

# Spanish Labour Market Monitor

## Presentation

Social Security enrolment increased by 56,622 in June and registered unemployment fell by 122,684. In terms of the labour force survey (EPA), 2Q14 should bring the first YoY increase in employment since mid-2008 and a fall in the unemployment rate to 24.82%. The groups hardest hit by unemployment, such as the under 25s, are the focus of the measures recently approved by the government, and the fact is that, one out of five of the 16-24 age group is a 'Neet' (almost 700,000 in 1Q14), i.e. not in education, employment or training. The majority are Spanish nationals, aged between 20 and 24, who have not completed basic education.

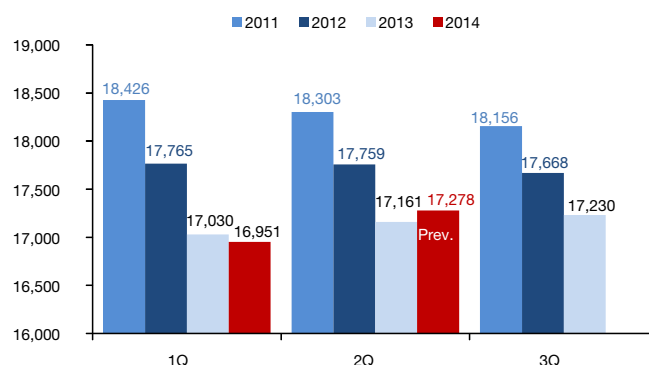
## Key Points

- Social Security enrolment increased by 56,622 in June (1.8% YoY) and registered unemployment fell 122,684 (6.6% YoY).
- Both indicators improve on a seasonally-adjusted basis (enrolment up 8.700 and unemployment down 15.900 in the month), reinforcing the idea that the recovery of the Spanish labour market is now a reality.
- The increase in enrolment is once again accounted for by hotels & catering and retailing, together with professional activities and public services.
- The increase in employment in the EPA survey could be around 327,000 in the second quarter, resulting in the first YoY rise since the middle of 2008. Though the labour force increased for the first time in the last seven quarters, the unemployment rate should fall to 24.82%.
- New employment contracts signed increased by 18.9%, with all types of contracts improving. Permanent contracts accelerated their YoY growth (to 26.2%), but part-time contracts continue to represent 44% of the total.
- Almost one out of five of the 16-24 age group is a 'Neet' (almost 700,000 in 1Q14), i.e. not in education, employment or training.
- Between the start of the crisis and 1Q14, their numbers have multiplied by 1.3, chiefly as a result of the increase in unemployed workers who are not taking any kind of courses (they represent 66% of the category).
- The number of inactive young people who are not studying or training stands at 149,000 in 1Q14.
- Most of the Neets are Spanish nationals aged between 20 and 24. They are equally divided between men and women.
- The regions with highest rates of unemployment and early school leaving are those with the highest percentages of Neets. 70.9% of this group has not even completed basic education.

## Afi-ASEMPLEO SLM Indicator

The further increase in Social Security enrolment in June, although slightly smaller than expected, means that an increase in the EPA employment on the order of 327,000 (similar to that recorded in the same period of 2007) can be anticipated in the second quarter, which would take the YoY growth rate into positive territory for the first time since the middle of 2008 (with 0.7% YoY).

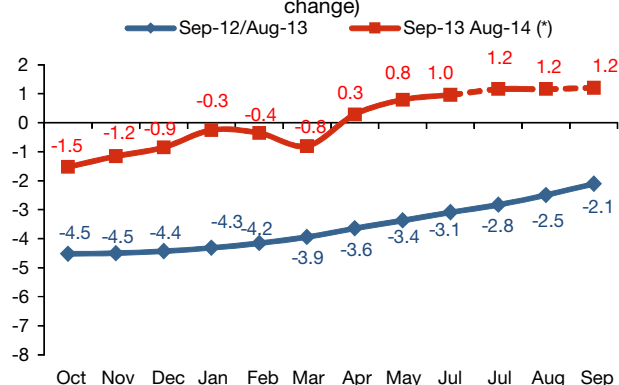
EPA employment (thousands)



Source: EPA (INE) and Afi forecasts

The trends in the number of registered unemployed and of unemployed job-seekers suggest a more subdued fall in unemployment than does the increase in employment, implying that the labour force could grow in the second quarter for the first time in the last seven quarters (in YoY terms, the labour force is forecast to fall by 1.0% in 2Q14 compared with 1.8% in the first quarter). All in all, the unemployment rate could fall to 24.82% (down 1.1 percentage points). The Afi-ASEMPLEO SLM Indicator points to a YoY rise in employment of 1.2% in the third quarter of the year.

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



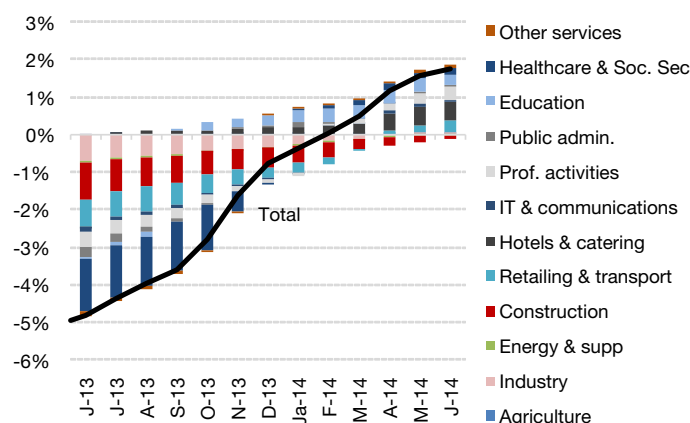
Source: Afi. (\*) Jul 2014-Sep 2014 figures are forecasts

**"Social Security enrolment increased by 56,622 in June (1.8% YoY) and registered unemployment fell 122,684 (6.6% YoY)."**

As anticipated by the Afi-ASEMPLEO SLM Indicator, Social Security enrolment increased by 56,622 in June (1.8% YoY) and registered unemployment fell 122,684 (6.6% YoY). For the former, this is the largest monthly increase in the series since June 2007, while the decline in the latter is very similar to the reduction registered a year ago.

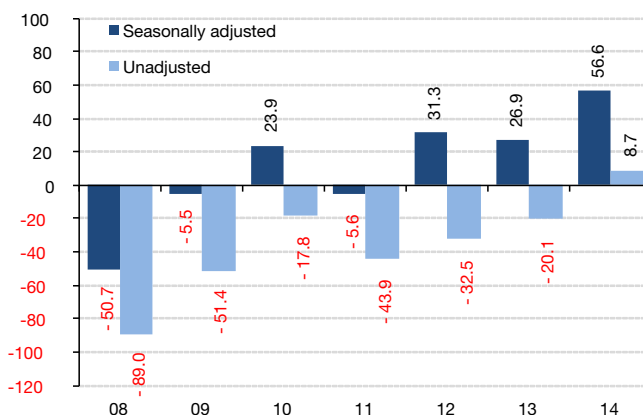
**Although seasonality contributed to the improvement of both indicators, enrolment grew for the tenth consecutive month on a seasonally adjusted basis (8,700, although it was the smallest increase in recent months) and registered unemployment also declined, for the eleventh month (15,900), reinforcing the idea that the recovery of the Spanish labour market now is a reality, though still insufficient for the 4.49 million currently unemployed.**

**Contribution to YoY variation in enrolment in Social Security's general scheme by sector**



Source: Ministry of Employment and Social Security

**Social Security enrolment: monthly change in June (thousands)**



Source: Ministry of Employment and Social Security

Enrolment in the Social Security's general and self-employed schemes grew (by 1.7% and 2.4% YoY respectively), thus consolidating the growth trend of both groups seen since February this year and November last year respectively. By economic sectors, **the increase in enrolment is once again accounted for by hotels & catering and retailing, together with professional activities and public services** (especially education). In the case of the self-employed, professional services and retailing are the activities which continue to drive the improvement.

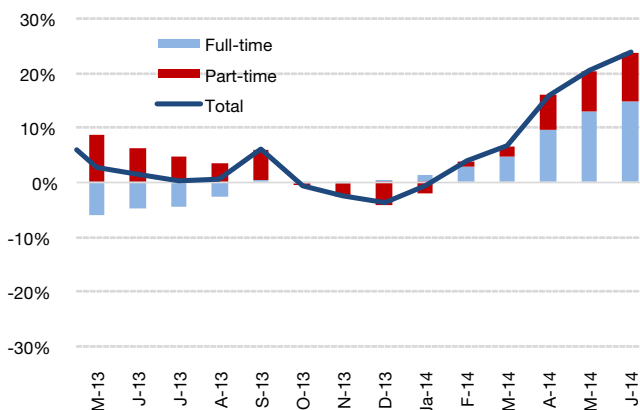
With regard to the sectoral performance of registered unemployment, services and construction contributed decisively to the decline of the aggregate (2.9% and 3.2% YoY respectively). The group of workers with no previous employment decreased (2.4% YoY), as did the number of unemployed under the age of 25 (9.2% YoY).

**"Permanent contracts accelerated their YoY growth in June (to 26.2%), but part-time contracts continue to represent 44% of the total."**

Another piece of good news was the increase in recruitment, which rose to 1,518,873 in June, a YoY increase of 18.9%.

Both permanent and temporary hiring, especially the latter, contributed to this increase, as they increased by 26.2% and 16.7% respectively with regard to the same month of the previous year. It is worth emphasizing the acceleration in the YoY growth in permanent contracts. The incipient improvement in business confidence, together with the approval of the Social Security 'flat rate' at the beginning of year, are some of the factors behind this behaviour. However, **part-time working continues to represent 44% of all permanent contracts signed**, whereas the average for the month of June during 2000-07 was 24%.

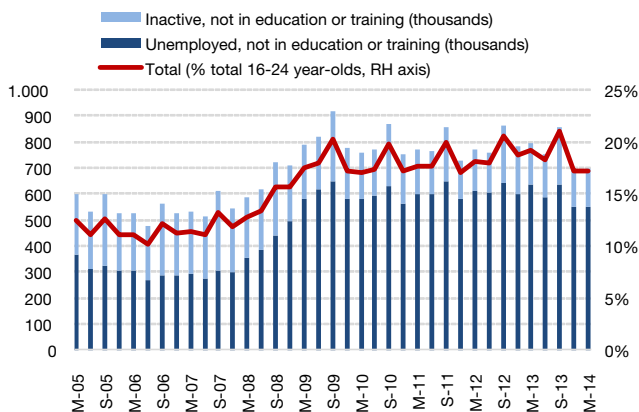
**Contribution to YoY variation in new permanent contracts (excl. regularization of domestic staff) by working day**



Source: Ministry of Employment and Social Security

"Almost one out of five of the 16-24 age group is a 'Neet', i.e. not in education, employment or training. Between the start of the crisis and 1Q14, their numbers have multiplied by 1.3".

#### 16-24 year-olds not in education, employment or training



Source: INE

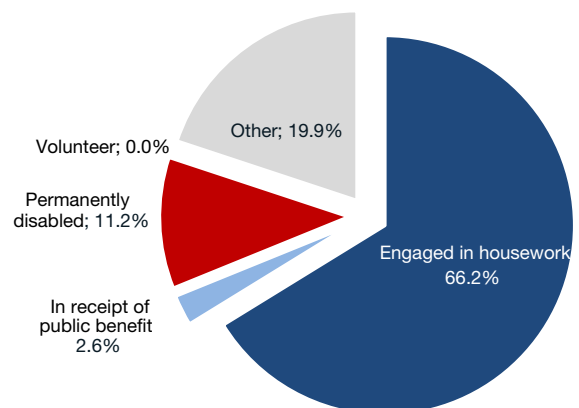
Between the start of the crisis and 1Q14, their numbers have multiplied by 1.3. Most of this increase is due to the emergence and deterioration of the economic crisis and, consequently, to the increase in the number of unemployed young people who are not taking any type of courses (officially recognized or otherwise). In 1Q14 they represented, to be precise, 79% of this group.

The remainder is made up of those **inactive young people who are not studying nor in training; in 1Q14 they numbered some 149,000**. Analysis of the reasons for their inactivity reveals that the majority state that they do housework (two out of three), i.e. their inactivity is not due, for example, to the advent of permanent incapacity nor to a dedication to voluntary activities, but rather to their generalized discouragement or lack of success in the labour market.

It is well known that Spain has the highest unemployment rate in the European Union, with the situation of young people being of particular concern. This group, along with that of those who are not studying, has given rise to the Neets phenomenon. The negative implications of this phenomenon, not only for the young people themselves (delay in joining the labour market, financial dependence, etc.), but for the economy in general (in terms of the generational succession of workers, sustainability of the pension system, etc.) have led the government to approve a series of measures to combat it. The effectiveness of these will depend, among other things, on the size and the characteristics of this group.

With regard to its size, **in 1Q14 there were almost 700,000 young people not in education, employment or training**, implying that almost one out of five young people in Spain is a Neet.

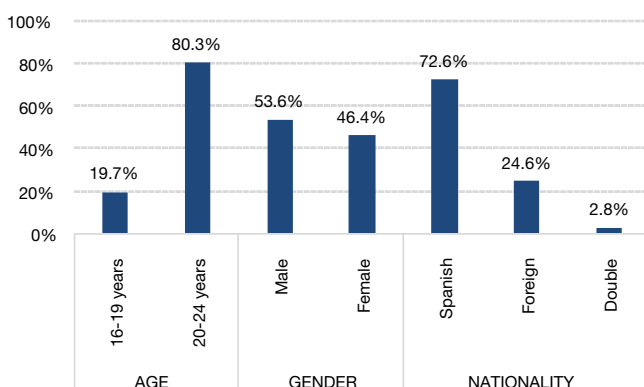
#### Inactive 16-24 year-olds not in education or training, by reason for inactivity (% total in 1Q14)



Source: INE

"Most of the Neets are Spanish nationals aged between 20 and 24. They are equally divided between men and women."

#### Inactive 16-24 year-olds not in education, employment or training by age, gender and nationality (% total in 1Q14)



Fuente: INE

With respect to their characteristics, **80.3% of Neets in 1Q14 were aged between 20 and 24**, meaning that this group is not made up only of those who leave basic education prematurely (remembering that the rate of early school leaving is one of the highest in the European Union), but includes other groups that lack the motivation to seek work or training.

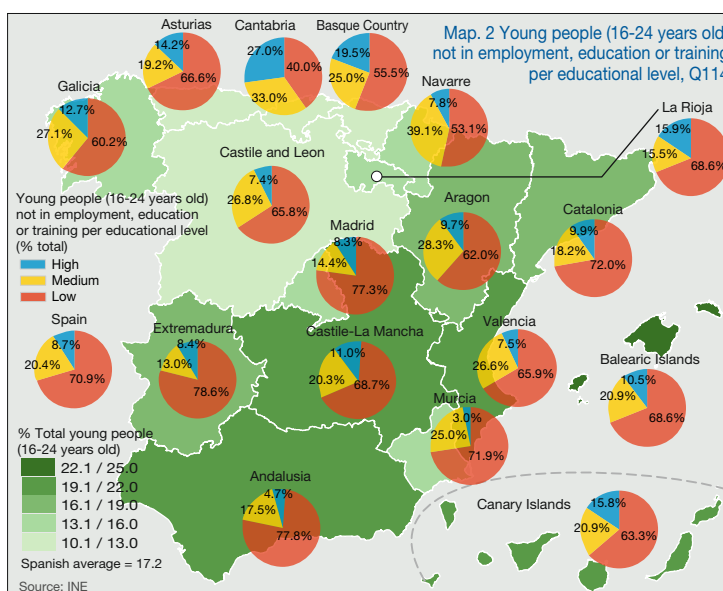
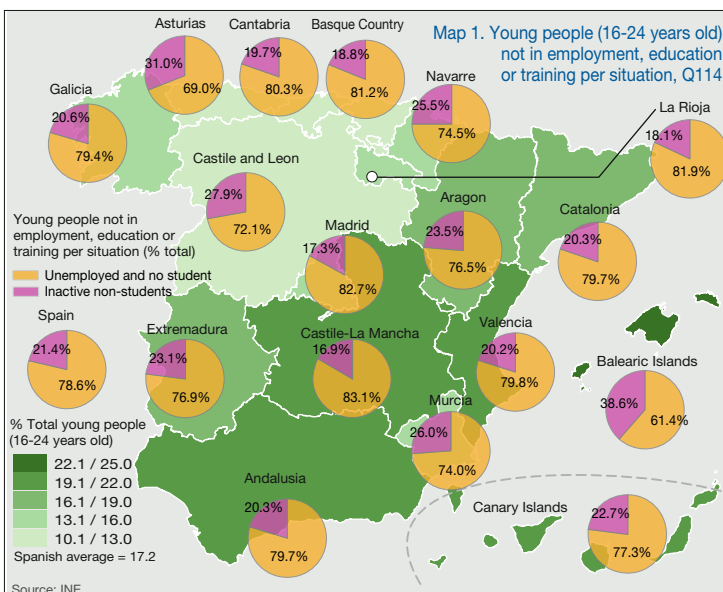
**The differences by gender are barely perceptible**, as the number of male Neets is practically the same as that of women. Where there certainly are differences is with respect to the nationalities involved. **It is surprising to note that the majority of the young people who neither study nor work are Spanish (72.6% in 1Q14)** and only 27.4% are foreign or of dual nationality, especially considering that the latter group are more affected by unemployment.

"The regions with highest rates of unemployment and early school leaving are those with the highest percentages of Neets. 70.9% of this group has not even completed basic education."

As would be expected, the geographical distribution of Neets is very different. **Those regions with the highest youth unemployment rates are also those with the largest proportion of 16 to 24 year-olds who neither study nor work.** Thus, for example, Valencia, Andalusia and Castile-La Mancha have the highest figures for both ratios, but it is the Balearic Islands which have the greatest proportion of Neets in 1Q14 (22.7% of the total). At the other extreme we find the Basque Country and Cantabria, with youth unemployment rates on the order of 50% and a proportion of Neets that barely exceeds 10% and, therefore, contrasts significantly with the high levels of the 'Mediterranean arc' regions.

**Likewise, the regions with high early school-leaving rates also have a high proportion of Neets.** It should also be noted that the higher this rate, the higher the percentage of inactive young people who are not studying. In the Balearic Islands, they account for 38.6% of the Neets, compared with the national average of 21.4%. In the case of the Basque Country and Cantabria, this percentage stands at 18.8% and 19.7% respectively.

It would have been desirable for the government's new measures to have concentrated more on training for this group, a factor which is necessary, though not sufficient, for success in the labour market, both because it improves its employability, by increasing the probability of finding a job, and because it is usually accompanied by a higher salary. **70.9% of the Neets have a low educational level**, 20.4% have completed secondary education and only 8.7% have undertaken higher education. **The regions with the highest proportions of Neets are also those where the greatest percentages of these young people lack basic education.**



## THE MONTHLY FOCUS

### "Upbeat about Neets"

When we scratch the surface of the very worrying Neet phenomenon, it can be seen that many of these young people do make some effort to seek training and, in fact, they do undertake brief and more or less useful periods of training. It is also observed that at the same time they find and leave temporary employment. In other words, they spend their time alternating among training, employment and leisure in unbalanced, sporadic and circumstantial ways. The fact that these young people, in contrast to the social sentence implied by the abhorrent label, do keep alive smouldering embers of training and employment means that they deserve all the support of society and the institutions to revive those embers with the oxygen of new and more intelligent active employment policies to guide them firmly towards training-employment. Part-time or temporary training, paid and focused similarly towards part-time or temporary employment, as long as there is no better alternative. Without inhibitions or unattainable requirements, with the conviction that with these policies which the government has already begun to put into practice by legislating the National of Youth Guarantee System through Royal Decree Law 8/2014 of 4th July, these young people will be infinitely better off than they are now. To say nothing of society.

José Antonio Herce. Associate Director, Afi