



PSG Global Solutions

# Organizations Remain Unprepared for a Recession



*HRO Today* Flash Reports are a series of ongoing research initiatives that address today's topics of interest in the HR community. These are focused briefs that can be used to support business decisions and discussions among industry practitioners and thought leaders.

This report examines attitudes about if the U.S. is already in a recession, and where organizations are in terms of planning for it. Further, forecasts regarding how areas related to recruiting will change are ascertained along with views about RPOs ability to meet challenges associated with an uncertain economy.

This study was sponsored by  
**PSG Global Solutions.**

## Methodology

Between October 5 and November 28, 2022, a series of emails were sent to subscribers of HRO Today magazine and HRO Today newsletters, inviting them to take part in an online study. Respondents were at manager-level or above within their human resources departments. The total number of usable surveys was 60, and all respondents were from North America.

## Background

Despite the assertion of many economists and financial experts that the U.S. entered a recession, many organizations have failed to plan for the implications of an economic slowdown from a workforce perspective. An unemployment rate consistently below 4% and the continued perception of a shortage of qualified workers has exacerbated the slow reaction to impending changes in the economy.



## KEY FINDINGS

There were six key findings produced by this research:



**The majority (54%) of HR executives believe the U.S. is currently in a recession.**

Further, nearly 9-in-10 (89%) are concerned the economy will be in a recession in 12 months, with nearly one-third (30%) of that group very concerned.



**Most businesses are not prepared for a recession,** despite the belief that the country is in a recession and will still be in 12 months. Most (52%) organizations are only in the early stages of discussing the scenario, with 7% implementing plans and no one having completed plans.



**Wage inflation is expected to continue to increase according to nearly three-quarters (73%) of respondents over the next 12 months.** Cost of hire was expected to increase by 70% over the next 12 months. Despite recent headlines, demands for remote work will remain high, and over two-thirds (68%) expect them to increase even more, with 20% of them expecting the demand to increase greatly, the most of any area examined.



**Factors that impact recruiting will become even more important in the event of a recession.** Over two-thirds (69%) anticipate the need to efficiently leverage in-house recruiting teams will increase in a recession. This pressure comes on the heels of near record low unemployment across many sectors of the economy.



**A lack of qualified candidates impacts time-to-fill more than any other factor,** according to 86% of study respondents. Closely related to the lack of qualified candidates is the second most indicated factor, candidates accepting other offers, as indicated by 80% participating in the study.



**Those using Recruitment Process Outsourcing (RPOs) agree that the greatest benefit of it is the ability to provide flexibility to a recruiting team,** resulting in an average agreement score of 4.4/5.0. Recruitment team flexibility during a time of great uncertainty about hiring needs is essential, which includes the response time needed to react to changes in hiring demand and priorities.

## DETAILED FINDINGS

## U.S. Economy in a Recession

*Do you feel the economy is currently in a recession?*

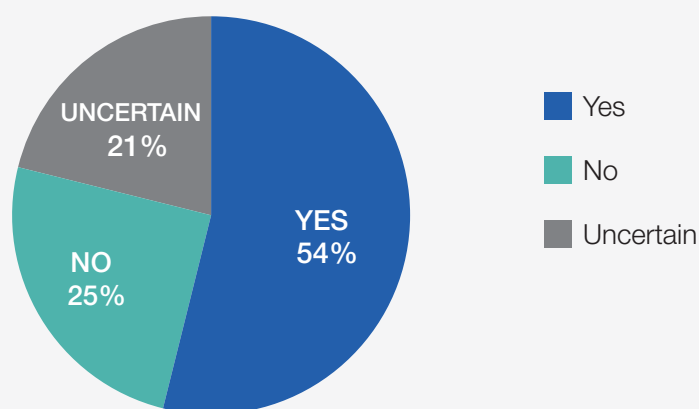
Study participants were asked if they felt the U.S. economy was currently in a recession. The majority (54%) felt it was, more than twice the percentage that felt it was not (25%).

According to the general definition—two consecutive quarters of negative gross domestic product (GDP)—the U.S. entered a recession in the summer of 2022. Contrarily, “We have a hard time believing the economy is in recession today, given a strong labor market and corporate earnings growth,” said Tim

Holland, chief investment officer at Orion Advisor Solutions. “We also remind ourselves that recessions are uncommon, as our economy was in recession just 8% of the time over the past 30 years.”<sup>1</sup>

Officially, a recession is announced by the National Bureau of Economic Research’s (NBER) Business Cycle Dating Committee, made up of a group of economists. They use a variety of metrics, including GDP, unemployment, personal income, and personal consumption to determine when a significant decline in economic activity has occurred.<sup>2</sup>

## U.S. Economy in a Recession



## Will U.S. Economy be in a Recession 12 Months from Now?

### *How concerned are you that the economy will be in a recession 12 months from now?*

Respondents were asked to indicate how concerned they are about if the U.S. economy will be in a recession in 12 months. Nearly 9-in-10 (89%) are concerned the economy will be in a recession in 12 months, with nearly one-third (30%) of that group very concerned.

But even if the U.S. is not currently in a recession, one may arrive soon. The Federal Reserve is determined to raise interest rates until inflation starts to moderate from sky-high levels. That may cause the economy to contract and enter a recession.<sup>3</sup>

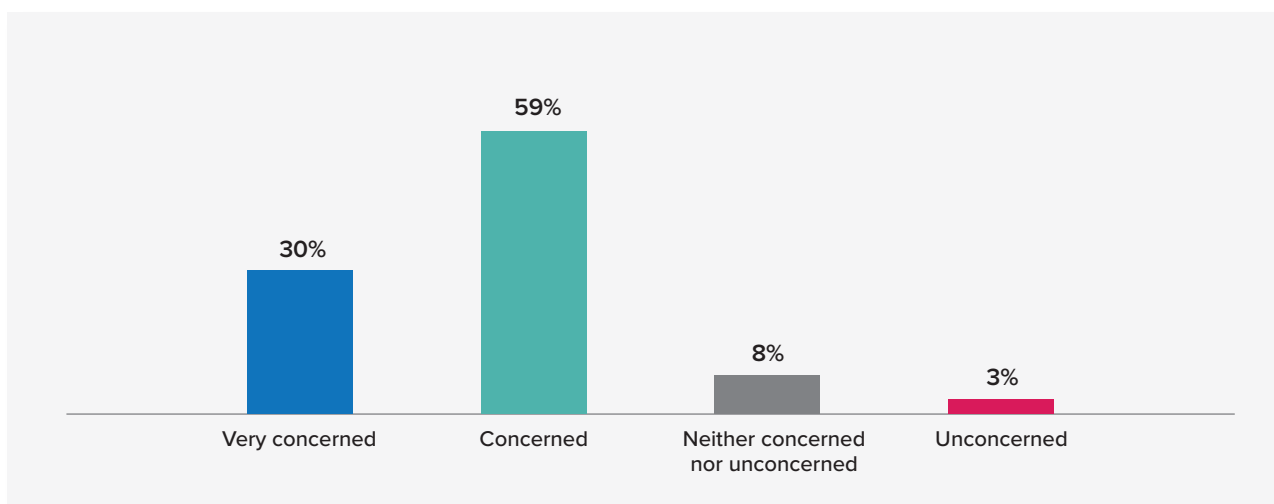
Among U.S. recession forecasts, there appears to be a growing consensus that one will occur. There is, though, some divergence on how deep and how long it will be. In early November 2022, The Conference Board predicted that a recession would hit the U.S. economy at the end of 2022, as negative economic growth couples with a jump in unemployment, which the group said could peak at 4.5%. They wrote:

*“Soft economic growth seen over the course of much of 2022, coupled with persistently high inflation readings, are consistent with a stagflationary environment...While easing supply-side constraints and a more hawkish monetary policy should help cool inflation over the coming quarters, rising interest rates will tip the U.S. economy into a broad-based recession.”<sup>4</sup>*

The Conference Board’s U.S. economy predictions indicated that the recession would last three quarters, while inflation would remain above the Fed’s 2% target until at least 2024.<sup>5</sup>

While a recession has broad implications for business such as basic supply and demand considerations, an unemployment rate of 4.5% is still considered very low by historical standards and suggests the job market will remain tight for the foreseeable future. In comparison, the unemployment rate in the United States averaged 5.74 percent from 1948 until 2022.<sup>6</sup>

### Extent of Concern About a Recession in 12 Months





## Status of Recession Planning

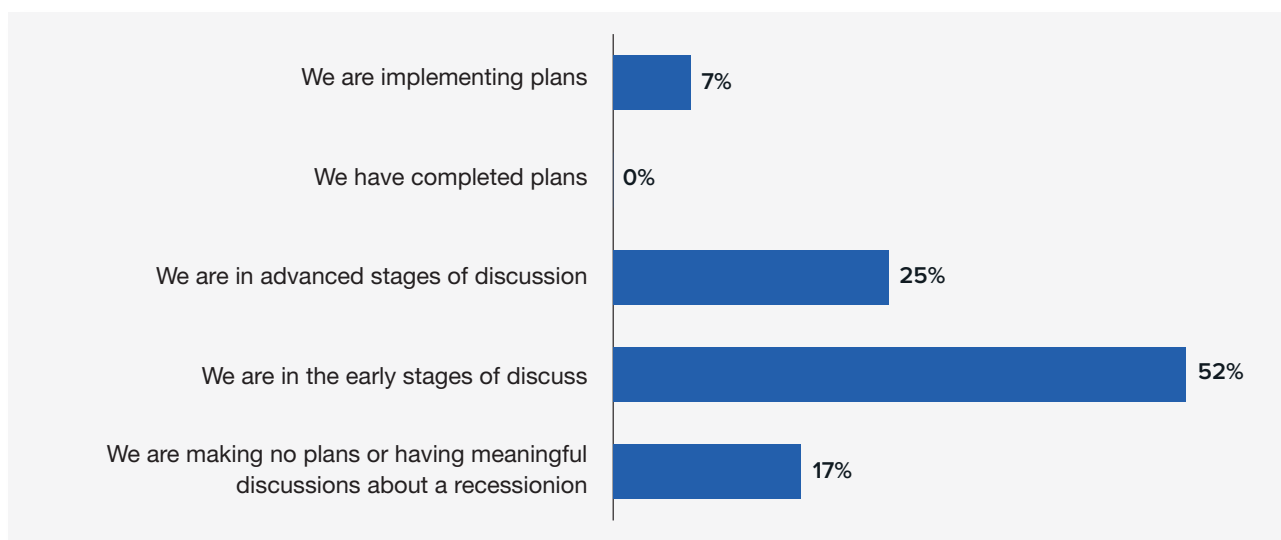
### *Where is your organization in terms of planning for a recession?*

Study participants were asked where their organization was in terms of planning for a recession. Despite over one-half feeling the U.S. is already in a recession and 89% concerned the

country will be in one in 12 months, no organization had completed plans for the business to address the recession, and only 7% are in the process of implementing plans.

Most (52%) are only in the early stages of discussion, suggesting they are not prepared for a recession.

### Status of Recession Planning



## How Areas will Change in 12 Months

*To what extent do you believe each of the areas below will change 12 months from now?*

Respondents were asked to indicate how each of a series of six areas related to hiring will change 12 months from now. Wage inflation is expected to increase the most, according to nearly three-quarters (73%) of respondents. Employers in the U.S. plan to boost salaries an average of 4.6 percent in 2023, up from 4.2 percent in 2022, according to a new study *Salary Budget Planning Report* by consultancy WTW. Employers say inflationary pressures and the ongoing challenges of finding and keeping workers are the main reasons for the higher projected increases.<sup>7</sup>

Cost of hire was indicated as second highest, with 70% of respondents expecting an increase in 12 months. This includes external costs such as agency fees, job fairs and technology, as well as internal costs like recruiter salaries, training program costs, and the opportunity cost of lost productivity.

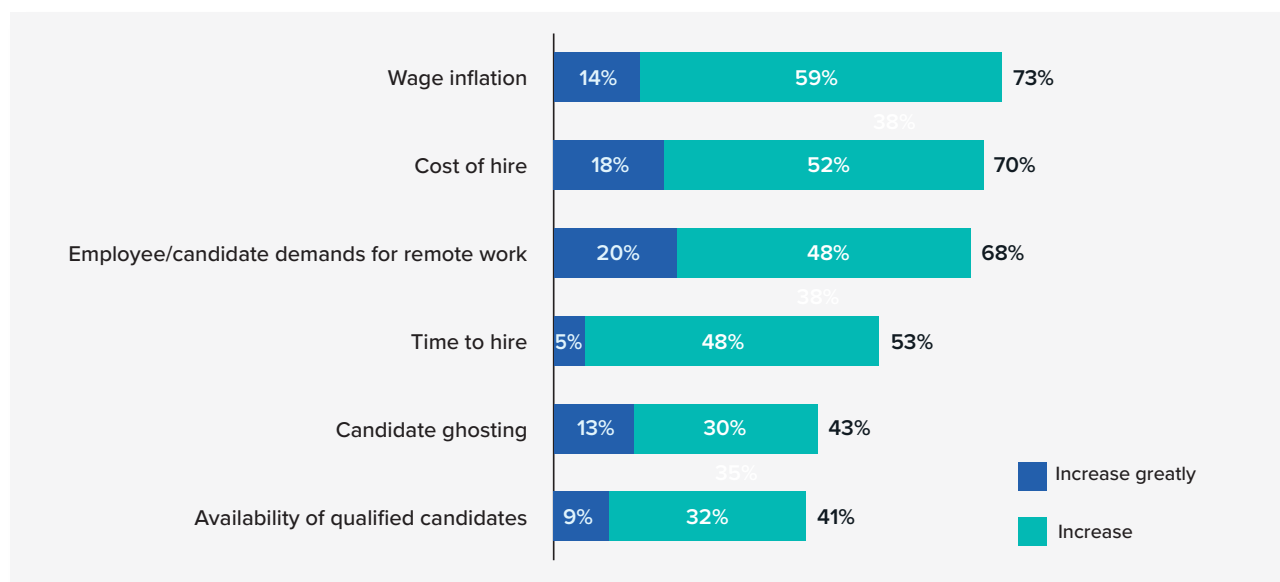
According to Co-Founder & President at PSG Global Solutions **Brian Cotter**:

*“Given the uncertainty in the current business climate, organizations are seeking both cost savings and flexibility in their approach to recruiting in 2023.”*

Demands for remote work will remain high, and over two-thirds (68%) expect them to increase even more, with 20% of them expecting the demand to increase greatly, the most of any area examined. However, recent remote policy changes to high profile companies such as Google, Twitter, Comcast, and Disney could signal fewer accommodating policies for businesses going forward.

Time to hire had the fourth highest percentage of respondents anticipating an increase at 53% and was the last area above 50%. Ongoing low unemployment rates will continue to make recruiting a challenge and put a strain on time to hire metrics.

### How Areas Will Change in 12 Months



## Services Currently Outsourced

### *What services do you currently outsource?*

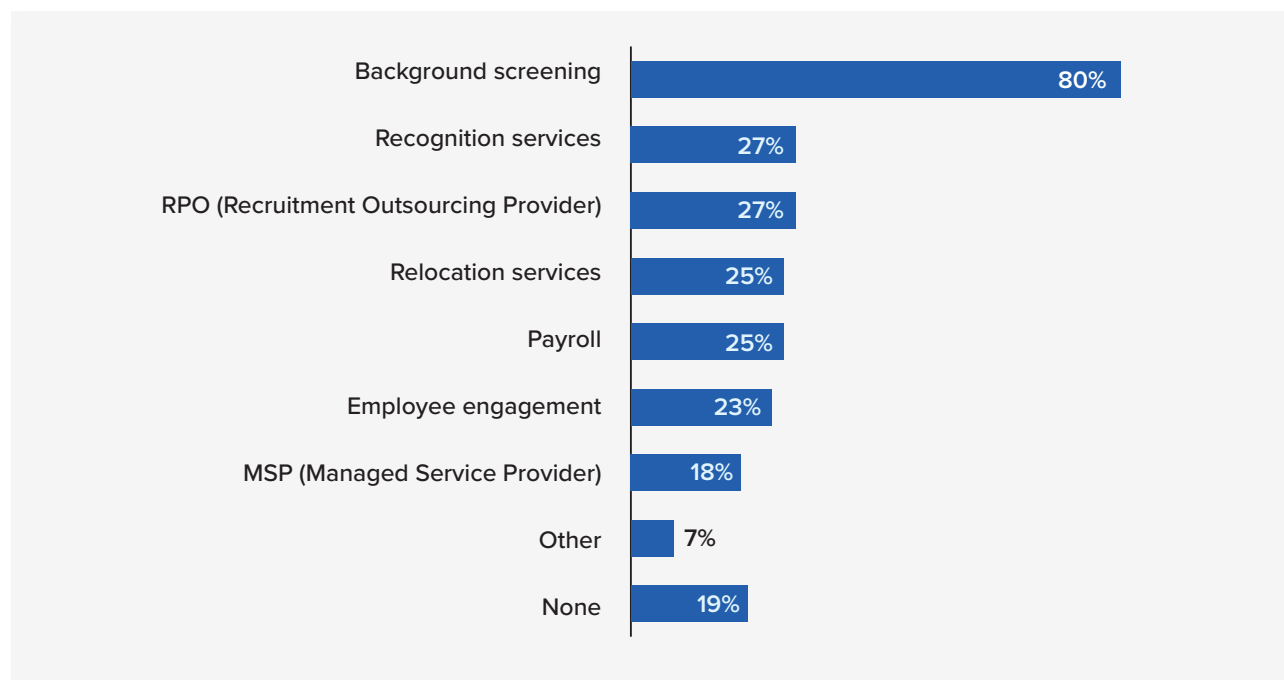
Study participants were asked to indicate what services they currently outsource. Among those that do outsource services, by far the most frequently outsourced service is background screening, with 80% of outsourcing the function. The findings of the 2020 survey from the PBSA and HR.com showed that 94 percent of employers conducted at least one type of background screening, while 73 percent of

employers had a documented screening policy.<sup>8</sup>

The proportion of other outsource services ranged between 18% and 27%. Since all survey respondents were from the HRO Today network, the reported incidence of some outsourcing, such as RPO, is likely higher than a broader sample base.

About one-in-five (19%) do not outsource any services. These mostly represent smaller sized organizations.

### Services Currently Outsourced





### Opinions about Recruitment Process Outsourcing (RPO) Benefits

*Please indicate the extent of agreement for each statement below about recruitment process outsourcing (RPO), even if you do not currently use the service.*

Respondents were asked to state their agreement with a series of five statements about RPO, regardless of if they currently use the service. The responses in the table below are broken out by total, those not using RPO and those currently using it. Average scores are shown, based on a scale of 1–5, with 1 being completely disagree and 5 being completely agree.

Overall, those currently outsourcing RPO rate the benefits much more highly than those not using it. Their own experience using it likely impacts their opinion of the favorability of the service.

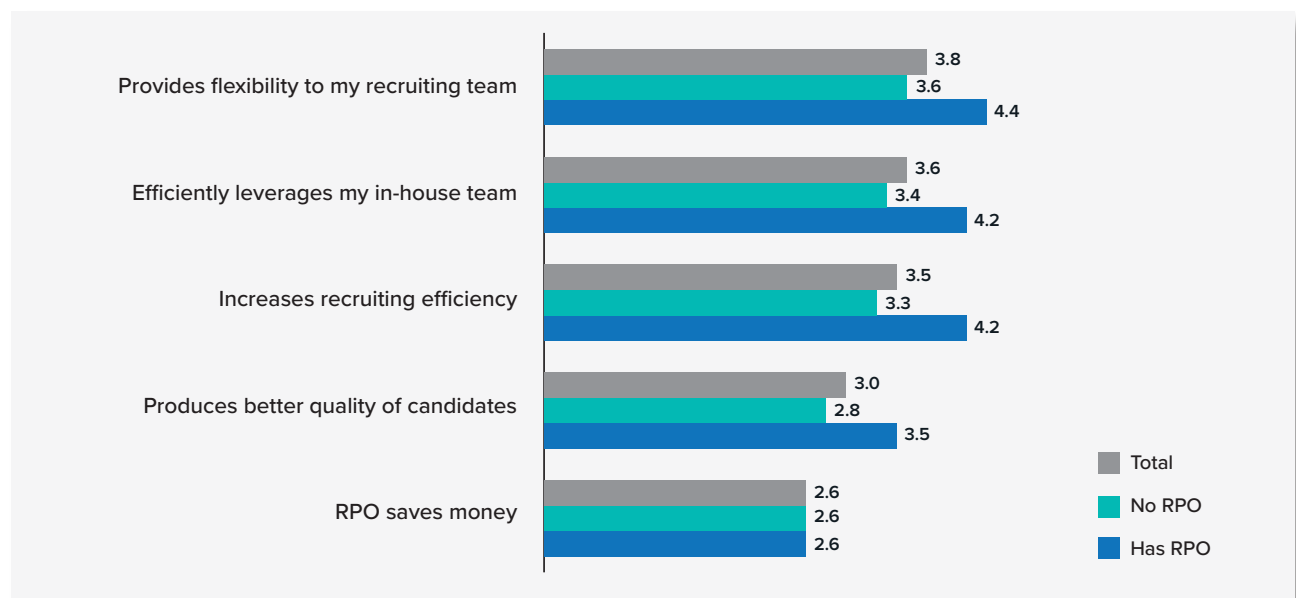
The RPO benefit with the greatest agreement is the ability to provide flexibility to a recruiting team with an average score of 3.8. However, those with RPO offer

a much higher appraisal, with an average score of 4.4. Flexibility includes rapid expansion or contraction of the recruiting team depending upon organizational needs, as well as specialization in finding hard to locate candidates with unique skills.

The area of next highest agreement is effectively using the in-house time, with an average score of 3.6, but 4.2 among RPO users. RPO providers can handle end-to-end candidate sourcing and recruitment so HR teams can focus on other areas, such as learning and development, employee branding and workforce planning. This allows business needs outside of recruiting to be addressed.

Where there is strong agreement between users of RPO and those that do not is RPO saves money, with a low average score of 2.6. While the promise of RPO was initially a way to save money, it's clear the industry will have to present a stronger business case to those who focus on this particular benefit.

#### Opinions about RPO Benefits – Extent of Agreement



## Anticipated Change in Importance of Areas Related to Recruiting in the Event of a Recession

*Do you anticipate the areas below will become more important, less important, or no change in the event of a recession?*

Study participants were asked to indicate how they anticipated the importance of each of five areas related to recruiting will change in the event of a recession. The importance of all five areas examined is expected to increase by more than one-half of respondents, suggesting a recession is going to further raise pressure on recruiters.

According to three-quarters (75%) of respondents, most feel the area that will rise most in importance are increases in recruiting efficiency. What is unique about what is being called a recession is that the job market forecast is expected to remain tight. Normally unemployment increases dramatically during economic

downturns, but this one is unique in that regard. For example, during the “Great Recession,” the unemployment rate was as high as 10% during 2009, compared to 3.7% in October 2022.<sup>9</sup>

Over two-thirds (69%) anticipate the need to efficiently leverage in-house recruiting teams will increase in the event of a recession. Organizations are almost always under intense cost reduction mandates during recessions, resulting in demands for increased efficiency across the board, so emphasis on the first two areas examined is consistent with that prediction.

Anticipation of the importance of each of the five areas is consistent with attitudes about RPO among clients of the service. RPO addresses each of the areas examined below very well because of the anticipation of greater importance on each of the areas.

### Anticipated Change in Importance of Areas Related to Recruiting



## Importance of Hiring Metrics

*Rank each of the three areas below, with 1 being typically the most important option and 3 being the least important in terms of their importance to you over the next 12 months.*

Respondents ranked three areas by their importance over the next 12 months. New hire quality was ranked the highest, meaning the most important of the

areas shown. Recruiting speed was followed by recruiting cost.

If a new hire does not meet expectations, then the speed with which they were brought on board and, to a large extent, the recruiting cost have little impact on hiring manager satisfaction. Recessionary times or not, new hire quality is foremost on the minds of hiring managers.

Importance of Hiring Metrics	RANK	AVERAGE SCORE
New hire quality	1	1.45
Recruiting speed (Openings to hires fill rate)	2	2.14
Recruiting cost (cost per successful 90-day hire)	3	2.41

## Factors Negatively Impacting Time to Fill Performance Metrics

*Please rate how much the factors below are negatively impacting your time to fill performance metrics*

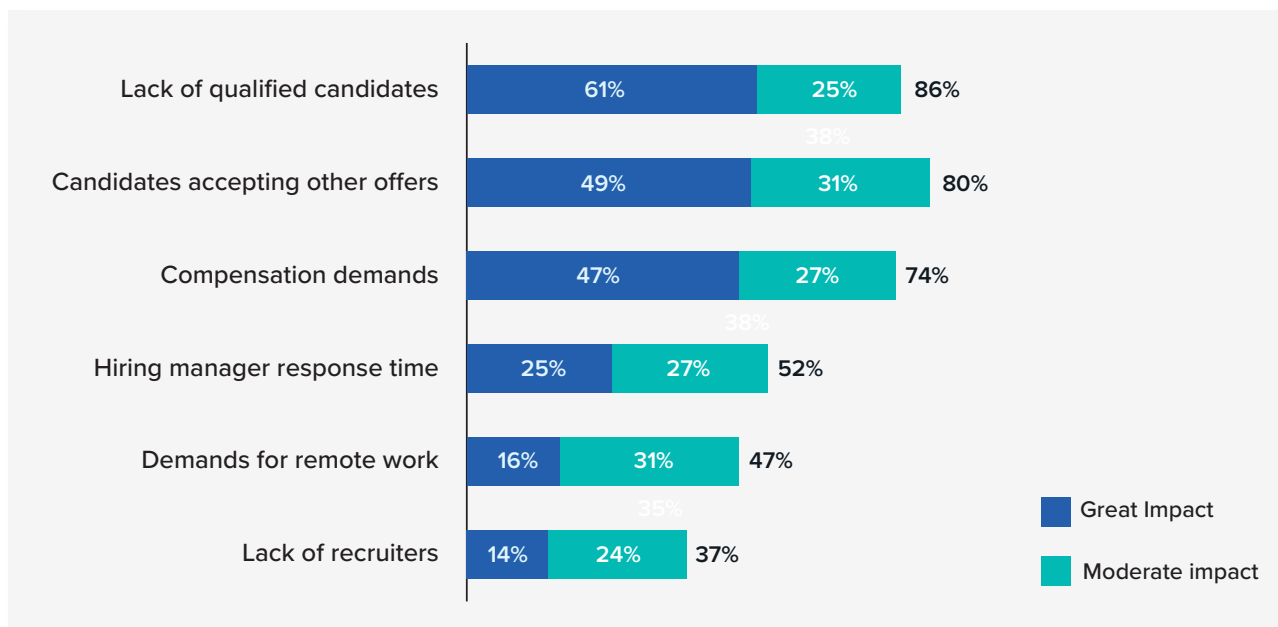
Study participants were asked to indicate how much of an impact each of six different factors negatively impact their time to fill performance metrics.

The area that has the most impact is the lack of qualified candidates, with 86% indicating it has a negative impact and 61% of that group stating it has a great negative impact. The concern about the lack of qualified candidates is very real. According to the U.S. Bureau of Labor Statistics: Job Openings, on the last business day of October, the number of job openings edged down to 10.3 million. In October, the number of hires was 6.0 million,<sup>10</sup> meaning there was about four million jobs left open over roughly the same period.

Closely related to the lack of qualified candidates is the second most indicated factor, candidates accepting other offers, as 80% cited it. Organizations have often found that most qualified candidates do not settle for the first offer they receive, as they are generally able to choose from two or three excellent job offers. Companies need to educate themselves about what to do to prevent losing candidates to other job offers, such as a faster internal process, stronger employer brands, and better management of silver medalist candidates.

Candidate demands such as compensation (74%) and remote work (47%) are also negatively impacting time to fill performance factors. Given the options available to them in an extended tight labor market, candidates can ask for more than employers are often willing to provide, at least initially.

### Factors Negatively Impacting Time to Fill Performance Metrics



## Ways organizations are adjusting recruiting plans over the next months (Open-ended comments)

*Lastly, please provide any comments you may have about how your organization will adjust recruiting plans over the next 12 months.*

Respondents were asked to answer an open-ended question about how their organization will adjust

recruiting plans over the next 12 months. The most frequently cited comment was regarding a more measured approach to staffing. **Nearly one-third (30%) stated they are implementing new policies that will result in more restrained hiring, likely in response to the anticipated impact of a recession:**

*"We're implementing a Business Hiring Committee to review all requested new and backfill requisitions."*

*"Carefully watching turnover rates versus revenue stream so we don't just arbitrarily replace people if revenue streams dip down."*

*"Much more attention paid to vacancy management and reviewing structure for efficiencies when vacancies occur."*

*"While we have not planned any layoffs, or even a 'hiring freeze', we are 'slowing' our filling rate to leave jobs open longer to 'see' if we can do without them / absorb the work elsewhere in the organization."*

Another area that was often cited was plans for a greater focus on analytics:

*"Continue to focus on effectiveness of strategies and time to fill with quality candidates."*

*"Utilization of analytics to monitor and evaluate retention and attrition of new hires in the first 12 months and costs to organization. Inclusive and belonging initiatives to brand company as great place to work for all, hiring using diversity metrics to ensure hiring of underrepresented employee demographics and communities."*

Recruiters are also looking for flexibility in the next 12 months:

*"Scaling down in-house team as demand drops, preparing flexible alternatives to be ready when it returns (CW, RPO)."*

*"We are hiring more recruiters and screeners to speed up the process. We are also leveraging our LEAN principles to review the entire recruiting process and look for efficiencies."*

More focus on promoting the Employer Brand is also a priority for many:

*"Looking to venture into more Social Media areas to get the Company name out there so people will possibly look for us by name if they're looking for a job."*

*"Inclusive and belonging initiatives to brand company as great place to work for all, hiring using diversity metrics to ensure hiring of underrepresented employee demographics and communities."*



## Notes:

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