

2014 YEAR-END ECONOMIC REPORT



FOREWORD

The National Small Business Association (NSBA) is the nation's first small-business advocacy group celebrating more than 75 years representing small business in Washington, D.C. Focused on federal advocacy and operating on a staunchly nonpartisan basis, NSBA is a recognized leader of America's small-business community. Throughout the year, we conduct a series of surveys, chief among them are our two Economic Reports which use NSBA survey data to provide a snapshot of how small businesses are dealing with the current economic situation and provide long-term trending data.

The 2014 Year-End Economic Report shows a small-business community with a more positive economic outlook than they have had in several years. Today, more small-business owners are anticipating economic expansion in the coming year than at any point in the last seven years.

The most noteworthy changes in this survey have to do with small-business owners' improved economic outlook, however, they're still not out of the woods yet. While the economic outlook is vastly improved over the last several years, specifically a 14-percentage point jump in small businesses projecting economic expansion, it is worth noting that the majority of small firms still expect a flat or recessionary economy in the coming year.

Economic uncertainty continues to be the most significant challenge facing small-business owners today, but to a far less degree than it was just two years ago.

Despite the gains in economic outlook, the report found little change over the last six months when it comes to small-business owners' confidence about the future of their own business as well as job growth. And while neither indicator changed much with this survey, when asked more specifically about growth opportunities, a majority of small firms projected growth opportunities in the coming year for their firms. This is the highest this indicator has been since we started asking the question five years ago.

Underscoring the dichotomy of positive economic growth with a persistent fear of economic insecurity is the fact that more small firms picked lack of available capital and lack of qualified workers among their top challenges. So while the economy has improved and they are now more willing to take on additional debt and invest in new workers, there are serious hurdles they face in doing so.

There is a clear correlation to a small-business owner's ability to hire and his/her ability to get financing, and as expected with the lackluster job growth, we saw a slight drop in their ability to get financing. This shortfall led to more small firms saying they were unable to finance increased sales or increase inventory to meet demand.

When asked to rank the top items that Congress and the administration should address, "end the partisan gridlock and work together" remained the top ranked issue. NSBA also asked a host of questions on cybersecurity and found that half of all small businesses report they have been the victim of a cyber-attack – up from 44 percent just two years ago. The cost of dealing with these attacks has skyrocketed: to \$20,752 per attack up from \$8,699 two years ago. Cyber-attacks are taking more time to resolve today as well, with one-in-three saying it took three days or more to resolve.

The 2014 Year-End Economic Report was conducted online Dec. 29, 2014 – Jan. 12, 2015 among 675 small-business owners—both members and nonmembers of NSBA—representing every industry in every state in the nation.

Please contact NSBA's media office for inquiries at press@nsba.biz.

Sincerely,



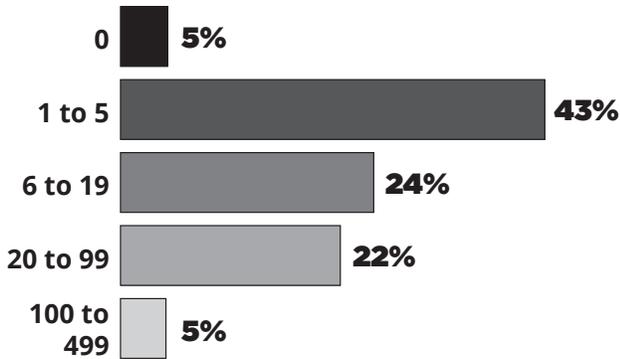
Tim Reynolds
NSBA Chair
Tribute, Inc.



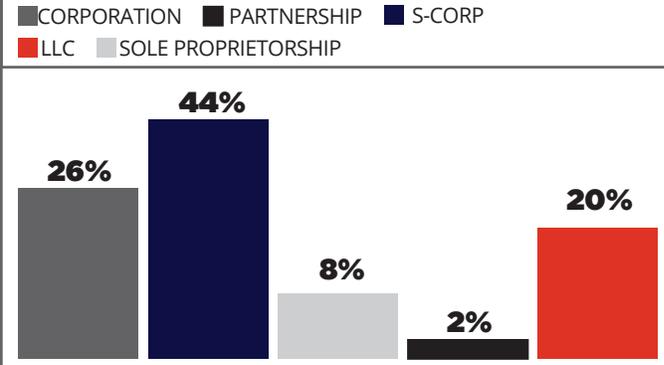
Todd McCracken
NSBA President and CEO

DEMOGRAPHICS

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



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



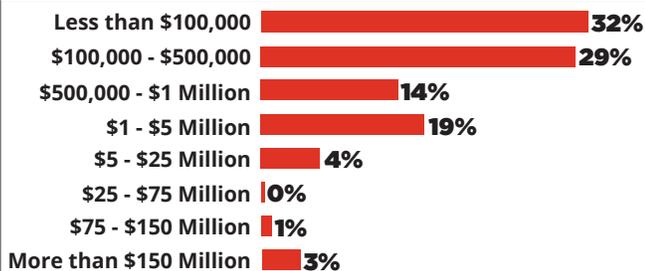
In what region is your business located?

New England	7%
Mid-Atlantic	19%
Great Lakes	16%
Farm Belt	6%
South	24%
Mountain	12%
Pacific	17%

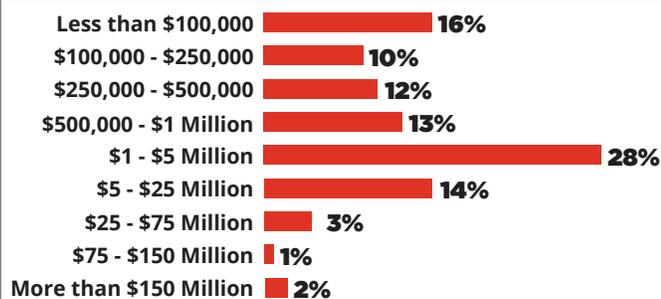
Which of the following best describes the industry or sector in which your business operates?

Manufacturing	18%
Construction	15%
Professional	12%
Scientific and Technical Services	10%
Other Services (except Public Administration)	10%
Retail Trade	7%
Information (IT)	5%
Health Care and Social Assistance	4%
Wholesale Trade	4%
Transportation and Warehousing	3%
Agriculture, Forestry, Fishing and Hunting	2%
Real Estate, Rental and Leasing	2%
Arts, Entertainment, and Recreation	2%
Educational Services	1%
Accommodation and Food Services	1%
Administrative and Support	1%
Management of Companies and Enterprises	1%
Insurance	1%
Waste Management and Remediation Services	1%
Finance	1%
Utilities	0%
Public Administration	0%
Mining	0%

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



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



ECONOMIC OUTLOOK

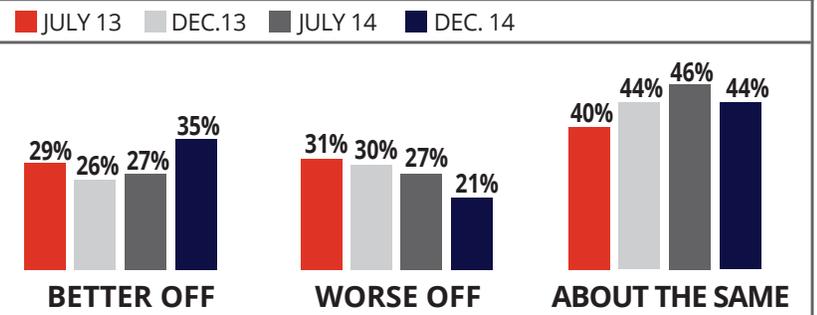
Today's economic outlook of America's small-business owners is better than it has been in quite some time, with more small-business owners anticipating economic expansion in the coming year than have at any point in the last seven years. When asked to compare today's economy with one year ago, 45 percent, up from 37 percent just six months ago, say it's better—that's the highest this indicator has been since we started asking the question.

Despite these notable gains—including a 14-percentage point jump in small businesses projecting economic expansion—the majority of small firms still expect a flat or recessionary economy in the coming year.

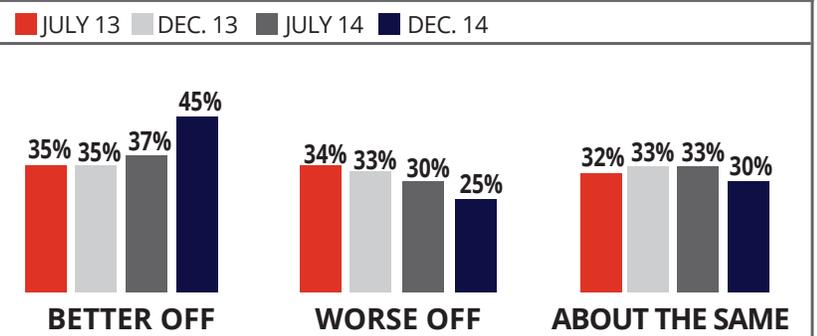
Economic uncertainty continues to be the most significant challenge facing small-business owners today. However, for the first time since February 2008, less than half of small businesses selected it among their top three challenges. The cost of health insurance, regulatory burdens and decline in customer spending rounded out the top four challenges facing small firms today.

Of particular interest to policymakers should be the increase among small firms that picked lack of available capital and lack of qualified workers among their top challenges – alluding to the improved economy and their new willingness to take on additional debt in the form of financing as well as their efforts to grow their workforce. Clearing hurdles to these two challenges should be a priority.

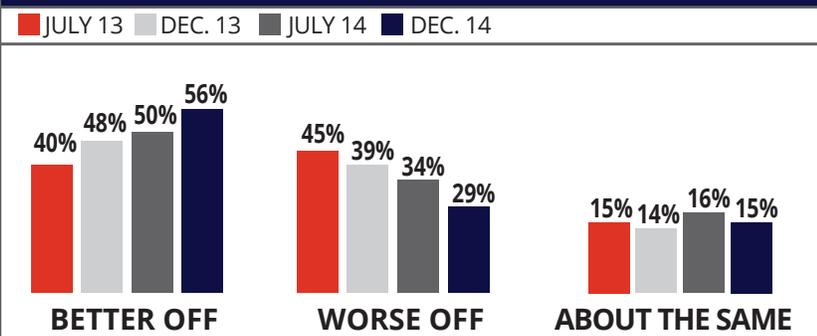
When compared with six months ago, would you say today's national economy is:



When compared with one year ago, would you say today's national economy is:



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



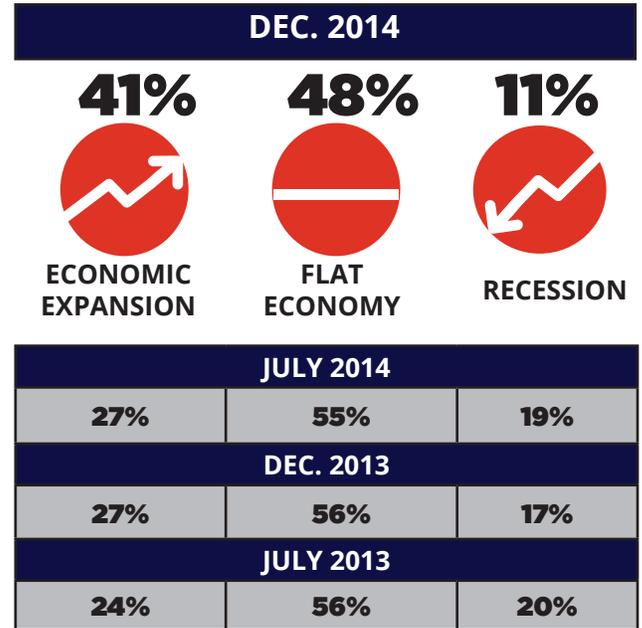
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ECONOMIC OUTLOOK

What are the three most significant challenges to the future growth and survival of your business?

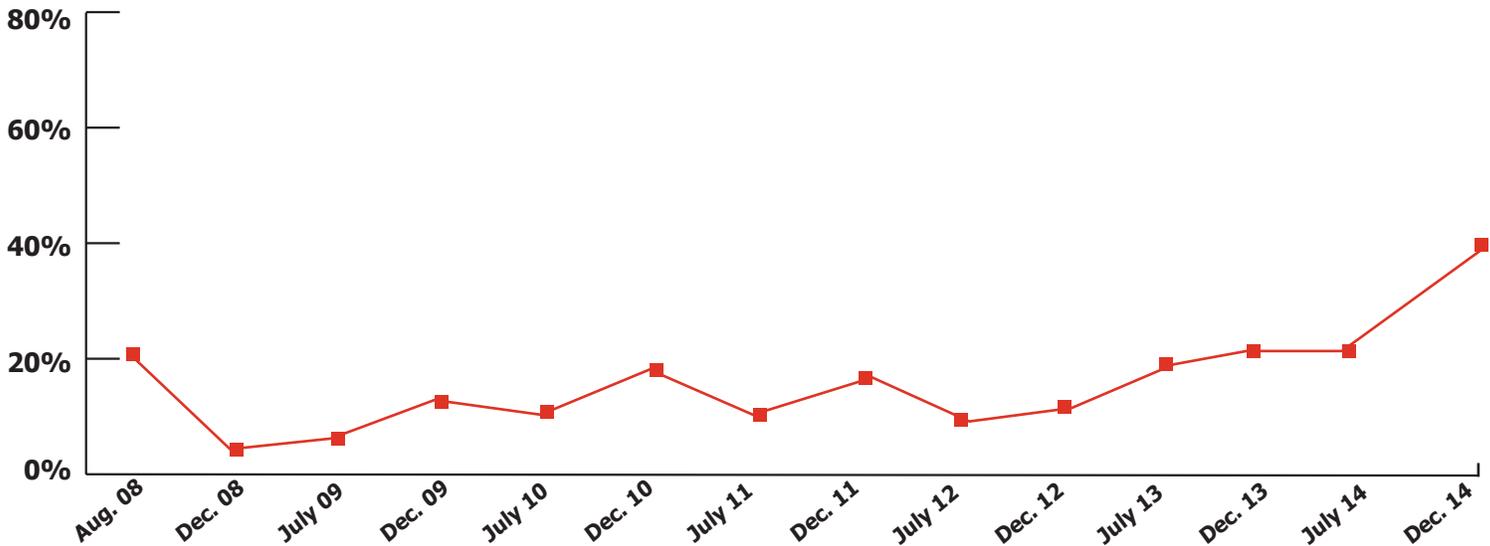
Economic uncertainty	47%
Cost of health insurance benefits	34%
Regulatory burdens	31%
Decline in customer spending	31%
Federal taxes	22%
Lack of available capital	22%
Lack of qualified workers	20%
Partisan gridlock in D.C.	15%
Cost of employee salaries	12%
Growing national debt	12%
State and local taxes	12%
Cost of technology	10%
Cost of employee benefits	7%
Foreign competition	6%
Cost of training workers	4%
No major challenges	3%

Thinking about the next 12 months, do you anticipate:



THINKING ABOUT THE NEXT 12 MONTHS, DO YOU ANTICIPATE:

■ Economic Expansion



SMALL BUSINESS CONFIDENCE

The report found little change over the last six months when it comes to small-business owners' confidence about the future of their own business. Today, 72 percent expressed confidence about the future of their business, unchanged from July 2014. That said, there was a notable jump among those respondents who said they feel "very confident," up from 23 percent six months ago to 27 percent today. The fact that this overall indicator remained unchanged despite improvements in economic outlook tells us two things: 1) that typical small-business optimism is coming more in-line with economic outlook, and 2) that while a small but growing group of small businesses feel "very good" about the future of their business, most are still just plugging along.

The fact that this survey showed marked growth in economic outlook but only modest growth in small-business confidence is likely impacted by the significantly lower gas rates during the time of the survey. One prime example: the number of small firms who anticipate inflation in the coming year dropped from 46 percent in July 2014 to just 34 percent today.

And while small-business confidence didn't skyrocket with this survey, when asked more specifically about growth opportunities, a majority of small firms projected growth opportunities in the coming year for their firms. This is the highest this indicator has been since we started asking the question five years ago.

Do you believe there will be growth opportunities for your business in the coming year?

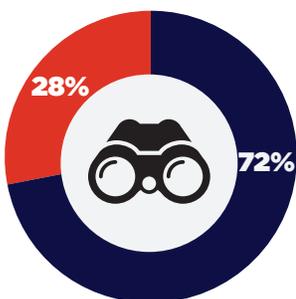
Yes	No	Already Growing
DEC. 2014		
54%	28%	18%
JULY 2014		
46%	37%	17%
DEC. 2013		
47%	38%	15%
JULY 2013		
45%	41%	14%

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

	DEC. 2014	JULY 2014
Inflation	34%	46%
Deflation	8%	4%
Rising interest rates	33%	34%
None of the above	48%	39%

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

■ Confident ■ Not Confident



DEC. 14

	DEC. 2014	JULY 2014	DEC. 2013	JULY 2013
Very confident	27%	23%	19%	17%
Somewhat confident	45%	49%	47%	47%
Not very confident	18%	20%	25%	26%
Not at all confident	10%	8%	9%	10%

BUSINESS GROWTH

There were solid increases in the number of small-business owners who reported increases in revenues, and marked increases in those who reported profit increases in excess of 10 percent, up from 10 percent in July 2014 to 21 percent today. While there were fewer firms reporting decreases in profit, the biggest change was from firms that reported no changes in profit to those reporting gains.

Looking ahead to the coming year, the majority of small firms (60 percent) anticipate increases in revenue, and slightly fewer (54 percent) anticipate increases in profits. Both indicators are the highest they've been since we began asking the questions seven years ago.

Further underscoring the improved outlook, when asked about growth strategies they have planned for the coming year, 51 percent said they plan to employ new advertising and marketing strategies – the first time in seven years that a majority of small firms have indicated a specific growth strategy.

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

New advertising and marketing strategies	51%
Internet / Expand E-commerce	34%
Strategic alliance	31%
Hire new employees	23%
No growth strategies will be used in the next 12 months	17%
Joint Venture	14%
Investments in R&D	13%
Expand operations to new facilities/add additional stores	10%
Other	7%
Outsourcing	7%
Acquisition	6%
Merger	4%

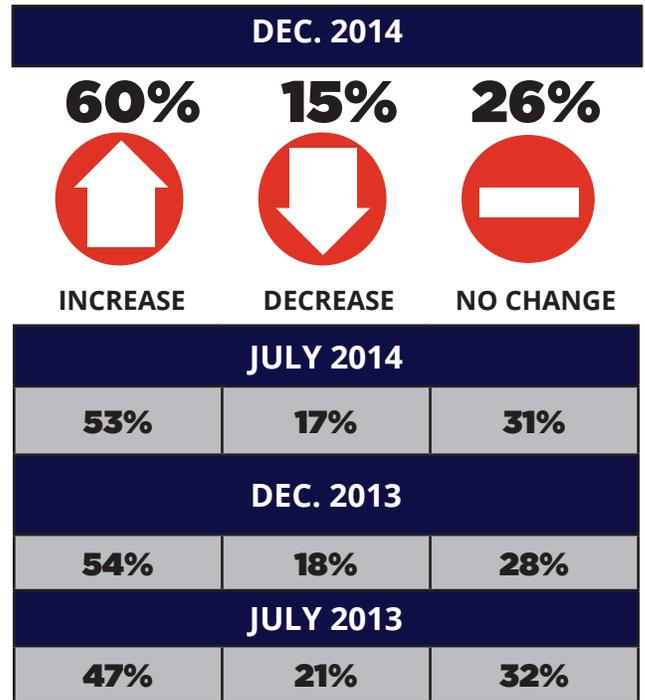
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BUSINESS GROWTH

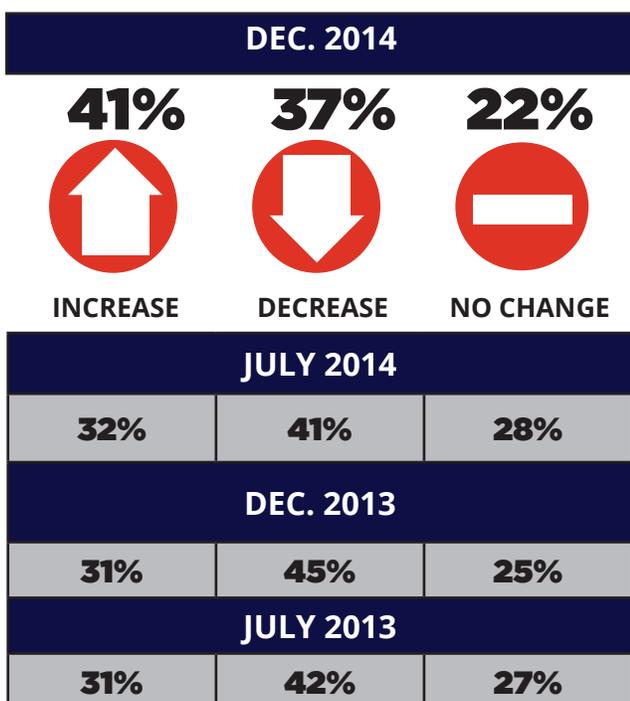
How did your gross sales/revenues change over the last 12 months?



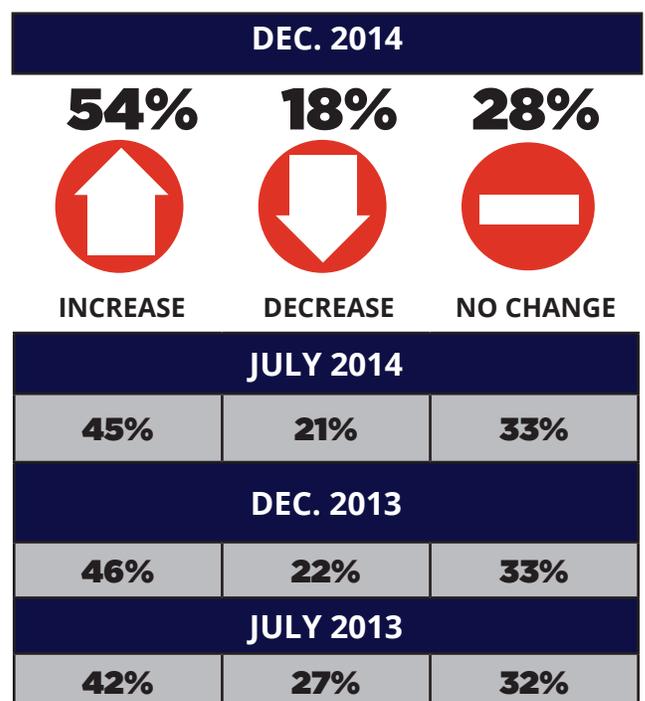
How do you expect gross sales/revenues to change over the next 12 months?



How did net profits change over the last 12 months?



How do you expect net profits to change over the next 12 months?



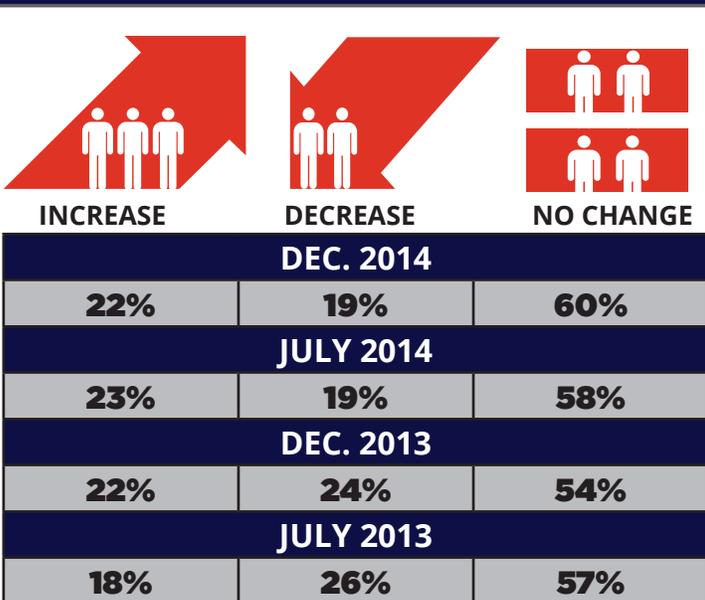
JOB GROWTH

Unfortunately, despite the improved outlook and modest gains in revenue, the number of small-business owners who report they increased their workforce remained essentially unchanged. Small firms are still reporting a collective three-percentage-point net gain in job growth, however the majority, 60 percent, report their workforce has remained the same over the last six months. Those small firms that have hired new employees remains stubbornly at about one-in-five.

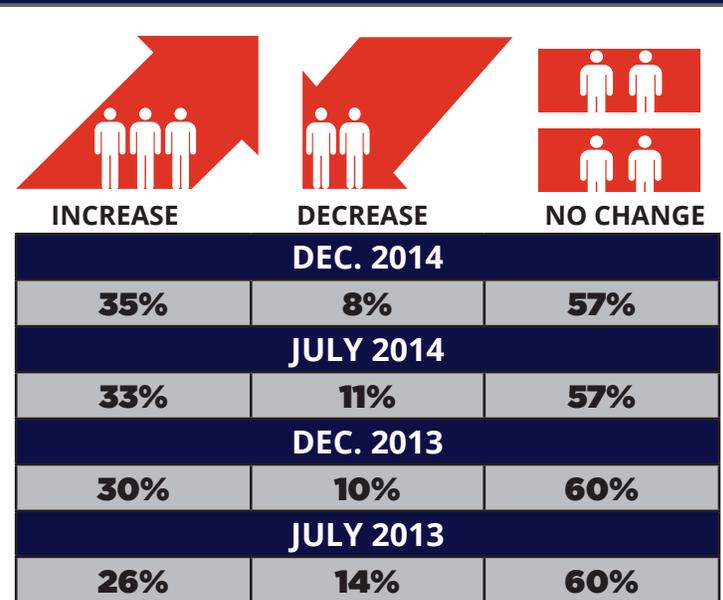
On a positive note, the number of small firms that report they raised employee compensation increased to the highest it's been in six years. Given the myriad long-term investments it takes to bring on another employee, not to mention pressure to provide health insurance, coupled with several years of slow or no growth, it makes sense that employers are opting to provide salary increases over creating new jobs.

Looking forward to the coming year, small-business owners are projecting modest growth in hiring and continued growth in employee compensation. Both indicators show the highest increases since February 2008.

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



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



How did employee compensation change over the last 12 months?

	DEC. 2014	JULY 2014	DEC. 2013	JULY 2013
Increase	50%	47%	45%	41%
Decrease	15%	11%	15%	14%
No Change	35%	42%	39%	45%

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

	DEC. 2014	JULY 2014	DEC. 2013	JULY 2013
Increase	55%	50%	46%	40%
Decrease	7%	7%	8%	10%
No Change	38%	43%	45%	50%

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. Although the number of firms that report being affected by the credit crunch continues to drop—down to 61 percent from 66 percent six months ago—one-third of small firms still struggle to get the financing they need.

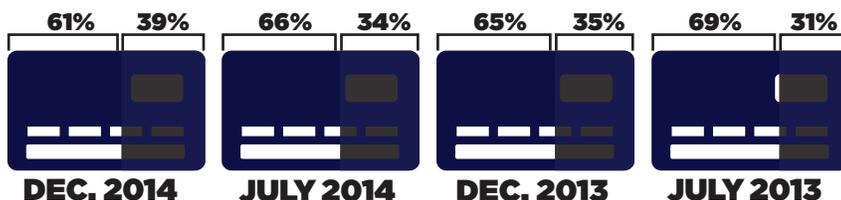
When asked what kind of financing their company used, there was a notable jump among small firms that rely both on credit cards and earnings of the business. These two are the most quickly accessed forms of financing which could indicate newer businesses seeking financing as well as new opportunities for existing businesses that may not have the track record required by other financing tools.

There are a handful of other contributing factors to the increase in credit card usage as well, including: a five-percentage-point increase among firms who report there was an increase on their line of credit or credit card in the last six months; a drop among small firms who say the terms of their credit cards worsened in the past six months; and the average interest rate dropped from 13.94 percent in July 2014 to 13.05 percent today.

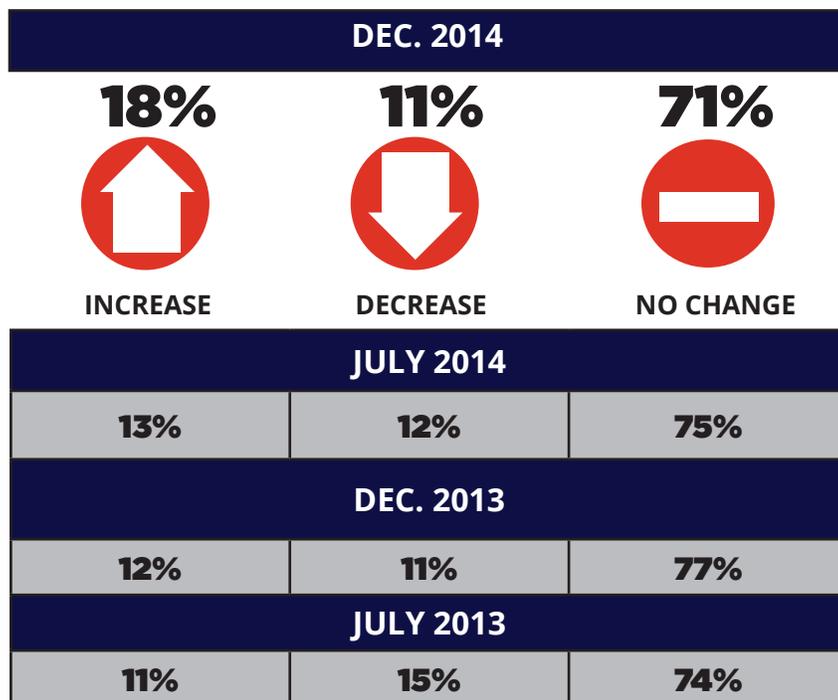
When asked how the absence of capital is negatively impacting their business, there was a concerning trend whereby more small-business owners report a lack of financing is hindering their ability to finance increased sales or increase inventory to meet demand. Nearly one-in-five small firms cannot meet increased sales demand due to an inability to garner financing.

Has your business been impacted by the credit-crunch?

■ YES ■ NO



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?



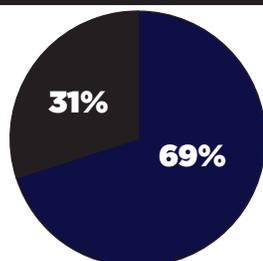
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SMALL BUSINESS FINANCING

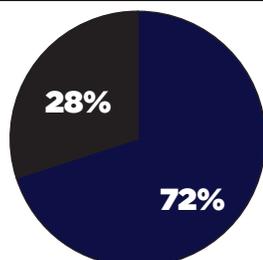
Is your business able to obtain adequate financing?

■ YES ■ NO

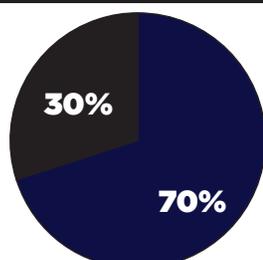
DEC. 2014



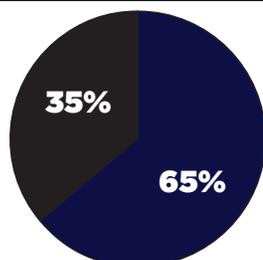
JULY 2014



DEC. 2013



JULY 2013



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

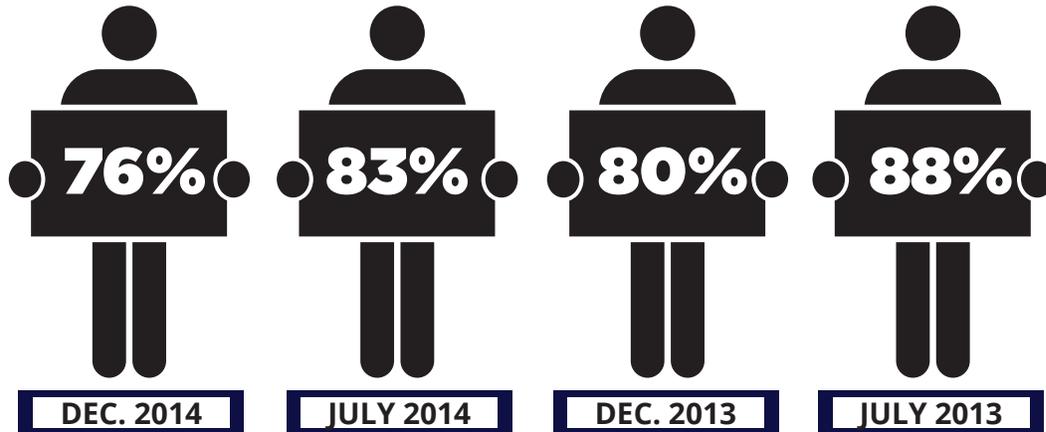
	DEC. 2014	JULY 2014	DEC. 2013	JULY 2013
Credit cards	36%	30%	33%	31%
Earnings of the business	35%	32%	34%	35%
Used no financing	27%	28%	27%	30%
Community Bank Loan	20%	19%	19%	18%
Vendor credit	19%	15%	17%	16%
Private loan (friends or family)	18%	17%	17%	17%
Large Bank Loan	17%	19%	20%	13%
Leasing	6%	6%	6%	5%
Other	5%	5%	5%	5%
Credit Union Loan	4%	2%	3%	2%
Small Business Administration (SBA) loan	3%	4%	3%	5%
Selling/pledging accounts receivable	3%	2%	2%	2%
Private placement of debt	2%	2%	3%	2%
Venture capital/Angel investors	2%	n/a	n/a	n/a
Online or non-bank lender	1%	1%	1%	n/a
State/Regional Loan and Incentive Programs	1%	1%	1%	1%
Crowdfunding	1%	1%	0%	n/a
Private placement of stock	1%	2%	1%	1%
Public issuance of stock	0%	0%	0%	0%

For bank loans that are currently outstanding, which of the following has occurred in the last 12 Months?

	DEC. 2014	JULY 2014	DEC. 2013	JULY 2013
Terms have become less favorable to your business	9%	10%	13%	14%
Terms have stayed the same	39%	38%	41%	33%
Terms have become more favorable to your business	5%	6%	5%	6%
Do not have outstanding loans	47%	45%	41%	46%

SMALL BUSINESS FINANCING

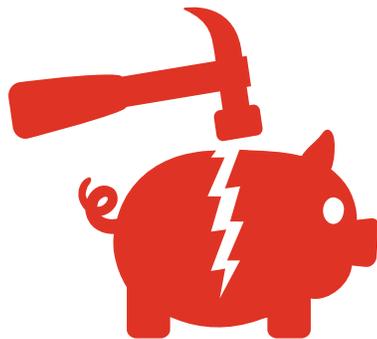
Percentage of Small Businesses Carrying Any Debt



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

	DEC. 2014	JULY 2014	DEC. 2013	JULY 2013
Debt 1 to 50k	33%	29%	28%	33%
Debt 51k to 100k	13%	14%	11%	11%
101k to 500k	30%	32%	35%	31%
501K to 1mil	9%	10%	12%	11%
More than 1mil	14%	16%	18%	15%

Average debt among those that do have debt



\$933,985

JULY 2014

\$1,201,549

JULY 2014

\$815,883

DEC. 2013

\$835,828

JULY 2013

SMALL BUSINESS FINANCING

Do you believe that the terms of the credit cards you use for business have improved or gotten worse over the last SIX MONTHS?

3%



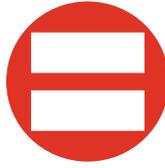
IMPROVED

19%



GOTTEN WORSE

53%



STAYED THE SAME

11%



NOT SURE

14%



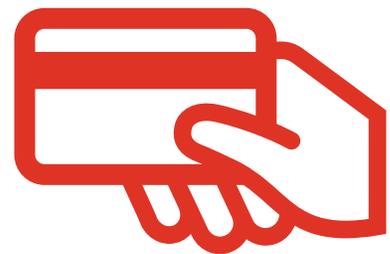
N/A - I DON'T USE CREDIT CARDS

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

	DEC. 2014	JULY 2014	DEC. 2013	JULY 2013
Unable to grow business or expand operations	34%	33%	36%	36%
Unable to finance increased sales	18%	15%	17%	18%
Reduced the number of employees	16%	18%	20%	20%
Unable to increase inventory to meet demand	13%	10%	11%	10%
Reduced benefits to employees	11%	12%	13%	14%
Other (please specify)	3%	2%	3%	3%
Closed stores or branches	1%	3%	3%	4%
Not a problem / No effects	56%	57%	54%	50%

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

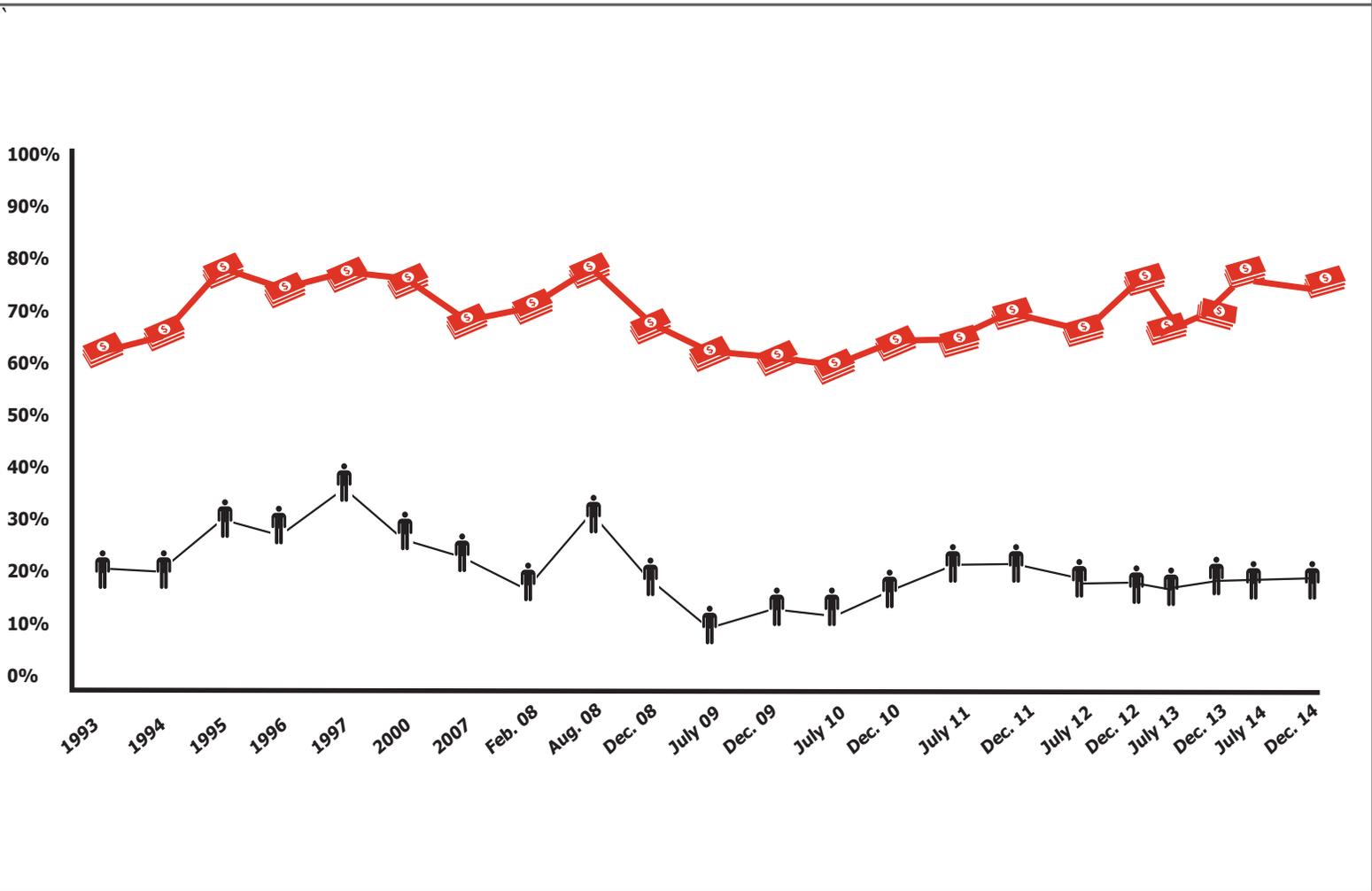
13%



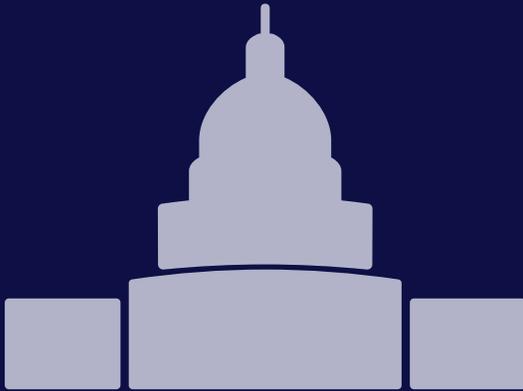
SMALL BUSINESS FINANCING

CORRELATION BETWEEN AVAILABILITY OF CAPITAL AND EMPLOYMENT GROWTH

■ Able to get financing
 ■ Increased Employment



PUBLIC POLICY



The 2014 Year-End Economic Report asked general questions on policy to determine what small business wants from our elected officials. We also dedicated several questions to the issue of cybersecurity and how cyber-crimes impact America's small firms.

When asked to rank the top items that Congress and the administration should address, "end the partisan gridlock and work together" remained the top ranked issue. That was followed closely by reduce the national deficit, and reduce and simplify the tax system.

The number one way small businesses believe we should address the national deficit is to reform and reduce entitlement spending, followed by targeted cuts for certain federal agencies and programs.

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

End the partisan gridlock and work together	17%
Reduce the national deficit	14%
Reducing the tax burden	14%
Simplify the tax system	13%
Increase small business access to capital	9%
Reducing the regulatory burden on businesses	9%
Rein-in costs of health care reform	8%
Reform the federal contracting system	3%
Reform Immigration	2%
Improving education to provide a qualified domestic workforce	2%
Implement cybersecurity procedures and/or standards	1%
Enact a comprehensive energy policy	1%
Remove barriers to small-business exporting	1%
Tort reform	1%
Credit card reform (that includes SB)	1%
Other	5%

Which of the following deficit-reducing proposals would you support?

Reform and reduce entitlement spending	51%
Targeted cuts for certain federal agencies and programs	41%
An across-the-board budget cut for federal agencies	31%
Eliminate all tax credits and deductions in conjunction with dramatically lower income tax rates	29%
Greater authority of the administration to reduce Congressionally-approved spending	28%
A combination of tax increases and spending cuts	25%
Eliminate certain tax credits and deductions—even those which may benefit my business	23%
A tax increase for those making more than \$250,000 annually	19%
Other	9%

PUBLIC POLICY - CYBERSECURITY

Given the increasingly commonplace occurrence of hacking and cyber-crimes, coupled with the fact that, over the past few years in a difficult economy, small-business owners are handling more of their firm's IT operations, cybersecurity is a growing concern for small business. NSBA last conducted a detailed [Technology Survey](#) in 2013 and wanted to gather some updated information.

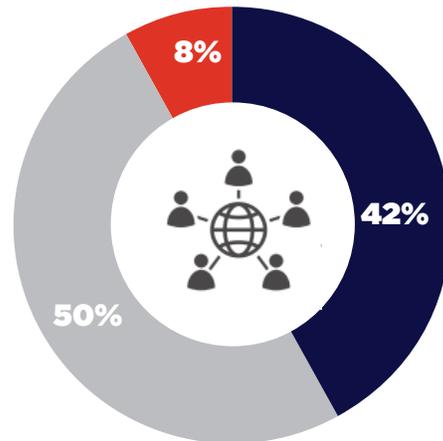
What we found was startling. Today, half of all small businesses report they have been the victim of a cyber-attack – up from 44 percent just two years ago. Among those who were targeted, 68 percent report being a cyber-victim more than just once.

In 2013, cyber-attacks cost small businesses on average \$8,699 per attack. Today, that number skyrocketed to \$20,752 per attack. For those firms whose business banking accounts were hacked, the average losses were \$19,948 today – up significantly from \$6,927 in 2013. This huge jump in cost is likely due to the increased sophistication in phishing and hacking schemes as well as an improved economy that finds greater funds available in many small firms' bank accounts than was there just two years ago.

The survey also showed that cyber-attacks are taking more time to resolve today, with one-in-three saying it took three days or more to resolve, up from just one-in-five two years ago.

How important a concern is cybersecurity for your business?

■ Very ■ Somewhat ■ Not At All



Has your business been the victim of a cyber-attack (i.e. computer virus, malware/spyware, website hack, credit card or banking hack or trojan, etc.)?

	DEC. 2014	2013
Yes	50%	44%
No	50%	56%

When did the latest cyber-attack occur?

	DEC. 2014
In the last 12 months	61%
Between 1 and 2 years ago	27%
Between 3 and 5 years ago	10%
More than 5 years ago	3%

On average, how long did it take to resolve cyber attacks?

	DEC. 2014	2013
Less than 1 day	30%	38%
Between 1 - 3 days	34%	40%
Between 3 - 7 days	14%	11%
More than a week	9%	7%
More than two weeks	13%	5%

PUBLIC POLICY - CYBERSECURITY

Approximately how much did this cyber-attack cost your business?

	DEC. 2014	2013
Average Estimated Cost	\$20,751.97	\$8,699.48
Average Money Stolen from Bank Account	\$19,948.11	\$6,927.50

How have cyber attacks impacted your business? (check all that apply)

I incurred a service interruption	58%
My website was down	33%
Information was falsely sent from my domains or email addresses	29%
The attack enabled hackers to access my business credit card(s)	11%
The attack enabled hackers to access my business banking account(s)	8%
Sensitive information and data was stolen	6%
Information about and/or from my clients was stolen	3%
Other	13%

In 2013, cyber-attacks cost small businesses on average \$8,699 per attack. Today, that number skyrocketed to \$20,752 per attack.

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, despite a more positive overall economic outlook, continue to struggle with hiring and garnering quality, affordable capital. Not only are our elected officials not doing enough to improve the U.S. economic situation, oftentimes, they are causing economic stagnation by their inability or unwillingness to deal with serious issues facing the country and preoccupation with reelection.

Small businesses simply need the 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 2014 Year-End Economic Report was conducted on-line Dec. 29, 2014 – Jan. 12, 2015 among 675 small-business owners—both members and nonmembers of NSBA—representing every industry in every state in the nation.

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