

# The Kensho Group

## UNITED STATES

### The Recession's Long Tail

In the last few weeks, an anonymous donor sponsored more than 1,000 billboards across the country sporting messages like "An interesting fact about recessions ... they end."

It is a simple statement that is being reported more and more every day. In July, Lawrence Summers, the director of the White House's National Economic Council said to Congress, quite plainly, that we have stepped back from "the abyss."

The Economic Cycle Research Institute has said that the leading indicators are showing a pronounced, pervasive, and prolonged rise, suggesting that the beginning of a recovery is imminent.

Macroeconomic Advisors, another leading economics firm, is predicting 2.9 percent economic *growth* in the current quarter and that the official end of the recession already took place in the second quarter.

The Federal Reserve's Beige Book from July 29 showed signs of bright spots for technology, military products, and pharmaceuticals throughout the country. New York, Philadelphia, and Atlanta all cited positive near-term outlooks for manufacturing as well. Boston, Kansas City and San Francisco experienced either flat or modestly increased consumer spending.

In the most reassuring sign yet, GDP contraction in the second quarter slowed from 6.4 percent to 1 percent.

So, it's all good. Soon, the economy will be humming along again, and the recession will be a distant memory. Right?

"After the dot-com bubble, communications firms stopped hiring for almost a year, if not more," says Greg Dubas, vice president of Management Recruiters of Union County. "Seven, eight years later we still see that gap in experience. Some younger people have stepped up, but if you look at the amount of available talent, you can still very distinctly see the impact of hiring freezes almost a decade later."

Such talent gaps, referred to as doughnut holes, crop up in various industries as there is a temporary loss of interest in a career or, as in the dot-com bubble burst, employers instate hiring freezes. In the long-term, these doughnut holes are difficult to overcome.

"The only way to quickly create someone with eight years of experience in a field is to start with someone who already has seven years," says Dubas "So, once a doughnut hole forms it will remain in the workforce until that class of workers starts retiring."

"We're coming out of one of the most pervasive hiring slumps in a generation, and few industries were unaffected," says Tony McKinnon, president of MRINetwork. "To the class of 2025 the credit crisis of '08 will sound as foreign as the oil crisis of the 1970s seems to graduates today. For workforce managers, though, finding talent that got their start in this period will be an uphill battle for years to come."

### Recent MRINetwork® Analysis

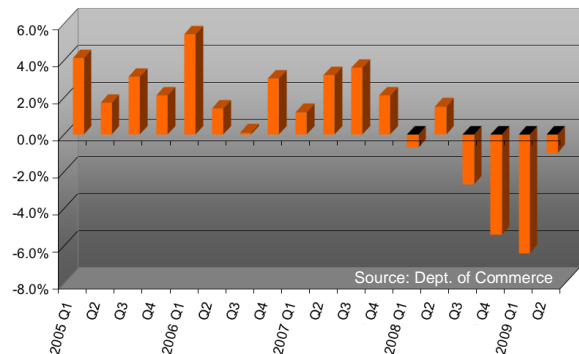
"You're not seeing the increases you saw two to three years ago, where you'd actually see companies get into bidding wars for highly skilled employees. You're just not seeing that today," Jason Lawrenson of Management Recruiters of Sioux Falls said.

Lawrenson works for an executive recruitment firm. He says while most industries are reducing costs by not increasing pay by much, that's not the case when it comes to certain fields such as health care, energy, civil contracting and accounting.

"There are certain industries where wages have still increased, based on supply and demand. Even locally a lot of industries tied to [the agriculture] industry, they really haven't taken too far a step backward," Lawrenson said.

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### Change in U.S. Gross Domestic Product



Those reaching the first rung on the corporate ladder in the coming years will have an opportunity to step up, excel and advance more rapidly to fill in the gap, but it will remain.

Employers can take a lesson from industries that had to tackle doughnut holes in the past. Engineering, accounting and hospital nursing departments have all suffered from their own talent gaps, and in response, have long been some of the most frequent users of contract staffing.

"By bringing in contract staff, people can hit the ground running to fill a gap, while internal candidates are groomed for the role more permanently," says McKinnon. "No one wants to get demoted, or denied a promotion because there is no one to take their spot. Contract staff, though, can plug that hole, making sure the work gets done, but without causing bruised egos when those staffers are no longer needed."

"We're kind of like a ship on the other side of the storm right now," notes McKinnon. "We've made it through, but there are going to be some holes to attend to for awhile."

## CHILE

### Communism, Revolution, and Now, Stability

On September 11, 1973, a coup d'état took place when the military stormed the Chilean presidential palace, leading to the death of Salvador Allende, the sitting, first democratically elected Marxist head of state.

The commander and chief of the army, Augusto Pinochet became the head of the junta, and soon after was named president. He quickly moved to reverse many of the communist policies Allende had put in place and introduced strong pro-market, *laissez faire* policies in their stead.

While those actions quickly helped to improve the economic situation in Chile and drew international praise for the junta's economic governing, Pinochet also proved to be a brutal dictator. More than 3,000 political enemies are known to have been killed by the regime, while more than 30,000 are said to have disappeared.

Once a new constitution was drafted and the first general election held, Pinochet was voted out of office in the 1988 election, and handed over the reigns of the country in 1990. Chile, though, continued its economic growth at a consistent rate of almost 8 percent per year through most of the 1990s. While dampened by the global slowdown in 1999, Chile has emerged as Latin America's strongest economy.

"Despite having had one of Latin America's most memorable coups in recent history, today, Chile is one of the continent's most stable countries both economically and politically," says Carlos Rivera, CEO of MRINetwork Latin America.

Much of the country's economic prosperity has come from its rich copper deposits. Codelco, the world's largest copper producer, was created when Allende nationalized the copper industry in 1971. Copper's nationalization played a role in the U.S. Central Intelligence Agency's decision to materially support the coup, yet, the company remains government owned and operated today.

Ironically, that last remaining vestige of communism is in large part responsible for the stability of Chile today. As commodities prices rose during most of the decade, Chile saw windfall profits from Codelco and in 2007, the country became debt free for the first time since the 1800s. When credit markets froze in the fall of 2008, Chile had more than 10 percent of its annual GDP in reserve and was able to help prop up its banks and credit markets.

"Chile's low poverty rate, consistent growth and burgeoning middle class are giving life to all manner of industry," says Rivera. "Because of the way it is now weathering the current downturn, Chile is likely to emerge from the recession with an even stronger claim to being Latin America's strongest and most advanced economy."

## NEW YORK METRO AREA

### 16 Million People, One Industry On the Edge

Sitting at the Algonquin Hotel in the blistering summer heat of 1949, E.B. White wrote that there were three types of New Yorkers: those born and raised in the city, who give it its consistency. There are those who are drawn to the city from all corners of the earth who give it its passion. And there are those who come in every day to work and go back to their homes in the suburbs who give the city its constant ebb and flow.

Today, 16 million people live in the New York Metro Area, more than one out of every twenty Americans. Many work in New York City by day and return to Westchester, New Jersey, Connecticut and Long Island every night.

While many fields claim New York as their city—theater, media, fine arts, advertising, fashion—by the numbers, only one industry can truly claim the city as its own: finance. In 2007, securities and finance related employees accounted for 17.7 percent of the city's jobs but 66 percent of the city's earnings.

Everything from real estate, to retail, to restaurants, to dog walkers rely in large part on hefty Wall Street paychecks. In a report from the Federal Reserve in 2008, it was estimated that every securities job was responsible for supporting 2.3 jobs just in New York City alone. While more than 80 percent of the city doesn't work on Wall Street, everyone feels its effect.

Then came 2008.

Markets fell, credit froze. Banks were only staying alive with tax dollars. Congress was debating pay caps, executives of TARP recipients were being limited to salaries of \$500,000 per year (more than a 95 percent pay cut for some) and the wives of I-Bankers (as investment bankers are often referred) were forming support groups.

The panic became that Wall Street would dry up, substantially fewer jobs would remain, pay would be a shadow of its former self, and the lifeblood of the city would slow to a trickle.

"At that point the financial job market was effectively frozen," says Tom Wieder, managing partner of WorldBridge Partners of Baldwin, an MRINetwork office in suburban New York. "Today we are in a hiring frost. Searches for open positions are now back in process, however employers are very hesitant to pull the trigger and well employed candidates are extra cautious about making a move."

As for pay? It turns out that banks doled out just over \$32 billion in bonuses in 2008. That is down from \$39 billion in 2007, yet firms like Goldman Sachs report that they are already on track to pay bonuses in excess of the 2007 levels this year.

"Many people don't realize that there is still an appetite for exceptional talent," notes Wieder. "This downturn is more dramatic than any in the last 30 years, but companies can't do business without people and slowly, hiring is coming back."