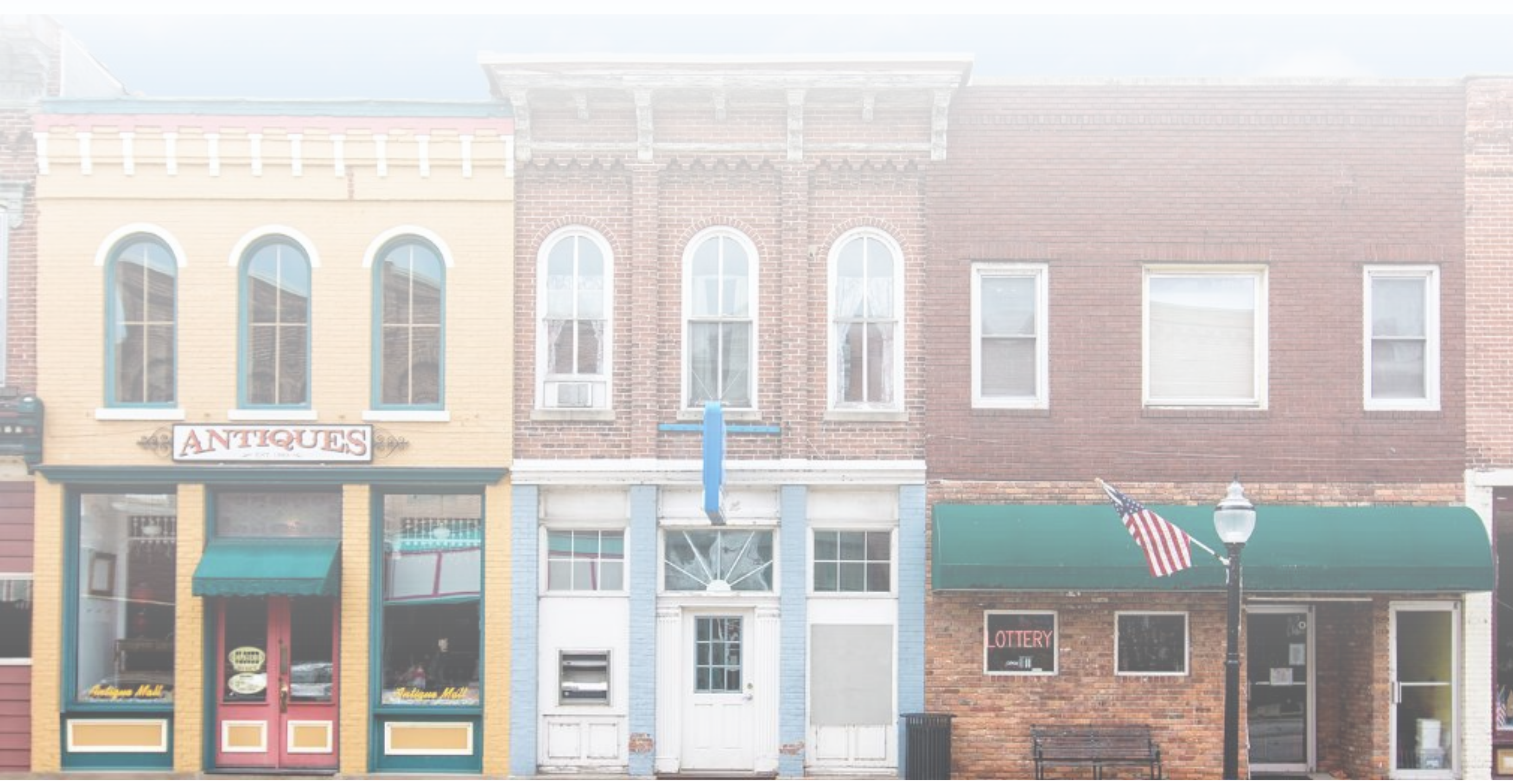
AMERICA'S RECOVERY FUND COALITION

DATA SNAPSHOT: COVID-19's Disruption to Small Business

May 27, 2020



Introduction

On March 13th, a state of national emergency was declared due to COVID-19. Since that time, national emergency measures, stay-at-home orders, and ongoing uncertainty has created massive economic disruptions for businesses.

Due to restrictions and limitations with forgivable loans from Paycheck Protection Program (PPP), ongoing business expenses, and cash-flow issues, America's Recovery Fund Coalition estimates show **a total deficit of $300 billion to $1.2 trillion in damages incurred by small businesses in the last two months.** Without an additional injection of liquidity and access to capital, **over 2 million businesses with fewer than 500 employees in the U.S. could be at immediate risk of going out of business.**

Analysis

After two months of unprecedented business disruptions, even with sizable fiscal support from PPP, small businesses are likely running unsustainably large deficits. These findings are revealing and echo what businesses nationwide are saying in surveys and polling:

- For the week beginning April 26th, **nearly 90 percent of small businesses say they've felt a negative impact from the pandemic** (with over 50 percent reporting a "large negative impact").
- **Less than half of small businesses now believe they'll survive until 2021.**

It is abundantly clear that businesses believe they need not just payroll support, but more total capital to survive into 2021. The reality, however, is that those needs are already acute now in the second quarter of 2020. A huge portion of businesses were forced to close temporarily while still on the hook for payroll and business overhead costs with no revenue to offset them. To illustrate this capital need further, we examine the costs associated with a two-month work stoppage for between 60 percent and 90 percent of American small businesses. Using business census data from 2017, we estimate total payroll costs (excluding non-wage benefits) for the 60-90 percent of businesses to be between $260 billion and $390 billion per month. For the two months since March 13th, 2020, those payroll costs add up to $520 billion to $780 billion.

However, payroll is only one cost for a business. When calculating business overhead other than payroll, we used a conservative estimate of 75-125 percent of payroll. These expenses include rent, utilities, banking fees, advertising and marketing, state and local taxes, business insurance, technology (including subscription fees for POS software or accounting programs), inventory and supplies, and more.

That conservative estimate gives us a range for business overhead of $190 billion to $500 billion per month. For two months, the overhead expenses are $380 billion to $1 trillion. That means 60-90 percent of small businesses face combined costs for payroll and business overhead in the two-month period between March and May of between $900 billion and $1.8 trillion.

Small businesses have had some help thus far. Roughly $600 billion in PPP forgivable loans have been awarded to businesses, and though not all businesses receiving funding are actually "small" by the standard definition of 500 or fewer employees (thanks to exemptions granted in the CARES Act), we nevertheless credit all $600 billion to small businesses for the purposes of this exercise. We also assume that small businesses will abide by the terms of the CARES Act to have those loans forgiven, which means spending at least 75 percent of PPP awards on payroll, leaving just 25 percent for business overhead and other expenses. Once PPP awards are allotted to payroll, the payroll balance over the last two months becomes $70 billion to $330 billion, leaving at most $150 billion in PPP funds left for business overhead. The restrictive nature of how PPP funds may be used does businesses no favors in this case; nevertheless, PPP reduces business overhead costs to at least $230 billion to $850 billion. In sum, the total business deficit from payroll and overhead is between **$300 billion and $1.2 trillion** over the last two months.

Looking ahead we see more businesses opening back up as states and cities relax guidelines, but simply lifting those restrictions will not translate into an immediate return to typical pre-virus economic activity. We believe that the return of modest revenue generation and anticipated overhead reductions through layoffs and other cost cuts will cover as much as half of the upcoming month's obligations, and so we apply a 50 percent "haircut" to the payroll and business overhead deficit for that upcoming month, reducing the forward-facing burden down to between $190 and $400 billion.

Adding this to the payroll and overhead deficit for the last two months brings a **total deficit of between $500 billion and $1.6 trillion** in damages for payroll and overhead alone for businesses with fewer than 500 employees between mid-March and mid-June, which makes it impossible for many companies to survive. By using the average current ratio for U.S. small businesses of 1.23 to calculate total cash, inventory, and marketable securities, we see that on a quarterly basis small business should have between $270 to $450 billion to help absorb the losses. This will allow some businesses to remain open further into the recovery, but many will fail to recover, if they manage to reopen at all.

Given the deficit these small businesses face, as many as half of all small businesses may run out of cash and other liquid assets in the coming months, if they haven't already. We believe that over **2 million businesses with fewer than 500 employees in the U.S. could be at immediate risk of going out of business** because their reserves are either already or will be depleted by mid-June just from payroll and overhead expenses, even after we account for the PPP benefits over the last two months.

These findings lead us to only one conclusion: Small businesses will need continued fiscal support from Congress in the coming quarters. Furthermore, while payroll support is valuable, by itself it will be woefully insufficient. We chose to be particularly conservative in our work when calculating the size of business overhead as it relates to payroll; statistics show that **small business payroll totaled just 20.3 percent of small business receipts in 2017, and when we include non-wage benefits that number only climbs to 26.3 percent of small business receipts.** Comprehensive support needs to go well beyond payroll for small businesses to survive while the American economy recovers.

Methodology and Assumptions

The project focuses on:

1. Payroll costs (ex: non-wage benefits) for businesses with fewer than 500 employees;
2. Estimated business overhead;
3. Capital support in the form of forgivable loans from the Paycheck Protection Program (PPP);
4. Limitations to how PPP loans can be allocated by businesses to achieve forgiveness; and
5. Short-term reserves of cash, inventory, and marketable securities.

America's Recovery Fund Coalition took a range of between 60-90 percent of small businesses that are impacted for their estimates. Assuming that 50 percent of businesses reopen or reopen at 50 percent capacity, we applied a 50 percent "haircut" based on payroll reductions and the overhead for the upcoming month, which implies payroll and overhead damages of between $190 and $400 billion for the month ahead.