

SMALL BUSINESS FACTS

WHY DO BUSINESSES CLOSE?

May 2018. By Brian Headd, Economist

About 1 in 12 businesses closes every year.

Over the last 25 years, about 7–9 percent of employer firms close every year and a slightly higher share open. These figures have been trending down, illustrating a decline in business turnover (Chart 1).

Source: U.S. Census Bureau, Business Dynamics Statistics

Many businesses close because of personal reasons.

Of the businesses with employees that closed in 2015, the top reasons for closing were low sales, the owner(s) retiring, and the owner(s) selling the business (Chart 2). With the next top reasons being opening another firm and illness/injury, it shows that many owners close for personal or health reasons not just business reasons. (“Other reasons” was also relatively high.)

Source: U.S. Census Bureau, Annual Survey of Entrepreneurs

Reasons for closing businesses are changing as the economy improves and owner’s age.

Compared to 2007 which had the Great Recession begin in its December month, closing because of low sales and credit are down and retiring is up. This is not surprising with a strong economy and aging population in recent years.

Source: U.S. Census Bureau, Annual Survey of Entrepreneurs and Survey of Business Owners

Serial entrepreneurs are not a myth.

A small, but not insignificant number of closures were from owners closing to start another business, accounting for about 6 percent of closures.

Source: U.S. Census Bureau, Annual Survey of Entrepreneurs

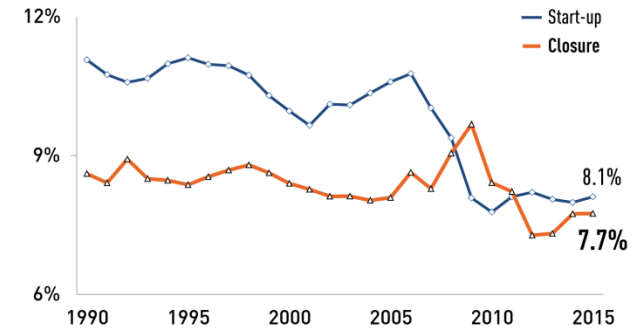
Even though credit is still tight, it is having less of an impact on pushing businesses to close.

While business credit was a relatively large reason for business closures at the onset of the Great Recession, more recently, it has been a relatively small reason. In 2015 about 5 percent of businesses closed because of credit access versus about 14 percent in 2007. Note, however, that tight credit could have a large impact on blocking start-ups, which as Chart 2 shows are well below their 2007 level.

Source: U.S. Census Bureau, Annual Survey of Entrepreneurs and Survey of Business Owners

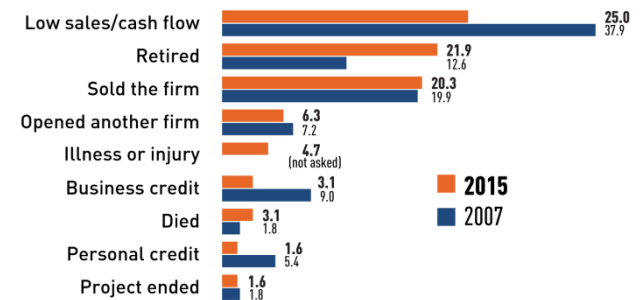
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Chart 1: Employer Firm Start-up and Closure Rates



Source: U.S. Small Business Administration, from data provided by the U.S. Census Bureau, Business Dynamics Statistics

Chart 2: Reasons Owners Close Employer Firms (percent)



Note: Owners could select multiple reasons and 31.3 percent selected other reasons in 2015.

Source: U.S. Small Business Administration, from data provided by the U.S. Census Bureau, Annual Survey of Entrepreneurs (2015) and Survey of Business Owners (2007).

