



Why the Weak Recovery?

Colorado-based Business and Economic Research

February 25, 2013



Overview

The purpose of this month's review on the Colorado economy is to look at gross changes in private sector employment to understand why the recovery of net wage and salary employment has been so slow.

The data used for this analysis, Business Employment Dynamics (BDM), looks at gains and losses of gross jobs and establishments.

BDM is derived from quarterly Unemployment Insurance reports. BDM statistics lag CES data by seven to nine months.

This analysis initially looks at changes in establishments, then reviews changes in employment. Quarterly data is evaluated from Q1 1993 to Q2 2012, a total of 78 quarters. Analysis has been conducted for both the U.S. and Colorado; however, data is only presented for Colorado because their quarterly patterns are similar.

Colorado Gross Establishment Gains and Losses

Establishments can be categorized as follows:

Gross Establishment Gains

- Openings – The number of new establishments adding workers.
- Expansions – The number of existing establishments expanding.

Gross Establishment Losses

- Contractions – The number of existing establishments contracting.
- Closing – The number of establishments closing.

Note: This set of BDM data looks at establishments. BLS defines an establishment as an economic unit that produces goods or services, usually at a single physical location, and engages in one or predominantly one activity. A firm is a legal business, either corporate or otherwise, and may consist of several establishments.

Ultimately, the number of establishments varies because of changes in openings and closings.
Annual change = Openings – Closings.

Percentage of Colorado Establishments Gross Gains, Gross Losses, No Change

The number of Total Establishments = Gross Gains + Gross Losses + Establishments with unchanged employment

Gross Gains

- The long-term percentage of Expansions are trending downwards.
- The range of Expansions is 17.3% to 26.5%.
- The long-term percentage of Openings are trending upwards.
- The range of Openings is 5.4% to 7.4%.
- Overall, the long-term percentage of Gross Gains is trending downwards with a range of 23.3% to 33.0%.

Gross Losses

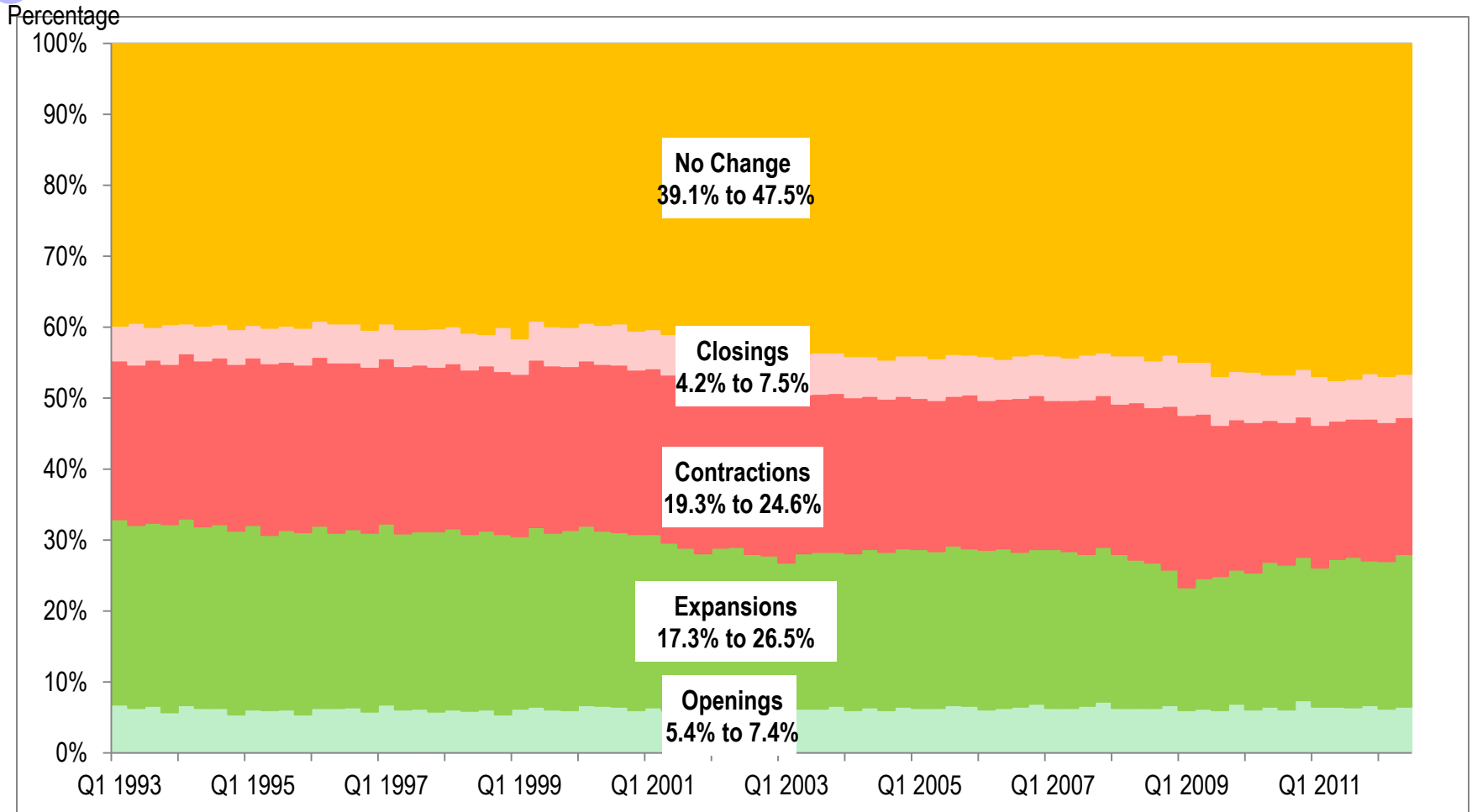
- The long-term percentage of Contractions are trending downwards.
- The range of Contractions is 19.3% to 24.6%
- The long-term range percentage of Closings are trending upwards.
- The range of Closings is 4.2% to 7.5%.
- Overall, the long-term percentage of Gross Losses is trending downwards with a range of 25.1% to 31.8%.

Unchanged employment

- The long-term percentage of establishments with unchanged employment are trending upwards.
- The range of establishments with unchanged employment is 39.1% to 47.5%.

Percentage of Colorado Establishments

Gross Gains, Gross Losses, No Change



Source: Bureau of Labor Statistics.
 Colorado-based Business and Economic Research
<http://cber.co>

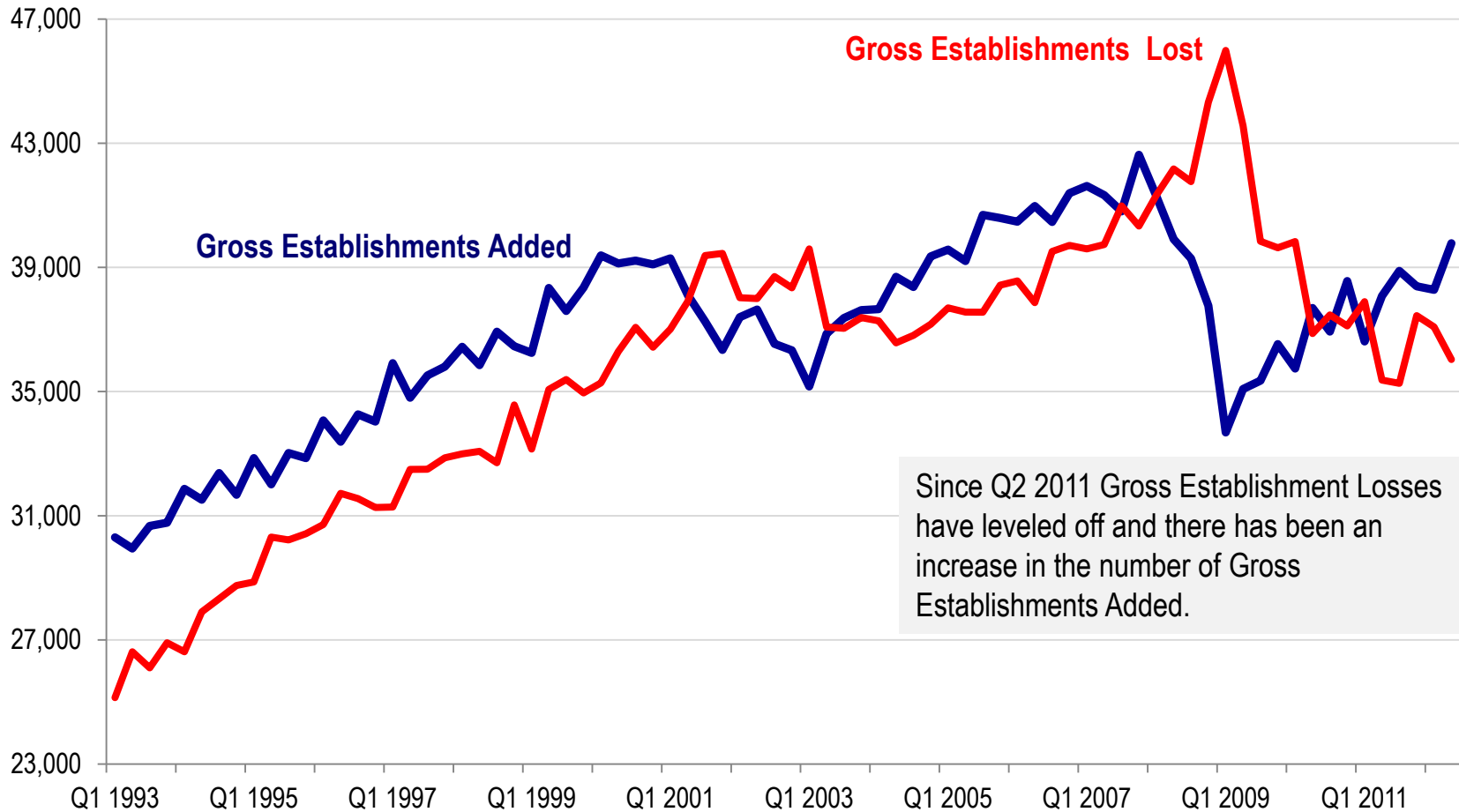
Colorado Gross Establishment Gains and Losses

Establishment Gains and Losses

- There was significant job churn in the 1990s. Gross establishment gains and gross establishment losses increased at similar rates and were highly correlated.
- Gross establishment gains trended upward from 1994 to 2000. Gains trended flat from 2001 to 2012, although they were volatile.
- Gross establishment losses trended upwards from 1994 to 2002. Losses trended flat from 2003 to 2012.
- During the 2001 and 2007 recessions, gross establishment losses increased. Losses declined during the recovery periods.
- During the 2001 and 2007 recessions, gross establishment gains decreased. Gains increased slowly during the recovery periods.

Colorado Establishment Gross Gains and Losses

Establishments



Annual Change in the Number of Establishments

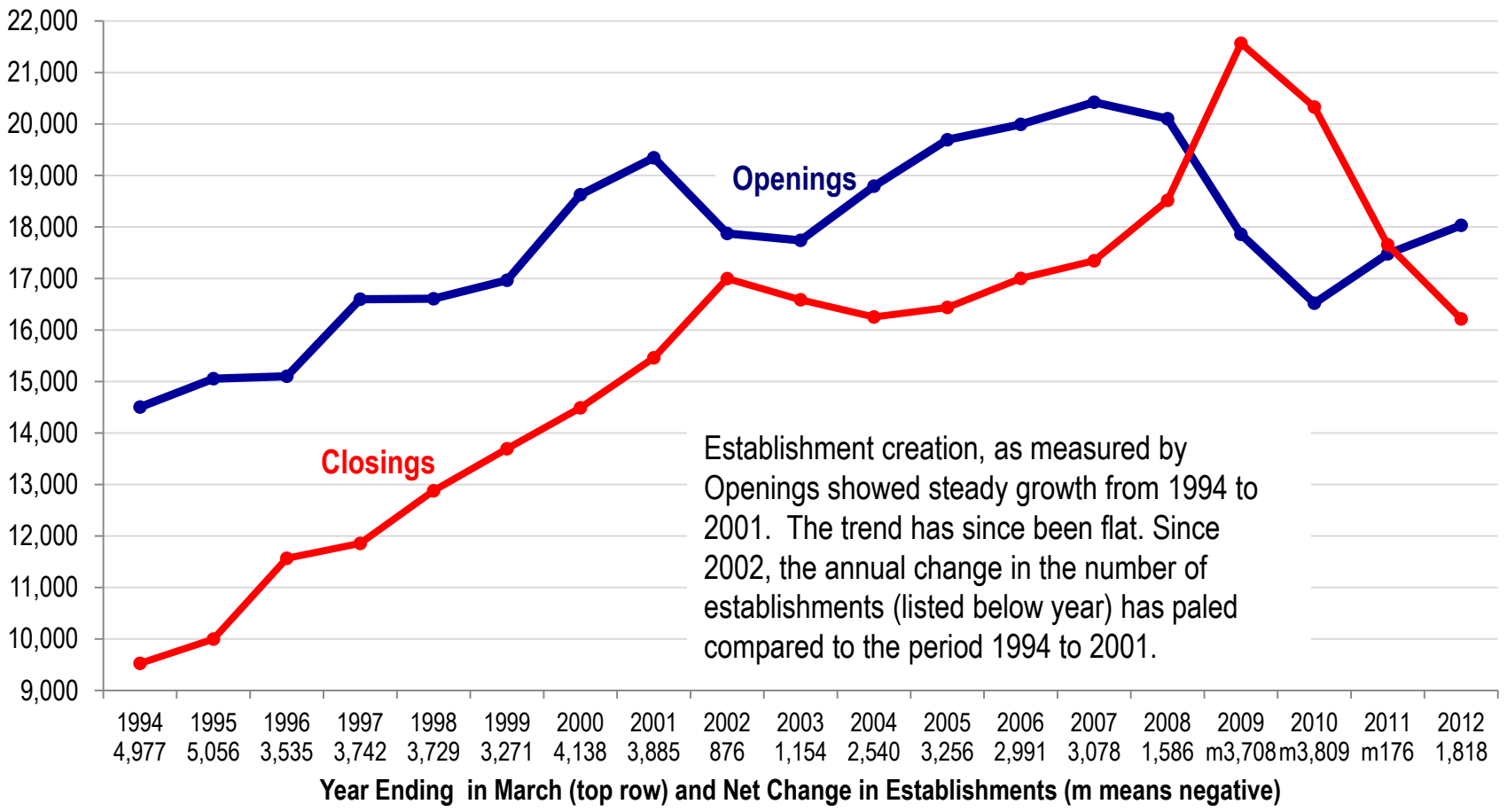
The number of establishments varies from year-to-year because of changes in openings and closings.

Annual change = Openings – Closings. (Years begin in April and end in March).

- Establishment Openings and Closings (1994 to 2001).
 - Annual openings trended upwards and ranged from 14,524 to 19,345.
 - Annual closings trended upwards and ranged from 9,527 to 15,460.
 - During this period the annual change ranged from 3,271 to 5,056.
- Establishment Openings and Closings (2002 to 2012).
 - Annual openings trended flat and ranged from 16,520 to 20,423.
 - Annual closings trended flat and ranged from 16,215 to 21,567
 - During this period the annual change ranged from -3,809 to 3,256.

- Annual Change in in Number of Establishments
- Establishment Openings Less Establishment Closings (March-to-March)

● Establishments



Colorado Gross Establishments Added and Lost

The number of Gross Establishments Added = Establishment Openings + Establishment Expansions.

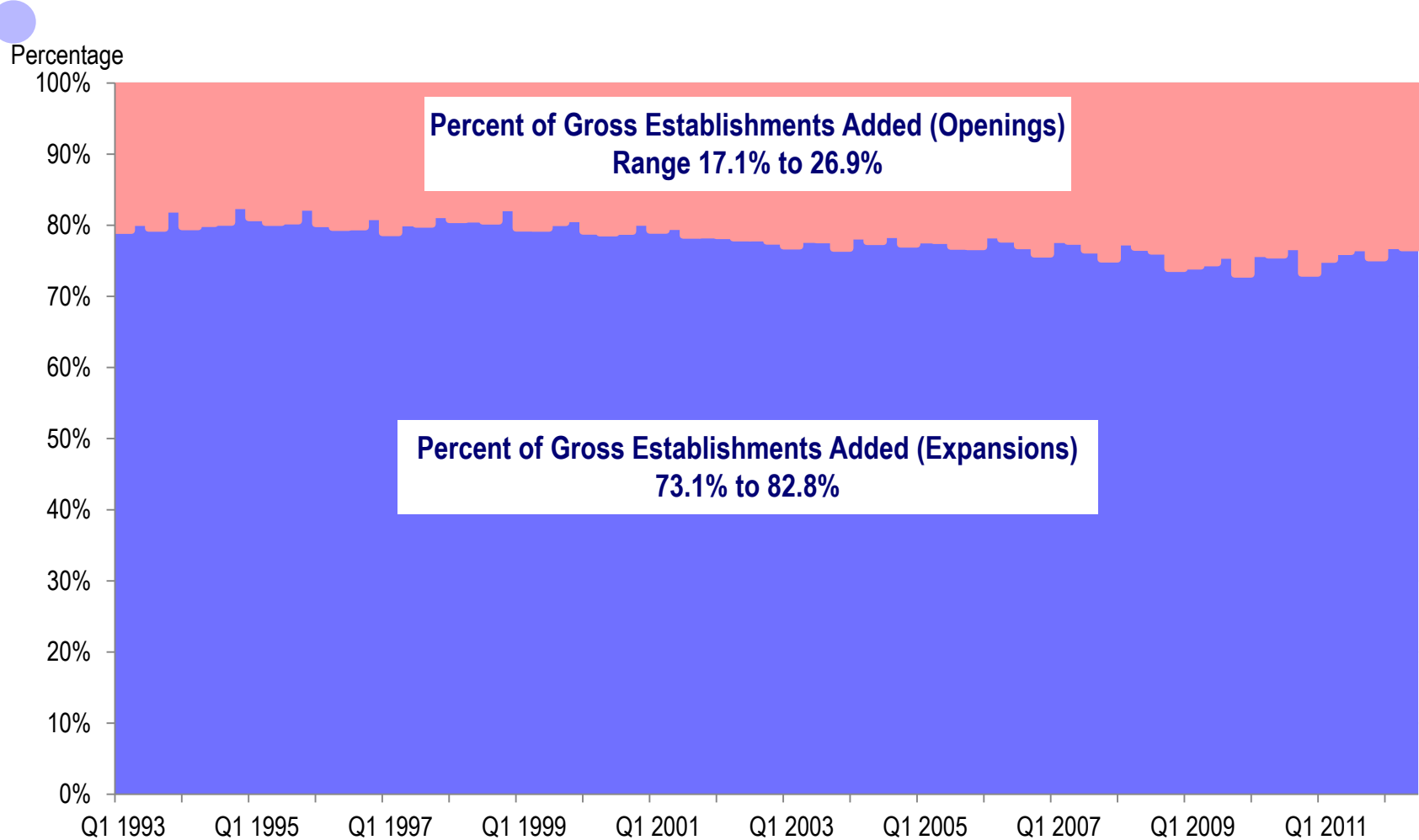
- Between 1993 and Q2 2012 Expansions accounted for 73.1% to 82.8% of Gross Establishments Added.
- Between 1993 and Q2 2012 Openings accounted for 17.1% to 26.9% of Gross Establishments Added.
- Over time, there has been an increase in the percentage of Gross Establishment Openings.

The number of Gross Establishments Lost = Establishment Closings + Establishment Contractions.

- Between 1993 and Q2 2012 Contractions accounted for 74.4% to 84.8% of Gross Establishments Lost.
- Between 1993 and Q2 2012 Closings accounted for 15.2% to 25.6% of Gross Establishments Lost.
- Over time, there has been an increase in the percentage of Gross Establishment Closings.

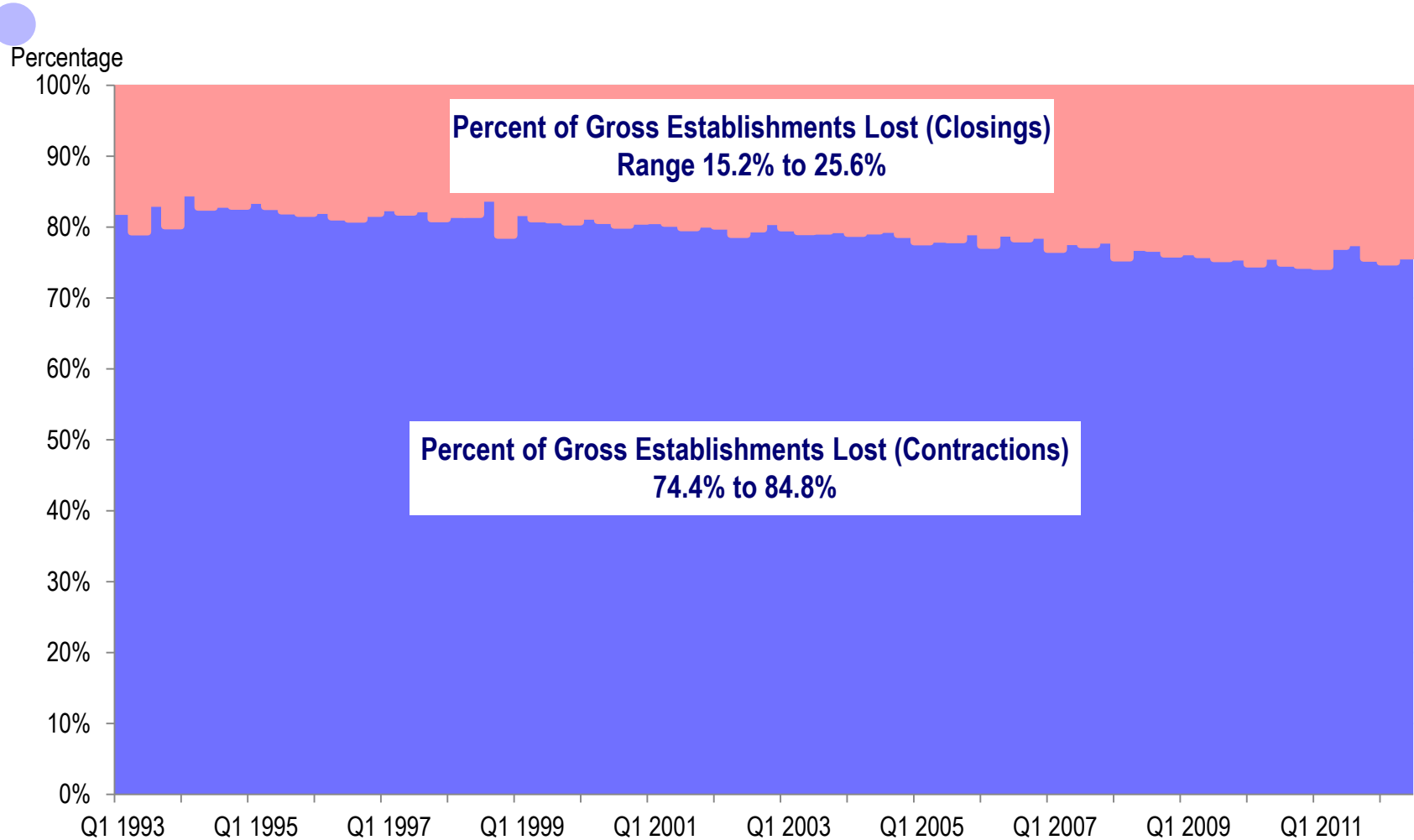
Colorado Gross Establishments Added

% of Establishment Openings and Expansions



Colorado Gross Establishments Lost

% of Establishment Closings and Contractions



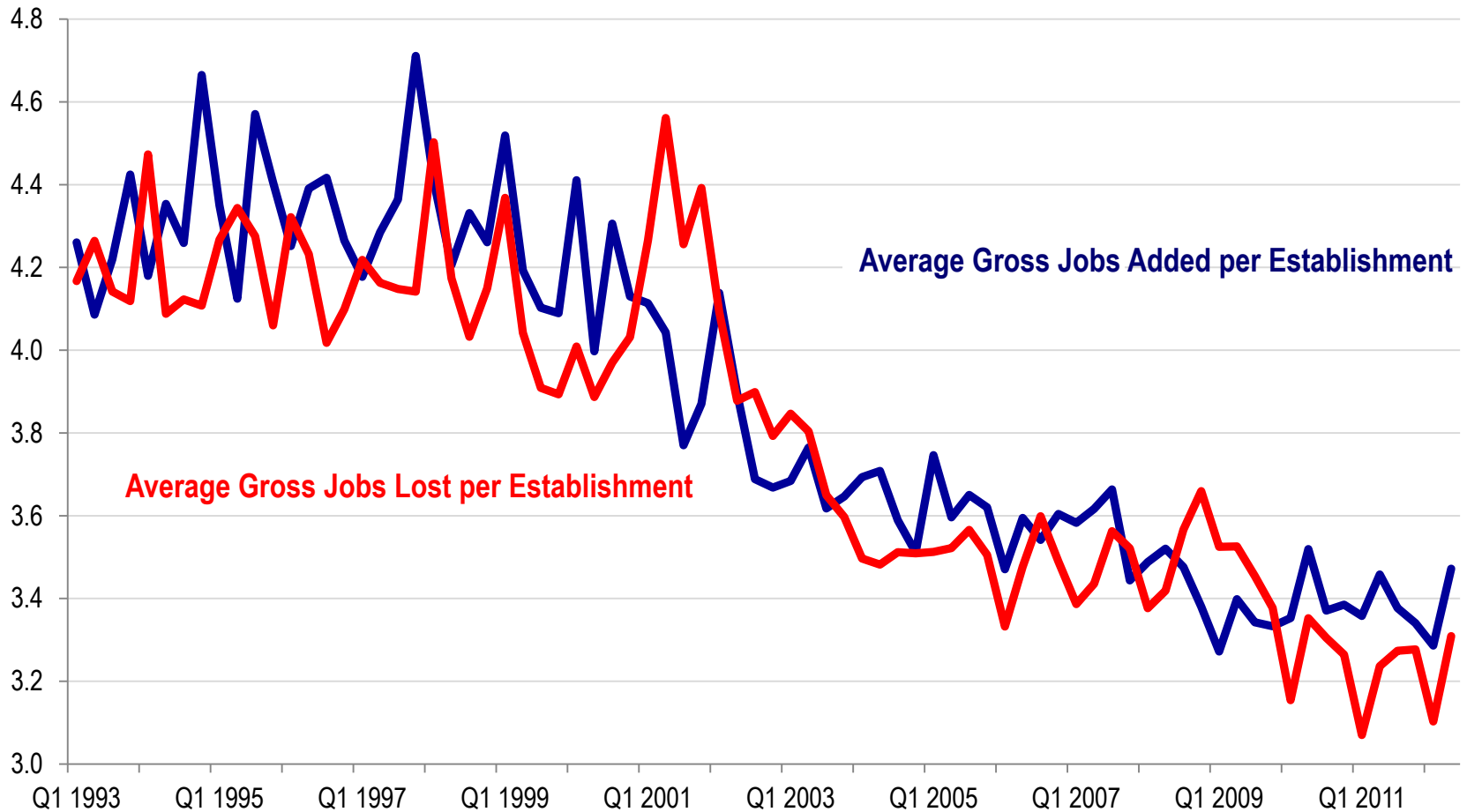
Average Gross Job Changes per Establishment

In Q1 1993, Colorado gross gains per establishment were 4.3 jobs and losses were 4.2 jobs. In Q2 2012, gross gains per establishment were 3.5 jobs and losses were 3.3 jobs.

- Gross jobs added per establishment had a slight upward trend from 1993 through Q4 1997.
- Gross jobs lost per establishment had a slight upward trend from 1993 through Q1 1998.
- Gross job changes per establishment (jobs added and lost) have declined in the 2000s. Average gross jobs added per establishment began to level out in 2009, whereas gross jobs lost per establishment began to level out in 2010.
- Average gross job changes for the U.S. tend to be slightly greater than for Colorado.

Colorado Average Gross Job Changes per Establishment

People per Establishment





U.S. and Colorado Gross Job Gains and Losses

Jobs can be categorized as follows:

Gross Job Gains

- Openings – Jobs added as a result of openings.
- Expansions – Jobs added as a result of expansions.

Gross Establishment Losses

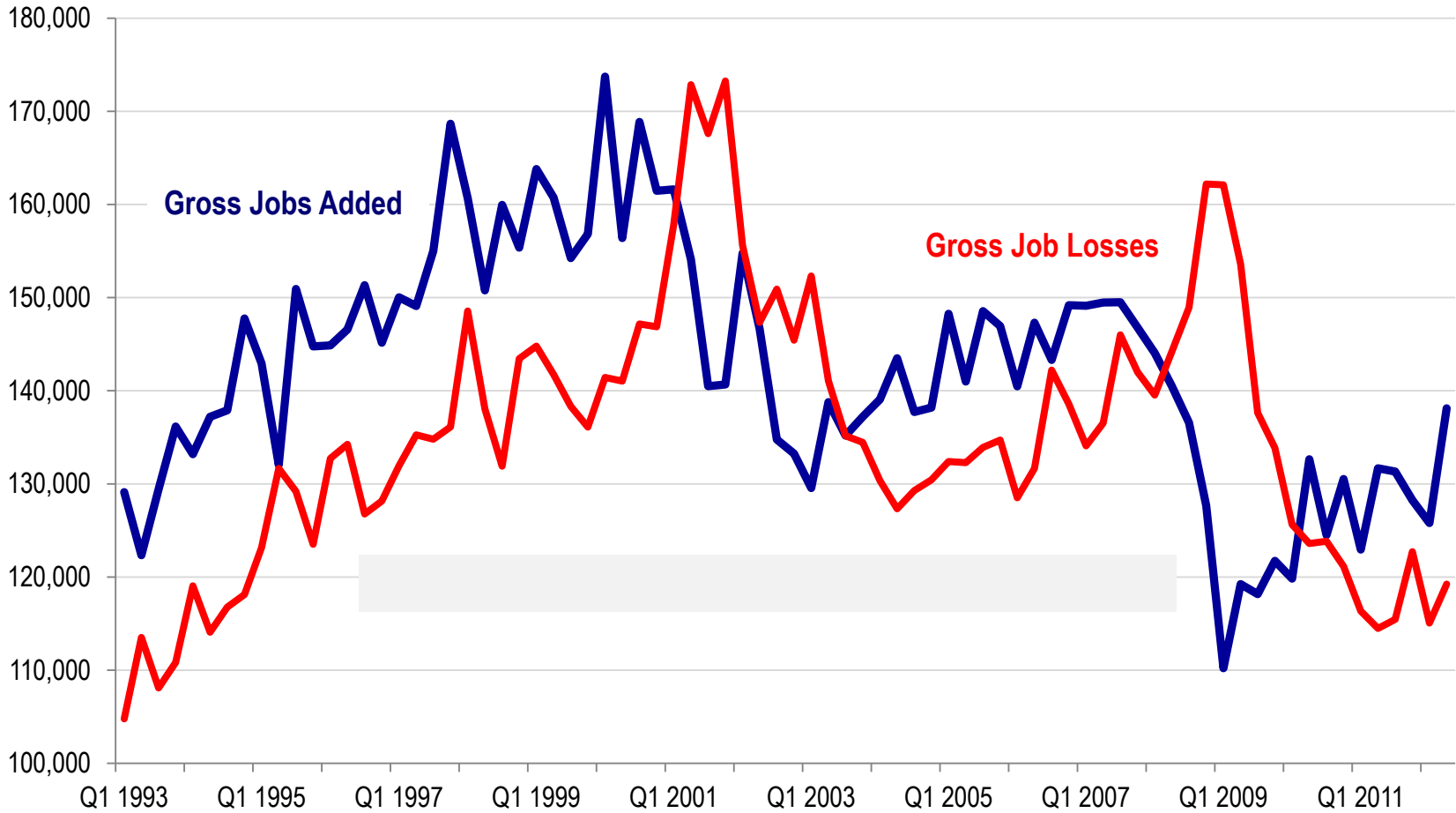
- Contractions – Jobs lost as a result of contractions.
- Closing – Jobs lost as a result of closings.

The following are noteworthy trends

- The 1990s were a period of innovation and growth. There was significant job churn. Gross job gains and gross losses increased at similar rates and were highly correlated.
- During the 2001 and 2007 recessions gross jobs losses rose significantly. Gross losses also dropped off significantly during both recovery periods.
- Gross job gains increased at a declining rate when the 2001 and 2007 recessions began. There were weak increases in job gains during both recovery periods.
- Overall there is a downward trend in the rate of gross job gains for the past decade.
- The current recovery is driven by the sharp decrease in job losses, not a significant increase in gross job gains.
- The two previous periods of growth (gains > losses) lasted 96 months and 57 months. As of Q2 2012, the current period of expansion is at 27 months.

Colorado Job Gains and Job Losses

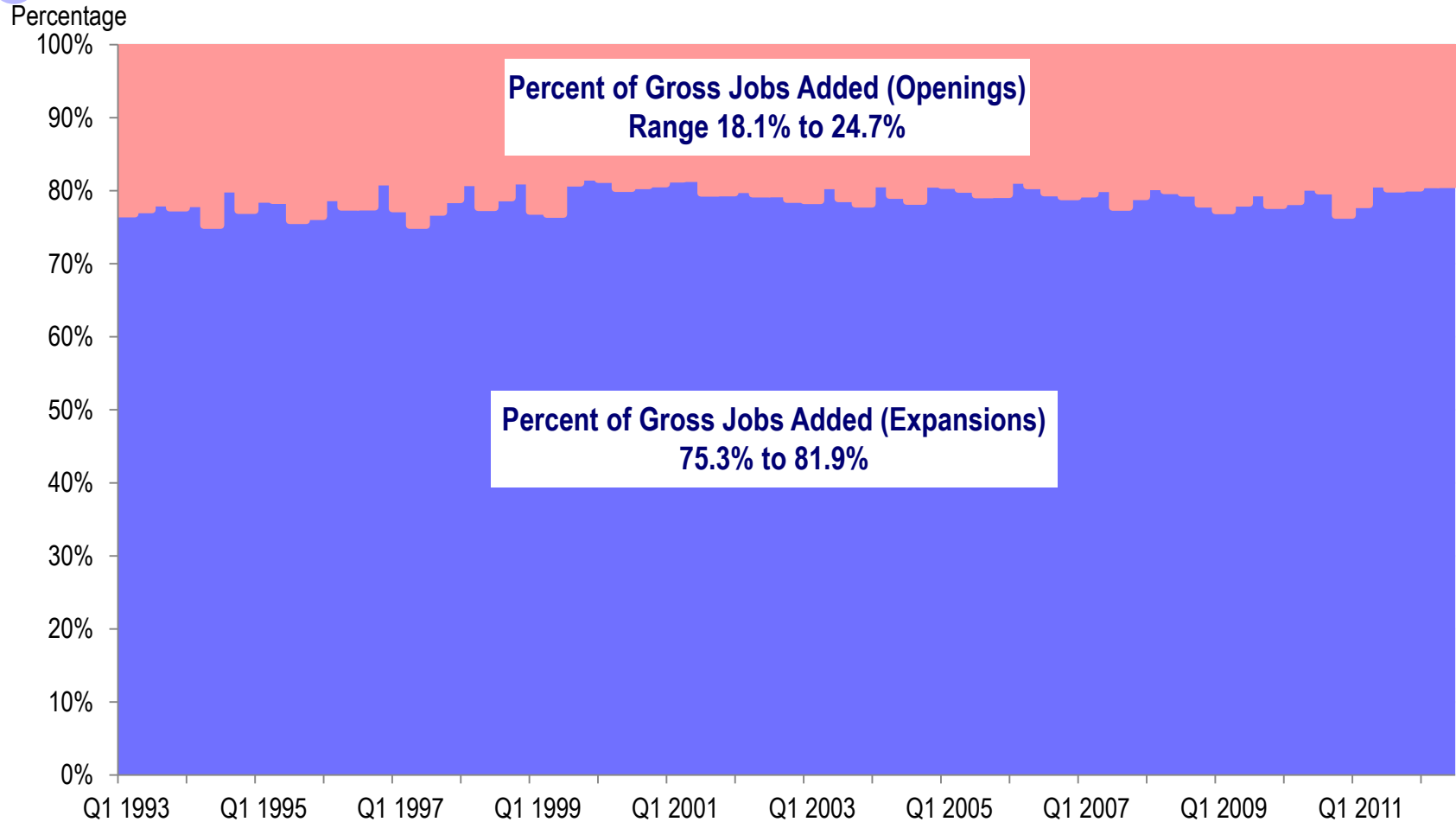
Employees



Source: Bureau of Labor Statistics.
Colorado-based Business and Economic Research
<http://cber.co>

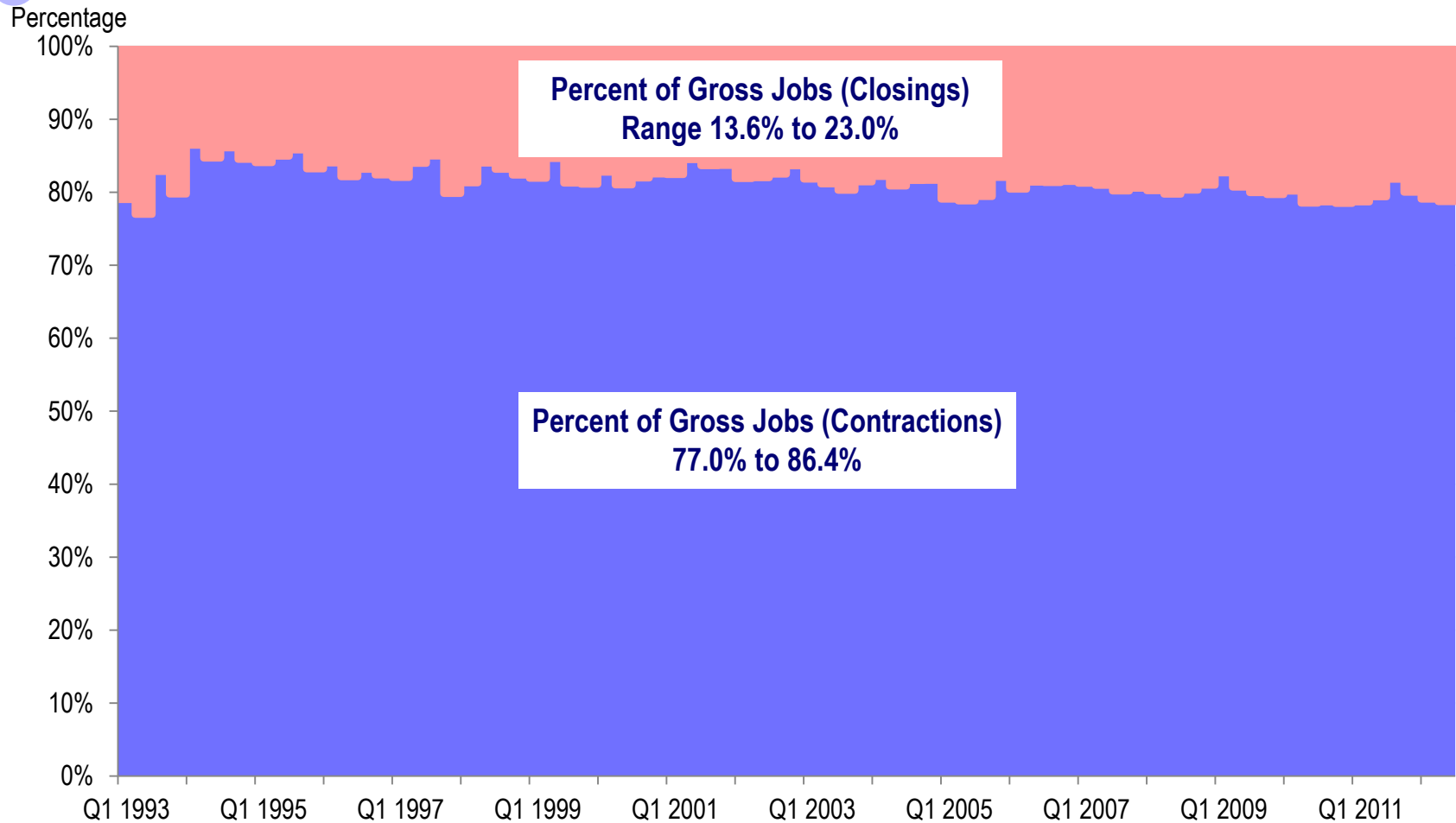
Colorado Gross Jobs Added

% of Job from Openings and Expansions



Colorado Gross Jobs Lost

% of Jobs from Closings and Contractions



Key Points - Establishments

- The majority of gross establishments gained are from expansions, not openings. Since 1993, establishments with expansions have accounted for 75% to 82% of total gains.
- The majority of gross establishments lost are from contractions, not closings. Since 1993, establishments with contractions have accounted for 77% to 87% of total losses.
- Over time, the percentage of establishments with unchanged employment has increased. Recently, almost half of the establishments have had unchanged employment from quarter to quarter.
- Establishment creation, as measured by establishment openings, was strong during the 1990s. Since 2001 it has been volatile and trended flat.
- In 2012, the annual change (openings less closures) turned positive after 3 years of losses. That year there were weak establishment gains and a continued decline in establishment losses.

Key Points - Employment

- The majority of gross jobs gained are from expansions. Since 1994 the percentage of jobs gained from expansions is trending downwards.
- The majority of gross jobs lost are from contractions. Since 1994, the percentage of jobs lost from contractions is trending downwards.
- The most recent data, through Q2 2012, shows that gross job gains are weak, slightly less than the 2001 recession. The improvement in net job gains has been a function of decreased contractions and closings, rather than strong gains.



What Does the Future Hold?


Since 1999 establishments have operated with fewer employees. Will the efficiencies gained through investments in technology and improved processes prevent them from hiring more workers when demand becomes stronger?

As the economy gets stronger how much of the demand will be met by current establishments and how much will be met by newly formed establishments?

How much of the establishment creation over the past 12 years was a result of innovation and how much was a result of desperation from unemployed workers to try to find a way to earn a living?

For the past three years, Gross Job Gains have trended upwards and Gross Job Losses have trended downwards. When will Gross Job Losses again trend upwards? When will Gross Job Gains begin improving at a faster rate?

Gross Job Gains have exceeded Gross Job Losses from Q2 2010 to Q2 2012, or 9 quarters. The difference between gains and losses was positive for 19 quarters between the 2001 and 2007 recessions. How much life do we have in the current recovery?



Why the Weak Recovery? February 2013

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