

# STAFFING

S U C C E S S



American Staffing Association

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American Staffing 2009

# Looking For Growth

Annual Economic Analysis Puzzles Through  
The Data and Explains the Trends

## In 2009, all eyes are on staffing.

After one of the most difficult years for the U.S.—and the world—since World War II, the global economy is on pace to shrink by 1% to 2% in 2009, according to the World Bank. The bank's president, Robert B. Zoellick, said that 2009 would be a “dangerous year” as the global economy wrestles with its first recession in more than 60 years.<sup>1</sup> ➤

By Steven P. Berchem

*Editor's note: This analysis, prepared May 2009, 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](http://americanstaffing.net) (click on Staffing Statistics).*

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## At this point in the economic cycle, the staffing industry can tell a lot about the future.

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Everyone is looking for signs of growth. The staffing industry is a good place to start.

Hypercyclical, the staffing industry has taken quite a beating in this recession. According to a preliminary White House estimate, temporary help services accounted for 21% of all U.S. job losses in 2008.<sup>2</sup> While temporary and contract employment appears to have stabilized in 2009, jobs losses in search and placement firms accelerated earlier this year. With the exception of growth in outplacement, virtually no sector of the staffing industry has gone unscathed.

But at this point in the economic cycle, the staffing industry can tell a lot about the future.

The staffing industry has long been considered a coincident economic indicator and a leading employment indicator. That means that changes in the staffing industry coincide with—occur at the same time as—changes in the overall economy. And changes in staffing industry employment lead—occur before—changes in overall employment.

Temporary help employment is one of 10 indicators to help you know when times are getting better, according to *Time* magazine. The magazine quoted Bernard Baumohl, chief global economist at Economic Outlook Group, who said, “Temporary hiring typically picks up well before permanent hiring.”<sup>3</sup>

New research conducted by the American Staffing Association confirms this conventional wisdom but adds important nuance.<sup>4</sup>

### Coincident Economic Indicator

In examining more than 35 years of government data, ASA confirmed that temporary help employment is a modest coincident indicator of quarterly changes in gross domestic product. That relationship has weakened over time, however, meaning that it was a stronger indicator in the 1970s and '80s than it has been in the past two decades.

Putting time aside and focusing on economic cycles, ASA made an important discovery: temporary help employment is a strong coincident economic indicator when the economy is *emerging from a recession*.

That means increases in temporary help employment signal the end of a recession.

ASA also analyzed quarterly employment and sales data that the association has been collecting since 1992 (see sidebar on methodology) to ascertain the level of GDP growth required for the staffing industry to grow. Models show that GDP growth of 1.2% is required to increase temporary and contract employment, and growth of 0.8% is required to increase sales. Generally, then, economic growth of about 1% is necessary for staffing industry growth.

### Leading Employment Indicator

Returning to the government data, ASA analysis shows that temporary help employment has 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.

Most immediately, this means that as the economy comes out of the current recession, overall nonfarm job growth will likely resume about three months after temporary help employment begins to grow.

Two or three years from now, after the economy has fully recovered from the current recession and resumed normal growth, changes in temporary help employment would likely be reflected in overall nonfarm employment in about six months.

### ASA Staffing Index

ASA offers the only tool that provides a near real-time measure of temporary help employment: the ASA Staffing Index. The index tracks changes in temporary and contract employment on a weekly basis, reporting results nine days after a week has ended (see sidebar on methodology).

The index has been flat since the beginning of the year.<sup>5</sup> When it begins to increase, it will likely be a sign that the U.S. economy is emerging from this recession.

### Conclusions

With economists looking for growth and staffing industry executives looking for growth, here's what ASA research says they should be looking at:

Watch the ASA Staffing Index. When it sustains an upturn, the recession is probably over, with economic growth exceeding 1%. About three months later, nonfarm employment should begin to increase (and, for the staffing industry, demand for permanent placement services should start to pick up).

In April, 54 economists regularly surveyed by the *Wall Street Journal* predicted that the recession would end sometime in the third quarter of 2009, with GDP growing at an annual rate of 0.4% in that period—not enough to trigger staffing industry growth. But if

the economists are right in their predictions that GDP will grow at a rate of 1.6% in the fourth quarter, then staffing industry employment and sales should begin to show modest increases before the end of the year.<sup>6</sup>

Then, instead of just looking for signs of growth, staffing industry executives can start looking for double-digit growth—the kind that has occurred after the prior three recessions. It might take a couple of years, but with history as a guide, it would not be too soon to start to plan accordingly.

## The 2008 Economy

After six years of modest expansion, the U.S. economy entered a free fall in 2008, leading to what President Barack Obama has declared “the worst economic downturn since the Great Depression.”<sup>7</sup>

The economy had already been weakened in 2007 by declining home prices, frozen credit markets, and soaring fuel costs.<sup>8</sup> Despite exceptionally strong second and third quarters in 2007, U.S. real gross domestic product for the year increased by only 2.0%, well below the post-World War II average of 3.4%.<sup>9</sup>

Going into 2008, economists were increasingly concerned about a recession,<sup>10</sup> but the Federal Reserve Board was confident that, due in part to monetary and fiscal stimulus, economic activity would pick up later in the year.<sup>11</sup> By midyear, the economy seemed to have improved. In the second quarter, annualized GDP was 2.8%, notable because it was higher than the 2.7% quarterly average (annualized) from 2002 through 2007, the period between recessions, according to the U.S. Bureau of Economic Analysis<sup>12</sup> (see Figure 1).

But the economic strains that weakened the U.S. economy in 2007 triggered a global turmoil in the credit markets in the third quarter of 2008.<sup>13</sup> Continued declines in housing values and, by July, the doubling of U.S. crude oil prices over the same time the previous year,<sup>14</sup> weakened

business and consumer confidence around the world. Meanwhile, mortgage defaults skyrocketed, forcing the government-sponsored mortgage enterprises Fannie Mae and Freddie Mac into conservatorship by their regulator in September. Then, as mortgage-backed securities lost their value, Wall Street icon Lehman Brothers Holdings filed for bankruptcy. Shortly thereafter, the global behemoth insurance company American International Group Inc. came under severe financial pressure, requiring help from the Federal Reserve to provide substantial liquidity. As Wall Street institutions collapsed, investors withdrew large amounts of cash from money market mutual funds, undermining the stability of short-term funding markets, particularly for commercial paper, which corporations had heavily relied upon to meet their short-term borrowing needs. “Against this backdrop,” the Federal Reserve reported, “investors pulled back broadly from risk-taking in September and October, liquidity in short-term funding markets vanished

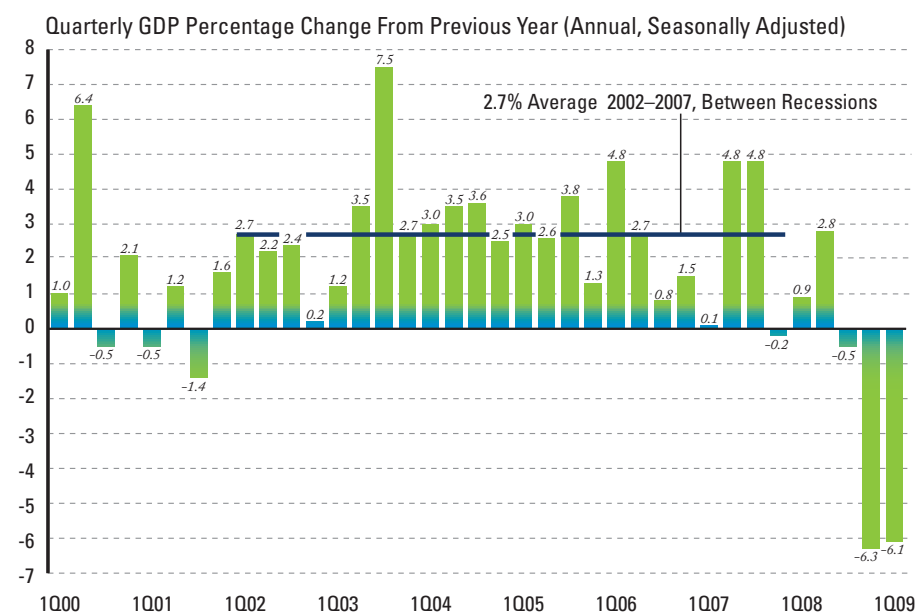
for a time, and prices plunged across asset classes.”<sup>15</sup>

The Standard & Poor’s Composite Index, for example, plummeted. On Oct. 9, 2008, precisely one year after it had peaked, the stock index had lost 42% of its value. And it had further to fall.<sup>16</sup>

“Economic activity dropped sharply in late 2008,” the Fed said.<sup>17</sup> GDP contracted slightly (–0.5%) in the third quarter, but sharply (–6.3%) in the fourth.<sup>18</sup>

Two consecutive quarters of declining GDP satisfied the popular definition of a recession. But, it turned out, the U.S. economy had fallen into recession much earlier than most economists had realized. On Dec. 11, 2008, the National Bureau of Economic Research, a non-governmental organization viewed by most economists as the official arbiter of U.S. economic cycles, announced that the recession had begun a whole year earlier. NBER’s business cycle dating committee “determined that a peak in economic activity occurred in the U.S. economy in

**Figure 1: The 2001 and the 2007–09 U.S. Recessions Defied the Common—Mistaken—Definition of Two Consecutive Quarters of Declining Gross Domestic Product. The Current Recession Started Well Before GDP Declined.**



Source: U.S. Bureau of Economic Analysis, April 29, 2009

December 2007. The peak marks the end of the expansion that began in November 2001 and the beginning of a recession.”<sup>19</sup>

NBER defines a recession as “a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income, and other indicators. A recession begins when the economy reaches a peak of activity and ends when the economy reaches its trough.”<sup>20</sup>

In its Dec. 11 announcement, NBER explained, “Because a recession is a broad contraction of the economy, not confined to one sector, the committee emphasizes economywide measures of economic activity. The committee believes that domestic production and employment are the primary conceptual measures of economic activity.”

The committee noted that various measures of production, including GDP, provided mixed signals for gauging when

the current recession began. For example, annual real GDP was 2.0% in 2007 and 1.1% in 2008—a marked difference between the two years, but still both well above the 0.8% rate of the last recession, in 2001.<sup>21</sup> On the whole, though, “The committee determined that the decline in economic activity in 2008 met the standard for a recession.”<sup>22</sup>

To the committee, the question was not whether the U.S. economy was in a recession in 2008, it was when did the recession start? From the third quarter of 2007 to the second quarter of 2008, GDP bounced from 4.8% to -0.2% to 2.8%. Other measures considered by the committee—including personal income, wholesale-retail trade sales, industrial production, and employment—all reached peaks between November 2007 and June 2008. Taken together, though, the committee found that economic activity “was close to flat from roughly September 2007 to roughly June 2008.”

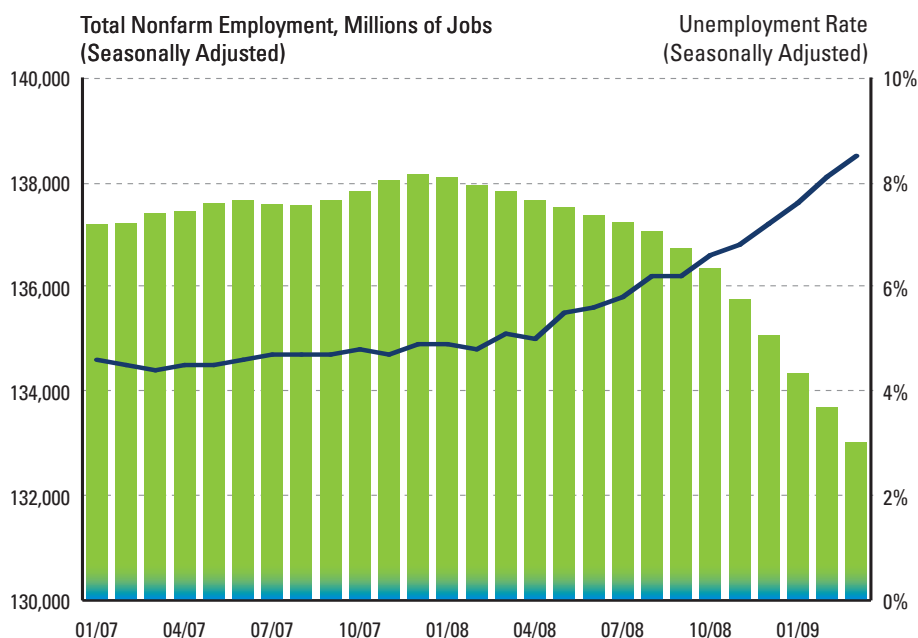
So if the economy was in a recession in 2008, but overall economic activity was largely unchanged for about three quarters—including the last few months of 2007—how did the committee decide when the recession started? And what was the decisive factor? Employment.

“We found a clear signal in employment and a mixed one in the various measures of GDP,” the committee said. Economic “activity measured by employment reached a clear peak in December 2007.” Total nonfarm employment hit nearly 138.2 million workers that month (seasonally adjusted)—the highest employment level ever recorded in the U.S., and 5.7 million more than at the previous peak, in February 2001, just before the start of the last recession.<sup>23</sup>

Since that peak, the U.S. economy has shed jobs every month (see Figure 2). A total of 5.7 million jobs disappeared in just the first 16 months of this recession, according to the U.S. Bureau of Labor Statistics. And employers continue to dismiss workers at such a pace that more jobs will be eliminated in this recession than were created in the previous six years of economic expansion.

Even as the economy was creating jobs in 2007, the unemployment rate edged up from 4.4% in March 2007 to 4.9% in December. (It had been as low as 3.8% in 2000, before the 2001 recession.) With employers cutting more jobs than they were creating, the jobless rate edged up to 5.1% by March 2008. Then job losses intensified. From March to October, the unemployment rate went up another 1.5 points to 6.6%. From October of last year to April of this year, it went up two and one-third more points to 8.9%.<sup>24</sup> Economists regularly surveyed by the *Wall Street Journal* predicted in April that the unemployment rate will reach 9.5% by the end of this year; several think it will go as high as 10.5% and one predicts 11.1%.<sup>25</sup>

**Figure 2: U.S. Nonfarm Employment Peaked at 138.2 Million Jobs in December 2007, When the Unemployment Rate Was 4.9%. The U.S. Economy Has Shed Jobs Every Month Since, Boosting the Unemployment Rate to 8.9%.**



Source: U.S. Bureau of Labor Statistics, May 8, 2009



While now it is clear that the downward drift in employment in early 2008 was really the start of a gale-force downdraft, the ferocity of what was coming was not readily apparent a year ago. The ambiguity of the other signals cited by NBER perhaps explains why there was so much uncertainty about whether the U.S. economy would fall into a recession in 2008. Just as suddenly as the economy went from two quarters of extraordinary expansion to two quarters of subpar performance, GDP popped up above average in the second quarter of 2008.<sup>26</sup> Despite the collapse of financial services giant Bear Stearns Cos. Inc. in May and the rise in gasoline prices to above \$4 a gallon,<sup>27</sup> it seemed that a recession might be averted—or if in fact the economy was already in a recession, it would be over soon.

Fidelity Magellan Fund manager Harry Lange, in a conference call for investors in March of last year, said a recession was unlikely because “the economy is very resilient.” If there was one, however, he said it would be mild and short, perhaps six to nine months.<sup>28</sup>

In April of last year, 76% of the 55 economists regularly surveyed by the *Wall Street Journal* said the economy was then in a recession.<sup>29</sup> Mark Zandi of Moody’s *economy.com* agreed with that assessment, but he predicted that the recession would be short and mild, with the unemployment rate peaking at 6.1%.<sup>30</sup>

To try to stimulate the economy and forestall a recession, the Federal Reserve had rapidly cut its target federal funds interest rate by more than half, from 4.25% at the beginning of January 2008 to 2.0% at the end of April.<sup>31</sup> Meanwhile, Congress enacted—and President George W. Bush signed—the Economic Stimulus Act of 2008, which would inject \$152 billion into the economy by providing \$600 cash rebates to 128 million American households beginning in May.<sup>32</sup>

The stimulus package, along with the Fed’s interest rate cuts, set the stage for

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solid economic growth in the second half of the year, Edward Lazear, chairman of the president’s Council of Economic Advisers, said last May. He acknowledged that there had been signs of a recession at the beginning of 2008, but he noted that job losses had been well below those of the 2001 recession, which itself was a mild one. “I think there are some signs of optimism,” he said.<sup>33</sup>

He wasn’t the only optimist.

Brookings Institution fellow Gregg Easterbook argued last June that “things are basically pretty good.” In a *Wall Street Journal* op-ed, he noted, “Unemployment is 5.5%, low by historical standards; income is rising slightly ahead of inflation; housing prices are down, but the typical house is still worth a third more than in 2000.”<sup>34</sup>

With the 2008 presidential election campaigns heating up, Easterbrook blamed “political blather” and the news media for exaggerating the negative. “Why do we think the economy is failing?” he asked. “Increasing pessimism from the news media is surely a factor—the media grow ever better at giving negative impressions.”

Over the summer, America turned its attention to politics in anticipation of

presidential candidate nominations at the major parties’ conventions held in late August and early September. Little did they know that the U.S. was on the verge of—within just a matter of days—triggering a global economic crisis that would quickly bring unfathomable change to the world.

### Staffing in 2008

For the U.S. staffing industry, 2008 started on an ominous note and ended with an implosion. In between, the second quarter brought some rays of hope, but those were soon clouded by doubt in the third quarter and quickly turned dark as the fourth quarter unfolded.

On Jan. 9, 2008, Ensemble Chimes Global filed for Chapter 7 bankruptcy. Chimes reportedly was the nation’s largest vendor management services firm for procuring temporary and contract staff. It was seeking to liquidate its assets rather than reorganize. But Chimes had no assets available to pay unsecured creditors, including staffing firms owed outstanding receivables under their VMS agreements. The bankruptcy court moved quickly, terminating Chimes’ contracts with staffing firms effective Feb. 8, allowing them to seek payment from or otherwise conduct business directly with Chimes’ clients.<sup>35</sup> Nonetheless, some staffing firms lost hundreds of thousands of dollars in uncollectible fees.<sup>36</sup>

This financial fiasco unnerved U.S. staffing companies doing business with VMS firms, particularly given the uncertain state of the economy. With more and more economists worried that the U.S. economy had slipped into a recession, the Chimes bankruptcy prompted staffing companies—and staffing clients—to question the viability of VMS providers. To address these concerns, in February ASA published an issue paper describing VMSs, managed service providers, and

other work force management services, and established a set of best practices for both staffing firms and staffing clients that use these types of services. These resources were supplemented in March with an ASA issue paper on financial management in VMS and MSP arrangements.<sup>37</sup>

Meanwhile, the seemingly increased likelihood of a recession puzzled staffing and recruiting industry executives. Temporary and contract employment falls precipitously during a recession (see Figure 3).

That hadn't happened. Yet.

Instead, as will be discussed in detail below, temporary and contract employment was generally flat in the first three quarters of 2008. The growth that typically occurs during the year was absent. With economists and the news media cautioning month after month that

the economy may be in recession, staffing and recruiting executives had to be pleased that they weren't experiencing double-digit declines akin to the 2001 recession.

There seemed to be three reasonable explanations:

1. The economy was not in a recession; it was merely going through a period of slow growth.
2. If the economy was in a recession, it was affecting the staffing industry differently from the past recessions.
3. With GDP growth ticking up in the second quarter, the recession was over—it was a brief, mild one encompassing the fourth quarter of 2007 and the first quarter of 2008.

It turns out there was a fourth explanation that no one wanted to think about,

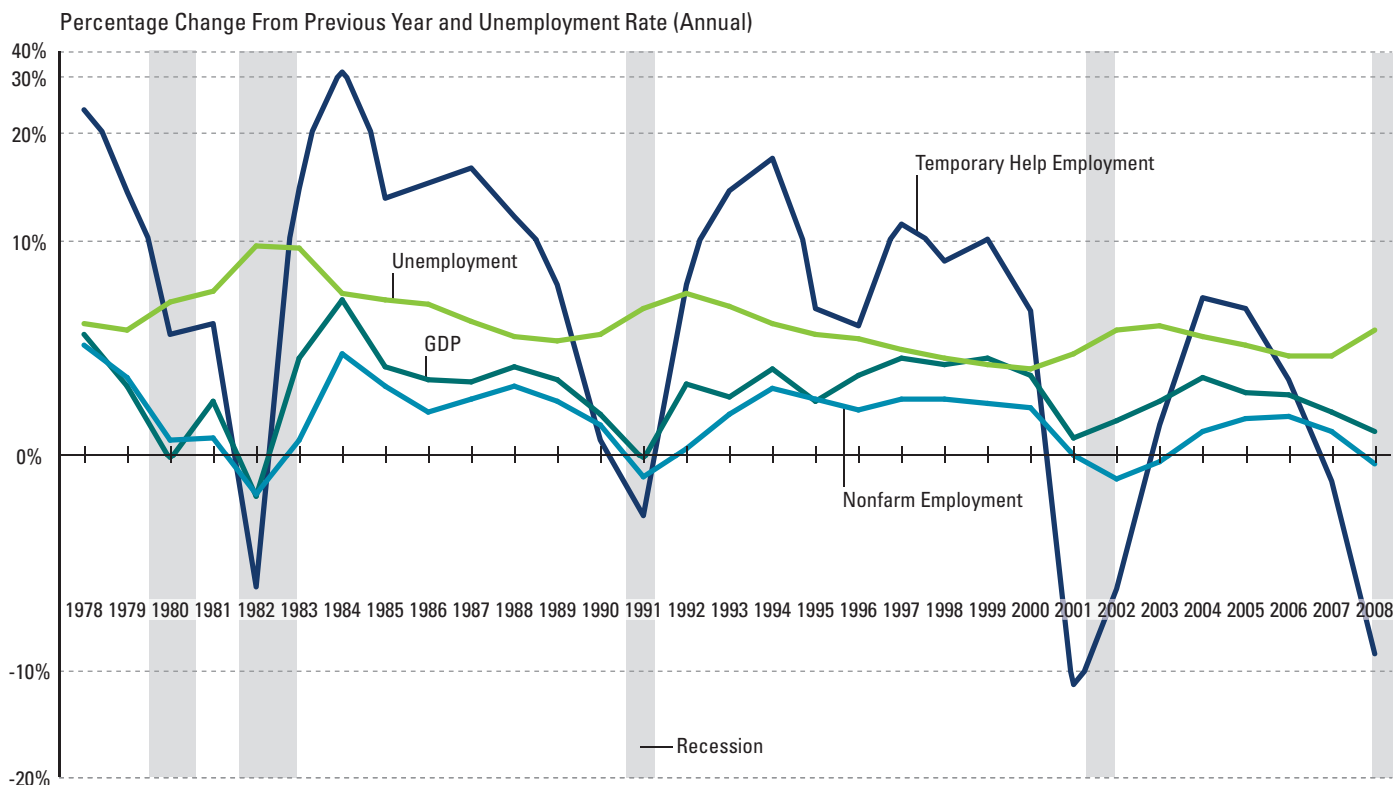
much less talk about: The economy was in a mild recession (to that point), but the worst—far worse than almost anyone contemplated—was yet to come.

In short, what started as a weak year—and *was* mostly, in terms of time—turned out at the end to be one of the staffing and recruiting industry's most difficult years. After six consecutive years of expansion and a long history of growing at least three times faster than the economy, temporary and contract employment and sales fell in 2008.<sup>38</sup> Search and placement revenues also fell in 2008, following three consecutive years of growth.<sup>39</sup>

## Employment

America's staffing companies employed an average of 2.66 million temporary and contract workers per day

**Figure 3: With the 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 Dramatically Deeper in 2001 and 2008.**



Sources: National Bureau of Economic Research, U.S. Bureau of Economic Analysis, and U.S. Bureau of Labor Statistics

in 2008 (see Figure 4), according to the American Staffing Association's quarterly staffing employment and sales survey (see sidebar on methodology). In 2008, the staffing industry employed 10.1% fewer temporary and contract workers than it had in 2007, a loss of nearly 300,000 jobs per day, on average, over the course of the year.<sup>40</sup>

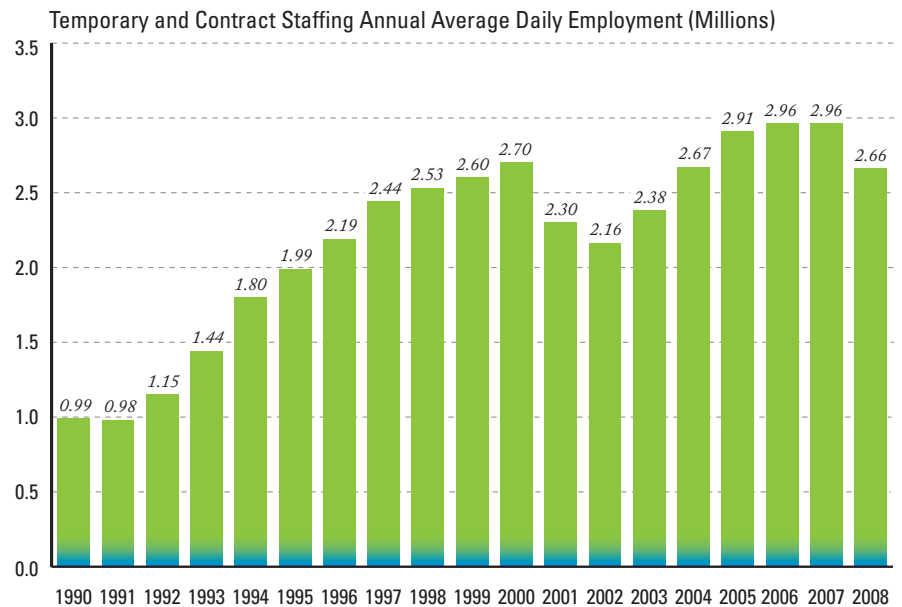
Since ASA began tracking staffing industry employment and sales in 1990, 2008 was only the third year in which annual average daily employment declined when compared with the previous year. Employment declined by 14.7% in 2001, the year of the last recession, and 6.2% in 2002, when all employment was slow to respond to economic recovery. Perhaps reflecting the start of the current recession in December 2007, temporary and contract employment increased by only 0.1% in 2007—growth, in fact, but effectively flat when compared with previous years.

Normally, temporary and contract employment grows during the year. It displays an annual seasonal cycle, peaking late in the year, dropping at the beginning of the year, and then growing during the rest of the year to its year-end peak. The result over the course of several years is a rising sawtooth effect (see Figure 5).

The pattern in 2008 was different. Employment peaked in the first quarter, held mostly steady during the second and third quarters, and dropped markedly in the fourth quarter. Instead of peaking in the fourth quarter as typically occurs, temporary and contract employment dropped to its lowest point of 2008 at the end of the year.

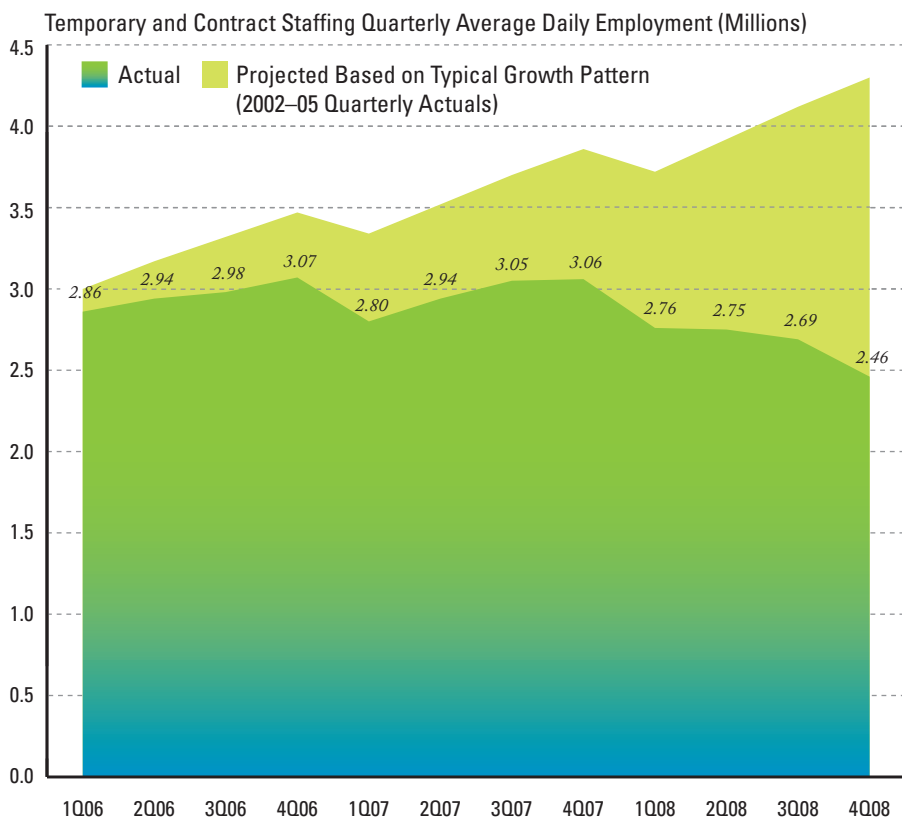
The staffing industry entered the recession after two years of virtually no employment growth. The annual average daily employment of temporary and contract workers in 2006 and 2007 was 2.96 million (a record high was measured in 2007 with 2,000 or 0.07% more workers than in 2006). From the first

**Figure 4: America's Staffing Companies Match Millions of People to Millions of Jobs Every Business Day.**



Source: American Staffing Association, Employment and Sales Survey

**Figure 5: Staffing Industry Employment Was Relatively Flat for 11 Consecutive Quarters in 2006–08. Even Before Dramatically Falling in the Fourth Quarter of 2008, the Industry's Typical Growth Pattern Had Been Absent Since 2005.**



Source: American Staffing Association, Employment and Sales Survey

## 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](http://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.

quarter of 2006 through the third quarter of 2008, staffing employment was largely unchanged, holding within a rather tight range of about 2.7 million to 3.0 million workers (see Figure 5). In other words, before falling dramatically in the fourth quarter of 2008, staffing employment was relatively flat for 11 consecutive quarters. In contrast, staffing employment grew from 2.7 million to

3.0 million in just the first three quarters of 2005.

The 2006–07 flatness was atypical. In 2003 through 2005, for example, temporary and contract employment grew an average of 5% per quarter from the second through the fourth quarters, then dropped an average of 3.6% from the fourth quarter to the first quarter of the subsequent year. If employment had

grown in the 2006–08 period as it did in the 2003–05 period, staffing employment would have exceeded 4 million in 2008.

Quarterly—even monthly—measures of staffing employment mute how dramatically the industry was affected by the global economic crisis in the latter part of 2008. The ASA Staffing Index, which measures weekly changes in temporary and contract staffing employment, hovered



between 98 and 101 during the first half of the year (except the week of New Year's Day, when it was at 94, exhibiting a normal seasonal effect). 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 between 95 and 98 through mid-October, failing to show the growth typically seen in the third quarter (see Figure 6).<sup>41</sup>

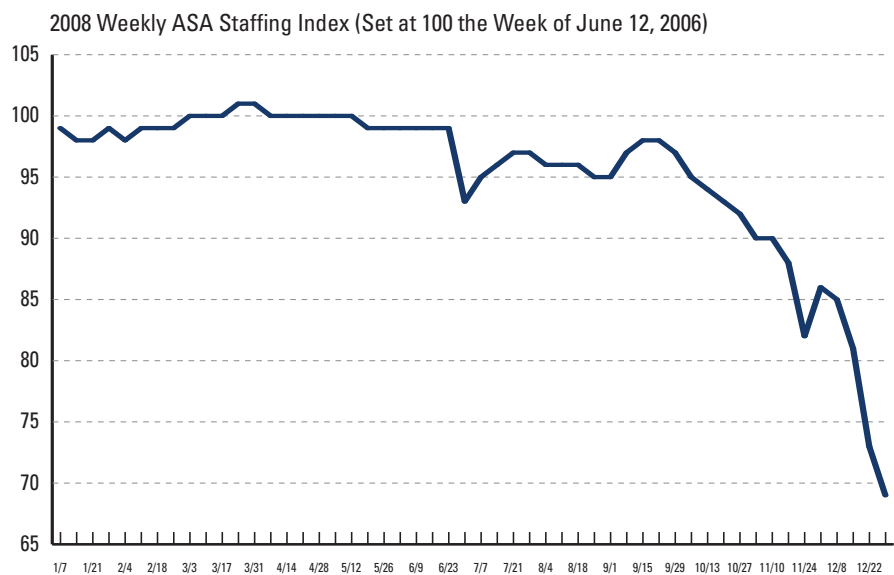
The ASA Staffing Index shows that while temporary and contract employment began to decline slightly in the third quarter, it wasn't until the second half of October that contraction accelerated. At first it fell a point a week for a few weeks. That soon became several points a week. Staffing industry employment normally drops off the week of the Thanksgiving Day holiday and the last two weeks of the year (due to the Christmas and New Year's Day holidays), and 2008 was no exception.

But 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.

Since the beginning of 2009, the index has hovered in the low 70s, suggesting welcomed stabilization for the first several months of the year.

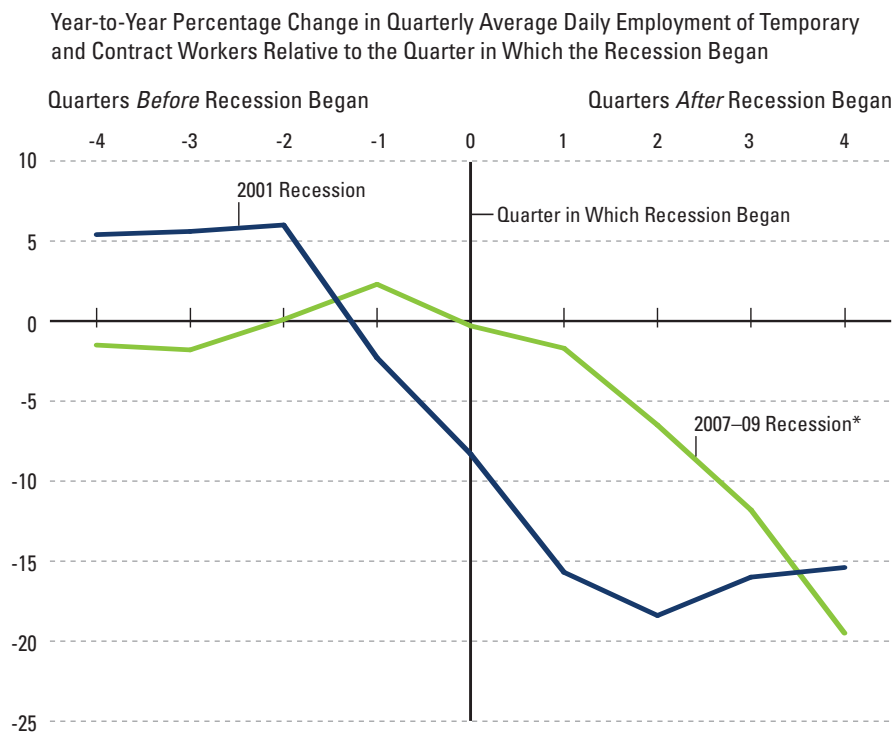
The pace of decline in staffing employment in the fourth quarter of 2008 was similar to that of the third quarter of 2001, when the U.S. economy was in the depths of its previous recession. But the pattern of employment leading up to the current recession, the timing of the precipitous decline in employment, and the depth of decline were remarkably different from the previous recession (see Figure 7).

**Figure 6: After Being Remarkably Flat Around 99 in the First Half of 2008, the ASA Staffing Index—Which Tracks Changes in Temporary and Contract Employment—Declined Slightly in the Third Quarter. Contraction Sharply Accelerated in the Fourth Quarter.**



Source: American Staffing Association, ASA Staffing Index

**Figure 7: Timing of the Recessionary Effect on the Staffing Industry Has Shifted Markedly. Employment Started Contracting Well Before the 2001 Recession Began, Whereas It Started Contracting Well After the Current Recession Began.**



\*Through 4Q08

Source: American Staffing Association, Employment and Sales Survey; and National Bureau of Economic Analysis

Two quarters before the 2001 recession began, temporary and contract employment was growing more than 5% compared with the same period of the previous year. The industry started to experience employment declines in the quarter immediately preceding the quarter in which the recession actually began. And the worst quarterly decline bottomed out at 18.4%, two quarters after the quarter in which that recession began.

In contrast, the staffing industry was emerging from a soft patch, in terms of demand, several quarters preceding the quarter in which the current recession began in 2007, and—opposite of what happened before the 2001 recession—temporary and contract employment actually grew in the quarter immediately preceding the one in which this recession began. The staffing industry didn't begin to experience a precipitous decline in employment until one quarter *after* the quarter in

which the recession began. Recall that last time, the drop-off started in the quarter *preceding* the one in which the last recession began. So far in this recession, the worst quarterly decline has been slightly worse, at 19.5%, and that occurred four quarters (rather than two) after the quarter in which the recession began.

There has been a marked two-quarter shift in the timing of this recession's effect on the staffing industry. Employment started contracting well *before* the last recession began. This time, employment started contracting well *after* the recession began.

Even though the precipitous decline in temporary and contract employment occurred later in this recession, staffing industry job losses quickly outpaced those across the U.S. work force. In 2008 alone, nonfarm employment declined by 2.2%—more than three million jobs.<sup>42</sup> One out of 10 of those jobs (9.7%) had been in the staffing industry.<sup>43</sup>

As a result, the staffing industry's penetration rate of the nonfarm work force declined from 2.15% in 2007 to 1.94% in 2008, the lowest since 2003.<sup>44</sup> In the fourth quarter, temporary and contract employment, as measured by ASA, comprised 1.8% of total nonfarm employment.

In part because the staffing industry's contraction was mostly contained within the last couple of months of the year, total annual employment in the industry was only modestly affected.

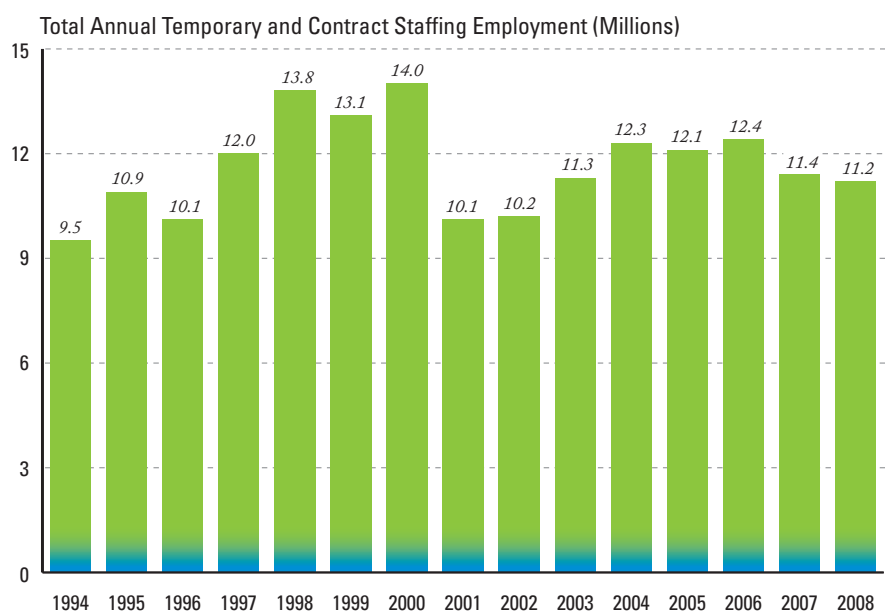
Average daily employment is really a count of the number of individuals working assignments on a typical business day. For most industries, the daily average is a sufficient measure of annual employment. Given the generally short-term nature of temporary and contract work, however, there are millions 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 2008, U.S. staffing firms hired 11.2 million temporary and contract employees, 1.8% fewer than in the previous year (see Figure 8). Considering that the industry ended the year with average daily employment down by at least one-fifth, the nominal shrinkage in total annual employment underscores the fact that the severe contraction in staffing jobs late in the year occurred over a relatively short span of time.

If 2008 had been a normal year economically, four million of those 11.2 million employees would have bridged to permanent jobs. That estimate is

**Figure 8: America's Staffing Companies Hired More Than 11 Million Employees Over the Course of 2008. Considering That the Industry Lost One-Fifth of Its Daily Employment Compared With 2007, the Decline in Annual Employment Was Quite Nominal Relative to the Previous Year.**



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

based on a 2006 ASA survey of more than 13,000 then-current or former temporary and contract employees in which 53% of those who remained in the work force had moved on to permanent jobs.<sup>45</sup> Given last year's declines in nonfarm employment, increases in the unemployment rate, and contraction of the staffing industry, the percentage of staffing employees who bridged to permanent jobs was certainly lower.

Although the staffing industry employs just two out of every 100 nonfarm workers on any given day, it has provided income for millions of American families—an estimated one in 12 employees in the national nonfarm work force held a job with a staffing company at some point last year.

The average tenure of those 11.2 million employees was 12.4 weeks in 2008, or less than three months. The tenure shortened by more than a week from 2007, when it was 13.5 weeks, or just over three months, and the longest ever. The 2008 tenure was similar to that of 2005 and 2006.

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 from a record low of 284% in 2007 to 320% in 2008 (see Figure 9).<sup>46</sup>

The recession has 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 have reduced their corporate work forces (such as recruiters, customer service representatives, and payroll clerks) and closed offices.<sup>47</sup>

The U.S. Bureau of Labor Statistics 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.

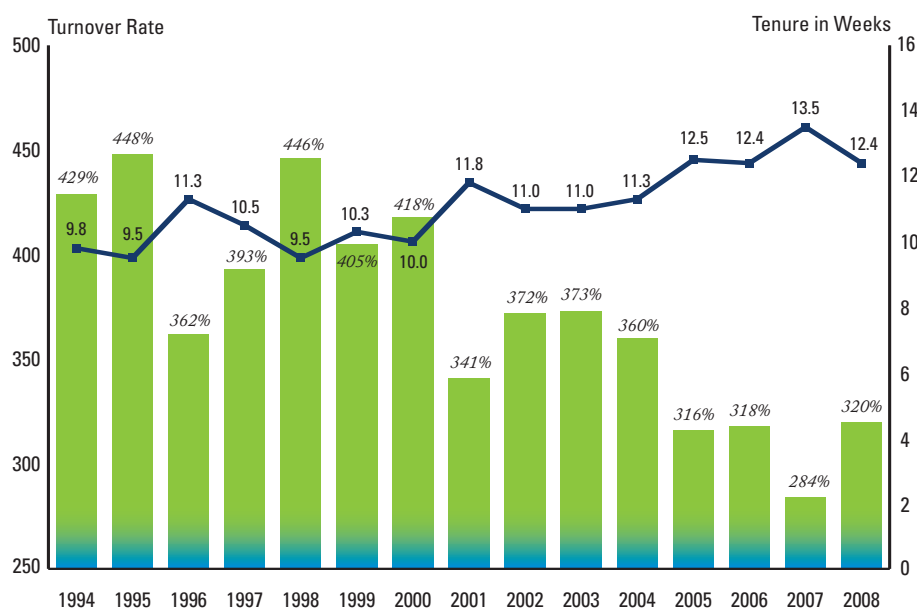
BLS does, however, measure employment among establishments that provide only search and placement services. Jobs among “executive search services” and “employment placement agencies” together declined by 4.7% from 2007 to an annual average of 290,000 in 2008.<sup>48</sup> While the annual rate of job losses in search and placement services was more than twice that of total nonfarm employment declines, firms providing those services initially were not as hard hit by the economic crisis as temporary and

contract services companies were. Much of the change between 2007 and 2008 occurred in January, when employment dropped 6.0% from December. Over the course of the rest of last year, there was relatively little change in employment among such firms. Come January 2009, though, search and placement firms cut 15,000 jobs. Then they cut another 8,000 in February and 4,000 in March (the most recent month for which data are available). So far in 2009, search and placement jobs have dropped 10.4% below last year's average.

Unlike temporary and contract employment, which has stabilized since the beginning of the year, the pace of job losses at search and placement firms has accelerated in 2009.

## The recession has had a significant effect on corporate employment among staffing and recruiting firms.

**Figure 9: The Average Staffing Employee Works Just Under Three Months. Employment Tenure in 2008 Averaged 12.4 Weeks. Turnover Increased to 320%.**



Source: American Staffing Association, Employment and Sales Survey

## Sales

Reduced demand for staffing services in 2008 resulted in lower sales for the year.

U.S. temporary and contract staffing sales for 2008 totaled \$70.7 billion, according to the ASA quarterly staffing employment and sales survey, 3.8% and

about \$2.8 billion less than in the previous year. Last year marked the first since the last recession in which temporary and contract staffing sales declined—2001, 2002, and 2008 are the only years since ASA began tracking staffing industry sales in 1990 in which annual totals were lower than in the previous year (see Figure 10).

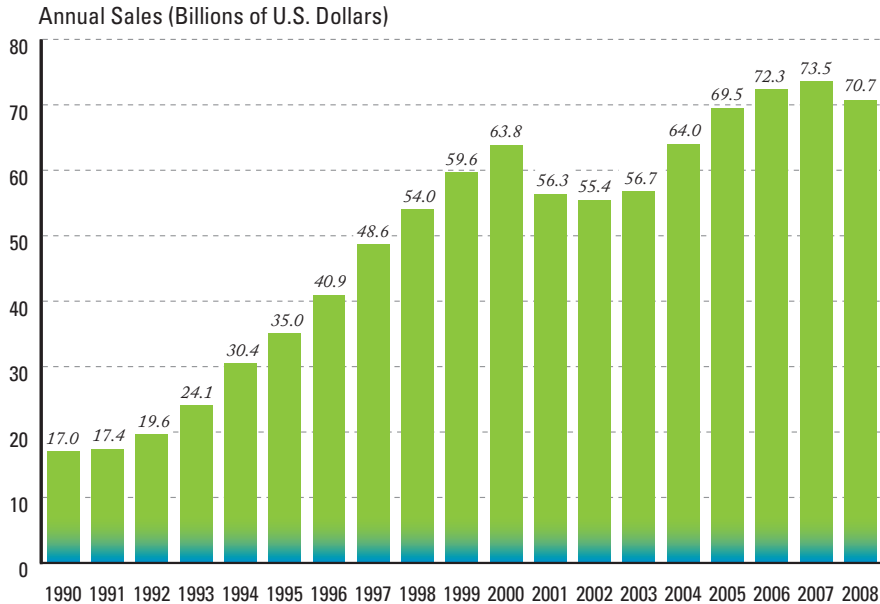
After a relatively weak 2007 (sales up 1.6% from the previous year), 2008 started with a small sales increase (1.5%) in the first quarter. Sales declined slightly (–1.3%) in the second quarter, but declines sharply accelerated in the third (–4.7%) and—especially—fourth (–10.5%) quarters (see Figure 11).

Not all sectors experienced declines. Commercial sales (the industrial and office-clerical sectors) decreased by 9.0%, according to data from research and analysis firm Staffing Industry Analysts Inc. Professional-specialty sales (defined by SIA as including the accounting-finance, engineering-design, information technology, health care, legal, and other sectors)—which account for more than half of total temporary and contract staffing sales—decreased by 1.5% last year. However, SIA figures, engineering-design, health care, and legal staffing services actually saw sales increases in 2008.<sup>49</sup>

Demand for permanent placement services also contracted in 2008.

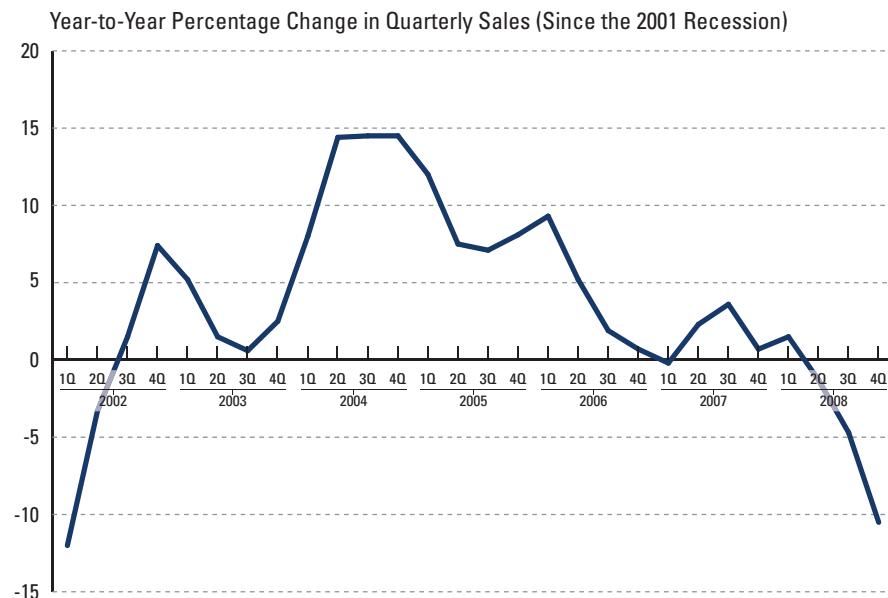
So-called temp-to-perm or temp-to-hire arrangements, where employees start jobs as staffing firm employees and later get hired by clients, had grown in popularity in recent years. These arrangements are favored by candidates as well as clients because they help both the prospective employee and prospective 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 staffing employment and

**Figure 10: Temporary and Contract Staffing Sales Decreased by 3.8% in 2008.**



Source: American Staffing Association, Employment and Sales Survey

**Figure 11: Temporary and Contract Staffing Sales Contracted Sharply in the Third and Fourth Quarters of 2008.**



Source: American Staffing Association, Employment and Sales Survey



sales survey include them in their sales reports to the association. Prior to the recession, anecdotal evidence suggested that temp-to-perm sales accounted for as much as one-tenth of total temporary and contract staffing sales. With demand down across the board for temporary and contract as well as recruiting and placement services, temp-to-perm sales have no doubt been similarly affected.

Search and placement services sales decreased by 11.4% from 2007 to 2008 to a total of \$15.5 billion last year, according to SIA. Retained search sales slid by 5.0% to \$7.3 billion, SIA estimates, and contingent search sales dropped 16.0% to \$8.2 billion in 2008.<sup>50</sup>

Altogether, combining temporary and contract services with search and placement services, U.S. staffing industry sales totaled \$86.2 billion in 2008, 5.3% less than in the previous year (see Figure 12).

### 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 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 having time for family was important; one in five said that it was extremely important.

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

The flexibility offered by staffing firms might explain, in part, why staffing employees are much more satisfied with their work arrangements than employees in traditional arrangements. 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.

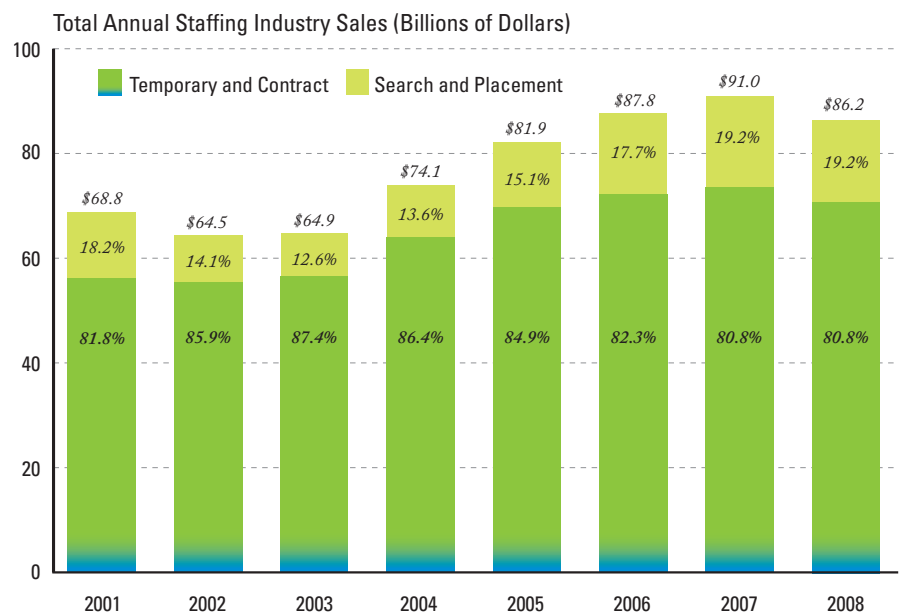
In contrast, work force surveys conducted around the same time showed that less than two-thirds of employees were satisfied. In a late-2005 Career-

Builder.com survey of 2,050 workers, 62% said they were satisfied with their jobs.<sup>51</sup> 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.<sup>52</sup> In another Mercer survey of 1,040 workers, 17% expressed dissatisfaction with their employer's organization overall<sup>53</sup>—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

The flexibility offered by staffing firms might explain, in part, why staffing employees are much more satisfied with their work arrangements than employees in traditional arrangements.

**Figure 12: Total Staffing Industry Sales—Including Temporary and Contract, and Search and Placement—Decreased by 5.3% in 2008.**



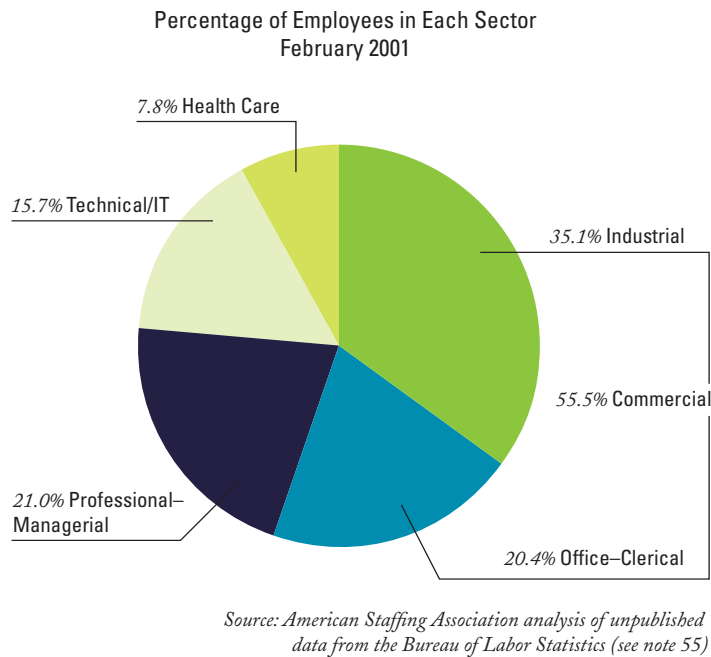
Sources: American Staffing Association, Employment and Sales Survey, and Staffing Industry Analysts Inc.

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 employees worked full time, practically the same as

workers in traditional employment arrangements.<sup>54</sup> 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 chief executive officer (see Figure 13). 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.<sup>55</sup>

**Figure 13: Temporary and Contract Employees Work in All Occupations.**



### Businesses Need Flexibility

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

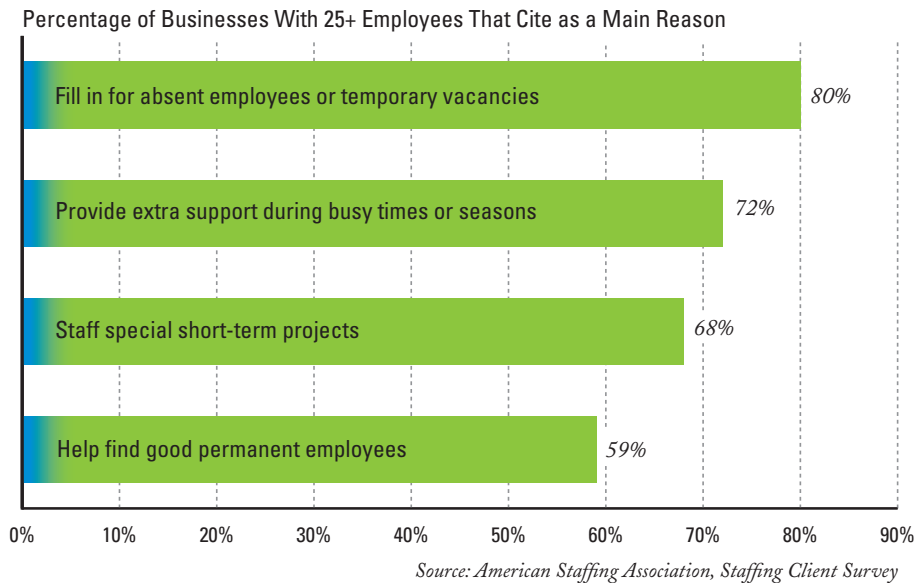
In a 1999 American Management Association survey of human resource managers at 1,248 firms, 91% said “flexibility in staffing issues” was important, and 95% said that flexibility was being achieved through the engagement of temporary and contract employees from staffing companies. “Finding specialized talent” was also important. Saving on payroll and benefits costs was a low priority.<sup>56</sup>

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 14)<sup>57</sup>:

- 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 businesses tap staffing companies for quality talent in virtually all occupational sectors, from

**Figure 14: U.S. Businesses Turn to Staffing Firms to Fill Work Force Gaps, Augment Their Own Staff, and Find New Employees.**



call center service representatives to skilled tradesmen to airplane pilots to banquet waiters to attorneys to radiology technicians (see Figure 15).

“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.<sup>58</sup> “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.<sup>59</sup>

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 16). A survey of Conference Board members—mostly global companies—found that 90% use staffing services.<sup>60</sup> And a survey of large employers in San

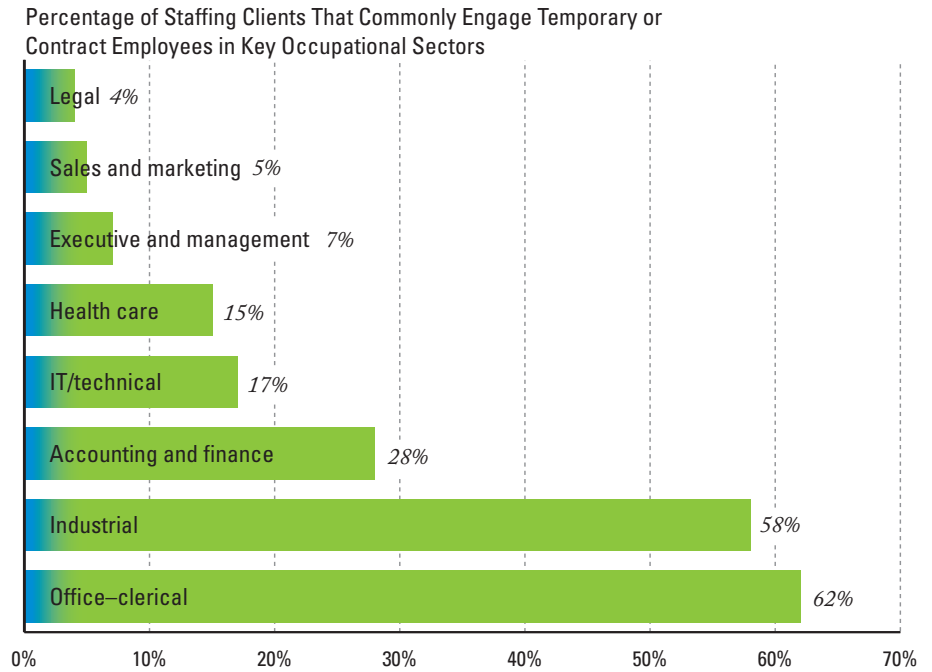
Diego found that 95% use staffing services.<sup>61</sup>

### Flexibility Is Good for the Economy

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

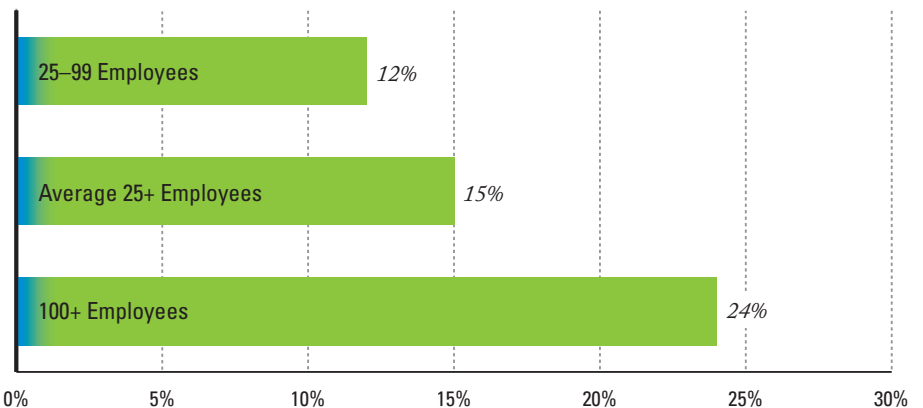
When Alan Greenspan chaired the Federal Reserve Board, he had spoken frequently—especially after the 2001 recession—about the importance of financial and labor market flexibility to the U.S. economy. In testimony delivering his last Monetary Policy Report

**Figure 15: Businesses Tap a Full Range of Talent From Staffing Companies.**



Source: American Staffing Association, Staffing Client Survey

**Figure 16: 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

to Congress in July 2005, 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.”<sup>62</sup>

Greenspan detractors also cite the value of flexibility. In an op-ed critical of the Greenspan Fed published in the *Wall Street Journal* last year, 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.”<sup>63</sup>

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.<sup>64</sup>

The administrations of Presidents Bill Clinton<sup>65</sup> and George W. Bush<sup>66</sup> 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.<sup>67</sup> They argued that staffing firms, as labor market intermediaries, improve the efficiency of matching workers to jobs.

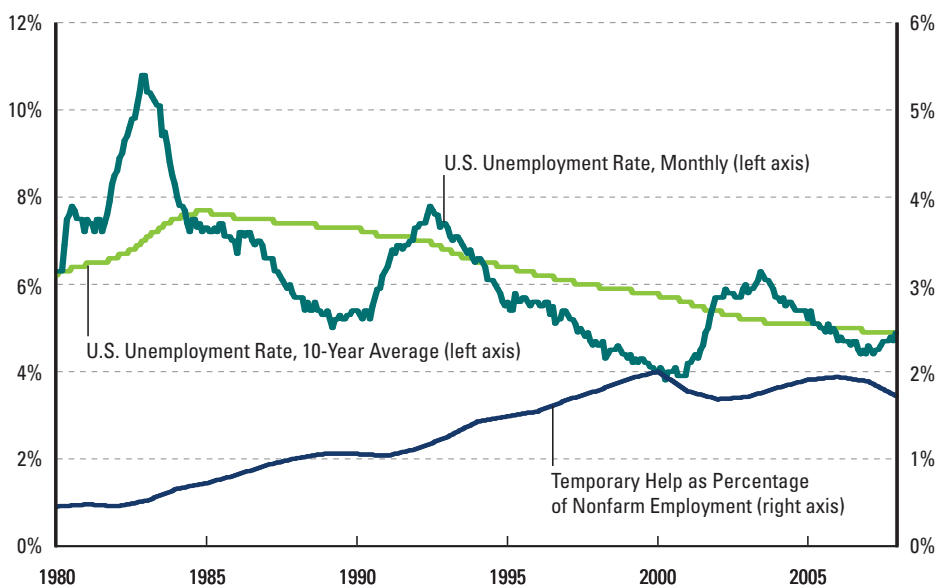
The growth of temporary help employment corresponds with the overall long-term declining trend in the unemployment rate (see Figure 17). The 10-year average unemployment rate has been falling for more than 20 years, and the unemployment rate peaks following recessions have been lower and the troughs in expansions have been shallower, suggesting underlying strength and durability of the economy, according to David Malpass, chief global economist at Bear, Stearns & Co.<sup>68</sup>

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

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.

**Figure 17: 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



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 changed. 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.<sup>69</sup>

Jobs, flexibility, a 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. 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

Despite the current recession, 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.

According to the most recent BLS projections, released in 2007, the employment services industry—which is primarily staffing—is estimated to add 692,000 jobs between 2006 and 2016, making it the second largest job-growth industry in the U.S. (see Figure 18).<sup>70</sup>

While total employment is expected to 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.”<sup>71</sup>

Over the course of the 10-year projection period, BLS expects most 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.

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.”<sup>72</sup>

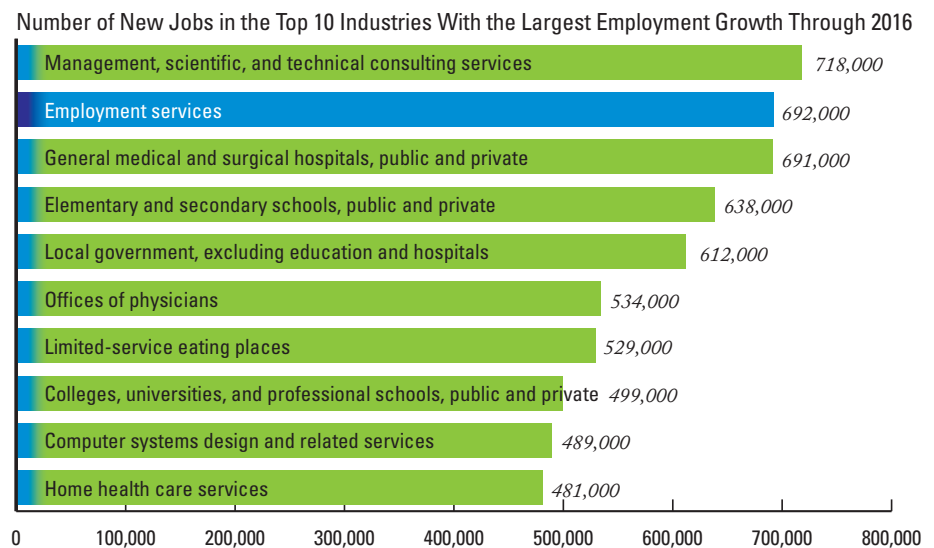
Within the service sector, professional and business services are projected to

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.”

In addition, “Much of the growth in the professional and business services sector will be seen in management, scientific, and technical consulting services,” BLS said, including new engineering jobs that “will owe their existence to engineering consulting firms benefiting from the growing trend toward subcontracting engineering services.”

While the professional and business services sector will create the greatest number of jobs, the fastest growth is expected in the health care and social

**Figure 18: Employment Services—Mostly Staffing—Expected to Be the Second Largest Job-Growth Industry.**



Source: U.S. Bureau of Labor Statistics

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## Since 1990, the rate of temporary and contract staffing sales growth has exceeded GDP growth by more than 2.5 times.

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assistance sector, which will produce nearly as many jobs (four million) as the professional and business services sector. 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).<sup>73</sup>

The BLS employment projections assume slower growth in the U.S. population, in the labor force, in productivity, and in GDP.<sup>74</sup> 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 1.5 to two times that of the economy.

These estimates were made prior to—and do not take into account—the current deep and prolonged recession. Nonetheless, temporary and contract staffing has historically grown faster than the economy and nonfarm employment—even taking recessions into account. Since 1990, the rate of temporary and contract staffing sales growth has exceeded GDP growth by more than 2.5 times. And since 1978, temporary help employment has grown nearly six times the rate of nonfarm employment growth; since 1990, three times.<sup>75</sup> Staffing industry growth has slowed over the past three decades—perhaps reflective of a maturing industry—and BLS and SIA project further slowing in coming years. But both organizations still expect staffing industry growth over the long term to significantly outpace overall economic growth. That expectation is not likely to be derailed by the current recession, particularly given that the industry has historically enjoyed double-digit growth rates when the economy is emerging from a recession.

The long-term prospects for the staffing industry are certainly favorable. Near term, though, much depends on the shape of the economic recovery. Will it be a V, with the kind of quick rebound that usually follows a deep recession? A U, reflecting a slow recovery? A W,

resulting from a short-term stimulus-induced upturn that quickly wears off? Or an L, with years of painfully slow growth, like Japan's "lost decade" of the 1990s, when annual growth averaged 0.5%? "The odds favor a long slog," said *Wall Street Journal* columnist David Wessel.<sup>76</sup> But some economists argue that pent-up consumer and business demand will lead to a robust rebound. Varvares, the Macroeconomics Advisers economist, argues that population increases and greater productivity inevitably propel economic growth. "Zero is not the norm," he said. "The norm is 2% to 3% growth."<sup>77</sup>

The norm would be good for the staffing industry. ASA quarterly survey data from 1992 through 2008 show that, with only one exception—the fourth quarter of 2007, when the current recession began—both temporary and contract employment *and* sales grew when GDP exceeded 2.0%.<sup>78</sup> That's a probability of 97%. ■

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