

COVID-19 Impacts on Small Businesses

Summary

SANDAG's [employment analysis](#) on July 8 estimated the region's unemployment at 14.3%. This number was down from 25% at the peak of the COVID-19 pandemic, but unemployment is expected to increase again as reopening plans are rolled back. A quarter of a million residents in the region remain unemployed.

Small businesses are vital to driving economic growth in the San Diego region, accounting for more than half of the region's employment. More than 95% of businesses in the region are small businesses with fewer than 500 employees.¹ The new Census Small Business Pulse Survey (SBPS) collected data between April 26 and June 27 to assess how these small businesses have been affected by the pandemic and monitor them throughout the reopening.² This report is an analysis of those data.

Typically, small businesses suffer more during recessions because they have much smaller cash reserves than larger businesses, and they usually have a more difficult time securing a bank loan. The COVID-19 pandemic is even more damaging because small businesses account for a large share of jobs in the hardest hit sectors.

As our [May report](#) indicated, retail, food and beverage, and personal care services were among the most affected sectors due to dramatic declines in sales and revenue following shut-downs in mid-March. By June 27, when small businesses in the San Diego region were asked when they believed they would return to normal levels of operation, *38% (approximately 26,000 firms) believed it would take more than six months to recover, and just over 12% (approximately 8,000 firms) believed they would not recover at all.*

Takeaways

- *9 in 10* small businesses in the region suffered a negative impact
- *more than 80%* of small businesses reported being negatively affected
- in late April, *more than three-quarters* of the San Diego region's small businesses applied for Paycheck Protection Program (PPP) loans
- there are still *more small businesses laying off than hiring employees*

What's new?

Following the increase in COVID-19 cases, Governor Newsom and local county officials have rolled back some of the reopening plans.

July 1

Bars, breweries, and wineries that do not serve food were ordered to close.

July 7

Restaurants, bars, breweries, wineries, movie theaters, family entertainment centers, zoos, museums, and cardrooms were ordered to stop indoor operations.

July 13

Gyms and fitness centers, places of worship, offices for non-essential infrastructure sectors, hair salons and barbershops, personal care, and indoor malls were ordered to close indoor activities.

¹ U.S. Census Bureau, 2017 Statistics of U.S. Businesses.

² The Small Business Pulse Survey (SBPS) is a new weekly survey developed by the Census Bureau to measure the effect of the COVID-19 pandemic on small businesses. It covers all non-farm, single-location employer businesses with 1–499 employees and receipts of \$1,000 or more. It was run weekly between April 26 and June 27.

In the fourth week of June, *37% of small businesses in the region* still reported a large negative impact from COVID-19, and *45%* reported a moderate impact—in total, *82%* reported being negatively affected. This percentage is less than it was at the end of April, when *91%* of local small businesses reported a negative impact.

Most Impacted Small Business Sectors

Hospitality; professional scientific and technical services firms; construction; and healthcare have the largest number of small business employees in the region and account for *50% of small business employment*. Sectors like construction and real estate account for many of the jobs, and close to two-thirds of the jobs are in wholesale trade (*65%*) and hospitality (*57%*).

When looking at small business sectors most impacted by the COVID-19 pandemic, accommodation and food services; transportation and warehousing; arts, entertainment, and recreation; educational services; and other services* are among the hardest hit (displayed in red on Figure 1).

Tourism and entertainment (e.g., accommodation and food services) sectors account for a high percentage of small businesses that reported considerable negative effects and believe it will take several months to recover. High-contact sectors like transportation, education, and personal care services are also among those who have suffered considerably.

Small businesses in the sectors displayed in green in Figure 1 reported fewer negative impacts and seem to have higher confidence in recovery. These businesses include construction, and businesses that could more easily continue activity remotely, such as financial and administrative services.

Figure 1: Overall Impact vs Outlook for Week Ending June 27, 2020, State of California



Source: U.S. Census Small Business Pulse Survey, Week Ending June 27, 2020. This figure uses California responses to the survey, as the San Diego sample size is too small to accurately account for each sector level.

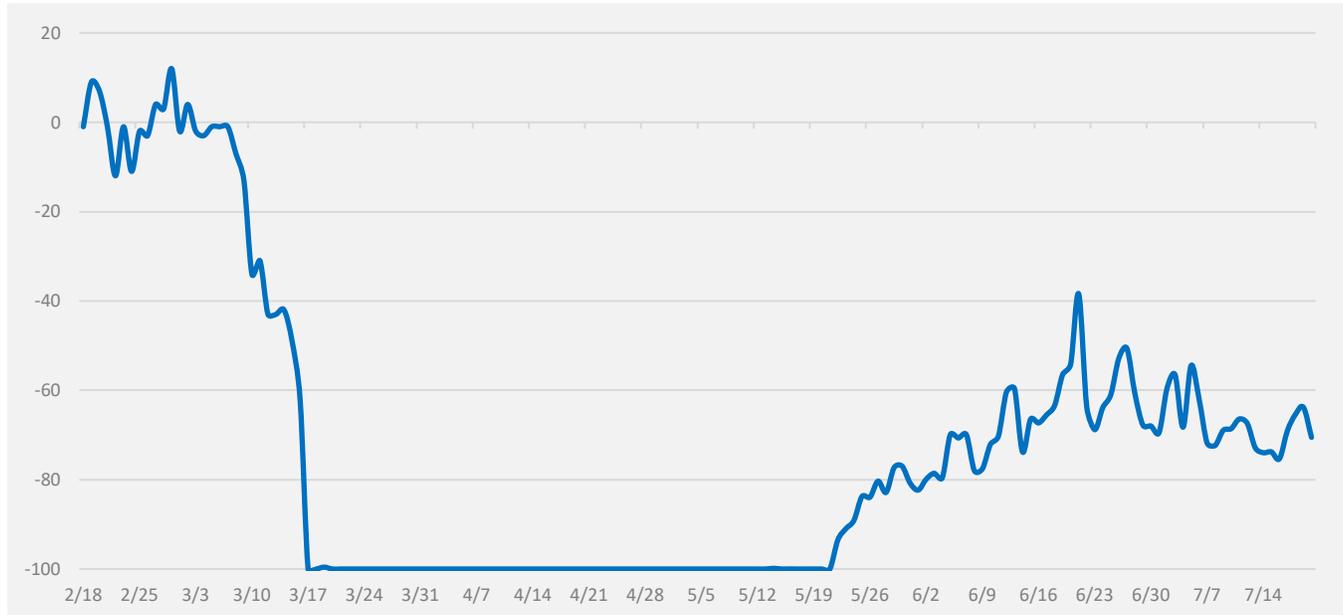
* Other Services include activities such as: equipment and machinery repairing, promoting or administering religious activities, grantmaking, advocacy, dry cleaning and laundry, personal care, death care, pet care, photofinishing, temporary parking, and dating services.

Local restaurants and bars account for a large percentage of the small businesses in the accommodation and food services sector. As SANDAG previously reported, those businesses were among the first affected by the stay home order. When allowed to recently reopen, they had to follow strict social distancing rules that limited capacity and generated additional operating costs. Then in early July, those businesses were ordered to partially close again. Several restaurants around the region did not reopen after the stay home order was lifted.

By the end of June, the number of restaurants taking reservations was still *40% below the year prior*, suggesting that many had remained closed either temporarily or permanently. Additionally, the number of restaurant reservations was *60% below June 2019* as shown in Figure 2. The lag between actual reservations and the number of open restaurants likely reflects social distancing regulations in place for open restaurants and may reflect persisting COVID-19–related worries.

On July 7 and 8, reservations dropped to *72% below pre COVID-19 levels* following the new restrictions. This was the first time since June 14 that reservations were more than 70% below the levels at the same time in 2019.

Figure 2: San Diego, Seated diners from online, phone, and walk-in reservations, % change from a year ago



Financial Impact

While the San Diego region employment sectors do not exactly mirror those at the national level, when we look at small businesses in the U.S., we can see how pre COVID-19 small business financial fragility has turned in a devastating trend with the crisis. Before COVID-19, *only 14%* of U.S. small business owners reported they would have sufficient cash on hand to continue normal operations if they experienced a two-month loss in revenue, while *86%* would need to find additional funding or cut expenses, according to the Federal Reserve Small Business Credit Survey.³ Seventeen percent (*17%*) reported that they would have to close down or sell if faced with such a situation.

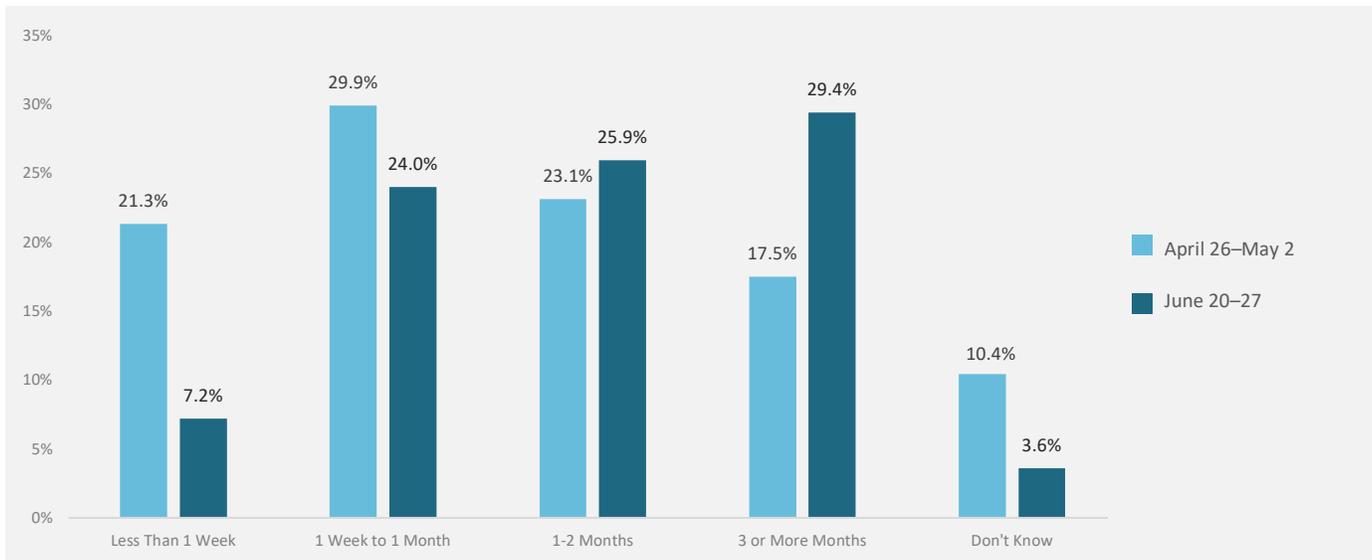
At the start of the Census SBPS in late April, *more than three-quarters* of the San Diego region’s small businesses applied for Paycheck Protection Program (PPP) loans, and *95%* of those businesses received funding after two to three weeks. *One-third* of small businesses applied for economic injury disaster loans, and *three-quarters* of those businesses received funding.

³ fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/2020-sbcs-employer-firms-report

From April 26 to May 2, more than 50% of San Diego region small businesses had less than one month of cash reserves on hand, **13%** reported having missed a loan payment, and **30%** reported having missed other scheduled payments such as rent, utilities, and payroll.

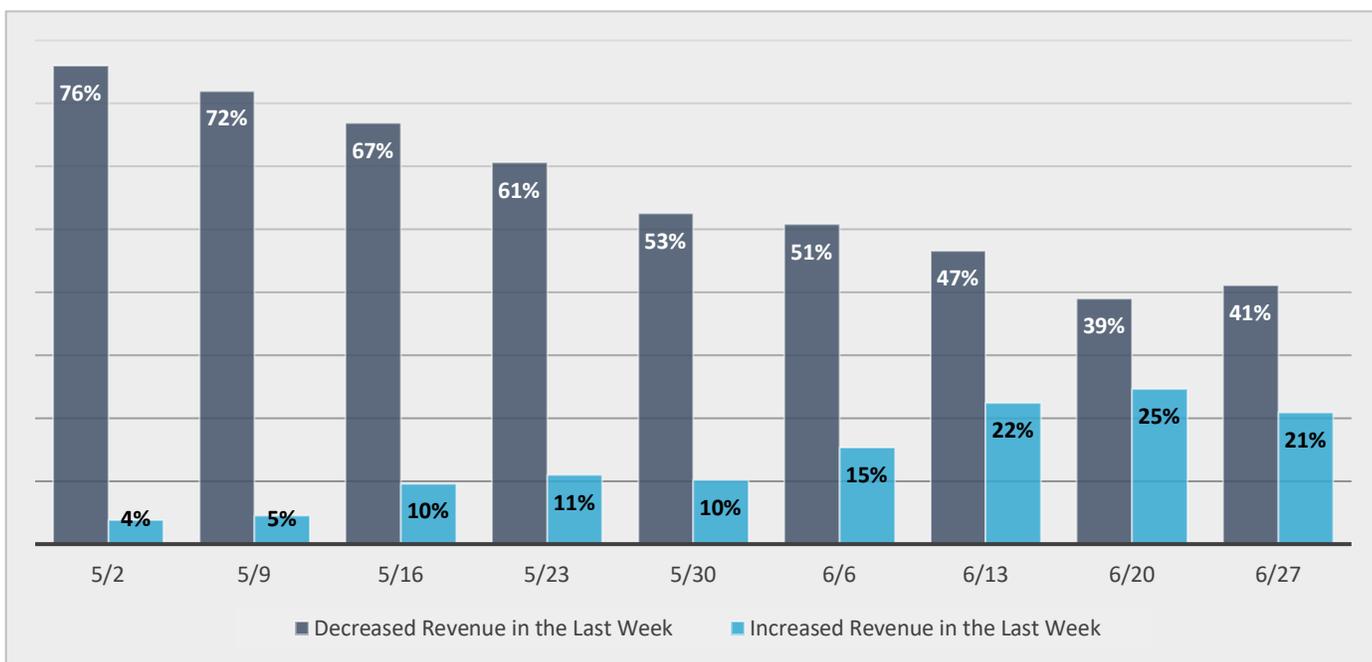
Federal and local financial assistance helped limit the number of missed payments and allowed businesses to build some financial buffers. Fewer businesses reported missed payments in the last week of June (**4.6%** have missed loan payments and **13.6%** have missed other payments). By June 27, the reopening of the economy and the availability of financial assistance improved the situation for small businesses.

Figure 3: SBPS Question - How would you describe the current availability of cash on hand for this business, including any financial assistance or loans?



Source: U.S. Census Small Business Pulse Survey, Week Ending June 27, 2020

Figure 4: SBPS Question – Has your revenue decreased or increased in the last week?



Source: U.S. Census Small Business Pulse Survey, Week Ending June 27, 2020

Recovery Outlook

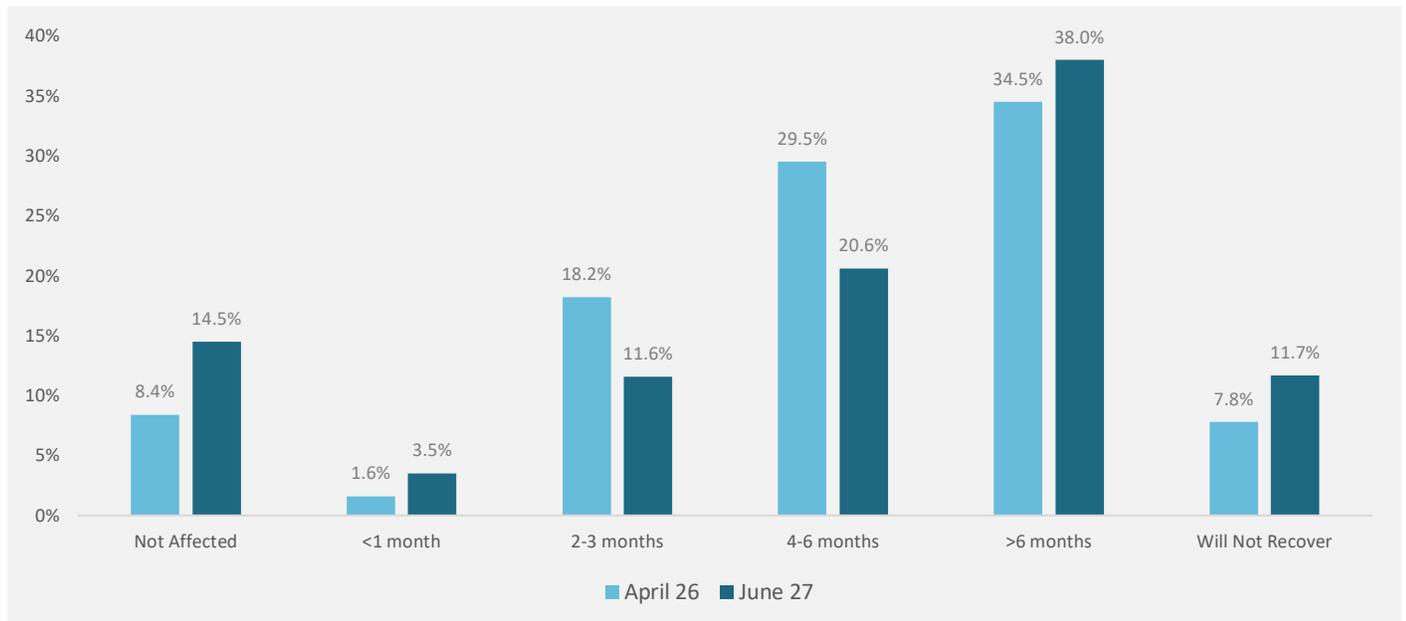
The ability for small businesses to recover will be key for the recovery of the region. With the initial reopening of the economy, there have been some indications of an improvement in terms of small businesses. However, this improvement was already sluggish.

Data from Homebase, a free scheduling and time-tracking tool used by about 60,000 businesses in the U.S., especially restaurant, food and beverage, retail, and services (mostly individual-owned/operator-managed businesses), seems to confirm that employment has lagged in the reopening. At the end of June, both number of hours worked, and employment were about *30% below the median* for that day of the week during the period between January 4, 2020, and January 31, 2020. The low was *60% below the median* in mid-April.

Moreover, the number of small businesses that do not expect to recover within the next 6 months, or that do not expect to recover at all, has increased over time, with nearly 12% of small businesses reporting as of June 27 they do not believe they will recover. Nearly 40% of businesses believe it will take more than six months to recover (Figure 5).

McKinsey estimates that *about one in four* California small businesses are at high risk of permanent closure, and *one in ten* are at a moderate risk of permanent closure.⁴ As applied to San Diego, this would mean that 160,000 to 200,000 jobs could be permanently lost.

Figure 5: Evolution of the small business outlook in San Diego Region between end April and end June (SBPS Question - In your opinion, how much time do you think will pass before this business returns to its normal level of operations relative to one year ago?)



Source: U.S. Census Small Business Pulse Survey, Week Ending June 27, 2020

⁴ mckinsey.com/featured-insights/americas/which-small-businesses-are-most-vulnerable-to-covid-19-and-when

It is clear by now that the recovery will take time, and it is very likely that more small businesses will close for good. Figure 6 represents the different recovery scenarios SANDAG is currently considering, with the economy going back to pre-COVID trends in 2023 at the earliest, but potentially much later.

The roll back in reopening and the impact of the recent increase in COVID-19 cases on consumer behavior is not reflected in the survey data presented in this report. While the Census Bureau has temporarily discontinued the Small Business Pulse Survey, other weekly indicators such as the Opportunity Insights economic tracker put together by Chetty, Friedman, Hendren, Stepner, and the OI Team (2020)⁵ shows a decrease in the number of small businesses that were open in San Diego in the first two weeks of July as well as some declines in revenues. SANDAG will continue to monitor trends together with other high-frequency data to track the impact of the pandemic on the San Diego regional economy.

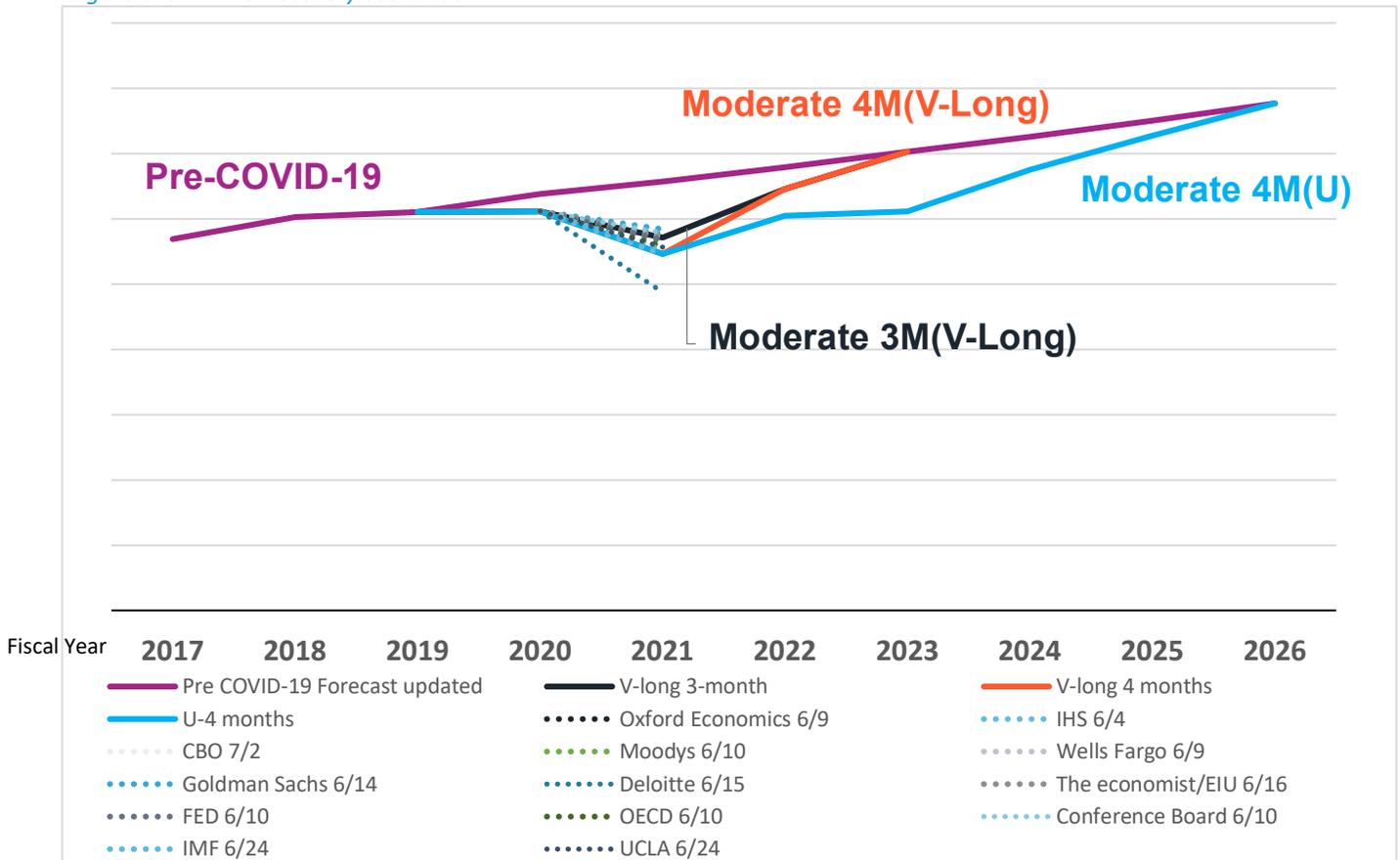
Shape of the recovery

- V ruled out
- Assumption: No return to pre COVID-19 levels until a vaccine is available
- Most Likely Scenario: V Long or U Long depending upon the speed at which all businesses can reopen

Possible lasting effects beyond 2026

- Discouraged workers leaving the workforce
- Educational disruptions (students drop out rates)
- Less investment in the capital stock
- Existing capital less productive given restrictions
- Real Estate, Commercial Leasing

Figure 6: SANDAG Recovery Scenarios



⁵ Raj Chetty, John N. Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team (2020) How Did COVID-19 and Stabilization Policies Affect Spending and Employment