Staffing Statistics

American Staffing 2010: Turning Point

Annual Economic Analysis Puzzles Through the Data and Explains the Trends

By Steven P. Berchem

After losing 1.14 million jobs[1]—37% of its work force—during the 2007–09 recession, the U.S. staffing industry began to grow again in July 2009.[2] That green shoot marked a turning point for the industry. And it marked a turning point for the economy. The recession appeared to have ended.

Job losses in other industries would continue for months,[3] but at least the economic contraction had abated, and U.S. real gross domestic product (GDP) resumed expansion in the third quarter of 2009.[4]

The business cycle dating committee of the National Bureau of Economic Research has yet to declare the end of the recession—the trough—but many economists believe it occurred in the summer of 2009. Despite its bureaucratic name, NBER is a nongovernmental organization; the dating committee is considered the official arbiter of U.S. economic cycles. The committee looks at several economic measures, including GDP, income, and employment. It takes its time in declaring turns in the economy. For example, it announced the December 2007 beginning of the recession a whole year after it started, Dec. 11, 2008.[5] And it didn't declare the end of the relatively mild 2001 recession until 20 months after it was over.[6]

On April 12, 2010, the committee issued a statement that although most indicators had turned up, it "decided that the determination of the trough date on the basis of current data would be premature. Many indicators are quite preliminary at this time and will be revised in coming months."[7]

NBER's cautiousness hasn't stopped others from declaring an end:

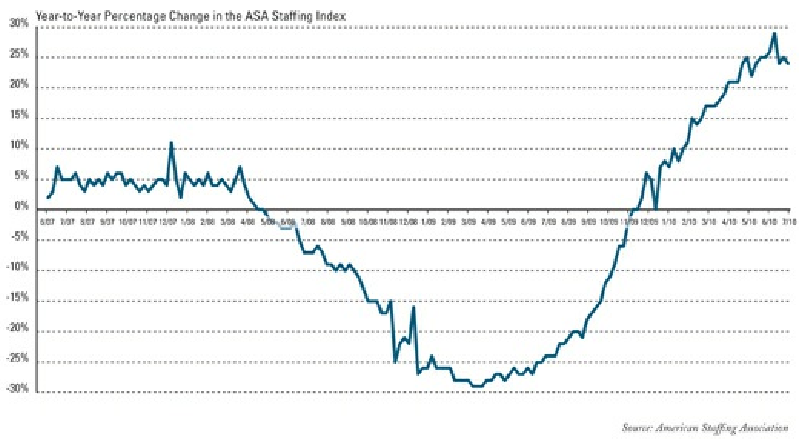
Ben S. Bernanke, chairman of the Federal Reserve Board, reported to Congress on July 21, 2010, that economic expansion began in the middle of 2009.[8]

"The Economy Has Hit Bottom" headlined a July 23, 2009, *Wall Street Journal* op-ed by Alan S. Blinder, a Princeton University economics professor and former vice chairman of the Federal Reserve Board.[9]

The Federal Reserve Bank of Minneapolis uses July 2009 (third quarter) as an estimate for the end of the recession, pending NBER's announcement.[10]

The ASA Staffing Index bottomed out the week of June 29, 2009, and has grown almost nonstop since (see Figure 1), strongly suggesting that the end of June was the turning point—the trough.

Figure 1: **The ASA Staffing Index Bottomed Out the Week of June 29, 2009, Suggesting That Was the Turning Point When the 2007–09 Recession Ended.**



Staffing as Economic Indicator

Fortuitously, on June 22, 2009, just one week before the ASA Staffing Index troughed, the association published the results of new research based on more than 35 years of government data that not only confirmed that staffing job trends serve as a coincident economic indicator, but added important nuance showing that relationship is particularly strong when the economy is emerging from a recession.[11]

In other words, staffing jobs ebb and flow concurrent with economic activity. As the economy contracts, the number of staffing jobs decline. As the economy expands, staffing jobs increase. This is especially true when the economy pulls out of a recession. "A sustained upturn in temporary and contract staffing employment would signal the end of the current recession," the ASA research paper stated.

ASA introduced the index in 2006 after several years of development. It simply measures the percentage change in employment from week to week (see sidebar on methodology). That percentage change is applied to an index base line value that was arbitrarily set at 100 when the index was publicly launched June 12, 2006. This base line helps to easily estimate how much staffing employment has changed over time. For example, when the index troughed at 70 the week of June 29, 2009, that indicated that staffing employment had fallen 30% from its level in mid-June 2006 (the index peaked at 110 during several weeks in the fourth quarter of 2007, just as the economic expansion peaked).

The ASA Staffing Index was improved in June 2009 when the lag between the end of the work week and the public reporting of the results was reduced to nine days, so it provides a near real-time measure of not only staffing employment but also economic activity.

The index is robust, too. Participants account for more than one-third of the estimated 20,000 staffing firm offices in the U.S.

Staffing as Employment Indicator

The government data ASA analyzed in 2009 showed that staffing jobs had historically been a strong two-quarter leading indicator of nonfarm employment during periods of normal economic growth, and a modest one-quarter leading indicator when the economy is emerging from a recession.

Based on seasonally adjusted government data (which had been used in the analysis), staffing job growth was first detected in October 2009.[12] Nonfarm employment began an upward trend three months later, in January 2010.[13]

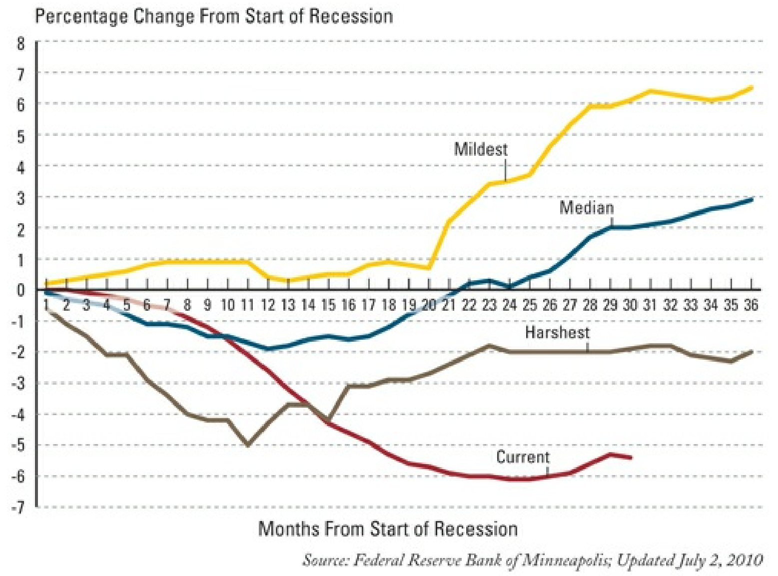
Why do the ASA Staffing Index and government data not correspond? Actually, they are very close.

The ASA Staffing Index is not seasonally adjusted. Sustained staffing job growth started the first week of July 2009. Nonseasonally adjusted data from the U.S. Bureau of Labor Statistics shows sustained staffing job growth began in August,[14] just a few weeks later.

The BLS difference between staffing job growth starting in August or October is a matter of seasonal adjustment, which will likely be revised.

If and when the economy fully recovers and resumes normal growth, the ASA analysis suggests that changes in staffing employment would likely be reflected in overall nonfarm employment about six months later. While this relationship had been strong from 1972 to 2008, whether it will hold true coming out of this deep and prolonged recession remains to be seen. In terms of employment, this was by far the worst recession since World War II (see Figure 2).[15]

Figure 2: **In Terms of Employment, the 2008–09 Recession Was Far Worse Than Any of the 10 Previous Recessions Since World War II.**



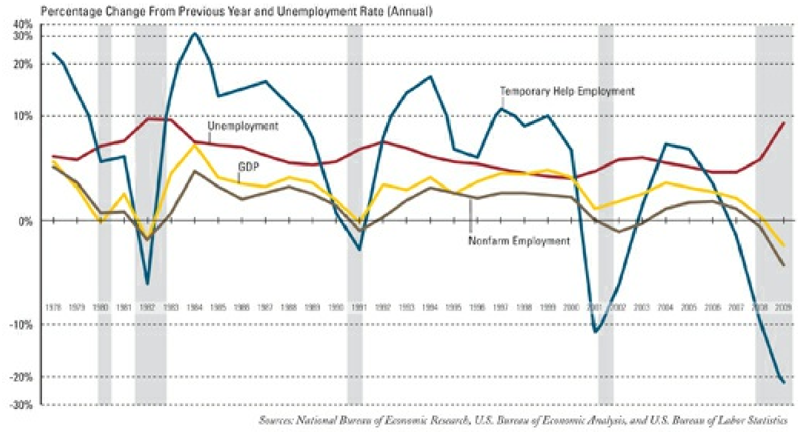
Employment is nonfarm payroll employment calculated by the Bureau of Labor Statistics. Postwar recessions include the 10 recessions as defined by NBER that started between 1946 and 2006. Mildest, median, and harshest lines reflect the smallest, median, and largest declines as of each month; they do not reflect individual recessions.

The Economy and Jobs

The recession may be over, but the tremendous damage on the economy, jobs, and the nation's social fabric will take years to repair.

Beginning with the first quarter of 2008, real GDP declined in five of the following six quarters to mid-2009. At that point, the cumulative decline was 3.7%, on par with the depth of the 1957 recession, the prior worst one since World War II—but from beginning to end, that recession lasted less than a year and the U.S. economy fully recovered in two quarters. Even now after more than a year of growth, real GDP remains more than 1% below its pre-recession peak (see Figure 3).[16]

Figure 3: **With Diminishing Gross Domestic Product Characteristic of Recessions, Total Nonfarm Employment Declines, the Unemployment Rate Rises, and Temporary Help Jobs Drop Precipitously. Staffing Industry Job Cuts Were Markedly Deeper in the 2001 and 2007–09 Recessions.**



Some economists have argued that deep recessions historically have led to rapid rebounds, like that of 1957—a "sling-shot effect."[17] That effect seems to have been limited to the fourth quarter of 2009, when real GDP grew 5.6% on an annual basis over the previous quarter. In the first quarter of 2010, economic growth slowed. GDP was initially estimated at 3.2%, only later to be revised downward twice to 2.7%,[18] which had been the average growth rate of the economy between the 2001 and 2007–09 recessions[19]—welcome, but hardly outstanding.

Meanwhile, U.S. employment took a beating. More jobs were lost in the 2007–09 recession than had been created in the previous expansion.[20] Nonfarm employment peaked in December 2007 at 138 million jobs (it's that employment peak that the NBER dating committee used as the principal basis for deciding on December 2007 as the end of the expansion and the beginning of the recession).[21] By December 2009, nonfarm employment bottomed out at 130 million jobs. Nearly 8.4 million Americans lost their jobs, compared with some 8.1

million jobs created after the 2001 recession.[22]

Job cuts, of course, increased the unemployment rate, which more than doubled from 4.4% in 2007 to as high as 10.1% in October 2009—an increase of 5.7 points. The unemployment rate peaked higher, at 10.8% during the 1981–82 recession, but that recession started with a much higher trough: 7.2%. So the unemployment rate during that recession increased by 3.6 points. In terms of the unemployment rate *increase*, the 2007–09 recession was about 60% worse than the 1981–82 one.[23]

BLS defines "unemployed" as "all persons who are without jobs and are actively seeking and available to work.[24]

Add the underemployed and the scope is breathtaking. BLS estimates that the number of unemployed and underemployed—those marginally attached to the work force or working part time because they cannot find full-time jobs—totals some 17 million Americans.[25]

In addition, many workers have gotten discouraged and withdrawn from the work force. BLS data show that the number of workers who have quit looking for jobs has grown by more than 50% over the last year to 1.2 million. The U.S. population has continued to grow, yet its labor force has shrunk.[26]

Long-Term Unemployment

Particularly concerning is the increasing number of long-term unemployed workers. In February 2010, those unemployed for more than six months was twice that of the same month in the previous year, ballooning from just under 3 million to more than 6.1 million.[27] By June 2010, the number had increased to nearly 6.8 million, making up 46% of the total unemployment tally that month.[28] In comparison, that percentage reached 26% after the 1981–82 recession.

"The consequences are troubling," *Wall Street Journal* columnist Gerald F. Seib says. "The long-term unemployed tend to be especially hard to get back into jobs, and they generate their own set of social problems."[29]

The male-dominated[30] construction and manufacturing sectors were particularly hard hit by the recession, together accounting for nearly half of total job losses. Manufacturing has had very modest employment gains in recent months, but the construction sector continues to shed workers.[31]

Labor economists have noted that men have been disproportionately affected by this recession: they accounted for 68% of the job losses that occurred from the peak of payroll employment at the end of 2007 to the trough at the end of 2009.[32]

"Demographic breakdowns show that while all major groups have experienced increased unemployment in this downturn, some groups got hit particularly hard: racial and ethnic minorities, young workers, men, and workers with lower levels of schooling," according to the Economic Policy Institute, a think tank affiliated with organized labor. The unemployment rate among men increased by 124%, from 5.1 percentage points in December 2007 to 11.4 percentage points when the overall unemployment rate peaked in October 2009; for women, the increase was 80%.[33]

Workers with less than a high school education face the highest unemployment rate, peaking at 15.5% in October 2009. The greatest *increase*—138%—in the unemployment rate has been among those who have high school diplomas with no college; their rate has been hovering around 11%.

The collapse of the construction sector concerns social scientists. "The housing boom helped less-educated men in particular," says Harvard University economist Lawrence Katz. Men with no more than a high school education working in construction earned 20% more than their service-sector peers, he noted. "The one sector that was their escape this decade—construction—has collapsed."[34]

Long-term unemployment, particularly among men, leads to deteriorating health, greater substance abuse, reduced income, potential wage deflation, and even family discord.[35,36]

Permanent High Unemployment?

Mark Zandi, chief economist at Moody's *Economy.com*—a one-time informal advisor to President Barack Obama—has said that "I think the unemployment rate will be permanently higher, or at least higher for the foreseeable future. The collective psyche has changed as a result of what we've been through. And we're going to be different as a result."[37]

Moreover, he notes, U.S. job creation after the 2001 recession never rebounded to its prior level. In the 1990s boom, companies that were opening or expanding operations added nearly eight workers for every 100 already on the payroll. During the 2001 recession, that ratio fell to seven per 100—where it stayed throughout the most recent expansion. "We never got our groove back," Zandi said. In the 2007–09 recession, the ratio dropped to six per 100.[38]

The Obama administration recognizes these concerns: "[Some] observers point to troubling trends, such as the decline in traditional manufacturing jobs and falling rates of employment among less educated middle-class men, as signs of the inevitability of permanently high unemployment," Christina D. Romer, head of the White House Council of Economic Advisers, said in April 2010. "These developments have led to terrible distress in some communities and devastation for the workers affected...Long spells of unemployment cause much greater hardship than short spells, and they can be associated with deterioration of skills and long-term falls in earnings."[39]

Romer argued that the deep jobs slump is a function of cyclical lack of demand, not a structural change in the economy. In other words, because consumers and businesses are wary—given the devastation of the 2008 financial crisis, subsequent economic slowdown, and massive layoffs—they are simply not spending at the level necessary to boost job growth. She said that the decline in manufacturing jobs and employment of lower-educated middle-aged men were already trends in full sway in the 1990s and mid-2000s. The notion that construction and finance will be permanently smaller is not supported by the evidence, she said, which shows that workers in those sectors are exiting their sectors at essentially the same rate as workers in all declining sectors. In short, she does not see the 200–09 recession—and the recovery—bringing about a fundamental shift in the structure of the economy and the work force.

"I find it distressing that some observers talk about unemployment remaining high for an extended period with resignation, rather than with a sense of urgency to find ways to address the problem", she said. "Behind this fatalism, there seems to be a view that perhaps the high unemployment reflects structural changes or other factors not easily amenable to correction. High unemployment in this view is simply 'the new normal.' I disagree."

Most Federal Reserve governors and bank presidents project that the unemployment rate will remain above 7% through 2012, according to the minutes of their June 2010 meeting. "Participants expected the pace of hiring to remain low for some time," the minutes reported. "Indeed, the unemployment rate was generally expected to remain noticeably above its long-run sustainable level for several years."[40]

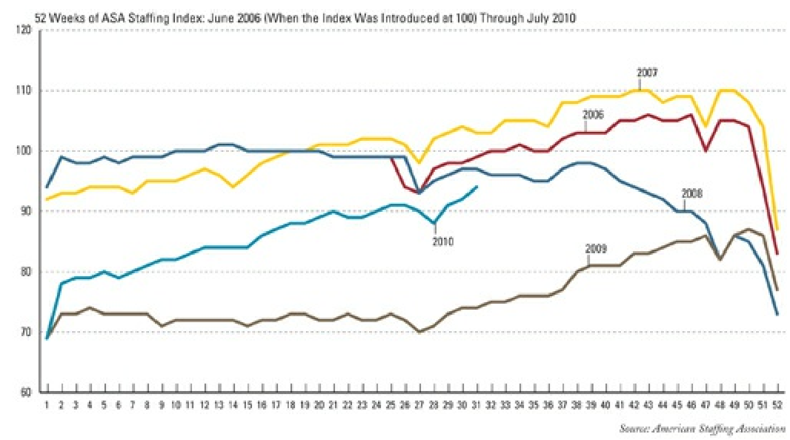
Half of the economists surveyed by the *Wall Street Journal* in early July expect that it will be 2015 or later before the unemployment rate will drop below 5.5%. "Very possibly the unemployment rate will bottom *above* 5.5%," one said (emphasis added).[41]

BLS considers the economy at full employment when the unemployment rate is 5.1%.[42]

The Staffing Recovery

Beginning the week of July 6, 2009, the ASA Staffing Index has increased virtually every week for over a year, pausing only briefly and modestly for major holidays when many businesses are closed for a day or more—a historically seasonal pattern (see Figure 4). Since bottoming out at 70 the last week of June 2009, the index has climbed past 90 as of mid-summer 2010, an increase of more than 29%.[43]

Figure 4: **Staffing Employment Is Usually Cyclical, Lowest at the Beginning of the Year and Highest in Early December—2007 Was the Last Typical Year.**



The last time the index hit 90 was in November 2008 while on its rapid decline as staffing employment plummeted with the economy in the wake of the Lehman Brothers Holdings bankruptcy filing in September of that year.

The ASA Staffing Index has accurately tracked economic activity. It peaked in late 2007—reaching 110 the week after Thanksgiving and the first of December—just as nonfarm employment peaked and when, as NBER later determined, the economic expansion ended. Then the index took its usual seasonal fall around Christmas and New Year's Days, rebounding to 99 in January 2008. It held flat around 99 the first half of 2008, not showing the usual rise as the year proceeds (staffing employment is typically lowest at the beginning of the year, grows during the year, and peaks late in the year—a regular cycle when the economy is growing—see 2007 in Figure 4). In retrospect, the flatness of the index was indicative of a weakening economy.

After being extraordinarily flat for six months, the index dipped to 93 the week of the Independence Day holiday, a normal seasonal effect. It recovered somewhat from the summer holiday decline, but it remained subpar, between 95 and 98, through mid-October, failing to show the growth typically seen in the third quarter.

While the index began to decline slightly in the third quarter, it wasn't until the second half of October that the contraction accelerated. At first it fell a point a week for a few weeks. That soon became several points a week.

The week of Dec. 15 was telling: In what would normally have been one of the busiest weeks of the year for the staffing industry, temporary and contract employment dropped 4.6%, knocking four points off the index. By the end of the year, the index had plunged to 69, its lowest point ever and a full 30 points lower than at the end of June—roughly equating to a 30% loss of jobs in just six months, most of which occurred in the last six weeks.

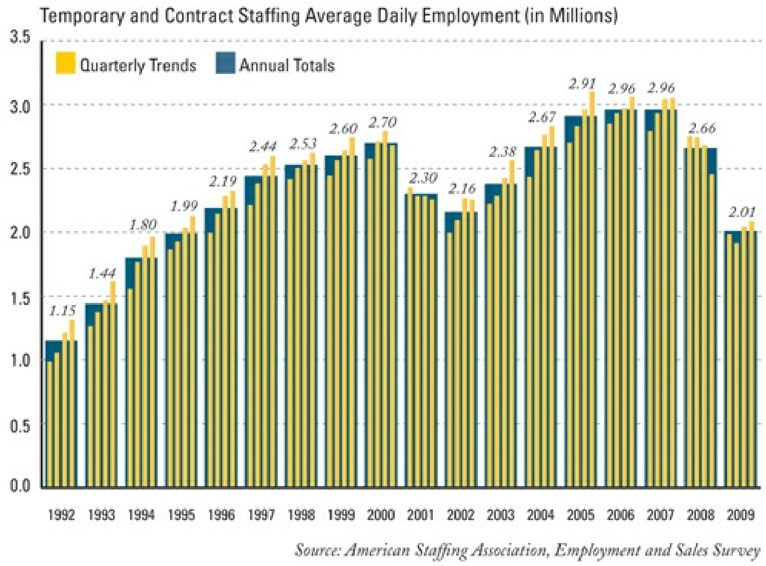
For the next six months, in the depths of the recession, the index hovered in the low 70s, suggesting welcomed stabilization. Finally, after the 2009 Independence Day holiday, a green shoot emerged: the ASA Staffing Index resumed sustained growth.

The ASA quarterly employment and sales survey showed a similar pattern.

Average Daily Employment

Average daily employment of temporary and contract workers peaked—along with the economy—in the fourth quarter of 2007 at 3.06 million (see Figure 5),[44] according to the ASA quarterly employment and sales survey (see sidebar on methodology). Following its usual seasonal cycle, staffing employment declined in the first quarter of 2008 to 2.76 million. Then, uncharacteristically, staffing employment declined slightly in the second quarter to 2.75 million—down 6.5% from the same quarter of the previous year.

Figure 5: **After Peaking in the Fourth Quarter of 2007, Staffing Employment Seasonally Declined in the First Quarter of 2008, Then Stayed Uncharacteristically Flat Until Plummeting in the Fourth Quarter of That Year.**



At the time, of course, NBER had not yet called a recession. GDP was actually up 1.5% that quarter.[45] But oil prices had doubled over the previous 12 months.[46] Housing prices were declining and mortgage defaults were skyrocketing, setting the stage for global turmoil in the credit markets in the third quarter of 2008.[47]

In that third quarter, average daily staffing employment slipped to 2.69 million. In the fourth quarter—what is supposed to be the industry's peak of the year—average daily employment fell further to 2.46 million, 19.5% lower than in the fourth quarter of 2007, the industry's most recent peak.

Average daily employment for the year was 2.66 million, the lowest since 2003, which had been the first year of growth after the 2001 recession.

But there was further to fall. Staffing employment continued to drop in the first two quarters of 2009, plunging to 1.92 million in the second quarter, 30.2% lower than in the same quarter of the previous year and—more remarkably—37.3% off its previous high point in the fourth quarter of 2007. Over a million jobs—more than a third of the industry—wiped out in six quarters.

Average daily employment in the second quarter of 2009 was the lowest it had been since the first quarter of 1995.

But then, as previewed by the ASA Staffing Index, temporary and contract employment began to grow in the third quarter of 2009, increasing to 2.05 million. That was followed with growth in the fourth quarter to 2.09 million employees on an average day.

For the year, the daily average was 2.01 million—significantly lower than the previous trough of 2.16 million in 2002, following the 2001 recession, and just barely above 1995's level of 1.99 million, when the industry was in the middle of a long and a rapid upswing.

As a percentage of the total nonfarm work force (the penetration rate), staffing declined from nearly 2.2% in 2007 to 1.9% in 2008 to 1.5% in 2009.[48]

Staffing employment in the first quarter of 2010 was down slightly from the fourth quarter, following the usual seasonal dip. But at a daily average of 2.00 million, it was the first year-to-year growth seen in a first quarter since 2006.

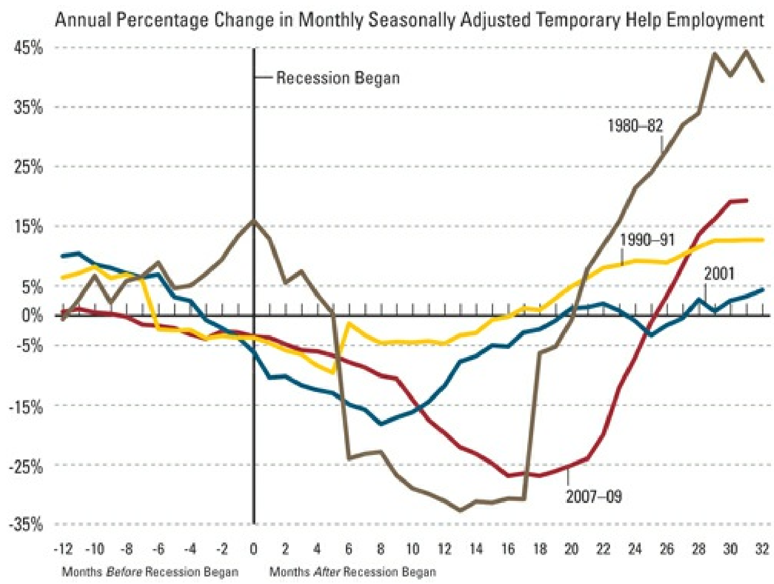
BLS also recorded growth in staffing employment in the fall of 2009. As noted previously, using nonseasonally adjusted numbers, which are comparable to the ASA Staffing Index and quarterly employment surveys, BLS first noted a pickup in temporary help employment in August 2009. Seasonally adjusted, BLS reported growth beginning in October.[49]

As of June 2010, the U.S. staffing industry had added 379,000 new jobs since growth began in October 2009, BLS reported in July. America's staffing companies have added more new jobs to the economy than any other private sector industry since the recovery began.[50]

For June 2010, both seasonally and nonseasonally adjusted data from BLS for staffing employment were up about 19.5% over the same month of the previous year. The ASA Staffing Index was up 25%.

Since the beginning of 2010, staffing employment growth, based on year-to-year change in seasonally adjusted BLS data, has been running ahead of the past four recoveries, especially the one after the 2001 recession (see Figure 6).

Figure 6: **Staffing Employment Growth in the Current Recovery Has Been Stronger Than in the Previous Two 'Jobless' Recoveries and Comparable to the Recovery From the 1981–82 Recession.**



Source: U.S. Bureau of Labor Statistics, Personnel Supply Services 1980–81, Help Supply Services 1982–1989, Temporary Help Services 1990–2010

Other Employment Measures

Average daily employment is really a count of the number of individuals working assignments on a typical business day. For most industries, the daily average is a sufficient measure of annual employment. Given the generally short-term nature of temporary and contract work, however, there are millions more employees who work in the staffing industry over the course of a year than are accounted for in the daily average.

To determine annual employment in the staffing industry, ASA collects data on the number of Form W-2s issued annually to temporary and contract employees by the staffing firms that participate in the association's quarterly employment and sales survey. From that data, ASA estimates the number of temporary employees who have worked in the staffing industry during the calendar year.

In 2009, U.S. staffing firms hired 8.6 million temporary and contract employees over the course of the year, almost a million fewer than in 1994, the first year ASA began measuring annual employment and the lowest year on record (see Figure 7). Annual industry employment in 2009 was 23% lower than in 2008.

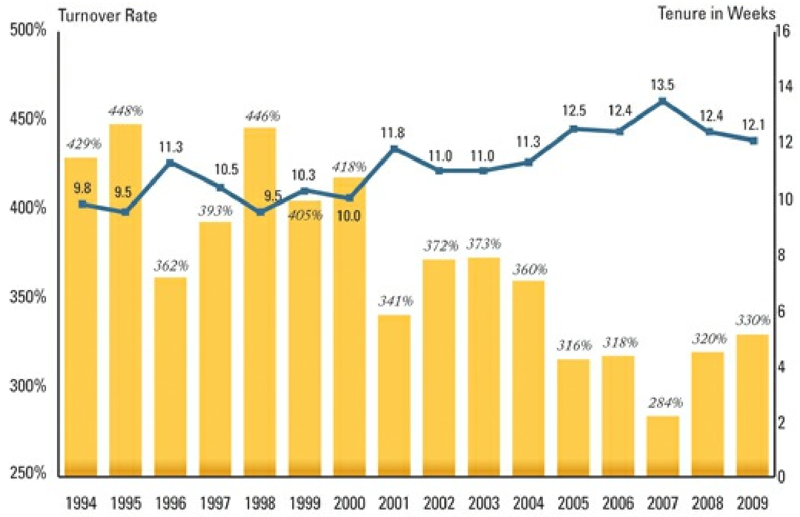
Figure 7: **America's Staffing Companies Hired 8.6 Million Employees Over the Course of 2009—23% Fewer Than in the Prior Year.**

In normal years, more than three million of those 8.6 million temporary and contract employees would have bridged to permanent jobs, about half with a staffing client. But 2009 was not a normal year—few businesses were hiring. Nonetheless, ASA research shows that when the economy is growing normally, 53% of staffing employees who remain in the work force bridge to permanent employment.[51]

Although the staffing industry employs less than two of every 100 nonfarm workers on any given day, it has provided income for millions of American families—an estimated one in 16 employees in the national nonfarm work force held a job with a staffing company at some point in 2009.

The average tenure of those 8.6 million employees shortened slightly from 12.4 weeks in 2008 to 12.1 weeks in 2009, or less than three months. Tenure has changed little since 2001. Tenure is based on staffing employee turnover, which is calculated based on average daily employment and the number of Form W-2s that are issued. Turnover increased slightly from 320% in 2008 to 330% in 2009, but remains low historically (see Figure 8).[52]

Figure 8: **The Average Staffing Employee Works Less Than Three Months. Employment Tenure in 2009 Averaged 12.1 Weeks. Turnover Increased Slightly to 330%.**



Source: American Staffing Association, Employment and Sales Survey

Like virtually all industries, the recession had a significant effect on corporate employment among staffing and recruiting firms. With reduced demand for temporary and contract as well as recruiting and placement services, firms reduced their corporate work forces (such as recruiters, customer service representatives, and payroll clerks) and closed offices during the recession.[53]

BLS does not distinguish between the temporary and contract employees and the corporate employees of "temporary help services" firms in its monthly surveys, and ASA measures only temporary and contract employees in its quarterly staffing employment and sales survey, so there is no good measure of overall corporate employment in the staffing industry.

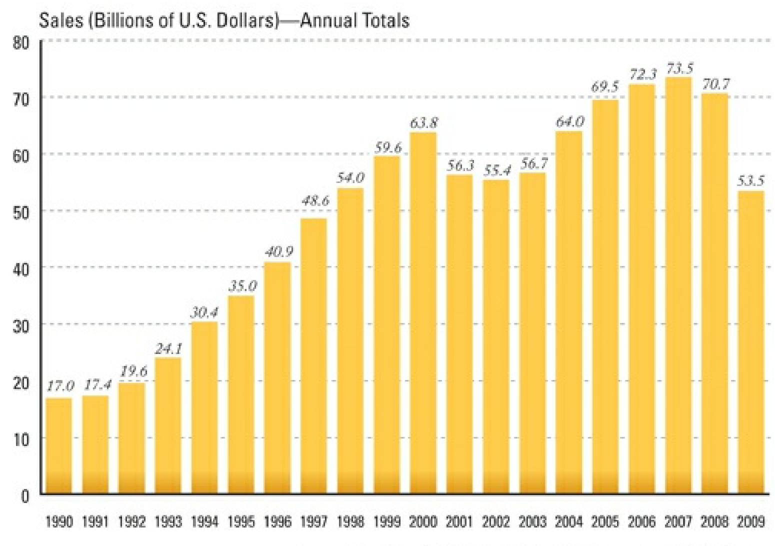
BLS does, however, measure employment among establishments that provide only search and placement services. Jobs among "executive search services" and "employment placement agencies" together declined by 29.7% from 310,000 when the recession started to 218,000 when it ended. Search and placement employment has hovered around 220,000 since.[54]

Sales

Reduced demand for staffing services in 2009 resulted in lower sales for the year.

U.S. temporary and contract staffing sales for 2009 totaled $53.5 billion, according to the ASA quarterly staffing employment and sales survey, 24.3% and about $17.2 billion less than in the previous year. Those annual sales were lower than in the depth of the 2001 recession and even as far back as 1998—remarkable considering the survey does not adjust for inflation. The survey has shown only four down years in its 20-year existence: 2001, 2002, 2008, and 2009 (see Figure 9). Double digit year-to-year sales declines occurred in every quarter of 2009, three down 26% to 30%.[55]

Figure 9: **Temporary and Contract Staffing Sales Decreased by 24.3% in 2009.**



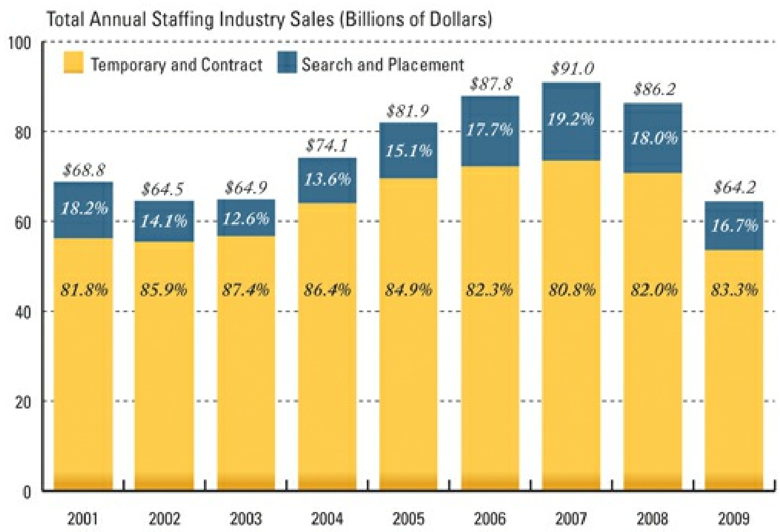
Source: American Staffing Association, Employment and Sales Survey

Fortunately sales in the first quarter of 2010 were up 10.2% over the same period of the previous year, but they were still 24% off their pre-recession peak.[56]

With the exception of outplacement (a countercyclical sector in the staffing industry), all sectors experienced substantial sales declines in 2009, mostly around 25%, according to Staffing Industry Analysts Inc. Among temporary and contract staffing services, information technology took the lightest hit at 20% down, while legal was hardest hit at 40% down. Search and placement sales were especially devastated, down 51% overall: retained search declined by 40% to $4.4 billion while contingent search plummeted 58% to $3.5 billion. Altogether, search and placement sales totaled $10.7 billion in 2009.[57]

Combining temporary and contract services with search and placement services, U.S. staffing industry sales totaled $64.2 billion in 2009, 26% less than in the previous year (see Figure 10).

Figure 10: **Total Staffing Industry Sales—Including Temporary and Contract, and Search and Placement—Decreased by 26% in 2009.**



Sources: American Staffing Association, Employment and Sales Survey, and Staffing Industry Analysts Inc.

The Flexibility Factor

Even though the U.S. staffing industry contracted last year, over the long term, temporary and contract staffing has been growing faster than the economy because of the flexibility factor: employees want it, businesses need it, and it's good for the economy.

Employees Want Flexibility

America's work force has been changing. Many people have been looking for flexibility in their employment arrangements. In a 2006 ASA survey of staffing employees,[58] two-thirds said flexible work time was an important factor in their decision to become a temporary or contract employee; nearly one-quarter of survey participants said it was an extremely important factor. More than half said needing time for family was important; one in five said that it was extremely important.

One in four had little or no interest in a permanent job. They worked with staffing firms for lifestyle reasons.

Albeit, that survey was conducted near the peak of the last economic expansion and may not be fully reflective of the sentiments of today's workers, but attitudes are changing nonetheless. "In today's global economy, employees and their employers need to think about their working lives in a whole new way," says Bruce Tulgan, founder of Rainmaker Thinking and one of the world's top management thinkers.[59] "Everything is turned on its head. [Job] security is not about stability; it's about mobility."[60]

The flexibility offered by staffing firms helps explain, in part, why staffing employees are much more satisfied with their work arrangements than employees in traditional arrangements—at least during periods of economic growth. In the 2006 ASA survey, 90% of respondents said they were satisfied with their staffing firm and various specific aspects of their jobs, and 88% said they would refer a friend or relative to work as a temporary or contract employee.

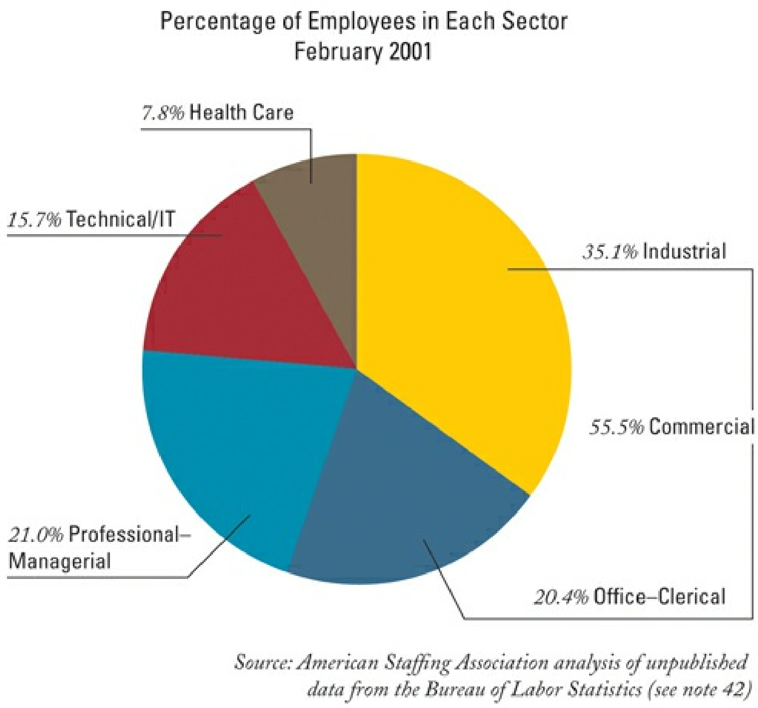
In contrast, work force surveys conducted around the same time showed that less than two-thirds of employees were satisfied. In a late-2005 CareerBuilder survey of 2,050 workers, 62% were satisfied with their jobs.[61] In a survey of

2,600 U.S. working adults conducted by Mercer Human Resource Consulting, 58% said they would recommend their employer to others as a good place to work.[62] In another Mercer survey of 1,040 workers, 17% expressed dissatisfaction with their employer's organization overall[63]—in the ASA survey, only 10% of respondents said they were dissatisfied with their staffing firm employer.

While flexibility is important to staffing employees, they are as likely to work full time as regular employees. "Full time" employment is defined by BLS as 35 or more hours per week. In the ASA survey, eight in 10 worked full time, practically the same as workers in traditional employment arrangements.[64]

With the experience of matching millions of people to millions of jobs every day, staffing companies are expert at finding work assignments in virtually all occupations, from day laborer to CEO (see Figure 11). Assignments are shifting toward occupations that require higher levels of skills and education, according to the results of a series of surveys conducted by BLS.[65]

Figure 11: **Temporary and Contract Employees Work in All Occupations.**



Businesses Need Flexibility

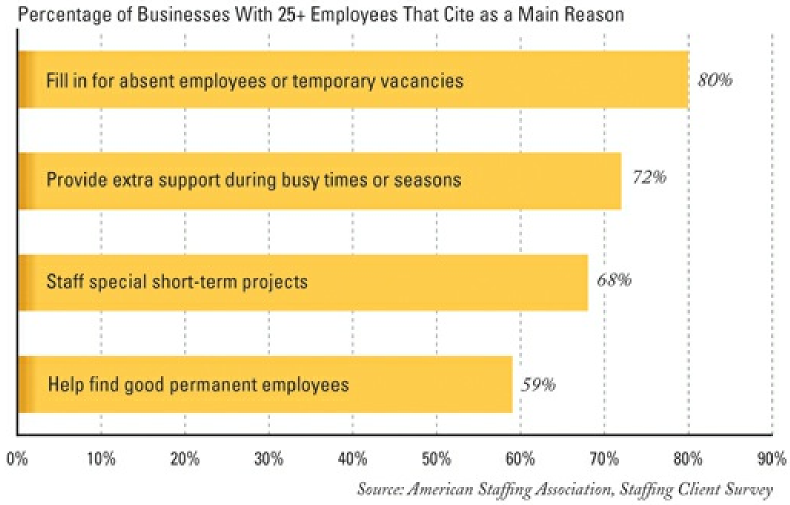
Flexibility and access to talent drive business demand for staffing services.

In an American Management Association survey of human resource managers at 1,248 firms, 91% said "flexibility in staffing issues" was important, and 95% said that flexibility was being achieved through the engagement of temporary and contract employees from staffing companies. "Finding specialized talent" was also important. Saving on payroll and benefits costs was a low priority.[66]

In 2004, ASA polled 500 businesses that used staffing services. Nine out of 10 said it was important to them that "staffing companies offer flexibility to businesses so that they can keep fully staffed during busy times." When survey participants were asked specifically why they use staffing firms to obtain temporary and contract employees, they cited three main reasons (see Figure 12)[67]:

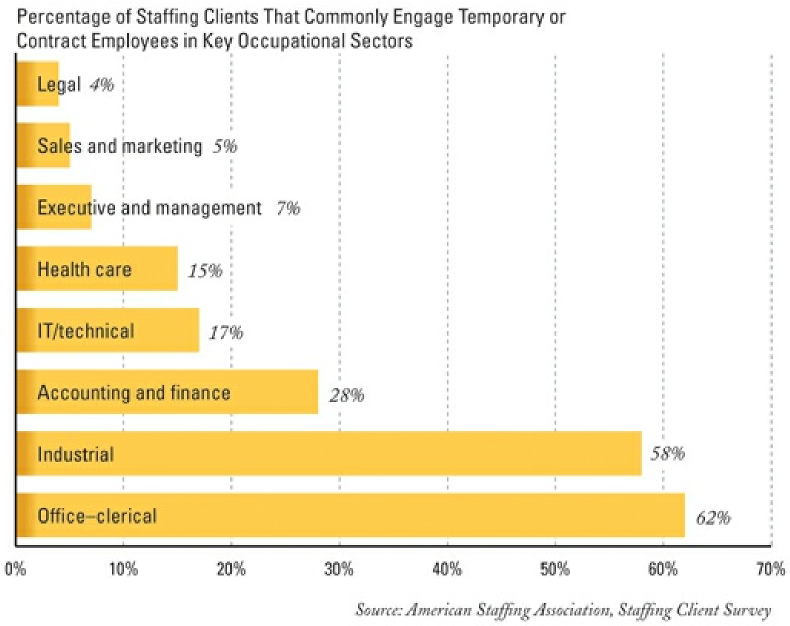
- To fill in for absent employees or to fill a vacancy temporarily
- To provide extra support during busy times or seasons
- To staff special short-term projects

Figure 12: **U.S. Businesses Turn to Staffing Firms to Fill Work Force Gaps, Augment Their Own Staff, and Find New Employees.**



Besides flexibility, the ASA poll showed that businesses also look to staffing firms as a good source of talent for permanent employees. Regardless of whether they need the talent on a temporary, contract, or permanent basis, the ASA poll shows that businesses tap staffing companies for quality talent in virtually all occupational sectors, from call center service representatives to skilled tradesmen to airplane pilots to banquet waiters to attorneys to radiology technicians (see Figure 13).

Figure 13: **Businesses Tap a Full Range of Talent From Staffing Companies.**

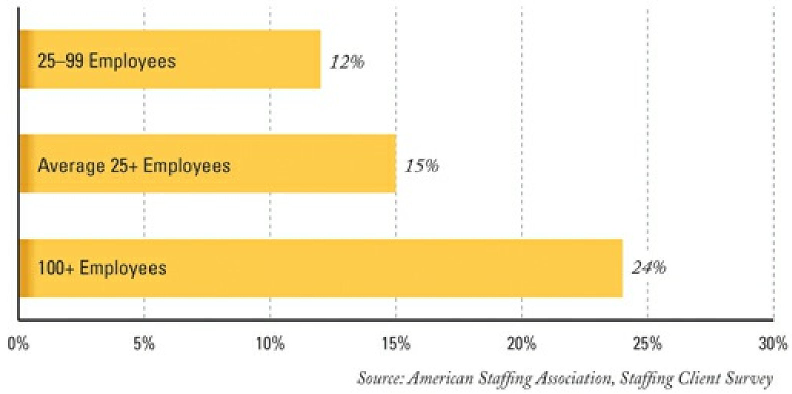


"Use of temporary or contract employees to smooth out labor needs has grown substantially," said Erica L. Groshen and Simon Potter, economists with the Federal Reserve Bank of New York.[68] "Uncertainty and financial headwinds likely constrain new job creation." After outlining the considerable obstacles employers must overcome to create new jobs, they argued that structural changes may be occurring in the economy because of management innovations that result in leaner staffing. "Firms increasingly hire temporary help when they are busiest and then cut back when demand falls."

Companies that embrace work force flexibility and engage staffing firm talent do better economically. "Increased reliance on contingent (i.e., temporary and part-time) labor...is associated with superior subsequent performance...[and] no increase in systematic risk," concluded a study published in *Decision Sciences* journal. Economists Nandkumar Nayar of Lehigh University and G. Lee Willinger of the University of Oklahoma compared firms in a carefully constructed sample and found that earnings (before interest, taxes, depreciation, and amortization), gross margins, and stock returns improved after the increased use of this labor practice.[69]

The larger the company, the more likely it is to use staffing services, according to various surveys. In the ASA poll of staffing clients, 12% of companies with 25 to 99 employees said they used staffing services, compared with 24% of companies with 100 or more employees (see Figure 14). A survey of Conference Board members—mostly global companies—found that 90% use staffing services.[70] And a survey of large employers in San Diego found that 95% use staffing services.[71]

Figure 14: **Room to Grow: On Average, Only 15% of U.S. Businesses Use Staffing Services in a Given Year. The Bigger the Business, the More Likely It's a Staffing Client.**



Flexibility Is Good for the Economy

Besides workers wanting flexibility and businesses needing it, it's also good for the economy.

When Alan Greenspan chaired the Federal Reserve Board, he spoke frequently about the importance of labor market flexibility to the U.S. economy, even emphasizing it in his last Monetary Policy Report to Congress in July 2005: "That flexibility is, in large measure, a testament to the industry and resourcefulness of our workers and businesses."[72]

Greenspan detractors also cite the value of flexibility. In an op-ed critical of the Greenspan Fed published in the *Wall Street Journal*, Andy Laperriere, managing director of the Washington office of Wall Street firm ISI Group, wrote, "A flexible labor force is one of the great strengths of the U.S. economy."[73]

Labor market flexibility helps create jobs, economists say. A study published by the Employment Policies Institute determined that "the temporary help industry helped to increase employment in manufacturing by allowing firms to expand their labor forces in the face of uncertain demand conditions." While BLS reported an increase of 570,000 manufacturing jobs from 1992 to 1997, EPI estimated that manufacturing employment actually increased by 1,075,000. Temporary help workers accounted for the difference—about half a million jobs. In the absence of a flexible staffing alternative, the study concluded, manufacturers would not have hired aggressively in response to rapid increases in demand.[74]

The administrations of both presidents Bill Clinton[75] and George W. Bush[76] cited the staffing industry as an important contributing factor in creating jobs and reducing unemployment.

Economists Lawrence Katz of Harvard University and Alan Krueger of Princeton University studied the dramatic drop in the unemployment rate in the 1990s. They concluded that the growth of the staffing industry was responsible for up to 40% of the reduction in the unemployment rate.[77] They argued that staffing firms, as labor market intermediaries, improve the efficiency of matching workers to jobs.

On a smaller scale, staffing firms provide immediate employment—and (taxable) real income—for workers and, for those seeking permanent jobs, a bridge to that end. In the 2006 ASA staffing employee survey, six in 10 respondents said they took a temporary or contract job as a way to get a permanent job. And a majority said temporary or contract work made them more employable because they could develop new or improve existing work skills, gain on-the-job experience, and strengthen their résumés.

The expanded use of temporary and contract workers may also have enhanced U.S. productivity, according to Chris Varvares, a Macroeconomic Advisers economist, by making it easier for businesses to adjust their work forces as the economy changes. U.S. productivity trends have changed dramatically in the past decade. A productivity boom in the late 1990s has proven to be unexpectedly enduring. On a year-to-year basis, productivity has not declined since 1995. In the 1970s and 1980s, it contracted for long periods around recessions.[78]

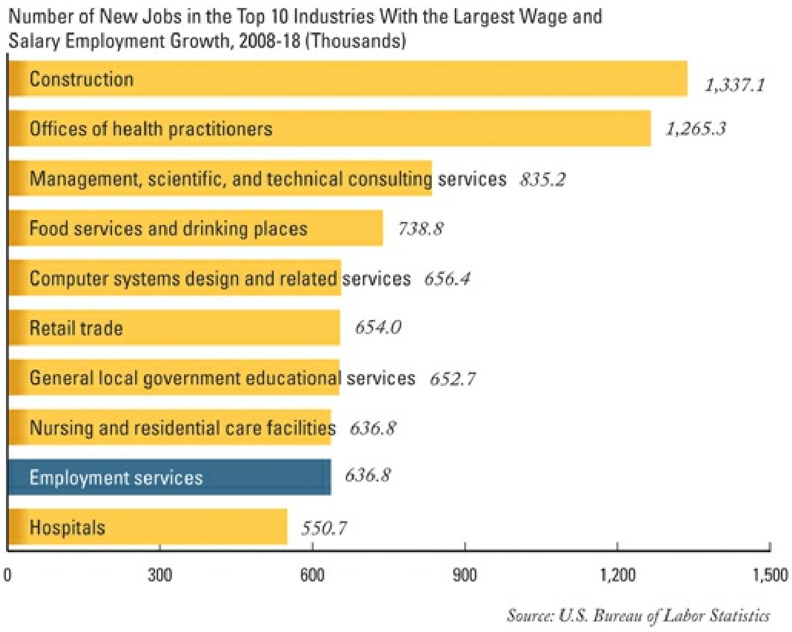
Jobs, flexibility, bridge to permanent employment, choice of alternative employment arrangements, and training—these are the benefits staffing firms offer to today's workers. Flexibility and access to talent—these are the benefits staffing firms bring to business clients. And jobs, labor market flexibility, efficient bridging to permanent jobs, training, lower unemployment rates, and enhanced productivity—these are the benefits staffing firms bring to the economy.

Outlook

The U.S. staffing industry is anticipated to grow faster and add more new jobs over the next decade than just about any other industry, even taking into account the recession.

The employment services industry—which is primarily staffing—will add nearly 600,000 jobs between 2008 and 2018, making it the ninth largest job-growth industry in the U.S. (see Figure 15), according to the most recent BLS projections, released November 2009.[79]

Figure 15: **Employment Services—Mostly Staffing—Expected to Be Among Top Job-Growth Industries.**



While total employment is expected to increase by 10% in that period, BLS projects nearly twice that rate of job growth—more than 19%—in the employment services industry. "The demand for temporary help services is expected to generate much of the growth," BLS reported. "These services include the placement of temporary workers and those with specialized skills, such as health care staff needed to meet the needs of aging baby boomers."[80]

BLS developed the projections during the recession and before nonfarm employment bottomed out. The agency notes that its assumption of a full-employment recovery accounts in part for its projected faster growth rates, but given greater job losses since it completed its model, even greater employment growth may occur.[81]

Over the course of the 10-year projection period, BLS expects almost all job growth to come from service sectors. Employment in goods-producing sectors is expected to decline, except in construction. Job losses in manufacturing will continue, but at a slower pace. Job losses in the goods-producing sector will be principally due to continued productivity gains.[82]

"Job gains in the construction sector will be almost entirely offset by the projected 1.2 million decline in manufacturing during the 2008–18 period," BLS says. "The manufacturing sector's seemingly large employment loss...still represents a contrast to what was experienced during the previous decade when the sector lost 4.1 million jobs."

In the service sectors, the fastest growth rate (averaging 2.4% per year) is expected in educational services.

But the greatest number of jobs—4.2 million—will be created in the professional and business services sector (which includes staffing), followed by health care and social assistance at 4.0 million jobs.

Much of the increase in professional and business services is expected to come from "business demand for consultants, sophisticated computer networks, and a variety of employment services to address complex business issues," BLS said. "Strong job growth is expected due to continued business demand for advice on planning and logistics, implementation of new technologies, and compliance with workplace safety, environmental, and employment regulations. Increasing globalization, trends towards outsourcing and mergers, and a heightened need for security also provide opportunities for consulting firms."

Strong growth in health care and social assistance is driven largely by projected changes in demographics: persons aged 65 years and older will grow from 12.7% of the U.S. population in 2008 to 15.3% in 2018, increasing to 51.4 million. "Although cost pressures may dampen employment growth in hospitals, they are expected to help drive demand for services provided by offices of health practitioners, home health care services, and individual and family services."

The BLS employment projections assume slower growth in the U.S. population, in the labor force, in productivity, and in GDP.[83] These measures—and assumptions—are all deeply intertwined. Even with BLS projecting that the GDP annual average growth rate will slow slightly from 2.5% over the previous decade to 2.4% in its 10-year forecast, prospects for the staffing industry remain favorable. ASA quarterly survey data from 1992 through 2009 show that, with only one exception—the fourth quarter of 2007, when the recession began—both temporary and contract employment *and* sales grew when GDP exceeded 2.0%.[84] That's a probability of 97%.

It will be years before America returns to full employment—perhaps as much as five to six years in the view of the Federal Reserve Board's Federal Open Market Committee.[85] In a June 2010 survey of top-tier financial executives, 80% said they did not expect a meaningful increase in hiring until 2012. They are principally concerned about credit availability.[86]

"Credit conditions remain very difficult" for small businesses with fewer than 500 employees, which "are central to creating jobs in our economy," Fed chairman Ben Bernanke remarked July 12, 2010. "They employ roughly one-half of all Americans and account for about 60 percent of gross job creation. Newer small businesses, those less than two years old, are especially important. Over the past 20 years, these start-up enterprises accounted for roughly one-quarter of gross job creation even though they employed less than 10% of the work force."[87]

Employers are adding hours and temporary workers, the Fed noted, but they have been cautious about adding to their payrolls "given uncertainties about the outlook for the economy and government policies."[88] In the survey of top-tier financial executives, the cost of health care reform was second only to credit availability as a top concern.[89]

Businesses *are* hiring again—slowly. After 20 months in negative territory, June 2010 marked the second consecutive month of positive hiring plans by small businesses, according to the National Federation of Independent Businesses.[90] And a June 2010 survey of small businesses by CareerBuilder found that one-third plan to hire in the second half of the year.[91] In June 2010, the private sector added 83,000 jobs, of which 21,000 were in the staffing industry.[92]

Because America's staffing companies offer businesses work force flexibility, they will play a key role in putting people back to work as the nation recovers from the Great Recession. Many of those jobs will start out as temporary. Many of those jobs will become permanent as businesses gain confidence in the economic expansion.

By helping businesses tap the talent they need when they need it, America's staffing companies improve the efficiency of the U.S. labor market. By quickly matching talent to work, America's staffing companies boost U.S. employment. By creating jobs, America's staffing companies strengthen the U.S. economy.

Methodology
American Staffing Association

ASA Staffing Employment and Sales Survey

The American Staffing Association provides the only survey-based quarterly estimate of U.S. temporary and contract staffing sales. The quarterly ASA staffing employment and sales survey—which covers approximately 10,000 establishments (about half the industry)—also tracks employment and payroll, with results that parallel the establishment surveys of the U.S. Bureau of Labor Statistics.

The survey is used to estimate total industry employment, sales, and payroll, based on a model developed for ASA by Standard & Poor's DRI in 1992. DRI conducted a census of ASA members as well as a survey of selected nonmember firms. Using this and related government data, DRI prepared annual estimates for 1990 and 1991, and a stratified-panel, survey-based estimation model to be used quarterly from 1992 forward.

To preserve the confidentiality of individual company responses, a market research firm collects and tabulates the data and reports only aggregate results to ASA. Survey participants include 100 to 200 small, medium, and large staffing companies that together provide services in virtually all sectors of the industry. The participants provide employment, sales, and payroll data on the most recent quarter and, as part of the panel design to ensure validity and continuity, the previous quarter. Responses are stratified by company size and used to derive growth rates for each stratum. Strata for each metric are weighted based on the proportionate market share of similarly sized companies to derive overall growth rates for the industry as a whole. These growth rates are applied quarter-by-quarter to the aggregate estimates for temporary help employment, sales, and payroll that had been calculated for the benchmark quarter (initially by DRI in 1992).

When 1997 U.S. Economic Census data became available in 2000, ASA commissioned DRI to revalidate, update, and rebenchmark the model. Data from the economic census and the Omnicomp Group Inc. were used to newly calculate a benchmark quarter for 1997, from which all previous estimates were revised.

Similarly, when the 2002 U.S. Economic Census data became available in 2005, ASA commissioned the Lewin Group, an economic research firm, to rebenchmark the survey results based on DRI's model. Again, industry data from the economic census and the Omnicomp Group Inc. were used to establish a benchmark quarter for 2002; all previous estimates were revised accordingly.

ASA Staffing Index

The ASA Staffing Index tracks weekly changes in temporary and contract employment. The index survey methodology mirrors that of the quarterly ASA staffing employment and sales survey.

Survey results are typically posted nine days after the close of a given workweek, providing a near real-time gauge of staffing industry employment and overall economic activity.

Participants include a stratified panel of small, medium, and large staffing companies that together provide services in virtually all sectors of the industry and account for more than one-third of U.S. staffing industry establishments and sales. As with the quarterly ASA staffing employment and sales survey, percentage changes in employment are derived by weighting responses according to company size categories.

Two numbers are reported weekly. The first is the weekly percentage change in staffing employment. The second is the index itself, which shows staffing employment trends over time. Both numbers are posted on the home page of the ASA Web site, *americanstaffing.net*

The index is calculated by applying the weekly percentage change in employment to a reference value set at 100 for the week of June 12, 2006. The index reflects the percentage change in employment since that reference week—so when the index reaches 200, staffing employment will have doubled since June 2006. The index does not estimate total industry employment; the quarterly ASA staffing employment and sales survey provides that data.

ASA developed the index with the expertise of the Lewin Group, an economic research firm.

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Editor's note: This analysis, prepared July 2010, provides an overview of the size, scope, and dynamics of the staffing industry. It is intended as a general reference for staffing firms, staffing clients, industry analysts, journalists, and policy makers.

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