

## CSM Eco Outlook: U.S.

**Small Businesses' Big Eco Footprint At Severe Risk.**

**Our focus today:** Small businesses account for about half of economic activity and employment – no wonder both monetary and fiscal policy programs target them. Today we look at small business' eco footprint, their vulnerability during the virus outbreak, and the potential impact of all the stimulus measures designed to support them. (Thank you Andy, Don, and Roberto.)

**Our conclusions:**

1. Small business optimism (NFIB) will plunge in March, based on our Daily Consumer Confidence Survey, with jobs to follow. Over the past year, small businesses generated 21% of private job growth, or a cumulative 390k (33k per month). Obviously, that number will collapse.
2. Over 15 million jobs are at great risk, mainly in the restaurant and recreation industries, along with hotel and retail workers, unless policies are very, very proactive. Stay tuned.
3. Based on Andy and Don's analysis, the "Paycheck Protection Program" for small businesses totals \$376 billion, or just 5% of small businesses' GDP. And according to Roberto, although the Fed has said they will "launch a lending program aimed at small businesses, there is no detail on how big it will be, or when it will start."

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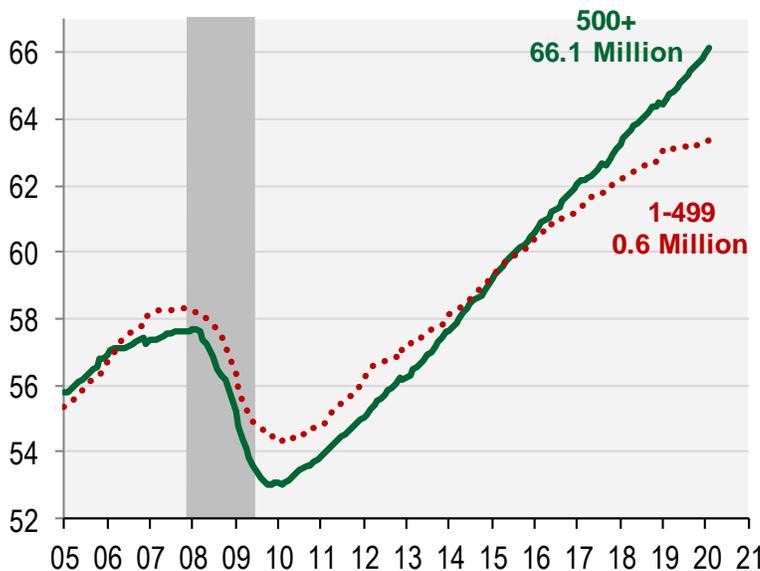
# Big Job Footprint For Small Businesses -- Nearly Half Of All Employment.

Small businesses have been particularly hard hit by the outbreak. (As have many big businesses, particularly in travel & leisure.) How quickly can small businesses access CARE Act funds? The risk is, not quickly enough.

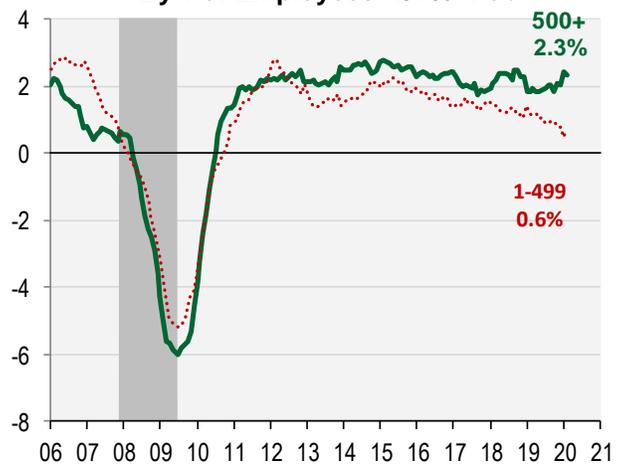
Almost 50% of U.S. employment – 63 million jobs -- are in small businesses (1-499 employees). And more than half of those (33 million) are in really small businesses, with just 1-49 employees. Almost 10 million of all small business jobs (16%) are in the restaurant and recreation industries. Many will hinge on the effectiveness of the CARE Act, and Federal Reserve programs. To Washington’s credit, much of the record stimulus is focused on supporting small businesses.

Right now, very significant long-term damage is being done to the small business space. Even during the last expansion, headwinds such as e-commerce eroded their share of employment, from almost 51% to 49%. What will their share be, post-outbreak? No doubt, smaller.

**U.S. Private Employment (ADP)  
By # of Employees Feb**



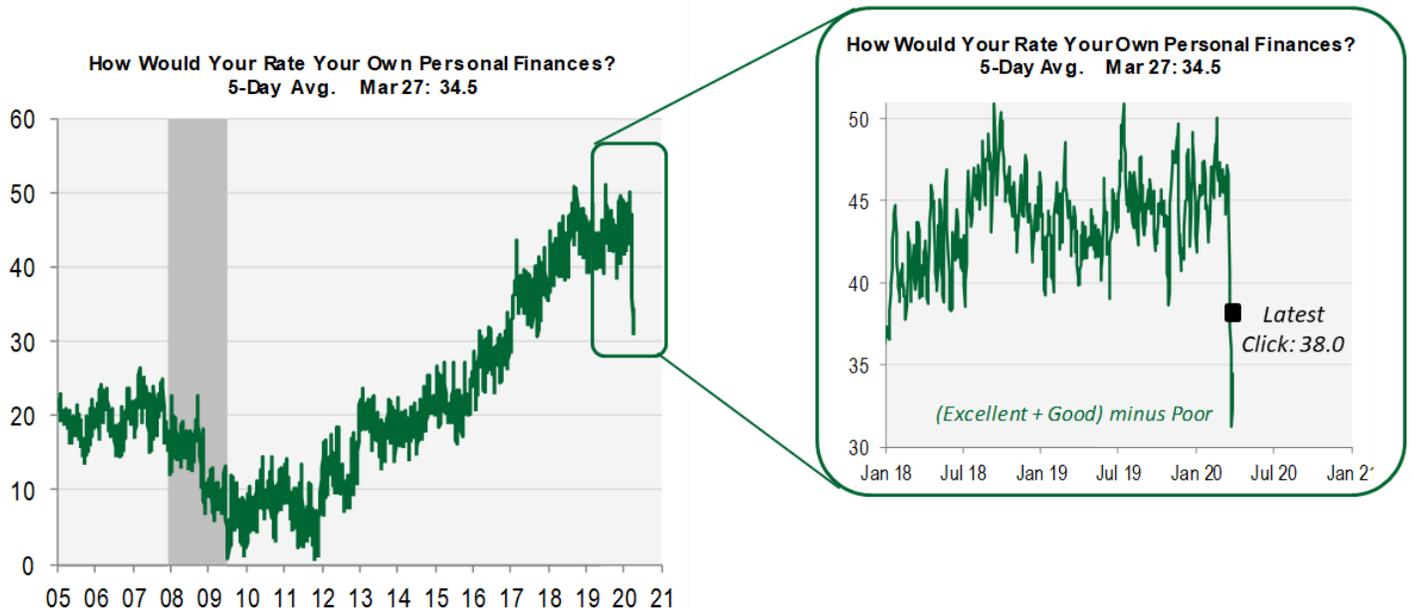
**U.S. Private Employment (ADP)  
By # of Employees Y/Y% Feb**



# Watch CSM's Daily Confidence Survey To Gauge How Small Business Is Faring.

With about half of GDP and jobs in small businesses, here's how we track that sector:

1. Our Daily Consumer Confidence Survey -- it correlates strongly with the NFIB's Small Business Optimism Survey (see next page). Based on the roughly 50-point plunge in our survey, the NFIB report for March will also dive. But there is a glimmer of hope -- over the past 3 days, CSM's survey stabilized, with incremental improvements in 4 of its 5 series -- including expectations for personal finances. Noise or signal? Stay tuned.
2. ADP payroll employment data. Through February, ADP showed that small businesses accounted for 21% of private payroll employment growth over the past year (or roughly 390k jobs). March's report is out Wednesday morning.
3. The Fed's Senior Loan Officer Survey for 2Q, coming in May, will shed light on small businesses access to credit..
4. Unemployment claims. While claims capture firms of all sizes, with small businesses representing almost 50% of total employment, this weekly series will give an indirect picture of their condition.

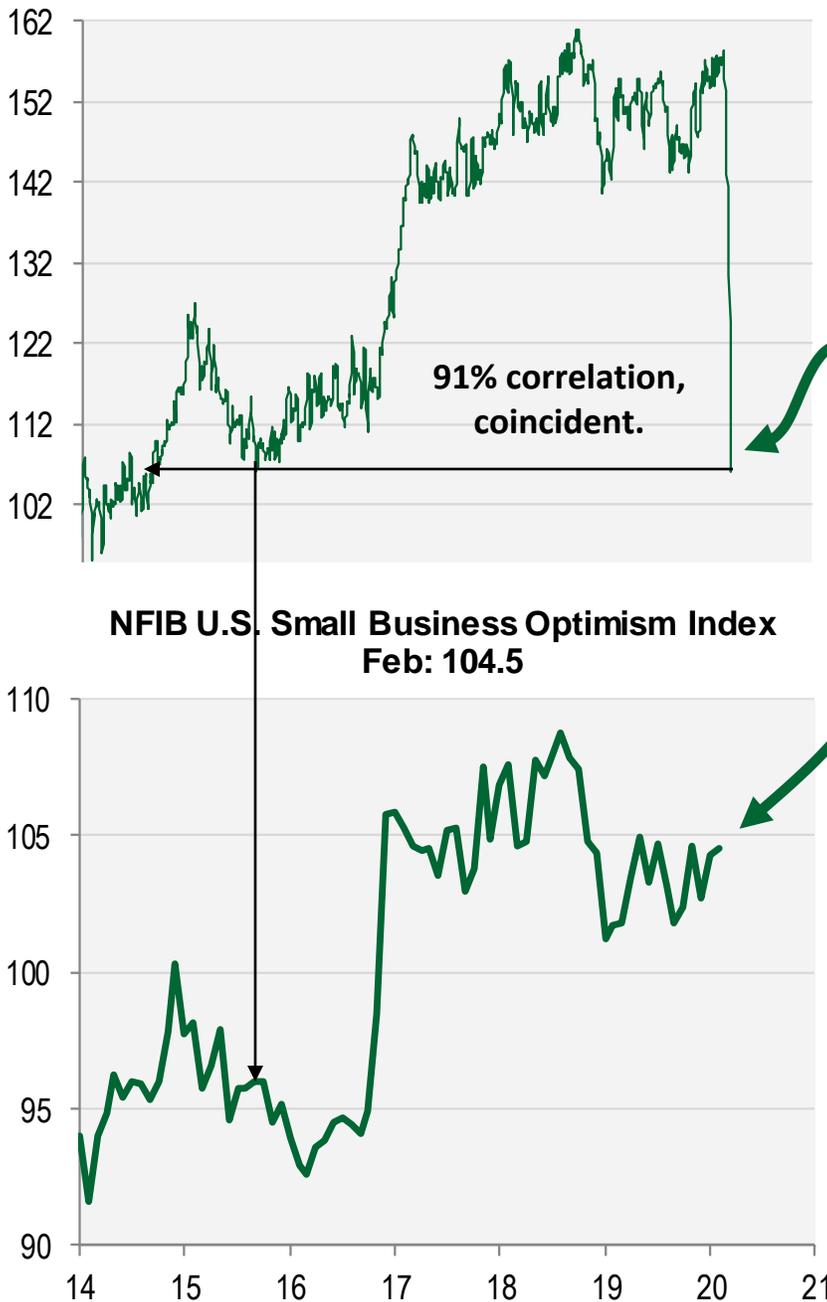


**Cornerstone Macro's Daily Survey of Consumer Confidence tallies about 500 different people each day, asking these 5 questions:**

1. *How would you rate the U. S. economy these days?* ↑
2. *Are economic conditions in the country getting better or worse?* ↑
3. *How would you rate your own personal finances these days?* ↑
4. *Are your personal finances getting better these days, or worse?* ↑
5. *Is the U.S. currently in a recession?* ↓

# Most NFIB Businesses Have Less Than 10 Workers; No Wonder Their Index Tracks CSM Confidence.

**U.S. Daily Consumer Confidence (CSM)**  
5-Day Avg. Mar 27: 106.4

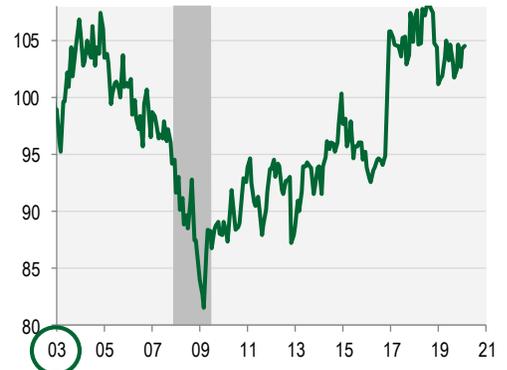


**NFIB U.S. Small Business Optimism Index**  
Feb: 104.5



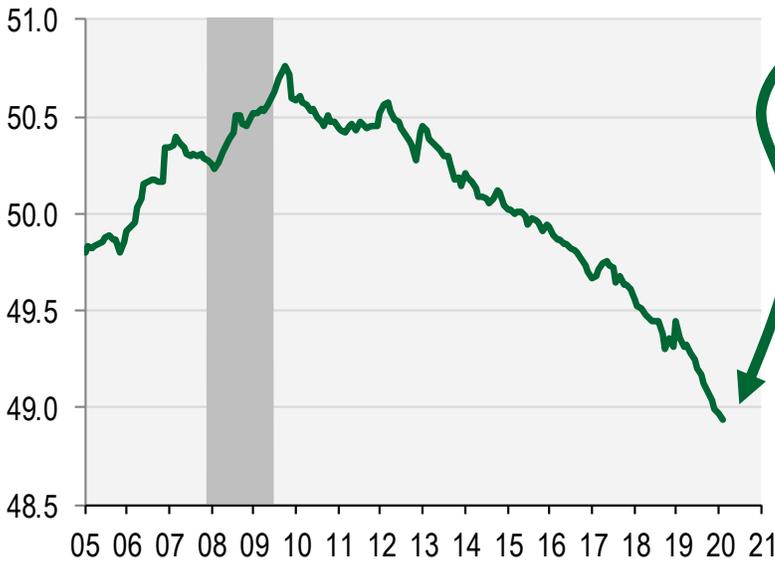
Sixty percent of NFIB members employ 1-5 people, and 14% 6-9. Given the small size of these businesses, it's not surprising the NFIB closely correlates with our Daily Consumer Confidence survey. The plunge in our survey signals a sharp drop in the Mar NFIB index, say down toward 95.

**NFIB U.S. Small Business Optimism Index**  
Feb: 104.5



# Small Businesses Account For Roughly Half Of Private Employment.

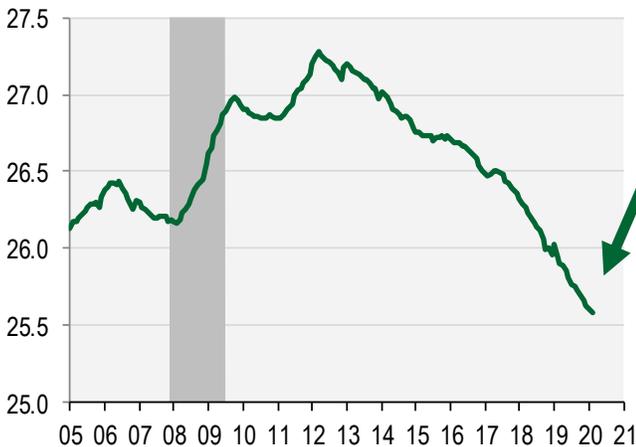
**U.S. Private Employment (ADP)  
Businesses With < 500 Employees % Total  
Feb: 48.9%**



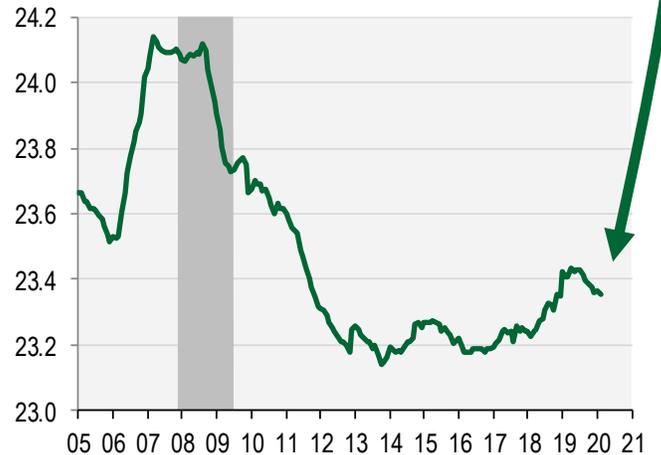
The Small Business Administration defines “small” firms as having fewer than 500 employees. Based on ADP data, these firms account for nearly 50% of total private employment (and roughly 42% of total payroll employment), underscoring the importance of all the stimulus targeting small businesses.

Small businesses are split roughly evenly between those with fewer than 50 employees, and those with 50-499 employees. During the current crisis, the smaller subset is at greatest risk. Will they get govt support fast enough to survive?

**U.S. Private Employment (ADP)  
1-49 Employees % Total  
Feb: 25.6%**



**U.S. Private Employment (ADP)  
50-499 Employees % Total  
Feb: 23.4%**



## Small Business Employment Is Skewed Toward Services And Housing.

Small businesses' shares of employment vary widely by industry. The restaurant and recreation industries, both particularly vulnerable to the COVID outbreak, are mainly comprised of small businesses, with 9 million of all small business jobs, making up 15% of total small business employment.

Retail trade and accommodation industry workers are also getting hit hard, but are mostly employed by larger firms, which may be better able to access federal stimulus. That said, their small business counterparts account for 6.4 million jobs, or another 11% of total small business jobs. Net, over 15 million jobs are at great risk, unless policies are very, very proactive. Stay tuned.

	Statistics of U.S. Businesses	
	2017	
	% of Employment	
	< 500 Employees	500+ Employees
<b>Total</b>	<b>47.1%</b>	<b>52.9%</b>
<b>Agriculture &amp; Forestry</b>	83.3%	16.7%
<b>Construction</b>	82.3%	17.7%
<b>Real Estate and Rental &amp; Leasing</b>	67.6%	32.4%
<b>Food Services and Drinking Places</b>	64.0%	36.0%
<b>Arts, Entertainment, and Recreation</b>	60.3%	39.7%
<b>Professional, Scientific, and Technical Services</b>	58.3%	41.7%
<b>Wholesale Trade</b>	55.8%	44.2%
<b>Educational Services</b>	44.6%	55.4%
<b>Health Care &amp; Social Assistance</b>	44.4%	55.6%
<b>Manufacturing</b>	43.0%	57.0%
<b>Mining and Oil &amp; Gas Extraction</b>	42.3%	57.7%
<b>Accommodation</b>	41.6%	58.4%
<b>Retail Trade</b>	35.2%	64.8%
<b>Transportation &amp; Warehousing</b>	34.6%	65.4%
<b>Finance and Insurance</b>	29.8%	70.2%

# Small Businesses Account For Over \$7 Trillion Of GDP. They're Taking A \$1 Trillion Virus Hit.

Quarterly GDP data aren't broken down by firm size. However, a report from the SBA ([link](#)) found that in 2014 small businesses accounted for 43.5% of private GDP. Applying that share to today's economy yields a total of \$7.7 trillion. And a recent AEI paper estimates the virus outbreak's top line hit to the most vulnerable small businesses could exceed \$1 trillion. Based on Andy and Don's analysis, the "Paycheck Protection Program" for small businesses totals \$376 billion, or just 5% of small businesses' GDP. And according to Roberto, although the Fed has said they will "launch a lending program aimed at small businesses, there is no detail on how big it will be, or when it will start."

- **We estimate the cost of replacing 80% of the revenue for three months of private-sector firms with fewer than 500 employees, excluding the manufacturing, health, education, and finance industries, to be \$1.2 trillion.**  
*AEI, Mar 20*

## Small Business Shares of GDP

Source: SBA, 2018

Percent

Industry	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total	48.0	47.7	46.9	46.9	47.1	47.0	46.5	45.5	45.4	45.4	45.0	44.7	44.4	44.3	44.2	43.6	43.5
Real Estate and Rental and Leasing	81.8	81.3	81.2	82.2	81.8	80.4	79.7	76.8	77.2	81.6	85.2	82.8	82.0	81.8	81.4	82.2	82.3
Other Services	83.7	84.6	83.3	82.6	83.5	82.5	82.9	81.8	81.5	80.5	79.1	80.0	81.8	81.1	81.5	82.2	82.3
Construction	87.3	87.3	85.6	85.1	84.5	84.6	83.8	82.5	82.6	85.0	84.9	85.4	83.9	83.1	82.3	81.4	81.3
Arts, Entertainment, and Recreation	79.5	78.4	77.5	77.3	75.7	76.6	76.0	73.7	73.3	72.6	71.7	72.5	72.8	71.4	70.5	68.7	68.7
Professional and Scientific Services	67.7	66.3	60.2	61.6	63.6	62.5	61.8	60.5	59.7	59.3	58.7	57.4	56.3	56.2	56.3	55.2	54.4
Accommodation and Food Services	57.7	56.6	58.2	55.6	55.3	53.2	53.0	51.4	52.2	52.0	51.1	52.7	52.4	52.9	52.8	52.8	53.1
Management of Businesses	30.3	30.8	29.5	32.2	33.0	40.5	40.0	36.9	35.3	34.8	40.8	42.3	41.5	46.8	50.0	47.1	47.2
Health Care and Social Assistance	51.9	52.9	52.0	52.5	51.4	53.2	52.7	52.3	51.5	50.7	50.9	49.9	49.5	48.5	47.1	46.7	46.7
Wholesale and Retail Trade	52.9	52.0	51.4	50.6	48.4	47.5	46.5	45.8	45.3	45.0	43.7	42.0	42.2	42.1	41.7	41.5	41.6
Educational Services	44.8	44.8	44.7	45.1	43.5	44.4	43.7	42.8	42.7	42.4	42.2	41.5	40.4	39.6	39.6	39.7	39.1
Administrative and Support Services	45.3	43.1	43.5	41.9	43.0	43.5	43.8	39.8	43.6	40.3	39.0	38.9	38.4	37.9	37.9	37.1	37.1
Transportation and Warehousing	39.9	38.9	38.4	40.4	40.2	38.0	38.0	37.7	37.7	36.3	36.3	35.6	34.5	35.5	35.5	35.0	35.0
Finance and Insurance	29.9	30.2	29.6	28.9	36.2	34.6	33.9	32.8	30.9	30.9	25.3	32.6	34.8	34.7	31.6	30.5	29.1
Manufacturing and Mining	29.4	29.3	29.5	29.7	28.2	28.4	28.9	27.4	28.5	27.9	28.5	26.7	27.5	27.7	28.1	27.2	27.1
Utilities	9.9	10.1	11.3	12.0	12.0	12.6	12.8	13.2	12.3	13.3	12.8	11.6	12.2	11.4	12.0	14.2	14.1
Information	20.4	19.1	15.1	11.1	8.3	12.4	11.8	14.3	13.8	12.4	11.8	12.4	13.1	12.8	13.5	12.0	11.7

# Small Business Stimulus in the CARES Act.

## Don Schneider:

Small businesses (generally defined as employing less than 500 workers) will receive an array of benefits under the CARES act from two main sources: loans and loan forgiveness as well as tax cuts and deferral.

The majority of the benefits come from the “Paycheck Protection Program” which is comprised of \$349 billion in loan forgiveness, \$17 billion in loan subsidies, and \$10 billion in emergency loans (\$376 billion in total).

The provisions are designed so that a small business can go to any approved lending institution (rather than the government) and take out a loan equal to 250% of their average monthly payroll up to \$10 million. That loan can be used to cover wages, paid sick leave, insurance premiums, mortgage payments, and other debt obligations. Eight weeks after the loan has been taken out the business can receive loan forgiveness on the portion that is allocable to payroll, rent, or utilities by verifying the covered expenses. The covered period for lending extends from February 15 to June 30. The portion of the loan that is not forgiven must be paid back at a maximum interest rate of 4%. The loans will be fully guaranteed by the government through the end of the year and in exchange for making the loans banks can earn a processing fee of up to 5%.

In addition to receiving loan forgiveness, small businesses may receive indirect relief from the lending facilities (such as the TALF) established by the Federal Reserve (see Roberto’s section). Businesses employing between 500 and 10,000 workers can also stand to benefit from an additional lending facility to be created as a result of the CARES Act (though there will be no loan forgiveness and any loans will come with restrictions based on labor related criteria).

The CARES Act also included significant tax relief for businesses – some portion of which will accrue to small businesses. The provisions are designed to improve cash-flow in the short term, provide relief for businesses in a tax loss position, and make it cheaper to borrow.

The legislation allows for the deferral of employer-side payroll taxes in 2020 (half due by the end of 2021 and the rest due by the end of 2022) which is expected to reduce revenues by \$211 billion in FY2020 and \$140 billion in FY2021. Aside from deferral related benefits, the law modifies the active loss limitation for pass-through businesses, allows for carrybacks on NOLs and eliminates the 80% loss limitation, loosens the deductibility of net interest expense, and establishes an employee retention credit for the remainder of 2020. Cumulatively, these provisions (excluding payroll tax deferral) will reduce revenues by \$296 billion between now and the end of FY2021.

At the same time, recent legislation has placed additional burdens on small businesses. The phase 2 legislation drafted by House Democrats temporarily mandates that businesses employing less than 500 workers provide 10 days of paid sick leave for workers affected by Covid-19 (not to exceed \$511 per day) and paid family leave for those caring for those affected (not to exceed \$200 per day) with an aggregate cap of \$10,000 per employee. The cost of providing this benefit may be credited against employer-side payroll tax obligations and can be advanced by the Treasury.

Overall, we believe these provisions are well designed to help small businesses. However, it is possible that they may not provide enough relief in the way of loan forgiveness. For example, one prominent [estimate](#) finds that replacing 100% of revenues for service sector companies with less than 500 employees would cost about \$500 billion per month – far more than the \$349 billion available. Considering that social distancing could last for many more weeks and months it is possible that small businesses will need additional relief.

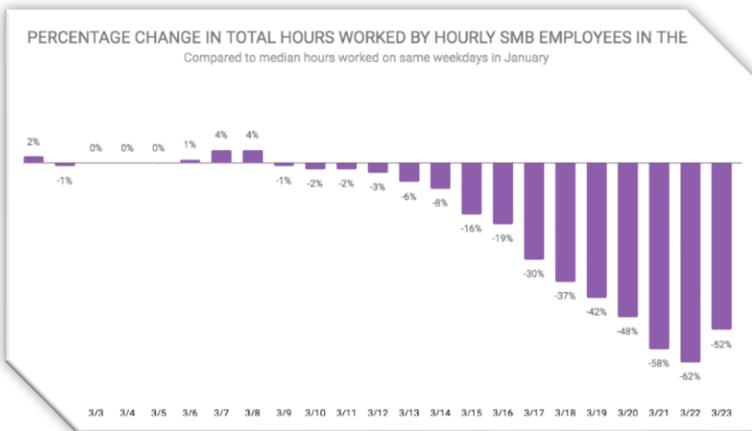
## Fed Actions Will Magnify The Impact Of Small Business Fiscal Supports.

### Roberto Perli:

The Fed said it would launch a lending program aimed at small businesses, but no detail on how big it will be or when it will start. But again that's lending and will only ensure that small businesses have access to credit. There is also the TALF, which lends to buyers of securitized loans, including but not limited to small business loans (also consumer, auto, credit card loans, etc.). The way it works is: banks make loans to small businesses (and households); the banks securitize these loans; the Fed lends to whoever wants to buy these loans on a non-recourse basis (meaning the loss on the securities, if any, is absorbed by the Fed, or actually its Treasury backstop). This helps ensure that loans to small businesses will remain available and will be relatively cheap. The TALF is \$100 billion, a fraction of that is going to be small business loans.

In addition, once Congress passes the bill under discussion and creates a much larger backstop that can absorb a lot more Fed potential losses, the Fed will launch the "Main Street Business Lending Program," which will support lending to eligible small-and-medium sized businesses, complementing efforts by the Small Business Administration.

# Devasting Small Business/Employment Impact, Seen In Alternative Data.



Homebase ([link](#)) offers online employee scheduling software. They're uniquely positioned to measure the virus impact on particularly vulnerable segments of small businesses: single owner/operated restaurants, retailers, and services. 51% of those firms have "closed" since Jan. Those still open have a lower headcount -- hourly workers are down 65%.

## homebase

### COVID-19 Impact on US Local Businesses and Hourly Employees

Percentages compare that day vs. the median for that day of the week for the period Jan 4 2020 - Jan 31 2020

#### USA total - Top level metrics\*

	3/1	3/2	3/3	3/4	3/5	3/6	3/7	3/8	3/9	3/10	3/11	3/12	3/13	3/14	3/15	3/16	3/17	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	3/27	3/28
1. Hours worked by hourly employees	2%	-1%	0%	0%	0%	1%	4%	4%	-1%	-1%	-1%	-3%	-5%	-8%	-15%	-18%	-29%	-36%	-41%	-47%	-57%	-61%	-50%	-54%	-56%	-58%	-61%	
2. Local businesses open	0%	-1%	-2%	-1%	-2%	-2%	-1%	-1%	-2%	-2%	-2%	-3%	-4%	-4%	-6%	-10%	-18%	-24%	-28%	-31%	-38%	-44%	-38%	-42%	-44%	-45%	-46%	-51%
3. Hourly employees working	2%	0%	0%	0%	0%	1%	3%	3%	0%	-1%	-1%	-2%	-4%	-5%	-10%	-16%	-28%	-36%	-41%	-46%	-55%	-59%	-50%	-54%	-56%	-58%	-60%	-65%

#### USA total - Economic impact on hourly employees\*\*

##### 4. Loss of income

4.1. Monthly income loss per employee (\$)	\$0	\$23	\$0	\$0	\$0	\$0	\$0	\$0	\$23	\$23	\$23	\$70	\$116	\$186	\$348	\$418	\$673	\$835	\$951	\$1,091	\$1,323	\$1,411	\$1,161	\$1,251	\$1,291	\$1,341	\$1,411
4.2. US-wide income loss per month (\$bn)	\$0	\$1	\$0	\$0	\$0	\$0	\$0	\$0	\$1	\$1	\$1	\$3	\$6	\$9	\$17	\$20	\$32	\$40	\$46	\$52	\$63	\$68	\$56	\$60	\$62	\$64	\$68

#### Sources

\* Based on Homebase data covering 60,000 businesses and 1 million hourly employees active in these metropolitan areas

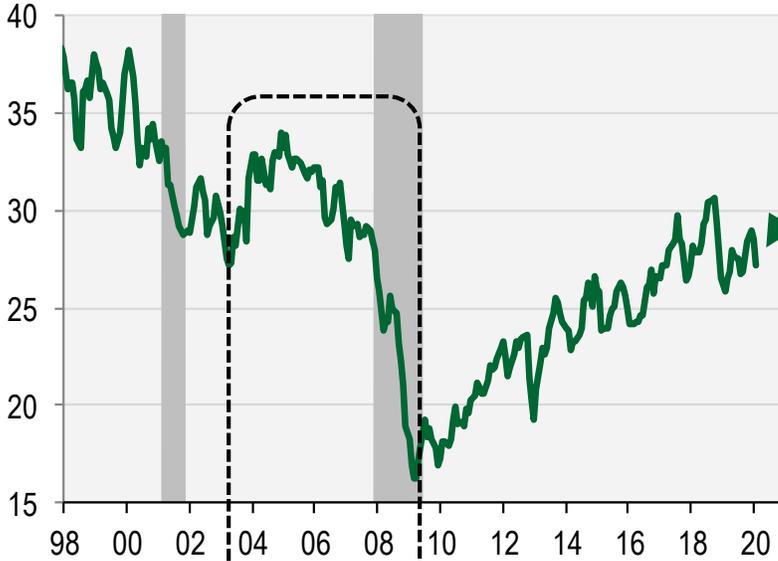
\*\* Based on Homebase data and U.S. Bureau of Labor Statistics data covering 48 million hourly workers across restaurant, food & beverage, retail, other main street and services

This data set is prepared by Homebase, a free scheduling and time tracking tool used by 100,000+ local businesses and their hourly employees. Homebase's customers in the US primarily consist of restaurant, food & beverage, retail and services and are largely individual owned/operator managed businesses.

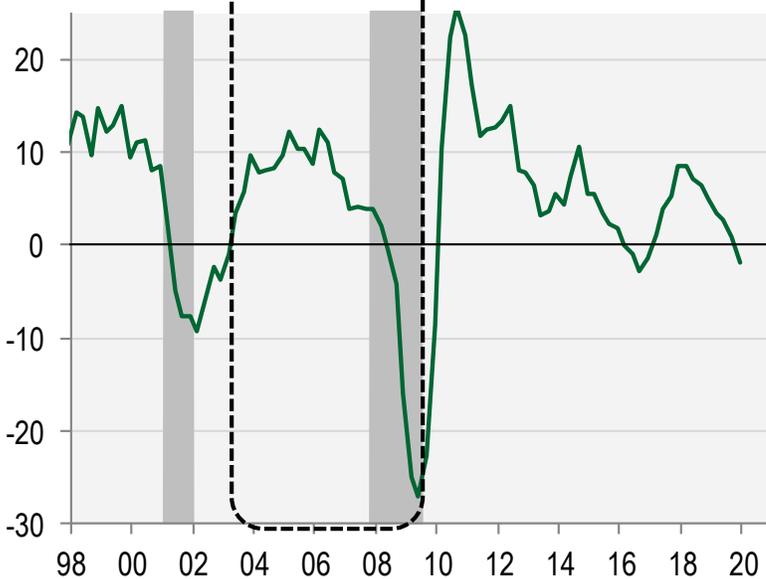
[Learn more about this data and other insights here.](#)

# Small Business Capex Plans Likely To Drop Sharply.

**NFIB U.S. Small Business Optimism Index  
Capex Plans  
3 Mo. Avg. Feb: 27.2%**



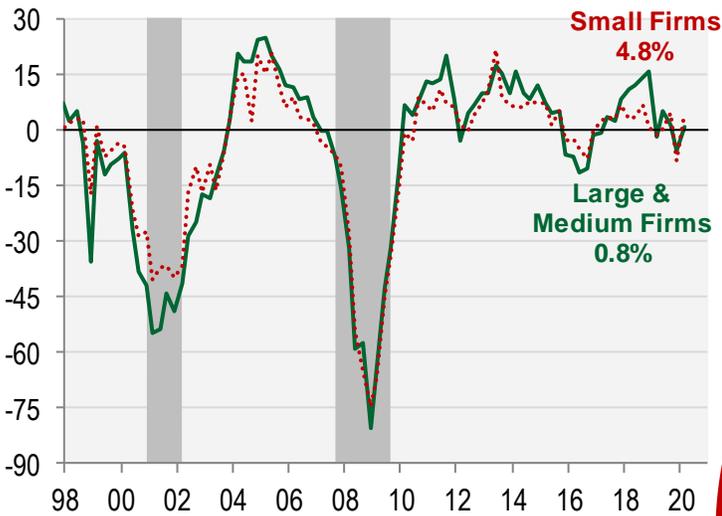
**U.S. Real Capex Eqp  
Y/Y% 2019:4Q: -1.8%**



NFIB's capex plans index has not correlated well with GDP capex this business cycle. However, during the last downturn, both declined in tandem. As we head into 2Q/3Q, NFIB's capex survey will help us assess overall capital spending. Unfortunately, we couldn't determine what % of total capex is by small businesses.

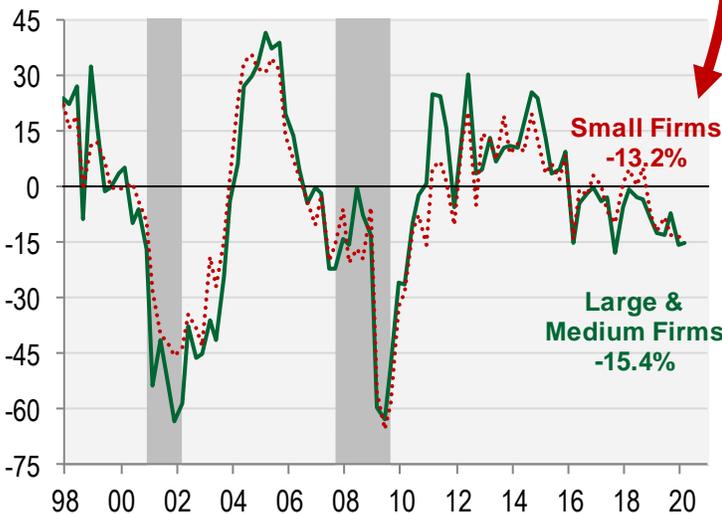
# The Fed's Senior Loan Officer Data Will Help Monitor Small Business Access To Credit.

**U.S. Bank Willingness to Make C&I Loans**  
 Net % of Banks Easing  
 Seas. Adj. by CSM 2020:1Q

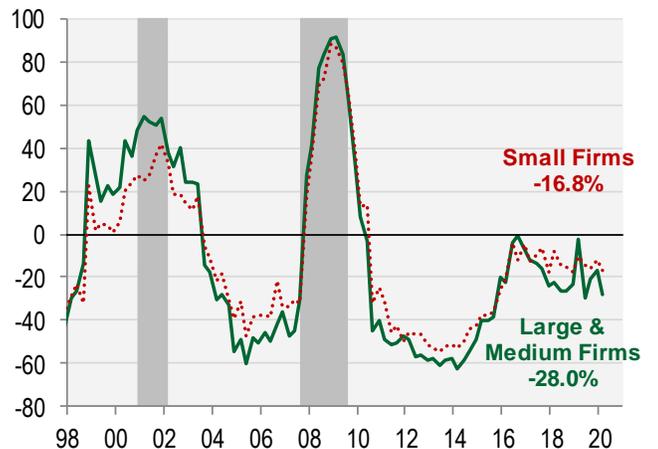


Lending standards for C&I loans to small firms improved some in 1Q, with lower spreads over the cost of capital, and softer demand. These measures will help assess the state of small businesses relative to larger ones as the COVID-19 crisis unfolds. A 2Q update will be released in early May. To be sure, a key part of current policy is to make credit available to small businesses. Stay tuned.

**U.S. Bank Demand For C&I Loans**  
 Net % Reporting Stronger Demand  
 Seas. Adj. by CSM 2020:1Q



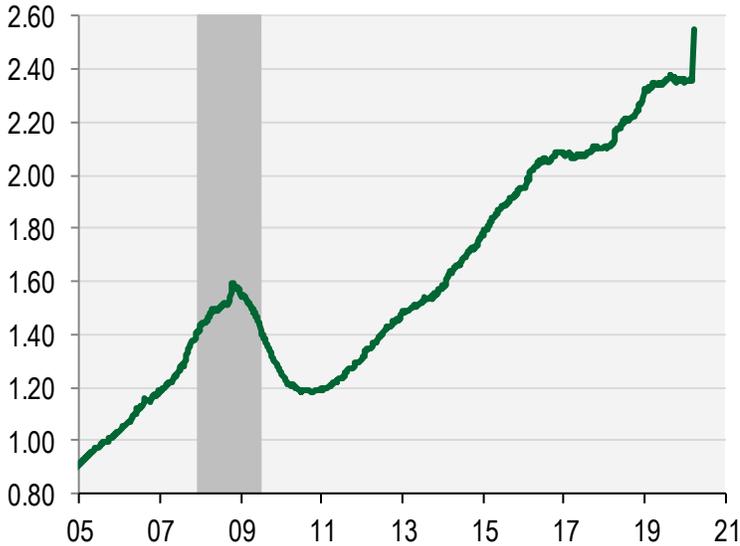
**U.S. Banks Spreads Of C&I Loans \***  
 Net % of Banks Increasing  
 Seas. Adj. by CSM 2020:1Q



\* Spread over banks' cost of funds

# C&I Loans Already Surging.

**U.S. Bank C&I Loans**  
**Mar 18: \$2.55 Trillion**



Bank C&I Loans over the past 2 weeks have surged \$193 billion, most likely reflecting loans to distressed businesses. In addition, looking ahead, loans to small businesses backed by the SBA could also show up in this series. It is worth noting that during the 2008-2009 crisis, banks loans plunged, obviously reflecting the severe hit to the banking system. To be sure, one piece of good news today is that the U.S. banking system is healthy. Stay tuned.

**U.S. Bank C&I Loans**  
**Mar 18: \$2.55 Trillion**

