



## Nebraska Economist

# Nebraska Small Businesses Still Face Challenges

by: Nate Kauffman and John McCoy

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A resurgence in COVID-19 cases and hospitalizations at the end of 2020 has underscored the challenges that remain for small businesses in Nebraska.

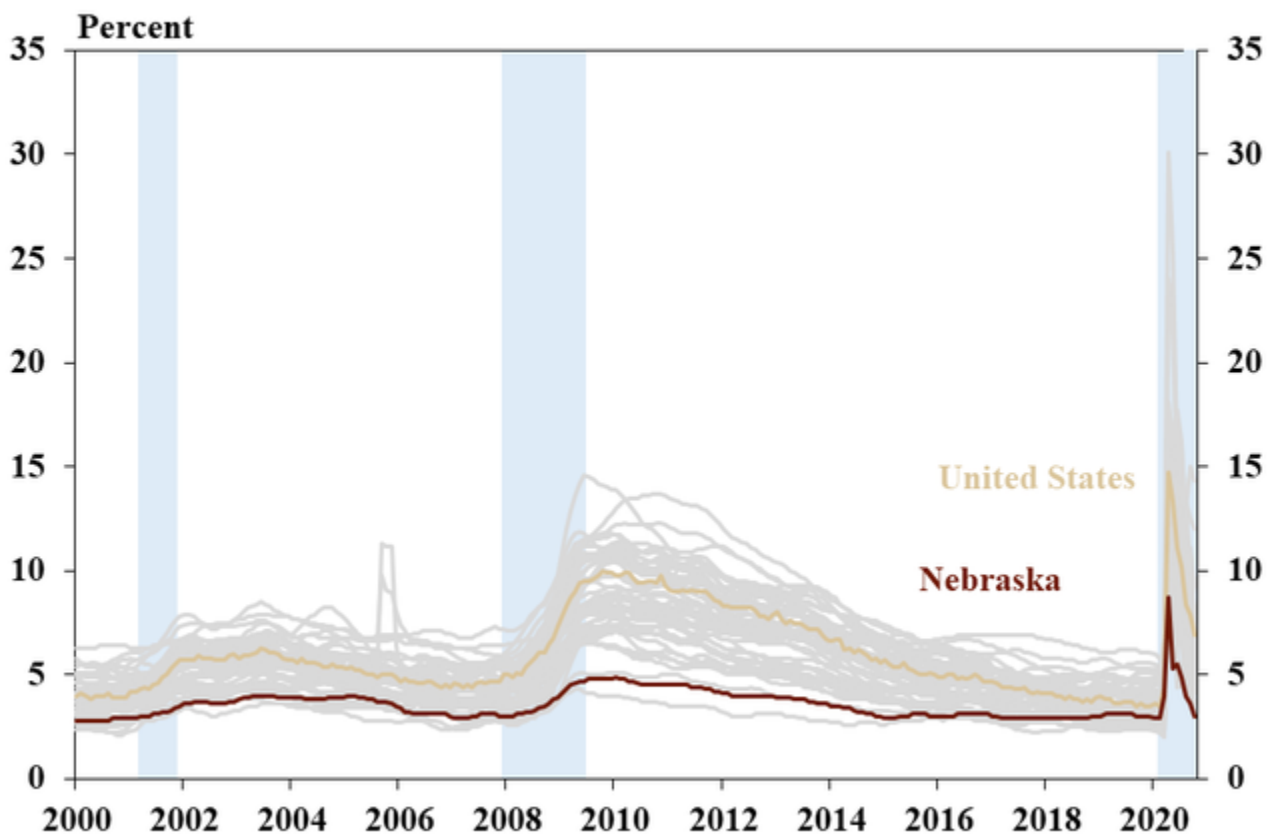
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*A resurgence in COVID-19 cases and hospitalizations at the end of 2020 has underscored the challenges that remain for small businesses in Nebraska. Many of the state's small businesses closed temporarily in the initial months of the pandemic, but gradually reopened through the summer. With year-end approaching, and the virus still spreading, some businesses have closed again. Although Nebraska businesses generally have outperformed the nation throughout the pandemic, the outlook for small businesses will be particularly important in sustaining Nebraska's economic recovery.*

## Nebraska's Economic Recovery

With 2020 drawing to a close, several key measures of Nebraska's economy have returned to their pre-pandemic strength. After surging to 8.7% in April, the state's unemployment rate has since retreated to 3.0%. Through October, Nebraska's unemployment rate was the lowest in the country and was less than half the national average (Chart 1). Similar to the nation, however, part of the recent decline in Nebraska's unemployment rate has been due to fewer people looking for jobs.

## Chart 1: Unemployment Rate by State

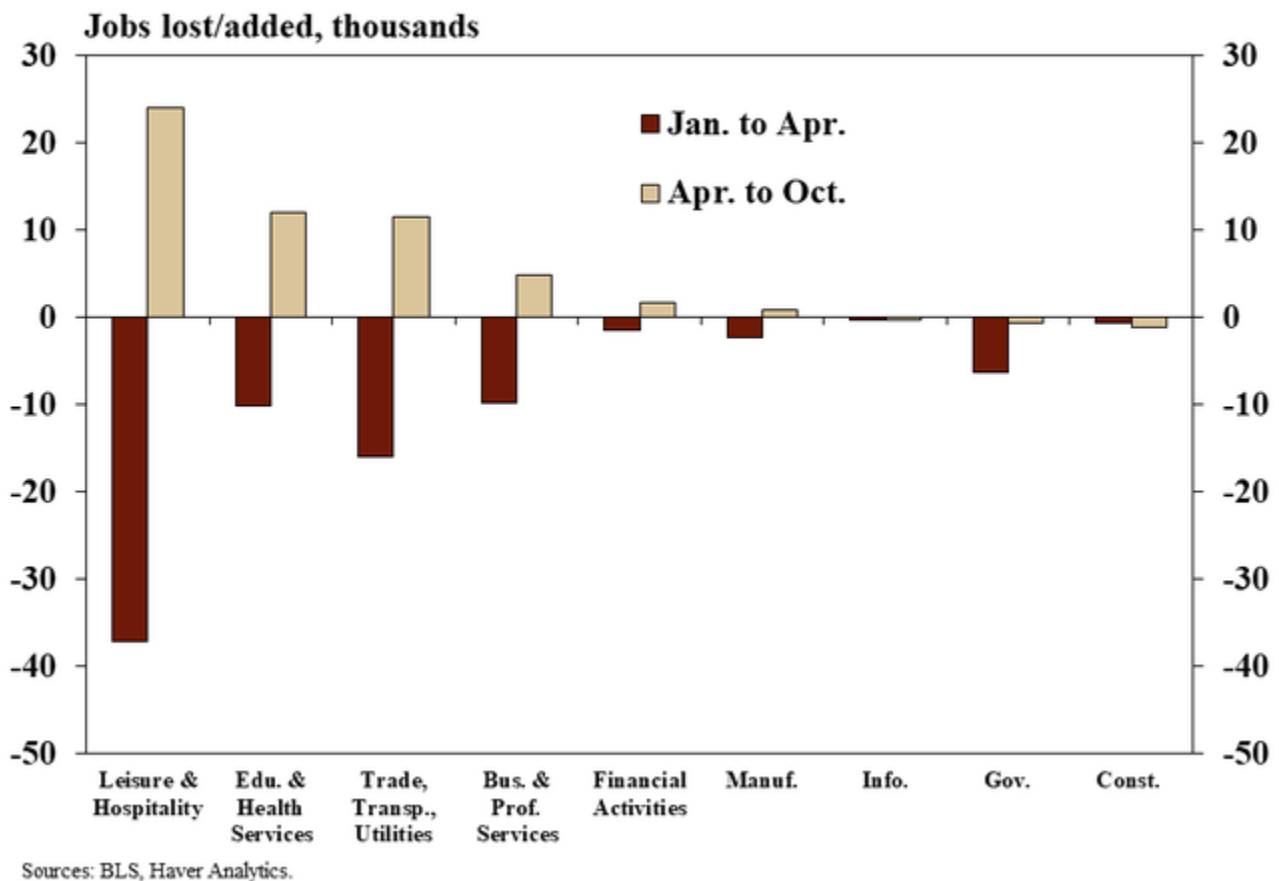


Sources: BLS, Haver Analytics.

Note: Blue bars indicate NBER-defined recessions.

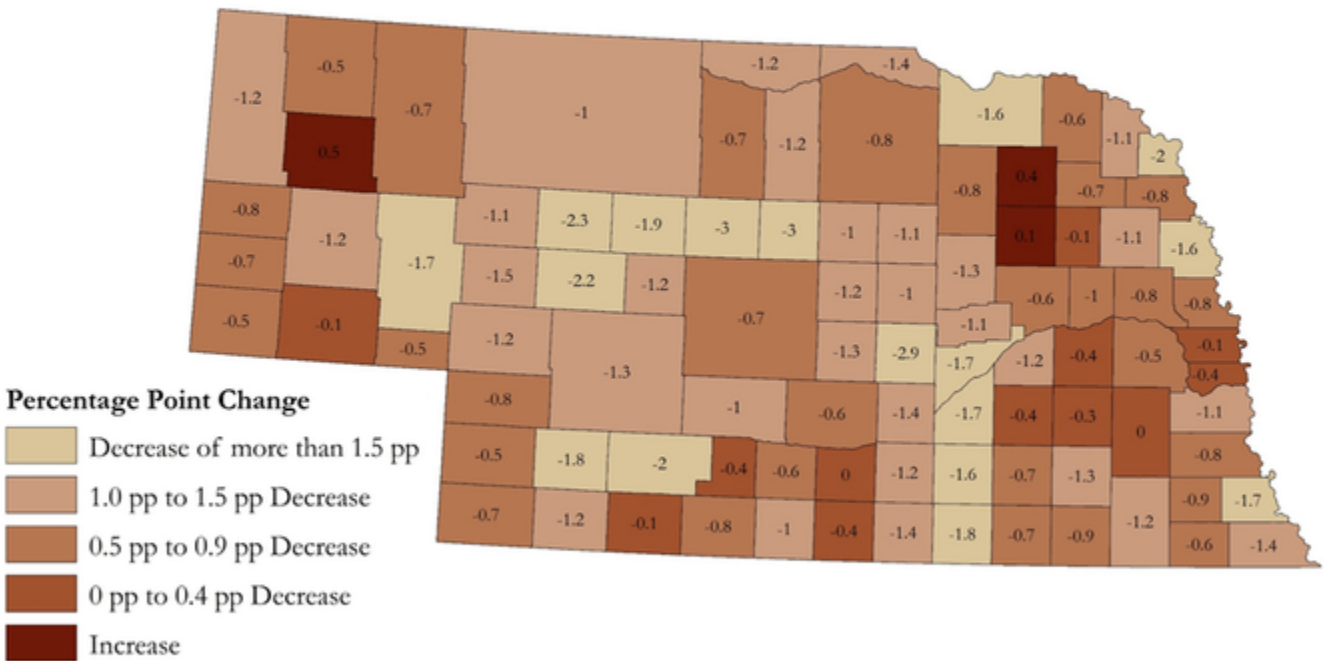
Since April and the initial spike in business closures, job gains have been broad based across numerous industries. As businesses that rely on in-person gatherings closed temporarily or restricted the number of patrons onsite, employment in the leisure and hospitality industry collapsed, shedding more than 37,000 jobs by April (Chart 2). Most other industries also experienced significant, though smaller, job losses. From April to October, however, employment has recovered significantly, but not fully. For example, businesses in the leisure and hospitality industry, including hotels and restaurants, brought back about 24,000 employees.

## Chart 2: Nebraska Employment Growth by Industry



Across the state, unemployment rates mostly have returned to pre-pandemic levels. Through October, only three counties had an unemployment rate higher than in January (Map 1). In Douglas County, the state's most populous, unemployment was slightly less than in January. While lower unemployment rates do not necessarily suggest a full recovery, unemployment appears to have declined faster than might have been expected earlier in the year.

### Map 1: Change in Unemployment Rates from January to October



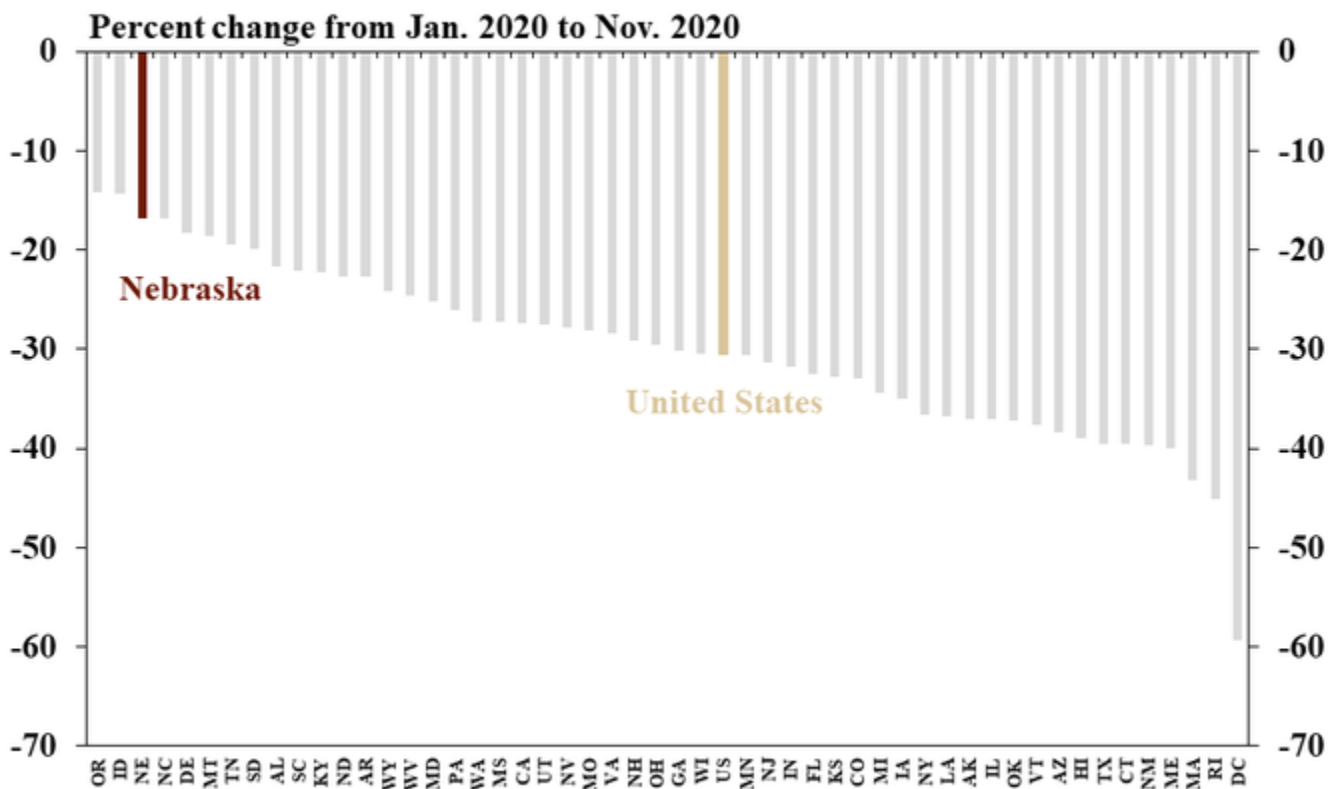
Sources: BLS, Haver Analytics.

Note: BLS employs different methodologies to arrive at state- and county-level unemployment rate estimates. Aggregating county-level estimates will not necessarily equal state-level estimates.

## Small Businesses Important to Nebraska's Recovery

Crucial to Nebraska's economic recovery, the state's small businesses have fared better than those in most other states despite being severely impacted by the pandemic. Though still weaker than earlier this year, revenues generated in November by the state's small businesses were the third strongest in the nation relative to January (Chart 3). On average, small business revenue was down about 17% from the beginning of 2020, but has improved since April when revenues were down approximately 30% from early in the year.

## Chart 3: Net Revenue at Small Businesses

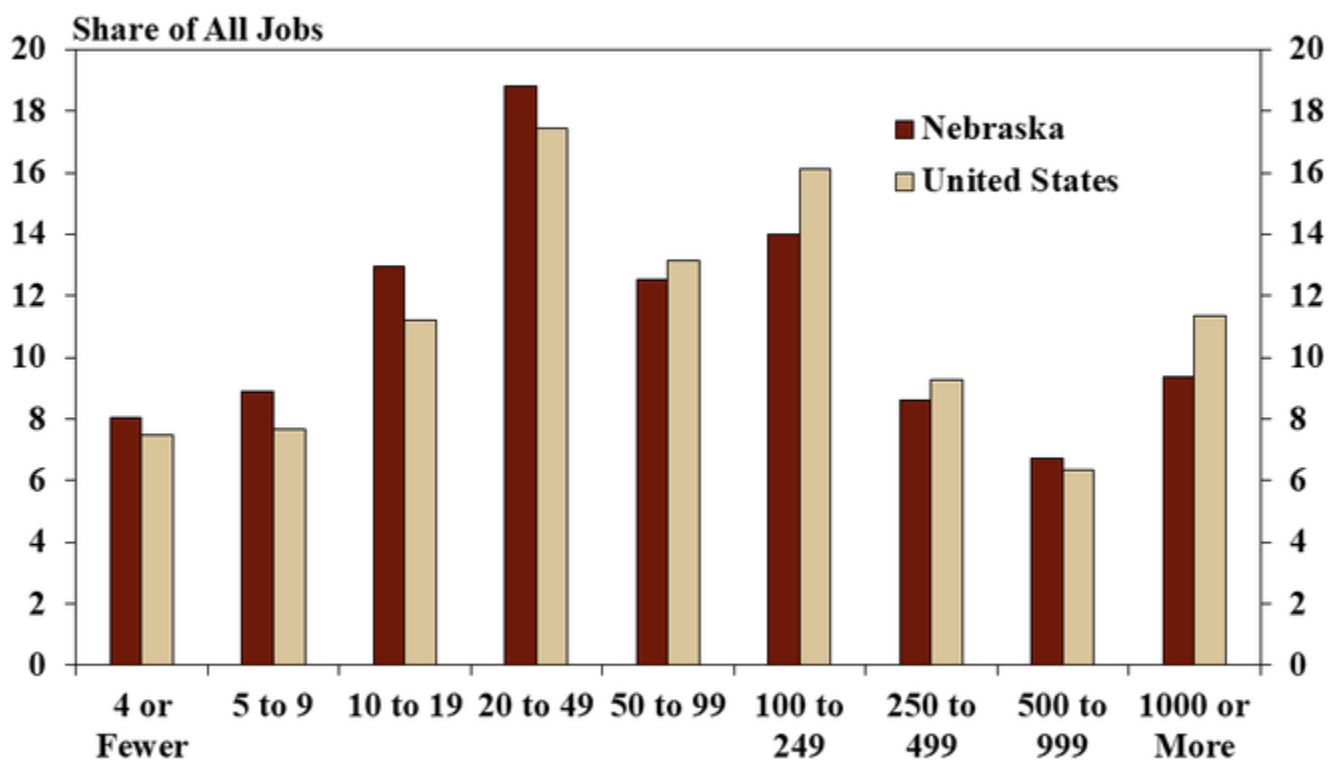


Sources: Womply via Opportunity Insights, Haver Analytics.

Note: Net revenue at small businesses shown above is a monthly average of daily data.

Prospects for small businesses in Nebraska are especially important, in part, because they account for a large share of employment. Firms with fewer than 50 employees accounted for 48.8% of the state's employment at the beginning of 2020 (Chart 4). Nationally, small businesses with fewer than 50 employees accounted for only 43.8% of all jobs. In addition, almost two-thirds of all firms in the state have fewer than five employees, underscoring the importance of factors affecting small businesses.

## Chart 4: Employment by Firm Size, Q1 2020

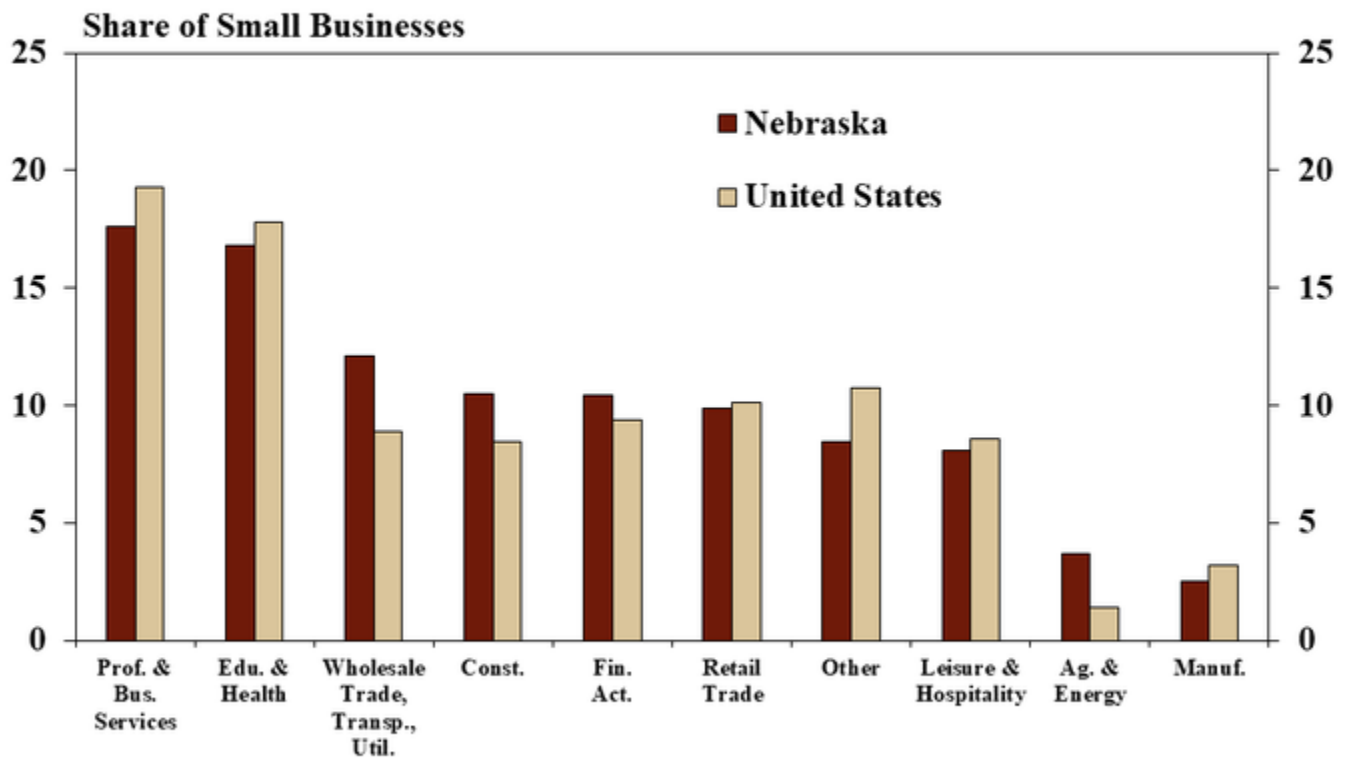


Source: BLS-QCEW.

Note: Only available from QCEW in first quarter of each year. Data are only for private sector establishments. The entire QCEW captures 95% of all jobs in the U.S. and primarily relies on the UI system.

Some small businesses in Nebraska may have fared better during the pandemic than the nation because of the nature of their industries. Nebraska has a higher concentration of small businesses in several key industries, which generally continued to operate during the pandemic (Chart 5). These include wholesale trade, transportation, utilities, construction and agriculture. In fact, these industries comprised 26% of all small businesses in Nebraska, but only 19% nationally.

## Chart 5: Share of Small Businesses (Fewer than 50 employees) by Industry



Source: BLS-QCEW.

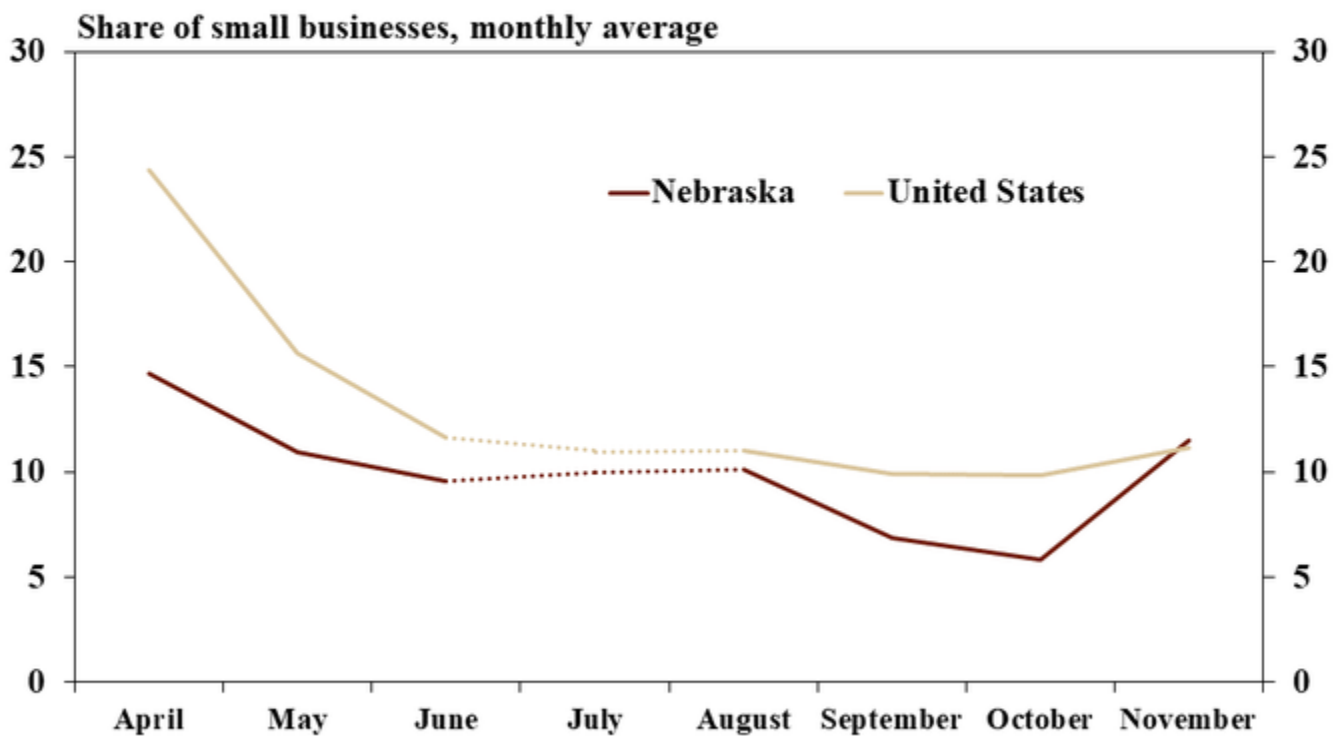
Note: Only available from QCEW in first quarter of each year. Data are only for private sector establishments. The entire QCEW captures 95% of all jobs in the U.S. and primarily relies on the UI system.

### Emergent Risks for Nebraska Small Businesses

Despite a generally more positive environment for small businesses in Nebraska, risks have increased in recent weeks.

Throughout the pandemic, small businesses in Nebraska have reported fewer closures and layoffs and a stronger revenue outlook compared with the nation. In November, however, a relatively large number of small businesses in the state reported they recently had reduced employment (Chart 6). By the end of the month, 11.5% of small businesses in Nebraska reduced their employment, on average, more than the nation for the first time since the onset of the pandemic.

## Chart 6: Small Businesses Reporting Reduction in Employment in Past Week

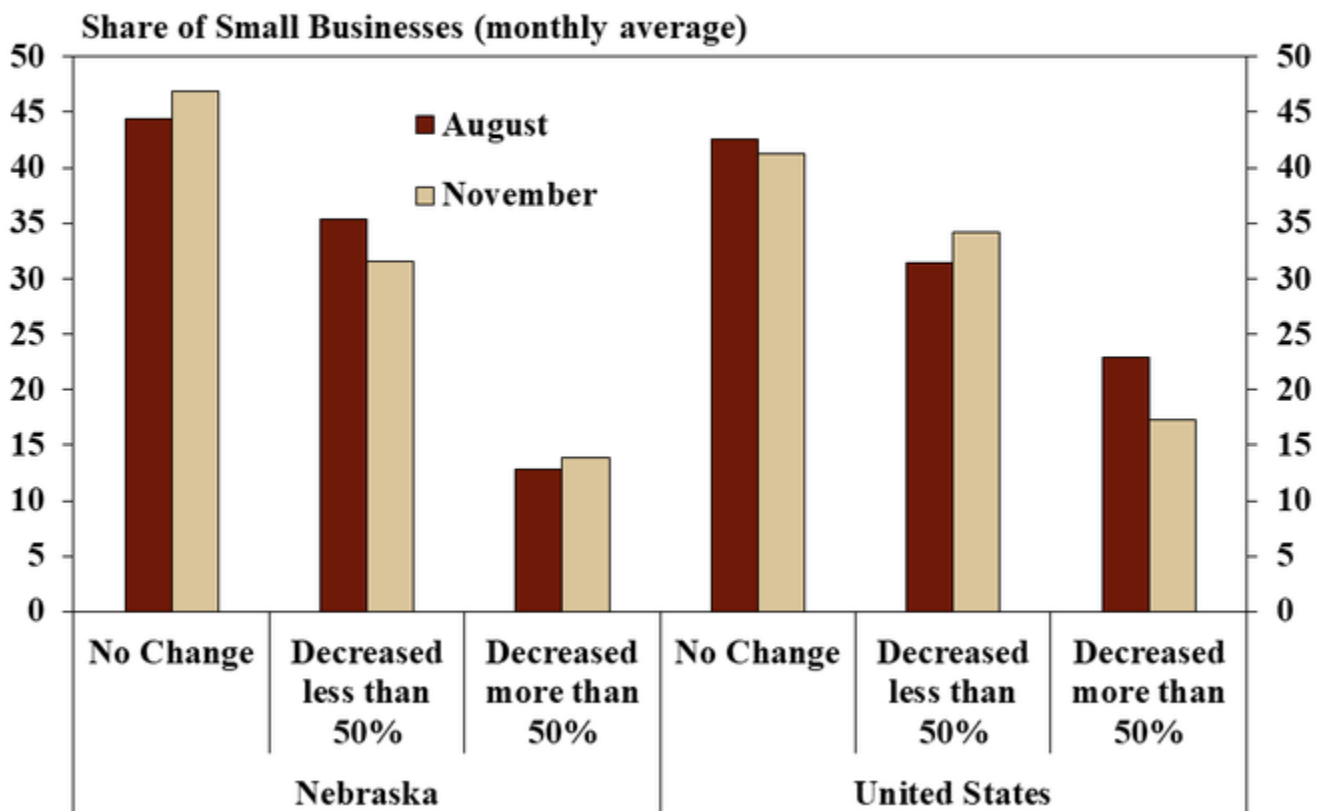


Sources: Census Bureau, Haver Analytics.

Note: The Census Bureau did not conduct small business pulse surveys in July.

Operating capacity also has improved very little among Nebraska small businesses in recent months. According to surveys conducted by the U.S. Census Bureau, the number of small businesses that indicated a decrease in operating capacity by more than 50% has increased slightly since the summer months. (Chart 7). In contrast, the share of small businesses nationally indicating a reduction in operating capacity of this magnitude declined from 23% in August to 17% in November. While small businesses in Nebraska have remained in a stronger position than the nation, recent developments highlight a potential risk.

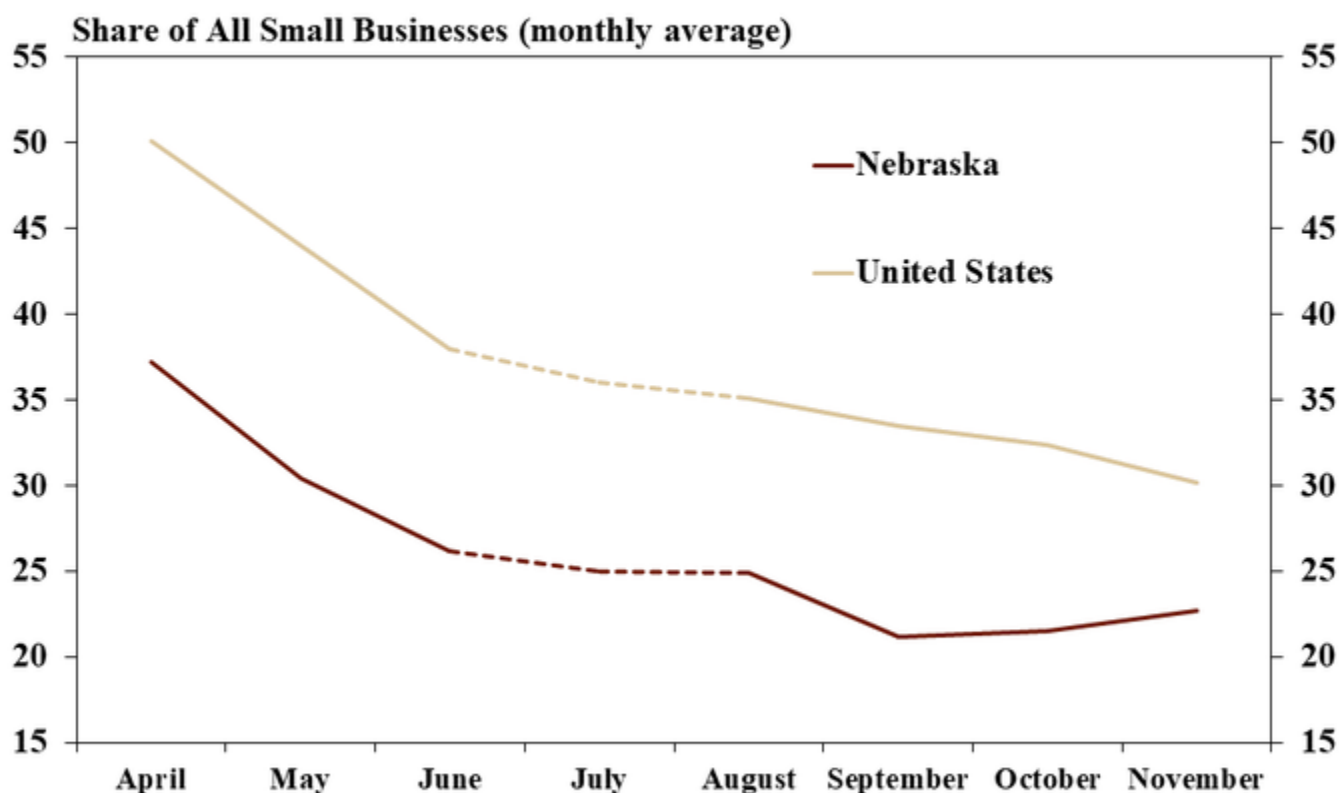
## Chart 7: Change in Operating Capacity Relative to Last Year at Small Businesses



Sources: Census Bureau.

The weakness among small businesses toward year-end seems to have been linked significantly to developments with the pandemic. Since the onset of the pandemic, a much smaller percentage of small businesses in Nebraska indicated the pandemic was having a large and negative effect on their operations relative to the nation (Chart 8). Since September, however, the share of Nebraska small businesses reporting a large, negative effect has increased from 21% to 23%, while declining from 33% to 30% nationally.

## Chart 8: Small Businesses Affected by the Pandemic



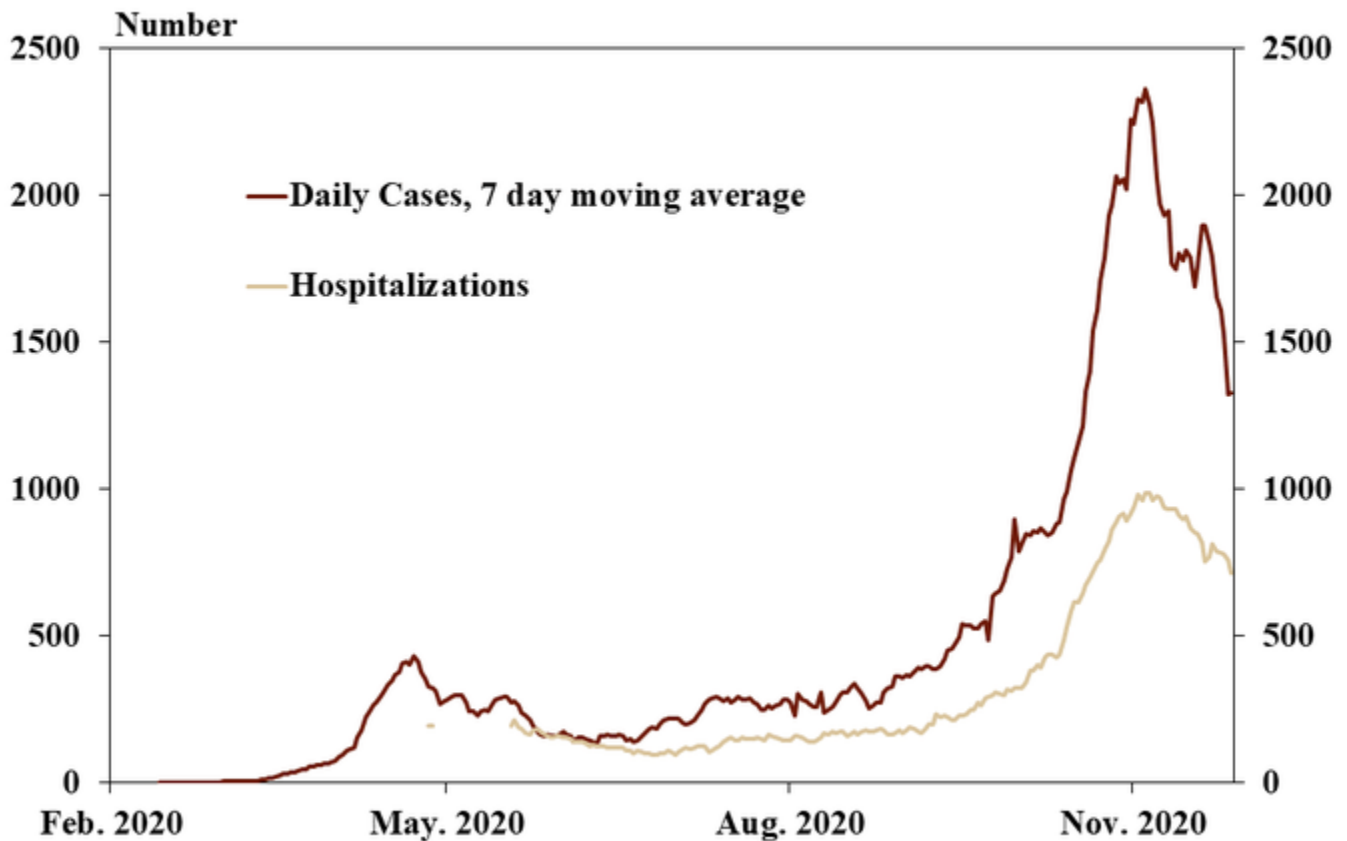
Sources: Census Bureau, Haver Analytics.

Note: The Census Bureau did not conduct small business pulse surveys in July.

### COVID-19 and Small Businesses

Similar to other states in the Midwest, the spread of COVID-19 in Nebraska increased sharply in October and November. Since the end of September, the number of new cases in Nebraska increased from 470 a day to more than 1,700 (Chart 9). The availability of beds in intensive care units in Nebraska's hospitals also dropped to its lowest level in the week before Thanksgiving, accentuating the concerns about more severe outcomes from the pandemic with winter approaching. The total number of COVID-19 related hospitalizations also increased sharply from September (about 200) to more than 750 by early December.

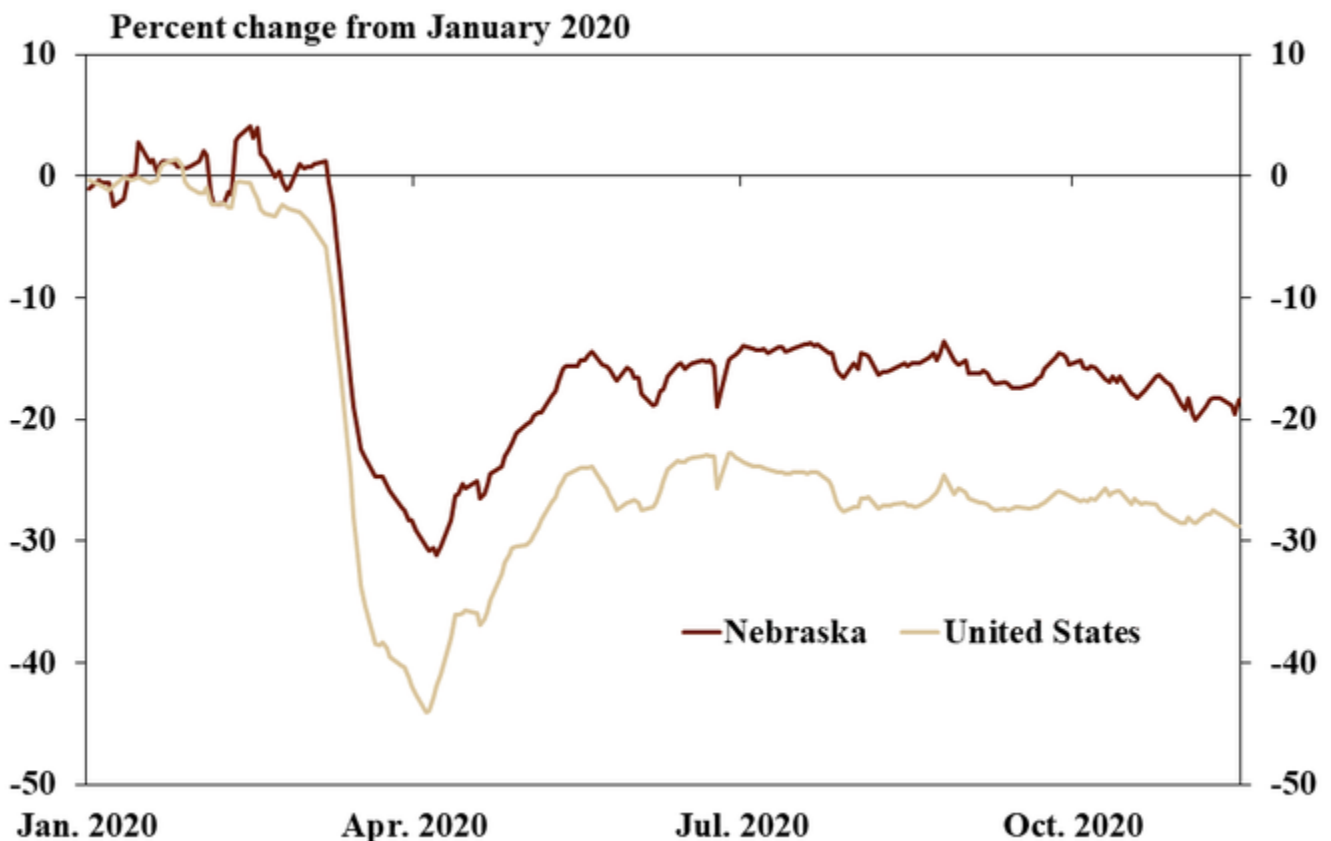
## Chart 9: COVID-19 Cases and Hospitalizations in Nebraska



Source: The New York Times, The COVID Tracking Project.

With the increased spread of the virus and broad ongoing economic effects, a larger share of small businesses have reported recent closures. In the initial months of the pandemic, nearly 30% of small businesses reported closing due to the pandemic, before recovering somewhat during the summer (Chart 10). Although the share of small businesses continuing to operate in Nebraska has remained higher than the nation throughout the pandemic, more firms have closed in recent weeks. As of the end of November, the number of small businesses open in Nebraska was 18% less than in January, after having improved to only 13% less a few months ago.

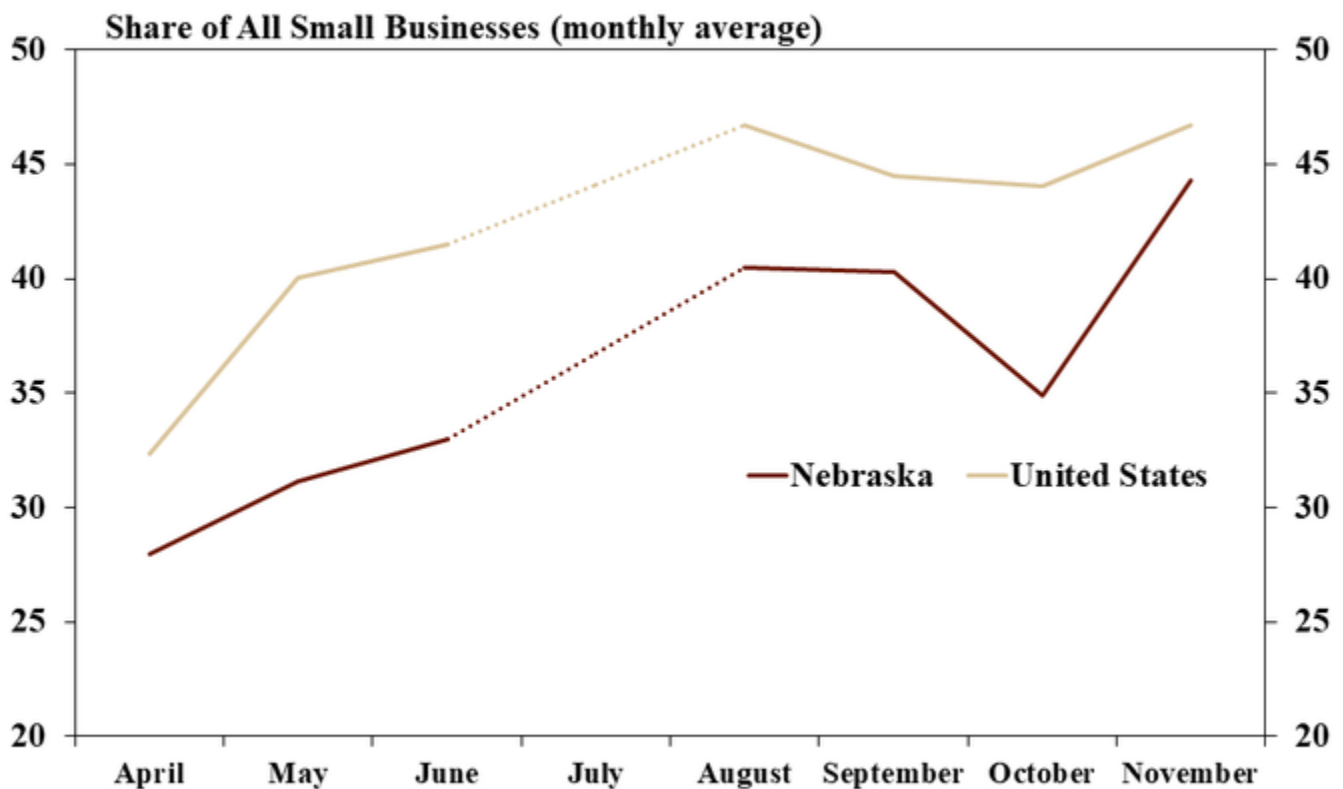
## Chart 10: Number of Small Businesses Open



Sources: Womply via Opportunity Insights, Haver Analytics.

Perhaps most importantly, small business have continued to extend their expectations for a return to normal operations. In April, 28% of small businesses in Nebraska indicated a return to normal levels of business activity was at least six months away (Chart 11). The outlook has consistently been more negative for the nation. However, as of November, a larger share of small businesses indicated a minimum of six months was still needed for a return to normal. The Nebraska average in November is the highest over the period the Census has conducted the small business pulse survey and is nearly 20 percentage points higher than the average in April.

## Chart 11: Small Businesses Expecting Return to Normal is At Least 6 Months Away

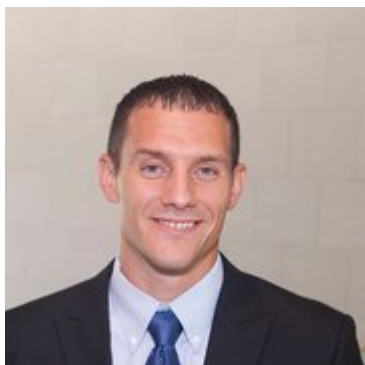


Sources: Census Bureau.

### Conclusion

Many economic indicators in Nebraska have remained stronger than the nation at year-end, including those representative of conditions among small businesses. In recent weeks, however, business activity has slipped, despite prospects of widespread vaccine distribution in the coming months. As Nebraska's small business community accounts for a large share of employment, and the livelihoods of many households, a sustained recovery for small-sized firms will be crucial to the state's longer-term outlook. A return to normal levels of activity has remained elusive for many firms, as the pandemic continues to test the state's economic resilience.

## Authors



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Nate Kauffman is Senior Vice President and Omaha Branch Executive at the Federal Reserve Bank of Kansas City. In his role as the Kansas City Fed's lead economist and representative in the state of Nebraska, Nate provides strategic direction and oversight for the Omaha Branch, regional research, and economic outreach throughout the state. He serves as a local connection to the nation's central bank and is responsible for briefing the Kansas City Fed's president – a member of the Federal Open Market Committee – on regional economic and business activity. In addition, Nate is the Kansas City Fed's principal expert in agricultural economics. He is a leading voice on the agricultural economy throughout the seven states of the Tenth Federal Reserve District and the broader Federal Reserve System. Nate oversees several Bank and Federal Reserve efforts to track agricultural economic and financial conditions. He also speaks regularly on the agricultural economy to industry audiences and the news media, including providing testimonies at both U.S. Senate and U.S. House Agriculture Committee hearings. Nate joined the Federal Reserve in 2012. He received his Ph.D. in economics from Iowa State University. Prior to receiving his Ph.D., Nate spent three years in Bosnia and Herzegovina coordinating agricultural economic development projects. Nate lives in Omaha with his wife and four children.



### John McCoy

#### Associate Economist

John McCoy is an associate economist in the Regional Affairs Department at the Omaha Branch of the Federal Reserve Bank of Kansas City. In this role, he supports research and outreach efforts surrounding economic developments in the state of Nebraska. His responsibilities include serving as Board Secretary to the Omaha Branch Board of Directors and co-authoring *The Nebraska Economist*. John joined the Bank in 2017 as a research associate in the Regional Affairs Department at the Omaha Branch. Prior to 2017, he spent two years as an intern with the department. John holds a BA and MA from Creighton University.