2010

The SMALL BUSINESS ECONOMY

A REPORT TO THE PRESIDENT

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2010

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A REPORT TO THE PRESIDENT

United States Government Printing Office

Washington: 2010

Dear Mr. President:

It is a pleasure to present the U.S. Small Business Administration (SBA) Office of Advocacy's 2010 edition of *The Small Business Economy: A Report to the President*. This report details the challenging economic conditions small businesses faced in a difficult year for the economy in 2009. The good news is that by the end of the year, extraordinary actions taken by the federal government were beginning to be felt in the small business economy. Although many Americans were still being adversely affected by the difficult economic conditions, the 18-month-long recession ended in June 2009. According to the National Bureau of Economic Research, the U.S. economy began growing again in the third quarter.

In 2009, there were signs that entrepreneurs were again looking ahead toward new opportunities for small business growth. Surveys by private sector organizations began to find more optimism among entrepreneurs in late 2009.

During 2009, the Office of Advocacy conducted new research documenting the importance of entrepreneurship in the American economy and highlighted policy issues of relevance to small firms (see Appendix B for a summary of recent research).

Entrepreneurial innovation continues to play a significant role in the nation's economic competitiveness in a global marketplace, and several Advocacy studies published in 2009 touched on aspects of innovation and entrepreneurship. A study by C.J. Isom and David R. Jarczyk took a look at the patent activity of small businesses and widened the scope of this analysis by focusing on how employee headcount, sales, and R&D expenditures affect the drivers of innovation. A report update by David Hart, Zoltan Acs, and Spencer Tracy found that immigrants play an important role in founding high-impact, high-tech companies in the United States.

Various demographic groups continue to make important contributions to the American economy through self-employment and small business creation. A 2009 study published by the Office of Advocacy and written by Tami Gurley-Calvez, Katherine Harper, and Amelia Biehl looked at the time-use patterns of self-employed women. The study found that these self-employment patterns differed substantially from those of men and of women employed in wage and salary jobs. The results suggest that policies that enhance work-life balance, offset racial disparities in self-employment, and increase human capital through education might encourage more women to enter self-employment.

Education continued to be an important factor in innovative entrepreneurial development. A study by Summit Consulting suggested that entrepreneurial education coursework might improve students' abilities to identify and take advantage of new entrepreneurial opportunities. A report by Chad Moutray on educational attainment and the problem of "brain drain" found that students with higher educational attainment are highly mobile and attracted to opportunities in high-growth areas.

All of the Office of Advocacy's research can be found online at http://www.sba.gov/advo/research, and regular updates on new research can be accessed on the Office of Advocacy's research listserv at http://web.sba.gov/list.

We appreciate your interest in and support for entrepreneurship and small business. The Office of Advocacy will continue to provide timely and actionable data and research to document small business issues and their contributions to the economy.

Winslow Sargeant, Ph.D.
Chief Counsel for Advocacy

Chad Moutray
Director of Economic Research

Acknowledgments

The Small Business Economy: A Report to the President was prepared by the U.S. Small Business Administration, Office of Advocacy, under Chief Counsel for Advocacy Winslow Sargeant and Economic Research Director Chad Moutray. The project was managed by Senior Editor Kathryn J. Tobias. Specific chapters were written or prepared by the following staff:

Chapter 1	Chad Moutray with contributions from Jules Lichtenstein and Major Clark
Chapter 2	Victoria Williams with contributions from Charles Ou and George Haynes
Appendix A	Brian Headd
Appendix B	Chad Moutray

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Contents

Executive Summary

The 2010 edition of *The Small Business Economy* reviews the economic environment and, to the extent that data are available, how small firms fared in the economy and financial markets of 2009. Appendices provide additional data about small businesses along with summaries of 2009 small business research published by the Office of Advocacy.

The State of Small Business, 2009

The recession that emerged from the deteriorating economy of 2007 saw many economic indicators at their lowest levels since the recession of the early 1980s. Real GDP fell 2.4 percent for 2009 as a whole. First quarter 2009 real output declined 6.4 percent, continuing the 2.7 percent and 5.4 percent declines of the third and fourth quarters of 2008, respectively. After mid-2009, economic conditions stabilized, assisted by fiscal and monetary policy actions. Real GDP, after dropping in the beginning of the year, increased 5.6 percent in the fourth quarter of 2009, its strongest performance since the third quarter of 2003.

Small businesses—those with fewer than 500 employees—are generally the creators of most net new jobs, as well as the employers of about half of the nation's private sector work force, and the providers of a significant share of innovations, as well as half of the nonfarm, private real gross domestic product. But just as small firms lead when the economy is gaining jobs, in some recessionary periods they experience greater job losses when the economy is shedding jobs. As the recession deepened in 2009, particularly in the first quarter, small firms accounted for almost 60 percent of the job losses. But the picture improved as the year progressed. By the third quarter, net job losses in small firms were down by two-thirds.

In 2009, policymakers took notice of small firms' important contributions to the economy, as well as their significant challenges. Policy initiatives sought to address American small business owners' need for credit and for a way to offer health care to the many uninsured Americans employed in small businesses. Early in 2009, the new administration worked to instill confidence and jumpstart overall credit conditions. The administration initiated bank "stress tests" in February 2009. The president sought an economic stimulus that would make a positive impact on growth and employment. The American Recovery and Reinvestment Act (ARRA), enacted on February 17, 2009, provided more than $800 billion in tax relief and new spending to stimulate the economy. The package included several provisions targeted to small businesses.

Small businesses continued to weather the downturn, and began to see some improvement at the end of 2009. Average unincorporated self-employment, which had fallen from 10.4 million in 2007 to 9.4 million by January 2009, rose to 9.6 million by December 2009. Incorporated self-employment, which had peaked at 5.9 million in November 2008, then dropped, gradually moved back up to 5.5 million by the end of 2009.

The Small Business Administration's Office of Advocacy continues to focus on understanding the demographic characteristics of these business owners. The self-employed tend to be overwhelmingly male, white, married, and older. But minorities and women have made tremendous strides, increasing their proportion of the total self-employed over this decade, with the largest gains coming from the Latino population. The number of self-employed Hispanics more than doubled from 2000 to 2008, as their share of the self-employed population rose from 5.6 to 10.2 percent. Immigrant entrepreneurship also continued to make up a larger proportion of those who start their own business: the percentage of the self-employed who are native-born declined from 87.3 to 83.3 percent over the 2000-2008 period.

Age and education have become major determinants of self-employment as well. Roughly 15 percent of the self-employed were less than 35 years old in both 2000 and 2008, and older Americans are also more likely than before to be their own boss. The percent of the self-employed population who were between the ages of 55 and 64, for instance, grew from 16.4 percent in 2000 to 22.2 percent later in the decade.

This chapter briefly summarizes several of the current challenges faced by small firms—including the availability of health and retirement benefits. It also looks at their contributions to the economy, including job creation, and areas of opportunity, such as exporting and federal procurement. Small businesses continued to struggle in the recessionary economy of 2009. Many small firms, however, were able to see improvement at the end of the year. The administration continued to look to small firms for leadership in the economic recovery.

Small Business Financing

In the first half of 2009, as the economy continued to experience the challenges that began in the last two quarters of 2008, credit markets were constrained by both demand and supply factors. The U.S. banking sector was stressed, with write-offs totaling more than $1.8 trillion for the year. Delinquency rates on commercial loans were up, and demand for loans was weakened by factors such as depressed sales. By the second half of the year, financial market conditions had become more supportive of monetary stimulus policies and growth. Unprecedented actions taken by the federal government through the Federal Reserve and the Treasury contributed to improved economic activity.

As lenders tightened credit terms on all types of loans, small firms found it difficult to access financing. Even as interest rates offered to small business borrowers on fixed-term loans remained relatively stable, rates on variable-rate loans followed the decline in the prime rate.

The number of loans outstanding from depository institutions fell by 15 percent and their value was down by 2.2 percent. The value of finance company lending declined 18 percent. As credit supply in the loan markets remained restricted, small businesses needing credit turned to credit cards—which nevertheless make up only a small portion of debt for small firms. Venture and angel capital markets remained weak.

In the midst of a challenging year for small business owners, there was reason for optimism as GDP growth returned, commercial bank profitability improved, and nominal interest rates remained low.

1 The State *of* Small Business

Synopsis

In 2009, the economy gradually began to stabilize, with many indicators showing improvement by year's end. For small businesses, one of the biggest challenges, aside from access to capital, was the lack of sales adequate to grow or maintain employment.

In the first three quarters of 2009, small businesses accounted for almost 60 percent of the net job losses, with the greatest losses in the first quarter. The recession forced businesses large and small to shed employment, but the picture improved as the year progressed. By the third quarter, net small firm job losses were one-third what they had been in the first quarter.

This chapter explores the 2009 trends, and in particular, shows how the overall economy improved at year's end. Additional sections discuss small business trends in the economy, focus on the role of entrepreneurship in job creation, and highlight academic research of relevance for the small business community and policymakers.

The self-employed, one measure of small business, tend to be male, white, married, and older. However, minorities and women have made tremendous strides, increasing their proportion of the total self-employed over this decade, with the largest gains coming from Hispanics. Immigrant entrepreneurship also makes up a larger proportion of those who start their own businesses: the native-born share of self-employment declined from 87.3 to 83.3 percent over the 2000–2008 period.

In 2009, policymakers took notice of small firms' important contributions to the economy, as well as their significant challenges. Groundbreaking policy initiatives sought to address American small business owners' need for credit and for a way to offer health care to the many uninsured Americans employed in small businesses.

Small Businesses in the American Economy 2009

The 2009 economy in the United States saw most economic indicators starting the year on a rapid downward trend that deepened in the first months of the year and, after policy interventions, reversed direction, stabilizing and improving by year's end (*Table 1.1*). The new presidential administration took office in the midst of the economic crisis and deepening recession. The recession ended in June 2009, according to the National Bureau of Economic Research.[1]

The economy had been deteriorating in autumn 2008, with many banks on the brink of failure, and the worldwide financial system in peril. Indeed, overall lending, critical to a vibrant small business sector, had stalled, and the tightened credit market was exacerbating an already weak economic environment. Policymakers needed to confront real dangers to the overall macroeconomy. Through the Troubled Asset Relief Program (TARP), the U.S. Treasury injected needed capital into the banking system.[2] Moreover, the collapse of the secondary market had been a factor in the steep declines in lending by the Small Business Administration (SBA) in FY 2008 and the early months of FY 2009. The Term Asset-Backed Securities Loan Facility (TALF) was created jointly between the U.S. Treasury and the Federal Reserve to spur the secondary market.[3] Despite fiscal and

1 The National Bureau of Economic Research (NBER) is the official arbiter that determines business cycle dates. The 2007–2009 recession began in December 2007; the NBER has determined that the recession ended in June 2009; see http://www.nber.org/cycles/sept2010.html (accessed 11/10/10).

2 TARP was established by the Emergency Economic Stabilization Act of 2008. A listing of TARP investments can be found at http://www.financialstability.gov/latest/reportsanddocs.html (accessed 11/10/10).

3 The establishment of TALF had implications for lending for small businesses, as it was designed to facilitate greater securitization of a number of financial instruments, including SBA-guaranteed loans. See http://www.financialstability.gov/docs/SCAPresults.pdf (accessed 11/10/10). The TALF program ended in March 2010.

Table 1.1 Various Monthly Macroeconomic Indicators, 2008–2009

	Monthly Data (2009)												Averages	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2008	2009
Consumer price index (all urban consumers and all items; 1982–84=100) *	212.0	212.9	212.6	212.8	213.1	214.6	214.8	215.6	215.9	216.4	216.9	217.2	215.2	214.5
Consumer price index (all urban consumers, all items except food and energy; 1982–84=100) *	217.2	217.7	218.1	218.6	218.9	219.3	219.5	219.7	220.0	220.5	220.5	220.8	215.6	219.2
Producer price index (1982=100)	171.2	169.3	168.1	169.1	170.8	174.1	172.5	175.0	174.1	175.3	177.7	178.1	189.6	172.9
NFIB Small Business Optimism Index (1986=100)	84.1	82.6	81.0	86.8	88.9	87.8	86.5	88.6	88.8	89.1	88.3	88.0	89.8	86.7
NFIB: next 3 months “good time to expand” (percent of respondents)	6.0	3.0	1.0	4.0	5.0	4.0	5.0	5.0	9.0	7.0	8.0	7.0	6.5	5.3
NFIB: net percent planning to hire in the next 3 months	-6.0	-3.0	-10.0	-5.0	-5.0	-1.0	-3.0	0	-4.0	-1.0	-3.0	-2.0	3.8	-3.6
NFIB: net percent with borrowing needs satisfied in the last 3 months (borrowers only)	25.0	24.0	19.0	22.0	19.0	20.0	18.0	23.0	20.0	20.0	19.0	20.0	27.3	20.8
NFIB: percent planning a capital expenditure in next 3 to 6 months *	19.0	18.0	16.0	19.0	20.0	17.0	18.0	16.0	18.0	17.0	16.0	18.0	22.9	17.7
University of Michigan consumers’ sentiment (1966=100)	61.2	56.3	57.3	65.1	68.7	70.8	66.0	65.7	73.5	70.6	67.4	72.5	63.8	66.3

Table 1.1 Various Monthly Macroeconomic Indicators, 2008–2009 (continued)

	Monthly Data (2009)												Averages	
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**2008**	**2009**
Industrial production (2002=100) *	100.1	99.3	97.7	97.2	96.2	95.8	96.9	98.1	98.7	98.9	99.5	100.1	108.8	98.2
ISM purchasing managers index—manufacturing composite *	30.8	35.6	35.7	41.0	47.0	53.2	59.0	62.9	57.5	62.2	60.2	59.7	45.2	50.4
Unemployment rate *	7.7	8.2	8.6	8.9	9.4	9.5	9.4	9.7	9.8	10.1	10.0	10.0	5.8	9.3
Civilian employment—16 years and older (millions) *	142.2	141.7	140.9	140.9	140.4	140.0	139.8	139.4	138.8	138.2	138.4	137.8	145.4	138.9
Civilian unemployed—15 weeks and over (millions) *	4.8	5.4	5.8	6.3	7.0	7.8	7.8	7.8	8.4	8.8	9.0	9.0	3.2	7.3
Self-employed, incorporated (millions)	5.6	5.6	5.6	5.5	5.5	5.3	5.4	5.4	5.4	5.4	5.5	5.4	5.8	5.5
Self-employed, unincorporated (millions)	9.4	9.7	9.9	10.0	10.0	10.1	9.9	10.1	10.0	9.6	9.7	9.6	10.1	9.8
New privately owned housing units started (millions, annual rate) *	0.5	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.6	0.9	0.6
Spot oil price per barrel: West Texas intermediate crude	41.7	39.2	48.0	49.8	59.2	69.7	64.1	71.1	69.5	75.8	78.1	74.3	99.6	61.7

* Seasonally adjusted

Sources: Board of Governors of the Federal Reserve System; Current Population Survey, U.S. Bureau of Labor Statistics; Dow Jones Energy Service; U.S. Department of Commerce, Bureau of the Census; Institute for Supply Management; National Federation of Independent Business; University of Michigan, Survey of Consumers.

monetary policy actions, the U.S. economy was mired in a serious recession at the beginning of 2009.

Before and after his inauguration in January 2009, President Barack Obama began reaching out to small businesses as he sought policy initiatives to turn the economy around. Before taking office, he laid out an initial plan to create employment and announced his economic team, including, on December 19th, SBA Administrator Karen Gordon Mills.

Early in 2009, the new administration worked to instill confidence and jumpstart overall credit conditions, initiating bank "stress tests" in February 2009.[4] The president sought an economic stimulus that would make a positive impact on growth and employment. The American Recovery and Reinvestment Act (ARRA), enacted on February 17, 2009,[5] provided more than $800 billion in tax relief and new spending to stimulate the economy.[6] The package included several provisions targeted to undergird small businesses:

- $720 million to help support programs at the U.S. Small Business Administration (primarily reducing fees on 7(a) and 504 guaranteed loan guarantees).
- $400 million in other support to promote economic development and entrepreneurship, particularly in distressed rural, urban, and low-income communities.
- Tax incentives for small businesses, including a continuation of section 179 expensing up to $250,000 on new capital investments, loss carry-back for up to five years, a delay in

4 The stress tests were conducted on 19 of the largest bank holding companies to ensure that they had sufficient capital as a buffer against new economic threats. This exercise was part of the U.S. Treasury's Supervisory Capital Assessment Program. See http://www.financialstability.gov/docs/SCAPresults.pdf (accessed 11/10/10).

5 The full text of the American Recovery and Reinvestment Act (P.L. 111-5) can be found at http://thomas.loc.gov/cgi-bin/query/z?c111:H.R.1.enr (accessed 11/10/10) or at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h1enr.pdf (accessed 11/10/10).

6 The Congressional Budget Office in January 2010 estimated the cost for ARRA at $862 billion, including increased unemployment compensation and other income security program costs in 2009 and 2010. See http://www.cbo.gov/ftpdocs/108xx/doc10871/01-26-Outlook.pdf, Appendix A.

the 3 percent withholding tax for businesses doing government procurement, and a reduced capital gains tax for small business investors holding stock for five years or more.

Major investments in infrastructure, broadband, green technologies, and home winterization incentives that would also benefit businesses included the following:

- $27.5 billion for road construction projects;
- $26 billion to local school districts for "21st century classrooms";
- $7.2 billion for broadband access;
- $15 billion for scientific research;
- $19 billion for health information technology investments;
- $30 billion for improving the nation's electricity grid and other energy improvements; and
- $5 billion to help weatherize homes for low and moderate-income homeowners.[7]

Overall, the Congressional Budget Office (CBO) has reported that $112 billion in outlays from the ARRA were spent in FY 2009, and it estimates that another $224 billion will have been spent by the end of FY 2010, with additional dollars to be used in subsequent years.

Inherent in the argument for the economic stimulus was the desire for the government to act quickly and decisively to replenish aggregate demand in the economy. The ARRA and other policy actions were designed to stabilize and then grow the economy, and many other countries around the world also instituted stimulus programs to combat the global recession. CBO has estimated that the policy actions added between 1.5 and 3.5 percent to real gross domestic product in the fourth quarter of 2009 and projected an employment increase of 1.0 million to 2.1 million more than it would have been without the stimulus.[8]

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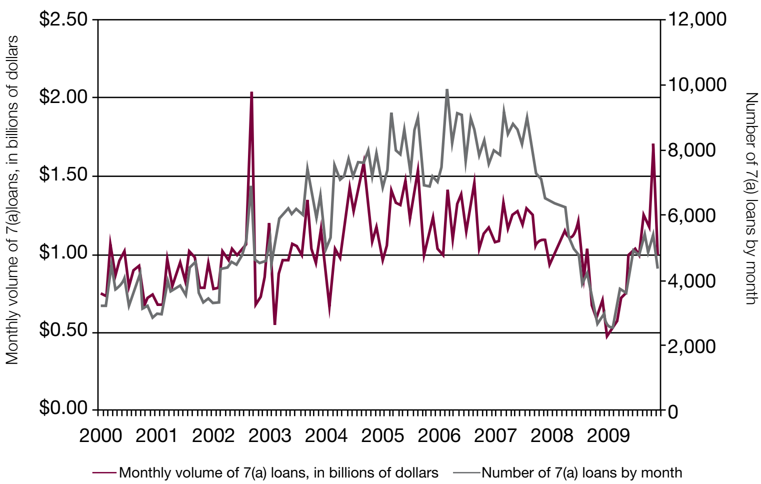
7 For more information see http://www.recovery.gov (accessed 11/10/10).

8 See Congressional Budget Office, Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output From October 2009 Through December 2009, Washington, DC: CBO, February 2010 at http://www.cbo.gov/ftpdocs/110xx/doc11044/02-23-ARRA.pdf (accessed 11/10/10).

Small businesses continued to face credit difficulties in the challenging economic climate, even as SBA lending numbers improved with policy actions including the ARRA and TALF (*Figures 1.1 and 1.2*). The quarterly Senior Loan Officers Opinion Survey on Bank Lending Practices had shown continued tightening of lending standards and weakened demand for small commercial and industrial loans since 2007 (*Table 1.2*). These figures were more pronounced in the early months of 2009, with the majority of senior officers reporting no change in standards or demand since then.[9]

The National Small Business Association voted to make access to capital a top policy priority. In its year-end report for 2009, it found that the percentage of small business owners who reported being negatively affected by their access to capital had eased slightly between July and December 2009 but still remained

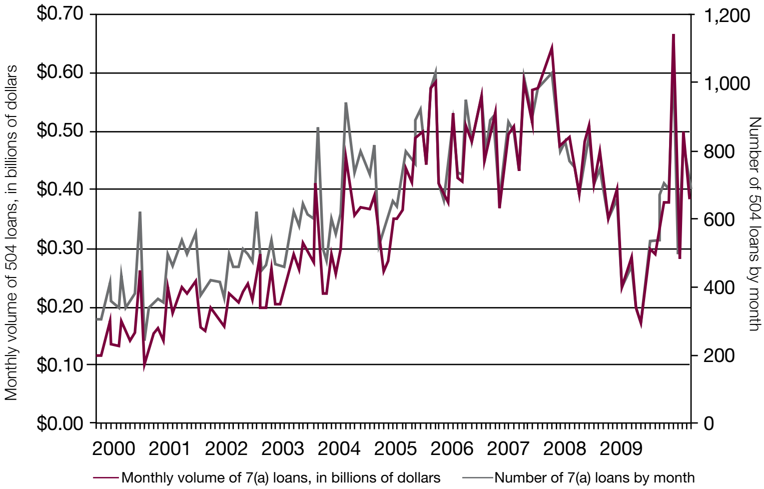
Figure 1.1 SBA 7(a) Monthly Lending Volume, 2000–2009



Source: U.S. Small Business Administration.

9 The Senior Loan Officers Survey of January 2010 found that 96.3 percent of officers reported no change in small firm C&I lending standards since the previous survey (October 2009). With respect to small firm C&I demand 96.7 percent showed either weakened demand or no change. See http://www.federalreserve.gov/boarddocs/SnLoanSurvey/201002/default.htm (accessed 11/10/10).

Figure 1.2 **SBA 504 Monthly Lending Volume, 2000–2009**



Source: U.S. Small Business Administration.

high, at 78 percent. By the end of 2009, about one-third—35 percent—of owners were subject to a decrease in their lines of credit or credit cards, down from 38 percent in July 2009.[10]

Aside from lending concerns, small businesses initially were uncertain about the overall macroeconomy, reflected in owners' hesitation to hire new workers, expand businesses, or invest in new capital and equipment. Many indicators trended upward as the year ended, mirroring improvements in the larger economic environment. The American Express Open Small Business Monitor, released in September 2009, found that 55 percent of entrepreneurs were optimistic about the future of their businesses, up 10 percent from earlier in the year. The Discover Card's Small Business Watch reached a similar conclusion, with its director stating that more small business owners were seeing conditions in their businesses improving in December 2009 relative to six months earlier.[11]

10 See http://www.nsba.biz/docs/10eoy_survey.pdf (accessed 11/10/10).

11 See http://www.discovercard.com/business/watch/2009/december.html (accessed 11/10/10).

Table 1.2 Various Quarterly Macroeconomic Indicators, 2005–2009

	Last Five Years					Last Five Quarters				
	2005	2006	2007	2008	2009	Q4-08	Q1-09	Q2-09	Q3-09	Q4-09
Business bankruptcy filings (thousands)	39.2	19.7	28.3	45.3	60.8	12.9	14.3	16.0	15.2	15.0
Proprietors income (billions of current dollars) *	1,069.8	1,133.0	1,096.4	1,106.3	1,041.3	1,083.6	1,037.8	1,028.0	1,037.9	1,061.6
Corporate profits after tax (billions of dollars) *	1,043.7	1,135.0	1,065.2	954.4	1,003.1	774.6	916.2	955.3	1.041.8	1.099.2
Nonfarm business sector output per hour for all persons (1992=100) *	136.2	137.5	140.1	142.6	146.8	143.1	143.2	145.6	148.2	150.4
Employment cost index: private sector wages and salaries (2005=100) *	99.2	102.1	105.5	108.7	110.3	109.6	109.8	110.0	110.5	111.0
Employment cost index: private sector benefits (2005=100) *	99.2	102.1	104.5	107.2	108.5	107.9	108.1	108.3	108.6	109.0
Rates for the smallest loans (less than $100,000):†										
Variable rate loans, repricing terms of 2 to 30 days	6.0	7.7	7.7	5.0	3.8	4.7	3.2	3.6	3.9	4.4
Variable rate loans, repricing terms of 31 to 365 days	7.1	8.4	8.6	6.9	5.6	6.4	5.6	5.5	5.5	5.9

Table 1.2 Various Quarterly Macroeconomic Indicators, 2005–2009 (continued)

	Last Five Years					Last Five Quarters				
	2005	2006	2007	2008	2009	Q4-08	Q1-09	Q2-09	Q3-09	Q4-09
Senior loan officers (percent of respondents):										
Net small firm commercial & industrial (C&I) loans (those whose standards were eased minus those tightened)	9.0	4.6	-4.3	-55.5	-40.4	-74.6	-69.2	-42.3	-33.9	-16.1
Net small firm demand for C&I loans (those whose demand was stronger minus those weaker)	27.3	0.2	-11.0	-15.6	-52.9	-7.4	-57.6	-63.5	-54.6	-35.7

* Seasonally adjusted.

† Effective Q4-08, "smallest" loans are defined as $10,000 to $99,999; previous quarters use less than $100,000.

Sources: Administrative Office of the U.S. Courts; U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; Board of Governors of the Federal Reserve System.

Macroeconomic Trends and Small Businesses

Based on recent history, the recession that emerged from the deteriorating economy of 2007 saw many economic indicators at their lowest levels since the recession of the early 1980s. Real GDP fell 2.4 percent for the year as a whole. Nevertheless, the 2009 analysis is really a tale of two halves (*Table 1.3*). First quarter 2009 real output declined 6.4 percent, continuing the 2.7 percent and 5.4 percent declines of the third and fourth quarters of 2008, respectively. After mid-2009, economic conditions stabilized, assisted by fiscal and monetary policy actions. Real GDP, after dropping in the beginning of the year, increased 5.6 percent in the fourth quarter of 2009, its strongest performance since the third quarter of 2003.

When the components of GDP are further broken down, the strengths and weaknesses in the economy become more evident. Real personal consumption accounted for over 71 percent of real GDP in 2009, and consumption fell in both 2008 and 2009, reflecting overall anxieties in the economy. Americans began to spend once again as the year progressed: consumers spent an additional 2.8 percent and 1.6 percent on an annualized basis, respectively, in the third and fourth quarters of 2009. Real exports and real imports followed a similar trend, with both falling in the first half of 2009 and then rising in the second half. The U.S. trade balance saw an improvement, as the fall in real imports was significantly greater than the decline in real exports.

Real gross private fixed investment was down from an average of $2.23 trillion in 2006 to $1.99 trillion in 2008 and $1.53 trillion in 2009. Both residential and nonresidential construction declined (*Figure 1.3*). With the bursting of the housing bubble in mid-2006, which in many ways led to the economic turmoil that followed, residential investment fell from a high of $783.5 billion in the last quarter of 2005 to its low point of $344.4 billion in second quarter 2009, then ended the year up slightly, at $364.0 billion. New housing starts

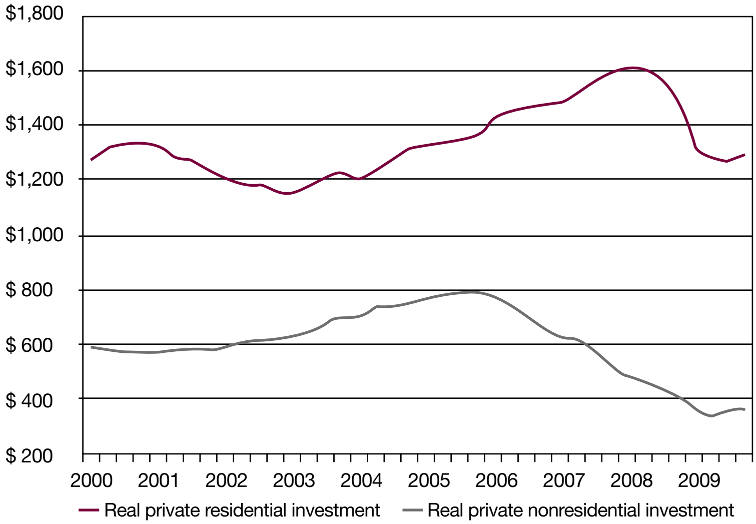
Table 1.3 Real Gross Domestic Product and Components, 2001–2009

	Annual data									Quarterly data (2009)			
	2001	2002	2003	2004	2005	2006	2007	2008	2009	Q1	Q2	Q3	Q4
Real gross domestic product													
Level (trillions of dollars)	11.35	11.55	11.84	12.26	12.64	12.98	13.25	13.31	12.99	12.93	12.90	12.97	13.15
Annual percentage change	1.1	1.8	2.5	3.6	3.1	2.7	2.1	0.4	-2.4	-6.4	-0.7	2.2	5.6
Real personal consumption expenditures*													
Level (trillions of dollars)	7.81	8.02	8.25	8.53	8.82	9.07	9.31	9.29	9.24	9.21	9.19	9.25	9.29
Annual percentage change	2.7	2.7	2.8	3.5	3.4	2.9	2.7	-0.2	-0.6	0.6	-0.9	2.8	1.6
Real gross private fixed investment*													
Level (trillions of dollars)	1.83	1.81	1.87	2.06	2.17	2.23	2.15	1.99	1.53	1.56	1.46	1.47	1.62
Annual percentage change	-7.0	-1.4	3.6	10.0	5.5	2.7	-3.8	-7.3	-23.2	-50.5	-23.7	4.9	46.1
Real government consumption and gross investment													
Level (trillions of dollars)	2.18	2.28	2.33	2.36	2.37	2.40	2.44	2.52	2.56	2.53	2.57	2.59	2.58
Annual percentage change	3.8	4.7	2.2	1.4	0.3	1.4	1.7	3.1	1.8	-2.6	6.7	2.7	-1.3
Real exports of goods and services													
Level (trillions of dollars)	1.12	1.10	1.12	1.22	1.31	1.42	1.55	1.63	1.47	1.43	1.42	1.48	1.56
Annual percentage change	-5.6	-2.0	1.6	9.5	6.7	9.0	8.7	5.4	-9.6	-29.9	-4.1	17.8	22.8
Real imports of goods and services													
Level (trillions of dollars)	1.59	1.65	1.72	1.91	2.03	2.15	2.19	2.12	1.83	1.82	1.75	1.84	1.90
Annual percentage change	-2.8	3.4	4.4	11.0	6.1	6.1	2.0	-3.2	-13.9	-36.4	-14.7	21.3	15.8

Notes: Seasonally adjusted, chained 2005 dollars.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Figure 1.3 **Real Private Residential and Nonresidential Investment, 2000–2009 (billions of dollars by quarter)**



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

similarly declined, from 2.3 million units on an annualized basis in January 2006 to a low of 479,000 units in April 2009. The nonresidential sector's decline came later and was less pronounced. Real private nonresidential fixed investment peaked in the second quarter of 2008 at $1.6 trillion and bottomed out at $1.3 trillion in third quarter 2009, before modestly increasing in the fourth quarter.

Employment losses have been among the largest challenges of this recession. From December 2007 to December 2009, the U.S. economy lost 8.4 million nonfarm payroll jobs—6 million from August 2008 to June 2009. In the second half of 2009, job losses were more modest, with a net gain in nonfarm payrolls occurring in November (*Table 1.4*). Net job declines occurred in every major industry during that time except two: education and health services, and government (*Table 1.5*).[12] Hardest hit were the goods-producing sectors of construction and manufacturing, which experienced double-digit declines in employment

12 Industries as discussed here are classified under the North American Industry Classification System (NAICS). Major industries are those with two-digit NAICS codes.

Table 1.4 **Monthly Employment on Nonfarm Payrolls by Major Sector, 2009 (millions)**

	Percent small business	2008 monthly data												2009 average
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Nonfarm payrolls	**50.22**	**133.55**	**132.82**	**132.07**	**131.49**	**131.14**	**130.64**	**130.29**	**130.08**	**129.86**	**129.63**	**129.70**	**129.55**	**130.90**
Goods-producing industries	**58.48**	**19.86**	**19.56**	**19.23**	**18.96**	**18.73**	**18.50**	**18.38**	**18.25**	**18.12**	**17.99**	**17.96**	**17.91**	**18.62**
Natural resources and mining	49.21	0.76	0.75	0.73	0.71	0.70	0.69	0.69	0.68	0.68	0.67	0.68	0.68	0.70
Construction	85.36	6.55	6.44	6.29	6.18	6.12	6.03	5.95	5.89	5.81	5.75	5.73	5.70	6.04
Manufacturing	44.43	12.54	12.38	12.21	12.06	11.91	11.78	11.74	11.68	11.63	11.58	11.55	11.53	11.88
Service-producing industries	**48.24**	**113.69**	**113.26**	**112.84**	**112.53**	**112.41**	**112.13**	**111.92**	**111.84**	**111.73**	**111.64**	**111.74**	**111.64**	**112.28**
Trade, transportation and utilities	43.93	25.48	25.33	25.17	25.05	25.00	24.94	24.85	24.82	24.75	24.67	24.68	24.63	24.95
Wholesale trade	61.12	5.76	5.71	5.67	5.64	5.63	5.61	5.60	5.59	5.58	5.57	5.57	5.56	5.62

Retail trade	40.05	14.79	14.72	14.64	14.59	14.57	14.55	14.49	14.48	14.43	14.37	14.37	14.36	14.53
Information	26.32	2.89	2.87	2.86	2.84	2.81	2.80	2.79	2.78	2.78	2.77	2.76	2.75	2.81
Financial activities	41.80	7.95	7.89	7.85	7.81	7.77	7.74	7.72	7.70	7.68	7.66	7.67	7.66	7.76
Professional and business services	43.11	17.09	16.92	16.77	16.64	16.59	16.45	16.41	16.37	16.35	16.36	16.47	16.49	16.57
Education and health services	47.76	19.07	19.09	19.10	19.10	19.14	19.17	19.19	19.22	19.25	19.28	19.31	19.34	19.19
Leisure and hospitality	60.89	13.21	13.18	13.14	13.10	13.13	13.11	13.10	13.08	13.10	13.05	13.02	12.98	13.10
Other services	85.44	5.43	5.41	5.38	5.37	5.37	5.37	5.36	5.35	5.34	5.33	5.32	5.31	5.36
Government	**0.00**	**22.59**	**22.57**	**22.56**	**22.63**	**22.61**	**22.56**	**22.52**	**22.52**	**22.48**	**22.52**	**22.51**	**22.48**	**22.54**

Notes: Seasonally adjusted. See www.bls.gov/ces/cessuper.htm (accessed 11/10/10) for NAICS code equivalents for each sector. The small business percentage by sector is based on 2006 firm size data; leisure and hospitality uses 2005 information due to 2006 data suppressions. Trends may reflect rounding error.

Sources: U.S. Small Business Administration, Office of Advocacy, using data from the U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics.

Table 1.5 Annual Employment on Nonfarm Payrolls by Major Sector, 1999–2009 (millions)

	Annual averages											Percent change		
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	1999-2009 (10 yrs.)	2004-2009 (5 yrs.)	2008-2009 (1 yr.)
Nonfarm payrolls	**128.99**	**131.79**	**131.83**	**130.34**	**130.00**	**131.42**	**133.70**	**136.10**	**137.60**	**137.04**	**130.90**	**1.48**	**-0.39**	**-4.30**
Goods-producing industries	**24.47**	**24.65**	**23.87**	**22.55**	**21.82**	**21.88**	**22.19**	**22.54**	**22.23**	**21.33**	**18.62**	**-23.89**	**-14.89**	**-12.70**
Natural resources and mining	0.60	0.60	0.61	0.58	0.57	0.59	0.63	0.68	0.72	0.77	0.70	17.03	18.61	-8.51
Construction	6.54	6.79	6.83	6.72	6.74	6.97	7.33	7.69	7.63	7.16	6.04	-7.78	-13.44	-15.70
Manufacturing	17.32	17.27	16.44	15.26	14.51	14.32	14.23	14.16	13.88	13.42	11.88	-31.40	-16.98	-11.33
Service-producing industries	**104.53**	**107.14**	**107.96**	**107.79**	**108.18**	**109.54**	**111.51**	**113.55**	**115.36**	**115.45**	**112.28**	**7.42**	**2.50**	**-2.74**
Trade, transportation and utilities	25.77	26.23	25.99	25.50	25.29	25.53	25.96	26.28	26.63	26.38	24.95	-3.19	-2.31	-5.12
Wholesale trade	5.89	5.93	5.77	5.65	5.61	5.66	5.76	5.90	6.02	5.94	5.62	-4.56	-0.66	-5.37
Retail trade	14.97	15.28	15.24	15.03	14.92	15.06	15.28	15.36	15.52	15.35	14.53	-2.95	-3.53	-4.93
Information	3.42	3.63	3.63	3.39	3.19	3.12	3.06	3.04	3.03	2.98	2.81	-17.85	-9.92	-5.89
Financial activities	7.65	7.69	7.81	7.85	7.98	8.03	8.15	8.33	8.30	8.14	7.76	1.46	-3.40	-4.73
Professional and business services	15.95	16.67	16.48	15.97	15.99	16.39	16.95	17.57	17.94	17.74	16.57	3.88	1.14	-6.54
Education and health services	14.79	15.11	15.64	16.20	16.59	16.95	17.37	17.82	18.32	18.84	19.19	29.69	13.20	1.84
Leisure and hospitality	11.54	11.86	12.03	11.99	12.18	12.49	12.81	13.11	13.43	13.44	13.10	13.48	4.87	-2.51
Other services	5.09	5.17	5.26	5.37	5.40	5.41	5.40	5.44	5.49	5.51	5.36	5.42	-0.87	-2.76
Government	**20.31**	**20.79**	**21.12**	**21.51**	**21.58**	**21.62**	**21.81**	**21.97**	**22.22**	**22.50**	**22.54**	**10.99**	**4.29**	**0.18**

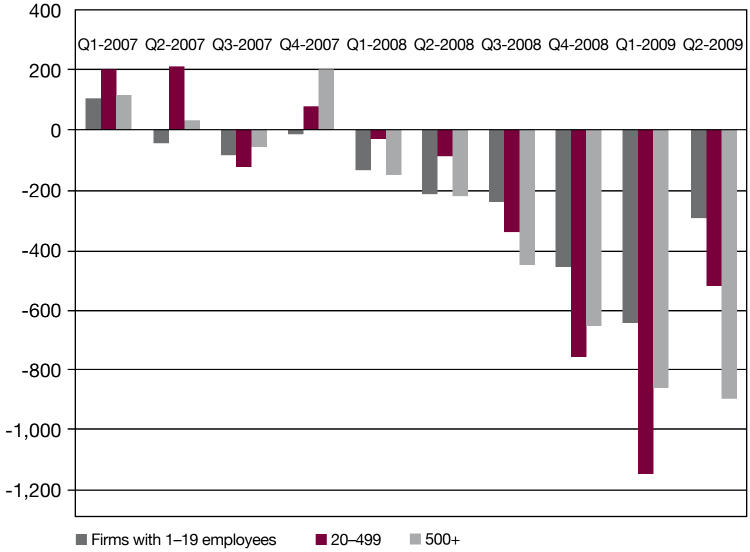
Notes: Seasonally adjusted. See www.bls.gov/ces/cessuper.htm for NAICS code equivalents for each sector.

Sources: U.S. Department of Labor, Bureau of Labor Statistics.

between 2008 and 2009. Four service sector industries also saw their employment fall by about 5 percent or more over the period: financial activities, information, professional and business services, and retail and wholesale trade. Some of these industries, such as construction or wholesale trade, are dominated by smaller firms with fewer than 500 employees, suggesting the struggle that many small businesses were facing in keeping their employees.

The Bureau of Labor Statistics releases data on quarterly net job changes by firm size in its Business Employment Dynamics series. Figure 1.4 shows net changes in employment for firms with 1 to 19, 20 to 499, and 500 or more employees from 2007 through second quarter 2009. It clearly illustrates that small firms have shed a significant number of jobs in this recession. In fact, larger small businesses with 20 to 499 employees saw dramatic declines in their net employment at the end (final quarter) of 2008 through the first quarter of 2009. Small businesses as a whole (those with fewer than 500 employees) lost more jobs than their larger counterparts

Figure 1.4 Quarterly Net Job Change by Firm Size, 2007–2009, Second Quarter (thousands of workers by quarter)

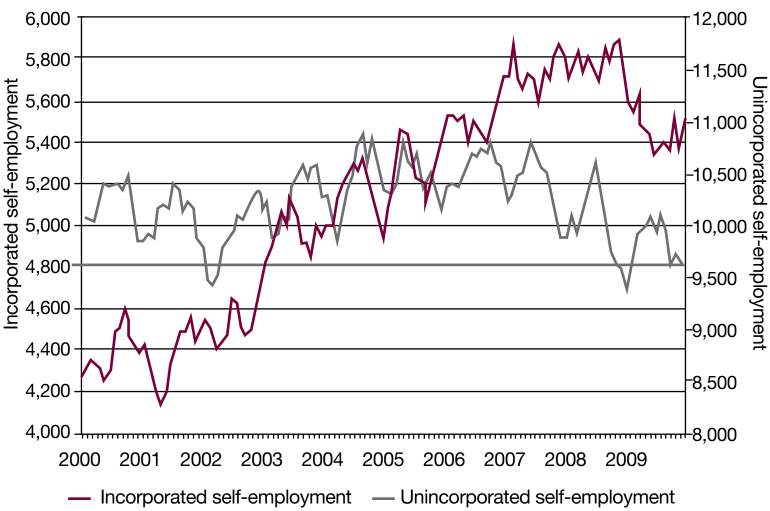


Source: Department of Labor, Bureau of Labor Statistics.

in all but one quarter during the recession. This makes the current recession different from the 2001 downturn, in which larger businesses experienced greater net job declines and very small businesses were quicker to recover and have net job increases.[13]

Self-employment as a primary occupation was down in 2009, but it did begin to increase in the second half of the year (*Figure 1.5*). Incorporated self-employment rose steadily over the decade from a seasonally unadjusted 4.3 million in January 2000 to a peak of 5.9 million in November 2008. Mirroring economic trends, this figure dropped but has begun to move back up, ending 2009 at 5.5 million. Unincorporated self-employment has been more volatile, with ups and downs in a wide band that moves from 9.4 million to 10.8 million (not seasonally adjusted). It fell beginning in July 2008 from 10.6 million to 9.4 million by January 2009, then rose to 9.6 million by December 2009.

Figure 1.5 Monthly Incorporated and Unincorporated Self-employment, 2000–2009 (thousands of workers, not seasonally adjusted)



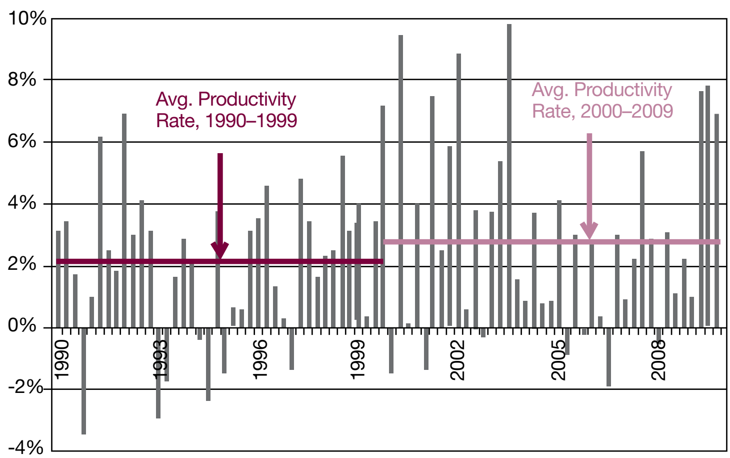
Source: U.S. Department of Labor, Bureau of Labor Statistics.

13 See data in Table A.12; the analysis of the previous recession and smaller firms is based on the Bureau of Labor Statistics press release at http://www.bls.gov/news.release/pdf/cewfs.pdf (accessed 11/10/10).

For the year, the total incorporated and unincorporated self-employment ranged from 15.0 to 15.5 million. This economic downturn is similar to the past two recessions in its sluggish net employment growth. Overall employment was slow to pick up after the 1990–1991 and 2001 recessions, with nonfarm payrolls not returning to their prerecessionary levels for several quarters afterward.[14]

Another way to look at employment is to examine productivity (*Figure 1.6*). The current recession produced fast-growing nonfarm business output per hour. Output increased at a rate of almost 7 percent or more on an annualized basis for the last three quarters of 2009. Rising productivity can lead to higher standards of living and increased global competitiveness, but in a recession—particularly one that has seen significant employment losses—it can also mirror a weak job market. People who have

Figure 1.6 Annualized Rates of Growth for Nonfarm Business Output per Hour for All Persons, 1990–2009 (annualized percentages, by quarter, seasonally adjusted)



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

14 The 1990–1991 recession ended in March 1991, according to NBER. Nonfarm payrolls peaked at 109.8 million in June 1990 and did not return to that level until February 1993, eleven months after the official end to the recession. Likewise, the 2001 recession ended in October 2001. Nonfarm payrolls peaked at 132.5 million in February 2001, not returning to that level until February 2005, four years later.

jobs are working harder, a situation that cannot be sustained over the long term. Eventually, businesses will again start hiring, and productivity figures are likely to settle in the historical 2-3 percent range. It is interesting to note, though, that the average quarterly productivity growth of the 1990s is somewhat lower than its average for the 2000s (2.12 versus 2.90 percent), perhaps explained by the slower employment growth of this past decade.

Like productivity, inflation is often seen as a counterweight to employment, with policymakers seeking to achieve either low inflation or low unemployment without exacerbating the other variable. Fortunately, significant inflation has not been a major issue since the early 1980s. More recently, though, business owners have had to grapple with two other forms of pricing pressure. First, the rapid run-up in the price of petroleum during the summer months of 2008, followed by a quick descent, created tremendous price volatility in the second half of 2008. Small business owners said that they were feeling squeezed at that time, particularly as they were unable to pass along price increases on intermediate goods to the consumer. This can be seen from the consumer's perspective in the consumer price index (CPI) swings that year (*Figure 1.7*).

In 2009, particularly as the economic recession was taking hold, the challenge that confronted policymakers shifted to deflation. Echoing concerns on this topic, Federal Reserve Vice Chairman Donald Kohn said on April 3, 2009:

> With the federal funds rate about as low as it can go, significant further decreases in inflation as a result of the substantial slack in resources, lower import prices, and declines in the prices of oil and other commodities could imply an increase in the real federal funds rate. Indeed, if such a process continued for some time, we could fall into deflation, much as Japan did for a time in the 1990s and earlier this decade.[15]

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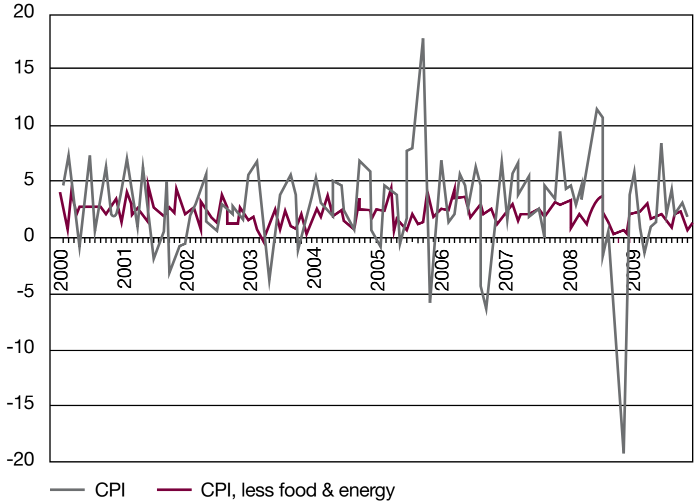
15 Remarks by Donald Kohn at the Forum on Great Decisions in the Economic Crisis, College of Wooster, Wooster, Ohio, April 3, 2009. See http://www.federalreserve.gov/newsevents/speech/kohn20090403a.htm (accessed 11/10/10).

Figure 1.7 **Annualized Rates of Change in the Consumer Price Index, 2000–2009 (inflation rate, as an annualized percentage, by month)**



Source: U.S. Department of Labor, Bureau of Labor Statistics.

Indeed, the average values of the CPI and producer price index were lower in 2009 than in 2008 (*Table 1.1*), and some of the early months of 2009 experienced falling values for each of these measures.

In the midst of concerns about deflation, many also discussed the long-term risk of inflation that might stem from the dramatic policy responses taken by the Federal Reserve Board and the U.S. Treasury, in particular, the Federal Reserve's policy to keep interest rate targets near 0 percent and its massive purchases of government securities. In response, Donald Kohn said, "To address concerns about its ability to rein in its balance sheet, the Federal Reserve must be prepared to exit from its various programs when the time is right."[16] The Federal Reserve later began allowing many tools implemented during the financial crisis to either expire or gradually end, including the TALF program and purchases of mortgage-backed securities.[17]

16 Ibid.

17 For more information on the Federal Reserve's exit strategy, see testimony of Ben S. Bernanke to the Committee on Financial Services of the U.S. House of Representatives on March 10, 2010, at http://www.federalreserve.gov/newsevents/testimony/bernanke20100325a.htm (accessed 11/10/10).

Overall, inflationary pressures have been mild. This is especially true of "core" inflation, which excludes food and energy costs. Figure 1.7 shows the annualized percentage changes in the CPI from 2000 to 2009. Core inflation remained in a narrow band between 0 and 5 percentage points throughout the decade. Overall CPI, which includes food and energy costs, was more volatile. For its part, the price of West Texas crude oil, which had peaked at around $145 a barrel in July 2008, averaged $61.69 for 2009 (*Table 1.2*). At the worst of the recession, oil was selling for $39.16 per barrel (February 2009). It ended the year at $74.30. A strengthening economy served to increase overall demand for oil, both domestically and globally, pushing up the price.

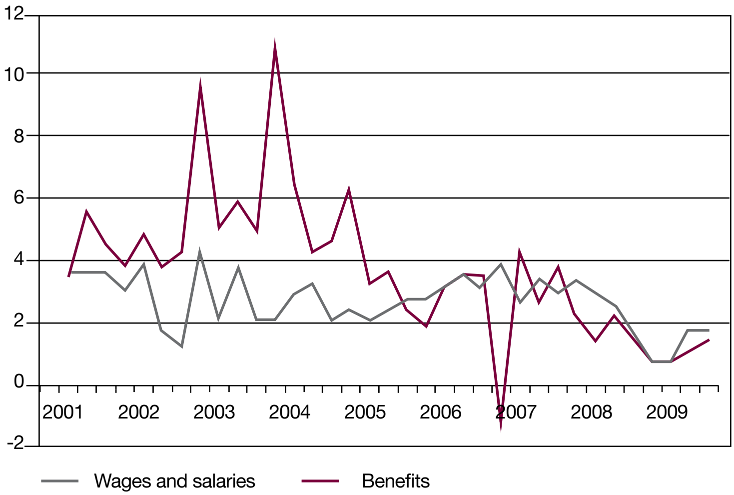
Global competition and a weak employment picture have slowed the growth of wages, salaries, and benefits. Figure 1.8 shows annualized percentage changes in the employment cost index from 2001 to 2009. Wages and salaries, and benefits rose less than 1 percent in the first half of 2009. In the second half, wages and salaries grew around 1.8 percent at the annual rate, while benefits increased more slowly (1.1 and 1.5 percent in the third and fourth quarters, respectively). Thus, employment costs were kept in check in 2009, rising at a rate that was significantly lower than in previous years.

Entrepreneurship, Net Job Creation, and Self-Employment Trends

With policymakers eager to explore new avenues for job creation, the role that small businesses play in generating employment has garnered greater attention over the recent past. Small firms with fewer than 500 employees accounted for 64 percent of the net new jobs created between 1993 and 2008, according to the Business Employment Dynamics data series from the Bureau of Labor Statistics.[18] More than two-thirds of these jobs stemmed from business expansions, with the remaining net employment

18 See Headd (2010).

Figure 1.8 **Annualized Rates of Change in the Employment Cost Index, 2001–2009 (annualized percentage, by quarter, for wages and salaries and benefits)**



Source: U.S. Department of Labor, Bureau of Labor Statistics

coming from the balance of new start-ups minus firm closures.[19] Overall, such figures support the notion that new entrepreneurial ventures provide a major boost to employment, and therefore the economy. Bruce et al. (2007) observed that small firm establishments had a greater impact on state-level output, employment, and income than any other policy option. The Ewing Marion Kauffman Foundation, for instance, asserts that young firms less than five years old were the source of much of the net job generation, and without startups, overall net job change might have been negative in most of the years since 1980.[20]

Another focus has been on high-growth, high-impact businesses and the linkages between small business innovation and entrepreneurship.[21] Some of these innovative firms will grow to become large, pushing the envelope within their industry and providing new economic vitality to their communities. Acs, Parsons,

19 Ibid.

20 See Stangler Litan (2009).

21 See a summary of Office of Advocacy research studies on this topic: http://www.sba.gov/advo/research/factsinnovation09.pdf (accessed 11/10/10).

and Tracy (2008) analyzed “high-impact” firms that experienced a doubling in sales and had an employment growth quantifier of two or more in the previous four years. These authors assert that high-impact firms were the source of virtually all of the net job creation in the time period studied. Businesses from every major industry and nearly every county were represented. Moreover, they found that firms did not begin their rapid growth phase until later in their business cycle; the average high-impact firm was 25 years old.

The constant in the debate over which businesses create the most net new jobs (young or old, large or small) is the importance of dynamism to the overall economy. Davis, Haltiwanger, and Jarmin (2008) find that this “churning” also leads to greater aggregate productivity in the economy, as the surviving firms tend to have higher rates of relative productivity than their exiting counterparts. While business closures can be traumatic, the authors note, the reallocation of resources allows for improved living standards and increased competitiveness. Indeed, in a number of studies, rates of churning are usually highly correlated with a region’s entrepreneurialism.[22]

The most recent firm size data also reveal some interesting trends. The Office of Advocacy estimates the number of small firms using Statistics of U.S. Business data from the U.S. Census Bureau. It estimates that there were 5.8 million employer and 21.7 million nonemployer firms in the United States in 2009 (*Table A.1* in Appendix A of this report). An estimated 552,600 employer firms started and 660,900 employer firms closed that year—as in 2008, a net loss of firms not seen since 2002 (*Table A.2*).

Table A.12 shows the quarterly net job changes by firm size from 1992 to 2009 as measured by the Business Employment Dynamics database from the Bureau of Labor Statistics. In the first three quarters of 2009, small businesses accounted for almost

22 The Office of Advocacy summarized some of its regional economic development research in its February 2007 newsletter; see http://www.sba.gov/advo/feb07.pdf (accessed 11/10/10). See also studies on the state-level New Economy Index (http://www.kauffman.org/Details.aspx?id=5812 (accessed 11/10/10)), the Beacon Hill Competitiveness Report (http://www.beaconhill.org/CompetitivenessHomePage.html, accessed 11/10/10), and others that incorporate business starts and closures into their analysis.

60 percent of the net job losses, with the greatest losses coming in the first quarter. By the third quarter, the net job losses in small businesses were about one-third what they had been in the first quarter. The recession forced businesses, both large and small, to shed employment, but the picture improved as the year progressed.

The March 2009 supplement to the Current Population Survey, which focuses on 2008 data, also shows interesting trends in the characteristics of the self-employed over the decade. In general, self-employment levels dipped somewhat between 2007 and 2008, although the decade-long trend has been positive (*Table A.13*). Consistent with other research, the self-employed tend to be overwhelmingly male, white, married, and older.[23]

But minorities and women have made tremendous strides, increasing their proportion of the total self-employed. The largest gains came from Hispanics. The number of self-employed Hispanics more than doubled from 2000 to 2008 and their share of the self-employed population rose from 5.6 to 10.2 percent. Immigrant entrepreneurship also makes up a larger proportion of those who start their own business. The percentage of self-employed who are native-born declined from 87.3 to 83.3 percent over the 2000–2008 period.[24]

Age and education have become major determinants of self-employment as well. Roughly 15 percent of the self-employed were less than 35 years old in both 2000 and 2008. Older Americans are also more likely than before to be their own boss. The percent of the self-employed population who were between the ages of 55 and 64, for instance, grew from 16.4 percent in 2000 to 22.2 percent later in the decade. This trend is perhaps an indicator that more baby boomers have sought "lifestyle entrepreneurship" or a second career later in life. Moreover, fewer veterans are self-employed, a reflection of the aging of veterans from the Korean and Vietnam wars.[25]

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23 See the results and the literature review discussion in Moutray (2007).

24 See Fairlie (2008) for more on this topic.

25 For more information, see Lichtenstein & Sobota (2007).

The number of self-employed who are more educated has increased more than educational attainment in the population overall.[26] Individuals with at least a bachelor's degree accounted for 32.7 percent of the self-employed in 2000, and 37.1 percent in 2008. In contrast, the self-employed with a high school diploma or less accounted for 36.6 percent of the total in 2007, down from 39.7 percent in 2000. It appears that the correlation between self-employment and educational attainment is strengthening.

Another trend in the data is the higher concentration of self-employed locating in urban and suburban areas relative to rural communities (*Table A.13*). Rural self-employment declined 16.6 percent between 2000 and 2008, with its share of the total falling from 24.0 to 17.9 percent. Meanwhile, central city and suburban self-employment rose from 62.2 to 67.3 percent of the overall total. Much of this can be explained by demographic shifts, of course. Interestingly, a working paper by Plummer and Headd (2008), which used establishment birth and death data from the U.S. Census Bureau, found that the birth and death rates do not vary much between rural and urban areas. Entrepreneurship does not hinge on rural versus urban economic conditions, according to the authors; such news is definitely positive for economic development officials in rural areas who are eager to identify new sources of economic growth and entrepreneurial activity.

Building on this analysis, Table A.14 shows the characteristics of employees by firm size for 1995 and 2008 using the Current Population Survey. A slightly smaller share of people were employed by small businesses with fewer than 500 employees in 2008, 57.2 percent, compared with 58.4 percent in 1995. This trend continues in many of the other breakdowns that follow. Note that much of this is a function of the weaker job market in 2008, as the ratios between 1995 and 2007 were nearly identical.[27]

26 See http://www.census.gov/compendia/statab/2010/tables/10s0224.pdf (accessed 11/10/10).

27 See Table A.14 in *The Small Business Economy: A Report to the President*, 2009 edition p. 111.

Two recent Advocacy analyses of data from the Census Bureau's Business Information Tracking Series look at business dynamics including establishment expansions, contractions, and closings and the employment resulting from them over the 2002–2006 period.[28] Because the data track the establishments in existence as of 2002, the studies do not include information about the employment resulting from new business startups. But the omission of these data reveals the importance of startups for job creation. The studies looked at characteristics such as the gender and minority or ethnic status of the establishment's enterprise owners. Findings from the study that looked at the minority/ethnic origins of the owners included the following:

- Minority-owned establishments were more likely to close than businesses owned by their nonminority (White) counterparts. At the same time, the rates of job creation due to the expansion of minority-owned establishments were consistently higher than those of businesses owned by Caucasians.
- The four-year rate of employment expansion drops drastically as enterprise receipts size increases. Smaller enterprises (with less than $50,000 in receipts in 2002) had higher rates of job creation because of expansion in 2002–2006. This was especially true for minority-owned enterprises.

The study by gender found that expansions of female-owned establishments outpaced expansions of establishments owned by their male counterparts in 40 of the 50 states and the District of Columbia. There were 45 women-owned firms for every 1,000 women in the United States, compared with 96 firms owned by men for every 1,000 men in 2002.

28 See Lowrey (2010a & 2010b).

Small Business Health Insurance and Retirement Benefits

Health care and retirement plans are the two most expensive benefits provided by employers or purchased by small business owners. These plans are also critical to small firms interested in attracting and retaining productive workers and competing with large businesses in the marketplace. Firms can purchase health insurance in the marketplace from private providers and insurers or they can self-insure and provide their own benefits packages. Firms also decide whether to set up a qualified retirement plan and whether the plan will be a traditional defined benefit plan or a retirement account-type defined contribution plan like a 401(k).

Even though small businesses are providing jobs for large segments of the labor force, most small businesses are likely to offer fewer and less comprehensive fringe benefits than larger businesses.

Job-based health insurance costs have substantially outpaced inflation and wage increases over the past decade. The Kaiser Family Foundation reports that the average annual cost of a family premium for employer-sponsored health insurance increased 114 percent between 2000 and 2010. The increase in 2010 from the previous year was about 3 percent.[29] These premiums have forced small business owners to make changes in the coverage they offer their workers. Changes include sharing the costs of such coverage with their employees, pursuing lower-cost options such as consumer-driven plans, choosing not to offer such coverage at all, or cutting back on other employee benefits. Recent surveys document small business owners' concerns.[30]

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29 2010 Kaiser/HRET Employer Health Benefits Survey.

30 As entrepreneurs look to cut expenses, those offering health insurance appear to be protecting the benefit, according to the American Express OPEN Small Business Monitor (2010). On the other hand, entrepreneurs are cutting their expenses for retirement plans.

In 2009, some 50.7 million Americans did not have health insurance.[31] Many worked in small businesses. Almost 17 million—more than one in four—private sector wage-and-salary workers in small businesses with fewer than 500 workers lacked health insurance from any source (*Table 1.6*). This compares with 14.7 percent of workers in large firms with 500 or more employees. In addition, 3.9 million self-employed workers were uninsured.[32] Over six million private sector uninsured workers were employed by micro-businesses with fewer than 10 workers. Workers in small firms were more likely than their large firm counterparts to be covered as a dependent by another family member's health insurance plan, 17.7 percent and 13.6 percent, respectively. Almost 25 percent of all self-employed workers had coverage as a dependent on a family member's plan. More than one in five of the self-employed purchased an individual health plan, compared with just 6.7 percent of workers in small firms. Workers in large firms were least likely to purchase individual insurance (4.0 percent).

Ongoing research shows that employees at smaller firms are less likely to receive health insurance or other benefits than those in larger firms.[33] Virtually all employers with 200 or more employees offer health insurance benefits to their workers. In contrast, 68 percent of those with fewer than 200 employees offered such benefits in 2010. For very small firms with 3 to 9 employees, the offer rate was 59 percent.[34] One challenge is that it currently costs more per employee to administer small health plans than it does larger ones.[35]

The cost and availability of health insurance have long been a concern for small business owners. President Obama signed the Patient Protection and Affordable Care Act into law on March 23, 2010. The newly passed federal health reform legislation is

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31 See Fronstin (2010).

32 Includes unincorporated and incorporated self-employed.

33 See Popkin (2005) and Econometrica, Inc. (2007).

34 See Kaiser/HRET Employer Health Benefits Survey.

35 See Chu & Trapnell (2003).

Table 1.6 **Private Sector Workers Ages 18-64 with Selected Sources of Health Insurance, by Firm Size, 2009**

	Total	Employment-based coverage			Individually purchased	Public	Uninsured
		Total	Own name	Dependent			
Millions of workers							
Total	122.6	79.9	59.2	20.7	8.7	10.6	27.7
Self-employed[1]	13.4	6.2	2.8	3.3	2.7	1.2	3.9
Wage-and-salary workers	109.4	73.7	56.3	17.4	6.0	9.4	23.8
Firm employment size							
<10	16.9	7.6	4.3	3.3	1.7	1.8	6.3
10–24	13.0	7.3	4.7	2.6	0.8	1.2	3.9
25–99	16.2	10.8	8.1	2.7	0.8	1.3	3.8
100–499	15.4	11.3	9.0	2.3	0.7	1.3	2.7
<500	61.5	37.0	26.1	10.9	4.1	5.6	16.7
500+	47.7	36.7	30.2	6.5	1.9	3.8	7.0
Percentage within coverage category							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Self-employed[1]	11.0	7.7	4.8	16.1	31.0	11.0	14.2
Wage-and-salary workers	89.0	92.3	95.2	83.9	69.0	89.0	85.8
Firm employment size							
<10	15.5	10.3	7.6	19.3	28.1	19.4	26.7
10–24	11.9	9.9	8.4	14.9	14.0	13.2	16.3
25–99	14.8	14.6	14.3	15.5	13.9	13.8	15.9
100–499	14.1	15.4	16.1	13.2	12.0	13.5	11.5
<500	56.4	50.2	46.4	62.8	68.0	59.9	70.4
500+	43.6	49.8	53.6	37.2	32.0	40.1	29.6
Percentage within worker / firm size category							
Total	100.0	62.5	48.3	16.9	7.1	8.6	22.6
Self-employed[1]	100.0	46.0	21.2	24.8	20.1	8.6	29.3
Wage-and-salary workers	100.0	67.5	51.6	15.9	5.5	8.6	21.8
Firm employment size							
<10	100.0	45.1	25.3	19.8	10.0	10.9	37.5
10–24	100.0	56.2	36.4	19.9	6.5	9.5	29.8
25–99	100.0	66.5	49.9	16.6	5.2	8.1	23.4
100–499	100.0	73.4	58.6	14.8	4.7	8.2	17.7
<500	100.0	60.2	42.5	17.7	6.7	9.2	27.2
500+	100.0	77.0	63.4	13.6	4.0	7.9	14.7

[1] Includes unincorporated and incorporated self-employed.

Note: Detail may not add to totals because individuals may receive coverage from more than one source.

Source: Employee Benefits Research Institute estimates of the Current Population Survey, March 2010 Supplement, EBRI Issue Brief No. 347, September 2010, Figure 12.

likely to have a significant effect on health insurance availability and costs for both employers and employees. For example, beginning in 2010, the law will provide a tax credit to certain small employers that purchase health insurance. In addition to the Kaiser Family Foundation, other organizations such as the Small Business Majority are conducting research on health care in small firms and the potential effects of the new law using available data.[36] Finding ways to control the cost of providing health insurance to employees and increasing coverage are an ongoing priority. Policymakers will continue to grapple with these issues in the near term.

Aside from health insurance, employment-based retirement plans are among the most important benefits available to workers as well as small business owners. Traditional pension and 401(k) plans can provide workers and owners with a significant share of their retirement income. Employers and business owners are motivated to sponsor retirement plans to attract and retain productive workers, as well as to save for their own retirement. These plans allow employers to offer tax-preferred benefits to themselves and their workers. In addition to employment-based retirement plans, workers and owners (as well as their spouses) have individual-based retirement options available to them through individual retirement accounts (IRAs). The self-employed can own and participate in Keogh plans.

Several trends make retirement plans an issue of concern for small businesses. First is the low level of retirement plan sponsorship and participation. Second is the lack of increase in sponsorship and participation: coverage rates have been static or declining over the last several decades, depending on the indices used. Third is the shift from traditional defined benefit pension plans toward defined contribution plans.

36 For more information about the new Patient Protection and Affordable Care Act, see the Kaiser Family Foundation site at http://healthreform.kff.org/ (accessed 11/10/10). For Small Business Majority research see http://www.smallbusinessmajority.org/small-business-research/statistics.php (accessed 11/10/10).

Benefits in defined benefit plans are calculated on the basis of years of service and wage levels. In defined contribution plans (e.g., 401(k) plans), benefits received are equal to contributions and returns to individual retirement accounts. It is generally believed that defined benefit plans offer greater retirement security than defined contribution plans. Fourth, changing demographics and the nation's aging population and work force heighten the importance of retirement plan sponsorship and participation, especially in small firms.

Two research reports recently released by the Office of Advocacy investigate retirement planning from dual perspectives: the small business worker[37] and the small business owner.[38] From the worker's perspective, the number of companies offering traditional defined benefit pensions has been declining steadily. Almost half of the work force—about 58 million workers—do not have access to any type of retirement plan through their place of work (*Table 1.7*).[39] Another 20 million workers do not participate in the plans their employers offer. Nearly 72 percent of workers in small firms have no retirement plan available. One reason smaller companies may not offer the benefit is the cost of setting up and running a retirement plan.

On the business owner's side of the equation, there is evidence for concern that small business owners are not saving enough for retirement. This is especially the case for microbusiness owners who have firms with fewer than 10 workers. These microbusiness owners represent 91 percent of the owners in the study sample. The research indicates that only about 18 percent of business owners participated in a 401(k)/Thrift plan—38.5 percent of owners of businesses with 10 or more employees compared with only 16.1 percent of owners with fewer than 10

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37 See Kobe (2010).

38 See Lichtenstein (2010).

39 A variety of data sets are available to measure retirement plan offerings and participation, and they can lead to different estimates. In addition, matching tax records with self-reported survey data has produced higher offering and participation rate estimates.

Table 1.7 Number and Percent of Private Sector Workers Participating in Retirement Plans by Firm Size, 2006

	Small firms (<100 workers)			Large firms (100+ workers)			Total, all firms			All firms (includes detailed categories)
	Plan sponsored			Plan sponsored			Plan sponsored			
	Yes		No	Yes		No	Yes		No	
	Worker participates			Worker participates			Worker participates			
Workers	Yes	No		Yes	No		Yes	No		
Number (millions)	11.1	4.9	40.8	35.5	14.8	17.6	46.6	19.7	58.4	124.7
Percent	8.9	3.9	32.7	28.5	11.9	14.1	37.4	15.8	46.8	100.0

Source: Kobe (2010), Table 1, using SIPP data from the U.S. Census Bureau.

employees. The IRA ownership rate is only about 36 percent, and only one-third of business owners with an IRA contributed for the 2005 tax year. Fewer than 2 percent of business owners own a Keogh plan. Business owners are more likely to own or contribute to retirement accounts if they are older, nonminority, educated, and own a home. Owners that have larger and older businesses and own more than one business are also more likely to have a retirement plan (*Table 1.8*). Overall, the most significant factors affecting participation in individual retirement accounts (IRAs) and 401(k)/Thrift plans are homeownership and other retirement plan savings.

Small Business and International Trade

In 2007, the most recent year for export data by firm size, there were 259,400 known small business exporters selling $311.7 billion in goods overseas, or 30.2 percent of the total (*Tables 1.9 and 1.10*). Small firm exporting grew steadily, almost doubling between 2002 and 2007. By industry, manufacturing and wholesale trade accounted for a larger share of total small firm exports in 2007 than ten years earlier. Figure 1.9 shows the growth of these ratios since 1997. In particular, it shows how the known value of exports from

Table 1.8 Selected Socio-demographic Characteristics of Business Owners and Selected Characteristics of Business Owned by Retirement Plan Status of Owner, 2006 (percentages)

	IRA	Keogh	IRA or Keogh	IRA contri-butions	401(k)/ Thrift plan
Total, owners (mean)	35.6	1.8	40.9	33.5	17.4
Owner characteristics					
Age					
Under 35	16.6	0.1*	18.4	29.9	8.5
35 to 49	33.6	1.5*	38.0	34.1	20.1
50 or older	41.1	2.4	47.6	34.2	19.5
Race					
White	36.3	1.7	41.7	33.3	18.8
Nonwhite	20.2	1.7*	21.8	41.5	12.3
Education					
High school or less	18.7	0.6*	21.9	29.9	8.0
Some college	31.0	0.8*	35.0	31.6	14.2
College degree (4 yr)+	53.5	3.7	61.1	36.7	31.9
Business characteristics					
Business size					
<10 workers	33.1	1.5	37.6	33.0	16.1
10+ workers	48.3	3.9*	57.2	40.0	38.5
Home-based					
Yes	30.6	1.3	34.8	30.2	12.6
No	43.1	2.5	49.9	38.4	26.2
Age of business					
Less than 3 years old	26.8	0.6*	28.7	25.2	16.1
3 years or more	37.6	2.1	43.7	36.5	18.8

* Less than 30 observations in the cell.

Notes: The sample in each wave consists of 4 rotation groups, each interviewed in a different month. For Wave 7, the interview months were from February 2006 to May 2006. Maximum sample size: 4,922 total business owners (4,499 business owners with firms fewer than 10 workers and 423 owners with firms of 10 or more workers). Following sample sizes answering "yes" for retirement variables: IRA ownership (1,531), Keogh ownership (75), IRA or Keogh ownership (1,935), IRA contributions (482), and 401(k)/Thrift Plan (886).

Source: Lichtenstein (2010), Tables 5 and 6, using data from 2004 SIPP Wave 7, U.S. Census Bureau.

Table 1.9 **U.S. Exports by Employment Size, 2007**

	Employment size of firm							Percent		
	Total	**0**	**1–19**	**20–99**	**100-499**	**<500**	**500+**	**<20**	**<500**	**500+**
Number of identified exporters (thousands)										
All identified companies	**266.5**	**85.2**	**107.6**	**48.9**	**17.7**	**259.4**	**7.1**	**72.3**	**97.3**	**2.7**
Manufacturers	71.6	14.0	22.8	22.5	9.3	68.7	2.9	51.5	96.0	4.0
Wholesalers	87.7	24.1	46.0	13.5	3.3	86.9	0.8	79.9	99.1	0.9
Other companies	100.1	40.3	38.6	12.8	5.1	96.7	3.4	78.8	96.6	3.4
Unclassified companies	7.1	--	--	--	--	--	--	--	--	--
Known value of exports (billions of dollars)										
All identified companies	**1,031.0**	**74.9**	**71.2**	**70.2**	**95.4**	**311.7**	**719.3**	**14.2**	**30.2**	**69.8**
Manufacturers	674.6	27.2	6.3	21.7	50.8	106.1	568.5	5.0	13.1	86.9
Wholesalers	204.1	21.5	46.5	31.5	28.8	128.3	75.8	33.3	62.8	37.2
Other companies	147.1	21.7	18.4	16.8	15.4	72.3	74.8	27.3	49.2	50.8
Unclassified companies	5.2	--	--	--	--	--	--	--	--	--

Notes: Firms with zero employees include observations with missing employment data, nonemployers, and companies that reported annual payroll but did not report any employees on their payroll during specified period(s) in 2007. The known value of exports is defined as the portion of U.S. total exports that could be matched to specific companies.

Source: U.S. Census Bureau, Foreign Trade Division, “Profile of U.S. Exporting Companies.”

Table 1.10 **U.S. Exports for All Identified Companies, 1997–2007**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Number of identified exporters (thousands)											
All identified companies	**213.7**	**215.3**	**231.4**	**246.5**	**241.8**	**223.9**	**227.3**	**232.8**	**240.4**	**245.9**	**266.5**
Manufacturers	63.8	64.0	65.8	69.2	69.7	63.3	65.0	67.1	67.7	67.8	71.6
Wholesalers	66.0	65.4	68.1	72.3	73.2	71.1	73.8	77.3	80.2	82.3	87.7
Other companies	67.2	74.1	84.6	90.3	87.8	81.2	80.3	80.5	85.3	88.7	100.1
Unclassified companies	16.7	11.8	12.9	14.5	11.1	8.5	8.1	7.9	7.2	7.2	7.1
All identified small companies	**206.3**	**207.9**	**223.7**	**238.5**	**234.1**	**216.6**	**220.4**	**226.2**	**233.9**	**239.3**	**259.4**
Manufacturers	60.2	60.5	62.3	65.7	66.3	60.2	62.1	64.2	64.9	65.0	68.7
Wholesalers	65.5	64.7	67.4	71.6	72.5	70.4	73.1	76.7	79.5	81.5	86.9
Other companies	64.3	71.1	81.2	86.9	84.4	77.8	77.1	77.4	82.3	85.6	96.7
Known value of exports (billions of dollars)											
All identified companies	**566.8**	**559.6**	**584.7**	**668.3**	**626.1**	**605.0**	**634.7**	**713.2**	**789.9**	**910.5**	**1,031.0**
Manufacturers	385.2	379.4	407.2	471.7	447.5	397.6	430.1	482.9	509.0	578.5	674.6
Wholesalers	70.9	82.7	82.2	96.6	93.7	123.8	119.2	133.7	171.5	203.1	204.1
Other companies	80.3	86.7	85.0	85.4	75.9	76.7	76.9	90.3	106.2	122.9	147.1
Unclassified companies	30.4	10.9	10,356	14.6	9.0	6.9	8.5	6.2	3.2	6.0	5.2
All identified small companies	**174.4**	**164.6**	**168.5**	**192.9**	**180.1**	**160.5**	**173.5**	**204.0**	**230.9**	**263.0**	**311.7**
Manufacturers	52.6	54.3	57.5	66.8	65.8	52.9	62.9	72.7	79.4	90.6	106.1
Wholesalers	54.1	52.3	50.8	61.9	61.4	59.1	63.4	79.1	93.3	108.8	128.3
Other companies	43.7	49.6	51.5	54.1	45.9	43.7	41.5	48.4	55.1	58.5	72.3

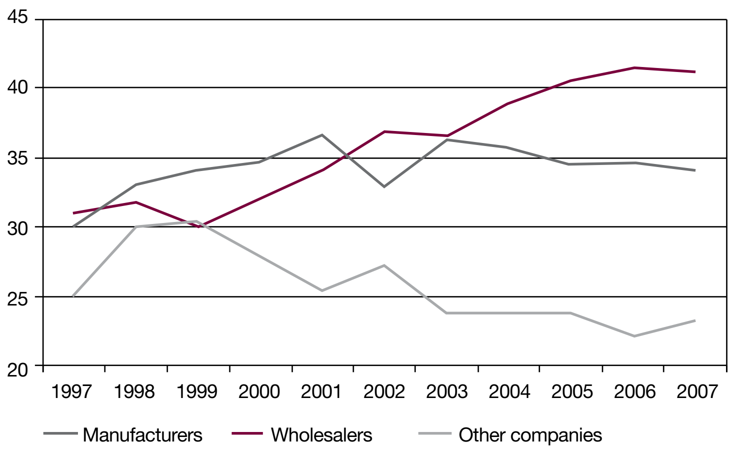
Note: The known value of exports is defined as the portion of U.S. total exports that could be matched to specific companies.
Source: U.S. Census Bureau, Foreign Trade Division, "Profile of U.S. Exporting Companies."

wholesalers now constitutes 41.2 percent of the total, up from 31.0 percent in 1997. The manufacturing share also edged up slightly over the period, from 30.2 to 34.0 percent.

Both manufacturers and wholesalers benefited from a growing global economy, a competitive exchange rate, and a renewed focus on export-driven growth.[40] Including services, real exports grew from $1.1 trillion in 2001 to $1.5 trillion in 2009 (*Table 1.3*).

Even with rapid growth in exports, particularly from 2004 to 2008, the United States maintained a trade deficit. Real imports of goods and services increased from $1.6 trillion to $1.8 trillion over the 2001–2009 period. Both imports and exports fell dramatically in 2009, with declines in real imports outstripping declines in real exports. The growth in exports in the mid- to latter part of the 2000s helped boost real GDP and provided a

Figure 1.9 Known Export Value from Identified Small Companies by Industry, 1997–2007 (percentages)



Source: U.S. Census Bureau, Foreign Trade Division, "Profile of U.S. Exporting Companies"

40 In research conducted for the Office of Advocacy, Feinberg (2008, 2009) observed that exchange rate pressures can lead to increased firm exits for small exporting manufacturers and wholesalers. That said, the U.S. dollar depreciated on average against most foreign currencies over the 2000s decade.

source of opportunity for small businesses exploring new business avenues for their firms.

The largest trading partners for small and medium-sized enterprises (SMEs) included Canada, Mexico, China, Japan, and the United Kingdom (*Table 1.11*). Trade with the top 20 countries amounted to $234.1 billion, or three-quarters of all SME exports in 2007. Small and medium-sized businesses contributed significantly to the overall trade in many of these countries, averaging more than 31 percent of all exports in the top 20. For example, of all exports to Hong Kong, fully 46.6 percent of the value stemmed from SMEs. Small firm overseas sales came from a number of different sectors (*Table 1.12*). The top five industries in 2007 were computer and electronic products ($74.5 billion); machinery, except electrical ($54.8 billion); chemicals ($52.7 billion); transportation equipment ($50.6 billion); and miscellaneous manufactured commodities ($34.1 billion). Clearly, small businesses are active exporters with a number of trading nations and in a diverse group of sectors.

Analyzing service exports from SMEs is more difficult without the more comprehensive and detailed information by firm size available for the merchandising sectors. Nonetheless, smaller firms play a large role in exporting services, according to data provided by foreign affiliates.[41] Based on data from all companies (large and small), the United States is the world's largest services exporter. U.S. services exports accounted for one-seventh of all services exported globally in 2008.[42] In 2009, services exports accounted for almost one-third of all U.S. exports, or $509.2 billion of the total. Moreover, the U.S. trade surplus in services amounted to

41 USITC (2010) discusses employment and revenue information for services within the wholesale trade; finance and insurance; and professional, scientific, and technical services sectors. It uses data supplied by foreign affiliates of U.S. services SMEs gathered by ORBIS, a proprietary database.

42 Data are taken from the World Trade Organization. For detailed statistics on service exports by country, see http://stat.wto.org/Home/WSDBHome.aspx (accessed 11/10/10). The United States has a 13.8 percent market share of services, the largest in the world. The second largest exporter was the United Kingdom, with a share of 7.5 percent, followed by Germany with 6.4 percent.

Table 1.11 Top Twenty Countries for U.S. Exporting Small Businesses, 2007 (SME value of exports)

	Exporting firms	Small and medium-sized (SME) exporting firms	SME share of total firms (percent)	Value of SME exports (billions of dollars)	SME share of export total value (percent)
Canada	95,715	90,576	94.6	45.4	23.2
Mexico	45,765	42,354	92.5	35.3	28.9
China	28,608	25,949	90.7	21.2	34.3
Japan	27,052	24,429	90.3	18.4	31.0
United Kingdom	43,690	40,386	92.4	15.4	34.2
Federal Republic of Germany	32,711	29,901	91.4	12.1	26.0
South Korea	20,261	18,010	88.9	10.8	33.7
Netherlands	17,946	15,906	88.6	10.7	33.9
Hong Kong	23,223	21,018	90.5	8.7	46.6
Taiwan	17,200	15,178	88.2	6.5	25.7
Belgium	11,643	9,988	85.8	6.5	27.1
Brazil	15,184	13,178	86.8	6.3	27.3
France	19,454	17,319	89.0	5.5	21.6
Switzerland	11,175	9,698	86.8	5.1	37.6
India	15,636	13,684	87.5	4.8	29.9
Australia	27,329	24,766	90.6	4.8	28.6
Singapore	19,668	17,483	88.9	4.4	18.1
Italy	18,921	16,838	89.0	4.2	32.0
Venezuela	9,449	8,129	86.0	4.1	42.9
Israel	14,056	12,341	87.8	3.9	38.0

Source: U.S. Department of Commerce, International Trade Administration, Office of Trade and Industry Information, using data from the U.S. Census Bureau

Table 1.12 Top Twenty Industries for U.S. Exporting Small Businesses, 2007 (value of SME exports)

	Exporters				Export value (millions of dollars)			
Three-digit NAICS description	**SME**	**Large**	**Total**	**%SME**	**SME**	**Large**	**Total**	**%SME**
334 Computer and electronic products	63,446	4,107	67,553	93.9	74,491	163,669	238,160	31.3
333 Machinery, except electrical	74,895	3,943	78,838	95.0	54,768	97,518	152,286	36.0
325 Chemicals	30,073	2,429	32,502	92.5	52,671	129,164	181,835	29.0
336 Transportation equipment	45,689	2,630	48,319	94.6	50,559	172,944	223,503	22.6
339 Miscellaneous manufactured commodities	38,776	2,648	41,424	93.6	34,124	36,255	70,379	48.5
311 Food and kindred products	10,632	990	11,622	91.5	28,134	22,695	50,829	55.4
331 Primary metal manufacturing	15,391	1,867	17,258	89.2	21,640	33,761	55,401	39.1
332 Fabricated metal products, not elsewhere included	38,963	3,009	41,972	92.8	14,313	18,685	32,998	43.4
335 Electrical equipment, appliances, and component	33,185	2,830	36,015	92.1	12,819	27,103	39,922	32.1
326 Plastics and rubber products	23,958	2,573	26,531	90.3	8,550	12,979	21,529	39.7
322 Paper	11,344	1,792	13,136	86.4	7,707	14,297	22,004	35.0
321 Wood products	7,680	1,027	8,707	88.2	4,202	1,823	6,025	69.7

313 Textiles and fabrics	7,586	924	8,510	89.1	3,935	6,028	9,963	39.5
323 Printed matter and related products, not elsewhere included	10,749	1,895	12,644	85.0	3,659	6,073	9,732	37.6
327 Nonmetallic mineral products	13,192	1,716	14,908	88.5	3,276	6,081	9,357	35.0
315 Apparel and accessories	10,364	907	11,271	92.0	2,980	2,127	5,107	58.4
312 Beverages and tobacco products	1,947	214	2,161	90.1	1,979	3,012	4,991	39.7
316 Leather and allied products	6,543	857	7,400	88.4	1,855	2,248	4,103	45.2
337 Furniture and fixtures	10,485	1,507	11,992	87.4	1,824	1,983	3,807	47.9
314 Textile mill products	7,130	1,067	8,197	87.0	1,286	1,740	3,026	42.5

Notes: Includes manufacturing and nonmanufacturing data. Value of exports taken from Tables C.7 and C.9 in U.S. International Trade Commission (2010) publication.

Source: U.S. Department of Commerce, International Trade Administration, Office of Trade and Industry Information, and the U.S. International Trade Commission, using data from the U.S. Census Bureau

$138.4 billion, helping to improve the overall trade balance.[43] Commercial services, intellectual property, and tourism are the top export sectors for services.[44]

U.S. exports generate much-needed economic growth and net job creation. Tschetter (2010) finds that 10.3 million jobs were supported by exports of goods and services in 2008—7.5 million in goods and 2.8 million in services. This accounted for 6.9 percent of total U.S. employment in 2008. Most of these jobs were in the manufacturing, transport and warehousing, agriculture, and wholesale trade sectors. This analysis did not examine firm size. But small businesses account for a large percentage of the firms in these industries, suggesting that many of these jobs were in small businesses.

Small Business Procurement Opportunities

Another area ripe for greater participation by small firms is the federal procurement marketplace. In 1996, Congress established an annual goal that 23 percent of the dollar value of prime contracts awarded by the federal government should go to small firms.[45] In fiscal year 2009, small businesses received 21.89 percent of federal dollars, compared with 21.50 percent in FY 2008. Small businesses were awarded $96.8 billion in federal prime contracts in FY 2009, an increase of almost $4 billion from FY 2008 (*Table 1.13*).

The FY 2009 numbers represent the government's performance between October 1, 2008, and September 30, 2009—a period of transition that spanned two administrations. As noted, the economic stimulus package, also known as the American Recovery and Reinvestment Act of 2009 (ARRA), was signed into law on February 17, 2009. According to preliminary figures

43 The trade deficit for the goods sector was $517.0 billion in 2009. Thus, the overall trade deficit for 2009 was $378.6 billion.

44 See detailed data on international trade in goods and services from the Bureau of Labor Statistics at http://www.bea.gov/newsreleases/international/trade/trad_time_series.xls (accessed 11/10/10).

45 For more information see http://www.sba.gov/aboutsba/sbaprograms/goals/gg/index.html (accessed 11/10/10).

Table 1.13 **Total Federal Prime Contract Dollars, FY 2004–FY 2008**

Fiscal year	Thousands of dollars		Small business share (percent)
	Total	Small business	
2009	442,274,739	96,833,802	21.89
2008	434,014,401	93,305,406	21.50
2007	378,507,759	83,274,930	22.00
2006	340,212,001	77,670.193	22.82
2005	320,309,252	75,000,000	23.41
2004	299,886,098	69,228,771	23.09

Note: In 2004, the General Services Administration and the Office of Management and Budget/Office of Federal Procurement Policy (OMB/OFPP) introduced the fourth generation of the FPDS. The FPDS-NG data shown here, unless otherwise noted, reflect all contract actions available for small business competition (excluding some categories).

Source: General Services Administration, Federal Procurement Data System.

released by the SBA, as of July 2010, small businesses had been awarded more than 30 percent of the economic stimulus money.

Small disadvantaged businesses (SDBs), women-owned businesses, businesses in HUBZones, and service-disabled veteran-owned small businesses all increased their shares of federal contracting dollars by $1.5 billion to $4 billion from FY 2008 to FY 2009 (*Table 1.14*). In FY 2009, SDBs were awarded $33.5 billion—up from $29.3 billion in FY 2008. SDBs achieved a goal of 7.56 percent of the total dollar value. Women-owned small businesses were awarded $16.3 billion, up from $14.7 billion the previous year. Service-disabled veterans increased their prime contract awards from $6.5 billion to $8.8 billion between FY 2008 and FY 2009. Similarly, HUBZone company awards grew from $10.2 billion to $12.4 billion over the period. Dollars in 8(a) set-asides totaled $18.7 billion or 4.2 percent, up from $16.2 billion or 3.7 percent in FY 2008 (*Table 1.15*). By agency, the largest sources of contract dollars for small businesses were, as in the past, the Departments of Defense, Veterans Affairs, and Homeland Security (*Table 1A.1*).

Table 1.14 Prime Contract Awards by Recipient Category (billions of dollars)

	FY 2005		FY 2006		FY 2007		FY 2008		FY 2009	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total awards to all businesses	320.31	100.00	340.21	100.00	378.50	100.00	434.01	100.00	442.27	100.00
Small businesses	75.00	25.35	77.67	22.82	83.27	22.00	93.30	21.50	96.83	21.89
Small disadvantaged businesses (SDBs)	20.98	6.55	22.95	6.75	24.9	6.58	29.33	6.76	33.47	7.56
8(a) businesses*	11.79	3.68	12.47	3.86	13.46	3.56	16.17	3.73	18.66	4.22
HUBZone businesses	6.18	1.93	7.16	2.10	8.46	2.24	10.16	2.34	12.41	2.80
Women-owned small businesses	10.18	3.18	11.61	3.41	12.92	3.41	14.73	3.39	16.28	3.68
Service-disabled veteran-owned small businesses	1.94	0.6	1.95	0.87	3.81	1.01	6.45	1.49	8.75	1.97
Veteran-owned small businesses	NA	NA	NA	NA	NA	NA	NA	NA	16.44	3.71

*8(a) contracts are a subset of the small disadvantaged business category.
Source: General Services Administration, Federal Procurement Data System.

Table 1.15 **Contract Actions, FY 1984–FY 2007 with Annual 8(a) Set-Aside Breakout**

Fiscal year	Thousands of dollars		8(a) share (percent)
	Total	8(a) set-aside	
2009*	442,274,739	18,669,675	4.2
2008*	434,014,401	16,173,057	3.7
2007*	378,507.759	13,462,752	3.6
2006*	340,212,001	12,478,606	3.7
2005*	320,309,252	11,790,162	3.7
2004*	299,886,098	8,438,046	2.8
2003	292,319,145	10,043,219	3.4
2002	258,125,273	7,868,727	3.0
2001	248,985,613	6,339,607	2.5
2000	207,537,686	5,785,276	2.8
1999	188,865,248	6,125,439	3.2
1998	184,176,554	6,527,210	3.5
1997	179,227,203	6,510,442	3.6
1996	183,489,567	6,764,912	3.7
1995	185,119,992	6,911,080	3.7
1994	181,500,339	5,977,455	3.3
1993	184,426,948	5,483,544	3.0
1992	183,081,207	5,205,080	2.8
1991	193,550,425	4,147,148	2.1
1990	179,286,902	3,743,970	2.1
1989	172,612,189	3,449,860	2.0
1988	176,544,042	3,528,790	2.0
1987	181,750,326	3,341,841	1.8
1986	183,681,389	2,935,633	1.6
1985	188,186,629	2,669,174	1.4
1984	168,101,394	2,517,738	1.5

*For FY 2004–FY 2008, the FPDS-NG data shown here reflect all contract actions available for small business competition (excluding some categories), not just those over $25,000, which was the practice prior to FY 2004. The later figures are not strictly comparable with those shown for previous years.

Source: General Services Administration, Federal Procurement Data System.

In addition to direct prime contract dollars, small businesses were awarded 31.82 percent of the dollars in subcontracts in FY 2009, up from 28.65 percent in FY 2008.

Small Business Innovation Research

The Small Business Innovation Development Act requires the federal departments and agencies with the largest extramural research and development (R&D) budgets to award a portion of their R&D funds to small businesses.[46] Ten government agencies with extramural research and development obligations over $100 million initially participated in this program: the Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, and Transportation, and the Environmental Protection Agency, the National Aeronautics and Space Administration, and the National Science Foundation. A total of about $26.9 billion has been awarded to small businesses over the 27 years of the Small Business Innovation Research (SBIR) program (*Table 1.16*).[47] The SBIR program continues to be successful, not only for small businesses and participating federal agencies, but for the American public, which benefits from the new products and services developed.

Developments in Procurement Policy

A level playing field for small businesses involves not only being able to win contracts and a fair share of the federal procurement dollars. It also requires a balanced approach to the implementation of regulations that may have a negative impact on the ability of small businesses to compete. Several significant policy and regulatory developments in the federal acquisition community include e-verify regulations, the 3 percent tax withholding rule, environmental substantiality regulations, HUBZone and 8(a)

46 Public Law 97-219, Public Law 102-564.

47 FY 2009 figures for the Small Business Innovation Research program are preliminary.

Table 1.16 Small Business Innovation Research Program, FY 1983–FY 2009

Fiscal year	Phase I Number of proposals	Phase I Number of awards	Phase II Number of proposals	Phase II Number of awards	Total awards (millions of dollars)
Total	526,440	80,467	64,210	32,036	26,942.8
2009*	22,444	4,008	3,352	1,801	1,937.7
2008	22,081	3,832	3,227	1,851	1,785.7
2007	22,278	3,909	2,912	1,615	1,777.6
2006	24,305	3,836	3,267	2,026	2,113.9
2005	26,003	4,300	4,180	1,871	2,029.8
2004	30,766	4,638	3,604	2,013	1,867.4
2003	27,992	4,465	3,267	1,759	1,670.1
2002	22,340	4,243	2,914	1,577	1,434.8
2001	16,666	3,215	2,566	1,533	1,294.4
2000	17,641	3,172	2,533	1,335	1,190.2
1999	19,016	3,334	2,476	1,256	1,096.5
1998	18,775	3,022	2,480	1,320	1,100.0
1997	19,585	3,371	2,420	1,404	1,066.7

Table 1.16 **Small Business Innovation Research Program, FY 1983–FY 2009**

	Phase I		Phase II		
Fiscal year	Number of proposals	Number of awards	Number of proposals	Number of awards	Total awards (millions of dollars)
1996	18,378	2,841	2,678	1,191	916.3
1995	20,185	3,085	2,856	1,263	981.7
1994	25,588	3,102	2,244	928	717.6
1993	23,640	2,898	2,532	1,141	698.0
1992	19,579	2,559	2,311	916	508.4
1991	20,920	2,553	1,734	788	483.1
1990	20,957	2,346	2,019	837	460.7
1989	17,233	2,137	1,776	749	431.9
1988	17,039	2,013	1,899	711	389.1
1987	14,723	2,189	2,390	768	350.5
1986	12,449	1,945	1,112	564	297.9
1985	9,086	1,397	765	407	199.1
1984	7,955	999	559	338	108.4
1983	8,814	686	127	74	44.5

* FY 2009 figures are preliminary.

Note: Phase I evaluates the scientific and technical merit and feasibility of an idea. Phase II expands on the results and further pursues the development of Phase I. Phase III commercializes the results of Phase II and requires the use of private or non-SBIR federal funding. The Phase II proposals and awards in FY 1983 were pursuant to predecessor programs that qualified as SBIR funding.

Source: U.S. Small Business Administration, Office of Innovation, Research, and Technology (annual reports for FY 1983–FY 2009).

contracting parity, proposed women-owned business regulations, and "insourcing" inherently governmental functions.

E-Verify Regulations. FAR Case 2007-013 discussed a new requirement that federal contractors electronically verify the eligibility of their employees to work in the United States.[48] Pursuant to Executive Order 13465, which amended Executive Order 12989, the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council amended the Federal Acquisition Regulation (FAR) to require certain contractors and subcontractors to use the U.S. Citizenship and Immigration Services' (USCIS) "e-verify" system. The system is a means of verifying that their employees are eligible to work in the United States. Small businesses in contact with the SBA Office of Advocacy indicated that the new requirement would adversely affect their businesses. Advocacy submitted public comments to the FAR Council on the potential harm to small businesses, and the final regulation was modified to accommodate some of these concerns.[49] Implementation of the final regulation was delayed until September 8, 2009. The FAR regulation estimated that the number of small businesses that would have to comply with the regulation would be 177,196 annually. Moreover, the small business initial year compliance cost was estimated to be $12,653. Six-month savings as a result of the delay were estimated at $1.12 billion.

Three Percent Tax Withholding Rule. The Tax Increase Prevention and Reconciliation Act of 2005, Section 3402(t) of the U.S. Code, provides that "the Government of the United States, every State, every political subdivision thereof, and every instrumentality of the foregoing (including multi-State agencies) making any payment to any person providing any property or services (including any payment made in connection with a government

48 See FAR Case 2007-013; Docket 2008-0001 at http://edocket.access.gpo.gov/2008/pdf/E8-13358.pdf.

49 http://www.sba.gov/advo/laws/comments/far08_0807.html (accessed 11/10/10).

voucher or certificate program which functions as a payment for property or services) shall deduct and withhold from such payment a tax in an amount equal to 3 percent of such payment."[50] The ARRA delayed the implementation of this provision until 2011. The Office of Advocacy filed a comment letter with the Department of the Treasury expressing concern about the impact of the 3 percent withholding on small businesses.[51]

Environmental Substantiality Regulations. President Obama signed Executive Order (EO) 13514, titled Federal Leadership in Environmental, Energy, and Economic Performance, on October 5, 2009.[52] This executive order expands on the energy reduction and environmental performance requirements for federal agencies identified in Executive Order 13423. The goal of E.O. 13514 is "to establish an integrated strategy towards sustainability in the Federal Government and to make reduction of greenhouse gas emissions (GHG) a priority for Federal agencies." Federal agencies are required to meet a series of deadlines critical to achieving the greenhouse gas reduction goals. Of specific interest to small businesses is Section 13 of the executive order. Section 13 requires the General Services Administration, in coordination with the Department of Defense, the Environmental Protection Agency, and other agencies as appropriate, to make recommendations that will help federal agencies mitigate greenhouse gases while considering small businesses. Specifically, Section 13 states:

> These recommendations should consider the potential impacts on the procurement process and the Federal vendor and contractor community including small businesses and other socioeconomic procurement programs. Recommendations should also explore the feasibility of: (a) requiring vendors and contractors to

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50 U.S. Code, Section 3402 (t)(1). Sectioin 511 of the Tax Increase Prevention and Reconciliation Act of 2005, Public Law 109-222 (TIPRA), 120 Stat. 345, was enacted May 17, 2006.

51 See http://www.sba.gov/advo/laws/comments/irs08_0424.html (accessed 11/10/10).

52 See http://www.whitehouse.gov/assets/documents/2009fedleader_eo_rel.pdf (accessed 11/10/10).

register with a voluntary registry or organization for reporting greenhouse gas emissions; (b) requiring contractors, as part of a new or revised registration under the Central Contractor Registration or other tracking system, to develop and make available its greenhouse gas inventory and description of efforts to mitigate greenhouse gas emissions; (c) using Federal Government purchasing preferences or other incentives for products manufactured using processes that minimize greenhouse gas emissions; and (d) other options for encouraging sustainable practices and reducing greenhouse gas emissions.

HUBZone and 8(a) Contracting Parity. In the case of *Mission Critical Solutions v. United States*, the plaintiffs were concerned with the statutory interpretation of the SBA's Historically Underutilized Business Zone (HUBZone) program taking precedence over the 8(a) Business Development Program.[53] The court ruled that the HUBZone program has priority over the 8(a) program, and that contracting officers must first try to find HUBZone companies. The Justice Department and the Office of Management and Budget are trying to find a solution to the potential impact of this decision. Senator Mary Landrieu, as chair of the U.S. Senate Small Business and Entrepreneurship Committee, introduced a bill to address this issue.[54]

Proposed Women-owned Small Business Contracting Regulations. The SBA has proposed the Women-owned Small Business Federal Contract Program to help ensure a level playing field for women-owned small businesses (WOSBs) competing for federal contracting opportunities. This proposed rule identifies the eligible industries under the program as those indus-

53 See http://www.govexec.com/pdfs/030810rb1.pdf.

54 See http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:s3190is.txt.pdf. See Government Executive summary: http://www.govexec.com/dailyfed/0610/061110rb1.htm.

tries in which WOSBs are underrepresented or substantially underrepresented based on analysis of both women's share of the number of contracts and the dollars in contracts awarded.[55] The previous proposed rule identified only three eligible industries for government agencies to make restrictive competitions for women-owned small businesses. The current proposed rule has increased the number of industries to 83.

Insourcing and Inherently Governmental Functions. In March 2009, President Obama issued a government contracting memorandum that, among other things, requires the director of the Office of Management and Budget (OMB) to develop guidance addressing when governmental outsourcing of services is and is not appropriate.[56] According to the memorandum, the line between inherently governmental activities that should not be outsourced and commercial activities that may be available for private-sector performance has become blurred. This lack of clarity may have led to the performance of inherently governmental functions by contractors and, more generally, an overreliance on contractors by the government. It directs OMB to clarify when outsourcing is and is not appropriate, consistent with section 321 of the National Defense Authorization Act for FY 2009. The president expressed concern about the federal work force and whether federal agencies have become overreliant on contractors or have appropriately outsourced services. In response to the memo calling for contracting reforms, OMB's Office of Federal Procurement Policy set out three categories of positions that could be insourced:

- Inherently governmental positions that should never be contracted out.

55 See http://www.sba.gov/idc/groups/public/documents/sba_homepage/news_release_10-05.pdf.

56 See links at http://www.whitehouse.gov/omb/procurement_index_gov_contracting/ and GAO report at http://www.gao.gov/new.items/d1058r.pdf.

- Jobs "closely associated" with those inherently governmental positions, which can sometimes be filled by contractors.
- "Critical functions," which also can be performed by contractors to some extent.

Conclusion

Small businesses struggled in 2009, but the year ended better than it began. The recession officially ended in June, according to the National Bureau of Economic Research. A number of economic indicators rose in the second half of 2009. Consumers began to spend again, and both private investment and net exports showed positive gains. Overall inflation remained modest, and labor productivity increased substantially. Even the employment picture, affected by layoffs in almost every industry, saw signs of improvement by year's end, especially in some service sectors. The challenge many small business owners faced in accessing credit began to be mitigated as overall lending conditions improved with each passing month. SBA guaranteed lending, for example, experienced dramatic increases in dollar volume from March 2009 onward. Most important, many entrepreneurs saw their businesses improving in December 2009 and were cautiously optimistic about the next few months—a good sign.

For many years, the top concern of small business owners was the cost and availability of health insurance, and it remained a concern in 2009. Of the millions of Americans without health insurance, many work for small businesses. In fact, firm size is one of the largest determinants of whether or not a business offers health insurance. A major obstacle to providing such coverage has been the cost. A similar story can be found with other benefits, such as employment-based retirement plans. Policymakers debated comprehensive health reform, with small business concerns at the forefront of the conversation in 2009. President Obama signed the historic Patient Protection and Affordable Care Act on March 23, 2010.

The overall health of the small business sector has become a larger policy priority, especially in light of the many nonfarm payroll jobs lost in the recession. Entrepreneurs are sources of net employment, economic growth, and innovation. Policymakers are linking the growth of young, high-impact firms with renewed economic vitality and global competitiveness. For reasons like these, small businesses remain on the minds of many policymakers and economic development officials eager to replace lost jobs and productive capacity.

Entrepreneurs are often keenly aware of new opportunities. International trade has tremendous potential for many small business owners who might not have considered exporting in the past. Small firm exporting has grown steadily over the past decade, almost doubling since 2002. Such activity improves the overall U.S. trade deficit and is a source of new jobs. No breakout is available by firm size, but the U.S. Department of Commerce found that more than 10 million jobs were associated with the exporting of goods and services in 2008.

Opportunities for small and disadvantaged businesses, including those located in designated HUBZones and those owned by service-disabled veterans, women, and other potentially disadvantaged groups, are also available through the federal government's procurement programs. This is particularly true as the government carries out needed work under the American Recovery and Reinvestment Act.

The recession of 2007–2009 had dramatic effects on the economy and public policy. By early 2010, it appeared that the worst of the economic storm had passed. Many small businesses owners could again turn to creating jobs, bringing new innovations and products to market, and keeping the United States competitive on a global scale. Policymakers continue to monitor the current state of the small business economy, confident that a thriving entrepreneurial community is critical to a healthy and growing U.S. economy.

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Appendix 1A

Appendix Table 1A.1 Distribution of the Small Business Share of Dollars by Procuring Agency Source, FY 2006–FY2009

	Total small business (thousands)				Small business distribution (percent)				Rank			
Funding Department	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009***	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**
Abraham Lincoln Bicentennial Commission (0938)	0	14	6	5	0.00	0.00	0.00	0.00	77	85	81	83
Advisory Commission on Inter-governmental Relations (5500)	584	265	375	0	0.00	0.00	0.00	0.00	57	67	65	81
Advisory Council on Historic Preservation (9530)				8				0.00				101
Agency for International Development (1152)	858	882	9,858	18,844	0.00	0.00	0.01	0.02	53	60	36	34
Agency for International Development (7200)	51,126	22,325	97,734	85,304	0.07	0.03	0.10	0.09	24	33	22	22
Agriculture, Department of (1200)	2,032,089	2,509,215	2,770,584	2,796,570	2.62	3.01	2.97	2.87	5	5	5	5
Architectural and Transportation Barriers Compliance Board (9532)	116	216	0	126	0.00	0.00	0.00	0.00	70	71	69	69
Armed Forces Retirement Home (84AF)	8,246	18,666	10,233	11,993	0.01	0.02	0.01	0.01	40	35	35	37
Broadcasting Board of Governors (9568)	33,039	38,029	9,806	11,179	0.04	0.05	0.01	0.01	29	28	37	39

Chemical Safety and Hazard Investigation Board (9565)	1,057	1,741	672	1,128	0.00	0.00	0.00	0.00	50	54	63	60
Commerce, Department of (1300)	1,041,421	993,918	1,043,393	1,222,025	1.34	1.19	1.12	1.25	11	11	11	11
Commission on Agricultural Workers (0911)				0				0.00				100
Commission on Civil Rights (9517)	0	217		0	0.00	0.00	0.00	0.00	78	70	90	99
Committee for Purchase from People who are Blind or Severely Disabled (9518)	927	75	-21	0	0.00	0.00	0.00	0.00	51	78	91	98
Commodity Futures Trading Commission (9507)	2,976	3,121	4,994	10,788	0.00	0.00	0.01	0.01	46	47	46	40
Consumer Product Safety Commission (6100)	5,670	6,172	7,964	11,402	0.01	0.01	0.01	0.01	43	42	38	38
Corporation for National and Community Service (9577)	10,868	8,093	2,714	9,175	0.01	0.01	0.00	0.01	38	41	51	43
Court Security (1025)	144	0	1,048	8	0.00	0.00	0.00	0.00	68	88	58	80
Defense, Department of (9700)	51,316,934	55,047,209	62,471,471	64,654,370	66.07	66.10	66.95	66.30	1	1	1	1
Defense Nuclear Facilities Safety Board (9516)	2,356	2,983	2,583	2,509	0.00	0.00	0.00	0.00	47	49	52	53
Denali Commission (9572)	283	1,087	1,620	436	0.00	0.00	0.00	0.00	65	59	55	65
Education, Department of (9100)	174,020	225,239	224,887	247,530	0.22	0.27	0.24	0.25	19	20	20	19
Election Assistance	0	262	0	0	0.00	0.00	0.00	0.00	79	68	89	97

Appendix Table 1A.1 Distribution of the Small Business Share of Dollars by Procuring Agency Source, FY 2006–FY2009 (continued)

Funding Department[1]	Total small business (thousands)				Small business distribution (percent)				Rank			
	FY 2006	FY 2007	FY 2008	FY 2009*	FY 2006	FY 2007	FY 2008	FY 2009	FY 2006	FY 2007	FY 2008	FY 2009
Energy, Department of (8900)	1,206,386	1,420,660	1,412,567	1,956,987	1.55	1.71	1.51	2.01	10	10	10	8
Environmental Protection Agency (6800)	678,599	601,718	679,470	948,847	0.87	0.72	0.73	0.97	14	15	14	13
Equal Employment Opportunity Commission (4500)	11,353	12,265	0	10,782	0.01	0.01	0.00	0.01	37	38	44	41
Executive Office of the President (1100)	30,022	33,658	28,631	20,082	0.04	0.04	0.03	0.02	31	30	30	33
Farm Credit Administration (7800)	233	274	38	9	0.00	0.00	0.00	0.00	67	66	74	78
Federal Communications Commission (2700)	36,591	20,731	19,073	55,321	0.05	0.02	0.02	0.06	28	34	32	27
Federal Election Commission (9506)	1,444	4,243	5,296	6,088	0.00	0.01	0.01	0.01	49	44	43	45
Federal Emergency Management Agency (5800)	59,897	121,418	109,019	35,396	0.08	0.15	0.12	0.04	22	21	21	31
Federal Energy Regulatory Commission (8961)	4,637	2,092	7,275	12,377	0.01	0.00	0.01	0.01	44	51	40	36
Federal Financial Institutions Examination Council (9562)	427	500	56	-87	0.00	0.00	0.00	0.00	61	64	72	102

Federal Housing Finance Agency (9542)				3,808				0.00				50
Federal Housing Finance Board (9540)	815	93		0	0.00	0.00	0.00	0.00	54	76	88	96
Federal Labor Relations Authority (5400)	524	164	1,653	3,518	0.00	0.00	0.00	0.00	60	72	54	51
Federal Maritime Commission (6500)	577	700	964	563	0.00	0.00	0.00	0.00	59	61	60	64
Federal Mine Safety and Health Review Commission (9504)	27	28	30	19	0.00	0.00	0.00	0.00	73	84	76	73
Federal Public Defenders (1023)	0	54	99	72	0.00	0.00	0.00	0.00	80	81	71	71
Federal Reserve System, Board of Governors (9559)	0	0		0	0.00	0.00	0.00	0.00	81	89	87	95
Federal Trade Commission (2900)	15,447	16,279	21,487	30,316	0.02	0.02	0.02	0.03	33	37	31	32
General Services Administration (4700)	1,751,894	1,674,122	1,842,166	2,048,730	2.26	2.01	1.97	2.10	7	8	7	7
Government Accountability Office (0500)	0	73	7	0	0.00	0.00	0.00	0.00	82	79	80	94
Government Printing Office (0400)	866	24,966	368	339	0.00	0.03	0.00	0.00	52	32	66	67
Health and Human Services, Department of (7500)	2,780,278	2,959,570	0	3,203,434	3.58	3.55	0.00	3.28	4	4	4	4
Homeland Security, Department of (7000)	4,410,174	3,832,163	4,383,942	4,631,666	5.68	4.60	4.70	4.75	2	3	3	3

Appendix Table 1A.1 Distribution of the Small Business Share of Dollars by Procuring Agency Source, FY 2006–FY2009 (continued)

Funding Department[1]	Total small business (thousands)				Small business distribution (percent)				Rank			
	FY 2006	FY 2007	FY 2008	FY 2009*	FY 2006	FY 2007	FY 2008	FY 2009	FY 2006	FY 2007	FY 2008	FY 2009
House of Representatives, U.S. (0050)				0				0.00				93
Housing and Urban Development, Department of (8600)	744,377	560,456	622.765	435,228	0.96	0.67	0.67	0.45	13	16	15	18
Interior, Department of the (1400)	1,389,190	1,594,490	1,487,028	1,637,972	1.79	1.91	1.59	1.68	9	9	9	10
International Boundary and Water Commission: U.S.-Mexico (19BM)				2,093				0.00				54
International Trade Commission (3400)	0	447	54	363	0.00	0.00	0.00	0.00	83	65	73	66
J. F. Kennedy Center for the Performing Arts (3352)	588	3,382	7,461	12,435	0.00	0.00	0.01	0.01	56	46	39	35
Justice, Department of (1500)	1,570,552	1,759,706	1,726,184	1,856,458	2.02	2.11	1.85	1.90	8	7	8	9
Labor, Department of (1600)	575,049	604,682	597,484	666,634	0.74	0.73	0.64	0.68	16	14	16	15
Library of Congress (0300)	10	1,983	5,004	8,648	0.00	0.00	0.01	0.01	74	52	45	44
Merit Systems Protection Board (4100)	691	684	864	1,377	0.00	0.00	0.00	0.00	55	62	61	57
Millennium Challenge Corporation (9543)	13,767	11,888	10,815	10,390	0.02	0.01	0.01	0.01	34	39	34	42

Mississippi River Commission (9668)	0	55		0	0.00	0.00	0.00	0.00	84	80	86	92
Morris K. Udall Scholarship and Excellence in National Environmental Policy Foundation (9545)				12				0.00				77
National Aeronautics and Space Administration (8000)	1,938,444	1,967,411	2,345,152	2,196,054	2.50	2.36	2.51	2.25	6	6	6	6
National Archives and Records Administration (8800)	32,795	31,774	51,946	63,871	0.04	0.04	0.06	0.07	30	31	27	26
National Capital Planning Commission (9502)	389	1,505	1,021	312	0.00	0.00	0.00	0.00	62	56	59	68
National Commission on Libraries and Information Science (9527)	128	129	28	0	0.00	0.00	0.00	0.00	69	74	78	74
National Communications System (955P)				0				0.00				90
National Credit Union Administration (2500)				19				0.00				91
National Endowment for the Arts (5920)	1,554	144	476	845	0.00	0.00	0.00	0.00	48	73	64	62
National Endowment for the Humanities (5940)	0	1,864	1,177	1,378	0.00	0.00	0.00	0.00	85	53	56	56
National Foundation on the Arts and the Humanities (5900)	0	664	1,084	1,067	0.00	0.00	0.00	0.00	86	63	57	61
National Gallery of Art (3355)	76	2,340	3,127	2,039	0.00	0.00	0.00	0.00	71	50	49	55

Appendix Table 1A.1 Distribution of the Small Business Share of Dollars by Procuring Agency Source, FY 2006–FY2009 (continued)

Funding Department[1]	Total small business (thousands)				Small business distribution (percent)				Rank			
	FY 2006	FY 2007	FY 2008	FY 2009*	FY 2006	FY 2007	FY 2008	FY 2009	FY 2006	FY 2007	FY 2008	FY 2009
National Labor Relations Board (6300)	6,145	3,017	1,822	3,966	0.01	0.00	0.00	0.00	41	48	53	48
National Mediation Board (9524)	2	41	15	0	0.00	0.00	0.00	0.00	76	82	79	89
National Science Foundation (4900)	39,367	39,463	35,039	54,713	0.05	0.05	0.04	0.06	26	27	29	28
National Transportation Safety Board (9508)	3,433	4,131	4,381	3,831	0.00	0.00	0.00	0.00	45	45	47	49
Nuclear Regulatory Commission (3100)	49,868	68,580	63,506	76,117	0.06	0.08	0.07	0.08	25	23	25	23
Occupational Safety and Health Review Commission (9514)	12,658	16,518	6,821	2,573	0.02	0.02	0.01	0.00	35	36	41	52
Office of the Federal Inspector for Alaska Natural Gas Transportation System (5200)	0	4		13	0.00	0.00	0.00	0.00	87	87	85	76
Office of Government Ethics (9549)	29	83	30	18	0.00	0.00	0.00	0.00	72	77	77	75
Office of Personnel Management (2400)	157,048	352,452	315,476	229,080	0.20	0.42	0.34	0.23	20	18	19	20
Office of Special Counsel (6201)	290	117	212	8	0.00	0.00	0.00	0.00	64	75	68	79

Peace Corps (1145)	29,120	61,057	87,786	64,469	0.04	0.07	0.09	0.07	32	25	24	25
Pension Benefit Guaranty Corporation (1665)				53,813				0.06				29
Railroad Retirement Board (6000)	5,761	5,415	4,221	5,259	0.01	0.01	0.00	0.01	42	43	48	46
Recovery Accountability and Transparency Board (9561)				0				0.00				88
Securities and Exchange Commission (5000)	37,109	41,433	37,137	38,938	0.05	0.05	0.04	0.04	27	26	28	30
Selective Service System (9000)	368	1,724	708	1,259	0.00	0.00	0.00	0.00	63	55	62	58
Small Business Administration (7300)	55,803	64,552	52,963	71,023	0.07	0.08	0.06	0.07	23	24	26	24
Smithsonian Institution (3300)	112,602	103,896	88,595	103,781	0.14	0.12	0.09	0.11	21	22	23	21
Social Security Administration (2800)	258,709	250,413	335,378	442,282	0.33	0.30	0.36	0.45	18	19	18	17
Special Rail Reorganization Court (1037)	0	10		0	0.00	0.00	0.00	0.00	88	86	84	87
State Justice Institute (4817)	0	1,192		0	0.00	0.00	0.00	0.00	89	57	83	86
State, Department of (1900)	901,350	902,596	836,867	1,007,111	1.16	1.08	0.90	1.03	12	12	12	12
The Judicial Branch (1000)	577	1,108	357	1,189	0.00	0.00	0.00	0.00	58	58	67	59
The Legislative Branch (0000)	12,143	33,756	14,156	0	0.02	0.04	0.02	0.00	36	29	33	85
Transportation, Department of (6900)	607,719	755,742	767,160	748,766	0.78	0.91	0.82	0.77	15	13	13	14

Appendix Table 1A.1 Distribution of the Small Business Share of Dollars by Procuring Agency Source, FY 2006–FY2009 (continued)

	Total small business (thousands)				Small business distribution (percent)				Rank			
Funding Department[1]	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009***	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**
Treasury, Department of the (2000)	566,812	553,970	596,636	578,477	0.73	0.67	0.64	0.59	17	17	17	16
U.S. Claims Court (1005)	0	231	2,932	762	0.00	0.00	0.00	0.00	90	69	50	63
U.S. Court of Appeals for the Federal Circuit (1003)				90				0.00				70
U.S. Court of International Trade (1004)	5	-1		0	0.00	0.00	0.00	0.00	75	91	82	84
U.S. Court of Veteran Appeals (9593)	281	35	35	29	0.00	0.00	0.00	0.00	66	83	75	72
U.S. Tax Court (2300)	0	0	116	5	0.00	0.00	0.00	0.00	91	90	70	82
United States Trade and Development Agency (1153)	9,529	9,608	5,885	4,688	0.01	0.01	0.01	0.00	39	40	42	47
Veterans Affairs, Department of (3600)	2,862,900	3,854,688	4.965,503	5,083,341	3.69	4.63	5.32	5.21	3	2	2	2
Total, all agencies	77,670,194	83,274,930	93,305,906	97,524,461	100.0	100.0	100.0	100.0				

*Data not yet validated by the U.S. Small Business Administration.
Note: Data were obtained from SBA's website.

2 Small Business Financing *in* 2009

Synopsis

Financing for small businesses remained difficult in 2009, as lenders tightened credit terms on all types of loans, causing the number and value of outstanding loans to decline, and as lender concentration increased. Even as credit terms tightened, interest rates offered to small business borrowers on fixed-term loans remained relatively stable. These challenging times for federal and state commercial banks and thrifts resulted in a further decline in the number of depository lenders.

The number and value of small loans (less than $1 million) outstanding from depository institutions fell by 15 percent (from 27.2 to 23.2 million) and 2.2 percent (from $711.3 to $695.4 billion), respectively. The value of all outstanding business loans held by finance companies declined 18 percent from the historic high of $605.2 billion in 2008 to $496.5 billion in 2009. The Small Business Administration's 7(a) loan guarantees and 504 loans followed the pattern, as their combined value was down 4.3 percent from 2008 to 2009. As credit supply in the loan markets remained restricted, small firms needing credit turned to credit cards. Credit card debt nevertheless remained a small percentage of total debt. Finally, venture and angel capital markets remained weak for smaller businesses as the market continued to recover.

Depository institutions offered small business borrowers lower interest rates on fixed and variable-rate loans than in 2008. However, the difference between the prime rate, which remained at 3.25 percent throughout 2009, and interest rates offered on these loans was the highest since the recession of 2002–2003. The interest rate on fixed-rate loans was relatively stable from 2008 to

2009, declining by less than 5 percent. Interest rates on variable-rate loans were more volatile, declining by more than 13 percent.

Lenders emerged from a difficult year hindered by increased write-offs, bank failures and high delinquency rates. More than half of federal deposit insured institutions nonetheless reported year-to-year improvements in net income for the first time in three years. The small business loan market continued to become more concentrated, with 179 depository institutions absorbed by mergers and acquisitions. The total number of bank holding companies and financial institutions declined by 134.

The largest 101 depository institutions with assets over $10 billion continued to dominate the small firm lending market; they held nearly one-half of the total value of small business loans. In commercial and industrial (C&I) loans they held nearly 69 percent of the value of micro loans of less than $100,000 and nearly 45 percent of the value of small loans between $100,000 and $1 million. Smaller community banks with less than $500 million in assets continued to lose market share as their share of small business C&I loans declined by nearly 7.5 percent.

The supply of credit to both the business and household sectors remained constrained in 2009. Amid a very challenging year for small business owners, there was reason for optimism as GDP growth returned, commercial bank profitability improved, and nominal interest rates remained low.

Economic and Credit Conditions in 2009

The economic challenges of the last two quarters of 2008 extended into the first half of 2009. By the second half of the year, economic activity improved, in part because of extraordinary and unprecedented actions taken by the federal government through the Federal Reserve and the Treasury.[1]

Nevertheless, credit markets continued to be constrained by both demand and supply factors. Even though bank assets were supplemented with public funds, the ability of banks to rebuild their capital base and resume lending was severely hindered by increases in write-offs, bank failures, and high delinquency rates, and weak demand for commercial loans. The U.S. banking sector remained in financial stress, with write-offs totaling more than $1.8 trillion in 2009.[2] Delinquency rates on commercial loans rose to 7.25 percent in 2009 as more companies downsized and retailers closed.[3] The demand for commercial and industrial loans was especially weak at large lending institutions as the need for external financing declined and large corporations paid down bank loans.

By the second half of 2009, financial market conditions had become more supportive of monetary stimulus policies and economic growth. The prospects for financial institutions improved, and the results of the Supervisory Capital Assessment Program (SCAP) "stress test" began to restore investors' confidence in the market and the economy.[4] Equity prices moved up, and economic performance strengthened, resulting in real gross domestic product (GDP) of 2.2 percent in the third quarter and 5.6 percent

1 Actions were taken by the Federal Reserve Board, the Treasury and other government agencies to support financial stability and promote economic growth. Some policy initiatives introduced included the Asset-backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), the Commercial Paper Funding Facility (CPFF), the Troubled Asset Relief Program (TARP), the Temporary Liquidity Guarantee Program (TGLP), the Term Auction Facility (TAF), and the American Recovery and Reinvestment Act (ARRA). The ARRA package included provisions to support loan guarantee programs managed at the U.S. Small Business Administration and to reduce fees associated with a number of small business programs; other provisions were to support and promote economic development and entrepreneurship in disadvantaged areas, along with tax incentives for small firms. See Chapter 1 for details.

2 Ou (2009).

3 Ibid.

4 The SCAP or bank stress test was conducted by the federal banking supervisory agencies to assess the lending capacity of the largest bank holding companies (BHCs), and to test the effectiveness of the TARP and the SCAP. The purpose was to shed light on the capital needs of these very large lending institutions using a common set of macroeconomic indicators under different adverse scenarios. The results boosted investors' confidence and these banks were required to raise more capital.

in the fourth.[5] Nonetheless, the effect of the stimulus programs on small businesses is unknown. Businesses were restrained in their capital spending, and the housing market had yet to rebound from its sharp downturn, although it showed signs of stabilizing. Consumer spending was buoyed by low interest rates, increases in equity prices, and the "cash for clunkers" program. Government borrowing and recovering foreign markets helped sustain the economy. The initial public offering (IPO) and venture capital markets continued to be depressed.

The Federal Open Market Committee (FOMC) continued to maintain a policy of easy credit. However, many small businesses that rely mostly on banks for their financial needs had difficulty accessing credit, as banks continued to tighten their lending policies.[6] Nonfinancial firms with access to capital markets took advantage of the improvement in financial conditions to issue corporate bonds, while large corporations paid down their debt. By the third and fourth quarters of 2009, credit conditions had ameliorated for small business financing. The real GDP growth of 5.6 percent in fourth quarter 2009 was a distinct improvement from the negative 5.4 percent in the comparable 2008 period. Profits of U.S. commercial banks, although down, were also considerably improved over 2008. For example, net income for the industry in the fourth quarter of 2009 was $914 million, compared with the $37.8 billion net loss of a year earlier.[7]

Even though the profitability of U.S. banks had improved, small business lending declined from 2008 as the capacity of banks and nonbank financial institutions was curtailed by extensive losses, and as small business owners reduced their demand for

5 Quarterly estimates are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter to quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and are annualized. "Real" estimates are in chained 2005 dollars. Price indexes are chain-type measures.

6 Senior Loan Officer Survey, various issues, 2009. It is important to note that for the most part, this chapter covers all businesses, since most of the available data do not distinguish between small and large firms.

7 See *FDIC Quarterly*, Quarterly banking profile, Fourth Quarter 2009.

external financing. Small business lenders offered somewhat lower interest rates on fixed-term loans under $1 million. However, the difference between the prime rate and interest rates offered on these loans was the highest since the recession in 2002, exceeding 250 basis points in November 2009 (see *Appendix Table 2A.1*). Interest rates on shorter term loans (less than one year) declined during the first quarter of 2009, but increased throughout the year. The number of small business loans (loans under $1 million) declined. The dollar amount of these loans was somewhat lower, but relatively stable in real terms; nearly $700 billion was loaned to small businesses (see *Table 2.5*).

Interest Rate Movements

It is difficult to clearly understand the movements of interest rates (prices) in a recovering market when substantial information asymmetry exists. In this environment, lenders are concerned about the ability of their borrowers to survive the downturn, borrowers are concerned about the ability of their lenders to provide adequate financial capital, and investors are uncertain of the default risk they are assuming by investing in a business or in securitized small business loans. In a marketplace with information asymmetry, one of the risks is credit rationing, where only high-quality borrowers are likely to have access to credit.[8]

In an effort to stimulate economic recovery and to rebuild confidence in the capital and credit markets, the FOMC continued to maintain a policy of easy credit. The targeted federal funds rate remained within a range of 0 to 0.25 percent throughout the year. Credit conditions became supportive for most small business financing in the second quarter. The short-term rates moved downward in March 2007 and have remained low since (*Figure 2.1*). Treasury securities were uneven in the first quarter of 2009 and ranged between 0.13 and 0.30 percent. They remained flat in the summer before dropping to almost zero by the end of the year.

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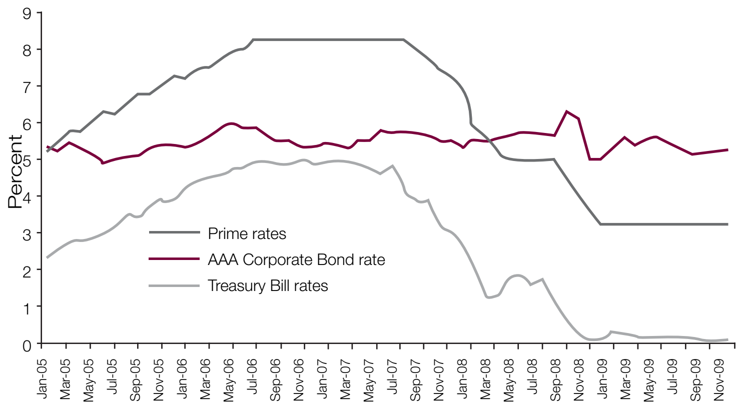
8 Stiglitz and Weiss (1981).

Figure 2.1 **Movements in Interest Rates, 2005–2009 (percent)**



Source: U.S. Census Bureau, Foreign Trade Division, "Profile of U.S. Exporting Companies"

By year's end, Treasury securities were almost 500 basis points below the 5.02 percent level of February 2007.

Movements in long-term interest rates are determined by the demand for and supply of funds available in financial markets. Trends in corporate bond rates were mixed, moving more in line with overall economic activity. For example, corporate bond rates with AAA ratings increased in the first quarter, then became uneven. By the fourth quarter they increased steadily, but ended below the peak reached in June, which was 5.61 percent (*Figure 2.1*).

Interest rates paid by small firms moved with a time lag, and with the overall movements of interest rates in the financial markets. The prime rate—the base rate for most small business loans—serves either as the index for rate adjustments in existing loans or as the "base" for a premium add-on on fixed-rate loans. The prime held steady at 3.25 percent throughout the year.

Meanwhile, rates for loans with minimal risk, such as loans to large corporations, tended to move with those in the capital and financial markets. Rates paid by small business owners remained high, but were still somewhat lower in the four quarters of 2009 than in the last quarter of 2008.

Rates for fixed-term loans (one year or longer in maturity) were mixed: those for larger small business loans of $500,000 to under $1 million declined continuously (*Table 2.1*).[9] Variable rates with terms of 2 to 30 days for small loans of $10,000 to $99,000 and medium-sized loans of $100,000 to $500,000 moved up throughout the year, but ended below the November 2008 levels (*Table 2.1*). Rates for small fixed-rate loans were high, averaging 6.56 percent in 2009.

Table 2.1. Loan Rates Charged by Banks by Loan Size, February 2008–November 2009 (percent)

	Loan size (thousands of dollars)	Fixed-rate term loans	Variable-rate loans (2-30 days term)	Variable-rate loans (31-365 days term)
November 2009	less than 9	8.14	3.72	6.14
	10–99	6.53	4.37	5.88
	100–499	5.96	4.04	4.45
	500–999	4.68	3.64	4.29
	Minimum-risk loans	6.22	1.31	3.68
August 2009	less than 9	7.60	5.39	6.94
	10-99	6.49	3.85	5.48
	100-499	5.23	3.61	4.61
	500-999	4.78	2.94	3.30
	Minimum-risk loans	4.21	1.17	2.01
May 2009	less than 9	8.07	3.96	6.20
	10–99	6.53	3.58	5.46
	100–499	5.45	3.31	4.23
	500–999	4.94	2.57	3.20
	Minimum-risk loans	3.98	0.72	3.02
February 2009	less than 9	8.35	3.54	6.24
	10-99	6.69	3.23	5.59
	100–499	5.30	3.19	4.26
	500–999	5.09	2.31	3.85
	Minimum-risk loans	1.87	1.35	3.60
November 2008	less than 9	8.39	5.42	6.81
	10–99	6.76	4.65	6.38
	100–499	6.00	4.63	5.79
	500–999	5.34	4.28	5.00
	Minimum-risk loans	2.43	3.21	3.88

9 For previous year data, see Table 2A.1 in the appendix to this chapter.

Table 2.1. Loan Rates Charged by Banks by Loan Size, February 2008–November 2009 (percent) (continued)

	Loan size (thousands of dollars)	Fixed-rate term loans	Variable-rate loans (2-30 days term)	Variable-rate loans (31-365 days term)
August 2008	1.0–99	6.87	4.88	6.69
	100–499	6.27	4.60	5.36
	500–999	5.67	4.55	4.76
	Minimum-risk loans	6.31	2.88	3.75
May 2008	less than 9	7.60	5.08	7.33
	10–99	6.98	4.91	6.85
	100–499	6.04	4.82	5.59
	500–999	5.62	4.53	5.03
	Minimum-risk loans	4.72	3.35	3.59
February 2008	less than 9	8.34	6.56	8.14
	10–99	7.64	5.59	7.35
	100–499	6.65	5.66	6.56
	500–999	5.86	4.88	5.51
	Minimum-risk loans	4.69	4.05	3.99

*New rates for the smallest loans under $10,000 provided by the Federal Reserve Board.
Note: Banks report loans to the Federal Reserve Board, providing information on risk categories that take into account both the characteristics of the borrower and the protections provided in the loan contract. Loans designated "minimum risk" in banks' responses to the FRB survey have virtually no chance of resulting in a loss based on various characteristics.
Source: Board of Governors of the Federal Reserve System, Survey of Terms of Lending, Statistical Release E.2, various issues, and special tabulations prepared by the Federal Reserve Board for the U.S. Small Business Administration, Office of Advocacy.

The Nonfinancial Sector's Use of Funds in the Capital Markets

Overall, domestic borrowing in the credit markets slowed considerably from the elevated levels reached in 2007. Consumer and investor skepticism, along with a devalued housing market, continued to affect the demand for and supply of credit (*Table 2.2*). Declines in net borrowing by businesses and households were offset by federal and state government borrowing. Net borrowing in the financial markets by nonfinancial sectors in the U.S. economy totaled $1.1 trillion in 2009. Increases in expenditures continued to outpace receipts, which further widened the budgetary gap. Net borrowing by all nonfinancial sectors excluding federal and state governments declined, from

$624 billion in 2008 to negative $437 billion in 2009. Government net borrowing increased from $1.3 trillion in 2008 to $1.6 trillion in 2009, a 20 percent increase. The U.S. Treasury accounted for almost all of the borrowing.

Federal, State, and Local Government Borrowing

The federal government has become an important agent in the effort to restore U.S. economic and fiscal health, as well as the dominant borrower in the financial markets. The costs associated with providing fiscal stimulus through the American Recovery and Reinvestment Act (ARRA), coupled with declines in tax revenues and a contracting labor market, contributed to large increases in the budget deficit.[10] The budget deficit was $1.4 trillion in 2009, compared with $459 billion in 2008.[11] By the fourth quarter of 2009, average year-to-year net borrowing by the federal government had declined by $1.2 trillion, from $2.2 trillion in fourth quarter 2008 to $956 billion in fourth quarter 2009 (*Table 2.2*).

State and local government expenditures increased faster than the revenues generated, resulting in budgetary deficits. Borrowing by state and local governments doubled, from $54 billion in 2008 to $109 billion in 2009, a $55 billion increase, but accounted for only 8 percent of total net borrowing (*Table 2.2*). The rise in investment by state and local governments is supported by provisions in the ARRA.

Borrowing by the Household Sector

An assessment of the household sector is critically important in evaluating the financial well-being of small businesses because the finances of the household and a small business owned by the household are often intertwined. Household assets, especially the family

10 See Chapter 1 for more information on the ARRA.

11 See Federal Reserve Bank of St. Louis (2010), p.16.

Table 2.2 Credit Market Borrowing by Nonfinancial Sector, 1999–2009 (billions of dollars)*

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2009 Q1	2009 Q2	2009 Q3	2009 Q4
Total domestic borrowing	**1,040.7**	**864.5**	**1,149.2**	**1,418.7**	**1,683.3**	**1,986.5**	**2,329.8**	**2,404.7**	**2,541.2**	**1,862.8**	**1,115.8**	**1,415.5**	**1,515.6**	**987.2**	**545.2**
Government															
Federal	-71.2	-295.9	-5.6	257.6	396.0	361.9	306.9	183.4	237.1	1,239.2	1,443.9	1,439.6	1,895.3	1,484.9	955.8
State and local	37.3	16.9	105.5	144.6	120.5	114.1	172.0	153.7	191.0	54.3	108.6	105.8	92.4	127.7	108.7
Total	-33.9	-279.0	99.9	402.2	516.5	476.0	478.9	337.1	428.1	1,293.5	1,552.5	1,545.4	1,987.7	1,612.6	1,064.5
Households															
Home mortgages*	378.0	383.3	507.1	704.5	874.8	922.5	1,033.4	977.6	659.0	-62.2	-164.6	-16.4	-179.0	-376.8	-86.1
Nonmortgages	115.5	198.1	164.9	120.5	126.0	123.7	134.4	195.8	199.1	82.4	-72.4	-162.2	-55.7	10.7	-82.3
Total	493.5	581.4	672.0	825.0	1,000.8	1,046.2	1,167.8	1,173.4	858.1	20.2	-237.0	-178.6	-234.7	-366.1	-168.4
Business															
Farm	3.3	2.0	6.4	7.1	-12.6	15.8	17.3	14.2	14.6	0.5	5.4	13.6	0.3	-3.5	11.3
Nonfarm Noncorporate	195.9	197.4	161.7	150.8	91.5	245.2	331.6	408.6	454.8	200.2	-305.8	-195.2	-301.5	-372.6	-354.0
Nonfinancial Corporate	381.9	362.7	209.2	33.6	87.1	203.3	334.4	471.4	785.6	348.4	100.7	230.3	63.8	116.8	-8.2
Total	581.1	562.1	377.3	191.5	166.0	464.3	683.3	894.2	1,255.0	549.1	-199.7	48.7	-237.4	-259.3	-350.9
Foreign borrowing in the United States	19.0	63.0	-11.2	93.4	43.0	155.3	113.0	332.6	170.3	-129.5	198.7	181.2	192.4	275.6	145.7

*Includes loans made under home equity lines of credit and home equity loans secured by junior liens. Home mortgage information was obtained from Z1 Households and Nonprofit Organizations, Flow of Funds Accounts.

Source: Board of Governors of the Federal Reserve System, Flow of Funds Accounts, Fourth Quarter 2009: Z1, Flows and Outstandings (March 2010).

home, are often pledged as collateral in acquiring a business loan, and household loans are occasionally used to fund business ventures.

Although home prices stabilized and mortgage rates declined in 2009, net borrowing (the amount borrowed less the amount repaid) by the household sector dropped further, reaching record negative levels. For the year, total household borrowing was down from $20.2 billion in 2008 to a new low of negative $237 billion in 2009. Mortgage rates declined, but the availability of credit to households continued to be restricted, as credit supply conditions remained tight because of lenders' concerns about household creditworthiness. The Senior Loan Officer Opinion Survey indicated that banks tightened their credit terms on all types of mortgage loans throughout 2009, and bank respondents reported weakening loan demand from households. Home prices stabilized, and household wealth improved based on increases in equity prices, but home values remained below levels reached during the housing boom. Many borrowers had mortgage debt in excess of their homes' value.[12] As a result, the ratio of household wealth to disposable income increased in the second half of the year to its historical average in 2009, according to the Federal Reserve Board.[13] Despite the increase in household wealth and lower rates, households were still unwilling to borrow.[14] Home mortgage debt continued to decline and dropped downward in the third quarter to negative $377 billion. By the end of the year it had reached an annual negative total of $165 billion, compared

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12 The value of homes was below the remaining amount of the principal on the mortgage for most households in 2009. The stabilization in home prices was fostered partly by the Federal Reserve's purchases of agency debt and mortgage-backed securities (MBS), along with a tax credit for first-time homebuyers. Banks recorded the highest delinquency rate for residential mortgages. Their holdings of residential foreclosures increased in 2009, but remained low relative to delinquency rates; the charge-off rate in this category was very high. A mortgage is defined as seriously delinquent if the borrower is 90 days or more behind on payments or the property is in foreclosure. See Lee & Rose (2010), Charts 16, 17, and 18.

13 See Board of Governors of the Federal Reserve System (2010b), Charts 9 through 11.

14 See Board of Governors of the Federal Reserve System, Flow of funds accounts: Z1, Flows and outstandings, F.8 Savings and investment, March 2010, and Board of Governors of the Federal Reserve System (2010b), Chart 9.

with negative $62 billion in 2008, in itself a considerable drop from positive $659 billion in 2007.[15]

Business Borrowing

Outstanding debt held by nonfinancial businesses totaled over $11.1 trillion at the end of 2008. About 40 percent of this outstanding debt was in commercial paper, municipal securities, and corporate bonds. The remainder (60 percent) was in traditional loans from commercial banks and other lenders. Net borrowing by businesses decreased in 2009 by nearly $200 billion to $10.9 trillion. The most significant decrease was a decline of more than $300 billion in net borrowing by nonfarm noncorporate businesses.

Overall, changes in business expenditures paralleled changes in household spending. Economic conditions improved, but the demand for external funds in this sector remained weak. Net business borrowing declined as capital investments flattened and the use of internal sources of funds increased in 2009 (*Table 2.3*). Net business borrowing was $49 billion in the first quarter, before dropping into negative levels for the rest of the year (*Table 2.2*). By the end of 2009, total net business borrowing was negative $200 billion, compared with $549 billion in 2008 and $1.3 trillion in 2007.

Nonetheless, improved confidence in the U.S and foreign economies was apparent in before-tax profits, which increased steadily, averaging $745.8 billion in the first three quarters and reaching $989.7 billion in fourth quarter 2009 (Table 2.3). At $806.8 billion, the level of annual before-tax profits remained almost unchanged from the previous year's level. The same cannot be said about corporate borrowing, which averaged $147 billion in the first half of the year, then

15 Delinquency rates for prime loans amounted to 16 percent for variable-rate loans and over 5 percent for fixed-rate loans, according to the Federal Reserve Board. See Lee & Rose (2010), Chart 17.

Table 2.3 Major Sources and Uses of Funds by Nonfinancial Corporate Businesses, 1999–2009 (billions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2009			
												Q1	Q2	Q3	Q4
Before-tax profit	467.7	431.8	314.3	342.9	424.8	659.9	954.1	1,115.1	1,056.4	805.0	806.8	675.1	753.9	808.5	989.7
Domestic undistributed profit	74.1	12.5	-40.1	-6.9	1.1	112.0	515.1	342.4	295.6	161	202.5	106.8	176.8	251.4	274.9
Depreciation with inventory valuation adjustment	673.1	632.4	641.4	727.0	725.1	816.9	1,093.1	943.0	928.2	957.4	984.4	967.7	976.1	1,015	978.4
Total internal funds, on book basis	677.1	649.2	633.4	729.6	736.4	851.2	1,123.8	981.0	972.2	995.6	984.3	887	958	1,032	1,060.2
Net increase in liability	987.6	1,237.4	95.2	84.9	13.4	609.0	961.2	836.5	1,277.3	460.1	255.7	236.4	204.4	325.2	256.7
Funds raised in credit markets	381.9	362.7	209.2	33.6	87.1	203.3	334.4	471.4	785.6	348.4	100.7	230.3	63.8	116.8	-8.2
Net new equity issues	-110.4	-118.2	-48.1	-16.2	-39.6	-122.7	-341.8	-565.7	-786.8	-336.0	-65.1	-133.1	126.5	65.5	-319.3
Capital expenditures	877.3	967.9	845.3	782.5	798.2	878.4	986.8	1,142.0	1,182.8	1189.8	881.0	930.0	822.7	10.6	960.7
Net financial investment	-27.3	-38.8	75.0	49.6	69.4	166.6	-18.6	-139.2	-208.0	-192.9	184.8	3.2	144.6	393.6	197.7

Source: Board of Governors of the Federal Reserve System, Flow of Funds Accounts, Fourth Quarter 2004: Flows and Outstandings (March 2010).

dropped to $117 billion in the third quarter and negative $8 billion in the fourth. The annual rate remained positive at $100.7 billion (*Tables 2.2 and 2.3*). Corporations took advantage of low interest rates by borrowing to issue corporate bonds as they moved away from short-term debt.

Nonfarm, noncorporate business borrowing contracted throughout the year from $200.2 billion in 2008 to a record negative annual rate of $305.8 billion in 2009. It accounted for most of the decrease in the nonfinancial sector's borrowing. Net income from this sector remained positive, declining at much slower rates—from $1.14 trillion in 2008 to $1.12 trillion in 2009 (*Table 2.4*).

Lending by Financial Institutions to Small Businesses

The momentum of economic improvement in the second half of 2009 did not extend to lending institutions, as reflected in business loan markets for small business borrowers. Both the demand for and the supply of loans to small firms were constrained throughout the year. Total commercial and industrial (C&I) loans outstanding from financial institutions declined by about 7.0 percent. Financing was especially difficult for small firms without access to equity capital markets, as lenders tightened lending terms on all types of loans to firms of all sizes.[16] Even so, the year was positive for lending institution earnings, with more than half of federal deposit insured institutions reporting year-over-year improvements in net income for the first time in three years. Net income for the full year, although dampened by high levels of loss provision, was $12 billion, up from $4.5 billion in 2008, but still far

16 Federal Reserve Board, Senior Loan Officer Opinion Survey on Bank Lending Practices, 2009, various issues. See Lee & Rose (2010).

Table 2.4 Major Sources and Uses of Funds by Nonfarm, Noncorporate Businesses, 1999–2009 (billions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2009 Q1	2009 Q2	2009 Q3	2009 Q4
Net income	782.5	852.1	908.7	934.6	952.8	1,043.0	1,086.3	1,166.8	1,130.7	1,144.0	1,122.3	1,111.6	1,106.8	1,126.3	1,144.5
Gross investment	107.8	114.3	123.7	125.9	131.9	153.8	189.6	163.4	171.7	186.0	183.9	183.6	185.5	183.6	182.7
Fixed capital expenditures	158.0	166.1	159.3	167.0	172.7	189.4	205.9	219.1	230.1	226.0	175.4	182.2	173.3	171.5	174.5
Changes in inventories	3.2	2.8	-1.9	0.7	0.8	2.8	2.5	3.2	1.0	-1.4	-5.9	-6.3	-8.8	-7.8	-0.6
Net financial investment	-53.4	-54.6	-33.7	-41.9	-41.6	-38.3	-18.8	-58.9	-59.5	-38.6	14.4	7.7	21.0	19.9	8.7
Net increase in credit market debt	195.9	197.4	161.7	150.8	91.5	245.2	331.6	408.6	454.8	200.2	-305.8	-195.2	-301.5	-372.6	-354.0
Mortgages	135.1	137.5	121.2	121.0	75.5	211.3	170.9	281.3	304.3	63.6	-105.6	-41.4	-78.7	-126.0	-176.2
Net investment by proprietors	-76.2	-40.4	-26.1	-77.2	32.8	62.8	-80.1	-8.2	-46.7	1.7	50.0	40.2	36.2	58.1	65.7

Source: Board of Governors of the Federal Reserve System, Flow of Funds Accounts, Fourth Quarter 2009: Z1, Flows and Outstandings (March 2010).

below the $100 billion reported in 2007.[17] The profit was attributable primarily to large lending institutions.

Developments in Small and Micro Business Lending

Small business lending by lending institutions was down in all loan categories, especially micro business loans (loans of less than $100,000) based on the June 2009 Call Reports (*Table 2.5*).[18] All small business loans (those under $1 million) decreased in both dollar and number except for a slight increase in the number of loans in the $100,000 to $1 million category. Large lending institutions with assets of $10 billion or more continued to dominate the micro loan markets for both commercial and industrial loans and mortgages. Total business and

Table 2.5 Dollar Amount and Number of Small Business Loans, June 2005–June 2009, by Loan Size (dollars in billions, numbers in millions)

Loan Size		2005	2006	2007	2008	2009	Percent change. June 2008-June 2009
Under $100,000	Dollars	138.4	146.0	159.7	170.5	161.8	-5.1
	Number	19.0	19.0	21.6	25.0	21.0	-16.0
$100,000 to <$1 million	Dollars	462.3	487.9	524.9	540.7	533.6	-1.3
	Number	2.0	2.2	2.9	2.2	2.2	0.0
Under $1 million	Dollars	600.8	634.0	684.6	711.3	695.4	-2.2
	Number	21.0	21.3	24.5	27.2	23.2	-14.7
Total business loans	Dollars	1,680.8	1,848.4	2,023.9	2,270.4	2,252.7	-0.8

Source: U.S. Small Business Administration, Office of Advocacy, *Small Business Lending in the United States*, various years, and special tabulations of the June 2009 Call Reports (Consolidated Reports of Condition and Income for U.S. Banks and Thrift Institutions), prepared for the Office of Advocacy by James Kolari, Texas A&M University, College Station, Texas.

17 The profit is attributed primarily to large banks, since profits at small and medium-sized banks declined. See Federal Deposit Insurance Corporation, Quarterly Banking Profile, Table II-A, or visit the agency's website http://www2.fdic.gov/qbp/qbpSelect.asp?menuItem=QBP.

18 The Call Reports (Consolidated Reports of Condition and Income) consist of reports by commercial banks, federal and state banks, and savings and loan institutions.

commercial and industrial (C&I) loans outstanding declined. The pace of small business borrowing and lending in the marketplace was weak, as the demand for and supply of loans to small firms contracted. Small business loans under $1 million totaled $695.4 billion in June 2009, a decrease of 2.2 percent, compared with $711.3 billion in June 2008. The number of loans made in this category dropped by 14.7 percent, from 27.2 million in 2008 to 23.2 million in 2009 (*Tables 2.5 and 2.7*).

The volume of the smallest loans under $100,000 declined—by 5.1 percent in the dollar amount, and 16.0 percent in the number, from 25 million loans valued at $170.5 billion in June 2008 to 21 million valued at $161.8 billion in June 2009. The large decrease in the number of these loans reflects the low risk tolerance by banks and other institutional lenders—a reason cited by the Senior Loan Officer Opinion Survey for their tightened lending standards.[19] This decrease in the number of micro loans also reflects the decline in large lenders' promotion of small business credit cards. Large corporations also reduced their use of external funds as the need to finance equipment investments decreased and their reliance on internal funds increased. Total borrowing in loans of all sizes declined 0.8 percent, in comparison with a 12.2 percent increase the previous year (*Table 2.6*). Large business borrowing in loans over $1 million also declined.

The relative importance of lending institutions of different sizes in the small business loan markets continues to change with the ongoing consolidation of depository institutions through mergers and acquisitions.[20] The total number of lending institutions (financial services holding companies and independent institutions), declined by a net of 134, from 7,380 in June 2008 to 7,246 in June 2009 (*Table 2.8*). Lenders with assets under $500

19 Federal Reserve Board, Senior Loan Officer Opinion Survey on Bank Lending Practices, various issues, 2009.

20 It is important to note that there were 140 bank failures, the largest number since 1992, and problem institutions numbered 702 in 2009, according to the FDIC Quarterly Banking Profile, Fourth Quarter 2009.

Table 2.6 Change in the Dollar Amount of Business Loans by Loan Size, June 2004–June 2009 (percent)

Loan Size	June 2004–June 2005	June 2005–June 2006	June 2006-June 2007	June 2007-June 2008	June 2008-June 2009
Under $100,000	1.9	5.5	9.4	6.8	-5.1
$100,000 to <$1 million	4.8	5.5	7.6	3.2	-1.3
Under $1 million	4.1	5.5	8.0	4.0	-2.2
Over $1 million	15.4	12.4	10.3	16.4	-0.1
Total business loans	11.1	10.0	9.5	12.2	-0.8

Source: U.S. Small Business Administration, Office of Advocacy, *Small Business Lending in the United States*, various years, and special tabulations of the June 2009 Call Reports (Consolidated Reports of Condition and Income for U.S. Banks and Thrift Institutions), prepared for the Office of Advocacy by James Kolari, Texas A&M University, College Station, Texas.

Table 2.7 Change in the Number of Small Business Loans by Loan Size, June 2004–June 2009 (percent)

Loan Size	June 2004–June 2005	June 2005–June 2006	June 2006–June 2007	June 2007–June 2008	June 2008–June 2009
Under $100,000	24.8	0	13.7	15.7	-16.0
$100,000 to <$1 million	5.0	12.8	31.8	-23.3	0.0
Under $1 million	22.6	1.2	15.0	11.1	-14.7

Source: U.S. Small Business Administration, Office of Advocacy, *Small Business Lending in the United States*, various years, and special tabulations of the June 2009 Call Reports (Consolidated Reports of Condition and Income for U.S. Banks and Thrift Institutions), prepared for the Office of Advocacy by James Kolari, Texas A&M University, College Station, Texas.

million continued to account for most of the declines. In 2009, 179 lending institutions were absorbed by mergers, according to the FDIC's Quarterly Banking Profile.

Lenders with total domestic assets in excess of $10 billion numbered 101, and accounted for 65 percent of total business loans and 76.4 percent of total domestic assets in June 2009 (*Table 2.8*). While their share of total business lending decreased slightly, their share of assets remained relatively unchanged. These large lenders made a record number of small business loans (loans under $1 million) in 2009, but the value of the loans increased very little. Consequently, the average size of small business loans made in 2009 by very large lending institutions was somewhat smaller. These lenders continue to be very active in the micro business loan

Table 2.8. Share of Total Assets and Business Loans by Size of All U.S. Depository Institutions, June 2007–June 2009 (percent, except figures for number of institutions)*

		Asset size of institutions						
		Over $50 billion	$10 billion to $50 billion	Over $10 billion	$1 billion to $10 billion	$500 million to $1 billion	Under $500 million	All institutions and BHCs
June 30, 2007								
Number of institutions		32	74	106	498	617	6,244	7,465
Micro business loans (under $100,000)	Amount	41.51	16.67	58.18	14.00	6.02	21.80	100
	Number	49.00	17.40	66.39	19.85	7.62	6.40	100
Small business loans ($100,000-$1 million)	Amount	32.48	12.17	44.65	22.27	9.98	23.10	100
	Number	23.57	8.75	32.32	21.71	7.24	38.70	100
Total small business loans (under $1 million)	Amount	34.59	13.22	47.81	20.33	9.05	22.80	100
	Number	46.00	16.38	62.38	20.07	7.57	10.00	100
Total business loans	Amount	51.31	13.90	65.21	17.57	5.90	11.30	100
Total domestic assets	Amount	61.31	14.27	75.58	12.29	3.99	8.14	100
June 30, 2008								
Number of institutions		34	66	100	529	657	6,094	7,380
Micro business loans (under $100,000)	Amount	48.63	12.24	60.86	13.48	5.76	19.90	100
	Number	56.17	13.00	69.18	19.40	6.23	5.20	100
Small business loans ($100,000-$1 million)	Amount	34.20	9.71	43.91	23.06	10.49	22.54	100
	Number	32.88	9.10	41.98	22.36	10.09	25.56	100
Total small business loans (under $1 million)	Amount	37.66	10.32	47.97	20.76	9.35	21.91	100
	Number	54.28	12.69	66.97	19.64	6.54	6.85	100

Table 2.8. Share of Total Assets and Business Loans by Size of All U.S. Depository Institutions, June 2007–June 2009 (percent, except figures for number of institutions)* (continued)

		Asset size of institutions						
		Over $50 billion	$10 billion to $50 billion	Over $10 billion	$1 billion to $10 billion	$500 million to $1 billion	Under $500 million	All institutions and BHCs
Total business loans	Amount	54.89	11.12	66.01	17.49	5.99	10.52	100
Total domestic assets	Amount	64.42	12.03	76.46	12.02	3.92	7.60	100
June 30, 2009								
Number of institutions		32	69	101	556	661	5,928	7,246
Micro business loans (under $100,000)	Amount	46.87	16.79	63.66	11.44	5.86	19.05	100
	Number	57.70	24.30	82.00	4.48	7.51	6.01	100
Small business loans ($100,000-$1 million)	Amount	33.67	10.22	43.88	22.75	10.41	22.96	100
	Number	31.95	9.90	41.85	21.81	12.69	23.65	100
Total small business loans (under $1 million)	Amount	36.74	11.75	48.48	20.12	9.35	22.05	100
	Number	55.24	22.92	78.17	6.14	8.00	7.69	100
Total business loans	Amount	53.00	12.05	65.05	18.03	6.09	10.83	100
Total domestic assets	Amount	65.06	11.37	76.43	12.13	3.89	7.54	100

*All members of a holding company are consolidated to the extent the linked IDs permit. Credit unions excluded.

Source: U.S. Small Business Administration, Office of Advocacy, *Small Business Lending in the United States*, various years, and special tabulations of the June 2008 Call Reports (Consolidated Reports of Condition and Income for U.S. Banks and Thrift Institutions), prepared for the Office of Advocacy by James Kolari, Texas A&M University, College Station, Texas.

market, where they accounted for 63.7 percent of the value and 82.0 percent of the number—many of them under $10,000. The total value of micro business loans made by large institutions was $103.0 billion. They made $337.1 billion in small business loans of $1 million or less, based on the June 2009 Call Reports.

The demand for commercial and industrial (C&I) loans from firms of all sizes weakened.[21] The dominance of large lenders in the C&I micro loan market is even more pronounced than in the market for micro business lending. These very large institutions accounted for more than two-thirds of all C&I micro loans in 2009 and for roughly two-thirds in 2008 (*Table 2.9*). They accounted for almost 45 percent of C&I loans in the $100,000 to $1 million size category. Megabanks were not immune to the economic challenges. The decline in C&I loans was steep in 2009, consistent with reports that some large firms with access to capital markets paid down bank loans (*Table 2.10*).[22] After September 2008, business loans outstanding (C&I lending) from all banks in the United States showed the largest declines from their respective peak levels since the 1970s. The decline in the demand for C&I loans reflected reduced small business expansion, as poor sales became of more concern to small firms.[23]

Large lenders were not as active in the micro business mortgage market, where they accounted for 26 percent of loans in 2009, slightly less than in 2008. In the larger small business mortgage loan category ($100,000-$1 million) they made roughly 40 percent of loans in 2009 compared with more than 46 percent a year earlier (*Table 2.9*). The spreads of C&I loan rates over lending institutions'

21 The reasons provided for reduced demand in the Senior Loan Officer Opinion Survey included decreases in the need to finance investment in plant and equipment, inventories, accounts receivable, and merger and acquisition activity; lower loan demand from creditworthy borrowers; and deterioration in the credit quality of potential borrowers. The spreads of C&I loan rates over banks' cost of funds spiked upward in 2009, according to the Survey of Terms of Business Lending, while the rate spreads between the LIBOR and the rate on comparable-maturity overnight index swaps narrowed at all maturities.

22 Some of these loans were paid with bond proceeds. See Lee & Rose (2010), Figure 5.

23 A survey by the National Federation of Independent Business showed that small firms cited poor sales as their most important problem; only a small number of respondents reported credit availability.

Table 2.9 Profile of Small Business Lending by Institution Size and Loan Type, June 2008 and June 2009 (percent)

	Asset size of institutions					
	Over $10 billion	$1 billion to $10 billion	$500 million to $1 billion	$100 million to $500 million	Less than $100 million	Total
2009						
Commercial and industrial loans						
Under $100,000	68.6	10.7	5.4	11.4	3.9	100.0
$100,000 to $1 million	44.6	22.1	10.0	19.8	3.7	100.0
Mortgages						
Under $100,000	26.0	17.2	9.5	33.5	13.8	100.0
$100,000 to $1 million	39.5	22.3	11.8	22.7	3.7	100.0
2008						
Commercial and industrial loans						
Under $100,000	65.5	12.9	5.2	12.0	4.4	100.0
$100,000 to $1 million	43.0	22.9	10.1	20.0	4.0	100.0
Mortgages						
Under $100,000	27.0	15.1	8.6	34.4	14.8	100.0
$100,000 to $1 million	46.3	25.8	13.3	10.3	4.3	100.0

Source: U.S. Small Business Administration, Office of Advocacy, *Small Business Lending in the United States*, various years, and special tabulations of the June 2008 Call Reports (Consolidated Reports of Condition and Income for U.S. Banks and Thrift Institutions), prepared for the Office of Advocacy by James Kolari, Texas A&M University, College Station, Texas.

Table 2.10 Change in the Profile of Small Business Lending by Institution Size and Loan Type, June 2008–June 2009 (percent)

	Asset size of institutions				
	Over $10 billion	**$1 billion to $10 billion**	**$500 million to $1 billion**	**Under $500 million**	**Total**
Commercial and industrial loans					
Under $100,000	-0.34	-21.50	-1.16	-11.02	-4.87
$100,000 to $1 million	0.45	-6.73	-4.00	-5.74	-3.13
Under $1M	0.03	-11.03	-3.22	-7.49	-3.86
Total	-7.45	-4.37	-3.09	-6.19	-6.80
Mortgages					
Under $100,000	-9.89	6.03	3.34	-10.13	-6.46
$100,000 to $1 million	-1.22	0.48	2.32	-0.69	-0.30
Under $1 million	-1.68	0.78	2.38	-1.95	-0.77
Total	7.38	7.90	6.85	2.64	6.63

Source: U.S. Small Business Administration, Office of Advocacy, *Small Business Lending in the United States*, various years, and special tabulations of the June 2008 Call Reports (Consolidated Reports of Condition and Income for U.S. Banks and Thrift Institutions), prepared for the Office of Advocacy by James Kolari, Texas A&M University, College Station, Texas.

cost of funds spiked upward in 2009, according to the Survey of Terms of Business Lending. The rate spreads between the LIBOR and the rate on comparable-maturity overnight index swaps narrowed at all maturities.[24]

Loan Guarantee Program

Lending through the U.S. Small Business Administration's guarantee programs for 7(a) and 504 loans usually increases during a slowdown in economic activity. In this period, SBA lending

24 An overnight index swap is a fixed/floating interest rate swap with the floating leg tied to a published index of overnight rate reference.

remained depressed in the first half of the year compared with 2008, before picking up momentum in the second half (*Table 2.11*). During the year, both the number and value of loans increased, but they were still below the total levels reached in 2008 (*Table 2.11*). The number of loans made in the first three quarters gradually increased before contracting in the fourth quarter for both 7(a) and 504 loans. The value increased for 7(a) loans but contracted in the fourth quarter for 504 loans. In the first half of the year, the quarterly average number of guaranteed loans declined from 20,033 in 2008 to 11,264 in 2009, a drop of 43.8 percent. The average value of these loans declined more than one-third, from $4.5 billion to $2.8 billion. By the fourth quarter, guaranteed loans had increased from 10,454 loans valued at $2.8 billion in 2008 to 16,637 worth $5.0 billion in 2009.

Developments in Small Business Financial Markets

Small Business Credit Cards

The overall credit card market was affected by high delinquency rates, by commercial banks' subsequent decisions to cut card holders or reduce credit limits, and by changes in credit card legislation. Credit card delinquency rates at commercial banks increased from about 5.7 percent at the end of 2008 to 6.5 percent in the fourth quarter of 2009, and charge-offs for the same period rose from 6.4 percent to 9.5 percent.[25] In addition, commercial banks cut credit for 58 million card holders in one year, and about 25 million card holders saw their limits cut between April and October 2008. Cuts in credit line limits jumped 32 percent in the six months after the crisis began (October 2008 to April 2009), as banks looked for ways to cut risk.[26] At the end of 2009, commercial banks also expressed

25 Ou (2009).

26 Ibid.

Table 2.11 Total Value and Number of 7(a) and 504 Loans Made by the U.S. Small Business Administration, 2008–2009

	Amount (billions of dollars)	Number
2009		
1st Quarter	2,201	9,238
2nd Quarter	3,425	13,289
3rd Quarter	4,710	17,856
4th Quarter	5,030	16,637
Total	15,366	57,020
2008		
1st Quarter	4,281	21,274
2nd Quarter	4,725	18,791
3rd Quarter	4,271	15,000
4th Quarter	2,788	10,454
Total	16,064	65,519

Source: U.S. Small Business Administration, Office of Financial Assistance, 2010.

intentions to tighten the terms and conditions for credit cards as a result of new legislation.[27]

Large lenders typically dominate the small business credit card market, but by 2009 they had pulled back significantly, as reflected in declines in both the number and dollar amounts of the smallest loans under $100,000 (*Table 2.5*).[28] As credit supply in the loan markets remained restricted, small firms needing funding turned to credit cards.

Credit card usage by small firms increased, and small businesses were relatively more successful in obtaining credit cards than other forms of credit in 2009.[29] Roughly 20 percent of small businesses applied for a new credit card, and almost 75 percent of applicants were successful. The success rates for small firms

27 Ibid.

28 There were 281 lending institutions with credit card operations in 2009, compared with 317 in 2008 (of those that filed Call Reports).

29 Board of Governors of the Federal Reserve System (2010c).

applying for lines of credit or loans was about half that of those applying for credit cards.

More than 50 percent of small firms used credit cards to meet some of their capital needs in 2009, according to the National Small Business Association.[30] The Surveys of Small Business Finances (SSBF) for 1998 and 2003, and the 2009 Credit Access Poll show that the estimated share of small firms using business credit cards increased steadily, from 37 percent in 1998, to 52 percent in 2003, to 64 percent in 2009.[31] But credit card debt represents a small percentage of total debt held by small business owners to finance their business operations.[32]

Lending by Finance Companies

Lending by finance companies continued to contract and reached negative percentages not seen since the 2001 recession (*Table 2.12*). Total loans or business receivables outstanding declined by 18.0 percent. The total value of loans dropped from a historic high of $605.5 billion in 2008 to $496.5 billion by the end of 2009.[33] Detailed analysis of the effect of the financial crisis on finance company lending to small firms is not possible because of the lack of information on business receivables by loan size. Based on the Survey of Small Business Finances, the value of loans to small businesses constitutes about one-half of total finance company loans.[34]

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30 National Small Business Association (2009).

31 The SSBF was conducted by the Federal Reserve Board in 2003, and the Credit Access Poll was conducted by NFIB in 2009. The 2009 poll pointed out that 83 percent of small firms used credit cards for either transaction or borrowing purposes, up from 70 percent in 1998. In both surveys small businesses are firms with 1 to 50 employees.

32 The 2003 SSBF shows 24 percent of small businesses borrowed using credit cards, yet credit card debt accounted for only 1.4 percent of all debt held by small businesses. Note that the debt portfolio patterns may have changed between 2003, when the SSBF was last conducted, and 2009.

33 Federal Reserve Board, Statistical Release G.20, Finance Companies. See www.federalreserve.gov/releases/g20/.

34 Survey of Small Business Finances, 2003.

Table 2.12 Business Loans Outstanding from Finance Companies, December 31, 1980–December 31, 2009

	Total receivables outstanding		
	(billions of dollars)	Change (percent)	Annual change in chain-type* price index for GDP (percent)
December 31, 2009*	496.5	-18.0	1.2
December 31, 2008*	605.2	1.1	2.1
December 31, 2007*	598.8	2.9	2.9
December 31, 2006*	581.7	3.7	3.3
December 31, 2005*	561.0	2.7	3.3
December 31, 2004	546.2	3.2	2.9
December 31, 2003	457.4	0.5	2.1
December 31, 2002	455.3	1.9	1.7
December 31, 2001	447.0	-2.5	2.4
December 31, 2000	458.4	16.3	2.2
December 31, 1999	405.2	16.6	1.4
December 31, 1998	347.5	9.1	1.1
December 31, 1997	318.5	2.9	1.7
December 31, 1996	309.5	2.6	1.9
December 31, 1995	301.6	9.7	2.0
December 31, 1994	274.9	NA	2.1
December 31, 1993	294.6	-2.3	2.3
December 31, 1992	301.3	1.9	2.3
December 31, 1991	295.8	0.9	3.5
December 31, 1990	293.6	14.6	3.9
December 31, 1989	256.0	9.1	3.8
December 31, 1988	234.6	13.9	3.4
December 31, 1987	206.0	19.7	2.7
December 31, 1986	172.1	9.3	2.2
December 31, 1985	157.5	14.3	3.0
December 31, 1984	137.8	21.9	3.8
December 31, 1983	113.4	12.9	3.9
December 31, 1982	100.4	0	6.1
December 31, 1981	100.3	11.1	9.4
December 31, 1980	90.3		

* Annual revision for statistics from 2005-2009, based on March 2010, release.

Source: Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, Tables 1.51 (now G.20), various issues; U.S. Department of Commerce, Bureau of Economic Analysis, *Business Conditions Digest*, various issues; and *Survey of Current Business*, various issues.

Small Business Investment

Equity Borrowing in the Public Issue Markets

Equity markets began to improve, but the rise in the stock market was not sufficient to stimulate the equity capital markets for small firms. The initial public offering (IPO) and venture capital markets for small firms remained weak.[35] Although equity markets improved, the instability of the stock market continued to weigh on the activities of the IPO market. The total value of initial public offerings more than doubled from $6.8 billion in 2008 to $17.3 billion in 2009. The number of new issues increased from 26 to 48, indicating an increase in the average offering size from $260.3 million in 2008 to $360.5 million in 2009 (*Table 2.13*).

Interest in smaller companies with assets of $25 million or less was severely restricted; these companies nearly disappeared from the IPO markets. An IPO for a single issuer totaled $68.2 million in 2009 (*Table 2.13*). Twelve venture-backed IPOs—twice as many as in 2008—raised $1.6 billion in 2009; their share was almost one-third of the total IPO market.[36] The average size of these IPOs was $153 million, close to the average level of 2007.[37]

Venture Capital

The venture capital market in 2009 reflected developments in the U.S. economy: investors were cautious in their investing activities. Funds raised by venture capitalists declined in 2009 to a total of $15.4 billion, a $13.1 billion or 46 percent drop from the 2008

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35 It is worth noting that external equity constitutes less than 1 percent of financial capital for small businesses.

36 Exits in 2009, including both venture-capital-backed initial public offerings (IPOs) and merger and acquisition (M&A) activities totaled 282, valued at $15.7 billion, 12 for IPOs and 270 for acquisitions totaling $14.1 billion. The total number of all IPOs in the report, 39, is smaller than the number provided by Thomson Financial to the Office of Advocacy. See Table 2.13 of this report. See Thomson Reuters (2010), 49-5.2

37 See Thomson Reuters (2010), 52, Figure 5.02.

Table 2.13 Common Stock Initial Public Offerings by All and Small Issuers, 1997–2009

	Common stock		
	Number	Amount (millions of dollars)	Average size (millions of dollars)
Offerings by all issuers			
2009*	48	17,302.7	360.5
2008*	26	6,768.6	260.3
2007*	164	36,224.9	220.9
2006*	173	34,543.3	199.7
2005*	178	32,555.0	182.9
2004*	212	41,434.5	195.4
2003	132	45,189.2	342.3
2002	86	25,716.3	299.0
2001	99	37,526.0	379.1
2000	387	60,871.0	157.3
1999	512	63,017.4	123.1
1998	366	38,075.3	104.0
1997	623	45,785.0	73.5
Offerings by issuers with assets of $25 million or less			
2009*	1	68.2	68.2
2008*	3	385.4	128.5
2007*	10	504.9	50.5
2006*	13	713.4	54.9
2005*	18	574.4	31.9
2004*	23	1,147.6	49.9
2003	8	532.3	66.5
2002	11	420.4	38.2
2001	14	477.2	34.1
2000	56	3,323.9	59.4
1999	207	10,531.0	50.9
1998	128	4,513.7	35.3
1997	241	5,746.1	23.8

Table 2.13 Common Stock Initial Public Offerings by All and Small Issuers, 1997–2009 (continued)

	Common stock		
	Number	Amount (millions of dollars)	Average size (millions of dollars)
Offerings by issuers with assets of $10 million or less			
2009	1	68.2	68.2
2008	3	385.4	128.5
2007	3	51.7	17.2
2006	5	307.0	61.4
2005	9	325.7	36.2
2004*	8	205.7	25.7
2003	4	34.8	8.7
2002	5	160.9	32.2
2001	5	54.9	11.0
2000	13	407.2	31.3
1999	87	3,556.9	40.9
1998	62	2,208.0	35.6
1997	132	2,538.6	19.2

*Annual revisions for statistics from 2004–2009 exclude public offerings from foreign offerers.

Note: Excludes closed end funds. Registered offerings data from the Securities and Exchange Commission are no longer available. Data provided by Securities Data Company are not as inclusive as those registered with the SEC.

Source: Special tabulations prepared for the U.S. Small Business Administration, Office of Advocacy, by Thomson Financial Securities, March 2009.

total (*Table 2.14*). Total venture capital disbursements to U.S. companies declined for the third consecutive year to $17.7 billion, down 36.6 percent from $27.9 billion in 2008. Approximately 2,300 companies received funding in 2009.[38] Of this number, 728 were funded for the first time, down 40 percent from 2008. Raising funds was difficult for most firms in 2009, with primarily the most promising, established firms able to raise capital. Total capital under management was at $179.4 billion at the end of 2009, less

38 The number of companies receiving funding in 2008 was 3,307. Also, companies receiving initial funding dropped to less than 1,000 for the first time four years. See Thomson Reuters (2010), Figure 3.15.

Table 2.14 **New Commitments, Disbursements, and Total Capital Pool of the Venture Capital Industry, 1982–2009 (billions of dollars)**

	Commitments	Disbursements	Initial-round	Follow-on	Capital under management
2009*	15.4	17.7	3.32	14.37	179.4
2008*	28.5	27.9	6.06	21.89	203.7
2007*	36.1	30.5	7.45	23.03	254.9
2006*	32.0	26.3	6.16	20.18	276.7
2005*	29.0	22.9	5.72	17.22	269.5
2004*	19.8	21.9	4.73	17.22	262.2
2003*	11.6	19.1	3.85	15.29	253.5
2002*	9.4	21.1	4.13	16.97	252.5
2001*	38.9	38.5	7.10	31.43	252.6
2000*	104.5	100.5	27.32	73.20	224.8
1999*	55.7	51.5	15.51	36.04	145.6
1998	29.9	21.1	7.17	13.91	91.4
1997	19.7	14.9	4.87	10.00	63.2
1996	11.8	11.3	4.33	6.95	49.3
1995	9.9	8.0	4.04	3.98	40.7
1994	8.9	4.2	1.71	2.42	36.1

Table 2.14 New Commitments, Disbursements, and Total Capital Pool of the Venture Capital Industry, 1982–2009 (billions of dollars (continued)

	Commitments	Disbursements	Initial-round	Follow-on	Capital under management
1993	4.1	3.9	1.41	2.28	32.2
1992	5.3	3.6	1.32	2.25	30.2
1991	2.0	2.2	0.57	1.68	29.3
1990	3.3	2.8	0.85	1.92	31.4
1989	4.9	3.3	0.95	2.34	30.4
1988	4.4	3.3	1.09	2.22	27.0
1987	4.4	4.5	1.00	2.27	24.6
1986	3.8	4.1	0.91	2.11	20.3
1985	4.0	3.4	0.73	2.04	17.2
1984	3.0	3.3	0.87	2.14	13.9
1983	4.2	3.1	0.90	1.97	10.6
1982	2.0	1.8	0.59	1.00	6.7

* Annual revision for statistics from 1999–2009.

Source: Venture Economics, *Venture Capital Journal* (various issues) and *National Venture Capital Association Yearbook 2008*.

than in the previous year. Follow-on investments accounted for more than 80 percent of the funding.

In the first half of the year, angel investment was down significantly—by 27 percent, compared with the first half of 2008, according to analysis from the Center for Venture Research (CVR).[39] Angel investment in the first half totaled $9.1 billion; by the end of the year the total was $17.6 billion—a decrease of 8.3 percent from 2008. The number of active investors was unchanged, and those receiving angel funding numbered 57, 225, a small increase of 3.1 percent from the previous year. The average deal size decreased and angels reduced their commitment to seed and start-up capital, investing just 35 percent at this stage; they invested 62 percent in post-startups in 2009.[40]

Conclusion

The supply of credit to both the business and household sectors was constrained in 2009. Borrowing by the Treasury offset declines in borrowing by the nonfinancial sector. Injections of funding from the Troubled Asset Relief Program and other government initiatives helped alleviate the pressure on the banking sector. The prime rate, the rate for most small business loans, remained steady for the entire year, while the targeted federal funds rate remained low.

Small business loan markets continued to be challenging, especially for small firms without access to capital markets, as lenders tightened their lending terms. Small firms increasingly turned to credit cards for their financial needs. Both the number and value of small business loans was low; lending declines were especially steep for micro loans. Large lending institutions continued to dominate small business lending, but their participation in the mortgage loan

39 Angel investors are individuals who provide capital for business startups, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors organize themselves into angel networks to share research and pool their investment capital

40 Angel investment in seed and startup capital was 45 percent in 2008; their investment in post-seed was 40 percent. Jeffrey Sohl, professor, Whittemore School of Business and Economics, and director, University of New Hampshire, Center for Venture Research.

market for micro loans was down. Equity capital markets were active, but the initial public offering and venture capital markets remained weak for smaller companies as the market continued to recover. Angel investors shifted more of their funding to post-seed and post-startup investments. By the second half of the year, improvements in economic activity gave small firms cause for increased optimism.

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Appendix 2A

Table 2A.1 Loan Rates Charged by Banks by Loan Size, February 2000–November 2009 (percent)

	Loan size (thousands of dollars)	Fixed-rate term loans	Variable-rate loans (2–30 days)	Variable-rate loans (31–365 days)
November 2009	less than 9	8.14	3.72	6.14
	10–99	6.53	4.37	5.88
	100–499	5.96	4.04	4.45
	500–999	4.68	3.64	4.29
	Minimum-risk loans	6.22	1.31	3.68
August 2009	less than 9	7.60	5.39	6.94
	10–99	6.49	3.85	5.48
	100–499	5.23	3.61	4.61
	500–999	4.78	2.94	3.30
	Minimum-risk loans	4.21	1.17	2.01
May 2009	less than 9	8.07	3.96	6.20
	10–99	6.53	3.58	5.46
	100–499	5.45	3.31	4.23
	500–999	4.94	2.57	3.20
	Minimum-risk loans	3.98	0.72	3.02
February 2009	less than 9	8.35	3.54	6.24
	10–99	6.69	3.23	5.59
	100–499	5.30	3.19	4.26
	500–999	5.09	2.31	3.85
	Minimum-risk loans	1.87	1.35	3.60
November 2008	less than 9	8.39	5.42	6.81
	10–99	6.76	4.65	6.38
	100–499	6.00	4.63	5.79
	500–999	5.34	4.28	5.00
	Minimum-risk loans	2.43	3.21	3.88

Table 2A.1 Loan Rates Charged by Banks by Loan Size, February 2000–November 2009 (percent) (continued)

	Loan size (thousands of dollars)	Fixed-rate term loans	Variable-rate loans (2–30 days)	Variable-rate loans (31–365 days)
August 2008	1.0–99	6.87	4.88	6.69
	100–499	6.27	4.60	5.36
	500–999	5.67	4.55	4.76
	Minimum-risk loans	6.31	2.88	3.75
May 2008	less than 9	7.60	5.08	7.33
	10–99	6.98	4.91	6.85
	100–499	6.04	4.82	5.59
	500–999	5.62	4.53	5.03
	Minimum-risk loans	4.72	3.35	3.59
February 2008	less than 9	8.34	6.56	8.14
	10–99	7.64	5.59	7.35
	100–499	6.65	5.66	6.56
	500–999	5.86	4.88	5.51
	Minimum-risk loans	4.69	4.05	3.99
November 2007	1.0–99	8.12	7.22	8.09
	100–499	7.58	7.03	7.66
	500–999	7.19	6.69	6.95
	Minimum-risk loans	5.72	5.69	5.23
August 2007	1.0–99	8.70	7.81	8.61
	100–499	7.98	7.60	8.09
	500–999	7.71	7.37	7.52
	Minimum-risk loans	6.86	6.03	6.03
May 2007	1.0–99	8.11	7.96	8.69
	100–499	8.08	7.57	8.12
	500–999	7.65	7.51	7.62
	Minimum-risk loans	8.21	5.84	5.85
February 2007	1.0–99	8.68	7.82	8.81
	100–499	8.17	7.69	8.01
	500–999	7.91	7.32	7.69
	Minimum-risk loans	7.32	5.89	6.64

Table 2A.1 Loan Rates Charged by Banks by Loan Size, February 2000–November 2009 (percent) (continued)

	Loan size (thousands of dollars)	Fixed-rate term loans	Variable-rate loans (2–30 days)	Variable-rate loans (31–365 days)
November 2006	1.0–99	8.76	7.92	8.61
	100–499	8.06	7.67	8.00
	500–999	7.77	7.40	7.91
	Minimum-risk loans	6.90	5.89	6.27
August 2006	1.0–99	8.97	7.96	8.69
	100–499	8.28	7.81	7.77
	500–999	7.62	7.64	7.53
	Minimum-risk loans	7.57	5.93	6.35
May 2006	1.0–99	8.38	7.71	8.14
	100–499	8.00	7.38	7.61
	500–999	7.61	7.25	7.35
	Minimum-risk loans	5.65	4.54	5.77
February 2006	1.0–99	8.43	7.19	8.28
	100–499	7.64	7.10	7.31
	500–999	7.34	6.83	7.36
	Minimum-risk loans	6.94	5.09	6.22
November 2005	1.0–99	8.07	6.69	7.72
	100–499	7.48	6.65	7.41
	500–999	6.70	6.38	7.00
	Minimum-risk loans	4.98	4.51	4.88
August 2005	1.0–99	7.90	6.09	7.09
	100–499	6.89	6.23	6.52
	500–999	6.39	5.82	5.65
	Minimum-risk loans	4.24	4.12	4.15
May 2005	1.0–99	7.48	5.74	7.13
	100–499	6.44	5.71	6.27
	500–999	5.74	5.49	5.27
	Minimum-risk loans	3.90	3.79	3.83

Table 2A.1 Loan Rates Charged by Banks by Loan Size, February 2000–November 2009 (percent) (continued)

	Loan size (thousands of dollars)	Fixed-rate term loans	Variable-rate loans (2–30 days)	Variable-rate loans (31–365 days)
February 2005	1.0–99	7.05	5.25	6.61
	100–499	6.38	5.08	6.09
	500–999	5.82	4.52	5.05
	Minimum-risk loans	6.58	3.24	4.42
November 2004	1.0–99	6.76	4.52	6.53
	100–499	6.21	4.69	5.75
	500–999	4.80	4.41	5.08
	Minimum-risk loans	4.42	2.62	2.96
August 2004	1.0–99	6.71	4.59	6.25
	100–499	5.81	4.06	5.06
	500–999	4.54	3.99	4.45
	Minimum-risk loans	5.52	2.07	3.33
May 2004	1.0–99	6.49	4.21	6.05
	100–499	5.77	3.73	4.9
	500–999	5.24	3.5	3.62
	Minimum-risk loans	5.42	1.67	2.54
February 2004	1.0–99	6.8	4.29	6.05
	100–499	5.31	3.76	4.58
	500–999	3.73	3.41	4.81
	Minimum-risk loans	5.5	1.59	1.81
November 2003	1.0–99	6.53	4.27	6.11
	100–499	5.68	3.79	5.03
	500–999	4.99	3.22	3.94
	Minimum-risk loans	5.5	1.59	1.81
August 2003	1.0–99	6.68	4.15	6.34
	100–499	6.01	3.49	4.74
	500–999	5.67	3.69	3.97
	Minimum-risk loans	4.85	1.58	2.33

Table 2A.1 Loan Rates Charged by Banks by Loan Size, February 2000–November 2009 (percent) (continued)

	Loan size (thousands of dollars)	Fixed-rate term loans	Variable-rate loans (2–30 days)	Variable-rate loans (31–365 days)
May 2003	1.0–99	6.84	4.78	6.49
	100–499	6.13	3.92	5.56
	500–999	5.83	3.34	4.21
	Minimum-risk loans	5.62	1.87	2.41
February 2003	1.0–99	6.8	4.29	6.05
	100–499	5.31	3.76	4.58
	500–999	3.73	3.41	4.81
	Minimum-risk loans	4.08	2.64	2.4
November 2002	1.0–99	7.34	5.14	7.11
	100–499	6.21	4.42	5.51
	500–999	5.99	3.93	4.91
	Minimum-risk loans	2.84	3.85	3.19
August 2002	1.0–99	7.75	5.05	7.32
	100–499	6.51	4.32	5.14
	500–999	5.92	3.69	3.88
	Minimum-risk loans	6.94	3.74	2.58
May 2002	1.0–99	7.75	5.06	7.09
	100–499	6.81	4.46	6.08
	500–999	6.39	3.69	5.13
	Minimum-risk loans	4.58	3.05	2.43
February 2002	1.0–99	7.91	5.26	7.28
	100–499	6.57	4.31	5.89
	500–999	6.41	3.73	4.45
	Minimum-risk loans	7.11	2.23	2.7
November 2001	1.0–99	7.97	5.53	7.59
	100–499	6.83	4.79	6.23
	500–999	6.3	4.29	4.56
	Minimum-risk loans	5.71	2.59	3.2

Table 2A.1 Loan Rates Charged by Banks by Loan Size, February 2000–November 2009 (percent) (continued)

	Loan size (thousands of dollars)	Fixed-rate term loans	Variable-rate loans (2–30 days)	Variable-rate loans (31–365 days)
August 2001	1.0–99	8.73	7.15	8.6
	100–499	7.72	6.46	7.29
	500–999	6.63	6.81	6.06
	Minimum-risk loans	7.47	4.34	4.83
May 2001	1.0–99	9.12	7.91	8.87
	100–499	8.34	7.25	8.06
	500–999	7.4	6.55	6.24
	Minimum-risk loans	7.23	5.2	5.24
February 2001	1.0–99	9.84	9.1	9.89
	100–499	8.88	8.24	9.11
	500–999	8.08	7.51	7.75
	Minimum-risk loans	8.13	6.18	6.63
November 2000	1.0–99	10.33	9.95	10.18
	100–499	9.96	9.24	9.77
	500–999	8.66	8.63	8.68
	Minimum-risk loans	9.25	7.12	7.82
August 2000	1.0–99	10.44	9.98	10.18
	100–499	9.7	9.45	9.32
	500–999	8.87	9.31	8.52
	Minimum-risk loans	9.23	7.07	7.56
May 2000	1.0–99	10.01	9.66	9.68
	100–499	9.24	9.04	8.9
	500–999	8.77	8.68	8.24
	Minimum-risk loans	7.9	7.16	7.17

Table 2A.1 Loan Rates Charged by Banks by Loan Size, February 2000–November 2009 (percent) (continued)

	Loan size (thousands of dollars)	Fixed-rate term loans	Variable-rate loans (2–30 days)	Variable-rate loans (31–365 days)
February 2000	1.0–99	9.64	9.31	9.41
	100–499	8.81	8.44	8.7
	500–999	9.24	7.88	7.88
	Minimum-risk loans	7.8	6.88	7.7

* New rates for the smallest loans under $10,000 provided by the Federal Reserve Board.

Note: Banks report loans to the Federal Reserve Board, providing information on risk categories that take into account both the characteristics of the borrower and the protections provided in the loan contract. Loans designated "minimum risk" in banks' responses to the FRB survey have virtually no chance of resulting in a loss based on various characteristics.

Source: Board of Governors of the Federal Reserve System, Survey of Terms of Lending, Statistical Release E.2, various issues, and special tabulations prepared by the Federal Reserve Board for the U.S. Small Business Administration, Office of Advocacy.

APPENDIX A

Table A.1 Business Counts, 1985–2009

Year	Employer firms	Nonemployers	Establishments	Self-employment (thousands)	Nonfarm business tax returns
2009	5,815,800 e.	21,691,600 e	NA	9,831,000	NA
2008	6,017,600 e.	21,351,320	7,601,169	10,079,000	NA
2007	6,049,655	21,708,021	7,705,018	10,413,000	31,947,600
2006	6,022,127	20,768,555	7,601,160	10,586,000	30,819,400
2005	5,983,546	20,392,068	7,499,702	10,464,000	29,512,000
2004	5,885,784	20,392,068	7,387,724	10,431,000	28,335,300
2003	5,767,127	19,523,741	7,254,745	10,295,000	27,269,500
2002	5,697,759	18,649,114	7,200,770	9,926,000	26,347,100
2001	5,657,774	17,646,062	7,095,302	10,109,000	25,631,200
2000	5,652,544	16,979,498	7,070,048	10,215,000	25,106,900
1999	5,607,743	16,529,955	7,008,444	10,087,000	24,750,100
1998	5,579,177	16,152,604	6,941,822	10,303,000	24,285,900
1997	5,541,918	15,708,727	6,894,869	10,513,000	23,645,200
1996	5,478,047	15,439,609	6,738,476	10,489,000	23,240,700
1995	5,369,068	NA	6,612,721	10,482,000	22,479,000
1994	5,276,964	NA	6,509,065	10,648,000	21,990,300
1993	5,193,642	NA	6,401,233	10,279,000	21,280,300
1992	5,095,356	NA	6,319,300	9,960,000	20,849,200
1991	5,051,025	14,325,000	6,200,859	10,274,000	20,517,000
1990	5,073,795	NA	6,175,559	10,097,000	20,052,900
1989	5,021,315	NA	6,106,922	10,008,000	19,560,700
1988	4,954,645	NA	6,016,367	9,917,000	18,619,400
1987	NA	NA	5,937,061	9,624,000	18,351,400
1986	NA	NA	5,806,973	9,328,000	17,524,600
1985	NA	NA	5,701,485	9,269,000	16,959,900

NA = Not available.

e. = estimated.

Sources: U.S. Small Business Administration, Office of Advocacy, from the following data sources: employer firms from the U.S. Census Bureau with 2007 and 2008 estimates based on U.S. Census Bureau levels and U.S. Bureau of Labor Statistics, BED trends; nonemployers from the U.S. Census Bureau with 2008 Advocacy estimates based on IRS trends; self-employment (unincorporated, primary occupation, monthly averages) from the Bureau of Labor Statistics; and nonfarm and farm business tax returns from the Internal Revenue Service.

Table A.2 Business Turnover, 1985–2009

Year	Employer births	Employer terminations	Business bankruptcies
2009	NA	NA	60,837
2008	NA	NA	43,546
2007	668,395	592,410	28,322
2006	670,058	599,333	19,695
2005	644,122	565,745	39,201
2004	628,917	541,047	34,317
2003	612,296	540,658	35,037
2002	569,750	586,890	38,540
2001	585,140	553,291	40,099
2000	574,300	542,831	35,472
1999	579,609	544,487	37,884
1998	589,982	540,601	44,367
1997	590,644	530,003	54,027
1996	597,792	512,402	53,549
1995	594,369	497,246	51,959
1994	570,587	503,563	52,374
1993	564,504	492,651	62,304
1992	544,596	521,606	70,643
1991	541,141	546,518	71,549
1990	584,892	531,400	64,853
1989	NA	NA	62,449
1988	NA	NA	62,845
1987	NA	NA	81,463
1986	NA	NA	79,926
1985	NA	NA	70,644

NA = Not available.

e. = estimated.

Sources: U.S. Small Business Administration, Office of Advocacy, from data provided by the following sources: employer births and terminations from the U.S. Census Bureau and bankruptcies from the Administrative Office of the U.S. Courts (business bankruptcy filings).

Table A.3 Macroeconomic Indicators, 2000–2009

	2000	2005	2008	2009	Percent change 2008–2009
Gross domestic product (GDP) (billions of dollars)[1]					
Current dollars	9,817.0	12,638.4	14,441.4	14,256.3	-1.3
Constant dollars (billions of 2000 dollars)	11,226.0	12,638.4	13,312.2	12,987.4	-2.4
Per capita constant dollars (thousands of 2005 dollars)	39.7	42.7	43.7	42.2	-3.3
Sales (billions of dollars)[2]					
Manufacturing	350.7	395.2	431.9	364.6	-15.6
Wholesale trade	234.5	299.6	367.6	313.2	-14.8
Retail trade	249.1	308.1	329.9	305.9	-7.3
Income (billions of dollars)					
Compensation of employees[3]	5,788.8	7,065.0	8,037.4	7,791.6	-3.1
Nonfarm proprietors' income	787.8	1,025.9	1,057.5	1,011.7	-4.3
Farm proprietors' income	29.6	43.9	48.7	29.3	-39.8
Corporate profits[4]	819.2	1,456.1	1,360.4	1,308.9	-3.8
Output and productivity (business sector, 1992=100)					
Output	141.9	161.8	170.5	164.5	-3.5
Hours of all persons worked	121.0	118.0	118.4	110.1	-7.0
Productivity (output per hour)	117.2	137.2	144.0	149.4	3.8
Employment and compensation					
Nonfarm private employment (millions)[3]	111.0	111.9	114.3	108.4	-5.2
Unemployment rate (percent)	4.0	5.1	5.8	9.3	60.3
Total compensation cost index (Dec.) (2005=100)	83.6	100.0	108.9	110.2	1.2
Wage-and-salary index (Dec) (2005=100)	86.7	100.0	109.4	110.9	1.4
Employee benefits cost index (Dec.) (2005=100)	76.7	100.0	107.7	108.8	1.0
Bank loans, interest rates, and yields					
Bank commercial and industrial loans (billions of dollars)	1,087.1	1,055.6	1,618.3	1,317.5	-18.6
Prime rate (percent)	9.2	6.2	5.1	3.3	-36.1
U.S. Treasury 10-year bond yields (percent)	6.0	4.3	3.7	3.3	-10.9
Price indices (inflation measures)					
Consumer price index (urban) (1982–1984 = 100)	172.2	195.3	215.3	214.5	-0.4
Producer price index (finished goods) (1982 = 100)	138.0	155.7	177.1	172.6	-2.5
GDP implicit price deflator (2000 = 100)	88.6	100.0	108.5	109.7	1.2
Equity markets					
S&P composite	1,427.2	1,207.2	1,220.0	948.1	-22.3
NASDAQ	3,783.7	2,099.3	2,161.7	1,845.4	-14.6

1 *The Small Business Share of GDP, 1998-2004* by Katherine Kobe of Economic Consulting Services, LLC (Office of Advocacy funded study) estimates small businesses (fewer than 500 employees) created 50.7 percent of the total nonfarm private output in 2004.

2 U.S. Bureau of the Census, *Statistics of U.S. Businesses*, showed that in 2002, small firms (fewer than 500 employees) accounted for 24.8 percent of manufacturing, 47.6 percent of retail, and 41.2 percent of wholesale sales.

3 U.S. Bureau of the Census, *Statistics of U.S. Businesses*, showed that in 2006, small firms (fewer than 500 employees) accounted for 44.4 percent of annual payroll and 50.2 percent of total nonfarm private employment.

4 With inventory valuation adjustment and capital consumption adjustments.

Source: U.S. Small Business Administration, Office of Advocacy, from the Bureau of Economic Analysis, *Economic Indicators*, April 2010.

Table A.4 **Number of Businesses by State and Selected Territories, 2006–2009**

State	Employer firms 2008	Employer firms 2009	Nonemployers (thousands) 2006	Nonemployers (thousands) 2007	Self-employment (thousands) 2008	Self-employment (thousands) 2009
United States	6,017,600	5,815,800	20,769	21,708	15,918	15,314
Alabama	90,134	87,531	294	314	183	163
Alaska	17,445	17,306	51	54	42	37
Arizona	135,104	128,046	367	389	314	358
Arkansas	68,425	68,679	188	195	156	148
California	1,204,455	1,219,760	2,645	2,757	2,174	2,034
Colorado	158,538	153,981	405	426	379	361
Connecticut	99,084	97,837	254	260	177	187
Delaware	26,361	25,980	53	55	37	34
District of Columbia	28,253	28,633	40	42	27	28
Florida	502,192	464,190	1,523	1,618	1,094	1,007
Georgia	217,801	211,334	690	738	502	459
Hawaii	31,452	31,242	90	96	76	64
Idaho	51,053	49,232	109	114	112	104
Illinois	303,224	302,293	850	886	585	554
Indiana	131,143	130,250	369	380	255	271
Iowa	72,210	72,352	196	203	182	188
Kansas	71,779	71,462	179	184	170	180
Kentucky	86,011	84,726	267	278	203	194
Louisiana	103,564	103,256	294	303	201	215
Maine	42,627	41,152	115	119	97	95
Maryland	141,659	138,766	410	426	281	270
Massachusetts	189,123	189,900	454	465	329	301
Michigan	213,493	206,883	627	649	442	442
Minnesota	136,144	133,298	377	387	297	292
Mississippi	56,214	55,784	175	186	136	121
Missouri	138,942	137,262	380	395	295	265
Montana	37,788	36,988	81	84	95	84
Nebraska	48,324	48,281	117	122	131	117
Nevada	60,346	58,146	167	174	125	117
New Hampshire	41,483	40,826	106	109	82	74
New Jersey	245,902	235,184	574	590	444	417
New Mexico	45,896	45,177	118	124	122	106
New York	494,713	494,607	1,474	1,547	891	925
North Carolina	202,450	198,849	605	645	473	432

Table A.4 Number of Businesses by State and Selected Territories, 2006–2009—continued

	Employer firms		Nonemployers (thousands)		Self-employment (thousands)	
State	**2008**	**2009**	**2006**	**2007**	**2008**	**2009**
North Dakota	20,480	20,560	44	46	55	46
Ohio	227,876	227,429	697	719	495	454
Oklahoma	82,752	82,632	257	270	188	206
Oregon	111,746	110,380	248	262	268	267
Pennsylvania	287,417	285,010	742	772	575	587
Rhode Island	33,773	33,024	69	72	54	51
South Carolina	100,724	99,063	271	287	204	201
South Dakota	25,401	25,515	56	58	69	67
Tennessee	115,887	113,176	436	460	331	302
Texas	449,681	449,677	1,737	1,820	1,144	1,142
Utah	71,351	69,668	179	189	151	155
Vermont	22,176	21,863	60	61	51	51
Virginia	189,089	189,292	479	502	414	340
Washington	203,835	206,482	392	413	392	386
West Virginia	36,233	35,895	90	93	54	61
Wisconsin	134,248	130,925	324	327	320	313
Wyoming	22,015	21,861	42	44	45	40
Puerto Rico	71,377	74,419	NA	NA	NA	NA
Virgin Islands	3,362	3,433	NA	NA	NA	NA

NA = Not available

Notes: State totals do not add to the U.S. figure as firms can be in more than one state. Except as shown, data are not available for U.S. territories. The 2007 and 2008 estimates are based on U.S. Census Bureau and Department of Labor Employment and Training Administration data. Self-employment is based on monthly averages of primary occupation incorporated and unincorporated status. Self-employment cannot be added to the other figures.

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Department of Labor (ETA) and U.S. Census Bureau, Nonemployer Statistics, and Current Population Survey, special tabulations.

Table A.5 Business Turnover by State and Selected Territories, 2008–2009

State	Quarterly establishment openings		Quarterly establishment closings		Business bankruptcies	
	FY 2008	FY 2009	FY 2008	FY 2009	2008	2009
U.S. total	1,463,637	1,373,050	1,525,602	1,617,528	43,546	60,837
Alabama	15,885	13,795	16,603	17,484	536	819
Alaska	4,558	4,434	4,675	4,578	81	104
Arizona	31,211	29,653	33,158	35,332	1,069	1,615
Arkansas	13,769	12,346	13,135	14,091	497	619
California	168,533	155,604	181,066	201,411	6,404	9,012
Colorado	38,356	35,921	38,022	41,449	965	1,421
Connecticut	11,631	10,153	12,269	13,066	392	467
Delaware	5,345	4,617	5,619	5,429	1,198	1,670
District of Columbia	4,771	4,265	4,727	4,727	47	106
Florida	129,154	130,176	152,556	152,871	3,923	4,929
Georgia	58,743	52,636	61,517	62,739	2,237	3,019
Hawaii	5,596	4,951	5,857	7,108	86	113
Idaho	11,549	10,713	12,420	13,062	215	381
Illinois	59,773	56,738	60,336	65,340	1,557	2,808
Indiana	25,716	23,093	26,291	28,131	835	607
Iowa	12,826	11,924	12,953	13,061	342	384
Kansas	13,397	12,841	12,865	13,135	252	389
Kentucky	16,230	14,589	15,958	17,129	521	602
Louisiana	17,564	17,160	17,917	18,509	607	869
Maine	9,187	9,313	9,860	10,185	180	241
Maryland	28,344	27,106	29,610	32,289	628	923
Massachusetts	34,261	31,102	35,281	37,311	440	692
Michigan	42,093	41,180	46,394	50,308	1,684	2,081
Minnesota	25,314	25,939	31,410	28,525	863	859
Mississippi	9,827	8,963	10,622	10,841	357	484
Missouri	20,855	21,261	20,991	25,787	676	833
Montana	8,263	8,186	8,179	9,362	88	150
Nebraska	8,864	8,234	8,476	8,693	259	318
Nevada	14,523	13,172	15,004	15,832	505	978
New Hampshire	8,680	7,923	8,878	9,427	393	542
New Jersey	42,390	39,273	43,607	45,392	1,067	1,571
New Mexico	9,626	8,844	9,614	10,186	202	302
New York	102,441	97,690	102,706	109,439	1,849	3,615
North Carolina	45,295	40,892	47,921	48,389	931	1,367

Table A.5 Business Turnover by State and Selected Territories, 2008–2009—continued

State	Quarterly establishment openings		Quarterly establishment closings		Business bankruptcies	
	FY 2008	FY 2009	FY 2008	FY 2009	2008	2009
North Dakota	3,907	3,700	3,533	3,740	66	65
Ohio	40,733	36,616	45,543	45,907	1,587	2,126
Oklahoma	15,431	14,712	14,413	19,109	460	507
Oregon	22,787	21,254	23,429	25,961	429	593
Pennsylvania	55,439	52,866	54,212	56,099	1,193	1,480
Rhode Island	6,971	6,603	7,504	8,294	144	170
South Carolina	19,021	17,914	19,951	22,110	268	446
South Dakota	4,503	4,455	4,348	4,757	96	116
Tennessee	17,789	15,688	18,489	19,265	888	1,273
Texas	92,236	83,336	88,207	91,327	3,124	4,567
Utah	18,201	16,693	18,257	19,036	419	670
Vermont	4,403	4,333	4,558	5,131	49	61
Virginia	40,784	39,273	39,825	43,597	973	1,193
Washington	33,519	30,031	32,169	35,442	714	1,158
West Virginia	6,282	5,991	6,779	7,000	178	202
Wisconsin	22,583	20,855	23,807	25,520	652	828
Wyoming	4,478	4,043	4,081	4,615	63	81
Puerto Rico	6,899	6,810	8,045	7,722	349	396
Virgin Islands	424	379	393	452	4	9

Notes: Establishment openings and closings represent fourth quarter to third quarter business turnover for new and existing establishments, which can belong to small or large firms (seasonally adjusted). The sum of quarterly openings and closings can be inflated by seasonal businesses. National bankruptcy totals include territories.

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Department of Labor (Bureau of Labor Statistics, Business Employment Dynamics), and Administrative Office of the U.S. Courts.

Table A.6 Private Firms, Establishments, Employment, Annual Payroll, and Receipts, 1988–2007

Item	Year	Nonemployers	Employers	Employment size of firm	
				<20	<500
Firms	2007	21,708,021	6,049,655	5,410,367	6,031,344
	2006	20,768,555	6,022,127	5,377,631	6,004,056
	2005	20,392,068	5,983,546	5,357,887	5,966,069
	2004	19,523,741	5,885,784	5,255,844	5,868,737
	2003	18,649,114	5,767,127	5,150,316	5,750,201
	2002	17,646,062	5,697,759	5,090,331	5,680,914
	2001	16,979,498	5,657,774	5,036,845	5,640,407
	2000	16,529,955	5,652,544	5,035,029	5,635,391
	1999	16,152,604	5,607,743	5,007,808	5,591,003
	1998	15,708,727	5,579,177	4,988,367	5,562,799
	1997	15,439,609	5,541,918	4,958,641	5,525,839
	1996	NA	5,478,047	4,909,983	5,462,431
	1995	NA	5,369,068	4,807,533	5,353,624
	1994	NA	5,276,964	4,736,317	5,261,967
	1993	NA	5,193,642	4,661,601	5,179,013
	1992	14,325,000	5,095,356	4,572,994	5,081,234
	1991	NA	5,051,025	4,528,899	5,037,048
	1990	NA	5,073,795	4,535,575	5,059,772
	1989	NA	5,021,315	4,493,875	5,007,442
	1988	NA	4,954,645	4,444,473	4,941,821
Establishments	2007	21,708,021	7,705,018	5,466,985	6,546,223
	2006	20,768,555	7,601,160	5,429,173	6,472,647
	2005	20,392,068	7,499,702	5,409,151	6,420,532
	2004	19,523,741	7,387,724	5,308,118	6,331,242
	2003	18,649,114	7,254,745	5,203,488	6,222,091
	2002	17,646,062	7,200,770	5,147,526	6,172,809
	2001	16,979,498	7,095,302	5,093,660	6,079,993
	2000	16,529,955	7,070,048	5,093,832	6,080,050
	1999	16,152,604	7,008,444	5,068,096	6,048,129
	1998	15,708,727	6,941,822	5,048,528	6,030,325
	1997	15,439,609	6,894,869	5,026,425	6,017,638
	1996	NA	6,738,476	4,976,014	5,892,934
	1995	NA	6,612,721	4,876,327	5,798,936
	1994	NA	6,509,065	4,809,575	5,724,681
	1993	NA	6,401,233	4,737,778	5,654,835
	1992	14,325,000	6,319,300	4,653,464	5,571,896
	1991	NA	6,200,859	4,603,523	5,457,366
	1990	NA	6,175,559	4,602,362	5,447,605
	1989	NA	6,106,922	4,563,257	5,402,086
	1988	NA	6,016,367	4,516,707	5,343,026
Employment	2007	NA	120,604,265	21,770,236	59,866,924
	2006	NA	119,917,165	21,609,520	60,223,740
	2005	NA	116,317,003	21,289,196	58,644,585
	2004	NA	115,074,924	21,197,087	58,597,452
	2003	NA	113,398,043	20,830,352	57,447,570

Table A.6 Private Firms, Establishments, Employment, Annual Payroll, and Receipts, 1988-2007—continued

Item	Year	Nonemployers	Employers	Employment size of firm <20	Employment size of firm <500
Employment	2002	NA	112,400,654	20,583,371	56,366,292
	2001	NA	115,061,184	20,602,635	57,383,449
	2000	NA	114,064,976	20,587,385	57,124,044
	1999	NA	110,705,661	20,388,287	55,729,092
	1998	NA	108,117,731	20,275,405	55,064,409
	1997	NA	105,299,123	20,118,816	54,545,370
	1996	NA	102,187,297	19,881,502	53,174,502
	1995	NA	100,314,946	19,569,861	52,652,510
	1994	NA	96,721,594	19,195,318	51,007,688
	1993	NA	94,773,913	19,070,191	50,316,063
	1992	NA	92,825,797	18,772,644	49,200,841
	1991	NA	92,307,559	18,712,812	49,002,613
	1990	NA	93,469,275	18,911,906	50,166,797
	1989	NA	91,626,094	18,626,776	49,353,860
	1988	NA	87,844,303	18,319,642	47,914,723
Annual payroll (thousands of dollars)	2007	NA	5,026,778,232	749,429,148	2,204,837,721
	2006	NA	4,792,429,911	726,060,229	2,128,793,097
	2005	NA	4,482,722,481	695,604,106	2,012,581,741
	2004	NA	4,253,995,732	659,270,002	1,917,364,605
	2003	NA	4,040,888,841	631,221,418	1,818,493,862
	2002	NA	3,943,179,606	617,583,597	1,777,049,574
	2001	NA	3,989,086,323	603,848,633	1,767,546,642
	2000	NA	3,879,430,052	591,123,880	1,727,114,941
	1999	NA	3,554,692,909	561,547,424	1,601,129,388
	1998	NA	3,309,405,533	535,184,511	1,512,769,153
	1997	NA	3,047,907,469	503,130,254	1,416,200,011
	1996	NA	2,848,623,049	481,008,640	1,330,258,327
	1995	NA	2,665,921,824	454,009,065	1,252,135,244
	1994	NA	2,487,959,727	432,791,911	1,176,418,685
	1993	NA	2,363,208,106	415,254,636	1,116,443,440
	1992	NA	2,272,392,408	399,804,694	1,066,948,306
	1991	NA	2,145,015,851	381,544,608	1,013,014,303
	1990	NA	2,103,971,179	375,313,660	1,007,156,385
	1989	NA	1,989,941,554	357,259,587	954,137,110
	1988	NA	1,858,652,147	342,168,460	902,566,839
Receipts (thousands of dollars)	2007	991,791,563	29,746,741,904	3,975,109,486	11,380,080,684
	2002	770,032,328	22,062,528,196	3,126,610,830	8,558,731,333
	1997	586,315,756	18,242,632,68	2,786,839,570	7,468,211,700

NA = Not available.

Notes: A firm is as an aggregation of all establishments (locations with payroll in any quarter) owned by a parent company, and employment is measured in March. Job growth is not shown as firms can change sizes annually.

See www.sba.gov/advo/research/data.html for more detail.

Source: U.S. Small Business Administration, Office of Advocacy, based on data provided by the U.S. Census Bureau, Statistics of U.S. Businesses, *Nonemployer Statistics*, and *County Business Patterns*.

Table A.7 Employer Firms and Employment by Firm Size and State, 2007

State	Employer total	Employment size of firm <20	Employment size of firm <500	Employment total	Employment size of firm <20	Employment size of firm <500
United States	6,049,655	5,410,367	6,031,344	120,604,265	21,770,236	59,866,924
Alabama	81,565	69,177	79,264	1,722,834	306,674	848,891
Alaska	16,786	14,722	16,254	244,621	56,159	134,810
Arizona	113,298	96,683	110,324	2,404,089	381,853	1,137,966
Arkansas	53,697	46,188	52,066	1,031,307	191,471	501,232
California	730,789	645,269	724,978	13,771,650	2,570,802	7,112,122
Colorado	131,894	116,273	128,882	2,075,821	415,280	1,041,094
Connecticut	77,128	65,831	75,087	1,539,268	278,891	781,724
Delaware	20,743	16,630	19,282	396,317	66,261	181,631
District of Columbia	16,925	12,632	15,725	454,554	56,060	212,442
Florida	432,275	392,869	427,837	7,425,331	1,342,824	3,274,679
Georgia	184,687	160,318	180,719	3,648,418	619,454	1,667,334
Hawaii	26,889	22,804	26,034	519,060	98,553	287,950
Idaho	40,749	35,737	39,644	544,541	139,008	325,517
Illinois	264,289	228,919	259,870	5,398,634	901,965	2,614,604
Indiana	118,218	100,254	115,284	2,648,219	437,605	1,277,744
Iowa	65,859	56,412	64,123	1,303,436	234,780	668,503
Kansas	62,092	52,644	60,147	1,169,099	217,971	623,984
Kentucky	72,848	61,328	70,562	1,550,192	270,567	762,556
Louisiana	83,159	70,357	81,064	1,646,151	309,832	898,370
Maine	35,776	31,518	34,838	503,789	120,151	300,623
Maryland	115,301	98,586	112,642	2,239,181	407,266	1,172,347
Massachusetts	144,767	124,684	141,783	3,073,941	516,437	1,469,435
Michigan	188,485	164,145	185,420	3,687,441	681,023	1,902,648
Minnesota	123,736	106,618	121,197	2,525,900	417,236	1,250,077
Mississippi	48,675	41,580	47,104	941,328	179,450	467,937
Missouri	122,573	105,137	119,778	2,457,827	430,147	1,207,078
Montana	33,036	29,510	32,285	353,807	111,952	245,248
Nebraska	42,791	36,669	41,405	795,545	148,484	399,113
Nevada	51,342	42,546	49,202	1,195,806	167,572	512,238
New Hampshire	33,001	27,955	31,865	573,209	116,932	309,780
New Jersey	208,002	183,538	204,780	3,661,679	713,996	1,858,917
New Mexico	38,291	32,301	36,811	642,183	135,714	356,381
New York	446,021	400,177	441,732	7,529,882	1,468,791	3,878,307
North Carolina	179,773	155,784	176,316	3,586,552	640,210	1,718,320
North Dakota	17,881	15,104	17,206	292,879	62,920	174,324
Ohio	205,494	174,899	201,704	4,782,141	778,348	2,302,386
Oklahoma	73,564	63,455	71,623	1,307,858	259,049	698,288
Oregon	94,264	82,390	92,202	1,477,553	333,715	840,148
Pennsylvania	240,573	207,088	236,630	5,195,818	892,111	2,560,267
Rhode Island	26,417	22,482	25,458	441,353	90,572	246,916
South Carolina	85,056	72,931	82,744	1,648,146	310,966	814,898
South Dakota	22,043	18,944	21,328	330,169	77,520	204,285
Tennessee	104,746	88,168	101,709	2,475,512	389,228	1,113,352
Texas	397,684	344,684	392,345	9,041,030	1,444,349	4,148,919
Utah	60,989	52,610	59,166	1,102,821	199,265	539,611
Vermont	19,503	16,924	18,855	268,086	67,838	164,679
Virginia	157,501	136,097	154,240	3,196,914	561,161	1,544,501
Washington	153,567	134,989	150,830	2,501,684	533,535	1,365,376
West Virginia	31,923	27,129	30,769	581,023	120,236	307,845
Wisconsin	117,426	99,851	115,018	2,484,051	435,395	1,297,994
Wyoming	18,114	15,697	17,489	215,615	62,657	141,533

Notes: A firm is as an aggregation of all establishments (with payroll in any quarter) owned by a parent company. See www.sba.gov/advo/research/data.html for more detail.

Source: U.S. Small Business Administration, Office of Advocacy, based on data provided by the U.S. Census Bureau.

Table A.8 Employer Firms and Employment by Firm Size and Industry, 2007

Industry	Nonemployers	Total	Employment size of firm <20	Employment size of firm <500
Firms				
Total	21,708,021	6,049,655	5,410,367	6,031,344
Agriculture, forestry, fishing, and hunting	236,060	22,949	21,503	22,854
Mining	101,607	20,682	16,860	20,325
Utilities	17,573	6,123	4,745	5,924
Construction	2,657,360	799,811	733,143	798,708
Manufacturing	328,060	286,701	213,074	282,622
Wholesale trade	401,863	334,676	286,873	331,563
Retail trade	1,979,576	712,947	646,102	710,597
Transportation and warehousing	1,083,139	174,265	153,087	172,056
Information	307,143	75,686	64,824	74,597
Finance and insurance	763,527	264,193	242,951	262,485
Real estate and rental and leasing	2,327,057	301,068	286,220	299,829
Professional, scientific, and technical services	3,028,528	787,157	736,269	784,075
Management of companies and enterprises	—	28,139	5,719	20,794
Administrative support, waste management, and remediation services	1,792,523	328,742	287,679	325,035
Educational services	528,217	77,102	59,580	75,937
Health care and social assistance	1,768,093	615,067	535,893	611,157
Arts, entertainment, and recreation	1,119,586	116658	100,636	115,967
Accommodation and food services	303,482	476,957	380,425	475,061
Other services (except public administration)	2,964,627	677,457	630,182	676,062
Unclassified	—	9,993	9,946	9,993
Employment				
Total	—	120,604,265	21,770,236	59,866,924
Agriculture, forestry, fishing, and hunting	—	172,105	74,583	144,111
Mining	—	700,887	72,532	282,278
Utilities	—	622,757	19,449	110,345
Construction	—	7,267,883	2,716,985	6,190,401
Manufacturing	—	13,320,172	1,183,346	5,917,710
Wholesale trade	—	5,964,850	1,228,469	3,635,834
Retail trade	—	15,759,928	2,812,805	6,138,628
Transportation and warehousing	—	4,395,432	549,464	1,618,079
Information	—	3,399,313	248,162	877,184
Finance and insurance	—	6,548,868	787,097	2,134,636
Real estate and rental and leasing	—	2,224,175	778,516	1,503,479
Professional, scientific, and technical services	—	8,179,941	2,337,713	4,995,367
Management of companies and enterprises	—	3,121,402	15,807	383,588
Administrative support, waste management, and remediation services	—	9,983,661	1,045,142	3,724,173
Educational services	—	3,039,385	270,296	1,363,682
Health care and social assistance	—	16,797,647	2,584,531	7,989,889
Arts, entertainment, and recreation	—	2,008,567	365,867	1,313,243
Accommodation and food services	—	11,564,864	2,103,968	6,854,722
Other services (except public administration)	—	5,519,773	2,564,247	4,676,920
Unclassified	—	12,655	11,257	12,655

NA= Not available because of disclosure restrictions.

Notes: Employment is measured in March, thus some firms (startups after March, closures before March, and seasonal firms) will have zero employment. Firms are an aggregation of all establishments owned by a parent company within an industry. See www.sba.gov/advo/research/data.html for more detail.

Source: U.S. Small Business Administration, Office of Advocacy, based on data provided by the U.S. Census Bureau.

Table A.9 Employer Firm Births and Deaths by Employment Size of Firm, 1990–2007

Period		Total	Beginning year employment size of firm <20	<500	500+
Firms					
2006–2007	Firm births	668,395	639,110	668,177	218
	Firm deaths	592,410	564,345	592,148	262
	Net change	75,985	74,765	76,029	-44
2005–2006	Firm births	670,058	640,710	669,841	217
	Firm deaths	599,333	573,302	599,078	255
	Net change	70,725	67,408	70,763	-38
2004–2005	Firm births	644,122	616,019	643,850	272
	Firm deaths	565,745	539,061	565,482	263
	Net change	78,377	76,958	78,368	9
2003–2004	Firm births	628,917	601,927	628,655	262
	Firm deaths	541,047	515,031	540,746	301
	Net change	87,870	86,896	87,909	-39
2002–2003	Firm births	612,296	585,552	611,976	320
	Firm deaths	540,658	514,565	540,328	330
	Net change	71,638	70,987	71,648	-10
2001–2002	Firm births	569,750	541,516	568,280	1,470
	Firm deaths	586,890	557,133	586,535	355
	Net change	-17,140	-15,617	-18,255	1,115
2000–2001	Firm births	585,140	558,037	584,837	303
	Firm deaths	553,291	523,960	552,839	452
	Net change	31,849	34,077	31,998	-149
1999–2000	Firm births	574,300	548,030	574,023	277
	Firm deaths	542,831	514,242	542,374	457
	Net change	31,469	33,788	31,649	-180
1998–1999	Firm births	579,609	554,288	579,287	322
	Firm deaths	544,487	514,293	544,040	447
	Net change	35,122	39,995	35,247	-125
1997–1998	Firm births	589,982	564,804	589,706	276
	Firm deaths	540,601	511,567	540,112	489
	Net change	49,381	53,237	49,594	-213
1996–1997	Firm births	590,644	564,197	590,335	309
	Firm deaths	530,003	500,014	529,481	522
	Net change	60,641	64,183	60,854	-213
1995–1996	Firm births	597,792	572,442	597,503	289
	Firm deaths	512,402	485,509	512,024	378
	Net change	85,390	86,933	85,479	-89
1994–1995	Firm births	594,369	568,896	594,119	250
	Firm deaths	497,246	472,441	496,874	372
	Net change	97,123	96,455	97,245	-122
1993–1994	Firm births	570,587	546,437	570,337	250
	Firm deaths	503,563	476,667	503,125	438
	Net change	67,024	69,770	67,212	-188
1992–1993	Firm births	564,504	539,601	564,093	411
	Firm deaths	492,651	466,550	492,266	385
	Net change	71,853	73,051	71,827	26
1991–1992	Firm births	544,596	519,014	544,278	318
	Firm deaths	521,606	492,746	521,176	430
	Net change	22,990	26,268	23,102	-112
1990–1991	Firm births	541,141	515,870	540,889	252
	Firm deaths	546,518	516,964	546,149	369
	Net change	-5,377	-1,094	-5,260	-117

Notes: The data represent activity from March of the beginning year to March of the ending year. Establishments with no employment in the first quarter of the beginning year were excluded. Firm births are classified by their first quarter-employment size. New firms represent new original establishments and deaths represent closed original establishments. See www.sba.gov/advo/research/data.html for more detail.

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Bureau of the Census.

Table A.10 Job Generation and Destruction by Employment Size of Firm, 1990-2007

Period		Total	Beginning year employment size of firm <20	<500	500+
Employment					
2006–2007	Firm births	3,554,300	1,945,096	3,325,473	228,827
	Firm deaths	3,481,861	1,733,875	3,126,276	355,585
	Existing firm expansions	16,100,255	3,136,047	7,864,245	8,236,010
	Existing firm contractions	15,635,492	2,360,649	7,438,165	8,197,327
	Net change	537,202	986,619	625,277	-88,075
2005–2006	Firm births	3,682,455	1,999,214	3,412,404	270,051
	Firm deaths	3,219,966	1,710,592	2,964,123	255,843
	Existing firm expansions	15,210,462	3,320,715	7,637,379	7,573,083
	Existing firm contractions	12,074,631	2,019,791	5,560,050	6,514,581
	Net change	3,598,320	1,589,546	2,525,610	1,072,710
2004–2005	Firm births	3,609,285	1,931,018	3,278,823	330,462
	Firm deaths	3,307,415	1,684,505	2,981,221	326,194
	Existing firm expansions	13,970,562	3,091,028	6,910,039	7,060,523
	Existing firm contractions	13,031,004	2,311,147	6,228,539	6,802,465
	Net change	1,241,428	1,026,394	979,102	262,326
2003–2004	Firm births	3,574,679	1,889,381	3,240,945	333,734
	Firm deaths	3,220,504	1,614,965	2,867,719	352,785
	Existing firm expansions	14,377,177	3,359,333	7,121,196	7,255,981
	Existing firm contractions	13,055,467	2,009,138	5,604,304	7,451,163
	Net change	1,675,885	1,624,611	1,890,118	-214,233
2002–2003	Firm births	3,667,154	1,855,516	3,174,129	493,025
	Firm deaths	3,324,483	1,608,299	2,879,797	444,686
	Existing firm expansions	14,677,406	3,438,778	7,641,202	7,036,204
	Existing firm contractions	14,024,418	2,112,533	5,945,208	8,079,210
	Net change	995,659	1,573,462	1,990,326	-994,667
2001–2002	Firm births	3,369,930	1,748,097	3,033,734	336,196
	Firm deaths	3,660,161	1,755,255	3,256,851	403,310
	Existing firm expansions	15,385,726	3,149,876	7,587,961	7,797,765
	Existing firm contractions	17,756,053	2,289,644	7,794,376	9,961,677
	Net change	-2,660,558	853,074	-429,532	-2,231,026
2000–2001	Firm births	3,418,369	1,821,298	3,108,501	309,868
	Firm deaths	3,261,621	1,700,677	3,049,714	211,907
	Existing firm expansions	14,939,658	3,065,106	7,033,084	7,906,574
	Existing firm contractions	14,096,436	2,074,544	5,940,996	8,155,440
	Net change	999,970	1,111,183	1,150,875	-150,905
1999–2000	Firm births	3,228,804	1,792,946	3,031,079	197,725
	Firm deaths	3,176,609	1,653,694	2,946,120	230,489
	Existing firm expansions	15,857,582	3,378,838	7,744,430	8,113,152
	Existing firm contractions	12,550,358	1,924,624	5,323,677	7,226,681
	Net change	3,359,419	1,593,466	2,505,712	853,707
1998–1999	Firm births	3,247,335	1,763,823	3,011,400	235,935
	Firm deaths	3,267,136	1,676,282	3,052,630	214,506
	Existing firm expansions	14,843,903	3,245,218	7,266,399	7,577,504
	Existing firm contractions	12,236,364	1,969,501	5,482,142	6,754,222
	Net change	2,587,738	1,363,258	1,743,027	844,711
1997–1998	Firm births	3,205,451	1,812,103	3,002,401	203,050
	Firm deaths	3,233,412	1,661,544	2,991,722	241,690
	Existing firm expansions	14,885,560	3,238,047	7,471,622	7,413,938
	Existing firm contractions	12,044,422	2,002,313	5,747,725	6,296,697
	Net change	2,813,177	1,386,293	1,734,576	1,078,601

Table A.10 Job Generation and Destruction by Employment Size of Firm, 1990-2007 —continued

Period		Total	Beginning year employment size of firm		
			<20	<500	500+
Employment					
1996–1997	Firm births	3,227,556	1,813,539	3,029,666	197,890
	Firm deaths	3,274,604	1,620,797	2,960,814	313,790
	Existing firm expansions	16,243,424	3,400,037	8,628,839	7,614,585
	Existing firm contractions	13,092,093	2,035,083	6,343,489	6,748,604
	Net change	3,104,283	1,557,696	2,354,202	750,081
1995–1996	Firm births	3,255,676	1,844,516	3,055,596	200,080
	Firm deaths	3,099,589	1,559,598	2,808,493	291,096
	Existing firm expansions	12,937,389	3,122,066	6,725,135	6,212,254
	Existing firm contractions	11,226,231	1,971,531	5,512,726	5,713,505
	Net change	1,867,245	1,435,453	1,459,512	407,733
1994–1995	Firm births	3,322,001	1,836,153	3,049,456	272,545
	Firm deaths	2,822,627	1,516,552	2,633,587	189,040
	Existing firm expansions	13,034,649	3,235,940	7,197,705	5,836,944
	Existing firm contractions	9,942,456	1,877,758	5,000,269	4,942,187
	Net change	3,591,567	1,677,783	2,613,305	978,262
1993–1994	Firm births	3,105,753	1,760,322	2,889,507	216,246
	Firm deaths	3,077,307	1,549,072	2,800,933	276,374
	Existing firm expansions	12,366,436	3,139,825	6,905,182	5,461,254
	Existing firm contractions	10,450,422	2,039,535	5,400,406	5,050,016
	Net change	1,944,460	1,311,540	1,593,350	351,110
1992–1993	Firm births	3,438,106	1,750,662	3,053,765	384,341
	Firm deaths	2,906,260	1,515,896	2,697,656	208,604
	Existing firm expansions	12,157,943	3,206,101	6,817,835	5,340,108
	Existing firm contractions	10,741,536	1,965,039	5,386,708	5,354,828
	Net change	1,948,253	1,475,828	1,787,236	161,017
1991–1992	Firm births	3,200,969	1,703,491	2,863,799	337,170
	Firm deaths	3,126,463	1,602,579	2,894,127	232,336
	Existing firm expansions	12,894,780	3,197,959	7,510,392	5,384,388
	Existing firm contractions	12,446,175	2,156,402	6,635,366	5,810,809
	Net change	523,111	1,142,469	844,698	-321,587
1990–1991	Firm births	3,105,363	1,712,856	2,907,351	198,012
	Firm deaths	3,208,099	1,723,159	3,044,470	163,629
	Existing firm expansions	11,174,786	2,855,498	6,323,224	4,851,562
	Existing firm contractions	12,233,766	2,294,270	6,893,623	5,340,143
	Net change	-1,161,716	550,925	-707,518	-454,198

Notes: The data represent activity from March of the beginning year to March of the ending year. Establishments with no employment in the first quarter of the beginning year were excluded. Firm births are classified by their first quarteremployment size. New firms represent new original establishments and deaths represent closed original establishments.See www.sba.gov/advo/research/data.html for more detail.

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Bureau of the Census.

Table A.11 **Opening and Closing Establishments, 1992–2009 (thousands, seasonally adjusted)**

		Establishment Births			Establishment Deaths			Empl. from existing est.	Net	
Year	Quarter	Number	Rate	Employment	Number	Rate	Employment	Net	Number	Employment
2009	3	169	2.5	695	NA	NA	NA	NA	NA	-964
	2	177	2.6	740	NA	NA	NA	NA	NA	-1,579
	1	171	2.5	697	NA	NA	NA	NA	NA	-2,740
2008	4	193	2.8	808	241	3.5	958	-1,651	-48	-1,801
	3	191	2.7	829	223	3.2	882	-914	-32	-967
	2	199	2.9	875	227	3.3	936	-475	-28	-536
	1	207	3.0	889	210	3.0	803	-366	-3	-280
2007	4	209	3.0	909	207	3.0	841	242	2	310
	3	218	3.1	942	203	2.9	845	-345	15	-248
	2	204	2.9	882	201	2.9	851	165	3	196
	1	212	3.1	890	193	2.8	763	358	19	485
2006	4	222	3.2	969	194	2.8	815	339	28	493
	3	210	3.1	926	196	2.9	837	-52	14	37
	2	220	3.2	975	194	2.8	843	285	26	417
	1	220	3.2	921	181	2.7	739	618	39	800
2005	4	224	3.3	980	188	2.8	852	386	36	514
	3	220	3.3	995	186	2.8	886	567	34	676
	2	216	3.2	952	180	2.7	839	473	36	586
	1	210	3.2	943	185	2.8	850	288	25	381
2004	4	212	3.2	1,001	181	2.7	900	674	31	775
	3	210	3.2	1,017	186	2.8	955	150	24	212
	2	202	3.1	982	184	2.8	909	561	18	634
	1	205	3.2	998	180	2.8	914	381	25	465
2003	4	201	3.1	1,010	179	2.8	921	220	22	309
	3	193	3.0	959	179	2.8	884	129	14	204
	2	192	3.0	965	186	2.9	956	-113	6	-104
	1	192	3.0	997	186	2.9	1,007	-402	6	-412
2002	4	203	3.2	1,026	191	3.0	1,028	-196	12	-198
	3	201	3.2	1,055	184	2.9	1,026	-200	17	-171
	2	209	3.3	1,192	186	2.9	1,086	-144	23	-38
	1	203	3.2	1,202	190	3.0	1,109	-132	13	-39
2001	4	197	3.1	1,121	200	3.2	1,150	-931	-3	-960
	3	204	3.2	1,156	209	3.3	1,232	-1,108	-5	-1,184
	2	204	3.2	1,151	205	3.3	1,236	-707	-1	-792
	1	205	3.3	1,174	203	3.2	1,292	-38	2	-156
2000	4	200	3.2	1,144	194	3.1	1,120	271	6	295
	3	212	3.4	1,166	199	3.2	1,167	297	13	296
	2	205	3.3	1,142	181	2.9	1,063	413	24	492
	1	211	3.4	1,227	186	3.0	1,117	679	25	789
1999	4	203	3.3	1,207	183	3.0	1,102	900	20	1,005
	3	206	3.3	1,243	186	3.0	1,127	472	20	588
	2	206	3.4	1,308	184	3.0	1,118	454	22	644
	1	198	3.2	1,305	184	3.0	1,248	296	14	353
1998	4	192	3.1	1,198	180	2.9	1,088	658	12	768
	3	201	3.3	1,257	178	2.9	1,102	587	23	742
	2	206	3.4	1,327	167	2.8	1,215	498	39	610
	1	206	3.4	1,328	178	3.0	1,165	548	28	711

Table A.11 Opening and Closing Establishments, 1992–2009 (thousands, seasonally adjusted)—continued

		Establishment Births			Establishment Deaths			Empl. from existing est.	Net	
Year	Quarter	Number	Rate	Employment	Number	Rate	Employment	Net	Number	Employment
1997	4	196	3.3	1,274	184	3.1	1,154	588	12	708
	3	196	3.3	1,241	166	2.8	1,007	667	30	901
	2	195	3.3	1,226	174	2.9	993	351	21	584
	1	202	3.4	1,242	173	2.9	1,055	597	29	784
1996	4	204	3.5	1,302	170	2.9	992	506	34	816
	3	199	3.4	1,233	166	2.8	1,007	478	33	704
	2	191	3.3	1,261	166	2.9	960	330	25	631
	1	194	3.4	1,193	169	2.9	1,004	268	25	457
1995	4	190	3.3	1,164	168	2.9	972	186	22	378
	3	186	3.2	1,142	164	2.9	957	660	22	845
	2	189	3.3	1,190	162	2.8	960	128	27	358
	1	187	3.3	1,154	156	2.7	910	514	31	758
1994	4	188	3.3	1,133	166	2.9	942	269	22	460
	3	192	3.4	1,184	151	2.7	849	953	41	1,288
	2	186	3.3	1,196	162	2.9	959	668	24	905
	1	180	3.2	1,109	157	2.8	965	415	23	559
1993	4	174	3.1	1,109	147	2.7	899	393	27	603
	3	186	3.4	1,123	144	2.6	850	692	42	965
	2	175	3.2	1,064	155	2.8	915	585	20	734
	1	NA	NA	NA	158	2.9	1,038	NA	NA	288
1992	4	NA	NA	NA	153	2.8	931	NA	NA	123
	3	NA	NA	NA	149	2.8	951	NA	NA	599

NA = Not available.

Note: Establishments can be new ventures or new affiliates of existing ventures. The rates are openings and closings divided by the total number of establishments.

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Bureau of Labor Statistics, Business Employment Dynamics.

Table A.12 Quarterly Net Job Change by Firm Size, 1992–2009 (thousands, seasonally adjusted)

			Firm size			Percent of total	
Year	Quarter	Total	1–19	20–499	500+	1–19	<500
2009	3	-964	-299	-322	-424	29	59
	2	-1,579	-292	-516	-896	17	47
	1	-2,740	-643	-1,146	-859	24	68
2008	4	-1,801	-457	-758	-653	24	65
	3	-967	-238	-339	-450	23	56
	2	-536	-214	-88	-221	41	58
	1	-280	-135	-26	-151	43	52
2007	4	310	-15	79	202	NA	24
	3	-248	-84	-123	-57	32	78
	2	196	-46	213	34	NA	83
	1	485	106	205	119	25	72
2006	4	493	86	104	274	19	41
	3	37	-18	34	1	NA	NA
	2	417	71	244	93	17	77
	1	800	180	418	133	25	82
2005	4	514	142	100	277	27	47
	3	676	158	194	355	22	50
	2	586	158	286	110	29	80
	1	381	24	175	170	7	54
2004	4	775	203	218	354	26	54
	3	212	56	154	-9	28	NA
	2	634	97	254	254	16	58
	1	465	93	230	102	22	76
2003	4	309	110	82	114	36	63
	3	204	99	55	54	48	74
	2	-104	94	-14	-218	NA	NA
	1	-412	-79	-148	-118	23	66
2002	4	-198	29	-127	-129	NA	43
	3	-171	41	-91	-123	NA	29
	2	-38	68	-8	-132	NA	NA
	1	-39	51	-77	50	NA	NA
2001	4	-960	-31	-374	-616	3	40
	3	-1,184	-164	-482	-572	13	53
	2	-792	-46	-331	-479	5	44
	1	-156	24	-156	132	NA	NA
2000	4	295	14	101	172	5	40
	3	296	36	143	137	11	57
	2	492	18	157	272	4	39
	1	789	207	359	291	24	66
1999	4	1,005	213	440	326	22	67
	3	588	92	249	270	15	56
	2	644	68	235	311	11	49
	1	353	123	73	263	27	43
1998	4	768	145	366	209	20	71
	3	742	59	230	512	7	36
	2	610	244	152	197	41	67
	1	711	101	249	508	12	41
1997	4	708	82	302	301	12	56
	3	901	128	384	442	13	54
	2	584	88	199	330	14	47
	1	784	209	322	306	25	63
1996	4	816	157	388	273	19	67
	3	704	182	287	257	25	65

Table A.12 Quarterly Net Job Change by Firm Size, 1992–2009 (thousands, seasonally adjusted)—continued

			Firm size			Percent of total	
Year	Quarter	Total	1–19	20–499	500+	1–19	<500
	2	631	118	145	378	18	41
	1	457	118	204	194	23	62
1995	4	378	100	276	4	26	99
	3	845	134	355	407	15	55
	2	358	79	118	153	23	56
	1	758	166	326	241	23	67
1994	4	460	69	316	113	14	77
	3	1,288	356	529	432	27	67
	2	905	158	360	375	18	58
	1	559	84	261	169	16	67
1993	4	603	177	356	100	28	84
	3	965	291	428	277	29	72
	2	734	171	274	270	24	62
	1	288	49	160	52	19	80
1992	4	123	85	149	-29	41	NA
	3	599	172	259	218	27	66

NA = Not applicable.

Notes: Size is based on dynamic sizing (see www.bls.gov/news.release/cewfs.tn.htm) and firm sizes may not add to the total as some firms do not have firm size identifiers. Percentages are based on adding the size categories, not the listed total. More detailed firm size categories and the actual job gain and loss figures are available directly from the data source.

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Bureau of Labor Statistics, Business Employment Dynamics.

Table A.13 Characteristics of Self-employed Individuals, 2000–2008 (thousands unless noted)

Characteristic	2000	2005	2006	2007	2008 Number	2008 Percent	2008 Rate	2000–2008 Percent change
Total	**13,832.4**	**15,739.0**	**15,927.0**	**15,861.1**	**15,517.7**	**100.0**	**9.8**	**12.2**
Female	4,819.6	5,226.6	5,328.1	5,286.7	5,288.1	34.1	7.1	9.7
Male	9,012.8	10,512.4	10,598.9	10,574.4	10,229.6	65.9	12.2	13.5
Asian / American Indian	759.8	879.1	856.0	915.3	874.3	5.6	9.7	15.1
Black	679.3	774.8	866.6	927.7	831.9	5.4	4.7	22.5
White	12,393.3	13,874.4	14,018.0	13,858.0	13,653.3	88.0	10.5	10.2
Multiple	NA	210.8	186.4	160.1	158.2	1.0	7.6	NA
Hispanic	775.6	1,368.1	1,484.1	1,626.4	1,589.3	10.2	7.2	104.9
Age								
<25	375.8	516.5	491.8	473.5	492.7	3.2	2.2	31.1
25–34	1,824.3	2,114.1	2,065.5	1,962.2	1,865.5	12.0	5.5	2.3
35–44	3,941.1	3,781.2	3,892.5	3,732.8	3,511.3	22.6	10.1	-10.9
45–54	3,995.0	4,624.6	4,593.7	4,563.4	4,517.4	29.1	12.5	13.1
55–64	2,274.6	3,245.5	3,289.3	3,470.9	3,450.3	22.2	14.8	51.7
65+	1,421.6	1,457.1	1,594.1	1,658.2	1,680.4	10.8	22.1	18.2
Educational level								
High school or less	5,485.1	5,712.9	5,986.7	5,770.7	5,680.7	36.6	9.0	3.6
Some college	3,822.5	4,322.9	4,256.9	4,280.7	4,087.4	26.3	8.7	6.9
Bachelor's degree	2,838.9	3,577.4	3,583.3	3,646.2	3,561.4	23.0	11.2	25.5
Masters' degree or above	1,685.9	2,125.8	2,100.0	2,163.6	2,188.2	14.1	12.8	29.8
Veteran status	2,029.3	1,935.9	1,790.1	1,761.4	1,585.5	10.2	13.6	-21.9
Disability	592.5	754.3	713.4	585.7	669.7	4.3	14.6	13.0
Native-born	12,078.8	13,329.8	13,440.8	13,236.1	12,926.2	83.3	9.7	7.0
Married	10,322.4	11,169.8	11,442.1	11,180.3	11,006.0	70.9	12.4	6.6
Location								
Central city	2,506.2	3,762.5	3,623.4	3,601.1	3,677.0	23.7	8.6	46.7
Suburban	6,095.6	6,752.8	7,225.5	7,147.7	6,772.6	43.6	9.9	11.1
Rural	3,321.5	2,926.5	2,863.9	2,955.7	2,770.1	17.9	11.5	-16.6
Not identified	1,909.1	2,297.2	2,214.2	2,156.6	2,297.9	14.8	9.9	20.4

Notes: Self-employment (incorporated and unincorporated) as primary occupation during the year. Self-employment figures presented here differ from the published monthly annual averages. Asian / American Indian = Asian, Pacific, Hawaiian, American Indian and Aleut Eskimo. Disability consists of disabilities or health problems that restrict or prevent the amount or kind of work. The rate is the self-employment total divided by the number of individuals that had any job during the year.

Source: Office of Advocacy, U.S. Small Business Administration, from data provided by the U.S. Department of Commerce, Bureau of the Census, March Supplement to the Current Population Survey.

Table A.14 Characteristics of Employees by Firm Size, 1995 and 2008 (thousands unless noted)

Characteristic	1995 <25	1995 25-499	1995 500+	Percent <500	2008 <25	2008 25-499	2008 500+	Percent <500
Total	28,959.8	32,657.2	43,940.7	58.4	32,872.8	35,530.3	51,208.0	57.2
Female	13,901.5	14,900.2	20,892.5	58.0	15,226.8	16,151.8	24,597.2	56.1
Male	15,058.3	17,757.0	23,048.2	58.7	17,646.1	19,378.5	26,610.8	58.2
Asian / American Indian	1,273.2	1,285.6	1,870.1	57.8	1,823.6	1,960.3	3,165.6	54.4
Black	2,337.2	3,598.8	5,568.5	51.6	2,885.1	3,808.2	6,874.7	49.3
White	25,349.5	27,772.8	36,502.1	59.3	27,707.7	29,312.5	40,439.0	58.5
Multiple	NA	NA	NA	NA	456.5	449.3	728.7	55.4
Hispanic	3,582.5	3,472.1	3,510.6	66.8	6,425.5	5,638.5	6,235.4	65.9
Age								
<25	6,833.9	5,792.3	8,463.2	59.9	6,240.2	5,077.2	8,865.1	56.1
25–34	7,561.4	9,339.8	11,588.8	59.3	7,519.6	8,481.1	11,664.9	57.8
35–44	6,905.2	8,366.4	11,484.7	57.1	6,704.6	7,903.2	11,340.7	56.3
45–54	4,078.4	5,551.1	7,773.7	55.3	6,688.9	7,955.3	11,056.5	57.0
55–64	2,277.7	2,747.3	3,799.8	56.9	4,068.5	4,740.7	6,627.1	57.1
65+	1,303.1	860.3	830.6	72.3	1,651.0	1,372.7	1,653.7	64.6
Educational level and other characteristics								
High school or less	16,661.7	16,711.5	19,826.5	62.7	16,711.9	15,835.9	18,934.3	63.2
Some college	7,782.1	9,248.6	13,628.1	55.5	9,438.8	10,417.5	16,319.8	54.9
Bachelor's	3,349.5	4,938.0	7,541.3	52.4	4,804.1	6,519.7	10,997.0	50.7
Master's or above	1,166.4	1,759.1	2,944.8	49.8	1,918.1	2,757.3	4,956.9	48.5
Veteran status	2,447.5	3,357.8	5,028.0	53.6	1,789.5	2,362.3	3,608.2	53.5
Disability	1,290.8	1,061.8	1,464.4	61.6	1,055.0	901.1	1,337.6	59.4
Native born	24,592.5	28,227.0	39,258.4	57.4	26,006.9	29,427.5	43,825.3	55.8
Married	14,721.9	17,809.6	24,356.4	57.2	16,387.7	19,393.7	27,121.9	56.9
Location								
Central city	6,839.5	8,256.7	10,594.6	58.8	8,926.9	9,802.2	14,489.0	56.4
Suburban	11,970.8	14,082.2	20,357.2	56.1	13,689.5	15,145.0	23,063.5	55.6
Rural	6,097.2	5,779.4	6,761.3	63.7	5,550.8	5,433.8	6,110.0	64.3
Not identified	4,052.3	4,538.8	6,227.6	58.0	4,705.5	5,149.3	7,545.4	56.6

Notes: Private sector employment, excluding self-employment (incorporated and unincorporated). Based on longest job during the year.

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Department of Commerce, Bureau of the Census, March Supplement to the Current Population Survey.

Table A.15 Bank Lending Information by Size of Firm, 1991–2009 (change in percent of senior loan officer responses on bank lending practices)

		Tightening loan standards		Stronger demand for loans	
Year	Quarter	Large / medium-sized firms	Small firms	Large / medium-sized firms	Small firms
2009	4	14	16	-32	-36
	3	32	34	-44	-55
	2	40	42	-60	-64
	1	64	69	-60	-58
2008	4	84	75	-17	-7
	3	58	65	-4	-15
	2	55	52	0	-16
	1	32	30	-16	-24
2007	4	19	10	-17	-8
	3	8	8	-19	-12
	2	-4	2	-23	-19
	1	0	5	-2	-5
2006	4	0	-2	-4	-13
	3	-9	-2	-2	0
	2	-12	-7	4	4
	1	-11	-7	16	5
2005	4	-9	-5	14	9
	3	-17	-11	41	35
	2	-24	-24	37	37
	1	-24	-13	46	30
2004	4	-21	-18	26	26
	3	-20	-4	31	39
	2	-23	-20	29	38
	1	-18	-11	11	22
2003	4	0	-2	-12	-4
	3	4	4	-23	-12
	2	9	13	-39	-22
	1	22	14	-32	-21
2002	4	20	18	-53	-48
	3	21	6	-45	-36
	2	25	15	-36	-29
	1	45	42	-55	-45
2001	4	51	40	-70	-50
	3	40	32	-53	-42
	2	51	36	-40	-35
	1	60	45	-50	-30
2000	4	44	27	-23	-13
	3	34	24	-5	-4
	2	25	21	-9	5
	1	11	9	9	-2
1999	4	9	2	-2	-4
	3	5	2	0	0
	2	10	8	0	10
	1	7	4	20	11
1998	4	36	15	28	8
	3	0	-5	-9	0
	2	-7	-2	29	21
	1	2	2	26	15

Table A.15 Bank Lending Information by Size of Firm, 1991–2009 (change in percent of senior loan officer responses on bank lending practices) —continued

		Tightening loan standards		Stronger demand for loans	
Year	Quarter	Large / medium-sized firms	Small firms	Large / medium-sized firms	Small firms
1997	4	-7	-4	19	19
	3	-6	-2	13	20
	2	-7	-4	5	11
	1	-5	-5	5	15
1996	4	-8	-12	1	4
	3	-4	-2	12	18
	2	-1	2	10	24
	1	7	4	-3	14
1995	4	-3	-2	3	7
	3	-6	-2	4	25
	2	-6	-7	29	17
	1	-7	-5	35	18
1994	4	-17	-18	31	32
	3	-7	-7	31	19
	2	-12	-9	38	38
	1	-13	-12	26	26
1993	4	-18	-9	9	17
	3	-19	-12	18	14
	2	-8	-2	0	12
	1	3	-2	20	32
1992	4	4	-5	6	-2
	3	-2	-2	-9	7
	2	1	-7	6	25
	1	5	0	-27	-12
1991	4	9	5	-30	-25
	3	12	9	NA	NA
	2	16	7	NA	NA
	1	36	32	NA	NA

NA = not available.

Notes: Figures should be used with caution because the sample size of the survey is relatively small—about 80 respondents—but the respondents do represent a sizable portion of the market. Small firms are defined as having sales of less than $50 million. The survey asks the following question to gauge lending standards: "Over the past three months, how have your bank's credit standards for approving applications for C&I loans or credit lines—other than those to be used to finance mergers and acquisitions—to large and middle-market firms and to small firms changed?" The survey asks the following question to gauge lending demand: "Apart from normal seasonal variation, how has demand for C&I loans changed over the past three months?"

Source: U.S. Small Business Administration, Office of Advocacy, from data provided by the Federal Reserve Board.

Table A.16 Capital Expenditures for Employer and Nonemployer Businesses, 1996–2008 (millions of current dollars)

		Total	Structures		Equipment		Capital leases
			New	Used	New	Used	
Total	2008	1,375,139	525,801	39,443	763,300	46,596	20,169
	2007	1,361,633	484,083	45,224	792,399	39,928	20,210
	2006	1,309,939	448,861	39,840	777,059	44,179	24,442
	2005	1,144,783	365,938	35,715	701,247	41,884	18,103
	2004	1,042,060	324,680	44,028	628,591	44,762	17,996
	2003	975,015	305,291	39,350	579,414	50,960	15,641
	2002	997,894	321,191	37,293	598,668	40,741	15,334
	2001	1,109,004	335,538	28,210	706,617	38,639	15,529
	2000	1,161,029	329,525	34,882	750,626	45,996	19,545
	1999	1,046,951	296,496	23,582	689,553	37,320	17,140
	1998	970,898	284,491	44,620	606,210	35,577	16,533
	1997	871,766	254,451	18,849	562,019	36,447	16,066
	1996	807,068	223,588	19,839	526,016	37,625	15,675
Employers	2008	1,295,470	503,276	28,980	726,343	36,871	19,422
	2007	1,277,428	460,477	34,335	752,345	30,271	19,432
	2006	1,217,107	420,090	33,802	734,160	29,055	23,923
	2005	1,062,536	341,223	27,568	664,648	29,096	17,640
	2004	953,171	300,371	35,034	588,110	29,656	17,526
	2003	886,846	281,892	32,128	540,611	32,214	15,137
	2002	917,490	299,941	25,227	564,218	28,103	15,092
	2001	1,052,344	323,871	22,349	679,090	27,033	15,500
	2000	1,089,862	309,541	28,579	718,227	33,515	19,184
	1999	974,630	276,094	17,693	656,344	24,499	16,594
	1998	896,453	260,008	40,275	570,397	25,773	15,631
	1997	772,344	225,107	11,060	515,965	20,212	14,549
	1996	707,107	191,867	12,478	481,785	20,977	13,023
Nonemployers	2008	79,669	22,525	10,463	36,957	9,724	747
	2007	84,205	23,606	10,888	40,054	9,657	778
	2006	92,832	28,771	6,038	42,899	15,124	519
	2005	82,247	24,715	8,146	36,598	12,787	463
	2004	88,889	24,309	8,993	40,481	15,106	469
	2003	88,169	23,399	7,222	38,803	18,746	504
	2002	80,404	21,250	12,066	34,450	12,638	242
	2001	56,660	11,667	5,860	27,528	11,605	29
	2000	71,168	19,984	6,303	32,399	12,481	361
	1999	72,321	20,402	5,889	33,209	12,821	546
	1998	74,445	24,483	4,345	35,813	9,804	902
	1997	99,422	29,344	7,789	46,054	16,235	1,517
	1996	99,961	31,721	7,361	44,231	16,648	2,652

Notes: Capital leases are included in structures and equipment data. Industry detail for employers can be found at www.census.gov/csd/ace/.

Source: U.S. Small Business Administration, Office of Advocacy from data provided by the U.S. Census Bureau, Annual Capital Expenditures Survey.

APPENDIX B

Research Published by the Office of Economic Research, 2009

Each year, the Office of Advocacy of the U.S. Small Business Administration is tasked with documenting the importance of entrepreneurship to the American economy and with highlighting policy issues of relevance to small firms. This report summarizes the publications produced by the Office of Advocacy's Office of Economic Research in 2009.

Banking and Financial Issues

Small Business and Micro Business Lending in the United States for Data Years 2007–2008

Victoria Williams and Charles Ou; released May 2009

Full Report: http://www.sba.gov/advo/research/sbl_08study.pdf

Research Summary: http://www.sba.gov/advo/research/rs345.pdf

The Office of Advocacy prepares an annual study of lending to small firms, using the most recent data available on small and micro business loans to small firms and on the lending institutions that serve them. This study provides a brief review of the lending activities based on two types of data reported by banks to their regulating agencies: Consolidated Reports of Condition and Income, often referred to as "call reports," and reports required by the Community Reinvestment Act (CRA). Because data are available only by the size of the loan, small business loans are defined as business loans under $1 million, and microbusiness loans are those under $100,000.

Small Business In Focus: Finance

Rebecca Krafft, editor; a compendium of studies released July 2009

Full Report: http://www.sba.gov/advo/research/09finfocus.pdf

Research Summary: http://www.sba.gov/advo/research/rs348.pdf

- "Lending to Small Businesses by Financial Institutions in the United States" (Charles Ou and Victoria Williams)
- "An Examination of Financial Patterns using the Survey of Small Business Finances" (George W. Haynes and James R. Brown)
- "How Strong is the Link between International Finance and Small Firm Growth?" (George W. Haynes and James R. Brown)
- "Who Needs Credit and Who Gets Credit? Evidence from the Survey of Small Business Finances" (Rebel Cole)

This compendium of four studies sponsored by the Office of Advocacy offers insight into the ways small businesses use financing, based on data from various sources, particularly the Federal Reserve Board's Survey of Small Business Finances (SSBF). The last SSBF surveyed more than 4,000 firms in a national market for a nationally representative sample of businesses operating in the United States in December 2003. The survey amassed new information on the characteristics of each business and its top three owners, the firm's income statement and balance sheet, and details of the sources and uses of financing, as well as each firm's recent borrowing experience and use of trade credit. Previous surveys conducted in 1987, 1993, and 1998 are available for many comparison purposes. The researchers use descriptive statistics, regression models, and other statistical techniques to test their hypotheses.

General Small Business and Entrepreneurship

Are Planners Doers? Pre-Venture Planning and the Start-Up Behaviors of Entrepreneurs

Jianwen (Jon) Liao and William B. Gartner; released February 2009

Full Report: http://www.sba.gov/advo/research/rs339tot.pdf

Research Summary: http://www.sba.gov/advo/research/rs339.pdf

This study explores the relationship of business planning to the general activity levels of nascent entrepreneurs. It examines whether preventure planning appears to spur nascent entrepreneurs to engage in other venture creation activities, as engaging in planning may be the catalyst in taking further steps toward creating a business. Overall, it finds that the activity of business planning and the level of formality of the business plan (i.e. whether the plan is written, informally written, or existing only in thought) does not, as a main effect, influence the rate at which entrepreneurs engage in more activities, their tendency to concentrate activities in a short period of time, or the overall timing of other startup activities. Early planning, however, appears to be an impetus for early action.

Quarterly Indicators: The Economy and Small Business

Chad Moutray

Fourth Quarter 2008, released February 2009: http://www.sba.gov/advo/research/sbqei0804.pdf

First Quarter 2009, released May 2009: http://www.sba.gov/advo/research/sbqei0901.pdf

Second Quarter 2009, released August 2009: http://www.sba.gov/advo/research/sbqei0902.pdf

Third Quarter 2009, released November 2009: http://www.sba.gov/advo/research/sbqei0903.pdf

This regular publication pulls together data from a variety of sources to highlight quarterly economic trends relevant to small businesses.

The Small Business Economy: A Report to the President

Kathryn Tobias, editor

2008 edition; released February 2009

Full Report: http://www.sba.gov/advo/research/sb_econ2008.pdf

Research Summary: http://www.sba.gov/advo/research/rs340.pdf

- Chapter 1: "The State of Small Business" (Chad Moutray)
- Chapter 2: "Small Business Financing in 2007" (Victoria Williams and Charles Ou)
- Chapter 3: "Federal Procurement from Small Firms" (Major Clark and Radwan Saade)
- Chapter 4: "Profile of Small Businesses and International Trade" (Chad Moutray and Kathryn Tobias)
- Chapter 5: "Small Business Training and Development" (Jules Lichtenstein and Bradford Hock)
- Chapter 6: "A Tax Policy Update for America's Small Businesses" (Donald Bruce)
- Chapter 7: "Business Creation in the United States: Entry, Startup Activities, and the Launch of New Ventures" (Paul D. Reynolds and Richard T. Curtin)
- Chapter 8: "An Overview of the Regulatory Flexibility Act and Other Related Policy" (Cheryl Johns, Claudia Rodgers, and Kate Reichert)
- Appendix A: "Small Business Data" (Brian Headd)

2009 edition; released July 2009

Full Report: http://www.sba.gov/advo/research/sb_econ2009.pdf

Research Summary: http://www.sba.gov/advo/research/rs347.pdf

- Chapter 1: "The State of Small Business" (Chad Moutray, Jules Lichtenstein, and Major Clark)

- Chapter 2: "Small Business Financing in 2008" (Victoria Williams and Charles Ou)
- Appendix A: "Small Business Data" (Brian Headd)
- Appendix B: "Research Published by the Office of Economic Research, 2008" (Chad Moutray)

In this annual publication, the Office of Advocacy reviews the economic environment for small businesses in the previous year, as well as the financial and federal procurement marketplaces. The 2008 edition also featured chapters on international trade, small business training and development, tax policy, start-up business activities, and a review of activities related to Advocacy oversight of Regulatory Flexibility Act implementation for fiscal year 2007.

Startup Business Characteristics and Dynamics: A Data Analysis of the Kauffman Firm Survey

Ying Lowrey; a working paper released August 2009

Full Report: http://www.sba.gov/advo/research/rs350tot.pdf

Research Summary: http://www.sba.gov/advo/research/rs350.pdf

The purpose of the report is to contribute to a better understanding of American business startups and their dynamics. The American economy relies upon vigorous and pervasive business startups that are key to the nation's long-term prosperity. The report is a sample data analysis based on the Kauffman Firm Survey (KFS), a panel study created from a stratified random sample of all startups in 2004 from the Dun & Bradstreet database with follow-up surveys on these firms for 2005 and 2006. The results of this report are not meant to be extrapolated to the national startup population, as much of the analysis uses unweighted data. The firms studied tend to be clustered in the high- and medium-technology sectors.

Frequently Asked Questions

Brian Headd; released September 2009

http://www.sba.gov/advo/stats/sbfaq.pdf

This document serves as a summary of other research materials and provides a series of quick, easy-to-recite facts for an external audience to recognize the importance of small business to the economy. As such, it is an excellent "introductory" publication for individuals to acquaint themselves with Office of Advocacy research and data.

Small Business Profiles for the States and Territories

Brian Headd and Victoria Williams; released October 2009

http://www.sba.gov/advo/research/profiles

The economic condition of small businesses in the United States overall and in each of the 50 states, the District of Columbia, and the U.S. territories is illustrated. Each state profile contains sections on the following topics: the number of firms, industry composition, small business income, banking, women and minority business ownership, and employment.

The Nonemployer Startup Puzzle

Zoltan Acs, Brian Headd, and Hezekiah Agwara; released December 2009

Full Report: http://www.sba.gov/advo/research/rs354tot.pdf

Research Summary: http://www.sba.gov/advo/research/rs354.pdf

Nonemployer firms—businesses without employees—represent a large percentage of businesses; however, little is known about their dynamics (entry and exit). This report seeks to illustrate basic statistics about the prevalence of entry and exit for nonemployers and the local conditions that led to their entry. This research finds that nonemployer start-up rates across states and industries seem countercyclical to labor market changes, while employer start-up rates move in line with overall economic cycles. These characteristics of start-up rates indicate that starting a nonemployer firm is more likely to be an occupational decision, while employer firm startups are more likely to be responses to economic opportunity.

Human Capital and Employment Benefits

Toward Effective Education of Innovative Entrepreneurs in Small Business: Initial Results from a Survey of College Students and Graduates

Summit Consulting, LLC; released September 2009

Full Report: http://www.sba.gov/advo/research/rs353tot.pdf

Research Summary: http://www.sba.gov/advo/research/rs353.pdf

The central purpose of this study is to focus on one critical subject: how prospective innovative entrepreneurs can be trained most effectively. It investigates the relationship between the educational experiences of subjects studied and their subsequent innovative performance. The results show that graduates who have taken entrepreneurship courses are significantly more likely to select careers in entrepreneurship, which the authors define as ever having founded, having run, or having been employed in a startup or entrepreneurial team. This finding should not be surprising, given that students interested in entrepreneurship would be more likely to enroll in such coursework. The survey results tend to suggest that this coursework might improve students' abilities to identify and take advantage of new innovative opportunities. Further study may succeed in teasing out many of these relationships.

Educational Attainment, "Brain Drain," and Self-Employment: Examining Interstate Mobility of Baccalaureate Graduates, 1993-2003

Chad Moutray; a working paper released December 2009

Full Report: http://www.sba.gov/advo/research/rs355tot.pdf

Research Summary: http://www.sba.gov/advo/research/rs355.pdf

This paper looks at the issue of employment and location 10 years after a baccalaureate degree is awarded, using data from the 2003

Baccalaureate and Beyond longitudinal survey. In general, its findings are consistent with the existence of "brain drain" from many states. Bachelor's degree students with good grades, especially attendees of expensive top-tier universities, are highly mobile and willing to move away from their home states. These students are also apparently attracted to opportunities elsewhere, evidenced by the strong relationship between mobility and economic growth. The self-employed appear to have the same motivations as their wage-and-salary counterparts, with a few differences, suggesting that the choice to become self-employed is entirely different from the decision whether or not to relocate.

International Trade

Leveraging Entrepreneurial Orientation to Enhance SME Performance

Pankaj C. Patel and Rodney R. D'Souza; a working paper released January 2009

2009 United States Association for Small Business and Entrepreneurship (USASBE) Advocacy Best Paper Award

Full Report: http://www.sba.gov/advo/research/rs337tot.pdf

Research Summary: http://www.sba.gov/advo/research/rs337.pdf

This study finds that proactivity and risk-taking play a role in enhancing export performance of SMEs. However, it does not find support for innovation as a factor that enhances export performance. These findings could mean that firms that are proactive in nature are better at reducing export impediments. This is because these firms are able to bring new products quickly into the marketplace, and are better able to anticipate future demand, creating a first mover advantage. The results of the study also suggest that risk-taking firms might choose strategies that move away from the status quo, thereby increasing the firm's engagement in process enhancements, new product services, innovative marketing techniques, and the like.

Effects of International Competition on Small Wholesale and Retail Trade Firms

Robert M. Feinberg; released May 2009

Full Report: http://www.sba.gov/advo/research/rs344tot.pdf

Research Summary: http://www.sba.gov/advo/research/rs344.pdf

A previous study for the Office of Advocacy by Robert Feinberg found international pressures on small manufacturers with fewer than 20 employees, but the effects on larger manufacturers were limited. This study examines the effects of international pressures on small firms in industries further down the value chain, the wholesale and retail trade industries. As is the case for manufacturers, the exit rates of small wholesalers increased as a result of international pressure in the form of real exchange rate appreciation. In contrast to the findings for manufacturing, the increase in exit rates for wholesale trade firms was true for all firm size classes studied, not just the smallest. Small wholesalers, rather than being able to take advantage of the lower prices for imports, are closely tied to domestic manufacturers. On the other hand, small retailers other than automobile dealers were found not to be affected by international competition.

Family Firms Venturing into International Markets: A Resource Dependence Perspective

Lucia Naldi and Mattias Nordqvist; a working paper released June 2009

2009 Babson Entrepreneurship Research Conference Advocacy Best Paper Award

Full Report: http://www.sba.gov/advo/research/rs346tot.pdf

Research Summary: http://www.sba.gov/advo/research/rs346.pdf

This paper examines the likelihood that a family-run enterprise is engaged internationally. In particular, it looks at the amount of external or nonfamily influence in the family business. The authors hypothesize that external leadership can bring fresh ideas, increased willingness to take risks, new sources of financial and human capital, and perhaps even international experience. Family businesses that are more open to outsiders in the management of the business are more likely to engage in international trade. The empirical findings show that open family firms attract more non-family resources through external ownership, board representation, the choice of a chief executive officer (CEO), and a large top management team that can enhance either the scale or scope of its internationalization. In particular, the authors show that expansion across foreign markets is favored by opening up all levels of a firm's governance structure. Penetration within foreign markets, on the other hand, is favored by opening up the top management level alone.

Innovation and Technology

Innovation in Small Businesses: Drivers of Change and Value Use

C.J. Isom and David R. Jarczyk (Ceteris, Inc); released March 2009

Full Report: http://www.sba.gov/advo/research/rs342tot.pdf

Research Summary: http://www.sba.gov/advo/research/rs342.pdf

Fact Sheet: http://www.sba.gov/advo/research/factsinnovation09.pdf

The Office of Advocacy has funded several studies that examine the patent activity of small businesses. All show that small businesses outperform their larger counterparts in patent activity (issuance). Moreover, Breitzman and Hicks (2008) argue that small firms' patents outperform large firms' patents on a number of metrics including growth, citation, patent originality, and patent generality. This study is another installment in this discussion. It widens the scope of the existing debate by focusing on the effects of drivers of innovation (employee headcount, sales, and R&D expenditures) on small business value. Looking at patent activity for a sample of 637 small businesses in the 2004-2006 time frame, the researchers found that increasing employee headcount significantly increased innovation (i.e. patent issuance), while the data did not exhibit a link between patent count and market value. R&D expenditures are found to increase firm market value.

High-Tech Immigrant Entrepreneurship in the United States

David M. Hart, Zoltan J. Acs, and Spencer L. Tracy, Jr. (Corporate Research Board); released July 2009

Full Report: http://www.sba.gov/advo/research/rs349tot.pdf

Research Summary: http://www.sba.gov/advo/research/rs349.pdf

This paper quantifies the role of immigrants in high-tech entrepreneurship using the High-impact, High-tech Company Survey database. The authors also examine U.S. immigration policies and processes (especially the H-1B visa) relevant to high-tech immigrant entrepreneurship. Analysis of the survey data indicate that immigrants play an important role in founding high-impact, high-tech companies in the United States. About 16 percent of the companies in the nationally representative sample have at least one immigrant among their founders. High-impact, high-tech companies founded by immigrant entrepreneurs and those founded by native-born entrepreneurs are similar in many ways. One important difference is their location. Immigrant-founded companies (IFCs), as expected, tend to be located in states that have large immigrant populations. IFCs are about twice as likely as their native-founded company (NFC) counterparts to have a strategic relationship with a foreign firm.

Other Office of Advocacy Publications

Annual Report on the Regulatory Flexibility Act, FY 2008

Jamie Belcore Saloom and various authors, Kathryn Tobias, editor; released January 2009

Full Report: http://www.sba.gov/advo/laws/flex/08regflx.pdf

Research Summary: http://www.sba.gov/advo/laws/flex/08regflx_rs.pdf

The Regulatory Flexibility Act (5 U.S.C. 601-612) requires federal agencies to consider the effects of their regulatory actions on small businesses and other small entities and to minimize any undue disproportionate burden. The chief counsel for advocacy of the U.S. Small Business Administration is charged with monitoring federal agencies' compliance with the act and with submitting an annual report to Congress. This annual report illustrates the regulatory flexibility accomplishments of FY 2008.

Office of Advocacy Research Academic Citation Study, 1992–2007

Jimmy L. Verner, Jr.; released August 2009

Full Report: http://www.sba.gov/advo/research/rs351tot.pdf

To assist in ascertaining the extent to which Advocacy has succeeded in its goal of furthering research on small business economic and policy topics, Advocacy contracted for this report. The purpose of the report is to document the use of Advocacy research and products in academic literature. This report covers the period of 1992 to 2007. During that time, Advocacy published 189 reports (which are listed in Appendix A), many of which have made important contributions to academic research on small business. These reports were cited 578 times in 453 scholarly works during the study period. Most of the citations appeared in articles published in one of 268 academic journals in a variety of disciplines, published in the United States as well as abroad. Advocacy reports also have been cited in other academic materials such as books, collections of scholarly articles and dissertations.

Owner Demographics

Self-Employed Women and Time Use

Tami Gurley-Calvez, Katherine Harper, and Amelia Biehl; released February 2009

Full Report: http://www.sba.gov/advo/research/rs341tot.pdf

Research Summary: http://www.sba.gov/advo/research/rs341.pdf

This paper assesses whether observed time-use patterns of self-employed women are consistent with women placing more emphasis on family factors. More information about how women allocate their time can inform policy designed to narrow the gap between men's and women's self-employment rates. The time-use patterns of self-employed women differ substantially from those of men and of women employed in wage-and-salary work. Consistent with family motivations for selecting self-employment, self-employed women spend less time than both men and women in wage-and-salary jobs on work-related activities, and more time on household activities and caring for children. The results suggest that the development of policies that enhance work-life balance, offset racial disparities in self-employment, and increase human capital through education might encourage more women to enter self-employment as a way of balancing family life and the need or desire to earn a living.

An Analysis of Reserve Activation on Small Business

John B. Hope, Douglas B. Christman, and Patrick C. Mackin (SAG Corporation); released October 2009

Full Report: http://www.sba.gov/advo/research/rs352tot.pdf

Research Summary: http://www.sba.gov/advo/research/rs352.pdf

Military reservist activations have risen in recent years. This study seeks to assess the effects of these activations on small and large employers. Understanding these impacts is necessary to ensure that the relationship between reservists and their employers remains strong. Military reserve activations have small but negative effects on a firm's revenues. Small firms (fewer than 100 employees) were more affected than larger firms. And not surprisingly, longer activations had larger impacts on a firm's sales than shorter call-ups.

Tax

Effective Federal Income Tax Rates Faced by Small Businesses in the United States

Quantria Strategies, LLC; released April 2009

Full Report: http://www.sba.gov/advo/research/rs343tot.pdf

Research Summary: http://www.sba.gov/advo/research/rs343.pdf

This research explores how the effective tax rates on small businesses vary depending on legal form of organization, industrial classification, and business size. The report also examines the impact of special provisions in federal tax laws that apply only to small businesses and the impact of those provisions on effective tax rates. The report defines small businesses in a manner similar to the Internal Revenue Service, as firms with less than $10 million in gross receipts. Overall, this study finds that while they are very widely referred to, the statutory tax rate does not represent the most useful measure of the effect of taxes on businesses. The effective tax rate captures the actual rate paid by businesses. The authors estimated that small businesses pay an average effective federal income tax rate of 19.8 percent.

CONTENTS OF PREVIOUS EDITIONS

The Small Business Economy: A Report to the President, 2001–2009

The State of Small Business: A Report of the President, 1982–2000

Editions of *The Small Business Economy* and *The State of Small Business* for 1996 through the present are available on the Office of Advocacy website at http://www.sba.gov/advo/research/ or by contacting the Office of Advocacy at 202 205-6533. Earlier editions of *The State of Small Business* may be accessed through the National Technical Information Service at www.ntis.gov or National Technical Information Service, 5285 Port Royal Rd., Springfield, VA 22161, (800) 553-6847 or (703) 605-6000, TDD (703) 487-4639.

INDEX

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