

MONTANA Economy at a Glance

JULY 2009

EMPLOYMENT BY INDUSTRY

(Does not include self-employed or agricultural employment)

Industry Employment (in thousands)	July(P) 2009	June 2009	Net Change	Percent Change
Total Non-Agricultural	438.9	437.3	1.6	0.4%
Natural Resources & Mining	8.2	8.2	0.0	0.0%
Construction	25.3	25.7	-0.4	-1.6%
Manufacturing	19.1	19.2	-0.1	-0.5%
Trade, Transportation, & Utilities	88.5	88.3	0.2	0.2%
Information	7.2	7.2	0.0	0.0%
Financial Activities	21.8	21.6	0.2	0.9%
Professional & Business Services	39.7	39.4	0.3	0.8%
Education & Health Services	63.3	63.4	-0.1	-0.2%
Leisure & Hospitality	59.5	59.1	0.4	0.7%
Other Services	17.3	17.4	-0.1	-0.6%
Total Government	89	87.8	1.2	1.4%

(P) denotes preliminary figures

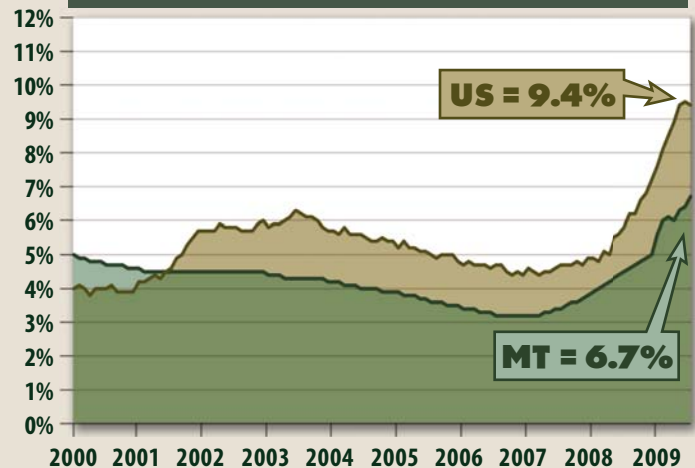
Montana's seasonally-adjusted, non-agricultural payroll employment increased by 1,600 jobs (+0.4%) from June to July 2009. Total Government experienced the largest gains with 1,200 additional jobs. Leisure and Hospitality also showed significant gains, adding 400 jobs (+0.7%). Construction showed the largest loss at 400 fewer jobs (-1.6%) over the month.

Montana Department of Labor and Industry



UNEMPLOYMENT RATE

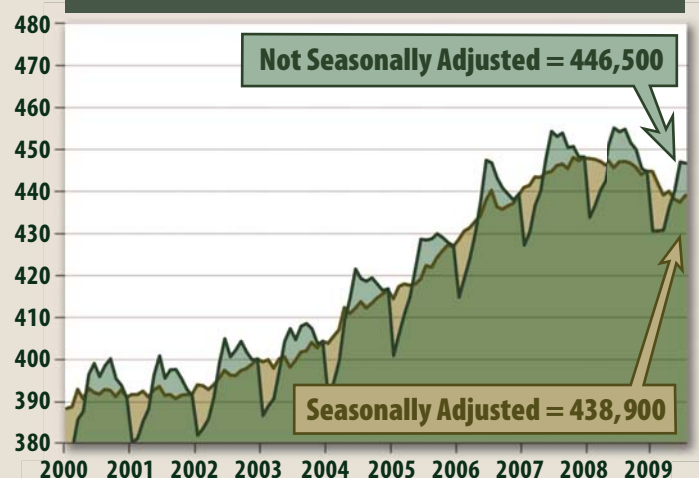
Seasonally Adjusted



Montana's seasonally-adjusted unemployment rate rose to 6.7% for July 2009 from 6.4% in June. The national unemployment rate fell slightly to 9.4% from 9.5% during the same time period.

NON-FARM EMPLOYMENT

In Thousands



Research and Analysis Bureau
 "Montana's Workforce Information Center"
 Phone: (406) 444-2430 or (800) 541-3904
 P.O. Box 1728 Helena, MT 59624-1728
www.ourfactsyourfuture.org



The Impacts of Firm Size on Employment Growth

by Barbara Wagner, Economist

The current economic recession has impacted all Montana businesses. Since the official start of the recession in December 2007, Montana has lost 8,900 payroll jobs. Over 75% of those jobs are in the Construction industry. Manufacturing and Real Estate have also suffered significant job loss, while the Health Care industry has continued to add jobs. A business's industry clearly makes a difference in the likelihood of its success during this recessionary period. But even within each industry, there is wide disparity between the success and failure of businesses.

Another possible factor in firm success during this recession is the size of the business. Some argue that small businesses are more agile and better able to adapt to changing business conditions; therefore, small business can often lead the way out of a recessionary period. However, others argue that large businesses have a larger asset base that sustains the company during difficult periods.

This article examines the influence of firm size on employment growth for 48,953 Montana businesses during the recent expansion and recession using data from the Quarterly Census of Employment and Wages (QCEW). The QCEW data comes from the mandatory reporting by businesses for unemployment insurance (UI), and is therefore

a fairly accurate data source. However, it excludes businesses that are not covered by the UI program, such as the self-employed or independent contractors.

The data used in this research includes businesses with at least one employee during the 2005 to 2008 period. The businesses were divided into four groups based on the maximum number of workers employed during these four years. These groups did not change over the period. If a business started with 10 employees, but later expanded to 60 employees, it would be included in the largest size category (more than 50 employees) for the full timeframe.

Companies with multiple branches in Montana are considered to be a single company. For example, two McDonald's establishments in two separate locations would be considered one business. This methodology puts businesses with multiple locations into a larger size category, because the size determination is made based on all of the employees in the state, not within one establishment.

Table 1 shows the percentage of Montana businesses and employment in each size class for 2006, 2007, and 2008. Large firms are very important for Montana employment. Despite the fact that only 4% of Montana businesses have more than 50

Table 1: Establishments and Employment by Size Class

Size Class	Percent of Businesses	Percent of Employment, 2006	Percent of Employment, 2007	Percent of Employment, 2008	2007 Wages
1) 0 to 5	62%	8%	8%	8%	7%
2) 6 to 10	17%	8%	8%	8%	7%
3) 11 to 50	18%	27%	27%	26%	23%
4) more than 50	4%	58%	58%	58%	64%



employees, these large businesses hire the majority of Montana workers. In fact, large firms paid out over 64% of the total wages of Montana workers in 2007, while firms with five or less employees paid out only 7%. Table 1 also indicates that the share of the wages paid by larger businesses is larger than their share of employment, which means that larger businesses tend to pay higher wages than smaller firms in Montana.

Table 2 shows the number of jobs added (or lost) over the prior year by size class from 2006 to 2008. Measuring the employment change over the prior year, rather than the prior quarter, removes the seasonal variation in hiring to reveal the underlying employment trends. With such a large percent of employment, large businesses can add many new jobs to the economy even when their growth is slow in percentage terms. With an average of 4,927 new jobs every quarter, large businesses add more new jobs to the Montana economy than all

other categories combined. However, small businesses grew the fastest on average, with 2.5% average growth compared to 2% growth in the largest category. The two middle size categories grew the most slowly, percentage-wise.

The recession has impacted each size class differently. Throughout most of the period, all size categories were adding new employees. The recession officially started in December 2007, and all size classes exhibited slower employment growth in 2008 than their historical trend. For example, job growth for businesses in the largest size class dropped by nearly half in the first quarter of 2008, then slowed nearly to a halt by the fourth quarter, with only 55 new jobs added.

However, the middle size categories appear to be suffering more than the largest and smallest size classes, with employment losses in the later half of 2008, compared to continued growth in the other categories. The third size group of 11 to 50 employees appears to have been impacted one quarter earlier than the other size classes, with slower employment growth occurring throughout 2007 and negative growth in 2008.

Although job growth in the largest size category slowed dramatically with the length of the recession, large firms continued to add jobs throughout 2008, giving credence to the theory that large firms, with larger assets bases, can better withstand recessionary periods. If this theory is correct, the performance of large firms will gradually worsen to the level of mid-sized firms as the recession continues and their asset reserves

Table 2 Employment Change over Prior Year

	Quarter	0 to 5	6 to 10	11 to 50	Over 50
2006	1	137	1,176	4,309	7,960
	2	935	1,570	4,805	7,983
	3	813	940	3,832	5,635
	4	996	945	3,124	5,440
2007	1	940	1,186	3,123	6,291
	2	916	975	2,327	5,084
	3	1,133	937	2,058	6,682
	4	1,230	945	1,500	6,589
2008	1	1,129	442	746	3,441
	2	561	152	-725	2,192
	3	881	-101	-1,607	1,769
	4	177	-1,099	-3,718	55
Average Change		821	672	1,648	4,927
Average Employment		32,757	35,310	113,134	247,094
Average Change as % of Employment		2.5%	1.9%	1.5%	2.0%



are depleted. On the other hand, small firms also performed well in 2008. In fact, job growth in the smallest business category appears to not fall off until the second quarter of 2008, after the larger size categories. The strong performance of small businesses provides support for the theory that small businesses are able to more quickly respond to changes in the economy.

With conflicting messages of both small and large categories performing well during the 2006 to 2008 period, it seems likely that other factors, such as industry, played a role in determining the performance of firms during the current recession. Perhaps employment in medium-sized companies is concentrated in the industries harmed by the current recession.

Table 3 shows the percent job change by industry and size class since the start of the recession (Q4 2007) to the last quarter of 2008. The industries are ordered by job performance, with the Health

Services industry performing the best with over 2,400 jobs added, and Construction performing the worst with over 4,200 jobs lost. The influence of size class on job growth varies by industry. Large businesses in the Government and Financial Activities industries seem to have stronger growth than small businesses. However, small businesses in Education, Utilities, Professional and Business Services, and Manufacturing have outperformed the larger businesses within their industry.

Chart 4 combines the industries into two groups – growing industries that have added jobs during the recession and declining industries that have lost jobs – and displays the percent of 2007 employment in each size class. The growing industries include the top seven industries in Table 3, while the declining group includes the bottom eight.

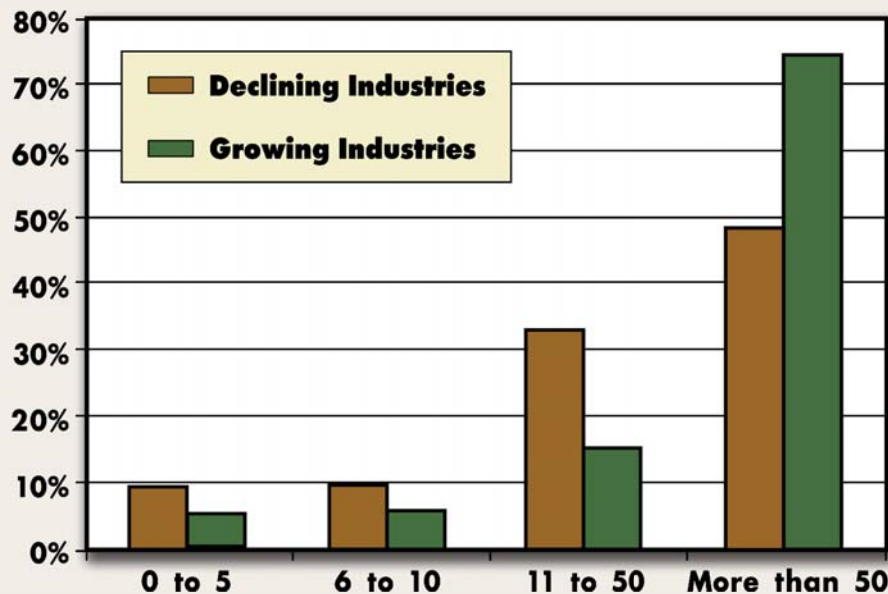
In general, the growing industries tend to have larger businesses than the declining industries. Recall that the size class of each business is fixed

Table 3 Percent Job Change from Q4 2007 to Q4 2008 by Industry and Size Class

	0 to 5	6 to 10	11 to 50	Over 50	Total Industry
Health Care and Social Assistance	7%	4%	2%	5%	2,416
Government	-1%	0%	0%	3%	1,007
Educational Services	8%	10%	2%	1%	470
Mining, Quarrying, and Oil and Gas Extraction	9%	12%	0%	6%	387
Other Services	4%	-2%	0%	8%	288
Utilities	3%	2%	1%	1%	40
Agriculture, Forestry, Fishing, and Hunting	-2%	-2%	4%	0%	39
Leisure and Hospitality	6%	-2%	-3%	3%	-109
Information	2%	-6%	-5%	-4%	-330
Financial Activities	-6%	-5%	-3%	1%	-377
Transportation and Warehousing	-2%	-5%	0%	-5%	-518
Professional and Business Services	5%	1%	1%	-8%	-887
Manufacturing	0%	-6%	-7%	-7%	-1,424
Retail and Wholesale Trade	0%	-3%	-4%	-2%	-2,088
Construction	-9%	-14%	-16%	-11%	-4,215



Chart 4: Percent of 2007 Jobs in Growing and Declining Industries in Each Size Class



prior to job loss, so the smaller size in declining industries is not due to recent job loss. The largest disparity between the declining and growing industry groups is in the 11 to 50 employee size group. The 11 to 50 employee group accounts for over 33% of employment in the declining industries, but only 15% of employment in growing industries. This higher concentration of employment in declining industries helps explain why businesses of this size group were impacted earlier and more severely than other size classes. However, the lack of a consistent pattern between size class and industry in Table 3 does not resolve the question of whether these businesses performed poorly because of their industry, because of their size, or a combination of both factors. It is clear that the influence of size on business employment growth varies by industry.

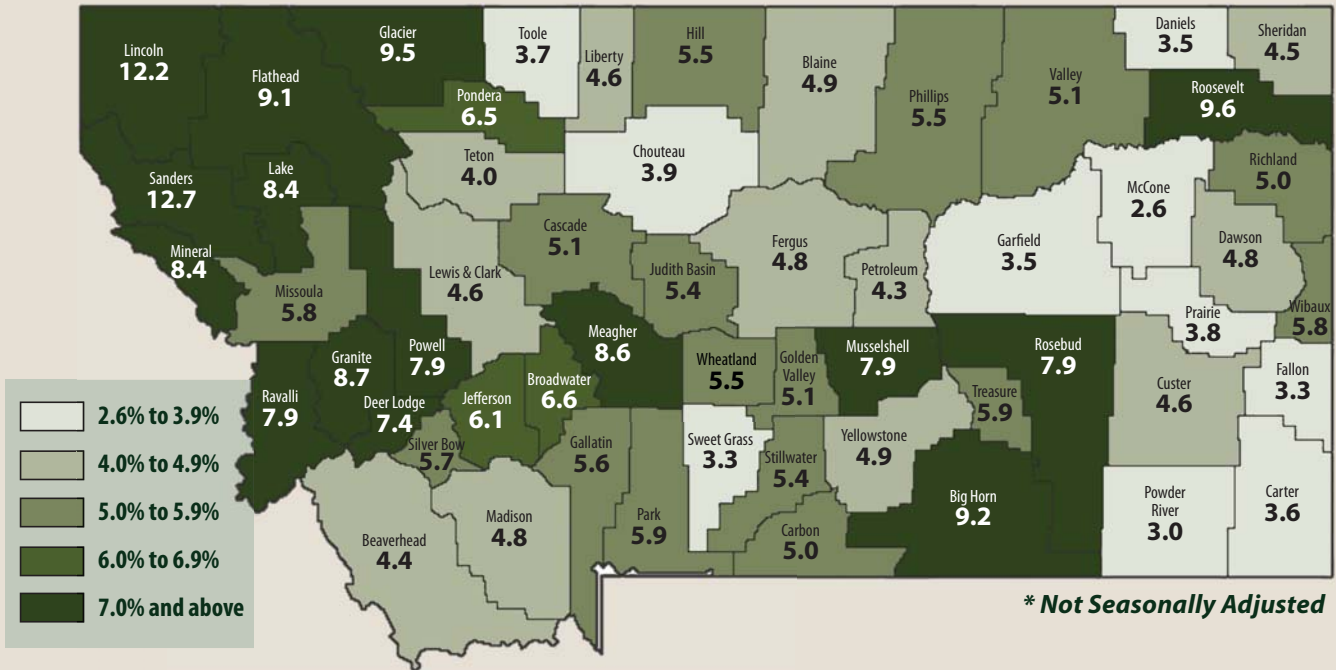
Both small and large firms have advantages over their mid-sized competitors in terms of adding jobs during both expansion and recession, although the causes behind this advantage remain unknown. The industry of the business complicates the relationship between size class and business per-

formance, making it difficult to determine whether size or industry has a greater influence without the use of advanced statistical techniques.

The current recession has impacted medium-sized businesses more severely than large and small firms. Montana's smallest firms appear to be the most nimble during the current recession, with faster employment growth during 2008 compared to the other size classes in percentage terms. However, this rapid growth adds very little employment to the Montana economy, particularly when compared to the jobs added by businesses with over 50 employees. These large firms hire the majority of Montanans, so their performance can have a much larger impact on the Montana economy than smaller firms. Thus far, large firms have continued to add jobs, although at a much slower pace, perhaps by relying on asset reserves to prevent cut-backs during the recession. Should the recession continue, future analysis can compare how large firms perform relative to other size classes as assets are depleted.

County Unemployment Rates* - July 2009

Montana Average Rate: 6.1%



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