

Spanish Labour Market Monitor

Presentation

The May employment figures, despite the month's favourable seasonality, do not signal a change in the trend, rather the contrary. In seasonally adjusted terms, we are seeing falls in Social Security enrolment and increases in unemployment similar to those observed in the worst moments of the crisis. The deterioration in all economic sectors, especially services, limits the scope for growth in enrolment and means that employment will continue to fall until August. On the other hand, the increases in self-employment of women seen in the first quarter of the year largely reflect the regularization of domestic services, rather than the emergence of new workers

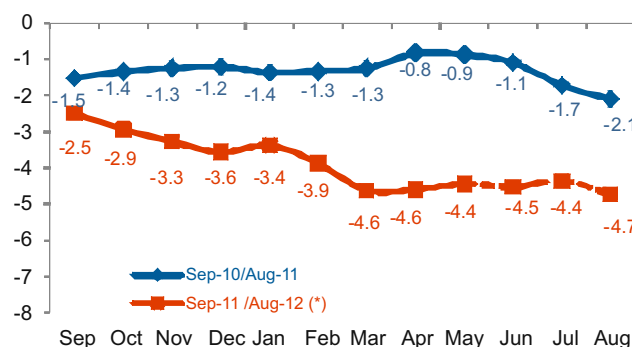
Key Points

- Not even May's favourable seasonality is enough to reverse the trend in the employment statistics. The increase in enrolment and the fall in unemployment over the month (77,431 and 30,113 respectively) are substantially lower than those of 2011 and 2010.
- After correcting for seasonality, enrolment fell by more than 56,800 during the month and the number of unemployed increased by almost 85,700.
- All economic sectors are showing more unfavourable trends in 2012, but the differential element in the recent setback lies in the decline in employment in services.
- The deterioration in other sectors limits the scope for increases in enrolment and means that the deteriorating YoY trend in employment forecast by the Afi-Agett SLM Indicator will continue until August (with YoY falls of close to 4.7% expected).
- All the regions saw falls in enrolment and increases in unemployment in May. Madrid, the Basque Country and Catalonia are least affected by this trend, while Castile-La Mancha recorded the worst combination.
- In 1Q12, the number of women intending to work increased (up 153,700 in the past 12 months), but their employment did not (down 186,800 people in the past 12 months), with the exception of the self-employed.
- The new self-employed women are foreigners, aged between 40 and 59, and working full time in the services sector (specifically retailing activities, hotels and catering, and domestic service).
- Thanks to women, the activity rate has risen most in the same regions where it was already highest a year ago. In the regions where it has reduced most, we also find the largest reductions in the male labour force, though insufficient to offset the increases in the number of women.
- Female employment increased in 1Q12 compared with the previous year in only three regions. The regions with the biggest falls in employment also recorded decreases in the number of self-employed.

Afi-Agett SLM Indicator

The registered unemployment and enrolment figures for May have not altered the negative trend of employment data since the beginning of the year. The increase in Social Security enrolment over the month is substantially smaller than in the same period of 2010 and 2011, with hotels and catering being the only sector making a significant positive contribution to employment.

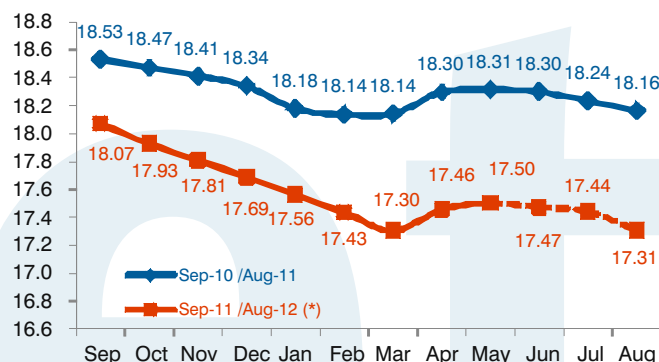
SLM monthly forecast of workers in employment (% YoY change)



Source: Afi. (*) Jun-Aug 2012 figures are forecasts

The deterioration in the other sectors limits the scope for gains in enrolment and means that the deteriorating YoY trend in employment forecast by the Afi-Agett SLM Indicator will continue until August, when the YoY decline could approach 4.7%, taking employment back to the levels of March 2012.

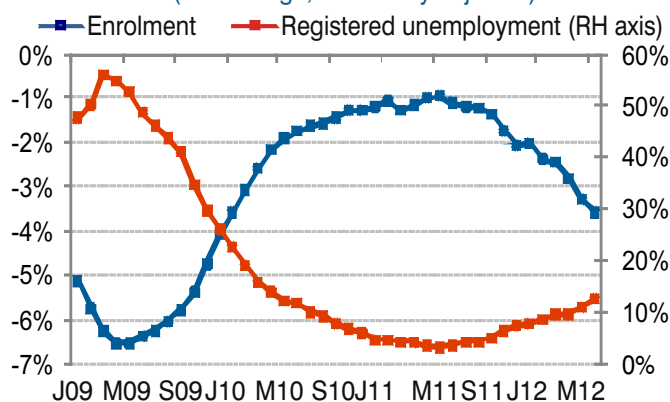
SLM monthly forecast of workers in employment (millions)



Source: Afi. (*) Jun-Aug 2012 figures are forecasts

"Not even May's favourable seasonality was enough to reverse the trend in the employment statistics. The increase in enrolment and the fall in unemployment over the month are substantially lower than those of 2011 and 2010"

Social Security enrolment and registered unemployment (YoY change, seasonally adjusted)



Source: Afj. Ministry of Economy and Social Security

As might expect to be expected, May's favourable seasonality in hotels and catering services has compensated for the relatively worse behaviour of the remaining sectors and has generated an increase of 77,431 in enrolment and a fall of 30,113 in the number of unemployed. In both cases, the improvement is much smaller than in the same month in the previous two years and only slightly more positive than that in 2009, demonstrating that, **excluding the seasonal effects, labour market trends in the second quarter continue to be recessionary.**

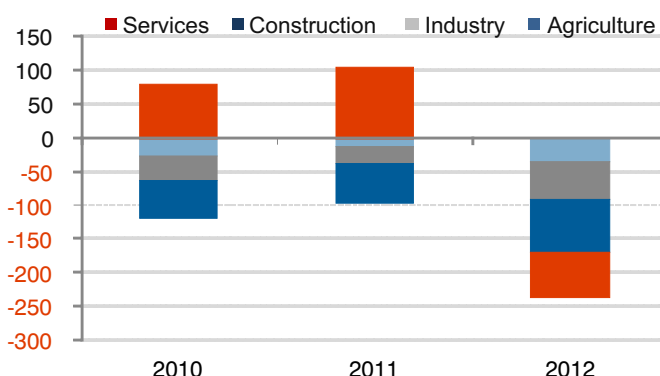
Indeed, after correcting for seasonality, enrolment fell by more than 56,800 during the month and the number of unemployed increased by almost 85,700. The YoY changes are equally eloquent: enrolment is now falling at the rate of 3.4% and unemployment is increasing by 12.5%.

"All sectors of activity are showing more unfavourable trends in 2012, but the differential element in the recent setback lies in the decline in employment in services"

So far this year, the fall in Social Security enrolment is around 233,400 (the total stands at 16.99 million) and the number of unemployed has increased by 291,800 . In 2011, the outcome was a 7,200 rise in enrolment and a fall of 89,600 in unemployment. **All sectors, without exception, are experiencing more unfavourable trends in 2012.**

However, the differential element is the behaviour of services, in a context of virtual stagnation in household consumption and acceleration of the fiscal consolidation measures. In May, enrolment in this sector increased by 67,800 compared with 107,200 in May 2011. For the year to date, the increase of 103,000 in enrolment in 2011 contrast with the fall of 65,300 in 2012.

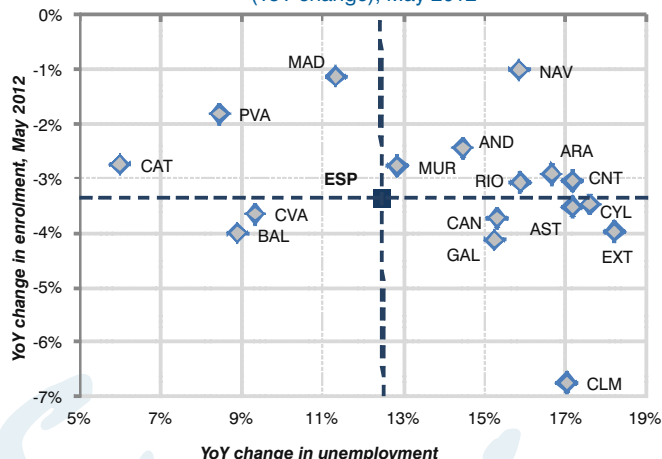
Change in Social Security enrolment by sector (YTD as at end May each year, thousands)



Source: Afi, Ministry of Economy and Social Security

"All the regions saw falls in enrolment and increases in unemployment in May. Madrid, the Basque Country and Catalonia were least affected by this trend, while Castile-La Mancha recorded the worst combination"

Unemployment and Social Security enrolment (YoY change), May 2012



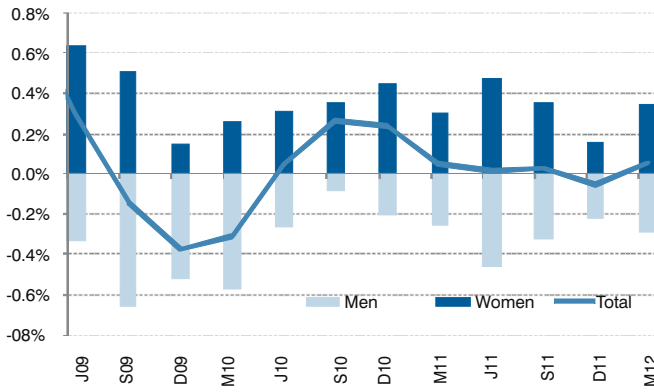
Source: Afi, Ministry of Economy and Social Security

The fall in enrolment and the increase in the number of unemployed in May, compared with the levels of a year ago, **occurred in all the Spanish regions without exception**, but the behaviour of four of them is noteworthy. On the one hand, Madrid, the Basque Country and Catalonia were the regions with the smallest falls in enrolment (1.1%, 1.8% and 2.7% YoY respectively) and the largest increases in unemployment (11.3%, 8.5% and 6.0% YoY respectively). On the other hand, Castile-La Mancha was the region where, to a much greater extent than elsewhere, the number of workers enrolled with the Social Security declined (6.7% YoY) and one of those with the largest YoY increase in the number of unemployed (17.0 % year-on-year), despite the fact that it already has one of the highest unemployment rates (according to the EPA labour force, it was 27.2% in 1Q12).

"In the past year, the number of women actively seeking employment has increased but the number in employment has not, except the self-employed."

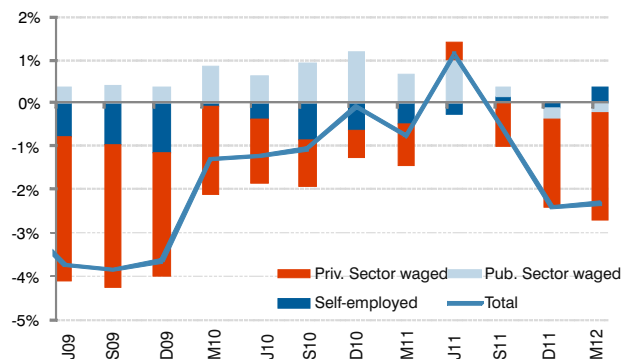
The activity rate in Spain has remained around 60% in the past few quarters, even though the female labour force has not ceased to grow since the beginning of the crisis. This increase in the number of women actively seeking employment, in contrast, has not been reflected in an increase in employment of the same magnitude. In the year to end 1Q12, the number of active women has increased by 153,700, while the number in employment has fallen by 186,800 (2.3% YoY).

Contribution to YoY change in activity rate by gender



Source: Afi, INE (EPA)

Contribution to YoY change in female employment by employment status

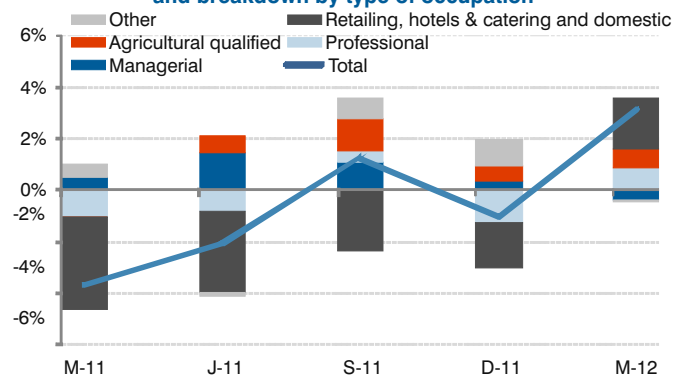


Source: Afi, INE (EPA)

"The newly self-employed women are foreigners, aged between 40 and 59, and working full time in the services sector (specifically retailing activities, hotels and catering, and domestic service)."

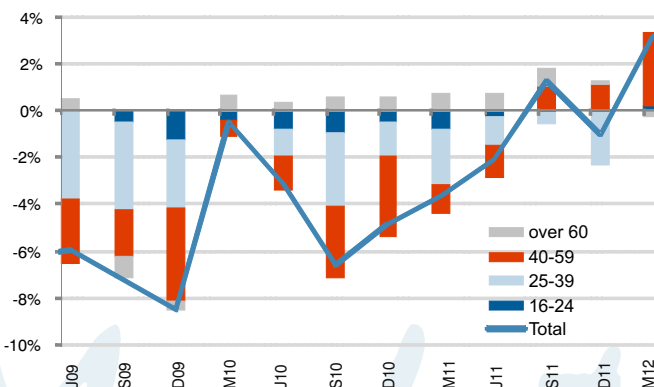
However, though it coincided with a strong decline in the labour market, employment among self-employed women has grown during 1Q12. Hence, it is interesting to know what characteristics these women have, in case there is a pattern that may be replicated in coming quarters. According to the EPA, **it is women of foreign nationality, between the ages of 40 and 59** (probably to compensate for declines in household income, as immigrants suffer a higher rate of unemployment), **who have decided to work full-time in the services sector, specifically in retailing activities, hotels and catering, and domestic service.** Although details of the latter classification are not available, it is very likely that a large proportion corresponds to the regularization of the employment situation of individuals employed as domestic servants, as their employers are obliged enrol them in the Social Security by June, and this is being reflected in the official data at the beginning of the year.

Contribution to YoY change in female self-employment and breakdown by type of occupation



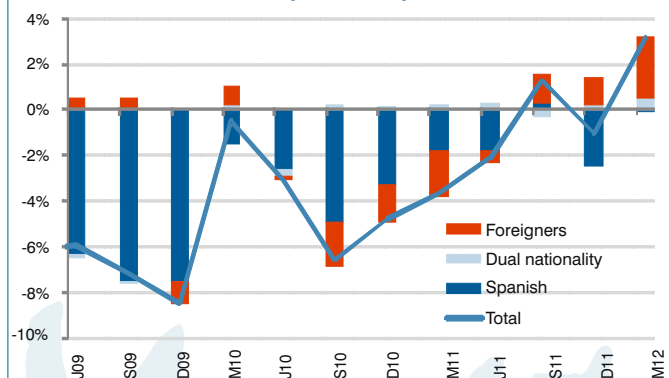
Source: Afi, INE (EPA)

Contribution to YoY change in female self-employment by age group



Source: Afi, INE (EPA)

Contribution to YoY change in female self-employment by nationality



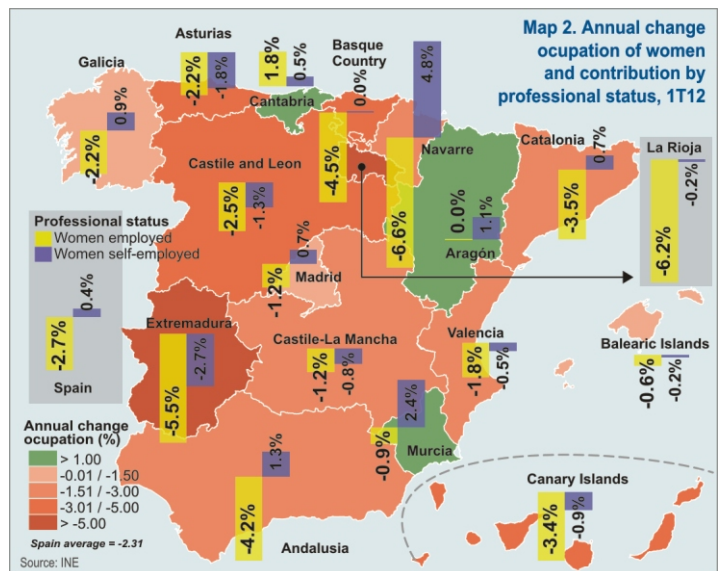
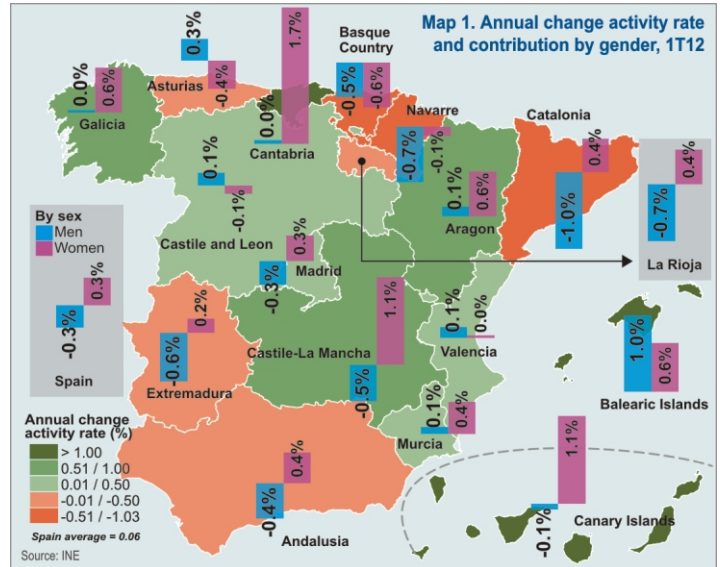
Source: Afi, INE (EPA)

"Thanks to women, the activity rate has risen most in the same regions where it was already highest a year ago. Female employment increased in only three regions with respect to the levels of the previous year"

In 1Q11, the activity rate has risen most in the same regions where it was already highest a year ago.

Cantabria, the Balearic Islands and the Canary Islands are the regions where the activity rate has increased most, and now stands over a percentage point higher than a year ago. As at the national level, **the increase in the activity rate is due, in large part, to the contribution of women**, who are joining the labour market with the aim of compensating the decline in household income caused, in many cases, by the main breadwinner losing his job. The Balearic Islands and Valencia are especially notable because the increase of the labour force is due to a greater extent to the increase in male workers. By contrast, the regions where the activity rate decreases most are the Basque Country and Navarre, due in both cases to a reduction in both the male and female labour forces. Indeed, **the regions where the activity rate decreased most have seen the greatest reductions in the male labour force**, though insufficient to offset the increases in the number of women.

Female employment increased in only three regions in 1Q12 with respect to the levels of the previous year: Cantabria, Murcia and Aragón, with the trend being attributable to the self-employed, except in the first case. **The regions with the biggest falls in employment** (such as Extremadura) **also saw declines in the number of self-employed workers.** In this case, Navarre should be highlighted because, although the female labour force and employment of women residing in this region declined in 1Q12, female self-employment increased by more than 40% over the previous year. Nevertheless, this was insufficient to compensate for the sharp decline in female wage earners (7.4% YoY).



THE MONTHLY FOCUS

Deepening the reform

A few days ago, the European Commission made a series of recommendations to the Spanish government, including a prompt and thorough implementation of the labour reform and, especially, the adoption of additional measures related to active employment policies (AEP) and reform of the Public Employment Systems (PES). The data for May, both before and after seasonal adjustment, confirm the severity of the labour market recession in the second quarter of this year. Thus, it is urgent that implementation of the reform should be accelerated and decisive measures adopted, such as those proposed by the Commission. The AEP and the PES are two of the keys to the employability of the unemployed in the immediate future. The lack of focus and conventional scope of the former and the ineffectiveness of the latter combine to limit opportunities for the unemployed, when it should be the other way around.

José A. Herce, Partner, Afi.