advance PARTNERS®

Funding Growth for Staffing Firms | *A Paychex® Company*

THE STAFFING FIRM GUIDE TO

NAVIGATING A RECESSION

The Staffing Firm Guide to **Navigating a Recession**

Some Economists like to say that business cycles do not die of old age. Instead, recessions are often kick started by policy missteps, bursting asset bubbles, or geopolitical shocks. And as a business cycle ages, it becomes increasingly vulnerable to these conditions.

2020 brings much uncertainty and economic factors: a global pandemic, Federal Reserve interest rates at zero, an oil price war, and the U.S. presidential election later this year. A recession seems imminent in the near future. To help staffing firm owners during all this uncertainty, we put together this guide on what a possible recession means for staffing and what can be done to prepare.

JUMP TO SECTION

Conditions for a Recession

After a period of long growth after the Great Recession of 2008, the US Economy seems poised on the brink of the next recession.

Although recessions are notoriously hard to predict, history shows that economic cycles exhibit consistent symptoms leading up to a recession. Sometimes a mix of policy decisions and an overextended economy can tip us in to a recession, and other times geopolitical shocks - such as a global pandemic - can curb growth. Although it is very difficult to say in advance, we can look to past data and try to find common trends. Based on history, here are five leading predictors for recessions:

1 TIGHT LABOR MARKET

One leading indicator of a recession is a tight labor market, where unemployment is so low that it prompts the Federal Reserve to raise rates in order to combat wage and price inflation. Looking at the current cycle, we seem to be in the early stages of overheating with the unemployment rate hovering just under 4%.

2 FEDERAL RESERVE RATE HIKES

Leading up to past recessions, the Fed has raised rates to cool the labor market and get ahead of inflation. Sometimes, these rate hikes inadvertently push the economy into a recession. As of March 2018, the Federal Reserve has raised rates to the highest level since 2008.

3 FLATTENING TREASURY YIELD CURVE

One of the most consistent predictors or recession is an inverted or flat Treasury yield curve, where there is little difference between short-term and long-term rates for bonds. This usually occurs 12 months before the downturn begins. Looking at the current cycle, the steady increase in the Federal Reserve rate indicates that the yield curve will continue to flatten.

4 LEADING INDICATORS DECLINE

The Conference Board Leading Economic Index (LEI) is a tool that measures 10 key variables, such as other indexes, interest rates, consumer expectations and much more. While it is not always accurate as a predictor, growth in the LEI always slows year-over-year heading into a recession and then typically turns negative a few months out. Our growth now is on par with past cycles two years out of a recession.

5 CONSUMER SPENDING DECLINES

In the past, real retail sales growth weakens significantly before a recession, about 12 months out when consumers cut back on spending as they feel the impact of slowing growth. This shows up most in discretionary purchases like retail sales. In the current cycle, real retail growth has been steady but is weaker than the historical average.

When Is the **Next Recession** Coming?

Even looking at all the leading indicators, predicting when the next recession will hit is difficult. For example, in November 2007 professional forecasters predicted that the GDP would grow by 2.5% in 2008. If you recall, just a month later the housing bubble burst and the Great Recession began.

Since World War II, there have been 11 recessions. The economic expansion we were just in began in mid-2009, making it the third longest expansion in history. Unfortunately, good times cannot last forever and many economists predict a recession within the next year or so.

Even for the most optimistic among us, there are some concerns on the horizon. Namely:

- **COVID-19 PANDEMIC**

  The stock market has taken some hits in the first quarter of 2020, suggesting that investors are still worried that the pandemic's disruptions to the economy could be more severe than expected. China, where the outbreak started, has seen a sharp decline that could offer clues to what is coming for the US.

- **FEDERAL RESERVE RATES**

  While the Fed has shown full commitment to mitigate the damage, a low-rate environment over the past few years has depleted much of its firepower. The central bank on Sunday cut interest rates to a range of 0 to 0.25%, which means it is effectively out of basis points, unless officials decide to move to negative rates.

- **OIL PRICE WARS**

  If Saudi Arabia and Russia continue to oversupply the oil market in their price war, the built-up inventory could keep crude prices low for an extended period and severely pressure the oil industry.

- **UPCOMING ELECTION**

  The U.S. presidential election later this year has left investors even more uncertain about what economic policy and the health-care system will look like a year from now, and uncertainty discourages risk-taking and capital spending.

WHAT ARE THE EXPERTS SAYING?

Here are some predictions from a few smart market thinkers, according to Bloomberg:

- Bloomberg Economics created a model to determine America's recession odds. The chance of a recession within the next year now stands at 53%, the highest reading since the U.S. exited the Great Recession in June 2009
- The surge in the recession probability reflects a sharp deterioration in financial conditions that began in mid-to-late February. As the number of cases -- and deaths -- from the rapidly spreading coronavirus increased, stocks plummeted and credit spreads widened.

How Staffing Firms Fared in the **Last Recession**

The Great Recession of 2008 is still fresh in the minds of many in the staffing industry.

The country overall saw a drop of 4.3 in GDP and 8.2 million jobs lost total, including 2 million construction jobs and 2.1 million in manufacturing. It took almost five years to recover the jobs lost during the 18 months of the Great Recession, and US staffing revenue declined 28% in 2009. More than a third of staffing employees lost their jobs.

Temporary labor in a recession can be described as FIFO: first in, first out. Flexible labor is first out the door at the beginning of an economic downturn, and the first ones back in when recovery starts. For example, as the economy began to recover in 2010, the staffing industry quickly bounced back and grew 13%. This was in contrast to the rest of the US labor market, which did not recover fully until 2014. Staffing revenue has grown ever since as a tightening labor market and skills gaps made such services even more in demand, since then nearly doubling the revenue since the dip in 2009.

TALES FROM THE RECESSION

*"I remember in 2008, **what a challenge it was** being an account manager in the business. And, you saw a lot of **staffing agencies close their doors**. And I think the big take away from that for me was that you need to **diversify your client roster**… At any time there is a downturn, someone is making money. So you need to be listening to what's going on in the market, and you need to be **ready to adapt**."*

David H., COO of an IT staffing firm based in New Hampshire

*"**We've been there**. We started the company in 2006, I left corporate America and right after that, the economy went down. So **I changed gears** and started doing outplacement because nobody was hiring. We created a leg of outplacement services helping people to find jobs through interviews and helping with their resume…So we try to **diversify our business** quite a bit to make sure we're prepared for different things that happen in the economy."*

Rick H., CEO of a general staffing firm based in South Carolina

Navigating a Recession: **Preparing, Surviving, Capitalizing**

PREPARING

"At that time if your business was all in finance, you were going to have a tough time. There was not a lot of hiring going on there. But at the same time, if you had had a good roster of candidates in regulatory, you might have done well. So, I think it's important to diversify your client roster and be prepared to change when the winds change."

Staffing companies may want to be more conservative in their investments and their balance sheet as we move into 2020 – after all, some firms went bankrupt in 2008 because they made large acquisitions shortly before the great recession.

Some steps staffing companies can take in good times to be less vulnerable to a future recession include:

- Having a flexible workforce and outsourcing
- Look for clients that diversify your portfolio in stable "recession-proof" industries
- Reducing fixed costs
- Maintaining a healthy balance sheet
- Servicing less cyclical industries and staffing less cyclical occupations
- Renegotiating credit terms

SURVIVING

"I changed gears and started doing outplacement because nobody was hiring. So we created a leg of out placement services helping people to find jobs through interviews and helping with their resume…We try to diversify our business quite a bit to make sure we're prepared for different things that happen in the economy."

Find Other Ways to Help. If no one is hiring, what core competencies can your staffing business offer? Can you help with resumes and outplacement? Can you offer your clients advice on staffing or recruiting? Don't be afraid to shift gears or think outside the box in order to keep your business going.

Know When to Hold and Fold. Your staff is the most important asset your business has. During a recession, knowing when to fire and when to hire again will be the main determinant of how your firm copes during the next recession. One of the hardest things about a recession is making a choice to lay off staff – it is not fun for anyone, it's a morale zapper, and if you cut too close to the bone you could endanger your business.

Practice What You Preach. Many staffing firms equip themselves for economic volatility by using flexible labor themselves. If a certain number of your recruiters are contingent workers, you can more easily scale down and back up to adjust to swings in demand, just as your clients can.

Watch the "Danger Zone". Despite what you might think, the most dangerous period for staffing firms is not the beginning or the middle of a recession; it's the end. As business gradually improves, growing your headcount will suck cash out of your business precisely when you are likely to be in your weakest position to fund growth. Having enough working capital available during growth periods is extremely important.

CAPITALIZING

"Any time there is a downturn, someone is making money."

For savvy staffing firms, a downturn in business should be regarded as an opportunity to win market share as your less stable competitors struggle or close their doors. Here are some things you can do to come out of a recession better than ever:

- **Renegotiate contracts.** There is never a better time to buy than at the bleakest point of a recession. A downturn can also be a great opportunity to renegotiate contracts or source alternative vendors.
- **Let naturally high turnover do the work for you.** The high employee turnover that staffing firms experience in their internal workforce acts as a break on growth during a positive economic environment, but can be an advantage during a downturn. Staffing firms are often able to put a hiring freeze in place in order to reduce their headcount, and let natural attrition reduce employee costs.
- **Take on a bigger role with your clients.** Reach out to your clients. Offer your services to help companies make tough decisions, such as career or counseling advice to laid off employees. Playing the role of advisor can help you build trust and extend your network.
- **Think toward the future.** Every action you take during a recession should place your business in a good position to benefit from the strong lift in business that will inevitably happen as the market starts to improve.

If you have specific questions about how your staffing firm should navigate a possible recession, we want to hear from you! Barb Hammerberg, CCWP, our Director of Client Development, has decades of experience in the staffing industry and helps Advance clients with business questions. Email your questions directly to askbarb@advancepartners.com.

We also have other free resources for staffing firms such as a Profit Margin Calculator, SWOT Analysis template, a Business Plan template, and Quick Guides on Financial Documents.

advance PARTNERS®

Funding Growth for Staffing Firms | *A Paychex® Company*

ABOUT ADVANCE PARTNERS

Advance Partners is the #1 provider of financial, operational and strategic support to independent staffing firms in the country. Advance Partners serves as a business partner with a simple mission: To help staffing firms grow. Advance's customizable solutions include payroll funding, back office support and a variety of strategic services to help staffing firms from entrepreneur to enterprise.