

PUBLIC POLICY COMMENTARY



Small Business, Big Challenges

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As the Capital Region pivots from stopping the spread of the pandemic to reopening and restarting the economy, it is crucial that we identify which parts of the economy were hit the hardest, in order to best-focus relief efforts. While there is an intrinsic understanding of how important small businesses are to the local economy, community and political leaders rarely take the time to quantify just how critical they are. Based on the size and scope of the small business community in Baton Rouge, as well as the disproportionate devastation the economic shutdown had on it, small business is and should continue to be a focal point of recovery efforts.

How Big is Small Business?

Nearly 90 percent of Capital Region businesses have between two and 99 employees, accounting for over 60 percent of all jobs.

The vast majority of business establishments in the Baton Rouge metro area are small businesses. In the nine-parish region, 71 percent of businesses are small (2-9 employees), while small-medium enterprises

("SME", 10-99 employees) make up an additional 17 percent, meaning nearly 90 percent of businesses have between two and 99 employees. In addition, these small businesses and SMEs account for over 60 percent of all jobs in the region.

COVID-19's Effect

Because of their prevalence, when small businesses suffer, the economy overall suffers; new data show that small businesses were staggeringly afflicted by the Stay at Home Order, and still suffer significantly in Phase One of the reopening. While data is not available for all parishes or at the metro level,

the analytics organization Opportunity Insights (OI) has published data for East Baton Rouge Parish, the region's largest parish and home to a disproportionately high number of the region's small businesses – roughly two thirds of the Capital Area's total. OI's data show that as of May 13, there were 31 percent

fewer small businesses operating in East Baton Rouge than in January of 2020 – meaning only about two thirds of the parish's small businesses even survived to Phase One.

In many cases, this is likely due to a lack of revenue. In 2016, JP Morgan undertook a study that found that a majority of small businesses have less than one month's worth of expenses in cash reserves. At the end of March 2020, small business revenue was down 52 percent from January 2020. Even today, as the parish has started to reopen, revenues are still down 26 percent. The tendency of small businesses to have limited reserves, combined with the data highlighting the sharp downturn in revenue, highlight the gravity of the situation. Any economic recovery effort must take this revenue problem into account.

What About the Workers?

One aspect that must not be forgotten is the ripple effect of small business struggles on the employees of these businesses. Overall earnings for workers at small businesses in East Baton Rouge were down 45 percent as of May 16 and were down 65 percent in mid-April. Wages are actually slightly up in small businesses, so the lower overall earnings are due to the exceptional levels of unemployment; small business hourly employment is down 50 percent, and

Roughly one third of the region's small businesses did not survive to Phase One of reopening.

hours are down 46 percent. In the Capital Region, 53,900 jobs were lost from March to April, and that number will almost certainly grow when May data is reported. This includes 20,400 in leisure & hospitality, the bulk of which are locally owned bars and restaurants.

The business community – especially small businesses – have not yet felt the total impact of this outsized unemployment. For the last few weeks, and through the end of July, the federal government has enhanced weekly unemployment checks by \$600. In Louisiana, that means maximum weekly unemployment benefits are approximately \$847; when the enhancement runs out, weekly checks will fall to \$247. Consumer spending is already down with this federal enhancement in place and there is a very real risk of it plummeting further once a quarter of the entire labor force loses \$600 of weekly income. Although this enhanced benefit had a negative unintended consequence – some workers chose not to return to work when their establishments reopened

because the benefits were larger than their paychecks – the upside is that the large group of unemployed individuals can continue spending at local businesses for the time being. Another decrease in consumer spending driven by lower weekly benefits would exacerbate the existing small business cashflow problems.

As the Capital Region continues to reopen, any recovery effort must be inclusive of all parts of the economy. Because of the high concentration of small businesses in the region, community and business leaders should look specifically at what issues small businesses face as they restart or continue operations. Revenues are lagging for these businesses, and further declines are likely when the enhanced unemployment benefits end, as there is a direct link between demand and income. An optimal recovery strategy would not only address the revenue problems small businesses are facing, but also link that to workforce solutions.