Spanish unemployment rate rises slightly in third quarter

Despite the slight increase, the labour market remains in relatively good shape. Slowing economic growth could push the unemployment rate a little higher in the coming period, but structural factors will keep it low

Both stronger economic momentum and rising prices are likely to keep Spanish inflation high over the coming months

Spanish labour market still buoyant

According to figures released this morning by Spanish statistical service INE, the unemployment rate rose to 11.84% in the third quarter from 11.60% in the second quarter, still a historically low figure as the uptick might be caused by seasonal factors. The labour market benefited from strong growth in the more labour-intensive service sector, which was underpinned by a strong tourist season. In addition, the labour market is also suffering from a structural supply shock. For instance, the average number of hours worked per worker is still lower than before the pandemic, which means more labour is needed to cover the same amount of hours. This exerts downward pressure on the unemployment rate.

Despite weaker growth dynamics, we do not expect a sharp increase in the unemployment rate

Labour market dynamics seem to have weakened somewhat recently. Job creation has slowed in recent months across almost all sectors. A further deceleration in job creation combined with further growth of the working-age population, partly due to migration, leads us to think that the unemployment rate will rise slightly next year towards 12.2% by mid-2024, before returning to its downward path on the back of a pick-up in economic growth.

Still, the chances of a major turnaround in the labour market seem slim. The historically low unemployment rate and high number of vacancies are encouraging companies to retain workers when they see a temporary weakening of economic momentum. In addition, employment growth was skewed towards strong growth in open-ended contracts, fostered by labour market reform. This higher share of permanent contracts also offers workers better protection when the economic outlook darkens.

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