

Spanish Labour Market Monitor

Presentation

The September employment figures are encouraging: on a seasonally-adjusted basis, unemployment was down 35,600 while Social Security enrolment rose slightly - 5,700 - over the previous month, though it is still too soon to talk of a turnaround in the labour market. Nonetheless, 3Q13 looks like the best quarter since the onset of the crisis. The Afi-ASEMPLEO SLM Indicator indicates that the EPA labour force survey could record an increase in employment of some 61,000 over the quarter, with the unemployment rate falling to 25.86%. At the same time, the Entrepreneur Support Act has been passed, at a time when only 5.7% of adults are entrepreneurs (although an increasing number are taking this course for lack of any alternative), which is most likely due to the difficulty of raising finance and the absence of an entrepreneurial culture.

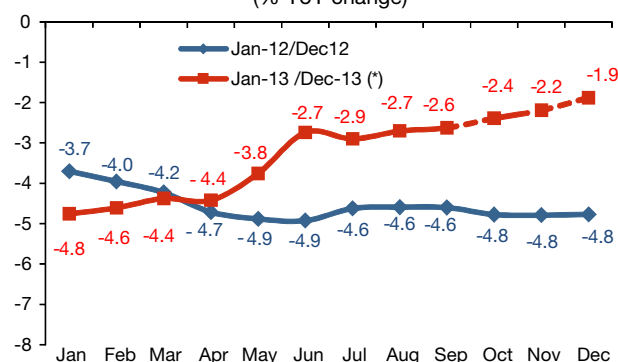
Key Points

- The September employment figures are encouraging, though it is still too soon to talk of a turnaround in the labour market.
- Registered unemployment rose by some 25,500 over the previous month, but this was the smallest September rise recorded during the crisis. Moreover, on a seasonally-adjusted basis, it was down 35,600.
- Social Security enrolment was down by more than 22,000 compared with August, but rose 5,700 on a seasonally-adjusted basis.
- Ignoring the distortion produced by the regularization of domestic staff a year ago, permanent hiring was up by 6% compared with the previous year.
- The Afi-ASEMPLEO SLM Indicator points to an increase of 61,000 in employment in the 3Q13 EPA labour force survey and a fall in unemployment of around 100,000, which together with the expected 1.63% fall in the labour force could bring the unemployment rate down to 25.86%.
- 5.7% of Spanish adults undertook entrepreneurial activity in 2012. In an increasing number of cases, this is the result of necessity (25.6% in 2012, compared with 14.9% in 2007).
- The Entrepreneurs Act will improve the entrepreneurial culture, through the educational system (the entrepreneurial rate among the highly educated is double that of the poorly educated)...
- ... and access to finance, especially for those whose project is export-oriented (in 2012, only one out of four recently-created companies exported).
- The highest indices of entrepreneurship due to lack of alternatives are found in the regions with the highest unemployment rates.
- It would be useful to provide training for those who are already self-employed. Only 32.9% of them currently have higher education.

Afi-ASEMPLEO SLM Indicator

The September figures confirm that the third quarter of 2013 was the most favourable for the labour market since the onset of the crisis. Average Social Security enrolment exceeded that of the previous quarter by 22,000, while registered unemployment fell by 173,000.

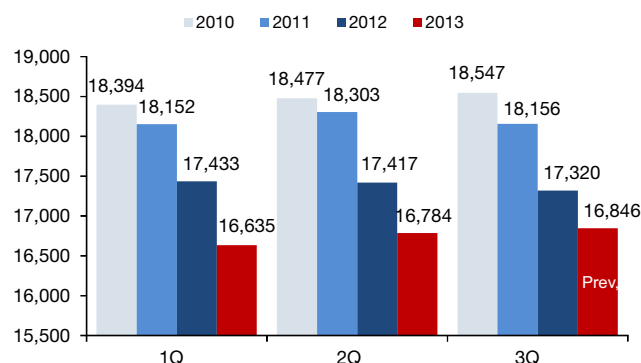
SLM monthly forecast of workers in employment
(% YoY change)



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

The trend in employment is similar to that of 2010 and, in the case of unemployment, more favourable. The Afi-ASEMPLEO SLM Indicator is pointing to an increase in employment the EPA survey of around 61,000 (which would mean a fall of 2.74% in YoY terms). The fall in the number of unemployed could be higher (100,000), taking the unemployment rate to 25.86%. The labour force could record a decline of 1.63%.

Employment in EPA survey
(thousands)

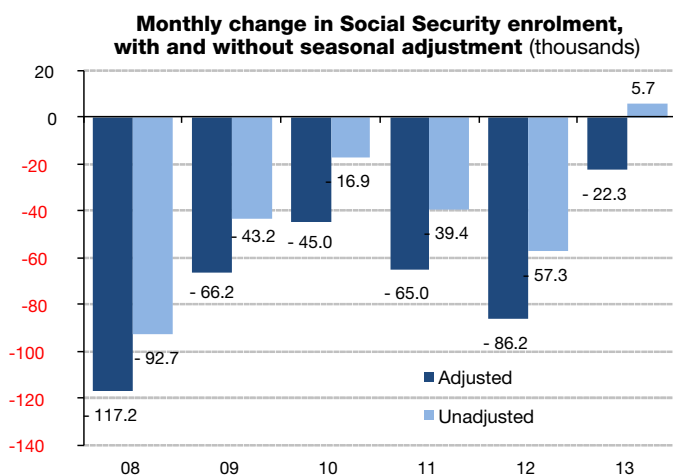


Source: EPA (INE) and Afi forecasts

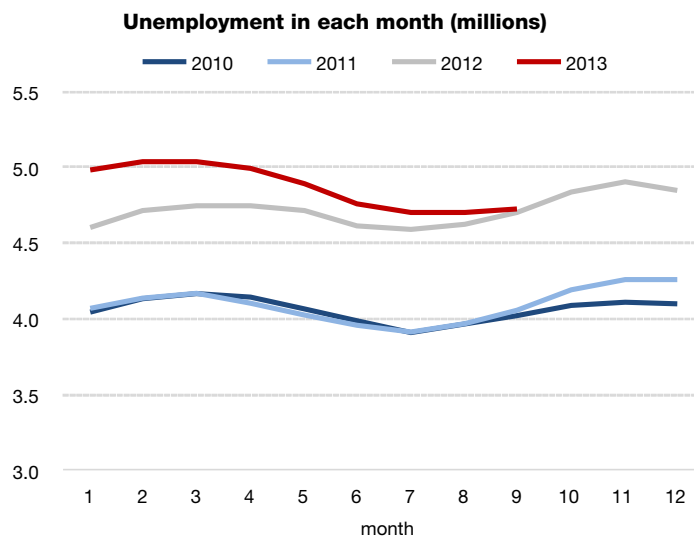
"The slowdown in the rise in unemployment suggests that we shall soon begin to see lower unemployment figures than those recorded a year ago".

The September employment figures are encouraging, though it is still too soon to talk of a turnaround in the labour market.

In September, the number of unemployed registered with employment offices rose by more than 25,500. Though this increase is bad news, it can be read positively if we consider, on the one hand, that **it is the smallest September rise since the onset of the crisis** (0.4% in YoY terms) and, on the other, that **after adjusting for seasonal effects** (unfavourable due to the end of the summer holiday season) **there was a fall of some 35,600**. The slowdown in the rise in unemployment suggests, on the other hand, that we shall soon begin to see lower unemployment figures than those recorded a year ago (the current total is 4.72 million), something which has not occurred since 2006.



Source: Ministry of Employment and Social Security



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With regard to **Social Security enrolment**, the total fell by somewhat more than 22,000 compared with the previous month, but **after seasonal adjustment there was a rise of 5,700**. Though modest, this is the first September increase since the onset of the crisis. The good performance of educational and administrative services (with monthly rises of 47,157 and 11,056 respectively) partly offset the sharp falls in hotels & catering and retailing (41,404 and 25,071 respectively), but not enough to prevent the decline in total enrolment. The number of self-employed, in turn, was little changed, barely rising by 1,487.

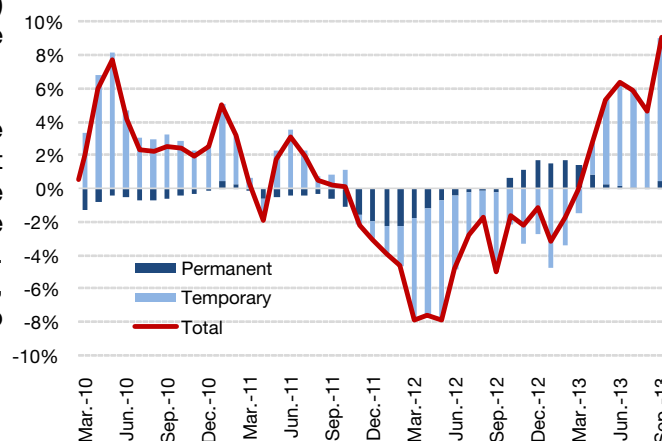
3Q13 thus ended with a fall in unemployment of 39,000 over the quarter and a decline of more than 88,000 in Social Security enrolment.

"Ignoring the distortion produced by the regularization of domestic staff a year ago, permanent hiring was up by 6% compared with the previous year".

The recruitment data show a relatively strong recovery on a YoY basis (9.3%). In any case, it was concentrated in temporary contracts (up 128,933 on September last year) rather than permanent hiring, which moderated its decline with a YoY fall of 10,547.

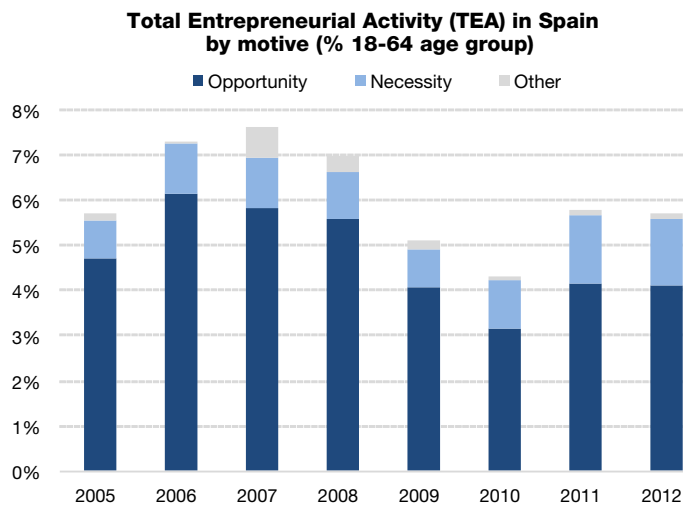
However, **ignoring the distortion produced by the regularization of domestic staff a year ago** (almost 33,000 in September, of which 60% were permanent), while the YoY increase in total hiring been similar at 9.1%, the same cannot be said of the breakdown by types of contract. **Permanent recruitment would have risen by 6.0%**, while the increase in temporary contracts is reduced to 9.3% (104,194).

Contribution to YoY change in recruitment by type of contract, excl. regularization of domestic workers (qtrly avg)



Source: Ministry of Employment and Social Security

“5.7% of Spanish adults undertook entrepreneurial activity in 2012. In an increasing number of cases, this is the result of necessity (25.6% in 2012, compared with 14.9% in 2007)”.



Source: GEM

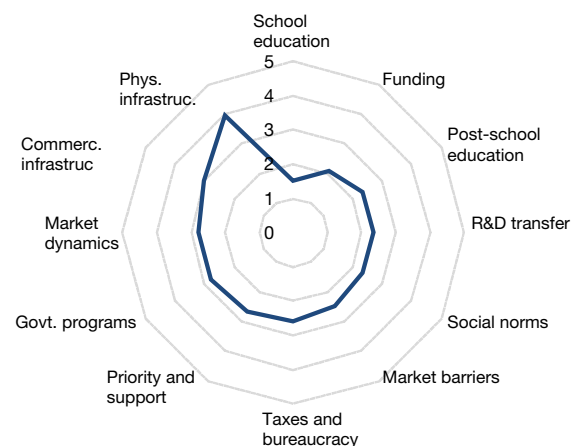
Two of the chief problems faced by entrepreneurs in Spain are the difficulty of raising finance and the absence of an entrepreneurial culture or an education that encourages it. The new law seeks to remedy some of these problems.

In the first instance, **the high margins applied to company loans** (in 2013, margins on loans of less than €1 million exceeded 5 percentage points), presumably due to the high failure and bad debt rates among companies (the latter was 7.5% in 2Q13), **are leading to drastic falls in bank financing** (new credit is down 67% since the start of the crisis). The alternatives are self-funding (61.3% of the total in 2012) and private investors (friends and relatives of the entrepreneur). On the other hand, the new law creates new financial instruments, **'internationalization bonds', with the intention of boosting companies' foreign activities** (in 2012, only one out of four new companies exported).

Following the recent approval of the Entrepreneurs Act, this is a good time to review the variables affecting the choice of an entrepreneurial career, particularly as this employment option is under-represented in Spain. **The 3 million workers registered under the Social Security's Special Regime for Self-employed Workers account for only 18.6% of contributors** (average for January-August 2013). Of these, according to the Central Companies Directories (DIRCE), 55.7% have no salaried employees, while 48% of the remainder have set up a limited liability company.

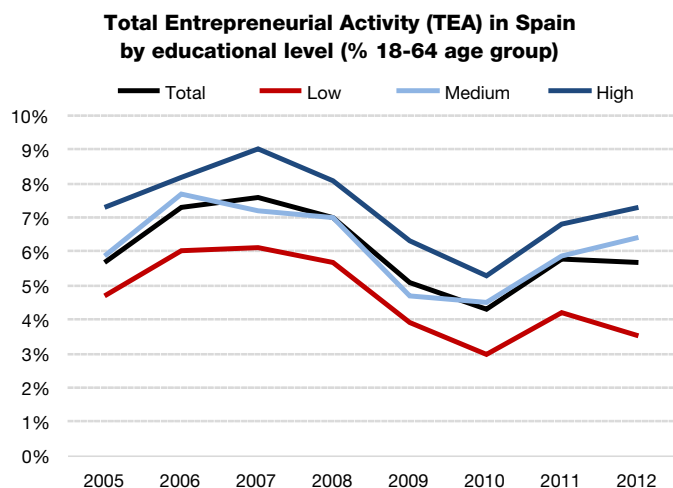
According to a report by the Global Entrepreneurship Monitor, **the 2012 Total Entrepreneurial Activity (TEA) was 5.7%, 1.9 percentage points below the 2007 figure**. The crisis, although it caused this decline, is also responsible for boosting entrepreneurship due to the difficulty experienced by the unemployed in finding jobs (13.0% in 2Q13). Of those taking up entrepreneurship, 25.6% did so out of necessity, compared with 14.9% in 2007.

Average evaluation of main conditions of environment for entrepreneurial activity in Spain (0 = low; 6 = high)



Source: GEM

“The Entrepreneurs Act will improve the entrepreneurial culture, through the educational system and through access to finance, especially for those whose project is export-oriented”.



Source: GEM

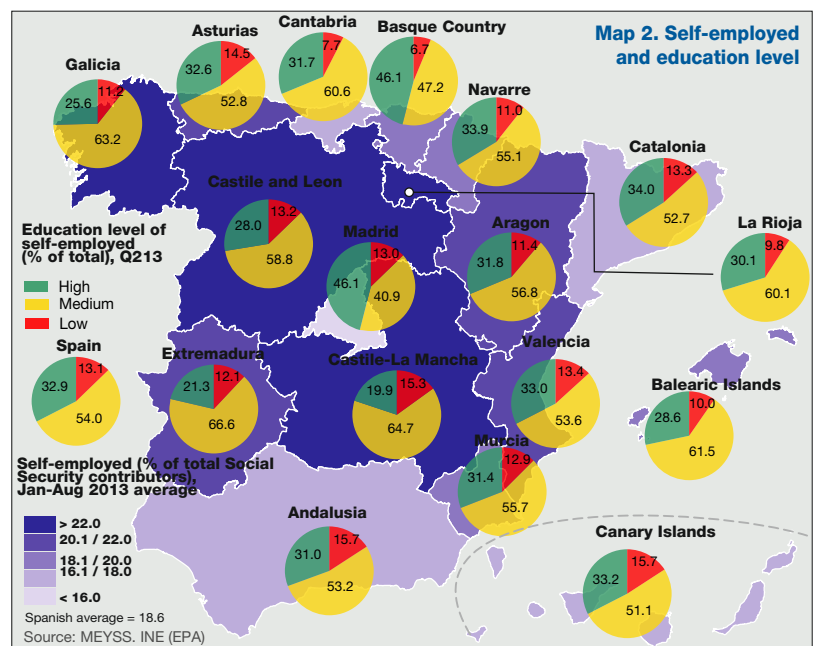
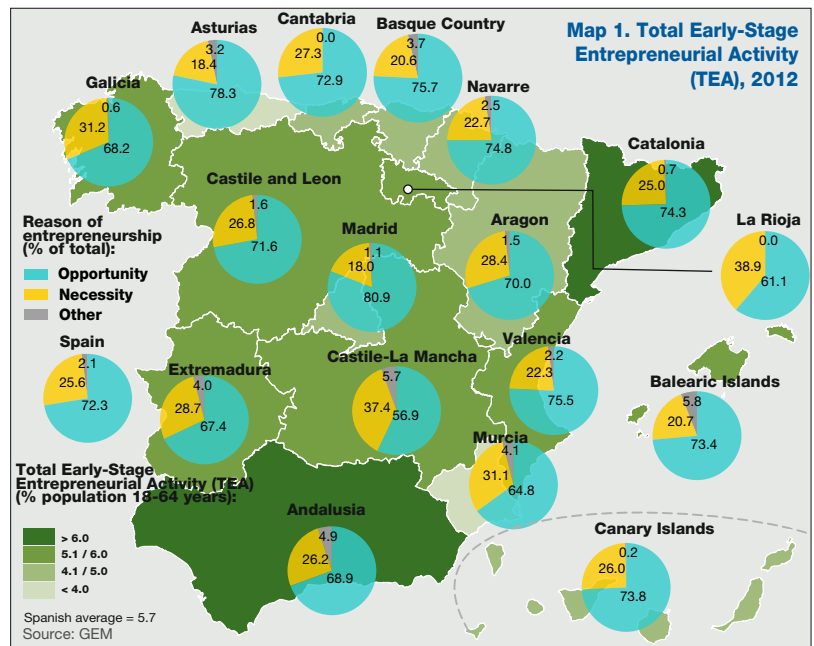
In the second case, the encouragement of an entrepreneurial culture, through education at all levels, is essential to ensure that more workers adopt this option in the future. This is shown by the breakdown of the TEA by educational level, as it was higher among those workers who had completed some level of higher education (university graduate or post-graduate degree). In 2012, specifically, **the TEA of the highly educated was 7.3%, falling to 3.5% among those with low educational levels**.

Moreover, education is vital not only in starting a business, but also to ensure that it survives and prospers. In this respect, the 2Q13 EPA data for show that 13.2% of the self-employed were under-qualified for the work they were undertaking.

“The highest indices of entrepreneurship due to lack of alternatives are found in the regions with the highest unemployment rates”.

Entrepreneurial activity varies greatly between regions. In 2012, Catalonia had the highest Total Entrepreneurial Activity (TEA) in Spain, with 7.5%, while Asturias had the lowest (2.2%). In addition to the entrepreneurial culture, two factors are at work. Firstly, the economic structure of each region, as the self-employed work mainly in sectors such as retailing and repairs, professional services and the primary sector (in 2Q13, these accounted for more than 60% of self-employed workers). Secondly, as noted above, **the current economic crisis is causing self-employment to be seen as an alternative among the unemployed.** Indeed, there is a positive correlation between the need-driven TEA and the unemployment rate. Among the regions, Castile-La Mancha has one of the highest combinations of these two indicators (37.4% of those starting a business in 2012 did so out of necessity, as 28.5% of the labour force was unemployed).

However, no relation whatsoever can be discerned between the TEA and the ratio of self-employed to total Social Security contributors. The regions with the highest percentages of self-employed in 2012 were the two Castiles and Galicia (all with ratios above 23%). Lastly, although the Entrepreneurs Act provides for improved education at all levels to instill, among other things, the skills required to start a business, **it may also be useful to provide training for those who are already self-employed.** Only 32.9% of them have a high educational level. By region, the two Castiles, Extremadura and Galicia have the lowest percentage of highly qualified self-employed (less than 30% of the total). At the other extreme, we find Madrid and the Basque Country, with levels close to 50%.



THE MONTHLY FOCUS

Trends and turning points

Once again, the September figures on the situation in the labour market were good, although conditions in the market leave no room for complacency. Prudence, not to mention the data themselves, counsel us to await further figures on the same lines before announcing the longed-for “turning point”, in the awareness that the coming fourth and first quarters are seasonally unfavourable. Hence, the seasonally-adjusted data will be particularly important from now on, and will need to be interpreted with care. If we are to talk confidently of a “reversal of the trend”, the seasonally-adjusted data of the next few months will need to be as good as those of September. If the data observed also have the right sign, the labour market, despite its heavy handicap, would become a factor inspiring confidence in the recovery.

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