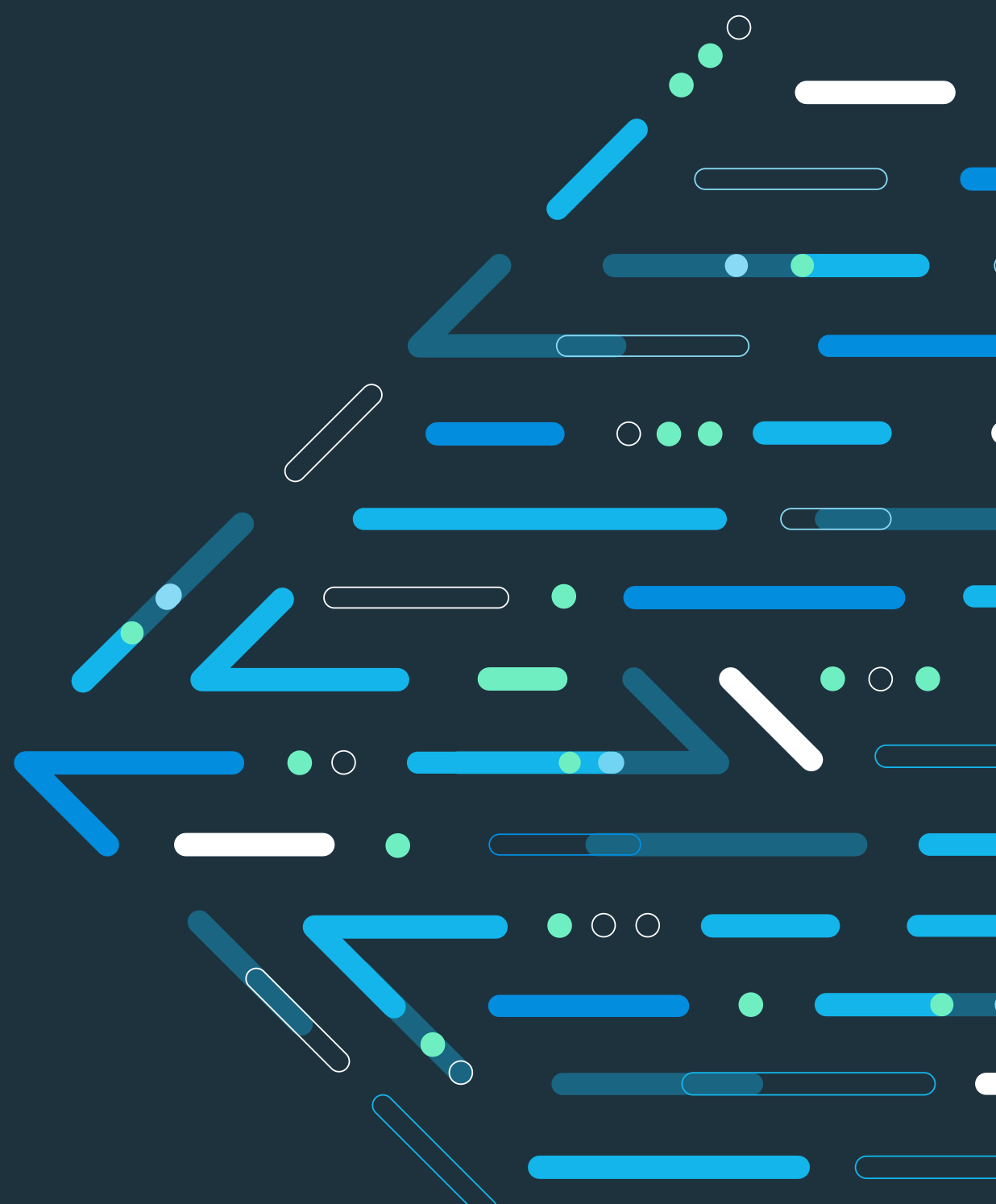




SMALL BUSINESS INSIGHTS

SPECIAL REPORT

The job ahead: Small businesses and the global economic recovery



accenture

These insights were produced by Xero and
Accenture for Xero Small Business Insights

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Foreword

Steve Vamos



Steve Vamos

Steve Vamos

CEO, Xero

Reflecting on the events of the past year, the outlook is more positive for many small businesses than it was 12 months ago. While the worst appears to be over in terms of the health and economic crises, we shouldn't confuse this progress with the belief that the upheaval is behind us.

Vaccination rollouts are underway in many countries, but at varying paces. The economic recovery remains uneven, with some countries now recording jobs and activity back above pre-crisis levels while others are yet to reach these milestones.

It is important to acknowledge that there are many small businesses still trading in challenging circumstances and some small businesses have been unable to make it through the pandemic crisis.

This Special Report is focused on the enormous task that lies ahead to rebuild segments of our economy and the associated jobs for people they employ. Small business represents a large proportion of global employment and it will be difficult for the economy to fully recover from the shock of the pandemic unless small business growth is ignited.

This report looks behind the numbers and includes the stories of some of our customers from around the world, looking at how they and their staff coped in 2020 and their plans for 2021. The businesses we feature in this report talk about the strong connection they have with the people they employ.

Throughout the pandemic, Xero has been working with governments in Australia, New Zealand and the United Kingdom to share anonymised and aggregated data to help them understand how small businesses have been impacted by the pandemic and how associated trading restrictions have played out. As we move into the post-COVID era, Xero will continue to advocate on behalf of small businesses to governments and policy makers.

A key part of this ongoing commitment is the launch of our new Small Business Index, part of the Xero Small Business Insights programme. Data from this programme is featured for the first time in this Special Report. This index provides unique, regular and timely data showing how small businesses are performing and the important role they play in our economy. Coverage includes small businesses in Australia, New Zealand and the United Kingdom.

Using a single index approach to encapsulate overall performance makes it easier to understand what is happening to the overall state of small business. We will also be releasing monthly, near-real-time data on small business sales, jobs, wages and time to be paid, so analysts and policy-makers can dig deeper into what is happening in small businesses.

As we rebuild our economies and communities following a year like no other, it is more important than ever to remember that small business is at the heart of the global economy.

Executive summary

Small businesses critical for global jobs recovery

Across the world many small business¹ employees and owners almost instantaneously lost their jobs or faced reduced hours as a consequence of the pandemic-induced lockdowns and the subsequent recession of mid-2020.

The Small Business Index², part of the Xero Small Business Insights programme, shows these job losses were not uniform across industries. In particular, customer-contact businesses, such as hospitality and arts & recreation, generally faced tougher and longer restrictions and thus greater job losses. Beyond these industry variations the Small Business Index data also shows younger staff, women and casual staff were disproportionately impacted by job losses.³

The jobs recovery will be a key focus for business and governments in 2021. Between 17% (US) and 45% (Australia) of private sector employees work in a business with less than 20 employees in Australia, Canada, New Zealand, United States, and the United Kingdom.⁴ Consequently a meaningful and sustainable jobs recovery will only be possible if small businesses start hiring or re-hiring.

This report is focused on five of the key economies where Xero operates (Australia, Canada, New Zealand, United Kingdom and the United States). These countries are at various stages of the jobs recovery - ranging from situations where small business jobs ended 2020 back around similar levels to late 2019 through to others which were still experiencing jobs lower than pre-pandemic levels at the end of 2020. But even for those countries that are doing better, they still lost a year of job growth in 2020.

Collectively, Xero estimates these five countries need to create approximately 2.9 million⁵ new small business jobs over 2021 to get back on the growth trajectory they were on before the shock of the pandemic. Over two-thirds of these jobs are in the United States.

Lessons from the downturn to help with jobs recovery

Based on the findings of this report around how the pandemic impacted jobs, there are a number of lessons to observe as policies are developed to support the jobs rebuild.

1. The negative job impacts were not evenly felt across populations.
2. Small businesses need to play a significant role in the jobs recovery.
3. Increasing digital adoption by small businesses has a role in the economic recovery.
4. Some countries have a long way to go to even get small business jobs back to late 2019 levels.
5. Wages growth is yet to return to pre-pandemic levels, even in countries that have started to rebuild jobs.

¹ For the purposes of this report small businesses are those that have less than 20 employees, unless otherwise stated.

² The Small Business Index is a data set of anonymised and aggregated data from over 300,000 small businesses on the Xero platform across Australia, New Zealand and the United Kingdom. More than 95% of these businesses have less than 20 employees.

³ Note: both age and gender selection is voluntary on the Xero platform.

⁴ OECD (2019), OECD SME and Entrepreneurship Outlook 2019, OECD Publishing, Paris.

⁵ This estimate is based on a combination of data from national official statistical agencies and OECD. See Method section for full details.

1.0

Small business jobs during the pandemic

The COVID-19 pandemic had a severe impact on small businesses during 2020, with many facing trading restrictions or closing in response to the health emergency. Xero's *Pandemic Insights: Small Business Experience* report from September 2020 highlighted that small businesses were more affected by the economic fallout from the pandemic than large businesses. In Australia, small business job losses were 50% larger at the peak in April than for big businesses. In New Zealand, job losses were 25% larger on average over April for small business. In the UK, small business job losses look to have been almost double the losses for big businesses.⁶

This report looks at what has happened since as economies have moved, at varying speeds, out of recession and on the path to recovery.

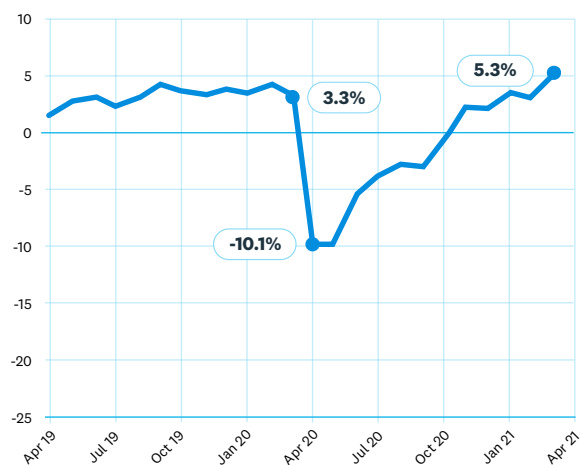
⁶Xero (2020) *Pandemic Insights: Small Business Experience*

1.1 Xero Small Business Index shows signs of jobs recovery

Fig 1. Small Business Jobs

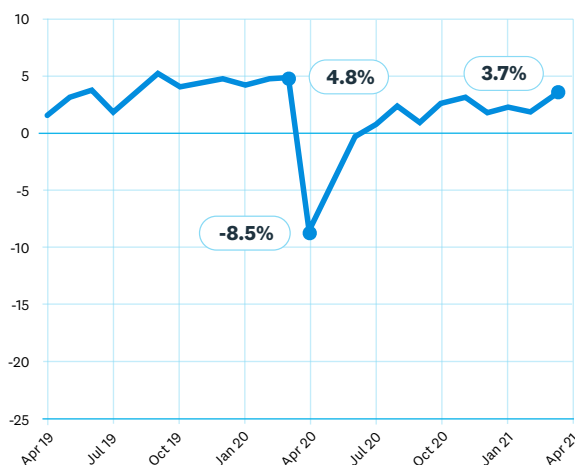
%, year-on-year change, monthly

Australia



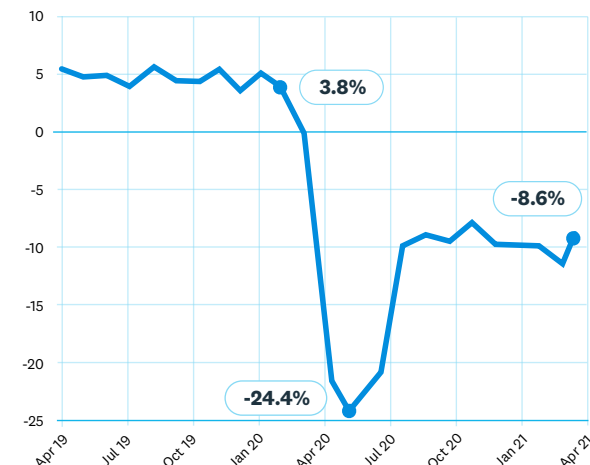
In Australia, small business jobs fell 10.1% year-on-year (y/y) in April 2020, at the start of the initial lockdown period. But from mid-May 2020, when operating restrictions started to ease, small business jobs began to gradually rebuild. This jobs recovery continued through the second half of 2020 and into 2021 and by March 2021 small business jobs were 5.3% higher than March 2020.

New Zealand



In New Zealand, jobs losses were not as pronounced as in Australia. Jobs fell 8.5% y/y in April but then began to steadily recover over the remainder of 2020 and in March 2021 were 3.7% above March 2020 levels.

United Kingdom



In the United Kingdom, three periods of national lockdowns has meant that small business jobs followed a very different trajectory to Australia and New Zealand. Small business jobs collapsed to be down 24.4% y/y in May 2020 during the first national lockdown. They recovered somewhat in the northern summer to be down 9.0% y/y in August. Since then ongoing lockdowns have limited a more substantial jobs recovery. In March 2021 small business jobs were still 8.6% below March 2020 levels.



Case Study: Cranfields, New Zealand

When COVID-19 hit, many small business owners, particularly those in retail, had their worlds turned upside down. Meanwhile, Nicola Cranfield, owner of Cranfields – a retail boutique that is “home to beautiful things” in Wellington, New Zealand – had just taken the plunge and signed a three-year lease on a second premises.

When the pandemic hit, one of Nicola’s biggest concerns was how she was going to support her staff, most of whom have been part of the Cranfields team for several years.

The government’s wage subsidy scheme was a huge weight off her shoulders, and Nicola took comfort knowing she could provide her staff with some security in those initial months.





“We have an amazing, loyal team, and I’m super grateful for their commitment and hard work. When we had to close the store, I was really expecting the worst and wondering how I was going to make it work, because our income was obviously going to take a hit. But I took my responsibility to my staff as my biggest concern” she says.

After level four lockdown ended in late April and the store could re-open, Nicola was understandably nervous about taking on more staff to help with the new store. After burning the candle at both ends for a couple of months, she committed to hiring more staff.

“We were overwhelmed with interest in our advertised positions. A lot of applicants were from the travel industry, or had been planning to head overseas and had to change their plans. Most of them would have been great, and I carried tremendous guilt that I wasn’t able to reply to everyone but I just didn’t have the bandwidth,” she says.

“The two staff we recruited are both fantastic and we’re very fortunate to have them on the team. Both of them were going through life changes – one had been in a taxing marketing role and decided to take a step back from that to pursue her passion for art. And the other person had moved cities after lockdown and really valued Cranfields’ working environment, relationships and overall philosophy.”

Nicola believes it’s the importance of those relationships that has been reinforced for a lot of people over the last 12 months.

1.2 Job impacts unequal across industry, age, gender or employment type

Analysis of the XSBI data shows that the job impacts varied across numerous measures, both initially and during the recovery phase to date.

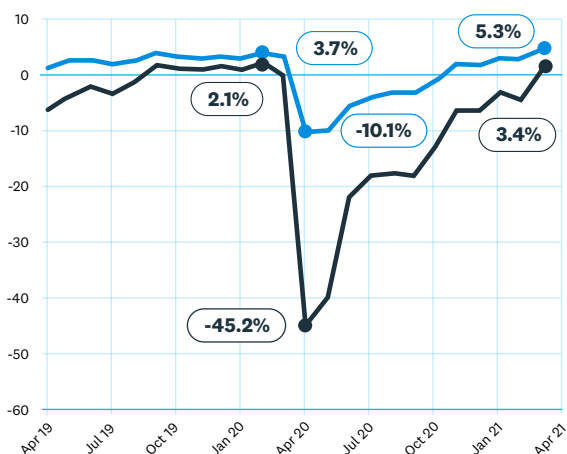
1.2.1 Hospitality experienced greater initial job losses and a slower recovery

Fig 2. Small Business Jobs, hospitality versus national results

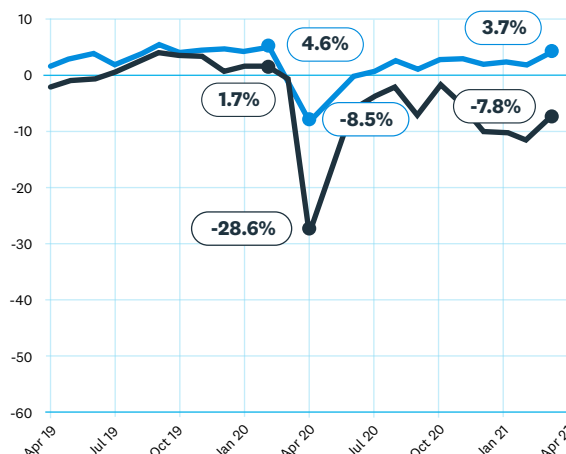
%, year-on-year change, monthly

— Aggregate — Hospitality

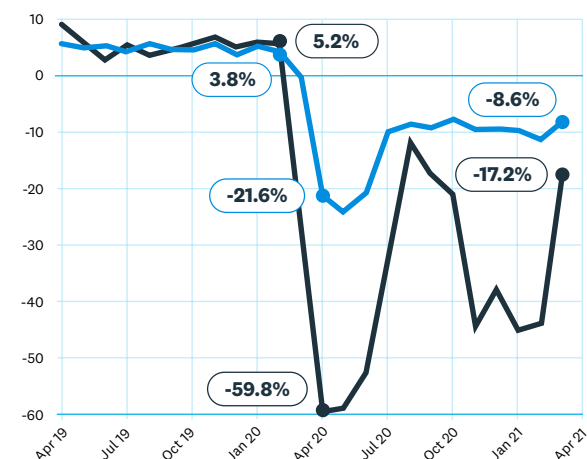
Australia



New Zealand



United Kingdom



The XSBI data shows hospitality small businesses were one of the hardest hit sectors, as the customer-contact nature of the industry meant they were often the first businesses to close the physical venue and the last to be able to re-open. Many of these small businesses were reliant on takeaway and delivery options during restriction periods.



Case study: Red Cow Organics, Australia

Despite the pandemic and the initial disruptions to supply-chains, focusing on sustainable growth has enabled Andy and Matt Jackman of Red Cow Organics to expand their small-scale, family-run organic dairy manufacturing business in Tasmania into a thriving artisan cheese and milk enterprise filled with agritourism potential.

Like many other food producers, COVID-19 affected impacted on Red Cow Organics' distribution model. With restaurants closed, farmers' markets shut, and tourism severely limited, the business lost many revenue streams.

“Most of our business was driven by restaurants, hospitality and tourism. When that all shut down, we switched our focus to selling direct to customers via our website and other retailers,” explains Andy.

State and federal government support packages helped with staff retention early on when the future seemed uncertain. The business accessed the first round of JobKeeper (wage subsidy scheme), but was ineligible afterwards due to a spike in retail sales driven by people eating at home more and rising consumer interest in supporting Australian small businesses.

Red Cow Organics is now entering an exciting growth phase off the back of strong retail sales and the rebound of the hospitality and tourism sectors.

“We recently recruited more sales, marketing and farm staff, and we’ll add more as we diversify. We’re constructing a new dairy facility and planning on introducing agritourism. Offering bespoke tours will allow us to welcome customers to our farm to learn about what we do,” says Andy.



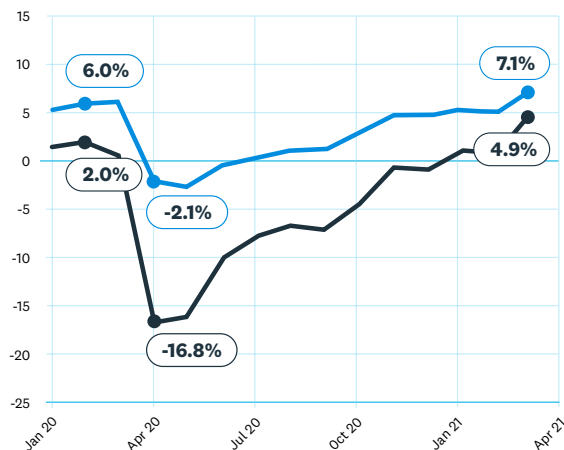
1.2.2 Under 30s experienced greater initial job losses and a slower recovery

Fig 3. Small Business Jobs by age

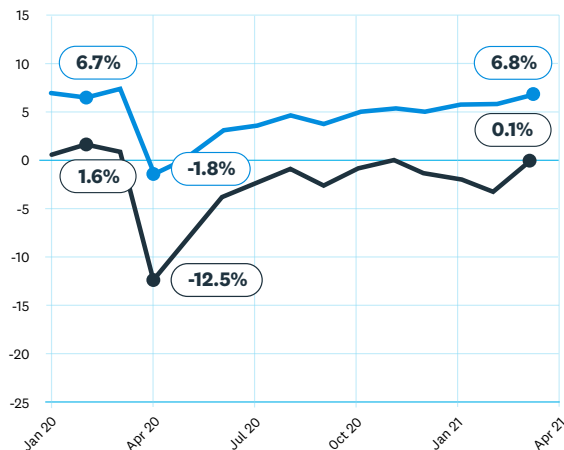
% year-on-year % change, monthly

— Over 30 — 30 & under

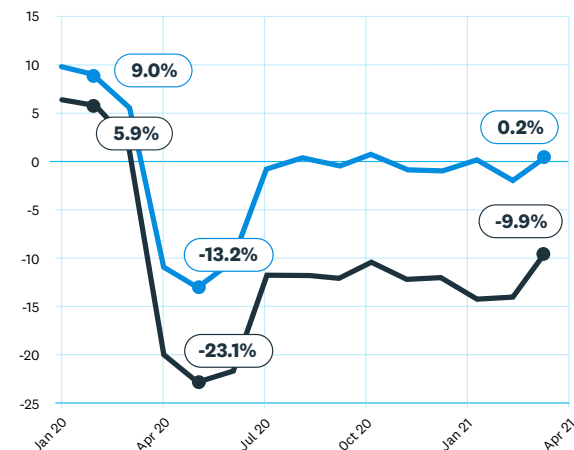
Australia



New Zealand



United Kingdom



People aged 30 and under experienced greater jobs losses across the three countries than older workers when the pandemic first hit. As the recovery got underway in the second half of 2020, younger employees have also had slower job growth than their older counterparts.

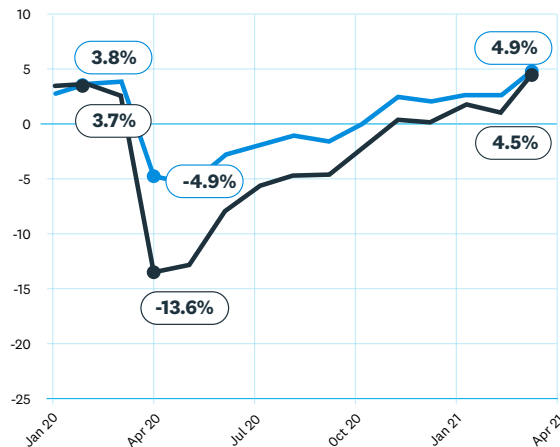
1.2.3 Women experienced greater initial job losses and a slower recovery

Fig 4. Small Business Jobs by gender

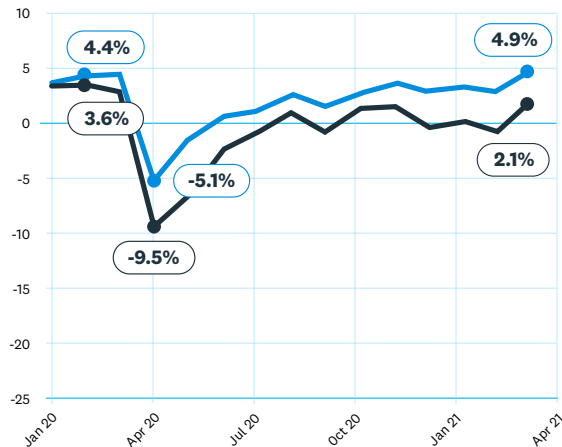
% year-on-year % change, monthly

— Men — Women

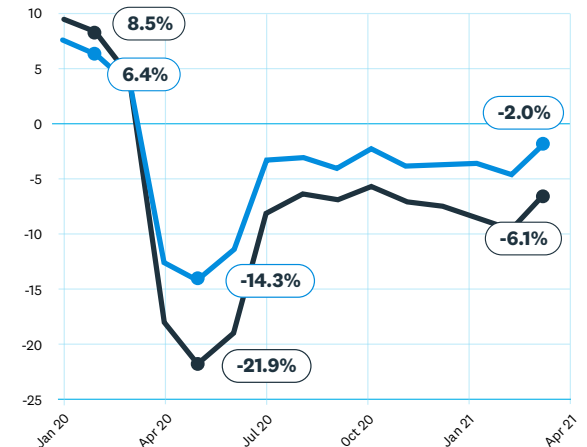
Australia



New Zealand



United Kingdom

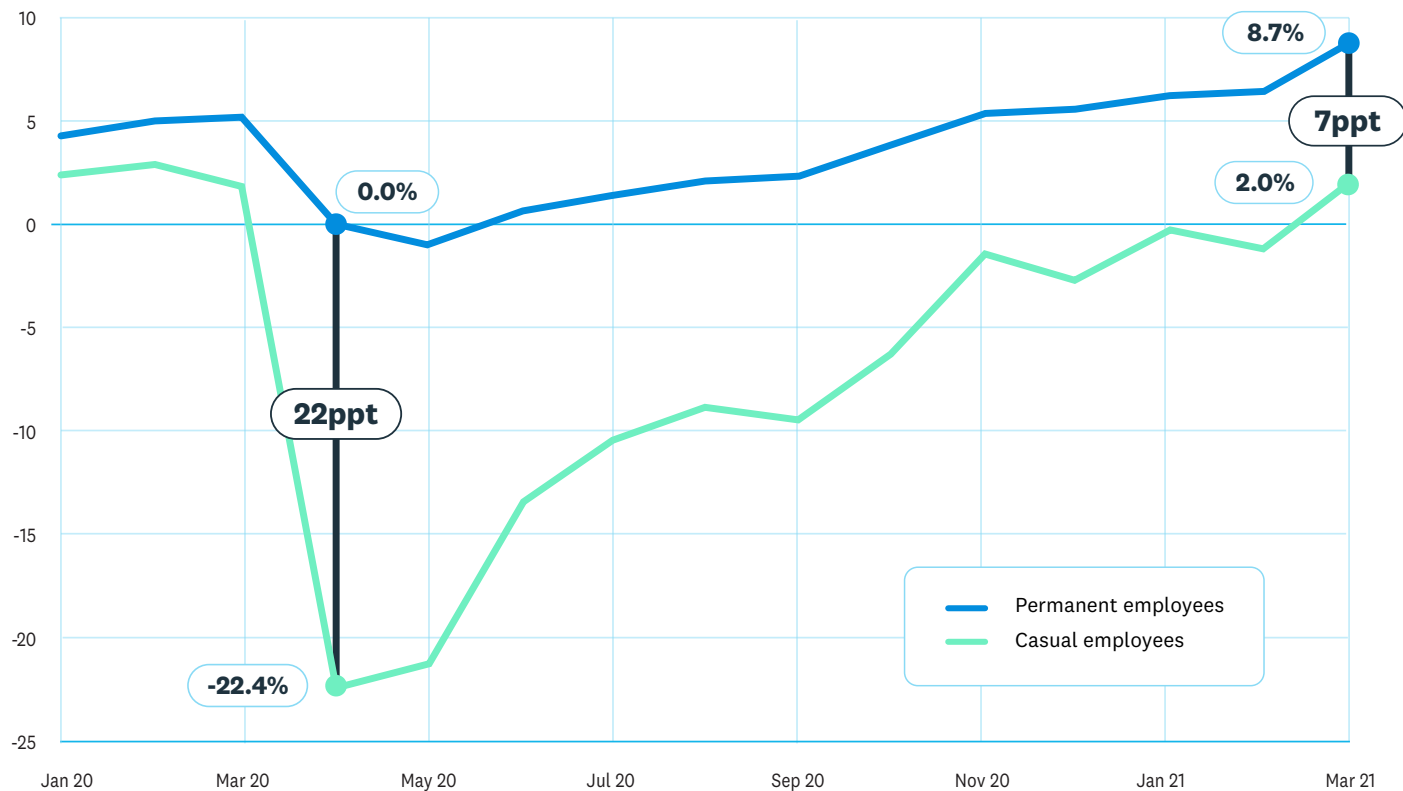


Women experienced sharper declines in employment in the small business sector during the early months of the economic crisis, across all three countries. Female employment growth continued to lag male employment growth during the second half of the year and into 2021 as employment recovered, with only Australia being close to returning to parity by March 2021.

1.2.4 Casual staff experienced greater initial job losses and a slower recovery

Fig 5. Casual Small Business Jobs in Australia

%, year-on-year change, monthly



In Australia, the Small Business Index data is able to distinguish between permanent and casual employees. An analysis of this data across different employment types shows casual jobs falling significantly more than permanent employees. Casual jobs fell 22 percentage points (ppt) more than other employees. Casuals that were employed for less than 12 months were excluded from the wage subsidy scheme 'Jobkeeper' so employers had no financial support to keep them employed. Over the second half of 2020 casual jobs have recovered faster than permanent employees. Nevertheless, there is still a gap of 7ppt between employment growth in permanent jobs and casual jobs by March 2021.

Special Focus: Anatomy of a lockdown

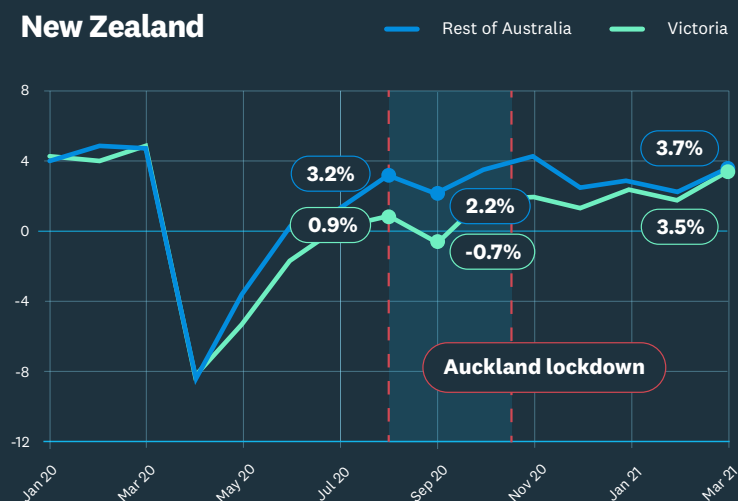
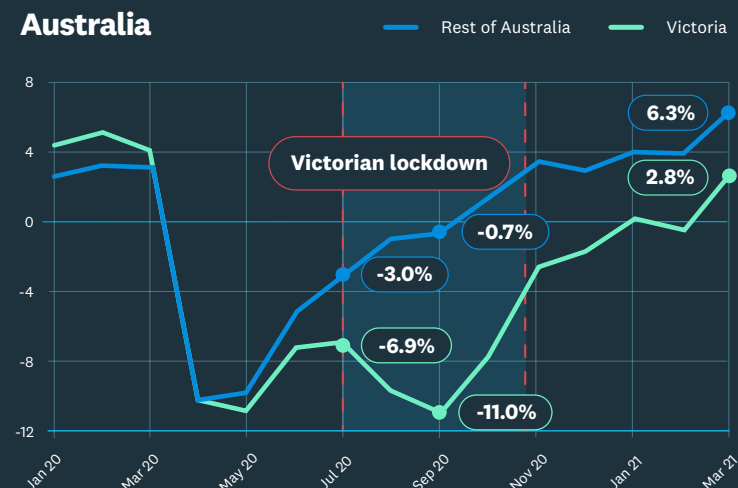
Xero's Small Business Insights data shows that lockdowns have a significant impact on small businesses and, in turn, their capacity to provide employment. However, on a positive note, once lockdowns are lifted small businesses do rebound with jobs returning and starting to catch back up to the rest of the country. To do this successfully though small businesses must be able to survive the lockdown period and often require government assistance to do so.

This was the case in the Australian state of Victoria which entered a second lockdown period in late July 2020 until October 2020. During this time most non-essential small businesses were either operating under restricted conditions or closed completely. This saw a gap open up between Victoria and the Australian jobs outcomes. Once small businesses could start to re-open, however, it only took a few months for Victoria to start to rebuild jobs and start to close the gap on

the national outcome, although Victoria has not completely closed the gap on the Rest of Australia even by March 2021.

In Auckland, New Zealand, September 2020 saw a return to the tighter restrictions of Alert Level 3 which saw a gap open up between the city and the rest of the country. This closed over the subsequent months and was similar to the national results by early 2021.

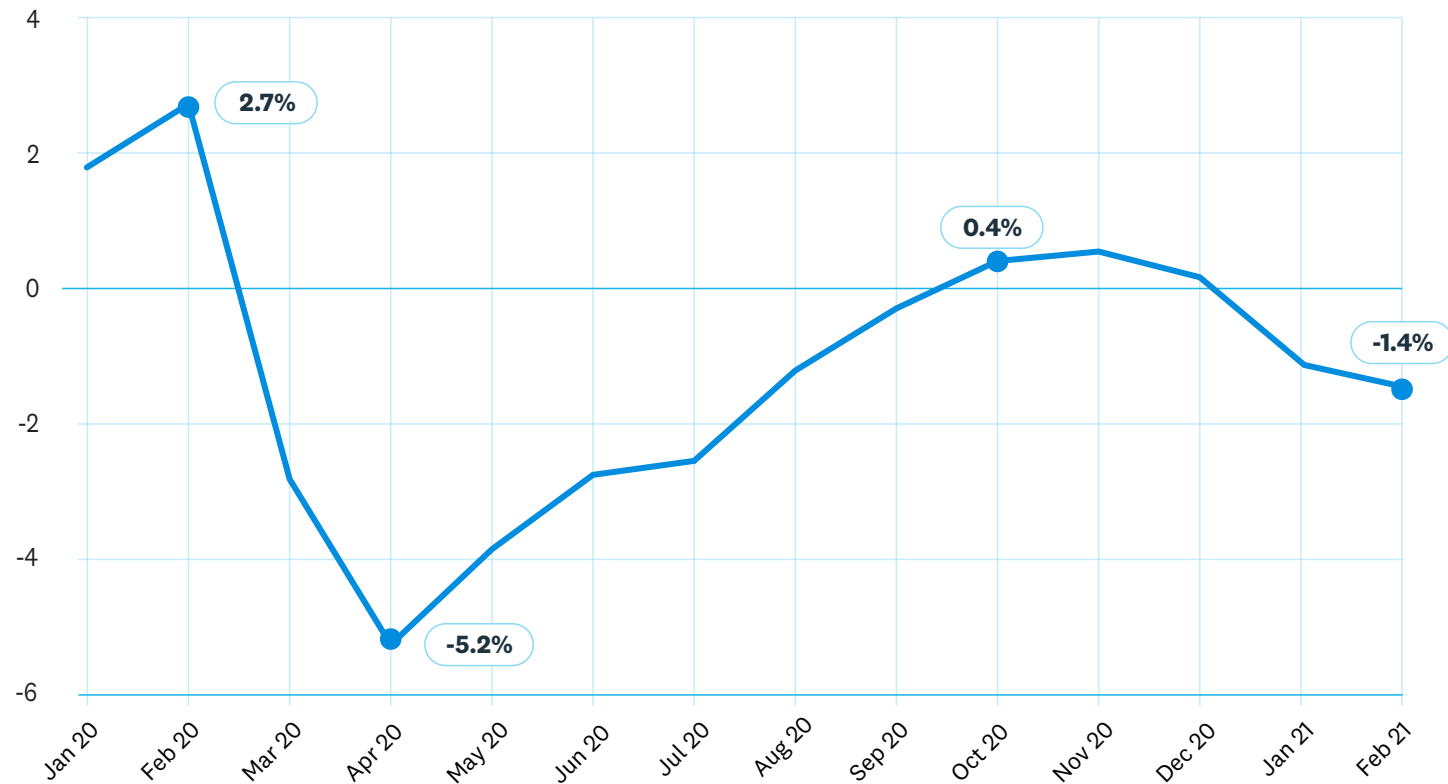
Fig 6. Jobs growth – lockdown affected regions
%, year-on-year change, monthly



1.3 US data shows double-dip in small business jobs

Fig 7. US Small Business Jobs

% year-on-year % change, monthly



Xero's preferred payroll partner in the United States, Gusto⁷, has been tracking the impact of the pandemic on small businesses that use its platform. These businesses generally have less than 15 employees. As with the countries covered in the XSBI programme, the largest year-on-year falls in small business employment were seen early in the crisis. The trough was in April when small business jobs were 5.2% lower than April 2019. Jobs then gradually recovered in the subsequent months and returned to small positive growth in October (+0.4% y/y). The onset of winter, a resurgence in COVID-19 cases, and a lapse in government aid however, caused jobs growth to slow again and return to falling year-on-year rates by February 2021 (-1.4%).

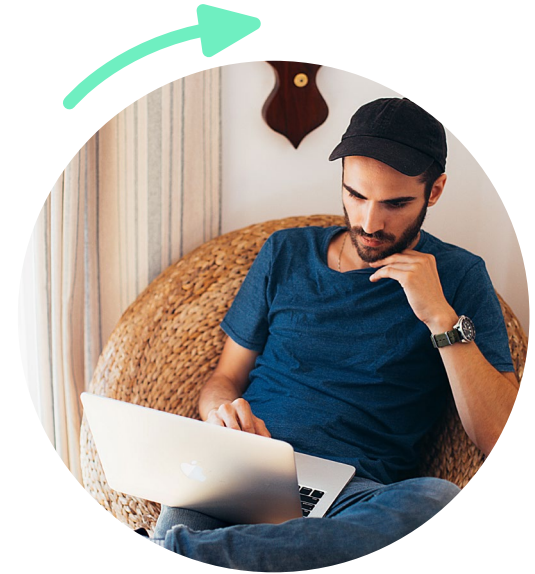
Source: Gusto

⁷United States small business jobs data in this report has been provided by Gusto, Xero's preferred payroll provider in the United States. This data set covers over 100,000 businesses across the US

Gusto has also been tracking industry impacts and, similar to the Small Business Index results, observed that the impact of the pandemic has not been even across industries. In February 2021 food and beverage small business jobs were still 22.9% below where they were in February 2020. Other hard hit industries include salon and spa businesses (-14.1% y/y), arts & entertainment (-13.5% y/y) and other personal services (-10.8% y/y). For all these industries, these year-on-year small business job declines are at or close to the largest they have been since the pandemic hit. In contrast, small businesses in industries such

as accounting (+6.0% y/y) and healthcare & social assistance (+2.2% y/y) now have jobs above the pre-pandemic level.

Geographic impacts have not been even across the United States either. States such as New York (-13.7% y/y), Oregon (-10.4% y/y) and Washington (-8.1% y/y) still have small business jobs well below February 2020 levels. In contrast, Wyoming (+21.9% y/y), Nevada (+6.6% y/y) and Rhode Island (+6.5% y/y) have small business jobs well above February 2020 levels.



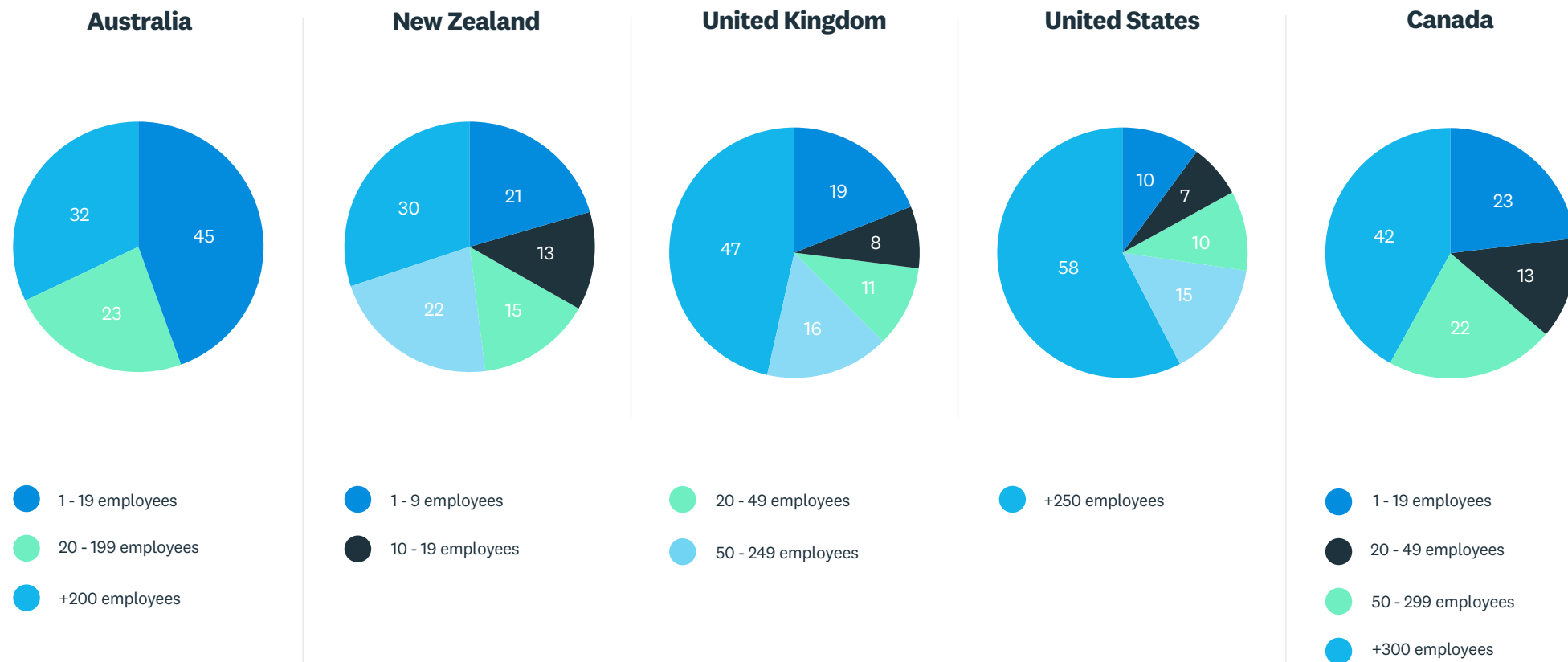
2.0

Small businesses have a key role in jobs recovery

One of the key contributions made by small businesses to both their communities and the economy is employing people. Consequently, small businesses will play an important role in the jobs recovery task ahead. The importance of small businesses as employers means that without a strong recovery in small business hiring it will be difficult to achieve any meaningful jobs rebuild.

Fig 8. Share of national business employment, by firm size⁸

% year-on-year % change, monthly

⁸ OECD (2018) Structural and Demographic Business Statistics Database

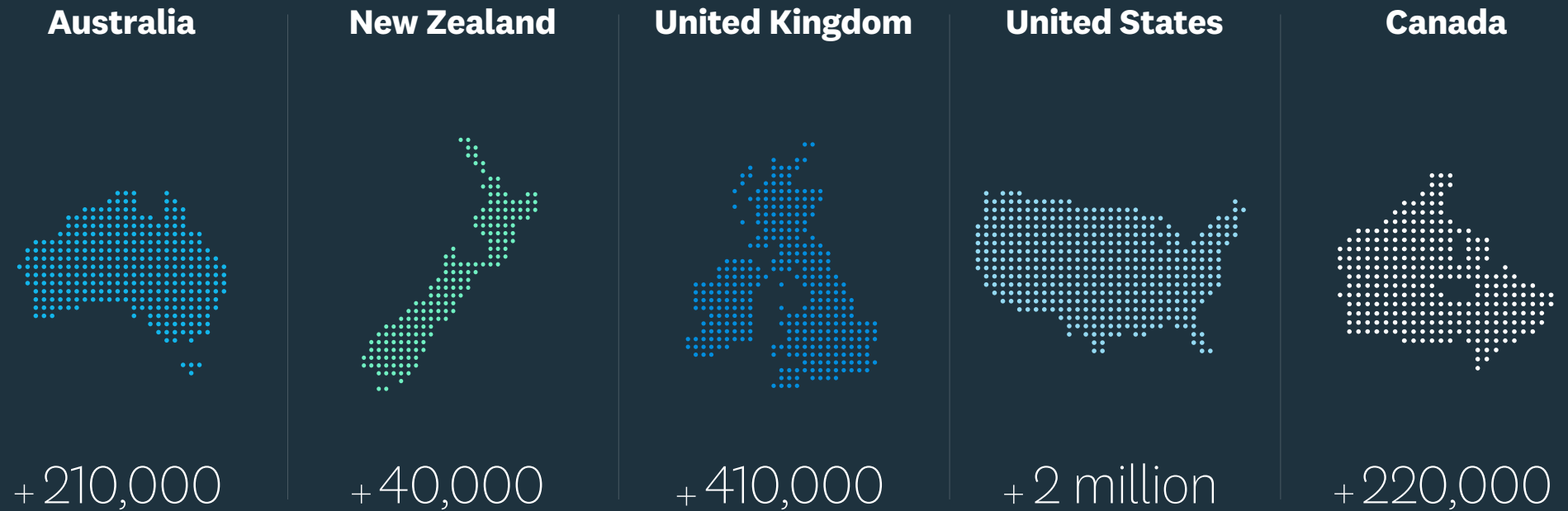


2.1 How many small business jobs are needed?

As discussed in Section 1, small business jobs fell significantly in early 2020 across all major economies. Using official national statistics for private sector employment, by the end of 2020 New Zealand small business jobs had returned to the same level as late 2019. Australia had almost returned to the small business jobs levels seen at the end of 2019. But the other countries described in this report (US, UK and Canada) still had a considerable amount of rebuilding to do to even return to end of 2019 levels.

Using official data sources from each country we have estimated that approximately 2.9 million small business jobs will need to be created over 2021 to recover the losses of 2020 and end 2021 as if the pandemic had not interrupted the normal growth trajectory of small business jobs. Two-thirds of these will be in the United States, where official data shows that jobs are yet to return to pre-pandemic levels. Even New Zealand, which has had the best jobs recovery results, still lost a year's worth of employment growth. These jobs are particularly needed for groups that were hard hit during the pandemic such as women, younger people, those working in hard hit industries and casual/insecure workers.

Fig 9. How many small business jobs are needed to return to pre-pandemic growth trajectory?⁹



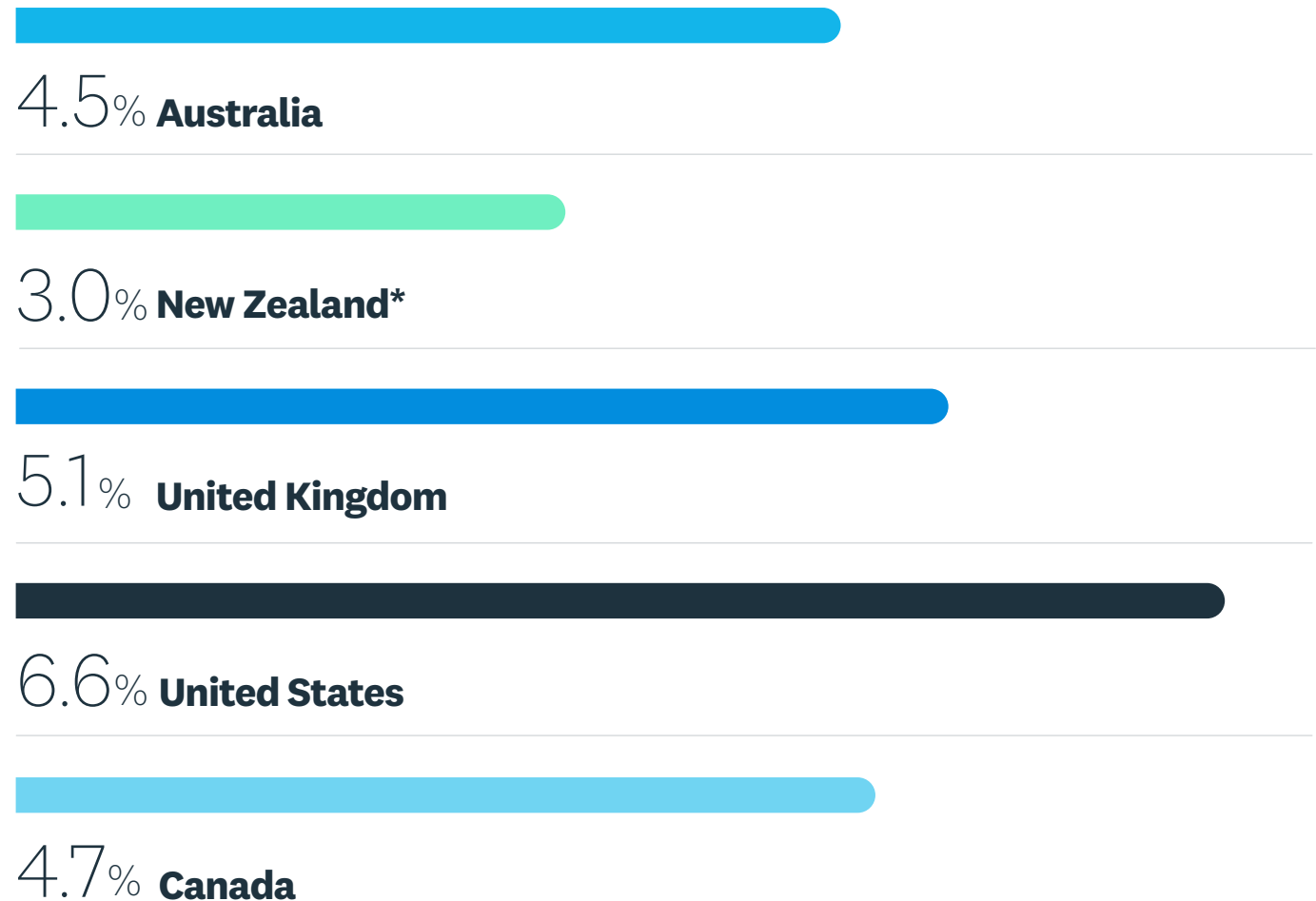
Source: various national statistical employment publications, OECD and Xero analysis

⁹ These estimates use official national statistics for private sector employment and historical growth rates and shares of employment for businesses with less than 20 employees. For full methodology and sources see Methods section.

As well as a variation in the size of the small business jobs task between countries, there are also differences in the economic and health environments facing small businesses as they try to rebuild jobs. It is important to be aware of these external factors that will impact on how effectively each country can close the small business jobs gap.

The March 2021 stimulus package in the United States (American Rescue Plan) is equivalent to 8.5% of annual GDP and will provide an immediate economic boost. There are likely to be spill-over benefits to Canada, one the closest trading partners of the United States. The United Kingdom will also have significant amounts of ongoing government support through 2021, as outlined in the 2021 Budget released in March 2021. In contrast, the downturns in economic activity during 2020 in Australia and New Zealand were less pronounced and the major COVID-19 related government direct support packages have now largely ended. Consequently, the forecast GDP growth rates for 2021 are also smaller.

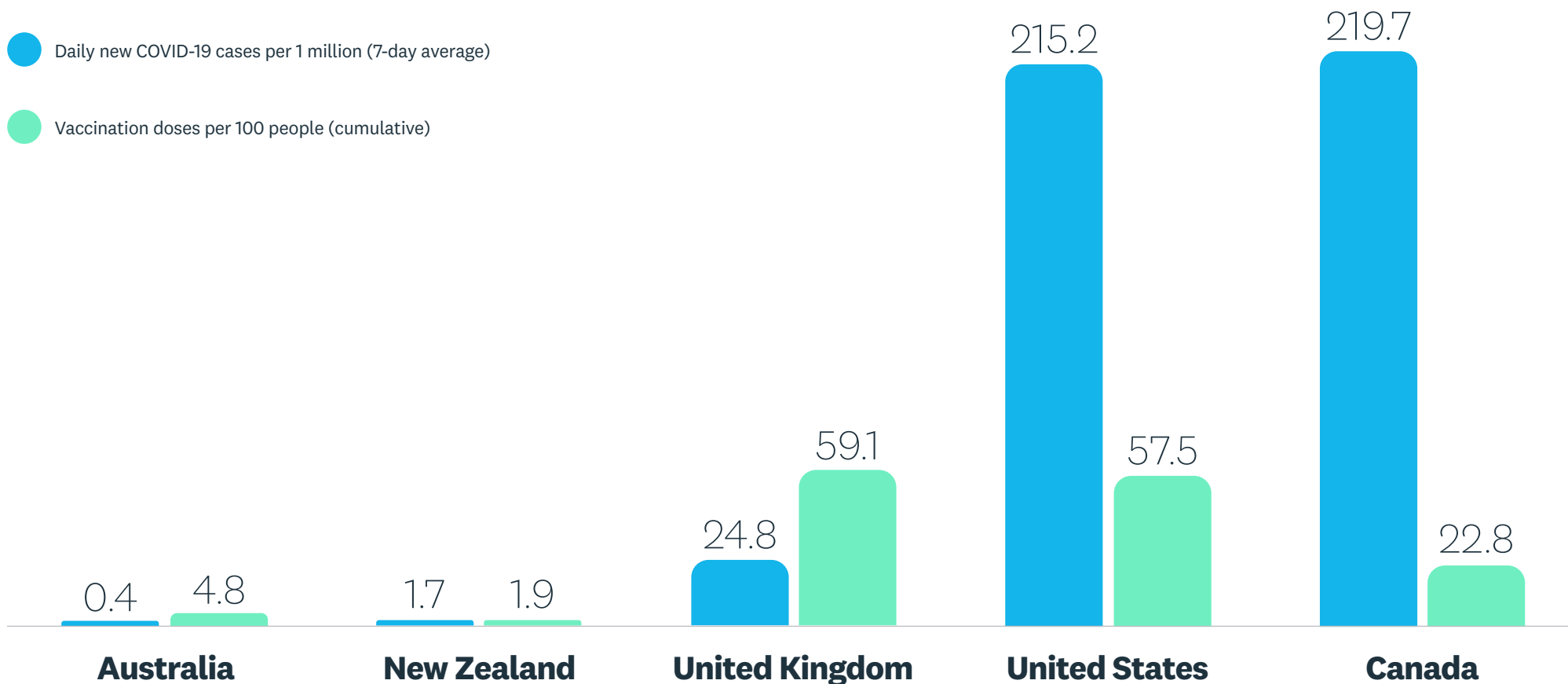
Fig 10. Broader economic environment - OECD GDP forecasts



*New Zealand forecast is from RBNZ for March Yr 2022, as the OECD March 2021 Update did not include a forecast for New Zealand. Source: OECD (2020), OECD Economic Outlook, Volume 2020 Issue 2, OECD Publishing, Paris.

Fig 11. Current state of COVID-19 infections and vaccinations

As at 13 April 2021



The health environment that small businesses are operating in varies significantly across the five countries. The United Kingdom and the United States are still facing the highest number of COVID-19 cases, whereas Australia and New Zealand have very low numbers which are largely due to returning citizens. However, the vaccination progress is much more advanced in the United Kingdom and the United States. The impact of large-scale vaccination isn't yet known, but any subsequent easing of travel and border restrictions would help economic activity.



Special Focus:

Role of app use in supporting small businesses through pandemic

The OECD considers the digitisation of small businesses to be such an important potential driver of economic growth that it has established a special group (D4SME) to examine how barriers to digital take-up can be lowered for small businesses.¹⁰ Similarly, the UK Government noted in its March 2021 Budget papers that the use of just one business organisation software package is associated with a productivity premium of at least 10%.¹¹



Analysis of Xero data supports these views around the importance of digitisation, using an example of the use of applications in small businesses.

The September 2020 XSBI Special Report, *Pandemic Insights: Small Business Experience*, outlined how

app-using small businesses were more resilient during the initial stage of the pandemic. An update of this analysis shows that strong adopters of technology experienced a less severe downturn and have recovered significantly stronger than small businesses who don't use any apps.¹²

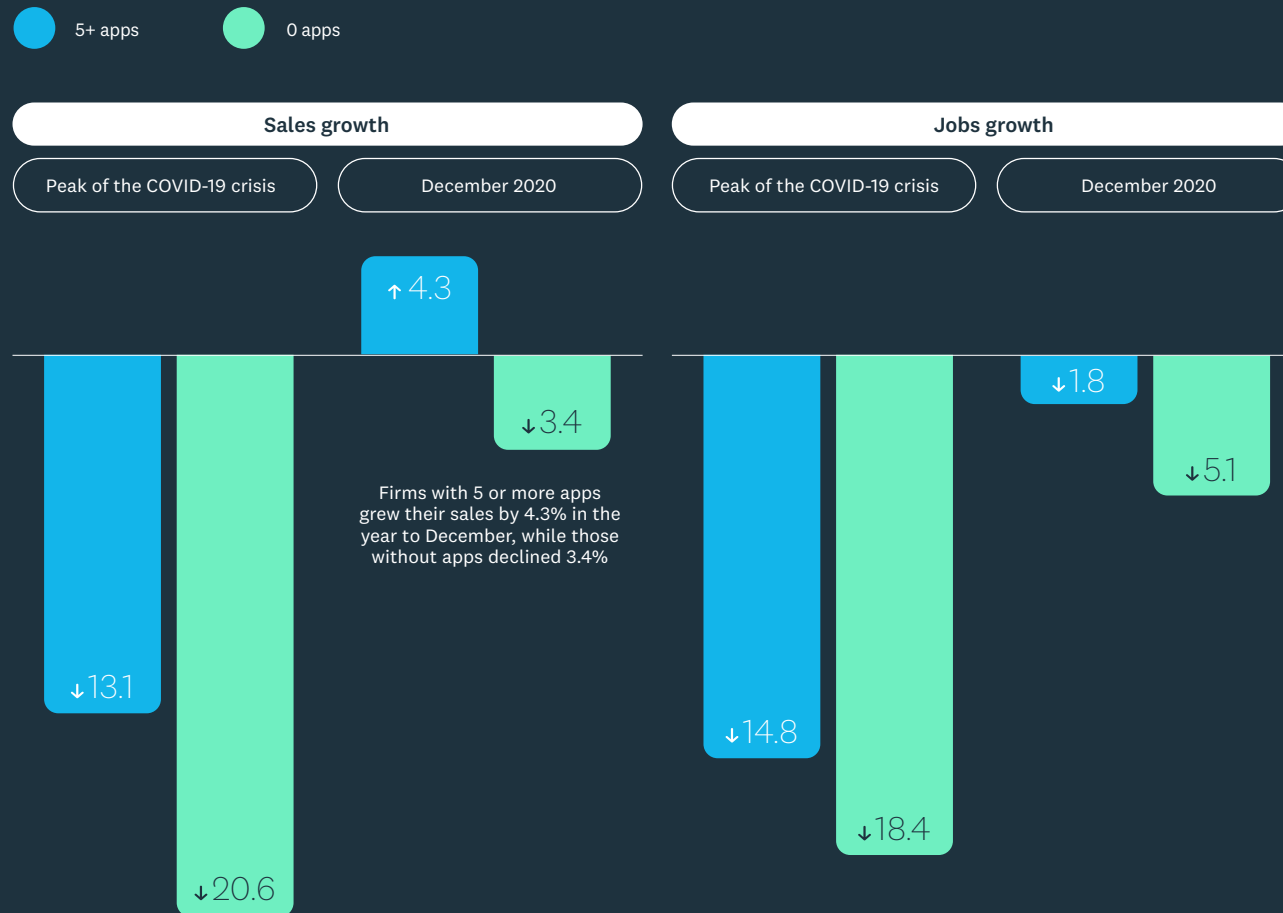
¹⁰ OECD D4SME initiative – <https://www.oecd.org/going-digital/sme/aboutus/>

¹¹ Information and communication technology intensity and productivity', ONS, October 2018.

¹² These estimates come from a firm-level regression of jobs/sales growth to the relevant month, on a dummy for whether the firm has five or more apps connected, plus fixed effects for industry, business size and country. See Methods section for full details.

Fig 12. Sales and jobs growth for app adopters and non-adopters

%, year-on-year growth



Small businesses who had five or more apps connected to their Xero accounts prior to the COVID-19 crisis were more resilient during the initial peak of the crisis in April/May 2020. Sales were down 13% compared to the year before, a considerably softer impact than small businesses who had not adopted any digital technology to manage their business (-21% y/y). More resilient sales during the COVID-19 crisis may have also resulted in less severe job losses. App-using small businesses lost approximately 1 in 7 jobs during the peak of the crisis. Nevertheless, they fared considerably better than other firms, who lost approximately 1 in 5 pre-crisis jobs.

This outperformance may be, at least in part, due to the flexibility that using apps gives business owners, allowing them to maintain a range of operational functions – such as customer databases, payments, invoicing – even when lockdowns mean they can't attend their usual work location.¹³

A smaller impact during the COVID-19 crisis also likely helped fuel a relatively strong recovery for these small businesses that had more than five apps connected to their Xero account. These small businesses returned to near net job growth in December 2020 (-1.8% y/y) and grew their sales at levels near the pre-crisis average. Conversely, firms who had no apps connected to their accounts are yet to recover either sales (-3.4% y/y) or jobs (-5.1% y/y).

Source: Xero Small Business Insights, Accenture.

¹³ In addition, some of this outperformance may be due to the fact that more productive or better-managed firms are more likely to use apps to manage their business.



Case study:

Popcorn Shed, United Kingdom

When the pandemic and subsequent lockdowns hit London, boutique popcorn brand Popcorn Shed saw its traditional revenue streams go quiet overnight. The tight-knit team behind the delicious gourmet snacks had to think fast, upskilling and relying on technology to take their business in a direction they hadn't anticipated.

Before the pandemic hit, most of Popcorn Shed's business was wholesale, B2B and direct to cinemas. Laura describes that almost overnight these revenue streams went quiet as traditional B2B customers closed their doors.

Like many others, they had to act fast to implement and improve on ways to reach different customers and moved quickly to a business to consumer model. Through rapid upskilling and adaptability, they learnt tools that they had not previously used such as Facebook and Google advertising.

They credit the success of this pivot to a reallocation of their budget from product development to online advertising. The results speak for themselves. Laura says the brand has seen its online sales grow 1200% from 2019 and they're now exporting to over 20 countries including Hong Kong, Japan, Portugal, Sweden and France.



3.0

Small business wages trends

3.1 Small business wages growth during the pandemic

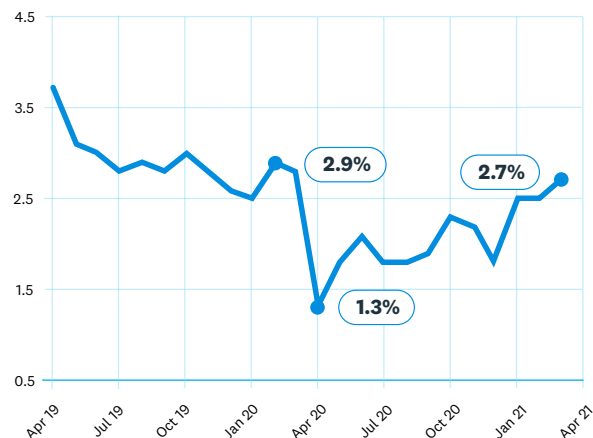
The new Xero Small Business Index tracks this important measure month to month. From a broad economic perspective, wages growth is an important support for household spending and thus overall economic growth. The wages measure is featured in the Xero Small Business Index because, like jobs, it is part of the important contribution that small business makes to the community.

Wages are recovering in Australia and New Zealand but are yet to do so in the United Kingdom which experienced a larger contraction over 2020.

Fig 13. Small Business Wages

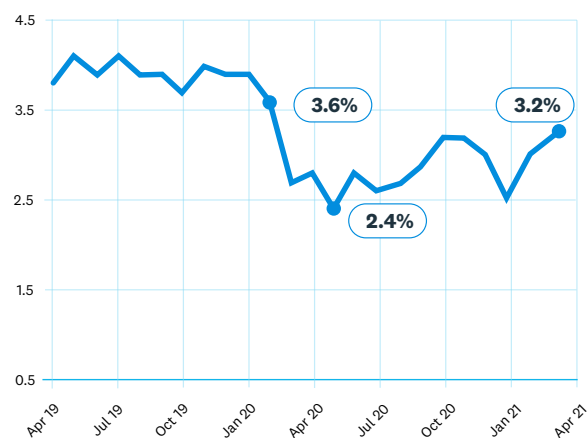
%, year-on-year change, monthly

Australia



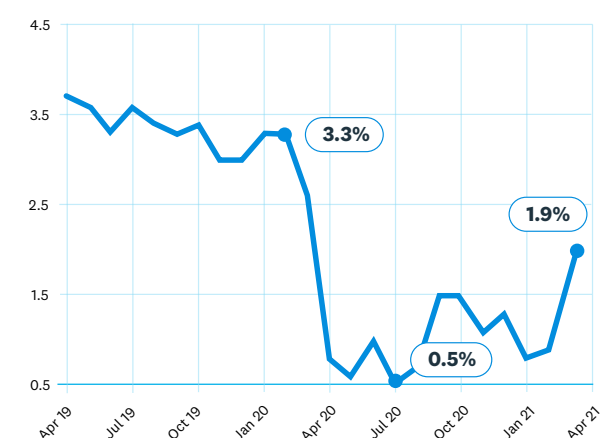
In Australia, wages growth in the small business sector slowed sharply at the start of the pandemic to a low of 1.3% year-on-year growth in April 2020. Since then growth has accelerated and was 2.7% higher than a year ago in March 2021. Nevertheless, this result is still below the 2019 monthly average of 3.0% y/y.

New Zealand



In New Zealand, wages growth slowed immediately when the pandemic hit to a low of 2.4% year-on-year in May 2020. But wages growth recovered throughout the rest of 2020 to be 3.2% year-on-year in March 2021. While it is positive to see this recovery in wages growth, the March 2021 result is still below the 2019 monthly average of 3.8% y/y.

United Kingdom



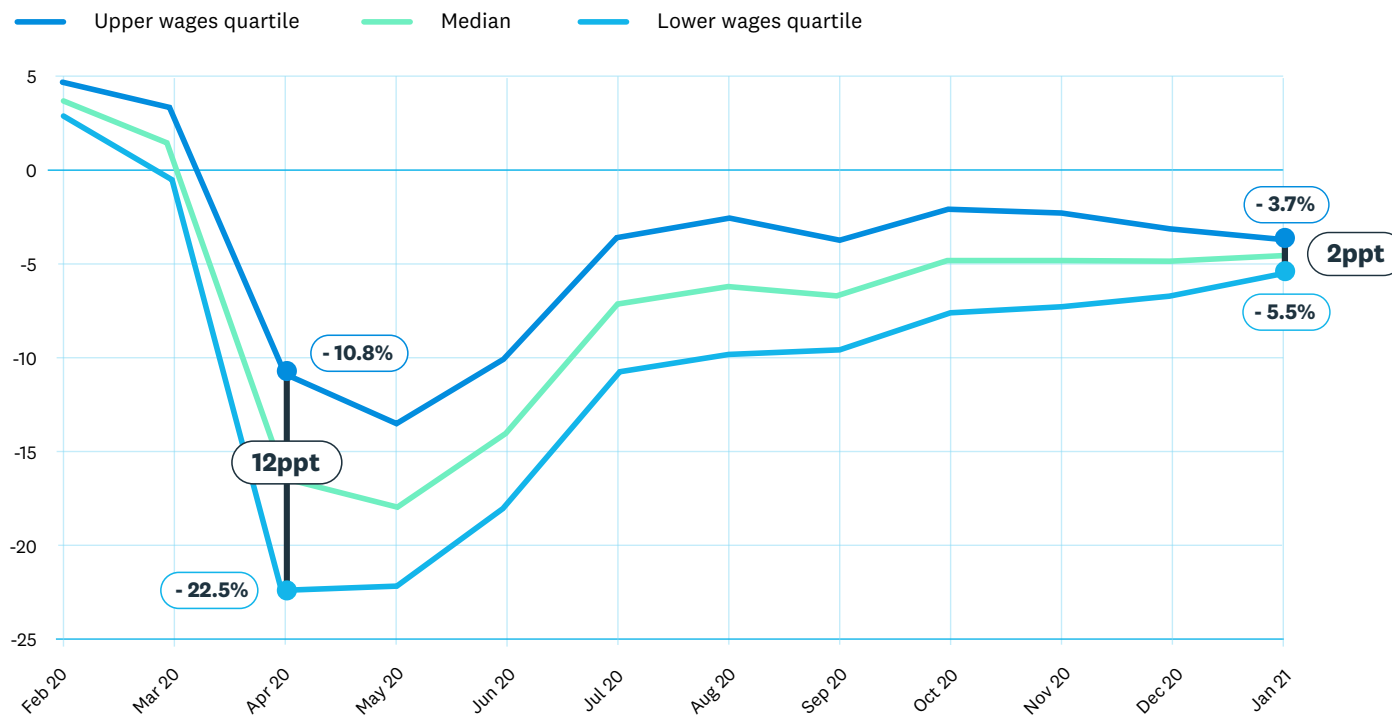
In the United Kingdom, wages growth collapsed to 0.8% year-on-year growth in April 2020 and then to a trough of just 0.5% year-on-year growth in July 2020. Wages growth did pick up again in the second half of the year, despite the open-closed pattern of trading restrictions facing many small businesses. In March 2021 year-on-year wages growth was 1.9%, well below the 2019 monthly average of 3.4%.

3.2 Small businesses that paid higher wages had fewer job losses during the pandemic

An analysis of the Small Business Index data shows that small businesses that had the capacity to pay higher wages within an industry were more successful at retaining jobs during the pandemic. Small businesses that paid wages in the top quartile of each industry in 2019 saw substantially fewer job losses during the peak of the COVID-19 crisis.

Fig 14. Small Business jobs growth, by within-industry wage quartile

%, year-on-year change, monthly



Above-average wage firms retained more staff during the COVID-19 crisis, and are still outperforming low-wage firms from the same industry by 2ppt in January 2021.

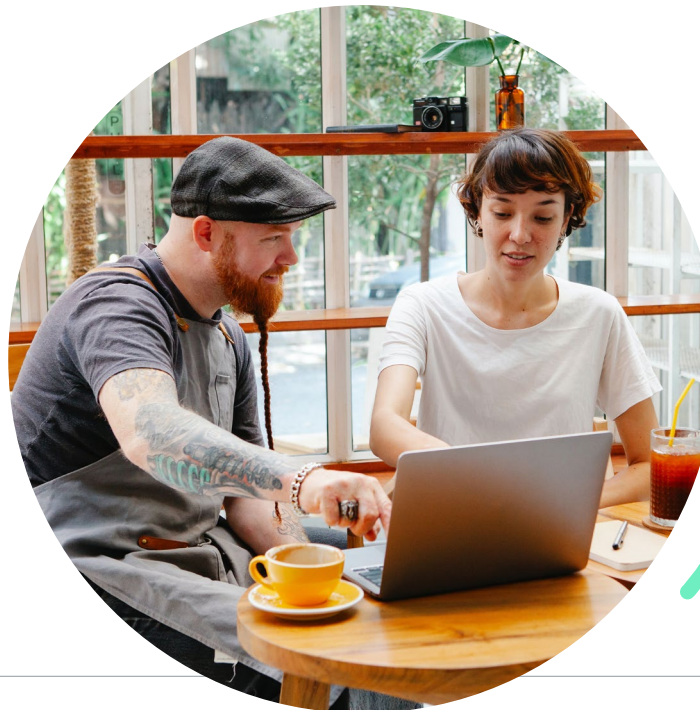
Small businesses that paid lower wages within their respective industry lost 1 in 5 jobs near the peak of the crisis. In contrast, those that were able to pay the highest wages lost a smaller 1 in 9 jobs in April 2020 and 1 in 7 in May 2020.

By January 2021, high-wage and low-wage small businesses had converged further and the difference is now approximately 2ppts. Small businesses able to pay higher wages had almost recovered to pre-crisis job levels (and had done so in some previous months), but low-wage firms have still lost approximately 1 in 20 pre-crisis jobs.

While the insights are very valuable, caution should be used in interpreting them. For example, it would be incorrect to conclude that a policy solution to growing small business jobs is for small businesses to just start paying higher wages. This ignores the broader economic environment small businesses are currently operating in.

One way to help small businesses create these much needed jobs would be to stimulate domestic demand and drive stronger economic growth. Wages growth plays an important role in stimulating domestic demand but this is unlikely to occur when unemployment and underemployment are both above pre-pandemic rates and when small businesses don't have the capacity to pay higher wages.

The economic stimulus provided to households by governments in 2020 (and 2021 in some cases) will go some way to encouraging spending until demand picks up, the unemployment rate falls and wages growth follows. The challenge for governments is to balance how this support is structured so that wages growth is sufficiently strong to take over and support spending and the broader economic recovery.



4.0

Five lessons for the jobs recovery

As economies around the world focus on rebuilding there are lessons that can be drawn from the pandemic experience that could help with the jobs recovery.



- 1 **The negative job impacts were not evenly felt across populations.** In particular, younger people, women, casual employees and people working in service-based sectors such as hospitality, arts and recreation and tourism, were all hit harder than the overall population. Consequently, they are likely to need the most assistance from job rebuilding programs during the recovery phase.
- 2 **Small businesses need to play a significant role in the jobs recovery.** Without a sustainable recovery in small business based jobs it will be very challenging to achieve an economy-wide employment rebound. This means governments need to ensure that small businesses have a seat at the policy development table and that programs to assist them are front and centre of broader recovery plans.
- 3 **Increasing digitisation of small businesses has a role in the economic recovery.** Analysis of Xero customers has consistently shown that those with more digitised operations, such as greater application use, perform better in the tough times and as recovery gets underway. This finding points to another way that resilience can be built in small businesses as they recover and is in line with importance placed by the OECD and the UK Governments on digitising small businesses.
- 4 **Some countries have a long way to go to even get small business jobs back to late 2019 levels.** In countries where jobs recovery is underway, government financial support was ongoing through the crisis. Small businesses in countries where jobs are yet to return to pre-crisis levels are likely to need more ongoing financial support.
- 5 **Wages growth is yet to return to pre-pandemic levels, even in countries that have started to rebuild jobs.** This low wage environment needs to be recognised as policies respond to try to stimulate demand and boost economic growth. Unemployment and underemployment rates are still generally above pre-pandemic levels in many countries and there are ongoing trading restrictions for some small businesses in many countries. This means relying on wages growth alone is unlikely to be sufficient to provide the demand boost small businesses need to grow sufficient jobs to return to levels that would have occurred without the pandemic.

5.0 Methodology

Xero data (AU, UK, NZ)

Jobs growth

Jobs data is drawn from businesses who use the Xero Payroll product. We measure jobs growth based on the number of unique employees of a business who are issued a payslip in a month. We count a person as a “job” in a month if we can observe them working for more than 1 hour. We also apply a number of filters to the data to achieve a high quality sample for which to draw our insights from.

We calculate growth in aggregate small business jobs by calculating the weighted average of within-firm year-on-year growth in jobs. We use this within-firm measure of growth because this allows us to measure jobs growth independent of changes in Xero’s subscriber base. This means we exclude the impact of firms that shutdown entirely due to COVID restrictions. As a result, our figures are conservative. In calculating weighted average growth, we weight by (1) the number of employees the firm has in the base month - this means we are calculating aggregate, rather than average growth (2) a firm-level sample weight, which reweights the Xero sample to match the population distribution of small businesses by firm size. Data on the population distribution of small businesses by firm size come from national statistics agencies.

Wages growth

Wages data is drawn from businesses who use the Xero Payroll product. Our measure of wages growth is a job-level measure of the year-on-year change in earnings per hour. As with the jobs metric, we apply a number of filters to the data to achieve a high quality sample for which to draw our insights from. We calculate job level growth in wages by comparing earnings per hour for each job compared to its earnings in the same month 12 months ago; this means we restrict to jobs we observe over (at least) 12 months. We aggregate by taking the weighted average of year-on-year job-level wages growth, weighted by the labour cost for that job in the base month divided by total labour costs across all firms. These costs are sample weighted using the distribution of firms by employment size. This method is equivalent to a continuously reweighted Laspeyres index - i.e. similar to the method used by national statistics agencies for calculating employment cost indices.

For our analysis comparing job losses for high and low wage firms, we split the set of Xero subscribers into two groups, based on whether they are in the top or bottom quartile of average hourly wages within their industry. We then calculate the jobs growth for these two sets of firms, using the same methodology as the jobs metrics outlined above. This approach means we are comparing high and low wage firms within industries, rather than comparing outcomes for high and low wage industries (i.e. we are not comparing industries like professional services to hospitality).

Impact of application adoption

For our analysis of the impact of application adoption, we split firms into two groups: one group with 5 or more apps connected to Xero and the other group with no apps. To measure the impact on jobs and sales, we use a simple linear regression. We use two regressions: one with firm-level year-on-year sales growth as the dependent and one with the percentage change in jobs from pre-crisis as the dependent variable. For both specifications, we run versions that use for their dependent variable (1) the change to April 2020 to measure the initial impact of the crisis on firms and (2) the change to December 2020. In each case we regress the outcome variables on: a dummy variable for whether the firm had five or more apps connected to their Xero account in February 2020, industry, country and country by industry controls, and firm size controls. The coefficient on the dummy variable for app use measures the difference in outcomes between small businesses with apps connected and small businesses without apps connected. In all specifications, the coefficient on app usage is significantly different from zero at the 1% level (using heteroskedasticity robust standard errors).

5.0

Other data used

Gusto provided data

Jobs data is drawn from small businesses who use the Gusto payroll platform. We measure employment growth based on the number of employees in a small business's payroll database in a month. We count a person as a "job" in a month if that individual has not been terminated in that month. We also apply a number of filters to the data such as removing outlier data points, where swings in employment are outside the 99th percentile of all firms, to achieve a high quality sample for which to draw our insights from.

We calculate growth in aggregate small business jobs by calculating the weighted average of within-firm year-on-year growth in jobs. We use this within-firm measure of growth because this allows us to measure jobs growth independent of changes in Gusto's subscriber base. This means we exclude the impact of firms that shutdown entirely due to COVID restrictions. As a result, our figures are conservative. In calculating weighted average growth, we weight by (1) the number of employees the firm has in the base month and (2) a firm-level sample weight, which reweights Gusto's sample to match the population distribution of small businesses by industry and firm size. Data on the population distribution of small businesses by firm size come from national statistics agencies.

Small business required new jobs in 2021 calculations

Calculating the required number of jobs in each country used private sector employment data from the national statistical sources to establish actual December 2019 and December 2020 private sector employment levels and the average annual growth rate for these series for 2017-2019. This produced an estimate for what private sector employment would have been at the end of 2021 without the pandemic. The 'gap' that needs to be filled by new jobs in 2021 is the difference between the actual 2020 outcome and the projected 'no pandemic' 2021 result. The OECD share of employment for firms with less than 20 employees was then applied to this private sector employment gap estimate to arrive at an estimate for additional small business employment (less than 20 employees) needed in 2021 to be at the level of jobs that would have been expected had there been no pandemic shock. Specific data sources: ABS Labour Force, Australia, detailed, Stats NZ Household Labour Force Survey, Office of National Statistics Public and private sector employment, Statistics Canada Labour Force Survey, US Bureau of Labour Statistics Private sector non-farm payrolls, OECD (2018) Structural and Demographic Business Statistics Database.

6.0 About the report contributors

About Xero

Xero is a cloud-based accounting software platform for small businesses with 2.45 million subscribers globally. Through Xero, small business owners and their advisors have access to real-time financial data any time, anywhere and on any device. Xero offers an ecosystem of over 800 third-party apps and 200 plus connections to banks and other financial partners. In 2020 and 2021, Xero was included in the Bloomberg Gender-Equality Index and in 2020, Xero was recognised by IDC MarketScape as a leader in its worldwide SaaS and cloud-enabled small business finance and accounting applications vendor assessment.

About Accenture

Accenture is a global professional services company with leading capabilities in digital, cloud and security. Combining unmatched experience and specialized skills across more than 40 industries, we offer Strategy and Consulting, Interactive, Technology and Operations services—all powered by the world's largest network of Advanced Technology and Intelligent Operations centers. Our 506,000 people deliver on the promise of technology and human ingenuity every day, serving clients in more than 120 countries. We embrace the power of change to create value and shared success for our clients, people, shareholders, partners and communities.

Visit us at www.accenture.com

About Gusto

Gusto is a modern, online people platform that helps small businesses take care of their teams. In addition to full-service payroll, Gusto offers health insurance, 401(k)s, compliance and expert HR, and more. The company serves over 100,000 businesses nationwide and has offices in Denver, New York City, and San Francisco.

About Xero Small Business Insights

The aim of Xero Small Business Insights is to create insights to help inform decision makers in support of the small business economy as a whole. These insights were produced by Xero and Accenture.

The principal source of small business insights in this report is customer data from Xero - a small business platform that supports online accounting and a range of other applications. Xero are responsible custodians of our customers sensitive data and do not release any data that could identify individual businesses. The data used is aggregated and anonymised to ensure the privacy of Xero subscribers, and their counterparts.

Disclaimer: This report was prepared using Xero Small Business Insights data and publicly available data for the purpose of informing and developing policies to support small businesses. This report includes and is in parts based on assumptions or estimates. It contains general information only and should not be taken as taxation, financial, investment or legal advice. Xero recommends that readers always obtain specific and detailed professional advice about any business decision. The insights in this report were created from the data that was available as at the date it was extracted. Data used were anonymised and aggregated to ensure individual businesses can not be identified.

