EDMOND DE ROTHSCHILD

ARE POWER DYNAMICS SHIFTING IN FAVOUR OF EMPLOYEES?

In 2021 we learnt of the “Great Resignation” in the United States, a powerful trend that saw millions of workers choose not to return to work after the Covid lockdowns, a growing number of resignations and as a result, the first recruitment difficulties for companies.

While the trend is undeniable – with voluntary quit rates rising to 3% - its causes remained rather vague. Several factors are frequently put forward to explain this shift, including the end of inbound migratory flows, an acceleration in the number of retirements, or the ability for some Americans to live off the checks handed out during the Covid 19 pandemic as their main source of income. Each one of these is at least partially true.

However, these are cyclical factors. And two years after the lockdowns were lifted, the labour market clearly remains under considerable pressure. The facts speak for themselves: there are still 10 million job vacancies in the United States; Japanese workers have enjoyed their strongest pay rise in 25 years; in the Eurozone, the unemployment rate has reached a 25-year low (6.6%), etc.

We do have a structural and visible explanation to this turnaround: shifting demographics. The world’s working age population has begun to contract. This is a major change. It’s important to keep in mind that when the Chinese economy opened up in the 1980s, millions of employees entered the global workforce which then peaked a little ahead of 2020.

However, these dynamics are now reversing with the ageing of the Chinese population. China’s working age population is shrinking, adding to the declining number of workers in developed countries.

A DRASTIC SHORTAGE OF WORKERS

One of the specificities of the trend is that its evolution over the next few years is rather easy to model. Complex assumptions are not required, as one need only look at the generations due to enter the job market in coming years and those due to leave. These “generations” already exist, meaning the data is robust.

Estimates have revealed that by 2030, 15 of the world’s largest economies (Germany, France, Italy, UK, Japan, Canada etc.) will be facing a shortage of workers[1]. Germany could be lacking 8 million workers by 2030 – accounting for over 20% of its entire workforce!

Based on these factors, we believe that the shift in employer-employee power dynamics is here to stay. It is worth noting that the costs associated with an employee’s departure can range between 30% of their annual wage and up to 5 times the latter. And these are direct costs. It would also be pertinent to include execution risks. Low employee turnover

[1] Source: Rainar Strack, Global Workforce forecasts, October 2014.

therefore offers a substantial cost advantage and reduces a company's exposure to operational risks.

In this environment, companies with the ability to attract, upskill and retain talents clearly have a major competitive advantage. A powerful change of paradigm that stands in sharp contrast to earlier times when talent was an abundant and easily accessed resource.

This is why investors must now include an analysis of the company's attractiveness on the employment market in their financial analysis. This approach is at the heart of Edmond de Rothschild Fund Human Capital's investment strategy.

Written by Aymeric Gastaldi, Global Equity portfolio manager and lead portfolio manager of the fund Edmond de Rothschild Fund Human Capital

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