

# BUSINESS DYNAMICS STATISTICS BRIEFING: Historically Large Decline in Job Creation from Startup and Existing Firms in the 2008–2009 Recession

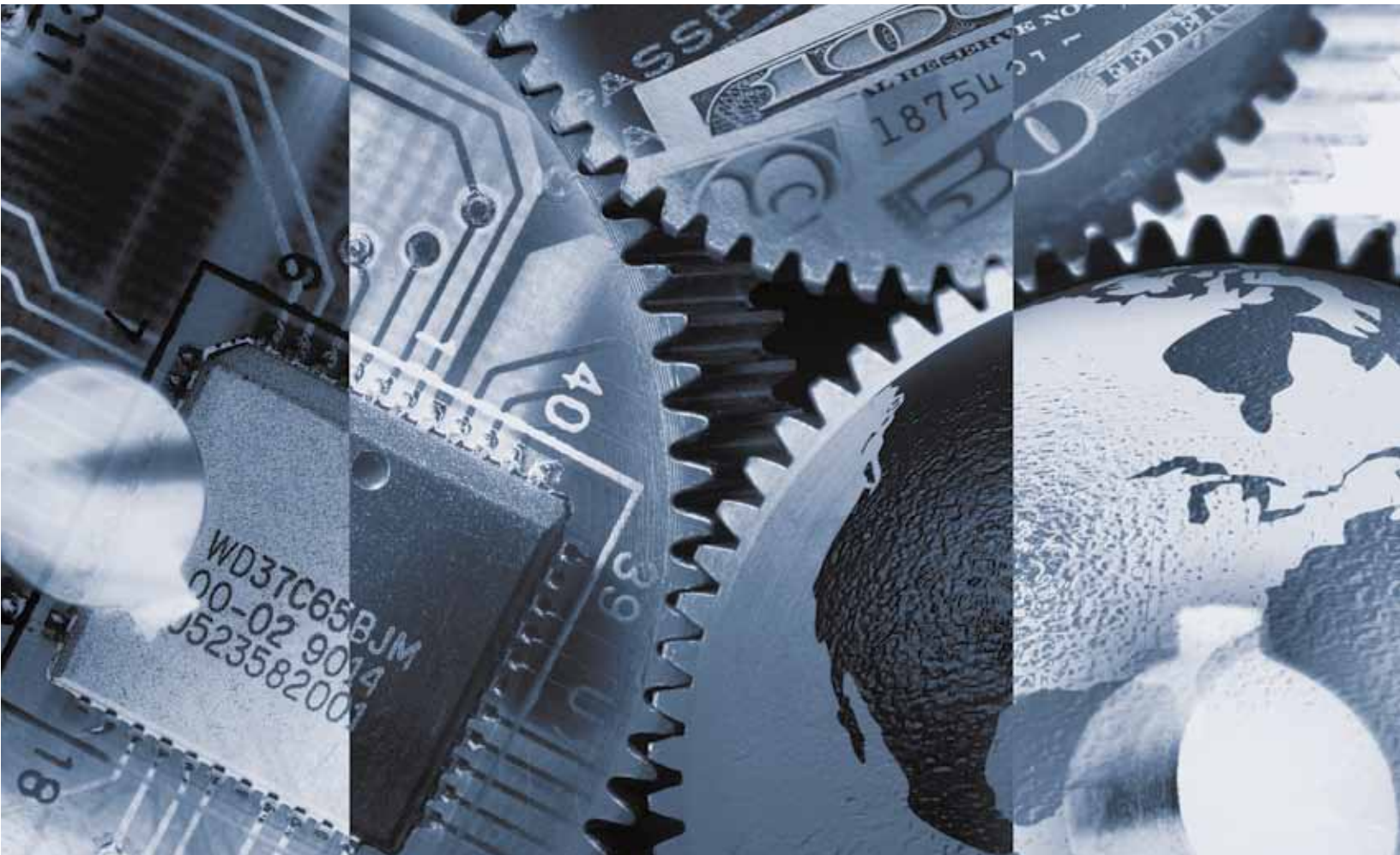
Fifth in a series of reports using data from the  
U.S. Census Bureau's Business Dynamics Statistics

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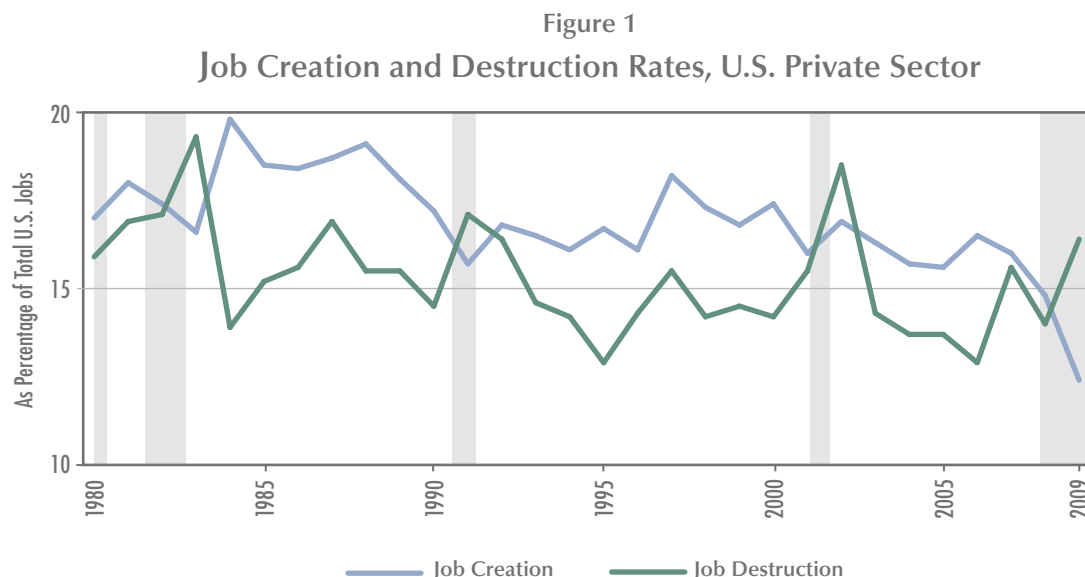
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## Historically Large Decline in Job Creation from Startup and Existing Firms in the 2008–2009 Recession

The Census Bureau’s Business Dynamics Statistics (BDS)<sup>1</sup> provides data on business dynamics for U.S. firms and establishments with paid employees.<sup>2</sup> This briefing highlights some key features of the most recent BDS update, which now has data through 2009—the trough of the recent recession.

The BDS shows a very large decline in gross job creation from existing firms as well as startups in the recession. Economy-wide job-creation rates and the job-creation rate from business startups (new firms) are lower in 2009 than in any year since at least 1980.<sup>3</sup> The historically low rates in 2009 reflect many factors, the first of which is the very large decline in overall economic activity.<sup>4</sup>

However, the recession exhibited not only a very large decline in overall activity, but also an especially large reduction in overall job creation, and in job creation from startups and new establishments. The historically low job creation rates from business startups combined with a secular downward trend in job creation and destruction rates over the past few decades contribute to 2009’s lower job creation rates.

### Large Declines in Job Creation

Figure 1 shows the BDS patterns of gross job creation and gross destruction rates for the U.S. private sector from 1980 through 2009.<sup>5</sup> Gross job creation measures the employment gains from all expanding and new businesses. Gross job destruction

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. The current update also received support from the Small Business Administration. Statistics on business dynamics are provided at an economy-wide level and by firm size, firm age, sector, and state. Starting early in 2012, the BDS will be released annually.

2. The BDS does not include non-employer firms and, as such, this brief does not speak to job creation from non-employer businesses.

3. Annual rates reflect changes from March in the prior year to March in the current year. For example, the gross job creation rate of 12.4 percent in 2009 means that, from March 2008 to March 2009, new and expanding businesses (i.e., the set of businesses that added paid employees) in the U.S. private sector added new jobs equivalent to 12.4 percent of all private-sector jobs.

4. The U.S. economy lost 5.7 million jobs between March 2008 and March 2009.

5. The BDS are computed from the Census Bureau’s Longitudinal Business Database (LBD). The LBD is a universe file, and statistics computed from it are not subject to sampling error.

measures the employment losses from all contracting and exiting businesses. It is evident from Figure 1 that there is always a swift pace of U.S. gross job creation and destruction. The difference between the two determines whether the economy expands or contracts (i.e., the difference is, by definition, equal to the net employment growth rate of the economy). Even in 2009 with a large net employment decline, expanding and new businesses added jobs at a 12.4 percent rate. This translates into more than 14 million new jobs in the private sector created between March 2008 and March 2009.

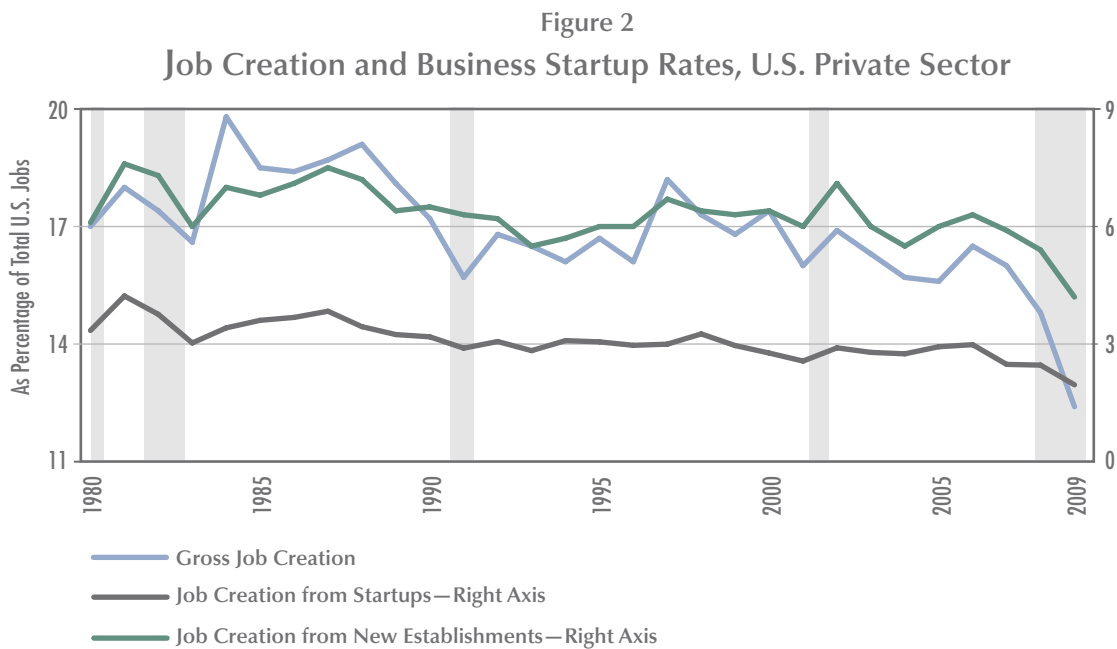
It also is evident from Figure 1 that job creation and job destruction tend to move in opposite directions during expansions and contractions. All of the recessions since 1980 experienced a large

increase in job destruction in one or more years, accompanied by a decline in job creation. However, the decline in job creation in the recession is especially large. Figure 2 shows that the large decline in job creation is accounted for by a large decline in job creation from new firms and new establishments of existing firms.<sup>6</sup>

### Secular Declines in Job Creation

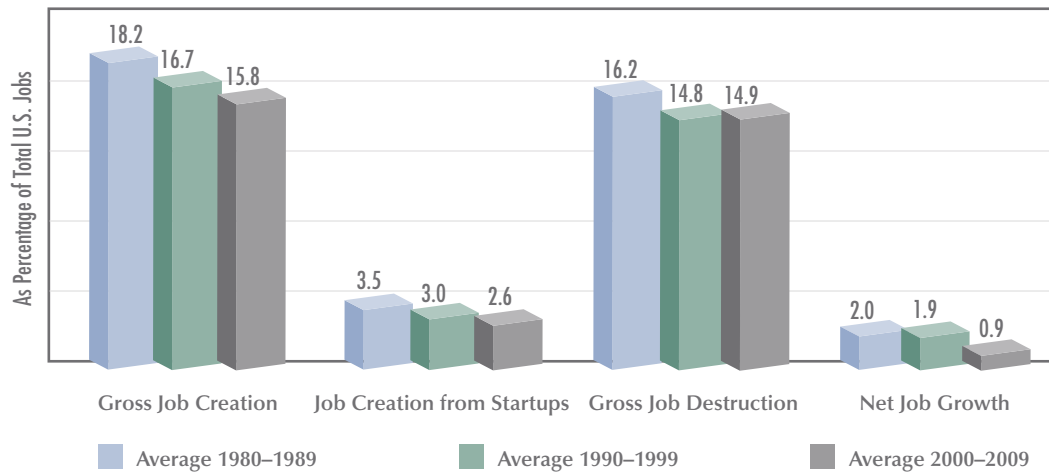
Prior to the onset of the recession, the BDS shows evidence that gross job creation peaked in 2006, even though the NBER’s official dating of the recession began in December 2007. It is, however, noticeable that job creation and destruction both exhibit a downward trend over the past few decades. As such, the decline in job creation from 2006 through 2009

**Job creation and job destruction tend to move in opposite directions during expansions and contractions.**



6. In Figure 2, the job creation from startups is the job creation from new firms. The job creation from new establishments in Figure 2 is from new firms and new establishments of existing firms. So, the former is a subset of the latter. Both are subsets of overall job creation. Between 2006 and 2009, job creation from all new establishments and from startups declined by 2.47 million jobs and 1.22 million jobs, respectively. The implied decline in job creation from new establishments of existing firms is 1.25 million jobs. Overall job creation declined by 4.88 million jobs.

Figure 3  
Trends in Gross Flows and Net Job Creation



**It is noticeable that job creation and destruction both exhibit a downward trend over the past few decades. As such, the decline in job creation from 2006 through 2009 can be interpreted as due to both secular and cyclical factors.**

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To help draw out the secular and cyclical factors, Figures 3 and 4 use the information in Figures 1 and 2 to distinguish between the trend and cycle in some simple ways. Figure 3 shows the average rates of job creation, job destruction, job creation from business startups, and net employment growth for each of the past three decades.<sup>7</sup> It is striking that both net and gross job flows exhibit a pronounced downward trend. Job creation in the post-2000 period is 13 percent lower than in the 1980s. Over this same period, job destruction is down by 8 percent, job creation from

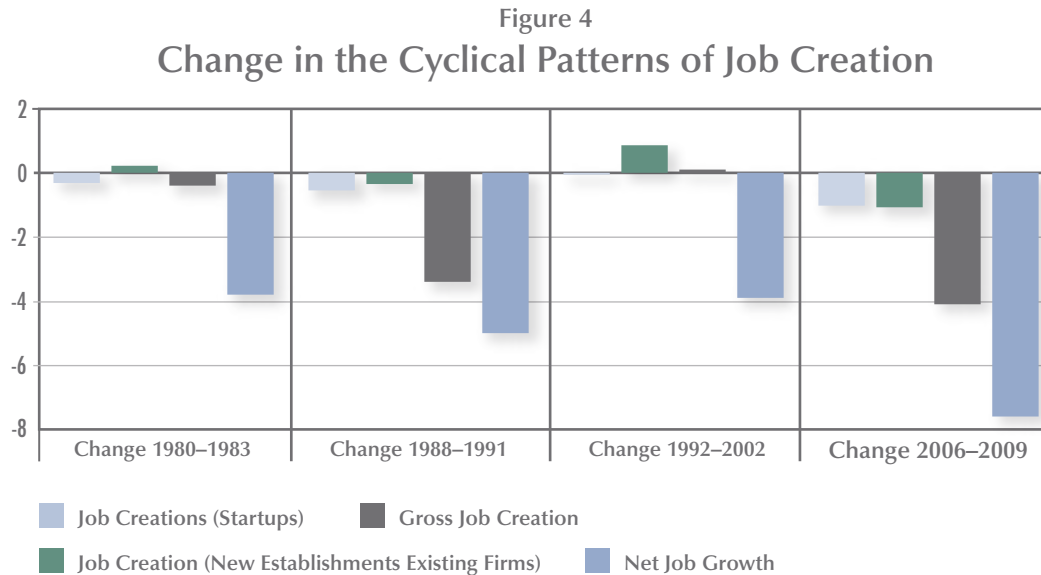
startups is down by 25 percent, and net employment growth is down by 56 percent.<sup>8</sup> Viewed from this perspective, the United States has become both less dynamic and exhibited slower net growth over this time period.

### Changing Cyclical Patterns

The changing cyclical responsiveness, illustrated in Figure 4, shows the rates of job creation, job creation from startups, job creation from establishment openings of existing firms, and net employment growth for each recession since 1980. The chart displays the change in the reported rates from three

7. Average rates for each decade are computed by taking the mean of the values reported in Figures 1 and 2.

8. These differences are calculated as the change between the 1980–1989 and 2000–2009 average rates divided by the 1980–1989 rate.



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years prior to the trough to the trough year (defined here as the year with the lowest net employment growth rate). In prior recessions, there have been relatively modest declines in job creation and job creation from startups as the economy experienced a downturn. The pattern from 1999 to 2002 is especially noteworthy in this regard. There was a large decline in net employment growth rates from 1999 to 2002, but only a modest decline in job creation from startups and an actual increase in overall gross job creation, partly as a result of the increase in job creation from new establishment openings of existing firms. Net changes, therefore, were driven by increases in job destruction, which can be seen in Figure 1. In contrast, there are very large declines in job creation and job creation from startups between 2006 and 2009.

Overall job creation fell by about 4 percentage points and job creation from startups by about 1 percentage point. As a percent of the 2006 rates, this represents a 25 percent decline in overall job creation and a 34 percent decline in job creation from startups. In combination with the declining trend, this cyclical downturn yielded the lowest rates of job creation and job creation from startups in the past three decades.



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