

# Spanish Labour Market Monitor

## Presentation

The October employment figures extend the trends of the poor 3Q12 EPA (labour force survey) data, which resulted in a decline in employment of around 97,000 (mainly due to employment in the public sector and construction), with the unemployment rate rising above the 25% mark. Social Security enrolment fell by 73,076 in October, while registered unemployment increased by 128,242, beginning a final quarter in which employment could diminish by more than 250,000. The increase in recruitment in all types of contracts is the only positive note in the October data.

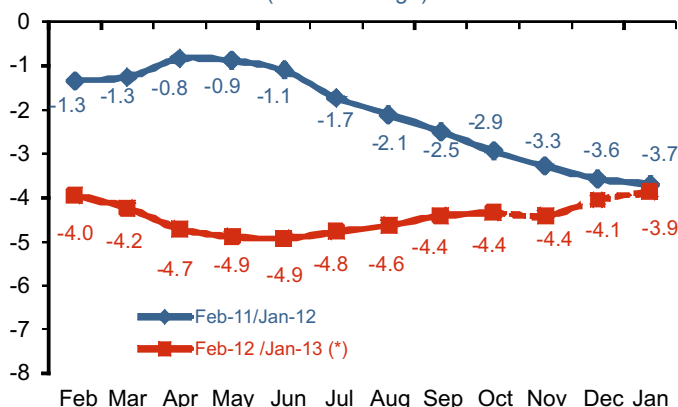
## Key Points

- Registered unemployment in October increased again, by 128,242, similar to the rise observed in the same month in 2011.
- The number of enrolments in the Social Security fell by 73,076 and the firms registered by some 31,500 (in September, the latest data available), virtually the same as a year ago.
- The only positive aspect of the October figures was the increase in the number of new labour contracts in all their forms, the largest element being temporary workers, with an increased turnover.
- The SLM indicator continues to point to YoY falls in employment of 4.4% from now to the end of the year. The fall in employment in the fourth quarter could exceed 250,000.
- Predictions for 3Q12 EPA figures have been confirmed: the fall in employment, after factoring in the effects of seasonality, replicates that observed in the second quarter (down 175,000) and takes the unemployment rate above the 25% threshold for the first time in this crisis.
- Services, especially in the public sector, and construction together account for an important part of the loss of employment in 3Q12.
- Employment fell particularly among those workers with low or average levels of education, as occurred in 2009.
- The number of self-employed again rose (by almost 4% YoY), on this occasion among middle-aged men who set up their activity mainly in the primary or services sectors.
- The decline in the labour force is intensifying (down 0.2% YoY), led by the population under 34 years of age and by foreigners, in line with recent migratory flows.
- The number of households with no source of monthly income continues to rise, reaching 626,000, 3.6% of the total.
- In 3Q12, public employment has declined by 49,400, accumulating a fall of 228,900 in the past year.
- The profile of job losses of public employment is the following: the majority are men, aged between 25 and 44, employed on temporary contracts by local and regional authorities.
- Castile-La Mancha is the regional government with the biggest fall in the number of public employees, as a result of its need to implement larger cuts in its spending; it is also the region where such cuts have the greatest impact, as 25% of all wage earners work in the public sector.

## Afi-Agett SLM Indicator

Given the results of the third quarter EPA, the increase in registered unemployment and the collapse in Social Security enrolment in October are in line with expectations and with the strengthening deterioration in economic activity reflected in the first data on the fourth quarter.

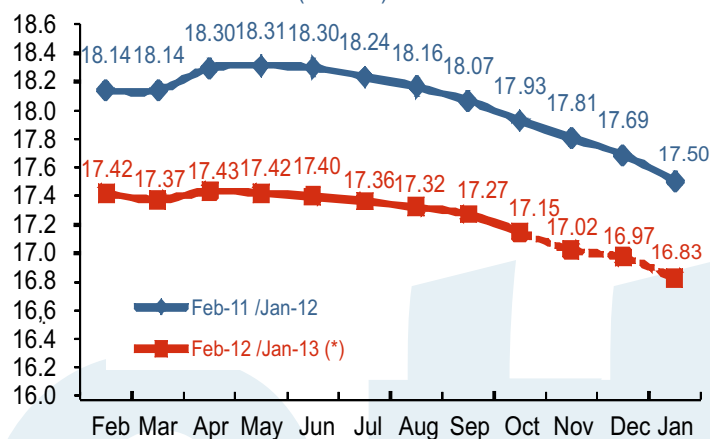
**SLM monthly forecast of workers in employment**  
(% YoY change)



Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan  
Source: Afi. (\*) Nov 2012-Jan 2013 figures are forecasts

With trends in job losses replicating those in late 2011, the SLM indicator continues to forecast YoY corrections on the order of 4.4% until the end of 2012, implying that the level of employment could fall below the 17 million mark.

**SLM monthly forecast of workers in employment**  
(millions)

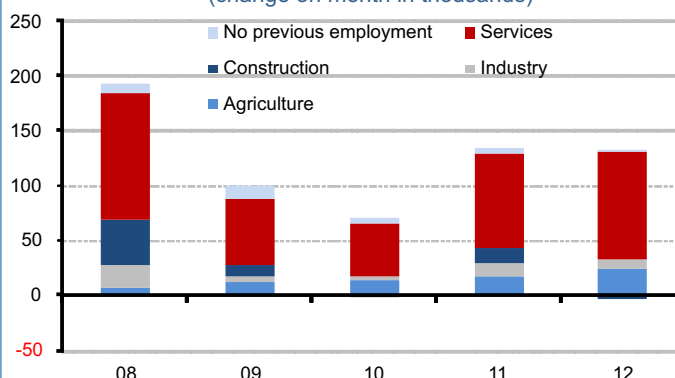


Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan  
Source: Afi. Nov 2012-Jan 2013 figures are forecasts

"Registered unemployment in October increased again, by 128,242, similar to the rise observed in the same month in 2011".

The October employment figures maintain the trends of the poor 3Q12 EPA (labour force survey) data, highlighting that the employment recession is far from complete. **The number of unemployed rose again in October, by 128,242, comparable to the increase observed in the same month in 2011.** Seasonally adjusted, total unemployment increased by 21,210. The unemployment rate increased in all economic sectors, except construction, which managed to reduce the figure by somewhat more than 3,600. Services again concentrate three quarters of the monthly growth of unemployment (up 97,646 over the previous month), which is why it remains the main contributor to the recent deterioration of the labour market. Agriculture and industry, in turn, saw the number of unemployed increase by some 24,400 and 8,900, respectively.

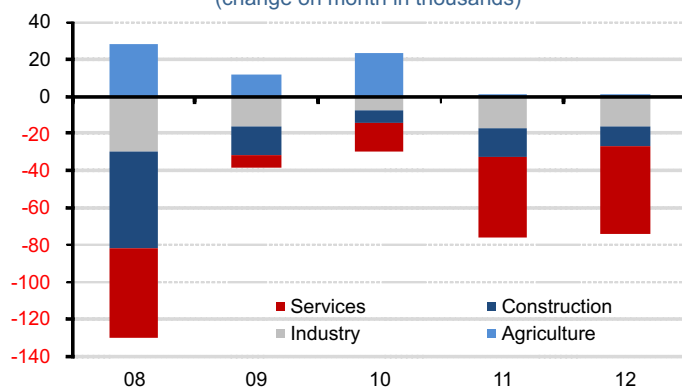
Registered unemployment by sector in October  
(change on month in thousands)



Source: Ministry of Employment and Social Security

"The number of enrolments in the Social Security fell by 73,076 and the firms registered by some 31,500 (in September, the latest data available), virtually the same as a year ago".

Social Security enrolment by sector in October  
(change on month in thousands)



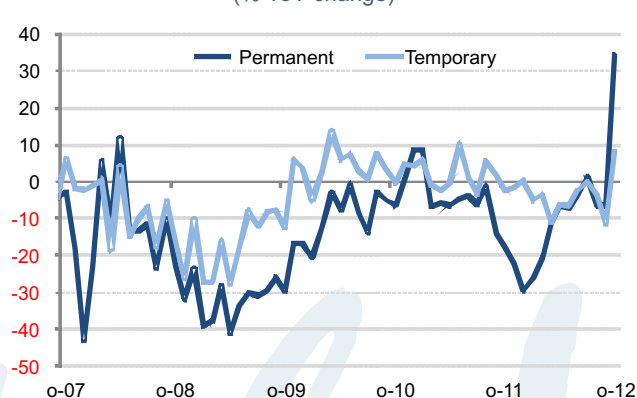
Source: Ministry of Employment and Social Security

**Social Security enrolment fell by 73,076 in October, virtually the same as a year ago.** This is a month clearly dominated by seasonal influences, noticeable, for example, in the end of the tourist season (Social Security enrolment in hotels and catering fell by 56,261 compared with the previous month) and the start of the school year (enrolment in this sector increased by almost 74,000 compared to September). In seasonally adjusted terms, the decline in enrolment reduces to 50,644. **With respect to the companies registered with Social Security in September, there was a fall of 31,490, almost as many as in September 2011,** a clear indication of how the aggravation of the crisis inevitably means the end for a not insignificant part of Spain's productive sector and, therefore, of its employees' jobs.

"The only positive aspect was the increase in the number of new labour contracts in all their forms, the largest element being temporary workers, with an increased turnover".

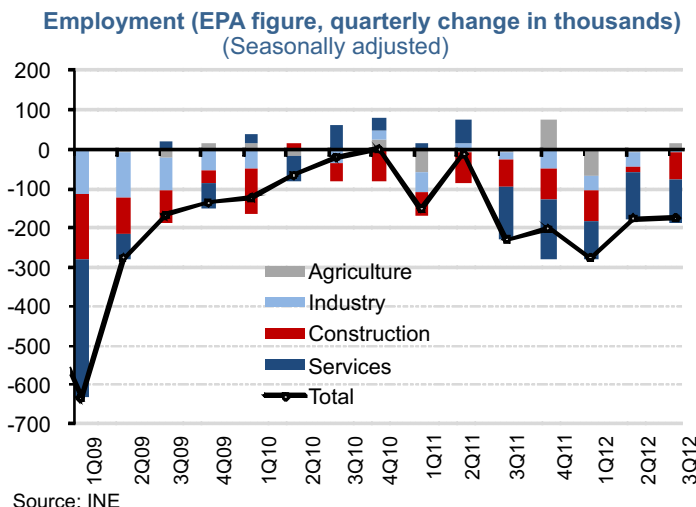
The only notable positive note, indeed, is the increase over October 2011 in the number of contracts in all their forms, after many months of steady decline. **Especially remarkable is the 34.3% YoY increase in permanent hiring, thanks both to the larger number of full-time contracts and the number of those which represent a part-time job.** In the latter case, the YoY increase was close to 20%. **Temporary employment** also increased significantly; moreover, it **continues to account for the largest part of the contracts signed each month** (in October, specifically, it represented 90.8% of the total). Another notable aspect is the increased rotation of temporary workers.

Contracts registered by type  
(% YoY change)



Source: Ministry of Economy and Competitiveness

"Corrected for seasonal effects, the 3Q12 fall in employment replicates that observed in the previous quarter (down 175,000) and takes the unemployment rate above the 25% threshold for the first time in this crisis".



The results of the EPA for the third quarter of the year remain worrying. **Corrected for seasonal effects, the 3Q12 fall of employment replicates that observed in the previous quarter (down 175,000) and takes the unemployment rate above the 25% threshold for the first time in this crisis.**

While the primary sector and industry have shown some signs of stabilizing in 3Q12, job losses have accelerated, due especially to the construction industry and services. The former, with a loss of 66,300 jobs during the quarter, again accounts for a significant part of the quarterly decline, though in 2Q12 employment fell by only 8,800 in seasonally adjusted terms. In the second case, it is worth noting that 110,800 of the jobs lost in the third quarter of the year came from the services sector.

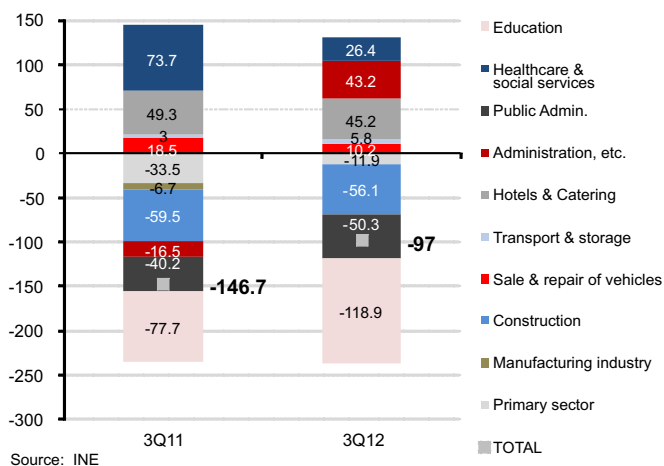
"Services, especially in the public sector, and construction together account for an important part of the loss of employment in 3Q12".

The fact is that the significant growth in **employment in sectors such as health and social services** (26,400 more jobs than the previous quarter), **administrative activities** (43,200) and **hotels and catering** (45,200), in a good quarter for foreign tourism, **has not been sufficient to compensate for the fall of the employment in other branches of the services sector.**

A phenomenon that is gaining strength as the year advances is the loss of public sector employment, mainly as a consequence of the need to meet budget targets this year and next.

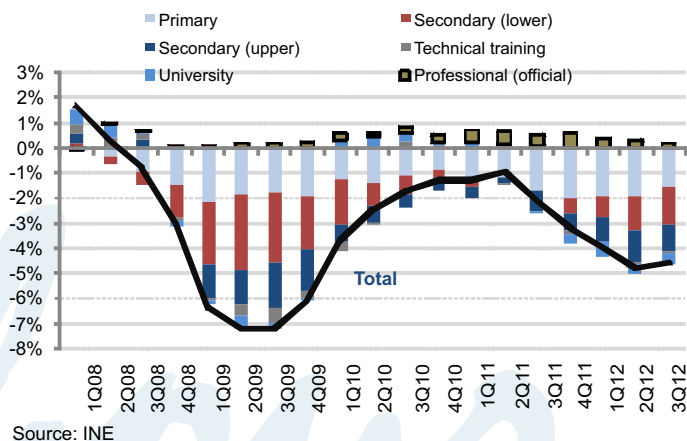
It is also worth mentioning that other services, such as retailing, for example, have seen a significant fall in their quarterly growth (from 18,500 in 3Q11 to 10,200 in the current quarter), which shows that **the current recession is extending to most branches of activity and, in particular, to those more linked to private consumption.**

**Employment (EPA figure, quarterly change in thousands)**  
**by sector**  
(Not seasonally adjusted)



"Employment fell particularly among those workers with low or average levels of education, as occurred in 2009".

**Contribution to YoY change in employment by educational level**

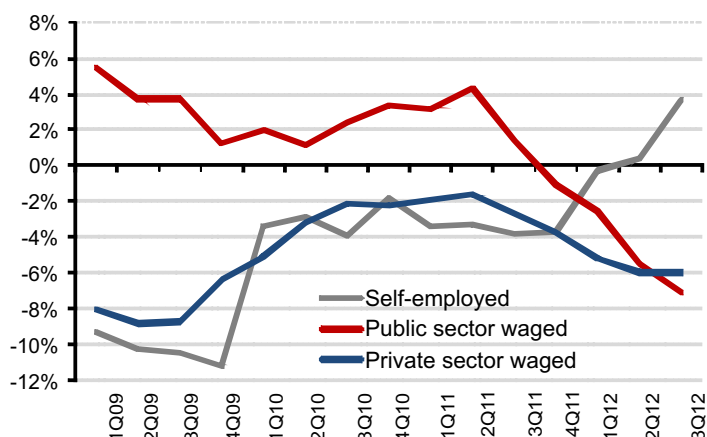


As occurred in 2009, the peak year for job losses in the recent history of the Spanish economy, **the typical worker affected is educated to secondary level**, one of the most sensitive groups, which has suffered high levels of job losses; in this crisis so far, employment in this demographic has fallen by 23.5% from its peak, compared to 15.6% for the average. It is necessary to note that the segment of tradesmen (professionals), which until now has maintained very substantial growth rates (on the order of 50% YoY), barely rose 11.3% YoY in 3Q12, reducing its positive contribution to the overall trend in employment.

"The number of self-employed again rose (by almost 4% YoY), on this occasion among middle-aged men who set up their activity mainly in the primary or services sectors".

The EPA data also highlight the concentration of job losses among wage workers, both public (as noted above) and private. However, one of the most striking pieces of data this quarter is the increase in the number of self-employed, a phenomenon indicative of the entrepreneurial drive emerging in these times of crisis; this is probably the only remaining alternative in the labour market due to the difficulty of finding wage employment. In 3Q12, specifically, **self-employment rose by 65,600 from the previous quarter, a YoY rise of almost 4%**. On this occasion, it is mainly men aged between 30 and 59 who started an activity on their own account, mainly in the primary sector or services.

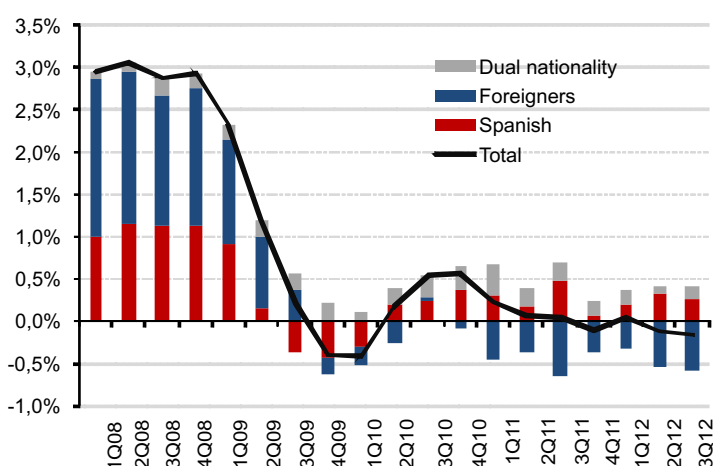
Employment by status (YoY change)



Source: INE

"The fall of the labour force is intensifying (down 0.2% YoY), led by the population under 34 years of age and by foreigners, in line with recent migratory flows".

Contribution to YoY change in labour force by nationality



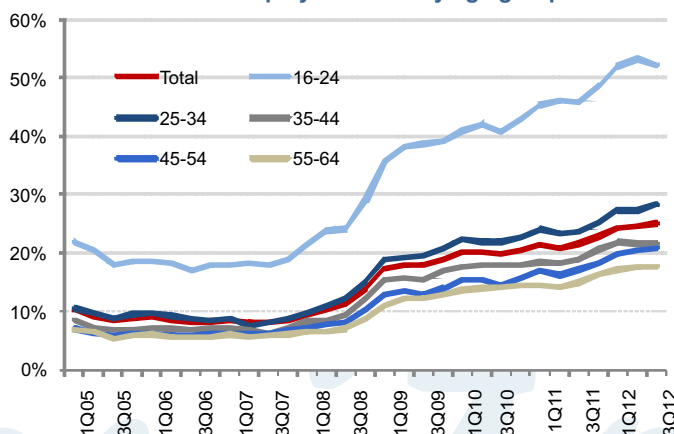
Source: INE

The fall in the labour force is intensifying (down 0.2% YoY), led by the population under 34 years of age and by foreigners (from EU countries and Latin America), both men and women, in line with recent migratory flows (workers leaving Spain in search of work opportunities in other geographical areas, which can also include their own country of origin). **The positive aspect is the stabilization of the Spanish national component of the labour force** (in 3Q12 it contributed 0.3 percentage points to the YoY growth of the total labour force). So far this year, the total labour force has increased by just 17,000, half of the rise in the same period of 2011. At the end of 3Q12, the labour force stood at 23.09 million.

"The number of families with no source of monthly income continues to grow and has already reached 626,000, 3.6% of the total".

It is the containment of the labour force which is limiting the rise in unemployment (up 85,000 in the first quarter against a rise of 146,000 in 3Q11) and the unemployment rate, already above 25%. The total number of unemployed exceeds 5.77 million. Youth unemployment, in turn, continues to grow, with one of the highest unemployment rates, not only within Spain, but also in comparison with other EU countries. There were no significant changes in other risk groups: 3.03 million long-term unemployed (52.5% of the total) and 13.4% of the households in which all active members were unemployed. **The worst sign is, without doubt, the fact that the number of households with no source of monthly income continues to grow and already stands at 626,000, 3.6% of the total.**

Unemployment rate by age group

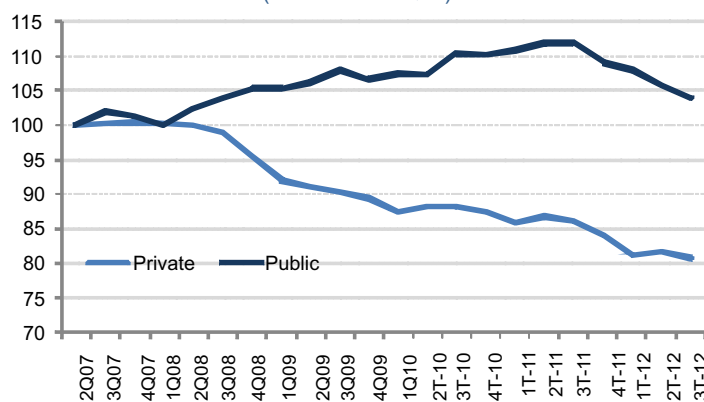


Source: INE



"In 3Q12, public employment declined by 49,400, accumulating a fall of 228,900 in the past year".

Wage workers by public/private sector  
(base 100 = 2Q07)



Source: INE

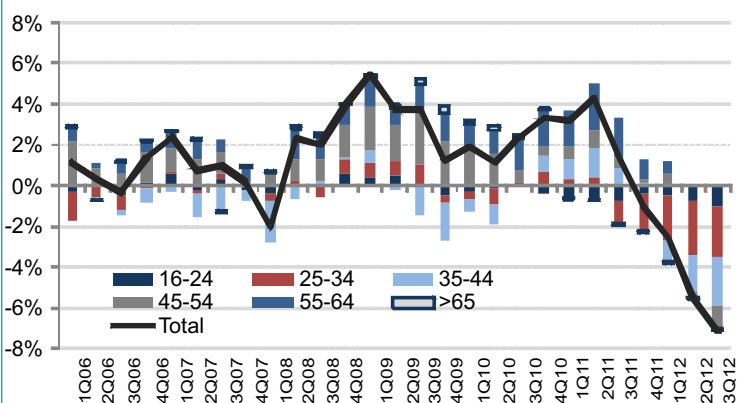
The commitment to reform the public accounts is accelerating the reduction of structural expenditure in the public administrations. Staff costs form a significant proportion, especially in the case of the regional administrations. In fact, even though they have seen their pay shrink since 2010, public employees still earn 30% more than the average for wage workers, according to the INE's latest of salary structure survey; they represent 21% of salaried workers.

In 3Q12, the number of public workers was reduced by 49,400, bringing the accumulated correction since the peak of the cycle to 228,900 (down 7.1%, compared to a 20% fall in the case of private sector salaried workers).

"The majority are men, aged between 25 and 44, employed on temporary contracts by local and regional authorities."

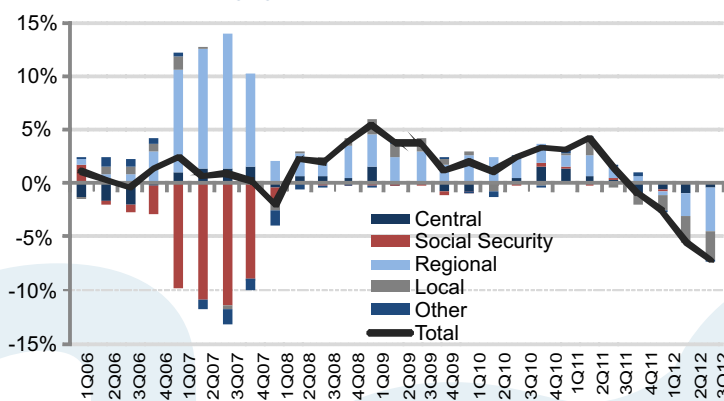
As well as the size of the adjustment of the public sector, it is also interesting to know the profile of the employees who have lost their jobs in recent months. They are mainly **men, aged between 25 and 44 years, with a temporary contract**, as older employees tend to have permanent contracts, and their redundancies are more expensive. In fact, as is happening in the private sector, the workers most affected by public sector workforce reductions are those with temporary contracts. There are no significant differences between the various types of temporary employment contracts, though the decision not to cover the absences of permanent workers in the administration and the completion of public works and services contracts account for half the reduction in the number of temporary public employees (down 21.9% in 3Q12).

Contribution to YoY change in public sector wage workers by age group



Source: INE

Contribution to YoY change in public sector wage workers by type of Administration



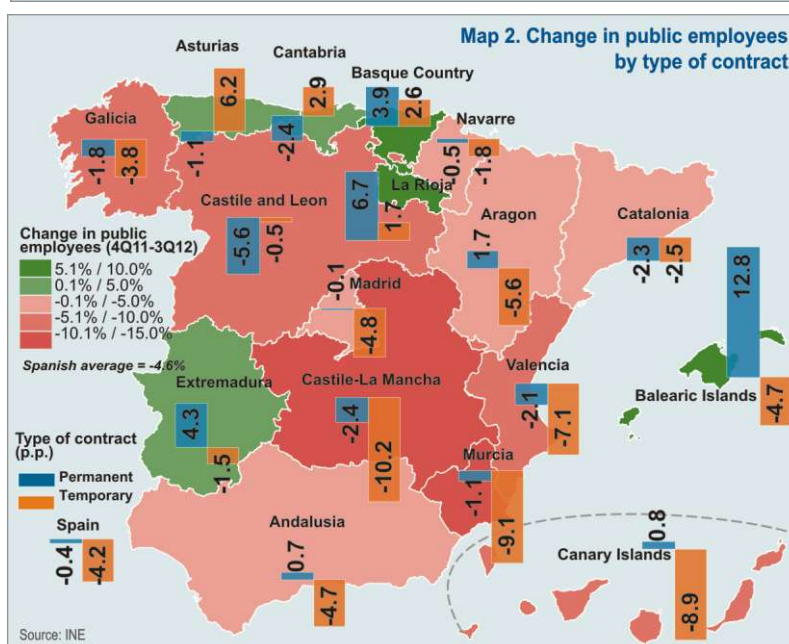
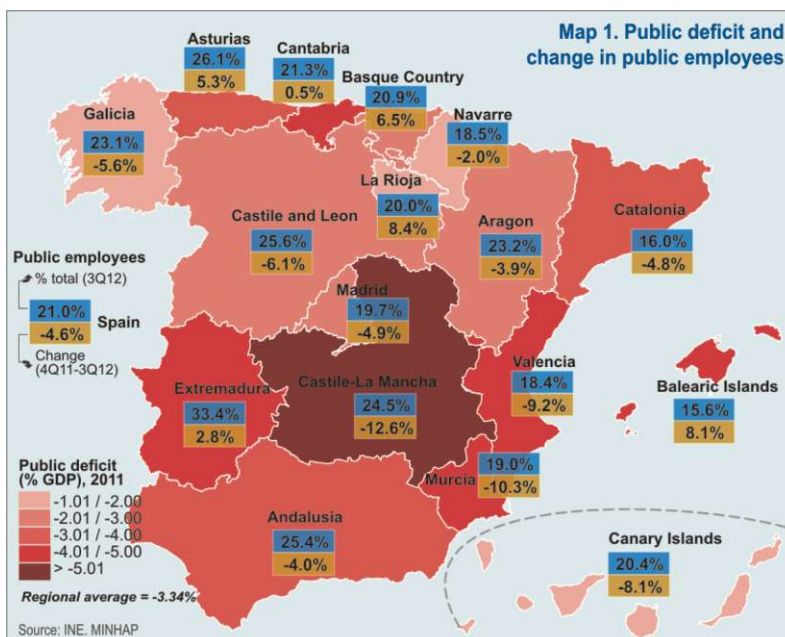
Source: INE

With regard to the type of administration, **the bulk of the decline in the public employees has occurred in the local administrations** (regions and municipalities); it was precisely those administrations where the number of workers grew fastest during the crisis (the growth in the regions in 2007 was offset by a fall in Social Security, mainly due to a reclassification of staff). Moreover, these administrations account for the bulk of the public employment (almost 76% of the total).

Despite this important adjustment in public employment, **the number of employees of the Administration remains 4% higher than at the beginning of the crisis**. The correction will intensify in coming quarters, when the rationalization plans for public sector companies take effect and the scope for containing costs via items such as investment is exhausted.

"Castile-La Mancha is the region with the biggest fall in the number of public employees, as a result of cuts in its spending; it is also the region where such cuts have the greatest impact, as 25% of all wage earners work in the public sector".

The reduction in staff expenditure in public administrations is one of the pressing priorities in the Government's budget adjustment policy. However, the scope of the measures being implemented to meet the deficit target of 1.5% of GDP in 2012 varies greatly between regions. **In principle, the regions with the largest deficits are those which have to make the biggest adjustment to their workforces. However, the higher the proportion of public wage workers in the total of each region, the greater the impact on the regional labour market.** Thus, Castile-La Mancha, Valencia and Murcia, among those regions with the greatest need to reduce public spending, have seen the largest reductions in the number of public employees in the first nine months of the year (with cumulative falls on the order of 10%). Moreover, in Castile-La Mancha one of every four wage workers is employed in the public sector. However, Extremadura and the Balearic Islands, regions which also have large budget deficits, have not reduced public employment, but on the contrary, so far this year they have increased it by 2.8% and 8.1% respectively. However, the interesting thing is that not only have they increased the number of public employees, it is also permanent hirings which are behind most of this increase. In the case of the Balearic Islands, permanent hirings have contributed 12.8 percentage points to overall growth in public employment, partly offset by the fall in temporary workers (4.7 percentage points). By contrast, the regions that have thinned out their public employees so far this year have generally done so by eliminating or not renewing temporary contracts, with some exceptions, such as Castile-Leon.



## THE MONTHLY FOCUS

### The public employment bubble

The strong build-up of public sector workers since the outbreak of the crisis, until just a few quarters ago, has been correcting rapidly since the fourth quarter of 2011 and will continue to do so for a while yet. Disheartening as it is to see this new development in the employment recession that we are suffering, the previous inflation of what was ultimately an employment bubble was surprising given that the financing conditions of the public administrations meant that such a high volume of workers was completely unsustainable. Many staffing adjustments are being made in essential services, which is even more surprising, since our welfare state was clearly not built during the crisis, but long before. It is hard to imagine that essential public services were less well staffed before 2007 than after, but nevertheless public employment has not yet fallen back to pre-crisis levels.

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