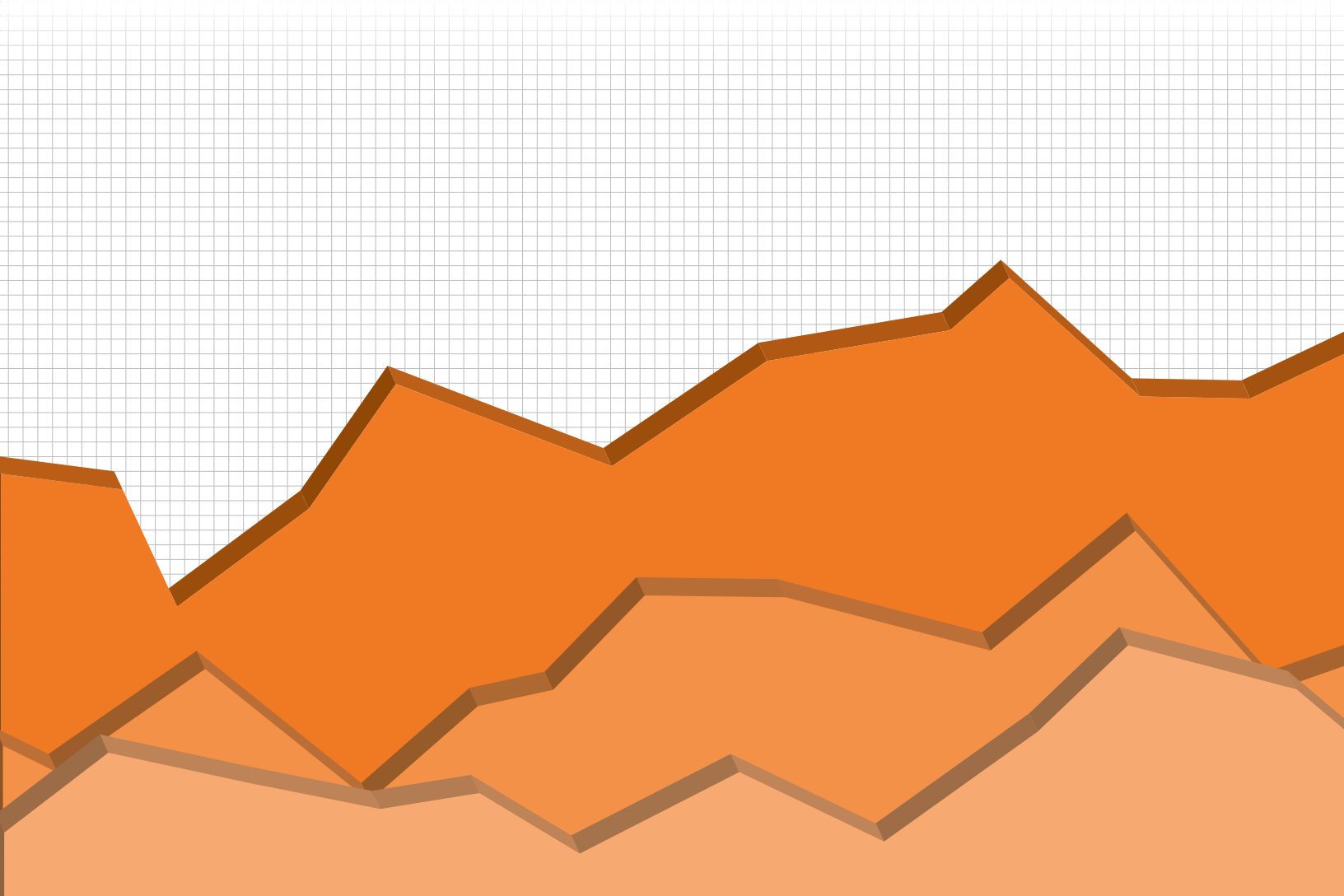




KAUFFMAN  
**INDICATORS** *of*  
**ENTREPRENEURSHIP**

2021 **NEW EMPLOYER  
BUSINESS INDICATORS  
IN THE UNITED STATES:**  
NATIONAL AND STATE TRENDS

MAY 2022



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Explore the Kauffman Indicators further at: [www.kauffman.org/indicators](http://www.kauffman.org/indicators)

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# Key Highlights from New Employer Business Indicators National Trends: 2021

The unprecedented rise of business applications during the COVID-19 pandemic has raised a number of questions as to what will become of these businesses – whether they become employers, how long it takes them to do so, and how new employer businesses are shaping the landscape of employer firms across the nation. In this report, we discuss findings from the Kauffman New Employer Business Indicators, which examine trends in the emergence of these businesses, their representation in the population and among all firms, and the time it takes these businesses to become employers.

The **Kauffman New Employer Business Indicators** include four indicators and a summary index:

1. **Rate of new employer business actualization** – the share of business applications that become employers within two years of filing an application. In 2021, the national rate of new employer business actualization was 9.16%, meaning that for every 100 new business applications, about 9 of these became employers within two years.
2. **Rate of new employer businesses** – the number of startups that become new employers for every 100 people. In 2021, the national rate of new employer businesses was 0.15, meaning that approximately 150 new employer businesses were formed for every 100,000 people.
3. **New employer business velocity** – the average amount of time, in quarters, that passes between filing a business application and hiring a first employee among those businesses that become employers within the first two years. New employer business velocity for the U.S. in 2017 was 2.06, meaning that it took new employer businesses, on average, 2.06 quarters, or roughly 6 months, from the time they filed a business application to the time they hired their first employee.
4. **Employer business newness** – new employer businesses as a share of all employer firms. Employer business newness in 2019 was 6.98%, meaning that new employers were about 7% of all employer firms.

**New Employer Business Actualization Speed (NEBAS) Index** – reflects both the emergence (actualization) and speed (velocity) of new employer businesses. The NEBAS Index for 2017 for the U.S. was 0.70.

## New Employer Business Indicators

The Kauffman New Employer Business Indicators series explores attributes of new employer businesses in order to track and facilitate greater understanding of trends related to these firms. The indicators are constructed using publicly available data from three administrative data sources: the Business Formation Statistics, Business Dynamics Statistics, and Population Estimates Program. These sources include data both on people and on new and established businesses at the county, state, and national level, and include projected data for some years.<sup>1</sup>

### What is a new employer business?

The Kauffman New Employer Business Indicators define a *new employer business* as a business startup that hires an employee within the first two years after filing a business application. Research shows that most businesses that end up hiring employees do so within the first few years.<sup>2</sup>

This series includes four indicators and a summary index:

1. **Rate of new employer business actualization** – the share of business applications that become employers within two years of filing an application.<sup>3</sup>
2. **Rate of new employer businesses** – the number of startups that become new employers for every 100 people.
3. **New employer business velocity** – the average amount of time, in quarters, that passes between filing a business application and hiring a first employee, among those businesses that become employers within the first two years.
4. **Employer business newness** – new employer businesses as a share of all employer firms.

**New Employer Business Actualization Speed (NEBAS) Index** – reflects both the emergence (actualization) and speed (velocity) of new employer businesses.

1 For more details on the construction of these indicators see Howe, T. and Desai, S. (2021).

2. A business is considered to have hired a first employee within the first two years if they have made a first payroll within the first eight quarters after filing for an application.

3. See Fairlie, R. and Miranda, J. (2016).

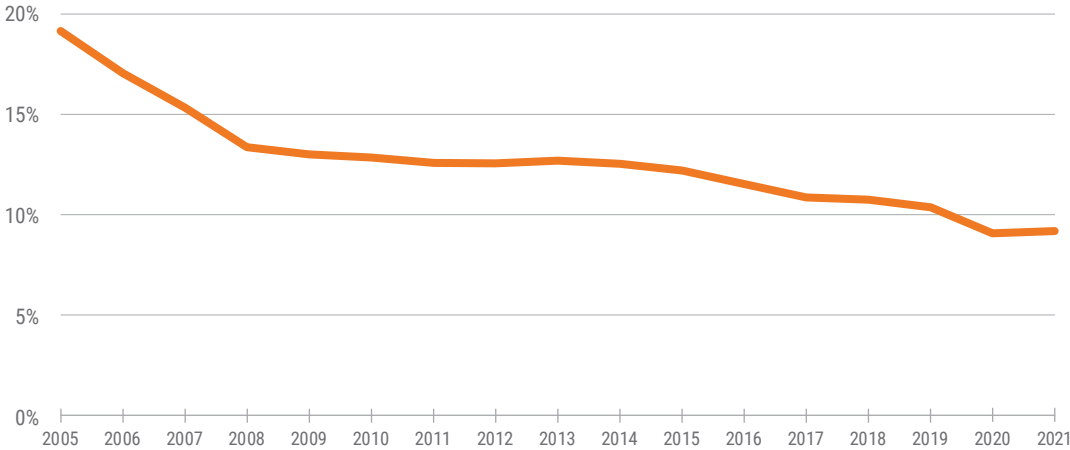
# RATE OF NEW EMPLOYER BUSINESS ACTUALIZATION

The share of business applications that become employers within two years of filing an application.

## National Trends

In 2021, the national rate of new employer business actualization was 9.16%, meaning that for every 100 new business applications, about 9 of these became employers within two years. There has been a downward trend in the rate of new business actualization in the U.S. since 2005, although the rate of new employer business actualization increased slightly from 2020 to 2021. The rate of new employer business actualization was 9.05% in 2020, the lowest level among all of the years that data are available.

FIGURE 1 RATE OF NEW EMPLOYER BUSINESS ACTUALIZATION, UNITED STATES (2005–2021)

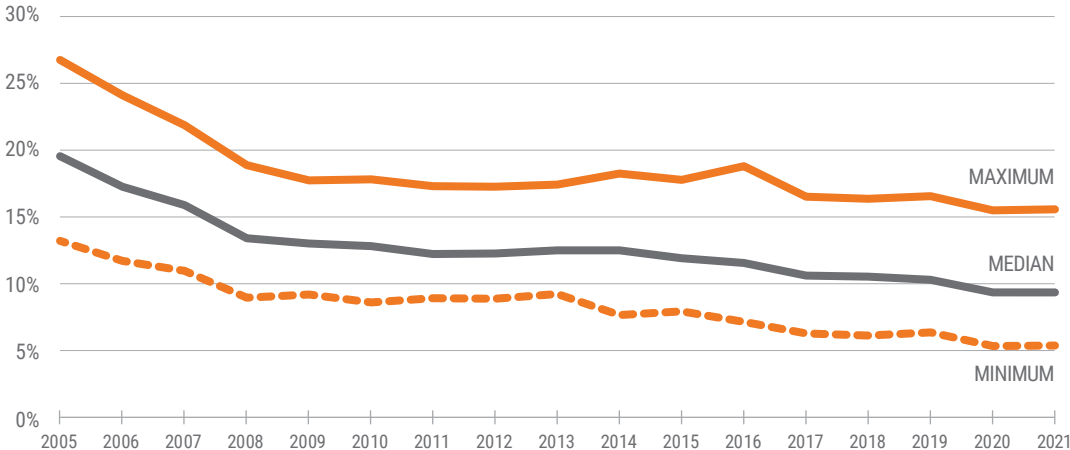


## State Trends

At the state level, the rate of new employer business actualization in 2021 ranged from a high of 15.57% in Maine to a low of 5.36% in Louisiana. The median rate of new employer business actualization in 2021 was 9.37% in Wisconsin.

The range of the rate of new employer business actualization across states between 2005 and 2021 has been fairly consistent. The minimum, maximum, and median rates for each year have been on a downward trend since 2005.

FIGURE 2 RATE OF NEW EMPLOYER BUSINESS ACTUALIZATION (2005–2021)  
(MINIMUM, MAXIMUM, AND MEDIAN, ACROSS STATES)



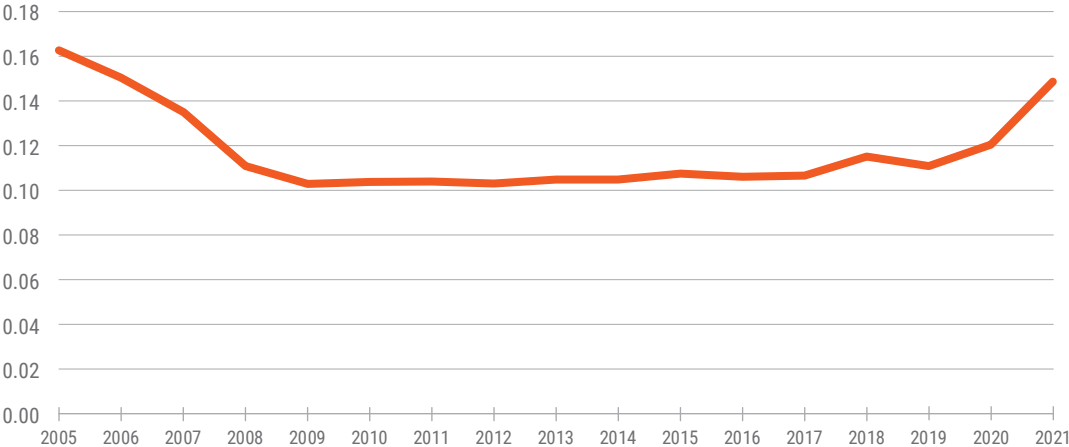
# RATE OF NEW EMPLOYER BUSINESSES

The number of startups that become new employers for every 100 people.

## National Trends

In 2021, the national rate of new employer businesses was 0.15 per 100 people, meaning that there were approximately 150 new employer businesses for every 100,000 people. This reflects an increase from 0.12 in 2020. Looking at the long-term trends, the rate of new employer businesses decreased between 2005 and 2009; there was little change between 2010 and 2014; and there has been an increase since 2016.

FIGURE 3 RATE OF NEW EMPLOYER BUSINESSES, UNITED STATES (2005–2021)

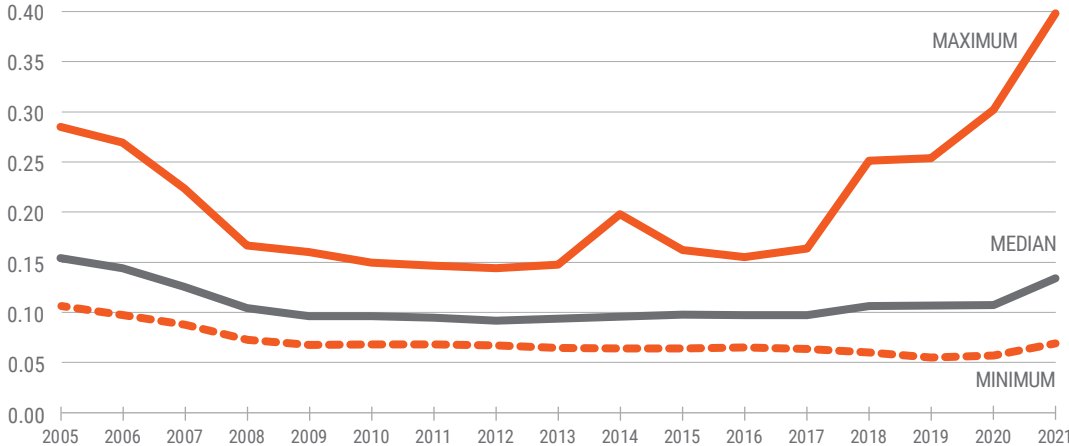


## State Trends

At the state level, the rate of new employer businesses in 2021 ranged from a high of 0.40 in Wyoming to a low of 0.07 in West Virginia. The median rate of new employer businesses in 2021 was 0.13 in North Dakota. Every state had an increase in the rate of new employer businesses from 2020 to 2021.

The range of the rate of new employer businesses across states converged between 2005 and 2008 and then was fairly steady between 2009 and 2016. Since 2017, the range of the rate of new employer businesses has been increasing. The minimum, maximum, and median rates for each year were on a downward trend between 2005 and 2008, remained mostly steady between 2009 and 2016, and have been increasing since 2017.

FIGURE 4 RATE OF NEW EMPLOYER BUSINESSES (2005–2021)  
(MINIMUM, MAXIMUM, AND MEDIAN, ACROSS STATES)



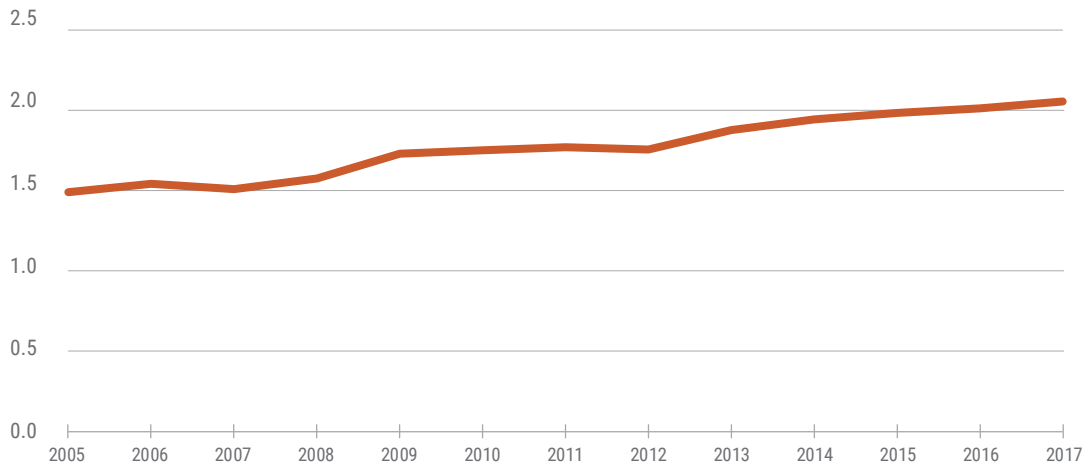
## NEW EMPLOYER BUSINESS VELOCITY

The average amount of time, in quarters, that passes between filing a business application and hiring a first employee, among those businesses that become employers within the first two years. A lower velocity value indicates less time to becoming an employer.

### National Trends

New employer business velocity for the U.S. in 2017 was 2.06, meaning that it took new employer businesses, on average, 2.06 quarters, or roughly 6 months, from the time they filed a business application to the time they hired their first employee. New employer business velocity has increased over time, rising from about 1.5 quarters in 2005 to more than 2 quarters in 2017, indicating it is generally taking new employer businesses longer to hire their first employee.

FIGURE 5 NEW EMPLOYER BUSINESS VELOCITY, UNITED STATES (2005–2017)

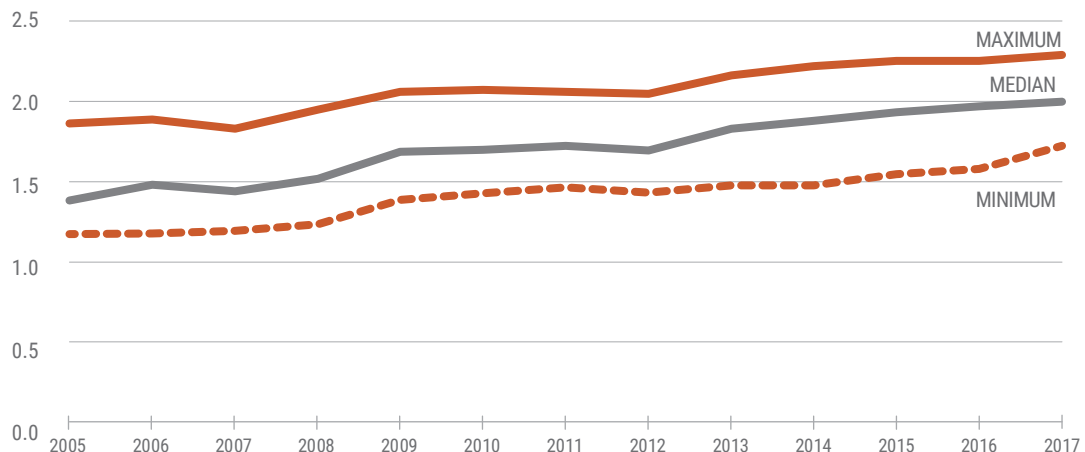


### State Trends

At the state level, new employer business velocity in 2017 ranged from a high of 2.29 in Delaware to a low of 1.72 in Iowa. The median new employer business velocity was 2.00 in Minnesota.

The range of new employer business velocity has been fairly steady between 2005 and 2017. The minimum, maximum, and median values for each year have been on an upward trend since 2005, meaning that hiring a first employee among new employer businesses is generally taking longer.

FIGURE 6 RATE OF NEW EMPLOYER BUSINESS VELOCITY (2005–2017)  
(MINIMUM, MAXIMUM, AND MEDIAN, ACROSS STATES)



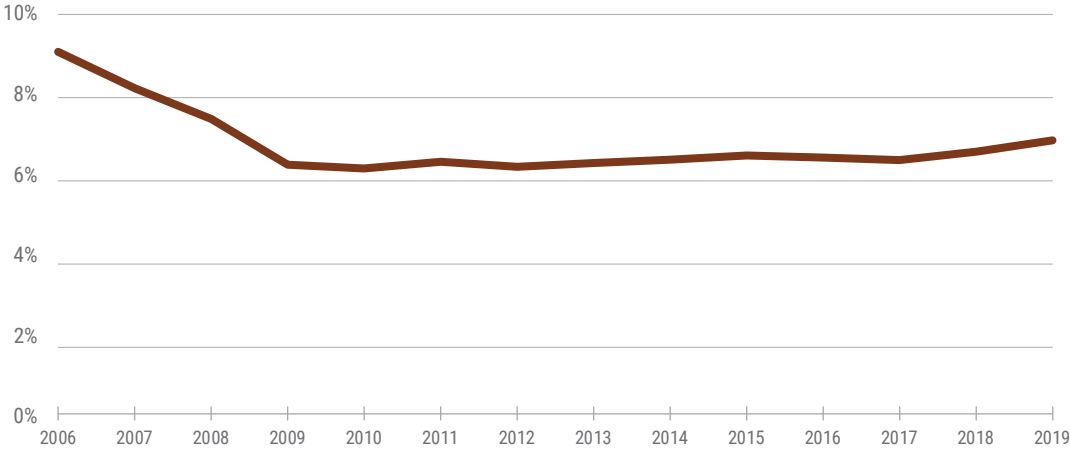
# EMPLOYER BUSINESS NEWNESS

New employer businesses as a share of all employer firms.

## National Trends

In 2019, employer business newness in the U.S. was 7.0%, meaning that about 7% of all firms were new employer businesses. Employer business newness decreased between 2006 and 2010, remained relatively steady between 2011 and 2016, and has been increasing since 2017.

FIGURE 7 EMPLOYER BUSINESS NEWNESS, UNITED STATES (2006–2019)

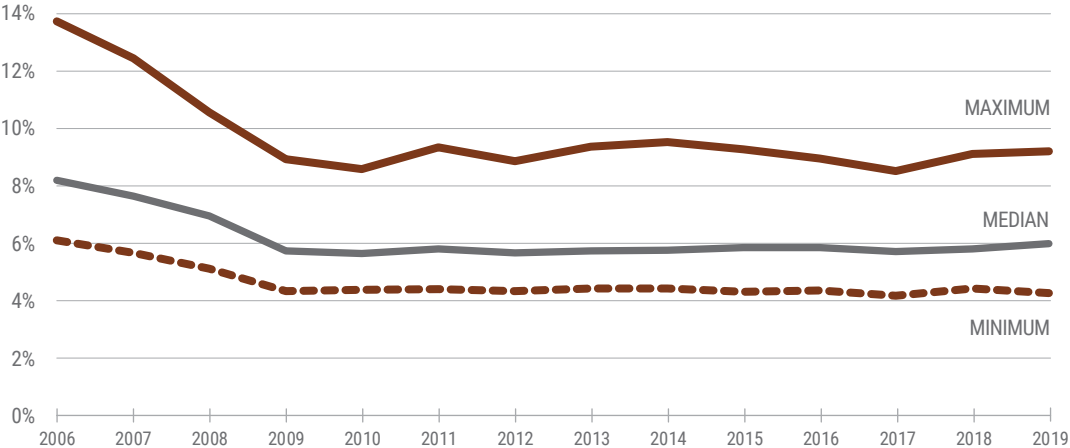


## State Trends

At the state level, employer business newness in 2019 ranged from a high of 9.2% in Wyoming to a low of 4.3% in Vermont. The median employer business newness was 6.0% in Illinois. The share of all firms that were new employer businesses increased between 2018 and 2019 for every state except Iowa and Utah (among the 41 states with data in both 2018 and 2019).

The range of employer business newness converged between 2006 and 2009 and has been relatively steady since 2010. The minimum, maximum, and median values for each year were all on a downward trend between 2006 and 2009. Between 2010 and 2018, there was little change in these values. Between 2018 and 2019, the median increased slightly from 5.8% to 6.0%.

FIGURE 8 EMPLOYER BUSINESS NEWNESS (2006–2019)  
(MINIMUM, MAXIMUM, AND MEDIAN, ACROSS STATES)





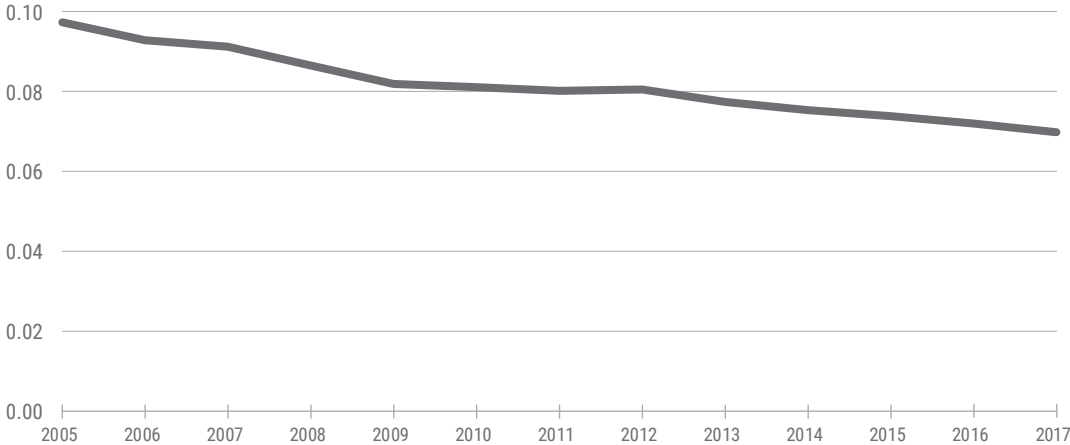
# NEW EMPLOYER BUSINESS ACTUALIZATION SPEED (NEBAS) INDEX

Reflects both the emergence (actualization) and speed (velocity) of new employer businesses.

## National Trends

The NEBAS Index for 2017 for the U.S. was 0.70. Overall, the NEBAS Index has been declining since 2005.

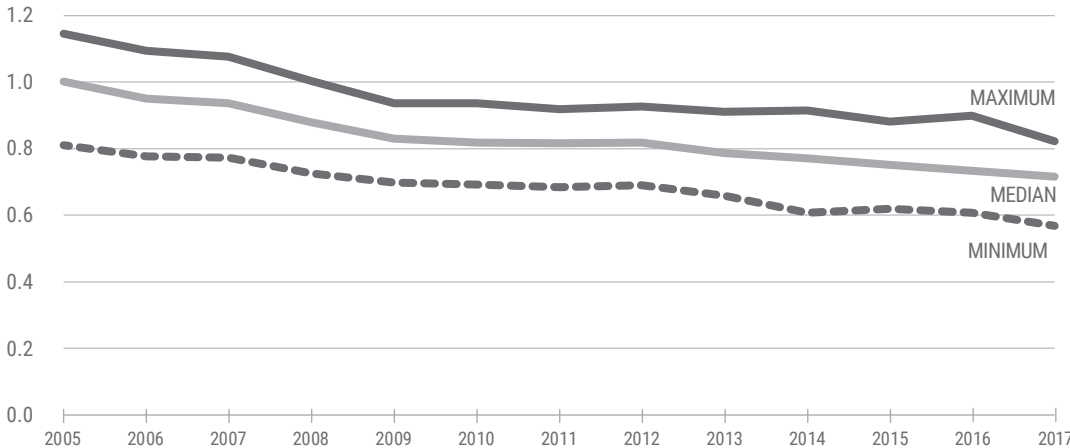
FIGURE 9 NEBAS INDEX, UNITED STATES (2005–2017)



## State Trends

At the state level, the NEBAS Index in 2017 ranged from a high of 0.82 in Washington to a low of 0.57 in Delaware. The median NEBAS Index was 0.72 in New Mexico. The NEBAS Index decreased between 2016 and 2017 for every state except Iowa, Idaho, and Nevada (among the 39 states with data in both 2016 and 2017).

FIGURE 10 NEBAS INDEX (2005–2017)  
(MINIMUM, MAXIMUM, AND MEDIAN, ACROSS STATES)



## Conclusion

Taken together, these trends illustrate that throughout the past decade and a half, we have seen an overall decline in the share of new business applications that end up becoming a new employer business. Absolute numbers of business applications have been increasing in recent years, and we saw a particularly large spike beginning in the late spring of 2020.<sup>4</sup> Yet, compared to years past, a smaller share of these applications is resulting in businesses that make a first hire within the first two years. It is interesting to note, however, that the rate of new employer business actualization actually rose a bit between 2020 and 2021.

Among those new businesses that do become employers, the time it takes to hire a first employee has been increasing. There are a number of possible reasons for this, including the emergence of new technologies and tools, the rising costs of employee benefits such as health care, and the rise of alternative work arrangements, such as gig work.<sup>5</sup> Job creation has been a hallmark of new business creation in the U.S., but the number of jobs created by startups has been declining in recent years.<sup>6</sup>

These indicators do show some recent upward trends related to new employer businesses in the U.S., however. Beginning in 2016, we have seen an increase in the number of new employer businesses per 100 people. We have also seen a recent increase in the share of employer firms in the U.S. that is made up of new employer businesses – though this share is still lower than it was in 2006. It is important to note that because these indicators for recent years are based on projections from the U.S. Census Bureau, given the volatility surrounding entrepreneurial activity during the COVID-19 pandemic, it will be important to continue to track these trends and others related to new employer businesses to more fully understand the landscape of entrepreneurial activity across the U.S.

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4. See Andersen and Murray (2022).

5. See Ewing Marion Kauffman Foundation (2020b).

6. See Fairlie, R. (2022).

7. Howe and Desai (2021).

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TABLE 1	2021 NEW EMPLOYER BUSINESS INDICATORS: NATIONAL and STATE				
STATE	RATE OF NEW EMPLOYER BUSINESS ACTUALIZATION (2021)	RATE OF NEW EMPLOYER BUSINESSES (2021)	NEW EMPLOYER BUSINESS VELOCITY (2017)	EMPLOYER BUSINESS NEWNESS (2019)	NEBAS INDEX (2017)
United States	9.16%	0.15	2.06	6.98%	0.70
Alabama	7.89%	0.12	1.90	5.69%	0.72
Alaska	12.79%	0.14	*	6.98%	*
Arizona	9.38%	0.15	2.19	7.62%	0.65
Arkansas	9.85%	0.14	1.78	6.29%	0.78
California	12.75%	0.17	2.04	8.10%	0.76
Colorado	9.08%	0.17	2.12	7.48%	0.68
Connecticut	8.06%	0.11	2.06	4.69%	0.67
Delaware	6.05%	0.27	2.29	8.91%	0.57
District of Columbia	5.92%	0.15	*	5.09%	*
Florida	7.33%	0.21	2.26	8.11%	0.61
Georgia	6.12%	0.18	2.16	7.55%	0.62
Hawaii	7.25%	0.10	*	5.12%	*
Idaho	13.84%	0.21	1.85	9.16%	0.82
Illinois	9.03%	0.14	2.13	5.98%	0.69
Indiana	8.66%	0.11	1.99	5.31%	0.71
Iowa	11.71%	0.11	1.72	5.15%	0.81
Kansas	10.98%	0.11	1.78	5.32%	0.79
Kentucky	9.29%	0.10	1.83	5.56%	0.75
Louisiana	5.36%	0.12	2.06	5.14%	0.64
Maine	15.57%	0.15	*	5.84%	*
Maryland	6.47%	0.12	2.27	5.57%	0.59
Massachusetts	12.13%	0.13	1.97	6.10%	0.76
Michigan	7.22%	0.11	2.04	5.36%	0.68
Minnesota	10.96%	0.12	2.00	5.43%	0.73
Mississippi	5.51%	0.12	1.78	5.30%	0.71
Missouri	9.74%	0.13	1.81	6.13%	0.76
Montana	12.17%	0.21	1.93	6.62%	0.77
Nebraska	13.27%	0.13	1.79	5.61%	0.81
Nevada	8.83%	0.19	2.15	9.11%	0.65
New Hampshire	12.04%	0.12	1.82	5.16%	0.77
New Jersey	8.05%	0.14	2.18	6.02%	0.64
New Mexico	9.05%	0.10	1.97	5.70%	0.72
New York	9.99%	0.16	2.18	6.43%	0.68
North Carolina	9.84%	0.16	1.97	7.04%	0.73

STATE	RATE OF NEW EMPLOYER BUSINESS ACTUALIZATION (2021)	RATE OF NEW EMPLOYER BUSINESSES (2021)	NEW EMPLOYER BUSINESS VELOCITY (2017)	EMPLOYER BUSINESS NEWNESS (2019)	NEBAS INDEX (2017)
North Dakota	13.00%	0.13	*	5.45%	*
Ohio	7.58%	0.10	2.05	4.90%	0.67
Oklahoma	8.99%	0.13	1.95	6.49%	0.72
Oregon	13.13%	0.15	1.90	6.84%	0.79
Pennsylvania	9.55%	0.12	2.15	5.14%	0.67
Rhode Island	13.28%	0.14	*	5.84%	*
South Carolina	8.44%	0.16	2.06	6.74%	0.70
South Dakota	14.06%	0.16	*	5.58%	*
Tennessee	9.18%	0.12	1.83	6.56%	0.76
Texas	9.89%	0.17	2.01	8.33%	0.72
Utah	10.45%	0.20	2.05	9.02%	0.70
Vermont	10.55%	0.12	*	4.26%	*
Virginia	8.36%	0.13	2.18	6.04%	0.65
Washington	13.83%	0.17	1.89	8.00%	0.82
West Virginia	9.23%	0.07	*	4.43%	*
Wisconsin	9.37%	0.10	1.94	4.72%	0.72
Wyoming	6.81%	0.40	*	9.22%	*

Note: Missing values indicated by \* are due to missing data in underlying source/s used to calculate the indicators.

**NOTES:** (1) New Employer Business Indicators presented in this brief are constructed from the U.S. Census Bureau's Business Formation Statistics, Business Dynamics Statistics, and Population Estimates Program. Indicators are based on the most recent year for which data are available, which varies across indicators. For more details on the construction of these indicators see Howe, T. and Desai, S. (2021). "New Employer Business Trends: A Methodological Note" Ewing Marion Kauffman Foundation: Kansas City.



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