

Small Business Trends

Policy & Supervisory Studies

Small Business Optimism	1
Mixed Findings with Quarterly Bank Survey	2
Fed Official Sees Some Positive Signs for Small Businesses	2
Small Business Trends at Firms with Fewer Than 20 Employees	3
Senior Loan Officer Opinion Survey	3
Small Business Credit Conditions and Trends	4
Small Business Charge Cards	4
References	4

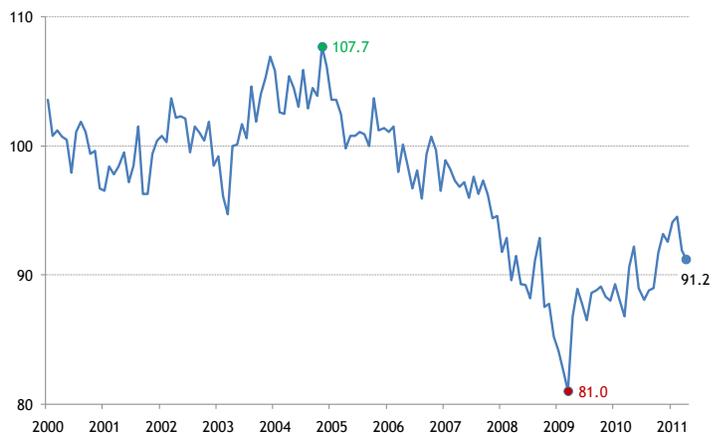
Small Business Optimism

Marking the second consecutive month of decline and up only 0.6 points year over year, the Small Business Optimism Index of the National Federation of Independent Business (NFIB) fell another 0.7 points, to 91.2 for the month of April. Though representing a smaller dip than that observed in March, the decline “does very little to encourage further confidence in a strong economic recovery,” said Bill Dunkelberg, chief economist at the NFIB. In fact, with lingering uncertainty continuing to plague overall small business sentiment, the NFIB has labeled this the absolute worst recovery on record.

On a more positive note, the NFIB noted substantial improvements for the month in the number of small business owners who raised average selling prices and those who reported higher nominal sales over the past three months. However, neither of these measures is tied to the index.

Fortunately, solid employment growth continued on its positive trend month over month. Though slightly less than the numbers posted for March, the ADP Employment Report showed sustained and steady growth in private sector employment for the month of April.

Small Business Optimism Index (SA, 1986=100)



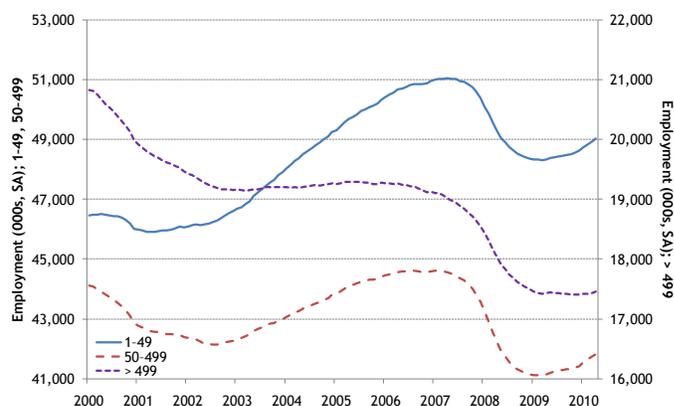
Source: National Federation of Independent Business May 2011 *Small Business Economic Trends*, ©NFIB Research Foundation.

April 2011 Employment Trends

		Level (000s, SA)	Share of sector	Growth M-t-M Y-o-Y	
Goods-producing		17,817	100%	0.23%	0.6%
Firm size	1-49	6,634	37%	0.21%	-0.1%
	50-499	7,750	43%	0.34%	1.7%
	> 499	3,433	19%	0.03%	-0.8%
Service-producing		90,516	100%	0.15%	1.5%
Firm size	1-49	42,400	47%	0.17%	1.7%
	50-499	34,094	38%	0.17%	1.7%
	> 499	14,022	15%	0.07%	0.4%

Source: Based on information in the April 2011 *ADP National Employment Report*®

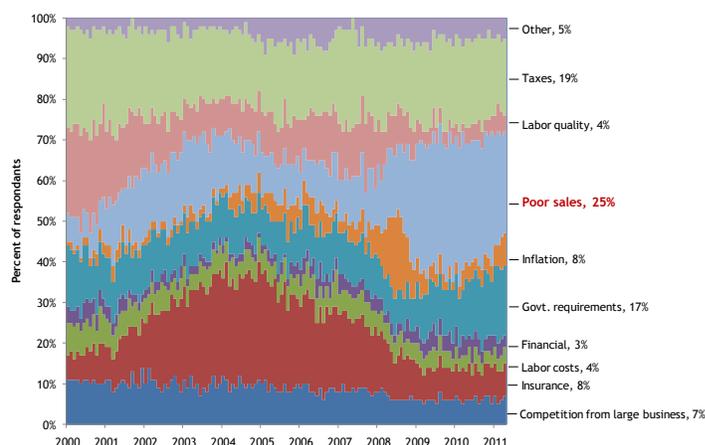
U.S. Private Sector Employment by Size of Payroll



Source: Based on data in the April 2011 *ADP National Employment Report*®

Single-most Important Problem for Small Business

Unchanged from last month, poor sales were once again the most frequently cited problem for 25 percent of all small business owners during the month of April. Taxes gained an additional 2 points since March and stood alone at 19 percent as the second most noted concern.



Source: Based on data from National Federation of Independent Business May 2011 *Small Business Economic Trends*.

Mixed Findings with Quarterly Bank Survey

After experiencing some notable improvements in early 2011, the small business sector is now beginning to show some signs of turning soft, especially with regard to future expectations. It seems as though growth momentum has slowed and small business owners will only begin to borrow again when sales expectations start to rise, generating new revenue, and giving them a reason to make new investments in both human and physical capital, at least according to the NFIB.

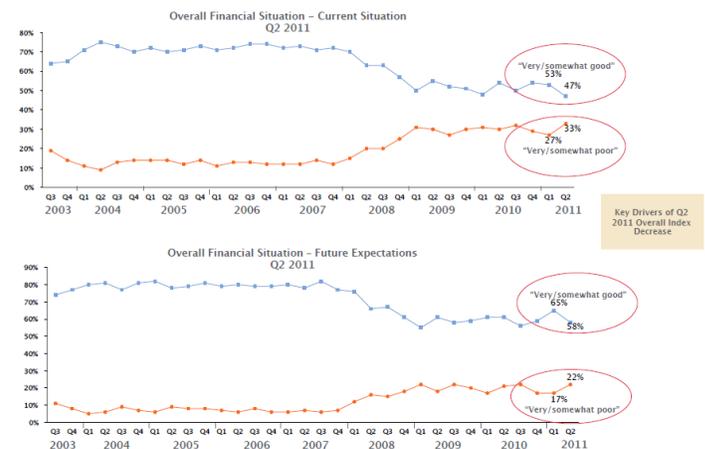
The latest Wells Fargo/Gallup Small Business Index Survey also reports a decline in small business owner optimism after two consecutive quarters of positive gains. Dropping 12 points quarter over quarter, the index now sits at a score of zero, indicating that small business owners overall were neutral about their business's situation. This index is a combination of both the present situation and future expectations for six key measures: financial situation, cash flow, revenues, capital spending allocation, job hiring, and credit availability. The current index is reflective of a negative present situation equally offset by positive future expectations. "Business owners entered the New Year with increasing optimism, but it appears that slow economic growth is interfering with that momentum... [W]ithout clear signs of sustained economic growth, businesses remain cautious, and that caution translates into reduced hiring and expansion."

On the other hand, Capital One's quarterly Small Business Barometer Survey noted that many small businesses are experiencing continued financial performance improvements, which in turn appears to be contributing to a more optimistic view of the overall economy. In fact, 41 percent felt that economic conditions for their business were improving, which is an increase of 15 percentage points quarter-over-quarter. Only 11 percent thought that conditions were getting worse, a 7-percentage-point decline since the fourth quarter of 2010 and the lowest level recorded since the survey was started in the first quarter of last year. 61 percent of respondents expect their overall financial position in 2011 to be stronger than it was in 2010. Furthermore, up 6 percentage points since last quarter, 43 percent of respondents report that their business's financial position is already better than it was this time one year ago; only 10 percent claimed that their financial position had worsened year-over-year, down from 18 percent during the fourth quarter of 2010 and also the lowest level recorded in the survey's history. However, short term spending, hiring efforts, and additional capital expenditures still remain somewhat guarded and cautious, which have been relatively unchanged over the past year. Credit is available to most small businesses when it is needed and fewer small businesses seem to be experiencing any sort cash flow issues. 85 percent of

small businesses reported that they were able to access the financing that they needed, a 7 percentage point increase quarter-over-quarter and 15 percentage points higher than this time last year. Furthermore, only 13 percent felt that securing the capital that they needed to continue their operations would be one of the largest challenges that they face over the next six months; this is down 16 percentage points year-over-year. Thus, growth opportunities will certainly be able to be taken advantage of whenever businesses are ready.

Citibank's quarterly Small Business Survey also reported increased optimism amidst those small businesses surveyed. 44 percent of small business owners believe that 2011 will be better than 2010; only 15 percent expect that it will be worse. Up 9 percentage points quarter-over-quarter, 33 percent of respondents reported that they considered current conditions for their business to be either excellent or good; similarly, down 4 percentage points quarter-over-quarter and 11 percentage points year-over-year, only 32 percent rated their current condition as worse. Unfortunately, there is still a great deal of uncertainty; though down 10 percentage points since the fourth quarter of 2010, 78 percent of those surveyed still have concerns about another economic downturn. Hiring plans and capital expenditures were still stagnant, but "small businesses are ready to grow as the economy improves."

Wells Fargo/Gallup Small Business Index Overall Financial Situation



Source: Graphical Analysis of the Q2 2011 Small Business Index results, April 20, 2011, Wells Fargo Business Insight Resource Center, wellsfargobusinessinsights.com/sites/default/files/SBI%20BIRC%20Slides%20-%20Expanded%20Q2%202011_0.pdf.

Fed Official Sees Some Positive Signs for Small Businesses

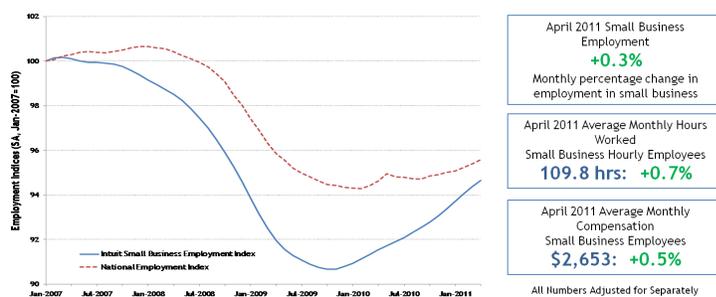
On a more positive note, in a May 10, 2011, speech at the 2011 Exploring Innovation Conference on Community Development Finance in St. Louis, Federal Reserve Governor Elizabeth Duke declared that "recent anecdotal evidence leads me to believe that conditions are improving for small businesses.... [T]he combination of a variety of recent survey results

paints a picture of increasing optimism about future sales and business conditions and a corresponding easing of credit availability for small businesses." (For the full text of the speech, go to www.federalreserve.gov/newsevents/speech/duke20110510a.htm.)

Small Business Trends at Firms with Fewer Than 20 Employees

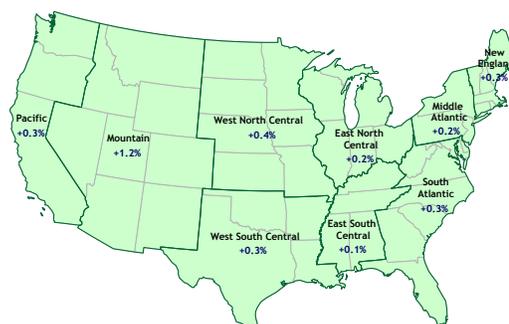
- Continuing its positive trend, the Intuit Small Business Employment Index showed that small business employment grew by 0.3 percent for the month of April, which equates to an annual growth rate of approximately 3.6 percent. Both hours worked and total compensation per employee were up for the month. Intuit reported that there has been “continued improvement now for a year-and-a-half.” Furthermore, this was the strongest monthly increase in hours worked year to date.
- All nine U.S. Census Divisions once again experienced positive employment growth for the month. Though slightly down from March, the Mountain Census Division experienced the greatest increase, growing 0.3 percentage points and finally surpassing the 1 percent mark. The West North Central Census Division recorded its second consecutive month of positive growth, growing 0.2 percent month-over-month. Though still posting growth for the month, the Pacific Census Division lost 0.1 percentage points of momentum from March. The remaining Census Divisions each experienced 0.1 percentage point of growth month-over-month.
- On a state-level basis, all states tracked by Intuit saw employment growth during the month of April. (Intuit has more than 1,000 small businesses represented.) Florida once again witnessed the largest increase at 0.5 percent, with Arizona also recording 0.5 percent in small business employment growth. New Jersey followed closely behind at 0.4 percent growth for the month. Both New York and Georgia climbed out of negative territory to record growth rates of 0.3 percent and 0.2 percent, respectively. Washington and Massachusetts had the lowest growth rate at just 0.1 percent for the month of April.

Intuit Small Business Employment Index



Source: Intuit Small Business Employment Index © Intuit Inc. All rights reserved. (From the May 02, 2011, press release.)

Monthly Small Business Employment Growth (April 2011)

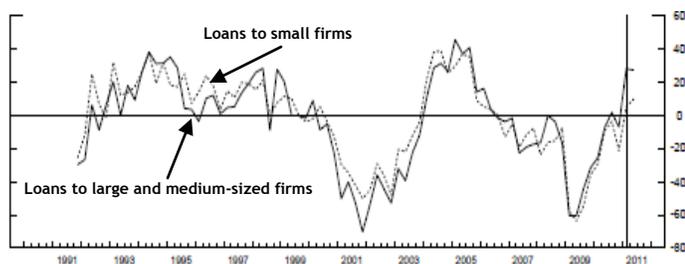


Source: Intuit Small Business Employment Index © Intuit Inc. All rights reserved. (From the May 02, 2011, press release.)

Senior Loan Officer Opinion Survey

- April survey results indicated that most bank lending standards and terms for commercial and industrial (C&I) loans to small businesses continued to ease during the first quarter of 2011 as a result of greater competition from other bank and nonbank lenders. No domestic or foreign institution tightened standards. Interestingly enough, some respondents cited easing standards and terms due to a more favorable or less uncertain economic outlook, which represents the complete opposite opinion of their prospective borrowers. Loan spreads on loans to small businesses were also eased by approximately 50 percent of respondents, which represents a slight increase over last quarter.
- While demand for C&I loans had reportedly increased over the past three months for large and middle market firms, increases in demand from smaller businesses were still low and much less widespread. Only 10 percent of respondents reported stronger demand from smaller firms, with most citing a rise in financing needs for inventories. On the flip side, approximately 35 percent of bank respondents noted a substantial pickup in inquiries about new or increased credit lines from business borrowers.
- There was some noted improvement in the overall credit quality of potential small business borrowers that applied for loans during the quarter.

Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans



Source: Federal Reserve Board Senior Loan Officer Survey, January 2011

Overall Credit Quality of Small Firms Seeking New Credit

	All respondents		Large banks		Other banks	
	Banks	Percent	Banks	Percent	Banks	Percent
Deteriorated significantly	0	0.0	0	0.0	0	0.0
Deteriorated somewhat	1	1.9	0	0.0	1	4.0
Remained basically unchanged	31	59.6	15	55.6	16	64.0
Improved somewhat	20	38.5	12	44.4	8	32.0
Improved significantly	0	0.0	0	0.0	0	0.0
Total	52	100.0	27	100.0	25	100.0

Source: Federal Reserve Board Senior Loan Officer Survey, January 2011

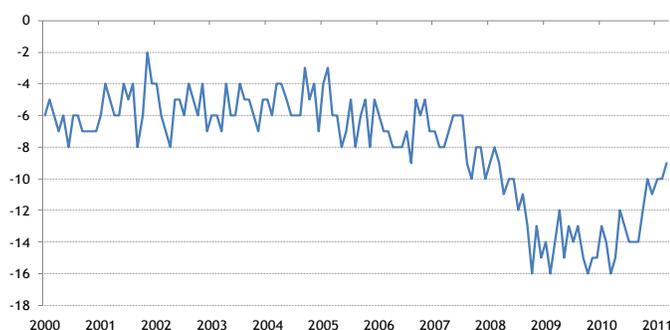
Small Business Credit Conditions and Trends

Down 1 percentage point month-over-month, the NFIB reported that 92 percent of small businesses surveyed felt that either their credit needs were met or that they simply were not interested in borrowing for the month of April. Thus, only 8 percent indicated that their credit needs were not satisfied. Furthermore, down 1 percentage point month over month, only 3 percent cited financing and interest rates as the single most important problem that they are currently facing. It has become apparent that credit availability is not holding back loan growth—it is simply a lack of demand. These statistics have shown very little variation over the past several months, indicating the uncertainty that small business owners continue to face. With 25 percent of respondents still claiming that poor sales are their top problem, capital expenditures right now—whether on land, buildings, vehicles, furniture/fixtures, equipment, or employees—are just not likely to pay back. Small business owners are not really demanding any new C&I loans or are just not seeing the need for them, as they have very little interest in taking on any new debt and have continued to operate in

“maintenance mode.” The frequency of reported capital outlays over the past six months fell 1 percentage point, to 50 percent of all firms, which is now only 6 percentage points above the lowest level ever recorded.

Up 3 percentage points from March, only 32 percent of all small business owners claimed that they borrowed on a regular basis. Of those regular borrowers surveyed, just 9 percent stated that loans were harder to obtain this time around when compared to their last attempt, which represents a 1 percentage point increase month over month. Those who were expecting credit conditions to ease decreased 4 percentage points from March, to -13 percent for the month of April. This decrease represents the largest month-over-month decrease ever experienced. Sentiment and expectations for the future are clearly low and there seems to be a disconnect between small business owners and the banks that are willing to lend to them.

Percent Expecting Credit Conditions to Ease, Net (SA, %)



Source: National Federation of Independent Business May 2011 *Small Business Economic Trends*, ©NFIB Research Foundation.

Credit Conditions Jan. 2005–Feb. 2011

Loan availability compared to three months ago



*For the population borrowing at least once every three months
Source: National Federation of Independent Business May 2011 *Small Business Economic Trends*, ©NFIB Research Foundation.

Small Business Charge Cards

In line with results noted in the most recent Senior Loan Officer Opinion Survey and as a direct result of feedback from its small business customers, Bank of America has begun to market charge cards to small business owners. This is the first time that Bank of America has offered charge cards to its customers. The bank currently has no plans to offer charge cards to consumer customers. Unlike a credit card, which allows borrowers to carry a balance month-to-month while incurring interest, charge cards must be paid in full at the end of each month. With Bank of America’s announcement, other banks are projected to follow in order to attract and retain high-spending customers who pay their balances in full. According to Chip Rossi, Bank

of America’s unsecured borrowing and small-business products executive, “charge cards provide small business owners with another option for their payment needs, combining the convenience of short-term credit with the ability to manage their spending and cash flow.” This option ultimately presents banks with another way to optimize revenue in light of restrictions on consumer credit cards set forth by the Credit Card Accountability, Responsibility, and Disclosure (CARD) Act passed back in 2009. The CARD Act does not apply to charge cards or business credit cards. Bank of America has created three MasterCard options with varying levels of rewards, benefits, credit lines, and fee structures.

References

- ADP: www.adpemploymentreport.com/pdf/FINAL_Report_April_11.pdf
- Bank of America: mediaroom.bankofamerica.com/phoenix.zhtml?c=234503&p=irol-newsArticle&ID=1563962&highlight
- Capital One: phx.corporate-ir.net/phoenix.zhtml?c=70667&p=irol-newsArticle&ID=1558427&highlight=
- Citibank: online.citibank.com/JRS/popups/smallbiz/CitiBizSurvey.pdf
- Intuit: about.intuit.com/about_intuit/press_room/press_release/articles/2011/EmploymentIndexApril.html
- NFIB: www.nfib.com/Portals/0/PDF/sbet/SBET201105.pdf
- Senior Loan Officer Opinion Survey: www.federalreserve.gov/boarddocs/snloansurvey/201104/default.htm
- Wells Fargo: wellsfargobusinessinsights.com/small-business-index