

# The Specialized Labour Market Review

December 2017

## 450,000 new jobs forecast for 2018

The growth of the Spanish economy in 2017 has once again been based on (i) household consumption, in turn the result of job creation (almost half a million more in employment than the previous year), and (ii) on the increase in workers' productivity. In 2018, Spain will have one of the highest GDP growth rates and the largest reductions in the employment rate in the EU, though major structural reforms remain to be tackled.

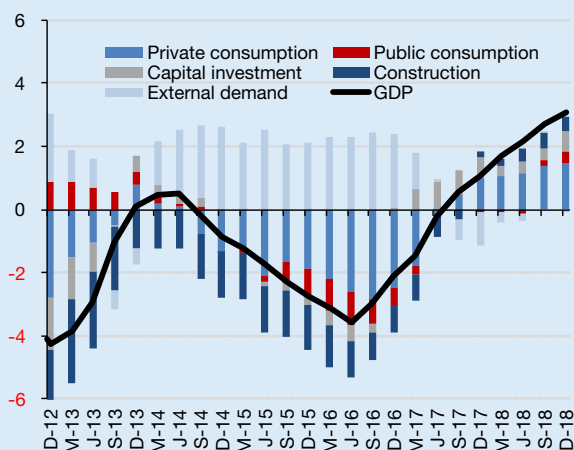
### The growth of the Spanish economy will again be supported by household consumption...

Though growth was expected to slow in 2017, the economy's momentum and the strength of the labour market recovery have led to the forecasts being revised during the year. Thus, GDP is now expected to grow by 3.1% in 2017 and 2.7% in 2018.

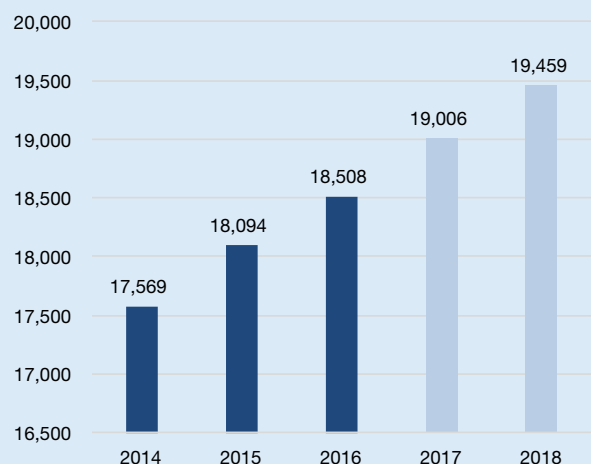
The growth of the Spanish economy in 2017 has been supported by household consumption, likely to contribute 1.4 percentage points (pp) to total annual growth. This reflects the strong growth in employment, after four consecutive years of recovery in the labour market. Moreover, our forecasts indicate that GFCF will continue to contribute 0.8 pp to annual GDP growth. External demand will also play an important role in GDP growth, as forecasts point to its contribution increasing to 0.6 pp in 2017 from 0.4 pp the previous year, due to exports growing faster than imports (5.3% vs. 3.5%).

In 2018, domestic demand will continue to be the main engine of growth in the Spanish economy, though the contribution of household consumption will be smaller than this year. This will be due to the lower growth forecast in employment and the consequently lesser increase in households' available income (especially salary incomes). Investment, in both capital equipment and in construction, will constitute the other pillar of growth in GDP in 2018.

Contribution to YoY change in Spain's GDP by component



EPA employment (thousands)



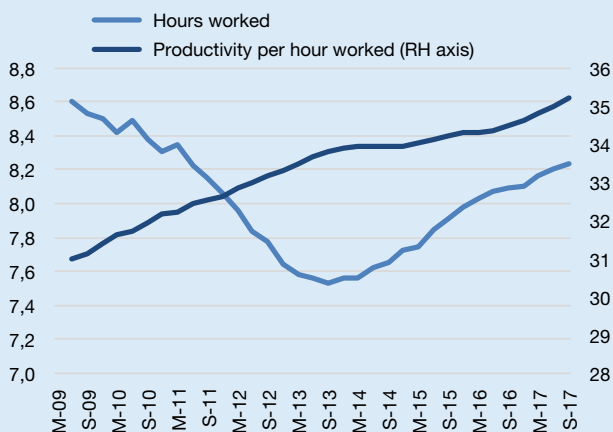
Source: INE, 2017 figures are Afi forecasts

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**... in turn the result of job creation (almost half a million more in employment)...**

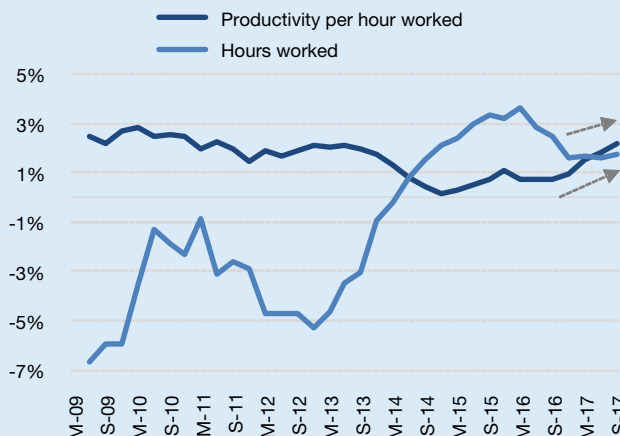
Employment is expected to end the year slightly above the 19 million mark, compared to 18.5 million at the end of 2016. Thus, almost 500,000 jobs would have been created in 2017, with the unemployment rate falling to 17.4%. In 2018, the rate of job creation is expected to slow, with the creation of 450,000 new jobs, bringing the unemployment rate down to 15.6%.

**Hours worked (billions) and productivity per hour worked**



Source: Afi , INE

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



Source: Afi , INE

**... and the increase, though more modest, in workers' productivity.**

If these forecasts are met, Spanish GDP will recover to pre-crisis levels, though with almost two million fewer full-time equivalent workers. While progress continues in improving the quality of employment, it is also appropriate to examine the behaviour of wages, as they should increase closely in line with productivity.

During the first years of the labour market recovery, the improvement was based on the increase in employment and/or hours worked. However, during the consolidation phase of this recovery, we are seeing increases in the numbers of workers employed and hours worked, but also in productivity per hour worked, even though the improvement in the latter is less than in the former.

Despite the improvement in labour productivity, wage restraint has led to a reduction in unit labour costs. This reduction has been greater than in other European economies, leading to gains in competitiveness that account for the good performance of the Spanish economy's export sector.

**In 2018, Spain will have one of the highest GDP growth rates and the largest reductions in the employment rate in the EU...**

In the European context, the European Commission expects Spain to have one of the highest economic growth rates among the EU's advanced economies, with GDP growth of 3.1% in 2017. This increase is higher than the EU-28 average of 2.3%, or that of the eurozone, estimated at 2.2%.

The good results of the second and third quarters of the year have already led the European Commission to revise its forecasts upwards in the autumn, from the spring forecasts of 1.7% for the eurozone and 1.9% for the EU as a whole. This performance, significantly better than expected, is attributable to the dynamism of household consumption, global economic growth, the fall in the unemployment rate and the growth of employment in all member states, which have strengthened and grown their labour markets, with the EU average jobless rate falling to 7.8%. For 2018, the European Commission is forecasting GDP growth of 2.1%.

**Spain macroeconomic indicators**

| % annual change                | 2015 | 2016 | 2017 | 2018 |
|--------------------------------|------|------|------|------|
| Real GDP                       | 3.2  | 3.2  | 3.1  | 2.7  |
| Final consumption              | 2.6  | 2.6  | 2.1  | 2.1  |
| Households                     | 2.9  | 3.2  | 2.4  | 2.1  |
| Pub. Admin.                    | 2.0  | 0.8  | 1.0  | 2.0  |
| GFCF                           | 6.0  | 3.1  | 3.6  | 4.0  |
| Capital goods                  | 8.8  | 5.0  | 4.8  | 4.3  |
| Construction                   | 4.9  | 1.9  | 2.9  | 4.2  |
| Domestic demand (*)            | 3.3  | 2.8  | 2.4  | 2.3  |
| Exports                        | 4.9  | 4.4  | 5.3  | 5.0  |
| Imports                        | 5.6  | 3.3  | 3.5  | 4.2  |
| External demand (*)            | -0.1 | 0.4  | 0.7  | 0.4  |
| CPI (annual average)           | -0.5 | -0.2 | 1.9  | 1.4  |
| Employment                     | 3.0  | 2.7  | 2.6  | 2.4  |
| Unemployment rate              | 22.1 | 19.6 | 17.2 | 15.3 |
| State budget balance (% GDP)   | -5.0 | -4.5 | -3.2 | -2.3 |
| (*) Contribution to GDP growth | 1.5  | 2.0  | 1.9  | 1.8  |

Source: INE, 2017 and 2018 figures are AfI forecasts

**... though major structural reforms remain to be tackled.**

For the labour market, it is forecasting an unemployment rate of 17.4% for Spain in 2017, falling by 1.8 pp to 15.6% next year. This would give Spain the second largest reduction in the unemployment rate from one year to the next, behind only Croatia, with a reduction of 1.9 pp.

Despite the positive performance of the Spanish labour market this year, it should not be forgotten that its unemployment rate remains the second highest among the EU-28, way above the average of 7.3% forecast for 2018 and close to its structural rate, which the AMECO puts at 16.2% for the same year. Thus it is essential to renew the debate about the distribution of spending on active employment policies, where other EU countries with lower unemployment rates (such as Germany, the Netherlands and the UK, all below 5%) could serve as reference points for the Spanish labour market. Moreover, these countries are exponents of 'flexicurity', characterised by a flexible labour market, which ensures that workers are protected and helps to make the market more inclusive and competitive.

