

*Dear Reader,*

*I am pleased to present the 2012 edition of the U.S. Small Business Administration Office of Advocacy's The Small Business Economy. This publication continues a three-decade-long series of reports documenting trends in small business ownership, employment, characteristics, and financing. For the second year, the Office of Advocacy presents the key data tables covering small business trends and financing exclusively in an online format for easy downloading.*

*I'm proud of our ongoing efforts to provide these data—the heart of our annual report on small business—along with the latest economic research in the most relevant and usable formats. I encourage researchers to make use of the detailed data contained here and in our other research reports to explore new avenues of study about small business.*

*Your feedback is appreciated. Questions may be directed to [advocacy@sba.gov](mailto:advocacy@sba.gov). To be kept up to date on Advocacy's research offerings through our email distribution list, visit <http://www.sba.gov/updates>.*

*Thank you for your interest in the small business community.*

*Sincerely,*



*Winslow Sargeant, Ph.D.  
Chief Counsel for Advocacy*

## **Small Firms and the Economy**

As in previous editions of *The Small Business Economy*, the key set of **small business reference tables**, Section A, documents various aspects of small business participation in the American economy. The year 2011 represented the second full year of economic expansion since the end of the downturn in mid-2009. Small businesses, which represent about half of the private-sector economy and more than 99 percent of all businesses, were at the core of this expansion, which saw output, business income, and profits rise while business bankruptcies and unemployment declined.

While the small business economy is growing, the effects of the most recent downturn are still being felt. The number of business births and their associated employment remain below pre-downturn levels and employment gains have been muted compared with previous downturns. The number of self-employed individuals remains below pre-downturn levels (Table A.13). Women and Hispanic individuals both had self-employment declines over the last two years, while Asians and African Americans had gains. The number of self-employed veterans has been increasing as the declining number of Vietnam-era veterans in the workforce has been countered by an increase in Iraq war-era veterans over the last few years.

The future of the small business sector depends on factors including the improving personal financial balance sheets of consumers after more than three years of sluggish expansion. The transition of the large baby-boomer cohort from the workforce to retirement will continue to open up jobs for younger generations. Challenges to the economy remain, including changes in fiscal policy as the effect of these retirements is felt on federal finances. A sampling of the small business indicators in the Section A tables includes the following:

- The number of employer firms has fluctuated from just under 5 million to about 6 million firms over the past quarter century, while the larger number of nonemployers—firms without employees—has increased from about 14 million in 1992 to more than 22 million in 2010 (Table A.1).
- Macroeconomic indicators like sales and proprietors' income, which fell in many sectors between 2005 and 2009 and turned positive in 2010, continued to improve in 2011 (Table A.3).
- Small businesses with fewer than 500 workers outperformed large firms in net job creation in three of the four quarters of 2011—similar to an overall pattern that has existed since 1992 in periods when private-sector employment rose (Table A.12).

### **Small Business Financing**

Section B of *The Small Business Economy* provides information on the financial markets in the United States. The credit market environment remained supportive of small business financing, but small businesses continued to face an uphill battle. According to the 2012 [financial data tables](#):

- Growth in capital credit markets was uneven in 2011, as indicated by the use of funds in the nonfinancial sectors—government, businesses, and households (Table B.3). Total net borrowing and lending in credit markets declined somewhat in 2011 after a substantial increase from 2009 to 2010. Declines in government and household borrowing were offset by increases in nonfinancial business borrowing.
- Total business lending continued to increase in June 2012; the rate of decline slowed for small business loans of all size categories and types of loans in June 2012 (Table B.6). The number of small business loans outstanding increased, although the value of these loans declined—indicating a smaller average loan size in 2011.
- Lending by finance companies in 2011 followed a pattern similar to that of small business lending by depository institutions, where the rate of deceleration in receivables outstanding from finance companies was slower than in the previous year (Table B. 10). Lending to businesses from finance companies contracted by 1.6 percent in 2011.
- Uneven growth in equity markets has continued since 2009 (Table B.12). Funds raised by venture capital firms and their disbursements increased in 2011; the amounts of funds committed and disbursed were comparable to those in 2004.