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Economic Comment

Labour market: deactivation

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Registered unemployment rate increased in April to 5.8% from 5.4% in March. The increase in the total number of unemployed results mainly from weaker outflows from unemployment, while at the same time the number of newly registered unemployed was lower than a year ago. Moreover, the data suggest that many workers in the retirement age have decided to leave the labour market. The detailed data about corporate sector employment showed that declines were broad-based. We estimate that a maximum of 1/3 of the decline was due to redundancies and employment contracts that were not extended, while the other 2/3 of the decline resulted from working time reductions, sick leaves and so on. LFS data suggest that in the last two weeks of March, as much as every fifth of the employed workers have not actually worked. The main reasons being the closure of the workplaces (1/3) and childcare (1/4).

Industrial orders in April fell 30% y/y, while the foreign ones by 35.1% y/y. The negative dynamics of the total industrial orders is similar to the one recorded during the global financial crisis in 2009, while the foreign orders dynamics is even worse.

Unemployment going up

The registered unemployment rate jumped in April to 5.8% from 5.4% in March. The increase in the jobseekers count amounted to 56.4k as compared to a decline by 46.4k one year ago. The number of new claims amounted to 99.9k and was lower than one year earlier (112.0k). We think that this was due to the fact that some jobseekers were unable to register given that labour offices were shut, some could have postponed their registration in order to get an elevated benefit (which is to be elevated due to Covid-19 according to a government announcement, but this has not been enacted yet).

The rise in total jobseekers count was thus primarily due to weaker outflows from unemployment – in April only 43.6k people were removed from unemployment rolls, and among them 28.0k thanks to taking up a job. Compare these with 159.4k and 76.5 one year earlier, respectively. The number of job offers also plunged, to 58.2k from 118.8 in April 2019.

Elder workers quit the labour market

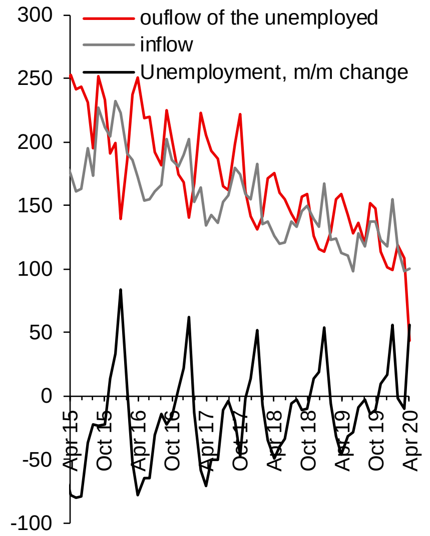
The number of non-farm pensioners amounted to 8.29mn in April and was by 76k higher than in February. In previous years, the increase in February-April period was equal to -5k in 2017, +17k in 2018 and +10k in 2019. It seems that the coronavirus epidemic encouraged many retirement-age workers to quit the labour market and switch to benefits. This will be negative for the economic potential, given that older workers are often experienced and have unique expertise.

At most 1/3 of employment reductions are layoffs

Detailed data on employment in the corporate sector showed that reductions were a broad-based phenomenon and at the same time were – not surprisingly – correlated with output loss. The most considerable reductions were seen in restaurants and accommodation (-13% m/m), manufacture of leather products (-5.5% m/m), manufacture of furniture (-5.5%), manufacture of cars (-4.3%) and textiles (-4.3%). Some sectors recorded only a minimal or even no reduction, like construction, water supply and refuse collection.

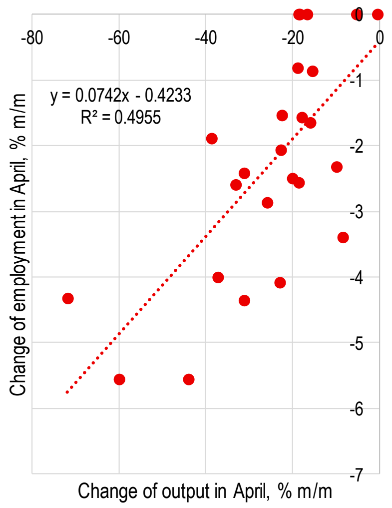
The number of workers in corporate sector fell by 0.7% m/m (or by 48k vs 153k drop in employment). Comparing this with the change of employment (that is measured in full time payrolls and deducts working time reductions being a result of child care leave, for example) gives evidence which sectors have been actually laying off (or did not extend temporary work contracts or did encourage employees to retire) and which have only reduced the working time. Comparison of these two numbers suggests that c1/3 of drop in employment was a result of layoffs/not extending contracts but we do not know what was the form of employment of those who were made redundant so

Unemployment, monthly flows, thous. persons



Source: GUS, Santander

Employment change vs output change by industry and services sectors



Source: GUS, Santander

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this ratio could be overestimated and should be treated as maximum estimate. It also seems that the main sectors that decided to lay people off were administrative and supportive services (-2.9% m/m), hotels and gastronomy (-2.5% m/m), manufacturing of furniture (-1.8% m/m), car sales (-1.7% m/m), manufacturing of clothes (-1.6% m/m). On the other hand, such sectors like textiles manufacturing or leather products production kept work places despite reducing the working time significantly.

LFS data for the second half of March showed that as much as 19.0% of workers have not actually worked (this gauge was equal to 5-6% in the previous quarters), mostly due to closure of workplace (6.6% of total) and childcare (4.6% of total). 14.2% of total workers were working remotely (as compared to 4-5% in the previous quarters).

Reductions in wages were similar as in the case of employment

The situation in wages looks similar to the situation in employment – the biggest reductions (we compare y/y growth rate in April vs y/y growth rate in February) occurred in car manufacturing (-19.6pp), leather products manufacturing (-17.8pp), accommodation and gastronomy (-16.2pp), textile industry (-14.7pp) and furniture manufacturing (-13.5pp).

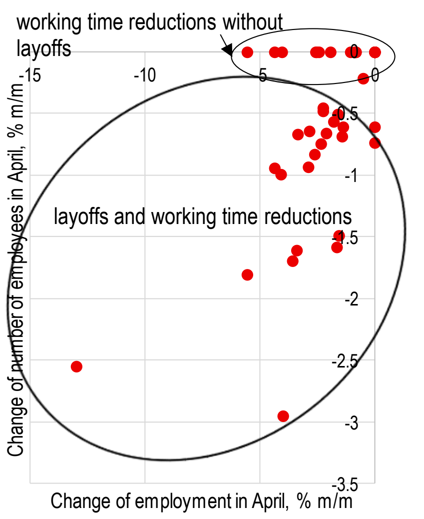
Large decrease of new orders in industry

New orders in industry fell in April by 30% y/y (previously -6.4%), with foreign orders down by 35.1% y/y (previously -10.8%). The result for total new orders is close to the low recorded during the global financial crisis in 2009 while the decline of foreign orders even exceeded the low from that period. GUS business sentiment survey suggests that in May there was a marginal improvement in the inflow of new orders: in April survey the declared decline of orders among industrial firms was 27.6% y/y while in May it was 24.4%.

Consumer inflation expectations remained high

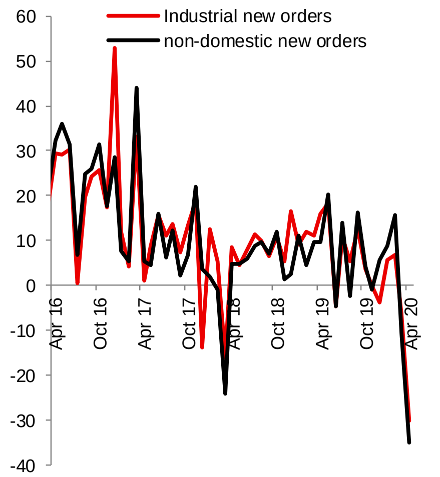
GUS consumer inflation expectations measure dropped in May after a large rise previously, but is still much above the levels seen earlier this year and in an area where it stood in 2008 when CPI growth was 4-5% y/y.

Reductions in employment and in number of employees, % m/m



Source: GUS, Santander

Value of new orders in industry, %y/y



Source: GUS, Santander

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