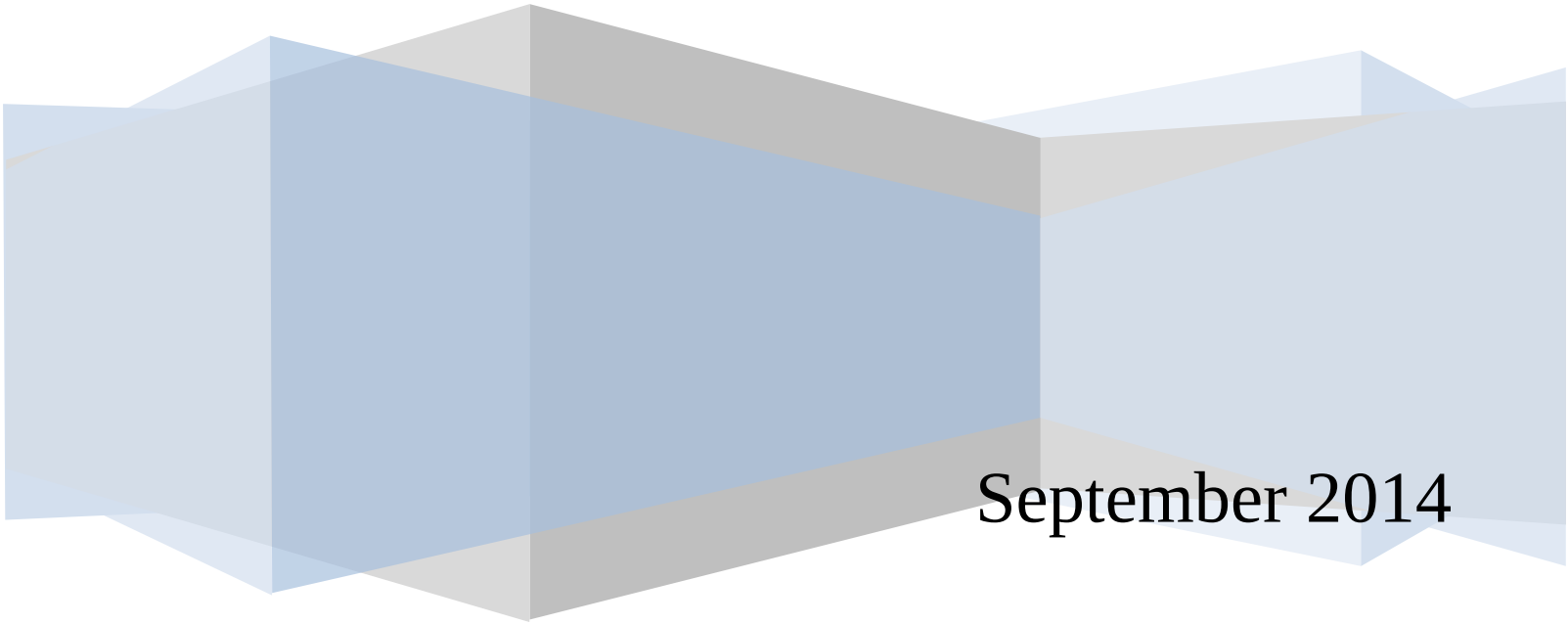
Department of Employment Services (DOES)

Private Sector Net Job Creation in DC: DOES Firm Size Matter?

Office of Labor Market Research and Information (OLMRI)



September 2014

The Quarterly Workforce Indicators (QWI) are a set of economic indicators including employment, job creation, earnings, and other measures of employment flows. The QWI are reported using detailed firm characteristics (geography, industry, age, size) and worker demographics information (sex, age, education, race, and ethnicity[1]).

Table 1: SME Participation Rate in Total Net Jobs in District of Columbia[2]

Quarter	SMEs	SME Participation Rate	Large Firms	Total Net Jobs
2011 Q1	8,109	35%	14,903	23,012
2011 Q2	8,270	53%	7,307	15,577
2011 Q3	2,649	100%	**(882)**	1,767
2011 Q4	**(1,097)**	**(21%)**	**(4,254)**	**(5,351)**
2012 Q1	8,368	56%	6,693	15,061
2012 Q2	7,615	100%	**(9,365)**	**(1,750)**
2012 Q3	**(3,202)**	0%	8,881	5,679
2012 Q4	**(2,591)**	0%	10,833	8,242
2013 Q1	2,594	41%	3,666	6,260
2013 Q2	9,786	100%	**(4,958)**	4,828
2013 Q3	7,275	100%	**(4,635)**	2,640
Overall	**47,776**	**63%**	**28,189**	**75,965**

Source: http://lehd.ces.census.gov/

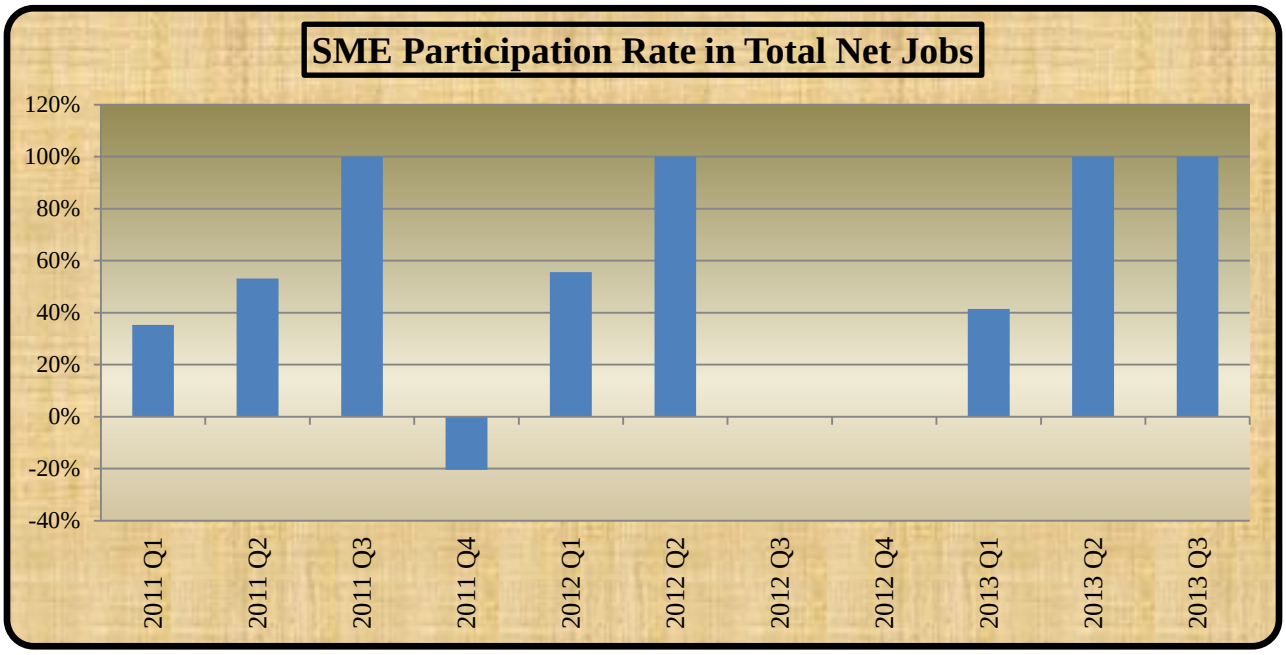
Using the QWI data, we analyze the participation rate of Small and Medium Enterprises (SMEs) in job creation by the private sector in the District of Columbia (DC) where SMEs are defined as firms with fewer than 500 employees. The table above shows the total net jobs for private sector by industry size and by quarter from 2011 to 2013. **Net jobs equal the difference between total gross job gains and total gross job losses.**

The following can be observed:

- ✓ For the first three quarters of 2013, large firms have lost up to six thousand **(5,900)** jobs in net;
- ✓ For the same period, SMEs have added more than nineteen thousand (**19,600)** jobs to the DC economy;
- ✓ Overall, SMEs have contributed up to **63%** of total net job creation in DC;
- ✓ For the third and fourth quarters in 2012, large firms were adding jobs in net to the DC economy **(+19,700**) while SMEs were losing jobs **(-5,790**); we observe the reverse for the second and third quarters in 2013 **(+17,000 vs. -9,500**); and

[1] http://lehd.ces.census.gov/data/#qwi
[2] See Technical Notes

- ✓ The total net jobs in DC for the period from first quarter 2011 to third quarter 2013[3] is approximately seventy-six thousand jobs **(75,965)**.

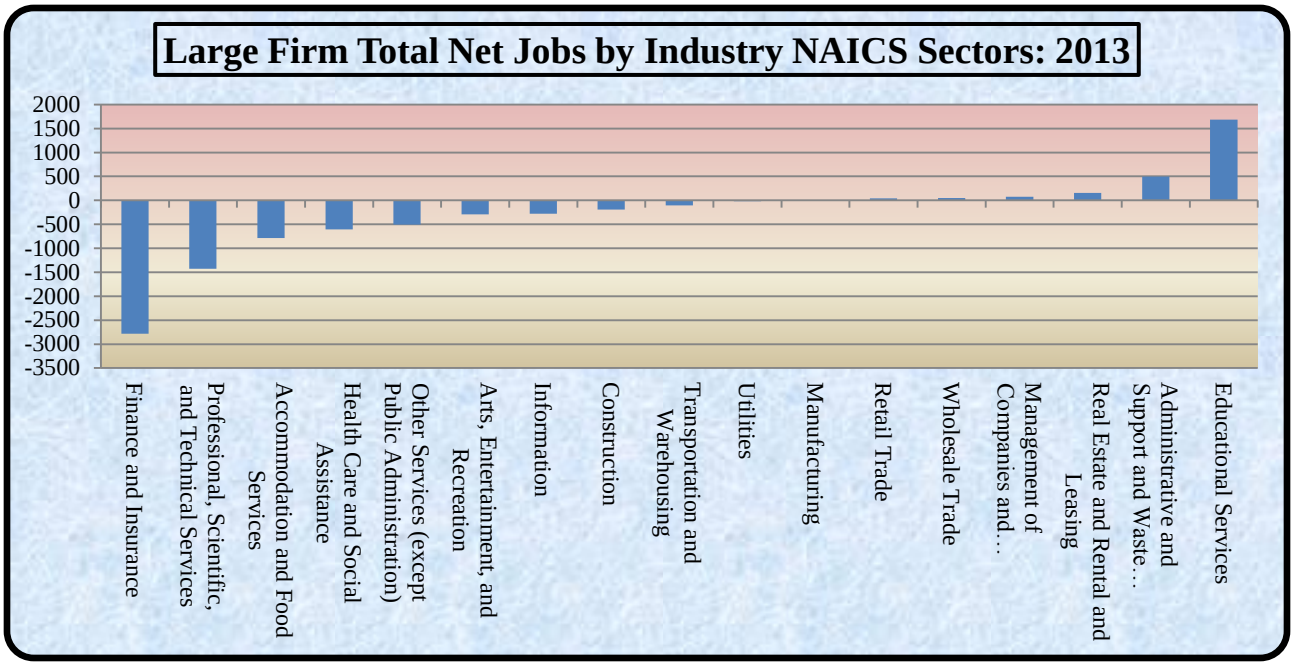


With regard to SME participation rate in total net jobs as illustrated in the above graph, we observe the following:

- ✓ In the fourth quarter of 2011 (2011 Q4), both SMEs and large firms were losing jobs;
- ✓ For two consecutive periods (2012 Q3-2012 Q4), all of the jobs in DC were created by large firms; and
- ✓ A positive trend is observed for the first three quarters of 2013; and for 2013 Q2 and Q3, **100%** of the jobs created in DC were by SMEs.

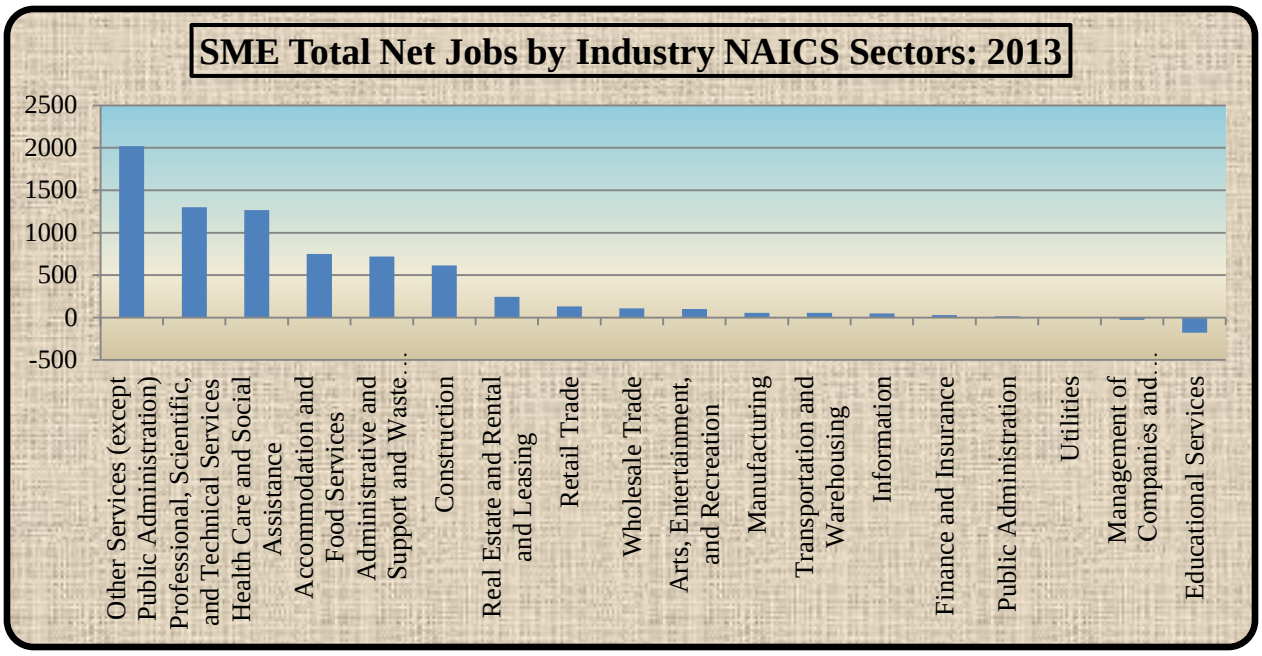
[3]Data for the fourth quarter are not available yet in the QWI tool.

As previously mentioned, large firms were losing jobs during 2013.



By analyzing large firm job destruction by industry sectors (NAICS) as illustrated in the above graph, we observe the following:

- ✓ Eleven out of seventeen sectors **(65%)** were losing jobs in net in 2013;
- ✓ The Finance and Insurance sector was the most affected industry in job destruction with more than **2,780** jobs lost; and
- ✓ The Educational Services sector was the most performing industry in job creation with more than **1,680** new jobs created.



By analyzing SME job creation by industry sectors (NAICS) as illustrated in the above graph, we observe the following:

- ✓ Fifteen out of eighteen sectors **(15/18)** created jobs during the year in 2013; and
- ✓ Other Services (except Public Administration) and Professional, Scientific, and Technical Services added **3,300 new jobs**.

Conclusion: SMEs are a key element in job creation in the District. Therefore, policies helping SMEs should be encouraged.

Next steps: Perform further analysis with updated data to see if the same trends are observed.

Note: ***Firm Job Gains (Job creation) is defined as the estimated number of jobs gained at firms throughout the quarter. This measure counts increase in employment at firms that grew over the course of the quarter. Firm Job Loss (Job destruction) is defined as the estimated number of jobs lost at firms throughout the quarter. This measure counts decrease in employment at firms that shrank over the course of the quarter.***

Technical Notes

Table 1 shows SME participation rate in job creation and job destruction in the District of Columbia. We set boundaries between **-100% and +100%** by using the following distributions:

a) If SME net job total is positive and large firm net job total is negative, then SME participation rate is **100%** (all the jobs have been created by SMEs for that period);
b) If SME net job total is negative and large firm net job total is positive, then SME participation rate is **0%** (all the jobs have been created by large firms for that period);
c) If SME net job total is negative and large firm net job total is negative, then SME participation rate is negative **(-X)%** (there was no net job creation for that period); and
d) If SME net job total is positive and large firm net job total is positive, then SME participation rate is positive **(+X)%**.