

Grim milestone is set in Spain as jobless rate exceeds 20%

By JONATHAN HOUSE

MADRID—Spain's unemployment rate breached 20% in the first quarter as the country's ailing economy, reeling from the collapse of a decade-long construction boom, continued to shed jobs, Spain's National Statistics Institute said.

The INE said first-quarter unemployment rose to 20.05% from 18.83% in last year's fourth quarter, confirming leaked data published by a Spanish newspaper last week.

Spain's first-quarter unemployment rate is the highest in the developed world. It is Spain's highest since 1997 and it surpasses government predictions, which had forecast a 19% unemployment rate at the end of this year.

Since the onset of the global financial crisis in 2007 precipitated the collapse of its credit-driven economic-growth model, Spain's economy has been shedding jobs as rapidly as it created them in the previous boom years. Euro membership in 1999 ushered in an era of historically cheap credit for Spain and spawned a massive building boom.

The INE said 4.6 million people were unemployed in Spain in the first quarter, while 1.3 million households had no working members. The agency said nearly 700,000 jobs had been lost over the past year.

Raj Badiani, economist at IHS Global Insight, said he expects the economy to keep shedding jobs throughout this year as housing investment remains depressed and industrial and service companies attempt to contain costs "in the

context of still-squeezed margins [and] the prospect of a labored recovery in domestic demand."

The Spanish economy has contracted for six consecutive quarters. The first-quarter unemployment report adds pressure to a government reeling from a debt-rating downgrade last week from Standard & Poor's and a sharp rise in financing costs for euro-zone sovereign debt from countries with large budget deficits and low growth prospects.

The government has promised an overhaul of labor rules that would reduce Spain's costs for hiring and firing, one of the key factors behind the country's historically high unemployment rate, economists say. Spain has also been an outspoken advocate of a quick agreement on a support package for Greece, which it hopes will contain the euro-zone debt crisis.

Across the euro zone, the unemployment rate hovered at an 11.5-year high, logging in at 10% in March, figures from the European Union's Eurostat agency showed.

The number of unemployed people posted its biggest monthly increase for six months in a sign that companies remain under pressure. Some 101,000 people joined unemployment queues in March, the largest monthly increase since September, Eurostat said.

The sharp increase suggests companies across the bloc are suffering after recovery stalled in the fourth quarter. With so many out of work, the data also suggest that retail sales won't bounce back quickly, leaving the recovery dependent on foreign demand for exports.

