

# The Advisory Alliance

## 60-Second Email™ – November 30, 2006

### *Yes, Virginia, There Really Is a Labor Shortage.*

*In this month's 60-Second Email™, we examine recent labor shortage comments by Dr. Ben Bernanke, Chairman of the US Federal Reserve System (who just so happens to sport Kringle-like bristles).*

Dear David,

I am 28 years old. Some of my friends say there will be no labor shortage. Dad says, "If you see it in the news, it's so." Please tell me the truth, will there be a labor shortage?

Signed,

Virginia O'verwhelmed

Virginia, your friends appear to be wrong. Two days ago, Dr. Ben Bernanke, Chairman of the Board of Governors of the US Federal Reserve System, appearing before the National Italian American Foundation in New York City, observed the following:

*"With regard to the labor force, ...the impending retirement of the baby boomers and the fact that women are no longer increasing their participation in the labor force at the rate they were in the past will tend to restrain the future growth rate of the U.S. labor force [all italics are emphasis added]."*

So it does seem, Virginia, that some sort of shortage or limiting growth in the labor force is expected. And what sort of impact will this have on our economy (and therefore our companies)? Dr. Ben continues:

*"All else being equal, these developments translate into a slower rate of growth of potential output. Estimates of the magnitude of the likely slowdown in labor force growth, particularly in the longer run, are subject to significant uncertainty."*

You must remember, Virginia, that Dr. Ben is an economist, and economists always qualify forward-looking statements with "significant uncertainty". Most of us don't like uncertainty, but economists tend to feel pretty comfortable with it.

Now Virginia, some of your friends will likely say that those eligible to retire will surely want to continue working. Indeed, Virginia, that seems likely, but to what extent? Dr. Ben notes that...

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“improved health and increased longevity may increase the interest of older workers in remaining in the labor force, perhaps on a part-time basis, and an increasing scarcity of labor may prompt changes in labor-market institutions and employer behavior that facilitate the participation of older workers. *But those adjustments are likely to take time, and some slowing in the growth of the labor force thus seems likely over the next few years at least.*”

So Virginia, even if Boomers want to work well into their 70s and 80s, it still seems that the adjustments won't be totally without a few bumps to the economy.

“But, David, what about productivity growth? Won't that offset any labor shortage?”

Well Virginia, it seems that that may not be the case. Again, Dr. Ben:

“Even if productivity growth is sustained at a reasonably good rate, *the slower expansion of the labor force will imply some moderation in the rate of growth of potential output over the next few years.* In the very near term, that *slower growth in the labor force needs to be taken into consideration when assessing the sustainability of given rates of expansion in economic activity.*”

And, Virginia, Dr. Ben and the Fed are also concerned about labor costs:

“One factor that we are watching carefully is labor costs, which depend on both the compensation received by workers and labor productivity. Although the available indicators give somewhat different signals, *it seems clear that labor costs – which account for roughly two-thirds of firm's total costs – have been rising more quickly of late. Some part of this acceleration no doubt reflects the current tightness in labor markets. For example, anecdotal reports suggest that businesses have been finding it difficult to recruit well-qualified workers in certain occupations.*”

So Virginia, it does seem that some sort of labor tightening and/or shortage is coming. How deep that will be, only time will tell. Nonetheless, it still might be a good idea for you to dust off your career development plan, and for your employer to dust off its talent development and retention plan.

Oh yes, and Season's Greetings to you, Virginia.

You can access this and past 60-Second Emails™, as well as subscribe to our mailing list, via the following link to our web site: <http://www.advisoryalliance.com/newsletter.php>

Until next month,

**David**

David Harper  
Principal & Directing Manager

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