Wage Pressures in U.S. Beginning to Mount, CFO Survey Shows

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by Nina Glinski
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(Bloomberg) -- Employers in the U.S. will probably have to offer bigger pay raises to hire and retain skilled workers as the labor market tightens, according to a quarterly survey of chief financial officers.
About 70 percent of CFOs said they expect to boost worker pay by at least 3 percent, Duke University/CFO Magazine’s global business outlook survey of 547 U.S. companies showed Wednesday. Wage pressures are greatest in technology, services and consulting, manufacturing and health care industries.

Bigger bumps in pay have been the missing ingredient in the U.S. labor market recovery as corporate financial positions improve with demand. Attracting and keeping qualified employees was a top-five concern, according to the survey which also showed the strongest level of optimism about the economy since 2007.

“The U.S. is finally entering a new phase in the economic recovery,” John Graham, a finance professor at Duke’s Fuqua School of Business in Durham, North Carolina, and director of the survey, said in a statement. “Finally, we are starting to see wage growth for employees that outstrips inflation. Given that CFOs expect continued strong employment growth, it is surprising that wage pressures are not even greater.”

Sixty-three percent of CFOs said that their companies have recently increased or plan to raise wages, and 26 percent said it was because they were having trouble luring or retaining skilled employees.

An improved outlook on business balance sheets and the economy may be the impetus firms need to raise wages. The finance heads’ gauge of optimism about the U.S. economy rose to 64.7 in three months to March from 63.7 in December. The group’s index of corporate sentiment climbed to 67.5 from 66.4.

One potential headwind for companies is the appreciation of the U.S. dollar, helping explain why CFOs project slower growth in capital investment, earnings and technology spending. One in four U.S. companies with at least a quarter of their sales in overseas markets have trimmed business spending in response to the greenback’s strength.

“We are in a midst of an ugly contest to see whether the eurozone, Japan or Canada can depreciate the most against the U.S. dollar, and China is probably next,” Campbell R. Harvey, a Duke professor and founding director of the survey, said in a statement. “U.S.
Tharvey, a Duke professor and founding director of the survey, said in a statement. “U.S. exporters are being punished by these competitive depreciations and this will lead to lower profits and less employment.”

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Stu Taylor, chief executive officer of Algomi Ltd. Source: Photographic Techniques Ltd/ Courtesy of Cognito Media via Bloomberg

(Bloomberg) -- It was February 2012 and banks, dealing with the fallout from the credit crisis, had culled more than 230,000 jobs the year before. Stu Taylor, the London-based global head of matched principal trading at UBS Group AG, figured he better get out. So he left his seven-figure salary and risked his life savings on a technology startup.

He and three partners “went into a zero-salary moment” setting up Algomi Ltd., a bond sales management platform to be used by traders, portfolio managers and investors. Three years
management platform to be used by traders, portfolio managers and investors. Three years later, the 42-year-old says the far longer hours to bring home a fraction of his previous pay are worth it. “I enjoy what I’m doing, we’re creating something I think is making a difference, and it’s mine.”

As investment firms including UBS, Royal Bank of Scotland Group Plc and Deutsche Bank AG have curtailed or shuttered lines of business, particularly in debt trading, the contractions have prompted former bankers to quit finance and put their experience to use in the new field of financial technology, or fintech. Capitalizing on the changing regulatory environment, such companies offer risk management, data analytics, trading platforms and other services often previously performed by humans.

“Seven out of 10 conversations I have with investment bankers now end with them asking me to keep them in mind for jobs in technology,” said Atlanta-based Eric Anderson, who leads the financial-technology practice at Egon Zehnder International Inc., the executive search firm hired by Standard Chartered Plc to replace Chief Executive Officer Peter Sands. “That almost never happened five years ago.”

**Fewer Brokers**

North America had 212,100 fewer bond brokering jobs and other roles defined by the U.S. Bureau of Labor Statistics as credit intermediation in January, versus the start of 2008, according to the latest data available. By contrast, there are currently more than 500,000 job openings in areas such as software development and cybersecurity, many of which didn’t exist a decade ago, White House data show. An annual review of the U.S. banking system by McKinsey & Co. in December tallied more than 12,000 startups focused on banking businesses.

Four of the biggest U.S. and U.K. banks have reduced total headcount by almost 350,000 since the beginning of 2008, according to data compiled by Bloomberg. A quarterly Bloomberg Global Poll released in January found 83 percent of respondents say the banking industry will continue to cut jobs this year.

Investment bankers now have “this belief that the industry is such a slow-moving machine
Investment bankers now have “this belief that the industry is such a slow-moving machine that we can disrupt it,” Anderson said.

**Transform Markets**

Mark Whitcroft, a 34-year-old Briton, left his job last year as a director on Deutsche Bank’s New York bond syndicate desk to become a principal at Illuminate Financial Management Ltd., a U.K. venture capital firm that bankrolls fintech startups to “transform financial markets,” according to the company’s website. Whitcroft had been investing his own money in such companies since 2010.

“For me, this was an opportunity to change career,” he said by phone from London, where he returned after leaving New York. “It was an opportunity to have a much bigger impact on something that’s an emerging industry rather than something that’s a continuation of an existing one.”

Deutsche Bank had been trimming compensation and shrinking its credit unit while conducting a strategic review to identify further cost savings. Ten months after Taylor left UBS, the Swiss bank announced a plan to cut 10,000 jobs and retreat from some trading businesses where stricter capital rules hampered profitability.

**Pondering Change**

More than half, or 51 percent, of employees at European banks were thinking about changing jobs, according to a survey this year by New York-based recruitment firm Options Group Inc. Some 42 percent of people at hedge funds with more than $5 billion of assets expressed the same desire.

Technological advances are poised to have the greatest impact on banking, 86 percent of the bank chief executive officers surveyed by PricewaterhouseCoopers LLP last year said. More than 30 percent of revenues at European banks will be driven by digital transformation in the future, according to McKinsey. That may involve replacing some people with computers.
“If a process is measurable or mechanical, it can be automated,” said Anthony Lim, a Singapore-based cybersecurity consultant who has advised the industry group, the International Information System Security Certification Consortium Inc., or (ISC)², and the Singapore government. “Any area in investment banking that can be automated will be.”

‘Leave Behind’

Banking and securities firms spent $488 billion last year on information technology, research firm Gartner Inc. estimated. That amount is set to top $500 billion this year, Gartner said, as Libor and foreign-exchange rigging scandals put electronic messaging under the spotlight and after hackers jeopardized millions of JPMorgan Chase & Co. accounts last year.

“Technological progress is going to leave behind some people,” Erik Brynjolfsson and Andrew McAfee of the Massachusetts Institute of Technology wrote in their 2013 book, “The Second Machine Age.” “There’s never been a worse time to be a worker with only ordinary skills and abilities to offer, because computers, robots and other digital technologies are acquiring these skills and abilities at an extraordinary rate.”

The trend is worldwide. Alan Schmoll, 36, hopes to capitalize on the changes after leaving a position as director of debt capital markets at Bank of America Corp. in Hong Kong in September. The Australian co-founded Tokyo-based Asbet Ltd. and its MarketsOne website, which lets users show interest in million-dollar bond sales similar to accepting an event invitation on Facebook. Trials are under way.

Adding Value

“The system is not designed to take people out of a sales job, but to assist in a process that’s laborsome and error-prone and allow them to focus more on the informal chitchat with buy side accounts, which is where the real value is,” Schmoll, who traded his tailor-cut suits for rolled-up shirt sleeves, said in an interview while on a visit to Singapore to meet potential clients.
Adding value is going to become the focus of bond and equity sales people as new technologies move in, (ISC)2’s Lim said.

“A machine can’t buy you a drink in the bar to tell you if the IPO that’s coming is hot or not,” he said.

Global investment in fintech has increased five-fold since 2010 to $13.7 billion, according to New York-based venture capital tracker CB Insights.

Ex-bankers such as Taylor who left big-ticket jobs consider their moves an investment as well.

“What I’ve lost financially, I have absolutely gained in terms of wanting to be there,” he said. “And hopefully, maybe, there is a payday someday in the future.”

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