

# Spanish Labour Market Monitor

## Presentation

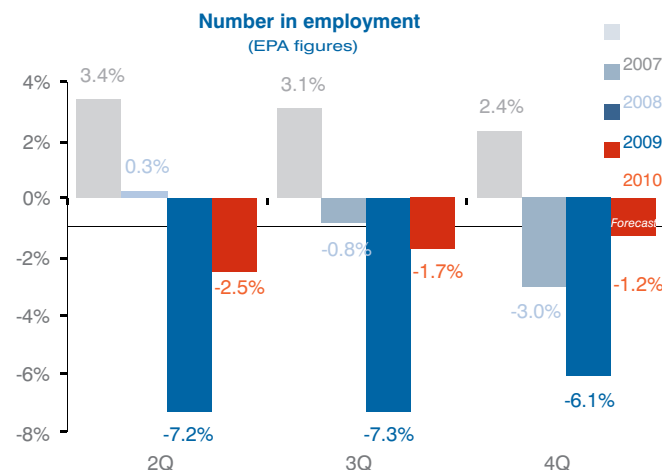
With the December data, we can form a judgment on the year as a whole, which has in general been a bad one for the labour market, though not as negative as preceding years. Thus, the deterioration in registered unemployment and Social Security enrolment continues to lessen little by little, though the economy remains weak and incapable of creating jobs. Hence, for the final quarter of 2010 we estimate that employment fell by 126,000 in EPA terms, to 18.4 million, with the unemployment rate rising to 20.3%. For the first quarter of 2011, the SLM Indicator forecasts continuing job losses, though at a declining rate (0.5% YoY in March). In any case, employment is seen bottoming out in 1Q11 at less than 18.3 million. In the past three years, the labour market recession has caused heavy job losses and it is only now, over three years after the onset of the crisis, that Spanish labour costs have begun to decline. This situation should make the government reflect on the inflexibility of the labour market, and also on the advisability of encouraging adjustments to working hours and wages, as has been done in other parts of Europe, where labour markets have come through the crisis in much better shape.

## Key Points

- The December employment figures again show **diverging trends in Social Security enrolment (down 27,000) and registered unemployment (which improves, falling by 10,000)**. In any case, both figures confirm that **labour market deterioration continues to moderate**. The year ended with 4.1 million unemployed (a YoY increase of 4.5%) and 17.58 million contributors (a YoY fall of 1.2%).
- The SLM Indicator shows that **the labour market will continue to deteriorate in 1Q11**, with a YoY fall of 0.5% in March. During the first quarter, **employment will record a new cyclical minimum below 18.3 million**.
- The trend in employment figures points to **126,000 job losses in 4Q10 in EPA terms**, taking employment to 18.42 million.
- **The monthly unemployment figures adjusted for Job Seekers with No Employment Relationship** increased by half a percentage point in the fourth quarter, reaching 20.6%.
- Bearing in mind our forecast for EPA employment and the stabilization of labour force growth at 0.6% YoY, **the EPA unemployment rate** is also expected to have increased by half a percentage point in 4Q10, to 20.3%.
- Trends in registered unemployment by groups in 2010 show **higher growth in female unemployment**, an **improvement in the unemployment of the under 25s**, and an **increase in the percentage of foreigners** among the total unemployed, together with a **fall in unemployment in industry and construction** due to workers moving to other sectors.
- The breakdown in Social Security enrolment by sector for 2010 as a whole reveals an **increase in contributors in the services sector**. **Agriculture** has ceased to serve as a refuge for unemployed workers from other sectors and **lost jobs in 2010, while industry and construction continue to lose contributors**, though at a slower rate than in previous years. **The leaders in job creation in 2011 will be the more outward-looking sectors**, given the weakness of domestic demand in both the public and the private sectors.
- **In the third quarter of 2010, Spain recorded a fall in labour costs for the first time**, with one of the highest falls in Europe. **However, this correction comes late in the day, after the heavy loss of jobs during the crisis.**

## The Afi-AGETT SLM Indicator

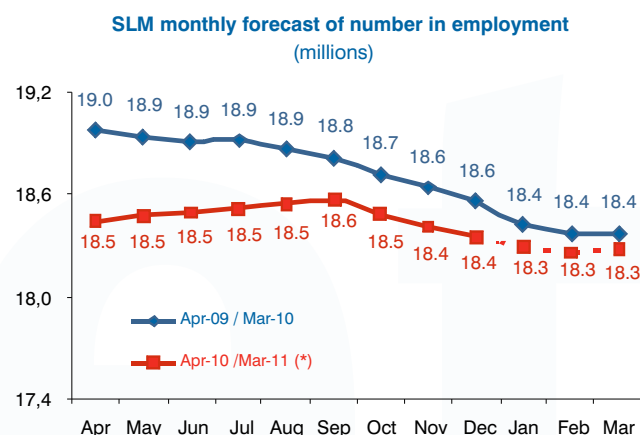
Employment indicators have ended 2010 confirming the **gradual moderation of the labour market recession**. The fall in enrolment leads us to estimate that **employment fell to 18.42 million in EPA terms in 4Q10**, or 126,000 less than the previous quarter and a fall of 225,000 (1.2%) in YoY terms.



Source: EPA (INE) and Afi forecasts

This trend will continue in the coming months, according to the **Afi-AGETT SLM Indicator's** forecasts for the first quarter of 2011, with the employment **falling at a YoY rate of 0.5% in March**, compared with 1.1% in December 2010.

In any case, the poor seasonal characteristics of January, even in more normal times, points a **new low in employment in the first quarter, below the 18.3 million mark**.



Source: Afi. (\*) Jan-Mar 2011 figures are forecasts

“Registered unemployment fell by 10,000 in December, but 2010 ended with 4.1 million unemployed, the highest end-year figure in the history of the data series”.

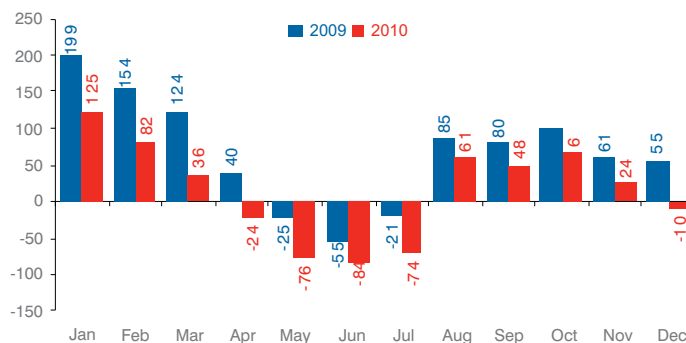
The December employment figures behaved somewhat better than expected, with a **fall of 10,221 in registered unemployment to 4,100,073**. This fall is the best December result since the year 2000, a situation also reflected in the seasonally adjusted data, which show an even larger fall of 25,449.

Even though in every month in 2010 unemployment has performed better than in 2009, **in year-on-year terms it continues to increase notably, with 176,000 more unemployed in December than in the same month of 2009**. Indeed, the 2010 figure represents the highest end-year level of unemployment in the history of the series

In any case, **the increase in unemployment over the past year has been much smaller than in previous years** (795,000 in 2009 and almost a million in 2008). Thus, though an increase in unemployment is always bad news, we can say that the worst of the labour market crisis has passed and that **2010 was the year when unemployment peaked in Spain**. However, in coming months we could see further increases in unemployment due to seasonal factors, but in the context of a trend towards gradual recovery in the labour market, which will probably consolidate in the second half of 2011.

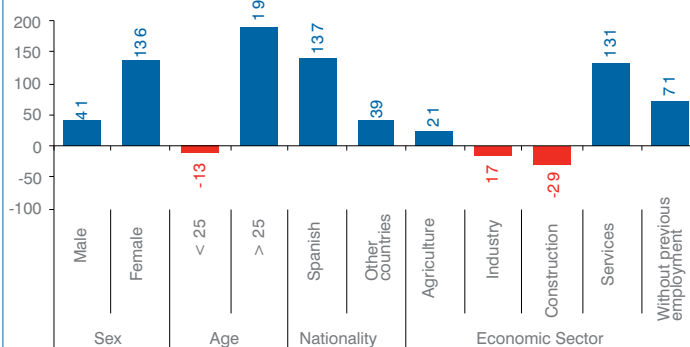
A notable feature of the distribution of unemployment by groups is the **higher growth in female unemployment in 2010** (136,000, or 7.1%), compared with men (up 41,000, or 2%), together with the **fall in unemployment among the under 25s** (13,000, or 2.9%). By nationality, unemployment has increased proportionately more among foreigners than among Spanish nationals (6.9% as opposed to 4.1%), meaning that **foreigners' share of unemployment in December rose to 14.8%, the highest ever recorded**. Lastly, **by economic sector, there were YoY falls in unemployment in industry** (17,000, 3.3%) **and construction** (29,000, 3.6%), with increases in agriculture (21,000, 19.5%), services (131,000, 5.8%) and among unemployed with no employment history (71,000, 24.7%).

Monthly change in registered unemployment (thousands)



Source: State Employment Service

Change in unemployment by groups in 2010 (thousands)



Source: State Employment Service

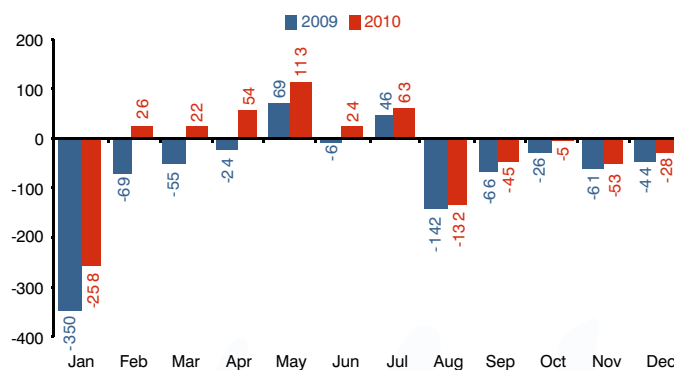
“Social Security enrolment has performed worse than unemployment, which is consistent with the situation of economic weakness”.

The decline in enrolment of 27,728 in December compared with the previous month is **totally consistent with the situation with regard to demand and economic activity in general** reflected in the 4Q10 indicators, characterized by a hesitant economic recovery which does not for now provide a basis for sustained job creation.

Indeed, the seasonally adjusted data show an increase in contributors of 5,600 in December which, though a good figure, is far smaller than the improvement in unemployment. This confirms that there is a certain **divergence between figures for unemployment and enrolment which, as in previous months, reflect continuing and significant rates of deterioration in the labour market**.

In any case, **with the December figure we now have five consecutive monthly falls in enrolment, ending the year with 17,585,000**, 219,000 less than in 2009. This represents a **YoY fall of 1.2%** which, though much smaller than in 2009 (727,000, 3.9%) and 2008 (841,000, 4.3%) is nevertheless very significant.

Monthly change in SS enrolment (thousands)



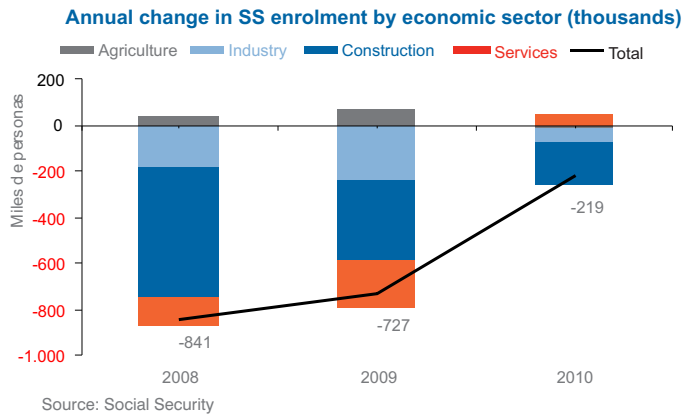
Source: Social Security

“The services sector is the only one to see an increase in enrolment in 2010, though industry and construction slowed the fall in the number of contributors”.

The sectoral breakdown of enrolment in 2010 shows a **positive performance in services**, which increased enrolments by 44,000, compared with the heavy declines of the previous two years (126,000 in 2008 and 198,000 in 2009). **Agriculture**, in turn, **ceased to provide a refuge for unqualified labour as it had done during much of the crisis**. Thus, compared with the increase in contributors in previous years (32,000 in 2008 and 66,000 in 2009), in 2010 it recorded a loss of 12,000 enrolments. **Other sectors, though their enrolments shrank, recorded milder declines than in the preceding two years**. Industry lost 72,000 contributors in 2010, compared with 187,000 in 2008 and 237,000 in 2009. Lastly, construction lost 179,000 contributors in 2008, compared with 561,000 in 2008 and 358,000 in 2009.

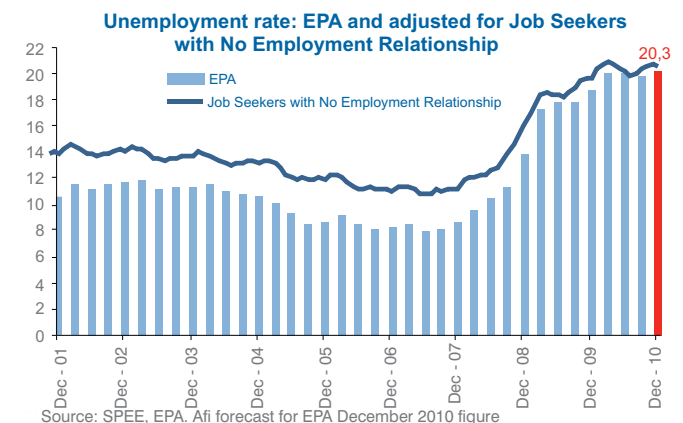
“In 2011, it will be the more outward-looking sectors which create employment”.

The **outlook in 2011** is for continuing adjustments in construction employment, despite the heavy cutbacks already experienced in the sector, due to the weakness of both residential construction and public works. With regard to services and industry, **the more outward-looking sectors** (tourism and advanced services, export industries, etc.) **will see a recovery in employment**, while sectors linked to the public sector, together with financial activities and those more dependent on domestic demand, will continue to experience corrections in employment.



“The adjusted unemployment rate ended 4Q10 at 20.6%. The EPA rate is expected to be around 20.3%”

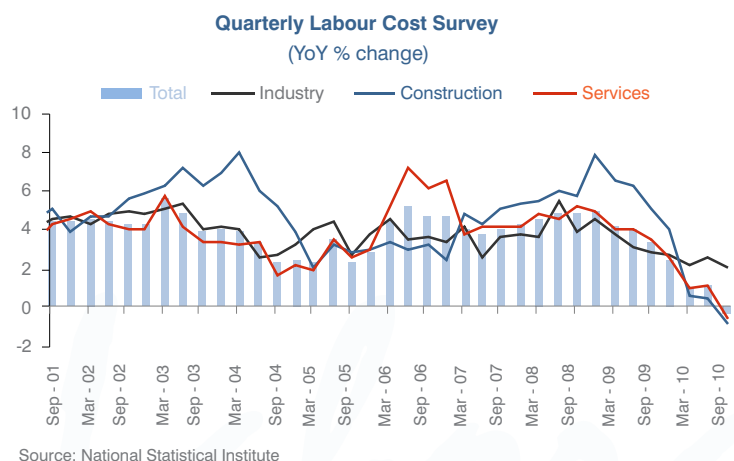
The trend in the EPA unemployment rate will again depend on the changes in the labour force figures, though these are expected to be small. Assuming that the labour force has continued to grow at around 0.6%, and bearing in mind the increase in the **monthly unemployment figures adjusted for Job Seekers with No Employment Relationship** (whose quarterly average stood at 20.6% in 4Q10, half a percentage higher than the previous quarter), **the EPA unemployment rate could pick up to 20.3%**. This would be an increase of 126,000 during the quarter. Hence, the 4.7 million mark would be exceeded for the first time in the current cycle.



“Labour costs declined in 3Q10 and an increase in productivity was recorded”.

For the first time since it began in 2000, the **Quarterly Labour Cost Survey** compiled by the National Statistics Institute (INE) reflects a **YoY fall in Spanish labour costs**. In 3Q10, monthly labour costs per worker fell by 0.3% compared with the same quarter of 2009, to €2,421. This was due to falling costs in both the services sector (0.6%) and construction (0.9%), as industrial sector labour costs continued to show relatively strong growth (2.1%), though less than in previous quarters.

In general, labour costs have fallen due to the reduction in layoff costs (included under the heading “Other Costs”, which has declined by 1.5%), as **pure wage costs continue to grow, though very slowly (0.1% YoY)**. Hence, there are signs of a process of salary adjustment which should continue in coming quarters due to the oversupply of labour and the need for the Spanish economy to recover competitiveness. In this respect, **an increase in productivity has also been recorded, as the cost per hour worked has fallen more strongly (1.4%)** than costs per worker. This is attributable to the higher number of hours worked, due to the reduction both in holidays taken and in sick leave.



**"The current weakness of the Spanish economy, and particularly the labour market, is driving wage restraint, resulting in an adjustment in labour costs higher than the EU-27 average".**

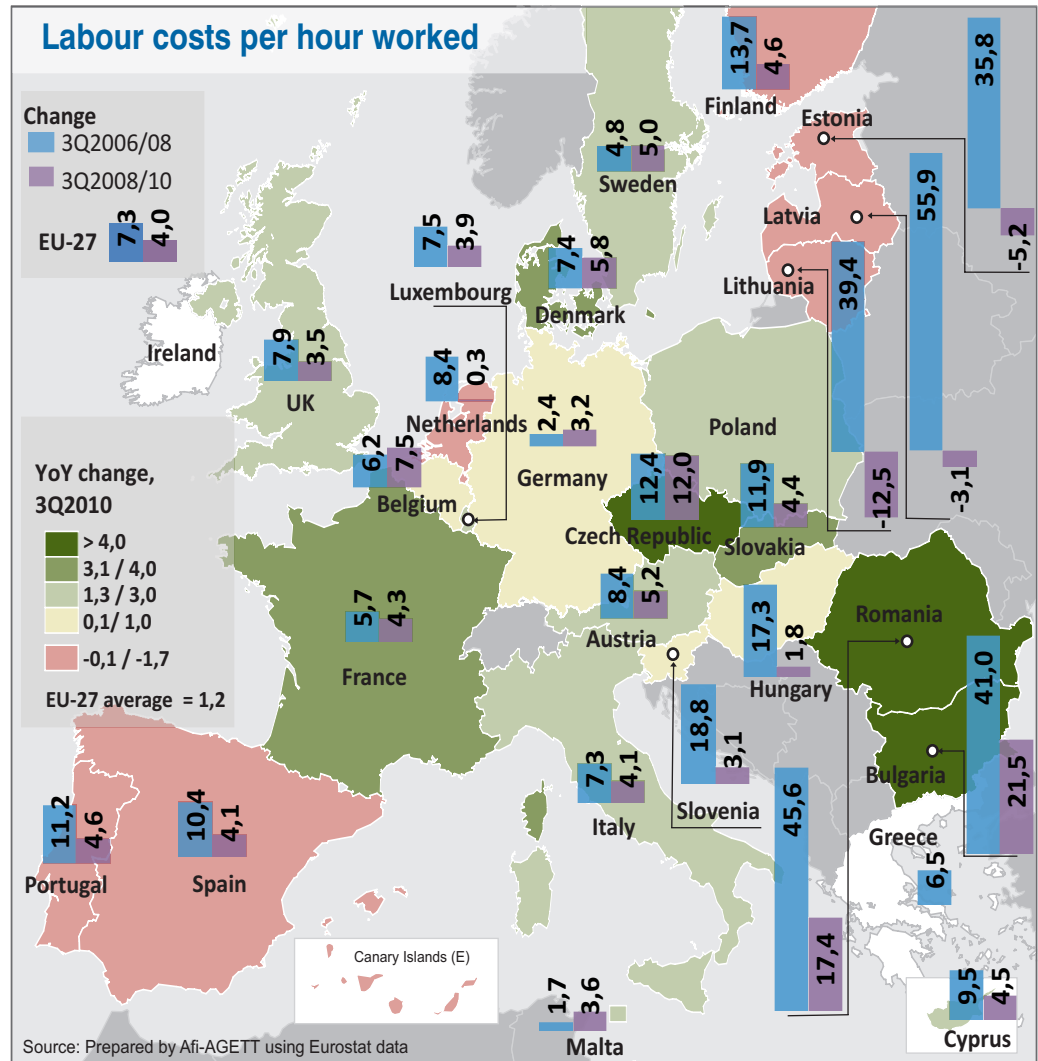
Data on the YoY change in hourly labour costs in the EU-27 shows that in 3Q10 Spain experienced one of the greatest corrections among these countries. **Its fall of 0.8% in labour costs since 3Q09 was the fourth largest**, after Lithuania (1.7%), the Netherlands (1.3%) and Estonia (1%). The other countries experiencing YoY falls were Finland (0.7%), Latvia (0.5%) and Portugal (0.3%). In contrast, **the EU-27 as a whole saw a YoY rise of 1.2%, with 14 countries experiencing increases in excess of the average**. The largest rises in labour costs, with more than 3%, were in Bulgaria (10.2%), Rumania (6.3%), the Czech Republic (5.6%), Denmark (3.2%), Slovakia (3.2%) and France (3.1%).

**Spain is thus recovering part of the competitiveness** lost in recent years as a result of increases in labour costs above the EU average.

**However, it has taken time for this to occur.** Only 2 years ago, in 3Q08, Spanish labour costs had increased by 10.4% over the same period of 2006 (compared with an average 7.3% for the EU-27), despite the swingeing job losses arising from the crisis. Even over the period between 3Q08 and 3Q10, the 4.1% rise in Spain exceeded the EU average of 4.0%.

Thus, **the Spanish labour market has shown little flexibility in adapting to the economic situation, continuing to experience relatively large increases in hourly costs in the midst of a severe recession.**

**The case of Germany, where wage restraint has gone hand in hand with very limited job losses, should provide some clues as to the reforms which need to be undertaken if traumatic adjustments are to be avoided in future in our labour market.**



## THE MONTHLY FOCUS

### The employment outlook for 2011: continuity and change

We must await the EPA data in order to make a coherent evaluation of employment in 2010 in terms of labour force, employment and unemployment, free from the paradoxes which emerge from the official records of the Public Employment Service and the Social Security. According to these sources, 2010 has been considerably less dreadful than 2009, with "only" 176,000 more unemployed and 219,000 fewer enrolments. In 2011, construction will continue to adjust employment, while the financial sector and public administration will conclude their own adjustments, taking total layoffs to many tens of thousands. Other sectors will compensate, but we will be satisfied if 2011 does not bring net job losses and there is some progress in permanent hiring. The benefits of the labour market reform should become apparent as demand picks up. It has been regulated in part, with the rapid regulation of Private Placement Agencies, but it needs further development to clear up doubts about reasons for dismissal and the generalized exemption from sectoral collective bargaining agreements, all of which would fall within the scope of a company collective bargaining framework which also has to be developed. Anything that helps to stimulate employment in 2011 will be welcome, as the positives and negatives are very evenly balanced.

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