

August 2009

Dear Reader,

What follows is our first effort – a report entitled "The Real Truth about Temporary Help Services" – that was published electronically in June 2003 with a very basic laptop that was almost five years old at the time.

Therefore, please excuse the crude and unsophisticated appearance / format of the report since its production used technology from 1988. Also, some of the contact information is likewise out-of-date.

Sincerely,

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The Real Truth about Temporary Help Services

The new NAICS (North American Industrial Classification System) program presents a level of detail and accuracy for many specific industries that were not previous available under the former SIC (Standard Industrial Classification) program or via private survey or program. Some of the changes certainly can be deemed as “improvements” when it comes to the various staffing services.

The major problem with the former SIC program was that Help Supply Services (SIC 7363) lumped PEO and Temporary Help Services together along with a number of seemingly related activities, such as modeling agencies. But the new NAICS program, which the U.S. Bureau of Labor Statistics (BLS) started using to report relevant employment data in June 2003, recognizes the uniqueness of several staffing sectors and gives each a distinct code.

In this report, Temporary Help is examined in detail against other economic indicators. Because of the vulgarities of looking at data on a month-to-month basis, trends are better seen when looking at cumulative quarterly data, as such presented by the GDP (Gross Domestic Product). However, recognizing the desire by staffing industry executives and observers to follow monthly figures, those data are presented as well.

The series of data for some of the new NAICS industries were only “recreated” back to 1990. Unfortunately the new NAICS staffing industry series only goes back to 1990, but the data certainly do capture more than one full staffing economic cycle. The new NAICS data for Temporary Help Services contradict some commonly held beliefs about the relationship between temporary help and the overall economy.

- *Although experts, from both from inside and outside the staffing industry, often expound that temporary help services act as a leading indicator of the economy, the NAICS data clearly show that is not necessarily the case. Employment in temporary help services acts more as a coincident indicator (moves in conjunction with) to GDP, the often used proxy of overall economic conditions.*

The relationship between trends in temporary help employment and overall employment is inconsistent. Although, given the limited historical data available with the new NAICS series (only back to 1990), a regression analysis of the data confirms that temporary help acts as leading indicator to overall employment for up to the future three quarters. The strongest is for the immediate subsequent quarter and progressively weaker until the fourth future quarter when the relationship weakens significantly. However, an “eyeball analysis” (that is, simply looking at the direction of the lines on the graphs) of the monthly data shows an apparent correlation to total employment occurs within a few months, not the six to nine months often quoted by staffing industry experts and interests. And the most current period (within the past 12 months) seems to show that temporary help is a coincident indicator.

- *Movement in employment in temporary help services does tend to preview overall employment changes when examined on a year-to-year basis.*
- *However, temporary help appears to be more of a coincident indicator when examining the data on a sequential basis (change from the immediate preceding period) and the more recent trend is that temporary help employment moves in unison with changes in overall employment, not ahead of it.*

Year-to-Year trends

This first table, Temporary Help Services (percent year-to-year, change by quarter), presents the average monthly employment change from the similar quarter in the previous year. As it shows the quarters with the highest growth were in the third and fourth quarter of 1994 when temporary help grew a little more than 15% from the same quarters in 1993.

The data show that, in the current staffing economic cycle, the decline began in 1994Q4 and hit bottom in 2001Q4, which was the period immediately after the events of September 11th.

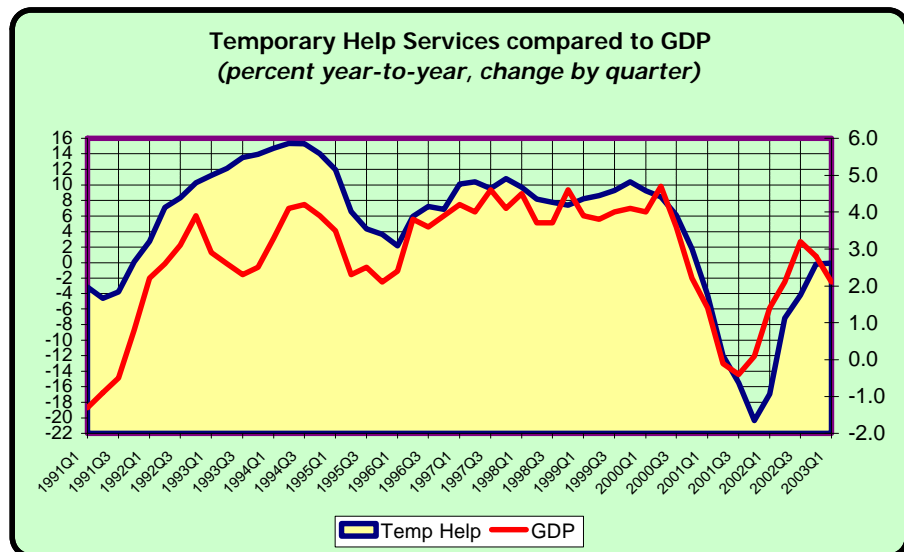
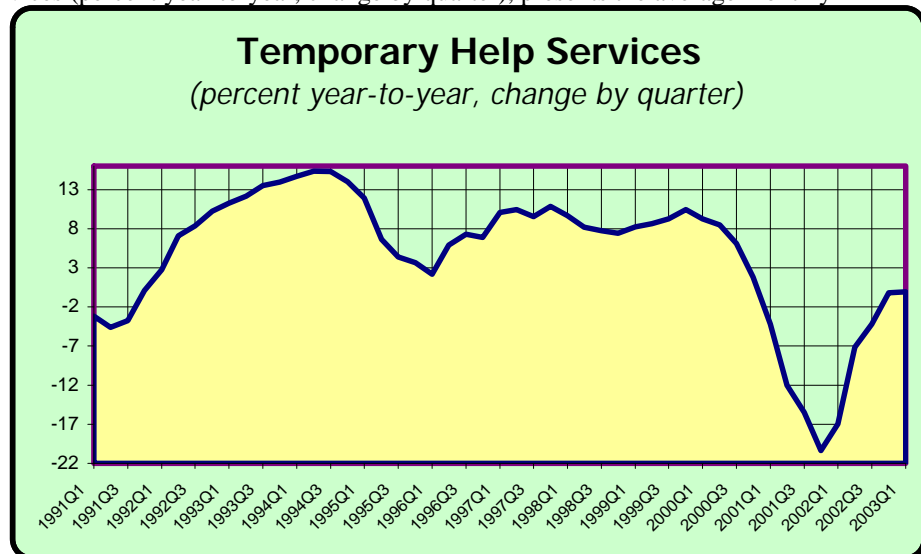
When compared to year-to-year change in GDP (keep in mind that when GDP is reported by the media and most sources, it is usually reported sequentially, or the change from the previous quarter), an interesting pattern emerges.

Keep in mind that in the table to the right – GDP change versus Temporary Help Services – there are two different scales along the vertical axis. In this table, and all subsequent tables, the scale for temporary help is on the left axis and the other variable is on the right.

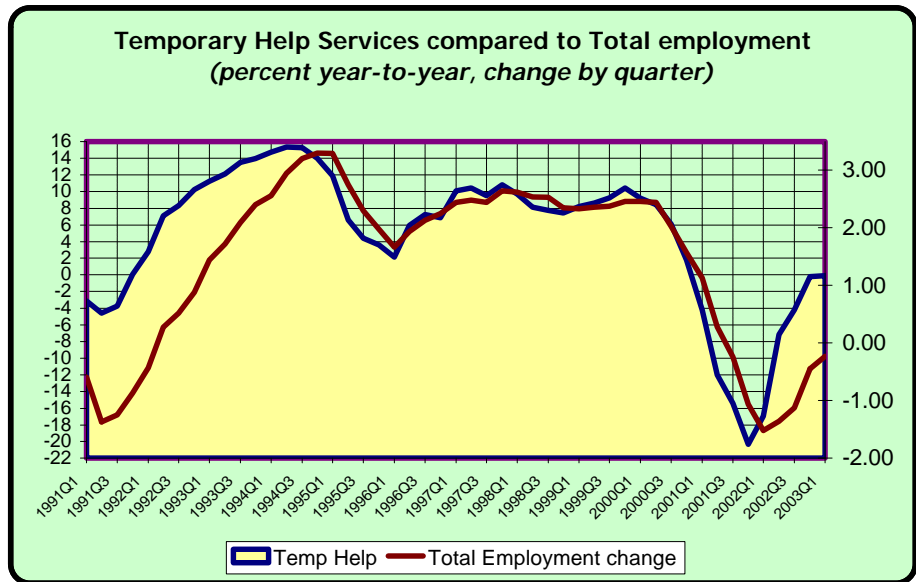
As it shows, although with some exceptions, changes in GDP are often coincident, or even leading, to changes in temporary help employment. A regression analysis of the data confirms that changes in temporary help employment are not an acceptable predictor to GDP performance. One of the more dramatic examples of when GDP lead temporary help change was when GDP's trough occurred in 2001Q3, but temporary help didn't settle at its trough until the following quarter, 2001Q4. However, the attack of September 11, 2001 may have had a hand in delaying the recovering of temporary help services by one quarter.

One exception occurred when temporary help growth rate peaked in 1999Q4 and started to head down but the GDP growth rate didn't peak until two quarters later in 2000Q2.

However, GDP clearly reached bottom in 2001Q3 while temporary help's low clearly didn't occur until the next quarter. But by 2001Q4, temporary help was so far under water, it has taken until earlier this year before it got back to zero growth.



A very clear trend emerges when comparing changes in total employment (defined here as seasonally adjusted non-farm employment) to temporary help employment, also seasonally adjusted. *The trendlines clearly show, and a regression analysis confirm, that changes in temporary help employment occurred prior to similar changes overall employment.* Although an “eyeball analysis” (simply looking at the shape of the graphs) would lead to a conclusion that temporary help employment changes only precede overall employment change by a single three-month period, that would not be entirely correct or incorrect. A regression analysis found that there is a strong relationship between temporary help employment growth and overall employment growth for the three advancing quarters, with the relationship the strongest the immediate following quarter and getting weaker as time progresses. But that relationship weakens significantly by the fourth subsequent quarter.



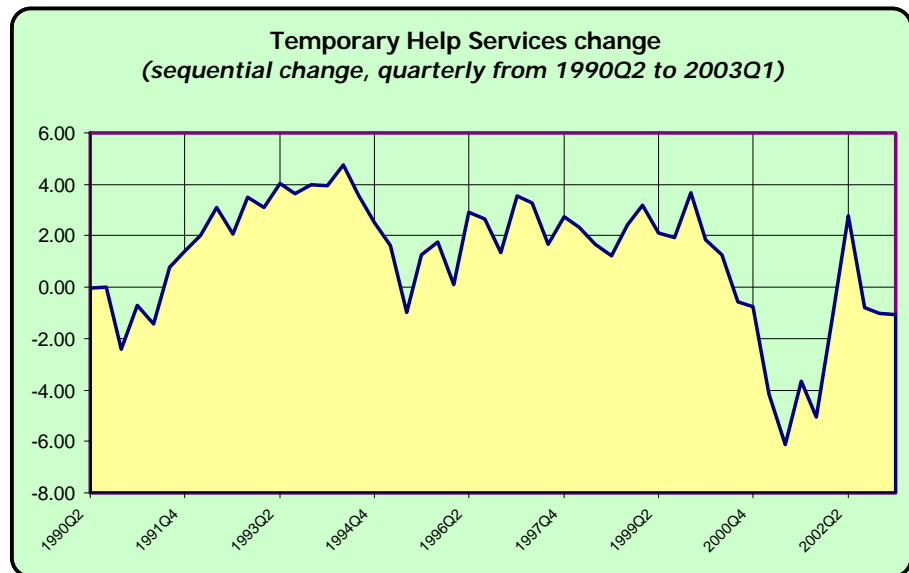
The current temporary help decline reached its lowest point in 2001Q4 with a more than 20% decline from the same period the year previous before starting to rebound, overall employment reached it lowest point the following quarter before showing improvement in the subsequent period.

Sequential patterns

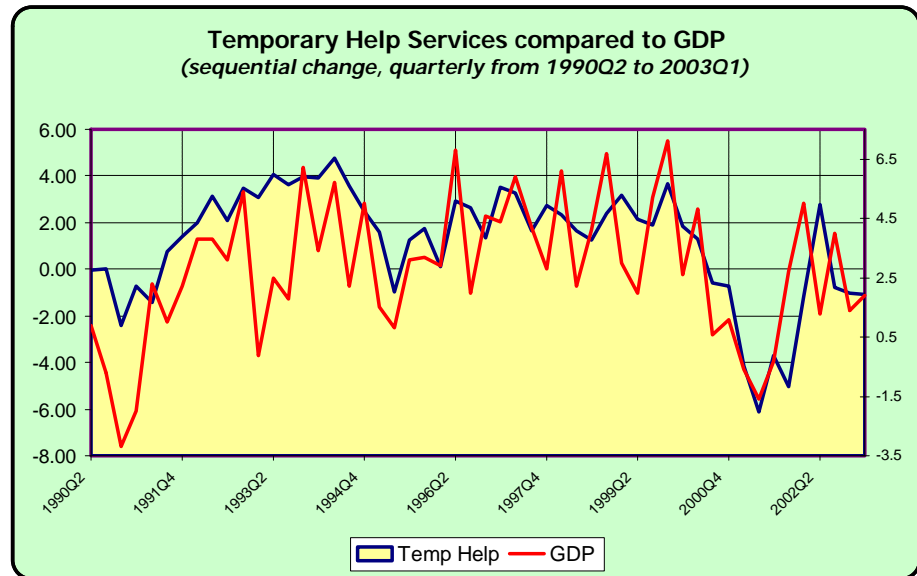
When looking at sequential, or changes from the previous period, compared to year-to-year changes, slightly different patterns emerge.

Although the data maintains the same general “shape” (see the first chart on the previous page), the changes are more angular because the volatility of looking at more immediate changes. To state the inverse, time tends to make data look “smoother”.

However, when compared to the first chart on the previous page, the highs aren’t as high and the lows aren’t as low. But the changes from period to period are relatively more radical in relation to one another, hence the more “angular” trendline.

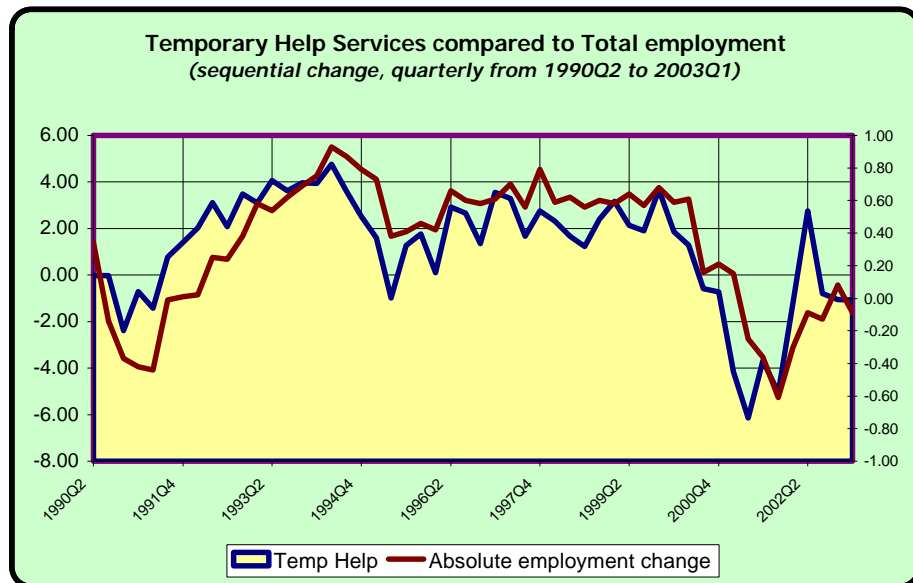


And the previous conclusion about the essentially leading/coincident relationship between changes in GDP and employment in temporary help services continues to hold when the two series of data are looked at on a sequential basis. Actually, this conclusion may be clearer when looking at sequential data – *changes in GDP and temporary help employment nearly move in unison. And the part that is not “nearly” makes GDP a leading indicator of temporary help employment (that is change in GDP occurs before change in temporary help employment), contrary to widespread staffing industry thought.*



GDP acting as a leading indicator is most clearly seen when its growth peaked in 2002Q1 before dropping the next quarter although it did recover somewhat in the subsequent period. Temporary help employment growth didn't “peak” until the following period, 2002Q2, before falling off.

However, an “eyeball” examination of the changes in absolute employment numbers on a sequential basis tend to reject the idea that temporary help employment leads overall employment; there several instances when the peaks in these two data sets occurred at the same time.



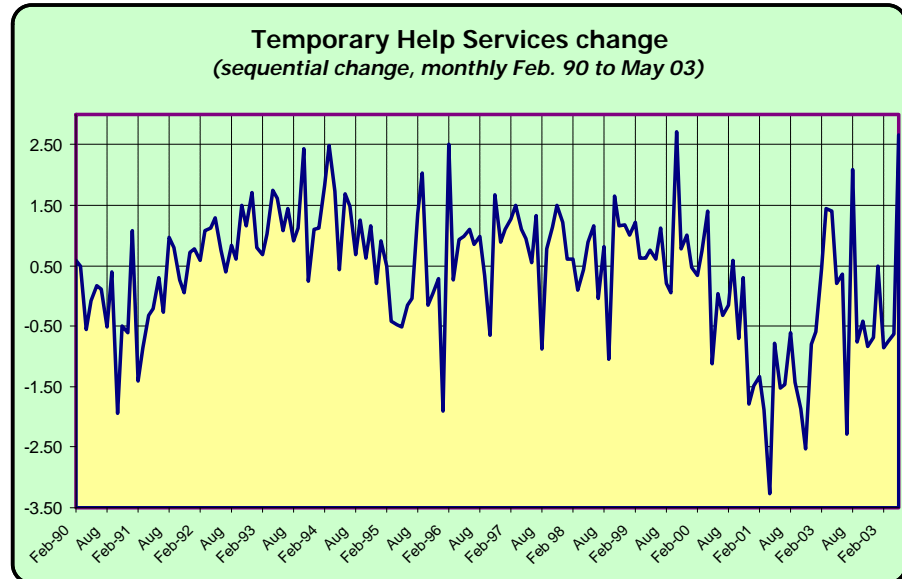
Although several peaks occurred in the same quarter – 1994Q2, 1996Q2, 1997Q2, and 1999Q4 – to draw a conclusion that both temporary help employment and overall employment tend to peak simultaneously before dropping, the regression analysis confirms that temporary help employment is strong predictor of overall employment growth on a quarterly basis, at least for the immediately future three quarters. However, spurts of employment growth in the two data sets tend to occur simultaneously.

Monthly change

When looking at the sequential monthly changes in temporary help services employment, although the data follow the same basic pattern as previously seen, the shape of the trendline is very unstable because of the volatility of monthly data.

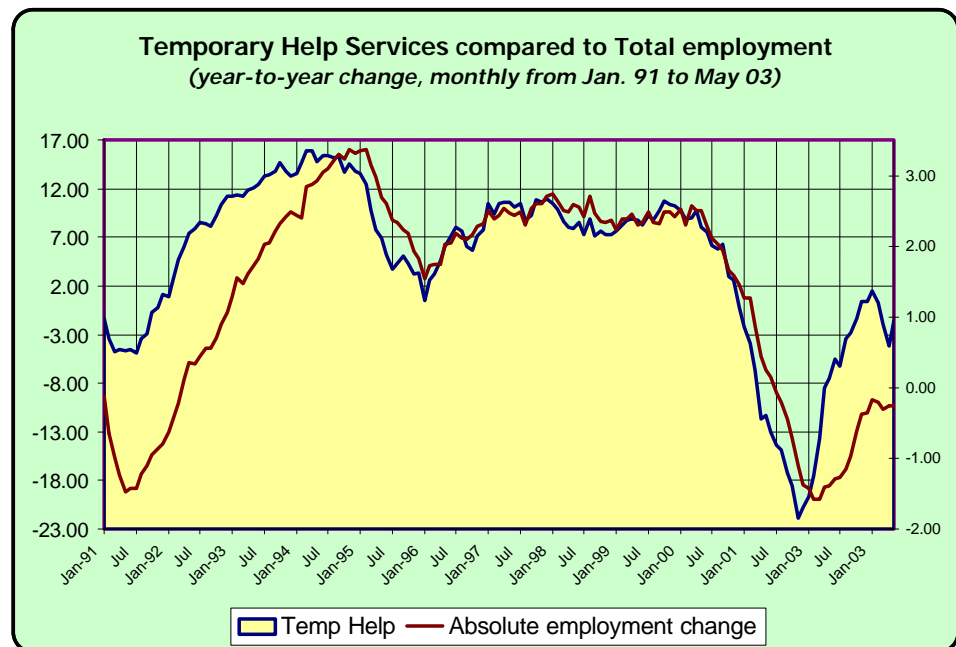
Year-to-year data is smoother and follows the same basic pattern as seen before although monthly trendlines are more “jumpy”, again because of the volatility of monthly data when compared to quarterly data.

As seen with the quarterly data, the monthly data confirms that changes *in temporary help services certainly tend to run ahead of total employment, but, when it does, only by a few months.*



Keep in mind that in the table to the right, there are different scales for each data set so only peaks and troughs are comparable, not the difference between the angles of the slopes. *Therefore, on a month-to-month basis, the trend in temporary help employment clearly runs ahead of and the overall employment trend although there are instances when the two appear to be concurrent.*

The trend is that total employment tends to only lag temporary help employment by a few months, not the six to nine months as often cited by industry interests and experts.

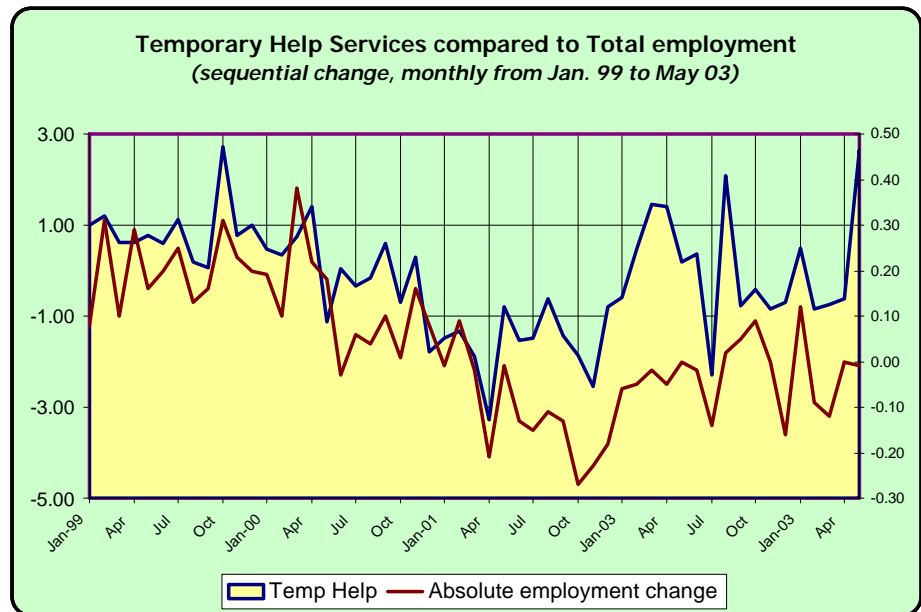


Recent trends

But examining a dozen years of data can obscure some of the more obvious trends.

When comparing changes in temporary help employment with total employment for the previous four- to five-year period, *it appears that temporary help employment does NOT lead overall employment.* This is contrary to popular staffing industry opinion as well as the historical data.

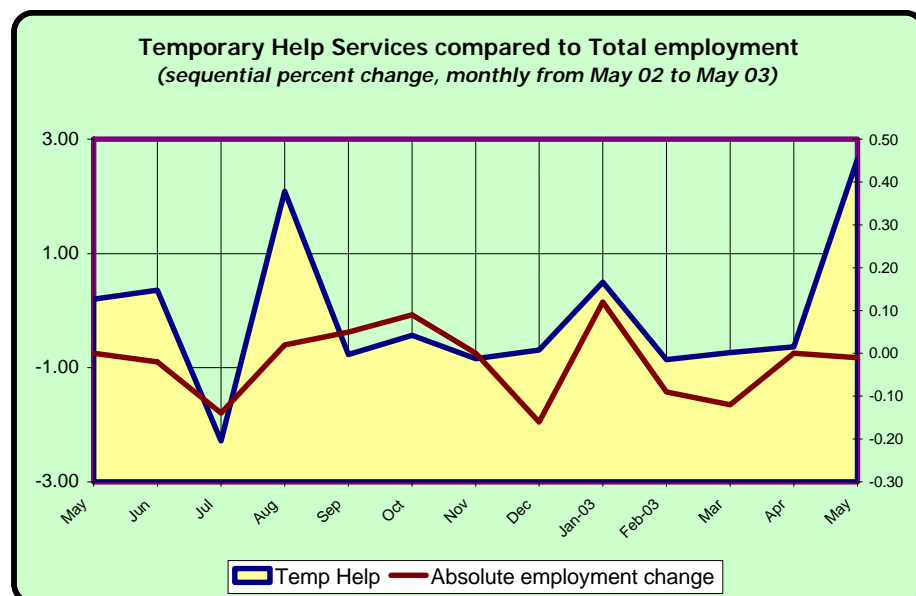
One possible explanation is that with advances in recruitment, production management, ordering systems and related technology, temporary help may not necessarily be a leading indicator of employers' personnel needs as it once was.



Obviously this brings up larger issues that staffing executives should be aware of how to address. If companies aren't using as many temporary employees as a precursor to hiring more of their own employees, their reasons for using staffing services could be changing and staffing sales executives should be sensitive to this possible shift. Or is this an indication of a larger labor-economic development in the current recession/recovery cycle?

And does the trend for the past 12 months support the idea that temporary help is not a good leading employment indicator?

The table to the right tends to support the thesis that temporary help is, at least for the past 12-month period, a coincident indicator. With a few exceptions, changes in directions between the two data sets occurred simultaneously.



In June 2002, July 2002, October 2002, December 2002 and January 2003

temporary help employment and total employment moved in the same direction. It remains to be seen if the departure of the two trendlines in May 2003 when total employment was flat and temporary help employment grew 2.65% means temporary help returned as a leading indicator or an aberration of the data.

Staffing-related highlights about changes from staffing-related SIC codes to NAICS:

- ◆ Staffing/recruitment services are classified under the Professional and Business Services supersector (60) and two NAICS major sectors, Sector 56 (Administrative and Support; Waste Management and Remediation Services) and Sector 54 (Professional, Scientific, and Technical Services).
- ◆ NAICS Employment Services industry group – 5613 – consists of three parts: Employment Agencies (56131), Temporary Help Supply (56132) and Professional Employer Organizations (56133), which is more commonly referred to as professional employer organizations or PEOs. *[Interestingly, the official NAICS list labels 56133 as Employee Leasing, but when the Bureau of Labor Statistics started reporting employment data with NAICS on June 6, 2003, the label was changed to PEO.]*
- ◆ Executive Search is 541612, officially labeled as Human Resources and Executive Search Consulting Services.
- ◆ FYI, the fifth digit of the NAICS code is the international industry level indicating there will be comparability for most industries between the United States, Canada and Mexico. If present, a sixth digit in a NAICS code is national detail; it provides the nations the flexibility for more in-depth statistics; if the sixth digit is presented and is a zero, there is no further detail beyond the five-digit level.

Historical note: prior to the 1987 revision of the SIC codes, Personnel Services was SIC 736, Employment Services (perm placement agencies) was 7361 and Temporary Help Supply was 7362. When BLS realized that the relatively new employee leasing (PEO) activity was being reported under SIC 7362, a new number (7363) and a new category name, Help Supply Services, was assigned to include both temporary help and PEO activities. In 1997, when 1997 NAICS codes were developed, the government was convinced of the fundamental differences between PEO and temporary help services and the folly of including them in the same category so it gave them separate classifications in NAICS.

Brief primer on NAICS:

- ◆ NAICS is a result of Nafta (North American Free Trade Agreement) to better synchronize economic and labor data between the three Nafta partners – Canada, Mexico and the United States.
- ◆ NAICS is conceptually different than the previous SIC system; NAICS is based on a production method concept (**how** products are produced versus **what** is produced as in the SIC system), emphasize new and emerging, high-tech and services industries and to better reflect a services economy than what could be accomplished by the SIC system.
- ◆ Additionally, auxiliary industries are classified by its primary activity, not according to the industry/establishment they served as under SIC. For example, a separate warehouse for a manufacturer had been classified under manufacturing; under NAICS, the warehouse is classified under Warehousing and Storage, not Manufacturing.
- ◆ Unlike the SIC system that was only updated every dozen years or so, a five-year review and updating cycle is planned for NAICS.
- ◆ Most of the BLS program data will be released according to the 2002 NAICS codes, which are essentially the same as the 1997 NAICS codes (the first year).