

EMPLOYMENT AND SECTORAL PRODUCTIVITY IN THE RECOVERY

Since the start of the economic recovery in the second half of 2013, job creation has been very strong. According to National Accounts figures, 2.4 million jobs have been created since 2014 Q1. This amounts to cumulative growth of 14.9%, above the growth rate observed in the similar period of the last upturn (see Charts 1 and 2). However, the level of employment at end-2018 was still 8% lower than the pre-crisis level.

From the sectoral standpoint, the rise in employment from the cyclical trough is quite similar to that observed in the cycle that began in 1993. Above average growth has been recorded in construction and in market services. By contrast, the recovery has been more moderate in industry (which has also seen a recent slowdown) and in non-market services. At a greater level of disaggregation, on Spanish Labour Force Survey figures, most notable in the current cycle is the increase in employment in accommodation and food service activities (31.5%) and in transport (21.4%). In turn, within industry, job creation has been particularly strong in some branches of manufacturing, such as textiles (49.5%), leather goods and footwear (48.8%) or waste collection, treatment and disposal (40.1%), above the increases observed in the construction sector (29.3%).

Comparing employment levels by sector with those observed pre-crisis gives a very uneven picture. At end-2018, employment had returned to the 2008 level in market services and was 11% above that level in non-market services. But it was still very far from the 2008 levels both in industry (77%) and construction (48%), and it was still 8% lower in agriculture. These changes reflect a heightening of the long-term tendency, shared with other advanced economies, for services sectors to gain weight as a proportion of the total. By contrast, the industrial sectors, and especially construction, have shrunk as a proportion of the Spanish economy in the 10-year period.

Over the course of the recovery, employment and economic activity have risen at a very similar pace. This has given rise, as it did in the previous upturn, to very low labour productivity growth. Specifically, since 2014 it has risen by just 0.2% in annual average terms, and in 2018 labour productivity even recorded zero growth. By sector, value added has performed quite similarly to employment, with above average growth in construction (27.5%) and market services (14.4%) and high growth (15.5%) in industry where productivity has improved. Indeed, the correlation, at a greater level of sectoral disaggregation,

between the level of productivity at the start of the recovery and the changes in the weight of employment in each branch of activity has been slightly positive (see Chart 3). In other words, employment growth, albeit very modest, has been somewhat stronger in the sectors that had higher productivity levels to start with.

Chart 4 decomposes productivity growth into the effects of the changes in sectoral weight (composition effects) and sector-level productivity (other). It was this latter factor that gave rise to the sharp increase in productivity during the crisis, associated with high job destruction. But this increase has not continued in the recovery phase, in keeping with the usual pattern in upturns in the Spanish economy.

By employment type, half of the employment created in the upturn, in net terms, was temporary employment, although this percentage is clearly heading down. Thus, while in 2014, at the start of the recovery, temporary employment accounted for 80% of the increase in employment, this figure has gradually declined since then, down to 31% in 2018 (see Chart 5). Although it is still high (and similar to the average observed in the 1995-99 recovery phase), it has allowed the ratio of temporary to total employment to stabilise in 2018, following the successive increases recorded in the previous four-year period. In addition, the changes observed were slightly more positive taking the private sector alone, where the share of permanent employment created, in net terms, rose from 55.4% of the total in the period 2014-18 overall to 80.5% in 2018. By contrast, all employment created, in net terms, in the public sector since 2014 has been temporary employment. In consequence, since 2013, the ratio of temporary to total employment has risen by 3.7 pp overall (3.1 pp in the private sector; 5.9 pp in the public sector), up to 26.8% in 2018 (see Chart 5). This is much higher than the European average, but below the average of 32.6% observed in the period 2002-07. This increase in temporary employment, associated with the low level of productivity of new hires, would also explain the low rate of productivity growth in each sector in the recent recovery phase (see Chart 4).

Lastly, a key characteristic of employment patterns during the crisis that began in 2008 was the marked relative increase in the number of part-time hires. This drove up the incidence of part-time employment by 4 pp to 15.8% in the period 2008 to 2013. By contrast, during the recovery that started in 2014, the vast majority of employment created (94.2%) has been full-time. In

Box 1.3

EMPLOYMENT AND SECTORAL PRODUCTIVITY IN THE RECOVERY (cont'd)

Chart 1
LEVEL OF EMPLOYMENT ON QNA DATA, BY LARGE SECTOR, SINCE THE START OF THE PRESENT RECOVERY (a)

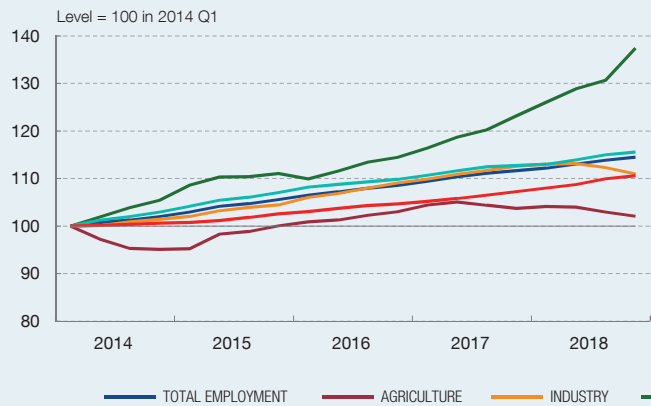


Chart 2
LEVEL OF EMPLOYMENT ON QNA DATA, BY LARGE SECTOR, SINCE THE START OF THE RECOVERY IN 1993 (a)

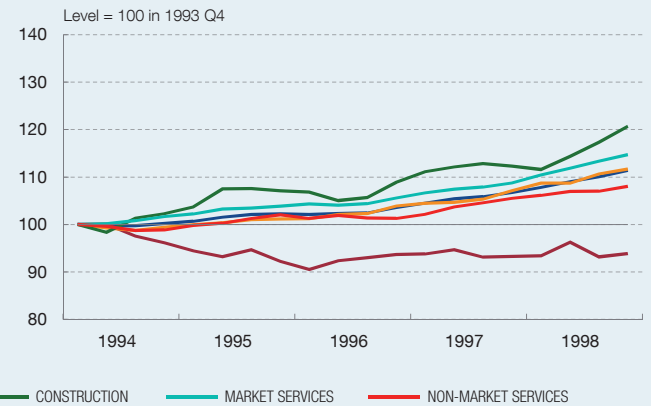


Chart 3
CHANGES IN SHARE OF EMPLOYMENT IN 2014-18, BY SECTOR, AND PRODUCTIVITY LEVEL (b)

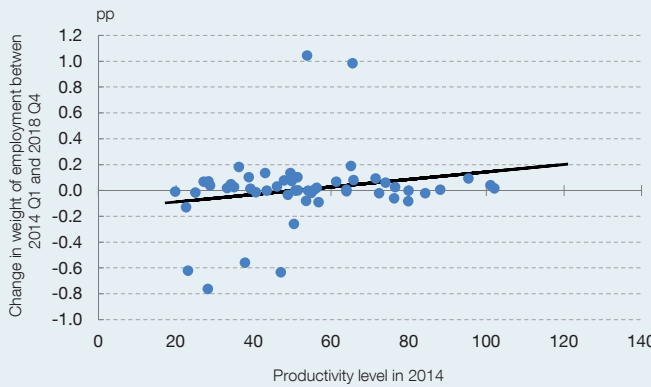


Chart 4
RATE OF CHANGE OF GVA APPARENT PRODUCTIVITY AND COMPOSITION EFFECT (a)

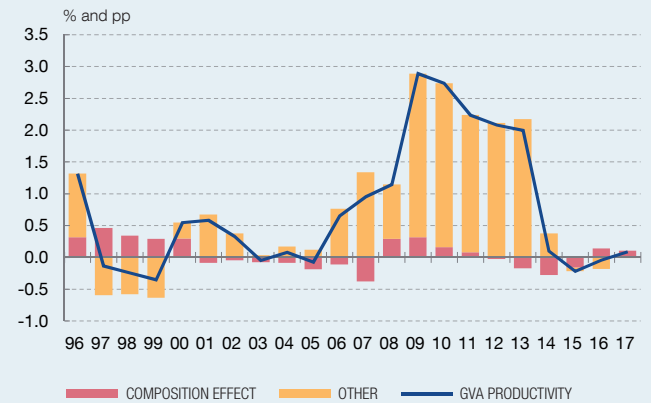


Chart 5
ANNUAL CHANGE IN TOTAL EMPLOYMENT ATTRIBUTABLE TO PERMANENT HIRES

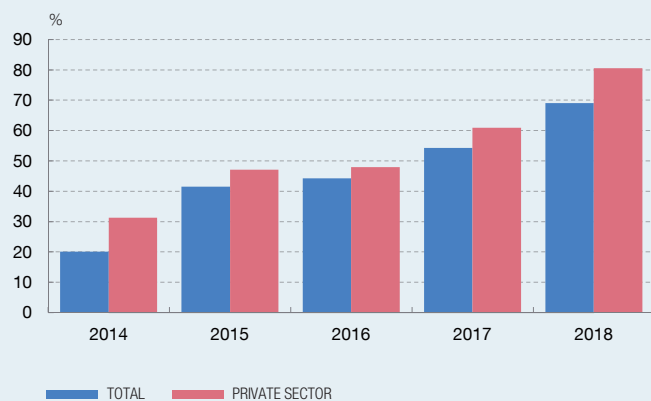
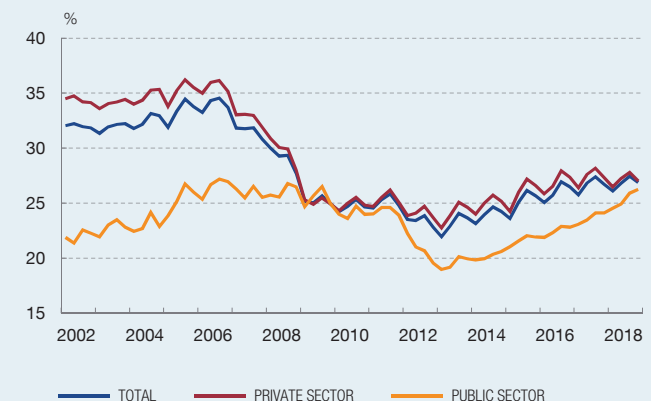


Chart 6
RATIO OF TEMPORARY TO TOTAL EMPLOYMENT



SOURCE: INE (Quarterly National Accounts (QNA) and Labour Force Survey (LFS)).

- a QNA data. Employment measured in full-time equivalent jobs.
- b Sectors according to 2-digit National Classification of Economic Activities (CNAE-2009). Change in share of employment according to LFS data. Eight sectors are excluded because of outliers.

EMPLOYMENT AND SECTORAL PRODUCTIVITY IN THE RECOVERY (cont'd)

consequence, the incidence of part-time employment has declined, down to 14.6% in 2018.

To conclude, strong employment growth has gone hand in hand with growth in activity at a sectoral level and this, as in previous upturns in the Spanish economy, has resulted in low labour productivity growth. The temporary

employment pattern is also similar to that observed in previous recoveries, although temporary employment is still below the highs reached pre-crisis and the most recent developments in the private sector reflect a decline in temporary employment contracts as a proportion of total contracts in 2018.