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Session 2: Producer Prices for Employment Services

**U.S Producer Price Index for
Help Supply Services**

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I. The U.S. Producer Price Index for Help Supply Services

Industry Output

1. Help supply services can be divided into two categories, namely temporary help services and employee leasing services.
2. Temporary help services are not employment agencies. An employment agency matches unemployed persons with available jobs and charges a commission for this service. A temporary help service is primarily engaged in supplying temporary help (employees) or continuing help to other businesses on a contract or fee basis. The help supplied is on the payroll of the supplying establishment but is under the direct or general supervision of the business to whom the help is furnished. Many temporary help services offer their workers the same benefits that regular employees enjoy, such as dental and health insurance, 401(k) plans, paid holidays, and vacation pay. The average length of stay for a temporary worker is about 6 months, with very few staying for more than 2 years. As of June 2002, there were 2.9 million temporary workers, which represents 2.16% of the entire U.S. labor force of 134.1 million workers.
3. Temporary help services generally contract out employees in the following fields:
 - Office and clerical occupations
 - Light and heavy industrial occupations
 - Technical and professional occupations
 - Medical personnel occupations
 - Other occupations
2. Employee leasing services, commonly called Professional Employer Organizations or PEOs, are organizations that provide a client company with an entire work force or most of the work force. Usually this is done by transferring employees from the client company to the PEO, whereupon the PEO immediately leases its new workers back to the client company. A PEO and a client company enter into a co-employment relationship, whereby they share the responsibilities of employment. The PEO manages payroll, tax and benefit programs for the client company and its work-site employees, as well as providing human resource and personnel services.
5. Oftentimes, a PEO will specialize in a specific field such as healthcare or construction as opposed to diversifying into several fields. Because of specialization and economies of scale, PEOs can offer substantial savings to client companies as well as better benefit programs (including health, dental and life insurance, retirement savings plans, etc.) to its employees.

Item Selection

6. Help supply services were chosen by probability proportionate-to-size sampling based on employment. A total of 250 units were picked from the entire universe.

Index Methodology

7. The U.S. PPI program attempts to collect the actual or net transaction price. Thus, when pricing a temporary help service, the U.S. PPI program measures the billing rate. The billing rate is the total amount the client company pays the temporary help service for the placement of temporary employees. This rate should not be confused with the pay rate – which is the rate a temporary help service pays the temporary employees. Collection of the billing rate is very convenient for reporters and helps ensure reporter compliance. PEOs are also measured by the billing rate.

Weights

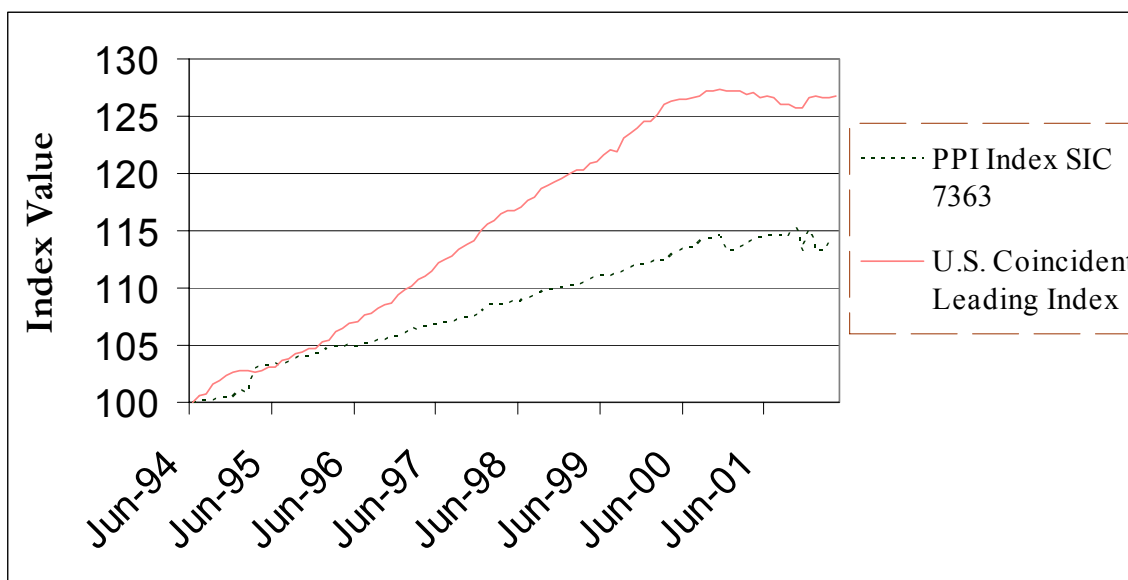
8. The PPI uses employment data found in the Unemployment Insurance File and picks sample companies based on employment figures. Once a sample has been collected, companies are assigned weights according to revenue. When revenue data is not available, revenue is estimated by employment size.

Issues in Maintaining Constant Quality

9. To maintain constant quality the index disaggregates to a specific job instead of a specific contract, insuring that substitutes can be fairly easily acquired. When acquiring a substitute item, the price determining characteristics must be the same. For example, a substitute employee must have the same skills, work in the same assigned employment sector for a company with similar client characteristics.
10. Specifically, the job characteristics of each position that we hold constant as listed on the checklist include: Length of assignment, work shift, client characteristics, level of position, years of experience, and requirements such as education level, licensing and typing/computer skills. To make sure we are also capturing discounts, a substitute employee should also come from a contract consisting of a similar number of employees and have the same risk evaluation.
11. There is no explicit quality adjustment when a matching substitute is found. Thus, any change in the billing rate for the new employee is marked purely as a price change.

Help Supply Services and the Overall Economy

11. The U.S. Coincident Index (USCI) is designed to track the current state of the U.S. economy. It is a comprehensive summary measure of U.S. economic conditions made up of coincident indicators of the U.S. economy including measures of production, employment, income and sales. Cyclical turning points in the USCI generally match the peaks and troughs in the U.S. business cycle.
12. Help Supply Services' relationship with the USCI was measured by regression analysis, using data from June of 1994 to June of 2002. This method showed that for every one percent increase in the USCI the total employment for SIC 7363 – Help Supply Services increased 0.19 percent while the index for SIC 7363 decreased about a quarter percent. This would indicate that as the overall economy improves the temporary labor force grows in number, but the billing rate, which the Help Supply Service receives per employee or position, slightly decreases.



13. In addition, a negative correlation exists between the index for SIC 7363 and the U.S. Unemployment rate. Using data from June of 1994 to March of 2002, regression analysis shows that for every one percent increase in the unemployment rate, the index for SIC 7363 decreases by approximately ten percent. This result is consistent with what we would expect. For example, in a depressed economy, there is less demand for temporary help and a greater supply of available workers. This drives down the profits of help supply services.