

Spanish Labour Market Monitor

Presentation

August's employment figures showed a substantial improvement, but even though it was the best August of the last decade, it was insufficient to generate an increase in employment on a seasonally-adjusted basis. The fact that registered unemployment has hardly varied (31 down on the previous month), even though Social Security enrolment fell by almost 100,000, suggests that the discouragement effect is taking its toll on the unemployed. This effect is also affecting household formation and family finances. Young and foreign households, precisely those groups most affected by unemployment, are seeing the biggest declines, while more than 6% of Spanish households in the 55-64 age group have ceased to be active due to discouragement.

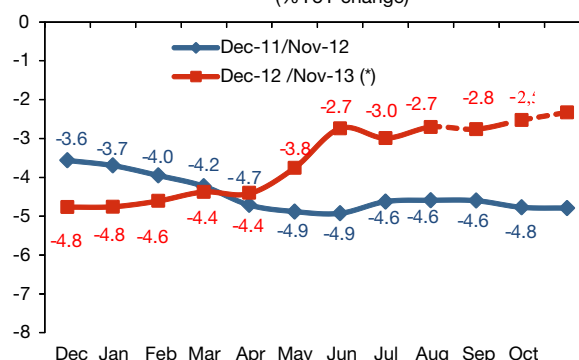
Key Points

- August's employment figures showed a substantial improvement, but insufficient to generate seasonally-adjusted gains in employment.
- Social Security enrolment declined by almost 100,000, while there was virtually no change in the number of registered unemployed in the State Employment Service (down 31).
- The behaviour of registered unemployment may also reflect fatigue and abandonment of the labour force by discouraged workers.
- The stabilization of recruitment for the second consecutive month is another fact that suggests that further falls in employment should be moderate.
- A relatively good performance by Social Security enrolment in August brings the SLM index back to the levels of the end of 2Q13 (down 2.7% YoY). We anticipate a progressive containment of the pace of deterioration in employment from now until the end of the year.
- In recent quarters, there has been a strong and unprecedented decline in the number of households, a trend that, though interrupted in 2Q13 (up 49,300), will continue if the economic slowdown forecast for the second half of 2013 materializes.
- Young and foreign households and those with low educational levels are those most affected by unemployment, and it is these whose numbers have been declining in recent quarters.
- More than 6% of Spanish households in the 55-64 age group have ceased to be active due to discouragement. Foreign households also have significant percentages of discouraged workers in the 25-34 age group.
- The behaviour of households by region clearly reflects the economic and social realities of each area.
- The northern regions of the Iberian peninsula have recorded sharp declines in the number of foreign households in recent quarters, while the Balearic Islands and Aragon saw increases in the number of households (both foreign and Spanish).

Afi-ASEMPLEO SLM Indicator

A relatively good performance by Social Security enrolment in August brings the fall in the SLM index back to the levels of the end of the 2Q13 (down 2.7% YoY) after the slight deterioration seen in July. The forecast variation in Social Security enrolment in September (a further correction, but substantially more moderate than in the same months of 2012 and 2011) means that the index will continue to decline at rates similar to those seen recently.

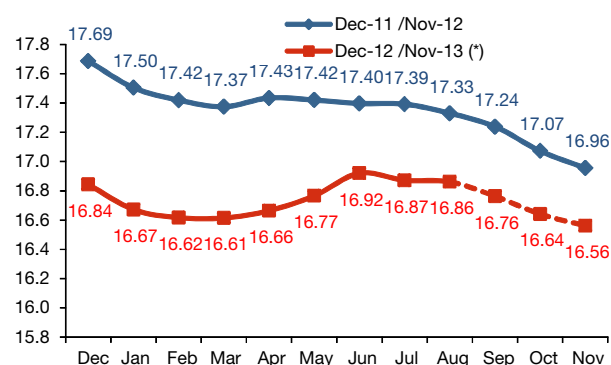
SLM monthly forecast of workers in employment (%YoY change)



Source: Afi. (*) Sep 2013-Nov 2013 figures are forecasts

The unfavourable seasonality of the autumn months will result in additional falls in employment, though at a progressively slower rate that will be close to 2% on a YoY basis at the end of the year.

SLM monthly forecast of workers in employment (millions)



Source: Afi, Sep 2013-Nov 2013 figures are forecasts

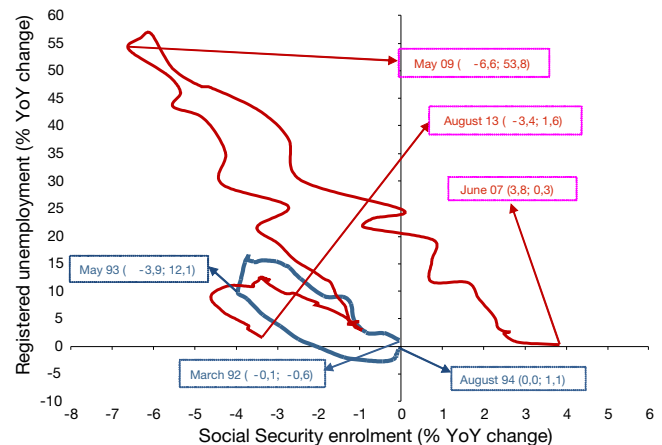
"There was a substantial improvement in the August employment figures, but insufficient to generate seasonally-adjusted gains in employment".

With a loss of Social Security enrolment of slightly less than 100,000 (3.4% YoY) and virtually no change in the number of registered unemployed (down 31, up 1.6% YoY), **this August was the most favourable since the early 2000s**. On average, over the past 10 years, which include the recession, registered unemployment increased by 50,000 in August, while Social Security enrolment fell by 150,000.

As expected, services has been the key sector, creating employment even on a seasonally-adjusted basis, together with construction, which has significantly moderated its rate of deterioration in employment. Hotels and catering, with 20,000 new Social Security enrolments in the month, is the only major sector in employment terms, together with real estate, to record YoY increases in Social Security enrolment in August.

The behaviour of registered unemployment may also reflect fatigue and abandonment of the labour force by discouraged workers.

Labour market cycles in Spain: The current crisis compared with 1992-94

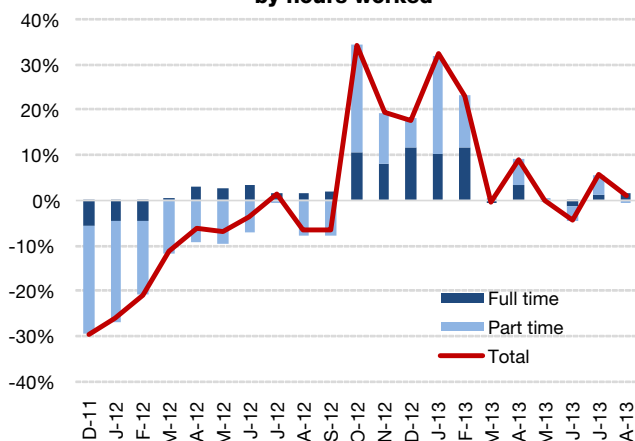


Source: Ministry of Employment and Social Security

The stabilization of recruitment for the second consecutive month (notably the interruption of the fall in permanent contracts) **is another indicator that additional losses of employment should be moderate**, assuming there is no major relapse in demand due to a hardening in funding conditions, a tougher than expected fiscal adjustment and/or a sharp slowdown in world trade.

In any case, until the stabilization of employment reaches a majority of sectors (Social Security enrolment continues to fall in the manufacturing industry by more than 4% YoY, for example), we do not envision net job creation. This is the scenario that we continue to forecast for the second half of 2014, though there may be a prior stabilization and even reduction in unemployment, as happened in the 1992-94 crisis.

Contribution to YoY change in permanent hiring by hours worked



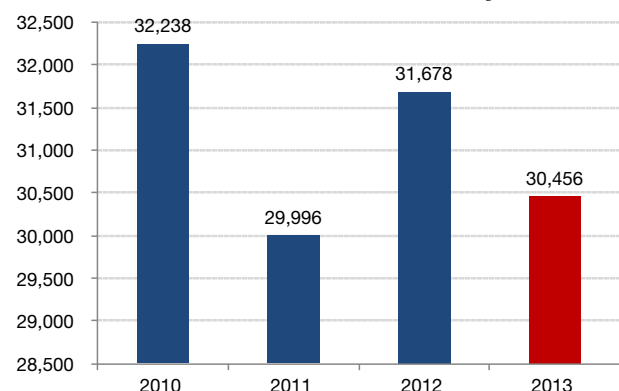
Source: Ministry of Employment and Social Security

"Spending on unemployment benefits is falling, but not enough to reach the level budgeted by the state for 2013".

Spending on unemployment benefits fell in July for the fifth consecutive month, for two reasons: **the number of beneficiaries declined** (to 2.87 million, compared to 2.92 million in July 2012) **as did the average amount of benefit** (to €821 per month, compared to €842 a year ago). The bill for unemployment benefits forecast in the General State Budgets for 2013 is €28 billion, €3.8 billion less than in 2012. **Even if the pace of reduction observed until July is maintained until December, spending on benefits would still exceed €30 billion.**

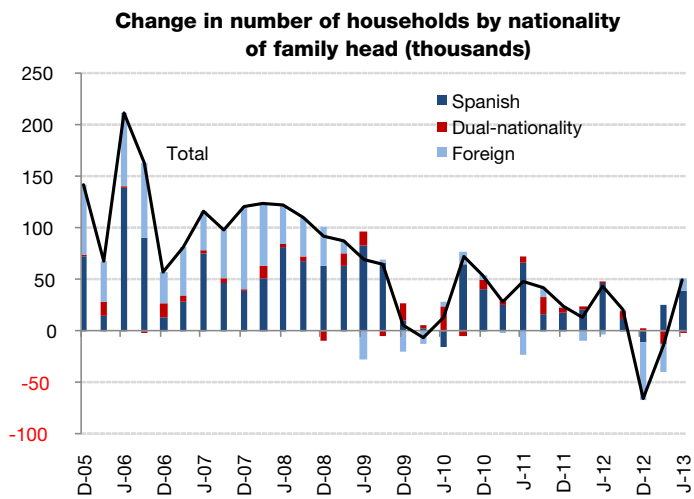
Interest payments are below the amount budgeted, providing the state with a margin that would offset (i) the higher spending on benefits and (ii) the probable shortfall in tax income, but even so, further containment of the rest of government expenditure items during the second half will be required to meet the deficit target.

Expenditure on unemployment benefits (€ millions)
Afi-ASEMPLEO estimates assuming July rate of decline is maintained for rest of year



Source: Ministry of Employment and Social Security

"Young and foreign households and those with low educational levels are those most affected by unemployment and whose numbers have been declining in recent quarters".



Source: National Statistics Institute (INE)

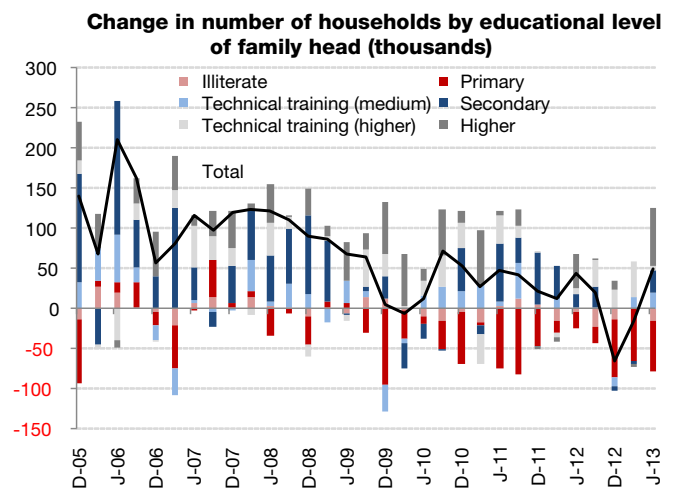
The profile of the households lost faithfully reflects the deterioration of the labour market and the difficulties encountered by certain groups of unemployed in the search for work. **It is young households** (people who left the parental home in the expansionary phase of the cycle and are now returning), **those with low levels of education** (workers who are illiterate or have completed only primary education) **and foreigners** (who opt to return to their country of origin or to another with more job opportunities, which is precisely the reason why they emigrated to Spain a few years ago) **which have seen the greatest falls since the beginning of the crisis.**

The fact that most of this reduction was concentrated in heads of household who worked in the construction industry and real estate services highlights the economic reality faced by the country and the poor prospects of finding a job in these sectors.

The persistence and dimensions of the current crisis are generating radical changes in various fields. One of them relates to demography and, in particular, the formation of households.

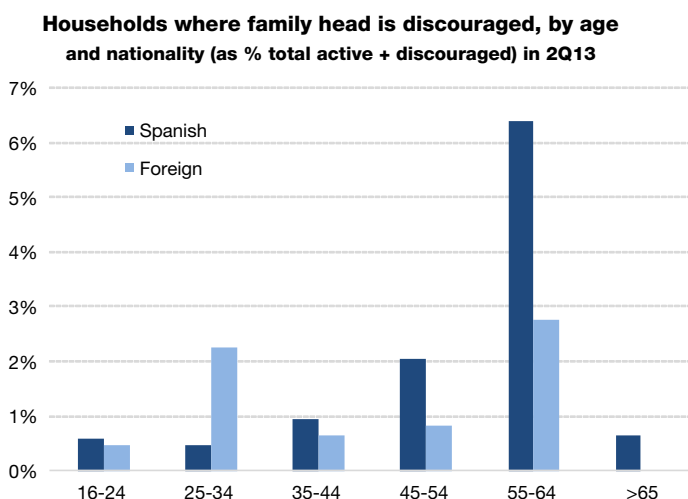
From the mid-nineties until 2009, household formation in Spain recorded strong growth. Of the 150,000-200,000 new households, half were Spanish and the other half made up of foreigners who came to Spain attracted by the economic boom.

However, **in recent quarters a sharp and unprecedented decline in the number of families has been observed.** Between 4Q12 and 1Q13 the total fell by some 80,200, **a trend which**, although interrupted in 2Q13 (with an increase of 49,300 households), **will be continued if the economic slowdown forecast for the second half of 2013 materializes.**



Source: National Statistics Institute (INE)

"More than 6% of Spanish households in the 55-64 age group have ceased to be active due to discouragement. Foreign households also have significant percentages of discouraged workers in the 25-34 age group".



Source: National Statistics Institute (INE)

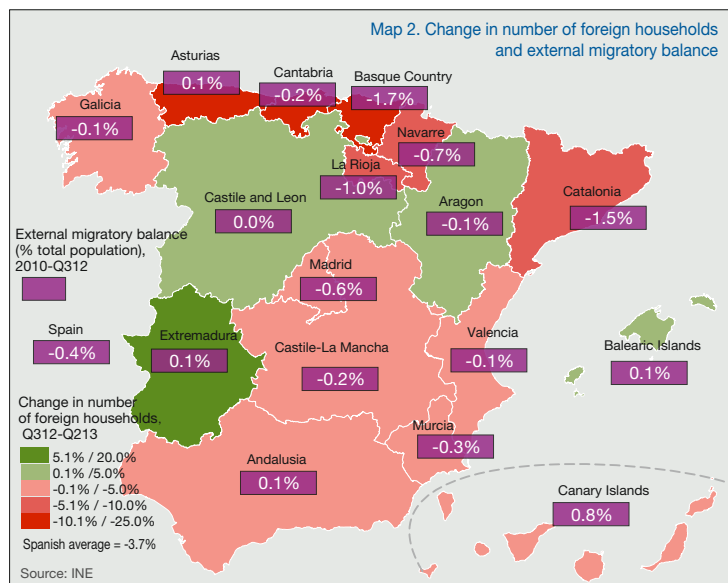
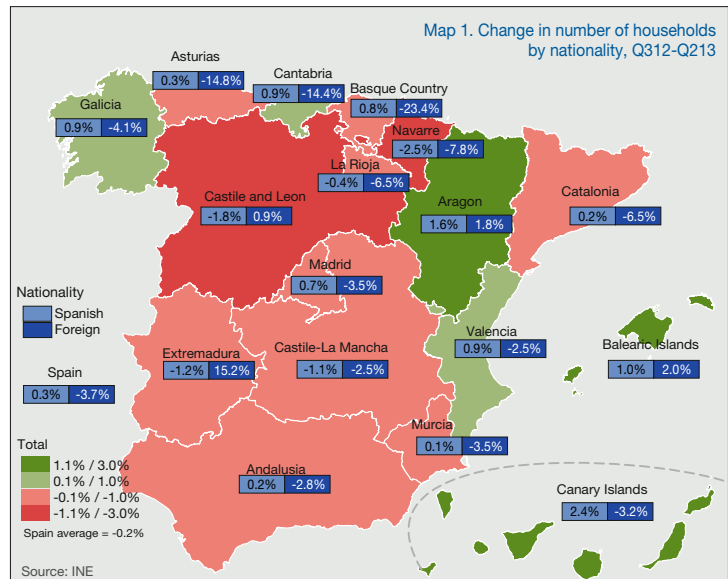
In fact, many of these households have become inactive, either because they are discouraged by the economic situation or because this has led to them being included in early retirement plans for older workers.

As regards the first of these reasons, **it is very worrying that more than 6% of heads of Spanish households are between 55 and 64 years of age and have left the labour market due to discouragement.** The same applies, in a lesser degree, to the foreign population, though in this case discouragement is most significant in a younger group (25-34 years). In the active employment policies that the government should deploy, efforts should also be directed toward these groups because, otherwise, the situation described above will continue to deteriorate.

"The northern regions of the Iberian peninsula have recorded sharp declines in the number of foreign households in recent quarters, while the Balearic Islands and Aragon have seen increases in the number of households (both foreign and Spanish)".

The behaviour of households by region clearly reflects the economic and social realities of each area.

In absolute terms, Catalonia and Castile & Leon are the regions where the number of households has fallen most in recent quarters. However, in terms of the proportion of the total number of households in the third quarter of last year, the list would be headed by regions like Navarre, Castile-La Mancha and Extremadura, with cumulative falls of over 1%. In terms of the nationality of the head of family, the number of Spanish households in the country as a whole has remained virtually unchanged in relative terms (specifically, a 0.3% rise between 3Q12 and 2Q13). However, this is not the case with those of foreign nationality, among which there has been a significant decline (3.7% compared with the total in 3Q12). **Foreign households have declined more sharply in the north of the Iberian peninsula**, led by the Basque Country (down 23.4% compared to 3Q12). One of the causes of this situation is the crisis experienced in recent quarters by industry, a sector more prevalent in these areas; this is also reflected in rising unemployment (in the Basque Country it has doubled since the end of 2011). This has been observed in the past two years, because migratory flows (especially interregional flows) have been strongest in those regions where economic activity and employment have deteriorated most, (see SLM Monitor of February 2013). **In contrast, regions such as the Balearic Islands and Aragon recorded growth in the number of households, both Spanish (1.0% and 1.6% respectively) and foreign (2.0% and 1.8% respectively).** In the case of the Islands, the population increase is due to immigration, attracted by the productive specialisation of its economy and, in particular, by the good performance of international tourism.



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Bottoming out

If it were not for the legacy of unemployment that has accumulated during the crisis, August's employment data (both raw and seasonally adjusted) would be even better than those for the same month in a normal pre-crisis year. The Spanish economy will emerge from recession very soon and will begin to grow at rather slow rates which, under normal conditions, would not ensure the net creation of jobs. The true test of the effectiveness of the labour reforms will be whether sustained increases in employment can be achieved with annual growth of GDP of around 1%. We may see it soon, too, but this implies the need to support these jobs at the training and social levels. However, one of the problematic readings of the August's otherwise excellent registered unemployment data is the discouragement and abandonment of the employment arena which has become widespread among the long-term unemployed.

José Antonio Herce. Associate Director of Afi