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Recruitment Industry Update – May 2010

The key messages from this edition of the newsletter are as follows:

- 1) **Demand for recruiters is very strong**
- 2) **The market for recruiters is extremely candidate-short**
- 3) **Recruiters are billing again and are now very loyal to their employers**
- 4) **The senior end of the market is not as buoyant as the overall market**
- 5) **Agencies are finally hiring in new talent**

It has been three months since our last newsletter in February and since then the economic recovery has continued, with the Reserve Bank lifting rates in May to 4.5% - the 6th increase in 8 months. When you consider the travails in Europe with the Greek debt crisis and the UK's hung parliament after May's general election, Australia's relative buoyancy is quite remarkable. Wayne Swan's budget illustrated this well. The current deficit of \$41bn is projected to become a surplus in 2012-13, three years earlier than first forecast. Government debt as a proportion of GDP is fraction of the percentage in other big rich countries. Meanwhile, unemployment has been falling steadily since peaking at 5.8% last year and the Lowy Institute (a think tank) found that 86% of Australians are optimistic about the country's economic performance over the next five years.

The Manpower Employer Outlook Survey for Q2 showed a continued pick-up from Q1, with 30% of employers looking to grow headcount and just 6% expecting a decrease (versus 26% and 7% respectively in Q1). Regionally, Victoria has the healthiest level of hiring intentions, but WA, Queensland and NSW are all close behind. By sector, the Finance, Insurance and Real Estate sectors have seen the biggest quarter-over-quarter increase in hiring prospects (a stark contrast to the previous quarter), with Mining and Manufacturing close behind. Indeed, we have seen a big increase in demand for recruiters with financial services expertise. A global comparison shows that only India, Singapore and Taiwan are more optimistic than Australia in terms of hiring intentions.

Further supportive evidence of a continuing recovery in the recruitment industry comes from the Recruitment Industry Benchmarking report which showed a continuing rebound in permanent volumes and fees through March. 62% of respondents saw the number of placements rise in March with the average fee increasing by \$1,000.

Interestingly, the market is not quite as buoyant at the senior end. The E.L. executive index has shown that while general employment measures show enticing gains, Australian businesses continue to be extremely hesitant in hiring more executives. Employment

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demand for Australian executives is higher than in the latter part of last year but remains below the levels of early 2009 and 2008. The 3% drop in the index in April reflects the hesitation business continues to have about the economic recovery.

In the main however the recovery is leading to higher billings for almost all consultants and a resultant significant increase in demand for consultants among our clients. We now know that conservatively 25% of all Australian recruitment consultants left the industry in the 18 months of the GFC. We at Ashworth think it may be closer to 35%. As a result, our job boards are fuller than ever, while supply of candidates with recruitment experience has kept abysmally low. The result is simple: a huge surfeit of demand over supply. So how are we trying to source supply?

As many recruitment-to-recruitment agencies have recently commented, advertising as a source for experienced candidates is proving nearly useless. However we have always found that the best candidates rarely come to us via this medium. Rarely have head-hunting and a strong referral network been more important. The difficulty at the moment with sourcing candidates in these ways is that incumbent recruitment consultants who have remained with their employers through the tough months of the GFC find themselves billing again. They are earning commissions and feel comfortable for the first time in over a year. They have remained loyal to their employers (and vice-versa) and so the incentive to leave now is very low. Why take a risk with a new employer just when things are picking-up?

We can well understand this line of reasoning, but we also note that some of the best agencies and smaller boutiques are hiring again for the first time in years. Such vacancies rarely come up, and when they do, they are snapped up quickly. Retention rates at these companies are high, as is profitability, and so we'd encourage all our candidates to talk to such companies regardless of their current position.

In our last newsletter we mentioned that some agencies had started to look at hiring new talent. In the current environment we believe it is absolutely crucial that companies look at hiring people without any recruitment experience. Not only is this essential if the industry is to grow again, but we also believe companies must embrace new talent if they are to lead future growth. To this end, we have recently hired a consultant, Francis McCarthy, part of whose brief is to work on bringing talented commercially-minded graduates into recruitment. He is having great success sourcing quality candidates with good degrees and commercial experience, with our clients benefiting from this new source of supply. We believe that those companies that continue to insist on hiring only those consultants with local domestic experience are limiting themselves to a very small pool of talent.

Finally, for those who like to take a long-term view of Australia's labour market, it is worth pointing out that population growth will slow to about 1.5% in the 2011 fiscal year and to 1.3% in 2012, on the exit of visitors holding student and business visas of about four years.

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The nation's population increased 2.1% in the year to September 2009, the fastest expansion since the mid-1960s and three quarters of a percentage point quicker than the average for the past 20 years, according to the Reserve Bank of Australia. Slower population growth should put some long-term downward pressure on interest rates and will have obvious implications for the persistent Australian skills shortage, which we discussed in the last newsletter.

To conclude, we would like stress that the short supply of candidates shows no sign of abating but is in fact getting worse. We are encouraging clients to consider hiring talented and commercially-minded graduates (especially those sourced by our new hire Francis McCarthy!) Those that have done so have been able to grow more quickly and are in a strong position to continue to benefit from the economic recovery.

We'd like to wish everyone the best of luck over the winter months and as always we welcome feedback and constructive debate on any of the topics raised in this newsletter.

If you would like to discuss the market further, then Graeham Pratt, Matt Penfold, Nick Willcocks, Francis McCarthy and Ben Conway would love to hear from you.