The 2016 edition of the OECD Employment Outlook provides an international assessment of recent labour market trends and short-term prospects, with a focus on vulnerable youth. It also contains chapters on: skills use at work; the short-term effects of structural reforms; and gender labour market gaps in emerging economies.

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Labour market developments in Spain

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<th>A. Employment rate</th>
<th>B. Unemployment rate</th>
<th>C. Incidence of long-term unemployment</th>
<th>D. Real wages</th>
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<tr>
<td>Percentage of the population aged 15-74</td>
<td>Percentage of total labour force</td>
<td>Percentage of total unemployment</td>
<td>Real hourly wage, index 2007 Q4=100</td>
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Note: OECD weighted average.


RECENT LABOUR MARKET TRENDS AND PROSPECTS

Labour market conditions continue to improve and the OECD average employment rate is projected to return to its pre-crisis level in 2017, nearly ten years after the global financial crisis erupted. The recovery remains very uneven across both countries and different groups within the workforce. Real wage growth has also been relatively slow since 2007 raising concerns about a prolonged period of wage stagnation.

- The labour market situation in Spain has continuously improved over the past two years. GDP growth picked up in 2014 to strengthen in 2015 (2.3%), which resulted in significant job creation. Total employment (as a percentage of the population aged 15-74) has increased by around 3 percentage points in Spain since its trough in 2013 Q3 to reach 51.3% in 2015 Q4, although still well below its pre-crisis level and the OECD average of 60.2%.
- The unemployment rate in Spain is projected to continue its decline through to the end of 2017 to just under 18%.
- Just over half of the unemployed in Spain in 2015 Q4 had been out of work for more than a year, well above the OECD average of 34%. Spain will need to continue to focus on effective activation programmes (e.g. job search support, training programmes and other measures) for this vulnerable group to reduce the risk of a structural rise in unemployment above its pre-crisis level.

STRUCTURAL REFORMS CAN DELIVER GOOD OUTCOMES ALSO IN THE SHORT-RUN, IF PROPERLY DESIGNED

Structural reforms can enhance growth and reduce labour market segmentation. However, concerns have been expressed that these reforms can have negative employment effects as firms adjust to the new conditions. The 2016 Employment Outlook finds evidence that this may indeed be the case, but also shows how these losses can be minimised or even avoided. In general, structural reforms implemented in highly segmented labour markets do not result in short-term job loss. Similarly, reforms can be combined and implemented in ways that
significantly improve short-term outcomes. The 2012 labour reform in Spain provides support to these findings from the international experience.

- The Spanish reform has helped to tackle deeply entrenched labour market segmentation by strengthening the incentives for employers to hire on open-ended contracts. OECD analysis suggests that the reform increased by 45% the share of open-ended contracts in new hires.
- Although temporary employment still accounted for 25% of all employment in Spain in 2015, this remains well below its pre-crisis share of almost 32%.
- By combining a reduction of dismissal costs with decentralisation of the collective bargaining system, making it easier for firms to opt-out of branch-level agreements if facing difficulties, the 2012 reform resulted in no short-term negative effects on employment, despite being enforced at the trough of the crisis.
- However, temporary contracts still account for a large majority of new hires and additional reform to reduce the gap in termination costs between open-ended and fixed-term contracts may be required to reduce segmentation even further.

Incidence of temporary employment, 2007 and 2015

<table>
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<th>Persons aged 15-64, %</th>
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<tr>
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<td>2015</td>
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<td>Spain</td>
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<td>OECD</td>
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At 12.9%, the share of young people in Spain who are low-skilled NEETs is one of the highest among OECD countries, and remains 3.4 percentage points above its pre-crisis level. While part of this increase reflects the high cyclical level of youth unemployment, a majority of low-skilled NEETs are inactive rather than unemployed (i.e. they are not actively searching for a job).

- Low-skilled young people are more likely to be NEET than their better educated counterparts. The low-skilled share of all NEETs exceeds 50% in Mexico, Spain and Turkey. The share of young NEETs actively searching for a job in 2015 was also lower for those who did not complete high school (24%) than for the more educated (37%).
- Slightly more than one-third of young NEETs live in a jobless household (i.e. a household that does not contain an employed adult). This share rises to 44% for low-skilled NEETs, suggesting that many in this group risk facing both poverty and limited labour market opportunities.

VULNERABLE YOUTH ARE OF PARTICULAR CONCERN

Young people who are neither employed nor in education or training (“NEETs”) risk being left permanently behind in the labour market. This risk is especially high for the relatively large share of low-skilled NEETs (i.e. those who have not finished upper secondary schooling). Many in this group live in households without any employed adults, suggesting that they are also at risk of poverty. Effective policies are needed to reconnect members of this group with the labour market and improve their career prospects.

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