

2005 IT Hiring Trends

IT Labor Crisis Looms Ahead

Presented by JDA Professional Services, Inc.

JDA Professional Services, Inc., a full-service IT staffing firm, is an industry leader that has seen numerous business and technology cycles in its 20-plus year history. JDA's president and CEO James Del Monte is a frequent contributor to industry publications and frequently speaks at industry events. JDA's latest research finds that the skilled labor supply and demand curves have changed. Now the economy is at full employment and the next IT labor crisis looms ahead.

Economic Signs Point to U.S. Job Growth in 2005

After a three-year slump, the U.S. economy bottomed out in October of 2003 and then started to accelerate once again. Job growth figures from November of 2004 show strong gains, with the economy adding almost 2.4 million jobs overall since August of 2003. The unemployment rate dropped from a peak of 6.3 percent last June to 5.4 percent in November of 2004, below the average unemployment rate of the 1970s, 1980s, and 1990s.¹ The U.S. Bureau of Labor Statistics projects that "the country's GDP will continue to expand over the next several years, while productivity will continue to improve and inflation will remain stable."⁹

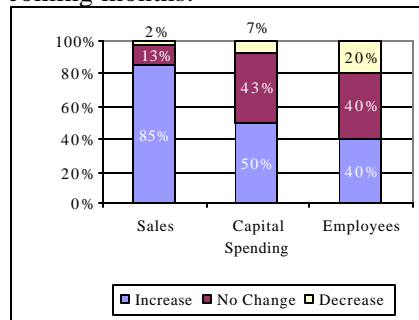
National Employment Growth

- +2.4 Million Jobs Added
- Unemployment Dropped 1 %

Source: George Bush, "Securing Our Economic Future" www.whitehouse.gov December, 16, 2004.

America's Business Leaders Optimistic About Hiring

The latest survey by the Business CEOs, found that most expect the U.S. economy to continue to grow at a healthy pace in the first half of 2005, with "eighty percent expecting their company's U.S. employment to increase or stay the same in the next six months."³ Hank McKinnell, chairman of the Business Roundtable and CEO of Pfizer Inc., said "America's CEOs continue to be optimistic about business conditions for early 2005. We remain confident that investment spending will continue to drive economic growth in the coming months."⁴



Source: Business Roundtable Releases December CEO Economic Outlook Survey" www.businessroundtable.org December, 1, 2004.

Owners of small and medium-sized companies are also optimistic about hiring. Administaff's latest survey results from its client base of more than 4,600 small to mid-sized businesses found that, "59 percent plan to add employees this year and 63 percent plan to increase salary and wage levels."⁵ The data also showed that "compensation is up on average by five percent and bonuses are up by 15 percent." According to Administaff's chairman and CEO, "it's clear from the survey numbers as well as the activity we're seeing with our clients that the nation's small business engine appears to be revving up."⁶

Houston Job Growth Forecast Promising

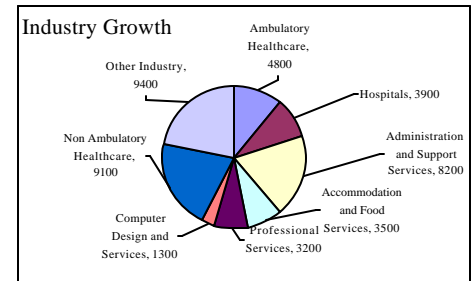
Houston Jobs are on the RISE!

Percent	Net Gain
+1.8%	39,000

Source: Greater Houston Partnership, "Economic Outlook Shines Bright for Houston in 2005" *At Work*, Vol. 59, Issue 12. December, 2004.

The annual employment forecast by the Greater Houston Partnership shows that Houston entered an expansion phase in 2004, meeting all job growth projections, and the GHP predicts a pick-up for 2005. According to Jim C. Kollaer, president and CEO of the Greater Houston Partnership, "we expect 39,000 net additional jobs in our economy over the coming year. Houston has typically rebounded faster than the nation coming out of a recession and we expect this historical trend to continue in 2005 with Houston's economy growing slightly faster than the U.S. as a whole."⁷

Houston Job Growth Crosses All Sectors



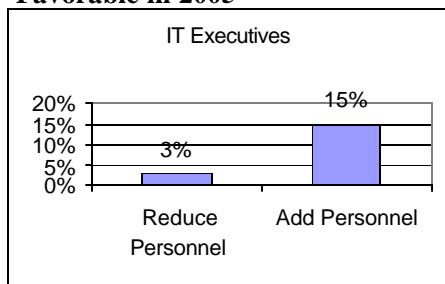
Source: Greater Houston Partnership, "Economic Outlook Shines Bright for Houston in 2005" *At Work*, Vol. 59, Issue 12. December, 2004.

The GHP predicts that, "health care, expanding by an aging population, will once again lead all regional economic sectors in net jobs added (9,100) – a growth rate of 4.4 percent. Second will be in administrative and support services – a category that includes employment services, gaining 8,200 jobs (5.6 percent). Accommodation and food services will be third, adding

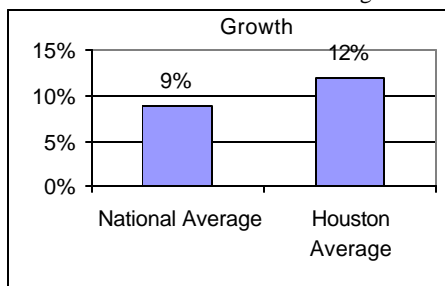
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3,500 jobs (2.2 percent), followed by professional, scientific and technical services gaining 3,200 jobs (2.2 percent), **led by a modest resurgence in computer systems design and related services (1,300 jobs, 6.1 percent)**. Other areas that will experience smaller gains include legal, accounting, architectural and engineering services, retail/wholesale trade, manufacturing, construction, oil and gas, and government.”⁸

Houston Technology Hiring Favorable in 2005



National Growth vs. Houston Averages



Source: Christine Hall, "Houston CIOs Intend to Hire More IT Professionals in 2005," *Houston Business Journal*, December, 8, 2004.

A *Houston Business Journal* survey of Houston CIOs found that, "15 percent plan to add staff during the first quarter of 2005, with only three percent planning to reduce personnel. This net 12 percent hiring increase is three points above the national average."⁹ James Del Monte, president and CEO of JDA Professional Services, Inc. says, "the combination of the creation of 1,300 new IT jobs and 15 percent of companies adding new staff creates a compounding effect given that we're currently at full employment in the

Houston IT market. We're seeing a large hiring boom across all sectors; it's not one industry or type of skill which is creating a churning in the market. This December was our strongest ever. Our staff filled positions ranging from IT executives to desktop support specialists."¹⁰

Given the rate of growth expected for the entire industry, the overall employment outlook for Houston technology hiring is favorable, but the best job opportunities will be for the most specialized IT workers. These include systems designers, business analysts, business intelligence specialists, ERP (supply chain) systems specialists, data warehousing analysts, audit/security specialists, systems integration engineers, CRM specialists, project managers and .Net and Java developers. The demand for these workers will continue to grow fueled by a number of driving forces.

Driving Forces

First, new government policies such as Sarbanes-Oxley, the Patriot Act and HIPAA are forcing public companies into compliance. Secondly, the strong international activity of the oil and gas market has shown increased exploration budgets and record profits. Thirdly, companies will seek to integrate their systems so that they will be compatible with one another. Companies will also continue to move toward web technology and make technology overall a larger part of their strategic business plans. Finally, although employment growth for more routine work may be hampered by the trend for companies to contract work overseas where labor costs are lower, this trend towards offshoring will be limited in its impact to the local economy and will primarily target more tactical, maintenance type

workers, such as programmers and computer support specialists.

Offshoring A Double-Edged Sword

The "offshoring" trend, where companies outsourced IT projects overseas to reduce labor costs, so far appears to be a double-edged sword. Many companies successfully leveraged the popular wave to reduce costs, increase productivity and grow their businesses by replacing commodity workers such as call center representatives and software developers with inexpensive overseas labor. However, some companies are now rethinking the offshore model due to its many limitations.

As companies take a look at the value versus true costs saving, they sometimes find the offshore solution to be more trouble than it's worth, particularly as the dollar declines against foreign currencies and other problems emerge. Language and cultural differences present ongoing problems for U.S. companies doing business overseas. Customer service satisfaction ratings are down for many companies that have moved their support centers overseas. Problems overseas tend to take longer to resolve and although labor is much cheaper, it can sometimes take three to four times longer to resolve a problem overseas, decreasing productivity.

Offshoring

- Decreased Customer Satisfaction
- Increased Problem Resolution Time

Source: Dale Buss, "How Offshoring Has Helped Boost IT Careers in the U.S.," *Wall Street Journal Online*, April, 7, 2004.

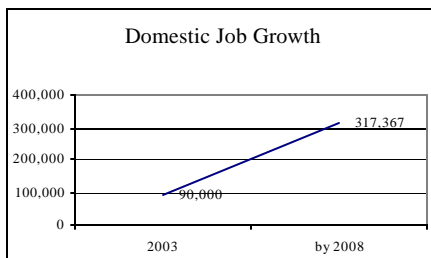
Additionally, as global competition increases for offshore resources, overseas hiring has begun to show many of the same types of problems

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found in the U.S. Retention is an emerging problem, as companies start to experience turnover, with workers moving from job to job for higher wages. Just like in the U.S., turnover overseas drives up the cost of doing business, cutting into profits.

As productivity growth subsides and the limits are reached for additional productivity gains by using overseas labor, companies will increasingly rely on domestic labor, especially for the more strategic work needed to grow their businesses. According to James Del Monte, “now more companies are keeping core functions in house, where institutional and business knowledge make a big difference. Where we continue to see companies offshoring or outsourcing is in the tactical areas where the work is by and large maintenance.”¹¹

This new business model has companies creating an increasing number of value-added positions domestically, including project managers, design architects, business process engineers, systems integration specialists and security/audit specialists. A study by the Information Technology Association of America found that companies sending computer systems work overseas actually boosted U.S. employment by 90,000 across the economy in 2003 and they expect that figure to rise to 317,367 by 2008.¹²



Source: Dale Buss, “How Offshoring Has Helped Boost IT Careers in the U.S.,” *Wall Street Journal Online*, April, 7, 2004.

Lack of New IT Talent Entering the Marketplace

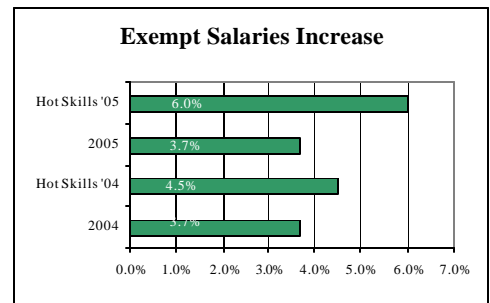
Demand for new technology grads is on the rise again. The Bureau of Labor Statistics projects that computer software engineers and systems analysts will be among the fastest-growing occupations from 2002 through 2012, with software applications engineering jobs expected to grow by 46 percent and systems analyst jobs by 39 percent.¹³ However, a study by the Computing Research Association, a group of more than 200 North American universities and laboratories involved in computer education or research, found that amid concerns over offshoring and slowdowns in the industry, new undergraduates majoring in computer science dropped by 23 percent in 2003.¹⁴

The study found positive signs for new technology graduates, where the number of jobs available for new graduates overall has grown by 12.9 percent. The study also found that entry-level technology salaries are up. Salaries have increased the most for computer science, information science, systems and management information systems majors. The average entry-level salary offered to a computer science major jumped 8.9 percent to \$48,656 last year. Information sciences grads’ salaries increased 2.6 percent with an average starting salary of \$42,108. Management information systems grads’ starting salaries averaged \$41,103, an increase of 1.3 percent.¹⁵

Houston Technology Salaries On the Rise

While the last two to three years saw a downward adjustment of salaries as supply exceeded demand, around October of last year the supply and demand curves changed again. Now

many local firms are starting to offer salary increases, as they compete to retain their existing staff and attract top talent away from their competitors. The Houston Compensation Association’s 2004-2005 salary budget survey found that exempt salaries increased overall by 3.7 percent in 2004 and they project another 3.7 percent increase for 2005.¹⁶



Source: Houston Compensation Association, “2004-2005 Salary Budget Survey,” September 10, 2004.

IT professionals, especially those with “hot skills” in specialty areas including business analysts, project managers, ERP (supply chain) systems specialists, business intelligence, audit/security and .Net and Java developers, are seeing the highest pay raises since 1999. James Del Monte reports that, “Although we have not seen the big increases of the late 1990s, we feel that they’re coming. The best candidates and those with skills that are the most in demand routinely receive multiple job offers. Now they have more options than in the past.”¹⁷

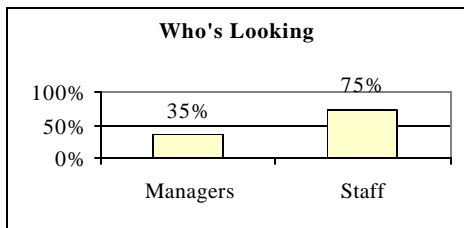
Impending Crisis: Skilled IT Labor Shortage

Now with the economy improving, many projects, such as infrastructure and systems updates that have been on hold are now once again underway. On the other side of the coin, the uncertainty of the weak economy prompted many workers to trade job security for better opportunities. With few companies handing out bonuses and the rising cost of insurance, most

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workers were actually making less money every year, though they were just happy to have a job.

Now that business is picking up again, there's a pent-up demand among workers to want to explore the job market. As companies compete for top talent, they will start to experience higher levels of turnover. This environment will produce massive churns in the technology labor market.



Source: James Del Monte, 1/25/05

JDA's most recent survey of Houston IT professionals found that 75 percent of the staff-level associates are either actively or passively searching for a new position, and 35 percent of managers would make a move for the right opportunity. Del Monte suggests that, "this is only the start of what's to come. Few companies are prepared for what lies ahead. Companies need to plan for turnover. They need to start thinking about retention plans to keep their current staff. Recruiting new staff is going to be more difficult as the market becomes more competitive. Managers are going to have their work cut out for themselves unless they have a good game plan in place."¹⁸

As it becomes harder for companies to find quality workers, more will use a combination of internal staff and IT contractors to supplement their project teams. Del Monte reports, "in addition to regular full-time hiring, we're also seeing a big increase in the demand for IT contractors. Contractors can be a good alternative

to hiring full-time associates since they allow companies greater flexibility in responding to changes in business needs."¹⁹

Summary

Now that the economy has turned around and technology workers have regained their confidence, more will seek out new employment opportunities. Attracting and retaining quality workers will be one of the biggest challenges technology organizations face in the year ahead. For companies to remain competitive, managers will have to develop proactive staffing and retention plans to attract new talent and maintain their existing staff.

JDA: A Stable Partner with a Long-term Perspective

JDA Professional Services, Inc. is a Houston-based professional recruiting firm specializing in information technology. We specialize in working with strategic technical- to executive-level IT professionals. Our service offerings include full-time direct hire, contract, consulting and special projects staffing.

We have remained a stable source of IT talent through numerous business and technology cycles in our more than 20-year history. During that time we have advised Houston's top technology leaders on how to survive and thrive in a constantly changing marketplace.

JDA is a valuable partner when your company is developing a staffing and retention plan. Our expert staff can provide your IT organization with valuable staffing and retention information and recommendations, including local IT salary structures. For your free staffing and retention plan consultation, contact us

today. Our staff would welcome the opportunity to speak with you about your company's current or future staffing and retention needs. We are also available to discuss your career interests on a confidential basis.



713-548-5400
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¹ George W. Bush, "Securing Our Economic Future" www.whitehouse.gov. December, 16, 2004.
² Betty Su, "The U.S. economy to 2012: signs of growth," *Monthly Labor Review*, February, 2004.
³ "Business Roundtable Releases December CEO Economic Outlook Survey" www.businessroundtable.org. December, 1, 2004.
⁴ *ibid*
⁵ Administaff, "Administaff Announces Results of Business Confidence Survey and Year-End Compensation Data", biz.vahoo.com, January 7, 2005.
⁶ *ibid*
⁷ Greater Houston Partnership, "Economic Outlook Shines Bright for Houston in 2005" *At Work*, Vol. 59, Issue 12. December, 2004.
⁸ *ibid*
⁹ Christine Hall, "Houston CIOs Intend to Hire More IT Professionals in 2005." *Houston Business Journal*, December, 8, 2004.
¹⁰ James Del Monte, 01/25/05
¹¹ *ibid*
¹² Dale Buss, "How Offshoring Has Helped Boost IT Careers in the U.S.," *Wall Street Journal Online*, April, 7, 2004.
¹³ U.S. Department of Labor, "Fastest Growing Occupations 2002-2012." *Monthly Labor Review*, February 11, 2004.
¹⁴ Phil Magers, "FutureWork: Jobs for More Tech Grads." www.iSeek.org, May, 4, 2004.
¹⁵ *ibid*
¹⁶ Houston Compensation Association, "2004-2005 Salary Budget Survey", September 10, 2004.
¹⁷ James Del Monte, 01/25/05
¹⁸ *ibid*
¹⁹ *ibid*