



Business Employment Dynamics *Office of Research*

June 2010

Business Employment Dynamics: Third Quarter 2009

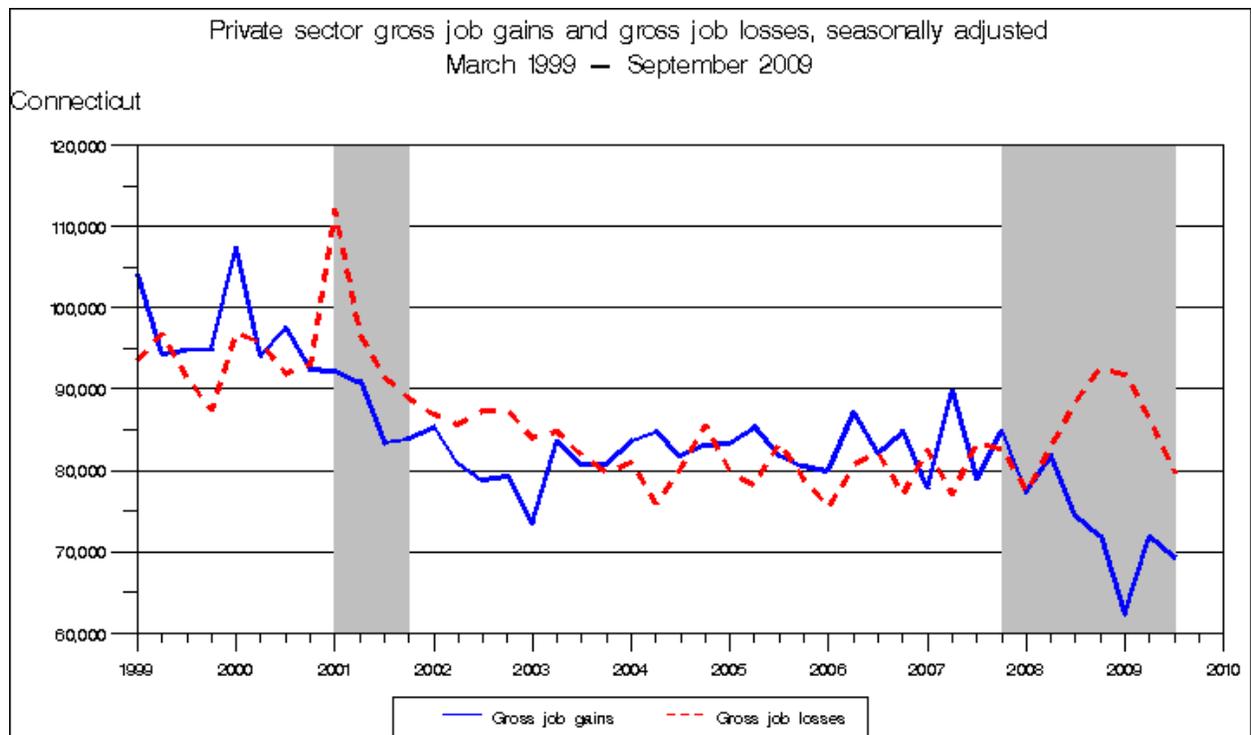
The Business Employment Dynamics program measures job growth over time by its four constituent parts: Job gains and losses through business expansions, contractions, new business creations and losses due to closings. Connecticut's net employment growth continued its downward trend during the third quarter of 2009. However, the gross job loss rate has declined to its pre-recessionary level. Gross job gains, though higher than the first quarter of 2009, plateaued between the second and third quarters of 2009. The decline in job losses combined with the level job gains resulted in a lower job reallocation rate, or less dynamism in the market. Further data is needed to determine whether the decreased churning in the market is a trend or a one-time occurrence. Net firm formation continued on its negative trend, reaching the lowest level of any quarter in more than 8 years.

During the third quarter of 2009, 69,384 jobs were created at 17,168 expanding companies and 2,490 new businesses. However, 19,638 firms contracted and another 3,418 closed, eliminating 79,698 jobs. These dynamics resulted in a net decline of more than 10,000 jobs over the quarter. On a positive note, this loss of employment was less than the second quarter, and about a third of the losses experienced in the first quarter of 2009. Connecticut's job reallocation rate decreased from the second quarter of 2009 by 0.6 percentage points. This decrease was primarily due to a 0.5 percentage-point decrease in the gross job loss rate combined with the 0.1 percentage-point decrease in the gross job gains rate.

Overall, the State's employment dynamism (rate of job churn) was slightly improved from a year earlier, with the change attributable to a greater decrease in gross job losses relative to gross job gains. However, employment churn is much lower than the second quarter of 2008, possibly indicating a stagnating labor market. Gross job gains in the third quarter of 2009 were more than 5,000 lower than the third quarter of 2008, and more than 12,500 less than the second quarter of 2008. Gross job losses were more than 8,500 less than in the third quarter of 2008 and approximately the same as the second quarter of 2008.

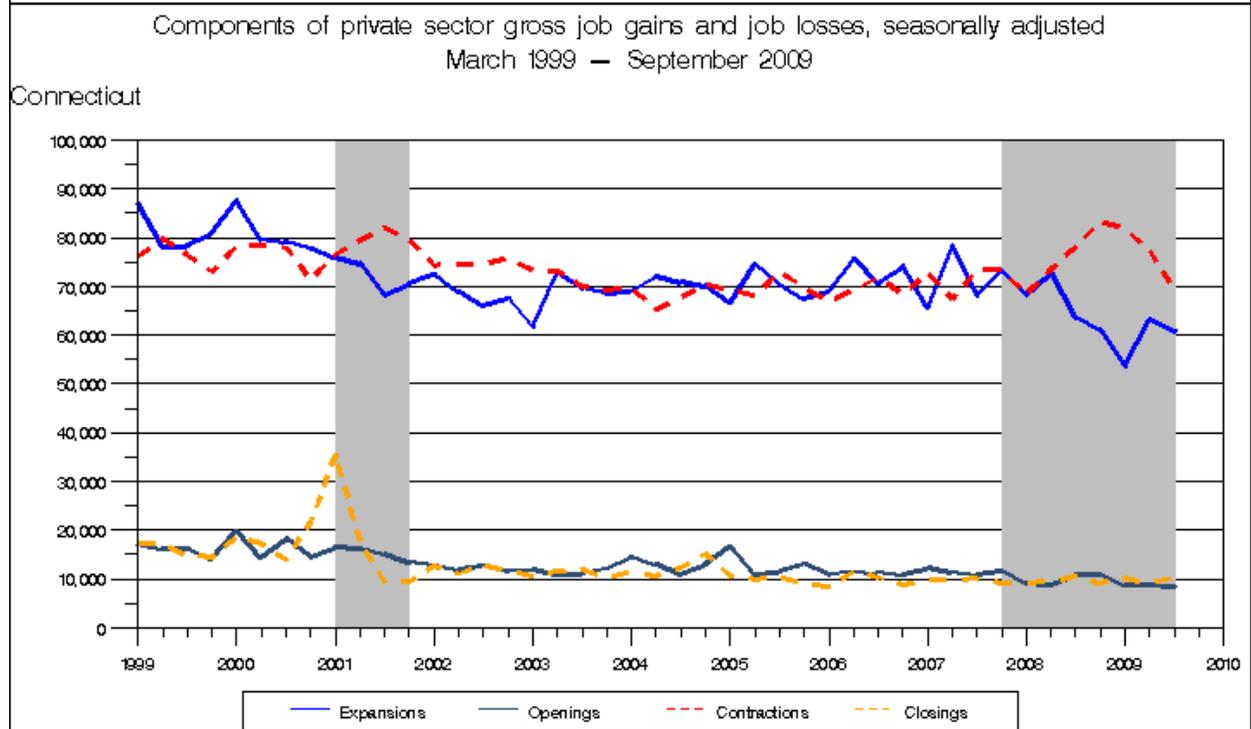
Net firm formation in the third quarter of 2009 shrank by more than it has since the fourth quarter of 2000, with business closings exceeding openings by 928 during the third quarter, compared with about 840 and 630 in the second and first quarters respectively. Over 23,000 establishments eliminated jobs during the quarter, about 3,400 more than those that added jobs.

Compared to the nation as a whole, Connecticut had both a lower gross job gain rate and a lower job loss rate. Connecticut ranked the lowest among all states and the District of Columbia in the job reallocation rate. Though negative, the State's net employment growth-rate ranked above that of 31 other states and the US as a whole.



Source: U.S. Bureau of Labor Statistics

Note: Shaded area represents NBER defined recession period.



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Gross Job Flows

During the 3-month period ending in September 2009, expanding and opening establishments created 69,384 jobs, with expanding private sector establishments creating 60,886 jobs and opening establishments producing 8,498. Contracting and closing establishments cut 79,698 jobs, with contracting establishments eliminating 69,533 jobs and closing establishments eliminating 10,165. The difference between these gross job gains and losses was a net employment loss of 10,314 over the quarter.

Gross job gains were smaller than the second quarter 2009 total by 2,494, and smaller than in the same quarter a year earlier by 2,588. Gross job losses were smaller than in the first quarter of 2009 by 6,509, and smaller than a year earlier by 12,825. These employment dynamics yielded a net loss of employment in the third quarter that was 4,015 less than the net loss in the previous quarter.

The level of job reallocation is the sum of gross job gains and gross job losses, and it is a measure of dynamic activity in the labor market and economy. Table 1 shows that job reallocation was smaller than a year earlier by 13,962, and smaller than the first quarter of 2009 figure by 9,003.

Table 1: Private Sector Gross Job Gains and Losses

Quarter Ending	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Gross Job Gains.....	74,504	71,972	62,355	71,878	69,384
Expanding Establishments	63,674	61,027	53,746	63,201	60,886
Opening Establishments	10,830	10,945	8,609	8,677	8,498
Gross Job Losses.....	88,540	92,523	91,796	86,207	79,698
Contracting Establishments	78,126	83,344	81,764	77,097	69,533
Closing Establishments	10,414	9,179	10,032	9,110	10,165
Net Change ¹	-14,036	-20,551	-29,441	-14,329	-10,314
Job Reallocation ²	163,044	164,495	154,151	158,085	149,082

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.

Note: All data are seasonally adjusted.

As a percentage of private sector employment, gross job gains and gross job losses accounted for 5.1 and 5.8 percent of all jobs, respectively, yielding a net percentage change in employment of -0.7. The gross job gain rate was lower than the rates in April-June 2009 and in July-September 2008 by 0.1 percent. The gross job loss rate was lower than the rate in April-June 2009 by 0.5 percent, and lower than the rate in July-September 2008 by 0.3 percent.

Connecticut also experienced smaller gross job gain and loss rates than the United States during the three months ending in September 2009. The U.S. job gain and loss rates were 5.9 and 6.8 percent, respectively.

Table 2: Private Sector Gross Job Gain and Loss Rates¹

Quarter Ending	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Gross Job Gains.....	5.2	5.1	4.5	5.2	5.1
Expanding Establishments	4.4	4.3	3.9	4.6	4.5
Opening Establishments	0.8	0.8	0.6	0.6	0.6
Gross Job Losses.....	6.1	6.5	6.6	6.3	5.8
Contracting Establishments	5.4	5.9	5.9	5.6	5.1
Closing Establishments	0.7	0.6	0.7	0.7	0.7
Net Change ²	-0.9	-1.4	-2.1	-1.1	-0.7
Job Reallocation Rate ³	11.3	11.6	11.1	11.5	10.9

1 – Rates equal the flow as a percent of 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 September 2009 equaled 19,658, up by 38 from the quarter ending June 2009 and down 1,445 from a year earlier. There were 23,056 establishments losing jobs during the quarter ending September 2009, down by 1,535 from the second quarter 2009 and down by 1,374 from a year earlier. Between July and September 2009, net firm formation, which is the difference between the number of opening and closing establishments, equaled -928. This was lower than in April-June 2009 and in July-September 2008 by 86 and 587, respectively.

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

Quarter Ending	September 2008	December 2008	March 2009	June 2009	September 2009
<i>Number</i>					
Establishments Gaining Jobs	21,103	20,024	18,575	19,620	19,658
Expanding Establishments	18,177	17,201	16,120	17,235	17,168
Opening Establishments	2,926	2,823	2,455	2,385	2,490
Establishments Losing Jobs	24,430	25,685	25,444	24,591	23,056
Contracting Establishments	21,163	22,348	22,360	21,364	19,638
Closing Establishments	3,267	3,337	3,084	3,227	3,418
Net Firm Formation ¹	-341	-514	-629	-842	-928
<i>Rates²</i>					
Establishments Gaining Jobs	22.9	21.7	20.2	21.5	21.8
Expanding Establishments	19.7	18.6	17.5	18.9	19.0
Opening Establishments	3.2	3.1	2.7	2.6	2.8
Establishments Losing Jobs	26.4	27.8	27.7	26.9	25.6
Contracting Establishments	22.9	24.2	24.3	23.4	21.8
Closing Establishments	3.5	3.6	3.4	3.5	3.8
Net Firm Formation ¹	-0.3	-0.5	-0.7	-0.9	-1.0

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

2 – Rates are the level as a percent of 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 job gain rate ranked third from the bottom (tied with the District of Columbia), with gains of 5.1 per 100 existing jobs during the 3-month period ending September 2009. The only states with lower ratings were Illinois and Hawaii (both at 5 percent). Connecticut had the second to lowest gross job loss rate of 5.8 percent. The only state with a lower job loss rate was Nebraska (5.7). With its low gross job gain and loss rates, Connecticut had the lowest job reallocation rate (10.9) in the country. The job reallocation rate is a measure of the level of dynamism within the economy. Though negative, Connecticut's net employment growth rate was higher than 31 other states, and higher than the rate for the US as a whole. During the third quarter of 2009, only four states had unchanged or positive employment growth rates.

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.

With the release of first quarter data each year, seasonally adjusted data for prior periods are revised and will therefore be different than figures shown in earlier releases. Please see <http://www.bls.gov/bdm/> for more detailed information.