

## The strength of the Spanish labour market

The deluge of bad omens that is ravaging the difficult context we have been living through of late conceals a much more hopeful reality: the strength of the Spanish labour market. Its recent evolution continues to offer surprises, and in a good way. It is worth highlighting.

The first thing that stands out is the speed at which employment has recovered. When the pandemic broke out, employment collapsed (remember that between April and May 2020 around 3 million people stopped working, practically overnight), but since then it has enjoyed an almost uninterrupted recovery. By May this year, there were already around one million more people in work than prior to the arrival of COVID. Employment has continued to go from strength to strength and today the number of people registered with Social Security who are in work is the highest in history. This point alone should be enough to spark a minimally positive tone in any analysis of the current economic environment.

Of course, not all the news is quite so positive. The rise in prices, which has been particularly pronounced in the case of electricity and fuel but which is spreading to all categories of goods and services we consume, is eroding households' purchasing power. Wage earnings per employee increased by 2.4% year-on-year in April, according to CaixaBank Research's real-time indicator, while headline inflation climbed to 8.7% in May. However, it should be noted that total wage income, which takes into account both earnings per employee and growth in the total number of employees, is growing more rapidly due to the high rate of job creation. In Q1, this aggregate figure increased by 7.2% year-on-year. Between this year and next, over 800,000 jobs could be created, while the unemployment rate could approach 12% – still high, but the lowest level since 2008. Inflation, in contrast, is expected to moderate significantly next year, bringing it close to 2%.

Maintaining strong employment figures is particularly important, as it increases the wage incomes of those in a more vulnerable situation. The best reflection of this trend is the rapid decline in inequality we are witnessing. According to CaixaBank Research's real-time Inequality Tracker ([www.inequality-tracker.caixabankresearch.com](http://www.inequality-tracker.caixabankresearch.com)), inequality measured using wage incomes has already fallen to pre-crisis levels. Even the groups that have suffered the most during the pandemic, such as young people, those born outside Spain and women, are now showing very similar levels of inequality to those prior to the pandemic and in some cases even lower.

The recovery of the labour market is also having a significant social impact, as it is occurring throughout the country and across all sectors, and also because the employment being created is of a higher quality. Let us look at these trends one by one. This has not been a crisis in which large groups of the population have been left behind. Today, all of Spain's autonomous community regions now have higher levels of employment than prior to the outbreak of the pandemic. All sectors have also already exceeded the pre-pandemic levels. Moreover, employment in some sectors is now well above the levels of two years ago, meaning they have gained prominence. These include sectors such as professional, scientific and technical activities, and the information and communications sectors. But beyond specific cases, we can state that over the past two years, those in which the average wage is higher have gained relative weight. Finally, it is worth highlighting the strength of recruitment on permanent contracts, which has led to the rate of temporary employment falling by 5 pps this year, bringing it down to 22%, although it is true that much of this reduction is due to the replacement of temporary contracts with discontinuous permanent contracts.

In the current context, the strength of the Spanish labour market may come as a surprise. Indeed, it is not all good news. The unemployment rate remains unacceptably high. The rate of temporary employment, despite the recent dynamics, is still above European standards, and there are certain population groups which continue to endure more precarious employment situations than others. The list of things to improve is much longer, but when a ray of light appears in the midst of a deluge of bad omens, it is important to highlight it.

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June 2022