

COVID-19 Disrupts Revenue and Profits in Q2 of 2020, though PEOs Regain Optimism

As could be expected, PEO metrics plummeted during Q2.

- Revenue growth fell off a cliff, with 44% of respondents reporting a decrease during the second quarter of 2020.
- Profits dropped nearly as much as revenue.
- PEOs experienced a comparable level of fall-off in revenue and profits, regardless of their company size.
- As a positive, workers' compensation claims continued to fall during the quarter, with 90% reporting that claims remained the same or fell in Q2.

Revenue growth had been gradually slowing since 1st Quarter of 2018 – but the past 2 quarters have shown a steep decline.

- Only a quarter of responding PEOs saw any revenue growth in Q2, compared with three quarters in a typical quarter.
- 15% of PEOs experienced a significant revenue decrease during the quarter.
- Revenue drops were mostly caused by clients reducing their workforces.
- More than a quarter of PEOs also reported their clients reduced employee wages.

Clients are reducing headcounts but mostly staying with their PEO.

- Clients did not drop off as steeply as revenue and profits.
- Client growth remained slightly positive during the quarter.
- Clients reduced employees, with WSEs per client dropping for 45% of PEOs.

Profits fell.

- The trend of gradually rising gross profits screeched to a halt in Q1 and then fell off during Q2.
- 40% saw a decrease in gross profit, with 12% reporting a significant drop.
- Operating profits also fell further from their historic trend, with 70% reporting profits were down or unchanged.

Half of PEOs maintained their headcount.

- From historic perspective, fewer PEOs added staff than in the past.
- 25% reduced their internal headcount.

PEOs' forecasts have rebounded back in line with expectations from December.

- 75% of PEOs expect growth over the next 12 months, compared with just 36% last quarter.
- Only 10% expect WSEs to decrease over the next year, compared with 50% last quarter.
- The largest PEOs are more optimistic about future growth than others.
- PEOs' Expected Growth Index* rebounded to 3.83 in Q2, from 2.78 in Q1. Interestingly, the 3.83 is the same mark PEOs reported for Q4 of 2019.

NAPEO's Pulse Survey was developed by the Accounting Practices Committee in 2017 and is conducted quarterly among members to take the pulse of the PEO industry through a series of easy-to-answer questions. For more information about NAPEO's Pulse Survey, please contact Melissa Viscovich at mviscovich@napeo.org or (703) 739-8161.

* Expected Growth Index is based on the average score of a 5-point scale where 1 = Significant Decrease / 3 = No Change / 5 = Significant Increase.