

Spanish Labour Market Monitor

Presentation

The December figures brought the year 2013 to a close with net falls of 85,041 in Social Security enrolments and 147,385 in registered unemployment, data that, though far from satisfactory, confirm the stabilization of the Spanish labour market. They are not satisfactory because, at the same time, a sharp fall in wages is occurring which, although it ensures the competitiveness of exports and may lead to a future increase in employment, weakens family finances in the short term. In 3Q13, more than 10% of households had all their active members unemployed and almost 4% were not receiving any type of income.

Key Points

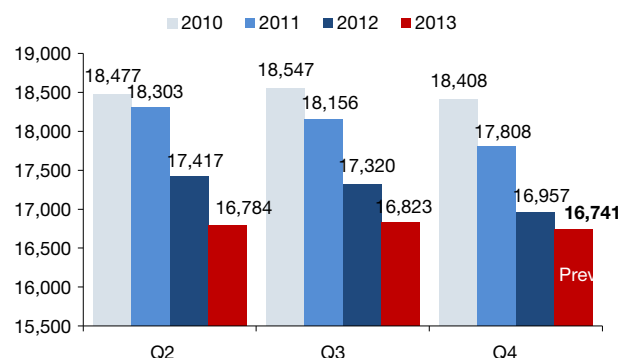
- The December labour market data bring 2013 to a better end than expected: registered unemployment fell by 107,570 in the month and Social Security enrolment was up 64,097.
- Enrolment declined by 85,041 in 2013, while the ranks of the registered unemployed shrank by 147,385.
- Recruitment recorded double-digit YoY growth rates (13.1% in 4Q13), thanks to temporary hiring (up 14.7%).
- The Afi-ASEMPLEO SLM Indicator points to a decline in EPA employment of 83,000 in 4Q13. The unemployment rate could rebound to 26.23%.
- The reduction in wages ensures the competitiveness of exports and, although this weakens family finances in the short term, it may lead to a future increase in employment.
- The increased risk of unemployment accounts for the reduction of labour costs, among other things. The greater the risk of unemployment, the lower the probability of wages increasing in negotiations between worker and company..
- Murcia, Cantabria and the Balearic Islands saw hourly labour costs fall by more than 1% YoY in 3Q13, mainly due to a sharp decline in wage costs.
- The regions with the highest rates of unemployment and the highest risk of unemployment are those with the lowest labour costs and the sharpest falls in the latter in 3Q13.

Afi-ASEMPLEO SLM Indicator

December's unexpected increase in enrolment substantially improves the net result for employment in 4Q13: the number of enrolments increased by 52,195 and the fall in EPA employment expected in the same period has reduced. The Afi-ASEMPLEO SLM Indicator points to a fall in employment of 83,000 (down 1.27% YoY compared to the 2.87% fall in the third quarter); if confirmed, this would take the fall in employment in 2013 to 216,000.

The average number of unemployed registered with public employment offices during 4Q13 is somewhat more than 50,000 higher than in 3Q13; this reading is similar to the figures for unemployed job seekers (DENOS) and, if translated into the EPA labour force survey, would lift the unemployment rate to 26.23% (25.98% in Q3), assuming a 1% YoY fall in the labour force.

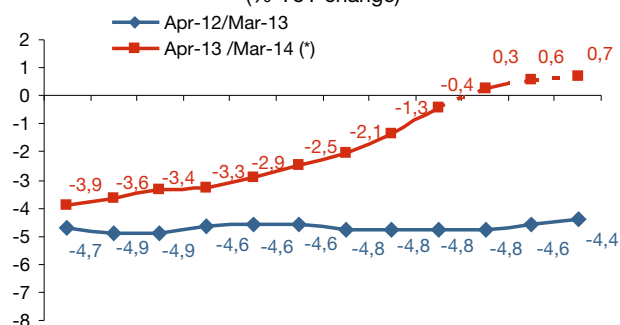
EPA employment (thousands)



Source: EPA (INE) and Afi forecasts

On current trends, the first YoY increase in enrolment could occur as early as January.

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

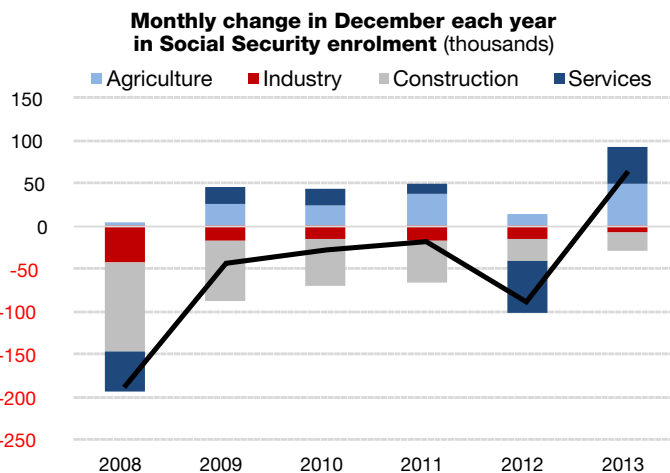


Source: Afi, (*) Jan 2014-Mar 2014 figures are forecasts

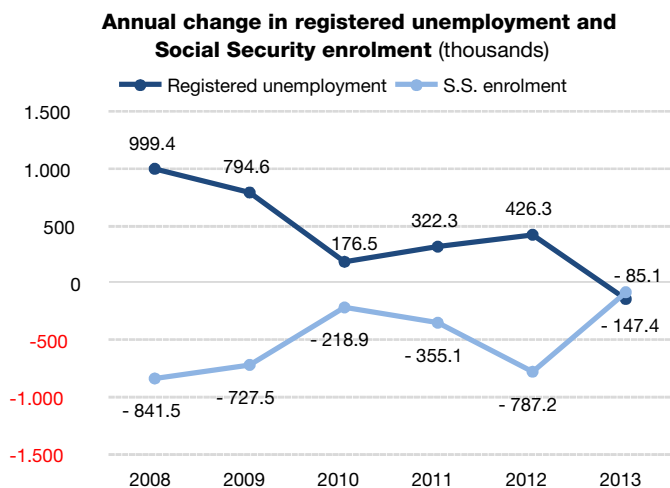
"The December labour market data bring 2013 to a better end than expected: registered unemployment fell by 107,570 in the month and Social Security enrolment was up 64,097".

The December labour market data bring 2013 to a better end than expected: registered unemployment fell by over 107,570 in the month and Social Security enrolment was up 64,097. The good performance is also reflected in the seasonally adjusted data: registered unemployment was down by around 57,700, while enrolment increased by 38,200 over the previous month.

However, it should be noted that the **bulk of the increase in enrolment**, the first since the beginning of the crisis, occurred **among agricultural workers (49,230) and, to a considerably lesser extent, among retail workers (25,190)**; the latter account for the bulk of the increase in enrolment in services. Construction and industry, in turn, again saw falls in their level of enrolment.



Source: Ministry of Employment and Social Security



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With the inclusion of these data, the YoY changes in both indicators very clearly reflect an imminent stabilization of the Spanish labour market, clearly foreshadowed by the data of the past few months.

Thus, **the net annual change in Social Security enrolment was a fall of 85,041 in 2013**. Though it is still negative, it is little more than a tenth of the figure registered, for example, the previous year (787,241). With regard to registered unemployment, 2013 is the first year of the crisis in which the number of unemployed has fallen (it currently stands at 4.70 million). Specifically, **147,385 left the ranks of the unemployed last year**, compared with an increase of 426,364 in 2012.

"Recruitment recorded double-digit YoY growth rates (13.1% in 4Q13), thanks to temporary hiring (up 14.7%)".

Finally, it should be noted that recruitment has also performed very favourably. In the last quarter of the year, **the number of contracts increased by 13.1% YoY, due entirely to temporary hiring**. Permanent contracts, even excluding those resulting from the regularization of domestic employees during 2012, decreased by 3.6% YoY in the same period.

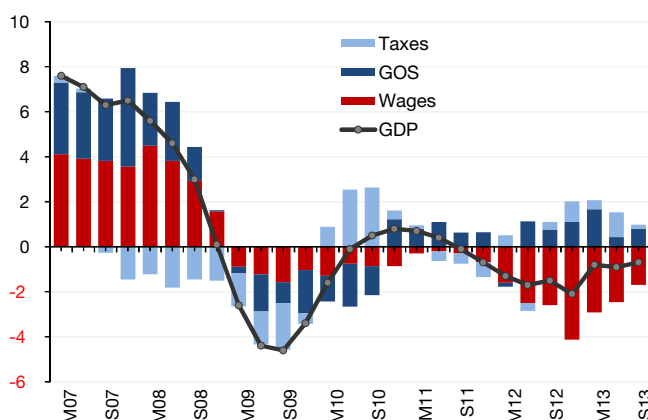
The annual outcome is also positive. Excluding domestic employees, hiring increased by 7.4% in 2013, with advances in both temporary and permanent contracts (7.7% and 4.5% YoY, respectively).



Source: Ministry of Employment and Social Security

"The reduction in wages ensures the competitiveness of exports and, although this may lead to a future increase in employment, it weakens family finances in the short term".

Contribution to YoY change in Spain GDP by income component (%)



Source: INE

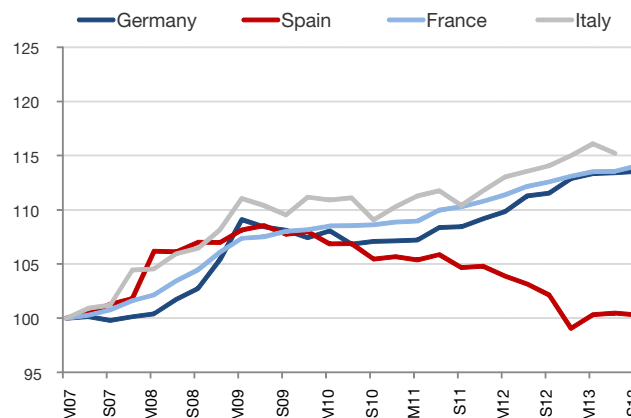
The trend in unit labour costs also reflects this behaviour. Between 3Q09, when they peaked, and 3Q13, labour costs have fallen by 7.3%, meaning that they have returned to pre-crisis levels.

This reduction in business costs, despite the negative impact on family finances (in 3Q13, more than 10% of households had all their active members unemployed and almost 4% were not receiving any type of income) **provides advantages in terms of export competitiveness** (the trend in labour costs in the major European trading partners diverges from that registered in Spain), which can boost the export sector, as in fact is happening at the present time. **The combination of these two factors may result in significant growth in employment.** This is undoubtedly the key objective, considering that the unemployment rate remains at around 26%.

GDP growth is often analysed from the demand side, i.e. exploring the extent to which consumption and investment (both public and private), as well as the external sector, contribute to the generation of income. However, this indicator also can be broken down according to the agents that produce it.

From this perspective, since 3Q11 **the reduction in wages in Spain accounts for a large part of the decline in GDP** in the second economic recession. Thus, for example, in 3Q13, it accounted for 1.7 percentage points of the total decline (0.7% YoY), whereas taxes (on production and imports) and the gross operating surplus (GOS, or company profits) continued to contribute positively.

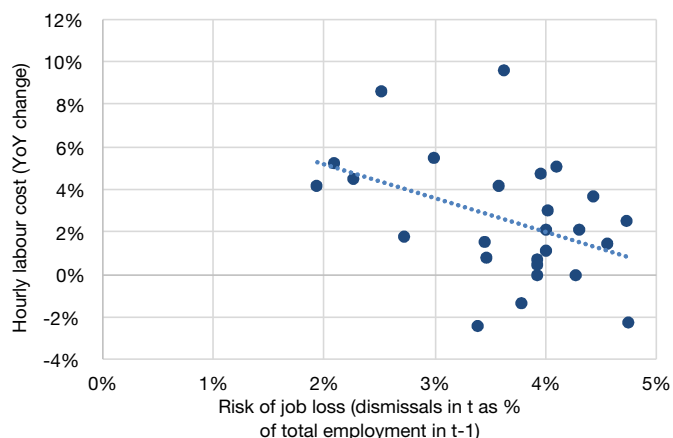
Unit labour costs in main European countries (1Q07 = 100)



Source: Eurostat

"The increased risk of unemployment accounts for the reduction of labour costs, among other things".

Relationship between risk of unemployment and YoY change in hourly labour cost in Spain, 2Q07-3Q13



Source: INE

It is the high level of unemployment, together with the high risk of unemployment, which in a sense account for the containment, and even reduction, of hourly labour costs in Spain.

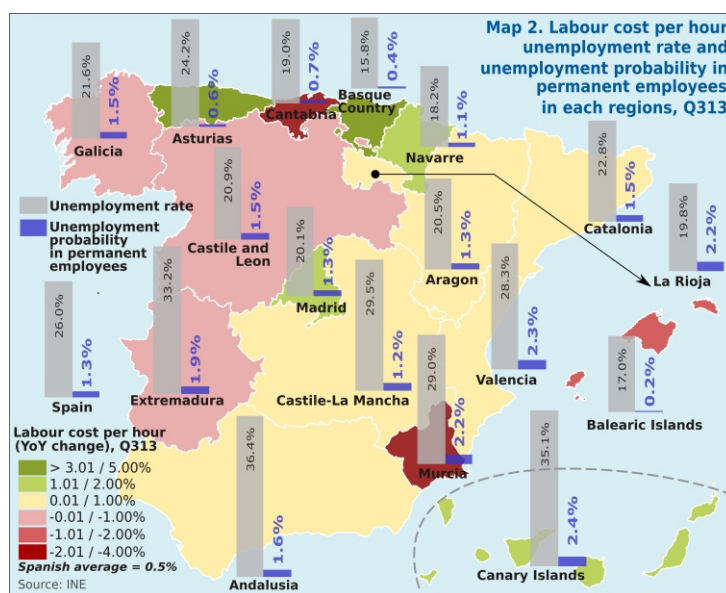
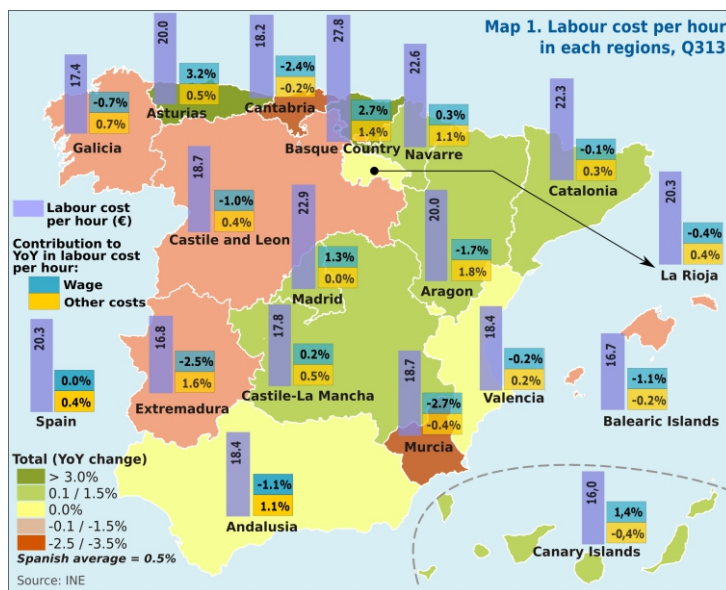
Thus, for example, in 4Q12, when the probability of unemployment reached its peak since the onset of the crisis (4.7%), hourly labour costs fell by 2.2% YoY. It is true that this coincided with the elimination of regular extra payments for public employees, which could also have influenced the behaviour of labour costs in the economy as a whole.

In any case, the relationship between the two variables from the start of the crisis (2Q07) until today (3Q13) shows that the higher the risk of unemployment, the lower the probability of wages increasing in negotiations between worker and company.

"The regions with the highest rates of unemployment and the highest risk of unemployment are those with the lowest labour costs and the sharpest falls in the latter in 3Q13".

In the absence of quarterly data on worker remuneration for all the regions in the past few years, the hourly labour costs published by the National Statistical Institute (INE) provide the basis for an approximation to the situation. The latest data, corresponding to 3Q13, indicate that these costs have increased by an average 0.5% YoY, although this was not due to higher wages, which remained constant over the previous year. However, regions such as **Murcia, Cantabria and the Balearic Islands** saw their labour costs fall by more than 1% YoY, mainly as a result of a sharp decline in **wage costs** except in the case of the Balearic archipelago, this accounted for around 90% of the fall). This reduction is due less to a high level of wages, as these are regions where wages are lower, than to the high rate of unemployment in these regions and therefore to the higher risk of workers unemployment.

Thus, for example, Murcia, with an unemployment rate of 29% and where wage workers with a permanent contract have a 2.2% probability of unemployment (compared with national averages of 26% and 1.3% respectively), recorded one of the most significant declines in hourly labour costs. The Balearic Islands and Cantabria have unemployment rates of less than 20% and also wage workers with a permanent contract have a low probability of unemployment. However, the fact that their economies are oriented to tourism, among other activities, means that temporary employment has a higher profile, which may help to explain the containment of labour costs in 3Q13. In the opposite situation are the Basque Country, Asturias and Navarre, which have seen some of the biggest increases in hourly labour costs in 3Q13, probably reflecting the fact that they have some of the lowest unemployment rates and risks of unemployment.



THE MONTHLY FOCUS

Jobs to create and tasks to do

At last it seems that the year begins with a strong outlook for job creation. Millions of Spanish homes need jobs for their unemployed active members and less risk of their employed members losing them. These jobs will not be created in great abundance, nor will they generally be full-time, permanent or very productive and, therefore, they will not be well-paid. We already know that. For this reason, many tasks lie ahead for our institutions. In addition to the government, which should provide initiative and leadership, all the actors - political, economic, social and civil - must align themselves and, if possible, collude, to support in every way possible the creation of jobs that, though not those we would like to see created, will be the only option for hundreds of thousands of unemployed in 2014.

José Antonio Herce. Associate Director, Afi