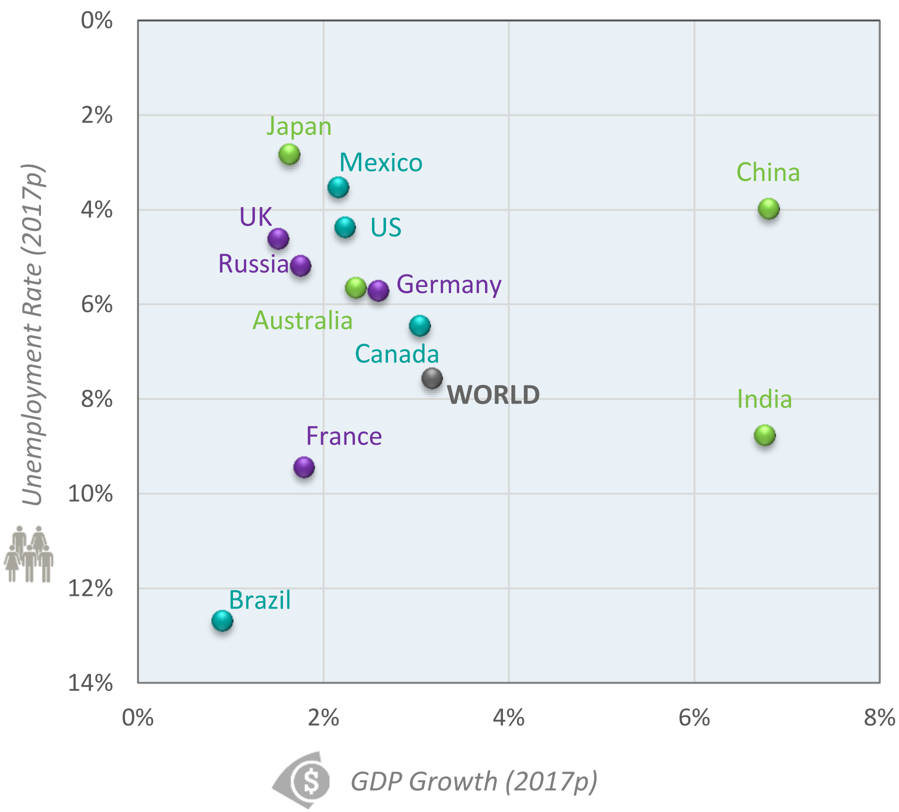
GLOBAL
TALENT MARKET QUARTERLY

FOURTH QUARTER | 2017

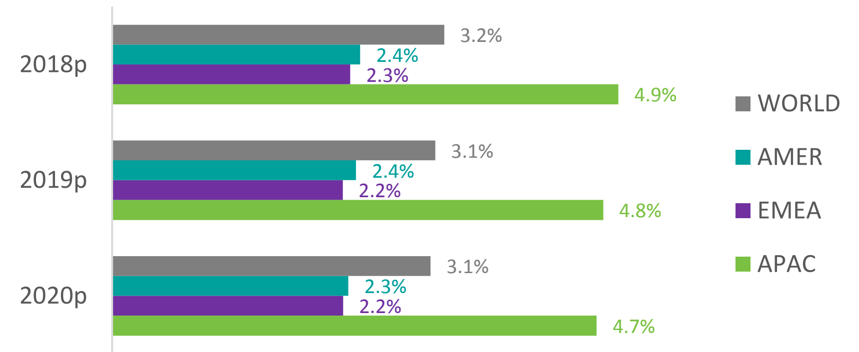
KELLY

Heading into 2018, the global economy is in good shape. Major emerging markets such as Russia and Brazil are climbing out of recession, growth prospects are positive in Europe and North America, and the powerhouse economies in Asia continue to drive global growth. Global GDP growth is projected at 3.2% for 2018, its highest rate in seven years, and although recession risk is low, there are some geopolitical threats that bear watching. Buoyed by the favorable economic environment, the global employment outlook is likewise encouraging. Greater demand is leading to growing skills shortages but surprisingly, not necessarily translating into higher wage levels.

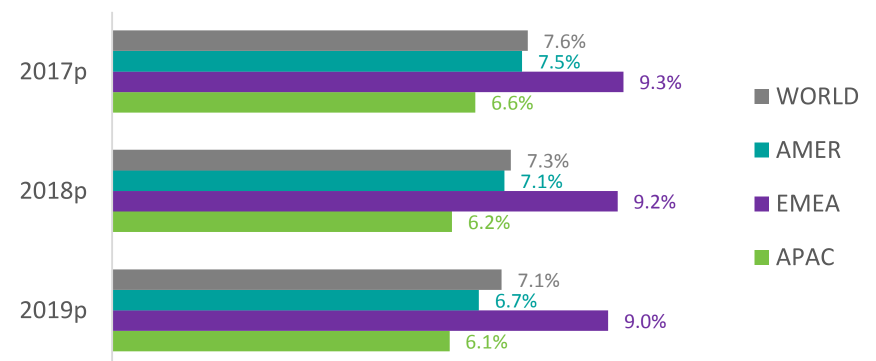
GLOBAL ECONOMIC & LABOR MARKET SNAPSHOT



GDP Growth



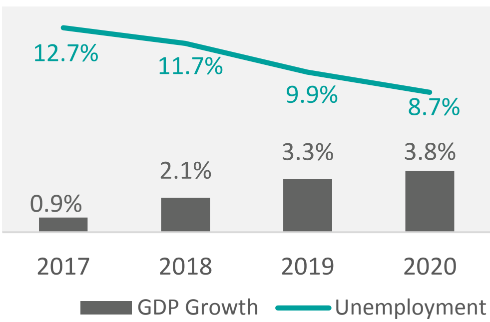
Unemployment Rate



Source: IHS Markit (November 2017). Annual average estimated/projected growth in real GDP and annual average estimated/projected unemployment rates.

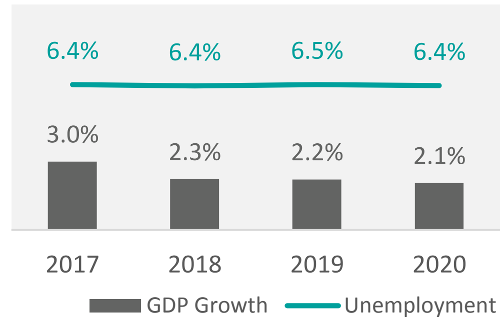
Led by a solid expansion in the US economy and a persistently healthy labor market, the outlook for North America in 2018 is largely positive. Most of South America is preparing for economic and labor market improvements in the coming year, although some challenges remain.

BRAZIL



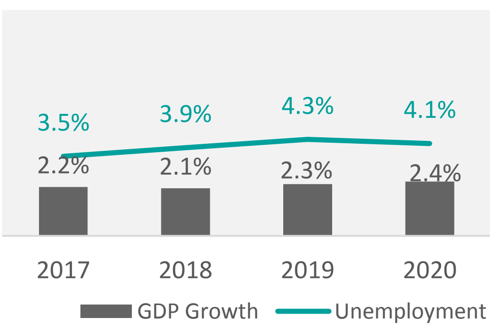
Although political crises cast a pallor over Brazil's economy in 2017—and some uncertainties persist—improved confidence and investment levels will drive growth in 2018. Some job creation has begun, but it will take time for the labor market to fully recover.

CANADA



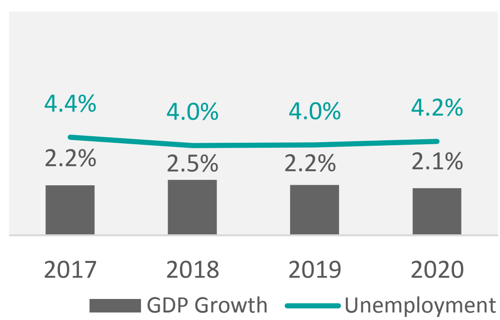
Stronger performances in the natural resource sector compared to 2016 pushed economic growth up in 2017. Softer domestic and export demand will drive somewhat more modest growth in 2018, while the labor market will remain solid.

MEXICO



Modest growth is projected to continue in Mexico, although risks are not insignificant; they include the ongoing NAFTA renegotiation talks and decisions on fiscal and monetary policies as the government looks to reduce the deficit and fight high inflation.

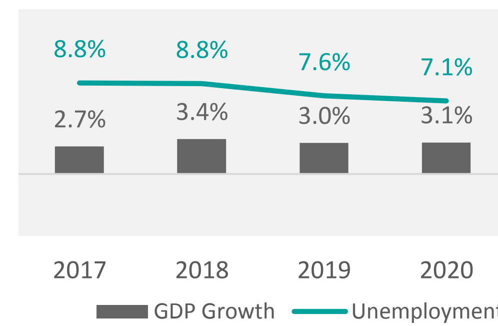
US



Despite some disruptions from the recent hurricanes, the US economy remains on a strong growth trajectory. Employment creation likewise is at a healthy, cycle-appropriate level, pushing the unemployment rate closer to 4.0%.

COUNTRY SPOTLIGHT

ARGENTINA

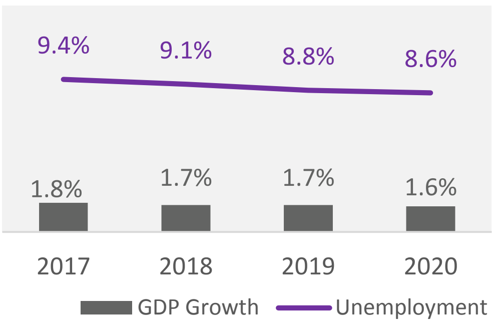


After a contraction in 2016, Argentina's economy has seen a dynamic rebound in 2017, with the expansion projected to continue in 2018. GDP growth is forecast to hit 3.4% next year, driven by private-sector consumption, investment, and—to a lesser extent—exports. Policymakers have committed to tightening monetary policy in an effort to lower the country's sky-high inflation rate—which rose more than 37% y-o-y in 2016—back into the single-digit range. The pro-business government of President Mauricio Macri will also continue to prioritize pursuing fiscal and labor market reforms that encourage investment and flexibility. Sustained economic momentum will lead to greater job creation, and eventually, falling unemployment.

Sources: IHS Markit (November 2017)

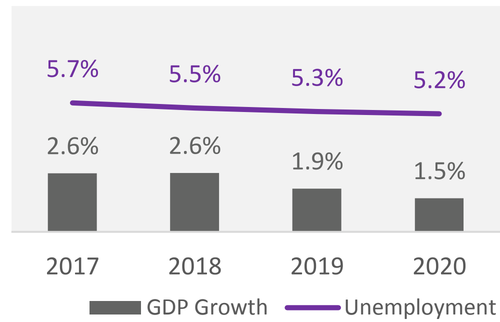
Western Europe's healthy growth path from 2017 looks set to continue in 2018, although significant risks from political turmoil—and particularly the Brexit process—may put a damper on expansion. In the rest of the region, recovering oil prices are helping to improve the outlook.

FRANCE



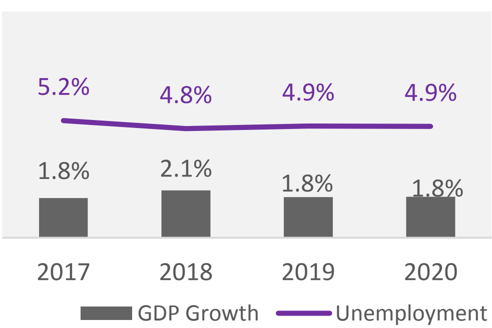
The French recovery continues, with GDP growth estimated to reach 1.8% in 2017 after 1.1% growth in 2016. A stronger economic performance, along with labor market reforms, should provide a further hiring boost and help lower unemployment.

GERMANY



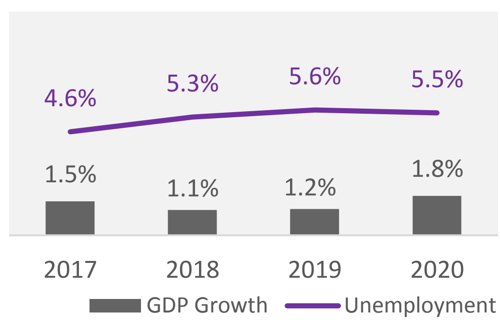
Smooth sailing for the German economy is predicted to persist through 2018, although some ripples from political uncertainties may arise. The labor market continues to generate jobs at a robust pace, with no signs of abating.

RUSSIA



After two years of recession, the Russian economy rebounded in 2017 and is expected to accelerate slightly in 2018, boosted by recovering domestic demand and hosting the 2018 World Cup. The jobless rate is still hovering around 5%.

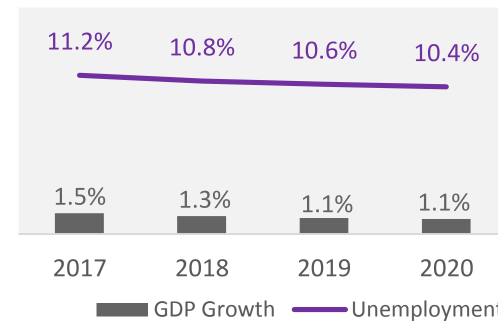
UK



Forecasts call for GDP growth to fall to around the 1% mark in 2018, with heightened caution and lower confidence ensuing as the EU exit negotiations proceed. These sentiments are likely to translate into reduced hiring levels over the near term.

COUNTRY SPOTLIGHT

ITALY

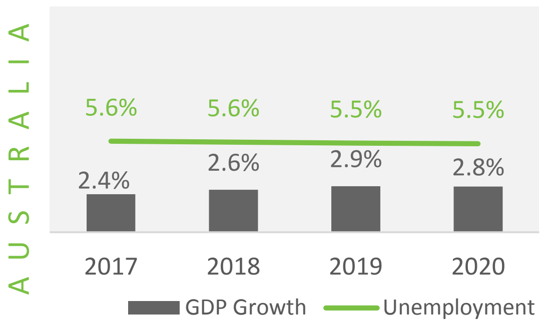


Despite challenges in the banking sector, Italy's economic activity has been stronger than expected in 2017, leading to a full-year forecast of 1.5% growth, its best performance since 2010. Consumer and business confidence showed significant improvements during the three months ending October, signaling that the economy is likely to hold relatively steady with 1.3% growth in 2018.

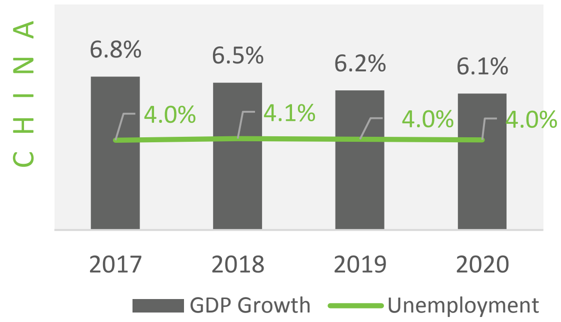
However, labor market conditions in Italy remain difficult with the unemployment rate, although slowly decreasing, still in the double digit range. The country saw markedly lower wage growth in 2017, spurred by a weak national contractual wage agreement reached at the end of 2016. Modest hiring in the private service sector is expected to outpace the manufacturing and public sectors in 2018.

Sources: IHS Markit (November 2017)

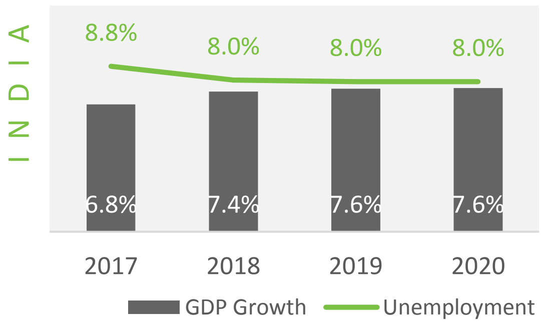
APAC remains the global growth driver, propelled by the twin engines of India—where growth is expected to accelerate in 2018—and China, where a slight economic slowdown is projected to continue. Low unemployment and tight labor markets are leading to skills shortages across the region.



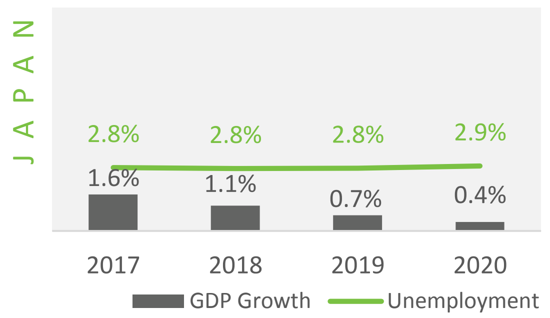
Increased natural gas production is expected to boost exports, leading to a short-term acceleration in GDP growth. Employment gains have been healthy and the unemployment rate is at a more than four-year low, but wage growth remains sluggish.



China's economy is expected to continue to cool down in the coming years, as the ongoing "supply-side structural reforms" aim to reduce excess industrial capacity, absorb the housing glut, and reduce debt. Labor market conditions remain solid.



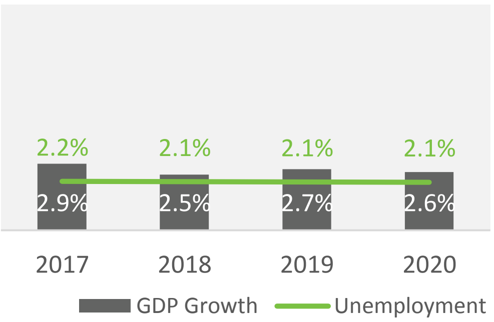
Growth slowed in India in 2017 due in part to the large-value currency ban (end-2016) and the new goods and services tax (mid-2017). The economy should resume its momentum in 2018, bringing with it a further reduction in unemployment.



In 2017, Japan has seen respectable economic growth that looks set to continue, albeit at a somewhat slower pace, via Prime Minister Abe's growth strategies and the Bank of Japan's monetary easing. The labor market remains extremely tight.

COUNTRY SPOTLIGHT

SINGAPORE



Singapore has a maturing, export-reliant economy that is performing better than expected. Its manufacturing sector has been helped by the electronics and precision engineering subsectors, particularly in areas such as robotics, data centers, and medical devices. The country had shifted its focus toward these higher-value sectors in an effort to differentiate itself from its low-wage regional competitors. As the economy now faces a further shift away from manufacturing towards knowledge-based sectors, another transition in the labor market must take place. Demand for higher-skilled workers will continue to accelerate in an already tight labor market, while lower-skilled workers will need additional training and education.

Sources: IHS Markit (November 2017)

Enhanced licensing requirements for employment services have been implemented in the Czech Republic, and are on the horizon in Australia. Brazil has seen protests over the new Labor Reform Bill, which came into effect in November 2017, while Singapore's new Tripartite Standards allow employers to showcase their adoption of fair and progressive employment practices.

CANADA

In June, several changes to Canada's Labour Code were passed that will increase worker leave policies and eligibility in federally regulated sectors. Federally regulated sectors include banks, air, road, rail and marine transportation, telecommunications and broadcasting.

UNITED STATES

Recent employment-related changes from the US Citizenship and Immigration Services (USCIS) include: as of September 2017, a revised Form I-9 now must be used to verify the identity and employment authorization of all new hires; and premium processing for all H-1B visa extension of stay petitions was resumed.

BRAZIL

The Labor Reform Bill came into effect in November 2017. The controversial bill, which contains changes related to working time, collective bargaining and disputes, negotiation of working terms, and vulnerable workers, is being hailed by the administration as a way to ignite the economy and increase competitiveness. Critics maintain that the Bill will reduce workers' rights and benefits.

CZECH REPUBLIC

Amendments to the country's employment acts introduce new fines and stricter licensing conditions for employment agencies; and new fines for violations of employee privacy. The provisions went into effect in July 2017.

FRANCE

Labor market reforms enacted by President Emmanuel Macron loosen regulations for fixed-term contracts as well as for employee dismissals, and give firms more freedom to negotiate working conditions with employees. In addition, the government's draft budget includes a proposed reduction in the Competitiveness and Employment Tax Credit (CICE) for 2018, from 7% to 6%. Beginning in 2019, the CICE would be replaced by a permanent reduction of social security levies due from employers.

GERMANY

The Bundestag approved the Federal Data Protection Act (FDPA), anticipating the EU's General Data Protection Regulation (GDPR) which will go into effect in May 2018. The FDPA in some cases is more stringent than GDPR; for example, it requires every business with ten or more employees that permanently processes personal data to appoint a data protection officer.

SINGAPORE

The Ministry of Manpower is issuing Tripartite Standards, a new initiative aimed at helping organizations with fair and progressive employment practices to distinguish themselves. Employers that have pledged to uphold the Standards can use the branding in their recruiting processes. The first three Standards cover fixed term employment contracts, flexible work arrangements, and grievance handling.

AUSTRALIA

The state of Queensland has passed the Labour Hire Licensing Act, which introduces a mandatory licensing regime for the labor hire industry, expected to take effect in 2018. The new regime will apply broadly to providers of labor hire services and to entities entering into arrangements with those providers. Other states, including South Australia, Victoria, Australian Capital Territory and New South Wales, are also investigating and/or pursuing similar licensing regulations.

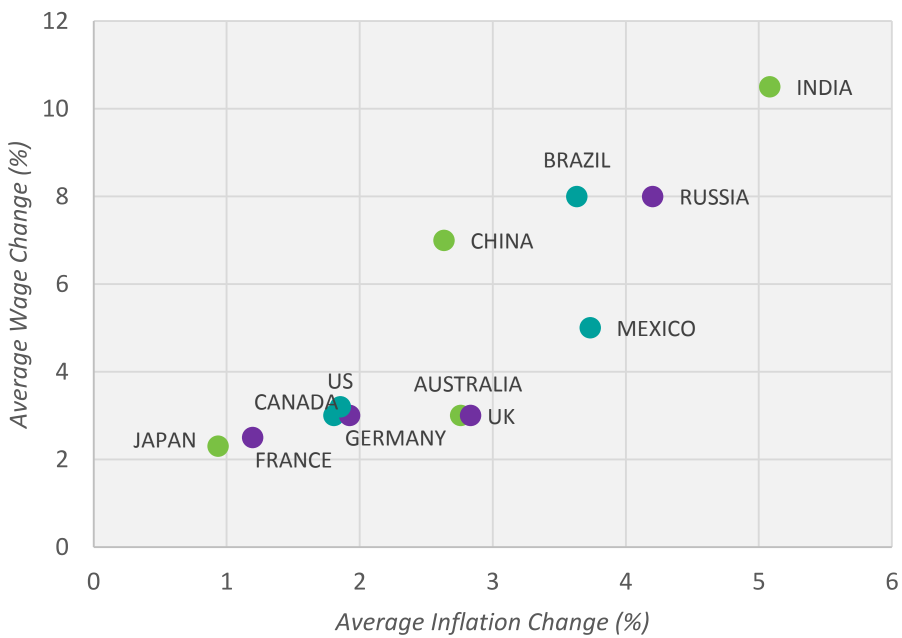
Sources: SIA North America Legal Update, Q3 2017; SIA Latin America Legal Update, Q3 2017; SIA Europe Legal Update, Q3 2017; SIA APAC Legal Update, Q3 2017; lexology.com; http://www.mom.gov.sg/employment-practices/tripartism-in-singapore/tripartite-standards

GLOBAL TALENT SPOTLIGHT:
INFLATION AND WAGES

PAYCHECKS AND PRICES

As the global economy strengthens and labor markets continue to tighten, experts continue to be baffled by sluggishness in both wage and inflation growth across many countries. Emerging markets continue to outpace developed markets in both inflation and wage growth—but with some signs of moderation: in China, for example, wage increases are expected to average just 7% in 2018, down from 7.5% in 2017, according to ERI. And in several major developed countries including Australia, Canada, UK, and Germany, the outlook is for wage increases to remain flat at 3.0% in 2018.

WAGE AND INFLATION GROWTH PREDICTIONS 2018



WAGE GROWTH IN SELECTED COUNTRIES: 2017 ESTIMATED AND 2018 PROJECTED

BRAZIL
2017: 8.0%
2018: 8.0%

FRANCE
2017: 2.6%
2018: 2.5%

AUSTRALIA
2017: 3.0%
2018: 3.0%

CANADA
2017: 3.0%
2018: 3.0%

GERMANY
2017: 3.0%
2018: 3.0%

CHINA
2017: 7.5%
2018: 7.0%

MEXICO
2017: 4.5%
2018: 5.0%

RUSSIA
2017: 8.0%
2018: 8.0%

INDIA
2017: 10.3%
2018: 10.5%

US
2017: 3.1%
2018: 3.2%

UK
2017: 3.0%
2018: 3.0%

JAPAN
2017: 2.4%
2018: 2.3%

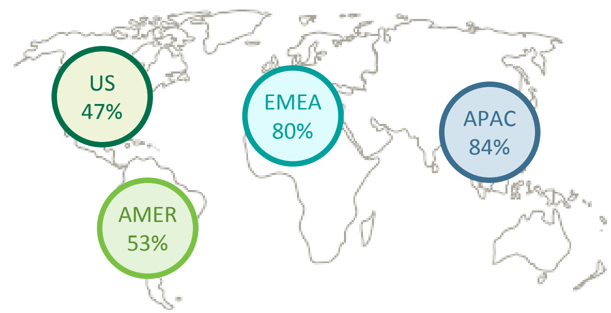
Sources: Planning Global Compensation Budgets for 2018, ERI; IHS Markit

WORKFORCE SOLUTIONS SPOTLIGHT:
OPTIMIZING GIG/FREE AGENT TALENT

THE STATE OF THE GIG ECONOMY

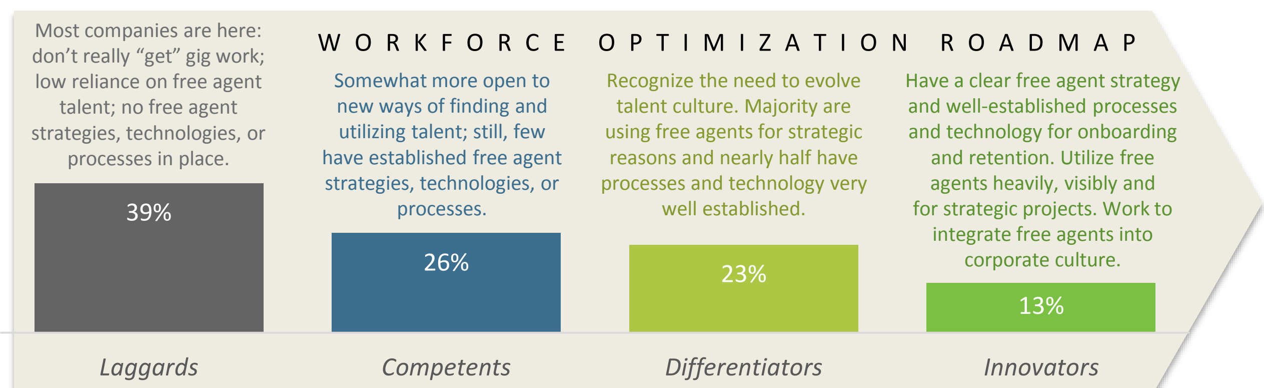
As the world of work changes, the employer-employee relationship is also shifting. Long-term commitments to employers are waning. The best talent is seeking greater control over integrating their work with their personal lives and passions. As a result, the gig economy is thriving, and the majority of global talent managers across geographies and sectors are now leveraging gig workers and free agents in their teams to drive cost savings, innovation, and competitive advantage. According to new research by Kelly Services, 65% of global talent managers use gig workers in their departments. Of these talent managers, nearly two-thirds (65%) think the gig economy is becoming the new normal for how businesses organize work, and almost three quarters (73%) believe a much more flexible and fluid workforce will emerge as a way to navigate an increasingly dynamic, global business climate.

GIG WORKER USAGE BY REGION



Kelly Services has developed a proprietary Workforce Optimization Model, which evaluates how companies today are utilizing the gig workforce to drive positive business results. The research shows that for most organizations, gig talent is still an untapped opportunity.

As organizations mature in their usage of gig talent, the advantages are more apparent: from cost savings, to stronger competitive advantage, to better access to niche skill sets, and so much more. The Workforce Optimization Model demonstrates that companies with forward-thinking leadership and organizational mindsets, a holistic workforce strategy that includes all talent categories, and operational practices and processes that support gig workers, are better able to realize positive business outcomes. However, very few companies are invested in taking full advantage of the gig economy.



Firms that invest beyond competency reap significantly higher beneficial outcomes.

BOTH Differentiators and Innovators reported meaningfully higher:

- Labor cost savings (20%+)
- Competitive advantage
- Infusion of knowledge and expertise
- Performance and level of commitment from gig talent
- Positive experience engaging gig talent

Source: From Workforce to Workfit, Kelly Services, 2017

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