

# The Impact of the Pandemic on US Businesses: New Results from the Annual Business Survey

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## Summary:

Working with Federal Reserve staff, the US Census Bureau added to the 2021 Annual Business Survey (ABS) a special module of questions focused on the pandemic and small business finances. Questions ranged from the impact of the pandemic on business sales, to government assistance requested/received, and to the financial health of the firm. In this article, we report the results of these questions—and how they differ by race and ethnicity. The survey finds that more than 60 percent of business experienced declines in sales. Fully one-third experienced significant declines. More than 70 percent of survey respondents requested government assistance, with the majority receiving 75 to 100 percent of their requests. However, the results also reveal that the fraction of minority-owned businesses receiving at least 75 percent of their requests was significantly lower for minority-owned businesses than for firms not owned by minorities. In general, the results find that minority-owned businesses were disproportionately affected by the COVID-19 pandemic, and expectations for business operations in 2022 are less optimistic than those for nonminority-owned businesses.

## Key findings:

1. The impact of the COVID-19 pandemic hit businesses hard. More than 60 percent of firms experienced declines in sales. Minority-owned firms felt a disproportionate negative impact from the COVID-19 pandemic.
2. Minority-owned firms enter 2022 with weaker balance sheets and more questions over their ongoing viability than nonminority-owned firms.

Center Affiliation: Economic Survey Research Center

JEL Classification: G21, L5, R3

Key words: COVID-19, racial equity, small business credit access

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## 1 Introduction

The pandemic has rocked many businesses, potentially altering the economic landscape for years to come. Beyond its initial impact, which led to dramatic declines in overall sales revenue and employment amid widespread shutdowns and heightened efforts to slow the spread of the virus, COVID-19 is reshaping our economy in ways that may further disadvantage minority-owned firms.

In this *Policy Hub* article, we use newly available data from the US Census Bureau's nationally representative Annual Business Survey (ABS) to document the outcomes of businesses during the pandemic. Specifically, we examine a set of pandemic-related questions that the Census Bureau, working with Federal Reserve staff, included in the 2021 ABS to gauge the impact the pandemic has had on US employer firms. The ABS provides broad, representative coverage of business ownership, and in this article we pay particular attention to business conditions based on the race and ethnicity of business owners. Subsequent data releases will allow accounting for sector and firm size that are likely relevant and could explain some of the unevenness of the impact. Throughout, we offer some potential explanations for the disparate outcomes across minority- and nonminority-owned businesses, highlighting some of the important research questions that can be answered when more detailed data is made available.

Though incomplete, this early release of data offers some thought-provoking, preliminary observations.

First, the pandemic, unsurprisingly, had a broad impact on US businesses. Second, it disproportionately affected the sales revenue and operational stability of minority-owned firms. Third, although the majority of firms of all ownership types accepted government aid, minority-owned businesses requested and received lower levels of emergency government assistance and reported significantly lower shares of these loans forgiven, than nonminority-owned businesses. Further, relative to those of nonminority-owned firms, the reported financial health and ongoing viability of minority-owned firms were more in doubt heading into 2022.

### **Annual Business Survey (ABS): The Gold Standard for Data on Business Ownership**

The ABS provides the most complete estimate of the demographic characteristics of the ownership of US businesses.<sup>1</sup> The ABS is a mandatory survey covering nonfarm employer businesses, and the 2021 survey gathered data from roughly 300,000 employer firms.<sup>2</sup> The

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<sup>1</sup> The ABS is conducted jointly by the US Census Bureau and the National Center for Science and Engineering Statistics within the National Science Foundation. More information on the program can be found at [census.gov/programs-surveys/abs.html](https://census.gov/programs-surveys/abs.html).

<sup>2</sup> The Annual Business survey is a mandatory survey covering nonfarm employer businesses. Coverage applies to all firms reporting with IRS forms 941, 944, or 1120.

ABS is not as timely as other business surveys such as the US Census Bureau’s *Small Business Pulse Survey*, the Federal Reserve’s *Small Business Credit Survey*, or monthly, national surveys of firms such as the *Survey of Business Uncertainty* and *The CFO Survey*. However, given its national representativeness and the level of precision that its sample size affords, the ABS is the gold standard for information on the ownership of employer businesses.

According to the ABS, most firms are relatively small. Among the nearly 6 million employer firms in the United States, all but 20,256 firms (or 0.4 percent of employer firms) had fewer than 500 employees (a common demarcation for the “small” designation).<sup>3</sup> Yet “large” firms (those with 500 employees or more) employ 54 percent of all workers and account for roughly two-thirds of total sales revenue.

Of firms in the United States, fewer than a fifth are minority-owned.<sup>4</sup> In addition, minority-owned firms account for less than 4 percent of overall business sales revenue and employ just 7.3 percent of all workers. This is partially the result of a significant gap between minority- and nonminority-owned large firms; only 891 large firms are minority-owned (or 4.4 percent of all large firms).<sup>5</sup> That said, among firms with fewer than 500 employees, minority-owned firms still tend to be smaller and have less revenue.

One important aspect of the results described in this article, as well as the preliminary estimates that Census [has released](#), is that they are not weighted by firm size or revenue. Because the overwhelming share of US firms are classified as small, the reported unweighted results mostly reflect smaller businesses.

Working with Federal Reserve staff, the Census Bureau added to the 2021 ABS a special module of questions focused on the pandemic and small business finances.<sup>6</sup> Questions ranged from the impact of the pandemic on business sales, to government assistance requested/received, to the financial health of the firm. The results of these questions—and how they differ by race and ethnicity—are the primary focus of what follows.

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<sup>3</sup> This information is gleaned from [ABS 2019](#), and its estimates are from 2019. The 2021 ABS estimates were still being tabulated at the time this article was written.

<sup>4</sup> The ABS determines the ownership of businesses based on having more than 50 percent of the stock or equity in the business. Firms equally minority-nonminority-owned are tabulated as separate categories. We focus our analysis on majority-ownership cases. Equal ownership between minority and nonminority owners is much less common than outright ownership by one demographic group, which allows for larger standard errors and less clear analysis than for ownership by a single ethnic group.

<sup>5</sup> [census.gov/content/dam/Census/library/visualizations/2021/comm/employer-firms.pdf](https://www.census.gov/content/dam/Census/library/visualizations/2021/comm/employer-firms.pdf)

<sup>6</sup> [census.gov/programs-surveys/abs/information/abs\\_2021.pdf](https://www.census.gov/programs-surveys/abs/information/abs_2021.pdf) (Section F).

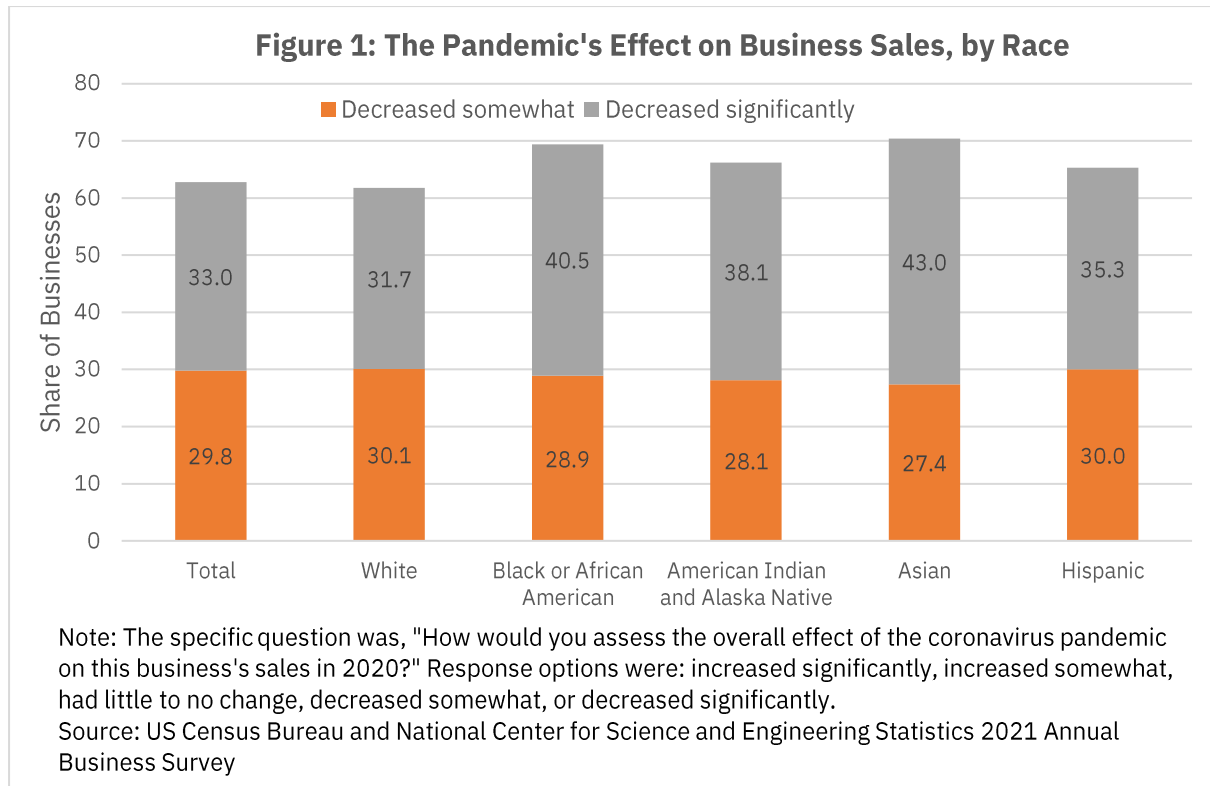
## 2 The Impact of the Pandemic

### The Impact of the Pandemic on Business Revenue

Although some firms saw increased sales as a result of stark shifts in consumer preferences toward goods during a period of widespread social distancing (Bunn et al. 2021), for most businesses, the pandemic had a negative impact on their revenues in 2020. The ABS asked firms to categorize the pandemic's impact on their business's sales in 2020. As figure 1 shows, 63 percent of businesses indicated that the coronavirus pandemic had a negative impact on their sales.

Figure 1 also points to the pandemic's outsized impact on minority-owned firms, which more frequently reported that they experienced significant declines in business sales. Among Black-owned firms, 40 percent reported that the pandemic significantly decreased their business's sales, compared to 32 percent of White-owned firms. This pattern holds true for Asian-owned and Hispanic-owned businesses. The differences between minority-owned and White-owned businesses are statistically significant and indicate that the impact of the pandemic fell disproportionately on minority-owned firms.

It's important to keep in mind that, while these differences point to meaningful differences in the impact of the coronavirus pandemic on minority-owned firms, a variety of factors might have contributed to these differences. While detailed 2021 ABS tables are not yet available, detailed prepandemic ABS data point out that minority-owned firms tend to be smaller, on average, than White-owned firms. Findings from other surveys noted in Bartik et al. (2020) or Meyer et al. (2021) suggest that smaller firms and service-providing firms were the hardest hit early in the pandemic. The 2021 SBCS [Report on Firms Owned by People of Color](#) shows that minority-owned businesses were more likely to report supply chain issues, and that government mandates affected businesses differentially by the race of the owner. These explanations could, in part, be connected to geographic locations or the activities of the businesses. These important issues are ones that the more granular ABS data can address when they become available.

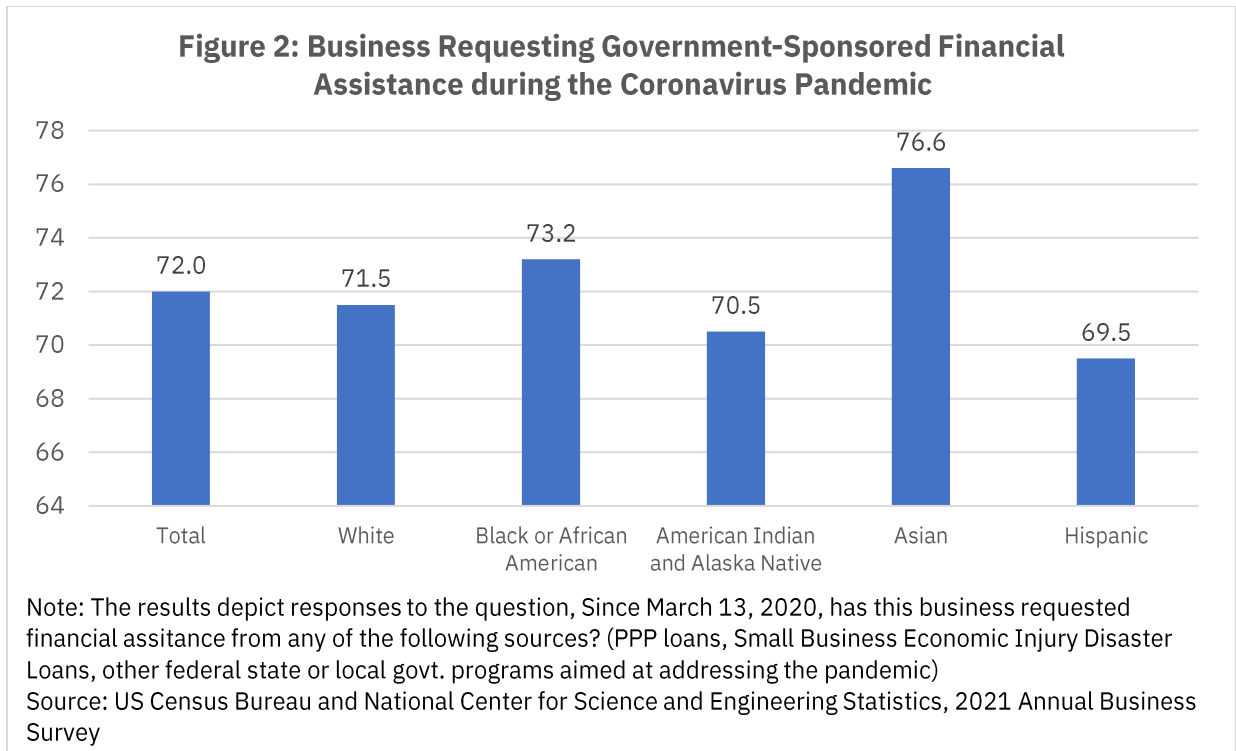


Not all businesses saw decreased sales in 2020 as a result of the pandemic. In fact, for some, the pandemic appears to have given business a boost. For businesses as a whole, roughly 16 percent of firms reported a positive impact on business sales due to the pandemic, and these results were fairly similar between minority- and nonminority-owned firms. Examples of the types of firms that gained sales during the pandemic are delivery services, transportation and warehousing firms, and—after the initial shutdown phase—many manufacturing businesses (see Barrero et al. 2020 and the [2022 SBCE Employer Firms Report](#))

**A Large Majority of Businesses Sought Government Aid during the Pandemic**

Regardless of ownership status, a large share of businesses sought government-sponsored financial assistance (see figure 2). The survey’s results aggregate all types of government aid aimed at specifically addressing the pandemic, including Paycheck Protection Program (PPP) loans and Small Business Economic Injury Disaster Loans. Overall 72 percent of businesses sought some form of government aid since the onset of the pandemic (March 13, 2020).

Looking across different racial groups, Black- and Asian-owned businesses were more likely to apply for some sort of government aid, while Hispanic-owned businesses were significantly less likely than non-Hispanic owned businesses, statistically speaking, to apply for government-sponsored assistance.



Among the large share of firms requesting assistance, a wide range of total funding was requested. Nearly 44 percent of these firms sought funding of less than \$50,000 across any or all government-sponsored programs aimed at addressing the pandemic, 35 percent of firms sought between \$50,000 and \$249,000, and 21 percent of firms requested \$250,000 or more.

Looking across demographic groups, minority-owned firms sought lower funding amounts on average, with 47 percent of these firms seeking total assistance of less than \$50,000 (specifically, 46.3 percent of Black-owned firms and 48.3 percent of Asian-owned firms). One plausible explanation of differences in the amount of total funding sought is the size differences between minority- and nonminority-owned firms. Lower assistance requests and receipts in part reflect the lower revenue and payroll levels of minority-owned firms, as the PPP made the amount requestable a function of the size of the payroll. Subsequent information from the ABS about both the size and ownership of the business can help bring clarity to the sources of these differences.

Focusing just on the PPP program, the Federal Reserve’s 2021 SBCS Report on Firms Owned by People of Color points to large differences by race and ethnicity of the owners in the reasons for businesses not applying for a PPP loan.<sup>7</sup> A much larger share of minority-owned

<sup>7</sup> The SBCS is a smaller, less representative sample of businesses with fewer than 500 employees weighted to reflect the composition of small businesses in the ABS.

businesses reported missing the deadline to apply for a PPP loan, being unaware of the program, and not being able to find a lender to accept the application<sup>8</sup>

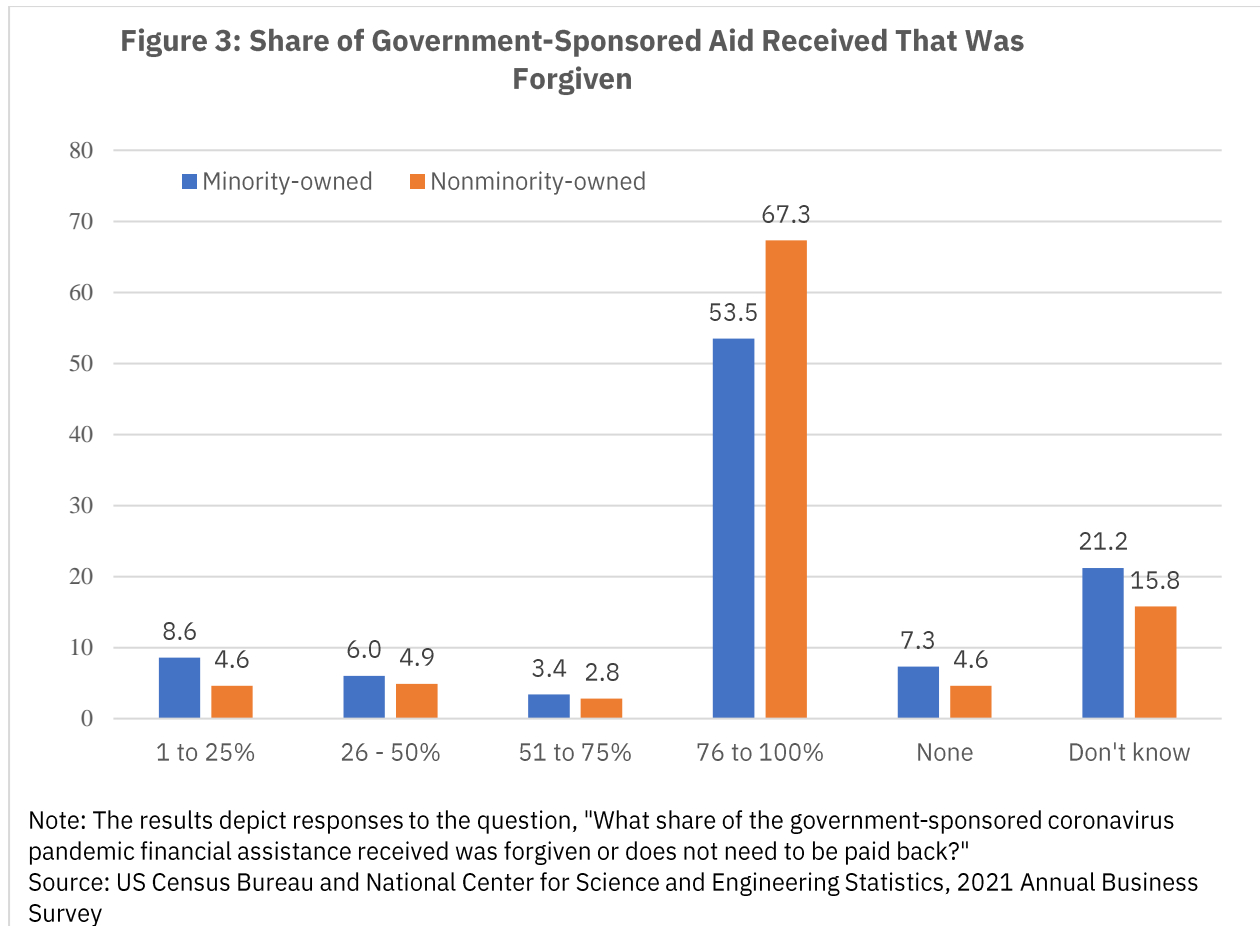
Other studies highlight that fewer minority-owned firms have lending relationships with primary lenders and banks and are more likely to use fintech lenders (see Fei and Yang 2022). Also, Fairlie, Robb, and Robinson (2021) find that new business ventures that are Black-owned tend to face greater challenges in obtaining credit due to lower actual and perceived creditworthiness, which appears to lead Black entrepreneurs to apply for credit less often. This greater reliance on nontraditional bank financing may help explain the finding that fewer minority-owned firms expected forgiveness on the government-sponsored financial assistance they received.

Figure 3 highlights the differences in the share of government-sponsored aid received by firms that was forgiven. Here, a rather stark difference exists between minority- and nonminority-owned businesses. Almost two-thirds of nonminority-owned firms reported that 75 percent to 100 percent of their government-sponsored aid was forgiven. However, Black-, Hispanic-, and Asian-owned businesses all report lower fractions receiving this same level of aid forgiveness. Moreover, roughly 1.5 times more minority-owned firms reported that none of the aid they received was forgiven, while a much larger share of respondents at minority-owned firms did not know whether the aid they received was forgiven.

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<sup>8</sup> See page 12 of [sbcs-report-on-firms-owned-by-people-of-color \(fedsmallbusiness.org\)](https://www.fedsmallbusiness.org/sbcs-report-on-firms-owned-by-people-of-color).

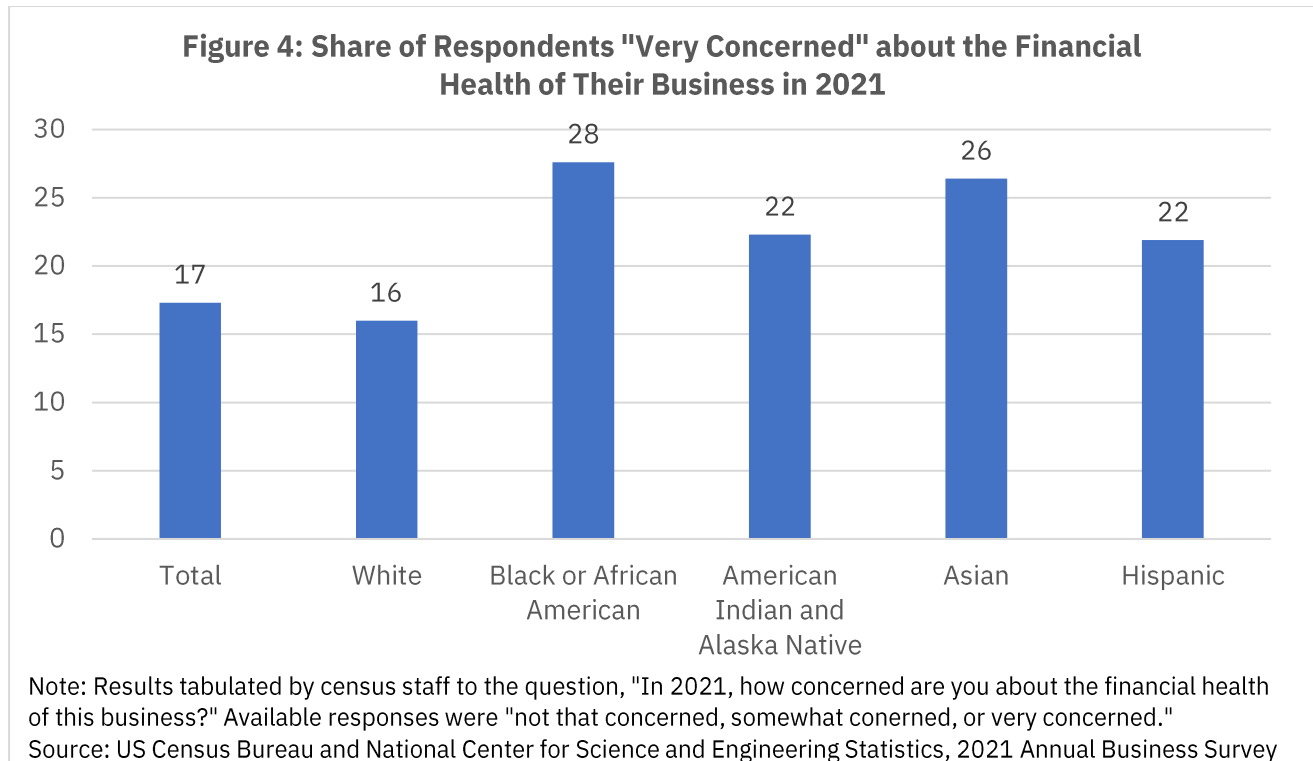




While a full accounting of the reasons why fewer minority-owned firms had their financial aid fully or partially forgiven is beyond the scope of this article given the information we have available to us, this area seems very important and ripe for research. The Federal Reserve Small Business Credit Survey identifies potential issues that include communication, lack of awareness over forgiveness, and a higher propensity to rely on nontraditional financial relationships.

### 3 Minority-Owned Firms Enter 2022 in Riskier Positions

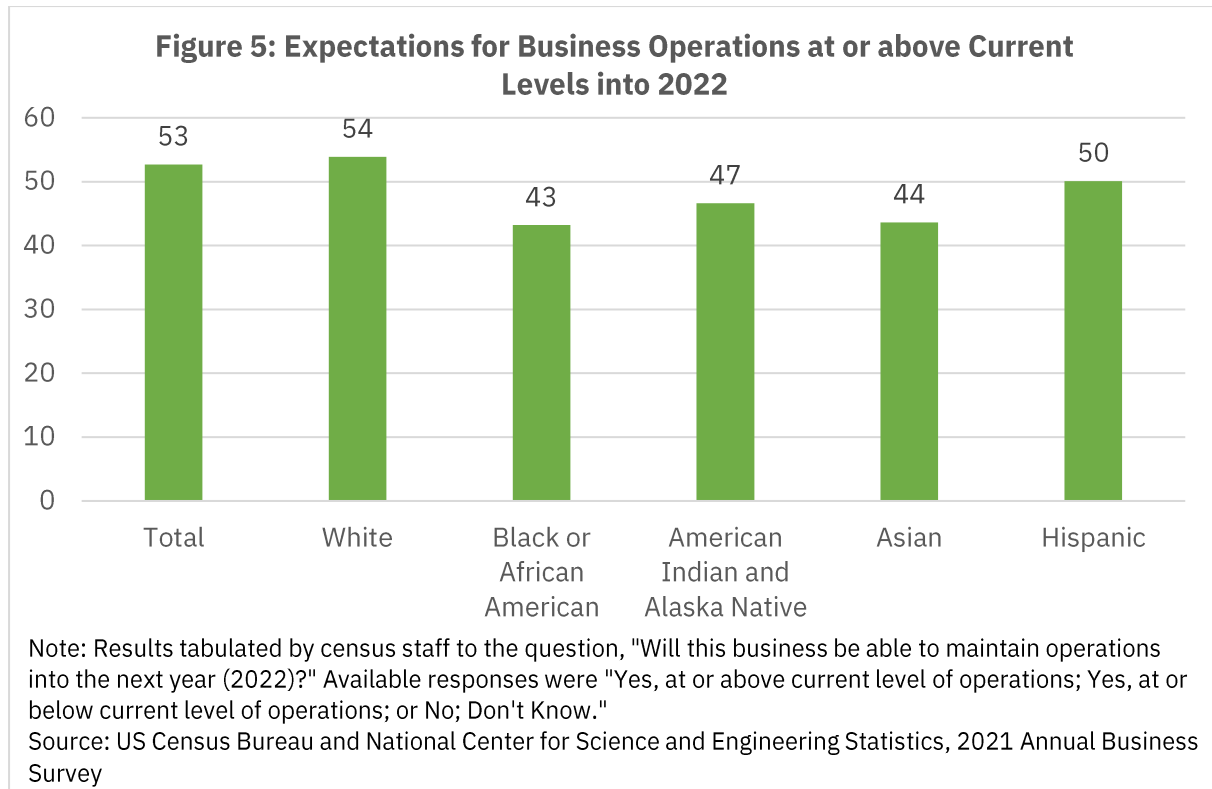
In addition to the differential experiences reported by minority- and nonminority-owned firms in 2021, minority-owned businesses are more likely to report that they are “very concerned” about the financial health of their business in 2021. Figure 4 indicates the presence of statistically significant and economically meaningful differences between the financial health of minority-owned firms as a whole and White-owned firms.



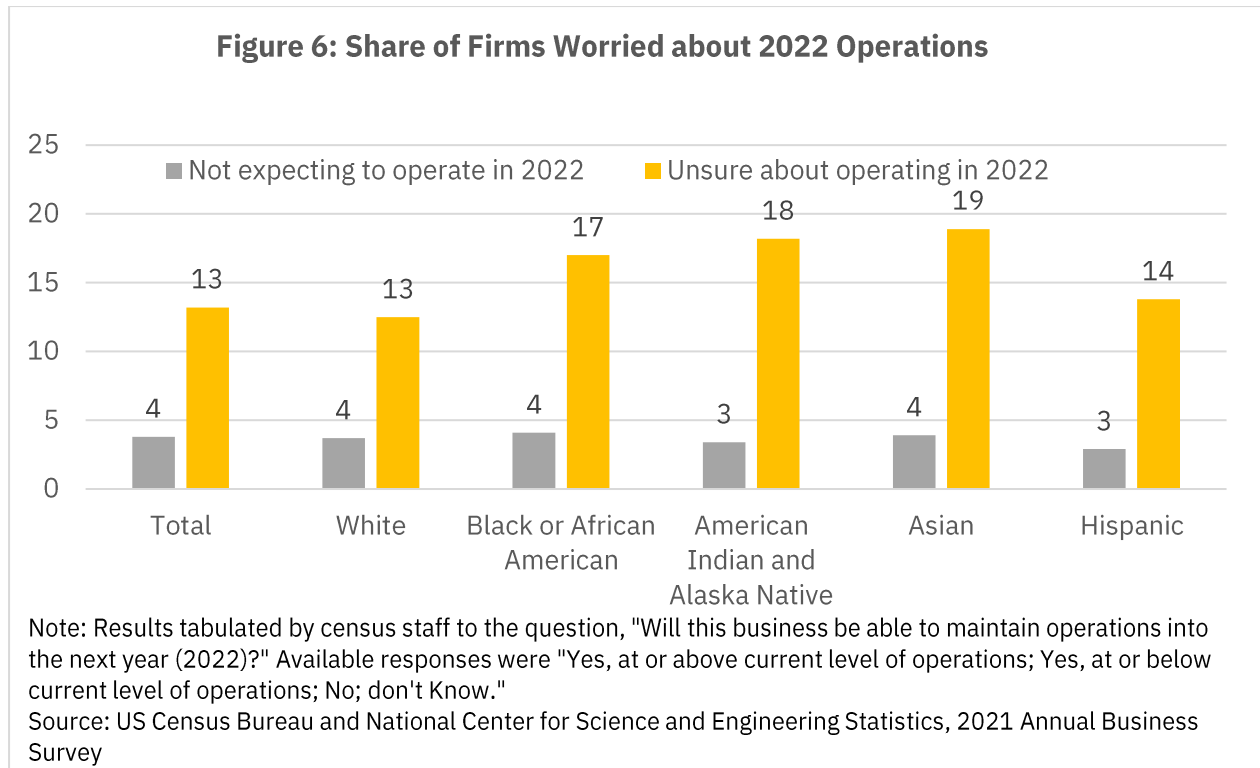
To add further context to the weaker position many minority-owned firms found themselves in, it is useful to compare to their financial health prior to the onset of the pandemic. While we do not have the ability to control directly for prepandemic financial conditions, using data from the Federal Reserve’s 2019 Small Business Credit Survey, Mills and Battisto (2020) find that a much larger share of minority-owned firms reported their prepandemic financial health was in “poor” condition relative to nonminority-owned firms. In particular, Asian-owned firms were roughly twice as likely as White-owned firms to indicate their firm was in “poor” financial condition. Black-owned firms were nearly twice as likely as white-owned firms to report “poor” financial health.

Going forward, minority-owned businesses are significantly more worried about sustaining their level of operations into 2022 (see figure 5). Although more than half (54 percent) of White-owned firms anticipate business operations continuing on at or above their current levels, that fraction is well below 50 percent for Black- and Asian-owned firms.<sup>9</sup>

<sup>9</sup> While these differences might appear small in percentage point terms, they are statistically significant.



Conversely, as shown in figure 6, a much larger share of minority-owned firms enter 2022 uncertain about their ability to maintain business operations. For minority-owned firms as a whole, the fraction “unsure” about maintaining current operations is 17.1 percent, which is statistically higher than the 12.3 percent of nonminority-owned firms that responded with such uncertainty. By contrast, similar shares of firms across all these demographic groups are not expecting to operate in 2022. This is something of a surprise, as one might have expected groups with higher shares of businesses being unsure about operating in 2022 to also have higher shares of businesses that are not expecting to operate in 2022. While hinting at the resilience of financially challenged small businesses, this is a subject on which future research could yield important insights.



## 4 Conclusion

The data obtained from the preliminary release of the 2021 Annual Business Survey show that the pandemic had significant impacts on the economic outcomes and financial viability of businesses, and further reveal that those impacts differed for minority-owned businesses relative to nonminority-owned firms. This is true, even after most firms applied for and received government-sponsored aid during the pandemic.

Although minority-owned firms sought government aid at, if anything, higher levels than nonminority-owned firms, many requested and received smaller levels of emergency loans in total. Moreover, minority-owned firms reported forgiveness of fewer and lower shares of these loans and minority-owned firms report much more financially fragile conditions and greater uncertainty about future operations than nonminority-owned firms.

These results largely align with previous studies that used convenience samples or other nonrepresentative surveys of firms during the pandemic (see Bartik et al. 2020 and Liu and Parilla 2020). However, the large representative sample underlying the ABS makes it the premiere source of information on employer businesses. As more detailed ABS data become available, we will continue to clarify the differential impacts of both the pandemic and policy responses to the pandemic on minority- relative to nonminority-owned businesses.

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