



Business Employment Dynamics

Office of Research

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Business Employment Dynamics: First Quarter 2007

The number of jobs added at private sector establishments in Connecticut declined in the quarter ending March 2007 compared to the prior quarter and the year earlier, while the number of jobs eliminated rose. Jobs added at expanding and newly opening establishments showed drops, as jobs eliminated at contracting and closing establishments increased. As a result, the job reallocation rate, a measure of dynamic activity in the labor market and economy, declined for the third consecutive quarter.

With its low gross job gains and loss rates, Connecticut ranked third from the bottom among all states on the job reallocation rate and on the net employment growth rate.

Establishment data mirrored these trends, as the rate of new firm formation was unchanged from the prior quarter and was lower than a year earlier.

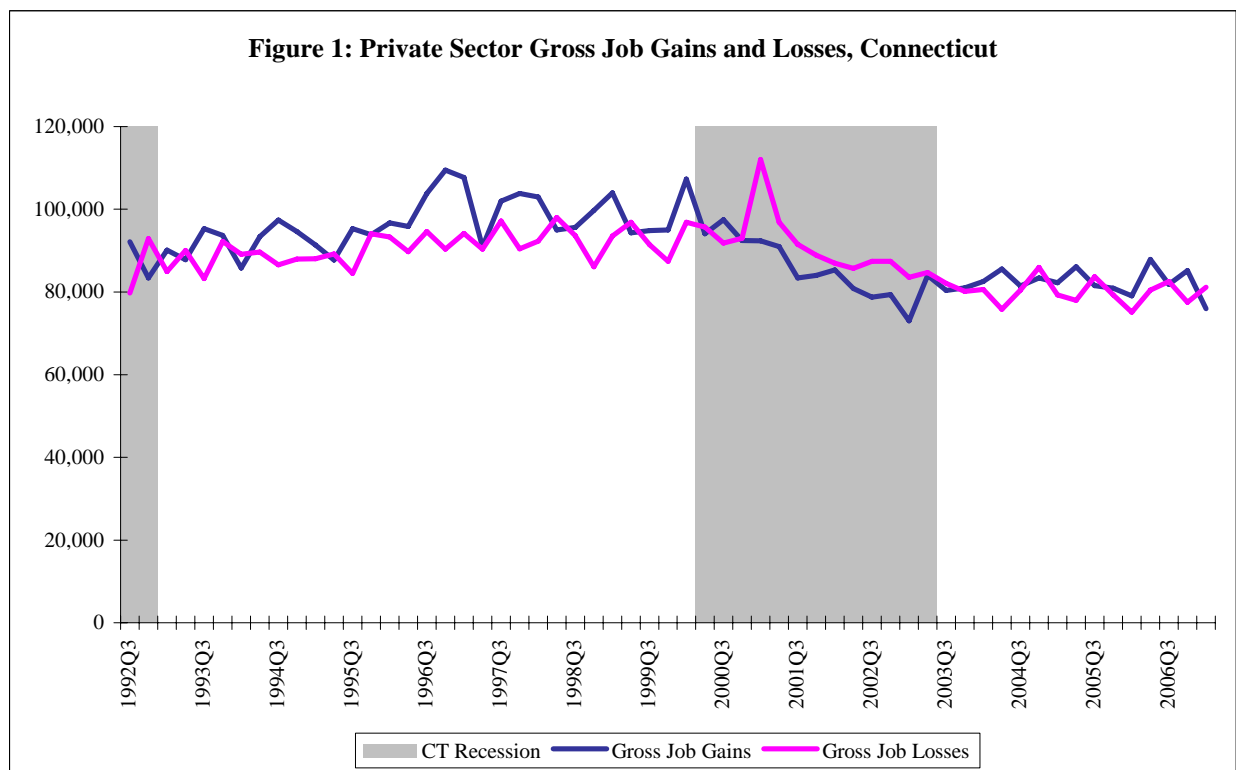
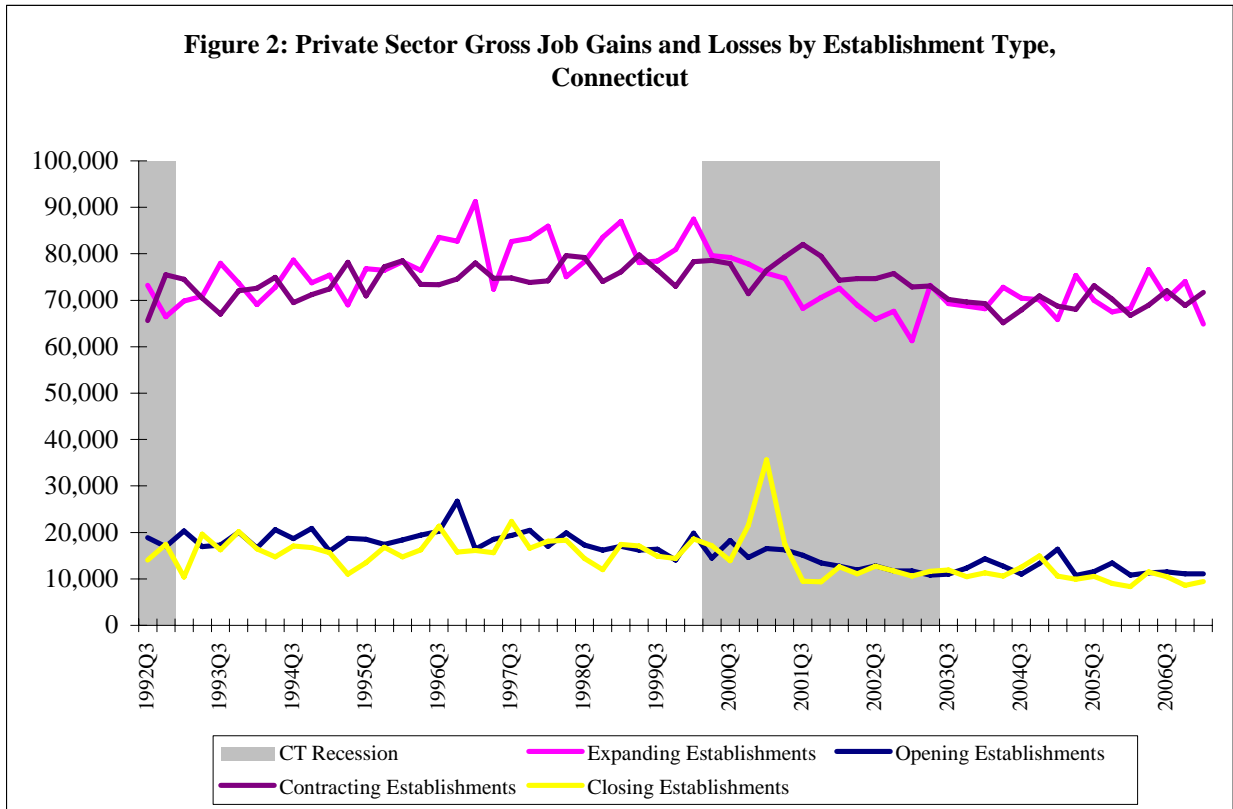


Figure 2: Private Sector Gross Job Gains and Losses by Establishment Type, Connecticut



Gross Job Flows

During the 3-month period ending in March 2007, expanding and opening establishments created 75,957 jobs, with expanding private sector establishments creating 64,896 jobs and opening establishments producing 11,061. Contracting and closing establishments cut 81,107 jobs, with contracting establishments eliminating 71,696 jobs and closing establishments eliminating 9,411. The difference between these gross job gains and losses was a net employment decline of 5,150 over the quarter.

Gross job gains were lower than the fourth quarter 2006 total by 9,169, and lower than in the same quarter a year earlier by 3,115. In contrast, gross job losses were higher than in the fourth quarter 2006 by 3,610, and higher than a year earlier by 6,031. The declining job gains and increasing job losses yielded net drops in the change in employment over those periods.

The level of job reallocation is the sum of gross job gains and gross job losses, and is a measure of dynamic activity in the labor market and economy. Table 1 shows that job reallocation, while higher than a year earlier, was lower than the fourth quarter 2006 figure by 5,559, and it is continuing its downward trend that began in April-June 2006.

Table 1: Private Sector Gross Job Gains and Losses

| Quarter Ending | March 2006 | June 2006 | September 2006 | December 2006 | March 2007 |
|-------------------------------|---------------|--------------|-------------------|------------------|---------------|
| Gross Job Gains..... | 79,072 | 87,841 | 81,794 | 85,126 | 75,957 |
| Expanding Establishments | 68,229 | 76,550 | 70,303 | 74,051 | 64,896 |
| Opening Establishments | 10,843 | 11,291 | 11,491 | 11,075 | 11,061 |
| Gross Job Losses..... | 75,076 | 80,456 | 82,496 | 77,497 | 81,107 |
| Contracting Establishments | 66,741 | 68,926 | 72,029 | 68,867 | 71,696 |
| Closing Establishments | 8,335 | 11,530 | 10,467 | 8,630 | 9,411 |
| Net Change ¹ | 3,996 | 7,385 | -702 | 7,629 | -5,150 |
| Job Reallocation ² | 154,148 | 168,297 | 164,290 | 162,623 | 157,064 |

1 – Net change equals the difference between gross job gains and gross job losses.

2 – Job reallocation equals the sum of gross job gains and losses.

As a percentage of private sector employment, gross job gains accounted for 5.3 percent of all jobs and gross job losses accounted for 5.7 percent, thus yielding a net change of -0.4 percent. The gross job gain rate was lower than the rate in October-December 2006 (by 0.7) and January-March 2006 (by 0.3). The gross job loss rate was higher than in October-December 2006 (by 0.3) and January-March 2006 (by 0.4).

Connecticut also experienced smaller gross job gain and loss rates than the United States during the 3-months ending in March 2007. The U.S. job gain and loss rates were 6.6 and 6.2 percent, respectively.

Table 2: Private Sector Gross Job Gain and Loss Rates¹

| Quarter Ending | March 2006 | June 2006 | September 2006 | December 2006 | March 2007 |
|------------------------------------|---------------|--------------|-------------------|------------------|---------------|
| Gross Job Gains..... | 5.6 | 6.2 | 5.7 | 6.0 | 5.3 |
| Expanding Establishments | 4.8 | 5.4 | 4.9 | 5.2 | 4.5 |
| Opening Establishments | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Gross Job Losses..... | 5.3 | 5.6 | 5.8 | 5.4 | 5.7 |
| Contracting Establishments | 4.7 | 4.8 | 5.1 | 4.8 | 5.0 |
| Closing Establishments | 0.6 | 0.8 | 0.7 | 0.6 | 0.7 |
| Net Change ² | 0.3 | 0.6 | -0.1 | 0.6 | -0.4 |
| Job Reallocation Rate ³ | 10.9 | 11.8 | 11.5 | 11.4 | 11.0 |

1 – The rates equal the flow divided by the average of the previous and current quarters' employment.

2 – Net change equals the difference between the gross job gain and loss rates.

3 – Job reallocation rate is the sum of the gross job gain and loss rates.

Establishment Dynamics

The number of establishments gaining jobs during the 3-month period ending March 2007 equaled 22,332, down by 654 from the quarter ending December 2006 and by 953 from a year earlier. There were 23,400 establishments losing jobs during the March 2007 quarter; this was up by 392 from the fourth quarter 2006 and by 1,101 from a year earlier. Between January and March 2007, net firm formation, which is the difference between the number of opening and closing establishments, equaled 139. This was lower than the October-December 2006 and the January-March 2006 figures by 15 and 526, respectively.

Table 3: Establishments Changing Employment, by Direction of Employment Change

| Quarter Ending | March 2006 | June 2006 | September 2006 | December 2006 | March 2007 |
|-----------------------------|---------------|--------------|-------------------|------------------|---------------|
| <i>Number</i> | | | | | |
| Establishments Gaining Jobs | 23,285 | 23,076 | 22,228 | 22,986 | 22,332 |
| Expanding Establishments | 20,051 | 20,175 | 19,353 | 19,952 | 19,316 |
| Opening Establishments | 3,234 | 2,901 | 2,875 | 3,034 | 3,016 |
| Establishments Losing Jobs | 22,299 | 23,076 | 23,570 | 23,008 | 23,400 |
| Contracting Establishments | 19,730 | 20,122 | 20,335 | 20,128 | 20,523 |
| Closing Establishments | 2,569 | 2,954 | 3,235 | 2,880 | 2,877 |
| Net Change ¹ | 665 | -53 | -360 | 154 | 139 |
| <i>Rates²</i> | | | | | |
| Establishments Gaining Jobs | 25.3 | 25.0 | 24.1 | 24.9 | 24.1 |
| Expanding Establishments | 21.8 | 21.9 | 21.0 | 21.6 | 20.8 |
| Opening Establishments | 3.5 | 3.1 | 3.1 | 3.3 | 3.3 |
| Establishments Losing Jobs | 24.2 | 25.0 | 25.6 | 24.9 | 25.3 |
| Contracting Establishments | 21.4 | 21.8 | 22.1 | 21.8 | 22.2 |
| Closing Establishments | 2.8 | 3.2 | 3.5 | 3.1 | 3.1 |
| Net Change ¹ | 0.7 | -0.1 | -0.4 | 0.2 | 0.2 |

1 – Net change is the difference between opening and closing establishments.

2 – Rates equal the level divided by the average of the previous and current quarters' number of establishments.

Compared to Other States

Compared to the other 49 states and the District of Columbia, Connecticut had the lowest gross job gains rate at 5.3 percent during the 3-month period ending March 2007. However, Connecticut also had one of the lowest gross job loss rates at 5.7 percent. The only areas with a lower loss rate were Indiana (5.6), Massachusetts (5.6), Texas (5.5), Arkansas (5.4), Nebraska (5.4), Pennsylvania (5.4), Illinois (5.4), the District of Columbia (5.2), and Hawaii (5.2). With its low gross job gains and loss rates, Connecticut ranked third from the bottom on the job reallocation rate, a measure of the level of dynamism within the economy, and on the net employment growth rate. The only other states with a lower level of dynamic activity were Illinois (10.9) and Hawaii (10.7). The two states with a lower net employment growth rate were Rhode Island (-0.5) and Vermont (-0.8).

For a more detailed discussion of the BED program and how it compares to other data sources, please see www.ctdol.state.ct.us/lmi/bed.htm or visit the Labor Market Information section of the Department of Labor's website at www.ct.gov/dol.

A Note About the Data:

The Business Employment Dynamics (BED) data are generated from Connecticut's unemployment insurance (UI) records, enhanced through procedures conducted in association with the Bureau of Labor Statistics, and cover approximately 93% of all wage and salary workers in the state. The BED program links these records across quarters, providing a longitudinal history of employment for each establishment. These longitudinal records allow the identification of employment changes at expanding, opening, contracting, or closing establishments. Aggregating these changes, the BED data identify the gross job gains and losses, also known as job flows, in the state. These flows provide an understanding of the labor market dynamics that unfold over time. The job flows data scratches below the surface to expose the undercurrents that result in the net employment outcomes reported in other statistical series

The net change in employment from the Business Employment Dynamics data series will not match the net change in nonfarm employment produced from the monthly survey and reported in the *Labor Situation*. The monthly estimates are based on surveys from a sample of establishments, while the BED data are based on a quarterly census of administrative records. In addition, the monthly series has a different coverage, excluding the agriculture sector but including government, private households, and establishments not covered by the unemployment insurance program. Thus, the net over-the-quarter changes derived from the BED data may be different from the net employment change estimated from the monthly nonfarm employment series. The intended use of the BED statistics is to show the dynamic labor market flows that underlie the net changes in aggregate employment levels; data users who want to track net changes in