

READING THE WORLD

VOLUME 1, ISSUE 3

MAY 15, 2004

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THE PERFECT STORM

Everyone is focused on outsourcing and the perceived job shortage, yet no one is speaking about the coming labor shortage. By 2010, the professional labor market may lose as many as 10 million workers. The majority of these will be high skill, high pay professionals. These jobs can not be easily outsourced and are hardest to fill. A perfect storm is brewing, undetected by the markets.

Three generational forces are converging. First, the Boomers are retiring at an earlier age. The average retirement age has already dropped from 67 to 61. Continued burdens on health care professionals, such as high malpractice insurance costs and rising compliance costs, are driv-

ing some seasoned professionals out earlier than planned.

Second, Generation X women are leaving the workforce to raise their children. These women, having achieved the success expected by the Women's Rights movement, are now checking the box of accomplishment and opting out of the workforce. They have seen the costs of absentee parenting and are not willing to have childcare centers or nannies raise their offspring. They have given up trying to do it all.

Lastly, Generation Y, a generation whose parents invested heavily in their private education, is delaying their entrance into the workforce. Young people continue to pursue higher

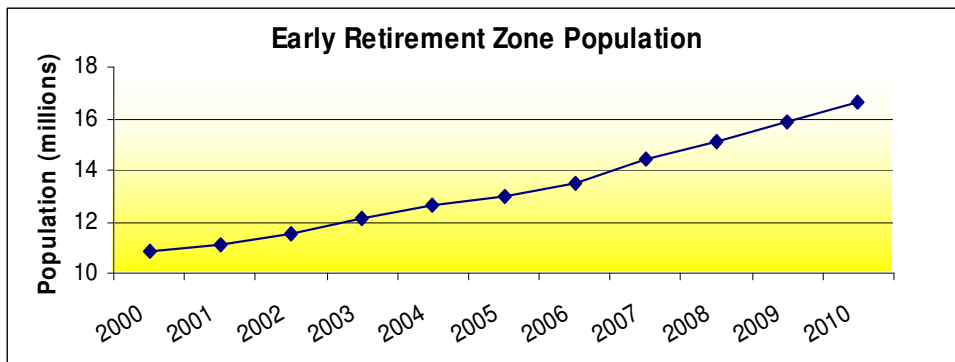
education bankrolled by their supportive parents. This group is hesitant to enter the workforce without being armed with an MBA or Law degree. They saw what happened to the dot.comers who dropped out of school, only to return later. Record numbers are competing for placement in Law schools and Business graduate schools. They have enjoyed comfortable lives and are unwilling to settle for lower paid, lower skilled, entry level jobs. They want to move horizontally from a comfortable lifestyle with their parents to a comfortable lifestyle on their own.

So where will we find experienced managers, doctors, dentists, and engineers? Not here. Overseas? Many of these jobs can't be outsourced. Radiologists in India can read X rays

via the Internet, but doctors and dentists can not practice clinical medicine through a computer. Furthermore, the U.S. is entering a Visa crisis that is keeping foreign students from our country, many of whom stay in the U.S to work after graduation. Total international applications to U.S. graduate schools dropped 32% in 2003. Clearly, we need to change our Visa regulations to allow the immigration of foreign trained professionals.

SPECIAL POINTS OF INTEREST:

- *Future retirements of both Boomers and professional Generation X mothers will produce a labor shortage by 2010.*
- *Generation Y is delaying their entry into the workforce and will be slow to fill this gap.*
- *Taxes on professional labor, like high cost malpractice insurance, are already pushing doctors out early*
- *Jobs outsourcing will not be a political issue, it will be inevitable for certain industries*
- *Capital will need to substitute for skilled labor.*
- *We have a brain drain from the office to the home. Flexible work from home environments may diminish the labor shortage.*



Over this decade the population of early retirees will increase by 50%. The cohort of 60-64 year olds will increase from 11-16 million. These early retirees further exacerbate the labor shortage. This will become more apparent as early as 2005.

WHERE WILL THE PERFECT STORM STRIKE?

Three professions requiring years of study are in jeopardy: medical, dental and engineering. Plagued by high malpractice insurance costs, many doctors are retiring earlier. Although dentists are not plagued by the same costs, dental schools are still closing. Similarly, engineering programs are also experiencing a decline in enrollments as undergraduates are pursu-

ing their law degrees or MBA's instead. So which businesses will help bridge the gap of professional education and experience necessary to be a doctor, dentist or engineer? Here are some places to look. These are merely suggestions, not well researched stock recommendations.

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1. Companies like Henry Schein Inc. (HSIC) and Patterson Dental Company (PDCO), a portion of whose product lines include productivity enhancers for dentists.



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2. Companies doing continuing education or professional certification like Apollo Group Inc. (APOL) and its subsidiary the University of Phoenix Online (UOPX).



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3. Professional temporary employment companies for highly skilled workers such as Robert Half Int'l (RHI) and Kforce Inc. (KFRC).



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4. Online job search companies like Monster Worldwide Inc. (MNST).



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5. Contract manufacturing companies like Solecron Corp. (SLR), Flextronics (FLEX) and Sanmina-SCI Corp. (SNMA).

