

Small Businesses

Federal Reserve Bank of Philadelphia

July 30, 2020

12:00 noon–1:00 p.m. ET

Thank you to our cohosts:

**RESEARCH FOR
EQUITY IN RECOVERY**

W.E. UPJOHN
INSTITUTE
FOR EMPLOYMENT RESEARCH



Small Businesses

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

- This webinar series will resume by early September (or earlier).
- The webinar is being recorded.
- Recording and presentations will be posted online afterward.
- All participants are muted.
- Type your questions into the Q&A box at any time.

Today's Panelists

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EQUITY IN RECOVERY



Marianne Bertrand,
Professor, University
of Chicago



Maurice A. Jones,
President and CEO,
Local Initiatives
Support Corporation
(LISC)



Chi Mac, Small
Business Research
Lead, JPMorgan
Chase Institute



Moderator: **Timothy
J. Bartik,** Senior
Economist, W. E.
Upjohn Institute for
Employment
Research

Measuring the Labor Market at the Onset of the COVID-19 Crisis: Evidence from Traditional and Non-Traditional Data

Marianne Bertrand

University of Chicago

July 30, 2020

- Understand labor market decline at onset of COVID-19 recession
 - Which sectors?
 - Timing
 - Which workers?
 - Role of firms

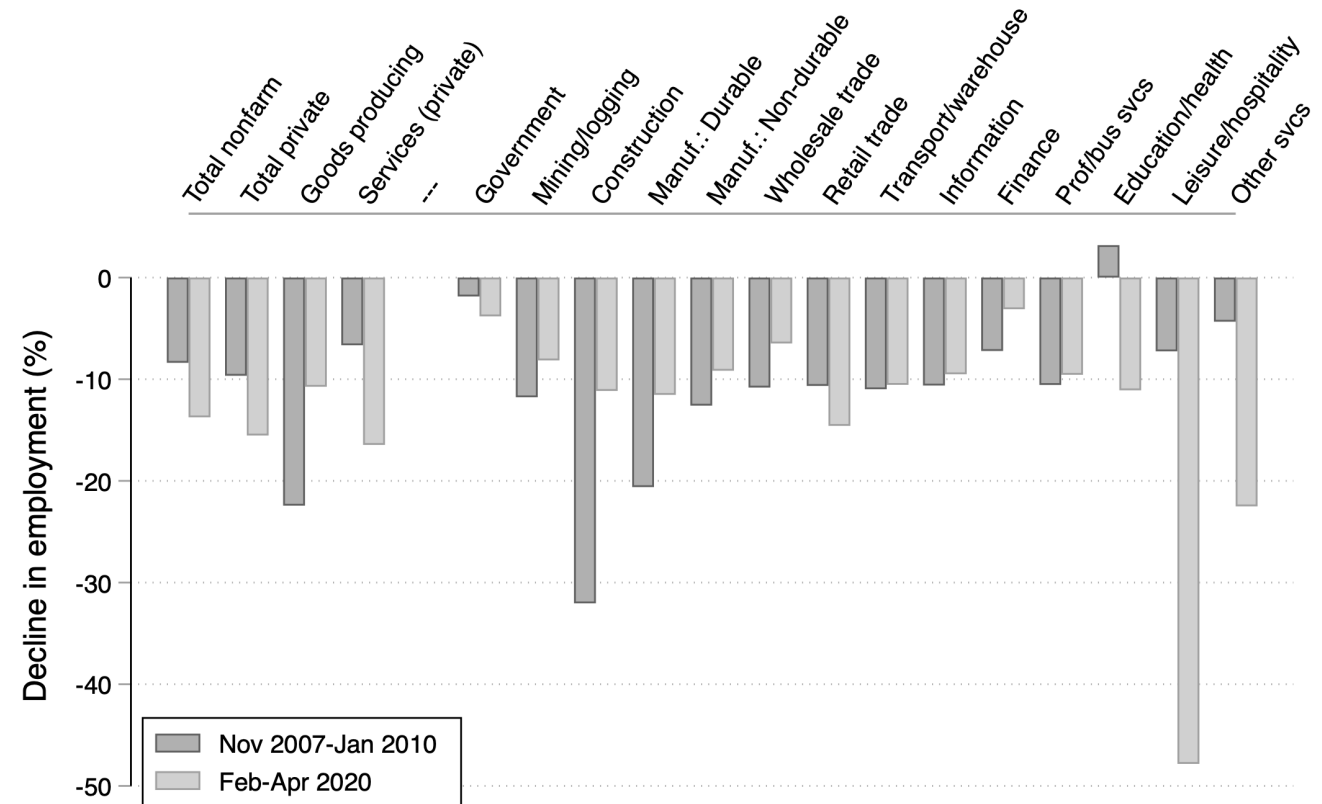
Focus on small businesses

- Provide preliminary evidence on labor market effects of shutdown orders and economic interventions at onset

Pandemic recession differs from recent recessions

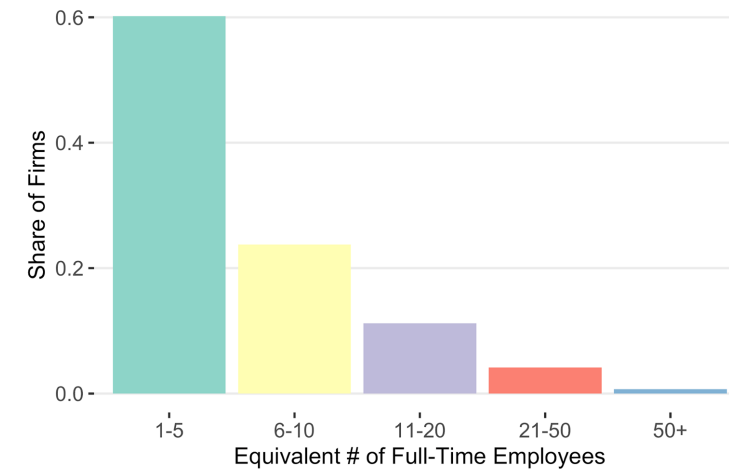
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- Job losses in 2 months were 60% larger than the entirety of the Great Recession
- Industrial composition quite different — not the usual “mancession.”
- High rates of temporary layoff, recall expectations.

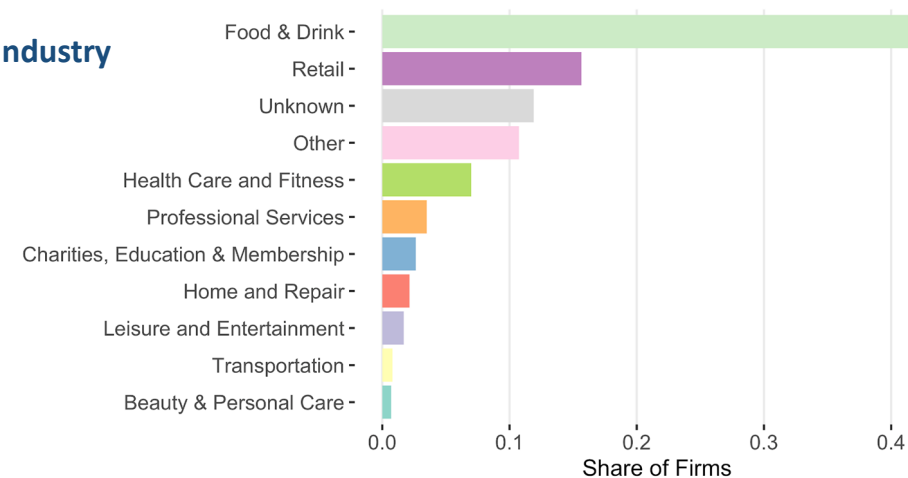


- Scheduling & time-clock service
- Primary small business clients — restaurants, retail, salons, etc.
- Daily hours worked
- Follow firms and workers over time

Size

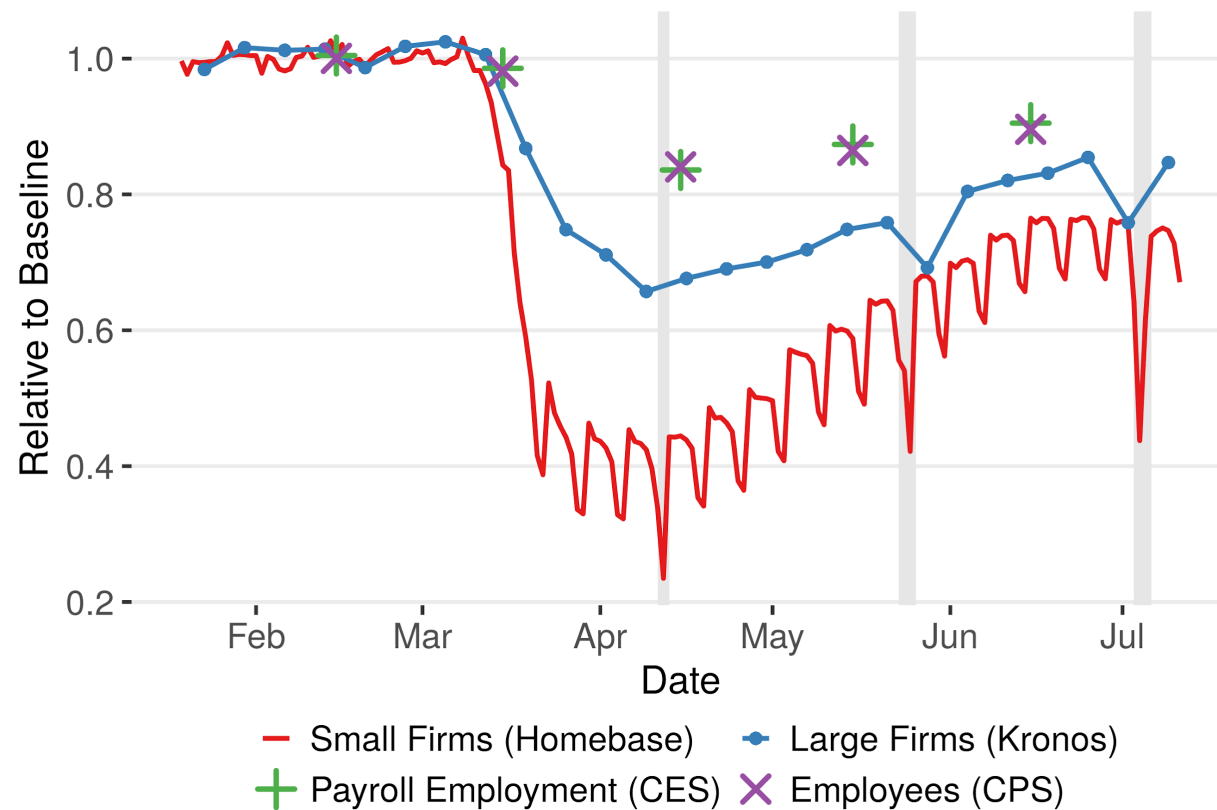


Industry



The collapse was extremely sudden

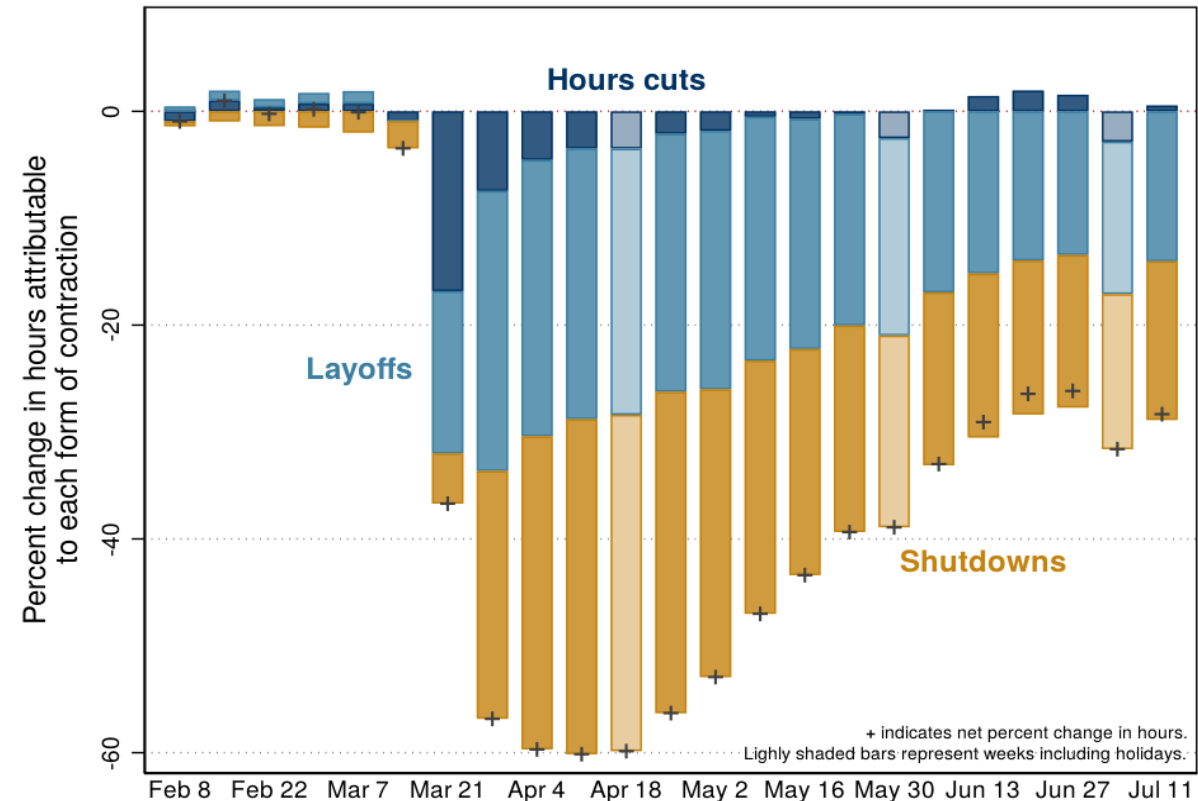
Total hours by day,
(Jan. 19-Feb. 1 = 1.0)



Firm shut-downs and reopenings have played a large role

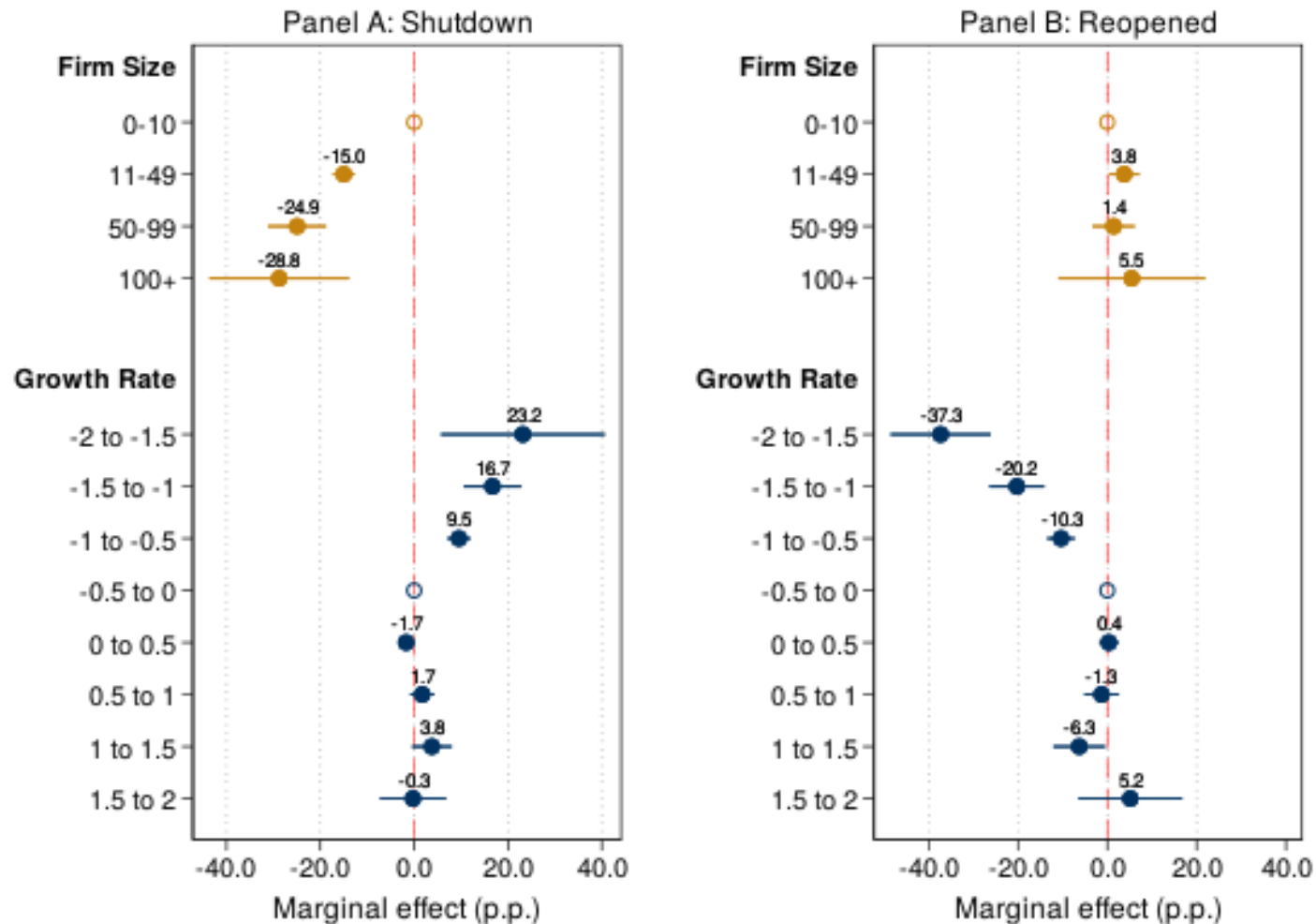
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- This accounts for about half the lost hours.
- About 60% of the firms that closed have since reopened, averaging $\frac{2}{3}$ of pre-shutdown scale.
- Nearly all hours at reopened firms have been from previous workers (but share is shrinking).



Smaller firms were more likely to exit; Distressed firms were more likely to exit, less likely to reopen

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More disadvantaged workers more likely to be laid off, less likely to be rehired

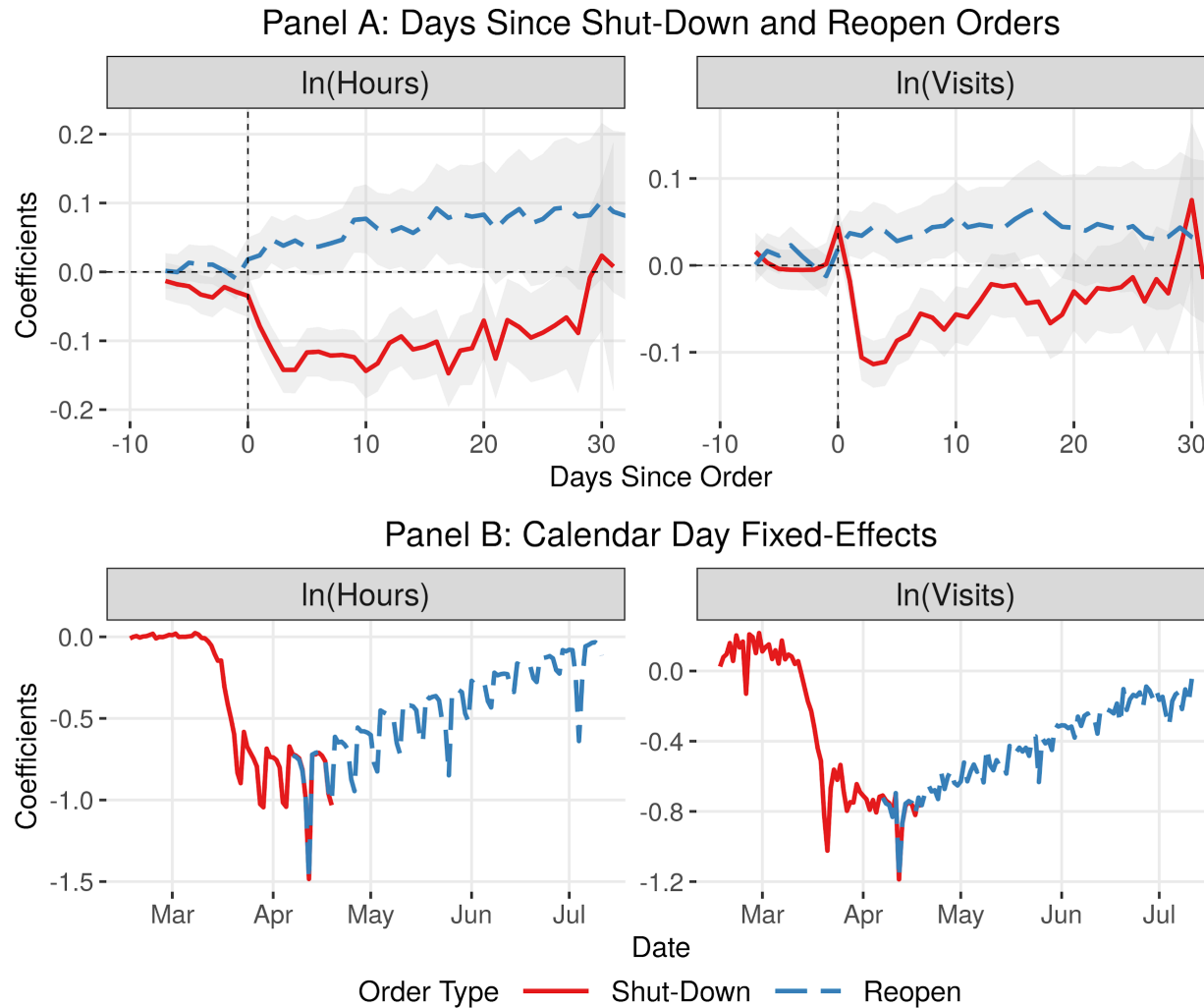
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	CPS				Homebase data					
	Stopped work in April		Started work in May or June		Stopped work, mid March - late April		Started work after stopping			
	Marg. effect	SE	Marg. effect	SE	Marg. effect	SE	Marg. effect	SE	Marg. effect	SE
Age										
16-25	0.078	(0.011)	-0.002	(0.016)	-0.008	(0.043)	0.060	(0.042)	0.010	(0.029)
26-37	--		--		--		--			
38-49	-0.010	(0.007)	-0.009	(0.015)	-0.027	(0.047)	0.034	(0.051)	0.061	(0.054)
50-64	0.019	(0.008)	-0.026	(0.014)	-0.011	(0.049)	-0.045	(0.049)	-0.010	(0.034)
65 and over	0.142	(0.015)	-0.066	(0.018)	0.096	(0.078)	-0.041	(0.074)	0.000	(0.049)
Education Level :										
Less than high school	0.029	(0.011)	-0.016	(0.017)	0.178	(0.064)	-0.007	(0.057)	-0.034	(0.038)
High school	--		--		--		--			
Some college	-0.016	(0.006)	-0.014	(0.012)	0.013	(0.037)	-0.001	(0.037)	-0.019	(0.026)
BA or more	-0.080	(0.009)	-0.025	(0.013)	-0.015	(0.041)	-0.070	(0.042)	-0.054	(0.042)
Race :										
Black	0.048	(0.010)	-0.074	(0.015)	-0.024	(0.054)	-0.196	(0.059)	-0.054	(0.044)
Asian	0.054	(0.012)	-0.053	(0.018)	-0.059	(0.072)	0.081	(0.066)	0.038	(0.060)
Native American	0.029	(0.022)	-0.019	(0.038)	0.111	(0.145)	-0.043	(0.118)	-0.012	(0.081)
Hispanic	0.017	(0.008)	-0.015	(0.013)	-0.096	(0.045)	-0.021	(0.044)	0.006	(0.031)
Gender and marital status										
Married	-0.022	(0.005)	0.041	(0.012)	0.033	(0.036)	0.050	(0.041)	0.034	(0.037)
Female	0.034	(0.007)	-0.028	(0.012)	-0.013	(0.042)	0.025	(0.039)	-0.024	(0.027)
Presence of children X gender										
Child male	-0.005	(0.011)	0.019	(0.022)	-0.158	(0.066)	-0.002	(0.064)	-0.048	(0.042)
Child under 10 male	0.002	(0.012)	0.002	(0.023)						
Child female	0.008	(0.010)	-0.009	(0.019)	-0.098	(0.046)	0.040	(0.049)	0.010	(0.034)
Child under 10 female	0.019	(0.012)	0.010	(0.022)						
Occupation										
Manager	-0.072	(0.008)	0.031	(0.020)	-0.244	(0.056)	0.071	(0.082)	0.037	(0.076)
Expected to be rehired										
Likely									0.400	(0.123)
N	31,692		11,387		1,620		1,217		650	

- Recall expectations are high:
 - 89% of unemployed job-losers in April were on temporary layoff
 - As many as 90% of new UI claimants in California (Hedin et al., 2020) expect to be recalled.

Shut-down and reopening orders play minor role in labor market changes

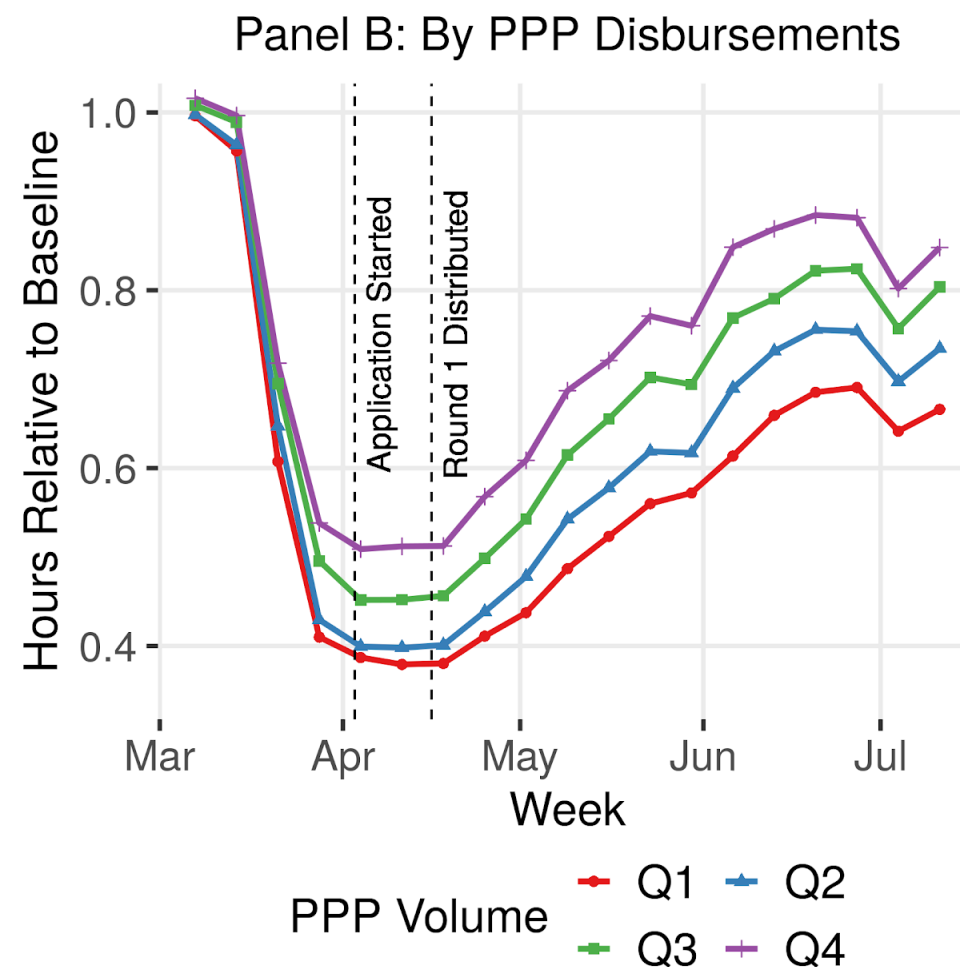
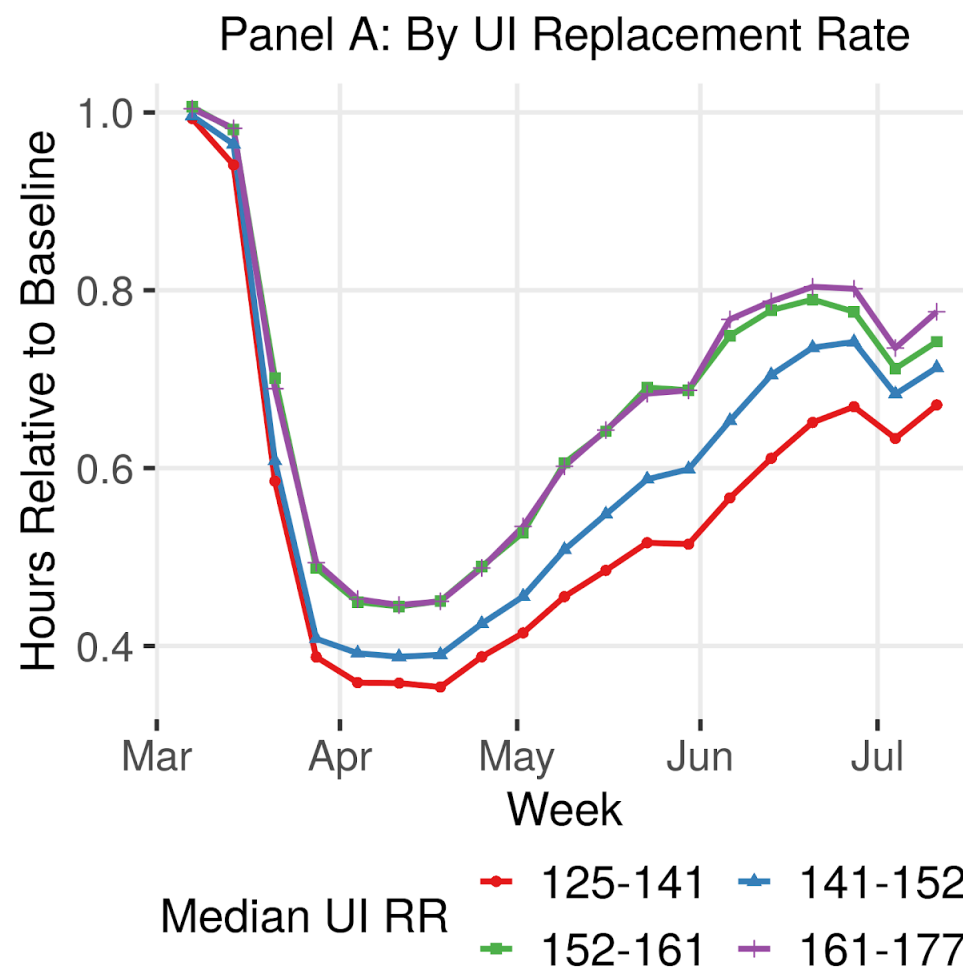
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States that received more PPP loans and had higher UI replacement rates have had milder declines and faster job recoveries

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1. The pandemic recession is different from recent recessions (so far):
 - a. Extremely fast onset and partial recovery
 - b. Led by decline in in-person services employment
 - c. Unemployed workers overwhelmingly expect to be recalled
2. More disadvantaged workers more likely to be laid off and less likely to be rehired (so far)
3. In short run, shut-down and reopening orders play relatively minor role in driving labor market decline and recovery; customers disappeared
4. Some indication that PPP loans sheltered the blow; no indication that UI replacement rates have slowed recovery (so far)

Small Business Financial Outcomes Before and During COVID-19

Chi Mac

JPMorgan Chase Institute

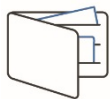
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Expert insights for the public good

INSTITUTE RESEARCH THEMES



SMALL BUSINESS



HOUSEHOLD INCOME & SPENDING
HOUSEHOLD DEBT
LABOR MARKETS



CITIES & LOCAL COMMUNITIES



FINANCIAL MARKETS

INSTITUTE DATA

THE JPMORGAN CHASE INSTITUTE LEVERAGES
DE-IDENTIFIED DATA FROM:

\$2.5 TRILLION
BALANCE
SHEET

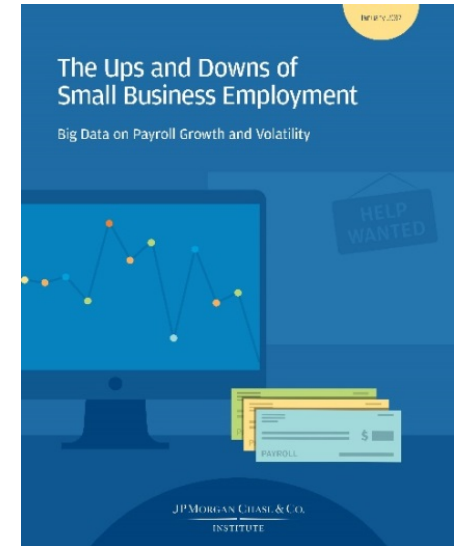
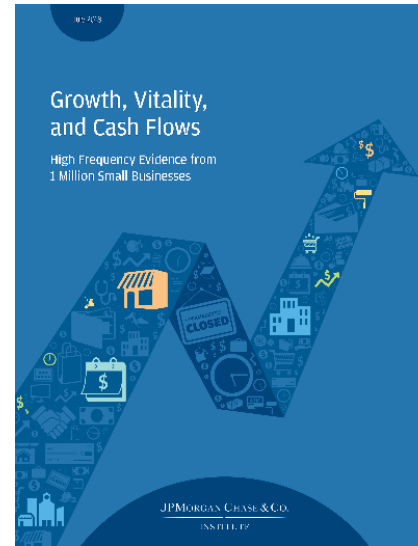
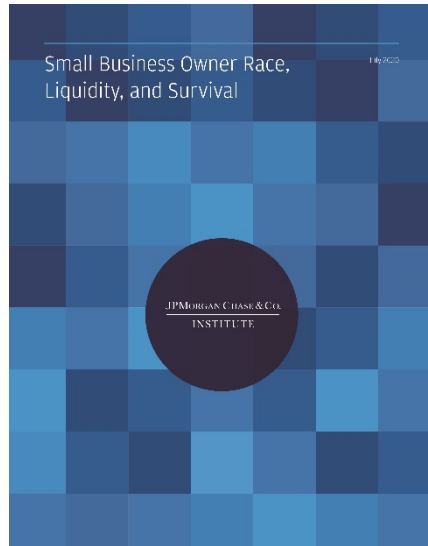
2.5 MILLION
SMALL
BUSINESSES

70+ MILLION
RETAIL
CUSTOMERS

44 THOUSAND
INSTITUTIONAL
INVESTORS

www.jpmorganchaseinstitute.com

Research focus on small business cash flows



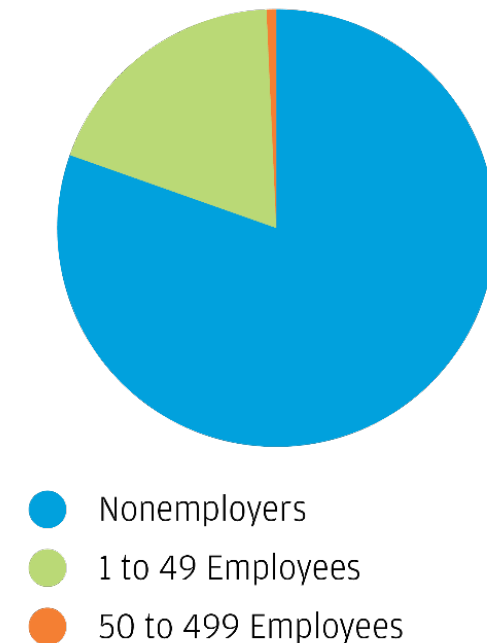
Disclaimer: All opinions are my own and not those of JPMorgan Chase.

Small business sample

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- Nationwide, most small businesses are **nonemployers** or **small employers**
- Our research sample
 - Reflects national distribution
 - Based on **deposit accounts** (checking and savings)
 - Metropolitan areas
 - Owner race information from voter registration files of **Florida, Georgia, and Louisiana**

Share of All Small Businesses
by Employment



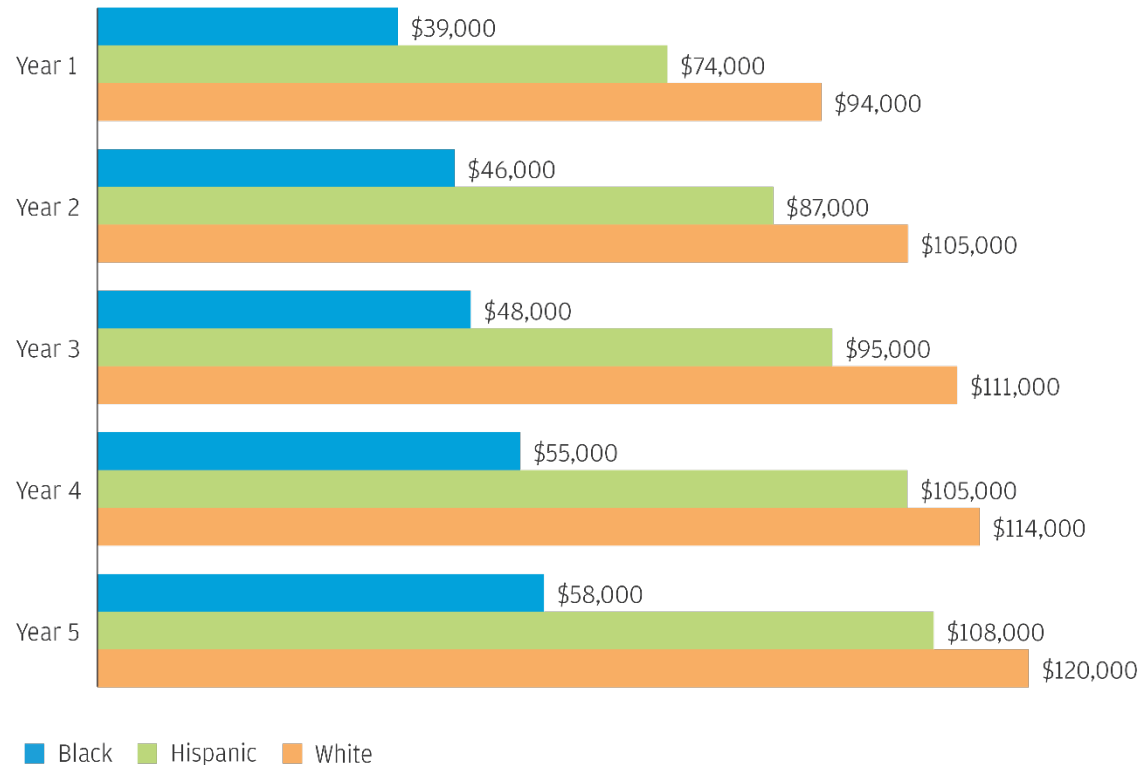
Source: US Census Bureau

- Pre-pandemic (2013–2019)
 - Revenues
 - Profit margins
 - Cash liquidity
- During the pandemic (March–May 2020)
 - Focus on sectors severely impacted
 - Compared to same period in 2019
 - Cash balances
 - Revenues
 - Expenses

Pre-pandemic, Black- and Hispanic-owned businesses were smaller

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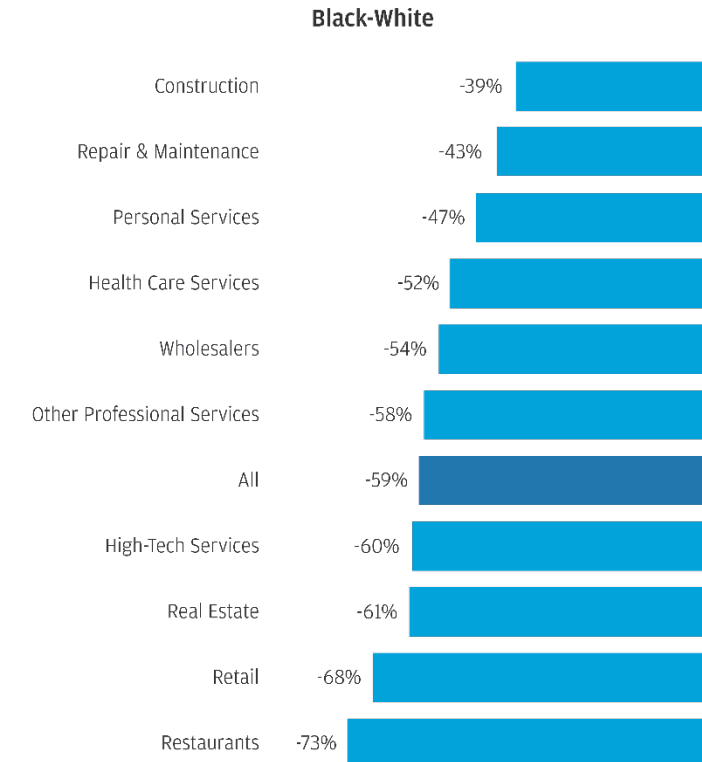
Median revenues during first five years



Note: Sample includes firms founded in 2013 and 2014.

Source: JPMorgan Chase Institute

First-year revenue gap

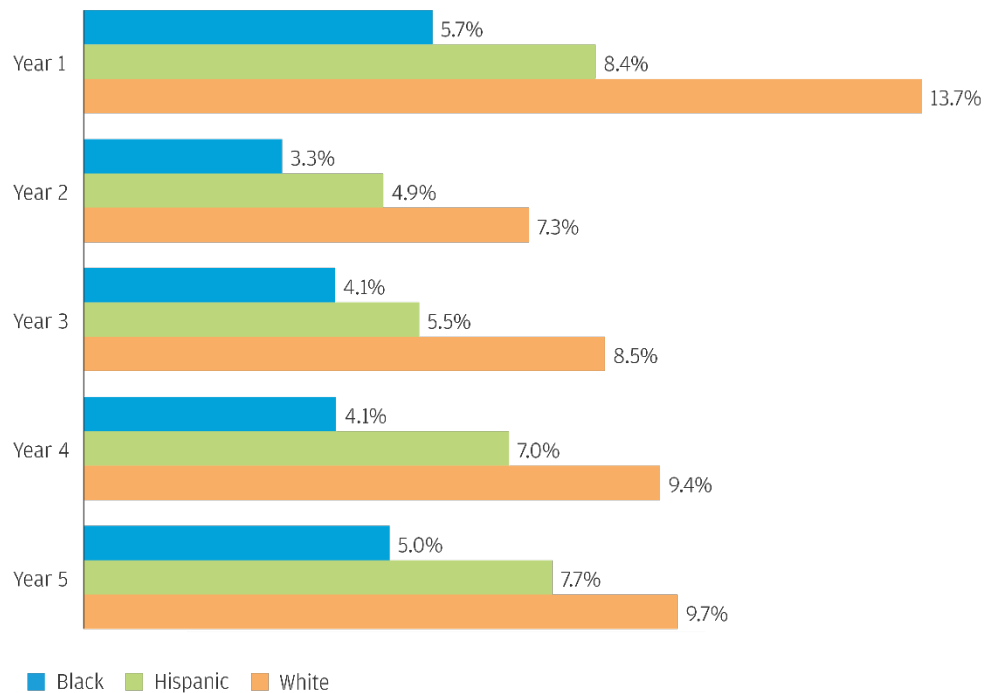


Note: Sample includes firms founded in 2013 and 2014.

Black- and Hispanic-owned businesses were less profitable and held less cash

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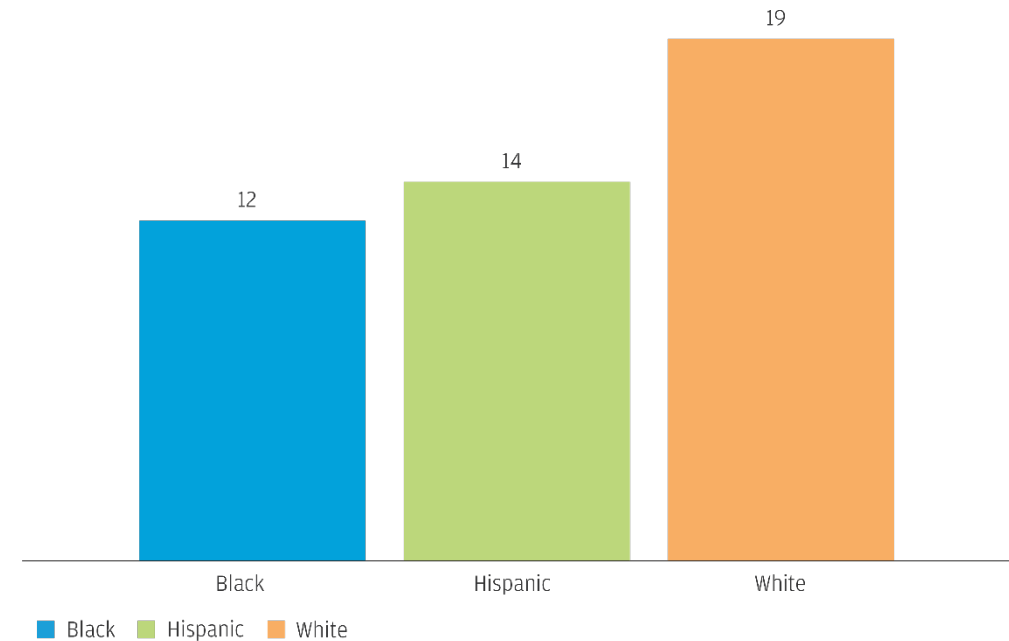
Median profit margins during first five years



Note: Sample includes firms founded in 2013 and 2014.

Source: JPMorgan Chase Institute

Median cash buffer days in year 1



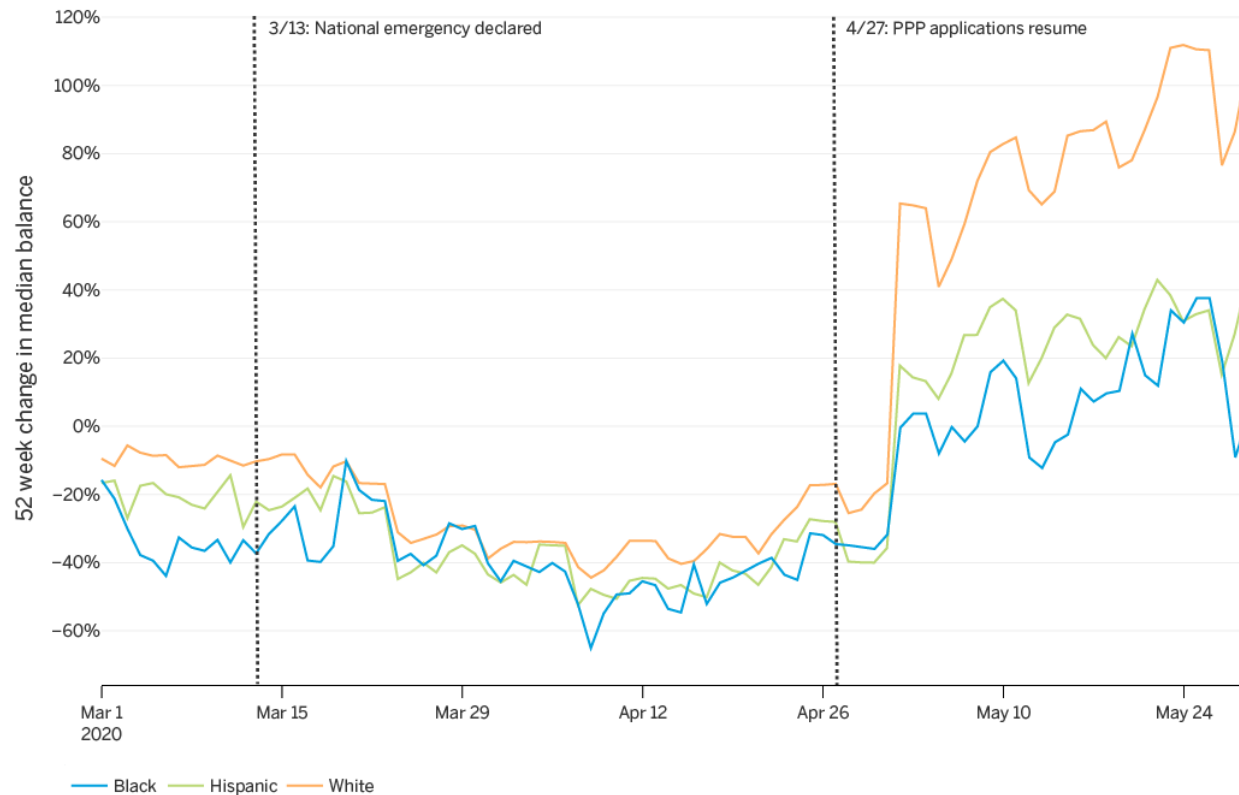
Note: Sample includes firms founded in 2013 and 2014. Cash buffer days are calculated as the number of day during which a firm could cover its typical outflows in the event of a total disruption in revenues.

Source: JPMorgan Chase Institute

Restaurants during pandemic

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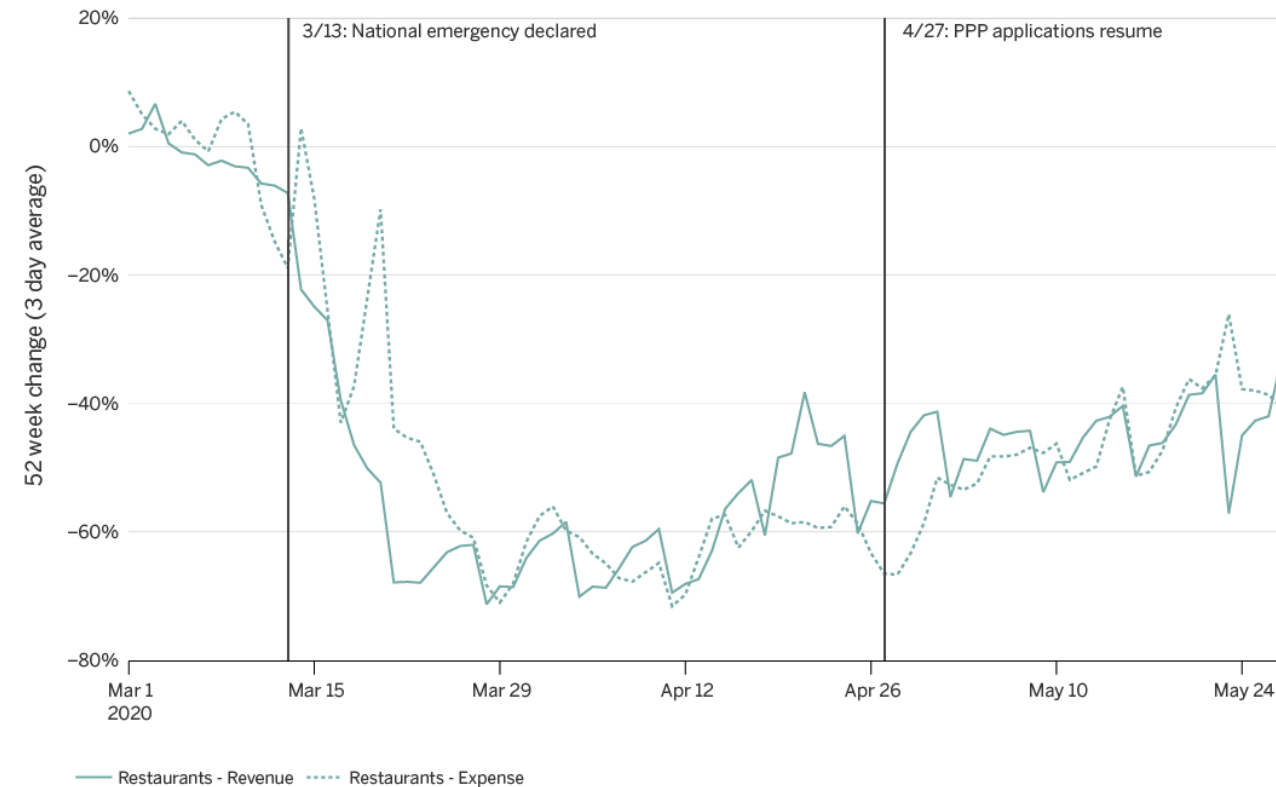
Balances - restaurants



Note: Sample includes firms in Florida, Georgia, and Louisiana that were operating in the period shown as well as the same period 52 weeks earlier.

Source: JPMorgan Chase Institute

Revenue and expense - restaurants



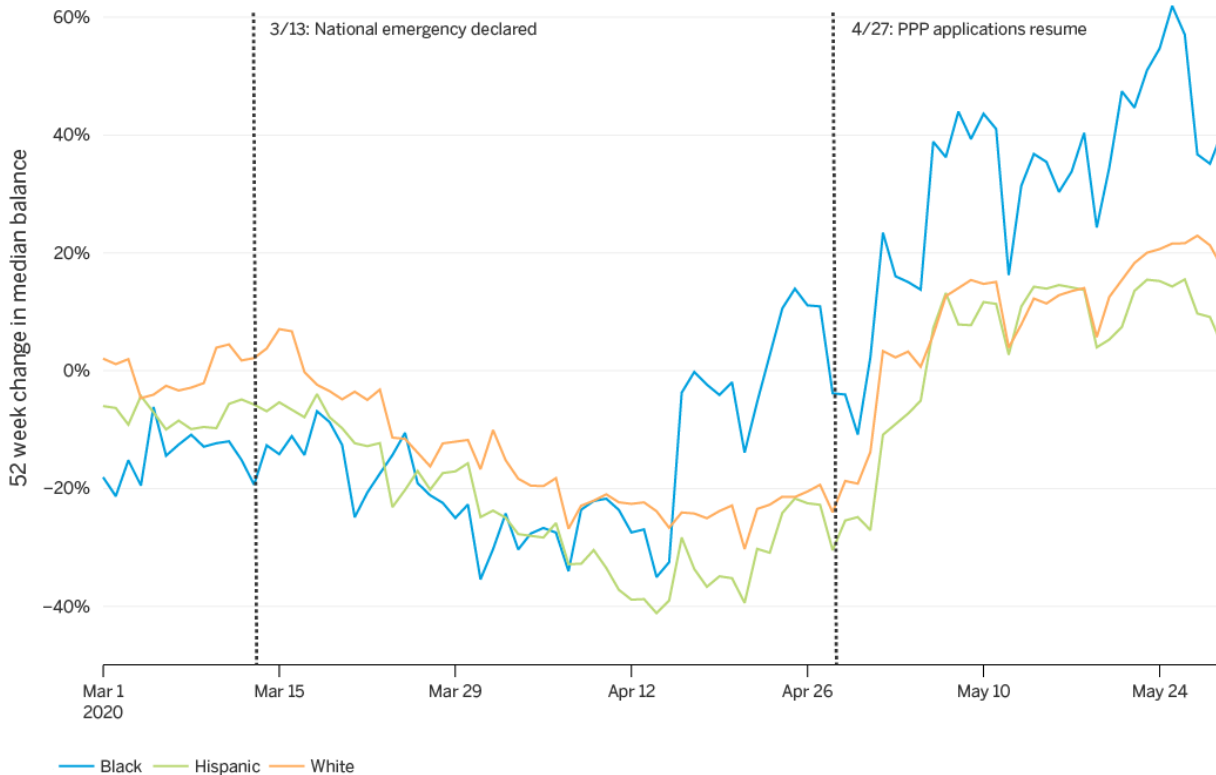
Note: Sample includes firms nationwide that were operating in the period shown as well as the same period 52 weeks earlier.

Source: JPMorgan Chase Institute

Personal services during pandemic

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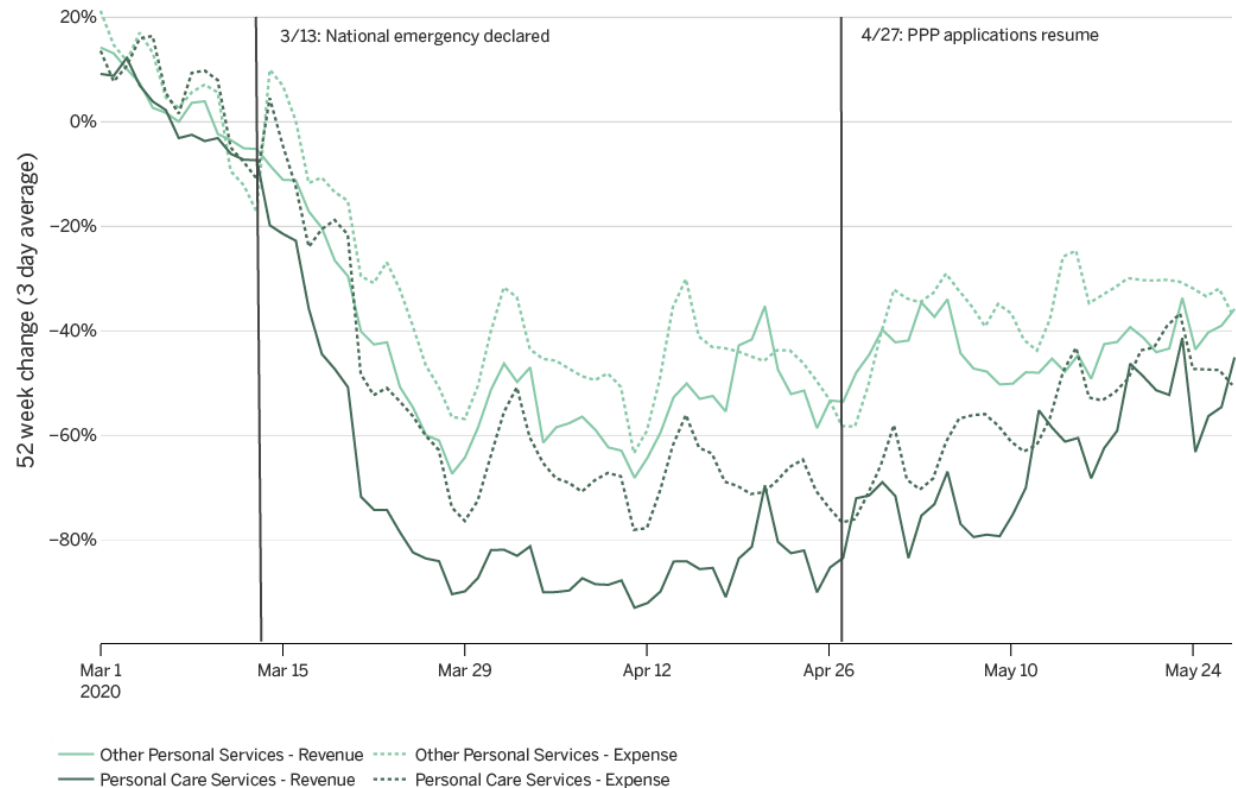
Balances - personal services



Note: Sample includes firms in Florida, Georgia, and Louisiana that were operating in the period shown as well as the same period 52 weeks earlier.

Source: JPMorgan Chase Institute

Revenue and expense - personal services

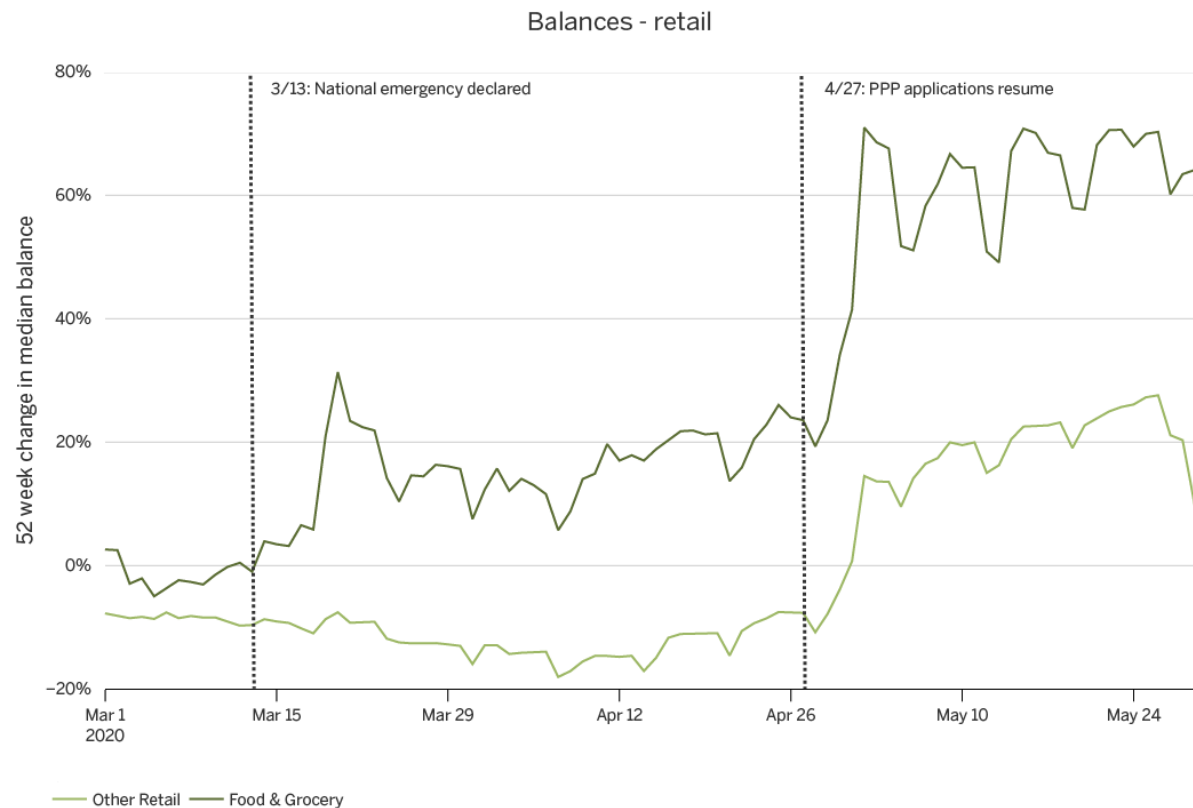


Note: Sample includes firms nationwide that were operating in the period shown as well as the same period 52 weeks earlier.

Source: JPMorgan Chase Institute

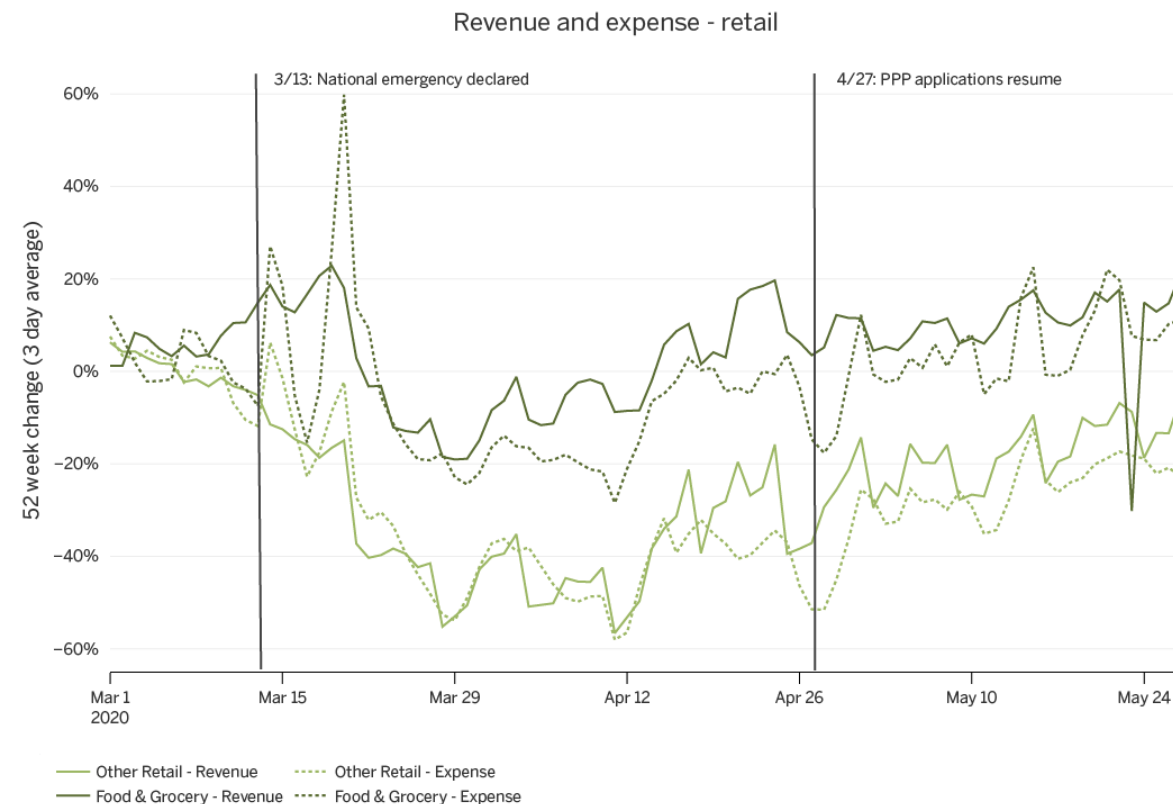
Unlike other retailers, grocery stores experienced positive revenue growth

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Note: Sample includes firms nationwide that were operating in the period shown as well as the same period 52 weeks earlier.

Source: JPMorgan Chase Institute



Note: Sample includes firms nationwide that were operating in the period shown as well as the same period 52 weeks earlier.

Source: JPMorgan Chase Institute

- **Cash balances have been bolstered** with the help of COVID-19 relief efforts, but revenues remain materially lower than they were a year ago
- Small businesses in **some industry segments**, such as personal care services, will likely **have a longer path to recovery** if they manage to survive
- **Equitable recovery** is not just returning to pre-pandemic levels
 - Black- and Hispanic-owned businesses were smaller and more financially fragile before the pandemic
 - Include opportunities for Black- and Hispanic-owned firms to achieve the scale that would promote growth

Maurice A. Jones

Local Initiatives Support
Corporation (LISC)



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