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National Retail Federation predicted a strong 2023 holiday shopping season in early November.

Isaac M. O'Bannon • Jan. 17, 2024



At the end of the final quarter of 2023 (October to December), U.S. small businesses with 1 to 9 employees employed 13,281,000 people nationally, according to [the latest estimate from the Intuit QuickBooks Small Business Index](#). This is 14,000 fewer jobs than the previous quarter, following two months of declining small business employment in October and November (down by 0.11% and 0.28%, respectively) and a rebound in December, when employment increased by 0.28%.

However, this trend doesn't extend to total employment in the U.S. according to the

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a stronger quarter in general in Q3 (July to September) as Professor of Economics Ufuk Akcigit explains. He believes this can be attributed to ongoing challenges from inflation and the rising cost of small business loans due to higher interest rates—challenges many small business owners have faced since March 2022, leaving them especially vulnerable to economic volatility.

Said Akcigit,

“Major macroeconomic factors have subjected the U.S. economy to periods of volatility, with small businesses bearing the brunt of these fluctuations. Even though COVID initially had a positive impact on new business registrations and small business employment, the landscape began to shift in 2021, with rising inflation coupled with interest rate hikes commencing in March 2022. These events placed a disproportionate strain on small businesses. Consequently, small business employment declined, and the employment share of small businesses as a proportion of overall jobs in the economy began to dwindle after April 2021. The decline in small businesses' share of overall employment accelerated a year later, beginning in April 2022. During the past summer, however, we saw a notable rebound for small businesses, especially in Q3 of 2023. Unfortunately, this resurgence proved short-lived, as small business employment dropped by 14,000 in Q4, translating to a 0.11% reduction compared to Q3. Despite the negative quarterly growth, yearly growth in Q4 remains positive at 1.56%, thanks to strong growth in the summer of 2023.

“The strongest small business employment expansion, both on

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decade ago.

“In general, the fluctuations observed both quarterly and within Q4 on a monthly basis serve as a reminder of the vulnerability of small businesses, and the challenging macroeconomic forces exert an outsized influence on the fate of small businesses. When discussing major industrial policies, we should pay attention to small business trends.”

Retail (NAICS 44-45) has a large share of small business jobs and was among the better-performing sectors in the U.S. over the course of Q4-2023—but still ended the quarter with 3,300 fewer jobs at small businesses (seasonally adjusted) than the previous quarter. Employment declined in October and November but ended the year with a small monthly increase of 0.08% in December.

Despite the headwinds from high inflation and increased household debt, the National Retail Federation [predicted](#) a strong 2023 holiday shopping season in early November. For the smallest retailer employers, Q4-2023 may not have lived up to those predictions. The ramifications of a disappointing peak season could follow small businesses into Q1/2024, especially for small retailers who might [depend on strong holiday sales](#) for a large portion of their annual revenue. Overall, it seems small business retailers had a tougher holiday season [than anticipated](#).

Similarly, the leisure and hospitality sector (NAICS 71,72) was in peak season last quarter and appears to have had a challenging few months. The sector ended Q4 with 9,000 fewer small business jobs in December than in September (seasonally adjusted), after three consecutive months of decline—down by 0.15% in October, 0.4% in November, and 0.03% in December.

Despite these recent drops in small business employment, the leisure and hospitality

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contribution to the recovery in small business employment at the end of Q4-2023, helping US small businesses to end the year with 1.56% yearly growth (December 2022 to December 2023), as noted above.

Overall, the education and health services sector doesn't employ as many people in small businesses as the retail sector, but with 0.26% growth in December, it created 6,000 jobs that month alone. This was more than any other sector currently covered by the Index and five times more jobs than were created in small retail businesses in the same timeframe. This mirrors data from [the latest BLS jobs report](#) on the education and health services sector overall—showing a gain in each month of Q4-2023 and ending the quarter with 74,000 jobs added in December.

As Professor Akcigit highlights in his analysis above, the best-performing sector among U.S. small businesses in Q4-2023—measured by the monthly rate of jobs growth—was agriculture, natural resources, and mining (NAICS 11; 21). The sector started Q4 strong, with the highest employment growth (0.28%) among the 12 sectors in the Index. In fact, this was the only sector to see employment growth in October. Over the course of 2023, the sector has added small business jobs in 8 out of 12 months, with largely consistent growth in the second half of the year.

The information sector (NAICS 51) saw consistently declining small business employment in Q4-2023, down by 0.75% in October and 0.72% in November before slowing to a much smaller decrease of just 0.1% in December. Overall, the sector ended the quarter with 4,500 fewer jobs than it had in September.

Transport and warehousing (NAICS 48-49) followed a similar trajectory, with declines of 0.54% in October, 0.59% in November, and 0.23% in December, ending the quarter with 700 fewer small business jobs compared to September's level. This decline mirrors data from the [latest BLS jobs report](#) on the sector overall that also showed a loss each month in the fourth quarter. While this sector doesn't provide a

large share of small business jobs in the U.S., it can be an indicator for other areas of

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Overall, the Great Lakes and Southeast regions performed best, with lower-than-average declines over the first two months and above-average growth in December. The Great Lakes ended the quarter with 4,200 additional small business jobs compared to September, ending the year with 1,922,400 small business jobs. The Southeast added 1,200 jobs at small businesses compared to September, finishing 2023 with a total of 3,162,800 jobs. According to the latest data from the [Bureau of Economic Analysis](#), the [Great Lakes](#) and [Southeast](#) regions both saw an increase in GDP growth in Q3 of 2023, which may have contributed to employment growth in Q4.

Payroll

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