

As the Texas economy expanded over the past two decades, firms increasingly relied on temporary workers to fill short-term and seasonal staffing needs. In 1990, these employees accounted for less than 1.5 percent of Texas jobs. After peaking in 1999 and taking a recessionary dip, the number rebounded to 2.7 percent this year (*Chart 1*).

Employing temporary workers, or “temps,” has obvious advantages. Temps offer firms the flexibility to hire quickly for short periods or for short-term positions that could later become permanent. Adding permanent employees, on the other hand, is an expensive and resource-consuming process that firms—particularly mid-sized businesses—might see as a restraint to growth.

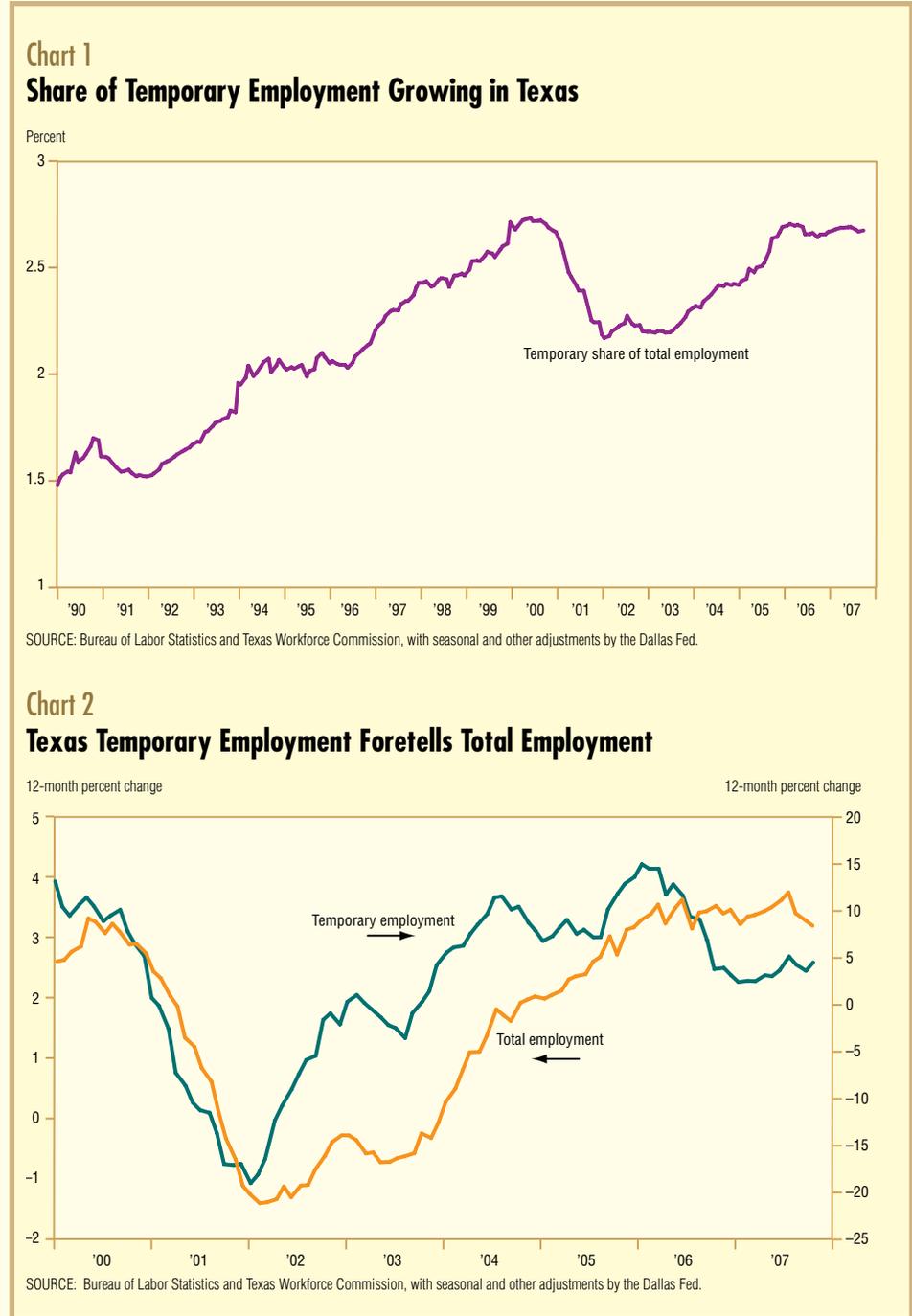
The flexible nature of temporary employment allows firms to easily add temp workers in anticipation of stronger economic activity and shed them quickly if they anticipate a weaker economy. In either case, hiring and firing are easier and cheaper with temporary workers, which suggests they usually feel the effects of business cycles before permanent workers do.

In Texas, changes in temporary employment do seem to precede those in total employment (*Chart 2*). Econometric analysis confirms that the temporary workforce has been a reliable predictor of total employment, with each 10 percent change implying a 0.7 percent change in the overall number of jobs.

It takes about five months for total private employment to arrive fully at the level predicted by changes in temporary employment. In October 2007, Texas temporary employment growth stood at 4.5 percent, suggesting that overall employment will pick up slightly in spring 2008.

Most temps are placed through staffing agencies, which help find positions and broker wages and incentives for these workers. Temp agencies also streamline the process for hiring firms.

Although temporary employees typically don't receive the same health and retirement benefits as permanent or full-time employees, they benefit from flexibility in scheduling of



shifts and working hours. In addition, temp agencies can sometimes negotiate better wages, which the hiring companies are usually willing to pay in lieu of benefits.

Since the 2000 tech bust, many Texas corporations in the high-tech sector have been using temporary workers. Full-time

employment and output in these companies haven't yet regained the lofty heights of the late 1990s, so it seems that temps are here to stay, especially as these firms attempt to maximize profit and enhance efficiency in a competitive environment.

—Raghav Virmani