

In the current expansionary phase the Spanish economy has shown robust job growth, the current level of which increased in 2018 for the fifth year running. This dynamic is allowing a notable part of the unemployment generated during the crisis to be absorbed.<sup>1</sup> The persistence of a sufficiently long period of net job creation allows us to analyse gross job creation and destruction and thus examine possible changes in them compared with the crisis period and particularly with the latter years of the previous expansion. This box addresses this question through a descriptive analysis of employment inflow and outflow rates using flow information from the Spanish Labour Force Survey (LFS),<sup>2</sup> paying particular attention to the breakdown by type of contract (temporary or permanent).

Chart 1 shows, along with the year-on-year change in GDP, the job creation rate proxied by the ratio of total employment inflows in a quarter to the total unemployed and economically inactive population in the previous quarter (i.e. the probability that a person who is not working will become employed in the following three months). As can be seen, after touching bottom in 2013 at around 5.8%, the job creation rate exhibited a rising trend until mid-2017, holding relatively steady since then at around 6.5%. True, this percentage is lower than before the crisis, when it exceeded 8%; but it should be kept in mind that this is basically because the unemployed and economically inactive population (i.e. the denominator of the ratio) is larger at present, while the number of jobs created is, in gross terms, similar to that in the years before the recession.<sup>3</sup> Indeed, the pace of job creation would even be somewhat higher in the current recovery if it were taken into account that GDP growth, which drives job creation, is currently somewhat lower than in the two years preceding the onset of the crisis.

As regards the flows from employment to unemployment, the probability of becoming unemployed, as measured by the ratio of the people who lose their job in a quarter to the total employed in the previous quarter, has fluctuated more sharply in the recent period. Specifically, after increasing markedly at the height of the recession, this variable trended downwards from 2013, to stand at 3.3% at end-2018 (see Chart 2). However, although this rate is the lowest in the last 10 years, it is still nearly 1 pp higher than in the two-year period from 2006 to 2007. Also, in step with the definition of the job creation rate described above, if the outflows from employment were to take into account a transition to non-employment status which included not only unemployment but also inactivity, the job destruction rate would currently be similar to that in the pre-crisis period (see Chart 3).

Analysis of employment inflows by type of contract shows that the proportion of new labour market entrants under a temporary

contract increased between 2009 and 2015, in line with the greater incentives firms have to opt for this type of contract in situations of high uncertainty (see Chart 4). This trend was, moreover, accompanied by a significant decrease in conversions of temporary workers into permanent ones (see Chart 5). Subsequently, despite the economic recovery having become more firmly entrenched, the proportion of temporary workers in employment inflows showed no signs of moderating, remaining steady at a slightly higher level than in 2006. What was observed, by contrast, was a rise in the percentage of temporary jobs being converted into permanent ones from 2017 onwards. Yet this percentage stood at 8% at end-2018, a level clearly lower than that before the crisis, when it reached values near 13%.<sup>4</sup> The downward stickiness of the proportion of temporary jobs in employment inflows is apparent, to a greater or lesser extent, in all of the five main economic sectors analysed,<sup>5</sup> although it is somewhat more marked in construction than in the others. Moreover, in all economic sectors the rate of conversion of temporary workers into permanent ones was lower in 2018 than in 2006, particularly in private-sector services and industry. In construction it rose last year, approaching the level of 2006.

Temporary workers are also those hit hardest by job destruction. Chart 6 shows that the ratio of temporary employees to wage-earners who became unemployed was lower during the crisis than at the end of the previous upturn. This phenomenon is consistent with the increase in probability of dismissal which, regardless of contract type, can be expected at the height of a recession. At the beginning of the current expansion, this percentage again grew, as is customary in cyclical upturns, until it steadied in 2016. Since then it has remained at a level similar to that of 2006, doing so across-the-board in all economic sectors.

In conclusion, the current expansion has not wrought major changes in job creation and destruction with respect to those seen in 2006-2007, i.e. at the end of the previous upturn, after taking into account the GDP growth rate and the levels of the employed, unemployed and economically inactive populations in both periods. Both processes continue to be underpinned basically by temporary employment. Meanwhile, the creation of permanent jobs, and particularly temporary-to-permanent conversions, which were low in the previous expansion, seem to have decreased even more in the latest crisis and subsequent recovery, although these conversions have risen in the last two years. Thus, despite extensive regulatory changes throughout the period in question, the Spanish labour market continues to feature excess job temporariness and churn. This has an adverse impact not only on productivity but also on the inequality of employment income. It may thus be advisable for permanent contracts to be made more attractive, without that being to the detriment of job creation.

1 In 2018, employment grew by 2.7%, similar to the rate in the previous two years. See the *Nota Económica* entitled “La evolución del empleo y del paro en 2018, según la Encuesta de Población Activa”, Banco de España (only in Spanish).

2 All the flows represented were calculated at the Banco de España from INE microdata and are expressed as four-quarter moving averages to eliminate seasonal movements, which are extremely pronounced.

3 Thus the job creation rate in the current recovery would be similar to that of the pre-crisis years if, alternatively, it were calculated as the flow of new employment divided by the stock of employment in the previous year, given that this latter variable now stands at a level similar to that of 2006-2007 (see Chart 3).

4 Up to mid-2006, temporary-to-permanent conversions were moreover favoured by the widespread tax rebates they enjoyed, which were eliminated in the labour market reform approved in mid-2006. Subsequently some rebates for certain types of contracts remained in force, such as those for apprenticeships, although they made up a scant share of the total jobs created.

5 Agriculture, industry, construction, public services and private services.

Chart 1  
AVERAGE RATE OF JOB CREATION AND GDP



Chart 2  
AVERAGE RATE OF JOB DESTRUCTION AND GDP

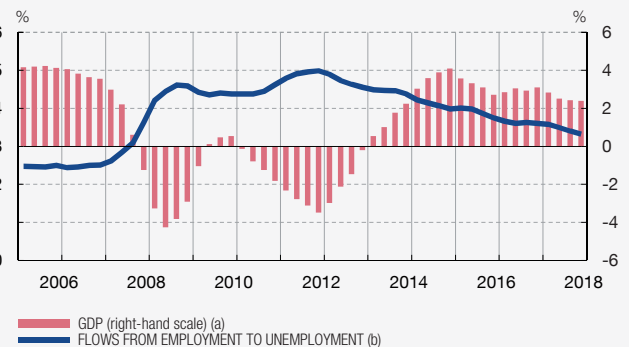


Chart 3  
JOB CREATION AND DESTRUCTION FLOWS AS % OF EMPLOYMENT AT T-1 (c)



Chart 4  
INFLOWS INTO TEMPORARY EMPLOYMENT FROM NON-EMPLOYMENT. AS % OF TOTAL INFLOWS INTO DEPENDENT EMPLOYMENT (d)

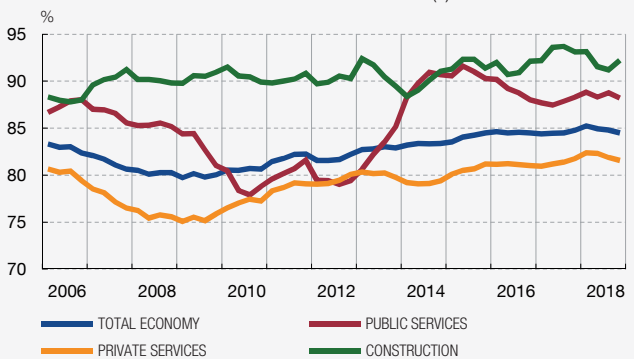
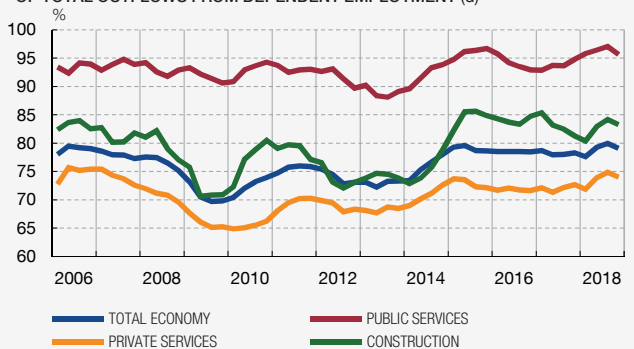


Chart 5  
CONVERSIONS FROM TEMPORARY TO PERMANENT EMPLOYMENT



Chart 6  
OUTFLOWS FROM TEMPORARY EMPLOYMENT TO UNEMPLOYMENT. AS % OF TOTAL OUTFLOWS FROM DEPENDENT EMPLOYMENT (d)



SOURCES: INE and Banco de España.

- a Year-on-year rate of change of the seasonally adjusted series.
- b As a percentage of population of origin. Four-quarter average.
- c Job creation or destruction flows (in persons) as a percentage of official employment at t - 1. Four-quarter average.
- d Flows (in persons) of total temporary workers or in an economic sector, as a percentage of the related flow of wage earners. Four-quarter average.