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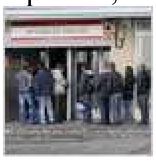
After Downgrade, Spain Hit by Unemployment Report

April 30, 2010, *7:18 am*



Spanish unemployment has risen above 20 percent, the country's statistics agency said Friday, a number not seen since 1997. The announcement came just days after Spain had its debt downgraded by Standard and Poor's amid Europe's wider credit crisis.

Spanish unemployment has more than doubled since January 2008, rising 11.45 percentage points as the country traverses its worst economic crisis in decades and giving it the unenviable position of one of the highest jobless rate among developed nations. In Europe, Spain is second only to Latvia.

"Most of the 20 percent is structural," said Santiago Carbó, an economics professor at the University of Granada. "It's here to stay."

Like the recession in the United States, Spain's troubles have hit men much harder than women, with eight out of 10 lost jobs being held by males, almost the same ratio as what Americans saw last year.

Mirroring the United States economy, Spain's troubles have centered on the construction sector, known there as "el ladrillo," or the brick — an industry that has employed many more men than women, and that does not seem likely to recover soon.

With the fourth-largest economy in the eurozone, Spain has watched with discomfort as other countries on the southern edge of the currency union — namely Greece and Portugal — have seen market confidence slip over their ability to repay debt and was dismayed to see its own credit rating grouped with that of smaller, poorer nations.

"The downgrade discounted these figures," Mr. Carbó said, referring to the unemployment report, which had been leaked in the Spanish press. But the economist, who is associated with the

University of Chicago, warned that Spain had its work cut out.

"We need serious job market reform," he said, citing the need for more flexible contracts; a move away from collective bargaining for wages (which can reduce individual incentives to lift productivity); and a government program to share the cost of layoffs, the brunt of which companies now bear.

The repercussions of the debt downgrades have been widespread, as the countries already short of funds are faced with higher costs to borrow, while institutions holding their deteriorating debt watch their own balance sheets decline.

Caja Madrid, a Spanish bank, announced Thursday a 79 percent decrease in quarterly profit, partially due to shifts in sovereign bond markets.

German banks and other investors hold about $28 billion euros in Greek debt, downgraded to junk this week by S&P.

And Greek banks themselves hold so much of their own nation's debt that bankers told the Handelsblatt they were not sure if major Greek lenders would last until Europe passes its rescue package, which is thought to be imminent.

The move by the ratings agencies has prompted all three nations to accelerate their efforts to clean house and put their budgets in order. Madrid is pushing to resolve negotiations with unions over labor laws within weeks; Portugal is implementing its austerity program sooner than it had planned, and Greece is said to intend a parliamentary vote on its austerity plan for Monday.

–Chris V. Nicholson

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