

Spanish Labour Market Monitor

Presentation

A 98,000 fall in registered unemployment and a 134,000 increase in Social Security enrolment made May the best month since the beginning of the crisis. Even adjusting for favourable seasonal factors, the balance was positive. However, the fact that the improvement was centred on hotels and catering and temporary jobs raises questions over the sustainability of this pattern in the medium term. In parallel, there is a growing sensitivity in Europe toward the high volume of youth unemployment, closely related to the rate of early school leaving. In 2011, Spain reported one of the highest combinations of these two indicators in Europe, but it has also seen one of the biggest reductions in early leavers since the onset of the crisis.

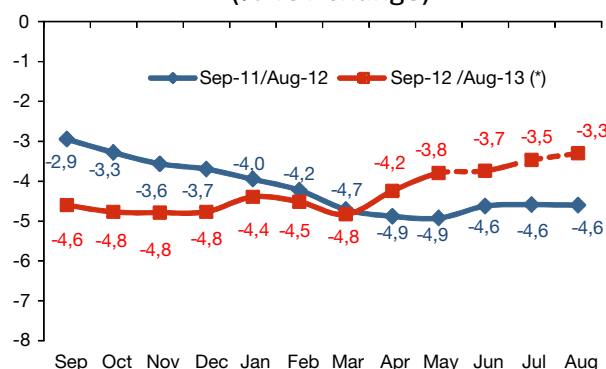
Key Points

- May was the best month since the beginning of the crisis with regard to employment data: unemployment fell by 98,000 and the Social Security enrolment increased by 134,000.
- Discounting seasonal and calendar effects, the result is still positive, but the variations in the figures are much more modest (a fall of 265 in unemployment and a rise of 5.600 in enrolment).
- However, we must highlight both the slower growth of registered unemployment and the interruption of the fall in enrolment after more than five years of monthly reductions.
- As a result of this dynamism, recruitment increased, but due exclusively to temporary contracts, as permanent hiring continues to decline sharply.
- The improvement in Social Security enrolment in April and May points to an increase in employment in 2Q13 on the order of 100,000, pending developments in June. For the first time since early 2012, the SLM indicator registers YoY declines of less than 4%.
- The rate of early school leaving has fallen since 2009, although it remains high (24.9% in 2012).
- The probability of losing a job falls in inverse relation to the worker's educational level, while the probability of finding one is positively correlated.
- In 2011, Spain reported one of the highest combinations of early school leaving and youth unemployment in Europe, but it has also seen one of the biggest reductions in early leavers since the onset of the crisis.
- The growing concern within the EU on the high level of youth unemployment is being reflected in a series of initiatives, including the creation of a €6 billion European fund and the bilateral agreement between Germany and Spain.

Afi-ASEMPLEO SLM Indicator

The good May data on Social Security enrolment continues the recovery in employment seen in April and raises hopes of an increase in employment in 2Q13, of a magnitude between those observed in the same quarter of 2010 and 2011 (on the order of 100,000).

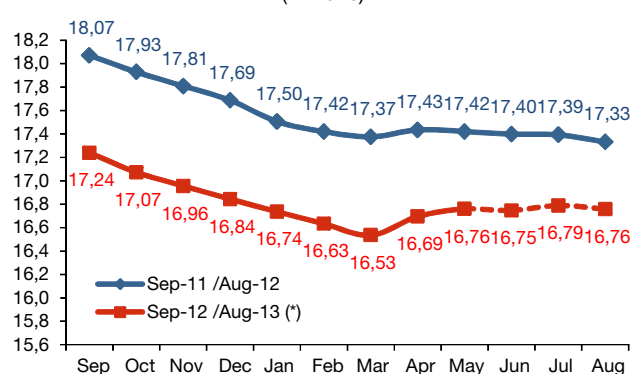
SLM monthly forecast of workers in employment (% YoY change)



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

For the first time since the start of the second labour market recession, the SLM indicator has experienced a YoY correction of less than 4%, and may reach rates of decline on the order of 3.5% at the end of the third quarter. The net change in employment is slightly more favourable than anticipated in our previous issue.

SLM monthly forecast of workers in employment (millions)



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

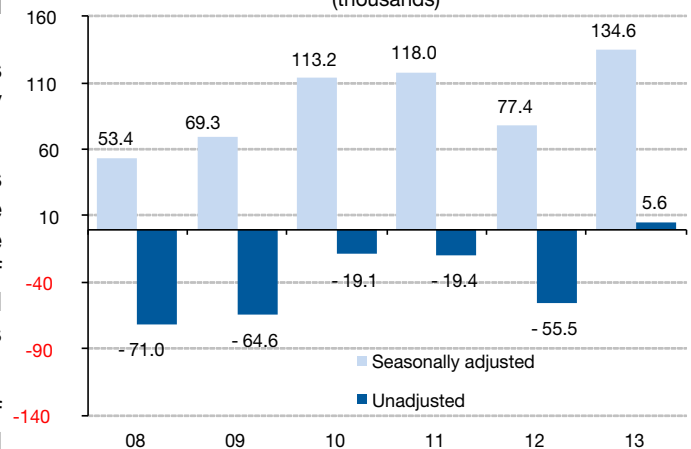
"May was the best month since the beginning of the crisis with regard to employment data: unemployment fell by 98,000 and the Social Security enrolment increased by 134,000".

May was the best month since the beginning of the crisis, and one of the best in the whole historical series, with regard to the employment data. Registered unemployment fell 98,265 over the previous month, while Social Security enrolment increased by 134,660.

Discounting the seasonal and calendar effects, always favourable in May, the result is still positive, but the variations in the figures are much more modest. In the case of registered unemployment, there is a decrease of just 265, whereas in the case of enrolment, the total number increased by about 5,600 from the previous month.

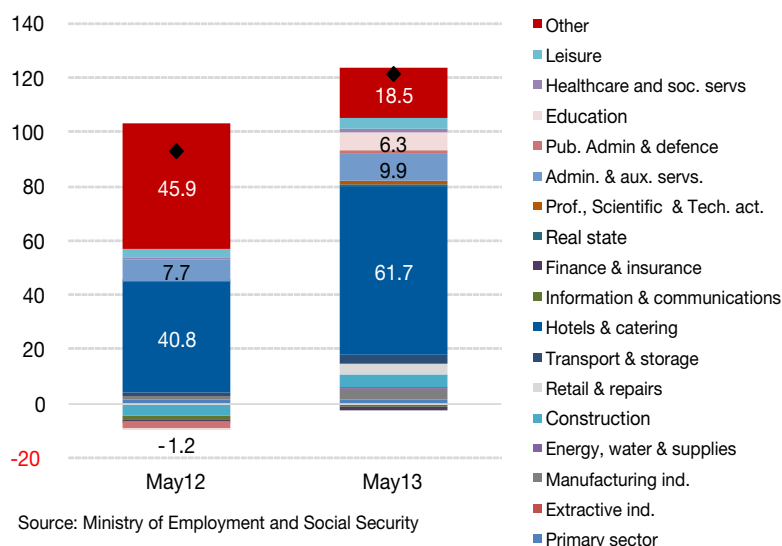
However, we must highlight both the slower growth of registered unemployment and the interruption of the fall in enrolment after more than five years (61 months to be exact) of monthly reductions.

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



Source: Ministry of Employment and Social Security

Monthly change in Social Security enrolment by sector (thousands)



Source: Ministry of Employment and Social Security

Social Security enrolment increased most notably in activities related to tourism, which accounted for more than half of this increase (hotels and catering saw growth of nearly 61,700).

The rest of the increase in Social Security enrolment was shared between administrative activities (9,900) and education (6,300).

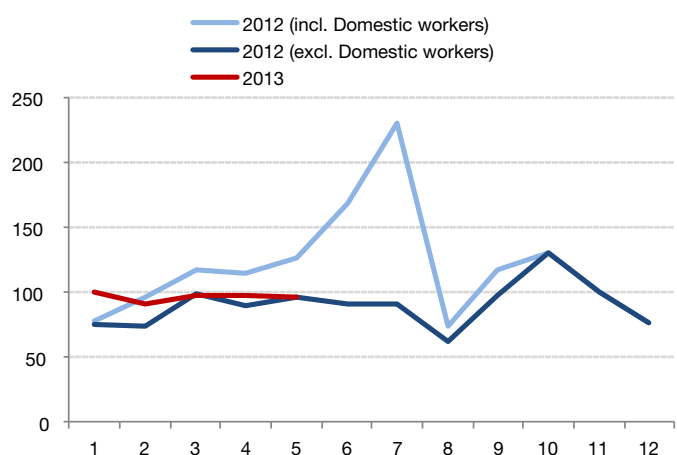
In addition to the special agricultural scheme, very active in employment in the months of May (enrolment was up 13,300 compared with the previous month), the "other" category includes domestic workers, which is why its monthly increase was so significant in May last year (close to 46,000).

"Recruitment increased, but this was due to temporary contracts, as permanent hiring continues to decline sharply".

In line with this dynamism, the number of contracts signed increased 2.9% compared with the same month last year (5.3% excluding the effect of the regularization of domestic staff last year), but this was due to temporary hiring as permanent recruitment continues to fall heavily, both full-time and part-time (25.9% and 22.1% YoY, respectively).

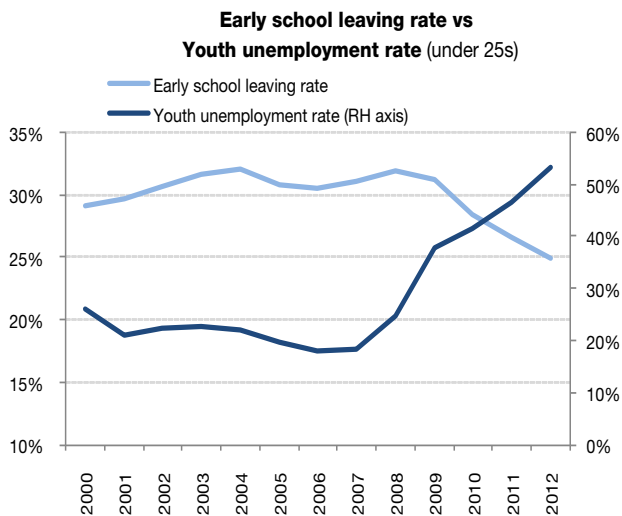
In short, the May data were very good; however, they reflected hardly any change in trends with regard to forms of recruitment and the sectors in which it was concentrated. Given the possibility that the patterns already seen throughout the crisis, such as the first half of 2011, will be repeated, **caution should be exercised in seeking to attribute these data to a different pattern which might indicate a sustained exit from the labour market recession of the last five years.**

Permanent contracts signed each month (thousands)



Source: Ministry of Employment and Social Security

"Although it remains high (24.9% in 2012), the rate of early school leaving has fallen since 2009, due to the intensification of the crisis".



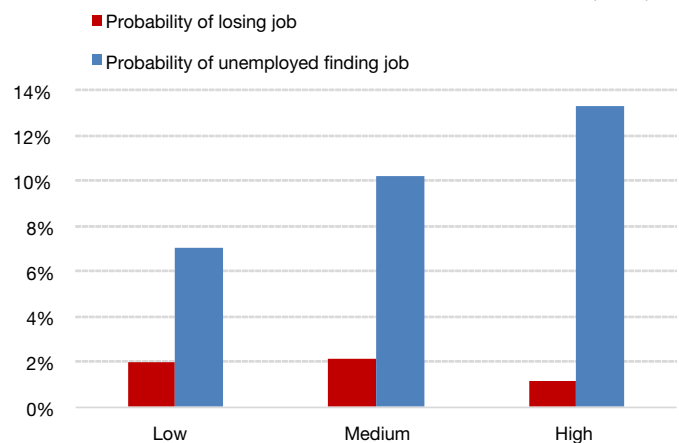
Source: INE, Ministry of Education, Culture and Sport

Given the persistence of unemployment among the young, we should expect a further reduction in the early leaving rate, as the empirical evidence shows that the degree of success in the labour market is closely related to the educational level.

The probability of losing a permanent job is inversely related to a worker's educational level and, on the other hand, the probability of finding a permanent job rises with the educational level.

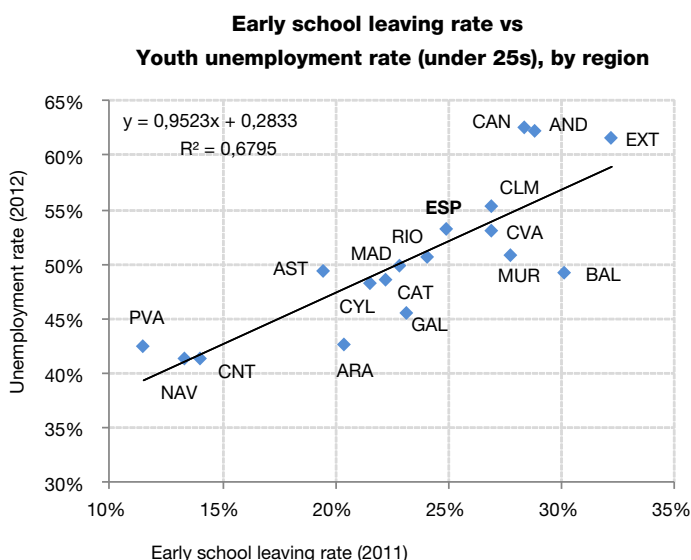
In 1Q13, the probability of a worker with a low, medium and high level of education losing a job was 2.0%, 2.1% and 1.2%, respectively. With regard to the probability of an unemployed worker finding a job, it was 7.1% for those with the most basic level of education, and 10.2% and 13.3% respectively for the middle and high levels.

Probability of losing a permanent job and of the unemployed finding one, by educational level (1Q13)



Source: INE

"The probability of losing a job falls in inverse relation to the worker's educational level, while the probability of finding one is positively correlated".



Source: INE, Ministry of Education, Culture and Sport

Regional performances reveal similar patterns of behaviour: where the early leaving rate is higher, so is the youth unemployment rate. Specifically, for each percentage point of increase in the early leaving rate, the unemployment rate increases by 0.95 points.

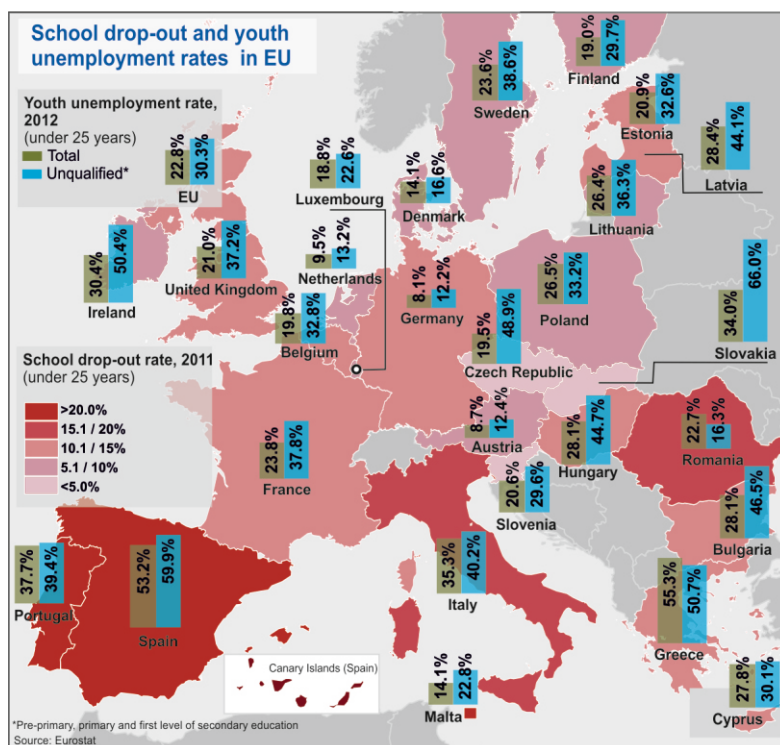
The regions with the highest rates of early leaving and unemployment rates are Extremadura, Andalusia and the Canary Islands. In contrast, among the best placed are the Basque Country, Navarre and Cantabria.

The regions that have seen the greatest decrease in the early leaving rate since the onset of the crisis are the Balearic Islands, Murcia, Castile-La Mancha (though they started from above average levels) and Cantabria. However, the smallest decrease was registered in Extremadura, despite its high level of youth unemployment.

"In 2011, Spain reported one of the highest combinations of early school leaving and youth unemployment rates in Europe, but it has also seen one of the biggest reductions in early leavers since the onset of the crisis (4.5 percentage points since 2007)".

The close relationship between the early leaving rate early and the youth unemployment rate is also visible when the analysis is approached from a European perspective. **Together with Portugal, in 2011 (latest data available) Spain had the highest combination of early leaving rate and youth unemployment in Europe.** The case of Malta is unusual, because although it had the highest early leaving rate of any European country (33.5% in 2011), its youth unemployment rate, on the other hand, was only 14.1%. At the other extreme were Switzerland, Austria and the Netherlands, with the lowest combinations of these rates across the EU-27.

Looking at the variations recorded since the onset of the crisis in 2007, it can be seen that **Spain and Portugal**, two of the economies whose labour markets **are most affected by the crisis, are the countries where the number of young people leaving school early has fallen the most** (4.5 and 13.7 percentage points respectively). Nevertheless, it should be noted that both countries started from higher early leaving levels than the European average (31.0% and 36.9% respectively in 2007, compared to 15.1% for the EU-27). However, to date this decline has not been sufficient to contain the growth in the youth unemployment rate, especially in the case of those with low educational levels (whose average unemployment rate is 1.3 times higher than the overall youth rate). However, Ireland and Greece, countries that have received financial aid from the EU and also have high rates of youth unemployment, have early leaving rates very similar to the European average, meaning that in their cases a solution will probably require types of measures other than keeping younger workers in training and education.



The growing concern within the EU about the high level of youth unemployment is giving rise to a series of initiatives. On the one hand, the creation of a European fund endowed with up to €6 billion to develop a common strategy which will aim to: (i) enhance labour mobility between member states, (ii) increase support services for entrepreneurs, (iii) sign a European alliance for apprenticeships and (iv) establish a framework for practical training in companies. On the other hand, bilateral agreements are being signed between countries, such as that finalized recently between the German and Spanish governments, which is expected to benefit about 5,000 young Spaniards each year.

THE MONTHLY FOCUS

The strands of the recovery in employment

The pattern seen in the first half of 2011, which led to hopes of an emergence from the crisis, is being repeated, more strongly on this occasion. The crisis of the euro and the early effects of fiscal consolidation dashed cold water on that hope. The May data were very good, even after taking account of seasonal adjustment. However, recruitment during the month reflects the ongoing spread of temporary employment and was heavily concentrated in the hotels and catering industry. Fiscal consolidation has not ended, even though the time limits have been relaxed. The reforms have either not begun to take effect or have yet to be put into practice. Confidence hangs from threads spun from more and better strands than we have been able to gather so far, after five years of labour market recession. More hands and better efforts are needed to bring together these strands if we do not want the data for May, as abundant as its rainfall, to end up bogged down in the statistical records due to the risks that still lurk in the Spanish and European economies.

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