

## Small Business Trends

### *Policy & Supervisory Studies*

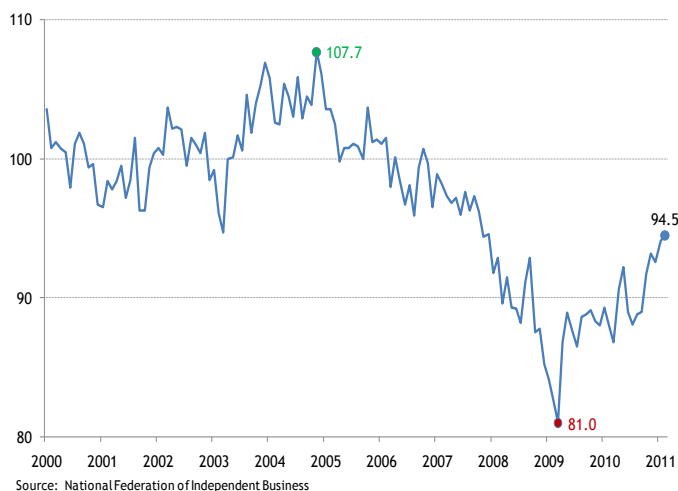
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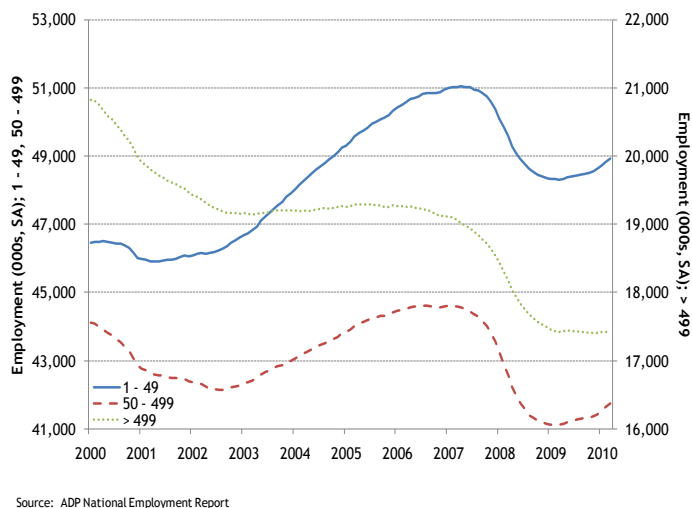
## Small Business Optimism

- Continuing on its slow but steady path, the Small Business Optimism Index rose 0.4 points for the month of February. Its latest reading of 94.5 is the highest reading since the onset of the recession in December of 2007. Recent trends in the Index have been indicative that a more sustained turnaround for small businesses is beginning to emerge. However, the economy is still plagued by a great deal of uncertainty and however, the Index is still well below its historical average (100), which was common up through 2007.
- The ADP employment report showed continued solid growth in private employment for the month of February. Trends in rising monthly employment gains became clearly reinforced this month as the average quarterly gain (217,000) was well over three times above the average gain posted for the previous six months (63,000). Both service-producing and goods-producing sector employment continued to surge, posting their thirteenth and fourth consecutive monthly gains, respectively.

Small Business Optimism Index (SA, 1986=100)



U.S. Private Sector Employment by Size of Payroll



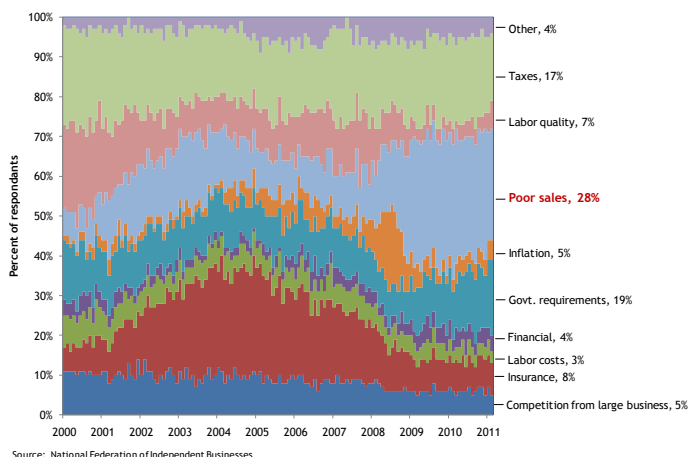
February 2011 Employment Trends

		Level (000s, SA)	Share of Sector	Growth	
				M-t-M	Y-o-Y
Goods Producing		17,711	100%	0.13%	-0.2%
Firm Size	1-49	6,601	37%	0.11%	-1.2%
	50-499	7,681	43%	0.20%	0.9%
	> 499	3,429	19%	0.03%	-0.8%
Service Producing		90,171	100%	0.18%	1.2%
Firm Size	1-49	42,222	47%	0.22%	1.4%
	50-499	33,956	38%	0.21%	1.4%
	> 499	13,993	16%	0.01%	0.1%

Source: ADP National Employment Report

Increasing 1 percentage point over January, poor sales remained the most frequently cited problem for small businesses during the month. Only minor changes, whether positive or negative, were noted in all the problems that small businesses cited for February.

Single-most Important Problem for Small Business

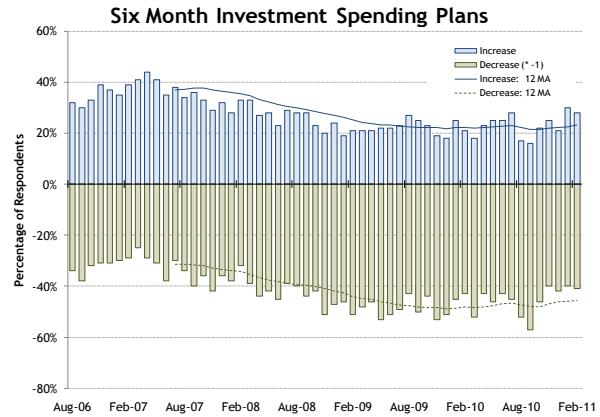
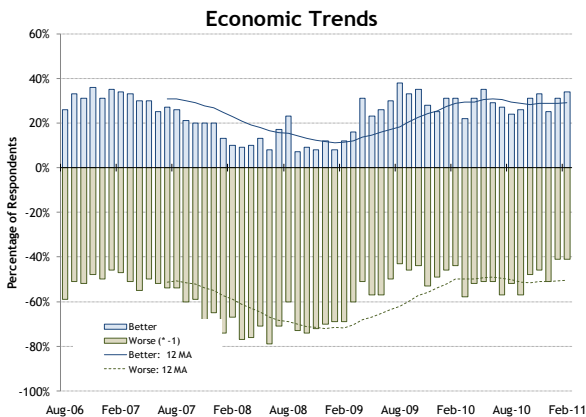
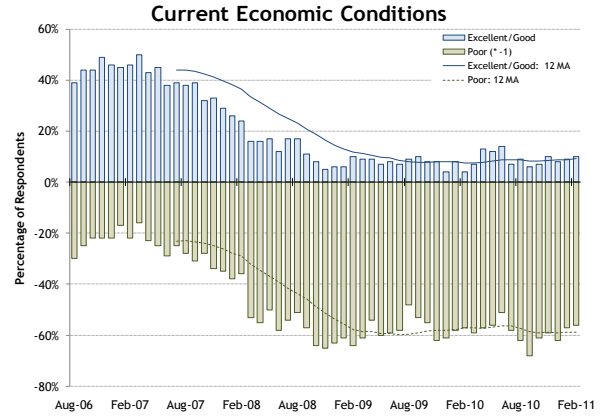
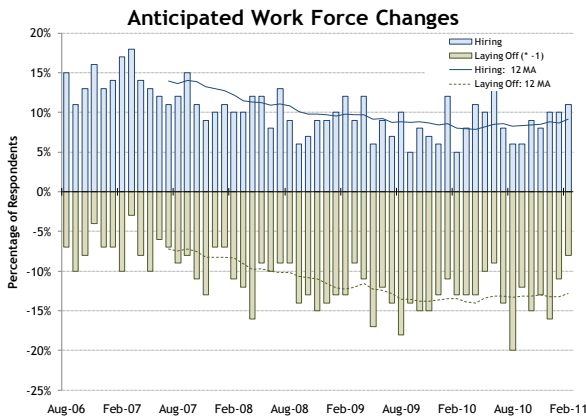
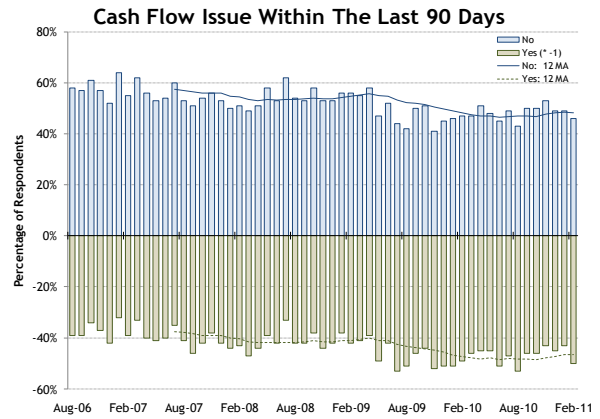
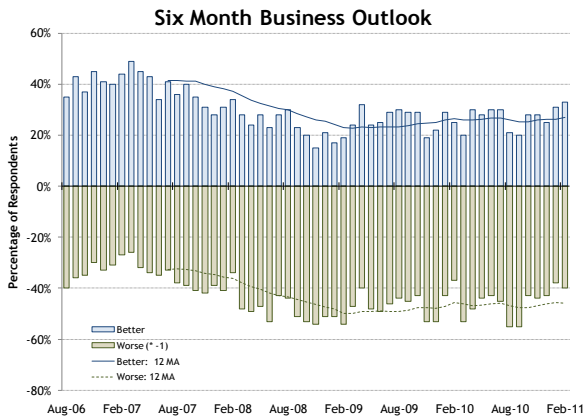


## Small Business Sentiment

Taking a slight dip month-over-month, the most recent Discover Small Business Watch Survey Index showed that confidence among small business owners faded slightly during the month of February. The good news is that the drop was not huge—only 0.8 points, to 90.2, since January, after an unexpected December fall. Even though more small business owners saw the overall economy and economic conditions for their businesses improving, an increase in cash flow issues, a factor that showed the largest one-month spike since November 2009, kept confidence flat.

Conversely, the number of business owners who reported their six-month business outlook as improving this month

was the highest recorded since February 2008. Less than half of all small business owners felt that the economy was getting worse, with 34 percent saying that it was now actually getting better. Slipping 1 percentage point month-over-month, 56 percent of respondents still rate the current economy as poor. With only 28 percent of small business owners planning to increase their investment spending within the next six months, most respondents had plans to either decrease or maintain their capital outlays. Plans to hire within the next few months increased 1 percentage point month-over-month while plans to lay off decreased by 3 percentage points during the same period.

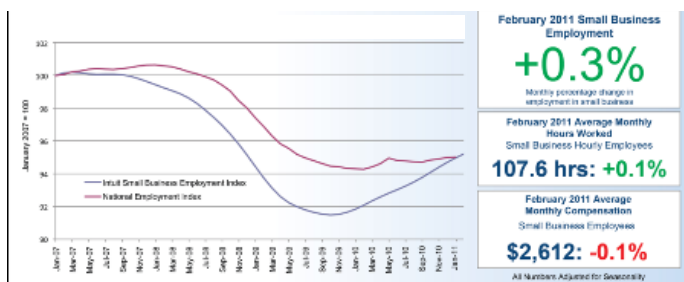


Source: Data from Rasmussen Reports LLC/Discover Small Business Watch mid-month surveys

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

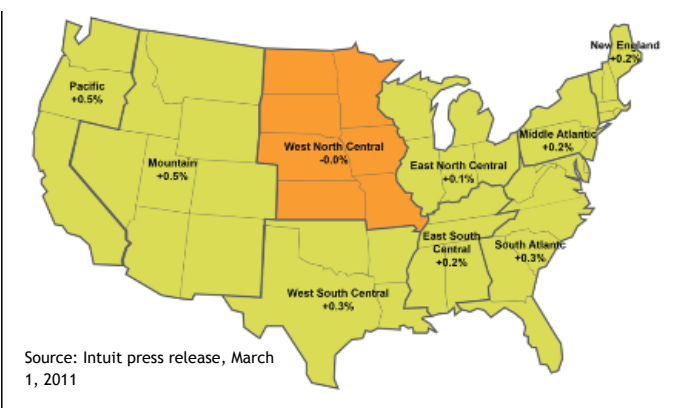
- According to Intuit, and similar to last month's report, small business employment is growing, with hours worked slightly up. However, total compensation has remained relatively flat, which indicate a still-soft labor market. Hours worked posted a 0.1 percent increase over the revised January figure, up about 3 percent over last year. Small business employment grew by 0.3 percent for February, which equates to an annual growth rate of more than 3 percent.
- The West North Central Census Division has experienced employment declines for eight months in a row. However, month's decline is the lowest month-over-month decline yet. The Mountain Census Division experienced the greatest increase, growing 0.3 percentage points since January. The Pacific Census Division also grew an additional 0.1 percentage point in the same time period. Although the West South Central Census, East South Central, and New England Census divisions grew, they grew at 0.2, 0.1, and 0.1 percentage points less, respectively, than they did last month.
- Most states continued to see employment growth for February. As it did last month, Maryland witnessed the largest increase, at 0.8 percent. Arizona experienced a 0.2 percentage point increase month-over-month (0.7 percent). Washington and New Jersey both saw 0.6 percent growth. As in January, New York, Georgia, and North Carolina posted negative results, with New York experiencing a 0.1 percentage point increase (-0.4 percent).

### Intuit Small Business Employment Index



Source: Intuit press release, March 1, 2011

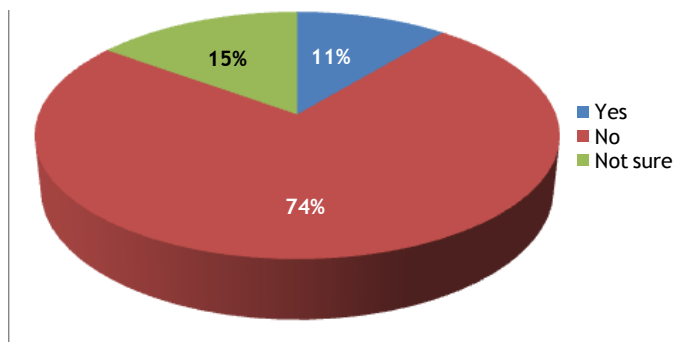
### Monthly Small Business Employment Growth (February 2011)



## Taxes

- Since 2007, when these data were first tracked, more and more small business owners have reported greater difficulty in the tax preparation process. Recently, 56 percent reported that it was either very or somewhat difficult to find and organize their tax documents, which is a 17 percentage point increase in just four years; 80 percent felt that the process was somewhat or very time-consuming, a 7 percentage point increase over last year and the highest level recorded since 2007. Unfortunately, 74 percent of small business owners did not take advantage of any new tax breaks, and 28 percent were either not very or not at all confident they would receive all of the deductions they were entitled to for their business this year, even though 68 percent hired a professional to file their taxes. Furthermore, only 26 percent were expecting a refund, while 38 percent expected to owe taxes.
- **Note:** In early February the Senate repealed the 1099 provision from the Healthcare Reform Plan. In early March, the House also voted overwhelmingly to repeal this burdensome reporting requirement. However, neither body can agree on how to fund the expected loss in revenue, predicted to be more than \$20 billion over the next 10 years. The president, who also strongly supports the repeal of this provision, objects to the financing measures offered in the House and Senate versions but has not recommended a different way to offset the cost. As a result, no immediate relief is in sight for small businesses.

Did you take advantage of any new tax breaks this year for your business?



Source: Discover Business Watch/Rasmussen LLC

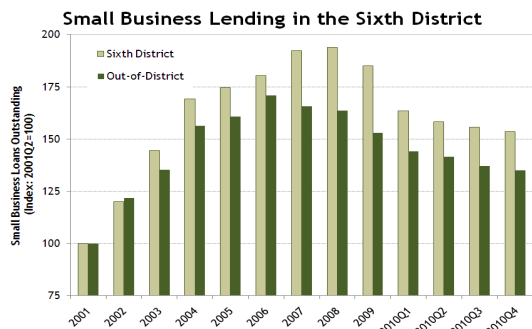
Which one of the following taxes frustrates you most as a small business owner?

Tax	Percentage
Self-employment	30
Federal income	25
Not sure	21
State income	8
Real and personal property	6
Employer portion of Social Security	5
Unemployment	4
Excise	1
Sales	1

Source: Discover Business Watch/Rasmussen LLC

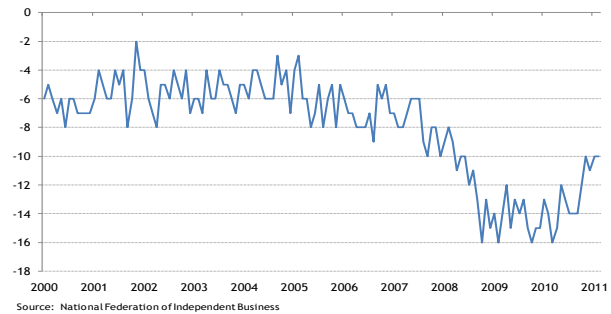
## Small Business Credit Conditions

- The National Federation of Independent Business (NFIB) reported that 92 percent of small businesses surveyed felt their credit needs were met or they simply were not interested in borrowing for the month of February. Only 8 percent thought that their credit needs were not satisfied. Both these numbers were unchanged from last month. Down 1 percentage point month-over-month, 51 percent of the respondents stated that they did not even want a loan.
- At 28 percent, poor sales continued to be the single-most important problem cited by small businesses, with government requirements (19 percent) and taxes (17 percent) running close behind. Access to credit still appears to be a low priority for small business owners; only 4 percent claimed that financing was their top problem, up 1 percentage point over January. This historically high percentage of owners citing poor sales is indicative that any sort of further investment in their business is unlikely to be recovered.
- As a result, according to the most recent Senior Loan Officer Opinion Survey and fourth-quarter Bank Call Report data, demand for commercial and industrial (C&I) loans has not increased much, as most small business owners are still operating in “maintenance mode” and have little interest in taking out new debt. Despite low interest rates, small business

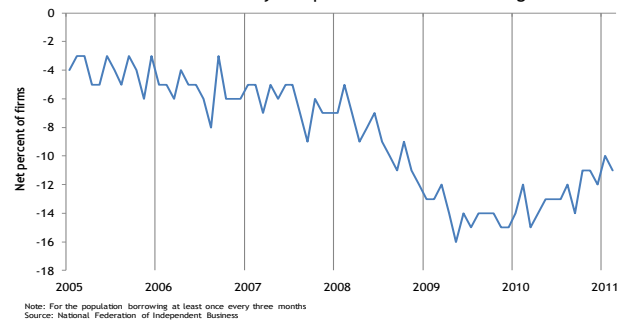


- owners are apparently unwilling to risk any new capital investments or are simply not seeing the need for them.
- Similar to January and still near its record low, 31 percent of all small business owners claimed that they borrowed on a regular basis. Of those regular borrowers surveyed, 11 percent stated that loans were harder to obtain this time around when compared to their last attempt, which represents a slight uptick month-over-month. Those who were expecting credit conditions to ease remained flat at -10 percent for the month of February.

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



Credit Conditions Jan. 2005–Feb. 2011  
Loan availability compared to three months ago



## Small Business Bankruptcies

Recent year-over-year data from Equifax show an 18 percent decrease in small business bankruptcy filings during fourth-quarter 2010. Most U.S. regions experienced evident decelerations in petition filings. However, small business economic turmoil remained elevated in California throughout 2010, which ultimately made the state account for nearly one-quarter of U.S. small business failures. Although high bankruptcy rates continue to pressure almost all areas of the country, 10 of the top 15 metro areas with the greatest number of small business bankruptcies (no Sixth District metro areas are included) experienced a year-over-year decline during the fourth quarter of 2010. On the flip side, 12 of the 15 metro areas with the least number (six

Sixth District metro areas are included) experienced a year-over-year decline, with a 50-percent overall decrease in the total number of bankruptcy filings. Metro Atlanta filings dropped to 231 for fourth-quarter 2010, the lowest number recorded for a three-month period since the first quarter of 2008. While most small businesses claim greater optimism for 2011, many still face the rising costs necessary to run their business: utilities, raw materials, taxes, and health care, as well as the general cost of borrowing. Furthermore, small business owners are still cautious about raising prices as consumer demand is only just beginning to recover.

## References

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