August 2011

Second Quarter 2011 Small Business Survey

Note: Unless otherwise indicated, the charts in this report are created from original data gathered in the Atlanta Fed Small Business Survey.

For questions or more information, send an e-mail to SmallBusinessResearch@atl.frb.org.

Small Business Survey overview

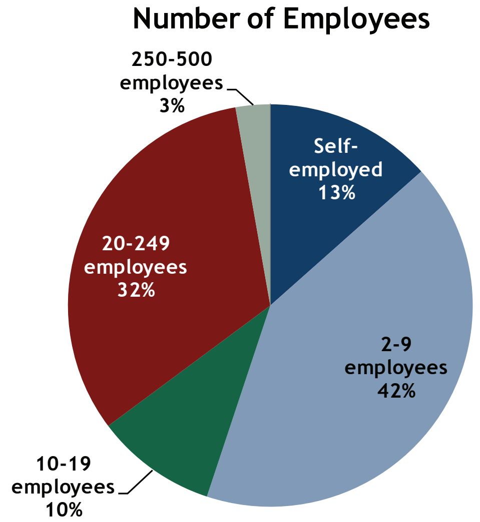
Characteristics of the survey sample

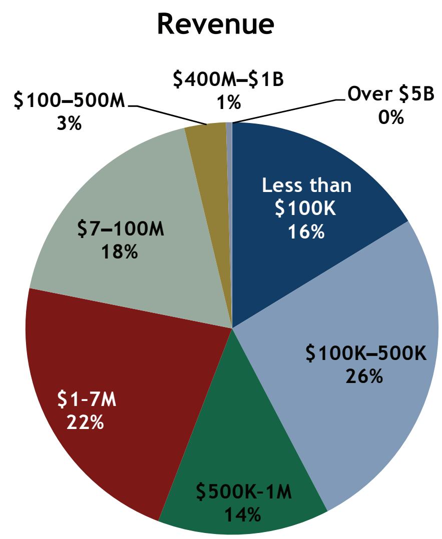
Participating in the second quarter survey were 216 small businesses. Most firms are in the construction, real estate, professional services, manufacturing, or retail trade industry.

The distribution of industries in the sample is mostly in line with industry distribution within the Southeast, but the sample is overweighted in manufacturing. Manufacturing makes up 2 percent of all small firms in the region, according to data from the U.S. Census Bureau, but is 14 percent of the second-quarter survey sample.

The sample remains skewed towards larger, more mature firms. Excluding self-employed individuals, only 48 percent of the survey sample have fewer than 10 employees, compared to 70 percent of small firms the Southeast. The median age of firms in the sample is 18 years old.

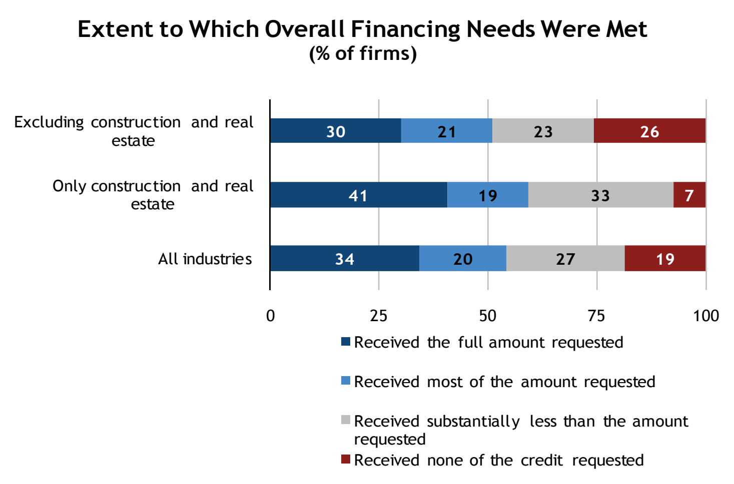
About three-quarters of the sample have annual revenues of $7 million or less.





Credit obtainment for overall sample

Of the 216 businesses in the survey, 70 applied for credit. Applying firms submitted 3.4 applications on average, and 34 percent had their overall financing needs met in full. A further 20 percent indicated they received most of the amount requested.



Small Business Survey highlights

Summary of changes over time

The overall amount of financing received among all firms in the survey was unchanged. However, repeat firms in the sample reported receiving more financing in in the second quarter of 2011.

Bank financing grew in importance. More applications were approved at both large national banks and at community and regional banks. In line with past survey results, community and regional banks fulfilled more credit applications than did large national banks.

Optimism about sales and expectations for hiring and capital expenditures declined for the sample as a whole. Repeat firms in the sample reported essentially no change in plans for hiring or capital expenditures. However, their expectations for sales worsened.

Summary of young firms versus mature firms

Despite submitting more applications for credit, young firms in the survey received less credit overall than mature firms.

Young firms were more likely to cite a variety of credit obstacles, probably indicative of lower creditworthiness. Further, a greater portion were discouraged borrowers.

When asked what type of financing was used to start their business, young firms more commonly reported the use of personal savings and reliance on family or friends.

The outlook for business conditions remained more positive among young firms in the sample.

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[1] We define small businesses as those with fewer than 500 employees.

Changes over time

Credit conditions

The overall amount of financing received has been relatively flat since the fourth quarter of 2010. For charting purposes, the overall amount of financing received has been converted to a scale of 1 to 4: 1 is "received none of the credit requested," 2 is "received much less than the amount requested," 3 is "received most of the amount requested," and 4 is "received the full amount."

Meanwhile, the portion of firms citing "tighter lending standards" as an obstacle to credit has remained essentially unchanged.

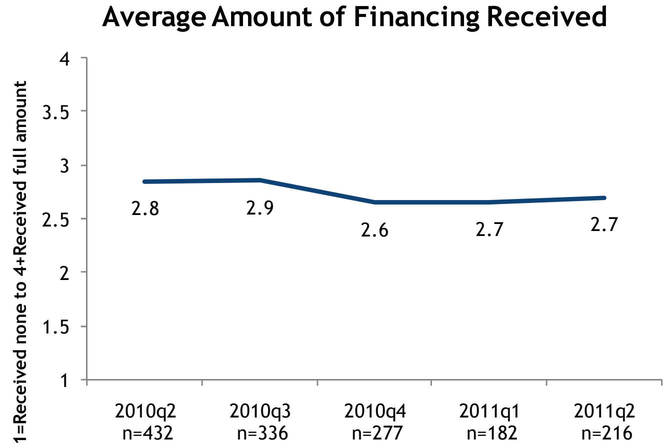
Business conditions outlook

Following three consecutive quarters of improvement in sales expectations, the expectations of firms regarding business conditions 6 to 12 months out worsened in the second quarter.

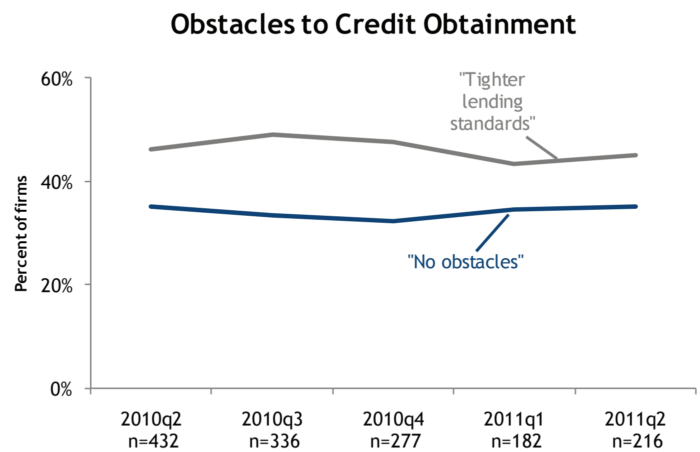
As of the second quarter, a net 53 percent believe sales will be higher 6 to 12 months out, reflecting 63 percent of firms that expect sales to be higher and 10 percent that believe sales will be lower. In the first quarter of 2011, the net percent expecting higher sales was 66.

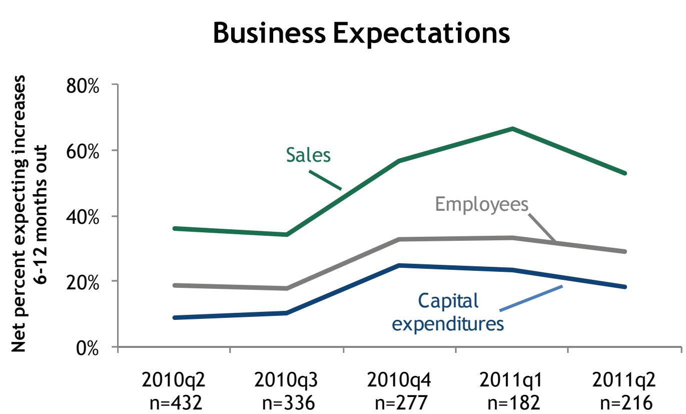
A net 30 percent expect to increase their number of employees, down from a net 33 percent in the first quarter.

A net 18 percent anticipate increases to capital expenditures, down from 23 percent in the first quarter.



Note: The averages are computed by assigning a value between 1 to 4, where 1 equals none of the credit requested and 4 equals the full amount requested.





Changes from last quarter

First quarter 2011 versus second quarter 2011

Ninety-one firms took the survey in Q1 2011 and Q2 2011. In order to control for idiosyncratic differences that tend to vary with each survey sample, the results here are limited to this fixed group of survey participants.

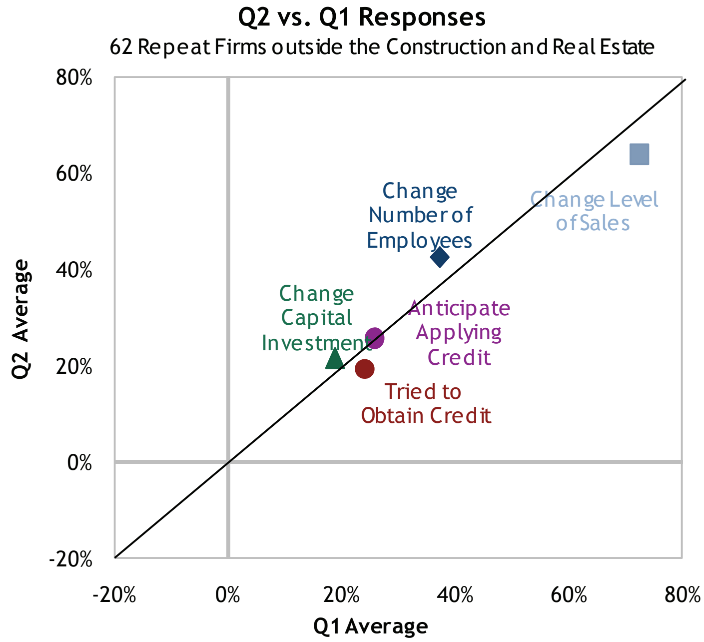
The responses of firms in construction and real estate are shown separately due to the disproportionate effect the recession has had on them.

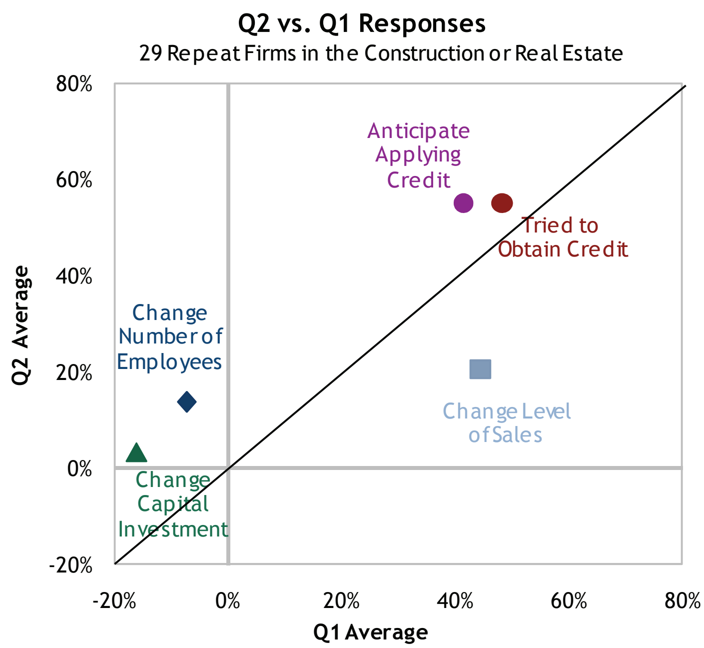
When the results are narrowed to a fixed group of repeat participants, the outlook for business conditions is slightly more optimistic.

Among firms not in construction or real estate, the net portion of firms planning to increase the number of employees and increase capital expenditures improved slightly. However, like the results for the population as a whole, the net portion anticipating higher sales declined.

For repeat firms in construction and real estate, the outlook for hiring and capital investment improved significantly. The outlook for sales worsened.

The portion of firms that applied for credit and that anticipate applying for credit increased among firms in the construction and real estate industry. There was essentially no change for firms in other industries.





Note: In both charts, dots that appear above the 45-degree line indicate that a larger net percent anticipate increases to business conditions in the second quarter. In the case of the applied/anticipate applying for credit questions, dots above the 45-degree line indicate increases to the percent that applied for credit in the past three months or anticipate applying for credit in the next six months.

Reasons for not seeking credit

Out of the 91 firms that participated in both the Q1 and Q2 2011 surveys, 50 did not borrow either time.

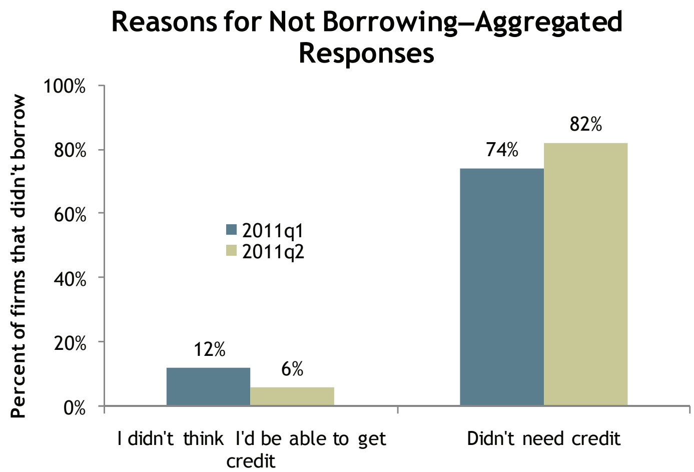
The chart to the right consolidates the five possible reasons for not borrowing into two categories: "I didn't think I'd be able to get credit" and "I didn't need credit."

Firms in the "I didn't think I'd be able to get credit" category selected **only** "expected denial" or "'unfavorable credit terms will be offered."

Firms in the "I didn't need credit' category checked **only** "sales did not warrant it," "sufficient cash on hand," or "existing financing meets needs."

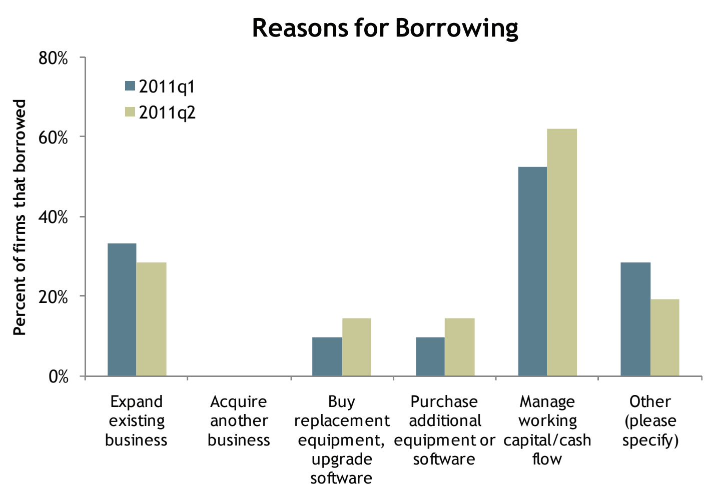
The portion of firms checking only supply-side reasons for not borrowing declined in the second quarter while those checking demand-side reasons increased. By this measure, then, the portion of discouraged borrowers declined.

In the comments section, several firms expressed holding back on expansion because of economic uncertainty.



Reasons for seeking credit

Twenty-one—or about one-fourth—of the 91 repeat firms sought credit in both the first and the second quarters. The reasons given for borrowing did not change much from Q1 2011. A slightly smaller number of firms borrowed to expand business while a larger number borrowed to purchase equipment and software or to manage cash flow. Those that responded "other" borrowed mostly for real estate purchases or refinancing.



Changes from last quarter (continued)

Credit obtainment

Among the 21 firms that applied for credit in both quarters, there was improvement across a variety of measures of credit obtainment. The average amount of financing received increased (on a scale of 1 to 4). A greater portion of firms cited no obstacles to credit, and a smaller portion cited tighter lending standards as an obstacle to credit.

Credit Obtainment

	Q1	Q2
Average amount of financing received	2.60	2.81
No obstacles to credit	19%	24%
Tighter lending standards	67%	57%

Financing from banks

The amount of financing received from banks increased in the second quarter, with both regional and community banks and large national banks. Despite a sizeable uptick in financing received at large national banks, the average amount that firms received from regional and community banks remained higher.

In the comments section, several firms expressed frustration by their failed attempts to borrow or refinance, claiming that financing was the only factor currently holding them back from expanding. Some businesses indicated that banks were asking for more equity than in the past and that the types of acceptable collateral has changed.

Financing at Banks

Average amount of financing received from:	Q1	Q2
Regional or community banks	3.27	3.69
Large national banks	2.85	3.41

Young firms versus mature firms

Definition and numbers of young and mature firms

The characteristics and experiences of young firms differ greatly from that of mature firms. In order to examine these differences, the responses of firms younger than 6 years old are compared to firms 6 years or older, herein referred to as “young” and “mature” firms, respectively.

Because there are only four young firms in the construction and real estate industry and because firms in that industry have proven to have very different experiences, firms in either construction or real estate are excluded from all of the comparisons here.

In the Q2 2011 survey, there were 26 young business and 172 mature businesses.

Industry distribution

The industry distribution of young firms is very different from the mature firms in the sample. There’s a larger portion of retail trade among young firms in the sample. Real estate, construction, and manufacturing make up a noticeably smaller share of the young sample.

Because there are only four young firms in the construction and real estate industry and because firms in that industry have proven to have very different experiences, firms in construction or real estate are excluded from all of the comparisons here.

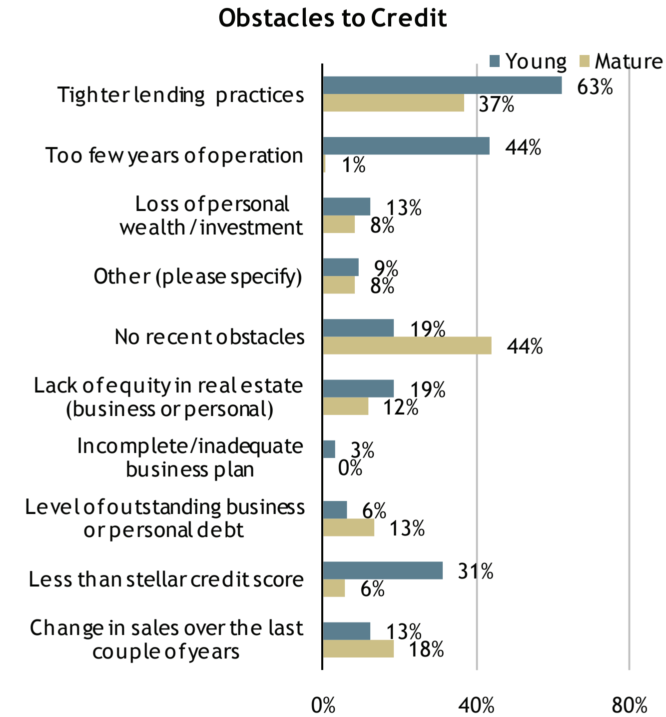
Industry	Mature	Young
Accommodation & Food Services	3%	3%
Administrative/Support and Waste	2%	6%
Agriculture, Forestry, Fishing	2%	0%
Arts, Entertainment, or Recreation	2%	3%
Construction	**13%**	**6%**
Educational Services	0%	3%
Finance & Insurance	6%	3%
Health Care or Social Assistance	2%	6%
Information	0%	3%
Manufacturing	**16%**	**6%**
Other	2%	0%
Professional, Scientific, & Tech	17%	22%
Real Estate & Rental/Leasing	**17%**	**6%**
Retail Trade	**10%**	**36%**
Transportation & Warehousing	1%	0%
Wholesale Trade	6%	0%
Grand Total	172	36

Note: Eight firms did not report the year they were established.

Credit obstacles

Survey results reveal that young firms faced very different obstacles than did mature firms when they tried to obtain credit.

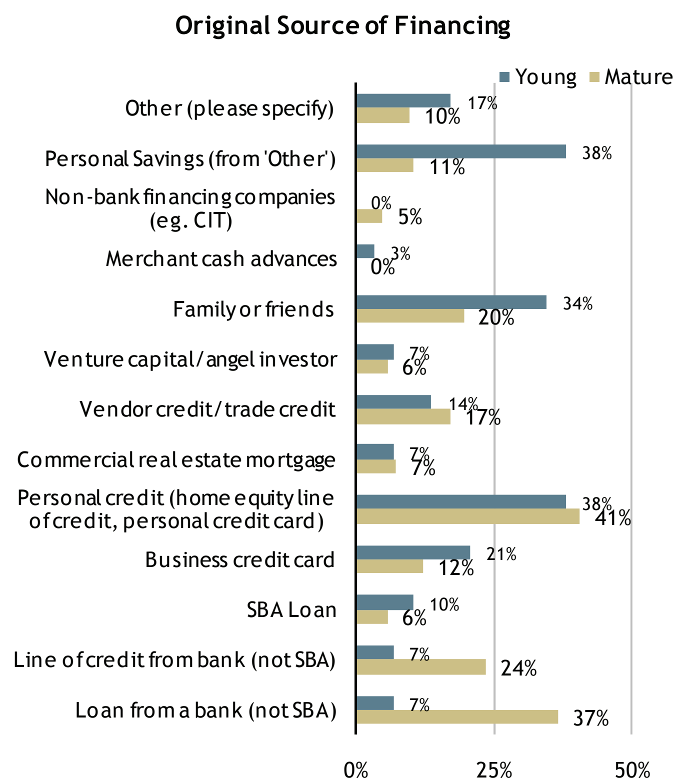
"Tighter lending practices" was reported more frequently among young firms. A large portion of young firms also cited several factors associated with lower creditworthiness: "Too few years of operation" and "Less than stellar credit score," for example, were reported much more frequently by young firms than by mature firms.



Original financing source

In addition to having a more difficult time accessing credit, young firms today are having to rely more on personal savings and family or friends to start their business. A much larger portion of firms that started six or more years ago were able to obtain bank loans or lines of credit to start their business.

One of the most common ways for young and mature firms alike to start a business is with personal credit, such as a home equity line of credit or personal credit card. Forty-one percent of young firms and 38 percent of mature firms indicated that personal credit was one of their original sources of financing.



Applications for credit

On average, young firms submitted more applications for credit and applied to a larger variety of credit sources compared to mature firms. Despite their efforts, they received less credit overall than mature firms.

None of the 12 young firms applying for credit received the full amount of money requested over all their applications for credit. The majority of them either received substantially less or none of the credit requested.

Sixty-six percent of mature firms received most or the full amount requested while 17 percent received substantially less. A further 17 percent received none of the credit requested.

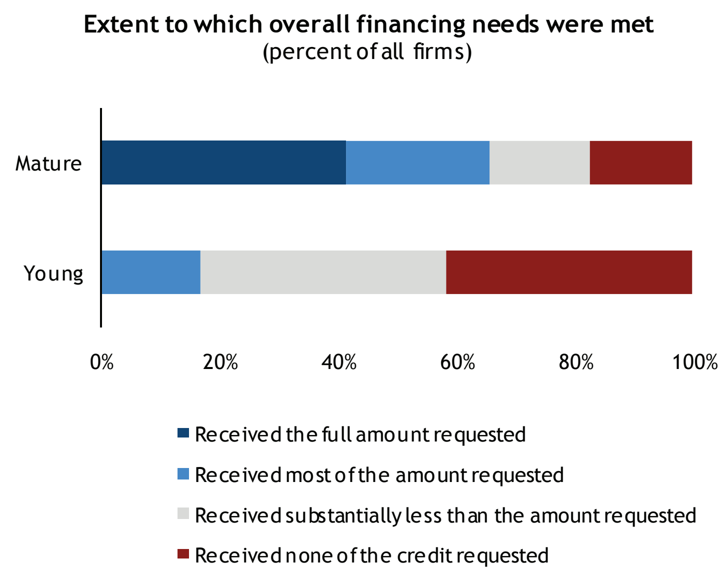
Reasons for not borrowing

Young firms were much more likely to be discouraged borrowers. Twenty-seven percent of young firms that didn't borrow said it was only because they anticipated denial or unfavorable credit terms, compared to 10 percent of mature firms

Credit Applications and Credit Obtainment

	Young	Mature
Percent applying for credit	38%	25%
Average number of credit applications	4.7	2.5
Average amount of financing received	1.8	2.9

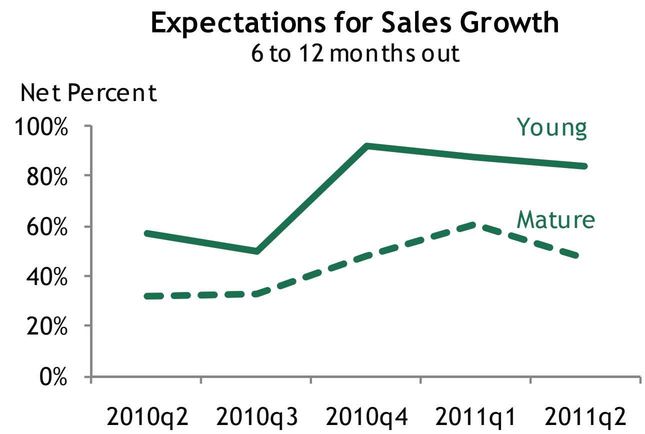
On a scale of 1 to 4, where 1 equals received none of the amount requested and 4 equals received the full amount requested.

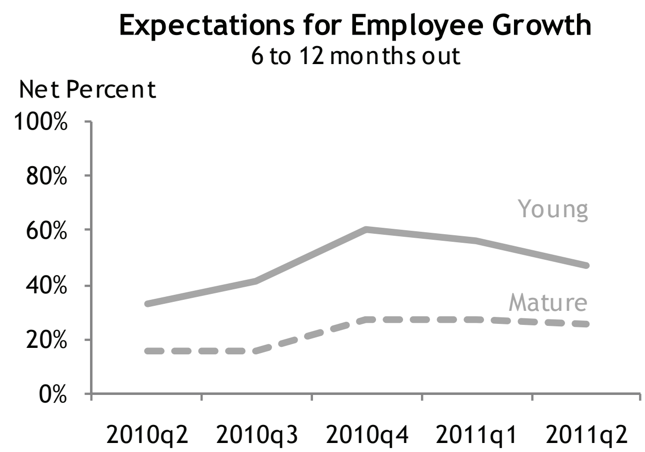


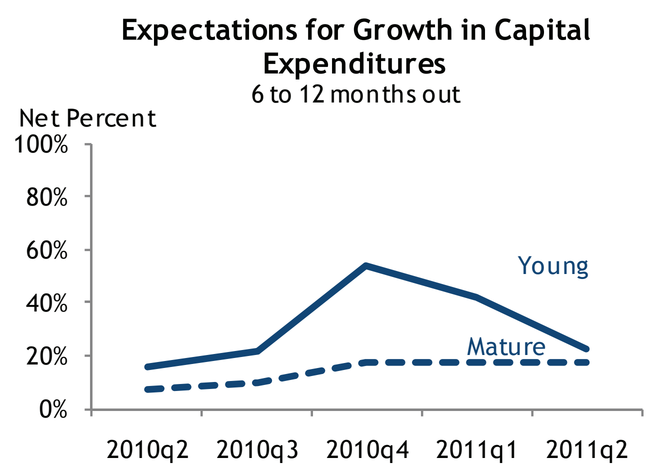
Young firms versus mature firms (continued)

Outlook

Expectations for future growth in sales, employees, and capital expenditures were more positive among young firms. In fact, the net percent of young firms anticipating increases to all three categories has been higher among young firms throughout the life of the survey.







By Ellyn Terry, senior economic research analyst in the research department at the Federal Reserve Bank of Atlanta.