NO MORE CALIFORNIA DREAMIN'

BY KATHY GRAHAM

"I look forward to Kathy's annual employment situation forecasts. She peels the opportunity onion to cook up an outstanding analysis, even if it causes tears some years. Near as I can tell, she's on a ten year streak of spot-on winning calls."
—Gerald W. Laurain, CFA,
SVP, Chief Investment Officer, Wealth Management, First Tennessee Bank

OVERVIEW

The California of our dreams has always represented the golden land where riches came easy and dreams come true. When I lived in California, I was afraid of falling asleep for a nap and discovering that I woke up years later, like Rip Van Winkle. The weather was always beautifully the same every day—day 100 looks the same as all the preceding days. In such a climate, it was easy to forget that time was passing by even as I dreamed.

No more California dreamin' is the main theme of my economic forecast for 2012…and the foreseeable future. The jobs aren't coming back, because economies are still recovering from debt overload and consumer demand will stay relatively slack because of demographic and financial reasons.

Hard work is no longer enough to secure the career gold of your dreams, because:

- there are fewer jobs
- the globalization that I predicted becoming a reality in my 2004 forecast has created the need for you to be best in relevant skills worldwide—you are no longer competing against a local or national workforce
- global competition and technology advances compel you to market yourself in a manner that reaches, plus is attractive and understood by, your target audience/firm/hiring authority.

In fact, if you think someone is going to find you as they did in the bygone days of yesteryear and then promote you because of your credentials and skills, you're still dreaming.

My economic forecast for 2012 and the foreseeable future is not altogether as bleak as it sounds. There are, and will continue to be, many opportunities to reach your career goals and financial riches in this subdued environment. Reaching those goals and riches today, however, requires an understanding of the economic global dynamics now in motion. It also requires a different approach.

DYNAMICS

What's going on? Is the world about to implode again because of the notorious European PIGS (Portugal, Ireland/Italy, Greece, and Spain)? There's really nothing new here. It's still the same story unfolding that I told in my 2008 forecast[i], namely, that because of derivatives:

- economic risk is now shared by all countries
- all countries were endangered by the imploding of this shared risk in 2008, which is actually good news in that "*governments are and will be very proactive in ensuring that markets do not fail.*"

Now, some countries' government and private sectors move faster than others. The U.S. has pulled out ahead of the rest of the world, just as I predicted it would in my 2011 Forecast, because it has a just-in-time work force with minimal safety nets. In other words, when something goes wrong in the U.S. financial and/or job markets, it goes wrong fast with consequences that are felt almost immediately. On the other hand, the need to survive prompts U.S. businesses and labor force to move swiftly in creating something else that they can sell or do.

Europe has many more regulatory safety nets and cultures that are steeped in a history of rich tradition, which makes their economic slopes downwards less severe, but which also makes their upturns out of recessions usually less easy than in the U.S.

It was public knowledge back in 2008 that many of the European banks were more highly leveraged than even U.S. hedge funds. The U.S. financial market institutions have already undergone significant deleveraging since 2008 because of necessity, whereas European financial markets and their institutions are at an earlier stage in the recovery…and with more debt to work out. What is happening with the sovereign debt crisis within the European PIGS is that the deleveraging process that has already occurred for the most part in the U.S. is now in full force there.

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Hence, it's going to be a rocky volatile hard period for a bit longer in Europe while this deleveraging process—which is highly painful for both consumers and businesses—plays out. However, my forecast for 2012 is the same as it was in 2008, which is: while some "*fear it [this situation] could result in a total meltdown of financial systems, governments are and will be very proactive in ensuring that markets do not fail.*"

The banks will be propped up or sold, businesses and consumers will declare bankruptcy or pay down their debt burdens, and currency and other sovereign debt issues will be muddled through until enough of the deleveraging process has occurred that economic stability has been restored on a global basis.

"Muddling through" as an ongoing condition in 2012 and the near future is a wonderful outcome, especially compared to the scary alternatives, as it gives time for continuing recovering versus imploding.

The impact of Europe's distress on the U.S. has resulted in a U.S. GDP growth rate that's a point or so lower than possible without the European drag on the U.S. economy. This trend will likely continue throughout 2012 and the near future.

Europe's impact on U.S. GDP is mitigated because the U.S. economy is much less dependent upon exports than Europe, due to the U.S.'s large internal market.

Fact: Exports make up only about 12% of the U.S.'s GDP, compared with about 57% of the average European Union (EU) country's GDP (see Table 1). China, the largest Asian economy by far, is the world's largest exporter, and its exports account for about 32.5% of its GDP.

In other words, China/Asia is about three times more dependent on exports for GDP growth than the U.S. economy. To make matters worse for China/Asia, China's two largest export customers are the U.S. and the EU, each of which accounts for about 20% of China's total exports.

Therefore, falling European demand will impact China/Asia GDP more than it has or will impact U.S. GDP.

In fact, most of the developed countries, including the U.S., are buying less—demand for products is down and will remain down globally. Why? Because:

- The aging population, which I first mentioned as a significant factor in my 2010 forecast[ii], doesn't need to buy as much as what a younger population would purchase.
- This aging population is rebuilding savings and making necessary debt and lifestyle reductions—not spending—to replace monies that were lost during the Great Recession.

With demand for products diminished, there is less need to hire individuals to produce what have now become unwanted goods and services—i.e., the number of jobs available will be fewer than pre-Great Recession.

With fewer jobs, there will be more competition for each position that is created. **Therefore, individuals who know how to market themselves to the right companies and hiring authorities will have the competitive advantage, even in a tight job market.**

With most developed economies characterized by high sovereign debt loads and considerable uncertainty about the future, companies will continue to maintain large cash reserves and hire primarily individuals who are "best in class" globally. **Therefore, individuals who can demonstrate with many concrete examples and behaviors that they are indeed "best in class" will be employed and paid a premium for having such qualifications.**

TABLE 1: EXPORT OF GOODS AND SERVICES AS A PERCENTAGE OF GDP
(data is provided by The World Bank)

Country	2007	2008	2009	2010	4-YR AVG %		
China	38	35	27	30	**32.5**	**32.5**	**China**
EU-Austria	59	59	50	54	55.5		
EU-Belgium	83	85	72	80	80.0		
EU-Bulgaria	59	58	48	58	55.8		
EU-Cyprus	48	45	40	40	43.3		
EU-Czech Republic	80	77	69	79	76.3		
EU-Denmark	52	55	48	50	51.3		
EU-Estonia	68	71	65	78	70.5		
EU-Finland	46	47	37	40	42.5		
EU-France	27	27	23	25	25.5		
EU-Germany	47	48	42	47	46.0		
EU-Greece	24	24	19	22	**22.3**	**EU LOW**	
EU-Hungary	81	82	78	87	82.0		
EU-Ireland	80	83	91	101	88.8		
EU-Italy	29	28	24	27	27.0		
EU-Latvia	42	43	44	53	45.5		
EU-Lithuania	54	60	55	68	59.3		
EU-Luxembourg	176	175	161	165	**169.3**	**EU HIGH**	
EU-Malta	89	85	77	85	84.0		
EU-Netherlands	74	76	69	78	74.3		
EU-Poland	41	40	39	42	40.5		
EU-Portugal	32	32	28	31	30.8		
EU-Romania	31	31	33	23	29.5		
EU-Slovakia	87	83	71	81	80.5		
EU-Slovenia	70	67	58	65	65.0		
EU-Spain	27	26	23	26	25.5		
EU-Sweden	52	54	48	50	51.0		
EU-UK	27	29	28	30	28.5		
EU-All Countries Median %						**51.1**	**EU-All 4-YR MEDIAN %**
EU-All Countries Average %						**57.4**	**EU-All 4-YR AVG %**
Russia	30	31	28	30	**29.8**	**29.8**	**Russia**
U.S.	12	13	11	13	**12.3**	**12.3**	**U.S.**

RISKS

The biggest risk for 2012 is China. China needs exports to feed its people. Its current policy goal to stimulate internal consumer demand is admirable, but whether it will be successful remains to be seen in a society where minimal consumption is the historical norm for very understandable reasons.

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A number of experts posit that China's annual GDP breakeven growth rate for economic stability is 8%, a number that China may or may not be at currently, according to what expert or data source is consulted. If these experts are correct about the breakeven number for economic stability, then China may not be currently growing its GDP enough.

Other experts posit that domestic unrest occurs in China around a 7% annual GDP growth rate. What happens if China's annual GDP growth rate dips below 7%? The government's historical reaction is repression, which would reduce consumption, which would aggravate the situation.

Another option that the Chinese government has would be to create alliances with emerging markets (EM) governments that result in an export scenario similar to pre-Great Recession percentages, but by governmental edicts rather than by market forces.

Why EM countries? Many EM countries are already past the impact of the Great Recession and are forecasted by OPEC and others to grow in 2012. This EM growth factor, plus the fact that China already exports more to the EM countries collectively than to the EU or the U.S., creates an intriguing option for China: why not pick up the GDP slack left by the U.S. and Europe's deleveraging and lack of product demand through formal treaties and/or alliances with the EM countries?

What would China need to give those governments in order to receive such preferences? What would the impacts of these arrangements be on the rest of the world? If a China situation develops that impacts negatively U.S. and Europe, then all bets are off.

Other risks that could significantly impact this forecast are: the risk of international and/or domestic imbalances; disease pandemics; conflicts; terrorism; energy; major weather catastrophes; policy changes with unintended or troublesome consequences; and technology disruption (including Internet security being breached or Internet traffic halted/crippled in any considerable degree or time period for a significant sector like financial, security, or government activities).

The above paragraph is my usual disclaimer, with China being the risk factor of greatest concern currently. This being said, **my forecast for 2012 is to expect continued slow growth globally out of the Great Recession's devastation with continued volatility and crises creating the feeling that the world is going two steps backward for every step forward. The reality, however, is that, with the U.S. continuing to lead the way, the world's economies are really growing two steps forward and only one step backward…so we will be able eventually, if nothing untoward happens, to finally put this period behind us.**

RECOMMENDATIONS

Unlike my prior ten forecasts, this year there are no "hot" jobs. There are also no "non-growth" jobs this year. The reason for this anomaly—which I think is here to stay for a while—is that with a tight global job market, **it's not a "hot" job that gets filled, it's "hot" people who get hired…and at premium prices.**

Since 2009 through today, I've personally witnessed many professionals in almost every sector/field create phenomenal positions for themselves with great raises, even if they were unemployed and/or in a notoriously depressed field (like residential real estate).

My recommendation this year (and for the foreseeable future) to individuals who want to gain those riches and live their dreams is to **CHANGE YOUR APPROACH**.

What changes should you make? These five will do it:

1. Identify what you're really good at doing AND that is also what you really enjoy doing…because **"hot" people are HIGHLY SKILLED AND HIGHLY MOTIVATED**.
2. Research industries/positions that could use your skills and what you enjoy doing that also fit who you are as a person…**because "hot" people FIT into their CORPORATE CULTURE naturally.**
3. Obtain NOW the certifications, education, and training that are relevant to your desired position and are available to you…because **"hot" people are BEST IN CLASS, which is what having the best credentials signals to the world that you are.**
4. Write down every single achievement you have ever accomplished, both personally and professionally. Figure out what achievements are relevant. If you are missing relevant achievements, figure out a way to go get them NOW…because **"hot" people have NUMEROUS EXAMPLES of how they have the desired skills, aptitudes, and attitudes.**
5. You will need the information from #4 to **MARKET YOURSELF** in a manner that reaches, plus is attractive and understood by, your target audience/firm/hiring authority…because no one is going to come looking for you. **"Hot" people place themselves and their appealing profiles in all locations where the hiring authorities that they want to attract will find them.**

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HISTORY AND PROCESS

Since 2002, I've been presenting an annual financial services job and overall economic employment trends forecast, which to date has been completely accurate each year. I've used the same process once again to create my 2012 predictions, which this time are basically a continuation of the trends that I saw unfolding for 2011.

Both my overall economic employment trends and job forecasts are produced by making a list of all the economic indicators in the current year that are relevant to predicting the next year's job status in the financial services field, i.e., the asset management, banking, corporate, hedge funds, investment banking, private equity, real estate, research, and turnaround/workout sectors.

In the last two years, I've been able to begin accurately broadening my job forecast to the non-financial fields, as a result of my work with numerous professionals in a wide range of fields and job categories through my very successful *Your Career Campaign™* product line.

The leading economic indicators used are: fiscal and industry statistics; senior management's outlook; status of retained search recruiters; and personal perceptions of people in the different sectors (what I call "word on the street").

Then this list of economic indicators is divided into two categories: ones that are likely to have a negative effect on job creation versus ones that are likely to have a positive effect on job creation.

The last step is easy. Those job holders with more negative economic impacts than positive ones probably will have a no growth to slow growth in this year's job forecast. Those whose fields are affected by more positive than negative economic impacts will benefit, which will vary from some job growth to really hot demand for their skills.

Analyzing the current year's economic indicators to forecast job demand works because both a person's career and job are second derivatives. You see, what determines initially the value of a person's skill set is the supply and demand level for the expertise stage the person is at whose career or job is being considered … BUT this first factor's value is dependent upon the status of the underlying economy, which makes a person's career and job second derivatives.

People routinely forget that much more than their own performance and education determines their pay level, the availability of positions, and even the speed of their career progression. Remembering that jobs and careers are dependent upon what happens in the underlying economy makes career decisions—and job forecasts—more effective.

Identifying the overall trends becomes apparent using this process because finance is the engine that drives the entire economy. When you see what sectors money is flowing into or out of, overall trends become quite obvious. In previous years, this detailed information was provided as part of this forecast article. For brevity, this information is now available by request only.

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[i] *"it's definitely winter, i.e., a downturn globally that I'm predicting even though Asia and Europe for awhile might appear to be more resilient than the U.S. However, despite claims by some that the U.S. economy doesn't necessarily lead the world economy anymore, the fact is that the financial industry is now truly a global industry. Therefore, because most participants now own a portion of the other countries' economies, a process that has been rapidly facilitated especially by the widespread use of derivatives, what happens in one country will eventually spread to the other financial communities.*

Actually this global asset sharing has turned out to be quite a bit of good luck. First of all, because the subprime and credit situation is so widespread that it has led some to fear it could result in a total meltdown of financial systems, governments are and will be very proactive in ensuring that markets do not fail. A number of financial institutions and hedge funds are likely to go under but the markets will prevail.

Second, it's been public knowledge since at least 2006 that if there was an event of considerable magnitude, such as the subprime scenario, that: the derivatives market would likely become illiquid; the way ratings were viewed would likely change; there would likely be a flight to quality and more uncertainty about the reliability of information provided by companies, which would exacerbate the financial crisis even more, leading to changes in regulation and how financial markets operate in the future. What wasn't known was when it would occur. It has occurred, it is occurring so now financial professionals will be able to change their actions in order that their careers can benefit from this latest development." See full 2008 Forecast.

[ii] *"Aggravating the process is the age of the population. Households during the child rearing years spend more. <u>The largest numbers of the developed world population are at the age when children leave the nest.</u> These individuals are typically downsizing—not buying—so they're net sellers. The younger age group most likely to be spending more is a smaller size, which means sellers outnumber buyers—a sure way to drive prices down on the assets sold."* See full 2010 Forecast.

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