Economic Bulletin

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF ADVOCACY
REGULATION • RESEARCH • OUTREACH

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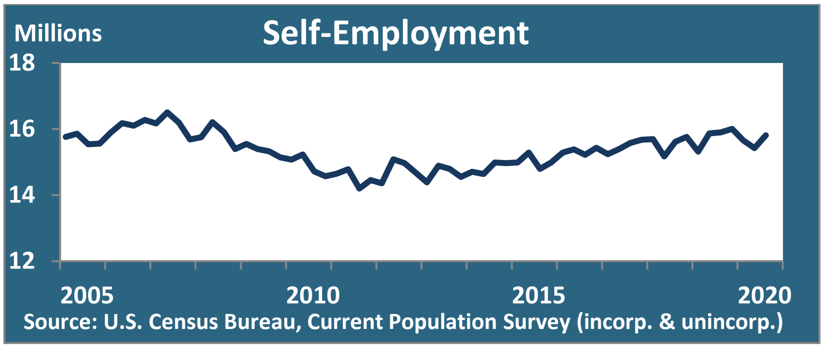
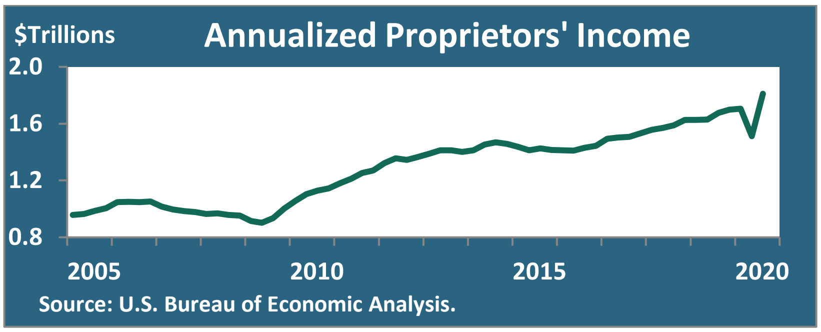
Small Business at a Glance

Prior to the COVID-19 pandemic, small firms were still slowly recovering from the Great Recession. Now, in the midst of the pandemic, self-employment levels have held, but proprietors' income changes have been choppy and a lack of contemporaneous data on business closures makes their true status unknown.

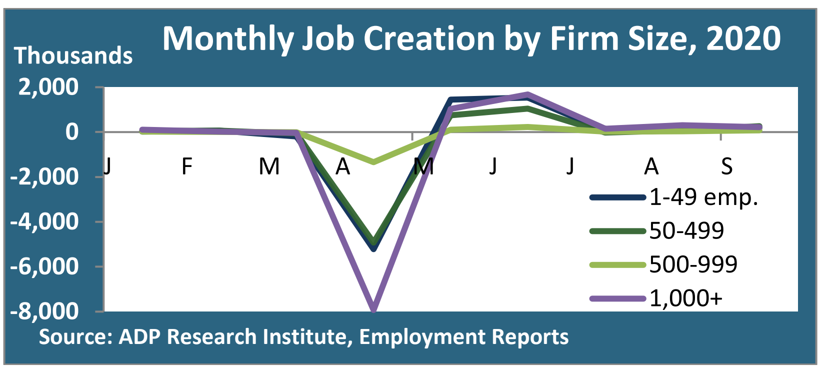
General



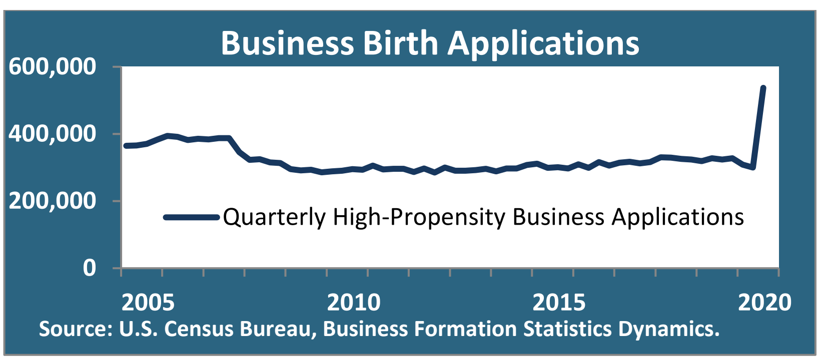
Self-employment (primary occupation, not seasonal adjusted) was slowly increasing for the last decade but remains below the pre-Great Recession peak. On a quarterly basis, the small drop in self-employment experienced in the first half of the year was mostly erased in the 3rd quarter. Note that the COVID-19 pandemic may have put the business of many of the self-employed on a pause or hiatus. However, they remain self-employed.



While self-employment figures indicate the number of proprietors has been mostly consistent over time, their income declined 13% annualized in the second quarter of 2020. This is the largest quarterly decline in history (quarterly data began in 1947). However in the most recent quarter, proprietors' income recovered. It is not clear if this is a temporary recovery related to short term federal COVID-19 financial assistance.

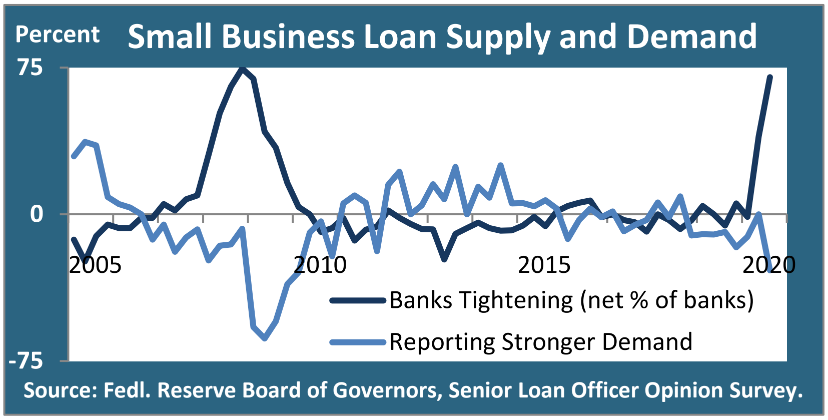


The Bureau of Labor Statistics' firm size job creation figures show small firms (<500 employees) accounting for 63 percent of the private net job creation from 2010 to 2019, but 2020 had a labor market shock. For 2020, payroll services firm ADP estimates that firms with 1,000 or more employees had the biggest monthly job decline in the spring in terms of number of employees. The size classes quickly recovered some of the losses, and gains since have been muted. Small firms lost more jobs in the spring but gained more since, and overall, in 2020 they lost 4.8 million net jobs vs 5.3 million for large firms.



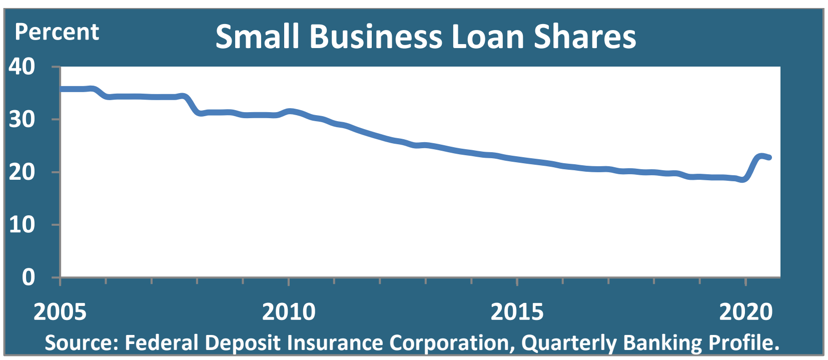
Census' High-Propensity Business Applications, which indicate business openings, have been relatively stable for fifteen years. However, the number of applications have recently spiked. It is not clear if the spike is from recently closed businesses reforming or from brand new businesses. The next few months will indicate if the spike is a trend or a data anomaly.

Finance

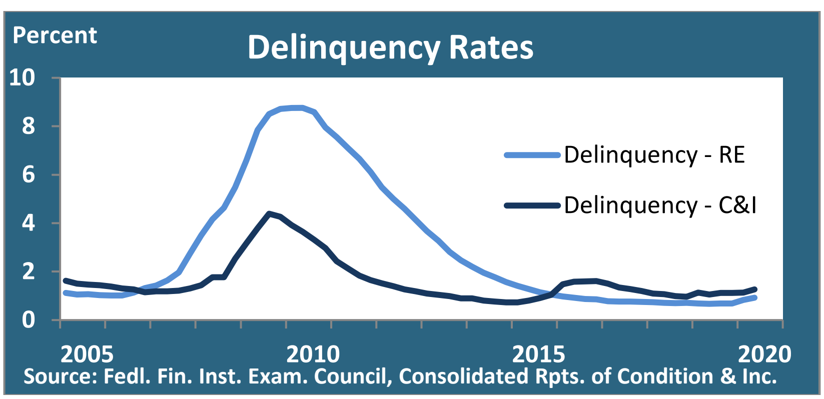


Due to the COVID-19 pandemic and weakening economic outlook, small business lenders were quick to tighten lending standards while loan demand also dropped. The demand in loans had been trending down prior to the pandemic as well.

The National Small Business Association, a trade association for small businesses, points out that the largest concern of small businesses is essentially sales and economic worries. Small businesses do not necessarly view financing as their biggest problem/solution, and are instead worried about the effects of the pandemic.



The small business loan share (loans $1 million or less) of total loans declined for nearly a decade before showing a slight rise in recent months. The increase is likely from banks limiting new loans, outstanding amounts on existing loans being slowly paid down, and Paycheck Protection Program loans flooding the market, many of which will be forgiven.



Delinquency rates for commercial and industrial loans (C&I) and commercial real estate loans (CRE) have been slightly increasing in 2020. While the increase is minimal, it could be an indicator of a trend as sales suffer for many businesses impacted by the pandemic.

By Brian Headd and Victoria Williams