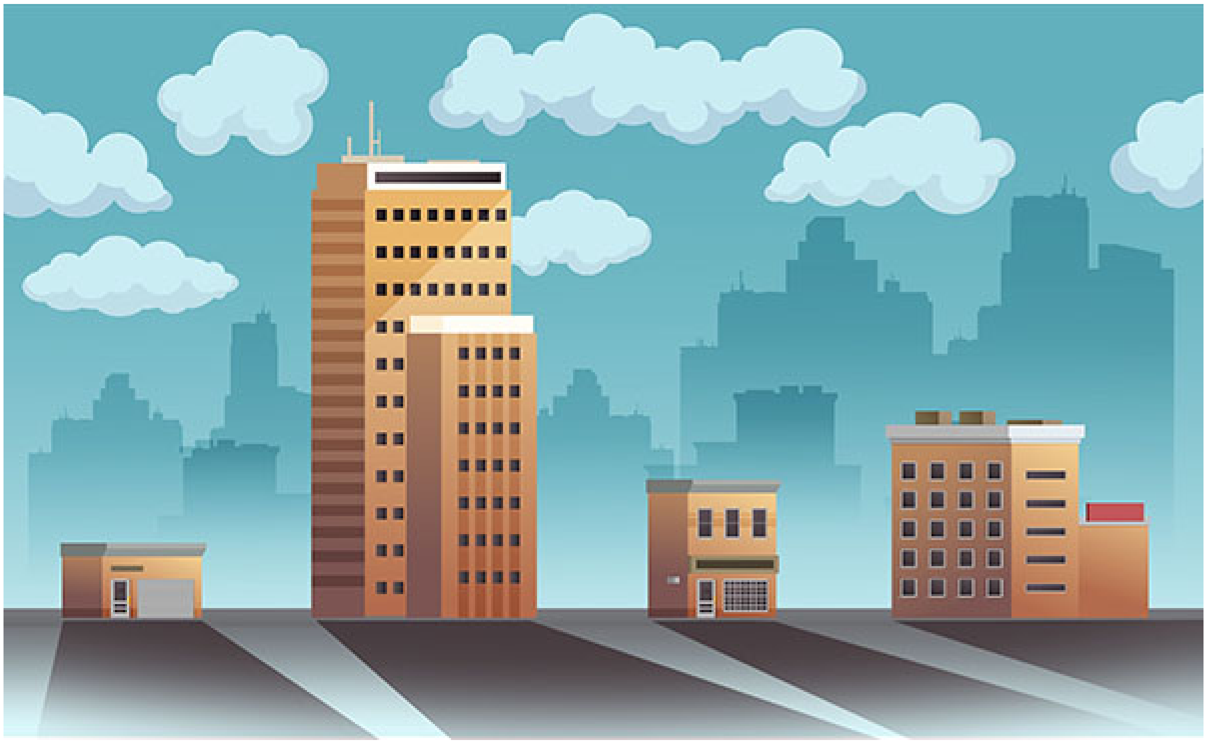

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Business Employment Dynamics By Age And Size Of Firms

Akbar Sadeghi

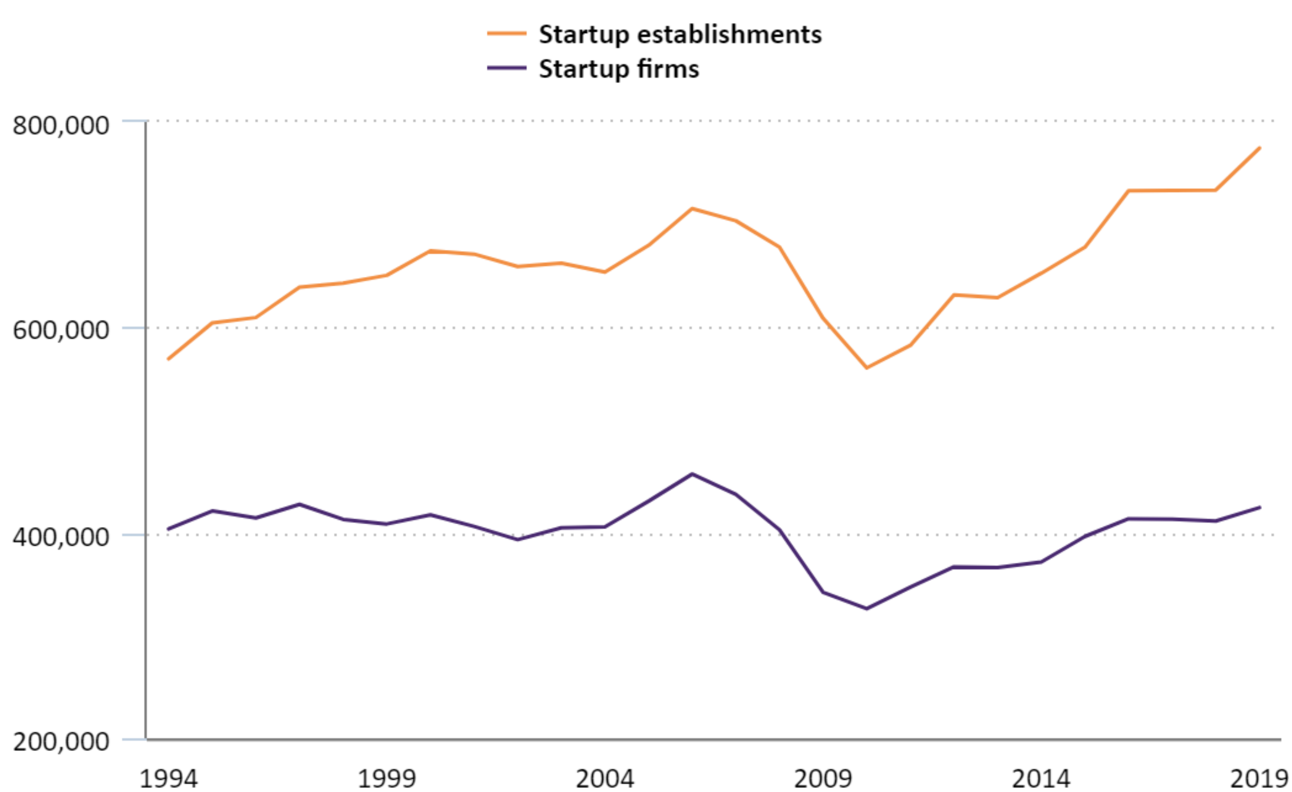
In 2019 there were more than 420,000 startup firms. These startups were responsible for almost 1.7 million job gains in 2019, while having, on average, only 4 employees at the birth of the startup. Older firms—those that have been in business 10 years or more—accounted for most of total employment in 2019, but startup firms accounted for most of the employment growth in 2019. This Spotlight on Statistics highlights these startups, which are an essential part of the U.S economy. The Spotlight examines data on the age and employment size of firms from 1994 through 2019.

New businesses increased from 2010 to 2019

Startups are firms or establishments that are less than a year old. An establishment is an economic unit that produces goods or services, usually at a single location, and engages in one or mainly one activity; a firm is a legal business and may consist of one or several establishments. Startups usually rise when the economy expands and fall during economic downturns. The annual number of startup firms began to decline several quarters before the 2007–09 recession and was at its lowest in 2010. After the recession, the number of new firms began to rise and exceeded the long-term average of 400,000 firms annually from a low of 326,000 in 2010. The number of establishments less than a year old also declined sharply during the 2007–09 recession and then grew afterward, reaching a record high in the year ended March 2019.

The firm-level age and size designation in these series are measured by age and size of the parent company and are assigned to every establishment in that firm. For that reason, establishment counts are higher than firm counts because, in addition to new businesses, they include new plants, stores, branches, or other locations of existing multi-establishment firms. Firm counts include only newly born firms.

Number of startups, 1994 to 2019



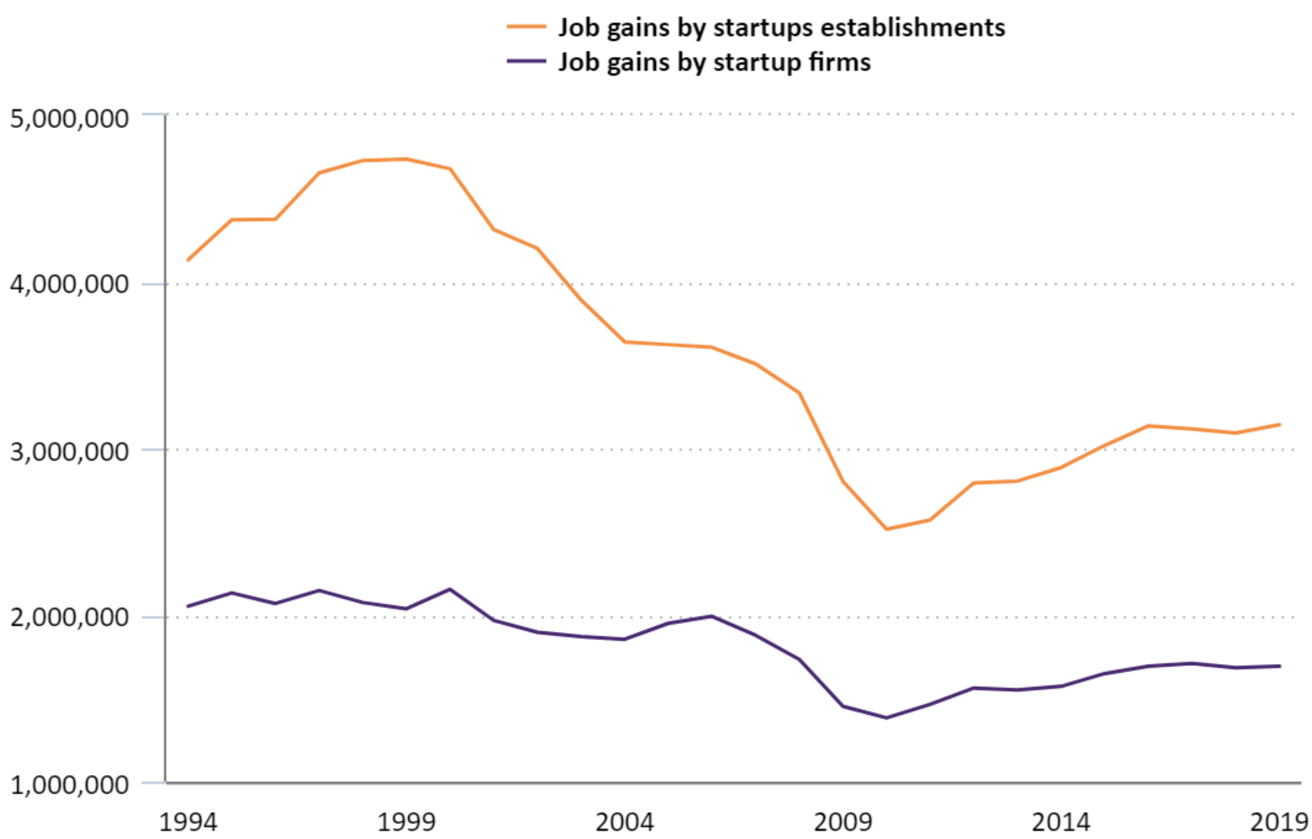
Click legend items to change data display. Hover over chart to view data.
Source: U.S. Bureau of Labor Statistics.

After a decline, employment from new businesses rose from 2010 to 2019

The number of jobs created by startup firms declined from 2.2 million in 1999 to a low of 1.4 million in 2010. Since then, annual job gains by startup firms rose and reached 1.7 million in the year ended March 2019.

Job gains by startup establishments also declined sharply, from the peak of 4.7 million in 1999 to a low of 2.5 million jobs in 2010. The upward employment trend resumed in 2010 and reached 3.1 million in 2019. That was an increase of 25 percent from 2010 to 2019, but job gains were significantly lower than the levels recorded in the 1990s.

Number of job gains by startups, from 1994 to 2019



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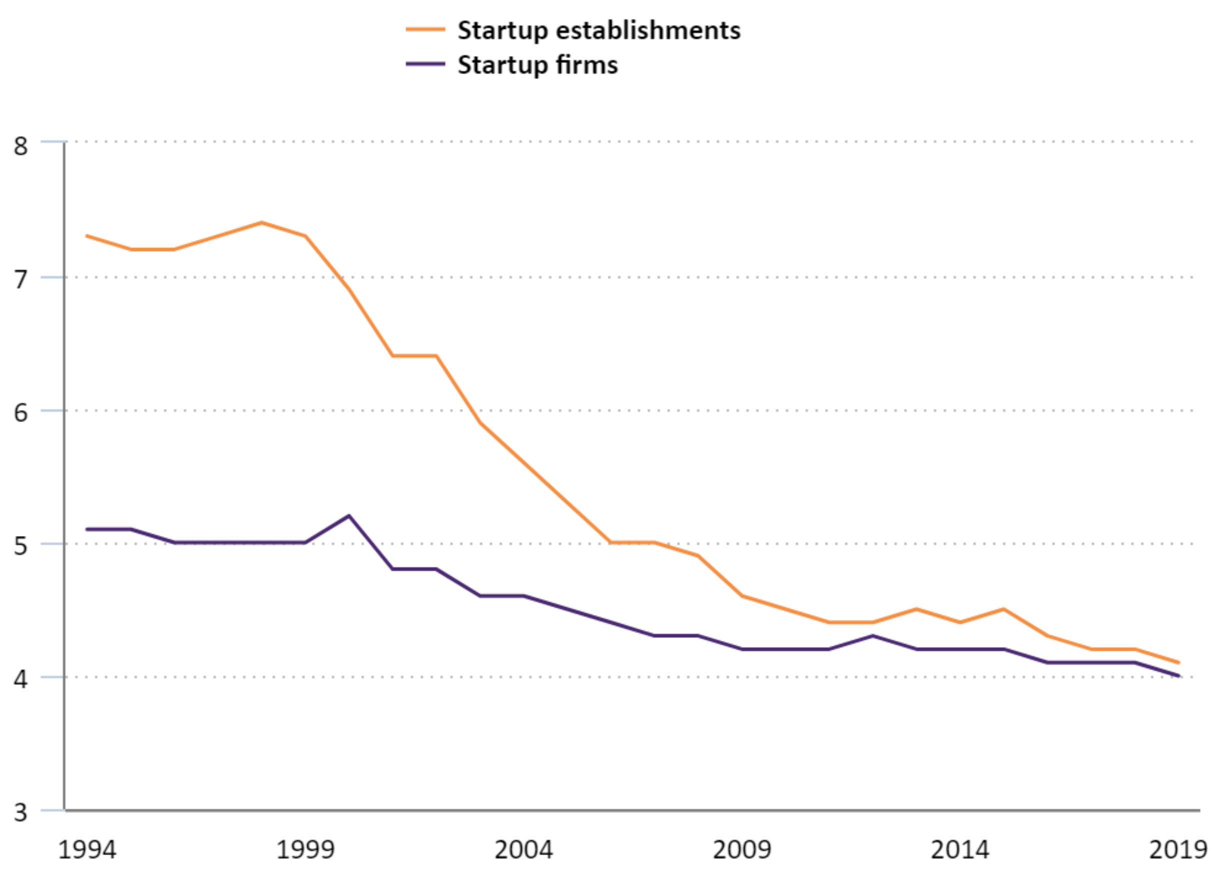
Source: U.S. Bureau of Labor Statistics.

The size of startups at birth is shrinking

From 1994 to 2019, the number of startups rose, while the job gains from these companies fell. As a result, the average size of new startups shrunk over this time. The decline was steeper for startup establishments than firms. Startup establishments of less than 1 year old had 7 employees in 1994. In the year ended in March 2019, the startup establishments had 4 employees on average. Startup firms of less than 1 year old had 5 employees in 1994. In the year ended March 2019, the startup firms had 4 employees on average. This decline was especially sharp from 1998 to 2008. The decline in the average size of startups may partly result from a rise in productivity, trends in outsourcing, and the shift in the industry mix from a small number of large firms to a large number of small firms.

Average number of employees at birth of startup, from 1994 to 2019



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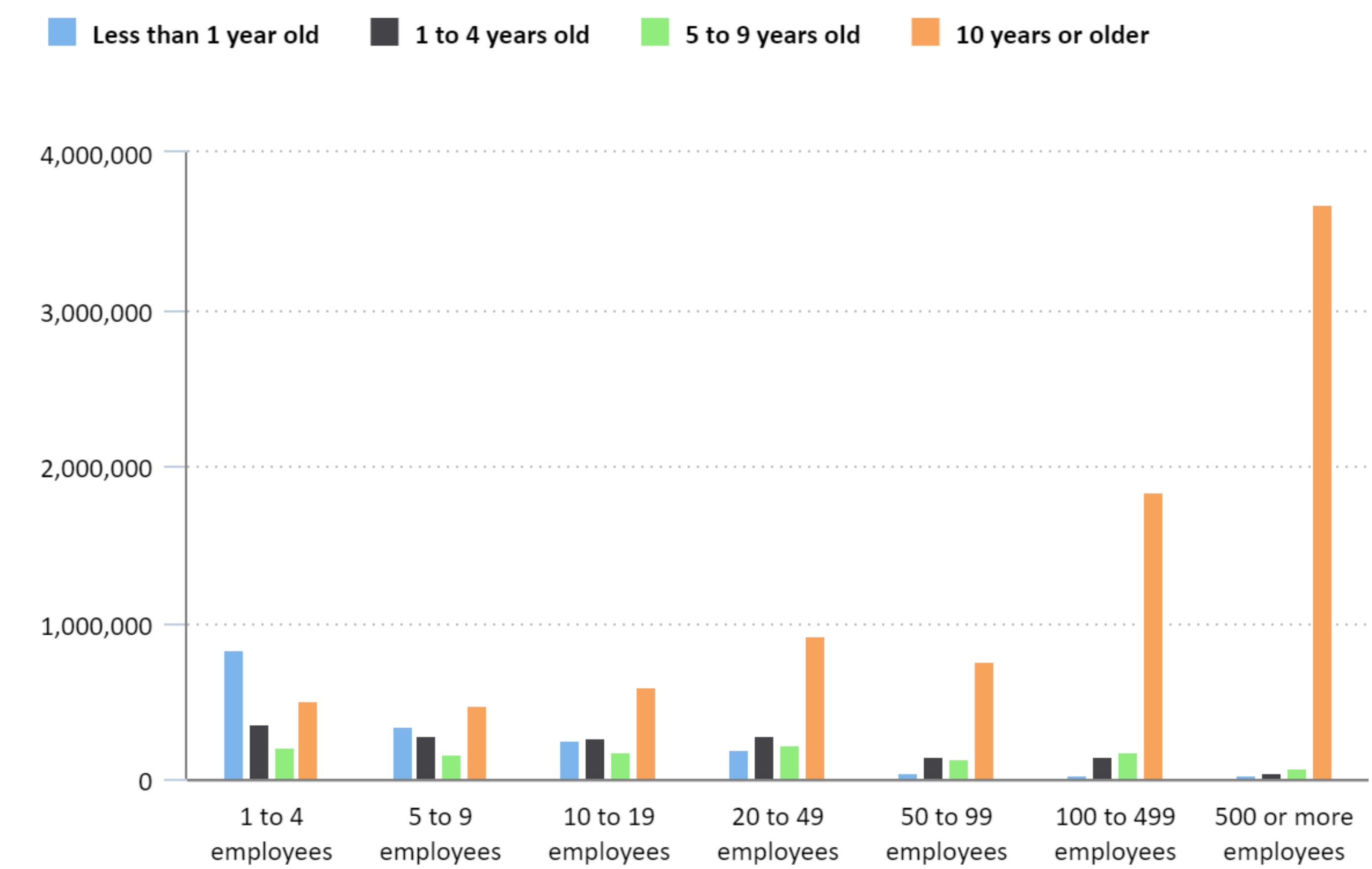
Source: U.S. Bureau of Labor Statistics.

Large older firms and small startups had the most contribution to gross job gains in 2019

In the year ended in March 2019, large older firms and the smallest startup firms contributed more than other age and size categories to the total job gains. Firms older than 10 years and with more than 500 employees contributed the most to job gains; these firms recorded over 3.5 million job gains. Meanwhile, startup firms with 1 to 4 employees recorded over 800,000 job gains.

Gross job gains by size and age of firm, 2019



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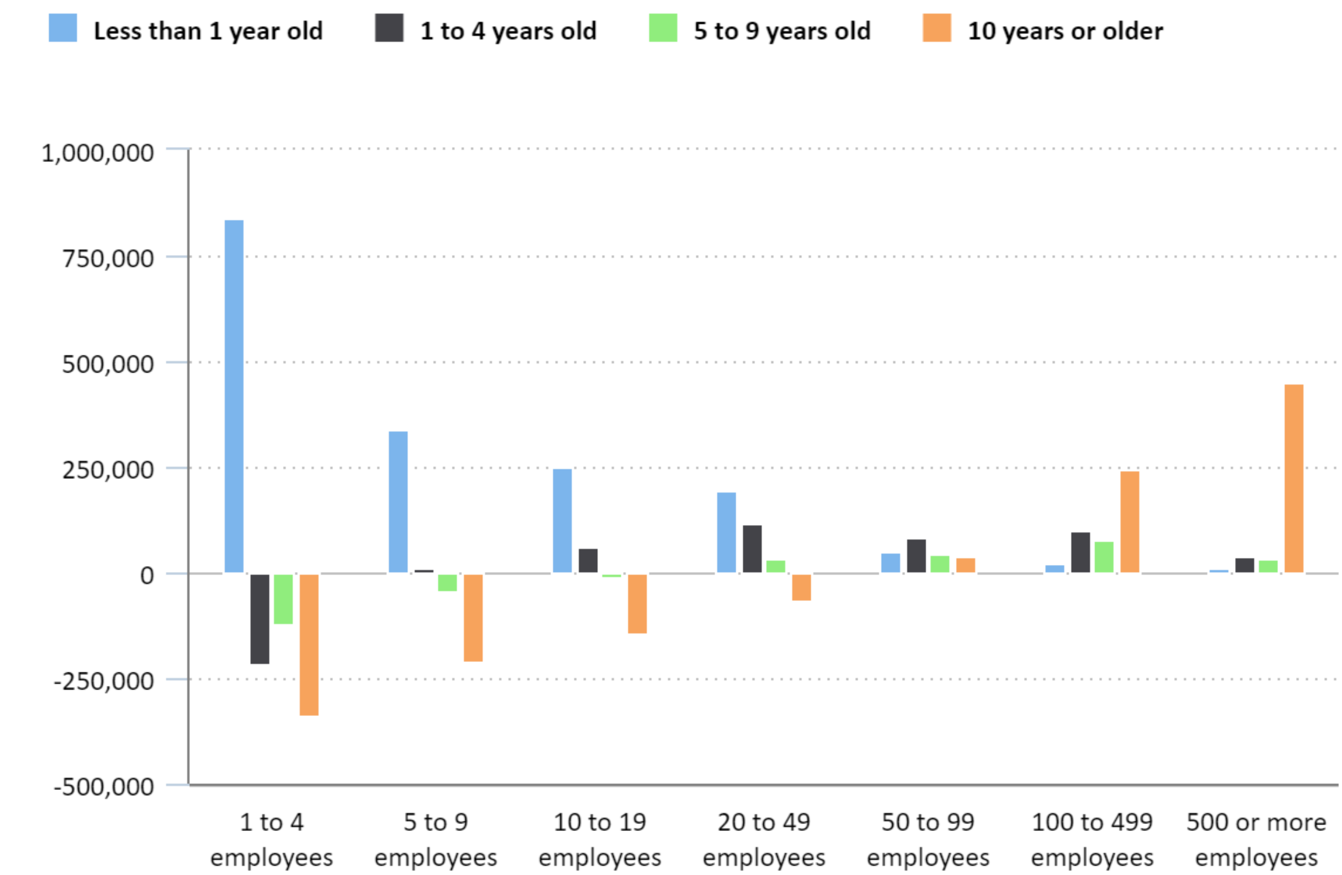
Source: U.S. Bureau of Labor Statistics.

Small startups and large older firms had the highest net gains in employment in 2019

In terms of net employment change (job gains minus job losses) firms less than 1 year old with fewer than 50 employees had the largest contribution in the year ended in March 2019. Older firms with fewer than 50 employees had employment declines, while older firm of more than 50 employees had employment growth. Startups with 1 to 4 employees made the largest contribution to the net employment change.

Net employment change by size and age of firm, 2019



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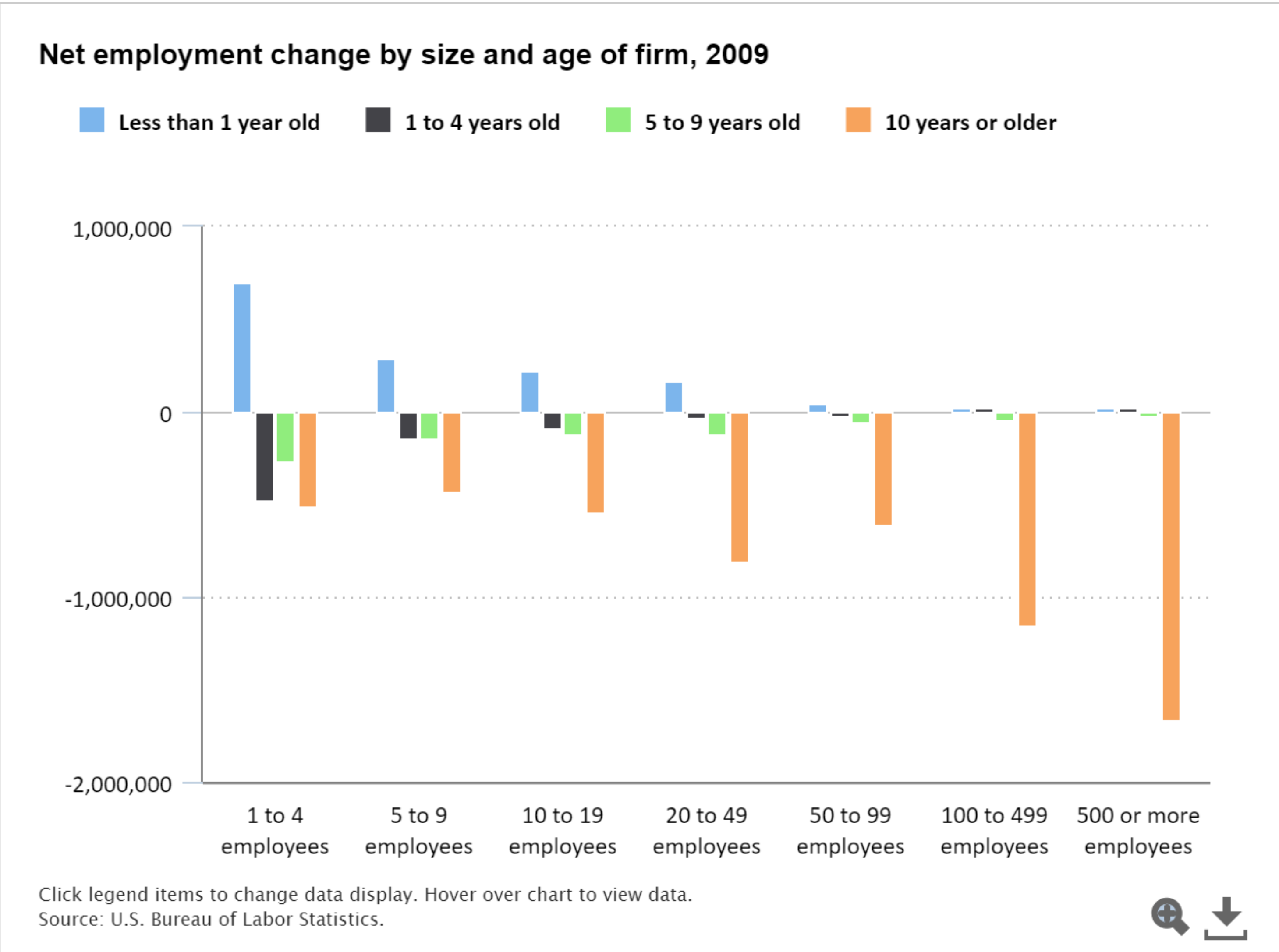
Source: U.S. Bureau of Labor Statistics.

In 2009, at the height of economic downturn, startups were the only source of net employment gains

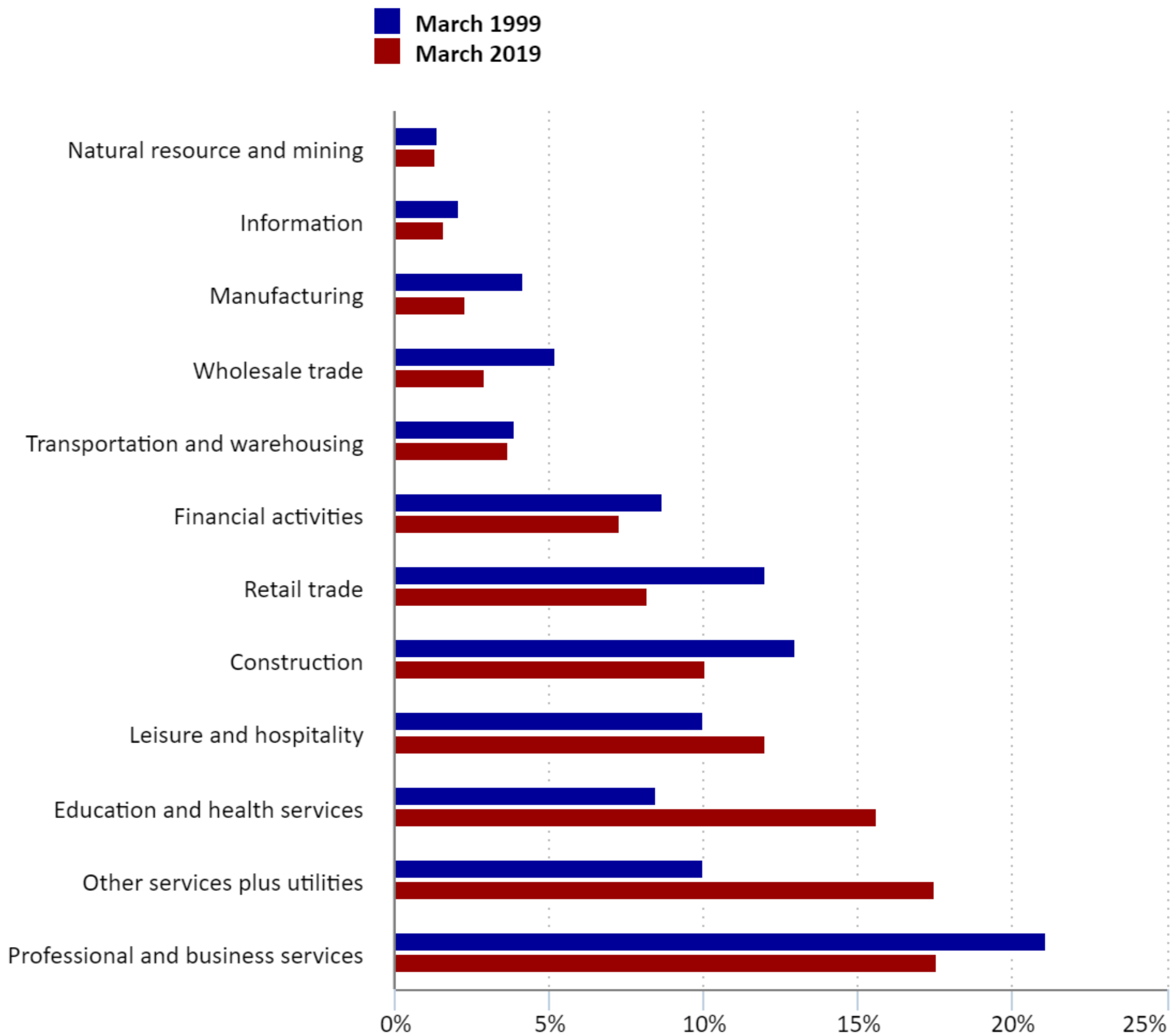
The economy lost more than 5.8 million jobs in the 12 months ended in March 2009. Startups and firms of 1 to 4 years old with more than 100 employees contributed positively to employment growth, while the other groups lost jobs. Firms 10 years or older with more than 500 employees had the greatest net job losses among these age and size groups. Startups with 1 to 4 employees had the highest net job gains.



Three industries made up more than 45 percent of startups in 2019

In the year ended March 2019, more than 45 percent of startups were in leisure and hospitality, education and health services, and other services. From 1999 to 2019, the share of these three sectors in the total number of startups rose from 28.4 percent in 1999 to 45.0 percent in 2019, while shares of other sectors declined. Retail trade lost the most, followed by professional and business services.

Share of startups in March 1999 and March 2019, by industry



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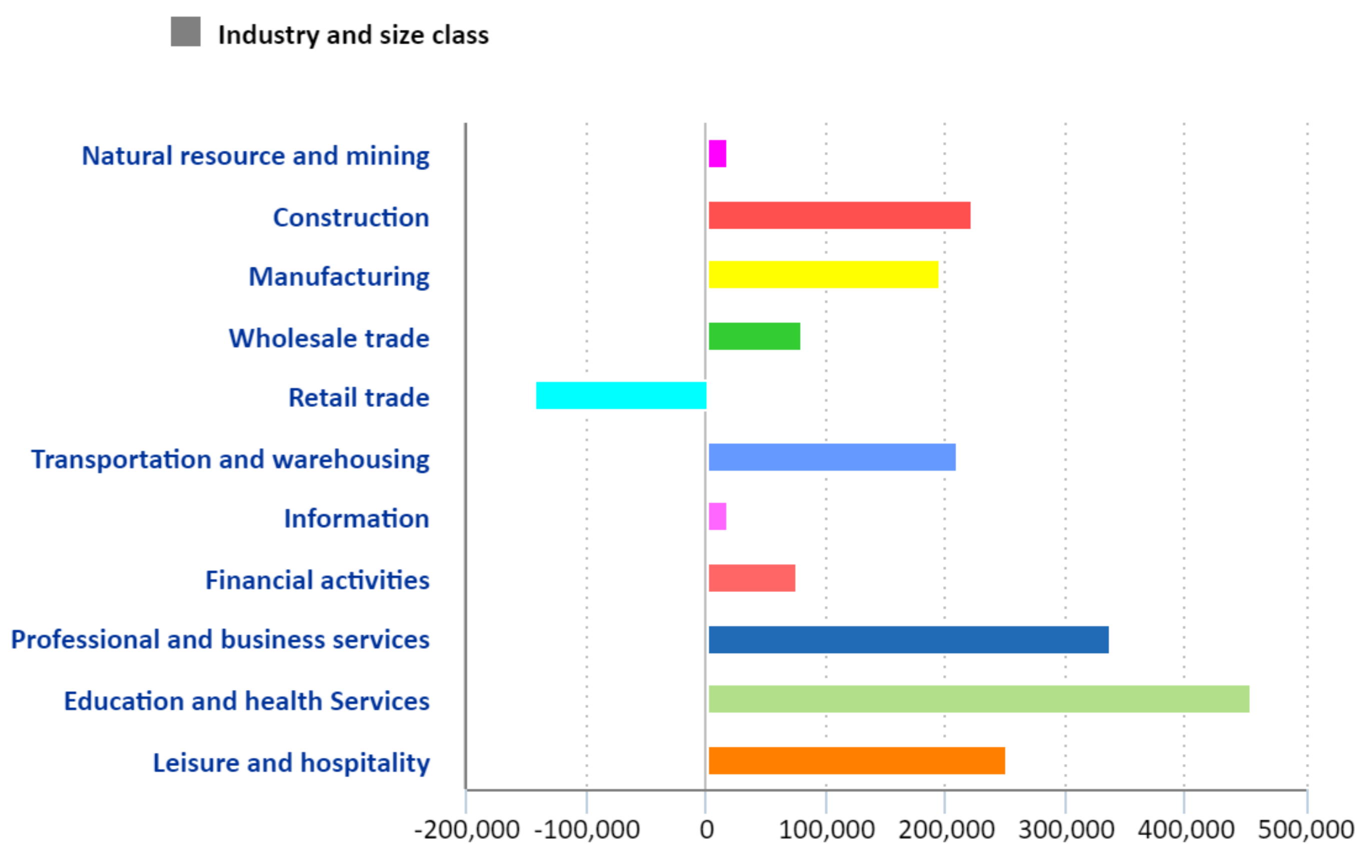
Source: U.S. Bureau of Labor Statistics.

Large firms in retail trade lost jobs in 2019

In the year ended in March 2019, small firms with fewer than 500 employees had a higher contribution to employment growth than large firms. This happened in every sector except retail trade and transportation and warehousing. In 2019, retail trade experienced a net job loss, and almost all the loss occurred in large retailers. Transportation and warehousing had a substantial contribution to net employment growth from the large firms. This could reflect the effects of the growth in e-commerce in the U.S. economy.

Net change in employment by industry and size of firm in 2019

Click on the bars to see net change in employment by size class

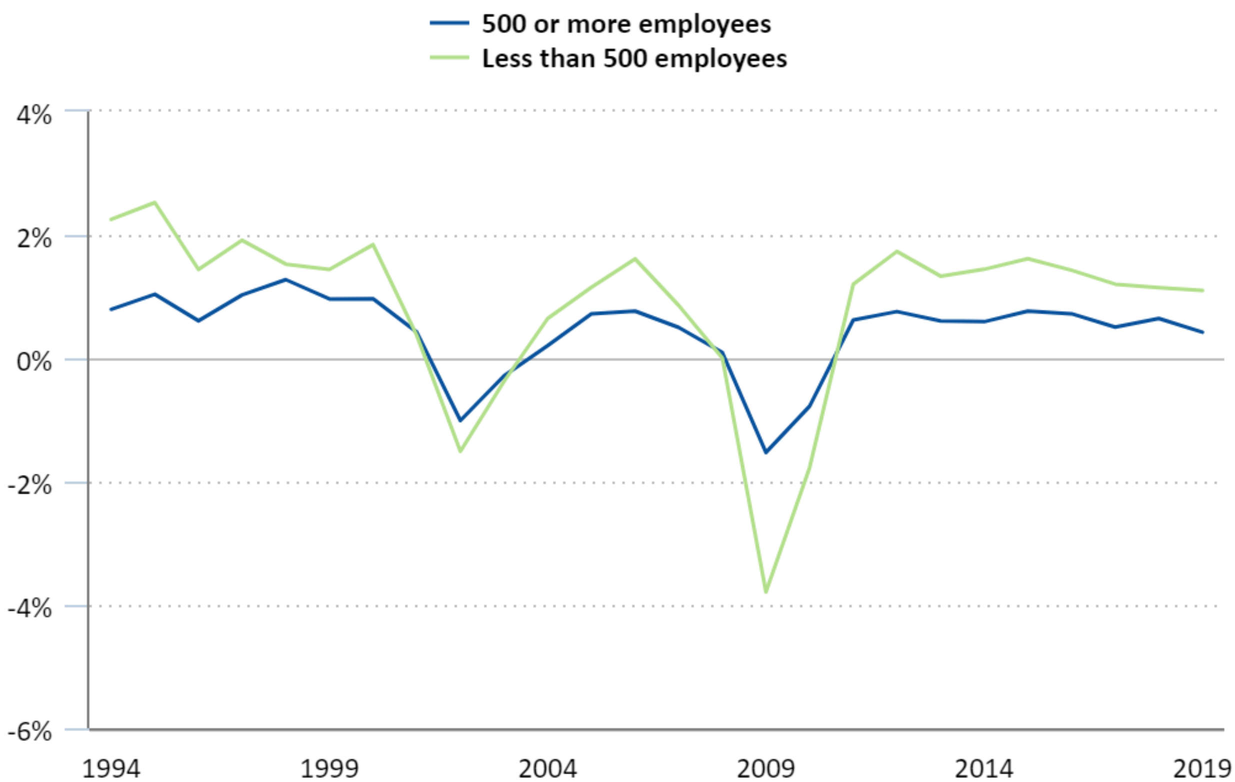


Source: U.S. Bureau of Labor Statistics.

Small firms have higher employment growth

Small firms, defined as firms with less than 500 employees experienced higher employment growth compared to the large firms.

Annual employment growth for firms with 500 or more employees and firms with less than 500 employees, 1994 to 2019



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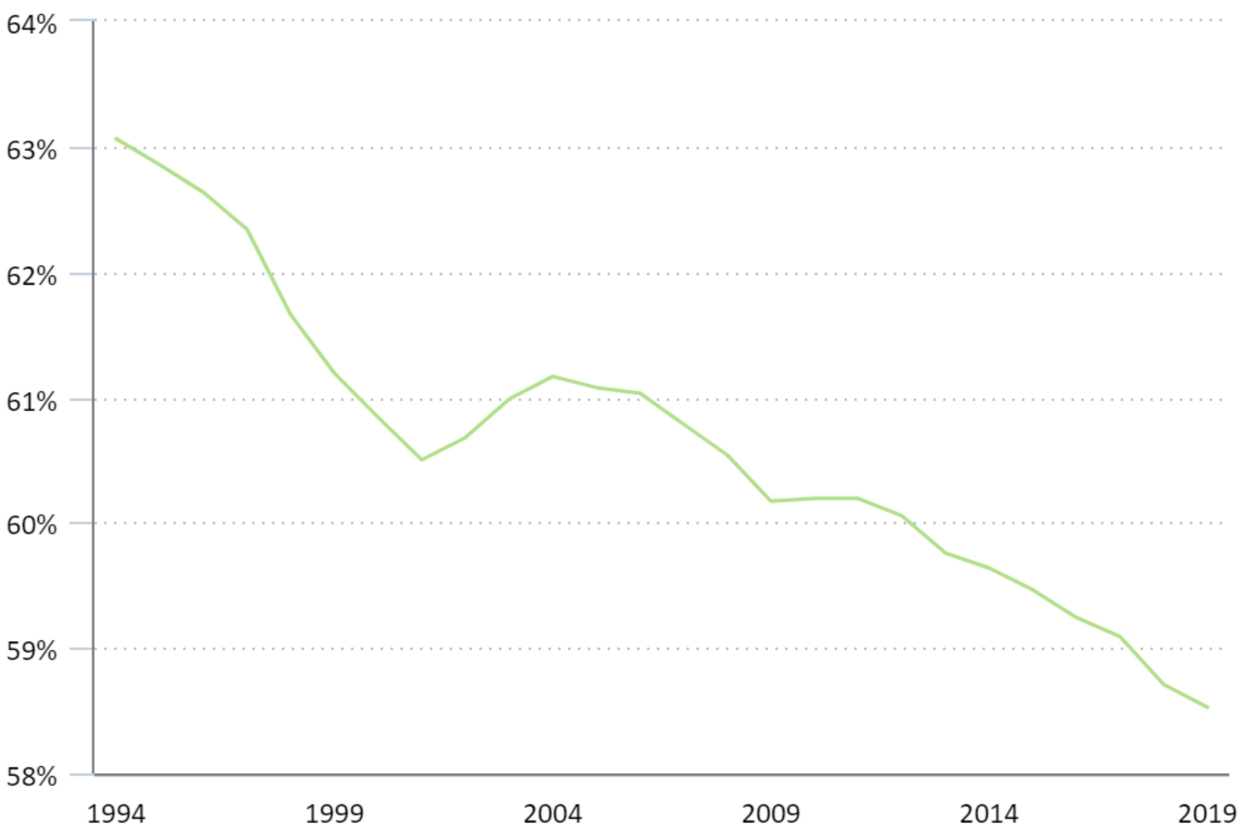
Source: U.S. Bureau of Labor Statistics.

Small firms’ share of total employment is falling

You might expect a higher growth rate for small firms over time to lead to an increasing share of small firms in total employment. However, the share of small firms in total employment fell to 58.5 percent in the year ended March 2019 from 63.1 percent in 1994. The reason is that firms over time may expand or contract and as a result they move from small to large or from large to small size groups. The net result has been the rise in the share of large employers in total employment.

Share of firms with less than 500 employees in total employment, 1994 to 2019

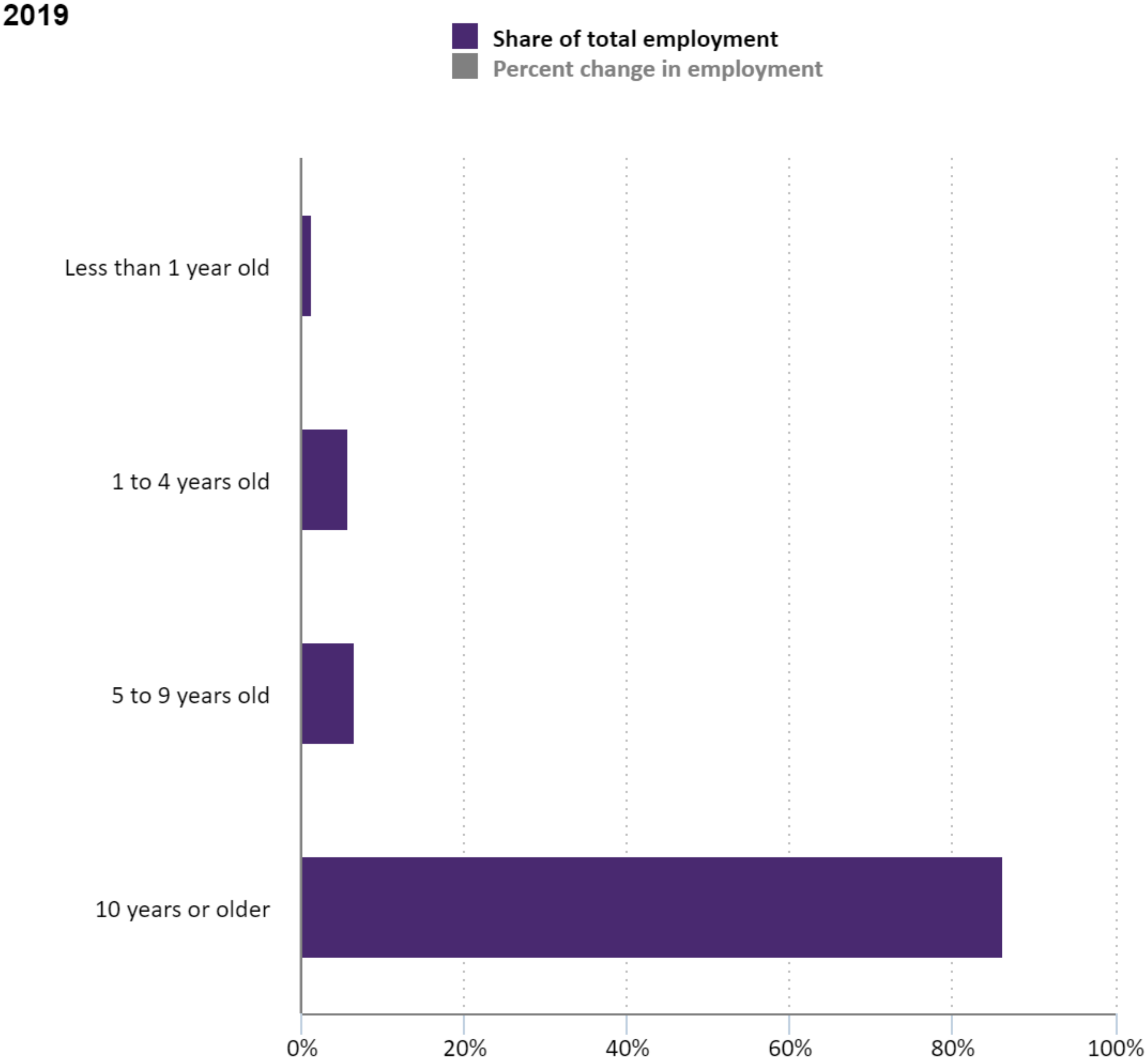


Hover over chart to view data.
Source: U.S. Bureau of Labor Statistics.

Older firms have 86 percent of total employment, but startup firms have 90 percent of job growth

In the year ended in March 2019, employment in firms with 10 years or more in business made up 86 percent of total private sector employment. The startup firms of less than 1 year old had 1 percent of total employment but contributed 90 percent of the employment growth. Firms in business 10 years or more lost jobs in 2019.

Share of total employment and percent change in employment by age of firm, 2019



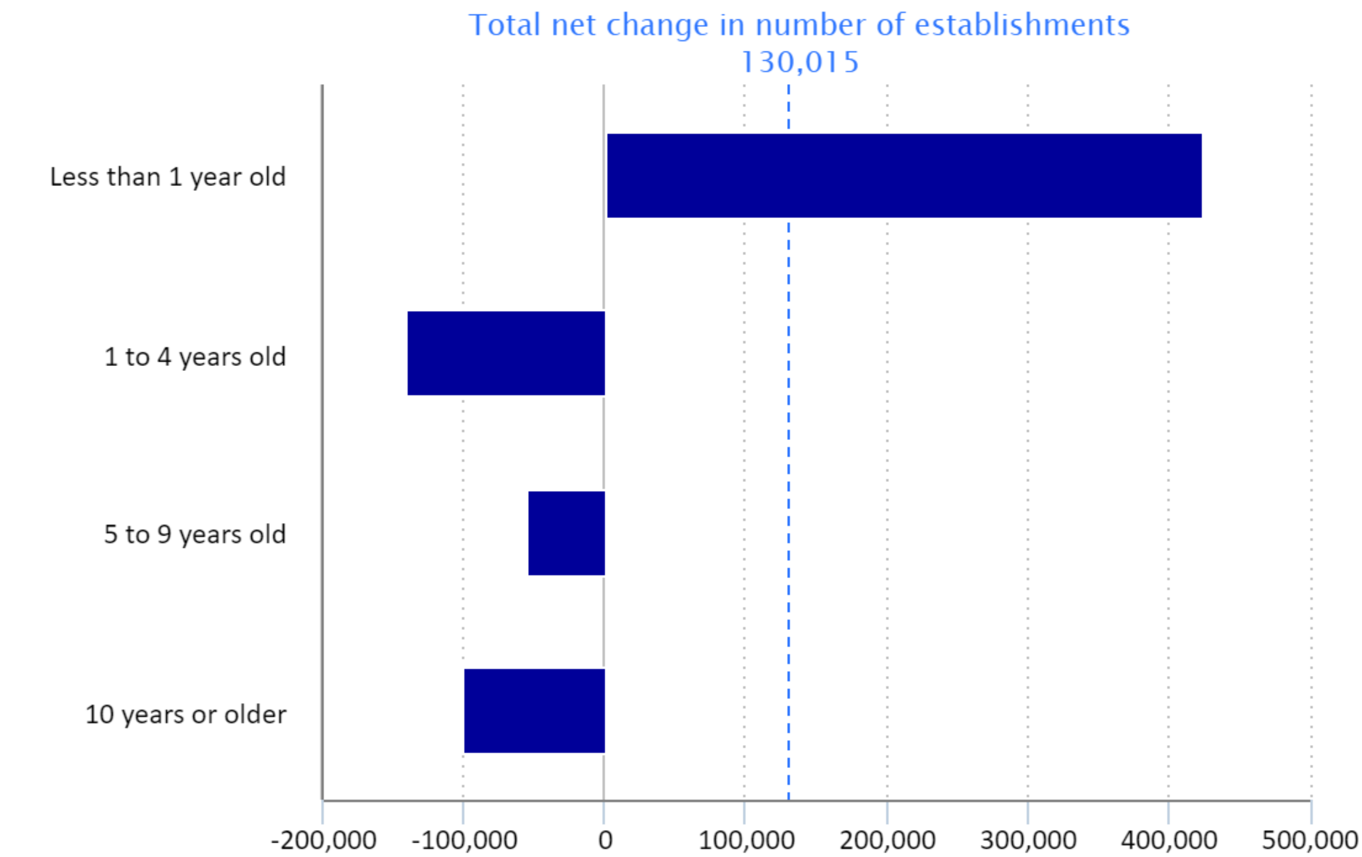
Click legend items to change data display. Hover over chart to view data.
Source: U.S. Bureau of Labor Statistics.

Changes in the total number of establishments by age of firms

In the year ended in March 2019, the total number of establishments in the U.S. economy grew by 130,015. This increase was the result of the gain of 424,567 new establishments from startup firms and the loss of 294,552 existing establishments. Firms that were 1 to 4 years old had the largest establishment loss; many startup establishments go out of business soon after they open. Older firms also make a large contribution to the loss of establishments, in part, because of closings, restructuring, and mergers and acquisitions.

To repeat from earlier, the age and size of firms are measured by the age and size of the parent company and are assigned to every establishment in that firm. For that reason, establishment counts are higher than firm counts because, in addition to new businesses, they include new plants, stores, branches, or other locations of existing multi-establishment firms. Firm counts include only newly born firms.

Net change in the number of establishments by age of firm in 2019



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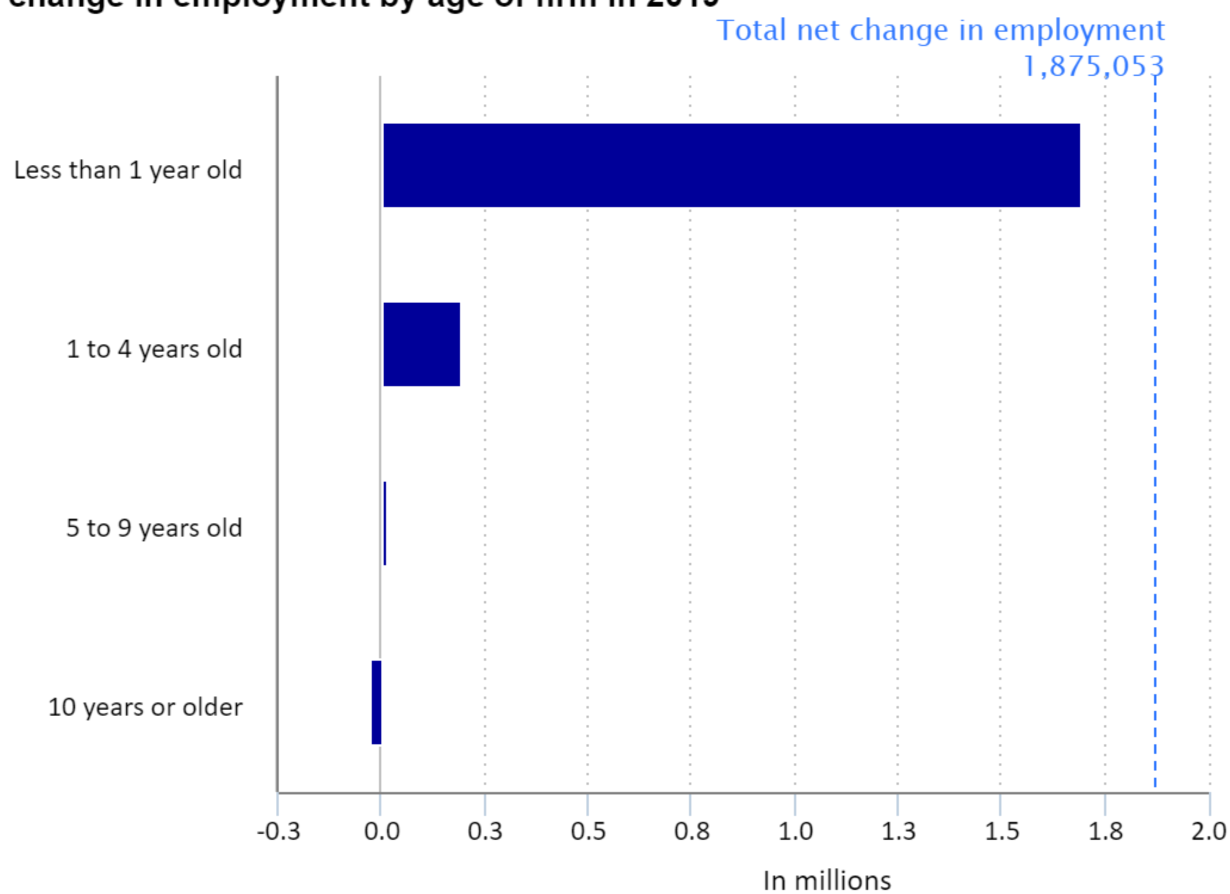
Source: U.S. Bureau of Labor Statistics.

Employment growth by age of firm

In the year ended in March 2019, the private sector of the U.S. economy gained 1.9 million jobs, of which 1.7 million or 90 percent were jobs created by establishments less than one year old. Establishments in firms more than 10 years old lost 22,000 jobs in 2019. The significant contribution of startups in total net job gains demonstrates the vital role of entrepreneurship in the U.S. economy.

Net change in employment by age of firm in 2019



Hover over chart to view data.
Source: U.S. Bureau of Labor Statistics.

More information

This Spotlight on Statistics was written by Akbar Sadeghi, an economist in the Office of Employment and Unemployment Statistics, U.S. Bureau of Labor Statistics. For questions about this Spotlight, please email sadeghi.akbar@bls.gov.

These data show annual (March to March) flows of jobs by age and size of firms and establishments. The annual job flows are tabulated at the establishment level as the unit of measurement, which is defined as a single economic activity at a single location. Age and size of businesses are assigned based on the age and size of either the establishment or the parent company, in cases of multi-establishment records.

The age of an establishment is determined by the date an establishment reported positive employment for the first time in the Quarterly Census of Employment and Wages. The size of an establishment is derived from total employment in the starting period or the average over the year. For the multi-establishment firms, the size of the firm is determined by total employment of the parent company, and the age of firm from the age of the oldest establishment in that firm.

In addition to statistics on gross job flows by age and size of firm and establishment and by industry and state, the research series on Business Employment Dynamics by age and size are also available in two sizing methods. Base-sizing is measured by employment level in the beginning of the reference period. Mean-sizing is measured by the average employment in the beginning and the end of the reference periods. The choice of sizing method provides more options in understanding the dynamics of job gains and job losses by age and size. To learn more, see: Research Data on Business Employment Dynamics by Age and Size