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MAIN STREET INDEX

Q3 2022

THE POST-PANDEMIC **STATE OF PLAY**
FOR MAIN STREET BUSINESSES



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INTRODUCTION

America’s Main Street small and mid-sized businesses (SMBs) rebounded from the pandemic and broadly outperformed the overall economy from Q4 2019 to Q1 2021. In the last year, however, Main Street SMBs — defined as those in core retail and services segments typically found on main streets in urban and suburban areas — have shown less resilience, with essentially zero growth in PYMNTS’ Main Street Health Index since Q2 2021 despite outpacing the overall economy last quarter.¹

Main Street SMBs in the U.S. depend on local consumers and their wider communities. These businesses are highly exposed to the impact of accelerated inflation and, especially for the retail segment, the long-term digital shift from brick-and-mortar to online shopping.

¹ Main Street SMBs are providers of goods and services, typically small merchants, found on main streets in urban and suburban areas. Classified by the North American Industry Classification System, they include eating establishments, professional and personal services, construction, remodeling and repair services, fitness clubs and a wide variety of retailers.

The Index reflects variables including new business establishments, wages and employment, directly gauging the health of Main Street SMBs while also serving as a harbinger for local economies across America.

In Q3 2022, the Index rose 0.7% to reach a high-water mark of 133.6 — but this stands just 0.2% above the post-rebound level reached in Q2 2021. In other words, Main Street as a whole has successfully recovered from the pandemic but has struggled to build fresh momentum in the last two years.

Performance has varied significantly across the 10 Main Street verticals measured by the Index. Professional services have significantly outpaced the rest of the pack, with healthcare coming in a strong second place. Contracting/remodeling, personal services and fitness have also regained their pre-pandemic momentum, though with more volatility. Local retail firms continue to stagnate, unable to achieve growth in an increasingly digital-first industry.

ABOUT THE INDEX

The PYMNTS Main Street Index uses data from the Quarterly Census of Employment and Wages provided by the U.S. Bureau of Labor Statistics. The Index applies econometric analysis and modeling techniques, including seasonal adjustment, of employment, wages and establishments to provide a quarterly metric of the health of Main Street SMBs. The Index was established using data for all Main Street SMBs incorporated in the U.S. from 2004 through 2022.

A score of 100 indicates that the employment, real wages and firm count within Main Street or a specific sector is relatively unchanged compared to 2007, the year before the Great Recession.

ABOUT MAIN STREET SMBs

Main Street SMBs are the 3.7 million establishments classified by the North American Industry Classification System codes as compatible with having a storefront on the main streets and side streets in urban and suburban areas. Main Street SMBs include eating and drinking establishments, local grocery and convenience stores, professional and personal services, construction, remodeling and repair services, fitness clubs and a wide variety of others operating in the retail trade.



This is what we learned.

01

Main Street SMBs recovered swiftly from the pandemic shock but failed to maintain this momentum. The initial rebound peaked in Q2 2021, and the Index has risen slightly since.

Main Street SMBs were pummeled in the early days of the pandemic, with the Index plunging more than 10% in just two quarters. From Q3 2020 to Q1 2021, the Index regained lost ground and has broadly stabilized into a modest upward trend. We estimate that for Q3 2022, the Main Street Index has climbed 17.5% from its low in Q2 2020. For Q3 2022, the Index is expected to reach 133.6, reflecting a 0.7% quarter-on-quarter growth that slightly outpaces the 0.6% rise in gross domestic product (GDP) in Q3.²

² Author Unknown. Real Gross Domestic Product. The Federal Reserve Bank of St. Louis. 2022. <https://fred.stlouis-fed.org/series/GDPC1>. Accessed November 2022.

02

Main Street SMBs lag behind other sectors like personal services, where digital substitutes are an unlikely source of competition. Professional services went through the crisis unscathed and now lead the pack, followed by healthcare, while Main Street retail SMBs continue their long-term decline.

Main Street SMBs survived the pandemic and related restrictions only to face a host of new challenges, ranging from severe inflationary pressure to more hawkish monetary policy, which has impacted consumer sentiment. Some Main Street SMB segments, particularly professional services and healthcare, are performing better than ever, while others, such as personal services and fitness, have lost momentum after strong initial rebounds. Main Street retail SMBs, meanwhile, continue to stagnate in an increasingly digital-first sector.

03

Wage volatility and labor shortages continue to challenge Main Street SMBs' ability to grow profitability. While wages and employment changed radically in the early days of the pandemic, wages exhibited much greater volatility and recovered quicker.

Wage volatility and labor shortages, coupled with inflation, impact Main Street SMBs' ability to remain profitable and grow. At mid-pandemic lows, wages and employment had fallen by 43% and 48% annualized, respectively. Now, both have rebounded strongly, with wages experiencing more volatility and resulting in spillover effects on employment.



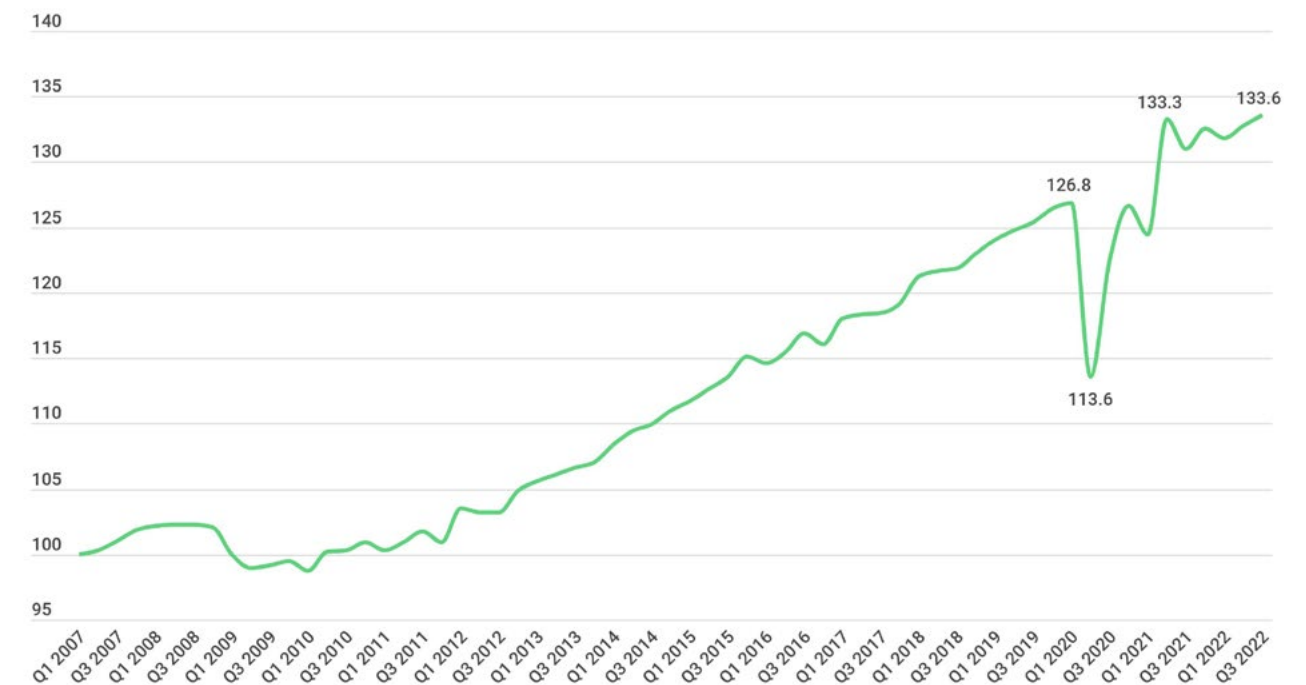
PART I:

THE MAIN STREET INDEX LANDSCAPE

The Main Street Index endured its steepest decline on record in the first half of 2020 when it plummeted from 126.8 to 113.6 — a more than 10% decline. This crash was short-lived, however, as the Index rebounded sharply in subsequent quarters, largely recovering by Q2 2021. The Main Street Index has reached new heights since, well above pre-pandemic levels.

We observed 0.7% quarter-on-quarter growth in the Index score, reaching 133.6 in Q3 2022. This represents a 17.5% rebound from the Q2 2020 low and a 5.3% improvement from the pre-pandemic high observed in Q1 2020. However, this recovery belies more concerning trends impacting Main Street: inflationary headwinds, fears of recession and a host of protracted wage and labor shortage pressures. The Main Street Index for Q3 2022 has increased by just 0.2% above the high-water mark of Q2 2021 and has not achieved three consecutive quarters of growth since Q2 2020.

Figure 1
Main Street Index performance over the last 15 years
Main Street Index scores, 2007 - 2022



Source: PYMNTS
The Main Street Index: The Post-Pandemic State of Play for Main Street Businesses, November 2022
Data drawn from the Quarterly Census of Employment and Wages, October 2022

Given that the pandemic-related health restrictions have been completely revoked for some time, the current lackluster performance of Main Street SMBs seems to reflect broader consumer fears of a looming recession. PYMNTS' consumer sentiment data shows that 64% of consumers feel a recession is imminent.³ Meanwhile, the International Monetary Fund (IMF) revised its forecast for 2022 U.S. GDP growth to 1.6% in July, down 0.7% from its prior outlook, indicating a 1.3% quarter-on-quarter drop in GDP in Q4 2022.⁴

³ Consumer Inflationary Sentiment: Consumers Buckle Down on Belt-Tightening. PYMNTS. <https://www.pymnts.com/study/consumer-inflation-sentiment-finance-economy-recession/>. Accessed November 2022.

⁴ Author Unknown. World Economic Outlook: Countering the Cost-of-Living Crisis. October 2022. International Monetary Fund. <https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022>. Accessed November 2022.

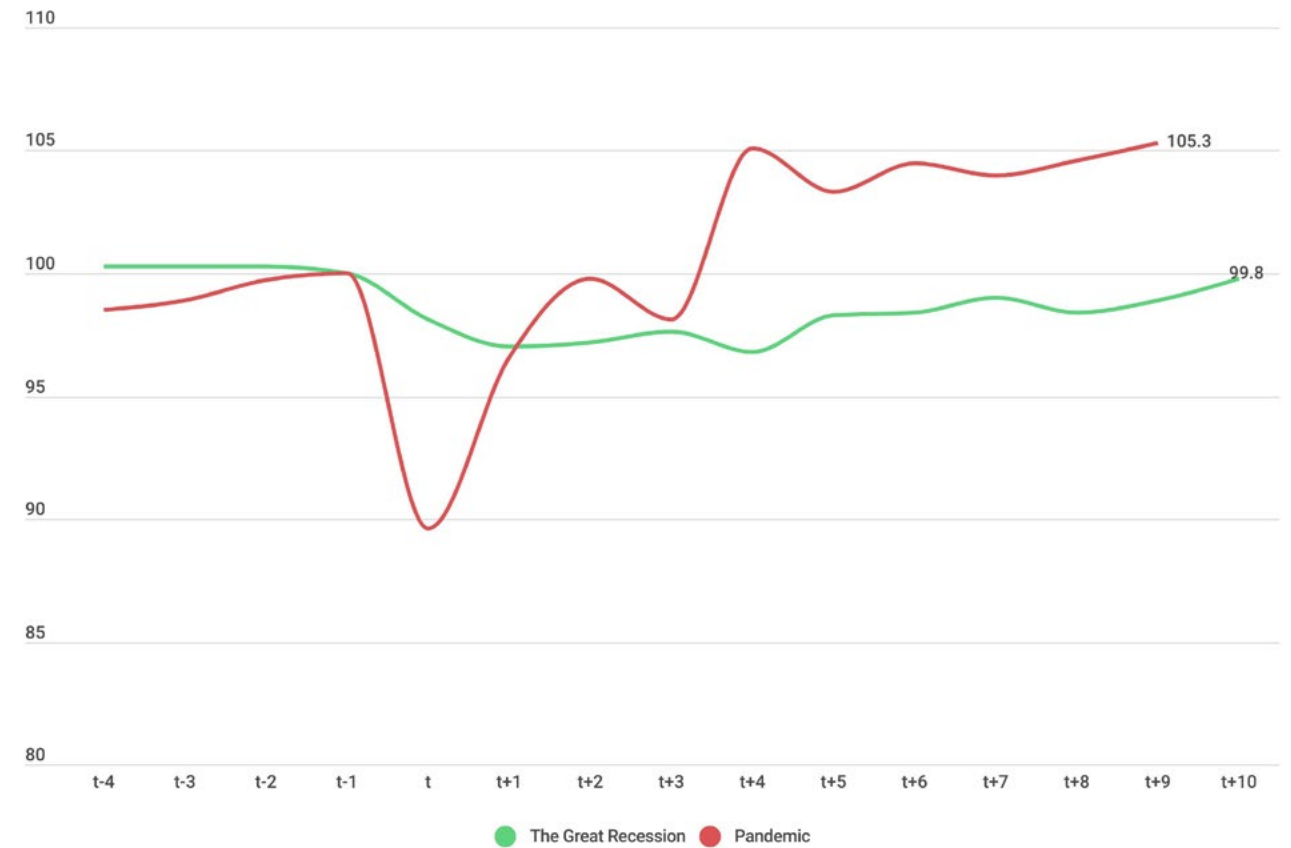
PART II:

PAR FOR THE COURSE

During the pandemic, Main Street SMBs suffered even more acutely than in the Great Recession, with economic activity contracting by a 35% annualized rate in Q2 2020 — higher than the 29% contraction the broader economy experienced. More than two years after the worst of the pandemic, the Main Street Index and U.S. GDP have finally surpassed the level of economic activity recorded in the last quarter of economic normalcy. At the same two-year mark following the sub-prime crisis, Main Street struggled to meet its pre-Great Recession performance.

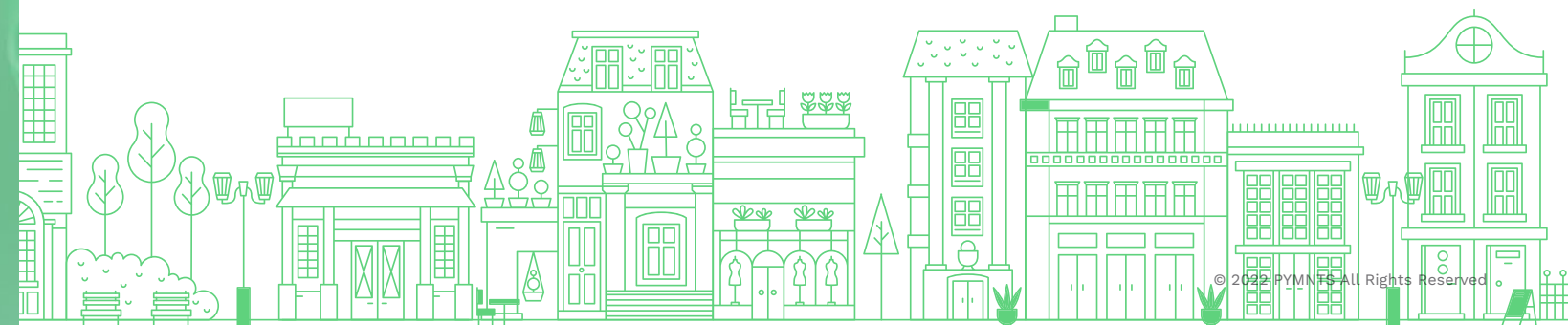
MORE THAN TWO YEARS AFTER THE WORST OF THE PANDEMIC, THE MAIN STREET INDEX AND U.S. GDP HAVE **FINALLY SURPASSED THE LEVEL OF ECONOMIC ACTIVITY RECORDED IN THE LAST QUARTER OF ECONOMIC NORMALCY.**

Figure 2
Main Street SMBs' performance before and after the two most recent economic crises
Performance in the four quarters prior and 10 quarters following select economic downturns



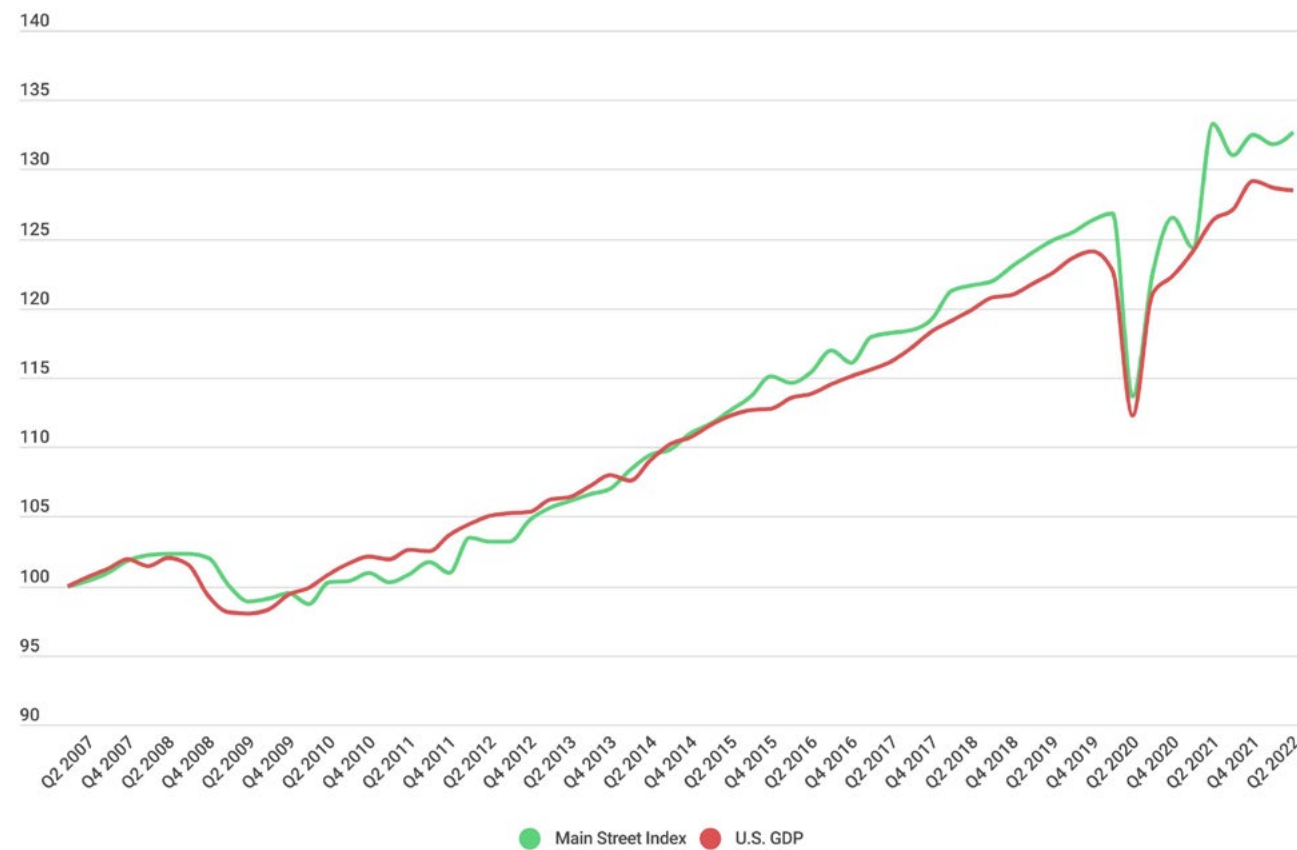
Source: PYMNTS
The Main Street Index: The Post-Pandemic State of Play for Main Street Businesses, November 2022
Data drawn from the Quarterly Census of Employment and Wages, October 2022

Note: "t" indicates the period when the economic shock occurred, as indicated by the first period of GDP contraction.



Although the Main Street Index and GDP have rebounded with similar rates of economic output, Main Street SMBs have slightly outperformed the broader economy. For 50 of the 62 quarters, or 80% of the quarters that PYMNTS has tracked the Index, Main Street and GDP have grown at comparable rates. However, in Q2 2022, Main Street output grew by a 2.7% annualized rate while the GDP contracted 0.6%, placing Main Street health at 4.6% above the pre-pandemic high-water mark.

Figure 3
Main Street Index score and U.S. GDP comparison
Main Street Index scores and U.S. GDP, 2007 - 2022 (indexed, base Q1 2007 = 100)



Source: PYMNTS
The Main Street Index: The Post-Pandemic State of Play for Main Street Businesses, November 2022
Data drawn from the Quarterly Census of Employment and Wages, October 2022

Sectoral-level data indicates the key sectors in which Main Street SMBs outperform non-Main Street competitors in the same industries, with professional services and construction businesses exhibiting the most pronounced margins.

Figure 4
Main Street Index and U.S. total index for comparable industries
Performance from 2007 - 2022 (indexed, base Q1 2007 = 100)



Source: PYMNTS
The Main Street Index: The Post-Pandemic State of Play for Main Street Businesses, November 2022
Data drawn from the Quarterly Census of Employment and Wages, October 2022

PART III:

PERFORMANCE BY SECTOR

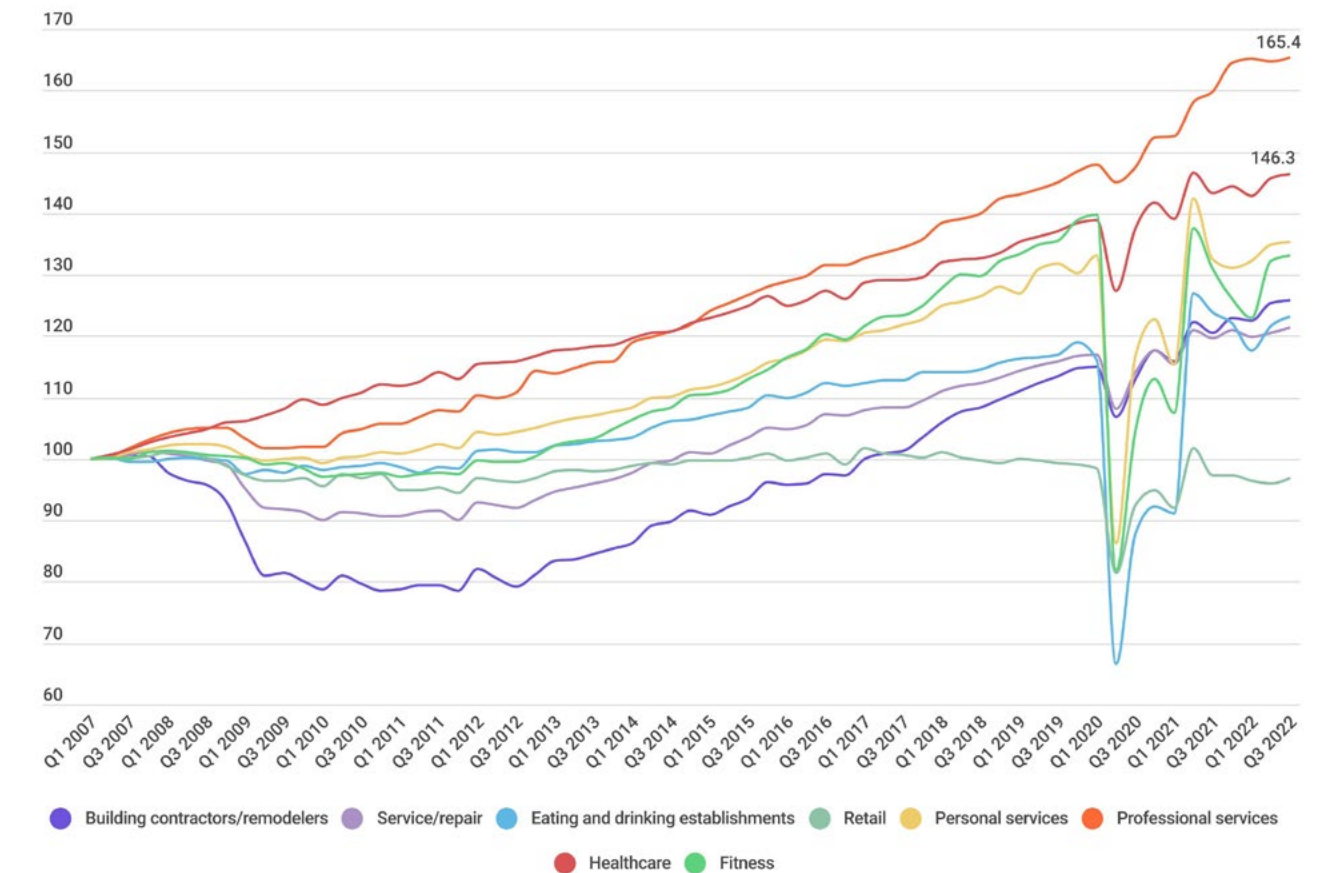
Throughout 2022, Main Street's post-pandemic recovery has been choppy. Global macroeconomic volatility has had reverberating impacts on consumer sentiment, supply chains and access to finance, which has curtailed Main Street's growth. However, outcomes have varied substantially across segments, with key service sectors at the top of the pack, while brick-and-mortar retail has continued its long-term decline.

Professional services have outperformed other Main Street SMBs since 2016, and this trend has accelerated since the pandemic. In Q3 2022, the sub-Index for Main Street professional services reached a high of 165, reflecting 13% growth since Q4 2019 and 49% from the preceding decade. This segment also marked double-digit increases in real wage growth, at 13%, and establishments, at 19%, from levels recorded in Q4 2019.

Similarly, Main Street SMB's healthcare sector has exhibited dynamic resilience. The healthcare sub-Index reached a high of 146 in Q3 2022, which translates to 26% growth in the last decade. Additionally, this segment saw real wages rise 6.2% and establishments climb 8.1% since Q4 2019.

Figure 5
Main Street sub-index scores, 2007 – 2022

Sub-index scores, by industry segment



Source: PYMNTS

The Main Street Index: The Post-Pandemic State of Play for Main Street Businesses, November 2022

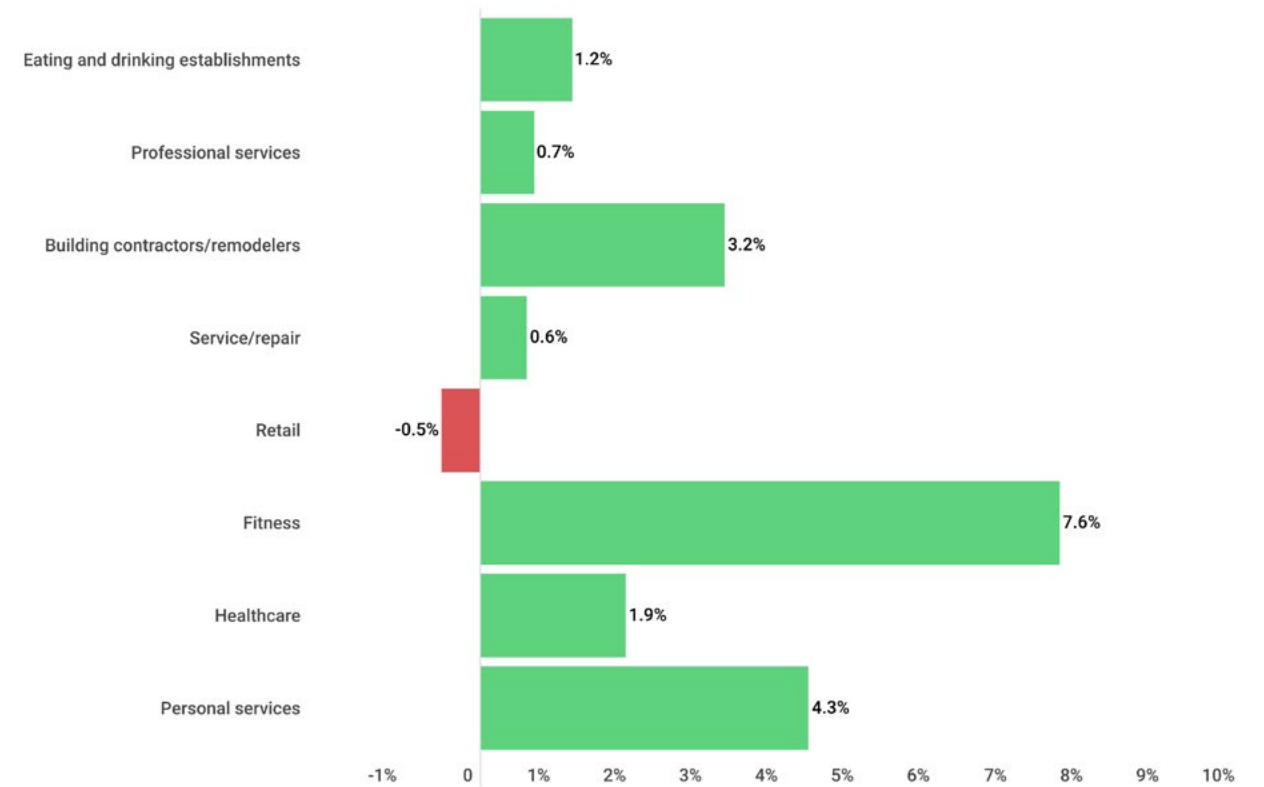
Data drawn from the Quarterly Census of Employment and Wages, October 2022

In the 10 quarters since the onset of the pandemic, Main Street SMBs in the building contractors/remodelers segment have continued to perform better than in the 10 quarters following the Great Recession, reaching a high of 126 with strong growth in real wages, at 8.1%, and establishments, at 12.2%, from Q4 2019 levels.

Main Street’s fitness, personal services and eating and drinking segments have also achieved strong recoveries, but with a loss of momentum since the heights of their respective rebounds in Q2 2021. Each has recorded positive movement in its Index score in the last year on a CAGR basis — most notably fitness, at 7.6% — indicating that a modest upward trajectory will continue.

Retail Main Street SMBs, meanwhile, have missed out on the party altogether. Although the sub-Index for retail rebounded from its mid-pandemic low point, it has contracted slightly in the last year on a CAGR basis. Zooming out, the severity of the situation becomes more evident: Retailers are the only segment of Main Street SMBs to suffer a long-term contraction, with the sub-Index at just 97 — lower than the 2007 baseline. Unlike businesses in the other segments, Main Street retail SMBs directly compete with online shopping, a battle that very few can hope to win.

Figure 6
Main Street Index CAGR, by segment
CAGR, by segment, 2022



Source: PYMNTS
The Main Street Index: The Post-Pandemic State of Play for Main Street Businesses, November 2022
Data drawn from the Quarterly Census of Employment and Wages, October 2022



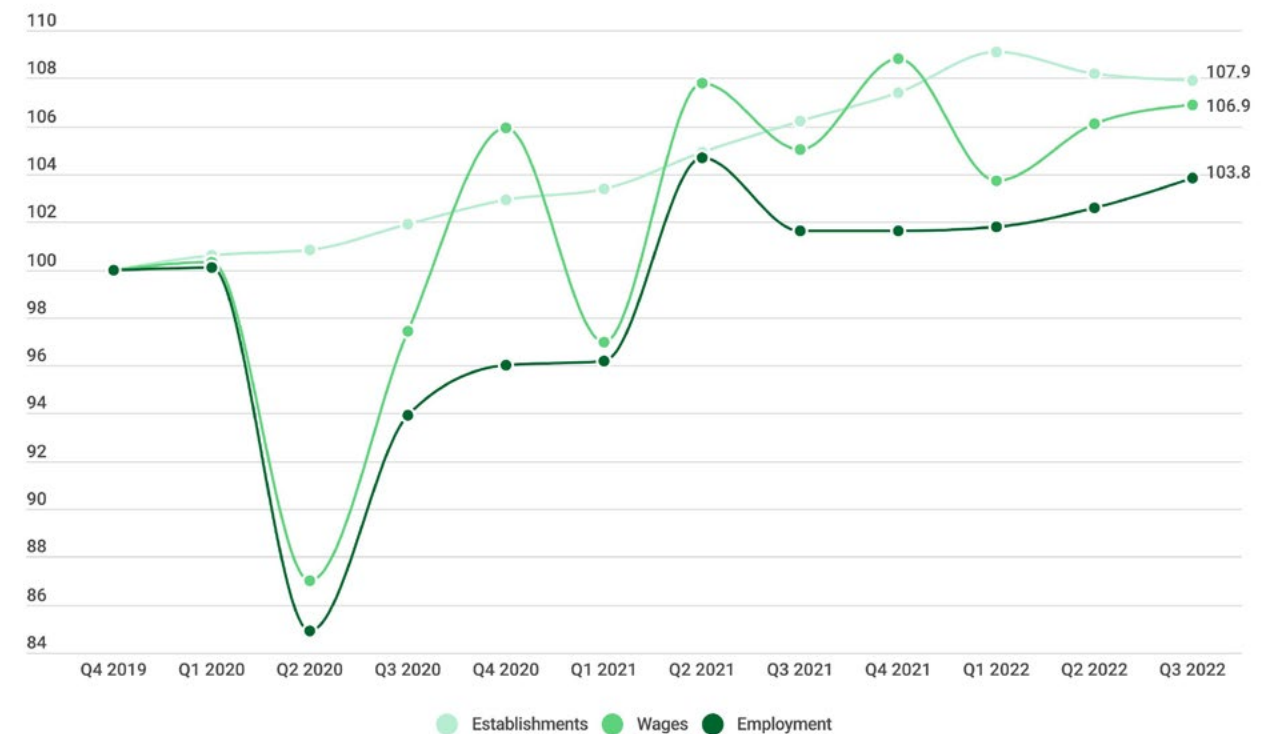
PART IV:

EMPLOYMENT REACTS WITH LESS VOLATILITY THAN WAGES

Wages have recently shown much greater sensitivity to economic stress than employment and establishments. This volatility, coupled with weak employment growth, helps explain Main Street's post-pandemic below-trend performance. In Q3 2022, this translates to an estimated Index growth of just 0.2% above the previous peak recorded in Q2 2021.

Real wages dropped from a baseline of 100 in Q4 2019 to 87 in Q2 2020, a nearly unprecedented fall. By Q3 2020 and Q4 2020, wages had rebounded to 97 and 106, respectively, before dipping again to 97 in Q1 2021. Real wages then rocketed to 108 in Q2 2021 before pulling back to 105 in Q3 2021. This volatility has sharply impacted Main Street SMBs, as fears of recession influence consumer spending, and tighter monetary policy restricts businesses' ability to leverage the affordable financing needed to secure staff and operate smoothly.

Figure 7
Changes in wages, establishments and employment performance over time
Main Street Index scores, base Q4 2019 = 100



Source: PYMNTS
The Main Street Index: The Post-Pandemic State of Play for Main Street Businesses, November 2022
Data drawn from the Quarterly Census of Employment and Wages, October 2022

While employment has rebounded to pre-pandemic levels, in Q3 2022 it stands at just 3.8% more than Q4 2019, a sharp contrast to the 6.9% increase in wages in the same period. This disjunction highlights that Main Street SMBs are encountering the same post-pandemic employment challenge that the broader U.S. Index is facing.

In the wake of the Great Recession, employment had not rebounded to pre-crisis levels even 10 quarters after the height of the subprime crisis, and the data shows a similar pattern 10 quarters following the worst of the pandemic. The magnitude of the pandemic's impact on employment has been five times greater than that of the subprime crisis.

CONCLUSION

Just as the U.S. economic landscape began to look positive for Main Street SMBs, new challenges have arrived. Inflationary pressure surged, interest rates climbed, wage and labor pressures mounted, and consumer sentiment turned gloomy. Despite these hurdles, the Main Street Index has reached a new high, indicating that Main Street SMBs are stabilizing and settling into a trajectory of modest growth. However, some sectors are faring much better than others, particularly professional services and healthcare, while physical retail stores continue to stagnate in an increasingly digital-first sector.

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