

# Spanish Labour Market Monitor

## Presentation

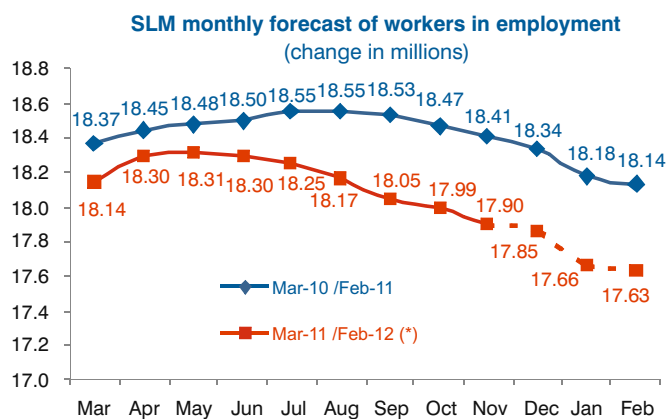
In tandem with the new generalised economic slowdown, the labour market is showing signs of a growing deterioration, with figures for unemployment and Social Security enrolment worsening noticeably faster than in the first half of the year. The negative economic outlook for Spain and Europe for the fourth quarter of 2011 and the first half of 2012 makes us pessimistic about market developments in the coming months; we forecast new lows in employment in the first quarter of 2012.

## Key Points

- The November figures again reflect the setback in the labour market after the summer.
- The Afi-Agett SLM Indicator continues to point to progressively stronger YoY falls in employment, which in the first months of 2012 could reach 2.8%. If this forecast is correct, in the first quarter of 2012 the level of employment would record new lows for the current cycle with 17.64 million, almost 3 million below the high reached in the third quarter of 2007.
- The fall of nearly 112,000 enrolments in November, 364,000 in YoY terms, represents a new low for this variable in recent years, with somewhat less than 17.25 million enrolments.
- November was the fourth consecutive month of increases in registered unemployment, similarly reaching a new high, with 4,420,462 unemployed.
- The YoY rates of deterioration in the market continue to be significantly higher than those registered in the first part of the year. There can be no doubt at all that in the fourth quarter of the year unemployment will pass the 5 million mark in EPA (labour market survey) terms and the unemployment rate may touch 23%.
- Out of a total fall of 39,649 in recruitment in November, with respect to the same month of 2010, almost two thirds (24,212) correspond to permanent contracts.
- The behaviour of economic activity is limiting any possibility of recovery in employment and the labour market. While the Spanish economy maintains low rates of economic growth and a weak outlook for the future, employment is unlikely to increase.
- The most worrying signs, which justify our forecast of "zero growth" for 2012, include the poor performance of domestic demand, which continues to show very negative results.
- The European Commission has emphasized the economic deterioration that the majority of European economies are going to suffer in 2012, due to the effects of the sovereign debt problems, the generalised economic slowdown and the difficulties of the financial system
- Slowing growth in the European Union will be translated into an increase of 0.1 percentage points in the unemployment rate to 9.8%, although the result could be even more negative in view of the continued downward modification of economic forecasts in the last few weeks, as more negative economic data are published.

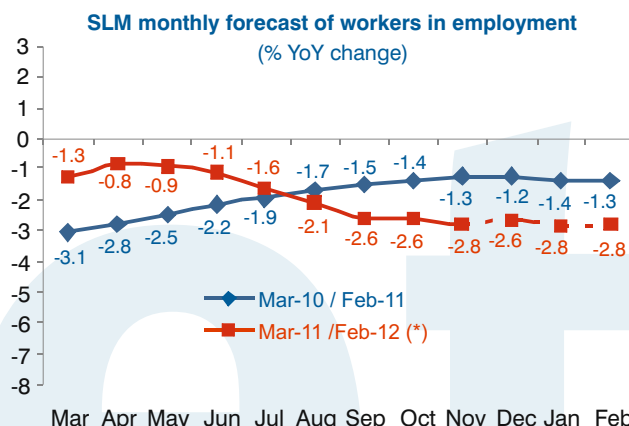
## Afi-Agett SLM Indicator

There is no let up. The November figures again reflect the setback in the labour market after the summer. The correction in Social Security enrolment and the increase of the number of unemployed are similar to those of end 2009, with a generalized pattern of deterioration by sectors, symptomatic of a substantially stronger adjustment than the unfavourable seasonality of the last months of the year, once the summer boom in tourist services is over, would lead us to expect. There was a worrying loss of enrolments in industry, construction and the public sector.



Source: Afi. (\*) Dic 2011-Feb 2012 figures are forecasts

This dynamic is reflected by the Afi-Agett SLM Indicator, with progressively stronger YoY falls, which could reach 2.8% in the first months of 2012 (similar to 2010). If this forecast is correct, in the first quarter of 2012 the level of employment would reach the lowest levels so far in the current cycle, with an average of 17.64 million.

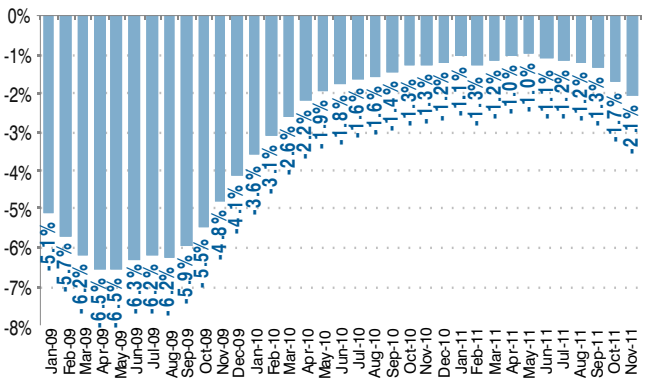


Source: Afi. (\*) Dic 2011-Feb 2012 figures are forecasts

"The November figures point to an intensification of the deterioration in registered unemployment as well as in Social Security enrolment and recruitment".

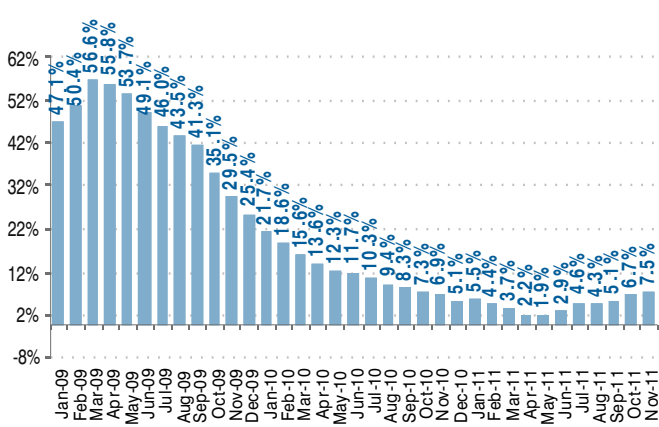
Contrary to the predictions of many analysts, and even to our forecasts, registered unemployment has increased by 59,536 in November, less than we expected, while enrolment has decreased by 111,782, in line with our forecasts. The YoY changes continue to be significantly higher than those registered in the first part of the year. The recessionary environment experienced since the end of the summer, prompted by the eurozone crisis, augured unfavourable results in this month's data as, unfortunately, has been the case. While some forecasts for the increase in registered unemployment were for even worse data, the figures are significantly worse than those of the same month last year, more than doubling them. There can be no doubt at all that in the fourth quarter of the year unemployment will pass the 5 million mark in EPA (labour market survey) terms and the unemployment rate may touch 23%.

Seasonally-adjusted change in Social Security enrolment (YoY)



Source: Social Security

Seasonally-adjusted change unemployment (YoY)



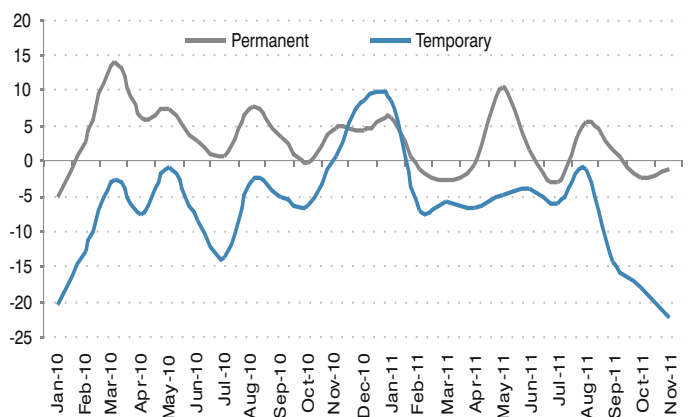
Source: Social Security

The employment contracts signed in November similarly reduced with respect to the same month last year, for the second consecutive month in an irregular year, by 3.2%. In any case, permanent contracts were down 22.4%, a worsening of the already strong falls of preceding months, in a consistently unfavourable year for permanent recruitment. Within this category, part-time permanent contracts showed a similar pattern, after barely positive growth in the four central months of the year. Out of a total fall of 39,649 in recruitment in November with respect to the same month of 2010, almost two thirds (24,212) corresponded to permanent contracts, which are considerably more affected by the intensification of the labour market recession.

The fall of nearly 112,000 in enrolment, 364,000 in YoY terms, takes us to a new low for recent years, with somewhat less than 17.25 million. Moreover, it is also reflected in the seasonally adjusted figures, which declined by 72,000, another new low. The variation in YoY terms remains in negative territory. Thus, the YoY change in the seasonally adjusted figures was a fall of 2.1%, 0.4 pp more than in October, and more than a percentage point worse than in the second quarter of the year. In November it was the services sector which suffered most the consequences of the pronounced downturn in activity in the fourth quarter, with a heavy fall, especially in hotels and catering, with 78,000 fewer enrolments. The second largest decline was in construction, where enrolment continues to fall, down by a further 22,000 compared with October.

Registered unemployment increased for the fourth consecutive month, to a new high in the series, with 4,420,462 out of work. The increase of almost 60,000 in unemployment was double that seen in November 2010, when slightly more than 24,000 people joined the ranks of the unemployed. With these figures, the YoY variation in registered unemployment again increased. The seasonally adjusted YoY increase was 0.8 pp, to 7.5%, similar to October 2010, and far worse than the 1.9% recorded in May of this year. The increase in unemployment in the services sector was especially severe, with a rise of nearly 49,000, representing 82% of the total increase.

Recruitment (% YoY change)



Source: State Employment Service

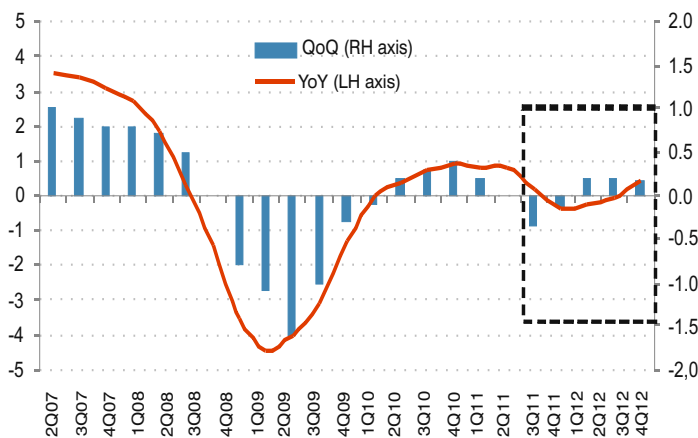


"The current weak economic situation in Spain, together with an outlook for further deceleration in 2012, is having a negative influence on the labour market."

The behaviour of economic activity is limiting any possibility of recovery in employment and the labour market. As long as economic growth rates in the Spanish economy remain low, employment is unlikely to increase. Moreover, when businesses are considering the recruitment of new staff, they will base their decisions on their view of the outlook for the economy in the coming quarters, which at present is very negative. This means that we cannot expect a recovery in employment for the next two quarters, which in any case are usually negative in terms of employment for seasonal reasons.

The latest Quarterly National Accounting data published by the National Statistics Institute (INE) clearly reflect the renewed economic slowdown in recent quarters in Spain, in line with the loss of dynamism in Europe, which could well take us into recessionary territory at the beginning of 2012.

Spain GDP dynamics (YoY and QoQ growth %)



Source: INE (National Statistics Institute). 4Q11-4Q12 Afi forecasts

In QoQ terms, growth in the Spanish economy was flat at 0.0%, after four quarters of positive growth. Expectations point to negative growth in both the fourth quarter of 2011 and the first of 2012, returning to positive values in the remainder of 2012.

These data translate into a fall in YoY GDP growth rates. In the third quarter, YoY growth in the economy remained positive at 0.8%, similar to the second quarter. Nevertheless, in the fourth quarter it is expected to fall to 0.2%, and to negative YoY values in the three first quarters of 2012.

Thus, the outlook is for 2011 to end with average YoY growth of 0.7%, but with this figure falling to zero in 2012. These dramatic signs make us pessimistic about any change of tendency in the labour market.

"Employment will be worst affected in those sectors which are most dependent on domestic demand, while it will not be such a bad year for those linked to external demand."

The breakdown of GDP in the third quarter has followed the expected pattern: once again, the foreign sector has offset the decline in domestic spending, and averted the increasingly likely setback in activity over the final stretch of the year.

From the demand point of view, the most worrying signs - which justify our "zero growth" forecast for 2012 - include the poor performance of domestic demand, which was very weak in the third quarter of 2011.

Particularly worrying are the increasingly large cuts in public spending. The decline in domestic demand is led by public consumption, expected to fall 1.7% in 2011 and 3.5% in 2012, and public investment (the aggregate for "Other construction" falls 10.7% in 2011 and 7.6% in 2012). The need to meet the public deficit targets means that the adjustment will continue in 2012.

Private consumption is also notably lethargic, despite the positive growth in tourism spending, and is still not recovering, with growth of 0.0% in 2011 and 0.1% in 2012. The lows in confidence indices, the recent setback in the labour market, and the erosion of household purchasing power as a result of inflation rates still around 3%, all augur badly for this variable.

Annual growth (%)	2009	2010	2011	2012
<b>GDP</b>	<b>-3.6</b>	<b>-0.1</b>	<b>0.7</b>	<b>0.0</b>
Final consumption	-2.3	0.7	-0.5	-1.0
Private consumption	-4.4	0.8	0.0	-0.1
Public consumption	3.8	0.2	-1.7	-3.5
<b>GFCF</b>	<b>-16.5</b>	<b>-6.3</b>	<b>-4.8</b>	<b>-3.6</b>
Equipment	-22.6	5.5	2.2	-0.4
Construction	-15.4	-10.1	-7.9	-5.1
Residential	-22.0	-9.8	-4.9	-2.6
Other construction	-7.7	-10.4	-10.7	-7.6
Other products	-2.6	-4.4	-0.5	-2.5
<b>Domestic demand (1)</b>	<b>-6.7</b>	<b>-1.0</b>	<b>-1.5</b>	<b>-1.6</b>
Exports	-10.2	13.5	8.6	3.8
Imports	-16.9	9.0	0.8	-1.1
<b>External demand (1)</b>	<b>2.9</b>	<b>1.0</b>	<b>2.1</b>	<b>1.5</b>

Source: Afi. (1) Contribution to growth

The slowdown in Germany and France will end up weighing on exports of Spanish goods and on the level of investment spending by the businesses that provide them, which will take investment in capital equipment back to negative territory in 2012. The foreign sector's contribution to GDP growth will diminish from 2.1% in 2011 to 1.5% in 2012, although it will remain positive.

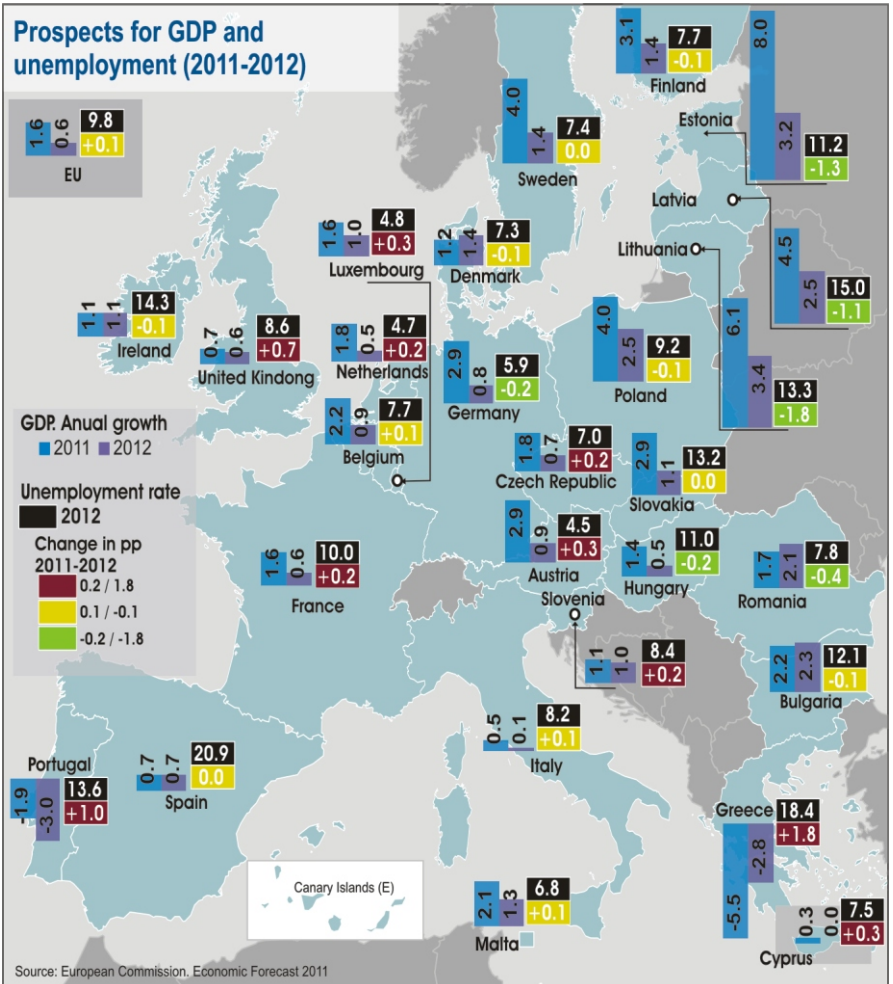
"The economic situation in Europe will also not contribute to an improvement in activity and employment in Spain, with expectations of falling growth rates and a slight increase in In its autumn report, the European Commission emphasises the economic deterioration that the majority of European economies will experience in 2012. Its forecasts include national GDP growth and unemployment rates. Those for Spain are slightly better than our own forecasts, at 0.7% compared with our figure of 0.0% for 2012. These differences depend on various factors, such as the information for actuals used in their calculations or when their forecasts were prepared. In any case, in the following map the data for Spain are those of the European Commission, although they are different and rather too optimistic, to permit a comparison with other European countries on a consistent basis.

In the case of Spain, the Commission foresees growth of 0.7% in 2011, and the same again in 2012. There are sharp differences with the EU-27 average in 2011, seen as growing at 1.6%, 0.9 pp more than Spain. Nevertheless, these differences are smaller in 2012, not because of more positive Spanish results, but due to the expectations of a strong slowdown of growth in Europe, which would fall to 0.6%, 0.1 pp less than Spanish growth.

Spain's main export markets are going to be affected by the sovereign debt problems, the general economic slowdown and the difficulties in the financial system. For example, Germany's growth will fall from 2.9% in 2011 to 0.8% in 2012, and France's from 1.6% to 0.6%.

On the other hand, although they will also note the deterioration of the general economic environment, the countries of Eastern Europe will continue to enjoy an important growth differential (in their favour) with Europe and with Spain in 2012.

The performance in terms of activity is affecting the results of the region's labour markets, and will continue to do so.



In Spain, according to the Commission's figures, the unemployment rate is expected to stay at similar levels to this year's in 2012, the highest in Europe. On the other hand, the slowdown in the European Union will translate into a 0.1 pp increase in the region's unemployment rate, to 9.8%. The greatest increases will in general occur in Western Europe, while Eastern Europe will see declines in its unemployment rates.

## THE MONTHLY FOCUS

### The worst legacy is the best challenge

The data for November and the preceding months have taken the labour market situation to the worst levels seen for decades and have brought the YoY rates of deterioration in unemployment and Social Security enrolment back to those observed over than a year ago, leaving hopes of better performances in the second half of the year in the gutter. It is not the best legacy for the new government, whose first actions, to be announced in a few days' time, should particularly include measures to tackle the Spanish economy's severe unemployment problem, together with those required to embark on a thorough reform of the labour market. It is hardly possible to imagine a greater challenge for the new leadership, comparable to that which confronts the European Union with the survival of the euro. The best Spanish contribution to the latter challenge, in fact, would be a success on the home front in resolving the unemployment problem.

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