Spain's labor market is growing more dynamic

Spain's labor market is gaining in dynamism as staff flexibility increases, according to the first labor dynamism index (LDI) compiled by IESE and Meta4.

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Unemployment and employment rates are only so helpful for making staffing decisions. Executives looking to understand the labor market's internal workings may seek a more comprehensive view.

To better understand Spain's labor market trends, Meta4 and IESE have developed the first labor dynamism index (LDI). Carried out by IESE's **Marta Elvira** and Stefano Visintin, the LDI is to be updated every six months with monthly and quarterly data from almost 800 privately held companies in Spain, operating in 21 different sectors.

The LDI tracks mobility and flexibility within the labor market. It registers when a company makes a change in a job contract or replaces a worker with another worker. Importantly, it picks up on job movements that do not directly depend upon the state of the economy — i.e., outright job creation or elimination. The first LDI report indicates that labor dynamism is growing in Spain.

The overview

In the period studied — from January 2010 through June 2014 — the turnover rate for Spanish jobs was 20 percent from quarter to quarter. Of that 20 percent, less than a third of the movement (30 percent) was due to the outright creation or elimination of jobs. The rest — that is to say, 14 percent of total jobs or 70 percent of the job changes —corresponds to labor dynamism. In short, the LDI for the period studied is 14 percent.

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The trend toward greater dynamism

Spain's LDI moved from 12.5 percent in mid-2010 to 16.4 percent in mid-2014. Despite overall stagnation in the economy, the level of labor force dynamism has clearly risen.

Increasing staff rotation may occur for the sake of corporate efficiency, for demographic reasons (i.e., replacing retired staff members), and/or to redeploy staff in growth areas (i.e., cutting the marketing department in order to add to headcount in R&D). Employees may leave their jobs voluntarily to pursue new opportunities or take care of family members, leaving those jobs open to new hires.

From 2010 to 2014, two clearly distinct periods emerge. First, between 2010 and 2012, labor market dynamism was stable. Then, over the course of 2013, it posted a significant rise. From the first quarter of 2012 to the second quarter of 2014, a gain of more than four percentage points was recorded.

A rise in the LDI during economic expansion indicates dynamism in which employees may find opportunities to move into better positions. On the other hand, a rise in the LDI during times of economic stagnation may signal that companies are seeking greater flexibility in staffing — using fixed-term work contracts, for example.

In the case of Spain, as the economy continues to stagnate, the results may indicate that corporate efficiency is increasing. However, Spain's elevated LDI also points to lower retention rates for fixed-term hires and less training for these short-term workers.

Reasons to leave

Homing in on the reasons employees left positions, the study found that the number of voluntary resignations fell from 10 percent to 7 percent. This indicates uncertainty about the job market.

At the same time, the number of involuntary departures stemming from contract expirations rose from 2010 to 2014. In particularly, the number of short-term contracts lasting less than a month grew in importance since 2012. In 2013 and 2014, up to two-thirds of all job departures have been caused by contract expirations.

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