The First Crack?

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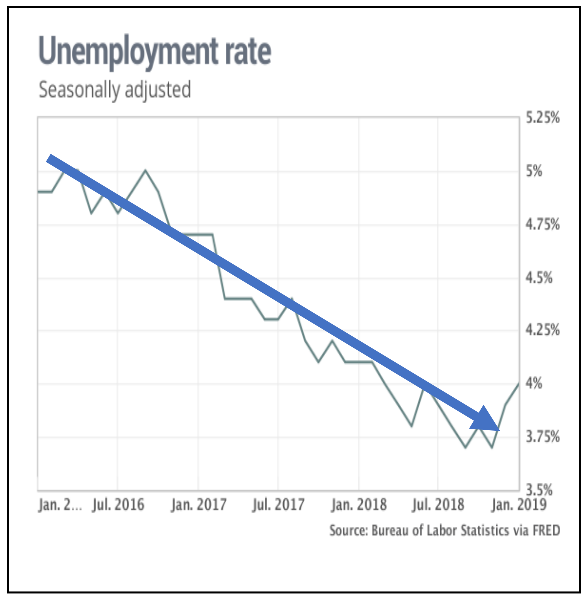
With unemployment currently hovering below 4% nationally, in many parts of the country there are just not enough employees to go around. While economists can argue about the actual rate of unemployment and how this rate impacts inflation, and politicians can wax on about the costs and benefits of the current economy, we as turnaround managers get to see the impact of the current job market firsthand- our clients are often on the front lines of the financial results of these trends. For companies with large entry level workforces, today's wage inflation is a reality. For a given company to get the same quality and skilled employee that they are accustomed to hiring, they must go out and find this employee and usually hire them away from another employer (starting the same cycle for that company). In these companies there is no "Help Wanted" sign with a line of potential employees out the door. In fact, when the new employee shows up to work, the recruiters are there to ask who they know at their old company that was good, so they too can be recruited away.



This environment generally translates into offering higher pay, better benefits or often both to new employees. And, when the company starts hiring at higher pay than their existing workforce, well, they need to raise the wages of all current employees to keep them in place; it is not just the new employees, they need to address the entire entry level workforce and understand how these increases push up compensation of the next level of the workforce, and so on.

> NEW YORK (AP) — Bank of America plans to raise its starting pay to $20 an hour over a two-year period, the bank said Tuesday, starting with a hike next month.
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> The company, with more than 200,000 workers, said it is raising its minimum hourly wage to $17 on May 1 and will continue to increase pay until it hits $20 an hour in 2021. Bank of America raised its hourly minimum wage to $15 in 2017.

Companies that are already marginal financial performers and have a heavy reliance on entry level employees are at great risk today. It is in these companies where we see capital providers starting to get concerned. Where do we see this stress showing: restaurants, call center operations, trucking companies, retail, in-patient healthcare, mid and low-tech manufacturing, the list goes on…Their common trait? They consistently have open positions that they cannot fill and high turnover when they do fill positions.

Even more significant pressures appear in companies that require drug testing. Many companies require drug testing as a policy, and certainly many jobs require drug testing for safety and insurance reasons; these policies do however further shrink the applicant pool, at a time when the applicant pool is often just too small. We have seen some companies ignoring their own drug testing protocols just to get employees in the door.

> From Bloomberg:
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> In 2018, wage growth for non-managerial workers increased from 2.4 percent to 3.3 percent. Gains were even faster for workers in the wholesale trade, construction and retail industries. Wage growth in wholesale trade — an intermediate step in the distribution of goods, employing over six million people — grew from 1.6 percent to 4.1 percent. Construction wage growth grew from 3.1 percent to 4.2 percent. Retail trade wage growth grew from 1.6 percent to 4.6 percent. Wage growth in the leisure and hospitality sector was steady at 4.3 percent. It was the first month in 18 years in which all four industries saw their wage growth increase by at least 4 percent on a year-over-year basis. And it's been accelerating in recent months, with three-month annualized wage growth in all four industries exceeding 5 percent.

While there are certainly pools of unemployment that are chronic and difficult to address, in areas where the open jobs are currently located it seems that most of the able-bodied people who want to work and will work hard already are employed. Companies will either increase pay and attempt to find ways to shift these costs to customers, experience shrinking margins, or they will forgo revenue opportunities that these employees allow. The alternative to hiring good people and paying what the market is demanding is the downward spiral that companies experience when they hire lower quality candidates.

To learn more about our observations in the market, or to learn how we can help, feel free to reach out to me at:

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