JIGSAW
TALENT MANAGEMENT

Market Update

July 2020

For more market reports, visit www.jigsawtm.com

Jigsaw Talent Management

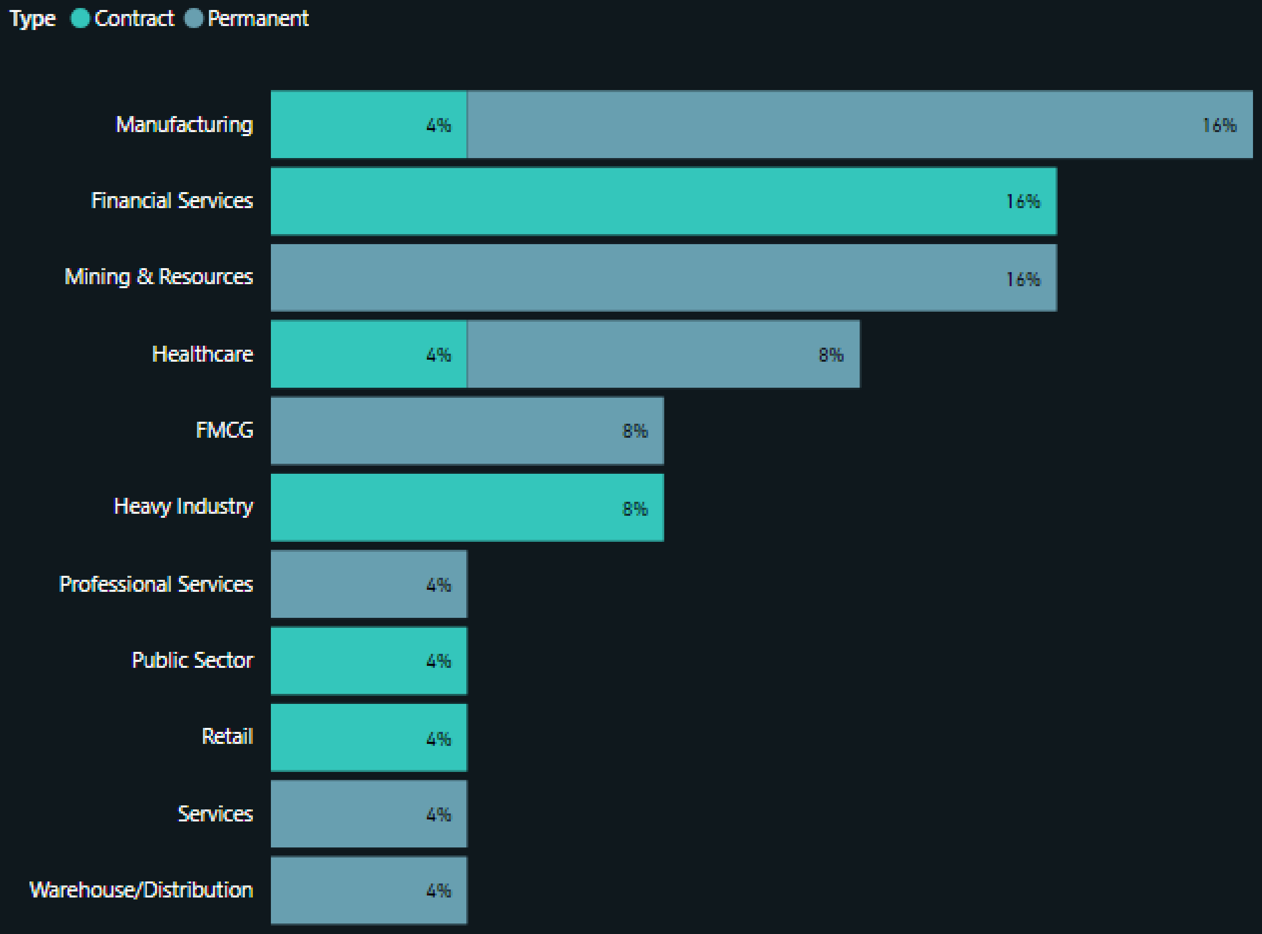
Current Market Demand - July 2020

10% of all procurement professionals are available

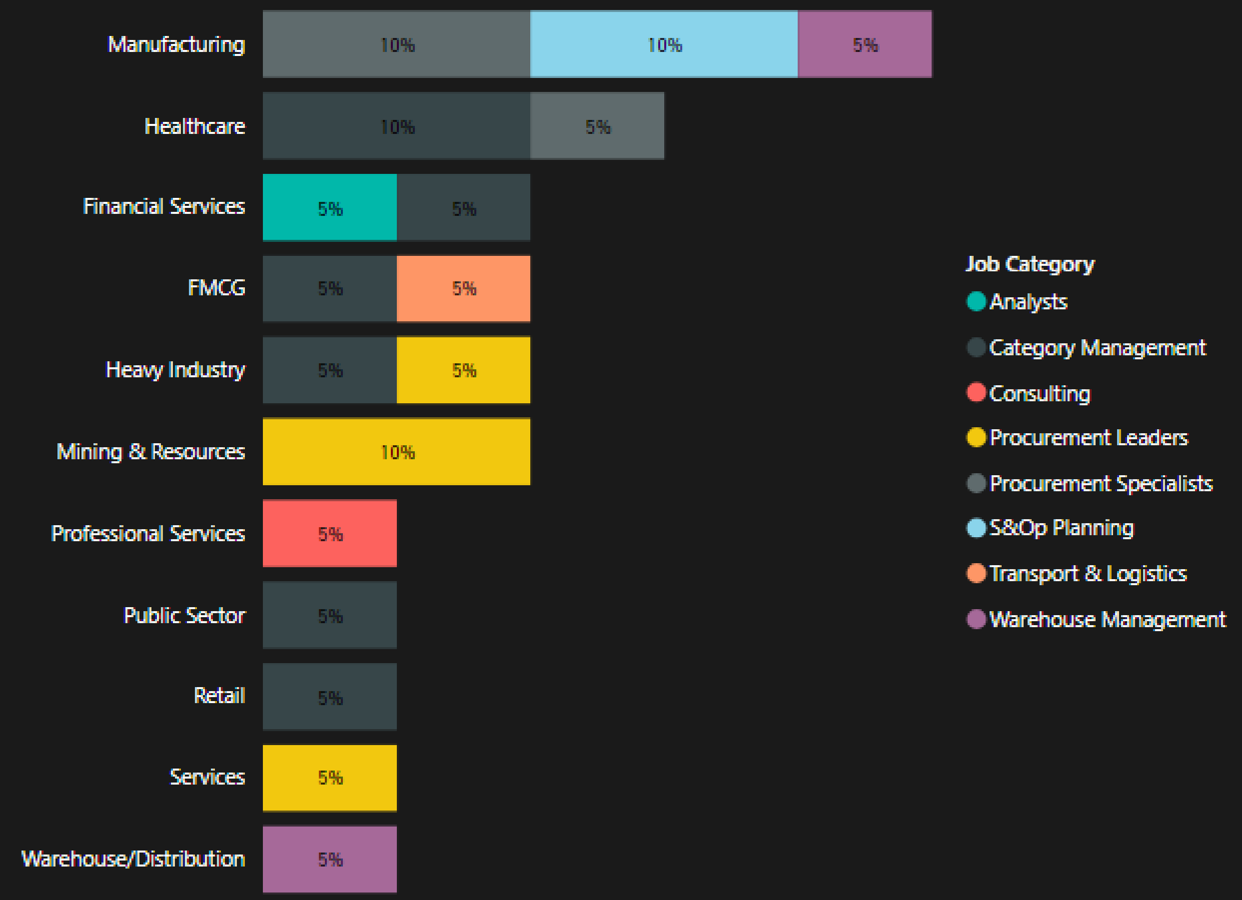
24% of all supply chain professionals are active

18% of all procurement professionals are currently contracting

Open Jobs by Industry



Open Jobs by Industry & Job Category



www.jigsawtm.com | 1300 655 633 | info@jigsawtm.com

High Level Overview – Market Snapshot

For many companies, July is the start of a new year. For others, it is the mid-point, with two more quarters to salvage what opportunities can be extracted from these dire market conditions. Globally, over $11 trillion of stimulus has been injected into the economy. The pendulum of inflation and deflation is swinging. What started as a liquidity crisis is soon going to expand into an insolvency crisis and no amount of stimulus can correct insolvency. This insolvency volcano will not just involve companies. It will involve states, governments and countries. Any recovery that is not 100%, even if it is 90%, will have huge impacts on employment, under-employment, tax revenue and the fundamental mechanics of the supply and demand equation. Companies this year that filed for bankruptcy include GNC, Hertz, J.Crew, J.C Penny, Neiman Marcus, Pier 1, Papyrus, Dean & Deluca, Fairway Market, True Religion, Roots USA, Gold's Gym, Stage Stores, John Varvatos and Modell's Sporting Goods. Unfortunately, this list will get a lot longer between now and Xmas.

We have hit peak globalisation. With global de-coupling of markets, huge change is upon us. Currencies, Securities, Stocks and land values will all be affected by this change. In addition to the impacts of land values and fiscal products, it raises the question re the ability for many businesses that are yet to make profit, if they will ever get the market dynamics to deliver investor return. Businesses such as Uber, Snap, Square, Lyft etc who are worth billions re stock market valuation, had the promise of an ever globalised market offering scale and future profits to compensate the negative cash flows, may now never achieve a cash flow positive state. The confidence or patience for investors to get a return will be a significant factor in how long they will last in the current climate. The economic stresses that have and will be experienced will likely drive increased M&A activity for many sectors that will require to merge operations to consolidate business operations with revised market demands.

Jigsaw see an avalanche of input cost increases becoming a major headache for corporations. CEO's who do not understand that supply chain (sourcing, production, planning, distribution, customer care) is the most strategic function in their business are going to feel the most pressure and will be at the most risk.

Companies over the next 2 – 5 years are going to have to make some big calls re their location of production, where they source materials, how they source materials and really leverage planning to reduce waste. The demand side will be adversely affected by reduced employment, reduced hours, crippled pensions and overall a slowing down of currency velocity. On the supply side, there will be less products, less production, less companies and a lot of cash as a ratio to assets and products. So there are cases for deflation and inflation.

Procurement, no doubt will be important, but what impact can procurement really have on such a drastic situation? Yes, procurement can help the business understand symmetry of supply and demand if executed strategically, and yes, procurement should be in a position to lower risk and costs, but on the flip side, businesses are de-leveraging where possible, have rising costs through their own value chains and will need to raise their cost of service to ensure they are both profitable and sustainable. Jigsaw predict no matter how optimised a companies supply chain is, costs will go up from where they have been. Materials, land, labour, energy etc will all be under inflationary forces. Companies need to counter these forces by optimising the labour force, reducing real estate dependency, reducing waste and leveraging automation, data and technology to balance things out. This will create more pressure on unemployment.

As Jigsaw see it, this is where the government need to be highly strategic. If the fabric of the economy stays the same, with resources sucked up by expanding governments, property, dirt and fiscal products, Australia will spiral into a vicious circle that will be hard to crawl out of. If the government exploit the geopolitical changes that are taking place, Australia can create new sectors, new opportunities and be prosperous in 2 – 5 years. These opportunities will be in the form of energy, metals and minerals that are produced and exported to a global customer base. On the back of this commodity cycle and de-coupling from China, new products will be innovated, new markets will be created and if we manage to put in measures to lower our own price of land, energy and labour, this situation can be a once in 100 year opportunity for the lucky country. In the short term, Australian companies will be wrestling with a boom in the price of commodities, that could place huge costpressure on a range of industries including Construction, Manufacturing, FMCG and Retail sectors. For instance, last week, lumber was up 3.4% and oil is slowly pushing arecovery up 5.6%.

Individual wealth retention and retirements will also be under huge change and the ride will be bumpy. Baby Boomers, Gen X, Gen Y, Gen Z may have to adapt to an environment where money and time have no correlated value, where yield on principle is almost impossible to come by without huge exposure to risk. Jigsaw predict that house prices could fall back to nominal 2005 levels in about 3 years for many parts of Australia. As the currency will be devalued, the real value could be significantly less if compared to gold or other asset classes. Liquidity to service retirements may have to be achieved via liquidation of assets.Housing may once again be viewed as shelter and not a fiscal investment.

As indicated above, unemployment will likely get worse before it gets better. As a result of poor economic management and the dreaded COVID-19, many small and large business will either disappear or contract in scale. Jigsaw are predicting the banks and government will cut at least 25% of headcount between now and Xmas. The real impact will be felt in September, unless the government extend the stimulus. The government will likely have to increase taxes at some point over the next 12 months. Jigsaw's sources indicate the government is flirting with removing stamp duty to keep the property sector afloat. We can only assume many politicians have many investment homes, as this idea, in our opinion, sounds terrible in light of the economic health of the country and it's causes. Stamp duty is an awful tax, no question. Thing is, removing stamp duty at a time of increasing sovereign debt means GST would have to rise considerably to compensate the huge hole created in lost taxes. This would place even more inflation on the cost of goods and services and only serve to assist the wealthy percentage of the population that already have properties retain wealth if values hold. Australia may attempt to exploit the mass exodus from Hong Kong and compete with other Western Nations for this quick and easy inflow of capital. The UK has already offered to house 3M people out of Hong Kong who are keen to escape the illegal regime taking shape. If Australia also welcomes this inflow of Hong Kong migrants to these shores, it may not result in further house price inflation and economic stimulus. Capital is hard to move out of Hong Kong for one, and may prove even more challenging now China has its communistic arms wrapped around it. It is possible the China regime will ban people leaving entirely. With Australia's already stressed economy, high unemployment, poor infrastructure and demand/supply contraction, we could experience an accelerated stagflationand little else if this initiative did take shape.

Jigsaw Opinion - Economy

Defence – The government is increasing investment in defence ($270 billion) with long range missiles, but this expense is possibly misguided when the government have been allowing China to buy/lease strategic assets within Australia and potentially allowed China to infiltrate political agendas. Even Virgin, which was mostly Chinese (communist) owned (HNA), had made investments in a flight training school for Chinese pilots based in Tamworth which seemed very dubious (full article in Michael West Media). With a population of 25M and a military that surely is no match for the 2nd largest economy in the world, the money maybe better invested in expanding the private sector as a % of GDP. Australia has a right to protect itself of course, and should, but Australia may be better playing smart politics to achieve its trade goals. The bulk of this defence spend is to multi-national companies that pay little/zero taxes in Australia, so the capital that is pumped into defence will do little to ease the ever growing budget deficit. The contract commitments by the government to defence spending was $80 billion in 2018, $55 billion in 2019 and will exceed $270 billion over the next decade. According to Callum Foote, from 2010 to 2020, $137 billion has been spent on Major Vehicle Purchases. We hope on the governments investment list, there is also room for drones, cyber security upgrades, bio weapon defence and new policies to ensure foreign interests are heavily scrutinised before being allowed to acquire strategic assets that could place Australia in a heavily compromised position.

Financial Services - For Jigsaw, the fiscal sector is continuing to offer steady demand from contractors and perm placements as the sector wrestles to optimise its cost and risk in a climate that will likely see contraction of revenues, in-turn stock values and dividends. As indicated last month, the banking sector is under-invested in ICT and systems and now, over invested in real estate and human capital. Changes will be very challenging as ICT will require heavy investment at a time when liquidity is questionable. The RBA believes the banks have higher levels of capital than in the previous crisis (2008), so is backing resilience from the sector. However, the previous crisis was a drop in the ocean compared to what is happening right now. The RBA may have to review and increase its $90 billion TFF (term fund facility). The TFF lowers the cash rate to enable reduced lending rates for borrowers. It works in conjunction with reduced funding costs re 3 year bond yields, which are capped at 0.25%. It also supports small business lending. Issue with capped yield on sovereign bonds is it can question the independent nature of the RBA to the government. Controlled yield on debt is great to manage a deflation, but when it comes to controlling inflation and take appropriate measures re interest rate hikes, governments can push back. The US experienced this exact dynamic in the 1940's.

The banks are in the toughest position of all sectors right now. Low interest rates hinder them making profit in the traditional sense. On the flip side, if interest rates rise, then their loan collateral will plummet and the loans themselves will certainly default. Then there is commercial real estate.
The change in dynamic for commercial real estate is a huge issue for many organisations. Globally, there is over $11 trillion sunk into this asset class, according to The Economist. Historically, commercial real estate was a safe and steady investment, offering safe long term gains in both capital growth and yield, typically achieving between 5% and 7%. The future of commercial real estate is now uncertain and pension funds are severely exposed. As an investment opportunity, for the past two decades property has been on a tear. Immediate concerns for banking sector, aside from loan default of household mortgages, is the tenants of coffee shops, restaurants and commercial offices. Many of these businesses may not survive and the businesses that do will certainly contract. This could cause 60% of high street real estate to be vacant with little future demand for new tenants. Commercial mortgage backed securities are seeing delinquency rates exceeding levels in 2007. According to many experts in the real estate sector, landlords need to change their paradigm on the commercial property model, as it will no longer be an easy and passive way to invest. Change will be required. A new audience for real estate will need to be discovered, with very different requirements and utility needs. This change in itself will take time.

Other news re the finance sector is around the Fintech space. The ACCC have opened up the Fintech sector, which enables technology companies to access customer data to offer an increased range of services. This will likely lift the investment in cyber security services, especially as Australia is a target for such attacks of late. Jigsaw see customer consent being a major risk point for investment in this new Fintech space, as any strategy or innovation that is dependent on too many authorities/permissions has a higher chance of failure. The screening process alone to be eligible may cause many businesses to stick to their knitting and see how 1st mover risk takes shape.

Agriculture - Dairy Farmers are on the brink of a crisis in the US as millions of gallons of milk has been dumped. Once the $ billions in s ubsidies is withdrawn, there is a strong chance many dairy farms will close for good. This will likely result in a food crisis as supply chains breakdown. As people tighten the purse strings, takeaways and restaurants will contract or vanish resulting in demand for butter, milk and cheese being heavily impacted. Dairy is 14% of global agriculture trade, valued at $700 billion+. Another factor impacting the dairy sector is diet changes re consumers, as plant based is rapidly increasing over meat and dairy. The dairy sector contracted by 9% in the US last year alone. Within Australia, over 500 dairy farmers quit the sector last year due to market conditions put upon them through the value chain. Governments in the US have provided stimulus for the sector. The key issue with stimulus is subsidising dairy farmers for losses does not solve the problem of food shortages. Farmers grow produce for consumption. No amount of money will fill the hole that is a lack of produce. There is the very real risk of food shortages looming. Food shortages will potentially increase the price of agriculture commodities further driving the condition of stagflation. The 1st week of July witnessed agriculture commodities surge. Corn up 7.6%, Coffee up 6.8% and Sugar 5.3%. Jigsaw believe this is just the start. Rising raw materials could hit consumers hard, at a time of underemployment, unemployment and increased taxes.

Mining – As indicated in the opening segue, commodities are grossly under-valued in comparison to bonds and stocks. We have had the dot.com bubble, the housing bubble and the everything bubble (stocks, housing, tech and bonds). Jigsaw believe the next 10 years will be the golden decade of commodities. As Iron Ore prices may gradually diminish (predicted to drop to $80 per ton by Xmas) as we decouple from China and there is even talks that China will cease demand for Australian ore absolutely, with Africa and Brazil being the sole suppliers. Strategic minerals should take over as economic drivers for Australia. China currently supplies over 80% of the world's strategic metals and the world seems to believe China is quickly migrating into a criminal regime (look at Hong Kong), Australia is in a prime position to muscle in on this global supply. By description, a strategic metal is defined as having vital importance for defence and energy. These metals include Niobium, Vanadium, Tellurium, Germanium, Cobalt and Chromium.

As with precious metals, Jigsaw see increased productivity and investment in these sectors and increased M&A activity to drive scale and reduce opex costs. For gold, re an investment perspective, there are risks to both investors and the mining operations in Nations that are in emerging markets or countries outside of the USD $ swap lines. As currencies come under continuing pressure in relation to the US dollar, it is feasible that precious metal operations could be nationalised to aid reserves in wealth. The US dollar is weakening and there is real risk of capital flight from US treasuries as the currency continues to weaken. The US cannot just go to negative interest rates without destroying the bond market and handing the baton to gold as a vehicle for national savings. Reducing the value of long term debt or even turning debt into a cost of ownership will be a drastic dynamic. Gold hit US $1800 per ounce this month and is predicted to challenge $2000 per ounce by Xmas. Silver will follow as the ratio has shrunk from a peak of 120 -1 to now under 100. These prices create huge productivity and incentive for the junior miners, with silver offering the greater upside for speculators. In fact, silver is both the most corruptly manipulated and under valued commodity on the planet right now in our opinion.

Uranium is also a very interesting space right now and like the junior mining sector will present strong employment opportunities over the next 10 years and even drive more capital to SA, as it has some rich resources for the space and cheap real estate in comparison to VIC and NSW.

With the looming death of the US fracking sector and an ever increasing push to move to cleaner, cheaper energy, Jigsaw are confident that we are also in the new bull market for uranium, and - like with precious and strategic metals - Australia is in a prime position to exploit these conditions. Businesses like Bannerman, GTR and TNT are surging in the small cap markets. Countries such as China, Poland and the US are committing to nuclear. Steve Moore, advisor to the US president, has indicated positive policies towards Nuclear. Coal, it seems, for many progressive countries has no future. For instance, Japan is pushing hard to reduce coal dependency by 26% by 2030, while investing in nuclear energy to 22%. This means Japan is dedicated to constructing a further 25 reactors over the next decade. This increased demand will surge the price of uranium.

Retail – Consumer habits are changing and this will present huge challenges for the retail sector. Retail will have to adapt and that adaptation cannot come from shrinking operations to achieve profits that are no longer increasing. What will add pressure to the sector is the double whammy of market contraction and the need to change. Operating a business in contracting and changing market conditions and changing the business model at the same time will be the challenge. Jigsaw predict Innovation and technology is going to pick the winners and losers. Businesses with scale will not hold an advantage by default if change is not on the table. Jigsaw believe local market ownership will be critical. Leveraging brand power, customer value and scale via innovative supply chains, automation and use of capital will be critical. Analytics will be the key driver for automation. As commercial real estate gets cheaper and more readily available, it could allow retail expansion to become more affordable. COVID-19 caused a lot of damage to the demand side of supply chain. Supply chain will certainly continue to Uberise for non-perishable products. DCs – in line with more readily available land and cheaper rents - could be located far more centrally than pre- COVID-19. This could compliment the fragmented retail strategies that were already being implemented pre COVID-19, where smaller transportation vehicles are used carrying lighter, more specific inventory, which has quick access to customer demands.