



# The Bright SPOT

## ASA's Annual Economic Analysis of the Staffing Industry

By *Steven P. Berchem*

In newspapers and magazines across the nation, on the World Wide Web, and on Wall Street, the U.S. staffing industry has been characterized as a “bright spot” in an otherwise dismal employment market. With virtually every other industry flat or shrinking in 2003, the staffing industry added jobs—lots of jobs.

Even though U.S. gross domestic product grew by 3.1 percent in 2003, nonfarm payroll employment declined, with average daily employment for the year down 410,000 jobs. While some signs of overall hiring growth emerged in the last few months of 2003, according to the Bureau of Labor Statistics, 2.7 million jobs

disappeared between the height of the U.S. economy in March 2001 and the August 2003 employment trough.

Staffing industry employment increased significantly beginning in the second quarter. According to the American Staffing Association's quarterly survey, the industry added 210,000 jobs in 2003 (see Figure 1).

### The Recession Revisited

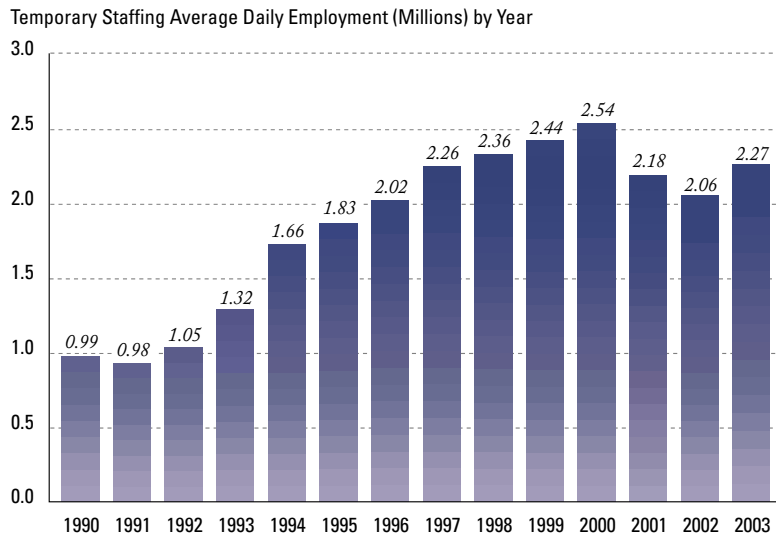
The recession ended two and a half years ago, and yet it has had a powerful, lingering effect on employment. The National Bureau of Economic Research, a non-governmental organization that is viewed by most economists as the arbiter of U.S.

economic cycles, says that the recession began in March 2001 and ended eight months later in November of that year.

The recession started earlier in the staffing industry. Temporary and contract staffing jobs peaked in the third quarter of 2000 and began a precipitous decline in the fourth quarter (see Figure 2). That decline continued for six consecutive quarters, bottoming out in the first quarter of 2002—months after the end of the recession. During that period, staffing industry employment shrank by 28 percent, losing 739,000 jobs.

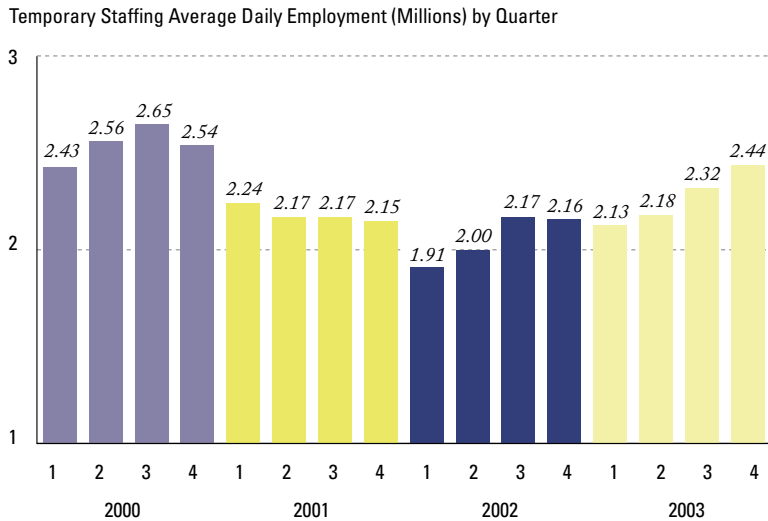
Staffing industry employment began to grow in early 2002, but weakly. Even as

**Figure 1: America's Staffing Companies Match Millions of People to Millions of Jobs Every Day**



Source: American Staffing Association, Employment and Sales Survey

**Figure 2: The 2001 Recession Eliminated 739,000 Temporary Staffing Jobs—28% of Peak Employment**



Source: American Staffing Association, Employment and Sales Survey

the industry gained 200,000 jobs from the first to the fourth quarter of 2002, average daily employment for the year turned out to be 5.7 percent lower than in 2001. After nine consecutive years of growth, the staffing industry suffered two consecutive years of decline—as did overall U.S. employment.

The elongated employment slump has caused some economists to question

NBER's declaration that the recession ended in 2001. NBER's Business Cycle Dating Committee made that determination on Jul. 17, 2003, after 28 months of practically nonstop employment losses. Even as U.S. employment finally began to grow in September, the NBER committee issued a statement on Oct. 21, 2003, defending its dating of the 2001 recession.

"A recession is a significant decline in

economic activity spread across the economy, lasting more than a few months," the statement said. "In choosing the dates of business-cycle turning points, the committee follows standard procedures to assure continuity in the chronology. Because a recession influences the economy broadly and is not confined to one sector, the committee emphasizes economy-wide measures of economic activity. The committee views real GDP as the single best measure of aggregate economic activity."

The committee "places considerable weight on the estimates of real GDP issued by the Bureau of Economic Analysis of the U.S. Department of Commerce." But those estimates are based on calendar year quarters. The committee seeks to determine the exact months of economic turning points, so it refers to several monthly measures, primarily real personal income and employment, but also industrial production and wholesale-retail sales.

NBER's October statement shows that both real GDP and income have grown since the end of the recession, though not as strongly as the respective averages of the previous six post-recession periods—GDP about half as strong and income about one-fifth as strong.

The employment response has been the opposite, the dating committee acknowledges. After the previous six recessions, employment, on average, grew steadily. Unlike the past, though, employment has fallen since the 2001 recession ended (see Figure 3).

"Real GDP has risen substantially since November 2001," the committee statement said. "However, this growth in real GDP entirely took the form of productivity growth. As a result, the growth in real GDP has been accompanied by falling employment."

### The Productivity Surge

Most economists cite strong growth in productivity—the output per hour of work—as a key reason for the dismal employment market.

“The current economic recovery has been characterized by a remarkably rapid rise in productivity,” Harvard University economist and NBER president Martin Feldstein said in a *Wall Street Journal* op-ed published a week before the dating committee statement.

Alan Greenspan called the increases “stunning” in his semiannual monetary policy report to Congress. In presenting his report before the U.S. House Committee on Financial Services on Feb. 11, 2004, the Federal Reserve chairman, a policymaker who shies from hyperbole, said, “The productivity performance of the past few years has been particularly striking in that these increases occurred in a period of relatively sluggish output growth.... The gains in productivity, however, have obviated robust increases in business payrolls.”

The productivity proposition is simple: more output, less work. Ultimately, productivity creates prosperity. But surges in productivity without corresponding increases in consumption yield surplus labor. In recent years, productivity has been growing faster than the economy (see Figure 4). So businesses need fewer workers to keep up with demand. Indeed, businesses can shed workers and still keep up with increased demand.

Business productivity increased by 4.5 percent in 2003, according to the Bureau of Labor Statistics. This was on top of a 4.9 percent increase in 2002. This is the only time since BLS began tracking productivity in 1947 that the U.S. economy has had two consecutive years of productivity growth exceeding 4 percent. “The consecutive productivity increases in 2002 and 2003 yielded a 4.7 percent average annual rate of growth from 2001 to 2003,” BLS said. “This was the largest two-year productivity gain since 1949–51.”

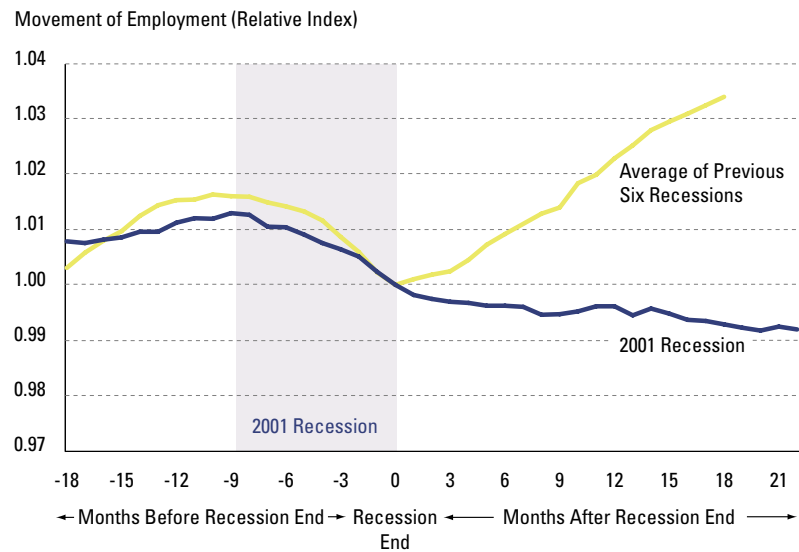
In short, productivity has been growing about 75 percent faster than the economy. Maybe.

Morgan Stanley’s chief economist Stephen Roach argues that productivity

is undoubtedly improving, but perhaps not as strongly as BLS reports. “Productivity measurement is more art than science—especially in America’s vast services sector, which employs fully 80 percent of the nation’s private workforce,” he wrote in a Nov. 30, 2003, *New York Times* op-ed. “The numerator of the productivity equation, output, is hopelessly vague for services.” And the denominator, units of work time, “is even more spurious.”

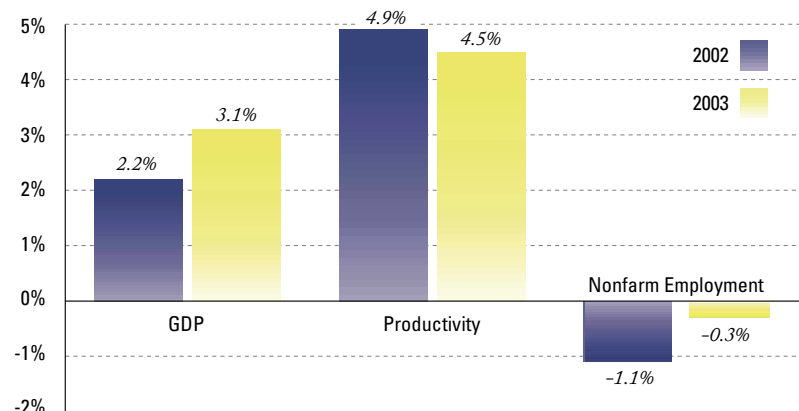
On the latter point, he uses his own industry as an example. “In financial services, the Labor Department tells us that the average workweek has been unchanged, at 35.5 hours, since 1988. That’s patently absurd. Courtesy of a profusion of portable information appliances (laptops, cell phones, personal digital assistants, etc.), along with near ubiquitous connectivity (hard-wired and now increasingly wireless), most information workers can toil around the clock. The official data

**Figure 3: A Recession Like No Other? U.S. Payroll Employment Declined After the 2001 Recession—Opposite the Average of the Previous Six Recessions**



Source: Analysis by National Bureau of Economic Research based on data from the U.S. Bureau of Labor Statistics

**Figure 4: The Recession Ended When GDP Resumed Growth—But Productivity Grew Faster, So Employment Fell**



Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics

don't come close to capturing this cultural shift.

"As a result, we are woefully underestimating the time actually spent on the job. It follows, therefore, that we are equally guilty of overestimating white-collar productivity. Productivity is not about working longer. It's about getting more value from each unit of work time.... To the extent productivity miracles are driven more by perspiration than by inspiration, there are limits to gains in efficiency based on sheer volume."

To be sure, history suggests—and contemporary sages assert—that the surge in productivity is not sustainable. Feldstein noted that the average annual productivity growth rate of the previous quarter-century was less than 1.5 percent. Roach remarked that the productivity gains in the first two years of the six most recent recoveries averaged only 3.5 percent. And Greenspan, in his House testimony, said that it was "utterly inconceivable" that productivity growth can continue at its current rate: "As [business] opportunities to enhance efficiency become scarcer and as managers become more confident in the durability of the expansion, firms will surely once again add to their payrolls."

Feldstein agrees productivity growth will slow, but he sees structural economic changes in development. "Although the most recent dramatic productivity surge will not persist beyond the next few quarters, productivity growth is likely to continue at an above-trend pace for years to come." He cites evidence from the Department of Labor that shows the primary reason for the lack of job growth in the past two years is an unusually low rate of new hiring in expanding businesses rather than an unusual number of layoffs by declining businesses.

"Fortunately, the strong productivity growth will eventually lead to more jobs," he said, particularly as higher profits induce more investment in business plant and equipment.

Some of that started to occur in the fourth quarter, according to the Bureau of

Economic Analysis. Its GDP report showed business investment increased at a 9.6 percent rate, which includes a 15.1 percent boost in equipment and software spending.

### Alternative Views

While acknowledging that productivity growth has played a role in reducing the demand for labor, other explanations for the current employment situation surfaced in the fall of 2003.

One posits that Greenspan and others are misreading the data. Job creation has occurred—if one just looks at the right set of numbers. Allan H. Meltzer, an economist at Carnegie Mellon University and a visiting scholar at the American Enterprise Institute, notes that BLS conducts two surveys monthly, one of employers (the establishment survey) and one of workers (the household survey). The former reports the number of workers on company payrolls. The latter asks people whether they are working or looking for work, and it is used to derive the unemployment rate. The two different surveys yield two very different numbers on how many people are working—the household survey shows about 8 million more than the establishment survey. Labor economists have debated why for years.

Meltzer argues that the difference between the survey results changes systematically over time, and the trend of that difference provides an important clue about what's really going on in the labor market. "The number of companies does not remain fixed," he wrote in a Sep. 26, 2003, *Wall Street Journal* op-ed. "In our dynamic economy, old firms die and new ones are born. The Labor Department learns about the deaths quickly, but it takes longer to learn about the births."

The difference between the surveys on the count of workers is not constant, he emphasizes. "After every recession, the difference increases because many new firms start. It takes a while for the Labor Department to catch up, so the number of jobs reported in the household survey

drifts further away from employment reported by firms.... Recently the difference has grown rapidly, more rapidly than in other recoveries."

While the establishment survey shows a loss of 2.7 million jobs, the household survey shows a loss of 220,000—"Not good," he said, "but far more typical of a period with recession and slow recovery."

Another explanation for slow jobs growth comes from two economists with the Federal Reserve Bank of New York, Erica L. Groshen and Simon Potter. Their hypothesis is that structural changes—the permanent relocation of workers from some industries to others—have contributed significantly to the sluggishness of the job market.

Using BLS data, they show that in previous recession-recovery cycles, workers would be laid off and then recalled to their jobs some months later—indeed, employers often helped workers apply for unemployment benefits to encourage them to return to their jobs, rather than find new ones, when the employer resumed stepped-up production. The layoffs were cyclical and temporary.

In the most recent recession, Groshen and Potter argue, the layoffs have been permanent—employees are let go with no expectation on the part of the employer that the workers will ever return to their former jobs. This occurred in the 1990–91 recession, they said, and more so in 2001, when 79 percent of employees worked in industries affected more by structural shifts than by cyclical shifts.

In *Current Issues in Economics and Finance*, the New York bank's monthly newsletter, Groshen and Potter outlined the considerable obstacles employers must overcome to create new jobs. "Uncertainty and financial headwinds likely constrain new job creation," they wrote. "Creating jobs takes longer than recalling workers to their old positions and is riskier in the current uncertain environment."

The structural changes may be occurring in part because of management innovations toward leaner staffing, they

argued. “Instead of furloughing permanent workers, firms increasingly hire temporary help when they are busiest and then cut back when demand falls. Indeed, firms’ use of temporary and contract employees to smooth labor needs has grown substantially.”

### Leading Indicator

Smoothing out labor needs is the primary reason businesses turn to temporary and contract employees, according to the W.E. Upjohn Institute for Employment Research (see Figure 5). More than half of companies cite “unexpected increases in business” as an important reason for using flexible work arrangements. Nearly half cite “fill vacancy temporarily” as well as “fill in for absent regular employee.” “Special projects,” “seasonal needs,” and “assistance in peak times” also receive significant rankings.

These reasons explain why surveys of businesses show that 90 percent to 95 percent turn to staffing companies for temporary help.

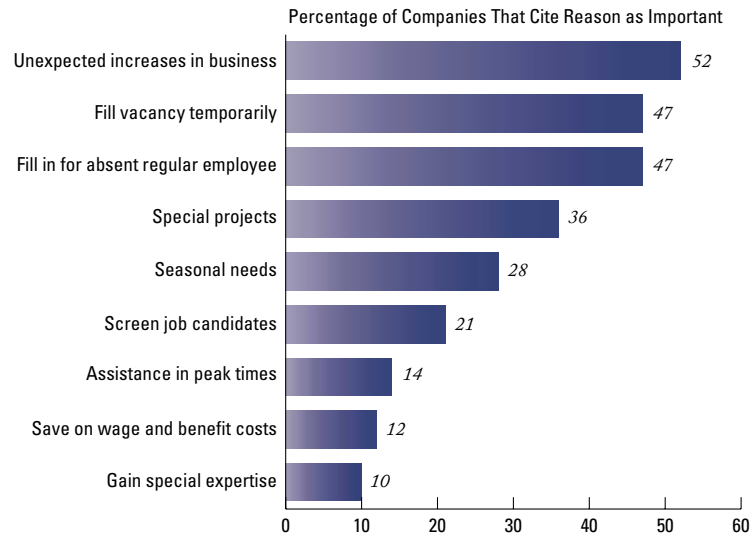
And now, as companies adapt to growing productivity and increased global competition, they have clearly demonstrated caution in adding to their workforces, even as they grow in a robust economy. Instead of hiring new permanent employees, they are relying more on flexible staffing arrangements, including temporary and contract help.

While just a tiny fraction of the U.S. workforce, temporary and contract staffing employment more than doubled in the 1990s. Although it contracted significantly in 2001 and somewhat in 2002, vigorous growth resumed in 2003 as real GDP growth accelerated.

America’s staffing companies employed an average of 2.27 million temporary and contract workers in 2003, up 10.2 percent from the previous year—a dramatic improvement after two years of decline. During the course of the year, U.S. staffing firms hired 10.7 million employees, 1 million more than in 2002 (see Figure 6).

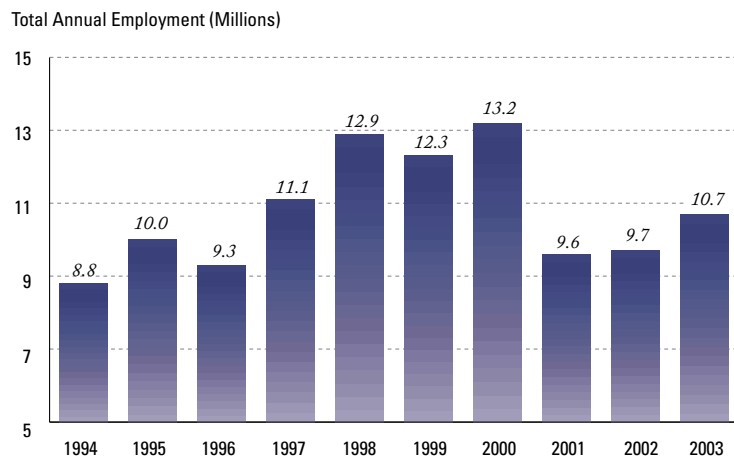
Temporary and contract staffing

Figure 5: Staffing Flexibility Helps Businesses Adjust to Increased Demand



Sources: W.E. Upjohn Institute for Employment Research

Figure 6: During the Course of the Year, U.S. Staffing Firms Hired 10.7 Million Employees in 2003



Source: American Staffing Association, Employment and Sales Survey

revenues for 2003 were \$56.3 billion, 2.1 percent more than in 2002 (see Figure 7). Permanent placement revenues are estimated to have dropped 7.3 percent to \$6.1 billion in 2003. Staffing industry revenues for 2003 totaled \$62.4 billion, up 1 percent from 2002.

Over the past 30 years, the staffing industry has experienced its greatest growth in the early stages of economic recovery (see Figure 8). After the 1991 recession, staffing jobs increased by 7.8

percent the next year, and then surged by 25 percent each of the following two years.

Although the staffing industry’s recovery from the 2001 recession was delayed by a year and a half, and no one is suggesting the industry will again achieve the remarkable growth rates of the early 1990s, the “new management strategies” and fundamental “structural changes” described by Groshen and Potter suggest a bright future for suppliers of flexible work arrangements.

In the near term, the Omnicomp Group, which has been tracking staffing industry data at the county level for more than a decade, predicts that temporary help employment will increase by 9.3 percent this year.

Longer term, the staffing industry is expected to create more new jobs than any other industry. In February, BLS released its 2002–12 employment projections (see Figure 9). It estimated that the “employment services” industry (which is mostly staffing services) will add nearly 1.8 million jobs, a 54 percent increase over the 10 years. That would be a 4.4 percent annual growth rate, making staffing the fifth fastest-growing industry in America.

More immediately, the recent uptick in staffing employment bodes well for overall U.S. job growth. From Wall Street to Main Street to Pennsylvania Avenue, the staffing industry is widely regarded as a leading indicator for the labor market.

“Average growth in temporary help services employment over a six-month period has a striking positive correlation with growth in overall employment over the subsequent six months,” according to the *Economic Report of the President*, the annual report of the Council of Economic Advisers that was transmitted from the White House to Congress in February. “Statistical analysis suggests that an increase of one job in temporary help services corresponds to a subsequent rise of seven jobs in overall employment.”

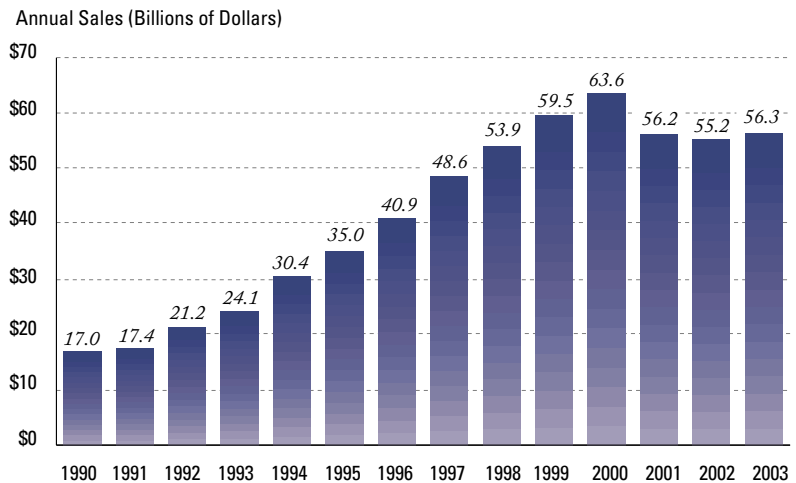
### The ‘Emergent Workforce’

Changing business practices have clearly played a role in the growth of the staffing industry over the decades. And the increasing adoption of flexible labor management strategies will continue to contribute to the staffing industry’s expansion.

But staffing’s success—and future—keys off of one single asset: people.

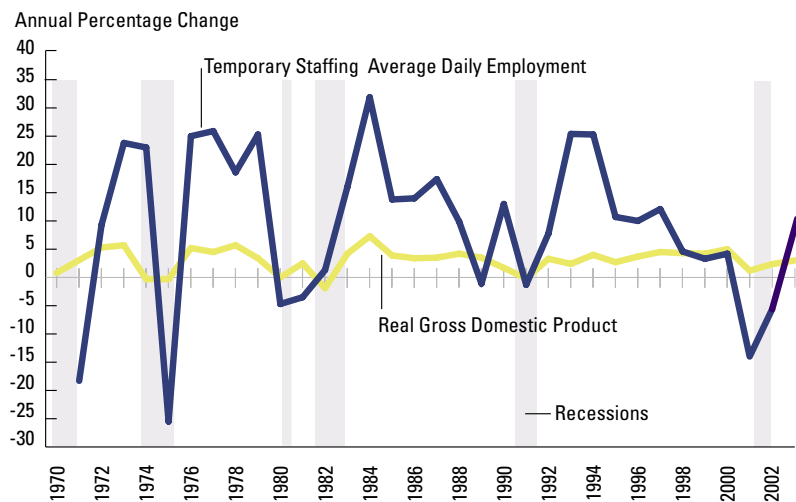
America’s workforce is changing as more and more people are looking for the flexibility that temporary work provides. America’s staffing companies match millions of people to millions of jobs—in

Figure 7: Temporary Staffing Sales Increased by 2.1% in 2003



Source: American Staffing Association, Employment and Sales Survey

Figure 8: Temporary Staffing Employment Usually Rebounds Robustly During Economic Recoveries



Sources: American Staffing Association, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, National Bureau of Economic Research

virtually all occupations, from day laborer to CEO (see Figure 10). The results from a series of surveys conducted by BLS indicate that staffing industry jobs are shifting toward occupations that require higher levels of skills and education.

Much like the “regular” workforce, the vast majority of temporary and contract employees work full time. According to BLS, 79 percent of temporary employees and 90 percent of contract employees work full time, compared to 83 percent of

workers in traditional employment arrangements who work 35 or more hours per week. BLS data also show that a plurality of temporary and contract employees prefer their status over traditional arrangements.

Why? Flexibility. In an ASA survey of temporary employees, 64 percent said flexible work time is important to them, 28 percent said they work for a staffing firm because it gives them the flexibility to pursue other interests, and 43 percent said

needing time for family was an important factor to them in their job decisions.

Workers are changing, according to a series of studies conducted by Harris Interactive on behalf of Spherion Corp., a U.S.-based global staffing company. They are less focused on traditional employment arrangements defined by job security, stability, and tenure. In a 2003 poll of more than 3,200 American workers, Spherion found that 86 percent cite work fulfillment and work/life balance as their primary priority, with 76 percent willing to curtail their careers to make time for family.

“Despite the economic downturn—or perhaps because of it—more and more workers are self-motivated, taking charge of their own careers and searching for a balance between life and work,” said Robert Morgan, president of Spherion Employment Services, which provides executive coaching, talent assessment, outplacement services, and career development and management services. “Today’s employees are quickly adapting to a changing work environment and are more receptive to working outside conventional employment structures through alternatives such as contract, temporary, or consulting arrangements.” In the Spherion survey, 54 percent of respondents indicated growing confidence in their ability to earn a stable income outside of the conventional work structure.

The Spherion studies identified what the staffing company calls the “emergent workforce,” workers who tend to feel more in control of their careers and want an employer that rewards them based on performance, versus “traditional” workers who believe that an employer is responsible for providing a clear career path and in return deserves an employee’s long-term commitment. Emergent workers are more concerned about opportunities for mentoring and growth.

Based on its 2003 poll, Spherion estimates that emergent workers now constitute 31 percent of the workforce. The traditional worker population accounts for

about 21 percent. Spherion says that the balance—nearly half of the American workforce—is now “migrating from a traditional mindset to an emergent mindset.” By 2007, Spherion predicts, the traditional workforce will have shrunk to 8 percent and the emergent workforce will make up more than half of the U.S. workforce.

### Talent War II

The 2003 Spherion poll revealed a stunning statistic that should send shivers down the spine of employers across America: about half of employees are willing to walk out the door as soon as the labor market improves.

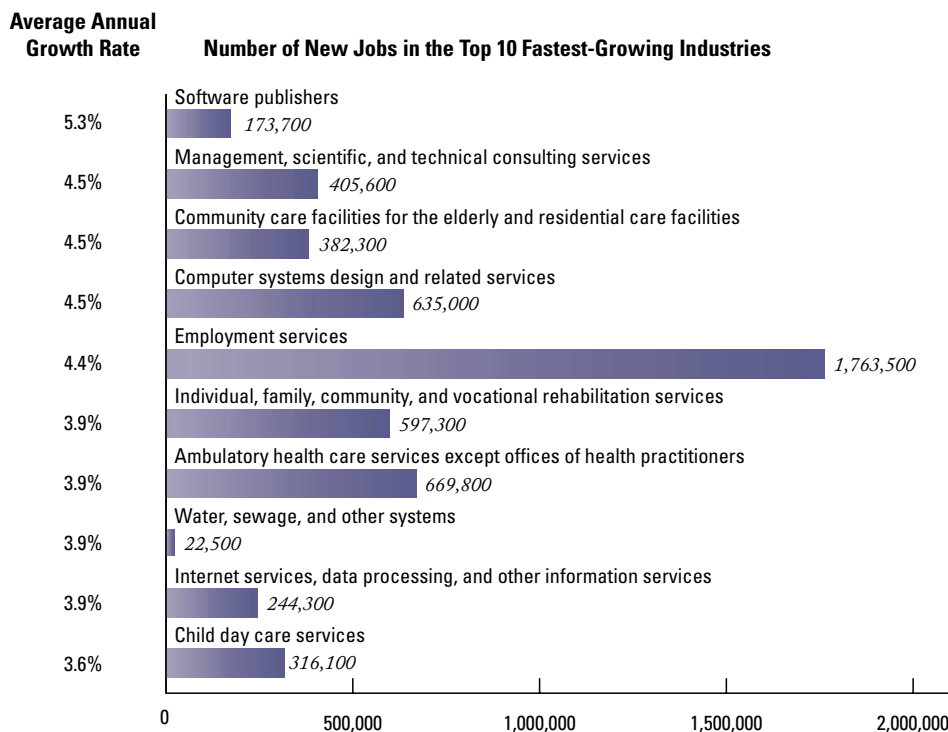
“A number of factors foreshadow the return to a war for talent that will continue throughout the decade,” said Marc Pramuk, a senior analyst at International Data Corp. “The [recent] economic slowdown has had a cumulative effect on employee satisfaction and company loyalty following rounds of layoffs, rising work-

loads, flat compensation, and few opportunities for promotion. The late 1990s created greater career ownership and job mobility among employees, and as the economy picks up, the fear is that large numbers of dissatisfied workers who were unable to leave will do so as soon as the opportunity presents itself.”

The term “talent war” arose in the late 1990s as the U.S. unemployment rate plummeted to the lowest level in a generation and as employers—including staffing firms—struggled to recruit skilled workers. Staffing industry growth was constrained from 1998 to mid-2000 by the dwindling pool of available workers. In that period, the annual growth rate of staffing employment dropped to less than 5 percent after five years of double-digit increases.

As recently as early 2002, economists were predicting that labor demand would outstrip supply beginning in 2006. But the effects of recession lingered. The slow recovery of the labor market and the

Figure 9: **Employment Services—Mostly Staffing—to Create More New Jobs Than Any Other Industry Through 2012**



Source: U.S. Bureau of Labor Statistics

coinciding productivity surge, along with new thinking about how soon baby boomers really will retire, has raised questions about when—and even if—the labor market will tighten to the levels of a talent war.

“The real issue,” says Peter Cappelli, director of the Center for Human Resources at the Wharton School, University of Pennsylvania, is “finding good people, hiring them when you need them, and keeping the good ones.”

Clearly, staffing companies are expert at that. So much so, in fact, they helped create what President Clinton’s Council of Economic Advisers called a “permanent” drop in the unemployment rate. After declining to 3.8 percent in 2000, the U.S. unemployment rate has been hovering around 6 percent since the recession. During the 1982–90 economic expansion, the unemployment rate ranged from 5.0 percent to 10.8 percent.

Labor 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 half of the reduction in the unemployment rate.

With an unemployment rate that is low by historical standards, a workforce that is restless with pent-up desires to change jobs, and a strengthening economy that is creating new jobs, employers across the nation could be facing widespread vacancies in the near future.

“Organizations should prepare ... to jump back into the race for talent,” says Susan R. Meisinger, president and CEO of the Society for Human Resource Management. Apparently they are. A SHRM survey of top executives, senior managers, and human resource professionals shows that their attention will be more focused on employee retention and recruitment in 2004 than on reducing staff or increasing productivity.

### 2004 Predictions

No one can reliably and precisely predict how the staffing industry will fare in 2004. But this much is certain: America’s staffing companies will match millions of people to millions of jobs—every day.

It is very likely that the staffing industry will hire more people in 2004 than it did in 2003. It will almost certainly exceed its 2002 or 2001 hiring levels. It may even exceed its record high average daily employment of 2.54 million in 2000.

The staffing industry will continue to lead overall job growth, and the U.S. economy will continue to add jobs.

People will increasingly seek flexible work arrangements. And businesses will continue to seek flexible workforce arrangements, even as they face skill shortages while trying to keep fully staffed during busy times.

The U.S. economy will continue to benefit from labor market flexibility with more jobs, more growth, high productivity, low inflation, and enhanced economic stability.

Watch staffing in 2004 and the years beyond. It will go from a bright spot in the employment market to an industry afire with opportunity and success. ■

#### Methodology

Employment and Sales Survey  
American Staffing Association

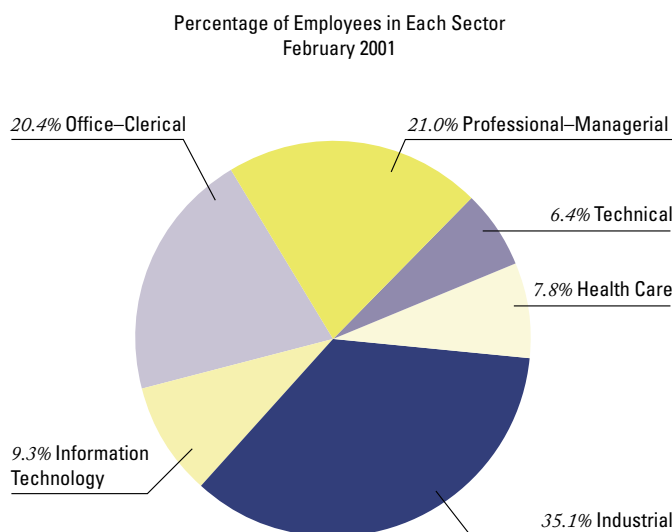
The American Staffing Association provides the only survey-based quarterly estimate of U.S. temporary and contract staffing sales. The ASA quarterly survey—which covers approximately 10,000 establishments (about half the industry)—also tracks employment and payroll, with results that parallel the establishment 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 staffing firms. Using this and related government data, DRI prepared annual estimates for 1990 and 1991, and an estimation model to be used quarterly from 1992 forward. ASA commissioned DRI to revalidate and update the model in 2000. Newly calculated benchmarks were primarily based on data from the 1997 U.S. Economic Census and the Omnicomp Group Inc.

Data gathered through the quarterly survey, which weights responses from a stratified panel of staffing companies, are used to derive growth rates for the industry as a whole using the DRI estimation model. These growth rates are applied quarter-by-quarter to the aggregate estimates for temporary help employment, sales, and payroll that had been calculated by DRI for the 1997 benchmark quarter.

Survey respondents include 100 to 200 small, medium, and large staffing companies that together provide services in virtually all sectors of the industry. To preserve the confidentiality of individual company responses, an independent research firm collects and tabulates the data and reports only aggregate results to ASA.

Figure 10: Temporary and Contract Employees Work in All Occupations



Steven P. Berchem is vice president of the American Staffing Association.