



Business Employment Dynamics *Office of Research*

August 2008

Business Employment Dynamics: Fourth Quarter 2007

The number of jobs added at private sector establishments in Connecticut rose in the quarter ending December 2007 compared to the prior quarter after seasonal adjustment, but fell from a year earlier. The number of jobs eliminated had the opposite experience. Expanding and opening establishments added more jobs than the previous quarter, but expanding establishments hired less than a year earlier. Jobs eliminated at contracting establishments increased from the previous quarter and the same quarter the year earlier. Closing establishments experienced decreases across the same periods. As a result, the job reallocation rate, a measure of dynamic activity in the labor market and economy, increased.

In general, establishments mirrored the job flow trends. The number of expanding and opening establishments increased from the previous quarter, but were lower than the same quarter the previous year. The number of contracting and closing establishments declined from the previous quarter. Compared to a year earlier, more establishments contracted but fewer closed. These dynamics in the fourth quarter of 2007 yielded a net firm formation rate that was higher than the prior two quarters, but lower than in 2006. The net firm formation rate is the difference between the rates of opening establishments and closing establishments.

With low gross job gain and loss rates, Connecticut ranked fourth from the bottom among all states and the District of Columbia on the job reallocation rate. The only states with lower job reallocation rates over the quarter were Pennsylvania (11.5), Wisconsin (11.4), Illinois (11.2), and Hawaii (10.5). Similarly, Connecticut had a relatively low net employment growth rate of 0.2.

Compared to the country as a whole, Connecticut had both a lower gross job gain rate and a lower job loss rate. With these lower rates, Connecticut experienced a smaller net employment increase and lower job reallocation rate.

Figure 1: Private Sector Gross Job Gains and Losses, Connecticut

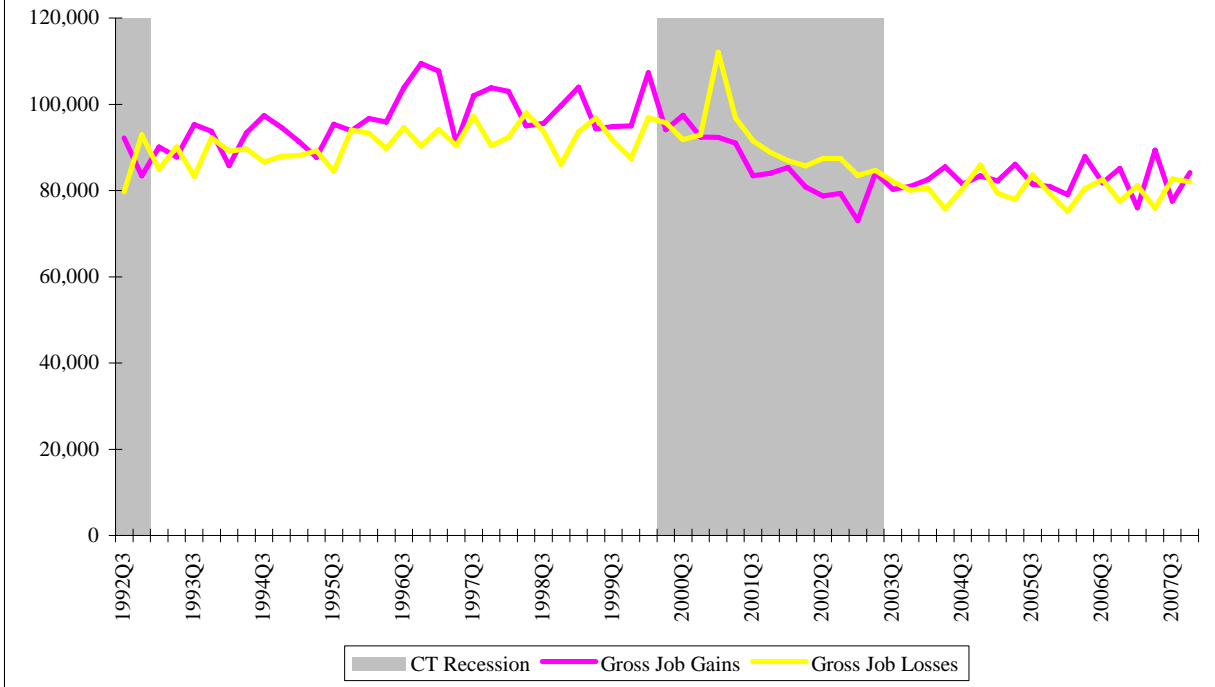
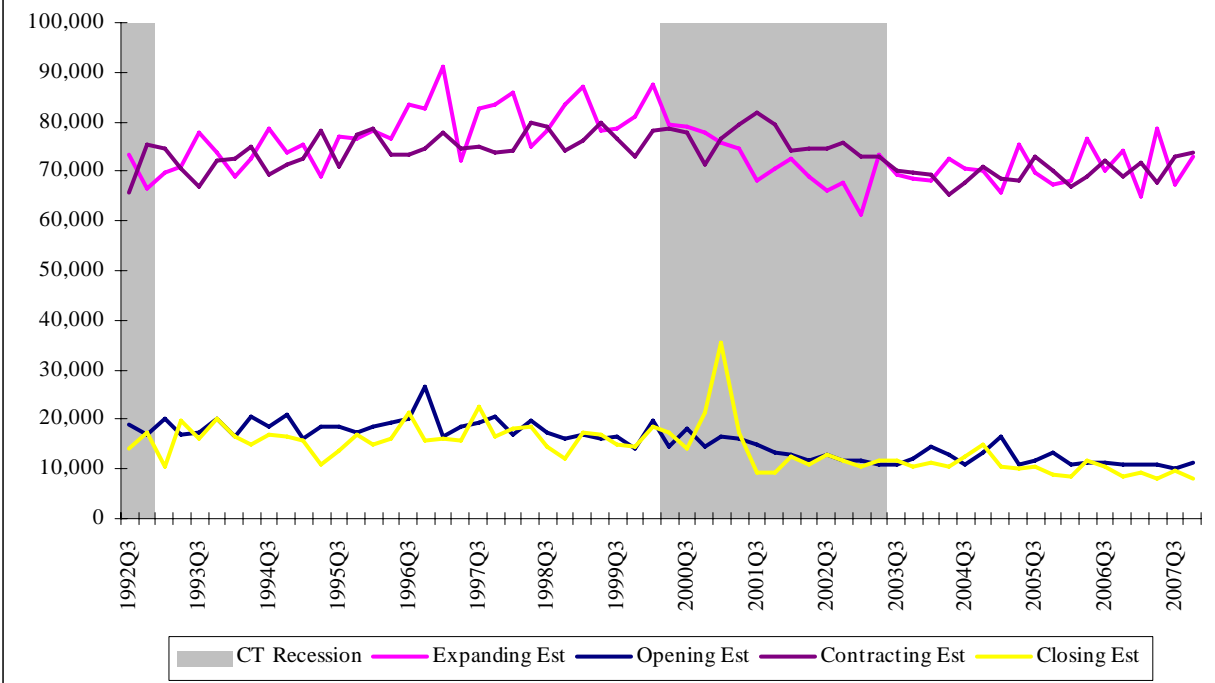


Figure 2: Private Sector Gross Job Gains and Losses by Establishment Type, Connecticut



Gross Job Flows

During the 3-month period ending in December 2007, expanding and opening establishments created 84,140 jobs, with expanding private sector establishments creating 72,863 jobs and opening establishments producing 11,277. Contracting and closing establishments cut 82,026 jobs, with contracting establishments eliminating 73,763 jobs and closing establishments eliminating 8,263. The difference between these gross job gains and losses was a net employment gain of 2,114 over the quarter.

Gross job gains were higher than the third quarter 2007 total by 6,553 and lower than in the same quarter a year earlier by 986. In contrast, gross job losses were lower than in the third quarter of 2007 by 624, and higher than a year earlier by 4,529. The increasing job gains and decreasing job losses yielded net gains in the change in employment from the previous quarter.

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 was higher than a year earlier, and it was higher than the third quarter of 2007 figure by 5,929.

Table 1: Private Sector Gross Job Gains and Losses

Quarter Ending	December 2006	March 2007	June 2007	September 2007	December 2007
Gross Job Gains.....	85,126	75,957	89,363	77,587	84,140
Expanding Establishments	74,051	64,896	78,657	67,362	72,863
Opening Establishments	11,075	11,061	10,706	10,225	11,277
Gross Job Losses.....	77,497	81,107	75,883	82,650	82,026
Contracting Establishments	68,867	71,696	67,662	73,001	73,763
Closing Establishments	8,630	9,411	8,221	9,649	8,263
Net Change ¹	7,629	-5,150	13,480	-5,063	2,114
Job Reallocation ²	162,623	157,064	165,246	160,237	166,166

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 5.9 percent of all jobs and gross job losses accounted for 5.7 percent, thus yielding a net change of 0.2 percent. The gross job gain rate was higher than the rate in July-September 2007 (by 0.5) and lower than the October-December 2006 rate by 0.1. The gross job loss rate was lower than in July-September 2007 (by 0.1), and it was higher than the October-December 2006 rate by 0.3.

Connecticut also experienced smaller gross job gain and loss rates than the United States during the three months ending in December 2007. The U.S. job gain and loss rates were 6.8 and 6.5 percent, respectively.

Table 2: Private Sector Gross Job Gain and Loss Rates¹

Quarter Ending	December 2006	March 2007	June 2007	September 2007	December 2007
Gross Job Gains.....	6.0	5.3	6.2	5.4	5.9
Expanding Establishments	5.2	4.5	5.5	4.7	5.1
Opening Establishments	0.8	0.8	0.7	0.7	0.8
Gross Job Losses.....	5.4	5.7	5.3	5.8	5.7
Contracting Establishments	4.8	5.0	4.7	5.1	5.1
Closing Establishments	0.6	0.7	0.6	0.7	0.6
Net Change ²	0.6	-0.4	0.9	-0.4	0.2
Job Reallocation Rate ³	11.4	11.0	11.5	11.2	11.6

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 December 2007 equaled 22,426, up by 608 from the quarter ending September 2007 and down by 560 from a year earlier. There were 23,432 establishments losing jobs during the December 2007 quarter; this was down by 504 from the third quarter 2007 and up by 424 from a year earlier. Between October and December 2007, net firm formation, which is the difference between the number of opening and closing establishments, equaled 59. This was higher than the July-September 2007 by 497 and lower than the October-December 2006 figures by 95.

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

Quarter Ending	December 2006	March 2007	June 2007	September 2007	December 2007
<i>Number</i>					
Establishments Gaining Jobs	22,986	22,332	23,255	21,818	22,426
Expanding Establishments	19,952	19,316	20,521	19,044	19,581
Opening Establishments	3,034	3,016	2,734	2,774	2,845
Establishments Losing Jobs	23,008	23,400	22,487	23,936	23,432
Contracting Establishments	20,128	20,523	19,713	20,724	20,646
Closing Establishments	2,880	2,877	2,774	3,212	2,786
Net Firm Formation ¹	154	139	-40	-438	59
<i>Rates²</i>					
Establishments Gaining Jobs	24.9	24.1	25	23.6	24.2
Expanding Establishments	21.6	20.8	22.1	20.6	21.1
Opening Establishments	3.3	3.3	2.9	3.0	3.1
Establishments Losing Jobs	24.9	25.3	24.3	25.9	25.3
Contracting Establishments	21.8	22.2	21.3	22.4	22.3
Closing Establishments	3.1	3.1	3.0	3.5	3.0
Net Firm Formation ¹	0.2	0.2	-0.1	-0.5	0.1

1 – Net firm formation 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's gross job gains of 5.9 per 100 existing jobs ranked below 44 other regions during the 3-month period ending December 2007, tying Massachusetts and Pennsylvania. Regions with lower rates were Indiana (5.8), Illinois and Wisconsin (5.7), and Hawaii (5.4). This is about the same as a quarter earlier when Connecticut ranked below 46 other regions. However, Connecticut had one of the lowest gross job loss rates at 5.7 percent, with only Pennsylvania (5.6), Arkansas and Illinois (5.5), and Hawaii (5.1) recording lower rates. With its low gross job gains and loss rates, Connecticut ranked below 46 other states on the job reallocation rate (11.6), a measure of the level of dynamism within the economy. The only other states with a lower level of dynamic activity were Pennsylvania (11.5), Wisconsin (11.4), Illinois (11.2), and Hawaii (10.5). Connecticut experienced a net employment growth rate (0.2), which is lower than 26 other states. Wyoming and Montana experienced the highest growth rates equaling 2.3 and 1.1 percent, respectively.

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 aggregate employment levels over time should refer to monthly nonfarm data.