

Spanish Labour Market Monitor

Presentation

With the January and February figures in hand, the start of 2012 has reproduced the pattern of behaviour observed in 2009, the worst year of the crisis in terms of job losses. The current situation is, if possible, much worse than then, not only because of the deterioration seen in the year to date, but due to the fact that a large part of the unemployed have exhausted their contributory benefits and the consequent progressive decline in the ratio between those beneficiaries and the number of registered unemployed. In fact, there are Spanish regions where, despite the increased deterioration of the labour market and the rise in unemployment, the numbers receiving unemployment benefit are falling significantly.

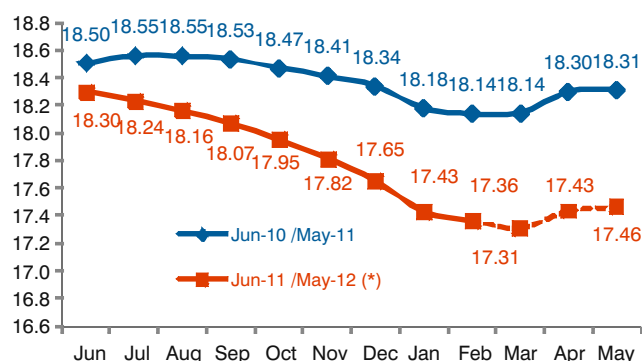
Key Points

- The Afi-Agett SLM Indicator points to a fall in employment in the EPA labour force survey, of approximately 440,000 in the first quarter of 2012, a higher YoY decline than the previous quarter (4.3% in the first quarter, compared to 3.3% in the fourth quarter of 2011)
- In February, the deterioration in economic activity continued: the rise in unemployment of 112,000 and a fall of almost 50,000 in Social Security enrolment reproduced the pattern seen in 2009, the recessionary year par excellence.
- As regards registered unemployment, the total figure now exceeds the 4.7 million mark, 9.6% higher than in February 2011.
- With regard to Social Security enrolment, the system had an average of 16.9 million members, 2.6% less than in February 2011.
- Almost all branches of activity contributed to the decline in enrolment, although the reduction was more significant in retailing, construction, manufacturing and healthcare and social services.
- The number of companies contributing to the Social Security declined by 30,986 in January compared with the same month of 2011, a fall of 2.16%.
- The labour contracts signed in February show continuing decline (5.16% YoY), especially permanent contracts (down 21.06% YoY).
- The lower permanent recruitment is due, on the one hand, to the erosion of the stable protected core of employment and, on the other hand, to the use of temporary contracts, which are the only option available to companies with seasonal employment requirements.
- The ratio between recipients of unemployment benefits and registered unemployed, which formerly exceeded 70%, stood at 62.1% in January. The reduced coverage is due to the worsening of the crisis and the lengthening of the period of unemployment.
- Recipients of contributory benefits have declined by 15% since their peak in early 2009 (when there were 1.67 million beneficiaries), while welfare benefits have increased, mainly as a result of the exhaustion of the former.
- There are regions where fewer than 60% of the unemployed are receiving contributory benefit, even though their unemployment rate is above the national average and where, despite of the increasing deterioration of the labour market and rising unemployment, the number of beneficiaries is falling significantly.

Afi-Agett SLM Indicator

Pending the March numbers, which we expect to show a fall of some 5,000 in Social Security enrolment, there is no doubt that the negative figures for January and February indicate that the Spanish economy has entered recession in the first quarter of 2012. If the expected scenario is confirmed, EPA employment would fall by around 440,000, a higher YoY decline than in the previous quarter (4.3% in the first quarter of 2012, compared to 3.3% in the fourth quarter of 2011).

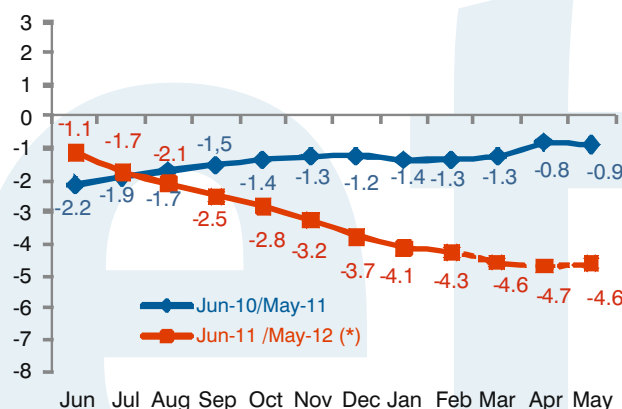
SLM monthly forecast of workers in employment (millions)



Source: Afi. (*) Mar-May 2012 figures are forecasts

With regard to April and May, Easter Week may contribute to increases in Social Security enrolment on the order of 40,000 and 80,000, respectively. Hence, the SLM indicator points to increases in the last two months forecasted. In any case, the YoY variations would remain negative due to the good performance of the labour market in the same months last year.

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

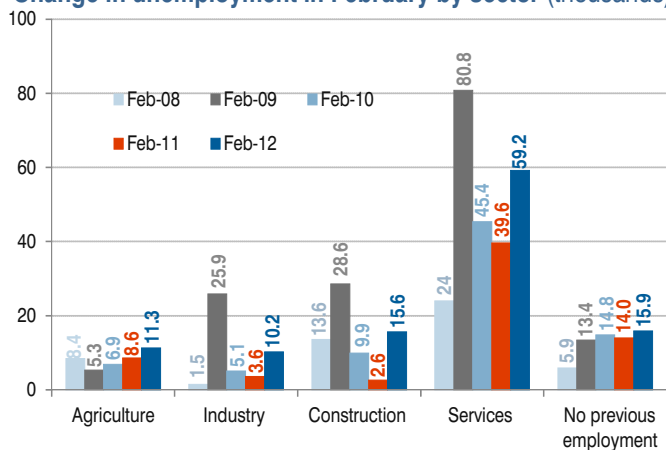


Source: Afi. (*) Mar-May 2012 figures are forecasts

"In February, economic activity continued to deteriorate: the rise in unemployment of 112,000 and a fall of almost 50,000 in Social Security enrolment replicated the pattern seen in 2009, the recessionary year par excellence."

February's labour market indicators showed that the setback in economic activity observed at the end of 2011 continues. With 112,000 more unemployed people and close to 50,000 Social Security enrolment less, the start of 2012 reproduces the pattern of 2009, the recessionary year par excellence of the current crisis.

Change in unemployment in February by sector (thousands)



Source: State Employment Service

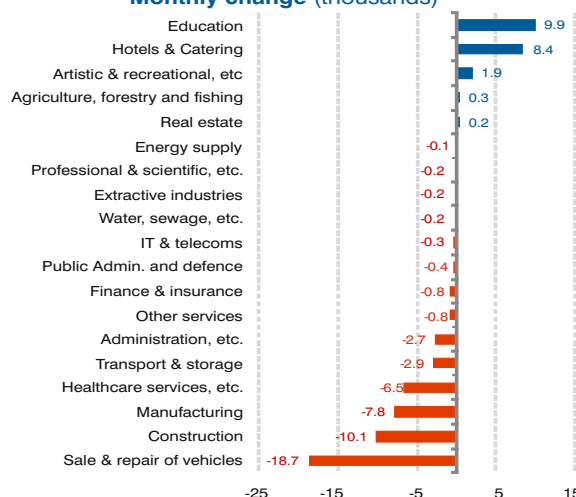
As regards registered unemployment, the 112,269 rise in February takes the total figure above the 4.7 million mark, 9.6% more than in February 2011. In seasonally adjusted terms, the increase falls to 62,858, but it is still a clear symptom that the Spanish economy is in recession in the first quarter of the year. All economic sectors, without exception, contributed to the rise in registered unemployment, but especially services and the construction industry, where the number of unemployed increased by 59,230 and 15,656 respectively, with respect to the previous month. Also significant is the increase in the jobless without previous employment (15,895 more than in January).

"Nearly all sectors and industries contributed to the deterioration of the labour market in February"

Social Security enrolment reduced by 49,710 in February, taking the system's membership to 16.9 million, 2.6% less than in February 2011. Employment trends continue to show a deterioration that has sharpened since the middle of last year. In seasonally adjusted terms, Social Security enrolment in February was down 77,189 on the previous month and 431,696 on February 2011. Almost all branches of activity contributed to the MoM decline in enrolment. However, the reduction was more significant in retailing (18,700), construction (10,100), manufacturing (7,800) and healthcare and social services (6,500). By contrast, there are other sectors, such as education, hotels and catering and leisure-related activities, in which enrolment increased compared to the previous month.

Companies contributing to the Social Security, on the other hand, fell by 30,986 in January compared with the same month of 2011, a fall of 2.2%.

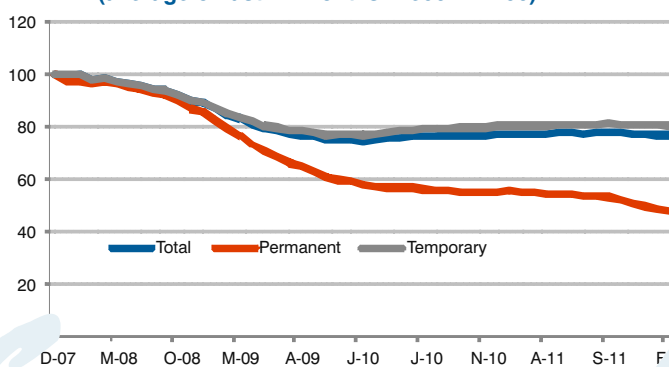
Social Security enrolment in February by sector Monthly change (thousands)



Source: Social Security

"Recruitment continued to decline in February (5.2% YoY), especially permanent contracts (down 21.1% YoY)"

Labour contracts by type (average of last 12 months Dec07 = 100)

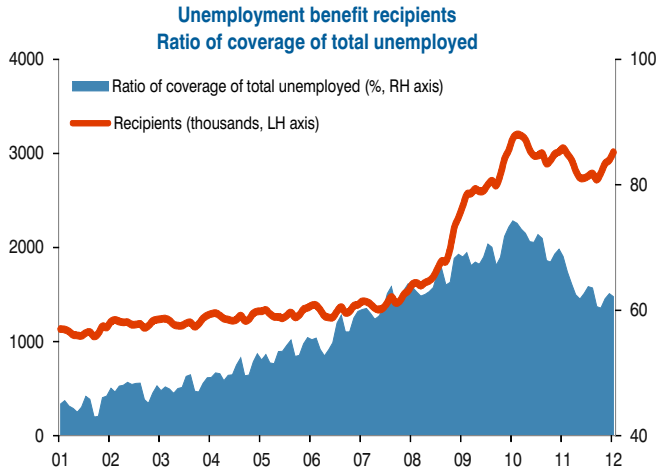


Source: State Employment Service

Lastly, recruitment continued to decline (5.2% YoY), especially permanent contracts, with 21.1% fewer signed than in February 2011. This loss of permanent employment is due partly to the erosion of the stable protected core of employment and partly to the use of temporary contracts, which are the only option available to companies with seasonal employment requirements, due to the reduced prospects for sustained growth in their economic activity. Neither are part-time permanent contracts responding this year as they did in the past; in fact, they are declining at a YoY rate of 15.4%, though this is slower than the fall in full-time permanent contracts which are down by almost 28%.

"The worsening of the crisis and the lengthening of the period of unemployment are reducing the percentage of the unemployed covered by benefits"

Job losses are a risk that, if they occur, the public system seeks to cover through different kinds of benefits: contributory, welfare or minimum income. Problems relating to the sustainability of the system, or large numbers of people in situations of need, may arise in times of crisis, such as the present, when there is a high level of unemployment, long-term in many cases.



Source: Ministry of Labour and Immigration

(*) The gross rate is defined as the ratio between unemployment benefit recipients (excluding part-time unemployment and casual agricultural workers) and the total number of registered unemployed.

Before the crisis, the number of unemployment benefit recipients was stable at around a million. Sustained economic growth and strong job creation were the factors underpinning this behaviour.

With the outbreak of the crisis and the resulting high levels of job losses, the number of unemployed rose steeply and with it the need to protect those affected. Though the number of unemployed has continued to grow, the number of unemployment benefit beneficiaries have not, and has even decreased in the last two years. The peak was reached in early 2010, with more than 3 million beneficiaries and a coverage of 70%, but the aggravation of the crisis and the lengthening of the period of unemployment is reducing the ratio; by early 2012 it had fallen to levels similar to those of 2007 (in January it was 62.1%).

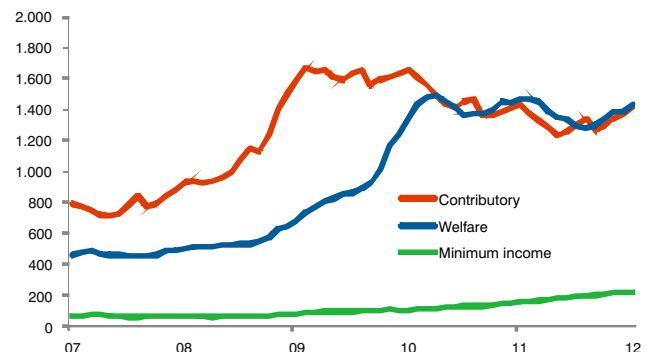
"Recipients of contributory benefits have declined by 15% since their peak in 2009 (when there were 1.67 million beneficiaries)"

The analysis also reflects the severity of the crisis: on the one hand, in the type of benefits received and, on the other hand, in the reasons for seeking welfare unemployment benefit.

With respect to the former, the number of recipients of contributory benefits has reduced by 15% from its peak in early 2009, when it exceeded 1.67 million, until January 2012. There are currently 1.42 million beneficiaries of this type of benefit. By contrast, the number of welfare benefit beneficiaries has been gaining ground and has remained stable since its peak in early 2010. In January, there were 1.43 million welfare benefit beneficiaries. Minimum income benefits, on the other hand, although less significant, continue to grow. In January 2012, recipients numbered 221,000, compared to an average of 65,000 in 2007.

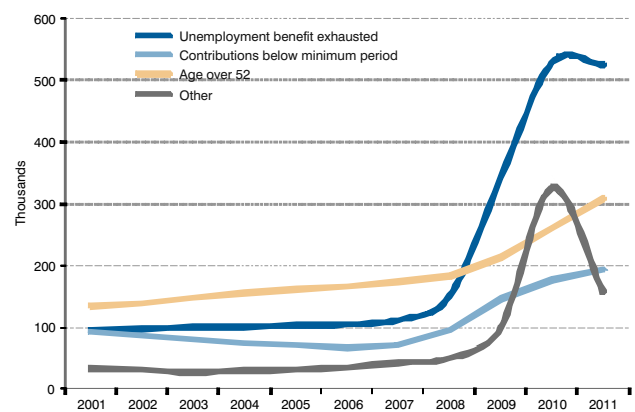
The main reason for this substantial increase was the exhaustion of their contributory benefits. In fact, half of the increase in these beneficiaries between 2009-2010 was due to this cause. The behaviour of the "other" category is also noteworthy. It is linked to the effect of the temporary program for unemployment and minimum income protection, which increased strongly until April 2010. Since then, it has been falling, to 63,000 beneficiaries in December 2011. Lastly, there was a significant increase in the number of benefits for those who did not qualify for a benefit because they had not contributed for the minimum period required, and for those over 52 years of age. At the end of 2011, there were 230,000 and 334,000 recipients respectively of these last two benefits.

Unemployment benefit recipients by type of benefit (thousands)



Source: Ministry of Labour and Immigration

Welfare benefit recipients, by reason for seeking benefit



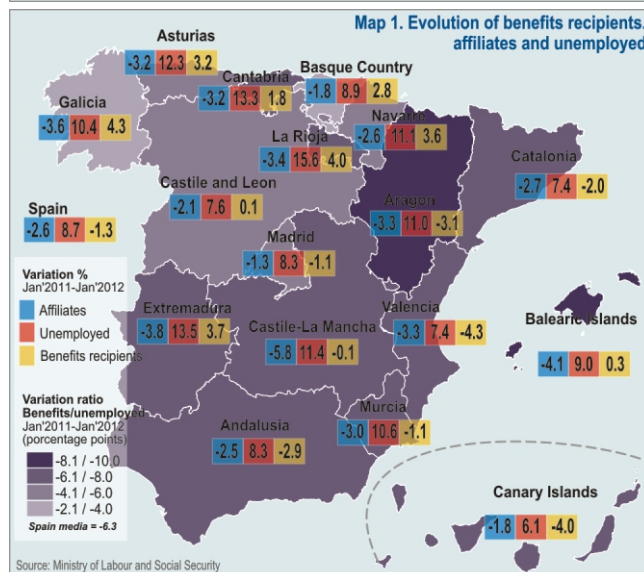
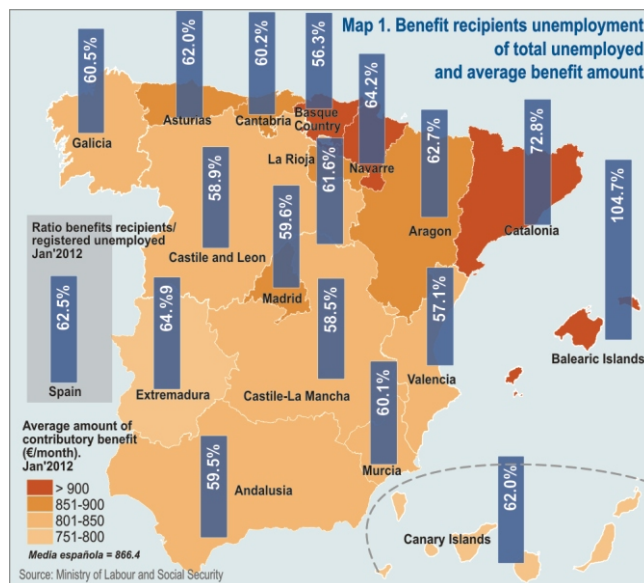
Source: Ministry of Labour and Immigration. *Average Jan-Sep 2011

"There are regions where less than 60% of the unemployed are covered by benefits, even though they have rates of unemployment above the national average and where, despite the increasing deterioration of the labour market, the number of beneficiaries is falling significantly."

In January 2012, the ratio of benefit recipients to registered unemployed in Spain was 62.5% (this figure differs from the 62.1% cited above because there the part-time unemployed and casual agricultural workers are not subtracted from total unemployment), while the average amount of contributory benefit received is €866.40. However, there are important regional differences.

With regard to the ratio between beneficiaries and registered unemployed, Catalonia and the Balearic Islands (in the latter, it is more than 100% because there are unemployed seasonal workers, who are not registered but receive unemployment benefits) are far above the national average. By contrast, there are other regions with beneficiaries/unemployed ratios below the national average, although they have some of the highest unemployment rates in Spain. In this respect, Valencia (with a coverage of 57.1% and an unemployment rate of 25.5% in the fourth quarter of 2011), Castile-La Mancha (58.5% and 24.5%, respectively), Murcia (60.1% and 26.8%) and Andalusia (59.5% and 31.2%) stand out. On the other hand, the Basque Country has the lowest ratio (56.3%). With regard to the average monthly amount received, the recipients of contributory unemployment benefits residing in the Basque Country, Navarre, Catalonia and the Balearic Islands get, on average, more than 900€ per month. At the other extreme are the residents of Extremadura and the Canary Islands, whose benefits average less than €800 a month.

At the national level, while the number of enrolments continues to decline and unemployment rises (down 2.6% and up 8.7% YoY, respectively), the number of people on unemployment benefit decreased by 1.3% compared to January 2011. At the regional level, there are conflicting trends. On the one hand, there are regions, mainly in the north of the mainland, where the increase in unemployment and the fall in Social Security enrolment are still accompanied by an increase in the number of recipients of unemployment benefits. However, the other regions, with similar patterns of labour market deterioration, are seeing the number of people receiving unemployment benefits decrease, usually because their period of entitlement has expired. Particularly notable are Valencia, the Canary Islands, Aragon and Andalusia, as, though unemployment increased by more than 5% compared to January 2011, they have seen the biggest decreases in the number of benefit recipients in relative terms.



THE MONTHLY FOCUS

Necessary conditions

The labour reform will only create employment if it helps to improve the competitiveness of the Spanish economy. This aspect has been mentioned only rarely in the wide-ranging discussion provoked by Royal Decree Law 3/2012, but it is a necessary condition for the creation of employment and for this to be sustainable. The most challenging components of the reform have to do with devolving to company level a large number of key aspects of collective bargaining. If the implementation of these changes leads to an increase in litigation, the benefits of the reform will be significantly diminished. It is to be hoped that the new possibilities of bypassing sectoral collective agreements with regard to wage levels, of reducing workforces, organizational restructuring, changing working hours and internal dialogue are developed in ways that allow the devastating adjustments via workforce reduction to give way to adjustments via costs.

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