

Patterns of Small Business and Young Business Hires Pre & Post COVID-19 by Region

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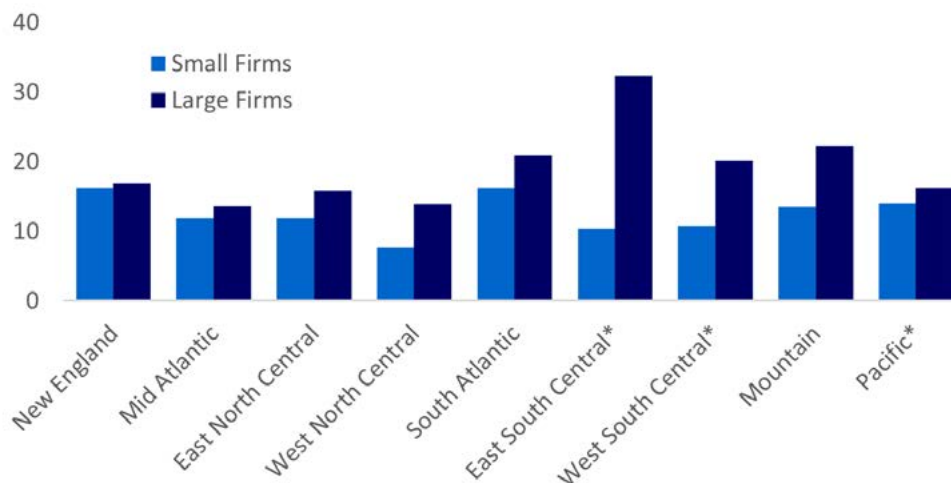
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Small businesses are integral to the U.S. economy. It is important to understand how small businesses respond to economic shocks. In 2021, small businesses faced several challenges in making new hires. This study sheds light on the small business job market before and after COVID-19. This report was prepared for the Office of Advocacy by ION Economics, LLC.

Figure 1. Percent Change in the Number of New Hires 2019q3-2021q3 for Selected Firm Sizes



* Region is missing one/two states due to lack of data. Total hiring for those regions would be somewhat large if all state data were available.

Key Findings

Strong Growth in the Number of New Hires

Figure 1 shows all regions and small firm sizes had relatively strong growth in the number of new hires between 2019-Q3 and 2021-Q3, with the number of new hires increasing by more than 10 percent in most areas. Overall, large businesses (not shown) increased their hiring at a slightly faster pace than did small businesses.

Pace of New Hires Differs Across Firms

Firms of all sizes and ages increased their hiring between 2019-Q3 and 2021-Q3, but the newest firms in some regions did not hire at the same pace as more established firms. The smallest firms, those with fewer than 20 employees, tended to outpace the other small business size classes in hiring (Table 1).

This document is a summary of the report identified above, developed under contract for the Small Business Administration, Office of Advocacy. As stated in the report, the final conclusions of the full report do not necessarily reflect the views of the Office of Advocacy. This summary may contain additional information, analysis, and policy recommendations from the Office of Advocacy.

Sector Concentration Hires Driven by Firm Size

On average 30.7 percent of all hires in 2021-Q3 were by small businesses in the service sector (Leisure & Hospitality; Trade; Health & Social Assistance and Professional & Business Services). In the service sector, 32.7 percent of hires were by large businesses. However, large business hires were more heavily concentrated in the Trade and Professional & Business Services sectors and small business hires were somewhat more concentrated in Leisure & Hospitality and Health & Social Services.

In the goods producing sector (Construction, Manufacturing, and Agriculture), small businesses tend to hire more employees for construction, while large businesses tend to hire more for manufacturing.

Non-Employed Workers Hired by Small Businesses

The smallest businesses with fewer than 20 employees tend to hire the most employees from non-employed status when compared with businesses of other sizes. They tend to hire fewer people who are already employed. The extent to which businesses depend on this pool of non-employed labor varies depending on the general situation in the labor market and other economic factors.

Certain Industry Sectors Drives New Hires

Figure 2 shows businesses concentrated in Leisure & Hospitality and Trade tend to obtain the largest share of their new hires from the pool of the non-employed regardless of firm size. For example, of the nine Census Divisions in 2021-Q3, an average of

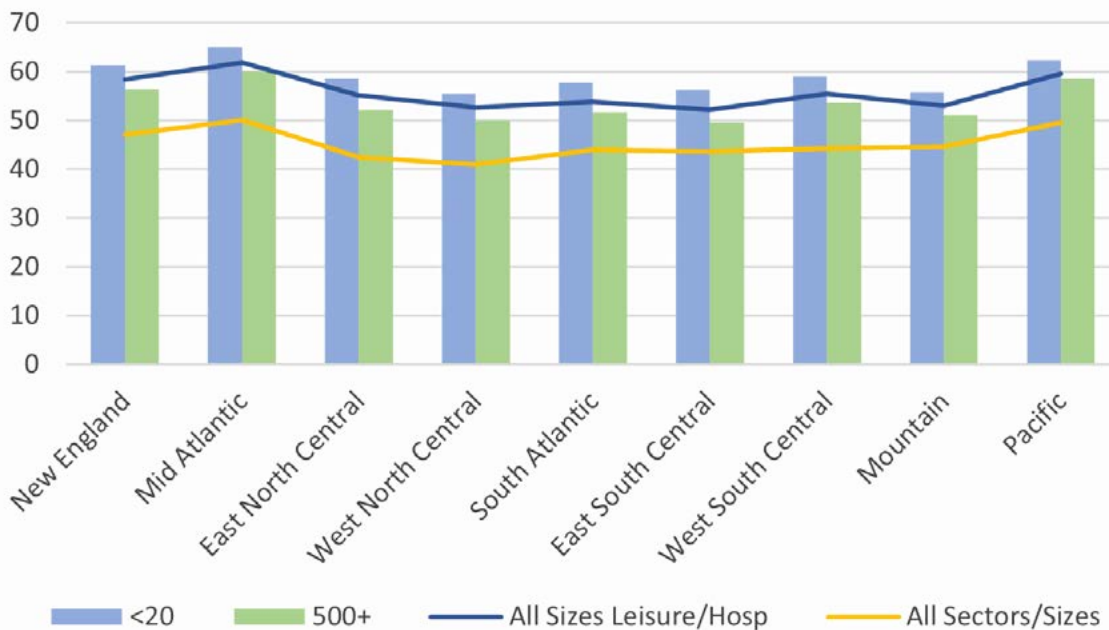
Table 1. Percent Change in the Number of New Hires, 2019q3-2021q3 for Selected Small Firms and Firm age

Region	<20 Employees	<500 Employees	Age 0-1 Year
New England	17.4	16.2	16.2
Mid Atlantic	13.6	11.9	3.6
East North Central	11.2	11.9	9.4
West North Central	8.0	7.7	7.9
South Atlantic	19.4	16.3	18.4
East South Central*	13.2	10.3	6.4
West South Central*	10.3	10.8	1.0
Mountain	12.7	13.5	4.3
Pacific*	15.6	14.0	5.8
U.S. Total*	14.1	13.0	8.4

* Region is missing one/two states due to lack of data. Total hiring for those regions would be somewhat large if all state data were available.

Source: Census Bureau's Job-to-Job Flows data (LEHD)

Figure 2. Percent of New Hires to Leisure and Hospitality that Were Hired from Non-employed Status by Business Size and Region 2021-Q3



Source: Census Bureau's Job-to-Job Flows data (LEHD)

55.8 percent of new hires to the Leisure & Hospitality sector came from non-employed status compared to an overall average of 45.1 percent for all new hires in the same period.

Large Business Hires

Large businesses with 500 or more employees obtain the largest share of new hires from other jobs. They are more likely to hire employees away from other large businesses than they are from any size of small business.

Hires From Non-Employed Status

In general, quarterly wages paid by large businesses are greater than those paid by small businesses. However, there are two industries where that is not uniformly true for new hires from non-employed status: Accommodation & Food Services and Retail Trade.

Quarterly wages tend to show a consistent profile, with new hires from non-employed status earning less than those hired from another job and people who have stayed in the same job earning somewhat more than the other two groups. As noted above, the percentage increase in the first group was often larger than the other two groups during the period between 2019-Q3 and 2021-Q3.

Regional Wages Differ by Firm Size

Retail trade had a significant share of new hires for both large and small businesses. In the East North Central region, Illinois has the top wages, but still less than New York or New Jersey in the Northeast region. However, across all states (except Indiana in 2021) and time periods, the quarterly wages paid by large businesses to new hires in retail trade coming from non-employed status were lower than those paid by small businesses.

Industry Sector Drives Wage Pattern

The wage patterns also vary by industry sector. The most variation is usually seen among Professional & Technical Services. While earnings by hires from non-employment tend to be the lowest, as in most other sectors, wages paid to workers hired from another job, and job stayers may be very close together or the former may surpass the latter. This probably reflects the wide variation in the types of jobs found in this sector, anything from lawyers to graphic designers

to computer programmers and various types of consultants.

Young Firms lead Post-COVID Hires

In 2021-Q3 the South Atlantic Region and the Pacific Region accounted for the largest number and share of hires by the youngest firms. The Pacific Region share of hires by the 0-1 Year age group was 7.4 percent in mid-2021, but that share had fallen since the third quarter of 2019.

Employment by Age

A combination of COVID-related impacts on labor participation rates combined with slow population growth and demographic shifts likely impacted the ability of small businesses to find workers in some of their most favored age groups. Businesses of all sizes hired a smaller share of both women and men in the 22-34 age range in 2021-Q3 than they did during 2019-Q3. Amongst the industry sectors with heavy participation by small businesses, this age group supplied the largest percentage of employees for most industry sectors except in Leisure & Hospitality (where it is second to the age 14-21 group) and Construction (where it is usually second to the 35-54 age group).

Discussion

COVID-19 had an undeniable impact on the U.S. labor market. The effect on specific industries (consumer facing industries) are apparent in the patterns of employment. Between 2019-Q3 and 2021-Q3 all regions showed relatively strong growth in the number of new hires so there was significantly more competition for available labor. The extent to which businesses depend on the pool of non-employed labor varies depending on the general situation in the labor market and other economic factors. The standard pool of non-employed workers shrank in the face of increased labor demand, and that reduced a main source of new workers for many small businesses. Also, since large businesses tend to pay more than small businesses, small business owners tend to be at a disadvantage when there are many competing bids for the same potential employee. The report examines and explains some of these issues such as:

- Concentrated industry hiring
- Employment from the pool of non-employed

- Industry and proximity hiring
- Cost increases for labor post COVID-19

This report provides an insight to researchers, policy makers and the small business community about the challenges faced by small businesses and the inconsistency of supply and demand in the labor force. Job openings exceeded hires across all regions, and this was a significant change for employers from the 2020 recession. Therefore, jobs were left unfilled. In the future, policies should be considered that help mitigate this mismatch in the labor market.

Scope and Methodology

The methodology focuses on 2021-Q3 and 2019-Q3. This report focuses on hires data by state, which were combined into the nine Census Divisions.

The primary data used in this report is from the Census Bureau's Longitudinal Employer-Household

Dynamics data. Specifically, the report relies on data from the Job-to-Job (J2J) flows dataset for each participating state. These data track hires and separations in the United States, with the focus on how workers move across employers. Information about the employee includes age, gender, and education. Information about the employer includes industry sector, firm size, and firm age.

For each state (and region) a standard set of tables was developed showing the state's hires broken down by which employees come from a non-employed status and which are from another job after little or no break; there is a third group for which this information is not known.

This report was peer reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at advocacy@sba.gov or (202) 205-6533.



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