

Spanish Labour Market Monitor

Presentation

The April employment figures confirm the poor start to 2Q12, despite the positive effect that was expected from the favourable seasonality of Easter Week. The data show a continuation of the deterioration revealed by the 1Q12 EPA labour force survey, which recorded a fall in employment of 376,000, taking cumulative job losses during the current crisis to 3 million (15%), with the unemployment rate reaching 24.44%. These are undoubtedly negative figures in a year when spending on labour market policies is set to decline for the second year running, according to the 2012 central state budget.

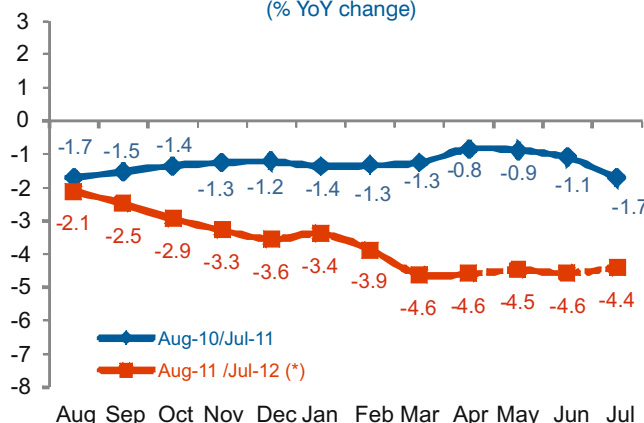
Key Points

- Social Security enrolment increased by barely 16,500 (compared with a rise of more than 80,000 in April 2011); hence the renewed decline which began at the end of 2011 continues to deepen, with the YoY decline now reaching 3.2%.
- Excluding the effect of seasonality, both the increase in unemployment and the fall in enrolment have been around 70,000.
- All sectors of activity contributed to the decline in enrolment in April.
- Recruitment figures for all categories recorded YoY falls for the fourth consecutive month.
- The 1Q12 EPA survey shows a fall in employment of 376,000 and an increase in unemployment of a similar magnitude.
- Total unemployment now exceeds 5.6 million and the unemployment rate has reached 24.44% (up 1.59 percentage points on 4Q11).
- Since the onset of the crisis (3Q07) and up to 1Q12, job losses exceed 3 million, a cumulative reduction of 15%.
- The fall in employment has been concentrated among wage workers, as self-employment increased. Public sector employment declined for the second consecutive quarter.
- Permanent employment was down by 138,000, but once again it was temporary workers who bore the brunt of the deterioration (down 280,000).
- In sectoral terms, construction, hotels and catering, manufacturing industry and sale and repair of vehicles accounted for the greater part of the quarterly decline in employment.
- The deterioration is more significant in Extremadura, Castile-La Mancha and the Balearic Islands, though it is also beginning to appear in the north of the peninsula, which has registered a better relative performance until now.
- The labour force declined slightly. This reduction occurred particularly among men, young people and foreigners.
- Spending on labour market policies, as reflected in the 2012 state budget, will decrease for the second consecutive year (8.6% YoY), as a result of budgetary austerity implemented by the government to achieve this year's deficit target.
- Spending on both passive and active policies is reduced (by 5.5% and 21.3% YoY respectively). More than 70% of active policy spending is intended for tax relief on the recruitment and training of unemployed workers.
- The regions with the highest unemployment rates are those which dedicate most resources to get the unemployed back to work (a higher percentage of social expenditure destined to active employment policies). Taking account of the number of unemployed, the average expenditure per person has reduced significantly.

Afi-Agett SLM Indicator

With substantially worse figures than anticipated, especially in terms of Social Security enrolment, the April employment data show that the recessionary tendency affecting the bulk of sectors has outweighed the favourable effect of Easter Week on employment in hotels and catering services and in retailing.

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

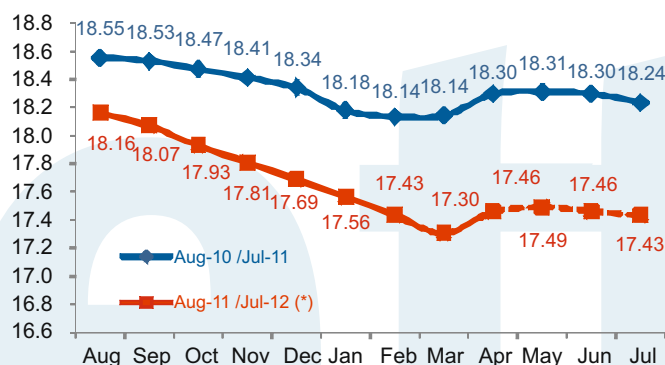


Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul

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

This precedent and the adjustment scenario revealed by the latest EPA survey evidently weakened expectations for an increase in the employment for the 2Q12. The Afi-Agett SLM Indicator reflects this pattern, declining by almost 4.5% by July, with employment falling to levels similar to those seen at the beginning of the year.

SLM monthly forecast of workers in employment
(millions)

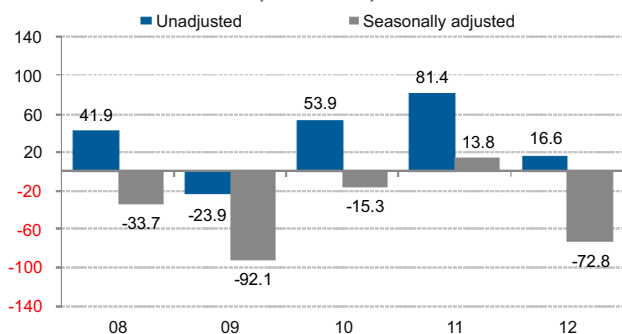


Source: Afi. (*) May-Jul 2012 figures are forecasts

"Social Security enrolment increased by barely 16,500 (compared with a rise of more than 80,000 in April 2011); hence the renewed decline which began at the end of 2011 continues to deepen, with the YoY decline already reaching 3.2%."

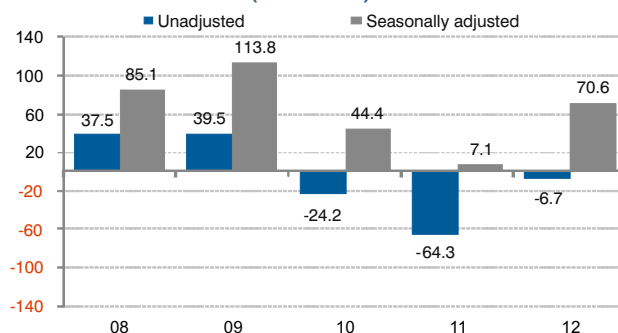
The second quarter of the year started badly in the main economic sectors, as confirmed by the April employment data, despite the positive effect that was expected from the favourable seasonality of Easter Week.

Monthly change in Social Security enrolment in month of April (thousands)



Source: Ministry of Economy

Monthly change in registered unemployment in month of April (thousands)

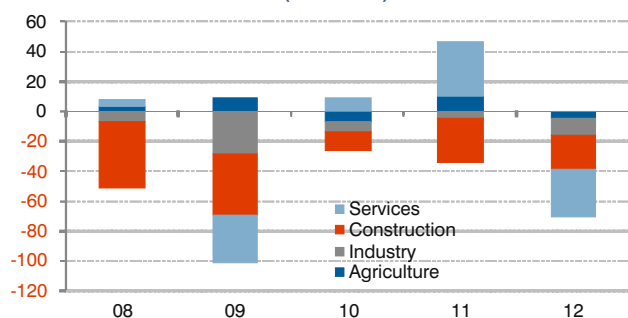


Source: Ministry of Economy

Social Security enrolment increased by barely 16,500 during the month (compared with a rise of more than 80,000 in 2011 and over 50,000 in 2010); **hence the renewed decline which began at the end of 2011 continues to deepen**, with the YoY decline already reaching 3.2%. Prior to the publication of the April enrolment data, an upturn of the order of 80,000 in employment was predicted for the second quarter of the year, but this will now only be possible if May brings an increase in enrolment of close to 100,000 or more. **The behaviour of employment in April limited the decline in unemployment** (barely 6,600) and **has clearly undermined the initial forecast of an increase in employment in 2Q12**. The seasonally adjusted figures, if anything, **speak more eloquently of the intensification of the recessionary trend** in the labour market at the start of 2Q12: in April, excluding seasonal effects, **enrolment fell by somewhat more than 72,000 and unemployment increased by a similar figure**.

"All sectors of activity contribute to the fall in enrolment in April."

Monthly change in Social Security enrolment in month of April by sector (thousands)



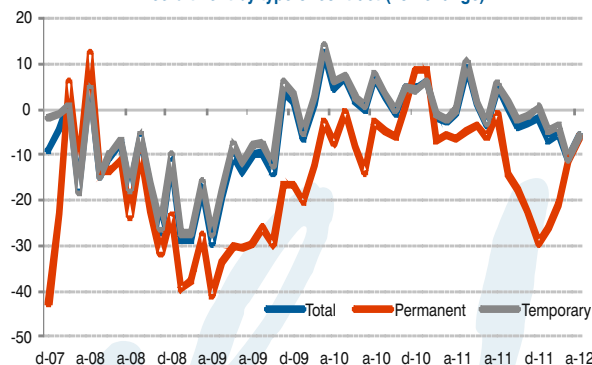
Source: Ministry of Economy

According to the seasonally adjusted data, **all sectors of activity contributed to the fall in enrolment in April**. Services stand out, not only because they account for most of the reduction in enrolment in the economy as a whole, but because in the same month last year their behaviour was totally different, with a substantial increase in enrolment. The construction sector registered the second highest decline in enrolment, not so much in the residential segment as in civil engineering and construction projects. Finally, as presaged by leading indicators, the performance of industry was notably worse.

"Recruitment figures for all categories recorded YoY falls for the fourth consecutive month".

With regard to recruitment, all categories recorded **YoY falls for the fourth consecutive month**. Total contracts signed decreased by 5.99% compared to April 2011, attenuating the YoY correction accumulated in the first third of the year (7.39%). **Permanent contracts were down 6.36%**, while the accumulated fall for January-April is 16.18%. The moderation of the decline in permanent recruitment is **due to full-time contracts, down 4.69%**, while permanent part-time contracts fell by 8.92%.

Recruitment by type of contract (YoY change)

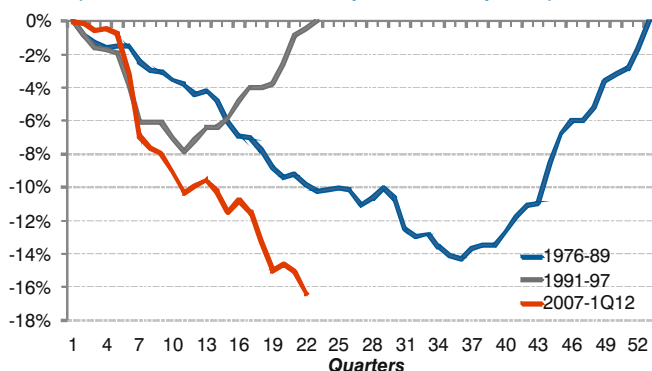


Source: State Employment Service

"Since the beginning of the crisis (3Q07) to 1Q12, job losses exceed 3 million, a cumulative reduction of 15%".

The EPA labour force survey for the first quarter of 2012 records a fall in employment of 376,000, the highest of the current crisis except for 2009, and an increase of similar magnitude in unemployment (366,000). Total unemployment already exceeds 5.6 million and the unemployment rate stands at 24.44% (up 1.59 percentage points compared to 4Q11).

Employment cycles in Spain
(accumulated decline since peak of each period)



Source: National Statistics Institute (INE)

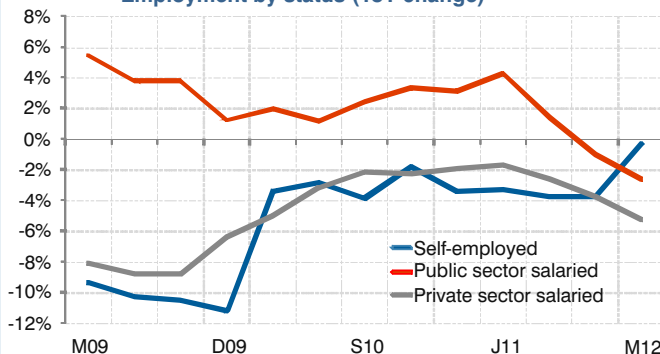
From the peak in the third quarter of 2007 to the first quarter of 2012, the loss of employment already exceeds 3 million (total employment currently stands at 17.4 million), a cumulative reduction of 15%. As noted in recent issues of the Monitor, this crisis cannot be compared with the two most serious previous ones. In the crisis of the early eighties, the adjustment had a similar duration to the current one, but the magnitude, from the beginning of the crisis until the 19th quarter, was almost 6 percentage points less. The crisis of the early nineties was even less comparable, with regard to both the length of the recessionary cycle, and the intensity of the fall in employment.

"The fall in employment has been concentrated among wage workers, as self-employment rose by nearly 46,000. Public sector employment declined for the second consecutive quarter".

The fall in employment has been concentrated among wage workers, as self-employment rose by nearly 46,000 (especially among women).

The loss of salaried employment in the first quarter of 2012 was close to that observed in the same period of 2009 (the worst point of the crisis): 418,000. Although most job losses are concentrated in the private sector (with a fall of 386,000 from the previous quarter), it is important to note that the number of public sector wage earners fell for the second consecutive quarter (2.6% YoY). The accentuation of the YoY fall is an indication that the adjustment in public employment is now taking effect.

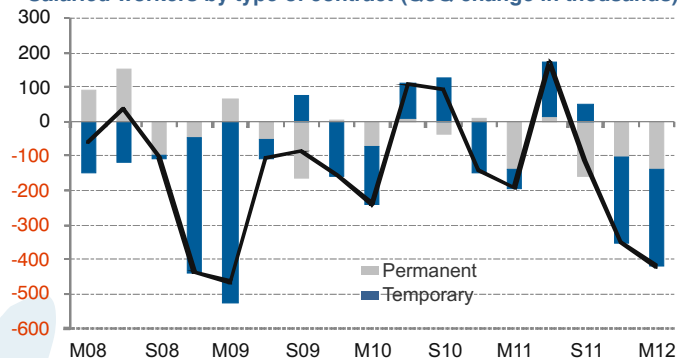
Employment by status (YoY change)



Source: National Statistics Institute (INE)

"Permanent employees declined by 138,000, but it was temporary workers who again accounted for the greater part of the deterioration (280,000)".

Salaried workers by type of contract (QoQ change in thousands)



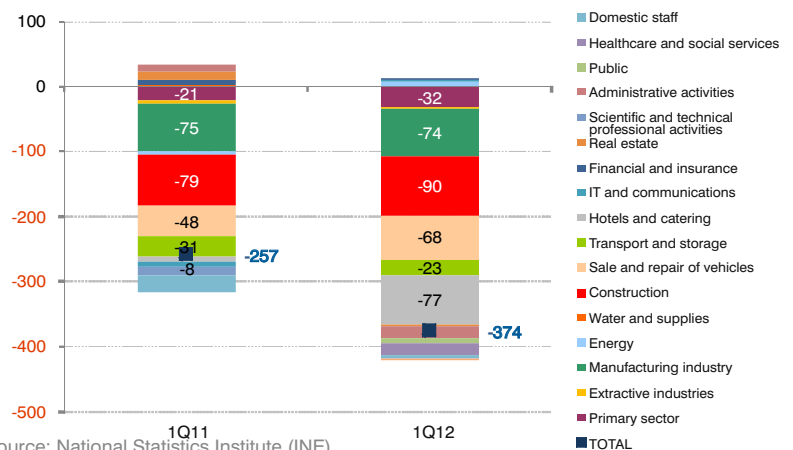
Source: National Statistics Institute (INE)

With regard to the type of contract, permanent workers again suffered, with a quarterly fall of 138,000, but to a lesser extent than in the same quarter a year ago (when the quarterly reduction was 139,000, only 1,000 more). Once again it is temporary workers who account for the greater part of the deterioration, with a quarterly reduction of close to 280,000. As a consequence of this, the incidence of temporary employment has fallen to the lowest levels of the past few years (23.7%). In fact, it is 10 percentage points below the high of 34.6% reached in 3Q06.

"In sectoral terms, construction, hotels and catering, manufacturing industry, and sale and repair of vehicles accounted for the greater part of the quarterly decline in employment".

In sectoral terms, the trend was negative in all branches of activity, but it was construction (down 90,000), hotels and catering (77,000), manufacturing (74,000) and sale and repair of vehicles (68,000) which accounted for the greater part of the quarterly decline in employment. These quarterly declines, except in the case of the manufacturing industry, are higher than those observed in the same quarter of last year. On the other hand, as mentioned earlier, there was a significant reduction in services employment in the Public Administration, Social Security, healthcare and social services.

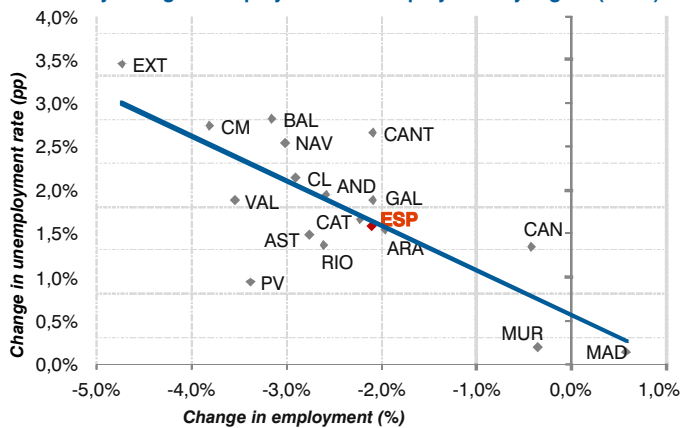
Employment by sector (QoQ change in thousands)



Source: National Statistics Institute (INE)

"The deterioration is more significant in Extremadura, Castile-La Mancha and the Balearic Islands, though it is also beginning to appear in the north of the peninsula, which has registered a better relative performance until now".

Quarterly change in employment and employment by region (1Q12)



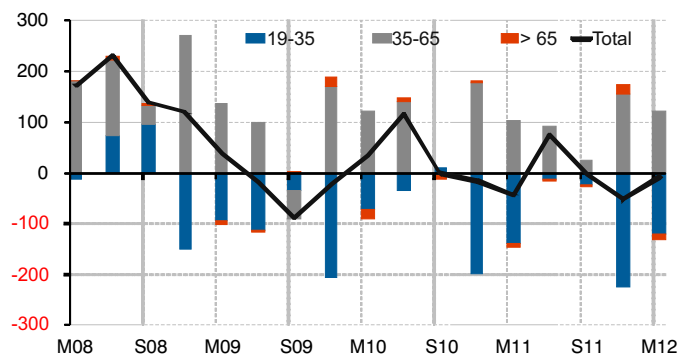
Source: National Statistics Institute (INE)

At the regional level, the deterioration is more significant in Extremadura, Castile-La Mancha and the Balearic Islands, as they combine quarterly declines in employment of more than 3% with increases in the unemployment rate of over 2.5 percentage points, compared with the final quarter of last year. However, regions in the north of the peninsula, such as Navarre or Castile and Leon, are notable for the deterioration in 1Q12, despite having some of the best relative performances until now. In the opposite situation is the Madrid region, which not only managed to keep its unemployment rate stable, but increased, albeit modestly, the number of workers in employment with respect to the previous quarter.

"The labour force declined slightly. This reduction occurred particularly among men, young people and foreigners."

The labour force declined slightly in the quarter (down 8,400, though up 0.04% YoY), meaning that the increase in the rate of unemployment is due mainly to the reduction in employment. The decline in the labour force occurred particularly among young people aged 19-35 (down 122,000 with regard to the previous quarter), men (down 94,000) and foreigners (with a reduction of nearly 20,000). Much of the decline in foreigners is due to them leaving Spain and returning to their countries of origin, as the over-16 population in this group fell by more than 25,000.

Labour force by age group (QoQ change in thousands)

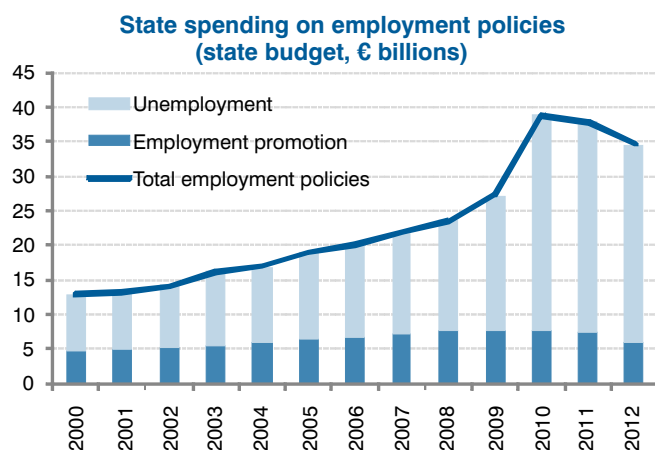


Source: National Statistics Institute (INE)

Finally, with regard to groups at risk, the continuing high levels of long-term unemployed (2.82 million) maintain upward pressure on the number of households with all active members unemployed (13.3% of households, with at least one active member, are in this situation) and those with no source of income (4.5%).

"Spending on labour market policies, as reflected in the 2012 state budget, will decrease for the second consecutive year (8.6% YoY)."

Spending on labour market policies, as reflected in the 2012 state budget, will decrease for the second consecutive year (8.6% YoY), even though the 2012 forecasts point to a further increase in unemployment, which could take the total to over 5.7 million (year average). The austere 2012 budget reflects the need to meet the deficit targets for this year.



Source: Ministry of Finance and Public Administrations

Out of a total of €34.57 billion budgeted for 2012, **16.7% corresponds to active policies**, i.e. for promoting employment, while the remaining **83.3% covers spending on passive policies**, i.e. unemployment benefits.

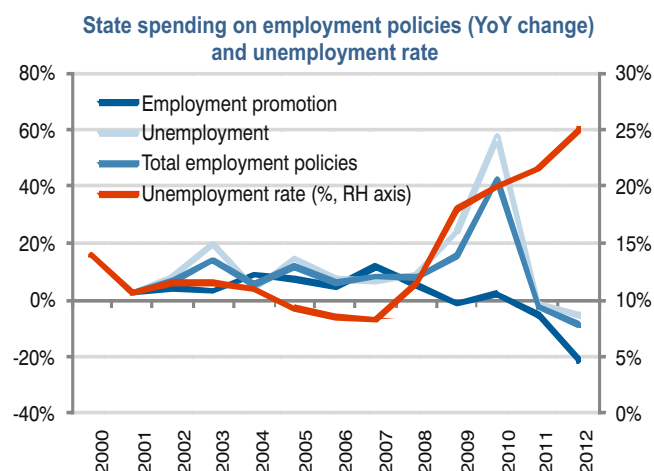
Labour market policies ((€ millions, 2012 state budget), PGE 2012)			
	2011	2012	Var.
Spending employment promotion	7.329	5.765	-21,3%
Spending unemployment	30.474	28.805	-5,5%
Total	37.803	34.570	-8,6%
Estimated unemployment (yr. avg., Thousands)	4.999	5.769	15,4%
Spending employment promotion per unemployed (€)	1.466	999	-31,8%
Spending unemployment per unemployed (€)	6.096	4.993	-18,1%

Source: Afi, Ministry of Finance and Public Administrations

"Spending on both passive and active policies is reduced (by 5.5% and 21.3% YoY respectively). More than 70% of active policy spending is intended for tax relief on the recruitment and training of unemployed workers."

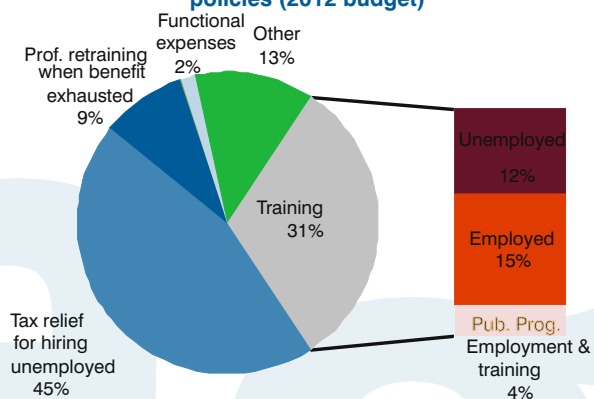
Due to the deterioration of the economy and the rise in unemployment, passive employment policies were those with the largest budgeted increases at the start of the crisis. In 2010, for example, they rose nearly 60% YoY, as a result of the heavy job losses during 2009, the recessionary year par excellence. **For 2012, on the other hand, the amount budgeted is 5.5% less than last year,** which means spending of around €5,000 per unemployed worker.

Active policies, designed to get the unemployed back to work, **have taken second place. In fact, they have even declined in the past two years, although more heavily in the 2012 budget (down 21.3% YoY).** This year the government plans to spend approximately €1,000 per unemployed worker.



Source: Afi, INE, Ministry of Finance and Public Administrations

Distribution of State spending on employment promotion policies (2012 budget)



Source: Ministry of Finance and Public Administrations

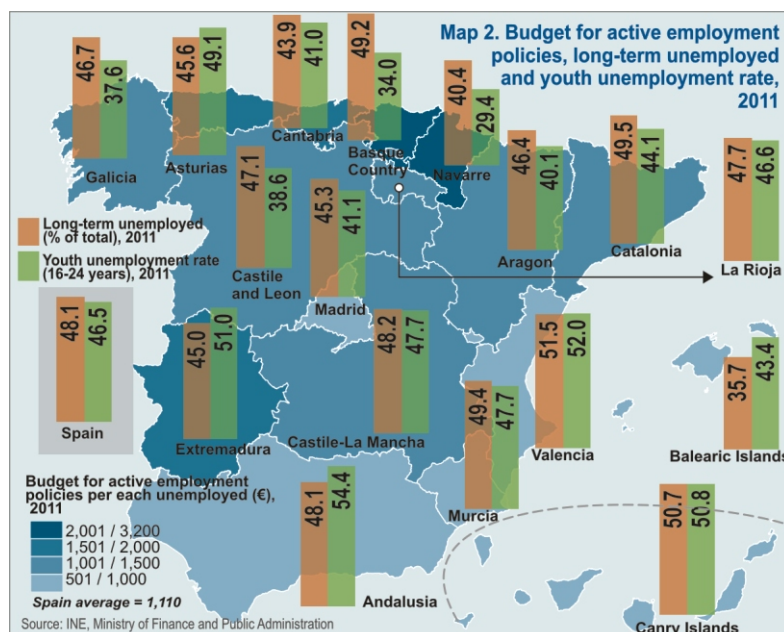
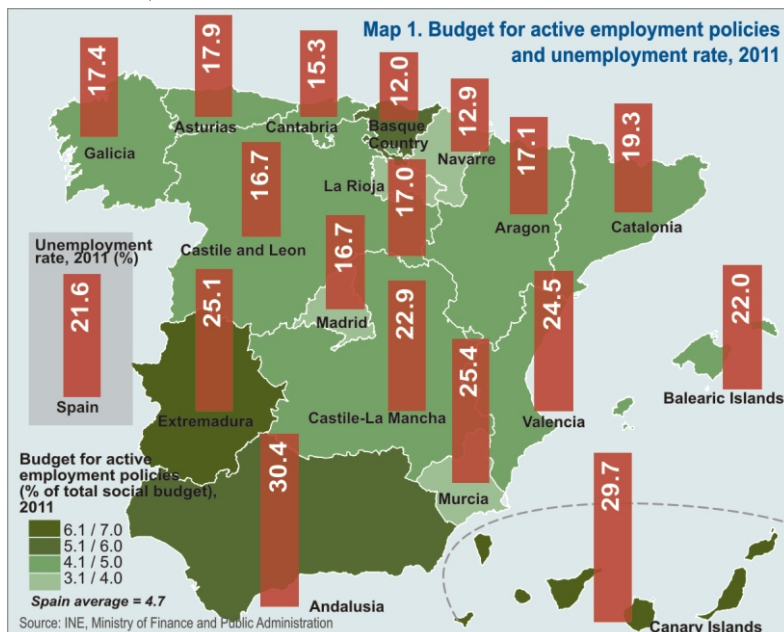
Of the €5.8 billion budgeted for active policies or for the promotion of employment in 2012, **45% will be allocated to tax relief for companies hiring unemployed workers this year. The second-largest item is training, which receives 31% of budgeted resources.** Of these, 12% will be destined for the unemployed, 15% to the employed and 4% to public programs for employment and training. Finally, the share of public spending for **the retraining of professionals who have already exhausted their unemployment benefits**, one of the groups likely to increase most in the coming months, **accounts for almost 10% of the total budget** for active policies.

"The regions with the highest unemployment rates are those which dedicate most resources to get the unemployed back to work (higher percentage of social expenditure destined to active employment policies). Taking account of the number of unemployed, the average expenditure per person has reduced significantly."

Although the detail of the budget for employment policies of 2012 at the regional level is still unknown, it is likely to be consistent with the behaviour observed during the course of 2011, discussed below.

As might be expected, **budget spending to reintegrate the unemployed into the labour market** (measured in terms of spending on active employment policies as a percentage of total budgeted social spending) **is focussed on regions with higher rates of unemployment**. Hence, Andalusia and the Canary Islands, with unemployment rates over 30%, spend around 6% of total social spending on employment promotion policies. In contrast, regions such as Navarre and Cantabria, with unemployment rates of around 15%, spend barely 4% of their social budget on these policies. Atypical cases include, on the one hand, the Basque Country, because it had the lowest unemployment rate in 2011 but directs about 6% of social spending to employment promotion and, on the other hand, Murcia, with an unemployment rate of more than 25% and only 3% devoted to active policies.

In 2011, it is also notable that **the regions with the highest proportions of long-term unemployed and the highest youth unemployment rates spend fewer resources per unemployed worker**. This may be due less to a smaller budgetary effort (***since the relationship, in this sense, would be positive), than to the large numbers of unemployed workers to be covered, making it difficult keep average expenditure per unemployed worker in line with the national average. The regions that spend most per unemployed worker are the Basque Country and Navarre, regions with low rates of unemployment (even for young workers) and low proportions of long-term unemployed (the latter is not applicable to the Basque Country, where almost half the unemployed have been in this situation for more than a year, close to the national average). The opposite applies to the Murcia Region and the Balearic Islands.



THE MONTHLY FOCUS

The state budget and the battle against unemployment

There are two surprising signals in the state budget with respect to the labour market: the initial appropriations for active employment policies have been reduced, as have those for benefit payments. Everything indicates that these resources should increase, given the rise in unemployment. However, these are not times for linear extrapolations. If active employment policies are not working, the best thing is to change them, rather than continue to spend scarce resources in vain. With regard to benefits, whose reduction is not consistent with the increase in unemployment forecast for 2012 or with the government's indications that it will not change the amounts thereof nor the qualifying conditions, they should be made increasingly conditional in order to improve employment outcomes.

José Antonio Herce. Partner, Afi