

February 2011

## **TRACKING NEW BUSINESSES IN MAINE BUSINESSES OPENED IN 2008**

This is the second report tracking the employment and wages of new businesses in Maine. The first report examined businesses that opened in 2005. This report examines new businesses that opened in 2008.

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 underlying dynamics of the labor market. The U.S. Bureau of Labor Statistics Business Employment Dynamics provides a quarterly snapshot of expansion and contraction, openings and closings. However, little is known about 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, the Maine Department of Labor's Center for Workforce Research and Information is conducting a longitudinal study. Tracking new businesses over time is expected to produce data on survival and growth to be used by policy makers to inform economic development and business assistance strategies.

### **Defining and Identifying New Businesses**

For the purposes of this analysis, a new business is defined as a business or worksite reporting workers covered by unemployment insurance law for the first time in 2008. This designation includes start-ups, established businesses that are first-time employers of covered workers, and new worksites opened by existing employers. The primary data source for this study is the Quarterly Census of Employment and Wages, a database derived from employers' unemployment insurance tax reports. All data in this report are from the Maine Department of Labor's Center for Workforce Research and Information.

An initial group of businesses was identified by start date. Construction firms, membership organizations, and private household employers were excluded, as were government-owned businesses. Each business was extensively screened for initial employment, links to pre-existing businesses and for missing or incomplete data. More detailed information about the screening criteria may be found in the Appendix. "Survival" is determined by a business's account status. A business is presumed to survive until its end date. Surviving businesses include some that report zero employment and wages.

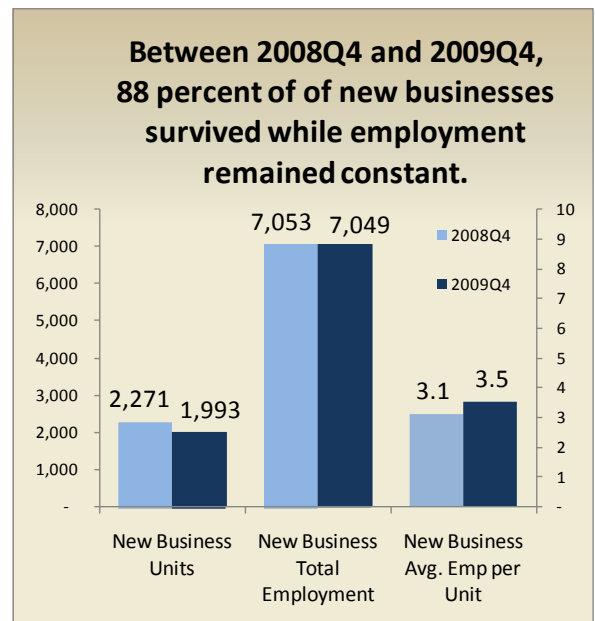
This analysis examines those new businesses still open in the fourth quarter of 2008 (2008Q4) and compares quarterly employment and wages in 2008Q4 to those of the surviving members of the group one year later, in the fourth quarter of 2009 (2009Q4). Individual businesses are counted as business "units" for the purposes of calculating survival and analyzing industry composition. The analysis employs aggregated employment and wage data for the group and for sub-groups by industry. Data for 2009Q4 describe surviving businesses only.

Where comparison is made to the state as a whole, private sector employment and wages are used, excluding construction firms, membership organizations and private household employers

## 2008 New Businesses

Between 2008Q4 and 2009Q4, 1,993 of 2,271 new business units survived, yielding an average survival rate of 88%. Surviving businesses added jobs, resulting in an increase in business size from 3.1 employees per new business in 2008Q4 to 3.5 in 2009Q4.

Average new business size remained well below the state average of more than 10 employees per business



	Average Quarterly Employment			Over-the-Year Employment Change			
	2007Q4	2008Q4	2009Q4	2007Q4-2008Q4		2008Q4-2009Q4	
				Number	Percent	Number	Percent
2008 New Businesses		7,053	7,049	7,053		- 4	- 0.1%
Balance of Private Businesses <sup>1</sup>	468,032	455,593	441,717	- 12,439	- 2.7%	- 13,876	-3.0%
State Total Private <sup>1</sup>	468,032	462,646	448,766	- 5,386	- 1.2%	- 13,880	- 3.0%

## Employment

In 2008Q4, jobs created by businesses opened in 2008 totaled 7,053. These new jobs were created during a year in which Maine experienced a net loss of 5,386 private jobs. Job creation at new businesses offset a loss of 12,439 jobs at previously existing businesses.

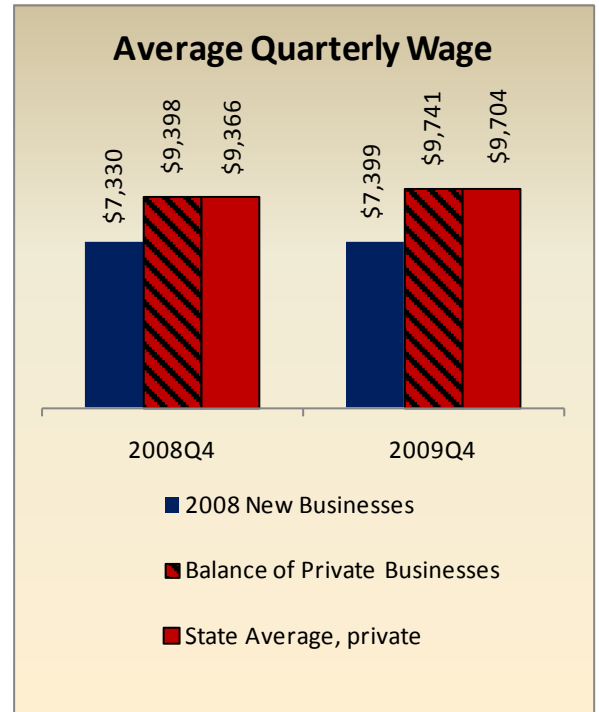
Over the next one-year interval, the number of jobs among surviving new businesses remained constant whereas statewide the number of private jobs decreased by 13,880 or three percent.

## Average Wage

In 2008Q4, the average quarterly wage earned by workers at new businesses was \$7,330, about 20 percent less than \$9,366, the average for all employers. Over the year, the average wage paid by surviving new businesses increased \$69, less than one percent, lagging further behind the average for all businesses, which increased \$338 or four percent.

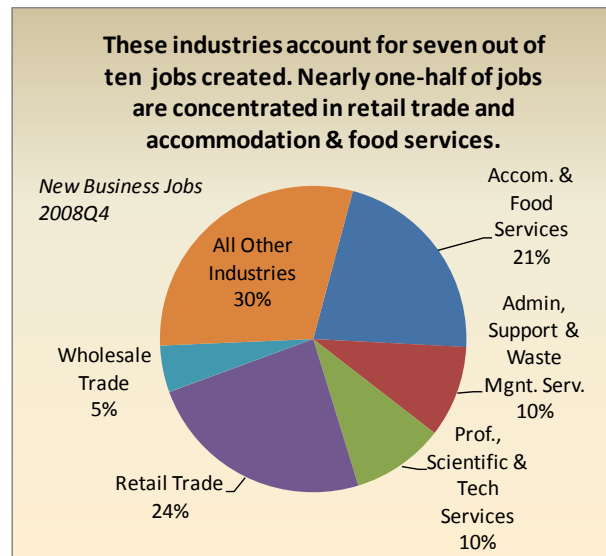
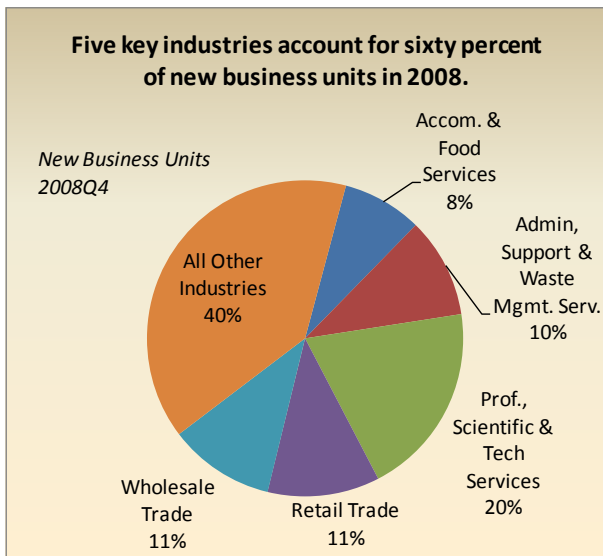
This finding reflects a contradictory effect of the recession on average wages at new versus existing businesses. Businesses had limited ability to increase wages in the face of the recession. Among surviving new businesses, the average wage remained virtually unchanged over the year.

Existing businesses shed nearly 14,000 jobs between 2008Q4 and 2009Q4. Businesses that shed jobs commonly reduce workforce by first discharging those with less seniority who typically earn lower wages. The effect of shedding lower wage jobs while retaining higher wage jobs is to increase the average wage of the remaining workforce.



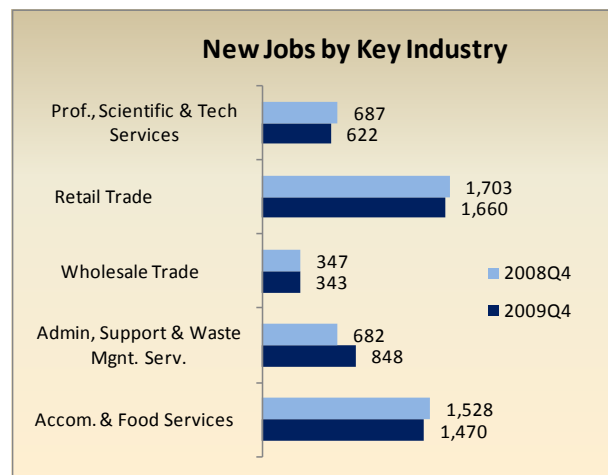
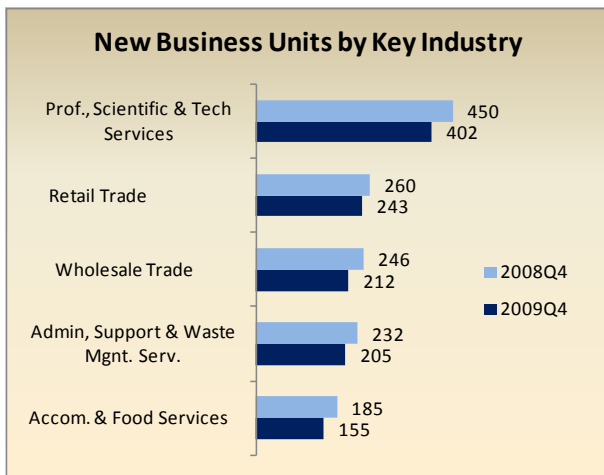
## Distribution by Industry

In 2008, new businesses opened in every industry sector from accommodation to wholesale trade. The following analysis examines five sectors, each claiming more than nine percent of either new business units or employment. These key industries are: accommodation & food services; administration, support & waste management services; professional, scientific & technical services; retail trade; and wholesale trade.



On average, 88 percent of new businesses survived the one-year interval between 2008Q4 and 2009Q4, aggregate employment was unchanged and business size increased slightly to 3.5 employees per business. However, averages mask significant differences in survival and growth between industry sectors.

- In professional, scientific & technical services, 89 percent of new businesses survived. The number of jobs in this group decreased by 10 percent – a net loss of 65 jobs over the year. Average business size remained comparatively small with fewer than two employees per business.
- In retail trade, 93 percent of new businesses survived. Over the year the number of jobs in this group decreased by 43, a net loss of three percent. Business size remained above the average for new businesses, with nearly seven employees per business.
- New businesses in wholesale trade survived at a rate of 86 percent; the number of jobs in this group remained nearly constant over the year. Business size remained comparatively small with fewer than two employees per business on average.

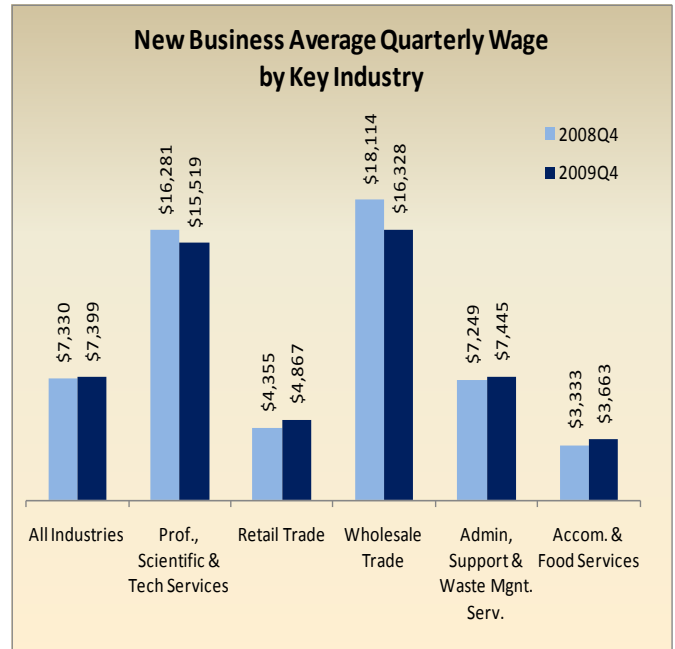


- New businesses in administrative, support & waste management services survived at a rate of 88 percent. This was the only key industry group to add jobs. The number of jobs in this group increased by 166 - a gain of 24 percent. Average business size increased from three to four employees per business.
- In accommodation & food services, 84 percent of new businesses survived. The number of jobs in this group decreased by 57 - a loss of four percent. Average business size was comparatively large and increased from eight to nine employees per business.

## Average Wage by Industry

Nearly half of new business jobs are in retail trade and accommodation & food services, industries that typically pay below average wages. The concentration of jobs in lower-wage industries has a dampening effect on the new business average wage for all industries. As with survival and employment, the average wage for new businesses in all industries masks significant differences between industry sectors.

- The average wage among new businesses in professional, scientific & technical services was more than twice the new business average wage for all industries. The average wage decreased by five percent over the year.
- The average wage among new businesses in retail trade remained comparatively low but increased twelve percent over the year.
- In wholesale trade the average wage was the highest among new businesses in spite of a ten percent decrease over the year.
- The average wage in administrative, support & waste management services increased slightly over the year and remained close to the new business average wage for all industries.
- In accommodation & food services, the quarterly wage remained less than half that of the new business average wage for all industries though it increased by ten percent over the year.



## Economic Impact

Wages paid by new businesses account for about one percent of total wages paid by Maine's private businesses. In 2008Q4 new businesses paid \$51.7 million in quarterly wages. In 2009Q4, surviving new businesses paid \$52.2 million in wages, a net increase of nearly one percent. This growth rate was almost twice the growth rate of private wages statewide, which increased one-half percent over the year.

	Total Quarterly Wages		Over-the-Year Change	
	2008Q4	2009Q4	2008-2009	
	(in millions)	(in millions)	( in millions)	percent
2008 New Businesses	\$51.7	\$52.2	\$0.5	0.9%
Balance of Private Businesses <sup>1</sup>	\$4,281.7	\$4,302.9	\$21.2	0.5%
State Total Private <sup>1</sup>	\$4,333.4	\$4,355.0	\$21.6	0.5%
New Business % of State	1.2%	1.2%		

<sup>1</sup> less exclusions detailed on page 1.

## **Summary of Findings**

The notable feature of the group of new businesses begun in 2008 is its contribution in employment during a severe recession. These mostly small businesses created 7,000 jobs during a period when previously existing businesses shed 12,000 jobs. Between 2008Q4 and 2009Q4, the total number of jobs at surviving new businesses remained constant when statewide nearly 14,000 jobs were lost.

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

As more data is available, we hope to document how these businesses, launched during adverse economic conditions, fare compared to established businesses and compared to businesses launched in better economic times. 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.

When the state tax unit opens a new UI account, or when an existing business opens a new worksite, a start date is assigned. 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 indicate 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 it is not considered to be a new business.

Until an end date is assigned, the account remains open in QCEW.

### Preparing a Data Set of New Businesses

The data were assembled according to the year 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 year. 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 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. Exclusions based on industry code: private households, membership organizations, and construction firms were excluded for reasons of volatility and reporting.

These criteria produced a list of potential new businesses then subject to individual record review. Each record was screened for positive business activity in the target year 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 attempted for a sample of businesses 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.