

Spanish labour market still very tight, but a turnaround is in the making

The Spanish unemployment rate rose slightly to 12.7% in the third quarter, but is still very low. However, a sharp decline in hiring intentions shows that a cooling-off in the labour market is on the way. We expect unemployment to rise further in the coming quarters due to the deteriorating economic outlook, peaking at 14.3% in the third quarter of next year



We expect unemployment to continue to rise in the coming quarters due to deteriorating economic conditions

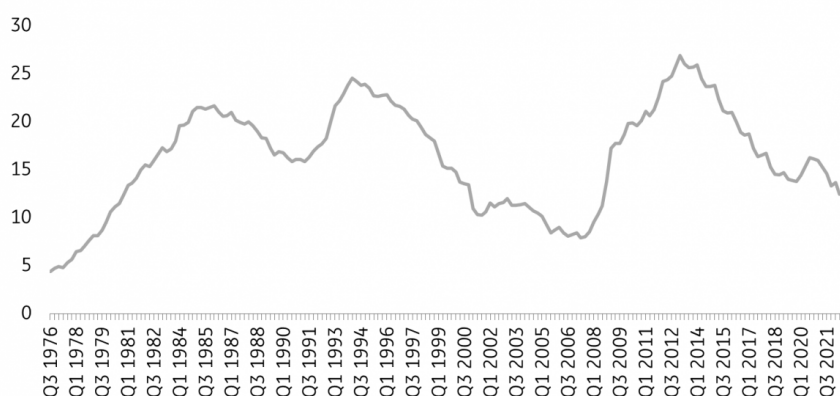
Unemployment rate slightly up in the third quarter

According to INE figures released this morning, unemployment rose to 12.7% in the third quarter from 12.5% in the second quarter. With the exception of the previous quarter, this still puts unemployment at its lowest level since the third quarter of 2008, the start of the financial crisis. Although the unemployment rate is historically low, it is still well above the euro average. Eurostat's harmonised figures, which differ slightly from those published by INE, show that Spain's unemployment rate was 12.4% in August, compared with the eurozone average of 6.6%, a difference of 5.8 percentage points. For under-25s, the deviation from the eurozone average even runs to 12.7 percentage points. This average harbours large differences between regions. In the south of the country (Andalusia, Extremadura, Murcia etc) unemployment is typically above the

national average, while the northern regions (Cantabria, Navarre, Catalonia, and so on) pull the average down a bit.

We expect unemployment to continue to rise in the coming quarters due to deteriorating economic conditions. We predict that the Spanish economy will enter a mild recession starting in the fourth quarter of 2022 that will continue until the first quarter of next year. This will put some upward pressure on unemployment rates. Since unemployment rates usually lag somewhat behind the economic cycle, the biggest impact will be next year. We think that Spanish unemployment will peak at 14.3% in the third quarter of 2023.

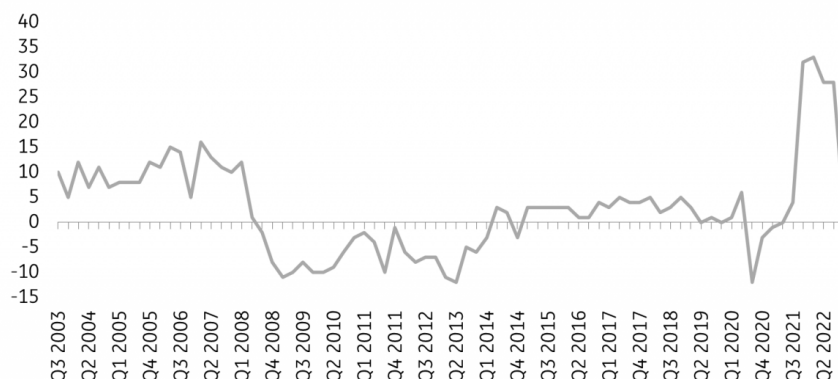
Unemployment rate, 1976-2022



Hiring intentions dropped sharply

Although the labour market is still very tight, more signals point to a cooling in the coming months. The 12-month moving average of the number of vacancies has been stabilising for several months and seems to be at a peak. Business confidence has also deteriorated sharply in recent months, which will encourage companies to be more careful with new hires. This is already reflected in the latest Manpower survey, which polls every three months on the hiring intentions of companies. The latest results polling hiring intentions in the fourth quarter of 2022 show the largest quarterly decline in the index since the start of the survey in 2003. Although the index was historically high, this points to a turnaround in the labour market. The deteriorating economic outlook is already causing companies to be more cautious about hiring new people.

Manpower survey – hiring intentions in the next three months, 2003-2022

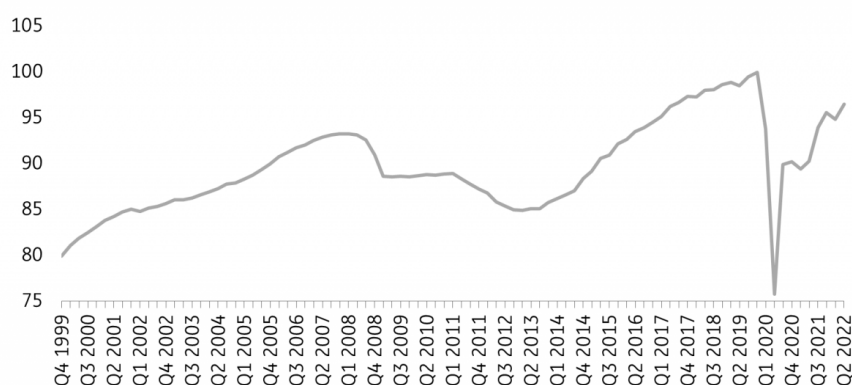


A cooling economy will take longer to restore productivity to pre-Covid levels

GDP per person of working age, a good measure of an economy's productivity, is still below its pre-Covid levels. Since 2014, following the financial crisis and debt crisis, the productivity parameter was on a strong remount. Between 2014 and 2019, GDP per working age population rose by an average of 2.6% per year. This came to an abrupt end with the onset of the Covid-19 pandemic. In the first two quarters of 2020, GDP per person of working age fell 24.2% from the last quarter of 2019 due to a sharp drop in activity. Afterwards, the measure recovered strongly. In each of the past three quarters, it grew more than 6% year-on-year but is still 3.5% below its 4Q19 pre-Covid levels.

However, this increase is likely to be strongly driven by the activation of lower-productivity workers. This pushes GDP per person of working age higher, but puts pressure on real labour productivity per hour worked. We see that the latter has been under strong pressure since the beginning of this year (-3.1%). The end of Covid restrictions has allowed a lot of employees in the tourism and hospitality sector to get back to work, but these are typically employees who contribute relatively less to GDP. The tight labour market also makes it easier for less skilled and recent graduates to find a job – in general, these are also people with lower productivity. With activity again under strong pressure from the energy crisis and high inflation, productivity is likely to fall. Over the winter months, we forecast a contraction of 0.8% in the Spanish economy. As a result, it will probably take until 2024 before GDP per working age person returns to its pre-pandemic level.

Productivity – GDP per working age population, Q4 2019 = 100

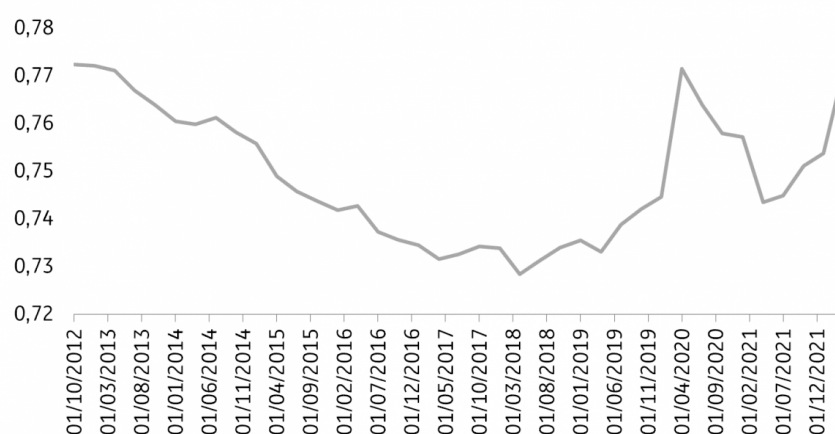


Spanish labour market supported by strong growth in open-ended contracts

The high number of temporary contracts in Spain has long been one of the weaknesses of the Spanish labour market. According to Eurostat data, about 22% of Spaniards were on temporary contracts before the pandemic, compared to an average of 14.4% in the EU. However, the number of open-ended contracts has increased over the past year. The number of permanent employees reached a record high in the second quarter to 13.5 million employees (seasonally adjusted figures), an increase of 8.7% compared to the second quarter of last year. The number of employees on temporary contracts has fallen by 6.7% in the past year to just over four million. The increase started in the middle of last year but was accelerated by the labour market reform approved by the government in December. The share of permanent contracts has increased by three percentage points in one year, from 74% in the second quarter of last year to more than 77% in the second quarter of this year.

It is too early to estimate the long-term effects of the labour market reform, but we can already say that the reform, which imposes additional restrictions on the use of temporary contracts, has resulted in many temporary contracts being converted into open-ended contracts. These also offer better protection during economic headwinds. A higher share of permanent contracts is also likely to mean that the rise in the unemployment rate, which usually follows a fall in economic activity, will be less pronounced than during previous recessionary periods.

Share of permanent contracts



Bleak economic outlook will lead to higher unemployment rate

All in all, despite a slight rise in the unemployment rate in the third quarter, the labour market remains very tight. The bleak economic outlook, which is already prompting companies to be more cautious about new hires, will ease the pressure on the labour market in the coming months. We expect the unemployment rate to rise further to 14.3% in 3Q23, partly held back by a higher number of permanent contracts, before slowing down again.

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Karol Pogorzelski

Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com