

# Spanish Labour Market Monitor

## PRESENTATION

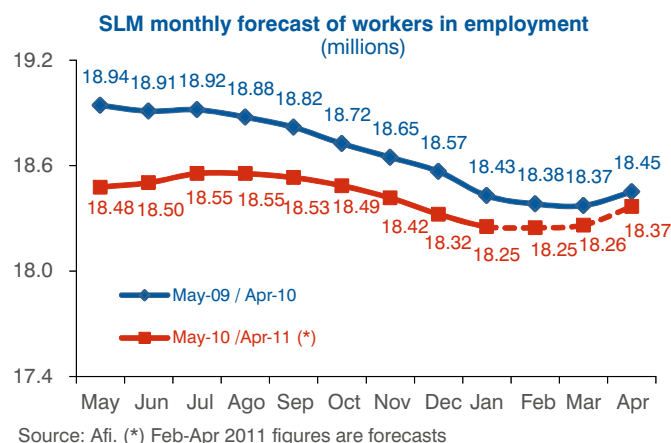
Though 2011 should be the year when the labour market recovery becomes noticeable, the January employment figures record a deterioration of similar magnitude to 2008 and 2010. Hence, the labour market is still far from a scenario consistent with employment trends similar to those of pre-crisis years. The EPA labour market survey data are completely in line with our forecasts in the January Monitor, showing the unemployment rate rising to 20.33%. The increase in unemployment, together with the growth in discouraged and involuntary part-time workers, has caused a strong rise in the numbers excluded from the labour market since the onset of the crisis.

## Key Points

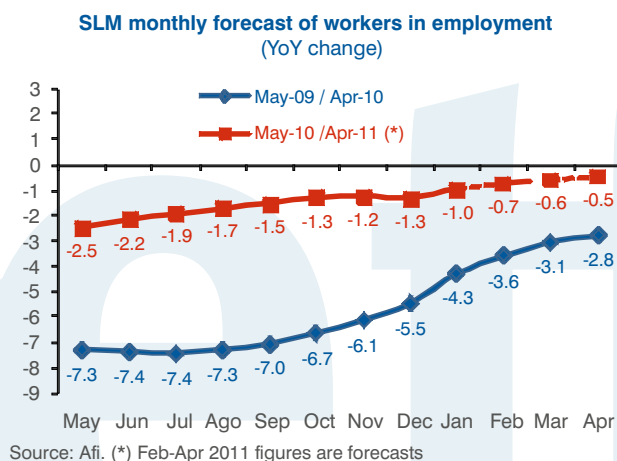
- The Afi-AGETT SLM Indicator forecasts that the cyclical low in Social Security enrolment will occur in February, with 18.25 million in work. The fall in employment will continue to ease, reaching 0.5% YoY in April, with a level of around 18.4 million.
- The January employment figures reflect a trend similar to the same month in 2010, with an increase in unemployment of 131,000 and a fall of 223,000 in enrolment, very different to the behaviour in pre-crisis years.
- A good part of the rise in unemployment is due to the increase in services (105,000).
- The enrolment data show that the public sector is now coming to grips with the job cuts announced, with a YoY fall of 18,000 contributors. Transport, retailing and the financial sector (among others) contributed to the fall in enrolments, which is led by construction and industry.
- Health and welfare, company services, telecommunications and IT, and hotels and catering are the sectors which have seen the biggest rise in contributors since January 2010.
- The EPA labour force survey confirms the forecasts in our previous issue: employment is down 138,000 and the labour force has lost almost 17,000 participants. Hence, unemployment increased by 122,000, with the rate rising to 20.33%.
- In year-on-year terms, agriculture and services have begun to see a recovery in employment, though still weak. The deterioration in industry continues to ease, while construction employment has fallen back due to the cutback in public tendering, which comes on top of the slump in residential building.
- Temporary jobs have declined less than permanent employment for the third consecutive quarter, the opposite of the tendency seen during the major part of the crisis.
- The most vulnerable groups (youth, foreigners and long-term unemployed) have been those worst affected by the increase in unemployment.
- Since the onset of the crisis, there have been large increases in the numbers of unemployed, discouraged workers and those involuntarily in part-time work. Together these groups, which we call workers displaced from the labour market, represented 27.4% of the labour force in 4Q10.
- The regions in the south of the Iberian Peninsula have the highest ratios of displaced workers, as well as the highest growth in the ratio since 4Q07.

## The Afi-AGETT SLM Indicator

The January figures for Social Security enrolment are in line with our forecasts in the previous SLM Monitor, with a fall of around 220,000. In consequence, the trend forecast by the SLM Indicator is little changed from last month, with the performance in the first quarter seen as somewhat worse than the final quarter of 2010. Seasonal factors for January-March tend to be more negative than in the October-December quarter, whether there is a recession or not. Thus, a fall in employment of 155,000 is forecast in the first quarter of 2011, compared with 139,000 in 4Q10.



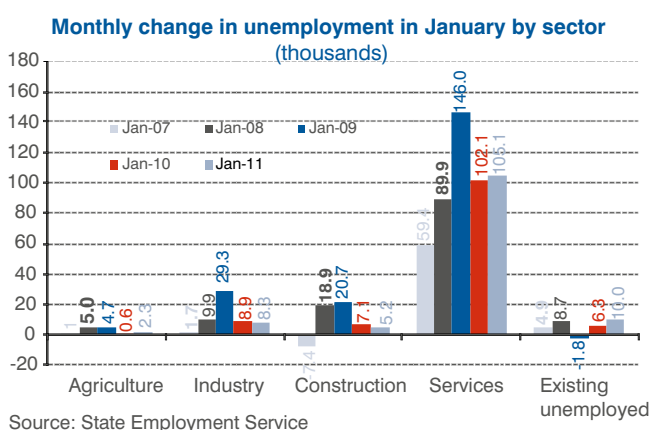
In February, employment is forecast to hit its lowest level since the start of the crisis, below 18,250,000, but from then on a gently rising tendency should set in, allowing April to end with close to 18.4 million in work. The YoY fall in employment should continue to ease in the coming months, reaching 0.5% in April 2011.



**“The January employment figures show a severe deterioration on the previous month, with unemployment rising 131,000 and Social Security enrolment down by 223,000”.**

The January rise in registered unemployment reflects this month's seasonality, traditionally very unfavourable. However, in January 2011, the negative trend has been particularly notable compared with most other years. The rise in unemployment followed a pattern very similar to the same month in 2010 (up 125,000) and 2008 (132,000), both reflecting a clearly recessionary economic context. Though an improvement on January 2009 (a rise of 199,000), the figures are a far cry from the increases typical of the pre-crisis years (50,000-70,000 in the months of January over the 2003-2007 period). Thus, rather than weakening, the recessionary behaviour of registered unemployment remained in full force in January. Moreover, unemployment recorded a new record of 4.23 million, above the March 2010 level.

On a seasonally adjusted basis, unemployment increased by 12,500 in January, interrupting a run of three consecutive falls, and confirming that January was a poor month for unemployment even after taking account of seasonal variations,



**“The rise in unemployment was due to the increase in the services sector”.**

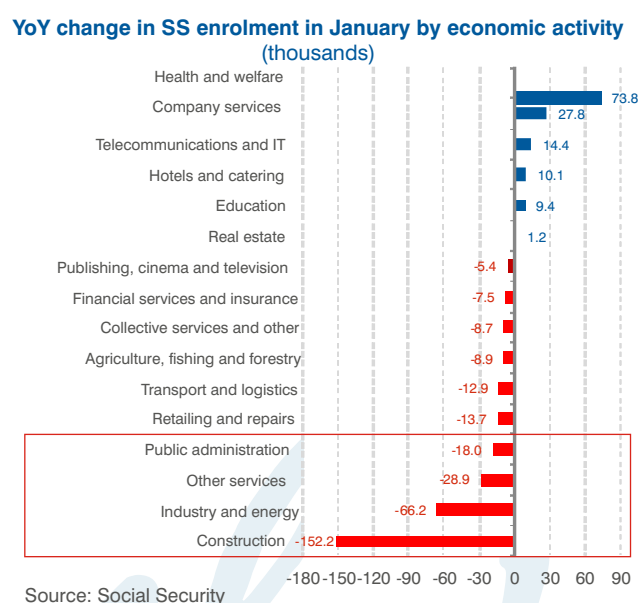
The services sector is behind the rise in unemployment, with an increase of 105,000, even worse than in January last year. On the other hand, industry and construction did not do so badly as in previous years, with signs that their deterioration is slowing (with increases of 8,000 and 5,000 respectively). Lastly, unemployment also increased in agriculture and among those with no previous job (up 2,000 and 10,000 respectively). In YoY terms, the rise in unemployment was 4.5%, the same as in December.

**“The Social Security enrolment figures reflect the adjustment in public administration, retailing and other services, together with the correction in construction and industry”.**

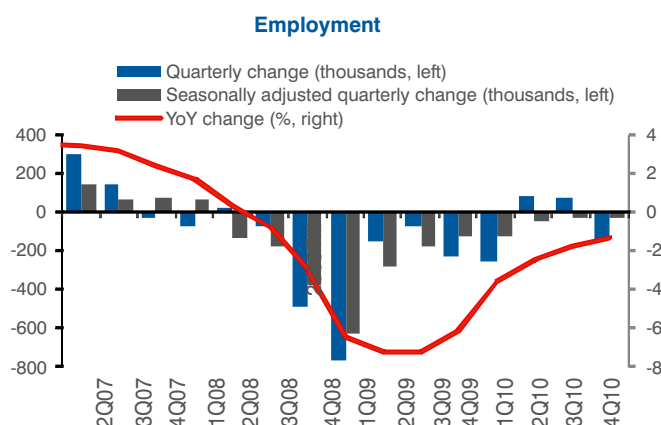
The decline in enrolment takes the total number of contributors to 17.3 million, similar to the mid-2005 level, with the difference that the trend then was one of strong growth. The YoY rate of fall in enrolment has eased slightly to 1%, so we can still speak of an easing in the labour market recession. Nevertheless, after so many months of decline, such moderation shows the continuing difficulty in putting employment back on a rising trend.

The YoY change in enrolment by economic sector shows that health and welfare, company services, telecommunications, hotels and catering, and education are creating jobs. Moreover, the real estate sector appears to have completed its adjustment, showing a timid recovery in enrolment.

On the other hand, much of the services sector continues to lay off workers, and activities such as public administration (which is beginning to stand out), retailing, transport, collective services and financial services are following the path already marked out by construction and industry. In the coming months, the trend in employment in these areas will depend on the outlook for a recovery in activity. Thus, while employment can be expected to improve in industry and transport due to the pull of the export sector, retailing will continue to suffer the effects of weak domestic demand, and the public sector, construction and finance will experience further layoffs.



“The 4Q10 EPA labour force survey data show that employment fell by 138,600, in line with our forecasts last month”.



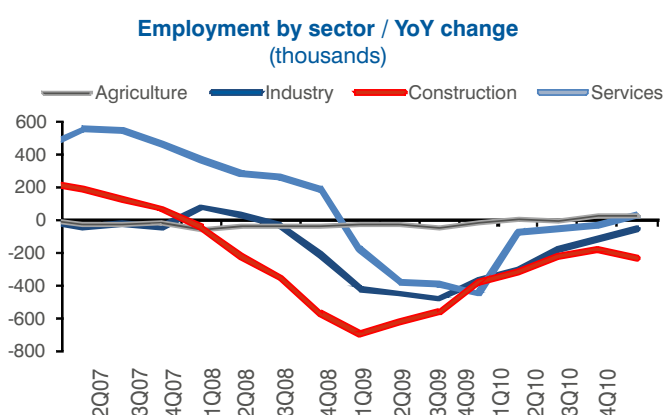
The decline in employment recorded in the final quarter of 2010 almost entirely offsets the increases generated in the middle quarters of the year, meaning that 2010 ended with 18.4 million in employment, 237,000 less than in 4Q09.

This represents a YoY decrease of 1.3% which, though an improvement on previous quarters, confirms that the emergence from the employment crisis is slowing. Indeed, in seasonally adjusted terms, employment declined by 36,600 in 4Q10, a bigger fall than the 30,000 of the previous quarter, confirming the slowing in the labour market's recovery trend.

Source: National Statistical Institute

“Employment in agriculture and services has begun to recover, though still weak, while industry has recovered part of the employment lost during the crisis, but the deterioration in construction is continuing due the cutbacks in public works,”

By sector, agriculture (up 50,000) and industry (22,000) saw increases in employment in the last quarter of 2010 compared with the previous quarter. However, there were notable falls in services and construction (116,000 and 96,000 respectively)



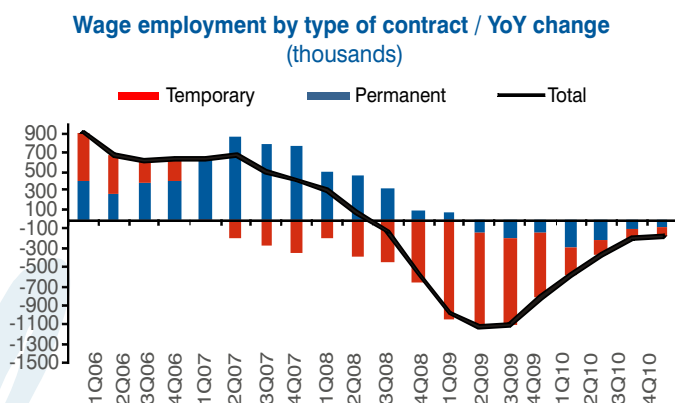
Source: National Statistical Institute

In YoY terms, the sectoral breakdown of the variation in employment shows, however, that agriculture and services achieved positive growth in 4Q10 (up 22,000 and 29,000 respectively), while industry continued to move towards recovery (down 58,000). Construction, on the other hand, suffered a setback in the final quarter of the year, with a YoY decline of more than 230,000. These figures are totally consistent with those for Social Security enrolment and with the economic situation of each sector: services is growing slowly due to the weakness of consumer demand, industry shows signs of recovery due to export growth and construction is weakening still further due to the restrictions on public tendering in the context of the ongoing fiscal consolidation, which comes on top of the sharp adjustment in residential building.

“Temporary jobs have declined less than permanent employment for the third consecutive quarter”,

Among wage workers, employment fell by more than 142,000 over the previous quarter and by 178,000 in YoY terms.

Figures for YoY change show that, for the third consecutive quarter, permanent jobs (down 93,000) declined more than temporary employment (-86,000), in contrast with the pattern observed during most of the crisis, when permanent workers appeared less vulnerable. In any case, the incidence of temporary employment decreased to 24.8%, compared with 25.1% in 4Q09.



Source: National Statistical Institute

“The labour force continues to rise in YoY terms (0,6%), so the fall in employment translates into an increase in the unemployment rate to 20,3%”,

The trend in the unemployment has followed our forecasts in the January Monitor, reaching 20.3% of the labour force in 4Q10.

The rise in the unemployment rate is due to the combination of job losses with a slight fall in the labour force compared with the previous quarter (16,700), causing the number of unemployed to rise to more than 4,696,000. This is 122,000 more than in the previous quarter and 370,000 more than in 4Q09, leading moreover to an all-time record level of unemployment in the EPA figures.

“Vulnerable groups (youth, foreigners and the long-term unemployed) have seen a further deterioration in their situation”,

The youth unemployment rate reached worrying levels in 4Q10, with 63.8% of active 16-19 year-olds out of work, as are 38.4% of the 20-24 year-old group and 25.9% of 25-29 year-olds. These figures highlight the enormous difficulty for these youths to access the job market, with serious implications for their socioeconomic development.

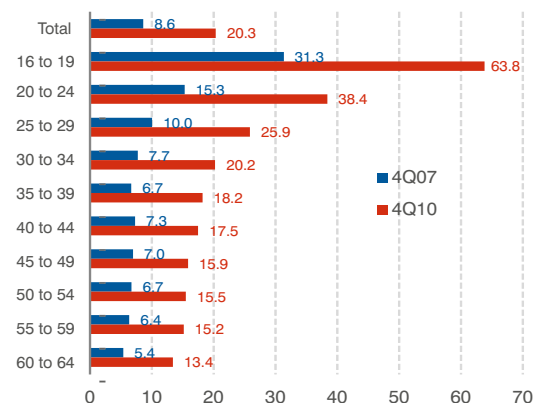
Similarly, the unemployment rate among foreigners increased by 0.7 percentage points compared with 4Q09, to 30.4%, more than ten percentage points above the overall unemployment rate.

In turn, the long-term unemployed (those who have been looking for work for more than a year) rose by more than 184,000 over the previous quarter and by 661,000 compared with the final quarter of 2009, to 2,154,700, or 45.9% of total unemployment. Long-term unemployment is tending to rise rapidly due to the labour market's lethargy and will continue to increase strongly in the coming quarters. These workers lose value in the market, hindering their access to jobs at a time when the market is already flat, making it likely that long-term unemployment will not return to pre-crisis levels for at least a decade.

“The increase in the labour force is attributable to the weakening of the discouragement effect”,

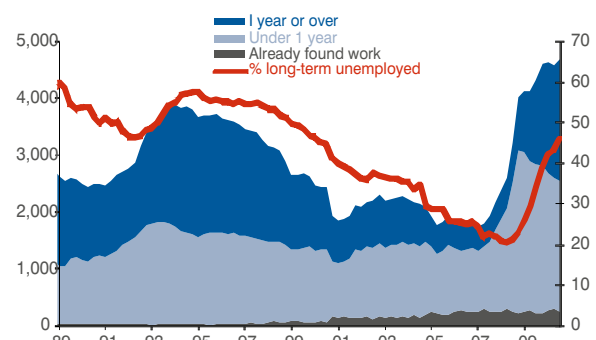
The population over 16 years of age resident in Spain has tended to decline strongly since the onset of the crisis, although with YoY growth of less than 50,000 between 1Q10 and 3Q10. In the final quarter of 2010, this trend was inverted, with an increase of 69,000. The labour force grew by 0.6% (132,000) YoY, while the inactive population fell by 63,000. In recent quarters, the discouragement effect among inactive workers has weakened, allowing the labour force to increase.

Unemployment rate by age group (%)



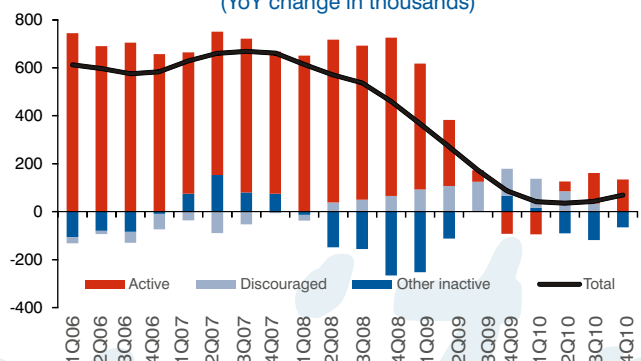
Source: EPA labour force survey (National Statistical Institute)

Unemployed population by time seeking employment (thousands)



Source: EPA labour force survey (National Statistical Institute)

Population of 16 and over by relation to economic activity (YoY change in thousands)

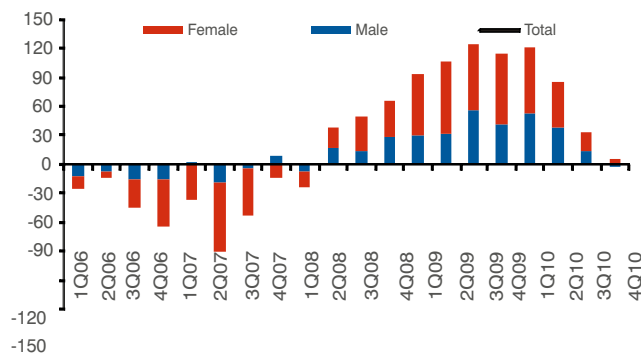


Source: EPA labour force survey (National Statistical Institute)



“The discouragement effect is waning as a consequence of improving expectations for employment in agriculture and services and the relatively weaker deterioration in industry”.

**Discouraged workers by gender**  
(YoY change in thousands)



Source: EPA labour force survey (National Statistical Institute)

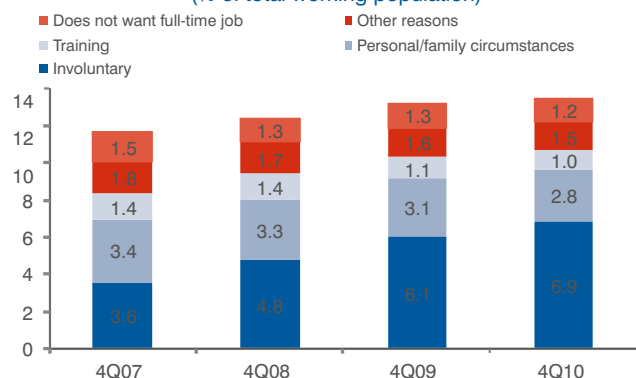
Though women have traditionally constituted the greater part of the discouraged group, the special circumstances of the current crisis have caused a strong increase in discouraged men, the majority from the construction and industry sectors (where the recession has been deepest).

However, in recent quarters, the gradual recovery of employment in agriculture and services, together with the slowing fall in industrial employment, has led to a continuing fall in the discouragement effect, among both men and women. In 4Q10, discouraged men declined by 3,000 over the same period of 2009, while their female counterparts rose by only 5,000. As a result, the discouraged group has left behind the peak of 393,000 reached in 1Q10, ending 2010 somewhat below the 367,000 mark.

“Part-time employment has increased since the onset of the crisis due to the rise in involuntary part-time workers”.

Many workers find themselves unable to choose their preferred job in the difficult labour market, especially those who have exhausted their unemployment benefit, and have accepted positions that they would otherwise have rejected.

**Reason for accepting part-time work**  
(% of total working population)

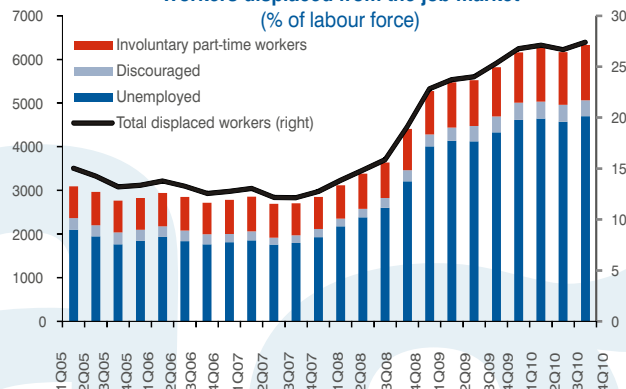


Source: EPA labour force survey (National Statistical Institute)

This is evident in the case of part-time work, rather uncommon in Spain and, in general, little favoured by workers. Only 13,4% of those in employment in 4Q10 had a part-time contract. This is higher than the percentage in 4Q07 (11,6%) and been rising during the crisis. Nevertheless, this trend does not reflect an increase in demand for part-time work by Spanish workers, but is due to an increase in involuntary part-time working, by those who accept it because their only alternative is unemployment. The remaining part-time workers, those who have chosen this type of work voluntarily, have represented a very stable proportion of the workforce throughout the period under analysis.

“The rise in the number of unemployed, discouraged and involuntary part-time workers has caused an increase in displaced workers to 27,4% of the labour force”.

**Workers displaced from the job market**  
(% of labour force)



Source: EPA labour force survey (National Statistical Institute)

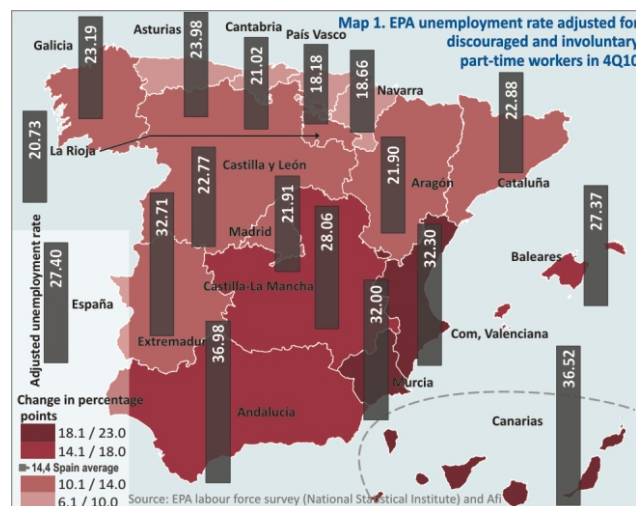
Analysis of the trends among unemployed, discouraged and involuntary part-time workers allows us to calculate the percentage of workers displaced from the labour market, who are unable to find an efficient match between their job requirements and the available supply.

In 4Q10, this group accounted for 27,4% of the labour force. In this respect, implementation of the framework for private placement agencies, provided for in the labour market reform, should be accelerated, as it is of capital importance to improve labour market mediation and the search for solutions to alleviate the problem of inefficient labour market access for more than a quarter of the Spanish labour force.

“The island regions and those in the south of the Iberian Peninsula have the highest levels of displaced workers, while the Basque Country, Navarre, Cantabria and Aragon have the lowest”.

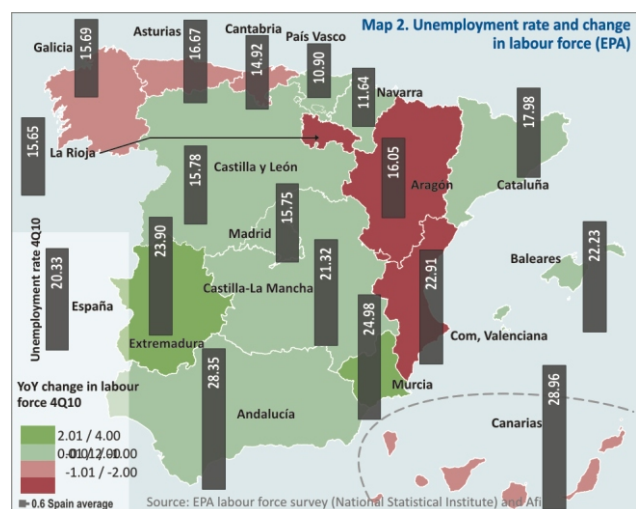
Analysis by region of workers displaced from the labour market indicates that the highest concentrations are found in the islands and the south of the Iberian Peninsula. In general, these are also the regions which have seen the largest increases in the number of displaced workers since 4Q07.

Thus, the regions with displacement ratios above the national average of 27,4% are Andalusia (37%), the Canary Islands (36,5%), Extremadura (32,7%), Valencia (32,3%) and Murcia (32%), The Canary Islands, Valencia and Murcia have recorded increases in the ratio of more than 18 percentage points since 4Q07, while Andalusia, Castile-La Mancha and the Balearic Islands have experienced rises of between 14 and 18 percentage points. In turn, the Basque Country (18,2%), Navarre (18,7%), Cantabria (21%) and Aragon (21,9%) have the lowest ratios and moreover their growth is below the national average. The Cantabrian coast, from Asturias to Navarre, is the area in which the number of displaced workers has increased the least during the crisis.



“The labour force declined in seven regions, despite the increase in the national total”.

The EPA data show notable divergences in the YoY variation in the labour force, which declined in seven regions, in contrast with the increase of 0,6% in Spain as a whole. In Galicia, Asturias, Cantabria and the Canary Islands, the fall was less than 1%, but in Valencia, Aragon and La Rioja it was between 1% and 2%. Except for Valencia, all these regions have also seen their unemployment rates rise more than in Spain as a whole, especially so in the case of Aragon and Galicia, where it is up by 2,8 percentage points over 4Q09. However, there is not always a direct relationship between increases in unemployment and declines in the labour force: on the contrary, in Extremadura and Murcia the labour force increased by over 2%, despite significant increases in their unemployment rates (2,6 and 2,5 percentage points respectively).



## THE MONTHLY FOCUS

### Employment and pensions

The government, employers and unions recently signed the Social and Economic Agreement (SEA). The core of the SEA is the Agreement for the Reform and Reinforcement of Social Security, but another very significant element is the Agreement for the reform of Active Employment Policies, with emergency measures including the Special Employment Program for youth and the long-term unemployed, with notable reductions in social security contributions, and the Professional Retraining Program for those who have exhausted their unemployment benefit. The postponement of the retirement age is necessary to shore up the sustainability of the pension system, but for it to be fully effective there must be a labour market offering job opportunities for older workers as well as for the young. The synergies between the “employment system” and the pension system cannot be ignored and all the pieces need to fit perfectly in due course, or dysfunctions will proliferate in both systems. For this reason, the reforms must reinforce each other,

José A. Herce, Partner and Economics Director, Afi