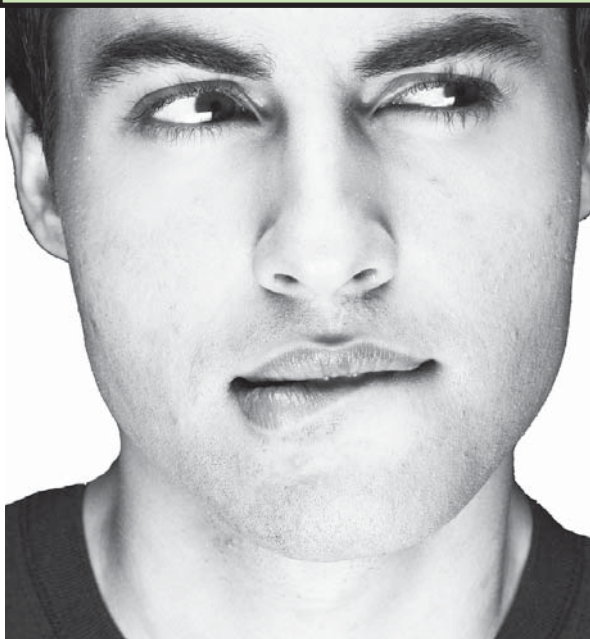


**2008 Small-Business
Mid-Year Economic Report**

NSBA
National Small Business Association





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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 Small Business: 70 Million Strong...And Voting campaign at www.nsba.biz/vote.



"AN OVERWHELMING MAJORITY, 67 PERCENT, OF SMALL BUSINESSES HAVE BEEN IMPACTED BY THE CREDIT CRUNCH."

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 late February 2008, the National Small Business Association (NSBA) conducted its annual nationwide survey of America's small businesses. In this mid-year report, NSBA compiles recent survey and poll data from late-August and early September to provide a snapshot of how small business is dealing with the current economic slowdown.

The results of both our nationwide survey as well as our more targeted recent member surveys—conducted using a sampling of NSBA members which were older, larger and more established business than in the annual survey—found small-business owners extremely anxious about the economy with fears of a recession on the horizon. When asked in August to compare today's national economy with five years ago, 67 percent responded that U.S. is worse off. A minority of small-business owners anticipate economic growth in the coming 12 months, with 79 percent anticipating a flat economy or recession.





Small Business Confidence in U.S. Economy

Given the ongoing economic difficulties the U.S. has faced over the past several months—bankruptcy filings of major financial institutions, government bail-outs of major banking and mortgage firms—small-business owners are feeling less confident not only with banks' ability to keep their money safe, but also with their ability to obtain additional capital. Even the perception of such limitations on the small-business sector translates into prolonging the recovery of the U.S. economy.

What are the Three Most Significant Challenges to the Future Growth & Survival of Your Business?



ECONOMIC UNCERTAINTY - 53%



COST OF HEALTH INSURANCE BENEFITS - 46%



FEDERAL TAXES - 34%

Although NSBA's data is compiled from late-August and early-September surveys prior to the most recent banking failures, it can safely be stated that small-business owners are concerned with the security of their money. Due to the fact that the Federal Deposit Insurance Corporation (FDIC) only guarantees up to \$100,000 per account holder per bank, small businesses could be particularly at-risk.

When asked if the current FDIC insurance limit of \$100,000 is adequate enough to insure their business accounts, 68 percent responded that it was not adequate. Nearly two-thirds, 60 percent, have already or are considering taking action such as spreading deposits across multiple institutions to reduce their financial risk. Small-business owners were asked about this particular issue in a Sept. 10 quick poll—prior to the most recent onslaught of government bail-outs and bankruptcies. That number is likely much higher now.

A significant, and frequently not recognized problem small businesses have faced in the past 6 months is the collapse of the housing market. According to the February survey, nearly one-fifth (18 percent) of small-business owners leverage their business loans with a second home mortgage. As home values have plummeted, small-business owners are left with loans that far outweigh the value of their home. This imbalance is forcing bankers to account for the increased risk of a loan not fully backed by assets. A clear result of housing market woes is the higher rate (32 percent) of small-business owners with worsening bank-loan terms. In the February survey, only 27 percent cited worsening bank terms, and that was among smaller, less-established companies which traditionally face worse terms than those more well-established firms included in the August data.

Another issue grabbing headlines in the past six months is the ever-increasing cost of energy. Small business, along with the rest of the country, is being pummeled by the cost of energy. Eighty-seven percent of small-business owners in August stated that rising energy costs have had a negative impact on their business. In February, 77 percent cited negative impacts of rising energy costs. Nearly half (47 percent) of small-business owners have reduced business travel and 42 percent have increased prices. One silver lining is the fact that nearly 20 percent have invested in energy-efficiency upgrades to their business.

"EIGHTY-SEVEN PERCENT OF SMALL-BUSINESS OWNERS IN AUGUST STATED THAT RISING ENERGY COSTS HAVE HAD A NEGATIVE IMPACT ON THEIR BUSINESS."





Business Growth

The August 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 business had experienced in gross sales/revenues and net profits. Forty-nine percent reported an increase in gross sales/revenues, while only 40 percent reported an increase in net profits. We also asked small-business owners to rate their level of expected business growth for the coming 12 months. Keeping in-line with the general sense of optimism inherent in entrepreneurs, most predicted growth on the horizon for their business with 58 percent projecting increases in gross sales/revenues and 43 percent projecting increases in profits.

The spread (nine points) between projected growth in gross sales/revenues (58 percent) as compared to past gross sales/revenues (49 percent) is higher than the spread (three points) between projected profit increases (43 percent) and past profits increases (40 percent). That differentiation exemplifies the phrase “doing more with less” as small-business owners expect to grow their business without similar rates of growth in business profits.

Respondents in the Aug. 2008 and Feb. 2008 survey were asked to identify all growth strategies they plan to implement in the coming 12 months, and expanded Internet marketing and e-commerce were at the top. The most surprising shift between the surveys was the 11-point increase (to 31 percent) in August of small-business owners who plan to form strategic alliances—signaling the fact that many small businesses simply cannot continue to thrive in this economy without help.

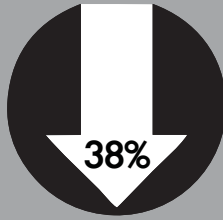
Small-business owners were asked to rank what they see as the top three most significant challenges to the future growth and survival of their company. Topping the list at 53 percent in Aug. 2008 was economic uncertainty. The cost of health insurance plans came in second at 46 percent and federal taxes ranked third at 34 percent.



How Much Did Net Profits Change Over the Last 12 Months?



Increase

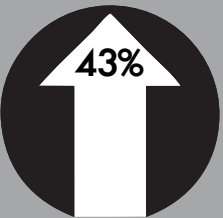


Decrease

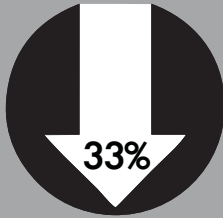


No Change

How Much Do You Expect Net Profits to Change Over the Next 12 Months?



Increase



Decrease



No Change



“THAT DIFFERENTIATION EXEMPLIFIES THE PHRASE ‘DOING MORE WITH LESS’ AS SMALL-BUSINESS OWNERS EXPECT TO GROW THEIR BUSINESS WITHOUT SIMILAR RATES OF GROWTH IN BUSINESS PROFITS.”



How Much Did the Number of Employees Change Over the Last 12 Months?



Increase



Decrease



Stayed Same

How Much Do You Expect the Number of Employees to Change Over the Next 12 Months?



Increase



Decrease



Stayed Same

Job Growth

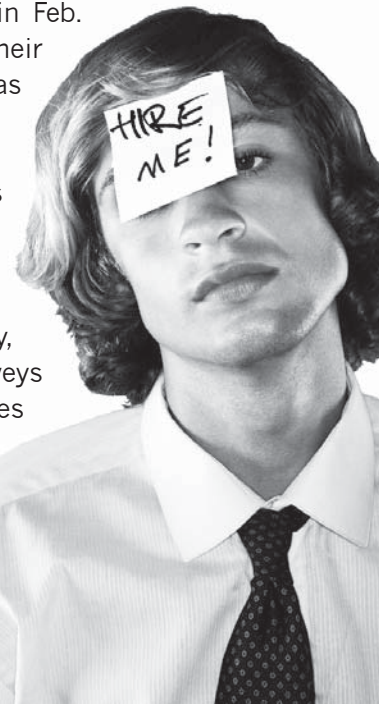
As the leading contributor of net new jobs to the U.S. economy, small-business job growth has been a critical piece of NSBA's surveys and polls. Small-business owners were asked how their business has fared over the past 12 months regarding number of employees. The split between businesses who grew their staffs (27 percent) was similar to those who decreased staff size (25 percent) with the near-majority (48 percent) of small-business owners neither creating nor eliminating jobs.

Looking forward, 30 percent of small-business owners projected increases in the number of employees in the coming 12 months and 15 percent expect staffing decreases. The clear majority (55 percent) expect no change whatsoever in the next year.

When the same question was posed in the Feb. 2008 survey, 67 percent projected no growth in staff size in the coming 12 months, and 68 percent reported no growth in staff size in the past 12 months. Due to the variation in survey respondents between the February and August surveys, this slight anomaly is expected.

The broader, more important implication in comparing the two data sets, is the fact that net new job creation remains stagnant. The variance between those adding and eliminating jobs in the past 12 months according to the Aug. 2008 survey is a two-percentage point difference while back in Feb. 2008, those growing and decreasing their staff size in the previous 12 months was the same (16 percent).

With the significant role small business plays in job creation—responsible for 93.5 percent of net new jobs since 1989—this extremely limited rate of net new job growth is concerning. Fortunately, both the Feb. 2008 and Aug. 2008 surveys show that projected job growth outpaces projected job eliminations, resulting in positive net job growth. According to the Aug. 2008 survey, there was a 15-point spread between those projecting job growth and those projecting job eliminations in the coming 12 months.





Small Business Access to Capital

Even in a growing economy, many small businesses lack the assets necessary for a traditional bank loan, making them a riskier option for banks. With the number small businesses using bank loans at a 15-year low, according to the February survey, the recent shake-up in the financial markets could make financing an even bigger challenge.

Has Your Business Been Impacted by the Credit-Crunch?

FEBRUARY	Yes- 55%	No- 45%
AUGUST	Yes- 67%	No- 33%

Do You Believe That the Terms of the Credit Cards you Use for Business, including interest rates, late fees, time to pay in full, etc, have improved or gotten worse over the last five years?

	FEB	AUG
GOTTEN WORSE	57%	63%
REMAINED SAME	35%	33%
IMPROVED	7%	4%

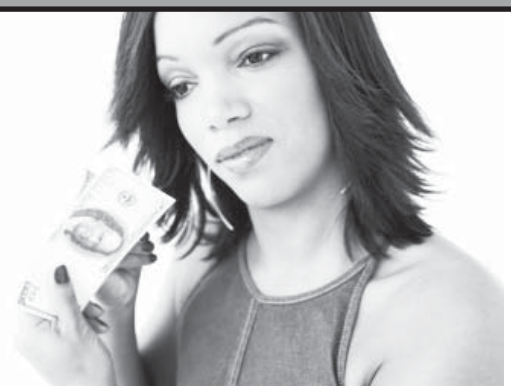
For Bank Loans That are Currently Outstanding, which of the Following has occurred in the Last 12 Months?

	FEB	AUG
LESS FAVORABLE	27%	32%
STAYED THE SAME	57%	53%
MORE FAVORABLE	16%	15%

In February, 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.

Sources of financing for NSBA's members in the August survey included traditional bank loans, earnings of the business and credit cards in the top-three slots. Unfortunately, business owners report worsening terms for both bank loans and credit cards. Sixty-three percent in the August survey reported worsening credit card terms as compared with 57 percent in February. Bank loans received an even higher spike when ranked on worsening terms. In February, 27 percent of small-businesses cited worsening bank loan terms—that figure jumped to 32 percent in August. Keeping in mind that the August respondents are more well-established firms, the increased responses on worsening terms for credit cards and bank loans would surely be much higher for the overall small-business community.

"WITH THE NUMBER SMALL BUSINESSES USING BANK LOANS AT A 15-YEAR LOW, ACCORDING TO THE FEBRUARY SURVEY, THE RECENT SHAKE-UP IN THE FINANCIAL MARKETS COULD MAKE FINANCING AN EVEN BIGGER CHALLENGE."



Public Policy

As the nation focuses on the 2008 election cycle, small business remains one of the most important yet least talked about voting blocks. Thus, NSBA launched the Small Business: 70 Million Strong...And Voting campaign which seeks to educate lawmakers, candidates and the public on the importance of small business.

Today, the number one issue for small businesses in selecting a presidential candidate to support is, according to the August survey, rising fuel prices. Coming in a close second is reducing the small-business tax burden with health care costs third.



From a Financial Perspective, How Do You Feel Right Now About the Future of Your Business?

.....



CONFIDENT - 75%



NOT CONFIDENT - 25%

Entrepreneurial Spirit

Despite the bleak outlook for the U.S. economy as a whole, small-business owners remain relatively confident about their own business. That trend, in-line with the Feb. 2008 survey, finds that today, 75 percent of small-business owners are confident about the future of their own business. While certainly a highlight, it cannot be taken lightly that one-fourth of small-business owner are not confident about the future of their business.

Methodology

The cornerstone of NSBA's data mining is the 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.

Which One of the Following Issues Would be Most Important in Selecting a Presidential Candidate?

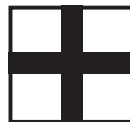
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RISING FUEL PRICES AND ADDRESSING THE NATIONS' DEPENDENCE ON OIL - 32%



REDUCING THE TAX BURDEN - 28%



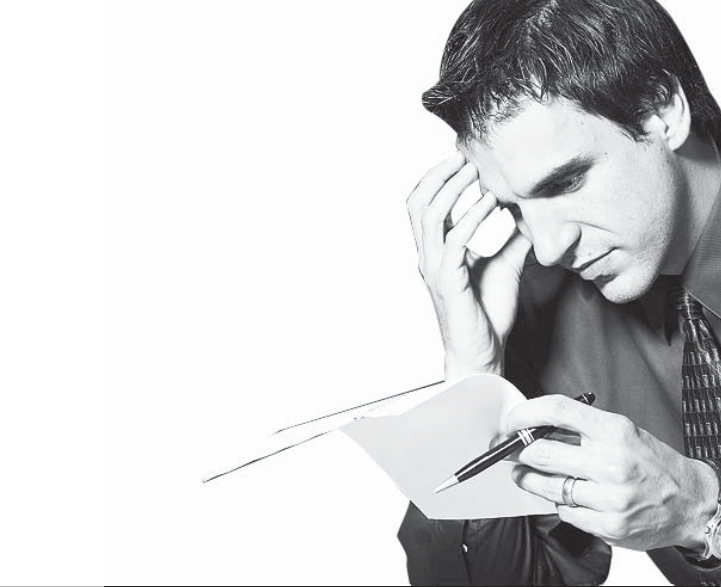
ADDRESSING HEALTH CARE COSTS - 22%



REDUCING THE REGULATORY BURDEN ON BUSINESS - 13%



IMPROVING EDUCATION TO PROVIDE A QUALIFIED DOMESTIC WORKFORCE - 5%



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