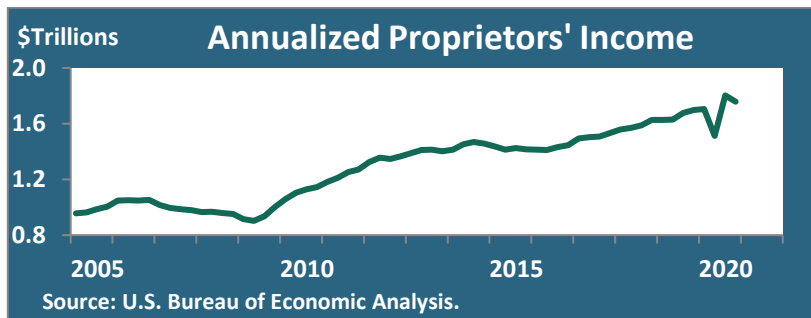


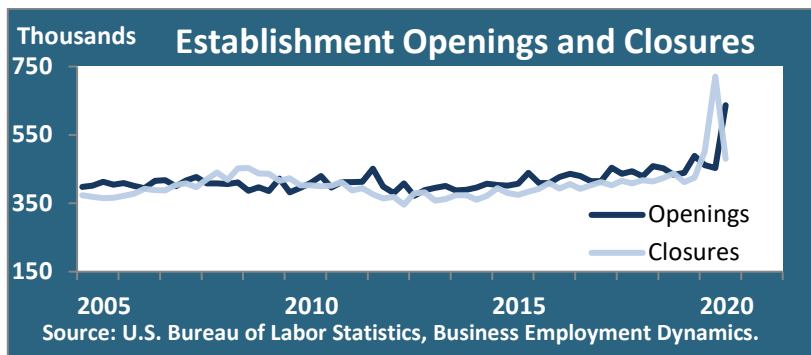
Small Business at a Glance

The COVID-19 pandemic was an economic shock to small firms and the effects were not easily predictable. An unprecedented number of establishments closed at least temporarily, jobs are rebounding but have not yet reached pre-pandemic levels, proprietor's income rebounded quickly, and business bankruptcies seem unaffected so far. Financial conditions have improved and remain accommodative to economic growth. Meanwhile, financing remains reasonably tight for small businesses with subpar credit scores.

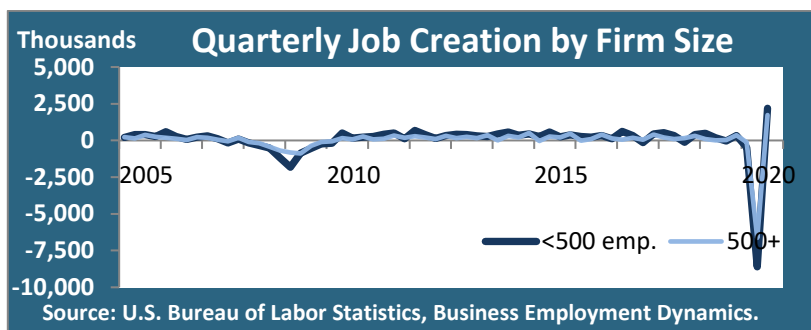
General



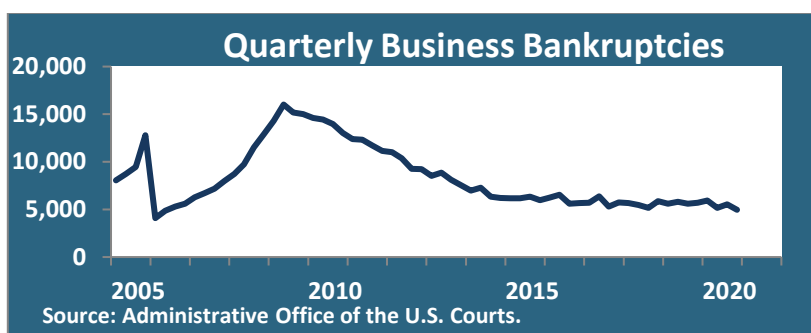
After a large drop in proprietors income in mid-2020, most likely from the COVID-19 related economy-wide shock, income recovered by the end of the year. The steep decline and recovery is in sharp contrast to the more drawn-out decline and recovery from the Great Recession.



Many quarterly establishment openings and closures (business locations with employees) are from seasonal firms, but the 2nd quarter 2020 closure spike is historically high. In the 3rd quarter, it seems that many establishments but not all returned to having employees.

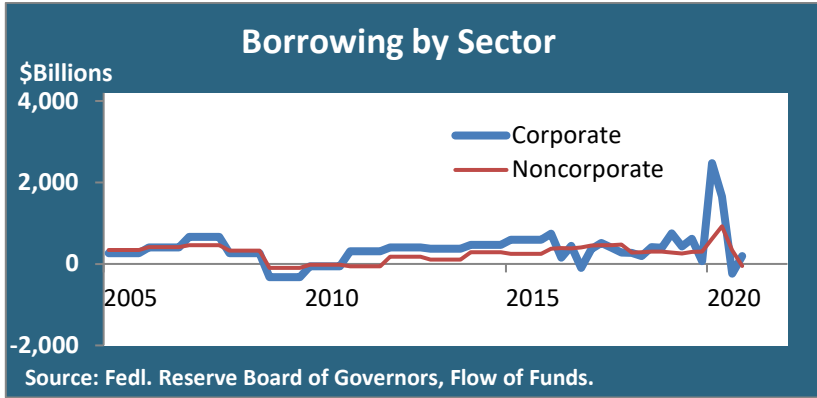


The first half of 2020 saw firms lose over 15 million net jobs, which was equivalent to the previous 7 years of job gains for both small (<500 employees) and large firms. More recent BLS private-sector employment levels show that about 40 percent of the total loss was regained by February 2021.

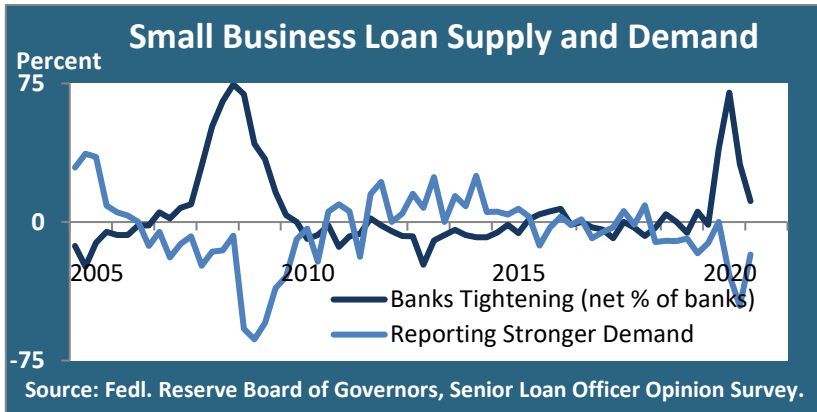


Over a decade ago, the Great Recession and changes to bankruptcy protection from the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 likely led to large increases in business bankruptcies. But bankruptcies did not rise from COVID-19 related impacts last year. Current economic conditions could drive businesses to bankruptcy in the future, though current data does not show an uptick. However, businesses can close without filing for bankruptcy.

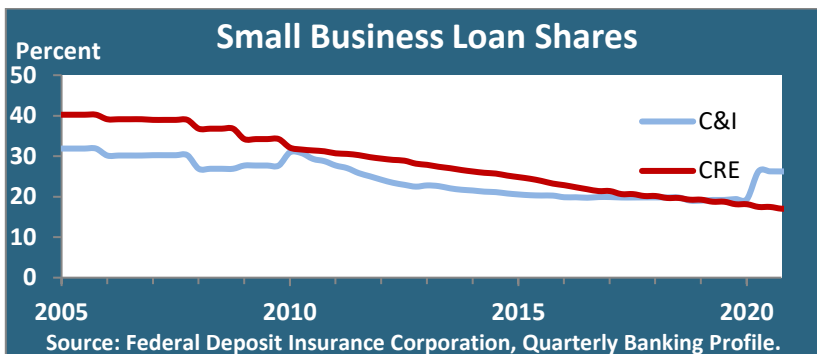
Finance



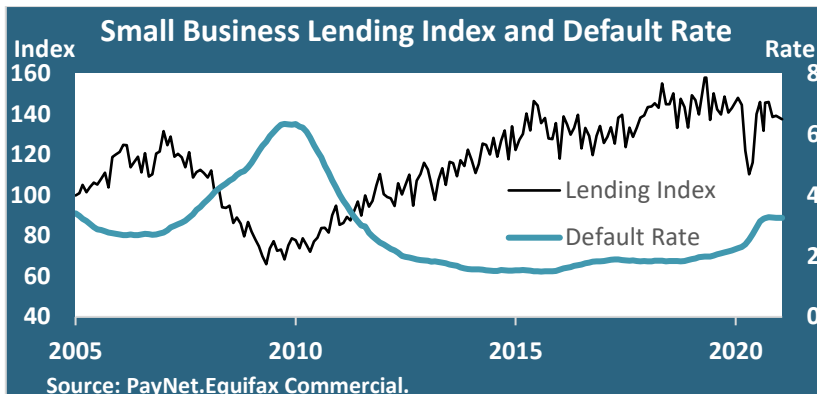
The corporate (nonfinancial) business sector was able to use various borrowing (seasonally adjusted annual rates) methods in 2020 to sure up their finances while the noncorporate business sector (mainly comprised of small businesses) had limited success with this lifeline.



Bank lending standards for small businesses remained tight in the last few quarters. Demand for loans continued to be subdued.



The increase in small business loan share (loans \$1 million or less) is being driven by commercial and industrial (C&I) loans. In the fourth quarter of 2020, outstanding C&I loans grew over 50% compared with the fourth quarter of 2019. The growth is related to the SBA's Paycheck Protection Program (PPP). Not surprisingly, the PPP has had very little to no effect on the commercial real estate (CRE) loan market.



The index shows a small recovery in the second half of 2020 after emerging from a trough in the first half of the year. The PPP brought some relief to small businesses hurt by the pandemic. Toward the end of the year lending leveled off, which may reflect a slowdown in PPP lending. Additionally, small business loan defaults rose in mid-2020 but are well below Great Recession peaks.

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