



2009 Mid-Year Economic Report

NSBA
National Small Business Association®

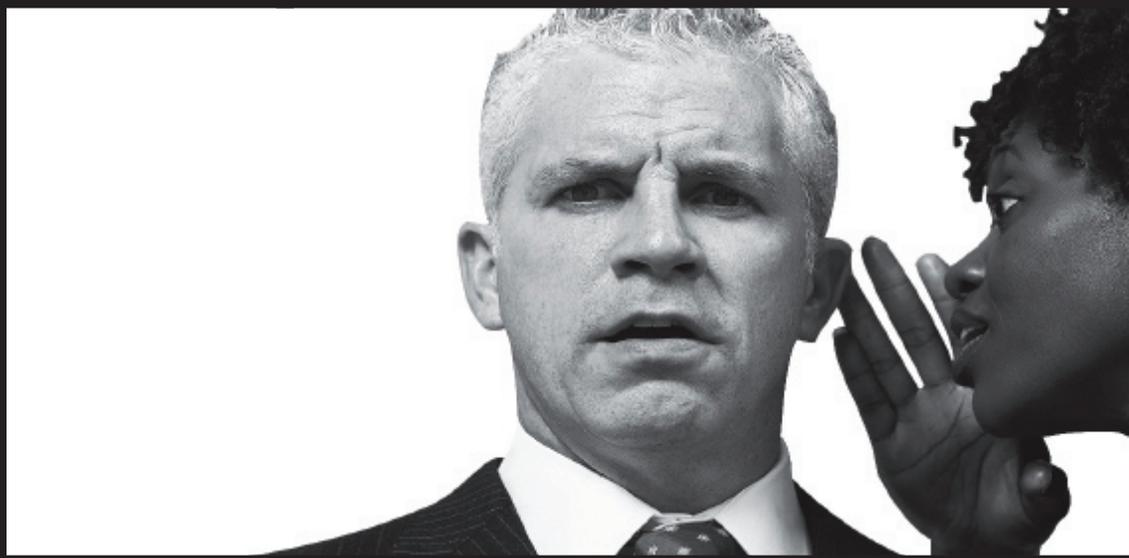




Since 1937, NSBA has advocated on behalf of America's entrepreneurs. Reaching more than 150,000 small businesses, NSBA is proud to be the first national small-business advocacy organization in the United States. To find out more about the importance of the small-business community, please visit www.nsba.biz

Thinking about the next 12 months, do you anticipate:

	JULY 09	DEC 08
Economic expansion	07%	03%
A flat economy	51%	33%
A recession	42%	64%



"When asked to compare today's national economy with five years ago, 94 percent responded that the U.S. is worse off, up from 91 percent in 2008."



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 the NSBA Survey of Small and Mid-Sized Business, NSBA compiles a Mid-Year Economic Report and 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 2009 Mid-Year 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 2009 Mid-Year Economic Report, based primarily on member-survey data collected over the first two weeks of July, found small-business owners very concerned with the state of the U.S. economy and the future of their own businesses. However, there appears to be a small flicker of light at the end of the tunnel with slightly more respondents than in December—and still a small minority—anticipating economic growth in the coming 12 months. In December, 64 percent of survey respondents anticipated a recession, whereas today, only 42 percent anticipate a recession in the coming 12 months. While this change in outlook is certainly positive, it may also be reflecting the somewhat dismal position many entrepreneurs find themselves in and the thought that something's got to give. When asked in July to compare today's national economy with five years ago, 94 percent responded that the U.S. is worse off, up from 91 percent in December 2008.



Confidence in U.S. Economy

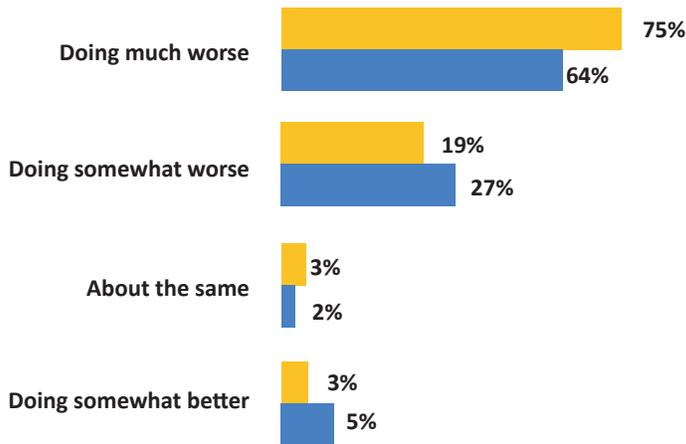
Given the ongoing economic difficulties the U.S. has faced over the past two years, small-business owners overwhelmingly cited economic uncertainty as the most significant challenge to the future growth and survival of their business. According to the July survey, 75 percent cited economic uncertainty as one of their top three challenges, followed by federal taxes (42 percent), cost of health insurance benefits (39 percent) and regulatory burdens (29 percent).

As is to be expected from any entrepreneur, a majority of respondents in the July survey cited confidence in the future of their own business, despite a dismal outlook on the overall economy. However, that confidence level has dropped with only 58 percent of small-business owners expressing confidence in their own businesses in July as compared with 62 percent in December and 75 percent in August 2008.

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

■ JULY 09 ■ DEC 08

Total Worse:	94%	91%
Total Better:	03%	07%



“Given the ongoing economic difficulties the U.S. has faced over the past two years, small-business owners overwhelmingly cited economic uncertainty as the most significant challenge to the future growth and survival of their business.”

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



Confident:

	JULY 09	DEC 08
Confident:	58%	62%



Not Confident:

Not Confident:	42%	38%
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Business Growth

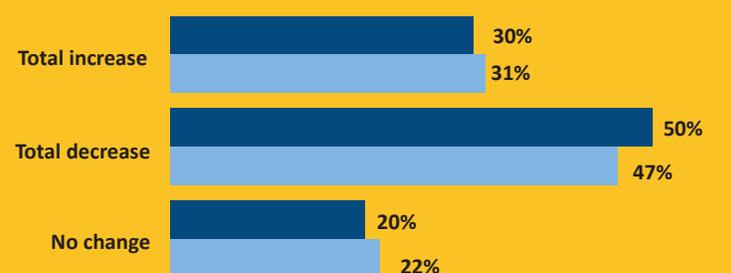
The July survey took a close look at how small business has fared over the past 12 months, as well as projections for the coming year. Small-business owners were asked how much change their businesses had experienced in gross sales/revenues and net profits, and continued the trend first seen in the 2008 Year-End Economic Report where more businesses reported decreases than increases in both areas—a complete turnaround from the 2008 Mid-Year Economic Report. In August 2008, 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. The July 2009 numbers show a meager 22 percent with revenue increases and 62 percent reporting decreases—the first time that a majority of small-business respondents cited revenue decreases since NSBA began asking the question in 1993. With regards to profits, businesses experienced the same marked reversal in increases versus decreases. In August 2008, 41 percent reported an increase in profits while 37 reported a decrease, and in December, only 30 percent cited increases in profits and a whopping 51 percent cited decreases in profits. In July, an even larger majority, 66 percent, cited decreases in profits while only 18 percent cited increases in profits.

Small-business owners also were asked to rate their level of expected business growth for the coming 12 months, and a similar trend—more businesses expected decreases in revenue and profit—continued between the 2008 Year-End Economic Report and now. This trend also represents a flip-flop from past survey results. In August 2008, 57 percent projected revenue increases and 23 percent projected decreases in the coming 12 months, and in December 2008, only 31 percent projected an increase in revenues while 47 percent projected revenue decreases. For July 2009, only 30 percent projected revenue increases and 50 percent projected 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 percent projected a decrease, and in December, just 23 percent projected increases in profits for the coming year while 53 percent projected a decrease in profits. For July 2009, 23 percent projected increases in profits for the coming year while 56 percent projected a decrease in profits.

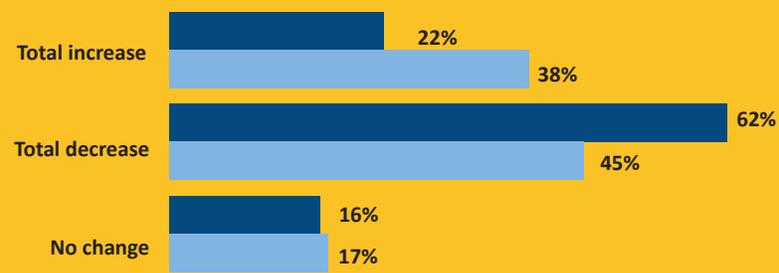
When asked about which future growth strategies they plan to implement in the coming 12 months, the top three responses were new advertising and marketing strategies (47 percent), expanded Internet presence and e-commerce (39 percent), and strategic alliances (27 percent). The most telling response to this question, however, was the increase in respondents, 22 percent, who have no growth strategies whatsoever planned for the coming year, up from 19 percent in December.

Another very small silver lining – when asked about growth strategies, there was a very slight up-tick (an eight percent increase) in the number of companies who cited plans to hire new employees in the coming 12 months.

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?

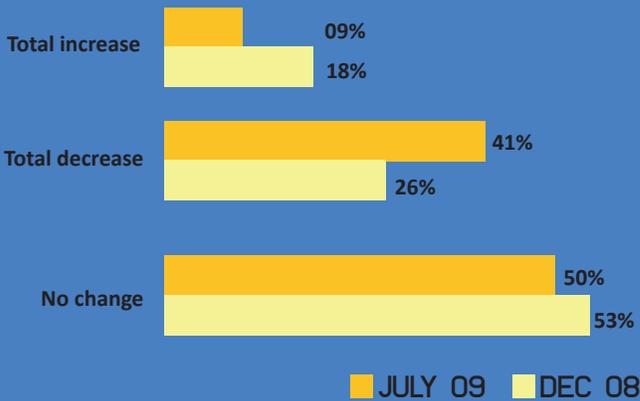


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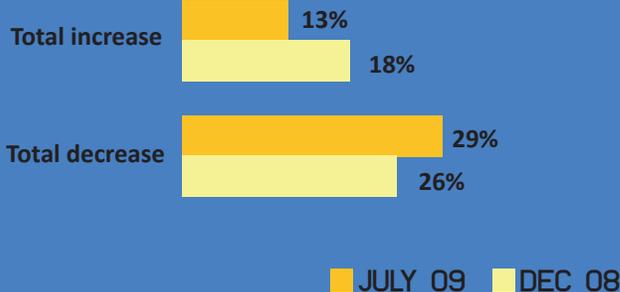


How much did your number of employees change over the last 12 months?



“ Similar to the changes in revenues and profits between the December and July survey, employment numbers also took a turn for the worse with fewer companies increasing employment than decreasing it. ”

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 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 December and July 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. The July results are even worse. A meager nine percent cited an increase to their number employees over the past 12 months while 41 percent cited a decrease and 50 percent cited no change.

Unfortunately, job growth projections for the coming 12 months don’t look much better. In December, 18 percent of small-business owners projected an increase in employees and 26 percent projected a decrease. In July, 13 percent of small-business owners projected an increase in employees and 29 percent projected a decrease. While this still results in a deficit for net job growth, there exists a slight hopefulness on the part of small businesses that better days lay ahead. When comparing the July survey results for job growth in the last 12 months (nine percent) with job growth projections for the coming 12 months (13 percent), there is a slight increase.

Given the historic role small business has played in job creation, the alarming switch in net losses in 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. Over the last two years, there has been a decreasing number of small businesses using bank loans—that trend has stopped, for now at least. According to the July 2009 survey, 53 percent of small-business owners used a traditional bank loan in the last 12 months—up from just 44 percent in December 2008. Due in part to lower interest rates and other incentives attached to loans, the increase in reliance on bank loans also reflects that more businesses are turning to outside sources of financing as the difficult economy has forced them to use up business savings and earnings. An additional factor in the increase in small-business owners using bank loans: the April 2009 Federal Reserve Board Senior Loan Officer Survey reported eased lending standards in recent months. Unfortunately, that same survey reported that a significant majority of banks have increased the costs of credit lines while at the same time about 40 percent have reduced the size of business loans.

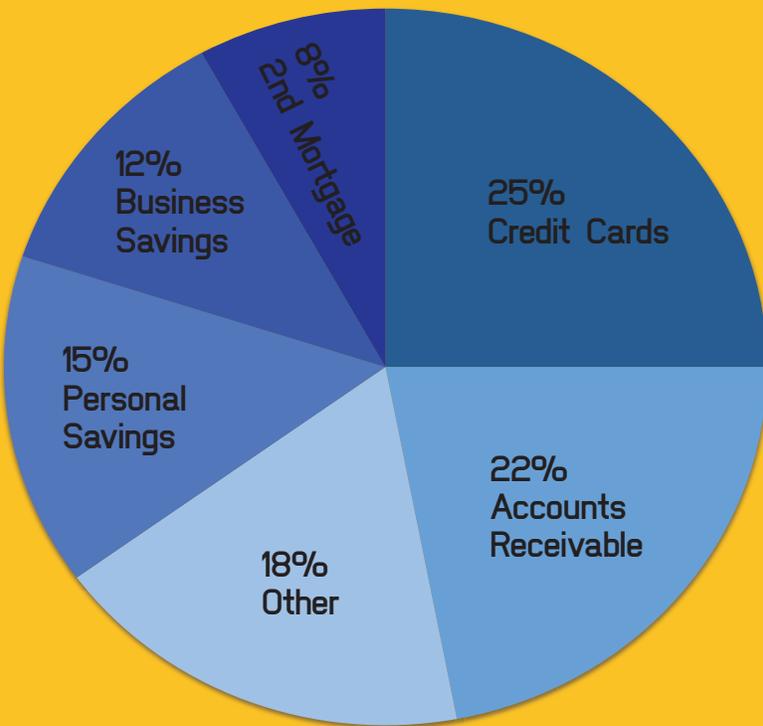
When asked if their business is able to obtain adequate financing, 67 percent said yes in December—that number dropped to 62 percent in July. More than a third of small businesses are not able to get the financing they need to run their business. In the annual survey conducted in February 2008, NSBA asked small-business owners if their businesses 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. Today, a whopping 80 percent of small-business respondents have been impacted by the credit crunch. 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, December, and July 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. Small-business owners continue to report worsening terms for both bank loans and credit cards. Sixty-eight percent cited worsening credit card terms, and 19 percent cited less favorable terms on their bank loans.

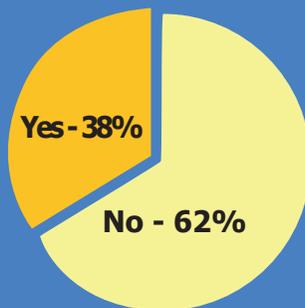
NSBA has heard anecdotally from small-business owners across the country who have had a credit-card limit or line of credit arbitrarily reduced due to no fault of their own. These reductions are typically due simply to the fact that, as a small business, the lending institution views the credit as risky. 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. In July, 38 percent—up 10 points from December—reported that they had experienced a decrease in their line(s) of credit or a credit-card limit in the past six months.

The implications of the collapsed housing market continue to haunt the small-business community. In July, eight percent of small-business owners leveraged their business loans with a second home mortgage—down from nine percent in December and 12 percent in August 2008. The number of small-business owners using business savings to leverage their business loans was cut in half between December 2008 and July 2009, a clear indication that small businesses have been utilizing savings to maintain day-to-day operations during the economic downturn.

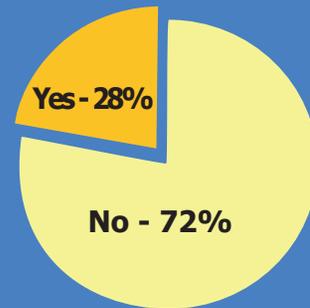
How do you leverage your business loans?



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



JULY 09



DEC 08

Public Policy

As the 111th Congress tackles many important issues, 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 to rank by importance to their business which issue Congress and President Barack Obama should address, small businesses ranked reducing the tax burden (35 percent), addressing health care costs (17 percent), and increasing small business access to capital (14 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 businesses. 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. 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 U.S. Small Business Administration (SBA) 7(a) loan program, which, for the first quarter of 2009 were down 57 percent from the same period in 2008.

Following passage of the American Recovery and Reinvestment Act—which included several tax and lending provisions supported by NSBA, the SBA on June 15 began guaranteeing its new America's Recovery Capital (ARC) loans which are aimed at small-business owners who've experienced an immediate financial hardship due to the economy. Unfortunately, some lenders have stated their hesitance to offer ARC loans due to a lack of economic incentive and the general uncertainty that seems to be surrounding the program.

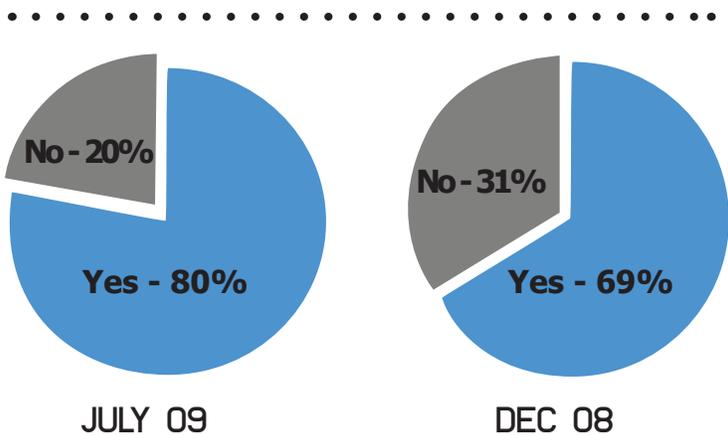
NSBA believes more can, and must be done to ensure entrepreneurship remains a viable, attainable option for every American. Small businesses face unique challenges that put them at a disadvantage not only among their industry competitors, but globally. As voted on by NSBA's members, the following 2009 NSBA Top Ten Priorities reflect the need to diminish the competitive disadvantages small businesses face and enable entrepreneurs to do what they do best: create jobs and grow the economy.

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

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	Reducing the tax burden	35%
	Addressing health care costs	17%
	Increase small business access to capital	14%
	Reducing the regulatory burden on businesses	12%
	Rising fuel prices and addressing the nations' dependence on oil	7%
	Credit card reform	3%
	Reauthorizing the SBIR Program	2%
	Improving education to provide a qualified domestic workforce	1%

Has your business been impacted by the credit crunch?



Methodology

The cornerstone of NSBA's data mining is our broad national survey which was most recently conducted in late-February 2008 by Public Opinion Strategies. That survey is representative of the entire U.S. small-business community. The most recent surveys, including the 2009 Mid-Year Economic Report were done internally using a sampling of NSBA membership, which tends to be older, larger and more established businesses. It is important to note that this data likely paints a more positive picture than that of the small-business community at-large. The 2009 Mid-Year Economic Report was conducted electronically June 24 through July 7 among 300 small-business members of NSBA.

Priority Issues

1) Broad Health Care Reform

NSBA supports a broad reform of the health care system that will reduce health care costs while improving quality, bring about a fair sharing of health care costs, and focus on the empowerment and responsibility of individual health care consumers.

2) Fair Labor Practices in the Workplace

NSBA opposes measures that would have a significant, negative impact on the employer-employee relationships in small businesses. The heavy-handed push by organized labor to increase union memberships through legislation stands to eliminate democracy and equality in the workplace.

3) SBIR Reauthorization, Expansion, and Strengthening

NSBA supports policies that build upon the successes of the Small Business Innovation Research (SBIR) program during its reauthorization process, strengthen the program, and increase the percentage of agencies' research and development funds reserved for small businesses.

4) Mandatory Employee Leave

NSBA opposes any move that would hinder an entrepreneur's ability to create jobs. Forcing small employers to provide paid or unpaid leave could limit the employer's ability to provide benefits and incentives, stifle job growth and exacerbate the economic downturn.

5) Access to Capital

NSBA advocates for policies that would increase small-business access to capital, including improved start-up financing opportunities, a fully-funded 7(a) program, debt versus equity financing, and international trade financing assistance. Additionally, NSBA is committed to exploring ways in which legislative and regulatory obstacles to entrepreneurial funding can be razed and innovative lending solutions can be improved.

6) Alternative Minimum Tax

NSBA urges full repeal of the Alternative Minimum Tax (AMT), or alternatively, supports changes to lessen the impact on middle-income taxpayers. Because many small businesses are pass-through entities, their business income is reported as personal income, subjecting increasing numbers of small-business owners to this complex tax.

7) Credit-Card Reform

NSBA urges broad reform of the credit-card industry and the re-imposition of the basic tenets of free-market capitalism including the recognition of the sanctity and insolubility of contracts, actual competition, and informed consumers through improved disclosure. NSBA is committed to ensuring that the rules governing the credit-card industry no longer allow the exploitation of the small-business community, nearly half of which relies on credit cards as a primary source of financing.

8) Energy Policy

NSBA is committed to representing the interests of America's small businesses and supports policies that will enable small businesses to reduce their energy consumption through increased efficiency; ensure small-business participation in the new economy; and address inequitable energy costs.

9) Estate Tax Reform

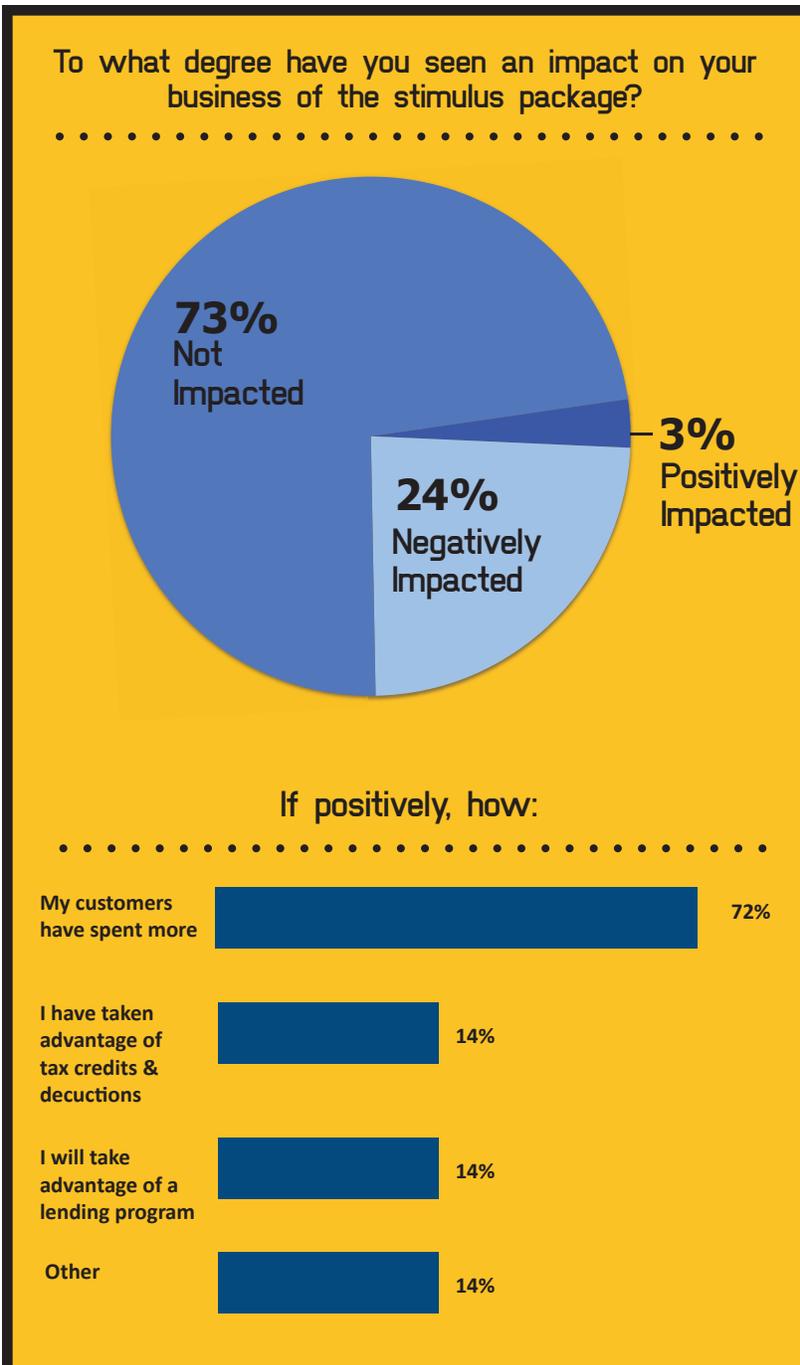
While urging full repeal of the estate tax, NSBA members have agreed

to a five-point compromise plan that would permanently repeal the estate tax on small and family-owned businesses-including farms. Such compromise would have a \$7.5 million exemption, with a tax rate of 15 percent (tied to capital gains), fully indexed for inflation and calculations would include a step-up in basis.

10) Self-Employment Tax on Health Care

NSBA supports closing the tax loophole which prohibits self-employed individuals from fully deducting the cost of their health insurance premiums, resulting in an additional 15.3 percent tax that no other individual must pay. This simple correction in the tax code would make health insurance more affordable for more than 21 million self-employed individuals.

The NSBA 2009 Mid-Year 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.





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