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2017 Economic Overview: Expecting Growth in an Evolving Labor Market

Educate and Innovate

May 30, 2017

A Culture for Talent

Agenda

- ❑ Background: Broad Economic Overview
- ❑ Sector Specific Worker and Industry Trends
- ❑ What You Can Do

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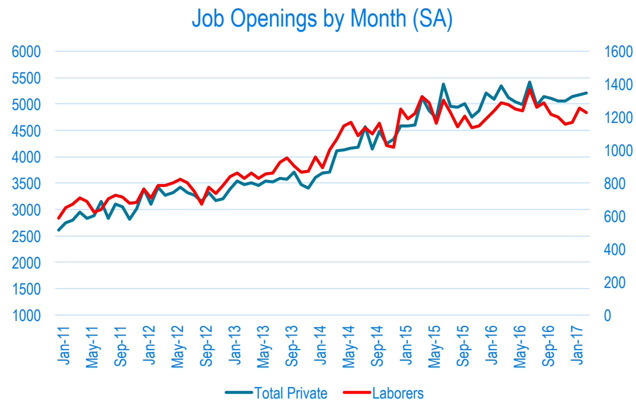
Job Openings: Hovering at record levels



Job openings continue to hover at record levels. For industries that employ skilled and unskilled laborers, openings are up 85% since 2011 and 28% since early 2014.

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Supply IS the Problem

"The worker shortage facing America's farmers" – *CNN Money (Sept, 2016)*

"What's Holding Back the Housing Market? Not Enough Construction Workers" – *Reuters (Sept, 2016)*

"Oil companies face worker shortages after 350,000 layoffs" – *USA Today (Jun, 2016)*

"Is 2017 the Tipping Point for the Manufacturing Skilled Labor Shortage?" – *Detroit Business Journal (Jan, 2017)*

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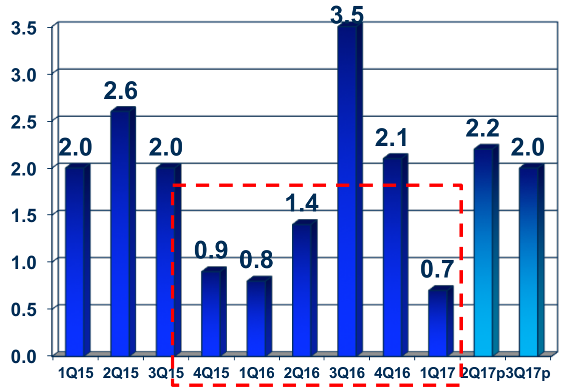
GDP: Rough go but slow and steady in 2017



4 out of the last 6 quarters were lethargic. A trend that is predicted to end in 2017. But why the poor GDP growth if job growth has been so consistent?

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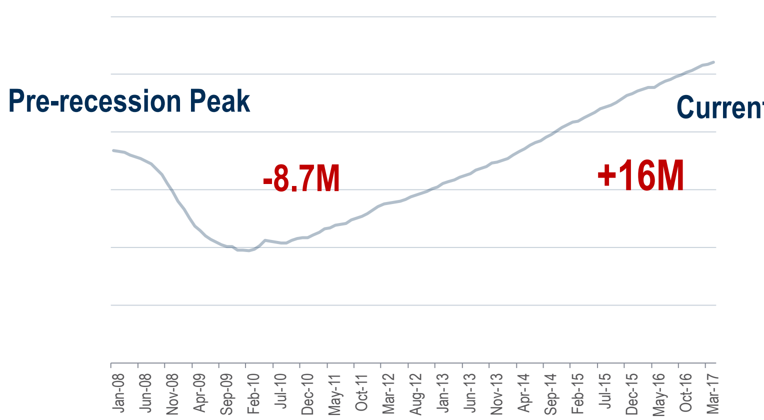
Job growth, by the numbers, looks great



Even though the pace of growth has slowed, we have still added 750K jobs in 2017 (185K/mo). The previous 6 months, 195K/mo.

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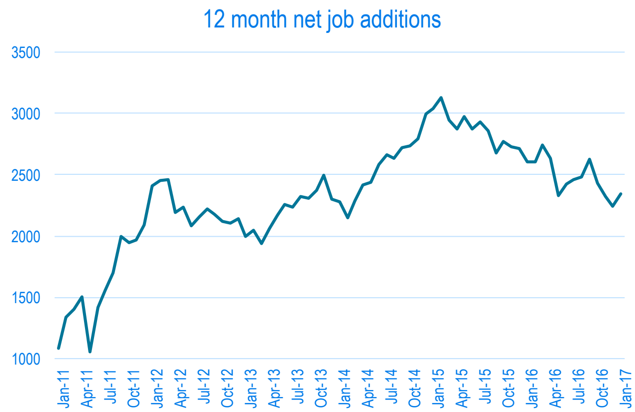
But the rate of growth has been going down



The U.S. has been adding jobs at a slowing rate since the beginning of 2015. But, it is still adding jobs!

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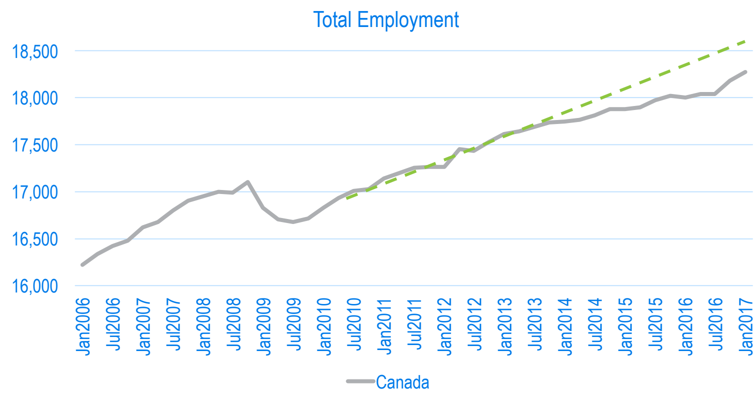
Canada has also felt restrained growth



Canada faced a recession in 2009 with a decline of almost 400,000 jobs in one year. Canada quickly rebounded in 2011, although at a pace slower than previously seen prior to the recession.

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Source: StatCanada

There are two key factors that have been influencing the economy:

- Oil & Gas drilling
- China transition to a service based economy

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Plunging oil prices and their effect on labor

Bankruptcies

- 114 North American O&G producers 2015 to now.
- Involve approximately $74 billion in cumulative secured and unsecured debt.
- As of Dec 14th, 2016, 70 producers had filed bankruptcy in 2016
- There were 16 Midstream bankruptcies since 2015.

Canceled Projects

- $380 billion worth of oil and gas projects have been cancelled since 2014
- 68 major projects were scrapped in 2015, which account for around 27 billion barrels of oil and natural gas.
- $170 billion in capex spending was slashed for the period between 2016 and 2020.

Major players (Exxon, Shell, ConocoPhillips, Chevron, etc.) announced record losses; Canada has had its worst GDP growth in years.

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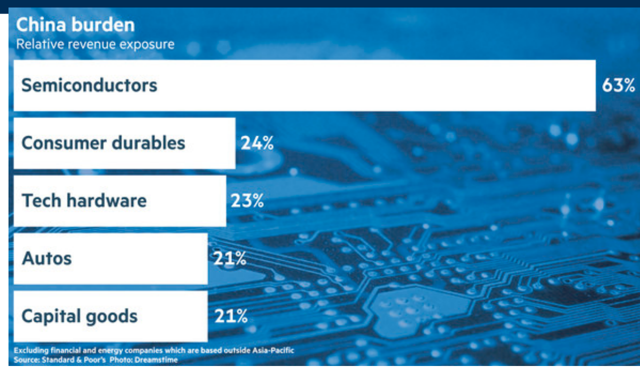
Source: Haynes and Boone, Wood McKenzie, Energy Matters

China's transition to services



Western exposure is significant

- Exports to China: Qualcomm (48%), Texas Instruments (30%), Intel, Boeing, Western Union, Mastercard (around 10%)
- In 2014, China represented around 46% of the global market for steel products.
- CAT was selling one fifth as many large machines to China last year compared to 2 years prior. They announced a 10K layoff late 2015 as a result.

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Source: Investopedia, MarketWatch, CNN

Industries are hiring, just not the shakers

	Apr YoY Ch (k's)	
Health Care	337	
Hotels and Restaurants	275	Largely unskilled laborers
Government	179	
Construction	173	
Temp Help	112	
Transportation/warehousing	84	
IT Services	79	
Mgmt Consulting	79	
Retail*	75	
Insurance	56	
Banking	42	
Manufacturing	40	*Durable goods down 8K*
Scientific Research	25	
Oil and Gas	0	
Information	-46	*Telecom down 40K, Software up 14K*

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** Nonstore retailers up 21K*

Which States are hiring the most manuf.?

	Apr YoY Ch (k's)
Texas	6.2
Michigan	4.8
Wisconsin	4.7
Minnesota	1.9
Oregon	1.5
Pennsylvania	-1.6
North Carolina	-1.7
Indiana	-2.2
Virginia	-2.7
California	-2.8
Ohio	-4.5

There is no rhyme or reason to which States are hiring which shows that success will depend largely on the market a company is located in.

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The pool is getting drained, even lower end

Unemployment rates	Jan. 2012	Apr. 2017	Change
Some High School	13.0	6.5	-6.5 ★
High School Diploma	8.5	4.6	-3.9
Assoc Degree/Some College	7.1	3.7	-3.4
College Degree or higher	4.3	2.4	-1.9

★ All time record low was 5.8% in December 1999!

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The pool is getting drained

If we remove the Vietnam War, the lowest unemployment rate ever for 16-19 year olds was in June 2000 at 12.3%

Last month we hit 13.7% after peaking in 2010 at 26.2%.

In Y2K, the Labor Force Participation rate was 52% for this age group.

Now, it is 36%.

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Conditions are tight, but stable, with LI a little loose

	Low	High	Current	OTY Change
Admin/Clerical	3.4	9.4	3.5	-1.3
Business and Financial	1.7	6.8	**3.3**	1.1
Engineering	1.0	9.6	**2.1**	0.0
IT	1.4	6.5	**2.5**	0.5
Management	1.4	5.7	**1.8**	-0.6
Production	4.7	16.3	4.8	-1.0
Sales	4.0	10.2	4.2	-1.0

Skilled labor has been and will be a concern. But there is proof that low skilled workers are also completely tapped out.

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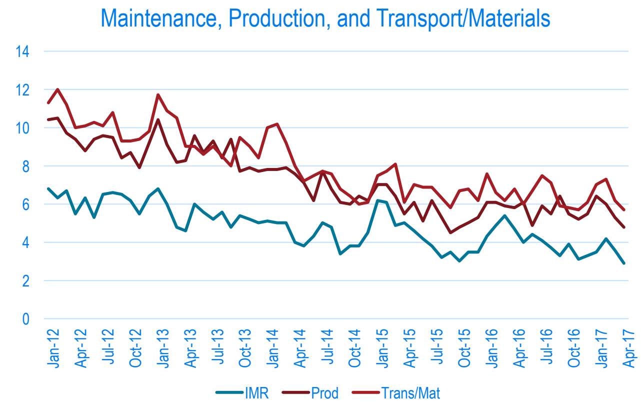
Unemployment rates for key manufacturing skill set groups



The 3 largest skill set groups in manufacturing have seen their unemployment rates fall over 50% since 2012 while Durable Goods manufacturing only grew by 4%.

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Wage Growth for Full-Time Job Holders 1Q, Year over Year

YoY Wage Growth	Holders	Switchers
ALL	4.3%	5.1%
Manufacturing	4.0%	3.4%
Construction	4.8%	5.6%
Mining (Oil & Gas)	3.0%	-6.5%
Finance	4.6%	4.9%
Information	5.1%	6.5%
Prof Business Srvs	4.5%	6.2%
Hotels/Restaurants	5.0%	8.5%
Education/Healthcare	4.0%	6.5%
Trade, Transport	4.1%	4.3%

The weakest sectors employment wise have also seen the weakest pay growth outside of healthcare. Supply and demand are clearly linked.

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SOURCE: ADP Workforce Vitality Report http://workforcereport.adp.com/docs/2016/4/ADP_WVI_Press_Release_4Q16.pdf

So, when will this improve?

Oil and Gas

OPEC initially drove the barrel price well below the breakeven price point for countries like the U.S. and Canada.

They have let the price rise to the mid $50s, a number that lets running wells make enough money to stay open, thus stopping job losses.

While various experts predict different outcomes, there is no sensible reason for OPEC to allow the U.S. to gain oil independence in the near term.

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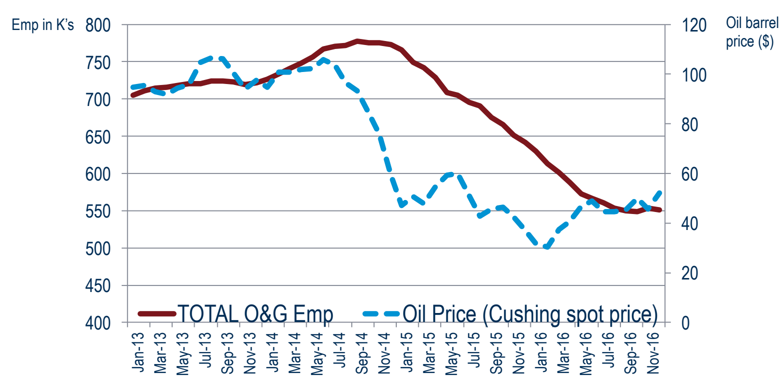
The price to employment manipulation game



4 Industries included: O&G extraction, Support, O&G construction, and O&G manufacturing. Combined, they lost 1/3rd of their workforce in just over 2 years.

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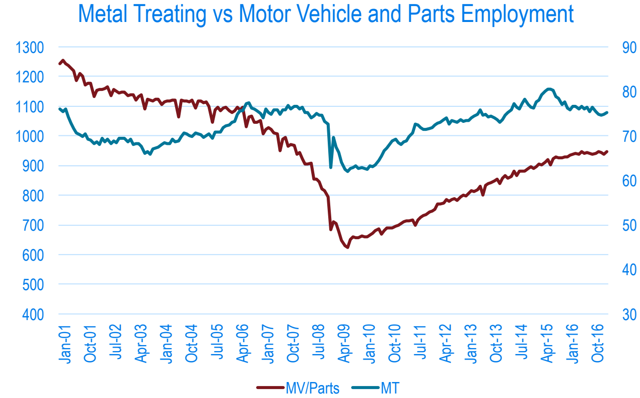
Source: Bureau of Labor Statistics, U.S. Energy Information Administration,

Metal Treating

Recent labor trends

Metal Treating hiring slows since 2015

Metal Treating vs Motor Vehicle and Parts Employment



Although employment has softened since 2015, it is still within 2,000 of its pre-recession high. The same cannot be said for auto manufacturing which is 15% below where it was before the recession.

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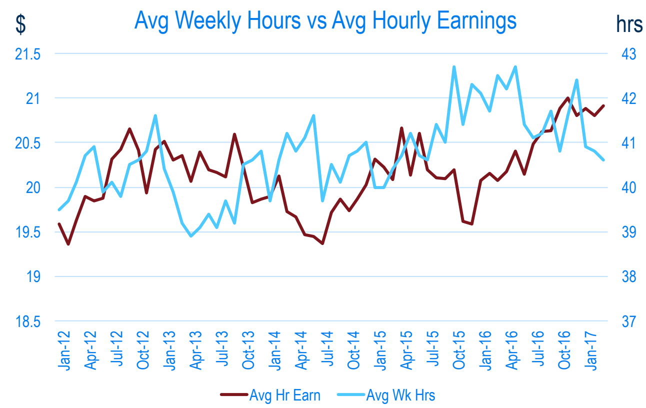
Hours heading down, earnings heading up



With employment lagging, the decline in hours is not surprising. If conditions are weaker since 2015, the increase in earnings may indicate that metal treaters are laying off lower end workers to address lower demand.

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The "new" landscape of talent

- Statement of Work
- "Gig" workers
- Robotics and Automation
- Globalization

The truth is, none of these are "new" at all. But the way you include them in your workforce planning and management is evolving.

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Some tips to assist in hiring

- Pay competitively
- Keep job descriptions simple. Cast a wide net and be willing to train.
- Do longer hiring ramp up times and over-hire if possible.
- Look to place good workers in other parts of your company rather than release them.
- Prevent attrition of good employees or risk a bidding war on the open market.

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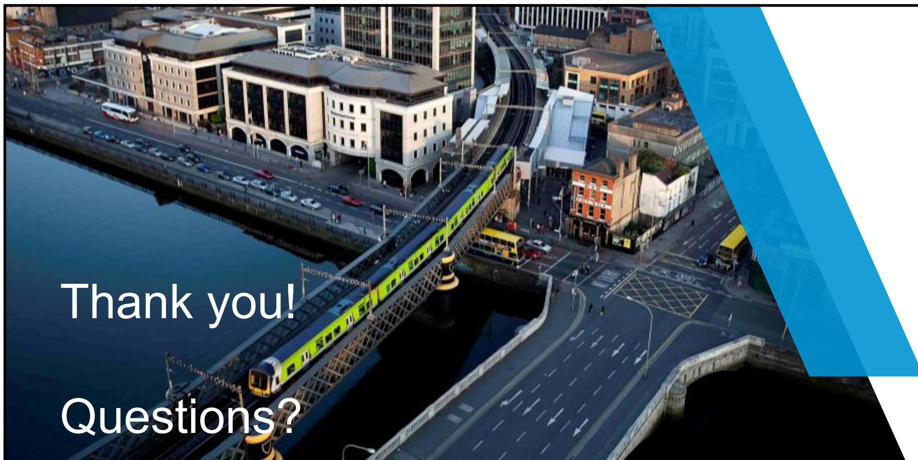

Thank you!

Questions?

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