

SMALL BUSINESS SURVEY

FEDERAL RESERVE BANK OF ATLANTA

Q1 2012

JULY 2012

The views expressed in the Small Business Poll are not necessarily those of the Federal Reserve Bank of Atlanta or the Federal Reserve System. Since the poll may contain proprietary information, its contents may be discussed but are not to be distributed. Information that is not proprietary is available upon request.



SMALL BUSINESS SURVEY

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HIGHLIGHTS

Business Conditions

Most small businesses in the Southeast continue to anticipate improvements over the next 12 months. The net portion of firms anticipating hiring additional staff edged up from the third quarter of 2011, while the net percent expanding capital and anticipating sales growth significantly improved from the third quarter of 2011 to the first quarter of 2012. Firms in the construction and real estate industries revised their outlook the most, coming off an extremely low base to be more in line with other industries. The net percent of young and mature firms anticipating increases to hiring and sales growth converged in the first quarter of 2012. However, young firms remained more optimistic in terms of the magnitude of the increases.

Financing Conditions

One-third of small businesses sought financing in the first quarter of 2012. About two-thirds of applying firms were able to obtain at least some amount of credit or equity financing. One major factor associated with financing obtainment was age. About 36 percent of *mature* firms in the poll reported receiving the full amount of financing requested compared to only 12 percent of applying young firms. Mature firms that had increased hiring in past 12 months were more likely to have had their financing needs met. However, reported measures of changes to sales and capital expenditures over the last 12 months were not significantly correlated with financing satisfaction.

On average, applying firms submitted two to three credit applications. Banks were the most common avenue of credit. *Community* banks, as opposed to national or regional banks, were the most common type of bank to which firms applied for credit. Moreover, applying firms were generally more successful at community banks than firms applying to other types of banks. The age distribution of firms applying at large national banks was much younger than those applying to regional and community banks. The majority of *mature* firms that did not borrow indicated that they did not need financing. However, *young* firms were more likely to have not borrowed because they did not think they could get financing.

FACILITATORS

The following organizations helped disseminate the Q1 2012 survey:

Kingsport Area Chamber of Commerce Office of Small Business Development & Entrepreneurship

Indian River County Chamber of Commerce

Griffin-Spalding Chamber of Commerce

DeKalb Chamber

Cobb County Chamber of Commerce

South Florida Hispanic Chamber of Commerce

Upper Tampa Bay Chamber of Commerce

Economic Development Commission of Florida's Space Coast

Suncoast Community Capital

Urban League of Greater Chattanooga

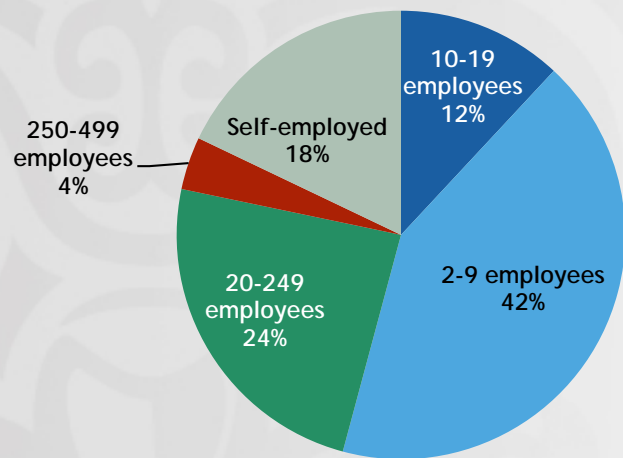
Tennessee Small Business Development

Florida First Capital Finance Corporation

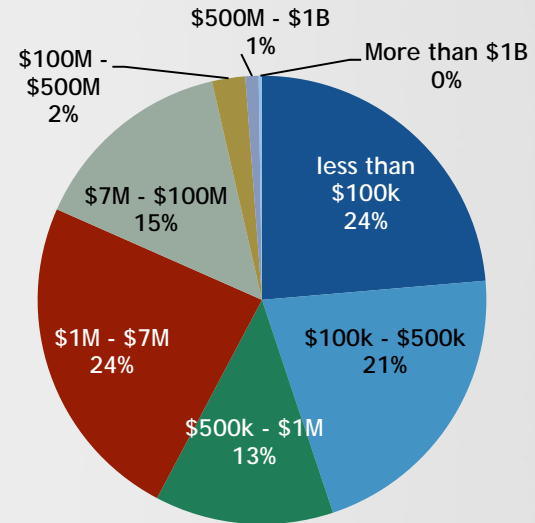
University of North Florida SBDC (Jacksonville, Gainesville, Ocala)

METHODOLOGY

Small Business Poll Participants
Number of Employees



Small Business Poll Participants
Business Revenues



DISCUSSION

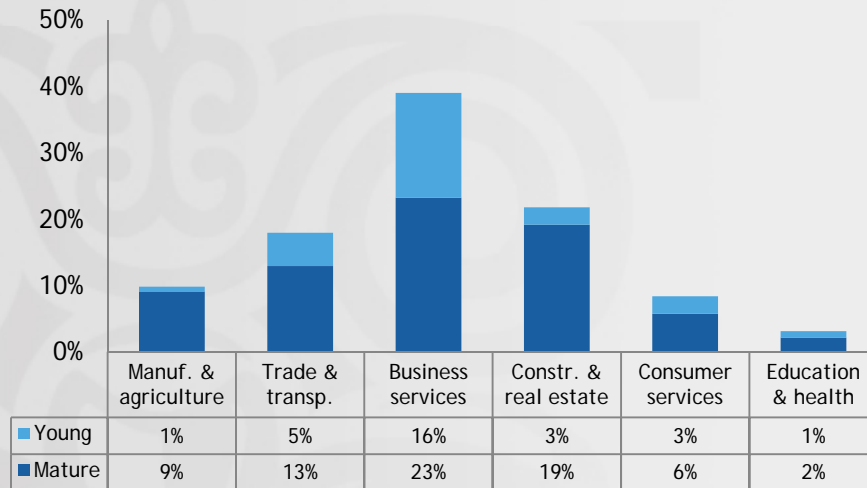
Sample characteristics

The Federal Reserve Bank of Atlanta conducts a semi-annual poll of small business contacts in the Southeast to get their perspective on general business and financing conditions. The Atlanta Fed conducted the first-quarter 2012 poll during the entire month of April. The poll was completed by 419 respondents. The questionnaire for this poll, which varies slightly each time, is available on the Atlanta Fed website.

More than half of respondents have fewer than 20 employees. The majority of respondents have revenues of less than \$1 million. The median firm is 13 years old.

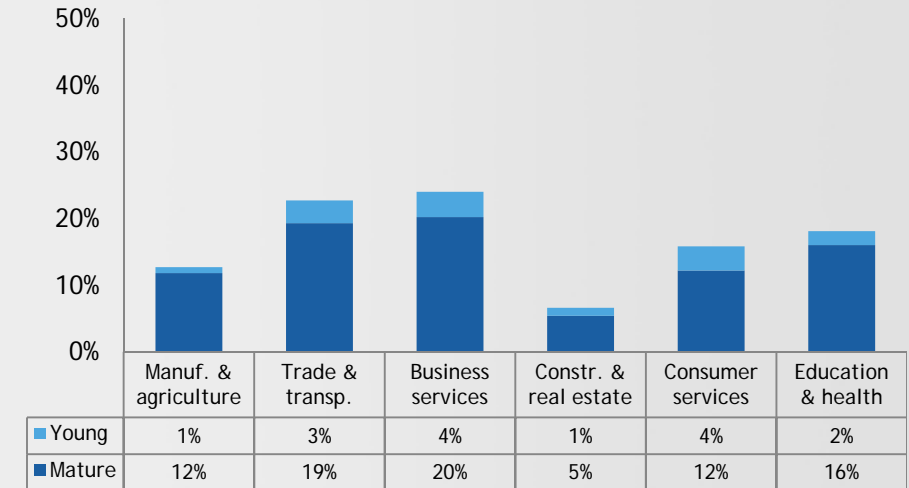
METHODOLOGY

Industry and Age Distribution of Sample
percent of poll respondents by sector and age



Source: Q1 2012 Atlanta Fed Small Business Finance Poll

National Industry and Age Distribution
percent of private-sector employment by sector and age



Source: U.S. Bureau of Labor Statistics business employment dynamics, authors' calculations

DISCUSSION

Weighting

The participants are not randomly sampled. Further, the types of firms that respond from poll to poll tend to vary. To help control for these factors, the results are weighted. Weighting not only allows for a more consistent comparison across time but also adjusts the results so that the effects of industry and firm age are more in line with the national distribution.

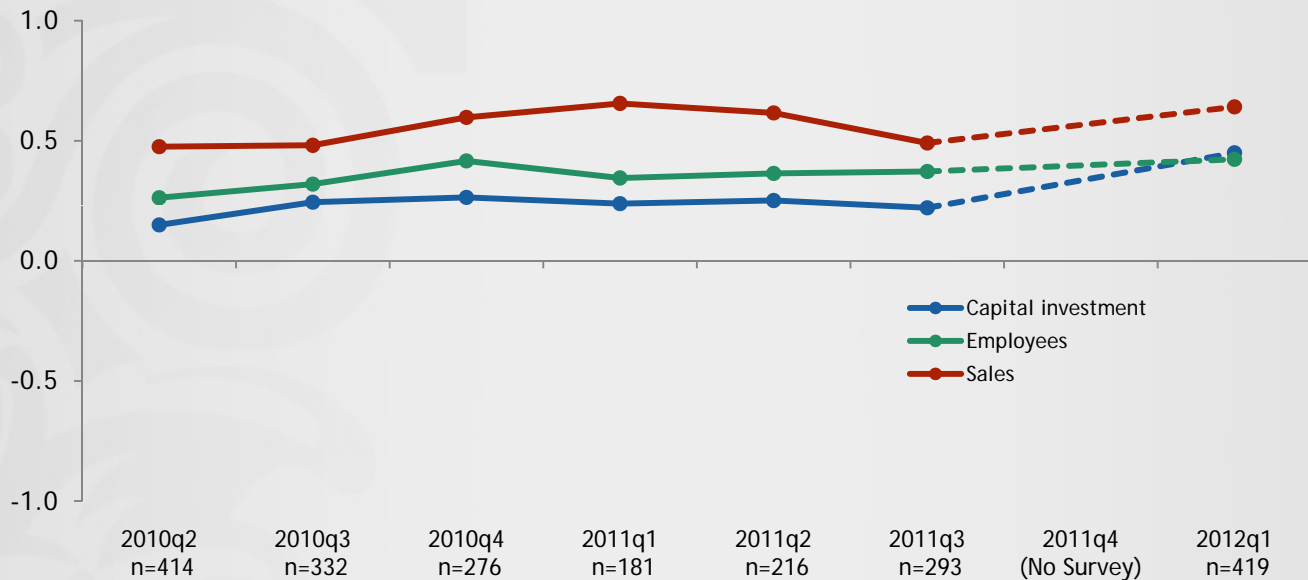
Definitions

“Young” firms versus “mature” firms: The results presented herein are often broken down by “young” and “mature.” We distinguish a “young” from a “mature” firm by the age of the business, where firms less than six years old are considered “young.”

“Small business”: We define a “small business” as a firm with fewer than 500 employees.

BUSINESS CONDITIONS

Business Expectations Diffusion Index
over the next 12 months



Note: The business expectations diffusion index is calculated by subtracting the number of firms that said "decrease" from the number of firms that said "increase." The data are weighted by industry and firm age but are not seasonally adjusted.

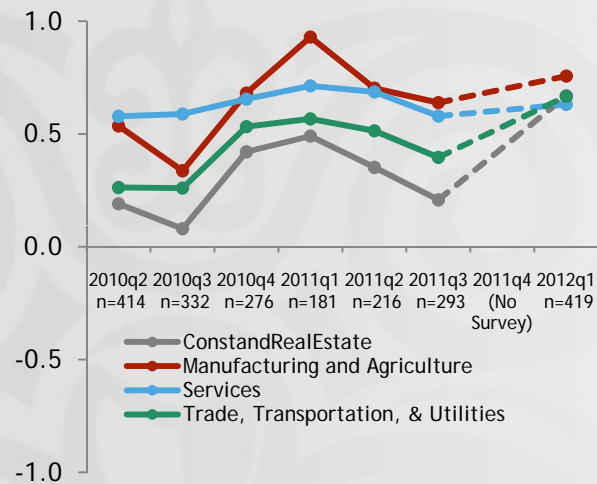
DISCUSSION

Slightly greater net portions of firms expect to hire over the next 12 months than previously, according to the first-quarter 2012 poll. The outlook for capital investment spending and sales improved since the last poll, and the difference for both was statistically significantly different than the readings from the third quarter of 2011.

The April [Wells Fargo/Gallup small business survey](#), which asks very similar questions regarding business expectations, also found an improvement in the outlook of small firms in the first quarter of this year.

BUSINESS CONDITIONS

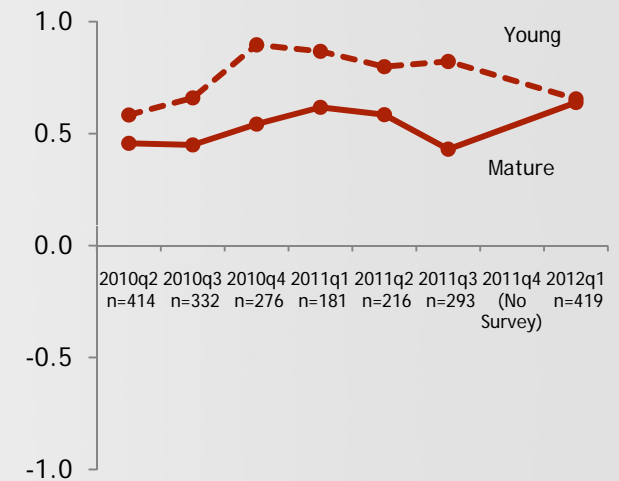
Sales Expectations Diffusion Index over the next 12 months



Sales: Average Change on a scale of -3 to +3*			
	Past 12 months	Next 12 months	Difference (change in pace of sales)
Overall	.55	1.33	.78
Mature	.52	1.30	.77
Young	.74	1.55	.81

*Scale of -3 (> than 10% decline), -2(-6 to -10%), 1(-1 to -5%), 0(no change), +1(1 to 5%), +2(6 to 10%), +3(> than 0% increase)

Sales Expectations Diffusion Index over the next 12 months



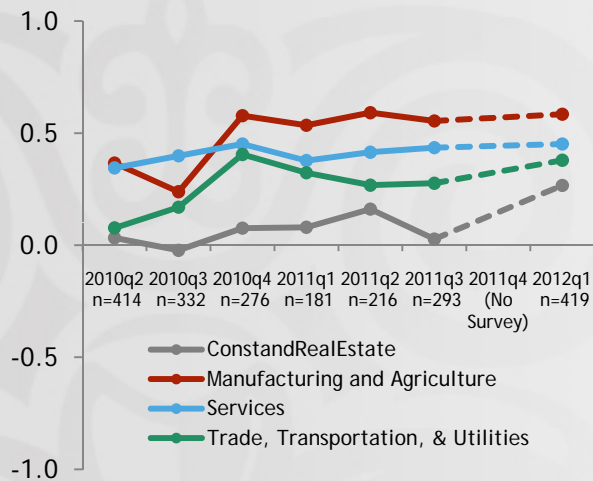
DISCUSSION

The net percent of firms anticipating sales to increase over the next 12 months rose within all broad industry groups. Firms in construction and real estate revised their outlook upward the most since the third quarter. Firms in the trade, transportation and utilities industries that anticipate higher sales increased from a net 40 percent in third-quarter 2011 to a net 67 percent in first-quarter 2012. Firms in the services industry—education, health, professional and business services, finance and insurance, information, management of companies and enterprises, and administrative/support and waste management services—had the smallest change in expectations.

Sales expectations among young and mature firms converged. The net percent of young firms anticipating increases to sales has been higher than for mature firms for all past polls, but the first-quarter 2012 poll showed little difference. Still, the detailed responses indicate that young firms' expectations for the magnitude of change in sales over the next 12 months is slightly higher than for more mature firms on average. In addition to being asked about expectations, firms were also probed about sales growth over the past 12 months. The table shows the difference between the past 12 months actual and next 12 months outlook. The positive difference indicates that, on average, firms anticipate the pace of sales to increase.

BUSINESS CONDITIONS

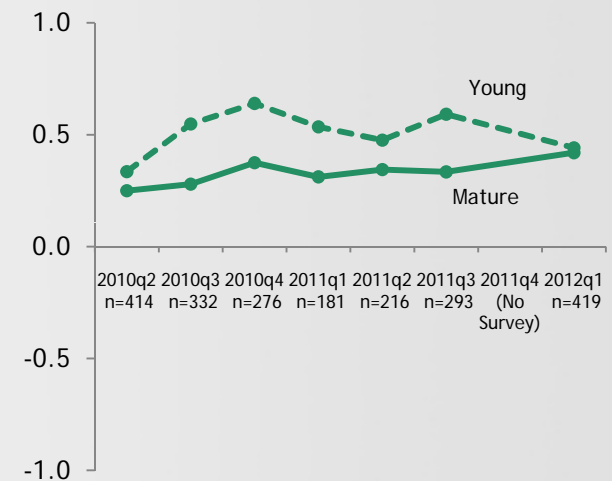
Hiring Expectations Diffusion Index over the next 12 months



Hiring: Average Change on a scale of -3 to +3*			
	Past 12 months	Next 12 months	Difference (change in pace of hiring)
Overall	.26	.76	.52
Mature	.27	.74	.47
Young	.16	.96	.79

*Scale of -3 (> than 10% decline), -2(-6 to -10%), 1(-1 to -5%), 0(no change), +1(1 to 5%), +2(6 to 10%), +3(> than 0% increase)

Hiring Expectations Diffusion Index over the next 12 months

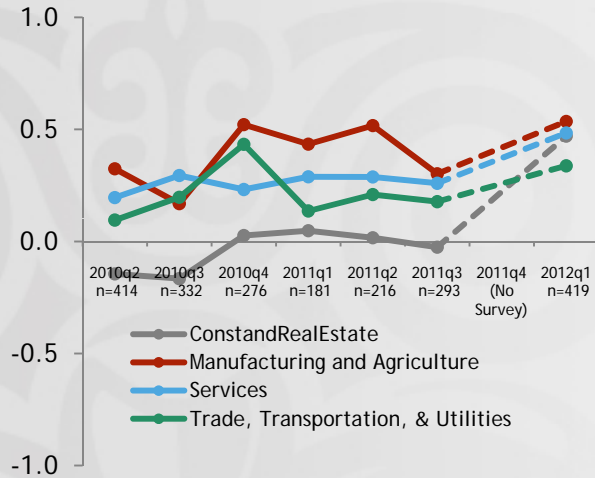


DISCUSSION

Hiring expectations edged up only slightly for firms in manufacturing and agriculture and in services. The largest gains stemmed from firms in the construction and real estate industries, who on average revised up their forecast from a net percent of 0 in third-quarter 2011 to 26 in first-quarter 2012. As with sales expectations, the gap between young and mature firms' expectations for hiring has narrowed, but the magnitude of the expected increase over the next 12 months is higher for young firms.

BUSINESS CONDITIONS

Capital Investment Expectations
Diffusion Index
over the next 12 months

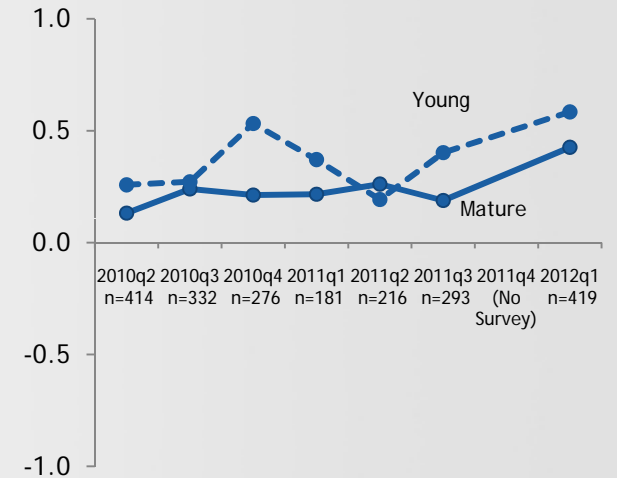


Capital Investment: Average Change
on a scale of -3 to +3*

	Past 12 months	Next 12 months	Difference (change in pace of capX)
Overall	.44	.82	.41
Mature	.34	.77	.43
Young	.83	1.1	.27

*Scale of -3 (> than 10% decline), -2(-6 to -10%), 1(-1 to -5%), 0(no change), +1(1 to 5%), +2(6 to 10%), +3(> than 0% increase)

Capital Investment Expectations
Diffusion Index
over the next 12 months

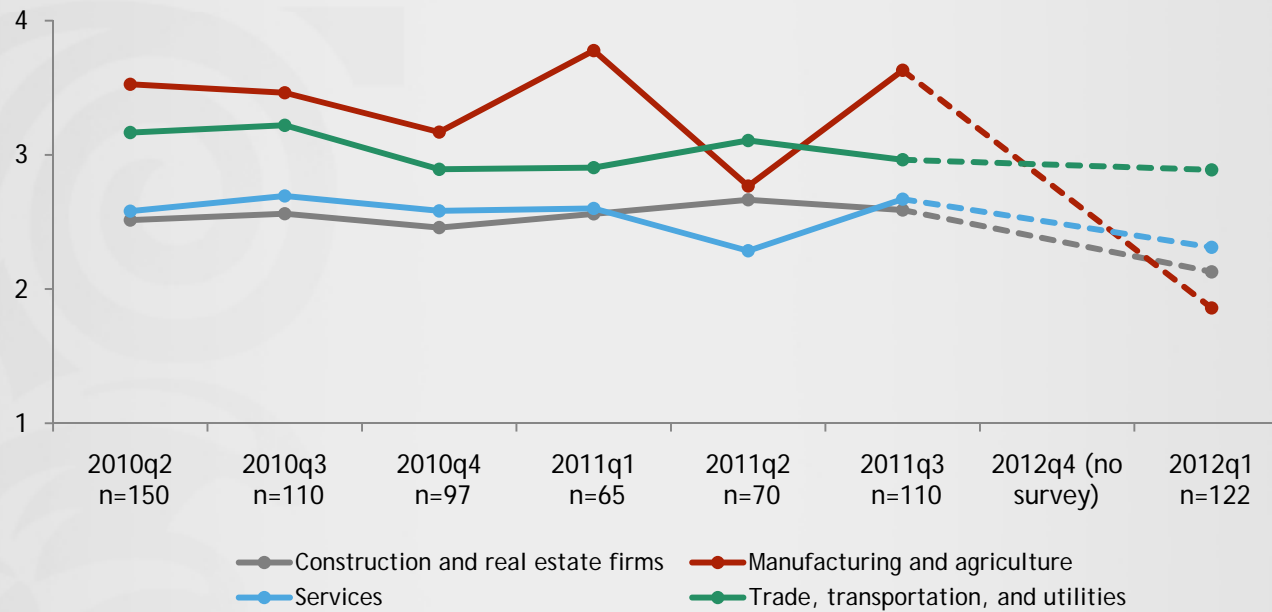


DISCUSSION

The net percent anticipating increases to capital expenditures rose across all industries and among both mature and young firms. As with sales and hiring expectations, the expected increase in the magnitude of capital expenditures was higher among firms less than six years old. But in contrast to sales and hiring, the increase in the pace of capital expenditures (expected versus past actual) was lower for young businesses than for mature businesses.

FINANCING CONDITIONS

Average Overall Financing Satisfaction
on a scale of 1(received none) to 4 (received full amount)

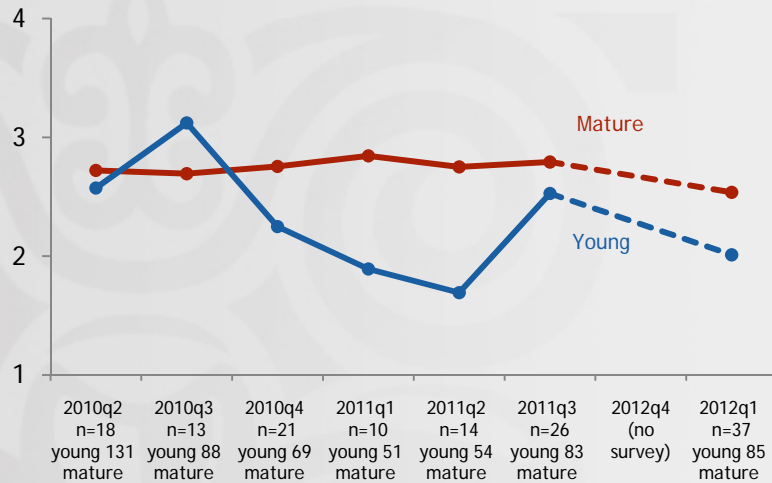


DISCUSSION

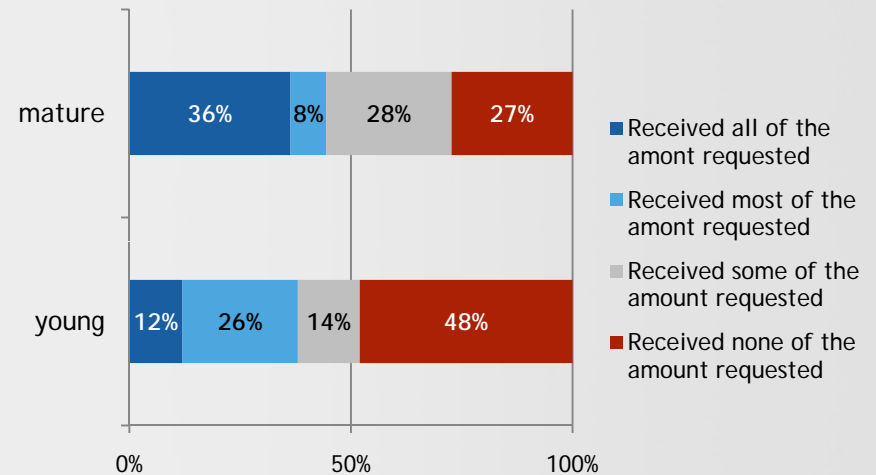
Declines in financing satisfaction occurred among firms in the services industry and in the construction and real estate industry. Firms in the trade, transportation, and utilities industry had essentially no change in financing satisfaction. One surprising finding of the most recent poll was the relative deterioration in financing satisfaction of manufacturing and agricultural firms, which may simply reflect a change in the mix of manufacturing participants.

FINANCING CONDITIONS

Average Overall Financing Satisfaction
on a scale of 1(received none) to 4 (received full amount)



Q1 2012 Overall Financing Satisfaction
Young and Mature Firms



Note: Ten firms did not answer this question in Q1 2012. Their responses were extrapolated based on the average success of their applications for credit and/or equity financing.

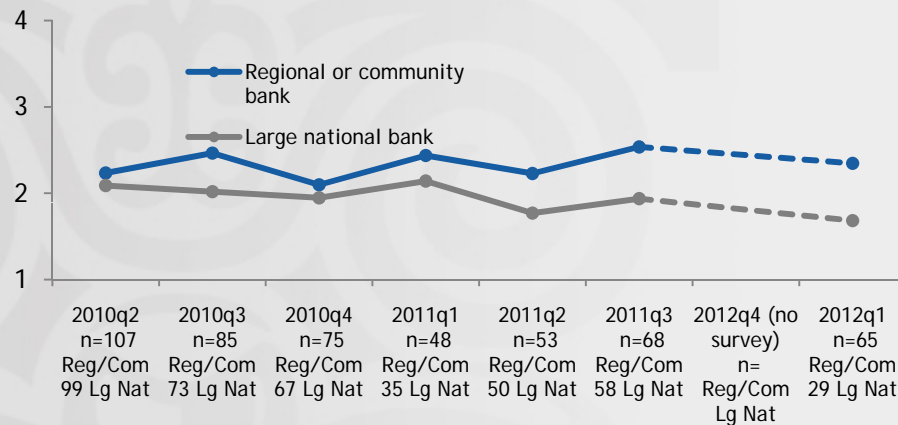
DISCUSSION

Despite submitting about 10 percent more applications for credit or equity financing on average (young firms submitted an average of 2.51 and mature firms submitted an average of 2.26), firms under six years of age received less of the financing they requested overall. About half of firms under six years of age received none of the financing requested over all their applications compared with one-fourth of mature firms.

The relationship between business performance and financing ability was investigated by looking at the correlation between some business metrics and borrowing success. For all firms seeking financing, hiring over the past 12 months was found to be significantly positively correlated with overall financing satisfaction, whereas changes in sales and capital expenditures were not. Among just young businesses, there was no significant correlation between past hiring and financing satisfaction in the first quarter. However, a significant positive correlation was found between hiring and financing satisfaction among more mature firms.

FINANCING CONDITIONS

Average Success of an Application for Financing on a scale of 1=received none, 2=received some, 3=received most, 4=received full amount requested



Type of Financing	Number of firms applying, applications	Source	Average success of firms applying (1=None, 2=Some, 3=Most, 4=All)	Median age of firms applying
Equity finance	15	Angel	1.6	3.0
	11	Venture capital	1.6	3.0
	12	Friends/Family	2.0	4.5
	8	Other	1.6	26.5
Vendor trade credit	20		2.9	9.0
Credit card	22		2.1	4.0
Loan or line of credit	34 firms, 58 apps	Large national bank	1.5	6.5
	38 firms, 51 apps	Regional bank	1.9	13.0
	50 firms, 75 apps	Community bank	2.4	15.0
	15 firms, 29 apps	SBA	1.0	6.0

Note: The number of firms applying for each source is given, but not every respondent detailed how successful that application was. These results are not weighted by firm age or industry.

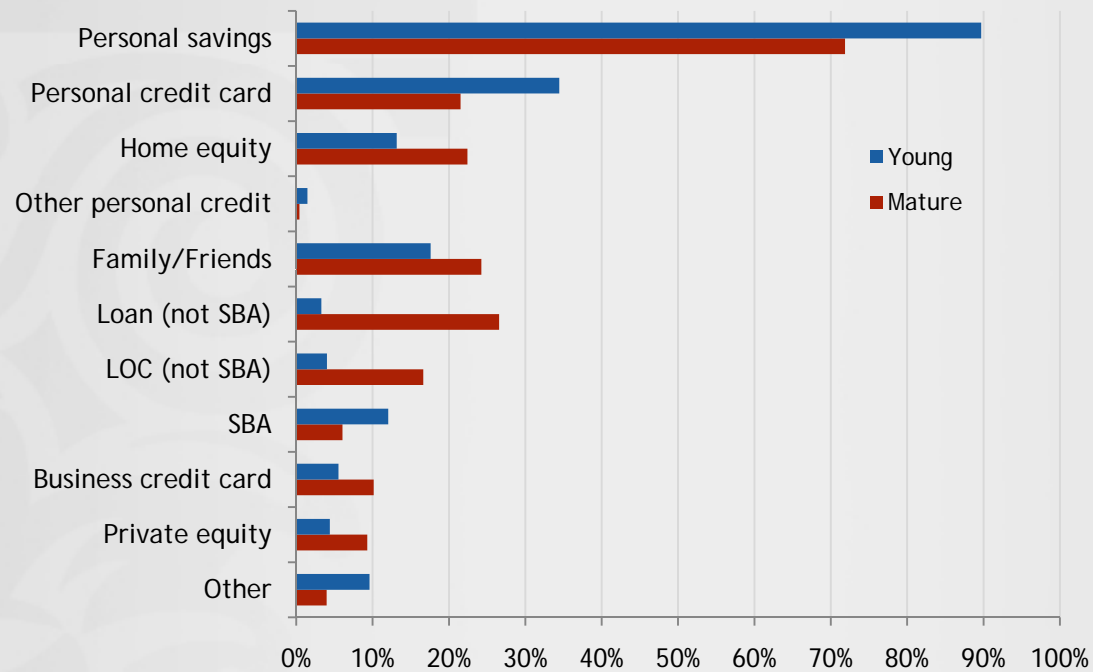
DISCUSSION

As has been noted in the past, banks were the most common avenue for seeking financing. In the first-quarter 2012 poll, 70 percent of firms seeking credit sought a loan or a line of credit from a bank (not including SBA applications). In this poll, the structure of the question was changed so as to make a clearer distinction among large national banks, regional banks, and community banks. Perhaps because of this change in question design, we found a smaller portion of respondents saying they applied at large national banks than in past polls.

The median age of firms applying varied considerably across financing channels. Other than “other” equity—which was mostly firms seeking equity from private investors—equity investments were sought by a relatively young set of businesses. There was also a notable age difference in where firms sought loans and lines of credit. The median age of firms applying to regional and community banks was twice the median age of firms applying to large national banks and for SBA-backed financing.

FINANCING CONDITIONS

Source of Start-up Financing

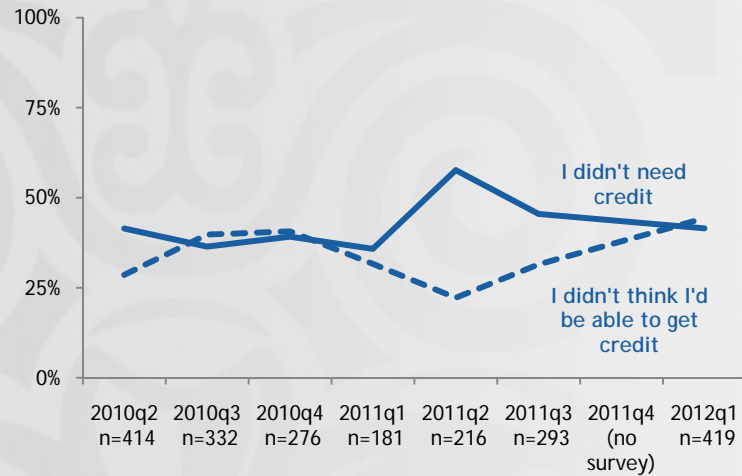


DISCUSSION

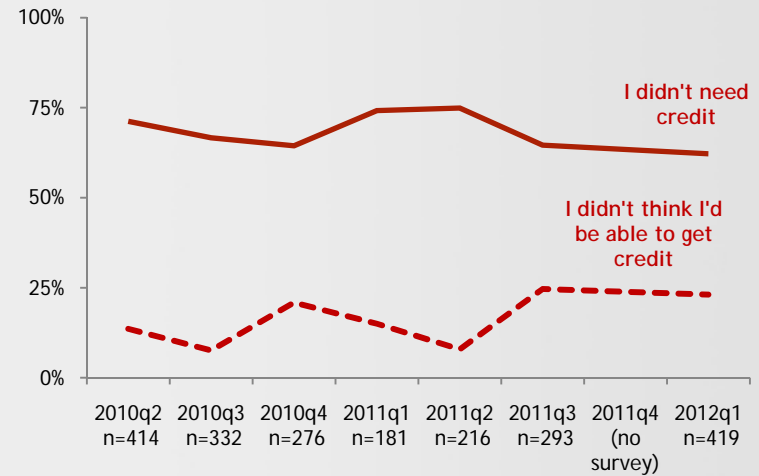
The relatively stricter lending standards prevalent in recent years appears to have affected the way that recent start-ups were financed. Using personal savings and personal credit cards for initial capital was a much more common way for a relatively young firm to start a business. Firms more than five years old more frequently reported having received a loan or line of credit from a bank as part of their start-up financing. Twenty-two percent of mature firms relied on home equity to start their business compared to 13 percent of young firms, suggesting some effect of declining home prices on the ability of entrepreneurs to start a business.

FINANCING CONDITIONS

Reason for Not Borrowing
Young firms



Reason for Not Borrowing
Mature firms



DISCUSSION

Sixty-eight percent of young firms and 72 percent of mature firms did not borrow in the first quarter. When they explained why, most firms indicated they did not need credit. However, many firms were discouraged from applying for credit because they expected they would either be denied or offered unfavorable terms. In the first quarter of 2012, 44 percent of firms less than six years old and 23 percent of mature firms did not attempt to borrow for this reason.