

Avance del Mercado Laboral

Presentation

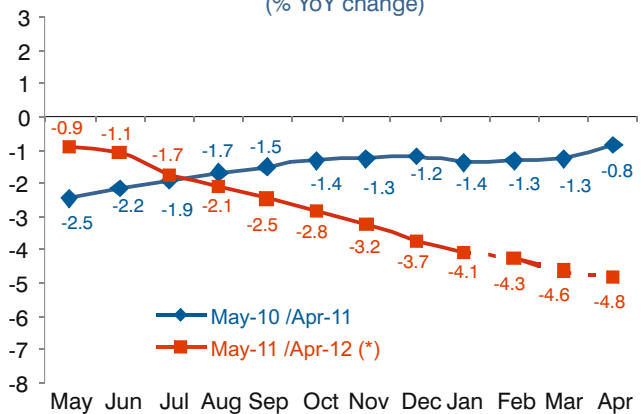
The rates of fall in Social Security enrolment and rise in unemployment observed in January are considerably worse than those seen during 2011 and clearly consolidate the trend of the latter months of last year towards a growing deterioration of the labour market in this new phase of activity, which points unequivocally to recession. There has been a generalised deterioration across sectors and regions, and the recruitment figures offer no hope of changes in the negative trends in the short term. Spain will continue to be one of the worst-affected European countries with regard to all aspects of job losses during this economic crisis, along with other structural problems which are already serious in themselves, such as the higher incidence of temporary employment.

Key Points

- January's unemployment and enrolment data maintain the recessionary dynamic reflected in the EPA (labour force survey) figures for the fourth quarter of 2011.
- The heavy job losses in all sectors and the continuing fall in recruitment portend a decline in employment in the first quarter of 2012 as least as large as in the fourth quarter of 2011.
- The Afi-Agett SLM Indicator predicts progressively sharper YoY falls in employment in the coming months, which could reach 4.6% in March and record a new low, of around 17.3 million.
- Registered unemployment increased by 177,500 in January and enrolment reduced by 283,700, variations similar to those observed in the worst months of the crisis.
- After the suffering of the past few years, it seems that we are entering a further recessionary process, with renewed rises in the rate of increase in registered unemployment.
- Problems are also seen in recruitment, with the number of contracts also decreasing significantly (down 6.9% YoY, compared with the 2.1% YoY fall last month), and especially in permanent contracts (down 26.1% YoY).
- These figures follow the pattern of poor results already apparent in the fourth quarter EPA figures. These showed a sharp fall in employment in the fourth quarter (of 348,000), with an intensity not seen since the beginning of 2009.
- Despite the reduction in the labour force, 2011 ended with the unemployment rate at historical highs (22.85%); 1.57 million families have all their active members unemployed (9% of the total) and there are 2.6 million long-term unemployed.
- In the third quarter of 2011, Spain had the second highest incidence of temporary employment in the EU-27, but it has also seen the biggest reduction since the beginning of the crisis.
- The reasons for this decline do not lie in an increase in the number of permanent contracts, but in the greater relative fall in enrolments with temporary contracts, which have declined by as much as 26.8% between the third quarters of 2007 and 2011, the highest rate of decline in the European Union.
- As in the case of temporary staff, Spain has seen the fourth largest fall in enrolments with permanent contracts in Europe, with a 10.1% decline. This decrease gives an idea of the harshness of the current economic situation, heavily affecting both permanent and temporary workers.

Afi-Agett SLM Indicator

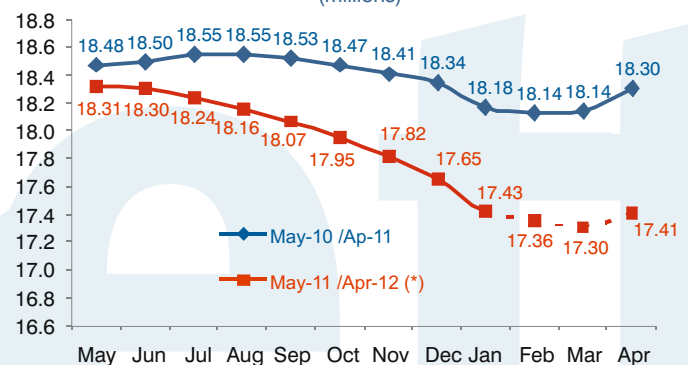
SLM monthly forecast of workers in employment (% YoY change)



Source: Afi. (*) Feb-Apr 2012 figures are forecasts

here is no let up. The deterioration of the Spanish labour market in January is similar in size to the recessionary dynamic revealed by the EPA figures for the fourth quarter of 2011. With a fall of 283,600 in enrolment and a rise of 177,000 in unemployed workers registered in the INEM (to 4.6 million), this is the worst start to the year of the past decade, with the exception of 2009. The generalized nature of the correction means that no sector has remained unaffected by the adjustment, although it is services which show the worse relative performance. This latter fact, together with the continuing fall in recruitment, points to a fall in employment in the first quarter of 2012 at least as large as that of the fourth quarter of 2011. This is reflected in the Afi-Agett SLM Indicator, with progressively sharper YoY falls, which could reach 4.6 per cent in March, with a new low in the employment level, at around 17.3 million.

SLM monthly forecast of workers in employment (millions)



Source: Afi. (*) Feb-Apr 2012 figures are forecasts

"The market's deteriorating trend, begun in previous months, is strengthening, with a new maximum in registered unemployment".

The deterioration of the labour market has intensified at the beginning of the fourth quarter, after various months with no definable tendency, and in the worse possible way, i.e. with falls in recruitment, both permanent and temporary (the latter in all its forms), and in enrolment, accompanied by a strong increase in registered unemployment. Neither do the seasonally adjusted data offer any consolation, as the 57,371 increase in adjusted registered unemployment and the 82,944 fall in Social Security enrolment are still very worrying figures. Unfortunately, the September data had already pointed to a tendency that the third quarter EPA corroborated very explicitly. The October data again produce the vertigo that characterized the worst labour market changes of this long crisis.

"Seasonally adjusted enrolment and registered unemployment show signs of a change in the trend".

The adjoining graph of the YoY changes in registered unemployment and enrolment shows that we are still in negative territory; the end of the labour market crisis is still far off, and in fact, it is getting worse compared with previous months.

The total number of enrolments in the Social Security stood at 17,360,313, a reduction of 75,249 compared with September, a MoM decline of 0.4% and the third consecutive monthly fall. More worrying than the fact of the fall itself is its size, the biggest in any month of October during the crisis, with the exception of 2008; it is much larger than the decline of 5,331 in the same month of 2010, and higher than the fall of 64,956 in September. The seasonally adjusted series shows a worrying change of tendency.

Thus, the YoY variation reflects an improvement over the negative rates of past months, at 1.7%, the best figure since the second quarter of 2010.

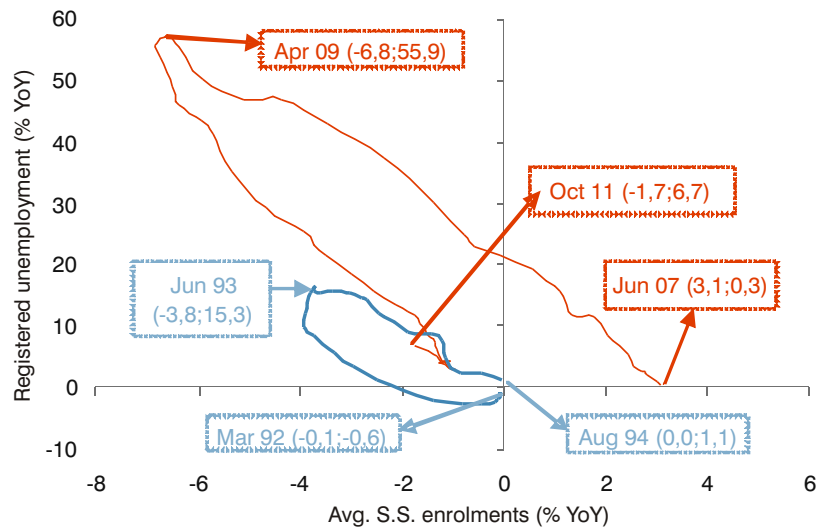
In unison with the fall in enrolment, and even more strongly if possible, the number of unemployed in Spain has risen by 134,182 in October, to 4,360,926. This MoM increase is the worst seen since February 2009, reflecting the weakening of the economic situation in recent months. Registered unemployment increased in all sectors, in both sexes, in all regions and also among foreign workers. In seasonally adjusted terms, registered unemployment rose by more than 57,000, somewhat less than in September 2011, but more than any month since April 2010. The YoY variations highlight the change of tendency begun in the third quarter of the year, with the rate of change rising to 6.7% in October.

"Recruitment was also very weak in October; together with the high proportion of temporary hiring, this reinforces the idea of a deterioration of the situation of the labour market".

With regard to recruitment, 1,294,801 contracts were signed in October, a decline of nearly 90,000 (7.1%) with regard to September. In YoY terms, the figure is a 3.8% decline over that of October 2010, or 51,000 fewer contracts.

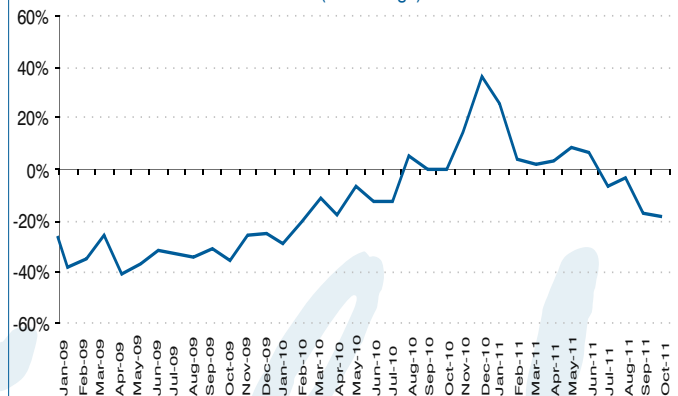
Despite this negative figure, recruitment in the ten first months of 2011 has exceeded 12 million, maintaining a positive variation of 0.7% with regard to the same period of the previous year. Nevertheless, this needs to be much higher, in an environment like the present, and with a very high proportion of temporary contracts, if employment is to increase. In fact, the figures on the conversion of temporary contracts to permanent again show strongly negative growth rates, far below the levels reached before the crisis.

Behaviour of the Spanish labour market in the two last recessionary cycles: Mar 92 Aug 94 vs Jun 07- Feb 11



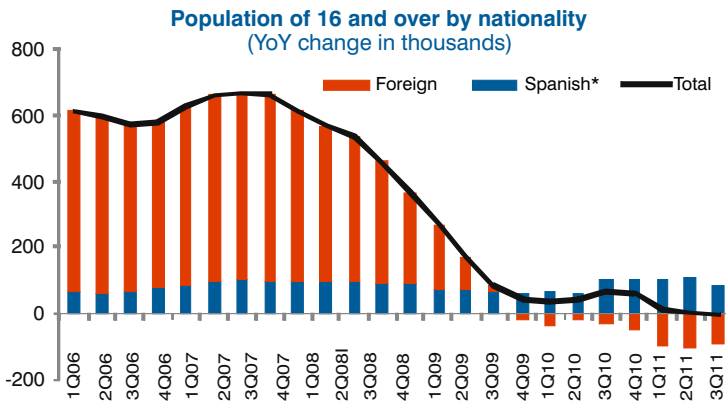
Source: State Employment Service and National Social Security Institute.

Conversions of temporary contracts to permanent (YoY change)



Source: Social Security

"Zero growth in the over 16 population for the third consecutive quarter, and a reduction in the labour force, mainly young workers (19-35 years)".

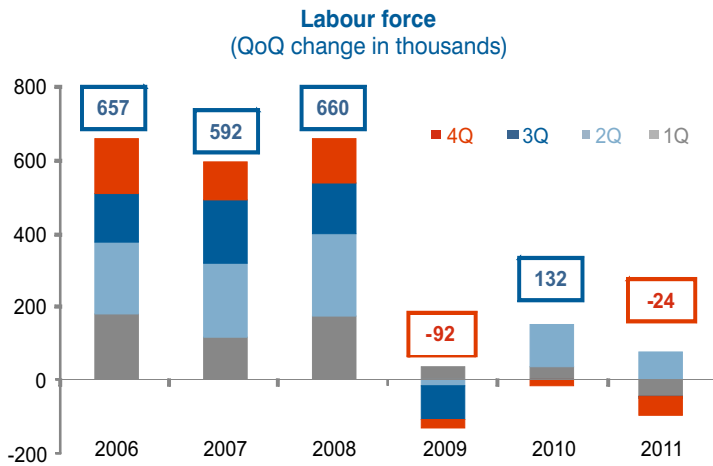


*Includes dual nationality; Source: EPA (National Statistical Institute - INE)

The population aged over 16 remains stagnant at around 38.5 million. (i) The lower population growth, along with (ii) the unfavourable economic prospects, are the main factors behind this trend. This is shown by the fact that, while the native over 16 population continues to grow, as it did before the outbreak of the current economic and financial crisis, the foreign population in the same age group continues to fall. Thus, in the fourth quarter of 2011, the YoY growth of the Spanish population (84,000) was offset, for the third consecutive quarter, by a decline in the foreign population of similar magnitude (some 88,000).

The stagnation of the over 16 population has not translated into stability of the labour force, but into a decline of about 53,400 compared with the previous quarter. By nationality, 85% of this decline has occurred among the Spanish population, the vast majority being from the young age groups (a fall of 200,000 in the quarter in active persons in the 19-35 segment).

This quarterly fall brought 2011 to a close with 24,000 active persons less than the previous year, putting the total slightly above the 23 million mark. This decline, although far smaller than in 2009, is symptomatic of the prolonged deterioration in the labour market, which is delaying entries and causing exits from the market.

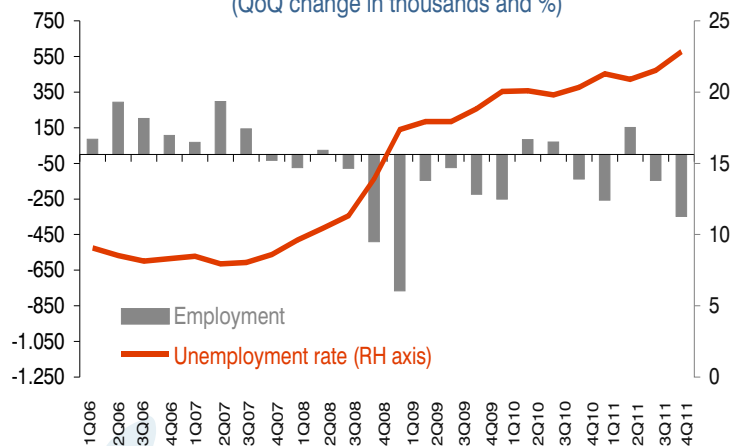


Source: EPA (INE)

"Sharp fall in employment in the fourth quarter (348,000), with an intensity not seen since the beginning of 2009".

As a consequence of the economic deterioration in the final part of the year, and of the beginning of the intense adjustment announced by the government, the number in employment fell by 348,000 in the fourth quarter (down 3.2% YoY), bringing the fall in the year as a whole to 600,000 and reducing total employment to 17.8 million. This is one of the largest quarterly falls since the start of the crisis, only exceeded in the first quarter of 2009 and the fourth quarter of 2008; on this occasion, it is even more serious, if possible, due to the prolonged period during which jobs have been lost. The quarterly decline in employment has been distributed as follows: (i) 80% corresponds to the under-35 age groups (of which, as discussed earlier, a good part have even decided to withdraw from the labour force or to delay joining it), (ii) 87% has come from the services sector and almost 25% from the reduction in public servants, and (iii) a large part

Employment and unemployment rate
(QoQ change in thousands and %)



Source: EPA (INE)

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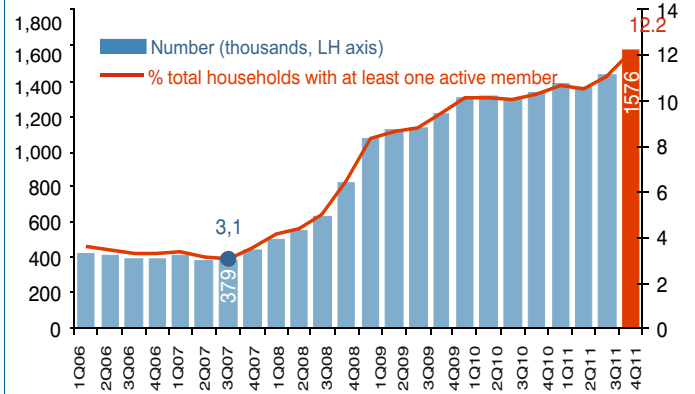
The fall in employment has led to the increase in the number of unemployed, up by approximately 295,000 in the fourth quarter of 2011. With this increase, the total number of unemployed now exceeds 5.27 million and is one of the reasons, together with the decline of the labour force, why the unemployment rate has hit a new high for the current crisis: 22.85% (up 1.33 percentage points compared to the third quarter of 2011).

The worrying trend in the labour market in recent quarters, which puts at risk economic and financial variables which affect households (such as, for example, the severe contraction in consumption and investment - mainly in housing -, the increase in the impaired mortgage rate, etc.), is also reflected in the number of households with all members in unemployment, and in the level of long-term unemployment.

The number of Spanish households with all active members unemployed increased by 149,800 in the fourth quarter of 2011, bringing the total to 1.57 million, 9% of total Spanish households or 12.2% households with at least one active member. In fact, this last figure has multiplied by 4 since the beginning of the crisis as, in the third quarter of 2007, only 3% of households were in this situation. Moreover, bearing in mind that, according to Social Security data, 30% of the unemployed population does not receive any type of benefit, it is quite clear that the lower disposable household income will, at best, be reflected in lower consumption and, at worst, in an increased risk of poverty for these families.

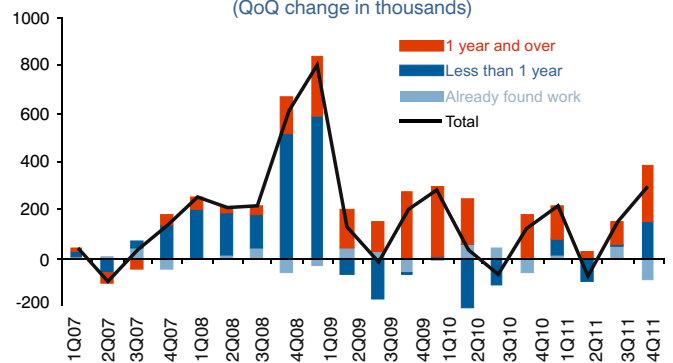
The other indicator of economic risk is the number of long-term unemployed (i.e. those who who have been unemployed for more than a year). Long-term unemployment increased by 239,500 over the previous quarter and more than 2.6 million are already in this situation, 50.0% of total unemployment in Spain.

Households with all active members unemployed



Source: EPA (INE)

Unemployed by time seeking employment (QoQ change in thousands)



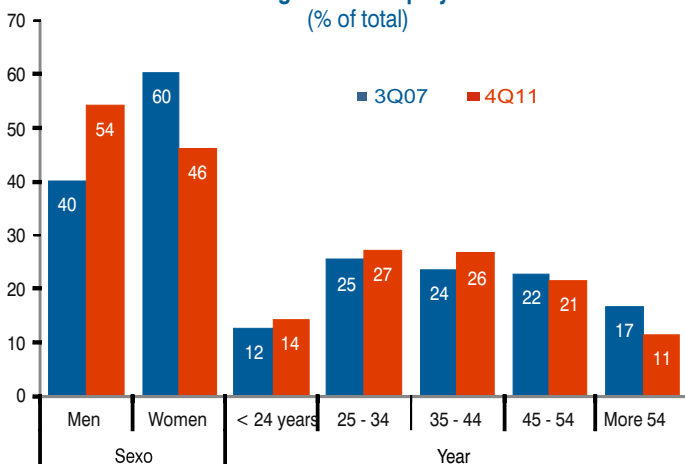
Source: EPA (INE)

Given its prominence, it is important to know a little more about the breakdown of the long-term unemployed, in order to know whether their characteristics have changed substantially since the start of the crisis.

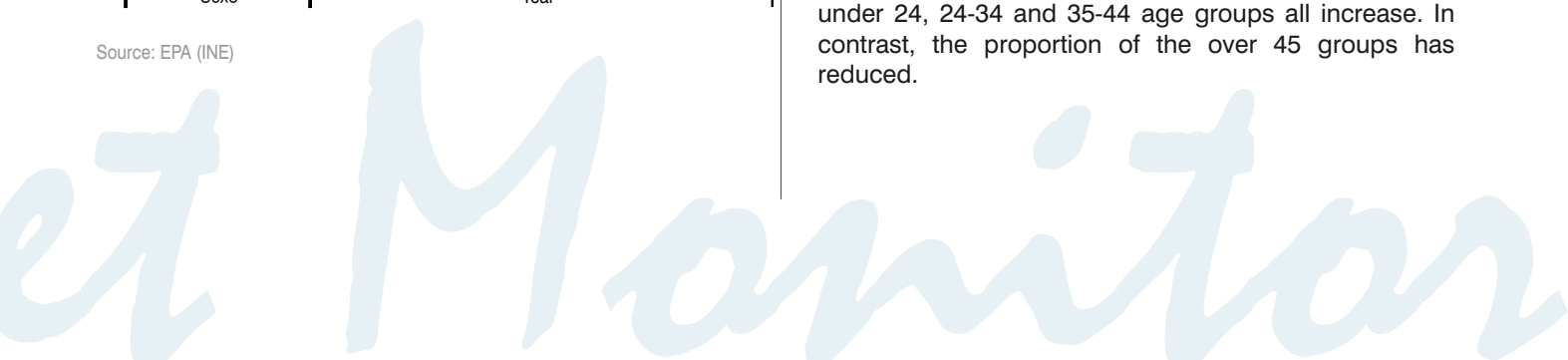
In terms of gender, whereas before the crisis it was women who dominated the ranks of long-term unemployed (60% of the total), in the fourth quarter of 2011 men represented more than 50% of this group, to a large extent due to the sectoral specialization of each gender.

On the other hand, comparison of age groups, although there has been a strong growth of the long-term unemployment in all cohorts, also reveals an increase in the proportion of the youngest age groups within the total of long-term unemployed. Thus, the percentages of the under 24, 24-34 and 35-44 age groups all increase. In contrast, the proportion of the over 45 groups has reduced.

Long-term unemployed (% of total)



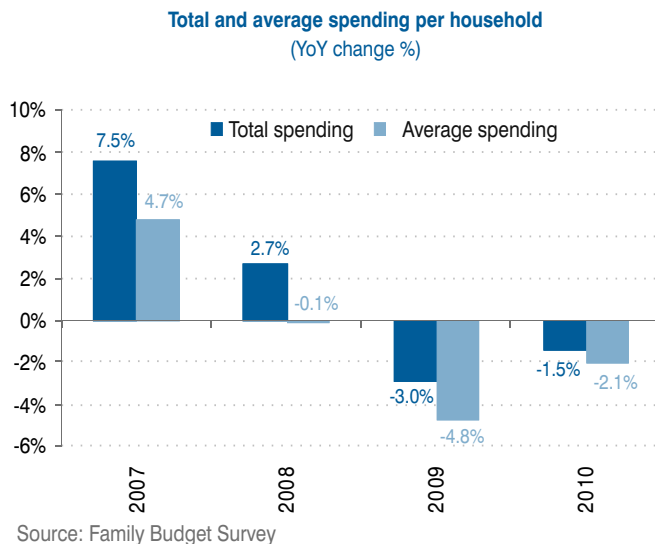
Source: EPA (INE)



"The crisis and the increase in the number of households have combined to produce a strong fall in average spending per household, with a fall of 6.9% in 2010 compared with 2007".

The National Statistics Institute's Family Budgets Survey has recently published its new data on the behaviour of households and individuals in 2010, providing information on their spending during the past few years, together with a breakdown of the same.

At moments like this, of intense economic crisis and serious problems in the labour market, it is well worth analysing the results of the survey to know how household spending is behaving in the face of reduced incomes.



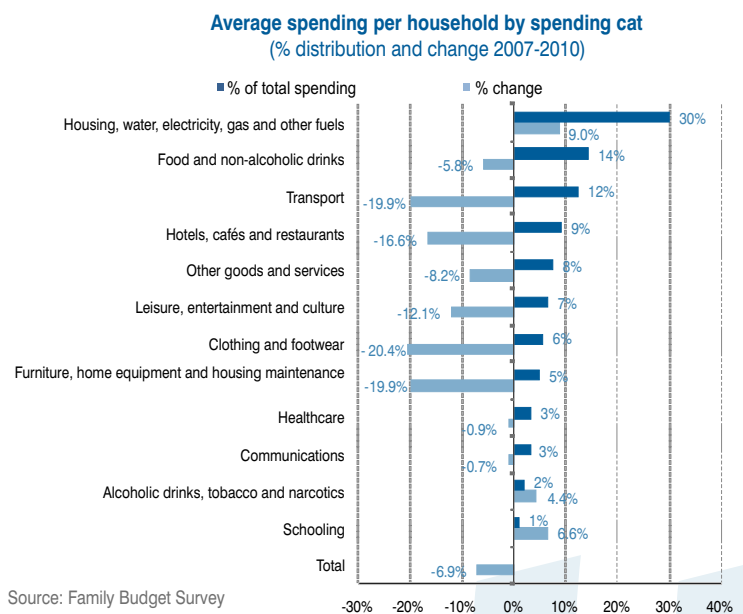
The total spending of Spanish households has fallen for the second consecutive year in YoY terms. In 2010, it declined by 1.5%, to €511 billion at current prices. On the other hand, average spending per household has been growing less than total spending, as a consequence of the growth of the number of households in Spain, associated with the increase in the population and the decrease of the average size of the households. As a consequence, the average spending by household was down 2.1% in 2010, with an accumulated fall of 6.9% since the maximum reached in 2007.

The figures are noticeably worse bearing in mind the rise in prices in recent years, which would provide a more realistic view of households' capacity for consumption. Thus, at 2006 prices, the total spending of households fell by 3.1% with regard to 2009, and average spending by household by 3.6%, with the latter indicator accumulating a reversal of 12.2% since 2007.

"The item with the largest weight in average household spending is that associated with housing, with the average spending on this item having increased by 9% between 2007 and 2010".

The main spending categories of families are "housing, water, electricity, gas and other fuels", which represents 30% of total average spending, "food and non-alcoholic drinks" (with 14%), and "transport" (12%). These three categories represent more than half of household spending. Hence, variations in the price and consumption of these goods have a decisive influence on the amount available for spending on other items. In particular, the behaviour of spending on housing and energy is the prime determinant of average total spending and spending on the remaining items, above all for those homes with smaller incomes.

In the 2007-2010 period, average total spending per household declined by 6.9%, though there were important differences between the different types of spending.



Thus, the growth of spending on "housing, water, electricity, gas and other fuels", was especially strong as a result of the property market bubble, with growth of 9.0% (and as much as 17.8% if we take the 2006-2010 period). This category increased in spite of the economic recession and the collapse of the property market. Within this category, there was a notable rise in "actual rents" (up 22%), and in "electricity, gas and fuels" (32%), partly offset by lower growth in "imputed rents" (i.e. estimated rent of owner-occupiers - up 4%).

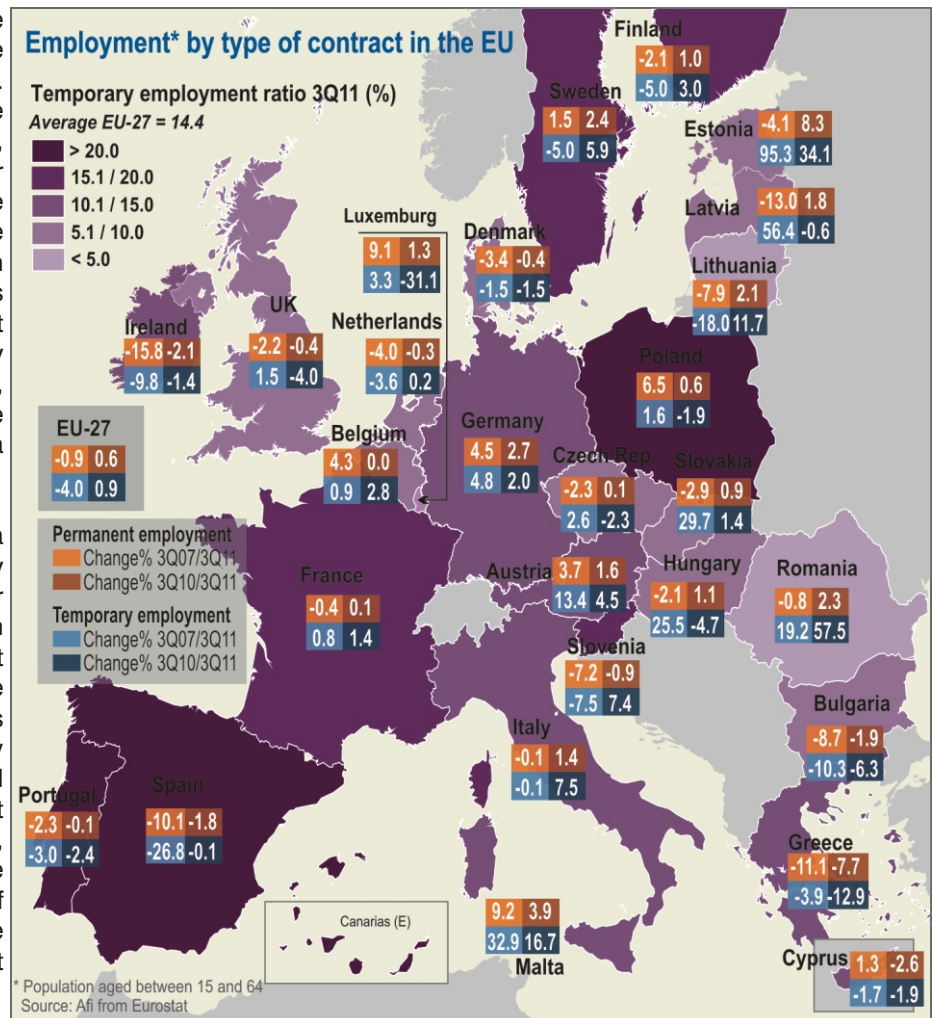
This category is followed by "alcoholic beverages and tobacco", with a rise of 4.4%, influenced chiefly by the increase in the tobacco tax, and schooling, up 6.6%. On the other hand, the household budget for "clothing and footwear" has diminished notably, with a fall of 20.4%, as have "furniture, household equipment and current spending on housing maintenance" and "transport", both down by 19.9%.

"In the third quarter of 2011, Spain had the second highest incidence of temporary work in the EU-27, but it is also the country which has seen the biggest reduction since the start of the crisis".

To see if recent trends in temporary contracts in Spain are representative of the situation elsewhere, it is useful to also perform a comparison with nearby countries, such as those of the European Union. The Spanish economy's high incidence of temporary work at the beginning of the economic crisis means that, despite the reduction, it remains at a high level. Thus, using Eurostat data for the third quarter of 2011, the latest available, the incidence in Spain is 12.3 percentage points higher than the European average.

Indeed, Spain, after Poland, is the European Union country with the highest incidence of temporary work. They are followed by Portugal, the Scandinavian countries, Slovenia, France and Germany, all with higher rates of temporary working than the EU-27 average, which in the same period stood at 14.4%, but with much lower figures than Spain. Spain stands out as the country which has most reduced the incidence of temporary work since the beginning of the crisis, down 5.9 percentage points from the third quarter of 2007, compared with a 0.5pp fall for the EU-27.

However, while this last result might a priori seem positive, it is not caused by an improved performance in the labour market, which shows strong falls in both temporary and permanent employment. The reasons lie in the greater decline observed in enrolments with temporary contracts, which fell by as much as 26.8% between the third quarters of 2007 and 2011, the highest rate of decline in the European Union, well above the 4.0% average fall in the EU-27, and more than doubling that of Ireland (9.8%) or Bulgaria (10.7%), the two countries with the next largest declines.



As in the case of temporary staff, Spain is also one of the European countries where the number of enrolments with a permanent contract has been most reduced, by 10.1%, compared with the 0.9% fall in the EU-27. Only Ireland, Latvia and Greece have experienced greater falls since the beginning of the crisis, with 15.8%, 13.0% and 11.1%, respectively. This decrease gives an idea of the harsh reality of the current Spanish economic situation, especially compared with the results of the countries with the best performances during this crisis, such as Poland or Germany, where the number of permanent enrolments has increased by over 4.5%.

THE MONTHLY FOCUS

Luis Toharia, in memoriam

The 3rd February saw the death of Luis Toharia, Professor of Economics at the University of Alcalá de Henares and founder of labour economics in Spain. Our knowledge of the causes of Spanish unemployment would not be as profound or accurate as it is today without his teachings. It was a problem which obsessed him and he devoted his greatest efforts to understanding it, attracting a large number of followers who today lead the discipline inside and outside of Spain. The best tribute that we can pay him is to unite our determination and our efforts in the definitive implementation of the reforms which our labour market needs, many of whose channels Luis contributed decisively to open to the understanding of all.

José Antonio Herce. Partner, Afi