

Missouri Economy Indicators

Small Business Financial Health

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Published in September 2020, Issue 14 of the Missouri Economy Indicators series' first volume looked at small business financial health as indicated by cash on hand and other measures from the U.S. Census Bureau's Small Business Pulse Survey.¹ It showed small businesses' cash on hand was low in spring 2020 — at the height of initial COVID-related disruptions — but cash on hand increased greatly during the summer months. This Missouri Economy Indicators issue explores how financial health has changed in recent months.

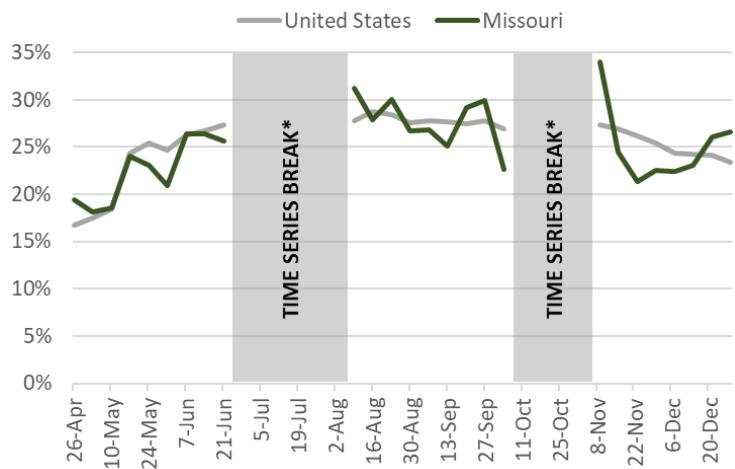
Cash Availability Dropped

As a general rule, businesses should have three to six months' worth of cash on hand.² The proportion of small businesses with this level of cash availability dropped from summer throughout late 2020. For Missouri, this metric hit a fourth-quarter low of 21% — 5 percentage points to 10 percentage points lower than third-quarter levels. However, in December, this metric rose again to nearly third-quarter levels.

The U.S. overall followed a similar pattern. As of late December, 24% of U.S. businesses reported having at least three months of cash on hand. Mirroring Missouri, this was down about 5 percentage points since summer. However, unlike Missouri, U.S. numbers continued to fall throughout the fourth quarter.

Three Months or More Cash on Hand

Week of April 26 to week of Dec. 28; percent of small businesses with at least three months of cash on hand



*The survey has not run continuously; two breaks in reporting have occurred
Data Source: U.S. Census Bureau Small Business Pulse Survey

Financial Assistance Needs Rose

Missouri also has been positioned better than the collective U.S. with respect to other financial health indicators. Roughly 5% of U.S. small businesses expected to permanently close within the next six months, according to the December pulse survey, and 3% of Missouri small businesses said the same. One-third of U.S. small businesses reported they will need financial assistance or additional capital in the next half year, but only 27% of Missouri small businesses said the same.

The proportion of small businesses that expected to close permanently at both the U.S. and state levels did not change from the levels reported in the September Missouri Economy Indicators issue. However, the proportion of small businesses needing financial assistance rose drastically. In early September, 17% of Missouri small businesses and 23% of U.S. small businesses reported they would need financial assistance within the next six months. These numbers were 27% and 33%, respectively, as of December — an increase of

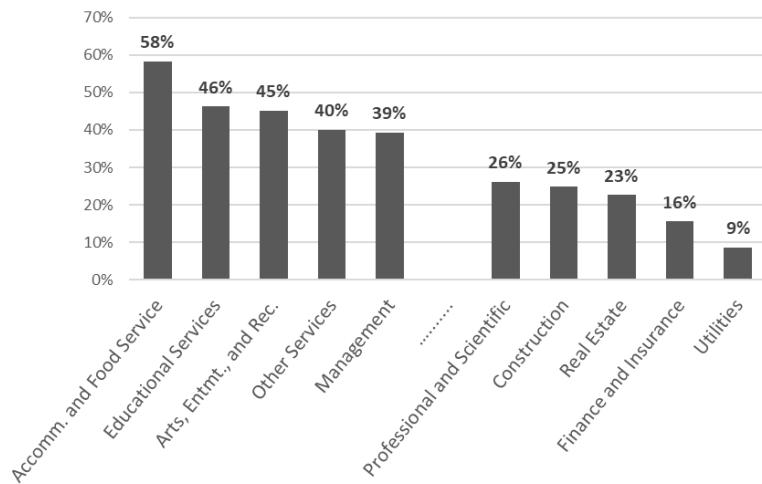
10 percentage points at both the state and national levels. These findings illustrate that many small businesses had a more precarious financial position at the end of 2020 relative to earlier in the year.

Financial Health Differed Across Industries

The three industries reporting the highest levels of financial distress as of late December were *Accommodation and Food Service; Educational Services; and Arts, Entertainment and Recreation*. Of the U.S. small businesses in these industries, 58%, 46% and 45%, respectively, reported that they anticipated needing financial assistance or supplemental capital in the next six months. Unsurprisingly, critical infrastructure-related industries, such as *Construction* and *Utilities*, and industries where work can easily move online, such as *Finance and Insurance* and *Professional and Scientific Services*, were among those reporting lower levels of financial distress.

Proportion of Firms Anticipating Financial Assistance Needs

Over the next six months, by industry. As of Dec. 28



Data Source: U.S. Census Bureau Small Business Pulse Survey

Additional Resources

- The **U.S. Chamber of Commerce's Jan. 5 Small Business Update** provides information on the \$900 billion Coronavirus Preparedness and Response Supplemental Appropriations Act passed in December. The act includes many programs aimed at helping small businesses. Find this resource at uschamber.com/co/events/small-business-update-town-hall/stimulus-employee-retention-tax-credit-ppp-update
- **Forbes** has published several articles to help small business owners make sense of the new stimulus bill. One outlines five ways the stimulus bill may help small businesses. Access it at forbes.com/sites/allbusiness/2021/01/02/5-ways-the-new-stimulus-bill-may-help-your-small-business/?sh=5784e0ab6ae9

Sources

1. U.S. Census, Small Business Pulse Survey (SBPS). 2021. Accessed at <https://portal.census.gov/pulse/data/#data>
2. Worth, Joe. 2014. "How Much Cash on Hand Is Too Much? And What Should I Do With It?" *Entrepreneur*. Accessed at <https://www.entrepreneur.com/article/230204>

All briefs in the economy indicators series and future updates will be available at tinyurl.com/ExceedEconomyIndicators

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