Methodology

The 2009 Year-End Economic Report was conducted on-line Dec. 14 through Dec. 31 among 450 small-business owners representing every industry in every state in the nation.

Despite the fact that the majority of small-business owners expect some kind of growth opportunity in the coming year, they are overwhelmingly concerned with the U.S. economy.

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 data to provide a snapshot of how small business is dealing with the current economic situation. The 2009 Year-End Economic Report shows a small-business community that is continuing to struggle under a lagging economy and the ongoing credit crunch, and unable to create any significant new jobs. There is a silver lining, however, in that this report shows a reversal in the past two-year trend of declining optimism and confidence.

Although the majority of small-business owners are expecting some kind of growth opportunities in the coming 12 months, the 2009 Year-End Economic Report, collected over the last two weeks of December, found that small-business owners continue to be very concerned with the state of the U.S. economy. Furthermore, there appears to be practically no thawing of the credit markets for small businesses—a critical issue given the lagging job creation over the past six months, and small businesses historical role in job creation leading the U.S. economy out past recessions.
Small Business Confidence

It is important to note that, although there appear to be several positive changes and indicators moving forward, small-business owners are still very wary of the state of the U.S. economy. The majority of small-business owners (63 percent) expect the overall U.S. economy to be flat in the coming year; however, the number expecting a recession was cut in half—down to 21 percent in December 2009 from 42 percent in July 2009. While there was an increase in small-business owners expecting economic expansion—up to 16 percent from seven percent in July 2009—it is still a very small minority who expect such expansion.

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 December survey, 64 percent cited economic uncertainty as one of their top three challenges, followed by federal taxes (38 percent), cost of health insurance benefits (36 percent) and regulatory burdens (27 percent).

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 the continued negative outlook on the overall economy. For the first time in two years, that confidence increased—up from 58 percent of small-business owners expressing confidence in their own business in July 2009 to 61 percent in December 2009. This change is certainly welcome, but taken in context this shows that more than one-third (39 percent) of small-business respondents have concerns about the ongoing viability of their business. That amounts to more than 10 million small businesses.
The Year-End Economic 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 the results remain largely unchanged from the previous survey. Both indicators show a net decrease. Unfortunately, gross sales/revenues dipped even lower, with 64 percent in December 2009 reporting decreases while 62 percent reported decreases in July 2009. There was a very slight change to net profits with 64 percent reporting decreases in December 2009, down from 66 percent in July 2009.

Comparatively, in August 2008, 48 percent cited revenue increases and 30 percent cited decreases, however in December 2009, only 22 percent cited an increase in revenues and 64 percent cited decreases. This continues the trend that started in December 2008 of net revenue decreases, the first time a majority of small-business respondents cited revenue decreases since NSBA began asking the question in 1993.
Small-business owners also were asked to rate their level of expected business growth for the coming 12 months. For the first time in nearly two years, small-business owners are projecting slight increases in both gross sales/revenues and profits. Prior to the December 2009 survey, small-businesses projected net decreases in both revenues and net profits for the coming 12 months, however they now are reporting a net increase in projected revenues and profits.

Since 1993, when NSBA began asking these questions, small businesses have reported reported net increases in both revenues and profits. However, in the last year they began projecting net decreases in both revenues and profits. 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. Today, 43 percent (a 13-point increase from the July 2009 survey) percent project revenue increases while 31 percent project decreases in the coming 12 months.

Profits—while receiving an increase in projected growth—haven’t reversed this trend and continue to show net losses. According to the December 2009 survey, 34 percent of small-business owners project increases in profits for the coming year while 41 percent project a decrease in profits. This does represent a significant shift from the July 2009 data, however, which showed 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 (40 percent), expanded Internet presence and e-commerce (37 percent), and strategic alliances (27 percent). Another trend that appears to have come to an end with the December 2009 survey is the increase in businesses that cited "no growth strategies planned" in the coming 12 months. In August 2008, 16 percent cited "no growth strategies planned," which increased to 19 percent in December 2008 and 22 percent in July 2009. Today, that number is down—albeit slightly—to 21 percent of small-business owners who have no growth strategies planned in the coming year.

While most small businesses concede that times are still tough, there is a sense that economic growth for their business is just around the corner. A new component of the 2009 Year-End Economic Report is aimed at the timing of such growth. Small-business owners were asked if they believe there will be growth opportunities for their business, and seven percent cited their business is already growing. The majority of respondents (52 percent) expect such growth to come in the next year, however most expect it will occur in the latter-half of 2010. Four percent expect growth opportunities in the next three months, 11 percent expect growth opportunities in three to six months and 37 percent believe growth will likely occur in six to 12 months. The downside—and it is certainly not a small downside—is that 41 percent of small-business owners don’t expect any growth opportunities for their business in the coming year.
Changes in number of employees over the last 12 months:

- **Aug 08**
- **Dec 08**
- **July 09**
- **Dec 09**

**TOTAL INCREASE**

**TOTAL DECREASE**

**NO CHANGE**

Past 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. In the NSBA Economic Surveys, small-business owners are asked how their business has fared over the past 12 months regarding number of employees. Unfortunately, small-business owners continue to be financially stymied and unable to grow their business, thereby restricting their ability to create jobs.

Similar to revenues and profits, employment growth resulted in a net decrease. Despite a slight—but noteworthy three-point—increase from nine percent to 12 percent in the number of small-business owners who increased their employment numbers over the last 12 months, 44 percent decreased employee size while another 44 percent made no change in employee size. Unfortunately, while there was a slight uptick in hiring, so were job cuts. In comparison: according to the July 2009 survey 41 percent cited a decrease in job growth and 50 percent cited no growth, in December 2009, 44 percent cited a decrease and 44 percent cited no change.

Particularly noteworthy, and another reason for optimism in the coming year, is the fact that when asked about job growth back in July 2009, 13 percent projected increases. The actual job growth turned out to be 12 percent—which is just slightly below small-business owners’ projections. Given the significant growth projections for the coming 12 months, this level of accuracy—coupled with the right circumstances including availability of capital—could bode well for the overall U.S. economy.

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Although job growth projections aren’t exactly skyrocketing, it does appear that the hemorrhaging may have been stopped. For the first time in a year, small-business owners are projecting a net increase in jobs. According to the December 2009 survey, 24 percent are projecting job growth while 18 percent expect job cuts. In a normal economy, these numbers would be extremely concerning, but given the last few years, it is a good sign.

Back in December 2008, 18 percent of small-business owners projected an increase in jobs and 26 percent projected a decrease. In July 2009, job growth projections dropped even lower with 13 percent projecting an increase in jobs and 29 percent projecting a decrease. The turnaround with the December 2009 survey indicates small-business job growth could be headed in the right direction.

Another indication of optimism in business growth is projected changes to employee compensation. Since August 2008, there have been fewer and fewer small-business owners projecting compensation increases, bottoming out in July 2009 with a zero-net change in employee compensation. Today, the variance between increases and decreases in compensation results in a net increase—30 percent are planning to increase compensation while 15 percent plan to decrease compensation, and 55 percent plan to maintain current compensation levels.

Given the historic role small business has played in job creation, the past trend in net job cuts should be alarming. Furthermore, the moderate increases in job growth projections indicate a strong need to support and stimulate continued growth. 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. is to move more promptly toward economic recovery.
Small-Business Financing

Contrary to various reports that the credit crunch has eased or is no longer a problem, NSBA’s members are still struggling to garner 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. Unfortunately, the number of small businesses able to obtain adequate financing for their business had steadily decreased in the last few years. Today, only 61 percent of small businesses are able to obtain adequate financing for their business. That number has dropped from 78 percent in August 2008, 67 percent in December 2008 and 62 percent in July 2009. Although still a solid majority, it cannot be glossed over that 39 percent—which amounts to more than 10 million—of the nation’s small businesses are not able to get adequate financing.

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 2008 that number jumped to 67 percent, and continued to rise to 69 percent in December 2008 and a high of 80 percent in July 2009. Today, that number has eased slightly to 78 percent of small businesses reporting their company has been impacted by the credit crunch—still a very high percentage of small-business owners.

The availability of capital is a critical component to business growth and job creation for small businesses. Among small-business owners for whom capital availability has been a problem, 47 percent state that they have been unable to grow or expand their business, and 24 percent state that they have been forced to reduce their number of employees.

In the last six months, there has been a decrease in small-business use of all financing mechanisms, from traditional bank loans to credit cards to vendor credit. Accordingly, the number of small businesses using no financing options increased from 16 percent in July 2009 to 21 percent in December 2009.

The sources of financing used by small-business owners have changed slightly in the last six months likely as a result of turmoil in the financial markets and the cost of various financing mechanisms. Prior to the December 2009 survey, credit cards had been the number one source of financing for small-business owners, Today, however, they have dropped to the number three slot, just behind traditional bank loans at number one and earnings of the business at number two.

### Loans

While the number of small businesses relying on traditional bank loans jumped up to 53 percent in July 2009—up from 44 percent in December 2008—only 46 percent of small-business owners today are using bank loans. Small-business owners reporting less favorable terms on their loans jumped five points from 19 percent in July 2009 up to 26 percent in December 2009—this despite huge infusions of cash to the nation’s largest banks. Only four percent report that the terms of their loans have become more favorable.

Although lower demand for loans from small-business owners who are typically hesitant to take on additional debt in a downturned economy may be a small part of the equation, the decrease in loans is more likely related to the terms and availability of such loans. Given the decrease in ability to garner adequate financing coupled with a jump in the number of small businesses citing worsening terms on their...
outstanding bank loans, the decrease in loan usage is more attributable to banks’ unwillingness to lend affordable capital to any company that doesn’t meet their extremely high definition of a “creditworthy” small businesses.

Underscoring this fact, the October 2009 Federal Reserve Board Senior Loan Officer Survey reported that 37.5 percent of banks had increased the cost of credit lines and loans for small firms. Additionally, the Fed report showed a disparity between loans for large and small firms. Although much lower than the preceding several months, 16.1 percent of banks tightened their standards on loan applications for small firms, while only 14.2 percent tightened standards on large loans.

The implications of the collapsed housing market continue to haunt the small-business community. In August 2008, 12 percent of small-business owners leveraged their business loans with a second home mortgage. That number has been steadily decreasing since that time and is now at an all-time low of seven percent.

**Credit cards**
Given the events of the last year, in which credit-card interest rates skyrocketed, credit-card limits were arbitrarily cut, and credit-card accounts were eliminated entirely by the credit-card companies, it is not surprising that there was a drop in credit-card usage from previous months. Although the number of small-businesses relying on credit cards has dropped slightly, they still account for one of the largest sources of financing for NSBA’s members.

The rates and terms on credit cards continue to plague small-business owners. When asked if the terms, including interest rates, late fees, time to pay in full, etc., have gotten worse in the last five years, 68 percent said they had. Presumably in response to these terms, more small businesses are carrying smaller balances or paying off their bills each month than in the previous year.

The interest rates small-business owners are subject to are growing. The majority of small businesses (53 percent) pay more than 15 percent in interest rates on their credit cards. One-quarter (25 percent) of all small-business owners are currently paying 20 percent or more in interest rates.

On particularly problematic trend that began in late-2008 was credit-card companies arbitrarily reducing the credit limit on a card, or shutting down the card entirely. These reductions are typically due simply to the fact that, as a small business, the lending institution views the credit as risky. Such reductions can have a negative impact on a small-business owner’s credit score and can have negative implications for years to come.

When asked in December 2008, 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. Today, fully one-third (35 percent) of small-business owners were subject to such a decrease in the last six months. While down slightly from July 2009 (38 percent,) this practice is extremely detrimental to small-business owners, particularly now as the majority of them are planning for growth opportunities in the coming year.
One key area of concern from small-business owners in the difficult economy is taxes. Not simply the fear and likelihood that taxes will rise, but also the financial and administrative burden associated with compliance. When asked about their policy priorities, there was a notable jump from previous surveys in the number of small-business owners who placed top priority on reducing the federal tax burden. In July 2009, 35 percent ranked taxes the number one issue for Congress to address. Today, nearly half (43 percent) of small-business owners think that reducing the federal tax burden should be at the top of Congress’ to do list.

NSBA asked small-business owners how much time they spend each year working on their federal taxes, and 56 percent said they spend more than 40 hours. Thirty-six percent spend more than 80 hours per year—two full weeks! And that’s just the time commitment. When asked how much they spend each year on tax compliance, 52 percent of small-business owners reported spending more than $5,000. Twenty-seven percent reported spending more than $10,000—that could conceivably amount to more than half of one full-time employee’s salary for an entire year.

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Public Policy

At the midway mark for the 111th Congress, lawmakers find themselves facing a contentious health care reform debate, high unemployment and a struggling small-business community. Despite all the rhetoric about the importance of small business to the U.S. economy, too little has been done to address the many issues bogging down America’s small-business owners. 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, addressing health care costs, and increasing small business access to capital among their chief concerns. These are not new issues, mind you – they have rounded out the top policy issues for the past several years.

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 unaffordable health insurance cost increases. In fact, when asking how they have coped with rising health care costs, the biggest increase in the last six months was among companies who were forced to reduce their workforce. In December 2009, 20 percent—one in every five—of small-business owners dealt with rising health insurance costs by reducing their workforce. That’s up five-points from the July 2009 survey number of 15 percent.

According to SBA’s Small Business Economic Indicators for 2003, when the economy gained momentum after the previous downturn in the early 1990s, firms with fewer than 500 employees increased their net employment in the first year after the recession, while large firms continued to shrink. From March 2000 to March 2001, small firms added 1.15 million net new jobs while large firms lost 0.15 million net new jobs.

NSBA believes more can, and must be done to ensure entrepreneurship remains a viable, attainable option for every American. Whether through the inclusion of true cost-reducers in any health care reform bill, increasing the cap on credit-union lending to small businesses, enacting permanent estate tax reform, or finally putting into action a plan to use TARP funds to stimulate small-business lending.

The time for talking about the myriad good ideas to help stimulate the U.S. small-business economy has passed. The 2009 Year-End Economic Report exemplifies the difficult position in which America’s small businesses find themselves as well as the opportunities many see in the months and years ahead. NSBA is ready to work with the Congress and Administration on ensuring that small business can meet and exceed our job growth projections in 2010 and beyond.