Business Employment Dynamics, Third Quarter 2014
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This article is the fourth in a quarterly series summarizing updated and revised Business Employment Dynamics (BED) data. Previous Labor Market Review articles were published in Volume 43, Number 8 (August 2014), Volume 43, Number 11 (November 2014), and Volume 44, Number 2 (February 2015). BED data are a product of a federal-state cooperative program known as the Quarterly Census of Employment and Wages (QCEW). The QCEW data are based largely on reports filed quarterly by employers to pay unemployment insurance (UI) taxes. These reports are also used to produce BED data on gross job gains and losses.

In the BED program, QCEW records are linked across quarters to provide a history through time for each business. This allows net employment changes at the establishment level to be measured. BED data reveal the dynamics underlying the measure of net change in employment at the establishment level. A net increase in employment can come from either opening or expanding establishments, whereas a net decrease in employment can come from either closing or contracting establishments. Gross job gains include the sum of all jobs added at either opening or expanding establishments. Gross job losses include the sum of all jobs lost in either closing or contracting establishments. Chart 1 displays the four components that make up gross job changes along with the net change in employment (the difference between gross job gains and gross job losses) between the third quarter of 2006 and the third quarter of 2014. The most recent data for these components are discussed in the following sections. In this chart, and all following charts, data relate solely to private-sector establishments in New Mexico.

Gross Job Gains and Losses

Between July 2014 and September 2014, gross gains at opening and expanding private-sector establishments amounted to 40,285 jobs. These gains were lower (by 284 jobs) than the gross gains in the previous quarter. Over this period, gross losses at closing and contracting private-sector establishments were 37,562 jobs. These were almost exactly the same as the gross job losses seen in the previous quarter. The difference between the number of gross job gains and gross job losses in the private-sector during the third quarter of 2014 yielded a net employment gain of 2,723 jobs. This quarter’s net change was somewhat lower than that of the previous quarter, which fell within the top four quarters for highest net growth since the second quarter of 2008. Chart 2 shows employment gains and losses within the private sector of New Mexico between the third quarter of 2006 and the third quarter of 2014.

Components of Gross Job Gains and Losses

Expanding establishments are those with positive third month employment in both the previous and current quarters, with a net increase in employment over this period. Expanding establishments gained 33,319 jobs in the third quarter of 2014. Gains were fewer than those seen in the previous quarter by 412 jobs.

Contracting establishments are those with positive employment in the third month in both the previous and current quarter, with a net decrease in employment over this period. Contracting establishments lost 30,292 jobs in the third quarter of 2014. The number of jobs lost in contracting establishments was 906 fewer than was seen in the prior quarter. Chart 3 shows expansions and contractions within the private sector of New Mexico between the third quarter of 2006 and the third quarter of 2014.

Opening establishments are those with positive third month employment in the current quarter either for the first time (births) or after zero employment in the previous quarter (reopenings). Opening establishments accounted for 6,966 jobs gained in the third quarter of 2014. The job gains at opening establishments were 128 greater than those seen in the previous quarter.

Closing establishments are those with positive employment in the third month in the previous quarter and with zero employment in the current quarter. Closings may be either deaths or temporary closings. Closing establishments accounted for 7,270 jobs lost in the third quarter of 2014. The job losses at closing establishments were 914 greater than those in the previous quarter. Chart 4 shows openings and closings within the private sector of New Mexico between the
third quarter of 2006 and the third quarter of 2014.

Births are a subset of openings, the rest of openings being made up of reopenings of seasonal businesses. Births involve establishments with positive third-month employment for the first time in the current quarter, with no links to the prior quarter, or establishments with positive third-month employment in the current quarter and zero employment in the third month of the previous four quarters. Between July and September 2014, gross job gains due to establishment births were 4,464, which were 505 more jobs gained than in the second quarter of 2014.

Deaths are a subset of closings, the rest being made up of temporary shutdowns of businesses. Deaths involve establishments with no employment or zero employment reported in the third month of four consecutive quarters following the last quarter with positive employment. Be aware that an establishment that closes during the quarter may be a death, but BLS waits three quarters to determine whether it is a permanent closing or a temporary shutdown. Because of this, there is always a lag of three quarters for the publication of death statistics; therefore, the latest data on deaths is for the fourth quarter of 2013 (i.e., from October to December). Gross job losses due to establishment deaths were 3,878. These were 969 fewer job losses due to deaths compared to the previous quarter. The difference between the number of gross job gains and gross job losses from establishment births and deaths in the private sector during the fourth quarter of 2013 yielded 844 net job gains. Chart 5 shows employment gains and losses due to establishment births and deaths within the private sector of New Mexico between the third quarter of 2006 and the third quarter of 2014.

Job Churn

Job churn is the sum of gross gains and gross losses and, since it captures gross change in the labor market, can be used to indicate employment mobility. Chart 6 shows job churn between first quarter 2003 and third quarter 2014. In this article, jobs gained and jobs lost when totaled will be jointly referred to as 'reallocations due to job churn'.

Since net job growth hit a trough in the first quarter of 2009, the quarterly average of reallocations due to job churn was calculated for the period between the first quarter of 2003 and the first quarter of 2009. This is referred to as the ‘pre-trough period’ (though it should be noted that this period also includes the trough month). The monthly average of job churn for the period between the second quarter of 2009 and the third quarter of 2014 was also calculated and referred to as the ‘post-trough period’.

In the pre-trough period, the quarterly average number of reallocations due to job churn was 91,230. Reallocations in all quarters of this period fell within ±6.1 percent of this average, excluding those in the second quarter of 2006, which were affected by a non-economic data change.

In the first quarter of 2009, when net job growth hit a trough and then trended upward, reallocations due to job churn continued to decline until reaching its own trough in the first quarter of 2011 (aside from an anomalous low in the first quarter of 2011). From this point, job churn and, by implication, employment mobility, remained below pre-recessionary levels. In fact, during the post-trough period, all quarters (except two) were within ±4.1 percent of 79,809 reallocations due to job churn, the quarterly average for the post-trough period. The two exceptions were the second quarter of 2009, when job churn was still in transitional decline, and the first quarter of 2011, in which reallocations due to job churn were 9 percent below the average for the post-trough period. In short, there was a 12.5-percent drop in average reallocations due job churn following the trough in net job change in the first quarter of 2009.
Using BED data, we can drill down to the components of change in reallocations in order to understand from where this decline in job churn is derived. The average quarterly gain over the pre-trough period was 46,453 jobs; during the post-trough period it had fallen 6,502 to 39,951 jobs. This is a drop of 14.0 percent. The average quarterly losses in the pre-trough period were 44,777 jobs, which fell to 39,857 jobs in the post-trough period, representing a decline of 4,920 jobs (or 11.0 percent). These changes, both numerically and as a percentage of the pre-trough period base, show that a decline in gains contributed more to the downturn in job churn reallocations than the decline in job losses.

Drilling further into the components of gains and losses, the average quarterly gains due to expansions in the pre-trough period was 36,837 jobs, declining to 32,113 jobs in the post-trough period. This represents a decline of 4,724 jobs (or 12.8 percent). Quarterly losses due to contractions averaged 36,005 jobs in the pre-trough period, declining to 32,479 jobs in the post-trough period. This represents a decline of 3,526 jobs (or 9.8 percent). On the other hand, quarterly gains due to openings averaged 9,616 jobs over the pre-trough period, declining to 7,838 jobs in the post-trough period. Quarterly losses due to closings averaged 8,772 jobs in the pre-trough period, declining to 7,378 jobs in the post-trough period. This represents a decline of 1,394 jobs (15.9 percent) in losses due to closings.

From these comparisons, it is possible to see that openings have declined more quickly (greater negative percentage change) compared to expansions, and also to closings. The first comparison shows that openings is the component of job gains that declined the fastest. The second comparison reemphasizes that the decline of gains, rather than the decline in losses, contributed more to the downturn of job churn reallocations, and that this contribution was distributed across both components of gains. Nevertheless, though openings is the component of job churn which has declined the most, with closings having the second largest decline, these components have much smaller numeric contributions to gains and losses compared to expansions and contractions. The main numeric contribution to the dominant negative influence of gains on job churn reallocations (i.e., a fall in employment mobility) is a decline in expansion-related job gains. Exhibit 7 summarizes these calculations.

**TECHNICAL NOTE: Differences between QCEW, BED, and CES employment measures**

The Bureau of Labor Statistics publishes three different establishment-based employment measures for any given quarter. Each of these measures—QCEW, BED, and CES—makes use of the quarterly UI employment reports in producing data; however, each measure has a somewhat different universe coverage, estimation procedure, and publication product. Differences in coverage and estimation methods can result in somewhat different measures of over-the-quarter employment change. It is important to understand program differences and the intended uses of the program products. Additional information on each program can be found at [http://www.bls.gov/news.release/cewbd.tn.htm](http://www.bls.gov/news.release/cewbd.tn.htm).