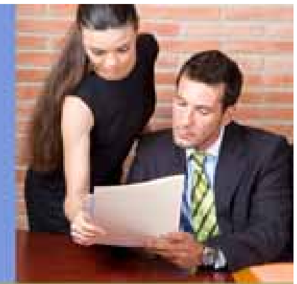
MAINE DEPARTMENT OF LABOR

Research Brief

Center for Workforce Research and Information



June 2009

TRACKING NEW BUSINESSES IN MAINE

Each month, federal and state agencies release payroll employment estimates that highlight net job growth or decline over the last month or year. These estimates give little indication of the dynamic nature of labor market change. For example, in a recent one-year period the number of jobs in Maine increased by 9,500. But during that year, more than 26,000 new jobs were created by either new businesses or expansions of existing businesses. In addition, 64,000 people were hired by employers for whom they had not worked previously, and more than 78,000 people were separated from jobs. This complex, fluid landscape of business expansions, contractions, openings, and closings is an important aspect of the employment dynamics underlying local, regional, and state economies.

We know a great deal about business expansions, contractions, and closings by industry and region. Less well-known are the characteristics of survival and failure (or job growth and decline) among new businesses. To gain a deeper understanding of the dynamics of new businesses, a longitudinal study has been launched by the Maine Department of Labor's Center for Workforce Research and Information. The study examines new business survival rates and job and payroll growth by industry to gain information to help inform economic development and business assistance policy and strategies.

Defining and Identifying New Businesses

The primary data source is the Quarterly Census of Employment and Wages (QCEW), a database of information compiled from employers' unemployment insurance tax reports. Location and industry information are associated with each employer in the QCEW database. (More detailed information about the data source and preparation may be found in the Appendix.) All data in this report are from the Maine Department of Labor's Center for Workforce Research and Information.

In the QCEW database, a "new" business is a business or worksite reporting covered workers for the first time as determined by Maine's state tax unit when a date of initial liability and an account number is assigned. This designation includes start-ups and established businesses that are first-time employers of covered workers. New worksites opened by existing employers are also counted as new businesses for the purpose of this study. A business that ends its tax liability is deemed "inactive" or closed in QCEW.

Analysis of New Businesses Started in 2005

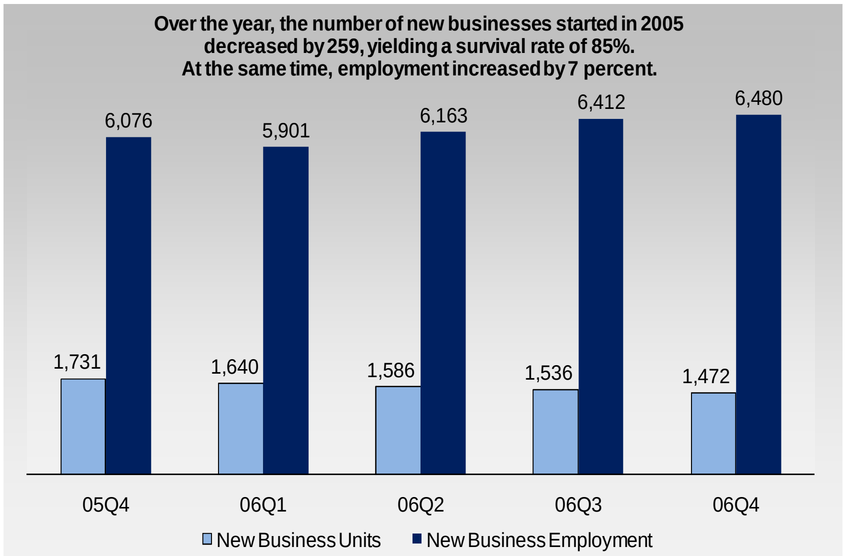
This research brief defines a new business according to the following criteria: it might be privately owned; new to QCEW during 2005; and open in the fourth quarter of 2005, the starting point of this analysis. This initial analysis examines the described group of new businesses in the fourth quarter of 2005 (2005Q4) and the fourth quarter of 2006 (2006Q4), employing quarterly averages to make comparisons to industry and state data on private sector employment and wages.

For the purposes of this analysis "survival" is determined by continued tax liability during the study period. Surviving businesses include active or open accounts reporting zero employment and wages.

Phone (207) 623-7900 TTY 1-800-794-1110 FAX (207) 287-2947

Growth and Survival

While the number of new businesses (new business units) decreased between 2005Q4 and 2006Q4, average quarterly employment increased, resulting in a 26 percent increase in the average business size from 3.5 to 4.4 employees per new business. The state average business size was nearly 11 employees per business.



Growth in Employment

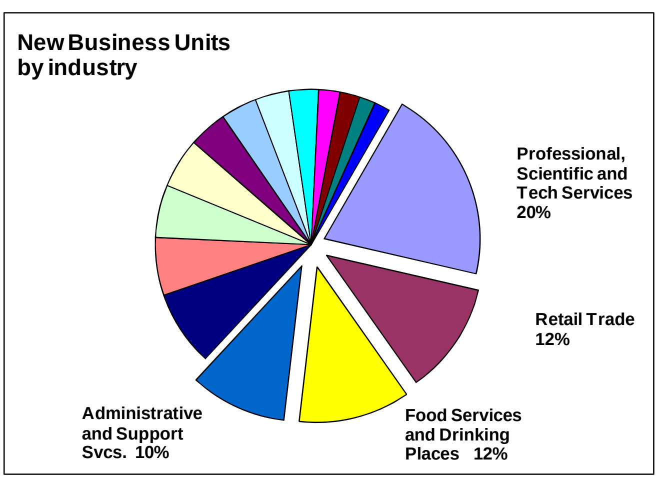
In 2005Q4, new business employment totaled 6,076. These new jobs were created during a one-year interval in which state private employment increased by 238. Over the next year, new businesses created jobs at seven times the state job growth rate, increasing by 7 percent or 404 jobs.

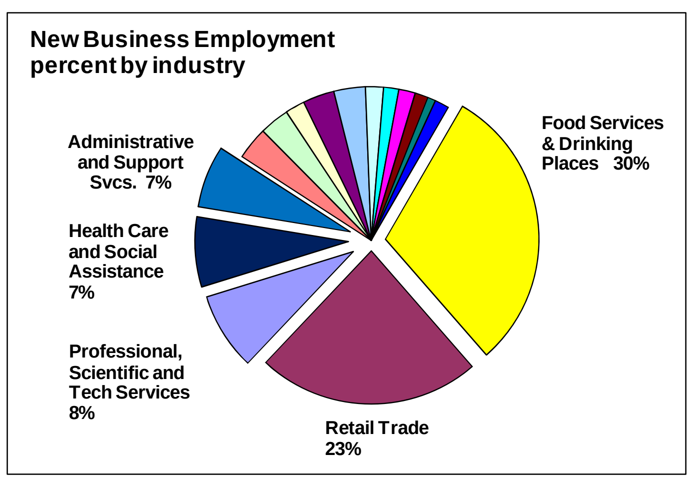
	Average Quarterly Employment			Over-the-Year (OTY) Change			
				2004Q4-2005Q4		2005Q4-2006Q4	
	2004Q4	2005Q4	2006Q4	Number	Percent	Number	Percent
2005 New Business		6,076	6,480	6,076		404	6.6%
State Total Private	497,318	497,556	501,793	238	0.1%	4,237	0.9%

Distribution by Industry

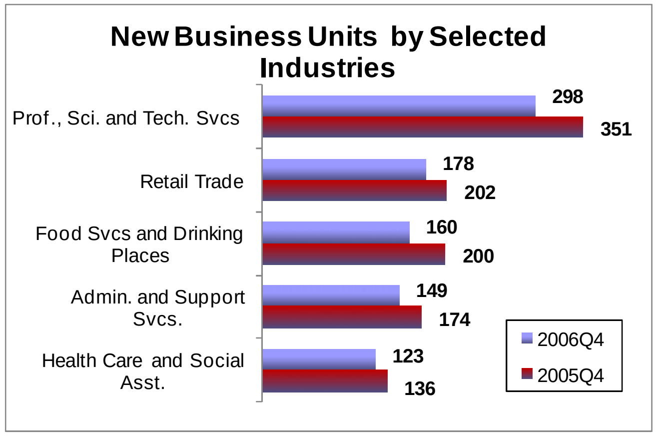
In 2005Q4, more than half of all new businesses were in four industries.

Half of new jobs were concentrated in two industries: retail trade and food services



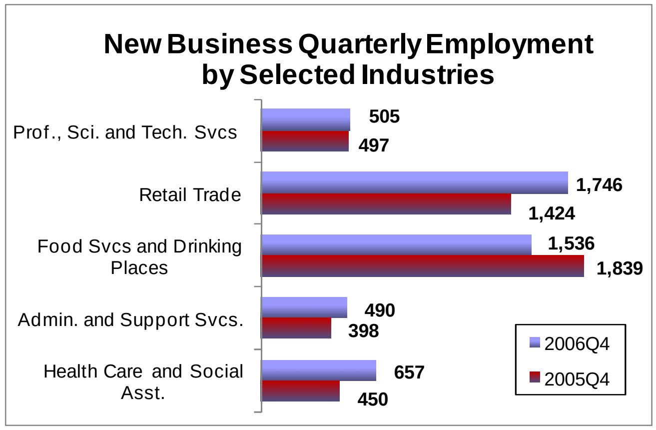


Eighty-five percent of new businesses survived from 2005Q4 to 2006Q4; average job growth was 7 percent and the average business increased in size from 3.5 to 4.4 employees per business. However, averages mask significant differences in survival and growth between industry sectors.



- New businesses in professional, scientific and technical services survived at an average rate but experienced below-average job growth of 2 percent. Average business size remained small with fewer than 2 employees per business.

- In retail trade, 88 percent of new businesses survived and jobs increased by 23 percent, yielding an increase in business size from 7 to 10 employees per business.



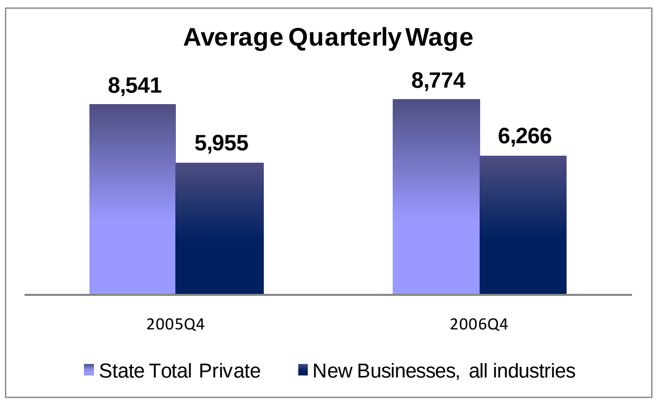
- In the food services and drinking places industry, 80 percent of new businesses survived but the number of jobs decreased by 17 percent. Average business size remained large with 10 employees per business.

- In administrative and support services, new businesses survived at an average rate while the number of jobs increased by 23 percent. Average business size increased from 2 to 3 employees per business.

- New businesses in health care and social assistance survived and grew at above average rates. Ninety percent survived and jobs increased by 46 percent. Average business size increased from 3 to 5 employees per business.

Average Wage Analysis

Although the average quarterly wage among new businesses remained below the state average quarterly wage, an increase of 5 percent, or $310, was recorded between 2005Q4 and 2006Q4. In comparison, the state average quarterly wage increased more slowly, up 3 percent or $233 over the year.



As with survival and employment, the average wage for new businesses in all industries obscures significant differences between industry sectors.

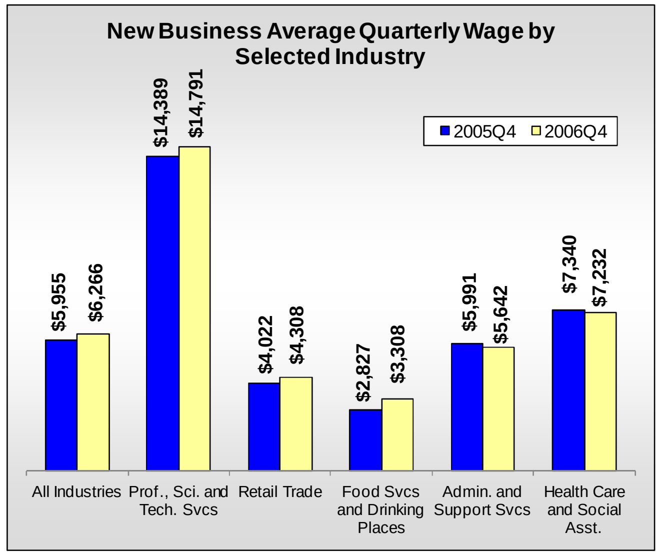
- The average wage among new businesses in professional, scientific and technical services was more than twice the new business average wage for all industries. The growth rate over the year was relatively low at 3 percent.

- In retail trade the average wage remained comparatively low at just two-thirds of the new business average wage for all industries. Among new retail trade businesses, the average wage increased by 7 percent.

- Due to the high percentage of new business jobs in food services and drinking places, and the comparatively low average wage, the industry exerted a negative influence on the new business average wage for all industries. The average wage in this industry increased by 17 percent, more than three times the average rate for new businesses in all industries.

- The average wage in administrative and support services decreased by 3 percent.

- In health care and social assistance, the average wage remained above the new business average wage for all industries, but decreased slightly over the year.



Economic Impact

Wages paid in 2005Q4 by new businesses totaled $36.2 million. Between 2005Q4 and 2006Q4, quarterly wages paid by new businesses increased more than three times faster than quarterly wages statewide.

	Total Quarterly Wages		Over-the-Year (OTY) Change	
	2005Q4 (in millions)	2006Q4 (in millions)	2005-2006	
			(in millions)	percent
State Total Private	$4,249.6	$4,402.7	$153.1	3.6%
2005 New Business	$36.2	$40.6	$4.4	12.2%
New % of State Total	0.85%	0.92%		

Summary of Findings

The notable feature of new businesses started in 2005 is their contribution in wages and employment to the state labor market. These mostly small employers created an initial 6,000 jobs during a period when state employment increased overall by fewer than 250 jobs. Between 2005Q4 and 2006Q4, these businesses created jobs and increased wages at rates significantly faster than state net growth rates.

However, the industry composition of new business employment, with one out of two jobs in food services and retail trade, sets it apart from statewide private employment where one out of five jobs is in these low-wage industry sectors. Industry composition is a major factor contributing to the gap between the average quarterly wage paid by new businesses and the comparable state average wage.

With further study, we hope to measure how long new businesses contribute at above-average rates to state job and wage growth. By expanding the data set to include additional groups of new businesses, we hope to discover whether the impact on employment documented in this initial report is typical, and to evaluate the cumulative effect of new businesses on state and industry employment and wages over longer time spans. This project is ongoing at the Center for Workforce Research and Information.

Appendix

Data Source

The data are from the Quarterly Census of Employment and Wages (QCEW), a cooperative program between the states and the US Bureau of Labor Statistics (BLS) that maintains a database of quarterly employment and wages. Primary data for QCEW are extracts from state unemployment insurance (UI) tax reports of quarterly employer contributions. Additional data is collected from employers operating multiple worksites and by employer surveys administered by state labor market information offices. In addition to employment and wages, each QCEW record specifies industry designation, ownership, location, and links to other employers via wage records.

Workers counted by QCEW consist of those covered by state UI law or by Unemployment Compensation for Federal Employees (UCFE). BLS estimates that "covered" workers account for an estimated 97% of total non-farm employment nationwide. QCEW, therefore, provides a comprehensive and detailed record of the labor force, a universe against which other workforce programs are benchmarked. In Maine, QCEW contains nearly 50,000 records, each representing a worksite with covered employees.

A QCEW record is created when the state tax unit opens a new UI account, or when an existing business opens a new worksite. A new UI account may signal the initial entry of a business to the UI system because it is employing covered employees for the first time, or may indicated that an employer is changing UI accounts. (Reasons for covered employers to change UI accounts include transfer of ownership, merger, acquisition or other reorganization.) When a new QCEW record can be linked by wage records or other means to a pre-existing record, the two are designated "predecessor" and "successor", and not considered to be a new business.

A record is deemed "inactive" when an end of liability date is assigned to it by the state tax unit and marks the end of employment of covered workers by that business or at that worksite. This may signify the close or "death" of a business, it may signify a consolidation or change of ownership, or it may signify merely that the business is no longer an employer of covered workers.

Preparing a Data Set of New Businesses

The data were assembled according to the quarter in which the businesses first reported employment and wages. The initial extract of QCEW records employed the following criteria:

1. Initial liability date within a target quarter. This criterion was found to be an imperfect indicator of the start of reported employment. Initial data extraction included records that were later screened out (some moved to subsequent quarters) for lack of reported data.
2. No predecessor link. Records that indicated continuity of employment from a prior or existing business were excluded. For example, a business that changed ownership would be screened out if service and employment were continuous, as would a satellite location staffed by existing employees.
3. Private ownership. This study examines only private sector businesses.
4. Other exclusions include domestic workers, charitable organizations, and employers in the construction industry.

These criteria produced a list of potential new businesses then subject to individual review. Each record was screened for positive business activity in the target quarter and for predecessors not previously identified. The latter involved a search of the database for links by name, location and wage records.

If no predecessor was found, employer contact was attempted to confirm the business as a new employer. Verbal validation was preferred but not required for inclusion in the data set if other criteria were met. Before the data set was finalized, the records were further scanned for missing, incomplete or inconsistent data.

For records showing an end of liability date during the study period, a search for successors was conducted to show a continuation of employment. If a successor was found, the successor account was added to the data set so continued employment and wages can be tracked. For the purposes of this study, if no successor was found, the business or worksite was considered to be a closure and was counted as a non-surviving business.