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Labor Market Braced for More Losses as Economy Slows

By Mark H. Gay

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Government orders are expected to support jobs in the defense industry.

Recruiters anticipate a second wave of redundancies this spring with as many as one in three employees in danger of losing their jobs or facing a cut in working hours or benefits.

Companies are wrestling with two problems: the slowing economy and the ruble's decline, which pushes up costs that are pegged to foreign currency and can include salaries and rent for offices or retail space, as well as the cost of imported goods.

Many companies have completed their first wave of redundancies, but there will be a second wave this spring, according to Yury Dorfman, partner at head-hunting company Cornerstone. "The banking industry was among the first to be hit and the negative impact has spread to all sectors of the economy," he said.

Like other companies banks are trying not to cut their staff too quickly, but salaries are under scrutiny, said Ventra financial director Timofey Alekseev.

"Major Russian state banks are under limited-scope sanctions with no access to foreign financial markets or any possibility to attract funds in hard currency. As a result, there is a lack of liquidity, especially in hard currency on the market and high interest rates."

"Things are heating up," said Olesya Murashova, acting head of the permanent staffing department at Coleman Services, referring to the slowing economy, sanctions and the effect on business of inflation as well as the foreign exchange rate.

"If things get ugly, some companies might consider redundancies, cutting benefits, a ban on commissions, fewer working hours reduction or working fewer weeks in a month. However, talking about salaries in general, some companies might consider adding a little extra, about 4 to 7 percent but changing the motivation scheme and toughening the key performance indicators at the same time," Murashova said.

Support for the view that a third of companies will cut headcount came from Alexei Mironov, director of strategic development, personnel company, ANCOR, though he thinks another third of companies may increase staffing.

Companies that work on infrastructure or government contracts, such as defense, may increase staffing this year. Similarly, the health sector could boost recruitment in the manufacture of medicines, medical equipment and services, Mironov said. IT and pharmaceuticals is another sector in which some salaries have been uprated in line with the rising dollar, said Murashova. "For the most part these are manufacturing companies focused on the import substitution program, and IT and pharmaceutical companies that continue to compete for talent."

The crisis of 2008 is turning out to have been a useful dry run, according to Dorfman. "Companies were willing to take preventive measures in advance, for example, freezing projects, revising salaries and bonuses and generally tightening their belts."

Most companies have not changed salaries: 25 percent have cut or are considering cutting salaries and only up to 5 percent have reconsidered salaries of top management and key employees, according to ManpowerGroup.

Salaries are not being increased except for key staff or, temporarily, for senior expat managers or senior Russian managers who have commitments abroad such as school fees or families living in another country. Even for expats or critical senior management the adjustment is generally only up to 5 percent and generally where companies are earning revenues in foreign currency, according to Galina Melnikova, general director of ManpowerGroup Russia & CIS.

Although salaries must be paid in rubles according to Russian law, companies may link ruble payments to a notional dollar salary, for example, and choose at what rate to convert into rubles. In most cases, even though a salary may have been negotiated in dollars at the time the contract was signed, the value of that salary has plummeted as the ruble has lost roughly half its value in the past year.

Most expats working in the oil and gas market have salaries tied to the dollar, pound or euro, but they are not immune to the ruble's fall, according to Nick Rees, country director, Progressive Global Energy, because the projects on which they work are now less profitable in foreign currency terms.

"If anything, the income of such expats is going further in Russia now and Russia has gone from being a very expensive place to live to reasonably priced for many of them now," said Rees. For companies, however, "the cost exposure is usually too high to justify keeping mid-management expats, which is why usually only those at the top table can really justify their existence at the moment."

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