



BUSINESS RELOCATION AND EMPLOYMENT CHANGE IN CALIFORNIA

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- **Relocation has generally resulted in a net loss of establishments and jobs in California.**
By net loss, we mean the difference between the number of establishments (or jobs) that moved into California and the number that moved out. According to the National Establishment Time-Series, in every year between 1992 and 2003, relocation caused a net loss of establishments (i.e., single business sites—either firms or parts of a firm) and jobs in the state (Table 1). The largest net loss of establishments occurred in 1993-94, when California had a net loss of 750 establishments. The largest net loss of employment occurred in 1996-97, when California had a net loss of 17,118 jobs.

- **But these losses are negligible compared to the overall size of California's economy.**
In percentage terms, 1992-93 and 1993-94 were the worst years for establishment losses. In each year of this two-year period, California experienced a net loss of about 0.05 percent of its 1.4 million establishments. At this rate, it would take about 20 years for California to lose just 1 percent of its business establishments. The worst years for job loss were 1993-94 and 1996-97, when net job loss from relocation in each year was about 0.1 percent of the state's 16 million jobs.

- **Relocation has relatively little effect on employment change.**
As shown in Figure 1, in every year between 1992 and 2003, job creation (the gross addition of jobs) came primarily from the formation of new establishments and the expansion of existing ones, and job destruction (the gross elimination of jobs) resulted primarily from establishment closures and contractions—rather than from relocation of establishments. On average, 60.4 percent of job creation came from new establishments, 38.7 percent from growth of existing establishments, and only 0.9 percent from establishments moving to California. Similarly, 66.1 percent of job destruction stemmed from establishment deaths, 32.4 percent from contraction, and only 1.5 percent from establishments leaving the state.

- **Higher-wage industries lose more jobs than lower-wage industries due to relocation.**
Over the period 1992-2003, the sectors with the largest net employment losses due to relocation were manufacturing and finance and insurance. Each lost over 20,000 net jobs due to relocation. Average manufacturing wages are \$53,713 per year and average finance and insurance industry wages are \$73,827, compared to the statewide average of \$45,459. Overall, the top one-third of industries in terms of average wages accounted for half of the net job loss due to relocation.

- **Yet, employment relocation tells us nothing about the overall employment dynamics of an industry.**
Among the two industries with the largest net job losses due to relocation, the manufacturing industry also lost employment overall during the period 1992-2003, but the finance and insurance industry grew even faster than the state average. There is in fact no correlation between an industry's net employment change due to relocation and overall employment change. Relocation patterns, therefore, are not an accurate indicator of the overall growth of California's industries.

Table 1: Business Relocation and Its Effect on Employment in California, 1992-2003

	Net change in number of establishments	Net loss of establishments as % of total number of establishments	Net change in number of jobs	Net loss of jobs as % of total number of jobs
1992-93	-733	0.052	-13,168	0.083
1993-94	-750	0.052	-16,449	0.104
1994-95	-585	0.040	-13,859	0.087
1995-96	-352	0.024	-5,235	0.033
1996-97	-262	0.017	-17,118	0.106
1997-98	-139	0.009	-1,665	0.010
1998-99	-98	0.006	-4,583	0.028
1999-00	-26	0.002	-1,620	0.010
2000-01	-446	0.028	-5,832	0.033
2001-02	-426	0.025	-5,727	0.031
2002-03	-531	0.028	-12,275	0.069

Figure 1: Job Creation and Destruction

