

Spanish Labour Market Monitor

Presentation

The 2Q13 EPA (labour force survey) shows a larger than expected increase in employment (149,000), but this was centred on sectors which benefit from the summer season. However, the pace of job creation has slowed in July. Without the seasonal effect, Social Security enrolment would have fallen by approximately 57,700. On the other hand, the sharp reduction of the labour force (76,100) played a very significant role in the sharp fall in unemployment (225,000) and the unemployment rate (almost a full percentage point down on the previous quarter, to stand at 26.26%). In this context, the rate of worker absenteeism has remained constant at around 4% since the onset of the crisis.

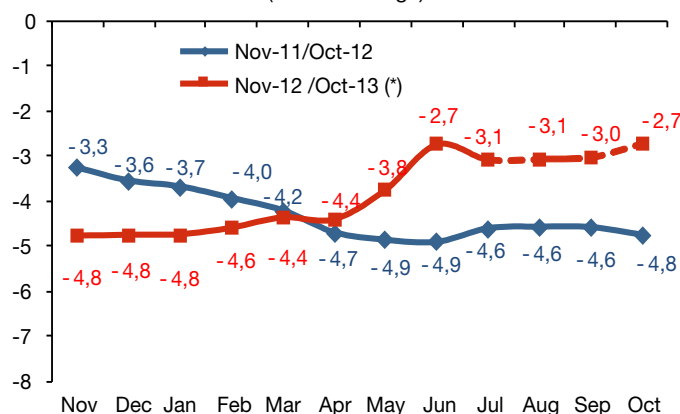
Key Points

- The July employment data show a fall of 64,866 in unemployment and a rise of 32,890 in Social Security enrolments over the previous month. In the latter case, discounting the favourable seasonality, enrolment would have declined by approximately 57,700.
- Recruiters' preference for temporary and part-time contracts is consolidating, while the coverage of unemployment by benefits again declined.
- The marked seasonality of July's increase in Social Security enrolment could result in a slight increase in employment in the third quarter.
- Adjusting for seasonal effects, employment was fairly stable (up 13,100) for the first time since 2Q11 (when it rose by 10,400). The unadjusted increase in the number of employed was higher than anticipated (149,000).
- By sectors, three branches of activity accounted for the increase of employment: agriculture, hotels & catering, and healthcare and social services.
- The virtual halt to job losses in the public administration and the positive impact on employment in retailing and transport from the higher demand in foreign tourism also have been relevant here.
- The 76,100 reduction in the labour force played a key role in the sharp fall in unemployment (225,000) and the unemployment rate (almost a full percentage point less than the previous quarter, to stand at 26.26%).
- The rate of worker absenteeism has remained around 4% since the onset of the crisis, being higher among women, the over-55s and those with a low level of education.
- Absenteeism is higher among the self-employed than among salaried employees and, within the latter, among those with a permanent contract.
- The occasional absenteeism rate is highest in those regions with the most important industrial sectors. A higher proportion of salaried employees are in receipt of temporary incapacity benefits, but the duration of these is greater among the self-employed.

Afi-ASEMPLEO SLM Indicator

The slowdown in the growth of Social Security enrolment in July, along with the generation of employment, mainly temporary, in the past few months could result in a slight increase in employment in 3Q13.

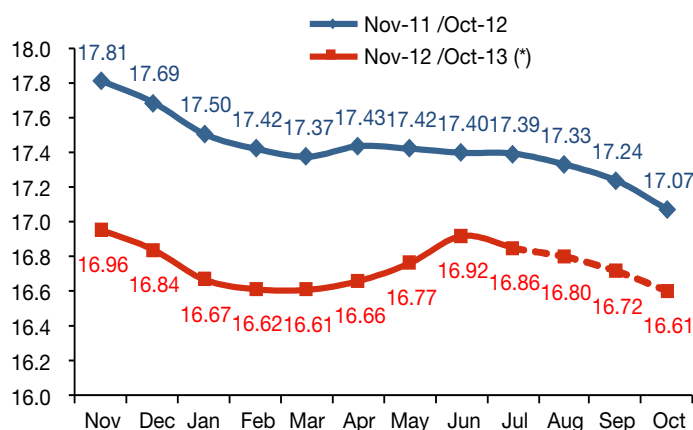
SLM monthly forecast of workers in employment
(% YoY change)



Source: Afi, (*) Aug 2013-Oct 2013 figures are forecasts

Thus, the YoY fall in the Afi-ASEMPLEO SLM Indicator could again be over 3% in August and September. Nevertheless, total employment is expected to fluctuate around the 16.6 million level from now until October.

SLM monthly forecast of workers in employment
(millions)



Source: Afi. (*) Aug 2013-Oct 2013 figures are forecasts

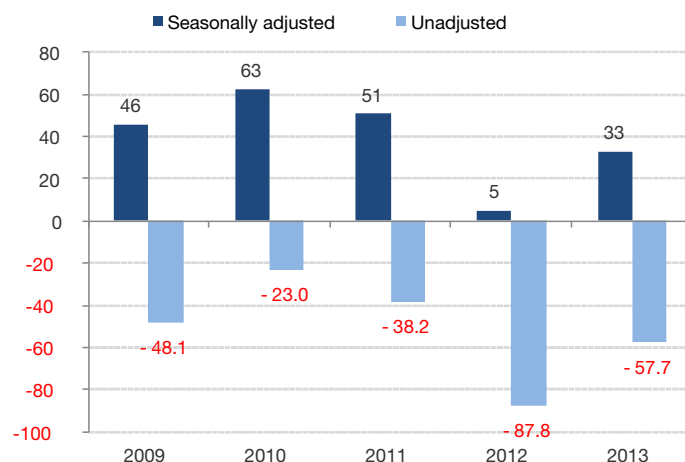
"On a seasonally adjusted basis, Social Security enrolment fell by approximately 57,700 in July".

The July employment data show a fall of 64,866 in unemployment and a rise of 32,890 in Social Security enrolments over the previous month. Although these variations represent the fifth consecutive monthly improvement in both aggregates, the trend is increasingly weak. The YoY change in these two indicators was 2.4% and 3.6% respectively.

The fact that the increase in Social Security enrolment was centred on activities such as hotels & catering and retailing (42,600 and 12,600 respectively) means that, excluding the favourable seasonality, enrolment declined by about 57,700, a significantly worse result than the months of July of previous years, with the exception of 2012.

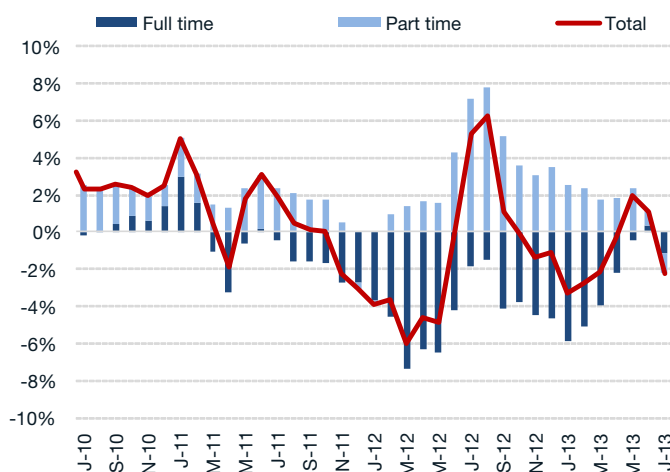
This first observation confirms the impression that the summer months will help to consolidate a floor to the deterioration in the labour market if general economic conditions in the second half of the year, both domestic and foreign, contribute to the process rather than hindering it.

Monthly change in Social Security enrolment in July each year with and without seasonal adjustment (thousands)



Source: Ministry of Employment and Social Security

YoY change in recruitment by length of working day (quarterly average)



Source: Ministry of Employment and Social Security

The enhancement of employment, as seen in the 2Q13 EPA, reflects hirers' preference for temporary and part-time contracts.

The number of temporary contracts signed in July was 1.41 million, representing 93% of the total, while a year ago the percentage was 85%. However, **the sharp fall in permanent contracts (58.2% YoY) closely reflects the significant number of contracts signed last year to regularize the situation of domestic workers.** Without this effect, permanent contracts would have increased by 5.7% YoY.

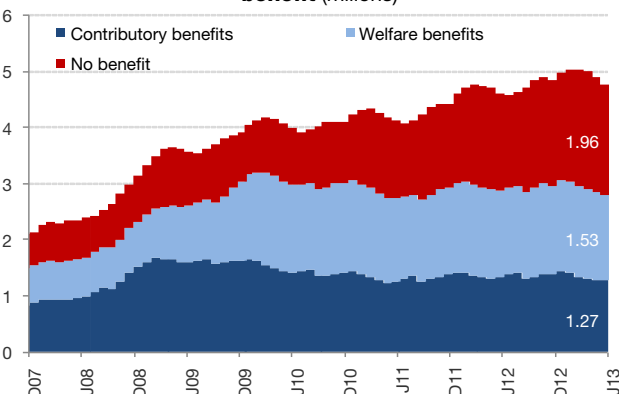
Looking at recruitment in terms of hours worked, there is a marked **preference for part-time work**, which appears to have eased in July. These contracts represented 37.9% of the total signed in July, similar to the percentage of a year ago, but 5 percentage points higher than a normal month of July.

"Recruiters' preference for temporary and part-time contracts is consolidating, while the coverage of unemployment by benefits again declined".

Similarly, all indicators of benefits coverage also fell in June compared with the same month the previous year; these included the coverage rate (in June it stood at 61.9%, when a year ago it was 66.1%), the average benefit (€878.7, including Social Security contributions, compared to €905.6 a year ago) and monthly spending on unemployment benefits (€2.4 billion euros, 5.5% less than the same month the previous year),.

The number of unemployed receiving no type of benefit continued to rise, approaching the 2 million mark in June (up 13.2% on the same month the previous year). Recipients of contributory unemployment benefits numbered 1.27 million, while those receiving welfare benefits stood at 1.53 million (down 4.5% and 1.3% YoY respectively).

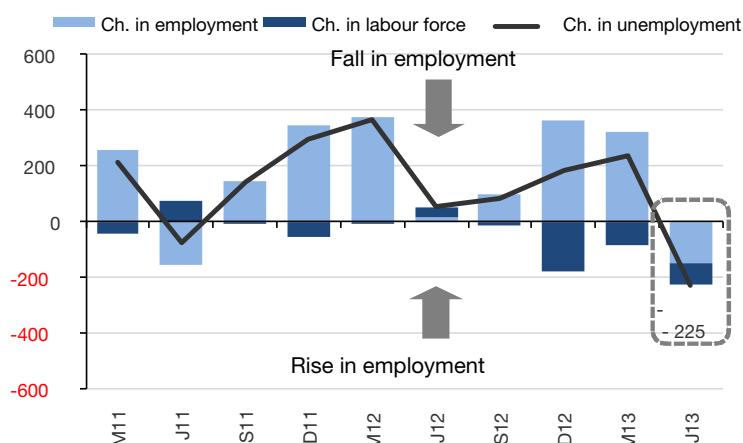
Unemployed receiving and not receiving unemployment benefit (millions)



Source: Ministry of Employment and Social Security

"Adjusting for seasonal effects, employment was fairly stable (up 13,100) for the first time since 2Q11 (when it rose by 10,400)"

Quarterly change in unemployment: contribution of employed and active workers (thousands)



Source: INE

The resort to temporary and part-time employment (with quarterly increments of 162,000 and 92,500 respectively) is characteristic of periods of incipient recovery in the labour market, as is currently the case. Only a substantial improvement in expectations for economic activity is preventing the continuation of lay-offs among workers with permanent contracts.

Therefore, the "quality" of the 149,000 new jobs created is not surprising, but it does deserve to be highlighted when considering if there will be a sustained revival of employment or simply a scenario in which the creation of summer employment is offset by a relapse characteristic of the last quarter of the year.

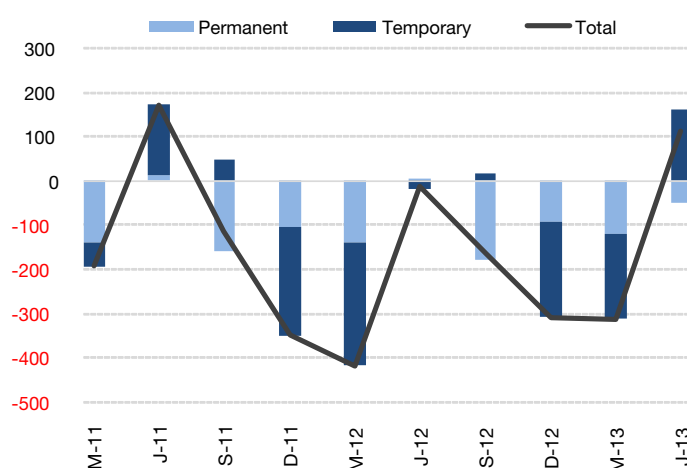
Today, the latter scenario seems more likely, with progressive dilution of the labour market recession but with difficulties in creating employment in sectors other than the hotels & catering industry.

The 2Q13 EPA shows a higher increase in employment than anticipated by the Afi-ASEMPLEO SLM Indicator (it was up 149,000), interrupting a run of seven consecutive quarters of job losses.

The fall in unemployment was larger than otherwise due to the reduction of the labour force, the biggest in a second quarter (typically favourable for job seekers) since the beginning of the crisis. The result is a **fall in the unemployment rate of almost one percentage point to 26.26%, taking the total number of unemployed below the 6 million mark (225.000 less than the previous quarter).**

For the first time in two years, there was a slight reduction in long-term unemployment (only 100), but it still represented 58.4% of total unemployment in 2Q13.

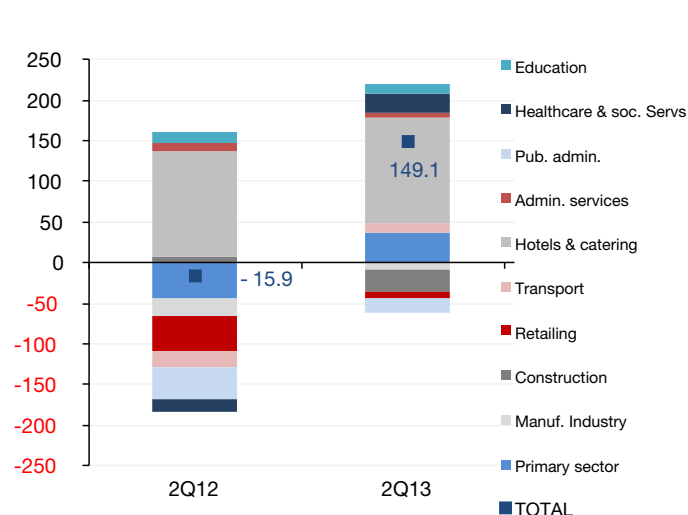
Quarterly change in number of wage workers by length of employment contract (thousands)



Source: INE

"By sectors, three branches of activity accounted for the increase of employment: agriculture, hotels & catering, and healthcare and social services".

Quarterly change in employment by economic sector (thousands)



Source: INE

The increase in employment in 2Q13 is similar in magnitude and nature to that seen in 2Q11. Then, it was a turning point toward what would be the second recession in the Spanish labour market. Today, the economic expectations at European level are more favourable and the correction of internal imbalances is, in many cases, well advanced.

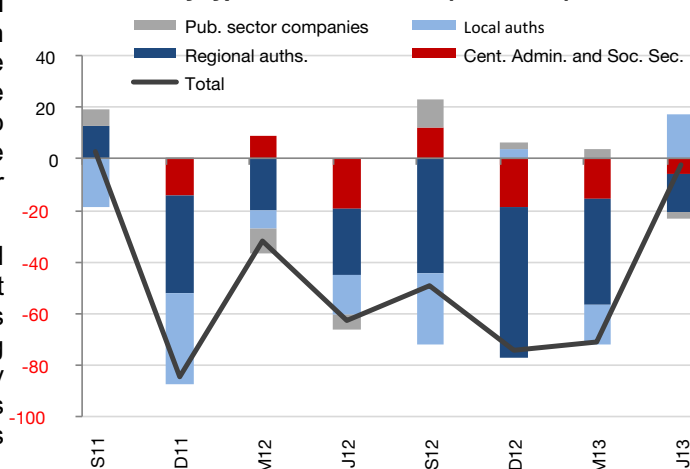
Of the new jobs, 112,000 were salaried and 37,000 were taken by the self-employed (in 2Q11, only wage employment was created). **By sectors, three branches of activity accounted for the increase of employment: agriculture (up 37,500), hotels & catering (130,000), and healthcare and social services (23,000);** but the virtual halt to job losses in the public administration and the positive impact of the higher demand in foreign tourism (Andalusia and the Balearic Islands have seen the bulk of the gains) on employment in retailing and transport have been just as significant or even more so.

"The virtual halt to job losses in the public administration and the positive impact on employment in retailing and transport of the higher demand in foreign tourism also have been relevant here".

With respect to the stabilization of public employment, it should be noted that it has been caused by local corporations, which increased their temporary hiring in 2Q13 (the regional authorities continue to reduce employment, albeit at a slower pace). This trend is in line with the maintenance of the public deficit at levels similar to 2012 so far this year, but job losses will resume, as the public administrations must continue to consolidate their accounts and, therefore, also their workforces.

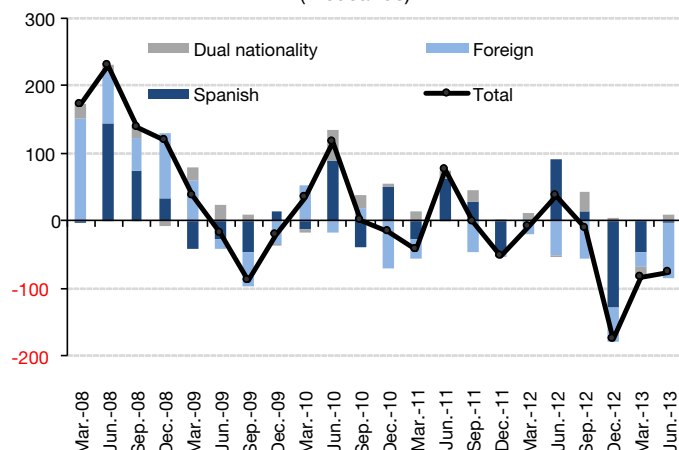
Lastly, the improvement in employment affects local and foreign workers fairly equally, but with important differences by gender: among the former, employment is increasing among both men and women, but among immigrants, it is mainly the men who are benefiting. By educational level, the increase in employment was concentrated among workers with low educational profiles and those with university education.

Quarterly change in public sector salaried employees by type of administration (thousands)



Source: INE

Quarterly change in labour force by nationality (thousands)



Source: INE

As noted above, variations in the labour force have played a key role in the sharp decline in unemployment and the unemployment rate. The number of active workers fell by 76,100, taking the activity rate to 59.5%.

The decline in the labour force again centred on foreigners (down 82,500), taking the cumulative fall since mid-2011 to 336,000. A significant part of these is leaving the country, but another part is joining the ranks of inactive workers in the younger age groups.

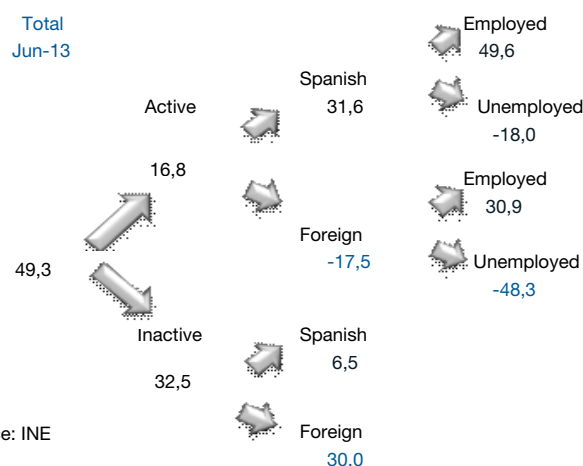
In 2Q13, the population resident in Spain aged over 16 decreased by 43,000, split equally between nationals and foreigners. Given that the fall in active foreigners was much higher, the difference (almost 60,000) joined the ranks of inactive workers.

"The 76,100 reduction of the labour force played a key role in the sharp fall in unemployment and the unemployment rate".

The distribution of the fall in the labour force by nationality is also seen in the variations in the number of households. After the sharp reductions of the past two quarters, due to family grouping and return of foreigners to their country of origin, **in 2Q13 the number of households increased by about 49,300**. However, this is mainly an increase in the number of households in which the head of the family has become inactive and is foreign (30,000 households). Nevertheless, it is surprising that only 4,000 of these new inactive households were caused by the "discouragement" effect that may have been caused by lack of success in the labour market.

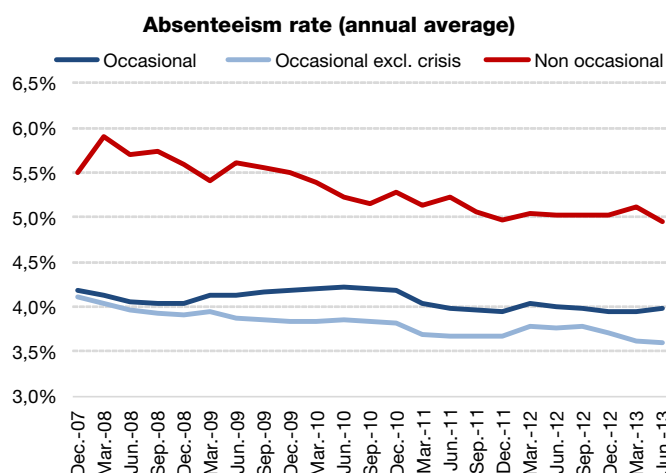
In our view, **this behaviour by foreign workers may be transitory, in the expectation that they will continue to leave the country in the coming months.**

Quarterly change in number of households by nationality and employment situation (thousands)



Source: INE

"The rate of worker absenteeism has remained around 4% since the onset of the crisis, being higher among women, the over-55s and those with a low level of education".



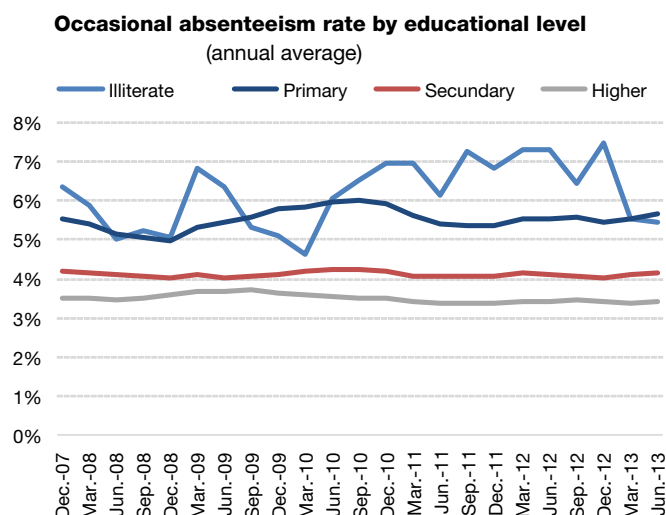
Source: INE

With regard to the profile of the occasional absentee, it can be seen that **absenteeism is higher among women** (4.9% in 2Q13), mainly due to absences and reduced working hours related to motherhood; **and workers aged over 55**. In the latter case, it is especially notable that the 60-64 age group presents an absenteeism rate of 10%, more than double the national average. The accumulation of experience, as well as a reduction in working hours in view of the proximity of retirement, may be the factors behind this behaviour.

On the other hand, **the level of absenteeism is usually inversely related to the worker's educational level**. While 5.5% of those with a low educational level were absent from work at some time in 2Q13, only 3.4% of those with higher education were.

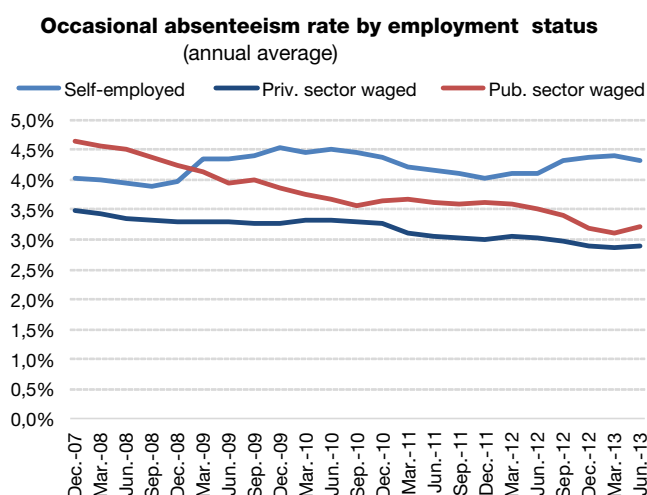
Absenteeism is defined as the failure to attend the workplace, either because workers are enjoying their regular (not occasional) holiday period, or due to their demotivation or the existence of personal circumstances that affect their work routines (for example, a temporary incapacity or maternity leave). The measurement of the latter type of absenteeism (i.e. occasional) is relevant inasmuch as it affects companies' productivity and competitiveness.

Since the beginning of the crisis, the rate of **occasional absenteeism**, calculated as the ratio of workers who did not attend their workplaces to the total, **has remained constant at around 4%**. However, if we exclude reasons attributable to the crisis (obligatory reduction of the working day, strikes, and partial unemployment for technical or economic reasons), the absenteeism rate would have been reduced by 0.4 percentage points to 3.6%.



Source: INE

"Absenteeism is higher among the self-employed than among salaried employees and, within the latter, among those with permanent contracts".



Source: INE

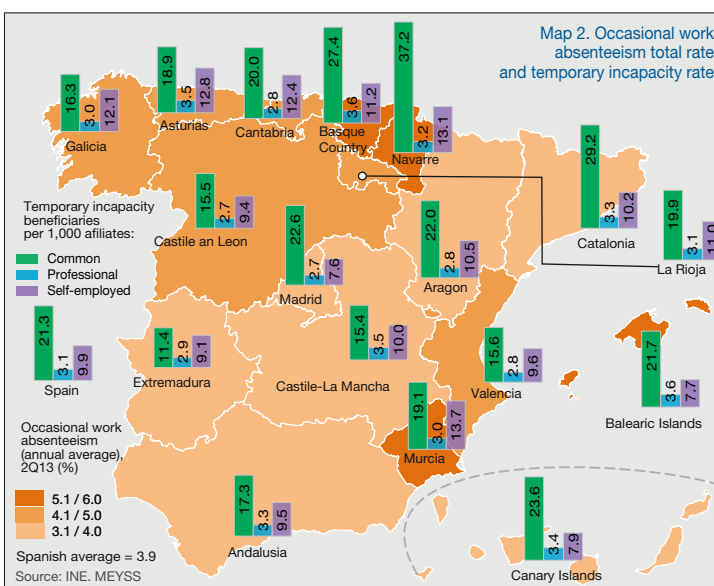
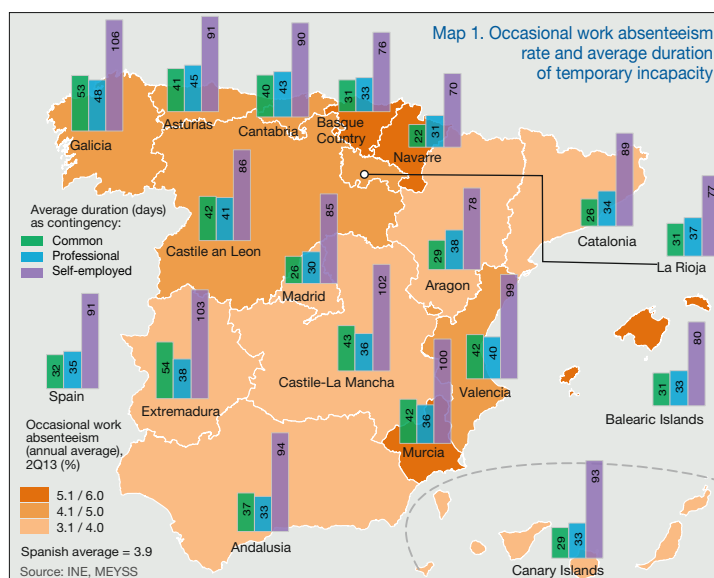
With regard to the worker's employment status, **absenteeism is higher among the self-employed**, even though they themselves bear the consequences of their absences, **than among salaried employees** (4.3% and 3.0% respectively). In this second case, the progressive reduction in absenteeism should be noted, especially among public employees (it fell from 4.6% in 4Q07 to 3.2% in 2Q13). The increased risk of unemployment may explain this trend.

On the other hand, **the employment stability implied by a permanent contract means that absenteeism is higher among this group than among temporary workers** (3.3% and 1.8% respectively of salaried employees in 2Q13). With regard to the length of working hours, there were no differences in the rate of absenteeism between those working full- or part-time.

"The occasional absenteeism rate is highest in those regions with the most important industrial sectors. A higher proportion of salaried employees are in receipt of temporary incapacity benefits, but the duration of these is greater among the self-employed".

By geographical area, in the north of the peninsula, the occasional absenteeism rate is higher than in the south. Thus, for example, while Navarre has the highest rate (5.6% in 2Q13), the Canary Islands has the lowest (3.1% in 2Q13). Although this behaviour may also reflect a greater demotivation of workers in the north versus the south, the truth is that absenteeism is closely related to the region's economic structure, being higher where there is a predominance of sectors in which the risk of work-related accidents (and therefore of suffering temporary incapacity) is greater, such as industry (and especially extractive industries). Indeed, **in regions where the industrial sector accounts for a higher share of GVA (Gross Value Added), the occasional absenteeism rate is higher.**

Analysis of **temporary incapacity benefits** reveals that **they are more frequent among wage-earners than among the self-employed** (21.3 and 9.9 recipients per thousand enrolments respectively in January-April 2013). With regard to benefits for temporary incapacity to wage earners and non-work-related incidents, which are the most frequent, **Navarre, Catalonia and the Basque Country** stand out as having the **highest ratios in terms of their total Social Security enrolment** (37, 29 and 27 recipients per thousand enrolments). However, analysing **the duration** of these benefits, it is found to **higher among the self-employed than among salaried employees** (91 and 35 days respectively). The losses which self-employed workers may incur are, in general, higher in relative terms, meaning that their temporary incapacity is usually quite serious and, therefore, they have to take longer off work. At the regional level, the duration of temporary incapacity **is higher in the south than in the north of the peninsula**, with the exception of Galicia.



THE MONTHLY FOCUS

Compensating for instability

The deterioration of the labour market will soon bottom out, but it is not yet possible to say how rapid and strong the recovery in employment will be. The jobs that will be created, however, will not be permanent nor of high quality. They will be "unstable" if we believe what the latest EPA labour force survey indicates. Although any employment must be welcome, the predominance of temporary and part-time contracts in core sectors must be compensated in order to avoid entrenching instability for many decades to come. One way of doing this would be to combine the generalization of this type of jobs with partial unemployment benefits for workers with low incomes, converting the rest of their working hours or weeks into training time. This is what has been done in Germany since 2009. As a result of these supporting policies, the enormous labour market duality that has been created in that country will be rapidly reversible once economic and financial conditions return to normal, because workers have remained integrated into production and training, rather than falling into obsolescence and the underground economy, and hundreds of thousands of SMEs have been able to survive. Why don't we try this in our country?

José Antonio Herce. Associate Director, Afi