

# Labour Market Monitor

Issue No. 106 | May 2016

## Key points of the month

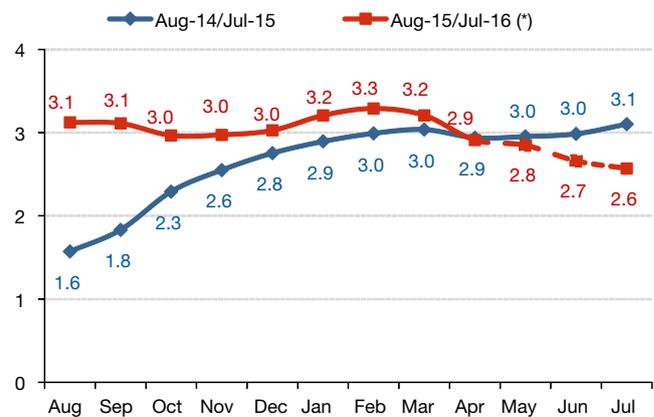
- Social Security enrolment increased by some 158,000 over the previous month, confirming the slowdown forecast by the Afi-ASEMPLEO SLM Indicator.
- However, the 1Q16 Labour Force Survey (EPA in Spanish) indicates that the year began with an acceleration in the growth rate of employment.
- The Afi-ASEMPLEO SLM Indicator is forecasting YoY growth in employment of 2.6% in July.

## Growth in employment will continue to slow in the coming months

The April data for Social Security enrolment and registered unemployment confirm the slowdown in labour market growth seen in the first months of the year. However, this slowdown appears to be fading. While YoY growth in Social Security enrolment declined by 0.22 percentage points (pp) in February, the fall was 0.16pp in March and 0.13pp in April, which took it to the current 2.8%. In YoY terms, growth in enrolment is close to 455,000, almost identical to the reduction in registered unemployment.

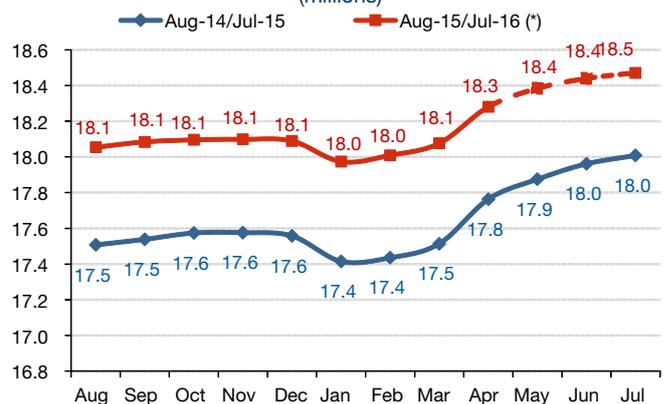
On the other hand, it is impossible to ignore the difficulty of reconciling the 1Q16 EPA data, showing a significant acceleration in employment growth (up 0.3pp compared to the previous quarter), with the slowdown seen in the Social Security data (down 0.4pp between December 2015 and March 2016). The Afi-ASEMPLEO SLM Indicator reflects this dichotomy by increasing the coefficient of transposition between the data series for Social Security enrolment and employment. As a result, the Indicator confirms a trend in employment similar to that indicated in previous issues of this publication, to a YoY job creation rate of 2.6% in July (higher than the 2.5% consensus of analysts). The labour market continues to show strength, with a greater likelihood of upward revisions rather than the contrary.

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



Source: Afi. (\*) May 2016-Jul 2016 figures are forecasts

SLM monthly forecast of workers in employment (millions)



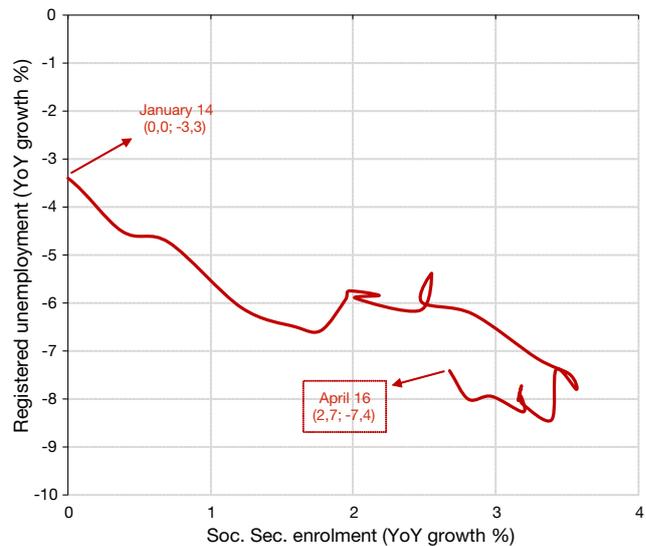
Source: Afi. (\*) May 2016-Jul 2016 figures are forecasts

The April data are in line with the predictions of the Afi-ASEMPLEO SLM Indicator. Social Security enrolment increased by some 158,000 and registered unemployment was down by around 83,600. Hence, the rate of job creation is slowing down as forecast.

Employment growth continues to be concentrated in low-productivity sectors, led by hotels & catering, probably reflecting the expectation of reservations in the coming months. Meanwhile, other sectors are once again falling behind in the recovery in the economy and in employment, notably construction, industry (especially the extractive industry) and IT & communications. Government administration also accounts for a good part of the slowdown.

Recruitment is also performing well, with a 7% YoY rise in the aggregate and in all types of contracts, except full-time temporary contracts.

Afi-ASEMPLEO SLM 'clock' 2014-2016



Source: Ministry of Employment and Social Security

## The assessment of ASEMPELO

### From the dole queue to a job, with the help of professionals

As ASEMPELO has been explaining, the qualitative data on trends in employment and hiring are showing that well-ordered temporary work is often not just an efficient form of providing companies with flexibility, but it also acts as a springboard enabling workers to find more permanent jobs.

Moreover, there is another circumstance that we find especially gratifying. The temporary work agencies have shown themselves to be the most useful instrument for the professional management of temporary work and for accelerating the transition from unemployment to work and then, with the employability acquired in the form of an orientative diagnosis, work experience and intensive training, to make it possible for workers to join companies on a permanent basis. This is occurring with 31% of the workers that the agencies provide to their corporate customers.

On the other hand, as shown beyond doubt by the Employment Quality Index published by the University of Alcalá, the jobs provided by temporary work agencies have shown themselves to be superior in terms of remuneration, safety and contribution to employability compared to direct temporary hiring.

Do we need more arguments to put our faith decisively in a temporary work system that guarantees workers their rights, health and safety, remuneration and better employability and to ease their incorporation into the world of work?

**Andreu Cruañas**, Presidente de Asempleo

## The highlight of Afi

### A segmented normalisation of the labour market

In this quarter, the recovery in Spain's labour market indicators has now been under way for three years, since the end of the second recession of the crisis. Since then, a million workers have left the dole queue and a similar number have found jobs. The profile of those benefiting from this process can be drawn with some precision: they are male, young, with medium-high qualifications or training, have been unemployed for less than a year and have taken temporary jobs. This description reveals the enormous task still in front of us for a full normalisation of the Spanish labour market. This cannot be otherwise, as month after month the unemployment register shows the unpalatable figure of 4 million registered unemployed who still remain (or 4.8 million according to the EPA), the desperate situation of a good half of them and the loss of employability that they have suffered. At the same time, the improved probability of transitioning from unemployment into work is the best sign of the normalisation of employment, without prejudice to the above observations. The key lies in finding the mechanisms that will maintain the improvement in the probability of transition and smooth the road so that all the unemployed can benefit from this normalisation. The mediation of the placement agencies plays a significant role in the active policy jigsaw. It is undeniable that the bigger role played by these agencies in the placement process is supporting this recovery in the probability of transitioning to employment seen in recent quarters.

**José Antonio Herce**, Director Asociado de Afi

# Labour Market

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## Surprising start to the year 2016 in the labour market

The acceleration in employment growth shown by the EPA contrasts with the slowdown in Social Security enrolment. The improvement in manufacturing industry reopens the debate as to which sectors will take over from hotels & catering and retailing as the drivers of employment growth. The unemployment rate returned to 21%, 0.1pp higher than the previous quarter, due to the decline in the labour force (0.3% YoY).

**The acceleration in employment growth shown by the EPA contrasts with the slowdown in Social Security enrolment.**

According to the EPA, the fall in employment in 1Q16 was half the number forecast by the Afi-ASEMPLEO SLM Indicator (64,600 down on the previous quarter). This smaller decline means that YoY employment growth again accelerated, rising to 3.3% YoY (compared to 3.0% in 4Q15), the fastest growth yet seen in the recent recovery in the economy and employment. This behaviour is in contrast to that of Social Security enrolment, which saw YoY growth fall from 3.2% in 4Q15 to 3.0% in 1Q16.

This smaller reduction in EPA employment was due to (i) a smaller than expected fall in employment in certain sectors and (ii) to quarterly increases in the numbers of workers in the following areas:

1. In the **supply of jobs**:

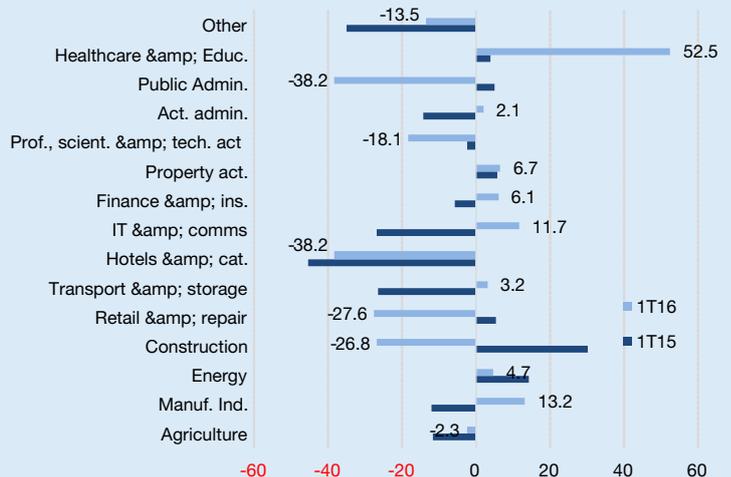
- The public sector: employment rose by 17,600, while in the private sector it fell sharply. The government has stated that the greater part of this increase continues to occur in regional authorities.
- The Catalan economy where industry plays a significant role, saw an increase in employment of 25,700 over the previous quarter.

Seasonally adjusted Social Security enrolment and EPA employment (% YoY change)



Source: Ministry of Employment and Social Security

YoY variation in employment by sector (thousands)



Source: INE

**The improvement in manufacturing industry reopens the debate as to which sectors will take over from hotels & catering and retailing as the drivers of employment growth.**

- Industry (with an increase in employment of 18,000 over the previous quarter, and specifically manufacturing industry, shows a trend that contrasts with the reading of Social Security enrolment, as in recent months there have been warnings of slower growth in this type of activity. The modest growth in semi-manufactured exports and industrial orders, among other factors, account for this performance.

**2. In the demand for jobs:**

- Employment rose among older workers, and specifically those aged over 45 (47,600 found jobs in the quarter), while it declined strongly among younger people (the under 35s fell by 92,300 in the quarter), who remain those encountering the greatest difficulty in the labour market.
- Workers who have completed middle-level education, and specifically those who have taken vocational training (4,800 found work in the quarter), which is consistent with the increase in industry jobs, as these types of skills and professional profiles are required in that sector.
- Permanent workers: the number in employment with this type of contract rose by 52,400 in the first quarter, while temporary workers declined by double that number. Nevertheless, this is the smallest fall in a first quarter since 2011, probably due to the fact that this year Easter Week fell wholly in this quarter.

**The unemployment rate returned to 21%, 0.1pp higher than the previous quarter...**

**... due to the decline in the labour force (0.3% YoY).**

Unemployment rose by some 11,900 (down 12% in YoY terms). This quarterly increase, together with the decline in the labour force (down 52,700, 0.3% YoY) meant that the unemployment rate rebounded to 21% (0.1pp higher than the previous quarter).

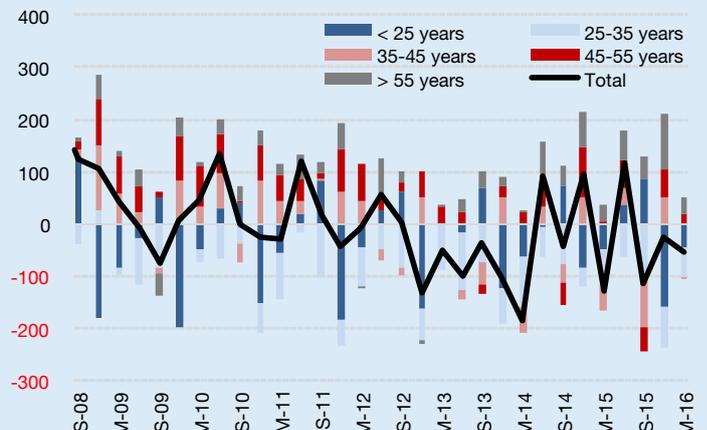
The decline in the labour force again contrasted with the current situation of economic recovery. Indeed, the discouraged population continued to fall during the quarter (down 13,500, 10.2% YoY). It may be that the explanation is not to be found in the economy and is simply related to demographic trends: the number of young people is declining as the population ages

**Contribution to quarterly variation in employment**  
(thousands)



Source: INE

**Contribution to quarterly variation in labour force by age group**  
(thousands)



Source: INE

# Labour Market Review

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## Temporary employment is the key for the unemployed to find work

The recovery has helped the unemployed to make the transition into work, most noticeably among men in the 25-34 age group, with higher education, who have been unemployed for less than a year and live in the Balearic Islands, the Madrid Region and La Rioja.

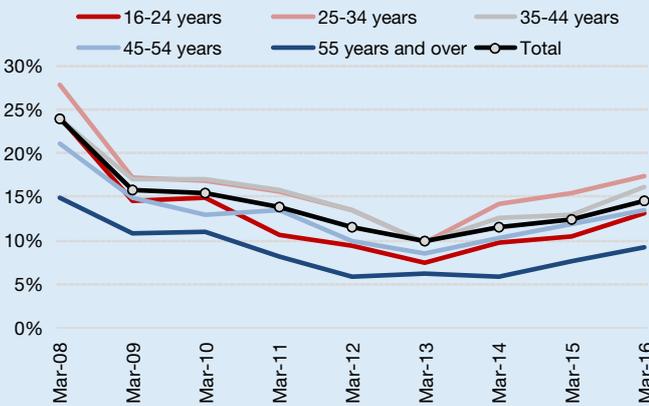
**The recovery has helped the unemployed to make the transition into work...**

Since the beginning of the recovery in the economy and employment in 2014, employment has risen by one million (up to 1Q16), while unemployment has fallen by 1.1 million, bringing the unemployment rate to 21%, a decline of 5.9pp from its peak in 1Q13. This has been possible because it is now easier for the unemployed to find work than was the case in the depths of the crisis. The EPA micro-data allow the calculation of the probability of a worker who is unemployed the fourth quarter finding work in the first quarter; this has increased from 9.9% in 2013 (the low point of the data series) to 14.5% at the beginning of 2016, an improvement of 4.6pp since then. After almost two years of recovery, it is useful to examine whether this trend has benefited all types of unemployed workers or, on the contrary, certain groups have found themselves excluded.

**... most noticeably among men in the 25-34 age group...**

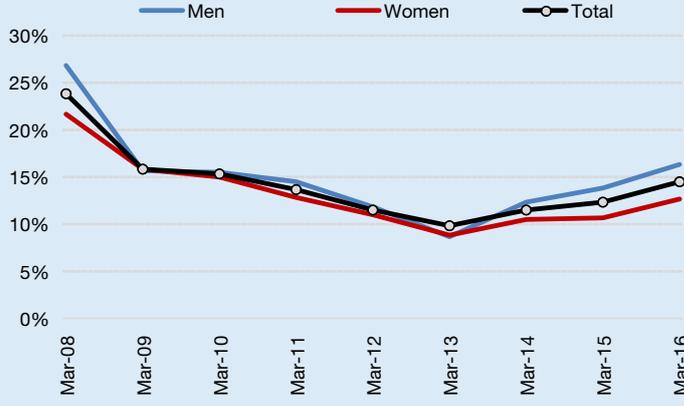
Analysing the trend in this probability by age group, it can be seen that all age groups have seen improvements in their chances of finding a job in the first quarter. However, the differences between age groups, which had narrowed during the crisis (to a range of only 3.5pp between the highest and the lowest), widened again during the recovery phase (the range is now 8pp); it is highest for the 25-34 group and lowest for the over 55s (17.3% and 9.3% respectively in 1Q16)

Probability of a worker unemployed in Q4 finding work in Q1 by age group



Source: INE

Probability of a worker unemployed in Q4 finding work in Q1 by gender



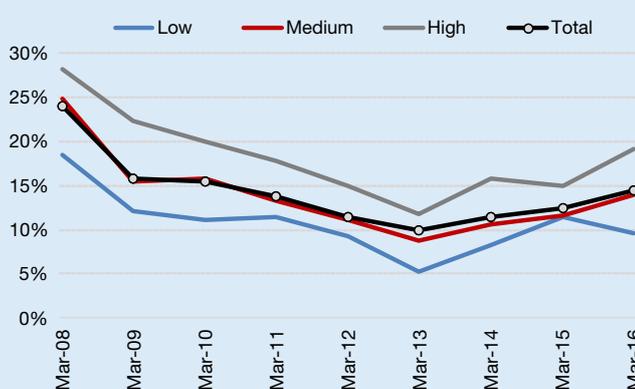
Source: INE

**... with higher education, who have been unemployed for less than a year.**

By gender, the recovery in employment has favoured men more than women, as the former's probability of finding work has improved more strongly than the latter's; between 1Q13 and 1Q16 they have risen by 7.6pp to 16.4% and by to 12.6% 3.8pp respectively.

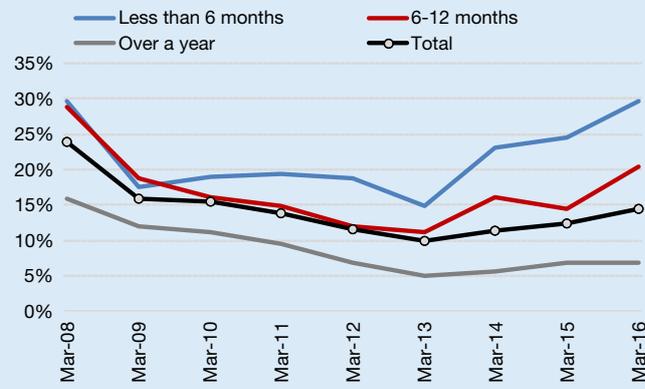
In addition to the individual characteristics of each unemployed worker, the effects of their educational level on their chances of finding a job are also very notable, as is the length of time they have spent in unemployment. This publication has referred on previous occasions to the importance of education in the transition to employment by the unemployed. The higher the level of education completed, the better the chances of finding a job. Moreover, it can be seen that, during the recovery phase, the improvement in these chances has been greater for those who have completed higher education than for those with a basic level. The same happens with the time spent in unemployment. The long-term unemployed, having been out of the labour market for over a year, typically experience greater difficulty in finding work. This can be observed in their probability of transition to employment, which has varied little since the onset of the recovery in the economy and in employment. This group is therefore perhaps one of those most affected by the development and persistence of the crisis, as well as being excluded from the recovery, when it is one of those that probably most needs to benefit from it. Active employment policies should make a special effort in this regard. In contrast, those who have been unemployed for less than a year, and especially less than six months, have seen their probability of finding work double compared to three years ago.

**Probability of a worker unemployed in Q4 finding work in Q1 by educational level**



Source: INE

**Probability of a worker unemployed in Q4 finding work in Q1 by time unemployed**

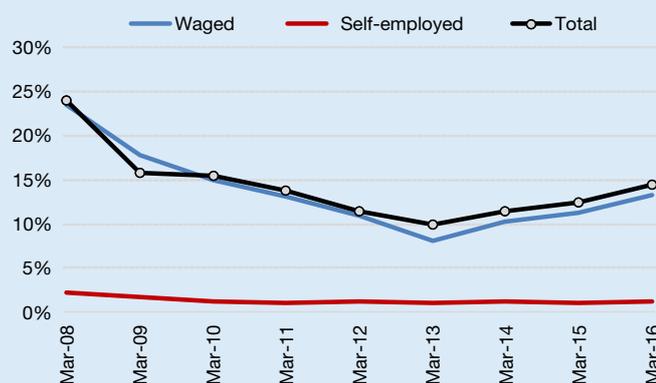


Source: INE

**Temporary employment is proving the key to the door to employment for the unemployed, with the agencies playing a leading role**

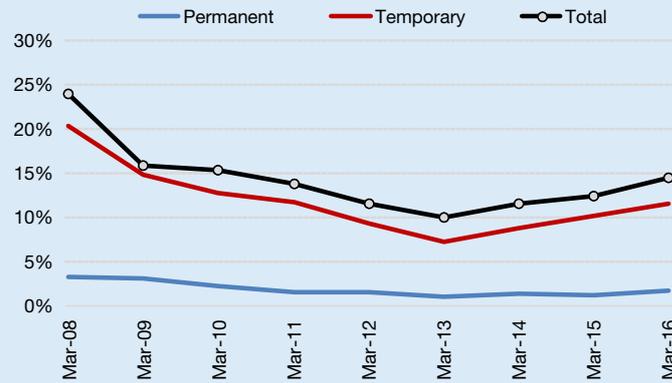
Lastly, the question arises of what type of employment contract are these unemployed finding. The economic recovery is helping them to transition to salaried employment, particularly on a temporary basis. Temporary employment is proving the key to the door to employment for the unemployed. The probability of the employed finding a temporary, as opposed to permanent, job is not only higher, but has increased more strongly during the recovery (from 7% to almost 12% in 1Q16). The annual aggregate total to January 2016 (the latest available figure) of workers placed by temporary agencies has grown by 40% over the comparable figure for 2013, evidence of the agencies' contribution to facilitating the search for work.

**Probability of a worker unemployed in Q4 finding work in Q1 by type of employment**



Source: INE

**Probability of a worker unemployed in Q4 finding waged work in Q1 by duration of contract**

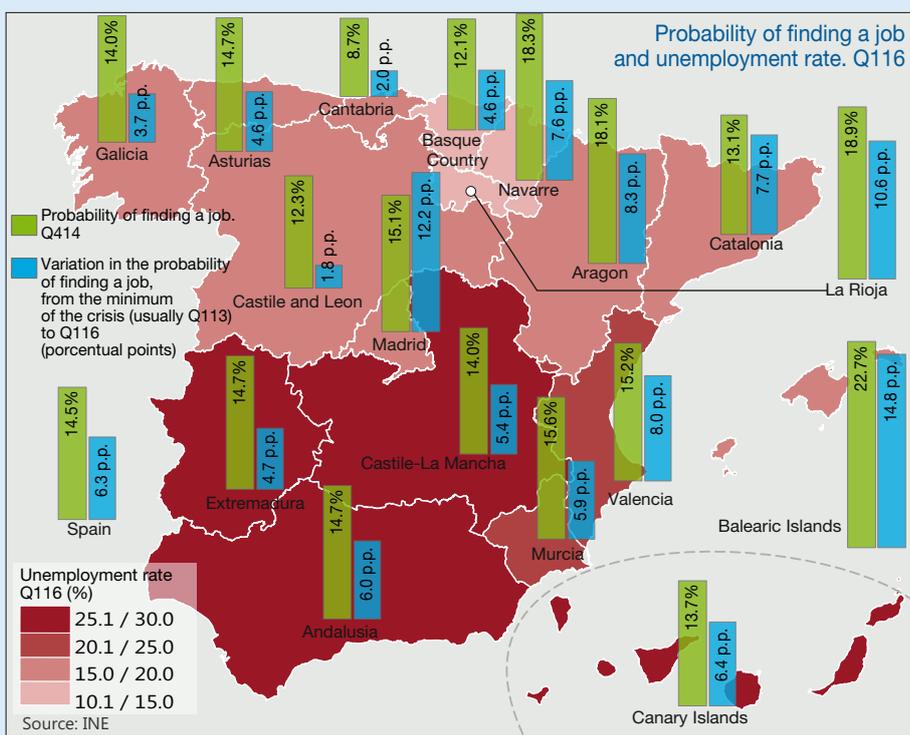


Source: INE

**The unemployed in the Balearic Islands, Madrid Region and La Rioja have less difficulty in finding jobs.**

By region, the improvement in the probability of the unemployed finding work has been greater where it was initially higher. The Balearic Islands, the Madrid Region and La Rioja are the regions which have seen the biggest increases in the probability of the unemployed in the fourth quarter finding work in the first quarter, taking said probability to more than 15%. Among the regions left behind are Cantabria and Castile-Leon, where the chances of the unemployed finding work have barely increased since the onset of the recovery and are among the lowest in Spain.

If this performance is compared with the unemployment rate, although the relationship is less clear than in the previous case, it can be seen that those regions with higher probabilities of transitioning to employment are those with lower rates of unemployment. Improving this rotation calls for the design of measures to stimulate the hiring of the unemployed, together with improvements to their skills that would make them more interesting to companies hiring in these regions. Otherwise, we will see a deepening of the existing divergences, not only between regions, but also between the different groups discussed above.



Source: INE