

Spanish Labour Market Monitor

Presentation

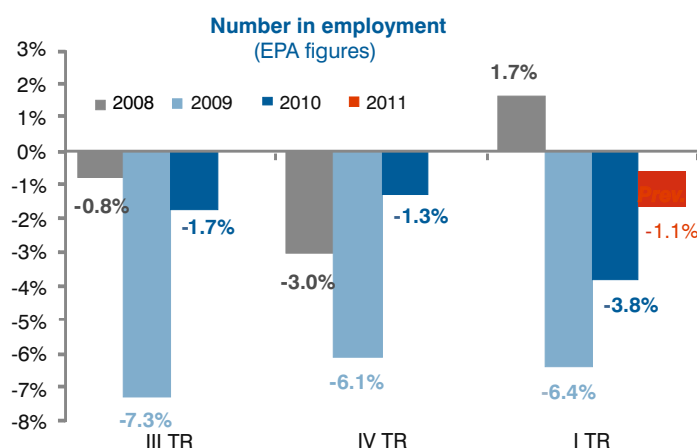
The employment figures for the first months of 2011 indicate that the gradual improvement seen since mid-2010 has lost momentum, postponing the recovery process. Although Social Security enrolment is still in line with estimates, the registered unemployment data have surprised on the upside, with a new all-time high. The severity of the economic crisis, with the sharp drop in activity, is reflected not only in the rise in the number of unemployed but also in the options available to supplement household income, with multiple employment and overtime working both in decline.

Key Points

- The March employment figures surprised with a **larger than expected increase in registered unemployment and a seasonally-driven increase in Social Security enrolment, which was insufficient** to offset the deterioration in the first two months of the year.
- The fall in enrolment in the first quarter of 2011 **points to a fall in employment of 210,000 in EPA (labour force survey) terms to a quarterly average 18.19 million**, a new low for employment.
- The unemployment rate could increase to 21.3%**, after the number of unemployed rose to more than 239,000.
- March's Social Security enrolment figures were encouraging, with an increase of 45,660, **and a reduction in the YoY decline to 1.2%**, in contrast to the size of the previous months' falls. Enrolment has now been falling for 44 months, with a cumulative decrease of close to 11%.
- The services sector was the chief contributor to the improvement in March**, with a YoY variation of 0.2%, **while industry and construction continue to contract on a YoY basis but at a slower pace**, with falls of 2.6% and 9.3% respectively.
- The poor unemployment data for March took the shine off the good enrolment figures.** The number of registered unemployed chalked up a **new record of 4.3 million**, a rise of more than 120% over the figure of 2 million at the onset of the crisis. The March figure **may point to increases in the labor force** in the first quarter of 2011.
- Along with the increase in the number of unemployed, another consequence of the crisis has been to **reduce the possibility of working longer hours for those who currently have a job, further damaging the earning capacity** of Spanish families. Both the percentage of employed with more than one job and those doing overtime has reduced significantly during this crisis.
- The percentage of workers with a second job in Spain is now more than 1.6 percentage points below the EU average, with a clear downward trend. The difference with those countries with the most flexible labor markets is nearly 6 percentage points.

The Afi-AGETT SLM Indicator

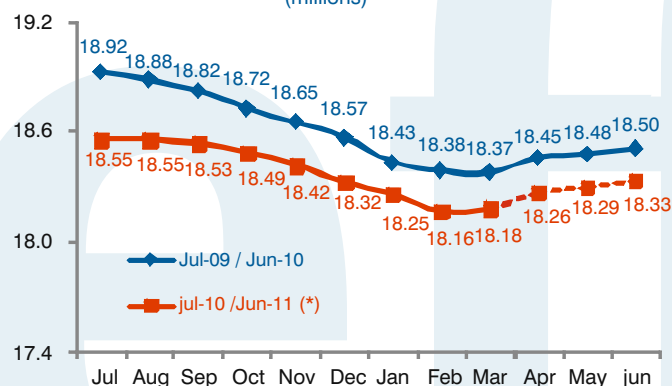
Employment data for the first months of 2011 indicated a certain leveling off in the gradually improving trend seen since mid-2010. The fall in enrolment in 1Q11 points to a fall in employment of 210,000 in EPA (labour force survey) terms to a 18.19 million, which would mark a new low in quarterly average employment in the current cycle. Even if the labour force maintains a moderate YoY growth similar to that of 4Q10 (0.5%), the number of unemployed could rise by 239,000, taking the unemployment rate above the 21.3% level.



Source: EPA (INE) and Afi forecasts

The favorable seasonality of the spring months and the positive impact of the recovery of tourism-related sectors will reverse the deteriorating labor market trends seen at the start of the year. This is reflected in the improving profile of the Afi-AGETT SLM Indicator, which for June forecasts a 0.9% decline compared with 1.1% in March.

SLM monthly forecast of workers in employment (millions)



Source: Afi. (*) Abr-Jun 2011 figures are forecasts

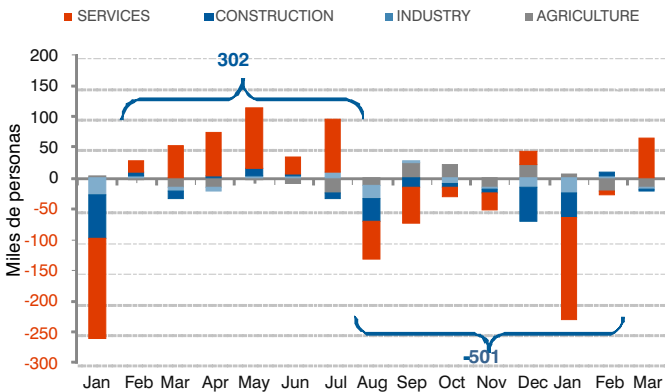
"The improvement in Social Security enrolment contrasts with the poor data for registered unemployment, which could signal an increase in the labor force in the first quarter of 2011."

Enrolment has behaved slightly better than expected in March, but registered unemployment has broken with the previous trend of relatively better performance compared with enrolment. In fact, on a seasonally adjusted basis, **unemployment increased by more than 30,000**, similar to March 2010. The fact that one of the largest contributions to the increase is among those with no previous employment **suggests that there may be some recovery in the labor force in the first quarter** of 2011, following the decline in the final months of 2010. If this proves to be the case, it would increase the upside risks to the unemployment rate, assuming that the quarterly EPA labour force survey confirms the large fall in employment indicated by the monthly figures.

"There was a significant improvement in enrolment, driven by the positive growth in services and the fall in the YoY rate of job losses in industry and construction"

Enrolment has increased by 45,660 in March. These results reflect the seasonal pattern of a rather unusual year, certainly by the standards of the 2000-2007 period, though better than 2010. However, **the YoY fall remains at 1.2%**, reflecting a fall of 202,000 compared to March 2010, although **the size of the YoY falls is gradually reducing compared with previous months.** Comparison with the 1992-93 recession gives an idea of the severity and duration of this economic crisis. Compared to an 18-month decline in that period, the present crisis **has seen more than 44 months of decline** since the highs of July 2007, with an **accumulated fall of 11%**. The months from April to July are typically favorable for enrolment, so the February data could mark the low point in the series, if the YoY rate ends up reverting to positive growth in the second half of the year as seems to be the trend.

Social Security enrolment by economic sector

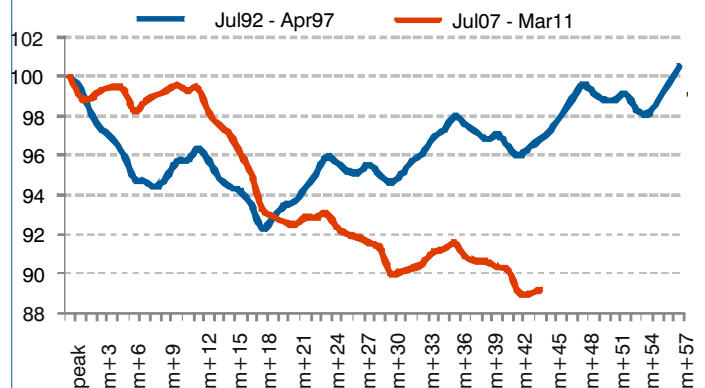


Source: Social Security

"Registered unemployment continues to set new highs, 44 months after the onset of the crisis"

Registered unemployment has again increased, setting a historical record of 4.3 million, a rise of 120% over the pre-crisis minimum of slightly less than 2 million. Today, 44 months later, **the trend is still upward.** This is in clear contrast to what happened in the previous crisis of 1992, when unemployment began to fall after 18 months, and 40 months after the beginning of the crisis had clawed back half the total deterioration. The services sector continues to accumulate unemployment at a high rate, exceeding 5.5%, while construction and industry have managed to continue reducing it on a YoY basis. **The total number of unemployed is growing at an annual rate of 4% that has refused to diminish in recent months, with particular impact on women and those seeking their first job.**

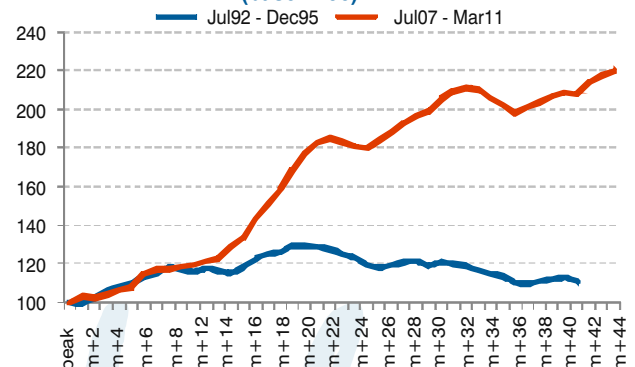
Social Security enrolment since pre-crisis peak (peak = 100)



Source: Social Security

Driven by seasonal factors, **the services sector has been the largest contributor to the improvement of the enrolment in March.** The performance in the sector has been positive over the past 12 months, given that enrolment has risen by 0.2%. On the other hand, the **industry and construction sectors are slowing their rates of job destruction**, to 2.6% and 9.3% respectively on a YoY basis. A continuing improvement in enrolment over the coming quarters will be dependent on the recovery in services and on the different sub-sectors initiating a pattern of steady improvement. In the absence of these factors, a sustained recovery in employment will be difficult.

Unemployment since pre-crisis low (base=100)

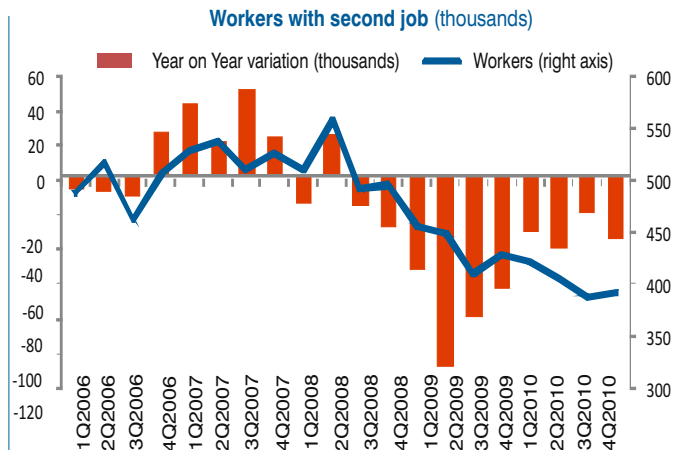


Source: State Employment Service. Change in methodology in January 1996.

"The crisis has affected not only the number in employment, but also the household income of those still in work, with declines in the number of multiple jobholders and hours of overtime worked"

The economic crisis has not only increased the number of unemployed in the Spanish economy, but also **has made it more difficult for those who currently have a job to work longer hours**. This conclusion can be drawn both from the number of employed with more than one job, and from the number of employees working overtime. It is to be expected that during the economic recovery both groups will increase. If so, economic growth will have a smaller impact on unemployment, as part of the improved demand for labour will be satisfied with increases in overtime or multiple job holding.

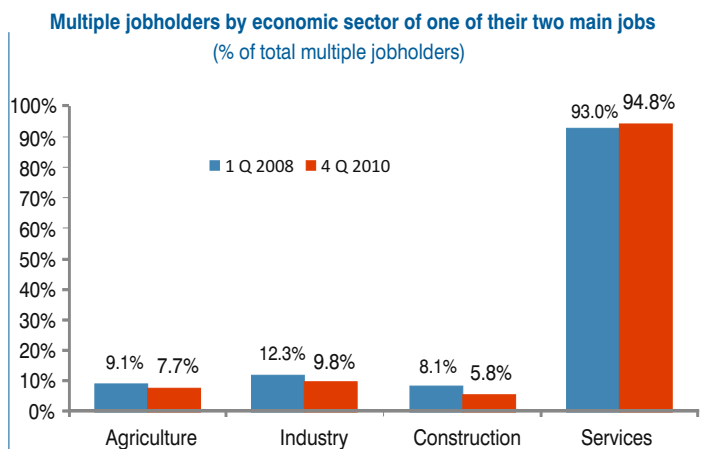
As a result of the crisis, the number of workers with secondary employment in Spain has fallen rapidly. The crisis affects the number of multiple jobholders in two different ways. On the one hand, the loss of jobs within the household causes those still in work to seek additional jobs to offset the decline in household income. On the other hand, job losses in the economy increase the likelihood that those with more than one job may lose one of them. The data show that this second effect has been greater than the former during the crisis, with the number of workers with secondary employment falling from 510,000 in the third quarter of 2007 to 393,000 in the fourth quarter of 2010, and their share of total employment reducing from 2.6% to 2.1%.



Source: EPA labour market survey

"The profile of the multiple jobholder remains largely that of a wage worker with one of his jobs in the service sector."

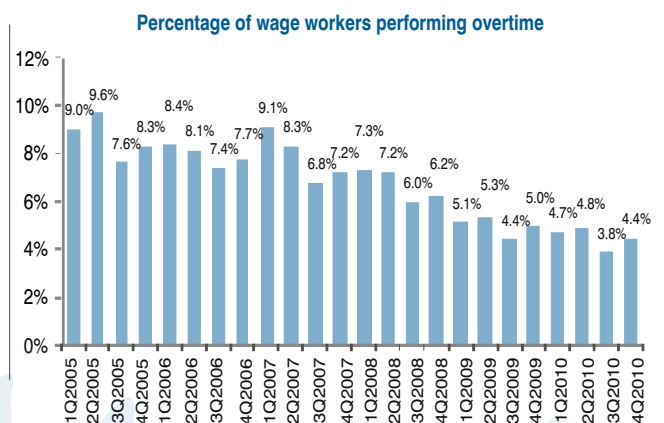
The major **part of secondary employment occurs in the service sector**. 94.8% of all multiple jobholders have at least one of their two main jobs in the service sector. Indeed, 79.4% of those with secondary jobs have two main occupations in the service sector. **Second in importance is the industrial sector, followed by agriculture. The economic crisis has intensified these differences**, with the relative importance of services increasing from 93.0% to 94.8% at the expense of other sectors, where the number of multiple jobholders has fallen more strongly. **In terms of employment status, 89.9% of the workers involved hold at least one of their two jobs as a wage worker, although the number of self-employed is also relevant, at 39.8%**; i.e. 4 out of 10 multiple job holders are self-employed in one of their two main occupations.



Source: EPA labour market survey

"The number of workers doing overtime has fallen heavily, especially paid overtime."

The effects of the downturn in activity of Spanish firms during the crisis were also **reflected in the number of hours worked by employees, with a sharp decline since 2007**. In fact, the percentage of employees working overtime was 4.4% in the fourth quarter of 2010, compared with 7.2% in the fourth quarter of 2007, a clear downward trend. **The pace of decline has been particularly intense among those doing some type of paid overtime**, down by half from 4.7% to 2.4% over the same period. Those doing only unpaid overtime reduced from 2.6% to 2.1%.



Source: EPA labour market survey

"Spain is one of the European countries where the phenomenon of the second job is least common, involving only 2.1% of its workforce."

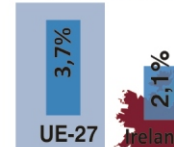
Spain has the fifth lowest level of multiple employment in Europe, according to Eurostat's population surveys for the third quarter of 2010. This indicator represents the percentage of employed persons who have at least two jobs; Spain has a level of 2.1%, 1.6 percentage points below the EU average of 3.7%. The difference with countries that are at the forefront in this particular aspect can even exceed 6 percentage points.

It is the countries of the European periphery which generally have lower than average scores, with the notable exception of Portugal, which has a level of 6.0%. Thus, together with Spain, this group includes Italy, Bulgaria, Romania, Greece, Ireland, Hungary and Slovakia. On the other hand, it is the northern European countries, especially those on the Baltic Sea, which have the highest scores. Sweden, Denmark and Holland lead, with indicators of more than 7%. In these countries, labor market flexibility is a priority, and part-time employment or multiple employment are some of their best tools for adjusting employment to the companies' needs.

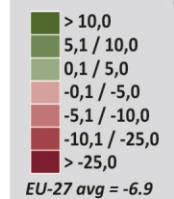
Again, it is also in the countries on the periphery of the EU where the number of multiple job holders has fallen most during the economic crisis. In the case of Spain, the number of multiple jobholders fell by as much as 24% between the third quarter of 2007 and the third quarter of 2010. On the other hand, in Estonia, France and Czech Republic the number of multiple jobholders increased by more than 10% over the same period.

Multiple employment in Europe

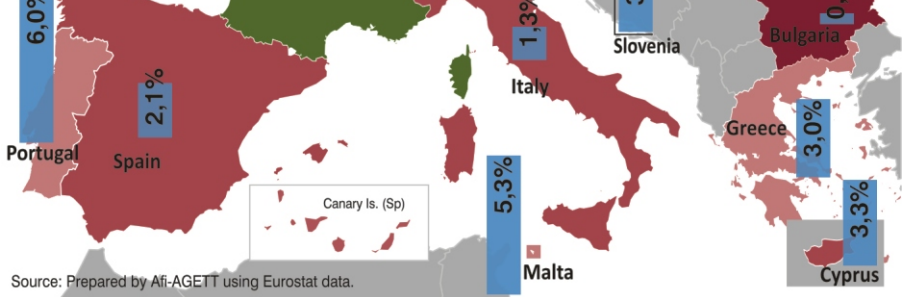
% 2º empleo sb. total IITr'10



% change IITr'07-IITr'10



Source: Prepared by Afi-AGETT using Eurostat data.



The differences could increase in 2011 if, as expected, the trends of recent quarters are maintained: negative in Spain and positive in the countries of central and northern Europe. Faster European growth in 2011 may be an important differentiator. Spain's situation, with its high unemployment rate, and indifferent prospects for 2011, is a cause for pessimism about any significant recovery of this variable in the short term.

THE MONTHLY FOCUS

Intensive unemployment

Even if the definition of our economy's employment crisis is restricted to an unemployment figure, very high, indeed, and if employment begins to rise, driven first by seasonal factors and then by more stable factors, there will most likely be some negative aspects which are deteriorating and will continue to do so, with increasingly problematic consequences. Faced with the prospect of modest net job creation in the coming quarters, the resources that workers have used to make up their activity, income, etc., are being gradually depleted. Not only are there increases in long-term unemployment, in the number of unemployed without benefits (and decreases, therefore, in the percentage covered), and in the number of households with all active members out of work, but there are also reductions in the number of workers (self-employed or wage workers) with a second job, and in the proportion of employees who perform overtime, while the number of employees forced to accept a shorter working day is increasing.

All these trends point to an outcome that should not surprise us when it occurs: even though employment is created, it will be difficult to reduce extensive unemployment at the same rate. This is because as all these margins of intensive activity are restored, the discouraged workers, etc., return to the market. It is advisable to make a realistic assessment of the situation that will occur as employment recovers and, especially, to ensure that active policies take account of these circumstances.

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