

Microbusiness in the Fifth District

This issue of *5th District Footprint* offers a look at microbusiness in the Fifth District before and after the Great Recession. A microbusiness is a firm with fewer than five full-time employees, including the owner.¹ While there are alternative definitions, microbusinesses are consistently defined by the number of full-time employees, and not by sector or revenue. In the U.S., the sector with the largest number of microbusinesses is scientific and technical services, which includes online IT consultants and technology start-ups. According to 2013 data from the U.S. Census Bureau's County Business Patterns, 15.0 percent of all microbusinesses provide scientific or technical services.²

While microbusinesses, defined as 1–4 full-time employees, employ a small number of people individually, they comprised 54.6 percent of all U.S. businesses in 2013, or approximately 4 million of almost 7.5 million total businesses.³ Microbusinesses created 1,685,099 jobs and eliminated 1,589,318 jobs in 2013, resulting in the net creation of 95,781 jobs. In total, microbusinesses employed approximately 5 percent of all paid employees in the U.S. in 2013.⁴

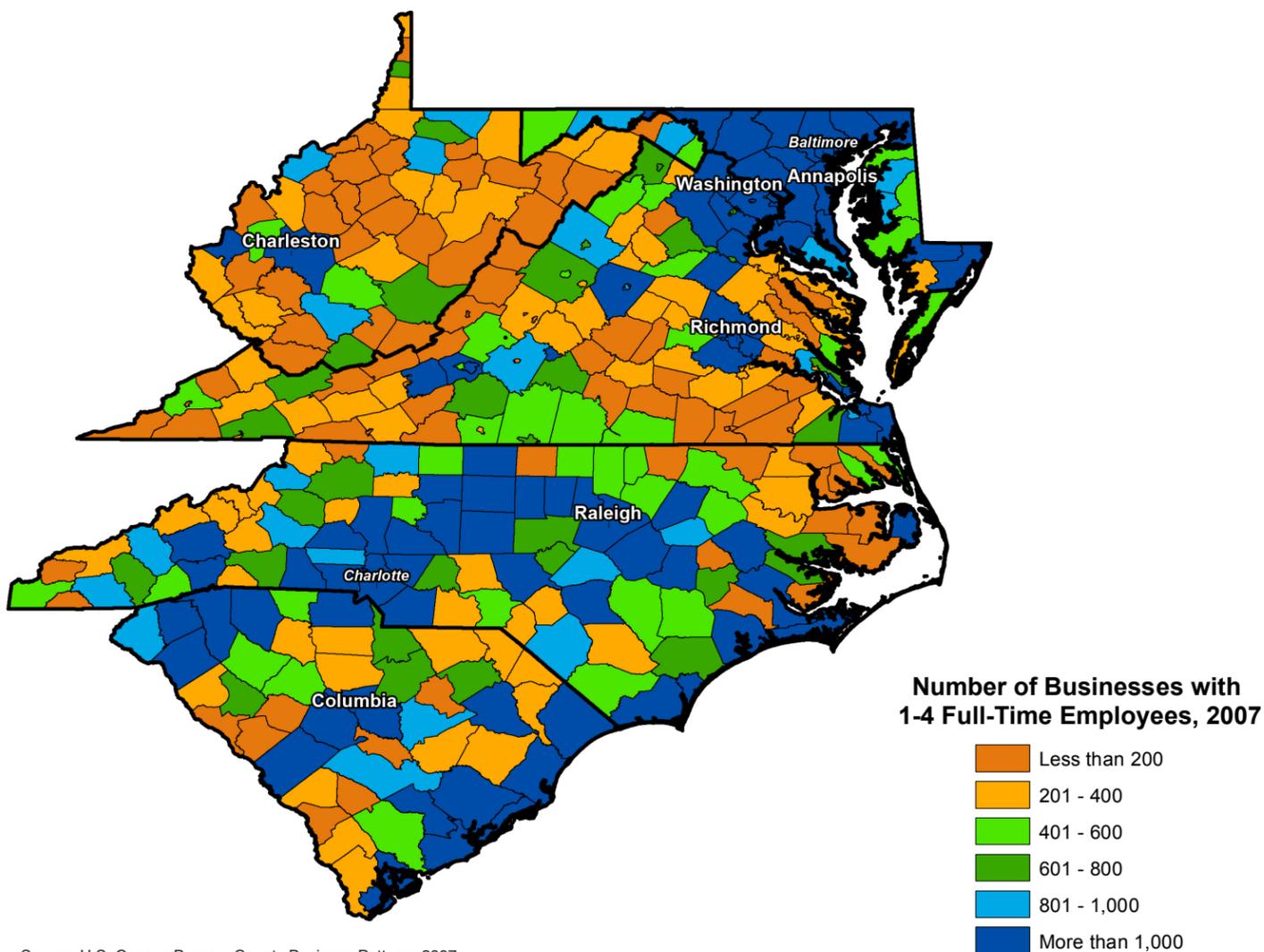
Microbusinesses open and close at a high rate compared to larger firms. In 2007, 19.1 percent of microbusinesses in existence entered the market that year, compared to a 12.0 percent entry rate for all firms.⁵ In the same year, 17.2 percent of microbusinesses in existence closed, compared to a 10.3 percent exit rate for all firms.⁶ The start of the Great Recession in December 2007 created additional challenges for microbusinesses as access to credit tightened and consumer confidence and spending declined.⁷ This led to multiple years of low firm births and high firm deaths.⁸ As of 2013, the total number of microbusinesses in the U.S. was just returning to pre-recession levels (4,088,288 in 2013 compared to 4,195,170 in 2007, a 2.5 percent decline).⁹

In the Fifth District, the net decrease in microbusinesses was greater in percentage terms than that for the entire nation, from 387,440 in 2007 to 369,891 in 2013, a 4.5 percent decline. All Fifth District states experienced net microbusiness decreases ranging from 10.8 percent in West Virginia to 3.5 percent in Virginia. Washington, D.C., experienced a net increase of 546 microbusinesses from 2007 to 2013 (5.3 percent).

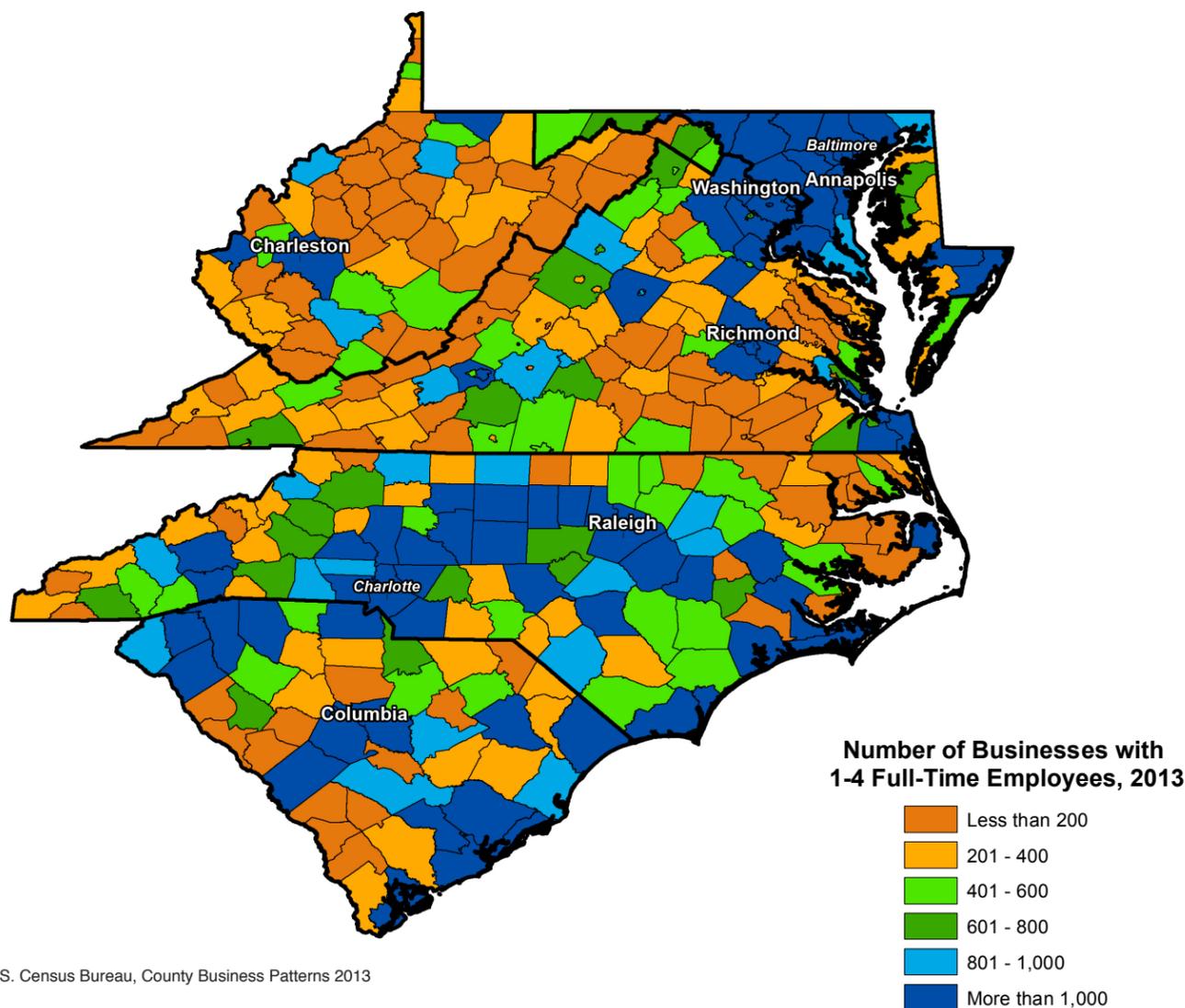
At the county level, 323 of the 355 Fifth District counties experienced a net decrease in microbusinesses, five counties experienced no net change and 27 counties experienced a net increase, with a very high level of variation in the gross number of microbusinesses. In 2007, the gross number of microbusinesses in the Fifth District counties ranged from 40 in Tyrrell County, North Carolina, to 15,708 in Fairfax County, Virginia. There is a similarly wide range of microbusinesses in 2013, from 37 in Craig County, Virginia, to 16,235 in Fairfax County, Virginia.

Baltimore County, Maryland, experienced the largest net decrease in the Fifth District, with the total number of microbusinesses declining by 767 from 11,195 in 2007 to 10,428 in 2013 (6.9 percent). The largest percent decline occurred in Bertie County, North Carolina, which had a 30.3 percent decline from 228 to 159 microbusinesses.

Loudoun County, Virginia, saw the largest increase in microbusinesses from 2007 to 2013, with a net increase of 764 microbusinesses from 4,382 to 5,146 (17.4 percent). The largest percentage increase also occurred in Virginia, with the city of Manassas Park experiencing a 24.1 percent increase from 145 to 180 microbusinesses.



Source: U.S. Census Bureau, County Business Patterns 2007



Source: U.S. Census Bureau, County Business Patterns 2013

richmondfed.org/publications/community_development

¹ This definition comes from the Association for Enterprise Opportunity. A common alternative definition used by the U.S. Small Business Administration classifies a microbusiness as a firm with fewer than 10 employees. See, for example, "The Role of Microbusiness in the Economy," U.S. Small Business Administration (2015).

² U.S. Census Bureau, County Business Patterns 2013.

³ Ibid.

⁴ U.S. Census Bureau, Business Dynamics Statistics 2013.

⁵ U.S. Census Bureau, Business Dynamics Statistics 2007.

⁶ Ibid.

⁷ Ibid.

⁸ "Entrepreneurship and the U.S. Economy," Bureau of Labor Statistics (2011).

⁹ U.S. Census Bureau, County Business Patterns 2007 and 2013.