

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

By

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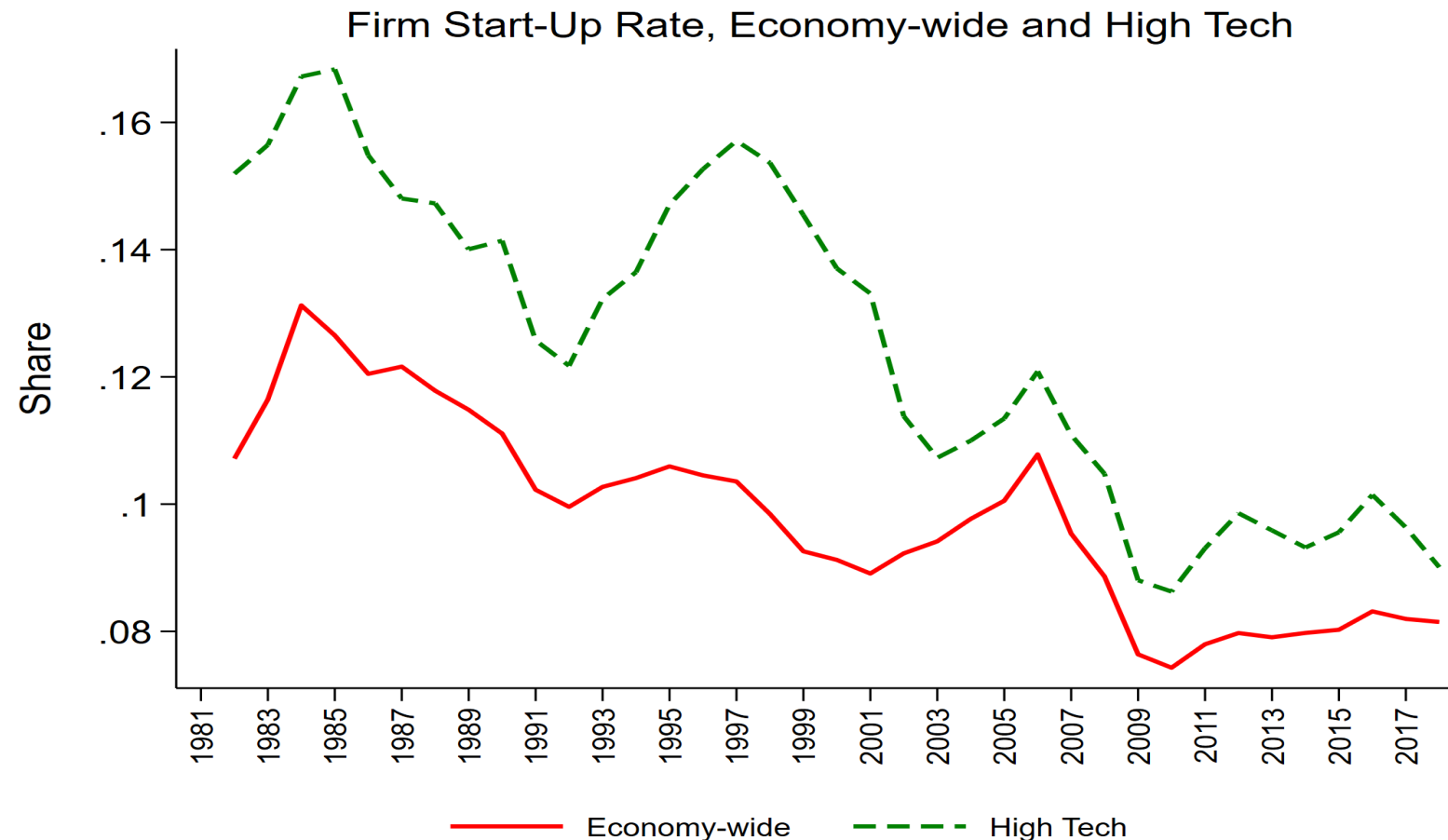
March 2022

*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.

Overview

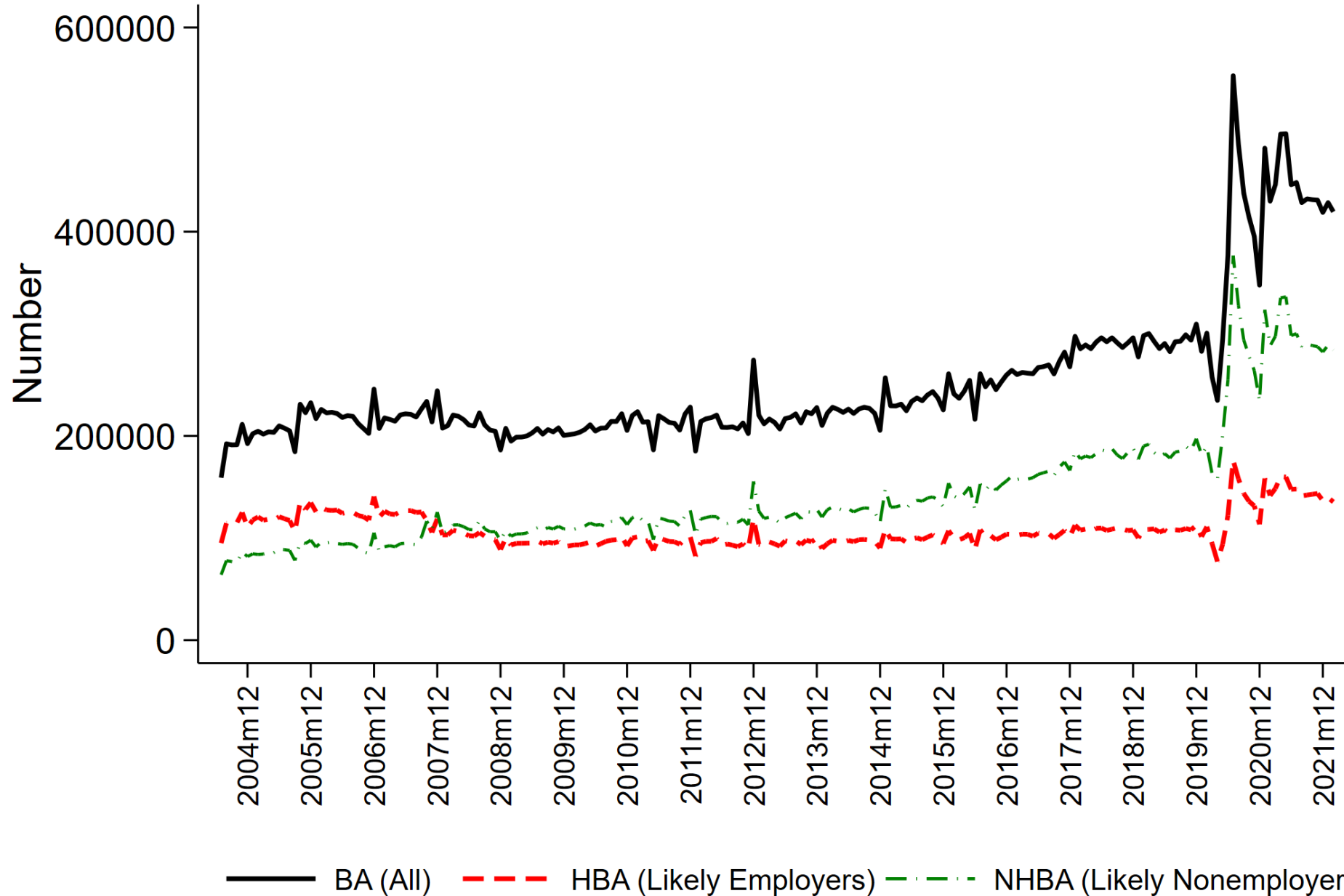
- New employer businesses disproportionately contribute to job creation, innovation and productivity growth
- Great Recession
 - Sharp and persistent decline in employer startups
- COVID-19
 - Early in pandemic new business applications from BFS for likely employer business startups fell sharply
 - But surprisingly: New business applications have surged since June 2020
 - 2020 is highest on record
 - Second wave of surge in 2021 that has continued through February 2022
 - Today: Explore the basic facts about this surprising surge, discuss why and implications for recovery from pandemic

Declining Dynamism and Entrepreneurship, U.S. Private, Non-Farm Sector – Pre-Covid



Source: Census Bureau Business Dynamics Statistics (BDS)

Monthly New Business Applications



Source for BFS is
Administrative data
Received by Census
On Weekly Flow Basis
In Real Time

Application for EIN on
Form SS-4

Application form includes
requested information
about motivation,
LFO, industry, location

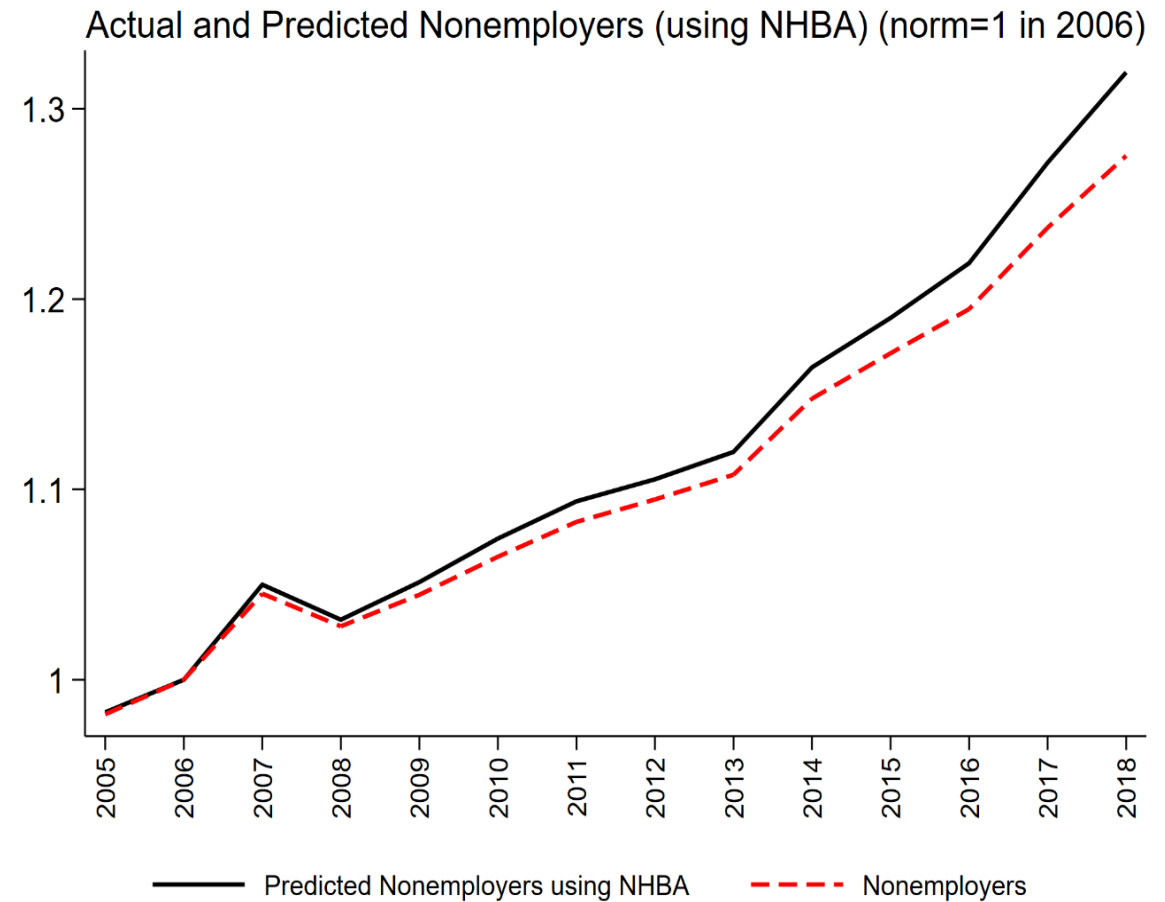
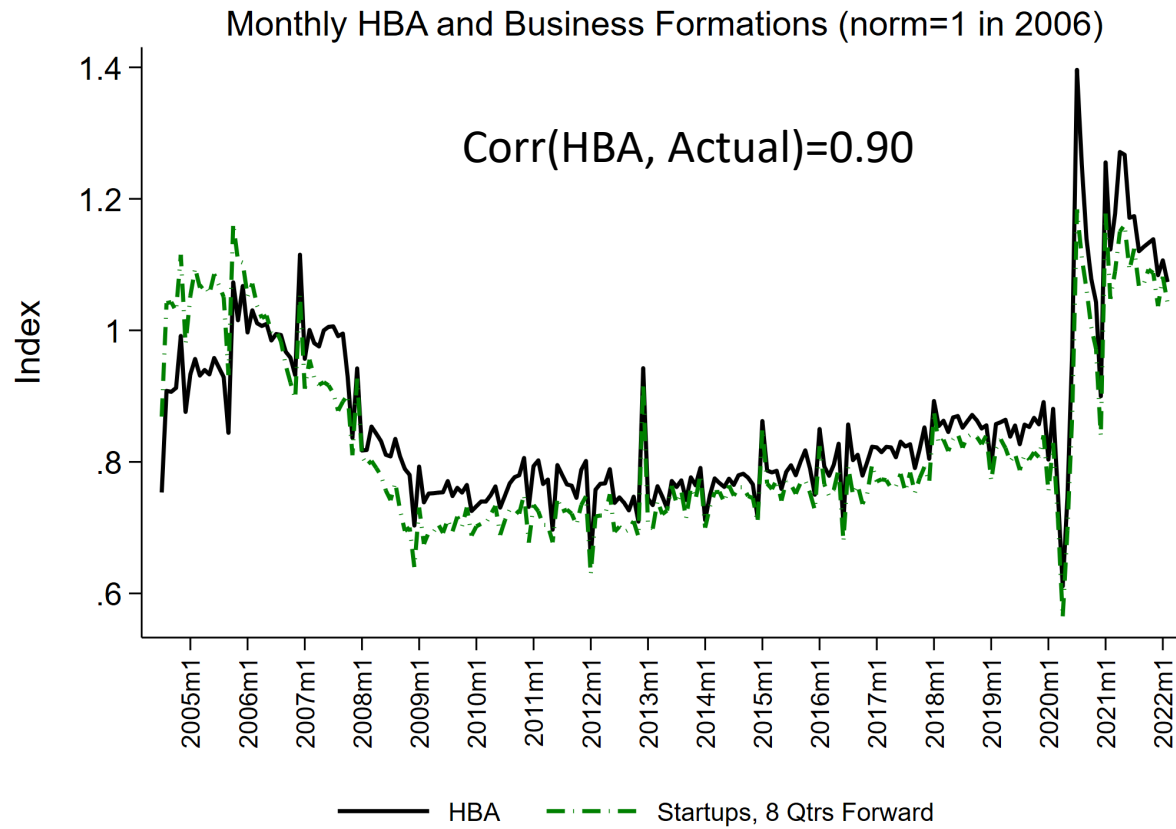
Monthly BFS released
within 2 weeks of end
of reference month.

Weekly BFS released
Thursday after reference
Week

— BA (All) - - - HBA (Likely Employers) - . - NHBA (Likely Nonemployers)

HBA tracks actual employer startups

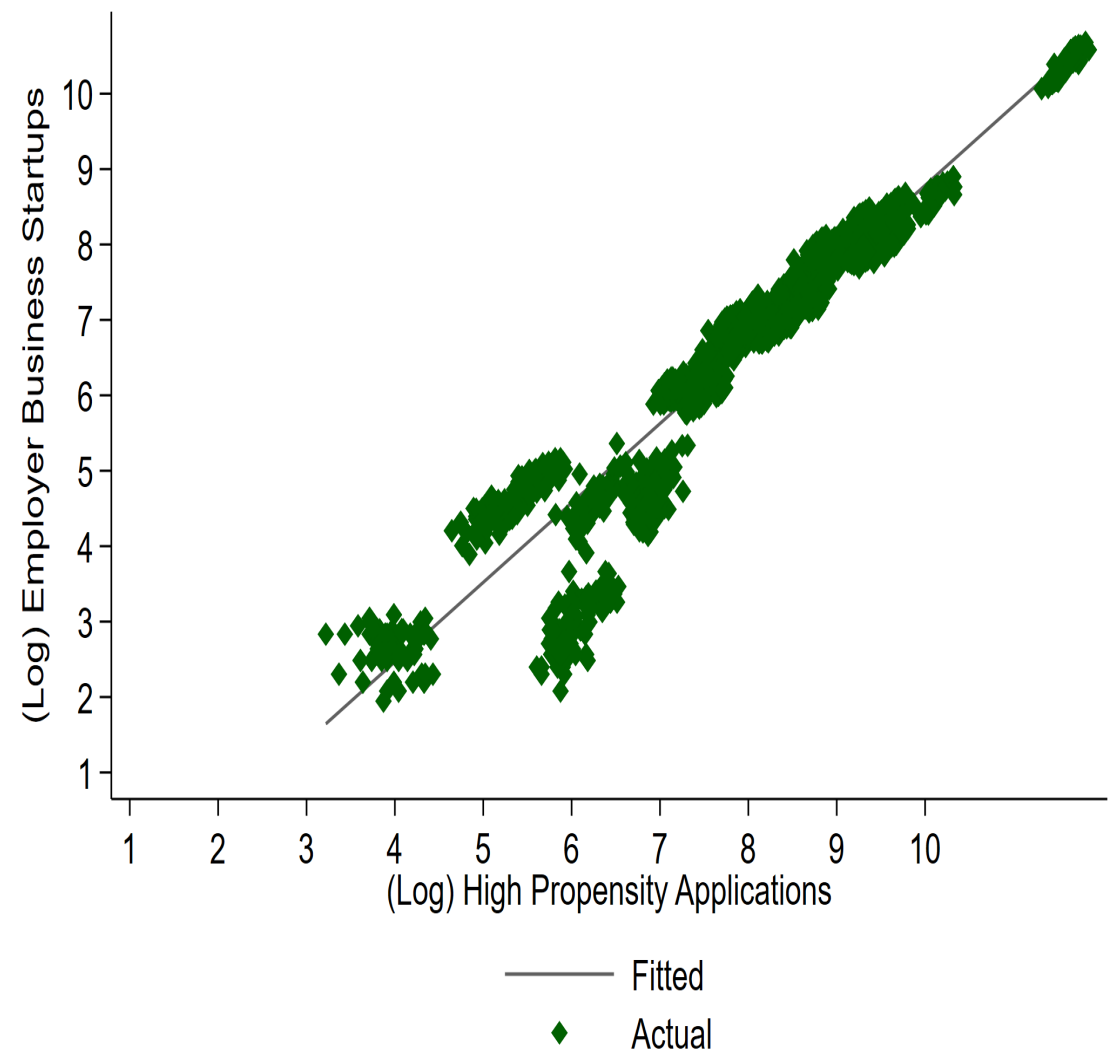
NHBA tracks fluctuations in nonemployers



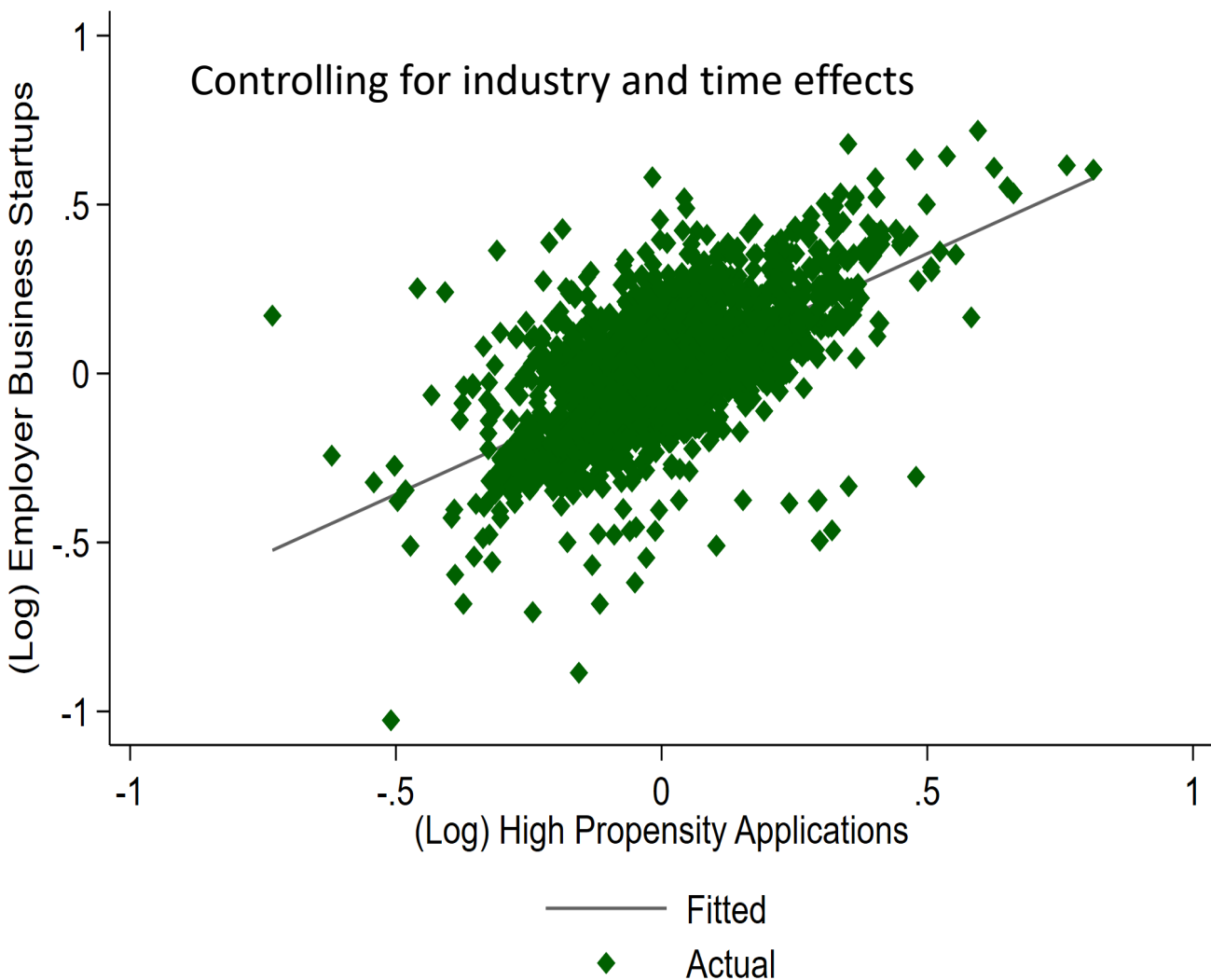
Actual formations reflect startups in next 8 quarters from applications in current month. Actual startups through 2018. ⁵

HBA Applications in month t and New Employer Startups in Next 8 quarters

Pooled Industry, Monthly Data: 2004:7-2017:4



Slope = 1.0528, SE = 0.0054

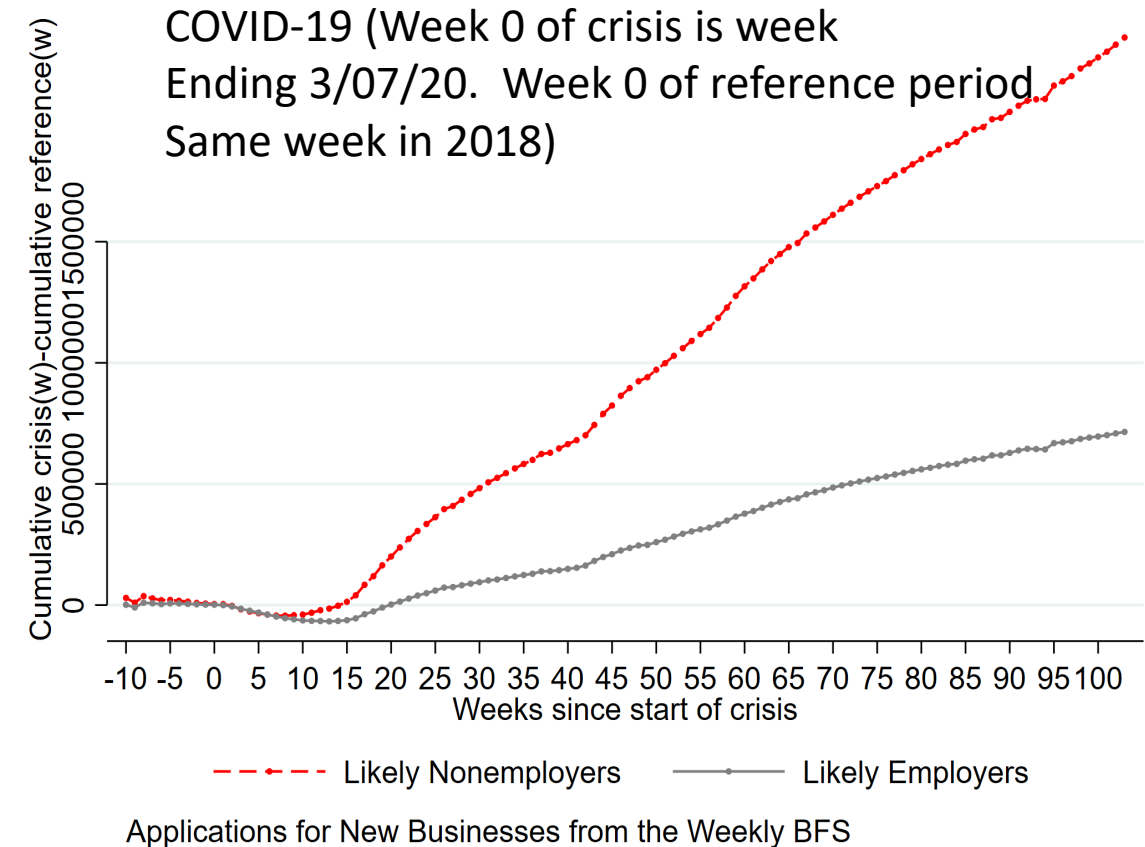


Slope = 0.7126, SE = 0.0178

COVID-19 vs. GREAT RECESSION



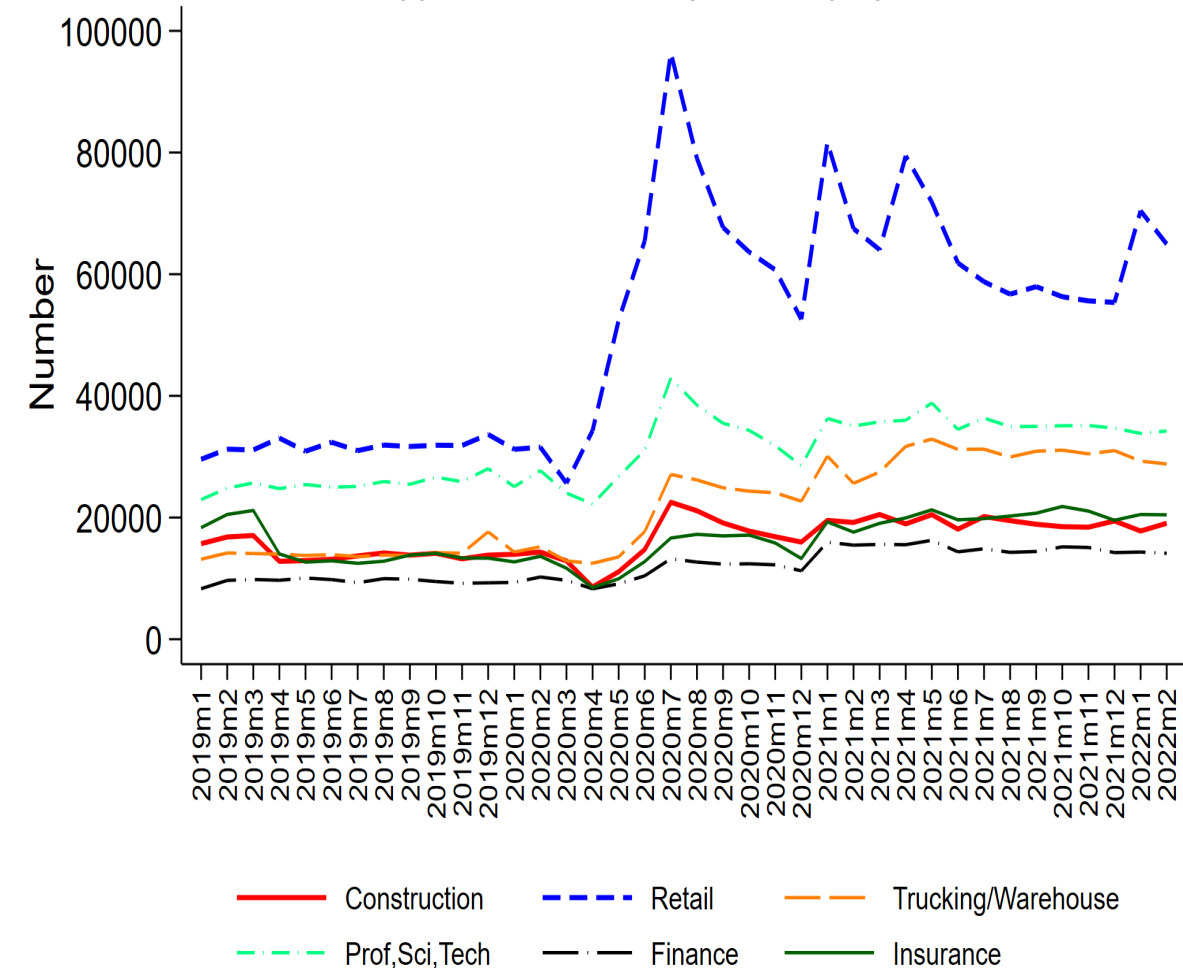
HBA declined sharply after Lehman Bros. Collapse relative to Same reference weeks in 2006. NHBA rose mildly.



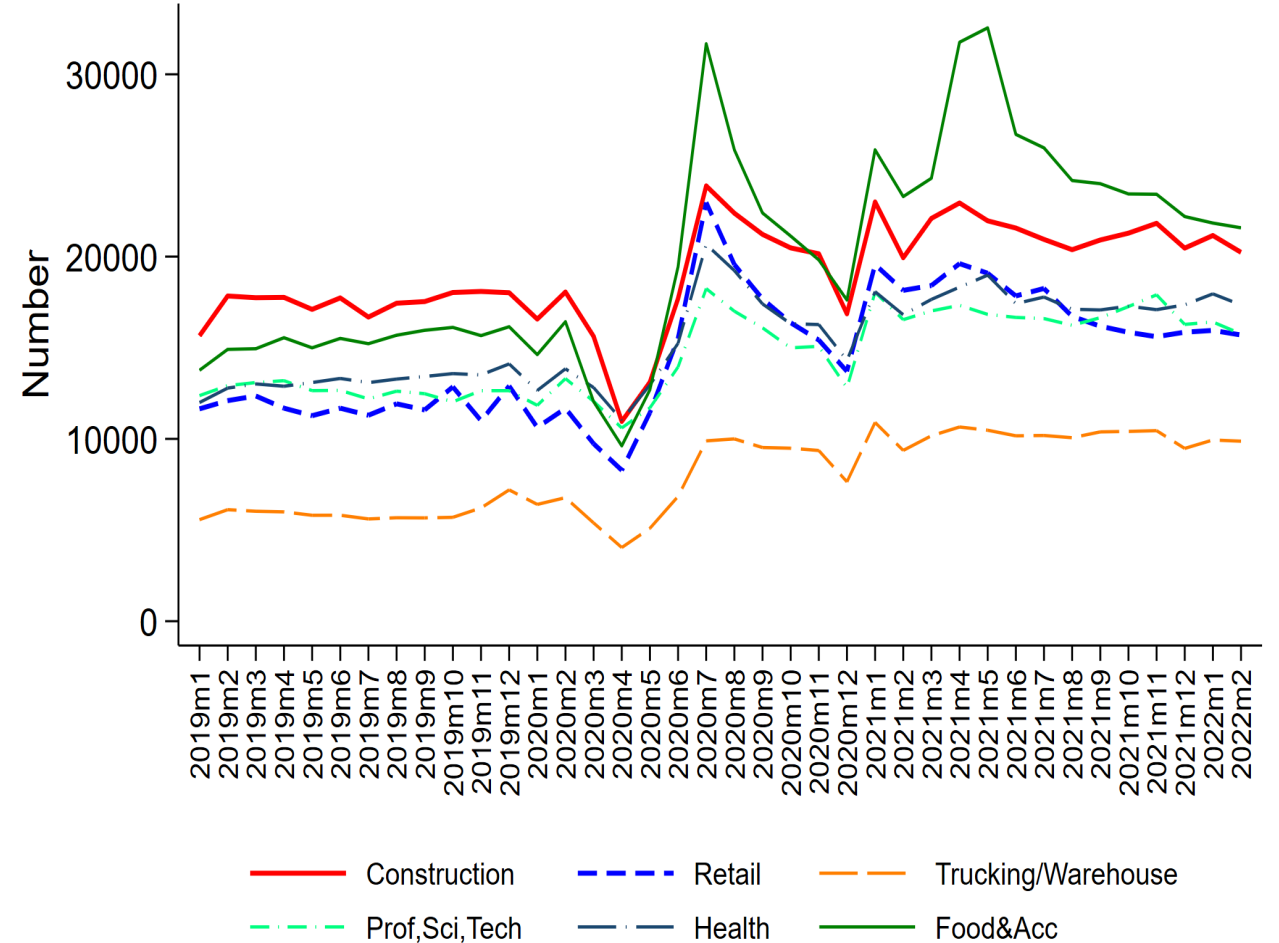
HBA and NHBA both declined initially in pandemic but have surged through March 6 2022

Surge in new applications concentrated in specific sectors

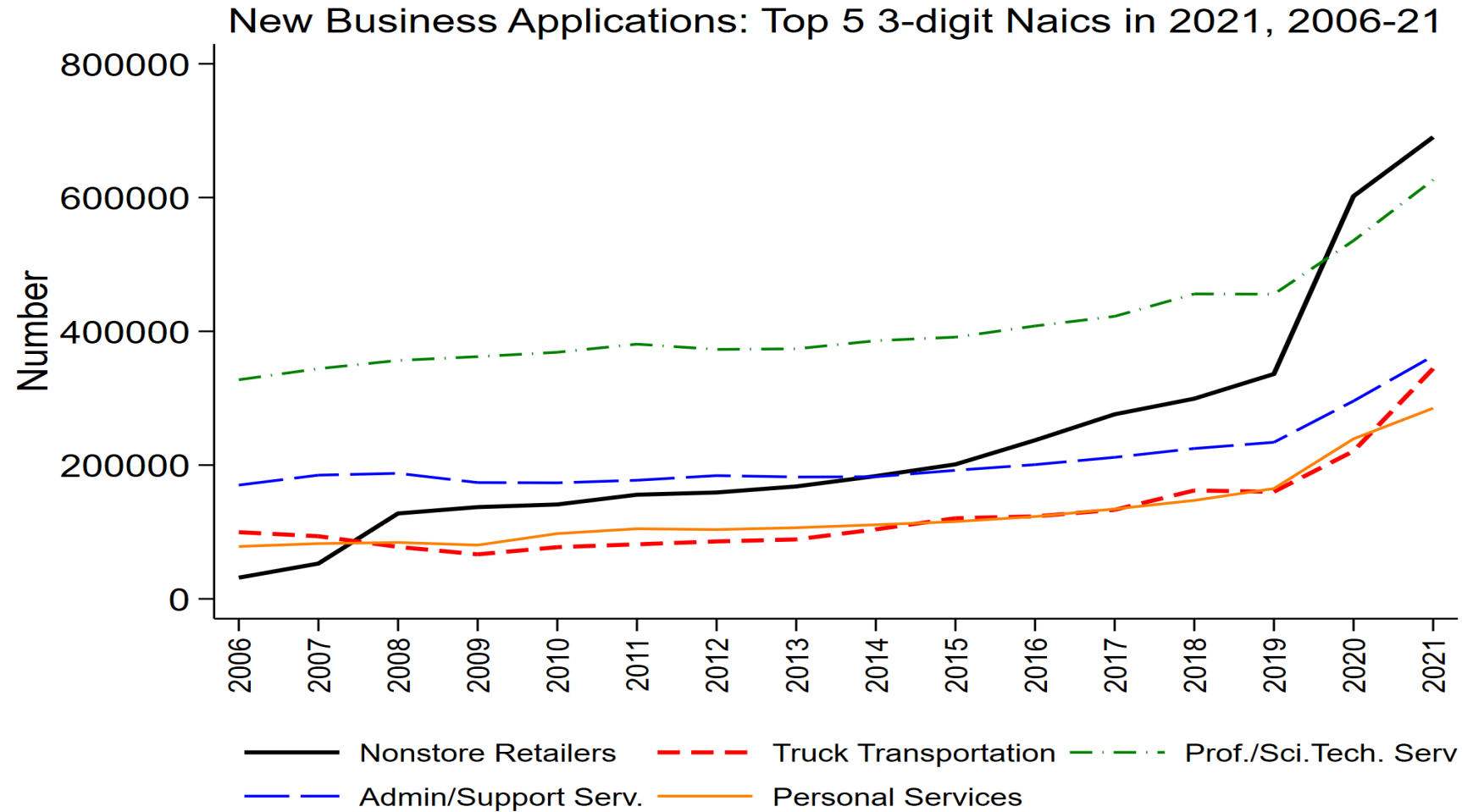
New Business Applications for Likely NonEmployers, Selected Sectors



New Business Applications for Likely Employers, Selected Sectors

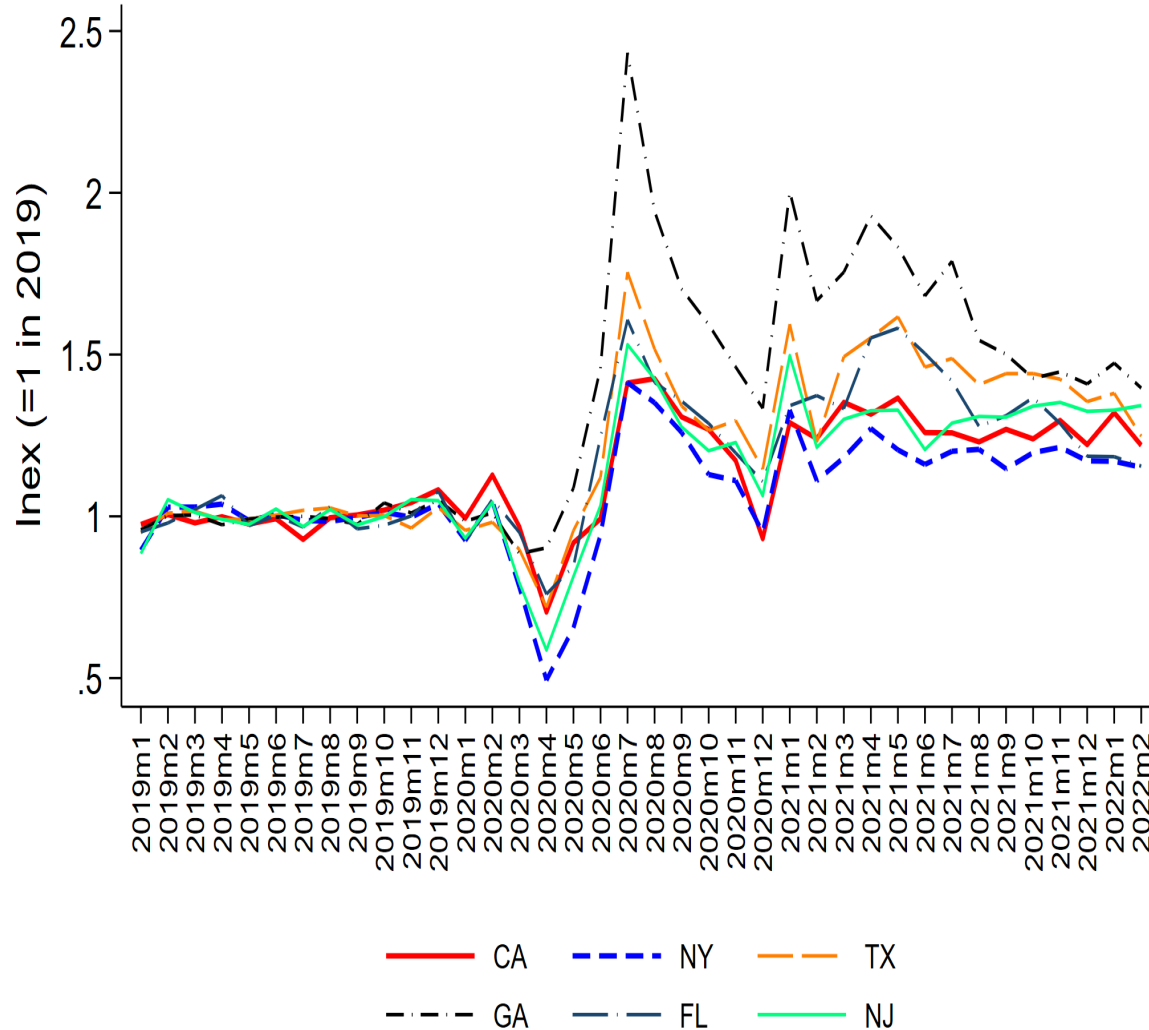


Five 3-digit (NAICS) sectors account for 50% of Surge

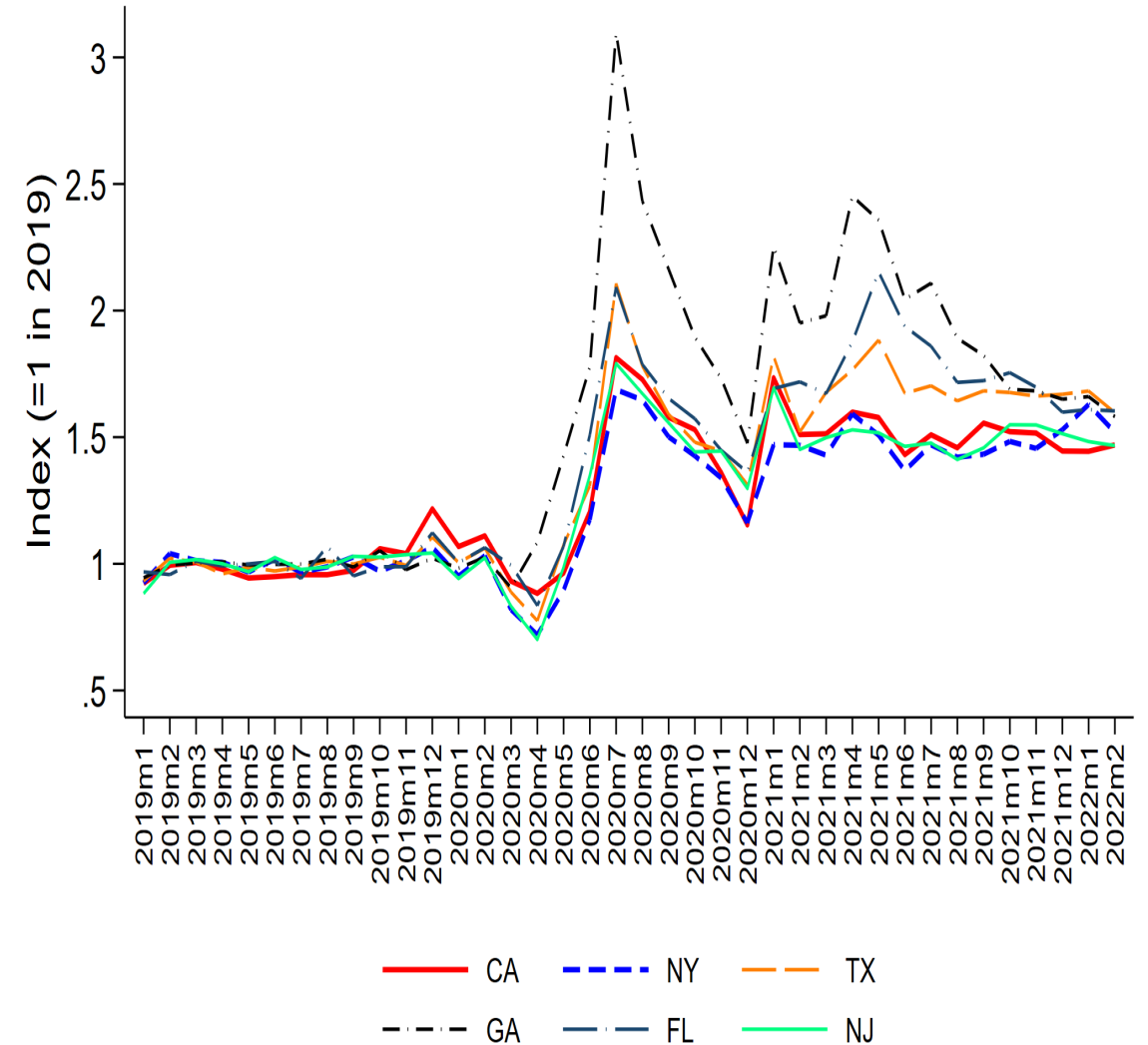


Uneven surge across states

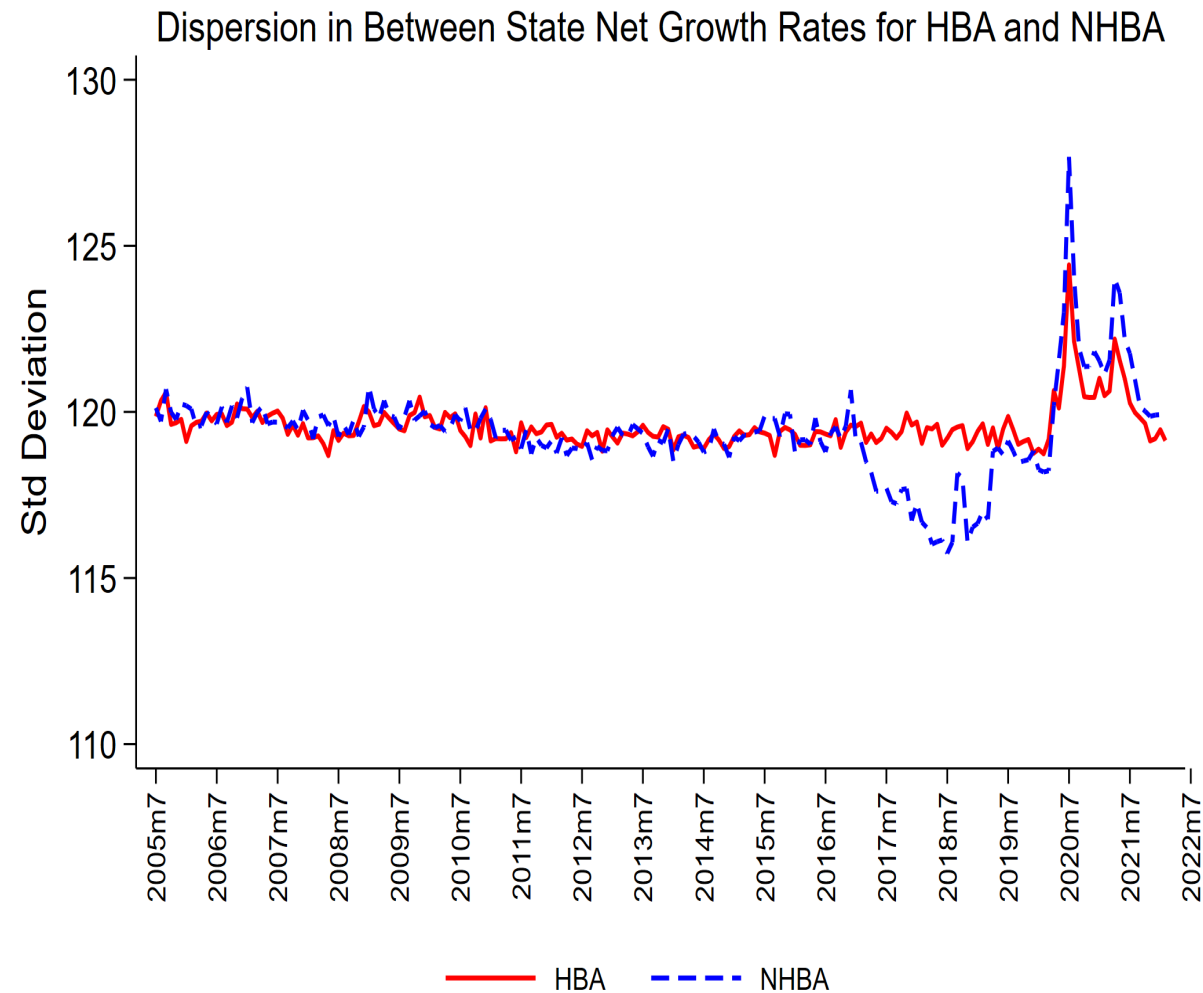
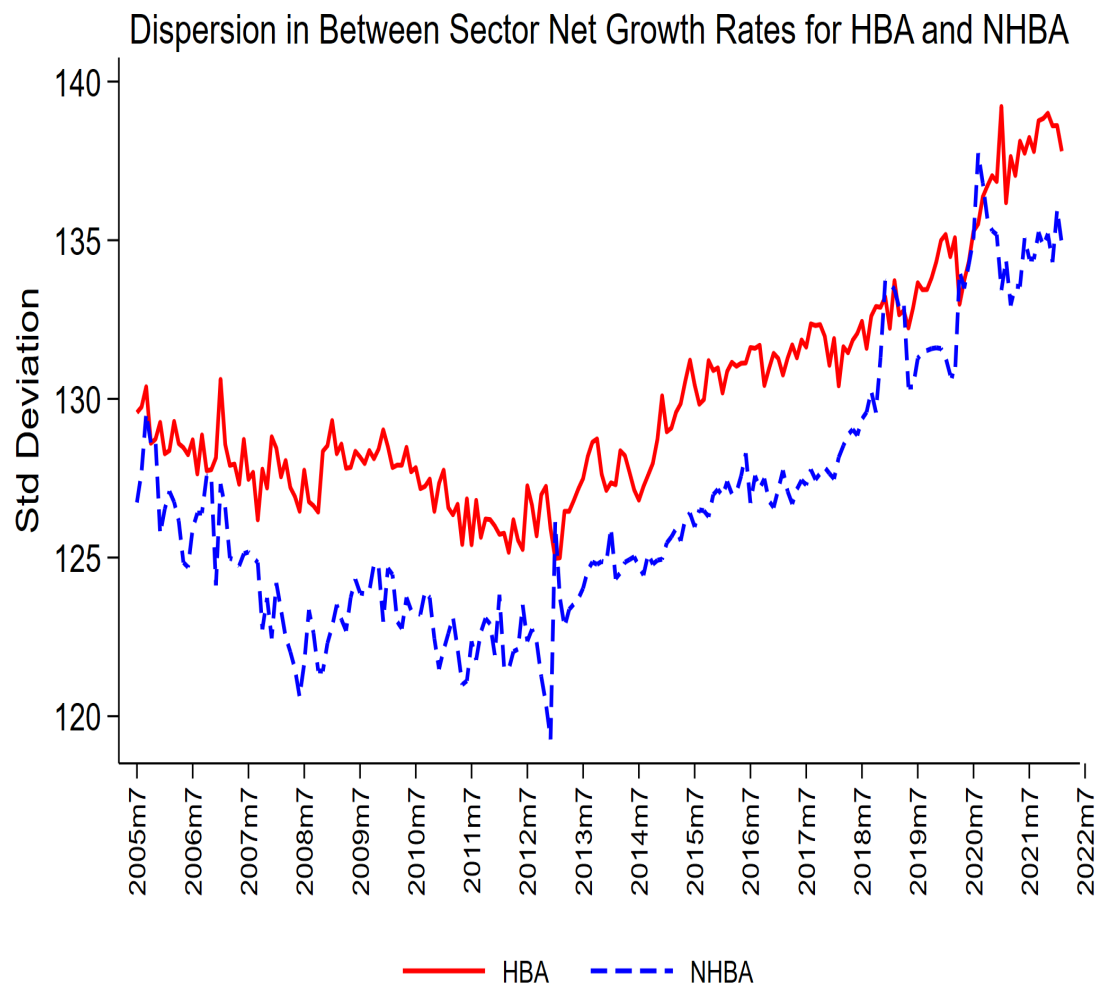
New Business Applications for Likely Employers, Selected States



New Business Applications for Likely Nonemployers, Selected States



Rising Between Sector and Between State Dispersion in HBA and NHBA



Why? What is Different from Great Recession?

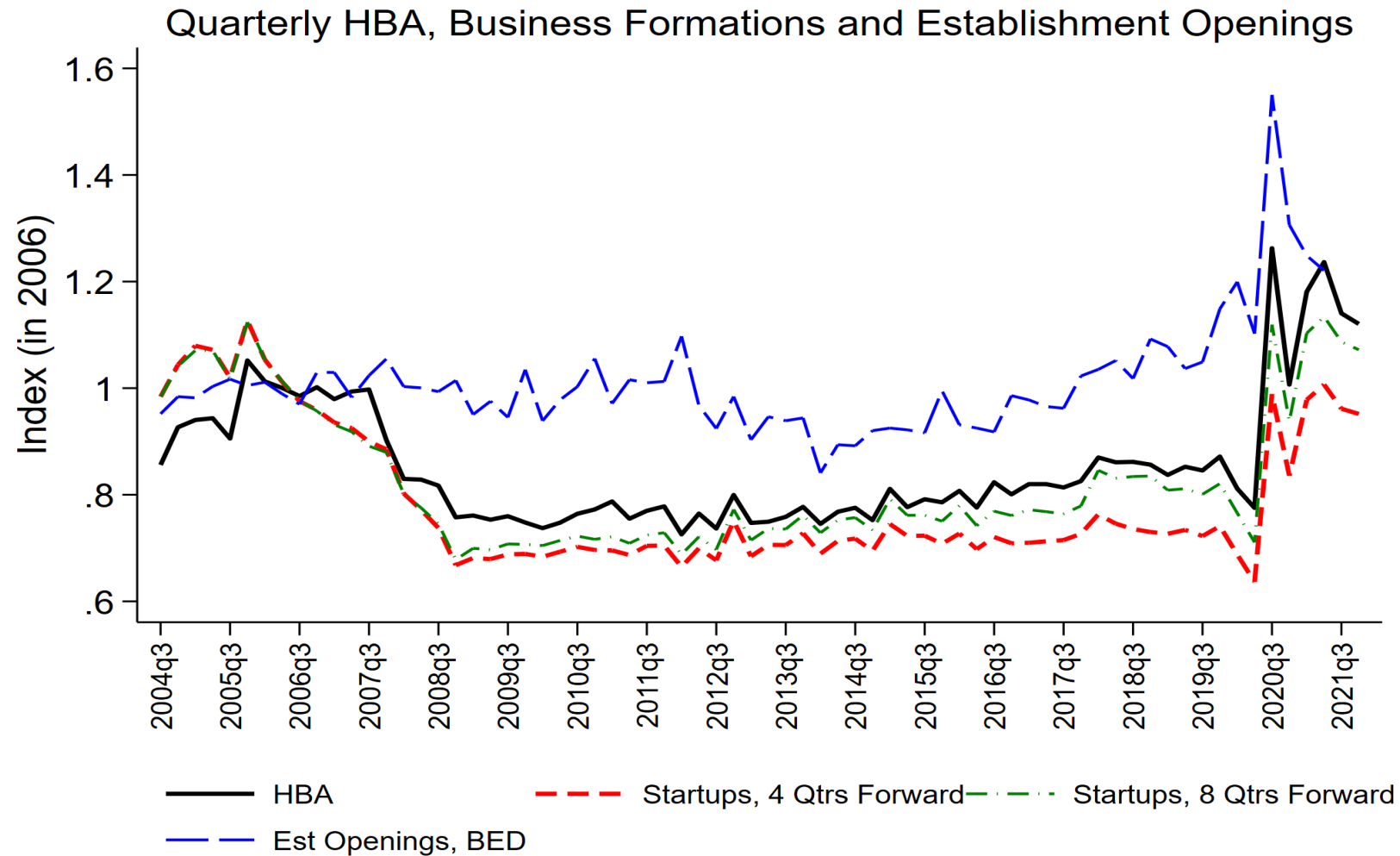
- Financial market conditions collapsed in Great Recession with especially adverse impact on startups and young businesses (Davis and Haltiwanger (2019))
- In contrast, financial markets have remained robust in COVID-19 recession.
- Restructuring and Reallocation:
 - COVID-19 has provided incentives 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?

Potential implications of this surge for post pandemic recovery?

- 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.

“Bonus” Slides

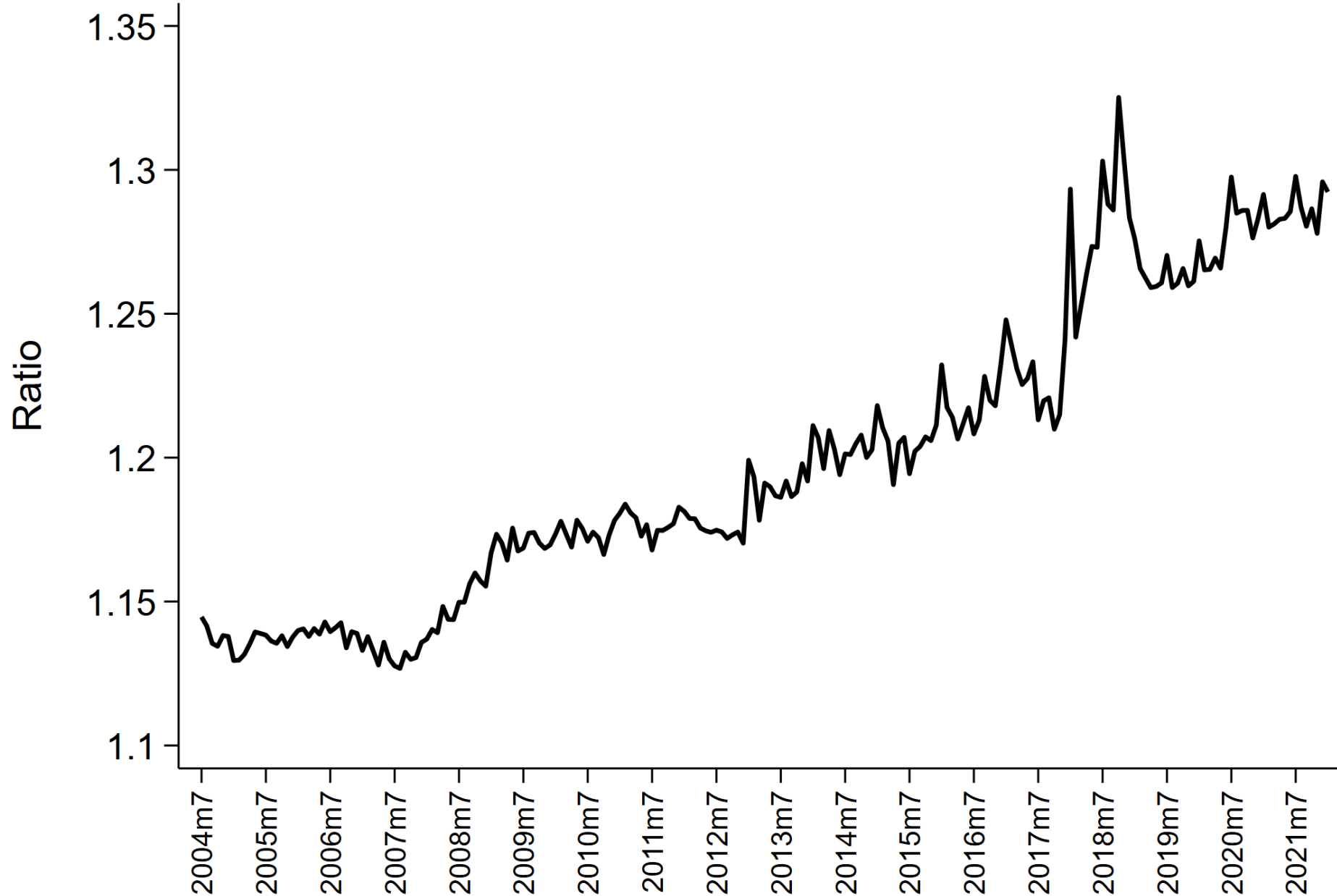
Early signs of actual startups? Business Employment Dynamics (BED) Establishment Openings?



Establishment openings includes new establishments of existing firms and Reopenings.

New establishments of Existing firms are mostly From large, mature firms.

Ratio of Startups 8 Qtrs/4 Qtrs Ahead



Startup lag increasing
Pre 2018.

Continues with
Projections.

This implies takes
Even longer to
Understand implications
Of fluctuations in BFS.

Monthly Business Formations and Quits (norm=1 in 2006)

