

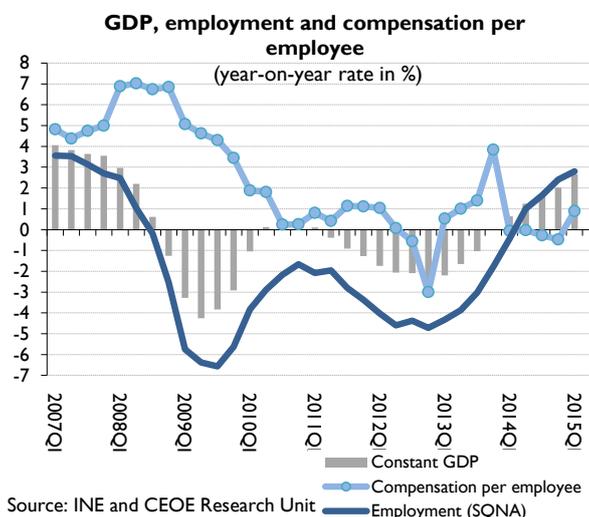
LABOR COSTS AND EMPLOYMENT IN 2008-2014: A SECTORAL PERSPECTIVE

- **Wages took long to react** before the economic crisis, resulting in the **adjustment of the labor market being manifested through a sharp decline in employment.**
- **The 2nd 2012-2014 Agreement on Employment and Collective Bargaining (AENC) has set the ground** for the eventual entry of the job market in a **process of wage moderation.**
- Although the crisis has affected all sectors of the Spanish economy, it is also true that this has taken place in an uneven manner.
- **In sectors where employment had increased during the crisis period between 2008-2011, both labor costs and ordinary salary costs showed, on average, more moderate paces of growth** than in sectors affected by job losses.
- **Sectors where ordinary salary costs dropped or increased moderately in 2008-2011** have, on average, recorded a **less intense drop in employment** than in sectors with sharper increases in ordinary salary costs.
- **Branches where employment had recovered in 2014** have recorded, on average, a **more moderate salary increase** in the period **2012-2014.**
- **Sectors with drops in ordinary salary costs or increases below 1% on an annual average in 2012-2014** have, on average, recorded **job creation in 2014.**
- **Had the Spanish economy faced the crisis with more flexibility with respect to wages, job losses would have likely been less intense than that which was recorded.**
- **The 3rd AENC sets a number of recommendations with respect to wages and indicates "negotiators must take into account the specific circumstances of their respective scopes" (sector, businesses) "in order to set salary conditions".**

The effects of the economic crisis on the job market

Between 2008 and 2013 the Spanish economy had gone through a deep crisis that had significant consequences on the job market. Wages took long to react to the growing weakness in the economic activity, showing significant increases in the first years of the recession, meaning the adjustments in the Spanish job market had manifested in the form of severe job losses that resulted in soaring unemployment levels. In fact, between 2007 and 2013, almost 3.5 million people lost their jobs and the unemployment rate rose from 8% to 26% in said period. Meanwhile, salary increases that had been agreed to in collective bargaining agreements reached 4.2% and 3.6% in 2007 and 2008 respectively, with an average of 2.9% in the period 2007-2011.

In 2012, the 2nd 2012-2014 Agreement on Employment and Collective Bargaining (AENC) had set the ground for the eventual entry of the job market into a process of wage



BRANCHES OF ACTIVITY USED IN SECTORAL ANALYSIS OF EMPLOYMENT AND LABOR COSTS 2008-2014

C Manufacturing industry

- 10 Food industry
- 11 Beverages industry
- 12 Tobacco industry
- 13 Textile industry
- 14 Clothing industry
- 15 Leather and shoe industry
- 16 Manufacture of wood and of products of wood and cork, except furniture, basketry and wickerwork
- 17 Paper industry
- 18 Graphical arts and reproduction of recorded media
- 19 Manufacture of coke and refined petroleum products
- 20 Chemical industry
- 21 Manufacture of pharmaceutical products
- 22 Manufacture of rubber and plastic products
- 23 Manufacture of other non-metallic mineral products
- 24 Metallurgy; manufacture of iron, steel and iron-alloy products
- 25 Manufacture of metallic products, except machinery and equipment
- 26 Manufacture of software and hardware, electronic and optical products
- 27 Manufacture of electrical equipment and materials
- 28 Manufacture of other machinery and equipment
- 29 Manufacture of motor vehicles, trailers and semi-trailers
- 30 Manufacture of other transportation material
- 31 Manufacture of furniture
- 32 Other manufacturing industries
- 33 Repair and installation of machinery and equipment

D Supply of electrical energy, gas, steam and air conditioning

E Supply of water, sanitation, waste management and remediation activities

F Construction

G Wholesale and retail; motor vehicle and motorcycle repair

H Transportation and storage

I Accommodation and food service activities

J Information and communications

K Finance and insurance

L Real Estate

M Professional, scientific and technical activities

N Administrative activities and ancillary services

R Artistic, recreational and leisure activities

S Other services

moderation that had contributed to a recovery in 2014 of the economic activity and the creation of jobs, with the backdrop of relatively moderate rates of economic growth. In fact, the Spanish economy had once again created jobs in the second quarter of 2014, with the GDP growing at a rate of 1.2%, whereas in previous crisis a 2% growth in economic activity was required to observe an increase in the number of employed people. Meanwhile, the effects of the 2nd AENC had led to a more moderate rate of growth of increasing wages of 0.5% and 0.6% in 2013 and 2014 respectively, with an annual average of 0.8% in the period 2012-2014.

Employment and labor costs analysis by sector

In this context, the following question may be raised: had the adjustment in wages began sooner, would there have been such significant levels of job losses in Spain? In this sense, it must be taken into account that although the crisis had affected all sectors of the Spanish economy, it is also true that this did not occur in an even manner, both in terms of economic activity and employment.

CEOE's Economic Research Unit have conducted a sector-based exercise to analyze whether those sectors that had experienced higher wage moderation since 2008 are the same sectors that have cut fewer jobs. Furthermore, it has also been analyzed whether the sectors with better evolution of employment figures had also recorded less growth of labor costs.

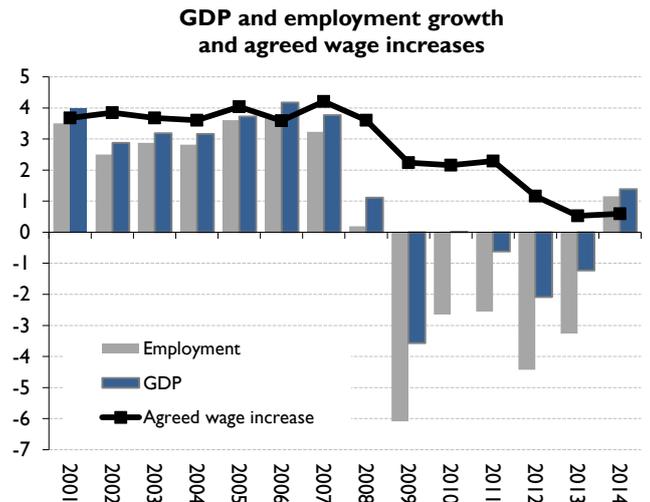
To this end, the study has used employment data from the Labor Force Survey and labor costs and the ordinary salary cost (this last concept excludes non-salary costs such as Social Security contributions and is more linked to agreed-to salary increases in the collective bargaining agreement) of the Quarterly Labor Costs Survey. Disaggregation by branches of activity was used according to the CNAE-2009 sections corresponding to manufacturing and services, with the exception of the branches from the Public Administration, Education and Healthcare. In the case of manufacturing, which by itself constitutes a section, we have opted to use divisions in order to have more sector disaggregation.

The evolution of employment and labor costs were analyzed for the period between 2008-2014. In addition, this period has been split into two phases: 2008-2011, prior to the coming into effect of the 2nd AENC and the period 2012-2014, which coincides with the 2nd AENC.

Sector-based analysis in the period 2008-2011

Starting with the period 2008-2011, a first exercise entailed dividing the branches of activity into two groups: sectors that have experienced growth in employment in the period being analyzed and sectors that have recorded job losses. In both cases, the arithmetic mean of the annual average variation rate of employment was calculated as well as of the labor costs and the ordinary salary costs. Table 1 shows the results there were obtained. In those sectors where employment had increased in the crisis period 2008-2011, both labor costs and ordinary salary costs showed, on average, rates of growth that were more moderate than those in sectors experiencing job losses.

In a second exercise, the branches of activity were split into two groups for the same period 2008-2011: sectors that had



Source: INE, MINECO and CEOE Research Unit

Note: the agreed wage increase includes the impact of safeguard clauses

Tabla 1

AVERAGE ANNUAL VARIATION RATE IN % (2008-2011)
Employment and labor costs by branch of activity

	Sectors with employment growth	Sectors with job losses
Arithmetic mean		
Employment	1.4	-6.5
Labor costs	0.9	1.9
Ordinary salary costs	1.1	1.6

Source: INE and CEOE Research Unit

Tabla 2

AVERAGE ANNUAL VARIATION RATE IN % (2008-2011)
Employment and labor costs by branch of activity

	Sectors with drops in ordinary salary costs or increases of a maximum of 1%	Sectors with an increase of ordinary salary costs above 1%
Arithmetic mean		
Employment	-2.0	-7.0
Labor costs	0.5	2.4
Ordinary salary costs	0.2	2.2

Source: INE and CEOE Research Unit

recorded a drop in the ordinary salary costs or a maximum increase of 1% on an annual average and sectors with an increase in ordinary salary costs greater than 1% also on annual average. As with the previous case, the arithmetic mean of the average annual variation rate of employment was calculated, as was for labor costs and ordinary salary costs for both groups. As can be seen in Table 2, those sectors where the ordinary salary costs had decreased or increased moderately recorded, on average, a drop in employment that was less intense than in those sectors with sharper increases in ordinary salary costs.

Sector analysis in the period 2012-2014

Next, the following two exercises were conducted for the most recent period, taking the years 2012-2014 for the labor costs and the ordinary salary costs, or in other words, the effective period of the 2nd AENC and, 2014 for the employment, as this was the year that had marked the beginning of the recovery of the Spanish job market (which was characterized by job creation at the aggregate level and a drop in unemployment). Here, it can be observed how those branches of activity where employment had recovered in 2014 are those that have recorded, on average, a more moderate salary increase in the period 2012-2014. Additionally, sectors with declining ordinary salary costs or increases below 1% on an annual average are the ones that have, on average, created jobs in 2014.

Sector analysis in the period 2008-2014

Lastly, two exercises were conducted for the full period 2008-2014. In this case, we can see that those branches of activity where employment had evolved more favorably in the last seven years, with job creation or slight drops in employment (lower than 1% on an annual average) are those branches that had also recorded a less pronounced increase of labor costs and ordinary salary costs.

Furthermore, sectors with drops in ordinary salary costs or increases below 1% on an annual average have recorded, on average, lower drops in employment than sectors with more intense increases of ordinary salary costs.

Therefore, according to the sector-based analysis conducted, it can be concluded that a relationship exists between the evolution of labor costs and employment. As a result and during the crisis the Spanish economy has gone through, job losses were fewer in those sectors that experienced wage moderation, with sectors where jobs were actually created despite the unfavorable economic setting.

From this, it can be deduced that, had the Spanish economy faced the crisis with greater flexibility with respect to wages, job losses would have likely been less intense than what was actually recorded.

In line with the above, the 3rd AENC has set a number of recommendations in matters pertaining to wages and expressly indicates "negotiators must take into account the specific circumstances of their respective scopes" (sector, businesses) "in order to set salary conditions".

Tabla 3

AVERAGE ANNUAL VARIATION RATE IN % Employment (2014) and labor costs (2012-2014) by branch of activity		
	Sectors with employment growth	Sectors with job losses
Arithmetic mean		
Employment	8.1	-5.1
Labor costs	0.6	1.2
Ordinary salary costs	0.7	1.2

Source: INE and CEOE Research Unit

Tabla 4

AVERAGE ANNUAL VARIATION RATE IN % Employment (2014) and labor costs (2012-2014) by branch of activity		
	Sectors with drops in ordinary salary costs or increases of a maximum of 1%	Sectors with an increase of ordinary salary costs above 1%
Arithmetic mean		
Employment	0.9	0.0
Labor costs	0.2	2.2
Ordinary salary costs	0.3	2.0

Source: INE and CEOE Research Unit

Tabla 5

AVERAGE ANNUAL VARIATION RATE IN % (2008-2014) Employment and labor costs by branch of activity		
	Sectors with employment growth or drops below 1% annually	Sectors with drops in employment beyond 1% annually
Arithmetic mean		
Employment	0.4	-5.7
Labor costs	0.9	1.5
Ordinary salary costs	0.8	1.4

Source: INE and CEOE Research Unit

Tabla 6

AVERAGE ANNUAL VARIATION RATE IN % (2008-2014) Employment and labor costs by branch of activity		
	Sectors with drops in ordinary salary costs or increases of a maximum of 1%	Sectors with an increase of ordinary salary costs above 1%
Arithmetic mean		
Employment	-3.4	-4.7
Labor costs	0.7	1.8
Ordinary salary costs	0.5	1.8

Source: INE and CEOE Research Unit