Small Business Trends

Policy & Supervisory Studies

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The Small Business Optimism Index gained 2.7 points in October, rising to 91.7, which is the first reading above 90 since May. Though demonstrating modest improvement over September, the Index still remains in recession territory.

Growth in employment levels continues to be limited. Though falling less than in September, good-producing employment fell on both a month-to-month and year-over-year basis. Service-producing employment actually demonstrated gains, albeit minimal, across all firm sizes.

Poor sales remain the most frequently cited problem for small businesses. Taxes and government requirements are also heavily weighted concerns, with government requirements up 6 percent since October 2009.
The most recent Discover Small Business Watch survey suggests that more and more small business owners are reporting that economic conditions for both their businesses and for the entire country are getting better. The monthly index rose 10.4 points from September to October, which was the largest one-month gain reported since April. Reflecting this positive change, the outlook for spending on business development improved, with more than half of the respondents planning to either increase or maintain current spending levels over the next six months.

On a separate note, 46 percent of business owners still report having cash flow issues, which was unchanged from last month.

Source: Data from Rasmussen Reports LLC/Discover Small Business Watch mid-month surveys
According to Intuit, both small business employment growth and compensation demonstrated healthy increases during the month of October. Small business employment grew by 0.2 percent, which equates to a 2.7 percent annual growth rate and approximately 44,000 jobs created nationwide. After flatlining in September, total compensation and hours worked resumed a positive trend. According to Susan Wood, an economist who helped produce the Intuit Small Business Employment Index, “Compensation showed a solid year-over-year increase of about 3.7 percent per year.” In addition, hours worked were up sharply.

The West North Central Census Division was the only area to continue to experience employment declines in October. On the other hand, for the first time in three months, the East North Central Division posted positive employment growth.

Several states that saw either no growth or job losses in September actually saw employment growth in October. Among the largest states, Massachusetts (0.6 percent), followed by North Carolina and Virginia (both at 0.5 percent), saw the greatest increases in employment. Illinois was the only state to experience a slight decrease (-0.1 percent) in employment.

More than half of the Discover Small Business Watch November 2010 survey respondents felt that a Republican-controlled Congress would be better for the economy.

he Republican party also came out on top when it came to better understanding the needs of small business owners. Of respondents, 45 percent favored Republicans, 30 percent favored Democrats, 20 percent felt that neither party understood their needs, and the final 5 percent thought that another party would understand them better. In comparison, when looking back at the same survey the month before the 2008 elections, 43 percent of respondents favored Republicans, with the Democrats favored closely behind at 40 percent. Of those surveyed, 12 percent felt that neither party understood their needs, and another 5 percent thought perhaps another party understood them better.
For October, the National Federation of Independent Business (NFIB) reported that 91 percent of the small businesses surveyed felt that either their credit needs were met or that they simply were not interested in borrowing. Only 9 percent thought that their credit needs were not satisfied. Furthermore, more than half of the respondents stated that they did not even want a loan as there was little promise for a positive return on their investment. A small 3 percent cited financing as their top business problem. It is important to note, however, that reported and planned capital spending are at 35-year record low levels—thus, technically fewer loans are actually needed. Those that are looking for loans basically need some cash flow support and are not looking to expand or hire.

According to the most recent Senior Loan Officer Opinion Survey, an overall easing of credit conditions over the past three months has occurred. However, this easing is the result of easing standards and terms on only some of their loan categories. There was an observed easing of standards and most terms on commercial and industrial (C&I) loans to firms of all sizes. Despite this easing, demand for C&I loans declined, particularly among smaller businesses.