

# What Are the Impacts of COVID-19 on Small Businesses in the U.S.? Early Evidence based on the Largest 50 MSAs

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## Abstract

The COVID-19 pandemic has caused an unprecedented impact on both the health and economic well-being of the U.S. Small businesses have been particularly financially affected amid the outbreak of COVID-19. Based on the first nine weeks of U.S. Small Business Pulse Survey data, this study examines the impacts of COVID-19 on small businesses across the 50 most populous metropolitan areas in the U.S. with an individual growth model. The results demonstrate significant disparities in impacts across regions and over time. Although the infection and death incidents directly impacted business operations, the social, economic, and demographic vulnerability and public policies were additionally critical to our understanding of these patterns. The findings directly contribute to scholarship on regional resilience under pandemic disruption from the perspective of small businesses. More specifically, our work sheds light on the relationship between regional socioeconomic vulnerability and small business resilience. The results provide rich implications for practices and public policymaking.

## Research Objective

As of 2019, small businesses accounted for 99.9% of U.S. firms, employed 47.5% of all U.S. workers, and generated 1.9 million net new jobs. Their resilience and recovery are vital to the well-being of the country and people. This study seeks to understand the multi-level factors and forces that are related to small businesses' experiences under the impacts of COVID-19 from a regional (MSA) perspective. Undoubtedly, the pandemic has caused an unprecedented impact on both the health and economic well-being of the U.S. Because of the nature of the disaster, as well as the stay-at-home and social distancing measures, many sectors have been disproportionately impacted, such as food, accommodation, art, and recreation. It has also been reported that the pandemic has exacerbated economic and racial inequality. Compared with big firms, small businesses are more likely to struggle amid the pandemic, and they are more likely to rely on community support. Results from this study can be utilized to help small businesses recover from the ongoing COVID-19 pandemic and prepare for any subsequent public health tragedies allowable use on any parcel zoned for office or retail use. The bill's goal was to facilitate the conversion of aging retail centers into housing centers.

## Significance

The study is among the first set of research on regional resilience to and recovery from viral pandemics, and more specifically, the ongoing COVID-19 pandemic. First, much of the related literature was focused on recovery from natural disasters (e.g., floods, hurricanes/typhoons, etc.) or economic recessions (e.g., the Great Depression, the Great Recession, etc.). Our empirical study provides evidence on small businesses' resilience to the pandemic at the regional level, which remained largely underexplored. Second, while studies of regional resilience have been dominant by regional GDP growth and employment, the current study provides a unique approach to examine regional resilience through the perspectives of small businesses in coping with a pandemic-style crisis. Third, pandemic disruptions are not evenly distributed across social, economic, and racial groups. This study sheds light on the role of social inequalities, racial disparities, and poverty as critical sources of vulnerability and lack of resilience. Thus, this research will bridge and connect literature on disaster and resilience, inequality, and regional development.

Built upon the literature on small business resilience and regional resilience, this study contributes to our understanding of the impacts of COVID-19 on small businesses and has important theoretical implications for regional resilience to pandemic disasters from the perspective of small businesses. First, the largest 50 MSAs have shown significant differences in pandemic impacts at the early stage (April 26 – June 27, 2020). These impacts on small businesses were highly volatile and changed significantly each week. These findings indicate that a longitudinal perspective should be adopted. Second, the findings from this study differ from the regional resilience literature in terms of whether the regional economic structure is relevant. The findings from this study indicate that the industrial diversification and sectoral mix were not significant factors associated with the pandemic's impacts on small businesses. In contrast, regional socioeconomic vulnerability, and the constantly changing regional health statistics and public policies, helped explain the differences of negative impacts experienced by small businesses at the regional level.

## Selected Findings

First, the impacts of COVID-19 on small businesses at the early stage (April 26 – June 27, 2020) differed significantly across the largest 50 Metropolitan Statistical Areas (MSAs) in the U.S., regardless of the type of impact (e.g., small business owners' subjective assessment, business operational challenges, business shifting experience). Take the revenue loss as an example, as shown in Figure 1: at Week 1 (April 27 – May 2, 2020), more than 58% of small businesses in each of the top 50 MSAs suffered from a decrease in revenue in the past month; by Week 9 (June 21 – June 27, 2020), the MSA suffering most was Orlando-Kissimmee-Sanford, FL, where 55.7% of small businesses reported a revenue decrease in the past month. While the negative impact on revenue in every MSA abated during this period, the extent varied. For instance, compared with New York-Newark-Jersey City, NY-NJ-P, which experienced a 38.9% decrease (from 79.4% to 40.5%), Los Angeles-Long Beach-Anaheim, CA, which also experienced high infection rates at the start of the pandemic, only suffered a 27.3% decrease (from 78.3% to 51%).

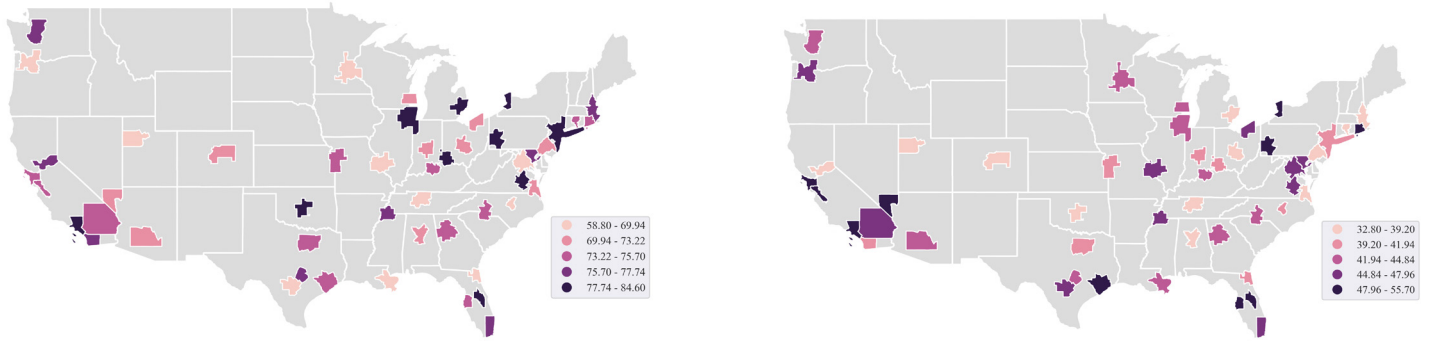


Figure 1 Proportion of small businesses suffering from decreased revenue in the past month across the largest 50 MSAs.

Second, a region’s economic, social, and demographic vulnerability is significantly associated with the pandemic’s impacts on small businesses. For instance, for a region with a higher percentage of non-working-age residents, residents with a disability, and single-parent households, fewer small businesses shifted businesses at Week 1 (April 27 – May 2, 2020), suggesting that regional socio-demographic vulnerabilities presented a significant barrier for small businesses to adopting alternative strategic paths to survive the pandemic. Besides, regions with more minority workers in essential small businesses (e.g., accommodation, food service, arts, entertainment, recreation, and educational services) were disproportionately disadvantaged in terms of reduction in paid working hours.

Third, the particular health situation, as well as public policies in a region, is closely related to the operational challenges of small businesses. While reopening the economy helped fight operational challenges, the findings indicate that cautions should be taken to avoid increased death cases from COVID-19. Regional increases in deaths from the pandemic could discourage workers from going to work and customers from consuming certain products, such as enjoying take-outs or delicious meals at a restaurant. We also find federal assistance programs targeted at providing financial relief to small businesses (e.g., Paycheck Protection Program (PPP), Loan Forgiveness, Economic Injury Disaster Loans (EIDL)) helped with operational challenges, but did not help small business owners to build confidence. Reopening the economy also did not build confidence among small business owners. Other programs should be considered to help build owner confidence.

In sum, our research shows significant differences in the negative impacts experienced by small businesses across regions and overtime at the early stage of the COVID-19 outbreak in the U.S. The geographical inequality and its temporal dynamics can be partially explained by factors like regional socioeconomic vulnerabilities, changing health statistics, and pandemic-related public policies. As each region has a different combination of social, economic, and institutional characteristics, place-based policies tailored to specific regional needs should be adopted to improve regional resilience and preparedness for the next pandemic.

## **Policy Implications**

Our results from the study have significant implications for public policymaking targeted at improving regional resilience to pandemics from the view of small businesses. Reducing job segregation and lowering socioeconomic vulnerability at the metropolitan level could be an important step towards improving small businesses' resilience to the next pandemic. We have also found evidence suggesting that while reopening the economy helped with fighting operational challenges for small businesses, caution should be taken to avoid increased death cases. Besides, federal assistance programs targeted at providing financial relief to small businesses helped with avoiding revenue loss and keeping employees, but they failed to help build small business owners' confidence. Tailored programs should be placed to help in this aspect.