

Spanish Labour Market Monitor

Presentation

In February, registered unemployment slowed its rate of increase, as did the fall in Social Security enrolment, but the total figure for the former has now risen above the 5 million mark and the latter fallen below 16 million (the level of 10 years ago). After 5 years of crisis and a year after the adoption of the latest labour market reform, it is time to take stock. On the one hand, the conversion of temporary contracts to permanent has reduced, as also the ratio of vacancies to unemployment. On the other, labour unrest is surprisingly low given what is probably the most severe and prolonged crisis in the recent history of the Spanish economy. Labour litigation, however, has increased all over Spain. Lastly, there has been a generalized loss of purchasing power resulting from the wage rises agreed in collective agreements throughout 2012.

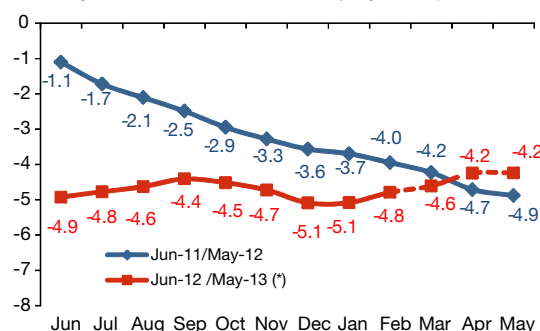
Key Points

- Total unemployment has risen above 5 million, although the pace of increase has slowed with respect to mid-2012.
- Social Security enrolment, for its part, fell by 28,691 in February, almost half the decline seen in the same period last year.
- So far, the results of the first quarter suggest a fall in employment similar to that of 1Q12 and, in any case, over 300,000.
- The YoY falls forecast by the Afi-ASEMPLEO SLM Indicator until March (more than 4.5%) are consistent with this.
- Easter Week should allow a moderate increase in Social Security enrolment in March, leading to somewhat higher increases at the beginning of the summer season.
- The conversion of temporary contracts to permanent has reduced by 7.7% in the last year, while average monthly training and apprenticeship employment contracts have increased by 22.7%.
- Without the effect of the regularization of domestic workers, the figure for recruitment of permanent workers would have increased by 22.9% YoY.
- In the 2005-08 period, there were somewhat more than 20 unemployed workers per vacancy, while in 3Q12, the latest data available, there are more than 100 unemployed for every job available.
- The self-employed, who number somewhat more than 3 million, have declined by 3.0% compared to 2011.
- The level of labour unrest in the first half of 2012 is minimal compared with previous crises (1987-88 and 1990-92), while the incidence of litigation has risen to around 18 claims per 100 redundancies.
- In almost all regions, the number of lawsuits against dismissal in 2012 is higher than in 2009, while the level of wage rises under collective agreements has caused a widespread loss of purchasing power.

Afi-ASEMPLEO SLM Indicator

The major factor behind changes in the labour market data for February was again the services sector and, in particular, retailing (the sector's sales and business confidence indices, among other indicators, have continued to deteriorate in the first part of 2013). The fall in Social Security enrolment, although little more than half that of the same month in 2011, is nevertheless higher than in previous years, when the intensity of the recession in Spain was less pronounced.

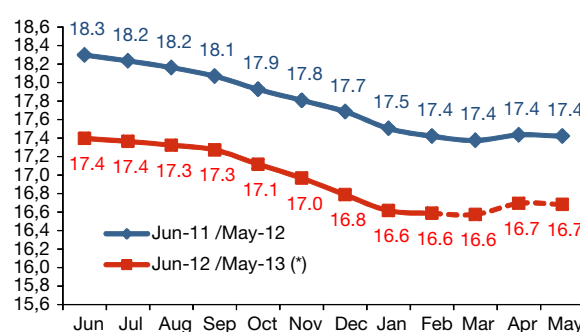
SLM monthly forecast of workers in employment (% YoY change)



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

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SLM monthly forecast of workers in employment (millions)



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

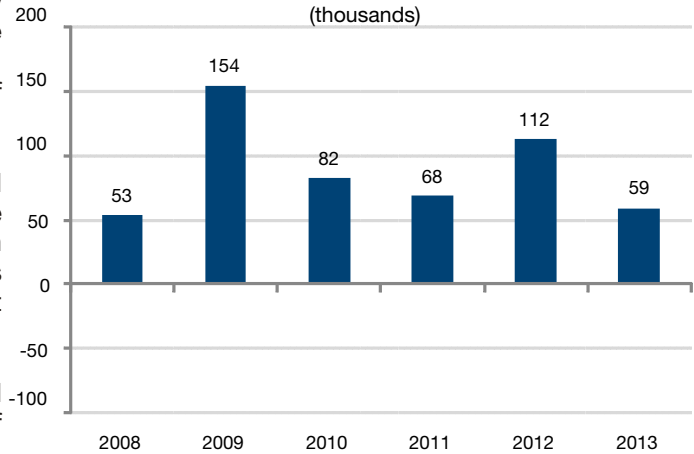
"Total unemployment exceeds 5 million, although the pace of increase has slowed with respect to mid-2012".

As the SLM indicator already suggested, **the labour market's tone is still not improving and in February the number of unemployed rose above the five million mark** (up 59,434 over the previous month). However, compared with data from a year ago, the rate of increase of unemployment has declined considerably.

Indeed, the 7% (328,124) increase in registered unemployment over February 2012 is far below the double digit increases seen six months ago (which exceeded 500,000). Also, the seasonally adjusted figures for February indicate that registered unemployment continued to fall (by 1,842).

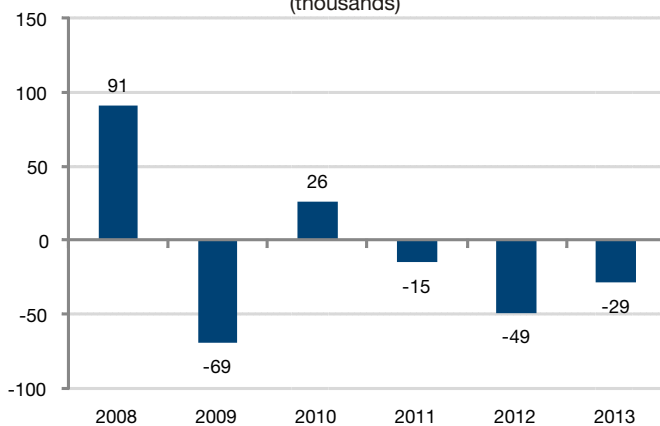
With regard to the breakdown by sector, none escaped the increase in unemployment: services saw a rise of 39,788 (1.3%), agriculture 7,987 (3.9%), industry 1,581 (0.3%) and construction 1,377 (0.28%).

Monthly change in registered unemployment in month of February (thousands)



Source: Ministry of Employment and Social Security

Monthly change in Social Security enrolment in month of February (thousands)



Source: Ministry of Employment and Social Security

The February data for Social Security enrolment leave the same impression as those for registered unemployment, with a decrease of 28,691, less than half the decline in the same period last year.

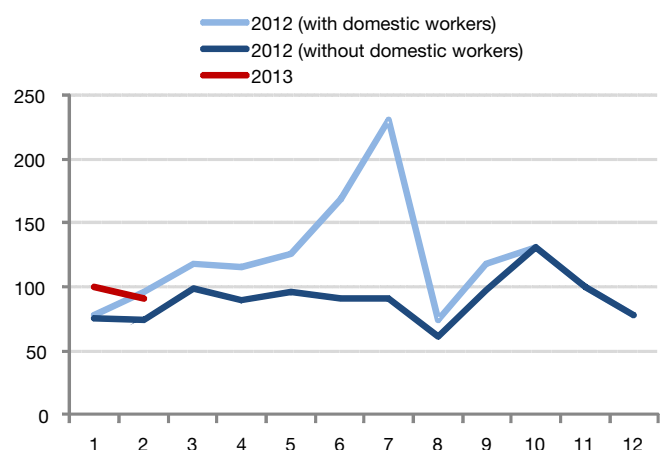
Retailing suffered the sharpest falls (with enrolments down 29,880) **along with healthcare and social services** (down 9,804 from the previous month). Public Administrations recorded a surprising increase in Social Security enrolment (5,041), especially considering the staffing cutbacks resulting from fiscal consolidation; similarly, the fall in Social Security enrolment in financial activities has moderated in recent months, with a fall of 758 in February. The latter case is similarly affected by the need to eliminate the banking sector's surplus capacity.

"Without the effect of the regularization of domestic workers, the figure for recruitment of permanent workers would have increased by 22.9% YoY".

Recruitment, in turn, interrupted the rising trend of recent months, especially with regard to permanent contracts. **In February, the total number of contracts fell by 4.05% compared to those signed in February 2012.** However, the comparison with the previous year is affected by the regularization of domestic workers. Adjusting for this effect, recruitment would have fallen by 1.0% YoY.

The decrease in recruitment affects almost all types of contracts, with permanent contracts falling at a YoY rate of ***5.04%; full-time contracts were especially affected, falling by 8.8% YoY. Between January and September 2012, 347,339 permanent contracts (31% of the total) were signed to register domestic workers with the Social Security. If these contracts had not been taken into account, there would have been an YoY increase of 22.9%.

New permanent employment contracts in each month (thousands)

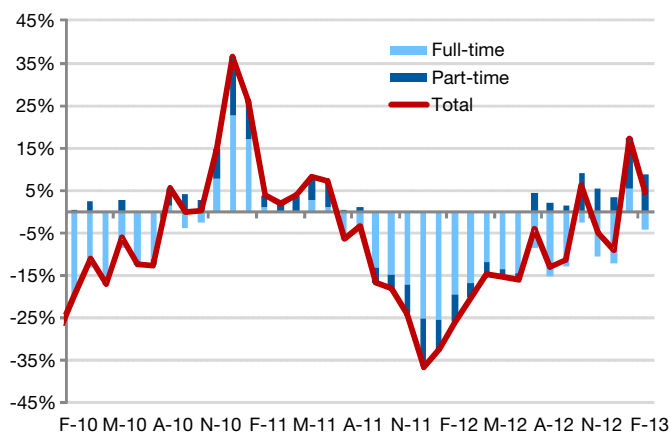


Source: Ministry of Employment and Social Security

"The conversion of temporary contracts to permanent has reduced by 7.7% in the last year, while average monthly training and apprenticeship employment contracts have increased by

A year after the labour reform regulated by Decree Law 3/2012 came into effect, we have conducted a second review of its impact on the Spanish labour market (in the November 2012 SLM Monitor, we analysed the impact on the registration of companies with the Social Security, on their workforces and on redundancy plans).

Contribution to YoY change in number of conversions of contracts from temporary to permanent by hours worked



Source: Ministry of Employment and Social Security

Another of the key contract types introduced by the labour market reform is that which combines employment and training, because it is conceived as a tool which facilitates young people's access to the labour market; they are one of the groups most affected by unemployment, and this is one way of reducing their high unemployment rate (over 55% in 4Q12).

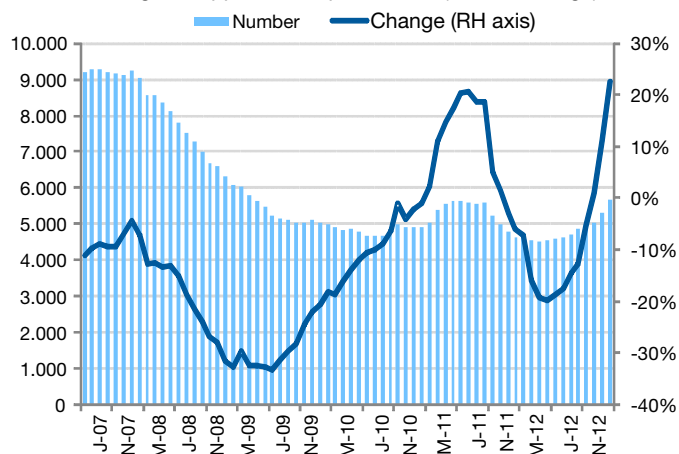
In this respect, the signing of **training and apprenticeship contracts has picked up** in the last few months, recording YoY increases of 25-30%. This means that the average number of this type of contracts signed over the past 12 months **has been around 5,600 a month, a 22.7% increase over the same period a year earlier**.

First, we look at recruitment and specifically the conversion of temporary contracts to permanent and at training and apprenticeship contracts, two types of contracts which the labour reform seeks to promote.

The number of training contracts has declined steadily over the past year with few exceptions, due mainly to the increase in part-time contracts. Full-time hiring continues to decline very significantly (with a YoY decline of 18.0% in December 2012, for example). However, as the year has advanced, the year-on-year fall has tended to moderate.

In the past 12 months, 402,509 temporary contracts were made permanent, 7.7% less than a year previously

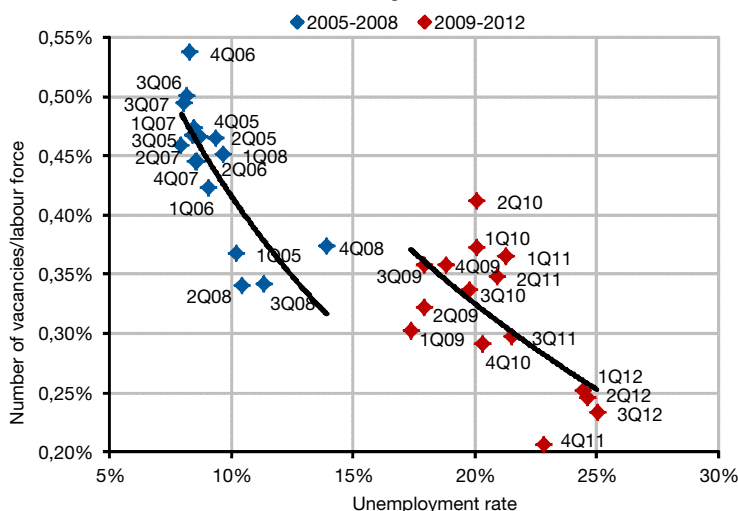
New training and apprenticeship contracts (annual average)



Source: Ministry of Employment and Social Security

"In the 2005-08 period, there were somewhat more than 20 unemployed workers per vacancy, while in 3Q12, the latest data available, there are more than 100 unemployed for every job available".

Beveridge curve

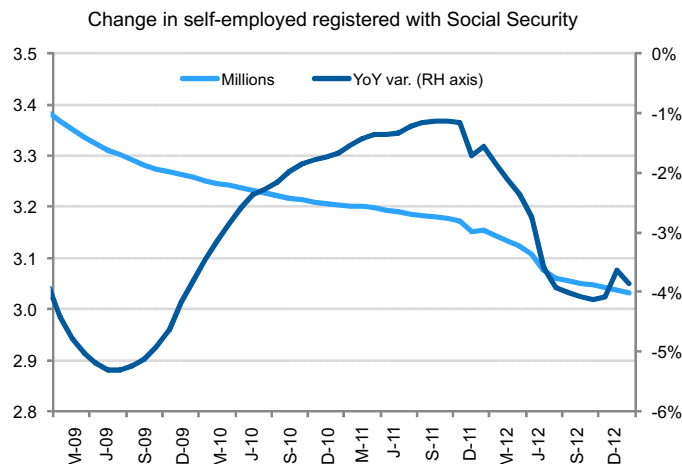


Source: National Statistical Institute (INE), Ministry of Employment and Social Security

The Beveridge curve, which represents the relationship between the unemployment rate and job vacancies in the economy, is an indicator of labour market efficiency, as it reflects its ability to assign unemployed workers to job vacancies. If it has a negative slope, this shows that when there are few vacancies, the unemployment rate is high, as is the case at present.

It should be noted that, as the crisis has evolved, the very deterioration in economic activity has caused a reduction in the jobs available in the market, to the extent that, **whereas in 2005-08 there were on average something more than 20 unemployed per vacancy, while in 3Q12, the latest data available, there were more than 100**. To the extent that economic activity fails to improve, there is a risk that the rate of unemployment will remain stubbornly high at the current levels

"The self-employed, who number somewhat more than 3 million, have declined by 3.8% YoY".



One of the government's favoured alternatives to combat unemployment is entrepreneurship.

Although no detailed results have been published on the effects of the "contract for entrepreneurs" introduced at the beginning of the year with the labour reform, it is estimated that its impact has been rather limited, given the behaviour of the self-employed over the last year.

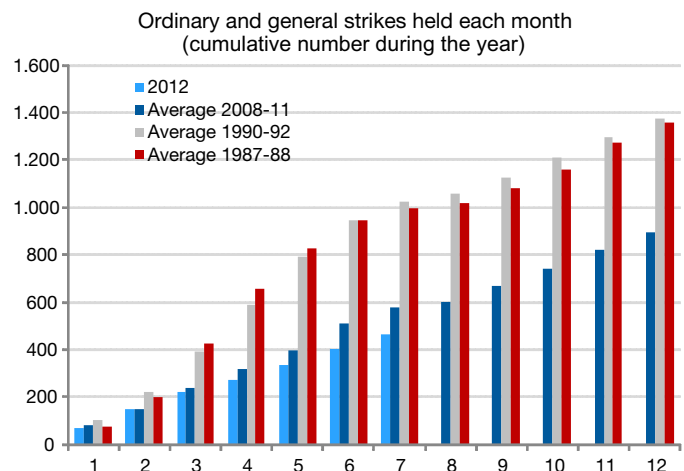
On the one hand, **Social Security enrolment of self-employed workers has plummeted**, because with YoY falls of the order of the 4%, their numbers have fallen from 3.15 million in February 2012 to 3.03 million a year later (down 3.8%). On the other hand, the number of one-person companies registered with the Social Security also show a downward trend (2.8% in 2012 compared to the previous year).

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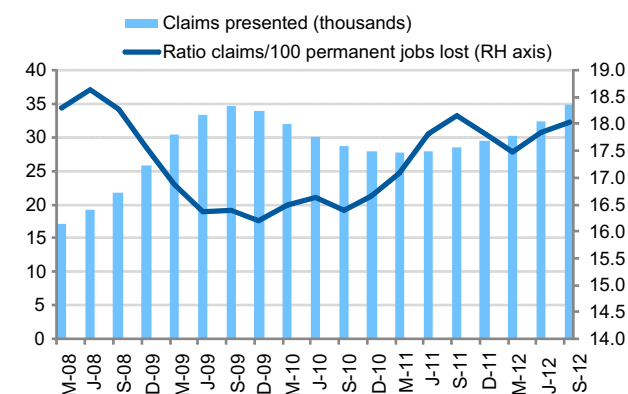
In a difficult economic environment like the present, in which large numbers of workers are losing their jobs, it is not surprising that labour unrest is increasing.

However, it is noteworthy that **in the first half of 2012 the number of strikes, both ordinary and general, barely reached 400, whereas in 1990-92 and 1987-88 the figure was double.**

The lower level of labour unrest is even more striking if we consider that until July (the latest data available) (i) the number of participants in strikes was barely 200,000, about 6% of those who went on strike in the crisis of the 1990s, and (ii) the number of working days lost was around half a million, compared with between 4 and 5 million in the same period in previous crises



Labour lawsuits (claims against dismissal per 100 permanent workers losing jobs, annual average)



Another consequence of the redundancies is that, if the dismissal is considered unfair, the worker can sue for the court to declare it unlawful, in which case the worker will be entitled to the appropriate compensation.

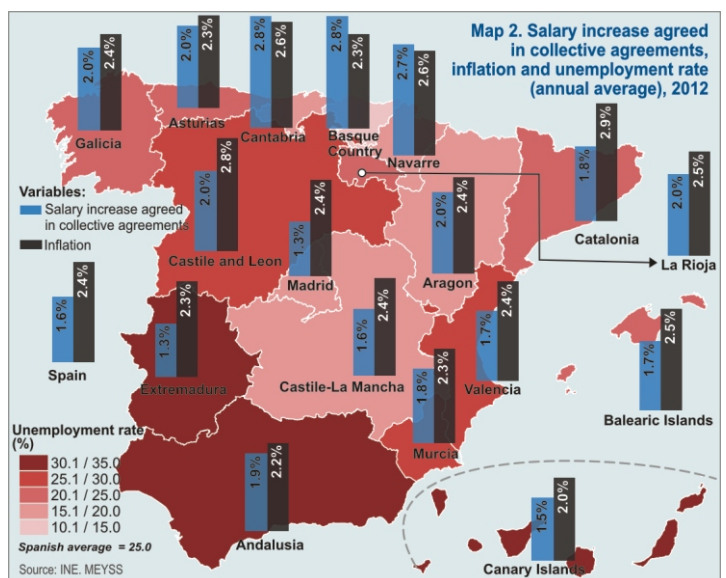
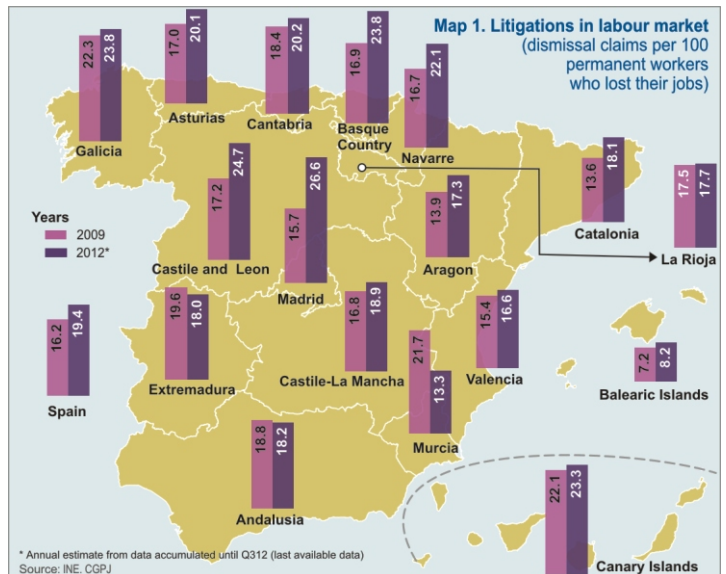
In this case, the data show that, when the highest levels of dismissals occurred (in terms of the number of workers becoming unemployed in the previous quarter), such as late 2008 and early 2009, the incidence of employment litigation fell to around 16.5 claims per 100 redundancies.

However, **in recent quarters not only has there been an increase in the number of claims in absolute terms (about 18,500 in 3Q12), but also in relative terms**. In 3Q12, the latest data available, there were 18 claims per 100 dismissals.

"In almost all regions, the number of lawsuits against dismissal in 2012 is higher than in 2009, while the level wage rises under collective agreements has caused a widespread loss of purchasing power".

Though we still await the final data for 2012 (the volume of claims submitted up to 3Q12, the latest data available, has been annualized), **in almost all the regions, the number of lawsuits filed per 100 dismissals last year is greater than in 2009**, when most dismissals were contested in court. This increase has been particularly notable in Madrid and Castile and Leon, because in both cases they have risen from barely 15 to around 25 claims against dismissal per 100 laid off in 2009 and 2012 respectively. In other regions, such as Murcia and Extremadura, employment-related litigation in 2012 is estimated to have been lower than in 2009. In contrast, the case of the Balearic Islands is also notable, due to the very low levels of litigation, both in 2009 as in 2012 (less than 10 claims per 100 dismissals).

With regard to the wage increases negotiated in collective agreements during 2012, two conclusions can be drawn. On the one hand, the **generalized loss of purchasing power in the wage bargaining** of the past year, as the increases agreed in industry-level negotiations have been lower than inflation. This loss of purchasing power has been most pronounced in Extremadura, Madrid and Catalonia, all with negative differentials on the order of one percentage point. In contrast, workers in the Basque Country, Cantabria and Navarre, regions where per capita income is already among the highest in Spain, have managed to negotiate wage increases above the level of inflation. On the other hand, regional unemployment rates have been a major factor in the negotiation of these wage increases. In particular, **wages have risen more in those regions with lower unemployment rates** (Basque Country, Cantabria and Navarre), while those with higher rates of unemployment (Extremadura or the Canary Islands, have seen more modest wage growth).



THE MONTHLY FOCUS

Market discipline

In 2012, real wages declined in most regions. This development is consistent with the wage discipline imposed by the sustained labour market recession afflicting the Spanish economy since 2008. The massive oversupply of labour, in the absence of any stimulus to the demand for goods and services, will only be resolved through a downward adjustment of wages in relation to price levels. The consistency to which I allude is found in the fact that real wages rise less (or fall more) where the unemployment rate is higher. Nevertheless, it is still surprising that real wages continue to grow when the unemployment rate stands at (or above) 15%. It is equally surprising that the prices of goods and services (core inflation excluding the effect of VAT increase) barely decline given the loss of demand being experienced by businesses and the self-employed in Spain. In any case, it seems that the competitive discipline in our markets is still very limited.

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