

Spanish Labour Market Monitor

PRESENTATION

The results of the EPA labour force survey for 2Q12, with a fall in employment of more than 170,000 if the quarter's favourable seasonality is discounted, together with the intensification of the fall in activity seen in recent months, already pointed to what July's unemployment and Social Security enrolment records would reveal: a significant slowing of the fall in unemployment, and a limited increase in the number of enrolments. In the current crisis conditions, part-time contracts are increasingly used by employers as an alternative to dismissal and by workers as an alternative form of employment at a time of rapidly increasing difficulty in finding a full-time job.

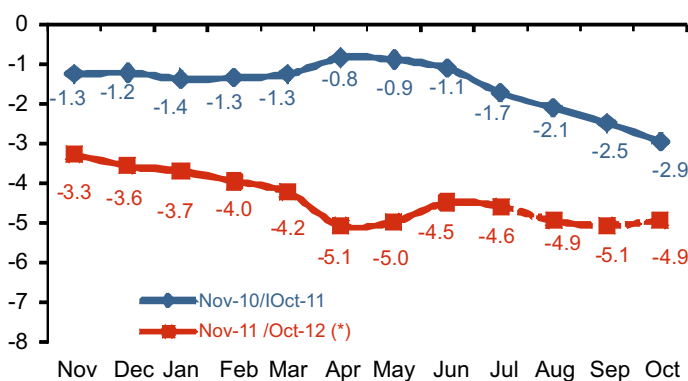
Key Points

- The rise in unemployment in July was in line with expectations (27,814). Social Security enrolment grew by only 4,895, compared with the average of around 45,000 since the beginning of the crisis.
- By sector, the behaviour of services (up 1,500) is of particular concern. The key feature has been in employment in public administration and defence (down 20,000).
- Permanent hiring is stabilizing, thanks to the frequent recourse to part-time contracts.
- Employment is down by almost 16,000 in 2Q12, but excluding seasonal effects, it fell by more than 170,000.
- The reduction of public employees in 2Q12, with an annual fall of 6%, is similar to that of the private sector. Self-employment increased (by 0.3% YoY) for the first time since the start of the crisis.
- Temporary hiring again leads the adjustment in employment, causing the incidence of temporary employment to continue declining to the lowest level of the current cycle (23.6%).
- Industry, public administration services, commerce, healthcare and domestic staff are the categories accounting for the reduction in employment compared with 2Q11.
- Regional differences are becoming more accentuated: while some regions see increases in employment and reductions in their unemployment rate, as in the case of the Balearic Islands, others, such as Extremadura, already enduring high rates of unemployment, face falls in employment of more than double the national average (4.8% YoY).
- The increase in the Spanish labour force, together with the fall in employment, meant that the unemployment rate rose to 24.6%. 52.3% of the unemployed have not worked for more than a year.
- Only 15% of those in employment work part-time. Although this type of contract is more prevalent among women, it is increasingly found among men.
- Part-time employment increased in older age groups in 2Q12 and, once again, it is because workers have not found a full-time job.
- The incidence of part-time employment has risen more in regions where the tourist sector has a strong presence. As with temporary hiring, it is customary to recur to this type of contract to meet the staffing demands of the summer season.

Afi-AGETT SLM Indicator

The decline in the labour market continues unabated. After the poor results of the second quarter EPA, the July figures for unemployment and Social Security enrolment suggest that the fall in employment in the current quarter could be the largest in a third quarter since the start of the crisis.

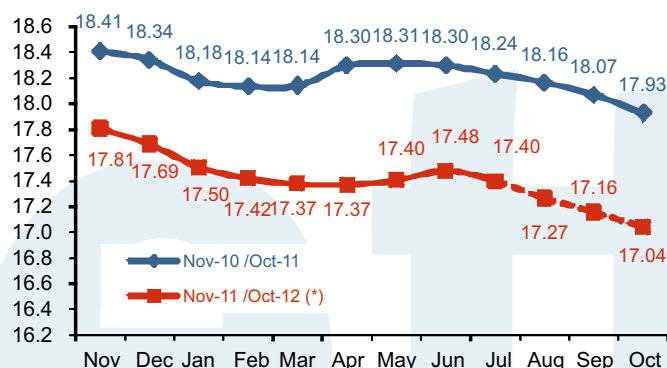
SLM monthly forecast of workers in employment
(% YoY change)



Source: Afi. (*) Aug-Oct 2012 figures are forecasts

The exacerbation of the decline forecast by the Afi-Agett SLM Indicator until October points to a third quarter fall in employment of a magnitude similar to that observed in the same period of 2011. With YoY declines of close to 5%, October could see a new low in the current cycle of employment, at 17.04 million.

SLM monthly forecast of workers in employment
(millions)

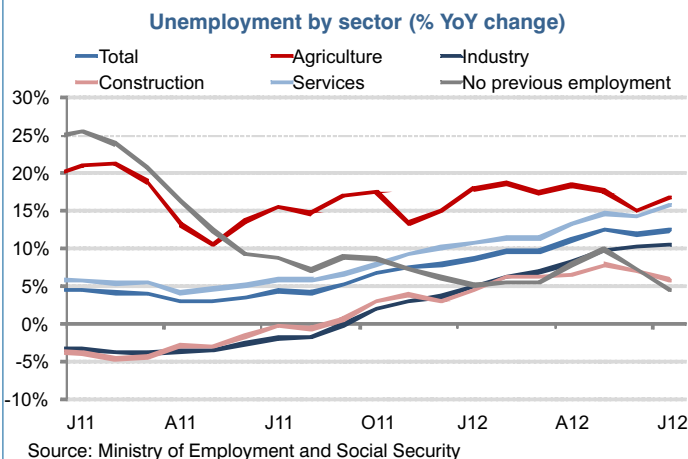


Source: Afi. (*) Aug-Oct 2012 figures are forecasts

"The rise in unemployment in July was in line with expectations, at 27,814. Social Security enrolment grew by only 4,895, compared with the average of around 45,000 since the beginning of the crisis."

The second quarter EPA results and the accelerating decline in activity in recent months already suggested that the July figures for unemployment and Social Security enrolment would reveal a significant slowdown in the fall in unemployment, and a limited increase in the number of enrolments.

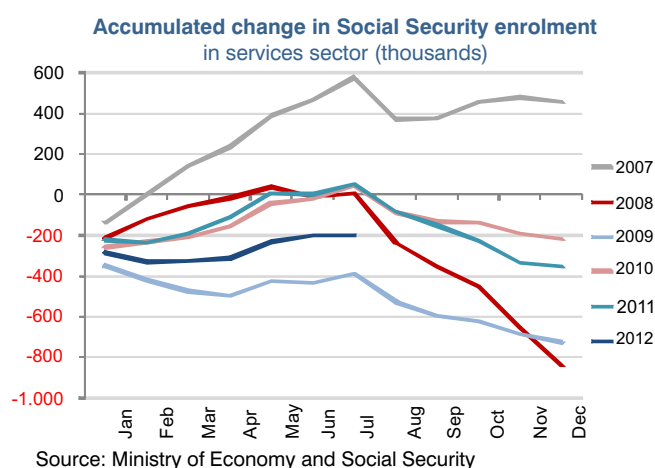
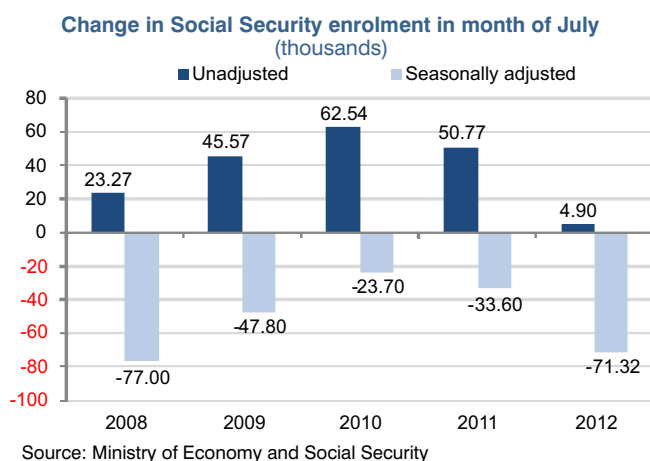
The monthly rise in unemployment (27,814, 12.4% YoY) was in line with expectations, though the sectoral breakdown showed that if it were not for the fall in "unemployed without previous employment" (the majority under the age of 25), the outcome would have been much worse. If the figures are adjusted for seasonal factors, total unemployment increases by almost 53,600, a pattern that had occurred only in July 2008, although to a much lesser extent. However, **the change in Social Security enrolment leads to a more negative reading. The improvement in the month was only 4,895** (adjusted for seasonal effects, the loss of Social Security enrolments reached 71,000), in a month that has seen increases in enrolment on the order of 45,000 since the beginning of the crisis (including 2008 and 2009).



Thus, July 2012 has been the worst month of the last decade for Social Security enrolment. In YoY terms, the fall in enrolment now stands at 3.4%, similar to the end of 2008.

"By sector, the behaviour of services (up 1,500) is of particular concern. The key feature has been in employment in public administration and defence (down 20,000)".

By sector, **the performance of services is of particular concern**: unemployment in this sector rose by 1,500 in July, compared to a fall of 28,000 in the same period of 2011. The job losses in education and construction are characteristic of this month, but the size of the correction (70,000 and 15,000 enrolments respectively), together with the deterioration in industry, shows how the recession is weighing significantly on labour dynamics. **As in the second quarter, the key feature has been in employment in public administration and defence** (with a fall of 20,000 enrolments).

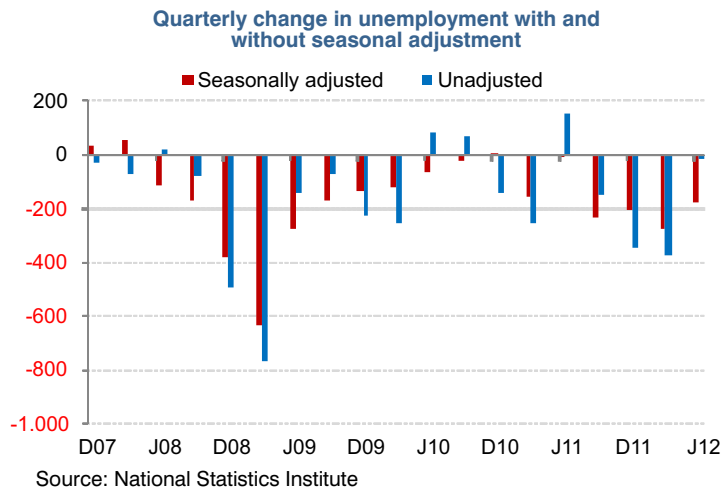


"Permanent hiring is stabilizing, thanks to the frequent recourse to part-time contracts".

Another aspect to highlight is the behaviour of recruitment. **July is the first month of this year in which permanent recruitment has stabilized with respect to 2011**. However, **this is the result of a high level of recourse to part-time contracts**, an option that is beginning to account for a higher share of recruitment; in almost half the cases, this is due to the impossibility of finding a full-time job.

"Employment is down by almost 16,000 in 2Q12, but excluding seasonal effects, it fell by more than 170,000".

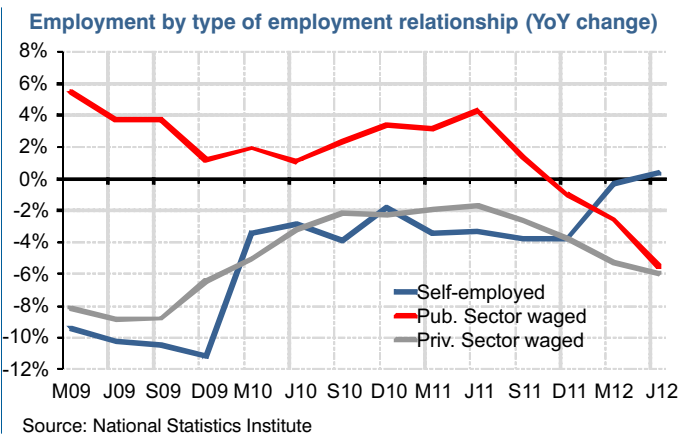
The 2Q12 EPA employment figures are the worst for a second quarter since 2009. Seasonally adjusted employment fell by more than 170,000, compared to just 11,000 in 2Q11. The number of unemployed now stands at 5.7 million and the unemployment rate rose by 0.2 percentage points to 24.6%.



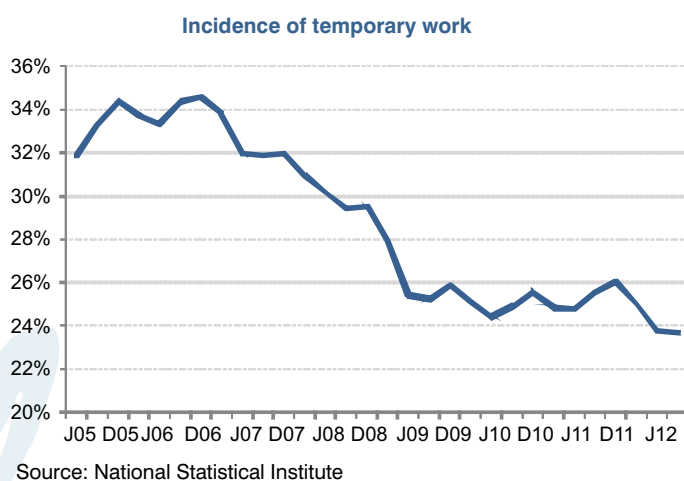
As reflected in the July SLM Monitor, **we were expecting an increase of 53,000 in employment in the second quarter**, substantially lower than that observed during the same periods of 2011 and 2010 (151,400 and 82,700, respectively). **However, the EPA has revealed a quarterly fall of almost 16,000 (4.85% YoY).** This behaviour of employment **not only worsens the outlook for the remainder of the year, but shows the extent to which the spread of the recession to the majority of economic sectors is offsetting the positive effect of seasonality in the tourism sector.** In fact, discounting seasonal effects, employment fell by more than 170,000 in the second quarter of the year.

"What is different about this quarter is the reduction in the number of public sector employees. Self-employment increased (by 0.3% YoY) for the first time since the start of the crisis".

A development that we had predicted in past issues, though it had not yet appeared strongly, was the reduction in the number of public sector employees. **In the second quarter, the decline in public employees began to show a pattern similar to that of private sector workers, with a YoY fall of around 6%.** In the past three quarters, the loss of public sector jobs has reached 180,000 (5.6%). Given the developments in public accounts in the first few months of the year and the need for different levels of government to continue reducing current spending, we expect the reduction in public sector workforces to be more pronounced in the second half of the year.



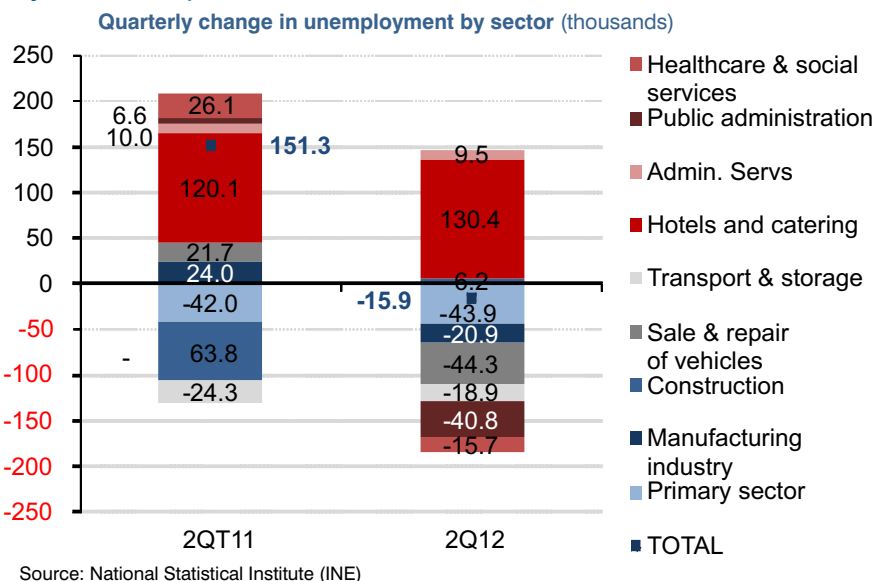
"Temporary hiring again leads the adjustment in employment, taking the incidence of temporary employment to the lowest level in the current cycle (23.6% versus 34.6% in mid 2006) "



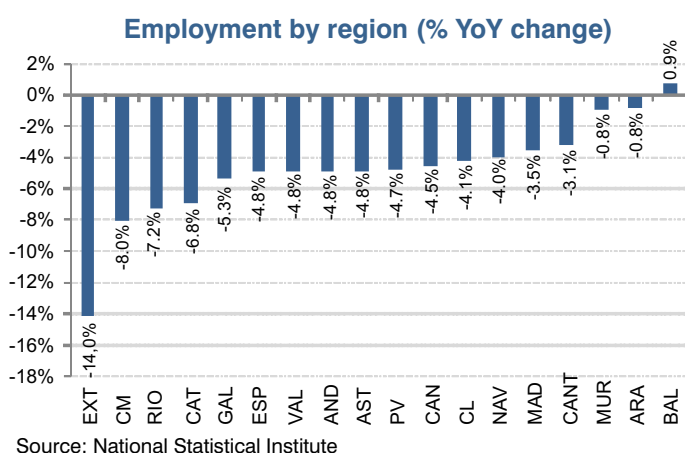
The self-employed, in turn, recorded a YoY increase of 0.3%; though modest progress, this is the first increase since the beginning of the crisis. The difficulties in finding a job may be causing the unemployed to take the initiative and set up their own businesses. By type of contract, **temporary workers again account for the fall in employment in the second quarter.** While temporary workers were down by 18,000 (0.5%), permanent employment increased slightly (by 4,000, or 0.04%). **This took the incidence of temporary employment to 23.6%, the lowest point of the current cycle** (the maximum was recorded in the third quarter of 2006, with levels of 34.6%).

"Industry, public administration services, retailing, healthcare and domestic staff are the categories accounting for the reduction in employment compared with 2Q11".

By sectors, industry, public administration services, retailing, healthcare and domestic staff differentiate the second quarter from the same period last year with regard to employment. Between them, they lost 150,000 jobs, compared to the 80,000 created in 2Q11. With respect to services related to public administration, the quarterly fall is concentrated in those regions which have to make the greatest spending cuts this year to meet the budget deficit target promised for 2012, namely Castile-La Mancha, Catalonia and Valencia. Only hotels and catering followed the pattern of the previous year, with the creation of 130,000 jobs in the quarter. The construction sector surprised, with the creation of almost 6,000 jobs.



"Regional differences are becoming more accentuated: some regions see increases in employment and reductions in their unemployment rates, as in the case of the Balearic Islands, but others, such as Extremadura, already enduring high rates of unemployment, face falls in employment of more than double the national average (4.8% YoY)".

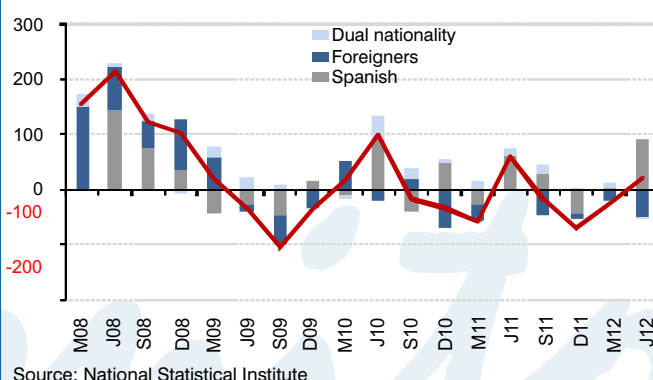


By region, the differences are increasingly accentuated. While employment is growing in the Balearic Islands (0.9% YoY) and barely declines in Aragon and Murcia (down 0.8% YoY in both cases), the falls seen in Extremadura, Castile-La Mancha and La Rioja (14.0%, 8.0% and 7.2% YoY respectively) are more than twice the national average decline of 4.8%. **The largest decline in employment again occurred in the regions which are experiencing the highest unemployment rates.** The sharp fall in employment in Extremadura, for example, has caused the unemployment rate to rise to 33.4%, 1.3 percentage points higher than the previous quarter. However, the regions that have seen the greatest deterioration in this ratio in 2Q12 are Rioja and Castile-La Mancha. In the Balearic Islands, on the other hand, the increase in employment has caused a reduction of nearly 7 percentage points in the unemployment rate.

"The increase in the Spanish labour force, together with the fall in employment, meant that the unemployment rate rose to 24.6%. 52.3% of the unemployed have not worked for more than a

With respect to the labour force, there was a slight increase (37,000 in the quarter), as is usual in the central months of the year. This was due to an increase in the number of active Spanish nationals, as foreigners have declined by about 50,000 compared with the previous quarter. **In relative terms, the increase in unemployment was greater than that of the labour force (0.9% and 0.2% quarterly, respectively), causing the unemployment rate to increase by 0.2 percentage points in the second quarter, to 24.6%.** Thus, the Spanish economy now has close to 5.7 million unemployed, of whom 52.3% have been in this situation for more than a year (long-term unemployed).

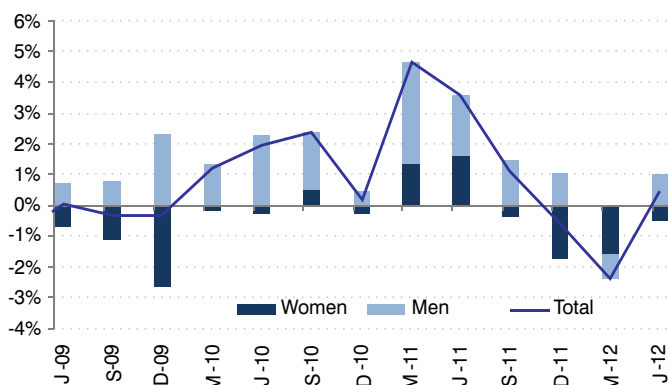
Labour force by nationality (QoQ change in thousands)



"Only 15% of those in employment work part-time. Although this type of contract is more prevalent among women, it is increasingly found among men."

Part-time work, which in Spain is barely 15% of total employment, is one of the alternatives to dismissal available to the employer in the current crisis conditions, and benefits the employee at a time of rapidly increasing difficulty in finding a full-time job.

Contribution to YoY change in part-time employment by gender



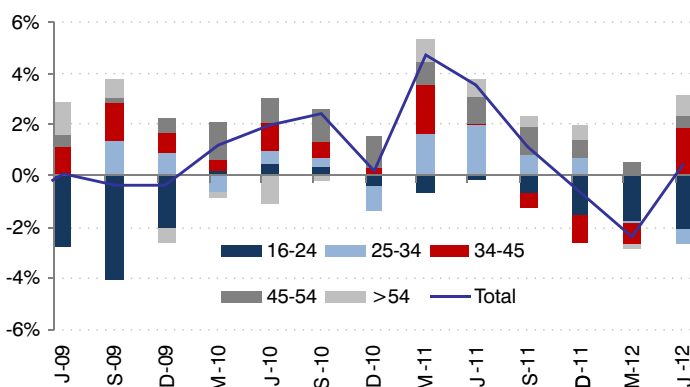
Source: National Statistical Institute

Part-time employment grew especially strongly in early 2011, with YoY growth rates of up to 4%. However, the intensification of the economic crisis and the resulting deterioration in the labour market at the end of that year and the beginning of 2012, also led to the loss of part-time jobs. **In 2Q12, part-time employment again grew (0.5% YoY), but not enough to offset the sharp fall in full-time recruitment (5.7% YoY),** which caused employment to fall by 4.8% YoY. With regard to the profile of this type of worker, **although it is usually women who work part-time (75% of the total), men are increasingly employed under this kind of contract.** In 2Q12, for example, this group grew by 4.2% YoY, whereas part-time women workers declined by 0.7%.

"Part-time employment increased in older age groups in 2Q12 and, once again, it is because workers have not found a full-time job".

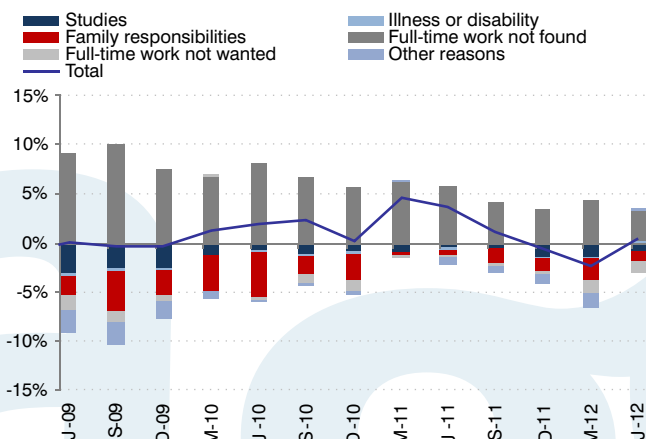
By age, part-time workers are mainly between 25 and 45 years. **In 2Q12, the older age groups were responsible for the growth of part-time hiring.** Part-timers aged 34-45 increased by nearly 7% YoY, as did those over 54 years of age. However, this latter group's smaller share of the total (11%) meant that its contribution to the growth of the total part-time contracts was restricted to 0.8 percentage points. By sector, **the increase in part-time employment occurred in hotels and catering, manufacturing industry and education (10.3%, 25.9% and 11.1% YoY, respectively), while it decreased in domestic services and public administration (12.8% and 27.1%, respectively).**

Contribution to YoY change in part-time employment by age group



Source: National Statistical Institute

Contribution to YoY change in part-time employment by reason



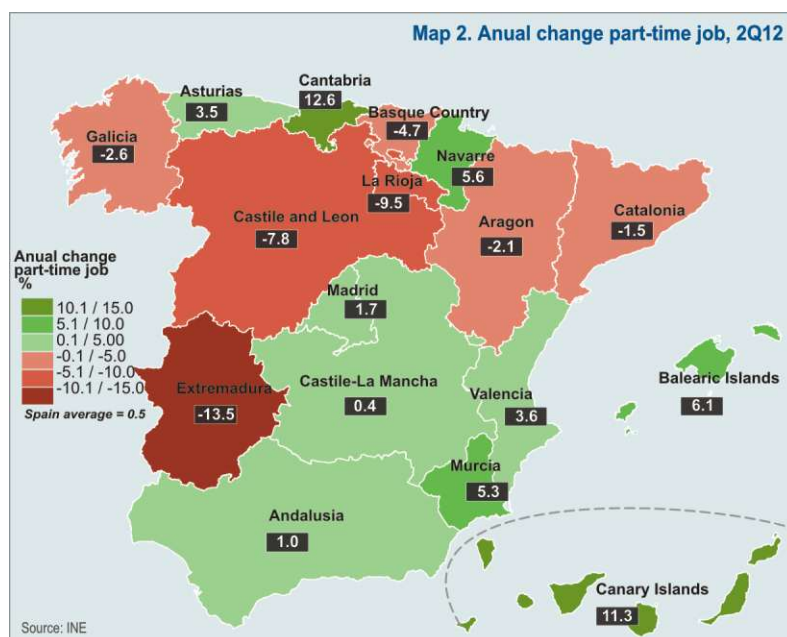
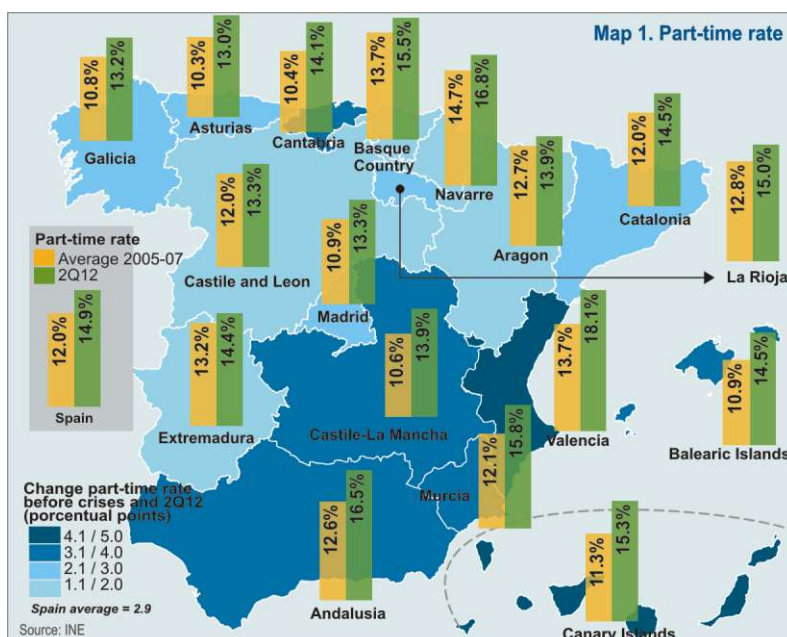
Source: National Afi, National Statistical Institute

However, the reason why part-time hiring has increased is undoubtedly the key factor to be analysed. Since the beginning of the crisis, **survey respondents have said that they wish to work full time, but the inability to find such jobs has obliged them to opt for part-time employment.** Before the outbreak of the crisis this group accounted for approximately 30% of total part-time employment, but by 2Q12 it had risen to more than half. It should also be noted that the number of those combining part-time work with caring for family (mostly women) has reduced significantly since the onset of the crisis, probably due to them taking full-time jobs to compensate for the decline in household income.

"The incidence of part-time employment has risen more in regions where the tourist sector has a strong presence. As with temporary hiring, it is customary to recur to this type of contract to meet the staffing demands of the summer season".

The **part-time employment ratio** (the number of part-time workers as a percentage of total employment) **has increased since the beginning of the crisis**, although more significantly in recent quarters. For the country as a whole, the average ratio for the 2005-2007 period stood at 12%, while in 2Q12 it was close to 15%, for an increase of some 3 percentage points over this period. **The regions which have seen the biggest increase in this ratio are those with the highest unemployment rates.** Andalusia and the Canary Islands, with unemployment rates on the order of 33%, have increased their ratios by around 4 percentage points. The same is true in the case of Valencia, the region where the part-time ratio has risen most, although its unemployment rate is slightly lower (27%) than in the above two regions.

Similarly, **a certain relationship can be observed between the importance of the hotels and catering industry in a region's economy and the increase in part-time employment.** **Businesses facing a significant increase in their activity in the summer season can increase their workforce not only through temporary recruitment, but also by hiring part-timers.** This may be the case in regions such as Cantabria, the Canary Islands, and the Balearic Islands; in the first two cases, part-time employment has increased by more than 10% over the same quarter of the previous year. As with other key labour market indicators, regional differences are very significant. In terms of part-time employment, notable falls were recorded in Extremadura, La Rioja and Castile-Leon, with YoY falls of more than 5%.



THE MONTHLY FOCUS

The bad "good news"

If five years ago it had been suggested, without any explanation of causes, that Spain's incidence of temporary employment was going to fall by more than 10 percentage points and that the part-time ratio would increase by 3 points in five years, we might have thought that our labour market was beginning to resemble the European model. Today, these indicators have followed exactly those trajectories. Unfortunately, it has been for the worst of reasons. Terrible "good news" in both cases. The part-time alternative is increasingly used, though under duress and as one of the few alternatives to the complete loss of a job. However, rather than being an unavoidable choice, as it is for most new part-time workers, this alternative should be one which is openly adopted and encouraged by employment policies and unemployment benefits.

José Antonio Herce. Partner, Afi