News Release

TD Economics: Small Businesses Drive Job Creation

Economic growth will increase significantly once conditions improve for small businesses

CHERRY HILL, N.J. and PORTLAND, Maine (May 15, 2012) – Revving the U.S. job engine requires more fuel from small businesses. This is according to a report released today by TD Economics (www.td.com/economics), an affiliate of TD Bank, America’s Most Convenient Bank®.

Two and a half years following the end of Great Recession, hiring rates are still very low, but the number of people separating from their jobs – quitting or being fired – is even lower. This has the guise of an improving job market, as the number of people starting new jobs outpaces the number of people leaving old ones. However, it is really a story of cautious behavior and lack of opportunity among existing employees.

“When thinking about the job market, we have a tendency to just look at the change of employment, but this is only the tip of the iceberg” says TD’s Vice President and Deputy Chief Economist Beata Caranci, who authored the report. “We learn much more by looking at the flow of people leaving and starting new jobs. Small businesses are the main driver of these flows.”

“Small businesses exhibit job churn at three times the rate of larger businesses. This reflects the greater push and pull of failure and success at the small business level. Job growth is driven disproportionately by the success stories,” says Caranci. “Unfortunately, the Great Recession and subsequent slow recovery has curtailed the number of new start-up firms, hit the survivorship and stunted hiring intentions of those success stories. This in turn has impacted job churn in the overall labor market.”

Prior to 2006, an average of 5.3 million new hires occurred each month. Conversely, people leaving their jobs (referred to as total separations) averaged over 5.1 million. Since there were more new hires than separations, total employment grew by an average of 172,000 per month.

“At the height of U.S. job losses in 2009, the level of gross hiring fell sharply to just 3.8 million hires per month. Although separations also fell – to 4.3 million per month – it exceeded hiring, causing total employment to contract by a whopping 421,000 jobs a month,” says Caranci. “In the first three months of 2012, the gross hiring rate has improved from its recessionary bottom, but at 4.3 million hires per month, it’s still well below the pre-recession level.”
TD Economics says low job churn has had implications for younger Americans, who tend to see the greatest wage gains via churn and are more likely to be employed at younger (and smaller) firms.

“The sharp decline in labor mobility these past few years is particularly worrisome for younger workers, as it could mean lower life-time earnings for those currently trying to enter the job market,” says Caranci. “Hiring rates – particularly for younger workers – will not return to pre-recession levels until conditions for small businesses do. Unfortunately, this is going to be a slow grind upwards.”

However, according to TD Economics, there are positive signs that conditions are improving for small businesses. Commercial and industrial lending, which fell by 26% between October 2008 and October 2010, is up 13.5% in early April from year ago levels. There is also expected improvement in personal consumption expenditures over the next year, and fewer small business owners are reporting that a lack of sales is their biggest challenge.

TD Economics also predicts that although real estate prices will be slow to recover, a bottom will most likely be reached this year. With time, this will accelerate the repair of household balance sheets, boost consumer and business confidence, and open up another credit channel for small businesses looking to use real estate as collateral.

“Hiring rates will not return to normal without the express participation of small businesses and the churn they create,” says Caranci. “It will take more time, but the prospects for economic growth and a stronger labor market will rise significantly as conditions continue to improve for small businesses.”

TD Economics provides analysis of global economic performance and forecasting, and is an affiliate of TD Bank, America’s Most Convenient Bank®.

The complete findings of the TD Economics report are available online at http://www.td.com/document/PDF/economics/special/jm0510_small_business.pdf

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