

Who creates jobs in Thames-Coromandel District? New or existing businesses?



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Foreword

Business attraction is a key focus of regional economic development. The rationale is that new businesses create jobs, which in turn support wellbeing in local communities. But does this focus make sense in the real world?

This report tests whether new or existing businesses are the engine for jobs growth in Thames-Coromandel. From an economic development perspective, these insights can help inform the extent to which resources should be focused on business attraction or building up resilience of existing enterprises.

To understand things better, this report contains data on the following questions:

- How many businesses are created each year? How many fail?
- Do new or existing businesses create more jobs?
- Are jobs from existing businesses lost because the business fails or scales back?
- What is the average size of a startup compared to the average size of an existing business?
- Do job creation trends among new and existing businesses differ between industries?
- Are returns on assets better/worse in industries where business numbers are growing/declining?
- How do the wages of jobs that are created each year compare to existing wages in the local economy? How do these trends affect wellbeing of local residents?
- How does Thames-Coromandel compare to other parts of New Zealand?

The data used in this report is predominantly drawn from the Business Register, so includes employment within businesses and other organisations, but does not cover self-employment. Data stretching from 2005 to 2019 is considered in the report.

Key findings

- Business numbers have recovered from their 2013 trough – they are now back to levels that persisted immediately prior to when the Global Financial Crisis hit in 2008.
- From 2013 to 2019, new businesses added 10.4% to the business stock each year, while business deaths over the same period, remained steady at 9.4% of existing businesses failing each year.
- Economic development's twin roles of business attraction and building up the resilience of existing enterprises are both important for job creation. New businesses generate a steady stream of jobs, but these gains can be quickly eroded when existing businesses backpedal.
- On average over the 15 years to 2019, new businesses accounted for a 2.9%pa contribution to total jobs growth, while existing businesses detracted 2.1%pa from the result.
- New businesses in Thames-Coromandel are more pivotal creators of jobs than in nearby areas.
- The average Thames-Coromandel startup business has 4.5 employees, close to the national average of 4.7 employees.
- Thames-Coromandel businesses struggle to scale up, with existing businesses in Thames-Coromandel on average having just 3.2 additional employees than new entrants. By comparison, existing business units nationally on average have 7.4 additional employees than new entrants.
- Over the five years to 2019, the top five types of businesses for job creation in Thames-Coromandel District were: accommodation and food services, construction, health care and social assistance, electricity, gas, water and waste services, and administrative and support services.
- At the other end of the spectrum, existing businesses drove heavy job losses in the manufacturing sector. But encouragingly there were signs of job creation in startup manufacturing businesses.
- Industries where employment was expanding offered average returns on equity of 21.6%, while industries where job numbers were contracting offered average returns of 16.5%.
- Over the five years to June 2018, new jobs' pay increased by an average of 5.2%pa, while pay for continuing jobs with existing employers increased by an average of 2.4%pa.

Lessons

Creative destruction is a natural way of restructuring within an economy, where new, more innovative and productive firms replace less innovative ones. This more efficient reallocation of resources between growing and shrinking firms is critical to support a higher level and quality of employment in a local area.

At face value these observations could lead someone to conclude that economic development resources are best directed at startups. But such a conclusion would be short-sighted. Although startups are indeed an important part of the jobs growth engine and must be supported, excessive swings in the fortunes of existing businesses are the more detrimental factor during bad times.

Some natural pruning is warranted to weed out business models that are out-of-sync with longer-term trends in supply and demand, but there are some businesses that fail because they have insufficient resilience to weather short-term storms. The necessity to build up resilience provides relevancy to the work that economic development practitioners do with existing enterprises to help them become more cost efficient, productive, competitive, and sustainably financed.

Economic gardening is a model that seeks to create jobs by supporting existing businesses and industries in a community. The core of economic gardening is encouraging the development of essential infrastructure and providing entrepreneurs with appropriate information and support programmes. Such initiatives aim to help existing businesses become more innovative, resilient, sustainable and inclusive.

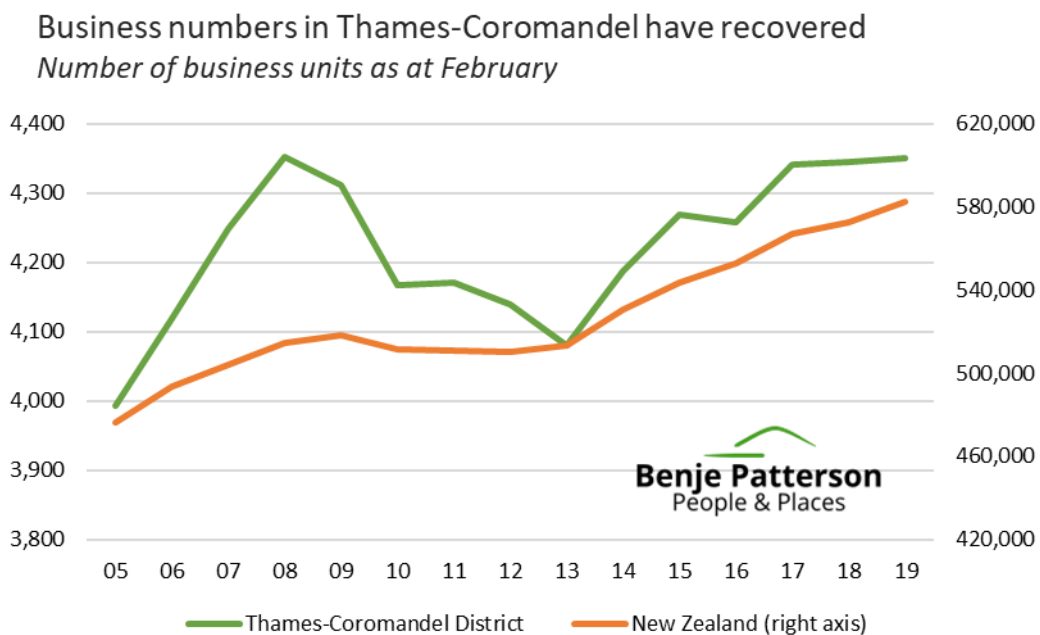
Business creation and destruction

The total number of businesses across Thames-Coromandel District in 2019 was 4,350. Business numbers have recovered from their 2013 trough of 4,080 and are now back to levels that persisted immediately prior to when the Global Financial Crisis hit in 2008.

Business numbers in Thames-Coromandel experience bigger swings across the business cycle than the rest of New Zealand. Thames-Coromandel's economy is less diversified and relies heavily on the cyclical construction and tourism sectors.

These trends are summarised below in Graph 1.

Graph 1



Growth in the stock of businesses is the net result of the appearance (birth) and disappearance (death) of businesses over a given year. This process is often referred to as “creative destruction” and closer analysis shows it is alive and well in Thames-Coromandel.

Between 2008 and 2013, new businesses added about 7.3% to Thames-Coromandel's business stock each year, but these gains were offset by an average of 9.4% of existing businesses failing each year.

The change in fortunes since 2013 has been because of stronger growth in the number of new businesses being started. As economic conditions improved, entrepreneurs' confidence to start a new venture has risen.

From 2013 to 2019, new businesses added about 10.4% to the business stock each year. These new businesses more than offset the business deaths over the same period, which remained steady at 9.4% of existing businesses failing each year.

Are new or existing businesses the biggest job creators?

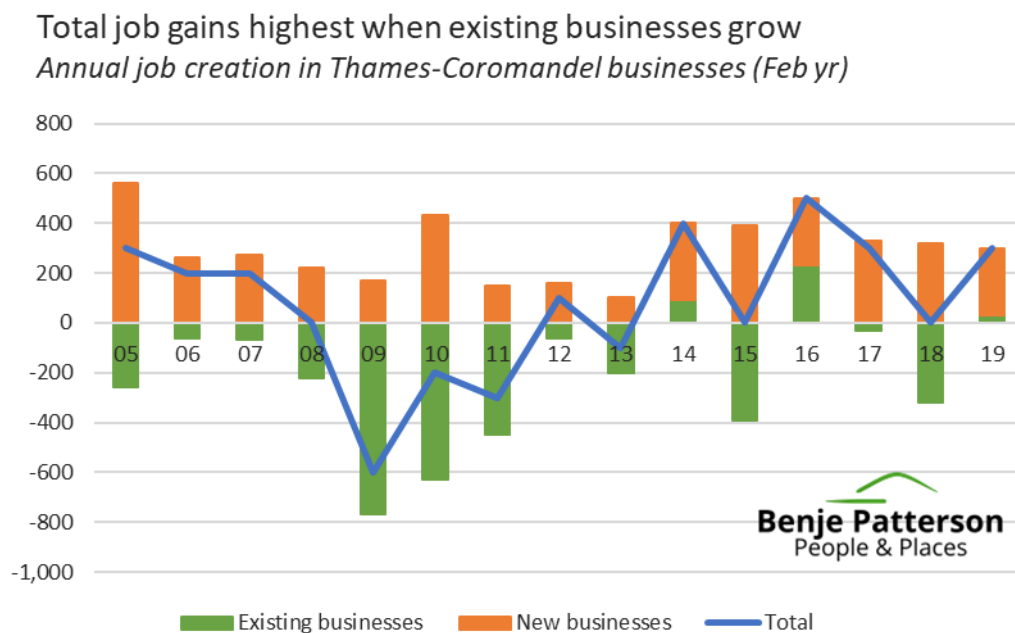
The previous section showed how business numbers have evolved over recent years. It also highlighted the process of creative destruction, where a flow of new businesses replaces those that cease operations.

This section looks at the upshot for what is happening in terms of the number of jobs provided by businesses. After all it is nice to see how business numbers are changing, but the real goal for improving wellbeing is to translate this entrepreneurial spirit into jobs on the ground!

In 2019, the 4,350 businesses in Thames-Coromandel accounted for 10,700 jobs¹. By comparison, at the previous trough in 2013, the 4,080 businesses in Thames-Coromandel accounted for 9,200 jobs.

The following graph shows the total number of jobs created by businesses each year, split into those from new and those from existing businesses.

Graph 2



Immediately obvious is that new businesses consistently create jobs. Existing businesses, on the other hand, are a frequent detractor from overall job creation.

Since 2005 there have been four years where the total number of people employed within businesses fell. However, there were an additional eight years where existing businesses shed workers. In these eight years, total jobs within businesses would have gone backwards had it not been for new businesses adding employees to the workforce.

¹ Estimates in this report capture all those employed in businesses that are maintained on Statistics New Zealand's business register. Those that are self-employed and derive income as a contractor or from informal enterprises not on the business register are not captured within business employment and are excluded from the analysis. The 2013 Census showed that 23% of people in paid work in Thames-Coromandel were self-employed, compared to 12% nationally. Estimates from Infometrics showed that total employment in the district, including jobs in both businesses and the self-employed, was 12,726 jobs in 2018.

On average over the 15 years to 2019, new businesses accounted for a 2.9%pa contribution to total jobs growth, while existing businesses detracted 2.1%pa from the result.

These growth contributions are summarised below in Table 1.

Table 1

Contributions to jobs growth in Thames-Coromandel businesses			
<i>Average annual % point contributions to total jobs growth in businesses</i>			
Year	Existing businesses	New businesses	Total growth
2005	-2.7%	5.8%	3.1%
2006	-0.6%	2.6%	2.0%
2007	-0.7%	2.7%	2.0%
2008	-2.1%	2.1%	0.0%
2009	-7.5%	1.7%	-5.8%
2010	-6.5%	4.4%	-2.1%
2011	-4.7%	1.6%	-3.2%
2012	-0.7%	1.7%	1.1%
2013	-2.2%	1.1%	-1.1%
2014	1.0%	3.4%	4.3%
2015	-4.1%	4.1%	0.0%
2016	2.4%	2.8%	5.2%
2017	-0.3%	3.3%	3.0%
2018	-3.1%	3.1%	0.0%
2019	0.3%	2.6%	2.9%
Average	-2.1%	2.9%	0.8%

Comparisons can also be made between the sources of jobs growth among Thames-Coromandel's businesses to the national average.

Table 2 summarises data over the past 15 years. The data shows that Thames-Coromandel's existing businesses have struggled more than the national average to create jobs. New businesses in Thames Coromandel, on the other hand, have been a more pivotal creator of jobs than the national average.

New businesses' higher contribution to jobs growth in Thames-Coromandel may stem from people moving to the area from other parts of New Zealand choosing to start businesses to generate income, given that quality local job options are relatively thin on the ground.

Table 2

Contributions to jobs growth in businesses		
<i>Average annual % point contributions over 15 years to 2019</i>		
Business type	Thames-Coromandel District	New Zealand
Existing	-2.1%	-0.5%
New	2.9%	2.1%
Total growth	0.8%	1.6%

Do businesses shed workers because they fail or scale back?

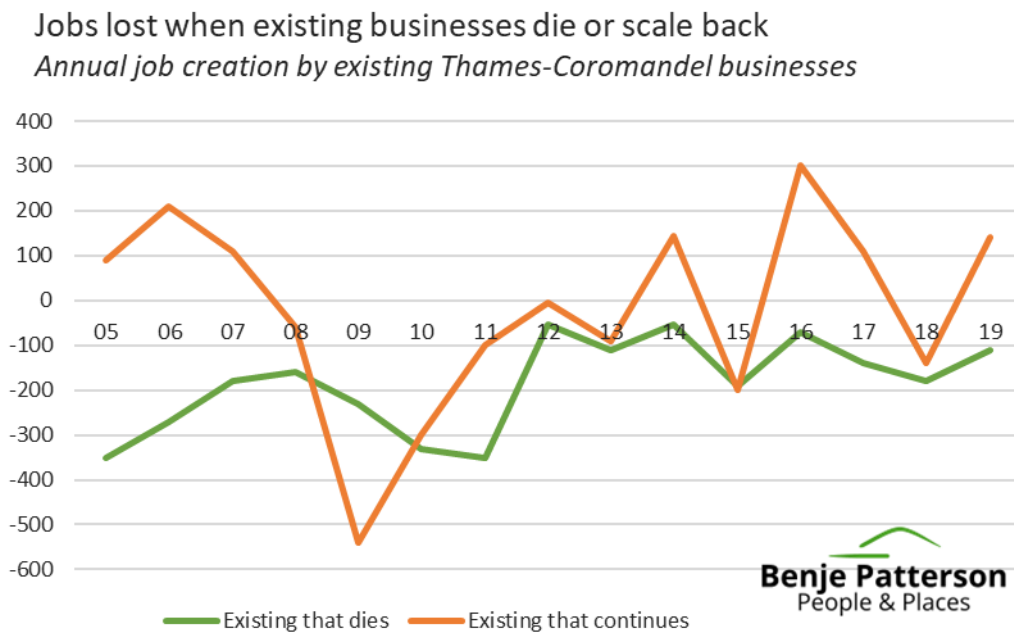
We have established that existing businesses frequently shed workers. But does shedding occur because businesses actually fail or are the job losses instead centred on businesses that are simply scaling back in response to something more transient in the business environment?

Graph 3 below breaks job losses from existing businesses into these twin trends.

The graph highlights that failing businesses' contributions to job losses are relatively consistent through time. This finding is best explained by the creative destruction process outlined earlier, which reflects natural pruning to weed out business models that are out-of-sync with longer-term trends in supply and demand.

For businesses that continue operations, there is a high degree of volatility between job creation and destruction across the business cycle. These businesses are dynamically adjusting their business model in response to external conditions so that they flourish during good times and can survive when macroeconomic conditions become more challenging.

Graph 3



The demographics of businesses

This section considers the demographics of businesses. Table 3 highlights that most businesses have no employees (non-emplying).

Table 3

The demographics of Thames-Coromandel businesses

Number of business units in each category, as at February 2019

Type	Thames-Coromandel District		New Zealand	
	Proportion	Number	Proportion	Number
Non-emplying	67.7%	2,946	67.5%	393,093
Emplying	32.3%	1,404	32.5%	189,384
Total	100.0%	4,350	100.0%	582,477

Considering emplying businesses only, shows that the average number of emplyees per business unit in Thames-Coromandel is 7.7 emplyees, smaller than the national average of 12.1 emplyees.

Table 4

Average number of emplyees

Per emplying business unit, at at February 2019

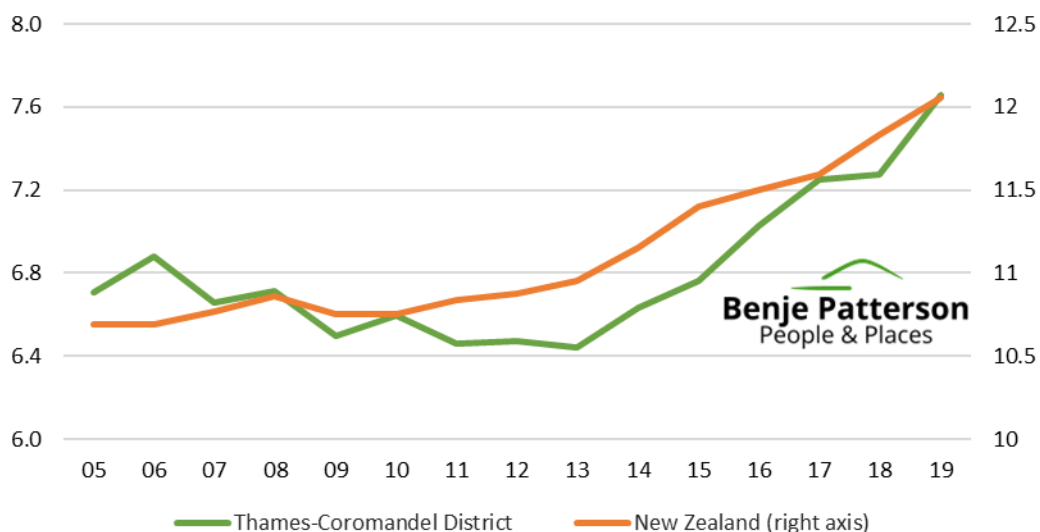
Thames-Coromandel District	New Zealand
7.7	12.1

The average number of emplyees per business in Thames-Coromandel has been growing through time. Over the 15 years to 2019, the average number of emplyees per business unit in Thames-Coromandel rose from 6.7 to 7.7, an increase of 14%. The average nationally rose 12.8% from 10.7 to 12.1 emplyees.

Graph 4

The size of emplying business units has been increasing

Average number of emplyees per emplying business unit



The demographics of businesses that are born and die

Businesses that are born and die in any given year are smaller than existing businesses.

Table 5 shows that the average Thames-Coromandel startup business has 4.5 employees, close to the national average of 4.7 employees.

It is no surprise that startup businesses have a relatively small number of employees, as entrepreneurs are unlikely to invest in staff initially as they build up their client base and bed in processes.

But Thames-Coromandel businesses struggle to scale up thereafter, with existing businesses in Thames-Coromandel on average having just 3.2 additional employees than new entrants. By comparison, existing business units nationally on average have 7.4 additional employees than new entrants.

Table 5

Average number of employees (business births)	
<i>Per employing business birth, 10 years to 2019</i>	
Thames-Coromandel District	New Zealand
4.5	4.7

Table 6 shows that the average business in Thames-Coromandel that dies has 4.6 employees, while nationally the average business unit that dies has 6.4 employees.

It is no surprise that businesses that die have fewer employees on average than existing businesses. As identified earlier, the data shows that entrepreneurs first reaction to more challenging economic conditions is typically to shed workers and streamline their operations. As a result, the end decision to cease operations is generally part of a more gradual process. This behaviour leads to smoother outcomes for a local economy. From an employees' perspective, having more time to identify other employment opportunities to move into can lead to a more financially stable transition into new employment.

Table 6

Average number of employees (business deaths)	
<i>Per employing business death, 10 years to 2019</i>	
Thames-Coromandel District	New Zealand
4.6	6.4

Do trends in job creation among new and existing businesses vary between industries?

Diving deeper into the data shows that there are significant differences between industries in terms of job creation across both new and existing business units.

Over the five years to 2019, the top five industries for job creation in Thames-Coromandel District were:

1. accommodation and food services
2. construction
3. health care and social assistance
4. electricity, gas, water and waste services
5. administrative and support services.

Accommodation and food services is a particularly cut-throat industry. Job creation was concentrated in new businesses, with existing businesses shedding workers.

The other key growth industries showed stronger performances by existing businesses. Gains for health care and electricity, gas, water and waste services were particularly concentrated on existing businesses – not surprising given the larger barriers to entry into these sectors.

At the other end of the spectrum, the industry where business employment suffered the most was manufacturing. These heavy job losses in the manufacturing sector were driven by existing businesses. But encouragingly there were signs of job creation in startup manufacturing businesses.

Table 7

Job creation in Thames-Coromandel by startup and existing businesses

Jobs created within businesses over the five years to February 2019

	Startups	Existing	Total
Accommodation and Food Services	610	-260	350
Construction	139	91	230
Health Care and Social Assistance	39	161	200
Electricity, Gas, Water and Waste Services	0	115	115
Administrative and Support Services	24	86	110
Retail Trade	340	-240	100
Education and Training	0	90	90
Public Administration and Safety	9	51	60
Other Services	63	-33	30
Professional, Scientific and Technical Services	80	-60	20
Transport, Postal and Warehousing	27	-17	10
Mining	0	9	9
Financial and Insurance Services	9	-9	0
Rental, Hiring and Real Estate Services	43	-43	0
Agriculture, Forestry and Fishing	88	-98	-10
Wholesale Trade	34	-44	-10
Information Media and Telecommunications	12	-22	-10
Arts and Recreation Services	3	-43	-40
Manufacturing	66	-146	-80
Not included elsewhere	-6	-68	-74
Total	1,580	-480	1,100

Are returns higher for industries that are expanding?

When investing in a business, entrepreneurs are ultimately concerned about the return they stand to make on their investment in the business.

It stands to reason that higher yielding industries with a healthy demand outlook and relatively few looming risks, will be those that are in expansion mode. On the flipside, industries that offer a lower return and weaker demand prognosis, are likely to be those where entrepreneurs are pulling back.

The following table considers the average returns on equity for industries in Thames-Coromandel where business employment has been expanding over the past five years and compares those to the average returns for industries where job numbers in businesses have been contracting.

Table 8

Returns on equity higher for expanding industries in Thames-Coromandel

Average returns on equity calculated using 2018 Annual Enterprise Survey

	Return on equity
Industries with expanding job numbers	21.6%
District average	20.5%
Industries with contracting job numbers	16.5%

The calculations show that expanding industries offered average returns on equity of 21.6%, while industries where job numbers have been contracting offered average returns of 16.5%. By comparison, the average return on equity across the district was 20.5%².

² These returns have been calculated using industry average returns on equity from the 2018 Annual Enterprise Survey and then overlaying them against the industry structure of business employment in Thames-Coromandel.

Comparing wages of new and existing jobs in businesses

Economic development is ultimately about outcomes that matter for people. Being entrepreneurial and creating jobs matters, but we also care about the quality of employment. When considering social wellbeing, it is important to understand how wages of new jobs compare to those in existing jobs.

PAYE taxation data shows average annual earnings for new jobs within businesses in Thames-Coromandel in the June 2018 year were \$39,690pa, while average earnings for continuing employment in existing jobs within businesses were \$47,200pa.

Table 9

Mean annual earnings in businesses

Source: Stats NZ (LEED), Jun-18 year

New jobs	Continuing jobs
\$39,690	\$47,200

The lower earnings for new jobs is no surprise. New employees often start out on a lower wage than colleagues, but wages improve as they develop more institutional knowledge and begin to add more value within the enterprise. Similarly, owners of new business often cannot afford to pay themselves or give as many hours to staff initially until they find their feet. Success for economic development practitioners is providing startups with the appropriate support and assistance to remain in business. The data shows that as a business develops, the earnings potential for staff in continuing jobs is higher.

Looking more generally at trends in wages, we can see that the gap has closed between what is offered to employees in new roles compared to continuing jobs in Thames-Coromandel. Over the five years to June 2018, new jobs' pay increased by an average of 5.2%pa, while pay for continuing jobs with existing employers increased by an average of 2.4%pa. Because of this trend, the ratio of wages for new jobs compared to continuing jobs has improved from 0.73 to 0.84 over the same period.

Graph 5

Ratio of wages in new jobs to existing jobs

Based on mean annual earnings from Stats NZ (LEED)



Graph 6

Changes in wages of new jobs and existing jobs

Mean annual earnings from Stats NZ (LEED)



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How does Thames-Coromandel compare to others?

This section makes comparisons between Thames-Coromandel and the neighbouring districts of Hauraki and Matamata-Piako.

Table 10 shows that there are higher levels of creative destruction among Thames-Coromandel's businesses than among peers' business environments. Not only does Thames-Coromandel show higher levels of business creation than Hauraki and Matamata-Piako, but death rates of businesses are also higher. Creative destruction is even more prominent across New Zealand, driven up by the major urban areas.

Table 10

Creative destruction of businesses

Business births and deaths as % of total business stock, average 5 years to 2019

	Thames-Coromandel	Hauraki	Matamata-Piako	New Zealand
Business births	10.6%	9.7%	8.8%	11.9%
Business deaths	10.0%	8.5%	8.4%	10.2%

Looking at the role of businesses in jobs creation shows that Thames-Coromandel's existing businesses have struggled more than existing businesses in Matamata-Piako and New Zealand to create jobs, though have outperformed Hauraki businesses.

New businesses in Thames Coromandel, on the other hand, have been a more pivotal creator of jobs than other areas.

Table 11

Contributions to business jobs growth

% point contributions to total jobs growth in businesses, average 5 years to 2019

	Thames-Coromandel	Hauraki	Matamata-Piako	New Zealand
Existing	-1.0%	-2.7%	1.0%	0.3%
New	3.2%	2.8%	1.7%	2.4%
Total growth	2.2%	0.1%	2.7%	2.7%

New businesses in Thames-Coromandel on average employ 1.0 persons more than new businesses in Hauraki and 1.6 people more than new businesses in Matamata-Piako.

The average size of an existing business in Thames-Coromandel (7.7 jobs) is larger than Hauraki (6.6), but smaller than Matamata-Piako (8.6 jobs).

Table 12

Average number of employees

Per employing business, as at Feb 2019 for existing, 10 year average for births/deaths

	Thames-Coromandel	Hauraki	Matamata-Piako	New Zealand
Existing	7.7	6.6	8.6	12.1
Births	4.5	3.5	2.9	4.7
Death	4.6	5.8	3.2	6.4

Jobs in businesses in Thames-Coromandel offer lower remuneration on average than jobs in neighbouring districts, both for newly created jobs and for continuing jobs.

Table 13

Mean annual earnings in businesses*Source: Stats NZ (LEED), Jun-18 year*

	Thames-Coromandel	Hauraki	Matamata-Piako	New Zealand
New jobs	\$39,690	\$45,950	\$46,230	\$48,190
Continuing jobs	\$47,200	\$52,080	\$59,450	\$63,280
Ratio of new to continuing	0.84	0.88	0.78	0.76

Wages for newly created jobs in Thames-Coromandel have risen at a similar rate to Hauraki, and risen at a faster rate than wages for new jobs in Matamata-Piako and New Zealand.

Wages for continued jobs in Thames-Coromandel have also risen at a similar rate to Hauraki, but have underperformed wage growth for continued jobs in Matamata-Piako and New Zealand.

Table 14

Growth in mean annual earnings in businesses*Source: Stats NZ (LEED), average annual growth over 5 years to June 2018*

	Thames-Coromandel	Hauraki	Matamata-Piako	New Zealand
New jobs	5.2%	5.4%	4.3%	3.1%
Continuing jobs	2.4%	2.3%	3.0%	2.8%