

Spanish Labour Market Monitor

PRESENTATION

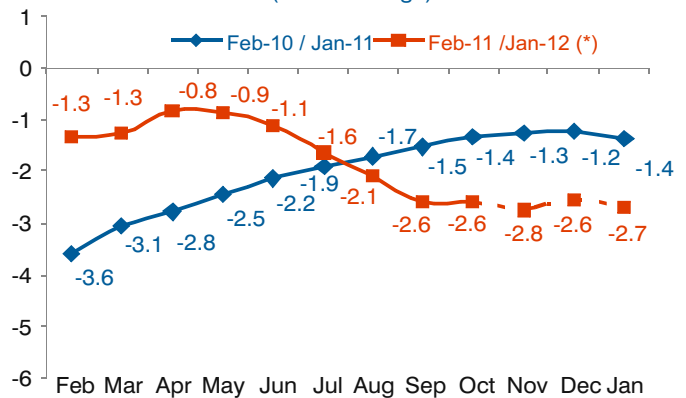
The October data for registered unemployment and Social Security enrolment, and the third quarter figures for the EPA labour force survey, show that the end of the labour market crisis is still far away; in fact, it is getting worse compared with previous months and quarters. The speed of deterioration has increased and the return to a virtuous circle of recovery still remains distant. The EPA data are still provoking negative headlines, with new records for the last decade in variables such as the unemployment rate or the numbers of out of work. In this environment, households find themselves obliged to reduce their total spending, even though the costs of key items such as housing and energy continue to rise, with the concomitant need to make drastic cuts in other types of spending, with harmful effects on the economy in general.

Key Points

- The deterioration of the labour market has intensified at the beginning of the fourth quarter, after various months with no definable tendency. The October data again produce the vertigo that characterized the worst labour market changes of this long crisis.
- The Afi-Agett SLM Indicator indicates that YoY corrections are going to stay on the threshold of the 2.7% level until January 2012, when a new low in current labour market cycle of employment is foreseen, with 17.7 million employed.
- The fact that the adjustment is beginning to affect groups that up to now had survived the crisis relatively well shows the risks of a sharp relapse in employment in the two next quarters.
- Total Social Security enrolment has fallen by 75,249 in October compared with September, a decline of 0.4%, the third consecutive monthly fall.
- The YoY variation of the seasonally adjusted series shows a relative improvement from the negative rates of recent months: the fall of 1.7% is the smallest since the second quarter of 2010.
- The number of unemployed in Spain rose in October by 134,182, to 4,360,926. This MoM increase is the worst seen since February 2009, reflecting the weakening of the economic situation in recent months.
- In the third quarter EPA data, the fall in employment exceeded all the forecasts, with a reduction of over 390,000 in YoY terms.
- With little change in the labour force, the collapse in employment has been fully reflected in an increase in unemployment, taking the total number of unemployed to a historical maximum (nearly 4.98 million) and the unemployment rate to 21.5%.
- Together with the loss of jobs, there has also been a loss of quality in employment, with an increase in involuntary part-time and temporary working.
- The crisis and the increase in the number of households have combined to produce a strong fall in the average spending per household, with a decline of 6.9% in 2010 compared with 2007, according to data from the Family Budgets Survey.
- The regional differences in average spending per household are as high as 43% in 2010, with a positive correlation with the divergences in GDP per capita.

Afi-AGETT SLM Indicator

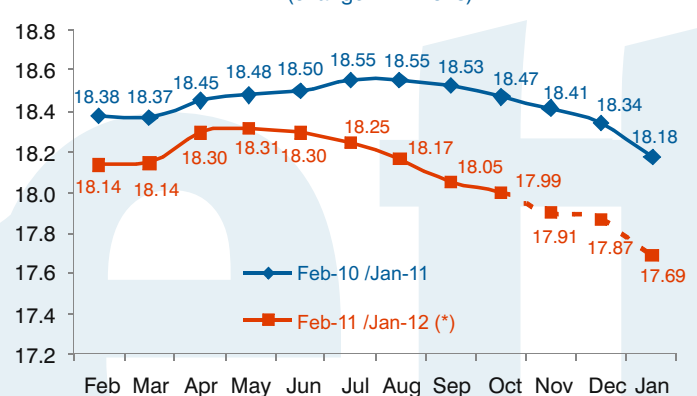
SLM monthly forecast of workers in employment
(% YoY change)



Source: Afi. (*) Nov 2011-Jan 2012 figures are forecasts

The results of the third quarter EPA labour force survey have been more negative than expected, situating the Spanish economy once again on the verge of recession. The heavy fall in the employment figures continued in October, with a decline in enrolment and an increase of the number of unemployed; the recent behaviour of the labour market is comparable with that of late 2008. The fact that the deterioration is beginning to affect groups that up to now had survived the crisis relatively well shows the risks of a sharp relapse in employment in the two next quarters (this is the case of public sector wage earners, domestic workers and female employment). The Afi-Agett SLM Indicator reflects this pattern, with YoY corrections that remain on the threshold of the 2.7% level until January 2012, when a new low in current labour market cycle of employment is foreseen, with 17.7 million employed.

SLM monthly forecast of workers in employment
(change in millions)



Source: Afi. (*) Nov 2011-Jan 2012 figures are forecasts

"The market's deteriorating trend, begun in previous months, is strengthening, with a new maximum in registered unemployment".

The deterioration of the labour market has intensified at the beginning of the fourth quarter, after various months with no definable tendency, and in the worse possible way, i.e. with falls in recruitment, both permanent and temporary (the latter in all its forms), and in enrolment, accompanied by a strong increase in registered unemployment. Neither do the seasonally adjusted data offer any consolation, as the 57,371 increase in adjusted registered unemployment and the 82,944 fall in Social Security enrolment are still very worrying figures. Unfortunately, the September data had already pointed to a tendency that the third quarter EPA corroborated very explicitly. The October data again produce the vertigo that characterized the worst labour market changes of this long crisis.

"Seasonally adjusted enrolment and registered unemployment show signs of a change in the trend".

The adjoining graph of the YoY changes in registered unemployment and enrolment shows that we are still in negative territory; the end of the labour market crisis is still far off, and in fact, it is getting worse compared with previous months.

The total number of enrolments in the Social Security stood at 17,360,313, a reduction of 75,249 compared with September, a MoM decline of 0.4% and the third consecutive monthly fall. More worrying than the fact of the fall itself is its size, the biggest in any month of October during the crisis, with the exception of 2008; it is much larger than the decline of 5,331 in the same month of 2010, and higher than the fall of 64,956 in September. The seasonally adjusted series shows a worrying change of tendency.

Thus, the YoY variation reflects an improvement over the negative rates of past months, at 1.7%, the best figure since the second quarter of 2010.

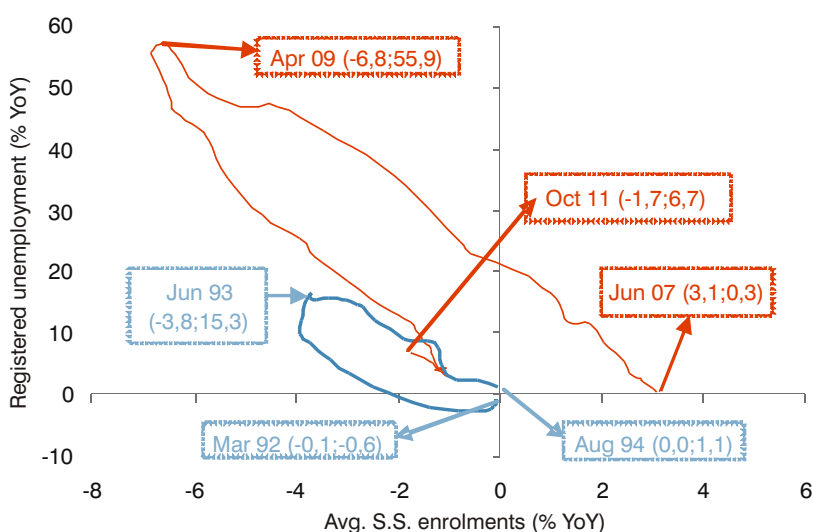
In unison with the fall in enrolment, and even more strongly if possible, the number of unemployed in Spain has risen by 134,182 in October, to 4,360,926. This MoM increase is the worst seen since February 2009, reflecting the weakening of the economic situation in recent months. Registered unemployment increased in all sectors, in both sexes, in all regions and also among foreign workers. In seasonally adjusted terms, registered unemployment rose by more than 57,000, somewhat less than in September 2011, but more than any month since April 2010. The YoY variations highlight the change of tendency begun in the third quarter of the year, with the rate of change rising to 6.7% in October.

"Recruitment was also very weak in October; together with the high proportion of temporary hiring, this reinforces the idea of a deterioration of the situation of the labour market".

With regard to recruitment, 1,294,801 contracts were signed in October, a decline of nearly 90,000 (7.1%) with regard to September. In YoY terms, the figure is a 3.8% decline over that of October 2010, or 51,000 fewer contracts.

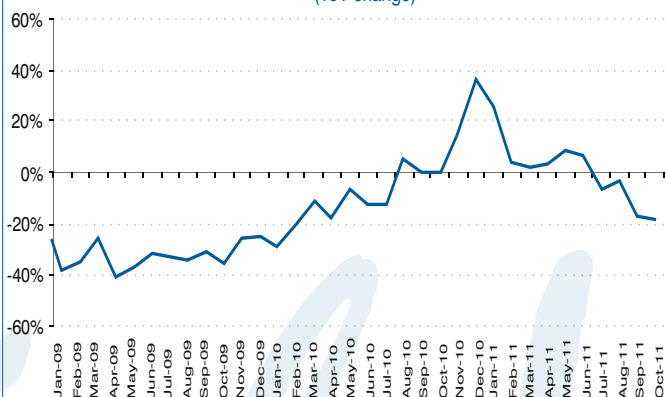
Despite this negative figure, recruitment in the ten first months of 2011 has exceeded 12 million, maintaining a positive variation of 0.7% with regard to the same period of the previous year. Nevertheless, this needs to be much higher, in an environment like the present, and with a very high proportion of temporary contracts, if employment is to increase. In fact, the figures on the conversion of temporary contracts to permanent again show strongly negative growth rates, far below the levels reached before the crisis.

Behaviour of the Spanish labour market in the two last recessionary cycles: Mar 92 Aug 94 vs Jun 07- Feb 11



Source: State Employment Service and National Social Security Institute.

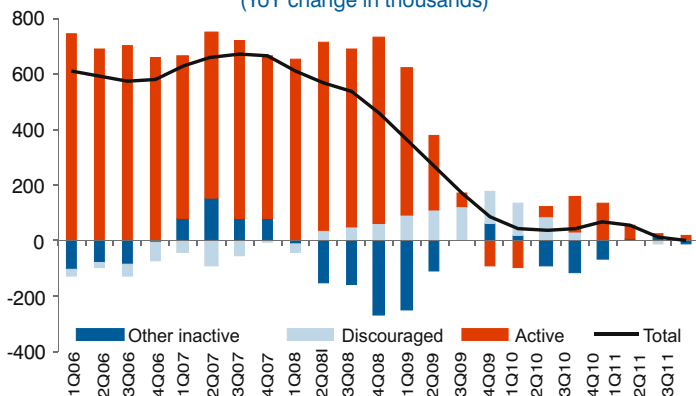
Conversions of temporary contracts to permanent (YoY change)



Source: Social Security

"Zero growth in the labour force, a consequence, among other factors, of the difficulties in the labour market".

Over 16 population by activity status
(YoY change in thousands)

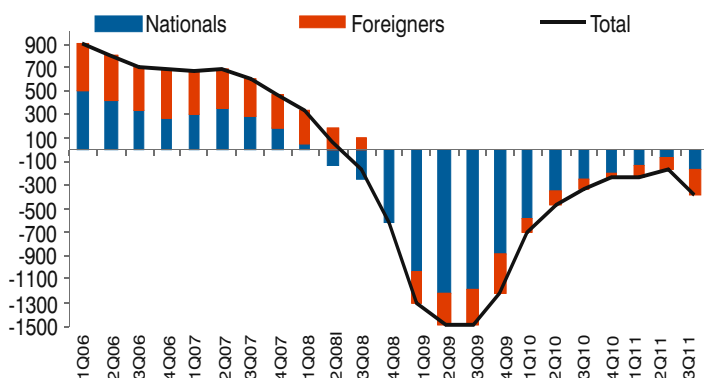


Source: EPA (National Statistics Institute)

According to the EPA data, the growth of the population of 16 and over in Spain continues to slow, with a YoY variation of 0.01% in the third quarter of 2011, an increase of slightly more than 2,000 over the same quarter of 2010. The effects of the problems in the labour market on migratory patterns are one of the factors contributing to this loss of dynamism. In unison with the trend observed in the over 16 population, neither has there been significant changes in the labour force and the inactive population, whose YoY variations were 0.1% and -0.1% respectively. The number of workers inactive due to discouragement is also stagnant at the levels of 2010, with slight growth of 0.8%, again close to its highs, with nearly 387,000.

"The fall in employment exceeded all the forecasts, with a reduction of over 390,000 in YoY terms".

Employment by nationality
(YoY change)



Source: National Statistics Institute

The fall has been sharper in the case of the full-time working population, which has fallen by 418,000. This figure has been only partly offset by the YoY increase in part-time working, of 1.1%.

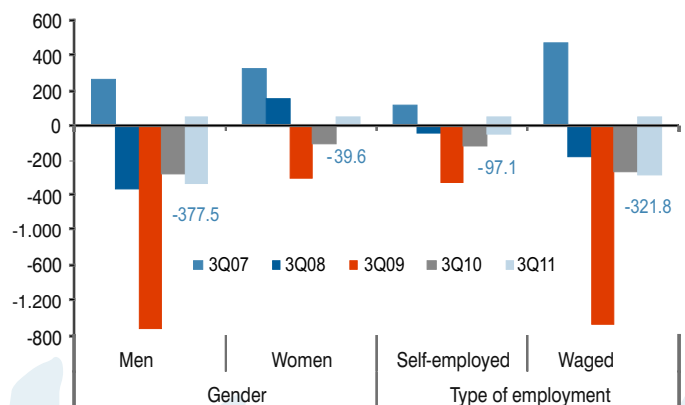
With regard to full-time workers, the detailed picture reveals the greater proportion of wage earners, with a YoY fall of 322,000, compared with 97,000 for the self-employed, although in relative terms, it is the latter that show a greater reduction, with a 3.5% decline compared with 2.4% for wage earners.

By gender, the falls are greater in the case of the males, with a YoY decrease of 378,000 (3.8%), as opposed to 40,000 for women (0.6%).

The heavy fall in employment in the third quarter of 2011 has exceeded the most pessimistic forecasts and was considerably worse than the negative trend suggested by the enrolment figures. The number of employed has diminished by 147,000 in QoQ terms in the third quarter, offsetting practically all the positive effects of the second quarter data. These figures mean that in YoY terms there were 390,000 fewer employed in this third quarter of the year, a fall of 2.1%, compared with the 0.9% decline in the second quarter; thus the slowdown in the YoY falls, which peaked at the end of 2009, has begun to reverse.

This takes employment in Spain to 18.16 million in the third quarter, only 5,000 above the low of recent years recorded in the first quarter of 2011. The outlook is for employment to fall below this minimum in the coming quarters.

Full-time employment by gender and type of employment
(YoY change in thousands)



Source: EPA (National Statistics Institute)

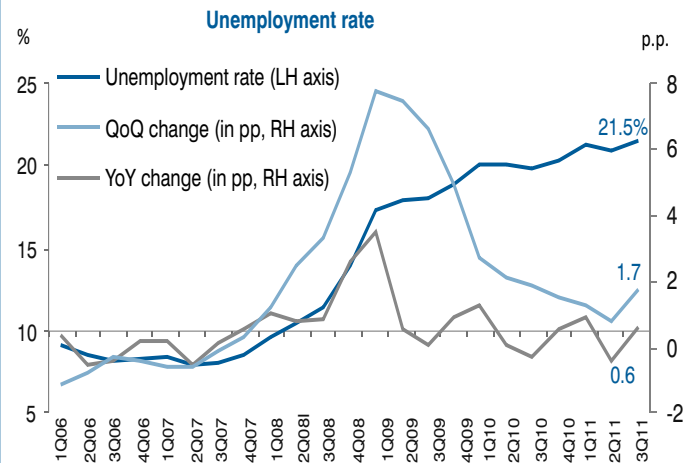
"The strong increase of the number of unemployed has favoured a rise of 0.6 pp in the unemployment rate to 21.5%, with both variables standing at historical highs".

With little change in the labour force, the collapse in employment has been fully reflected in an increase in unemployment, taking the total number of unemployed to a historical maximum (nearly 4.98 million) and the unemployment rate to 21.5%.

Thus, there is an increased probability of unemployment rising above the 5 million mark, and the unemployment rate above 22%, in the coming quarters, which are seasonally unfavourable for this variable.

The third quarter of the year is normally positive for the unemployment rate, and sees it decline. However, this year, the unemployment rate rose by 6 percentage points with regard to the second quarter. In fact, in YoY terms, the third quarter figure marks a break with the falling tendency of previous quarters, and the unemployment rate rose by 1.7 percentage points with regard to the third quarter of 2010.

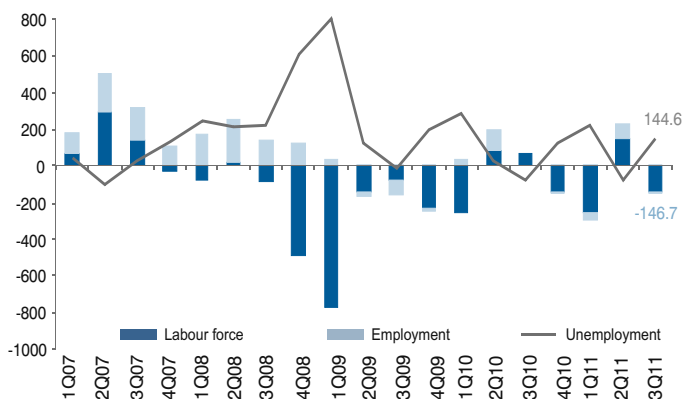
By age groups, the unemployment rate of the under 25s reduced slightly, though it is still very high at 45.8%, while it is that of the over 25s which accounts for the QoQ increase, reaching a new maximum of 19.2%, a rise of 0.6pp.



Source: EPA (National Statistics Institute)

"Together with the loss of jobs, there has also been a loss of quality in employment, with an increase in involuntary part-time and temporary employment".

Unemployment, labour force and employment (QoQ change in thousands)



Source: EPA (National Statistics Institute)

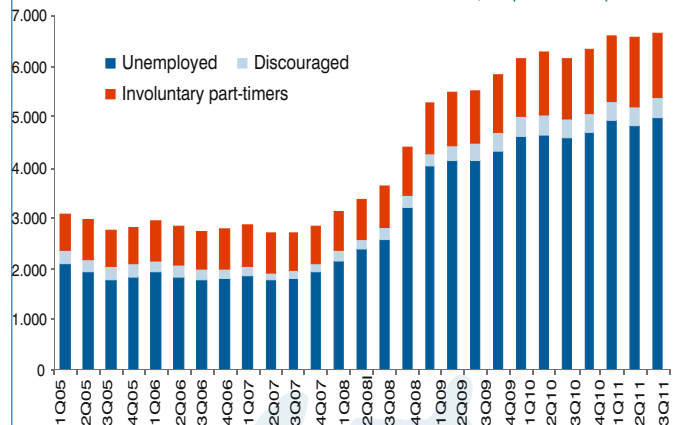
The situation is if anything more worrying if we look at the trends in the number of workers displaced from the labour market, a group made up of the unemployed, the discouraged and the involuntary part-timers. After the increase observed in the third quarter, the number of displaced workers also stands at maximums, close to 6.7 million, with a YoY growth of 8.1%.

As the number of discouraged workers has barely increased (as mentioned above, there was a YoY increase of 0.8%), the behaviour of the displaced workers is the result of the change in the unemployed, which rose 8.8% YoY, and of involuntary part-time working, up 7.9%. The growth of the latter indicates that the problems are not limited to the increase in unemployment and the fall in employment, but there is also a parallel tendency for the quality of employment to deteriorate, with an increase in involuntary temporary and part-time working.

With the labour force practically stagnant in the third quarter, in both quarterly and YoY terms, the behaviour of employment had a counterpart of the same intensity in the number of unemployed. These increased by 145,000 compared with the second quarter of 2011, and by 404,000 with regard to the third quarter of 2010.

Especially severe has been the increase in unemployment among first-time job seekers (a rise of 48,000, or 11.7%, compared with the second quarter), those unemployed for more than a year (up 41,000), and workers from the sectors of education (up 44,000, 76.2%), construction (26,000), and government administration and defence (19,000).

Workers excluded from the labour market (thousands)

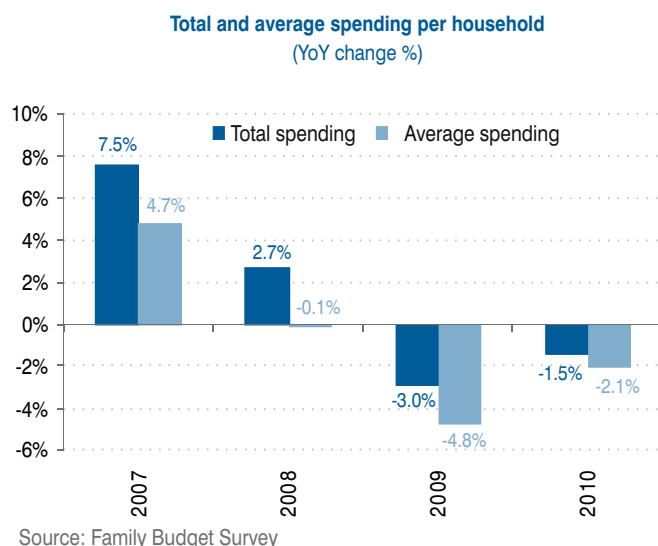


Source: EPA (National Statistics Institute).

"The crisis and the increase in the number of households have combined to produce a strong fall in average spending per household, with a fall of 6.9% in 2010 compared with 2007".

The National Statistics Institute's Family Budgets Survey has recently published its new data on the behaviour of households and individuals in 2010, providing information on their spending during the past few years, together with a breakdown of the same.

At moments like this, of intense economic crisis and serious problems in the labour market, it is well worth analysing the results of the survey to know how household spending is behaving in the face of reduced incomes.



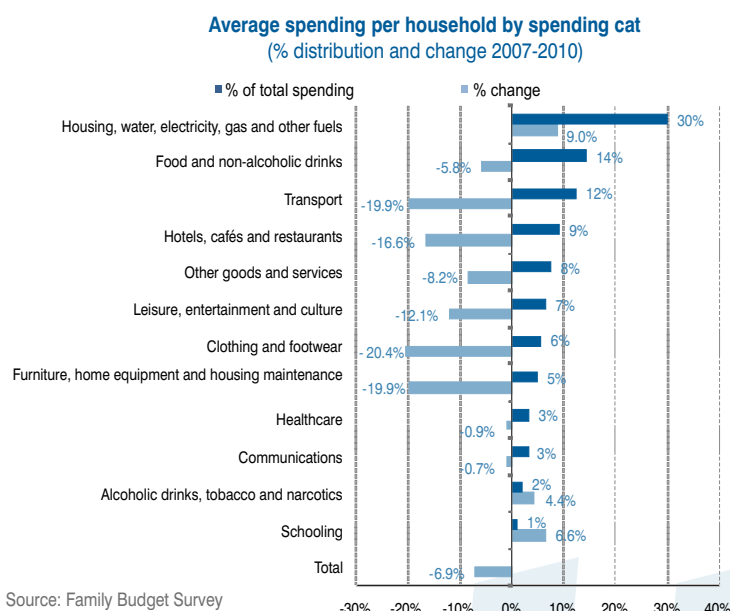
The total spending of Spanish households has fallen for the second consecutive year in YoY terms. In 2010, it declined by 1.5%, to €511 billion at current prices. On the other hand, average spending per household has been growing less than total spending, as a consequence of the growth of the number of households in Spain, associated with the increase in the population and the decrease of the average size of the households. As a consequence, the average spending by household was down 2.1% in 2010, with an accumulated fall of 6.9% since the maximum reached in 2007.

The figures are noticeably worse bearing in mind the rise in prices in recent years, which would provide a more realistic view of households' capacity for consumption. Thus, at 2006 prices, the total spending of households fell by 3.1% in 2010 with regard to 2009, and average spending by household by 3.6%, with the latter indicator accumulating a reversal of 12.2% since 2007.

"The item with the largest weight in average household spending is that associated with housing, with the average spending on this item having increased by 9% between 2007 and 2010".

The main spending categories of families are "housing, water, electricity, gas and other fuels", which represents 30% of total average spending, "food and non-alcoholic drinks" (with 14%), and "transport" (12%). These three categories represent more than half of household spending. Hence, variations in the price and consumption of these goods have a decisive influence on the amount available for spending on other items. In particular, the behaviour of spending on housing and energy is the prime determinant of average total spending and spending on the remaining items, above all for those homes with smaller incomes.

In the 2007-2010 period, average total spending per household declined by 6.9%, though there were important differences between the different types of spending.



Thus, the growth of spending on "housing, water, electricity, gas and other fuels", was especially strong as a result of the property market bubble, with growth of 9.0% (and as much as 17.8% if we take the 2006-2010 period). This category increased in spite of the economic recession and the collapse of the property market. Within this category, there was a notable rise in "actual rents" (up 22%), and in "electricity, gas and fuels" (32%), partly offset by lower growth in "imputed rents" (i.e. estimated rent of owner-occupiers - up 4%).

This category is followed by "alcoholic beverages and tobacco", with a rise of 4.4%, influenced chiefly by the increase in the tobacco tax, and schooling, up 6.6%. On the other hand, the household budget for "clothing and footwear" has diminished notably, with a fall of 20.4%, as have "furniture, household equipment and current spending on housing maintenance" and "transport", both down by 19.9%.

"Regional differences in average spending per household can be as high as 43%, with a positive correlation with divergences in GDP per capita".

This is illustrated by the difference in average spending by household in the Madrid region, which at €35,353 exceeds that of Extremadura by 43%; in terms of GDP per capita, the difference among these two regions is 78%. Although the difference between the region with the highest average spending and that with the lowest barely changed between 2007 and 2010, in recent years there have been important variations in the rankings some of the regions. Thus, for example, the Canary Islands, where in 2006 average spending by household was only 7.1% lower than the Spanish average, in 2010 was the region with the lowest average spending per household, with a figure 17% below the Spanish average.

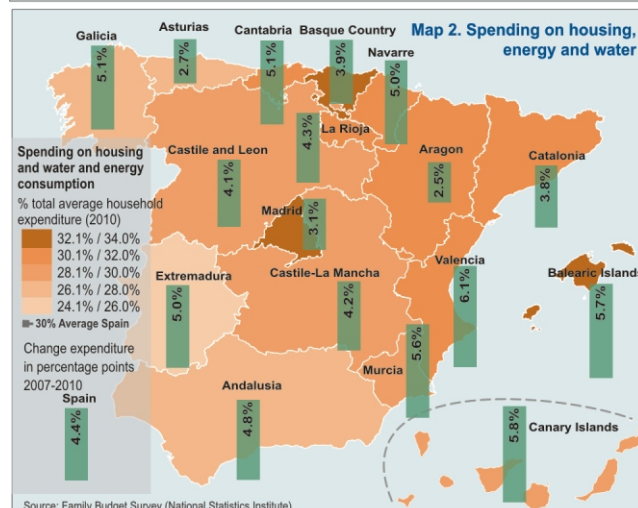
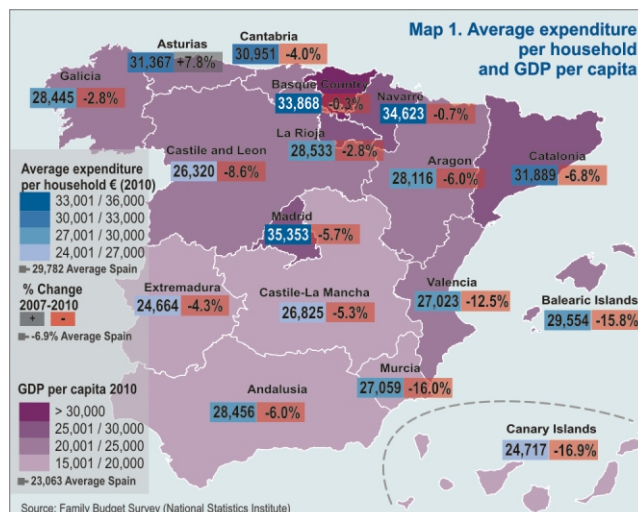
The level of average spending per household of the Spanish regions is positively related to GDP per capita, though the differences are less marked than in this latter variable. The regions of Madrid, Navarre and the Basque Country are those with the highest levels, while Extremadura, Castile and Leon and Castile-La Mancha are found in the last positions of the ranking, along with the Canary Islands.

The changes in average spending per household in the last 3 years give an idea of the difficulties affecting households and the adjustments that they have had to make in each of the Spanish regions. Thus, the most important falls have occurred in the Balearic Islands, Canary Islands, Murcia and Valencia, all affected by the problems in the property market and the poor performance of tourism. The biggest falls are not due to a particular category of spending, but to declines across the board, as practically all types present downward changes, being more related to the deterioration of the economic environment.

The behaviour of spending on housing is decisive for the variation in total spending in each region, given its large weight. In fact, there is a significant positive relation between total average spending per household and the average spending per household on housing, and even with the proportion that this component represents of total spending. Thus, this category represented a notable percentage in the Basque Country (32.9%), Balearic Islands (32.2%), Madrid (32.1%) and Catalonia (31.9%). On the other hand, spending on housing represented only 25.7% of the household budget in Extremadura, 27.1% in Andalusia, and 27.5% in Galicia.

In the same way, there is a positive correlation between total average spending per household and spending on "schooling, health and transport". Higher GDP per capita is also positively

correlated with greater spending in this category. However, if we calculate the percentage of total spending represented by this category we find the inverse relation, as a consequence of the weight of other components, such as housing, in the total spending of the regions with highest GDP per capita. Thus, for example, we find the Basque Country, Catalonia and Madrid among the regions with a below average weight, while Extremadura has the highest percentage, with a 18.3% of its total spending. Hence, the spending on "schooling, health and transport" represents a smaller proportion of total spending, than other categories, in those regions with highest GDP per capita.



THE MONTHLY FOCUS

Against the vertigo of the labour market

The telling October data on registered unemployment and Social Security enrolment, added to the horrifying third quarter EPA labour market survey, leave no room for doubt that only a massive, unanimous and immediate initiative against unemployment will stop the ceaseless haemorrhaging of the Spanish labour market. In this initiative, there is no room for dissent or delay, nor should the relevant actors stint the generosity that, beyond social and political calculations, is required of all. Collective bargaining, salaries, redundancy costs, types of contracts, vocational training and tax incentives for the reinvestment of company profits should be honed until market haemorrhage in the labour is staunch. With the support of a system for drawing up regulations that will launch the measures required in less than three months. Before we announce that unemployment has risen to 5.5 million.

José Antonio Herce. Partner, Afi