

## Small Business Trends

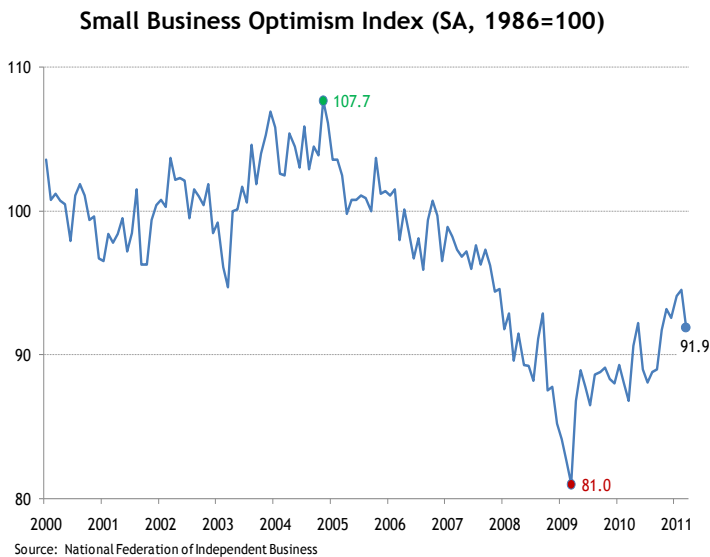
### *Policy & Supervisory Studies*

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## Small Business Optimism

- After several months of continual slow but steady growth, the Small Business Optimism Index fell 2.6 points to 91.9 for the month of March. This is only .2 points above where it stood in October of 2010. The NFIB has reported that the drop in the percentage of small business owners expecting higher real sales and better business conditions within the next six months alone attributed to approximately 76 percent of the Index's decline. Unfortunately, this could be the "new normal." The Index looms in recessionary territory, and times are definitely different now as a result of greater government burden and lingering economic uncertainty for the small business community.
- Solid employment growth was the one positive factor amidst several signs of discouraging small business sentiment. The ADP Employment Report showed sustained growth in private sector employment for the month of March. Furthermore, the average monthly increase in employment over the last four months (211,000) was nearly three times the average monthly gain posted over the preceding four months of August through November of 2010 (74,000).

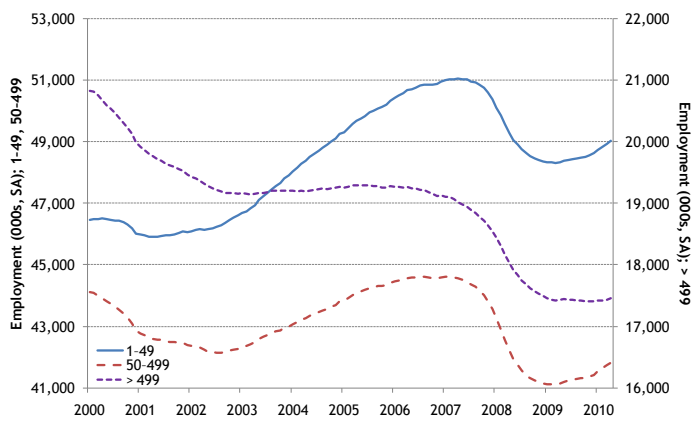


### March 2011 Employment Trends

|                   |        | Level<br>(000s, SA) | Share of<br>sector | Growth |       |
|-------------------|--------|---------------------|--------------------|--------|-------|
|                   |        |                     |                    | M-t-M  | Y-o-Y |
| Goods-producing   |        | 17,776              | 100%               | 0.21%  | 0.4%  |
| Firm size         | 1-49   | 6,622               | 37%                | 0.20%  | -0.3% |
|                   | 50-499 | 7,723               | 43%                | 0.27%  | 1.5%  |
|                   | > 499  | 3,431               | 19%                | 0.09%  | -0.5% |
| Service-producing |        | 90,516              | 100%               | 0.18%  | 1.5%  |
| Firm size         | 1-49   | 42,400              | 47%                | 0.21%  | 1.7%  |
|                   | 50-499 | 34,094              | 38%                | 0.18%  | 1.6%  |
|                   | > 499  | 14,022              | 15%                | 0.10%  | 0.3%  |

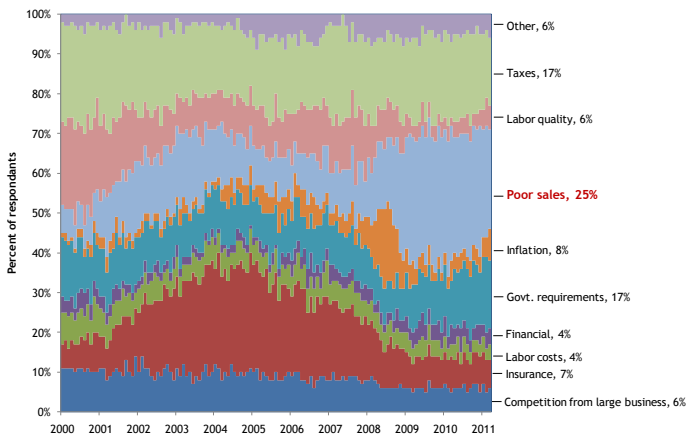
Source: ADP National Employment Report

### U.S. Private Sector Employment by Size of Payroll



Though down 3 points from February and 9 points from its survey high one year ago, poor sales were still the most frequently cited problem for small businesses during the month. Inflation rose 3 points month-over-month and became a more noted concern.

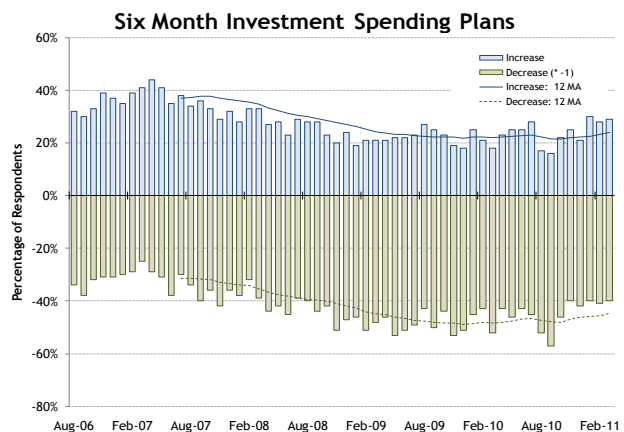
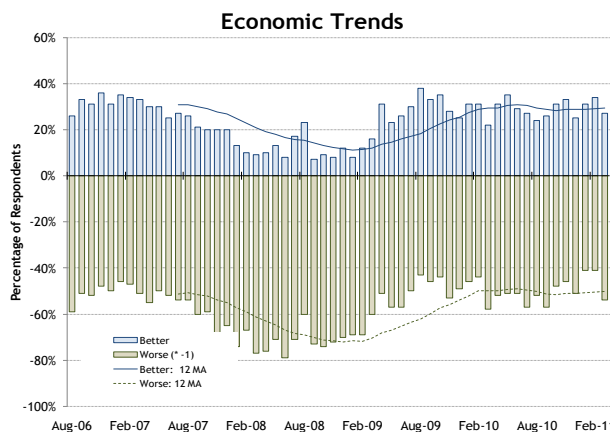
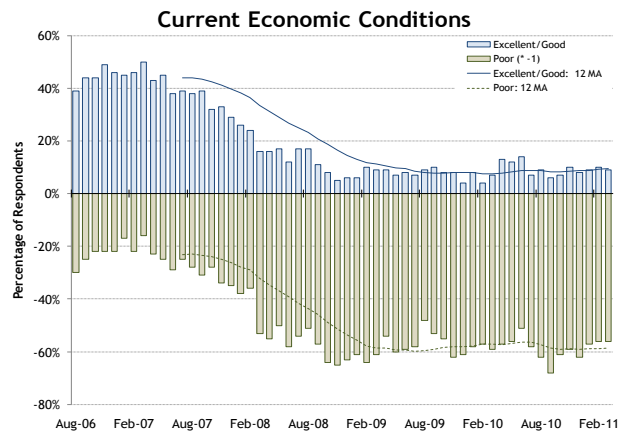
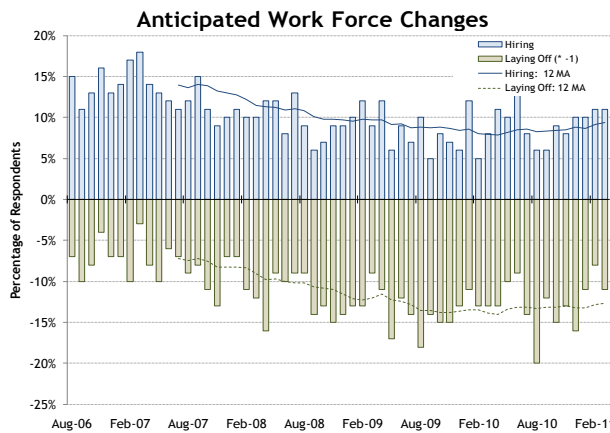
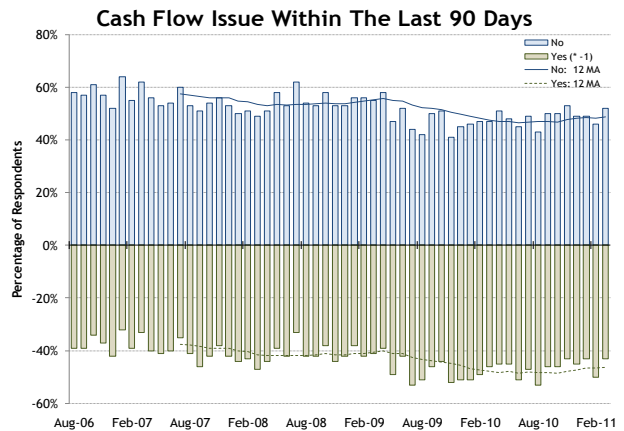
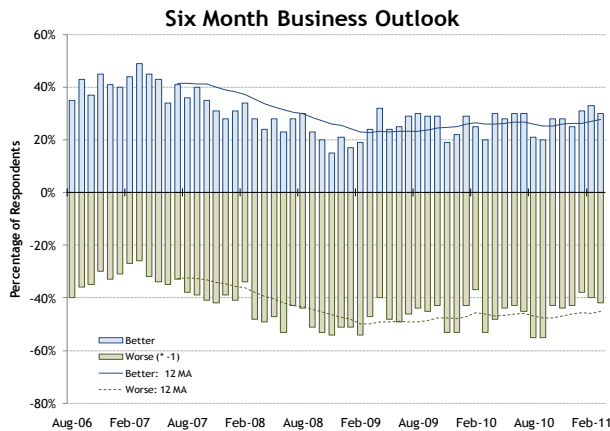
### Single-most Important Problem for Small Business



# Small Business Sentiment

- The most recent Discover Small Business Watch Survey Index showed that confidence among small business owners dropped off substantially during the month. Continuing its decline from January, the index fell from 90.2 in February to 86.5 in March. Moreover, most of the other indicators the survey tracks not only lost momentum but also changed direction. Indicators that were up in February were now down in March, and vice versa.
- With the highest reading recorded since September 2010 and up by 13 percentage points month-over-month, 54 percent of small business owners reported that the economy was getting worse. Only 27 percent felt the economy was improving, which is down 7 percentage points

from February. As a result, the number of business owners who viewed their six-month business outlook as getting better this month fell to 30 percent, which is down 3 percentage points from last month. As in February, 56 percent of respondents rated the current economy as poor. On the flip side, the number of small businesses experiencing temporary cash flow issues, which last month had experienced the largest one-month spike since November 2009, fell 7 percentage points to 43 percent, with 52 percent of businesses reporting no cash flow issues whatsoever, up from 46 percent in February. Investment spending and hiring plans remained relatively flat month-over-month, while plans to lay off increased by 3 percentage points, simply regaining what had been lost during February.

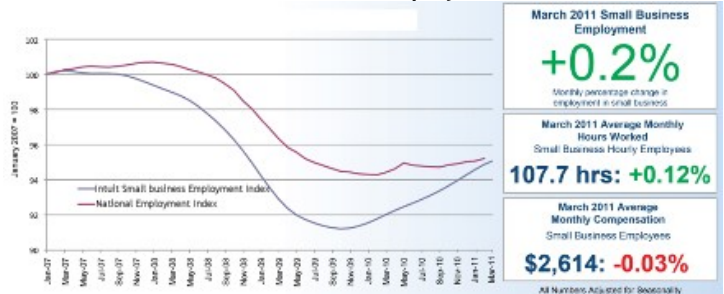


Source: Data from Rasmussen Reports LLC/Discover Small Business Watch mid-month surveys

## Small Business Trends at Firms with Fewer Than 20 Employees

- According to Intuit, small business employment continued to grow during March. As in February, hours worked were up slightly month-over-month while total compensation continued to be relatively flat. Small business employment grew by 0.2 percent for the month, which equates to an annual growth rate of nearly 3 percent. Although the gain was not quite as large as that in February, the strength of employment growth was still somewhat encouraging.
- For the first time in several months, all nine U.S. Census divisions experienced positive employment growth. Once again, the Mountain Census division experienced the greatest increase: up 0.4 percentage points since February. The West North Central Census division, after experiencing eight months of employment declines, finally turned positive and experienced some growth. Though still posting growth for the month, the East South Central Census Division lost 0.2 percentage points of momentum month-over-month, while the Pacific, West South Central, South Atlantic, and Middle Atlantic Census Divisions also grew at 0.1 percentage points less during the same time period.
- On a state-level basis, most states continued to see employment growth for March. In fact, the Intuit press release says employment was up for most of the “sand states,” or those hit hardest by falling real estate prices: Oregon, California, Arizona, and Florida. Florida and New Jersey saw the largest increase, at 0.5 percent. Arizona, California, Maryland, and Virginia followed closely, behind at 0.4 percent growth for the month. Unfortunately, both New York and Georgia once again noted slight decreases of -0.1 percent each.

### Intuit Small Business Employment Index



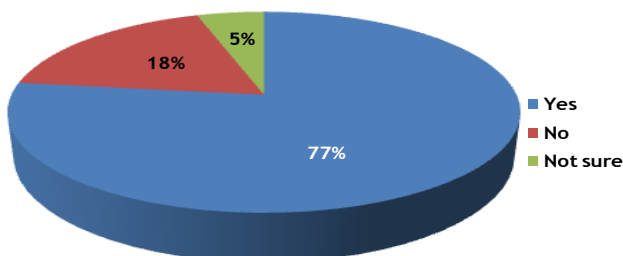
### Monthly Small Business Employment Growth (March 2011)



## Small Business Profitability

- Damaging effects from economic events of the recent past continue to plague the small business sector. In fact, 77 percent of small business owners said their profitability has been hurt; only 22 percent have experienced any sort of sustained economic recovery. Among the 57 percent who have not experienced a comeback, 14 percent believe they may never recover. Up 5 percentage points from when the survey question was last asked in October 2009, 66 percent of small business owners said they are at least somewhat likely to use their own personal assets during the next 12 months to stay in business. Furthermore, 37 percent are at least somewhat likely to borrow from their family or friends. Nearly one-third of all small business owners said they have contemplated going out of business sometime in the past 60 days.
- Fewer and fewer small businesses are opting to extend credit to their customers. Of the 27 percent who are, 63 percent said their customers have asked to delay a payment within the last three months, down 10 percentage points from April 2008.
- Gasoline prices have also started to have a noticeable effect on small business profitability. In fact, 76 percent of respondents felt that recent increases were beginning to affect their bottom line. Of those that felt they had already been affected, 90 percent said that prices were either having a somewhat negative or very negative impact, which is similar to April 2008 sentiments, when the national gasoline price average hovered at \$3.42 per gallon.

Was your profitability hurt by the economic climate of the past 3 years?



Source: Discover Business Watch/Rasmussen LLC

Of those who have yet to experience a sustained recovery, how long will it take for your business to experience sustained recovery? (%)

|   |    |
|---|----|
| Business is already experiencing recovery | 1  |
| Within the next three months              | 7  |
| 3–6 months                                | 10 |
| 6–12 months                               | 16 |
| More than 12 months                       | 45 |
| Maybe never                               | 14 |
| Not sure                                  | 8  |

Source: Discover Business Watch/Rasmussen LLC

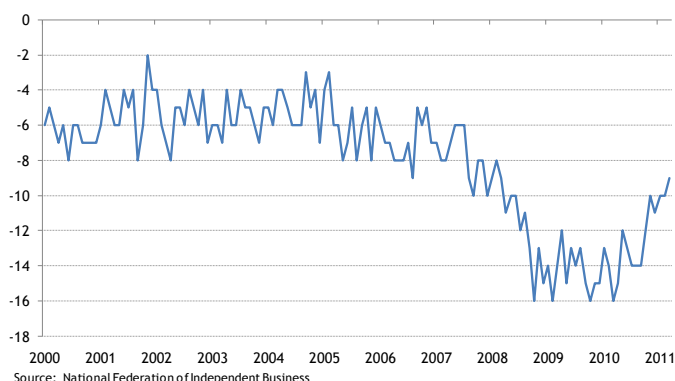
## Small Business Credit Conditions and Trends

- Up 1 percentage point month-over-month, the NFIB reported that 93 percent of small businesses surveyed felt that either their credit needs were met or that they simply were not interested in borrowing for the month of March; thus, only 7 percent thought that their credit needs were not satisfied. Up 2 percentage points since February, more than half, or 53 percent of the respondents, stated that they did not even want a loan. At 25 percent, poor sales was once again the single most important problem cited by small businesses, with government requirements and taxes running close behind at 17 percent each. Unchanged from last month, access to credit still appeared to be a low priority for small business owners as only 4 percent claimed that financing was their top problem. In fact, according to the NFIB, for the extent of the entire credit crisis the percent of small business owners who have complained about financing as their top problem has stayed near 35 year lows. Furthermore, due to high/continual uncertainty in spite of historically low interest rates, it seems that any sort of investment right now is unlikely to pay back; thus, small business owners are not

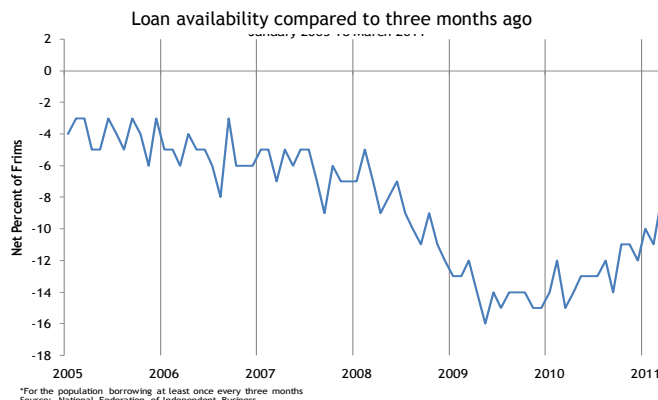
really demanding any new C&I loans or are just not seeing the need for them as they have very little interest in taking on any new debt and have continued to operate in “maintenance mode.”

- Down 2 percentage points from February and just 1 percentage point above its record low, only 29 percent of all small business owners claimed they borrowed on a regular basis. Of those regular borrowers surveyed, just 8 percent stated that loans were harder to obtain this time around when compared to their last attempt, which represents a 3 percentage point decrease month-over-month. Those that were expecting credit conditions to ease increased 1 percentage point, to -9 percent for the month of March. It has become apparent that credit availability is not holding back loan growth—it is simply a lack of demand. The Federal Reserve’s 2010 Survey of Consumer Finances’ data on turndown rates and credit constraints for small business owners has corroborated such facts and has been consistent with other survey evidence collected by the National Federation of Independent Businesses.

Percent Expecting Credit Conditions to Ease, Net (SA, %)



Credit Conditions Jan. 2005–Feb. 2011



## Small Business Lending Fund Update

Last fall, the federal government set aside \$30 billion for a program intended to revive small business lending and create as many jobs as possible in communities across the country. But by the original March 31 deadline, only 7 percent of banks had opted to participate. According to the Wall Street Journal, only about 526 community banks had requested \$7.6 billion. So it was no surprise when the Treasury stepped in to extend the deadline to May 16. However, it is important to note that not all institutions—that is, those classified as Subchapter S and mutuals—have access to these funds that may want to use it. The Treasury is supposed to still be working on their terms as such entities are unable to have classes of stock, which consequently makes for a more complex investment. On the other hand,

according to the NFIB, “the SBA and the Treasury can keep creating lending facilities of various types but that is not the problem and so far they have had little impact. Community banks are happy to engage in real banking and will make loans once businesses find a good reason to borrow.” Several banks have stated that they already have plenty of capital to meet any loan demand from qualified borrowers, but there has been very little demand. Of those that have decided to participate, it has simply been a maneuver to prepare for additional demand in case the economy turns around more quickly than anticipated. Therefore, many feel that this government program has not been the right solution.

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