

Labour Market Monitor

Issue No. 118 | May 2017

Key points of the month

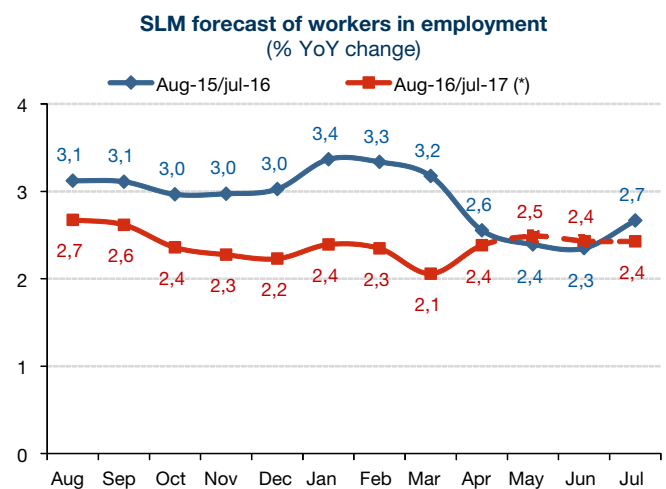
- As anticipated by the Afi-ASEMPLEO SLM Indicator, the unemployment rate rose to 18.75% in 1Q17.
- In April, Social Security enrolment surprised on the upside, with an increase of 212,000 (3.8% YoY).
- The acceleration in job creation seen in April is expected to be maintained in May.

The acceleration in job creation in April is expected to be maintained in May

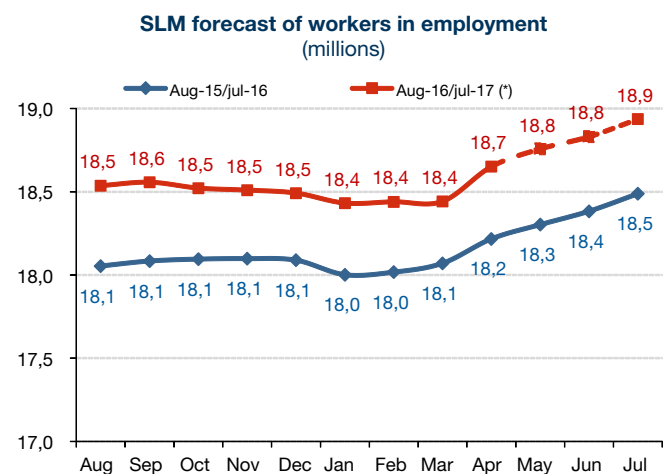
In April, Social Security enrolment and registered unemployment surprised on the upside, with an increase of over 210,000 in the former and a fall of some 130,000 in the unemployed. In YoY terms, these are historically unusual figures, with employment rising by 3.8% and unemployment declining by 10.9%. In the past 12 months, enrolment has risen by almost 660,000.

Based on these data and those of the EPA labour force survey, the Afi-ASEMPLEO SLM Indicator indicates a substantial acceleration in employment growth, to 2.4% YoY, reflecting the positive impact of Easter week (of a magnitude in line with the forecast in previous issues of this Monitor).

For the coming months, the Afi-ASEMPLEO SLM Indicator is forecasting YoY employment growth of up to 2.5% in May, based on signs of recruitment for the summer season, followed by a slight slowdown in June due to the YoY calculation being affected by exceptional growth in enrolment in June last year. With regard to the year as a whole, the forecast of 2.5% growth in employment remains unchanged; this would translate into 480,000 new jobs in 2017, which may well be an underestimate.



Source: Afi, (*) may-17 / jul-17 are forecasts

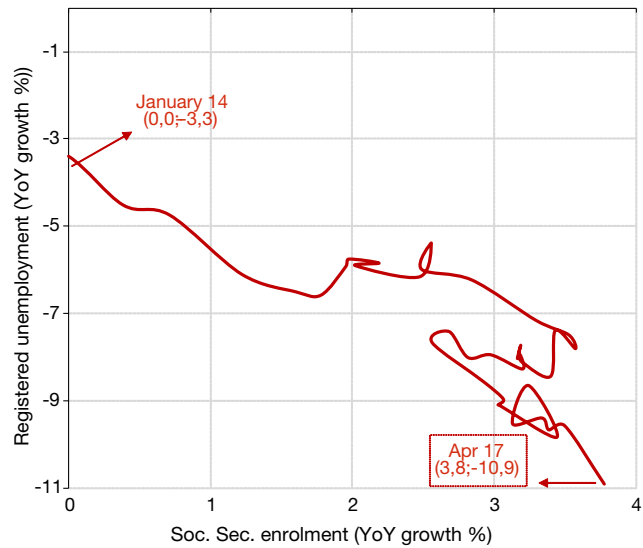


Source: Afi, (*) may-17 / jul-17 are forecasts

Social Security enrolment was up by 212,000 in April, causing the YoY growth rate to rise to 3.8% from the 3.5% recorded in March. Social Security enrolment passed the 18 million mark, recovering a level last seen in mid-2009. Irrespective of the timing of Easter week, the labour market figures for 2017 to date have been better than in previous years. The combined figures for March and April show an increase of 374,000 in Social Security enrolment (compared to 293,000 last year) and of 175,000 on a seasonally-adjusted basis. The increase is due largely to hotels & catering, together with employment services and retailing.

Registered unemployment fell by 178,000 over the two months (101,000 on a seasonally-adjusted basis), somewhat less than in the same period in 2015. The YoY fall was close to 11%, taking total unemployment to 3.5 million, the lowest in the past eight years,

Afi-ASEMPLEO SLM 'clock' 2014-2017



Source: Ministry of Employment and Social Security

The assessment of ASEMPELO

Heading for 2020... in high-speed train or local line?

Spain is still gazing at the European 2020 goals from afar. There has been progress in some of them since the onset of the economic recovery, but there is still a long way to go and the time left is shrinking steadily. This means that measures should be tackled to try to at least get closer to the targets set by Brussels; with regard to employment goals, the direction to be followed is clear: the market needs more flexibility and fewer bureaucratic barriers. It also requires workers with the training that businesses need to fill their vacancies and, of course, it is crying out for an increase in R&D investment to improve the competitiveness and growth of Spanish companies, so that they can create more jobs.

In such a context, it becomes necessary to improve workers' employability, to provide guidance so that they seek the training required by the market, working to prevent youngsters from dropping out of school and promoting higher education. In this respect, the temporary work and placement agencies play a role both necessary and fundamental, providing the capability, experience and know-how needed to offer the efficient mediation services that can help to meet the 2020 employment targets.

Andreu Cruañas. President of Asempleo

The highlight of Afi

Miracle or reforms?

The 1Q17 EPA and the labour market data for April once again highlight the Spanish labour market's extraordinary capacity for job creation, even after three years of recovery. With YoY growth in Social Security enrolment quickening to 3.8% in April, a record rate of growth, this is a good time to consider to what extent this is due to the economic recovery as opposed to the reforms passed in recent years.

There can be no doubt that business confidence, based on rising demand, is a necessary condition for employment to grow. However, five years after the most recent labour market reform was passed in 2012, it can also be confirmed that it would not be growing with the strength seen in the past few years if hiring conditions had not been made more flexible, as was the intention of that reform. As a result, the Spanish economy needs to grow at only 0.9% YoY in order to create jobs. Without those reforms, the economy would almost certainly have had to grow at almost 2% to generate net growth in employment. Hence, the fact that the current favourable economic situation is creating so many new jobs is due more to the reforms than to any miracle.

Nonetheless, further improvements to labour market conditions are required, rather than waiting for a miracle to maintain the high rate of job creation; above all, it is necessary to address the other key aspect in the current phase of consolidation: the quality of the jobs created.

José Antonio Herce, Associate Director Afi

Labour Market

Issue No. 118 | May 2017

The unemployment rate has risen to 18.75%

Employment continues to grow at 2.3% YoY, though imbalances persist and should be corrected: (i) by recovering pre-crisis employment levels and review the training of workers with jobs to provide them with the skills they need; and (ii) by reducing the significant underemployment rate (almost 30%).

The seasonal rebound in the unemployment rate does not put the strength of the recovery in doubt.

Employment continues to grow at 2.3% YoY...

... though imbalances persist and should be corrected by new employment policies.

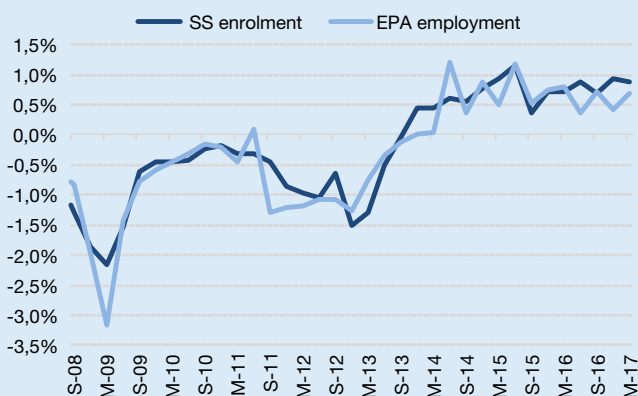
The results of the EPA labour force survey for the first quarter were in line with the monthly data already published and with the Afi-ASEMPLEO SLM Indicator. Employment fell by 69,800, while the unemployment rate rose by 0.1 percentage points over the previous quarter to 18.75%.

By economic sectors, employment growth in 1Q17 was concentrated in agriculture and education, while stronger falls were seen in hotels & catering and retailing than last year, due probably to Easter week falling in the second quarter this year, as opposed to the first quarter as last year.

On a seasonally-adjusted basis, there was a quarterly increase in employment of 0.7%. Another measure providing perspective on this indicator is the YoY change in employment growth which, at 2.3%, repeats the figure for the previous quarter. The initial figure for GDP growth also confirms that the economy maintained its progress in the first quarter with a QoQ rise of 0.8%, again repeating the result for 4Q16.

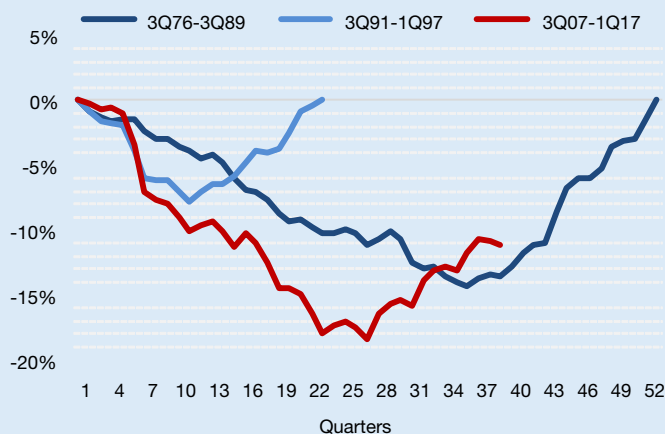
Despite this continuing vigorous growth in employment, which has been recognised by various international bodies (such as the European Commission, the International Monetary Fund and the Organisation for Economic Cooperation and Development), the Spanish labour market still suffers from major imbalances. Though these are being gradually corrected, they perhaps need a push in the form of new government employment policy initiatives such as, for example, the enhancement of active policies, as we have discussed in previous issues.

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



Source: INE, Ministry of Employment and Social Security

Quarterly change in EPA employment in previous economic crises



Source: INE

1. Employment remains 11.2% below pre-crisis levels...

The first imbalance has to do with the level of employment. It has risen by over 1.4 million since the onset of the recovery (the low point was in 1Q13), but nevertheless it is still 11.2% below the level when the crisis began (in 3Q07). This behaviour contrasts with the progress in economic activity, which the market consensus expects to recover pre-crisis levels this year.

... and the majority of workers in new jobs are overqualified.

It should also be borne in mind that a large proportion of those taking the jobs created during the recovery are overqualified for them, i.e. these jobs have been filled by workers whose educational level is higher than that required. This phenomenon continued in 1Q17, taking the proportion of overqualified workers to 53% of total employment.

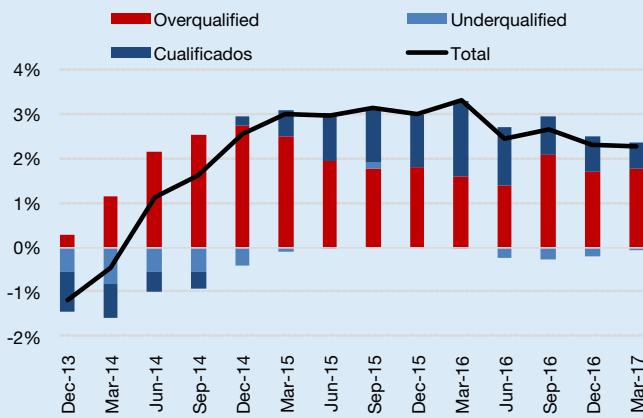
2. The labour underutilisation rate is close to 30%...

The second imbalance relates to unemployment. Though the unemployment rate (U3) increased slightly in 1Q17, since the recovery began it has fallen by over eight percentage points, but it is approaching its structural level which, as we have seen in previous issues, is variously estimated at 16-18%. The proportion of dissatisfied workers, or the labour underutilisation rate, rises to 29% if other labour market deficiencies are taken into account, as the United States authorities do. These include discouraged workers (U4), those inactive workers who would like to work but do not actively seek employment (U5), and those who work part-time because they cannot find full-time jobs (U6).

... with women, young people and the over 55s especially affected.

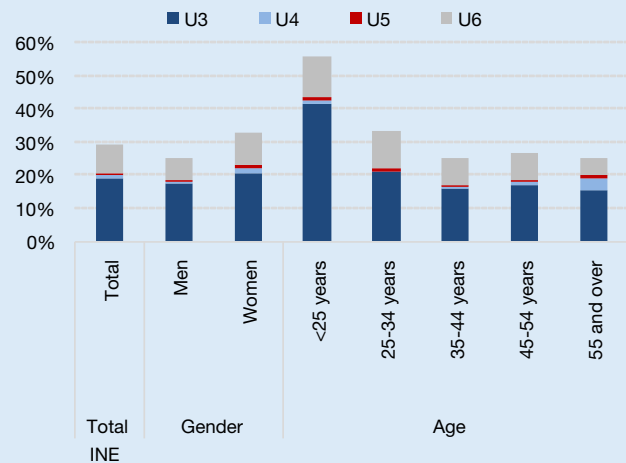
The labour underutilisation rate affects certain categories of worker in particular. Women not only experience a higher unemployment rate than men, but are also more likely to be discouraged (i.e. to believe that they are not going to find work) or underemployed (meaning that they would prefer to work more hours than they do at present). Young people (the under 25s) also have above average proportions of unemployment and underemployment. However, it is among the over 55s where discouragement is most common. Hence, we recommend that, when employment policy measures are designed to correct these imbalances, they should take particular account of these groups, which are clearly more vulnerable than the rest of the labour force.

Contribution to the YoY variation in employment by training-occupation fit



Source: INE

Labour underutilisation rate by gender and age group in 1Q17



Source: INE

The Specialized Labour Market Review

Issue No. 118 | May 2017

Temporary working helps to achieve the 2020 employment targets

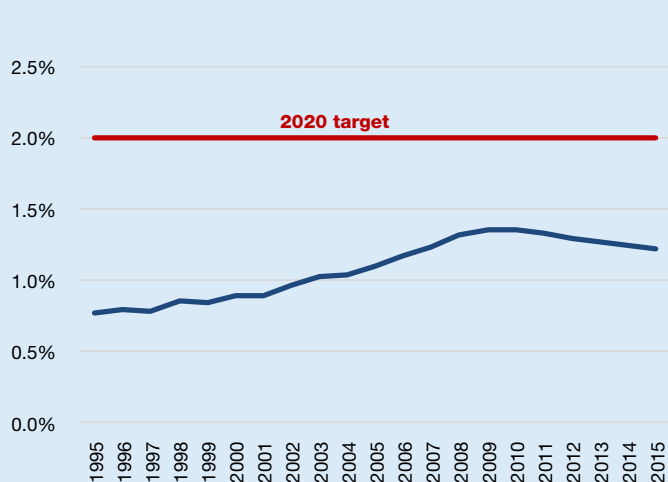
Despite the recent improvement in the unemployment rate, Spain still falls far short of the 2020 employment target. Workers' employability must be improved by preventing youngsters from dropping out of school and by promoting higher education and investment in R&D.

Spain still falls far short of the 2020 employment target, so it would be useful to strengthen the presence of temporary work and placement agencies...

In 2010, the European Union launched its 10-year jobs and growth strategy (Europe 2020), with the aim of creating the conditions for smart, sustainable and inclusive growth. All the EU countries have until 2020 to achieve the targets set in fields including employment, education and R&D. In Spain's case, the goals are an employment rate of 74%, a school drop-out rate of 15%, 44% of the 30-34 age group to have higher education and R&D spending equivalent to 2% of GDP.

During the recent recession, the employment rate fell steadily to a low of 58.6% in 2013. Since then, it has recovered more than five percentage points to stand at 64% in 2016. Despite this good progress, Spain seems unlikely to reach the target employment rate (there are still ten points to go) unless it applies measures that boost job creation even more. The effort required varies by region. The Balearic Islands, La Rioja and Madrid are close to the target, but Andalusia, Extremadura and the Canary Islands are far behind, at around 55% in 2016. The need to reintegrate the unemployed into the labour market requires extraordinary measures. As studies in our previous issues have found, temporary working eases the transition from unemployment to work: in 1Q17, the probability of finding temporary work was 13%, compared to 1.9% for a permanent job. The increased presence of temporary work and placement agencies is also associated with higher rates of employment.

Employment rate in Spain



Source: Eurostat

Employment rate by region in 2016



Source: Eurostat

... and improve the employability of workers through training: ...

... (i) reducing in the school drop-out rate and (ii) increasing the percentage of the population with higher education.

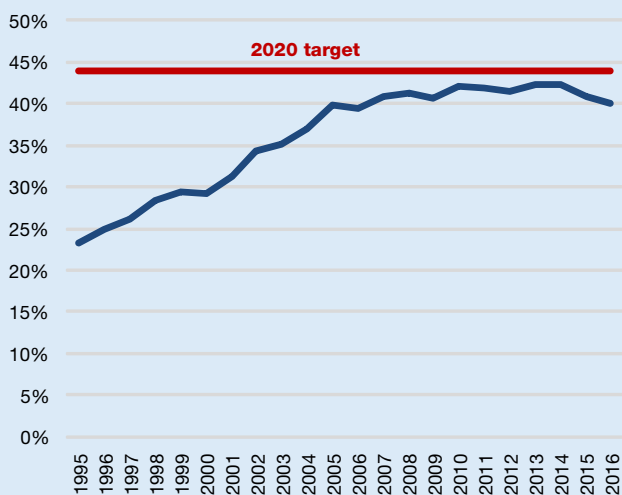
Another way to achieve the employment target is to improve workers' employability by improving their qualifications. In this respect, the Europe 2020 strategy includes a further two targets: a reduction in the school drop-out rate and an increase in the percentage of the population completing higher education.

With regard to school drop-outs, Spain aims to reduce the rate to 15% by 2020. In recent years, it has been falling steadily, reaching 19% in 2016. Hence, if this rate of reduction is maintained, Spain could be close to the target by 2020.

With regard to higher education, the target is to achieve a percentage of 44% of adults in the 30-34 age group with university qualifications. The improving trend in this indicator in Spain (it reached 42% in 2013) seemed to indicate that it would be amply surpassed in 2020. However, the recent downturn in the rate, to 40% in 2016, has put this in doubt. The recent decline in the percentage of the adults with higher education is due to a fall in the number of students enrolling since the year 2000, probably due to the strength of the Spanish economy at that time, leading many youngsters (today part of the 30-34 age groups) to drop out of education and join the labour market.

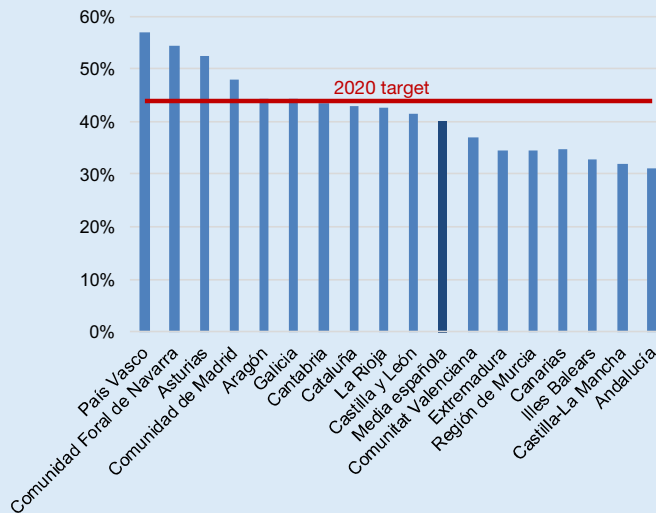
With regard to these indicators, major differences can be observed between regions. Some, such as the Basque Country, Asturias and Madrid, have already exceeded the 2020 targets while others, including Andalusia and the Balearic and Canary Islands, still have a long way to go. Given that the number of university students has been falling faster than their age group as a whole, the percentage of the population with university degrees can be expected to decline steadily. Hence, the continuous education of workers is destined to be increasingly relevant in future. However, what we are seeing up to now is exactly the opposite. The proportion of the population aged 16-64 taking some form of training course has fallen from 11.4% in 2013 to 9.9% in 2015.

Percentage of 30-34 age group with higher education in Spain



Source: Eurostat

Percentage of 30-34 age group with higher education

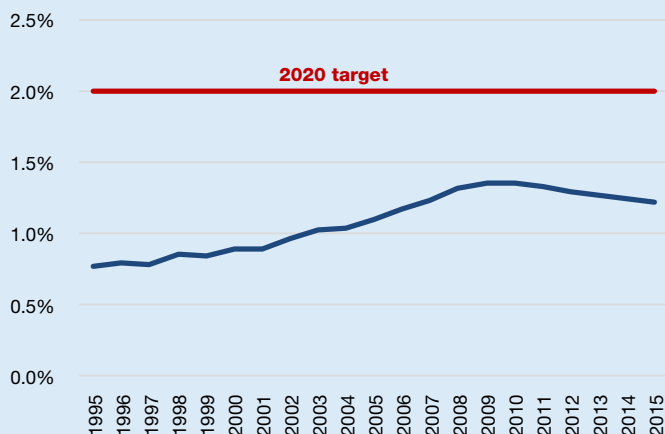


Source: INE

It would be desirable to make a greater effort in R&D to boost growth in the economy and employment.

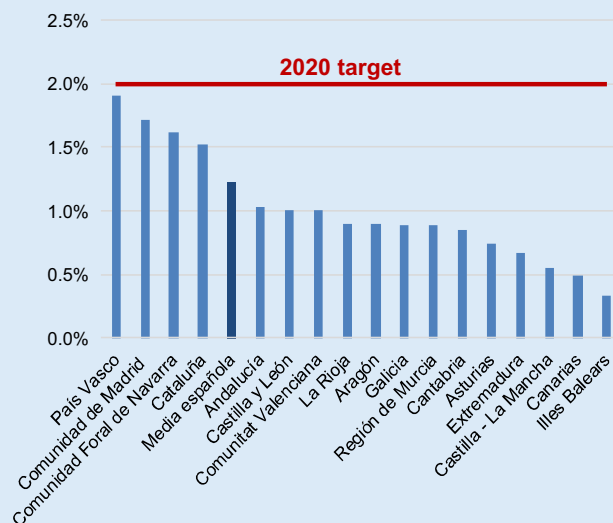
Lastly, R&D spending leverages competitiveness and future growth in the economy and employment. Consequently, this indicator also has a 2020 target, which in Spain's case is 2% of GDP. However, since 2010 this percentage has declined steadily, reaching 1.2% in 2015 (latest data available). Thus, it would be desirable to boost government spending, but also to provide incentives for business to do the same, given that Spain is falling increasingly short of this important target. With regard to this indicator, all regions, without distinction, are below the target. Only the Basque Country is close to it.

R&D spending (% of GDP) in Spain



Source: Eurostat

R&D spending (% of GDP)



Source: Eurostat

The gap in the employment rate is widest in regions with the worst educational indicators.

The gap between the current situation and the 2020 target varies between regions. In terms of employment, Andalusia, Extremadura and the Canary Islands still have a long way to go to reach the 2020 target, with gaps of 16-20 percentage points. The regions with the widest gaps in employment rates are also further behind the target with regard to the school drop-out rate. Such is the case of the Balearic Islands and Murcia. The same is evident in the case of the percentage of the 30-34 age group that has completed higher education. Andalusia and Castile-La Mancha stand out in this respect. Given that education is an important lever for integration into society and for boosting the employment rate, it would be desirable not only to place emphasis on job creation, but also to strengthen the different levels of education policy (the 2017 state budget points in the opposite direction) and to promote the continuous training of workers.

