

Oregon's Economic & Revenue Forecast: New and Small Businesses

From the [September 2023 Forecast Update](#), page 8:

Start-Ups

As discussed in greater detail in the May 2023 forecast¹, there has been a substantial increase in new business formation during and after the pandemic. New firms typically bring new ideas and products, and improve efficiencies compared to existing firms. This process, sometimes referred to as creative destruction, raises economywide productivity.

While there were some initial caveats or qualms that the increase in start-ups may have been just to access pandemic aid programs, or due to IRS changes and the like, the fact that business formation remains strong for the past three years is encouraging.

While tighter financial conditions in the economy may dampen start-up activity in the near future as it is harder to get loans, and for entrepreneurs to tap into their home equity at higher interest rates, there are also upside risks in the form of demographics. Research from the Census Bureau² shows that entrepreneurship rates peak in ones late 30s through early 40s. In the decade ahead the large Millennial generation will age into their peak entrepreneurship years, likely providing a long-lasting demographic tailwind to start-up activity in the years ahead. Now, simply having more businesses does not necessarily lead to increased business investment and productivity gains, but it is an encouraging signal about the possibilities in the years ahead.

Oregon Business Applications: New & Renewal
Seasonally-Adjusted 3 Month Moving Average



Latest Data: June 2023 | Source: Oregon Secretary of State, Oregon Office of Economic Analysis

From the [May 2023 Forecast Update](#), page 22:

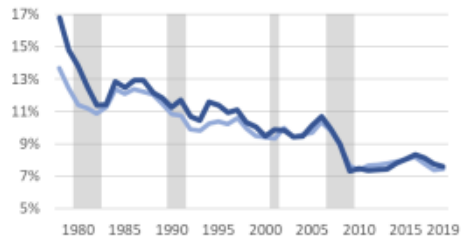
New Business Formation. New businesses are generally considered the primary source of innovation. New ideas, products, and services help propel future economic growth. Unfortunately in the decades leading up to the pandemic, start-up activity was declining. New businesses as a share of all businesses were at or near record lows in 2019. Employment at start-ups follow a similar pattern.

To the extent the low levels of entrepreneurship continue, and R&D more broadly is not being undertaken, slower productivity gains and overall economic growth is to be expected. However, to the extent that larger firms that have won out in today's marketplace are investing in R&D and making those investments themselves, then the worries about the number of start-ups today is overstated. It can be hard to say which is the correct view. That said, actual, realized productivity in the economy has been sluggish in recent decades.

Encouragingly, new business applications during the pandemic actually accelerated, stopping the long-run decline. Applications from what Census calls high-propensity business with planned wages, which are the most likely to eventually turn into real firms that employ workers, have been higher in 2021 and so far in 2022 than back in 2019. New business applications of all other types, including self-employment, are up even further.

These gains provide some hope for future economic growth should some of these new firms bring new ideas, products, and efficiencies to market. Even if the per firm probability of success remains the same, having more ping pong balls in the lottery increases the overall probability that a few will survive and succeed tremendously.

Entrepreneurship Declining Pre-Pandemic
New Establishments as Share of Total in U.S. and Oregon



Latest Data: 2019 | Source: Census, Oregon Office of Economic Analysis

Oregon Business Applications

Percent change from the same week in 2019 for High Propensity applications with Planned Wages and All Other



Latest Data: October 22, 2022 | Source: Census, Oregon Office of Economic Analysis