

Record Surge in U.S. Business Start-ups During Pandemic, Census Bureau Says

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Article by: Kerry Smith, Informationworks

More than 1.5 million new businesses formed nationwide during the third quarter of 2020, according to the U.S. Census Bureau, an increase of more than 77 percent from the second calendar quarter and the biggest jump in more than 15 years.

The data come from the Census Bureau's Business Formation Statistics research, developed in collaboration with the Board of Governors of the Federal Reserve System and the Internal Revenue Service. The data set tracks applications for new employee identification numbers and is seasonally adjusted.

Timothy Sullivan, Ph.D., instructor in the Department of Economics and Finance at SIUE and director of the Office of Regional Economic Analysis, says the number of new business start-ups from July through September dwarfs any previously documented business formation numbers. "It blows the roof off of the previous record," Sullivan said. "Over the same time period, Illinois saw a 113 percent increase in the number of new business formations, or approximately 72,000 businesses." Sullivan said economists considered several theories in trying to explain the unusual increase as 2020 unfolded.

"The pandemic has effected a number of consequences," he said. "We initially saw the (business formation) numbers heading upward on a weekly basis in late Q2 and we attributed it to pent-up demand from the spring, when individuals who'd planned to launch in April or May decided to wait until summer. But these Q3 numbers more than made up for that small dip in the spring, so our initial theory didn't make sense."

Economists' next theory, according to Sullivan, was that the spike in EIN applications represented business formations in order to apply for PPP funds. "But this increase has outlasted these federal assistance programs," he said. "There's a consensus that a true resurgence in business formation is occurring. There's something real going on. As an economist, I'd say that turmoil always creates opportunities for entrepreneurs."

Wayne Barber, Jr., founding co-principal at Southern Illinois commercial real estate firm BARBERMURPHY, has worked in the real estate business since 1988. He has brokered deals through four U.S. economic recessions – those in 1990-91, 2001, 2007-09 and 2020. Barber says the new business formation statistics in Q3 2020 include what are known as "high-propensity businesses," meaning those that incorporate, lease space and have payroll.

"We're seeing it in the prospects who are asking to see potential leasing opportunities," said Barber. "These (Census) numbers are an encouraging sign that entrepreneurs and existing businesses – here in Southern Illinois and elsewhere – are launching and growing despite one of the toughest times in history. It's a good sign for where the economy may be headed in terms of a recovery."

Mike Pierceall, Barber's colleague and a BARBERMURPHY broker associate, says he's regularly urging property owners to be creative and flexible in their leasing terms these days, particularly if the prospect is a start-up with a solid business plan and financial capacity.

"A property owner who is willing to consider a 3-year lease with allowances for a certain amount of tenant improvements that would be deducted from the rent is one option," Pierceall said. "Prospects are also considering a lease with an option to purchase the property once the business – the tenant – is able to do so. We're encouraging owners who are comfortable with these options to offer them in order to make their deals happen."

Phil Hickman, president of Associated Bank's Southern Illinois/St. Louis Metro East market, is seeing this once-in-a-generation surge in new EIN registrations manifesting in a large number of regional companies that are pivoting and adding new product/service lines, requesting a new EIN as they reposition and diversify.

"There's an economic theory, coined in the early 1940s by Austrian economist Joseph Schumpeter, called 'creative destruction,' meaning the dismantling of longstanding practices in order to make way for innovation and improved methods of production," Hickman said. "Schumpeter's theory was based upon real-life examples of creative destruction that he witnessed such as Henry Ford's assembly line. I think the U.S. is seeing this economic theory at work in 2020. Just as this Census Bureau data suggests, we're seeing a record number of businesses and individuals adapting and expanding their operations to take advantage of shifts brought about by the pandemic."

David Kniepkamp and Catharine Magel, \$10,000 first-place winners of the 2020 SIUE Small Business Development Center's Metro East Start-Up Challenge, know the necessity of innovation paired with a rock-solid business plan. In August 2020, the duo incorporated ArtSculpt International, a mosaic tile manufacturing business steeped in education and community arts partnerships. "Covid definitely pushed us into high gear," said Kniepkamp. "Catharine had been working for The Muny and was also an art instructor at a local university. When she became unemployed, we seized that opportunity to accelerate the launch of our manufacturing business. Our goal is to be a cash engine in an art environment."

Start-Up Challenge panel judge Han Ko is president and CEO of USAKO Group. Degreed in electrical engineering and computer science and a successful entrepreneur who launched and sold a telecom start-up years ago, Ko is now a venture capitalist, funding tech industry start-ups globally and helping many of them expand their operations in the U.S.

"By Q3 of this year, many businesses decided to just press on as we all realized that the pandemic was here to stay for the time being," Ko said. "I've worked with a number of start-ups that put their plans on hold when the world stopped in February and March but made the choice to go ahead and launch four to six months after Covid hit. It's extremely important for us to show up and lend encouragement to innovators so they can thrive regardless of the uncertainty that's surrounds us."

Tina O'Toole is a certified SCORE mentor in the SCORE – St. Louis Bistate Chapter. A 501(c)(3), SCORE is the largest volunteer network of business mentors and a resource partner of the U.S. Small Business Administration. O'Toole says she, too, has witnessed a marked increase in the demand for business start-up counsel and expertise. "Our chapter saw a 28 percent increase in the total number of services provided during the first half of fiscal 2020," she said. "Nationally, SCORE recorded a 27 percent increase in the total (mentoring and virtual workshop) services provided during that same period."

Kerry Smith is a full-time freelance writer in St. Louis and the owner of Informationworks. She can be reached at kerry@informationworks.org or 618.225.2253.

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MEDIA: For more information, please contact Katy Cafferata at BARBERMURPHY, 618.277.4400