

The Conference Board Special Webcasts

Global Labor Market Outlook 2020

Feeling the Squeeze: How can Businesses Navigate Tightening Global Labor Markets?

March 12, 2020



Some of the special questions and issues we will be addressing today

- The impact of **COVID-19** on the global labor market
- The latest **labor market trends across mature economies** and how business leaders can prepare for what's ahead
- Are workers in **emerging markets** a solution for multinationals?
- **Slowing productivity growth** around the world and why it is the main culprit behind **weakening industrial cost-competitiveness**
- **Labor shortages** among **blue-collar and manual services** positions in the US and its business implications
- The **latest labor market reforms** across mature economies created to combat this labor shortages crisis



Today's Presenters



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Global Labor Market Outlook 2020

The impact of COVID-19 on global labor markets

- Strong impact on global economies and labor markets
- A positive scenario would mean that the spread of COVID-19 significantly slows down in May-June
- Much depends on how seasonal the spread of the virus is
- Even in a positive scenario, several large countries in Asia and Europe will experience a temporary contraction in economic activity
- The US will suffer less, with the labor market impact focused on a drop in hours worked and reduced hiring, but without major layoffs
- In the more negative scenario, COVID-19 continues to spread beyond May, leading to a full-fledged global recession, and major layoffs
- The global labor market will become less tight



Heightened concern among C-suite leaders in mature economies around tightening labor markets

- In aging mature economies, labor markets will remain tight despite slowing employment growth, with continued hiring difficulties
- COVID-19 poses new downside risks to the global economic outlook and labor markets
- Wages are rising and squeezing profits
- There is a global warning shot from Central and Eastern Europe
- Increased labor productivity is the number one solution to labor shortages and rising labor costs—but this is easier said than done
- Slowing productivity growth main culprit behind weakening US industrial cost-competitiveness
- Mature economy labor markets will remain tight through 2030
- Locating operations in emerging markets—abundant and cheap labor, but skill gaps might be a problem
- Companies can mitigate longer-term risk by acting now



Tight labor markets are a big concern of CEOs in mature economies, but especially in Japan and the US

External Hot-Button Issues, C-suite Challenge 2020

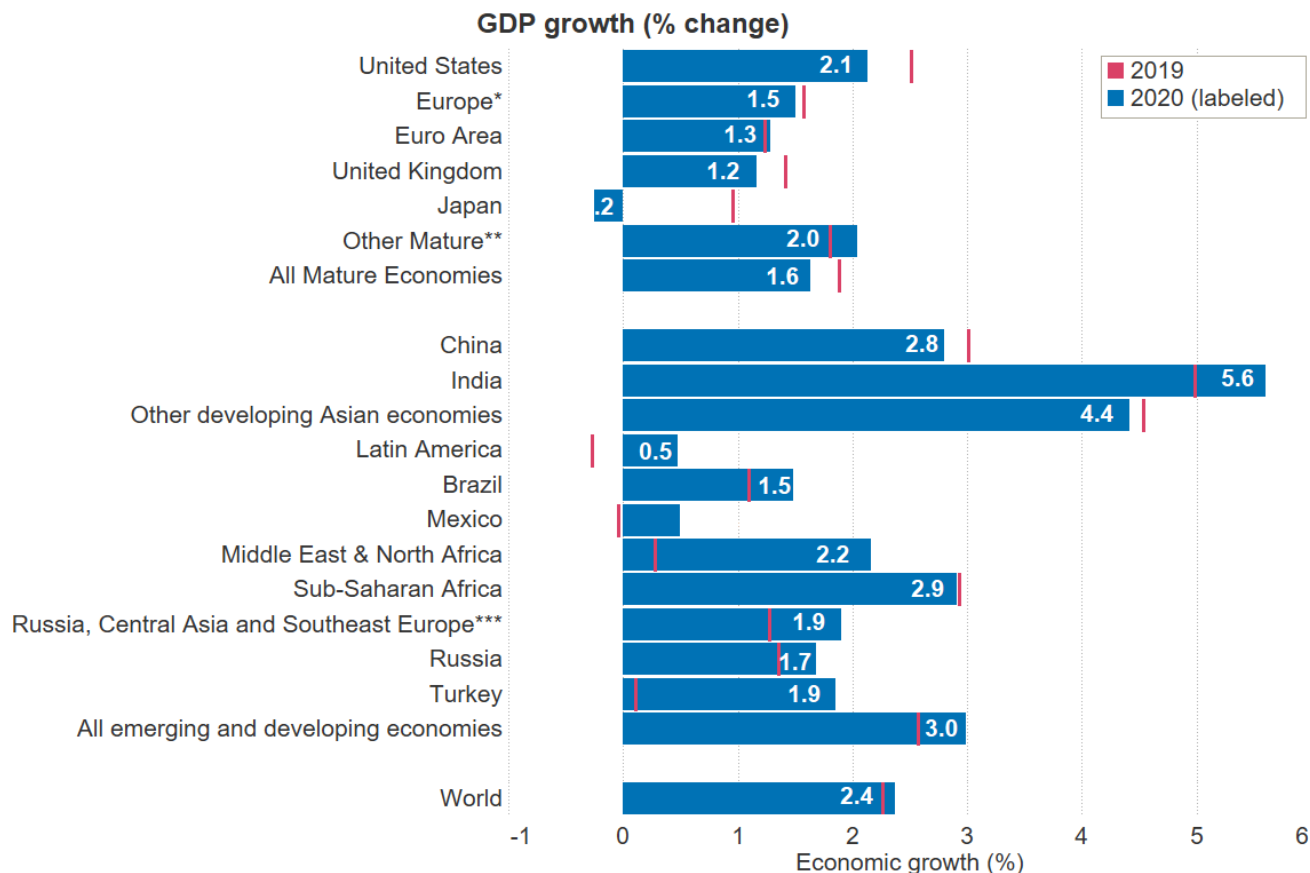
EXTERNAL HOT-BUTTON ISSUES	CEOs						Non-CEOs
	Global	USA	Europe	Latin America	China	Japan	C-Suite
Recession risk	1	1	1	2	T-1	2	1
Uncertainty about global trade	2	T-4	3	1	T-1	5	3
More intense competition	3	2	4	5	3	3	2
Global political instability	4	T-4	2	3	4	4	4
Tight labor market	5	3	6	10	T-8	1	8
More demanding customers	6	7	5	6	T-5	8	7
Cybersecurity	7	6	10	8	11	T-6	6
Declining trust in political and policy institutions	8	8	7	7	T-8	T-12	10
Impact of climate change on our business	9	12	8	4	18	T-6	9
Tougher regulatory environment	10	9	11	11	7	10	5
Effects of economic sanctions	11	11	12	14	T-5	9	11
Currency volatility	12	T-14	16	12	10	15	13
Other	13	10	13	9	T-16	11	17
Effects of Brexit	14	T-14	9	16	T-16	18	12
Income inequality	15	13	15	13	T-13	T-12	16
Uncertainty in corporate tax policies	16	T-14	14	15	T-13	16	14
Volatility in energy prices	17	17	17	17	12	T-12	15
Terrorism	18	18	18	18	15	17	18

N= 740 N=123 N=162 N=188 N=89 N=112 N=780

Source: The Conference Board C-suite Challenge 2020



Moderate economic growth will mean slower demand for labor—downside risk is large due to the COVID-19 outbreak



Note: GDP growth for select countries with significant ICT production and trade (China, US and Japan) are revised upward to reflect ICT price declines.

*Europe includes all current European Union 28 members as well as Switzerland, Iceland and Norway.

**Other mature economies are Australia, Canada, Israel, Hong Kong, South Korea, New Zealand, Singapore, and Taiwan.

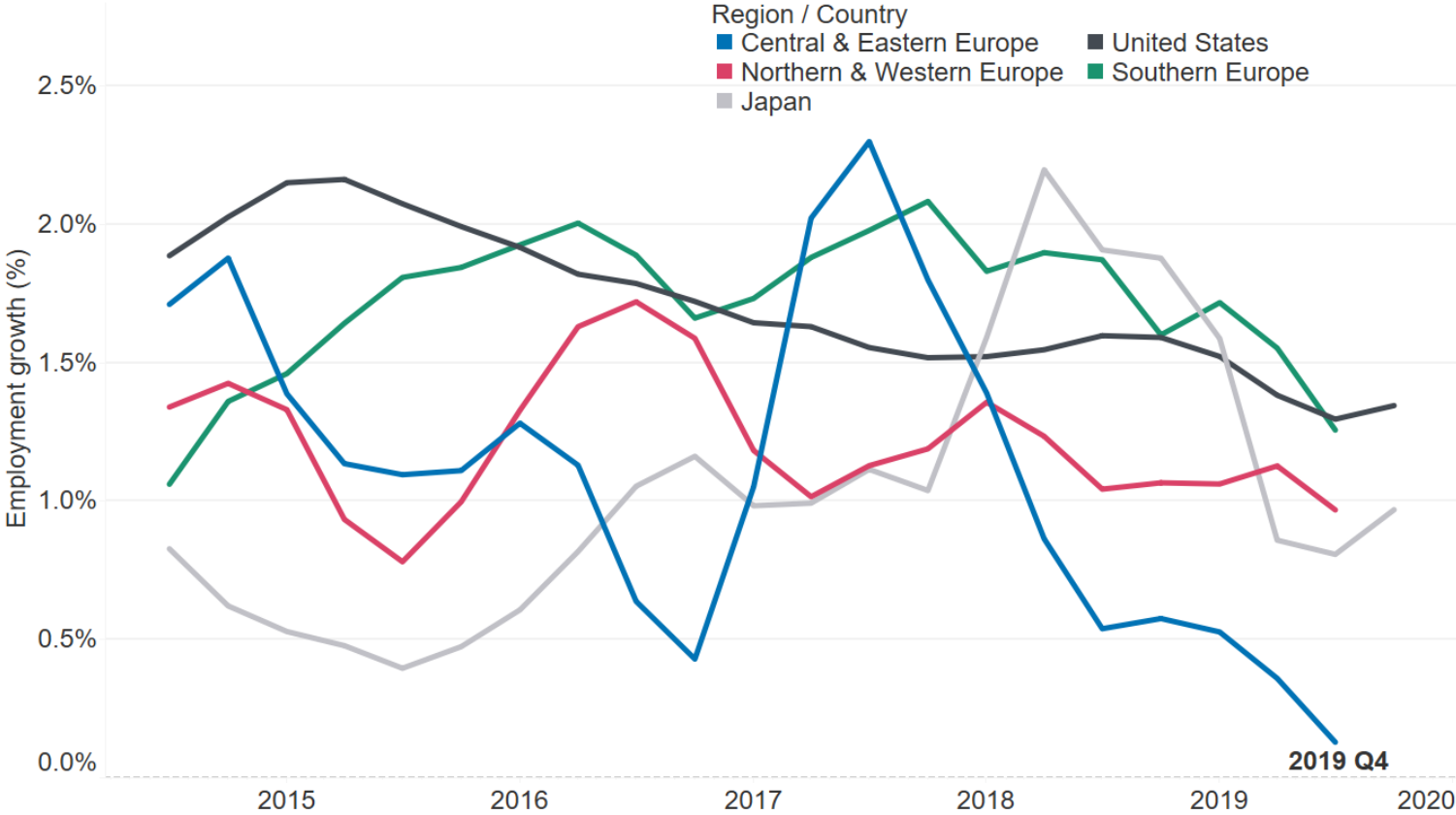
***Russia, Central Asia, and Southeast Europe include projections for Russia, Kazakhstan, Turkmenistan, Uzbekistan, Belarus, and Turkey.

Source: The Conference Board Global Economic Outlook 2020, February 2020 update.



Employment growth has been decelerating in all mature economies

Employment growth, percentage change compared to the same quarter in the preceding year, seasonally adjusted, 2-quarter moving average

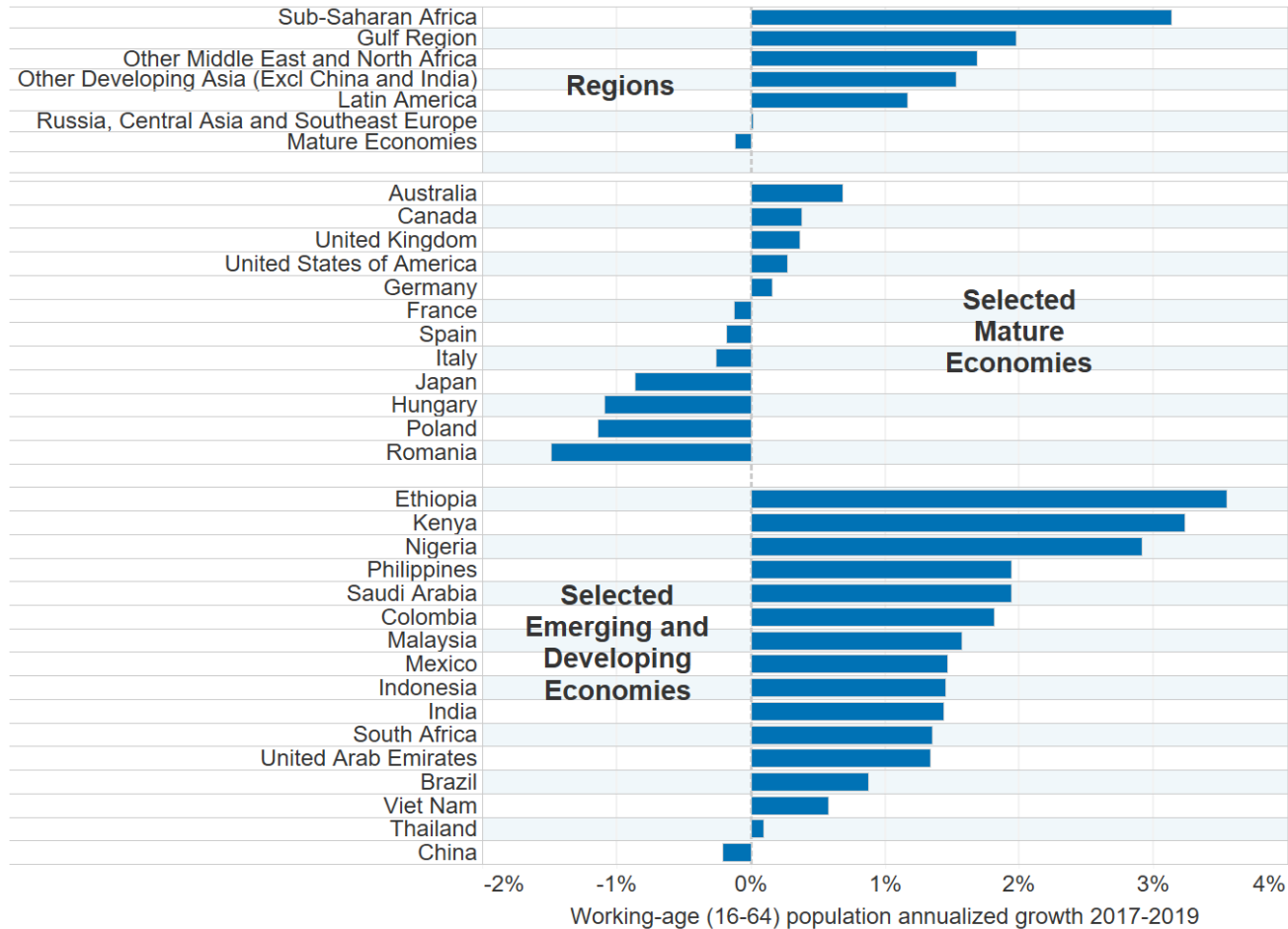


Source: Eurostat; U.S. Bureau of Labor Statistics; Japan Statistics



Working-age populations are shrinking across mature economies—emerging markets continue to expand rapidly

Working-age population (aged 16 to 64) growth between 2017 and 2019, annualized



Source: United Nations World Population Prospects, 2019 revision



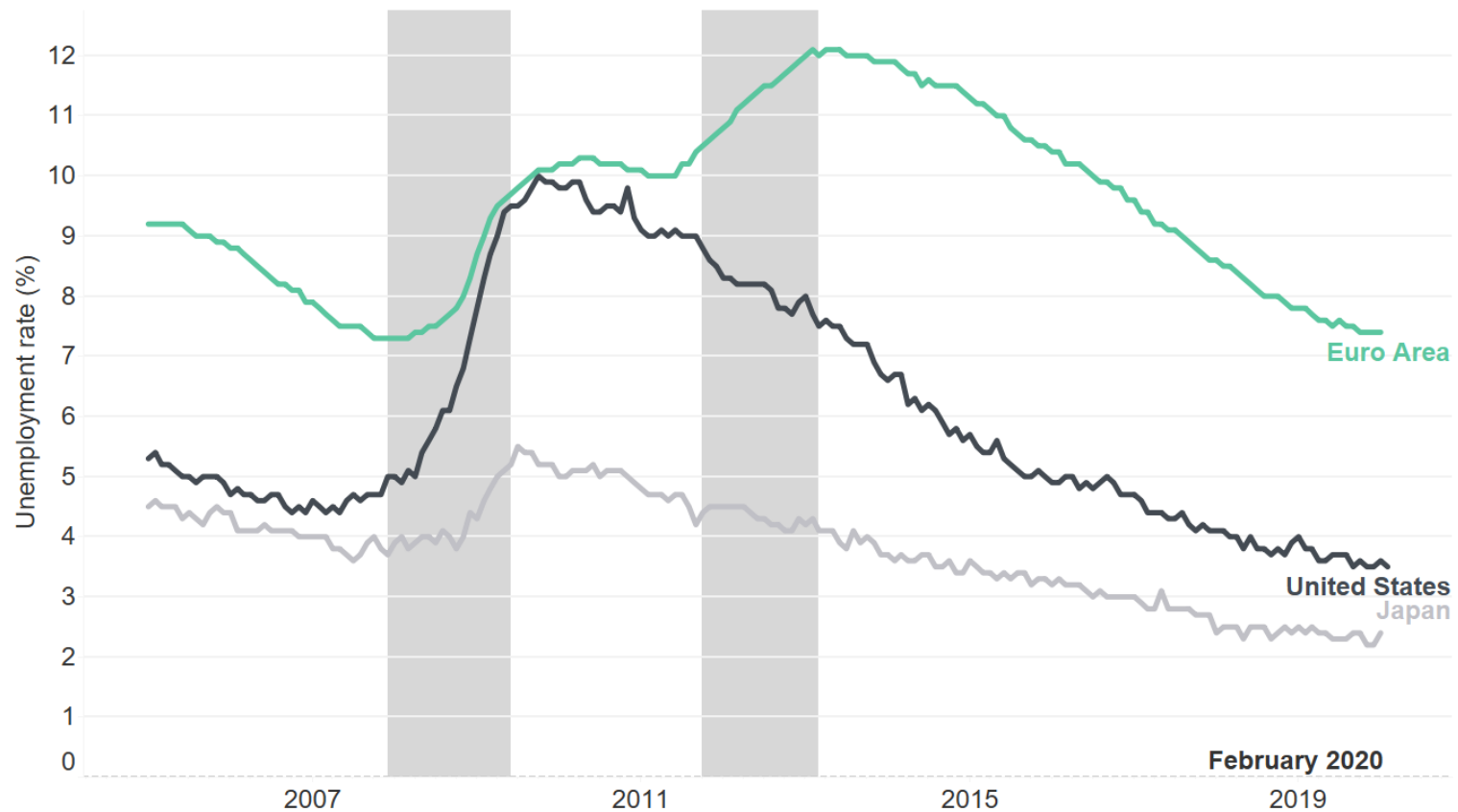
With a growing labor supply, Emerging Markets will provide employers with an alternative to recruiting from tight labor markets at home

- Rising labor shortages, recent trade disputes, political instability, and now COVID-19, will push companies to move supply chains outside of **China**
 - ✓ Since **Southeast Asian** countries remain heavily integrated in Chinese supply chains, multinationals will look to other regions
- **Latin American** labor markets will remain relatively loose, but will be compromised by low technological intensity and political instability
- **Sub-Saharan Africa**, with the world's fastest growing urban workforce, is an increasingly viable low-cost outsourcing destination
 - ✓ Esp. BPO/ITO – growing ICT services in Kenya, Nigeria, South Africa
- Multinationals in the **Gulf Region** will have to recruit as if in a much tighter labor market due to competition with coveted public sector work
- All Emerging Markets suffer from **lower labor quality** due to weaker educational systems and skill gaps, yet to differing degrees
 - ✓ Employers can tap into emerging markets' growing labor supply by investing in **workplace training** and developing **local talent pipelines**



The unemployment rates are still declining, though the trend is flattening—no further tightening in 2020

Unemployment rates in the Euro Area, Japan, and the US, seasonally adjusted

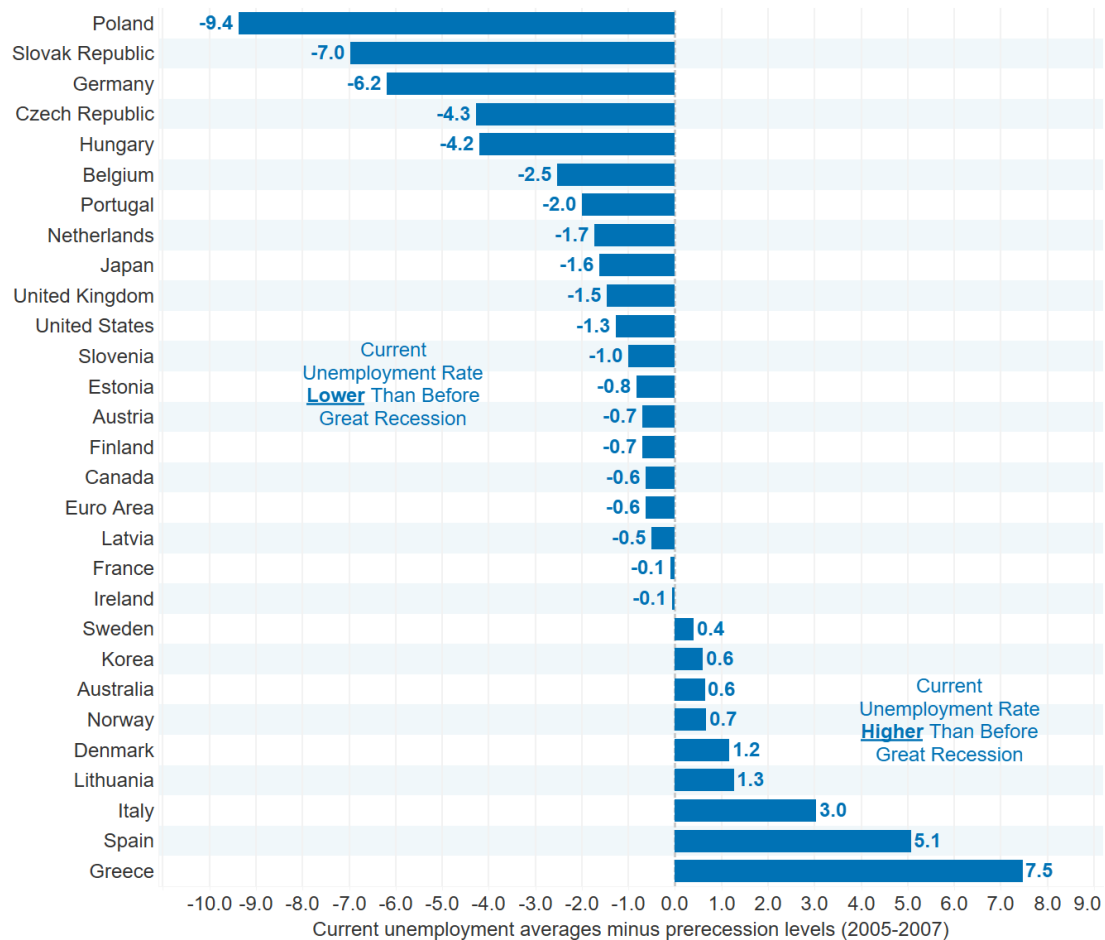


Sources: Eurostat; U.S. Bureau of Labor Statistics; Japan Statistics



Most countries have now moved below their prerecession unemployment rates

Current unemployment averages minus prerecession levels (2005-2007)

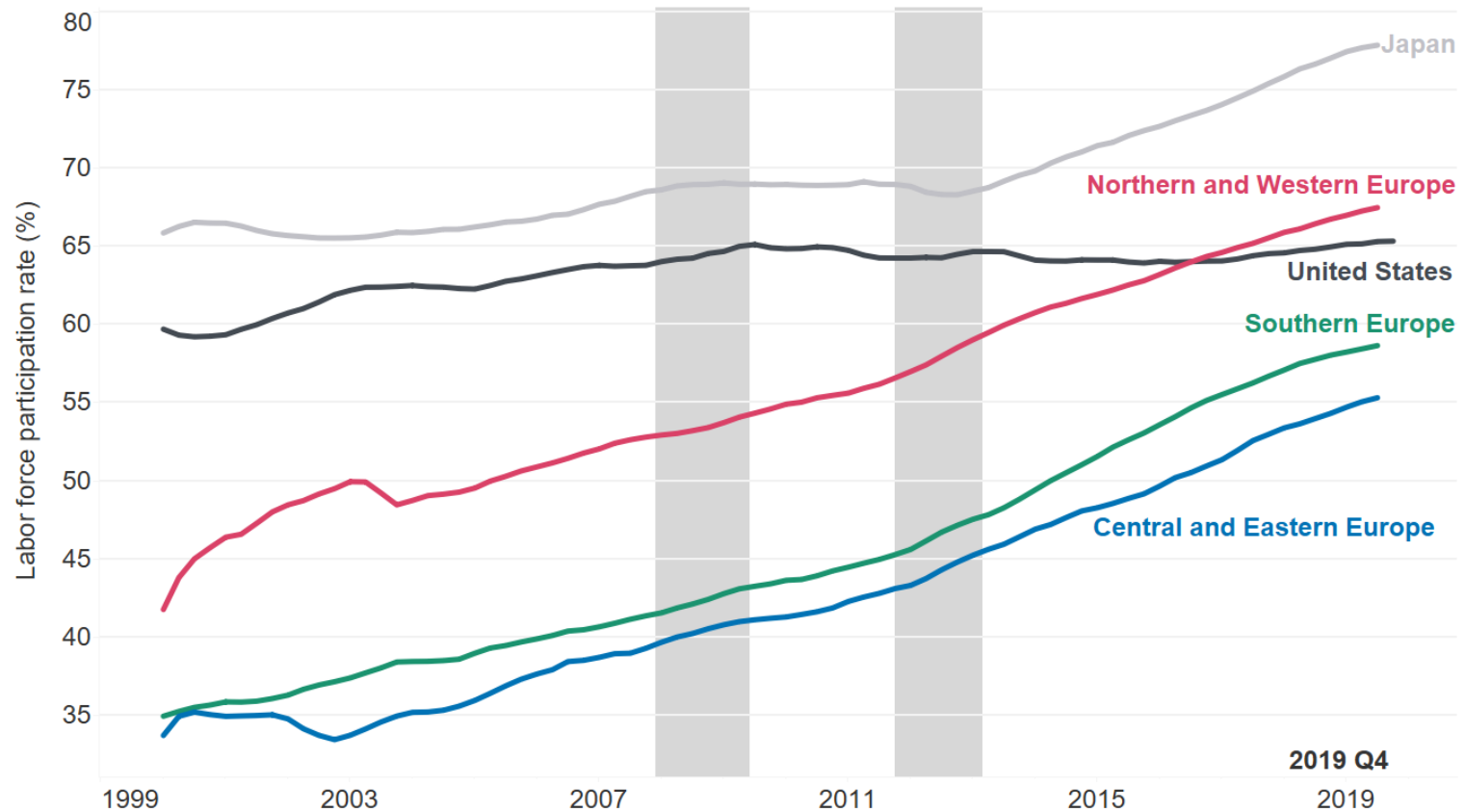


Source: Eurostat



In Japan and Europe, labor force participation rates for mature workers are rising—but only marginally in the US

The labor force participation rate for people aged 55 to 64, 4-quarter moving average

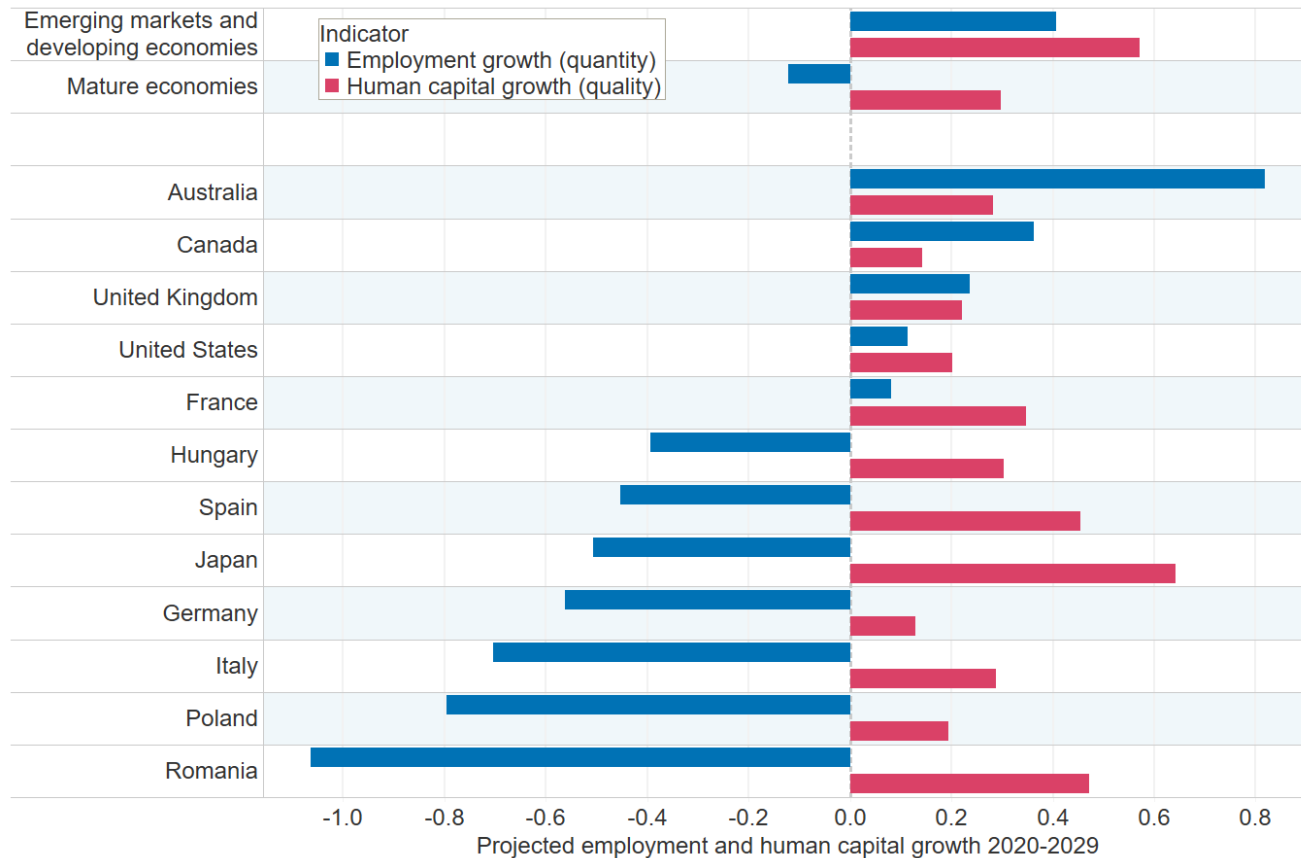


Sources: OECD; Eurostat; calculations by The Conference Board



Over the next decade, job growth will be negative in many mature economies—increased quality of labor main solution

Employment and human capital growth (labor quantity and quality growth) for selected regions and mature economies, 2020 to 2029

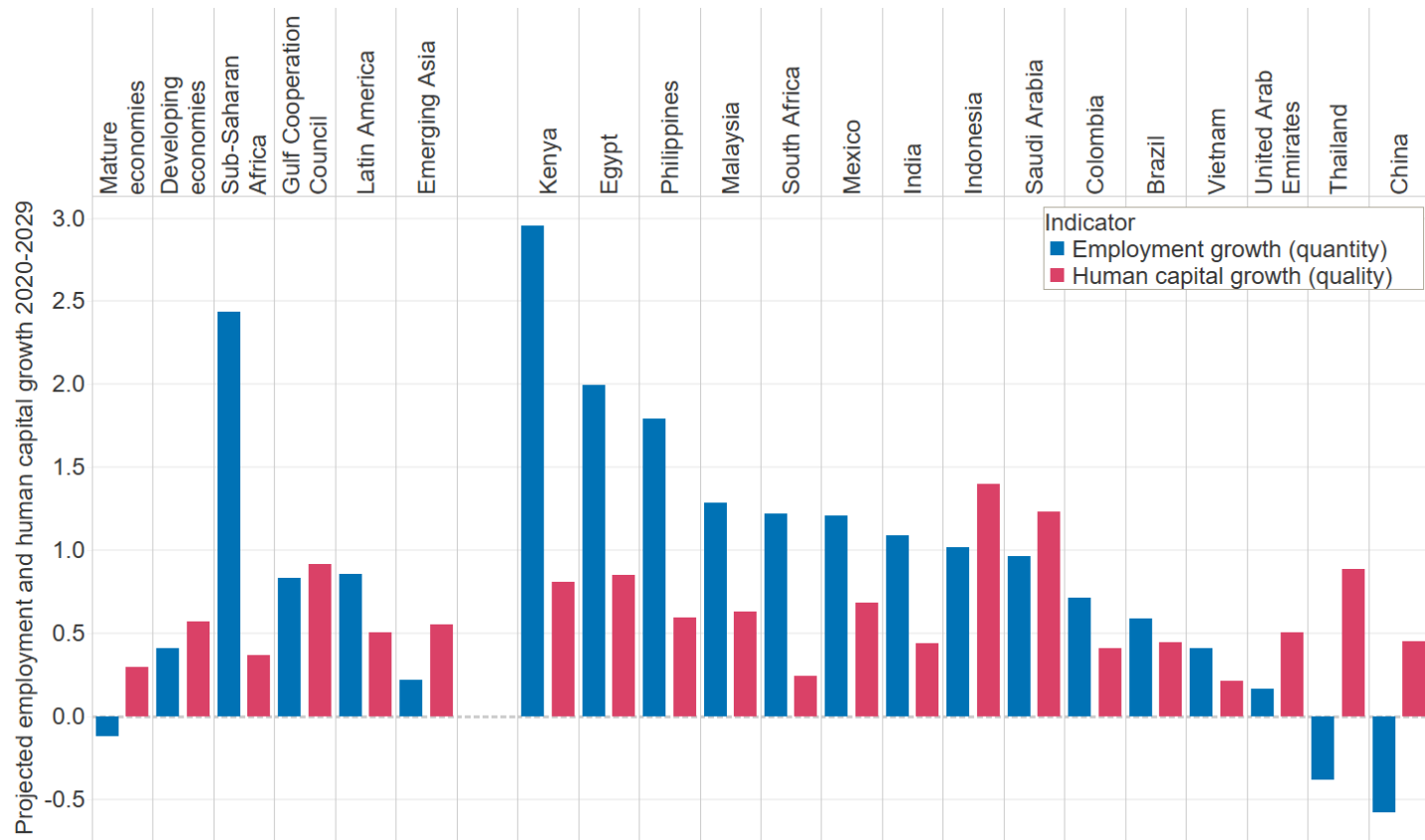


Source: The Conference Board Global Economic Outlook 2020, February 2020 update



Emerging markets are still rapidly expanding, but quality of labor remains a concern

Employment and human capital growth (labor quantity and quality growth) for selected regions and mature economies, 2020 to 2029

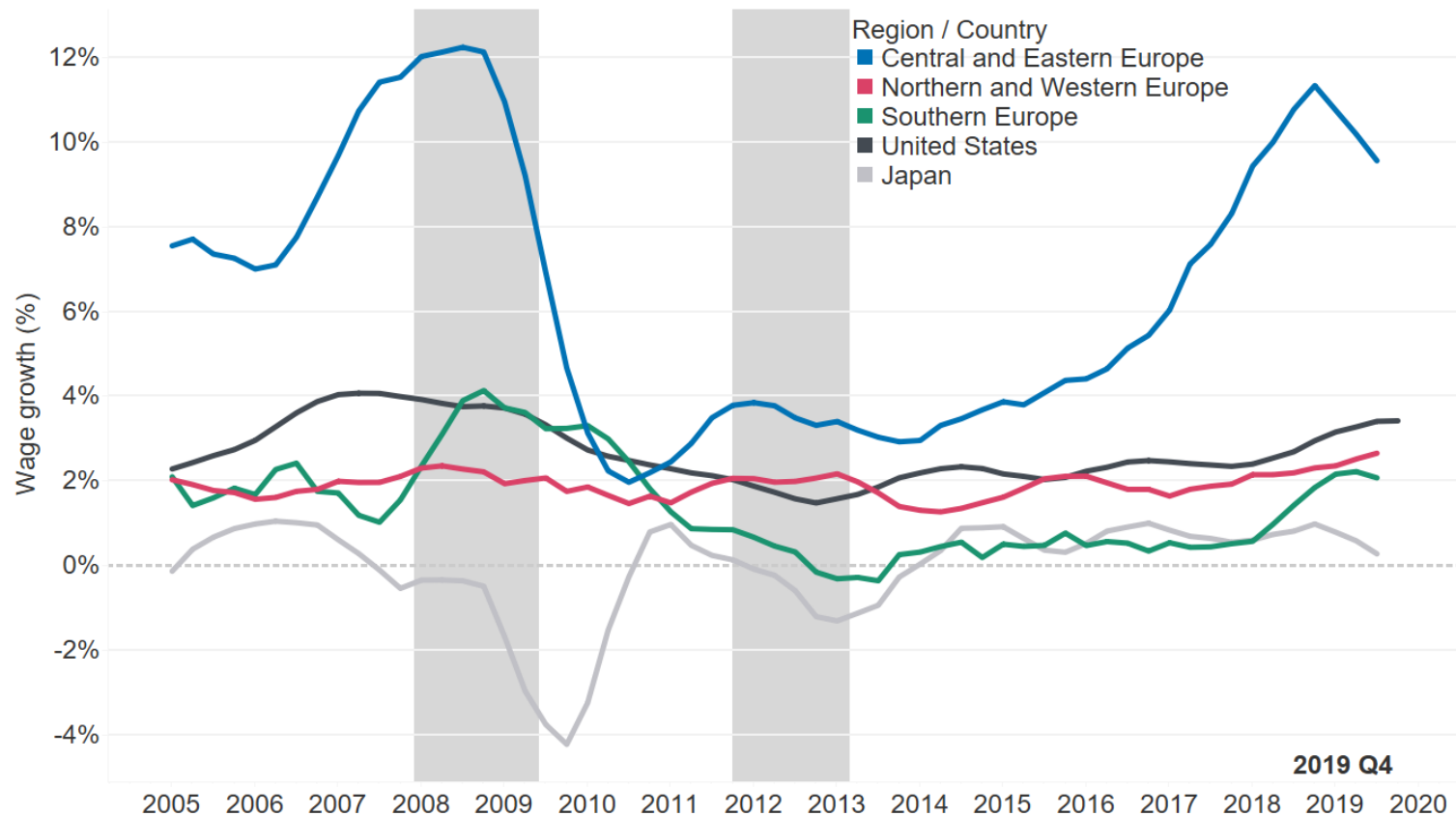


Source: The Conference Board Global Economic Outlook 2020, February 2020 update



Wage growth is now the fastest it has been in over a decade in Northern and Western Europe

Wage growth, percentage change compared to the same quarter in the preceding year, business economy, 4-quarter moving average

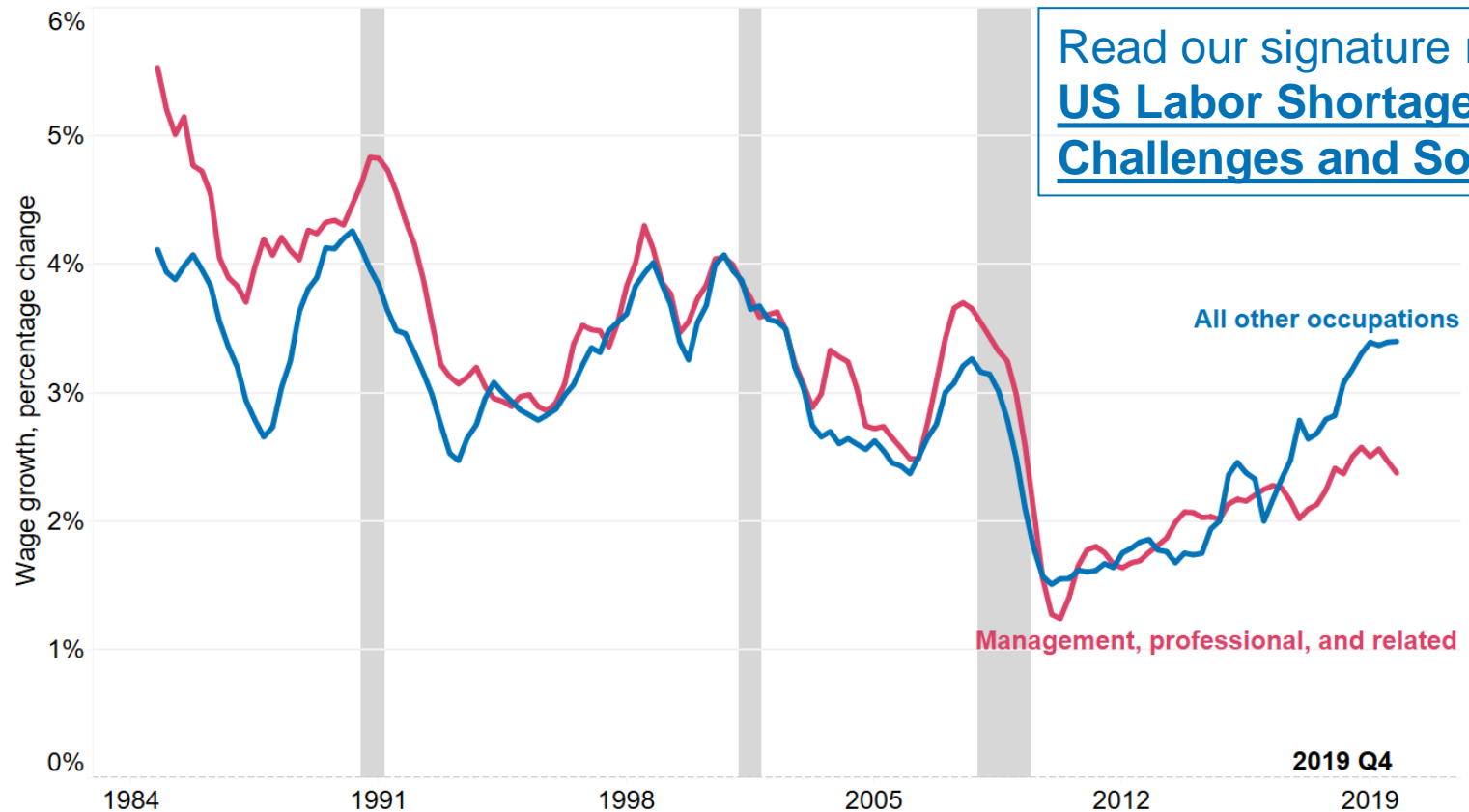


Sources: Eurostat; OECD; calculations by The Conference Board



Wages are growing faster for blue-collar, manual services, sales, and office workers

Year-over-year growth in the Employment Cost Index (wages and salaries), by occupation group, four-quarter moving average

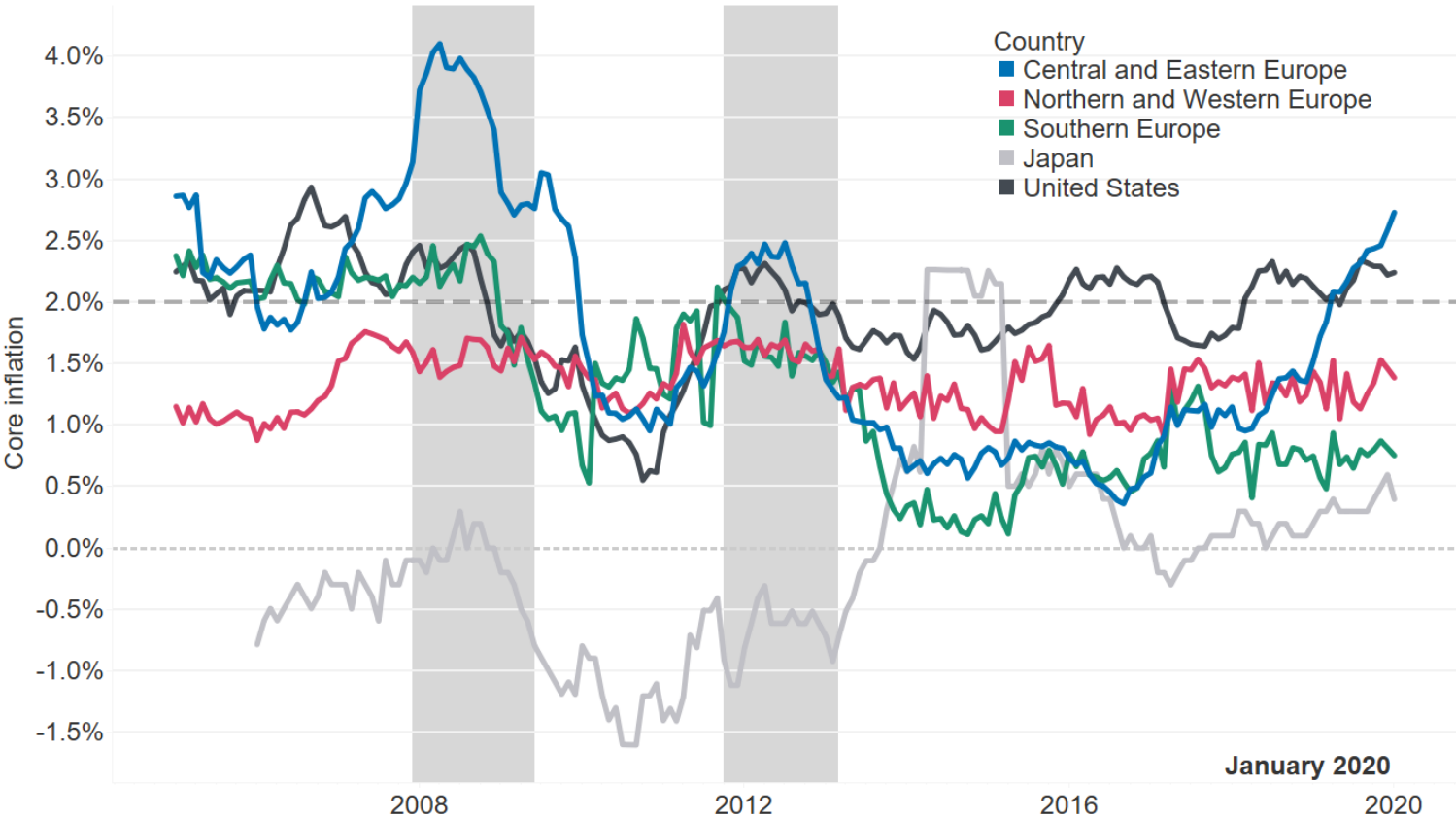


Source: The Employment Cost Index and calculations by The Conference Board



Core inflation is quickly accelerating in Central and Eastern European countries as supply constraints kick in

Core inflation, consumer price index (excluding energy and food prices), 12-month moving average

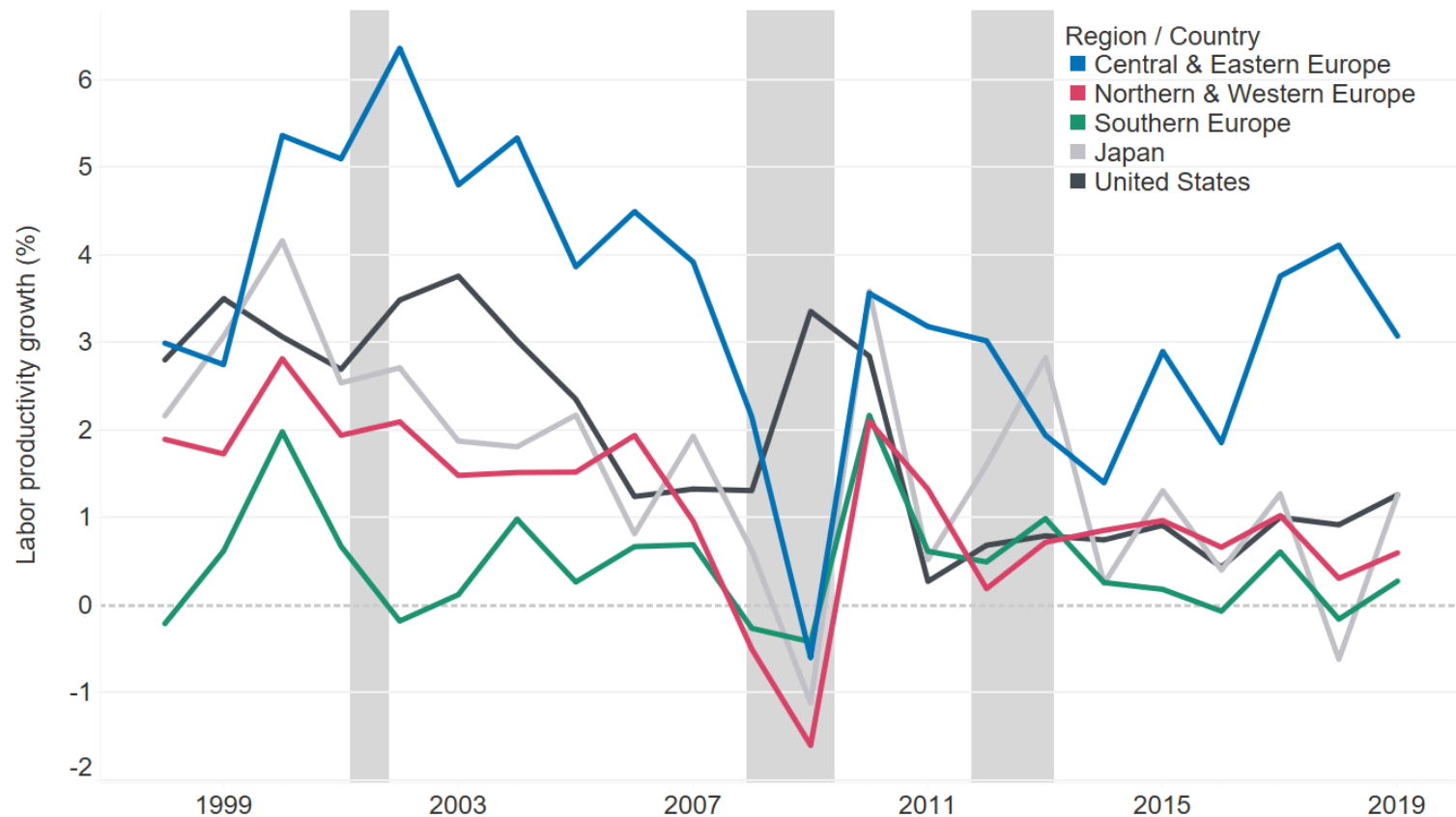


Source: Eurostat; US Bureau of Labor Statistics; Japan Statistics



Productivity growth strong in Central and Eastern Europe but remains lackluster in other mature economies

Output per hour worked, annual percentage change

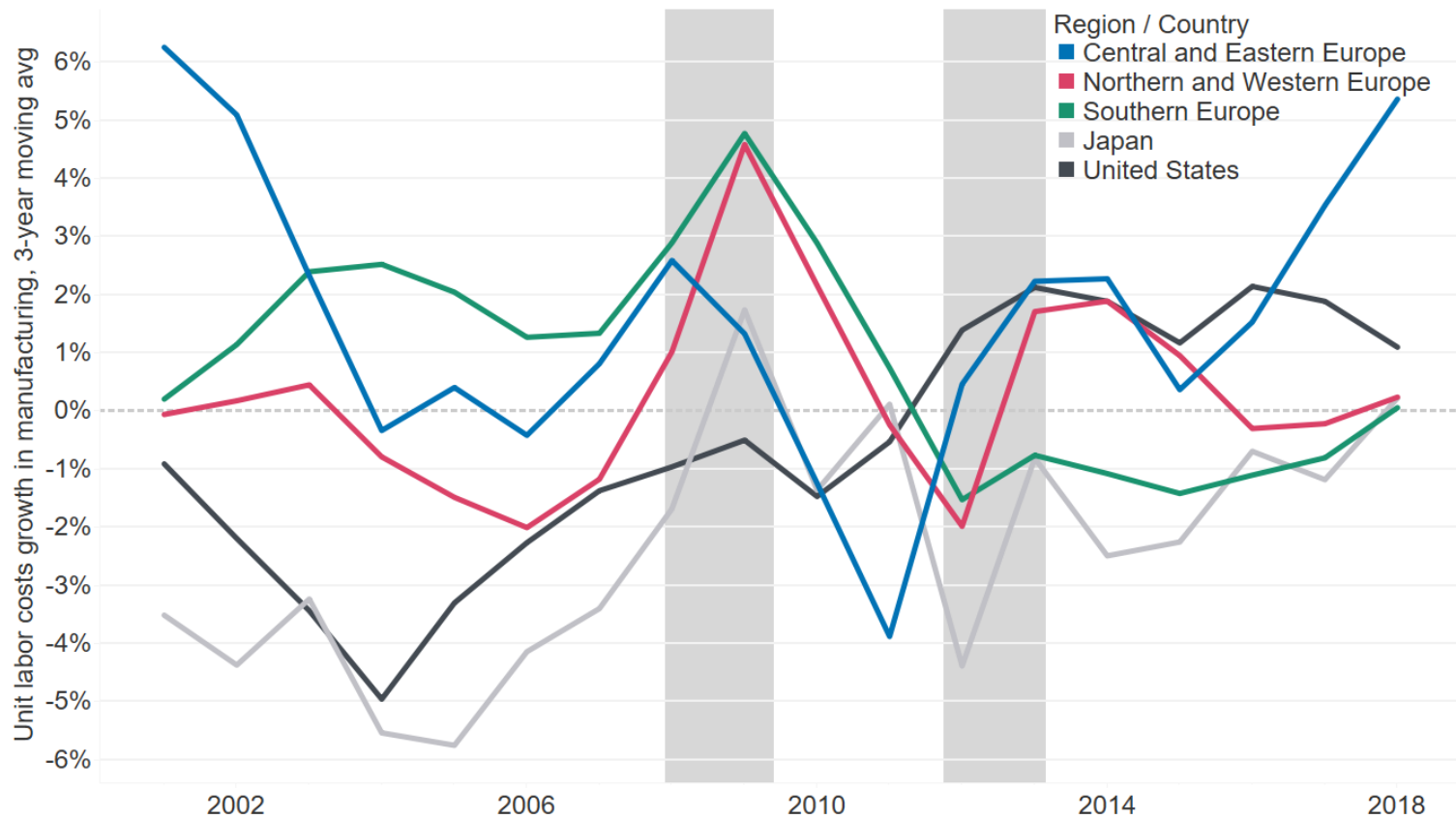


Source: The Conference Board Total Economy Database™, April 2019



Slowing productivity growth main culprit behind weakening US industrial cost-competitiveness

Growth in unit labor cost in manufacturing, 3-year moving averages

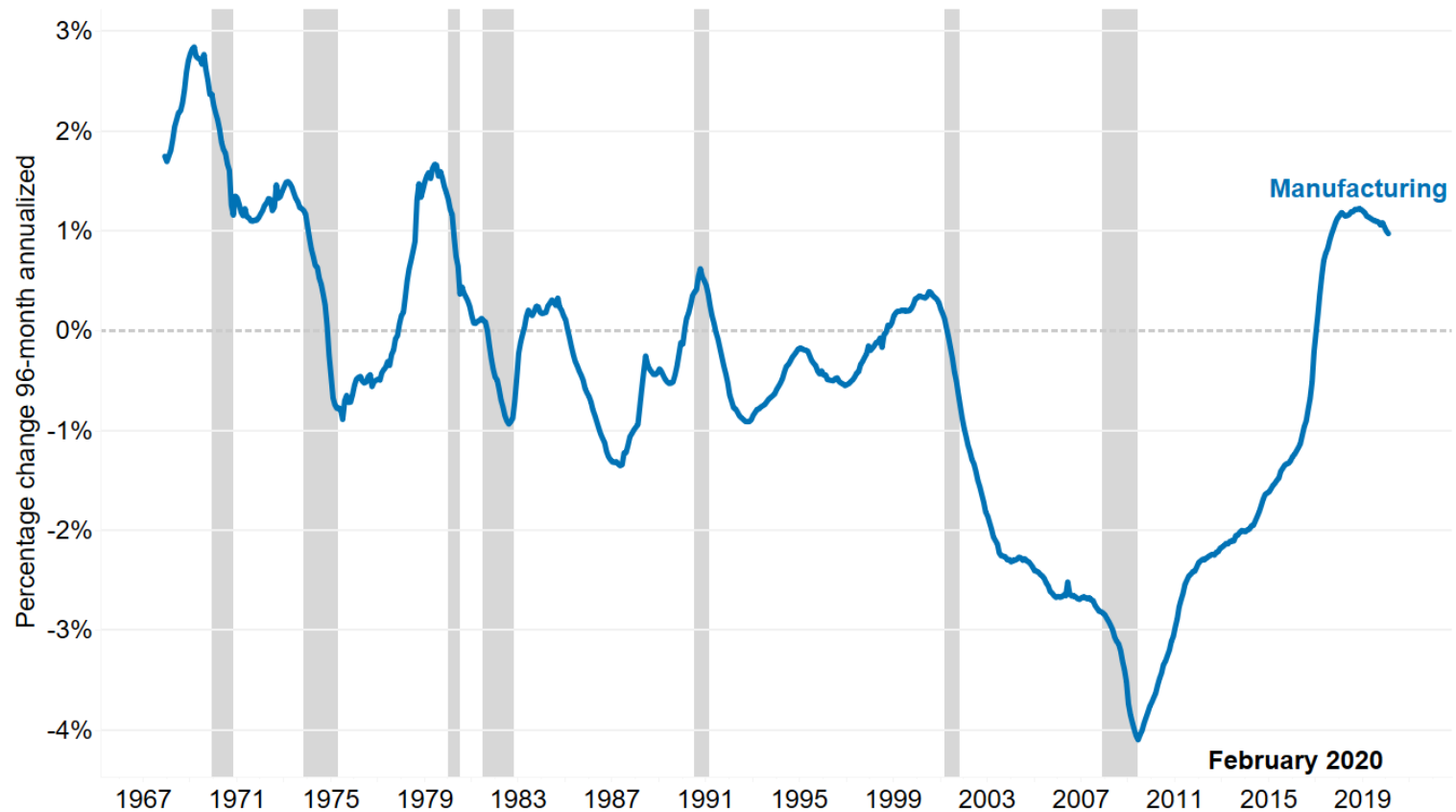


Source: The Conference Board Total Economy Database™, April 2019



Strongest stretch of manufacturing employment growth since the 1970's

Employment growth in manufacturing, 8-year annualized percentage change

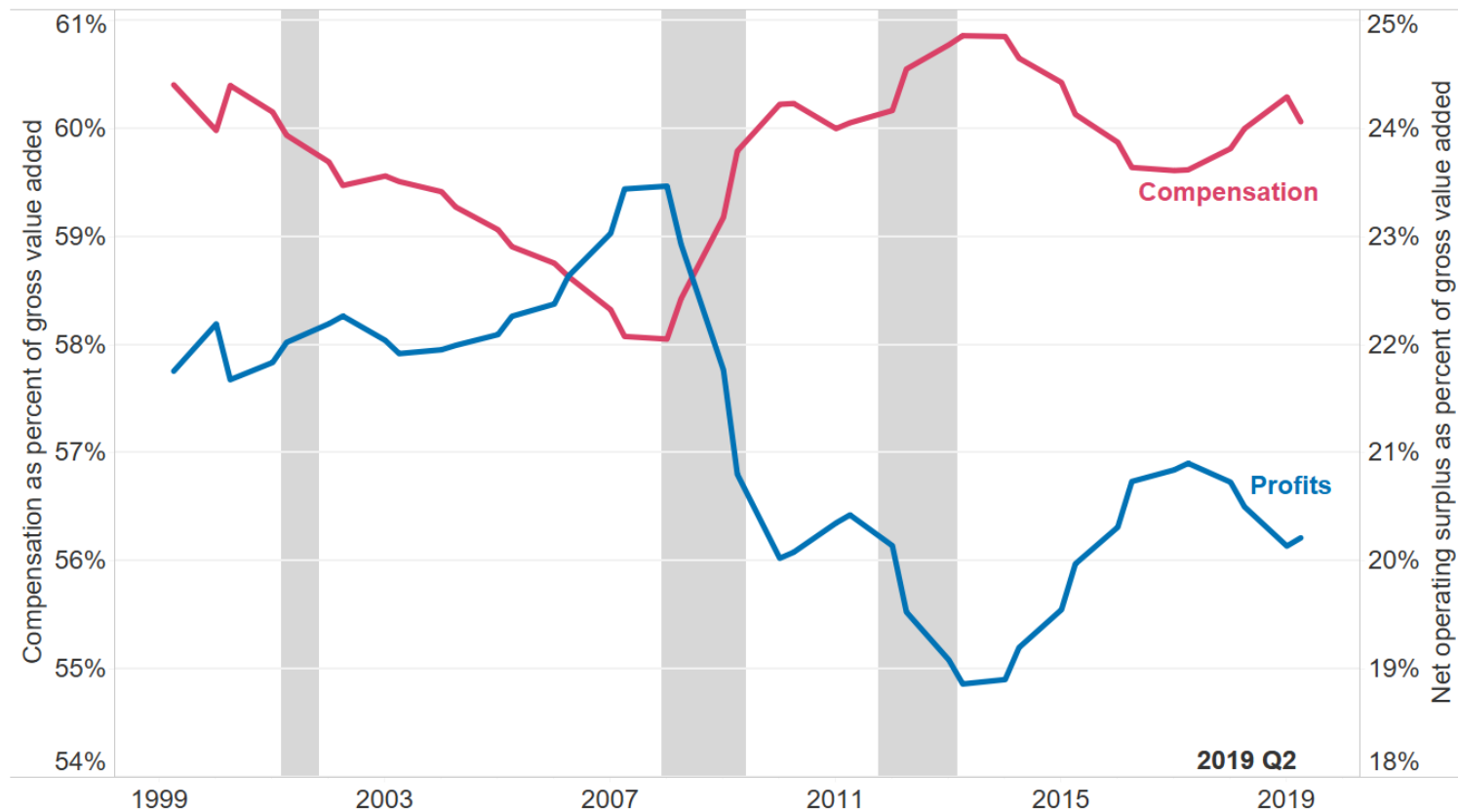


Source: US Bureau of Labor Statistics



Euro Area profit shares are declining as revenue growth cools and labor costs rise

Euro Area net operating surplus (proxy for profits) and compensation, as a share of gross value added, 4-quarter moving average

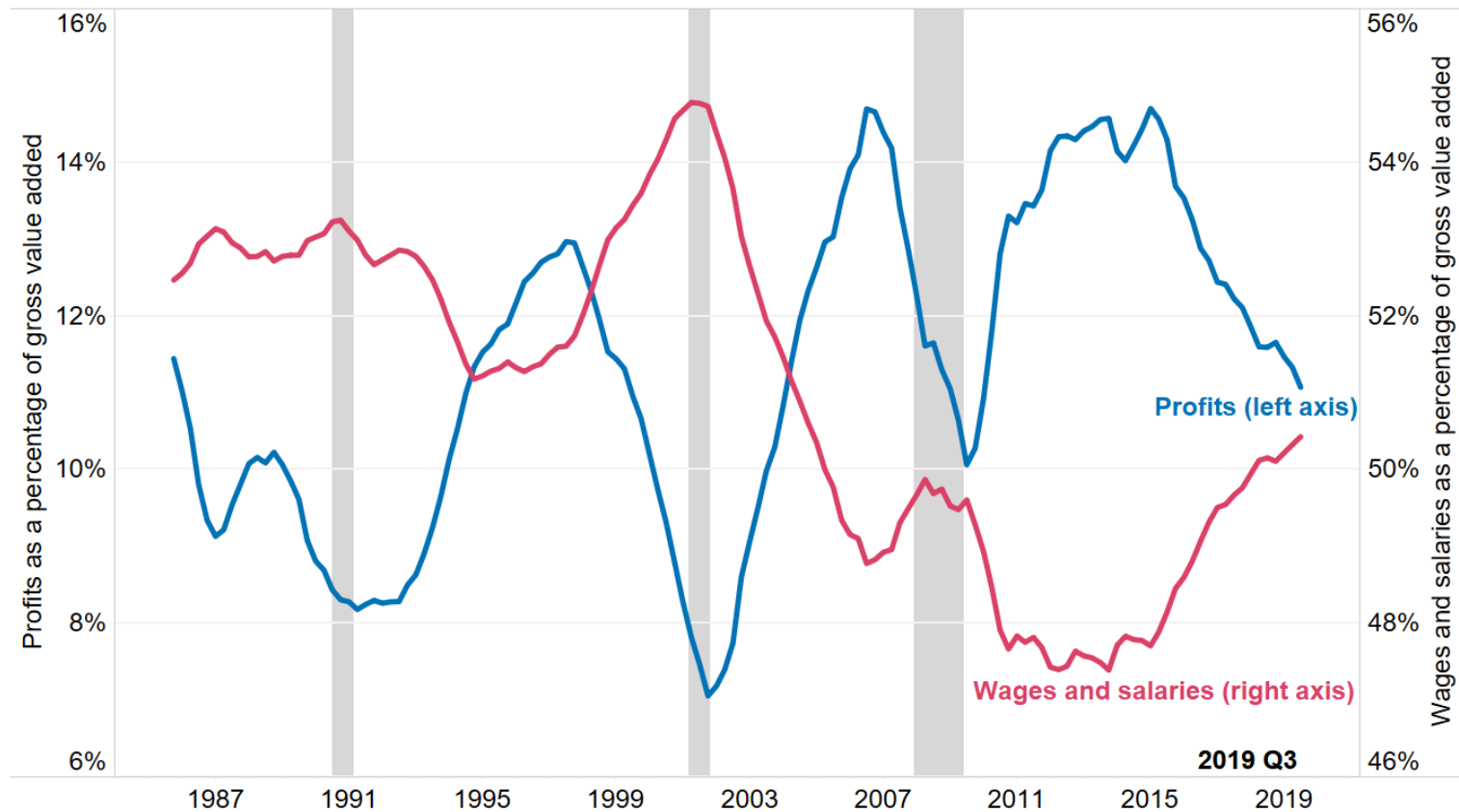


Source: European Central Bank



US corporate profit growth is rapidly declining as rising labor costs erodes profitability

US corporate profits and wages and salaries, as a share of gross value added of nonfinancial corporations, 4-quarter moving average, seasonally adjusted



Source: Bureau of Economic Analysis



Solutions to Labor Shortages

- Possible solutions?
 - ✓ Increasing labor force participation - rates have improved, but remain disappointing
 - Employers are expanding recruiting to underrepresented demographics
 - ✓ Immigration will probably not increase in the near term
 - ✓ It will be difficult for labor productivity or automation to compensate for worker shortages
- The Conference Board Labor Shortages Solutions Survey
 - ✓ Employers struggle with the adverse results of labor shortages
 - ✓ Company solutions: A multi-strategy approach to combat labor shortages
 - Tactical recruitment and retention solutions
 - Reevaluating job requirements and relaxing hiring criteria
 - Increasing training and developing talent pipelines
 - Developing policies around flexibility and reducing the burden of work
 - Expanding recruitment demographic – women/veterans/people with disabilities/immigrants



Labor market reforms

- In **US**, reforms in 2020 **increase labor costs** and **reduce staffing flexibility**
 - ✓ A record number of state and municipal minimum wage increases in 2020
 - ✓ Overtime pay threshold increased, making more salaried workers eligible for OT
 - ✓ CA “gig worker law” makes it more difficult to classify workers as independent contractors – may begin domino effect as other states follow suit
- In **France**, reforms since 2017 **increase labor market flexibility**
 - ✓ Making it easier to hire and fire workers, reducing employers’ reliance on temporary jobs, and incentivizing the unemployed to return to work sooner
- In **Japan**, workstyle reforms since 2019 aim to **curb workers’ deteriorating health** amid a shrinking labor force
 - ✓ Limiting overtime hours, increasing OT rates, and encouraging work-life balance
- In **India**, 2020 is the year of labor reforms, aimed to **reduce compliance costs for employers**
 - ✓ Modernizing and streamlining 44 labor laws into **4 new codes** governing wages, industrial relations, social security, and working conditions
 - ✓ As of August 2019, minimum wage protection extended to all workers
 - ✓ Expect easing of rules limiting the hiring and firing of workers





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