



NSBA
National Small Business Association

2016 YEAR-END ECONOMIC REPORT

FOREWORD

The National Small Business Association (NSBA) is the nation's first small-business advocacy organization, celebrating 80 years of small-business representation in Washington, D.C. Focused on federal advocacy and operating on a staunchly nonpartisan basis, NSBA conducts a series of surveys every year, including two Economic Reports.

The 2016 Year-End Economic Report shows a vastly improved small-business outlook. The number of small-business owners who say today's economy is better than six months ago is nearly doubled, from 22 percent in July 2016 to 43 percent today, the highest this indicator has been since 2008. Furthermore, small businesses anticipating economic expansion in the next 12 months increased significantly, from 29 percent six months ago to 54 percent today.

There was a notable drop, continuing the downward trend we've seen in the last several years in the number of small-business owners who say economic uncertainty is a significant problem facing their business. This indicator is at its lowest point in nine years. Unfortunately, the cost of health insurance and regulatory and tax burdens remain at similar or higher levels than the previous survey in terms of significant challenges facing America's small businesses.

When it comes to confidence in their own business, the findings showed positive gains, however not quite to the level as the positive gains in overall economic outlook. Eighty percent of small-business owners are confident in the future of their business—the highest this indicator has been in nine years—and 78 percent report they already are growing or anticipate growth this year.

Looking back over the past year, the number of small firms reporting growth in revenues was at its highest point in eight years. Unfortunately, there were just modest gains in hiring—today 25 percent report hiring over the last year whereas just 23 percent did so six months ago. Not surprising, given small-business owners inherent optimistic spirit: hiring projections for the coming 12 months was up 10 percentage points.

On a less-positive note, small-business access to capital remains stubbornly unchanged with just 69 percent of small firms able to get adequate financing. According to NSBA data from as far back as 1993, there is a clear correlation to a small-business owner's ability to hire and his/her ability to get financing. This survey clearly shows that even the most positive outlook won't make a dent in hiring if financing is elusive to small firms.

In addition to our general policy questions, we focused on several federal contracting questions and found that 60 percent of small federal contractors rated entering the federal marketplace moderate to very difficult. Furthermore, prime contractors receive the most timely payments with notable dips in payment times for subcontractors—something for which NSBA has been seeking a remedy for years.

On more broad policy topics, the number one thing small business wants Congress and the Administration to do is end the partisan gridlock and work together, followed closely by tax simplification, reduce health care costs and address the deficit.

The 2016 Year-End Economic Report was conducted on-line Jan. 16 through Feb. 8, 2017 among 1,426 small-business owners. We hope you find this report informative and useful. Please contact NSBA's media office for inquiries at press@nsba.biz.

Sincerely,



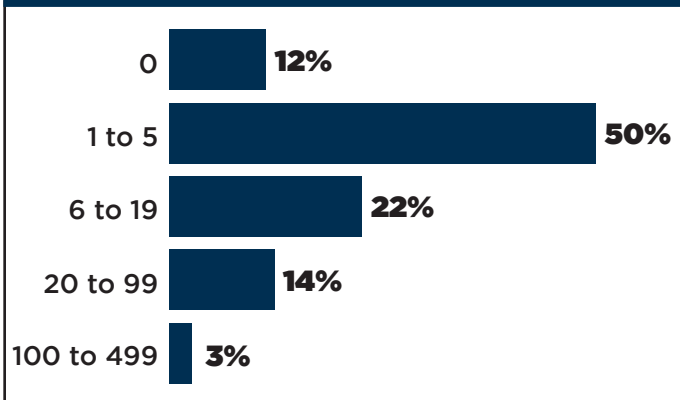
Pedro Alfonso
NSBA Chair
Dynamic Concepts, Inc.



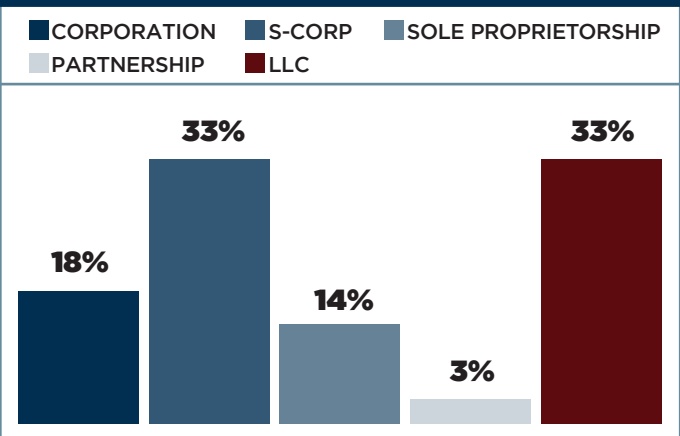
Todd McCracken
NSBA President and CEO

DEMOGRAPHICS

How many total full-time personnel are currently employed by your business?



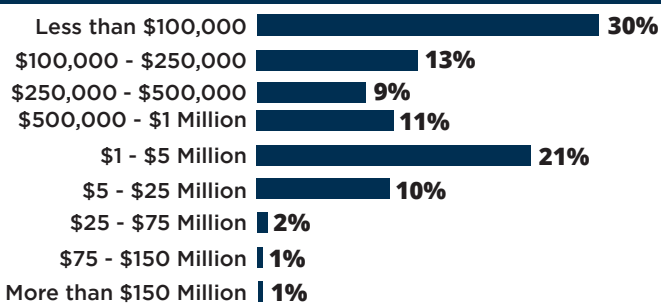
Which of the following best describes the structure of your business?



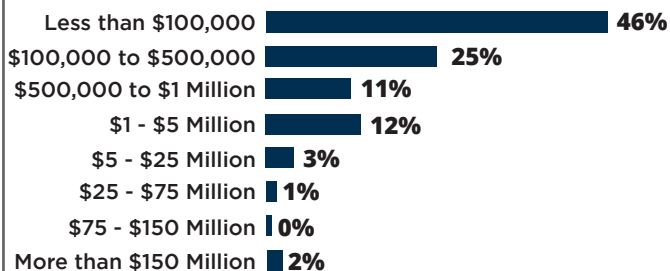
In what region is your business located?

New England	5%
Mid-Atlantic	19%
Great Lakes	17%
Farm Belt	6%
South	26%
Mountain	13%
Pacific	14%

What were your gross sales or revenues for your most recent fiscal year?



What was your total payroll for the most recent fiscal year?






Which of the following best describes the industry or sector in which your business operates?

Construction	12%
Manufacturing	12%
Other Services (except Public Administration)	11%
Professional	10%
Scientific and Technical Services	9%
Health Care and Social Assistance	8%
Information (IT)	6%
Retail Trade	6%
Agriculture, Forestry, Fishing and Hunting	5%
Transportation and Warehousing	4%
Educational Services	3%
Wholesale Trade	3%
Arts, Entertainment, and Recreation	2%
Real Estate, Rental and Leasing	2%
Accommodation and Food Services	2%
Utilities	1%
Management of Companies and Enterprises	1%
Finance	1%
Administrative and Support	1%
Insurance	1%
Public Administration	1%
Waste Management and Remediation Services	1%




ECONOMIC OUTLOOK

Small businesses anticipating economic expansion in the next 12 months increased significantly—the highest this indicator has been since we started asking in 2008.

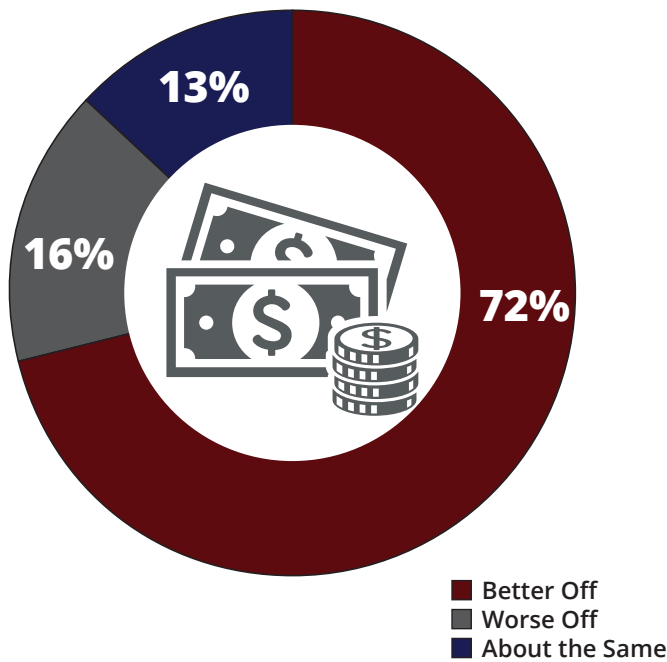
Compared to 6 months ago ... Would you say the national economy is:

	 Total better	 Total worse	 About the same
Jan. 17	43%	11%	47%
July 16	22%	30%	48%
Dec. 15	20%	32%	48%
July 15	22%	28%	51%

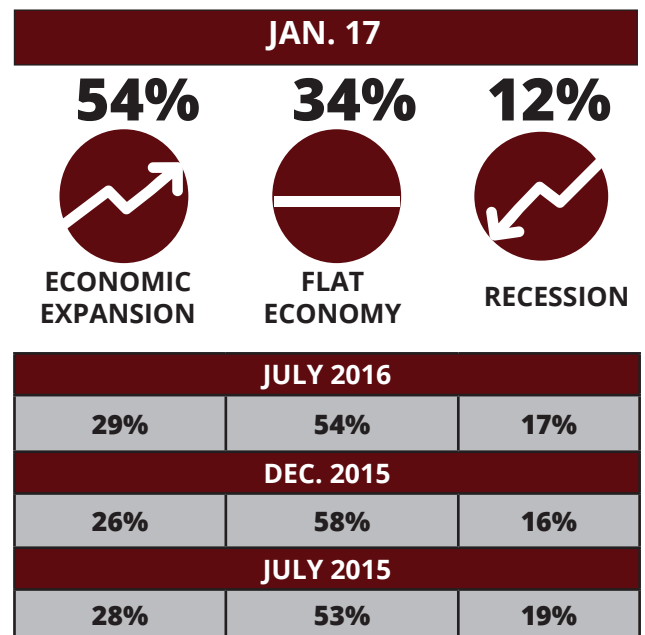
Compared to 1 year ago ... Would you say the national economy is:

	 Total better	 Total worse	 About the same
Jan. 17	53%	13%	34%
July 16	32%	33%	35%
Dec. 15	32%	29%	39%
July 15	35%	27%	37%

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



Thinking about the next 12 months, do you anticipate:



The number of small businesses that say today's economy is better than six months, one year ago, and five years ago all nearly doubled, and all three indicators are at their highest point in seven years.

ECONOMIC OUTLOOK

Small-business outlook on the overall economy is vastly improved from just six months ago.

Do you foresee any of the following issues being a problem for your business in the coming 12 months?

	Jan. 17	July 16
Inflation	32%	32%
Deflation	3%	6%
Rising interest rates	34%	24%
None of the above	49%	53%

What are the three most significant challenges to the future growth and survival of your business? (Please check the three most important challenges)

	Jan. 17	July 16	Dec. 15	July 15
Economic uncertainty	44%	49%	49%	51%
Cost of health insurance benefits	30%	28%	36%	34%
Regulatory burdens	28%	29%	33%	31%
Decline in customer spending	25%	29%	34%	30%
Federal taxes	23%	19%	24%	23%
Lack of qualified workers	22%	19%	21%	26%
Lack of available capital	22%	21%	19%	20%
Partisan gridlock in D.C.	15%	15%	14%	14%
Cost of employee salaries	14%	13%	15%	14%
State and local taxes	13%	13%	12%	12%
Growing national debt	9%	9%	12%	12%
Cost of technology	8%	9%	8%	7%
Cost of employee benefits	7%	8%	6%	8%
Cost of training workers	5%	5%	5%	4%
Foreign competition	5%	5%	6%	6%
No major challenges	4%	5%	3%	2%

There was a jump in the number of small businesses anticipating rising interest rates—echoing recent Fed increases as well as underscoring an improving economy.

The number of small businesses that say economic uncertainty is a significant problem facing their business is at its lowest point in nine years.

SMALL BUSINESS CONFIDENCE

While confidence in their own business saw notable gains—and continued the last eight-year trend—these gains weren't as large as the positive movement in small-business owners' economic outlook.

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

	Jan. 17	July 16	Dec. 15	July 15
Very confident	34%	28%	23%	26%
Somewhat confident	46%	44%	53%	46%
Not very confident	15%	20%	18%	21%
Not at all confident	5%	8%	7%	8%

Eighty percent of small-business owners are confident in the future of their business—the highest this indicator has been in nine years.

Do you believe there will be growth opportunities for your business...

	Jan. 17	July 16	Dec. 15	July 15
In the next 3 months	11%	7%	4%	7%
In the next 3 to 6 months	18%	14%	14%	12%
In the next 6 to 12 months	31%	33%	32%	28%
None in the coming year	22%	30%	33%	33%
My business is already growing	19%	17%	17%	20%

Sixty percent of small businesses anticipate growth for their firm in the coming year, and a total of 78 percent report they already are growing or anticipate growth this year.

BUSINESS GROWTH

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

JAN. 17

47%



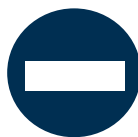
INCREASE

24%



DECREASE

29%



NO CHANGE

JULY 2016

37%

32%

31%

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

JAN. 17

67%



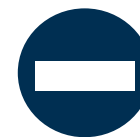
INCREASE

11%



DECREASE

22%



NO CHANGE

JULY 2016

57%

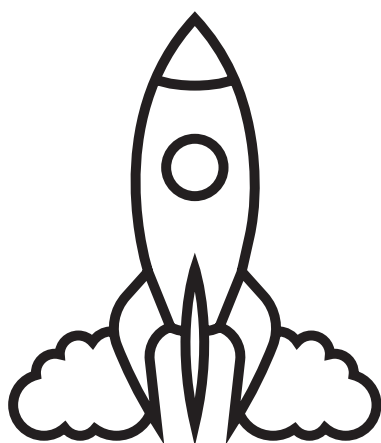
16%

26%

The number of small firms reporting growth in revenues over the last year was at its highest point in eight years.

Looking to the next 12 months, two-thirds of small businesses anticipate revenue growth, the highest it's been in nine years.

Which of the following growth strategies will you use in the next 12 months?

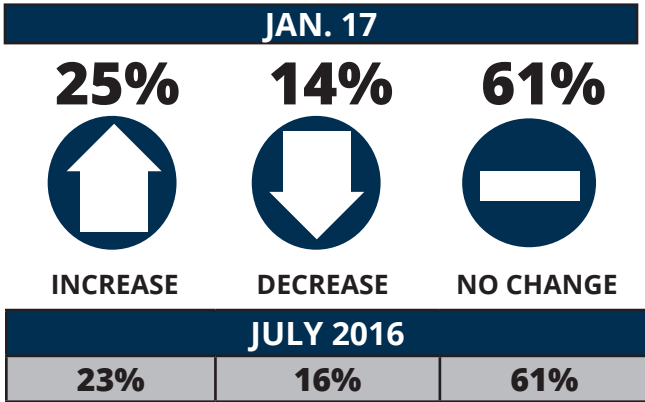


	Jan. 2017	July 2016
New advertising and marketing strategies	46%	45%
Strategic alliance	33%	30%
Hire new employees	27%	23%
Internet / Expand E-commerce	27%	28%
New product lines	26%	25%
New territory	16%	12%
Joint Venture	14%	14%
No growth strategies planned	12%	16%
Investments in Research and Development	12%	11%
Expand operations to new facilities/add additional stores	10%	8%
Outsourcing	7%	6%
Other	5%	7%
Acquisition	4%	4%
Exporting	4%	4%
Merger	3%	2%

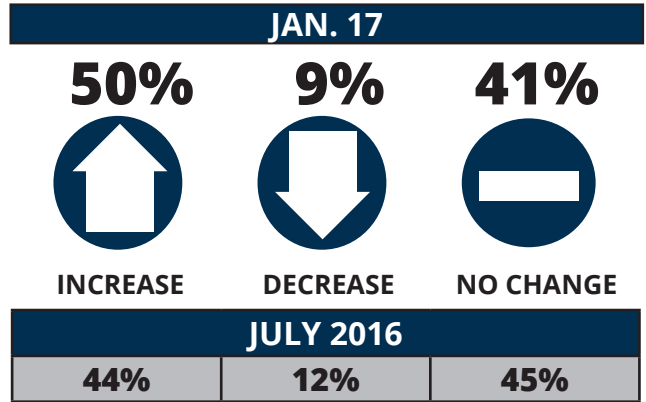
In the coming year, nearly half of small firms plan to employ new marketing strategies and more than one-quarter plan to expand their e-commerce platforms.

JOB GROWTH

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



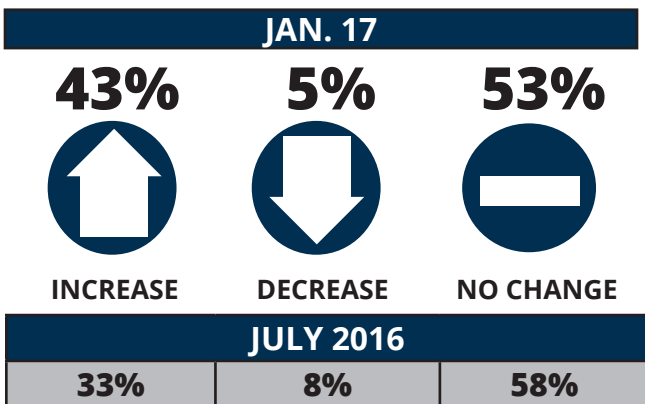
How did employee compensation change over the last 12 months?



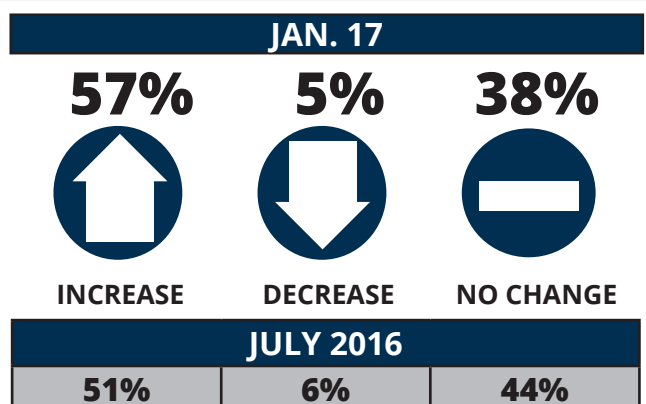
Although there were just modest gains in hiring over the past 12 months, there was a notable gain among small-business owners projecting hiring in the coming 12 months, up from 33 percent six months ago to 43 percent today.

In the last year, half of all small-business owners increased employee wages and more than half project further salary increases in the coming year.

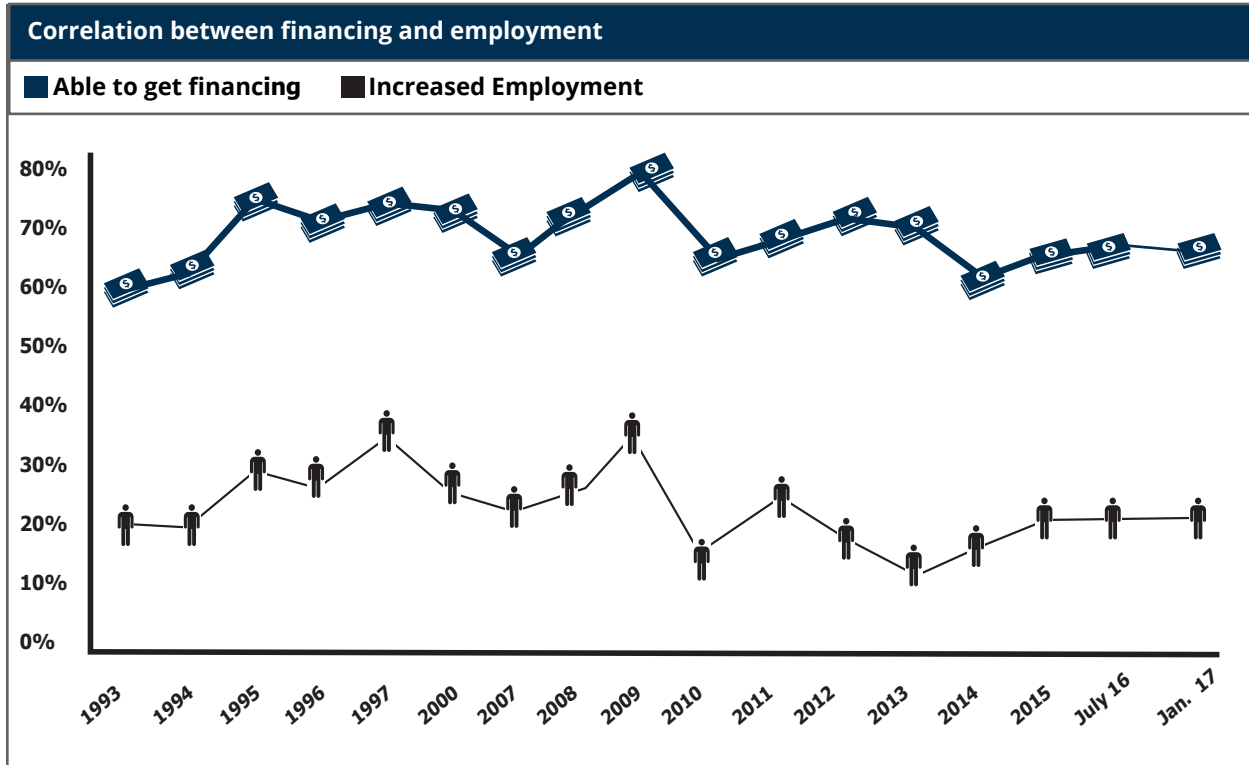
How do you expect the number of employees to change over the next 12 months?



How do you expect employee compensation to change over the next 12 months?



SMALL BUSINESS FINANCING



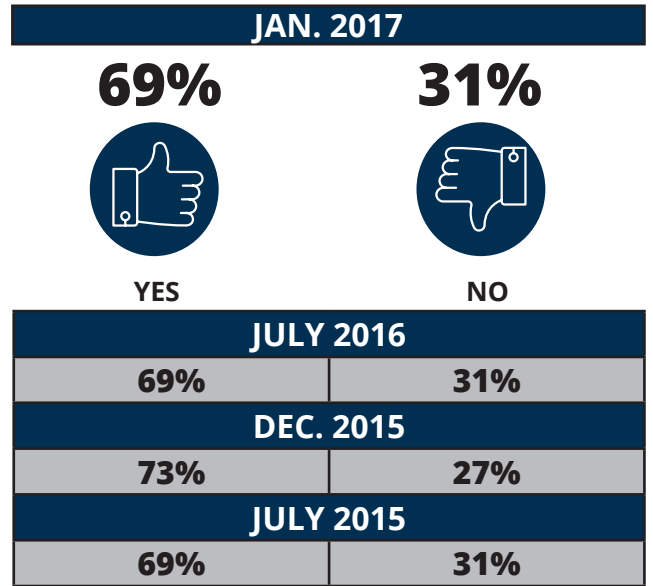
According to NSBA data from as far back as 1993, there is a clear correlation to a small-business owner's ability to hire and his/her ability to get financing.

Despite a significant shift in outlook, small-business access to capital remains stubbornly unchanged with just 69 percent of small firms able to get adequate financing.

For bank loans that are currently outstanding, which of the following has occurred in the last twelve months?

Terms have become less favorable to your business.	11%
Terms have stayed the same	31%
Terms have become more favorable to your business	3%
Do not have outstanding loans.	56%

Is your business able to obtain adequate financing?



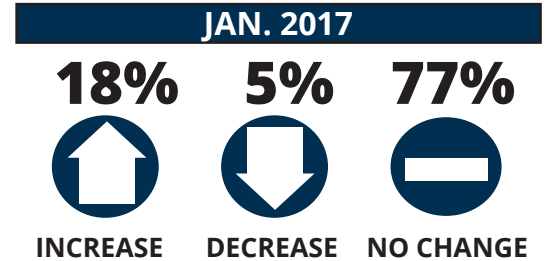
SMALL BUSINESS FINANCING

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

	Jan. 2017	July 2016
Bank Loan (Dec. 12=total of 3 options below)	49%	48%
- Large Bank Loan	15%	14%
- Community Bank Loan	14%	14%
- Credit Union Loan	3%	3%
Credit cards	32%	31%
Earnings of the business	30%	33%
Used no financing	30%	29%
Private loan (friends or family)	15%	17%
Vendor credit	13%	13%
Leasing	6%	5%
Venture capital/Angel investors	4%	3%
Small Business Administration (SBA) loan	3%	3%
Online or non-bank lender	2%	2%
Private placement of debt	2%	2%
Private placement of stock	2%	1%
State/Regional Loan and Incentive Programs	2%	3%
Crowdfunding	1%	1%
Selling/pledging accounts receivable	1%	1%
Other	7%	6%

Community bank lending remains stubbornly low given their past levels of small-business lending.

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



If capital availability is a problem for your business, what is the effect on your operations?

	Jan. 2017	July 2016
Not a problem / No effects	53%	48%
Unable to grow business or expand operations	36%	41%
Reduced the number of employees	16%	20%
Unable to finance increased sales	14%	17%
Reduced benefits to employees	10%	13%
Unable to increase inventory to meet demand	10%	11%
Closed stores or branches	3%	2%
Other	4%	4%

Sixteen percent of small firms were forced to lay off employees as a direct result of their inability to garner financing.

FEDERAL CONTRACTING

Do you currently, or have you ever engaged in the federal marketplace as a prime or subcontractor?

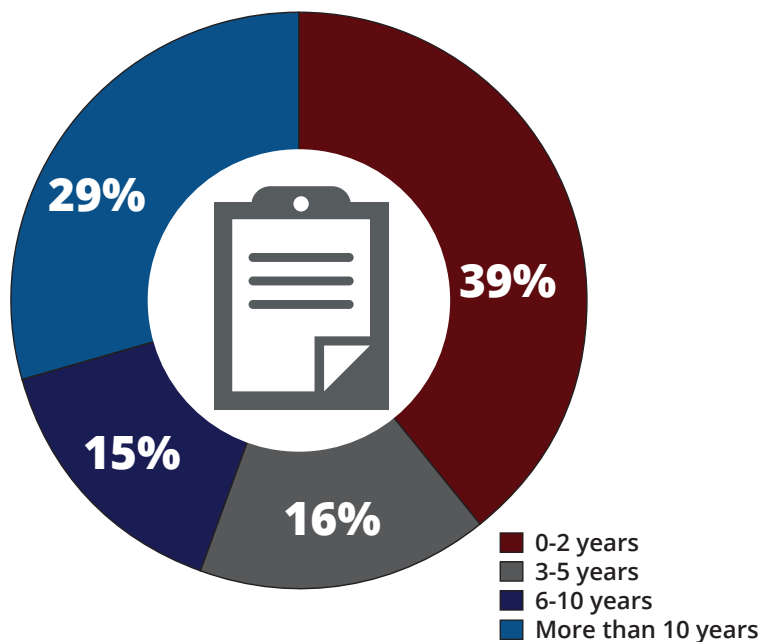
Yes - currently a prime contractor	11%
Yes - currently a subcontractor	12%
Yes - currently BOTH a prime and a subcontractor	8%
Yes - formerly a prime contractor	2%
Yes - formerly a subcontractor	5%
Yes - formerly BOTH a prime and a subcontractor	2%
No	54%

Nearly one-third of respondents said they currently are engaged in the federal marketplace.

With which federal agency do you do the majority of your work?

Department of Defense	33%
Department of Veterans Affairs	9%
Department of Agriculture	5%
Department of Interior	5%
Department of Health and Human Services	5%
Department of Transportation	4%
Department of Energy	3%
Department of Justice	3%
Department of State	3%
Department of Homeland Security	3%
National Institutes of Health	2%
Department of Education	2%
Department of Commerce	2%
Environmental Protection Agency	1%
Treasury Department	1%
Other	18%

How long have you been a federal contractor?



The majority of federal contractors in this survey have been doing it for five or fewer years.

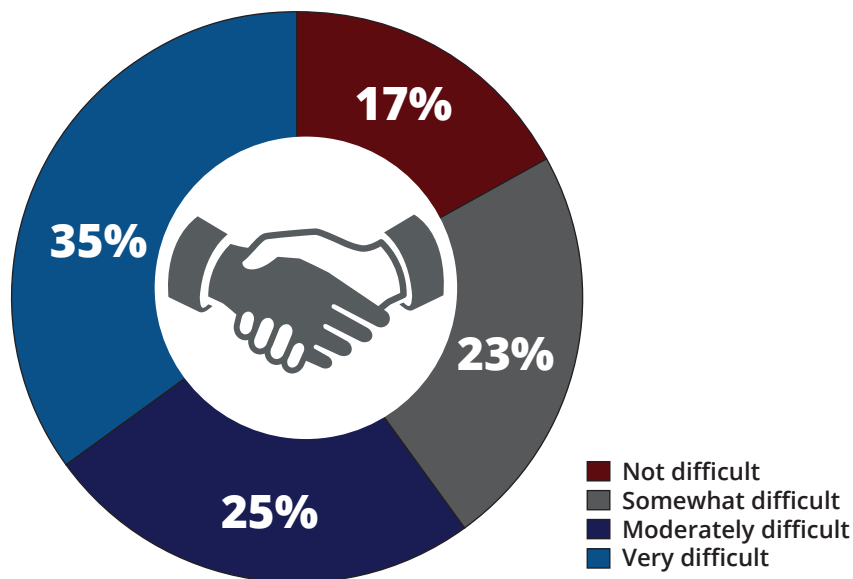
The Department of Defense represents fully one-third of all small-business contracts.

FEDERAL CONTRACTING

Approximately what percentage of your business is composed of federal contracting?

0-5 percent	48%
6-10 percent	8%
11-20 percent	7%
21-50 percent	11%
More than 50 percent	26%

On a scale of 1-4 with 4 being the MOST difficult, how difficult was it for you to get into the federal contracting arena?



Please select how timely you receive your payment from the following various sources.

	Within 30 days	30-60 days	60-90 days	90-120 days
Federal government agency	51%	29%	11%	6%
Prime contractor	38%	34%	15%	7%
First-tier subcontractor	30%	40%	16%	8%

The small-business owner him/herself overwhelmingly handles the firm's federal contracting work. No surprise, then that 60 percent rated entering the federal marketplace moderately to very difficult.

Sixty-three percent of federal contractors say that contracting accounts for less than 20 percent of their total business.

Who in your business oversees your federal contracting work?

I do	84%
A member of my staff does	12%
I outsource this work	1%
Other	4%

When asked to rate 1-4 with 4 being the most difficult, the average federal contractor gave "entering the federal marketplace" a 3.

Please select on average, how much time you typically are given to make requested adjustments to your contracts with the following various sources.

	Less than 1 week	1 to 2 weeks	3 to 4 weeks	5 to 8 weeks
Federal government agency	18%	20%	19%	7%
Prime contractor	22%	25%	18%	6%
First-tier subcontractor	18%	23%	22%	5%

More than one-in-five subcontractors are given less than one week to make changes to their existing contracts.

PUBLIC POLICY

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

End the partisan gridlock and work together	17%
Simplify the tax system	14%
Rein-in costs of health care reform	13%
Reduce the national deficit	13%
Reduce the tax burden	9%
Reduce the regulatory burden on businesses	8%
Increase small business access to capital	8%
Other	7%
Improve education to provide a qualified domestic workforce	4%
Reform the immigration system	2%
Reform the federal contracting system	1%
Enact a comprehensive energy policy	1%
Remove barriers to small-business exporting	1%
Tort reform	1%
Implement cybersecurity procedures and/or standards	1%
Credit card reform (that includes SB)	1%
Reduce the burden of unfair labor laws	1%

The number one thing small business wants Congress and the Administration to do: end the partisan gridlock and work together.

Which of the following deficit-reducing proposals would you support? (Check all that apply)

Reform and reduce entitlement spending	48%
Targeted cuts for certain federal agencies and programs	44%
Greater authority of the administration to reduce Congressionally-approved spending	34%
A tax increase for those making more than \$250,000 annually	30%
Eliminate all tax credits and deductions in conjunction with dramatically lower income tax rates	26%
A combination of tax increases and spending cuts	26%
Eliminate certain tax credits and deductions—even those which may benefit my business	23%
An across-the-board budget cut for federal agencies	22%
Other	11%

CONCLUSION

Small employers comprise 99.7 percent of all employer firms in the U.S. One in two workers in the private workforce run or work for a small business, and one in four individuals in the total U.S. population is part of the small-business community.

Small businesses simply need an environment to grow and create jobs: economic stability; predictability, fairness and transparency in taxes and health care costs; common-sense regulations that don't unfairly disadvantage small firms; and lawmakers willing to tackle the major issues facing our country, and to do so together.

Please click [here](#) for more information on NSBA's priority policies.

For past Economic Reports and other issue-specific surveys from NSBA, please visit our [Surveys & Reports](#) page on the NSBA website.

For questions, interviews or to reprint any or all of this report, please contact the NSBA public affairs department at press@nsba.biz or 202-552-2904.

METHODOLOGY

The 2016 Year-End Economic Report was conducted on-line Jan. 16 through Feb. 8, 2017 among 1,426 small-business owners—both members and nonmembers of NSBA—representing every industry in every state in the nation.



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