Entrepreneurship During the COVID-19 Pandemic: Evidence from the Business Formation Statistics

By

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*This presentation, without implication, draws on collaborative research with numerous colleagues I have worked with in the development and analysis of the Business Formation Statistics (BFS). The research and development papers for the BFS with these colleagues are cited extensively in the text and included in the references. This paper uses public domain data only. The views expressed in the paper are those of the author alone.

Widespread Reports of New Business Formations Surging in the U.S. in the Pandemic

Economics

U.S. Business Starts Enjoyed Their Best Year Ever Amid Covid-19

By Michael Sasso and Steve Matthews
January 13, 2021, 7:00 AM EST

- Online stores are 2020's largest source of business formations
- Little more than a laptop needed to call oneself an e-tailer



Doug McCue prepares an order of coffee in Roswell, Georgia. *Photographer: Matt Odom/Bloomberg*

United States

Oct 10th 2020 edition

Entrepreneurship

The number of new businesses in America is booming

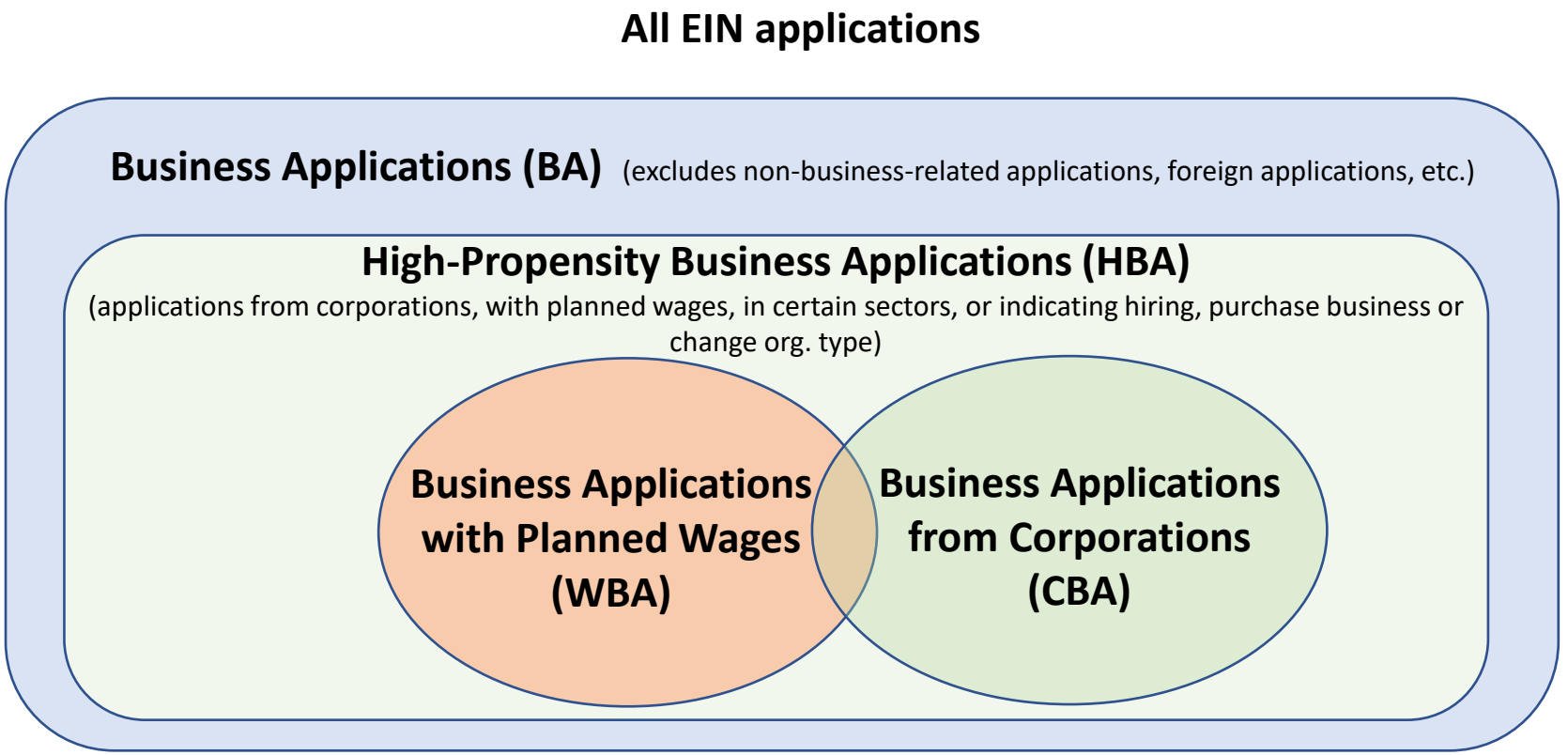
No other rich-world country is experiencing the same rise in entrepreneurship



Underlying these reports is a new data product from the U.S. Census Bureau: Business Formation Statistics (BFS)

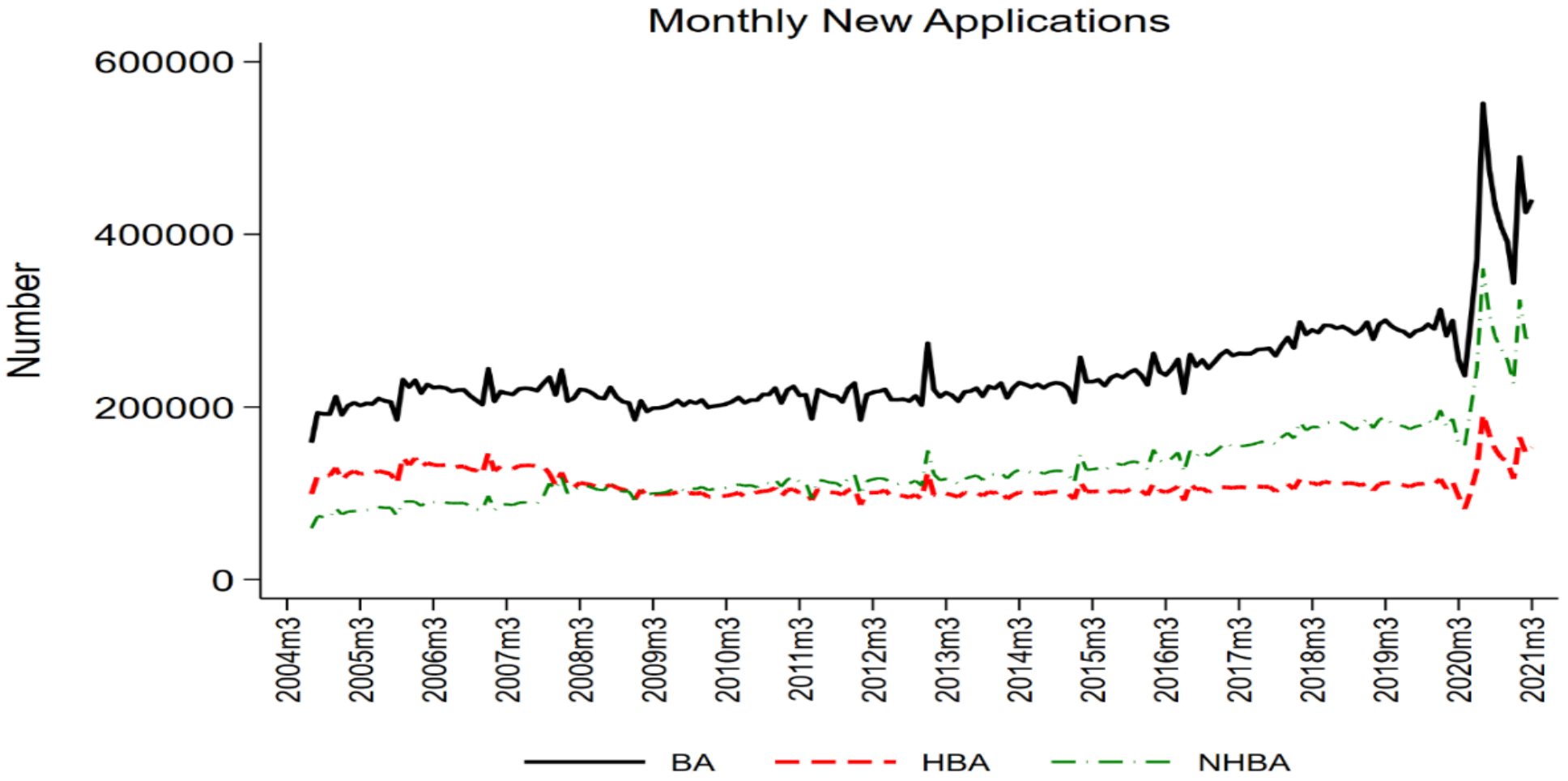
- The BFS stems from new applications for businesses by applying for an EIN with the IRS via Form SS-4.
- Census has long received this data to build its Business Register.
- In 2018, experimental quarterly BFS released based on Bayard et. al. (2018)
- Data are timely and granular: Census receives data by Monday of earlier week.
- Starting in April 2020, weekly BFS released on Thursday after prior reference week.
- In January 2021, monthly BFS with industry and geographic detail (SA and NSA) released within 2 weeks of end of reference month.
- Presentation today uses weekly data through 4/17/21 and monthly data through March 2021.

Business *Application* Series

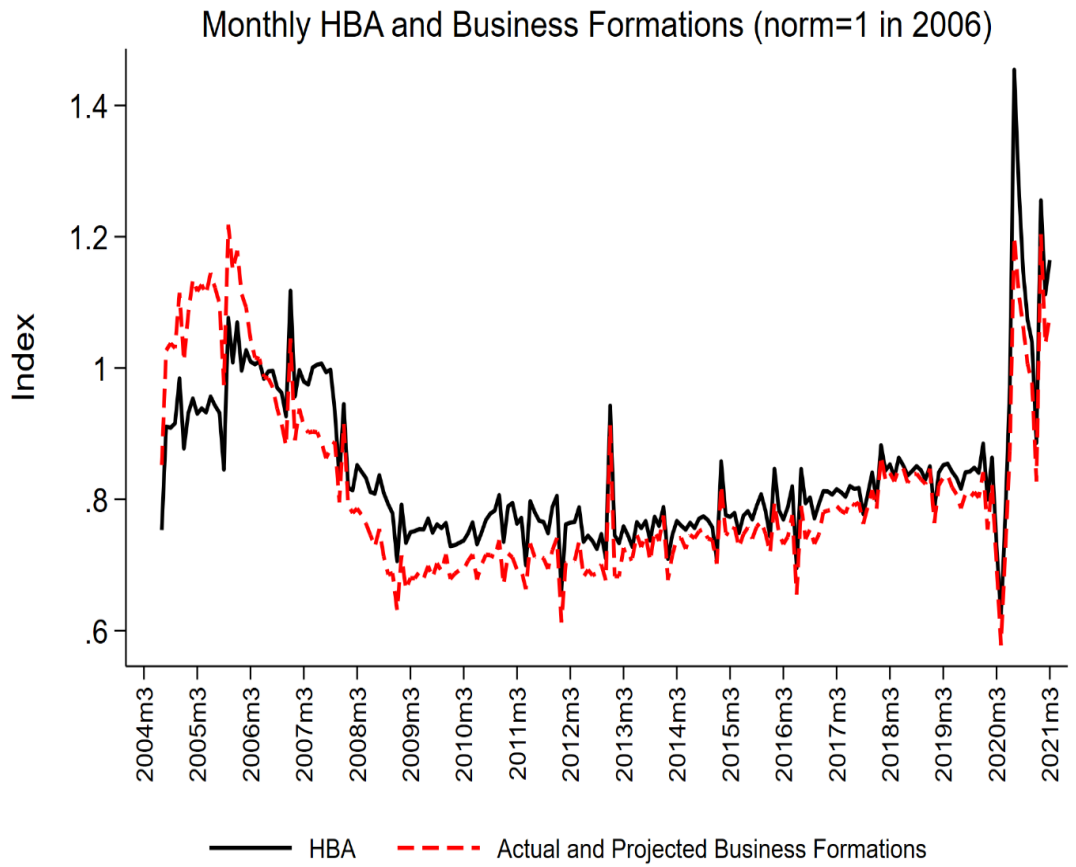


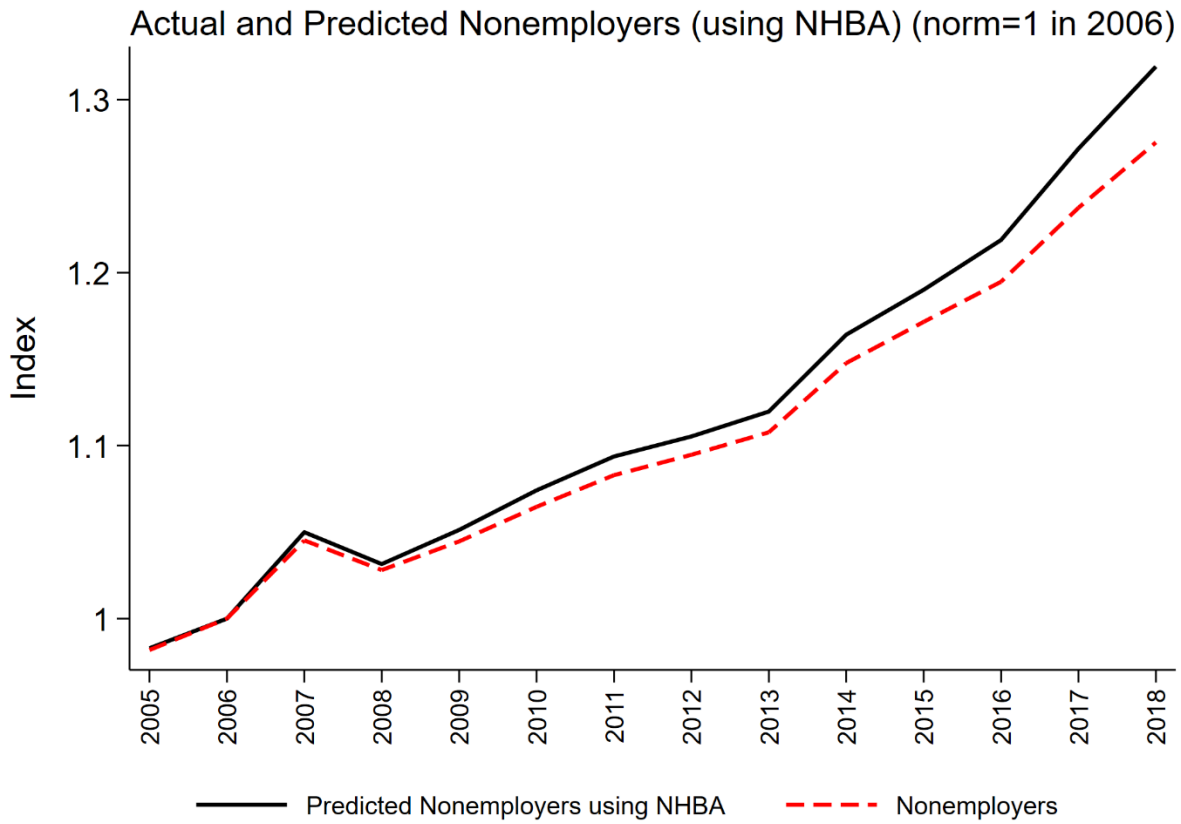
Application form includes requested information about motivation for application, legal form of organization, industry,

Surge in overall applications (BA), high propensity applications (HBA) (likely employers) and residual NHBA=BA-HBA (likely nonemployers)

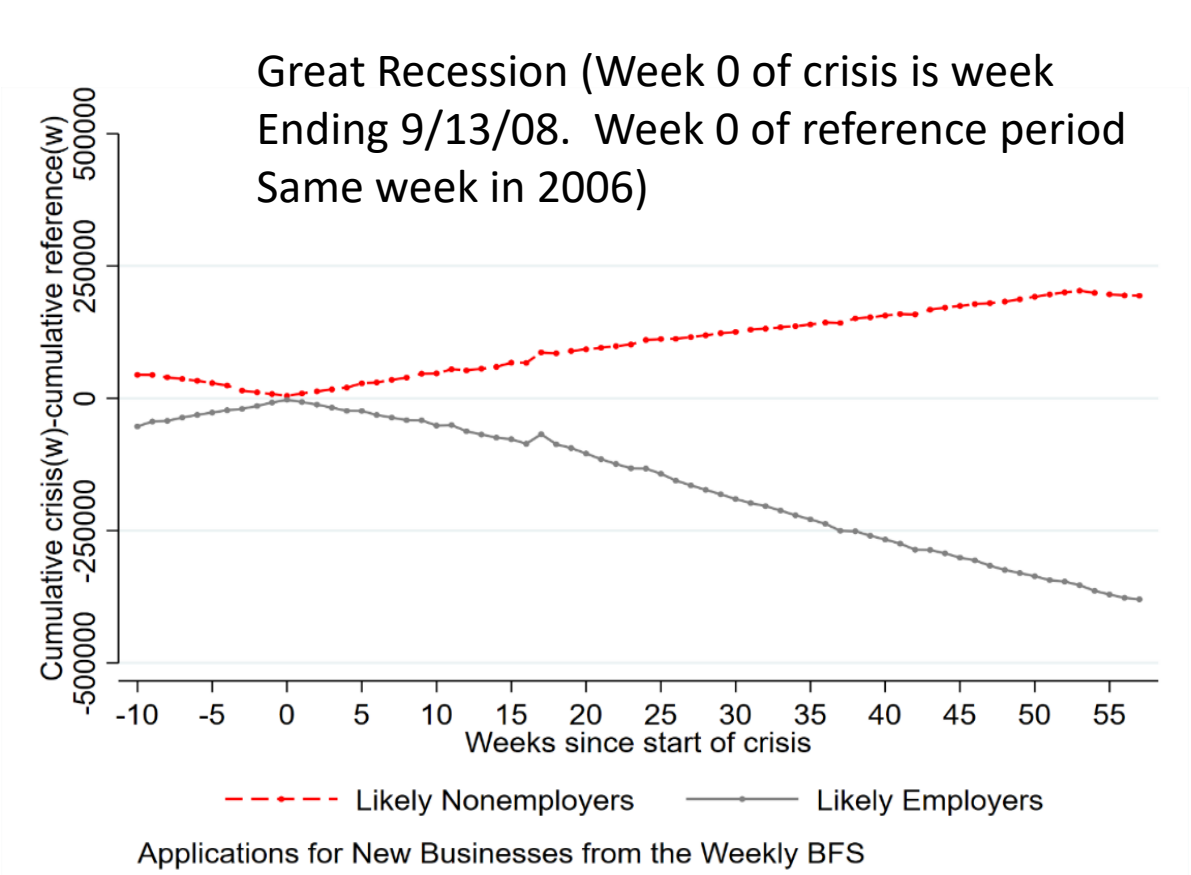


HBA tracks actual employer startups
NHBA tracks fluctuations in nonemployers

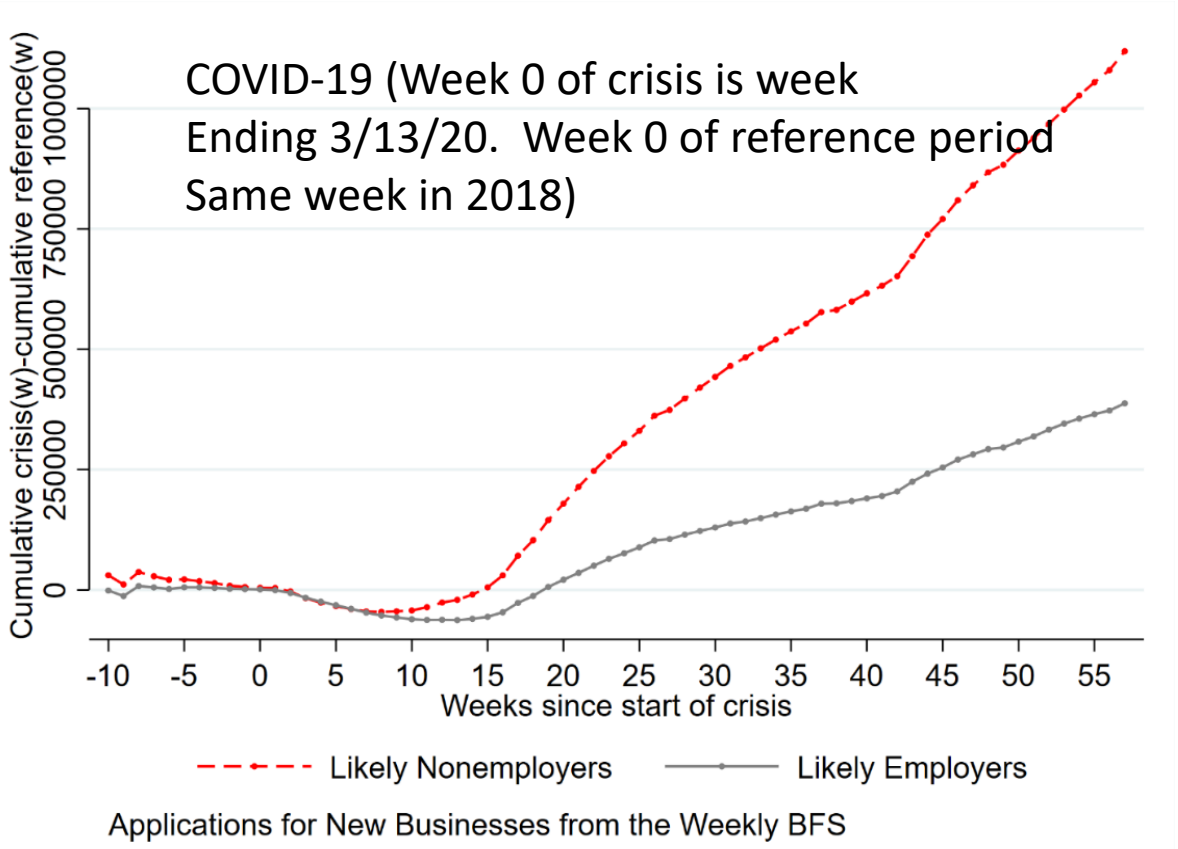




COVID-19 vs. GREAT RECESSION

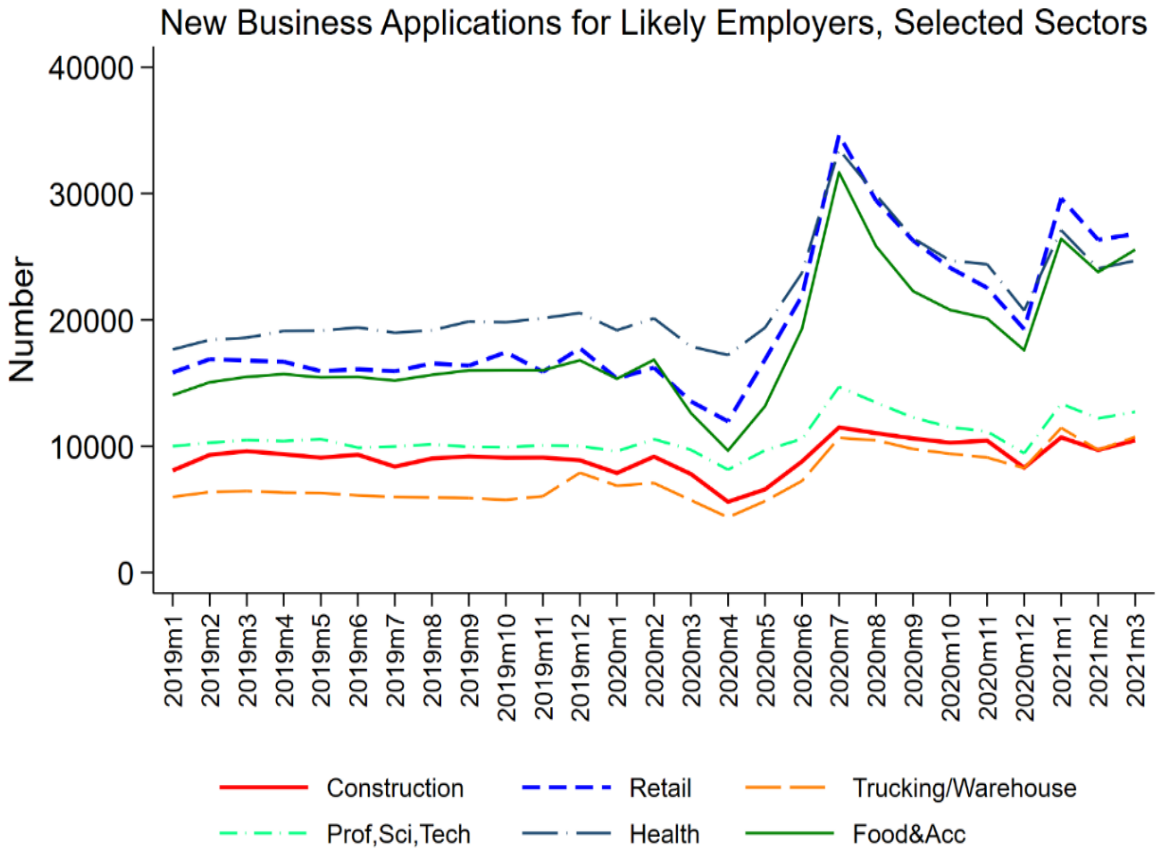


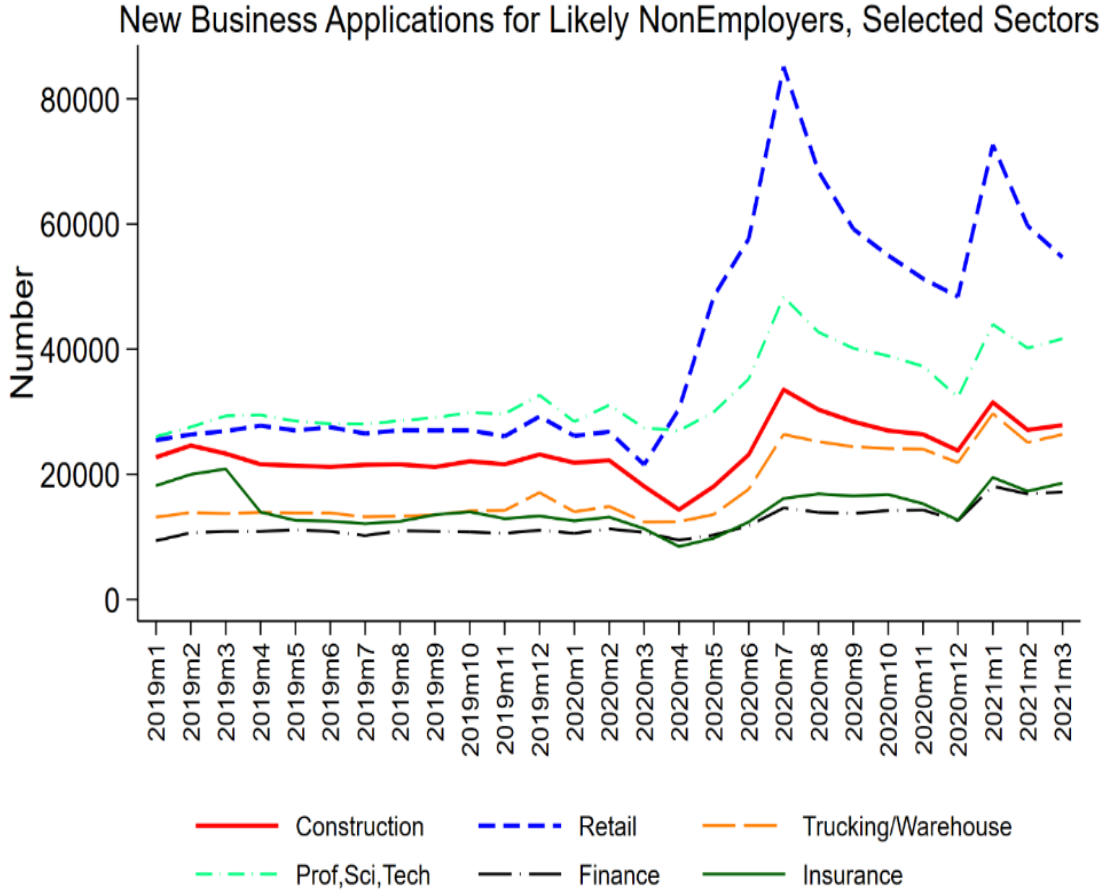
HBA declined sharply after Lehman Bros. Collapse relative to Same reference weeks in 2006. NHBA rose mildy.



HBA and NHBA both declined initially in pandemic but have surged in second half of 2020 through mid April 2021

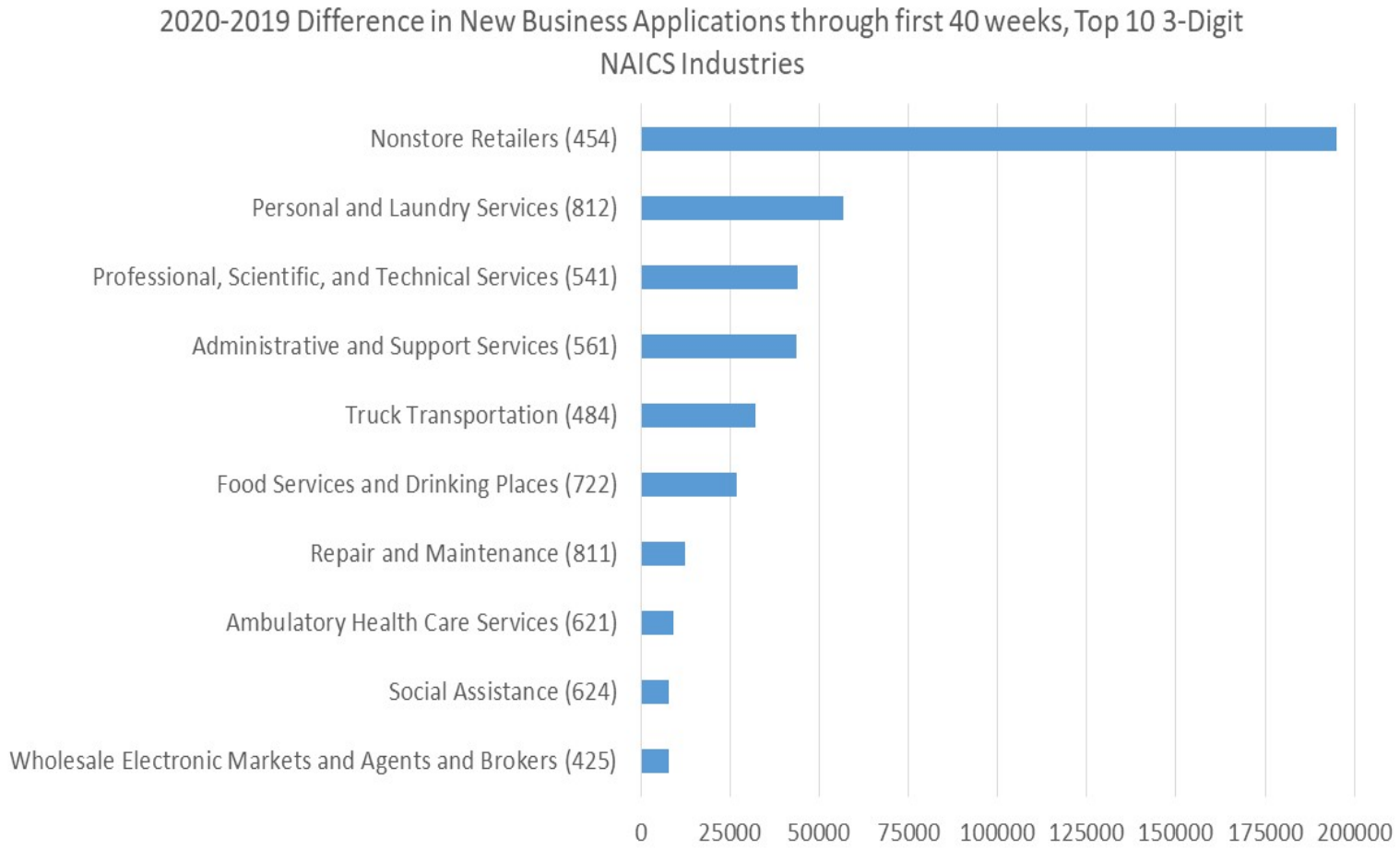
Surge in new applications concentrated in specific sectors





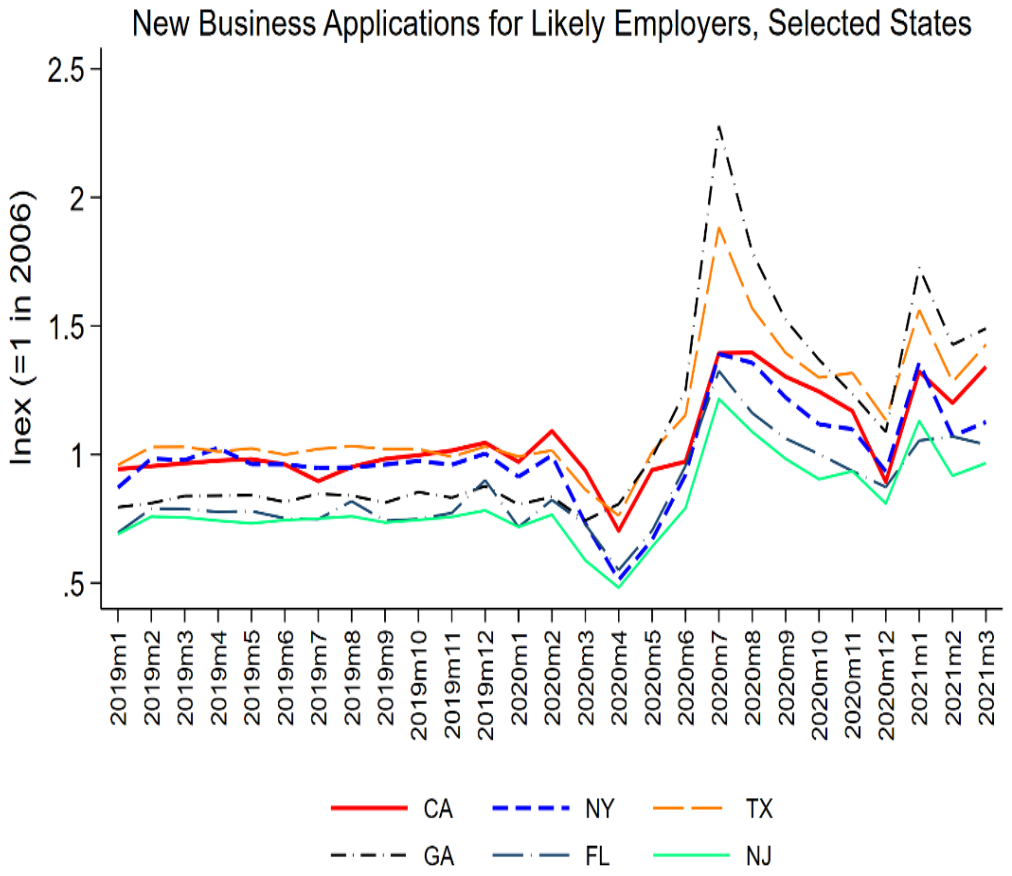
Many of these are sectors where ***existing*** small businesses have suffered especially large contractions (see Buffington et. al. 2021 evidence from Small Business Pulse Survey).

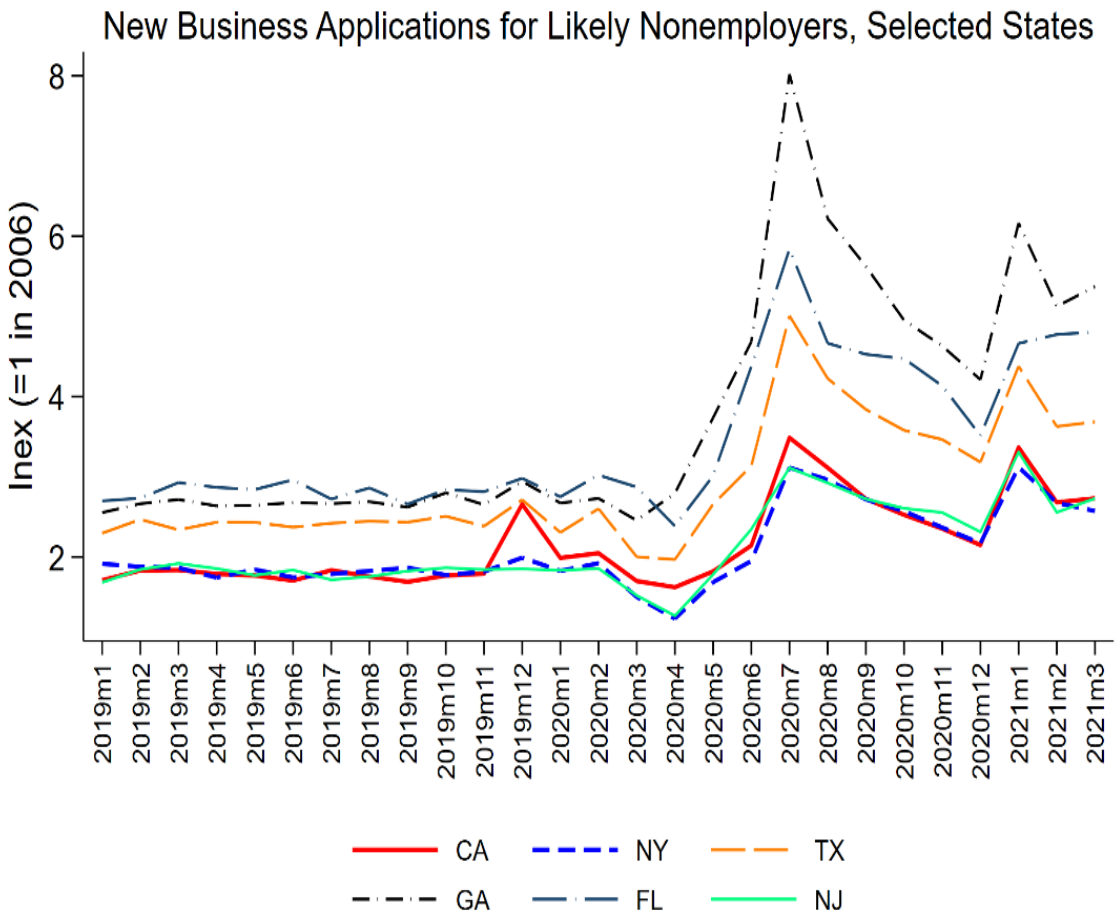
Ten 3-digit (NAICS) sectors account for 75% of Surge



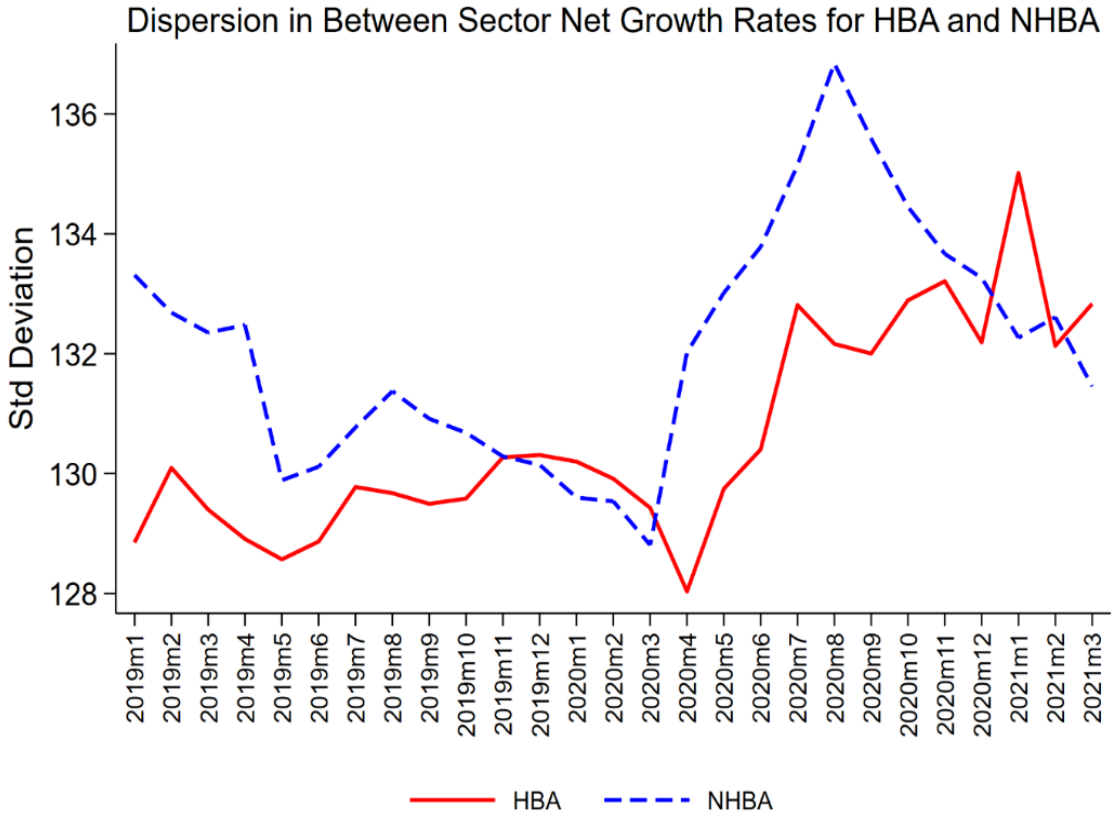
Source: Census Bureau, Business Formation Statistics. NAICS 3-digit code in parentheses.

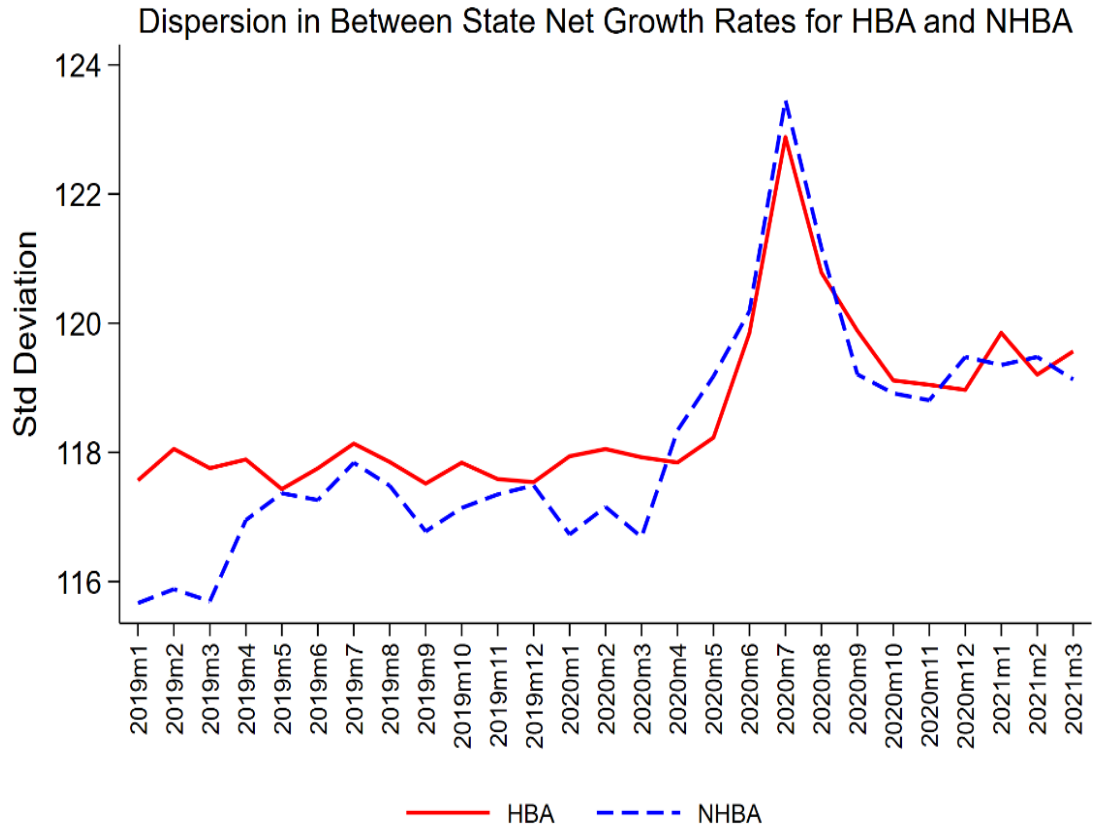
Uneven surge across states



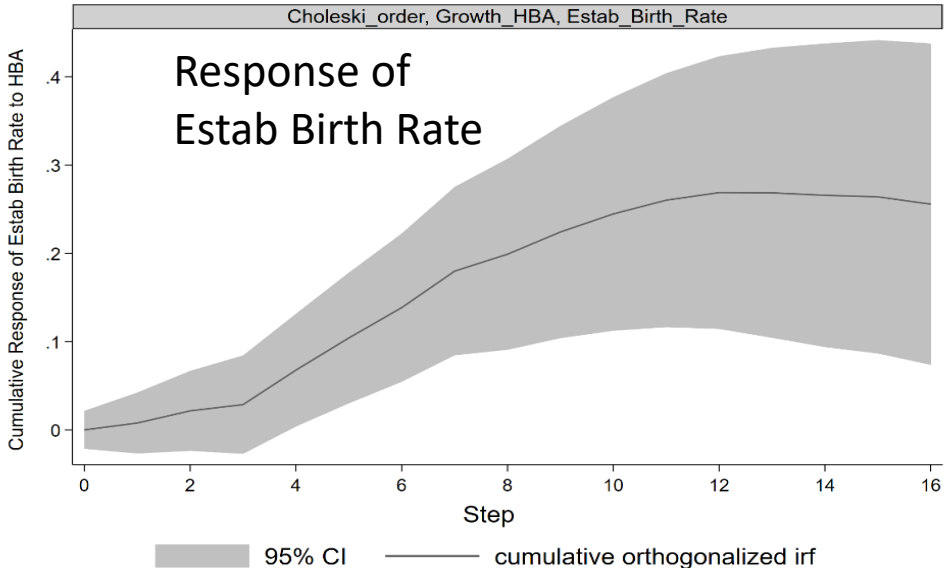


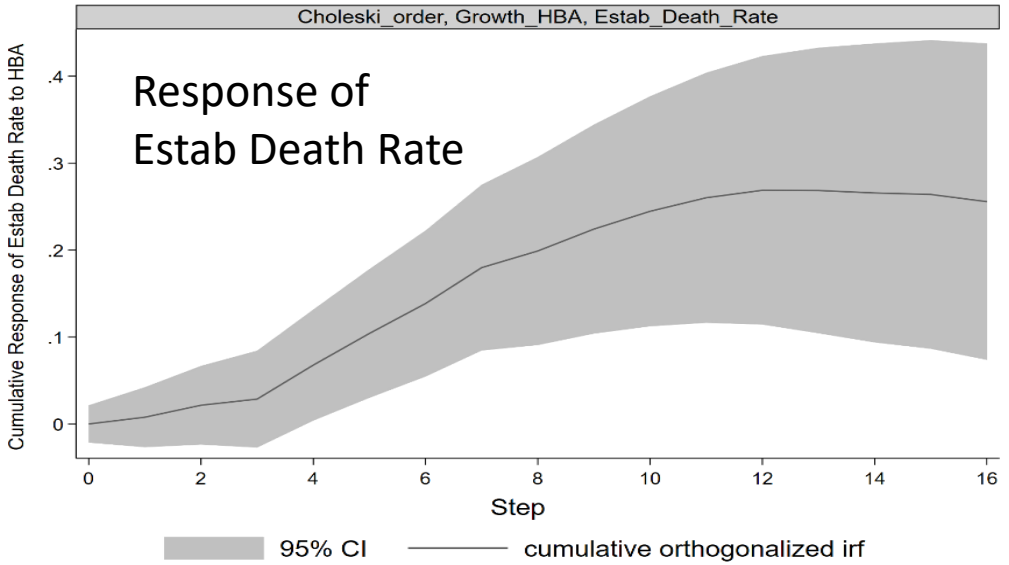
Rising Between Sector and Between State Dispersion in HBA and NHBA



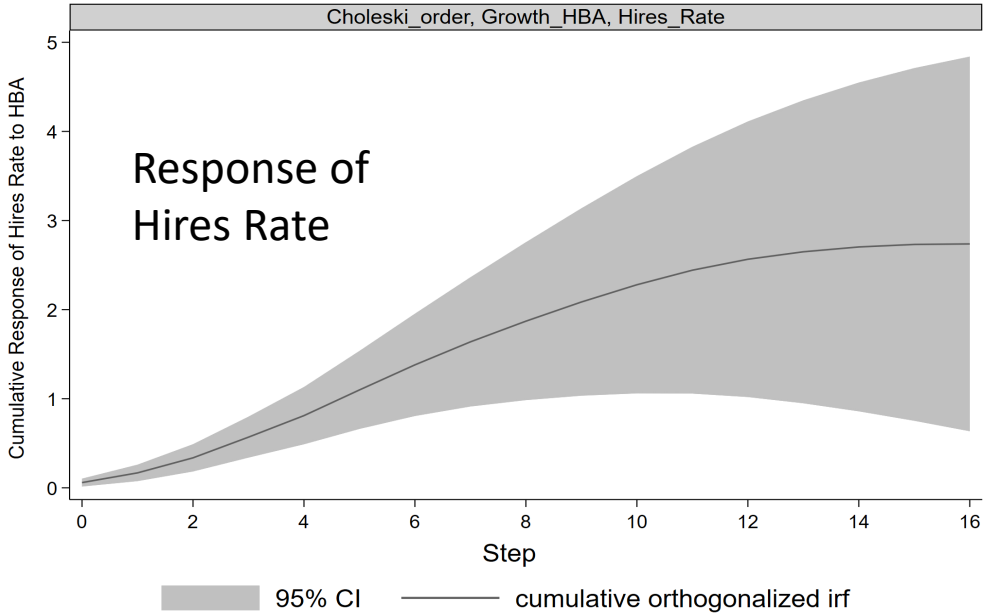


Innovations in HBA lead Business and Worker Turnover

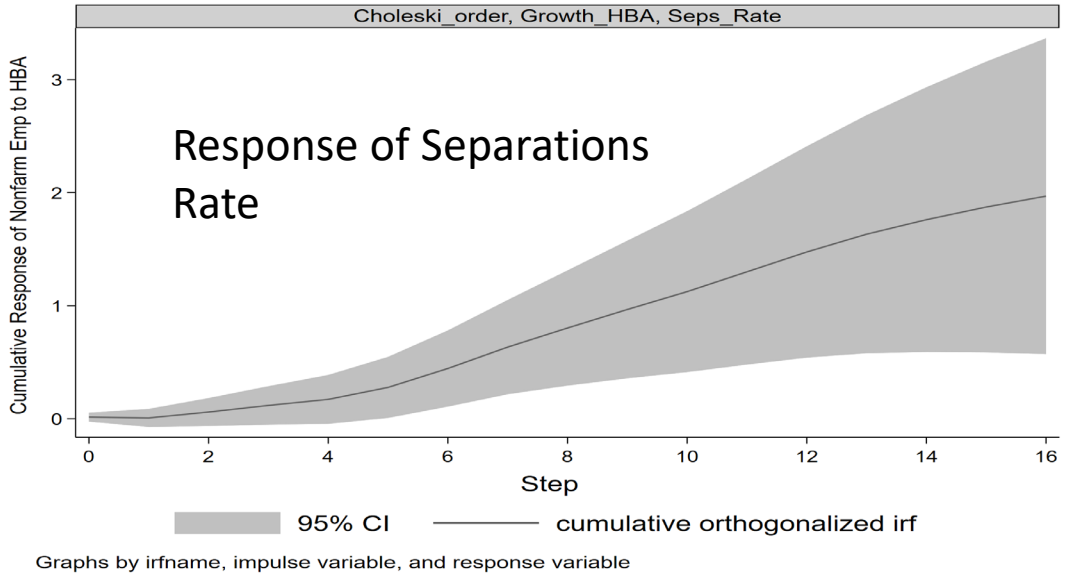




Graphs by irfname, impulse variable, and response variable



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Graphs by irfname, impulse variable, and response variable

Why? What is Different from Great Recession?

- Financial market conditions collapsed in Great Recession with especially adverse impact on startups and young businesses (Davis and Haltiwanger (2019))
- In contrast, financial markets have remained robust in COVID-19 recession.
- Restructuring and Reallocation:
  - COVID-19 has provided incentives for changing structure of businesses and work.
  - Existing small businesses amongst hardest hit. More of a challenge to pivot.
  - Open questions: How permanent shift to online mediated transactions and remote work?
- CARES Act?
  - PPP provides support for existing small businesses (must have been in business by February 2020). Holding aggregate conditions constant, supporting incumbents stifles entry (Acemoglu et. al. (2018))
  - Stimulus may have helped startups (Fazio et. al. (2021). Employers vs. Nonemployers?

When will we know outcomes for this surge?

- Long lags:
  - Applications especially for employer startups are at early stage of nascent entrepreneurship
- Up or out dynamic of employer startups
  - Most new employer startups exit in first five years.
  - Most don't grow
  - A small fraction grow rapidly and make disproportionate contributions to job creation, innovation and productivity growth (Haltiwanger et. al. (2013), Decker et. al. (2014), Guzman and Stern (2020))
- Startups are part of ongoing creative destruction.
  - Surge in startups yields higher pace of business and worker turnover.