



# Business Exits During the Covid-19 Pandemic

**AYŞEGÜL ŞAHİN**

UT AUSTIN, NBER

FESAC PANEL

MEASURING BUSINESS EXITS & DEATHS

DECEMBER, 2021

# Measuring Business Exits



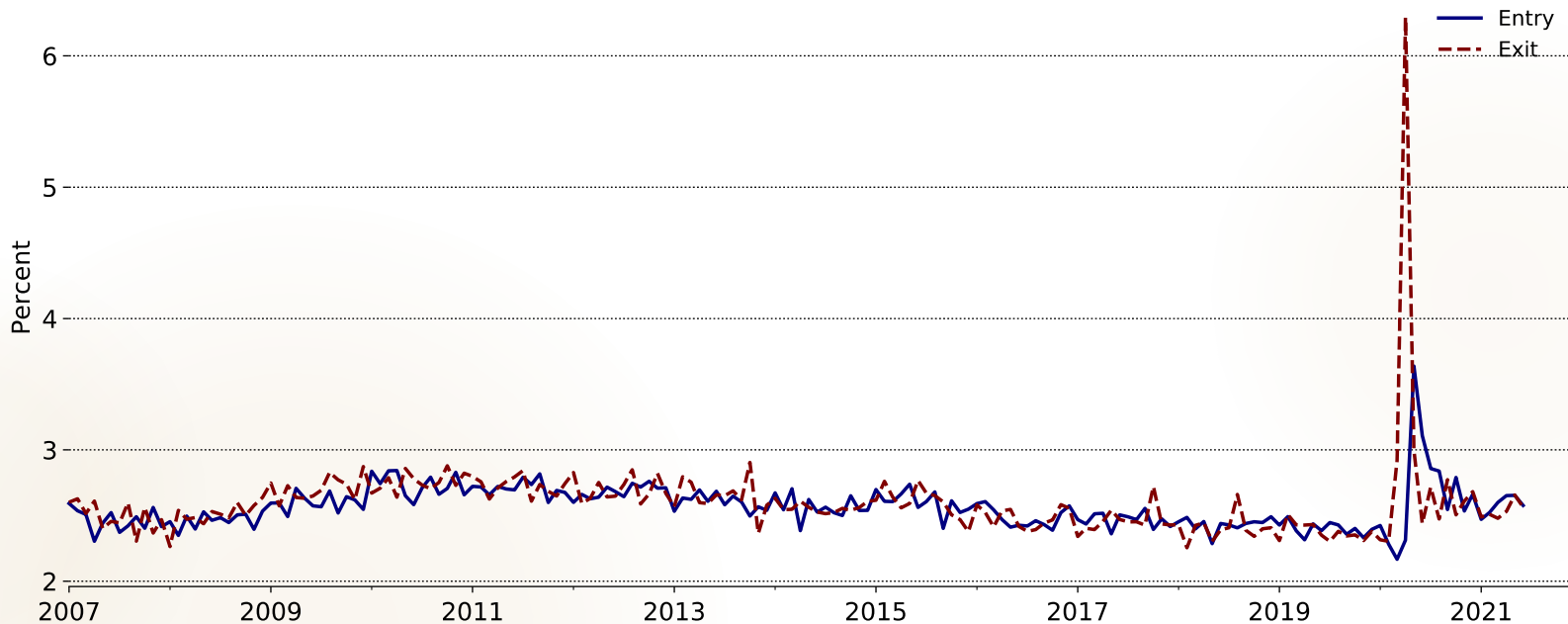
- ▶ Measuring business exits is always challenging but this difficulty has been accentuated during the pandemic
- ▶ Covid-19 pandemic characterized by sharp employment contraction, followed by quick recovery
  - ▶ Unemployment peaked at 14.7% but 4.2% today

# Labor Force Exit/Entry of Workers



## Labor Force Entry and Exit as a Share of the Population

Monthly observations; seasonally adjusted; percent of population; Total



Source: Bureau of Labor Statistics, CPS, and authors' calculations

### Analogy: labor force exit/entry

- ▶ Partial quick reversal but disruption created persistent decline in the participation rate
- ▶ Key to recovery in participation is improved labor market conditions (job-loss risk and job-finding rate)

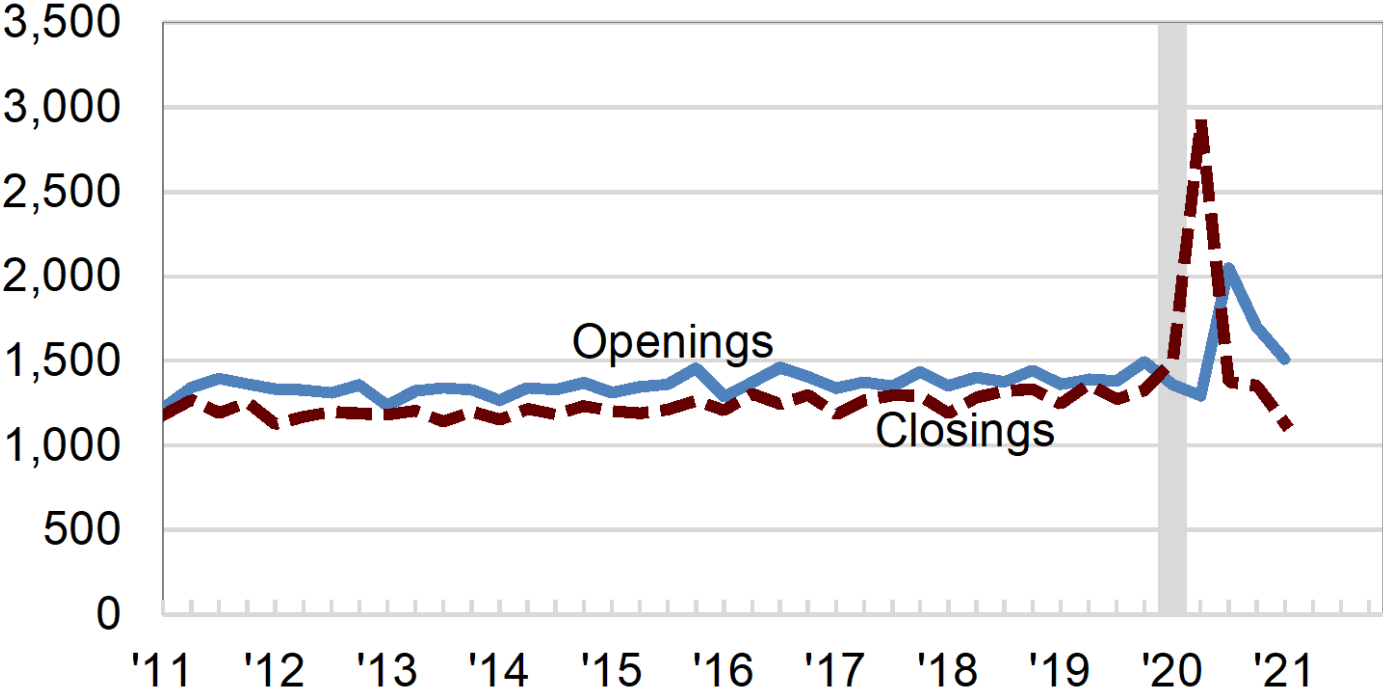
# Effects of *Excess Exits* on Employment

- ▶ Closure vs. death important issue but more of a static view
- ▶ Entry likely to respond as long as underlying demand recovers
- ▶ Evidence suggests entry likely to compensate for excess exits
  - New business applications initially declined but have sharply rebounded (Dinlersoz, Dunne, Haltiwanger, and Penciakova, 2021)
  - CPS measure of self employed
- ▶ Key to recovery is improved business conditions that would allow new business to survive and grow

# Business Employment Dynamics 2021Q1

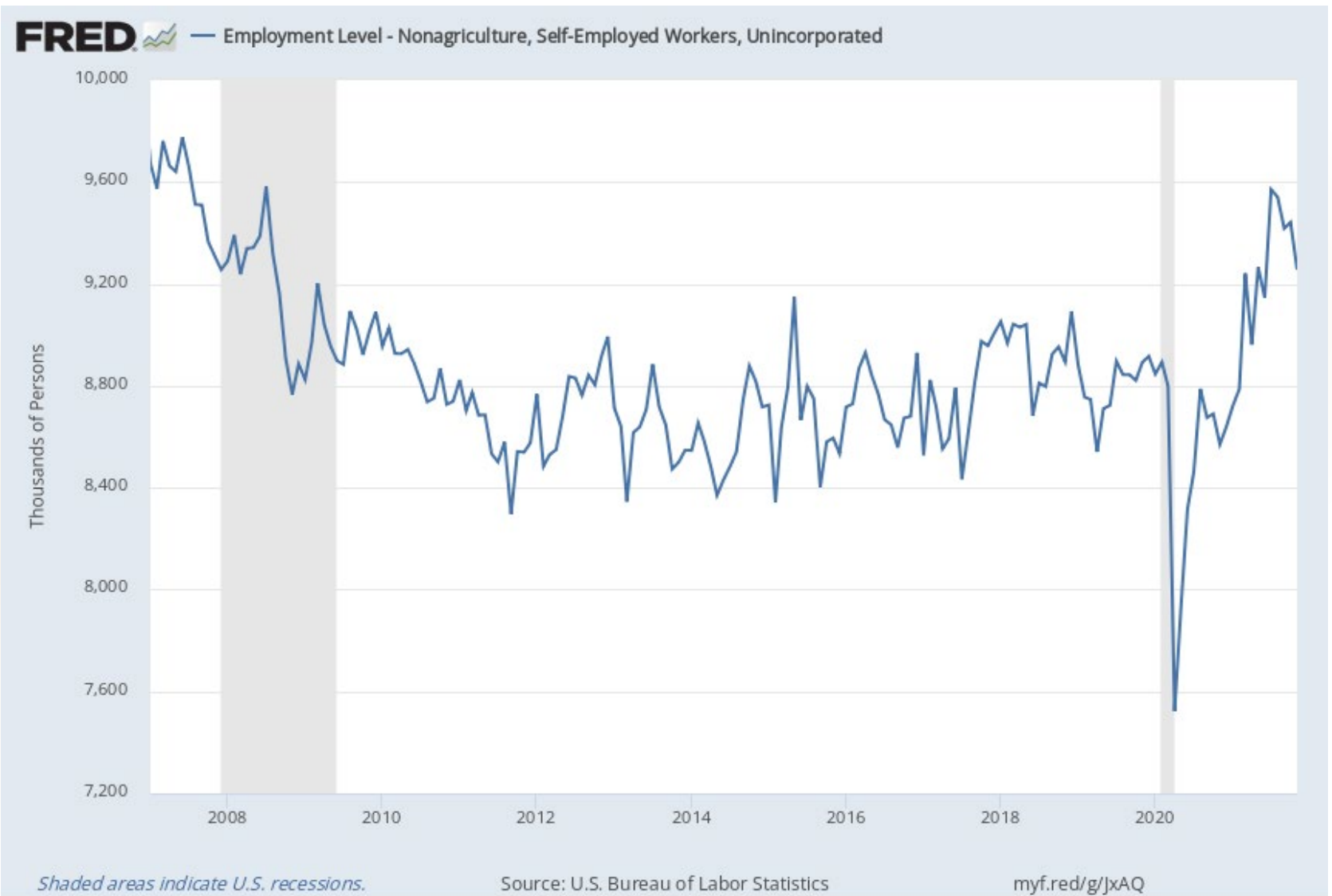
Chart 3. Private-sector gross job gains at opening establishments and gross job losses at closing establishments, seasonally adjusted: March 2011 - March 2021

Thousands



NOTE: Shaded area represents NBER defined recession period.

# CPS Measure of Self Employment



# Concluding Remarks



- ▶ Business entry important margin to watch to evaluate persistent effects of excess business exits
- ▶ Labor market conditions favorable for workers with high level of vacancies and wage growth
- ▶ Open question: effect of high wage growth on entrant firms' growth and survival rates