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RESEARCH BRIEF

Economic Impacts of COVID-19
on North Carolina's Small Business Community

The economic disruption from the COVID-19 pandemic has already started in earnest across North Carolina. This brief has been designed to serve as a primer for those who want to better understand the likely scope of COVID-19's economic impacts on the state's entrepreneurial community. For the full version of this report, please go to carolinasmallbusiness.org/research.

Long and short-term challenges. The biggest challenge is a lack of financial resources. Only about half of small businesses can cashflow their expenses for a month before having to reduce staff and other costs. Smaller businesses are thus at high risk for permanent closure after large-scale disasters. Beyond immediate cash flow, several other factors are correlated with a smaller firm’s chance of recovery:

Correlated with High Recovery Chance	Correlated with Low Recovery Chance
Timely access to affordable financing.	High sensitivity to cashflow interruptions.
Good pre-disaster financial condition.	Retail and service-oriented businesses.
Minimizing length of business closure.	Being previously impacted by a disaster.
Support from community institutions.	Customer base is primarily local.

Estimating the scale of the impact. We conduct a preliminary assessment of the possible impacts of COVID-19 in two ways. First, our analysis summarizes the Census Bureau’s county business patterns data on establishments of both small (employing 1-19) and medium (employing 20-99) sized establishments in North Carolina. Second, to illustrate the magnitude of the economic issue, we also provide some example scenarios of how singular small business closures or layoffs might impact North Carolina’s economy.

At-risk establishments. Small and medium-sized businesses make up a large share of the state’s total economy across all sectors. But certain industry sectors are more vulnerable than others. We distinguish between two types of at-risk industry clusters for COVID-19. **Primary high-risk sectors** are small and medium-sized employers engaged in direct customer-facing interactions. **Secondary high-risk sectors** include establishments that are likely to be impacted due to declines in aggregate demand from primary high-risk sectors.

Findings and analysis. Across all employer establishments in North Carolina, 85% are small firms with 1 to 19 employees. In general, the data suggest these firms will see the most severe impacts from COVID-19. About 56% of all small employer establishments are in primary or secondary high-risk industry sectors.

Adversely Impacted Small Businesses	Full-Time Employees in High Risk Sectors	Annual Payroll Potential Losses
111,477	537,194	\$16.8 Billion

Concurrently, medium-sized businesses - those with between 20 and 99 employees - are also likely to be impacted. About 2 in 3 of North Carolina’s medium-sized establishments (69%) are in primary or secondary high-risk industry sectors.

Adversely Impacted Medium-Sized Firms	Full-Time Employees in High Risk Sectors	Annual Payroll Potential Losses
20,915	844,566	\$26.5 Billion

The following table shows, by industry, the high-risk sectors for small and medium-sized employers. There are large numbers of businesses and employees at risk.

Industry Sector	Business Totals		Employee Totals	
	Small	Medium	Small	Medium
Retail Trade	29,890	4,262	168,073	178,999
Construction	21,053	1,900	78,745	72,298
Accommodation and Food Services	13,434	7,763	97,055	290,834
Administrative and Support	11,929	392	34,041	15,068
Real Estate and Leasing	11,156	1,540	44,966	67,744
Wholesale Trade	9,848	1,567	48,716	62,915
Manufacturing	5,710	2,069	32,248	95,856
Transportation and Warehousing	5,143	791	19,790	33,929
Arts, Entertainment, and Recreation	3,182	570	12,681	24,782
Mining, Quarrying, and Oil	132	61	879	2,141

With each smaller establishment that must close or lay off employees, there is an enduring reverberation across North Carolina’s economy. The below table highlights example economic impacts that could occur for each closure or reduction in force at a small or medium-sized employer.

Economic Impact Scenarios	Statewide Economic Impact	
	Earnings Loss	Job Loss
Example Impacts in Primary High-Risk Sector		
Full-service restaurant closes.	-\$752,649	-26
Boutique women’s clothing store closes.	-\$500,693	-17
Independent motel lays off 50% of employees.	-\$301,864	-11
Example Impacts in Secondary High-Risk Sectors		
Metal fabricator 50% reduction in force.	-\$937,684	-17
Furniture wholesaler lays off 50% of employees.	-\$749,907	-14
Home remodeling contractor closure.	-\$304,956	-7

The need to act now. Our research suggests up to 56% of all North Carolina small businesses, and up to 69% of all medium-sized establishments, will see adverse impacts from COVID-19. The size and scope of the economic ripples from the pandemic will likely be unprecedented. We recommend the following policy solutions:

- 1. A mix of short and long-term assistance programs.** Most policy efforts focus on short-term recovery in the immediate aftermath of disasters. While this is important, the economic impacts of COVID-19 will be very long-term.
- 2. Utilize existing community institutions for efficient recovery efforts.** Higher levels of community lending after disasters is associated with a 1%-2% increase in employment growth at startups and small firms.
- 3. Program eligibility, reporting, and compliance requirements should be flexible.** Policies to aid small businesses often seem to have no effect because the programs are difficult to understand and hard for entrepreneurs to access.