

Financial support and employment for small and medium-sized businesses after the effects of economic policies

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26 AUGUST 2020

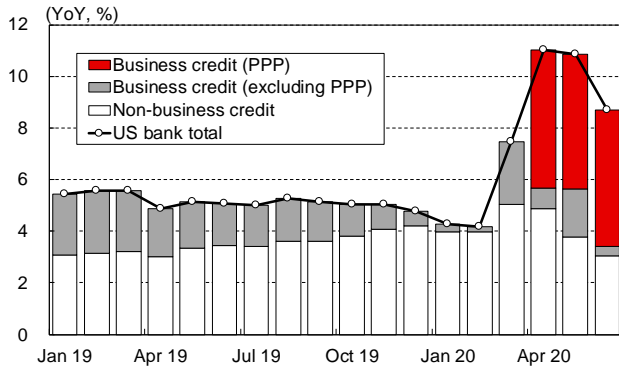
(ORIGINAL JAPANESE VERSION RELEASED ON 31 JULY 2020)

Bank lending is increasing significantly in the US, particularly to businesses (Chart 1). As of the end of June, business credit had increased by around USD560 billion (8.7%) compared with June 2019. This growth was led by loans under the Paycheck Protection Programme (PPP), which was one of the main features of a series of economic policies which were launched at the end of March. As of 24th July, the amount of confirmed loans to businesses totalled USD519.5 billion, with the majority confirmed during April due to the flexibility of the loan.

The main target of PPP loans was small and medium-sized businesses of less than 500 employees which are able to borrow up to 2.5 times their total monthly payroll costs (upper limit of USD 10 million). The debt may be forgiven if the business can meet conditions, such as using a certain amount of the loan to pay wages, rent, public utility fees and other costs, maintaining its workforce or re-employing workers (proof is necessary where this is not possible). Since all PPP loans are guaranteed by the US Small Business Administration (SBA) and because forgiven debt is repaid by the SBA to financial institutions, the loans could be interpreted as a subsidy from the government to small and medium-sized businesses. In late April, the fund for PPP was increased by USD 660 billion as the initial USD 350 billion that was allocated to the fund was depleted, and the requirements for debt forgiveness were eased at the start of June. It appears the government is making positive use of PPP to support small and medium-sized businesses and is considering its use of the system, the spread of COVID-19 and the overall trend of the economy.

In the Federal Reserve Board's Summary of Commentary on Current Economic Conditions by Federal Reserve District (the Beige Book) published on 15th July, 10 of the 12 districts made comments about PPP saying many businesses had stayed solvent and had kept employees on the payroll due to PPP (Table 1). It appears that PPP contributed significantly to underpinning the US economy. In addition, the SBA reported PPP had been used for salary payments for an estimated 85% of all workers at small and medium-sized companies by the end of June. The effect of PPP is thought to be the swift provision of funding using a framework of loans from financial institutions for small and medium-sized businesses who found themselves in difficulty owing to COVID-19. Bearing this in mind, it will be very important to keep a close eye on the trend of financial assistance for small and medium-sized companies, employment and policy in the future when the effects of PPP have faded away.

Chart 1: Lending by US Banks



Note: 1. "Business credit (PPP)" is the sum of loans under the Paycheck Protection Program at the end of the month
 2. "Business credit (excluding PPP)" is loans to businesses less PPP
 Source: Federal Reserve Board, US Small Business Administration, MUFG Bank Economic Research Office

Table 1: Major Statements about PPP in July's Beige Book

Region	Field	Summary
US total	Overall economic activity	PPP and loan deferrals provided many firms with sufficient liquidity for the near term
	Employment and wages	Businesses helped by PPP said that going forward, the strength of demand would determine whether they can avoid layoffs
Boston	Manufacturing and related services	Many businesses have reopened and hired back employees in May after securing PPP funding
New York	Summary of economic activity	Many businesses expressed concern about PPP loans running out or not being forgiven
Philadelphia	Financial services	Banks noted increased optimism among clients that PPP and other assistance had supported businesses
Cleveland	Financial services	Several banks expressed concern that delinquencies may increase when PPP funds run out
Richmond	Manufacturing	PPP loans allowed some companies to remain solvent
Atlanta	Employment and wages	As the support from PPP winds down, many employers indicated they will be forced to lay off workers
Chicago	Employment and wages	A number of businesses said that their ability to retain workers after the PPP money ran out depended heavily on future demand
	Banking and Finance	Deferrals and the PPP had helped delinquencies for many clients
St. Louis	Banking and Finance	PPP loans and other incentives have provided additional liquidity
Kansas City	Consumer spending	Most firms indicated PPP loans helped prevent layoffs and cover costs related to the pandemic
	Manufacturing and other business activity	Over 75% of factory contacts reported applying to the PPP and that those loans prevented some layoffs and furloughs
	Banking	Deposit levels rose at a strong pace with the PPP playing a large role
San Francisco	Financial institutions	Households capitalised on lower interest rates and PPP loans helped businesses maintain solvency

Note: "PPP" is an abbreviation of Paycheck Protection Program
 Source: Federal Reserve Board, MUFG Bank Economic Research Office

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