

# ECO FLASH

9 April 2020

## Spain: Putting the unemployment numbers into perspective

Guillaume Derrien

- The number of unemployed people leapt by 311,037 in March (seasonally-adjusted figures), the biggest monthly increase on record.
- However, the unemployment report only included a fraction of people in partial unemployment – data for April should show a much bigger jump.
- The latest Government accounts (2019) show a substantial narrowing of the primary deficit since 2013.
- The improvement in public finances gives the government some leeway to face the current crisis.

The Spanish unemployment report – published on April 2<sup>nd</sup> – gave an initial, albeit very incomplete, estimate of the scale of the economic shock in the country. The number of jobseekers jumped by 311,037 to 3.444 million (seasonally-adjusted data). This was the biggest monthly increase on record. The biggest rise was in the services sector (225.2 k), followed by construction (60.4 k), industry (25.9 k) and agriculture (4.5 k). Youth unemployment (under-25) rose 25.07 k, an increase of 10% month-on-month.

However, these increases – though sizeable – need to be put into perspective. The unemployment figures include workers who have been temporarily laid off or put on reduced hours under the ERTE scheme and who will probably return to their jobs once the lockdown is over. That said, a large proportion of the furloughed workers from last month were not included in the March report, due to registration delays.<sup>1</sup>

The April report will therefore probably show a much bigger jump in the number of jobseekers. According to the government, nearly 3 million workers had been furloughed by

<sup>1</sup>The introduction of partial unemployment happened mainly in the second half of March.

### ■ Unemployment (million)

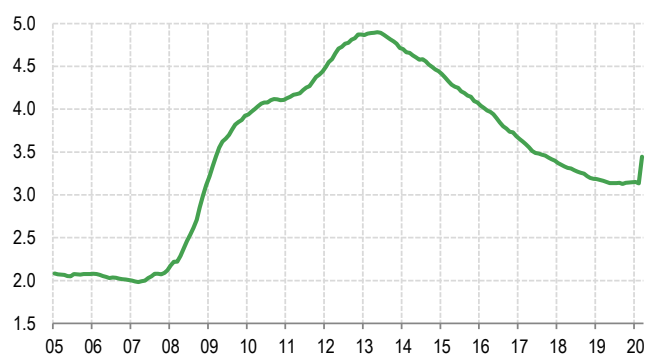


Figure 1

Source: Spanish Ministry of Labour

the end of March.<sup>2</sup> However, the government's State Public Employment Service (SEPE) has announced that only 620,000 applications under the ERTE scheme have been processed by the end of last week (Thursday). Therefore, only a fraction of these 620,000 applications was included in the March report.

Looking at the number of people making social security contributions indicates a much more significant worsening of the labour market. After seasonal adjustment, the number of contributors fell 976,031 in March, which was also a record fall (Figure 2). However, these figures also need to be seen in context. These numbers are averages of contributors across the whole month. Given that the country's lockdown began in the second half of the month, the figures do not reflect the full picture at the month's end. We will therefore have to wait for

<sup>2</sup> See "Los trabajadores afectados por expedientes temporales rondan los tres millones", *El País*, 2 April 2020.

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the April report to have a more detailed picture of the scale of deterioration in the labour market.

### Automotive sales and PMI figures also plunge

There was also a collapse in new vehicle registrations in March. Registrations fell by 67.4% (seasonally-adjusted) over the month. The composite PMI tumbled from 51.8 in February to 26.7 in March. Unsurprisingly, services were the worst-affected area, with the sector's PMI dropping to 23.0. The manufacturing PMI saw a more modest fall, from 50.4 in February to 45.7 in March.

### Spain's fiscal position improved prior to the virus outbreak

Under such circumstances it is clear that the budget deficit will soar this year. In 2019, the deficit was EUR 32.9 billion, or 2.6% of GDP. This was bigger than the government's initial target of 2.0%. However, public finances have improved significantly in recent years: this gives the government some scope to tackle the current crisis. In particular, the primary deficit has narrowed significantly. According to the Finance Ministry data, the primary deficit was 0.36% of GDP in 2019. Although this marked a slight increase on the figure of 0.10% of GDP in 2018, it was well below the levels seen after the European sovereign debt crisis in 2013 (3.6% of GDP).

Between 2013 and 2019, government revenues have increased by EUR 93.2 bn to EUR 489.0 bn (39.3% of GDP, Table 1). Employers' social security contributions accounted for nearly a third of the total increase (up EUR 30 bn). Increases also came from income tax and VAT receipts<sup>3</sup>.

Growth in public spending has been slower. It increases by EUR 54.3 bn between 2013 and 2019, reaching EUR 521.9 bn or 41.7% of GDP. The biggest increases were in social security benefits and benefits linked to employee wages.

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### ■ Number of social security contributors (million)

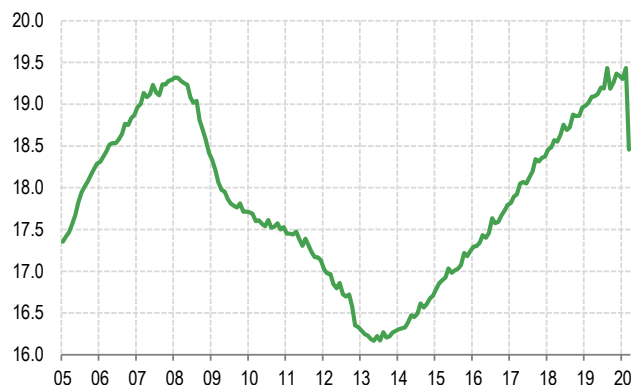


Figure 2 Source: Spanish Finance Ministry

### ■ Primary budget balance (% of GDP)

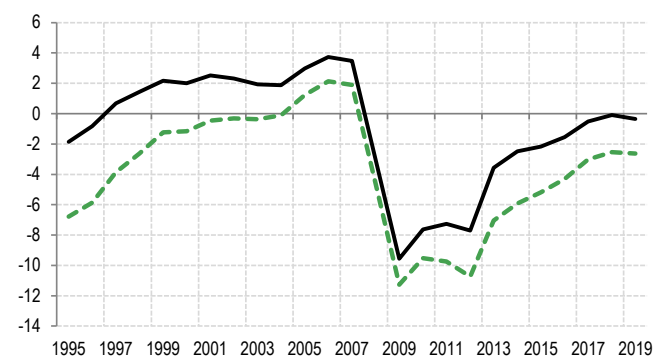


Figure 3 Source: Spanish Finance Ministry

### ■ General Government revenue and expenditure

	Value in 2019 (EUR bn)	% change 2013-19 (EUR bn)
<b>Non financial resources</b>	489.05	93.19
Tax on production and imports	147.22	28.96
VAT	80.96	20.65
Other	66.26	8.31
Tax on income & wealth	130.52	28.29
Income tax	126.18	28.08
Other	4.34	0.20
Tax on capital	5.43	0.36
Social contributions	160.53	33.68
By employers	112.20	29.97
By Households	41.26	4.40
Imputed social contributions	7.08	-0.69
revenu from property	8.83	-2.87
Dividend	6.16	0.02
Interest	2.67	-2.88
Other resources	36.51	12.49
<b>Non financial expenditure</b>	521.95	54.30
Intermediary consumption	63.67	8.33
Employee compensation	134.06	19.63
Interest	28.45	-6.96
Subsidies	12.71	1.96
Social benefits ex-transfer in kind	196.86	26.46
Transfer in kind	32.73	4.39
Ressources from EU	10.22	-0.16
Gross Capital formation	25.37	2.10
Other expenditures	17.87	-1.45

Table 1 Source: Spanish Finance Ministry

<sup>3</sup> Part of the rise in VAT receipts was the result of an increase in the VAT rate from 18% to 21% in 2012.

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