ASEMPLEO Afi Report Nº 77 December | 13

Spanish Labour Market Monitor

Presentation

If recent trends in the labour market are maintained over the next few months, they could be considered leading indicators for the recovery thereof. The decline in unemployment recorded in November, albeit modest, is the second in YoY terms, while the fall in Social Security enrolment, although still recessionary, is the best, on a seasonally-adjusted basis, of the whole crisis period. However, although in 2014 the Spanish economy will no longer be in recession, the weak growth expected will be insufficient to to stimulate solid growth in employment (expected to decline by 0.2% during the year) or significant reductions in the unemployment rate (which will remain above 26%).

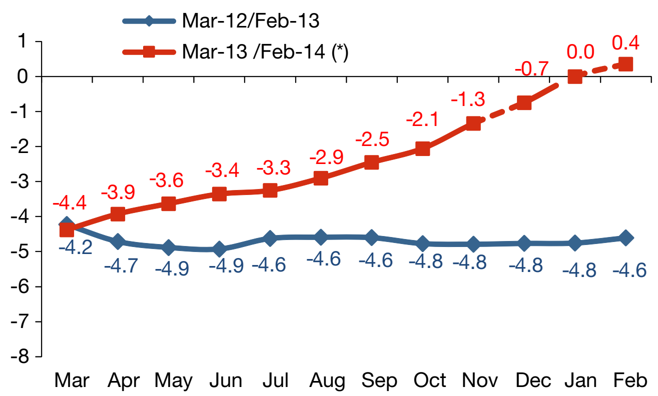
Key Points

- Registered unemployment fell by 40,000 in November, on a seasonally-adjusted basis, while Social Security enrolment managed to remain stable in the month with a minimal fall of 3,000.
- We cannot rule out a certain discouragement effect among those of the unemployed who have spent most time in this situation and who see little chance of finding employment.
- The Afi-ASEMPLEO SLM Indicator anticipates that employment will stabilize at the start of 2014, and in February we may see the first YoY gains since the onset of the crisis. Indeed, the YoY fall in Social Security enrolment in November is now down to 1.3%.
- Recruitment increased for the third consecutive month (7.8% YoY) driven exclusively by temporary hiring (up 9.1% YoY).
- Although in 2014 the Spanish economy will no longer be in recession, GDP growth (0.5%) will be insufficient to generate net growth in employment (it will fall by 0.2% over the year). GDP would have to grow by at least 1.26% p.a. to consolidate the improvement in the labour market.
- If the labour force continues to fall (a decline of 0.6% is forecast in 2014), the unemployment rate could be reduced to 26.3% (down only 0.3 percentage points).
- The European Commission forecasts weak growth in the EU-28 in 2014 (1.4%), which translates into modest growth in employment (0.3%) and a very slight moderation in the unemployment rate (down 0.1pp to 11.0%).
- In the case of Spain, the European Commission's forecast for GDP growth coincides with that of Afi, with a similarly poor performance in domestic demand, and a 0.2pp reduction in the unemployment rate 26.4%. Employment, in turn, will fall by 0.7%

Afi-ASEMPLEO SLM Indicator

With a slightly smaller fall than expected in November, Social Security enrolment could end 2013 above the levels of the third quarter, after adjusting for seasonal effects. The gradual moderation of the YoY declines could give way to the first increases in the early part of 2014, as reflected in the Afi-ASEMPLEO SLM Indicator.

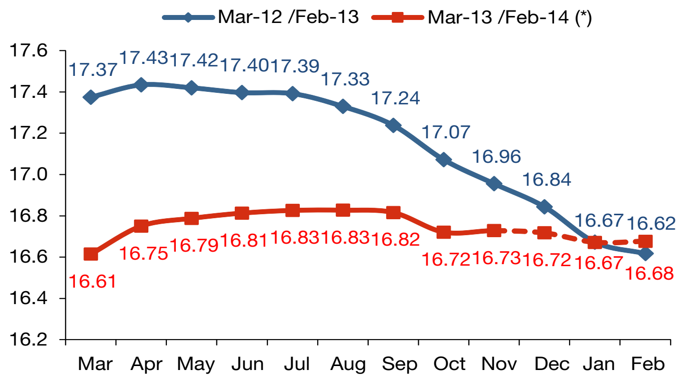
SLM monthly forecast of workers in employment (% YoY change)



Source: Afi. (*) Dec 2013-Feb 2014 figures are forecasts

With 16.68 million in work in February of next year, the employment level will begin to improve on the 2013 figures. However, it is still too early to talk about a sustained recovery of the labour market. GDP growth rates are insufficient to rule out peaks and troughs in the improving employment trend.

SLM monthly forecast of workers in employment
(millions)



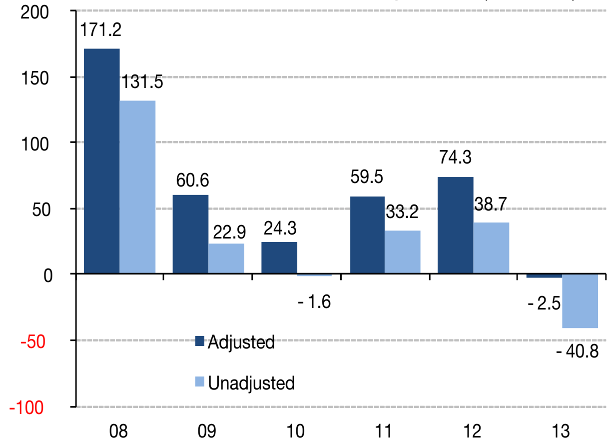
Source: Afi. Dec 2013-Feb 2014 figures are forecasts

"Registered unemployment was down 2,500 in November, while Social Security declined by some 66,800".

In November, the number of unemployed fell by 2,500, the first decline observed in a month of November, and its second consecutive monthly fall. Corrected for seasonal effects, the improvement is even more significant: a fall of 40,000.

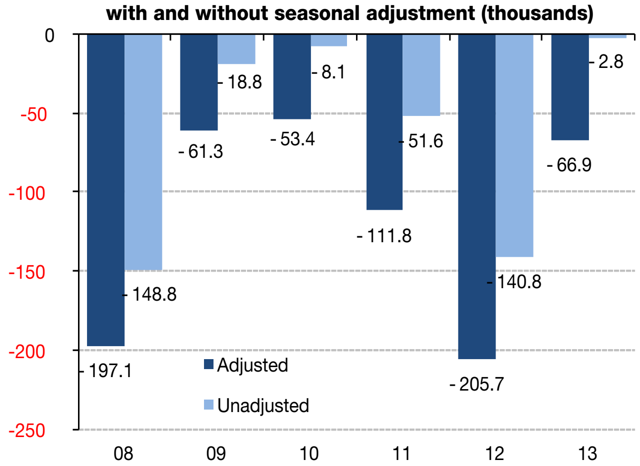
However, **the fact that this decline in unemployment coexists with a decline in Social Security enrolment** of some 66,800, **reflects a certain discouragement effect** among the unemployed who have spent most time in this situation and who see little chance of finding employment, at least in the short term. This may be the case of those who worked in construction and industry, because these are the only sectors that saw the number of unemployed fall compared with the previous month.

Monthly change in November each year in registered unemployment, with and without seasonal adjustment (thousands)



Source: Ministry of Employment and Social Security

Monthly change in November each year in Social Security enrolment, with and without seasonal adjustment (thousands)



Source: Ministry of Employment and Social Security

With regard to enrolment, although the decline is smaller than that observed in the same month of 2011 and 2012, its behaviour still conforms to a recessionary pattern. However, seasonal correction leads to by far the best figure for a month of November (almost 2,800 down on the previous month) in the whole crisis period.

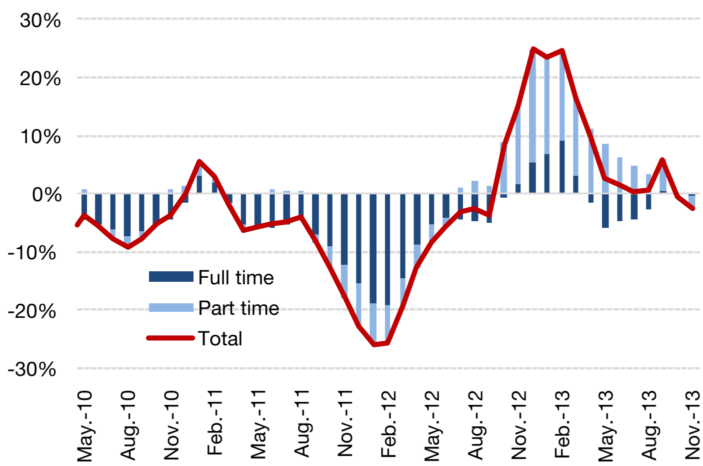
By economic sector, enrolment fell sharply in services and the primary sector (somewhat more than 39,100 and 26,400 respectively). Within the former, as might be expected, hotels & catering was especially affected, with a decrease of almost 77,700. In contrast, education, retailing and public administration saw enrolment increase (by 23,700, 10,900 and 11,200 respectively). The latter sector again surprised, as it is still immersed in an intense and necessary fiscal consolidation.

"Recruitment increased for the third consecutive month (7.8% YoY) due to the momentum of temporary hiring (up 9.1% YoY).".

For the third consecutive month, recruitment increased with regard to the previous year (7.8% YoY), **boosted by temporary hiring** (up 9.1% YoY), as new permanent contracts continued to decline (6.2% YoY), especially those on a part-time basis (10.6% YoY).

As happened in October, the decline in permanent recruitment is no longer attributable to the regularization of domestic workers that took place last year, which led to a significant number of permanent part-time contracts. Temporary hiring, therefore, remains the most commonly used alternative for companies when covering their labour requirements.

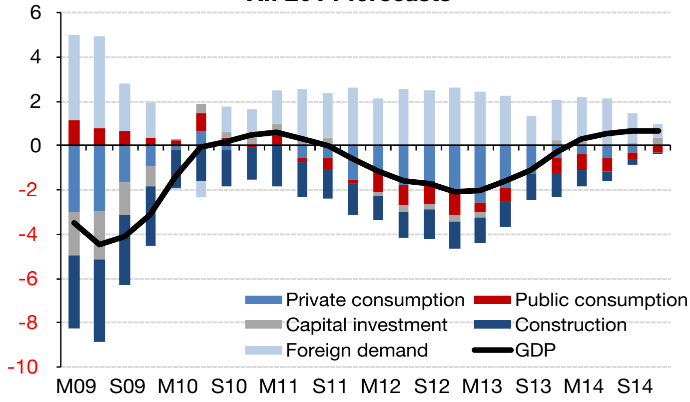
Contribution to YoY change in new permanent contracts according to length of working day, excl. domestic staff (qtly avg)



Source: Ministry of Employment and Social Security

"Although in 2014 the Spanish economy will no longer be in recession, GDP growth (0.5%) will be insufficient to generate net growth in employment (it will fall by 0.2% over the year)".

Contribution to YoY change in Spain GDP by component Afi 2014 forecasts



Source: Afi. INE

The performance of the Spanish economy in the central part of 2013 suggests that the economic recession is coming to an end.

The 0.1% quarterly rise in GDP in 3Q13, although modest (in YoY terms, GDP is falling at a rate of 1.1%), interrupted the downward path initiated in 2Q11 and lays the groundwork for the start of the recovery.

The breakdown of this quarterly increase reveals that the growth of the economy was driven by the recovery of domestic demand (which contributed 0.3 pp to growth), based mainly on household consumption (up 0.4% quarterly) and capital investment (up 0.8% quarterly), rather than external demand (with a negative impact of 0.2 pp on GDP), as had been the case up to now. This has not happened since mid-2010.

However, this change of sign in the contributions to growth of domestic and foreign demand is not representative of the growth profile that the Spanish economy will present during the next few quarters.

The dynamism of investment in some sectors will not be enough to avoid a decline in domestic demand in 2014, which, although milder than in 2013, will be accompanied by a reduction in (i) public sector consumption (down 2.4%), necessary to meet the public deficit target to which the government has committed itself (5.8% of GDP) and (ii) household consumption, as employment will not grow in the short term (see below), wage restraint will limit income gains and drawing down savings will not be sufficient to cause an increase in household spending.

Macroeconomic situation in Spain. Afi 2014 forecasts

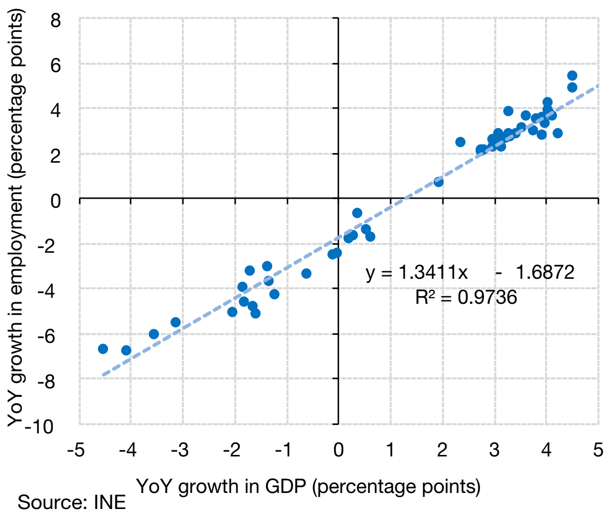
Annual rate (%)	2009	2010	2011	2012	2013	2014
GDP	**-3.8**	**-0.2**	**0.1**	**-1.6**	**-1.3**	**0.5**
Final consumption	-1.8	0.5	-1.0	-3.3	-2.7	-1.0
Households	-3.8	0.1	-1.2	-2.8	-2.8	-0.6
Pub. Admin.	3.8	1.5	-0.5	-4.8	-2.6	-2.4
GFCF	-17.9	-5.5	-5.4	-7.0	-6.5	-1.0
Capital goods	-24.2	5.1	5.6	-3.9	-0.5	2.8
Construction	-16.6	-9.9	-10.8	-9.7	-10.5	-3.8
Domestic demand (1)	**-6.7**	**-0.6**	**-2.0**	**-4.1**	**-3.5**	**-1.0**
Exports	-9.8	11.7	7.8	2.1	6.2	7.1
Imports	-16.8	9.5	0.0	-5.7	-0.4	3.1
Foreign demand (1)	**2.9**	**0.4**	**2.1**	**2.5**	**2.2**	**1.5**
CPI	-0.3	1.8	3.2	2.4	1.6	1.6
Employment (EPA)	-6.8	-2.3	-1.9	-4.5	-3.3	-0.2
Unemployment rate % (EPA)	18.0	20.1	21.6	25.0	26.6	26.3
Public sector balance (% GDP)	-11.2	-9.7	-9.4	-10.3	-6.8	-5.8
Ext. funding surp./def. (% GDP)	-4.8	-4.5	-3.5	-0.6	0.9	1.5

(1) Contribution to GDP growth

Source: Afi. INE

"If the labour force continues to fall (a fall of 0.6% is forecast in 2014), the unemployment rate could be reduced to 26.3% (down only 0.3 percentage points)."

Relation between employment and YoY GDP growth, 1Q00-3Q13



Source: INE

Although positive, the weak growth of the Spanish economy in 2014 (0.5%) will be insufficient to to stimulate solid growth in net employment. Forecasts point to a virtually no change in employment for the year as a whole, although the YoY rate will be a fall on the order of 0.2%. The relationship between growth in GDP and in employment indicates that the former would have to grow by at least 1.26% p.a. to achieve sustained net second order gains (one of the consequences of the labour market reform should be to reduce the GDP growth necessary to bring about increases in employment). Thus, a labour market recovery with ups and downs cannot ruled out, even factoring in the effects of seasonality. The demands of fiscal consolidation will limit the growth in public employment, which at the present time is the key determinant in the stabilization of aggregate employment observed in recent months.

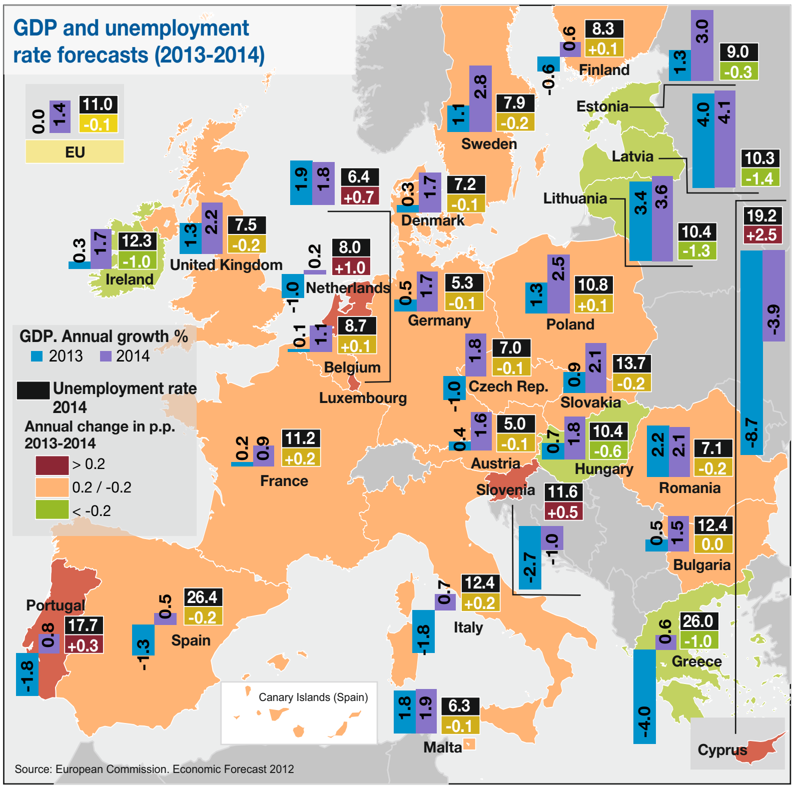
In the labour market, the other side of the coin is unemployment. **If the reduction of the labour force continues in 2014** (a further 0.6% fall is expected, half the reduction seen in 2013), **the unemployment rate could be reduced by 0.3pp, from 26.6% to 26.3%.**

"The European Commission forecasts weak growth in 2014, which will be insufficient to stimulate a solid increase in employment and a significant reduction in the unemployment rate".

The European Commission's forecasts for 2014, published recently in its autumn report, **hold out a scenario of weak growth**,even though they expect some recovery in European economies. In particular, they sketch a scenario in which eurozone GDP falls back by 0.4% in 2013 (0.0% for the EU-28) with growth of 1.1% for 2014 (1.4% for the EU-28); this will be **insufficient to bring about a solid increase of employment and, hence, a significant and necessary reduction in the unemployment rate.**

The structural reforms undertaken in many member countries have laid the foundations for recovery. However, unemployment remains high, especially in the countries that have requested financial assistance and, specifically, in the peripheral nations.

Spain is one of these countries, and the one with the weakest recovery; moreover, it has achieved little by way of correcting its major imbalances on the fiscal front. **Like Afi, the European Commission expects GDP to increase by 0.5% in 2014**. On the other hand, they differ with regard to the composition of growth, as Brussels expects households to increase their consumption (by 0.1%) and the public administration not to decrease it as much, even though it calculates that the fiscal deficit will be somewhat higher than in Afi's scenario (5.9% in 2014). Afi, in the absence of new measures to contain the deficit, expects it to increase to 6.6% of GDP in 2015. In other words, a cumulative adjustment of approximately two percentage points of GDP would be required to achieve the 2015 target. Such a reduction could mean, as has happened until now, further cutbacks in public employment.



With regard to the labour market, although there are signs that employment is starting to stabilize, the European Commission is forecasting a moderate reduction in unemployment, to 1.0% in the EU-28 and 12.2% in the eurozone, though the differences between the member countries will persist. Thus, for example, **in the case of Spain it foresees a reduction of only 0.2pp from the level forecast for end 2013 (26.6%)**. Among the European countries with the highest unemployment rates, only Greece will see a significant decrease. **Employment, in turn, will grow by only 0.3% in the EU-28 (0.2% in the eurozone), falling 0.7% in the case of Spain.**

THE MONTHLY FOCUS

Employment in sight?

With the November Social Security enrolment data before us, we can immediately see that the YoY fall in enrolment stands at 237,000. Last September, the same figure was somewhat in excess of 500,000. Can we say that in a few months the YoY change in enrolment, and consequently in employment, will be positive? Our forecast in this month's issue of the SLM suggests for the first time in its already long history that it will be. And that it is likely to happen in February next year. This forecast does not refer to Social Security enrolment exactly, but to what in the SLM each month we call "EPA-equivalent employment", considering the statistical equivalence that can be established between the monthly enrolment figures and employment in the quarterly EPA (labour force survey). Yes, and within the margins of error applicable to any forecast, I think we can confidently expect that in a few months the YoY net change in employment and enrolment will be positive.

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