

The background of the cover is a photograph of a workshop or office environment. Three people are gathered around a long, light-colored table. On the left, a man is looking at a laptop. In the center, a woman is holding a notebook and looking towards the right. On the right, a man is leaning over the table, looking at a large roll of material. The scene is brightly lit and has a professional, collaborative atmosphere. The image is partially obscured by diagonal geometric shapes in white, dark blue, and red.

2018 MID-YEAR ECONOMIC REPORT

FOREWORD

The National Small Business Association (NSBA) is the nation's first small-business advocacy organization, celebrating more than 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.

Our most recent Economic Report shows a small-business community slightly less positive about the overall economy than it was just six months ago. The number of small-business owners who feel the national economy is doing better than it was just six months ago is down slightly from 54 percent in Dec. 2017 to 50 percent today. Another notable shift had to do with economic projections for the coming year. The number of small-business owners projecting a recession in the coming year rose from nine percent in Dec. 2017 to 19 percent today, the highest this indicator has been in in three years. Furthermore, today more small businesses anticipate inflation and rising interest rates in the coming year than just six months ago.

Despite these drops in positive economic outlook, however, small-business owners continue to express high levels of confidence in their business. Eighty-four percent of small-business owners are confident in their business and the overwhelming majority (80 percent) are either growing now or expect growth in the coming year. When asked to select the biggest challenge to their business, the number one response was economic uncertainty.

Today, a majority of small firms—51 percent—report increases in revenues, down slightly from six months ago. Future growth predictions remained virtually unchanged with 65 percent projecting revenue growth in the coming year.

When it comes to hiring, small business still are lagging behind. Despite a spike in hiring between July 2017 and Dec. 2018, small-business hiring appears to have slowed with just one-in-four today saying they hired in the last 12 months. Looking forward, 38 percent of small firms project they will hire in the coming year, on-par with the Dec. 2017 survey.

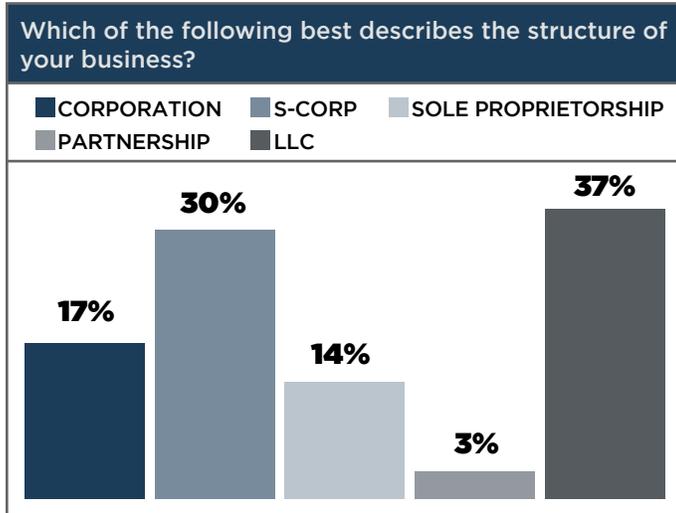
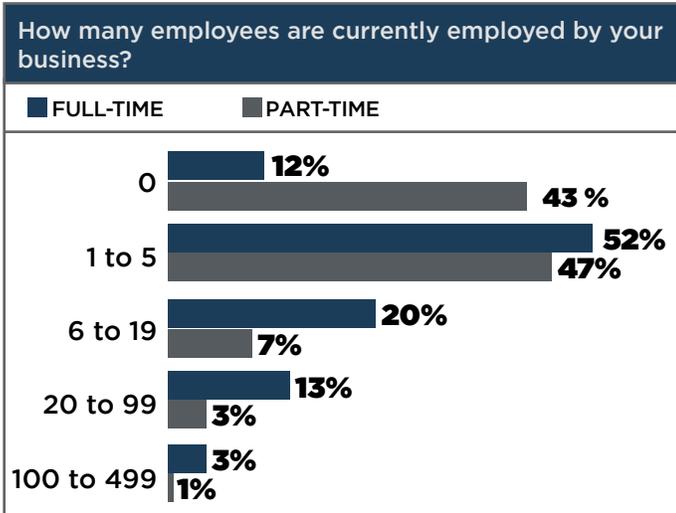
According to NSBA data from as far back as 1993, there is a clear correlation to a small-business owner's ability to hire and his/her ability to get financing. Today, more than one-quarter of small businesses cannot access the capital they need. Small-business use of financing from large banks, community banks and credit unions all dropped in the last six months while reliance on credit cards—which can often be far more costly—increased.

NSBA asked a number of questions about the Tax Cuts and Jobs Act and found that one-in-three small businesses are not sure how the law will impact their business in the coming year. Even fewer anticipate the law to have a positive impact on their business in the coming 12 months.

The number one thing small businesses want Congress and the administration to do is end the partisan gridlock and work together – the top-ticket policy item for the past two years, ranked higher even than reducing health care costs and simplifying taxes.

The 2018 Mid-Year Economic Report was conducted on-line July 18 – Aug. 10, 2018 among 913 small-business owners. We hope you find this report informative and useful. Please contact NSBA's media office for inquiries at press@nsba.biz.

DEMOGRAPHICS

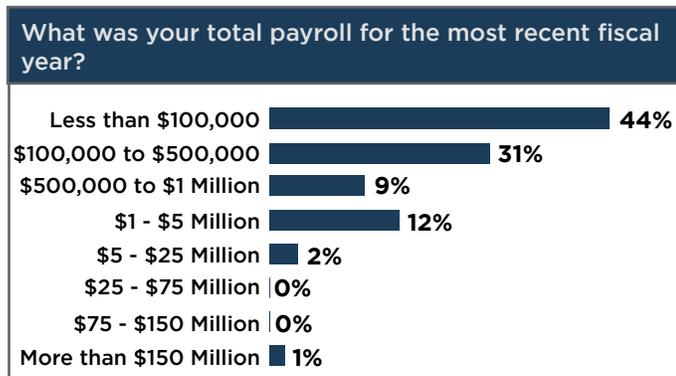
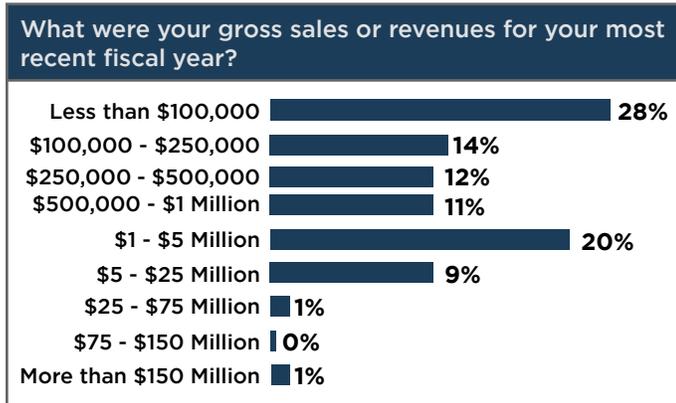


In what region is your business located?

New England	5%
Mid-Atlantic	23%
Great Lakes	15%
Farm Belt	7%
South	25%
Mountain	10%
Pacific	15%

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

Professional	13%
Other Services (except Public Administration)	12%
Scientific and Technical Services	11%
Manufacturing	11%
Construction	10%
Health Care and Social Assistance	6%
Information (IT)	6%
Retail Trade	4%
Wholesale Trade	3%
Educational Services	3%
Agriculture, Forestry, Fishing and Hunting	3%
Transportation and Warehousing	3%
Arts, Entertainment, and Recreation	2%
Finance	2%
Real Estate, Rental and Leasing	2%
Administrative and Support	2%
Management of Companies and Enterprises	2%
Accommodation and Food Services	1%
Waste Management and Remediation Services	1%
Insurance	1%
Utilities	1%



ECONOMIC OUTLOOK

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

 **Total better**
 **Total worse**
 **About the same**

July 18	50%	14%	35%
Dec. 17	54%	8%	38%
July 17	45%	12%	44%
Dec. 16	43%	11%	47%

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

 **Total better**
 **Total worse**
 **About the same**

July 18	58%	14%	27%
Dec. 17	63%	10%	27%
July 17	54%	14%	31%
Dec. 16	53%	13%	34%

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

 **Total better**
 **Total worse**
 **About the same**

July 18	72%	16%	12%
Dec. 17	78%	12%	11%
July 17	71%	16%	12%
Dec. 16	72%	16%	13%

The number of small-business owners who feel the national economy is doing better than it was just six months ago is down slightly from 54 percent in Dec. 2017 to 50 percent today. There were similar drops among those who said the national economy is better off today than one year ago (from 63 percent in Dec. 2017 to 58 percent today), and those who said it's better off today than five years ago (from 78 percent in Dec. 2017 to 72 percent today).

Thinking about the next 12 months, do you anticipate:

July 18

48%



ECONOMIC EXPANSION

33%



FLAT ECONOMY

19%



RECESSION

Dec. 17

59%

33%

9%

July 2017

45%

45%

10%

Dec. 2016

54%

34%

12%

Do you foresee any of the following issues being a problem for your business in the coming 12 months? (check all that apply)

	July 18	Dec. 17	July 17	Dec. 16
Inflation	29%	22%	24%	32%
Deflation	2%	2%	2%	3%
Rising interest rates	32%	26%	27%	34%
None of the above	50%	59%	57%	49%

Underscoring the less positive economic outlook, more small businesses anticipate inflation and rising interest rates in the coming year.

Another notable shift came with those small businesses projecting a recession in the coming year, up from nine percent in Dec. 2017 to 19 percent today, the highest this indicator has been in in three years.

SMALL BUSINESS CONFIDENCE

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



	July 18	Dec. 17	July 17	Dec. 16
Very confident	35%	37%	33%	34%
Somewhat confident	49%	47%	50%	46%
Not very confident	13%	12%	14%	15%
Not at all confident	3%	4%	4%	5%

Despite the drops in positive economic outlook, small-business owners continue to express high levels of confidence in their business (84 percent) and the overwhelming majority (80 percent) are either growing now or expect growth in the coming year.

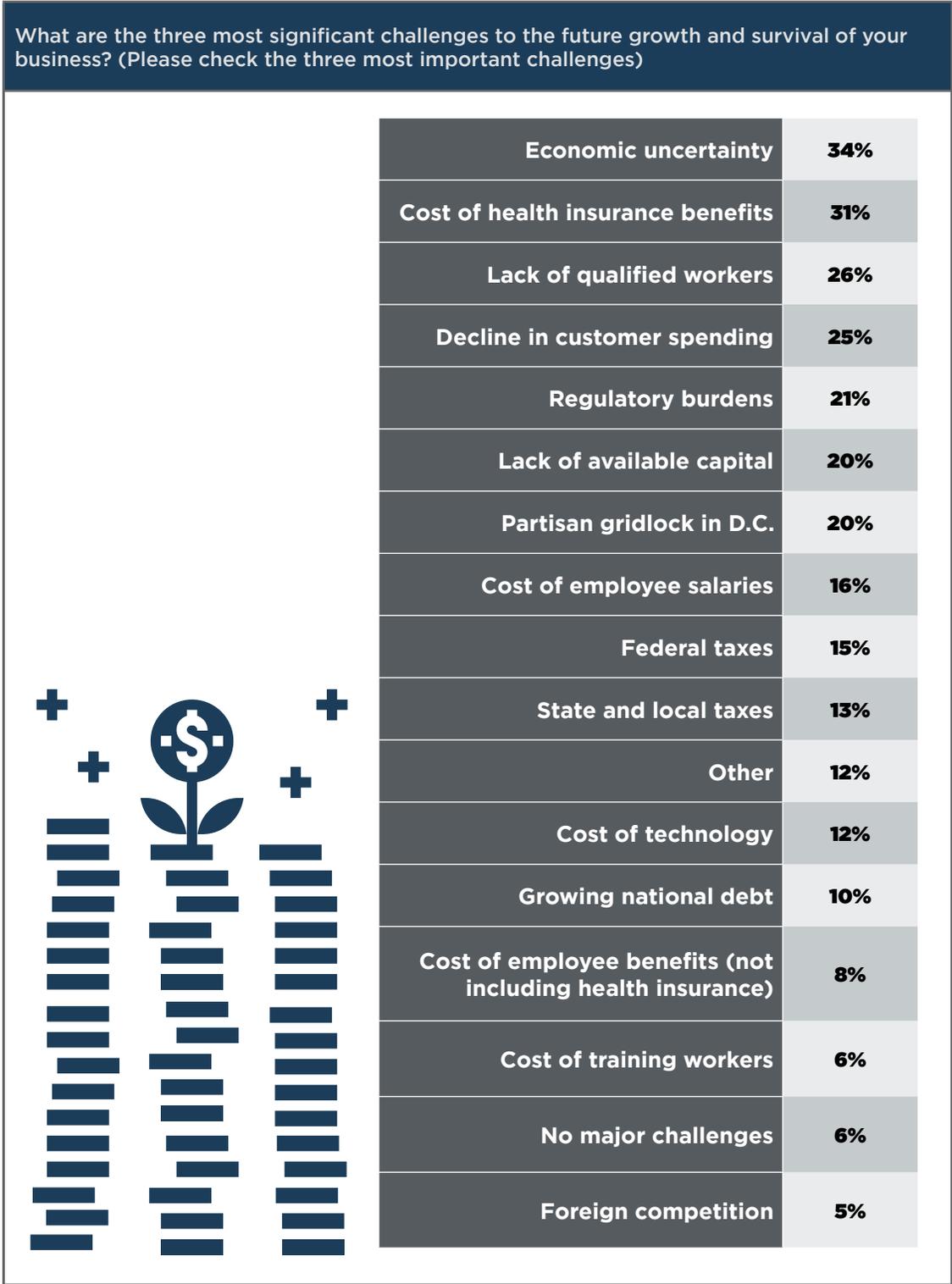
Do you believe there will be growth opportunities for your business...



	July 18	Dec. 17	July 17	Dec. 16
In the next 3 months	14%	10%	8%	11%
In the next 3 to 6 months	17%	21%	14%	18%
In the next 6 to 12 months	27%	30%	30%	31%
None in the coming year	20%	19%	27%	22%
My business is already growing	22%	20%	21%	19%

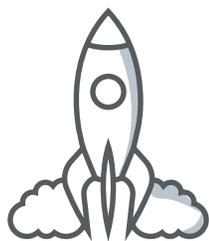
SMALL BUSINESS CONFIDENCE

Economic uncertainty was the number one response small-business owners gave when asked about the most significant challenge to the future growth and survival of their firms.



BUSINESS GROWTH

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

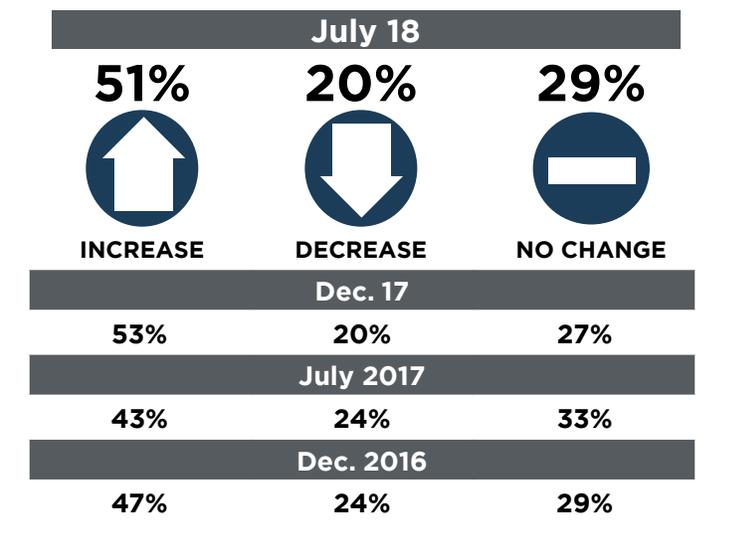


July 2018

New advertising and marketing strategies	47%
Strategic alliance	35%
Internet / Expand E-commerce	31%
New product lines	29%
Hire new employees	26%
New territory	15%
Joint Venture	14%
No growth strategies will be used in the next 12 months	14%
Investments in R&D	13%
Expand operations to new facilities/add additional stores	10%
Outsourcing	8%
Acquisition	5%
Exporting	4%
Merger	3%
Other	5%

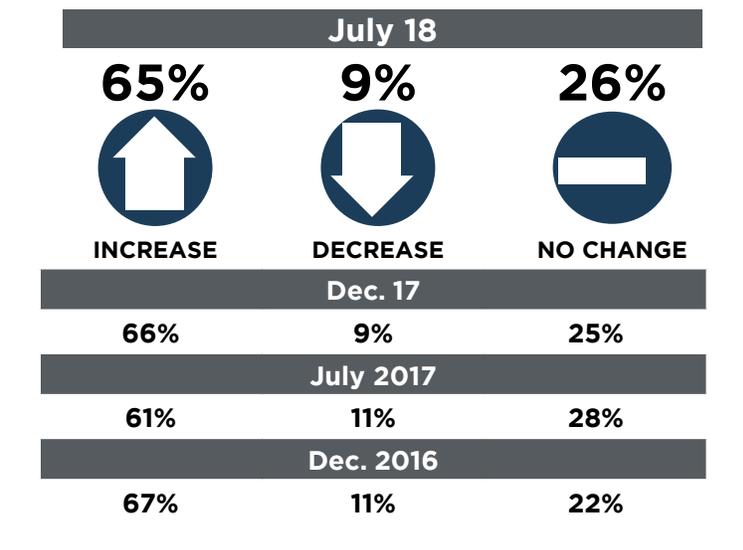
While in the Dec. 2017 survey there were increases in nearly every type of planned growth strategy for the coming year, the July 2018 survey shows that projected growth strategies have leveled off for the coming year.

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

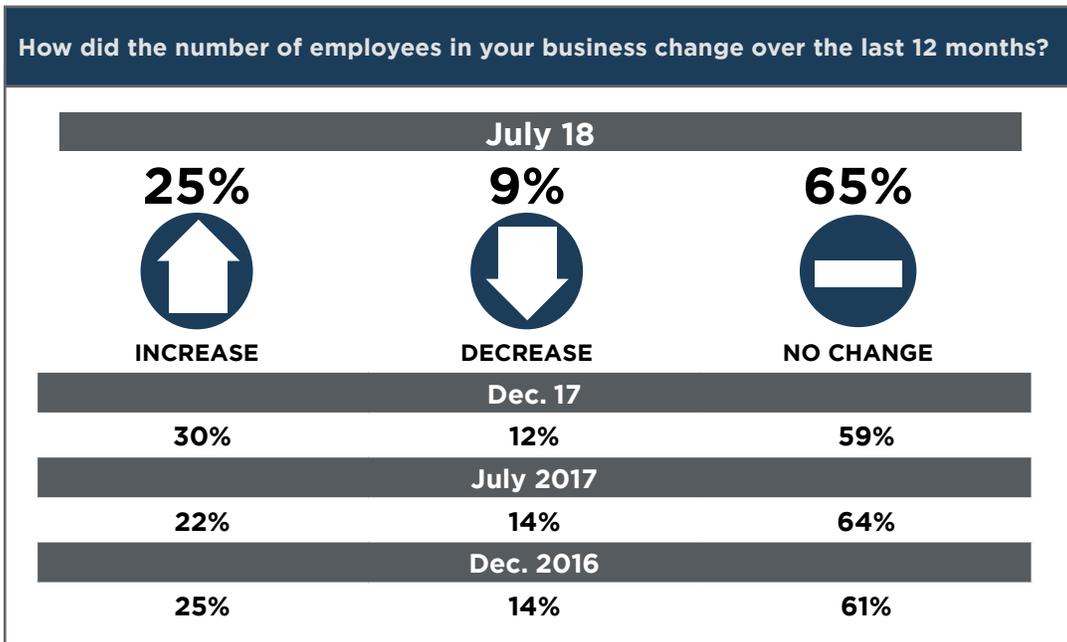


Today, a majority of small firms—51 percent—report increases in revenues, down slightly from six months ago. Future growth predictions remained virtually unchanged with 65 percent projecting revenue growth in the coming year.

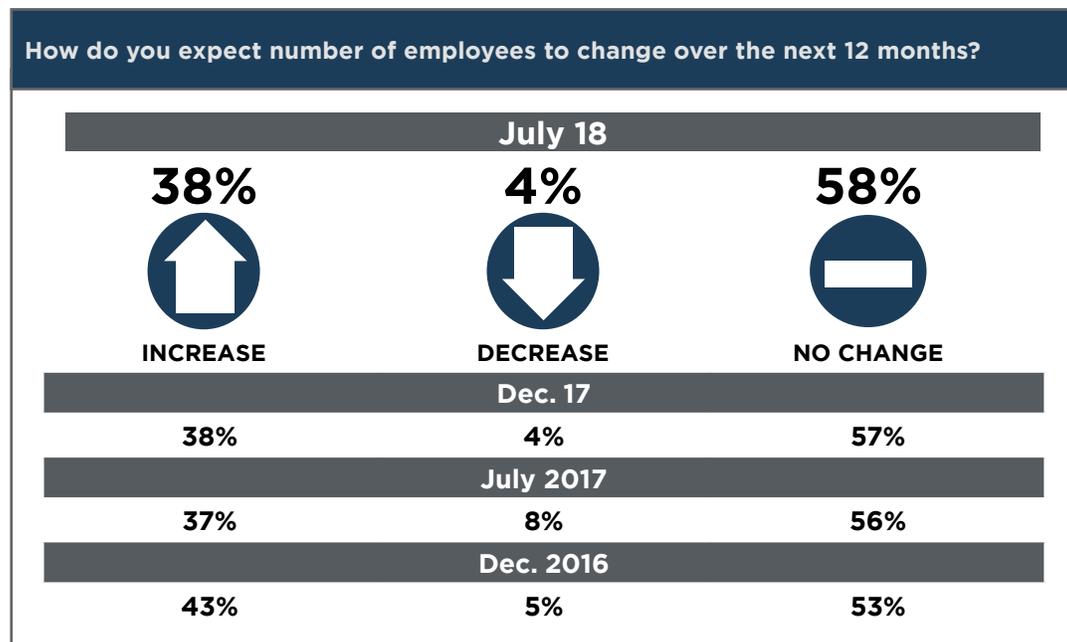
How do you expect gross sales/revenues to change over the next 12 months?



JOB GROWTH



Despite a spike in hiring between July 2017 and Dec. 2018, small-business hiring appears to have slowed with just one-in-four today saying they hired in the last 12 months.



Looking forward, 38 percent of small firms project they will hire in the coming year, on-par with the Dec. 2017 survey, whereas the number of small-business owners projecting wage increases dropped slightly to 54 percent.

JOB GROWTH

How did average per-employee wages increase over the last 12 months?

	July 2018	Dec. 2017
Average increase of 1% to 2 %	16%	18%
Average increase of 3% to 4%	21%	20%
Average increase of 5% to 6%	9%	10%
Average increase of more than 6%	8%	10%
No wage increases were provided	43%	38%

Employee wage increases also saw a modest drop in the last six months: in Dec. 2017, 58 percent of employers said they provided wage increases whereas today just 54 percent said the same.

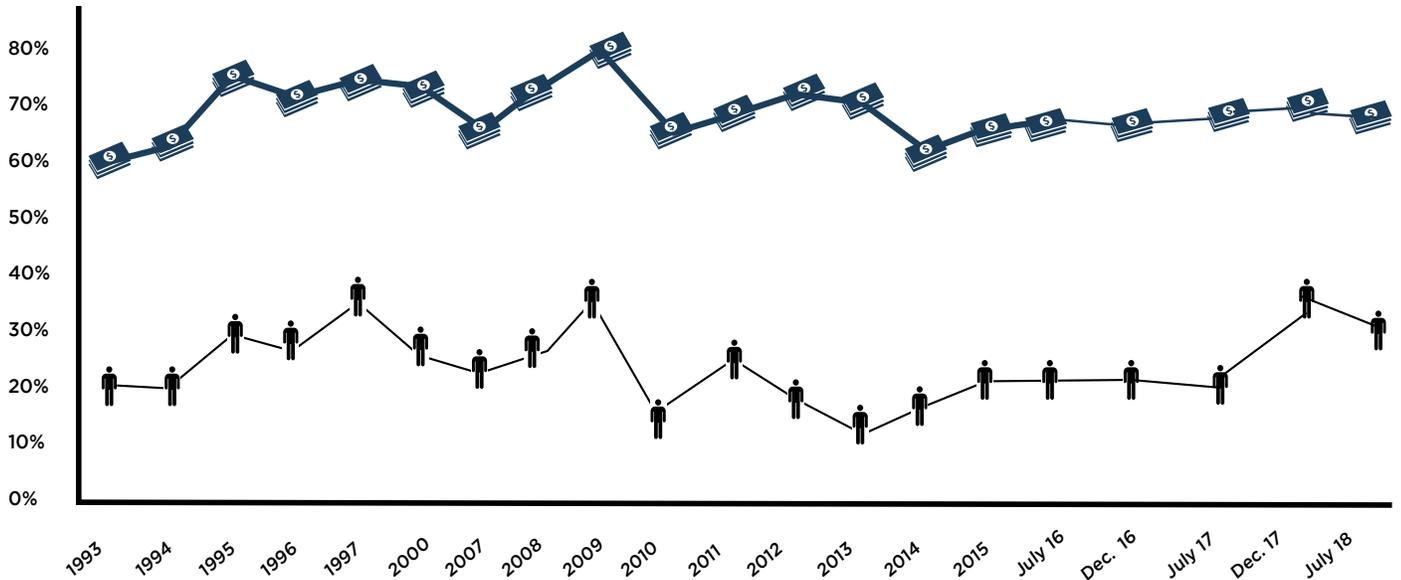
How do you expect your average per-employee wages to increase over the next 12 months?*

	July 2018	Dec. 2017
Average increase of 1% to 2 %	20%	21%
Average increase of 3% to 4%	24%	25%
Average increase of 5% to 6%	10%	11%
Average increase of more than 6%	6%	6%
No wage increases were provided	38%	35%
Some or all employee are likely to decrease	2%	2%

SMALL BUSINESS FINANCING

Correlation between financing and employment

■ Able to get financing ■ Increased Employment



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.

Is your business able to obtain adequate financing?

July 2018

71%

29%



YES

NO

Dec. 2017

73%

27%

July 2017

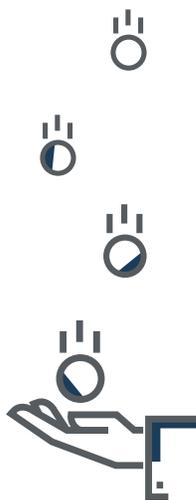
72%

28%

Dec. 2016

69%

31%



While 71 percent of small businesses can access adequate financing, for more than one-quarter of small U.S. firms, financing remains elusive.

SMALL BUSINESS FINANCING

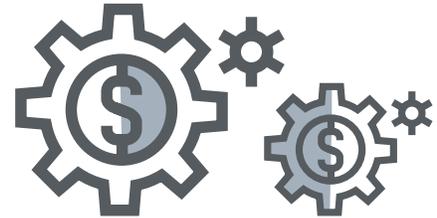
What types of financing has your company used within the past 12 months to meet your capital needs? (Check all that apply)

Large Bank Loan	13%
Community Bank Loan	12%
Credit Union Loan	3%
Credit cards	35%
Used no financing	35%
Earnings of the business	31%
Private loan (friends or family)	13%
Vendor credit	12%
Other	7%
Online or non-bank lender	5%
Small Business Administration (SBA) loan	4%
Leasing	3%
Private placement of debt	2%
Venture capital/Angel investors	2%
Private placement of stock	1%
Selling/pledging accounts receivable	1%
State/Regional Loan and Incentive Programs	1%
Crowdfunding	1%

Unfortunately, small-business use of financing from community banks and credit unions also dropped slightly in the last six months while reliance on credit cards—which can often be far more costly—increased.

Financing continues to be a challenge for small firms, particularly at large banks where the number of small firms relying in large-bank financing was just 13 percent, a 5-year low.

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



Unable to grow business or expand operations	35%
Reduced the number of employees	19%
Unable to finance increased sales	15%
Reduced benefits to employees	10%
Unable to increase inventory to meet demand	10%
Other	3%
Closed stores or branches	2%
Not a problem / No effects	53%

There are real-world implications for businesses that can't get the financing they need: 19 percent were forced to reduce their number of employees and one-in-ten had to reduce benefits to employees.

SMALL BUSINESS FINANCING

Please estimate your current small businesses total debt, including loans, credit cards, property mortgage, invoices owed, etc...



70%

Percentage of Small Businesses Carrying Any Debt



\$405,802

Average debt among those that do have debt



Debt 1 to 50k	50%
Debt 51k to 100k	14%
101k to 500k	21%
501K to 1M	8%
More than 1M	8%

Small-business debt remains on average \$405,800, and 70 percent of small firms report they have some kind of business related debt.

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 six months?

Improved	11%
Gotten Worse	29%
Stayed the Same	40%
Not Sure	20%

What is the approximate interest rate you are charged on your primary business-related credit card?



14.23%
Average Interest Rate

How has credit card fraud impacted your business?

My credit card has been used fraudulently	21%
Fraudulent credit cards have been used to purchase goods/services from my business	5%
No impact	72%
Other	2%

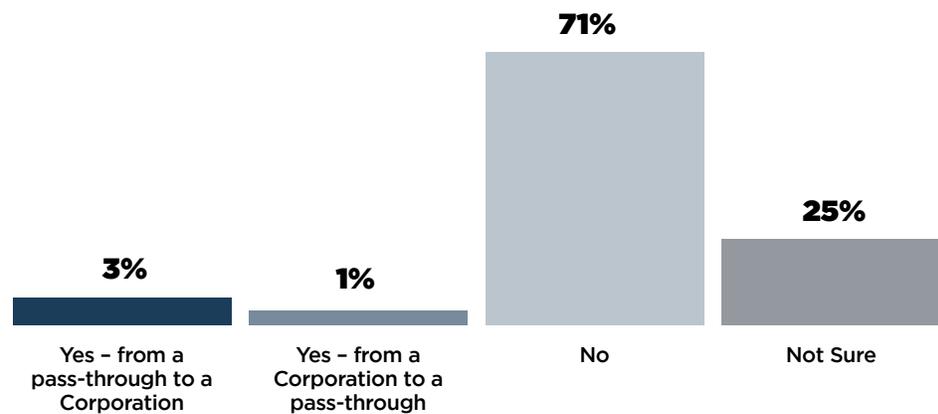
PUBLIC POLICY: TAX CUTS & JOBS ACT

NSBA asks general policy questions in its Economic Reports and for this survey asked a number of questions about the Tax Cuts and Jobs Act and its impact on small business.

How well would you say you understand the Tax Cuts and Jobs Act enacted at the end of 2017?

Very well	10%
Somewhat well	38%
Not well	41%
I don't understand it at all	11%

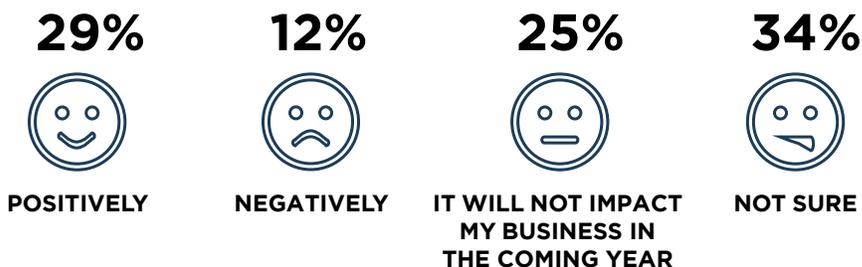
Do you have any plans to restructure your business as a result of the Tax Cuts and Jobs Act in the coming year?



A majority of small businesses have little to no understanding of the Tax Cuts and Jobs Act, and 35 percent say they are not sure how the law will impact their business in the coming year.

Very few small businesses have plans to restructure their firms as a result of the pass-through tax cuts being temporary while corporate taxes are permanent.

How do you believe the Tax Cuts and Jobs Act will impact your business in the coming year?



Just 29 percent of small-business owners said the Tax Cuts and Jobs Act will positively impact their business in the coming year.

PUBLIC POLICY: GENERAL POLICY

The number one thing small businesses want Congress and the Administration to do is end the partisan gridlock and work together – the top-ticket policy item for the past two years, even more than reducing health care costs and simplifying taxes.

Rein-in the cost of health care was the second top issue small business wants policymakers to address, followed in third-place by reducing the national deficit.

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	19%
Rein-in costs of health care reform	14%
Reduce the national deficit	13%
Simplify the tax system	8%
Increase small business access to capital	8%
Reducing the regulatory burden on businesses	7%
Reducing the tax burden	7%
Reform the immigration system	5%
Reform the federal contracting system	3%
Improving education to provide a qualified domestic workforce	2%
Implement cybersecurity procedures and/or standards	2%
Reduce the burden of unfair labor laws	1%
Credit card reform that includes small business	1%
Tort reform	1%
Enact a comprehensive energy policy	1%
Remove barriers to small-business exporting	0%
Other	9%

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 the environment to grow and create jobs: economic stability; predictability, fairness, simplicity 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 2018 Mid-Year Economic Report was conducted on-line July 18 – Aug. 10, 2018 among 913 small-business owners—both members and nonmembers of NSBA—representing every industry in every state in the nation.

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