

# Spanish Labour Market Monitor

## Presentation

The May data for Social Security enrolment and registered unemployment continue April's positive trend, in a seasonally favourable context that helps to increase the former and reduce the latter. However, the seasonally adjusted figures still show the labour market remaining weak, with a positive trend still elusive and no clear way out of the current stagnation. In this environment, the support ratio remains at the lows of recent years due to the sharp decline in enrolment and the increase in benefit recipients, though expectations point to a slow but gradual improvement in future years.

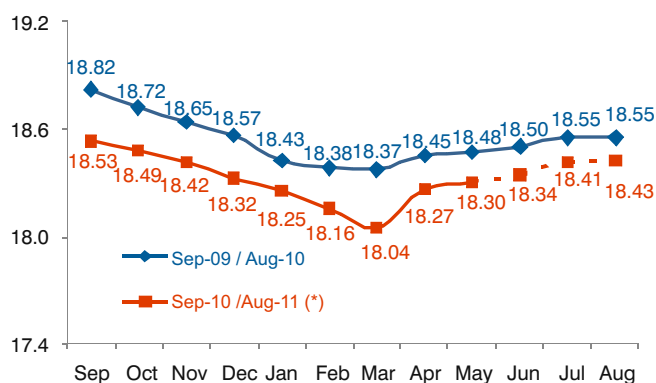
## Key Points

- **May's figures for unemployment and Social Security enrolment were good**, with a reduction in the number of registered unemployed of about 80,000 and an increase in enrolment of almost 118,000, **due to stronger seasonality than normal** at this time of the year.
- The Afi-AGETT SLM Indicator's forecasts out to August point to increases in the number of enrolments. **Progressively smaller YoY declines** are expected, reaching 0.7% in August, with the numbers in employment approaching the end 2010 level.
- The seasonally adjusted data reinforce the idea that **the underlying trend does not yet point to an emergence from labour market stagnation**, as it remains in negative territory with no signs of a strong recovery.
- In seasonally adjusted terms, **unemployed increased by 38,000 in May, and enrolment declined by more than 10,000.**
- **Permanent hiring remains depressed**, with the change in recruitment being due to the increase in temporary contracts, thus reducing permanent contracts as a percentage of the total, a ratio which could drop to record lows in coming months.
- **The support ratio declined further** to 1.44, the lowest in recent years. **This figure may turn out to represent a low in the data series**, assuming that enrolment increases and the number of benefit recipients declines in the coming years.
- **The number of unemployment benefit recipients has fallen in recent months.** In turn, **the duration of the economic crisis** and its effects on the length of time spent in unemployment **is helping to increase the proportion of social unemployment benefits in the total at the expense of the contributory benefits.**
- **Disparities in regional population and economic structures end up being reflected in strong differences in regional support ratios.**
- Galicia and Asturias, with older population structures, head the list of regions with the lowest support ratios, in which the western peninsular regions are the most prominent.

## The Afi-AGETT SLM Indicator

The month of May again sees improvements in the figures for registered unemployment and Social Security enrolment, continuing the trend set by the April data. Although welcome, the recent fall in the number of unemployed and increases in enrolment must be viewed in the context of May's favourable seasonality. Continuation of these trends in the coming months will require a better performance by the key indicators of household spending, which is lacking at present.

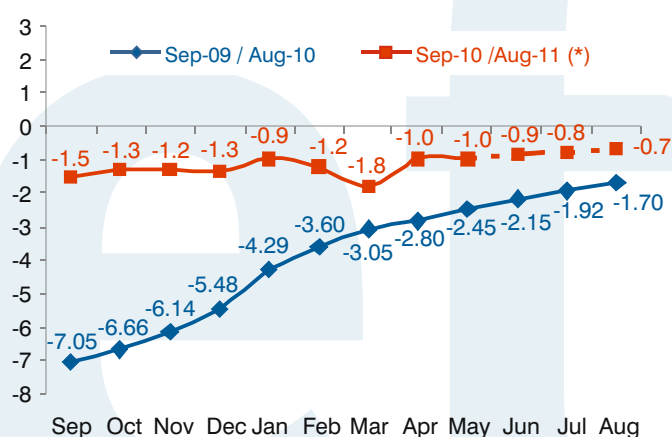
SLM monthly forecast of workers in employment (millions)



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

Hence, **the improved trends typical of the summer will cushion but not offset the usual corrections at the beginning and end of the year.** The Afi-AGETT SLM Indicator's forecasts out to August point to increases in the number of enrolments. **Progressively smaller YoY declines in enrolment are expected, to levels of around 0.7% in August, while employment should approach the levels seen in late 2010.**

SLM monthly forecast of workers in employment (% YoY)



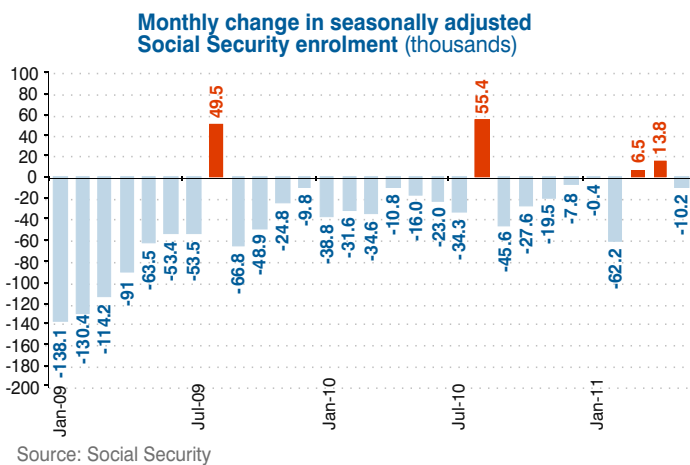
Source: Afi. (\*) Jun-Aug 2011 figures are forecasts

"May's figures for unemployment and Social Security enrolment were good, with a reduction in the number of registered unemployed of almost 80,000 and an increase in enrolment of almost 118,000,..."

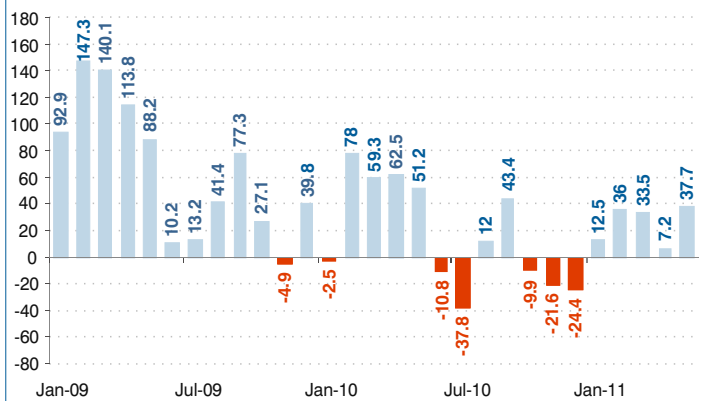
As expected, **May has seen a continuation of the gradual improvement in April**. Unemployment has fallen by 79,700, similar to the same month in 2010, but with the difference that April this year was substantially better than last year. Enrolment, meanwhile, has increased by nearly 118,000, the third consecutive month of progress after the poor start to the year (on a YoY basis, it is still falling by 0.96%), and its performance is becoming increasingly similar to that observed in 2007. **These are good data, in line with our forecasts; they are due to a more pronounced seasonality than is usual at this time of year, but trends (seasonal and YoY) show no sign of growth.**

"... but the seasonally adjusted trends are still in negative territory and show no signs of a strong recovery."

The seasonally adjusted figures reinforce the idea that the underlying trend does not yet point clearly to an emergence from labour market stagnation. There is no doubt that until July we shall 'accumulate reserves' for the autumn, but it is not yet clear that we shall finish the year with less unemployment and more enrolment than at the beginning. **In seasonally adjusted terms, the increase in unemployment reached 38,000 in May, and almost 78,000 on a YoY basis. In fact, this year's May figure is the highest in the seasonally adjusted series.** The only positive is that the monthly increase was smaller than that in the same month in 2010 (51,200) or 2009 (88,200), which could indicate that we are increasingly close to the ceiling in registered unemployment.



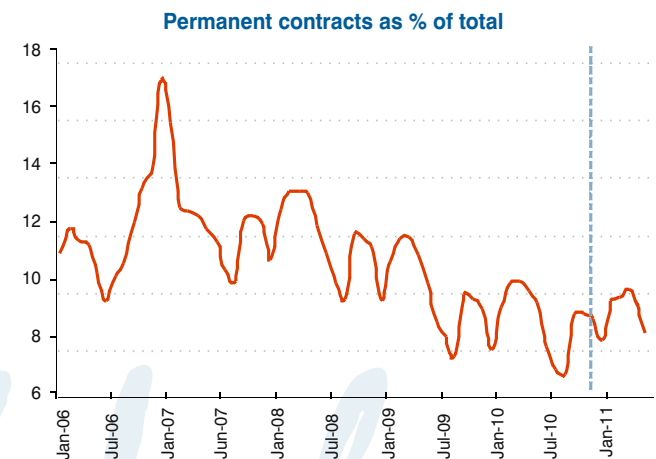
**Monthly change in seasonally adjusted unemployment (thousands)**



The seasonally adjusted enrolment figures also reflect the weakness of the recovery, with a decline of more than 10,000 in May. In any case, as noted for seasonally adjusted registered unemployment, although the total has declined, the result is better than the same month in 2010 (down 16 000) and 2009 (down 64 000). Hence, **at present it is difficult to confirm that the trend has clearly turned positive, and in the coming months, monthly variations could fluctuate between positive and negative with no obvious recovery pattern.**

"Temporary hiring continues the slow increase in its share of the total, and is expected to return to previous highs in the coming months."

**Permanent recruitment remains depressed**, and although there was a slight MoM increase, with 103,000 contracts in May, the figure is lower than in the same month of 2010. On the other hand, **temporary hiring figures are certainly better in both monthly and YoY terms**, increasing by nearly 112,000 contracts compared to May 2010, a YoY rise of more than 10%. Overall the performance of hiring has led to a **further decrease in the percentage of permanent contracts to 8%**, and the seasonal changes in the coming months are expected to take the ratio once again close to or even below the low recorded in 2009.



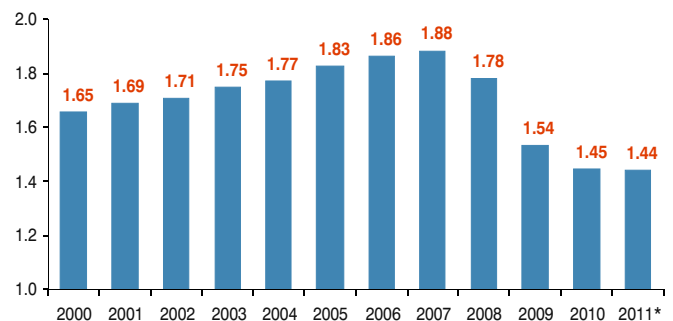
"The economic crisis has taken the support ratio to the lowest level of recent years. A gradual recovery in this indicator is expected over the next decade."

**The economic crisis has hurt the sustainability of the welfare state in Spain, as evidenced by the trend in the support ratio.** During the economic boom years, it had been rising, although the sharp drop in enrolment and the increase in unemployment benefit recipients and pensioners pose structural risks for the system, especially considering how difficult it may be return to pre-crisis levels. **For now, however, the Social Security system is still in the black**, although YoY growth in the surplus is still negative, due, among other factors, to the increase in expenditure arising from adjustments to the minimum pension and from CPI increases.

The support ratio is calculated by dividing the number of Social Security enrolments by the number of benefit recipients, including unemployment benefits and pensions. This ratio indicates the relation between the number of people contributing to the Social Security coffers and those currently receiving benefit payments. **The ratio has fallen dramatically during the economic crisis, from 1.88 in 2007 to 1.44 for the January to April 2011 average.**

The strength of the current crisis and the **poor prospects for a recovery in enrolment, coupled with the ageing of the population, mean that it may take more than a decade to return to pre-crisis support ratio levels.**

**Welfare State support ratio 2000-2011**  
Enrolment/Recipients of unemployment benefits and pensioners

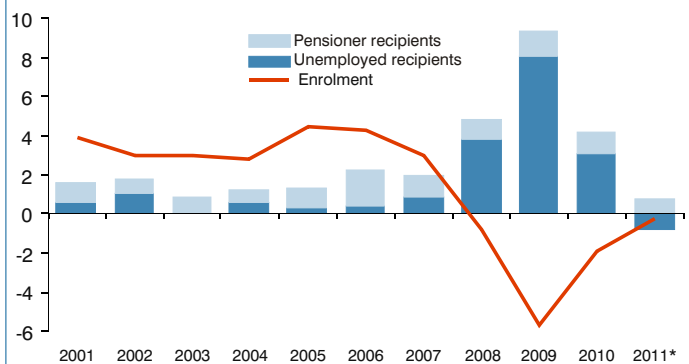


Source: National Social Security Institute  
\*2011 figures are Jan-Apr average

"Current levels may represent a low in the data series, assuming that enrolment increases and the number of benefit recipients declines in the coming years".

**The support ratio's level in 2011 may turn out to be the low point in the series**, and in the coming years we may begin to see it increase, though gradually. On the one hand, **the fall in enrolment may begin to slow in 2011**: the average YoY fall for January to April 2011 was 0.2%, within reach of positive growth. On the other hand, **the number of unemployment benefit recipients will decline, due both to increased transits to employment and to a growing number of recipients exhausting their benefits** and unable to find work. Indeed, the average number of recipients in the January to April 2011 period has decreased by 0.8% YoY. The net impact on the support ratio will depend on whether the two effects are sufficient to offset the increase in pensioners.

**Benefit recipients and Social Security enrolment 2001-2011\* (% YoY change)**

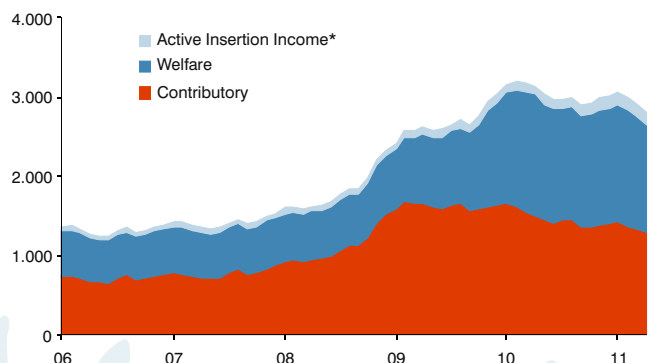


Source: National Social Security Institute  
\*2011 figures are Jan-Apr average

"The length of the economic crisis is contributing to the increasing proportion of welfare benefits in total unemployment benefits".

After peaking in early 2010, **the number of unemployment benefit recipients has declined in recent months to 2.82 million** in April 2011, with a coverage ratio of 72.8%. **Growth in contributory benefits was particularly strong up to its peak in February 2009**, when it represented just over 65% of total benefits. Since that time, they have declined by 23%, decreasing their share of the total to 45.8%. **They have been replaced by welfare benefits**, which continued to rise, peaking in early 2010, when they outnumbered contributory benefits. Welfare benefits have also fallen in recent months, standing 11.3% below the April 2011 peak, but with a smaller decline than in the case of contributory benefits.

**Unemployment benefit recipients by benefit type (thousands)**



Source: Ministry of Labour and Immigration  
\*Benefit for unemployed over 45 with no other income or benefit

"Disparities in regional population and economic structures end up being reflected in strong differences in regional support ratios".

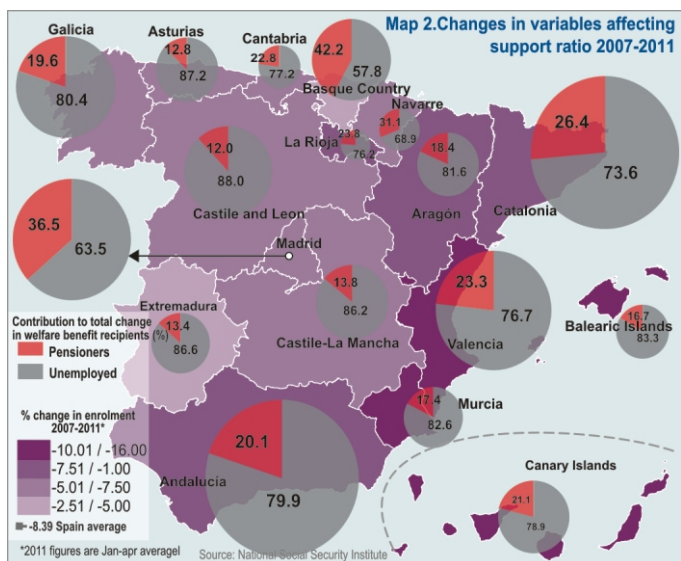
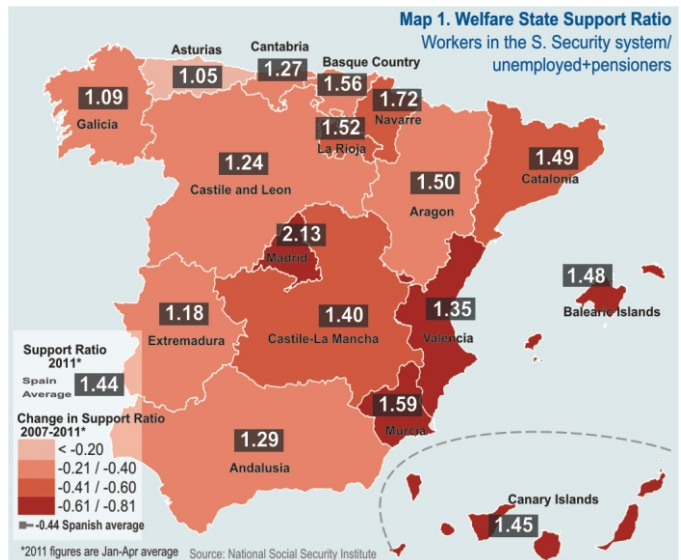
**There are strong regional differences in the support ratio in Spain.** These differences give an idea of the economic and social divergences between areas, which have caused the economic crisis to have an uneven impact on the sustainability of the pension system.

We can identify **three factors that directly influence regional differences in support ratios**: the level of economic activity, the functioning of the labour market, closely linked to the first factor, and the population structure, particularly variables related to ageing. The highest support ratios can be found in regions with stronger economic activity, such as Madrid, Navarre, Catalonia, the Basque Country, Aragon and La Rioja. This group is joined by Murcia, influenced by its industrial and population structure. On the other hand, Galicia and Asturias, with older population structures, head the list of regions with the lowest support ratios, in which the western peninsular regions are the most prominent, together with Castile and Leon, Extremadura and Andalusia.

The Balearic Islands is the region where the support ratio has fallen most in recent years (due in part to a slight distortion in the period under analysis, from January to April 2011, which may have been affected by atypical seasonal tourism behaviour. Otherwise, the largest falls have occurred in the Mediterranean regions, the Canary Islands and Madrid.

**The biggest influence on the changes in the support ratio is the rise in unemployment benefits**, up by more than 110% between 2007 and 2011. This effect is particularly notable in the regions of Castile and Leon, Asturias, Extremadura and Castile-La Mancha.

It is also reflected in the **sharp drop in Social Security enrolment**, another factor behind the fall in the support ratio. **The greatest falls in enrolment have occurred mainly in the Mediterranean coast and island regions.** Lastly, the rising number of pensioners has played a secondary role, as it depends to a greater extent on structural factors only partially affected by the economic crisis.



## THE MONTHLY FOCUS

### This unbearable unemployment

The sustainability of programs supporting pensioners and the unemployed, two of the country's biggest welfare programs, depends on Social Security enrolment. Social Security contributors' support for pensioners and for the unemployed on benefit can be expressed quantitatively by the "support ratio" analysed in this issue of the SLM Monitor. That ratio has declined significantly as a result of the crisis, which has led to a fall in enrolment and an increase in unemployment, but it is more than twice as high in Madrid than in Asturias, for example. In the short and medium term, changes in the ratio are driven chiefly by labour market trends, and what we are seeing in recent months is that if this ratio has not fallen even further, it is not so much due to increases in enrolment as to decreases in the number out of work receiving unemployment benefits. We need the support ratio to increase, but if it does so only because of falls in the coverage of the unemployed, that is very bad news. Benefit coverage is declining and becoming less secure, as welfare gradually replaces unemployment benefits. Conditional rights are being exhausted as workers become ineligible. However bad the macroeconomic news may be, the microeconomics of unemployment shows that our unjust employment system concentrates insecurity, rather than dispersing it. Moreover, it concentrates it in the weakest segment of society.

**José A. Herce, Partner Afi.**