

Small Business Trends

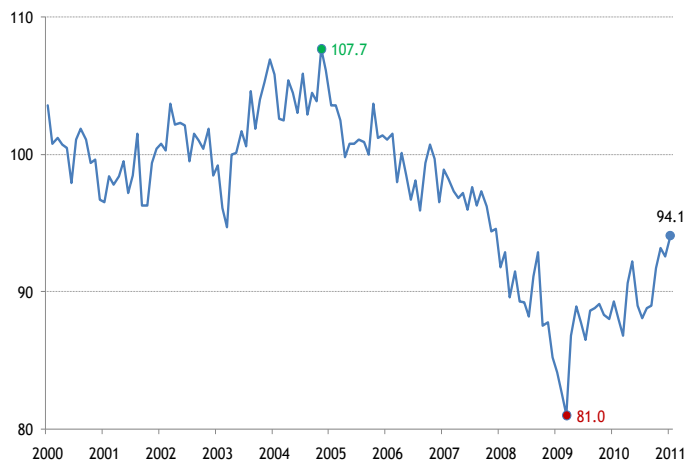
Policy & Supervisory Studies

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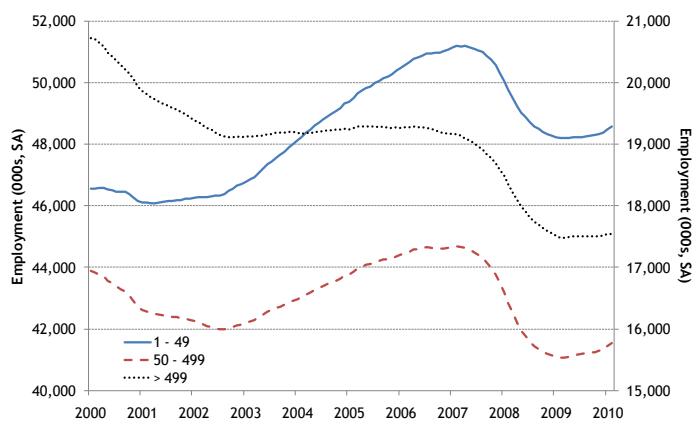
Small Business Optimism

- The Small Business Optimism Index rose 1.5 points for the month of January to 94.1, which has been the best reading observed since the economy peaked in December of 2007. However, the index still sits within recession territory. Though the increase was modest, it was somewhat stunted by the skepticism many small business owners feel about the future.
- Solid private employment growth was evident for January. The recent pattern of rising monthly employment gains has continued to remain intact. Strength was evident across all business sizes and within all major industries that the ADP tracks. The services-producing sector continued to post gains across all firm sizes, marking the 12th consecutive month of employment gains, while the goods-producing sector posted its third consecutive monthly gain.

Small Business Optimism Index (SA, 1986=100)



U.S. Private Sector Employment by Size of Payroll



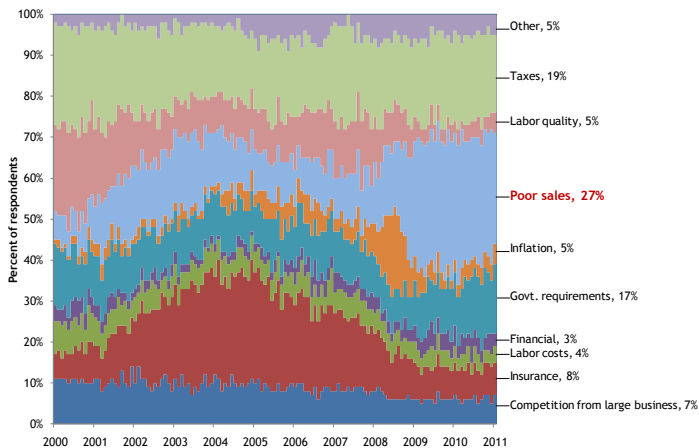
January 2011 Employment Trends

		Level Share of		Growth	
		(000s, SA)	Sector	M-t-M	Y-o-Y
Goods Producing		17,507	100%	0.12%	-0.8%
Firm Size	1-49	6,365	36%	0.11%	-2.2%
	50-499	7,703	44%	0.16%	0.3%
	> 499	3,439	20%	0.06%	-0.8%
Service Producing		90,147	100%	0.18%	1.2%
Firm Size	1-49	42,213	47%	0.21%	1.3%
	50-499	33,825	38%	0.20%	1.3%
	> 499	14,109	16%	0.06%	0.6%

Source: ADP National Employment Report

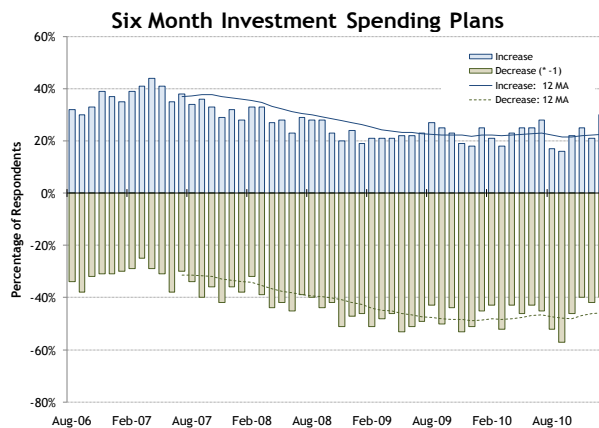
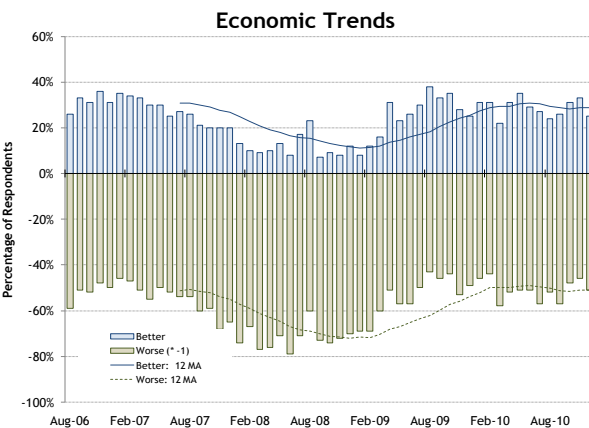
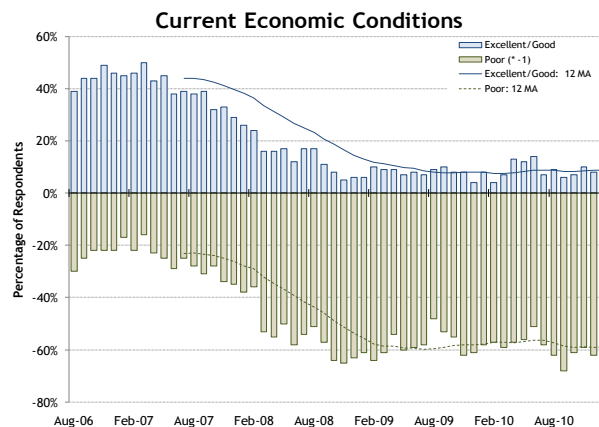
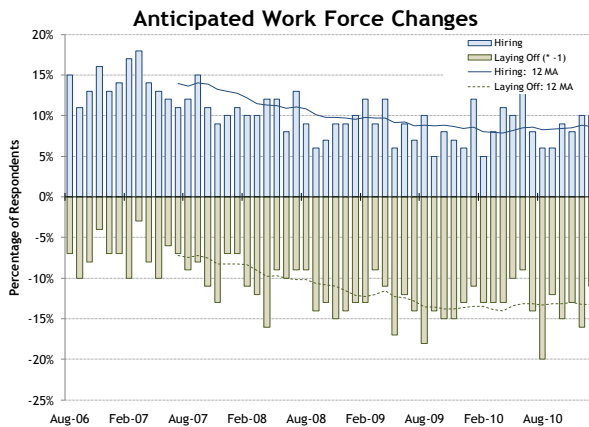
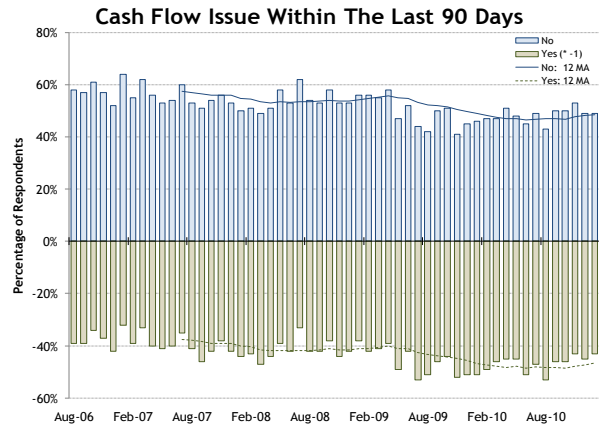
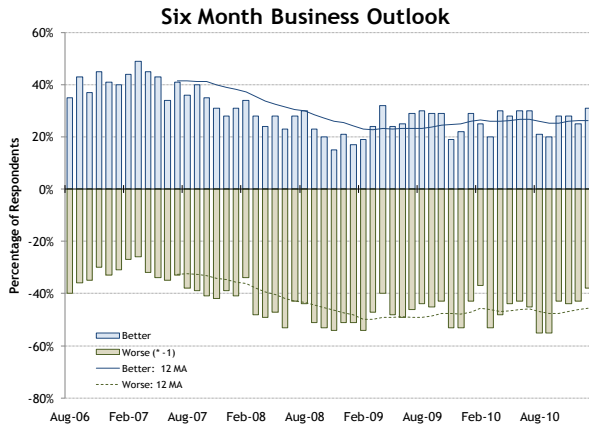
Though “poor sales” fell 6 percentage points since December, it was once again the most frequently cited problem for small businesses in January. “Government requirements” increased 4 percentage points month over month, nearing “taxes,” which is the second most-cited problem for small businesses.

Single-most Important Problem for Small Business



Small Business Sentiment

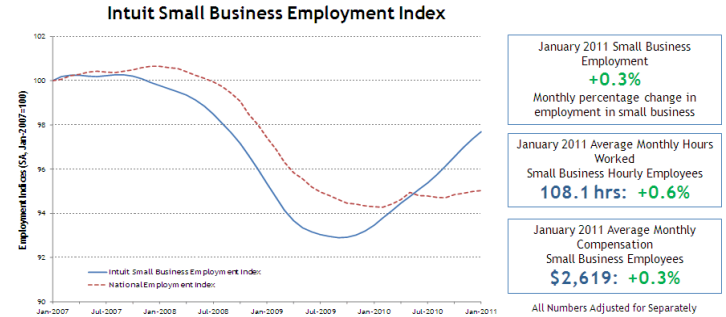
- The most recent Discover Small Business Watch Survey showed that confidence among small business owners rebounded during January, after an unexpected fall in December. The monthly index rose 9.4 points from December, 5.5 points higher than one year ago. Like the NFIB's Small Business Optimism Index (see p. 1), this number is the highest level recorded since December 2007. More small business owners are seeing economic conditions for their businesses improving. Now, less than half of all small business owners feel the economy is worsening, while 31 percent say it is getting better.
- While 57 percent of respondents still rate the economy as poor, more are also rating it as fair, which is up 4 percentage points to 34 percent for January. Jumping 9 percentage points since December—reaching its highest point since March 2008—30 percent of business owners plan to increase investment spending within the next six months. Though small, both temporary cash flow issues and anticipated workforce changes also exhibited positive trends for January.
- While it is still too early to report a clear trend, sentiment seems to be showing some signs of steady improvement.



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

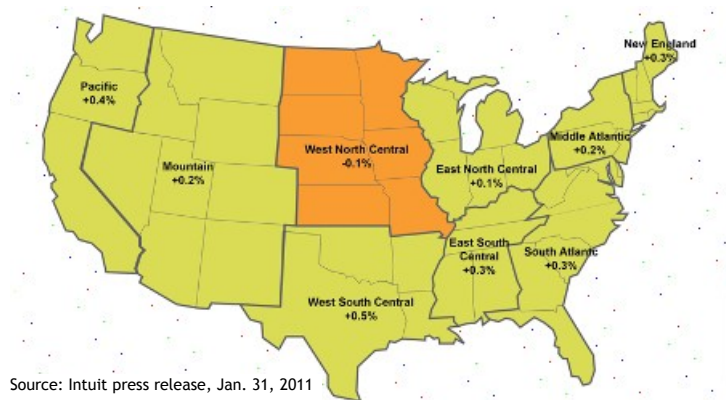
Small Business Trends at Firms with Fewer Than 20 Employees

- According to Intuit, growth in small business employment was unusually strong for the month of December, with total compensation flat and hours worked up. Small business employment grew by 0.3 percent, which equates to a 3.4 percent annual growth rate. “We can hardly see the recovery in overall national employment, but among small businesses, the recovery, albeit small, is unambiguous.”
- For the sixth month in a row, the West North Central Census Division experienced employment declines. Most of the Census Divisions remained flat month-to-month. However, both the West South Central and the East South Central Census divisions grew an additional 0.1 percent, while the Mountain Census Division grew an additional 0.2 percent from November.
- Furthermore, most states also saw employment growth during the month of December. The largest increases were in Washington (0.6 percent), Arizona (0.5 percent), Maryland (0.5 percent), New Jersey (0.5 percent), Texas (0.5 percent), Florida (0.4 percent), Massachusetts (0.4 percent), and Virginia (0.4 percent). New York actually posted a -0.1 percent decline during the month.



Source: Intuit press release, Jan. 31, 2011

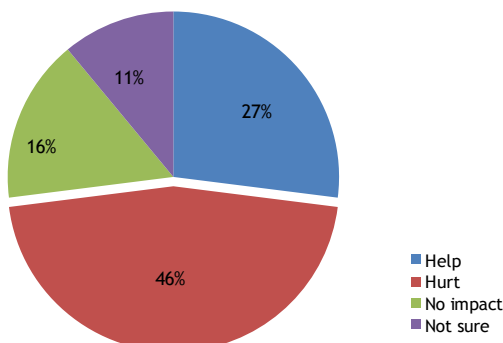
Monthly Small Business Employment Growth (January 2011)



Healthcare Reform

- The cost of health insurance remains a top concern for most small businesses within the United States. According to the most recent Discover Business Watch poll, only 10 percent of survey respondents currently offer health insurance to their employees. About 69 percent of small business owners report that it is at least somewhat difficult to obtain affordable healthcare options for themselves and for their employees; only 5 percent report absolutely no difficulty whatsoever. As a result, 55 percent of small business owners favor the repeal of the healthcare reform plan passed by Congress and signed into law last year, and 46 percent of respondents feel that their small business will be hurt by this legislation.
- About 38 percent of small business owners report healthcare costs as a major impediment to growing their business, while 21 percent report at least some minor impact. Thus, nearly half of small business owners who currently provide health insurance to their employees are considering discontinuing it.
- **Note:** In early February, the Senate repealed the 1099 provision from the healthcare reform plan, thus eliminating a burdensome tax requirement for small business owners to issue an IRS 1099 form to every vendor with which they have had at least \$600 in transactions for the purchase of goods.

Will the new healthcare reform plan passed by Congress help or hurt your small business?



Source: Discover Business Watch/Rasmussen LLC

How do you feel about the proposal that was introduced to repeal the health care reform law?

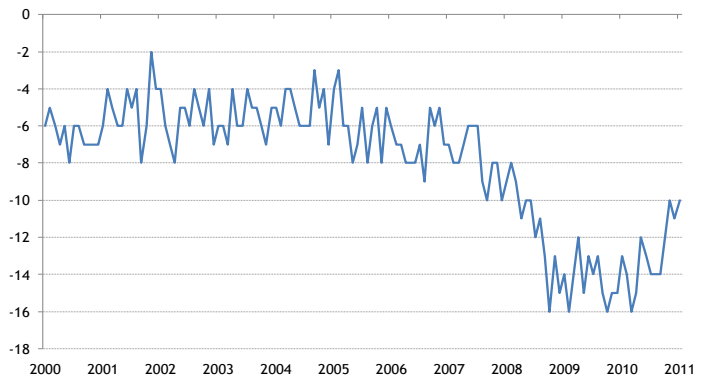
Strongly favor	44
Somewhat favor	11
Somewhat oppose	5
Strongly oppose	31
Not sure	9

Source: Discover Business Watch/Rasmussen LLC

Small Business Credit Conditions

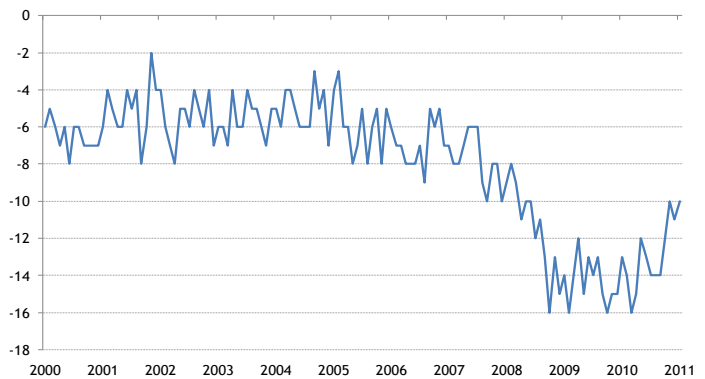
- Climbing 1 percentage point from December, the National Federation of Independent Business (NFIB) reported that 92 percent of the small businesses surveyed felt that either their credit needs were met or that they simply were not interested in borrowing in January. Only 8 percent thought that their credit needs were not satisfied. Up 2 percentage points from December, 52 percent of the respondents stated that they did not even want a loan. However, Washington continues to contend that small banks will not lend to “creditworthy” businesses. Furthermore, only 3 percent of those surveyed cited financing as their top business problem, which is down 2 percentage points from last month, while 17 percent are now citing government requirements as their single-most important problem.
- About 31 percent of all small business owners claimed to borrow on a regular basis. Of those regular borrowers surveyed, only 10 percent said that loans were harder to obtain this time around compared to their last attempt, which continues on a downward trend. Those who were expecting credit conditions to ease rose 1 percentage point to -10 percent for January.
- According to the most recent Senior Loan Officer Opinion Survey, banks have continued to ease standards and terms for commercial and industrial (C&I) loans to large and middle-market firms, but few reported changing standards and easing terms on such loans to smaller businesses. There was not much increase in demand for these loans as most small business owners are still operating in “maintenance mode,” with little interest in taking out new loans. In fact, only 5 percent of banks reported strengthened demand from smaller firms. On a separate note, though still 10 percent lower than what is expected for large and middle-market businesses, about 70 percent of banks expect an improvement this year in the quality of C&I loans to small businesses. Moreover, no banks reported that they expected to see deterioration in the quality of C&I loans to firms of any size this year.

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



Source: National Federation of Independent Business

Credit Conditions: Loan Availability Compared to Three Months Ago January 2005 to January 2011



Source: National Federation of Independent Business

Capital One Bank's National Quarterly Small Business Barometer Survey

Similar to the January results posted by other small business surveys, survey data from the Capital One Small Business Barometer Survey for the fourth quarter of 2010 indicate that small businesses in the U.S. are generally more optimistic about economic conditions and 56 percent of those surveyed expect to experience a stronger financial position in 2011. An increased percentage of small businesses reported ending 2010 in a better financial position than where they started the year. Though most small businesses remain cautious and are continuing to hold off hiring in the next six months, business development and investment spending plans showed a slight increase when

compared to the third quarter. In fact, 21 percent of small businesses reported plans to increase spending in the near term, which is up 5 percentage points quarter over quarter and consistent with results from the fourth quarter of 2009. Furthermore, more and more small businesses were feeling confident in their ability to have adequate access to credit and financing. While 78 percent reported that they were able to access the financing that they needed, only 17 percent felt that securing capital would be one of the largest challenges that they would face in the next six months.

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