The 2011 Year-End Economic Report was conducted on-line Dec. 19, 2011–Jan. 9, 2012 among 450 small-business members of NSBA representing every industry in every state in the nation. While the results in this survey can be extrapolated to the at-large small-business community, it is worth mentioning that NSBA members tend to be older, more well-established small businesses.

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. Among those are two NSBA Economic Reports: the Mid-Year Economic Report, released late-July, and Year-End Economic Report, released late-January. These reports use NSBA survey data to provide a snapshot of how small businesses are dealing with the current economic situation. The 2011 Year-End Economic Report shows that small-business owners are feeling decidedly more optimistic about the outlook of their own firms and the overall U.S. economy than they have in some time.

Six months ago, the 2011 Mid-Year Economic Report found small businesses less confident and predicting an ongoing economic slump. Today, however, the number of small-business owners who anticipate a recessionary economy is 14 percent, down from 30 percent in July 2011. Underscoring these modest gains, the number of small-business owners anticipating economic expansion grew from 12 percent six months ago to 20 percent today and there were slight gains in the number of small-business owners who believe the economy is better off today than it was six months ago.

As is to be expected from entrepreneurs and small-business owners—who generally are more optimistic about their own businesses than they are about the overall economy—there was a notable increase of confidence in the future viability of their own business. Seventy-five percent reported they are confident about the future of their own business, up from 64 percent six months ago, which represents the highest level of confidence reported in three years. Additionally, when asked about their expectations for business growth, 47 percent said they expect growth in the coming year, an 17 percent said their business already is growing.

In terms of past and projected employment, there was minimal growth in the past six months, unfortunately. The number of small-business owners who reported increasing their number of employees in the last 12 months remained unchanged at 22 percent. There was a slight drop in the number of small-business owners who reported decreasing their workforce from 26 percent to 23 percent—the lowest it’s been in more than three years. Correspondingly, there was an increase in the number of employers who said their employment size stayed the same, up from 52 percent in July 2011 to 55 percent today. Taken in context of the last three years and the ongoing economic slump, these employment numbers show some progress and a trend of moving in a positive direction.

Past and projected revenues made important strides in the last six months. The number of small-business owners projecting revenue growth for the coming 12 months jumped from 49 percent in July 2011 to 56 percent today. Furthermore, there was substantial growth in past revenues. Six months ago, 39 percent reported increases in revenue, whereas today 46 percent reported growth in revenues. There was a commensurate decrease in the number of small businesses that experienced drops in revenue from 37 percent in July 2011 to 31 percent today.

Small-business owners overwhelmingly (66 percent) cited economic uncertainty as the most significant challenge to the future growth and survival of their business. Regulatory burdens came a close second at 40 percent, a notable increase from 31 percent six months ago. Decline in consumer spending (39 percent), cost of health insurance benefits (34 percent), the growing national debt (24 percent), lack of available capital (21 percent) and federal taxes (19 percent) also weigh heavily on the minds of small-business owners.

Access to capital is an ongoing challenge for small businesses—despite gains over the last six months. Seventy percent of small-business owners today report being able to obtain adequate financing for their business, up from 64 percent six months ago. More small-business owners today are able to garner adequate financing than at any time in the last three years. Despite the positive gains, it is important to remember that there still are nearly one-third (30 percent) of small businesses for which capital is a problem.

The growing national debt is the number one concern of small business today. When asked to rank their top three issues for Congress and the administration to address, 44 percent picked the deficit, which came in first. Following closely is “reducing the tax burden” and “reducing regulatory burdens.”
Thinking about the next 12 months, do you anticipate:

- **A RECESSION**
  - 64% Confident
  - 42% Not Confident

- **A FLAT ECONOMY**
  - 63% Confident
  - 59% Not Confident

- **ECONOMIC EXPANSION**
  - 51% Confident
  - 49% Not Confident

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

- **CONFIDENT**
  - 66% Dec. 09
  - 64% July 10
  - 63% Dec. 10
  - 61% July 11
  - 59% Dec. 11

- **NOT CONFIDENT**
  - 34% Dec. 09
  - 36% July 10
  - 38% Dec. 10
  - 42% July 11
  - 44% Dec. 11

When comparing today’s economy, would you say the national economy is:

- **COMPARED WITH SIX MONTHS AGO**
  - Better Off: 47%, Worse Off: 29%, About The Same: 24%

- **COMPARED WITH ONE YEAR AGO**
  - Better Off: 28%, Worse Off: 24%, About The Same: 25%
The 2011 Year-End Economic survey took a close look at how small businesses fared over the past 12 months. Small-business owners were asked how much change their businesses had experienced in gross sales/revenues and net profits, and the results show a continuation of the trending positive gains in revenues with a marked increase from six months ago. There still exists a net negative number of small businesses reporting profits, however it is a much smaller than six months ago.

The number of small businesses (46 percent) today reporting an increase in revenues rose notably from the July 2011 survey (39 percent). There was a corresponding drop in those reporting decreases in revenue from 37 percent in July 2011 to 31 percent today. These two positive changes in revenue amounted to a net increase of 15 percent of small-business owners who reported growth in revenues and represents the highest growth in revenues in three years.

The number of small-business owners reporting growth in profits also saw an increase over the last six months. Thirty-six percent of small businesses today reported increases in profits—up from 32 percent in July 2011. The number of small businesses reporting decreases in profits dropped to 38 percent from 46 percent resulting in a net two percent of small businesses who experienced a drop in profits. While a net positive is preferable, when taken in context with results over the past three years, this indicator is at its lowest since the 2008 Mid-Year Economic Report.
Small-business owners were asked to rate their level of expected business growth for the coming 12 months. The gains reported in past growth match projected gains. For only the second time in more than three years, a majority of respondents (56 percent) projected an increase in revenues—also the highest this indicator has been since August 2008. Those projecting revenue decreases dropped from 19 percent in July 2011 to just 14 percent today. The result: a net 42 percent of small businesses are anticipating growth in revenues in the coming year—the highest this indicator has been in four years.

There was similar growth in the number of small businesses projecting profit gains in the coming 12 months. Fifty percent of small businesses projected profit increases, up from 43 percent in July 2011. Those projecting decreases in profit dropped from 26 percent six months ago to 18 percent today. Both changes have resulted in significant progress in the net number of small businesses projecting profit gains from 18 percent to 32 percent. This net change also is the highest reported in four years.

When asked about which future growth strategies they plan to implement in the coming 12 months, the top four responses were: new advertising and marketing strategies (47 percent); expanded Internet presence and e-commerce (31 percent); and strategic alliances (33 percent). Unfortunately, “no growth strategies planned” came in at fourth with 22 percent and “hiring a new employee” garnered just 17 percent.

The timing of growth is another important component of the survey. Forty-seven percent of small-business owners—up from 40 percent six months ago—said they expect growth opportunities in the coming year. This is the first time there has been positive movement in this area in two years. Among the 47 percent anticipating growth in the coming year, seven percent expect growth opportunities in the next three months, 12 percent expect growth opportunities in three to six months, and 28 percent project growth opportunities in six to twelve months. Seventeen percent—up slightly from 15 percent in July 2011—report that their business already is growing. Another positive and not-so-positive at the same time: 37 percent of entrepreneurs do not believe there will be any growth opportunities for their business in the coming year. This indicator currently is at its lowest point in two years—positive—but still comprises more than one-third—not-so-positive—of small businesses.
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 firms have fared over the past 12 months in terms of 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.

Although the hemorrhaging in employment that started three years ago has stopped, small businesses still are not where they need to be when it comes to employment growth. Today, 22 percent of small-business owners reported an increase in their number of employees over the last 12 months—unchanged from six months ago. Small-business owners reporting a decrease in the number of employees dropped from 26 percent in July 2011 to 23 percent today, and there was a corresponding increase in the number of employers who reported no change in employment size.

While the growth rate in employment remains somewhat stagnant, it is worth noting that the number of small businesses reporting decreasing employment size is at its lowest point in more than three years. Taken in context of the last three years, these employment numbers are moving in a positive direction.

Continuing the trend started in December 2010, 48 percent of small-business owners report increasing employee compensation—up from 43 percent six months ago. There also was a corresponding decrease—from 19 percent to 12 percent—of those who reported decreases to employee compensation. This signals that small-business owners are trying to compensate their existing employees who likely have had to take on additional roles and tasks during the economic downturn.

“Small businesses reported the smallest decreases in employment in more than three years. Unfortunately, it is far from the kind of job creation the U.S. economy needs.”
Since July 2010, the number of small-business owners projecting job growth in the coming year has been gradually increasing. Today is no different. When asked to project their likely hiring in the coming 12 months, 30 percent projected increases, a slight increase over the July 2011 number of 29 percent. A more notable change, eight percent projected decreases in employment in the coming 12 months—down from 12 percent in July 2011.

There was a slight increase among small-business owners who project no change whatsoever in employment. A majority of small businesses today (62 percent) project no employment growth in the coming year, up from 60 percent six months ago. This increase is the result of fewer small-business owners projecting decreases in employment.

Given the historic role small business has played in job creation following a recession, the challenge now facing policymakers is how to convert the increasing number of businesses which are projecting no changes in employment over to businesses that project employment growth. It is imperative that lawmakers support small-business growth and ensure impediments, such as an inability to finance growth, complex and confusing regulations, and an overly burdensome tax code are addressed.

**Projected Job Growth**

“Nearly one-third of small-business owners are projecting employment increases in the coming 12 months. Unfortunately, 62 percent expect no employment growth.”
Small-Business Financing

As NSBA repeatedly has warned over the last three years, limitations on small businesses ability to garner capital will continue to hinder broad U.S. economic growth. Using 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. While the last four years have seen a small-business community struggling to stay afloat, we also have seen their ability to get capital diminish.

Today, however, it appears that the credit crunch is thawing to a modest degree. When asked what are the most significant challenges facing their business, 21 percent said lack of available capital—down slightly from 22 percent in July 2011, 26 percent in December 2010 and 29 percent in July 2010.

The prospect of getting financed as a small business—even in a growing economy—is very difficult simply due to the fact that many small businesses lack the assets necessary for a traditional bank loan, making them a riskier lending option for banks. Since February 2008, the number of small businesses able to obtain adequate financing for their business had steadily decreased. That trend, however, came to a halt in December 2010.

Today, the number of small-business owners who report being able to obtain adequate financing for their business is up to 70 percent. In 2010, both NSBA Economic Reports showed the number of small-business owners able to garner adequate financing holding steady at 64 percent. That number was at its lowest point in July 2010 with just 59 percent of small businesses saying they were able to obtain adequate financing. More small-business owners report today being able to garner adequate financing than at any time in the last three years.

Despite the positive gains, it is important to remember that there still are nearly one-third (30 percent) of small businesses for which capital is a problem.

NSBA has been asking small-business owners if their business had been negatively impacted by the credit crunch since early 2008. In February 2008, 55 percent responded that it had. In August 2008 that number jumped to 68 percent, and continued to rise to 69 percent in December 2008. From July 2009 to July 2010 that number hovered around a whopping 80 percent. In December 2010, the number of small businesses negatively impacted by the credit crunch dropped to 75 percent and was down again to 73 percent in July 2011. Today, 68 percent of small-business owners reporting their business had been impacted by the credit crunch. Again, taken out of context, this number is particularly high, but given the last three years, is at least headed in the right direction.

The availability of capital is a critical component to business growth and job creation for small businesses. Since NSBA has been asking these questions back in 1993, there has been a direct correlation between access to capital and job growth—when capital flows more freely, small businesses add new jobs. Six months ago, NSBA reported that between July 2010 and July 2011, there was a five-point increase in employment while during that same time there was an 11-point increase among small businesses that reported being able to garner adequate financing for their business.

Unfortunately, despite the gains in credit accessibility for small-business owners, there wasn’t a commensurate increase in employment. This lag in employment is likely due to the ongoing, high percentage of small-business owners who expressed uncertainty about the U.S. economy and the fact that a significant majority still project a flat or recessionary economy in the coming 12 months—even despite modest, positive gains in both areas. Furthermore, firms lacking capital have reported an increase in workforce reductions.

Among small-business owners for whom capital availability has been a problem, there was an increase from 18 percent in July 2011 to 20 percent today in the number of small businesses that reported they have been forced to reduce their number of employees as a direct result of not enough capital. The only time in the last four years that number has been higher was one year ago when 24 percent reported reducing their workforce. Another item of concern was the high numbers of small businesses that were unable to increase inventory to meet demand (10 percent) and those unable to finance increased sales (16 percent). This means that, although growth opportunities exist for these businesses, they are being held back by a lack of capital.

In the last six months, there were decreases in small-business use of nearly every financing mechanism. Small businesses reported drops in bank loans (from 49 percent down to 47 percent,) credit cards (from 37 percent down to 33 percent,) private loans (from 21 percent down to just 14 percent,) and vendor credit (from 25 percent down to 23 percent.) Interestingly, in the July 2011 report, each of these types of financing increased slightly from the December 2010 numbers.

The number of small businesses using no financing whatsoever actually decreased slightly from 23 percent in July 2011 to 21 percent today. On a positive note, there was an increase in the number of small-business owners using business savings, up from 43 percent six months ago to 46...
percent today. The decreases in small-business use of various sources of financing coupled with the increase among those that do use some kind of financing likely indicates more businesses using just one or two types of financing rather than using several financing options. The hope is that this seeming consolidation of financing indicates small-business owners are in a better financial position than they were six months ago.

In December 2008, 49 percent of small-business owners relied on credit cards for business financing. Today, however, just 33 percent of small-business owners rely on credit cards, which marks the lowest rate of credit card usage reported by small business since 1996. This decline is not surprising given the increase in average credit card interest rates and the fact that the Credit CARD Act of 2009 failed to include the cards used primarily or exclusively for small-business purposes.

In both 2011 economic surveys, small-business owners were asked to estimate their total small-business related debt. Six months ago, the average debt carried by small-business owners was $1.108 million. Today the average debt is $1.393 million—nearly 300,000 higher. According to the December 2011 survey, the average debt of small-business owners five years ago was $1.517 million. Today, 78 percent of small-business owners report carrying any debt while five years ago, just 67 percent did.

Loans

The number of small businesses relying on traditional bank loans decreased to 47 percent from 49 percent six months ago. The fact that more businesses relied on earnings of the business is a likely indicator that businesses have been able to begin building back up their reserves and rely on that for financing. Seventeen percent of small-business owners reported less favorable terms on their loans in the last year, and only six percent—down slightly from seven percent in July 2011—report that the terms of their loans have become more favorable.

Underscoring this very slight thawing, the most recent Federal Reserve Senior Loan Officer Opinion Survey (October 2011) found that only seven percent of large banks eased their lending standards for small businesses while 13 percent—nearly double—eased lending for large firms. On the contrary, at smaller banks 10 percent of loan officers surveyed report easing lending standards for small businesses while just five percent did the same for large firms.

The implications of the collapsed housing market continue to haunt the small-business community. Nearly one in six (17 percent) small-business owners report leveraging their business loans with a second mortgage. In addition to using a second mortgage, small-business owners also use business savings (34 percent,) personal savings (36 percent,) accounts receivable (39 percent,) and credit cards (33 percent) to leverage their business loans. Of notable mention is the increase in use of accounts receivable to secure financing, up from 33 percent to 39 percent—likely indicating another positive movement, in that more businesses can point to growing sales in order to leverage lending.

Credit cards

In the last year, credit card interest rates have increased for small businesses, with nearly half now paying interest rates of 15 percent or higher. While there was a slight drop in the number of small businesses who pay 15 percent or
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?

- Increase
- Decrease
- No Change

Thinking about the credit cards you use for business... Do you...

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<tr>
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<th>Dec. 11</th>
<th>July 11</th>
<th>Dec. 10</th>
<th>July 10</th>
<th>Dec. 09</th>
<th>July 09</th>
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<tbody>
<tr>
<td>Carry a balance of less than $10,000</td>
<td>24%</td>
<td>19%</td>
<td>21%</td>
<td>23%</td>
<td>23%</td>
<td>19%</td>
<td>21%</td>
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<tr>
<td>Carry a balance of $10,000-$25,000</td>
<td>10%</td>
<td>14%</td>
<td>13%</td>
<td>12%</td>
<td>11%</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>Carry a balance of more than $25,000</td>
<td>6%</td>
<td>9%</td>
<td>11%</td>
<td>10%</td>
<td>10%</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Pay off your credit card bill each month</td>
<td>60%</td>
<td>58%</td>
<td>54%</td>
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In the last six months, how has the cost of processing credit or debit cards for your business changed?

- Increased Significantly
- Increased Somewhat
- Decreased Somewhat
- Decreased Significantly
- No Change

Accordingly, NSBA asked small businesses if they had seen any changes in the past six months, and 43 percent said they had seen an increase in the cost of processing credit or debit card transactions and 61 percent said they had seen no change whatsoever. Six percent reported a decrease in the costs of processing credit and debit card payments. Although there were far more reports of increasing costs than there were decreases, it is likely the reforms have made it easier to understand the transactions and have led to the increase in small businesses that now accept credit cards.
Public Policy

Among the issues small-business owners ranked as top issues for Congress and the administration to address were: reduce the national deficit (44 percent,) reduce the tax burden (14 percent,) reduce the regulatory burden (14 percent,) rein in the costs of health care reform (7 percent,) and increase access to capital for small businesses (5 percent.) Aside from a minor increase in “reducing regulatory burden,” every other category garnered fewer votes than in the previous survey which was a direct result of the significant increase in small-business owners who ranked “reduce the deficit” as their number one issue.

National Deficit

For the second time in a row, there was a significant increase in the number of small-business owners who rated “reduce the national deficit” as their number one priority for policymakers to address. In December 2010, 23 percent rated it the top issue, in July 2011, that number jumped to 34 percent, and today it is 44 percent. Nearly half of small-business owners ranked reducing the deficit as their number one issue for Congress and the Obama Administration to address.

The ongoing debate and lack of a clear, long-term solution has added dramatically to small-business owners’ concerns and has contributed to the overall negative outlook for the U.S. economy. One quarter (24 percent) of small-business owners said the growing national debt was among their top three significant challenges facing the future growth and survival of their business. While down slightly from six months ago (30 percent) the fact that an issue that does not have an up-front, direct impact on most small businesses ought to send a strong message about how important an issue this is.

Among the top rated fixes for the national deficit, small businesses supported: reform and reduce entitlement spending (73 percent, up from 72 percent,) significant cuts for certain federal agencies (61 percent, down from 62 percent) an across the board budget cut (53 percent, down from 56 percent) eliminate all credits and deductions with a significantly lower income tax (40 percent, up from 36 percent) and eliminate certain tax credits and deductions—even those which may benefit my business (37 percent, up from 26 percent.)

There was notable growth in business owners supporting the two options to a) eliminate all tax credits in-lieu of a lower rate and b) eliminate certain credits even, those that impact their own business. This is a clear indicator of small businesses readiness and willingness to help solve the problem of the U.S. deficit.

In early 2011, NSBA’s members voted deficit reduction among the top ten priorities for the organization in the coming two years. Since that time, Congress and the administration engaged in an ugly debate over raising the debt ceiling which has led to ongoing gridlock over how to address the deficit. NSBA has called on policymakers and the so-called “Super Committee” to embrace a two-pronged approach to addressing the deficit: tax reform and entitlement reform which will broaden the tax base by lowering all individual and corporate tax rates and eliminating certain deductions. This is the kind of approach that will spur economic growth and lead to increased tax revenues, and thereby deficit reduction.

Taxes

Small business consistently ranks reducing the tax burden among their top issues for Congress and the administration to address. In the most recent survey, small
If capital availability is a problem for your business, what is the effect on your operations?

Unique to this report, NSBA asked small-business owners to rate which taxes they found the most burdensome administratively and financially. The number one burdensome tax per small-business owners is the payroll tax. Because the overwhelming majority of small-business owners are pass-through entities, meaning their business revenue is taxed as the personal income of the owner(s), the income tax came in at second most burdensome tax. State and local taxes were ranked third most burdensome, followed by property taxes, corporate taxes, the Alternative Minimum Tax, sales taxes, capital gains tax, excise taxes, the estate tax and import and other international taxes.

NSBA also asked small-business owners to indicate which most common business deductions or credits they utilize. Forty-seven percent said they take the home mortgage interest deduction, 42 percent said they take advantage of the Section 179 expensing, 31 percent use bonus depreciation, 29 percent utilized the 2010 self-employment deduction on health care, 18 percent use the home office deduction, 15 percent use energy efficiency credits, 15 percent use the research and experimentation (R&E) credit (also commonly called the R&D credit) and four percent utilized the start-up costs deduction.

Beyond those tax credits and deductions utilized by small businesses, NSBA asked the owners to rank various credits and deductions based on importance to their business. Sec. 179 expensing came in at number one, followed by bonus depreciation, the home mortgage interest deduction and the 2010 self-employment tax deduction on health care.

Unfortunately, a number of these key small-business tax credits and deductions expired at the end of 2011, including the R&E credit. Additionally, the expanded 100 percent bonus depreciation expired, causing bonus depreciation to revert to 50 percent in 2012, after which it will go away entirely. The expanded section 179 expense deduction limit of $500,000 expired at the end of 2011, dropping the 2012 limit down to $125,000 and a mere $25,000 starting in 2013.

Unfortunately, as passed under the Small Business Jobs and Credit Act in late-2010, the self-employed tax on healthcare returned in full in 2011. The 2010 law allowed self-employed individuals to fully deduct the cost of their health insurance from their self-employment taxes for 2010 only, and lawmakers have failed to extend the provision. As it currently stands, self-employed individuals are prohibited from fully deducting the cost of their health insurance from their self-employment taxes, resulting in an additional 15.3 percent tax that no other worker or business owner is forced to pay.

Given the importance placed on Sec. 179 expensing, bonus depreciation and allowing the self-employed to fully deduct the cost of their health insurance from their self-employment taxes for 2010 only, and lawmakers have failed to extend the provision. As it currently stands, self-employed individuals are prohibited from fully deducting the cost of their health insurance from their self-employment taxes, resulting in an additional 15.3 percent tax that no other worker or business owner is forced to pay.

Given the importance placed on Sec. 179 expensing, bonus depreciation and allowing the self-employed to fully deduct the cost of their health insurance, NSBA is urging Congress to extend these and other key tax provision that were designed to help small businesses invest and grow in order to help bolster the U.S. economy.

Tax reform remains a key component in the discussions over the deficit, with some lawmakers and President Obama calling for an easing of the corporate tax rate. However the
corporate tax rate is just one small piece of the equation and will do virtually nothing for the majority of small businesses given their pass-through status. Allowing the smallest businesses to pay a much higher tax on their business income than multinational, multi-billion dollar corporations is a nonstarter.

Health Care

Although the Patient Protection and Affordable Care Act (PPACA) passed nearly two years ago, small-business owners’ confusion over the bill persists. Nineteen percent of small businesses—unchanged from six months ago—said they have a clear understanding of how the new law will impact their business. Meanwhile, 60 percent said they have a limited understanding and 21 percent said they do not understand at all how their business will be impacted.

When asked—if their business is eligible for the small-business health care tax credit—how much the credit will help their business, the most common response (38 percent) was that they were unsure if they qualify—this is up from 35 percent six months ago. Twenty percent responded that they do not qualify and the remaining 42 percent who are eligible reported mixed levels of assistance from the credit. Among those that said they are eligible, only five percent said the credit will help their business significantly, six percent said it will help moderately, 13 percent said it will help just a little and 18 percent said it will not help at all.

Small businesses also continue to report dire consequences of rising health care costs. When asked how the cost of their health insurance had changed since their most recent renewal, 39 percent reported increases of more than 11 percent, among those, 12 percent experienced an increase in excess of 20 percent. On a positive note, both of these indicators are down slightly from six months ago. Additionally, there was notable growth in the number of small-business owners who report a six to 10 percent increase—which, while still far higher than inflation, is on the lower-end of traditional rate increases—from 21 percent in July 2011 to 28 percent today.

To address these costs, small businesses have implemented the following changes: 59 percent, up from 50 percent increased the deductible; 45 percent, down from 50 percent, held off on employee compensation increases; 50 percent, up from 46 percent, increased the employee share of the premium; 48 percent, up from 42 percent reduced employee benefits; 25 percent, down from 28 percent, switched insurance carriers; 27 percent, down from 32 percent held off on hiring a new employee; and 25 percent, up from 24 percent, held off on implementing new growth strategies.

Of particular note is the significant number of small-business owners (27 percent) who reported they have held off on hiring a new employee due to health care costs. While lower than it was six months ago, the fact that rising health care costs are negatively impacting job growth in more than one-in-four companies is alarming.

Regulatory Burden

Small-business owners face unique challenges in navigating federal regulations. Since NSBA has been conducting these surveys, reducing the regulatory burden has consistently been ranked a top issue for Congress and the administration to address. According to the December 2011 survey, regulatory burdens represent the second largest challenge to the future growth and survival of small firms—up from fourth place just six months ago.

There exists among the small-business community growing...
concern about regulations and the burdens they impose. Despite some key progress—including passage of the Plain Language Act, the recent introduction of the Plain Regulations Act, and several recent moves by the administration to more closely examine federal regulations—new burdensome regulations continue to stir concerns among small businesses.

The number of small-business owners who picked regulatory burdens as a key challenge to the future growth and success of their business increased from 31 percent to 40 percent. The number of small businesses that ranked reducing regulatory burdens as a top priority for Congress and the administration remained virtually the same at 14 percent up from 13 percent. Although this is a relatively small number, “reducing the regulatory burden” was the third most popular choice for small-business owners when asked which issues policymakers should first address. The significant increase in small-business owners picking “reduce the national deficit” is likely the result of such a small percentage.

Access to Capital

Although many of the financing indicators in this survey point to a moderate thawing of credit markets for small businesses, it is important that the efforts to expand access to capital not be abandoned. The fact remains that nearly one-third (30 percent) of small businesses still cannot obtain adequate financing for their business, which has drastic implications on business growth.

Certain measures have gone into effect, such as the NSBA-supported Small Business Lending Fund (SBLF) which, while successful in getting lending to small-business owners who otherwise wouldn’t have gotten it, performed below expectations. More actions need to be taken such as provisions that would ease restrictions on small-business crowd-funding and those seeking investment, and increasing the lending cap on credit union small-business member lending.
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 (equaling 23 percent of the population.) Firms with fewer than 500 employees accounted for 64 percent of net new jobs between 1993 and the third quarter of 2008 and 32 percent of those gains came from the creation of new, small firms.

The Great Recession hit in late 2007 when the unemployment rate began to rise and remains stubbornly high to this day. Small businesses are struggling to create jobs in an economy where economic and political uncertainty is rampant. Small businesses are the key to job growth and giving them the tools they need to create jobs is paramount to economic recovery. That said, there has been some positive movement in the last six months.

The unemployment rate has decreased slightly—still far from where it needs to be—and based on NSBA data, small-business owners’ economic outlook is improving. While the overall picture is not one of a fully-recovered small-business community, it is one that appears to be back on the right track toward a full recovery. The outlook on the overall economy as well as small-business owners’ own businesses both took positive steps in the last six months as did small-business revenues.

The modest gains in access to capital and employment certainly are positive but still deserve the attention of lawmakers to ensure that overall confidence and economic outlook doesn’t dip in the coming spring and summer months—as it has the last two years.

NSBA believes more can, and must be done to ensure entrepreneurship remains a viable, attainable option for every American. Government leaders ought to heed advice to act on items that will spur economic growth, but also to show restraint when it comes to any proposal that could further shake small-business owners’ confidence and exacerbate already lacking small-business job creation capabilities.