Slow Churn: Declining Dynamism in America’s Dairyland

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Dynamism

• Dynamism—the speed and scope at which the economy can change.

• Economic dynamism encompasses a number of economic activities—transactions, innovations, investments, and ventures.

• Measured by business activity, employment patterns, population mobility, spending on research and development, and lending activity by banks.

• Capture overall capacity for an economy to experiment and adjust.
The birth and death rate of businesses has been declining for decades, leading to thinner labor markets.

Mobility is declining nationally and in Wisconsin. Within the state, the issue of mobility is especially pressing because in-migration to the state is among the lowest in the county.

A smaller and smaller share of resources in Wisconsin is going toward research and development (R&D).

Small business lending declined dramatically during the Great Recession and has yet to recover, thus limiting an important source of financial capital for businesses to start and grow.

Summary
Defining and Tracking *Innovation*

Product, process, or service that generates new value in the marketplace

- **Ideas**
- **Capital**
- **Talent**

Raw Innovation Generation

**Innovators**, who need

*Entrepreneurs & Entrepreneurial Business Models*

to refine raw innovations to identify/create/maximize market niche and value

**Market**

Regional, National, and/or International
Total Businesses with Employees In Wisconsin
Total Increase in the Number of Establishments

<table>
<thead>
<tr>
<th>Year Period</th>
<th>United States</th>
<th>Wisconsin</th>
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<tbody>
<tr>
<td>1983-1987</td>
<td>608,731</td>
<td>8,760</td>
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<tr>
<td>1992-1996</td>
<td>360,196</td>
<td>7,482</td>
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<tr>
<td>2002-2006</td>
<td>383,657</td>
<td>3,863</td>
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<tr>
<td>2010-2014</td>
<td>143,179</td>
<td>1,661</td>
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</tbody>
</table>
Establishment Birth and Death Rates in Wisconsin
Number of New Businesses in Wisconsin Each Year

- Fewer new businesses than 2006
- Actual number of new establishments
- Number of new establishments constant at 2006 levels
Wisconsin is producing fewer startups than it once did, stalling growth of the business sector.

Churn—the combined business activity from openings and closures—is linked to strong economic performance. Startups and closures are valuable.

Startup activity has been on decline for decades, but the last recession was particularly severe.
Employment Dynamics
Job Creation and Loss as a Share of Total Employment
Average Annual Net Job Creation by Establishment Age, 1994-2014
Larger Presence of Mature Firms
Employment Dynamics: Key Points

- New employer businesses create close to 1/3 of gross jobs.

- ...and over 100% of net new jobs.
  - New businesses more than offset losses by more mature firms.

- While we used to think small businesses create jobs, we now know it is their newness more than their smallness that is linked to job creation.
Population Dynamics
Population Growth Rate

United States

Wisconsin
Wisconsin Elderly Dependency Ratio

Number of individuals 65 and over per 100 working age (15-64) adults
Mobility Rates 1950-2017

Percent of United States Population Moving (Age 1 and Over)
Domestic Out-Migration
(2011-2015 5-year Estimates) Per 1000 Population Age 18 to 64 with a Bachelor’s Degree
Domestic In-Migration
(2011-2015 5-year Estimates) Per 1000
Population Age 18 to 64 with a Bachelor’s Degree

District of Columbia, 117.1
Wyoming, 66.3
Alaska, 65.6
Hawaii, 58.0
Colorado, 57.6
Idaho, 57.3
North Dakota, 56.0
Arizona, 53.7
New Mexico, 53.4
Delaware, 52.3
Oregon, 52.1
Virginia, 50.5
South Carolina, 50.5
New Hampshire, 50.1
Montana, 49.7
Washington, 48.1
Rhode Island, 47.3
North Carolina, 46.9
Vermont, 45.9
Maine, 45.1
Kansas, 44.6
Maryland, 44.3
Tennessee, 43.5
South Dakota, 41.5
Utah, 41.5
Florida, 40.3
Missouri, 37.5
Georgia, 37.2
Louisiana, 37.1
Connecticut, 37.0
Arkansas, 36.6
Oklahoma, 36.2
Kentucky, 35.9
Nebraska, 35.4
Massachusetts, 35.2
Texas, 35.1
Alabama, 34.5
Iowa, 33.7
West Virginia, 33.1
Mississippi, 32.9
Minnesota, 32.6
Indiana, 31.0
Illinois, 30.5
Pennsylvania, 29.7
New Jersey, 26.8
New York, 26.7
Ohio, 26.6
California, 25.4
Michigan, 24.2

In-Migration Rate
• Population growth has been slowing, partly because of an aging population.

• Mobility is declining, limiting the state’s ability to attract people—their talent and ideas.

• Out-migration is low and that is good. Low in-migration into Wisconsin is more problematic.
Research and Development Dynamics
Wisconsin R&D Expenditure as a Percentage of State GDP
U.S. Distribution of R&D Spending by Sector

- Nonmanufacturing: 31%
- Manufacturing: 69%

- Computer and Electronic Products: 21%
- Chemicals: 19%
- Transportation: 14%
- Other Manufacturing: 9%
- Machinery: 4%
- Electrical Equipment, Appliances, and Components: 1%
Share of Total Employment by Manufacturing Subsector Wisconsin and U.S.
The share of resources going toward R&D has declined in recent years.

Wisconsin has a somewhat small presence of the sectors doing the most R&D.

...and a larger presence of the sectors that are less active in R&D.
Lending Dynamics
Trends in Small Business Lending

Number of business loans per 1000 population

Value of Small Business Loans under $100,000 per 1000 population (in thousands)
Financial Institutions and Branches in Wisconsin
Number of Major Bank Branch Offices in Wisconsin 2009 and 2016
• Small business lending seems to have reached a new normal where entrepreneurs are more constrained.

• The banking sector is consolidating and small community banks are going away.

• Relationship lending—a potentially important mechanism for entrepreneurs—is becoming harder to establish.
Implications

Entrepreneurship—new business activity—seems to be a central issue and strategic target for economic development.

New businesses create jobs.
Thick labor markets attract people.
People innovate.

Alternative financing mechanisms may be necessary to spur entrepreneurship.
Thank you!

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