

04.09.2020

Fourth District Business Response to COVID-19: Early Findings



Julianne Dunn | Economic Analyst

FEDERAL RESERVE BANK *of* CLEVELAND

Fourth District Business Response to COVID-19: Early Findings

April 9, 2020

The coronavirus outbreak has landed hard on economic activity in the Fourth Federal Reserve District. Businesses in the region, which encompasses Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia, are experiencing many challenges—a sharp pullback in demand, the need to furlough workers and shutter factories, and a cloud of uncertainty hanging over their outlooks for recovery.

Throughout the year, the Federal Reserve Bank of Cleveland surveys a broad cross-section of businesses in the District and convenes business councils in eight of the District’s major metropolitan areas. The information collected through these surveys and conversations may point to trends that are not yet apparent in the data or fill gaps in researchers’ understanding of our region’s economy. It is also used to inform Federal Reserve policymakers in their discussions about the appropriate stance of the nation’s monetary policy.

The Cleveland Fed, in partnership with the *Allegheny Conference on Community Development* in Pennsylvania, received more than 450 survey responses to three surveys that

ran between March 11 and March 30, 2020. This information has been supplemented by staff conversations with business leaders throughout the Fourth District and beyond. Here are the main findings related to the economic impact of COVID-19 in the Fourth District so far:

BUSINESS DISRUPTION

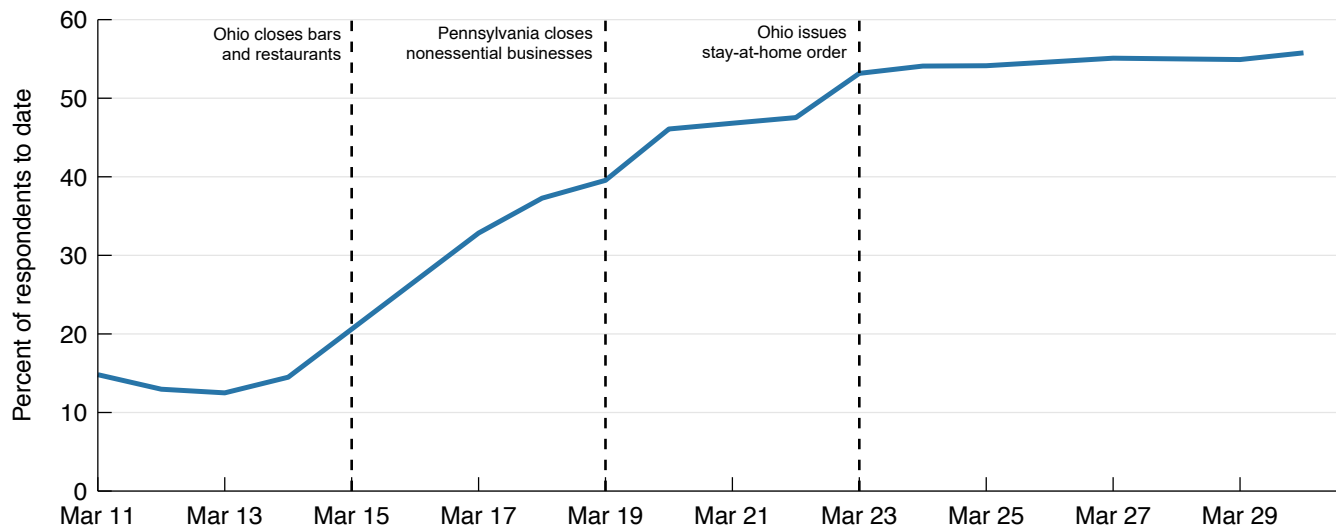
- Business activity in the Fourth District has been substantially hampered by the spread of COVID-19 and the accompanying government orders to close businesses and to enact social distancing measures in many areas.
- In the Cleveland Fed’s most recent survey, nearly half (48 percent) of firms reported delaying or canceling planned capital projects.
- By the end of the survey period (March 30), more than half of respondents had reported they were experiencing significant disruptions to their businesses because of the virus outbreak and measures taken to limit the virus’s spread.
- Leisure, hospitality, travel, and “nonessential” retail have been hardest hit so far. While most manufacturing and construction firms reported that they continued to operate, they expressed concerns about prospects for future demand.

- ◆ One hotel chain has closed 90 percent of its establishments, with those that remain open at about 5 percent occupancy.
- ◆ A Cleveland-area manufacturer has seen orders slow to about half their pace of a year ago, but the firm’s backlog should carry it through the next six months.

- Firms that require employees to be at a facility or on a job site noted that social distancing measures have impeded productivity to an extent. However, their bigger concern is ensuring that they have adequate staff on site since many workers are concerned about contracting the virus or have increased elder- or child-care responsibilities.

◆ A Cleveland-area manufacturer noted that it has temporarily halted hiring because training new employees would be challenging given the need for people to stay six feet apart.

To what extent have your normal business operations been significantly disrupted as a result of the spread of COVID-19?



Sources: Federal Reserve Bank of Cleveland and Allegheny Conference on Community Development.

EMPLOYMENT

- Reports of layoffs and furloughs are widespread, especially in the travel, retail, and hospitality industries. Some contacts reported that they have laid off or furloughed 80 percent to 90 percent of their workers.
- Because of the tight labor market conditions that preceded the crisis, many firms are doing what they can to hold on to their employees or to maintain connections with those they have laid off.
 - For instance, some firms instituting layoffs are helping employees apply for unemployment insurance or offering other forms of assistance to avoid severing relationships.

◆ A Cincinnati-area restaurant-group owner closed all of its 40-plus locations after a brief period of attempting a takeout-only model. Most of the group's staff has been furloughed except for a handful of managers, with an expectation that the owner will be able to gradually open restaurants in the summer and fall.

◆ A northeast Ohio manufacturer said his primary challenge is making sure he has enough people to work on any given day. As a result, he has used bonuses to provide incentives to those who are still able and willing to come to the facility, and to compensate them for the added risk they're taking.

Measures taken to adjust for COVID-19 disruptions*

Response	Percent of total
Delayed or canceled planned capital expenditures	48.0
Increased precautionary saving and cash reserves	47.2
Laid off workers temporarily	32.0
Reduced employee hours and/or operating hours of stores or facilities	32.0
Increased use of existing credit line(s)	21.6
Ceased operations temporarily	16.8
Applied for new forms of financing	15.2
Delayed or renegotiated payments to suppliers or landlords	13.6
Cut employee pay	10.4
Laid off workers permanently	10.4
Ceased operations permanently	0.0
None of the above	13.6

* From the most recent Cleveland Fed survey

FINANCING

- Many contacts have been drawing down existing lines of credit and attempting to increase their cash reserves. Many small businesses reported that they had only enough cash on hand to operate for a couple of weeks and worried that potentially long lead times to receive funds from government-sponsored loan programs could keep them from staying afloat. Larger firms reported utilizing existing lines of credit and some noted that accommodation via deferred payments from lenders and landlords was crucial.

◆ A Toledo-area manufacturer noted that his bank had already communicated to him that it will work with the firm on financing and adjusted credit terms if things do not return to normal soon.

OUTLOOK

- About three out of four survey respondents reported that they expect to be able to continue operating under current circumstances for three months or more. Smaller businesses were generally less confident about their ability to weather the storm, and some reported that they didn't expect that they could continue operating under current conditions for more than a week or two. Retailers were among the most likely to report that they cannot survive more than three months of current conditions, and a similar concern was also common among landlords.

◆ The leader of a metro area chamber of commerce in southwestern Ohio noted that his region took almost a decade to recover from the 2008 financial crisis and he worries that this contraction appears to be worse.



This work is licensed under a [Creative Commons Attribution-NonCommercial 4.0 International License](https://creativecommons.org/licenses/by-nc/4.0/). This paper and its data are subject to revision; please visit clevelandfed.org for updates.