



2008 Year End Economic Report

NSBA
National Small Business Association®

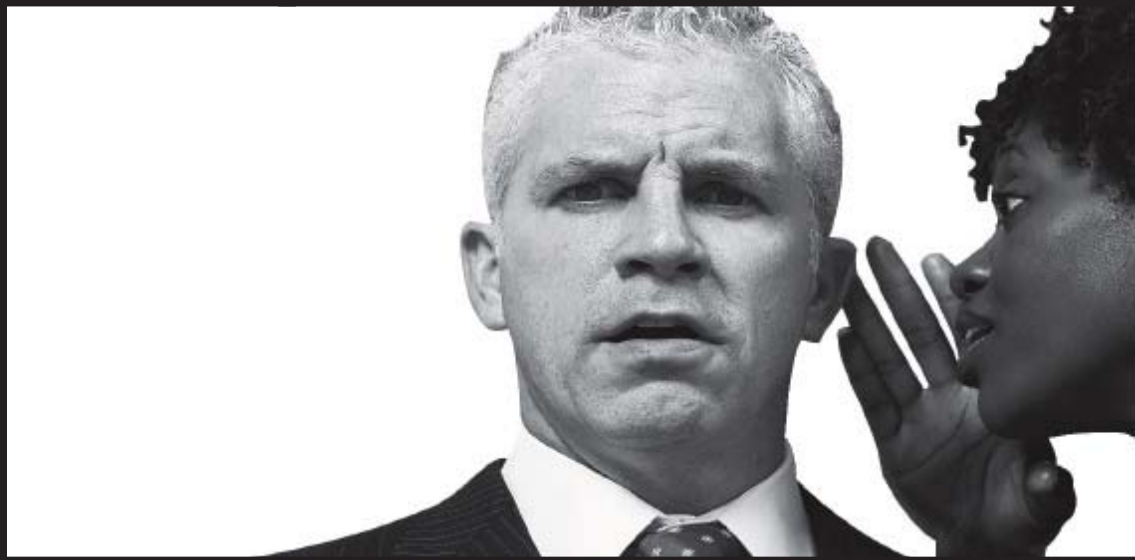




Since 1937, NSBA has advocated on behalf of America's entrepreneurs. Reaching more than 150,000 small businesses, NSBA is proud to be the first national small-business advocacy organization in the United States. To find out more about the importance of the small-business community, please visit NSBA's Think Big. Start Small Campaign at www.nsba.biz/startsmall

Thinking about the next 12 months, do you anticipate:

	DEC	AUG
Economic expansion	03%	21%
A flat economy	33%	53%
A recession	64%	26%



"Seventy-five percent of small-business owners cite economic uncertainty as the most significant challenge to their business."

Since 1937, NSBA has been the nation's leading small-business advocate. As part of NSBA's mission to address the needs and represent the concerns of the small-business community, we conduct a series of surveys and quick polls throughout the year. In addition to NSBA's annual Survey of Small and Mid-Sized Business, NSBA in 2008 compiled two economic reports, the Mid-Year Economic Report and the Year-End Economic Report, using survey and quick poll data to provide a snapshot of how small business is dealing with the current economic situation. The 2008 Year-End Economic Report shows a small-business community reflective of the overall U.S. economy, struggling over the past several months and anticipating continued challenges in the near future.

The 2008 Year-End Economic Report, based primarily on member-survey data collected over the last two weeks of December, found small-business owners extremely anxious about the economy with ever-growing fears of a continued recession. When asked in December to compare today's national economy with five years ago, 91 percent responded that the U.S. is worse off, up from 68 percent in August 2008. In August, only 26 percent of survey respondents anticipated a recession, while 21 percent anticipated economic growth in the coming 12 months. Asked the same question in December, a mere 3 percent of small-business owners anticipated economic growth, while 33 percent anticipated a flat economy and significant majority—64 percent—anticipated a continued recession, representing a dramatic increase in negative economic outlook in just the last four months.





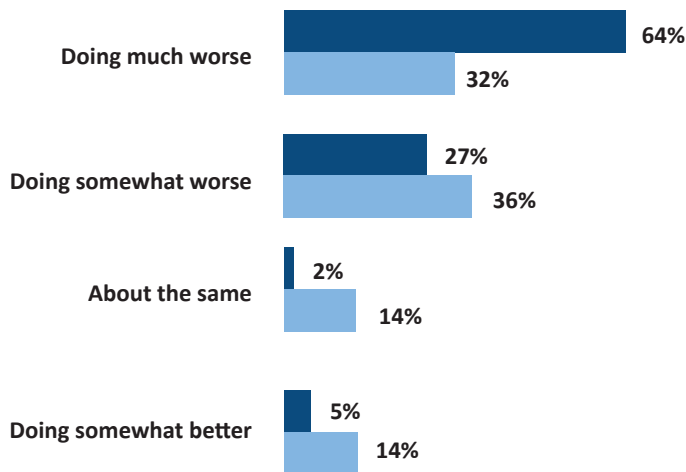
Confidence in U.S. Economy

Given the ongoing economic difficulties the U.S. has faced over the past several months, and capped with data from the National Bureau of Economic Research showing that the U.S. has been in a recession since December 2007, small-business owners overwhelmingly cited economic uncertainty as the most significant challenge to the future growth and survival of their business. According to the December survey, 75 percent cited economic uncertainty as one of their top three challenges, up from 53 percent—a 42 percent jump—since August.

Compared to five years ago...Would you say the national economy is:

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	DEC	AUG
Total Worse:	91%	68%
Total Better:	07%	19%





In addition to general economic uncertainty, small businesses ranked cost of health insurance (43 percent), inability to access capital (33 percent) and federal taxes (32 percent) among their most significant challenges to the future growth and survival of their business. With Congress working on an economic stimulus package, addressing these key concerns could mean the difference between growing and closing the doors for many small businesses.

As is to be expected from any entrepreneur, a majority of respondents in the December survey cited confidence in the future of their own business, despite a dismal outlook on overall economy. However, that confidence level has dropped significantly in four months with only 62 percent of small-business owners expressing confidence in their own business in December as compared with 75 percent in August. That decrease represents a 17 percent jump in the number of small-business owners not confident in the future of their own businesses. The fact that more than one-third of small-business respondents have concerns about the ongoing viability of their business simply cannot be underestimated.

From a financial perspective, how do you feel right now about the future for your business?

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	DEC	AUG
 Confident:	62%	75%
 Not Confident:	38%	25%

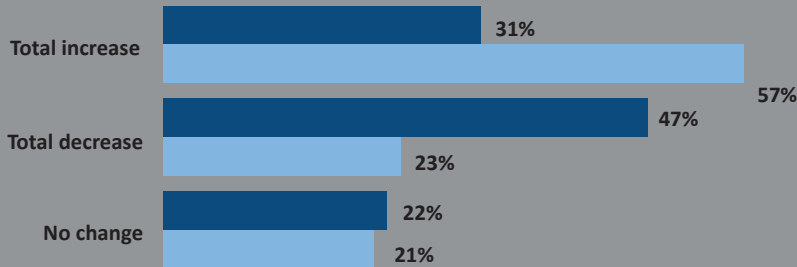




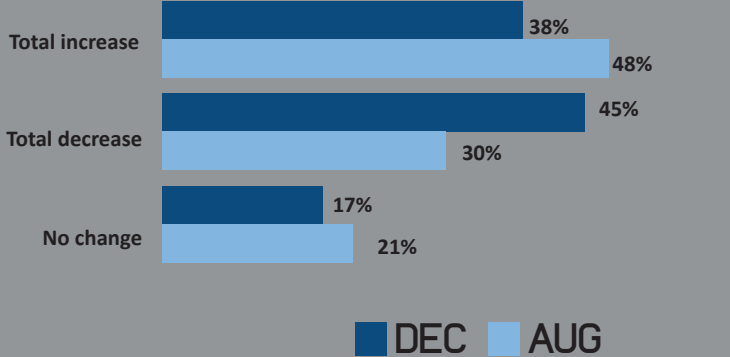
Business Growth

The December survey took a close look at how business has fared over the past 12 months as well as projections for the coming year. Small-business owners were asked how much change their businesses had experienced in gross sales/revenues and net profits, and reported a complete reversal from August numbers when more businesses reported increases than decreases in both areas. In August, 48 percent cited revenue increases and 30 percent cited decreases, however in December, only 38 percent cited an increase in revenues and 45 percent cited decreases. With regards to profits, businesses experienced the same marked reversal in increases versus decreases. In August, 41 percent reported an increase in profits while 37 reported a decrease. However, in December, only 30 percent cited increases in profits and a whopping 51 percent cited decreases in profits.

How much do you expect gross sales/revenues to change over the next 12 months?



How much did your gross sales/revenues change over the last 12 months?



Small-business owners also were asked to rate their level of expected business growth for the coming 12 months, and a similar reversal occurred between August—when more businesses expected increases—and December—when more businesses expected decreases. In August, 57 percent projected revenue increases and 23 percent projected decreases in the coming 12 months. In December, only 31 percent projected an increase in revenues while 47 percent projected revenue decreases in the coming 12 months. Regarding expected profits in the coming 12 months, 43 percent in August projected an increase in profits while 31 projected a decrease. In December, just 23 percent projected increases in profits for the coming year while 53 percent projected a decrease.

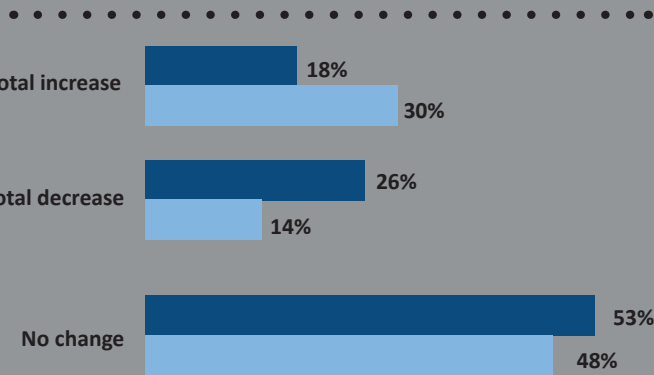
When asked about which future growth strategies they plan to implement in the coming 12 months, the top three responses were new advertising and marketing strategies (48 percent), expanded Internet presence and e-commerce (41 percent), and strategic alliances (32 percent). The most telling response to this question, however, was the marked decrease in companies planning to hire new employees. When asked about future growth strategies in August, 23 percent cited plans to hire new employees in the coming 12 months. However, in December, only 12 percent included new employees among their growth strategies for the coming year.



“The number of small-business owners planning to grow their staff in the next 12 months decreased 48 percent between August and December.”

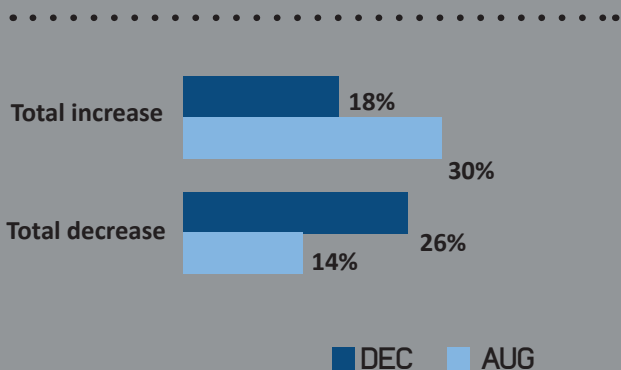


How much did your number of employees change over the last 12 months?



“Employee compensation underwent the lowest decreases between August and December while decreases in net revenues and profits increased dramatically.”

How much do you expect your number of employees to change over the next 12 months?



Job Growth

As the leading contributor of net new jobs to the U.S. economy—93.5 percent in the last 20 years—small-business job growth has been a critical piece of NSBA’s surveys and polls. Small-business owners were asked how their business has fared over the past 12 months regarding the number of employees. Unfortunately, small-business owners have been financially stymied in recent months and unable to grow their business, thereby restricting their ability to create jobs.

Similar to the changes in revenues and profits between the August and December survey, employment numbers also took a turn for the worse with fewer companies increasing employment than decreasing it. When asked in August about employee growth in the past 12 months, 30 percent cited an increase while 14 percent cited a decrease and 48 percent cited no change in employee numbers. In December, only 18 percent cited an increase in employees over the past 12 months while 26 percent cited a decrease and 53 percent cited no growth. There was no difference in the December data between employment numbers in the past 12 months and employment projections for the coming 12 months, with 18 percent projecting an increase in employees 26 percent projecting a decrease, leaving net job growth in a deficit.

Given the historic role small business has played in job creation, the alarming switch in net losses for both past and projected job growth is extremely troubling. Any impediment to small businesses ability to create jobs at a time when the economy is struggling could make for an extended and more difficult recession. Creating an environment where small businesses can start, thrive and grow surely will enable the U.S. to move more promptly toward economic recovery.



Financing

Even in a growing economy, many small businesses lack the assets necessary for a traditional bank loan, making them a riskier lending option for banks. With the number of small businesses using bank loans was at a 15-year low, according to the annual NSBA survey conducted in February 2008, the recent shake-up in the financial markets has made financing an even bigger challenge. Regardless of lower interest rates and other incentives attached to loans, small-business lending has actually tightened up significantly. According to the October 2008 Federal Reserve Board Senior Loan Officer Survey, 75 percent of U.S. banks have tightened their lending standards on small-business loans.

When asked if their business is able to obtain adequate financing, 78 percent said yes in August—that number dropped to 67 percent in December. Although the 67 percent number appears to be a positive indicator, it is important to note that fewer companies were thought to be seeking financing between August and December based on decreases in the number of companies relying on outside funding. In the annual survey conducted in February 2008, NSBA asked small-business owners if their business had been impacted by the credit crunch, and 55 percent responded that it had. In

August, that number jumped to 67 percent, and continued to rise in December to 69 percent. It warrants mentioning that the survey group in August consisted of a sampling of NSBA members which were older, larger and more established business than in the February survey which was a sampling representative of the at-large small-business community. A safe assumption can be made that the increases in August and December would have been even higher among the general small-business community.

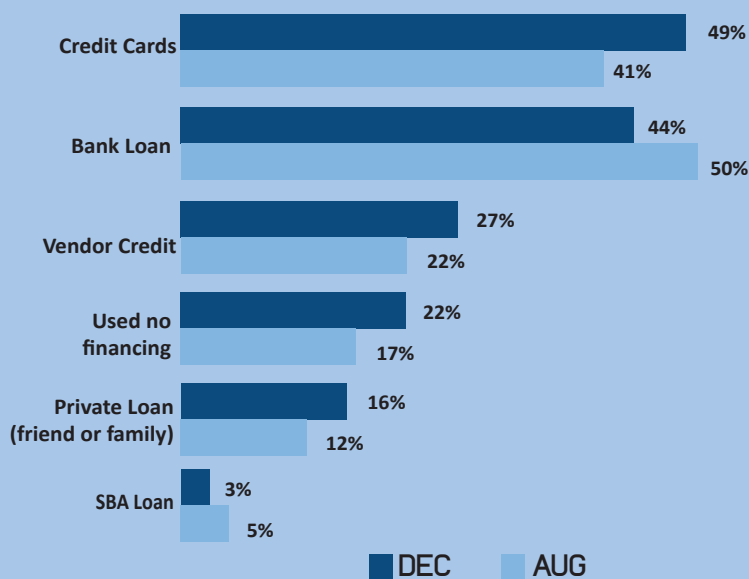
Sources of financing for NSBA's members in the December survey included traditional bank loans, earnings of the business and credit cards in the top-three slots, with credit-card usage rising to 49 percent. Unfortunately, business owners report worsening terms for both bank loans and credit cards. Sixty-nine percent in the December survey cited worsening credit-card terms, up from 63 percent in August. With regards to bank-loan terms, in August 11 percent cited more favorable terms to their business loans, but in December, that number dropped to 7 percent, while 20 percent cited less favorable terms.

Although regulations have recently been approved that will curb some of the most egregious practices of the credit-card industry, the new rules failed to include business-specific credit cards. There exists significant confusion among small-business owners about their credit cards and whether or not they are using a personal card for business purposes or whether their card is classified as a business card. According to the December survey, 41 percent rely on a combination of business and personal credit cards. When asked in a recent quick-poll, 54 percent were unaware of the differences between personal and business credit cards. Furthermore, 37 percent have reported an increase in solicitations for business credit cards—making more broad reform of the entire credit card industry paramount.

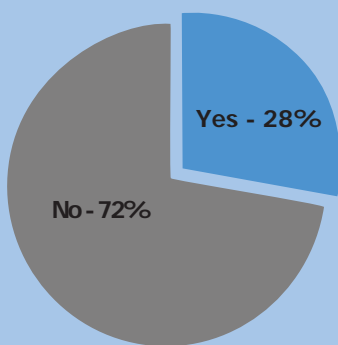
NSBA has heard anecdotally from small-business owners across the country who have had a credit-card limit or line of credit arbitrarily reduced due to no fault of their own. These reductions are typically due simply to the fact that, as a small business, the lending institution views the credit as risky. When asked in December, 28 percent of small-business owners responded that they had experienced a decrease in their line(s) of credit or a credit-card limit in the past six months. Small-business owners are struggling to pay-off their credit cards—56 percent surveyed in August said they pay off the balance of their credit card each month, but in December, that number dropped to 50 percent.

The implications of the collapsed housing market continue to haunt the small-business community. In December, nine percent of small-business owners leveraged their business loans with a second home mortgage. That was down one-fourth from 12 percent in August, creating an even greater challenge for asset-strapped small businesses.

What types of financing has your company used within the past 12 months to meet your capital needs?



Have you experienced a decrease on any of your lines of credit or on your credit cards in the last six months?



Public Policy

As the 111th Congress begins to tackle many important issues and President-elect Barack Obama prepares for his inauguration, small business remains one of the most important sectors of the U.S. economy, yet has too often been an afterthought in broad legislation aimed at rescuing failing industries. When asked which issue they believe Congress and President-elect Obama should address first, small businesses ranked reducing the tax burden (29 percent), increase small business access to capital (25 percent), and addressing health care costs (17 percent) among their chief concerns.

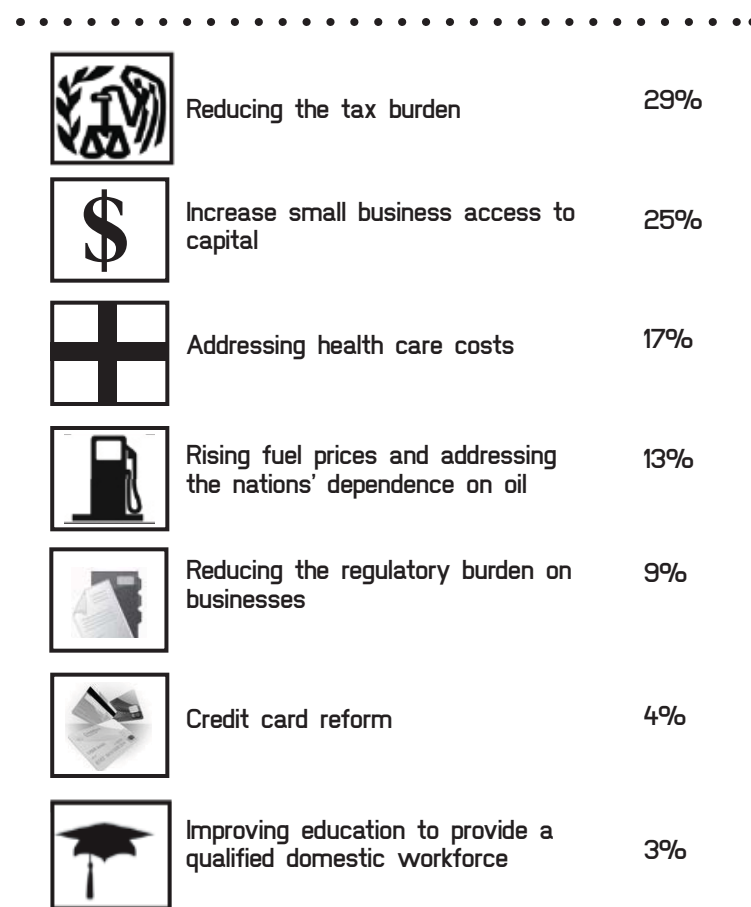
Despite the bleak outlook for the U.S. economy as a whole, the majority of small-business owners are relatively confident about their own business. That trend, however, may not last forever if the economy continues to suffer and small businesses aren't included in attempts to stimulate the economy. To raise awareness with new and returning members of Congress and the incoming administration, NSBA developed an initiative, "Think Big. Start Small.," to highlight the most pressing issues for the small-business community.

Through that initiative, NSBA reached out to lawmakers and President-elect Obama's transition team urging inclusion of key small-business provisions in any economic stimulus bill. Small business has played a critical role in past economic recoveries, however they continue to be hit with increasing difficulty accessing capital, wildly volatile credit-card rates and terms, and plummeting numbers of loans made in the SBA 7(a) loan program, which, for the first quarter of 2009 were down 57 percent from the same period in 2008.

To address these problems, NSBA has outlined a number of [key proposals](#) that stand to greatly help the small-business community. The proposals range from expanding SBA lending, particularly by eliminating the borrower and lender fees associated with the 7(a) and 504 programs and increasing the government guarantee; to mandating that 23 percent of any infrastructure stimulus funds—whether spent at the federal, state, or local level—be contracted out to small businesses. NSBA also has urged action on a number of important tax proposals including: extending the net operating loss (NOL) carry back rules from two to five years for losses suffered in 2007, 2008, and 2009; abolishing the self-employment tax on health insurance, giving more than 21 million entrepreneurs greater access to affordable health insurance; and repealing a requirement mandating federal, state and local government agencies withhold three percent of all payments for goods and services, slated to begin in 2011.

The NSBA 2008 Year-End Economic Report exemplifies the difficult position in which America's small businesses find themselves, and the data speaks loud and clear about the need to address these difficulties now.

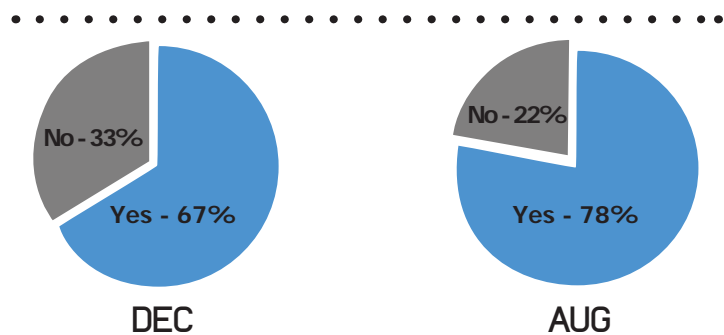
Which one of the following issues do you believe Congress and President-elect Obama's administration should address first?

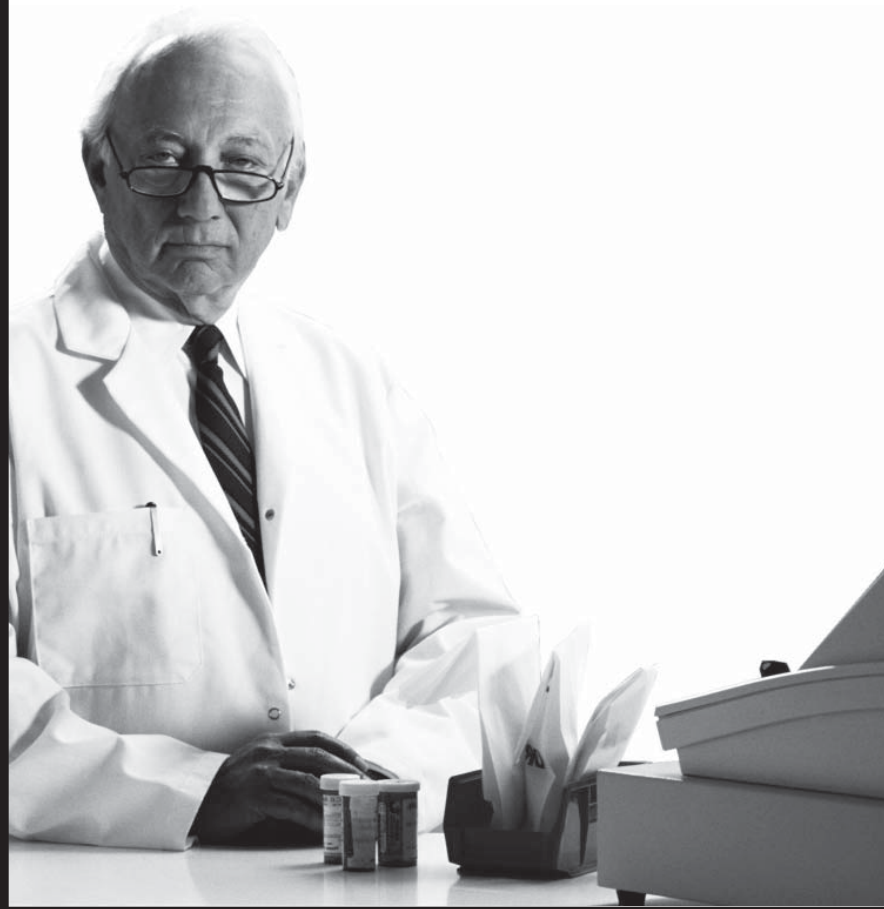


Methodology

The cornerstone of NSBA's data mining is our annual national survey which was conducted in late-February 2008 by Public Opinion Strategies. The scope of that survey is large and representative of the entire U.S. small-business community. The most recent surveys and polls conducted by NSBA were done internally using a sampling of NSBA membership, which tends to be older, larger and more established businesses. While reasonable trending assumptions can be made using this data, it is important to note that the August 2008 data likely paints a more positive picture than that of the small-business community at-large.

Is your business able to obtain adequate financing?





NSBA
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1156 15th Street, N.W.
Suite 1100
Washington, DC 20005
www.nsba.biz

