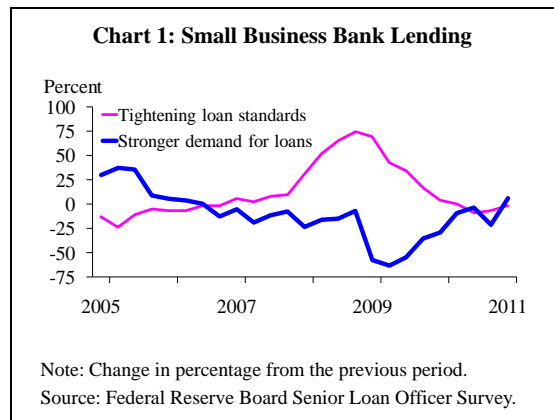


# Small Business Quarterly Bulletin

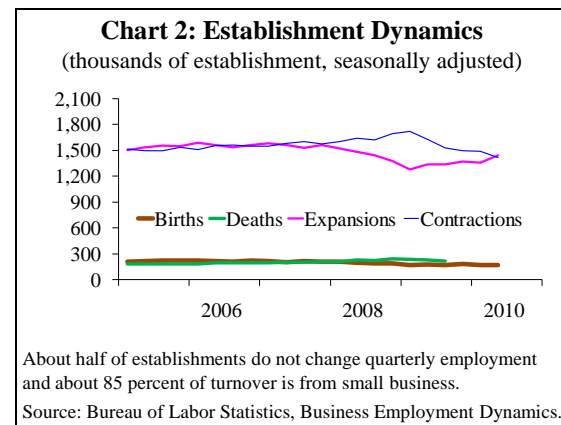
Fourth Quarter 2010  
by Brian Headd, Economist

Small businesses not only get pushed and pulled by the economy, they push and pull the economy. But with the end of the recession announced by NBER as June 2009 and the inevitable delay in the production of data, we still awaited evidence that small businesses were recovering. Now we have it.

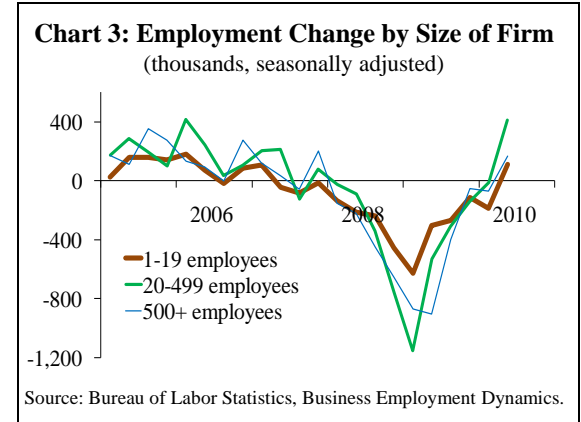
New small business lending data from the Federal Reserve indicate that small businesses' demand for loans is increasing (chart 1). While current lending standards are tighter than before the recession, they have relaxed over the past three quarters. And after several years where concern for survival outweighed any inclinations to expand, small businesses' strengthened loan demand sends a strong signal that they are now looking to expand.



New data also show expanding businesses outnumbering contracting businesses for the first time since early 2007 (chart 2). A drop in the number of shrinking business played a large part in this flip; their level in mid-2010 had fallen to a level last seen in 1998. Taking into account several simultaneous business trends—labor market struggles of recent years, contractions already down, the tendency of births and deaths to cancel each other out and to have little business cycle effect—continued expansions are needed to restore the U.S. labor market to a healthy state.



The expansions led small businesses to be at the root of private-sector employment gains (chart 3). Specifically, since the end of the downturn, the firm size classes of 1-19 employees and 500+ employees combined lost nearly a million net jobs, while the 20-499 employees size class lost fewer than 50,000 on net. This firm size class alone added almost half a million net new jobs in the second quarter 2010. So the expansion is underway, and it is being driven by the larger of small firms.



See the table on the other side for the most recent small business data.

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	Trend	Quarterly Data										Annual Data (or Year End)							
		2008		2009				2010				1995	2000	2005	2006	2007	2008	2009	2010
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4								
Self-employed (000) * †																			
Unincorporated	-	10,126	9,585	9,910	10,079	9,959	9,622	9,632	9,977	9,680	9,309	10,482	10,214	10,464	10,586	10,413	10,080	9,831	9,681
Incorporated	+	5,777	5,814	5,640	5,316	5,368	5,520	5,446	5,254	5,036	5,263	na	4,459	5,254	5,499	5,735	5,784	5,466	5,191
Businesses, turnover																			
Establishments (000)																			
Births	=	192	188	172	176	169	184	172	172	-	-	751	826	867	870	845	786	701	-
Deaths	-	223	240	235	226	216	-	-	-	-	-	651	759	737	763	804	901	-	-
Business bankruptcies*	-	11,504	12,901	14,319	16,014	15,177	15,020	14,607	14,452	13,957	13,030	51,959	35,472	39,201	19,695	28,322	43,546	60,837	56,282
Employment																			
Nonfarm payroll (millions)	+	136.31	134.38	132.04	130.49	129.73	129.32	129.44	129.98	129.84	130.23	117.30	131.79	133.70	136.09	137.60	136.79	130.81	129.82
Net private-sector job creation (000)																			
Total‡	+	-966	-1,814	-2,741	-1,604	-900	-228	-311	728	-	-	2,378	1,905	2,148	1,737	735	-3,575	-5,473	-
<20 employees	+	-234	-464	-628	-302	-270	-112	-188	110	-	-	487	275	479	321	-33	-1,043	-1,312	-
20-499 employees	+	-340	-760	-1,154	-530	-309	-141	-11	412	-	-	1,088	772	756	801	370	-1,212	-2,134	-
500+ employees	+	-460	-659	-870	-903	-398	-53	-71	166	-	-	830	905	910	508	304	-1,475	-2,224	-
Finance and Income																			
Tightening lending standards§	+	65.3	74.5	69.2	42.3	34.0	16.1	3.7	0.0	-9.1	-7.1	-1.8	27.3	-5.3	-1.8	9.6	74.5	16.1	-7.1
Demand for loans§	-	-15	-7	-58	-64	-55	-36	-30	-9	-4	-21	7.2	-12.8	8.9	-13.0	-7.7	-7.4	-35.7	-21.4
C&I loans outstanding (\$billion)	+	1,503	1,494	1,433	1,365	1,275	1,222	1,185	1,172	1,175	1,186	674	1,086	1,086	1,215	1,439	1,494	1,222	1,186
Proprietors income (\$billion)	+	1,112	1,073	1,019	1,001	1,006	1,022	1,031	1,050	1,060	1,081	516	818	1,070	1,133	1,090	1,102	1,012	1,055
Economy (percent)																			
Real GDP Change†	+	-4.0	-6.8	-4.9	-0.7	1.6	5.0	3.7	1.7	2.6	2.8	2.5	4.1	3.1	2.7	1.9	0.0	-2.6	2.8
Chained CPI†	+	0.8	-15.8	4.1	5.5	0.7	-0.5	3.2	0.3	0.5	1.4	na	2.0	2.9	2.9	2.5	3.7	-0.5	1.5
Unemployment rate	-	6.2	7.3	8.6	9.5	9.8	9.9	9.7	9.5	9.6	9.4	5.6	4.0	5.1	4.6	4.6	5.8	9.3	9.6

\* Not seasonally adjusted.

† Annualized quarterly figures, from last month of quarter where applicable.

‡ Totals may not add because indeterminate firm sizes.

§Percent of responses.

Sources: U.S. Small Business Administration, Office of Advocacy, from data provided by the U.S. Bureau of Labor Statistics (Business Employment Dynamics), Administrative Office of the U.S. Courts, Federal Reserve Board of Governors (Senior Loan Officer Survey), U.S. Bureau of Economic Analysis and Federal Deposit Insurance Corporation.