



Florida TaxWatch
 ECONOMIC COMMENTARY
The Backbone of the Economy
 How Small Businesses in Florida Have Fared During the Pandemic

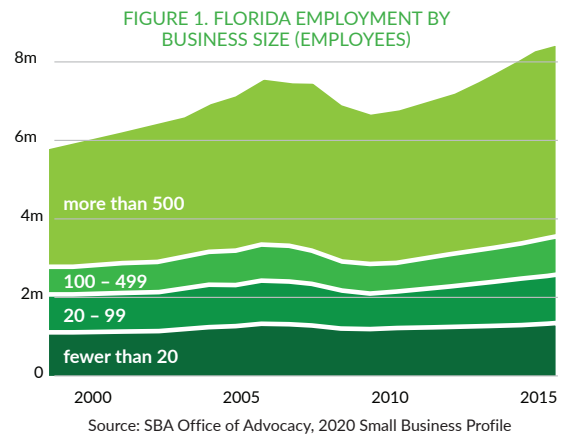
APRIL 2021

Small businesses are major drivers in the U.S. economy, spurring local job creation and innovation while also fostering entrepreneurship among women, minorities, veterans, and other portions of the population. Nationally, small businesses account for 48 percent of all American jobs and contribute 43.5 percent of U.S. Gross Domestic Product (GDP).¹ Even though these businesses are considered the “backbone of the economy,” small businesses have faced an economic and existential crisis during the COVID-19 pandemic. Yet despite these pressing and ongoing challenges, small businesses remain critical to any comprehensive recovery ahead.

SMALL BUSINESSES IN FLORIDA'S ECONOMY

Similar to the national level, small businesses play a pivotal role in Florida's economy. Across the state, there are 2.7 million small businesses, accounting for 99.8 percent of all Florida businesses.² These 2.7 million businesses employ 3.5 million employees, or roughly 41.7 percent of the private workforce, according to the U.S. Census Bureau (See Figure 1).³

Firms with fewer than 20 employees comprised the largest share of small business employment around 1.4 million,



¹ Harvard Business Review, "A Way Forward for Small Businesses," Apr. 13, 2020. <https://hbr.org/2020/04/a-way-forward-for-small-businesses>

² Small businesses are defined as businesses with fewer than 500 employees. Note: This figure includes non-employer firms. Source: U.S. Small Business Administration (SBA) Office of Advocacy, 2020 Small Business Profile for Florida, 2020.

³ U.S. Census Bureau, Statistics of U.S. Businesses (SUSB) Program, Retrieved Mar. 30, 2021. Latest data release was in March 2020. It should be noted that these figures are pre-COVID-19 levels.

followed by companies with between 20 and 99 employees.⁴ By industry, small business employment is highest in Accommodation and Food Services, Health Care and Social Assistance, and Construction. By geographical location, the counties with the highest concentration of small businesses are primarily in the panhandle's Gulf and Franklin counties.⁵

THE ECONOMIC IMPACT OF COVID-19

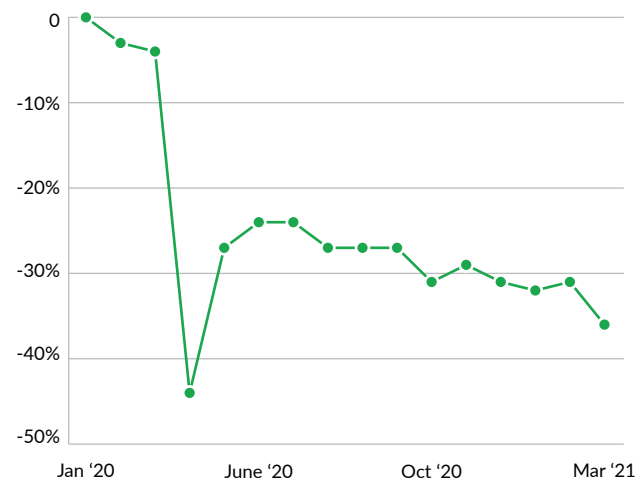
To date, small businesses in Florida have faced unprecedented challenges in navigating the pandemic economy. A combination of reduced tourism, local directives to stay at home, enhanced cleaning procedures, and a rapid switch to e-commerce has placed a financial strain on many businesses.

Based on data from Harvard University's Economic Tracker, the number of small businesses open in Florida (compared to January 2020 before the pandemic) reached a low of -44.2 percent in April 2020 and since then has remained relatively stagnant around -32.0 percent since 2021 started (see Figure 2). Paralleling the drop in small business openings, the drop in small business revenue has also been relegated below pre-pandemic levels. As of March 31, 2021, small business revenue in Florida was -31.0 percent relative to the beginning of 2020.⁶ These findings suggest that although there is a recovery underway across the broader macroeconomy, small business recovery is still languishing and lagging behind.

The situation becomes even more grave when looking at Florida's hardest-hit economic sectors. Small businesses in the Leisure and Hospitality sector reported -50.2 percent open small businesses in March 2021 compared to January 2020.⁷ In the Accommodation and Food Services subsector, small businesses averaged 12.6 missed weeks of work and reported around 64.5 percent revenue lost. Similarly, small businesses in the Arts, Entertainment, and Recreation subsector reported an average of 14 missed weeks of work and over 66 percent of revenue loss due to COVID-19.⁸

To explain why Florida small businesses have lagged behind the broader economic recovery, the simple answer would be that tourism has not fully rebounded yet; however, there are several other factors to consider. For one, many small businesses entered the pandemic with low financial resilience, few cash reserves, and limited access to capital. The Federal Reserve's Small Business Credit Survey in 2019 found that 61 percent reported financial shortfalls yet only 26 percent applied for external credit, citing debt aversion or discouragement to apply as reasons for not seeking loans.⁹ More than 1 in 5 small businesses did not have a business banking relationship before COVID-19, according to another study.¹⁰

FIGURE 2. PERCENT CHANGE IN NUMBER OF SMALL BUSINESSES OPEN⁶



4 Ibid.

5 Florida Chamber of Commerce, "The Impact of the COVID-19 Pandemic on Florida's Small Businesses," Oct. 2020.

6 Harvard University, Opportunity Insights Economic Tracker, Retrieved on Apr 1, 2021. <https://tracktherecovery.org/>

7 Ibid.

8 Florida Chamber of Commerce, The Impact of the COVID-19 Pandemic on Florida's Small Businesses, Oct. 2020.

9 Federal Reserve Bank of Dallas, "Small Business Hardships Highlight Relationship with Lenders in COVID-19 Era," Second Quarter of 2020.

10 Small Business Majority, "Small Businesses Struggling to Access Capital, Harming Their Financial Recovery," Published Feb. 17, 2021. y

Minority small business owners were especially less likely to have business-banking relationships pre-pandemic. Without much resilience, businesses were precariously positioned to weather the initial effects.

When the pandemic arrived, lending became more constricted as small businesses faced declining cash flow from falling consumer demand, and local lenders found it more difficult to justify commercial loans as the economic downturn began. The federal government's Paycheck Protection Program (PPP) offered a lifeline in response. So far, Florida has received roughly 579,000 PPP loans, totaling an estimated \$41 billion in aid.¹¹ Even with this aid, however, small businesses continue to struggle. Slim operating margins will only become narrower as many companies accommodate enhanced safety protocols and adapt their business models (e.g., adding more curbside options, promoting online options).¹² Muted demand and an overwhelming shift to e-commerce also pose substantive risks for small businesses reliant on in-person traffic for sales.

ROLE IN RECOVERY

Regardless of the challenges that small businesses presently face, they remain crucial to Florida's long-term economic recovery. Before COVID-19, small businesses were responsible for 133,000 net new jobs in Florida¹³, and of the state's net new jobs since 2012, more than 81.4 percent come from small businesses with fewer than 500 employees.¹⁴ Small business performance and growth also have important economic and social implications for local areas. These companies provide ample opportunity for minorities, women, and veterans to succeed, and in addition, help foster economic activity in largely rural areas by promoting community.¹⁵

Several factors specific to Florida will complicate recovery efforts even further. On September 30, 2021, Florida's minimum wage will increase from \$8.65 to \$10.00 and eventually to \$15.00 by 2026. For cash-strapped small businesses, these changes will increase labor costs. A prior Florida TaxWatch study¹⁶ assessing the impact of the minimum wage hike found that, unlike larger companies, most small businesses will be less capable of absorbing costs. Additionally, the Florida Legislature is currently considering legislation in the 2020-2021 session that would amend the state's data privacy laws. Another TaxWatch research brief, Florida's Proposed Privacy Protection Act, found that these changes would disproportionately affect small businesses and lead to compliance costs of more than \$36.5 billion.¹⁷

CONCLUSIONS

A few common threads run through the difficulties small businesses will continue to experience. First, of all the potential solutions to mitigate risk and adapt, a lack of capital and financial resources will confine most businesses. Targeted federal assistance as seen through PPP loans is a necessary lifeline; however, these policies ultimately postpone, not eliminate, financial pressures. Furthermore, most small businesses will continue to endure slim operating margins as cash inflow will depend on consumer confidence. For Florida, since most small businesses are directly or indirectly related to the Leisure and Hospitality industry, they may continue to lag behind broader U.S. recovery efforts until a general uptick in tourism resumes. For policymakers and local leaders, understanding how policy changes may inordinately impact small businesses will be an important consideration for future discussions and decisions surrounding economic growth and development.

¹¹ Federal Pay, PPP Loan Recipient List by State – Florida, Retrieved on Apr. 1, 2021.

¹² McKinsey & Company, "US Small-Business Recovery After the COVID-19 Crisis," July 2020.

¹³ U.S. Small Business Administration (SBA) Office of Advocacy, 2020 Small Business Profile for Florida, 2020.

¹⁴ Florida Chamber of Commerce, The Impact of the COVID-19 Pandemic on Florida's Small Businesses, Oct. 2020.

¹⁵ Ibid.

¹⁶ Florida TaxWatch, Amendment 2: Florida's Minimum Wage Initiative, Sept. 2020

¹⁷ Florida TaxWatch, Florida's Proposed Privacy Protection Act, Mar. 2021.

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