

Idaho's smallest businesses fuel post-pandemic employer growth

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Executive summary

Over the past few years, Idaho has reported one of the highest growth rates for both population and employment. The state has also seen high levels of business startups, driven by a historically large increase in small employer establishments, those with fewer than five employees on payroll.

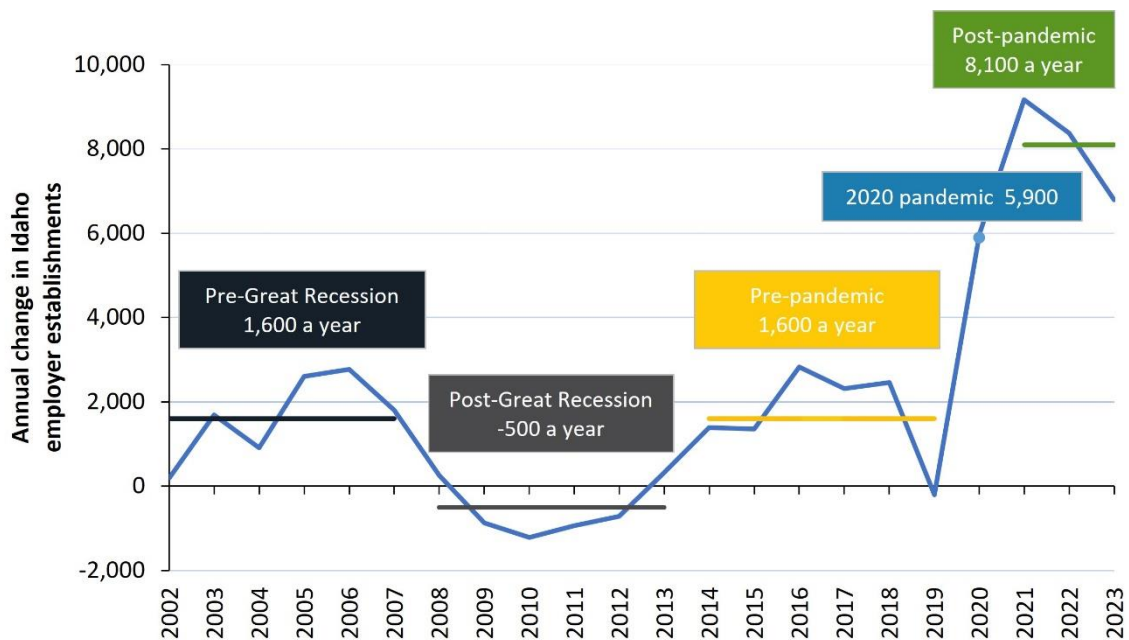
Idaho employer establishments with fewer than five employees accounted for 73% of all employment establishments in 2023 and comprised 86% of total employer establishment growth over the past five-year period from 2018-2023. These small employers had both the fastest establishment growth rate statewide of all firm sizes and also increased their contribution of statewide covered employment from 8% in 2018 to 10% in 2023. All industries experienced growth in the number of active employers, but the highest increases were driven by entities with fewer than five employees in business and professional services, health care and construction.

The fast growth rate of Idaho's smallest employers has provided unprecedented labor mobility opportunities but doesn't come without its risks. Smaller employers are generally younger and face more obstacles to overcoming financial challenges than their larger, more established peers. While some of these small employers may eventually grow to be future anchors of local employment, there is also a higher probability that they may not be actively operating five years down the road.

Timing and scale of acceleration in the number of small employers

Idaho's employer establishments have shown a significantly higher growth rate over the past three years than seen during the almost two decades prior. Over the past 20 years, 2016 was the previous high with the addition of over 2,800 more employer establishments than the year before. However, every year from 2020-2023 (during the COVID-19 pandemic) has had an annual employer establishment increase of at least 5,900 accounts compared with the preceding year, including back-to-back gains of more than 9,000 accounts in 2021 and over 8,000 accounts in 2022.

Figure 1. Idaho's annual change in the number of total employer establishments, 2002-2023

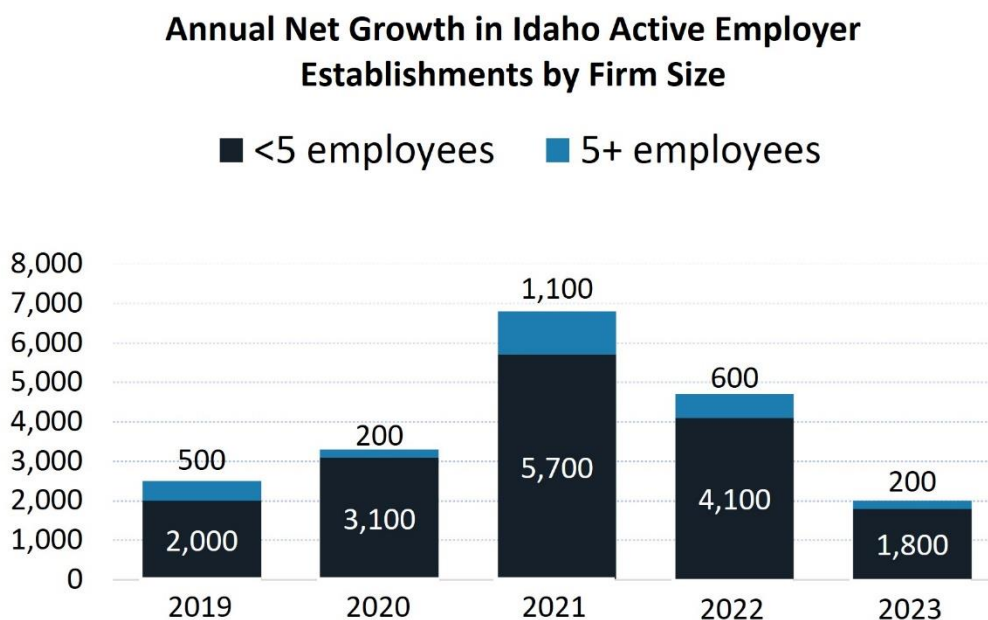


*The pandemic refers to the 2020 global coronavirus pandemic.

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW)

Similar to the trends of Idaho's total employer establishment growth, Idaho's small employer establishments averaging less than five employees per quarter started to show meaningful growth in 2020. There were over 3,100 new establishments in 2020 and this number accelerated significantly to over 5,700 new establishments in 2021. Elevated levels of small employer establishment additions within Idaho occurred in 2022, before having annual growth numbers decelerate in 2023, to more normalized growth levels like what Idaho experienced in 2019.

Figure 2. Idaho's annual net growth in the number of active employer establishments by firm size, 2019-2023



Source: Idaho Department of Labor, QCEW

Why small employer formation recently accelerated

From 2019-2021, the U.S. Census Bureau estimates that Idaho had the fastest two-year growth rates of all states for both population and total employment. Idaho also reported the second highest employer establishment growth rate during the same period behind Delaware, which is a common state for corporations to register due to its favorable tax structure, among other business structure decisions¹. Although the U.S. Census Statistics of U.S. Businesses is not yet available for 2022 or 2023, annual population estimates continue to show the Gem State as the fastest growing state in the nation between 2019-2023. Over the past four years, Idaho has had a cumulative population growth of 9.9%, compared with 2% for the U.S., 6.6% for Utah (ranked No. 2) and 6% for Montana (ranked No. 3). With continued high population growth, it is likely that Idaho will continue to be one of the top-ranked states for both total employment and employer establishment growth beyond 2021.

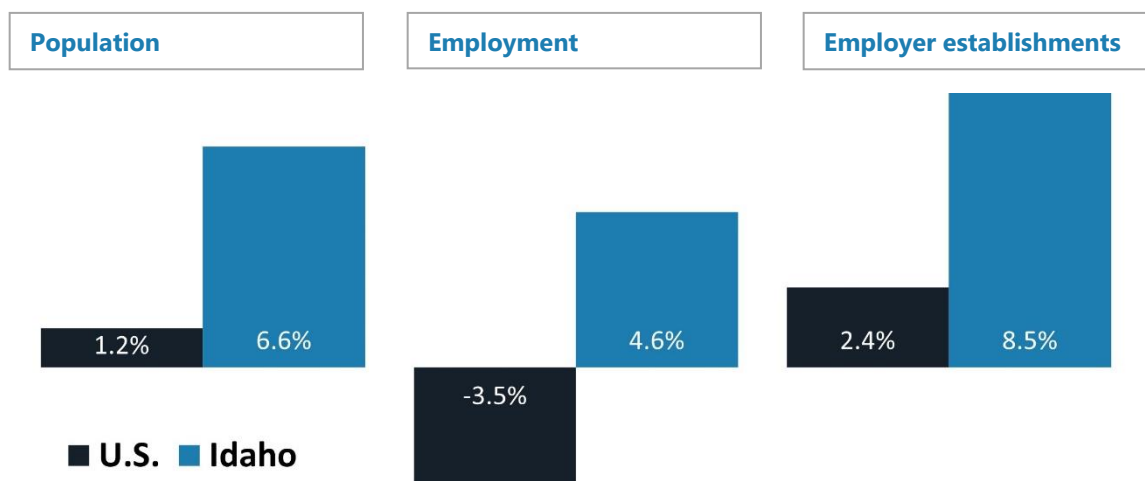
Figure 3. Top three states by select economic growth rates, 2019-2021

	Population		Employment		Employer establishments	
1.	Idaho	6.6%	Idaho	4.6%	Delaware	9.2%
2.	New Jersey	4.4%	Utah	4.4%	Idaho	8.5%
3.	Utah	4.2%	South Dakota	1.4%	Utah	7.6%

¹ U.S. Census Bureau Annual Population Estimates, U.S. Census Statistics of U.S. Businesses

Figure 4 highlights Idaho's growth rates for each of these three metrics between 2019-2021 compared with the U.S. In the chart, Idaho's population growth of 6.6% from 2019-2021 was over five times higher than the 1.2% growth of the U.S. Idaho was also one of only five states to experience positive employment growth during this two-year period. Total U.S. employment decreased by over 3% from 2019 to 2021, while Idaho experienced more than a 4% gain in total employment and an 8% gain in total employer establishments.

Figure 4. Growth rate comparison of the U.S. and Idaho, 2019-2021

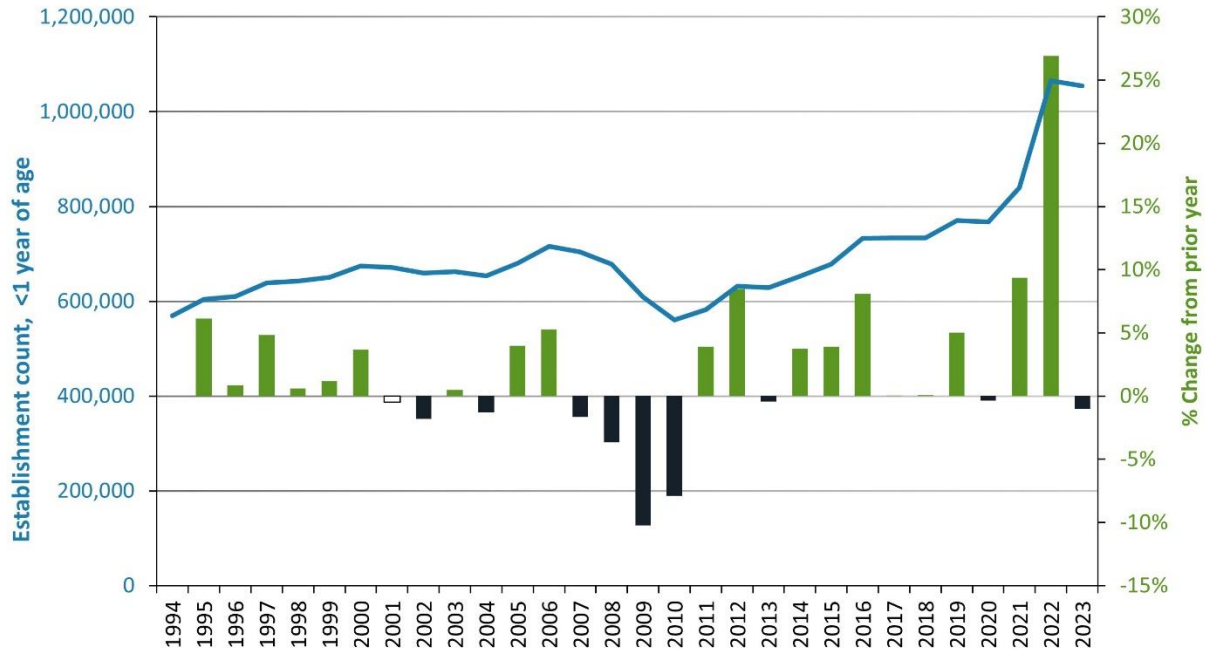


Source: U.S. Census Bureau Annual Population Estimates, U.S. Census Statistics of U.S. Businesses

The rapid increase in Idaho's employers aligns with the elevated patterns of new residents relocating to Idaho, but also tracks with a flurry of young business startups throughout the U.S. in the post-pandemic economy. Factors such as an increase in online shopping, expanded at-home delivery options, high construction demand in the state, unprecedented labor mobility and other examples, led to a high startup rate of innovative new businesses.

The Business Employment Dynamics data from the Bureau of Labor Statistics shows signs of unmatched growth in 2021-2023 for new private businesses less than one year old. During 2014-2019, Business Employment Dynamics consistently estimated there were between 600,000-800,000 private business establishments nationally that had started operations over the most recent year. A new series high was reported in 2021, as the number of private U.S. firms in business for one year or less crested over 800,000. This estimate skyrocketed in 2022 to a new series high of over one million private establishment births and represented a 25% growth over the previous record high levels of 2021. The business establishment growth during 2022 was immediately followed up by another robust count of more than one million infant establishments in 2023.

Figure 5. U.S. private establishments that are less than one year old



*Gray vertical bars denote U.S. recessions.

Source: U.S. Bureau of Labor Statistics, Business Employment Dynamics

Industries driving the growth of Idaho's employer firms with one to four employees

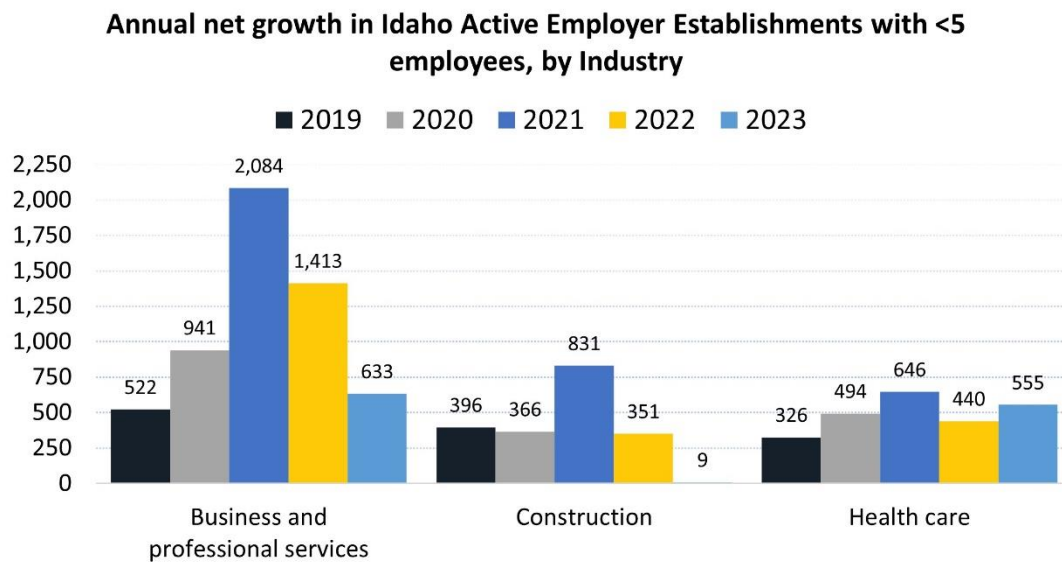
In 2023, Idaho had nearly 74,000 active employer establishments, of which almost 54,000 employer establishments averaged fewer than five workers per calendar quarter. This is a 46% growth rate over the nearly 37,000 active employer establishments that averaged fewer than five workers in 2018. All of Idaho's employer establishments reported a 37% growth rate over this period. Active employer establishments are defined for this report as entities that reported at least one employed worker during any month of the calendar year.

Over half of Idaho's 2023 employer establishments with fewer than five employees are categorized within three industry sectors - business and professional services, construction and health care. Combined, these three broad industry categories contributed 10,000 of the nearly 17,000 gains over the past five years in statewide employer establishments with fewer than five employees. In 2019, business and professional services added over 500 small-scale employer establishments statewide, followed closely by approximately 400 additional construction and 300 new health care employer accounts.

Fast forward to 2021 where 2019's growth numbers pale in comparison to the annual addition of over 2,000 business and professional service entities, more than 800 construction companies

and above 600 more health care establishments. In 2021, the 2,084 employers with fewer than five employees added over the previous year in the professional and businesses service sector would have single-handedly accounted for more than the 2,037 smallest employer establishment added for all sectors in 2019. These establishments in professional and business services with fewer than five employees comprised 30% of the 6,800 employer establishment additions for any level of employment in 2021.

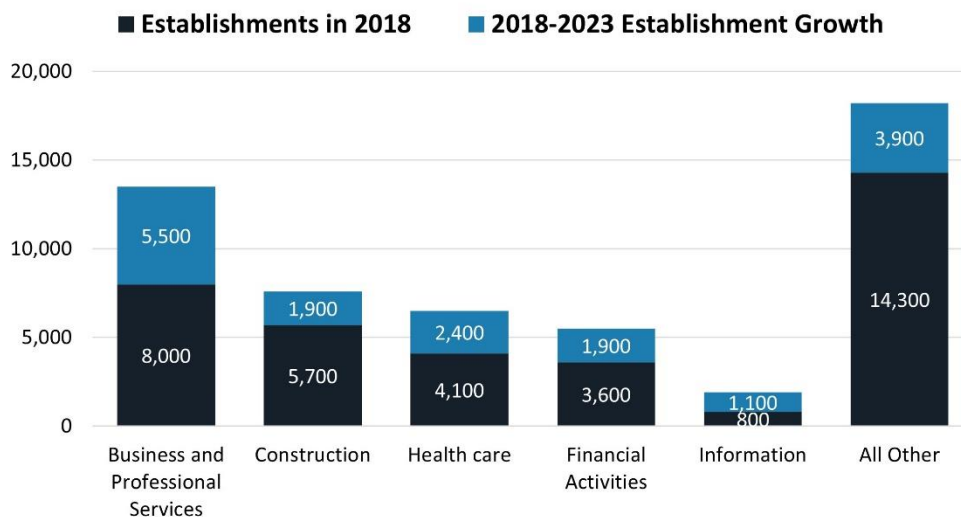
Figure 6. Idaho’s annual net change in active employer establishments with <5 employees, by industry



Source: Idaho Department of Labor, QCEW

Between 2018-2023, the highest gains in employer establishments with fewer than five employees were categorized within business and professional services, health care and construction. It is also worth noting that in this same five-year period the number of small employers within financial activities increased by over 50% and the number of information establishments more than doubled.

Figure 7. 2018-2023 change in Idaho's employer establishments with <5 employees, by industry



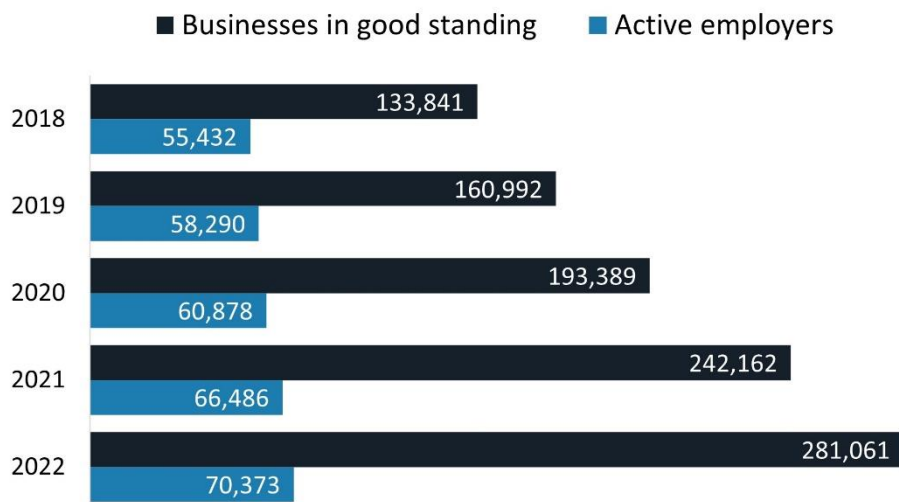
Source: Idaho Department of Labor, QCEW

The data captures only a small fraction of Idaho's smallest businesses

The Bureau of Economic Analysis estimates that 80% of small businesses throughout the U.S. are operated by their owners and do not have hired employees. Despite this statistic, small businesses account for nearly half of the U.S. workforce. The data presented here includes only Idaho's smallest employers who report employment for the purposes of unemployment insurance. If the national ratio holds for Idaho as well, the data included in this research may only be capturing around 20% of the state's smallest businesses.

The Idaho Secretary of State Business Economic Report highlights that businesses in good standing have more than doubled over the most recent four years from around 130,000 in 2018 to 280,000 in 2022. Businesses in good standing have recently reported annual increases of around 30,000-50,000 entities while covered employers for unemployment insurance added only 2,000-5,000 unique entities per calendar year.

Figure 8. Idaho count of businesses in good standing and active covered employees



Source: Idaho Secretary of State; Idaho Department of Labor

Forward-looking trends for Idaho's smallest employers

The recent growth in Idaho's smallest employment establishments has been nothing short of remarkable, but smaller businesses often operate at a disadvantage to larger peers when factors such as longevity, capitalization and profitability are considered.

Longevity estimates for young businesses historically show that up to 20% may not make it through their second year of operations and nearly half are estimated to have closed within five years. The Federal Reserve's 2023 Small Business Credit Survey demonstrates that nearly one-fourth of employer firms with one to four employees were younger than two years old, compared with only 3% of employers with 50-499 employees. The median company age for firms with under 20 employees sat within six to 10 years, compared to 16-20 years for employers with 20-49 employees, and over 21 years for employers with 50-499 employees.

The 2023 Small Business Credit Survey also reported a much higher likelihood that employers with fewer than five employees are significantly more likely than other larger employers to:

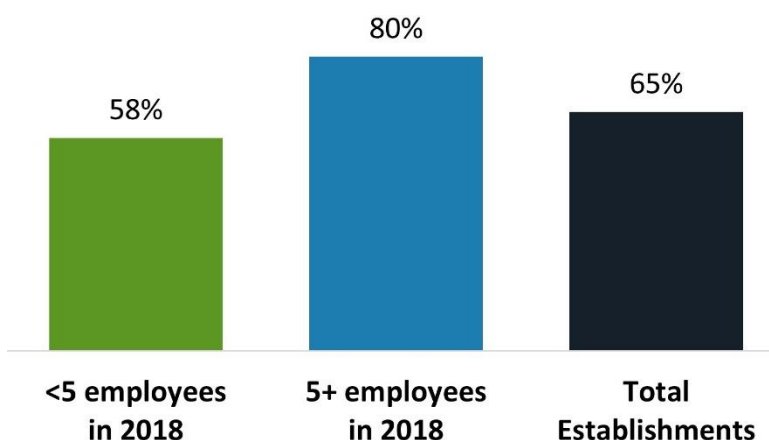
- Report annual revenues below \$250,000.
- Experience an operating loss in 2022.
- Consider their current financial condition to be poor or fair, as opposed to stable or good.
- May have to make more drastic measures of reducing staff count, work hours or downsizing operations, or missing payments when financial challenges arise.
- Have lower expectations for increasing employment over the next 12 months.

The National Federation of Independent Business (NFIB) Small Business Optimism Index for September 2024 is hovering near low levels comparable to 2012-2014 and uncertainty for the

future is at a historically high level since its inception in 1986.² Despite high numbers of new businesses being born, established small businesses have reported significant and lasting declines in optimism in the post-pandemic economy.

When looking at the pool of Idaho's active employers with fewer than five employees in 2018, only 58% of those accounts were still reporting as active employers in 2023. This is slightly lower than the 65% of all employers and significantly decreased from the 80% of firms with more than five employees in 2018 that remained as active employers in 2023.

Figure 9. Idaho employer establishments in 2018 that remain active employers in 2023, by firm size

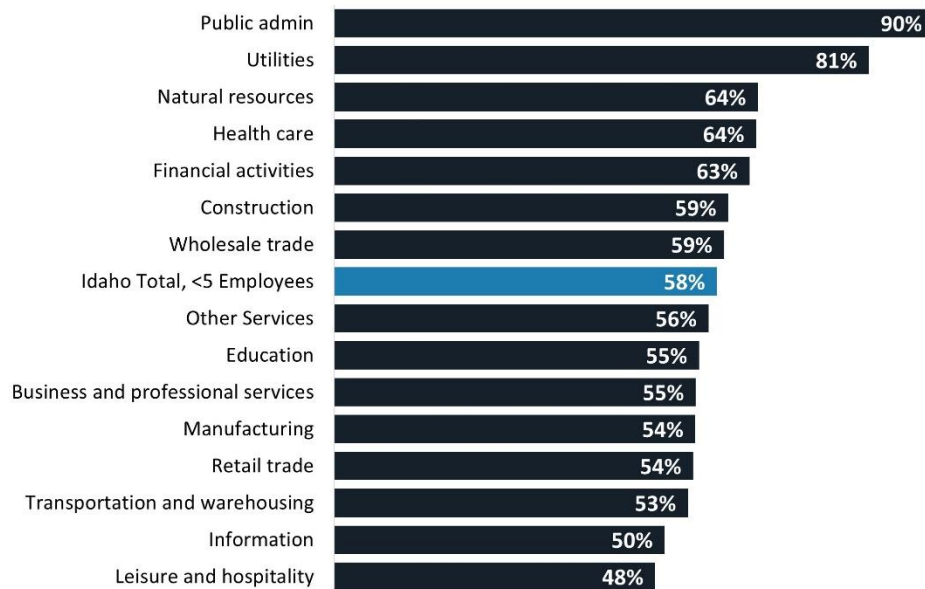


Source: Idaho Department of Labor, QCEW

The continuation rate for active employers in 2018 with fewer than five employees who are still reporting ongoing employee payroll in 2023 ranges from a low of 48% for the leisure and hospitality sector to a high of 90% for public administration. Looking at the three industry sectors responsible for half of the state's growth for employers with fewer than five workers, the most recent five-year continuation rates by industry were 55% for business and professional services, 59% for construction and 64% for health care.

² NFIB Small Business Optimism Index, September 2024

Figure 10. Idaho establishments in 2018 with <5 employees that remain active employers in 2023, by industry



Source: Idaho Department of Labor, QCEW

Idaho's smallest employers have experienced significantly faster establishment growth levels over the past few years than what is considered typical. In the five years from 2018-2023, nearly 17,000 new establishments hiring fewer than five employees opened accounts throughout Idaho. This is more than double the 6,700 new accounts in the previous five years from 2013-2018.

The future of these startup entities in the years ahead is uncertain — some will thrive and grow while others will struggle financially or even close. The entities that have good business ideas, are well funded, experience operating profitability, provide good customer service and have forward-looking leadership will set the foundation for success as a future employer in Idaho. However, as seen by employer trends from 2018-2023, Idaho's smallest employers had the highest risk of not having active employment at the end of the five-year time period compared with their larger, more established peers. The oversized growth rate of small employers in Idaho over the past few years has great potential for leading Idaho's labor force in the future but also carries high operational risk in the near term.

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