48 July | 11

Spanish Labour Market Monitor

Presentation

The June data on Social Security enrolment are worrying and have caused us to downgrade our predictions for the EPA labour market survey figures for the second quarter of the year. The trends in enrolment and registered unemployment show that the labour market recovery is proving very slow, with the market almost stagnant, offering no prospect of a structural decline in registered unemployment in 2011. With such a negative situation in the labour market, the strong decline in net immigration to Spain comes as no surprise; this pattern is observed in all the regions, increasing the relative importance of internal migrations (between regions) in the migration figures of each region.

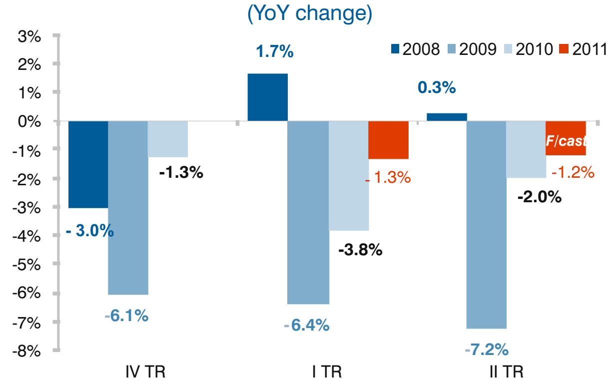
Key Points

- **The unexpected fall in enrolment in June has soured the outlook for the EPA labour force survey figures for the second quarter of the year.**
- The trend of the Afi-AGETT SML Indicator points to **an increase in the EPA employment figures on the order of 110,000 to 18.26 million. This** should translate into a **reduction in unemployment of 50,000, allowing the unemployment rate to ease slightly to 21.02%.**
- **Between July and September, the SLM Indicator stabilises its rate of decline at 1.2%**, highlighting the difficulties still faced by the Spanish economy in achieving sustained improvements in employment.
- In YoY terms, **unemployment continued to increase, by 3.5% in June, while enrolment also maintained its negative trend, falling back by 1.1%.** The almost flat trend provides no hint as to when a structural fall in registered unemployment will begin.
- **Recruitment grew slightly, in contrast with the strong increase of the previous month. Temporary jobs are behind this increase in hiring, as permanent hiring continues to fall rapidly**. In YoY terms, the trend in the number of contracts is remained positive, at 1.1%.
- **The economic crisis has had a strong impact on Spain's foreign migratory balance. The fall in net immigration**, from the 731,000 reached in 2007 to 90,000 in 2010, **is the result of both a fall arrivals and an increase in departures.**
- **The share of Spanish nationals in total net immigration is small and has been reducing in recent years, to the point where this group is now one of net emigration**. By geographical area of origin, Europeans and Americans stand out due to sheer weight of numbers. In any case, **all groups have reduced their net immigration as a result of the crisis.**
- **As a result of the economic crisis, the volume of net immigration** (both internal and from abroad) **has declined in all the Spanish regions**, implying that the impact of immigration on population growth has diminished.
- In the Spanish regions, net immigration from abroad was relatively more important during **the economic boom, but the economic crisis has increased the importance of internal movements in the total balance**.

Afi-Agett SLM Indicator

The unexpected fall in Social Security enrolment in June, after two months of relatively positive results, **has soured the outlook for employment in the second quarter and brought the quarterly figures into line with those of the same period of 2010**. The trend of the Afi-AGETT SML Indicator points to **an increase in the EPA employment figures on the order of 110,000 to 18.26 million, which would put the YoY correction at 1.16%.** This, together with the stagnation of the labour force (0% YoY), should translate into a **reduction in unemployment of 50,000, allowing the unemployment rate to ease slightly to 21.02%.**

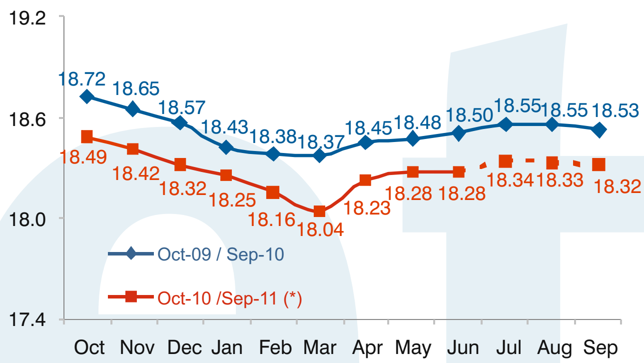
Employment (EPA figures)
(YoY change)



Source: EPA (INE) and Afi forecasts

Between July and September, the SLM Indicator stabilised its rate of fall at 1.2%, highlighting the difficulties still faced by the Spanish economy in achieving sustained improvements in employment sufficient to cushion the corrections typical of the seasonally unfavourable quarters.

SLM monthly forecast of workers in employment
(millions)



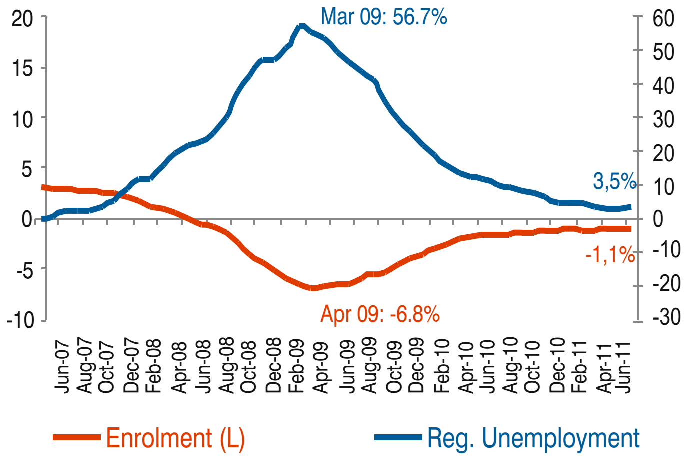
Source: Afi. (*) Jul-Sep 2011 figures are forecasts

"The enrolment data are worrying; contrary to expectations, the number of enrolments declined by more than 5,000."

Keeping in mind the absolute figures of June this year, those for the same month in 2010 and the seasonally corrected data, we have to conclude that **the economy is still dead in the water**. The June employment data are no better than those of a year ago and unfortunately they will do nothing to improve the second quarter figures, far from it. June was yet another month when **the Spanish labour market showed a strange reluctance to leave behind the YoY falls in enrolment and increases in registered unemployment.**

"The unemployment and enrolment data underline that the labour market continues to vacillate before a barrier of resistance to a decisive improvement in YoY changes, with no sign of a clear structural change of direction".

Government labour market figures
(YoY change %)



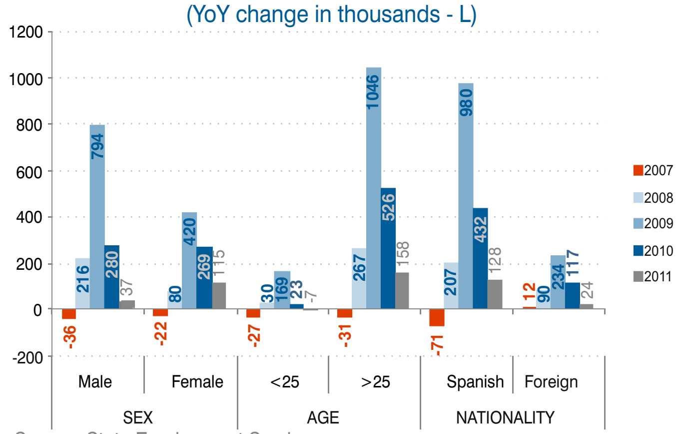
Source: National Social Security Institute and State Employment Service.

There can be no doubt that the registered unemployment figures reflect the slowdown in net job losses, but they show no indications that a strong recovery can occur in the short term, meaning that average unemployment for the year will probably exceed that of 2010. In the first half of the year, average unemployment is 151,000 higher than in 2010, and, unless there are major changes in the second half, these figures will not be reversed. The distribution of unemployment by social groups shows improvements in all of them; the rate of decline slowed though they did not manage to reach positive figures, except in the case of the unemployed under 25, who have declined by 7,000 in the first half compared with the same period of 2010.

Recruitment grew slightly, in contrast with the strong increase of the previous month. In fact, it was the smallest monthly June change since before the onset of the crisis, and can in part be linked to recruitment being brought forward to earlier months, especially in seasonal sectors such as tourism. **This increase in hiring was due to temporary contracts, as permanent recruitment continues to fall rapidly. In YoY terms, the trend in the number of contracts remained positive, at 1.1%.**

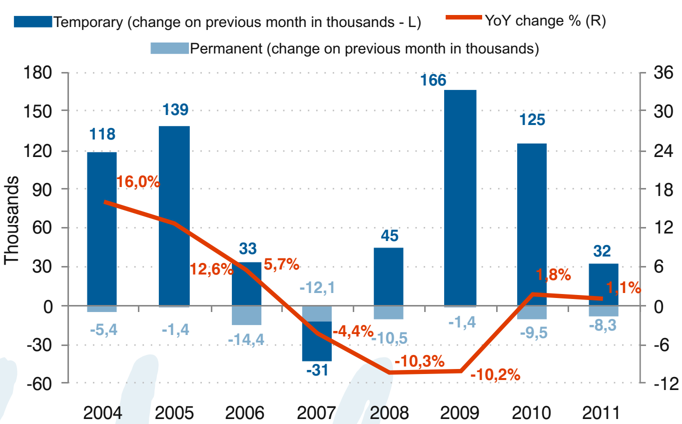
The number of unemployed again fell in June, by 67,858 compared with May, but Social Security enrolment surprised on the downside, with a (seasonally unadjusted) fall of 5,612. In YoY terms, **unemployment is still increasing at the rate of 3.5% and enrolment falling at 1.1%.** That is to say, the market is vacillating before a barrier of resistance to a decisive improvement in YoY changes. Given that we are now in the fourth year of the crisis, **these data give no room for optimism**. In June 2010, registered unemployment diminished more significantly (by 83,834), while enrolment rose by 23,884. Such differences clearly indicate that **the present moment is less favourable than** in the same month last year. In seasonally-adjusted terms, registered unemployment rose by 31,026, while enrolment fell by 49,544. **The trend is almost flat, with no hint of when a structural fall in registered unemployment will begin.**

Average unemployment in 1st half by groups
(YoY change in thousands - L)



Source: State Employment Service.

Recruitment in June



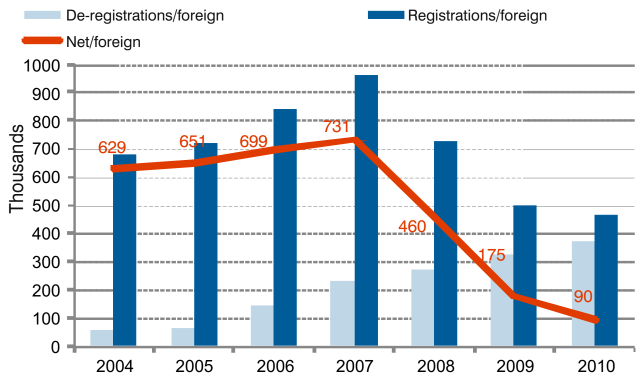
Source: State Employment Service.

"Strong fall in net immigration to Spain as a result of the economic crisis, which has drastically reduced the number of arrivals and increased that of departures".

The latest data published by the changes of residence survey for 2010 again highlights the **impact of the economic crisis on the Spanish external migratory balance. The economic situation**, with a hefty increase in the number of unemployed, the increased difficulties in finding a job, and the growth in the number of long-term unemployed, **drastically limits Spain's attractiveness to immigrants, at the same time as it increases the numbers who choose outward migration.**

Analysis of trends in the residence data points to two clearly differentiated periods. Until 2007, **riding the wave of the economic boom, the net migratory inflow rose to 731,000. Subsequently, the crisis has reduced this figure to the 90,000 recorded in 2010. The reduction in net immigration was due both to a fall in new residents**, which have fallen from the 958,000 recorded in 2007 to slightly more than 460,000 in 2010, **and to an increase in de-registrations** (persons leaving for other countries), which have increased strongly, from 55,000 in 2004 to

Changes in residence

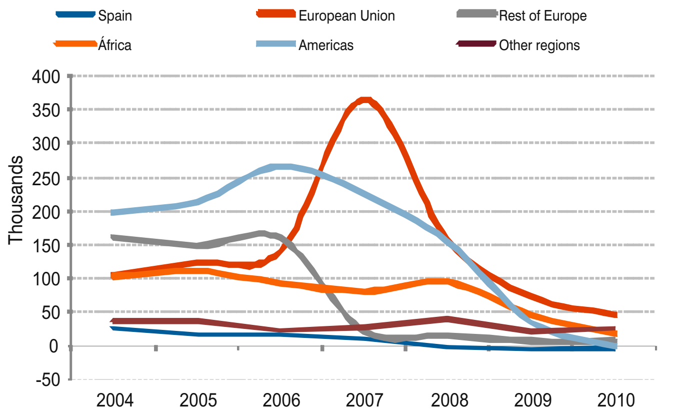


Source: Change in residence statistics (INE)

"The typical immigrant would be a person from Europe or Latin America aged between 16 and 34."

If we break net immigration down by geographical area of origin, it can be seen that **Spanish nationals form only a small proportion of the** total. They represented little more than 25,000 in 2004, and this balance has been reduced to the point where there was net inmigration of Spanish nationals in 2008. With regard to foreign immigrants, **the outstanding trend is the growth of those originating from Europe**: if we differentiate between immigrants from the European Union and elsewhere, the change caused by the inclusion of Romania and Bulgaria in the European Union becomes evident. **Next in magnitude are the immigrants originating from the Americas, mainly Latin Americans**; net immigration of this group reached more than 250,000 in 2006, but this situation has reversed, with net emigration currently running at around one thousand. . All groups show clear reductions in net immigration as a result of the crisis

Net immigration by country

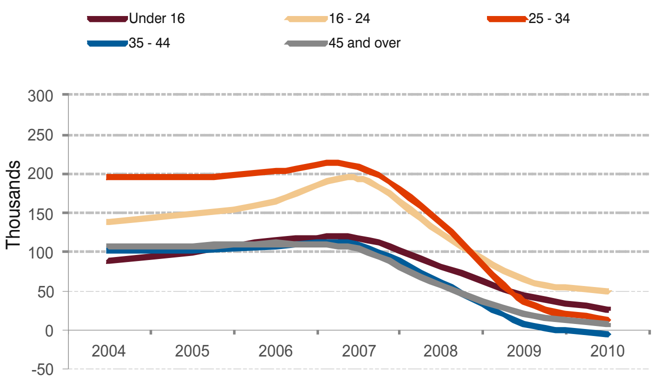


Source: Change in residence statistics (INE)

The phenomenon of immigration depends on the age of the individuals. The largest age group in the net immigration balance is represented by those individuals aged between 25 and 34, who accounted for net immigration of slightly more than 200,000 in 2007 (compared with 13,000 in 2010). The second-largest group is the 16-24 year-olds, which in 2010 had become the largest, with net immigration of nearly 50,000, followed by the under 16s, with 27,000 immigrants in 2010. Lastly, the over 45s account for much smaller numbers of immigrants. The decline in net immigration has affected all age groups practically equally, with large falls in all groups.

During the economic boom, net male immigration was some 30,000 higher than that of women. The crisis has reversed that trend, and in 2010 women accounted for a net inflow of almost 70,000 and men for around 21,000.

Net immigration by age group



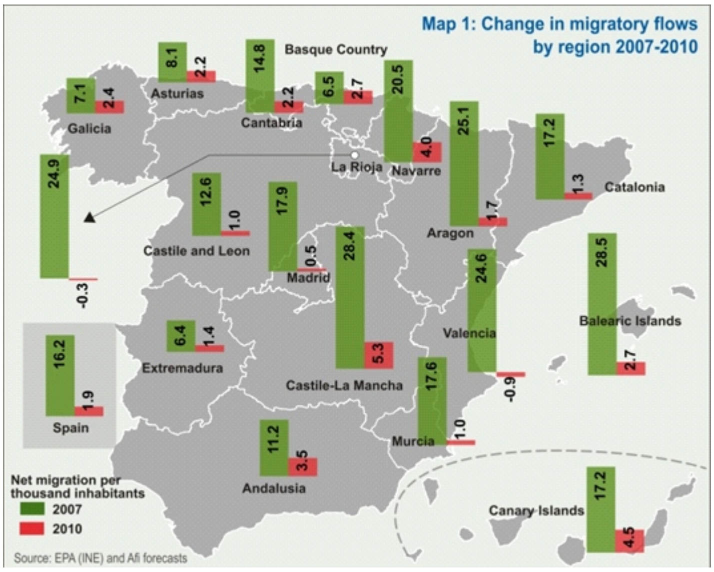
Source: Change in residence statistics (INE)

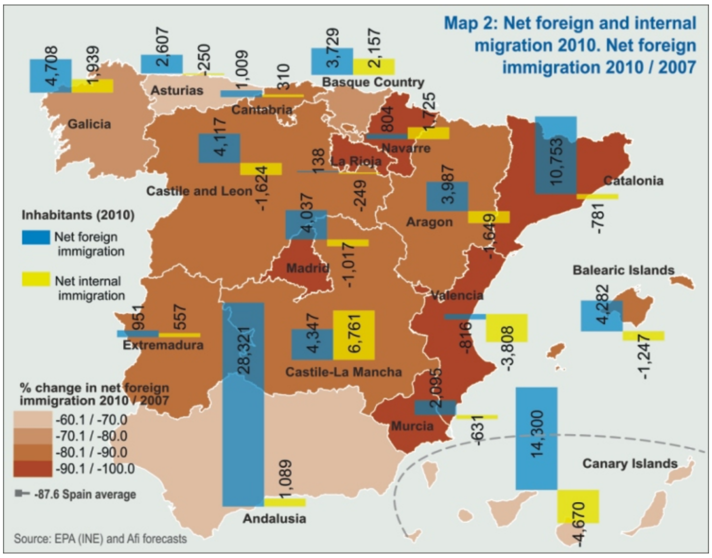
"Analysing net immigration by region, the decline in net foreign immigration increases the relative importance of internal migration."

Migration patterns show important differences by region, both for any given year and when analysing the changes seen in recent years. As a result of the crisis, inflows, outflows and the net balance have all declined in every region. Additionally, it is very interesting to verify if the differences in each region's migratory balance are due to changes in external migration or to internal migration within Spain (from other regions).

As a result of the economic crisis of recent years, between 2007 and 2010 both inflows and the net balance have declined, implying that the impact of immigration on population growth has diminished. Thus, while in 2007 net immigration to Spain was equivalent to 16 immigrants per thousand persons registered with municipalities at the beginning of year, in 2010 that figure has fallen to 2, or 14 fewer immigrants. **Total net immigration** (internal and external**) has declined in all the Spanish regions.** The regions with the biggest declines in this ratio are the Balearic Islands, Valencia, La Rioja and Aragón. On the other hand, where it has fallen least is in the Basque Country, Extremadura, Galicia and Asturias, regions already characterised by lower population growth during this period.

A region's net immigration can be divided into external (originating abroad) and internal (originating in other regions). **Foreign immigration had the larger share during the economic boom, but the crisis has caused the shares of each to converge**, with the importance of internal migration increasing. In some cases, such as Navarre and Valencia, the size of internal migrations has even exceeded that of foreign flows in 2010. The fall between 2007 and 2010 was due mainly to the trends in external migration.
The ranking of regions which were net sources of internal migrants in 2010 is headed by the Canary Islands, Valencia, the Balearic Islands, Aragón and Madrid. Among the leading net recipient regions are CastileLa Mancha, the Basque Country and Galicia.





THE MONTHLY FOCUS

Inmigration and the crisis

Despite the great changes in the patterns of arrivals and departures of our country's foreign population in recent years, the number of immigrants in our economy has not reduced. It is true, as the INE's changes of residence survey reveals, that between 2007 and 2010 arrivals of foreigners have halved and departures have multiplied by seven, but municipalities have still seen a net increase in foreigners registered of close to 100,000 a year. Foreigners are reacting to the crisis by sharply modifying their patterns of mobility, but they are growing in number despite the fact that they are suffering from the same unemployment and economic insecurity that affect Spanish homes even more strongly. It would be neither logical nor appropriate to think that their greater capacity of adaptation, mobility, etc. is protecting them from the effects of the crisis, or that it will be able to save them from the perpetuation of its worst effects in the future. They have provided, and continue to provide, a great service to the Spanish economy and society and they should figure prominently among the concerns of the policies dedicated to the reincorporation of the unemployed into employment and economic security.

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Direction & coordination: Asociación de Grandes Empresas de Trabajo Temporal (AGETT)

Realization and technical support: Consultores de las Administraciones Públicas (CAP)

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