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Regional Spotlight

How Third District Firms Were Impacted by COVID-19

The first few weeks of our special COVID Survey tell us a lot about how businesses fared during unprecedented times.

BY ELIF SEN

The Philadelphia Fed's Research Department has long conducted monthly and quarterly Business Outlook Surveys, which help us assess economic conditions in our region. The speed and severity of the COVID-19 crisis, however, prompted us to create a new Special Weekly Business Outlook Survey on the COVID-19 Outbreak (COVID Survey). This new survey focused on questions specific to COVID-19 and related issues and policies. This article describes the construction of our COVID Survey and identifies the weekly survey's main finding: Business conditions deteriorated in April and somewhat stabilized in May, and firms applying for funds through the Paycheck Protection Program (PPP) experienced delays. However, these were largely resolved within a few weeks.

Background

As March began, it was still business as usual for the Business Outlook Surveys. We had just finalized questions for our monthly March surveys, and the main virus-related concern was supply chain disruptions in the manufacturing sector.

But by the time we closed the survey and processed the responses during the week of March 16, the U.S. had declared a national emergency and several states, including Pennsylvania, New Jersey, and Delaware, had shut down or issued stay-at-home orders. Given how quickly COVID-19 was changing the economy and our everyday lives, we knew we needed a weekly survey to understand how our region's firms were affected by and responding to the pandemic. Our new COVID Survey allowed us to focus on actual and realized impacts and avoid forward-looking or speculative questions. We avoided those questions partly because the pandemic created so much uncertainty about the future.

In each weekly COVID Survey, we asked respondents in the region to compare the previous week's new orders or sales with what they expected prior to the pandemic. For the first 12 weeks, we also asked them what actions they had taken in response to the pandemic and its associated effects. In weeks 13 through 16, we asked about specific changes they made to their labor force, and about impediments to hiring or recalling workers.

We asked some additional questions on a rotating four-week basis over the first 12 weeks. These questions addressed a range of topics, including the influence of different factors on new orders or sales, concerns about credit issues, and sources and utilization of financial assistance, including the PPP loans from the Small Business Administration (SBA).

We conducted the weekly survey for the week ending March 22 through the week ending July 5.[1] This article focuses on results from those 16 weeks.

Headline Impacts Question

In each week's survey, responding firms selected one of the following options to describe the impact of the pandemic on the past week's new orders or sales relative to what they had expected prior to the outbreak:

- Increase of 15% or more
- Increase of 5% to 15%
- Roughly little to no change, between −5% and 5%
- Decrease of −15% to −5%
- Decrease of −30% to −15%
- Decrease of −60% to −30%
- Decrease of −60% or below
- We shut down temporarily (or remained shut down)
- We closed permanently (or remained closed)

During these weeks,[2] a majority of firms (67 percent) reported a decrease in new orders or sales on average, far exceeding the 9 percent of firms reporting an increase. Conditions improved over the 16 weeks, with an average of 15 percent of firms reporting growth in new orders or sales in June and early July, following the easing of stay-at-home-orders in the states of the Third District in late May and June.

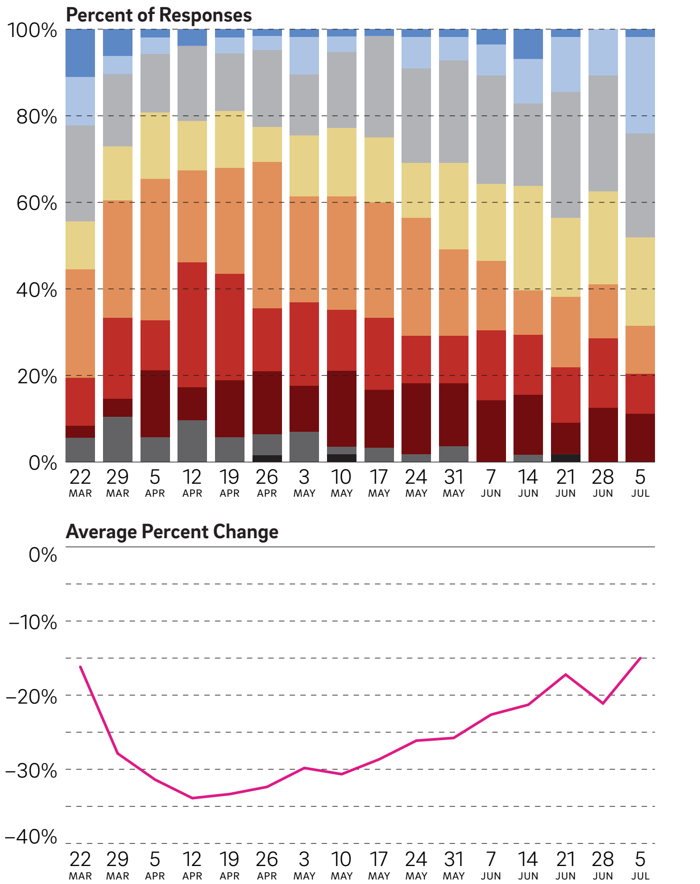
It's difficult to compare over time all firms' reported changes in new orders or sales, so we quantified the responses by using the midpoint of each answer option range as an average change for each group.[3] We then compared these averages from week to week.[4]

The average percent change in new orders or sales suggests that Third District firms continued to experience fairly large declines in new orders or sales of around −15 percent as of early July (Figure 1). However, these declines are an improvement on the average of −34 percent in mid-April.[5] Nonmanufacturing firms experienced sharper declines in new orders or sales than manufacturing firms, as stay-at-home orders dramatically affected certain nonmanufacturing sectors, such as retail and leisure and hospitality (Figure 2).

FIGURE 1

Firms Experienced Declines in New Orders or Sales

Percent of responses and average percent change, firms reporting in 11 of 16 weeks



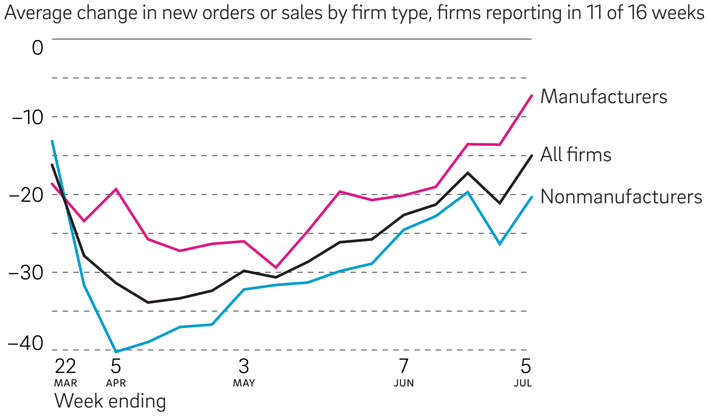
Source: Federal Reserve Bank of Philadelphia, COVID-19 Business Outlook Survey.

FIGURE 2

Nonmanufacturing Firms Experienced Sharper Declines in New Orders or Sales

Stay-at-home orders dramatically affected certain nonmanufacturing sectors, such as retail and leisure and hospitality.

Average change in new orders or sales by firm type, firms reporting in 11 of 16 weeks



Source: Federal Reserve Bank of Philadelphia, COVID-19 Business Outlook Survey.

PPP Loans Helped Third District Firms in April and May

With most business activity halted or constrained, small businesses and the self-employed across the country and in our District were relying on the PPP, which was established in March under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, to fund payroll costs. An average of 84 percent of firms responding to our weekly survey reported applying for a PPP loan from the SBA. Some firms in our District said they were confused by the application process and terms, and frustrated by long wait times to receive approval or funding.

PPP funds were exhausted two weeks after loan applications were first released on April 3. When we surveyed firms on April 14 (for the week ending April 12), 87 percent indicated they had applied for a PPP loan. However, of those firms, only 6 percent had received the funds (Figure 3). Slightly more than a quarter had been approved but had not yet received funds, and 67 percent were still awaiting approval.

When we surveyed firms on May 12 (for the week ending May 10)—after Congress had allocated more funds to the PPP—of the firms that had applied for a PPP loan, 90 percent had received the funds and 8 percent were waiting to receive either the funds or approval.

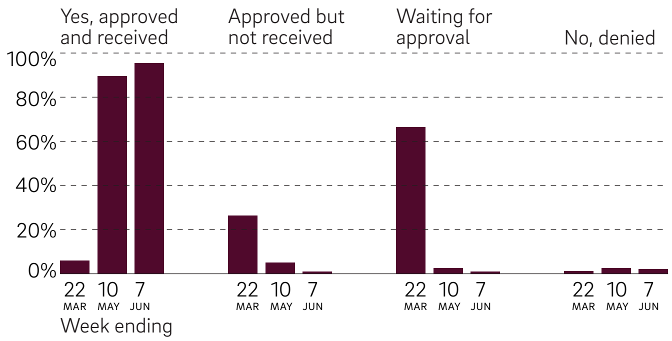
By early June—days after enactment of the Paycheck Protection Program Flexibility Act of 2020, which eased some loan forgiveness terms—nearly all of the responding firms that had applied for a PPP loan had received the funds, and 70 percent of firms indicated that the loans prevented layoffs or furloughs and helped them pay bills or rent.

FIGURE 3

Many Firms Had to Wait to Receive Funds

But nearly all who reported applying eventually received funds.

Percent of respondents



Source: Federal Reserve Bank of Philadelphia, COVID-19 Business Outlook Survey.

Less Concern About Credit

In some surveys, we asked firms to indicate whether they were not at all concerned, somewhat concerned, or very concerned about their ability to deal with various credit issues, such as maintaining adequate cash flow or solvency, incurring excessive debt, and collecting payables from customers over the next month. The responses suggest that firms were less concerned after the beginning of April, particularly about the issues a firm could address with PPP funding.

For all categories and over each subsequent survey period, the share of firms reporting that they were not at all concerned increased, and the share reporting that they were very concerned decreased (Figure 4).[6] For example, for the week ending April 5, 30 percent of responding firms stated they were very concerned about maintaining solvency over the next month; by the week ending May 31, that share had fallen to 17 percent. Similarly, at the beginning of April, more than half of responding firms reported that they were very concerned about maintaining adequate cash flow, but that share had fallen to 21 percent by the end of May. Collecting payables from customers over the next month, however, remained the most frequently cited concern: Seventy-seven percent of the firms indicated they were somewhat or very concerned at the end of May, down from 84 percent at the beginning of April.

Conclusion

Third District firms experienced strong declines in new orders and sales throughout the spring, but survey results suggest some stabilization and a slight improvement going into the summer. In the survey's earliest weeks, respondents commented on the extreme uncertainty of the situation. They said they were making important business decisions daily, and sometimes even hourly. One respondent even stated that it was "too chaotic at this time to comment." Firms also expressed frustration about mandated closures, lack of guidance on the standards or timing of reopening, and confusion and delays surrounding PPP funding. In later weeks, results and comments indicated that firms were on firmer footing, partly because of PPP funding and the recent gradual reopening and easing of restrictions.

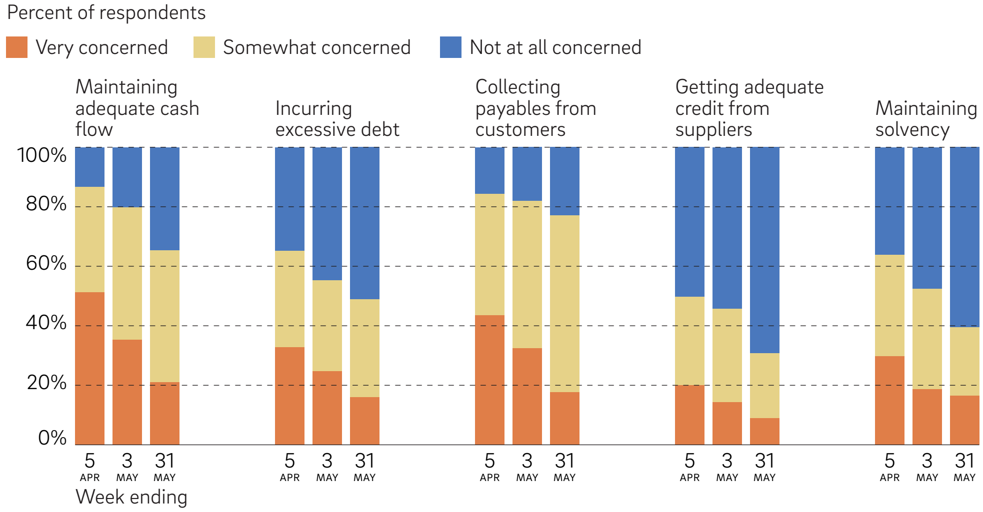
However, respondents continued to note difficulties, confusion, and uncertainty. Although firms had begun to report that the economy's slow reopening was having positive results, one manufacturer said that they struggled to keep employees safe while the pandemic continued. Furthermore, although firms in our region received and benefited from PPP funding, it is too early to assess the efficacy of the PPP program, particularly in the long term. As late as June, some firms still spoke of the possibility of layoffs in later months, depending on how quickly activity picked up once the shutdown ended. The pandemic's impact will be felt for some time to come.

FIGURE 4

Concern Among Firms Subsides Somewhat

The share of firms reporting they were not at all concerned increased, and the share reporting they were very concerned decreased.

Percent of respondents



Source: Federal Reserve Bank of Philadelphia, COVID-19 Business Outlook Survey.

Our Sample

We conducted our first COVID Survey for the week ending March 22. During the survey's first two weeks, we increased our respondent pool significantly, but our potential respondent pool remained stable after the week ending April 5. The number of respondents peaked that week and decreased thereafter, averaging around 130 respondents in the last four to five weeks (Figure 5).

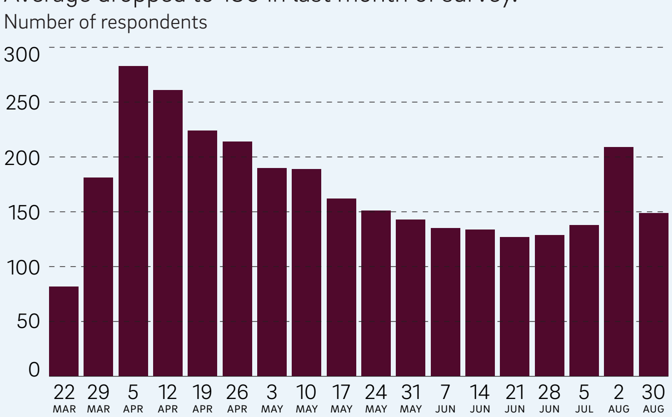
Most responses came from smaller firms: About 11 percent of responding firms had 500 or more employees; most had 250 or fewer.

The expansion of the respondent pool also significantly affected the sectoral representation of responding firms. Although firms from all sectors participated in the survey, manufacturing firms were heavily overrepresented in the first week, accounting for more than 47 percent of responses. Beginning the week ending April 5, nonmanufacturing firms were roughly three-quarters of respondents each week. During the survey's first 12 weeks, the most heavily represented sectors were professional and business services and manufacturers, making up an average of 25 percent and 23 percent of responses, respectively, each week. Most other sectors represented between 5 and 10 percent of responses. Relative to the three-state region, our survey sample significantly overrepresented the manufacturing sector and underrepresented the trade, transportation, and utilities and education and health services sectors (Figure 6).

FIGURE 5

Number of Respondents Peaked the Week of April 5

Average dropped to 130 in last month of survey.



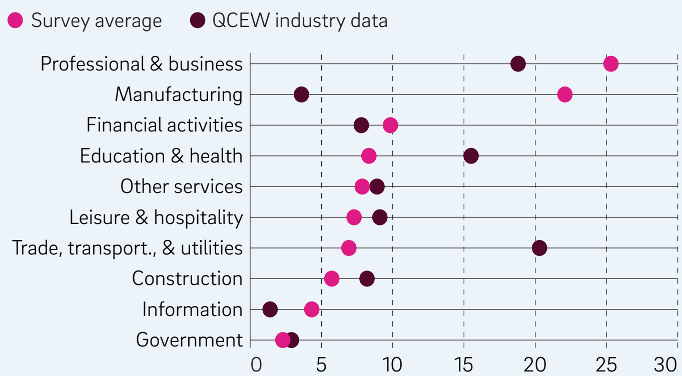
Source: Federal Reserve Bank of Philadelphia, COVID-19 Business Outlook Survey.

FIGURE 6

Survey Sectoral Representation Differs from Three-State Region

Relative to the three-state region, our survey sample overrepresented the manufacturing sector and underrepresented the trade, transportation, and utilities and education and health services sectors.

Average sector representation of respondents relative to 2019 average of three-state establishment data from QCEW



Source: Federal Reserve Bank of Philadelphia, COVID-19 Business Outlook Survey; Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

Notes

1 After collecting 16 weeks of survey data, we replaced the weekly survey with a monthly survey through early October, then replaced that with a recurring special question in our regular monthly surveys. Readers can find the survey results online at https://www.philadelphiafed.org/surveys-and-data/regional-economic-analysis/covid-19-business-outlook-survey.

2 Although we collected 16 weeks' worth of data, beginning for the week ending March 22, our sample size changed significantly over the first two weeks. Therefore this article's analysis covers only 14 weeks of data, from the week ending April 5 through the week ending July 5.

3 We used these values: 20% for 15% or above; 10% for 5% to 15%; 0% for −5% to 5%; −10% for −15% to −5%; −22.5% for −30% to −15%; −45% for −60% to −30%; −80% for −60% or below; −100% for temporary or permanent shutdown.

4 To mitigate the effect of sample composition changes from week to week, we used responses from respondents who participated in at least 11 of the 16 weeks in these calculations.

5 This metric reflects a snapshot and does not incorporate a firm's response for a prior week. Therefore, it may underestimate the average change in new orders or sales. Some firms that reported a shutdown one week reported non-shutdown changes in later weeks, suggesting they had reopened. However, other firms that had reported a shutdown stopped responding.

6 With two exceptions, we obtain comparable results if we sample only those firms that responded to this set of credit questions in each of the three weeks we asked them. The two exceptions: The share of firms reporting they were very concerned about getting adequate credit from suppliers held steady between the May 3 and May 31 surveys (although the share reporting they were not at all concerned did decrease), and the share of firms reporting they were very concerned or not at all concerned about maintaining solvency held mostly steady between May 3 and May 31, after decreasing and increasing, respectively, between April 5 and May 3.