

Spanish unemployment rate rises slightly

The Spanish unemployment rate reached 13.26% in the first quarter of 2023, slightly higher than the previous quarter. Although labour market dynamics are currently showing signs of strengthening in the short term, we expect further weakening later this year



Despite the rise in the unemployment rate, the Spanish labour market remains tight

Unemployment rate up slightly

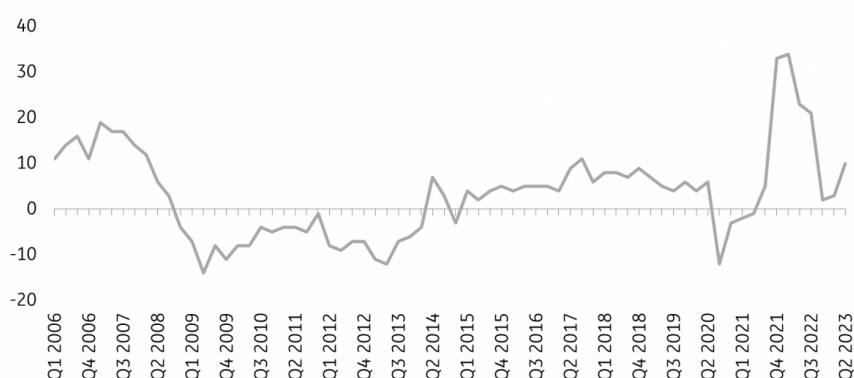
The unemployment rate rose to 13.26% in the first quarter of 2023 from 12.9% in the final quarter of last year. Despite the increase, the Spanish labour market remains tight. The increase is mainly due to the energy crisis and macroeconomic uncertainty around the turn of the year that has made companies, especially in manufacturing, a bit more cautious to hire extra employees. In addition, labour supply also increased which has put upward pressure on the unemployment rate.

Although companies started the year cautiously, labour demand increased during the first quarter. The main driver is a strong service sector. As discussed in a [recent note](#), activity among Spanish service firms accelerated significantly in the first quarter. This also fueled the demand for additional workers. However, despite an increase in the workforce, many employers struggled to keep up with growing demand as the number of incoming orders increased even faster. The Spanish manufacturing sector has also seen an increase in production volume in recent months, which, along with a new influx of orders, has also encouraged manufacturing companies to hire new people.

Spanish hiring intentions more upbeat for the second quarter

In the second quarter, unemployment could drop slightly again. The Manpower Survey that polls hiring intentions among Spanish companies improved sharply in the second quarter of this year. The index that takes the difference between the number of employers who plan to hire and the number of employers who plan to make a net reduction in their workforce rose to 10% in the second quarter. That is an increase of seven points compared to the first quarter of this year. Although Spanish companies became more cautious due to the uncertain economic outlook at the end of last year, we note again that employers are becoming more optimistic and plan to accelerate their hiring pace. In the latest survey, 80% of Spanish employers reported difficulties in filling vacancies.

Hiring intentions of Spanish companies



Source: Manpower

Labour shortage will keep unemployment low

After the summer, labour market dynamics are set to weaken somewhat, mainly on the back of a slowing economy. The European Central Bank's tighter monetary policy will reduce investment dynamics among companies, which is likely to lead to slower employment growth. However, given the current labour shortage, we do not expect a significant rise in the unemployment rate. Before this will happen, we would first have to observe a strong decline in hiring intentions, which is not yet the case.

Moreover, due to demographic factors, such as the ageing population, the labour market is expected to remain structurally tight. Therefore, we project the unemployment rate to hover around 13-13.5% for the rest of the year, ending at the upper end of this range by the end of the year.