

# WEST MICHIGAN VIEWPOINT

## The Problem with Measuring Net Employment Change Only

Total employment increased by only 0.2 percent during the third quarter in west Michigan's six metropolitan areas. This gives the impression that there was little hiring activity during the period and that employers created few new jobs. In other words, the region's economy appears dead in the water.

This perception is wrong. While the net 0.2 percent gain in employment can be interpreted as the "final score," it says nothing about the level of employment activity during the period. New data released by the Michigan Department of Labor and Economic Growth (MDLEG) in partnership with the U.S. Census Bureau allow us to examine the business dynamics in west Michigan. Even in periods of stagnant employment growth, employers are creating new jobs and hiring additional workers as they expand into new markets, start producing new products, or simply take market share from their rivals. Of course, other, less fortunate firms are cutting jobs because their goods or services simply missed the mark.

This is not a minor issue for economic growth: economic research clearly shows that regions with high levels of business dynamics or "churn" are more likely to grow in the future. All regions lose jobs as their less competitive employers downsize or close; the more successful regions are those that house businesses that are starting or expanding activity through innovation.

Figure 1 illustrates for the combined six-metro region of west Michigan the quarterly change in the following areas:

- Total employment in firms at the beginning of each quarter;
- Job gains—the number of new jobs created through expansions, moves, or start-ups during the quarter;
- New hires—those who are filling new jobs that were created as well as those who are taking the jobs of individuals who retired, moved out of the area, moved to other jobs, or were fired.

Figure 2 shows the same statistics for the manufacturing sector only.

Both figures clearly show that while the net change in total employment during the four-year period was lackluster at best, there still were thousands of workers hired and new jobs being created. For example, during the third quarter of 2006—the most recent period available—total manufacturing employment fell by nearly 7,300 workers, a large loss of 4.0 percent. Still, nearly 7,500 new jobs were created, and manufacturers hired 13,700 new workers. Of course, during this period more

jobs were eliminated than were created; however, the more detailed data show that many manufacturers and other employers find the region an excellent place in which to grow.

During the third quarter of 2006, west Michigan employers created 43,000 new jobs and hired more than 130,000 workers. Still, the "net score" shows that more than 9,000 total jobs were eliminated during that period. A feasible alternative scenario is that the region could have suffered the same net loss with no new jobs being created. Clearly, an environment where 43,000 jobs are created is a far cry from one where few to no jobs are created, even if both have the same net job loss. This is the problem with looking solely at the net score.

Figure 1: Employment Dynamics in West Michigan

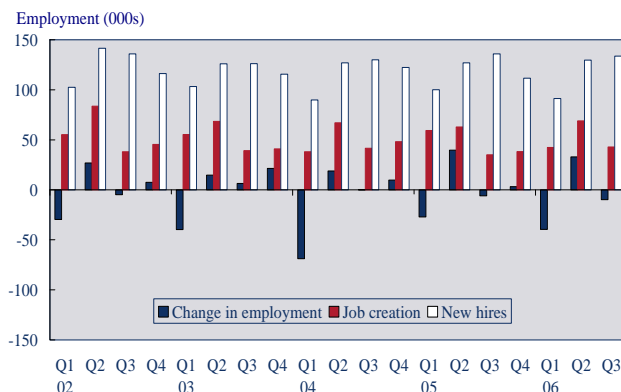


Figure 2: Employment Dynamics in Manufacturing in West Michigan

