Small Business Credit Survey: 2019 Report on Employer Firms

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The views expressed here are my own and do not necessarily reflect the views of the Federal Reserve Bank of Richmond or the Federal Reserve System.
Since the recession, banks have extended less credit to small firms than they did pre-recession.

Large banks have expanded their share of the small-dollar credit market, relative to small banks.

The dollar value of small business loans has risen slowly since the recession, while credit card lending has risen faster.

A variety of online alternative lenders have introduced new lending products and services to small businesses.

Small Business Credit Survey: Purpose

- Gives policy makers and lenders a better understanding of the needs of small businesses to inform incentive, protections, and lending product development.
- Provides small businesses and technical assistance providers with information to make informed decisions about credit strategies.
- Offers researchers more information to begin to discern what will help these businesses grow more, grow faster, and grow the economy.
Small Business Credit Survey (SBCS) started in 2014.

A small business is a firm with 500 or fewer employees.

It is conducted every fall beginning in September.

Respondent pool is based on a convenience sample.

Data is weighted by firm age, geography, industry and employment size.

All 12 Federal Reserve Banks began participating in 2016.

Approximately 12,455 employer and non-employer firms responded to the 2018 survey.
Both revenue and employment growth improved from 2017.

Share of profitable firms remained the same.

Outlook for 2019 is more tempered.

While credit demand increased marginally in 2018, the share of firms receiving credit remained essentially flat.

Startup firms and firms with high credit risk continued to have financing shortfalls.

Online lenders saw applications increase by approximately one-third from the prior year.

Applicants remain dissatisfied with the interest rates and terms offered by online lenders relative to traditional lenders.

Source: Small Business Credit Survey, Federal Reserve Banks
The share of firms reporting revenue and employment growth increased from 2017, but the share of firms operating at a profit remained flat.

EMPLOYER FIRM PERFORMANCE INDICES,\textsuperscript{3,4} Prior 12 Months\textsuperscript{2} (% of employer firms)

- Profitability
- Revenue Growth
- Employment Growth

2016 Survey
N = 9,633–9,768
- 29% Revenue Growth
- 22% Employment Growth
- 17% Profitability

2017 Survey
N = 7,684–7,983
- 33% Revenue Growth
- 28% Employment Growth
- 19% Profitability

2018 Survey
N = 6,176–6,438
- 35% Revenue Growth
- 33% Employment Growth
- 23% Profitability

\textsuperscript{1} Percentages may not sum to 100 due to rounding.
\textsuperscript{2} Approximately the second half of the prior year through the second half of the surveyed year.
\textsuperscript{3} For revenue and employment growth, the index is the share reporting growth minus the share reporting a reduction. For profitability, it is the share profitable minus the share at a loss.
\textsuperscript{4} Time series values shown here differ from the 2018 report as a result of improvements to the weighting scheme. See Methodology for details.
\textsuperscript{5} Questions were asked separately, thus the number of observations may differ slightly between questions.

Source: Small Business Credit Survey, Federal Reserve Banks
Employment gains were strongest among startups, firms with five or more employees, firms with more than $1M in annual revenues, and firms with younger decision makers (46 years of age or younger).

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<tr>
<th>SHARE OF FIRMS THAT ADDED PAYROLL EMPLOYEES, Prior 12 Months (% of employer firms)</th>
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<tbody>
<tr>
<td><strong>Which firms were most likely to add payroll jobs?</strong></td>
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<tr>
<td><strong>Firm age</strong></td>
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<tr>
<td>0-5 years  N=1,807  46%</td>
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<tr>
<td>6+ years  N=4,369  32%</td>
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<tr>
<td><strong>Number of employees</strong></td>
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<tr>
<td>1-4  N=2,256  28%</td>
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<tr>
<td>5-49  N=4,372  45%</td>
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<td>50-499  N=548  60%</td>
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<td><strong>Revenue size of firm</strong></td>
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<td>$1M or less  N=3,590  33%</td>
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<td>More than $1M  N=2,373  45%</td>
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<td><strong>Age of firm’s primary decision maker</strong></td>
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<td>Under 46 years  N=1,341  46%</td>
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<tr>
<td>46 or older  N=4,419  33%</td>
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Source: Small Business Credit Survey, Federal Reserve Banks
A majority of firms (73%) saw input costs increase in the prior 12 months.

Source: Small Business Credit Survey, Federal Reserve Banks
Nearly two-thirds of firms (64%) continued to experience financial challenges, including difficulties with managing operating expenses, scarcity of credit, and challenges making debt payments.

Source: Small Business Credit Survey, Federal Reserve Banks
Over two-thirds of these firms (69%) relied on personal finances to cover their costs, while 45% of firms took out additional debt.

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<th>Actions Taken to Address Financial Challenges, Prior 12 Months</th>
<th>N=3,990</th>
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<tr>
<td>Used personal funds</td>
<td>69%</td>
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<tr>
<td>Took out additional debt</td>
<td>45%</td>
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<tr>
<td>Cut staff, hours, and/or down-sized operations</td>
<td>32%</td>
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<td>Made a late payment or did not pay</td>
<td>28%</td>
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<tr>
<td>Other action</td>
<td>9%</td>
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1. Respondents could select multiple options.
2. Approximately the second half of 2017 through the second half of 2018.

Source: Small Business Credit Survey, Federal Reserve Banks
Respondents showed consistent year-over-year demand for new financing, with 43% of firms applying for new capital in 2018, similar to 40% in 2017.

Source: Small Business Credit Survey, Federal Reserve Banks
Nearly half of applicants (47%) received the full amount of funding they requested, similar to the 2017 survey.

Source: Small Business Credit Survey, Federal Reserve Banks
Financing shortfalls were particularly pronounced among firms with weak credit profiles, unprofitable firms, younger firms, and firms in urban areas.

Source: Small Business Credit Survey, Federal Reserve Banks
Applications to online lenders continued their growth trend with 32% of applicant firms turning to such lenders in 2018, up from 24% in 2017, and 19% in 2016.

Source: Small Business Credit Survey, Federal Reserve Banks
Applicants expected online lenders would make faster funding decisions, would be more likely to provide funding, and would not require collateral.
Bank applicants were most dissatisfied with wait times for credit decisions. Online lender applicants were most dissatisfied with high interest rates.

Source: Small Business Credit Survey, Federal Reserve Banks
Applicant satisfaction is consistently highest at small banks.
Check Out Our Small Business Website:  http://www.fedsmallbusiness.org
Future 2019 report releases:
  ▪ Nonemployer firms
  ▪ Minority-owned firms
  ▪ Firms operating in low- and moderate-income communities
  ▪ Update to “How Do Firms Respond to Hiring Difficulties?” memo

Data collection for the 2019 round of the Small Business Credit Survey kicks off in September.

Federal Reserve Bank of Richmond is working to expand its survey partner recruitment in 2019.

Find out more information: https://www.richmondfed.org/community_development/resource_centers/small_business (Small Business)