Hiring temps is getting pricier

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NEW YORK -- Staffing agencies are charging companies more for temporary workers, a possible harbinger of a bump up in salaries for permanent employees later this year.

The bill rate at Calabasas, Calif.-based On Assignment Inc., which places temporary staff primarily in the information technology and health-care fields, climbed 6.3 percent in the quarter ended March 31 from the same time last year, the largest 12-month gain since 2008.

The increase in the amount the company charged was "surprising," said Tobey Sommer, a staffing analyst at SunTrust Robinson Humphrey Inc. in Nashville, Tenn.

Agencies like On Assignment are the first to reflect shifts in wages because demand for their services is more immediate, prompting "real time" changes in fees, Sommer said. By contrast, he said, employers calibrate compensation for permanent workers less frequently, causing those adjustments to lag behind.

The temp labor market is a "canary in the coal mine" for broader gains in wages, Sommer said.

"Bill-rate increases are starting in areas where demand is the strongest, like the IT sector," Sommer said. "The logical next step is for bill rates to improve more broadly and ultimately be reflected in the wage gains of permanent employees."

In Las Vegas, temp hiring has picked up, industry members say, but bill rates haven't matched business gains.

Jennifer DeHaven, president of Millenium Staffing and president of the Nevada Staffing Association, said temp placements are up more than 20 percent year over year in the first half of 2011. Millenium has also seen recent increases in temp-to-permanent hires, through which companies bring on short-term workers and convert them to permanent staffers once those companies are confident a pickup in business will last. And in information technology and health care, local staffing businesses are paying temps a little more now than they paid in 2010, DeHaven added.

But the Las Vegas economy continues to lag the nation's turnaround, and Millenium has held bill rates in check as a result, DeHaven said.

"There's a lot of hope on the horizon, and I feel really good with the way 2011 is starting to shape up," she said. "But I would not feel good about passing on an increase to clients at this point in time. We're all still trying to recover, and we want our clients to get through this recovery successfully."

William Werksman, managing partner at Resource Partners in Las Vegas, said the market for workers in engineering, sales, operations and manufacturing has grown much more competitive in the last six months to eight months. In those areas, his permanent-placement firm has "definitely reached the point where we can't find enough talent" to meet increasing demand, he said.

Like Millenium Staffing, though, Resource Partners has yet to charge clients more for placements, partly because the firm locked in long-term contracts with its customers.

Still, both DeHaven and Werksman agreed that skilled permanent workers in Las Vegas will begin to enjoy pay increases in the second half of 2011.

As companies in industries such as technology and health care look to retain their best workers, performance bonuses will likely return in coming months, Werksman said. Base salaries should rise, too, particularly for the best skilled employees.

And DeHaven said her staffing peers tell her salaries for some skilled permanent workers have returned to prerecession levels. She expects to see slight pay increases across the market beginning in the fourth quarter.

Nationally, as in Las Vegas, wage growth for temps is likely limited to workers whose skills are in relatively short supply, said Kathryn Kobe, director of price, wage, and productivity analysis at Economic Consulting Services in Washington. Nonetheless, the employment situation has started to improve enough to expect a pickup in overall wage gains by year end, she said.

Recent increases in the Wage Trend Indicator, an index created by Kobe and economist Joel Popkin for the Bureau of National Affairs, a private provider of economic data, suggest pay will climb.

The gauge points to about a 2 percent increase in the Employment Cost Index by the end of the year, which would be the biggest gain since the first quarter of 2009, the bureau said. Through the first quarter, the index, a broad measure of compensation, posted a 1.6 percent year-over-year gain, Labor Department data show.

In another sign that wage gains are broadening, funds held by Roseland, N.J.-based Automatic Data Processing Inc. for its clients are rising, said Rod Bourgeois, an analyst at Sanford C. Bernstein & Co. in New York.

Average client balances, or the money ADP receives to pay wages to customer employees, increased 12 percent in the quarter ended March 31, Chief Executive Officer Gary Butler said in a May 2 statement. Such funds climbed to a record in April, breaking the previous high reached in March 2008, Butler said on a conference call the same day.

Las Vegas Review-Journal writer Jennifer Robison contributed to this report. Bloomberg News reporters Anna-Louise Jackson and Anthony Feld contributed to this report.