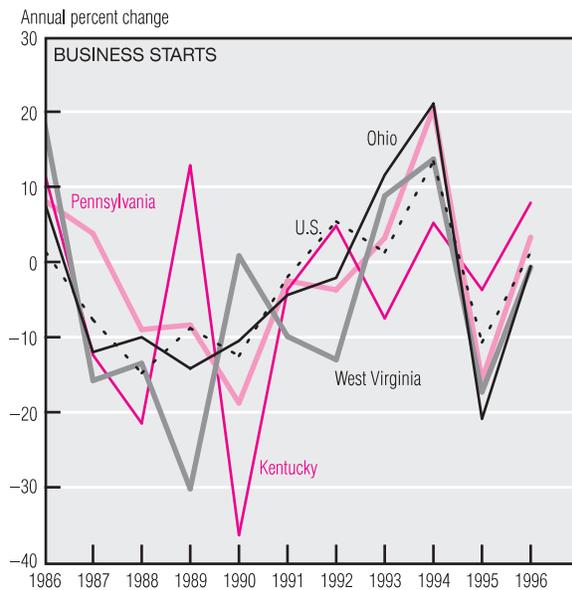
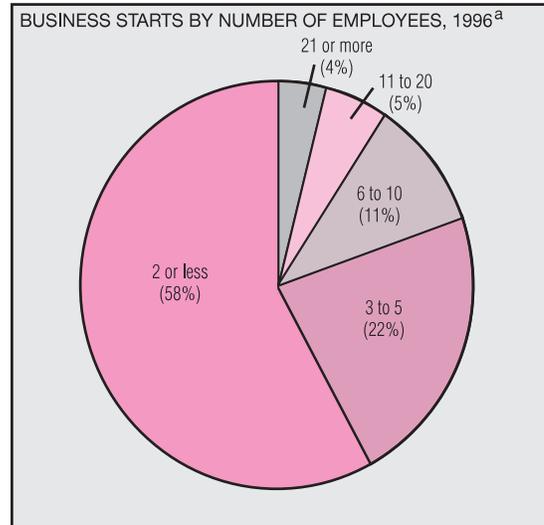


New Business Formation

	Number of firms		Percent change
	1995	1996	
New England	9,250	8,960	-3.1
Middle Atlantic	30,011	30,137	0.4
East North Central	23,465	23,280	-0.8
West North Central	8,731	8,390	-3.9
South Atlantic	32,195	32,142	-0.2
East South Atlantic	7,643	7,994	4.6
West South Central	16,435	17,240	4.9
Mountain	11,115	12,262	10.3
Pacific	29,313	30,070	2.6
Total	168,158	170,475	1.4



	KY	OH	PA	WV	4D ^b	U.S.
Agriculture, forestry, fishing	1.7	1.6	1.5	1.1	1.5	1.5
Mining	3.4	0.5	0.4	7.6	1.2	0.6
Construction	12.8	15.3	17.3	11.5	15.7	12.7
Manufacturing	7.7	10.1	7.8	6.2	8.6	8.7
TPU ^c	4.1	4.3	3.1	3.8	3.7	3.8
Wholesale/retail trade	43.6	34.4	35.1	41.0	36.2	37.6
FIRE ^d	4.3	5.9	5.8	4.1	5.6	6.4
Services	20.8	23.7	24.2	21.1	23.5	24.3
Unclassifiable	1.6	4.0	4.7	3.8	4.0	4.3

a. Percent of starts is shown in parentheses.
b. Fourth Federal Reserve District.
c. Transportation and public utilities.
d. Finance, insurance, and real estate.
SOURCE: Dun & Bradstreet.

In 1996, more than 170,000 new businesses were formed in the U.S., up 1.4% from the previous year. The increase, however, was not uniformly distributed. In fact, the number of regions experiencing declines nearly equaled the number that saw gains. Regional variations may reflect the disparate influences of economic shocks and disturbances.

Most new businesses start very small. In 1996, nearly 60% involved no more than two individuals, and

80% consisted of five employees or less. Nonetheless, the cumulative economic impact of these firms is important. A back-of-the-envelope calculation suggests that start-ups created approximately 750,000 new jobs last year. This does not imply that employment in the entire economy increases by an equal amount, however. Many jobs created through business formations draw workers away from other sectors of the economy. Presumably, though, new

business formation enhances overall worker productivity, because newly created jobs replace those using older, less efficient technologies and those in declining industries.

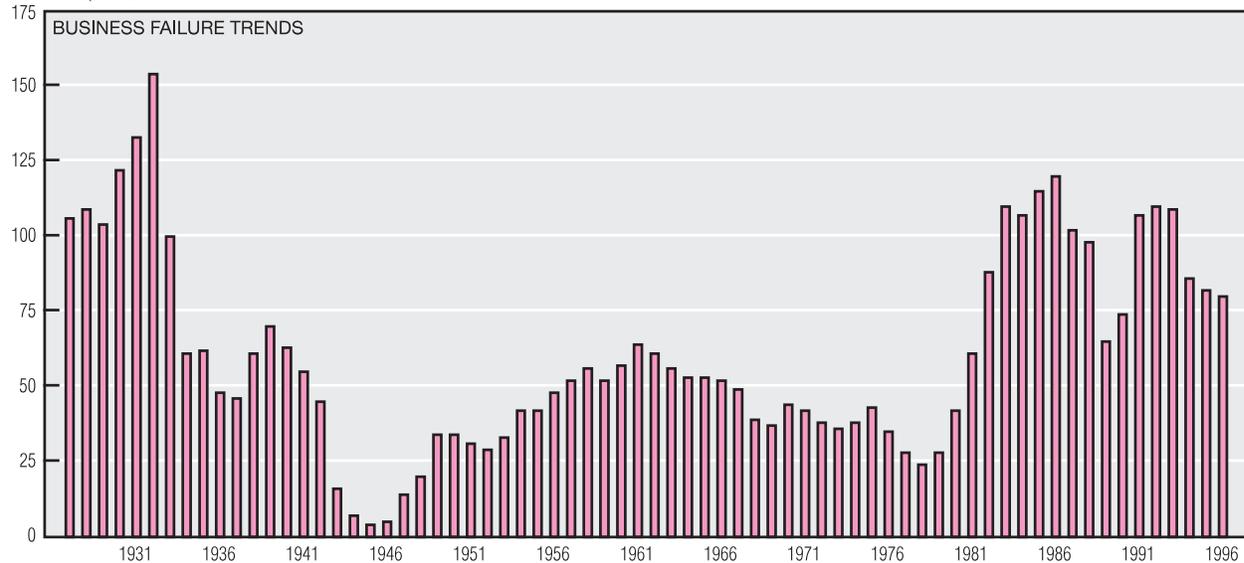
Business starts in the Federal Reserve's Fourth District have been quite variable in the last decade or so, especially in Kentucky and West Virginia. Overall, however, business formation in the District mirrors national trends.

(continued on next page)

New Business Formation (cont.)

Business Failures, 1995 (Percent)										
Age of business	Agriculture, forestry, fishing	Mining	Construction	Mfg.	TPU ^a	Wholesale trade	Retail trade	FIRE ^b	Services	Total
1 year or less	7.9	7.0	4.4	6.6	9.0	5.8	9.6	7.5	9.9	7.9
2 years	6.5	7.0	5.3	7.8	8.7	8.4	10.6	6.7	8.1	8.2
3 years	5.4	9.2	6.9	9.2	8.5	9.2	9.8	6.2	8.5	8.6
4 years	4.3	5.6	6.4	8.9	8.7	8.7	9.3	7.1	8.3	8.2
5 years	4.4	7.8	7.1	6.9	7.6	6.9	7.2	6.1	6.9	7.0
Total 5 years or less	28.5	36.6	30.1	39.4	42.5	39.0	46.5	33.6	41.7	39.9
6 years	5.5	2.1	7.0	7.3	5.6	6.9	6.5	5.3	6.3	6.5
7 years	5.5	4.9	6.1	5.2	5.7	5.1	5.7	6.5	5.4	5.6
8 years	4.7	6.4	5.6	5.5	5.0	4.7	4.9	6.0	5.7	5.3
9 years	3.4	3.5	5.3	4.4	5.2	4.3	4.4	6.0	4.4	4.6
10 years	3.9	4.9	4.6	3.7	5.0	5.1	3.7	5.9	4.1	4.3
Total 6-10 years	23.0	21.8	28.6	26.1	26.5	26.1	25.2	29.7	25.9	26.3
Over 10 years	48.5	41.6	41.3	34.5	31.0	34.9	28.3	36.7	32.4	33.8

Failure rate per 10,000 listed concerns



a. Transportation and public utilities.

b. Finance, insurance, and real estate.

SOURCE: Dun & Bradstreet.

Since 1985, more than 60% of all U.S. business formations have occurred in two industries: services and wholesale/retail trade. Although the industrial composition of Fourth District start-ups is similar to that of the nation as a whole, mining starts are twice the U.S. average. In West Virginia and Kentucky, mining accounts for nearly 8% and 3.4%, respectively, of all business starts. Nationwide, this share is only 0.6%. Both Ohio and Pennsylvania far exceed the national average for busi-

ness starts in construction.

Business failures often accompany business formations, and most new enterprises, especially in retail trade and services, die young. Nearly 40% of all new businesses fold within five years, and fully two-thirds founder within 10.

Broad cyclical movements appear in the pattern of business failures. Failure rates went from a historic high of more than 150 per 10,000 listed concerns in 1932, during the depths of the Great Depression, to a

historic low of less than five by the end of World War II. After remaining fairly stable for 30 years, failure rates rose dramatically in the early 1980s and now stand at levels similar to those of the 1920s and 1930s. These numbers must be put into proper perspective, however. The structure of today's economy seems more flexible than 60 years ago, in that it is capable of accommodating a greater number of start-ups and failures without calamity.