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## **Testimony on Small Business Economic Impact of COVID-19 Pandemic Wednesday, January 27, 2021**

My name is Charlie Owens and I am the State Director for the NFIB, an advocate for small businesses owners since 1943. Thank you for this opportunity to come before the committee and offer some perspective on the economic impact of the COVID-19 pandemic on Michigan small business.

### **Small Business in Michigan**

Small Business in Michigan represents almost [half of our state economy](#). They represent 99.6 percent of all employers (employer firms only-less than 500 employees) and employed half (1.9 million or 49.1%) of the private-sector labor force. They number 873,722 when non-employer (self-employed) firms are included in the count (170,127 Employer Firms + 703,595 Non-employer).

- Small businesses with less than 100 employees represent 96 percent of all employers and employ 34 percent of the private-sector labor force.
- Small businesses with less than 50 employees represent 93 percent of all employers and employ 27 percent of the private-sector labor force.
- Small businesses with less than 20 employees represent 85.9 percent of all employers and employ 17 percent of the private-sector labor force.
- The median income for individuals who are self-employed at their own incorporated businesses for the past 12 months was \$49,302 in 2017. For individuals self-employed at their own unincorporated firms, this figure was \$22,597.
- A total of 14,446 companies exported goods from Michigan in 2016. Of these, 12,873, or 89.1%, were small firms; they generated 23.8% of Michigan's \$50.5 billion in total exports.

The [U.S. Census Bureau](#) estimates that 36 percent of employer firms (businesses with employees) were owned by women and minorities and Michigan reflects a similar metric among the 170,127 employer firms in the state.

In 2019, the real [GDP of Michigan](#) was 473.86 billion U.S. dollars. [Research](#) has indicated that small business accounted for 44 percent of the state's GDP and they create two-thirds of net new jobs.

### **Public Perception of Small Business**

- Nearly nine in ten adults (89%) report a positive view of small businesses, according to Morning Consult. “These positive sentiments extend across party lines ... Republicans (92% positive) and Democrats (90% positive) are united in their appreciation for small business.”<sup>5</sup>
- “When it comes to determining who should represent their communities in elected office ... the vast majority (59%) say they would prefer a small business owner to represent them over other occupations and positions according to [Morning Consult](#).”
- A [Gallup Poll](#) found 70% of Americans having a great deal or quite a lot of confidence in small business as an institution. Of the 17 institutions measured, small business came in second just behind the U.S. military (72%).
- A study by the Pew Research Center on the negative and positive views people hold on various American institutions found small business ranked first in positive views.

### **State of Small Business Prior to COVID-19 Pandemic and Now**

Prior to the COVID-19 Pandemic, the NFIB [Small Business Optimism Index](#) soared to 108.8 in August of 2018, a new record in the survey's 45-year history, topping the July 1983 highwater mark of 108. The percentage of small business owners saying it is a good time to expand tied the May 2018 all-time high.

As the pandemic began to unfold, the [optimism index](#) fell 8.1 points in March to 96.4, the largest decline in the survey's history. The report also ended a record 39-month streak of positive small business optimism.

"The COVID-19 outbreak and regulatory responses to curtail its spread shook the small business sector in March," NFIB chief economist William Dunkelberg wrote in the report. "Small business owners' outlook is bleak as they wrestle to adjust quickly to rapidly changing economic conditions."

While these are national numbers, the circumstances in Michigan are more dire to the aggressive closing of business sectors, stay at home orders, and occupancy restrictions.

### **Michigan vs Nation in 2021 Impact of COVID-19 Administration Policy**

A recent [Mlive article](#) reported that 93% of Michigan construction jobs lost between February to April were recovered by November, per data from the Upjohn Institute. It also indicated that more than 80% of auto manufacturing jobs returned by November, a much higher rate than non-auto-related manufacturing jobs. However, it should be noted that these sectors were not shutdown for an extended period as were others.

By contrast, the article states, only about 94,000 jobs came back by November out of the 214,000 accommodation and food service jobs lost at the peak of the pandemic. Compared to the nation's recovery rate of 60%, Michigan's recover rate is only 44% - a difference of 16 points. In the broader category that includes bars, restaurants and other food service establishments, 26.5% of Michigan workers have lost their jobs since February, according to the Upjohn data while the national average for job losses in food service and drinking places was 14.8%.

For all small businesses, spending patterns shifted, as many turned to online sales. Small business revenue in Michigan dropped 56% in March and never recovered to pre-pandemic levels, per [TrackTheRecovery.org](https://www.tracktherecovery.org).

Regional economists at Comerica Bank report that Michigan's GDP fell at an annualized rate of 41 percent in the second quarter. During the same period, the U.S. GDP decreased at an annualized rate of 32.9 percent, while real GDP fell 5 percent, [according](#) to the Bureau of Economic Analysis.

An analysis of new employment data by the Anderson Economic Group (AEG) shows that the Michigan economy is moving in the wrong direction for the first time since it began its recovery from the initial shock of COVID-19 last spring. After recording a strong employment rebound during the summer, new data shows the economy is now shedding jobs, rather than adding them. Experts warn that the new employment numbers could indicate future struggles for employers, especially those in the leisure and hospitality industries. A copy of the information is attached.

Michigan stands out among its Midwest neighbors in a number of other pandemic metrics:

Percentage change in employment among lower wage workers (less than 27k): Michigan=-22.3%, Indiana = -17.8%, Ohio = -15.4%, Wisconsin = -19%, Pennsylvania = -20.6% Illinois = -27.1%.

Percentage change in Small Business Revenue: Michigan=-34.4%, Indiana = -28.1%, Ohio = -28.3%, Wisconsin = -29.3%, Pennsylvania = -26.1% Illinois = -32.5%.

Percentage change in Number of Small Businesses Open: Michigan=-37.8%, Indiana = -32.5%, Ohio = -28.1%, Wisconsin = -29.2%, Pennsylvania = -24.8% Illinois = -34.3%.

A University of Michigan [report](#) released noted Michigan is not expected to rebound to pre-pandemic employment levels until 2024.

Not surprisingly, the National Conference of State Legislatures (NCSL) indicated in their [Top Legislative Issues of 2021](#) that supporting small businesses will be a top priority for most states.

### **Summary and Conclusions**

While federal and state efforts to assist small business are appreciated, they are not practical nor sustainable over an extended period. The most recent efforts by the administration in the proposed COVID-19 Recovery Budget Supplemental are a case in point: \$259 million to restore a

segment of the state economy that produces just over \$200 billion in GDP. Small business in Michigan wants to work, to be open, to provide jobs, and to bring back their employees to work. They do not want to exist by pursuing complicated loan and grant programs that come with restrictions and limitations that pick who survives and who goes out of business.

The best way forward for restoring Michigan's economy is to remove the obstacles imposed unilaterally by the governor, and the agencies under her direct control, that are hindering the ability of small business to return Michigan to the prosperity that existed before the coronavirus pandemic. The most important part of that objective will be to restore the role of the legislature in policy making and governance. The Michigan Supreme Court has made it clear, with their recent decision halting the Governor's abuse of the Emergency Powers of the Governor Act of 1945, that the balance of power in the governance of our state is one of the hallmarks of our system of representative government that must be respected. No state agency should have the power to close an entire segment of the economy without legislative oversight.

We fully support the legislature's use of "the power of the purse" in appropriating funds for the operation of the government and state agencies and its pursuit of all opportunities to condition appropriations on the proper use of state agency authority.