

Applications for New Businesses Contract Sharply in Recent Weeks: A First Look at the Weekly Business Formation Statistics

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A new experimental data product released on April 8, 2020 by the U.S. Census Bureau shows that applications for new businesses have contracted sharply in recent weeks. At the national level, business applications with planned wages (i.e., new businesses that plan to hire workers) declined in the week ending March 28 by 42 percent relative to the same reference week in 2019. The sharp decline in new applications exhibited substantial variation across Census Regions with the largest decline in the Northeast region (58 percent). Appropriate caution needs to be used in interpreting the patterns in this first look at this novel experimental data product. First, it is experimental. Second, the contraction in applications is sharp and striking but only for the last two weeks of March. The weekly BFS is scheduled to be updated weekly with releases on the Thursday following each reference week. It will be important to observe whether this sharp downturn is temporary or more persistent.

This new weekly release of Business Formation Statistics (BFS) builds on the quarterly BFS that was first released in February 2018 (see, <https://www.census.gov/data/experimental-data-products/weekly-business-formation-statistics.html>). All of the series in the weekly reflect applications for reference weeks from Sunday to Saturday. Details on the exact details of the BFS weekly reference weeks can be found at the BFS website referenced above. The weekly data are subject to fluctuations from seasonal factors including holidays and beginning and end of calendar year effects. For example, week 1 (the first week) and week 52 (the last week in most years) are subject to substantial fluctuations given the interaction of holidays and beginning and end of year effects.

In spite of the noisy nature of the weekly compared to the quarterly BFS, Figure 1 shows systematic patterns at the national level of year over year percentage changes for reference weeks 6 through 13 from 2007 to 2020. These reference weeks cover weeks in February and March. In 2020, reference week 13 covers new applications from Sunday, March 22 through Saturday, March 28. In 2019, reference week 13 covers new applications from Sunday, March 24 through Saturday, March 30.

Two of the four business applications series are illustrated in Figure 1 at the national level. The overall business applications series includes applications for new Employer Identification Numbers (EINS) including new businesses that do not plan to hire workers (what Census calls non-employer businesses and reflect a form of self-employment activity) as well as business applications with planned wages. Research has shown (<https://ideas.repec.org/p/cen/wpaper/18-52.html>) that the latter applications have a high likelihood of becoming a new employer business

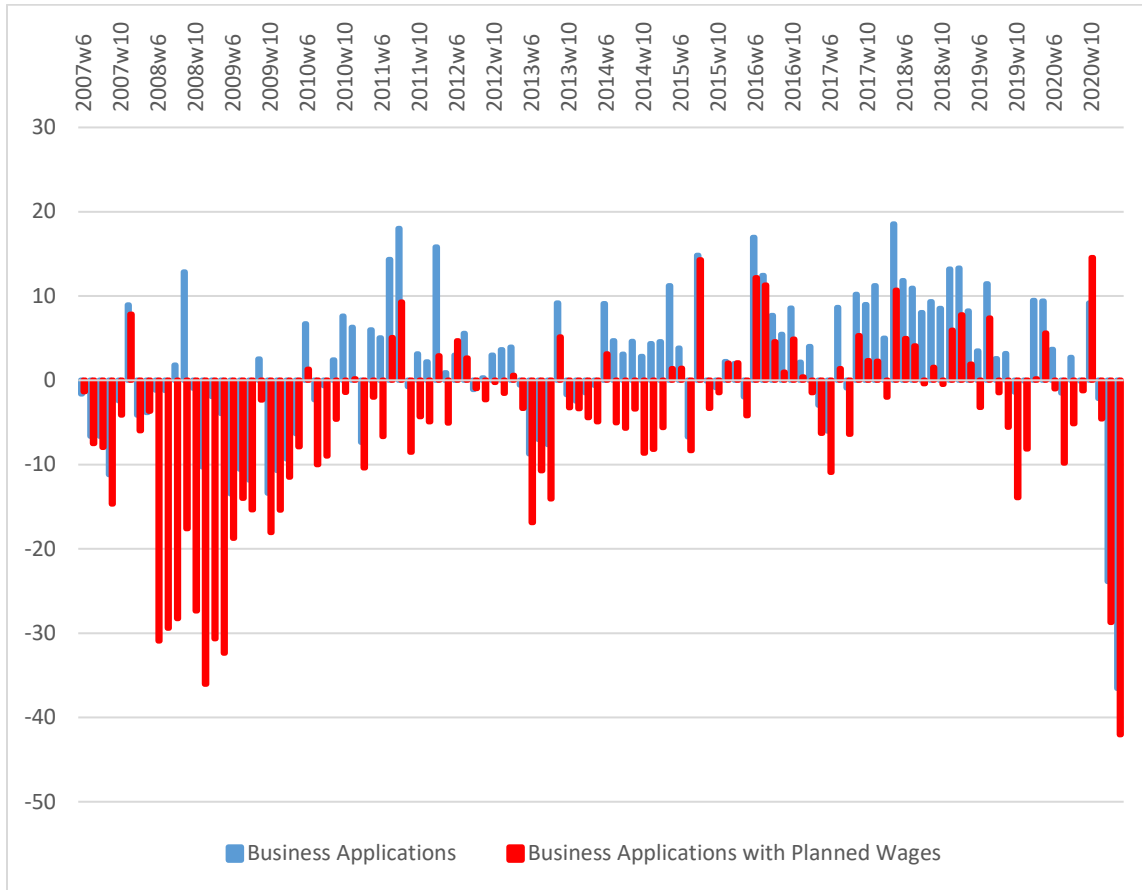
within the next four quarters. Relatedly new employer and young businesses have been shown to be a primary source of job creation in the U.S.

New business applications with planned wages contracted sharply during reference weeks 6-13 for a persistent period during the Great Recession. During that same period, overall applications declined less and recovered more quickly implying the primary decline during the Great Recession reflected applications for businesses that planned to hire workers. In the most recent two weeks in the second half of March 2020, both overall applications and applications for those that plan to hire workers declined sharply. The decline in the last week of March 2020 is larger than any other decline for these reference weeks from 2007 through 2020.

Figures 2-5 show the analogous patterns by Census region. The Northeast region exhibits the largest decline in the most recent week of 58% (on a year over year basis). The Midwest has a decline of 45%, the South a decline of 38% and the West a decline of 36%.

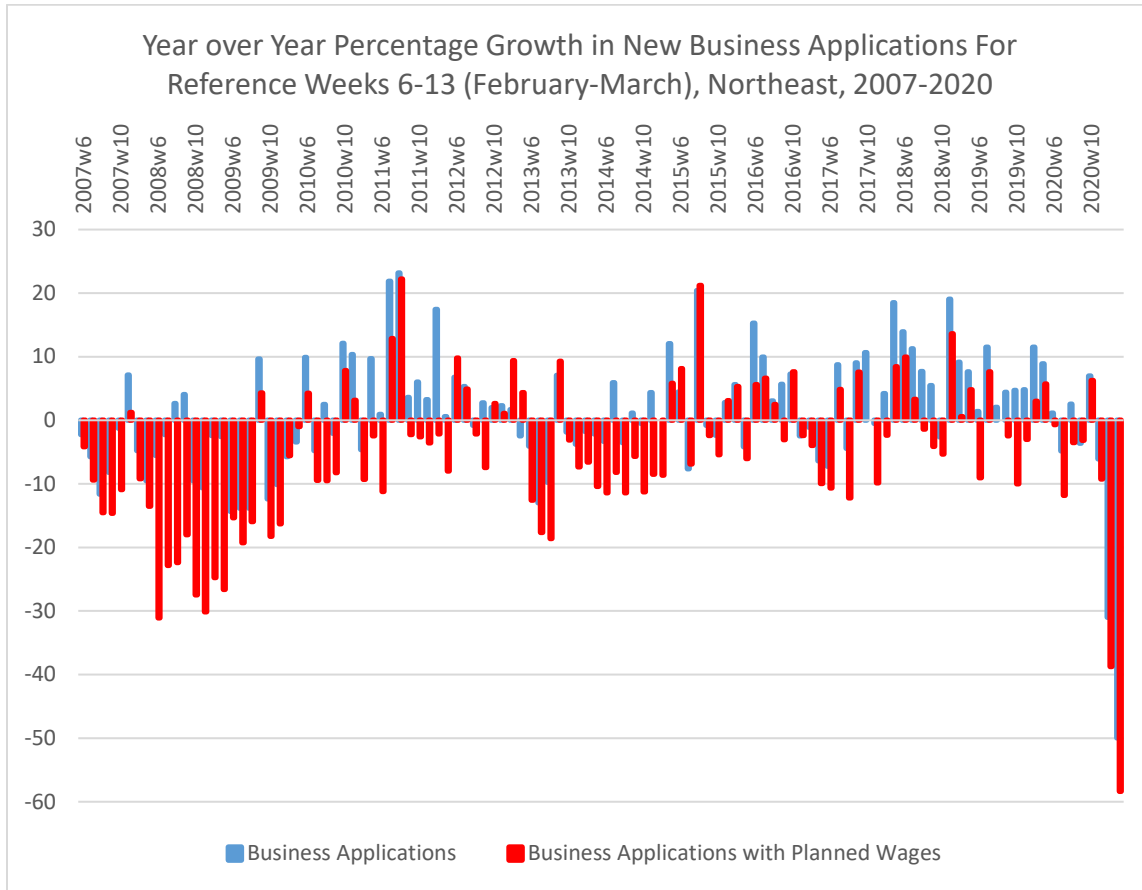
There has been much attention given to the substantial losses in jobs from layoffs in recent weeks. This is understandable given the magnitude and consequences of such layoffs. However, it is important to remember that net job creation reflects both hires and separations. A sharp decline in business startups has adverse implications for near term and longer term job creation. This new experimental data product should provide valuable and timely information about business formations.

Figure 1 Year over Year Percentage Growth in New Business Applications for Reference Weeks 6-13 (February-March), 2007-2020, National



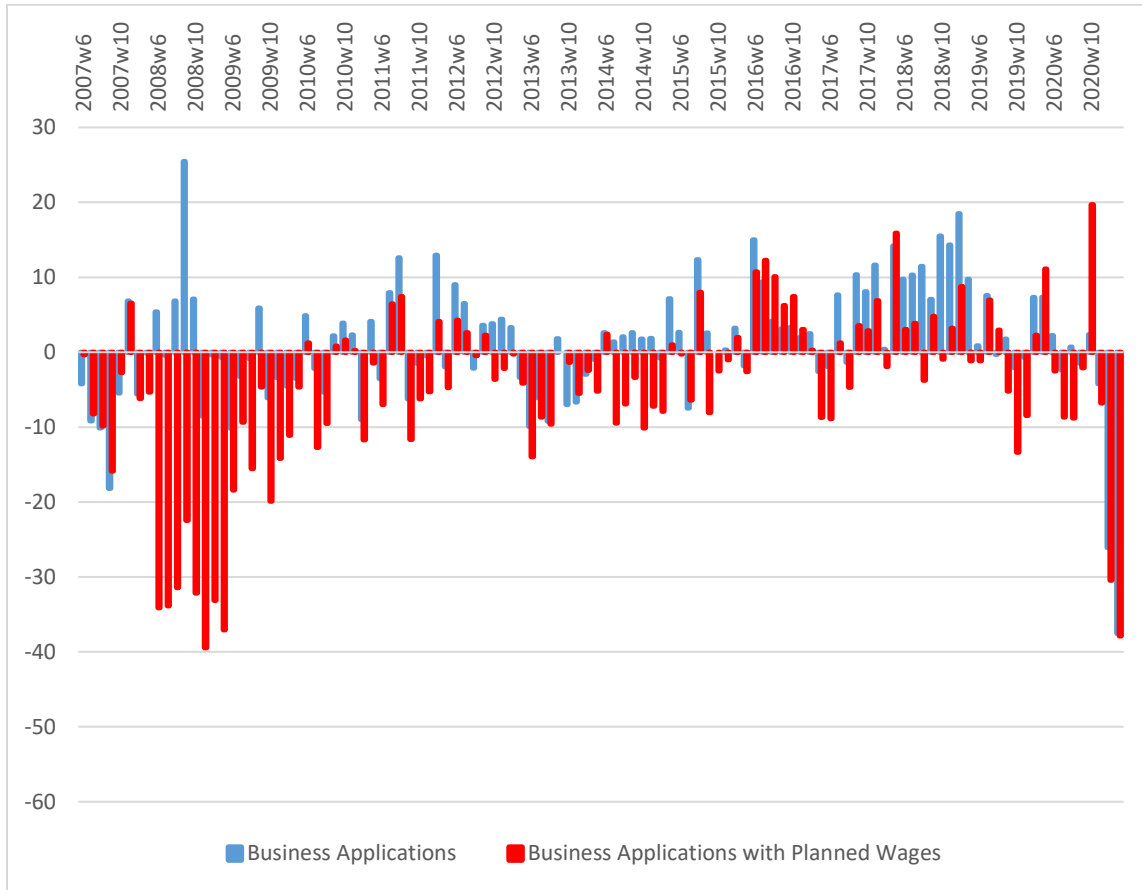
Source: BFS weekly.

Figure 2 Year over Year Percentage Growth in New Business Applications for Reference Weeks 6-13 (February-March), 2007-2020, Northeast Region



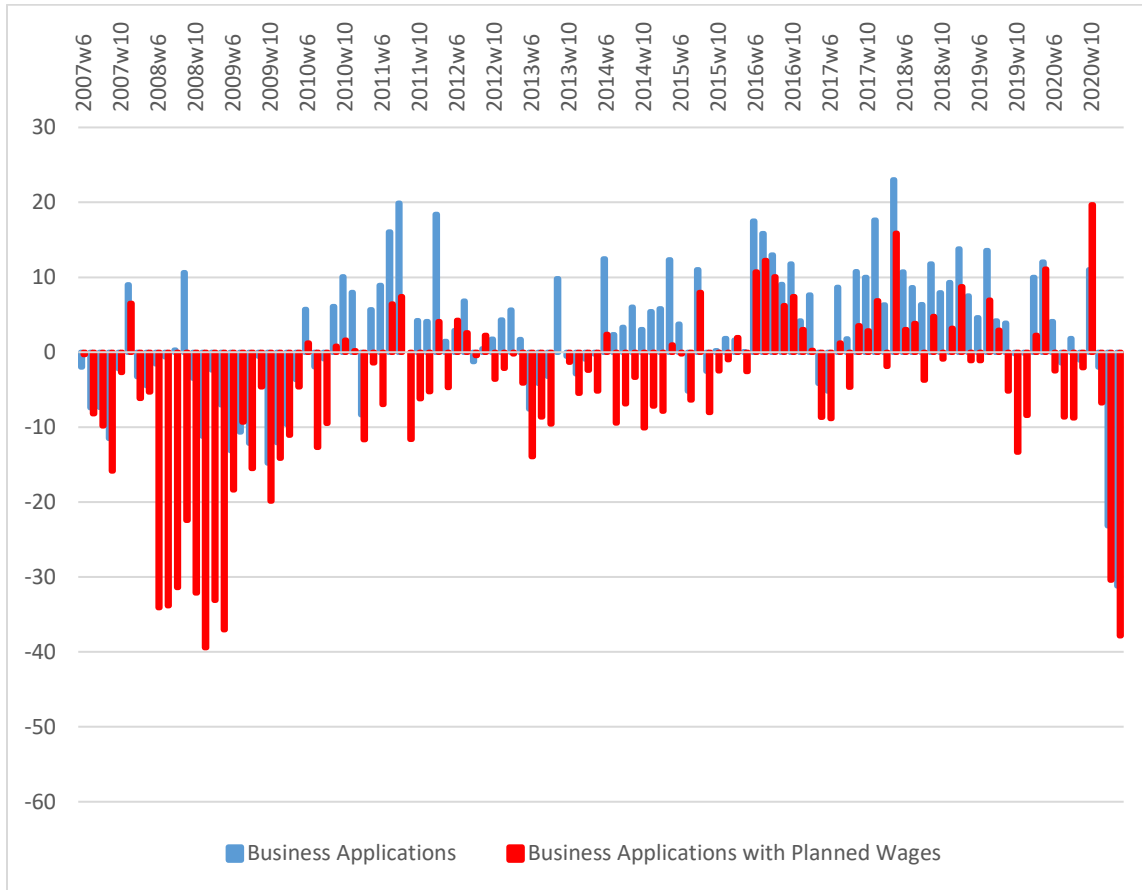
Source: BFS weekly.

Figure 3 Year over Year Weekly Percentage Growth in New Business Applications for Reference Weeks 6-13 (February-March), 2007-2020, Midwest Region



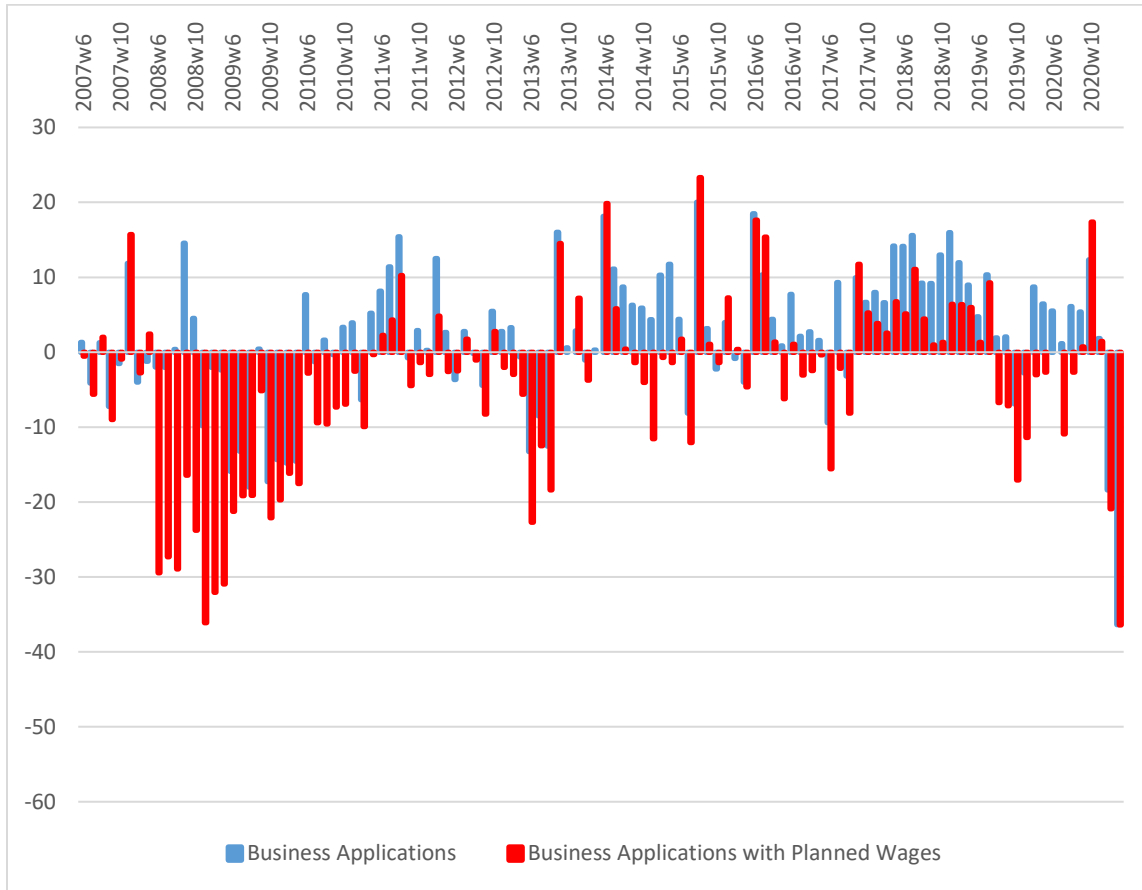
Source: BFS weekly

Figure 4 Year over Year Weekly Percentage Growth in New Business Applications for Reference Weeks 6-13 (February-March), 2007-2020, South Region



Source: BFS weekly

Figure 5 Year over Year Weekly Percentage Growth in New Business Applications for Reference Weeks 6-13 (February-March), 2007-2020, West Region



Source: BFS weekly