

STAFFING

S U C C E S S

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American Staffing 2008

UNCHARTED TERRITORY

Annual Economic Analysis Puzzles Through the Data and Explains the Trends

By Steven P. Berchem

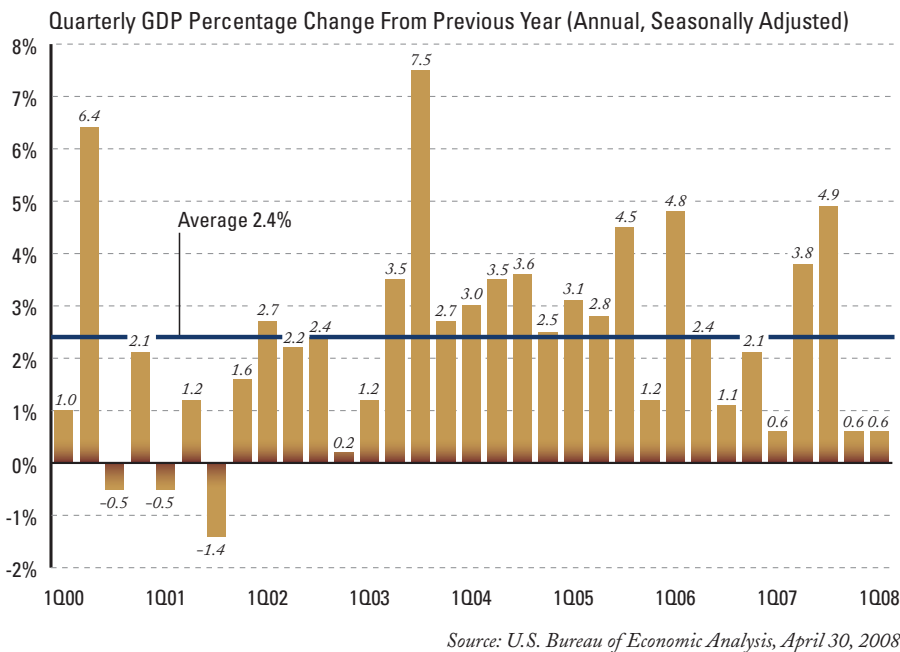
The American staffing industry is in uncharted territory. With notable exceptions, temporary and contract employment and sales have been virtually unchanged for more than a year and a half. Temporary and contract staffing as a whole—which makes up the vast majority of the industry—has never experienced such an extended period of flatness. It's more common to see years of robust growth interrupted by months of sharp declines. ➤

Editor's note: This analysis, prepared May 2008, 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. The analysis is also available online at americanstaffing.net (click on Staffing Statistics).

Photo collage by Dawn Ripple McFadin



Figure 1: Since 2000, Quarterly Economic Growth Has Averaged 2.4%. But It Slowed to 0.6% in the Fourth Quarter of 2007 and the First Quarter of 2008.



On one day, the data suggest a recession.
The next day, they do not. These are
disconcerting times.

The industry's fortunes have long been closely tied to the economy. As the economy grew, so did the industry. When the economy stalled, the industry contracted. In recent quarters, the economy has both grown and stalled, and various staffing sectors have grown and contracted.

The U.S. economy seems to be in uncharted territory too. On one day, the data suggest a recession. The next day, they do not. These are disconcerting times.

This annual economic analysis attempts to puzzle through the data, explain the trends, and help the reader draw conclusions about where the American staffing industry may be headed.

The 2007 Economy

U.S. real gross domestic product increased by 2.2% in 2007, according to the U.S. Bureau of Economic Analysis.¹ While 2007 marked a sixth consecutive year of healthy growth, it was nonetheless notably lower than the 2006 growth rate of 2.9%, which also was the average rate of the most recent 10 years. Moreover, the annual figure masked what may have been a turning point in the U.S. economy. GDP grew at a well-above average rate in the middle of the year—peaking at 4.9% in the third quarter—but braked to a near standstill in the fourth quarter, growing at a meager annual rate of only 0.6% (see Figure 1).

The economy was stalled by falling home prices, a credit freeze, and soaring fuel costs.² After the housing market peaked in 2006, price declines accelerated in 2007. Angst about the bursting asset bubble precipitated a credit crunch in August, triggering tremendous turmoil in the financial markets. Meanwhile, over the course of the year, global crude oil prices rapidly escalated toward \$100 per barrel, nearly twice the price from two years earlier.³ The cumulative effect of these pressures resulted in a dramatic slowdown in the economy in the latter part of the year.

Hoping to avert a recession, the Federal Reserve Board cut its interest rates in September for the first time in four years. And it cut them again and again, fast and furiously. Starting from 5.25%, the Fed cut rates three times, eventually reducing rates to 4.25% in December. It followed with four more cuts in early 2008, pausing when rates were set at 2% in April.⁴

Slower economic growth in 2007 resulted in slower job growth too. Nonfarm employment increased by 1.5 million jobs in 2007, nearly one million fewer jobs than had been created the previous year, according to the U.S. Bureau of Labor Statistics.⁵ Meanwhile, the unemployment rate edged up during the year, from 4.4% in December 2006—the lowest it had been in more than five years—to 5.0% in December 2007—the highest it had been in two years, but still well below the 6% average of the past 30 years.⁶

The Productivity Paradox

While the economy grew 2.2% in 2007, nonfarm employment grew only 1.1%. The difference is largely explained by improved productivity. In 2007, business productivity grew 1.9%, almost twice as much as in 2006 and on par with the 1.9% average annual growth rate of the past 30 years.⁷

The productivity proposition is simple: more output, less work. Ultimately, productivity creates prosperity.

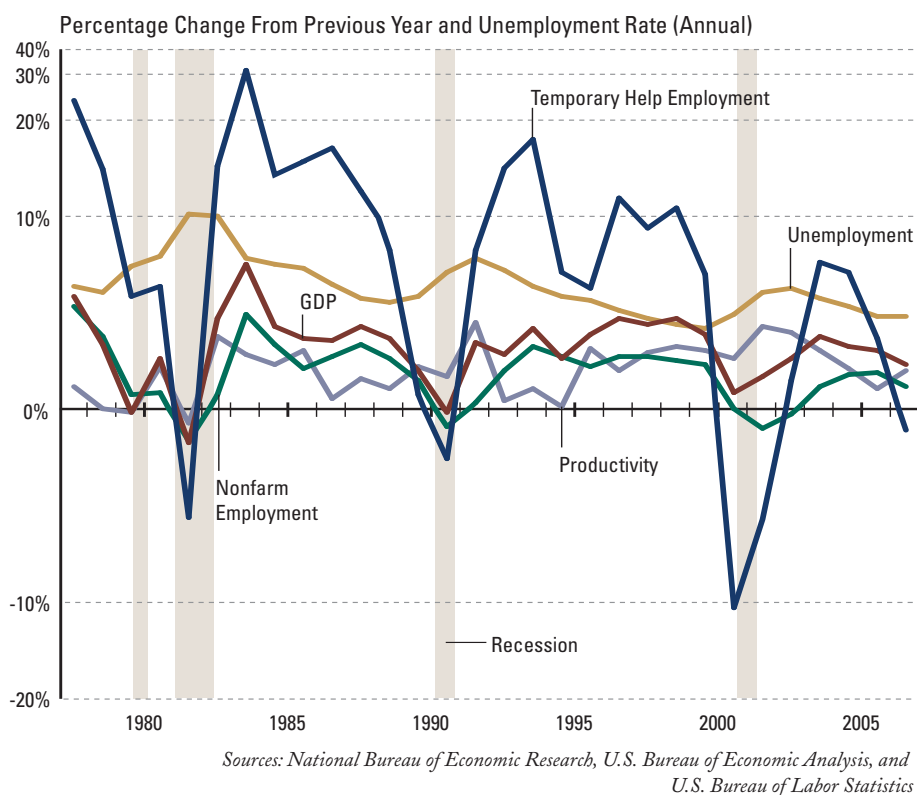
But improved productivity can also reduce the demand for labor, particularly when productivity grows faster than the economy, as happened during and after the 2001 recession. Businesses needed fewer workers to keep up with demand. The result was job losses initially, followed by slow employment growth relative to previous recessions.

The Business Cycle Dating Committee of the National Bureau of Economic Research, a nongovernmental organization viewed by most economists as the arbiter of U.S. economic cycles, determined in 2003 that a recession occurred from March to November 2001. With the U.S. employment slump extending well into 2003, some economists questioned whether NBER called the end too early. The criticism prompted the NBER committee to take the unusual step of issuing a statement in October 2003 to defend its dating of the 2001 recession. “Real GDP has risen substantially since November 2001,” the 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.”⁸

Normally, productivity grows fastest in the early stages of an economic recovery and slows as the economic cycle matures (see Figure 2).

That pattern has generally held true since the 2001 recession, but unusual characteristics emerged in the second half of 2007. As expected from past patterns, productivity growth peaked at 4.1% in 2002, just after the recession, and has declined gradually since, to 1.0% in 2006. Conversely, as productivity growth waned, employment growth resumed in 2003 and continued through 2007. Assuming a normal pattern, and given that 2007 was the sixth year of expansion and therefore relatively late in the economic cycle, productivity growth should have further weakened last year.

Figure 2: Temporary Help Employment Contracted in the Three Previous Recessions. It Was Virtually Flat in 2007, Perhaps Signaling a 2008 Recession?



It did. And it didn't. In the first quarter, productivity grew at an annual rate of 0.3%. In the second quarter, it grew 1.0%. Then, in the third and fourth quarters of last year, productivity growth surged, to 3.1% and 3.0%, respectively. While these data are likely to be revised, at this writing, the 2007 pattern is quite unusual: in the past 30 years, there has never been a quarter-to-quarter two-point increase in productivity such as occurred from last year's second to third quarter. Never.

The high fourth-quarter rate was particularly striking too, considering that is when economic growth stalled. The data present a paradox: If the economy was growing very slowly during that quarter and employment continued to increase at its usual pace, then why didn't productivity plummet? Perhaps even into negative numbers? This quarter may be an anomaly. Or the data paradox may be revised away.

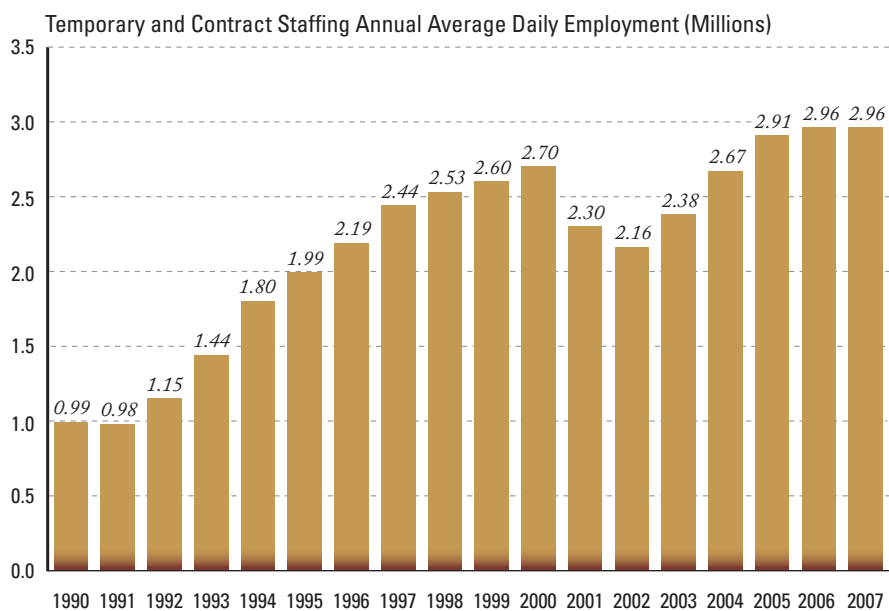
Nonetheless, at this writing, 2007 presented a productivity paradox. Economic uncharted territory.

Going into 2007, Federal Reserve officials forecast GDP growth of 2.5% to 3% for the year, but were concerned that the very low unemployment rate might fuel inflation.⁹ Also going into 2007, the staffing industry was concerned that the very low unemployment rate would constrain growth—that there would be an insufficient supply of labor to meet the demands of a growing economy.¹⁰

Instead of a tight labor market fueling inflation in 2007, it was fuel inflation—along with housing deflation—that tightened consumer spending, which in turn softened economic growth. Meanwhile, unemployment slightly eased up from historically very low rates, presumably loosening the labor supply.

With a softer economy and labor market in 2007, how did staffing fare?

Figure 3: America's Staffing Companies Match Millions of People to Millions of Jobs Every Day.



Source: American Staffing Association, *Employment and Sales Survey*

Staffing in 2007

U.S. staffing industry sales grew in 2007, but temporary and contract employment was virtually flat. Performance for the year contrasted sharply with the average of the previous 15 years, during which both staffing employment and sales have grown about three times faster than the economy.

Employment

America's staffing companies employed an average of 2.96 million temporary and contract workers per day in 2007¹¹ (see Figure 3), according to the American Staffing Association quarterly employment and sales survey (see sidebar on methodology below). The staffing industry added an average of 2,000 jobs per day in 2007, an increase over 2006 of less than 0.07%. Other than for employment declines in years associated with

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 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, the Inavero Institute for Service Research, a market research firm and ASA corporate partner, 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 and contract 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.

recessions, it was the smallest annual increase—both in terms of the number of employees and the percentage growth—in the history of the ASA survey, which has tracked temporary and contract employment and sales since 1990.

In 12 of the 17 years ASA has been tracking staffing industry employment, temporary and contract job growth has handily outpaced U.S. nonfarm employment growth.¹² Key exceptions were declines in 1991, 2001, and 2002—because of recessions. In 2006, staffing employment growth matched that of U.S. nonfarm employment growth. In 2007, the rate of staffing industry employment growth was not even one-twentieth the rate of overall job growth.

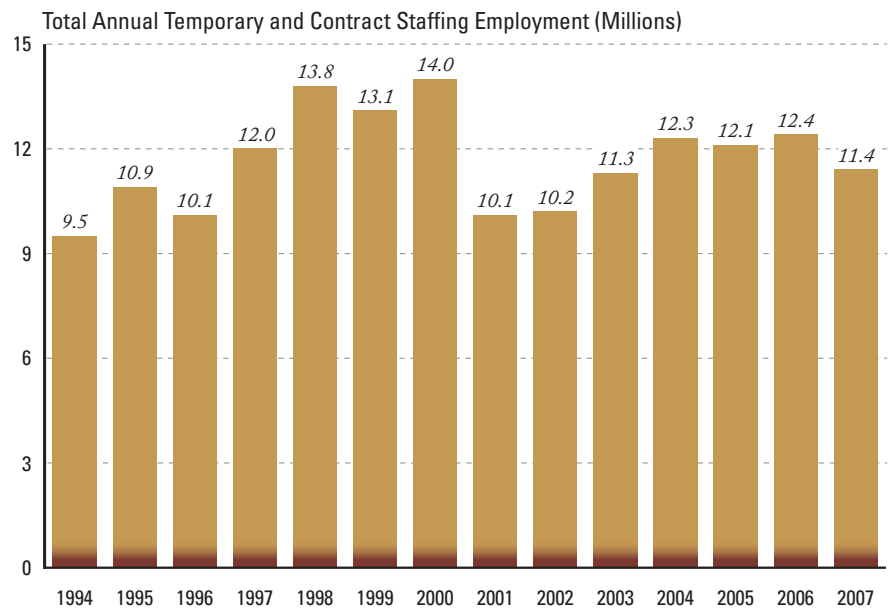
Even though staffing industry employment in 2007 was virtually the same as in 2006, it nonetheless eked out a new record high in annual average daily employment.

Besides hitting a new annual record high in 2007, temporary and contract staffing average daily employment also set new record highs in the second and third quarters of last year. Moreover, 2007 was the first year in which third-quarter staffing employment exceeded three million, and it was the first year in which the three-million threshold had been crossed in any quarter other than the fourth. (Average daily employment exceeded three million for the first time in the fourth quarter of 2005, again in the fourth quarter of 2006, then in the third and fourth quarters of 2007.)

Staffing employment tends to be seasonal, with demand (and employment) lowest in the first quarter, increasing throughout the year, and peaking in the fourth quarter.

While the record highs are noteworthy, staffing employment was nonetheless mostly flat to down *during* the year. The third quarter was an exception, however. Coinciding with the quarter's strong GDP growth of 4.9% over the same quarter of the previous year, temporary and contract staffing average daily

Figure 4: America's Staffing Companies Hired More Than 11 Million Employees Over the Course of 2007.



Source: American Staffing Association, *Employment and Sales Survey*

employment in that quarter was 2.3% greater than in the same quarter of the previous year. Except for last year's third quarter, staffing employment has been flat to down in year-over-year comparisons since the middle of 2006. In fact, over the past six consecutive quarters, average daily employment has varied by only about 264,000 jobs. In contrast, in 2005 the industry added 405,000 employees over the four quarters of the year.

Six quarters of general flatness have never been observed in the 15-year history of ASA quarterly survey data. Moreover, similar flatness has never been observed in "temporary help services" employment data collected by BLS since 1975.¹³

Clearly the American staffing industry is in uncharted territory.

Because temporary and contract staffing average daily employment remained virtually unchanged last year while total U.S. nonfarm employment grew, the staffing industry's penetration rate of the nonfarm work force declined slightly from 2.18% in 2006 to 2.15% in 2007.¹⁴

Average daily employment is really a measure of the number of *jobs*—it doesn't measure the number of people who work those jobs. Given that most temporary and contract jobs consist of short-term assignments, the staffing industry employs many more people over the course of the year than the daily employment figure indicates.

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 that have worked in the staffing industry during the calendar year.

ASA estimates that U.S. staffing firms hired 11.4 million temporary and contract employees over the course of 2007 (see Figure 4).

Approximately 3.9 million—53% of those who remained in the work force—moved on to permanent jobs, based on a

2006 ASA survey of more than 13,000 then-current or former temporary and contract employees.¹⁵

Although the staffing industry employs just two out of every 100 nonfarm workers

on any given day, it has helped millions of families earn additional income—an estimated one in 12 employees in the national work force held a job with a staffing company at some point last year.

Nine out of 10 temporary and contract employees were satisfied with their staffing firm experience, the 2006 ASA staffing employee survey shows, which might explain in part why, in recent years, they are staying longer with their firms than they had in the past, particularly considering the low unemployment rate and the relatively strong job market of the past few years. Turnover declined in 2007 to 284%, the lowest rate recorded since ASA began tracking this statistic in 1994. The decline in turnover accordingly increased tenure, from 12.4 weeks in 2006 to 13.5 weeks in 2007 (see Figure 5).¹⁶

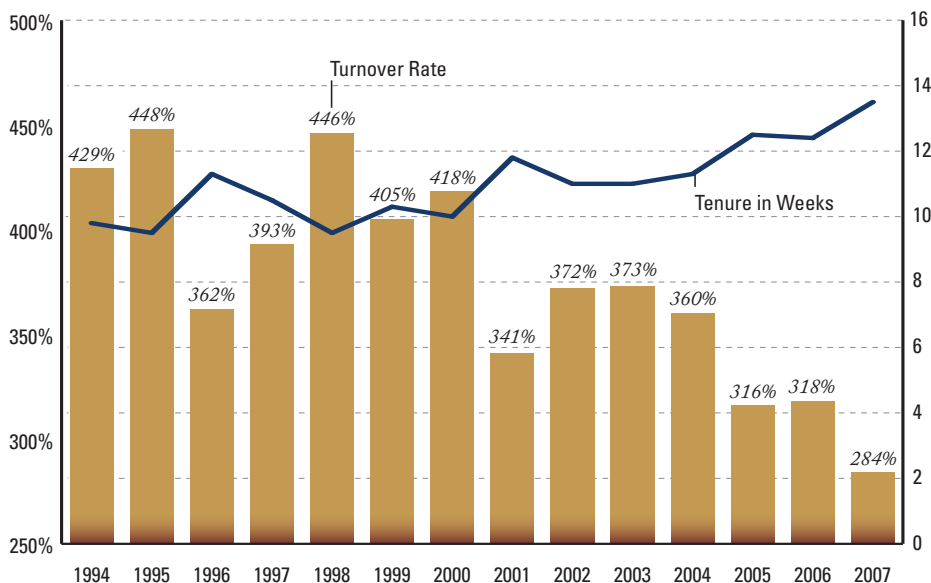
Sales

With virtually no growth in temporary and contract employment in 2007, staffing sales growth for the year was significantly diminished. U.S. temporary and contract staffing sales for 2007 totaled \$73.5 billion, according to the ASA quarterly employment and sales survey, 1.6% and about \$1.2 billion more than in the previous year, setting a new record high (see Figure 6).

While sales set a new record in 2007, the rate of growth was significantly less than that of the economy (1.6% temporary and contract staffing sales versus 2.2% GDP). There was a sharp dichotomy in the composition of temporary and contract staffing sales, however. Commercial sales (the industrial and office-clerical sectors) decreased by 6.0%, according to Staffing Industry Analysts Inc. Professional-specialty sales (which SIA defines as including the accounting, engineering-design, information technology, health care, and legal sectors) increased by 6.3% last year.¹⁷

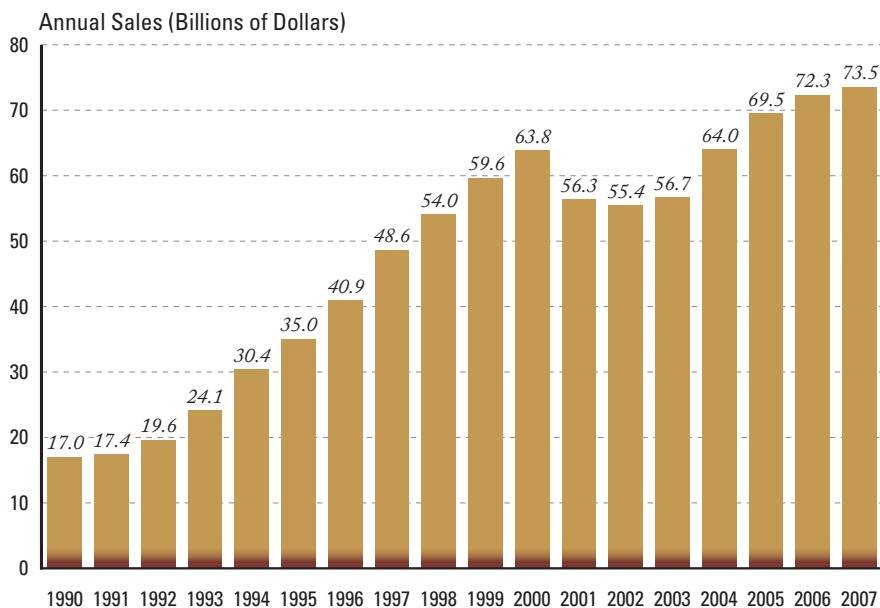
Except for recession-related performance in the 2001–03 period, temporary and contract sales growth has always substantially exceeded GDP growth. The staffing industry took the brunt of the 2001 recession with sales declines

Figure 5: Staffing Employee Turnover Decreased to a Historic Low in 2007. The Average Employment Tenure for the Year Was 13.5 Weeks.



Source: American Staffing Association, Employment and Sales Survey

Figure 6: Temporary and Contract Staffing Sales Increased by 1.6% in 2007.



Source: American Staffing Association, Employment and Sales Survey

that year and the following, even as GDP grew, albeit barely. Those sales declines were due to steep drops in staffing employment. In 2003, the economy returned to near-normal levels, with overall employment growth resuming and GDP increasing by 2.5%. Temporary and contract employment grew too, pushing sales up 2.4%, but the pace was still slightly slower than that year's GDP growth. Nonetheless, staffing was clearly on a path of recovery in 2003, as evidenced by its sharp rebound in 2004, when sales grew 3½ times faster than GDP.

While demand for temporary and contract staffing services was mixed and overall relatively flat last year, demand for permanent placement services continued to grow vigorously in 2007.

So-called “temp-to-perm” or “temp-to-hire” arrangements, where employees start jobs as staffing firm employees and later get hired by clients, continued to grow in popularity. These arrangements are favored by candidates as well as clients because they help both the prospective employee and prospective employer ensure that there's a good fit for the talent to the job and for the individual's personality to the company's culture. Because these arrangements start as temporary or contract assignments, participants in the ASA quarterly employment and sales survey include them in their sales reports to the association. While not separately quantified, increasing anecdotal evidence suggests that that temp-to-perm and temp-to-hire sales account for perhaps one-tenth of temporary and contract sales.

Search and placement services sales increased by 12.9% from 2006 to 2007, totaling \$17.5 billion last year, according to SIA. Contingent search sales grew 7.7% to \$9.8 billion in 2007, SIA estimates, and retained search sales increased by 20.3% to \$7.7 billion.¹⁸

Altogether, combining temporary and contract services with search and place-

ment services, U.S. staffing industry sales totaled \$91.0 billion in 2007 (see Figure 7), 3.6% more than in 2006—and better than 1½ times the rate of growth for the overall economy last year.

The 2008 Recession?

Is the U.S. in a recession? At this writing, economists are in disagreement. But if it is, it's certainly not like previous ones—particularly with regard to the staffing industry.

The Forecasting Problem

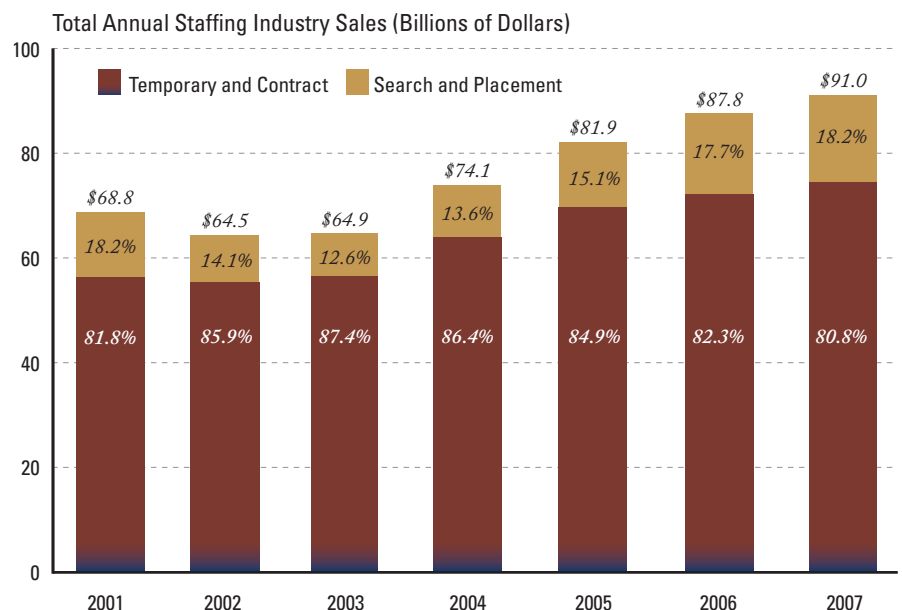
While it seems that economists are always speculating about when the next recession will hit, news coverage of its impending prospects loomed large more than a year ago. In late February 2007, former Federal Reserve chairman Alan Greenspan remarked on an Asian trip that “it is possible we can get a recession in the latter months of 2007.” When his quote hit Wall Street the next day, U.S. stock markets tumbled dramatically. But that quote was only the first half of his

sentence. The second half didn't get reported until days later: “Most forecasters are not making that judgment, and indeed they are projecting forward into 2008 at a reasonably good level with some slow-down.” Then, he went on to say, “. . . it is very precarious to try to forecast that far in the future. And I mean six months, eight months in the future is a very long forecast.”¹⁹ Three days later he elaborated on his view about a possible recession in 2007: “I don't think it's probable.”²⁰

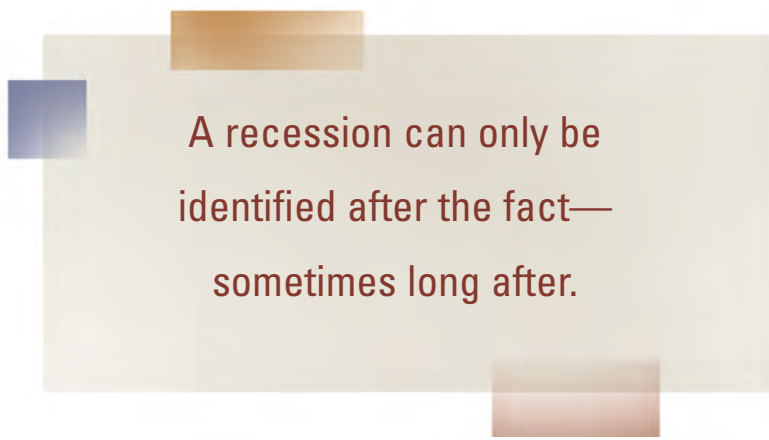
The incident led dismal scientists of many stripes, including Jeffrey A. Frankel, professor of economics at the Kennedy School of Government at Harvard University, to confess: “I don't think we, as a profession, ever had an ability to forecast recessions.”²¹

There are a number of problems with trying to forecast recessions. And some of those problems also make it difficult to contemporaneously identify when the economy is actually in a recession and which are the turning points of when a recession actually begins and ends. The

Figure 7: Total Staffing Industry Sales—Including Temporary and Contract, and Search and Placement—Increased by 3.6% in 2007.



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



A recession can only be identified after the fact—sometimes long after.

principal problem is data lag. A second key problem is data periodization (how much time the data cover). A third problem is data revisions. There are additional problems, but these rank at the top.

This year's first-quarter GDP provides a fine example for illustrating these three problems. GDP estimates are issued quarterly. The first-quarter "advance" estimate was released April 30, a month after the quarter closed (the data lag problem). Because the quarterly estimates cover three months, they don't illuminate intraquarter changes. January may have been very different from March (the data periodization problem). Combined, the data lag and data periodization problems leave economists on April 30 as much as four months behind in detecting when there may have been a significant shift in GDP (i.e., an April estimate involving January). BEA then revises the first-quarter GDP estimate at the end of May when it releases its "preliminary" figures (the data revision problem). Revisions occur again at the end of June, when BEA releases its "final" estimate for the first quarter—a whole three months after the quarter closed and six months after the first month included in the quarterly observation. The final estimate could be quite different from the advance estimate. Moreover, BEA will revise GDP data annually for the next three years, taking into account additional data—and revisions to those data—that it has received in the interim. That's why it's difficult

to determine whether the U.S. is currently in a recession and, if so, when it began and when it might end. A recession can only be identified after the fact—sometimes long after.

The Definition Problem

The conventional definition of a recession is two consecutive quarters of declines in GDP. At this writing, GDP in the past two quarters—the fourth quarter of 2007 and the first quarter of 2008—has been very weak (0.6% growth each), but not negative (see Figure 1). Some economists argue that the first quarter's GDP stayed in positive territory in part because of a buildup in business inventories due to lack of sales in the fourth quarter. With inventories excluded, GDP would have declined by 0.2%.²² Businesses may cut back production in the second quarter to draw down their inventories, which could result in a negative GDP in the second quarter of this year. Regardless, both the weak fourth-quarter and first-quarter GDP estimates are subject to revision. If they are both reset into negative territory, that would mean that the U.S. economy sunk into recession in late 2007, just as Greenspan initially said.

Going by the conventional definition of two consecutive quarters of declining GDP, there was no recession in 2001. But, for a while, because of data lag and data revision problems, it seemed that the U.S. economy had entered a recession as conventionally defined. Until July 2002, GDP data showed only one

quarter of decline. That month, BEA issued revisions that showed three consecutive quarters of decline.²³ Then, in 2004, BEA revised the previous three years of GDP data, including 2001. The final revisions presented a different picture: From the third quarter of 2000 through the third quarter of 2001, GDP declined in three of the five quarters of that period—but there were no two consecutive quarters of decline. There was a seesaw: down, up, down, up, down (see Figure 1). GDP alone is not a sufficient measure for determining when recessions occur. It's an important measure, but other factors—such as employment—must be taken into account.

Given the data lag, periodization, and revision problems associated with measuring a recession, the NBER's Business Cycle Dating Committee did not declare the March 2001 beginning of the recession until late November of that year. And, as noted previously, it wasn't until July 2003 that the committee declared that the recession ended in November 2001 (ironically, the same month it declared the recession's beginning). In the October 2003 statement issued by the committee to defend its dating decision, it explained its rationale:²⁴

"A recession is a significant decline in economic activity spread across the economy, lasting more than a few months... 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 economywide measures of economic activity. The committee views real GDP as the single best measure of aggregate economic activity... [T]he committee therefore places considerable weight on the estimates of real GDP issued by [BEA]... [H]owever, the BEA's real GDP estimates are only avail-

able quarterly. For this reason, the committee refers to a variety of monthly indicators to determine the months of peaks and troughs.” [Ed.: i.e., when a recession begins and ends.]

To determine the exact months of economic turning points, the committee refers primarily to real personal income and employment as well as to industrial production and wholesale–retail sales.

When the NBER dating committee originally said in 2003 that the 2001 recession occurred from March through November, it did so without the benefit of the final revisions to GDP that were issued in 2004. Considering NBER’s heavy reliance on GDP as a recession indicator, it appears in retrospect that the final revisions did not support the dating committee’s criterion for “a significant decline in economic activity...lasting more than a few months.”

Further confounding the dating decision, as noted by its critics, the employment decline that began in 2001 continued until well after the recession ended. This was the opposite of what had been observed after the previous six recessions, when employment began to grow as each recession ended (see Figure 2, which shows the three previous recessions). As noted earlier in this analysis, NBER attributed the decline in employment after the 2001 recession to increases in productivity.

Perhaps there was no recession in 2001. Certainly it is too early now for NBER to say whether the U.S. economy is currently in a recession.

Prognostications

NBER’s studious delay in determining whether the U.S. economy is in a recession doesn’t stop others from weighing in in the interim, though. Opinions have changed rapidly in recent months.

The *Wall Street Journal*’s monthly survey of 55 economists is a good

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example.²⁵ In June 2007, 23% predicted a recession in 2008. In December, that number increased to 38%. In January, it went up slightly to 42%. In February, it was up slightly again, to 49%. In March, opinions changed markedly: 71% of economists surveyed said the U.S. was *currently* in a recession. In April, that number increased to 76%.

Opinions changed markedly in March at the Economic Cycle Research Institute too. ECRI has developed a weekly index intended to help predict business cycle peaks and troughs. For months, it said that the U.S. economy was nearing a recession, but it could be averted.²⁶ In mid-March, ECRI managing director Lakshman Achuthan said its Weekly Leading Index was “exhibiting a pronounced, pervasive, and persistent decline that is unambiguously recessionary.”²⁷

Not everyone shares that view, though.

In the same week that ECRI made its announcement, *Newsweek* and *Washington Post* economics columnist Robert J. Samuelson penned this headline: “Hold the Hysteria (for Now).”²⁸ While indeed rising gas prices, falling home prices, and fewer jobs are upsetting to Americans, he wrote, too much commentary from “authorities” suggested the economy was on the edge of ruin. “Depression,” “panic,” “financial meltdown,” and even—on the front page of the *New York Times*—“the brink of the worst recession in a generation,” were among his examples. “Some causes

of the present hysteria are familiar,” he said: “Media hype, political finger-pointing—always given to exaggeration—and whining from Wall Street types.”

The economy is going through a normal correction, he said. But is it in a recession? “It may be, but as yet, the evidence is scant from either conventional economic statistics or mainstream forecasts.” Then Samuelson cited forecasts from Mark Zandi of Moody’s *Economy.com*. Zandi argues that the economy is currently in a recession and predicts GDP will contract by 0.4%; in the 10 recessions since World War II, GDP declined an average of 1.8%. Zandi predicts that unemployment will increase from its present rate of around 5% to just over 6%; in the previous 10 recessions, the unemployment rate averaged 7.6%. The average duration of those recessions was 10 months. If there is a recession, Samuelson concludes, it will be mild and short.

Almost coinciding with the publication of Samuelson’s column in March, Harry Lange, portfolio manager of Fidelity Magellan Fund—the storied mutual fund once managed by investment guru Peter Lynch—held a conference call for investors to discuss the state of the economy.²⁹ He said that a recession was unlikely because, unlike in 2001, there had been a long run-up to current conditions so companies had been prepared—they were slow to add capacity. If there was a recession, he said, it would be mild and short, perhaps six

to nine months. “The economy is very resilient,” he said, and remarkably able to withstand multiple shocks, noting how quickly the economy emerged from the 2001 recession, even with the Sept. 11 terrorist attacks occurring in the later stages of that downturn.

“Though recession is the Wall Street consensus,” wrote *Wall Street Journal* columnist Mark Gongloff in early April, “several lights on the recession dashboard aren’t yet lit.”³⁰ He noted, for example, that weekly claims for unemployment benefits had not reached levels associated with previous recessions, over 400,000. His column, “Ahead of the Tape,” was published April 3, when the U.S. Department of Labor’s Employment and Training Administration was slated to release figures for the week of March 29. He said that economists were expecting a figure of 370,000. DOL reported 407,000³¹ (which has since been adjusted down to 406,000), seeming to prove his hypothesis wrong. However, that may have been an anomalous week. It was 35,000 more than the previous week and 51,000 more than the subsequent week—far different from the pattern exhibited going into the 2001 recession when the number of claims hovered near 400,000 for about two months and stayed near or above that mark until September 2003.³²

Unlike the 2001 recession, which was triggered by the bursting of the technology stock bubble and the contraction of business spending and investment, the 2008 recession—if there is one—has been driven by a sharp slowdown in consumer spending. Initial concerns about a possible recession emerged as housing prices began to fall in 2006, intensified with last year’s rapidly rising gas prices, and substantially escalated after the credit crunch last August. With less home equity to tap and fuel costs taking a bigger bite out of consumers’ wallets, they had less money to spend. Meanwhile, rising food prices—particularly commodity grains—got more notice over the winter.

The Federal Reserve responded to the continued deterioration of the economy by cutting its target federal funds interest rate even further in early 2008. And Congress and the White House enacted a fiscal stimulus package in February that would inject \$152 billion into the economy by providing rebates to 128 million American households beginning in May.³³

What really set economists on edge was the string of BLS monthly employment situation reports that showed consecutive declines in nonfarm payrolls. On March 7, BLS reported that nonfarm employment declined in February by 63,000 jobs.³⁴ This was the second consecutive month of job losses. More worrisome, it was the third consecutive month of job losses in the private sector. More than 100,000 private-sector jobs were lost in February alone.

“You can’t lose jobs on a continual basis and have the kind of growth in the economy you want,” said Lehman Brothers economist Drew Matus in the *Wall Street Journal*, which noted that the consensus among economists is that the U.S. economy needs to create 100,000 new jobs per month just to keep up with population growth.³⁵

The White House says the decline in jobs will be brief, and that “the early part of 2008 will be the weakest part of the year.”³⁶ Edward Lazear, chairman of President Bush’s Council of Economic Advisers, said that while there have been signs of a recession since the beginning of the year, job declines so far have been well below those of the 2001 recession, itself a mild one, and he is optimistic that first-quarter GDP will be revised upward. Meanwhile, he expects that the second quarter will see flat economic activity, although there may be some uplift from the stimulus package. The stimulus, he said, along with the Fed’s interest rate cuts, should set the stage for solid economic growth in the second half of this year.³⁷

The Staffing Indicator

If the U.S. economy is in a recession, it has affected the staffing industry quite unlike any before. In previous recessions, temporary and contract employment would fall precipitously just before or at the beginning of a recession, and it would rise after the recession, preceding overall employment growth (see Figure 2).

The 2001 recession illustrates the pattern. Normally temporary and contract employment peaks in the fourth quarter, according to both ASA and BLS data. Because BLS reports jobs data on a monthly basis, it provides a greater degree of precision as to when peaks and troughs occur. Except around recessions, seasonally adjusted BLS data show that temporary help employment usually peaks in December.³⁸

In 2000, however, temporary help employment peaked in April. And October, which should have been the beginning of peak season, was actually the beginning of decline. Over the course of the next six months, as the economy reached and crossed its apex, the staffing industry lost more than a quarter of a million jobs—almost 10% of its employment—when, seasonally adjusted, it would have normally added tens of thousands of jobs. The precipitous drop was a precursor to the recession that befell the nation.

For decades, temporary help employment had been considered a coincident economic indicator and a leading nonfarm employment indicator. A statistical analysis of 1990–2007 data that was commissioned by ASA shows that temporary help employment had been a coincident economic and nonfarm employment indicator until 2002, but that the relationship became virtually nonexistent beginning in 2003. And the data show that temporary help employment may not be a good predictor of nonfarm employment. However, since 1990, changes in temporary help employment have been

a modest leading indicator of changes in the next quarter's GDP.³⁹

There was no precipitous drop in temporary help employment in late 2007 or early 2008 as there had been prior to previous recessions. BLS data have shown a slow erosion of temporary help jobs since peaking in mid-2006, totaling losses of about 5%. ASA data, however, show that staffing industry employment has been mostly unchanged since mid-2006. Most important, both sets of data show that, if indeed the U.S. economy is in a recession, the staffing industry is not experiencing the severe contraction characteristic of previous recessions. Clearly, it's different this time around.

It's different on the permanent placement front too, as noted by Adecco Group North America chief executive officer Tig Gilliam in a *Newsweek* interview published in May: "Unlike in 2001, we've seen employers continue to add permanent employees with professional skills... We still see a lot of clients active in the job market."⁴⁰

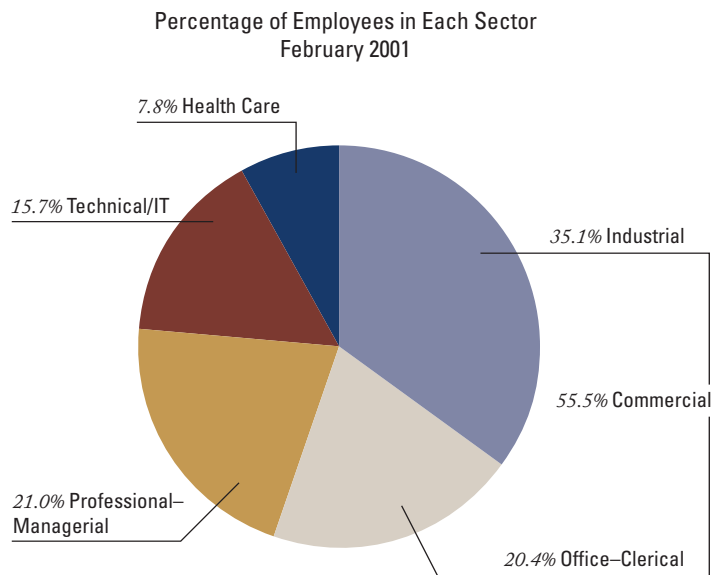
The Flexibility Factor

Even though temporary and contract employment has been relatively flat over the past year and a half, over the long term the U.S. staffing industry has been growing faster than the economy because of flexibility: Employees want it, businesses need it, and it's good for the economy.

Employees Want Flexibility

America's work force is changing. Many people are looking for flexibility in their employment arrangements. In the 2006 ASA survey of staffing employees, 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 it was extremely important.

Figure 8: Temporary and Contract Employees Work in All Occupations.



Source: American Staffing Association analysis of unpublished data from the Bureau of Labor Statistics (see note 42)

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 2006 ASA survey of more than 13,000 staffing employees, eight in 10 worked full time, practically the same as workers in traditional employment arrangements.⁴¹

With the experience of matching millions of people to millions of jobs, staffing companies are expert at finding work assignments in virtually all occupations, from day laborer to CEO (see Figure 8). 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.⁴²

Businesses Need Flexibility

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

In a 1999 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.⁴³

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 9):⁴⁴

- 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

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 busi-

nesses tap staffing companies for quality talent in virtually all occupational sectors, from call center service representatives to skilled tradesmen to

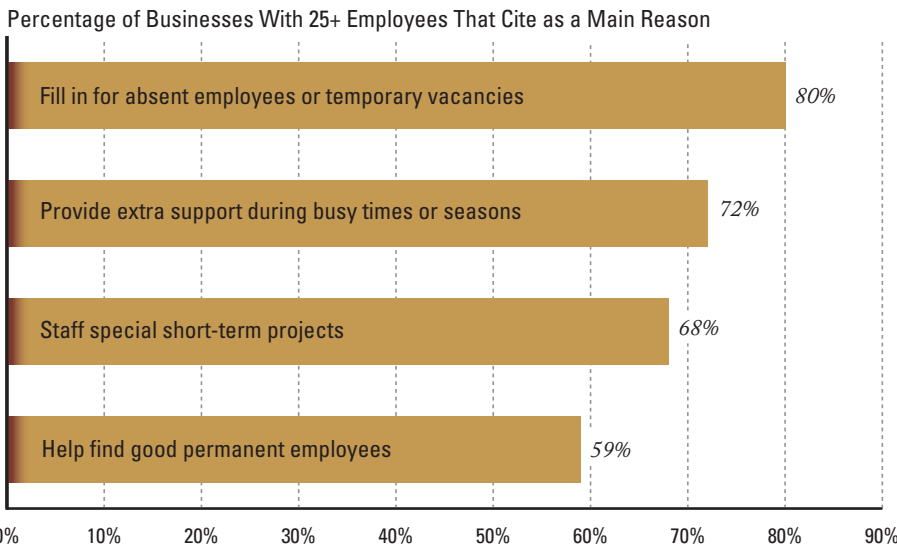
airplane pilots to banquet waiters to attorneys to radiology technicians (see Figure 10).

“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.⁴⁵ “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.⁴⁶

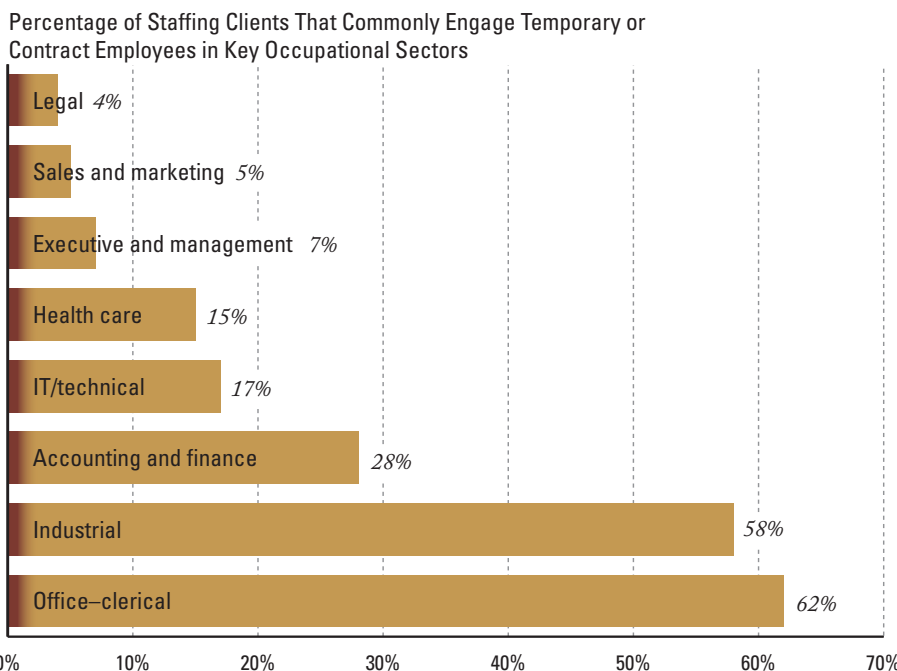
The larger the company, the more likely it is to use staffing services, according to various surveys. In the ASA poll of staffing clients, 12% of companies with 25 to 99 employees said they used staffing services, compared with 24% of companies with 100 or more employees (see Figure 11). A survey of Conference Board members—mostly global companies—found that 90% use staffing services.⁴⁷ And a survey of large employers in San Diego found that 95% use staffing services.⁴⁸

Figure 9: U.S. Businesses Turn to Staffing Firms To Fill Work Force Gaps, Augment Their Own Staff, and Find New Employees.



Source: American Staffing Association, Staffing Client Survey

Figure 10: Businesses Tap a Full Range of Talent From Staffing Companies.



Source: American Staffing Association, Staffing Client Survey

Flexibility Is Good for the Economy

Not only do workers want flexibility and businesses need it, it's also good for the economy.

Alan Greenspan had spoken frequently, especially after 2001, about the importance of financial and labor market flexibility to the U.S. economy. In July 2005, in testimony delivering his final Monetary Policy Report to Congress, he concluded his remarks by emphasizing the notion once again: "Openness and flexibility have allowed [the U.S.] to absorb a succession of large shocks in recent years with only minimal economic disruption. That flexibility is, in large measure, a testament to the industry and resourcefulness of our workers and businesses."⁴⁹

Greenspan critics praise flexibility too. "A flexible labor force is one of the great strengths of the U.S. economy," wrote Andy Laperriere, managing director of the Washington office of Wall Street firm ISI Group, in an April 2008 *Wall Street Journal* op-ed critical of the Greenspan Fed.⁵⁰

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.⁵¹

The administrations of Presidents Bill Clinton⁵² and George W. Bush⁵³ have both cited the staffing industry as an important contributing factor in creating jobs and reducing unemployment.

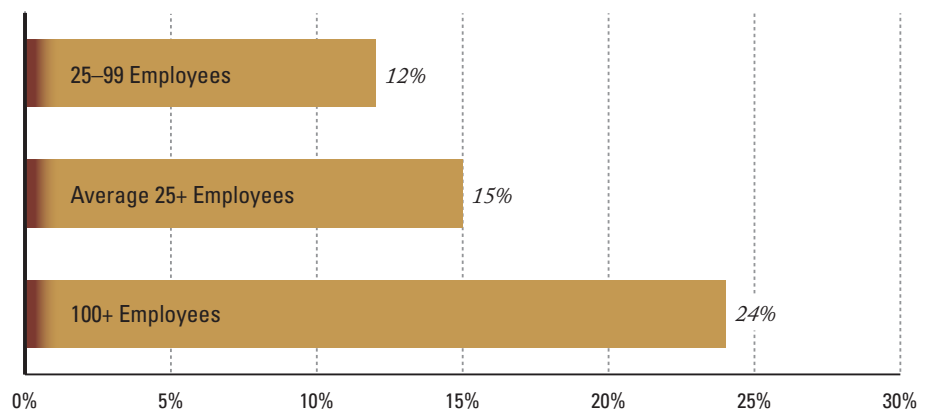
Economists Lawrence Katz of Harvard University and Alan Krueger of Princeton

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.⁵⁴ They argued that staffing firms, as labor

market intermediaries, improve the efficiency of matching workers to jobs.

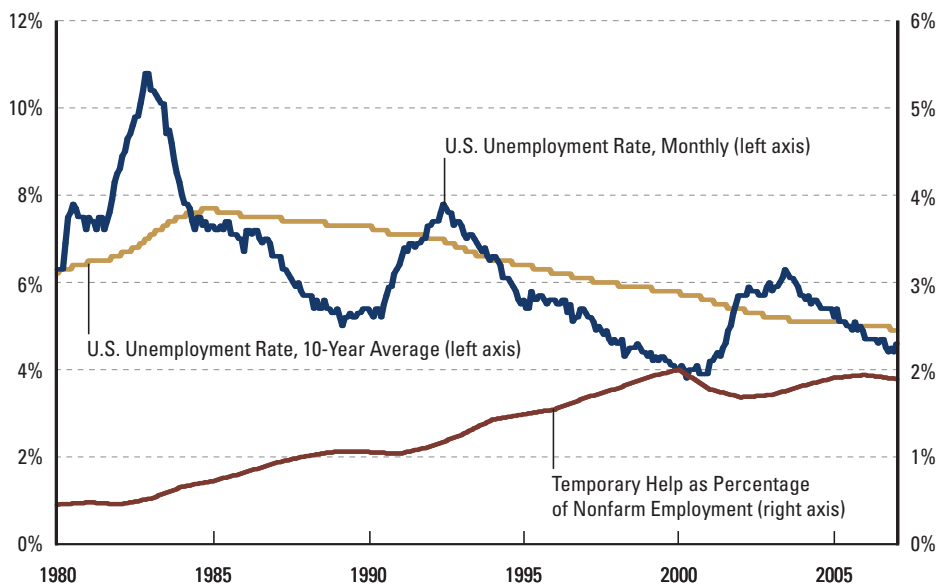
The growth of temporary help employment corresponds with the overall long-term declining trend in the unemployment rate (see Figure 12). The 10-

Figure 11: 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.



Source: American Staffing Association, Staffing Client Survey

Figure 12: Growth in the Staffing Industry Reduces Unemployment. The 10-Year Average U.S. Unemployment Rate Has Been Falling for More Than 20 Years. And Peaks and Troughs Have Been Tempered.



Source: U.S. Bureau of Labor Statistics

year average unemployment rate has been falling for more than 20 years, and the unemployment rate peaks following recessions have been lower and the troughs in expansions have been shallower, suggesting underlying strength and durability of the economy, according to David Malpass, chief global economist at Bear, Stearns & Co.⁵⁵

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.

A large majority rate their experience positively: 88% said they would refer a friend or relative to work as a temporary or contract employee.

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, and training—these are the benefits staffing firms bring to the economy.

Outlook Long-Term Projections

The U.S. staffing industry will grow faster and add more new jobs over the next decade than just about any other industry, according to BLS estimates. In its most recent projections, BLS says that the employment services industry—which is primarily staffing—is expected to add 692,000 jobs between 2006 and 2016, making it the second largest job-growth industry in the U.S. (see Figure 13).⁵⁶

While total employment will increase by 10% in that period, BLS projects

nearly twice that rate of job growth—almost 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.”⁵⁷

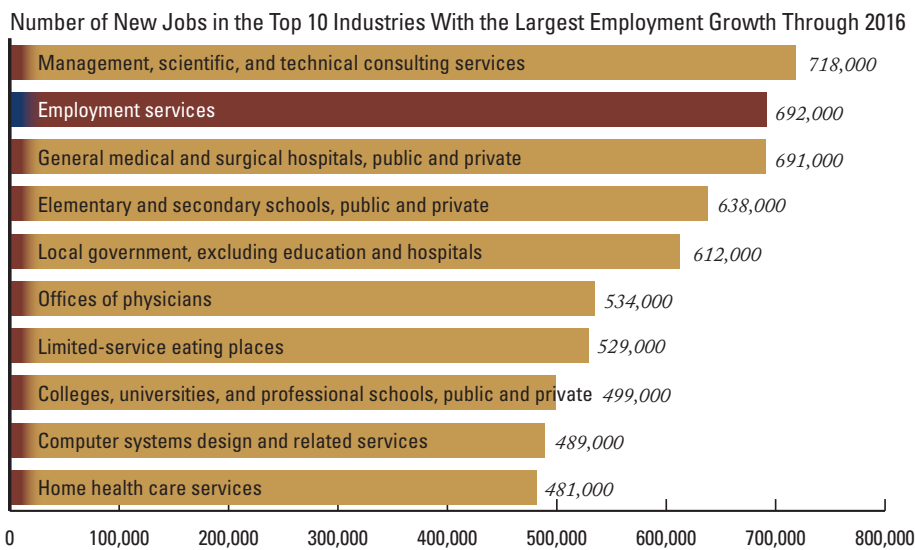
Over the course of the 10-year projection period, BLS expects most job growth to come from the service sector. Employment in the goods-producing sector is expected to decline, except in construction. Job losses in manufacturing will continue, but at a slower pace. Job losses in the goods-producing sector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

Manufacturers employ about 70% of all workers in what BLS terms “production occupations.” BLS projects a loss of more than half a million production jobs by 2016. “Employment in production occupations would decline even more if not for expected growth in the employment services industry, which is projected to add 148,000 jobs for production workers, as manufacturers and others increasingly hire these workers on a temporary basis.”⁵⁸

Within the service sector, professional and business services are projected to generate the greatest number of jobs, with employment increasing by 4.1 million during the 2006–16 period. Much of the increase 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 tax, environmental, and employment regulations.”

“Much of the growth in the professional and business services sector will be seen in management, scientific, and technical consulting services,” BLS said,

Figure 13: Employment Services—Mostly Staffing—Expected To Be the Second Largest Job-Growth Industry.



Source: U.S. Bureau of Labor Statistics

including new engineering jobs that “will owe their existence to engineering consulting firms benefiting from the growing trend toward subcontracting engineering services.”

While professional and business services will create the greatest number of jobs, the fastest growth is expected in health care and social assistance, which will produce nearly as many jobs (four million) as professional and business services. This growth is being driven by the aging of the U.S. population and advances in medical technology. Cost pressures will dampen employment growth in hospitals and increase demand for health care and individual and family services in outpatient settings.

Based on BLS occupational projections as well as BLS data on historical occupational wage growth patterns, SIA prepared a long-term forecast for temporary staffing revenue growth. The firm projects annual average revenue growth of 5.0% through 2016. Temporary staffing in virtually all occupations is expected to grow faster than overall employment, which SIA attributes to increasing acceptance and integration of staffing services into the business strategy of companies all throughout the economy. Legal and computer-mathematical occupations are expected to grow much faster than average (6.7% and 6.6%, respectively), and office-clerical and transportation-moving occupations are projected to grow slower than average (4.1% each).⁵⁹

The BLS employment projections assume slower growth in the U.S. population, in the labor force, in productivity, and in GDP.⁶⁰ These measures—and assumptions—are all deeply intertwined. Nonetheless, with BLS projecting GDP growth averaging 2.8% per year through 2016 and SIA estimating 5.0% average annual growth in temporary staffing revenues over the same period, the long-term prospects for the staffing industry suggest overall growth of 1½ to two times that of the economy.

The Aging Labor Force

Whether the staffing industry grows faster than the economy over the long term will depend in part on how it adapts to the aging labor force. Staffing firms will need to attract older workers to supply the volume and quality of talent demanded by staffing clients.

Overall labor force participation has declined in recent years after rising steadily for more than half a century, according to BLS.⁶¹ After peaking at 67.1% in 1997 through 2000, labor force participation fell to 66.0% in 2004 and 2005.⁶² It crept up to 66.3% by the end of 2006 but has since fallen back to 66.0%.⁶³ Declining labor force participation explains in part how the current unemployment rate has remained low even as payroll employment has fallen.

Except for people 55 and older, declines have occurred in all demographic groups, particularly teenagers, young adults (20–24), young women (25–29), and mothers with higher education, especially if they’re married—many typical candidates for staffing employment.

Earlier this year, BLS issued a report showing that older workers—those over 50 years of age and particularly those over 65—are working full-time, year-round, longer than they did in the past. This trend started about a dozen years ago. And it shows that workers *stayed* in the labor force; they didn’t leave and then come back. The notion that older workers desire to ease into retirement by moving from full-time to part-time employment is not supported by the data.⁶⁴

Workers aged 55 and over currently make up 18% of the U.S. work force.⁶⁵ In the 2006 ASA staffing employee survey, less than 12% of respondents were 55 or older.⁶⁶ There are several explanations for the difference, the principal one being that most staffing employees seek permanent employment and most older workers are well established in their jobs and careers. Nonetheless, as baby boomers—the youngest of whom are 44—work their way

toward retirement, they will be taking a lot of tenure and talent with them, potentially leaving employers short-handed.

The SIA forecast implicitly assumes that temporary staffing will increase its penetration of the overall work force, but temporary and contract employment as a percentage of nonfarm employment has been falling for more than a year. And demographics—the aging of the work force—favor this trend. With labor force participation falling in all demographic groups except among workers 55 years and older, staffing firms face a shrinking work force. That is unless they can make temporary and contract work attractive to older workers so that, contrary to recent evidence, they would consider the flexibility offered by staffing employment as a way to ease into retirement.

The staffing industry really has little time to respond. Today one in five staffing professionals says that the labor shortage is the most pressing issue facing the industry, and half say it is one of the three most important issues.⁶⁷ Over the past dozen years, older workers have shifted from early retirement to longer employment. In another dozen years, the majority of baby boomers will be retired—and apparently, if they’re like their recent predecessors, not likely to return to the labor force. Will the staffing industry be able to recruit and retain them—before or after retirement—so that it doesn’t become a victim of the impending talent crunch?

2008

Concerns about the aging labor force no doubt seem distant because the staffing industry faces a real economic slowdown today. One in three staffing professionals says that’s the most important issue facing the industry; nearly two-thirds cite it as one of the top three issues.⁶⁸ Weathering 2008 will be a challenge. Earlier this year, SIA projected that 2008 temporary help revenues would grow 0.9% and that search and

placement revenues would increase 4.3% over 2007.⁶⁹ That was assuming GDP growth of 1.8%. As the calendar reaches midyear with GDP well below 1%, those SIA projections look optimistic.⁷⁰

The American staffing industry may continue to be relatively flat in 2008. It may continue to wander in uncharted territory for a while. But eventually it will bounce back. It's a nimble industry. It is imbued with the flexibility it promotes. It has become an integral part of the macro-economy. As businesses compete in an ever more globalized economy, they have no choice but to make the best and highest use of the world's scarcest resource: human talent. They will increasingly turn to staffing firms to find and employ that talent. And as people seek the best and highest use of their skills and ingenuity, they will increasingly turn to staffing firms to help them match their talent to work that needs to be done. ■

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