

# COVID-19 RECOVERY OUTLOOK: SMALL BUSINESSES

June 12, 2020  
By Stephen Roblin

Small businesses employ tens of thousands of County residents, promote social mobility, and drive local innovation and economic growth. The COVID-19 pandemic compelled governments across the world to restrict economic activity to contain the spread of the virus, which has resulted in a global recession.<sup>1</sup> From late March through the end of May, the County and the broader Washington D.C. metropolitan region were under lockdown, with residents under stay-at-home orders and non-essential businesses closed. These public health measures shuttered the local economy, triggering mass layoffs and temporary closures of small businesses in the County. Many County small businesses will permanently close both as the economy reopens (“reopening phase”) and once the economy fully opens and begins to recover (“recovery phase”). To prevent this sector of the economy from being irreparably harmed, small businesses will need help accessing private and public grants, responsible credit sources, and a wide range of business support services.

## SUMMARY OF KEY TAKEAWAYS

- The restriction of economic activity has led to a liquidity crisis that has significantly harmed thousands of small businesses.
- The current recession will likely lead to the closure of many small businesses, thereby reducing the size of the small business sector relative to big business.
- Small businesses will need help to access private and public grants, responsible credit sources, and a wide range of business support services.

*Additional OLO research on COVID-19 recovery is available here: [www.montgomerycountymd.gov/olo](http://www.montgomerycountymd.gov/olo)*

## LOCAL SMALL BUSINESS BEFORE THE PANDEMIC

Federal, state, and local policymakers define “small business” differently in providing financial assistance to small businesses operating within their jurisdictions. The County’s Public Health Emergency Grant (PHEG) Program provided \$20 million in funding for local small businesses impacted by the pandemic.<sup>2</sup> The County’s PHEG program defines “local small businesses” as for-profit and non-profit businesses that have their principal place of business in the County<sup>3</sup> and no more than 100 full-time employees.<sup>4</sup> The Maryland Small Business COVID-19 Emergency Relief Fund assists businesses with fewer than 50 employees.<sup>5</sup> The federal Paycheck Protect Program (PPP) supports businesses with fewer than 500 employees.<sup>6</sup>

Prior to the pandemic, small businesses, no matter how defined, constituted the vast majority of firms in the County. Overall, there were 27,460 businesses with employees (“employer businesses”) and 114,858 firms with no paid employees (“nonemployer businesses”), according to 2017 Census data.<sup>7</sup> On average, there are 16 employees per County small business. Of all employer businesses in the County, 94% have fewer than 50 employees, 97% have fewer than 100 employees, and more than 99% have fewer than 500 employees. (See

Table A in the **Appendix**.) The Census Bureau does not provide data on the number of small businesses by sector. However, given their predominant share of total firms, the top sectors in the County provide a good indication of the industries in which small businesses are heavily concentrated. See **Table 1**.

**Table 1. Top Five Sectors by Number of Employer Businesses and Employees (2017)**

<b>Sector Ranking</b>	<b>Employer Businesses Percentage</b>	
1. Professional, Scientific, and Technical Services	5,830	21%
2. Health Care and Social Assistance	3,745	14%
3. Retail Trade	2,582	9%
4. Other Services	2,464	9%
5. Construction	2,317	8%
All Sectors	27,460	100%

<b>Sector Ranking</b>	<b>Employment Percentage</b>	
1. Professional, Scientific, and Technical Services	79,946	18%
2. Health Care and Social Assistance	73,927	17%
3. Administrative and Support and Waste Management and Remediation Services	49,025	11%
4. Retail Trade	47,096	11%
5. Accommodation and Food Services	34,707	8%
All Sectors	439,942	100%

Data Source: Census Business Builder. Local Business Profile - Montgomery County, Maryland.

### **CURRENT IMPACTS (MARCH TO JUNE)**

The COVID-19 pandemic has caused collective, yet varied, economic harm to small businesses in the County. The restrictions on the movement of people and business operations have deprived many small businesses of desperately needed revenue, causing a crisis of liquidity. Data are not available on the number of local small business that have been forced to permanently close. However, a recent study published by the Harvard Business School found that 1.8% of small businesses that participated in a survey conducted in late March reported that they have permanently closed.<sup>8</sup> For perspective, this rate of closings would amount to around 480 small businesses in the County. While the true number of insolvent local small businesses is unknown, hundreds and perhaps thousands may be on the verge of closing.

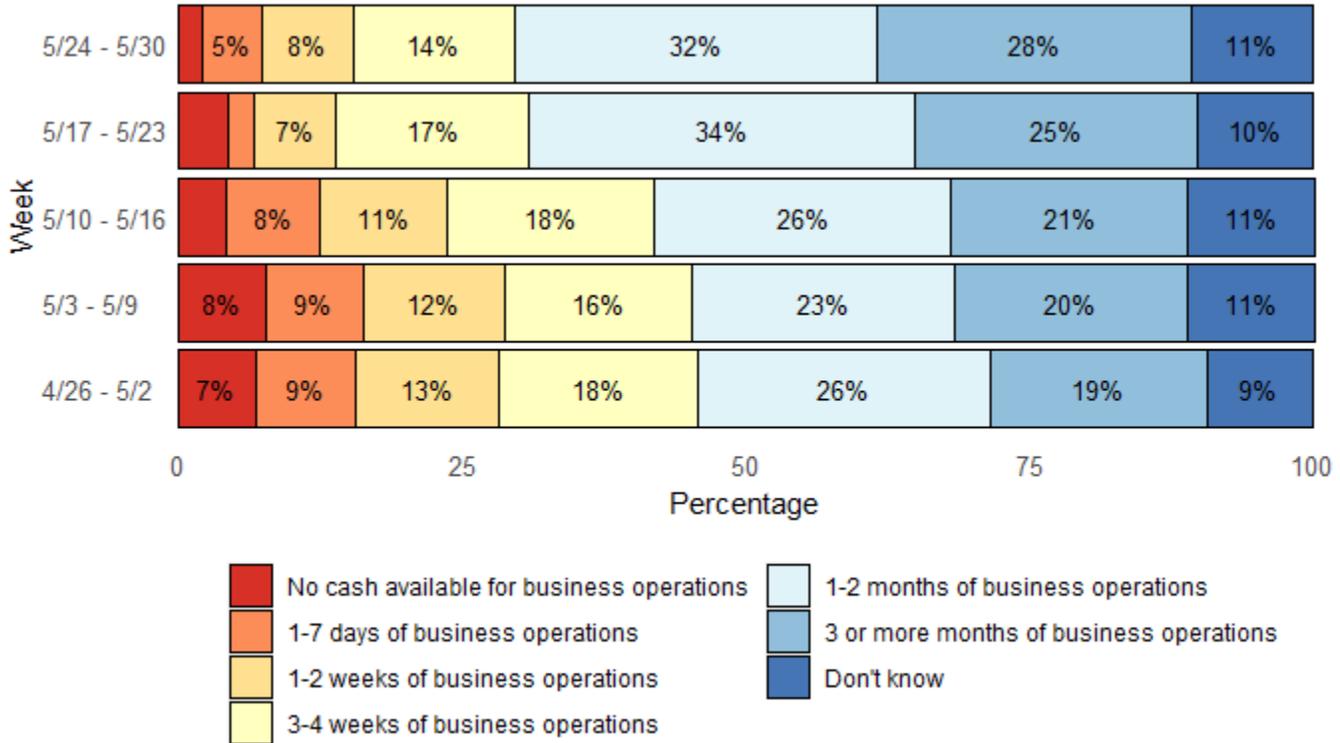
The newly released Census Small Business Pulse Survey provides a weekly snapshot of business conditions for small businesses—defined as “nonfarm, single-location employer businesses with 1-499 employees and receipts of \$1,000 or more.”<sup>9</sup> Findings at the level of the Washington-Arlington-Alexandria, DC-VA-MD-WV metropolitan statistical area (hereinafter the “Washington D.C. region”) reveal the financial fragility of local small businesses. In the first week of the survey (April 26 – May 2), the results indicate that:

- 69% had experienced a decrease in operating revenues;
- 41% had temporarily closed operations for at least one day in the previous week;
- 26% had decreased the number of paid employees in the previous week;
- 50% had decreased the number of hours worked by paid employees in the previous week;
- 41% had experienced disruptions in their supply chain;

- 14% had missed loan payments; and
- 28% had missed other scheduled payments (e.g. rent, utilities, and payroll).

More alarming, 73% of small businesses in the Washington D.C. region did not have enough cash on hand to cover more than two months of business operations, with 29% unable to cover more than two weeks of expenses and 7% having no cash available. See **Figure 1**. Without financial relief and/or a sharp increase in revenues, cash-strapped businesses will be at-risk of closing (if they have not already).

**Figure 1. Availability of Cash on Hand to Cover Business Operations**



Across subsequent weeks of the survey, several of the findings are trending in a positive direction. Over the five weeks of available survey data, there have been reductions in the number of businesses that have (a) enough cash to cover only two weeks of business operations, (b) closed operations for at least one day, (c) decreased the number of paid employees and total hours worked, (d) experienced supply chain disruptions, and (e) missed loan and other scheduled payments. These trends are likely due to the sharp increase (approximately 35%) in businesses that have received PPP funds. (See the **Appendix** for results for key questions in the survey.)

Despite these trends, the survey findings indicate that some small businesses in the region remain financially fragile. To illustrate, as of late May, 15% of small businesses still were unable to cover more than two weeks of expenses and 2% of small businesses had no cash available. (These figures are down 14% and 5% respectively from the week of April 26 to May 2.) OLO cannot identify these financially fragile small businesses from the Census Small Business Pulse survey. However, other studies indicate that vulnerable small businesses in the County can be identified by industry, telework feasibility, size, age, relationship with banking system, ownership identity, and workforce characteristics.

## What small businesses have been most impacted?

- **Smaller Businesses:** These businesses, especially those with fewer than 20 employees, have been heavily impacted for two reasons: Relative to larger business, (1) they were more likely to enter the recession in poor financial health (low profits, high credit risk, and low retained earnings), and (2) they have been less likely to receive PPP funds.<sup>10</sup>
- **Sectors Dependent on Discretionary Income:** The retail, arts and entertainment, personal services, food services, and hospitality industries have been most impacted by the economic restrictions. (See OLO report on the impact of COVID-19 on the hospitality sector [here](#).) These sectors rely on discretionary spending, which has declined sharply due to restrictions on economic activity and decreases in household income. These sectors also have been less likely to receive PPP funds.<sup>11</sup>
- **Businesses Reliant on In-Person Exchanges:** Businesses that rely on in-person exchanges with their customers have been hindered in adopting telework to maintain operations. (See OLO report on the impact of COVID-19 on telework [here](#).)
- **Younger Businesses:** These businesses were more likely than their older counterparts to enter the recession in poor financial health.<sup>12</sup>
- **Minimal Relationship to Banks:** Many small businesses lack formal relationships with the banking system. Indeed, previous studies found that fewer than 20% of small businesses rely on loans from banks for start-up and expansion capital.<sup>13</sup> A study by the New York Federal Reserve found that businesses that lack existing relationships with banks have been less likely to receive PPP funding.<sup>14</sup>
- **Minority-Owned Businesses:** These businesses were more likely than majority-owned businesses to enter the recession in poor financial health and have been less likely to receive PPP funds.<sup>15</sup>
- **Workforce Vulnerability to COVID-19:** Businesses with workers who are from social groups disproportionately affected by COVID-19—Black, Latinx, low-income, less educated, older, etc. — have experienced significant disruptions to business operations.<sup>16</sup>

## IMPACTS DURING THE REOPENING PHASE

Governor Hogan and County Executive Elrich have begun to slowly reopen the State and County economies. But until the local economy fully reopens and small businesses can operate at full capacity, the small business sector will remain highly vulnerable. For the duration of the reopening phase, the following prognosis appears likely:

The liquidity crisis facing small businesses in the County will continue for several reasons. First, consumer demand will be reduced due to sharp decreases in household income resulting from partial or full loss of employment.<sup>17</sup> Second, the supply of credit is already tightening and will likely continue to contract.<sup>18</sup> Third, given the scale of the recession, the uncertainty of future federal relief, and resource constraints at the state and local levels, relief measures may not provide the full amount of liquidity needed to help all small businesses that are hanging on by a thread. Ultimately, thousands of small businesses, especially those in the at-risk categories identified above, may close before the economy fully reopens. And many that manage to hang on until the reopening may remain financially fragile.

The survival rate of small businesses will depend heavily on the duration of COVID-19 disruptions. In the study published by the Harvard Business School, researchers asked small businesses across the country in late March on the likelihood of remaining open by the end of the year based on the duration of the disruptions. 53% of respondents believed it would be unlikely to remain open if disruptions last until July, and 61% if they last until September. These results reflect the expectations of business owners in the entire sample and thus are not

specific to the County. However, extrapolating the findings to the County suggest that more than 14,000 of small businesses could face grim prospects of survival if severe disruptions continue until July and September.

## IMPACTS DURING THE RECOVERY PHASE

A large number of small businesses will likely close during the remainder of the economic disruptions. What will be the impact of this development during the eventual economic recovery? To be sure, entrepreneurs will start new businesses that will replace some of the small businesses lost during the pandemic-induced recession. The creation of new small businesses could be helped by emerging market conditions, such as low commercial property rents.<sup>19</sup> (See OLO report on the impact of COVID-19 on commercial real estate [here](#).) However, it is far from certain that market conditions on their own will restore the local small business sector to its previous position in the County economy. Compared to larger firms, small businesses have been much harder hit by the recession and may continue to close at significantly higher rates. As occurred in the Great Recession, mass small business closures in this recession will accelerate long-standing trends of declining small business formation and increasing reliance on large firms for employment.<sup>20</sup> In other words, this crisis could “further shift the balance of power — and jobs — toward big businesses” both in the County and nation at large.<sup>21</sup>

The potential for the County economy to become substantially less reliant on the small business sector would create significant economic and social costs. Economically, the decline of small business could undermine job creation and innovation, and may prevent individuals from disadvantaged groups from harnessing their full economic potential.<sup>22</sup> Socially, a decline in small business employment could exacerbate the decades-long trend of declining social mobility for disadvantaged groups in the U.S.<sup>23</sup>

## TAKEAWAYS

Without strategic interventions, the small business sector may not recover to its pre-pandemic state. How can County policy-makers assist small businesses? Major small business advocacy organizations largely agree on the forms of assistance their constituencies need to cope with the pandemic and recession.<sup>24</sup> These groups call on leaders across levels of government to take the following actions in the short-term:

- Provide and help small businesses access grants (not loans) from public and private sources.
- Provide and help small businesses access a wide range of business support services. These services include: guidance on how to protect employees and customers from COVID-19; technical training on website development, e-commerce, and social media; and guidance on how to modify business models (i.e. new ways of providing goods/services to customers).
- Expand programs to support workers by meeting their healthcare, housing, childcare and other needs.
- Help small businesses and entrepreneurs access *responsible* credit sources, namely mission-driven financial institutions with experience helping small businesses in distressed communities, such as Community Development Financial Institutions and “angel investors.”

Given the severity of the economic recession, small businesses in the County will need these forms of assistance over the longer-term. In addition, County leaders might also consider creating a publicly-chartered nonprofit financial institution that is devoted to supporting local small business, similar to the Montgomery County Green Bank that was established to promote environmentally-friendly capital investment.

## Endnotes

<sup>1</sup> Gita Gopinath, "The Great Lockdown: Worst Economic Downturn Since the Great Depression," IMFBlog, April 14, 2020, <https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/>.

<sup>2</sup> Montgomerycountymd.gov, Council Approves Emergency Relief Package for Local Employers and Vulnerable Residents, Montgomery County, Maryland, [https://www2.montgomerycountymd.gov/mcgportalapps/Press\\_Detail.aspx?Item\\_ID=25104&Dept=1](https://www2.montgomerycountymd.gov/mcgportalapps/Press_Detail.aspx?Item_ID=25104&Dept=1).

<sup>3</sup> Montgomery County Code defines principal place of business in the county as "A regular course of business commerce in the County by a business, along with any of the following: (1) The business has its physical business location(s) only in the County; or (2) The business has physical business locations both in and outside of the County, and the County-based location(s) account for over 50% of the business's total number of employees, or over 50% of the business's gross sales." Montgomery County Code § 11B-2.4.72.

<sup>4</sup> County Council, Expedited Bill No. 16-20 Economic Development Fund – Public Health Emergency Grant – Established, Montgomery County Maryland, <https://apps.montgomerycountymd.gov/ccllms/BillDetailsPage?RecordId=2655&fullTextSearch=16-2.0>.

<sup>5</sup> Commerica.maryland.gov, Maryland Small Business COVID-19 Emergency Relief Loan Fund, Department of Commerce, Maryland, <https://commerce.maryland.gov/fund/maryland-small-business-covid-19-emergency-relief-loan-fund>.

<sup>6</sup> SBA.gov, Paycheck Protection Program, <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program#section-header-6>.

<sup>7</sup> Census Business Bureau, Local Business Profile, Montgomery County, Maryland, <https://cbb.census.gov/rae/#industry0=00&geoid=24031&geoType=county&view=report&reportType=detailed>.

<sup>8</sup> Alexander Bartik, et al, "How Are Small Businesses Adjusting to COVID-19? Early Evidence From a Survey," Working Paper 20-102, Harvard Business School, April 18, 2020, <https://hbswk.hbs.edu/item/how-are-small-businesses-adjusting-to-covid-19-early-evidence-from-a-survey>. See also Heather Long, "Small business used to define America's economy. The pandemic could change that forever." Washington Post, May 12, 2020, <https://www.washingtonpost.com/business/2020/05/12/small-business-used-define-americas-economy-pandemic-could-end-that-forever/>.

<sup>9</sup> Portal.census.gov, Small Business Pulse Survey, Census Bureau, <https://portal.census.gov/pulse/data/#data>.

<sup>10</sup> Bartik, et al, "How Are Small Businesses Adjusting?"; Claire Kramer Mills and Jessica Battisto, "Can Small Firms Weather the Economic Effects of COVID-19?," Federal Reserve Bank of New York, April 7, 2020, <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/covid-brief>; Small Business Administration, Flash Report Small Business Administration's Implementation of the Paycheck Protection Program Requirements, Report No. 20-14, May 8, 2020, [https://www.sba.gov/sites/default/files/2020-05/SBA\\_OIG\\_Report\\_20-14\\_508.pdf](https://www.sba.gov/sites/default/files/2020-05/SBA_OIG_Report_20-14_508.pdf).

<sup>11</sup> Ibid. See also Sfullerinstitute.gmu.edu, "Washington Economy Watch," Stephen S. Fuller Institute, May 2020, [https://sfullerinstitute.gmu.edu/wp-content/uploads/2020/05/SFI\\_Economy\\_Watch\\_0520.pdf](https://sfullerinstitute.gmu.edu/wp-content/uploads/2020/05/SFI_Economy_Watch_0520.pdf).

<sup>12</sup> Mills and Battisto, "Can Small Firms Weather the Economic Effects."

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<sup>13</sup> Robert W. Fairlie, Alicia M. Robb and David Robinson, "Black and White: Access to Capital among Minority-Owned Startups," Stanford Institute for Economic Policy Research Working Paper 17-003, December 15, 2016, <https://siepr.stanford.edu/sites/default/files/publications/17-003.pdf>; Robert W. Fairlie, "Immigrant Entrepreneurs and Small Business Owners, and their Access to Financial Capital," Small Business Administration, May 2012, <https://advocacy.sba.gov/2012/05/01/immigrant-entrepreneurs-and-small-business-owners-and-their-access-to-financial-capital/>.

<sup>14</sup> Haoyang Liu and Desi Volker, "Where Have the Paycheck Protection Loans Gone So Far?," Liberty Street Economics, May 6, 2020, <https://libertystreeteconomics.newyorkfed.org/2020/05/where-have-the-paycheck-protection-loans-gone-so-far.html>;

<sup>15</sup> Mills and Battisto, "Can Small Firms Weather the Economic Effects."

<sup>16</sup> Susan Lund, et al, "Lives and livelihoods: Assessing the near-term impact of COVID-19 on US workers," McKinsey Global Institute, April 2020, <https://www.mckinsey.com/industries/public-sector/our-insights/lives-and-livelihoods-assessing-the-near-term-impact-of-covid-19-on-us-workers#>.

<sup>17</sup> Leslie Rubin and Stephanie Bryant, "COVID-19 Unemployment Update," Office of Legislative Oversight, Montgomery County, Maryland, June 5, 2020, <https://www.montgomerycountymd.gov/OLO/Resources/Files/2020%20Reports/UnemploymentOverview10.pdf>.

<sup>18</sup> Federalreserve.gov, "The April 2020 Senior Loan Officer Opinion Survey on Bank Lending Practices," Federal Reserve, May 4, 2020, <https://www.federalreserve.gov/data/documents/sloos-042020-fullreport.pdf>. See also Jessica Dickler, "For cash-strapped Americans, loans are hard to come by," CNBC, May 12, 2020, <https://www.cnbc.com/2020/05/12/amid-the-coronavirus-consumer-loans-are-in-short-supply.html>.

<sup>19</sup> Alan Ehrenhalt, "Will COVID-19 End the Downturn Comeback? Don't Bet on It," Governing, May 27, 2020, [https://www.governing.com/assessments/Will-COVID-19-End-the-Downtown-Comeback-Dont-Bet-on-It.html?utm\\_term=Will%20COVID-19%20End%20the%20Downtown%20Comeback%20Don%27t%20Bet%20on%20It.&utm\\_campaign=Will%20COVID-19%20End%20the%20Downtown%20Comeback%20Don%27t%20Bet%20on%20It.&utm\\_content=email&utm\\_source=Act-On+Software&utm\\_medium=email](https://www.governing.com/assessments/Will-COVID-19-End-the-Downtown-Comeback-Dont-Bet-on-It.html?utm_term=Will%20COVID-19%20End%20the%20Downtown%20Comeback%20Don%27t%20Bet%20on%20It.&utm_campaign=Will%20COVID-19%20End%20the%20Downtown%20Comeback%20Don%27t%20Bet%20on%20It.&utm_content=email&utm_source=Act-On+Software&utm_medium=email).

<sup>20</sup> Bls.gov, Business Employment Dynamics: Entrepreneurship and the U.S. Economy, U.S. Bureau of Labor Statistics, <https://www.bls.gov/bdm/entrepreneurship/entrepreneurship.htm>. See also Bls.gov, Chart 7. Percent distribution of private sector employment by size of firm, 1993–2015, in percent, [https://www.bls.gov/bdm/entrepreneurship/bdm\\_chart7](https://www.bls.gov/bdm/entrepreneurship/bdm_chart7).

<sup>21</sup> Heather Long, "Small business used to define America's economy. The pandemic could change that forever." Washington Post, May 12, 2020, <https://www.washingtonpost.com/business/2020/05/12/small-business-used-define-americas-economy-pandemic-could-end-that-forever/>.

<sup>22</sup> Businessnewsdaily.com, "Small Business is Good for Local Economies; Big Business Is Not, Researchers Say," Business News Daily, February 26, 2020, <https://www.businessnewsdaily.com/1298-small-business-good-for-economy.html>.

<sup>23</sup> Aparna Mathur, "The U.S. Does Poorly On Yet Another Metric of Economic Mobility," Forbes, July 16, 2018, <https://www.forbes.com/sites/aparnamathur/2018/07/16/the-u-s-does-poorly-on-yet-another-metric-of-economic-mobility/#19dcf2a16a7b>.

<sup>24</sup> Mainstreetalliance.org, "Main Street Recommendations for Pandemic Resilience," The Main Street Alliance, May 9, 2020, [https://www.mainstreetalliance.org/main\\_street\\_recommendations\\_for\\_pandemic\\_resilience](https://www.mainstreetalliance.org/main_street_recommendations_for_pandemic_resilience);

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Smallbusinessmajority.org, "Small business needs during and after the coronavirus crisis: A roadmap to recovery," Small Business Majority, May 19, 2020, <https://smallbusinessmajority.org/sites/default/files/research-reports/Small-business-needs-during-and-after-the-coronavirus-crisis.pdf>; Michael Powe and Matthew Wagner, "The Impact of COVID-19 on Small Businesses," Main Street America, April 2020, [https://higherlogicdownload.s3.amazonaws.com/NMSC/390e0055-2395-4d3b-af60-81b53974430d/UploadedImages/Resource\\_Center/COVID\\_19/NMSC57\\_MSA\\_COVID19IMAPCTSURVEY\\_F.pdf](https://higherlogicdownload.s3.amazonaws.com/NMSC/390e0055-2395-4d3b-af60-81b53974430d/UploadedImages/Resource_Center/COVID_19/NMSC57_MSA_COVID19IMAPCTSURVEY_F.pdf).

## APPENDIX

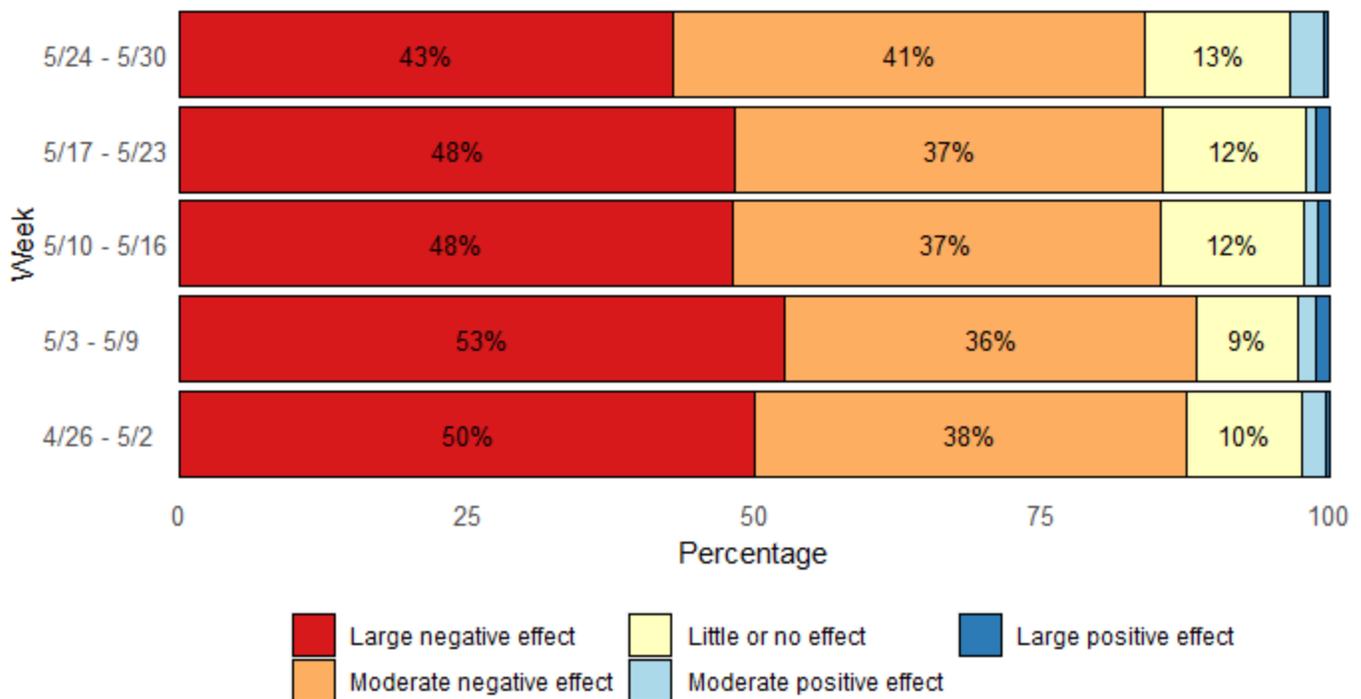
### A. County Businesses by Number of Employees (2007)

Number of Employees	Number of Businesses	Percentage	Cumulative Percentage
1 to 4	15,617	56.9%	56.8%
5 to 9	4,646	16.9%	73.8%
10 to 19	3,205	11.7%	85.5%
20 to 49	2,403	8.8%	94.2%
50 to 99	883	3.2%	97.4%
100 to 249	508	1.9%	99.3%
250 to 499	134	0.5%	99.8%
500 to 999	37	0.1%	99.9%
1000 or more	27	0.1%	100.0%
Total	27460	100.0%	100.0%

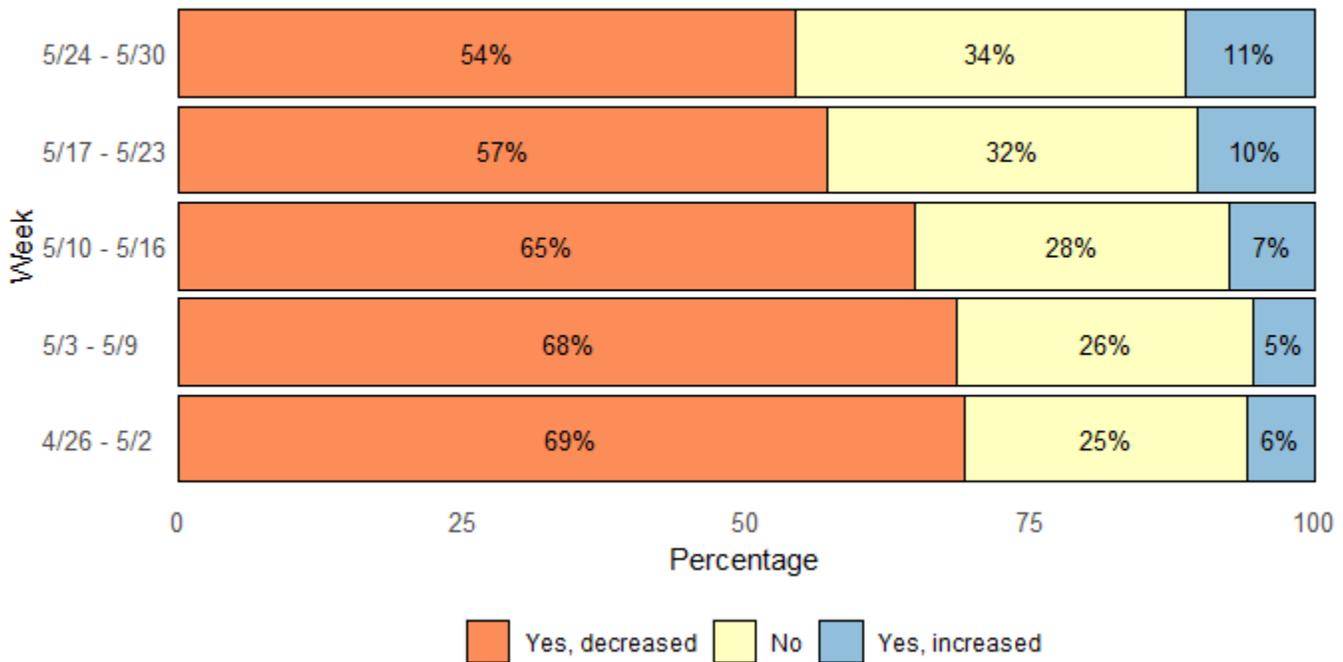
Data Source: Census Business Builder. Local Business Profile - Montgomery County, Maryland.

### B. Results from the Census Small Business Pulse Survey for the Washington D.C. Metropolitan Area

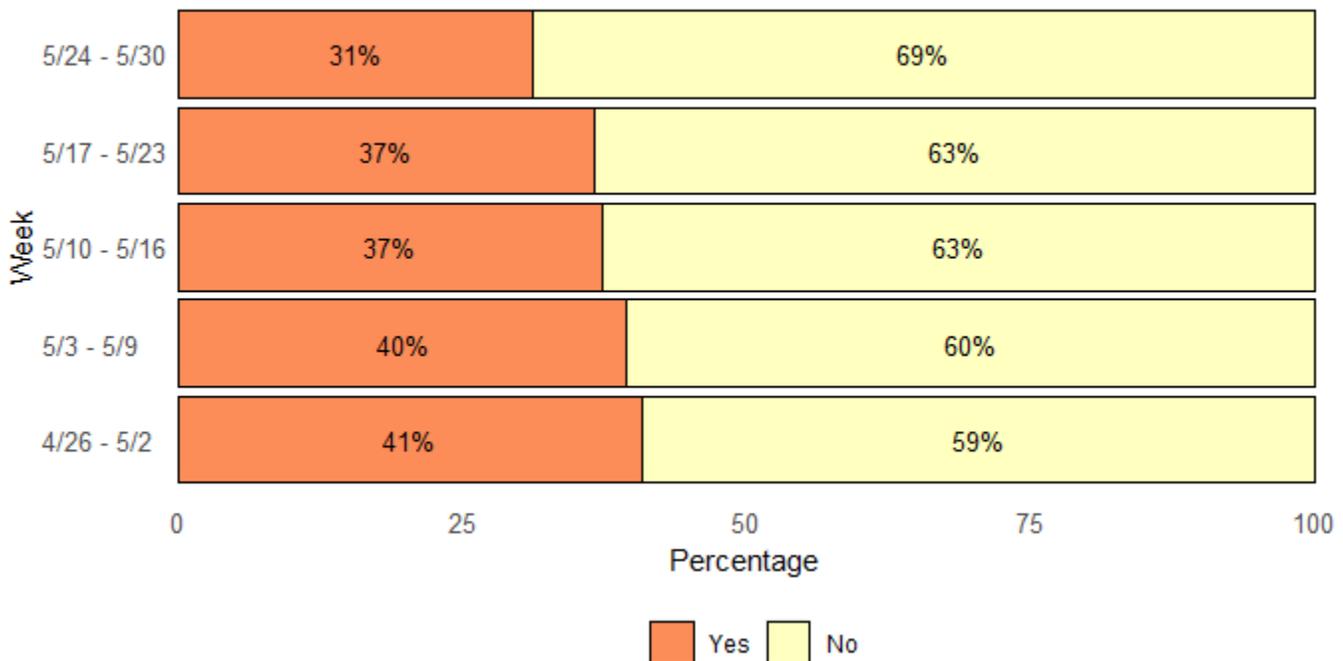
**Figure 1. Overall, how has this business been affected by the COVID-19 pandemic?**



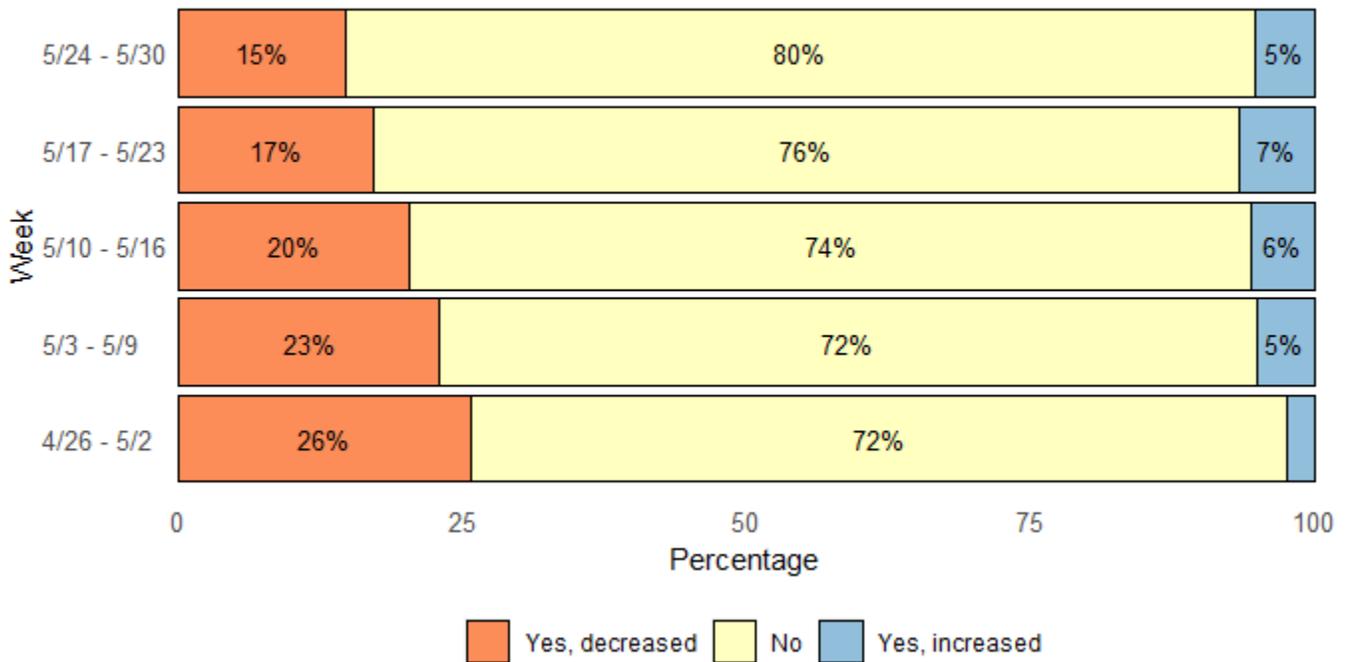
**Figure 2. In the last week, did this business experience a change in operating revenues?**



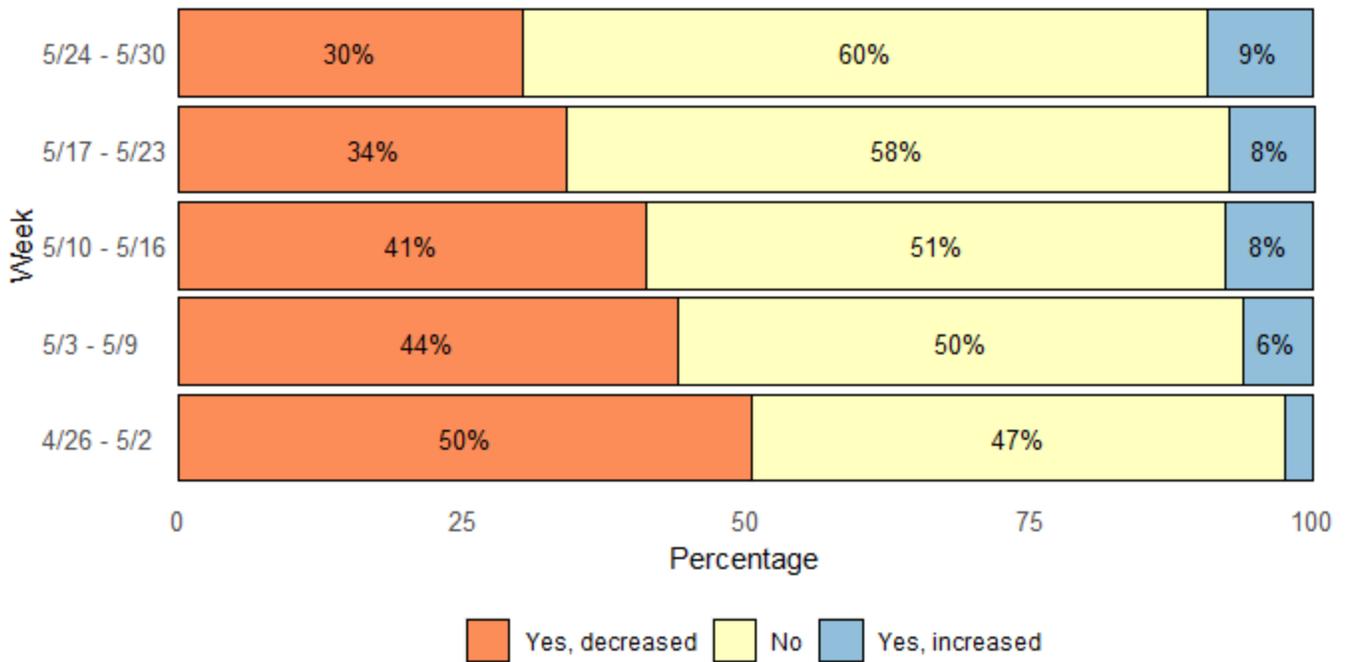
**Figure 3. In the last week, did this business temporarily close any of its locations for at least one day?**



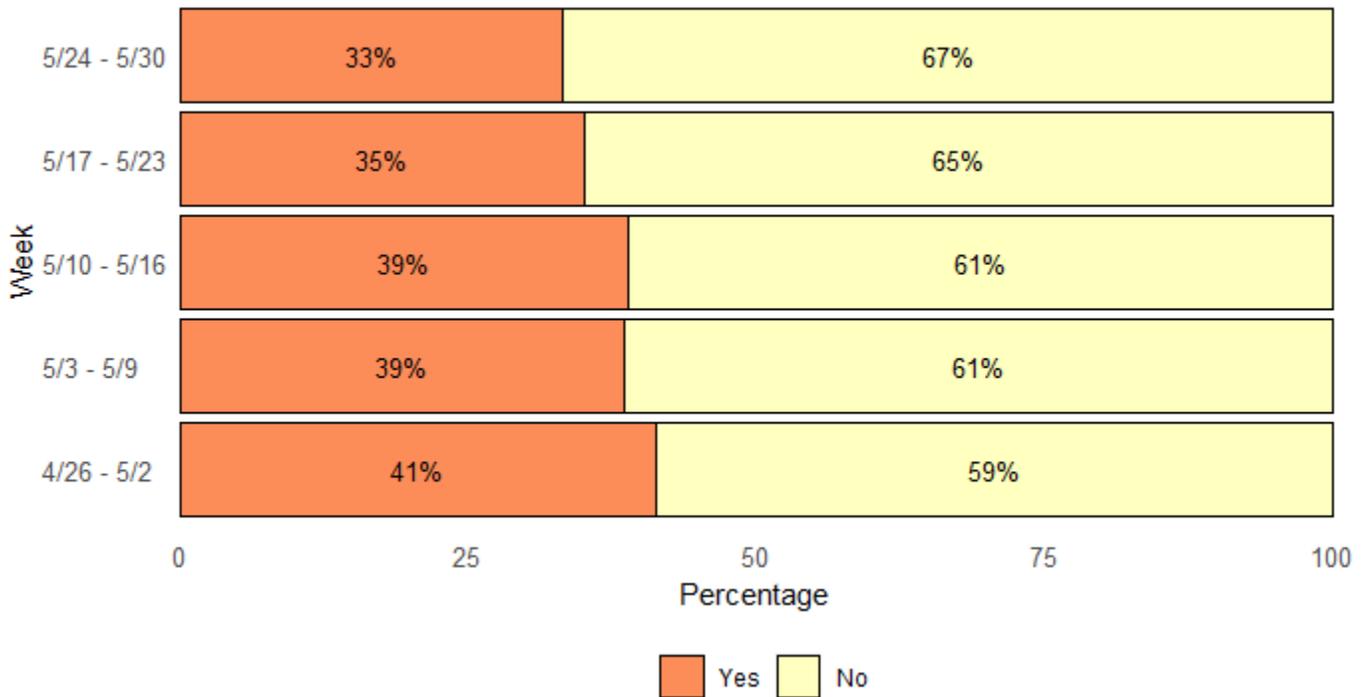
**Figure 4. In the last week, did this business have a change in the number of paid employees?**



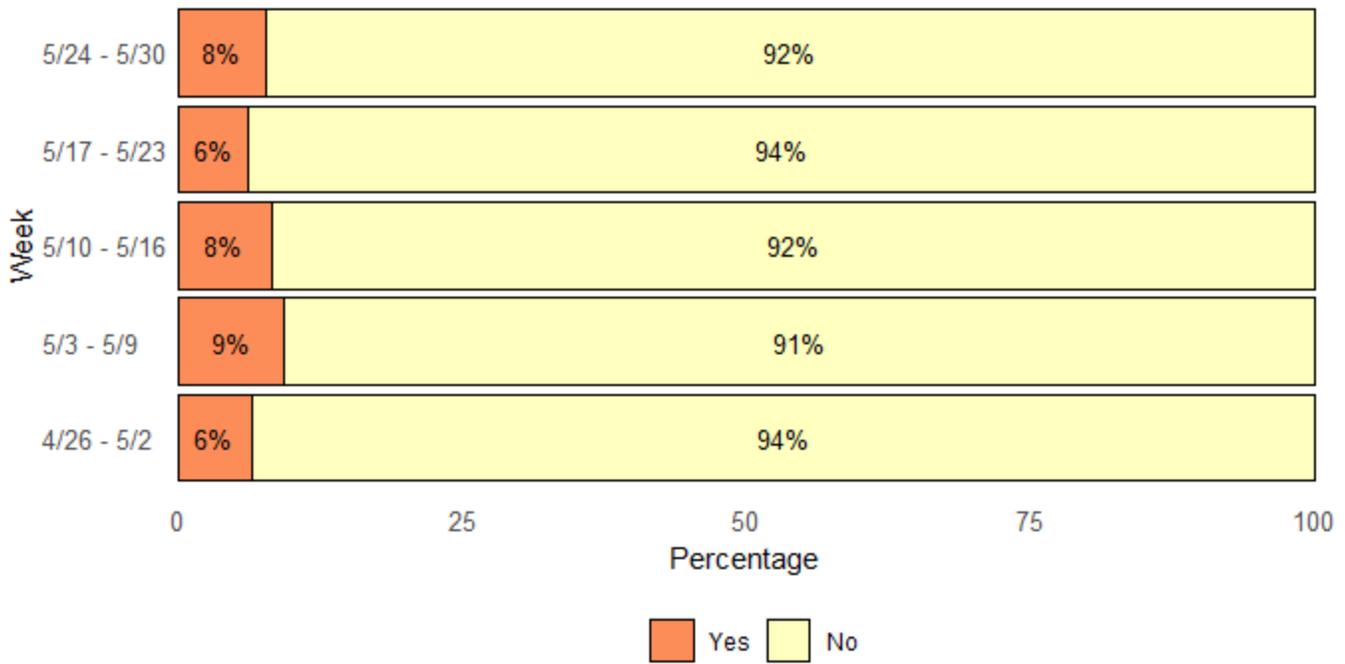
**Figure 5. In the last week, did this business have a change in the total number of hours worked by paid employees?**



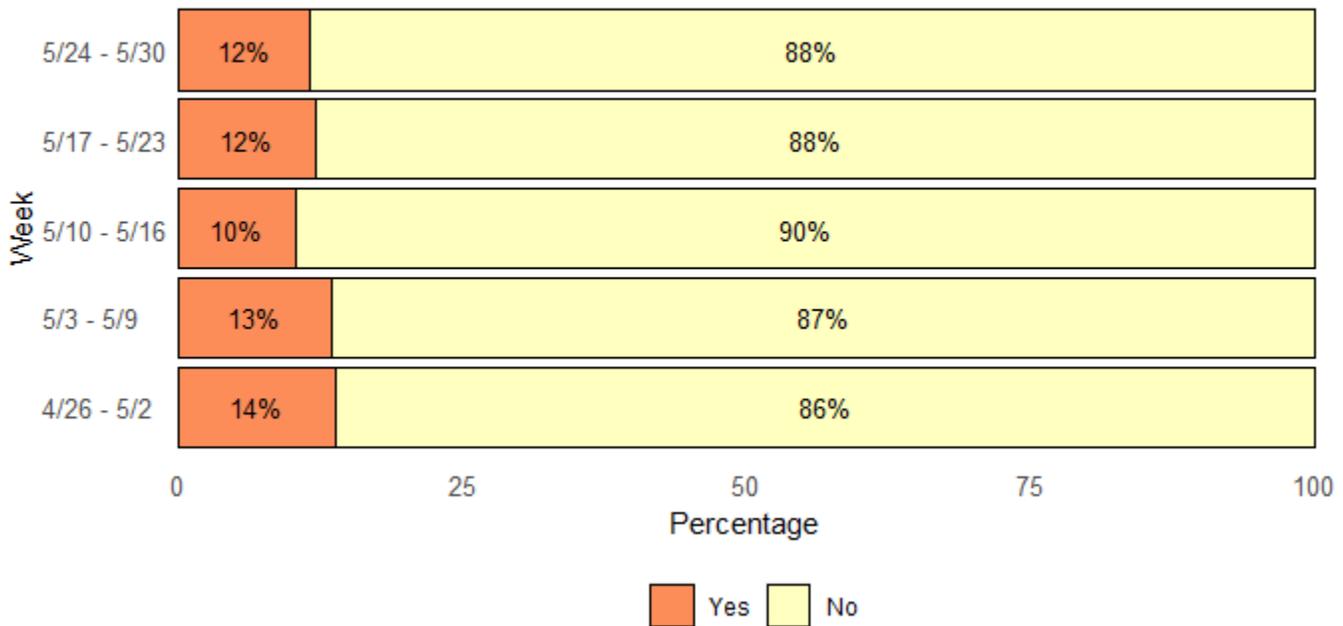
**Figure 6. In the last week, did this business have disruptions in its supply chain?**



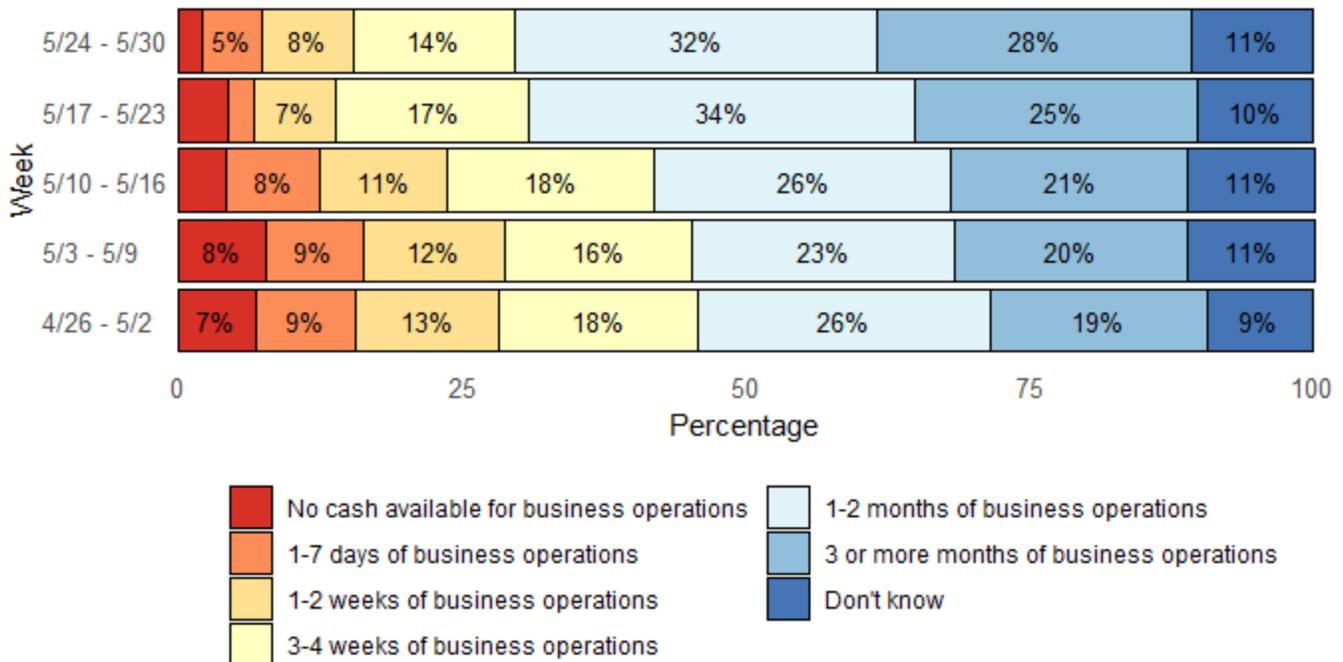
**Figure 7. In the last week, did this business shift to the production of other goods or services?**



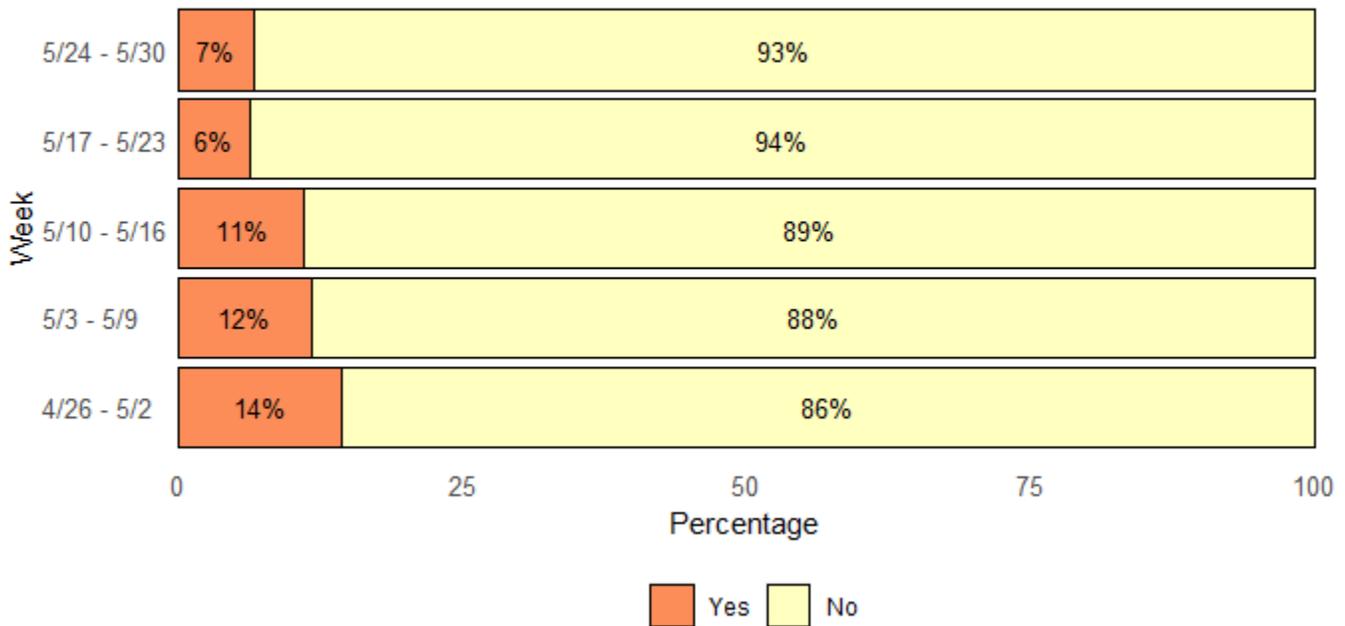
**Figure 8. In the last week, did any of this business's locations adopt pickup/carry-out/delivery as their only means of providing goods and services to their customers?**



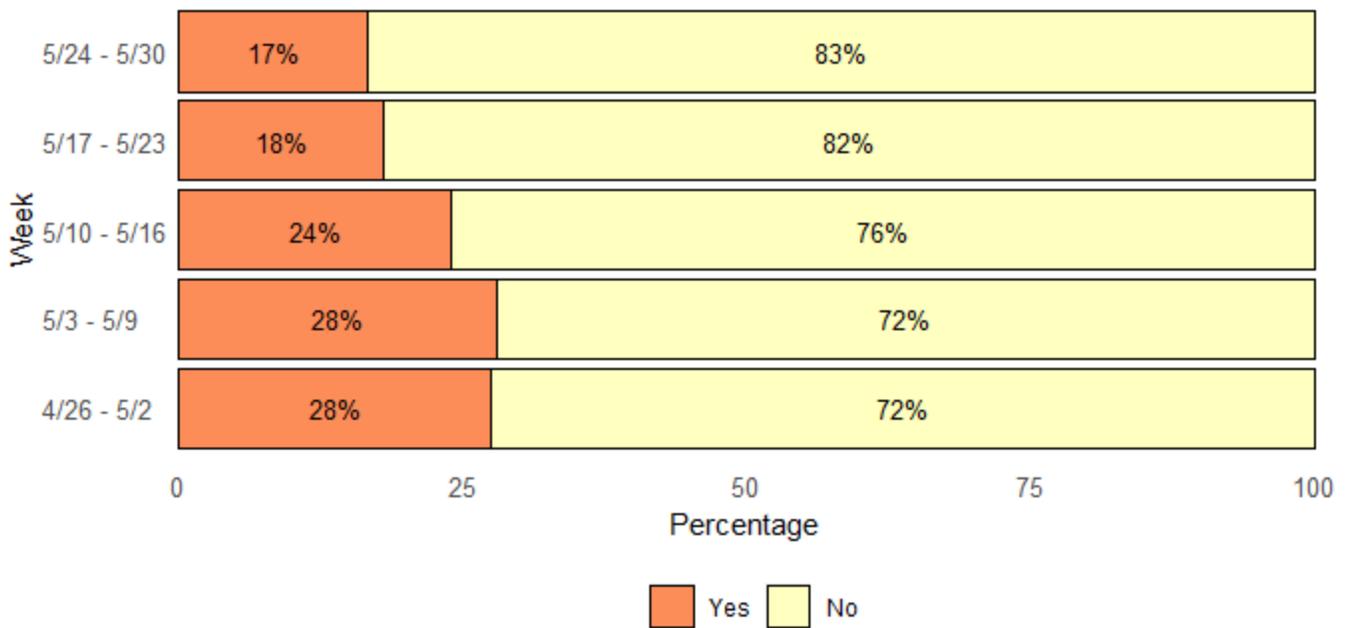
**Figure 9. How would you describe the current availability of cash on hand for this business? Currently, cash on hand will cover:**



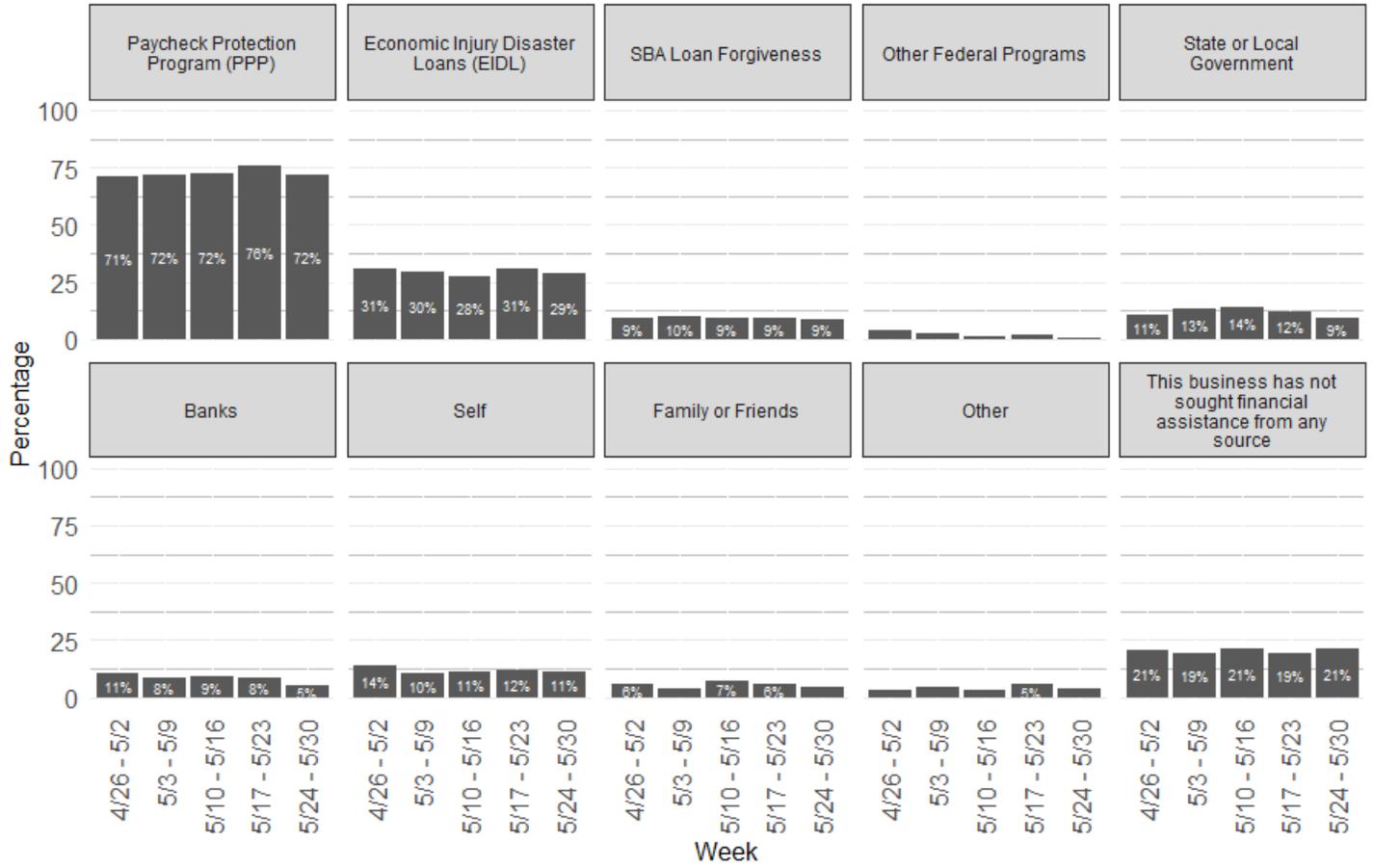
**Figure 10. The White House declared a national emergency because of the COVID-19 pandemic on March 13,2020. Since then, has this business missed any loan payments?**



**Figure 11. Since March 13,2020, has this business missed any other scheduled payments, not including loans? Examples of other scheduled payments include rent, utilities, and payroll.**



**Figure 12. Since March 13,2020, has this business requested financial assistance from any of the following sources?**



**Figure 13. Since March 13,2020, has this business received financial assistance from any of these programs from the federal government?**

