

# Labour Market Monitor

Issue No. 94 | May 2015

## Key points of the month

- April brought the biggest monthly increase in Social Security enrolment since 2001: 175,000. There are now almost 600,000 more workers enrolled in the system than a year ago.
- Public sector employment is having a significant effect on these figures.
- The Afi-ASEMPLEO SLM Indicator points to a further increase in employment, forecasting it to end 2Q15 at over 18 million.

## Job creation accelerates in 2Q15

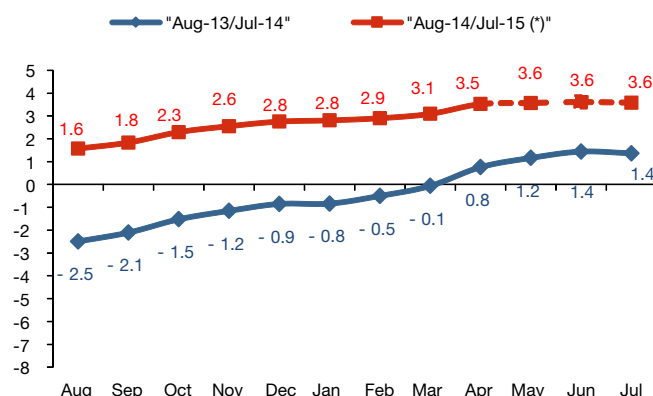
In April, Social Security enrolment recorded its biggest monthly increase since 2001 (175,000), taking the YoY rise to 3.5%. It has risen by almost 600,000 over the past 12 months.

The labour market recovery is exceeding all expectations. Though there is a public sector component behind the growth in recruitment, which will probably weaken after the regional elections, the favourable trend in employment is expected to continue.

The sectors seeing the strongest growth in enrolment are hotels & catering and construction. These are driven by the good performance of tourism, in the first case, and by the improvement in credit conditions and public works, in the second.

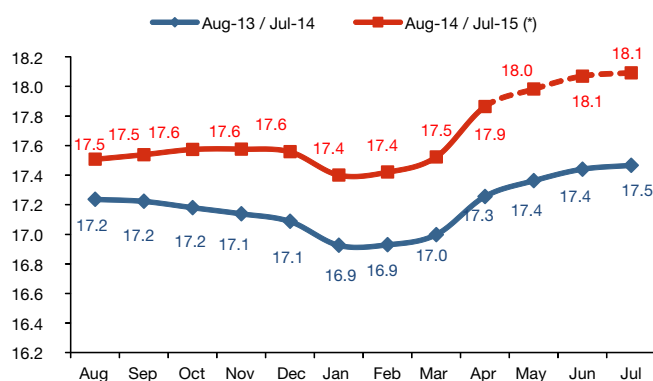
These enrolment figures suggest that the rise in EPA employment in the second quarter could be substantial. The Afi-ASEMPLEO SLM Indicator points to a further increase in the YoY growth in employment in the next three months (on the order of 3.6%). If this is confirmed, the second quarter could end with employment above the 18 million mark (up around half a million on the previous quarter).

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



Source: Afi. (\*) May 2015-Jul 2015 figures are forecasts

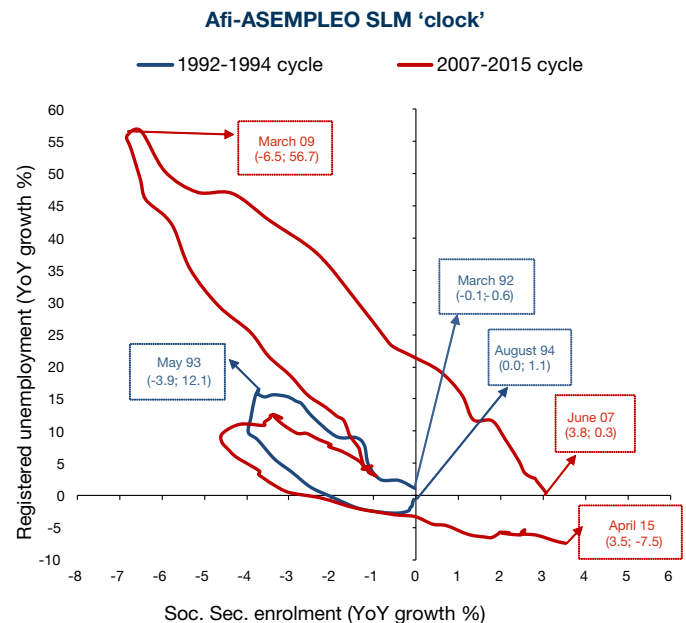
SLM monthly forecast of workers in employment  
(millions)



Source: Afi. (\*) May 2015-Jul 2015 figures are forecasts

April's labour market figures, with a rise of 175,495 in enrolment (3.5% YoY) and a fall of 118,923 in unemployment (7.5% YoY), are better than forecast by the Afi-ASEMPLEO SLM Indicator and the best since 2001. Growth in the general enrolment scheme continues to accelerate, with the YoY rate rising to 3.8%, while in the self-employed scheme has stabilised at around 2.2%. By sector, the increase was concentrated in hotels & catering, public administration and administration & auxiliary services. Job growth in construction continues to accelerate. In March and April, enrolment rose 336,074, compared to an increase of 217,749 in the same period last year, reflecting the improvement in the labour market (irrespective of the Easter week effect, included in both periods).

Recruitment was up 11.1% YoY in April, somewhat less than the previous month. It was driven by temporary contracts (up 12.2% YoY), while permanent contracts rose only 0.7% YoY. The increases in both permanent and temporary contracts were more significant for full-time workers.



Source: Ministry of Employment and Social Security

## The assessment of ASEMPELO

### Temporary work: what are we complaining about?

We have been seeing positive employment data for several quarters now. Growth in 2015 is exceeding forecasts, the conversion of temporary contracts into permanent ones is rising and benefiting workers at all educational levels and, as though this were not enough, the improvement is extending to both young people seeking their first job and to the over 55s. Today, almost eight out of ten Spanish workers has a permanent contract, almost eleven million people. However, some "experts" affirm that the labour market is currently characterised by a lack of "quality" employment and an excess of "insecure" employment. So, is everything OK? Why is the confidence of businesses and workers recovering so slowly? Is the current organisation of employment capable of providing what individuals and companies need? The economic recovery is generating a strong demand for capable candidates who are willing to work, to the extent that companies are beginning to have difficulty in finding candidates with the necessary training and experience. In other words, as soon as the economy begins to recover, the failings and deficiencies seen before the crisis appear again: inadequate diagnosis and orientation, a mismatch between training and the market's needs, and a failure to take advantage of the resources available for effective and efficient mediation. Above all, we are seeing forms of managing and using temporary labour that are not useful for companies or workers; they provide neither flexibility nor stability. In itself, temporary work is neither good nor bad, nor is it synonymous with insecurity. It is, simply, either necessary or unnecessary, justified or unjustified, managed in an efficient and professional way or in an illusory attempt to reduce costs. Temporary work can be a stepping stone to employment or a brake on competitiveness and personal fulfilment. These questions will have to be answered sooner rather than later.

**Andreu Cruañas.** President of Asempleo

## The highlight of Afi

### The good transition

The first quarter's labour force survey (EPA) shows very encouraging progress in one of the aspects of what we call "quality employment": the transition from a temporary contract to a permanent one. This tells us not only that a healthy proportion of the salaried jobs created continue to be permanent (and the share of full-time contracts in the jobs created is increasing), but also that transitions from temporary to permanent work are increasing in very varied directions. Firstly, the bulk of these transitions is occurring in occupations requiring only medium or (especially) low qualifications, and secondly, the probability of converting a temporary contract into a permanent one is higher in those sectors and regions where the proportion of permanent salaried workers is higher. Hence, analysis should focus on the structural factors that cause certain sectors and regions (the latter doubtless depending on their sectoral mix) to be more intensive in temporary employment. Thus, policies can be designed to promote permanent employment by focusing on these factors and their eventual elimination. The transition to permanent employment needs to reach a critical point at which a virtuous circle appears to be triggered. Thus, the policies would be both more effective and more efficient at the same time. The current recovery in employment also provides clues for the design of better policies, as long as we know how to interpret them.

**José Antonio Herce.** Associate Director, Afi

# Labour Market

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## Employment is up by over half a million

Employment has risen by over half a million in the past 12 months, growing most strongly among the over 35s and the best qualified, in traditional sectors, among full-time workers and those with permanent contracts, and among wage workers and public sector employees. Unemployment declined slightly (by 13,100), but the unemployment rate rose to 23.78% due to a further fall in the labour force.

### Employment rose by over half a million in the past 12 months...

The results of the 1Q15 EPA were good, despite the foreseeable fall in employment (of 114,300) and the stagnation in unemployment at around 5.4 million. In seasonally-adjusted terms, employment continued to improve (up 0.43% YoY) and the decline in unemployment continued to accelerate (to 2.5% YoY). With regard to employment, it is important to focus on the ongoing trend. It is now growing at YoY rates of 3% (up 504,200 in the past 12 months), similar to those seen in the growth phases of the economic cycle. The groups most benefited are the following:

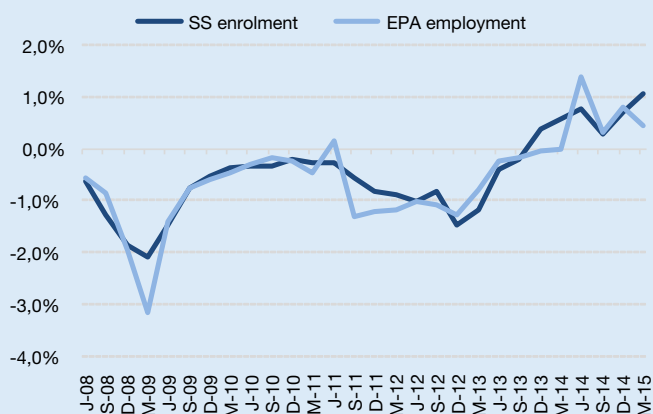
### ... growing most strongly among the over 35s...

- The over 35s, even as employment continues to fall among younger age groups (up 533,200 and down 29,000 respectively). This trend continues to impact negatively on the youth unemployment rate.

### ... and the best qualified...

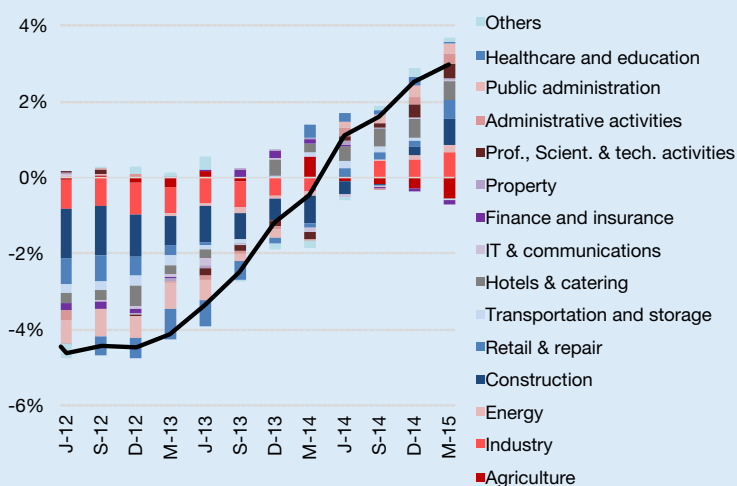
- The best qualified, declining among the less well educated (up 223,000 and down 152,300 respectively). Though the difference narrowed in 1Q15, the unemployed have a better probability of finding a job if they have a high educational level (14.9% versus 11.4% for those who did not finish secondary education).

Seasonally adjusted Social Security enrolment and EPA employment (% YoY change)



Source: INE, Ministry of Employment and Social Security

Contribution to YoY change in employment by sector



Source: INE

### ... in traditional sectors...

- In traditional sectors, such as retailing & repairs, hotels & catering and professional activities, but also industry and construction, which have become the engines of job creation.

### ... among full-time workers...

- More among full-time workers than part-timers, reflecting the increases in hours worked (the probability of such increases has risen to 12%, similar to 1Q10), together with a growing preference for full-time contracts to satisfy companies' growing labour needs.

### ... and those with permanent contracts...

- Permanent workers more than those with temporary contracts (YoY growth of 289,700 and 174,800 respectively). The improving economic situation, the "flat rate" for Social Security contributions and the increasing probability of temporary contracts being converted into temporary ones (see this month's in-depth analysis) are behind this trend.

### ... among wage workers...

- Wage workers have benefited more than the self-employed (464,400 and 40,700 respectively), similar to the trend in Social Security enrolment.

### ... and also among public sector employees.

- Not only private sector workers, but also those in the public sector, which grew strongly (up 36,200), especially in local and regional authorities, due probably to the proximity of elections at these levels.

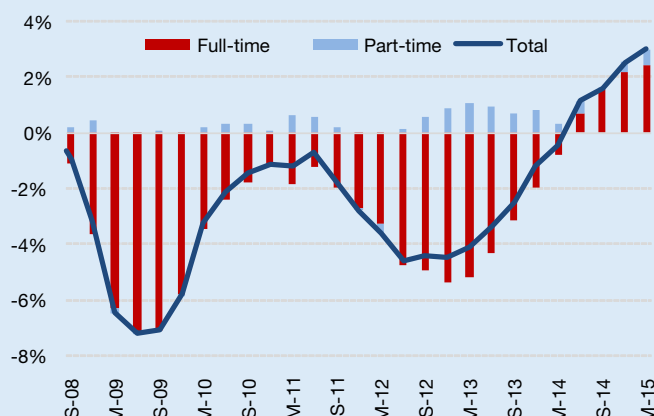
**Unemployment declined slightly (by 13,100), but the unemployment rate rose to 23.78%...**

Unemployment declined slightly in 1Q15 (by 13,100), due to a larger quarterly fall in the labour force (down 127,400) than in employment. The unemployment rate rose by 0.07pp to 23.78%. The long-term unemployed is the fastest declining group, even though their probability of finding work remains low (6.9% in 1Q15, compared to 21.4% for others. In any case, they continue to account for two thirds of the unemployed.

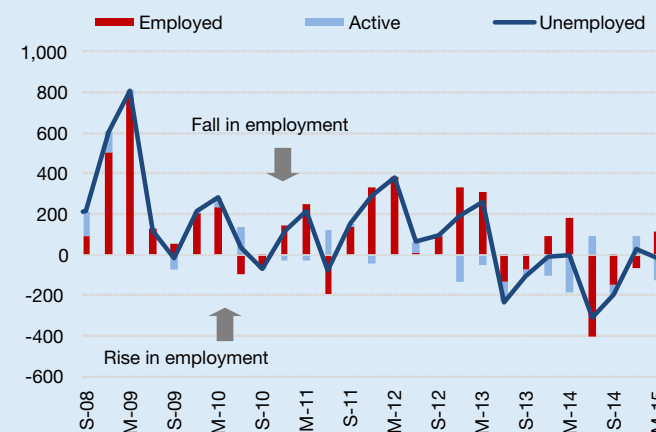
### ... due to a further fall in the labour force

The weakening of the "discouragement effect" (the number of workers in this category fell by 81,600 in 1Q15) did not prevent a further fall in the labour force. It was especially notable among the under 35s and spread equally between Spanish and foreign workers. As economic growth picks up, as it is expected to do in the coming months, employment can also be expected to benefit.

**Contribution to YoY change in employment by length of working day**



**Contribution to quarterly change in unemployment (thousands)**



# The Specialized Labour Market Review

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## The conversion of temporary contracts to permanent increases

The number of permanent salaried workers rose by 2.7% YoY in 1Q15, due to the conversion of temporary contracts to permanent, which has risen to 6.3%, the highest level in a first quarter in the past three years. The likelihood of such conversion is highest in industry, among women, the over 55s, the best qualified and in those regions with the highest proportions of permanent workers and the lowest unemployment rates. In 2% of cases, conversion also led to promotion.

**The number of permanent salaried workers rose by 2.7% YoY in 1Q15...**

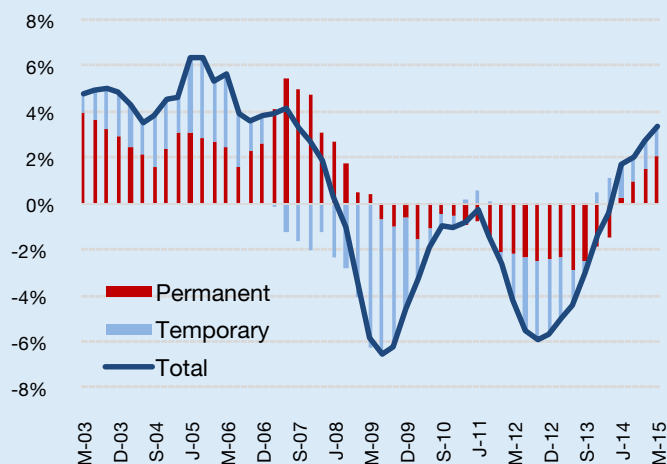
In the initial phases of recovery in a labour market which has suffered a very tough adjustment in a period of crisis, as is the case in Spain, temporary and part-time working play a leading role, giving way subsequently to the creation of permanent and full-time jobs.

Hence, the consolidation of the recovery in the Spanish labour market in the first months of 2015 is now beginning to reflect this second phase. This can be seen in the 2.7% YoY rise in permanent wage workers in 1Q15, which accounted for a large part of the significant overall increase in employment

**... due to the conversion of temporary contracts to permanent...**

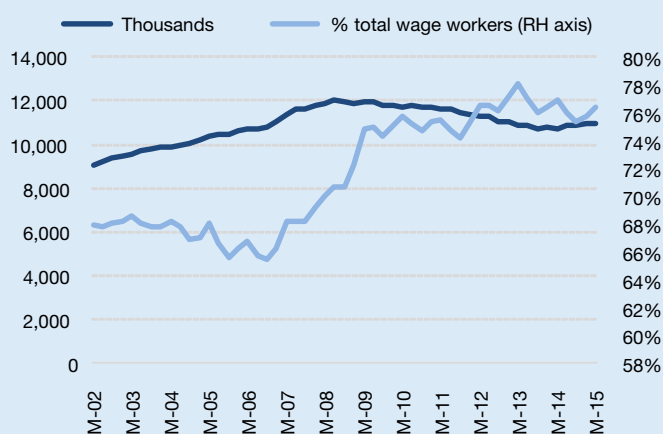
This trend, which began in mid-2014, supported by the Social Security "flat rate" for new contracts, by the improving economy and the conversion of temporary contracts to permanent (whether in the same company or in another), has seen the number of permanent wage workers recover to almost 11 million, representing over three quarters of all wage workers at the start of 2015.

**Contribution to YoY change in wage workers by type of contract**



Source: INE

**Wage workers with permanent contracts (and % total wage workers)**



Source: INE

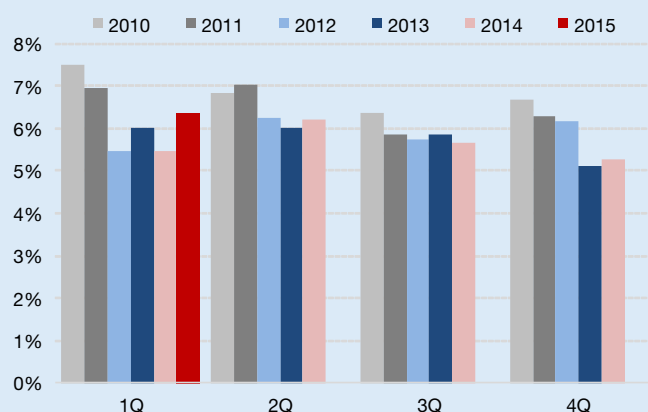
**... which has risen to 6.3%, the highest level in a first quarter in the past three years.**

**The likelihood of such conversion is highest in industry...**

This latter factor, the conversion of temporary contracts to permanent, has undoubtedly played a key role in the rise in permanent wage workers. The probability of stabilising employment (expressed as the number of people who had temporary jobs in the previous quarter and are now permanently employed as a percentage of total temporary workers in the previous quarter) has risen to 6.3%, the highest level in a first quarter in the past three years.

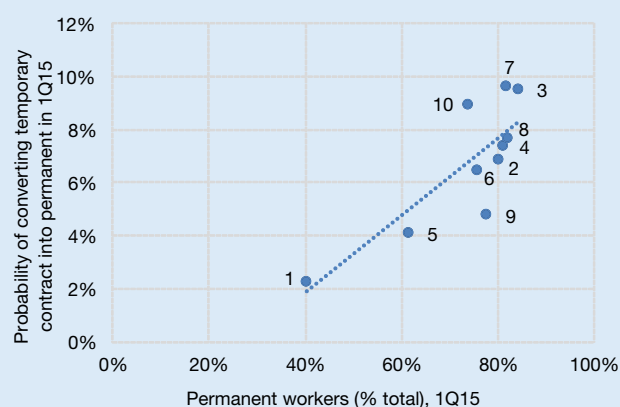
The probability varies greatly between sectors. In industry, which generally shows a greater preference for permanent employment, there is a higher probability of converting temporary contracts into permanent than in services, except for transport and communications. In contrast, agriculture and construction have the lowest probabilities, and hence have below average percentages of permanent wage workers.

**Probability of converting temporary contract into permanent by quarters**



Source: INE

**Permanent workers and probability of converting temporary contract into permanent by sector\***



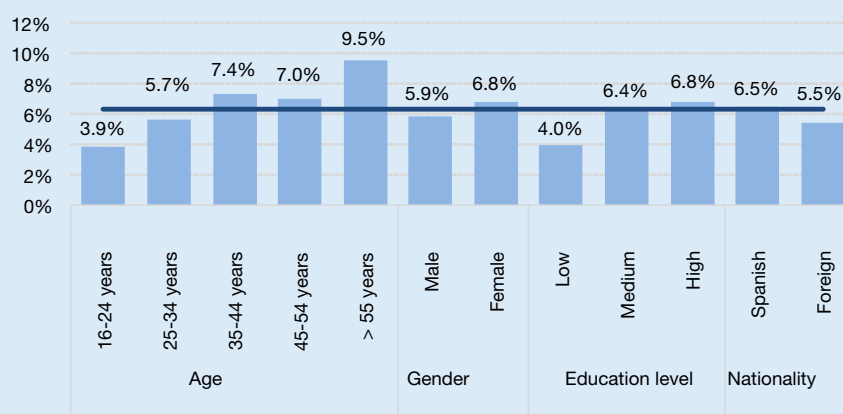
Source: INE

\* Economic sectors: 1: Agriculture; 2: Manuf. Industry; 3: Extractive & Inputs Ind.; 4: Machinery & transport mat.; 5: Construction; 6: Retail & repairs; 7: Transport & communications; 8: Prof. Services; 9: Pub. admin., healthcare & education; 10: Other services.

**... among women, the over 55s and the best qualified.**

As well as the economic sector, the worker's socio-economic characteristics also influence the frequency with which temporary contracts are converted into permanent ones. In 1Q15, the probability was higher among women, the over 55s and those with medium-high educational levels, the same groups that are benefiting most from the recovery in employment.

**Probability of converting temporary contract into permanent by socio-economic characteristics in 1Q15**



Source: INE

**In 2% of cases, this conversion also led to promotion.**

In addition, the probability of converting temporary contracts into permanent ones is also linked to a certain occupational mobility. In 1Q15, a large part of the conversions (48.3%) involved workers in occupations of a basic nature, particularly in catering, personal services, security and retailing. However, it should be noted, though the figure is small, that nearly 2% of them achieved promotion.

**Occupational mobility resulting from conversion of temporary contracts into permanent ones (% total flow) in 1Q15\***

		Permanent wage worker, t		
		Basic	Medium	High
Temporary wage worker, t-1T	Basic	48.3%	0.9%	0.5%
	Medium	1.2%	34.1%	0.5%
	High	0.2%	0.3%	14.1%

\* Basic occupations: Workers in catering, personal services, security and retail sales; Operators of installations & machinery and fitters; Unqualified workers. Medium-level occupations: Armed forces; Support technicians and professionals; Administrative staff; Qualified agriculture and fishery workers; Artisans and workers. Highly qualified occupations: Management of companies and public administration; Scientific and intellectual technicians and professionals.

Source: INE

**The probability of conversion is higher in those regions with the highest proportions of permanent workers and the lowest unemployment rates.**

Lastly, those regions with the highest proportions of permanent workers and the lowest unemployment rates have the highest probability of converting temporary contracts into permanent ones. Their economic structure plays a key role in this. Navarre had the highest probability in Spain in 1Q15 (close to 12%, almost double the national average), followed by Cantabria, Castilla & León and Madrid. At the other extreme are the coastal regions where the use of temporary labour is more habitual, such as Murcia, Andalusia and the Island regions.

