Comments on Measuring business exits during the pandemic

André Kurmann *Drexel University*

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Based on joint research with Etienne Lalé and Lien Ta

"The Impact of COVID-19 on Small Business Dynamics and Employment: Real-time Estimates with Homebase Data"; available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3896299

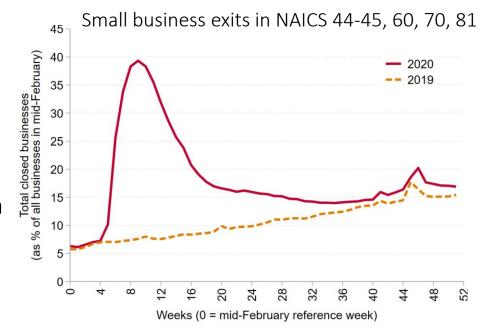
The pandemic highlighted the importance of accurate and timely estimates of small business exits (& entry).

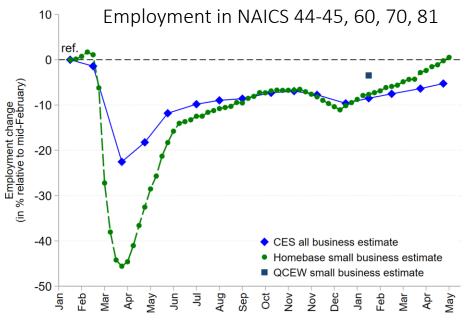
1. Estimating small business exits (& entry) for in-person service sectors in almost real-time is possible.

- Homebase matched to Google, Facebook, and Safegraph to distinguish exits & entry from sample turnover
- Benchmarked to historical BED / BDS rates

2. Estimating small business employment that directly incorporates exits (& entry) is possible.

- Weighted link-relative estimator similar to CES, but birthdeath model replaced by actual exit & entry estimates
- ⇒ Large spike in temporary closings in March/April 2020 but only 2% higher permanent exits than in 2019.
- ⇒ Small biz employment decline much larger in March April 2020 but recovery as strong as for larger biz.
- \Rightarrow PPP significantly reduced permanent exits.





Source: Kurmann, Lalé and Ta (2021)

1. Distinguishing exits & entry from sample turnover is key

- Wildly different estimates if we included none or all sample turnover as exits & entry
- Cautionary tale about use of "opportunity samples" to estimate exit, entry, and employment

2. Not all private sector data is created equal to estimate exits

- Measurement e.g. Safegraph very (too?) noisy to reliably estimate small biz exits (let alone entry)
- Coverage e.g. Homebase coverage quite good for small biz in-person services, but not elsewhere

3. Benchmarking to official population counts is critical...but which ones?

- In 2019, QCEW count of 1-4 employee establishments was 58% (!) higher than BDS count
- BED exit (and entry) rates not available by sector and size class, and for some sectors BED exit (& entry) rates deviate substantially from BDS exit (& entry) rates

4. Demand for timely, high-frequency, granular private-sector data will remain strong

- Important to credibly evaluate effects of small biz policy interventions (e.g. PPP)
- Persistent interest from policy makers, financial markets, and economic commentators

5. Caveats to using private sector data remain equally strong

- Potential issues with representativeness and coverage
- Access and consistency not guaranteed; cost of acquisition and processing