

# The Specialized Labour Market Review

January 2018

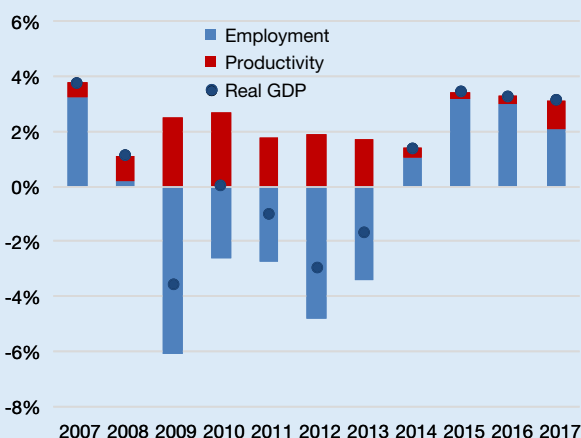
## Productivity, a work in progress

Spain stands out for its ability to create jobs, but to a lesser extent for its progress in labour productivity, even though there are sectors that have made major gains in productivity. Hence it would be a good idea to look at the international evidence. The regions which have seen the biggest increases in productivity during the recovery are the Basque Country and Navarre.

### Spain stands out for its ability to create jobs...

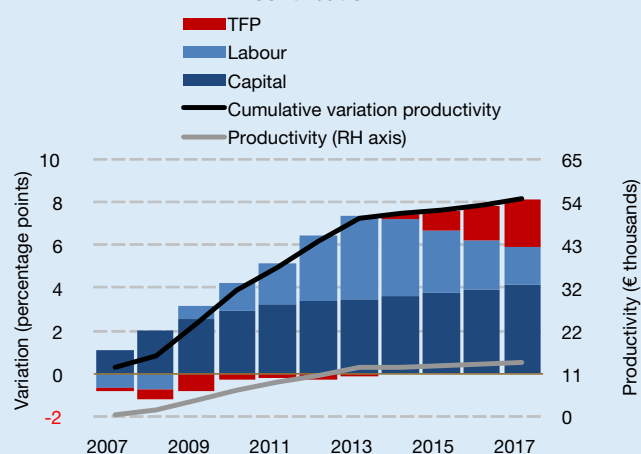
As we pointed out in last month's issue, Spain's rates of growth in employment and reduction in employment will be among the highest in the EU. Despite this achievement and the need to continue cutting unemployment, it is time to focus on improving the quality of the jobs created, for example, with regard to workers' productivity, which underpins the sustainability of economic growth and competitiveness. This is shown by the fact that in other countries with high productivity (higher than Spain's), GDP per capita is also higher, as is pay.

Variation in Spanish GDP, employment and productivity



Source: AMECO, 2017 figures are Afi forecasts

Productivity per full-time equivalent worker by factor contribution



Source: AMECO, 2017 figures are Afi forecasts

### ... but to a lesser extent for its progress in labour productivity...

Over the past decade, Spain's economic growth has been based on the level of investment and, to a lesser extent, of employment, but much less on total factor productivity (TFP), whose contribution to GDP growth is very low. 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, though the improvement in the latter is notably less than in the former.

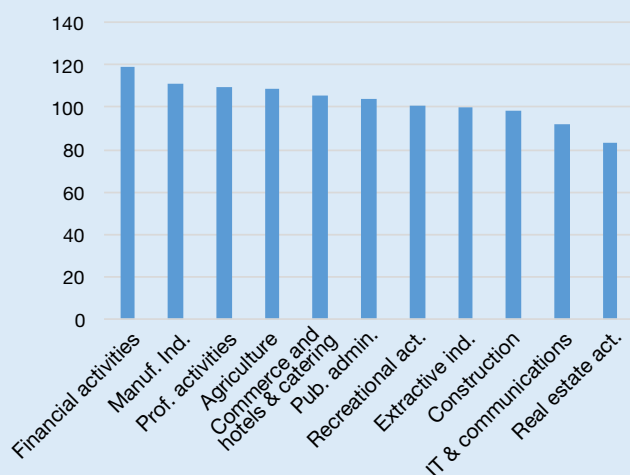
**... even though there are sectors that have made major gains...**

Though, in global terms, productivity has not increased much in recent quarters, important progress is being achieved in some sectors of the economy. Finance and insurance, manufacturing industry and professional activities have seen notable increases in labour productivity during the recovery. However, another group of sectors has experienced falls in productivity in the same period, including real estate, information and communications, and construction.

Until now, the sectors which have driven job creation in the economic recovery, and now begin to show signs of slowing this growth, have not made gains in labour productivity, or at least not yet.

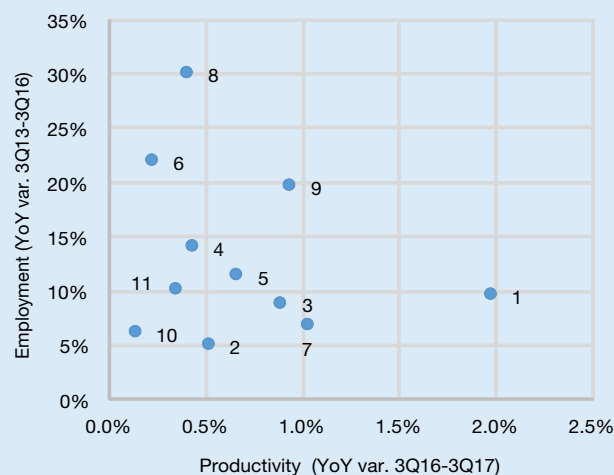
It is those sectors with more modest progress in job creation which have progressed most in terms of labour productivity. Hence, their workers are more competitive than they were a year ago or at the onset of the economic recovery. Sectors such as agriculture and finance and insurance, which have increased employment by less than 10% during the recovery, have seen productivity improve by 1-2% during the past year. In the case of the former, this was due to increased capital investment, and in the latter, to a process of restructuring and specialisation

**Variation in productivity by sector in 3Q17  
(3Q13 = 100)**



Source: INE

**Relationship between change in employment (3Q13-3Q16) and change in productivity (3Q16-3Q17) by sector**



Source: INE

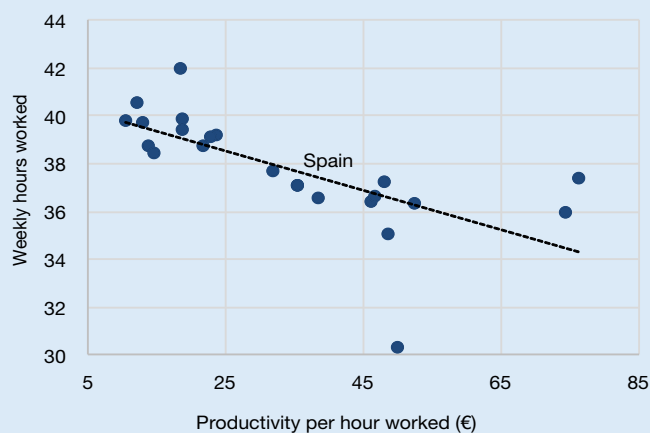
1: Agriculture, 2: Extractive industry, 3: Manufacturing industry, 4: Construction, 5: Trade, transport and hotels & catering, 6: IT and communications, 7: Finance and insurance, 8: Real estate, 9: Professional, scientific and technical, and administrative activities and services, 10: Public administration, healthcare and education, 11: Artistic, recreational and other services.

**... hence it would be a good idea to look at the international evidence.**

There is a variety of measures that can be implemented to encourage an increase in labour productivity, including increased specialisation and innovation. In Spain, however, the option chosen is usually to increase the hours worked, though international evidence indicates that this does not mean any increase in productivity, but rather the contrary in most cases. Observation of the EU-28 countries shows that the higher the number of hours worked, the lower the productivity per hour worked. The most productive countries, such as Luxembourg, Ireland, Sweden and the Netherlands, work fewer weekly hours than the least productive, such as Romania, Poland and Hungary, with long weekly hours.

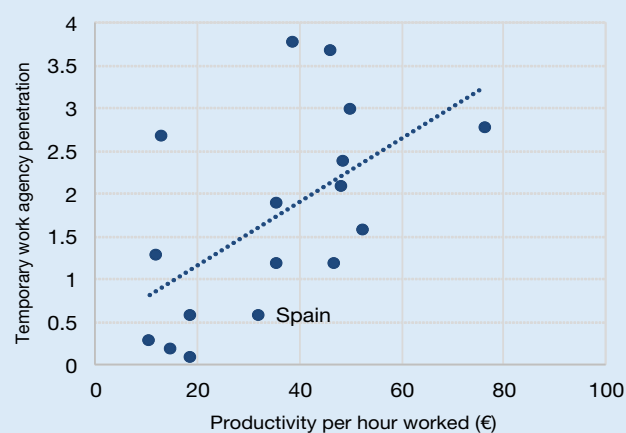
On order to find the relationship between temporary employment and labour productivity, it would be useful to estimate the productivity of temporary workers, but the absence of statistical data makes this difficult. However, there is some empirical evidence that those EU countries with high temporary work agency penetration rates have higher productivity per hour worked. Countries like the UK, Austria and Luxembourg (with penetration rates of around 3%) have much higher productivity than the EU-28 average.

On both indicators, Spain is close to the EU-28 average, but to bring itself up to the level of the leading countries, it should undertake measures to effectively increase its productivity. One positive aspect to highlight is that the Spanish economy has managed to increase productivity while maintaining the number of hours worked constant, and even reducing them slightly between 2015 (the last time this relationship was examined in the Labour Market Monitor) and 2017.

**Relationship between productivity and hours worked in EU-28 countries in 2017\***

Source: Afi, Eurostat

\*2017 includes 4Q16, 1Q17, 2Q17 and 3Q17.

**Relationship between productivity and temporary work agency penetration in EU-28 countries in 2017\***

Source: Eurostat, WEC

**The regions which have seen the biggest increases in labour productivity during the recovery are the Basque Country and Navarre.**

All the Spanish regions have seen increases in employment during the recovery phase (2013-2016) and, moreover, almost all have increased their productivity per hour worked. The biggest increases in productivity can be seen in the Basque Country, Navarre, Murcia and Catalonia; with the exception of Murcia, these regions already enjoyed productivity levels above the Spanish average. The Madrid region is among those with high productivity, though its increase during the recovery has been below the Spanish average. The Canary Islands, La Rioja and Aragon are the only regions that saw productivity per hour worked decline over the period. Thus the regional analysis confirms that the regions have grown mainly on the basis of increased employment, and only to a much lesser extent due to higher worker productivity. The Basque Country is an exception, with productivity increasing faster than employment.

