Wall Street hiring machine goes idle

After years of buildup, employment levels flatten and cuts loom

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NEW YORK (Dow Jones) - The turbulent environment for stocks and bonds has stalled another booming market: the one for jobs on Wall Street.

Hiring has slowed or seized up at many firms including Lehman Brothers Holdings Inc. (LEH) and Citigroup Inc. (C) , where 17,000 job cuts were announced in the spring. And more layoffs loom in many areas in the investment- banking industry in the wake of the August credit crunch, particularly in businesses such as credit trading and structured products, analysts and job recruiters predict. At the very least, bonus season looks a lot tougher this year on Wall Street and in The City in London.

"Substantial losses from this credit debacle are unquestionable," said Sean Springer, chief executive of Napier Scott Executive Search Ltd., a London-based firm that helps banks, hedge funds and law firms track down talent in debt, credit, currency and emerging markets. "If investment banks hire when their profits increase, it's fair to assume the reverse is true when they suffer unforeseen losses."

Employment levels in the securities industry during the first half of the year surged to levels not seen since the technology bubble years of 2000 and early 2001. The industry added 10,000 jobs in June to bring the industry total to 848,300, according to federal statistics.

In New York alone, employment stood at 209,000 at the year's halfway point, close to the record of 216,700 achieved in the fall of 2001. For decades, New York has been losing jobs as the industry has expanded globally. But since 2001, the state has added financial jobs at a faster rate than the rest of the U.S. market. Almost all of those jobs -- 188,800 -- are in New York City.

But there is evidence that the growth has stalled as the credit markets and, in turn, the deal-making markets have ground to a halt. The strategy among firms - both traditional Wall Street banks and newer hedge funds and private sponsors - is now to wait and see.

Investment banks have already started cutting jobs and some firms have imposed hiring or headcount freezes, said Springer.

U.S. banks usually stop hiring towards the end of the year, in late September or October, he explained. But this year, some stopped in August, he said.

"Banks are trying to ascertain the size of their exposure and potential losses," Springer said. "I don't really think they've even begun to address head counts for the New Year. Nevertheless, the recruitment industry doesn't have a dimmer switch. It's either on or off."

Impact wide and deep

Areas that could be affected most include credit trading and collateralized debt obligations, recruitment executives said. But hiring freezes have also hit closely related industries such as hedge funds and private equity funds too.

Sandy Gross, an executive recruiter with Pinetum Partners in Greenwich, Conn., said most hedge funds are now focused either on erasing losses, fighting off redemptions, or trying to take advantage of the recent market tumult.

"The next quarter is going to be very telling," Gross said. "We're going to see if there are big redemptions and people were able to preserve their capital and if not, then they're not going to be able to hang on to seasoned people who are managing capital."

Those always-in-demand experienced pros will be disappointed with lower or non-existent bonuses, and might return to traditional firms where more compensation is guaranteed, Gross said.

September impact

Investment banks have imposed hiring freezes in certain groups that have been affected most by the credit crisis, according to Adam Zoia, founder and managing partner of Glocap Search LLC, a New York-based recruiting firm that works with investment banks, private-equity firms and hedge funds.

"The credit squeeze will at a minimum stop all but strategic hiring in credit related areas," Zoia said. "It will lead to actual layoffs in select areas. It may lead to broader downsizing on Wall Street if the squeeze worsens or is prolonged."

Names most often mentioned in the freeze category include Lehman Brothers, where a spokeswoman declined to comment and Citigroup, where a spokesman did not respond to a request for comment.

Because broader credit problems have only emerged recently, there's still some momentum in hiring by investment banks from earlier in 2007, Zoia explained, noting that Glocap has not yet had any existing searches cancelled.

August is usually slow too, so it's hard to know whether a slowdown is driven by vacation plans or credit concerns, he added.

"September will be revealing," Zoia said.

It's unclear what's in store for those lucky enough to survive to bonus season. A recently released survey by Johnson Associates Inc. said bankers can expect up to a 20% increase over last year's record packages. That's mostly because of the record first half.

Now nearly two months into the second half, predictions are more restrained. Analysts say big firms will dip into the bonus pool to smooth earnings. Options Group estimates an average 5% decline in bonuses. Traders in the collateralized mortgage securities business may see a 40% drop, maybe more if the conditions worsen.

Recruiters

The concern has spread to shares of publicly traded recruiting firms, which have been hit hard by speculation about the impact of the credit crisis on employment in the financial-services industry.

Shares of Michael Page International, a U.K.-based recruitment consultant, have dropped 15% in the last month. Korn Ferry International (KFY) shares have declined 14% since the end of June. Heidrick & Struggles (HSII) is off more than 10% in August.

Michael Page International reported a 55% jump in first-half operating profit on Aug. 20 and Chief Executive Steve Ingham said there'd been little impact so far from disruptions in financial markets.

"So far, no impact of the recent dramas in the financial services market," he said. "So no jobs being pulled or withdrawn or canceled. It is, I am told, business as usual for August in The City" of London.

Still, during a recent conference call with the company at least one analyst was concerned about the issue.

"There has been lots of [news lately about] the headcount freezes and so on in various institutions," Andy Grobler, an analyst at Goldman Sachs, said, according to a transcript of the call. "Are you seeing any effects of that? How you do you see... the rest of the year panning out?

Ingham said he'd checked recently with Michael Page's banking recruitment businesses around the world and reported that it was "business as usual" in New York, London, Tokyo and Hong Kong.

But if disruptions continue for a longer time, that could change, Ingham noted.

"We haven't seen any changes yet or freezes," he said. "So will we? If it continues on for several months, I am sure we will."

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