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SMALL BUSINESS CREDIT SURVEY

2022 REPORT ON HIRING AND WORKER RETENTION

FEDERAL RESERVE BANKS *of*

Atlanta • Boston • Chicago • Cleveland • Dallas • Kansas City • Minneapolis
New York • Philadelphia • Richmond • St. Louis • San Francisco

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The Small Business Credit Survey (SBCS) is made possible through collaboration with business and civic organizations in communities across the United States. The Federal Reserve Banks thank the national, regional, and community partners who share valuable insights about small business financing needs and work with us to promote and distribute the survey.[2]

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2 *For a full list of community partners, please visit www.fedsmallbusiness.org.*

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INTRODUCTION

Following the start of the COVID-19 pandemic in March 2020, many employers laid off or furloughed their workers amid heightened uncertainty and government-mandated closures. While many businesses rehired workers or brought on new ones as the pandemic wore on and closure mandates were lifted, the 2021 Small Business Credit Survey (SBCS) data show that 43% of small employer firms (that is, businesses with 1 to 499 employees) had fewer employees at the time of the survey than they did in 2019 before the pandemic began.[1] This publication examines workforce issues from the perspective of small businesses, relying on findings from the SBCS module on hiring and retention challenges.

The 2021 survey finds that employer firms were only slightly more likely to have attempted to hire than they were in 2018, when the United States was experiencing a similarly tight labor market.[2] However, compared to 2018, small businesses were considerably more likely to say that filling jobs was very difficult in the 12 months leading up to the 2021 survey.[3] Most firms cited a shortage of applicants rather than competition from other employers or workers' lacking job-specific skills or education. Among firms that said hiring or retaining workers was difficult, the most common response was to increase wages, but a majority of firms also reported that employees and owners had to increase their workloads or that the business had to reduce its operating hours, turn down work, or temporarily close.

While responses to the 2021 SBCS were collected in September through November of 2021, the findings remain relevant as hiring difficulties persist well into 2022. According to April 2022 results from the US Census Bureau's Small Business Pulse Survey, one in three small businesses reported that they had difficulty hiring paid employees in the prior week.[4] These findings have implications for small businesses and the economy going forward: 41% of businesses in the 2021 SBCS sample said they expect to add employees in the next year, and, similarly, the Small Business Pulse Survey shows that 40% of firms plan to hire within the next six months.[5] The findings from the SBCS provide important context for the reasons firms are facing hiring and retention challenges and how firms might respond to those hiring headwinds, especially as many small businesses plan to hire workers in the near future.

SURVEY FINDINGS

The 2021 SBCS yielded 10,914 responses from small employer firms in all 50 states and the District of Columbia. This report specifically draws from responses to questions in the optional end-of-survey module on hiring and retention challenges. In total, this report includes findings from 7,981 employer firms that completed both the module and the main track of the survey.

Overall, with respect to hiring and worker retention, the survey finds

- Seventy-five percent of employer firms said they attempted to hire workers in the 12 months leading up to the survey, a small increase from the share of firms in the 2018 survey that attempted to hire workers (71%). However, firms in the 2021 survey were much more likely to say that hiring was challenging, as 44% of firms in the most recent survey said that hiring was "very difficult" compared to 27% of firms who said the same in 2018.
- Among firms that reported hiring was very or somewhat difficult, 78% cited a lack of applicants as a reason. Additionally, 56% said that applicants lacked job-specific skills or experience, while others cited competition from other employers (40%), difficulty retaining newly hired workers (31%), and difficulty finding applicants who were able to pass a background check, credit check, or drug test (16%) as reasons for hiring challenges.
- A majority of firms that reported hiring challenges said they responded by increasing wages (59%) or by shifting more work to existing employees and the owner (55%). While higher-revenue firms most frequently raised wages, firms with less than $100,000 in annual revenues most often reduced their operations.

1 Small Business Credit Survey 2022 Report on Employer Firms. *https://www.fedsmallbusiness.org/survey/2022/report-on-employer-firms*

2 *During the time the 2018 survey was in the field (September and November 2018), the average monthly unemployment rate was 3.8%. During the time the 2021 survey was in the field (September and November 2021), the average monthly unemployment rate was 4.5%. https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm*

3 *Data on hiring and related challenges were drawn from an optional end-of-survey workforce module. Similar workforce module questions were included most recently in the 2017 and 2018 SBCSs. Workforce findings from the 2017 SBCS were published in* How Do Firms Respond to Hiring Difficulties? Evidence from the Federal Reserve Banks' Small Business Credit Survey, *https://www.atlantafed.org/-/media/documents/community-development/publications/discussion-papers/2018/01-how-do-firms-respond-to-hiring-difficulties-2018-04-09.pdf. Workforce findings from the 2018 SBCS were not published prior to this report.*

4 *US Census Bureau Small Business Pulse Survey, April 11–17, 2022. https://portal.census.gov/pulse/data/*

5 *Ibid.*

EXECUTIVE SUMMARY
(Continued)

The survey finds important differences in hiring experiences by industry, and this report includes analysis of these differences. Of note, leisure and hospitality firms were more likely than firms in other industries to report hiring difficulties; these firms were also more likely to have reduced their operations in response. The industry categories used in the SBCS are described in Table 1.[6]

Table 1. Small Business Credit Survey Industry Categories

Industry category	Examples of small businesses in industry category
Business support and consumer services	Barbers, business event planners, cleaning services, repair services, salons, spas, travel agencies
Finance and insurance	Loan brokers, insurance carriers, portfolio management firms
Healthcare and education	Counseling, daycare centers, dentists, professional training, sports instruction, tutoring
Leisure and hospitality	Bars, restaurants, caterers, fitness centers, gyms, hotels, performing arts venues
Manufacturing	Electronics manufacturers, engraving, packaging, print shops, textile manufacturers, wineries
Nonmanufacturing goods production and associated services	Construction, farming, logistics, mining, taxis, wholesale suppliers and distributors, warehousing
Professional services and real estate	Book publishers, consulting firms, graphic designers, notaries, real estate agents, vehicle rentals
Retail	Boutiques, craft stores, ecommerce, grocers, hardware stores

ABOUT THE SURVEY

The SBCS is an annual survey of firms with fewer than 500 employees. These types of firms represent 99.7% of all employer establishments in the United States.[7] Respondents are asked to report information about their business performance, financing needs and choices, and borrowing experiences. Responses to the SBCS provide insights on the dynamics behind lending trends and shed light on various segments of the small business population.

The 2021 SBCS included an optional end-of-survey module on workforce issues; 79% of employer firm respondents completed this module. The module questions addressed hiring in the prior 12 months, difficulties with hiring and worker retention, and responses to those difficulties.[8]

METHODOLOGY

The SBCS uses a convenience sample of establishments. Businesses are contacted by email through a diverse set of organizations that serve the small business community.[9] Prior SBCS participants are also contacted directly by the Federal Reserve Banks. The survey instrument is an online questionnaire that typically takes 6 to 12 minutes to complete, depending upon the intensity of a firm's search for financing. The questionnaire uses question branching and flows based on responses to survey questions. For example, financing applicants receive a different line of questioning than nonapplicants. Therefore, the number of observations for each question varies by how many firms receive and complete a particular question.

A sample for the SBCS is not selected randomly; thus, the SBCS may be subject to biases not present with surveys that do sample firms randomly. For example, there are likely small employer firms not

6 *See Appendix for more details on SBCS industry categories, including the associated NAICS codes.*
7 *US Census Bureau, County Business Patterns, 2019.*
8 *For details on the module questions, see the 2021 SBCS Questionnaire.*
9 *For more information on partnerships, please visit www.fedsmallbusiness.org/partnership.*

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(Continued)

on our contact lists, a situation which could lead to noncoverage bias. To control for potential biases, the sample data are weighted so the weighted distribution of firms in the SBCS matches the distribution of the small-firm (1 to 499 employees) population in the United States by number of employees, age, industry, geographic location (census division and urban or rural location), gender of owner(s), and race or ethnicity of owner(s). The weighting methodology was developed in collaboration with the National Opinion Research Center (NORC) at the University of Chicago. The data used to construct the weights originate from the US Census Bureau. For more information on weighting methodology, please refer to the Methodology section of the *Small Business Credit Survey 2022 Report on Employer Firms*.

Because this report relies on findings from an optional end-of-survey module, the sample of firms that completed the module is weighted separately from firms that completed only the main track of the survey.[10] The different weighting accounts for demographic differences between the sample from the main track of the survey and the module.[11] This report also highlights findings from the 2018 end-of-survey workforce module, which was weighted using the same approach. The questions in the workforce modules of the 2018 and 2021 questionnaires are not identical, but they are conceptually similar. Please refer to the *2018 SBCS questionnaire* and the *2021 SBCS questionnaire* for more information.

10 *Similar to the weighting scheme for employer firms, the sample data in the module are weighted so that the weighted distribution of firms matches the distribution of the small-firm population by number of employees, firm age, industry, geographic location (census division and urban or rural location), gender of owner(s), and race or ethnicity of owner(s).*

11 *Most notably, white-owned firms accounted for a larger share of the sample from the module than the sample from the main track of the survey.*

NOTES AND DEFINITIONS

TIME REFERENCES

Survey questions in the SBCS ask respondents to reference specific time periods. Most questions ask about respondents' experiences in the 12 months prior to the time of their response. In some cases, questions ask about conditions at the time of their response, or how conditions at that point in time compare to a prior reference period. Finally, some questions ask about respondents' expectations in the 12 months following the time of their response. The time periods referenced in the survey are defined as follows:

Prior 12 Months. The 12 months prior to the fielding of the survey. For the 2021 SBCS, this is approximately September–November 2020 through September–November 2021.

At Time of Survey. September through November 2021.

Next 12 Months. The 12 months following the fielding of the survey. For the 2021 SBCS, this is approximately September–November 2021 through September–November 2022.

FINANCIAL SERVICES PROVIDERS AND LENDERS

Questions in the SBCS ask respondents about their use of and experiences with lenders and other financial services providers. Because respondents may not have a uniform understanding of the terms used in the SBCS, the questionnaire provides examples and explanatory information about the response options. Examples vary between questions to convey the most relevant services and providers.[1] The financial services providers and lenders referenced in the survey are defined as follows:

Large bank, small bank. Large banks are defined as those with at least $10B in total deposits; small banks are those with less than $10B in total deposits. For application questions, respondents are shown a list of large banks operating in their state to assist them with proper classification of their institution.

Finance company. Finance companies are nonbanks that provide loans, leases, and other financial services. Examples provided to respondents vary by question but include mortgage companies, equipment dealers, auto finance companies, investment funds, and insurance companies.

Online lender/fintech company. Online lenders/fintech companies are nonbanks that operate online. Examples provided to respondents vary by question but include OnDeck, Kabbage, CAN Capital, Paypal, and Square.

Credit union. Credit unions are nonprofit cooperatives where members can borrow money at competitive rates from pooled deposits.

Community development financial institution (CDFI). CDFIs are financial institutions that provide credit and financial services to underserved markets and populations. CDFIs are certified by the CDFI Fund at the US Department of the Treasury.

Financial services company. Financial services companies are nonbank providers of business financial services. Examples include companies that provide payroll processing, merchant services, and accounting services.

Alternative financial source. Examples of alternative financial sources provided to respondents include payday lenders, check cashing services, pawn shops, and money order/transmission services.

CREDIT RISK

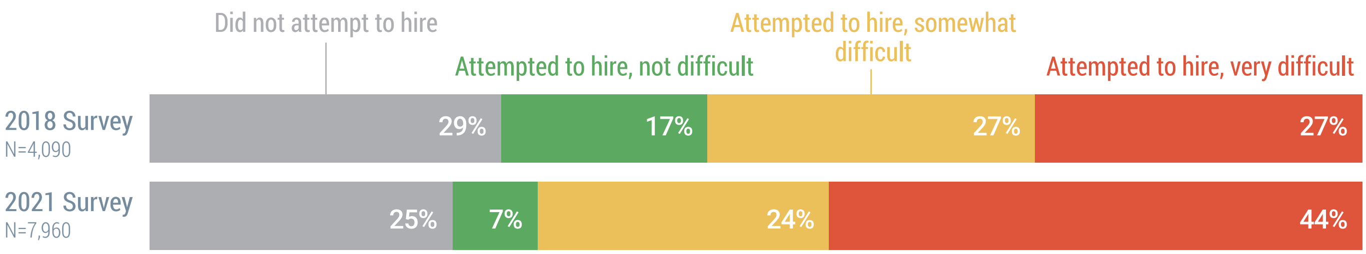
Credit risk is determined by the self-reported business credit score or personal credit score, depending on which is used to obtain financing for the business. If a firm uses both, the weaker score is used. "Low credit risk" is an 80–100 business credit score or 720+ personal credit score. "Medium credit risk" is a 50–79 business credit score or a 620–719 personal credit score. "High credit risk" is a 1–49 business credit score or a <620 personal credit score.

1 *See SBCS questionnaire for more details.*

HIRING AND RETENTION DIFFICULTIES

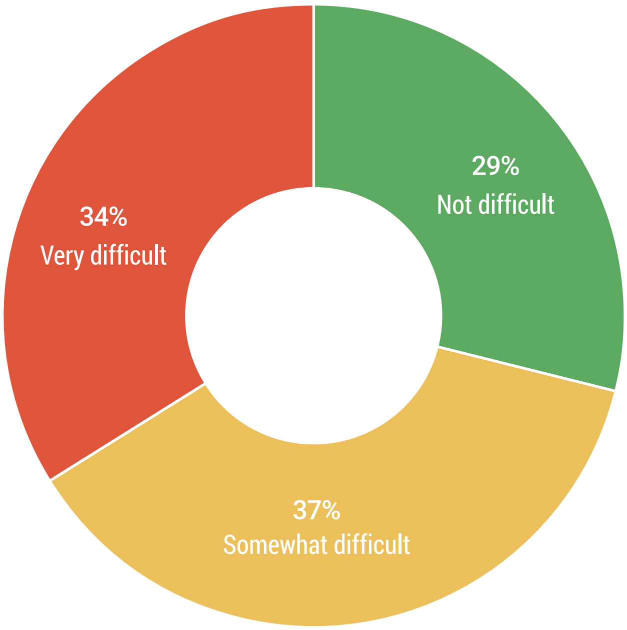
The share of firms that attempted to hire in the prior 12 months grew modestly from prepandemic times—from 71% in 2018 to 75% in 2021. But from 2018 to 2021, the share saying it was very difficult to hire increased by 17 percentage points (from 27% to 44%).

DIFFICULTY HIRING NEW WORKERS, *Prior 12 Months, By Year*[1,2] (% of employer firms)



Along with hiring new workers, firms also reported challenges retaining employees. Seventy-one percent said it was very or somewhat difficult to retain workers in the prior 12 months.

DIFFICULTY RETAINING WORKERS, *Prior 12 Months, 2021 Survey*[1,2] (% of employer firms) N=7,981

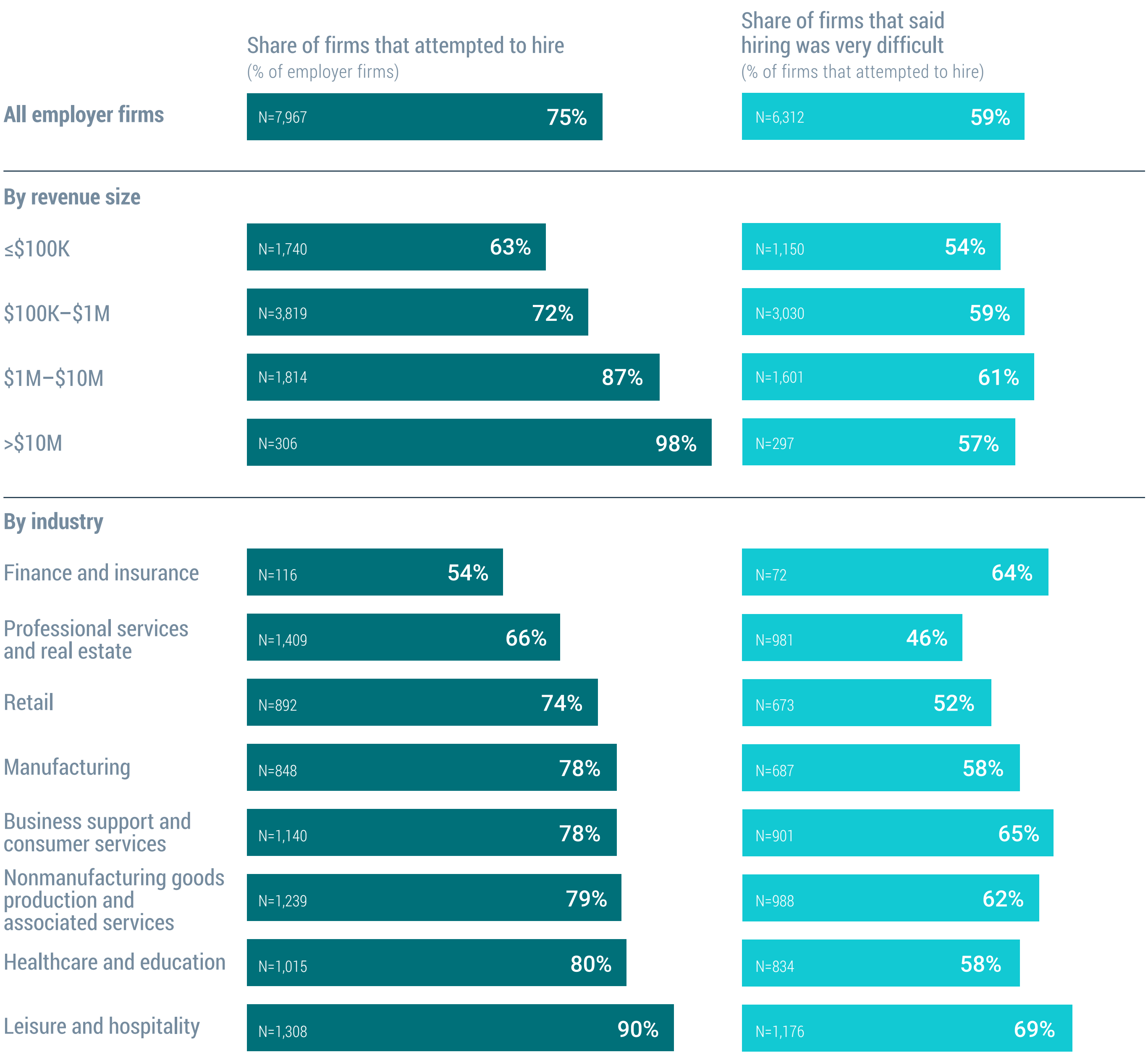


1 *See Notes and Definitions on page iv for details on time period definitions used in the SBCS.*
2 *The 2018 SBCS did not include a question on employee retention difficulty, so a comparison by year is not available. Percentages may not sum to 100 because of rounding.*

HIRING DIFFICULTIES BY TYPE OF FIRM

Larger firms were more likely than smaller firms to have attempted to hire workers and were more likely to report that their firm faced hiring difficulties. Leisure and hospitality firms were more likely than firms in other industries to report that hiring was very difficult.

SHARE OF FIRMS THAT ATTEMPTED TO HIRE AND SHARE THAT REPORTED VERY DIFFICULT HIRING CONDITIONS, *Prior 12 Months*[1]

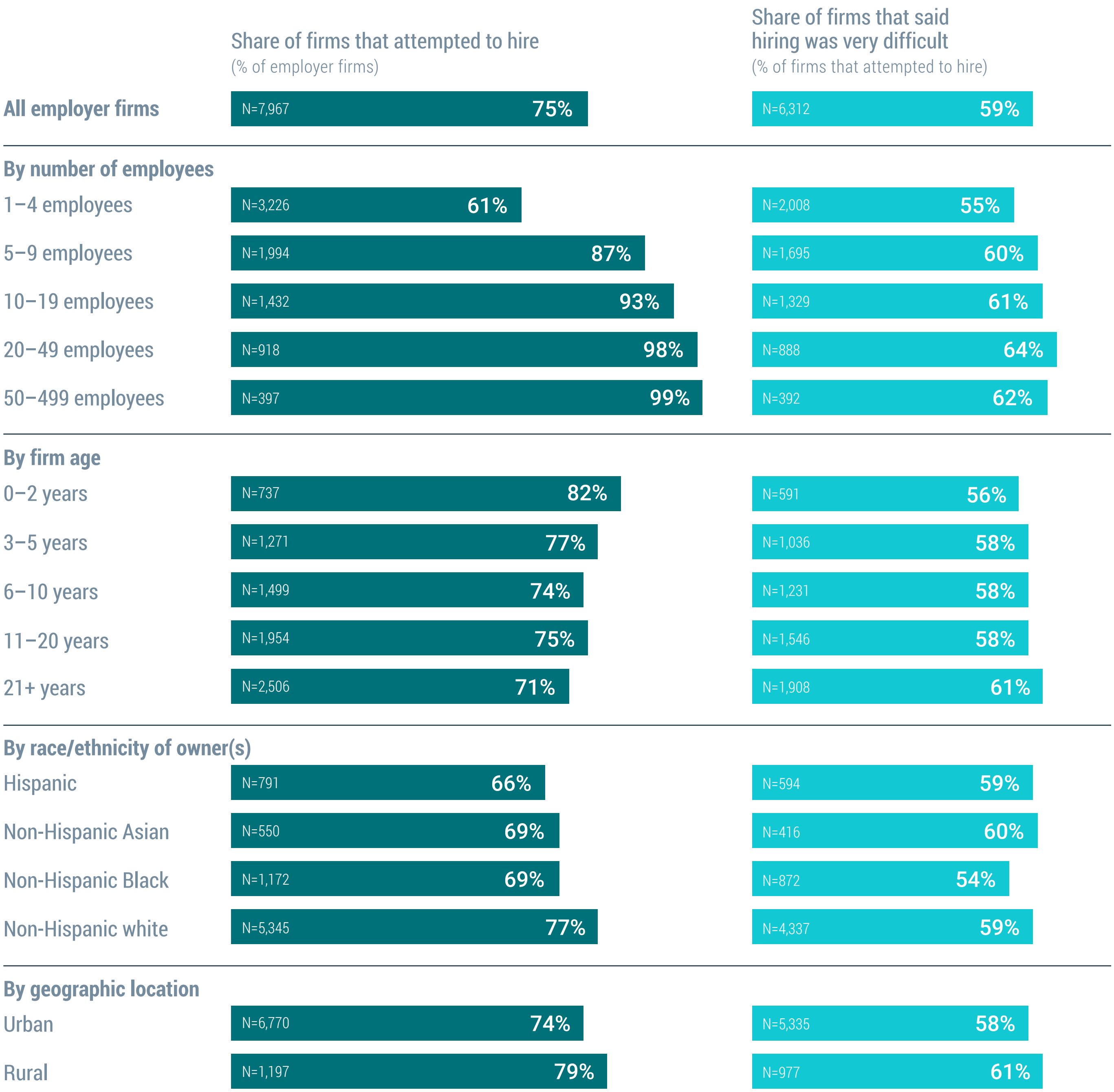


1 *The 59% of employer firms that said hiring was very difficult is shown here as a share of the firms that attempted to hire, while the chart on page 1 shows difficulty hiring as a share of all firms. See Notes and Definitions on page iv for details on time period definitions used in the SBCS. Revenue categories have been simplified and condensed for readability. Actual categories are ≤$25K, $25,001–$50K, $50,001–$100K, $100,001–$500K, $500,001–$1M, $1,000,001–$5M, $5,000,001–$10M, and >$10M. The nonmanufacturing goods production and associated services category includes industries such as agriculture, construction, wholesale trade, transportation, and warehousing. See Appendix for more details on industry descriptions.*

HIRING DIFFICULTIES BY TYPE OF FIRM
(Continued)

Older firms were less likely than younger businesses to attempt to hire but were about as likely to say that they found it very difficult. Overall, firms were similarly likely to report hiring was very difficult.

SHARE OF FIRMS THAT ATTEMPTED TO HIRE AND SHARE THAT REPORTED VERY DIFFICULT HIRING CONDITIONS, *Prior 12 Months*[1]



1 *The 59% of employer firms that said hiring was very difficult is shown here as a share of the firms that attempted to hire, while the chart on page 1 shows difficulty hiring as a share of all firms. See Notes and Definitions on page iv for details on time period definitions used in the SBCS. Native American-owned firms not shown because of insufficient sample size. Urban and rural definitions come from Centers for Medicare and Medicaid Services.*

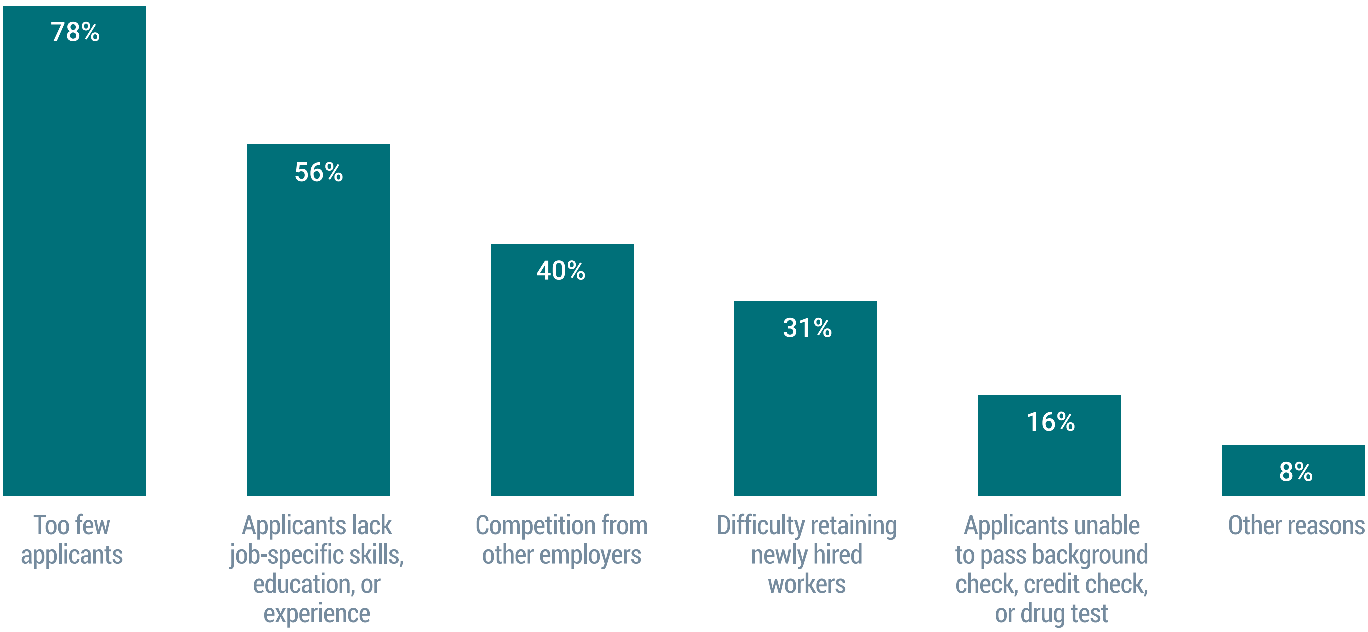
REASONS FOR HIRING DIFFICULTIES

Among businesses that reported it was very or somewhat difficult to hire new workers, 78% attributed their hiring challenges to a lack of applicants, an increase of 15 percentage points from the 2018 survey.

REASONS FOR HIRING DIFFICULTIES, *Prior 12 Months*[1]

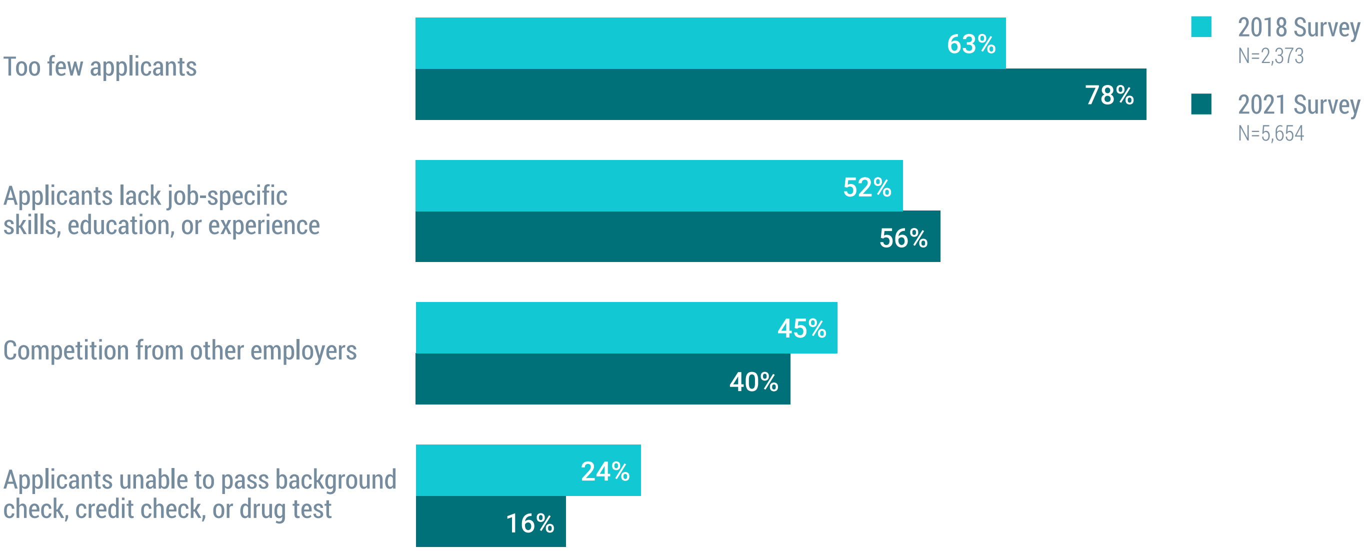
(% of employer firms reporting that hiring was very or somewhat difficult)

N=5,654



REASONS FOR HIRING DIFFICULTIES, *Prior 12 Months, By Year*[1,2]

(% of employer firms reporting that hiring was very or somewhat difficult)



1 *Respondents could select multiple options. See Notes and Definitions on page iv for details on time period definitions used in the SBCS.*

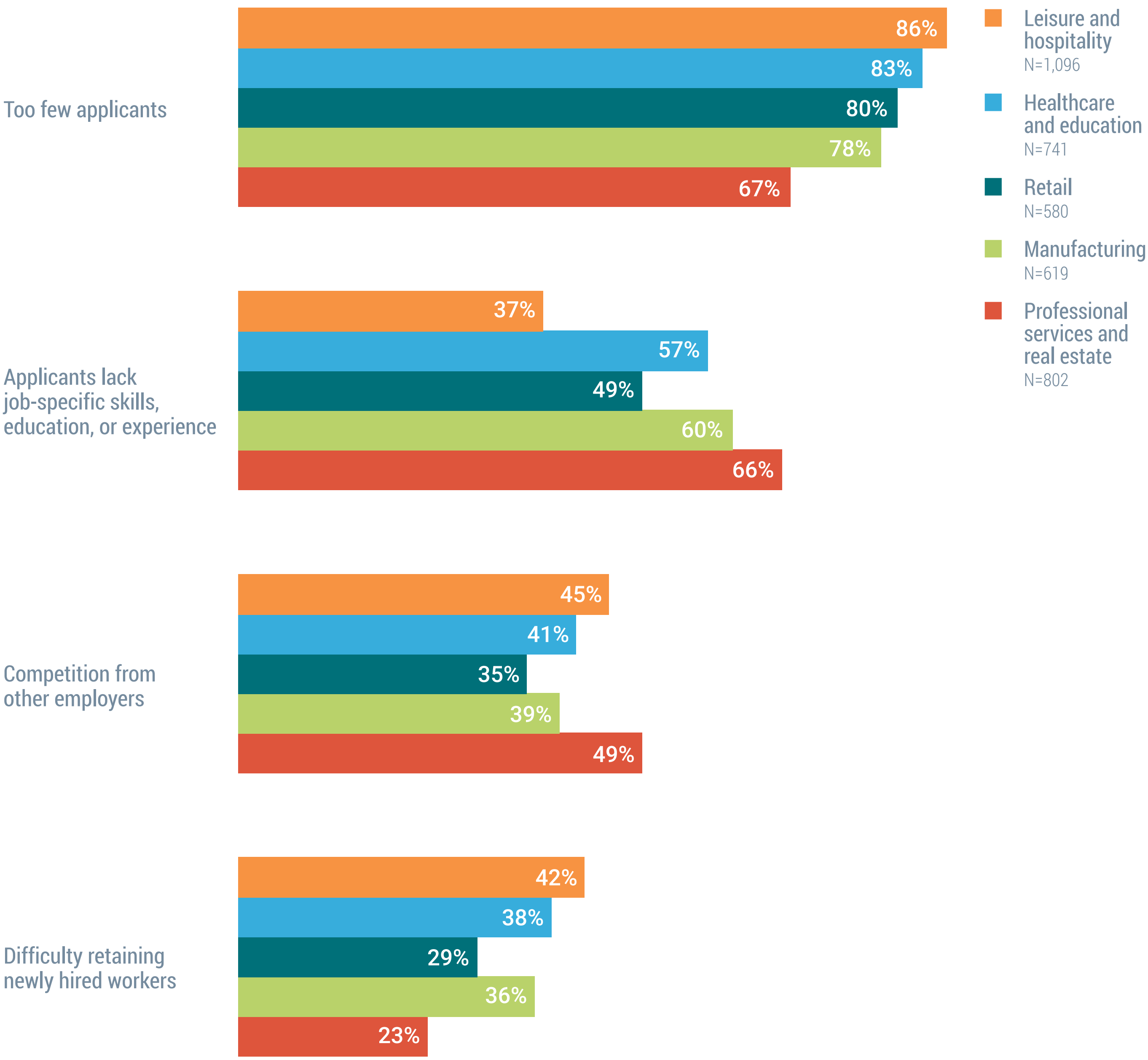
2 *The list of response options differed somewhat between the 2018 and 2021 surveys. Only the response options that were included in both years are shown. See the 2018 SBCS Questionnaire and the 2021 SBCS Questionnaire for more details.*

Source: 2021 Small Business Credit Survey, Federal Reserve Banks

REASONS FOR HIRING DIFFICULTIES
(Continued)

Leisure and hospitality firms were more likely than firms in other industries to cite a lack of applicants and difficulty retaining newly hired workers as reasons for their hiring difficulties. They were also less likely than other firms to say that applicants lacked job-specific skills, education, or experience.

REASONS FOR HIRING DIFFICULTIES, *Prior 12 Months, Select Industries*[1]
(% of employer firms reporting that hiring was very or somewhat difficult)



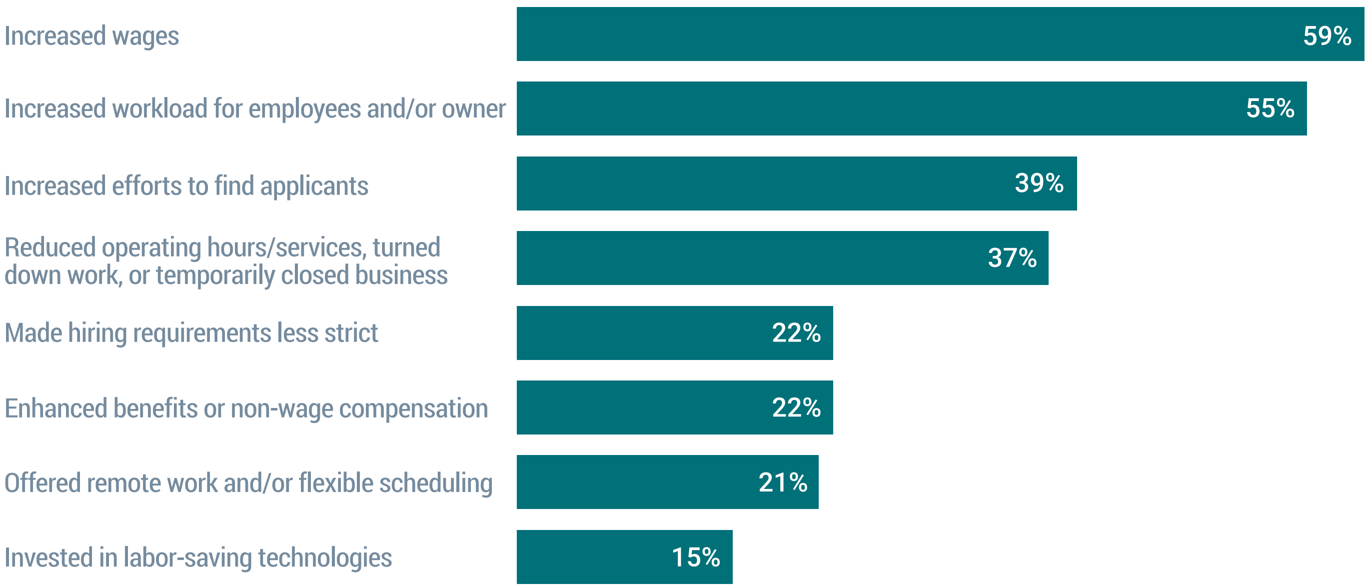
1 *Select industries and response options shown. See Appendix for more details. See Notes and Definitions on page iv for details on time period definitions used in the SBCS.*

RESPONSES TO HIRING AND RETENTION DIFFICULTIES

In response to hiring and retention challenges, businesses most often increased wages or shifted more work to existing employees and the owner. Smaller-revenue firms were more likely to reduce operations, while larger businesses were more likely to raise wages.

RESPONSES TO DIFFICULTIES HIRING OR RETAINING WORKERS, *Prior 12 Months*[1,2] N=6,660

(% of employer firms reporting that hiring and/or retaining workers was very or somewhat difficult)



TOP RESPONSES TO DIFFICULTIES HIRING OR RETAINING WORKERS BY REVENUE SIZE, *Prior 12 Months*[2,3]

(% of employer firms reporting that hiring and/or retaining workers was very or somewhat difficult)

	Most frequent response	Second most frequent response
≤$100K N=1,445	47%	42%
$100K–$1M N=3,094	60%	60%
$1M–$10M N=1,581	73%	59%
>$10M N=291	77%	67%

Reduced operating hours/services, turned down work, or temporarily closed business

Increased wages

Increased workload for employees and/or owner

Increased efforts to find applicants

1 *Response option "other" and "made no changes" not shown. See Appendix for more details. While the 2018 survey included a question about how firms responded to hiring difficulties, the question was materially different from the question in the 2021 survey. Therefore, year-over-year comparisons are not available.*

2 *Respondents could select multiple options. See Notes and Definitions on page iv for details on time period definitions used in the SBCS.*

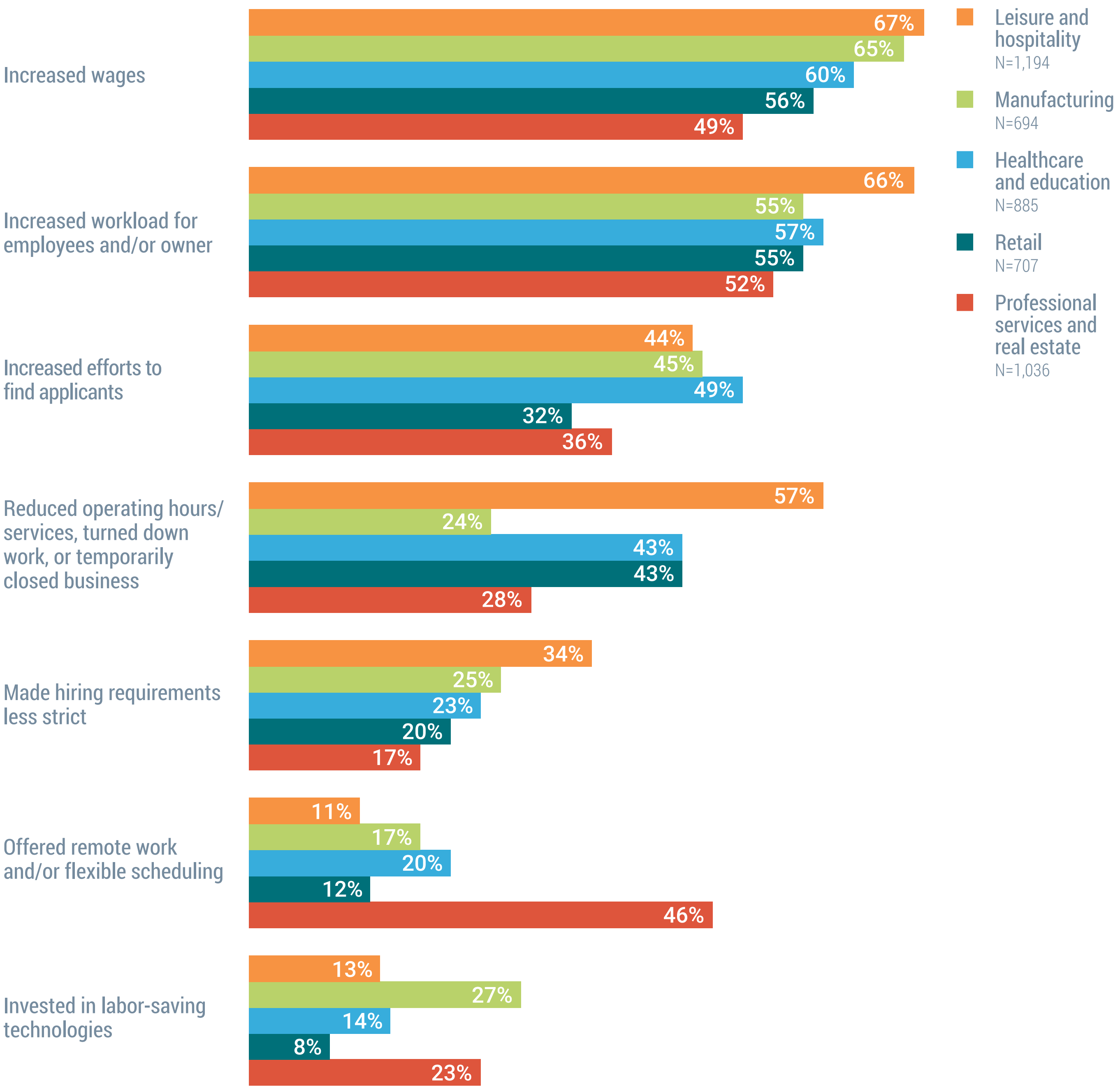
3 *Top response options shown. See Appendix for more details. Revenue categories have been simplified and condensed for readability. Actual categories are ≤$25K, $25,001–$50K, $50,001–$100K, $100,001–$500K, $500,001–$1M, $1,000,001–$5M, $5,000,001–$10M, and >$10M.*

RESPONSES TO HIRING AND RETENTION DIFFICULTIES
(Continued)

Responses to hiring and retention difficulties varied across industries. Leisure and hospitality firms were more likely than other firms to reduce operating hours or services, while professional services and real estate firms were more than twice as likely as firms in other industries to offer remote work.

RESPONSE TO DIFFICULTIES HIRING OR RETAINING WORKERS, *Prior 12 Months, By Industry*[1]

(% of employer firms reporting that hiring and/or retaining workers was very or somewhat difficult)



1 *See Notes and Definitions on page iv for details on time period definitions used in the SBCS. Select industries and response options shown. See Appendix for more details.*