

Spanish Labour Market Monitor

Presentation

Once again the month of July presents positive official month-on-month figures. However, behind these lies a continuation of the lack of progress in the labour market in 2011. Seasonal factors are still the main explanation for the good results. The seasonally adjusted data reveal the bleak reality of the lack of improvement in the labour market recession. The EPA labour force survey data for the second quarter show a slight improvement on the previous quarter, but the YoY trend remains negative. The increases in services have been insufficient to offset the decline in employment in the construction sector.

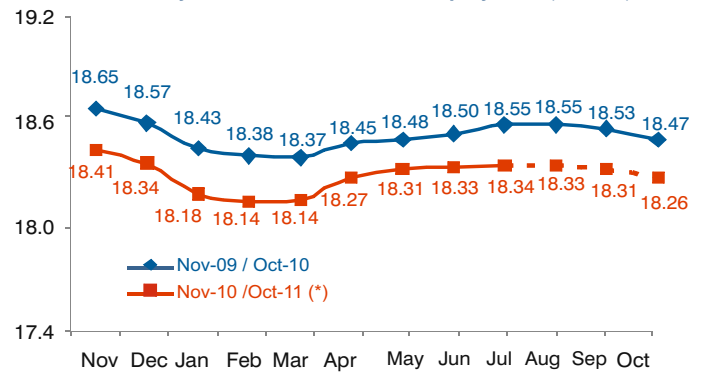
Key Points

- The positive July figures are not enough to signal a change in the weak trend in the labour market in 2011.
- In the third quarter the results of the Afi-AGETT SLM Indicator are expected to worsen again, taking employment close to the 18.30 million mark again, with YoY declines of around 1.2%.
- The weak July growth in Social Security enrolment translates into a significant decline on a seasonally adjusted basis. The signals emerging from the seasonally adjusted figures for registered unemployment and recruitment are inconsistent with any change in labour market dynamics.
- On the other hand, recently published EPA employment data for the second quarter reflect an improvement over previous quarters, but at a very slow pace that offers little hope of closing the year with positive YoY growth.
- There was also a slight fall in the unemployment rate in the second quarter, to 20.9%, with 4.83 million unemployed. Unemployment was down by 76,500 in the quarter, but it is still increasing at a YoY rate of 4%, with a rise of 188,000 in the past year.
- The young continue to be the group hardest hit by the severe unemployment, with an unemployment rate of 63% for those aged between 16 and 19, and 43% for the 20-24 year-olds.
- The workforce increased slightly in YoY terms, with an increase of 0.06%. The numbers of young people entering the job market continue to fall heavily, but higher age groups are joining the market in greater numbers, notably women.
- The performance of employment in the services sector has permitted some improvement in the YoY decline in employment.
- By subsector, increases in employment in public administration, in healthcare and social services, hotel and catering, and retailing have been decisive in offsetting the new and severe deterioration in construction.
- The most dynamic sectors are again those whose customers are mainly outside Spain, such as tourism or manufacturers of capital goods for export. By contrast, the industries suffering most are those dependent on investment in Spain or on domestic demand. Thus, the sectoral specialisation of each region has an enormous influence on the behaviour of its labour market, with important differences between regions masking the improvement in employment in Spain as a whole.

Afi-AGETT SLM Indicator

The third quarter began with an improvement in the employment figures, in line with the norm in recent years, although still insufficient to signal a change in the weak trend in the labour market in 2011. Thus, negative YoY growth in enrolment continues for yet another month, delaying the start of the recovery in this indicator, which is not expected until 2012.

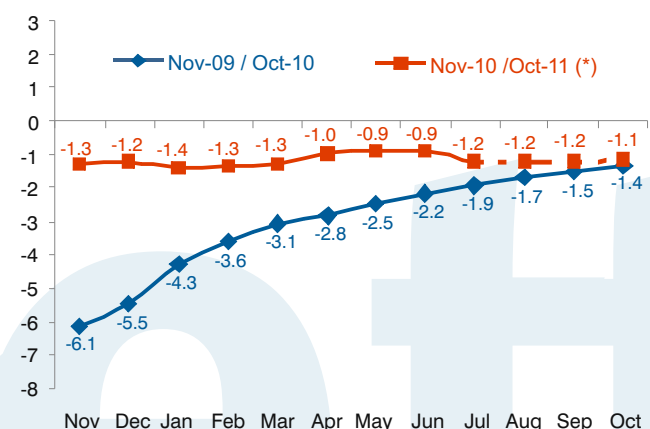
SLM monthly forecast of workers in employment (millions)



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

During the second quarter, the results of the Afi-AGETT SLM Indicator were better than expected, with the YoY rate even falling below 1%. In the third quarter the results are expected to deteriorate again, close to 18.30 million employed persons with YoY declines of around 1.2%. 2011 is still expected to end with net job losses, which will hopefully be moderate.

SLM monthly forecast of workers in employment (% YoY)



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

“Increase in Social Security enrolment and reduction in registered unemployment in July, but not of sufficient importance to alter the seasonally adjusted pattern of previous months”.

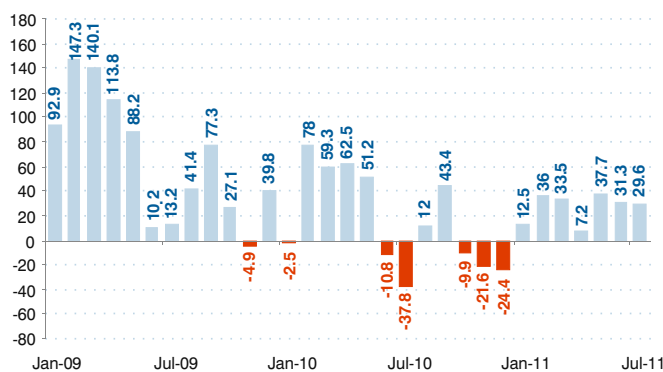
While the July registered unemployment and enrolment data are "positive" in terms of their sign, they are not data that mark the disappearance of recessionary forces from the Spanish labour market, as the seasonally adjusted figures continue to show MoM and YoY declines. The 42,059 fall in unemployment in July is still weak compared with the reductions seen in the pre-crisis years, and on a seasonally adjusted basis there was a rise in unemployment of 29,634 compared with June.

“Weak growth in enrolment in July, which on a seasonally adjusted basis becomes a significant fall.”

Social Security enrolment increased by 50,000, with services (up 85,000) offsetting the decline in construction (down 17,000) which, as evidenced by the EPA last week, continues to perform worse than in 2010. By sector, hotels and catering is again decisive for the improvement in enrolment, being one of the few subsectors (along with healthcare and social services, among others) to return positive YoY rates in July, which we associate with the good performance of tourism in the middle part of the year, possibly the mainstay of economic activity in the second quarter of 2011.

The seasonally adjusted enrolment data again show that the emergence from the crisis will be slow and difficult. The heavy falls in June and July (down 50,000 and 34,000 respectively) have been unpleasant surprises, much larger than any of the falls seen in 2010.

Monthly change in seasonally adjusted unemployment (thousands)



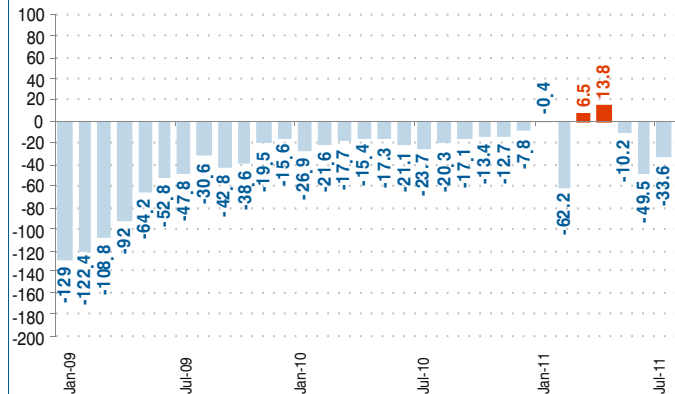
Source: State Employment Service.

“Nor does the trend in recruitment suggest any signs of change in the recent direction of employment variables.”

The seasonally adjusted recruitment figures also show the erratic nature of the emergence from the Spanish labour market downturn, with the July data proving more negative than expected. In seasonally adjusted terms, the number of contracts again fell, by more than 83,000 compared with June, with 1.16 million contracts signed during the month, 41,000 less than in the same month of 2010.

There is a further negative aspect to the latest data, which is that temporary contracts are crowding out permanent hiring, which has fallen steadily since February, which could point to poor figures in coming months, as the effect of seasonality of these past months wears off.

Monthly change in seasonally adjusted Social Security enrolment (thousands)

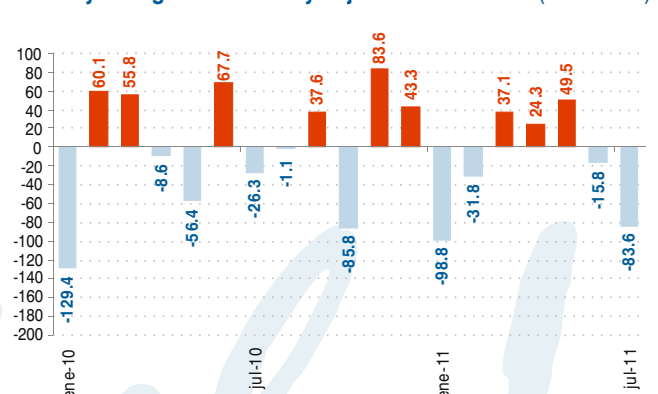


Source: Social Security.

In July, registered unemployment fell by 42,000, a smaller decline than in the same period last year, confirming the weakening trend in the reduction in joblessness in recent months compared with 2010. In this regard, it is significant that total unemployment (bordering on 4.1 million) is now rising at a YoY rate of more than 4%, over a percentage point more than at the beginning of the second quarter of 2011.

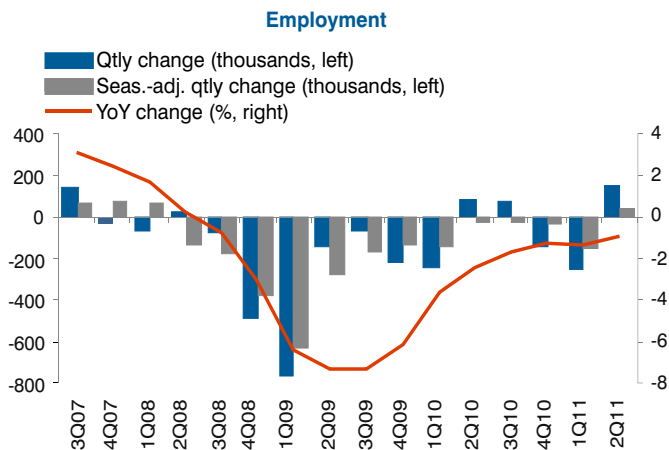
The seasonally adjusted data show the seventh consecutive monthly increase in the number of unemployed, with an increase of nearly 30,000 in July, indicating that the structural situation of recent months has still not improved.

Monthly change in seasonally adjusted recruitment (thousands)



Source: Social Security.

"Better than expected employment figures in the second quarter according to data from the recently published Labour Force Survey."

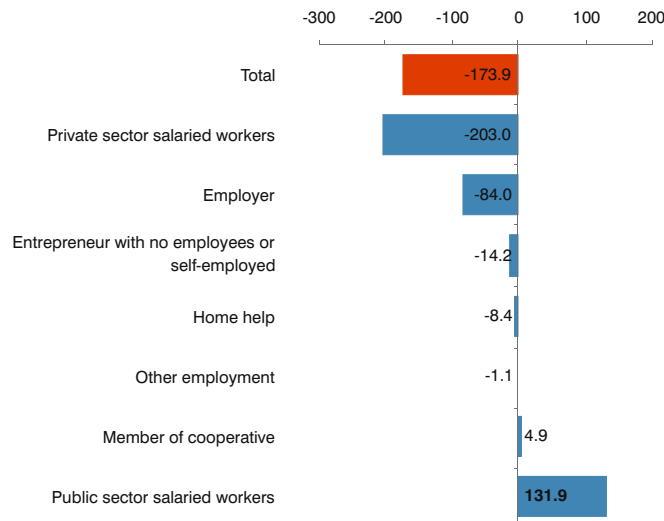


Source: National Statistics Institute.

Overall employment data were positive in the second quarter, according to the EPA labour force survey. For the first time since the beginning of 2008, the employment figures show positive QoQ growth both before and after seasonal adjustment, of 151,000 and 40,000 respectively. These figures take total employment to 18.3 million. Despite the quarterly increase in employment, it should not be forgotten that on a YoY basis it continues to decline, though more slowly, with a fall of only 0.9% in the second quarter. Nevertheless, the pace of improvement is too slow, in line with the hesitant behaviour of GDP growth.

"Only employment in the public sector and among members of cooperatives shows positive YoY growth."

Full-time workers by type of employment. 2Q11
(YoY change in thousands)



Source: EPA (National Statistics Institute).

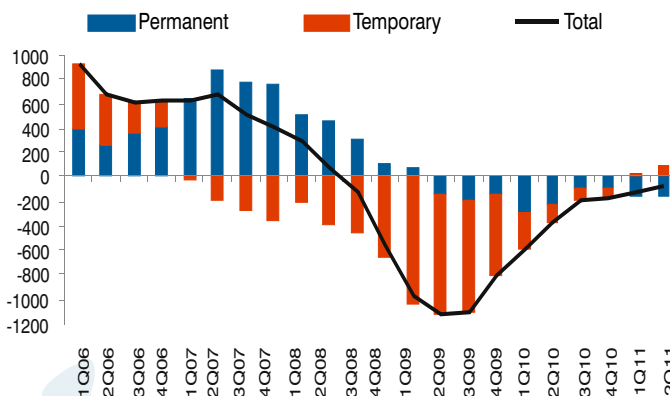
The breakdown by occupation and type of employment shows that only public sector salaried workers and cooperative members have experienced positive YoY growth. Employment in Spain declined by almost 174,000 in the second quarter compared with a year earlier, a 28% improvement over the YoY change in the first quarter of 2011, when it fell by 243,000.

The fall in employment was due mainly to falls in private sector wage workers, down by 203,000, and employers with wage workers, with a decline of 84,000. On the other hand, public sector salaried workers increased by 132,000 compared with the second quarter of 2010, and also recorded the largest QoQ rise, of 98,000.

In line with the total employment figures for the second quarter, wage employment has also improved, with its negative YoY growth rate reducing to 0.5%, or 71,000 jobs, taking the number of salaried jobs to 15.29 million.

In any case, it is important to distinguish the behaviour of temporary and permanent wage employment. Temporary employment has been responsible for the relative improvement, with positive YoY growth for the second consecutive quarter. Thus, in the second quarter of 2011 temporary employees had increased by 81,000 over the same quarter of 2010. On the other hand, permanent salaried employment continues to diminish, with a fall of around 152,000 over the second quarter of 2010, for a YoY fall of 1.3%.

Salaried employment by type of employment (thousands)

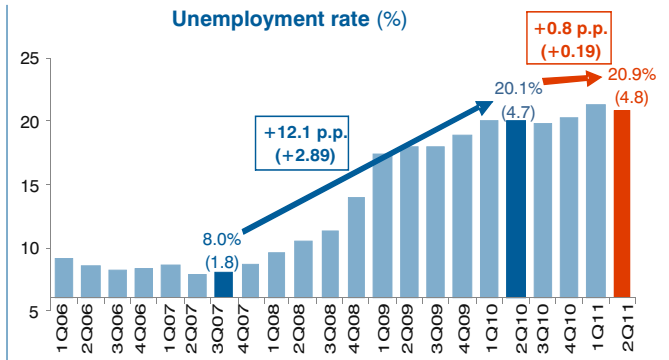


Source: National Statistics Institute.

"Slight decrease in the unemployment rate to 20.9% as a result of a fall in unemployment of more than 76,000."

There was a slight fall in the unemployment rate in the second quarter, to 20.9%, with 4.83 million out of work. The QoQ decline was 76,500, but there was a YoY increase of 188,000, with the YoY growth rate still at 4%. The net result is that the unemployment rate remains stuck at 21%, although it is good, if only psychologically, to see it just below that figure.

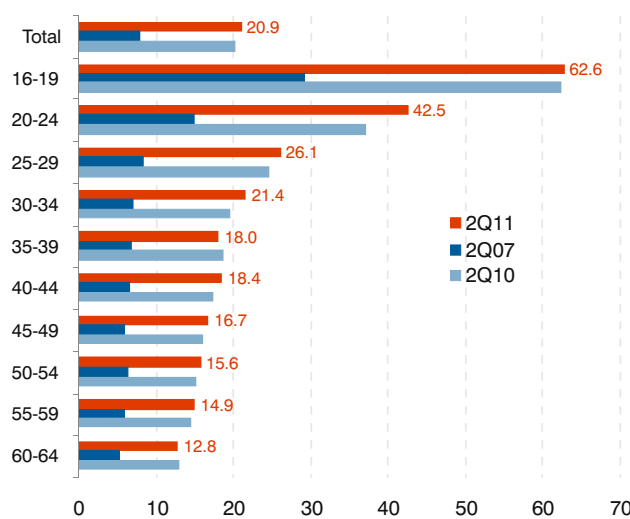
The trend in the unemployment rate suggests that this variable is near its ceiling, though there will still be changes in the rate, largely associated with the seasonal behaviour typical of employment in Spain. Nevertheless, the unemployment rate, now at 20.9%, with 4.8 million unemployed, will in any case remain high. The rate represents an increase of 0.8 percentage points (just over 188,000) compared to the second quarter of 2010. This result, although negative, is far from the pace of job losses in 2008 and 2009, which took the unemployment rate from 8.0% in the third quarter of 2007 to 20.1% in the second quarter of 2010, a rise of 12.1 percentage points.



Source: EPA (National Statistics Institute).
*Numbers in brackets are unemployed in millions

"The younger age groups have the highest unemployment rates, something which hinders their incorporation into the labour market."

Unemployment rate by age group (%)

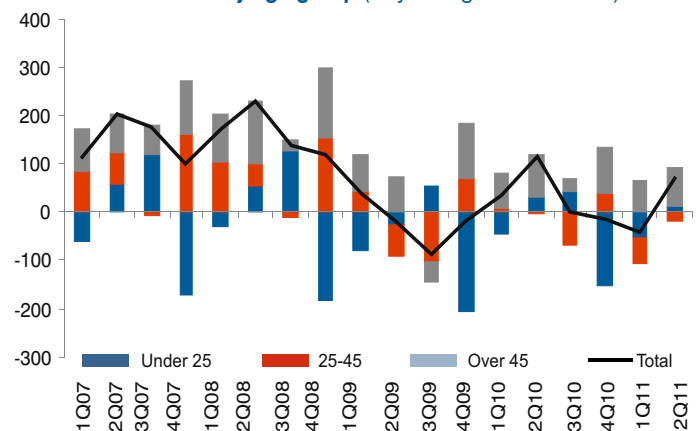


Source: EPA (National Statistics Institute).

Meanwhile, the labour force has increased by about 75,000 compared with the first quarter, reaching a new high of 23.14 million. In any case, the growth is moderate, and the new figures represent a positive variation of only 0.06% over the second quarter of 2010. The fastest growing group remains the over 45s, with 3.4% (about 81,000) year on year in the first quarter. By contrast, the group under 25 years shows the biggest decline, down 7.2% from the second quarter of 2010, though it increased slightly over the first quarter of 2011, by about 12,000.

The increase in the unemployment rate has been reflected in all age ranges except the 60-64 group. The situation of young people and the difficulty of finding the first job are still the main concerns. The highest unemployment rate is still found in the 16 to 19 age group, although it has changed very little between the second quarter of 2010 and the second quarter of 2011, remaining above 62%. This group is followed by those aged 20 to 24, whose unemployment rate has increased significantly over the past year, by 5 percentage points, reaching 42.5%. Besides these groups, the 25 to 34 year olds are also above the average. Finally, the unemployment rate tends to be lower in the higher age groups, being less than 15% for those over 54.

Labour force by age group (Qtlly change in thousands)



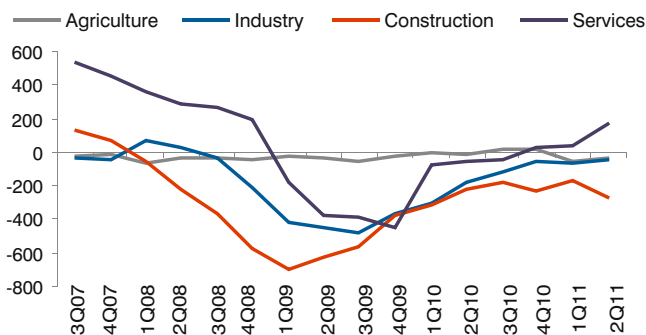
Source: EPA (National Statistics Institute).

"The improvements in employment in the second quarter are closely linked to more favourable trends in the services sector."

The behaviour of employment by economic sector again shows a widening of the differences between sectors. The dynamics of each depends on the outlook for its activity, a factor associated with the type of goods or services it offers. In this respect, the most dynamic sectors are again those whose customers are mainly from outside Spain, as in the cases of tourism, supported by strong foreign tourism demand, and the production of capital goods for export.

On the other hand, the industries with the greatest difficulties are those dependent on investment in Spain, especially that associated with construction (both business and residential), or on domestic demand, as growth in household consumption is very weak, which ends up affecting sectors such as catering or car sales.

Employment by economic sector YoY change (thousands)



Source: National Statistics Institute.

Overall, the slower pace of decline in employment in the second quarter can be linked to the sharp increase in employment in the service sector, with an YoY increase of 174,000 (220,000 QoQ) which has partly offset the new relapse in the construction sector, where employment declined by about 270,000 in YoY terms, the worst figure since the second quarter of 2010.

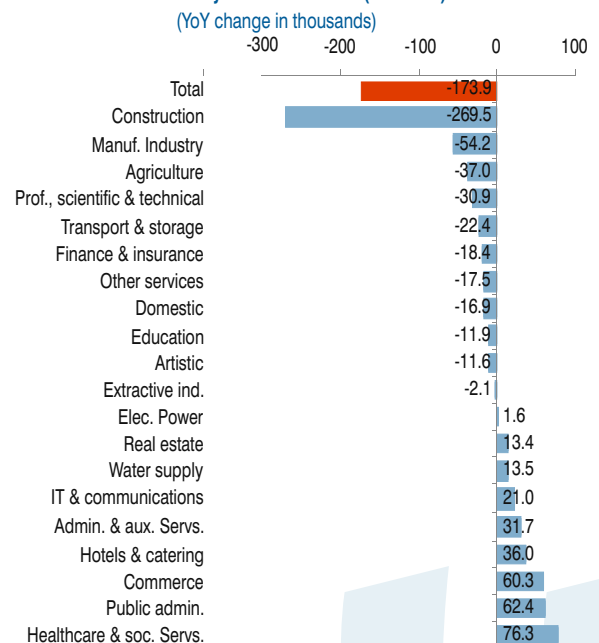
On the other hand, the industrial sector is improving only very slowly; the YoY variation is still in negative figures, with a decrease in employment of a little over 41,000, which nevertheless is the smallest change since the end of 2008.

"By subsector, increases in employment in public administration, healthcare and social services, hotels and catering, and retailing have been decisive to offset the renewed decline in construction."

The improvement in the services sector is closely related to the behaviour of public administration and with those subsectors most directly linked to foreign tourism demand. Employment in public administration showed a YoY increase of than 62,000, or 4.5%, despite the problems of reducing the public deficit faced by the government. Hotels and catering and retailing, for their part, saw employment rise by 36,000 and 60,000 (or 2.6% and 2.1%) respectively. In the former, the positive performance of accommodation services stands out, being the greatest beneficiary of foreign tourist arrivals, in contrast with the catering industry, hurt by cutbacks in Spanish household spending in the current economic climate. Within the area of commerce, it is especially wholesale trade which shows the strongest growth, offsetting falls in car sales.

On the downside, construction saw a fall of around 270,000, meaning a YoY decline of 15.9%, with a particularly strong fall of 22.4% in building construction, due to the problems of the real estate sector. Additionally, difficulties persist in the industrial sector, particularly in subsectors associated with domestic demand, such as metallurgy or manufacture of rubber and plastic products, and job losses in some service sectors such as professional or financial activities, the latter severely affected by the restructuring of the finance sector. Within transport services, we again see the dichotomy between an airline industry with increasing occupancy and land transportation with sharp falls, due both the stagnant economy in Spain and to rising fuel prices in the first half of the year.

Full-time workers by economic sector (CNAE-09) 2Q11



Source: EPA (National Statistics Institute).

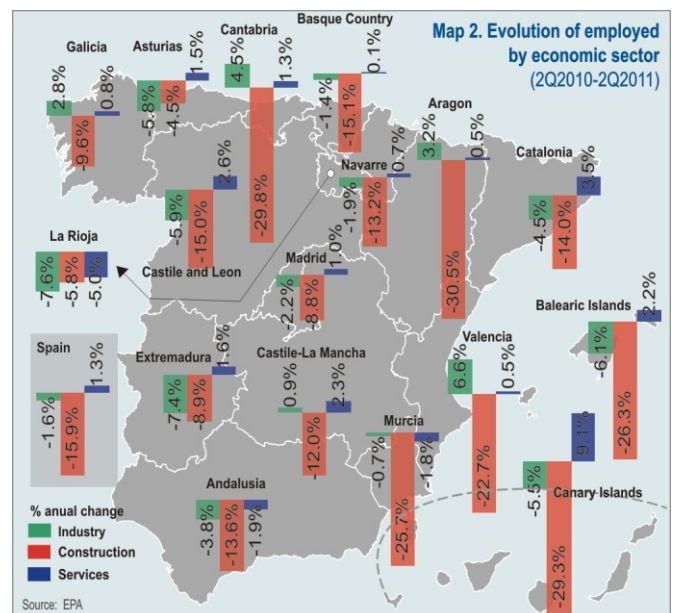
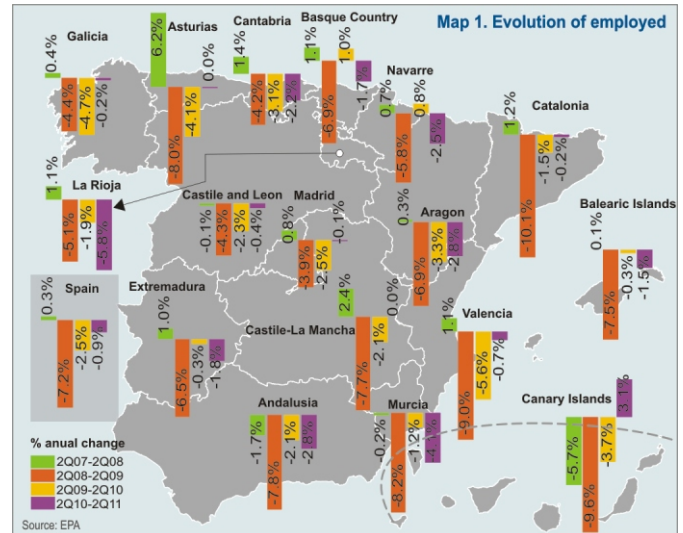
"The sectoral specialisation of each region has a great influence on the behaviour of the labour market, with important differences existing between regions."

Although an improvement in overall employment can be observed in Spain, with job loss rates below 1%, the wide disparity in regional behaviour stands out in 2011. Thus, we can point to regions that are closer to seeing a change in the trend of job losses, and others where job losses are even intensifying, depending on the specific sectoral specialisation of each region.

The nationwide decline in employment of 0.9% has to do with the improvements in the regions of Madrid and Catalonia, which saw negative variations of only 0.1% and 0.2% and which, given their relative size, have a positive impact on the national index. Together with these regions, the growth of the Canary Islands stands out, due to the positive trends in tourism, with a significant increase in the influx of foreign tourists.

The less negative results of these regions mask the worse performance which has been observed in nearly all the other regions, where there are still high rates of job losses. The figures of La Rioja, Murcia, Aragon and Navarre are especially bad, with rates of job losses which are even increasing; in some cases, such as Navarre, the good prospects raised by the 2010 figures are deteriorating.

Much of the explanation for these negative performances is to be found in the deterioration of construction, which has increased its negative rates of change in the second quarter of 2011 compared with the second quarter of 2010. Only Castile-La Mancha, Catalonia, Madrid and La Rioja show lower YoY falls in 2011. Especially harmful, due both to the greater relative importance of the sector and to the size of the YoY fall, are the results obtained in Murcia, the Balearic Islands, Aragon and the Canary Islands, with the sector's share of GDP falling by up to 3 percentage points. Services have contributed positively to employment in almost all regions, especially in the Canary Islands, Catalonia, Castile-La Mancha and the Balearic Islands. In negative territory, we find Andalusia and Murcia, which are still seeing net job losses in the sector. Employment trends in industry have also improved over the past year for most regions, although only five have achieved positive growth: Valencia, Aragon, Cantabria, Castile-La Mancha and La Rioja. There is a wide variety of growth rates depending on the specific industrial structure of each region, ranging from 6.6% in Valencia to -7.6% in La Rioja.



THE MONTHLY FOCUS

The Keystone of confidence

With the first half of the year already behind us, it appears that the annual average unemployment rate will be around 21% of the workforce in 2011. The July data leave no other possibility, because the seasonally favourable period ends in August, and moreover the coming months will also see job losses in the public and financial sectors, which can no longer be delayed. Unfortunately, unemployment is not the only front in the fight against the loss of domestic and foreign confidence undermining the possibilities of the Spanish economy, but it is probably the most complex to undertake. The effects of the structural reforms of the labour market will not materialise until businesses begin to benefit from demand and credit, and can begin to take on workers again under the new conditions. The only alternative in the short term on the labour front is for companies to combine part-time and/or temporary employment with lower unit labour costs, and thus begin to offer goods and services with more accessible prices to a very stagnant domestic demand and to a clearly more active foreign demand. It is not a pleasant medicine, but it is the only bullet we have left and it may be the most effective.

José Antonio Herce. Partner Afi