THE WALL STREET JOURNAL.

Chris Mittelstaedt, the founder and CEO of a fruit and snack delivery service called The FruitGuys, in South San Francisco, Calif., on Tuesday. MARISSA LESHNOV FOR THE WALL STREET JOURNAL

By
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Chris Mittelstaedt successfully navigated his San Francisco Bay Area fruit and snack delivery business through the dot-com bust, the 2008 financial crisis and the first few months of the economic ravages of the coronavirus pandemic.

But, along with many of America's small-business owners, his hopes for a quick economic recovery have been dashed. Surging Covid-19 cases in many parts of the country and fears of additional outbreaks are forcing him to face a longer-term financial crisis. This month, Mr. Mittelstaedt laid off nearly half of the 163 workers at The FruitGuys.

"I was in tears…I spent every day for 22 years of my professional life building a family business with people I love," the 51-year-old said shortly after the layoffs. "I either have to lay people off so I have a shot at hiring people back when we recover, or end up bankrupting the company."

Small businesses such as restaurants, dog-care centers and manufacturers brought back staff beginning in mid-April, believing they could get back to business. Now, many are shutting down or slashing jobs again as local officials and consumers pull back and the pandemic shows no signs of abating.

Beyond merely depressing sales, the crisis has uprooted the ways people work, learn, relax and consume. More than 142,000 people in the U.S. have died, and the continued spread of the virus means people's habits have mostly not reverted—and questions remain over whether or when they ever will.

More government support may help in the short-run, but many business owners are facing make-or-break challenges. Many may not last.

Businesses are entering this phase just as many are exhausting their rescue funds from the federal Paycheck Protection Program, a $670 billion coronavirus stimulus measure launched in April to offer loans to small firms.

Senate Republicans are in discussions about new economic bailout measures. Aid could include reimbursements to workplaces for purchasing personal protective equipment, administering coronavirus tests and cleaning or remodeling facilities, as well as modifications to the PPP lending program. An agreement is expected within weeks.

An estimated 1.85 million U.S. businesses closed their doors or temporarily suspended operations in the second quarter, according to Oxxford Information Technology Ltd. in Saratoga, N.Y., which tracks roughly 32 million U.S. businesses of all sizes using data from credit bureaus, surveys and government sources.

Raymond Greenhill, Oxxford's president, forecasts that total losses this year will be greater than in the last recession, when 20%, or roughly 4.5 million businesses, disappeared in just over a year. He added that some of the losses will be offset by new business formation.

Mr. Greenhill said small firms are especially vulnerable now and will account for most of the losses. He said most lack the working capital to survive the downturn or to meet customer needs when the economy recovers. He added that it's more difficult for young businesses and for other businesses that entered the year in weak financial shape to tap funding from banks and other sources.

As states eased restrictions in May and June, spending at small businesses—which commonly offer in-person services—recovered more slowly than in the rest of the economy, according to Womply, a data and technology company with 500,000 small-business customers, mostly in the food and beverage, retail, health and beauty and automotive services sectors.

Small businesses that rely less on face-to-face interactions have been less vulnerable. Data from Gusto, a small-business payroll provider, shows that weekly headcount growth had by mid-July returned to pre-pandemic rates. Gusto's data are based on 100,000 small businesses nationwide, skewing slightly toward firms in white-collar businesses such as technology and legal services.

Sales at The FruitGuys were on track to top $40 million or so this year but plunged by 90% in March as offices and schools shut. The company received a nearly $1.7 million PPP loan.

Those funds are now gone. The company has rolled out a home-delivery service and organized deliveries to hospital employees, but sales remain well below pre-pandemic levels.

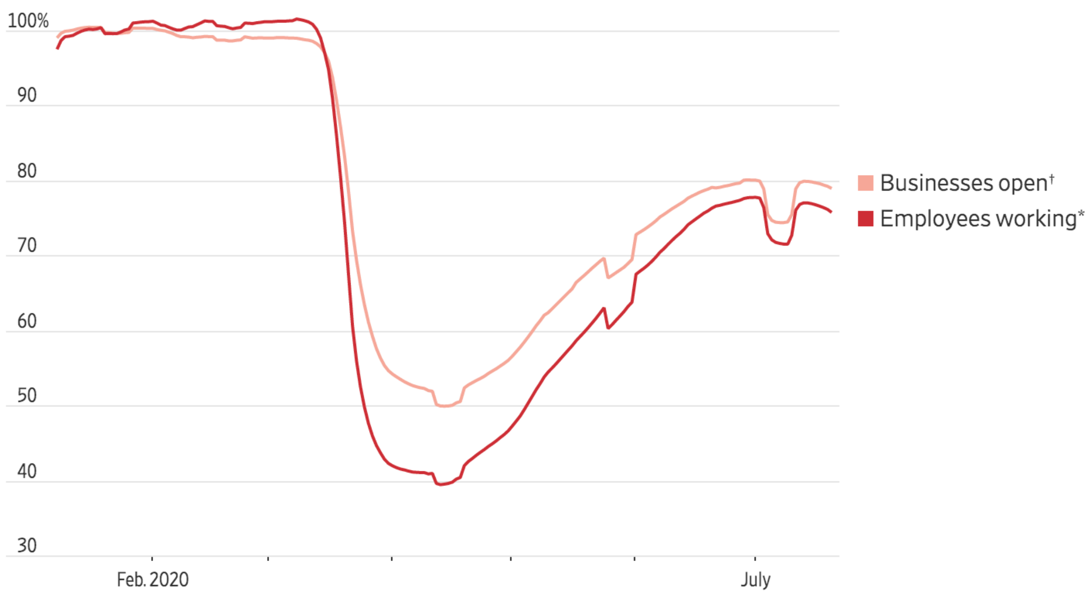
"We worked as hard as we could to bring business through the door, but the money ran out before the economy was able to catch up with it," said Mr. Mittelstaedt, who worries it could take two years for sales to fully recover. The FruitGuys' founder and chief executive stopped taking a salary in February.

Above, FruitGuys foreman Rafael Garcia prepared orders. Below, staff at the warehouse, which before the pandemic supplied fruit to offices and schools.
PHOTO: MARISSA LESHNOV FOR THE WALL STREET JOURNAL

The mounting strain on small businesses is evident in data from hourly workers, which have shown signs of weakening after steady gains from mid-April lows.

Just two-fifths of [small-business employees who had worked in January were logging hours in early April](), according to Homebase, a provider of scheduling and time management software. The roughly 500,000 employees it tracks are mostly hourly workers in restaurants, retailers, hair salons and other Main Street businesses.

Small-business employees working, and locations open, as a share of average January levels



*Based on the distinct number of hourly workers with at least one clock-in. †Reflects whether a business had at least one employee clock-in. Note: Seven-day moving average. Employees tracked are mostly hourly workers, primarily in service-sector businesses.
Source: Homebase

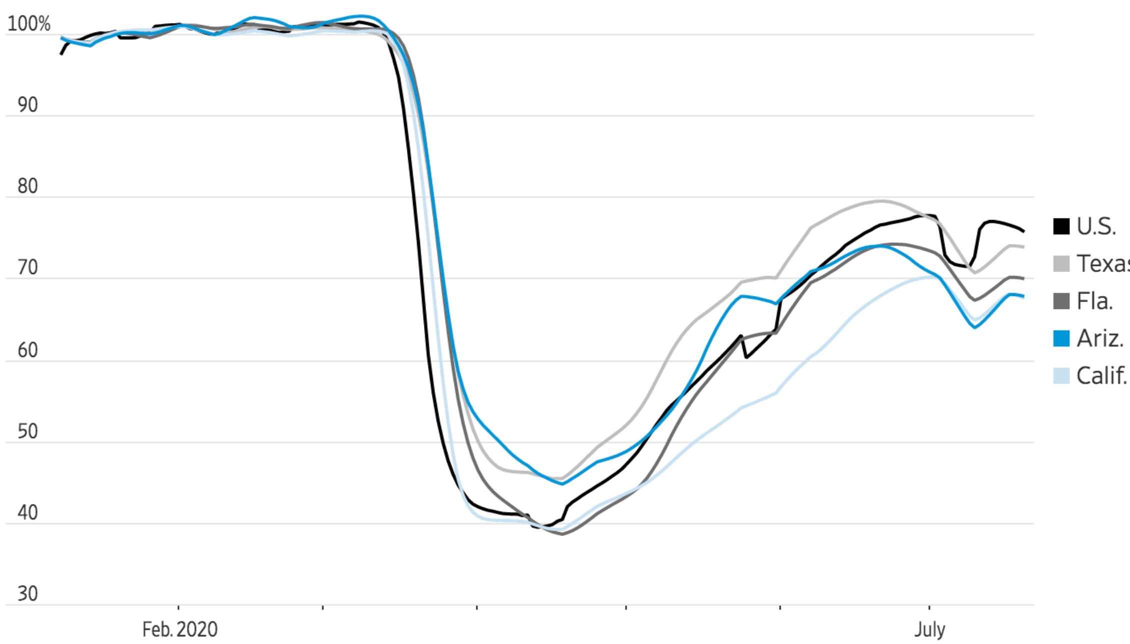
Businesses bounced back as Covid-19 cases eased and states began reopening their economies. Three-quarters of employees who had been working as of January were clocking in by early June, according to Homebase. But then in late June and into mid-July, its data show a pullback in people working.

"The recent big increases in payrolls won't be repeated if small firms have no customers, either because people are choosing to stay home or because of renewed restrictions on business activity, as states grapple with the surge in Covid infections," said Ian Shepherdson, chief economist at research firm Pantheon Macroeconomics.

Mr. Shepherdson said a slowing in the small-business sector in the South and parts of the West, where the resurgence in cases has been particularly acute, is a serious barrier to the nation's recovery.

Enterprises with fewer than 500 employees accounted for almost half of private sector employment in 2017, the most-recent data, according to the Census Bureau. Small firms also employ a majority of the workers in industries such as restaurants and personal care that are most affected by capacity restrictions.

Small-business employees working*, as a share of average January levels



*Based on the distinct number of hourly workers with at least one clock-in. Note: Seven-day moving average. Employees tracked are mostly hourly workers, primarily in service-sector businesses.
Source: Homebase

"If a small- or medium-sized business becomes insolvent because the economy recovers too slowly, we lose more than just that business. These businesses are the heart of our economy and often embody the work of generations," Federal Reserve Chairman Jerome Powell said last month during testimony before Congress.

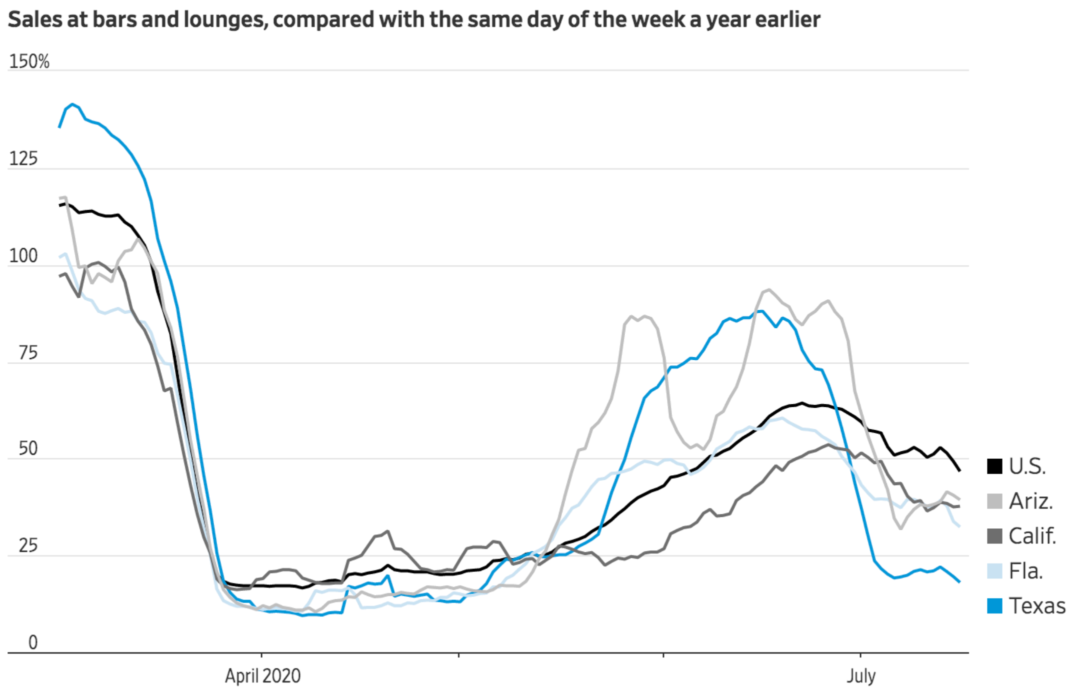
Michael Gibbons, co-owner of three restaurants in Portland, Ore., with his wife, Evelyn, reduced his staff in mid-March to 10 from 97 after shifting to takeout and delivery. The business experimented with outdoor dining on Father's Day, but scrapped it. “Some guests are just not compliant with safety measures,” he said. Staffing was a hurdle too, as former employees were reluctant to return because they were concerned about their safety and earning more by collecting unemployment benefits, he said, adding that protests in the city didn’t factor in his decision.

Mr. Gibbons said he plans to test outdoor dining again later this month, but also said that Oregon’s uptick in Covid cases is worrisome.

Consumers are pulling back across the country, but spending in small-business categories such as food and beverage, retail, health and beauty has fallen even more sharply in places with rising coronavirus cases, such as Texas, Florida and Arizona, said Michael Stepner, economist at Opportunity Insights, a nonpartisan research institute.

At bars, for example, national spending in mid-July was less than half what it was a year ago, with even worse numbers in Texas, Florida and California, according to Womply.

“It’s hard for small businesses to weather the storm when they don’t know when this will be over,” Mr. Stepner added.



Note: Seven-day moving average
Source: Womply

Costikyan Jarvis, president at Jarvis Cutting Tools Inc., in Rochester, N.H., said the company's orders were down by about 50% in the quarter ended June 30, compared with the same period in 2019.

"We really haven't seen it come back," Mr. Jarvis said.

The company, which manufactures tools such as taps and files, employs just under 100 workers and used PPP funds to keep them on the payroll at the beginning of the downturn.

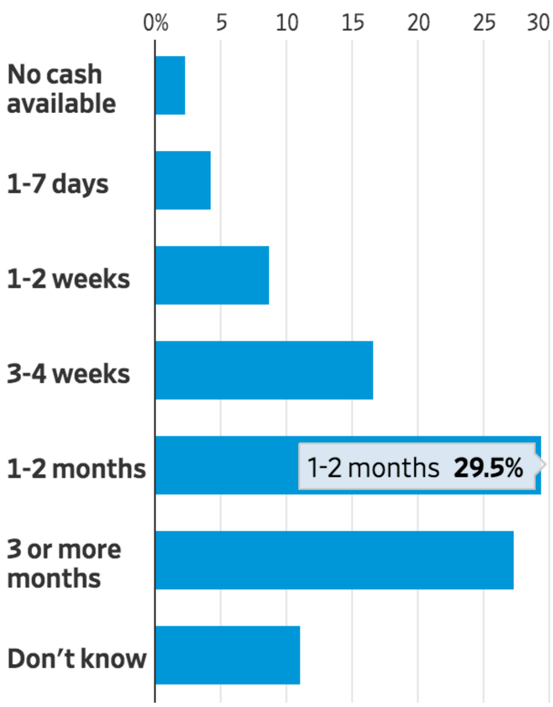
With the loan money now exhausted, Mr. Jarvis said he cut schedules for his hourly staff up to 50%, continued to pay their benefits and planned to use a [workshare program that would allow the workers to collect some unemployment benefits] from the state.

Mr. Jarvis said he is hopeful orders during the third quarter will return to 70% or 80% of their previous level. But timing is critical.

“If we get to a period of extended use of workshare, then we may have to switch to permanently laying off people,” he said. “People can’t live on a diminished wage forever.”

Nearly one-third of small businesses had less than one month of cash reserves on hand at the end of June, according to the Census Bureau.

How long small businesses say they can keep operating on current cash reserves, as of late June



Source: U.S. Census Bureau Small Business Pulse Survey conducted June 21-27

Congress sought to allay those strains with PPP funds. The program provided [a quick influx of cash to struggling businesses](), allowing many of them to retain employees or bring back workers. The loans are generally forgivable if businesses spend a certain share of the funds on payrolls and meet certain other requirements. The federal government as of July 21 had approved about five million PPP loans, worth a total of $518 billion, according to the Small Business Administration, the agency overseeing the program.

But lawmakers designed the PPP to help owners manage through a V-shaped recovery—a steep but brief collapse in demand, followed by a swift rebound. Many firms have now burned through the loans, but sales have only barely picked up—leaving them without funds to keep paying their full pre-pandemic workforce. On Friday, Treasury Secretary Steven Mnuchin said Congress should consider automatically forgiving PPP loans taken out by the smallest U.S. businesses and offer a second helping of aid to some firms.

Melissa Medick, the owner of Beechnut Kennels, a pet day care and boarding business in Edgewater, Md., laid off in March seven of her 13 employees after revenue fell by 90%. When she received a $93,000 PPP loan in April, she offered all of her employees their jobs back, even though business remained slow.

Melissa Medick, the owner of Beechnut Kennels, a pet day care and boarding business in Edgewater, Md.

PHOTO: MEAGAN PASSERO/BEECHNUT KENNELS

In June, though, with business still off by half and most of her PPP funds gone, Ms. Medick laid off four employees and cut hours for some of the others.

“I wanted to be that good employer,” said Ms. Medick. “We hung onto people two or three weeks longer than we should have based on our business.”

Ms. Medick expects to do another round of layoffs at the end of the summer because most customers are still working from home and travel hasn’t recovered, meaning there is less demand for her pet services.

A July survey conducted by the National Federation of Independent Business, a small-business advocacy group, found roughly 22% of PPP loan borrowers have laid off or anticipate having to lay off employees after using their loan, according to the 615 survey respondents.

A renewed downturn in activity could especially impact minority-owned businesses, which have been harder hit by the pandemic and slower to rebound.

Robert Fairlie, an economics professor at the University of California, Santa Cruz, found that 81% of Black-owned businesses and 82% of immigrant-owned businesses that had been up-and-running in February were still operating in June, compared with 95% of white-owned businesses, in a study that analyzed Bureau of Labor Statistics data.

Immigrants and minorities are more likely to be in industries, such as restaurants and personal services, hard hit by social-distancing mandates and economic and health concerns, he said. Even more important, many of these businesses “are really small,” Prof. Fairlie said. “It’s much harder for them to operate during the pandemic, and many lack the financial resources to move forward.”

He said that Black and immigrant business owners tend to hire from their local communities. “If the business owners are struggling and the employees are struggling, it’s a double hit to those communities,” he said.

For some industries, economic pain might not end until the health crisis is fully extinguished.

A survey by Drizly, an online alcohol delivery company, found 13% of respondents said they would return to bars and restaurants again only when a coronavirus vaccine became available. Another 31% said they had no plans to return to bars soon.

Lore Ledding, co-owner of High Road Touring LLC in Sausalito, Calif., had used a roughly $300,000 PPP loan to keep paying her 21 employees—even though it was clear that her business, a talent agency that helps musicians book live performances, wasn't coming back soon.

"When we will be open again for business, we don't know," she said.

By the end of June, the rescue funds were gone.

The company has since furloughed about half of its staff and asked others to take pay cuts. Ms. Ledding and her co-owner husband, Frank Riley, are using the company's cash reserves to help pay salaries for those that remain.

Ms. Ledding said her company was helping lead a lobbying effort among independent talent agencies aimed at pushing Congress to include longer-term assistance for the hardest-hit small businesses in the next round of federal aid.

"The live music industry was one of the first to close, and it's going to be one of the last to start up," said Ms. Ledding. "Until people feel safe gathering together, it's just not going to be our normal."