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The COVID-19 small business boom: startups surge during pandemic

Summary written by: [Maureen Soyars Hicks](#)

The coronavirus disease 2019 (COVID-19) pandemic sent shockwaves through the economy, and in some ways, it upended conventional wisdom about what to expect from an economy in crisis. A new working paper "[Entrepreneurship during the COVID-19 pandemic: evidence from the business formation statistics](#)" from economist John C. Haltiwanger (National Bureau of Economic Research, Working Paper 28912, June 2021) confirms an unexpected and surprising economic result: a huge surge in applications for new businesses.

According to Haltiwanger's analysis, 2020 was a record year for new business formation, with "the total number of applications in 2020 . . . the highest by far compared to all years for which the data have been available." Further, "the increase from 2019 to 2020 in total applications exceeds 20 percent which is double the growth rate in any other year." After a dip in the first half of the year, the entirety of the increase in applications occurred in the last 6 months of 2020 and has continued through May 2021. The author suggests that as more economic data become available, more small businesses, in total, may have been created during a recession and global pandemic.

The analysis highlights how the pandemic may be accelerating ongoing economic trends. For example, applications for likely nonemployers increased; nonemployer businesses have been increasing over the last 15 years as employment in the gig economy has increased. Haltiwanger indicates that, for 2020, much of the nonemployer activity reflects supplemental and stopgap activity.

However, the increase in applications is likely for both employers and nonemployers. Haltiwanger notes that whether these new businesses will drive job creation remains to be seen, with the increase in new employer businesses emerging within 4 to 8 quarters of the date of the applications according to historical patterns.

While the surge in new business applications was "uneven across sectors," the largest increases were in the nonstore retail sector (alone accounting for 1 out of every 3 new businesses formed during the pandemic) and the personal services sector. This finding reflects another continuation of a trend: the shift toward e-commerce, with small businesses now selling goods and services online instead of renting a storefront.

Haltiwanger notes that some substantial restructuring caused by the pandemic will occur, particularly in retail trade and accommodation and food services, sectors in which existing small businesses have experienced large declines during the pandemic. He indicates that as the economy recovers, which of these changes that will "stick" will become clearer.

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