the recovery, 2015 has not only fulfilled the positive forecasts, but has left the sensation that there is plenty of room for improvement. This turning point is the new challenge that the Spanish economy must face in the coming years. It is time to look further ahead and not to shut our eyes before the new openings that can give the economy advantages of productivity and differentiation over other economies in the race to leave behind the most devastating crisis that we have suffered until now and which continues to leave pockets of instability in the labour market.

It is time to focus on new sectors that need attention and are progressing in giant strides, such as those related to R&D+i. These not only generate new jobs, but they also complement existing sectors, stimulating them and interacting with them to provide Spain's new economic and labour market infrastructure with the resources it needs to i) continue growing in the coming years, ii) create a solid base capable of coping with future uncontrollable events, and iii) generate and attract talent to create a labour market which is flexible, dynamic and provides alternatives to cover the needs of Spain's labour force.

All this must begin with policies for training and career guidance and an upward revision of wages. This is the key issue for next year. We need to keep growing in quantitative terms, but also in qualitative terms, otherwise the labour market will not function well.

**Andreu Cruañas.** President of Asempelo

## El destacado de Afi

### The battles that await the labour market in 2016

Net job creation in the Spanish economy is assured in 2016, but not at the same rate as experienced this year. Does it make sense to obsess about this "deceleration"?

Spain's GDP growth is currently one of the highest in Europe and the highest in the eurozone. However, many factors will prevent it from exceeding 2015's figure, among them the notable deceleration in global growth due to emerging markets.

At the forecast growth rates, the unemployment rate will border on 20% and employment will rise by 450,000. Given the limited structural margin in the Spanish economy and labour market, the battle to improve the net balance of employment in 2016 could prove very expensive in terms of resources unproductively allocated to that target (e.g. employment subsidies).

A mere fraction of those resources could be used in other, very important, battles with rather more productive long-term effects, such as the quality of employment, continuous training for workers and benefits for the long-term unemployed, always conditional on and combined with efforts by the unemployed to return to work.

**José Antonio Herce.** Associate Director, Afi

# The Specialized Labour Market Review

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## Employment will grow by 2.5% in 2016

The 2.7% growth forecast for the Spanish economy in 2016 will again be supported by household consumption rather than by external demand, which will again make a negative contribution. Employment will rise by 2.5% and the unemployment rate will fall to 20.9%. The European Commission forecasts a progressive economic recovery in the EU-28, and also slower growth in Spain.

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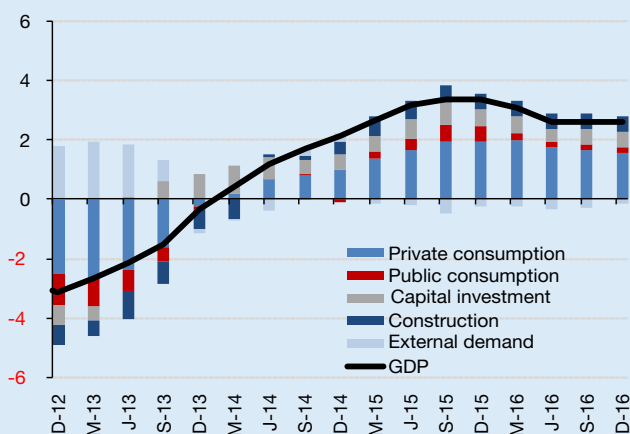
GDP will grow by 3.2% in 2015 and 2.7% in 2016. The growth forecast for next year, as has been the case in 2015, will be attributable chiefly to domestic demand, which will contribute 2.9 percentage points to growth.

Private consumption will continue to be the principal engine of growth in the Spanish economy, due to the sustained creation of employment and fiscal stimuli. Investment, in both capital equipment and in construction, will constitute the other pillar of growth in GDP in 2016. The contribution of public consumption will weaken next year as the regional governments implement measures seeking to correct the public deficit, which this year could exceed the target of 4.2% of GDP by half a percentage point. The deviation from the target could be even higher next year, as the target is 2.8% of GDP.

The external sector will again contribute negatively (0.2% of GDP) to economic growth, despite the good performance of exports in a context of slowing global growth. This outlook partly reflects the linkage effect between exports and imports (i.e. imports of intermediate goods) and partly domestic demand for imported goods.

Spanish industry is highly dependent both on imported intermediate goods and energy and on imported technology, products which are less sensitive to changes in relative prices than other goods. Export prices, on the other hand, continue to strengthen the competitiveness of the external sector of the Spanish economy.

Contribution to YoY change in GDP in Spain by component – Afi 2016 forecasts



Source: Afi, INE

Hours worked and labour productivity per hour worked (YoY change)



Source: Afi, INE

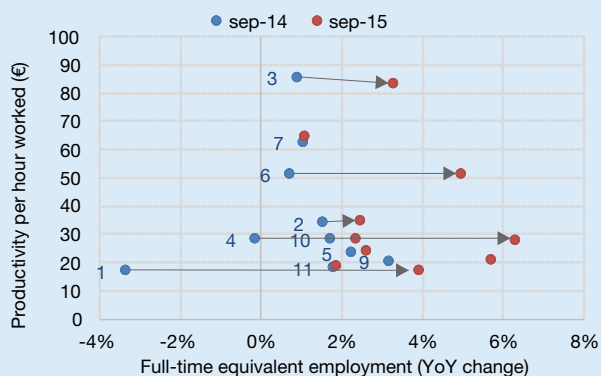
**Employment will rise by 2.5%...**

Slower economic growth will have its effect on the labour market, restricting the net increase in employment to 2.5% in 2016. The effect will be reinforced by others which have begun to appear in 2015 and will strengthen next year, due to the recovery in business confidence, among other factors. As the weight of job creation passes to the more productive sectors (though these are not the largest), the conversion of temporary contracts to permanent increases, and working days lengthen (from part- to full-time), the rate of increase in the number of jobs will moderate, while the quality of jobs will improve.

**... and the unemployment rate will fall to 20.9%.**

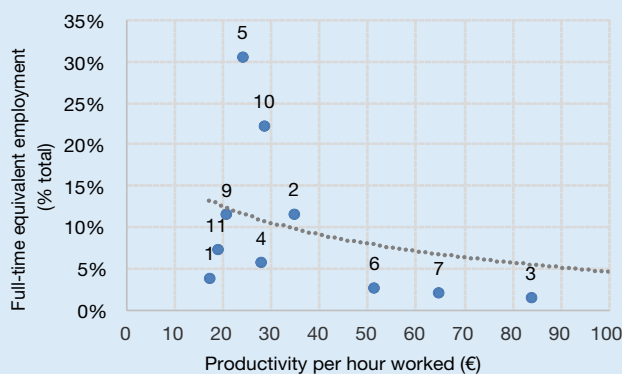
The slower rate of job creation forecast for 2016 means that the fall in the unemployment rate will also moderate. While it is expected to fall by two percentage points in 2015 to 22.4%, next year the decline will be 1.5 percentage points to 20.9%. This level of unemployment is still too high to expect wage rises to accompany the incipient improvement in labour productivity.

**Full-time equivalent employment and productivity per hour worked by sector\***



Source: Afi, INE

**Full-time equivalent employment and productivity per hour worked by sector\***



Source: Afi, INE

\* 1: Agriculture, livestock, forestry and fishing; 2: Manufacturing industry; 3: Extractive industry and energy; 4: Construction; 5: Retailing, transport and hotels & catering; 6: IT and communications; 7: Finance and insurance; 8: Property; 9: Professional activities; 10: Pub. admin., healthcare & education; 11: Artistic, recreational and other services. Property activities do not appear in the graph because they have a high labour productivity (on the order of €350/hour), which would make it difficult to differentiate the readings for the other sectors; the YoY growth in employment in 3Q15 was 3.1%.

**Macroeconomic indicators for the Spanish economy - Afi 2016 forecasts**

Annual growth (%)	2012	2013	2014	2015	2016
GDP	-2.6	-1.7	1.4	3.2	2.7
Final consumption	-3.8	-3.0	0.9	2.9	2.5
Households	-3.5	-3.0	1.2	3.5	3.0
Pub. Admin.	-4.5	-2.8	0.0	1.2	1.1
GFCF	-7.1	-2.4	3.5	5.8	5.0
Capital goods	-8.5	4.3	10.7	8.6	7.1
Construction	-8.2	-7.1	-0.1	5.3	4.9
Domestic demand (1)	-4.3	-2.7	1.3	3.4	2.9
Exports	1.1	4.3	5.1	5.3	5.6
Imports	-6.2	-0.3	6.4	6.4	6.9
External demand (1)	1.7	1.1	0.0	-0.2	-0.2
CPI	2.4	1.4	-0.2	-0.2	1.3
Employment (EPA)	-4.4	-1.9	1.2	3.0	2.5
Unemployment rate (EPA)	24.8	26.1	24.4	22.4	20.9
Public sector balance (% GDP)	-10.3	-7.1	-5.8	-4.7	-4.0
External financing cap./reqt.(%GDP)	0.1	2.2	1.6	0.4	0.3

(1) Contribution to GDP growth

Source: INE

**The European Commission forecasts a progressive economic recovery in the EU-28...**

The autumn forecasts of the European Commission (EC) picture a timid economic recovery in the eurozone, with growth of 1.6% in 2015 rising to 1.8% next year. This is in a context of new challenges, such as the slowdown in emerging markets and a loss of momentum in some transitory positive factors.

**... and also slower growth in Spain.**

These figures are substantially similar to those published in the spring. Forecast growth in Germany this year is cut by 0.2pp to 1.7%, with 1.9% expected in 2016. According to the EC, despite reduced demand from emerging markets, Germany's growth will continue to find support in the dynamism of the labour market and the favourable financial conditions for business activity. The Commission's 2015 forecast for France remains unchanged at 1.1%, but for next year it has been reduced by 0.3pp, from 1.7% forecast in the spring to 1.4%. The obstacle for France is the need to meet its public deficit targets.

In the case of Spain, the EC has lifted its forecasts to bring them into line with those of analysts, at 3.1% for 2015 and 2.7% next year, compared to 2.8% and 2.6% in the spring. The Commission takes note of the deceleration in Spanish growth, though it indicates that it remains robust, supported by sustained job creation, the improvement in financing conditions, confidence and low oil prices. It expects the contribution to growth of foreign trade to remain neutral. It also expects the public sector deficit to miss its targets by 0.5pp this year and 0.8pp in 2016.

The European (EU-28) unemployment rate will decline by only 0.3pp in 2016, from 9.5% to 9.2%. In addition, the Commission even expects a slight increase in unemployment in Germany, from 4.7% in 2015 to 4.9% the following year. In any case, these levels cannot be compared with those in peripheral countries, such as Spain. Though the latter will see the biggest reduction in its unemployment rate among European countries, with a fall of 1.8pp, it will continue to have the second highest rate in the EU (20.5% in 2016), ahead only of Greece (25.8%).

