Colorado’s Entrepreneurial Economy

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Colorado’s Entrepreneurial Economy

1. Why is Entrepreneurship Important?
2. How Do Entrepreneurs Affect Job Growth?
3. Where are Colorado’s Entrepreneurs?
Why is Entrepreneurship Important?

• New businesses create new jobs
  – Industrial recruitment shifts existing jobs
  – Biz starts and job growth follow each other
• New businesses apply and shape fresh innovations for markets
  – Translate ideas into new value and growth
• Schumpeter’s Creative Destruction
  – Churning of ideas & firms in marketplace
  – Probing market frontier: Tests & rewards
Colorado Regions Ranked Among Most Innovative and Entrepreneurial

- Small Business Administration ranked U.S. regions on Entrepreneurship Activity and Innovation Capacity

- Fort Collins, 1st in nation over 1990-2001
- Denver, 6th in nation
- Colorado Springs and Glenwood Springs, 17th & 18th
  - Glenwd Spgs, Grand Jn, Cortez: #1,4,9 in new firms

Source: SBA, 1990-2001 LEEM data
Colorado’s Entrepreneurial Economy

- E’ship can drive growth & dynamism
  - Conduit for fresh ideas and innovation
- Colorado well-positioned
  - Skills, Sectors, and Setting
- Explore Colorado’s e’ship impacts and prospects
  - What are e’ship’s effects on CO jobs?
  - Where are Colorado’s entrepreneurs?
  - How to build on promising foundations?

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Colorado’s Entrepreneurial Economy

1. Why is Entrepreneurship Important?
2. How Do Entrepreneurs Affect Job Growth?
Sketching the Rebound From A “Jobless Recovery”

- Job recovery slow after 1991 and 2001

- Self-employed entrepreneurs critical
  - Employment far outpaces job creation
    - Especially in Colorado
Since 1990, Slow Job Recoveries

Nonfarm Payroll Jobs

Months From Trough

Source: Bureau of Labor Statistics
Courtesy of Stacey Schreft

Index numbers, Trough=1

Pre-1990 average business cycle
1991 Business Cycle
2001 Business Cycle

Courtesy of Stacey Schreft

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How Can We Measure Entrepreneurship?

- Measurement is often a problem
  - Usually “below the radar screen”
- Indirect indicators
  - Business starts (e.g. SBA study)
    - Most companies start small
  - Household employment vs workplace jobs
    - Self-employment
  - Proprietors

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Household Versus Payroll Views Suggest Importance of Entrepreneurs

Household Employment and Payroll Job Growth

Percent change from year ago

Source: Bureau of Labor Statistics

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Colorado Employment Growth in 90’s High Compared to US


Source: BEA

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Colorado Entrepreneurial Growth
Even Greater versus US


Source: BEA

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Payroll Growth During Recovery

Colorado Payroll Growth, Q4 2001 - Q4 2004

Source: Bureau of Labor Statistics
Metro, Micro, and Town Counties in Colorado

Metropolitan Counties
Micropolitan Counties
Town Counties

Source: Bureau of Labor Statistics
Metro Areas Complete U.S. Rebound, While Rural Leads Colorado

U.S. and Colorado Employment Growth, Oct ’01-’04

Source: Bureau of Labor Statistics
Colorado Entrepreneurs Boost Recovery
U.S. and Colorado Nonfarm Proprietor Growth, ’00-02

Source: BEA

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Colorado’s Entrepreneurial Economy

• Slow job growth following recession
  – Self-employed entrepreneurs leading way
  – Rural areas particularly important
• Overall, CO job growth strong
  – Yet entrepreneurial growth even stronger
• More detail on Colorado’s e’ship…
Colorado’s Entrepreneurial Economy

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Not All Entrepreneurs Are Created Equal

- Lifestyle vs High-Value E’ship
  - Indirect vs Direct economic engines
  - Quality of Life vs Growth Generators
- What types of e’ship exist in Colorado?
- Where are these types concentrated?
Breadth and Depth of Entrepreneurship Defined

- **Breadth**: Entrepreneurs’ *Share of Employment*
  
  \[
  \text{Nonfarm Proprietors} \div \text{Total Nonfarm Employment}
  \]
  
  - Diversity of entrepreneurial businesses
    - Indicates attractive *Variety* and fertile *Seedbed*

- **Depth** (Value Added): Entrepreneurs’ *Income Share of Sales*
  
  \[
  \text{Nonfarm Proprietor Income} \div \text{Business Sales Revenue}
  \]
  
  - Market valuation of entrepreneurs’ skills and innovation
    - Indicates potent regional source of economic *Value* and *Dynamism*
Entrepreneurship Breadth is Highest in Small Rural Counties

Entrepreneurship Breadth

Source: BEA-REIS

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Many Entrepreneurs in Rural Colorado

Entrepreneurship Breadth

Source: BEA-REIS

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But High Value Entrepreneurs Cluster in Metro and Micro Counties
Entrepreneurship Depth, Value Added Proprietor Income over Non-Employer Receipts, 2001

- Town
  - Colorado
  - U.S.
- Micropolitan
- Metropolitan

Source: Bureau of Economic Analysis & Census
Center for the Study of Rural America, FRBKC
High Value Entrepreneurs in CO

Entrepreneurship Depth
Proprietor Income over Non-Employer Receipts, 2001

Ratio of income to receipts > 66%
50-66%
Below U.S. Average, 50%

Source: Bureau of Economic Analysis & Census Bureau

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Entrepreneurs Leveraging Other Assets

- E’ship depends on many factors
  - Infrastructure, capital, information…

- What are critical regional assets?
  - High-value e’ship, among others

- Synergistic assets: E’ship and…
  - Education
    - Tapping regional skill pools
  - Banking Depth
    - Potential for self-reinforcing growth
Leveraging Banking Depth

• Virtuous circle for e’ship?
  – Banking deposit depth higher
• Not only do $ stay in community…
  – Income retained vs profits lost
• …but may be “recycled” via banks
  – Expanded e’ship loan possibilities
Banking Depth Highest in Rural Areas

Banking Depth
Bank Deposits per Capita ($1000), 2001

<table>
<thead>
<tr>
<th>Location</th>
<th>Median Bank Deposits per Capita ($)</th>
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<tbody>
<tr>
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</tr>
<tr>
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<tr>
<td>Metropolitan</td>
<td>10.0</td>
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</tbody>
</table>

Source: FDIC & Census Bureau
CO Counties Exceeding US Average of Deposits per Capita


Source: FDIC and BEA-REIS

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Entrepreneurs Tapping Skill Surpluses

- Other regional assets can also support e’ship
- High-value activity requires skills
- Skill surpluses can help fuel value-added growth
- CO has pockets of underutilized skills, especially in rural areas
Underemployment High in Colorado

Average Skill Surplus as Percent of Labor Force, 2000

Source: Census Bureau

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CO Counties Exceeding National Average of Skill Surplus


Source: Census
Colorado’s Entrepreneurial Economy

1. Why is Entrepreneurship Important?
   – Drives Economic Growth

2. How Do Entrepreneurs Affect Job Growth?
   – Generate jobs directly and indirectly

3. Where are Colorado’s Entrepreneurs?
   – High-value e’ship especially critical

   – Banking Depth and Skill Surpluses