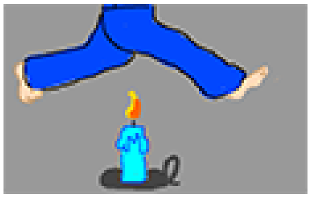
2016 Overall Economic Employment Forecast©

by Kathy Graham



JACK(IE), BE NIMBLE

Jack(ie), be nimble. Jack(ie), be quick.
Jack(ie), jump over the candlestick…

…and if you do in 2016, you'll win BIG.

"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 13 year streak of spot-on winning calls."

– Gerald W. Laurain, CFA, SVP, Chief Investment Officer, Wealth Management, First Tennessee Bank

SUMMARY:

For 13 years, my overall economic employment forecast has proven to be accurate. So why am I tardy getting out my 2016 Overall Economic Employment Forecast? Because there are some FASCINATING TRENDS UNFOLDING that I just had to research thoroughly after coming across the topic in my perusal of the 2016 World Bank Group's *Global Economic Prospects: Spillovers amid Weak Growth*. That research took a while, but it was worth it because to succeed in 2016, you are going to need to be nimble.

CEOs: you are right to be concerned about the emerging business environment. Why? Because the increased capabilities of today's technology have resulted in:

- Coordination costs diminishing, which changes significantly planning and profitability activities.
- Almost instantaneous costless communication that has collapsed the simple laws of information economics used previously to structure your marketing, hiring, and almost all of your messages (whatever the content) delivery.
- Your market place and how your customers view your products/services changing rapidly.
- Your firm (and your competitors) being able to splinter almost any portion of the "task" list of everything that must be done to get your company's products/services purchased/used by consumers so that you capture the lowest costs/highest value for each task because products and services can (and are) now "MADE IN THE WORLD," not in one location and not limited to just maximizing traditional supply chain and/or Michael Porter's value chain efficiencies.

Professionals: you should be concerned about technology's impact on companies because it significantly impacts your career by:

- Potentially changing the duration of time with each employer, leaving you looking like a job hopper through no fault of your own (CFOs and IT professionals are some of the individuals already experiencing this phenomenon).
- Altering how you would look for your next position and/or understanding the full dynamics of current or possible job advantages/disadvantages.

BTW, my 2015 Overall Economic Employment Forecast was correct in saying that 2015 would be:

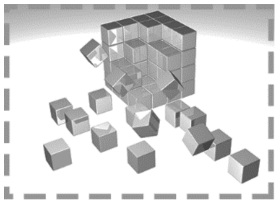
- A growth year for most industries in the U.S.
- A mixed bag for the rest of the world depending upon how reliant the country was on Russia or China for critical resources/exports.
- A year to avoid the mining sector.
- Time to focus on enhancing your technical/specialty skills to capture the most career growth.
- When the energy sector would be busy with M&A, bankruptcy, and reorganizations due to the need for companies to be able to profitably produce at even $40/barrel and also deal with disruptive technology.
- The start of a long period of low energy prices, just like what occurred in 1985 that lasted 15 years.

It looks like all these forecasts occurred, which means that so far all 13 of my annual predictions to date have been accurate.

As for 2016, my Overall Economic Employment Forecast is:

- Another positive growth year for most industries and professionals in the U.S., albeit at the slower pace present since the world emerged from the Great Recession…and wages will be increasing.
- A positive growth year for most countries in Europe, albeit at a much slower pace than in the U.S.
- A year of not so positive to downright negative growth for most other emerging and developing countries outside of China and India.
- The slowdown in China is a very positive event as China is successfully transforming itself into a domestic consumption-driven economy…and it will be able to continue that transformation in 2016.
- India will continue to do well, but Japan's growth is unclear. Japan could do better, it could stagnate—there's no clear forecast from reviewing the data.
- Growth companies will be the ones that stay nimble by keeping on top of changing technology and trends that are occurring at a continually faster pace.
- In the U.S. especially and for some parts of Europe, retaining/growing nimble employees in a tight labor market will become a critical success factor.

THE FASCINATING EMERGING TRENDS



#1: THE GRAND SPLINTERING

In the beginning of economic civilization, there were three basic units: government, firms, and households.

Originally the government was the village ruler who owned the land and collected taxes from the households and firms on all products and services produced on that land. The firms were farmers, craftsmen, and merchants. The households were the people providing the firms with factor services in production and buying the finished goods from those firms for consumption.

Almost all production and consumption was local because of the lack of rapid transportation and minimal technology.

Then steam technology was invented in the 1830s, creating railroads, steamships, and factory engines. **It was now possible to conduct production and consumption in separate places, profiting from the disparities in prices and the unique competitive advantages in different locations.**

Steam technology was followed by the advent of electricity, followed by computers. Each of these new technologies increased the ability to produce more cheaply in huge quantities mass goods. Global supply chains emerged first, followed by companies en masse heeding Michael Porter's value chain advice to focus on what they do best and outsource the rest. Global trade flourished.

The economics of information during this era were:

1. REACH OR RICHNESS: either deliver an undifferentiated message to the masses OR identify a niche market to deliver a complex personalized message about the company's services or products.
2. ECONOMIES OF SCALE: the larger the audience reached, the lower the cost per message to a point.
3. DIMINISHING RETURNS TO SCALE: beyond a certain point, unit costs stop declining and either stagnate at that last point or start to increase.

The foremost restricting point that prevented the steam/electricity/computer technology advances from offering further benefits was THE COMPLEXITIES OF COORDINATION, both from a distance perspective and from practical limitations in timely processing large amounts of information.

The maturing of Internet-based technology is rewriting the economics of information to:

1. REACH AND RICHNESS: Content-rich messages can be sent to the masses AND to niche markets, all at about the same small cost.
2. ECONOMIES OF SCALE ARE BECOMING MINIMAL because of the low constant cost of Internet-based technologies—cloud-based versus own computer systems; low cost of Internet, Skype, and social media; and now 3-D printing where the design can be sent via the Internet and manufactured where or near where consumed, eliminating or minimizing transportation costs.
3. DIMINISHING RETURNS TO SCALE ARE LESSENING because the more interactions a firm has with each of its clients, the better, because it builds brand value, customer satisfaction, trust, and sticky relationships at basically no additional cost.

The maturing of Internet-based technology has made it possible for companies of all sizes to:

- Measure and revise goals and objectives quarterly—not annually—and make strategic moves immediately afterwards—INCLUDING HIRING and/or FIRING EMPLOYEES to match the skills needed in the new direction.
- (a) create a list of all tasks that must be done to get each of their products and/or services used by their consumers effectively; (b) determine which group of tasks will be performed by each factor of production (machine and/or person, outsourced/insourced, full-time/part-time/virtually, etc.); (c) decide which factors of production need to be in close proximity and why; and (d) where each factor of production would be optimally situated and why.

Supply chains—those sequences of events that provide the necessary inputs to produce each <u>product or service</u> for sale—**are now splintered down to a task level that can be revised and acted upon quarterly.**

These decisions are no longer about just location(s), they are about every single aspect of every single phase of every single factor of production, including people.

Furthermore, conducting the matrix analysis of these splinters and their dynamics is now affordable by all sizes of companies, thanks to the maturing of Internet-based technologies.

Therefore, companies and professionals need to be nimble to succeed in 2016, given the speed with which information and change now flow, thanks to the maturing of Internet-based technologies.

#2: U.S. LABOR MARKET CHANGES

By year-end, the U.S. national unemployment rate was 5% of working population. An unemployment rate of 5% is considered to be when the U.S. is at full employment. If the unemployment rate drops below that number, inflation begins to rise.

Digging deeper into the unemployment statistics uncovers that within the end months of 2015:

- There were over 90 metropolitan areas with unemployment rates below 4%.
- Although the unemployment rate of 16 to 19 year olds is over 15%, the unemployment rate of anyone above 25 years old hovers around 4%.
- The unemployment rate of someone with a four-year college degree is about 2.5%.

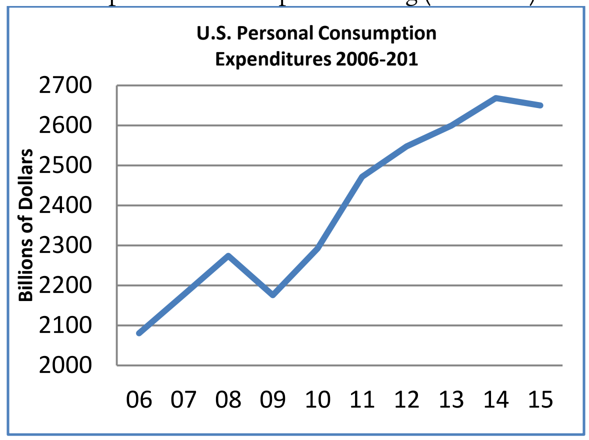
Furthermore,

- 10,000 Baby Boomers are hitting retirement age each day…and they aren't all retiring as some choose to continue working, some are changing what/where/how they're working, and others leave and re-enter the work force for a variety of reasons.
- Over 2.5 million Americans are quitting their jobs monthly.
- Companies are constantly refining/changing their directions to respond to the rapidly changing trends and they are doing it faster and more frequently, so layoffs will continue in 2016.
- Over 5 million Americans were hired in a recent 2015 month, but in that same month over 5 million jobs remained open…plus retaining and attracting qualified employees is a top concern to most U.S. CEOs and CFOs.

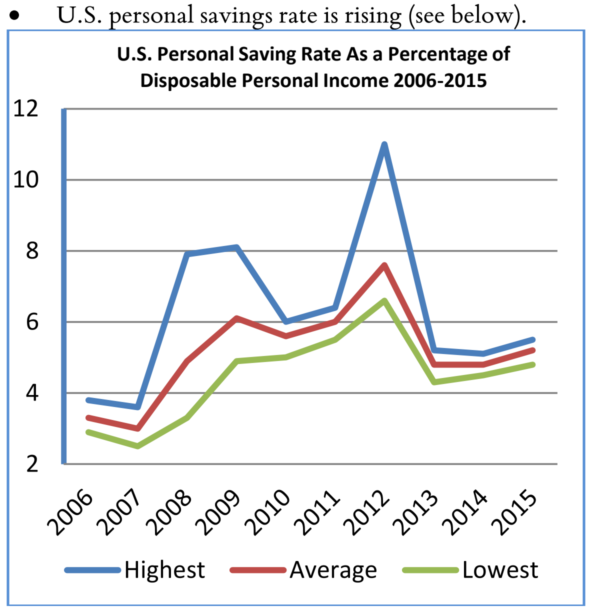
These dynamics are unlikely to change in 2016, because:

- 1% decline in BRICS GDP only decreases global GDP 0.4%. U.S. impact is less as the U.S. doesn't have sufficient imports/exports with BRICS as a percentage of overall GDP to impact the U.S. GDP.
- 30% decline in oil prices increases global GDP by 0.5%...and that increase is experienced by the U.S.…and oil prices have decreased 60%, which is a 1% increase in global GDP, which means that U.S. and its allies—the Euro area, especially France, Germany, and Spain—GDPs bump upwards because of these decreasing oil prices.
- A recovery in U.S. housing markets and the prospects of strengthening wage growth amid tight labor market conditions support a positive outlook.
- "The economic growth level reflected in this level of the CFAI-MA3 suggests subdued inflationary pressure for economic activity over the coming year."—December 2015 Federal Reserve Bank of Chicago National Activity Index CFNAI-MA3.

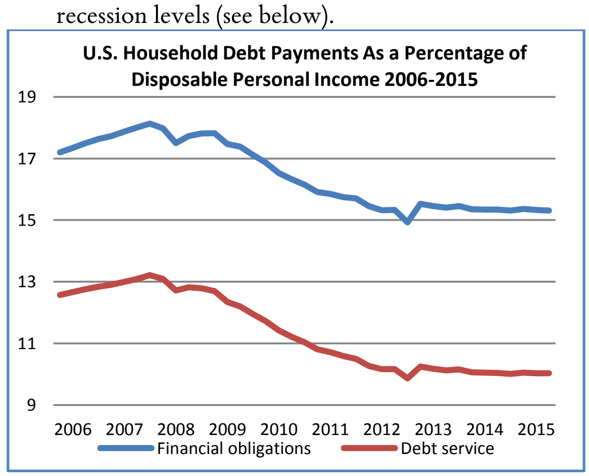
- Economic activity in the U.S. non-manufacturing sector grew for the 71st consecutive month and economic activity in the manufacturing sector is still indicating an overall economic expansion.
- U.S. personal consumption is rising (see below).

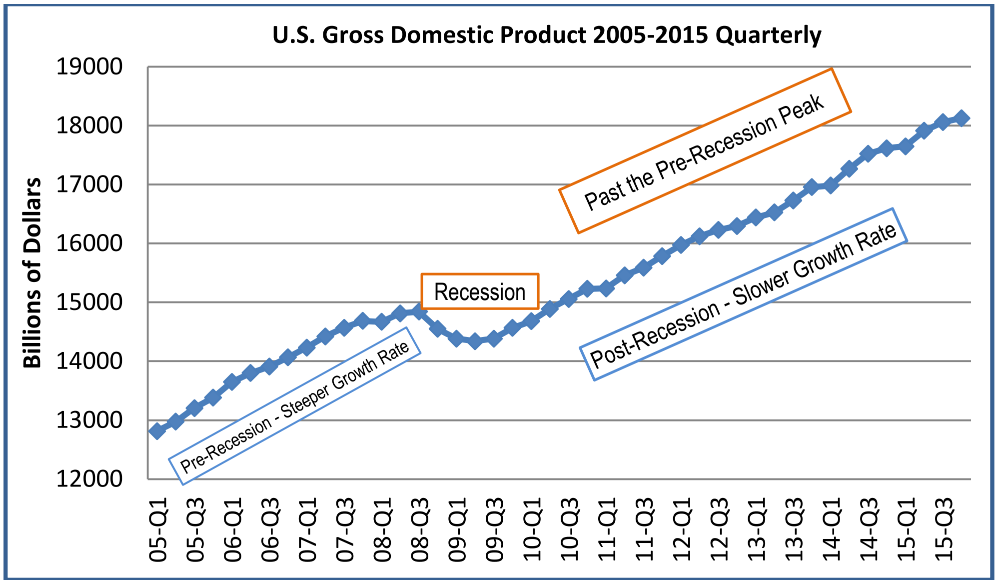


- U.S. personal savings rate is rising (see below).



- U.S. household debt service is lower than pre-recession levels (see below).





…and the U.S. is past its pre-recession growth peak and is now climbing to higher GDP levels than previously experienced, albeit now at a slower growth rate…but it's still growth levels in GDP higher than prior highs.

RECOMMENDATIONS FOR U.S. COMPANIES

1. **Use the most efficient new systems and processes.** Technology has matured. What your company is using for systems and processes may be inefficient, costing you much more than what their completely vetted replacements cost. Of course, utilizing a formal new systems requirement review process that issues recommendations with timelines as to which systems/processes appear best choices will help you avoid being sold an ineffective choice.

   Automation and integration are essential—if your systems can't quickly process and update constantly the reports you need, you are playing with fire, the risk of being burned by changes that impact your profits that you find out about too late.
2. **Empower a professional HR function.** The right systems, processes, and people is the winning formula for staying ahead of the competition and keeping current/prospective customers interested. A professional fully empowered and participative Human Resources (HR) function is essential nowadays to define and keep track of job functions, career paths, training and recruiting resources, compensation levels, and all the associated people costs. HR might be a staff role, but it's no longer a cost—an empowered professional HR is a cost savings and profit builder.
3. **Retain employees while retaining flexibility**, whenever possible. It might seem cheaper to lay off employees that don't fit the new strategy and hire the competitor's talent with the right new skills. However, with a tightening job market, it might cost less and even take less time to launch new initiatives by utilizing/retraining existing talent. Doing so will retain corporate memory and promotes loyalty that reduces turnover. Of course, do reinforce that loyalty with contractual tie-ins.

RECOMMENDATIONS FOR PROFESSIONALS

1. **Minimize in advance the consequences of more short tenure jobs.** Establish your own business on the side that is not in competition with your main line of employment but does utilize other skills of yours. Place that business in abeyance while employed or team up with a partner who keeps it running while you're an employee elsewhere. Other possibilities include using down time to enhance career through additional education or certification OR exploring other vocations that use your skills that are in other fields of interest by becoming an active volunteer in a related business association or nonprofit. Plan now to act quickly.
2. **Realistically assess the likely duration of your position**. If you're being hired to complete "x." what's the likelihood that you'll be retained once "x" is completed? Err on the side of caution with this assessment. If it looks probable that your position is of short duration, consider asking your employer to redefine the position as a contract engagement or to permit you to label it as a consensual short-term employment that you list under your own business' name as exactly that. Avoid job-hopping—it might be something that is accepted in your field or happens to the majority in your position, but it can have long-term unintended negative consequences that cost you future earnings.
3. **Use recruiters more** as the labor markets are tightening. The quality varies, so take the time to find ones worthy of entrusting with your resume.

SOURCES FOR THIS ARTICLE WITH ADDITIONAL TIDBITS OF INFO FROM THEM

- **2016 Federal Reserve Board Household Debt Service and Financial Obligations Ratios**
- **2016 IMF Growth Forecast**
  - ✓ Research on more than 100 recessions in 23 advanced economies since 1960s has shown that 2/3 of the recessions are followed by lower output relative to the prerecession trend and almost 50% are followed not only by lower output, but also by lower output growth relative to the prerecession trend. IMF thinks that both supply shocks and the erosion of potential output coming from protracted downturns in domestic demand are at play in accounting for today's lower potential growth.
  - ✓ Hysteresis—i.e., institutional changes in reaction to the crisis, **labor changes from those dropping out permanently or becoming unemployable**, R&D cutbacks, risk appetite permanently changed from experience resulting in different consumption and investment appetites by individuals and companies—is present.
  - ✓ Commodity price cycle: the boom in commodity prices is disrupted by some factor, which sets in motion a price reversal and downswing phase. As income falls, all the forces for the upswing phase occur in reverse. The drop in demand lowers supply. Actual output temporarily falls below potential output. **Labor is reallocated from the commodities and nontradables sectors back into the tradables sector**. Value added drops most in the commodities sector and grows more in the tradables sector than it does in the nontradables sector. In the absence of permanent changes in the terms of trade, **the boom produces no lasting gains in potential output**. Put differently, potential output rises temporarily above a no-boom path and then returns to it.
- **2016 OECD Report**
  - ✓ Out of 45 countries examined, 44% (20) have no expected 2016 growth, but only 2/45 are big enough to impact—China and Russia, so only 4% countries with impact have no expected 2016 growth…and China's no growth is due to a switch to domestic consumption driven service oriented growth, and that's positive.
  - ✓ 56% of countries (25/45) are expected to grow in 2016, but only 6/45 are big enough to impact. 2 no growth (China and Russia), 6 grow= **minimally 75% countries expected to grow in 2016**…and China is really a positive.
  - ✓ STRUCTURAL CHANGE: Interest rates now appear to have limited impact on business investment, especially in uncertain times.
  - ✓ The sluggish recovery in investment is estimated to account for OVER HALF OF THE SLOWDOWN IN THE GROWTH RATE OF OECD POTENTIAL OUTPUT OVER CAPITAL in recent years compared to pre-crisis averages.
  - ✓ The recent mass migrations: Estimates of the short to medium term fiscal impact of total immigration are quite varied but usually small with some indicating net fiscal benefits and others net fiscal costs to host countries but in most of the main countries affected by the present surge of asylum seekers, the additional expenditures announced so far have been relatively modest.
- **2016 World Bank's Annual Global Economic Prospects: Spillovers amid Weak Growth**
  - ✓ Global trade weakness: Global merchandise trade contracted in the first half of 2015 for the first time since 2009. This was largely driven by a drop in import demand from emerging and developing economies. Growing import demand from the U.S. and the Euro area did not offset the drop in developing countries' import demand, which now accounts for half of global trade. 4 trends at work: Brazil/Russia GDP contractions; China rebalancing; stabilization in trade growth patterns due to global value chains; and currency depreciations where real effective exchange rate depreciations accompanying import declines but with limited export benefits—could be due to changes in global value chains that may be reducing the elasticity of exports to real effective appreciation—conventional trade, which is about ½ of all global trade flows, is showing greater responsiveness to exchange rate developments.
  - ✓ Stable lower oil prices could eventually release pent-up demand. Such delayed reaction to lower oil prices was observed in the 1980s and 1990s, especially in the U.S., where consumption initially slowed as consumers were unsure whether lower prices would persist. As prices stabilized at lower levels, savings dropped and spending accelerated.
- **ADP Report**
- **Bank of America Merrill Lynch Survey**
- **Bloomberg Business**, 3/20/15 "U.S. Consumers Are Saving at Highest Rate Since 2012"
- **Business Roundtable's Economic Outlook Index**
- **Challenger & Gray Blog Statistics**

- **Chief Executive Magazine's CEO Confidence Index**
- **Conference Board Employment Trends Index**
- **Discussions** with senior executives in various industries
- **Duke/CFO Magazine Study**
- **"Economy not 'normal' despite steady progress in 2015,"** Jeffry Bartash, 12/27/15
- **Federal Reserve's Survey of Economic Conditions**
- **Federal Reserve Bank of Chicago National Activity Index CFNAI-MA3**
- **Federal Reserve Bank of Philadelphia's Table Four Estimated Probability of Decline in Real GDP**
- **"Have Global Value Chains Contributed to Global Imbalances?" Jane Haltmaier, International Finance Discussion Papers, Board of Governors of the Federal Reserve System, #1154. 12/15**
  - ✓ The downstreamness in global value chains in the aggregate does appear to contribute positively to a country's current account balances while upstreamness does the opposite.
  - ✓ The magnitude of the effect relative to the growth of global imbalances over the period studied (1995-2011) appears to be small.
- **Manufacturing and Non-Manufacturing ISM Reports on Business Employment**
- **Moody's Global Default Rate**
- **National Federal of Independent Business Small Business Optimism Index**
- **Review of assorted recruiters**' white papers
- **Standard & Poor's Distress Ratio**
- **U.S. Department of Commerce, Bureau of Economic Analysis**
- **WSJ/Vistage Small Business CEO Confidence Index**
- **World at Work** white papers
- **World Trade Organization: Global Value Chains in a Changing World**
  - ✓ When we measure exports in terms of their import content, we can understand domestic value-added. It becomes clear that so many products today comprise inputs from a number of countries. The reality, WHICH IS NOT SEEN IN GROSS TRADE STATISTICS, is that products today are "MADE IN THE WORLD," rather than made in a single country. We need to understand this new dimension so that we can think about how to influence developments positively where we can and adapt to them where we cannot.
  - ✓ A different measure of global supply chain activity uses nations' input-output matrices to identify which goods are inputs into which industries. This family of measures uses this information to identify which imports are used as intermediate inputs and sums them up to a get a measure of supply chain trade. EX: about 37% of the gross value of Mexican exports consists of U.S. intermediate inputs, while only 2% of U.S. exports consist of Mexican intermediate inputs. The matrix of these "backward linkages" reveals stark asymmetries in the global supply chain.
  - ✓ Global supply chain is really not very global—it's regional: FACTORY ASIA (Japan HQ), FACTORY NORTH AMERICA (U.S. HQ), and FACTORY EUROPE (Germany HQ).
  - ✓ There is a hub-and-spoke asymmetry in the dependence of factory economies on headquarter economy's intermediate exports. EX: U.S shows little dependency on Canadian or Mexican imports BUT Mexico and Canada show strong dependence on the U.S. and very little dependency on each other.
  - ✓ Per 2012 World Bank's World Development Indicators, the share of services value-added in world GDP was 70% in 2010, compared to 57% twenty years earlier. In most economies, the services share is greater than that of the other 3 economic activity components combined.
  - ✓ In practice, it is no easy matter to identify separately all the individual service components that make up a product's full value. EX: only 9% of the U.S. $425 retail price tag for a jacket is associated with making the jacket, with the remainder attributable to "invisible" assets. This is the identification problem: what is contained in the invisible assets? Disentangling the sources of value, the individual services involved, etc. are formidable tasks.
  - ✓ The business landscape is changing rapidly and, in many respects, discontinuously. Supply chains face significant disruptions in markets where they operate and are at an inflection point for the sources of value and growth. Many factors are combining to reshape supply chains and their associated value systems. These dynamics are connected. They reinforce and accelerate one another. The principal drivers of change are: adoption/commoditization of broadband; innovations in media and e-commerce; increased market transparency; deconstruction of integrated value chains by web services and the Internet; a discontinuity in consumer aspirations and use of technology; the Foxconn effect; and China becoming a vibrant domestic market.