



Challenger, Gray & Christmas, Inc.
The original outplacement company

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FOR IMMEDIATE RELEASE

More Job Seekers Starting Own Firms

START-UP ACTIVITY INCREASES 33%, BUT STILL TOO RISKY FOR MAJORITY OF JOBLESS

CHICAGO, August 15, 2013 – The percentage of job seekers starting their own businesses increased by 33 percent in the first half of 2013, as an improving lending market and employment picture provided both the financial and job safety nets sought by fledgling entrepreneurs. Even with the increase, however, less than five percent of managers and executives opted for self-employment over a more traditional career path, suggesting that starting a business remains far too risky for most people.

The latest data on start-up trends was released Wednesday by global outplacement and coaching consultancy Challenger, Gray & Christmas, Inc. The firm's quarterly survey of job-seeking managers and executives revealed that an average of 4.1 percent started their own business over the first two quarters of 2013. That was up from 3.0 percent of those starting businesses in the same period a year ago.

The four-quarter moving average, which stabilizes volatile quarterly data for start-up activity, increased to 4.8 percent, compared to 3.1 percent at the same point a year ago. At the beginning of 2010, the four-quarter average for portion of jobless managers and executives starting a business stood at 7.8 percent.

“We saw some solid start-up activity among job seekers just as the recovery was getting underway in late 2009. However, entrepreneurship quickly lost its allure as the recovery struggled to gain momentum and dragged on slowly for months and months. During this entire time, it was extremely difficult to even finance a start-up endeavor due to tightened lending standards. Now, we are starting to see some renewed interest,” said John A. Challenger, chief executive officer of Challenger, Gray & Christmas.

The slow rebound for start-up activity runs counter to previous recessions, when the percentage of job seekers starting businesses typically increased as soon as the recovery was underway. Following the 2001 recession, an average of 9.6 percent of job seekers started a business through four quarters of 2002. That was up from an average of 7.8 percent amid the recession in 2001.

A likely reason for the shift in post-recession start-up activity was the difficulty in obtaining loans and credit following the 2008/2009 recession. Many new business owners fund their start-ups with business and/or personal credit cards. A 2004 survey by the Kauffman Foundation, found that nearly 60 percent of entrepreneurs used credit card debt to start their business.

“In the wake of the financial meltdown, banks and credit card companies tightened their lending standards and, in many cases, lowered customers’ credit limit, in order to reduce their exposure to risk. This made it much more difficult to obtain funding to start a business or expand an existing one,” said Challenger.

A survey of small business owners by the National Federation of Independent Business found that 31 percent of firms with just one or zero employees did not even apply for credit in 2009 for fear of rejection. Nearly 50 percent of small firms with two to four employees didn’t bother to apply. Meanwhile, traditional loans were equally difficult to obtain. Commercial and industrial loans fell by 20 percent from March 2008 through June 2010, according to data from the Federal Reserve Bank of St. Louis.

The lending market has improved significantly, as banks began easing their loan requirements. The latest data from the Federal Reserve Bank show that as of the end of July outstanding consumer and business loans totaled \$7.3 trillion, up from \$7.1 trillion a year ago. The latest total surpasses the peak of \$7.2 trillion reached in October 2008, just prior to the banking collapse. Bank loans fell to a recession low of \$6.66 trillion in January 2010.

Easier-to-obtain loans and consumer credit appear to be having a positive impact on entrepreneurship. In addition to the Challenger data showing increased start-up activity among job-seeking managers and executives, the latest data from the Bureau of Labor Statistics reveal a steady increase in the number of self-employed.

The number of self-employed workers in non-agricultural industries has been on the rise since falling to 8,320,000 in September 2011. That was the lowest level of self-employment since the late 1980s. In July, there were 8,831,000 Americans categorized as unincorporated, self-employed. That remains well shy of a pre-recession peak of 9,775,000 self-employed workers in June 2007, but the numbers are heading in the right direction. The highest number of self-employed Americans was reached in April 2005, when the Bureau counted 9,896,000.

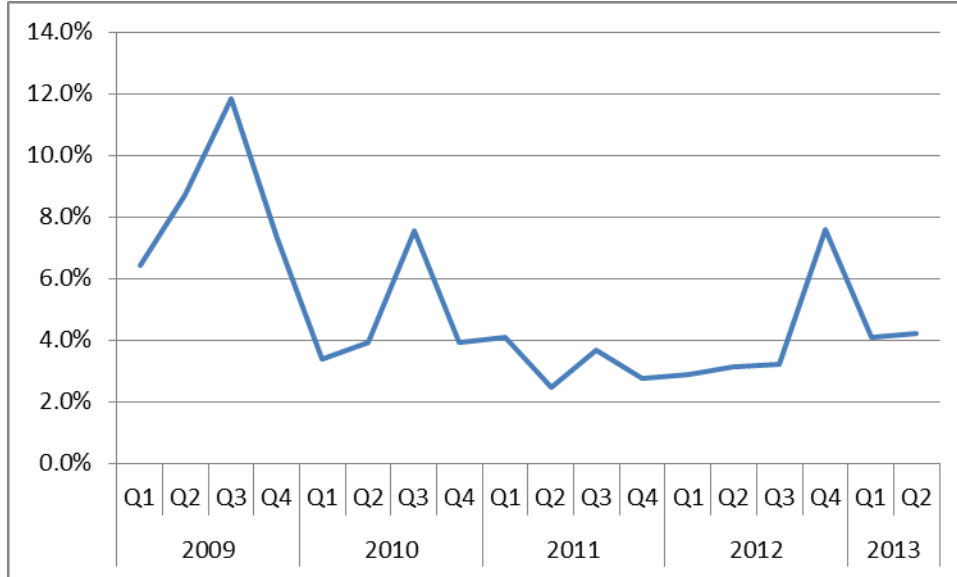
“As the lending market continues to improve, we are likely to see an increase in the number of people willing to take on the risk of entrepreneurship. As our numbers suggest, however, only a small number of those pursuing self-employment may come from the pool of out-of-work job seekers, particularly as the traditional job market continues to gain steam. There simply may be too much financial uncertainty for this population, whose savings may have already taken a hit due to job loss,” said Challenger.

“That is not to say that these individuals will not pursue entrepreneurship once they secure traditional employment. This would have been difficult a decade ago, but the widespread availability of reasonably priced high-speed internet, plus increasing portable technology, have made it possible to run a business from anywhere at any time. It is estimated that nearly two-thirds of small business owners work at full or part-time jobs while trying to get their entrepreneurial ventures off the ground,” noted Challenger.

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Percentage of Job Seekers Starting Their Own Business Quarterly, 2009 – 2013



Percentage of Job Seekers Starting Their Own Business Four-Quarter Moving Average, 2010 - 2013

