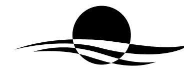
Growth STRATEGIES

Trend Analysis That Builds Business Decisions



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1 – FROM GREAT MODERATION TO GREAT STAGNATION

For much of the past decade, I was a proponent of the thesis that the American economy had entered a "great moderation," where expansions lasted longer and recessions were fewer, shorter and milder. Productivity had seemingly reached a permanently high plateau; inflation seemed tamed. The spreading of financial risk, across institutions and around the world, seemed to have reduced the odds of a crisis.

Events of the past 30 months have put that thesis to rest. I gave my *mea culpa* in Growth Strategies #1039 (October 2009), and also explained why we would instead be experiencing slow growth, high unemployment, low productivity growth, and higher taxes for the foreseeable future. That future has come to pass, and will continue to play out for years to come.

Where does the economy go from here? Profits are up, the markets are up. Inflation and interest rates are still tame. How to reconcile rising profits, a robust stock market, and other positive indicators with unprecedented bankruptcies, foreclosures, underwater mortgages, business failures, unemployment and underemployment? It seems the "working" economy has decided to move ahead and do fine and just leave millions behind, that's all. I used to joke the future would be bright for many, okay for some and dark for many, and recommend being in the first group. Now it's not so funny.

What about the overhang of debt and toxic assets? We seem to have opted for a long and slow process of rationalization, rather than a short, sharp and fast one. That means years of mixed messages, mixed trends: the good, bad and ugly.

THE GREAT STAGNATION

Tyler Cowen of George Mason University is author of the e-book *The Great Stagnation: How America Ate All The Low-Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better.* Cowen argues that in the last four decades, the growth in prosperity for the average family has slowed dramatically in the United States relative to earlier decades and time periods. Cowen argues that this is the result of a natural slowing in innovation, and does not expect a return to prosperity until new areas of research dramatically improve productivity growth.

Part of Cowen's core point is that up until sometime around 1974, the American economy was able to experience rapid growth by harvesting low-hanging fruit. There was cheap land to be exploited. There was the tremendous increase in education levels during the postwar world. There were technological revolutions occasioned by the spread of electricity, plastics and the car.

But that low-hanging fruit is exhausted, Cowen continues, and since 1974, the United States has experienced slower growth, slower increases in median income, slower job creation, slower productivity gains, slower life-expectancy improvements and slower rates of technological change. Cowen argues that our society, for the moment, has hit a technological plateau.

Is Cowen right? In my view he overlooks the growth of government over the last 40 years as an economic drag. Creative individuals and companies would be a lot more innovative if taxes were lower, regulations fewer, the system of patents more reasonable.

2 – GREAT RECESSION TO LEAVE INDELIBLE MARK ON US WORKPLACE

THE SHATTERED AMERICAN DREAM

A national survey of workers who lost their jobs during the Great Recession, conducted by two professors at Rutgers University, paints a gloomy view of the economic prospects for ordinary Americans.

More than 15 million Americans are officially classified as jobless. The professors, at the John J. Heldrich Center for Workforce Development at Rutgers, have been following their representative sample of workers since the summer of 2009. The report on their latest survey is titled: "The Shattered American Dream: Unemployed Workers Lose Ground, Hope, and Faith in Their Futures."

Over the 15 months that the surveys have been conducted, just one-quarter of the workers have found full-time jobs, nearly all of them for less pay and with fewer or no benefits. As the report states: "The recession has been a cataclysm that will have an enduring effect. It is hard to overstate the dire shape of the unemployed."

Nearly two-thirds of the unemployed workers who were surveyed have been out of work for a year or more. More than a third have been jobless for two years. With their savings exhausted, many have borrowed money from relatives or friends, sold possessions to make ends meet and decided against medical examinations or treatments they previously would have considered essential.

Older workers who are jobless are caught in a particularly precarious state of affairs. As the report put it:

> We are witnessing the birth of a new class – the involuntarily retired. Many of those over age 50 believe they will not work again at a full-time "real" job commensurate with their education and training. More than one-quarter say they expect to retire earlier than they want, which has long-term consequences for themselves and society. Many will file for Social Security as soon as they are eligible, despite the fact that they would receive greater benefits if they were able to delay retiring for a few years.

There is a fundamental disconnect between economic indicators pointing in a positive direction and the experience of millions of American families fighting desperately to fend off destitution. Some three out of every four Americans have been personally touched by the recession – either they've lost a job or a relative or close friend has. And the outlook, despite the spin being put on the latest data, is not promising.

No one is forecasting a substantial reduction in unemployment rates next year.

Carl Van Horn, the director of the Heldrich Center and one of the two professors (the other is Cliff Zukin) conducting the survey, said he was struck by how pessimistic some of the respondents have become – not just about their own situation but about the nation's future. The survey found that workers in general are increasingly accepting the notion that the effects of the recession will be permanent, that they are the result of fundamental changes in the national economy.

FUNDAMENTAL CHANGES

Fundamental changes in the American workforce are taking place, and they hold tremendous implications for employers and employees alike. According to an Annual Workforce Trends Study commissioned by Yoh, a human resources supplier, 80% of employers expect the size of their non-employee workforce (defined as consultants, independent contractors, temporary employees, and project teams) to stay the same or increase within the next year, even as the economy regains its footing.

This new, temporary workforce presents issues for employers who will need to manage, compensate, and motivate workers who no longer view

themselves as employees committed to a single employer. At the same time, for employees, this new workforce ushers in a new era of free agency, and holds vast implications for how they will build careers in a flexible work environment, where knowledge and skill trump seniority and security.

Employers' protracted reliance on a non-employee workforce as the US emerges from a severe recession is a marked change from past economic recoveries when employers would add temporary talent before transitioning to full-time employees. Historically, temporary employment has served as a bellwether for permanent hiring, but these findings suggest that something much more substantial is occurring to overall workforce composition. Employers are saying that the recent recession has fundamentally changed their employment strategies and led to a "just-in-time" hiring strategy that will make temporary employees an even greater pillar of the American economy.

The transformation of the workforce composition will have significant implications for both employers and employees. Employers now have the flexibility to quickly adjust the size of their workforce depending on project load.

Employees, meanwhile, will have to overcome the stigma associated with "temporary talent." Now that it's here to stay, "temporary" workers might find themselves engaged in projects for longer periods of time, frequently transitioning into new opportunities and gaining access to jobs that were perhaps previously filled with full-time employees.

2011 OUTLOOK: CONTRACT WORK AND FREELANCE EMPLOYMENT

UrbanInterns.com, an online marketplace that connects growing companies with individuals seeking part time jobs, internships and freelance positions, reports growth in freelance work and part-time employment. Employers continue to rely on freelance talent for their marketing efforts, especially in areas such as Search Engine Optimization and Social Media Marketing.

In 2010, 86% of positions posted on UrbanInterns .com were for less than 20 hours a week of work, supporting the trend of a shift towards freelance and part-time employment. Furthermore, 82% of those jobs were designated as "virtual", which is due to an overwhelmingly large demand in the digital media space. Employers are increasingly seeking candidates with an understanding of how to utilize new technologies, particularly for tasks such as online marketing and public relations.

- Co-working environments and virtual offices will thrive as tech-savvy entrepreneurs and business owners recognize that they can have access to enterprise level tools at a fraction of the cost.
- Improved online collaboration tools such as shared digital workrooms, video conferencing, and cloud-based project management software, are one of the many reasons why hiring virtual interns, freelancers and part-time employees makes sense for businesses of just about any size.
- Demand for social media skills is likely to remain employers' top desire/requirement.

POST-RECESSION HR TRENDS LIKELY TO CONTINUE

Top Human Resource Trends, from CanopyHR Solutions:

- Stretching the compensation dollar
- Embracing social media
- Explaining the consequences of health-care reform
- Retaining top talent
- Managing three generations of work styles (millennials, gen-Xers and baby boomers)
- Encouraging participation in wellness programs
- Communicating about benefits
- Managing the virtual workplace
- Collaborating across departmental lines
- Prioritizing resources to manage uncertainty, communicating with employees to allay fears

Growth STRATEGIES

Consulting in:
- Market and industry analysis
- Strategic business direction
- Growth dynamics

Providing:
- Trend identification and analysis
- Keynotes and presentations
- Proprietary research and reports

Trend Analysis That Builds Business Decisions

3 — ALL IS NOT HOPELESS!

Whenever I need a dose of optimism, I turn to Scott Grannis, the Calafia Beach Pundit. Here are my edits of a few of his recent blog posts:

Rising rates pose no threat to growth. The main driver of higher yields is a stronger economy. For now, higher rates are welcome because they reflect stronger growth and stronger loan demand.

Federal revenues continue to outpace spending. The January budget figures confirm the big story that not many have heard: federal revenue growth has been outpacing spending for more than a year.

Great progress on the claims front. First-time claims for unemployment (seasonally adjusted) have now dropped over 40% from their early-2009 high, and are only about 50,000 above the average level of 2005, when the economy was growing at a decent pace and labor market conditions were "normal."

Rising bond yields signal a stronger economy. Natural forces of recovery have been building for a long time, well before QE2 was first floated. This is a genuine recovery, not a figment of Fed policy, and as such it has a lot more staying power than most skeptics imagine. Stock prices and Treasury bond yields represent the collective wisdom of hundreds of millions of investors who control scores of trillions of dollars worth of assets. Prices and yields are rising because the outlook for the economy is improving daily.

Small business optimism coming back slowly. Since 1974 we've had six recessions, but none have come even close to the distress caused by the last one. Plus, the recovery from the last recession has taken far longer than any others. Nevertheless, it remains the case that things are improving on the margin, and that's what is most important today. Lots of room for improvement still, but we're on the right track.

The jobs report wasn't as bad as the headlines suggest. Even with all the problems that depressed job gains in January, the two key measures of jobs are both reporting the same rate of growth over the past year: about 1.25% annualized. That's sluggish, but it should be picking up over the course of this year, and over time that should be enough to reduce the unemployment rate. It was also nice to see an outsized gain of 49K manufacturing jobs, the biggest monthly gain in 10 years, confirming the strength that has been showing up in the ISM manufacturing surveys.

Key indices point to a stronger economy. Activity in both the service and manufacturing sectors is really picking up, and more than expected. All the numbers from both sides of the economy have moved up significantly in recent months. At this rate, it would appear inevitable that the economy is going to enjoy stronger growth and more inflation this year than last year.

Car sales rise 16%. January auto sales didn't increase from December, but weak January numbers have been the norm for several years, despite this series being seasonally adjusted. Over the previous 12 months, a better comparison, sales were up over 16%. The auto industry is finally enjoying a decent recovery. From the ugly depths of Feb. '09, sales are up 34%.

ISM manufacturing report very strong. The January ISM manufacturing survey indices came in much stronger than expected. This is almost what one could call a blowout report, since it leaves no doubt that conditions in the manufacturing sector are improving significantly.