FOCUS · Weighing up the labour market

The pace of job creation was very strong in 2016 Q2. According to Spain's Labour Force Survey (LFS), the number of employees increased by 271,000, a very positive figure but somewhat lower than expected after the number of registered workers affiliated to Social Security had risen more than expected between April and June, namely by 436,000. The notable difference between these two figures is not a temporary phenomenon of 2016 Q2. In fact, since employment started to recover in 2014 Q1, the trend for workers registered with Social Security has been more favourable than that for LFS employees. Specifically, between January 2014 and June 2016 the cumulative growth in affiliated employment was 9.8%, almost 2 pps higher than the growth in LFS employment (8.0%) (see the first graph).

Such differences between both series are customary as, for instance, the two data sets have very different sources: the LFS is based on a survey using a representative sample of the population while the data on affiliated workers come from an administrative register that records the workers registered with Social Security. Another difference between both sources is how the shadow economy is handled. In other words, some people are in employment but not affiliated to Social Security so that, when they are surveyed by the LFS, they are considered to be in employment. This reason for the discrepancy between the two series could become even more relevant during a phase of economic expansion when shadow economy jobs tend to shift towards the formal economy. As workers are given an employment contract, they would be entered in the Social Security registers while, for LFS purposes, they would already be counted as employed.

To analyse whether this factor might be playing an important role in the current recovery of Spain's labour market, we have analysed the employment trend by sector of activity between 2014 Q1 and 2016 Q2 according to the estimated share of the shadow economy in each of these sectors.[1] As can be seen in the second graph, employment has grown in those sectors with a larger share of the shadow economy (this relationship can be seen in both employment series). It is also notable that the difference between the growth in affiliated workers and in LFS employees is larger in those sectors with a larger share of the shadow economy (such as retail). In these sectors affiliated workers grew by 9.8% on average while LFS employment rose by 8.9%, a difference of 1.0 pps. However, in those sectors with a smaller share of the shadow economy (for example finance and insurance), affiliated workers actually grew on average by less than LFS employees (5.9% and 6.3%, respectively). These results would be in line with the idea that the larger growth in affiliated workers is associated with an increase in formal employment. This trend can be seen at the aggregate level but there are some exceptions. For example, construction has a large share of the shadow economy (31%) but its growth in LFS employees was larger than in affiliated workers (14.3% and 11.3%, respectively).

In summary, the most recent data regarding job creation show that the labour market is recovering at a good rate. Moreover, the analysis presented in this Focus suggests this recovery may be accompanied by an increase in formal employment.

1. The estimated share of the shadow economy by sector at a European level is obtained from Schneider, F., 2013, «The Shadow Economy in Europe 2013», A. T. Kearney and Visa.

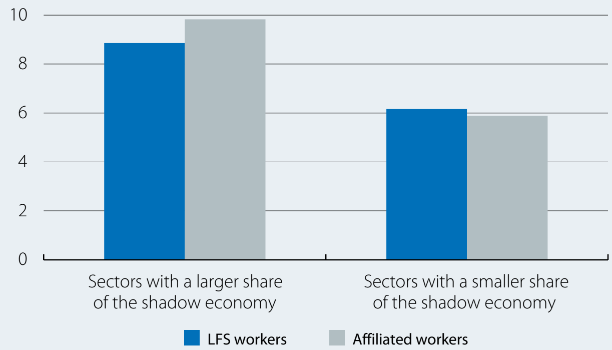
Employment according to the LFS and workers registered with Social Security

Index (100 = January 2014)

Source: *CaixaBank Research, based on data from the LFS and the Ministry of Employment*

Growth in employment by the relative share of the shadow economy

Cumulative change between 2014 Q1 and 2016 Q2 (%)



Note: *Only those sectors of activity are included for which shadow economy data are available according to Schneider (2013).*
Source: *CaixaBank Research, based on data from the LFS, Ministry of Employment and Social Security and Schneider (2013).*