

Spanish Labour Market Monitor

Presentation

The results of the EPA (labour force survey) for 4Q12 exceeded the worst predictions (employment down 363,000, the unemployment rate at 26% and the largest fall in the labour force since the onset of the crisis), while the January data for registered unemployment and Social Security enrolment recorded an increase in unemployment of 132,100 and a fall of 263,300 in enrolment, with respect to the previous month in both cases. Amid such economic deterioration and uncertainty about what the near future holds, strong migratory flows (both interregional and international) are beginning to appear, as workers go in search of more and better job opportunities.

Key Points

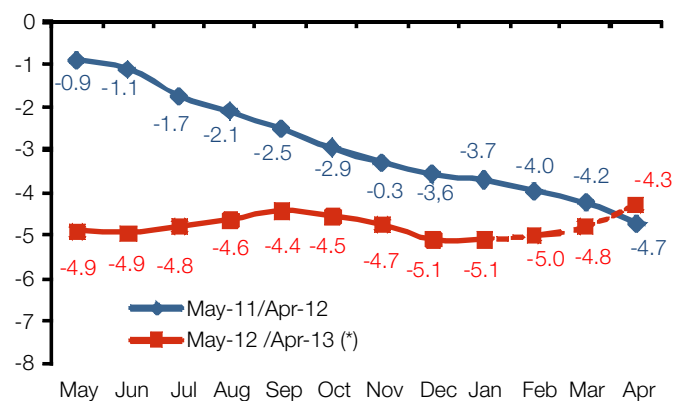
- In January, the loss of Social Security enrolments was 263,243 and the increase in registered unemployment reached 132,055. Services was the only sector to show a relative improvement.
- The Afi-ASEMPLEO SLM Indicator points to some stabilization in the pace of decline in employment until April. Easter Week should cushion the fall in employment in the first quarter.
- The fall in the percentage of jobless receiving unemployment benefits has not prevented an increase in public spending thereon (€31.68 billion in 2012, €1.68 billion more than in 2011).
- The 4Q12 EPA records a fall of 363,000 in employment, a rise of 187,000 in unemployment and the largest fall in the labour force since the beginning of the crisis (176,000).
- Self-employment is falling (down 55,000 in 4Q12), as is public sector employment, with the accumulated fall since the end of 2011 now around 10% (300,000).
- The groups at risk have grown and the number of households has fallen as a result of changes in family organization and the return of the immigrant population to its countries of origin.
- The sharp fall in the labour force is due mainly to Spanish nationals who are male, young and poorly educated.
- Although the population resident in Spain was little changed in 2012, it is noteworthy that the foreign population has fallen for the first time in 15 years (down 0.26% YoY).
- The strongest migratory outflows (both interregional and international) are being experienced by those regions which have seen the greatest declines in economic activity and employment over the past two years.
- By provinces, Guadalajara, Las Palmas and Zaragoza are seeing increases in employment and attracting workers from other Spanish provinces, whereas Alava and Barcelona suffer the greatest emigration flows.

Afi-ASEMPLEO SLM Indicator

The behaviour of enrolment in January has confirmed the forecasts of the Afi-ASEMPLEO SLM Indicator for employment in the first quarter of 2013, with YoY falls of around 5% and similar to those at the end of 2012.

On the basis of the partial indicators of activity and confidence in the private sector, we should see a certain stabilization of the rate of fall in employment, with declines up to March considerably higher than those in the same period of 2012, which would translate into new lows in the current employment cycle, with 16.54 million employed.

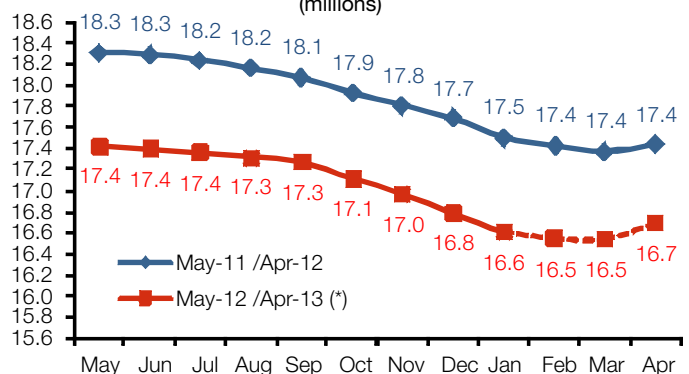
SLM monthly forecast of workers in employment (% YoY change)



Source: Afi.(*) Feb 2013-Apr 2013 figures are forecasts

The fact that Easter Week falls in March this year could cushion the loss of employment in the first quarter. This expectation is reflected in the SLM indicator, with a progressive reduction in its YoY fall, which may reach 4.3% in April.

SLM monthly forecast of workers in employment (millions)



Source: Afi.(*) Feb 2013-Apr 2013 figures are forecasts

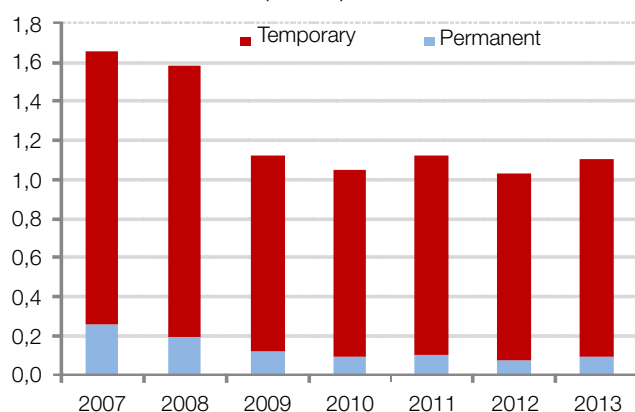
"The fall in enrolment is put at 263,243 in January and the increase in registered unemployment at 132,055. Services is the only sector which has shown a relative improvement".

No change in the trend at the beginning of 2013.

The January employment data again record a sizeable fall in Social Security enrolment and a larger increase in the number of unemployed registered with the State Employment Service than in the same month of 2010 and 2011. In particular, **the loss of Social Security enrolments is estimated at 263,243 persons (down 4.5% YoY) and the rise in unemployment at 132,055 (8.3%),** smaller variations than in January 2012 by 20,000 and 45,000 respectively, but nevertheless indicating that the deterioration seen in the final stretch of last year is continuing into the first months of 2013.

Excluding the negative effects of seasonality that usually occur in January, due to the ending of many employment contracts linked to the Christmas period, **enrolment continues to send the most worrying signals,** with a fall of 47,000 (compared with 53,000 in January 2011). In contrast, registered unemployment has managed two consecutive months of declines which, though moderate, has not occurred since late 2010.

New employment contracts in month of January (millions)



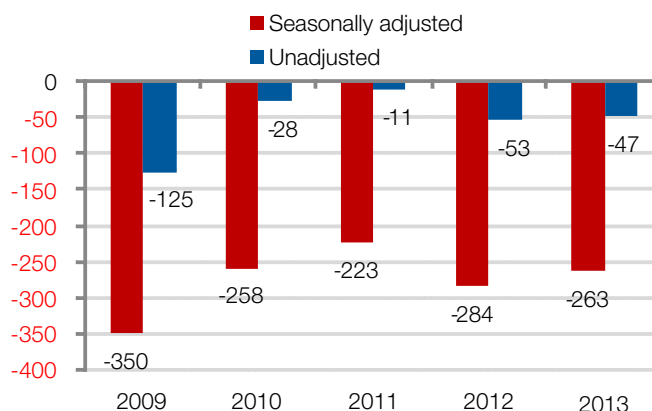
Source: Ministry of Employment and Social Security

"The fall in the percentage of jobless receiving unemployment benefits has not prevented an increase in public spending thereon (€31.68 billion in 2012, €1.68 billion more than in 2011)".

With regard to recruitment, there was an increase in January, with 1.1 million contracts signed (almost 60,000 more than in January 2012), of which 100,000 were permanent and in turn 35% of these were part-time.

Finally, **despite the progressive deterioration in the coverage of the unemployment benefits system (down to 64% in December 2012 from 69.8% at the end of 2011) and in its quality (increasing proportion of supplementary benefit), government spending on this item continues to grow.** In 2012, spending on benefits reached €31.68 billion, €1.68 billion more than in 2011 and €3.2 billion more than the provision included in the General State Budget. The average spending per beneficiary also follows a rising path (from €902 in 2011 to €920 in 2012).

Monthly change in Social Security enrolment (thousands)

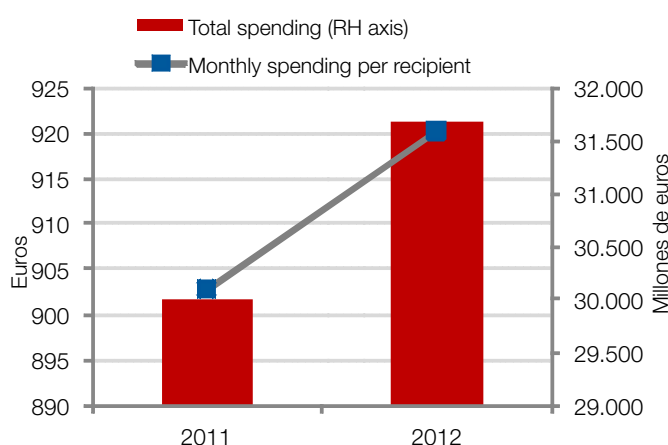


Source: Ministry of Employment and Social Security, Ministry of Economy

Unlike much of 2012, services has been **the only sector who to show a relative improvement in January compared to the more pronounced YoY falls in Social Security enrolment in the rest of the sectors,** particularly agriculture. This latter sector is also differentiated by its failure to contain the increase in unemployment, as has occurred in the other main sectors.

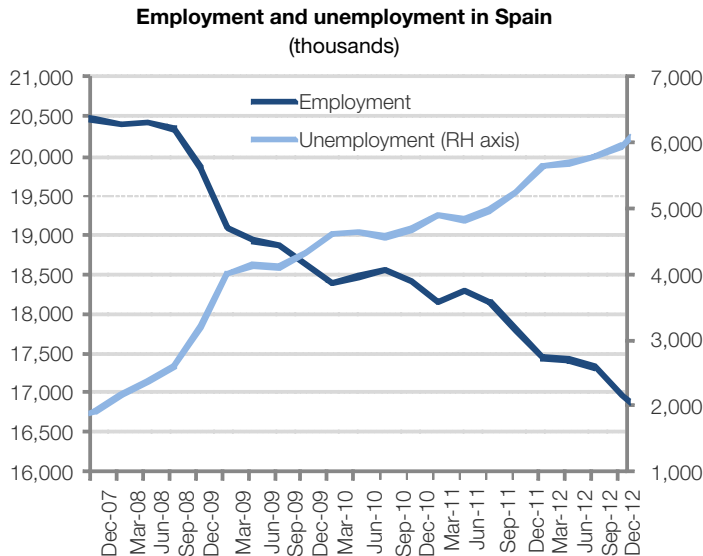
The fall in unemployed persons in the category "no prior employment", atypical for a month of January, may be due not to an improvement of their employability, but a spreading discouragement effect among young people unable to find a job, and even to their decision to emigrate in search of opportunities not on offer in the Spanish labour market.

Spending on unemployment benefits in Spain



Source: State Employment Service

"Employment down 363,000, unemployment up 187,000 and the largest fall in the labour force since the beginning of the crisis (176,000) in 4Q12".



Source: National Statistical Institute (INE)

It was a fall in self-employed workers (particularly men working in agriculture and industry) which caused the relatively worse behaviour of aggregate employment in the quarter (a fall of 55,000 in 4Q12 compared to virtual stability in 4Q11). In 2012 as a whole, self-employment increased, mainly in the sectors of professional and financial services.

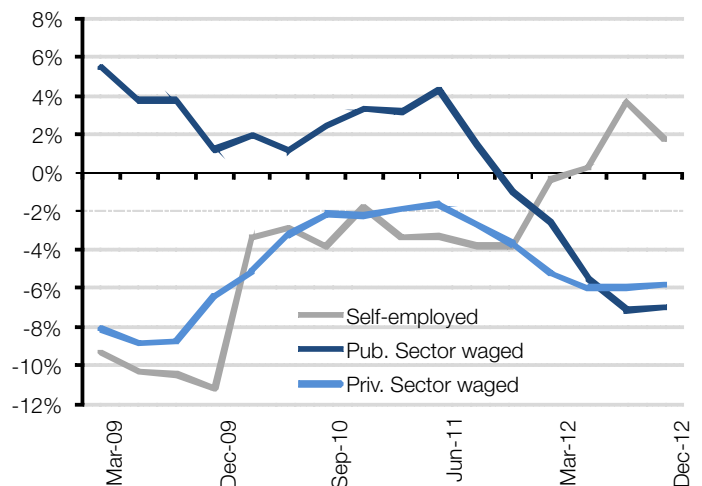
With respect to salaried workers, their total number was reduced by 307,000, of whom 217,000 were temporary employees (the incidence of temporary employment stood at 23%, the lowest in recent years) and 233,000 were employed in the private sector.

On the other hand, as has been the case in the recent months, women continue to turn increasingly to part-time working.

The main EPA figures for 4Q12 reveal the extent of the correction suffered by the Spanish labour market in the final stretch of the year. In the final quarter, **employment fell by 363,000** (4.8% YoY), **unemployment rose by 187,000** (the total now stands at 5.96 million and the unemployment rate is slightly above 26%) and the **labour force experienced the largest quarterly fall since the beginning of the crisis (176,000)**.

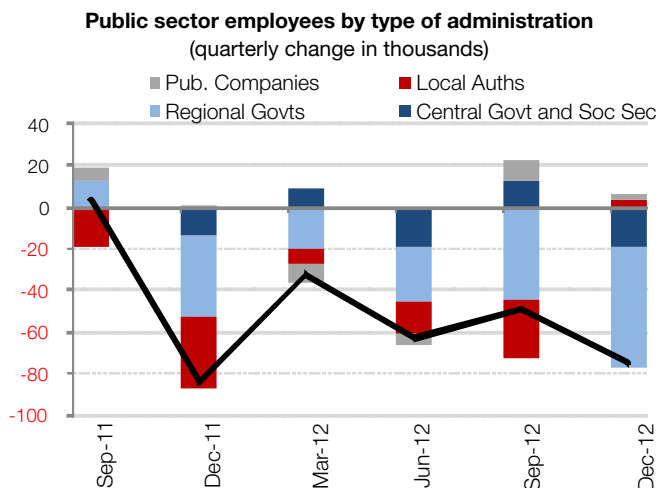
Job losses in 4Q12 were the highest registered in a fourth quarter since 2009. With a fall of 850,000 in 2012, employment now stands at 2004 levels, below the 17 million mark. The fact that job losses in 4Q12 exceeded those observed in 4Q11 reflects the de-registration of a portion of informal carers from the Social Security; they also left the ranks of the employed for EPA purposes.

Employment by employment status (YoY change)



Source: National Statistical Institute (INE)

"Self-employment is falling (down 55,000 in 4Q12), as is public sector employment, with the accumulated fall since the end of 2011 now around 10% (300,000)".



Source: National Statistical Institute (INE)

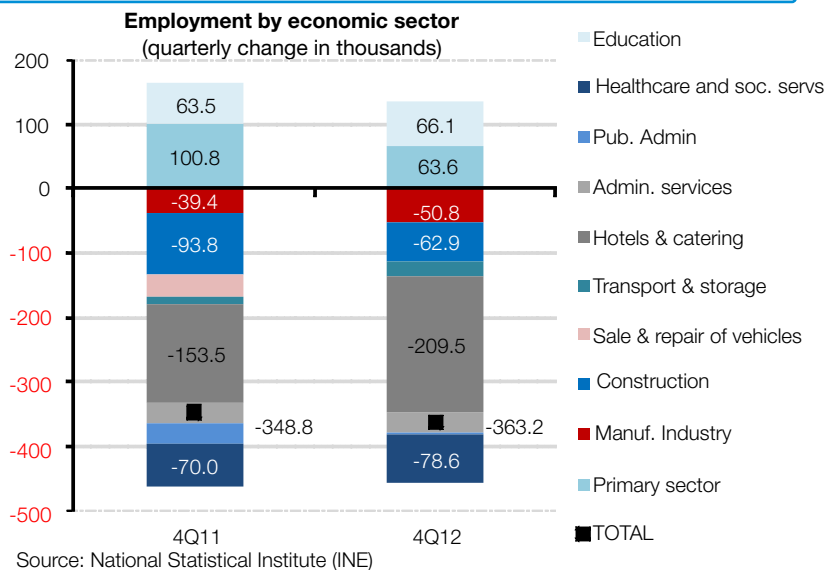
For the fifth consecutive quarter, **jobs are still being lost in the public sector** (74,000 in the latest quarter), but at a slower rate than in 4Q11. The explanation lies in the behaviour of local administrations, which in 4Q12 created 3,600 jobs, compared to a loss of 35,000 jobs in the same quarter of the previous year.

By contrast, job losses have accelerated in the regional and Central Administrations, with 58,000 and 19,000 redundancies respectively. The need to meet the public deficit targets for 2012 (1.5% and 6.3% of GDP respectively) could have triggered the adjustment in the final part of the year. The fall of public employment since the end of 2011 is already around 10% (300,000 jobs) and has mainly affected women and those on temporary contracts.

"The groups at risk have grown and the number of households has fallen as a result of changes in family organization and the return of the immigrant population to its countries of origin".

By economic sectors, only construction slowed its pace of job losses, as in 4Q12 employment fell by nearly 63,000, compared to a decline of more than 93,000 in the same quarter of the previous year. **Of particular concern is the intensification of the adjustment in manufacturing industry** (food, clothing, cars and metal-working), because in this quarter employment was down by 50,800, compared with somewhat less than 40,000 in 4Q11.

Services, with job losses similar to 4Q11, is responsible for 56% of the decline in employment in 2012. Within the sector, hotels and catering and professional and technical activities again show the worst results. There was a notable increase in employment in the wholesale trade.

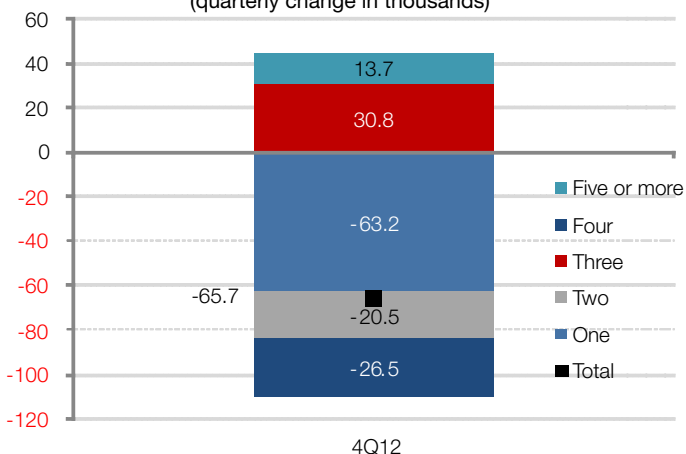


With a fall of such magnitude in employment, only the sharp fall in the number of active workers, already anticipated by the divergences between changes in registered unemployment and Social Security enrolment in the past few months, has avoided a greater increase in the unemployment figures.

In any case, what remains a concern is the **increase in the groups most at risk of social exclusion**: (i) 55% of the unemployed (3.2 million) have been in this situation for more than a year, (ii) the youth unemployment rate exceeds 50% and (iii) 1.8 million households have all their active members in unemployment.

One aspect worthy of mention is the reduction in the number of households. In 4Q12 it declined by 65,000 units, a pattern not seen before, the result of changes in family organization and the return of foreign immigrants to their

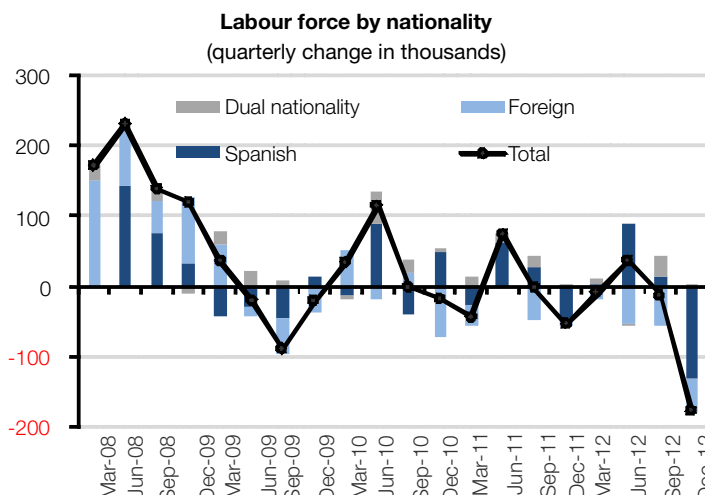
Households by number of members (quarterly change in thousands)



"The sharp fall in the labour force is due mainly to Spanish nationals who are male, young and poorly educated".

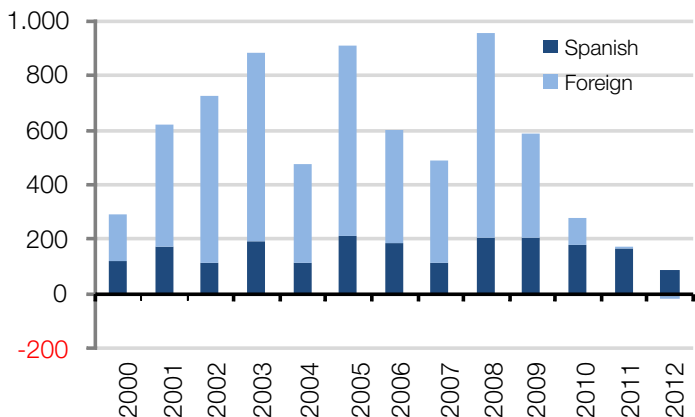
However, the sharp fall in the labour force in the final quarter of last year (176,000) is due mainly to Spanish nationals (almost 130,000), who are male, young and poorly educated.

The fact that the fall in the working-age population is led by the foreign community leads us to believe that the fall in activity of nationals may be due in good part to the "discouragement effect", already alluded to in the previous edition of the SLM Monitor. **In 2012 as a whole, total active workers fell by 158,000, or 0.7%.**



"Although the population resident in Spain was little changed in 2012, it is noteworthy that the foreign population has fallen for the first time in 15 years (down 0.26% YoY)".

Resident population by nationality in Spain (YoY change)



Source: National Statistical Institute (INE)

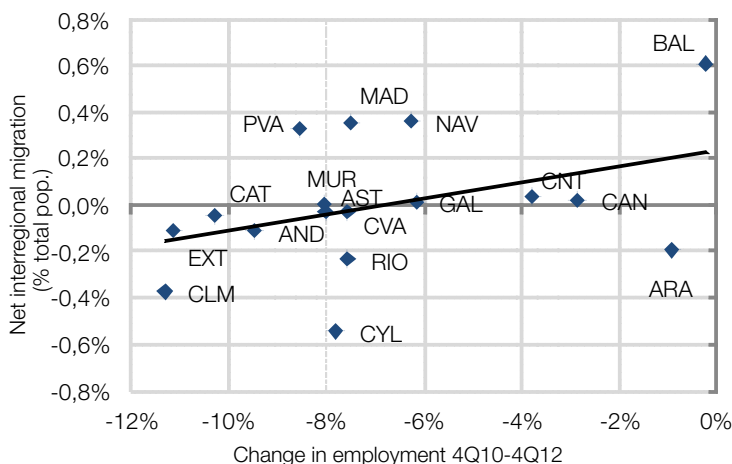
The worsening economic environment is one of the factors delaying the age of emancipation (close to 28 years, 1 more than at the beginning of the crisis) and, therefore, the age of forming a household and of child-bearing. This same factor explains, in the great majority of cases, why an increasing proportion of foreign households is deciding to return to their countries of origin or to seek employment opportunities in other geographic areas.

Thus, for example, with regard to labour mobility, it can be seen that migratory flows have been more intense in those regions where economic activity and employment have deteriorated most in the last two years. When they occur within the country, regions such as the Balearic Islands, Navarre, Madrid and the Basque Country stand out: with high per capita incomes and lower rates of unemployment, they have been able to attract population and labour from other Spanish regions.

Trends in the population and the behaviour of its major segments are crucial to understanding the changes occurring in the labour market. Thus, according to final figures for the January 2012 Population Census, recently published by the INE, **Spain's resident population is stable** at around 47.2 million (with annual growth of 0.16%). This is the result of two opposing trends: the **slight increase in the Spanish population** (0.22% p.a.) and the **fall, for the first time in 15 years, of the foreign population** (0.26%).

With regard to the resident Spanish population, it should also be noted that it recorded the smallest increase in recent years (between 2000-2011 it grew at an average YoY rate of 0.4%).

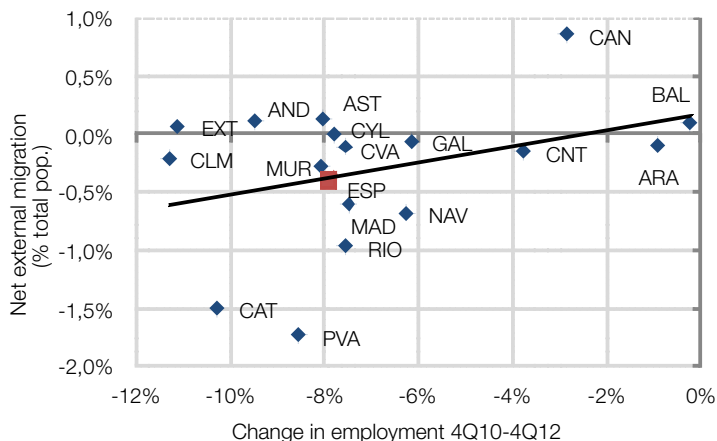
Labour mobility within Spain 2010-2012



Source: National Statistical Institute (INE)

"The strongest migratory outflows (both interregional and international) are being experienced by those regions which have seen the greatest declines in economic activity and employment over the past two years".

Labour mobility out of Spain 2010-2012



Source: National Statistical Institute (INE)

At the other extreme are the two Castiles which, having suffered heavy falls in employment in the past two years, face negative balances in interregional migration (immigration - emigration as a percentage of the region's total population) of 0.5% and 0.4% respectively.

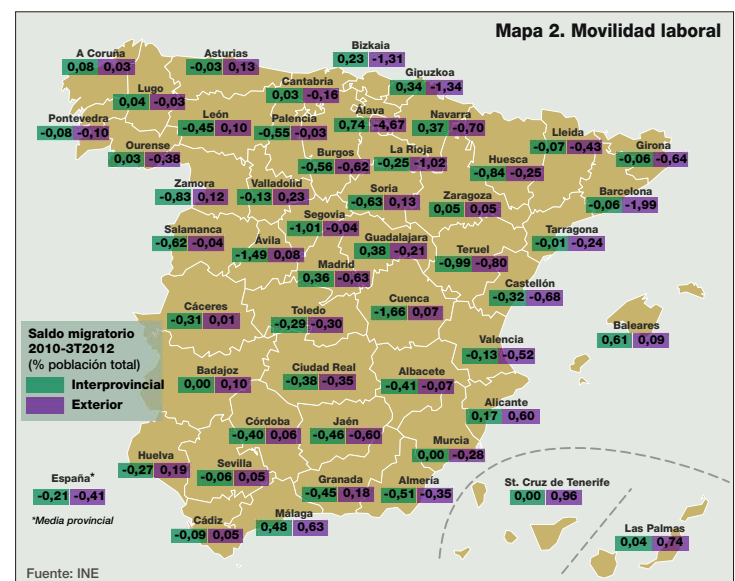
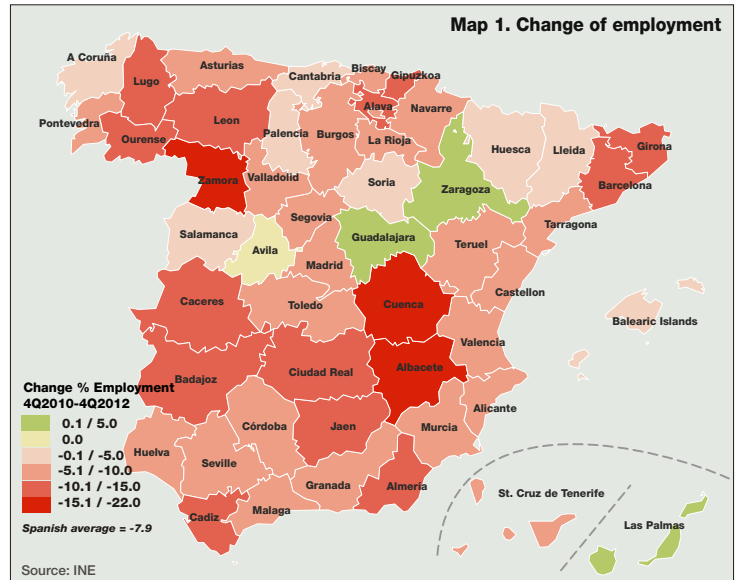
Another option is to emigrate to other countries. In this case, the Basque Country and Catalonia are especially notable, because they are the regions suffering the greatest population loss. Analysis of the nationalities of those emigrating indicates that it is mainly the foreign population that is leaving for other countries. The two archipelagos (Balearic and Canary), in contrast, are seeing their population increase thanks to immigration, attracted by the productive specialisation of their economies and, in particular, by the growth in tourism.

"Guadalajara, Las Palmas and Zaragoza are seeing increases in employment and attracting workers from other Spanish provinces, whereas Alava and Barcelona suffer the greatest emigration flows".

The severity and duration of Spain's economic crisis are increasing the population's labour mobility to an extent that calls for a more detailed analysis. Hence, on this occasion, we take advantage of the availability of statistical information to present a geographical analysis of this situation by provinces.

With regard to mobility within Spain's borders, the case of Vizcaya is noteworthy because, though it is the Basque province which has suffered the smallest fall in employment, it has attracted the smallest immigration flows. Other provinces, such as **Guadalajara, Las Palmas and Zaragoza have not only managed to increase employment over the past two years, but have also attracted population.** At the other extreme are Cuenca, Zamora and Albacete, provinces that have lost a significant volume of employment (more than 15% since 4Q10) and have some of the most negative migratory balances (1.6%, 0.8% and 0.4% respectively).

With regard to flows leaving the country between 4Q10 and 3Q12, for Spain as a whole these represent 0.4% of the total resident population, but there are provinces, such as **Alava and Barcelona, where net emigration represents more than 2% of the total.** Although the nationality of the emigrants is not known, they are likely to be foreigners, as has already been detected previously in the regional aggregates. However, what can be said, in both cases, is that they are mostly men. **On the other hand, the provinces which are attracting population are Malaga and Alicante, as well as the two in the Canary Islands** (the foreign immigration balance exceeds 0.6% of the total resident population in each of these provinces).



THE MONTHLY FOCUS

The new exodus

In the 1960s and 1970s, the Spanish population suffered a very intense geographical redistribution to the country's main provincial capitals, in search of employment and welfare opportunities non-existent in the rural environment. Today, there are demographic trends of the same nature but not yet on the same scale as in the past. This new exodus is made up foreign workers residing in Spain and young people, and is particularly oriented to other countries. The EPA is beginning to reflect important magnitudes with regard to the decline of the labour force and the number of households. The INE's projections out to 2020 are for a sharp decline in the working-age population. It is high time that the mobility of the population began to effect the arbitrage of which wages seem incapable when the opportunities for employment and welfare differ between parts of the country, but we should not lose sight of the fact that this phenomenon will have all kinds of consequences.

José Antonio Herce. Partner,Afi