Reach For New Services To Offer Clients
ADVERTISERS INDEX – 85
Has temporary help lost its mojo?

By Bruce Steinberg

Lately temporary help services employment has been languishing and lagging overall employment growth – and it has been losing “market share” (percentage of overall jobs) for more than one and a half years. If you believe the adage that temporary help services employment is a leading indicator to overall employment or the general economy, then does this mean difficult times ahead? Maybe . . . but the current conditions – overall employment continues to grow at a respectable clip while temporary help employment falters – warrant a re-examination of the belief that temporary help employment is a leading indicator.

Temporary Help As A Leading Indicator

Once upon a time so long ago in a land not so far away, temporary help services was an accepted leading indicator of overall employment and maybe even the economy. The logic was quite straightforward. Businesses used temporary workers to cope with work overloads and special projects, both of which may not be on-going in duration. Businesses saw great benefit in utilizing temporary help services when they took into consideration the cost of recruiting, evaluating, hiring, and the potential risk involved with letting employees go if either they didn’t work out or the work load subsided. If the work overload eventually proved itself to be the normal level of activity, then the company would eventually increase the number of its full-time personnel. Therefore, growth in temporary help employment preceded general employment.

Incidentally, and for almost for the opposite reason that companies utilize the services of temporary help companies, general employment is officially considered a lagging indicator. Employers, for a myriad of reasons including costs and not being able to spot an economic trend until after the fact, have a tendency to be conservative in regards to employment levels and to adjust it until after a new economic direction is established. In slack times, they are hesitant about letting employees go until they can’t justify the expense of keeping them on the books; during a growth period, they tend to work current employees longer until an up tick in activity proves itself and the employer has enough steady business to support more workers. Also, there is a certain time lag between realizing when more workers are needed and when they can actually be brought on board.

And if temporary help was a leading indicator of overall employment and changes in overall employment lagged the overall economy, then logic would dictate that temporary help was also a leading economic indicator. Running a staffing company would be simpler if only it was an absolute truth. Scientific analysis indicates it is not.

Temporary Help’s Relationship To Overall Employment Changes

Ascertaining trends just from looking at squiggling lines on a chart or graph – sometimes referred to as an “eyeball analysis” – is possible at best but erroneous and misleading at worse. The more scientific method is to conduct a regression analysis to determine if there is a relationship between the different series of data.

An analysis confirms that temporary help services employment was a consistent three-month predictor of overall employment throughout...
Has temporary help lost its mojo?

the 1990s. In other words, changes in temporary help employment lead changes in overall employment changes by about three months. And that relationship was stable for most of the 1990s but grew in magnitude, or strength and accuracy, between 1999 and 2002. Therefore, the predictive nature of temporary help grew more accurate leading into and out of the recession of 2001, which officially ran from March 2001 to November 2001.

But then something happened to temporary help services’ ability to predict overall employment changes. It broke. The regression analysis found that there is essentially no predictive relationship between temporary help and monthly employment for the 2002 to 2007 time period. And if 2002 is taken out of the analysis, then there is absolutely no predictive relationship between temporary help employment and overall employment for the 2003 to 2007 time period.

gross domestic product (GDP), which is the total value of goods and services produced by the country, as a proxy for overall economic conditions is that GDP is only calculated and reported on a quarterly basis.

Although a quarterly series of temporary help employment can be created, that would decrease the number of datum points available for analysis by two-thirds. Monthly indexes of national economic activity abound and one of the more respected and accurate is put together by the Federal Reserve Bank of Chicago.

The Chicago Fed National Activity Index (CFNAI) is a “monthly index designed to better gauge overall economic activity and inflationary pressure” according to its producer. (The inclusion of the term “Chicago Fed” in its name is only for the purpose of identifying its origin. It is an index of national economic activity and not Chicago centric.)

Actually, for the entire 17-year period examined, CFNAI is more predicative than temporary help of overall employment changes. In other words, CFNAI trumps temporary help employment when it comes to acting as a leading indicator of overall employment. But that conclusion seems to fly in the face of employment being a lagging indicator. However, CFNAI, which is based on the weighted average of 85 separate economic indicators or components, includes several employment data series (temporary help is not included), so it comes as little surprise of the correlated relationship between CFNAI and overall employment.

Temporary Help’s Relationship To The Economy

How about the potential predictive nature of temporary help employment and the overall economy? One problematic issue with using

Trends In Temporary Help Services Employment

The market share of temporary help reached a zenith in April 2000 before bottoming out in late 2001-early 2002, which coincides for the timing of the 2001 recession. It then languished or about a year until May 2003 before slowing growing until December 2005 when it started a slow descent that continues until the present. Note that the trend line for temporary help market share is the same general shape as temporary help employment.

Although temporary help employment made some incremental gains in the last two months of 2006, it has been eroding for about the last 18 months. Although 1Q2007 GDP was very weak at up only 0.6 percent, the advance estimate for 2Q2007 shows it has come back solidly (up 3.4 percent).

While temporary help employment may have been a leading indicator of overall jobs growth in the 1990s, clearly that relationship has changed. Although several theories abound, two seem to emerge. One is that the ‘temporary fill-in’ reason for using temporary help services has abated as businesses run tighter ships.

The other is that computerization has vastly sped up the staffing process, so the staffing function is much more immediate than it had been. But these really don’t explain the long-term and apparent systemic erosion of temporary help employment as a predictor of overall employment since 2003 or its more recent trend of declining employment while overall employment continues to grow.

Is offshoring responsible for the long-term erosion of market share?

Additional factors are likely in play regarding temporary help employment losing its standing as a leading indicator as well as ongoing erosion of market share. Last month, and again this month, some private employment analyses found that only small and medium sized companies saw employment growth and that large employers actually experienced declines in employment. It would be a safe assumption to make that a significant portion of temporary help activities takes place at large companies. If large companies are declining in employ-
ment (for whatever reasons – certainly because they are offshoring more production would be a significant one), they would have less need for temporary workers – hence the lackluster performance.

Jobs that were being filled by temporaries are likely being sent offshore in a disproportionate number compared to the general employment market. This could be a major reason why temporary help employment can no longer predict overall employment as well as a contributing cause of why its market share is declining.

Is construction the short-term culprit?

Overall construction employment has not declined as much as one might expect from the reports of the housing bust and this oddity has attracted notice from analysts, economists, as well as the news media. One partial explanation could be that some of the loss has occurred outside the construction sector per

Therefore, employment that had been reported in manufacturing, which is part of the goods-producing sector, was shifted to the service-providing sector and that included temporary help services.

Conceivably, a similar situation has developed today – if current construction jobs were being filled by temporary workers and as the construction sector goes south, the strongest impact will be at the “temp” level.

One employment observer recently mused, “There may already have occurred a substantial decline in the employment of undocumented workers (e.g., illegal immigrants) in the construction industry that has gone unreported to the BLS.” This is not to imply that staffing companies are utilizing illegal workers – actually, quite to the contrary – in all likelihood most, if not all, temp workers are legals.

The question would remain which group would be let go first in declining times if a contractor was using both – higher-paid legal workers from a temporary help service or the lower-paid illegal workers? It’s logical that the higher-paid legal temporary workers would be let go first, which could be partially responsible for the more recent decline in temporary help services employment.

The Future

There are increasing rumblings among economists about the “s-word” (economic slowdown) but still little mention of the “r-word”. The current scenario is that it may happen sometime in early 2008 although no one is committing to that prediction. Recent economic news has been mixed with most negative incidents centered on the collapse of the home mortgage sector.

And, although the ills in housing credit are beginning to bleed into the corporate credit market, central banks around the world seem to be on top of the situation and are making the appropriate adjustments. But it remains to be seen how the economy will weather this potentially powerful disruption.

So, what does the staffing executive do in the midst of what may be difficult times ahead? What was, may no longer be sufficient to grow or even maintain operations. Stay close to economic developments – CFNAI has been showing recent signs of improvement. It may be imperative to begin to adjust your client mix – both geographically and by sector – to markets that are growing.


Bruce Steinberg has been active in the staffing industry for nearly 20 years. He has developed localized benchmarking and strategic planning tools for temporary help services and currently provides strategic planning, research and consulting services for the temporary help services, staffing, and the IT staffing and solutions sectors. Bruce can be reached at (703) 799-8918, or by e-mail at bruce@brucesteinberg.net (website: www.brucesteinberg.net).

(continued from page 52)

Has temporary help lost its mojo?

(continued from page 52)

(continued from page 52)