The GoDaddy/UCLA Anderson Forecast Microbusiness Activity Index Update, 2022Q1

William Yu, Economist, UCLA Anderson Forecast
April 2022

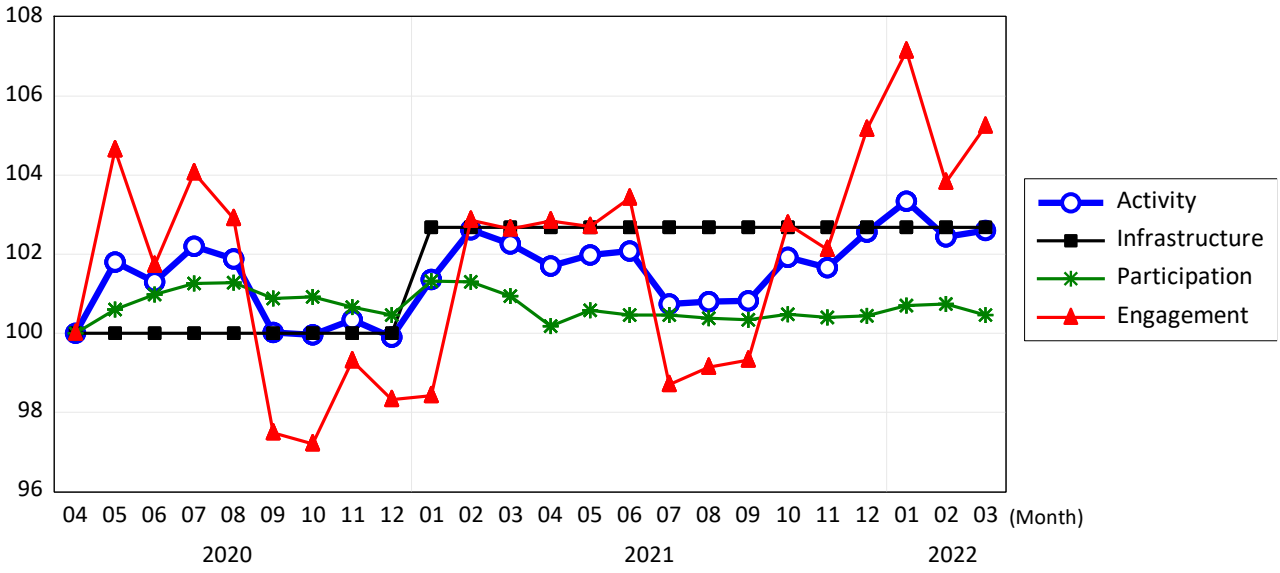
In July 2021, the UCLA Anderson Forecast, in partnership with GoDaddy Inc., published a new Microbusiness Activity Index (MAI) index on the formation, growth, and dynamics of online microbusinesses using data provided by GoDaddy.[1] We found evidence that microbusiness formation and growth may boost local economic activity. For example, each additional 1 unit increase in the MAI leads to a 0.1 percentage point decline in the unemployment rate. Each quarter The Forecast will publish an updated report and index.

Highlights of 2022Q1 report

- **The overall microbusiness activity in 2022Q1 remains at a similar level as in 2021Q4.**
- **We find that each additional 1 unit increase in the MAI leads to a 0.1 percentage point decline in the unemployment rate among counties in the U.S.**
- **The participation index has the most explanatory power of local economic activities.**

This report is the 2022 Q1 update and contains data up to March 2022 for the nation, and for the states, metros, and counties in the U.S. The activity or composite index for microbusiness in the U.S. (blue line in Figure 1) returned to 102.6 in March 2022, the same level in December 2021. This indicates that the overall microbusiness activity is now similar to December 2021.

Figure 1. Microbusiness Activity and Sub-Indices (Even-Weight, U.S.)



[1] See https://www.anderson.ucla.edu/about/centers/ucla-anderson-forecast/projects-and-partnerships/godaddy

As discussed in previous reports, the microbusiness index is associated with economic outcomes. For example, in our July 2021 report, "What Drives Microbusiness Formation and Growth?" we document evidence of correlations between the macroeconomy and microbusiness. In addition, a recent internal survey[2] conducted by GoDaddy's of its customers, documents direct evidence of the correlation. For instance, 21% of microbusiness owners said that they were not employed when they started the microbusiness. That means microbusiness formation and growth lowered unemployment rates. 28% said that they hired 2 to 4 employees, contributing to payroll and employment growth, and 66% provided main or supplemental source of income up to several thousand dollars a month, generating additional income in the economy.

Using two sample periods between April 2020 and Feb 2022, and Feb 2021 and February 2022, we find that each additional 1 unit increase in the MAI leads to a 0.1 percentage point decline in the unemployment rate among counties in the U.S.

The Microbusiness Activity Index is composed of three sub-indices: (1) *Infrastructure* which includes human capital and digital infrastructure including broadband and computer access (black line in Figure1). These are long-term factors, which do not change much from one quarter to the next. However, from the annual American Community Survey, we benchmark the infrastructure index. The latest revision was from 100 in 2020 to 102.7 in 2021, reflecting improvements on education attainments and access to broadband/computer.

(2) *Participation* (green line in Figure 1) includes the density and growth rate of online microbusinesses and online microbusiness owners. We can see that the participation index slightly increased from 100.4 in December 2021, to 100.7 in January and February 2022, and returned to 100.5 in March. The higher level of participation in the beginning of the year might reflect seasonality at the start of the calendar year, but as yet there is not enough experience with the index to verify it. In addition, we find that the participation index has the most explanatory power of local economic activities. The aforementioned decline of unemployment rates in response to increases of MAI is mostly driven by an increase of the participation index. The preliminary results also suggest that each additional 1 unit increase in the participation index leads to an increase of 1,200 employment locally on average.

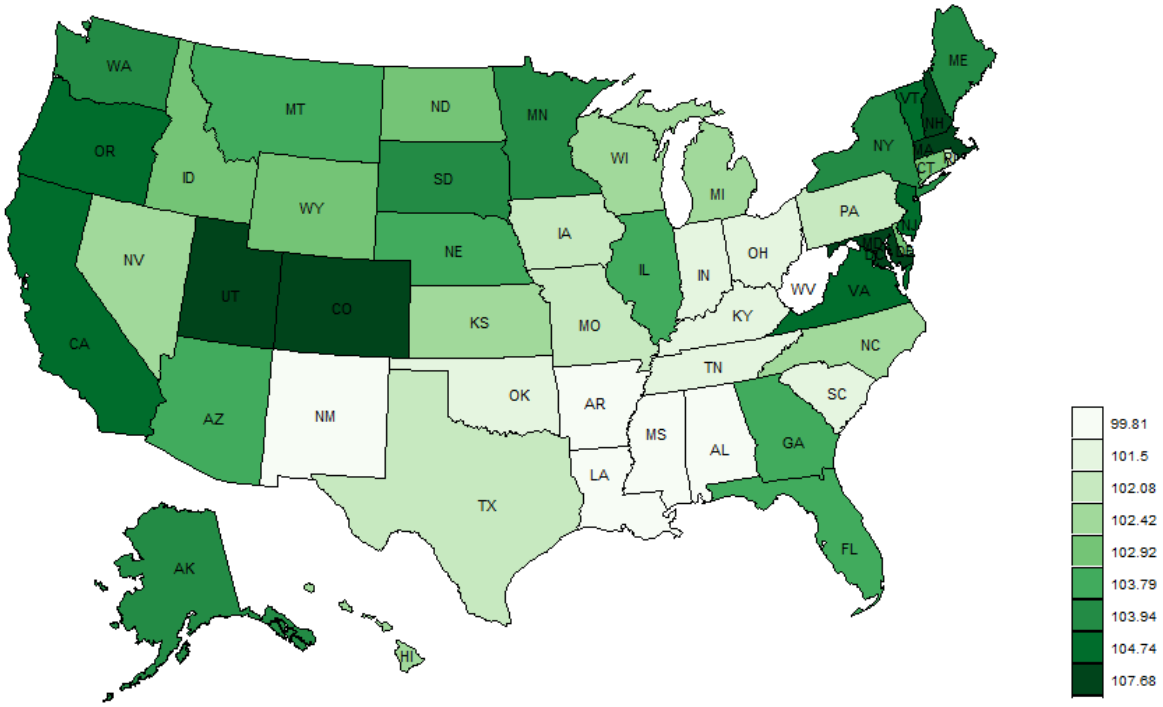
(3) *Engagement* (red line in Figure 1) includes a variety of measures of online and website engagement. The engagement index fluctuated from 105.2 in December 2021 to 107.2 in January 2022, 103.8 in February, and 105.2 in March. As mentioned in earlier reports, this could be driven by both general economic activity and by seasonal patterns. Over time, with more times series data, we will be more certain about the role of seasonality in the index fluctuations. The microbusiness engagement index for 2022Q1 is higher than prior periods.

Figure 2 shows the level of the Microbusiness Activity Index by state in March 2022. The darker the green color, the higher the activity index. Washington DC (107.7), Colorado (106.6), New Hampshire (106), and Maryland (105.6) had the highest levels of the index. Arkansas (99.2), Mississippi (98.8), and West Virginia (97.5) had the lowest levels. Figure 3 shows the changes in the Microbusiness Activity Index by state from March 2021 to March 2022. The darker the blue color, the larger the increase. We can see Maine (+1.61), Alaska (+1.35), Ohio (+1.17), Arkansas (+1.08), Louisiana (+1.05), and Mississippi (+1.05) experienced higher growth in the index over the past year. Washington (-0.41), California (-0.52), Nevada (-

[2] Conducted from February 17 to 22, 2002, with 2,289 responses across the country and a response rate of 1%.

0.58), Delaware (-0.69), Connecticut (-1.21), and Washington DC (-1.32) experienced negative growth.

Figure 2. Microbusiness Activity Index by State, March 2022



Note: Base month year is April 2020

Figure 3. Microbusiness Activity Index Changes by State, March 2021 to March 2022

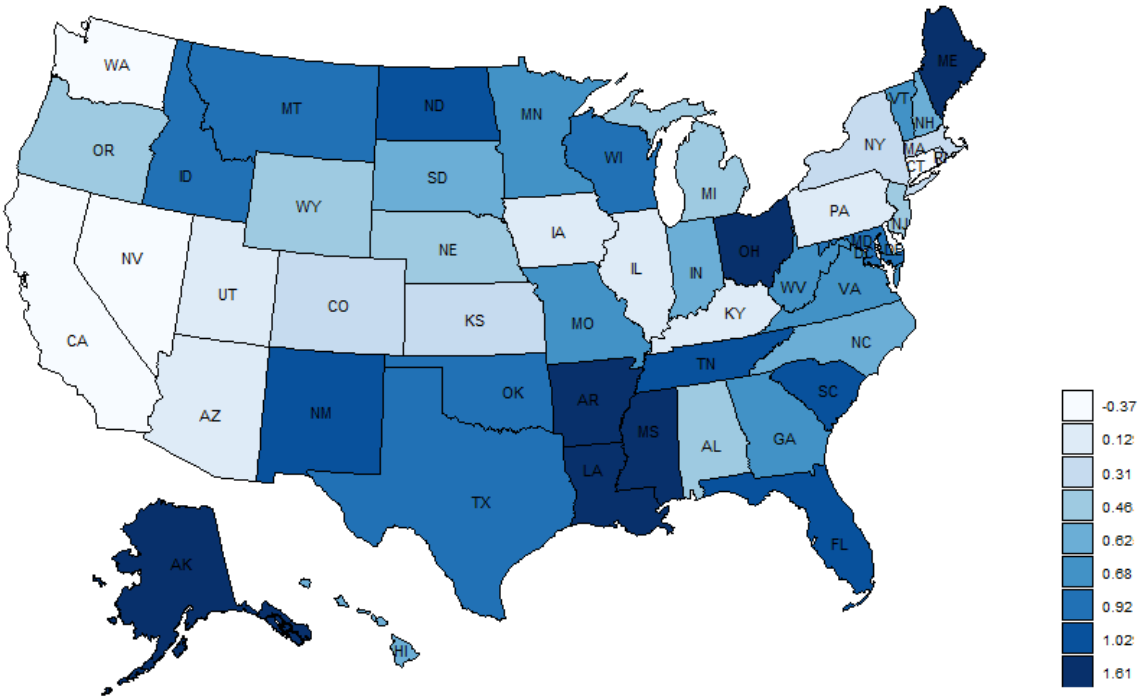


Figure 4 shows the Microbusiness Activity Index by county in March 2022. The colors go from dark blue for the highest index values to dark red for the lowest index values. The variation across counties is similar to the variation in prior months. Coastal regions and major cities tend to have higher values of the index, while inland and rural regions tend to have lower values. Counties with high values of the index due primarily to their infrastructure index (which includes a measure of human capital) are Falls Church, VA (117.4), Montgomery County, MD (117.3), Arlington County, VA (117.2), and San Francisco, CA (116.8). Counties with high values due to their participation index are Sheridan County, WY (110.3), Denver County, CO (108.7), and Barren County, KY (108.5). Cedar County, NE has a very high value (134.5) of their engagement index.

Figure 4A shows the changes in MAI by county from March 2021 to March 2022. The colors go from dark blue for the highest increase in index values to dark red for the highest decline in index values. In contrast to what we saw in Figure 4, coastal regions, such as California and Northeast, had lower or negative growth in MAI over the past year, reflecting their higher cost of living and a trend of their residents migrating out to suburbs and mid-size cities.

Figure 4. Microbusiness Activity Index by County, March 2022

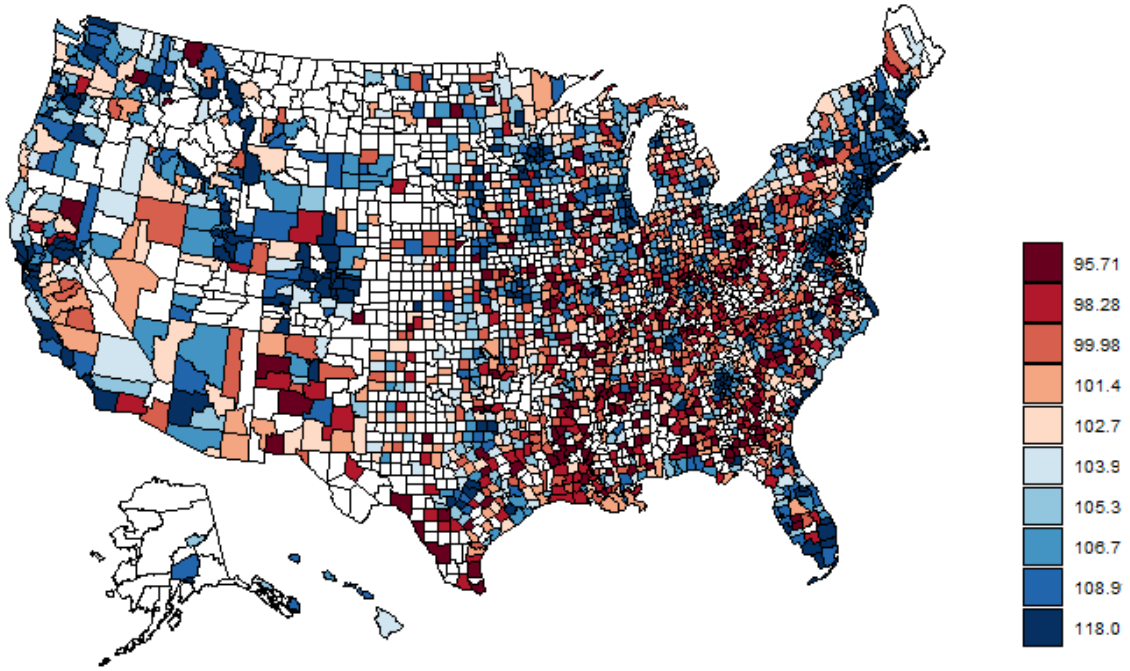


Figure 4A. Microbusiness Activity Index Changes by County, March 2021 to March 2022

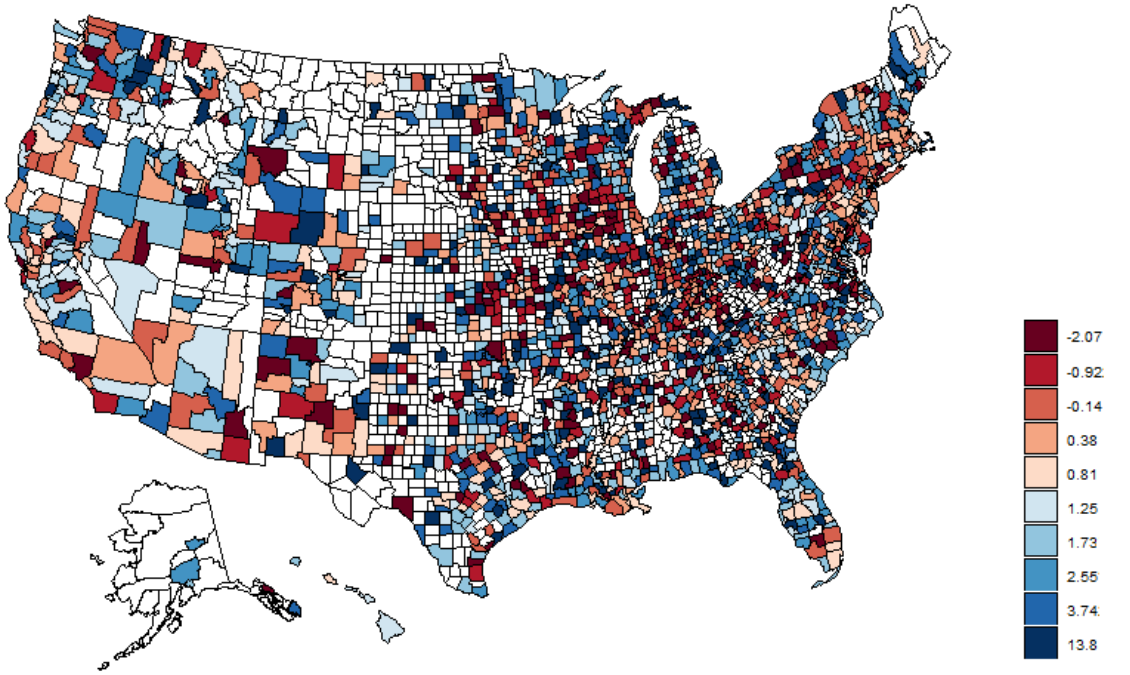


Figure 5 shows the activity index for 30 selected major metros (Metropolitan Statistical Areas) in March 2021 and 2022. In March 2022 San Jose (Silicon Valley) had the highest activity index value (114.5), followed by Washington DC (112), San Francisco (111.5), Denver (111.4), San Diego (110.7), and Raleigh (110.1). Houston (106.5), Las Vegas (106), and San Antonio (104.7) had the lowest activity values. Over the past year, Columbus, San Antonio, Tampa, and San Jose had the largest increases in the value of their activity indexes.

In March 2022 Miami (106.9) had the highest value of the participation index, followed by Los Angeles (106.5), San Diego (106.4), and Phoenix (105.8). Over the past year, the participation index declined across all 30 metros, indicating a slowdown of microbusiness formation. Raleigh (-0.07), Denver (-0.1), and San Antonio (-0.14) had the smallest decline in the index, and Detroit (-0.97), Seattle (-1.41), and Las Vegas (-1.46) the largest (Figure 6). Note that this across-the-board decline reflects that the base quarter (March 2021) was a relatively high point (Figure 1). If we compare March 2022 with April 2020, we see most metros had an increase of values in the participation index.

In March 2022 San Jose (112.4) had the highest value of the engagement index, followed by Columbus (111.8), St. Louis (107.1), Indianapolis (106.6), and Detroit (106.5). In summary, San Jose remained as the top metro with its superior rankings on both infrastructure and engagement indexes. That is reflective of the fact that Silicon Valley is not only the home to the most prominent Big Tech companies, but also to many small startups who inspire to be part of Big Tech (Figure 7).

Figure 5. Microbusiness Activity Index, Selected 30 Metros, April 2020, March 2021, and March 2022

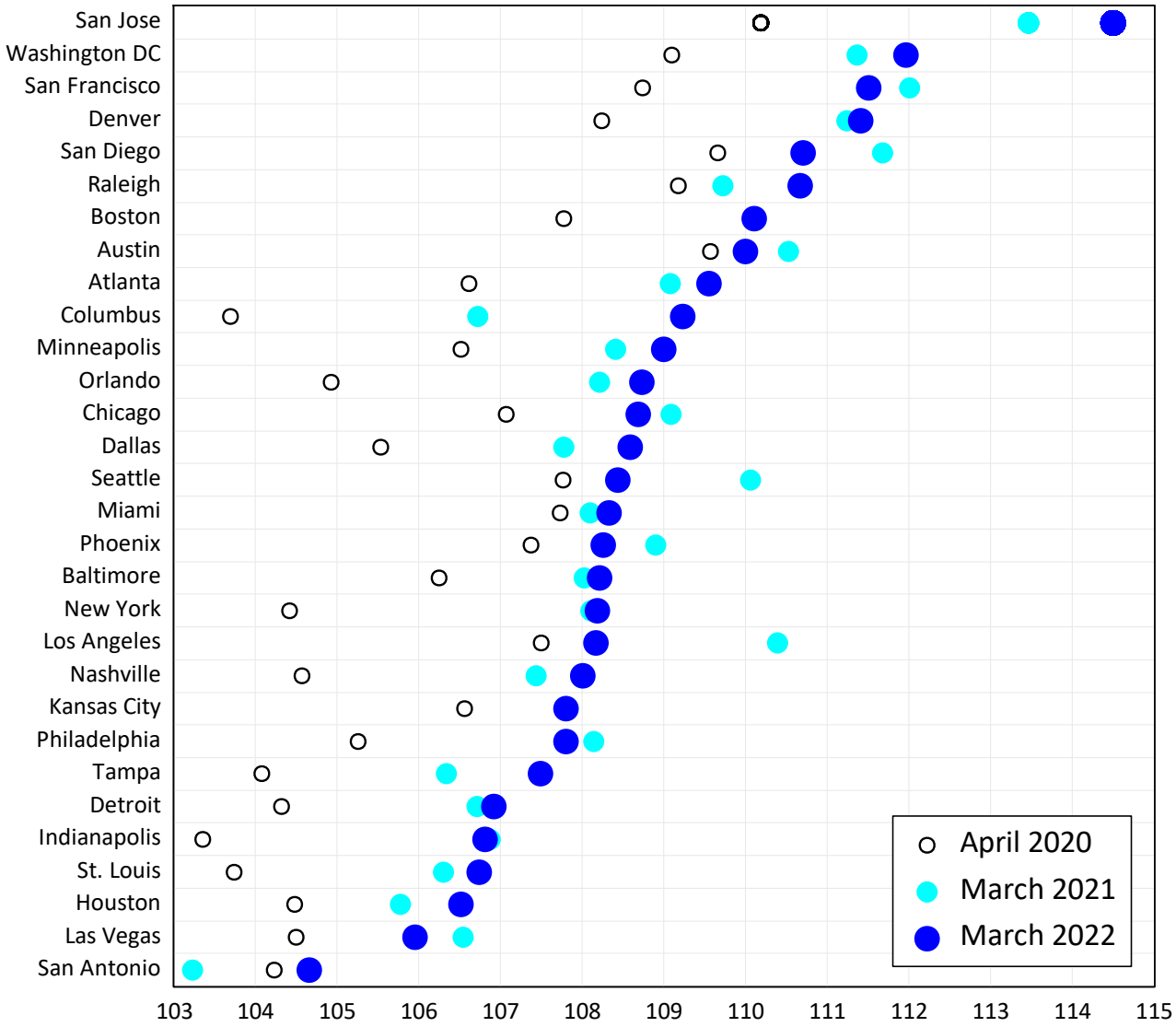


Figure 6. Microbusiness Participation Index, Selected 30 Metros, April 2020, March 2021, and March 2022

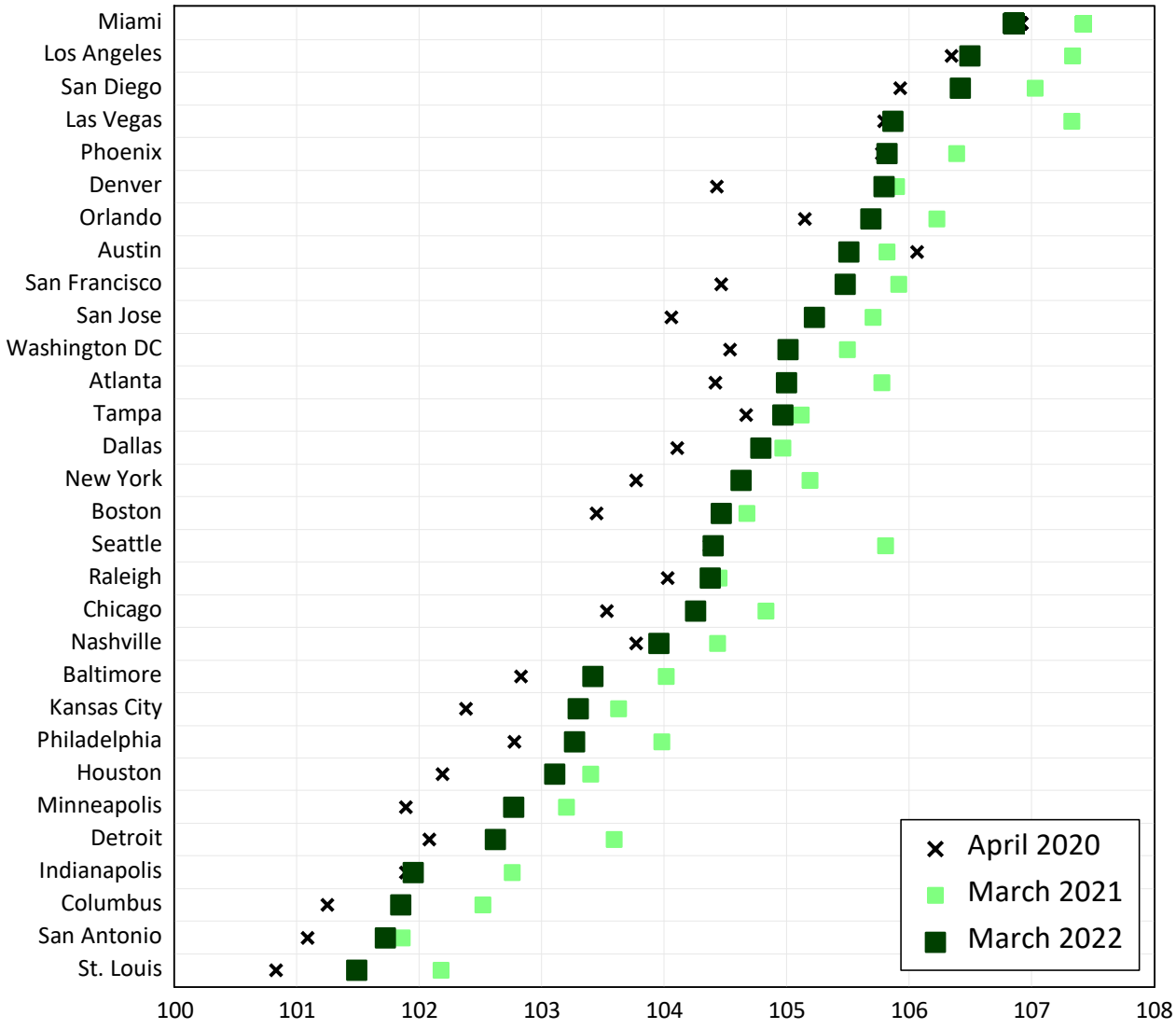


Figure 7. Microbusiness Engagement Index, Selected 30 Metros, April 2020, March 2021, and March 2022