

# Spanish Labour Market Monitor

## Presentation

According to the 1Q14 labour force survey (EPA), the Spanish economy again saw a net loss of employment on a seasonally-adjusted basis (0.1% YoY), an apparent interruption of the recovery of the Spanish labour market. However, the labour market figures for the start of 2Q14 point to a rise in Social Security enrolment (1.2% YoY) and a fall in registered unemployment (6.1% YoY), which are unprecedented in a month of April. Even so, Spain continues to have one of the highest ratios of unemployment to vacancies in Europe, but it is also the country which has seen the biggest increase in the number of new jobs over the past year, which undoubtedly raises the hopes of many unemployed.

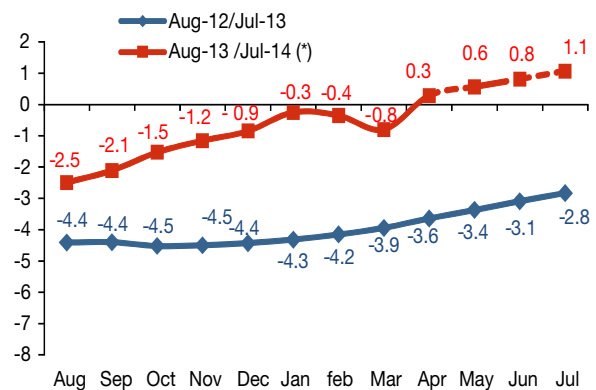
## Key Points

- Social Security enrolment increased by 1.2% YoY in April and registered unemployment was down for the seventh consecutive month (6.1% YoY).
- Also in April, recruitment was 12.4% up on the same month last year. All types of contract contributed to this improvement.
- If May and June see continuity in the trend of YoY advances of over 1% initiated in April, employment should increase by around 300,000 in the second quarter. The level of employment in July could be comparable to that of October 2012.
- The 1Q14 EPA reveals that the Spanish economy again saw a net loss of employment on a seasonally-adjusted basis (0.1% YoY), interrupting the recovery of the Spanish labour market.
- The quarterly fall in employment again hit private sector wage earners, and temporary and full-time workers.
- The fall in the labour force (1.8% YoY) is due to the decline in the foreign population (9.2% YoY) and the rise in discouraged workers (0.4% YoY).
- The decline of the labour force served to contain the increase of the unemployment rate, which was up 0.2 percentage points to 25.93%.
- The number of unemployed per vacancy (110 in 4Q13) was down by 17% YoY due, among other things, to an increase in new jobs (19% YoY).
- Leisure and construction are the sectors with the highest number of unemployed per vacancy, while professional and sanitary activities have the lowest.
- For now, the current volume of production does not require more workers to be hired, and, therefore, vacancies are in short supply.
- Almost two thirds of the vacancies are found in small businesses.
- Spain has the second largest number of unemployed per vacancy in Europe, but it is also the country which has seen the biggest increase in the number of new jobs over the past year.

## Afi-ASEMPLEO SLM Indicator

The effect of Easter Week on employment in services and the stabilization of activity in industry and, to a lesser extent, in construction, caused Social Security enrolment to rebound in April. If May and June see continuity in the trend of YoY advances of over 1% initiated in April, employment should increase by around 300,000 in the second quarter (a similar pattern to 2Q07).

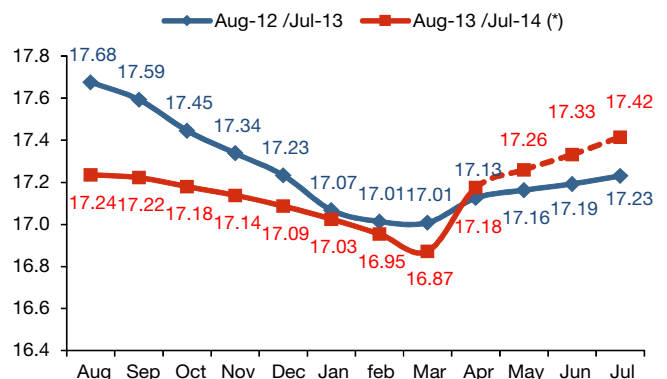
**SLM monthly forecast of workers in employment**  
(% YoY change)



Source: Afi. (\*) May 2014-July 2014 figures are forecasts

If this scenario is confirmed, the Afi-ASEMPLEO SLM Indicator forecasts an increase of 1.1% YoY in employment in July, returning the number of employed to the levels of October 2012.

**SLM monthly forecast of workers in employment**  
(millions)

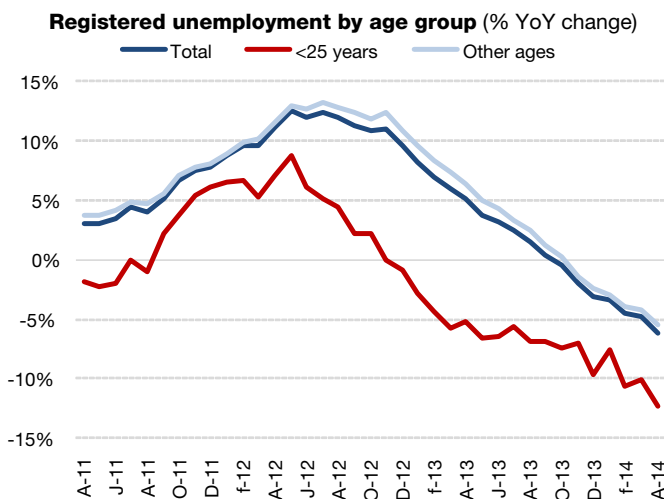


Source: Afi. (\*) May 2014-July 2014 figures are forecasts

"Social Security enrolment increased by 1.2% YoY in April and registered unemployment was down for the seventh consecutive month (6.1% YoY)".

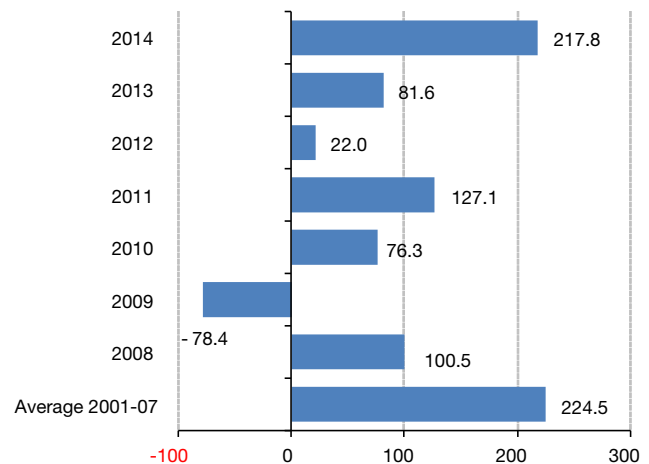
**Social Security enrolment increased by 133,765 in April (1.2% YoY).** Even ignoring the effect of Easter Week, this is a significant increase (61,100), showing the incipient recovery of the labour market. Indeed, taking March and April together, the increase in 2014 was the largest registered during the crisis, and even similar to the average recorded during 2001-2007 (Social Security enrolment grew by some 225,000 in these two months).

Both the self-employed and those enrolled under the general regime of the Social Security continue to increase (2.1% and 1.1% YoY respectively). **In the latter case, the improvement was supported, as in previous months, by hotels & catering, retailing and public services.** The regions most favoured by this trend are, therefore, those where the tourist sector forms a larger part of the economy.



Source: Ministry of Employment and Social Security

**Social Security enrolment: YoY change in March + April total (thousands)**



Source: Ministry of Employment and Social Security

**Registered unemployment was down for the seventh consecutive month in YoY terms (6.1%),** and moreover the fall is accelerating month by month.. The April decline exceeded 111,500 (some 50,100 after seasonal adjustment), reducing the total number of unemployed to 4,684,301.

All economic sectors saw the number of unemployed fall on the month, though not in comparison with April last year. Unemployment in agriculture and those with no previous employment increased (by 8.8% and 1.0% YoY respectively).

The behaviour of the latter group contrasts with that of the **under 25 age group, where the number of unemployed is seeing significant falls,** even though they have little work experience. In April, unemployment in this category was down 12.4% in YoY terms, while the YoY variation registered by the national average was half of that.

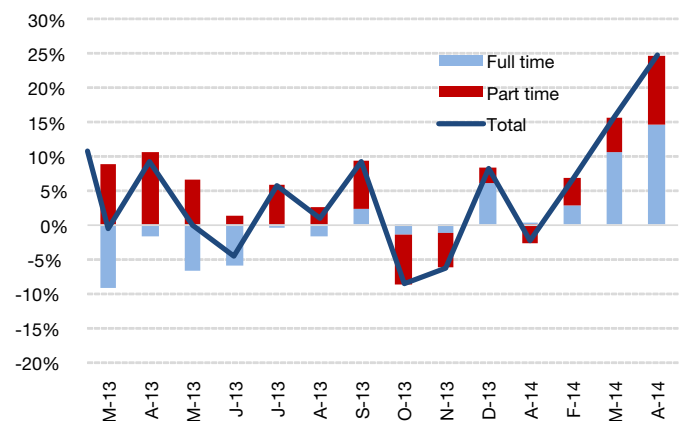
"In April, recruitment was 12.4% up on the same month last year".

The YoY increase in recruitment is another example of the improvement in the labour market.

**Recruitment in April was 12.4% higher than in the same month last year,** with both temporary and permanent hiring increasing (11.3% and 24.7% YoY respectively). Despite the important rise of the latter, it continues to represent less than 10% of total recruitment (specifically, in April it accounted for 9.4%), a proportion that has been rising slowly but steadily for more than a year.

By hours worked, both full-time and part-time recruitment increased (by 11.2% and 14.7% YoY respectively). However, the former continue to outnumber the latter (there are almost twice as many full-time hirings as part-time).

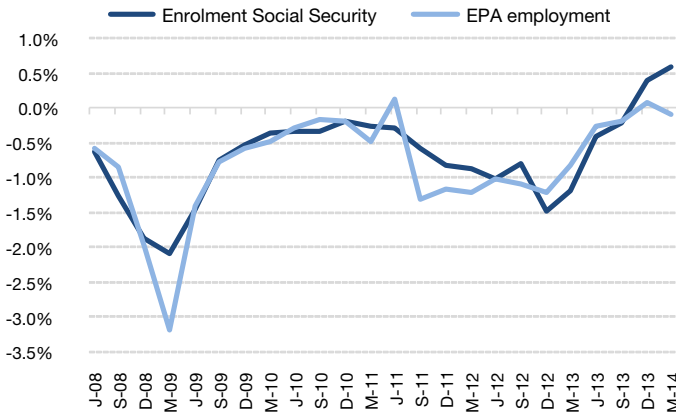
**Contribution to YoY change in permanent hiring by working hours**



Source: Ministry of Employment and Social Security

"The Spanish economy again saw a net loss of employment on a seasonally-adjusted basis (0.1% YoY), interrupting the recovery of the Spanish labour market."

**Social Security enrolment and EPA employment**  
(seasonally-adjusted, % YoY change)



Source: INE (National Statistics Institute)

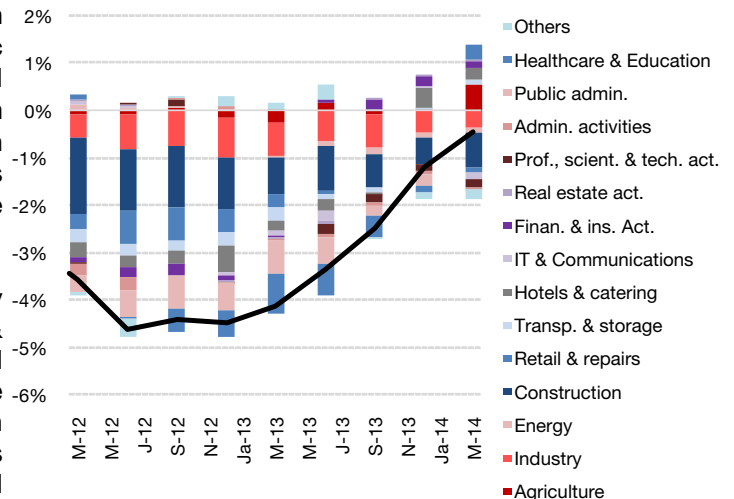
The sectoral profile suggests that **if it were not for the quarterly increase in employment in the agrarian sector** (not habitual in the first quarter) **and in public services** (public administration, education and healthcare), **the fall in employment would have been heavier**. Indeed, industry continues lose jobs faster than would be expected in the current phase of the business cycle (3.0% YoY), while construction recorded a worse result even than in 1Q13 (with a YoY fall of 11.6%).

The greatest divergence between Social Security enrolment and EPA employment is found in hotels & catering, transportation and retailing. While the Social Security figures indicate a YoY improvement in 1Q14, the EPA does not. The effect of Easter Week could be the main reason for this, but it is still remarkable that the difference is so significant, as this effect is also present in the Social Security data.

The 1Q14 EPA surprised with a fall in the number of employed (184,000 on the quarter, 0.5% YoY), much bigger than the decline predicted by the Afi-ASEMPLEO SLM Indicator (75,000). This is not the first time that the trend in Social Security enrolment (used in the forecast) has diverged significantly from that of EPA employment.

However, without a doubt the most significant indicator is that **the Spanish economy again saw a net loss of employment on a seasonally-adjusted basis (0.1% YoY)**, interrupting the recovery of the Spanish labour market and meaning that the increase in economic activity was attributable to improvements in the productivity of the workers. Thus, in 1Q14, the increase in productivity was more than significant, considering that the GDP grew by 0.6% YoY, the first such increase since 2Q11.

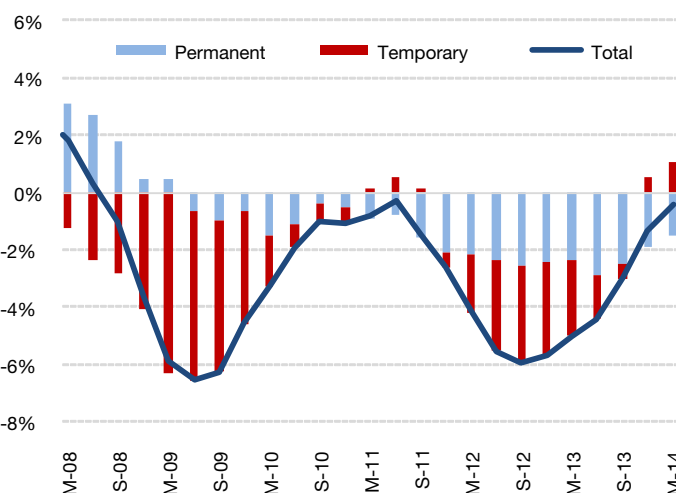
**Employment by economic sector** (contribution to YoY change)



Source: INE (National Statistics Institute)

"The quarterly fall in employment again hit private sector wage earners, and temporary and full-time workers".

**Contribution to YoY change in total wage workers by length of contract**



Source: INE (National Statistics Institute)

The quarterly fall in employment again hit private sector wage earners (175,000), while **public sector employment rose** (by 11,000) **for the first time since mid-2011**. The increase was centred in the central and regional governments. The number of self-employed, meanwhile, declined again for the second consecutive quarter (20,300).

By type of contract, **the quarterly fall in employment was especially pronounced in the case of the temporary hiring** (112,400). However, on a YoY basis, it is this form of contract which is pushing up employment.

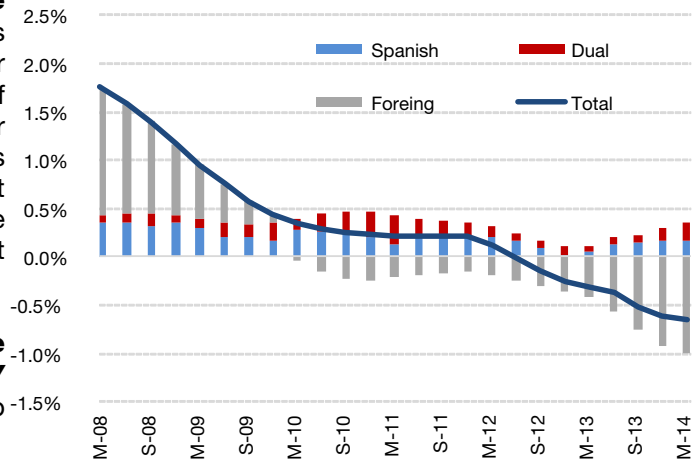
With regard to hours worked, **full-time workers declined** (176,900) **much more than part-timers** (7,800), taking the incidence of part-time working to the highest level of recent years (16.2%).

**"The decline in the labour force (1.8% YoY) is attributable to the reduction of the foreign population (9.2% YoY) and the increase in discouraged workers (0.4% YoY)"**

The decline of 187,000 means that **the fall of the labour force is accelerating (1.8% YoY), and is thus now the highest since the start of the crisis.** This reduction is largely attributable to the decline of the foreign labour force which, due probably to its higher level of unemployment (37.7% in 1Q14, compared to 24.3% for Spanish workers) and the difficulty of finding a job, is leaving the country in search of better employment conditions. Although this tendency started at the beginning of 2010, it has been gaining strength in recent quarters.

This is shown by the fact that **the working-age population (i.e. those over 16) is decreasing at a YoY rate of 0.6%** (double that of a year ago) due exclusively to the decline of the foreign population (9.2% YoY).

**Contribution to YoY change in population of 16 and over by nationality**



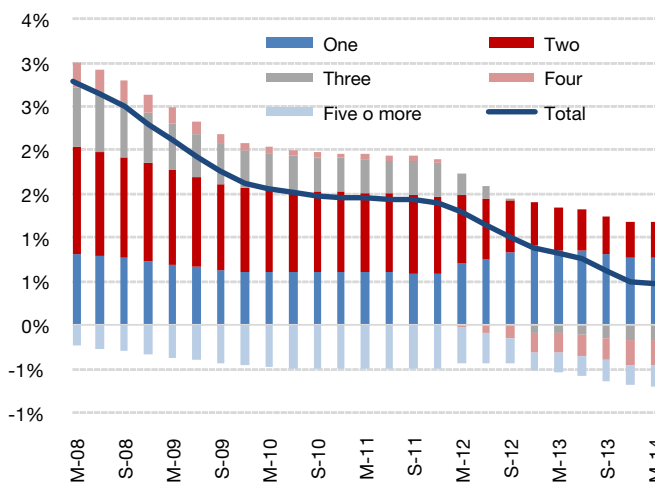
Source: INE (National Statistics Institute)

Another factor behind the reduction of the labour force is the **increase of the discouraged population (0.4% YoY)**, which now exceeds 483,000, accounting for 2.1% of the labour force (adjusted to include this group).

The further rise in the number of households not receiving any type of income (4.3% YoY), to more than 768,000 (4.2% of the total) in 1Q14, may put many of them in an unsustainable position, leading to their dissolution or departure for another country.

On the other hand, the fact that it is the largest households which have been declining in number in recent months suggests that this demographic trend is again due to the decrease of the foreign population, as the households it forms habitually have these characteristics.

**Contribution to YoY change in no. of households by size**



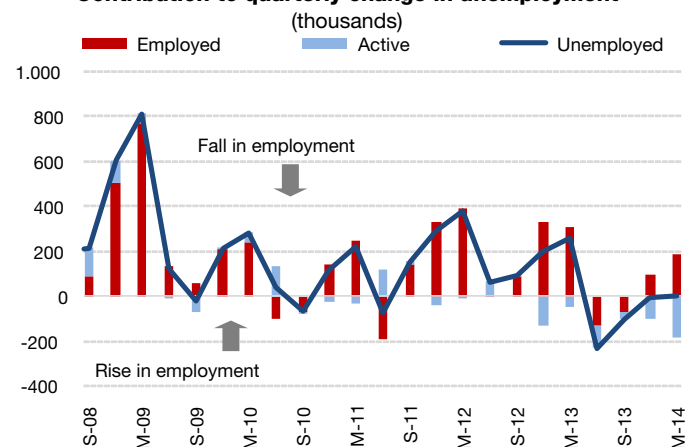
Source: INE (National Statistics Institute)

**"The decline of the labour force served to contain the increase in the unemployment rate, which was up 0.2 percentage points to 25.93%".**

This decline in the labour force allowed the number of unemployed to reduce slightly (down 2,300 in the quarter, to 5.933.300) and **the increase in the unemployment rate to be held to 0.2 percentage points, at 25.93%.** The group which saw the biggest reductions in unemployment in 1Q14 was Spanish women under 35 (including those seeking their first job).

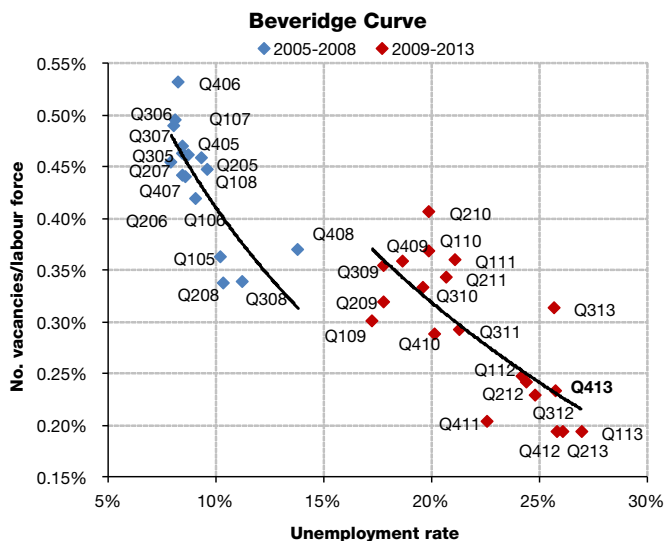
In contrast, **the long-term unemployed again increased (2.0% YoY) and now represent 61.6% of the total**, while at the same time the number in receipt of unemployment benefit continues to fall. The proportion of the unemployed covered by unemployment benefit was 58.9% in March (latest data available), implying that more than 2 million are not receiving benefit (up 2.8% YoY).

**Contribution to quarterly change in unemployment**



Source: INE (National Statistics Institute)

"The number of unemployed per vacancy (110 in 4Q13) was down by 17% YoY due, among others things, to an increase in new jobs (19% YoY)".



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

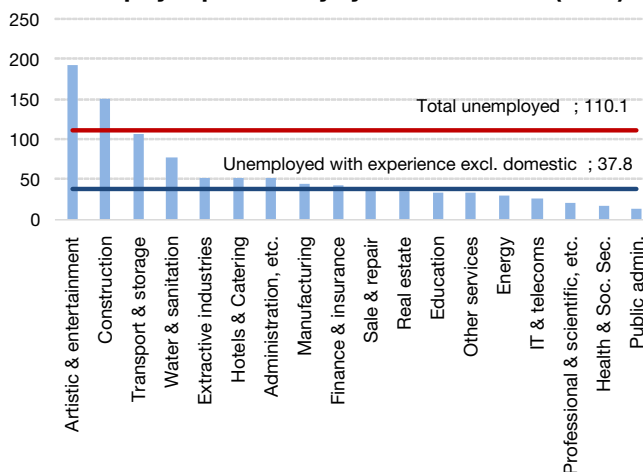
If we consider only the unemployed with work experience and exclude domestic workers, agrarian workers, and those formerly working in offshore organizations and agencies, which do not provide information on vacancies, there would have been 37.8 unemployed per vacancy in 4Q13.

As would be expected, this ratio is much higher in those sectors most severely affected by the crisis. **Leisure and construction are the sectors with the highest number of unemployed per vacancy** in 4Q13, with more than 150 unemployed for each job offer in both cases. **At the other extreme**, if we exclude the public administrations, which offer employment mainly by means of competitive examinations in which the result usually fills all the vacancies offered, **we find professional and sanitary activities**, with less than 20 unemployed per job vacancy.

One of the variables that reflects the incipient recovery of the labour market is the increased supply of jobs and the current level of vacancies in the economy. The Beveridge Curve, discussed in previous issues of the Monitor, permits the relation between vacancies and the unemployment rate to be analysed.

In 4Q13 (latest data available) there were 0.23 vacancies per 100 active workers or, in other words, **the number of unemployed per vacancy was 110.1**. This figure is 17% less than that registered last year, due not only to the fall in unemployment (1.4% YoY), but also to the higher number of vacancies (18.8% YoY). This positive trend is noteworthy, even though the figure is still distant from the average of 22 unemployed per vacancy between 2005 and 2008.

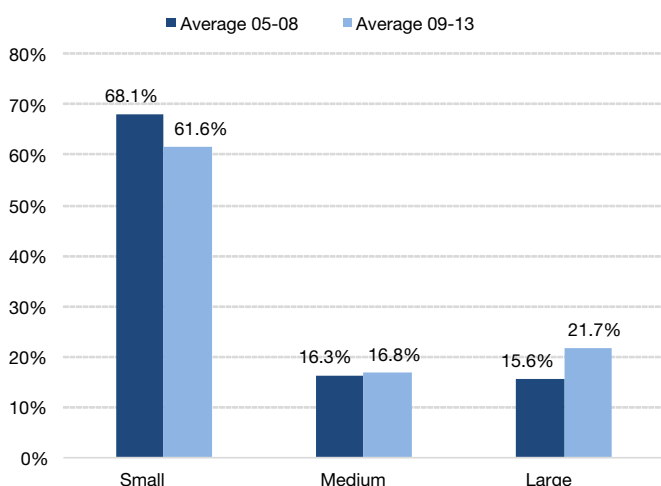
Unemployed per vacancy by economic sector (4Q13)



Source: INE (National Statistics Institute)

"For now, the current volume of production does not require more workers to be hired, and, therefore, vacancies are in short supply".

Vacancies by company size (% total)



Source: INE (National Statistics Institute)

The main reason why the business community is not offering more vacancies is the weakness of demand, i.e. **its current volume of production does not require more workers**. If its turnover were to increase, as is forecast for the coming months, it would consider increases in recruitment. It is interesting to note that 8% of the hotel & catering businesses mention the high price of hiring as a reason for not offering more vacancies, especially given that this is the sector with the lowest wages and that which has been performing best recently.

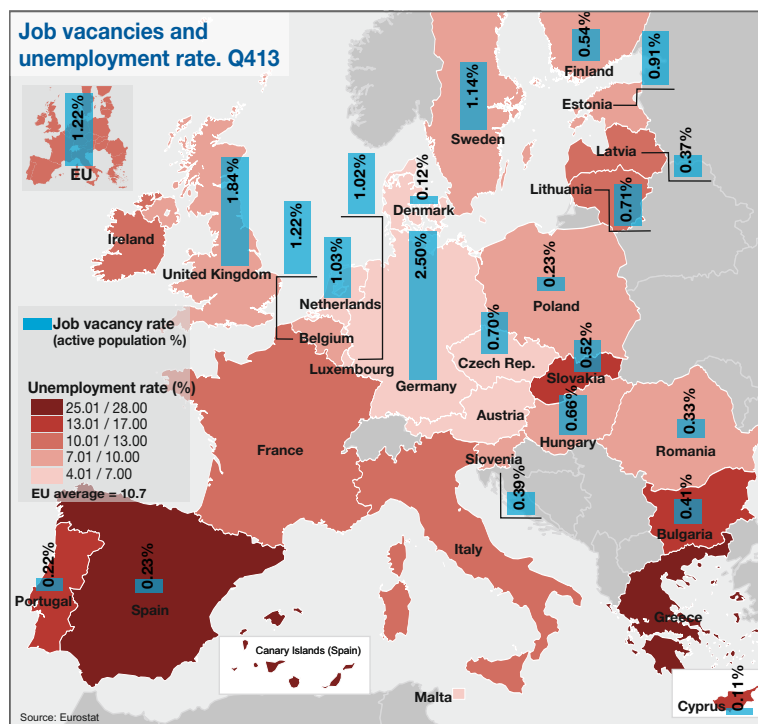
Lastly, **almost two thirds of the vacancies are found in small businesses**, which is consistent with the composition of the business community. On the other hand, large corporates' greater capacity to resist the crisis means that they account for over 20% of total vacancies.

"Spain has the second largest number of unemployed per vacancy in Europe, but it is also the country which has seen the biggest increase in the number of new jobs over the past year".

**An efficient labour market is one which is able to assign unemployed workers to vacancies**, i.e. which has a high ratio of vacancies per active or unemployed worker and, in contrast, a low unemployment rate. The analysis of the Beveridge Curve in the EU-28 context allows us to compare the Spanish labour market with the rest of Europe and to seek to identify its degree of efficiency, as the type of recovery in the Spanish economy will depend on this.

**Spain had the second largest number of unemployed per vacancy in the European Union in 4Q13** (110.1), behind only Cyprus, which had 154 unemployed per vacancy per vacancy in the same period. Portugal, meanwhile, lies in third place, with 72.7 unemployed per vacancy. Such ratios are far distant from the EU-28 average, which in 4Q13 stood at 12.3. However, although these two countries have in common with Spain a relatively low capacity to generate new jobs, probably because the crisis has had a more severe impact in these economies than elsewhere in Europe, their unemployment rates are lower by almost 10 percentage points. If the number of vacancies is compared to the labour force, Spain is again found among the countries with the lowest ratios (0.23 per 100, compared with the European average of 1.22).

All these countries contrast very significantly with **Germany and the UK**, whose unemployment rates stand at around 5-7%, about a fifth of that of Spain, and where **the ratio of unemployed per vacancy was only 2 and 4 respectively in 4Q13**.



The different economic structures and the higher levels of external trade, along with a more dynamic and efficient labour market, are some of the factors behind these geographical divergences. As well as having some of the most efficient labour markets in the EU-28, Germany and the UK continue to increase the number of new jobs. In this respect, Spain is among the five European countries with the highest YoY growth in the number of vacancies (18.8%), which encourages the recovery of employment and the beginning of the reversal of the current situation. Cyprus, in contrast, continues to be mired in its labour market recession, as the number of vacancies fell by half in 4Q13.

## THE MONTHLY FOCUS

### One vacancy for every 110 unemployed

At the end of 2013, there were 110 unemployed Spaniards for each job vacancy offered by companies. In Germany, the ratio was 2 unemployed for each vacancy. The good news is that at the end of 2012 that same ratio stood at 140 unemployed per vacancy. Reducing this distressing proportion between unemployed and vacancies is a priority to create more opportunities and more options for the former, and it requires above all that companies experience demand and have access to credit, for which other structural policies continue to be necessary. At the peak of the labour market in Spain's growth phase (mid-2007), there were still 18 job seekers per vacancy, nine times more than in Germany today. These structural policies should thoroughly liberalize all our economy's goods and services markets, not just the labour market.

José Antonio Herce. Associate Director, Afi