

Spain has reason to be concerned at its latest unemployment figures

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*Spain has suffered from a persistent unemployment problem since the financial crisis, with the unemployment rate remaining stubbornly above 20 per cent. **Jose G. Montalvo** writes on the release of the latest Spanish unemployment figures, which saw the unemployment rate increase in the first quarter of 2015. He notes that while the latest figures have to be put against the backdrop of an overall reduction in unemployment during the last two years, there are nevertheless strong reasons for concern over the future trajectory of the Spanish labour market.*



Spain has always been the unemployment 'sick man' of the European Union. The illness was exacerbated by the economic crisis. Between 2007 and 2013 the Spanish labour market shed 3.44 million jobs. During the last year the process reversed itself and employment grew by half a million people. However the latest figures for the first quarter of 2015, released on 23 April, seem to indicate that this improvement has come to a halt.

The recent figures do not paint an optimistic picture, although the reasons for that interpretation are not the ones you might read in the popular press. The raw data, emphasised by most of the media, show a reduction in employment of 114,300 people. But any short run analyst knows that the first quarter is particularly bad for employment and, in addition, this year the dates for Easter spread over March and April. In an economy as dependent on tourism as Spain is, the seasonality of employment associated with Easter is not a minor issue.

A very different picture appears once we adjust the employment figures seasonally: during the first quarter employment grew by almost 75,000 workers. The bad news is that, in seasonally adjusted terms, this increase is only half the increase in the previous quarter. The annualised rate of growth of seasonally adjusted employment has gone down from 3.3 per cent in the last quarter of 2014 to 1.7 per cent in the first quarter of 2015. The unemployment rate seasonally adjusted went down to 23.1 per cent from 23.6 per cent.



But the unemployment front also carried some bad news: only half of the reduction in unemployment was due to job creation, while in 2014 the large improvement in unemployment took place without any significant reduction in the participation rate. There is another reason to be worried for the future of the Spanish labour market: the electoral cycle of 2015 (four elections during the year) is pushing employment in the public sector and the construction of public infrastructures. When the cycle ends the results of the elections will determine if this impulse will continue or fade away.

Spain's unemployment problem

Moving to a long run perspective, the job creation process that started in 2014, even if it continues as in the past, is

too slow for the needs of the Spanish economy. At this speed it will take seven years to recover the level of employment of 2007. Another source of concern is that the official and most common definition of the unemployment rate, which reached 23.7 per cent in the Spanish case at the end of the first quarter of 2015, corresponds to what the US Bureau of Labor Statistics (BLS) calls 'U3'.

The BLS computes other definitions of unemployment that augment the picture of unemployment provided by the traditional measure. In particular the 'U4' measure calculates the ratio of unemployed people plus discouraged workers as a percentage of the civilian labour force plus discouraged workers. The 'U6' measure is based on an unemployment ratio that includes in the numerator unemployed people plus all persons marginally attached to the labour force and part time employees who would like to work full time.

If the situation in Spain is measured using these figures, the Spanish U4 unemployment rate was 25.1 per cent in the first quarter of 2015 while the U6 rate was close to 35 per cent. It is true that these figures represent a reduction from the peak of the crisis (28.5 per cent and 37.2 per cent respectively) but they are still very high and moving in slow motion. This is not to say, as critics of the government point out frequently, that the employment growth is all based on part time jobs which have a multiplication effect. The data show that during 2014 the Spanish economy created 392,000 full-time equivalent jobs. But still it is unfortunate that there are 2.2 million workers under-employed by lack of working hours.

The prospects of rapid job creation seem to be moving back to the construction sector. This sector lost 1.7 million jobs from 2007-13. However, during the last year 20 per cent of employment was created in the construction sector, which is a much higher proportion than its share in total output. In the first quarter of 2015 the construction sector created 30,300 jobs, while industry added 2,300 and services lost 135,400. As indicated, part of these jobs are associated with civil works but, still, the recent figures may indicate a change of trend.

In principle that could be good news for the job market since the construction sector is a strong job generator. But we should remember that this capacity for job creation is largely due to its low productivity. It would be very unfortunate to go back to the productive mix that led us to the crisis. However, from a political viewpoint, the employment gains associated with the promotion of the construction sector could be too sweet to resist. We are still far away from the excesses of the past, but we must be careful not to trip over the same stone twice in such a short period of time.

Another reason for concern is the very high level of youth unemployment and its inertia. It is a fact that the ratio of youth unemployment over total unemployment in Spain is similar to the average of the OECD. Nevertheless, a U6 rate of 51 per cent calls for clear action, especially when we are dealing with a segment of the population with a high educational achievement by historical standards. Young university graduates have an unemployment rate of more than 14 per cent (U3) and a U6 rate over 20 per cent. Several research papers have shown that the situation of the job market in the transition of young people from education to work influences their future prospects in the labour market. This is a particularly important consideration for a country with many young university graduates.

In sum, the situation in the Spanish labour market is much better than just one year ago. Employment is growing at an annual rate of 3 per cent and unemployment is decreasing at 8.2 per cent. However, the electoral cycle may be a factor in this positive performance and the process is also endangered by the likely political instability of the results of the parliamentary elections later this year.

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