



AMERICAN STAFFING *2007*

Annual Economic Analysis



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American Staffing Association



It seemed quaint for a while—the Goldilocks economy—before the stock market took a dive in late February.

Ben S. Bernanke used the Goldilocks analogy two years ago, in July 2005, several months before he became chairman of the Federal Reserve Board.¹ In January 2006, stock analysts who follow the staffing industry said economic indicators were pointing to a “Goldilocks environment.”² And in a headline over an article about a week of good news for the U.S. economy in early February of this year, the *Wall Street Journal* also referred to the “Goldilocks’ Economy.”³

The U.S. economy has been growing, but not too fast. Employment has gone up and unemployment has gone down, but not too much. The escalating oil prices that worried econ-

omists a year ago seemed to have helped cool the economy early last year, then dramatically declined later in the year, helping to reduce inflation. The housing price bubble eased without exploding, also helping to tame inflation. Real wages edged up, but inflation seemed sufficiently in check to cause the Federal Reserve Board to pause in its interest rate hikes. Everything seemed just right.

But the staffing industry saw only tepid growth last year. Maybe a Goldilocks economy isn’t just right for the staffing industry. Maybe what looks like a Goldilocks economy is really a tight labor market in disguise, like the wolf in the tale of Little Red Riding Hood.

THE 2006 ECONOMY

Real gross domestic product increased by 3.3% in 2006, according to the U.S. Bureau of Economic Analysis,⁴ slightly better than the year before (3.2%) and still above the long-term historical average—even the strong 3.1% average of the past 15 years.

Nonfarm employment increased by nearly 2.5 million jobs in 2006, up 200,000 from the previous year, according to the U.S. Bureau of Labor Statistics.⁵ And new jobs continue to be added this year.⁶ Meanwhile, BLS reports, the unemployment rate declined by four-tenths of a percentage point last year, from 4.9% in December 2005 to 4.5% in December 2006. In October, the rate was 4.4%, the lowest it had been in more than five years⁷ and well below the average of the past three decades.⁸

The strong employment growth is explained in part by weakened productivity in 2006. Productivity—output per hour of work—grew at 1.6% last year, lower than the 2005 rate of 2.1% and well below the average annual rate of the 1990s: 2%.⁹

The productivity proposition is simple: more output, less work. Ultimately, productivity creates prosperity. It can also reduce the demand for labor. A burst of productivity growth after the 2001 recession, ranging from 4.1% in 2002 to 2.9% in 2004, contributed to a loss of jobs and slowed subsequent employment growth¹⁰ (see Figure 1).

The Business Cycle Dating Committee of the National Bureau of Economic Research, a nongovernmental organization that is viewed by most economists as the arbiter of U.S. economic cycles, determined in 2003 that a recession occurred March to November 2001. With the U.S. employment slump

extending well into 2003, some economists questioned whether NBER called the end too early. The criticism prompted the NBER committee to take the unusual step of issuing a statement to defend its dating of the 2001 recession. “Real GDP has risen substantially since November 2001,” the statement said. “However, this growth in real GDP entirely took the form of productivity growth. As a result, the growth in real GDP has been accompanied by falling employment.”¹¹

Surges in productivity without corresponding increases in consumption result in surplus labor. From 2001 through 2003, productivity grew faster than the economy, as measured by GDP.¹² So businesses needed fewer workers to keep up with demand. Indeed, businesses could shed workers and still keep up with increased demand.

Beginning in the second half of 2004 and continuing throughout 2006, the pace of economic growth slowed somewhat while still maintaining an above average rate and—importantly—the productivity growth rate markedly declined, resulting in an accelerated expansion of overall employment and a reduction in the unemployment rate.

Meanwhile, following a run-up in inflation during the first half of 2006, pressures abated later in the year. In the Federal Reserve’s Monetary Policy Report to Congress, Bernanke largely attributed the decline in consumer price inflation to lower crude oil prices. But he also noted that “the outsized increases in shelter costs that boosted core inflation last year are not expected to persist.”¹³ After 18 consecutive quarter-point increases over two years, the Fed finally stopped raising its federal funds interest rate, apparently satisfied that those rate increases, along with other contributing factors, sufficiently cooled economic growth and the risk of inflation.

FIGURE 1: Economic Growth (GDP) Drives Demand for Labor, but Increased Productivity Tempers Employment. Conversely, a Tight Labor Market Constrains Staffing Employment Growth.

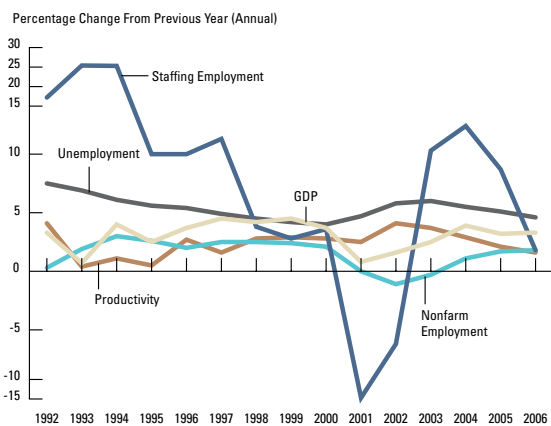
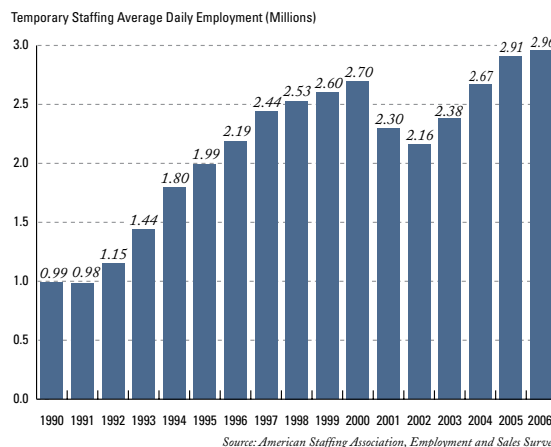


FIGURE 2: America’s Staffing Companies Match Millions of People to Millions of Jobs Every Day.



With inflation contained, moderating GDP and productivity growth, plus a strong labor market, 2006 seemed to have just the right mix of ingredients for a Goldilocks economy well suited for the growth of the American staffing industry.

STAFFING IN 2006

The American staffing industry grew all right. But modestly. In 2006, temporary and contract employment grew at only half the pace of the overall economy as measured by GDP. Staffing industry sales did better, growing at twice the rate of GDP. In contrast, staffing employment and sales have grown about three times faster than the economy over the past 15 years.

America's staffing companies employed an average of 2.96 million temporary and contract workers per day in 2006¹⁴ (see Figure 2), according to the American Staffing Association quarterly employment and sales survey (see sidebar on methodology). The staffing industry added an average of 52,000 jobs per day in 2006 versus 2005, but that was the lowest annual increase—except for recession years—since 1990, the first year of industry employment tracked by ASA. Staffing industry employment grew by 1.8% in 2006, the lowest annual rate of increase according to the ASA survey, except for three years associated with recessions: 1991, and 2001 and 2002.¹⁵ The staffing industry's employment growth rate equaled that of total U.S. nonfarm employment.¹⁶ With the exception of the three recession-related years previously mentioned, staffing industry employment growth has handily outpaced overall employment growth every year since 1990—except, now, in 2006, too.¹⁷

Even though staffing industry employment growth seemed lackluster in 2006, it nonetheless set a new average daily employment record: At 2.96 million, America's staffing companies employed more temporary and contract workers on an average day than in any other year. Moreover, the industry broke the three-million employee threshold again in the fourth quarter, as it had in the previous year.¹⁸ If 2007 turns out to be anything like 2006 (or better), average daily employment for the year will exceed three million.

Over the course of 2006, taking into account the high turnover inherent with temporary and contract work, U.S. staffing firms hired 12.4 million employees—300,000 more than in the previous year (see Figure 3).¹⁹

Some 4.44 million—53% of those who remained in the work force—moved on to permanent jobs, based on a 2006 ASA survey of more than 13,000 then-current or former temporary and contract employees.²⁰

While on any given day, the staffing industry employs just 2.2% of the U.S. nonfarm work force, it has helped millions of families earn additional income as approximately one in 11 nonfarm workers had a job with a staffing company at some point during the year.²¹

Nine out of 10 temporary and contract employees were satisfied with their staffing firm experience, the ASA 2006 staffing employee survey shows,²² which might explain in part why they have stayed longer with their firms than in recent years, particularly given the relatively strong job market. Turnover remained virtually unchanged (318% in 2006 versus 316% in 2005), although average tenure dropped marginally, from 12.5 weeks in 2005 to 12.4 weeks in 2006 (see Figure 4).²³

FIGURE 3: America's Staffing Companies Hired More Than 12 Million Employees Over the Course of 2006.

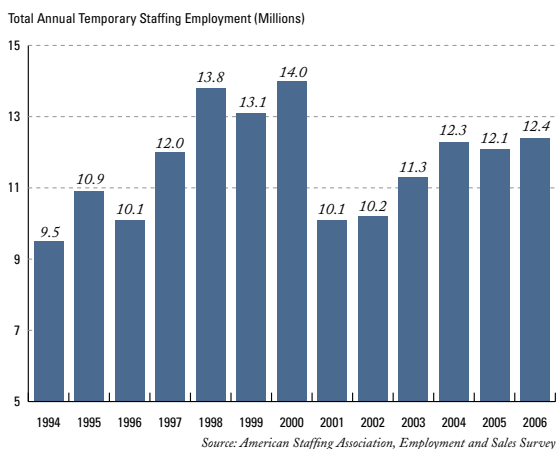
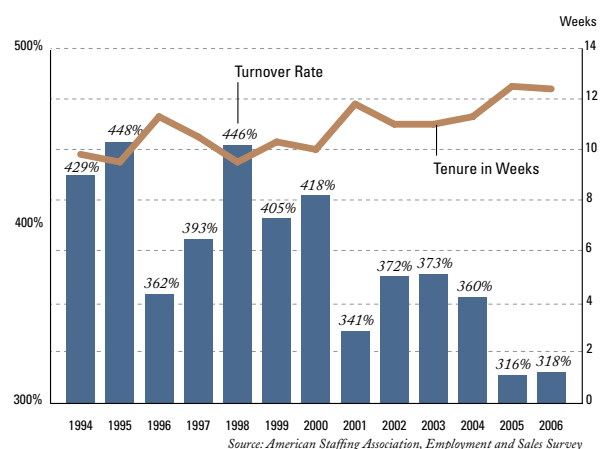


FIGURE 4: Staffing Employee Turnover Remained Historically Low in 2006. The Average Employment Tenure for the Year Was 12.4 Weeks.



U.S. temporary and contract staffing sales for 2006 totaled \$72.3 billion, according to the ASA quarterly employment and sales survey, 4.1% and about \$2.8 billion more than in the previous year, setting a new record high (see Figure 5).²⁴

Those sales include revenue from so-called “temp-to-perm” or “temp-to-hire” arrangements where employees start jobs as staffing firm employees and later get hired by clients. While these revenues account for less than 10% of total temporary and contract staffing sales, ASA continued to receive numerous anecdotal reports last year that such arrangements were rapidly growing in popularity, favored by candidates as well as clients.

In the permanent placement sector, Staffing Industry Analysts Inc. estimates that 2006 contingent search sales grew 36% to \$8.4 billion and retained search sales increased by 12% to \$6.3 billion.²⁵

Altogether, U.S. staffing industry sales totaled \$87.0 billion in 2006 (see Figure 6), 6.2% more than in 2005—and 1.9 times the rate of growth for the overall economy in 2006.

THE FLEXIBILITY FACTOR

The U.S. staffing industry has been growing faster than the economy because of flexibility: workers want it, businesses need it, and it’s good for the economy.

America’s work force is changing. Many people are looking for flexibility in their employment arrangements. In the 2006 ASA survey of staffing employees,²⁶ two-thirds said flexible work time was an important factor in their decision to become a temporary or contract employee; nearly one-quarter of

survey participants said it was an extremely important factor. More than half said needing time for family was important; one in five said it was extremely important.

Staffing employees may want flexibility, but they’re also committed to putting in the hours. In the ASA survey, 79% worked full-time (35 hours or more per week). By comparison, 83% of employees in traditional arrangements work full-time, according to BLS.²⁷

With the experience of matching millions of people to millions of jobs, staffing companies are expert at finding work assignments in virtually all occupations, from day laborer to chief executive officer (see Figure 7). 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.²⁸

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.²⁹

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 8)³⁰:

FIGURE 5: Temporary and Contract Staffing Sales Increased by 4.1% in 2006.

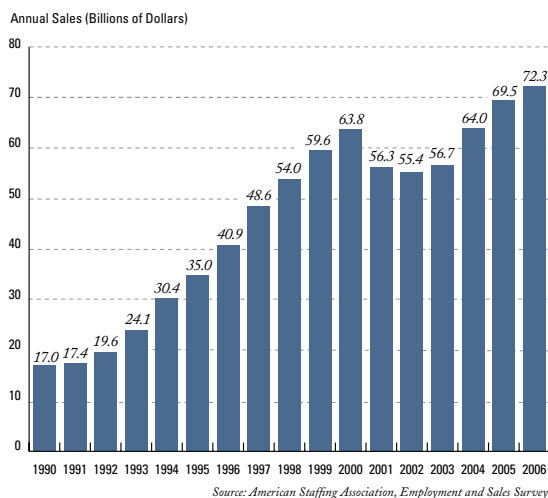
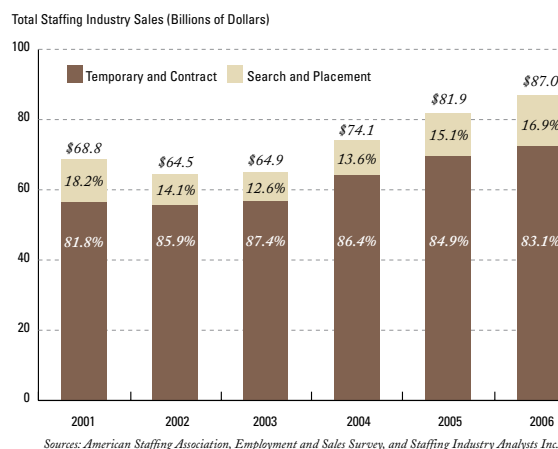


FIGURE 6: Total Staffing Industry Sales—Including Temporary and Contract, and Search and Placement—Increased by 6.2% in 2006.



METHODOLOGY

EMPLOYMENT AND SALES SURVEY
AMERICAN STAFFING ASSOCIATION

The American Staffing Association provides the only survey-based quarterly estimate of U.S. temporary and contract staffing sales. The ASA quarterly employment and sales survey—which covers approximately 10,000 establishments (about half the industry)—also tracks employment and payroll, with results that parallel the establishment surveys of the 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, an independent 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 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 independent 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. ■

FIGURE 7: Temporary and Contract Employees Work in All Occupations.

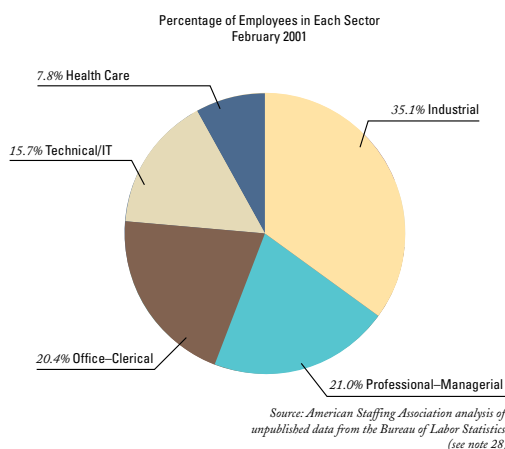
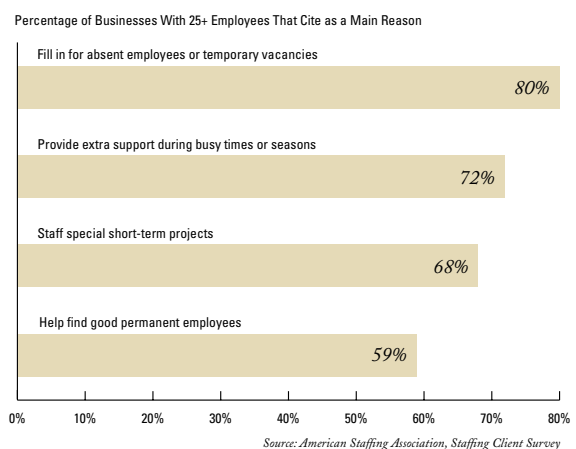


FIGURE 8: U.S. Businesses Turn to Staffing Firms To Fill Work Force Gaps, Augment Their Own Staff, and Find New Employees.



Flexibility: not only do workers want it and not only do businesses need it, but it is also good for the economy.

- 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,³¹ from call center service representatives to skilled tradesmen to airplane pilots to banquet waiters to attorneys to radiology technicians (see Figure 9).

“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.³² “Uncertainty and financial headwinds likely

constrain new job creation.” After outlining the considerable obstacles employers must overcome to create new jobs, they argue 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/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.³³

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 used staffing services, compared with 24% of companies with 100 or more employees (see Figure 10).³⁴ A survey of Conference Board members—mostly global companies—found that 90% use staffing services.³⁵ And a survey of large employers in San Diego found that 95% use staffing services.³⁶

Flexibility: not only do workers want it and not only do businesses need it, but it is also good for the economy.

Alan Greenspan, former chairman of the Federal Reserve Board, had spoken frequently—especially after 2001—about the importance of financial and labor market flexibility to the U.S. economy. In July 2005, in testimony delivering his last Mon-

FIGURE 9: Businesses Tap Full Range of Talent From Staffing Companies.

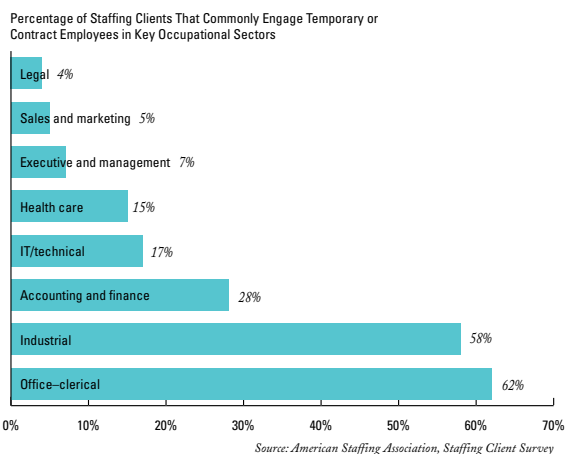
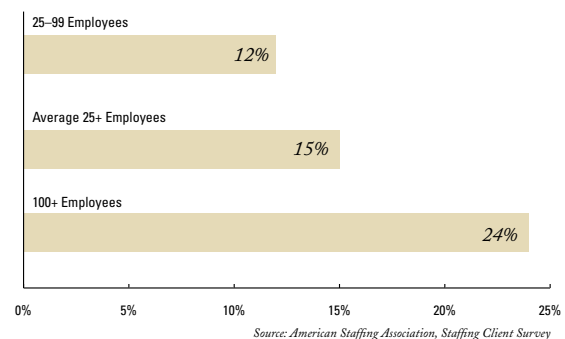


FIGURE 10: Room to Grow: On Average, Only 15% of U.S. Businesses Use Staffing Services in a Given Year. The Bigger the Business, the More Likely It's a Staffing Client.



etary Policy Report to Congress, he concluded his remarks by emphasizing the notion once again: “Openness and flexibility have allowed us [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.”³⁷

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.³⁸

The administrations of presidents Bill Clinton³⁹ and George W. Bush⁴⁰ 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.⁴¹ 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 unemploy-

ment rate (see Figure 11). 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.⁴²

Staffing firms provide immediate employment—and (taxable) real income—for workers and, for those seeking permanent jobs, a bridge to that end. In the ASA 2006 staffing employee survey,⁴³ 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 their work skills, gain on-the-job experience, and strengthen their résumés.

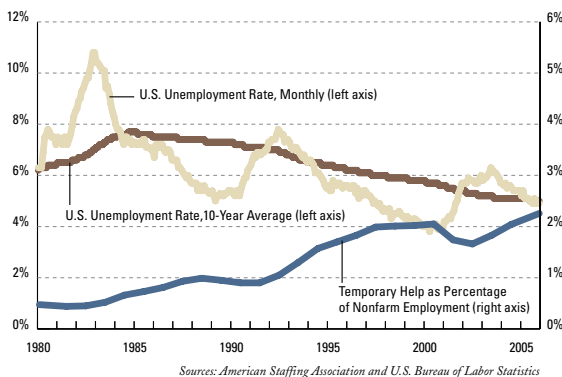
A large majority rate their experience positively: 88% said they would refer a friend or relative to work as a temporary or contract employee.

Jobs, flexibility, bridge to permanent employment, choice of alternative employment arrangements, and training—these are the benefits staffing firms offer to today’s workers. Flexibility and access to talent—these are the benefits staffing firms bring to business clients. And jobs, labor market flexibility, efficient bridging to permanent jobs, and training—these are the benefits staffing firms bring to the economy.

OUTLOOK

The U.S. staffing industry will grow faster and add more new jobs over the next decade than just about any other indus-

FIGURE 11: 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.



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

try, according to BLS estimates. In its most recent projections, BLS says that the employment services industry—which is primarily staffing—will grow at an average annual rate of 3.8% from 2004 to 2014, adding nearly 1.6 million new jobs.⁴⁴

On the agency’s list of the top 10 detailed industries expected to have the largest job growth, employment services ranks first in terms of number of jobs and third in terms of growth rate (see Figure 12).

“The catalyst for [the employment services] industry’s growth will be increases in the demand for temporary staffing services as flexible work arrangements and schedules continue to proliferate and businesses make their staffing patterns more responsive to market changes,” wrote BLS economist Jay M. Berman in the November 2005 *Monthly Labor Review*.⁴⁵

Employment in office and administrative support occupations is expected to grow more slowly than overall employment, in part because of “the greater use that organizations make of temporary workers employed by the employment services industry.”

In the industrial sector, BLS projects growth in construction jobs will offset a decline in manufacturing employment. “One-eighth of the new jobs [in construction]—and the fastest growth—is expected to be in the employment services industry.” While BLS estimates that manufacturing jobs will decline by more than 750,000 jobs, which is one-quarter the rate of the previous decade, Berman notes nonetheless that production “employment is projected to grow by nearly a quarter of a million in the employment services industry, which provides employees to other industries on a contract or fee basis.”

As for other sectors, Berman says, “Nearly 25% of all new jobs will be in the professional, scientific, and technical serv-

es sector, which includes management, scientific, and technical consulting; and accounting, tax preparation, bookkeeping, and payroll services.” About 20% of new jobs are expected to be in health care. Other leading growth sectors include education (especially at colleges) and government (mostly local).

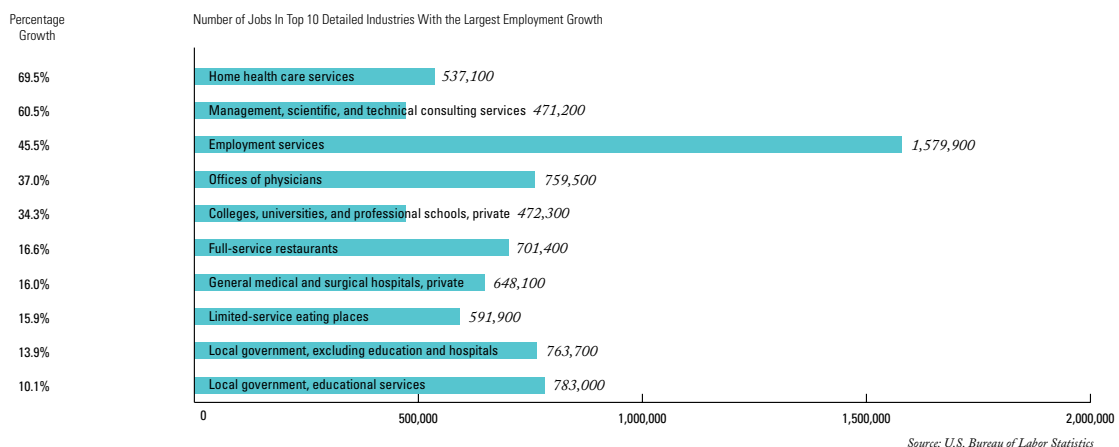
Berman also noted, “Legislation and court rulings setting standards in occupational safety and health, equal employment opportunity, wages, health care, pensions, and family leave will increase demand for employment, recruitment, and placement specialists.” Because staffing professionals are already well-versed in employment law—and ASA members are kept abreast of new developments—organizations can turn to staffing companies to access specialists with that expertise.

Among the 10 major occupational groups tracked by BLS, employment in the two largest in 2004—professional and related occupations and service occupations—will increase the fastest and add the most jobs through 2014. Just these two groups are expected to account for almost 60% of the total job growth in that period, said Norman C. Saunders, the BLS economist who oversees the agency’s projections.⁴⁶ But the two groups, he noted, are also on opposite ends of the educational attainment and earnings spectrum.

It’s important to consider the key assumptions BLS made in developing these projections: The economy will continue to grow at a strong pace, though a little slower; inflation will be restrained; productivity growth will moderate closer to historical norms; the unemployment rate will remain steady at about 5%; and both the U.S. population and work force will grow at an annual rate of 1%.

These assumptions are important because their indicators were headed in this direction when Ben Bernanke first

FIGURE 12: Employment Services—Mostly Staffing—To Create More New Jobs Than Any Other Industry Through 2014.



brought up Goldilocks two years ago. But the unemployment rate has been well below 5% for more than a year, and there is growing evidence of a tightening labor market.

While a low unemployment rate may boost demand for staffing and recruiting services, Jeffrey M. Silber, a staffing company stock analyst with BMO Capital Markets Corp., has noted that when it falls below 4.5%, the labor market becomes too tight and growth of the staffing industry is constrained by lack of supply.⁴⁷

To be sure, ASA data show that the staffing industry employment growth rate dropped from double digits in 1997 to the low single digits in 1998⁴⁸ when, BLS data show, the U.S. monthly unemployment rate fell below 4.5%.⁴⁹

A similar pattern has emerged in this decade. After growing at double-digit rates in 2003 and 2004, staffing industry employment growth fell to single digits in 2005⁵⁰ when the monthly unemployment rate slipped below 5.0%, and staffing jobs barely increased in 2006 when the rate dropped to as low as 4.5%.⁵¹

“Trends...point to sub-4% unemployment rates ahead,” according to Michael T. Darda, chief economist with MKM Partners, an economic research firm. He notes the huge upward revisions in the BLS total employment estimates for 2005 and 2006, which showed there were many—nearly a million—more new jobs created in those years than had been previously reported. However, he adds, the labor force does not seem to be expanding as fast as the number of jobs. In addition, new claims for unemployment insurance relative to the nonfarm labor force are at a level associated with sub-4% unemployment rates during the late 1960s and again during 2000. Moreover, nonsupervisory wages are rising about 25% faster than the 20-year average. But companies can afford to pay those higher wages because, Darda says, profits and productivity are currently high relative to the cost of labor.⁵²

He’s not alone in making these observations.

“Overall labor force participation has declined in recent years after rising steadily for more than half a century,” BLS economists Abraham Mosisa and Steven Hipple wrote in the October 2006 issue of *Monthly Labor Review*.⁵³ Except for people 55 and older, declines have occurred in all other demographic groups, particularly teenagers, young adults (20–24), young women (25–29), and mothers with higher education, especially if they’re married—many typical candidates for staffing employment.

After peaking at 67.1% in 1997 through 2000, labor force participation fell to 66.0% in 2004 and 2005,⁵⁴ then began to creep up in 2006, ending the year at 66.4%, according to BLS.⁵⁵

Bernanke noted the uptick in his report to Congress in February: “The tighter labor market was associated with a no-

ticeable increase in employment among individuals who had not been participating in the labor force.”⁵⁶ In testimony to deliver the report, he was more detailed: “The impending retirement of the leading edge of the baby boom generation, and an apparent leveling out of women’s participation in the work force, which had risen for decades, will likely restrain the growth of the labor force in coming years. With fewer job seekers entering the labor force, the rate of job creation associated with the maintenance of stable conditions in the labor market will decline.”⁵⁷

He iterated concerns that the tight labor market might fuel inflation: “The rate of resource utilization is high, as can be seen in rates of capacity utilization above their long-term average and, most evidently, in the tightness of the labor market. Indeed, anecdotal reports suggest that businesses are having difficulty recruiting well-qualified workers in certain occupations. Measures of labor compensation, though still growing at a moderate pace, have shown signs of acceleration over the past year, likely in part the result of tight labor markets.” But he seemed to think that businesses had sufficient profit margins in which to absorb additional labor costs without raising prices. “The markup of prices over unit labor costs is high by historical standards,” he said.⁵⁸

Janet L. Yellen, president and CEO of the Federal Reserve Bank of San Francisco, and, like Bernanke, a former chairman of the President’s Council of Economic Advisers (she served Bill Clinton and he served George W. Bush), sees a puzzle: “If the economy is growing a bit below its long-run trend, why is the labor market going gangbusters?” she asked in a January speech at a Rotary Club meeting in Reno, NV. She offered several plausible explanations, her first and most worrisome one being an economy that is stronger than measured by GDP and is building inflationary pressures. But she said she was inclined to think that the labor market is less tight than measures suggest, that it is lagging economic trends, and that the unemployment rate will soon rise.⁵⁹

A rising unemployment rate would be good for the staffing industry. Recent history shows that the industry achieves double-digit growth when the unemployment rate is between 5% and 6% (see *Figure 1*). Barring an external shock to the economy (which would likely stall GDP growth), such a rate does not appear likely for 2007.

For the staffing industry, 2007 looks like 1998, the last time the industry faced a very low unemployment rate. Only this time, overall economic growth will be slower. In his congressional testimony, Bernanke said that Fed officials were forecasting GDP growth of 2.5% to 3% in 2007, with some acceleration in 2008.⁶⁰ In 1998, GDP grew 4.2%. Slower economic growth in 2007 could reduce demand for staffing services.

Nonetheless, Staffing Industry Analysts⁶¹ forecasts temporary help sales will increase 5.2% in 2007, and place and

search sales will grow by 13%, with overall revenue increasing by 6.8%—slower than 2006's growth, but still two to three times better than predictions for 2007 GDP.

It's hard to say what will happen in 2007—as Alan Greenspan will attest. After remarking in Asia in late February that “it is possible we can get a recession in the latter months of 2007,” U.S. stock markets tumbled dramatically. But the second half of his sentence didn't get reported until days later: “most forecasters are not making that judgment and indeed they are projecting forward into 2008 at a reasonably good level with some slowdown.” Then, he went on to say, “...it is very precarious to try to forecast that far in the future. And I mean six months, eight months in the future is a very long forecast.”⁶² Three days later he elaborated on his view about a possible recession this year: “I don't think it's probable.”⁶³

The incident led dismal scientists of many stripes, including Jeffrey A. Frankel, professor of economics at the Kennedy School of Government at Harvard, to confess: “I don't think we, as a profession, ever had an ability to forecast recessions.”⁶⁴

One thing is certain. Staffing professionals are concerned about finding qualified employees. In a January survey of ASA members in which 1,081 staffing professionals responded,

“labor shortage” ranked as the most important issue currently facing the staffing industry. Three in 10 respondents (28%) ranked it as the No. 1 issue; six in 10 (57%) said it was one of the top three issues.⁶⁵

Goldilocks has fled. Today, America's staffing companies are facing the wolf of Little Red Riding Hood: a low unemployment rate eating into the pool of qualified candidates. If economic growth accelerates later this year and going into 2008, as Fed officials expect, demand for staffing services should increase. But to meet that demand, the U.S. staffing industry will need a larger labor supply to increase growth in 2007. ■

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Editor's note: This analysis, which provides an overview of the size, scope, and dynamics of the staffing industry, is intended as a general reference for staffing firms, staffing clients, industry analysts, journalists, and policy makers. The analysis is also available online at americanstaffing.net (click on Staffing Statistics).

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The American Staffing Association promotes legal, ethical, and professional practices for the staffing industry. The voice of the U.S. staffing industry, ASA and its affiliated chapters promote the interests of the industry through legal and legislative advocacy, public relations, education, and the establishment of high standards of ethical conduct.

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