

Special Survey:

The Impact of COVID-19 on Businesses in the Eighth Federal Reserve District

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Disclaimer

This document summarizes comments received from contacts outside the Federal Reserve Bank of St. Louis. The views expressed are those of the authors and do not necessarily reflect official positions of the Federal Reserve Bank of St. Louis or Federal Reserve officials.

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Overview

About the survey

The Federal Reserve Bank of St. Louis has conducted a confidential survey of business leaders in the seven-state region of the Eighth Federal Reserve District. Respondents were invited by email to participate in this online survey. The information was collected between October 5 and October 21, 2020, and resulted in 141 responses.

This report offers findings of this survey. The questions were designed to capture the impact of COVID-19 on current and expected business activity; changes to operation and strategy; degree of financial distress; and expectations of future demand.

Given the voluntary nature of this survey, the distribution of responses was not expected to match the true distribution of establishments within the District. Responses generally reflect the true distribution of establishments by sector, establishment size, and geographic dispersion. Other sources of sampling bias are more difficult to measure. For example, firms may have closed for business and not completed the survey. The authors compared results of this survey with previous surveys across the Federal Reserve System that rely on recurring panels and could not identify if or how the results have been impacted by this type of bias.

Survey findings

Overall, the survey finds:

- Financial concerns are more widespread since firms were last surveyed in June. However, the severity of these concerns is diminished. For example, 82% of contacts reported being at least “somewhat concerned” about maintaining adequate cash flow during the next six months; this is up from 67% percent of firms in June. Conversely, 18% reported being “very concerned” about maintaining cash flow, which is down from 26% in June.
- Staffing levels are beginning to return to pre-crisis levels for many firms; however, one-third of firms (primarily in retail, restaurants, and hospitality) remain below pre-crisis levels. Among firms reporting difficulties rehiring workers (about half of all firms), the reasons were equality split between lack of childcare, employee health concerns, and expanded unemployment benefits.
- In the next six months, over half of businesses surveyed (58%) expect to increase marketing spending, and 46% intend to focus on improving customer/employee safety. Other actions cited by businesses include: increasing employment (40%), obtaining additional capital (33%), and developing online sales or websites (31%). Seven percent of firms expect to permanently close.
- There are vast disparities in the pace of economic recovery across sectors of the economy. Firms in the service sector affected by social distancing or reliant on business travel continue to report significant losses despite modest improvements in activity. Conversely, firms that produce or sell household durable goods, such as furniture and appliances, are reporting record demand.

Overall activity: Recent changes and future expectations

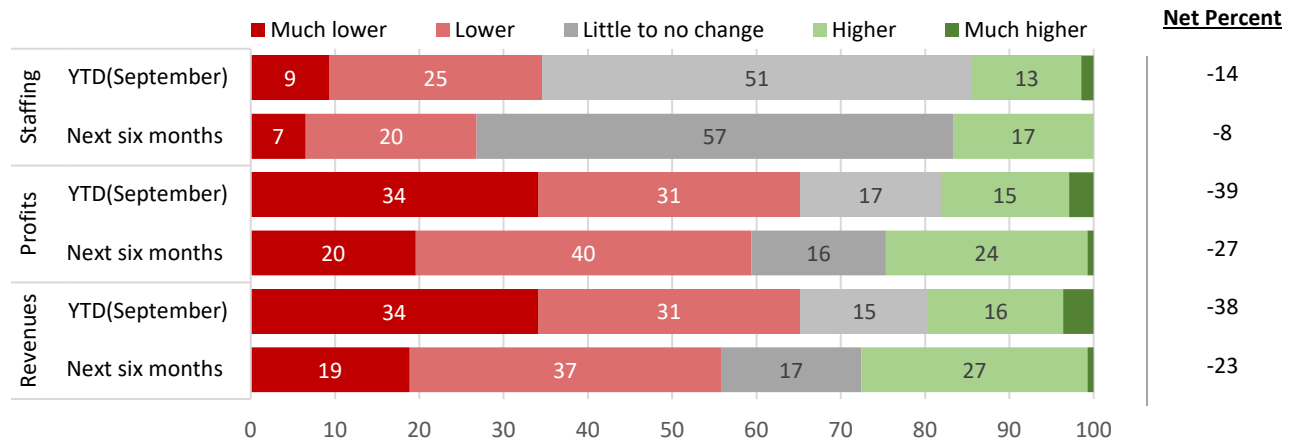
In this survey, we asked about overall business conditions year-to-date through September, as well as their expectation for the next six months, relative to the same periods last year.

Firms in some industries report employment returning to pre-crisis levels

More than half of respondents reported little to no change in full-time equivalent staff from pre-crisis levels. One-third of firms (primarily in retail, restaurants, and hospitality) remain below pre-crisis levels. Among firms reporting difficulties rehiring workers (about half of all firms), the reasons were equally split between lack of childcare, employee health concerns, and expanded unemployment benefits.

Two-thirds of respondents reported profits and revenues lower or much lower than pre-crisis levels. Over the next six months, many businesses expect profits and revenues to remain below levels seen one year ago but are slightly more optimistic about profits and revenues year-to-date.

Figure 1: Changes to revenues, profits, and full-time equivalent staff

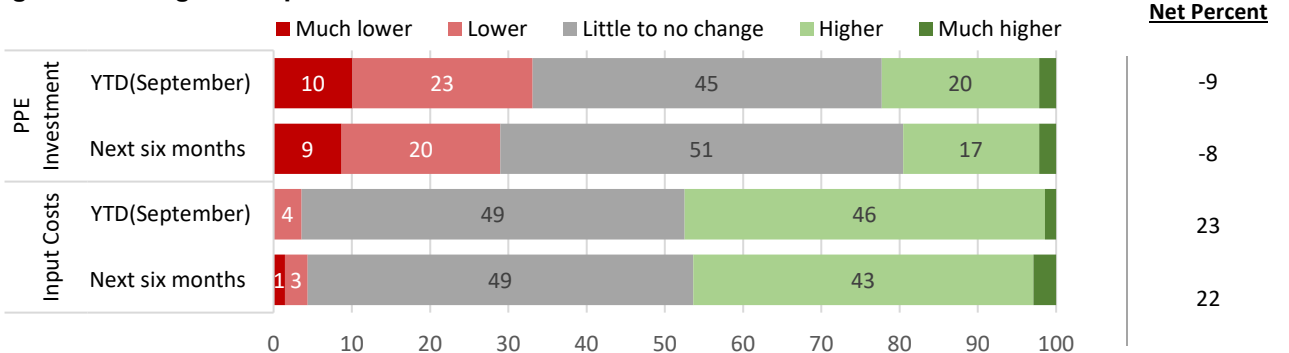


Survey indicates improving investment in plant, property, and equipment (PPE)

About half of firms indicated no change to PPE investment with about a quarter of respondents indicating higher or lower spending. This is a much more neutral response than in previous surveys, indicating businesses are investing and adapting to the environment.

Many respondents continue to report elevated input costs and expect this to continue through at least the next six months.

Figure 2: Changes to input costs and PPE investment



Surveys over time: Improving conditions and expectations

Survey results show improvement in overall conditions since April

Survey responses in April reported sharp declines in revenues and profits. Although still below pre-crisis levels, later surveys indicate both revenues and profits have improved significantly since the first survey. Similarly, firms reported sharp declines in investment into PPE during the first survey in April. Subsequent survey responses indicate capital spending remains depressed but improved from levels in April.

Respondents reported a moderate increase in input costs during our first survey in April and a further increase during our second survey in June. Responses from the current survey indicate input costs remain elevated and this is expected to persist through the next six months.

Figure 3: Net change in overall conditions by survey

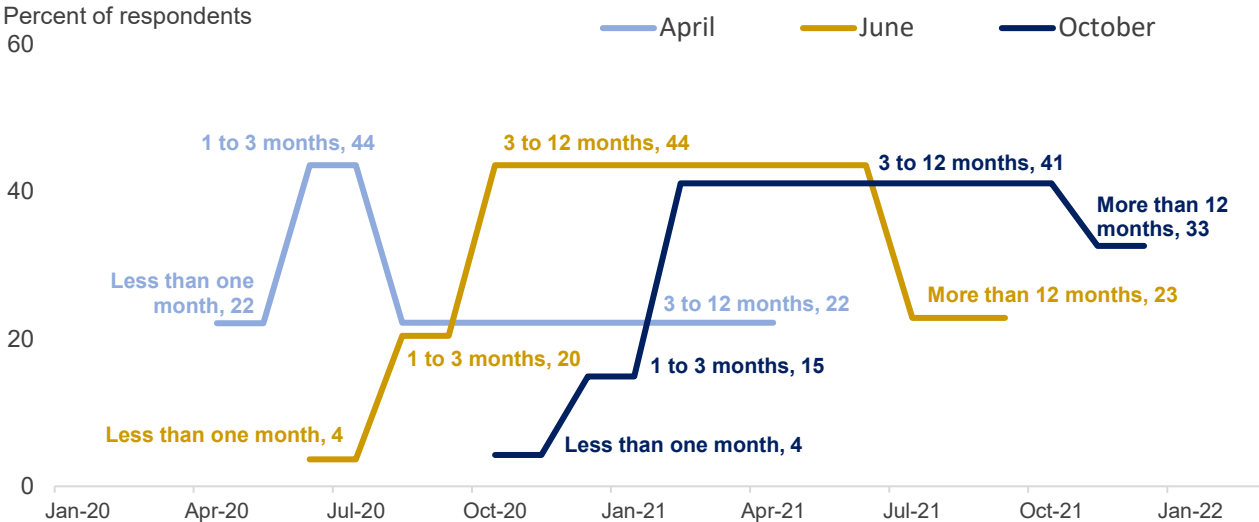
	Survey 1 (April)	Survey 2 (June)	YTD (September)	Next six months
Revenues	-71	-42	-38	-23
Profits	-72	-44	-39	-27
Input costs	14	24	23	22
PPE Investment	-58	-33	-9	-8
Staffing levels	NA	NA	-14	-8

Note: The net change is calculated as a sum of the weighted share of responses, where “lower” responses receive a negative weight and “higher” responses receive a positive weight.

Businesses expected financial position improves

In each survey, we asked businesses how long they could operate in the “current conditions” without exhibiting signs of financial distress. Many firms (19%) are concerned they could exhibit distress in less than three months, and an additional 40% may exhibit distress in 3 to 12 months. Most firms extended their horizon during which they could viably operate without experiencing financial distress between the April and June survey. Responses from the current survey are similar to the June survey, which indicates continued improvement in operating conditions. In June, nearly 25% of respondents expected distress in less than three months. In the current survey, the share of responses is roughly the same.

Figure 4: Timeline of financial distress by survey

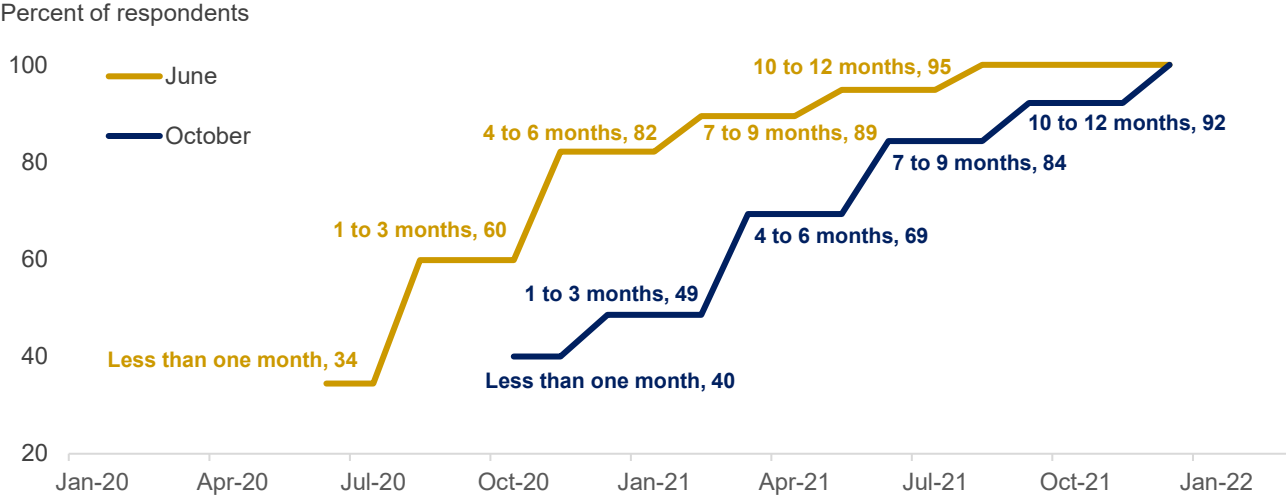


Pace of recovery

Firms report demand picking up slower than previously expected

More than a third (37%) of respondents indicated that demand has already picked-up, compared with about a quarter of respondents in the previous survey. However, in our June survey, about 60% of respondents expected demand to pick-up within three months. At the time of the current survey, that expectation has not been realized. The expected timeline for demand to pick-up has expanded since our previous survey in June.

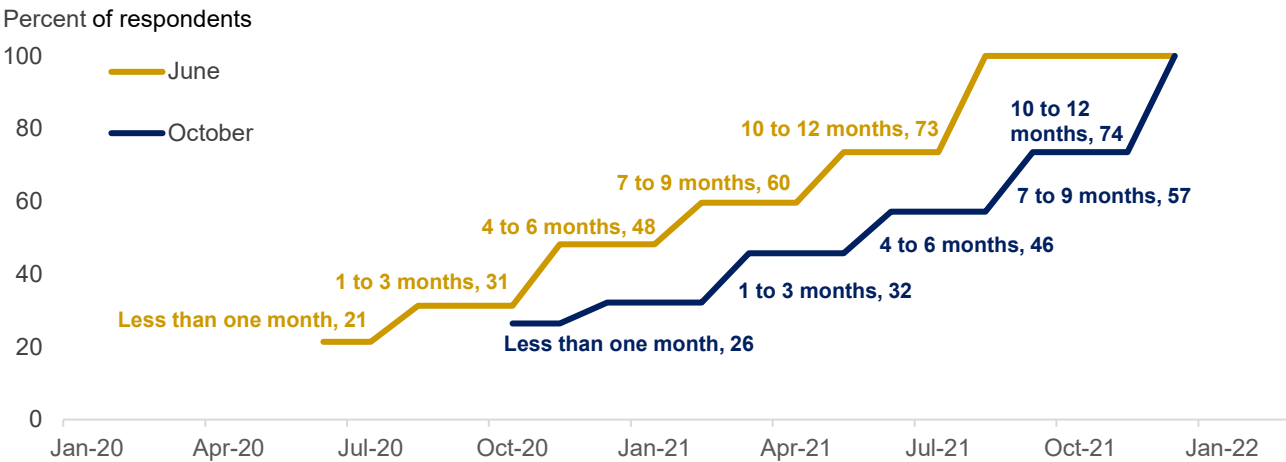
Figure 5: Expectations for when demand will begin to pick-up



Most firms expect slow, gradual return to pre-crisis demand

About a quarter of firms reported demand has already returned to pre-crisis levels, compared with 19 percent in the previous survey. The remaining firms expect a long, slow pace of recovery. More than half of respondents expect at least six months before demand returns to pre-crisis levels. Of that group, a quarter expect demand will return to pre-crisis levels in more than 12 months.

Figure 6: Expectations for when demand will return to pre-crisis levels

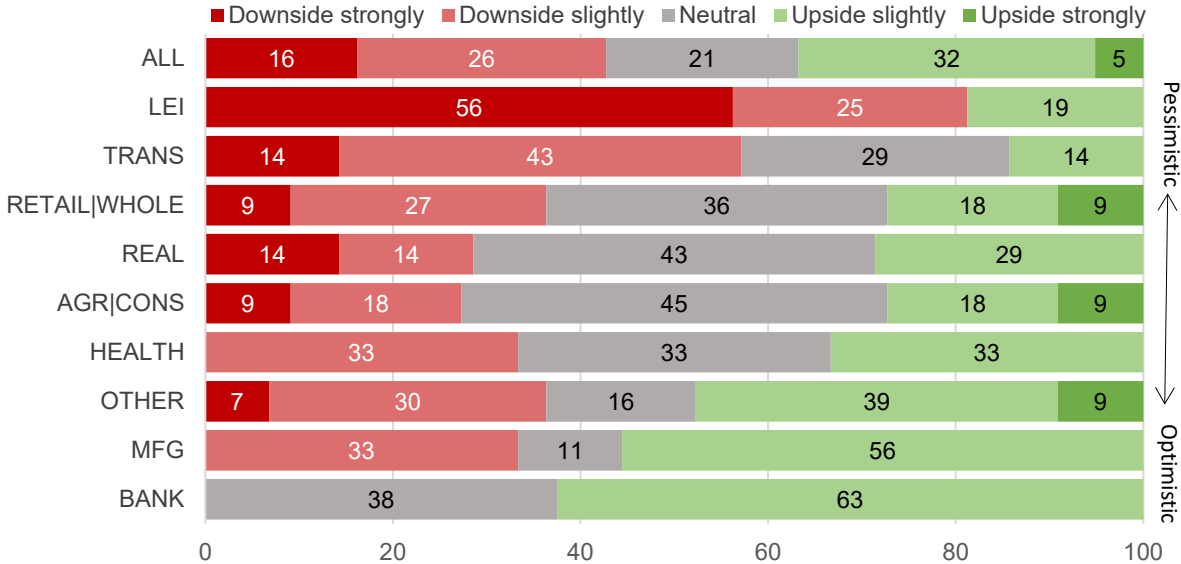


Looking forward: Outlook and actions in the next six months

Neutral outlook with significant variation across industries

Overall outlook of business contacts for the next 6 months is generally neutral, but there is considerable variation by sector. For example, 56% of leisure and hospitality firms see the risks to continued trends strongly to the downside and 25% slightly downside. Conversely, manufacturing contacts were generally optimistic, with 56% seeing risks slightly to the upside and 33% seeing risks slightly to the downside.

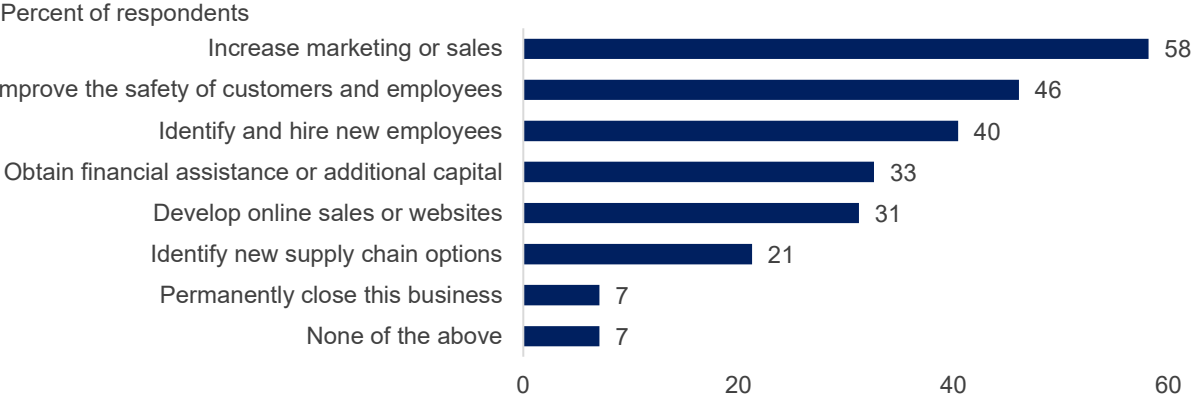
Figure 7: Business outlook for the next six months, by industry



Firms expect to increase marketing and focus on safety

In the next six months, over half of businesses surveyed (58%) expect to increase marketing spending, and 46% intend to focus on improving customer/employee safety. Other actions cited by businesses include increasing employment (40%), obtaining additional capital (33%), and developing online sales or websites (31%). Seven percent of firms expect to permanently close.

Figure 8: Expected actions in the next six months



Impact on business: Closures, availability, and pricing

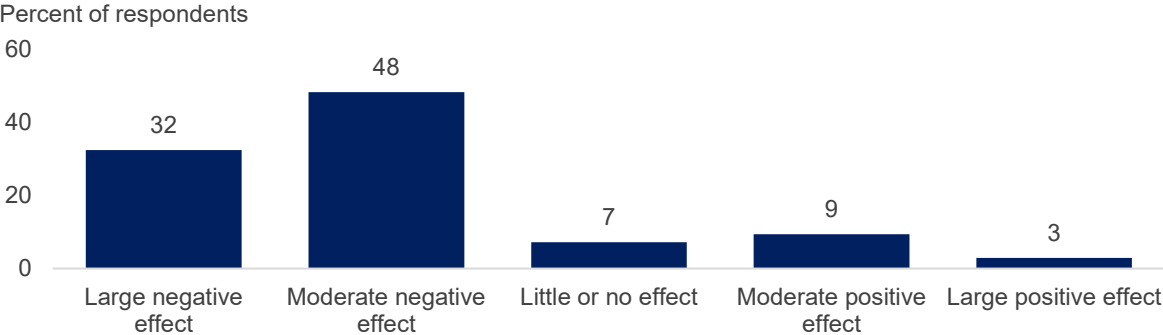
Most firms negatively impacted but some industries worse than others

Only one-third of respondents indicated they knew of a competitor that had gone out of business. However, a majority of respondents in the retail (80%) and leisure (75%) industries reported closure of a competitor. Agriculture, banking, real estate, and manufacturing reported the smallest share of closed competitors by industry.

There are vast disparities in the pace of economic recovery across sectors of the economy. Firms in the service sector affected by social distancing or reliant on business travel continue to report significant losses despite modest improvements activity. Conversely, firms that produce or sell household durable goods such as furniture and appliances are reporting record demand.

Roughly one-third of businesses reported a large negative impact from the pandemic, and an additional half reported a moderate negative impact. Twelve percent reported some positive effect.

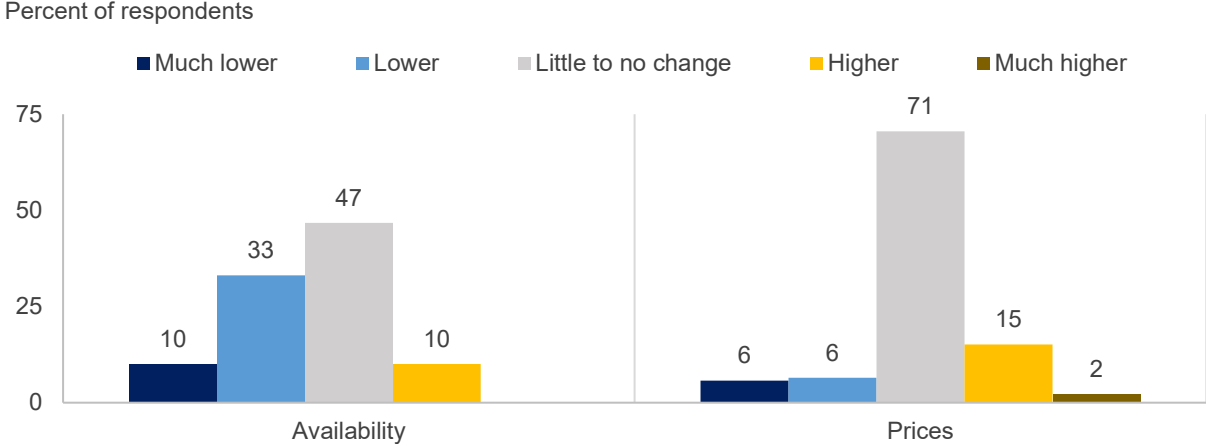
Figure 9: Overall impact of coronavirus pandemic



Businesses report somewhat lower availability with similar prices

One-third of firms indicated lower availability in primary products and services and an additional 10% indicated availability was much lower. Majority (71%) of firms also reported little to no change in prices. This trend is more pronounced in some sectors. For example, in the transportation industry, a majority of respondents indicated lower availability (86%) with higher prices (57%).

Figure 10: Availability and prices of primary products and services



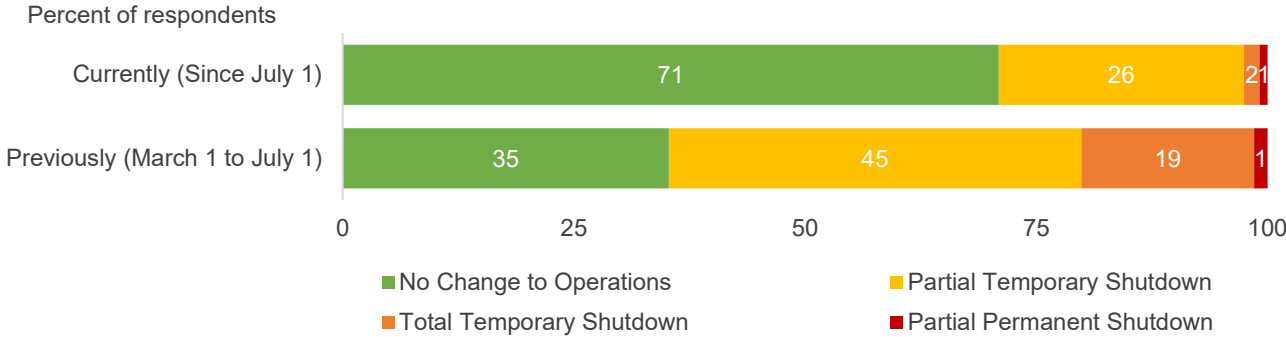
Change to operations

Majority of businesses currently operating without shutdowns

Respondents were asked about how their strategy has changed due to the current environment. Common themes include reducing non-essential costs to preserve working capital, pivoting products or target markets, and shifting toward digital platforms to continue providing services to customers.

Currently, since July 1, 71% of businesses indicated they are operating with no change to their operations, in comparison with only 35% of businesses between March and July. Further, about a quarter of businesses indicated they are currently operating with a partial temporary shutdown, down from 45% previously. Only 2% of businesses have a total temporary shutdown currently implemented, down from 19% previously.

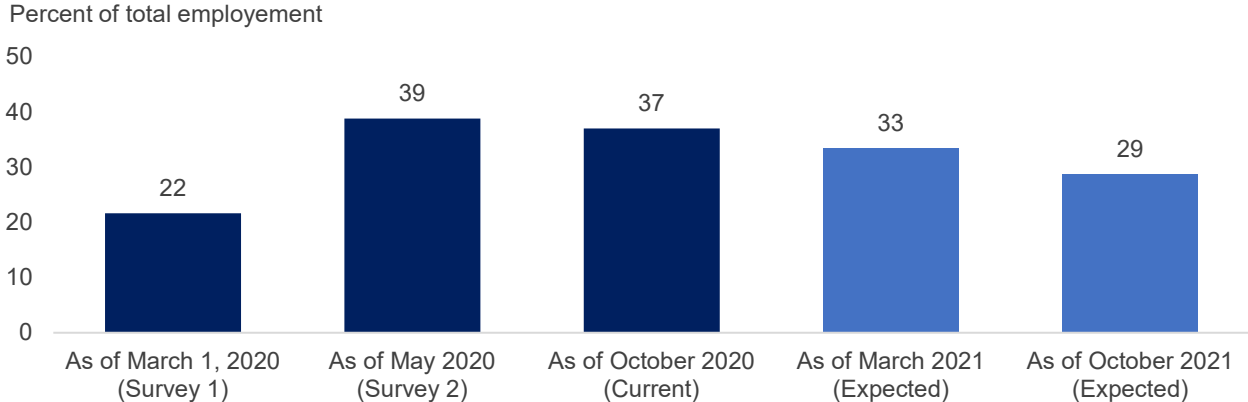
Figure 11: Change to business operations



Firms report a slowly declining share of telecommuters

While many firms continue with remote work, survey results indicate that the total share of workers telecommuting has declined slightly to 37% and is expected to slowly decline over the next 12 months to around 29%—still elevated from pre-crisis rates of telecommuting of around 5%. In some sectors, such as manufacturing and transportation, the share of workers working remotely is approaching pre-pandemic levels. In the leisure and hospitality sector, businesses expect the share of workers telecommuting to continue to increase over time.

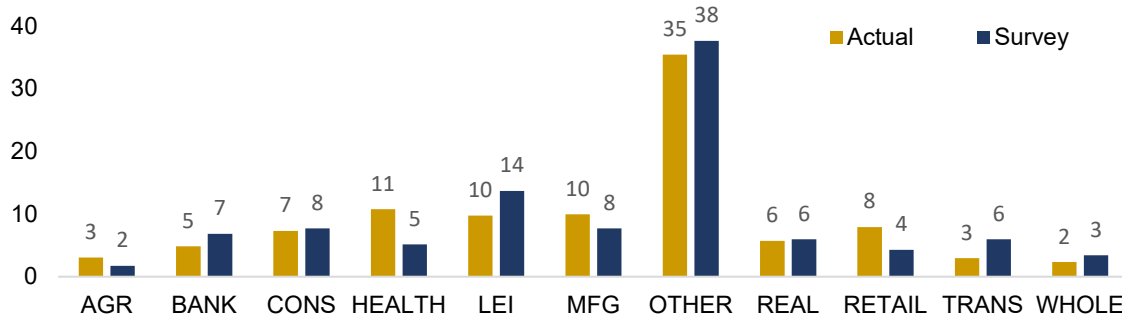
Figure 12: Estimated share of employees telecommuting



Sample characteristics

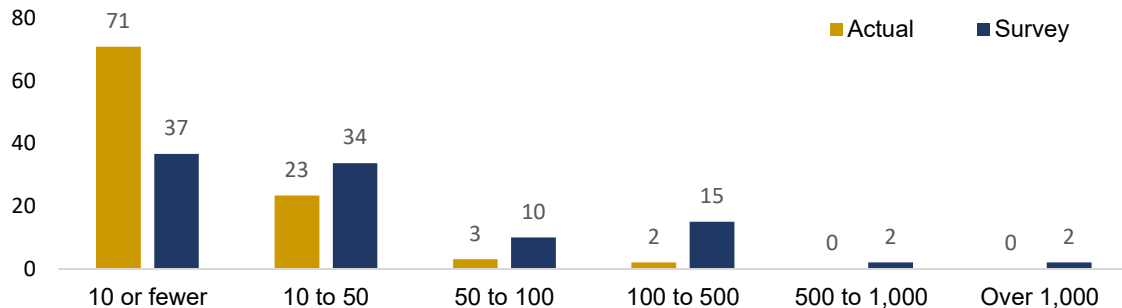
Because this was a voluntary survey, the distribution of responses by industry, firm size, and location was not expected to match the true distribution of establishments within the District. The figures below report the characteristics of the sample compared with actual data from the Census Bureau County Business Patterns database for 2017.

Figure 13: Industry distribution: actual and survey respondents



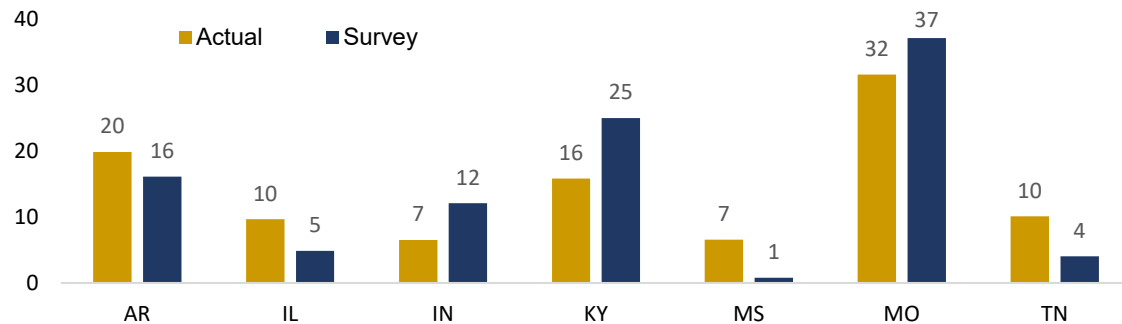
Notes: Values represent share of establishments by industry. Sectors are defined as the following (abbreviations and NACIS Codes): natural resources, utilities, and agriculture (AGR, 11, 21, 22); banking, finance, and insurance (BANK, 52); construction (CONS, 23); healthcare and education (HEALTH, 61, 62); leisure and hospitality (LEI, 71, 72); manufacturing (MFG, 31, 32, 33); other services (OTHER, 54, 51, 56, 81); real estate (REAL, 53); retail trade services (RETAIL, 44, 45); transportation and warehousing (TRANS, 48, 49); wholesale trade services (WHOLE, 42)

Figure 14: Establishment employment distribution: actual and survey respondents



Notes: Values represent share of establishments by size measured by employment.

Figure 15: Establishment location distribution: actual and survey respondents



Note: Values represent share of respondents by location, actual distribution is from the County Business Patterns database, 2017. Because we did not survey firms outside of the District, the actual values indicate the share of establishments by state only for the counties within the District.

Survey questionnaire

Preface

With so many changes that has occurred result of the coronavirus outbreak, it is more important than ever that we continue to hear about how your business is being affected in real time. This information is critically important to the Federal Reserve as we try to understand the expected path for the economy of the coming months and determine appropriate policy response. To that end, we would very much appreciate it if you could respond to the following brief survey.

The survey is comprised of two segments of questions. The first segment focuses on the change in business activity since the start of the pandemic. The second segment focuses on your plans/expectations over the next six months. Thank you for your time and assistance.

Your individual responses and contact information will be kept confidential and the survey results will be aggregated and compiled in a manner to preserve anonymity.

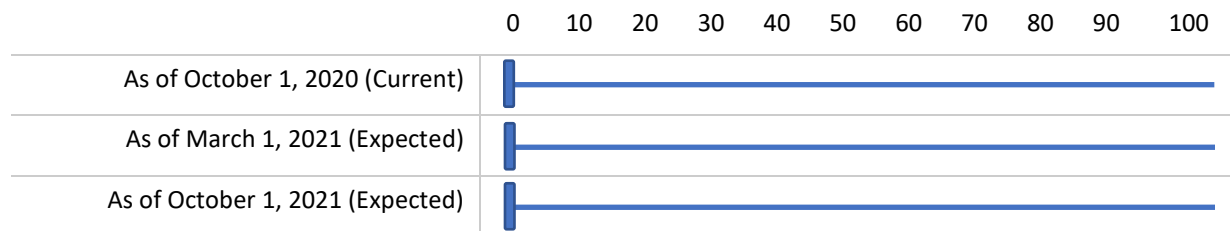
1. **Overall**, how would you describe the overall impact of the coronavirus pandemic on your business?

- Large negative effect
- Moderate negative effect
- Little or no effect
- Moderate positive effect
- Large positive effect

2. Has your business implemented a **partial or total shutdown** during given time frames? Select all that apply.

	Partial Temporary Shutdown	Total Temporary Shutdown	Partial Permanent Shutdown	Total Permanent Shutdown	No Change to Operations
Between March 1 and July 1 (Previously)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Since July 1 (Currently)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. What percent of your workforce is telecommuting (at least 3 days a week)?



4. Since the first week of March, how has your business **changed its primary products/services**?

	Much lower	Lower	Little to no change	Higher	Much higher
Availability of primary products/services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prices of primary products/services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. What is the percent change in each indicator for your business, **through the end of the September** (year to date) relative to the same period last year?

	Much lower	Lower	Little to no change	Higher	Much higher
Revenues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Staffing Levels (full-time equivalent)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Average costs of materials or inputs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment in plant, property and equipment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Revenues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Preface:

The next question asks about expectations over the "next six months". Please consider the period beginning October 2020 ending in the first week in March 2021. We understand many firms were significantly impacted in March 2020, which can make year over year comparisons difficult to interpret. We are primarily interested expectations for 2021 relative to the pre-pandemic period in 2019-20.

6. What is the expected percent change in each indicator for your business **over the next six months** relative to the same period one year ago?

	Much lower	Lower	Little to no change	Higher	Much higher
Revenues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Staffing Levels (full-time equivalent)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Average costs of materials or inputs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment in plant, property and equipment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Revenues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7. How concerned are you about the ability to deal with each of the following **over the next 6 months**?

	Not at all concerned	Somewhat concerned	Concerned	Very concerned
Maintaining adequate cash flow	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Incurring excessive debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Collecting payables from customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Getting adequate credit from suppliers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Maintaining Solvency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Maintaining adequate cash flow	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. **Over the next six months**, what is the outlook for your business?
- Downside strongly
 - Downside slightly
 - Neutral
 - Upside slightly
 - Upside strongly
9. **In the next six months**, do you think this business will need to do any of the following? Select all that apply.
- Obtain financial assistance or additional capital
 - Identify new supply chain options
 - Develop online sales or websites
 - Increase marketing or sales
 - Learn how to better provide for the safety of customers and employees
 - Identify and hire new employees
 - Permanently close this business
 - None of the above
10. When do you expect demand for your product/services (revenue/sales) to **return to pre-crisis levels**?
- Less than one month
 - 1 to 3 months
 - 4 to 6 months
 - 7 to 9 months
 - 10 to 12 months
 - More than 12 months
 - Demand has already picked up
 - Demand never slowed down
11. When do you expect demand for your product/services (revenue/sales) to **begin to pick up**?
- Less than one month
 - 1 to 3 months
 - 4 to 6 months
 - 7 to 9 months
 - 10 to 12 months
 - More than 12 months
 - Demand has already picked up
 - Demand never slowed down

12. Is your business's operating capacity affected by any of the following? Select up to three.

- Lack of customer demand
- Insufficient cash on hand or access to capital
- Supply chain shortages
- Shortage of PPE or cleaning supplies
- Social distancing limiting space for employees
- Social distancing limiting space for customers
- Inability to rehire workers due to lack of childcare
- Inability to rehire workers due to employee health concerns
- Inability to rehire workers due to expanded unemployment benefits
- Inability to rehire workers due to fear of infection
- Ability of employees to work from home
- Other (Please describe)_____

13. How many months (from today) could your firm operate in the current environment before exhibiting financial distress (i.e., low cash balance, additional credit required, lack of materials/supplies)?

- Less than one month
- 1 to 3 months
- 3 to 6 months
- 6 to 9 months
- 9 to 12 months
- More than 12 months
- Don't know/Unsure

14. Do you know of a competitor that has gone out of business due to the coronavirus outbreak?

- Yes
- No

15. How has your business strategy changed due to the coronavirus outbreak?

16. What is your firm's primary industry? (Select one only)

- Agriculture
- Banking and Finance - Commercial
- Banking and Finance - Investment
- Construction
- Education
- Healthcare
- Manufacturing
- Nonprofit or community organization
- Real Estate - Commercial
- Real Estate - Residential
- Restaurant
- Retail - Auto Dealer
- Retail - General
- Retail - Specialty
- Services
- Technology
- Tourism and/or Recreation
- Transportation / Logistics
- Wholesale
- Other (Please Describe) _____

17. Q22 How many employees (full-time equivalent) work at your firm (all locations) as of March 1?

- 10 or fewer
- 10 to 50
- 50 to 100
- 100 to 500
- 500 to 1,000
- Over 1,000

18. What was your firm's annual revenue last year?

- Less than \$10 million
- Between \$10 million and \$50 million
- \$50 million to \$250 million
- \$250 million to \$500 million
- \$500 million to \$1 billion
- Over \$1 billion

19. Which statement best describes your title/position at your firm?

- Owner
- President/CEO
- Senior Officer/Director (CFO, COO)
- Vice President/Senior Management
- Other (please describe) _____

20. Please enter the primary location of your firm.

- State Abbreviation (MO) _____
- Zip code _____

21. If you are willing to be contacted by an economist from the Federal Reserve Bank of St. Louis to discuss current business conditions or participate in future surveys, please enter your contact information below.

- Name _____
- Email _____
- Phone _____

22. Comments: Please comment on any business-related issues

Endnotes

Survey data filtered to exclude responses with less than 50% completion rate.