AUREUS
ASSET MANAGEMENT

Jobs, Productivity and Growth: the Challenges

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Introduction

Jobs, or lack thereof, are on everyone's mind. Persistently high unemployment in the developed world has been a hallmark of the financial crisis and ensuing recession. While the recession in the US officially ended fifteen months ago, unemployment remains stubbornly elevated.

In contrast to weak job growth, profit margins have soared back to pre-recession levels. This is because employers found they could cut headcount when business turned down, and still satisfy the relatively weak improvement in orders over the past year. In addition, technology advances have helped boost productivity in the US, which has jumped over 6% since early 2009.

As growth slowly improves and efficiency gains reach natural limits, we expect companies to hire more workers. Yet very serious long-term challenges remain: how will workers unemployed for half a year or longer attain skills necessary in today's high-tech world; how will we create enough jobs to employ new graduates; how many high-paying jobs have been lost as certain industries mature or experience structural decline? For all these reasons, we believe that job growth in the US will be muted as compared with past recoveries.

I. Employment in the US and Around the Globe

Since the start of the recession in late 2007, over 30 million people worldwide have lost their jobs. Virtually all were in the developed economies. In fact, the difference between job prospects in developed versus emerging countries is dramatic.

Twenty-three million people in the European Union are currently jobless, up 36% since 2007, and the average unemployment rate is just over 10%. In the US, over 7.5 million people lost jobs in the past three years.

The story is very different in the developing world. Brazil, for example, added 2 million jobs in just the first eight months of 2010, an 8% increase, while more than 15 million jobs have been created in past eight years. China has created 22 million new jobs in the past two years and 112 million in ten years. This migration from rural to urban life mirrors the US labor force transformation between the late 19^{th} and mid-20^{th} century, but much faster. Furthermore, these countries are succeeding in developing jobs in higher value added sectors such as technology and in high-paying service sectors.

II. Future Trends

Restoring confidence in the private sector, educating and training people with the skills required to succeed today, and implementing coherent national policy in key industries are essential elements required to make substantial long-term inroads into unemployment. In the short run, however, job growth should improve as productivity gains top out.

Yet unemployment in the 4-5% range, which we were accustomed to only a few years ago, seems out of reach. The influence of technology in the US and Europe is permanent, as new industries substitute automation for jobs. Additionally, industries such as retail and finance, which were strong job creators in past recoveries, are today facing structural headwinds.

Companies are reluctant to hire new workers because of the added costs such as social security, health insurance, payroll taxes and employment standards. Also, job seekers with limited educations have considerable trouble finding jobs outside menial labor.

Washington needs to develop a sensible growth plan for new industries with major potential, such as renewable energy and next generation technology sectors. These plans would include job training and tax incentives.

The most important driver of employment growth would be a return of optimism in the private business sector. Unfortunately, a recent CFO survey remains pessimistic, as key decision makers express wariness of pending tax changes and new financial and health care regulations. Our challenge as a country is to deliver policies which restore credibility to political and economic bodies, and which result in much greater visibility and confidence.

At Aureus, we try to emphasize companies on the forefront of newer developments, companies taking advantage of technology or benefiting from areas of economic expansion. Further, we believe that fiscally strong emerging market countries will continue to grow faster than most of the developed world. Therefore, while we look for an eventual return to improved domestic job creation, we remain strong advocates of global diversification.

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