Business Exits During the Covid-19 Pandemic

AYŞEGÜL ŞAHIN
UT AUSTIN, NBER

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Measuring Business Exits

- Measuring business exits is always challenging but this difficulty has been accentuated during the pandemic.
- Covid-19 pandemic characterized by sharp employment contraction, followed by quick recovery.
- Unemployment peaked at 14.7% but 4.2% today.
**Analogy:** labor force exit/entry

- Partial quick reversal but disruption created persistent decline in the participation rate

- Key to recovery in participation is improved labor market conditions (job-loss risk and job-finding rate)
Effects of Excess Exits on Employment

- Closure vs. death important issue but more of a static view
- Entry likely to respond as long as underlying demand recovers
- Evidence suggests entry likely to compensate for excess exits
  - New business applications initially declined but have sharply rebounded (Dinlersoz, Dunne, Haltiwanger, and Penciakova, 2021)
  - CPS measure of self employed
- Key to recovery is improved business conditions that would allow new business to survive and grow
Chart 3. Private-sector gross job gains at opening establishments and gross job losses at closing establishments, seasonally adjusted: March 2011 - March 2021

Thousands

NOTE: Shaded area represents NBER defined recession period.
CPS Measure of Self Employment

Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Labor Statistics
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Concluding Remarks

- Business entry important margin to watch to evaluate persistent effects of excess business exits
- Labor market conditions favorable for workers with high level of vacancies and wage growth
- Open question: effect of high wage growth on entrant firms’ growth and survival rates