

Spanish unemployment rate falls

As unemployment falls, the Spanish labour market epitomises the impressive recovery



Source: istock

Strong job creation in 2Q

After the seasonal decrease in employment in 1Q, the latest quarterly labour report reveals strong job creation in 2Q: +375K QoQ (+512K YoY). This represents an increase of 2.8% YoY and the 13th consecutive quarter of expansion of total employment on a yearly basis. The fall in the unemployment rate has meant that 341K people left unemployment in the second quarter.

The labour market is notably benefitting from the cyclical recovery experienced by the Eurozone and the lengthening of the accommodative monetary policy of the ECB. The government is targeting an unemployment rate under 12% by the end of 2020 and looking at the current trajectory this objective might not be a fantasy any more.

17.2%

2Q Unemployment rate

down from 18.75% in 1Q

In the last four quarters, the number of unemployed has decreased by 14% and this quarter is the eighth consecutive quarter showing a double digit decrease. The labour market is notably benefitting from the cyclical recovery experienced by the Eurozone and the lengthening of the accommodative monetary policy of the ECB. The government is targeting an unemployment rate under 12% by the end of 2020 and this objective might not be a fantasy any more, looking at the current trajectory.

The fine details

In the second quarter, no sector contributed negatively to job creation on a yearly basis: services +244K, construction +56K, industry +140K, agriculture +72K. Further good news is that the increase is not only concentrated on temporary jobs - the number of employees with permanent jobs increased by 1.8% YoY. Moreover, long term unemployment and the problem of hysteresis seems to be in decline: the number of workers who lost their job more than one year ago has fallen by nearly 20% in the last four quarters.

Private-public breakdown

Employment in the public sector only increased marginally, by 0.3% YoY, and seems to be limited by political measures in favour of budget orthodoxy. However, employment in the private sector increased by 3.3% YoY and seems enhanced by past pro-business reforms. As a consequence, direct tax revenues should increase while expenditures should remain under control. This should help the government to bring the public deficit back to around 3% by the end of the year and allow the European Commission to close the "excessive deficit" procedure launched in 2009.

Seasonal impacts

Of course, seasonal effects comes into play but even after taking this into account, total employment still increased by 0.85% QoQ. The second quarter kick-started the summer season and therefore triggered the creation of many temporary service jobs. The breakdown of employment gains by autonomous regions highlights that the tourist areas top the national average on a quarterly basis: Balearic Islands +13%, Cataluña +2.3% and Canarias +2.3%.

Having said that, the number of tourists landing in Spain is breaking records, notably due to the relatively cheap euro and the geo-political instability observed in other Mediterranean destinations. Considering that the global recovery is progressively stepping up and that Spain is endowed with one of the best infrastructures for tourism in the world, we believe tourism should continue to push growth in coming years.

All in all, the positive momentum in Spain is not expected to stop any time soon and GDP growth still relies on consumers seeing their purchasing power increasing. However, the fast decrease in unemployment suggests this year's GDP growth could even beat the previous two (3.2%).