

Business Dynamic Statistics Briefing #1

Jobs Created from Business Startups in the United States

Newly released data from the U.S. Census Bureau, the Business Dynamic Statistics (BDS)¹, allow tracking business dynamics for U.S. firms and establishments in an unprecedented manner. This is the first of several briefings to be released over the coming months to highlight some of the key features of these new data.

One novel feature of the BDS is that business startups (new firms) can be tracked on a comprehensive basis for U.S. private, non-agricultural businesses. The fraction of employment accounted for by business startups in the U.S. private sector over the 1980-2005 period is about 3 percent per year. This measure is interpretable as the employment-weighted business startup rate for the U.S. While this is a small fraction of overall employment, all of this employment from startups reflects new jobs. As such, 3 percent is large compared to the average annual net employment growth of the U.S. private sector for the same period (about 1.8 percent). This pattern implies that, excluding the jobs from new firms, the net employment growth rate for the U.S. is negative on average. This simple comparison highlights the importance of business startups to job creation in the U.S.

Figure 1 shows the fraction of jobs due to business startups for all firms and for selected firm size classes: micro firms and midsize to large firms. For micro firms (firms with 1-4 employees), the percent of jobs amongst micro firms in any given year accounted for by business startups is very large – about 20 percent on average. For substantially larger firms (firms with 250-499 employees), the percent of jobs in any given year accounted for by business startups is substantially smaller but still substantial relative to net growth – about 1.3 percent of employment in this firm size class.²

Figure 1 also shows that business startups tend to be mildly procyclical. That is, in business cycle downturns (shown in shaded areas) business startups decline slightly in most of the cyclical downturns (2001 is an exception). However, it is striking that business startups remain robust even in the most severe recession over the sample period (in the early 1980s). The procyclicality is more apparent for the business startups by micro firms.

The overall business startup rate does not exhibit much of a trend but Figure 1 shows a trend decline in the business startup rate for micro firms. While understanding the latter requires detailed analysis (for which the BDS is well suited), this may reflect compositional changes in sectors such as retail trade where there is ample evidence there

¹ The BDS was developed at the Census Bureau's Center for Economic Studies with support from the Census Bureau and the Ewing Marion Kauffman Foundation.

² Large firms account for a relatively large share of overall employment so we caution the reader to the fact that a 1.3 percent contribution of startups in the largest size class can account for a considerable share of employment of all startups.

has been substantial shifts away from small, single establishment firms to large, national firms.

This briefing highlights only one dimension of the new Business Dynamic Statistics from the Census Bureau. The BDS includes measures of business startups, establishment openings and closings, establishment expansions and contractions in terms of both the number of establishments and the number of jobs. The BDS data provide these new statistics for the 1977-2005 period on an annual basis with classifications for the total U.S. private sector, by broad industrial sector, by firm size, by firm age and by state. Further information about the BDS can be found at:

http://www.ces.census.gov/index.php/bds/bds_home

