

# Labour Market Monitor

Issue No. 112 | November 2016

## Key points of the month

- The October increase in Social Security enrolment of over 101,000 is three times larger than last year, and takes the YoY rise to 3.4%.
- The Afi-ASEMPLEO SLM Indicator points to a cruising speed of 3% YoY in the remaining months of the year.
- The year 2016 could end with over 560,000 more workers in employment than the previous year.

## The year 2016 could end with over 560,000 more workers in employment

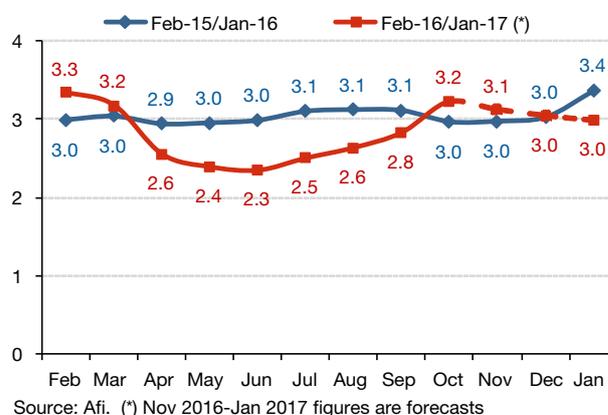
Social Security enrolment increased by 101,335 in October, with a YoY rise of 3.4% (0.4 percentage points more than in September), meaning that the cruising speed of job creation has increased. The unemployment data are also good on a seasonally-adjusted basis, with an increase of 45,000 compared to 82,000 in 2015 and 79,000 in 2014.

The labour force survey (EPA) figures for employment growth in the first two quarters of 2016 sent contradictory signals: in the first quarter they overshot (job creation accelerated notably in YoY terms while economic growth slowed) and in the second the reverse occurred. The third quarter EPA figures represent a return to normality in this respect.

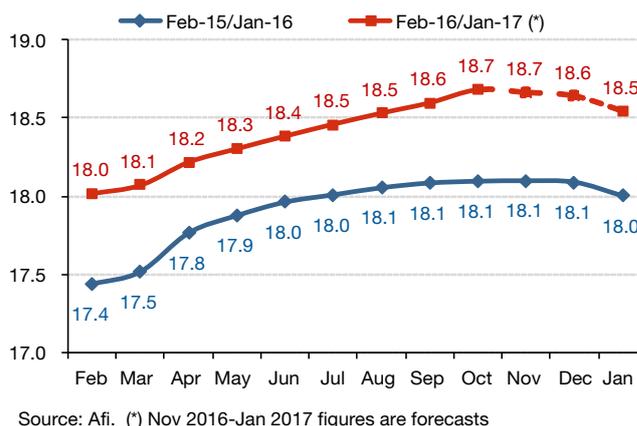
After including these data, the Afi-ASEMPLEO SLM Indicator's job growth forecasts show a sharp deceleration in the spring months after a strong start to the year, followed by a gradual return to growth rates on the order of 3%. However, the October Social Security enrolment data have broken through this barrier.

The Afi-ASEMPLEO SLM Indicator points to a cruising speed of 3% YoY in the remaining months of the year, ending 2016 with an average annual increase of 2.9% and job creation that could exceed the 560,000 mark.

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



SLM monthly forecast of workers in employment (millions)

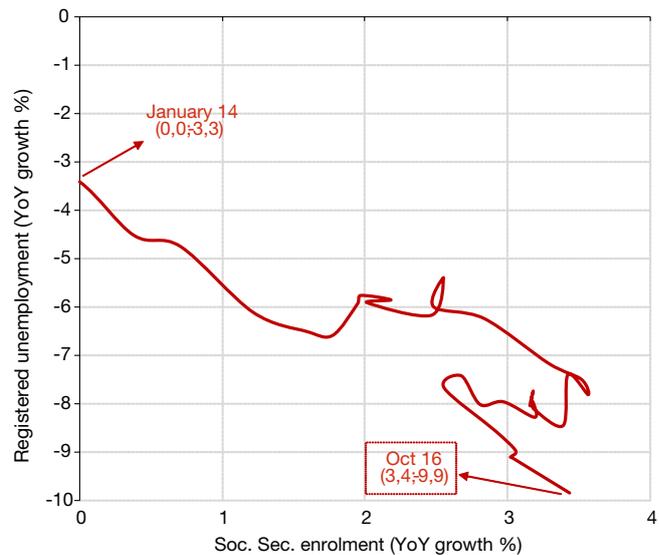


The October increase in Social Security enrolment of over 101,000 is three times larger than last year, and the largest October rise on record. The YoY rate accelerated again, to 3.4% (only previously seen in the current recovery in 2Q15). The delay in processing new signings in education, the onset of key agricultural harvests (citric fruit and olives), the late grape harvest and the prolongation of the tourist season are the factors behind the strong increase in enrolment. Even so, the combined figures for September and October remain favourable and this performance does not appear to be a one-off.

Registered unemployment saw a monthly increase of 44,700, but the YoY reduction (9.9%, the highest recorded since the beginning of the economic recovery) nevertheless accelerated. In seasonally adjusted terms, unemployment fell by around 48,000.

Recruitment rose by 6.1% compared to the previous year, with permanent hirings rising twice as fast temporary jobs and full-time signings exceeding temporary ones.

Afi-ASEMPLEO SLM 'clock' 2014-2016



Source: Ministry of Employment and Social Security

## The assessment of ASEMPLEO

### Against the clock

Time is against the long-term unemployed: as they stay out of the labour market and lose contact with its requirements, their professional skills become increasingly obsolete. We cannot remain indifferent to such a mismatch between the skills of the labour supply and the needs of the demand. The situation should spur institutions and social agents to collaborate in the design of active policies to improve the employability of these workers and facilitate their return to the labour market.

This is a very serious problem, especially if we focus on the age group most severely affected, the over 45s. For these unemployed, retirement is just around the corner and their pension depends on this last stage of their working life.

In the private employment agencies, we have the resources, the experience and the know-how needed to support these unemployed workers in their re-engagement with the labour market. Through an individualised analysis, orientation and training, we can provide the means for them to stay in the game and be in a position to compete for jobs. In addition, as temporary employment agencies, we provide access to the largest number of vacancies in the market. We insist on the need to build a framework for public-private cooperation in employment, which should be effective and efficient in placing all these workers who are still of working age and who can constitute a very significant resource for our economy.

**Andreu Cruañas**, President of Asempleo

## The highlight of Afi

### Permanent unemployment or temporary work

It is good news that the recovery in employment is also benefiting the long-term unemployed, whose number has fallen by a million over the past three years. In contrast, however, the stubborn reality remains that there are still five times more people in this category than before the crisis, women are re-emerging in a context dominated by the over 45s and the rates of return to employment are extremely low.

For the great majority of these workers, the best chance of returning to employment lies in temporary work. It would be advisable to refine the active employment policies so that they help to consolidate the pathways to temporary employment that already exist, by improving workers' employability, and in general supporting their return to work with a dual aim.

Firstly, to lengthen the time spent in temporary employment by the long-term unemployed and, secondly, to ease their transition into permanent jobs rather than alternating between unemployment and temporary work, or a series of temporary jobs. Rather than disdain temporary work as a path to the labour market for the long-term unemployed, we should begin to consider this channel as the most feasible, make it longer and more complete and involve all the significant actors, including the employment agencies, in the return to work of this category of unemployed.

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

# Labour Market

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## The unemployment rate declined to 18.9% in 3Q16

Employment rose by 226,500 in 3Q16, recovering its consistency with the trend in Social Security enrolment. The employment created in 3Q16 (i) includes an increasing number of economic sectors, (ii) boosts temporary work and (iii) includes an increase in the average number of hours worked per employed worker. The unemployment rate declined to 18.9%, breaking through the 20% threshold for the first time since 2010.

### Employment rose by 226,500 in 3Q16...

The 3Q16 labour force survey (EPA) records an increase of 226,500 in employment over the previous quarter, somewhat less than forecast by the Afi-ASEMPLEO SLM Indicator (280,000). On this occasion, unlike what happened the previous quarter, both the YoY change (2.7%) and the seasonally-adjusted variation (0.8%) were consistent with the trend in Social Security enrolment in the same period (3.0% y 0.7% respectively).

### ... includes an increasing number of economic sectors...

- includes an increasing number of economic sectors, though hotels & catering and retailing continue to account for the bulk of the growth in employment. In these sectors, productivity per hour worked is lower than the average for all sectors, which is why economic growth depends almost entirely on the increase in hours worked, rather than any rise in labour productivity.

### ... boosts temporary work...

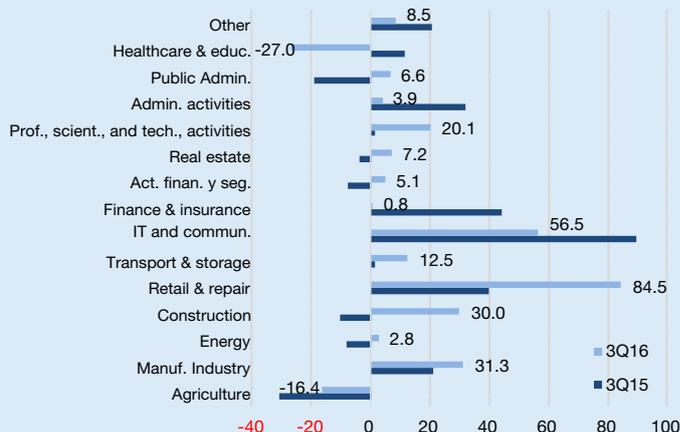
- boosts temporary work, due to the favourable seasonality in this quarter. Temporary wage workers increased by 245,900 in 3Q16, with the incidence of temporary working standing at 27%, while permanent employment fell by 29,100 compared to the previous quarter.

Social Security enrolment and EPA employment (seasonally adjusted - YoY change)



Source: INE, Ministry of Employment and Social Security

Quarterly variation in employment by sector (thousands)



Source: INE

**... and full-time work.**

- increases the average number of hours worked, as full-time employment rose by 330,500 in the quarter, while part-time working was down by 104,000. Another noteworthy aspect of the latter category is the 39,000 reduction in involuntary part-time workers (those who would prefer full-time work but cannot find it) compared to the previous quarter, though they still account for 60% of the total.

The reduction in EPA unemployment confirms the earlier registered unemployment data for 3Q16 (both figures were down 3% on a YoY basis).

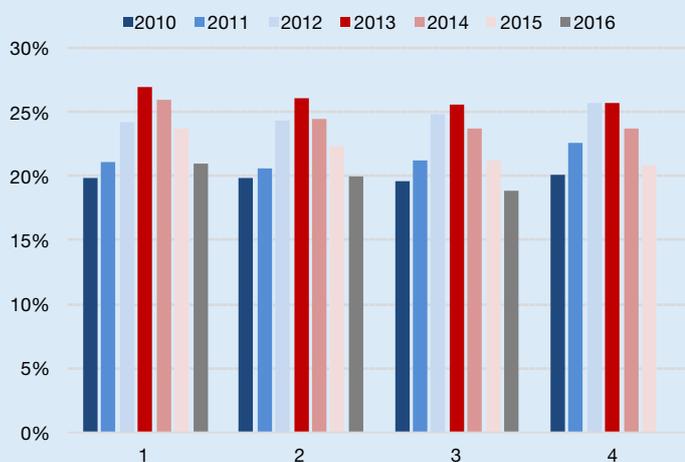
The fact that the reduction in unemployment in the quarter (253,900) was greater than the rise in employment indicates that the labour force decreased by 27,300 (0.22% YoY). Nevertheless, the decline in the labour force shows signs of slowing; as discussed in previous issues, it is increasingly due to demographic factors (fall in the working-age population) rather than economic factors (such as the "discouragement effect" resulting from the inability or low probability of finding work, which often causes workers to abandon the search for a job).

**The unemployment rate declined to 18.9%, breaking through the 20% threshold for the first time since 2010.**

The net effect of all the above was that the unemployment rate fell to 18.91% (compared to the 18.7% predicted by the Afi-ASEMPLEO SLM Indicator), a decline of 1.09 percentage points (pp). This confirms the forecast that the unemployment rate would fall below the 20% mark this year, for the first time since 2010.

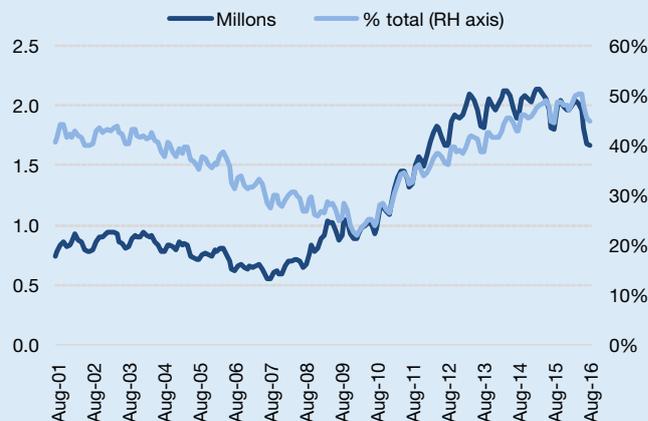
The extension of the Plan Prepara (Prepare Plan), approved in April, is having an effect. It means that it will continue until February 2017, assuming that the unemployment rate remains above 18%. However, we should remember that a very significant percentage of the unemployed do not receive any form of official benefit (1.6 million, around 45% of the registered unemployed in August, the latest available data), as their contributory benefits have run out due to the time they have been unemployed. The percentage of unemployed workers classed as long-term (over one year without a job) fell by 1.6% in the quarter, but remains well over 50% of the total (specifically 56.6%).

**Unemployment rate by quarters**



Source: INE

**Registered unemployed not in receipt of government unemployment benefit**



Source: Ministry of Employment and Social Security

# Labour Market Review

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## Temporary work eases the transition into employment for the long-term unemployed aged over 45

Long-term unemployment is concentrated among women and the over 45s. Though they have higher unemployment benefits than the other categories, it would be desirable to design active policies to improve their employability.

Since the labour market recovery began in 1Q14, the number of long-term unemployed, i.e. those without work for over a year, had fallen by 33% by 3Q16, but they still account for an important part of total unemployment (56.6%). The fact that this proportion has fallen less than the total reveals that this group has greater difficulty in finding work. The longer they are without work, the more these workers are distanced from the labour market, the more their working skills become obsolete and the problem becomes entrenched (three out of four long-term unemployed have been without work for over two years). This means that the structural employment rate, according to various estimates, is around 18%. Any reduction in this figure necessarily requires policies that identify the profile of the long-term unemployed and improve their employability.

### Long-term unemployment is concentrated among women and the over 45s.

With regard to gender, the 'feminisation' of unemployment is an increasingly glaring fact, perhaps even more so in the case of long-term unemployment. In 3Q16, 50.7% of the unemployed were women, and 51.7% of those without work for over a year.

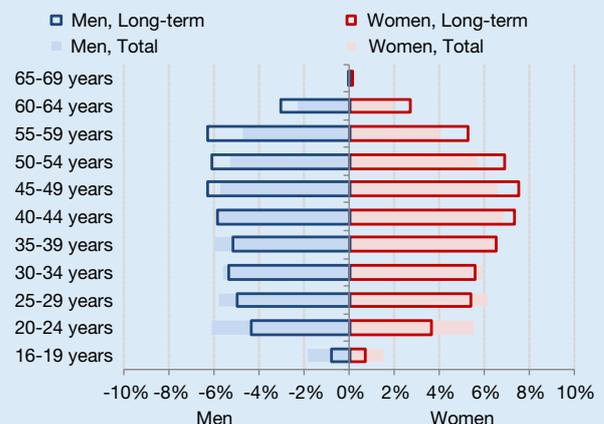
Moreover, long-term unemployment is concentrated among the over 45s, 68.8% of whom have not worked for over a year. These are generally workers who are more than half way through their working life. On occasions, long-term unemployment may even affect more severely those who are close to retirement, which could affect their government pensions (in 2016, they were based on the 19 years preceding retirement).

Long-term unemployment (over one year seeking work)



Source: INE

Unemployment pyramid by age and gender: total and long-term (over one year seeking work)



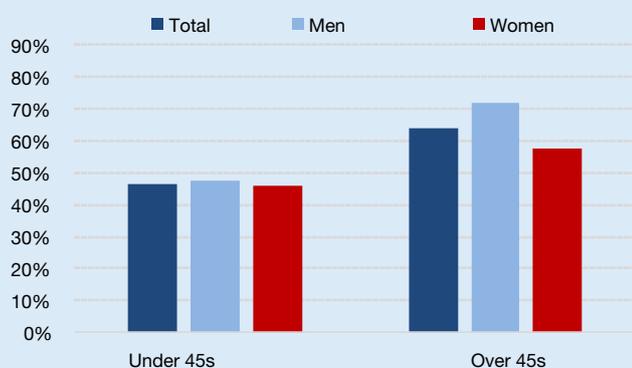
Source: INE

**Though they have higher unemployment benefits than the other categories...**

To avoid this, the system offers special protection to the over 52s who lose their jobs (they may even contribute to a special scheme for their retirement). The proportion of unemployed over 45 in receipt of unemployment benefit is 17.5 pp higher than for lower age groups. There is also a gender gap among the over 45s.

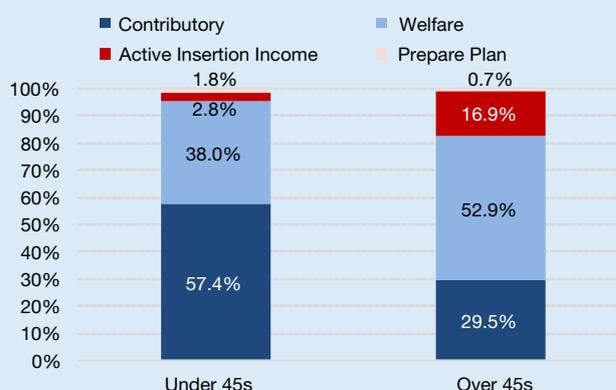
However, the type of benefit available is welfare, i.e. the system offers a financial benefit to this group because it is considered financially vulnerable (workers may have exhausted their contributory benefits) and with few possibilities of returning to the labour market. Only 30% of unemployment benefit recipients aged over 45 had previously paid contributions against this eventuality, while twice as many of those in younger age groups had done so.

**Percentage of unemployed receiving benefit by age and gender (unemployment benefit recipients / unemployed) in August 2016**



Source: Ministry of Employment and Social Security

**Distribution of unemployment benefit recipients by category and age (% total) in August 2016**



Source: Ministry of Employment and Social Security

**... it would be desirable to design active policies to improve their employability.**

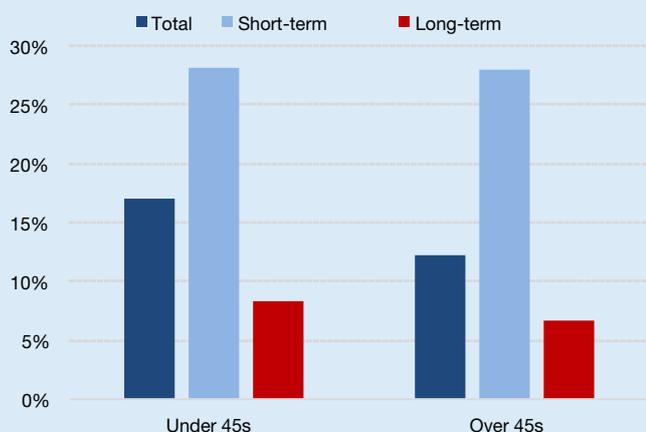
However, the situation may require not just a monetary benefit, but decisive active policy initiatives that classify these workers according to their skills, enhancing those of the less advantaged in line with the demands of the market and guiding their search for work. Here the employment agencies may play a crucial role.

Firstly, because they are familiar with the trends and demands of the market. As noted above, the long-term unemployed have great difficulty in finding a job, and even more so when they are over 45. Only 6.6% of the long-term unemployed aged over 45 found a job in 3Q16, compared to 8.3% in lower age groups.

**Temporary work eases the transition to employment.**

Secondly, because when the probability of finding work is analysed in terms of the type of work found, it can be seen that temporary work makes it easier to make the transition to permanent work. In other words, a worker in long-term unemployment is more likely to find a temporary job than a permanent one. This is seen to be true for all age groups. In the case of the over 45s, 5.3% found temporary jobs in 3Q16, but only 0.6% found permanent work. Returning to the labour market and staying in it during the final stretch of a working life is beneficial not only for the worker, but for the system in general, as it relieves the Social Security of a financial burden and transfers knowledge to new generation, etc.

Probability of an unemployed worker finding a job in 3Q16



Source: INE

Probability of an unemployed worker finding a job by age and duration of contracts signed in 3Q16

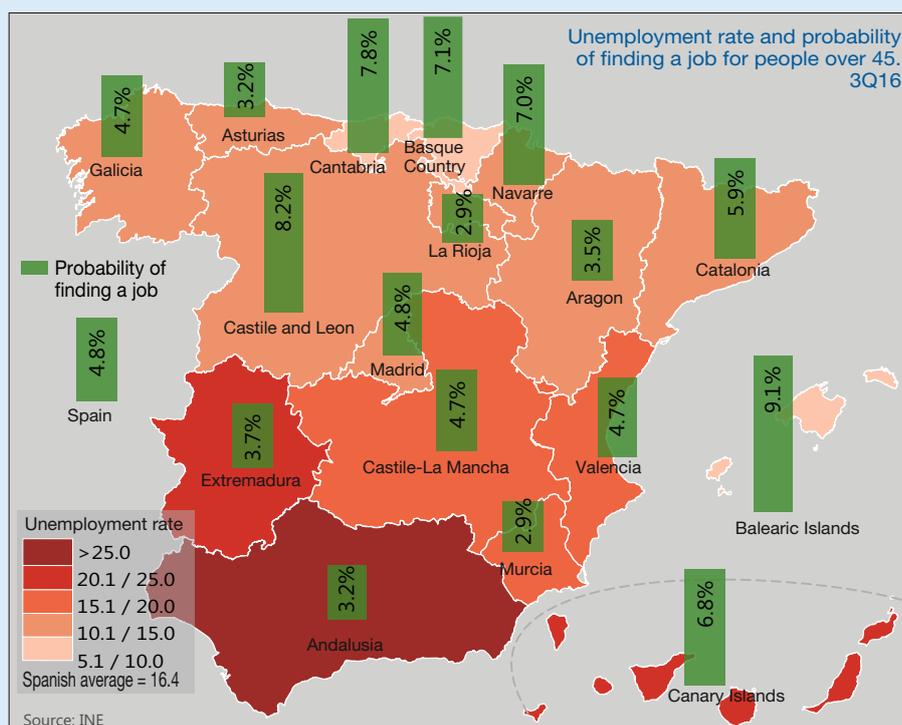


Source: INE

**Andalusia and Extremadura are the regions with the highest rates of unemployment and the lowest probabilities of the unemployed finding work.**

Active employment policies are the responsibility of regional government, meaning that it is essential to be aware of this reality at regional level. It is unsurprising that the regions with the highest unemployment rates among the over 45s also have the lowest probabilities of finding work in Spain. The cases of Andalusia and Extremadura stand out. However, these regions do not have the highest proportions of long-term unemployment. Instead, these are found in the Canary islands, La Rioja and Castile-La Mancha, where over 78% of the unemployed aged over 45 have been without work for a year or more.

The best combinations of unemployment and probability of finding work for the over 45s are found in the Balearic Islands, Cantabria and the Basque Country. In those regions, the unemployment rate of this age group is half the national average and the probability of finding work is double the same measure.



Source: INE