



International Association for Corporate & Professional Recruitment

IACPR Spring Small Search Firm Forum – April, 2008 *Future Trends in Talent Acquisition and Retention*

This white paper on the future trends that will have an impact on attracting and retaining top talent is based on presentations and discussions at the annual International Association for Corporate & Professional Recruitment's annual Spring Small Search Forum, which brings together boutique retained search firms to talk about issues of particular interest to them. Two presentations drove the in-depth discussions around this look to the future:

- *The Socio-Demographic Landscape of the Future (facilitated by Kathy Freeman – President, Kathy Freeman Company)*
- *The Big Picture Economy of Tomorrow (facilitated by David Magy – Principal, Abeln, Magy, Underberg & Associates).*

“Begin with the end in mind” is what Steven Covey talked about in his seven habits for highly effective people.

As the IACPR SSF looked at both socio demographics and economic history and trends, we did so in order for us to be strategic in our own businesses and to assure we add value to our clients.

There are numerous dynamics and implications happening around socio demographics, the study of our societies and the numerical consequences of our growth.

Demographics

Growth

We used to be experiencing unprecedented growth in population. From 1950 – 2007, world population changed + 61%. But if we look at current population trends, we see that the projections for the world population between 2007 – 2050 will be a – 38%. Population expansion has gone into population contraction.

In 2000, the projected population by 2050 was 9.3 billion. Today, in the last six months, the projections have been revised down to 8.9 billion people. The discrepancy in growth can be attributed to declining birth rates and aids related deaths.

Think about these facts....although the whole world is not our oyster, we as company executives and purveyors of human capital and talent acquisition have to be concerned about the lack of potential inventory with which we need to do our jobs.

Aging

Since the beginning of recorded human history, young children have outnumbered older people. For the first time, this will change. People age 65 and older will outnumber children under age 5. This trend is emerging around the globe. In 2006, over 500 million people were 65 + years of age. In developed countries today, 20% of the population is over 60. This is projected to rise to 33% by 2050. The number of the oldest of the old is increasing. People age 85 and over are now the fastest growing portion of many national populations. Life expectancy has increased to an average of 78 years old. Back at the turn of the century, people life's expectancy was more like 50.

Impacts

- Priorities will be in financial services where people realize they need to save and invest their money so they will be able to live through their retirement.
- Reducing aging related disabilities will be come a priority – so Alzheimer's research, arthritis, osteoporosis will all be major focuses.
- We will probably need to shift our resources from preschools and elementary schools to nursing homes and retirement homes.
- Patterns of work and retirement are already shifting. Shrinking ratios of workers to pensioners and people spending a larger portion of their time in retirement is straining existing health and pension systems. Workers who did not prepare adequately for retirement financially will find themselves working past age 65 to help support their living expenses.

Declining Population

More than 20 countries are not just facing demographic aging issues; even more dire, they are facing shrinking populations. As an example, Russia's population is expected to experience a decline of 18 million people between 2006 and 2030.

Population declines in more developed countries have mostly to do with fertility issues.

Immigration – Minorities in work place

Reports project that the United States will add 105 million immigrants to the population by 2060. Asians in the United States workforce will increase by 44%; Hispanics will increase by 36%, African Americans will increase by 21%. Caucasians will increase by 9%.

White non-Hispanic persons will continue to make up a decreasing share of the labor force, falling from 69.1 percent in 2006 to 64.6 percent in 2016. In the United States, 84% of the people over 65 in the are Caucasians. Clearly in the years to come, with the increasing immigrant populations, this will percentage will mitigate dramatically.

What about Women?

In 1950, one in three women participated in the labor force. By 1998, nearly three of every five women of working age were in the labor force. Among women 16 and older, the labor force participation rate was 33.9 % in 1950 compared with 59.8 % in 1998

In 2008, women will make up about 48% of the entire labor force and men only 52 %. Unfortunately, though the labor statistics for women are going up, the type of jobs they hold are not. Women continue to dominate lower paying domestic, clerical support and administrative type occupations.

Economics

National Economic Trends

A decrease in service sector activity suggests the economy may be in a recession. Whether the economy is in a recession or not, the Federal Reserve is acting like the economy is in recession by aggressively cutting interest rates. Interestingly, if the economy is in recession, the risk of inflation is likely to decrease.

The economy slowed significantly 4th quarter; it appears to have been sliding further in the first quarter of 2008. Job growth was negative each month this past quarter; consumer confidence has declined significantly during the past 3 months and is down considerably from the same period 1 year ago.

Consumers seem to be avoiding the malls and car dealers since the start of the year.

The organization that officially declares when a recession has started or ended is the National Bureau of Economic Research (NBER). They usually wait until it is sure before declaring (typically 6 months) – meaning the recession is typically over OR nearly over before they declare a start date! Signs:

- Interest rates cuts – the economy usually does not respond to the Fed rate cuts until 1 year or more after the first rate cut.
- Lenders are tightening credit standards.

Falling home prices make housing more affordable. Interestingly, buyers are not penalized by waiting to purchase. The supply of homes is quite high; if a buyer doesn't get the one he/she wants, there will be another – and maybe at a better (or close) price.

This trend combines with the Federal Reserve's aggressive cutting of interest rates.

Inflation

Inflation pressures are at their highest point since the 1990's. In order for inflation to decline, food and energy prices need to stabilize or decline.

If the slowdown in the U.S. economy dampens economic growth in Europe and Asia, oil prices could decline. The latest confidence figures from Europe suggest that the European economy is starting to be affected by the weakness in the U.S. economy.

(From Reuters/University of Michigan survey – 4/4/08) In previous periods of robust inflation "nearly all goods and services increased at an accelerating pace" but more recently there has been a decade-long decline in prices of items such as household durables, appliances, home electronics, vehicles and clothing, the report said. "In contrast, the recent increases in inflation have been entirely driven by food and fuel prices, as well as by increases in medical care and other services."

This could have implications for monetary and economic policy, especially since it has affected lower-income households.

While consumers benefited from low prices on a wide range of commodities, the wages of less skilled workers have stagnated.

Demographics within Economics (from AARP)

Demographic aging, the graying of the baby boomers, increasing longevity, and low fertility rates, is changing the age structure of the United States. Many experts say these changes will have an unsustainable impact on the federal budget by causing rapid growth in federal spending for health and retirement benefits for older Americans, especially for Social Security, Medicare, and Medicaid.

Demographic aging may also negatively affect the U.S. economy and American families. Low fertility rates will slow the growth in the labor force; fewer workers will be available to support an aging population. A slower-growing labor force will slow economic growth. If left unchecked, increased deficits and government debt will choke off investment and further stifle economic growth. The slowing of economic growth will mean stagnant wages and slower family income growth as well. Health costs, which have outstripped economic growth even in prosperous times, will continue to increase faster than family incomes.

According to the Social Security actuaries, “the OASDI trust funds are not solvent for the long term, primarily as a result of low fertility rates, the eligibility of the oldest baby boomers for early retirement in 2008, and growing income inequality, which has had the result of reducing the ratio of earnings subject to the Social Security FICA (payroll) tax relative to covered earnings. Annual cost will exceed tax income starting in 2017. Interest income will more than offset the shortfall in non-interest income, and the dollar amount of assets will continue to rise until 2027. Redemption of the trust fund assets (held in the form of Treasury securities) will result in exhaustion of the trust funds in 2041.”

Small Businesses

The National Federation of Independent Business (NFIB) is the leading advocacy organization representing small and independent businesses. A nonprofit, nonpartisan organization founded in 1943, NFIB represents the consensus views of its members in Washington and all 50 state capitals.

NFIB's mission is to promote and protect the right of our members to own, operate and grow their businesses. NFIB also gives its members a power in the marketplace. By pooling the purchasing power of its members, the National Federation of Independent Business gives members access to many business products and services at discounted costs. NFIB also provides timely information designed to help small businesses succeed.

While the NFIB Optimism Index improved in February, it remains at historic lows. The number of owners expecting the economy to improve jumped significantly from January lows.

Low interest rates will NOT stimulate borrowing and spending in residential construction – even free money will NOT get builders to put up new homes that they can not sell! Every Federal Reserve policy announcement has triggered declines in small-business owner optimism and spending activity.

Bottom line – expect slow growth for the next 6 months with high inflation and low unemployment.

Globalization and American Wages

October 10, 2007 | EPI Briefing Paper #196 – **Globalization and American Wages, Today and Tomorrow** by L. Josh Bivens

The continuing integration of the rich United States with a far poorer global economy has provoked much anxiety among American workers. Because it is well-known that basic economic theory predicts that global integration leads to gains for all nations, this anxiety is often treated as a political puzzle. A once again fashionable explanation for this puzzle is that globalization's benefits are huge but diffuse (primarily, lower prices for imported goods), while its costs are small but concentrated (workers displaced by imports); hence, the gains are hard to see, but the losses are all too visible.

The Briefing Paper reexamined what conventional economics actually predicts about the effects of integrating the richer United States with poorer global economies. Contrary to popular rhetoric, there is no puzzle: conventional economic theory argues that American workers will indeed be harmed by this integration and their anxiety is well-founded.

The paper also provided rough estimates of the integration's effect on American wages and inequality. Lastly, it uses some prominent forecasts about the future potential reach of service-sector offshoring to make a very rough guess as to the future wage implications of these forecasts. The key findings indicate:

- In 2006, the impact of trade flows increased the inequality of earnings by roughly 7%, with the resulting loss to a representative household (two earners making the median wage and working the average amount of [household] hours each year) reaching more than \$2,000. This amount rivals the entire annual federal income tax bill paid by this household.

- Over the next 10-20 years, if some prominent forecasts of the reach of service-sector offshoring hold true, and if current patterns of trade roughly characterize this offshoring, then globalization could essentially erase all wage gains made since 1979 by workers without a four-year college degree.

For more about the IACPR, its mission and its membership or to comment on this white paper, go to www.iacpr.org or call 310-550-0304.