

SMALL BUSINESS SURVEY

FEDERAL RESERVE BANK OF ATLANTA
FIRST QUARTER 2013

JUNE 2013

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SMALL BUSINESS SURVEY

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HIGHLIGHTS

Business conditions

Results from the first-quarter 2013 survey indicate that respondents' forecast for business conditions over the next 12 months is mixed. The sales outlook, after significantly declining from the first quarter of 2012 to the third quarter of 2013, improved modestly, strengthened by firms more than 5 years old. The outlook for hiring remained essentially unchanged from third-quarter 2012, and was significantly below estimates from first-quarter 2012. On net, 27 percent of firms anticipate growing their workforce. Firms that have improved their outlook the most are in construction and real estate. Over the past year and a half, this industry has risen from the least likely to anticipate hiring to the most likely to anticipate hiring. The index for future spending on capital expenditures experienced an uptick from the third-quarter 2012 survey, but the difference was not significant.

Financing conditions

About one-quarter of firms applied for financing in the first quarter of 2013. Of those that did not apply, most said they didn't need it but many others were discouraged from applying, fearing they would be turned down or offered bad credit terms. Banks remain the most common credit channel, and community banks were slightly more popular than large national banks. Credit fulfillment at banks, especially large national banks, continued to improve in the first quarter of 2013. Those applying for credit at large national banks in the first quarter of 2013 were significantly more successful than when they attempted to borrow from large national banks in the first and third quarters of 2012.

Definitions

Young versus mature firms: The results in this report are often presented according to “young” and “mature” firms. We distinguish young from mature by the age of the business; we consider firms less than six years old to be young.

Small business: We define a “small” business as a firm with fewer than 500 employees.

FACILITATORS

The following organizations helped disseminate the first quarter 2013 survey:

Alabama

Alabama District Office, U.S. Small Business Administration
Decatur-Morgan County Chamber of Commerce
Mobile Area Chamber of Commerce
Montgomery Area Chamber of Commerce
Shoals Economic Development Authority
Southern Minority Business District Council

Florida

Black Business Investment Fund of Central Florida
Capital Banking Solutions
City of Tampa, Tampa City Council, District 7
Florida Coalition for Micro Enterprise Development
Florida Department of Economic Opportunity
Florida First Capital Finance Corporation
GDKN Corporation
Greater Miami Chamber of Commerce
Gulf Coast Business Finance
Manatee Community Federal Credit Union
Miami Dade SCORE
Rural Development, U.S. Department of Agriculture
Southern Florida Minority Supplier Development Council
Space Coast Economic Development Commission
SunBiz Showcase Alliance
Sun Coast Community Capital
University of North Florida Small Business Development Corporation
Upper Tampa Bay Chamber of Commerce

Georgia

Carroll County Chamber of Commerce
Edge Connection, Kennesaw State University
Fayette Chamber of Commerce

Louisiana

Baton Rouge Area Chamber of Commerce
Louisiana District Office, U.S. Small Business Administration
New Orleans Business Alliance
Southwest Louisiana Economic Development Alliance
The Olinger Group

Mississippi

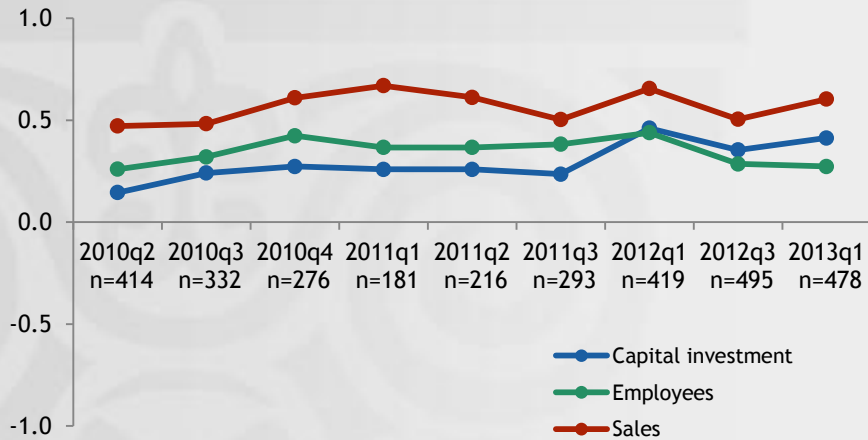
Mississippi District Office, U.S. Small Business Administration
Southern Rural Development Center

Tennessee

Entrepreneur Center, Chattanooga
Johnson City/Jonesborough/Washington County Chamber of Commerce
Kingsport Area Chamber of Commerce
Knoxville Chamber

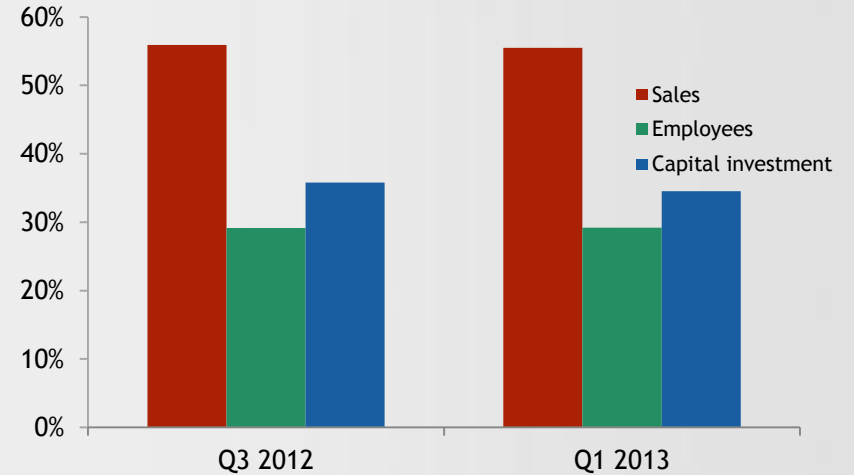
BUSINESS CONDITIONS

Business Expectations Diffusion Index
over the next 12 months



Note: This index is calculated by subtracting the number of firms that said "decrease" from the number of firms that said "increase." The data are weighted by industry and firm age, but are not seasonally adjusted.

Net Percent of Firms Expecting Increases



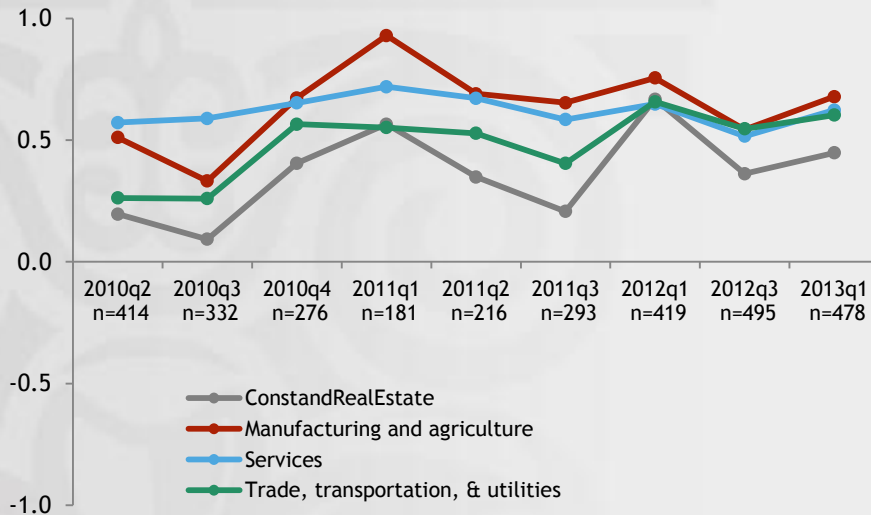
Note: Data reflect the results of the 230 firms that participated in both the Q3 2012 and Q1 2013 surveys.

KEY POINTS

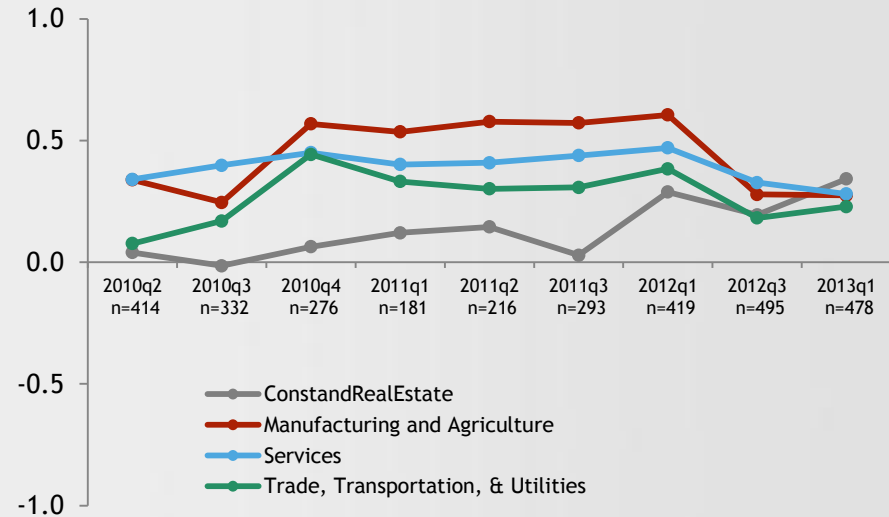
Results from the first-quarter 2013 survey indicate that the forecasts of respondents for business conditions over the next 12 months are mixed. After significantly declining from the first quarter of 2012 to the third quarter of 2012, their outlook for sales improved modestly, strengthened by firms more than 5 years old. Despite the increase from the third quarter, the index is below first-quarter readings and is not significantly different from the readings in either the third quarter or first quarter of 2012. The outlook for hiring is essentially unchanged from the third-quarter 2012 survey, and remains significantly below expectations indicated in the first-quarter 2012 survey. Among the 230 firms that participated in both this survey and the last, there is essentially no change in the groups' outlook across any of the three dimensions.

BUSINESS CONDITIONS

Sales Expectations Diffusion Index
over the next 12 months



Hiring Expectations Diffusion Index
over the next 12 months

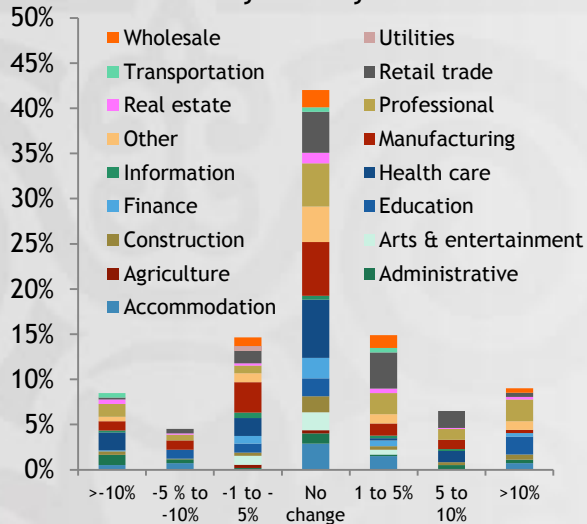


KEY POINTS

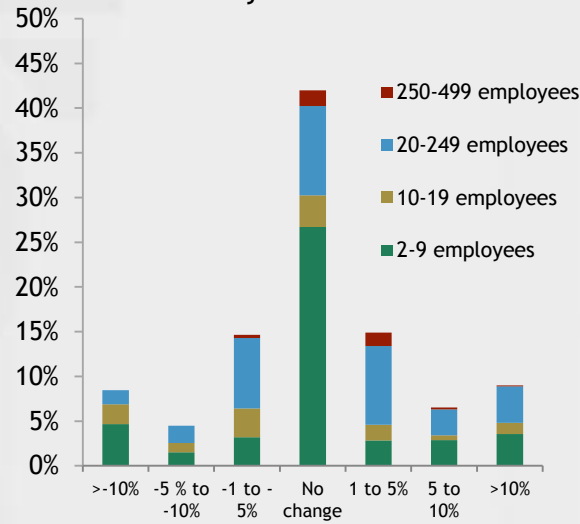
While the net percent of firms in all four broad industry group revised up their sales outlooks, none of the changes were significant. The overall outlook for hiring was mostly flat. Firms in construction and real estate have improved their outlook the most. Over the past year and a half, this industry has risen from the least likely to anticipate hiring to the most likely to anticipate hiring. The industry's outlook has improved dramatically since third-quarter 2011 when, as a group on net, they expected no change in the number of employees.

BUSINESS CONDITIONS

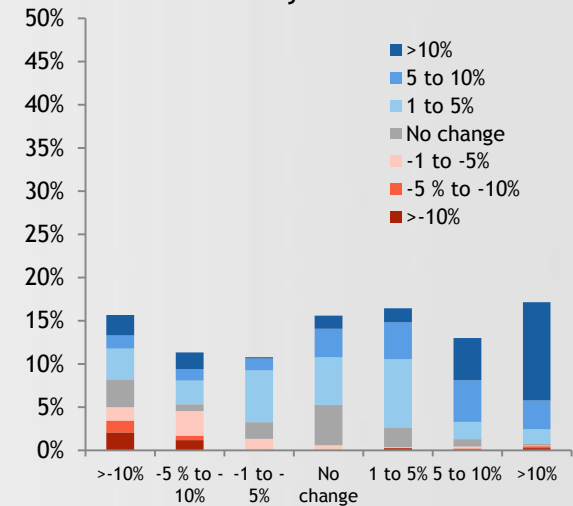
Hiring over the Past 12 Months by Industry



Hiring over the Past 12 Months by Firm Size



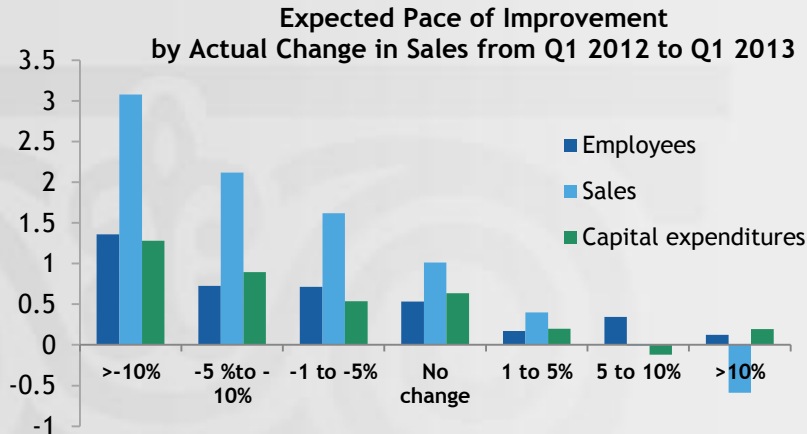
Hiring over the Past 12 Months by Sales



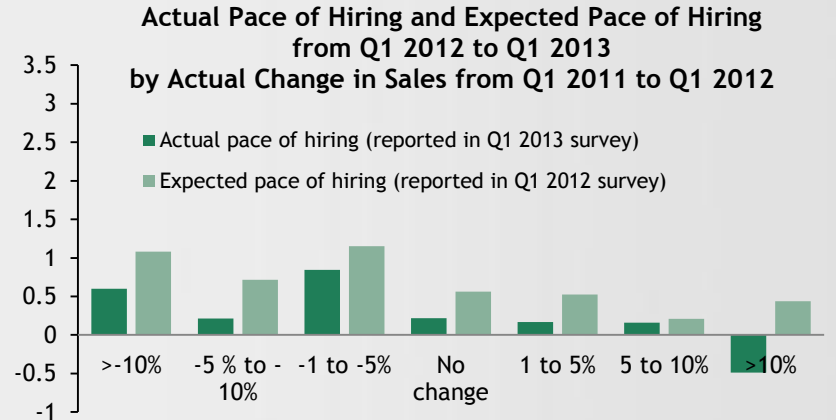
KEY POINTS

In the first-quarter 2012 survey, a net 46 percent of employer firms said they anticipated hiring between the first quarter of 2012 and the first quarter of 2013. However, actual changes came in much lower. In the first-quarter 2013 survey, only a net 3 percent of surveyed employer firms indicated they had increased the number of employees during this period. While hiring by firm size and industry varied considerably, most employer firms reported stable employment levels. In contrast, sales levels over the past 12 months were more likely to have changed. On net, 10 percent of firms reported increases. Those most likely to hire were the firms reporting more than a 10 percent change in sales over the past 12 months. Among the group of employer firms expanding the fastest, about two-thirds had increased their workforce in the prior 12 months.

BUSINESS CONDITIONS



Note: The pace of improvement in employees, sales, and capital expenditures is the difference between firms' expectations for the coming 12 months and the actual changes experienced during the previous 12 months. On the y axis, '0' indicates that the next 12 months are expected to change by the same amount as the past 12 months; '1' indicates a slightly improved outlook; and '3' indicates a relatively large expected improvement. For example, a firm that had no change in sales in the past 12 months but that expects a 1-5% change over the coming 12 months would have an expected pace of sales of 1. If the same firm expected 5-10% growth, however, they would have an expected pace of sales of 2.



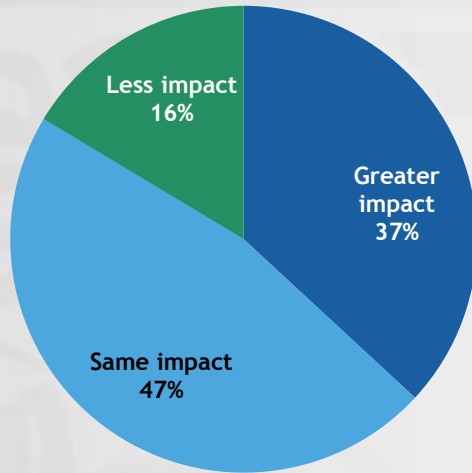
Note: The pace of improvement in employees, sales, and capital expenditures is the difference between firms' expectations for the coming 12 months and the actual changes experienced during the previous 12 months. On the y axis, '0' indicates that the next 12 months are expected to change by the same amount as the past 12 months; '1' indicates a slightly improved outlook; and '3' indicates a relatively large expected improvement. For example, a firm that had no change in sales in the past 12 months but expects a 1% to 5% change over the coming 12 months would have an expected pace of sales of 1, but if the same firm expected 5% to 10% growth, it would have a pace of sales of 2.

KEY POINTS

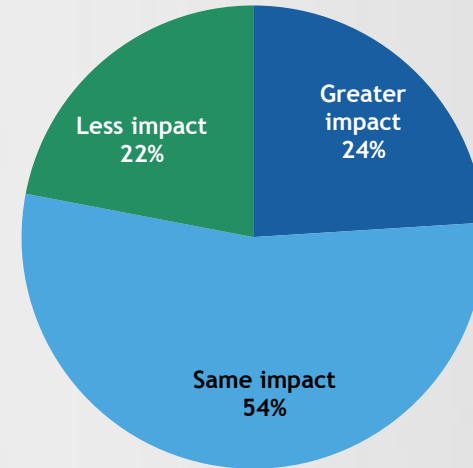
Over the past year, firms have been overly optimistic about their growth prospects. In each of the past three surveys, expectations for the changes in sales, number of employees, and capital investment in the coming 12 months have been higher than actual changes over the past 12 months. In first-quarter 2013, for example, a net 60 percent of firms indicated they anticipate sales growth will be positive over the coming 12 months, despite the fact that only a net 9 percent saw positive sales growth during the past 12 months. Those reporting the largest differences between their forecast for the coming 12 months and what actually happened during the past 12 months had negative sales growth during the prior 12 months. On the other hand, firms that experienced positive sales growth over the past 12 months anticipate relatively small changes to sales, hiring, and capital expenditures over the next 12 months on average. A comparison of actual changes in the pace of employment from first-quarter 2012 to first-quarter 2013 to what was expected at the beginning of the period revealed firms' errors for estimated employment growth were similar across the sales growth distribution, and were consistently positive.

BUSINESS CONDITIONS

Impact of Uncertainty on Business Decisions Compared to 6 Months Ago: Firms with Declining Sales Growth



Impact of Uncertainty on Business Decisions Compared to 6 Months Ago: Firms with Flat to Positive Sales Growth

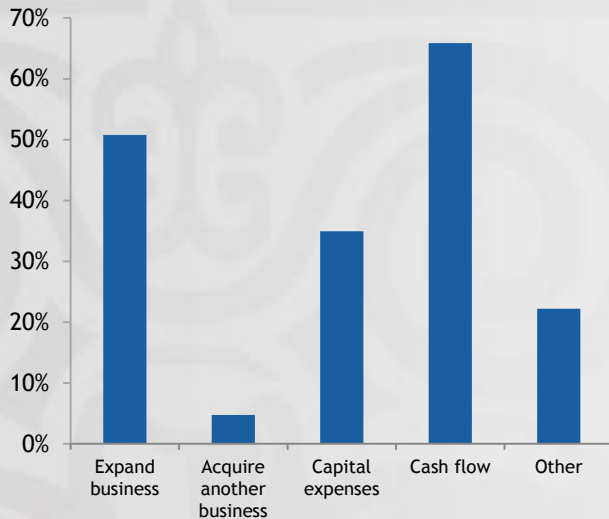


KEY POINTS

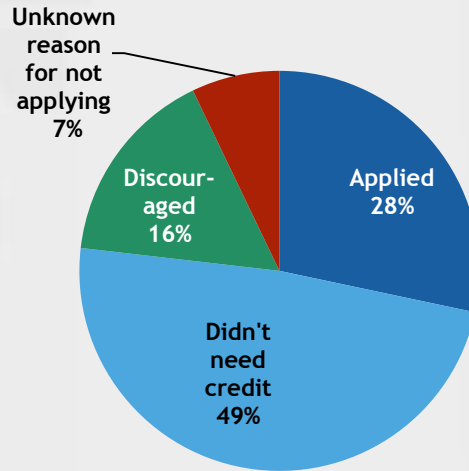
About half of responding firms indicated that fiscal uncertainty is having roughly the same impact on their business decisions compared to six months ago. Those that had declining sales during the past 12 months were much more likely to say that uncertainty was having a greater impact than were firms with sales that were flat to increasing. Among firms that had flat or growing sales in the past 12 months, the impact of uncertainty compared to six months ago is more balanced. Half said this uncertainty is having the same impact on their business decisions; one-quarter said it is having a greater impact; and one-quarter said it's having less impact.

FINANCING CONDITIONS

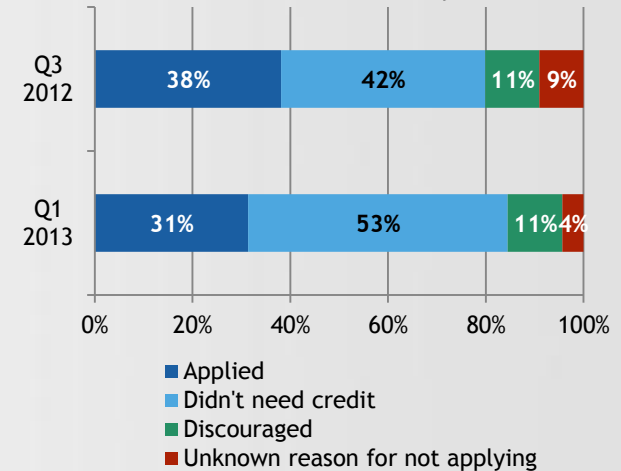
Reasons Given for Applying for Credit



Credit Demand



Demand for Credit from Firms in Q1 2013 Survey and Q3 2013 Survey

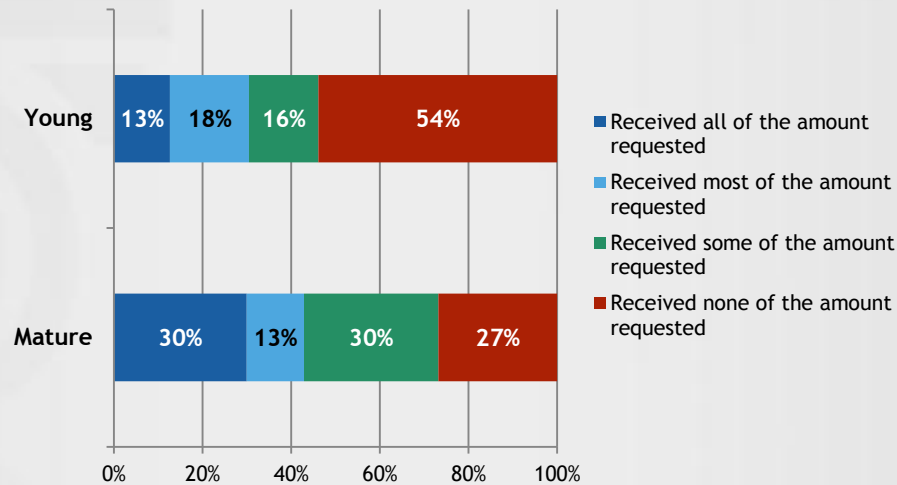


KEY POINTS

About one-quarter of firms applied for financing in the first quarter of 2013. Of those not applying, most said they didn't need it but many were also discouraged from applying, fearing they would be turned down or offered bad credit terms. As in past surveys, firms borrowed mostly to support their cash flow needs. Applying to expand the business was also a frequent response. Among the 230 firms that participated in both surveys, a smaller portion of those participating in the current survey applied for financing and a greater portion reported not needing credit. About 11 percent of firms were discouraged from applying in both surveys.

FINANCING CONDITIONS

Overall Financing Satisfaction
Young and Mature Firms

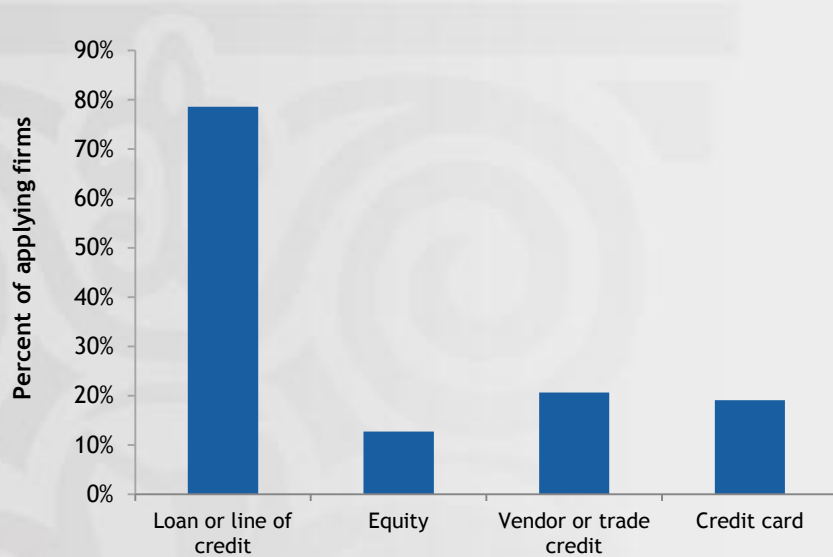


KEY POINTS

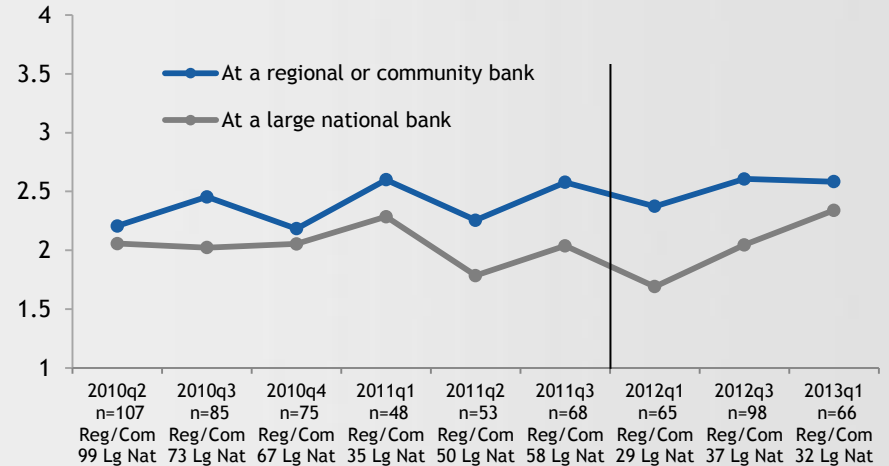
Young firms continue to have a relatively difficult time obtaining financing. As a group, young firms submitted more applications for credit and indicated lower overall financing satisfaction. Firms under 6 years old submitted 2.7 applications on average in the first quarter, and less than half of young firms were able to obtain any credit. On the other hand, firms over 5 years old submitted an average of 2.1 applications for credit, and three-quarters of them were able to obtain at least some financing. Forty-four firms participated in and applied for credit in both the third-quarter 2012 survey and the first-quarter 2013 survey. As a group, they had an easier time obtaining financing in the first quarter of 2013. They submitted fewer applications on average and their requests for credit were met more fully than when they applied in the third quarter of 2012.

FINANCING CONDITIONS

Channels of Financing



Average Success of a Credit Application



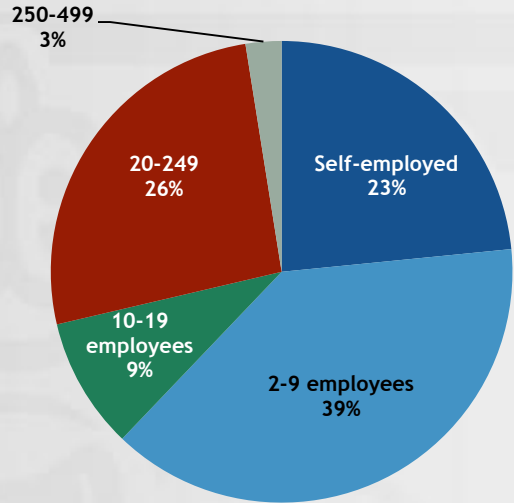
Note: Scale is 1=received none; 2=received some; 3=received most; 4=received full amount requested

KEY POINTS

The most common financing channel continued to be bank loans or lines of credit. A distant second were the roughly 20 percent of applying firms that sought vendor/trade credit or credit cards. Roughly 10 percent of applying firms sought equity financing (which includes requests for funds from family or friends). Firms applying for loans or lines of credit applied somewhat more frequently at community banks. Forty-four firms applied at community banks, 42 at regional banks (66 applied at either community banks or regional banks), and 32 at large national banks. As was the case in past surveys, those applying at large national banks were relatively less successful than those applying at regional or community banks. Over the past 12 months, credit needs have been met more frequently at banks, with large national banks showing the largest increase: those that applied for credit at large national banks in the first quarter of 2013 were significantly more successful than when they attempted to borrow from large national banks in the first and third quarters of 2012.

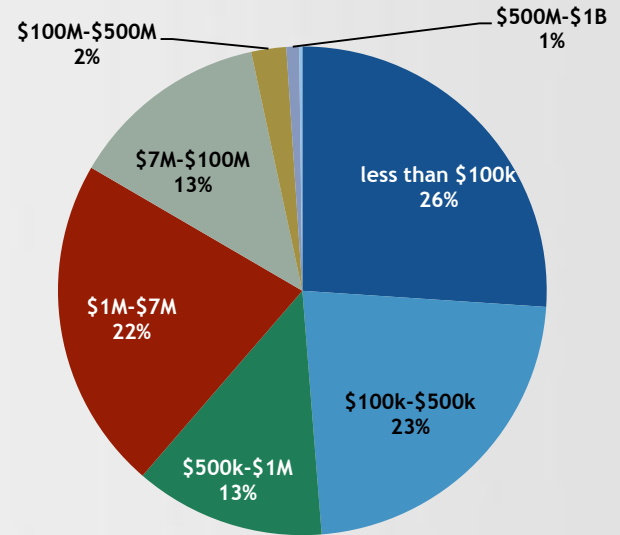
METHODOLOGY

Number of Employees



71% of firms in the first-quarter survey had fewer than 20 employees.

Business Revenues



61% of firms in the first-quarter survey had less than \$1 million in annual revenue.

KEY POINTS

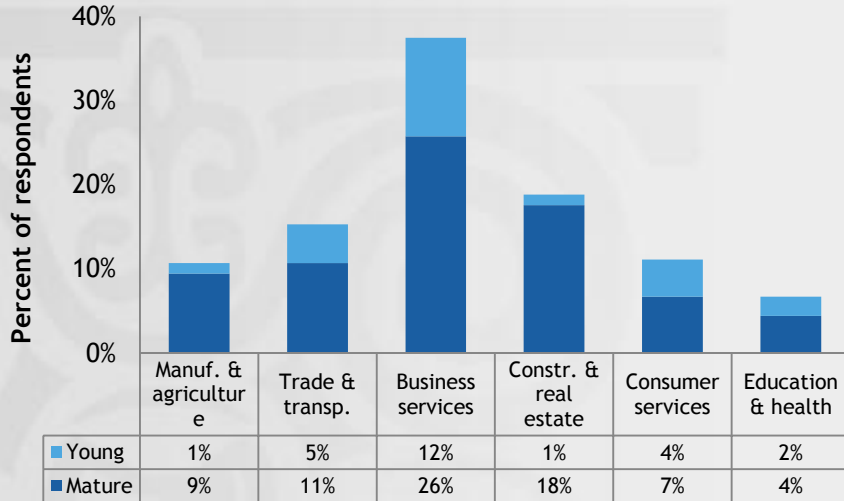
Sample characteristics

The Federal Reserve Bank of Atlanta conducts a semiannual survey of small business contacts in the Southeast to get their perspective on general business and financing conditions. The Atlanta Fed conducted the first-quarter 2013 survey during the first three weeks of April. The survey was completed by 478 respondents. The questionnaire for this survey, which varies slightly each time, is available on the [Atlanta Fed website](#).

Seventy-one percent of respondents had fewer than 10 employees and 61 percent had revenues of less than \$1 million. The median firm age is 13 years old.

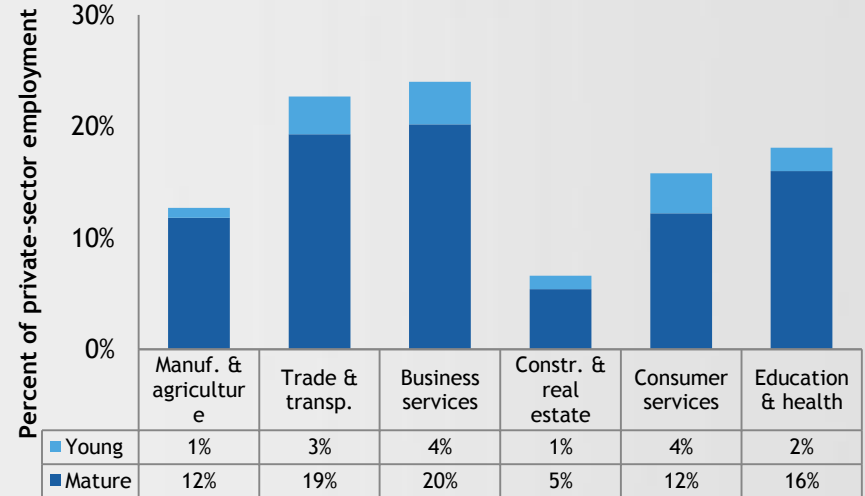
METHODOLOGY

Industry and Age Distribution of Sample



Source: Q1 2013 Atlanta Fed Small Business Survey

National Industry and Age Distribution



Source: U.S. Bureau of Labor Statistics business employment dynamics, authors' calculations

KEY POINTS

Weighting

Survey participants are not randomly sampled. In addition, the types of firms that respond from survey to survey tend to vary. To help control for these factors, the results are weighted. Weighting not only allows for a more consistent comparison across time but also adjusts the results so that the effects of industry and firm age are more in line with the national distribution.