EPISODE 23

Bridging The Gap In Our Labor Force

Intro: Welcome to Strategic Insights, brought to you by PrideStaff. On each episode, we bring you interviews with leading management and employment experts from across the country. Your host for Strategic Insights is Brad Smith. And now, here's Brad.

Brad Smith: Hello, and thank you so much for joining us for this episode of Strategic Insights. I'm your host, Brad, and I'm so excited about today's episode. We're going to focus on the challenges we're seeing in the economy right now, and more specifically, the labor market and the labor shortage that we're all dealing with. The reason I'm so excited for today is because we have a special guest, Ron Hetrick. Ron is the leading Labor Economist for the newly named Lightcast, formerly Emsi Burning Glass. And he has been featured by Forbes, NBC, CNN, The Wall Street Journal, and more. He's provided analysis for former Fed Chairman Alan Greenspan, Congress, numerous Fortune 100 companies. Ron, thank you so much for joining us today.

Ron Hetrick: Thanks for having me Brad, and we'll see what we can learn today.

Brad Smith: So, Ron, as I mentioned, our episode is all about the challenges we're facing right now in the economy and the labor market. And we've seen some truly amazing things happen over the last year or two. We saw a pandemic flip our economy on its head. We saw a mass exodus of people leaving the workforce for a variety of different reasons. We've heard all about supply chain issues in the news. Employers are struggling to find good talent. We've even heard the phrase Sansdemic, or a lack of available people or talent for the workforce right now and moving forward. So, it seems like we're faced with the perfect storm of issues for our economy and as businesses, we're having a tough time meeting demand. Based on your data and research, when you look at what's happening in our economy and our workforce, what's the core problem that we're facing right now and what do we have to be on the lookout for?

Ron Hetrick: Yeah. I think two things came together to create this kind of perfect storm. So first you have what was already in motion. We had a boomer population that was getting to retirement age, and this was a significant development because these people, they love to work. They worked a lot. And a lot of them worked and then they all are kind of moving on. The population behind them already was a little less engaged, whether it be in labor force participation or even the amount, the hours that they work. These things were already in play. What happened during the pandemic just is this awful combination of things where we kind of shut down for a second, but then we kind of reopened immediately, we inject a lot of money into an economy, so it creates a lot of demand. People have a lot of money.

So, you have a lot of consumers that were basically generated in a moment at the exact same time that we were losing producers. So, you have people out there, they want to buy things like crazy apparently, and there's just less people there to produce it. So, if you really boil it down, if you want to think about the fact that here, we are two years removed, two years removed from February of 2020 to March of 2020, when we first started going through this. Our labor force participation rate is still not close to recovered and we have still in excess of 4 million people who have said they're now out of the labor force, and yet our population's grown. So, we need more and more workers to basically service the needs of our population at the exact same time we've had these people kind of parting away. But there's another dynamic which we'll talk about as this goes on about why that was compounded by really what happened when we started spending.

Brad Smith: So, let's dig into that a little bit, Ron. You mentioned this spike in demand, and we've heard in the news over and over and over that there's a supply chain issue. Is there really a supply chain issue? What caused this spike in demand? Talk to us a little bit about that.

Ron Hetrick: Yeah. It's a funny topic because it's a perception thing. So basically, what just happened, if we go back over the past two years, if we look at, we were all kind of locked in, people weren't going out, they weren't going on vacations, they weren't going to restaurants. They had money. We also know that incomes did really well during this time. We had CARES checks that were going out and loans that were going out and rent forgiveness and loan forgiveness, all that was occurring. So, a lot of money being put into the pockets of consumers who didn't have a whole lot to spend it on, except for large durable goods. And so, what happens is we spent in one year on durable goods what we normally spend in four years. We spent in two years on retail goods what we normally spend in eight years.

So, when you think about it like this, the best thing to do is to give an example, and this will all click into place. If I went to a restaurant or all my friends went to a restaurant every single day and we ordered a certain amount of food, and then that restaurant, of course, they have that amount of food. And then one day I go in with all my friends and everybody else, and we order four to eight times more food than we've ever ordered before in a single night. The restaurant would be out of food. Now, would you say that that restaurant had a supply problem or did we have a demand problem? Were we unreasonable in what we were asking from that restaurant? So, take that and blow it up to the entire economy. We were putting four to eight times as much demand onto an infrastructure that was simply not built for that, nor do we want it to be built for that kind of demand because that's not normal.

So, what happened is we ballooned all of these things up, bought all these things. The demand curves went into the stratosphere. Well, these companies were thinking, hey, we're getting all of this demand. Let's hire up. This is the new normal. Everybody's buying a Peloton a day practically. So, what happens is, and what's happening at this very moment, is we've stopped. Because services spend is back, people have spent their money, and now that demand's going away. But these companies were still trying to hire to meet this new demand curve, which is not real. So, you're going to see this whiplash effect occur as this year goes on. Third quarter in particular, you'll see a collapse in durable goods because we've already bought them all. We don't need anymore.

Retail inventories are in the stratosphere, unprecedented levels of retail inventories, merchant wholesaler inventories, very, very high. So, you're going to start seeing more and more sales. By the time this airs, who knows what these companies are going to be doing to try to get rid of product? But just like we ramped up to try to do this, we're going to have to edge all of this stuff back down. But I think in a nutshell, it looks like a supply problem, but when you are very unreasonable in the amount of things that you want to go through a supply chain, of course it's going to break down.

Brad Smith: So, you're expecting to see some decline in manufacturing warehouse, trucking, retail, because of that explosion in demand curve. Are there industries that you expect to have a higher demand in labor?

Ron Hetrick: Yeah. So, if we start to look at what just happened in the past year, like who the kind of the winners and losers were, obviously in the warehousing and logistics space, we saw an explosion in postings, people really needing to fill those jobs. So, salaries really got elevated. Well, there were certain industries that just couldn't compete with that. Namely hotels, restaurants, the government, because you can't react quickly enough with pay increases, especially if you're in a low margin business or even the government and you need an act of Congress to increase pay. You have industries that were kind of... They struggled during that time. So, as we start to release people out of the supply chain, they're going to find that there's still a pretty healthy hiring economy out there for them.

And really this may be kind of going out of sequence, just some thought, but I really think this is an important point, that if people don't hear anything else, you got to hear this. We are very likely to recede. It's going to... A recession. It's basically GDP coming down, because we so overheated GDP because of inventory growth and personal consumption, so spending. And those things have to come down. I mean, we've got to get inventories lower, we've got to cool off with the consumption part. Well, in a normal recession, we see a lot of layoffs. That's why people hate recession. They hate the word recession. They have these images of all these people losing their jobs. But in this particular run up, we haven't been able to fill any of our jobs. So, it's not a fact that we're going to lose people, like lose jobs, as much as we're going to lose the need for jobs.

So right now, as everybody probably knows, we have 11 and a half million job openings, which is just insane. Like before COVID, there were 7 million, which was already a very, very high, record setting number. And now you have 11 and a half million. We do not need to fill 11 and a half million jobs. That's absolutely unnecessary for the type of economy we are, the way we were growing, that is not necessary. The reality is it can definitely be several million lower. So, if a recession, and by the way, an article came out yesterday on this, a lot of employers are starting to just be like, you know what? I'm just going to kind of take down my posting. Or we were going to hire 10 people, but maybe one or two now. Or, you know what? We've had some people quit, we're not going to replace them. Because they're already starting to see that they need to start adjusting these behaviors.

So, as we get into the third quarter, I absolutely believe you're going to see those postings numbers start to fall. Is it going to be a nose dive? I don't believe so, because there's still so many industries with help wanted signs just trying to do the basics. So, I think you're going to see kind of this reallocation of labor away from the supply chain, from retail through manufacturing, into more of that services economy, which is still trying to get back to where it was before.

Brad Smith: Very interesting. So, I like that notion. I mean, we've been hearing for months now, almost a year, the worker shortage at that 11 million figure mark. So, you're pegging it more in the maybe like six to eight, seven to nine range?

Ron Hetrick: Yeah. I think eight feels like the right number. Here's why. We were at 7 million prior to the pandemic. We had a 3.5% unemployment rate in February of 2020. I mean, we were in a pretty bad situation. Well now you have several million people that have dropped out of the labor force. So, it's natural to think that it's probably, a natural rate is probably above 7 million. But I think it's very likely that we're probably more in like that eight, eight and a half range. I really feel that's kind of where we'll settle into when the storm kind of clears by fourth quarter. But we'll see. I mean, it's a bet. I guess we'll find out.

Brad Smith: We will. Yeah. And I know that there is a deficit in workers in jobs, obviously. You mentioned the decline in labor force and a lot of people left the labor force. I had expected them to come back by now, but the data doesn't support that, does it?

Ron Hetrick: Yeah. The biggest problem that you have is it's not just a matter of losing people from the labor force. It's a matter of who you lose from the labor force. So when we look at the people who... So, if you break it down into age categories, so we're going to take younger, we call it the entering workforce, 16- to 24-year-olds. And then we look at the 25- to 54-year-olds, and then 55 plus. If we look at those as three separate populations, we've pretty much gotten back what we need from the 16 to 24 years. We're really not going to get a lot more lift from them. Also, that population's kind of declining anyway. And the prime age, we will probably get a couple hundred thousand maybe back from that. But when we look at this true gap, around 3 million of our little over 4 million people in excess who are dropped out of labor force, around 3 million are above the age of 55.

Now, one of the things we're hearing a lot is, oh, people are unretiring. These early retirees are coming back and they're coming back in droves. It's really not. It's not in droves. People like to say, well, they're coming back in millions. But you got to understand, there's a natural curve because that population is growing, it's the boomer cohort, that population's always going up, it's just a natural rate. But the labor force participation rate for people above 55 is still stuck. It's not returning back. It's not even close to where it was prior to the pandemic. We know that most people who went ahead and just said, I'm done. I'm not going to work anymore, were actually not early retirees. They were people above the age of 65 who were just basically hanging on for a couple more years. I just, I don't want to retire yet. And then the pandemic came and they're like, I'm going to retire. Things are crazy.

So I think it's very naive to think that they'll come back and I think one other part about it, which I always make sure I mention, is I find it very... It's not satisfying to me to think, well, they'll come back and what? Save us again? I mean, how many times are we going to lean on the boomers? They were an incredibly hardworking population, who by all intents and means earned their retirement. To ask them to come back to bail us out of our labor shortage I find incredibly shortsighted. I think industries need to think about how they can consume less labor versus saying, save us from our infatuation with using labor by having people who are 70 years old come out of retirement to work my service job. I just find that is not a solution. That is the worst kind of band aid I can think of.

Brad Smith: Gotcha. Ron, great insight today. So just to kind of recap, you're expecting some slowdown in manufacturing, distribution, warehouse, retail. We're going to see a shift over to some more service industries. You are strongly encouraging companies not to look at laying people off as they might have in a past recession because we still have this wide worker shortage.

Ron Hetrick: In the supply chain they're probably going to have to because they are over hired. All my models are showing them... Yeah, I'm talking about warehousing and retail, they're over hired by about a half a million right now. So we need to get those numbers back into perspective. But like I said, there's a lot of mouths to feed that are not in the supply chain that would be glad to have workers.

Brad Smith: Terrific. Now I'm going to ask you a question and I'm going to ask you to get your crystal ball out and really think about painting a picture for us. So over the next year, given all the data that you've looked at, given what you're seeing in trends and leading indicators, what can businesses and hiring managers expect over the next year? And I know this is a very obtuse question, but give us an idea.

Ron Hetrick: Yeah. I would say one of the most important aspects of this is let's look at everything as an interlocking puzzle. Okay? We have a lot of demand, which means that employers are trying to meet that demand. So they're trying to get the supply through, which means they need workers and they get desperate for it because they're getting all of these orders in. So they're all competing with each other, because we've got to get these orders out. So you get wage inflation takes off. So first off you have way too much demand for the amount of supply. Also, the people that you're paying to produce the supply, you're paying way more. So inflation goes crazy, which is what we're feeling right now. So if we can cool off the demand part of the equation, which we are definitely going to, then there is no need to have this frenetic need for workers.

You won't have every single person in the market going, I have to have somebody. I've got to get these orders out the door. Not if you don't have additional orders, or especially if your orders start to cut back. So what I'm envisioning is a continuation of a labor shortage because we're going to be in a labor shortage. I mean, this is pretty much our future for well into the near future, as people are listening to this are concerned. But we need to take away that acute pain. Basically, it's like we broke our leg and we're walking around still on our leg and it's like, look, we're going to put a cast on it and it's going to make it better, but you still broke your leg. So there's still going to be some pain until this thing heals. But for right now, all of the focus has to be on relieving this acute pain.

So ease demand, ease the need to have workers, less demand, less need to price products high. You don't need to pay workers, there's not that fierce competition, worker pay starts to maybe mitigate. Does it go down? Maybe? I don't know. I don't believe so just yet, but at least it stays stable. And that's what we want to see. More workers available at a pay rate that's not crazy. And less of a chance, we all call it... They called it the Great Resignation. I called it the Great Reallocation. But you have all of these people who are just like, I'm going to this highest bidder and this highest bidder. That game needs to stop. We need to see less employers desperate and willing to pay whatever to get people. And I think that's what's about to happen.

Brad Smith: Okay. So it's safe to say that we're going to cool off just a little bit, but companies need to still be strategic in their recruiting and hiring models. Look for ways to potentially supplement full-time staff with some flexible workforces so that they can adjust to changes in our economy, in that demand curve, the supply curve, everything else.

Ron Hetrick: Yeah. It's a no brainer really. It's funny because my background's contingent staffing, and you start to look at the reality of uncertainty creates a need for temporary solutions. Anytime you're in an uncertain environment, you do temporary solutions because no one wants to commit to, I'm going to hire a huge labor force that I might have to lay off in two months. There's a lot of effort and money that goes into it and then there's a lot of heartache and potential lawsuits when you go through the laying off section of it. So one way of avoiding it during uncertainty is you basically open it to all avenues possible.

And I think what's easiest is whether it's gig, whether it's contingent, whatever you need to do to say, I think things are starting to ease here. What I'm going to do is I'm going to start... I know I had all these job openings and I do have those needs, but right now I'm going to turn those into contingent positions, because I really do believe my demand's about to fall off the face of the earth. And if that's the case, I can just engage these people. When I get those last orders out or I start to see those orders slipping, I can just say, okay, you know what? That's enough. I don't need this anymore.

So anytime you're coming into a recession, anytime you're coming into a recovery, that's when contingent is in its best position. Because in a downturn, you start to be like, well, I was going to hire all these people, but I think the future may be different, uncertainty. I'm not going to take these people on full-time. In a recovery you're like, is it a recovery? Are we taking off? I don't want to hire a bunch of people if I'm just going to have to lay them off in a couple weeks, because we're not really in a recovery. Same situation, you want those people to kind of be more contingent until you feel absolutely certain that this is our trajectory going forward.

Brad Smith: Well, wow Ron, this wasn't planned at all, but that plays directly into the value proposition of PrideStaff. So we are certainly here to help all of those listening create that flexibility, develop strategic workforce models to give them that opportunity to scale up, scale down more effectively and adjust changes in demand, supply, and the economy. So reach out to your local PrideStaff office, visit pridestaff.com, and speak to one of our recruiting and staffing and workforce specialists. Ron, I want to thank you so much, amazing insight today. Really appreciate you sharing your outlook, your data, and again, thank you for your time.

Ron Hetrick: Oh, no problem. Thank you so much for the time. Take care.

Brad Smith: Thanks for listening everyone.

Closing Thank you for listening to Strategic Insights, brought to you by PrideStaff. Whether you're looking for high level workforce consulting or staffing help to meet demands, PrideStaff is here to help.