

Spanish Labour Market Monitor

Presentation

The 3Q13 EPA labour force survey shows an increase in employment of 39,500. This tendency seems to have continued in October, given the unexpected increase of close to 55,000 in Social Security enrolment. The recourse to temporary employment and self-employment is intensifying, while the public administration continues to reduce its workforce. In the latter case, the regions, accounting for more than half of public employees, have reduced their staff by 14.1% between 3Q11 and 3Q13, of which two thirds had permanent contracts. This month's newsletter also reviews the draft State budget for 2014. The resources destined to employment increase by about 10% YoY but, compared to the forecast number of unemployed, the per capita amount is one of the lowest since the beginning of the crisis.

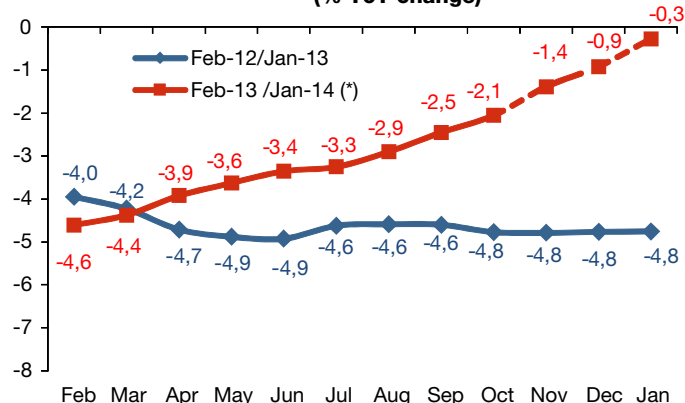
Key Points

- In October, the good performance of Social Security enrolment (up by almost 55,000) contrasts with the rebound in the number of unemployed (up 87,000).
- The anomalous trends in agriculture and education account for the monthly increase in Social Security enrolment. Hotels & catering, despite new records for foreign tourist arrivals this year, saw enrolment reduce by a similar amount as in 2012.
- While the continuation of the pattern of recovery observed in October has still to be confirmed, the SLM Indicator points to declines in employment of close to 1% YoY for the last months of the year, converging on the level of employment of a year ago.
- In 3Q13, employment rose 39,500 and the unemployment rate declined to 25.9%, due to a fall in the number of unemployed (73,000), but also to a reduction in the labour force (1.6% YoY).
- The number of workers emigrating from Spain or giving up the search for employment still exceeds those re-entering the labour market.
- The trend to temporary employment and self-employment, as alternative forms of employment, continues to strengthen.
- Public employment again fell, albeit with significant differences by region and type of administration.
- Although the 2014 budget allocation for employment increases about 10% YoY, the per capita amount (compared to the forecast number of unemployed) is one of the lowest since the beginning of the crisis.
- Regional governments, which account for more than half public employment, have reduced their workforces by 14.1% between 3Q11 and 3Q13, of which two thirds had permanent contracts.
- The need to comply with public deficit targets will require further spending cuts that, in some cases, will mean further reductions in the number of public employees in the regional administrations.

Afi-ASEMPLEO SLM Indicator

The unexpected increase in Social Security enrolment in October has substantially altered the employment trend forecast for the fourth quarter of the year. While the November figures will confirm whether the recovery is consolidating, the SLM indicator is beginning to forecast quite moderate YoY falls in employment, which may reach 0.9% in December (similar to mid 2010).

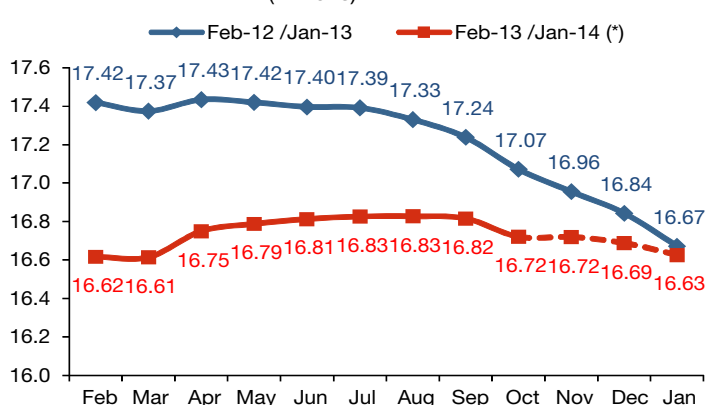
SLM monthly forecast of workers in employment (% YoY change)



Source: Afi. (*) Nov 2013-Jan 2014 figures are forecasts

If this scenario is confirmed, the level of employment at the start of 2014 could be similar to that in January 2013, i.e. YoY growth of zero, a situation not observed since the beginning of the crisis.

SLM monthly forecast of workers in employment (millions)



Source: Afi. Nov 2013-Jan 2014 figures are forecasts

"In October, the good performance of Social Security enrolment (up by almost 55,000) contrasts with the rebound in the number of unemployed (up 87,000)".

The good performance of Social Security enrolment, which increased by almost 55,000 in the month of October for the first time since 2007, contrasts with a surge in unemployment of 87,000, lower than in October of 2012 and 2011, but higher than the same month in 2010 and 2007.

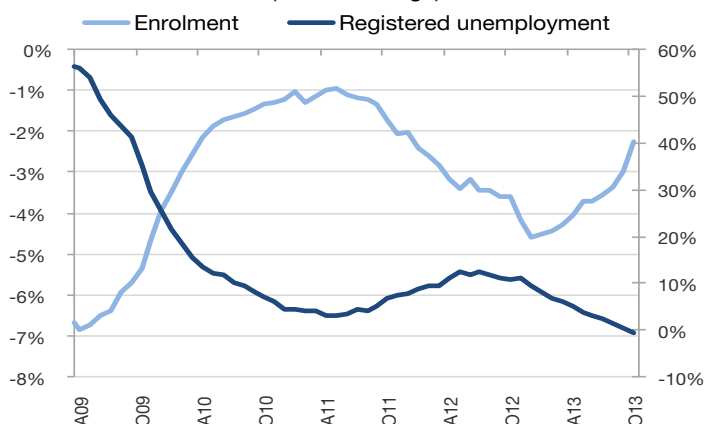
For the first time since 2007, the number of unemployed is less than a year ago (i.e. the YoY rate has entered negative territory), and the YoY fall in Social Security enrolment moderated to 2.2% (the average YoY fall between January and September was 3.8%).

After adjusting for seasonality, enrolment was up 71,000, the biggest monthly increase since the start of the crisis. Compared with previous years, the performance is more favourable in all sectors, but the important differences lay in the primary sector (enrolment in the agricultural regime) and in services. However, the nature of the increases in employment in both sectors makes it difficult to interpret the seasonally adjusted figures.

In the case of the primary sector, the rise could reflect a "compensation effect" for the poor start to the year. In fact, between January and October, the loss of Social Security contributors in the sector exceeds that observed in 2012 and 2011.

With regard to services, although there has been widespread improvement with respect to 2012, **education accounts for the bulk of job creation** (96,700 more enrolments in this branch compared to the previous month). It might be thought that the pace of lay-offs is still greater than in the months prior to the summer, translating into more solid increases in recruitment in September and October. However, the redundancies between May and July 2013 were of the same magnitude as in 2012, while the pace of recruitment of September and October exceeds that of pre-crisis years.

Social Security enrolment and registered unemployment
(% YoY change)



Source: Ministry of Employment and Social Security

Comparative analysis of enrolment. Monthly change in October each year

	Monthly change			Difference	
	2010	2012	2013	2012-10	2013-12
Total	-5.331	-73.076	54.928	60.259	128.004
Agricultural regime	6.723	3.722	33.887	27.164	30.165
Hotels & Catering	-33.631	-56.261	-55.732	-22.101	529
Education	71.332	73.971	96.792	25.460	22.821
Public Admin.	3.749	13.961	19.926	16.177	5.965
Retail	-8.600	-16.937	-7.127	1.473	9.810
Transport	-1.417	-7.438	-846	571	6.592

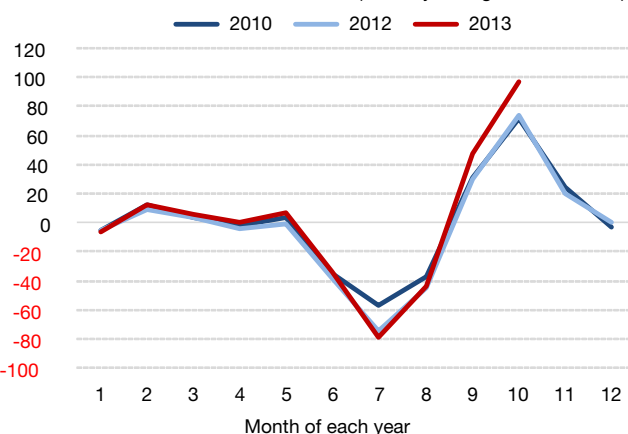
Source: Ministry of Employment and Social Security

"Agriculture and education account for the the bulk of the monthly increase in Social Security enrolment. Hotels & catering, despite setting new records for foreign tourist arrivals this year, saw enrolment reduce by a similar amount as in 2012".

The anomalous trends in agriculture and education account for the monthly increase in Social Security enrolment, supported by the more favourable employment performance of services such as general administrative activities, arts, transport, etc. **It is worth noting that employment in hotels & catering fell by the same amount as last year** (around 55,000 enrolments down on the previous month) **despite record foreign tourist arrivals.**

However, if agriculture and education had behaved as usual in October, Social Security enrolment would have been around 50,000 lower; i.e. it would have remained at the levels of September. In this case, the reading would be equally positive and more similar to that observed in October 2010 which, in our opinion, is the year with which the data still to come for 2013 should be compared.

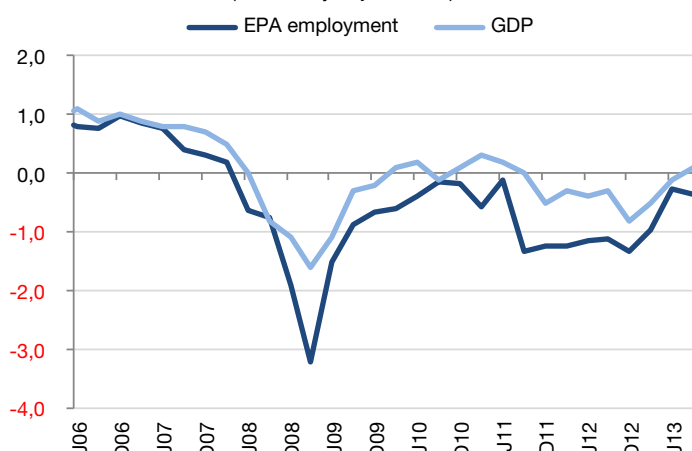
Soc. Sec. enrolment in education (monthly change in thousands)



Source: Ministry of Employment and Social Security

"In 3Q13, employment rose 39,500 and the unemployment rate declined to 25.9%, due to a fall in the number of unemployed (73,000), but also a reduction in the labour force (1.6% YoY)."

Quarterly change in EPA employment and GDP
(seasonally adjusted, %)



Source: National Statistics Institute (INE)

The results of 3Q13 EPA labour force survey were in line with the scenario forecast by the Afi-ASEMPLEO SLM Indicator, with an **increase in employment of 39,500** (down 2.87% YoY compared to 3.6% in 2Q13), broadly in line with the monthly data for Social Security enrolment.

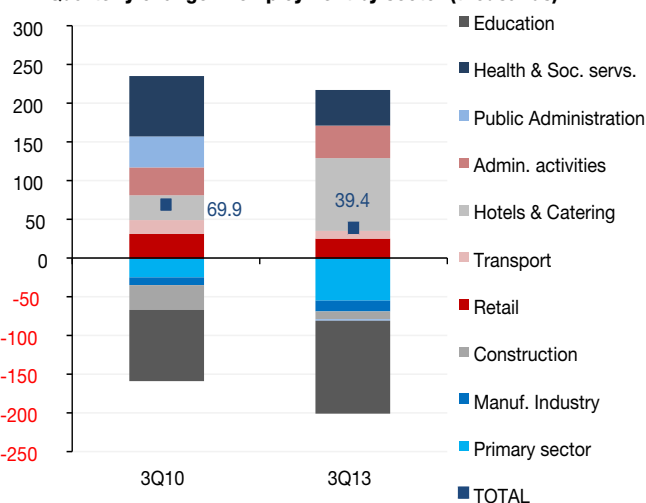
Job creation was slightly weaker than in 3Q10, with two significant caveats: after adjusting for seasonal effects, the quarterly fall in employment was higher in 2013 (0.4% compared to 0.2%) and the rise in productivity was greater. In 3Q10, GDP was down 0.1% and, according to the INE, the corresponding change in 3Q13 was an increase of 0.1%.

Analyzing the increase of employment by sector helps to understand this dynamic.

Only services managed to increase employment as much as in 3Q10, when the recovery of tourism resulted in a revival in demand for hotels & catering and retail. But, even within services, the differences are striking: **the increase in employment in hotels & catering was sufficient to offset the deterioration of employment in retail, transport and communication.**

Employment in agriculture and industry was down on last year's figures. Industry's poor performance is surprising given the good performance of exports and the slight recovery in employment in related sub-sectors (chemical, food, metallurgy and automotive). The cost reductions still being made by the companies whose customer base is fundamentally domestic (textiles, furniture, graphic arts) reveals the extent to which internal weakness continues to affect industrial employment.

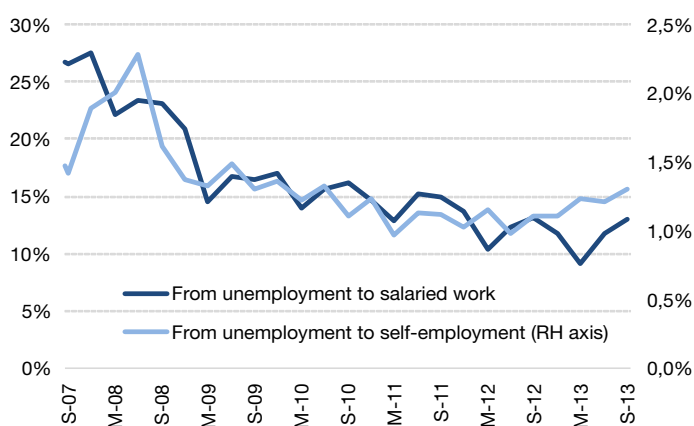
Quarterly change in employment by sector (thousands)



Source: National Statistics Institute (INE)

"The trend to temporary employment and self-employment, as alternative forms of employment, continues to strengthen".

Probability of moving from unemployment to employment
by type of employment



Source: National Statistics Institute (INE)

Of the 39,500 workers who found jobs during the quarter, 23,200 were salaried employees and 16,000 self-employed (the latter were mainly female nationals in the services sector). Although the number of unemployed who find salaried work is still far more significant, **a growing number decide to establish themselves as self-employed** (according to the EPA, 78,000 in 3Q13 compared to 63,000 in 3Q12), as is the proportion that opts for this alternative (the probability of moving from unemployed to self-employed was 1.3% in 3Q13, whereas a year ago it was 1.1%).

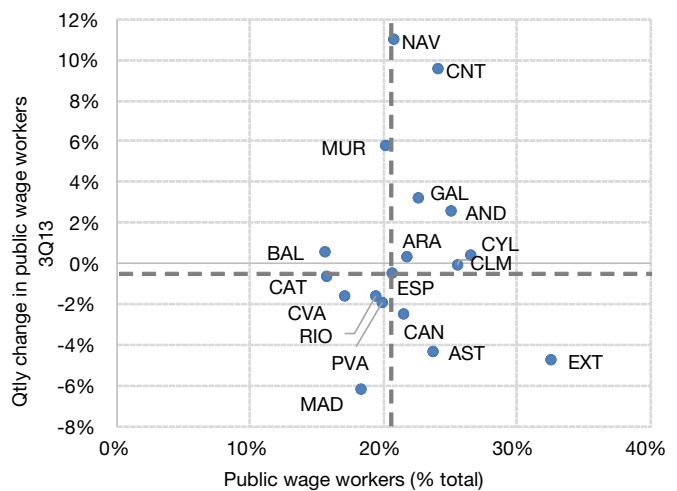
On the other hand, **temporary employment continues to rise**: the number of employees with temporary contracts rose by 170,000 while those with permanent contracts fell by 146,000 (the third largest drop in permanent hiring in the current crisis).

"Public employment again fell, albeit with significant differences by region and type of administration".

Public employment fell again: the decline of almost 13,000 (0.4% quarterly) was concentrated mainly in the Central Administration and the regions, albeit with significant differences within the latter: public employment increased in Cantabria, Navarre, Murcia, Galicia, Balearic Islands and Andalusia, but fell heavily in Madrid, Valencia and Extremadura.

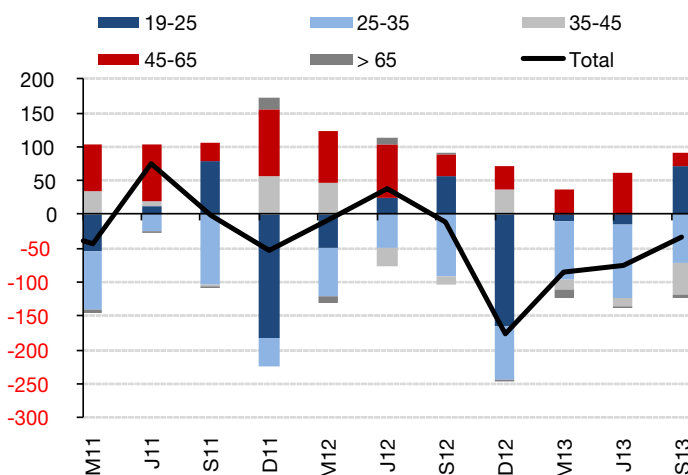
Due to the delay in the implementing the Local Government Reform, local governments again created employment in 3Q13 (3.2% YoY). From now on, **the compliance with spending cuts required in the budget plan for 2014 will very probably translate into further declines in public employment.** Of the reduction of public employment since 3Q11 (390,000, 12.1%), 43.2% corresponds to permanent workers and 56.8% to those with temporary contracts.

Change in public sector employment by region



Source: National Statistics Institute (INE)

Quarterly change in labour force by age group (thousands)



Source: National Statistics Institute (INE)

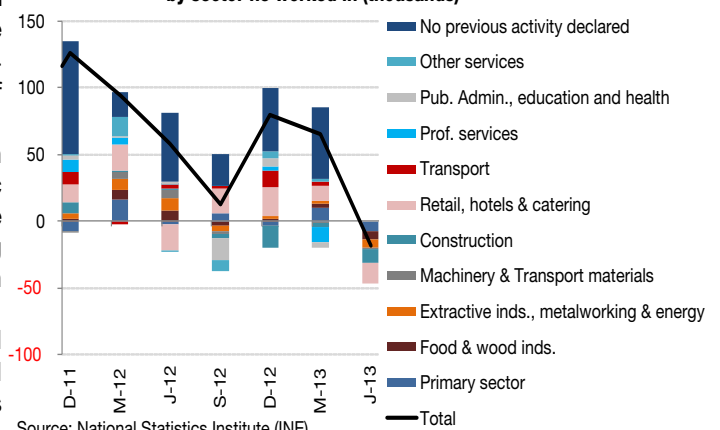
The fall in the number of unemployed, for the second consecutive quarter, by 73,000 (also similar to the pattern of 3Q10) is **related to a further fall in the labour force.** Its YoY fall has now reached 1.6%. The unemployment rate has declined to 25.9%. **Since mid-2011, the fall in the labour force amounts to 410,000.** In that same period, the working-age population was down by 346,000, containing the deterioration of the activity rate (at 59.6%). On the other hand, the number of discouraged inactive workers increased by almost 150,000.

The number of workers emigrating from Spain or giving up the search for employment still exceeds those re-entering the labour market in seasonally favourable quarters. Another manifestation of this phenomenon is the reduction in the number of households (down 48,800 on 2Q13), especially among those in which all active members are unemployed.

"The number of workers emigrating from Spain or giving up the search for employment still exceeds those re-entering the labour market".

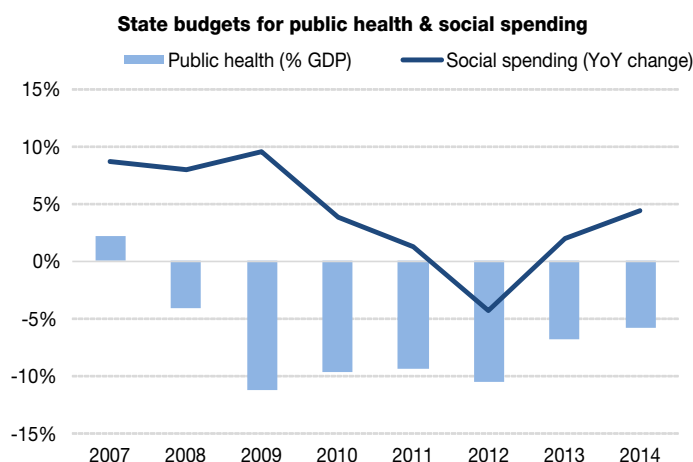
The profile of the households which are disappearing is the same as observed in 4Q12 and 1Q13. They are, primarily, Spanish households in all age groups (though the biggest decline is in the 35-44 bracket), with average educational levels (the majority of the family heads have completed secondary education), mostly unmarried and unemployed (having worked in construction, financial intermediation, public administration and industry, precisely the sectors that are currently seeing the biggest job losses). Also decreasing are young foreign households (under 44 years), with average educational levels, with two or more members, and whose family heads are unemployed or discouraged (with work experience in the construction industry and retail) and who, until now, lived in the regions with big cities (Madrid, Catalonia and Valencia).

Quarterly change in households w. unemployed Spanish head by sector he worked in (thousands)



Source: National Statistics Institute (INE)

"Although the 2014 budget allocation for employment increases about 10% YoY, the per capita amount (compared to the forecast number of unemployed) is one of the lowest since the beginning of the crisis".



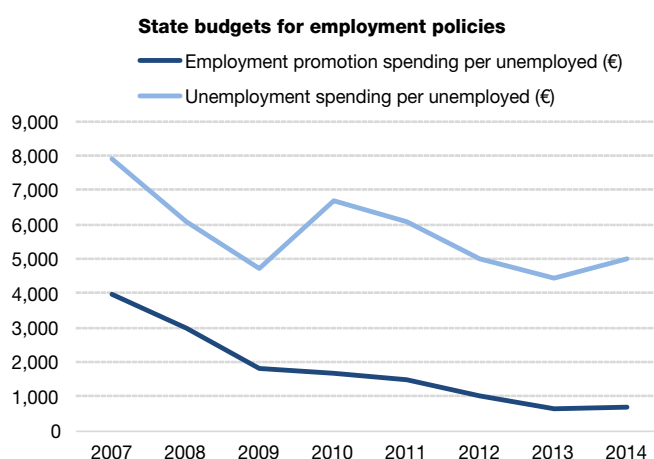
Source: Ministry of Finance & Public Administrations

The initial employment budget (€33.8 billion) increases **9.9% YoY**, due both to the increased allocation for unemployment benefits, and to employment promotion (10.1% and 8.0% YoY, respectively). Within this latter item, the budget for training, which ensures the recycling of the unemployed and employed, registers a minimal increase of 0.7% YoY, while that for subsidies for hiring the unemployed increased by 21.6% YoY, whereas the previous year it was reduced to less than half.

However, **if the number of unemployed forecast for next year** (with GDP growth of around 0.5% pa, there would be little scope for reducing unemployment), **both items are around the lowest levels since the beginning of the crisis** (only €5,000 and €700 per unemployed, respectively).

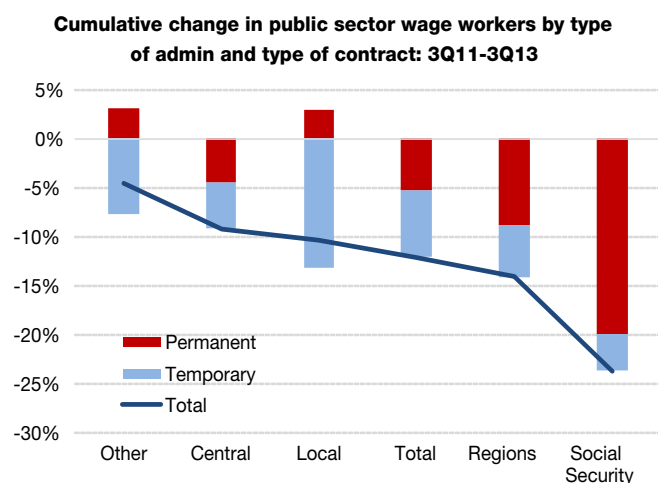
As the crisis has grown and persisted, the adjustment of productive capacity has become the tool for dealing with it and for laying the groundwork for recovery. In the case of the public sector, this adjustment has translated into heavy cuts in budgetary allocations for investment, but also in social spending (including, among others, those related to security, education, health and employment).

Thus, for example, in 2012, when the public deficit peaked (at 10.5% of GDP, if the aid to the banking system is included), social spending was 4.3% down on the previous year. However, **in 2014, according to the state budget, social spending will increase by almost 5% YoY, even though the public deficit is expected to be around 6%.**



Source: INE, Ministry of Finance & Public Administrations

"Regional governments, which account for more than half public employment, have reduced their workforces by 14.1% between 3Q11 and 3Q13, of which two thirds had permanent contracts".



Source: National Statistics Institute (INE)

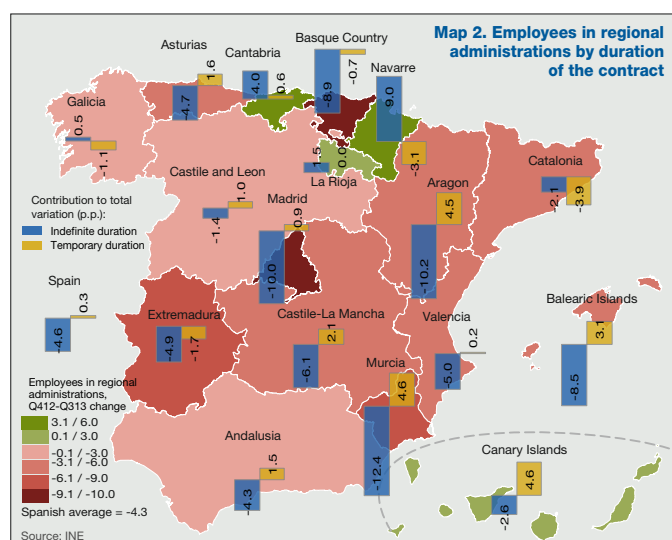
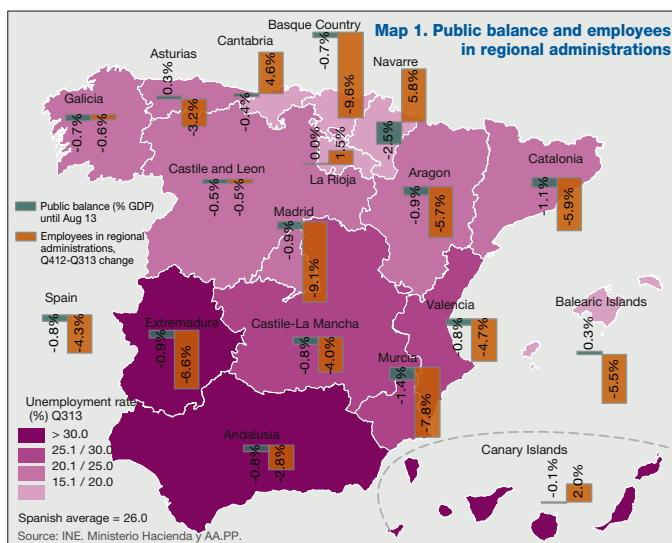
Budget cuts have also affected public sector employees. In addition to wage cuts and the elimination of '13th month' payments, civil service vacancies are not being filled or contracts are renewed for a limited period. As noted above, in the past two years, the number of public sector employees has been reduced by 12.1%, of which 3.0% corresponds to the first nine months of 2013.

The largest cumulative decline in public employees has been recorded in the Social Security (23.7%), although these represent barely 1% of the total. **In proportional terms, the most significant cuts have been in the regions, accounting for more than half of public employees, which have reduced the total by 14.1% between 3Q11 and 3Q13, of which two thirds had permanent contracts.** Finally, local corporations stand out as the only level of government that has increased its permanent employees (4.6%), in this same period.

"The need to comply with public deficit targets will require further spending cuts that, in some cases, will mean further reductions in the number of public employees in the regional administrations".

The failure to meet budget deficit targets for 2013 is leading the regional administrations to cut back their workforces. Indeed, in the first eight months of the year it can be seen that **the regions with the highest deficits are those which have made the biggest reductions in the number of public servants**. This is the case, for example, in the region of Murcia which, with a public deficit of 1.43% of regional GDP until August (90% of its target for the whole of 2013), has reduced the number of public employees by 7.8% up to the end of 3Q13. Navarre is noteworthy as the region with the highest public deficit until August (2.55% of GDP) and also the one that has recorded the biggest increase in its workforce (5.8% compared to the beginning of this year). However, as it has a different tax regime, the deficit figure is not comparable with other regions. Indeed, in our opinion, it is very likely to meet its goal for 2013 (1.20% of GDP). The same is true in the Basque Country.

However, in the rest of the regions, the **need to comply with the agreed targets will require additional expenditure cutbacks that, in some cases, will include further reductions in the number of employees in the regional administration**. Until 3Q13, the reductions in these employees was concentrated on those with indefinite contracts. In the Basque Country, the region with the highest cumulative decline of public employees (9.6%), 92.3% were permanent, and only 7.7% were temporary. Other regions have even resorted to hiring temporary workers to cover their requirements at given times. This is the case in Madrid and Murcia, two of the regions which have made the biggest reductions in the number of public employees; the number of temporary employees has increased by 3.9% and 23.3% respectively with respect to the position at the beginning of the year.



THE MONTHLY FOCUS

The employment data reading between the lines

It is not possible to identify very direct messages from data such as those for unemployment and Social Security enrolment, as they reflect a mix of all kinds of influences: economic, productive, administrative and even personal preferences of the workers producing them. Nevertheless, month after month, these records are progressing in the right direction and virtually none of these data, with the appropriate seasonal adjustment, contradicts those which came before. Nor is it possible to infer, from recent experience, the exact pace at which the labour indicators will approach the thresholds of sustained employment creation and reduction of unemployment. However, in this case too, we must be getting closer and closer. At this point comes the temptation to say "if nothing goes wrong". In reality, what we have to say is "if we don't do anything to make these developments go wrong". Or better, "especially if we do everything possible to ensure that nothing makes these developments go wrong". It would be highly desirable if all the economic, social and institutional actors were to close ranks around the pro-employment strategies, policies and alliances that will enable us to confirm as soon as possible the arrival of the job recovery we need so much.

José Antonio Herce. Associate Director, Afi