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PANDENOMICS
SEPTEMBER 2021

THE MAIN STREET MERCHANT INDEX

How SMBs Are Faring In Their Recovery Efforts

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PANDENOMICS

INTRODUCTION

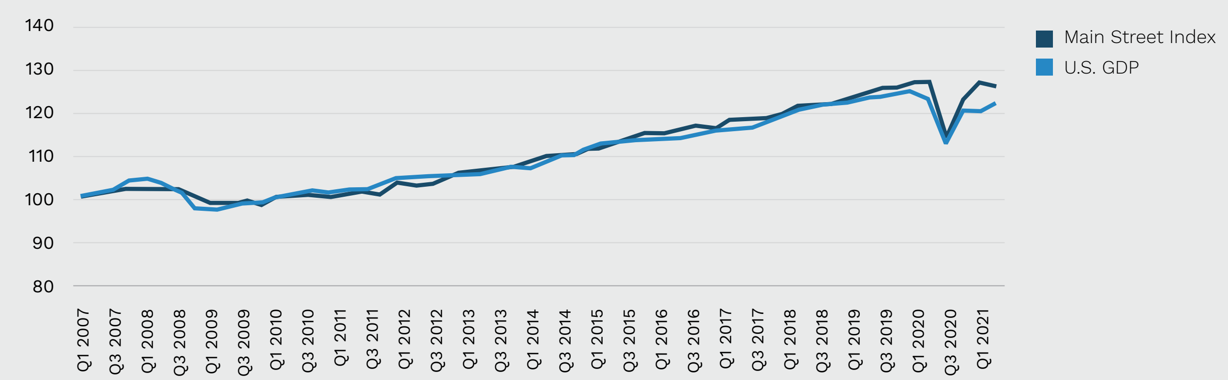
The past 18 months have demonstrated Main Street USA's resilience in the face of uncertainty. Roughly 130,000 small to mid-sized businesses (SMBs) across the United States permanently closed during the year following March 2020, according to the United States Federal Reserve. That is twice as low as what economists had expected.[1]

While that may come as a surprise, PYMNTS' research has time and again found Main Street SMBs to be more economically healthy than other businesses. Main Street SMBs are and have been outperforming the broader business sector for more than a decade, in fact.

Each quarter, PYMNTS examines key factors such as the number of workers these businesses employ, the wages they pay their workers and the size of their physical footprints to gauge their overall economic health. We use this data to calculate the Main Street Merchant Index (MSI) score – a quarterly metric that shows how Main Street's economic health changes over time.

PYMNTS research shows that the average MSI score has been performing better than the national average, which dates back to 2007, and the pandemic did not change that. Even at their lowest point in March 2020, Main Street SMBs' MSI score was 6.4 percent higher than that of the average U.S. businesses in the same segments.

FIGURE 1:
HOW MAIN STREET SMBs' FINANCIAL HEALTH HAS CHANGED OVER TIME
Average Main Street Index score versus the U.S. GDP, by date



Source: PYMNTS.com

Main Street SMBs have also managed to bounce back faster than most from the economic shock following the pandemic. They now employ roughly the same number of workers, but pay higher wages and maintain more brick-and-mortar establishments than they did before Q2 2020.

There is still a long way to go before Main Street can be said to have truly recovered, however. Many Main Street SMBs are still understaffed, and some are raising wages in hopes of keeping and attracting more workers. The trick, as many have found, is to strike the right balance.

The Main Street Merchant Index: How SMBs Are Faring In Their Recovery Efforts details how local businesses in commercial districts across the nation are grappling with the steps they are taking to regain their economic health in the pandemic's aftermath. Our Index provides key insight into the ways in which the past 18 months have changed small, local businesses' employment levels, wages and brick-and-mortar establishments to learn how they have managed to withstand prolonged uncertainty and thrive in today's new economic environment.

This is what we learned.

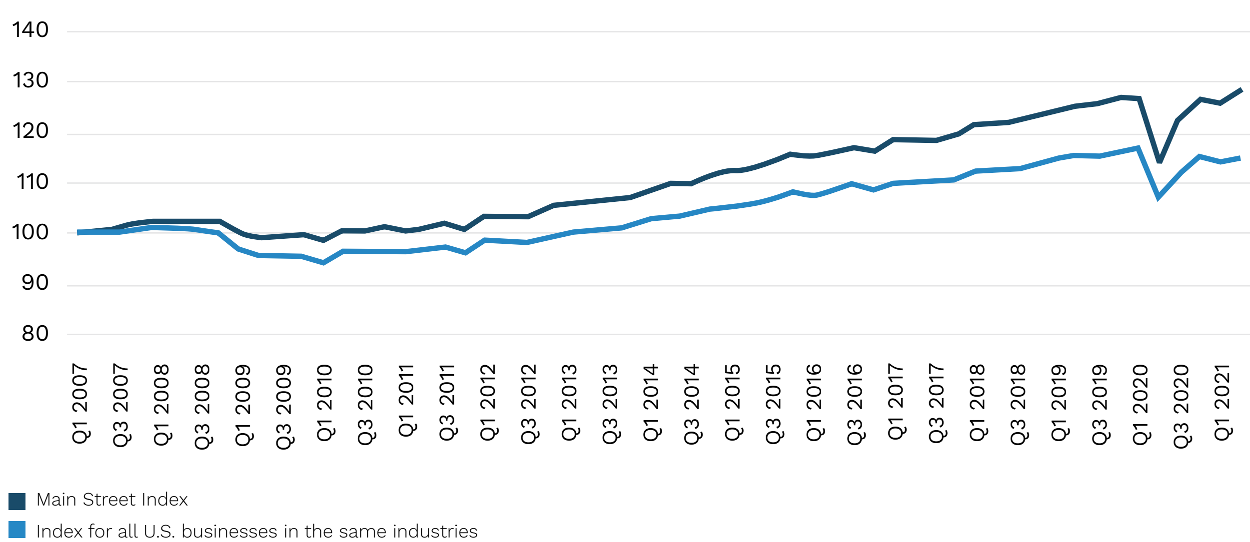
[1] Simon, R. Covid-19's Toll on U.S. Businesses? 200,000 Extra Closures in Pandemic's First Year. The Wall Street Journal. 2021. https://www.wsj.com/articles/covid-19s-toll-on-u-s-business-200-000-extra-closures-in-pandemics-first-year-11618580619 Accessed September 2021.

PART I: SCOPING OUT THE BIG PICTURE

The pandemic hit Main Street SMBs harder than it did the broader business sector, but they also recovered more quickly.

The small businesses with brick-and-mortar stores on Main Street USA managed to withstand the economic uncertainty of the past 18 months fairly well, especially compared to the businesses sector as a whole. Main Street SMBs are and have been outperforming the broader business sector for more than a decade. Their average MSI score has been higher than the national average dating all the way back to 2007, and the pandemic did not change that. Even at their lowest point, Main Street SMBs' MSI score was 6.4 percent higher than that of the average U.S. business.

FIGURE 2:
HOW MAIN STREET SMBs' FINANCIAL HEALTH HAS FARED COMPARED TO LARGER BUSINESSES
Average Main Street Index score versus the Index score for comparable U.S. businesses, by quarter



Source: PYMNTS.com

This is not to say that Main Street SMBs have made it through the pandemic unscathed. Main Street SMBs were hit harder than the average U.S. business between Q1 and Q2 2020, with their MSI score dropping from 127 to 114 in that time. This represents a total decrease of 10 percent, slightly more than the 8.2 percent decrease seen among comparable U.S. businesses.

Main Street SMBs also managed to recover from this shock faster than the average business. Their MSI score returned to its pre-pandemic level of 127 by Q4 2021, while the average U.S. business's score was still 0.9 percent lower than it had been before the economic downturn. In other words, Main Street SMBs are, in some ways, even healthier than they were before the pandemic's onset.

EVEN AT THEIR LOWEST POINT, MAIN STREET SMBs SCORED

6.4%

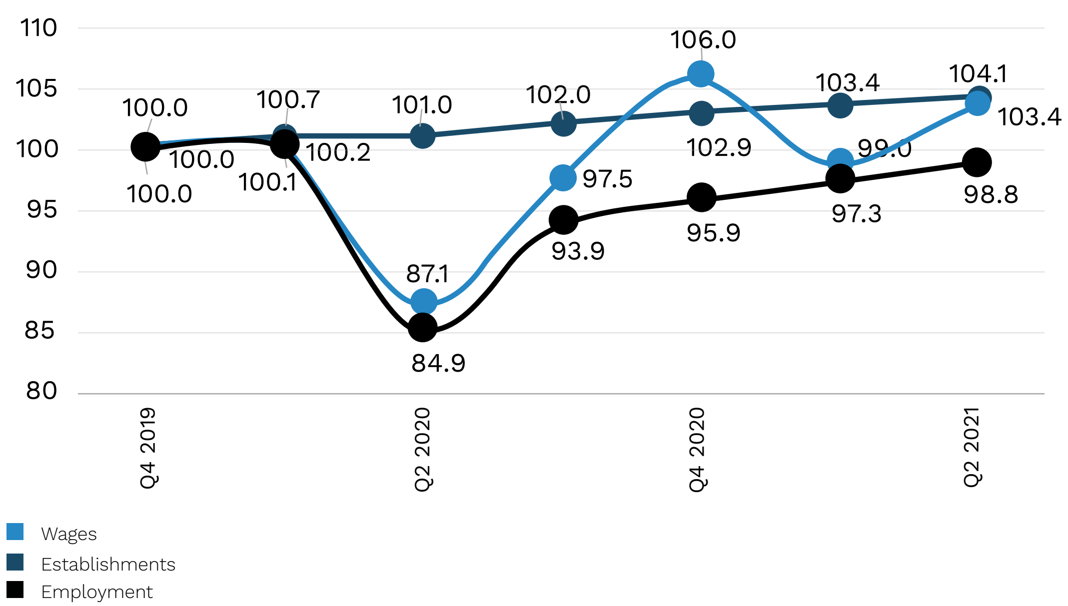
HIGHER THAN COMPARABLE BUSINESS IN THE SAME SEGMENTS.

PART I: SCOPING OUT THE BIG PICTURE

Main Street SMBs employ 1.4 percent fewer workers now than they did before March 2020, but they are paying their workers 3.1 percent more.

Many brick-and-mortar SMBs on Main Street temporarily closed in Q2 2020, but the owners of those businesses often continued to pay rent and maintain their physical stores. It follows that Main Street SMBs remained largely unchanged throughout the crisis, with their MSI score continuously increasing since Q4 2019.

FIGURE 3:
MAIN STREET SMB INDEX SCORE EVOLUTION OVER TIME
Average sub-Index scores for wages, establishments and employment, by date



Source: PYMNTS.com

Wages and employment levels have varied more dramatically, by contrast. Many Main Street SMB owners cut wages or reduced their staff workers to lower operating costs and keep their businesses afloat, even as their brick-and-mortar stores remained closed. The Main Street Wage Index fell 13 percent between Q1 2020 and Q2 2020, in fact, indicating that Main Street SMB workers earned about 13 percent less in income during Q2 than they did just three months prior.

Employment levels fell even more. Main Street SMBs employed 15 percent fewer workers in Q2 2020 than they did in Q1 2020. It has been 18 months since employment levels hit rock bottom, and there are now just 1.4 percent fewer workers on Main Street than there were in Q1 2020.

Main Street SMBs are also paying their employees higher wages, with employees earning roughly 3 percent more income in Q2 2021 than they did in Q2 2020. It is therefore clear that, although Main Street SMBs may not yet be staffed to full capacity, they are spending more to keep the employees they have.

MAIN STREET SMBs EMPLOYED

15%

FEWER WORKERS IN Q2 2020 THAN THEY DID IN Q1 2020.

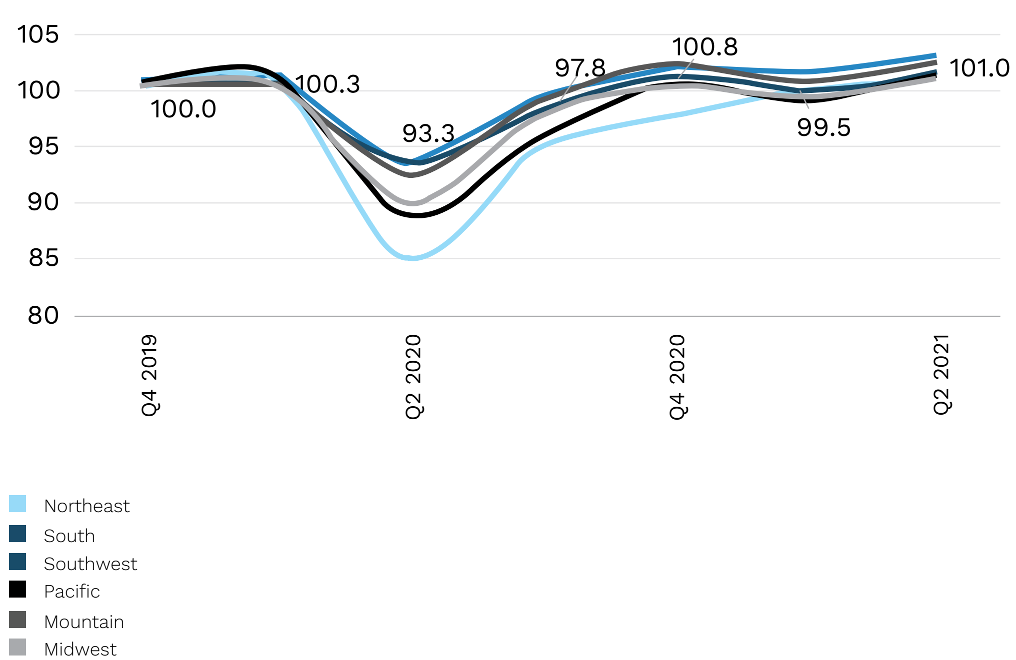
PART II: WAGES AND EMPLOYMENT ACROSS REGIONS

The pandemic hit Main Street SMBs in the Northeast 50 percent harder than the average Main Street SMB.

Main Street SMBs in the South not only recovered more quickly but also are 2.4 percent more stable than they were before the outbreak.

The pandemic took a harder economic toll on Main Street SMBs in the Northeast than those in any other region. The average merchant on Main Street USA saw its MSI score drop 10 percent in the three months between Q1 and Q2 2020, but those in the Northeast saw their score drop 15 percent during the same period.

FIGURE 4:
HOW DIFFERENT U.S. REGIONS PERFORM ON THE MAIN STREET SMB INDEX
Average Main Street SMB Index score in different U.S. regions, by date



Source: PYMNTS.com

Northeastern Main Street SMBs also took more time to recover from this economic shock than those in other regions. It took the average Main Street SMB roughly six months to regain the financial footing they had prior to the pandemic, earning about the same MSI score in Q4 2020 as they did in Q1 2020. The average Main Street SMB in the Northeast did not fully recover until Q2 2021. In other words, it took Northeastern Main Street SMBs nearly twice as long as the average region to regain ground lost during the pandemic's first three months.

Main Streets in the South and the Southwest have fared better than those in other regions, by contrast. Main Street SMBs in the South saw their MSI score slip just 7.4 percent between Q1 and Q2 2020, while the MSI score of those in the Southwest fell 7 percent on average.

THE PANDEMIC HIT MAIN STREET SMBs IN MORE DENSELY POPULATED REGIONS HARDER THAN THOSE IN LESS DENSELY POPULATED REGIONS, SUCH AS THE SOUTH AND MOUNTAIN STATES.

PART II: WAGES AND EMPLOYMENT ACROSS REGIONS

Main Street SMBs in the Pacific and Mountain States employ 6 percent fewer workers but are now paying them 6 percent more than they did in January 2020.

A closer look at the wages shows a clear tradeoff between the number of workers that Main Street SMBs employ and the wages they pay those workers: The fewer employees they have, the more they pay them, and vice versa.

Main Street SMBs in the Pacific and Mountain States employ fewer workers than those in any other region, for example, but they also pay those workers far more than is seen in other regions. Pacific Main Street SMBs employ about 95 percent as many workers as they did in Q1 2020, while those in the Mountain States employ 96 percent as many workers as they did in Q1 2020. At the same time, Pacific Main Street SMBs pay their workers 6 percent higher wages than they did in Q1 2020. Those in Mountain States, meanwhile, pay their workers 10 percent more.

TABLE 1:
HOW MAIN STREET SMBs IN DIFFERENT REGIONS PERFORM ON EMPLOYMENT, ESTABLISHMENTS AND WAGES
Average sub-Index scores for employment, establishments and wages, by region (Q2 2020)

	Employment	Establishments	Wages	Index
Northeast	101.7	100.5	97.8	100.5
South	99.7	106.1	105.0	102.7
Southwest	98.8	104.1	101.6	101.0
Pacific	94.9	106.0	106.8	100.9
Mountain	96.1	106.6	108.9	102.0
Midwest	98.9	102.0	102.4	100.6

Source: PYMNTS.com

We see similar relative wage and employment levels among Main Street SMBs in the Midwest and the South. Main Street SMBs in these regions employ fewer workers but pay those workers higher wages now than they did 18 months ago.

The Northeast is the only region where Main Street SMBs' employment levels are higher than they were before the pandemic's onset. It is also the only region where Main Street SMB workers are paid less than they were before. The average Main Street SMB in the Northeast employs 1.5 percent more workers and pays them 2 percent less in income than they did in Q1 2020.

THE NORTHEAST IS THE ONLY REGION WHERE WAGES ON MAIN STREET USA ARE LOWER THAN THEY WERE IN Q1 2020.

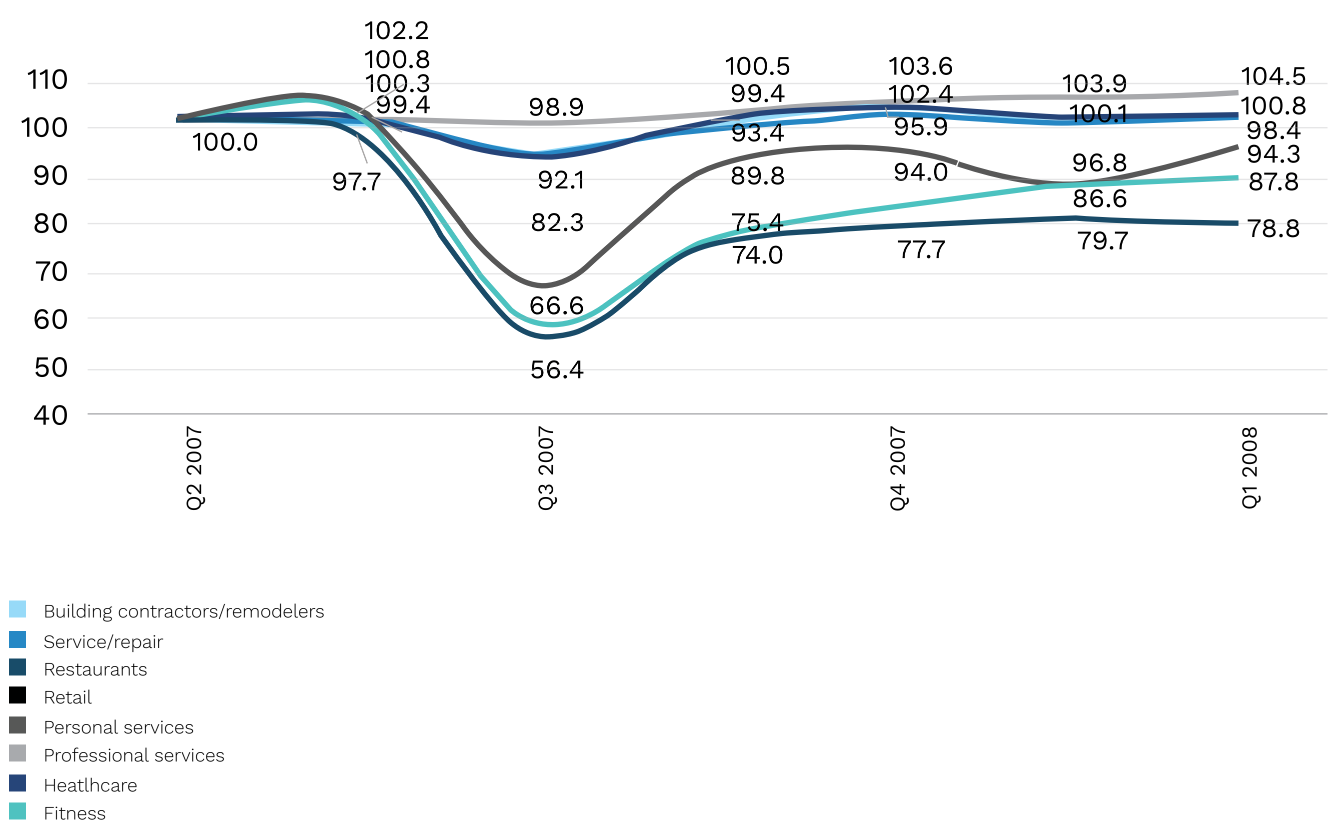
PART III: INDUSTRY WINNERS AND LOSERS

Main Street restaurants have yet to recover to their pre-pandemic state.

Meanwhile, professional services SMBs on Main Street have rapidly pulled ahead.

The past 18 months have taken an economic toll on Main Street SMBs in every corner of the country, but SMBs from certain industries have fared worse than others — especially restaurants. The average Main Street restaurant's economic health deteriorated more than businesses in any other industry between Q1 2020 and Q2 2020, with the MSI score for restaurants falling 42 percent in that time frame.

FIGURE 5:
HOW DIFFERENT U.S. INDUSTRIES PERFORM ON THE MAIN STREET SMB INDEX
Average Main Street SMB Index score in different industries, by quarter



Source: PYMNTS.com

Restaurants on Main Street also recovered slower than the rest. Not only is the average Main Street restaurant still 21 percent less stable than it was prior to Q2 2020, but its economic health is actually still deteriorating.

Local fitness establishments have not fared well either. Their average MSI score fell 41 percent between Q1 and Q2 2020, and that level is still 13 percent lower than it was in Q1 2020.

Professional services firms are on the other end of the spectrum. Their economic health has remained largely stable throughout the pandemic. The average professional services SMB on Main Street saw its overall MSI score slip by just 2 percent between Q1 2020 and Q2 2020 and has been steadily gaining ground ever since. Main Street professional service SMBs now have a 5 percent higher MSI score now than they did before the pandemic began.

WAGES HAVE INCREASED MORE AMONG PROFESSIONAL SERVICES, BUILDING AND CONSTRUCTION AND SERVICE AND REPAIR SMBs THAN THEY HAVE IN ANY OTHER INDUSTRY.

PART III: INDUSTRY WINNERS AND LOSERS

Main Street professional services SMBs have made a stronger recovery compared to other segments.

They are paying employees 8 percent higher wages now than they did before the pandemic.

Not all Main Street SMBs are struggling to balance wages and employment levels. Those in certain industries not only employ more workers but also pay them more now than they did before the pandemic began.

A close look at the wages and employment levels in the professional services sector reveals just how well their businesses have fared compared to other segments. Professional services firms employ 1.9 percent more workers now than they did in Q1 2020, and they pay those workers 8 percent more than they did at that time as well. It is therefore clear that professional services SMBs have emerged as the clear "winner" of the past 18 months, with their businesses being stronger and more economically stable than ever.

TABLE 2:
HOW MAIN STREET SMBs IN DIFFERENT SEGMENTS PERFORM ON EMPLOYMENT, ESTABLISHMENTS AND WAGES
Average sub-Index scores for employment, establishments and wages, by segment (Q2 2021)

	Employment	Establishments	Wages	Index
Building contractors/remodelers	94.7	104.5	107.7	100.5
Service/repair	96.0	103.3	106.4	100.4
Restaurants	75.5	99.4	65.7	78.8
Retail	98.6	99.6	96.0	98.4
Personal services	90.8	104.5	89.1	94.3
Professional services	102.3	107.5	109.5	105.4
Healthcare	98.7	104.0	101.4	100.8
Fitness	86.0	104.3	67.9	87.8

Source: PYMNTS.com

Main Street restaurants have not been so lucky. Not only do the restaurants on Main Street USA employ 23 percent fewer people now than they did in Q1 2020 but they also pay their employees lower wages.

The typical retail shop, recreational and fitness center and personal service firm on Main Street — including local nail salons, barber shops and hair salons — also employ fewer people and pay those workers lower wages than they did in Q1 2020.

Building contractor and remodeling establishments stand out for being the only types of businesses at which employment levels are lower and wages are higher now than they were in Q1 2020. The average Main Street building and contracting SMB employs 5.8 percent fewer workers now than they did prior to the pandemic and pays them about 9.2 percent more.

MAIN STREET RESTAURANTS' WAGES AND EMPLOYMENT LEVELS HAVE DROPPED MORE THAN THEY HAVE IN ANY OTHER INDUSTRY SINCE Q1 2020.

PART III: INDUSTRY WINNERS AND LOSERS

Main Street retail SMBs are struggling to regain ground lost to their counterparts off Main Street.

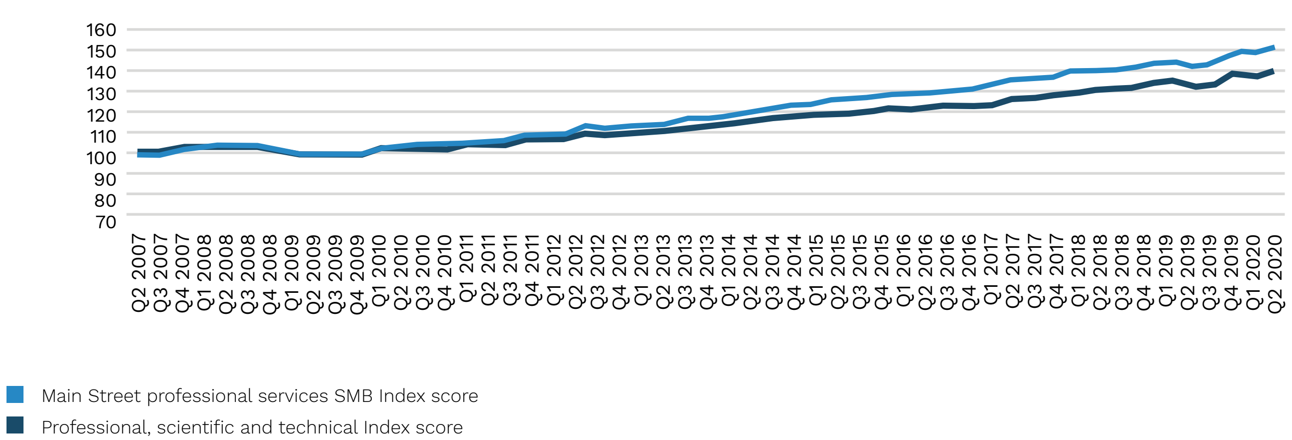
Their MSI score is 7 percent lower than the score of the average U.S. retailer.

Main Street SMBs have consistently outperformed larger businesses for the past 14 years and, in many cases, they are even farther ahead of those larger businesses now than they were prior to Q2 2020.

Main Street fitness SMBs are a prime example. Local fitness SMBs overtook the overall recreation segment in Q3 2014, when their MSI score measured in at 111, and they continued their winning streak until Q2 2020, when both Main Street fitness SMBs and other fitness centers were forced to close along with other nonessential businesses. Smaller fitness establishments have since recovered their lost ground, however, and now have a 31 percent higher MSI score than the average recreation center.

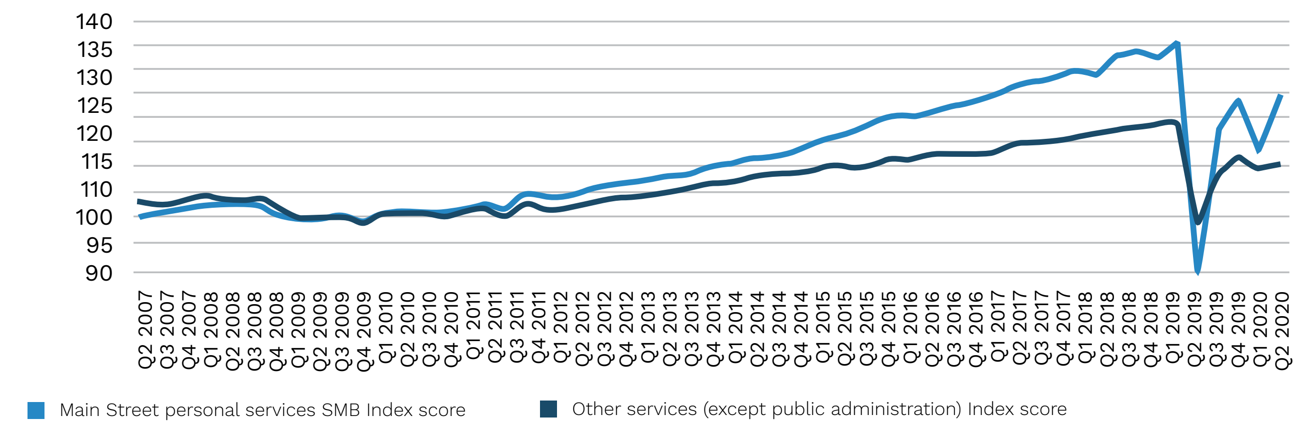
FIGURE 6:
HOW MAIN STREET SMBs IN DIFFERENT SEGMENTS HAVE FARED COMPARED TO LARGER BUSINESSES IN THE SAME SEGMENT
Average retail Main Street Index score versus the Index score for all businesses, by date and segment

PROFESSIONAL SERVICES

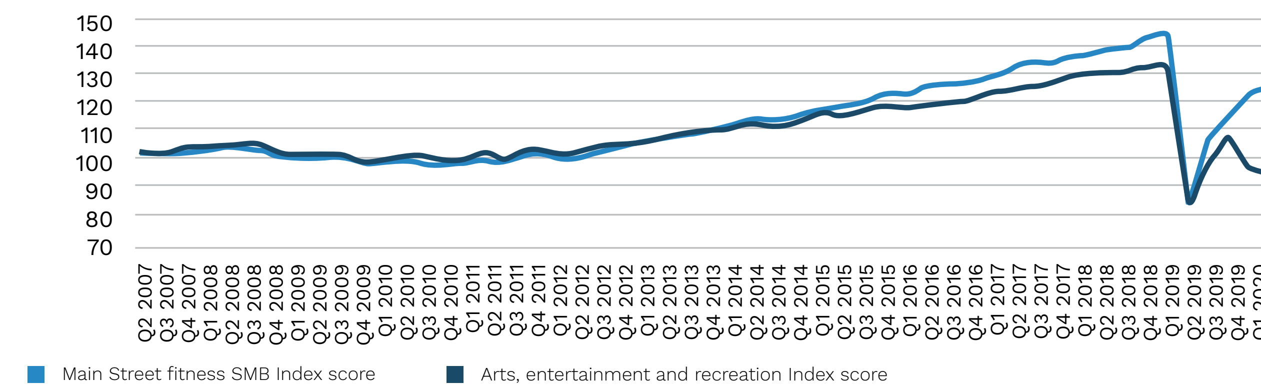


Source: PYMNTS.com

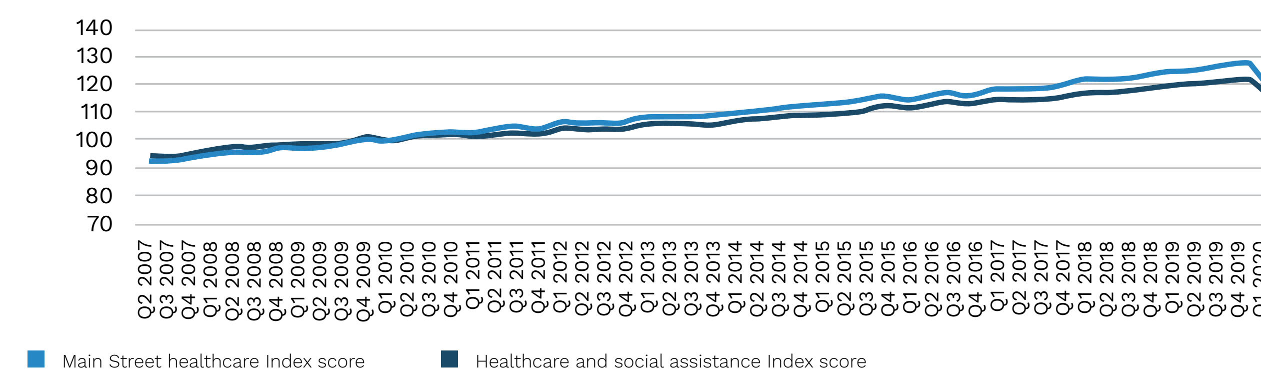
PERSONAL SERVICES



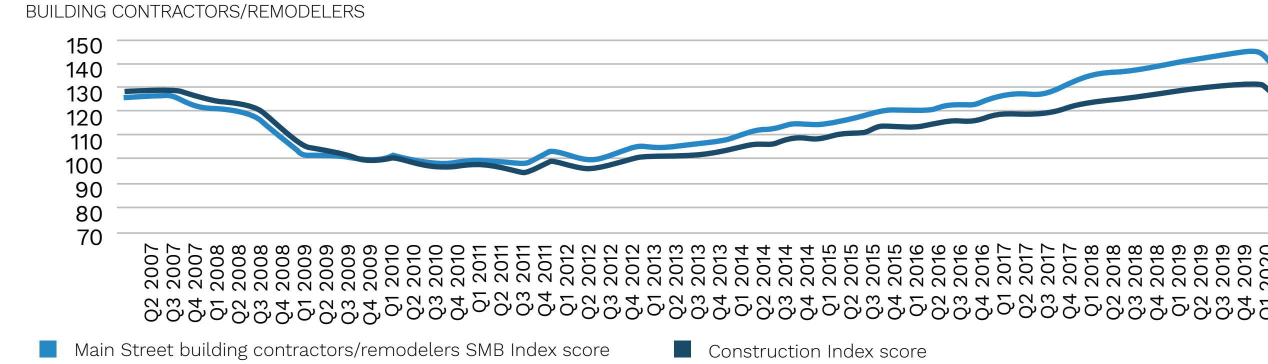
FITNESS



HEALTHCARE



BUILDING CONTRACTORS/REMODELERS

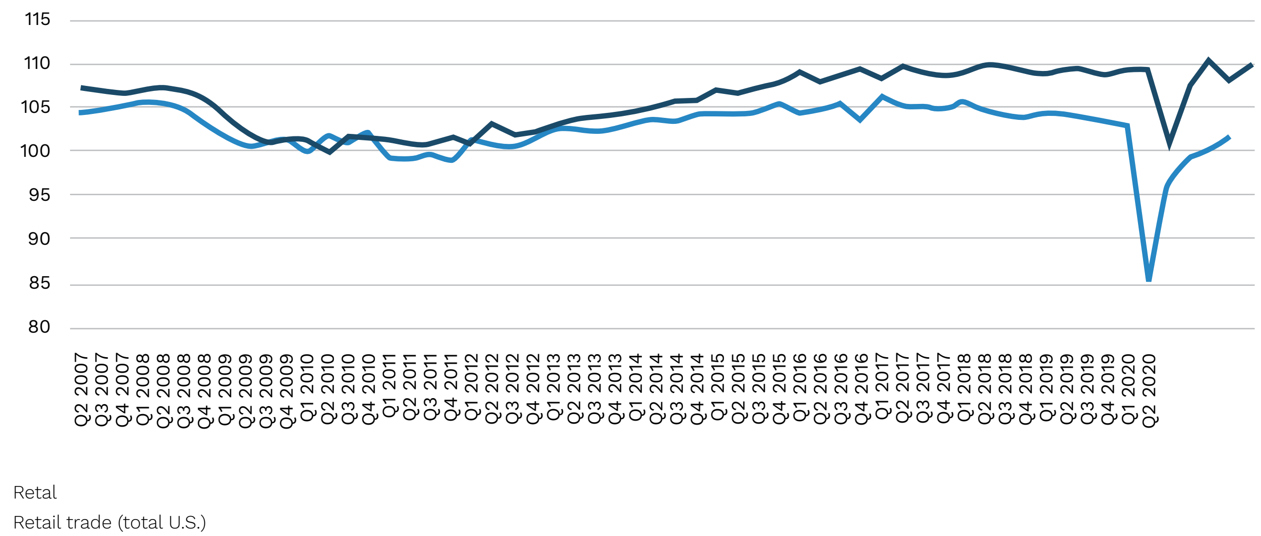


Source: PYMNTS.com

Main Street SMBs in the professional service and personal service industries are all also farther ahead of their larger counterparts now than they were in Q1 2020.

Retail is the only industry in which local businesses are struggling to gain ground on larger chains. Larger chain retailers have consistently outperformed Main Street retail SMBs for the last decade, and the past 18 months have seen them fall farther behind. The average Main Street retail SMB has lagged 7 percent relative to the score of the average U.S. retailer.

FIGURE 7:
HOW MAIN STREET RETAIL SMBs' FINANCIAL HEALTH HAS FARED COMPARED TO LARGER BUSINESSES
Average Main Street retail SMB Index score versus the Index score for all retail businesses, by date



Source: PYMNTS.com

MAIN STREET RETAIL SMBs HAVE BEEN LOSING GROUND TO OTHER RETAILERS SINCE 2010.

CONCLUSION

SMBs on Main Street USA have endured countless challenges during the year and a half since the pandemic's outbreak, but many have emerged from the crisis stronger than ever, outperforming even their larger peers. Employment levels are still lower than they were before March 2020, but many Main Street SMBs are addressing this issue by paying higher wages to attract more workers and keep their current employees happy. Still others, such as those in the professional services sector, have remained economically stable throughout the crisis and are not only employing more workers but also paying them more than they ever did. It is therefore clear that, for all the small businesses closures that make the news, Main Street USA is a resilient and thriving segment of the U.S. economy, and it is one that will only grow in the future.

METHODOLOGY

The Main Street Merchant Index™ (MSI) provides a quarterly metric measuring the health of the typically small businesses that populate Main Street USA. Measurements are in real terms and are based on the growth in new establishments, real wages and employment. Main Street small businesses are identified by the North American Industry Classification System codes that relate to businesses that are typically small businesses found on main streets in both urban and suburban areas. This includes eating establishments, professional and personal services, construction, remodeling and repair services, fitness clubs and a wide variety of retailers.

We used data from the Quarterly Census of Employment and Wages provided by the U.S. Bureau of Labor Statistics only for our selected industries. In total, we used over 10 million data records covering the number of establishments, employees and total wages to develop the Index. We used econometric analysis and modeling techniques to develop the Index, adjusting for seasonality and calculated over a 10-year period. The Index was established using data from 2004 through 2021.

The MSI is calculated as a weighted average of three factors: the number of establishments, the number of employees and the total wages paid for select industries.

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