

## SPAIN: UPTURN IN THE LABOUR MARKET

Guillaume Derrien

Employment in Spain continues to pleasantly surprise this autumn. The number of employees affiliated with the social security system increased in October (+102,474), reaching a record level of 19,662,163.

Significant numbers of jobs created were recorded in sectors that have partly «benefited» from the health crisis and the structural changes it has caused or amplified (information and communications, health and social care, logistics and transport).

The unemployment rate remained high (14.6% in September), as did underemployment (7.4% of the total working population), but the participation rate for 16 to 64-year-olds was at a historically-high level (75.8% in Q3 2021).

While the first GDP estimate for Q3 2021 was disappointing overall (+2.0% q/q after an increase of just 1.1% q/q in Q2) and consumer prices are rising significantly (+5.4% y/y in October), the increase in recruitment in the country is a positive dynamic, which still needs to be confirmed over time.

A resurgence of the epidemic, labour shortages in some sectors as well as the impact of rising prices on household purchasing power could hinder this increase.

The government has begun negotiations on labour reforms with a very tight schedule and under the watchful eye of the European Commission. The latter intends to condition part of the subsidies from the European stimulus plan to the implementation of these measures at the beginning of 2022.

EMPLOYMENT TO A NEW HIGH

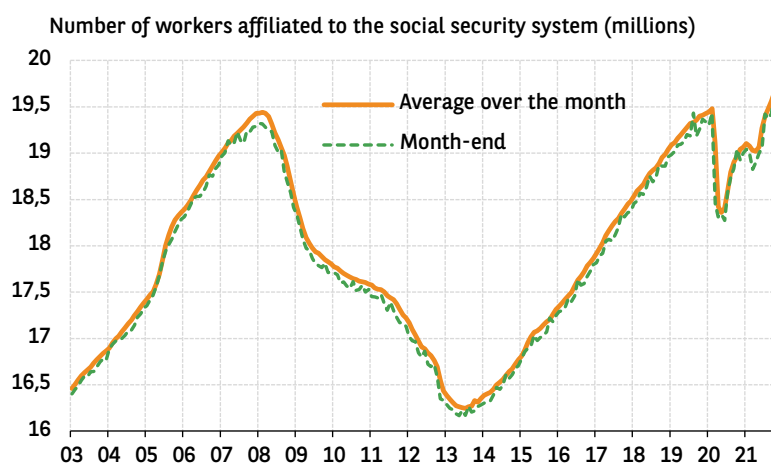


CHART 1

SOURCE: SEPE, BNP PARIBAS

According to the Spanish employment office (SEPE), the number of workers affiliated with the social security system rose again in October, an increase of 102,474 (seasonally-adjusted term) and even higher than the monthly average for Q3 (+97,258). With a record number of affiliates of 19,662,163 (see Chart 1), the level of employment has therefore exceeded previous peaks that were reached just before the Covid-19 pandemic (February 2020) and during the global financial bubble (February 2008).<sup>1</sup> This positive dynamic contrasts quite strongly with the change in real GDP, which recorded fairly modest growth in Q3 2021 (+2.0% q/q) after an increase of only 1.1% q/q in Q2. However, this preliminary estimate by the INE for Q3 may be subject to major revisions in the coming months.

This recovery gap between (soft) GDP and (high) employment partly reflects the cushioning effect of the measures taken by the Spanish government to preserve employment during the pandemic, mainly the ERTE furlough scheme<sup>2</sup>. Some of the people who are considered to be employed are still on furlough. However, this group is shrinking month after month. At the end of October, 190,718 people (i.e. less than 1% of the total number of affiliates) were in this situation. Although the normalisation of the labour market is not yet entirely complete, the rise in much feared unemployment is unlikely to materialise in light of the relatively small number of ERTes today. Even if the people on ERTE are deducted from the total affiliates, the number of affiliates would virtually be at the same level as at the end of 2019, a deficit of only 7,000 jobs.

<sup>1</sup> Despite some differences, the change in number of employees affiliated with social security provided by SEPE correlates strongly with the quarterly employment figures published by the INE.  
<sup>2</sup> According to Eurostat's 2020 ERTE specifications, people suspended from their jobs are classified as employees as long as there is a guarantee of reintegration into the workplace after the suspension period has ended.

ECONOMIC RESEARCH



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The unemployment rate fell to 14.6% of the working population in September, but remains 0.9 percentage points above the level reached just before the pandemic. Unlike in other countries (USA, UK, Italy), the drop in the unemployment rate in Spain is occurring against the backdrop of a significant increase in the active population. At 75.8% in Q3 2021, the activity rate (16-64 years old) has been at its highest level since the beginning of current statistics in 2002 (see Chart 2), due in particular to a record rate of 71.5% among women<sup>3</sup>. However, the recovery in employment is very disparate between sectors (see Table 1 at the end of the article). Job creation is strong in sectors that have partly « benefited » from the pandemic and the structural changes it has caused or amplified:

- Health and social activities (social action service without accommodation [+10.4% compared to October 2019]<sup>4</sup>; health [+9.2%]), directly linked to the consequences of the pandemic but also under the effect of more structural dynamics (increased precarity, ageing population).
- Information and communication services (programming, consulting and other IT activities [+15.3%]), reflecting the wave of digitalisation of productive activities. Professional, scientific and technical services (scientific research and development [+9.6%]) and education [+5.7%], which is also growing, can also be added.
- Transport or warehousing services (post and mail services [+10%]), which are benefiting from the strong expansion in online commerce.
- Construction employment has also increased significantly (+3.3% over the past 24 months), buoyed in particular by the upturn in the real estate market since summer 2020. However, the level of employment in the sector is less than half of what it was in 2007, before the major recession and financial crisis<sup>5</sup>.

Conversely, employment in the accommodation and catering sectors (-6.5% between October 2019 and October 2021), leisure, artistic and entertainment services (-2.6%), as well as finance and insurance (-1.4%), recorded a significant drop compared to pre-pandemic levels. For some sectors, in particular finance, the decline in employment is partly structural, pre-dates Covid-19, and reflects the difficulties faced by the sector for several years (compression of margins, competition from online banks and fintech, etc.).

During the first waves of Covid-19 in 2020, more precarious contracts mostly disappeared because they were less protected and/or less likely to be eligible for furlough. The number of fixed-term contracts<sup>6</sup> fell by 10.4% in 2020, while open-ended contracts increased by 1.6% (see Chart 3). With just over 60% of contracts currently permanent, the structure of the labour market (between permanent and fixed-term contracts) remains similar to that before the pandemic (fixed-term contracts accounted for exactly 59.9% of total contracts in 2019).

While the immediate traces of the pandemic in the Spanish labour market have cleared quite quickly, it still bears the scars of past crises. The unemployment rate remains one of the highest in Europe, at 14.6% in September, and if we add underemployed workers, this represents around a quarter of the working population (22% to be precise) in Q3 2021<sup>7</sup>. Although the employment situation in Spain is improving, it remains much more difficult than in other major European countries.

<sup>3</sup> Source: INE, Economically Active Population Survey

<sup>4</sup> We have deliberately chosen a two-year comparison in order to avoid seasonality effects and to disregard the lockdown period.

<sup>5</sup> Construction employment stood at 2,768,600 in Q3 2007 compared with 1,293,600 in Q3 2021, a decrease of 53.3% (Source: INE).

<sup>6</sup> Full-time and part-time contracts combined.

<sup>7</sup> According to EAPS, underemployment rose to 1,736,500 in Q3 2021, or 7.4% of the total workforce.

<sup>8</sup> <https://industria.gob.es/en-us/estadisticas/Paginas/encuesta-coyuntura.aspx>

### ACTIVITY RATE

SHARE OF 16 TO 64-YEAR-OLDS EMPLOYED OR UNEMPLOYED IN THE WORKING AGE POPULATION, %

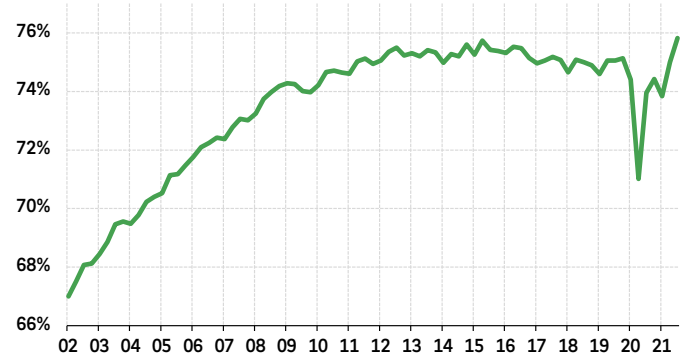


CHART 2

SOURCE: INE (EAPS), BNP PARIBAS

### DIFFERENCE BETWEEN FIXED-TERM AND PERMANENT CONTRACTS (FULL-TIME AND PART-TIME)

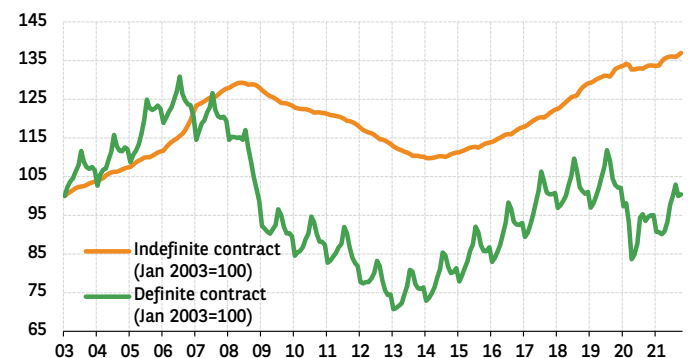


CHART 3

SOURCE: SEPE, BNP PARIBAS

## DOWNSIDE RISKS ARE BUILDING UP

In addition, significant obstacles could hamper this recovery in the labour market. First of all, the Covid-19 epidemic is once again increasing, although it is still under control for the time being. Three economic factors are emerging too. Firstly, labour shortages in some sectors are very significant at present, both in Spain and in many other countries. Indeed, the latest survey by the Ministry of Industry, Trade and Tourism<sup>8</sup> shows an unprecedented worsening of recruitment problems faced by industrial companies (cf. Chart 4). However, we can see that these difficulties in hiring were already starting to increase almost two years before the pandemic.

Secondly, the impact of the inflation surge on household purchasing power could also curb the economic recovery, due to its potential impact on private consumption, and by extension employment. The



consumer price index (CPI, non-harmonised) jumped 5.4% year-on-year in October. This represents its strongest increase since 1992. If consumer price inflation remained limited to mainly energy (electricity, gas, fuel) in October, the increase in production costs incurred by other sectors (which reduce companies' margins) could ultimately affect consumer prices. In particular, the change in food prices, which weighed the heaviest on the household consumer basket (17.5%), remained contained until October (+1.4% y/y), but the sector's producer price index increased much more strongly (+7.5% y/y). If this increase in production costs were to have too serious an impact on companies' margins, companies would be forced to pass this on with higher selling prices for their products or services.

Finally, the third factor, the high level of structural unemployment, could also affect job dynamics in the longer term. According to estimates by the OECD and the European Commission, the structural unemployment rate (or NAIRU, Non-Accelerating Inflation Rate of Unemployment) lies between 13% and 15%<sup>10</sup>, a range within which the current unemployment rate already falls. The NAIRU is by nature unobservable, difficult to assess exactly, and therefore requires us to take a step back. Despite the fact that there is still a large supply of labour in Spain, this significant structural unemployment indicates that it could be difficult to tap into. In some sectors, there is already a significant tightening of available labour. Indeed, the number of job-seekers reached record lows in September 2021 – the lowest since the beginning of current statistics in January 2009 – in the mining industry, certain parts of the manufacturing sector (tobacco, textile, paper, metalworking) and civil engineering.

This dynamism of the labour market could eventually amplify inflationary pressures through more vigorous wage increases. These remain contained so far. Indeed, salary increases negotiated in the sectors – on average around 1.5% year-on-year at present – had, until this autumn, not adjusted to the increase in consumer prices, which has accelerated ever since (see Chart 5). Similarly, the revaluation last September of the minimum inter-professional wage (SMI) – of 1.6% or EUR 15 – benefiting almost 1.5 million employees, is still significantly lower than inflation. At this stage, a price-salary loop therefore does not seem to have been triggered, nor does it appear close.

## TIME FOR STRUCTURAL REFORMS

The significant increase in employment since the beginning of 2021 therefore enables the authorities to begin negotiations on labour reforms in a more «comfortable» economic situation. However, this project has exacerbated certain tensions within the government coalition, between the Socialist Party (PSOE) and Podemos. The appointment of the chief negotiator (the post having been disputed between the Minister of Labour Yolanda Díaz (Podemos) and the Minister of the Economy Nadia Calviño [PSOE]) was the first hindrance, which resulted in the appointment of Mrs Díaz. The deadlines for this reform are expected to be very tight, with the objective being that an agreement with the social partners should be sealed in November of this year, before a green light from parliament in December. This would allow the reform to enter into force as from January 2022.

<sup>9</sup> Weight in the 2019 CPI.

<sup>10</sup> Specifically, for 2019, the OECD and the European Commission estimate the NAIRU for Spain at 15.0% and 13.8% respectively.

### LABOUR SHORTAGE IN INDUSTRY

Factor limiting production – labour shortage (respondents' balance)

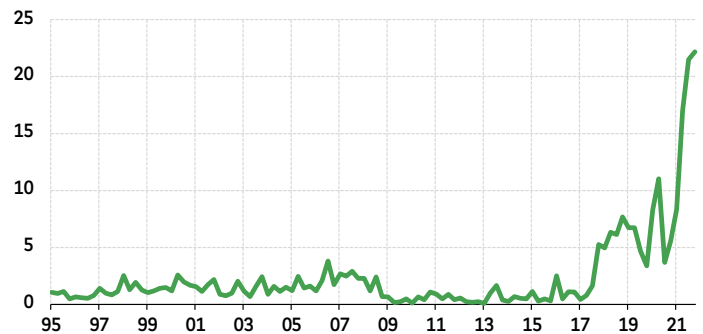


CHART 4

SOURCE: SPANISH MINISTRY OF INDUSTRY, TRADE AND TOURISM, BNP PARIBAS

### NEGOTIATED WAGES AND INFLATION

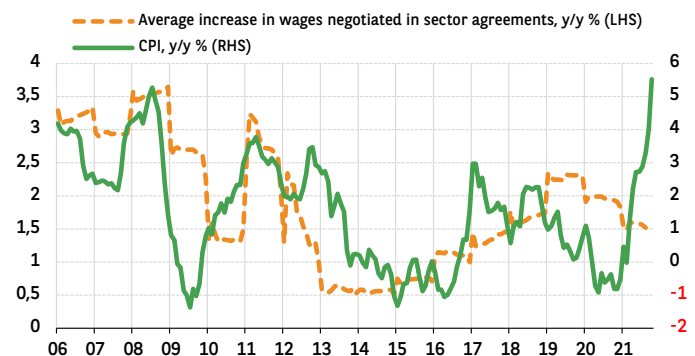


CHART 5

SOURCE: SPANISH MINISTRY OF ECONOMY AND FINANCE, BNP PARIBAS

The main measures discussed are as follows:

- Repeal of the validity limits of collective agreements.
- Standardisation of open-ended contracts and stricter regulation on the use of temporary contracts, with the aim of reducing the fragmentation of the labour market.
- Priority application of sectoral agreements on company agreements.
- Limiting companies' capacity to unilaterally change the terms of the contract.
- Limiting subcontracting in companies exclusively to activities that are not the company's main activities.
- Implementation of a «mechanism of internal flexibility and job stability and support for transition», which would structurally replace the ERTE furlough system still in force.

The reform of the labour market is called for by the European Commission in Brussels, which intends to make part of the allocations paid to Spain by the European stimulus fund conditional on the introduction of these structural measures. The latter are also integrated into the Active Employment Policies component of the Spanish Recovery and Resilience plan (component 23)<sup>11</sup>. In summary, the reform project is structured around four parts (simplification of contracts, reduction of excessive temporary work, better regulation of subcontracting and increasing unions' negotiating power in collective negotiations) and would reverse some of the reforms enacted in 2012 under Mariano Rajoy's mandate.

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<sup>11</sup> To view all the components of the Spanish stimulus plan, see BNP Paribas EcoConjoncture Spain: the tortuous path to reindustrialisation, September 2021 (Table 2 on page 9).

## EMPLOYEES AFFILIATED WITH THE SOCIAL SECURITY SYSTEM, BOTH THE GENERAL AND AUTONOMOUS REGIME (OCTOBER 2021)

	In thousands	% total employment	% Oct 2021 - Oct 2019		In thousands	% total employment	% Oct 2021 - Oct 2019		In thousands	% total employment	% Oct 2021 - Oct 2019
<b>Agriculture, forestry and fisheries</b>	<b>344.2</b>	<b>1.9</b>	<b>0.8</b>	<b>Electricity, gas and other</b>	<b>96.1</b>	<b>0.2</b>	<b>-1.4</b>	<b>Professional, scientific and technical services</b>	<b>1111.5</b>	<b>6.0</b>	<b>5.1</b>
Agriculture and hunting	311.0	1.7	0.4	<b>Water production and distribution</b>	<b>152.1</b>	<b>0.8</b>	<b>3.3</b>	Legal and accounting services	314.4	1.7	1.4
Forestry	30.3	0.2	5.7	Natural water, water treatment and distribution	45.0	0.2	2.7	Headquarters services; management consulting services	131.6	0.7	11.7
Fishing and aquaculture	2.9	0.0	-2.0	Wastewater collection and treatment	5.9	0.0	3.1	Architecture and engineering services	270.1	1.5	5.6
<b>Mining and quarrying industries</b>	<b>20.9</b>	<b>0.1</b>	<b>-0.2</b>	Waste collection, treatment and disposal	99.0	0.5	3.5	Scientific research and development	100.5	0.5	9.6
Coal industry	0.1	0.0	-23.2	Waste disposal and other waste management services	0.3	0.0	5.0	Advertising and market research	118.3	0.6	2.5
Extraction of crude oil and natural gas	0.2	0.0	-1.2	<b>Construction and works</b>	<b>1308.9</b>	<b>7.1</b>	<b>3.9</b>	Other specialised, scientific and technical services	147.6	0.8	5.5
Metal ore industry	3.3	0.0	1.1	Buildings and building construction work	487.1	2.6	4.2	Veterinary services	29.0	0.2	8.0
Other mining industries	16.1	0.1	-0.2	Civil engineering work and construction work	55.3	0.3	0.6	<b>Administrative and support services</b>	<b>1506.5</b>	<b>8.1</b>	<b>2.0</b>
Support services for the mining and quarrying industries	1.2	0.0	-1.4	Specialised construction work	766.5	4.1	2.9	Rental and leasing	88.6	0.5	-11.0
<b>Manufacturing</b>	<b>2082.8</b>	<b>11.2</b>	<b>-0.3</b>	<b>Trade and repair of motor vehicles and motorcycles</b>	<b>3216.0</b>	<b>17.4</b>	<b>-0.5</b>	Employment services	232.8	1.3	6.5
Food	405.4	2.2	2.0	Motor vehicle and motorcycle trade and repair	334.2	1.8	-2.2	Travel agencies and other reservation services	55.8	0.3	-16.8
Drinks	49.4	0.3	4.6	Wholesale trade, excluding motor vehicles and motorcycles	999.2	5.4	0.5	Security and investigation services	141.9	0.8	3.2
Tobacco	1.6	0.0	4.7	Retail trade, excluding motor vehicles and motorcycles	1882.6	10.2	-0.8	Building and landscaping services	641.1	3.5	3.9
Textiles	47.2	0.3	0.0	<b>Transport and storage services</b>	<b>957.5</b>	<b>5.2</b>	<b>1.9</b>	Administrative and other business support services	346.5	1.9	2.8
Clothing	43.8	0.2	-8.2	Land transport	611.2	3.3	0.0	<b>Public administration and defence services</b>	<b>1189.9</b>	<b>6.3</b>	<b>5.2</b>
Leather and leather goods	57.4	0.2	-7.6	Sea transport	0.3	0.0	2.7	<b>Educational services</b>	<b>1105.3</b>	<b>6.0</b>	<b>5.7</b>
Wood and other	61.6	0.3	-0.7	Air transport	34.6	0.2	-16.0	<b>Human health and social action services</b>	<b>1859.8</b>	<b>10.0</b>	<b>8.2</b>
Paper	44.2	0.2	1.4	Storage and activities related to transport	216.2	1.2	4.9	Human health services	1222.5	6.6	9.2
Printing and reproduction	71.4	0.4	-2.7	Postal and courier services	94.3	0.5	10.0	Medical and social housing services	290.1	1.6	1.9
Coking and refining	8.1	0.0	-5.5	<b>Accommodation and catering services</b>	<b>1594.6</b>	<b>8.6</b>	<b>-6.5</b>	Social work services without housing	344.2	1.9	10.4
Chemical industry	102.8	0.6	3.8	Accommodation services	316.4	1.7	-10.4	<b>Art, entertainment and recreational services</b>	<b>353.4</b>	<b>1.8</b>	<b>-2.8</b>
Pharmaceutical industry	56.0	0.3	5.1	Food and beverage services	1278.2	6.9	-5.5	Creative, artistic and entertainment services	84.6	0.3	-3.0
Rubber and plastics industry	94.2	0.5	0.7	<b>Information and communication</b>	<b>625.7</b>	<b>3.4</b>	<b>9.7</b>	Library, archive, museum and other cultural services	17.1	0.1	-3.8
Other non-metallic mineral industries	101.9	0.6	3.0	Printing	48.7	0.3	-2.7	Gambling	35.8	0.2	-6.0
Metal	77.2	0.4	-3.0	Production of films, videos, etc.	50.8	0.3	9.0	Sports, recreational and leisure services	216.1	1.2	-1.8
Metal products, excluding machinery and equipment	262.5	1.4	-0.4	Programming and broadcasting	24.8	0.1	-3.8	<b>Other services</b>	<b>533.8</b>	<b>2.9</b>	<b>-2.2</b>
IT, electronics and optical	30.8	0.2	5.8	Telecommunications services	78.3	0.4	1.7	Services provided by associative organisations	138.7	0.7	-2.1
Electrical equipment	47.9	0.3	0.7	Programming, consulting and other IT activities	386.5	2.1	15.3	Repair services for computers and personal and household goods	61.3	0.3	-9.0
Machinery and equipment n.e.c.	127.3	0.7	-1.5	Information services	36.6	0.2	2.4	Other personal services	333.7	1.8	-0.9
Automotive industry	152.7	0.8	-5.9	<b>Finance and Insurance</b>	<b>374.6</b>	<b>2.0</b>	<b>-1.4</b>	<b>Household services as employers</b>	<b>41.0</b>	<b>0.2</b>	<b>-4.1</b>
Other transport equipment	53.4	0.3	-5.9	Financial services, excluding insurance and pension funds	201.3	1.1	-3.6	Household services as employers of domestic staff	41.0	0.2	-4.1
Furniture	66.5	0.4	3.1	Insurance services	59.6	0.3	-0.7	Miscellaneous goods and services produced by households for their own use	3.6	0.0	-4.1
Other manufacturing industries	38.8	0.2	1.6	Auxiliary activities to financial services and insurance	113.8	0.6	2.3	<b>Extraterritorial services</b>			
Repair and installation of machinery and equipment	102.7	0.6	2.0	<b>Real estate services</b>	<b>149.8</b>	<b>0.8</b>	<b>1.9</b>	<b>Total</b>	<b>18525.0</b>	<b>100.0</b>	<b>1.6</b>

SOURCE: SEPE, BNP PARIBAS CALCULATIONS

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