

PPI Program Spotlight



U.S. Department of Labor
Bureau of Labor Statistics

Producer Price Index Data for SIC 7361, Employment Agencies

This publication provides an overview of the specific methods used and problems faced by the Bureau of Labor Statistics (BLS) while compiling the Producer Price Index (PPI) for the output of Standard Industrial Classification (SIC) 7361, Employment Agencies. It is to be used in conjunction with the PPI Program Spotlight titled, "Producer Price Index Data for the Outputs of Industries" (BLS No. 98-2).

Industry definition

The 1987 SIC Manual defines Employment Agencies, SIC 7361, as follows:

Establishments primarily engaged in providing employment services, except theatrical employment agencies and motion picture casting bureaus are included. Establishments classified here may assist either employers or those seeking employment. Establishments primarily engaged in operating theatrical employment agencies are classified in Industry 7922; those operating motion picture casting bureaus are classified in Industry 7819; and farm labor contractors are classified in Agriculture, Industry 0761.

SIC 7363, Help Supply Services, is a closely related SIC. Establishments that provide for the temporary help needs of other companies perform

a service that is similar to employment agencies but are classified into SIC 7363, Help Supply Services. Temporary workers or "temps" receive their salaries and benefits from the temporary service agency that employs them and are considered employees of that establishment. By contrast, job applicants that are recruited for full-time employment by a SIC 7361 establishment are on the payroll of the company that hired them, not the employing agency.

Other industries with related activities include outplacement, resume preparation, career counseling, and job-listing services that are all classified within SIC 8331, Job Training and Vocational Rehabilitation Services.

Price indexes available

Table A contains the publication structure for employment agencies. The primary services BLS publishes for this industry are broken down into clerical, professional/managerial, and other occupations. For this industry, the net value of shipments is equal to 99.81 percent of the gross value of shipments. Net value of shipments is defined as revenue earned by establishments within an industry from sales to customers outside their industry. Price indexes for employment agencies first entered publication in June 1994.

Table A. PPI publication structure for SIC 7361

Industry/ product code	Service industry and product	Receipts (\$1,000s)	Percent Distribution
7361	Employment agencies	4,892,899	100.0
7361-P	Primary services	4,435,234	90.6
7361-1	Clerical occupations*	1,136,840	23.2
7361-2	Professional/managerial occupations	3,162,467	64.6
7361-211	Accounting/finance/banking	503,432	10.3
7361-212	Engineering/scientific	572,082	11.7
7361-213	Health care*	164,759	3.4
7361-216	Sales/marketing	421,052	8.6
7361-217	Other professional/managerial occupations	1,501,142	30.7
7361-3	Other occupations*	135,927	2.8
7361-SM	Other receipts	457,665	9.4

* These indexes are not currently published, due to insufficient sample sizes.

** 1992 Census of Service Industries, Bulletin No. SC92-A-52, U.S. Department of Commerce.

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Spotlight

Sampling methods

The employment agencies industry has been sampled only once for the PPI. The industry was allocated 150 sample units, 26 of which were used for certainty selection of the largest executive recruiting firms. Of the total number of sample units, 26 were allocated to executive recruiter companies; and the remaining 124 sample units covered all other service providers in the industry. The sample design for this industry contained a special technique for assigning individual price quotations to sampled establishments. Four quotes were assigned to any sample unit with sample employment less than 1,000. Eight quotes were assigned to sample units with sample employment equal to or exceeding 1,000.

Altogether, 620 quotes were designated for initiation. However, given the close relation between SICs 7361 and 7363, a high level of misclassification during sampling was expected. The PPI secured cooperation for 145 price quotations for SIC 7361 and an additional 150 price quotations for SIC 7363, Help Supply Services. During the first three years of data collection for SIC 7361, 20 percent of the initially productive price quotations were lost, due to reporter cooperation problems.

Monthly price updates

Once specific services are selected, respondents are asked to update prices on a monthly basis. For SIC 7361, approximately 62.4 percent of the survey forms that are mailed or faxed each month are returned in time to be included in the first-published indexes. At the 4-month revision point, prices have been reported for 81.6 percent of the price quotations.

Although firms are asked to report their prices on a monthly basis, some respondents request to submit price data on a less-frequent schedule. For SIC 7361, prices for an average 37 percent of items are updated on a schedule other than monthly.

In responding to the PPI survey on a monthly or less-frequent basis, reporters verify or note changes in the detailed item descriptions of the sampled service. The service specifications that are most important in determining the price and quality of service of SIC 7361 include:

Type of job filled: Type of job placement is one of the most important price determining components, because professional/managerial job orders often have few potential job applicants and may take a longer time to fill than clerical job orders. Lower-skill jobs pay much less than managerial or high-skill jobs. Examples of the latter are jobs in accounting, health care, and data processing.

Type of payment: Industry prices may vary, depending on whether the employer or the job applicant pays the recruiter fee.

Share of fee received: An agency may receive the full fee paid by an employer or may split the fee with another agency that referred the employee.

Basis of fee payment: An agency's fee may differ, depending on whether a job search is on a retainer or contingency fee.

The inclusion of late-reported prices and corrections by respondents often causes the 4-month revised indexes to differ from first-published indexes. The overall average absolute difference between first-published and final index values between 1994 and mid 1997 for the employment agency industry was 0.2 index points or 0.2 percent. PPI-wide, this number stands at approximately 0.4 percent for 4-digit manufacturing SIC indexes for December 1996.

To estimate inflation accurately at the producer level, BLS needs respondents to report the actual revenue or net transaction price they receive for sales of their outputs. An estimated 82 percent of respondents for this industry report such "good" transaction prices. Approximately 21 percent of items typically change in price over a 1-year period for this industry.

Problems in constructing price indexes

Variation in Pricing Policies. There are a variety of prices that may be offered from industry operator to client company within SIC 7361. These prices include commission rates, flat fees, and time-based fees.

Commission rate. A specific percentage of the accepted employee's starting compensation. Starting compensation may include salary, bonuses, and performance incentives, depending on the contractual agreement. The most common type of price in the industry is a version of a commission rate that includes expenses. For example, an employment agency may add on several usual business expenses, such as consultant travel expenses, which are not part of the commission rate but are considered to be included in the price.

Flat fee. A rate that is the same dollar amount, regardless of the salary of the placed employee. Industry operators that offer a flat fee may sometimes augment it by collecting fees for customary and usual business expenses.

Time rate consultant fee. A fee that is paid from a client company to an employment agency to cover the time spent attempting a retained search for a client. Occasionally, an industry operator will add another component to the time rate consultant fee that will cover many out-of-pocket expenses.

To collect data that follow the industry's price setting process, a special worksheet was designed that assists data collectors in constructing transaction prices.

Discount collection. There are quantity discounts offered by employment agencies to client companies that are usually part of a yearlong contract. The discount is commonly offered in the form of a lower commission rate, given a guaranteed minimum amount of business. In addition, the commission rates are often based on a sliding scale, with several incremental incentives that decrease the fee per unit as the volume of business increases. Details of the discount are captured during initiation of the sampled establishment and are updated on a monthly basis as discounts are renegotiated.

Quality change. The typical service provided by firms sampled for this industry is the matching of client (employer) requirements and employee qualifications. The firms in this industry place people in jobs. As mentioned above, one of the most important client requirements, with respect to determining the quality and price of the matching service, is the type of job filled, e.g., accountant. Secondary client requirements may include experience level and education level.

A specific employment agency service or job order that might be sampled for the PPI will be comprised of a set of

employee requirements and fee structure arrangements. In reporting on this service each month, firms are asked to provide the fee from an actual placement that matched the sampled service. If no such placement occurred, the firm should estimate the fee that would have been received for such a placement. Since firms can always provide an estimated price, as long as they are still placing the sampled occupational category, they virtually never report substitutions or quality changes. Types of services provided by employment agencies rarely change in the industry.

Additional information

Telephone. For questions regarding PPI data, contact the Section of Index Analysis and Public Information of BLS at (202) 606-7705.

Internet (<http://stats.bls.gov/ppihome.htm>). This World Wide Web (WWW) site offers the most current index data available, as well as historical series and news releases. For more information about accessing the PPI home page, see Program Spotlight No. 98-4, "Producer Price Index Data via the Internet."