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Eccles Business Survey

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Executive summary

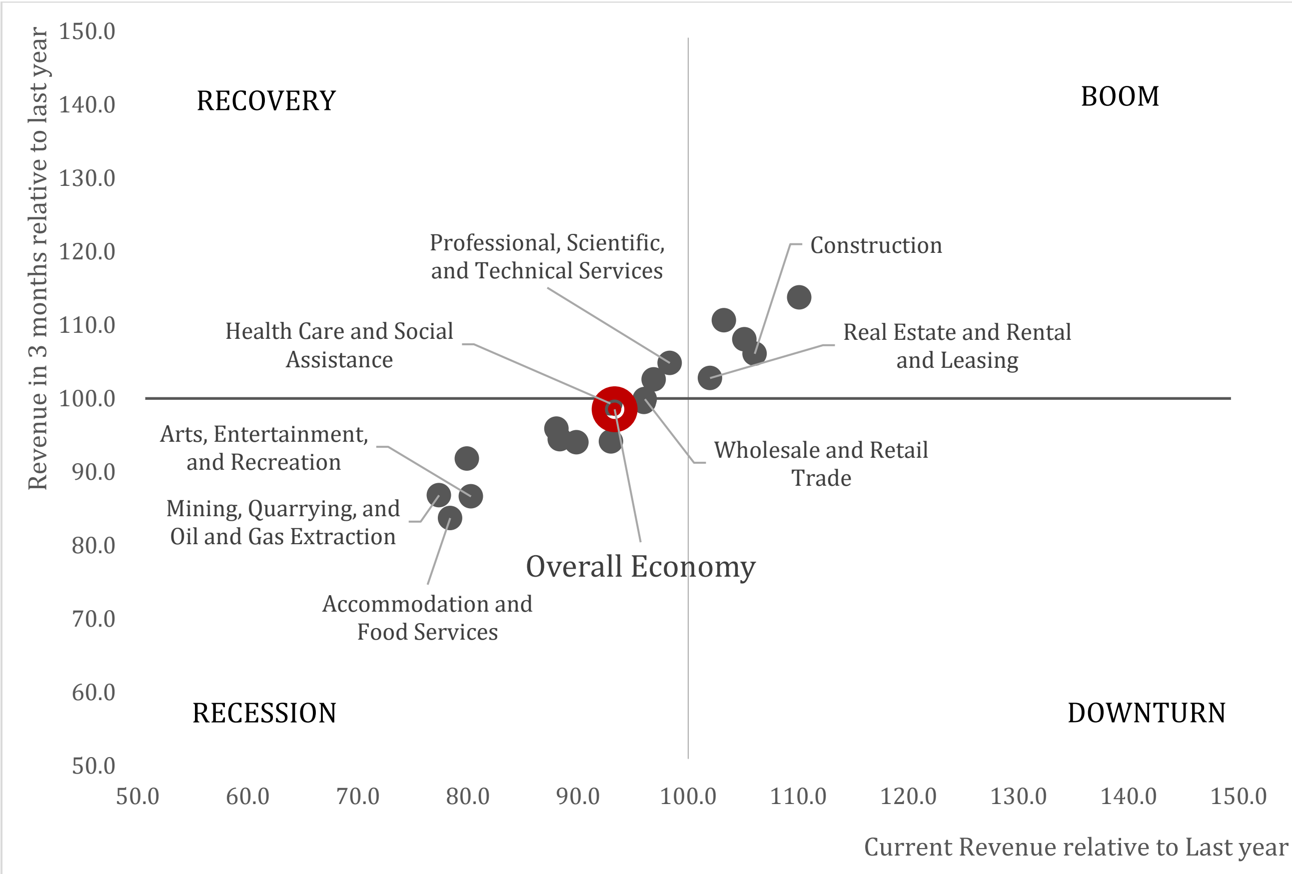
This report provides an overview of business conditions from a survey of over 10,000 businesses across the state of Utah in late November 2020 with three main results. First, **most businesses across most industries do not expect to be fully recovered until February 2021**, even though many of the largest industries by employment have already surpassed their pre-COVID business activity. Second, **businesses face unprecedented uncertainty**, including risks from employees contracting COVID-19, being sued by employees or customers for insufficient precautions against COVID-19, and potential delays in vaccine distribution. Third, **federal programs, including the Paycheck Protection Program (PPP), effectively reduced layoffs at small businesses**, but the program's insufficient adoption limited its effectiveness.

Topics

Current business climate

We quantify the general business climate in two ways. Our first approach analyzes business revenues, which broadly captures the extent of depressed demand in Utah compared to pre-COVID-19 levels. For this analysis, we asked respondents to compare their current revenue to their revenues last year. This relative revenue comparison is also useful since reported values will take seasonality into account, for example, the holiday shopping season in December. Our second approach focuses on the need for overtime work hours to meet demand. Businesses with difficulty meeting demand without overtime work are more likely to hire. In contrast, businesses that can easily meet demand without exhausting full-time work by employees are likely to lay off workers. We report these findings in Figures 1 and 2 and the full set of industries in Table 2 at the end of the report.

FIGURE 1: Industry-wise current and expected revenue compared to last year



NOTES: The axes separate the four quadrants, where Boom is both higher current and future revenues, Recovery is higher future but lower current revenues, Downturn is higher current and lower future revenues, and Recession is lower current and future revenues.

Figure 1 groups business responses into four categories following common macroeconomic practice: Boom, Recovery, Recession, and Downturn.[1] These categories are based on businesses' answers to the questions about current revenues (relative to this time last year) and expected revenues in the next three months (relative to those same months a year ago). The horizontal-axis captures current business conditions, and the vertical-axis captures expected business conditions.

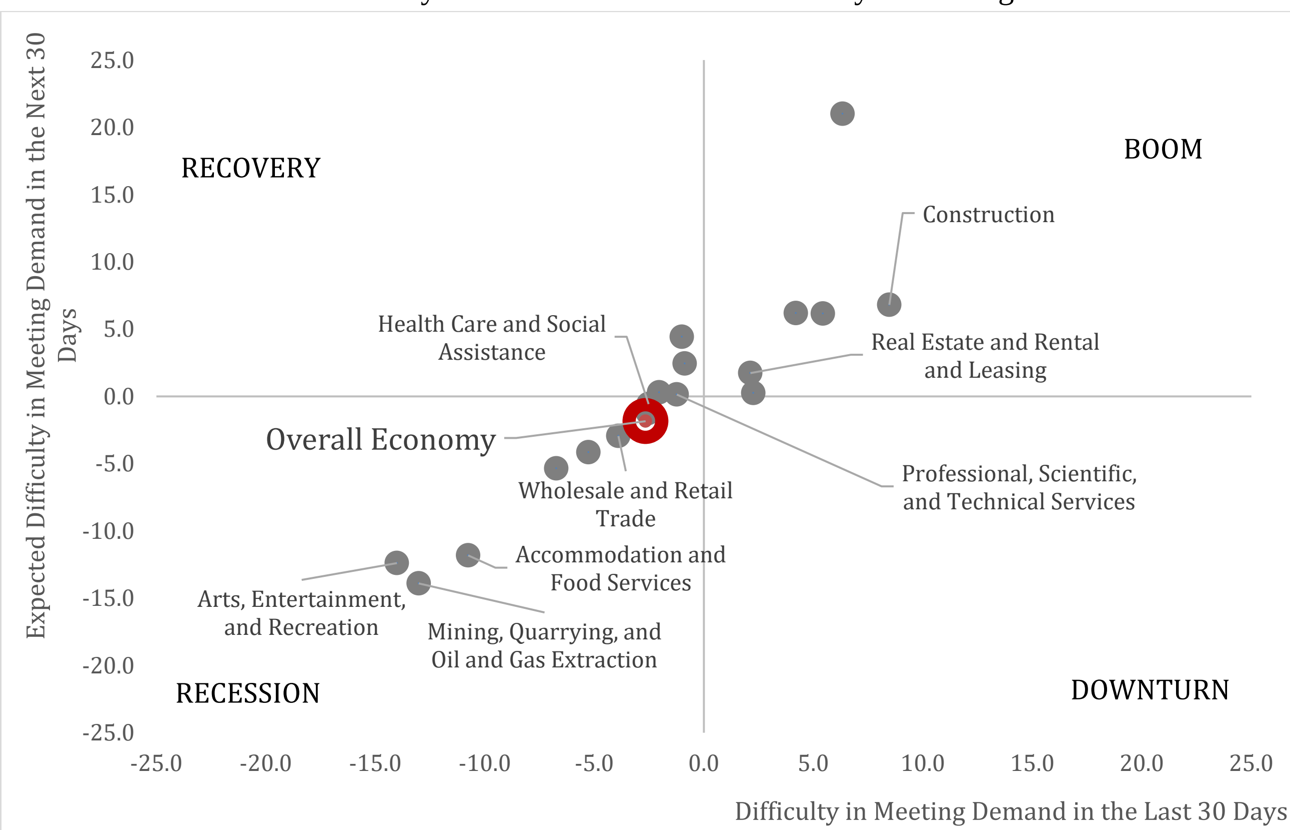
The majority of industries in Utah face difficult economic conditions. The Utah economy is on the verge of moving from recession to recovery in the next three months driven by growing industries such as "Administrative, Support and Waste Remediation Services," "Information," "Finance and Insurance," and "Construction." Some industries are doing much worse than before COVID-19, while others are doing much better. This difference across industries is consistent with recent national evidence by researchers at Stanford University, the University of Chicago, and the Atlanta Federal Reserve Bank[2], which showed that COVID-19 affected industries unevenly.

[1] See https://www.nber.org/research/business-cycle-dating
[2] See Barrero, Bloom and Davis, (2020).

Our second approach focuses on labor utilization. To capture current business conditions, we ask, “Given your current number of employees, how difficult was it to meet the demand for your products and services in the last 30 days?” To measure expected business conditions over the upcoming months, we ask, “How difficult do you expect it to be to meet the demand for your products and services in the next 30 days?” Figure 2 shows that most **businesses report little difficulty in meeting demand currently or in the next 30 days and can be considered over-employed.**

Businesses expect more difficulty meeting demand in the next 30 days than they do currently---a sign that **businesses expect the economy to get better soon.** Some industries, such as Construction and Real Estate, report some difficulty currently and in the next 30 days, suggesting these industries are doing better than the overall average. Mining, Quarrying, and Oil and Gas Extraction report some of the lower numbers, suggesting they face more challenging economic conditions.

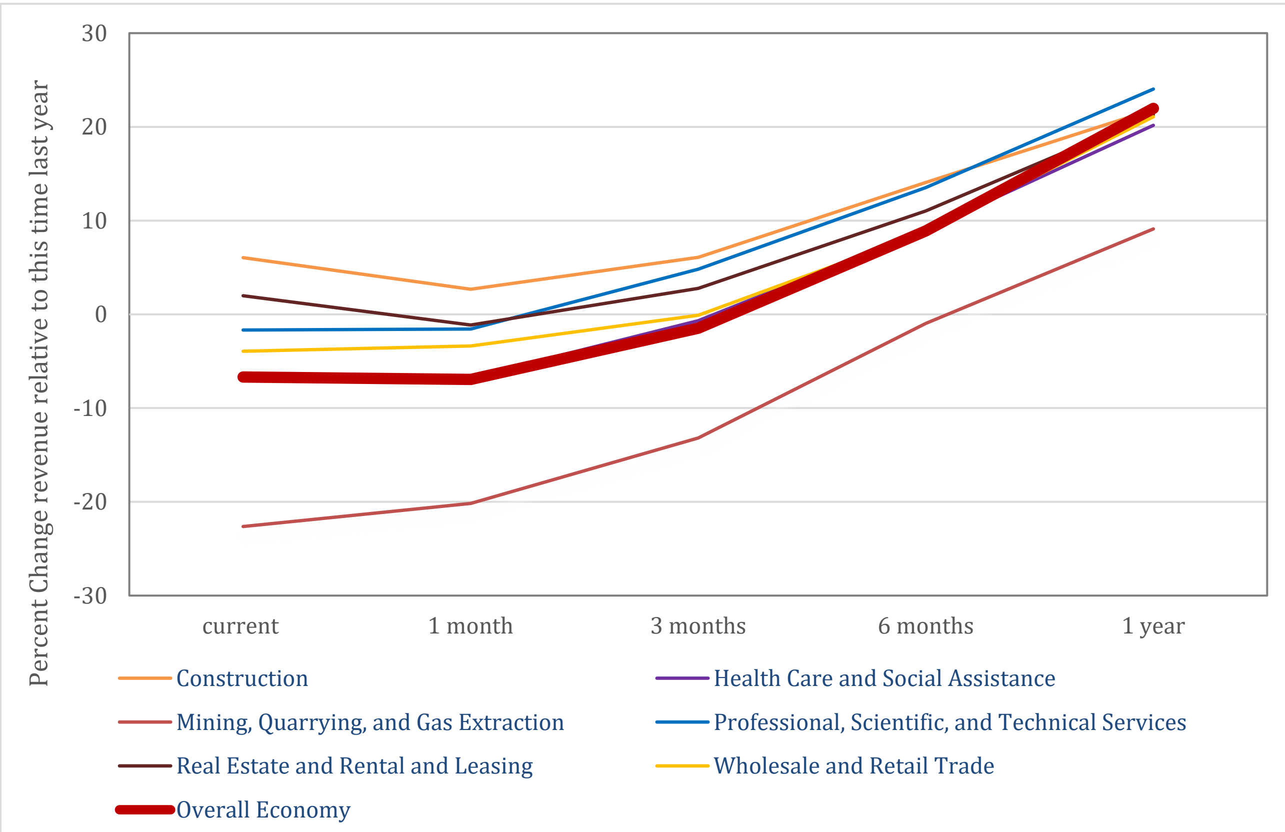
FIGURE 2: Industry-wise current and future difficulty in meeting demand



Longer term business expectations

Overall, business owners expect that conditions will improve over the next three months and return to pre-COVID-19 conditions. Figure 3 reports the expected recovery over the next year by industry. Some industries are already recovered and expect further growth, such as Construction and Real Estate. Some of the hardest-hit industries, such as Mining, Quarrying, and Gas Extraction, do not expect to recover to pre-COVID-19 conditions within the next six months.

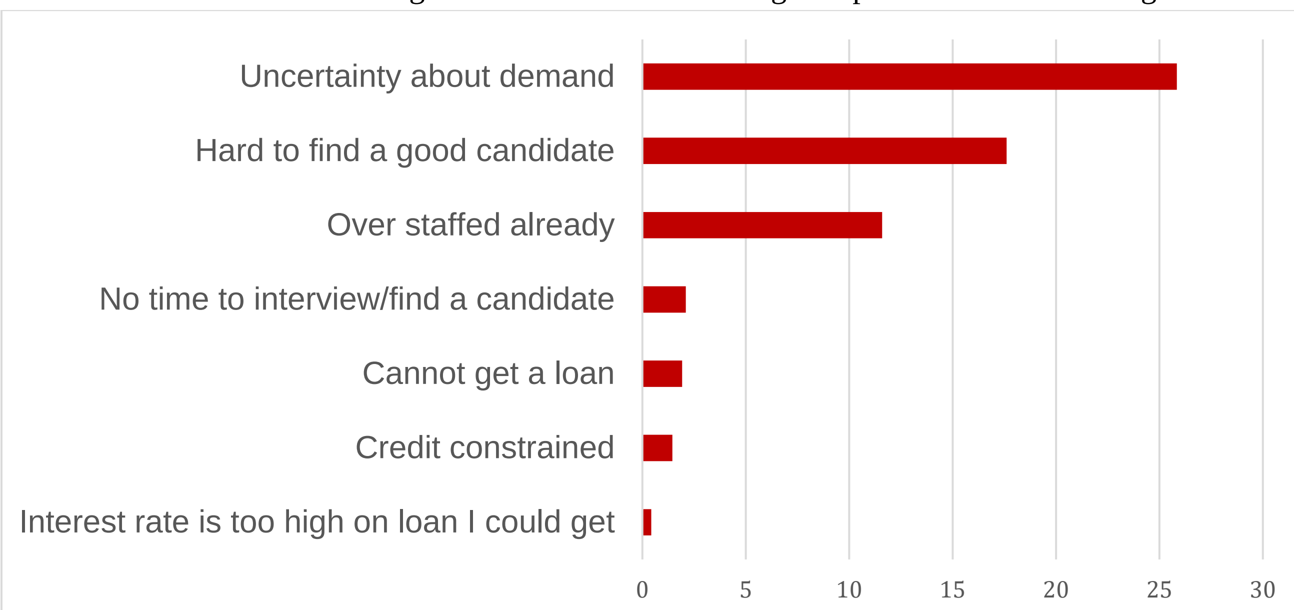
FIGURE 3: Industry-wise expected recovery over the next year



Drivers of reluctant job creation and extent of work-from-home

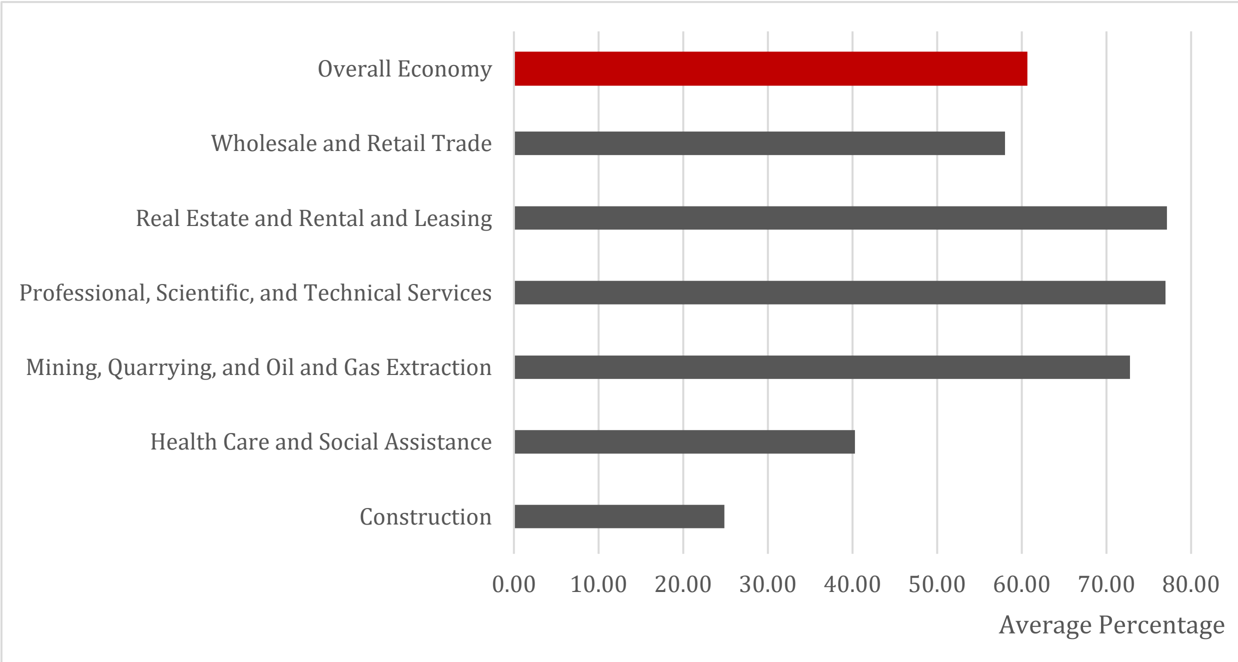
Businesses are reluctant to hire due to uncertainty. We asked businesses to rank seven factors influencing their decision not to hire. The bars in Figure 4 represent the percentages of businesses that consider a particular reason to be the top reason they are not hiring. The most frequently cited reason for failure to hire with 26%, is uncertainty about demand. Other factors that are also important include **difficulty in finding suitable candidates** (18% of all businesses) and **being overstaffed** (12% of all businesses). The factors critical to only a relatively lower proportion of businesses include credit constraints, unavailability of loans, and too high-interest rates on loans.

FIGURE 4: Percentage of Businesses Considering a Top Reason for not Hiring



Many employees are still working from home. Figure 5 shows the average portion of employees working from home, in total and by industry. On average, **businesses have 60% of their employees working remotely.** For Real Estate and Professional Services, this average is higher than that of the overall economy. However, for Health Care, Wholesale & Retail Trade, and Construction industries, the average percentage is lower. The nature of work in these industries mostly requires physical presence at work.

FIGURE 5: Industry-specific and Overall Average of Percent Employees Working from Home in Businesses

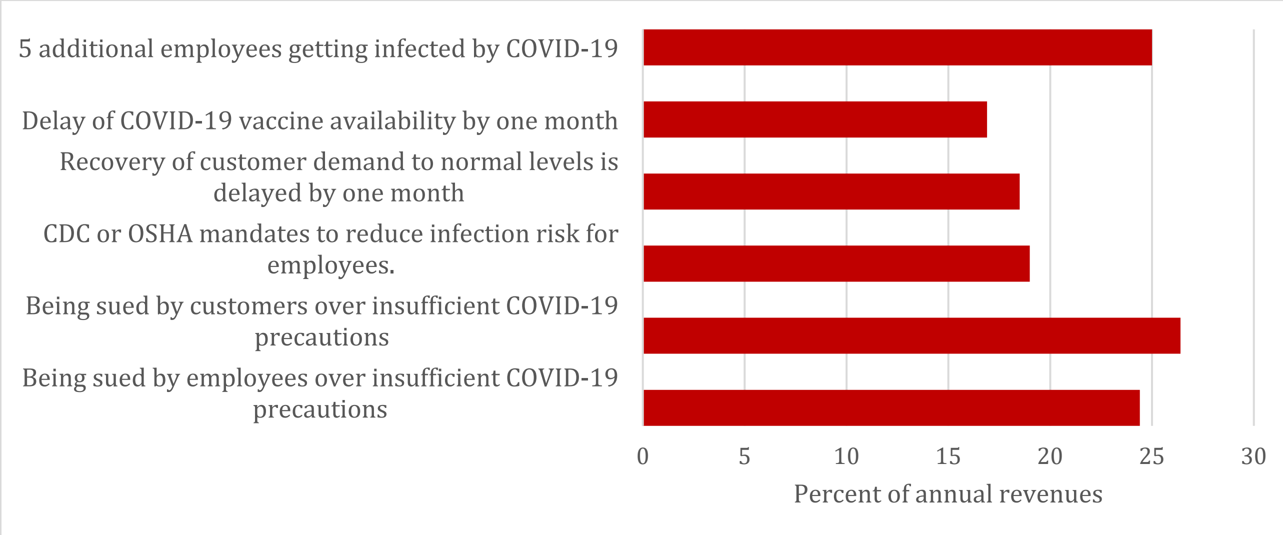


Uncertainty from COVID-19

COVID-19 and the risks surrounding it remain an important factor in business decision making. Businesses report that **revenues would decline by 28.8% if new COVID-19 cases increase by 20%.** Firms also believe that risks from COVID-19 remain high. For example, they report that there is **a 57% chance that an employee contracts COVID-19**. Businesses report they would be willing to give up a large portion of annual revenues to avoid the risk of employees contracting COVID-19. Businesses also report challenges surrounding vaccines, demand coming back to normal, changes in CDC and OSHA rules, and liability. Businesses also report that revenues would increase substantially given several hypothetical scenarios increasing health conditions.

The costs from COVID-19 and the risks surrounding it are large. Businesses were provided six scenarios surrounding COVID-19 risks, and we asked them to tell us what percent of their annual revenue they would be willing to give up to avoid these risks. Businesses reported that they would be willing to **forgo 25% of their revenues to avoid five additional employees getting infected by COVID-19**. To avoid delays in the vaccine or demand recovering by one month, businesses report being willing to forgo 17% and 19% of revenues, respectively. Businesses are also concerned about additional government health mandates but also liability from insufficient COVID-19 precautions. Businesses report they would forgo 19% of revenues to avoid new mandates. To avoid liability from customers and employees, businesses would be willing to forgo 26% and 24% of revenues, respectively.

FIGURE 6: What percent % of your annual revenue would you be willing to give up to avoid the following risks?



Businesses face uncertainty around hiring decisions and COVID-19 conditions. This uncertainty might include a host of factors, such as uncertainty about demand conditions and uncertainty about regulation risks, or the ability to find the right workers. We contrast hiring uncertainty with the possibility of delaying the COVID-19 vaccine's availability by one month. This comparison is based on how much annual revenue businesses would be willing to forgo to avoid these uncertainties.

Ensuring the timely availability of a COVID-19 vaccine is highly valued by small business owners. On average, business owners are willing to give up 17% of their annual revenues to avoid delaying the vaccine's rollout by one month, reported in Table 1. This is substantially higher than the 10% of annual revenues they would be willing to avoid all uncertainty around hiring. Several industries, such as Accommodation and Food Services, and other hard-hit industries, such as Educational Services and Other Services, exhibit average costs of a one-month delay in vaccine availability of 18-20% of annual revenues.

TABLE 1: Costs of hiring uncertainty and vaccine delay

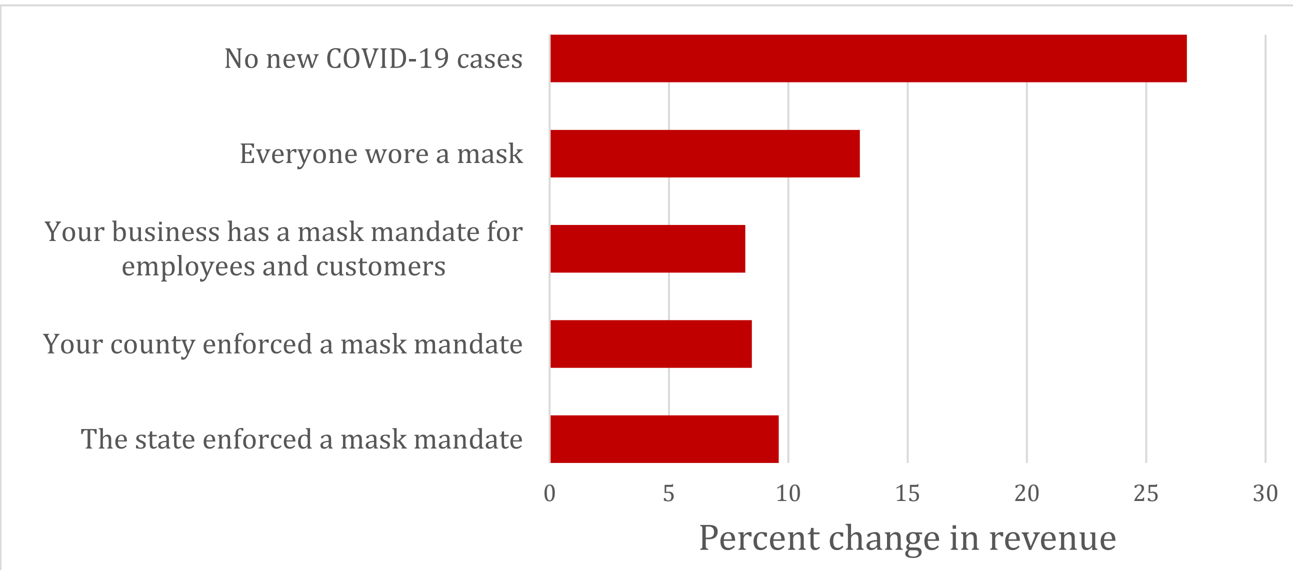
	Hiring uncertainty+	Cost of vaccine delay by one month++
Accommodation and Food Services	1.32%	17.87%
Administrative and Support and Waste Remediation	1.99%	3.33%
Agriculture, Forestry, Fishing, and Hunting	16.37%	11.56%
Arts, Entertainment, and Recreation	18.31%	24.31%
Construction	3.04%	9.69%
Educational Services	10.54%	18.28%
Finance and Insurance	7.58%	11.91%
Health Care and Social Assistance	3.49%	13.94%
Information	57.10%	18.66%
Management of Companies and Enterprises	4.54%	11.00%
Manufacturing	6.93%	10.45%
Mining, Quarrying, and Oil and Gas Extraction	1.19%	19.77%
Other Services	9.95%	20.26%
Professional, Scientific, and Technical Services	8.90%	16.00%
Public Administration	1.37%	36.71%
Real Estate and Rental and Leasing	3.99%	16.96%
Transportation and Warehousing	1.40%	19.48%
Wholesale and Retail Trade	18.54%	17.21%
Average	**9.81%**	**16.52%**

Notes:
+ Costs of profit uncertainty in hiring decisions is defined as the percent of annual revenue businesses are willing to forgo to avoid hiring uncertainty.

++ Costs of vaccine availability delay by one month is defined as percent of annual revenue businesses are willing to forgo to guarantee that a COVID-19 vaccine is available a month earlier.

Revenues would increase substantially if COVID-19 conditions improved. We asked businesses how their revenues would change in five different scenarios. Businesses report that if there were no new COVID-19 cases, their revenues would increase by 27%. Businesses also report the importance of mask-wearing to increase business climate (see, Seegert, Gaulin, Yang, and Navarro Sanchez 2020 for complementary evidence). Business report that **revenues would increase by 13% if everyone wore a mask.** If the state, county, or your own store enforce, mask-wearing revenues would increase by 9.6%, 8.5%, and 8.2%, respectively. The biggest benefit comes from a statewide mask mandate.

FIGURE 7: How would your business's monthly revenues change in the following scenarios



Federal programs

We ask several questions about the effectiveness of federal programs during the pandemic. We focus on three of the biggest programs; the Emergency Family and Medical Leave Expansion Act (EFMLA), the Emergency Paid Sick Leave Act (EPSLA), and the Paycheck Protection Program (PPP). The PPP is a loan program designed to incentivize small businesses to keep their employees on the payroll. It allowed businesses to obtain a low-interest loan that is proportional to profits up to $100,000 and 2.5 months of employee payroll payment, which is then forgiven if certain conditions are met. Overall, the high amount of uncertainty and lack of information around these programs limited their effectiveness.

Only 12% of businesses report having taken part in the Emergency Family and Medical Leave Expansion Act (EFMLA) or the Emergency Paid Sick Leave Act (EPSLA). Fifty percent of firms report that none of their employees took leave under either of these programs. An additional 21% report that they either did not offer these programs to their employees or never heard of them. Consistent with these answers, 55% of businesses report they did not provide information to their employees about EFMLA or EPSLA. Forty-two percent of businesses report they do not know how to claim the refundable employer payroll tax credit, and another 48% report that they have not applied for it. Only 8% report that the credit was paid immediately, and another 3% report applying for the direct payment but deferred payroll taxes instead.

FIGURE 8: Have employees of this business taken leave under the Emergency Family and Medical Leave Expansion Act (EFMLA) or the Emergency Paid Sick Leave Act (EPSLA)?

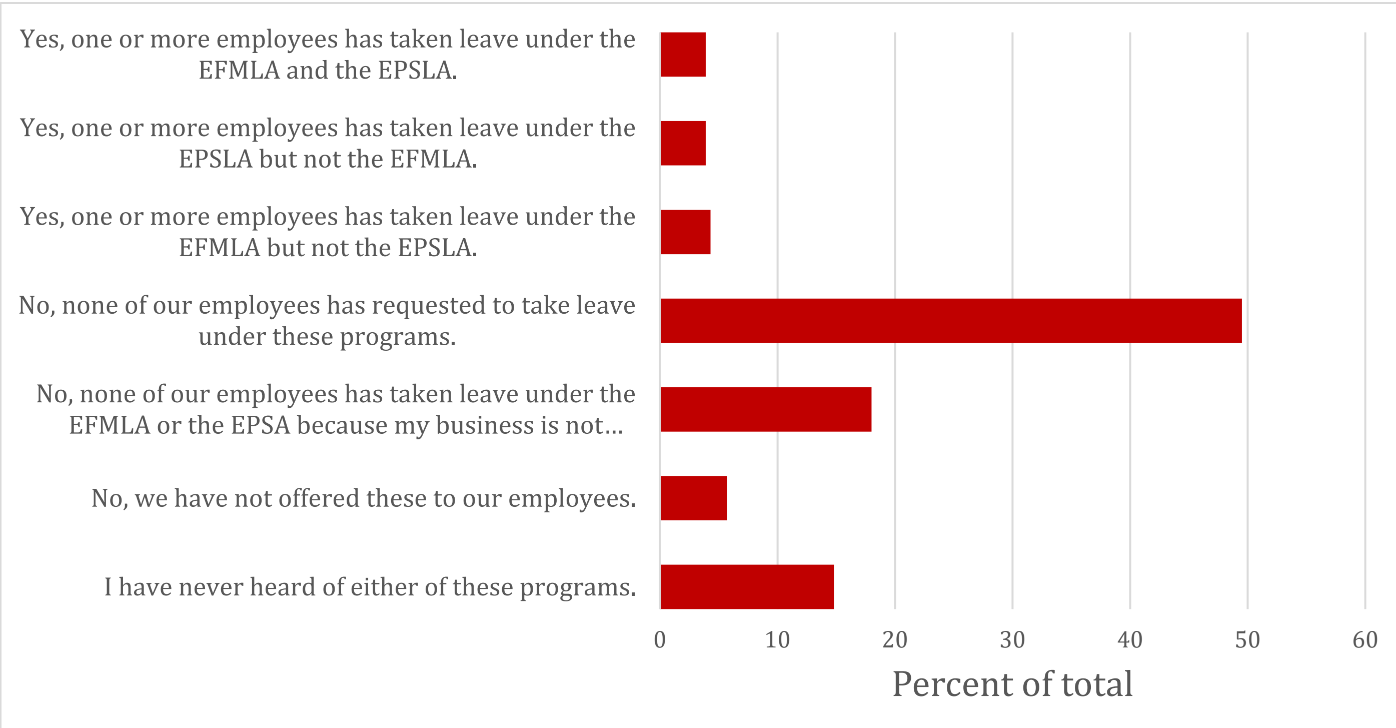
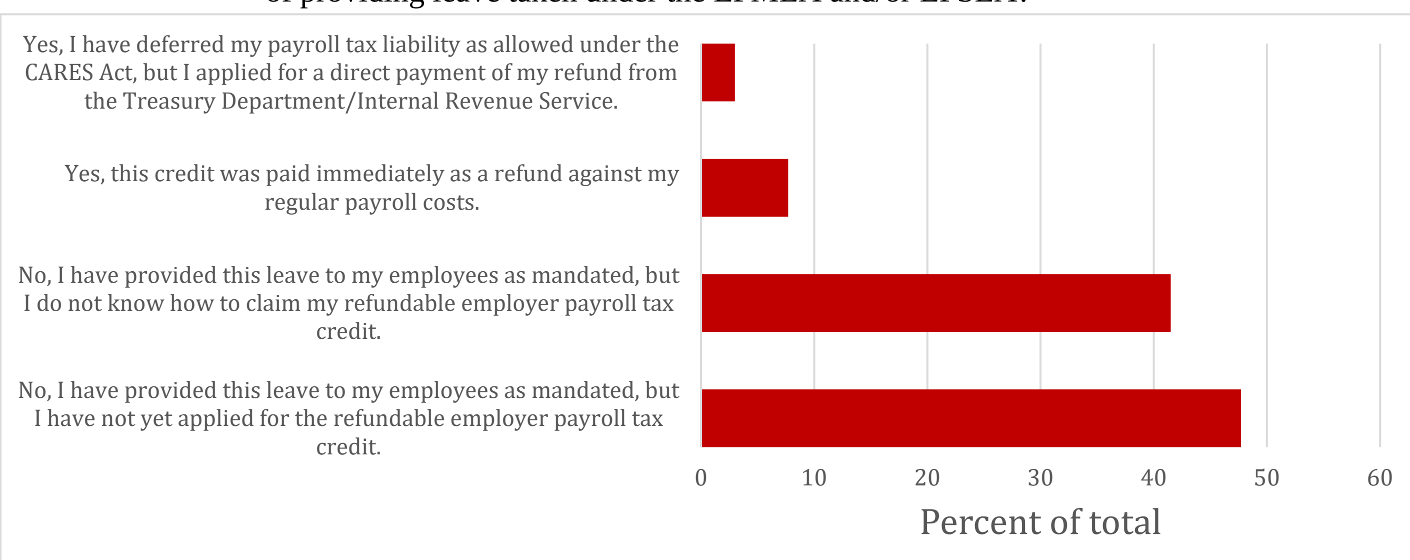
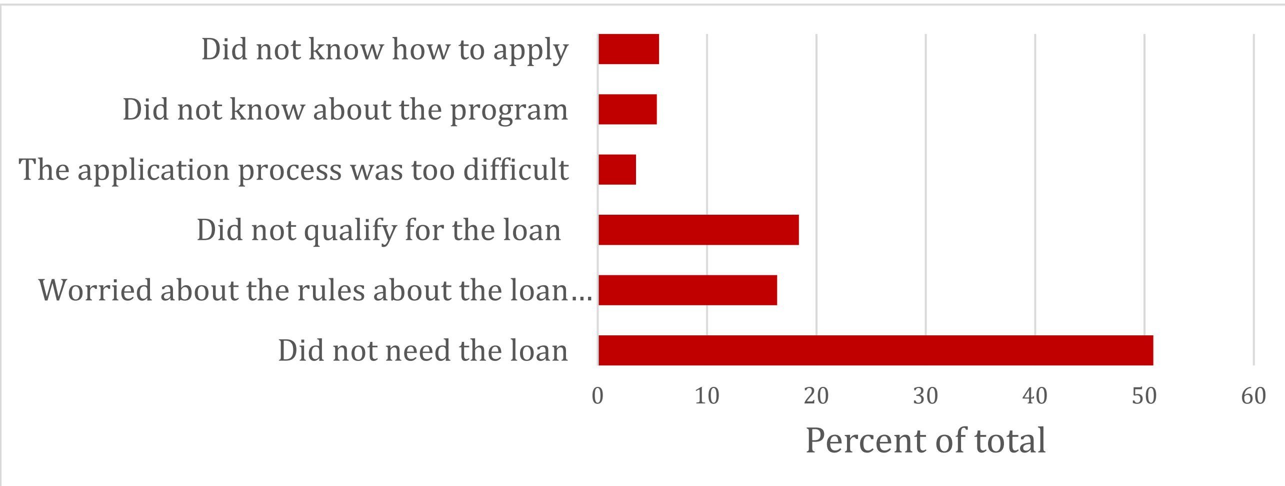


FIGURE 9: Has this business received the refundable employer payroll tax credit to offset the costs of providing leave taken under the EFMLA and/or EPSLA?



The Paycheck Protection Program (PPP) had a lot of interest and potential, but many did not get funds. Half of the firms said they applied for a PPP loan. However, of those that did not apply, only 50% said they did not need the loan. Instead, 16% were worried about the loan rules, and 18% said they did not qualify (though most of the reasons given would not have precluded them). Another 14.5% said either the application was too difficult; they did not know about the program or did not know how to apply.

FIGURE 10: Why did you not apply for a loan through the Paycheck Payment Program (PPP)?



Businesses that received funds through the Paycheck Protection Program (PPP) systematically laid off fewer employees than businesses that did not apply but stated that they would have needed the funds. Figure 4 presents the distribution of firms in our sample with at least one layoff in the past month. Many of the sampled businesses are very small, with the median business reporting to have only four employees, while the top 1% largest employers in our sample have 450 employees. Firms that received PPP funds laid off a smaller percentage of their workforce than firms that did not receive PPP funds. From this perspective, PPP seems to have been successful in limiting job losses from the COVID-19 shock.

Figure 11: How many employees have you laid off in the last month?

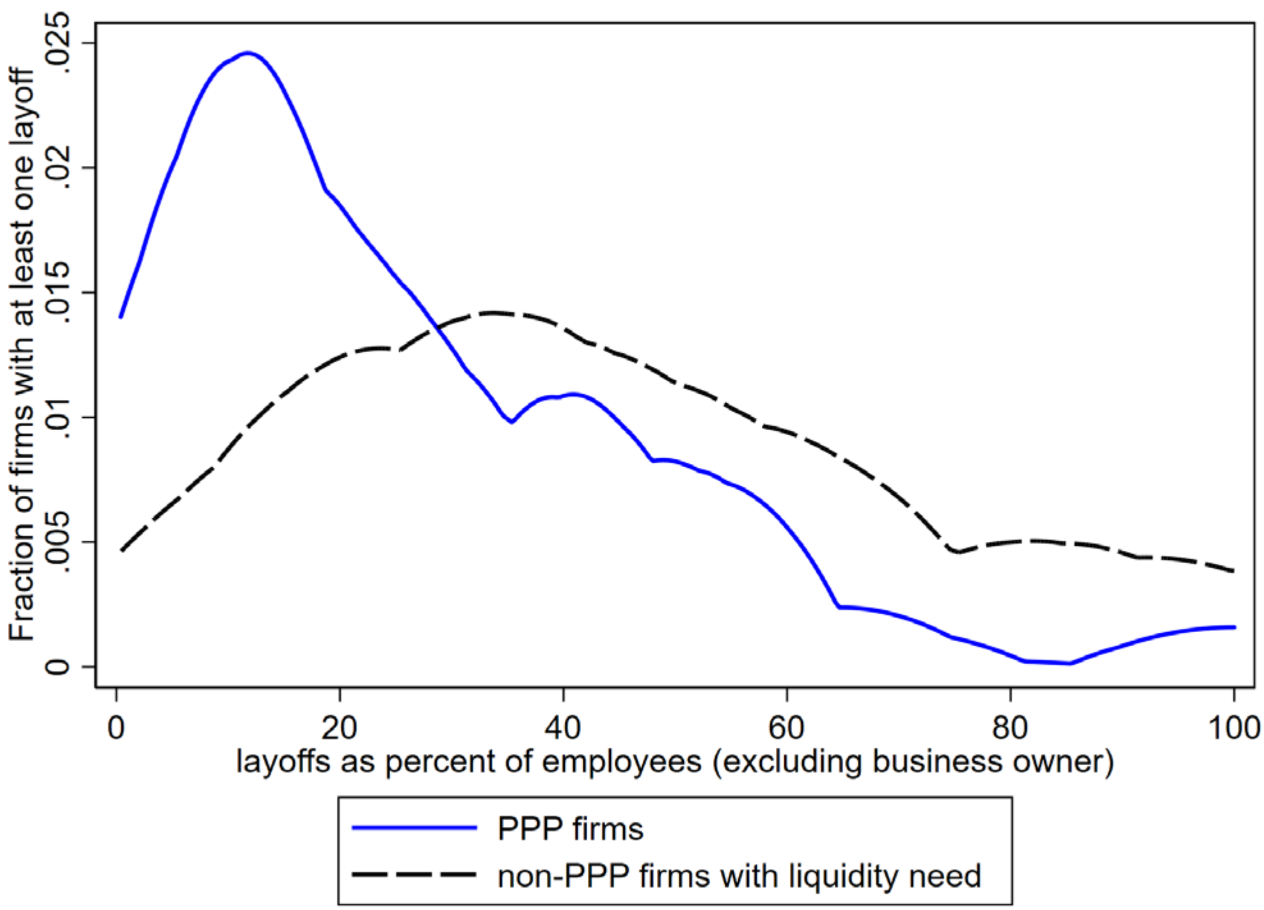


TABLE 2: Business Conditions

	Current Revenue Relative to Last Year+	Revenue in 3 Months Relative to Last Year+	Difficulty in meeting demand: last 30 days++	Expected difficulty in meeting demand: next 30 days+++
Accommodation and Food Services	-21.62	-16.28	-10.76%	-11.82%
Administrative and Support and Waste Remediation	10.10	13.75	-1.00%	4.43%
Agriculture, Forestry, Fishing, and Hunting	-7.01	-5.87	2.26%	0.24%
Arts, Entertainment, and Recreation	-19.74	-13.34	-14.02%	-12.39%
Construction	6.04	6.08	8.47%	6.80%
Educational Services	-11.66	-5.55	-5.27%	-4.15%
Finance and Insurance	5.12	8.03	5.44%	6.15%
Health Care and Social Assistance	-7.07	-0.68	-2.52%	-0.57%
Information	3.25	10.63	-2.54%	-1.25%
Management of Companies and Enterprises	-4.01	-0.48	-0.87%	2.44%
Manufacturing	-3.12	2.58	4.20%	6.19%
Mining, Quarrying, and Oil and Gas Extraction	-22.63	-13.18	-13.02%	-13.90%
Other Services	-11.95	-4.11	-6.74%	-5.35%
Professional, Scientific, and Technical Services	-1.67	4.83	-1.24%	0.14%
Public Administration	-20.09	-8.18	6.33%	21.00%
Real Estate and Rental and Leasing	1.98	2.77	2.12%	1.73%
Transportation and Warehousing	-10.15	-5.97	-2.04%	0.29%
Wholesale and Retail Trade	-3.93	-0.10	-3.90%	-2.95%
Total	-6.68	-1.48	-2.66%	-1.84%

Notes: This table provides estimates from four questions about business sentiment that are similar to those in the ifo business climate index for Germany. Published in the ifo Konjunkturperspektiven.

[+] How do you think this business's revenues (currently & in 3 months) will compare to revenues relative to last year? (-50: half as much as now; 0: same as now; 100: Twice as much as now)

[++] Given your current number of employees, how difficult was it to meet demand for your products and services in the last 30 days? (scale -50 to 50 met demand with % less/more work)

[+++] How difficult do you expect it to be to meet demand for your products and services in the next 30 days? (scale -50 to 50 can meet demand with % less /more