

Rural-urban differences in firm creations

Urban regions have higher rates of firm creation than rural regions.

The urban-rural divide in economic activity is at the core of regional differences in firm creations in OECD countries. On average, in 2015, 51% of new firms were created in predominantly urban regions, 36 % in intermediate regions and 13% in predominantly rural regions. The larger shares of new firms in intermediate and predominantly urban regions are partly explained by their larger proportion of all firms. However, firm creation rates are also highest in predominantly urban regions when controlling for the relative size of the respective firm populations. This pattern is fairly universal and was observed in 12 out of the 14 countries studied (Figure 1.25). The two exceptions were Hungary and Slovakia, where firm creation rates were higher in predominantly rural regions. In most countries, intermediate regions record firm creations that fall between the rates observed in predominantly urban and predominantly rural regions.

Net firm creation rates, i.e. the difference between firm creation and closure rates, also tended to be highest in predominantly urban regions (Figure 1.26). On average, net firm creation in predominantly urban regions was equivalent to 1.5% of the entire firm population. For intermediate and predominantly rural regions, net firm

creations constituted around 1% and 0.8% of the firm population, respectively.

The differences in firm dynamics between rural, urban and intermediate regions are reflected in the sectoral composition of new firms. Around 60% of new businesses in the financial sector as well as in information and communication are created in urban regions (Figure 1.27). About 40% of new firms in intermediate regions are created in industry (including manufacturing) and in construction, sectors that have high physical space requirements and benefit from easy access to large markets as well as transportation networks. In rural regions, on the other end of the spectrum, the hospitality sector accounts for a relatively large share (up to 20%) of new firm creations, reflecting the vitality of tourism in rural areas. In general, firm creation rates are higher in the service sector than in the rest of the economy. The service sector is overrepresented in urban areas, which at least partially explains differences in firm dynamics between rural, urban, and intermediate regions.

Source

OECD (2018), OECD Regional Statistics (database), <http://dx.doi.org/10.1787/region-data-en>.

Reference years and territorial level

2015 or latest available year. TL3 regions.

Further information

OECD (2017), *The Geography of Firm Dynamics: Measuring Business Demography for Regional Development*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264286764-en>.

Figure notes

1.25-1.27: Firm creation and firm closure rates are calculated for firms with employees (employer firms) and ISIC Rev. 4 sectors B to S. Countries included are Austria, Czech Republic, Denmark, Estonia, Finland, France, Hungary, Israel, Italy, Korea, Latvia, Norway, Spain, Poland, Portugal, Slovak Republic, Switzerland, and United Kingdom. Statistics are based on employer firms where such data are available. In Korea and Poland, all firms including non-employer firms are considered.

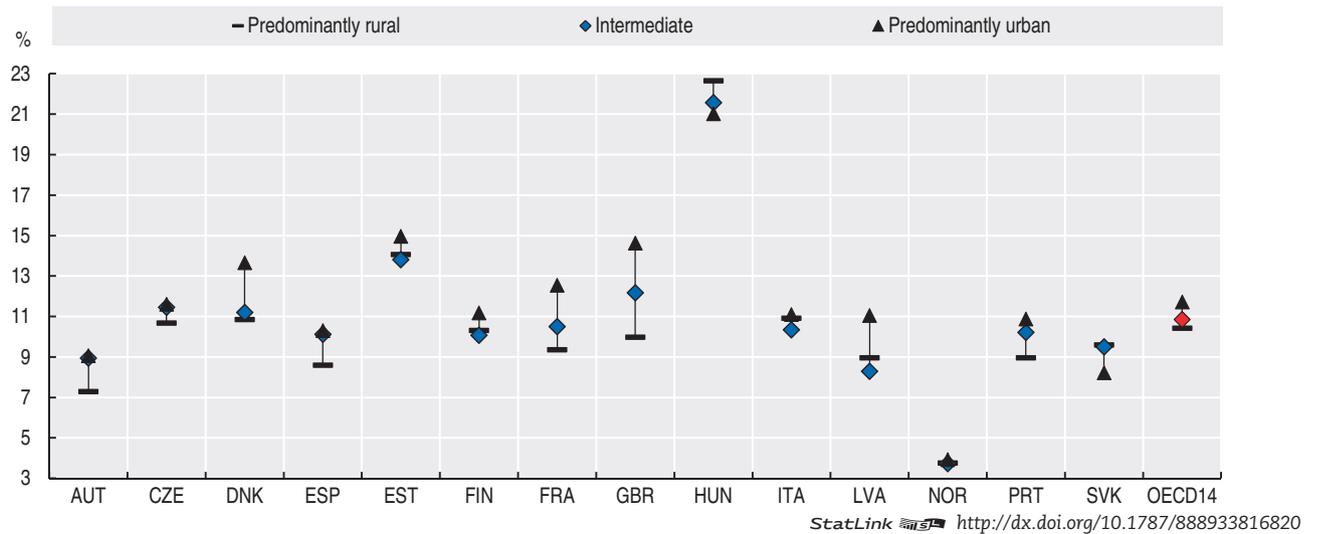
Definition

Enterprise: Smallest combination of legal units producing goods and services that benefit from a certain degree of autonomy in decision making.

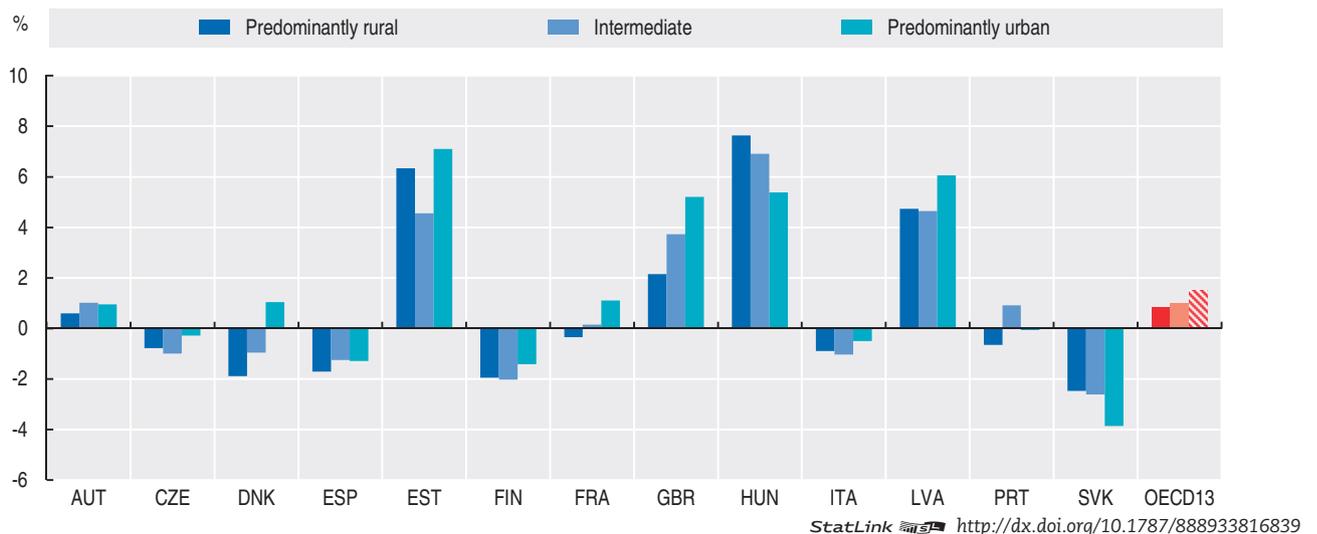
Enterprise birth: Creation of a combination of production factors with the restriction that no other enterprise is involved in the event. Excludes entries in the business population due to reactivations, mergers, break-ups, split-offs and restructuring. Firm birth rate is the ratio of new firms to active firms

Enterprise death: Dissolution of a combination of production factors with the restriction that no other enterprises are involved in the event. Excludes exits from the population due to mergers, take-overs, break-ups and restructuring of a set of enterprises. Firm death rate is the number of firm deaths relative to active firms.

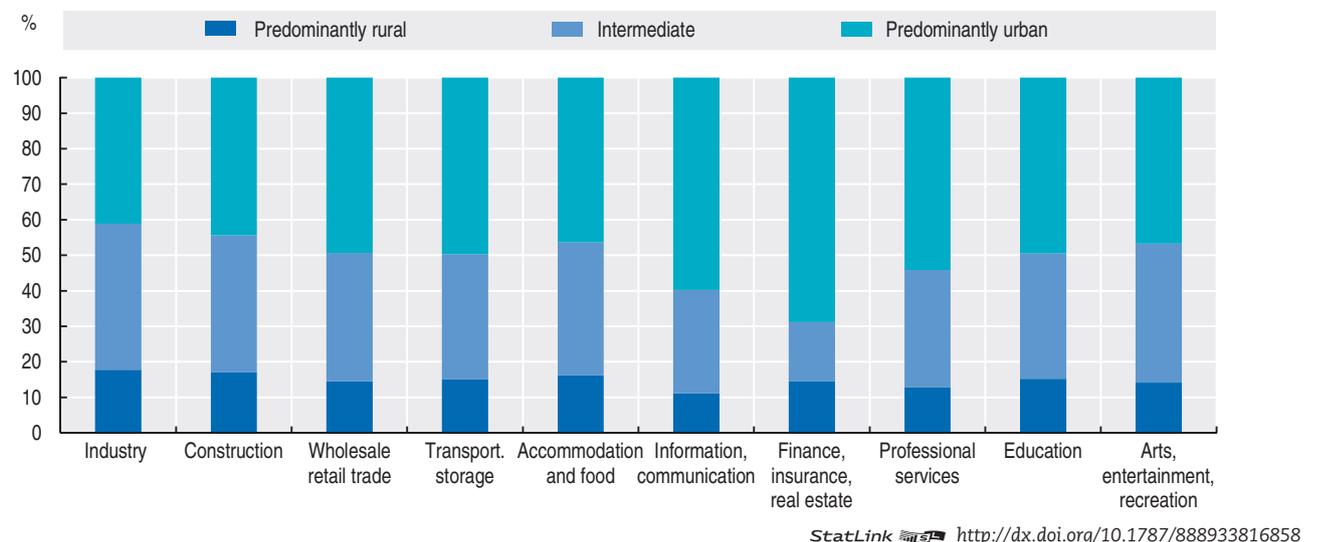
1.25. Firm creation rates by country and type of region, 2015

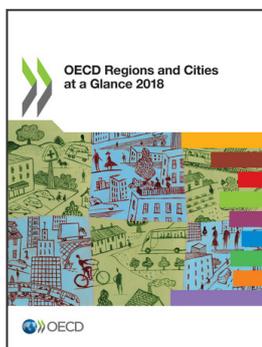


1.26. Firm net creation rate by type of region, 2015



1.27. Firm creations by sector and type of region, 2015





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