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How U.S. Employment Is Changing

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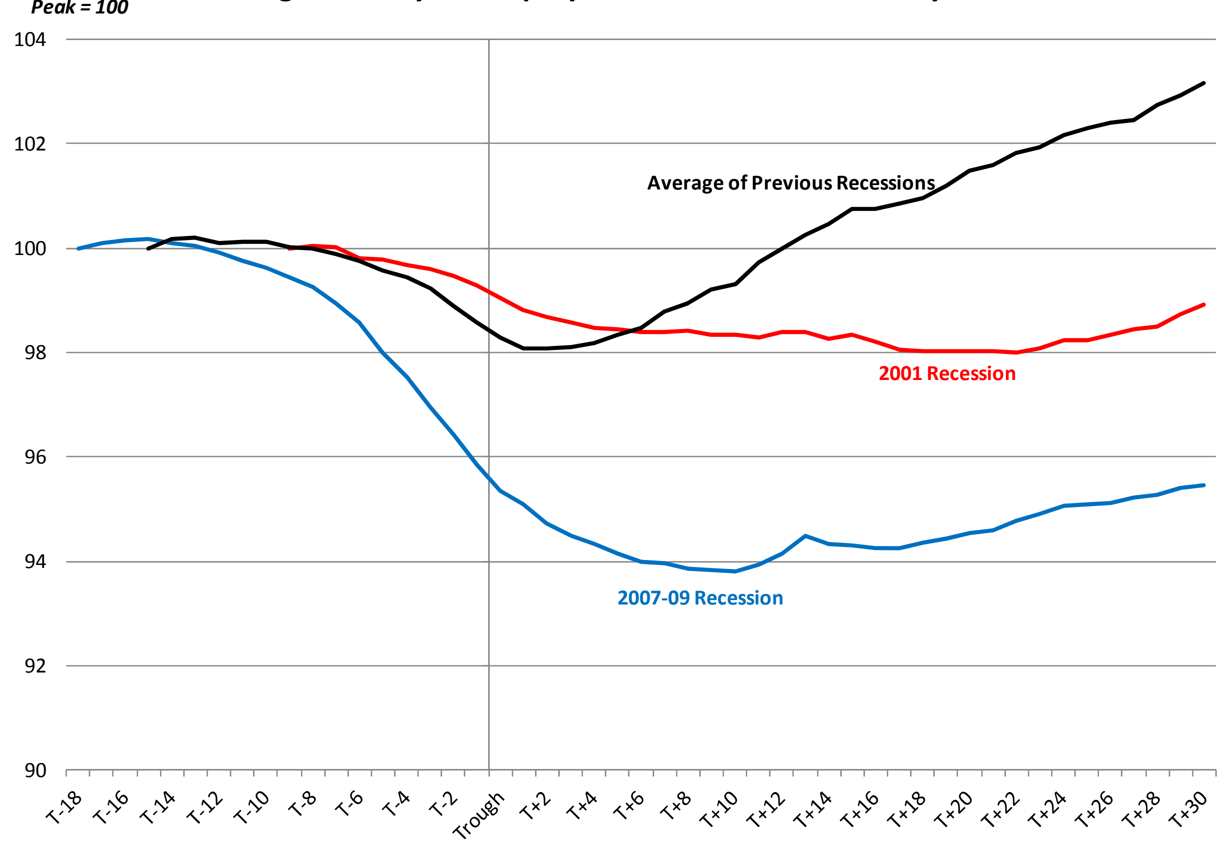
During the most recent recession, U.S. employment fell by 7,490 million jobs (5.4 percent). During the first 8 months of the recovery, U.S. employment fell another 1,247 million jobs, which reduced employment to 6.3 percent below the prerecession peak. Since hitting bottom in February 2010, U.S. employment has risen by only 2,270 million jobs. As of September 2011, U.S. employment stands 4.7 percent below its prerecession peak. If we peek under the hood and look at job destruction and creation and firm size, we see a substantial change in U.S. businesses.

As shown in Figure 1, the decline in U.S. employment during the most recent recession was much greater than the average for the previous ten post-World War II recessions, and the recovery has been much slower. The 2001 recession did not reduce employment by as much, but the recovery in employment began later and was slower. At 30 months after the trough of the 2007-09 recession, employment was 1.8 percent above its low value. At 30 months since the trough of the 2001 recession, employment was 0.9 percent above its low value.

Figure 1. Payroll Employment Over the Business Cycle



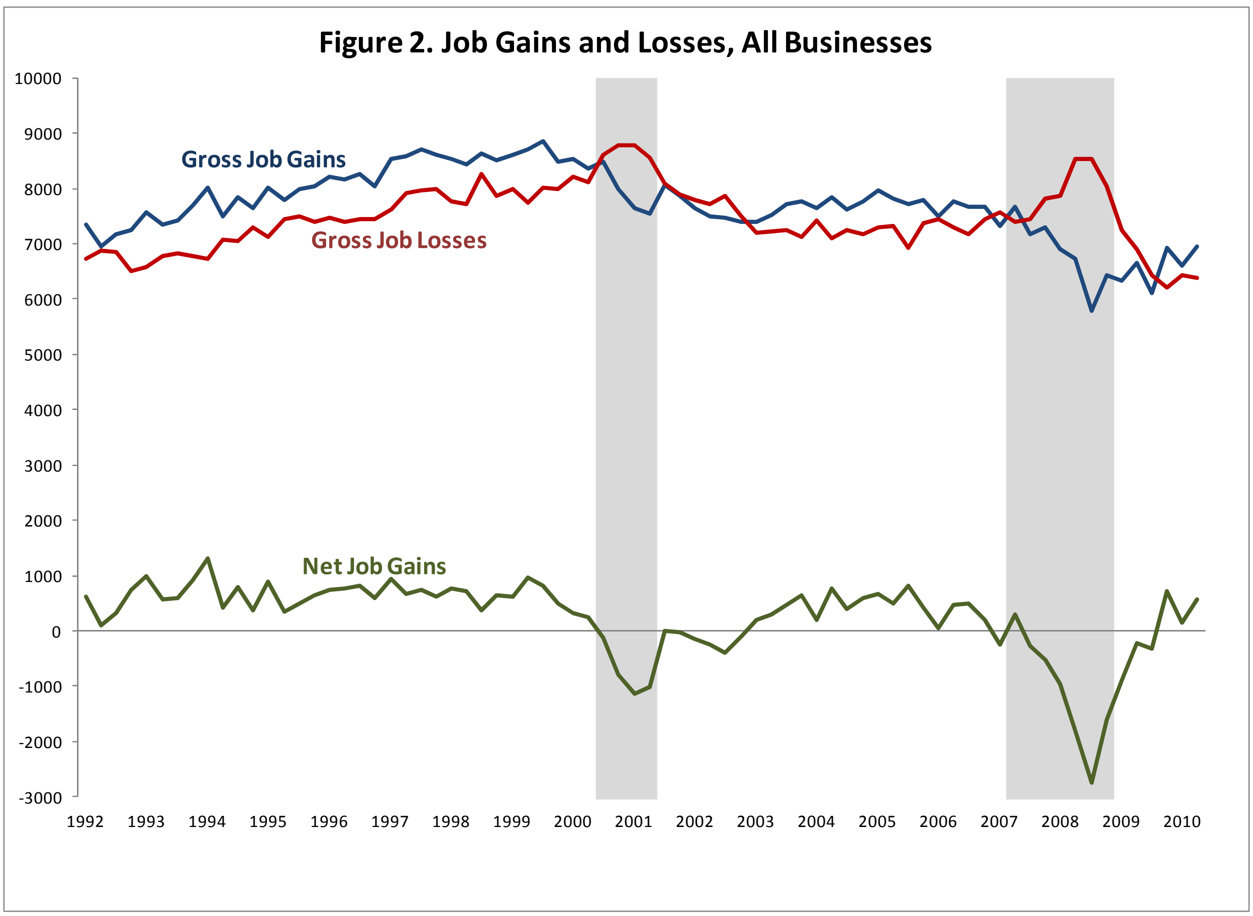
Sources: Bureau of Labor Statistics; CBER

Job Destruction and Creation

In a dynamic economy, the overall change in employment is the result of job creation and job destruction. As shown in Figure 2, gross job gains in U.S. businesses generally exceed gross job losses when the economy is expanding. During the 2001 and 2007-09 recessions, the United States saw net job losses, with increases in gross job losses and decreases in gross job gains.

In the run-up to the 2001 recession, the economy saw a high level of job churn as both gross job gains and gross job losses increased. After the 2001 recession, both gross job gains and gross job losses stabilized at lower rates than were seen before the recession. Prior to the 2007-09 recession, gross job losses began rising and gross job gains began falling. During the recession (December 2007 to June 2009), the private sector lost a total of 6,655,000 jobs.

From early 2009 through the end of 2010, gross job losses declined sharply and gross job gains rose slowly. These dynamics suggest a less robust labor market in which people were holding on to their jobs and companies were holding onto their people, and hiring was proceeding at a cautious pace. Private-sector employment hit bottom in January 2010, seven months after the recession ended in June 2009. During those seven months, the private sector lost another 1,191,000 jobs. Since January 2010, private-sector employment has increased by a total of 2,445,000 jobs. (Data for gross job gains and gross job losses are only available through fourth quarter 2010.)

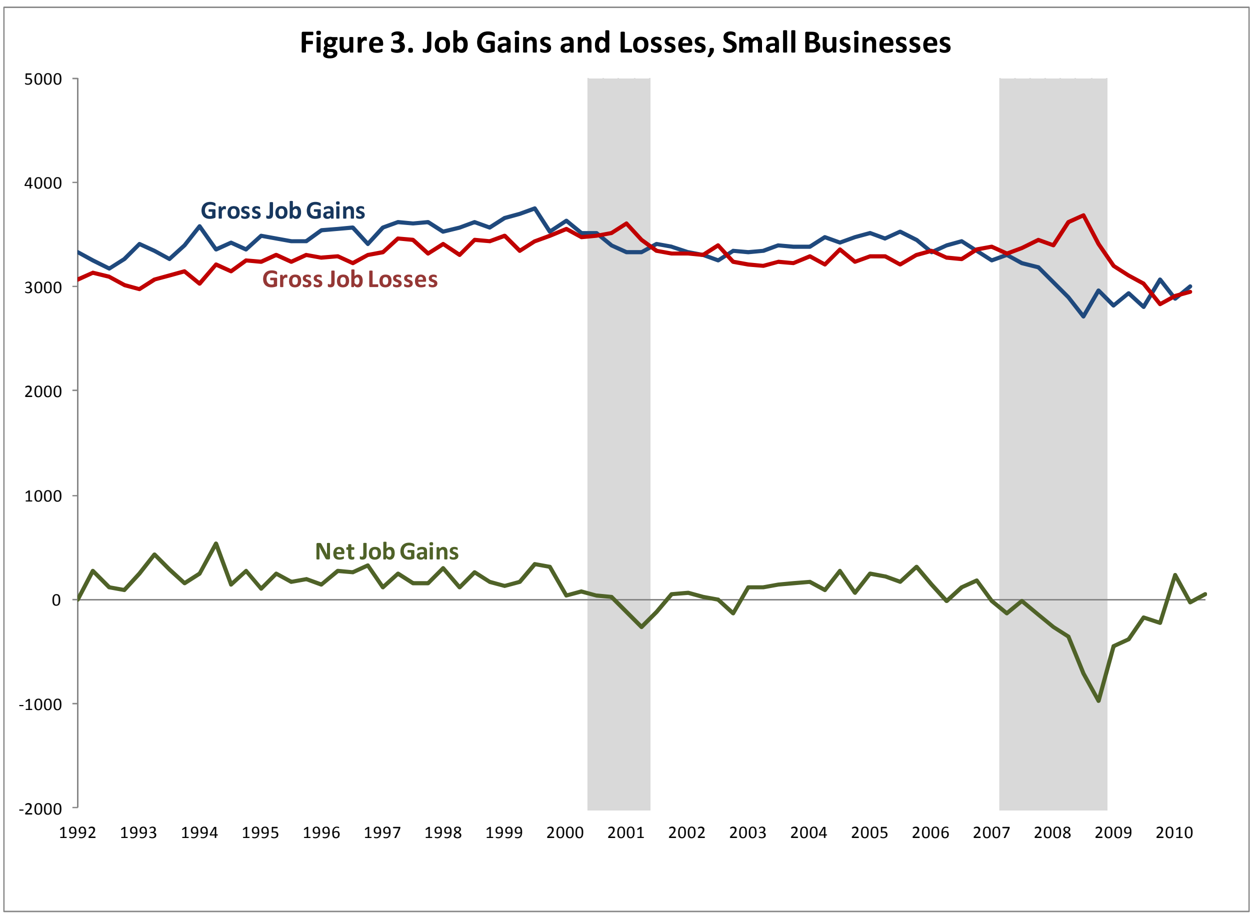


Sources: Bureau of Labor Statistics; CBER

Job Destruction and Creation at Small-Sized Firms

Small businesses (firms with less than 50 employees) account for 45.3 percent of U.S. private-sector employment, and historically they have been one of the more dynamic forces in the job market. From 1992 through 2010, small businesses accounted for 43.7 percent of the gross job gains and 44.1 percent of the gross job losses, but only 32.1 percent of the net job gains. In the process, small businesses created an average of 75,000 more jobs per quarter than they lost (Figure 3). Over the same period, all businesses created an average of 234,000 more jobs per quarter than they lost.

During the 2007-09 recession and subsequent recovery, however, small businesses contributed less to the loss in private-sector employment and more to the gains. During the recession, small businesses showed a net loss of 2,250,000 jobs, accounting for 33.8 percent of the net employment loss in the private sector. From the recession's end through January 2010, small businesses showed a net loss of another 430,000 jobs, accounting for 36.1 percent of the net employment loss in the private sector. Since January 2010, small businesses added a net of 1,246,000 jobs, accounting for 51.0 percent of net employment gain in the private sector. (Data for gross job gains and gross job losses are only available through fourth quarter 2010.)



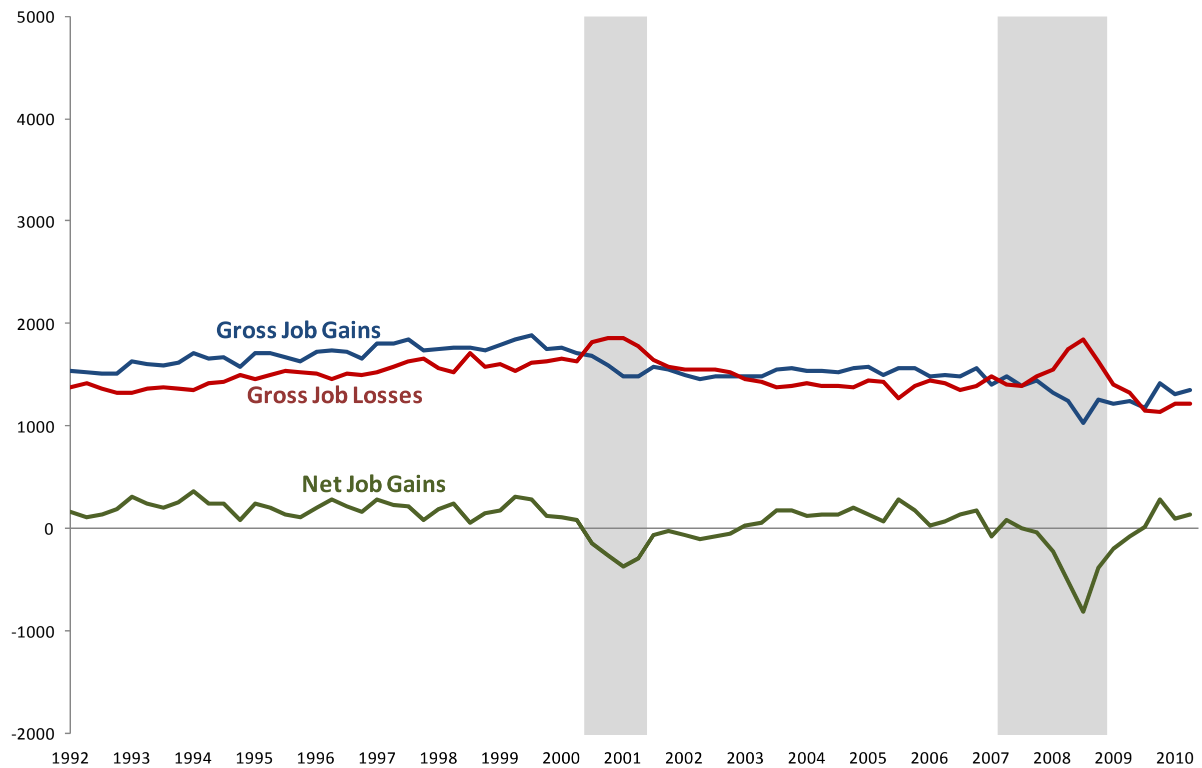
Sources: Bureau of Labor Statistics; CBER

Job Destruction and Creation at Medium-Sized Firms

Medium businesses (firms with 50 to 499 employees) account for 38.7 percent of U.S. private-sector employment, and historically they have been a relatively stable factor in the U.S. job market. From 1992 through 2010, medium businesses accounted for 20.3 percent of the gross job gains and 19.9 percent of the gross job losses, and 32.4 percent of the net job gains. In the process, medium businesses created an average of 76,000 more jobs per quarter than they lost (Figure 4).

During the 2007-09 recession and subsequent recovery, medium businesses contributed greatly to the changes in private-sector employment. During the recession, medium businesses showed a net loss of 3,044,000 jobs, accounting for 45.7 percent of the net employment loss in the private sector. From the recession's end through January 2010, medium businesses showed a net loss of another 448,000 jobs, accounting for 37.6 percent of the net employment loss in the private sector. Since January 2010, medium businesses added a net of 1,148,000 jobs, accounting for a robust 47.0 percent of net employment gain in the private sector. (Data for gross job gains and gross job losses are only available through fourth quarter 2010.)

Figure 4. Job Gains and Losses, Medium Businesses



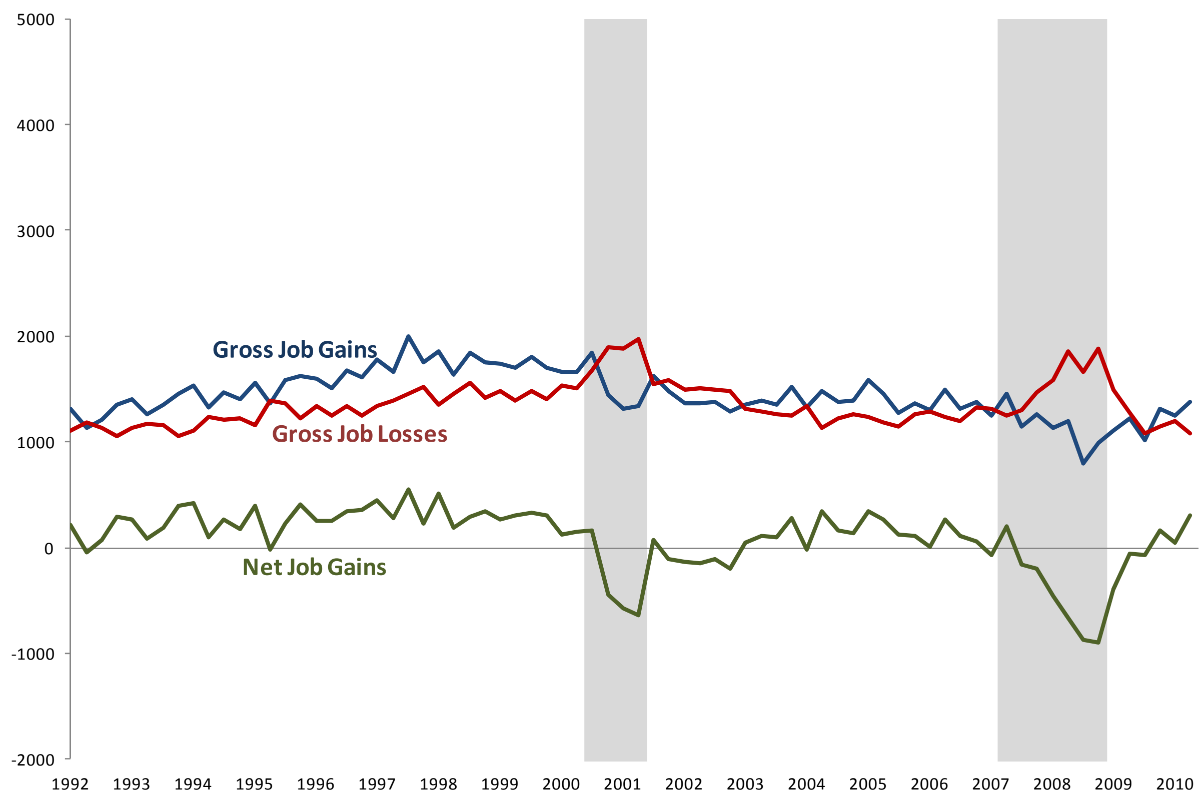
Sources: Bureau of Labor Statistics; CBER

Job Destruction and Creation at Large-Sized Firms

Large businesses (firms with more than 499 employees) account for 16.0 percent of U.S. private-sector employment, and historically they have been a relatively stable factor in the U.S. job market. From 1992 through 2010, large businesses accounted for 18.7 percent of the gross job gains, 18.1 percent of the gross job losses, and 35.8 percent of the net job gains. In the process, large businesses created an average of 84,000 more jobs per quarter than they lost (Figure 5).

During the 2007-09 recession and subsequent recovery, however, large businesses contributed greatly to the loss in private-sector employment but not much to the gains. During the recession, large businesses showed a net loss of 1,361,000 jobs, accounting for 20.5 percent of the net employment loss in the private sector. From the recession's end through January 2010, large businesses showed a net loss of another 313,000 jobs, accounting for 26.2 percent of the net employment loss in the private sector. Since January 2010, large businesses added a net of 51,000 jobs, accounting for only 2.1 percent of the net employment gain in the private sector. (Data for gross job gains and gross job losses are only available through fourth quarter 2010.)

Figure 5. Job Gains and Losses, Large Businesses



Source: Bureau of Labor Statistics; CBER

The Changing Role of U.S. Businesses

The changes in the labor market during the 2007-09 recession and subsequent recovery portend a changing of the guard in U.S. businesses. Historically, small businesses are one of the more dynamic elements of the U.S. job market—accounting for much of the churn in employment but less of the net job gain. In contrast, medium and large businesses are relatively stable, with less job churn and more of the net job gain.

During the 2007-09 recession and subsequent recovery, these historical observations have not held. Compared to historical averages, small businesses accounted for a smaller percentage of the net job losses and a greater percentage of the net job gains in private-sector employment. Medium businesses were relatively dynamic—accounting for a high percentage of the net job losses and a high percentage of the net job gains. Large businesses accounted for a larger percentage of the net job losses and a much smaller percentage of the net job gains.

These changes from previous historical patterns suggest that large businesses, who are sitting on sizable profits and cash reserves, are failing to reinvest in the U.S. economy and employment. Rather than seeing the effects of a lack of confidence that is percolating up from the bottom of the economy to the top, we are seeing the effects of a lack of confidence that is percolating down from the top of the economy to the bottom. We may also be witnessing the creation of the future, as employment shifts from old, large businesses in established industries to new, small businesses in emerging industries.

The shift in employment from large businesses and small businesses also may have implications for health insurance coverage and other benefits. Smaller firms typically offer fewer employee benefits than larger firms.

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