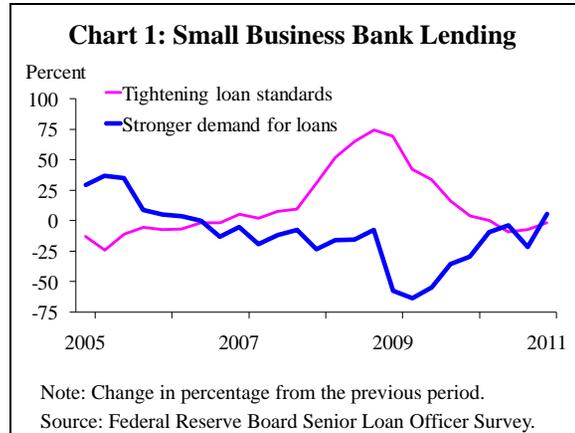


# Small Business Quarterly Bulletin

First Quarter 2011  
by Brian Headd, Economist

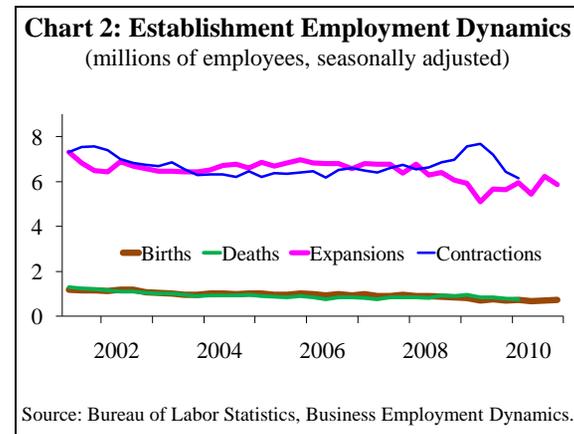
Small businesses are increasingly showing strong signs of growth as they lead the economic recovery.

For the first time in 19 quarters (since mid-2006), banks are reporting an increase in small businesses' demand for loans (chart 1). There is also evidence that the credit market is thawing as commercial and industrial loans increased during the last two quarters.

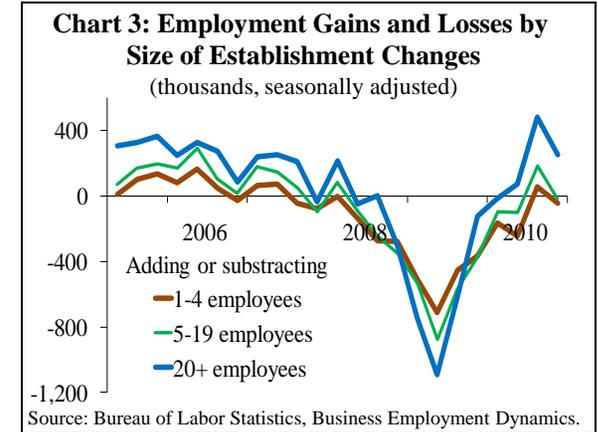


Financing is one factor contributing to expanding employment in existing establishments (chart 2). This expansion is the largest source of new jobs in the economy. The number of jobs created by new firms in their first quarter of existence continues to test new lows. In the short term this is not much of a labor market worry because even in good times,

new firms create only a small percent of new jobs. In addition, they are mostly netted out by the job losses from establishment deaths, which are also declining (as are business bankruptcies). However, a continuing trend of declining job turnover is a worry; this is not a cyclical trend but one that has been going on for over a decade. Job gains and job losses fell from just below 9 million each (around 2000–2001) to just below 7 million each, a decade later. This is a long-term concern for the economy as a strong “velocity” of job changes in the aggregate is believed to lead to increasingly better job matches which would drive productivity and a reduction in long-term joblessness.



The increase in net new jobs is taking place in firms both small and large. But the bulk of this gain is from the net of firms with large quarterly employment swings (chart 3). The net figures from establishments gaining or losing 20 or more jobs in a quarter represented all of the gains in net nonfarm private sector employment in the third quarter of 2010; on net, the other size categories lost jobs. This group of businesses (which can change from quarter to quarter) with volatile employment swings had not seen such large quarterly increases since the late 1990s.



Self-employment as a primary occupation in the last year continues to decline. This, however, can be viewed as a positive development. As the labor market strengthens, the self-employed could increasingly seek wage work. The decline in self-employment is a continuation of a decade-long trend.

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 Q4	2009				2010				2011 Q1	1995	2000	2005	2006	2007	2008	2009	2010
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1									
Self-employed (000) * †																			
Unincorporated	+	9,585	9,910	10,079	9,959	9,622	9,632	9,977	9,680	9,309	9,476	10,482	10,214	10,464	10,586	10,413	10,080	9,831	9,681
Incorporated	-	5,814	5,640	5,316	5,368	5,520	5,446	5,254	5,036	5,263	5,169	na	4,459	5,254	5,499	5,735	5,784	5,466	5,191
Businesses, turnover																			
Establishments (000)																			
Births	+	188	172	176	169	184	172	172	182	-	-	751	826	867	870	845	786	701	-
Deaths		240	235	226	216	200	-	-	-	-	-	651	759	737	763	804	901	877	-
Business bankruptcies*	-	12,901	14,319	16,014	15,177	15,020	14,607	14,452	13,957	13,030	12,376	51,959	35,472	39,201	19,695	28,322	43,546	60,837	56,282
Employment																			
Nonfarm payroll (millions)	+	134.38	132.04	130.49	129.73	129.32	129.44	129.98	129.84	130.26	130.74	117.30	131.79	133.70	136.09	137.60	136.79	130.81	129.82
Net private-sector job creation (000)																			
Total‡	+	-1,814	-2,741	-1,604	-900	-228	-311	728	151	-	-	2,378	1,905	2,148	1,737	735	-3,575	-5,473	-
<20 employees	-	-464	-628	-302	-270	-112	-188	110	-34	-	-	487	275	479	321	-33	-1,043	-1,312	-
20-499 employees	+	-760	-1,154	-530	-309	-141	-11	412	105	-	-	1,088	772	756	801	370	-1,212	-2,134	-
500+ employees	+	-659	-870	-903	-398	-53	-71	166	50	-	-	830	905	910	508	304	-1,475	-2,224	-
Finance, Sales & Income (\$billion unless noted)																			
Tightening lending standards (percent of responses)	-	74.5	69.2	42.3	34.0	16.1	3.7	0.0	-9.1	-7.1	-1.9	-1.8	27.3	-5.3	-1.8	9.6	74.5	16.1	-7.1
Loan demand (percent of responses)	+	-7.4	-57.7	-63.5	-54.7	-35.7	-29.6	-9.3	-3.6	-21.4	5.6	7.2	-12.8	8.9	-13.0	-7.7	-7.4	-35.7	-21.4
C&I loans outstanding §	+	1,597	1,550	1,486	1,391	1,311	1,248	1,219	1,214	1,216	1,233	691	1,056	987	1,128	1,299	1,538	1,435	1,224
Manufacturing & trade sales §	+	1,047	978	973	1,001	1,033	1,063	1,081	1,091	1,129	1,181	655	834	1,005	1,067	1,127	1,156	996	1,091
Proprietors' income	+	1,073	1,019	1,001	1,006	1,022	1,031	1,050	1,060	1,080	1,099	516	818	1,070	1,133	1,090	1,102	1,012	1,055
Economy (percent)																			
Real GDP change†	+	-6.8	-4.9	-0.7	1.6	5.0	3.7	1.7	2.6	3.1	1.8	2.5	4.1	3.1	2.7	1.9	0.0	-2.6	2.8
Chained CPI*	+	-3.9	1.2	1.4	0.1	0.0	0.8	0.2	0.2	0.3	2.0	2.8	3.4	3.4	3.2	2.8	3.8	-0.4	1.6
Unemployment rate	-	7.3	8.6	9.5	9.8	9.9	9.7	9.5	9.6	9.4	8.8	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.

§ Monthly averages.

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, Assets and Liabilities of Commercial Banks in the United States), U.S. Census Bureau and U.S. Bureau of Economic Analysis.