Tracking business dynamism in real-time in UK data

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We need more research on **UK** business dynamism

- Decline in business dynamism: solid evidence in the US (Akcigit and Ates, 2021), mixed evidence across the Atlantic (Biondi et al., 2025; Gutiérrez and Philippon, 2019).
- UK different from US on many dimensions: increase in market power (Competition and Markets Authority, 2024), but no decline in the labor share (Gutiérrez and Piton, 2020) or start-up rates (to follow!)
- But big UK challenge is data: e.g. recent (and ongoing) ONS data revisions leads to an important reassessment of UK 'excess weakness'/'productivity puzzle' –UK looking more similar to other countries now.

→ Calls for further research on UK data to explore UK specificity.

→ All the more important now that we observe an increased divergence in performance across the Atlantic driven by tech (active debate around 'Eurosclerosis' vs. US productivity revival, see e.g. Krugman, 2025).

My talk today: opportunities from UK real-time business creation data.

Measuring business dynamism in the UK

Companies House (sourced from BvD-FAME):

- Registry of all incorporated entities in the UK. Daily incorporations/dissolutions.

→ Separate legal entity with their own balance sheet – needed to have any sort of separate financial arrangements (e.g. bank account, limited liability). Not necessarily to employ workers.

→ By contrast, US Census Bureau's Business Formation Statistics (BFS) cover applications for new employer businesses and only predict firm entry.

- Includes many firm characteristics (location, main sector of activity, ownership and directorship), and firms declare accounts with balance sheet information by ∼18 months.

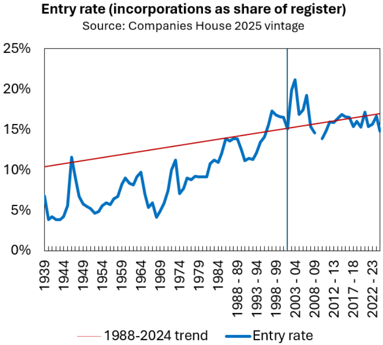
ONS Inter-Departmental Business Register (IDBR):

- Business register using Value Added Tax (VAT) and Pay As You Earn (PAYE) records from HMRC.

→ Covers a broader set of firms (not only incorporated ones) but at a later stage in life, i.e. when firms become employers or start paying VAT.

→ Entry usually larger in Companies House and leads IDBR by a year on average (Bahaj et al., 2024).

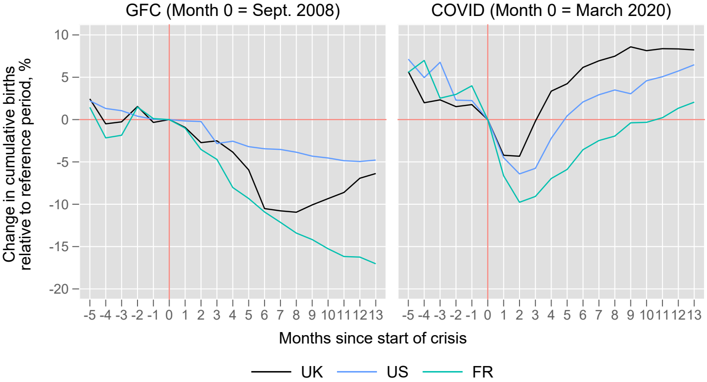
Historical perspective: is there a decline in UK business dynamism?



Source: Longitudinal Business Database from the Office for National Statistics

Covid and the surge in business creation

Figure: Cumulative business registrations, Global Financial Crisis (GFC) vs. COVID, for UK, United States, France
Source: Bahaj et al. (2024).



Note: registrations of corporations or equivalent. Reference period: similar month of 2018 for COVID, 2006 for the GFC.

US trends: a response to the pandemic but also dynamism in tech

Decker and Haltiwanger (2024):

- Surge was genuine: confirmed by BDS firm births (comprehensive employer definition) — not just gig economy or EIN filings.
- High-tech dimension: surge concentrated in high-tech but also pandemic-friendly industries (online retail); also reflects a geographic shift to suburbs and Sunbelt.
- Entry still elevated: business applications and establishment births remain above pre-pandemic norms through mid-2024 — though cooling.

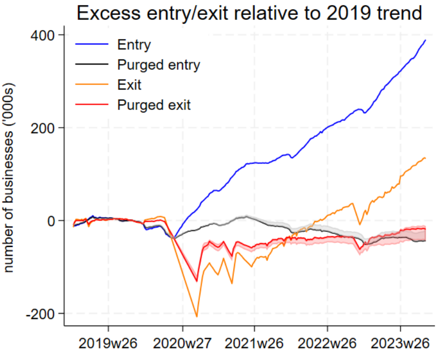
$\rightarrow$ What about the UK?

UK trends: mostly a response to the pandemic

Bahaj et al. (2024):

- Surge had little employment impact: flat entry rate in Companies House if excluding firms that dissolved within 2 years, no surge in IDBR.
- Pandemic dimension dominated: disproportionately concentrated in the online retail sector.
- Lack of entrepreneurial experience: new firms were founded by individuals ('solo entrepreneurs') starting up their first business, and this is the primary contributor to limited employment creation (not industry composition).
- Exit elevated now: reflects the fact that most of these firms dissolved in their first couple of years of existence.

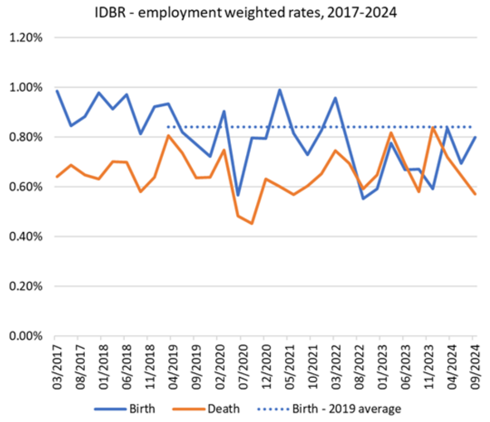
The UK surge in business creation had little persistent impacts



Shaded areas includes esimates for different measures of purging.
Line chart shown is exit within 24 months of incorporation.

- Raw vs. purged entry/exit: removes firms that dissolve within two years of incorporation.
- No increase in entry nor exit if excluding firms born during Covid and exiting within 2 years.
- Source: Barkema et al. (2024).

Data from IDBR shows no employment creation from new firms



- No surge in business creation since Covid in the IDBR, and no additional contribution of entry to employment creation.
- No net employment creation from the extensive margin (entering firms − exiting firms) since mid-2022.

Avenues for future research

Companies House offers unique opportunities: real-time, granular firm characteristics (ownership, directorship), easily linked to other datasets.

- Predicting high-propensity business creation in real time.
  Can firm characteristics in CH predict which new entrants will become employers? Covid showed raw incorporation counts are not sufficient statistics for macroeconomic forecasting.
- Who starts firms in the UK?
  CH records historical ownership and directorship. Pandemic evidence suggests *who* starts firms matters for employment outcomes — is this a general feature of recessions?
- Financial barriers to dynamism.
  Linking CH to Experian credit data, Indeed job vacancies, and patent data to study access to credit, firm growth, and innovation.

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