

# The Impact of Natural Disasters on Small Businesses

## FINDINGS FROM THE 2021 SMALL BUSINESS CREDIT SURVEY

NOVEMBER 2022

### Overview

The 2021 Small Business Credit Survey (SBCS) found that 1 in 10 small employer businesses suffered losses from a natural disaster during the prior 12 months.<sup>1</sup> According to the National Centers for Environmental Information, the United States experienced 20 billion-dollar natural disasters in 2021, making it one of the costliest years in recent history.<sup>2</sup> Major events included Hurricane Ida, the historic cold wave in Texas and other southern states, and the destructive wildfire season in the West. To more deeply explore the impact of these and other natural disasters on small businesses, the SBCS includes a module of natural disaster-related questions for affected firms. This fact sheet outlines some of the major findings from the 2021 SBCS for employer firms with respect to natural disaster impact.



Hurricane Ida initially made landfall in Louisiana, where it caused extensive damage. The storm system moved northeast, causing destruction and flooding in New Jersey, New York, and Pennsylvania. This was the costliest weather event of 2021, with \$75 billion in total damages.<sup>3</sup> Hurricanes were the most common causes of disaster-related impact in the 2021 SBCS, with 43% of disaster-affected firms reporting such losses.



In February 2021, a historic cold wave hit many southern states, with temperatures reaching 40 degrees below normal from Nebraska to Texas. Texas was particularly hard-hit, leading to widespread power outages and major distress in impacted communities. This event resulted in roughly \$24 billion total in damages.<sup>4</sup> In the 2021 SBCS, 21% of disaster-affected firms reported impact from harsh winter weather such as this historic cold wave.



During the summer of 2021, wildfires stretched across the West, affecting California and several other western states. More than 7,000,000 acres of land burned, and smoke from the fires impacted air quality of states across the entire country. In total, these fires amounted to \$10.6 billion in damages.<sup>5</sup> Eleven percent of firms impacted by natural disasters in the 2021 SBCS reported fire-related damages.



Around **1 in 10** employer firms (12%) reported revenue losses related to a natural disaster in 2021.<sup>6</sup> Nearly **1 in 5** (17%) employer firms owned by people of color reported storm-related losses.

Among employer firms **affected by a natural disaster** in the prior 12 months, **69%** reported that they were in poor or fair financial condition at the time of the survey. In contrast, **57%** of firms that **did not experience a natural disaster** were in poor or fair condition.



**38%** of employer firms impacted by a natural disaster in 2021 were **previously impacted** by a similar disaster.

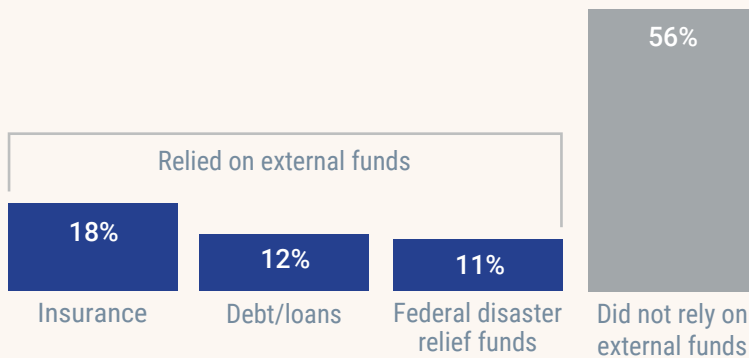
# Experiences of Disaster-Affected Firms

## Losses from Natural Disasters

Most disaster-affected firms reported total losses of less than \$25,000. Higher-revenue firms and firms with 50 or more employees were more likely than their counterparts to report losses exceeding \$100,000. Firms that had experienced a similar natural disaster in the past were also slightly more likely than those that had not to report losses greater than \$100,000 (19% and 14%, respectively).



## Reliance on External Funds for Business Losses



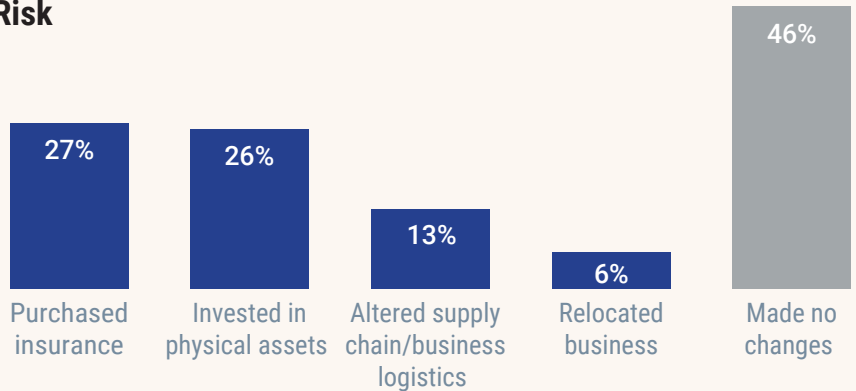
Forty-four percent of disaster-affected employer firms turned to external funding sources to cover their business losses. The most common sources of external funding were insurance, non-government loans, and federal disaster relief funds (for example, FEMA, SBA).

Among firms that turned to external sources, 80% covered at least some of their losses through external funding, while 20% recovered none. Firms owned by people of color were more likely than white-owned firms to say that they recovered none of the revenue losses through some type of disaster funding.

Note: Select response options shown.  
See the SBCS 2022 Report on Employer Firms appendix for more details.

## Steps Taken to Address Natural Disaster Risk

Among firms affected by natural disasters, 54% said they had taken some action in the past five years to address their natural disaster risk. The most common actions were purchasing insurance and investing in physical assets. Firms that had previously been affected by a similar natural disaster were more likely than firms affected for the first time to report having taken steps to address their natural disaster risk.



1 The SBCS uses a convenience sample of firms. To control for potential biases, the sample data are weighted to match the distribution of employer firms in the United States by number of employees, firm age, industry, geographic location, gender of owner(s), and race or ethnicity of owner(s). This analysis uses the employer firm weights described in the methodology of the 2022 Report on Employer Firms. The SBCS data in this report are largely drawn from an optional end-of-survey module completed by 938 employer firms affected by natural disasters in the prior 12 months.  
2 Source: 2021 U.S. billion-dollar weather and climate disasters in historical context | NOAA Climate.gov  
3 Ibid.  
4 Ibid.  
5 Ibid.  
6 For more on the effects of natural disasters on firms owned by people of color, see Hiti, Martin, Claire Kramer Mills, and Asani Sarkar. 2022. "How Do Natural Disasters Affect U.S. Small Business Owners?" Liberty Street Economics (blog). September 6, 2022. <https://libertystreeteconomics.newyorkfed.org/2022/09/how-do-natural-disasters-affect-u-s-small-business-owners/>.

### About the authors:

Brianna Funderburk is a former intern at the Federal Reserve Bank of Cleveland and current economics graduate student at the University of Pittsburgh. Lucas Misera is a policy analyst on the Small Business Credit Survey team at the Federal Reserve Bank of Cleveland.

For more information on the Small Business Credit Survey, please visit [fedsmallbusiness.org](https://fedsmallbusiness.org).

