Small Businesses

Federal Reserve Bank of Philadelphia

July 30, 2020
12:00 noon–1:00 p.m. ET
Thank you to our cohosts:
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.
Housekeeping

• 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

Marianne Bertrand, Professor, University of Chicago

Chi Mac, Small Business Research Lead, JPMorgan Chase Institute

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

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
Goals

- 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

- 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.
Homebase data

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

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

<table>
<thead>
<tr>
<th></th>
<th>CPS</th>
<th>Household data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stopped work in April</td>
<td>Started work in May or June</td>
</tr>
<tr>
<td></td>
<td>Marg. effect</td>
<td>SE</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16-25</td>
<td>0.078</td>
<td>(0.011)</td>
</tr>
<tr>
<td>26-37</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>38-49</td>
<td>-0.010</td>
<td>(0.007)</td>
</tr>
<tr>
<td>50-64</td>
<td>0.019</td>
<td>(0.008)</td>
</tr>
<tr>
<td>65 and over</td>
<td>0.142</td>
<td>(0.015)</td>
</tr>
<tr>
<td>Education level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than high school</td>
<td>0.029</td>
<td>(0.011)</td>
</tr>
<tr>
<td>High school</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Some college</td>
<td>-0.016</td>
<td>(0.006)</td>
</tr>
<tr>
<td>BA or more</td>
<td>-0.080</td>
<td>(0.009)</td>
</tr>
<tr>
<td>Race</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Black</td>
<td>0.048</td>
<td>(0.010)</td>
</tr>
<tr>
<td>Asian</td>
<td>0.054</td>
<td>(0.012)</td>
</tr>
<tr>
<td>Native American</td>
<td>0.029</td>
<td>(0.022)</td>
</tr>
<tr>
<td>Hispanic</td>
<td>0.017</td>
<td>(0.008)</td>
</tr>
<tr>
<td>Gender and marital status</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>-0.022</td>
<td>(0.005)</td>
</tr>
<tr>
<td>Female</td>
<td>0.034</td>
<td>(0.007)</td>
</tr>
<tr>
<td>Presence of children X gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child</td>
<td>male</td>
<td>-0.005</td>
</tr>
<tr>
<td>Child under 10</td>
<td>male</td>
<td>0.002</td>
</tr>
<tr>
<td>Child</td>
<td>female</td>
<td>0.008</td>
</tr>
<tr>
<td>Child under 10</td>
<td>female</td>
<td>0.019</td>
</tr>
<tr>
<td>Occupation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manager</td>
<td>-0.072</td>
<td>(0.008)</td>
</tr>
<tr>
<td>Expected to be rehired</td>
<td>Likely</td>
<td>0.409</td>
</tr>
</tbody>
</table>

- 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

Panel A: Days Since Shut-Down and Reopen Orders

Panel B: Calendar Day Fixed-Effects

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

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
July 30, 2020
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
Small business research

Research focus on small business cash flows

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

- 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

- Nonemployers
- 1 to 49 Employees
- 50 to 499 Employees

Source: US Census Bureau
Small business financial health

• 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

Median revenues during first five years

<table>
<thead>
<tr>
<th>Year</th>
<th>Black</th>
<th>Hispanic</th>
<th>White</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>$39,000</td>
<td>$74,000</td>
<td>$94,000</td>
</tr>
<tr>
<td>Year 2</td>
<td>$46,000</td>
<td>$87,000</td>
<td>$105,000</td>
</tr>
<tr>
<td>Year 3</td>
<td>$48,000</td>
<td>$95,000</td>
<td>$111,000</td>
</tr>
<tr>
<td>Year 4</td>
<td>$55,000</td>
<td>$105,000</td>
<td>$114,000</td>
</tr>
<tr>
<td>Year 5</td>
<td>$58,000</td>
<td>$108,000</td>
<td>$120,000</td>
</tr>
</tbody>
</table>

First-year revenue gap

<table>
<thead>
<tr>
<th>Industry</th>
<th>Black-White</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>-39%</td>
</tr>
<tr>
<td>Repair &amp; Maintenance</td>
<td>-43%</td>
</tr>
<tr>
<td>Personal Services</td>
<td>-47%</td>
</tr>
<tr>
<td>Health Care Services</td>
<td>-52%</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>-54%</td>
</tr>
<tr>
<td>Other Professional Services</td>
<td>-58%</td>
</tr>
<tr>
<td>All</td>
<td>-59%</td>
</tr>
<tr>
<td>High-Tech Services</td>
<td>-60%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>-61%</td>
</tr>
<tr>
<td>Retail</td>
<td>-69%</td>
</tr>
<tr>
<td>Restaurants</td>
<td>-73%</td>
</tr>
</tbody>
</table>

Notes: Sample includes firms founded in 2013 and 2014.
Black- and Hispanic-owned businesses were less profitable and held less cash.

**Median profit margins during first five years**

Year 1: Black - 5.7%, Hispanic - 8.4%, White - 13.7%
Year 2: Black - 3.3%, Hispanic - 4.9%, White - 7.3%
Year 3: Black - 4.1%, Hispanic - 5.5%, White - 8.5%
Year 4: Black - 4.1%, Hispanic - 7.0%, White - 9.4%
Year 5: Black - 5.0%, Hispanic - 7.7%, White - 9.7%

**Median cash buffer days in year 1**

- Black: 12 days
- Hispanic: 14 days
- White: 19 days

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

Balances - restaurants

Revenue and expense - 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

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

Balances - personal services

Revenue and expense - 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

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.
Conclusions and implications

• **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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