

Spanish Labour Market Monitor

Presentation

Contrary to what economic leading indicators and actual employment data up to July led us to anticipate, the August figures for unemployment and Social Security enrolment were better than expected. Unemployment increased by "only" 38,179, while enrolment declined by 136,761, variations similar to those observed in a normal month of August. However, the continuing rise in unemployment and the more than worrying decline in the probability of the unemployed finding a job could lead to an increase in the number of long-term unemployed (in this case, those who have been unemployed for over 24 months) above the 2 million mark. The recent extension of the PREPARA (retraining) Plan seeks to address this dramatic situation.

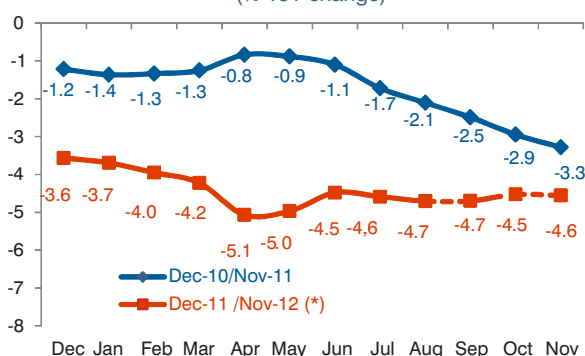
Key Points

- Contrary to what economic leading indicators and actual employment data up to July led us to anticipate, the August figures for unemployment and Social Security enrolment were better than expected and much in line with the trend typical of a month which is seasonally negative in a normal year.
- Unemployment increased by "only" 38,179, while enrolment declined by 136,761.
- The deterioration in the services sector accelerated, in terms of both registered unemployment (up 42,391) and enrolment (down 73,936). With regard to enrolment, this sector is behind the result of the year so far, an average decline of 3% over 2011.
- Total recruitment decreased by 3.73% compared with August 2011, as a result of declines in both permanent and temporary hiring.
- The Afi-Agett SLM Indicator sees employment falling by slightly more than 4.6% on a YoY basis up to November, replicating the pattern of deterioration observed in the second half of 2011.
- Contributory benefits and the PREPARA Plan are being modified in a situation of continuing growth in long-term unemployment. In 2Q12, more than 1.6 million people had already been unemployed for more than 2 years (30% of all unemployed).
- More than half a million people have benefited from the PREPARA Plan since its adoption. Its limited success in getting people back to work has led to a series of changes aimed at improving its effectiveness and social protection.
- The probability of the unemployed finding a job is increasingly slim. In 2Q12 it was below 10% (8.6% to be exact).
- The regions with the highest proportion of long-term unemployed are those with the lowest levels of social protection (ratio of unemployment benefit recipients to total unemployed) and the lowest probability of escaping from unemployment.

Afi-AGETT SLM Indicator

The key feature of the August employment data is the moderation of the increase in unemployment and of the fall in Social Security enrolment, with a pattern of deterioration similar to the same month in 2011. The leading signals provided by activity and confidence indicators suggest that the outcome of the third quarter in employment is going to be at least as negative as the same period last year.

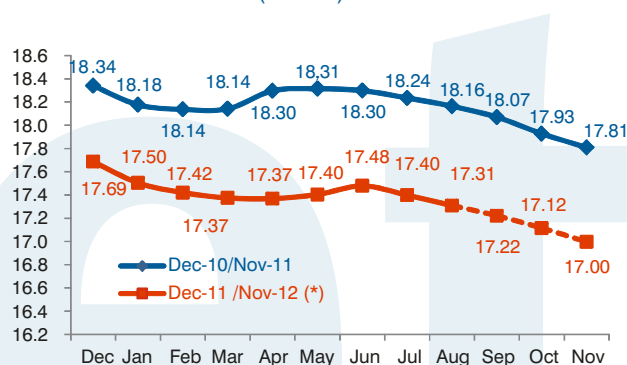
SLM monthly forecast of workers in employment (% YoY change)



Source: Afi. (*) Sep-Nov 2012 figures are forecasts

This is why the Afi-Agett SLM Indicator sees employment falling by around 4.6% on a YoY basis up to November, in line with its behaviour between July and August. The result is a new low in the current labour market cycle, to around 17 million employed in the run-up to year end, compared to 17.7 million in December 2011.

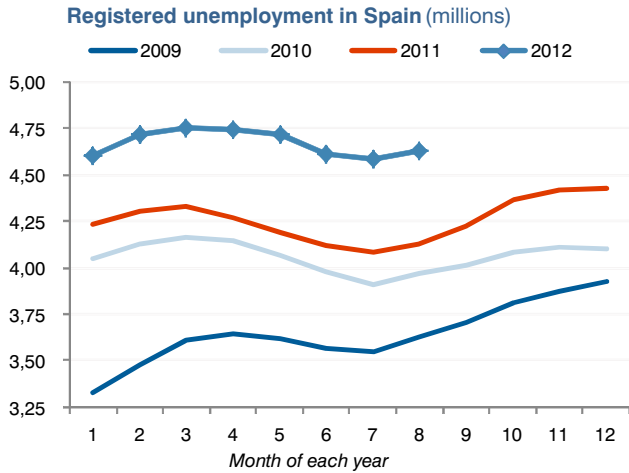
SLM monthly forecast of workers in employment (millions)



Source: Afi. (*) Sep-Nov 2012 figures are forecasts

"The August data for unemployment and Social Security enrolment were better than expected, with monthly variations (up 136,761 and down 38,179 respectively) comparable to those of a normal year."

Contrary to what economic leading indicators and actual employment data up to July led us to anticipate, **the August figures for unemployment and Social Security enrolment were better than expected and much in line with the trend typical of a month which is seasonally negative in a normal year.**

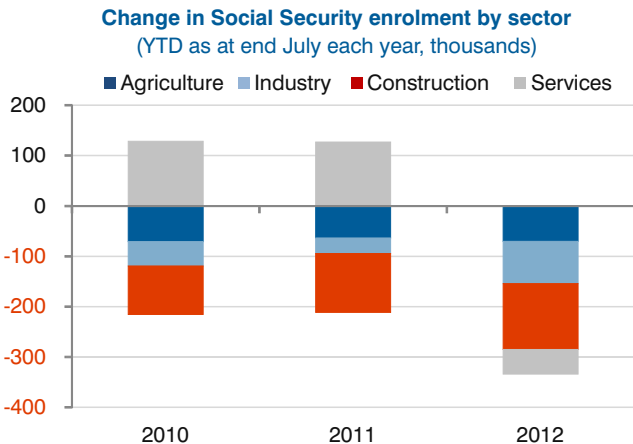


Source: Ministry of Employment and Social Security

Unemployment increased by "only" 38,179, the smallest August rise since 2006. Although the YoY rates of labour market deterioration are stabilizing (at over 12.0%), it must be borne in mind that more than 4.6 million people are now unemployed and that these variations are still three times higher than those observed in early 2011, when everything seemed to indicate an incipient emergence from the crisis. The seasonally adjusted data have been equally "mild", with an increase of 5,798 in registered unemployment over the previous month. **As regards the sectoral breakdown, the most worrying aspect is the important increase in the services sector** (up 42,391 compared to the previous month), while the decline in those without previous employment is remarkable (12,110 over to the previous month).

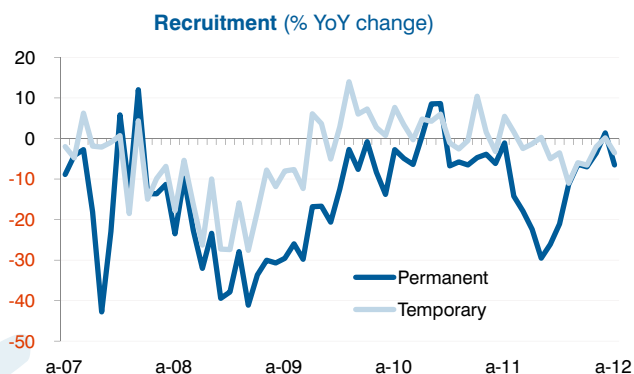
"The deterioration in the services sector accelerated, in terms of both registered unemployment (up 42,391) and Social Security enrolment (down 73,936)."

With regard to enrolment, there was a fall of 136,761, replicating its behaviour in 2011. In seasonally adjusted terms, it declined by 32,677. Looking at the pattern across sectors, there was a notable **containment of job losses in construction (which were very intense in 1Q12) and a sharper deterioration in services** (in the public sector but also the private area, linked to retail, transport and administrative activities). The latter sector is the key to the outcome for the year so far in terms of Social Security enrolment, which is, on average, 3% worse than in 2011. **Between July and August 2012, Social Security enrolment declined by 132,000 (compared with 86,000 in 2011), with services contributing 28,500 to the reduction**, compared to a positive contribution of nearly 16,000 the previous year.



Source: Afi, Ministry of Employment and Social Security

"Total recruitment decreased by 3.73% compared with August 2011, as a result of declines in both permanent and temporary hiring."



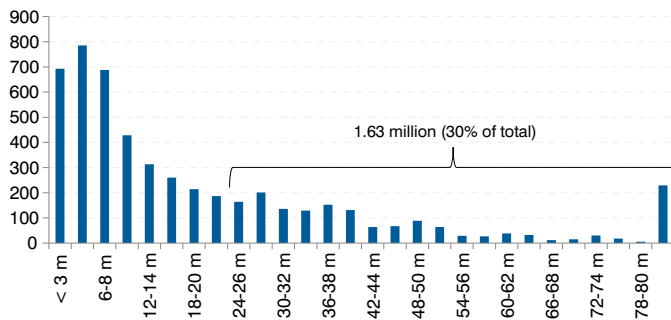
Source: Ministry of Economy and Competitiveness

Total recruitment decreased by 3.73% compared with August 2011, as a result of declines in both permanent and temporary hiring. Permanent recruitment was down 6.54% on a YoY basis, meaning that permanent contracts continue to decline as a proportion of total recruitment (in August they represented 6%, compared with nearly 7% the previous month). Full-time permanent contracts fell by 10.95%, the year's eighth consecutive monthly decline. Only part-time permanent contracts escaped this pattern, with a year-to-date increase of 256%. Temporary contracts, in turn, were down 3.54% on a YoY basis, a decline of approximately 35,000.

"Contributory benefits and the PREPARA Plan are being modified in a situation of continuing growth in long-term unemployment. In 2Q12, more than 1.6 million people had already been unemployed for more than 2 years (30% of all unemployed)."

In recent weeks, the government has modified both contributory unemployment benefits (reduction of the percentage of previous wages payable after six months in unemployment, from 60% to 50%) and social welfare benefits (third extension of the PREPARA Plan, based on active employment policies and the associated financial assistance), in the face of continuing growth in the number of long-term unemployed.

Unemployed by time seeking employment in 2Q12
(thousands)



Source: National Statistical Institute (INE)

In 2Q12, nearly 2.5 million people had been in this situation for more than a year, accounting for 43.8% of the total unemployed. Of these, more than 1.6 million had already been unemployed for **more than 2 years (30% of the total unemployed)**; this group constitutes the **potential recipients of welfare unemployment benefits**, or, if not entitled to these, of the financial assistance provided in the PREPARA Plan. The absence of information on the average duration of contributory benefits means that we have to take the maximum period of 2 years as an indicator in estimating the number of potential recipients of unemployment benefits.

"More than half a million people have benefited from the PREPARA Plan since its adoption. Its limited success in getting people back to work has led to a series of changes aimed at improving its effectiveness and social protection."

Since its approval in February 2011, more than half a million people have benefited from this assistance, with a maximum duration of 6 months. According to the latest data (July 2012), somewhat more than 190,000 people are covered by this program. **Its limited success in terms of getting the long-term unemployed back to work** (only 30% have found employment, of whom only 18% have achieved a contract with a duration of more than 2 months, and only 0.95% have permanent contracts), **has led the government to introduce a series of amendments to the PREPARA Plan aimed at improving its effectiveness and social protection.** Thus, for example, the amount of aid for those recipients with 3 or more dependants has been raised to €452 per month (from 75% to 85% of the relevant income index).

Key figures of PREPARA Plan 2011-2012

Beneficiaries

Program Beneficiaries (Feb 11-Jul 12).....	500,859
of whom still in Program (Jul 12).....	193,830

Training

Orientation.....	93%
Training/retraining courses.....	< 8%
Entrepreneurial support.....	< 2%

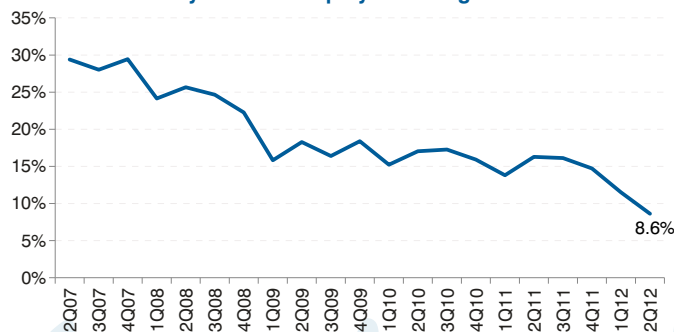
Effectiveness

Beneficiaries placed in jobs.....	30%
Type of employment contract:	
Duration > 2 months.....	18%
Permanent.....	0.95%

Source: Ministry of Employment and Social Security

"The probability of the unemployed finding a job is increasingly slim. In 2Q12 it was below 10% (8.6% to be exact)."

Probability of the unemployed finding work



Source: INE

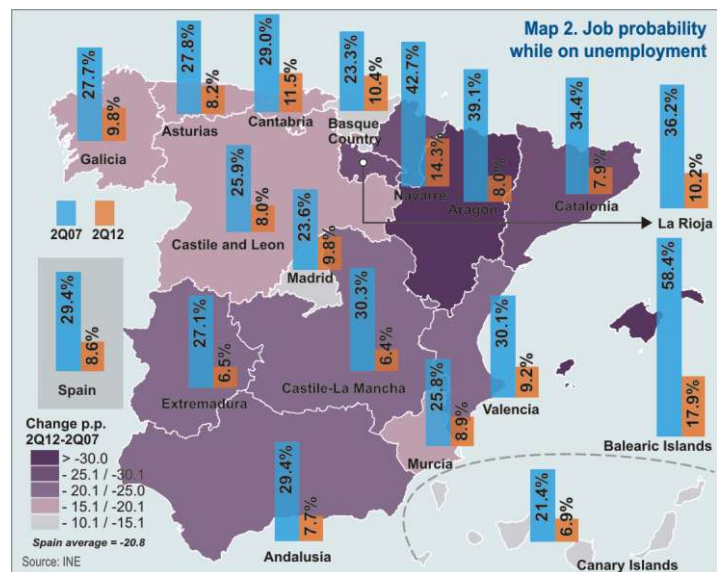
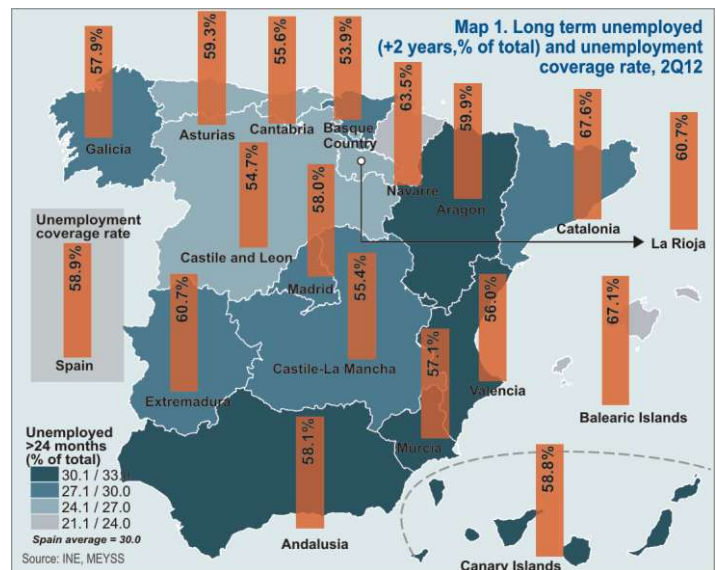
This economic assistance will be essential, in the PREPARA Plan's six-month extension period, for all the long-term unemployed. However, it must be remembered that **the employment forecasts for the next few months are not promising** and, therefore, **the probability of the unemployed finding work is unlikely to improve** (calculated as the ratio between those in employment in quarter t who were unemployed in t-1 and the total unemployed in t-1). According to the latest EPA (labour force survey) data available (2Q12), **this ratio is already below 10%** (8.6% to be exact), compared to 15% in early 2011. **If it remains at these levels, the number of long-term unemployed (with more than 24 months in this situation) could increase above the 2 million mark during 2013.**

¹ For more information, see <http://www.boe.es/boe/dias/2012/07/14/pdfs/BOE-A-2012-9364.pdf>
² For more information, see <http://www.boe.es/boe/dias/2012/08/25/pdfs/BOE-A-2012-11132.pdf>

"The regions with the highest proportion of long-term unemployed are those with the lowest levels of social protection and the lowest probability of escaping from unemployment."

Long-term unemployment, high in the country as a whole, is particularly serious in Aragon, the Canary Islands and the Mediterranean regions, with the exception of Catalonia. In these regions, more than 30% of the unemployed have been in this situation for more than 2 years. It is particularly significant that the regions with the highest proportion of long-term unemployed are those with the lowest levels of social protection, in terms of the proportion covered by unemployment benefits (ratio between the beneficiaries of all forms of unemployment benefit and total unemployed), because of the inverse relationship between the two variables. In the case of Valencia, for example, the benefits system covers only 56% of the unemployed, even though 32.3% of them have been unemployed for more than 24 months.

It is without doubt an important challenge for the State Employment Service, especially considering that **the probability of the unemployed finding a job is also lower in areas with a higher proportion of long-term unemployed**, something which could aggravate this problem even more in those regions. **Northern Spain is in a better position than the rest of the country** because, as well as offering more chances of finding a job than the national average (8.6% in 2Q12), it has seen a smaller fall in employment since the beginning of the crisis (the national average decline has been nearly 21 percentage points since 2Q07, compared to 18 points, on average, in the northern regions). **The regions where the unemployed have the worst possibility of escaping from unemployment are Castile-La Mancha (6.4%), Extremadura (6.5%) and the Canary Islands (6.9%),** regions with some of the higher rates of unemployment and, in the case of the first two regions, which suffered stagnation and decline respectively in GDP in 2011.



THE MONTHLY FOCUS

Are we PREPARED?

When are we going to see a major initiative in training people for a return to work and helping them to find it? A few days ago, the government launched the new PREPARA Plan which, on paper, lays down relevant requirements and obligations for the unemployed who will benefit from the assistance it provides. The government's own assessment indicated that the results of the previous plans had been meagre, with a declining performance. What ace does it have up its sleeve to ensure the success of the new PREPARA Plan? The new plan gives pride of place to "professional retraining", but it should be borne in mind that its beneficiaries have spent many months, or even years, in unemployment with unconditional benefits. Furthermore, the resources allocated to the massive vocational retraining requirements of unemployed Spaniards are not very large, nor are the necessary structures available. Active employment policies are still marginal compared with the huge volume of expenditure on benefits, which leaves behind it few traces of training, job placement, orientation, or intermediation worthy of the name.

José A. Herce, Partner, Afi.