

Spanish Labour Market Monitor

Presentation

After a first quarter in which more than 320,000 jobs were lost, unemployment rose to 6.2 million and the unemployment rate increased to 27.1%, the April employment figures were better than expected. Registered unemployment fell by 46,050 and Social Security enrolment increased by 51,077. Although due largely to seasonal factors, concentrated in hotels and catering, and based on the use of temporary employment, the reversal of the trend is welcome. One of the manifestations of the poor functioning of the labour market is the frequency of over-qualification among the employed (26.3% of the total in 1Q13) and also of educational shortcomings, i.e. those who are in jobs requiring better qualifications (14.8%).

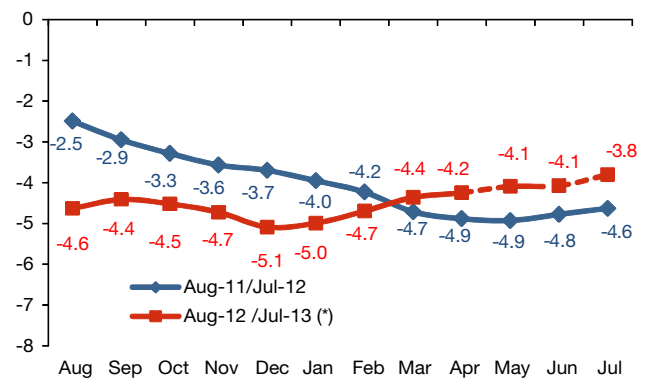
Key Points

- The April employment figures were better than expected, although with a marked seasonal pattern (concentrated on hotels & catering and activities based on the use of the temporary labour).
- Registered unemployment fell by 46,050 and Social Security enrolment increased by 51,077, compared to the previous month.
- If the trends of April's employment figures are maintained, although less markedly, in May and June, we could see the first increase in employment after seven consecutive quarters of decline. This is reflected in the SLM indicator.
- The ratio between employed Social Security contributors and pensioners stood at 1.8 in March, half a point below the peaks observed before the crisis.
- The loss of employment exceeded 320,000 in the 1Q13 and the increase in the number of unemployed (to 6.2 million) has taken the unemployment rate to 27.1%.
- Since mid-2011, public sector employment has been reduced by 10% (almost 400,000) and this trend is expected to continue.
- The sharp fall in the labour force (1.0% YoY) reflects the persistent decline in short-term expectations for job creation.
- The number of households fell by 14,500 in 1Q13; this was the result of the regrouping of families and the emigration from Spain of part of the foreign population.
- The number of inactive Spanish households is increasing, due in part to the retirement of heads of family.
- 41.1% of the employed in 1Q13 were in jobs requiring a different qualification to the one they had (26.3% were over-qualified and 14.8% under-qualified).
- Professional over-qualification is particularly high in hotels & catering and the retail trade, while under-qualification occurs especially in industry and construction.
- The Basque Country has the highest percentage of over-qualified workers and the lowest proportion of under-qualified

Afi-ASEMPLEO SLM Indicator

The creation of seasonal employment in the sectors that benefit most from the start of the summer season could lead to an increase in employment in 2Q13, the first after seven consecutive quarters of net job losses. The slower pace of deterioration in other sectors, especially in construction and industry, should also mitigate the deterioration in the labour market in the central months of the year.

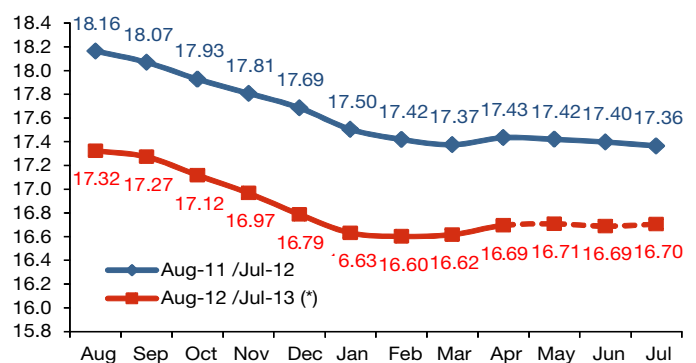
SLM monthly forecast of workers in employment (% YoY change)



Source: Afi. (*) May 2013-Jul 2013 figures are forecasts

If the dynamics of April's employment figures are maintained, albeit less strongly, in May and June, the YoY decline in the SLM index could fall below 4% in July, which would be the smallest fall since the end of 2011. Even so, total employment would remain at levels of around 16.7 million from now until July.

SLM monthly forecast of workers in employment (millions)



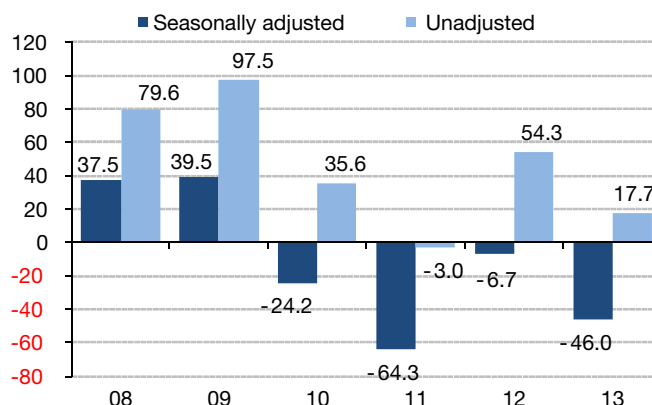
Source: Afi. (*) May 2013-Jul 2013 figures are forecasts

"The April employment figures were better than expected, although with a marked seasonal pattern (concentrated on hotels & catering and activities based on the use of the temporary labour)".

The April employment figures, with a better outcome than expected, generally suggest, though with important nuances, a **pattern similar to that observed in the spring of 2010**, both in regard to the decline in registered unemployment (a fall of 46,050 in unemployment compared with March) and the increase in Social Security enrolment (51,077).

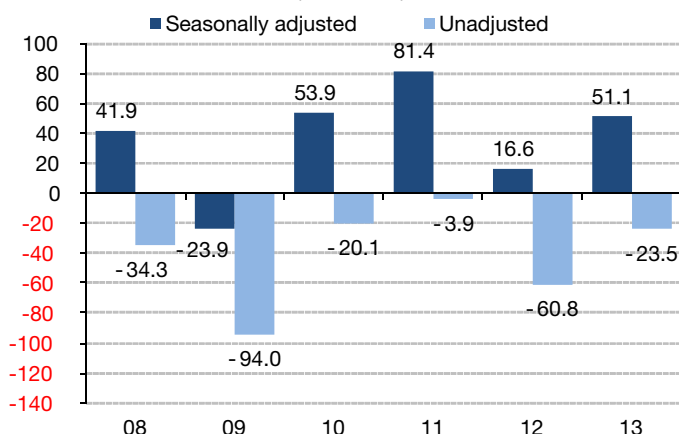
On the other hand, adjusting the figures for seasonal and calendar effects reveals an underlying increase of 17,663 in registered unemployment in April, following monthly declines in the first three months of the year, while enrolment was down 23,492 on the same basis. In both cases, the speed of deterioration was lower than a year ago.

Change in registered employment in April each year (thousands)



Source: Ministry of Economy and Competitiveness

Change in Social Security enrolment in April each year (thousands)



Source: Ministry of Economy and Competitiveness

With regard to Social Security enrolment, the **only sector to record significant monthly increases was hotels & catering** (up 42,560 over March), although activities such as transport and administration also recorded small increases.

Hence, looking past the clear seasonal pattern, although this is more favourable than in other years of the crisis, the underlying recessionary factors continue to determine trends in the labour market.

Employment contracts signed in April also increased over the same month last year (up 114,528); however, the rise is **exclusively in temporary contracts**, as permanent contracts decreased, both in full-time contracts (down 12,620) and part-time contracts (down 4,284).

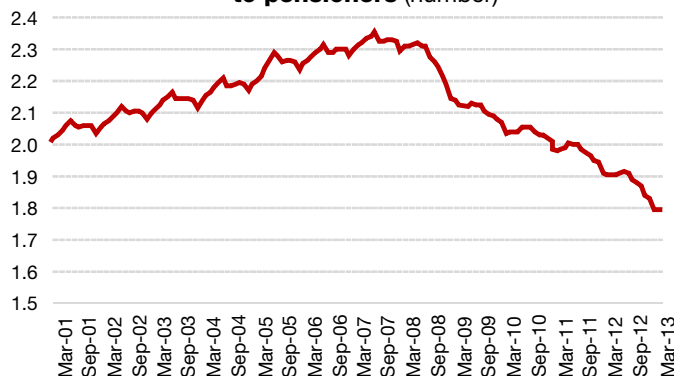
"The relationship between employed Social Security contributors and pensioners stood at 1.8 in March, half a point below the peaks observed before the crisis".

The proportion of the unemployed receiving benefit again declined in March this year (to 61.54%), almost five percentage points below the same month of 2012.

The relationship between employed Social Security contributors and pensioners stood at 1.8 in March (the latest data available), half a point below the peaks observed before the crisis and below the level considered reasonable for the current system to remain sustainable (around 2).

This deterioration is responsible for the growing deficit in the contributory pension system, which is put forward as one of the key factors in the new reform of the pension system, subjected to analysis by a Committee of Experts.

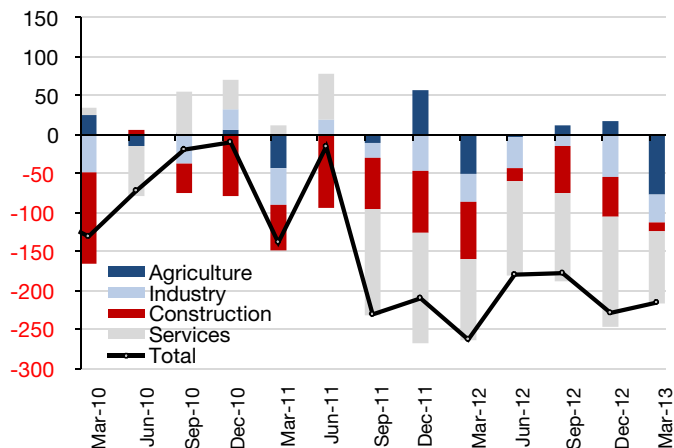
Ratio of employed Social Security contributors to pensioners (number)



Source: Ministry of Employment and Social Security

"The loss of employment exceeded 320,000 in the 1Q13 and the increase in the number of unemployed (to 6.2 million) has taken the unemployment rate to 27.1%".

Contribution to quarterly change in employment by sector (seasonally adjusted, thousands)



Source: INE

The characteristics of those who lost their jobs in 1Q13 were similar to the picture in 2012. They are Spanish workers, both men and women, aged 25-45, and employed in industry and those services most closely linked to the public sector and to professional activities, which are most affected by cutbacks in workforces.

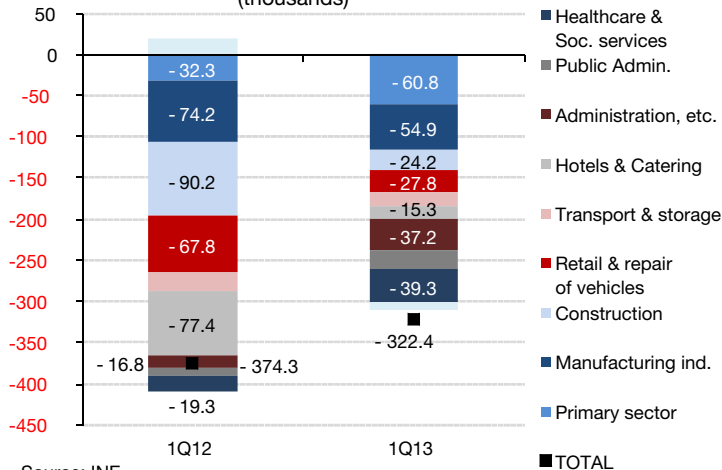
This profile helps us to understand why, unlike the 2008-10 period, the redundancies also affect workers with higher education and with permanent contracts. Of the 322,000 workers who lost their jobs during the quarter, 205,000 were Spanish (115,000 men and 90,000 women), more than 60% were aged between 25 and 35 and almost 94,000 had university qualifications

The results of the 1Q13 EPA labour force survey show that it is still too soon to expect a stabilization in employment and domestic spending before the end of the year.

The Afi-ASEMPLEO Indicator already anticipated this (see our April 2013 issue): **The fall in employment exceeded 320,000 during the quarter and the increase in unemployment (to 6.2 million) has taken the unemployment rate to 27.1%** (about 1 percentage point higher than the previous quarter).

The size of the quarterly fall in employment, when 4 million jobs (18.9%) have already been lost, and the characteristics of the newly unemployed, reduce the likelihood of significant increases in employment during the summer period. On a seasonally adjusted basis, employment recorded a quarterly fall of 1.10% (216,000), compared to the 1.38% decline of 4Q12.

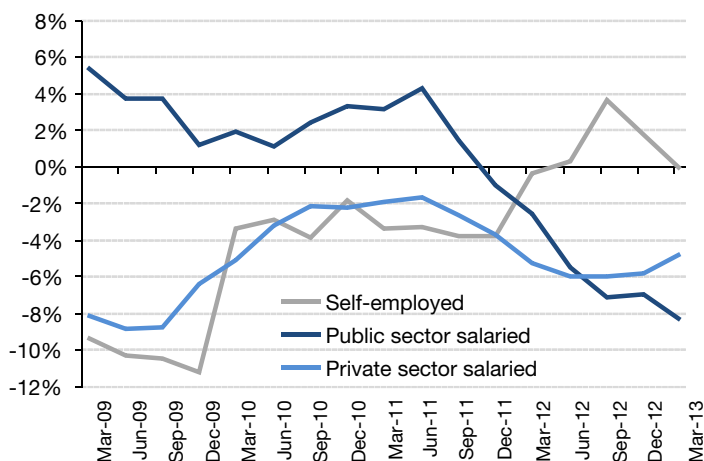
Quarterly change in employment by sector (thousands)



Source: INE

"Since mid-2011, public sector employment has been reduced by 10% (almost 400,000) and this trend is expected to continue".

Employment by status (YoY change)



Source: INE

In terms of their professional situation, while the numbers of the self-employed remain around the 3.01 million mark, salaried employees, in both the public and private sectors, continue the decline seen in preceding quarters. It is worth noting that, while the YoY rate of decline of the latter is slowing (4.8% in 1Q13, compared to 5.9% in 4Q12), in the former it is accelerating (8.3% in 1Q13, compared to 7.0% in 4Q12).

In public administrations, especially regional governments and local authorities, employment continues to decline; this is now affecting not only temporary workers but also those with permanent contracts. **Since mid-2011, public sector employment has fallen by 10% (almost 400,000) and this trend is likely to continue**, because the relaxation of the public deficit targets on the part of Brussels does not exempt Spain from continuing to cut its public spending.

"The sharp fall in the labour force (1.0% YoY) reflects the persistent decline in short-term expectations for job creation".

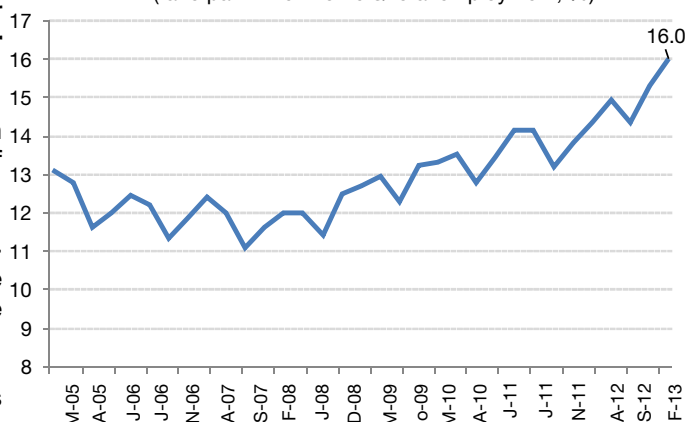
The extent of deterioration in the labour market is also evident in the trends of certain types of employment, which in an expansive market might be synonymous with labour flexibility, but in the current situation reflect the **search for alternatives to a full-time salaried job**.

The incidence of part-time working has risen from 13% in mid-2010 to 16% in 1Q13, due to the increase in this type of contract among women.

Contrary to what might be expected, the number of self-employed workers has been falling since 2010: the increase in independent workers does not compensate for the disappearance of small businesses with employees.

Finally, underemployment, as an alternative to dismissal, is becoming increasingly common, i.e. workers who are working fewer hours than they would like. In 1Q13, there were already 2.46 million of them.

Part-time employment
(ratio part-timer workers/total employment, %)

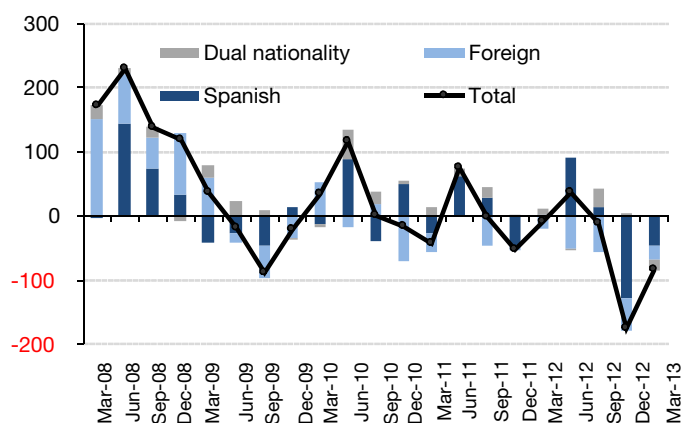


Source: INE

The sharp drop in the number of active workers (down 85,000 in 1Q13 and more than 200,000 in the last year) reflects the persistent decline in short-term expectations for employment creation. All nationality groups have declined, but the bulk of the fall is among Spanish workers (down 45,700; 0.2% quarterly), although in relative terms, there was a greater fall in the foreign labour force (0.7% quarterly).

Among the long-term unemployed (who now represent 56.3% of total unemployment) and the young (suffering unemployment rates of over 60%), the "discouragement effect" is becoming increasingly widespread, accelerating the reduction of the labour force and containing the rise in the unemployment rate. However, it is true that in 1Q13 the number of "discouraged" workers remained almost constant at around 476,000 (2% of the labour force).

Quarterly change in labour force by nationality



Source: INE

"The number of households fell by 14,500 in 1Q13, due to the regrouping of families and the emigration from Spain of part of the foreign population. The number of inactive Spanish households is increasing, due in part to the retirement of heads of family".

The number of households has fallen for the second consecutive month (14,500 in the 1Q13). Firstly, this is due to a process of **family regrouping**: unemployed people are returning to the parental home which they left during the years of economic expansion. A consequence of this is the reduction of 5,700 in the number of households with a single non-active member, compared with 4Q12.

Another phenomenon is the return of **foreign households** to their countries of origin or to others offering more job opportunities: the number of households whose main breadwinner was active or inactive fell by 26,400 compared with 4Q12.

Finally, there has been a notable **rise in inactive Spanish households** (78,500 in 1Q13) due to the retirement of heads of family. A quarter of these were due to early retirement, mainly as a consequence of the rationalization of the workforces of the companies where they worked

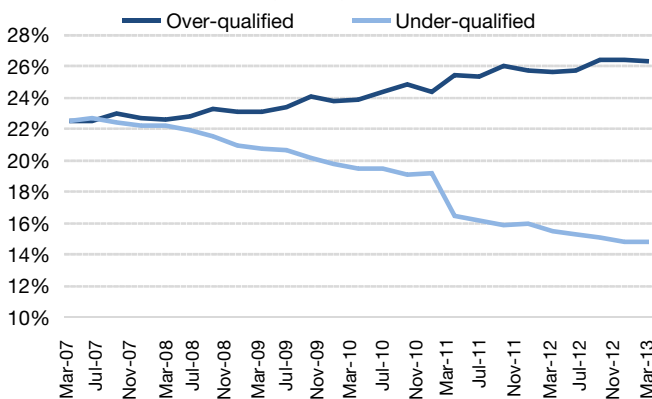
Quarterly change in number of households by nationality and employment situation (thousands)



Source: INE

"41.1% of the employed in 1Q13 were in jobs requiring a different qualification to the one they had (26.3% were over-qualified and 14.8% under-qualified)".

Over-qualified and under-qualified employed workers in Spain (% total)



Source: INE

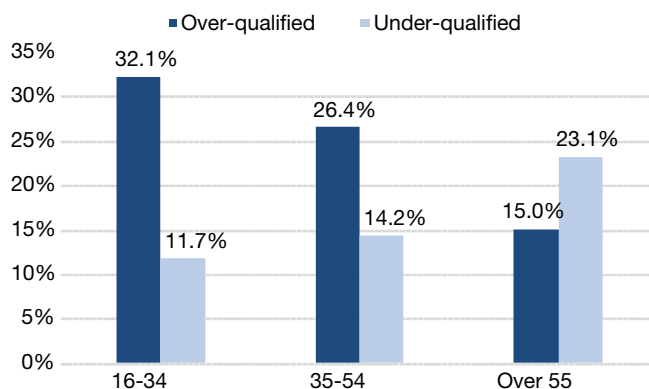
One of the labour market's most significant malfunctions, which often goes unnoticed, has to do with over-qualification and under-qualification. This occurs when a worker's level of training does not correspond with that required by his position, either because it is greater than required, or because it is insufficient.

In 1Q13, 41.1% of those in employment held jobs that required a different qualification to that which they held. As we might expect, in view of other indicators, the greater part of these were over-qualified (26.3%), a percentage that has increased steadily since the beginning of the crisis (3.9 percentage points since 1Q07). However, under-qualified employment, though it stood at the same level in 2007 as over-qualification, has fallen by 7.7 percentage points to 14.8% of the total

The fact that **over-qualification is more common among the young** (32.1% among the 16-34 age group, more than double the incidence in the over-55 cohort) is a reflection of **this group's difficulties in accessing the labour market**. This problem, therefore, does not affect only those with no training, but the entire age group. One of the reasons is probably their lack of work experience, which is partly a result of the longer time spent studying.

Under-qualification, on the other hand, is more frequent among workers with more work experience and who, therefore, are more likely to be offered positions with more responsibilities, or to carry them out on a self-employed basis. In 1Q13, 23.1% of over-55s in employment were under-qualified.

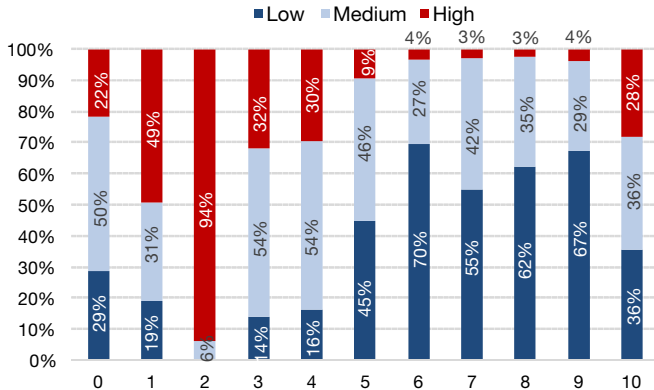
Over-qualified and under-qualified employed workers in Spain by age group (% total). 1Q13



Source: INE

"Professional over-qualification is particularly high in hotels & catering and the retail trade, while under-qualification occurs especially in industry and construction".

Educational level of employed workers by type of occupation (% total), 1Q13



Source: INE

* Note: "0" Armed Forces, "1" Directors and managers, "2" Scientific and intellectual technicians and professionals, "3" Support technicians and professionals, "4" Accounting and administrative employees, "5" Catering, pers. serv., protection and sales, "6" Skilled workers in the agricultural sector, "7" Craftsmen and skilled workers, manuf. ind.& construction, "8" Operators and assemblers of plant and machinery, "9" Elementary occupations and "10" Total

The most significant divergences, both in terms of the training and qualifications required for the job and of the proportion of employees affected, **occur among workers in catering, personal services (protection) and sales personnel** (22.7% of the total employed), as well as among **qualified workers in manufacturing industry and the construction sector** (11.1% of the total).

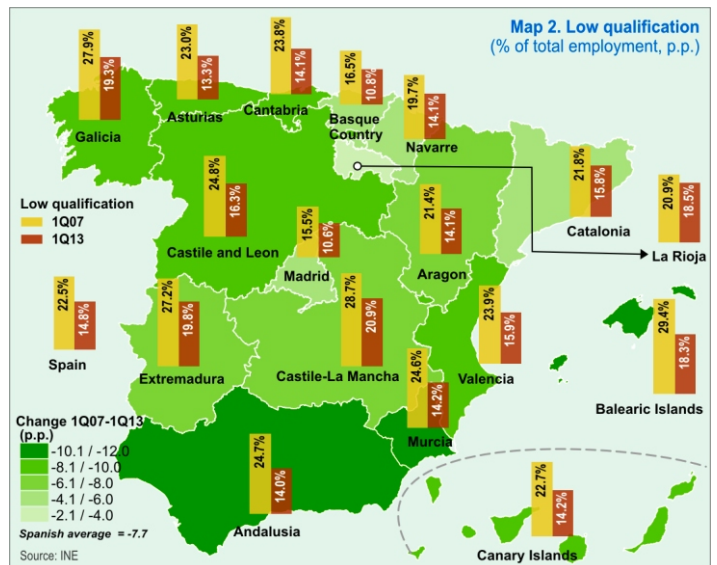
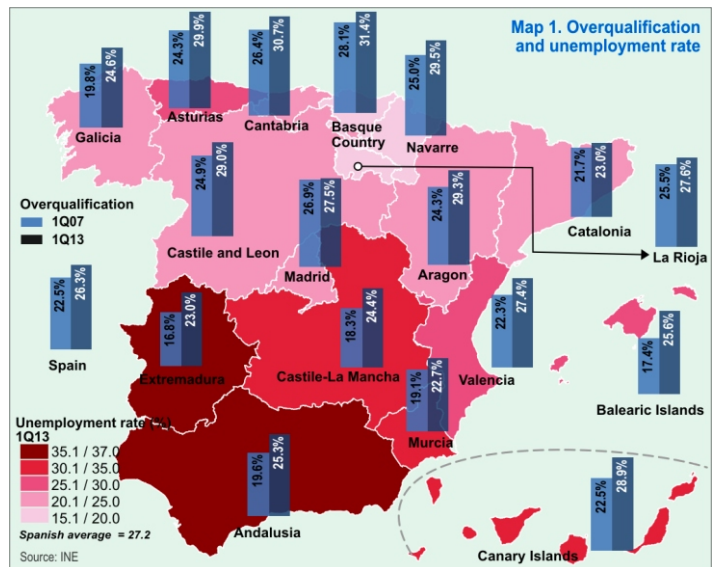
In the first case, although it is a basic activity, 46% of workers have a medium level of education and about 10% have higher qualifications. In the second case, although workers should have a medium level of education, either from vocational training or because they have learnt a trade, more than half the workers have a low level of training.

"The Basque Country has the highest percentage of over-qualified workers and the lowest proportion of under-qualified".

The percentage of over-qualified workers has increased in all regions, though especially in the Balearic Islands (8.3 percentage points from 1Q07 to 1Q13). On the other hand, this is not the region with the highest incidence of over-qualification. In Cantabria and the Basque Country, 31.4% and 30.7% of workers have a higher level of training than is required in their positions. In the Basque Country, there is also some over-qualification among operators and assemblers of plant and machinery, as well as in hotels & catering and in the retail trade.

This is also among those regions with the lowest rates of unemployment; in fact, there is a negative relationship between the percentage of over-qualified workers and the unemployment rate. Although this could lead us to conclude that the way to reduce unemployment is for the unemployed with training accept jobs that require little qualification, even if it means a lower professional status and wage, we must not forget that very few vacancies are available at the present time (see our March 2013 issue).

The under-qualified employed population, for its part, has declined in all regions compared with pre-crisis levels. The largest reductions have occurred in the Balearic Islands, Andalusia and Murcia, with accumulated falls to 1Q13 of more than than 10 percentage points. However, the lowest percentages are recorded in Madrid and the Basque Country (10.6% and 10.8% respectively of total employed workers). Directors and managers positions, which in these two regions account respectively for 6.3% and 4.3% of employment (compared to 4.9% in the national total), are usually performed by individuals with high levels of education (65.7% and 72.8%, respectively), but it is important to note that about 30% of them have only basic or medium education.



Allocating employment

Since long before the crisis, it has been noted that almost half of the Spaniards in employment perform tasks for which they are not appropriately qualified. The phenomenon of over-qualification is well known, but that of under-qualification much less so. Just before the crisis, over 22% of employed workers fell into each of these categories. This evidence alone is very worrying and reflects a very poor allocation firstly of educational resources, and secondly of labour. Throughout the crisis, the percentage of under-qualified workers has declined because the crisis has harshly exposed the "impostors", while the percentage of over-qualified workers has increased, both because of the decline in employment and because of the "safe haven" which over-qualification provides, despite everything. Bad history, worse consequences. Do we have a plan?

José Antonio Herce. Partner, Afi