



Spanish Labour Market Monitor

Presentation

The net results of the 1Q13 data on Social Security enrolment and unemployment confirm that the deterioration in the labour market has been contained in the first part of the year. In March, enrolment increased by 30,500 and unemployment fell, for the first time since 2008, by 5,000. The EPA labour force survey should show a fall in employment of 340,000 (down 4.68% YoY). Until now, redundancies and increased labour productivity have been the predominant ways of reducing company costs, but in the latter part of 2012 the reduction in labour costs gained in significance (down 3.1% in 4Q12), primarily through the elimination of special payments in the services sector (notably in the public sector).

Key Points

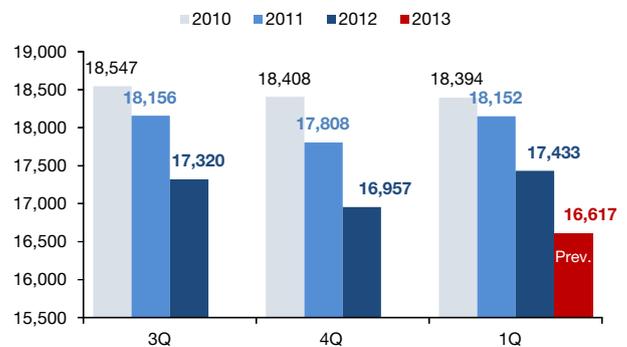
- The net results of the 1Q13 data on Social Security enrolment and unemployment confirm that the deterioration in the labour market has been contained in the first part of the year.
- In March, enrolment increased by 30,500 and unemployment fell, for the first time since 2008, by 5,000.
- We have yet to see a stabilization of employment in industry and construction; moreover, the support of hotels and catering and related activities is insufficient to offset the falls in Social Security enrolment in professional activities, social services and public administration.
- In 1Q13, for the first time since mid-2011, the decline in quarterly enrolment prior to seasonal adjustment was smaller than in the previous quarter, but still too high to talk about any stabilization in employment.
- The EPA labour force survey should show a fall in employment of 340,000, taking the YoY fall to 4.68%. The unemployment rate could rise to 27.01%.
- The reduction of salaries became more significant in the latter part of 2012. Until now, redundancies and increased labour productivity have been the predominant ways of reducing company costs.
- The significant decline in labour costs in 4Q12 is basically due to cutbacks in special payments.
- It is activities related to public administration which have suffered the greatest reduction in labour costs and where the elimination of special payments has had the biggest impact.
- Castile-La Mancha, Valencia and Asturias have recorded the greatest advances in labour productivity since the beginning of the crisis, though this is due to the fact that employment has fallen faster than economic activity.
- In all Spanish regions, the cumulative increase in labour costs between 2008 and 2012 has been lower than the gain in productivity.

Afi-ASEMPLEO SLM Indicator

2013 began with a further hefty fall in enrolment, of more than 250,000, and an increase in registered unemployment of close to 186,000. In both cases, the deterioration is less than during the same period in 2012, but still significant given the point of the cycle in which the Spanish economy finds itself.

The EPA labour force survey should show a fall in employment of 340,000, taking the YoY fall to 4.68%. In the light of the trends in registered unemployment and unemployed job-seekers, the number of unemployed could increase by around 185,000, taking the unemployment rate to 27.01%.

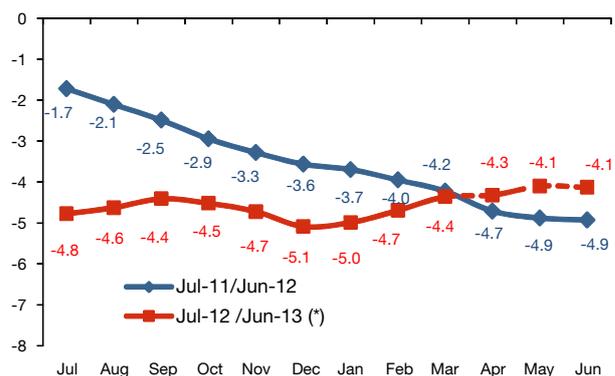
EPA employment (thousands)



Source: EPA (INE) and Afi forecasts

From now on, the SLM indicator points to a profile of progressively more moderate YoY falls in employment, ranging from 5% in January to nearly 4% in June.

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



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

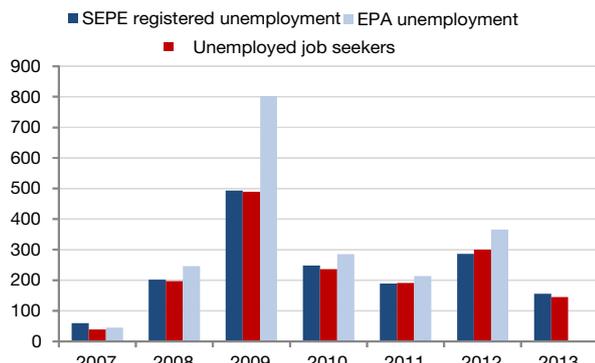
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The fact that Easter Week fell in March helped to soften the deterioration of the labour market in 1Q13. Social Security enrolment increased by 30,528 and the registered unemployment was down by nearly 5,000 in March (in the latter case, it was the first fall since 2008).

The figures represent a substantial improvement on the same period in 2012, though it should be noted that the first few months of last year marked the beginning of the second phase of economic and labour market recession. The seasonally adjusted data provide more perspective on the recovery in March. The 27,000 fall in Social Security enrolment is half that seen in March 2012 but still higher than in 2010 and 2011.

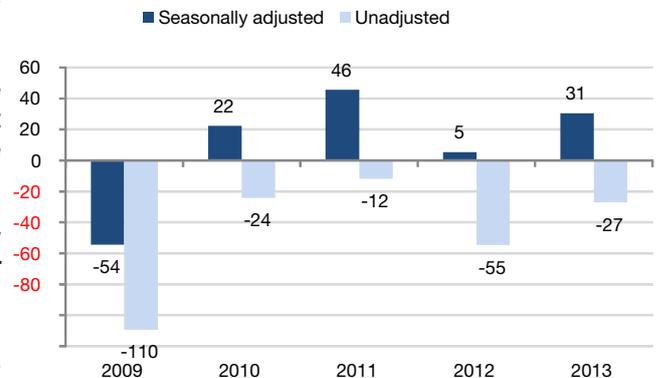
The key lies in the fact that we have yet to see a stabilization of employment in industry and construction, and that the support of hotels and catering and related activities is insufficient to offset the falls in Social Security enrolment in professional activities, social services and public administration.

Quarterly change in unemployment in 1st quarter each year



Source: Afi, INE, Ministry of Economy

Change in Social Security enrolment in March each year (thousands)



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

Since May 2012, when registered unemployment experienced the highest YoY growth rates of the second recessionary phase (12.5%), the increases have been consistently moderate. In March 2013, the number of unemployed was 6% higher than a year ago.

In 1Q13 as a whole, unemployment increased by 155,000. The data on unemployed job seekers show a similar increase (145,000). In both cases, it is the smallest first-quarter deterioration since 2008. The fall in the labour force is playing a key role in this regard.

The EPA unemployment figures can be expected to yield a similar reading, which would take it over the 6 million threshold.

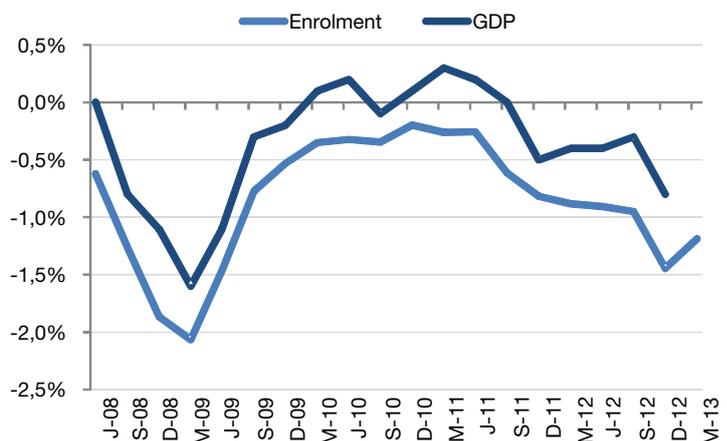
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The quarterly change in Social Security enrolment, adjusted for seasonality, reveals the point of the cycle in which the labour market finds itself and allows us to anticipate the short-term trend in GDP.

In 1Q13, for the first time since June 2011, the quarterly fall in enrolment is smaller than the preceding quarter, though still very high (1.2%), indicating that it is too early to talk about a floor to the deterioration in the labour market.

Limiting the analysis to the period 2008-2012, quarterly falls in enrolment of around or slightly more than 1% are often accompanied by quarterly declines in GDP of 0.4-0.8%. In 4Q12, enrolment fell by 1.6% on a quarterly basis and GDP by 0.8%. The containment in the fall in Social Security enrolment in 1Q13 suggests, therefore, a relatively better performance in economic activity compared with the close of 2012.

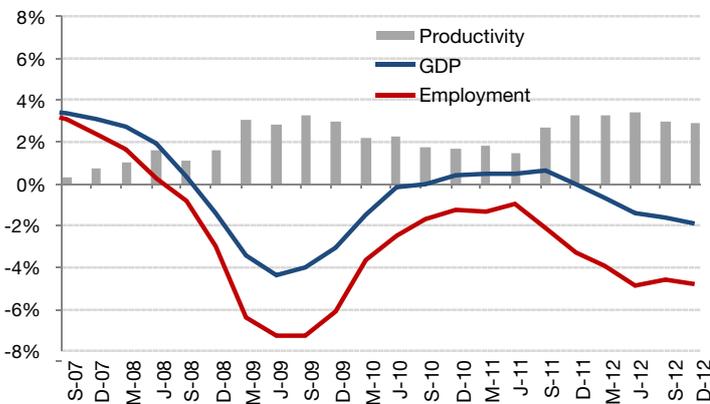
Social Security enrolment and GDP (seasonally adjusted quarterly change)



Source: Afi, INE, Ministry of Economy

"The adjustment in salaries became more significant in the latter part of 2012. Until now, redundancies and increased labour productivity have been the predominant ways of reducing company costs".

GDP, employment and apparent labour productivity (YoY change)



Source: INE

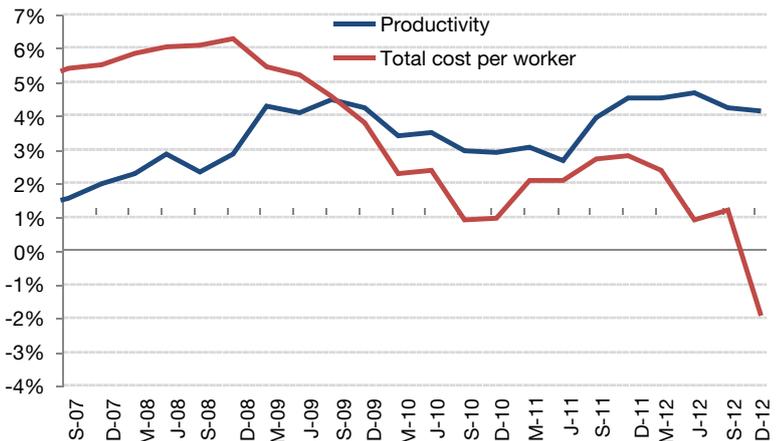
The second option available to companies to reduce their costs is the containment of wages per employee. **Between 2008 and 2012, labour costs have grown by an average of 4.5%. 2012 represents a turning point in this dynamic, with an annual reduction of 0.6%**, very much influenced by the final quarter (elimination of the December special payment to civil servants) and focused on the salary component of the aggregate cost.

The search for a better balance between staff reductions and wage adjustments is the first step to curb the loss of employment. The generation of net employment, however, requires a consistent recovery in domestic demand. The consensus of analysts, the European Commission and the Bank of Spain sees the recovery of domestic spending and employment being delayed until the latter part of 2014.

In response to the downturn in economic activity, companies can reduce their staff costs, among other things, in two ways. The most direct and probably most dramatic is dismissal, and the other is the reduction of salaries and allowances. In the case of Spain, the bulk of the adjustment has been made, up to now, via redundancies. **The drop in economic activity, which between 2008 and 2012 reached 5.0%, has been accompanied by an unprecedented fall in employment (14.7%).**

The persistent rise in the unemployment rate has been accompanied by a worrying increase in structural unemployment and a **significant rise in the apparent productivity of labour**, with YoY rises of close to 3% since practically the beginning of the crisis. In fact, **Spain stands out among the leading OECD countries as having recorded one of the most significant increases in the number of hours**

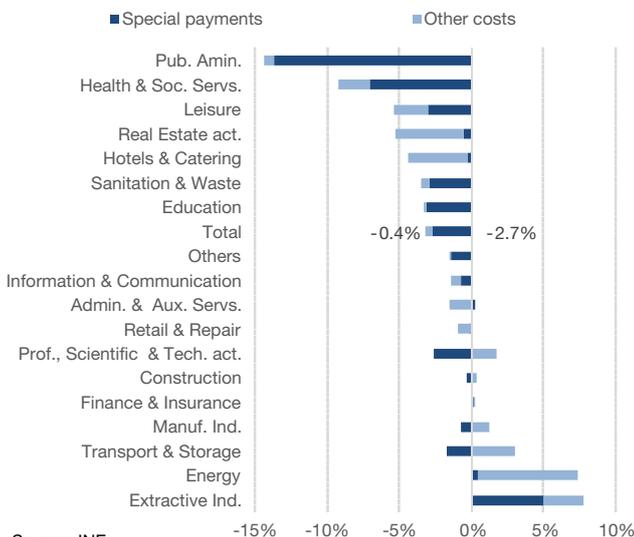
Apparent labour productivity and labour costs (YoY change)



Source: INE

"The significant decline in labour costs in 4Q12 is basically due to cutbacks in special payments to public sector employees".

Contribution to YoY change in labour costs by component and sector, 4Q12



Source: INE

The decline in labour costs in 4Q12 is primarily due to a reduction in special payments (which account for 87% of the YoY fall of 3.1%). This behaviour is a response to the point in the economic cycle in which we find ourselves, which forces companies, both public and private, to undertake this type of adjustment.

However, these cutbacks in staff expenditure have been more significant in the public sector than the private sector. **In 4Q12, it was activities related to public administration that suffered the greatest reduction in labour costs (14.4% in 4Q12) and where effect of the elimination of special payments has been most significant.** The extension of wage moderation to the bulk of sub-sectors of the services sector is an important aspect, which endorses forecasts that the wage adjustment will be maintained at least during 2013. In contrast, increases in labour costs are observed in the extractive and energy industries. In both cases, moreover, special payments increased compared with the previous year, by somewhat more than 7%.

"Castile-La Mancha, Valencia and Asturias have recorded the greatest advances in labour productivity. In all the Spanish regions, the cumulative increase in labour costs between 2008 and 2012 has been lower than the gain in productivity".

A priori, one would expect that those regions where economic activity has been hardest hit between 2008 and 2012 would also have experienced the biggest falls in employment. In fact, the regional accounting data recently published for 2012 do show a very close relationship between the two variables.

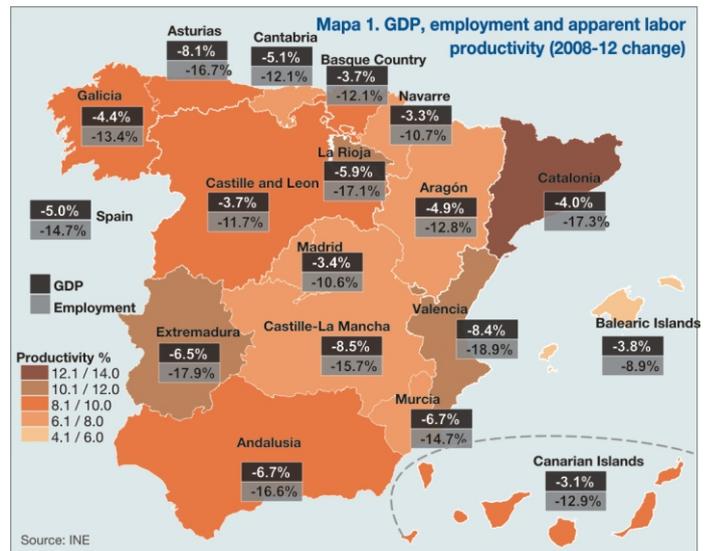
Thus, for example, **Castile-La Mancha, Valencia and Asturias recorded the largest declines in economic activity since the beginning of the crisis** (in excess of 8%) **and also some of the biggest job losses in the same period** (with falls in employment of 16-18%).

Precisely because of the different magnitudes of these falls, **they are also among the regions with the highest increases in labour productivity**. In this respect, Catalonia especially stands out, with an increase in apparent labour productivity of 13.4% from 2008 to 2012, compared to the national average of 10%.

However, as is almost inevitable, **this improvement in labour productivity during the crisis has exceeded the increase in labour costs in all the Spanish regions**.

The containment of staff costs compared with the improvement in productivity has been particularly significant in regions such as Catalonia, Canary Islands and Andalusia, as the gap between the cumulative increase in labour productivity between 2008 and 2012 and the rise in labour costs exceeds 8%.

In spite of this, these regions suffer some of the highest unemployment rates in the whole of Spain. In contrast, in Murcia and Castile-La Mancha, which have both seen heavy job losses during the crisis, the increase in productivity (8.0% and 7.1% respectively) has been very similar to that of labour costs (7.3% and 6.7%).



THE MONTHLY FOCUS

Net Employment

We often hear talk of "job creation". It is predicted that soon or later we will "create employment". In reality, jobs are being created every day, in every moment... and every day, in every moment, jobs are being lost. When more jobs are created than lost, "net employment" is created, as is obvious. Each month, around one million labour contracts are signed in Spain, most of them temporary, and, hence, the corresponding jobs are created. Many millions each year, each representing an opportunity for those who are hired. But an even greater number of jobs are also destroyed. When are we going to have stable "net creation" of employment? It will not happen, seasonal exuberance apart, until Spanish GDP does not start to grow at around or above 1%. Net stable employment may be created even if GDP grows below this threshold. That will be a good news for employment, but bad news for productivity.

José A. Herce, Partner, Afi.