

August, 2010

SELF-EMPLOYMENT

In California, 2009

This report presents estimates of the number of self-employed Californians in 2009. A discussion of historical trends and data concerning the incidence of self-employment by economic and demographic group are also presented.

This report is based on special tabulations from the Current Population Survey (CPS), a monthly survey of households conducted by the U.S. Bureau of the Census for the U.S. Bureau of Labor Statistics. The data in this report are subject to the definitions and sampling errors inherent in the CPS, which are presented in the "Data Notes" beginning on page 6.

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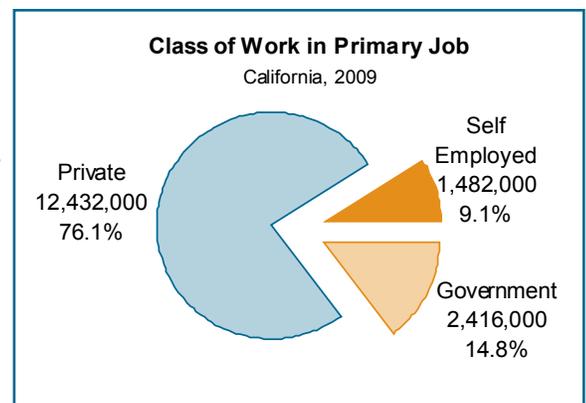
California's Self-Employed Workforce

In 2009, there were an estimated 1.5 million Californians whose primary job¹ was working in their own business, accounting for 9.1 percent of total civilian employment (see Figure 1). Self-employment is more common in California than the rest of the nation, where the self-employed made up 7.0 percent of total civilian employment in 2009.

The vast majority of California's self-employed workforce (97.3 percent) is in nonagricultural industries where the self-employed comprise 9.0 percent of total employment. Agriculture accounts for 2.7 percent of all self-employment. Within agriculture, 40,000 persons (15.0 percent) are self-employed.

The self-employed are individuals who work in their own non-incorporated business whereas those who work in their own incorporated business are counted not as self-employed but as wage and salary workers³. This reflects the fact that under incorporation, compensation for work – even to the owner – is paid and reported to tax authorities as wages.

Figure 1²



Source: Current Population Survey

Self-Employment Has Declined During The Recession

Historical levels of California self-employment are shown in Figure 2. The number of self-employed Californians in 2009 was down 254,000 persons (14.6 percent) compared to the peak in 2006 of more than 1.7 million. This was the lowest level of self-employment since 2002.

Figure 2



Source: Current Population Survey

¹ For this report, persons are counted only once, even if they hold multiple jobs, and are classified according to the job in which they worked the greatest number of hours during the survey week.

² The data used in creation of this chart represent raw CPS extractions that have not been adjusted using the official BLS labor model as seen in later charts and tables.

³ Wage and salary workers are workers who receive wages, salaries, commissions, tips, payment in kind, or piece rates. The group includes employees in both the private and public sector.

During the mid-to-late 1990s, self-employment rose. At that time, California was the focal point of high-technology information industries in the Silicon Valley. In an industry this new, with the Internet growing rapidly, many of these businesses were entrepreneurial start-ups that contained a high percent of self-employed. When the dot-com bubble burst in the early 2000s, many of these small start-ups failed, resulting in a large decline in self-employment.

In subsequent years, self-employment recorded large growth, which continued during the years leading up to the current recession. From 2002 to 2006, the number of self-employed increased by 271,000 persons, an 18.5 percent increase. During the same time period, total civilian employment rose by 767,000 persons, an increase of only 4.7 percent.

Self-employment was more negatively affected by the current recession than the overall labor market. As the recession took hold in California in 2007, self-employment again began to decline. From 2007 to 2009, self-employment fell by 12.9 percent. This was a much faster drop than the 4.7 percent decline of total civilian employment.

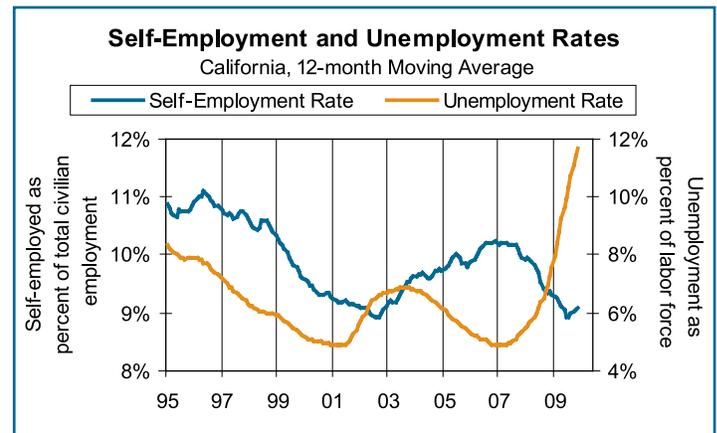
The rapid rise and subsequent rapid decline in self-employment since late 2002, appears linked to the overheated housing market in California. The construction and finance, insurance, and real estate industry sectors each have a relatively high percentage of self-employed workers. These sectors expanded rapidly through the last economic expansion and were among those sectors hardest hit by the “Great Recession.” These trends greatly influenced the self-employment rate—the measurement of self-employment as a percent of total employment—due to the large number of self-employed workers in the two industry sectors.

Due to the link with the housing-related industry sectors, self-employment broke with its previously counter-cyclical nature during this most recent economic cycle. The self-employment rate illustrates this change. Prior to the early 2000s, the unemployment rate and self-employment rate generally moved in the same direction. However, beginning at the start of the last economic expansion, and continuing through the

current recession, the self-employment rate and unemployment rate trends began to diverge and move in opposite directions.

Figure 3 demonstrates these divergent trends by comparing the 12-month moving average of self-employment and unemployment rates from 1995 to present.

Figure 3



Source: Current Population Survey

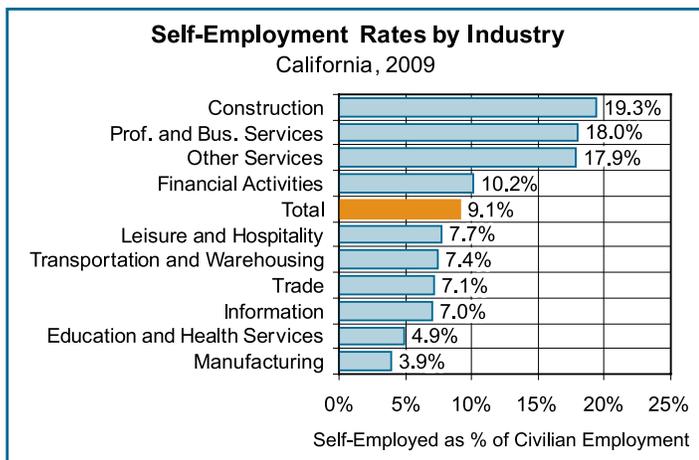
The Self-Employed Are Largely In Service Industries And Professional Occupations

The largest number of self-employed individuals work in the professional and business services sector. In 2009, 24.2 percent of self-employed Californians worked in professional and business services industries. The next largest self-employment sector is in construction, which accounted for 13.6 percent of the self-employed in 2009.

The large number of self-employed in professional and business services reflects that sector’s composition rather than its size—the sector was only 12.2 percent of total civilian employment. Many professional occupations that can “stand alone” as a business, such as accountants, consultants, and lawyers, are in this sector.

Self-employment is more prevalent in industries with low barriers to entry⁴ and less prevalent in industries where there are significant economies of large-scale production. As shown in Figure 4, self-employment as a share of total employment⁵ is above the economy-wide average in construction, professional and business services, other services, and financial activities. Self-employment rates in leisure and hospitality, transportation and warehousing, trade, information, education and health services, and manufacturing are below the economy-wide rate.

Figure 4



Source: Current Population Survey

Of the five major occupational groups, two have larger shares of self-employment than their total employment shares: manager and professional specialty occupations (41.8 percent); and service occupations (20.6 percent). These same two occupational groups also have higher rates of self-employment than total civilian employment (see Figure 5). Service occupations have the highest rate of self-employment (10.2 percent), followed closely by manager and professional specialty occupations (9.9 percent). Precision production, craft and repair occupations

(7.3 percent), and technical sales and administrative support occupations (7.0 percent) have the lowest rate of self-employment.

Figure 5

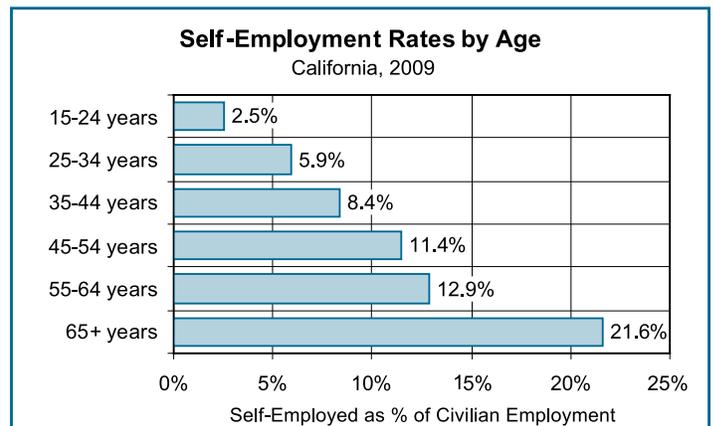


Source: Current Population Survey

Self-Employment Rates Increase Continuously With Age

Men made up 60.0 percent of the self-employed in 2009, slightly higher than their share of total employment (54.3 percent). Correspondingly, women made up 40.0 percent of the self-employed, compared to 45.7 percent of total employment. Self-employment is positively correlated with age, because age is correlated with work experience, knowledge, skills, and accumulated personal assets – key factors to succeeding in one's own business. As a result, self-employment rates increase continuously with age (see Figure 6).

Figure 6



Source: Current Population Survey

⁴ Barriers to entry are impediments to the entry of new firms into an industry. Examples include licensing and bonding regulations, patent laws, and control of crucial resources. The strength of a company and brand loyalty are examples of less formal barriers to entry.

⁵ Self-employment rate is the percent within the specified demographic group who are self-employed versus all those within the group who are employed.

Nearly one quarter of employed Californians 65 years and older was self-employed in 2009. However, these older workers made up a small percentage of total employment. The majority of the self-employed (71.3 percent) were between 35 and 64 years of age (see Table 2).

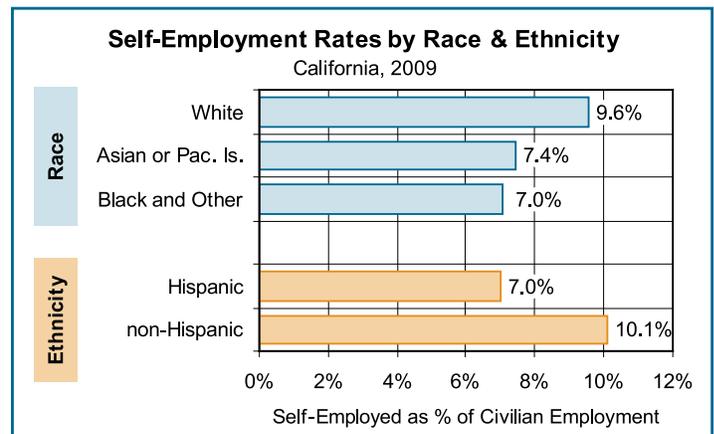
Self-Employment Rates Are Lowest Among Minority Populations

Comparing self-employed workers by race shows that 82.4 percent of self-employed Californians were White, while Asians comprised 11.1 percent and the Black and Other racial category comprised 6.5 percent of all self-employed workers. The share for Whites was slightly higher than their share of civilian employment, while the shares for Asians and Blacks were slightly below their shares of civilian employment. By ethnicity, 25.7 percent of all self-employed California workers were Hispanic in 2009 compared to their 33.3 percent share of civilian employment.

Figure 7 illustrates the self-employment rates by race and further emphasizes the low rates of self-employment amongst minority populations. Self-employed workers

accounted for 9.6 percent of all white employed persons in California during 2009. The self-employment rate among Asians was 7.4 percent and the rate for the Black and Other worker category was 7.0 percent. When compared by ethnicity, non-Hispanic self-employed workers accounted for 10.1 percent of all non-Hispanic workers, while self-employed Hispanic workers accounted for 7.0 percent of all Hispanic workers.

Figure 7



Source: Current Population Survey

Table 1
Self-Employment in California
Unincorporated Businesses
(Annual Average)

Year	Thousands of Persons	Percent Change	As Percent of Total Civilian Employment
1995	1,518		10.8%
1996	1,549	2.0%	10.8%
1997	1,579	2.0%	10.7%
1998	1,582	0.2%	10.4%
1999	1,501	-5.2%	9.6%
2000	1,497	-0.2%	9.3%
2001	1,480	-1.1%	9.1%
2002	1,465	-1.0%	9.1%
2003	1,553	6.1%	9.6%
2004	1,598	2.9%	9.8%
2005	1,632	2.2%	9.8%
2006	1,736	6.4%	10.2%
2007	1,702	-2.0%	9.9%
2008	1,598	-6.1%	9.4%
2009	1,482	-7.3%	9.1%

Source: Current Population Survey

Table 2*
Demographic Characteristics of the Self-Employed
 California, 2009

Characteristic	Self-Employed		Share of Total Employment	Self-Employment Rate (Percent of Employment)	Notes
	Persons	Share of Self-Employed			
Total	1,438,000	100.0%	100.0%	9.1%	
Gender					
Male	863,000	60.0%	54.3%	10.0%	
Female	575,000	40.0%	45.7%	7.9%	
Total	1,438,000	100.0%	100.0%	9.1%	
Age					
15-24 years	50,000	3.5%	12.6%	2.5%	
25-34 years	212,000	14.8%	22.7%	5.9%	
35-44 years	311,000	21.6%	23.2%	8.4%	
45-54 years	423,000	29.4%	23.2%	11.5%	
55-64 years	291,000	20.2%	14.2%	13.0%	
65 years and older	150,000	10.5%	4.1%	23.3%	
Total	1,438,000	100.0%	100.0%	9.1%	
Race					
White	1,185,000	82.4%	78.1%	9.6%	
Asian or Pacific Islander	160,000	11.1%	13.5%	7.4%	
Black and Other	93,000	6.5%	8.3%	7.0%	
Total	1,438,000	100.0%	100.0%	9.1%	
Origin					
Hispanic	369,000	25.7%	33.3%	7.0%	
non-Hispanic	1,069,000	74.3%	66.7%	10.1%	
Total	1,438,000	100.0%	100.0%	9.1%	
Industry					
Agriculture	39,000	2.7%	1.7%	15.0%	
Construction	196,000	13.6%	6.4%	19.3%	
Manufacturing	64,000	4.4%	10.3%	3.9%	
Transportation, Warehousing and Util.	56,000	3.9%	4.7%	7.4%	
Trade	156,000	10.8%	13.8%	7.1%	
Information	37,000	2.6%	3.3%	7.0%	
Financial Activities	107,000	7.5%	6.7%	10.2%	
Professional and Business Services	349,000	24.2%	12.2%	18.0%	
Education and Health Services	163,000	11.3%	21.1%	4.9%	
Leisure and Hospitality	117,000	8.1%	9.6%	7.7%	
Other Services	154,000	10.7%	5.4%	17.9%	
Government	0	0.0%	4.6%	0.0%	
Total	1,438,000	100.0%	100.0%	9.1%	
Occupation					
Manager and Professional Specialty	601,000	41.8%	38.1%	9.9%	
Technical, Sales, and Admin. Support	268,000	18.6%	24.0%	7.0%	
Service Occupations	296,000	20.6%	18.2%	10.2%	
Precision Production, Craft and Repair	36,000	2.5%	3.1%	7.3%	
Oper., Fabric., & Laborers and Other	237,000	16.5%	16.5%	9.0%	(1), (2)
Total	1,438,000	100.0%	100.0%	9.1%	

(1) The difference between the share of self-employed and the share of total employment is not statistically significant at the 90 percent confidence level.

(2) The difference between the rate of self-employment for the group and the rate of self-employment for total employment is not statistically significant at the 90 percent confidence level.

*NOTE: The values presented in this table have been adjusted to the official BLS employment totals (2008 benchmark) and therefore differ from raw CPS estimates.

Source:

Characteristics data in this report (that is, ratios of employment by class of work and demographic group) are from the Current Population Survey (CPS), a monthly survey of households conducted by the U.S. Bureau of the Census for the U.S. Bureau of Labor Statistics (BLS).

Data were obtained from special tabulations of CPS microdata using the Census Bureau Data FERRET utility.

Estimates of employment levels were derived by applying characteristic ratios from the CPS to official estimates of California civilian employment (2008 benchmark), which are derived from a BLS regression model.

Data Notes

Definitions:

Employed: A person who worked one or more hours for pay or in a family business during the reference week.

Primary job: The job in which an individual worked the most hours during the survey reference week.

Self-employed: A class of work, where the individual's current, primary job is working in their own, unincorporated business. Other possible classes of work are wage and salary worker for private employers, wage and salary worker for government employers, and worker without pay in a family business.

Rounding of Estimates: The sums of individual items may not always equal the totals shown in the same tables because of independent rounding of total and components. Percentages were calculated from unrounded data, then rounded to the nearest whole percentage point. Therefore, sums of percent distributions may not always equal 100 percent.

Accuracy Statement: When a sample rather than the entire population is surveyed, estimates differ from the true population values that they represent. The sample estimate and its standard error can be used to construct approximate confidence intervals, or ranges of values, that include the true population value with known probabilities. As an illustration of the statistical significance of data presented in this report, at the 90 percent confidence level, self-employment rate in 2009 was 9.1 percent, plus or minus 0.1 percentage point. Other things being equal, confidence intervals are wider around estimated percentages near 50 percent than around percentages nearer 0 or 100 percent. The 90 percent confidence interval for estimated levels indicate the number of self-employed was 1,438,000 plus or minus 70,000.



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