

SMALL BUSINESS SURVEY

FEDERAL RESERVE BANK OF ATLANTA
THIRD QUARTER 2012

DECEMBER 2012

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SMALL BUSINESS SURVEY

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HIGHLIGHTS

Business conditions

Since the first-quarter 2012 Small Business Survey, most small businesses in the Southeast have lowered their expectations for improvements over the next 12 months. In addition, the net portion of firms anticipating hiring additional staff and anticipating sales growth decreased. The deterioration in the outlook was consistent across industries but not across age. The overall decreases in expectations in the survey sample were pulled down by the mature firms in the sample. Meanwhile, firms less than five years old revised their projections upward for the next 12 months.

Financing conditions

About one-third of small businesses sought financing in the third quarter of 2012. About two-thirds of applying firms were able to obtain at least some amount of credit or equity financing. One major factor associated with financing obtainment was age. Thirty-nine percent of mature firms in the survey reported receiving the full amount of financing requested compared to only one-fourth percent of applying young firms.

On average, applying firms applied for two forms of financing. Firms were most likely to receive financing by requesting vendor or trade credit and least likely to receive financing from angel investors or venture capitalists. Banks were the most common avenue of credit. Community banks, as opposed to national or regional banks, were the most common type of bank to which firms applied for credit. Moreover, applying firms were generally more successful at community banks than firms applying to large national banks. The majority of mature firms that did not borrow indicated that they did not need financing. However, young firms were evenly split in saying they did not borrow because they did not need it and because they did not think they could get it.

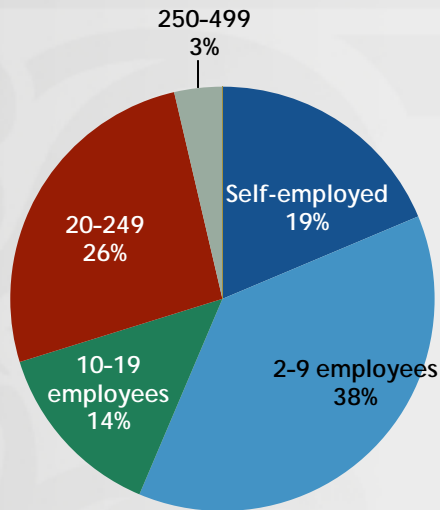
FACILITATORS

The following organizations helped disseminate the third-quarter 2012 survey:

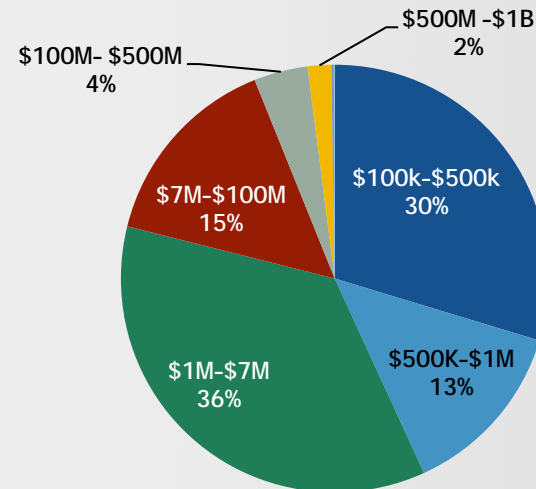
Airport Area Chamber of Commerce (GA)
Alabama Small Business Development Center Network (AL)
Birmingham Business Alliance (AL)
Black Business Investment Fund of Central Florida (FL)
Development Authority of Macon County and Chamber Commerce (GA)
Flagler County Chamber of Commerce (FL)
Florida First Capital Finance Corporation (FL)
Georgia Micro Enterprise Network (GMEN) (GA)
Indian River County Chamber of Commerce (FL)
Johnson City/Jonesborough/Washington County Chamber of Commerce (TN)
Knoxville Chamber (TN)
Lake Wales Area Chamber of Commerce (FL)
Latin Chamber of Commerce of Broward County (FL)
Minority Business Development Agency Business Center (AL)
Monroe Chamber of Commerce (LA)
Paragon Financial Group (FL)
South Florida Community Development Coalition (FL)
South Florida Regional Planning Council (FL)
SunBiz Showcase Alliance (FL)
Suncoast Community Capital (FL)
Upper Tampa Bay Chamber of Commerce (FL)
Wayne County Chamber of Commerce (TN)
Wells Fargo (GA)

METHODOLOGY

70% of firms in the third-quarter survey had fewer than 20 employees



43% of firms in the third-quarter survey had less than \$1 million in annual revenue



KEY POINTS

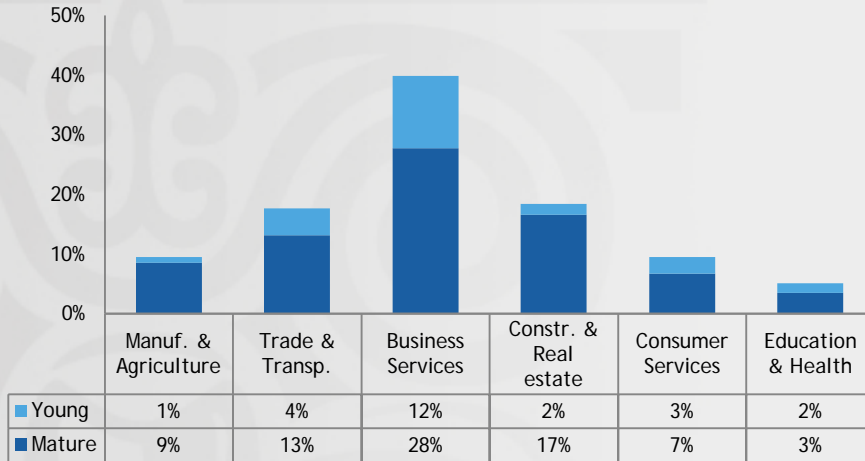
Sample characteristics

The Federal Reserve Bank of Atlanta conducts a semiannual survey of small business contacts in the Southeast to get their perspective on general business and financing conditions. The Atlanta Fed conducted the third-quarter 2012 survey during the first three weeks of October. The survey was completed by 495 respondents. The questionnaire for this survey, which varies slightly each time, is available on the Atlanta Fed website.

More than half of respondents have fewer than 10 employees. The majority of respondents have revenues of less than \$7 million. The median firm is 13 years old.

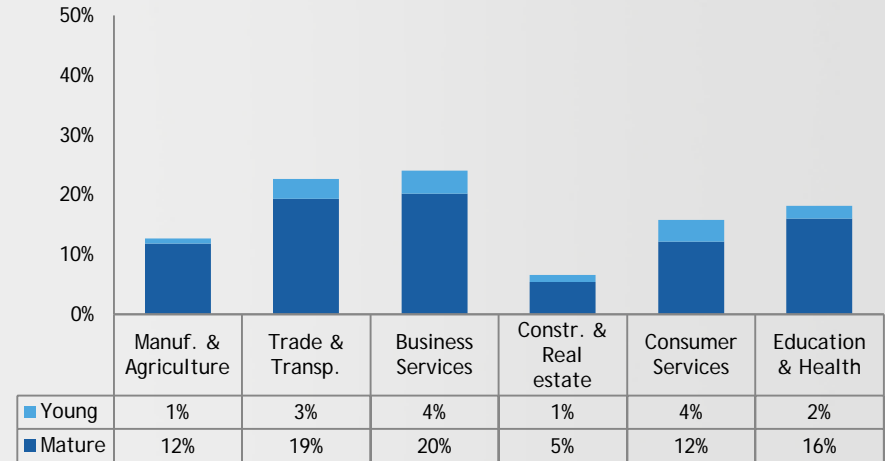
METHODOLOGY

Industry and Age Distribution of Sample
percent of respondents by sector and age



Source: Third-Quarter 2012 Atlanta Fed Small Business Finance Survey

National Industry and Age Distribution
portion of private sector employment by sector and age



Source: U.S. Bureau of Labor Statistics business employment dynamics, authors' calculations

KEY POINTS

Weighting

Survey participants are not randomly sampled. In addition, the types of firms that respond from survey to survey tend to vary. To help control for these factors, the results are weighted. Weighting not only allows for a more consistent comparison across time but also adjusts the results so that the effects of industry and firm age are more in line with the national distribution.

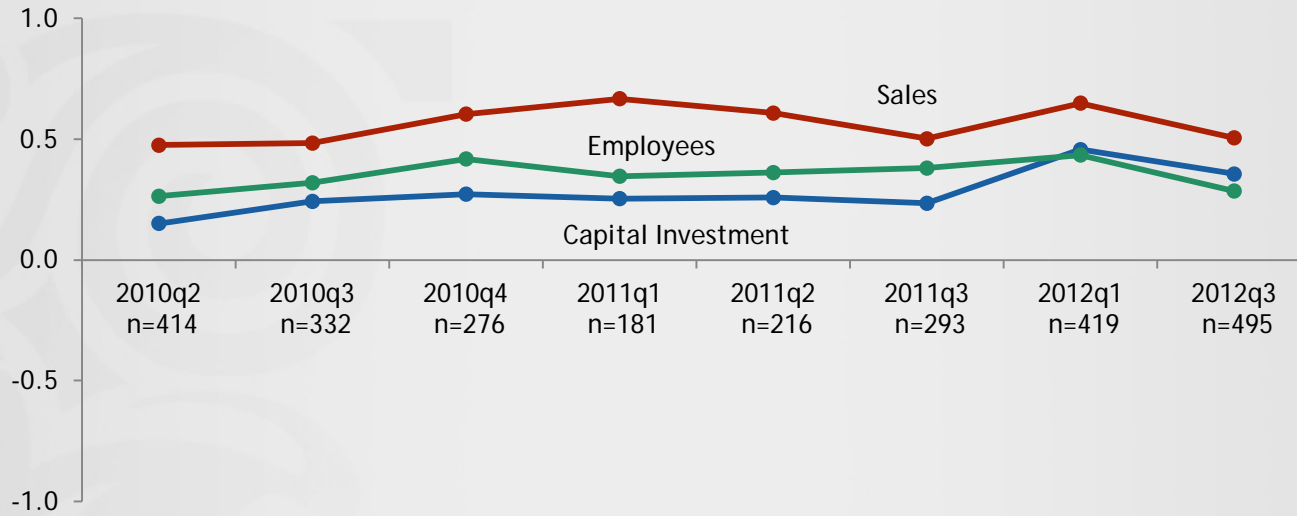
Definitions

Young versus mature firms: The results in this report are often presented according to “young” and “mature” firms. We distinguish young from mature by the age of the business; we consider firms less than six years old to be young.

Small business: We define a “small” business as a firm with fewer than 500 employees.

BUSINESS CONDITIONS

Business Expectations Diffusion Index
over the next 12 months



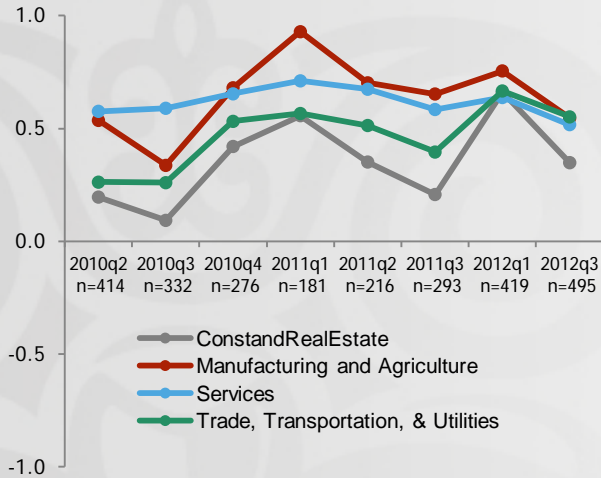
Note: The business expectations diffusion index is calculated by subtracting the number of firms that said "decrease" from the number of firms that said "increase." The data are weighted by industry and firm age, but are not seasonally adjusted.

KEY POINTS

The outlook of small businesses for sales, capital investment, and hiring deteriorated from this year's first-quarter survey. Slightly smaller net portions of firms expect to make capital investments over the next 12 months than did previously, according to the third-quarter 2012 survey. The outlook for hiring and sales also deteriorated since the last survey, and the difference for both was statistically significantly different than the readings from the first quarter of 2012.

BUSINESS CONDITIONS

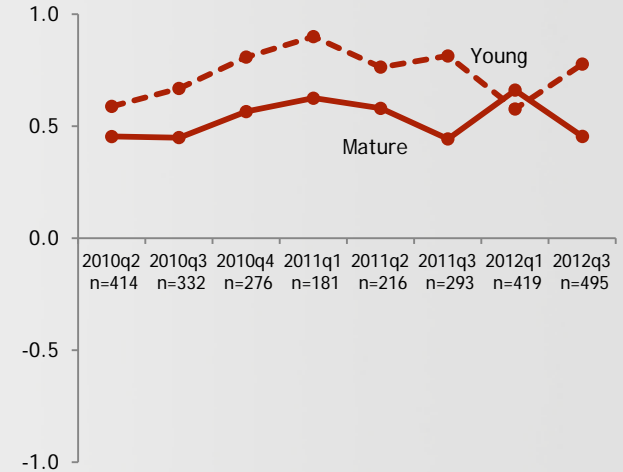
Sales Expectations Diffusion Index over the next 12 months



| Sales: Average Change on a scale of -3 to +3* | | | |
|-----------------------------------------------|----------------|----------------|--------------------------------------|
| | Past 12 months | Next 12 months | Difference (change in pace of sales) |
| Overall | -.18 | .95 | 1.14 |
| Mature | -.36 | .80 | 1.16 |
| Young | .74 | 1.7 | 1.0 |

*Scale of -3 (> than 10% decline), -2(-6 to -10%), -1(-1 to -5%), 0(no change), +1(1 to 5%), +2(6 to 10%), +3(> than 0% increase)

Sales Expectations Diffusion Index over the next 12 months

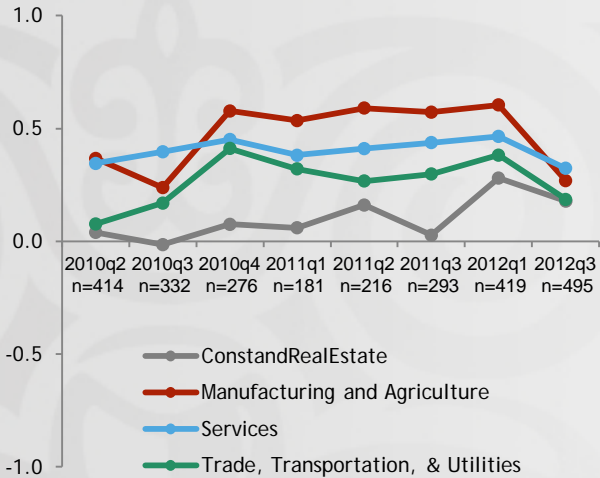


KEY POINTS

The net percent of firms anticipating sales to increase over the next 12 months declined within all broad industry groups. The overall decline in sales expectations was pulled down by mature firms in the sample. Even after controlling for industry, young firms in the sample had overall higher expectations compared to the first quarter of 2012. Over the past 12 months, young firms reported higher sales growth compared to the mature firms in the sample. Likewise, the projection for the next 12 months among young firms was also higher. Further, the firms that participated in both this survey and the last one had lower expectations in this survey for the pace of sales (next 12 months expectations minus actual changes during past 12 months) than they did in the first-quarter survey.

BUSINESS CONDITIONS

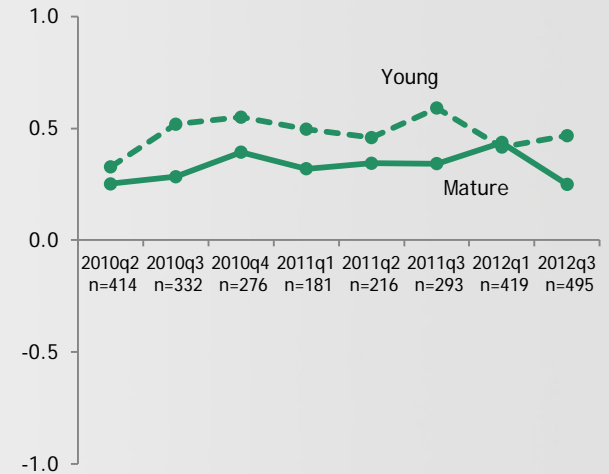
Hiring Expectations Diffusion Index over the next 12 months



| Hiring: Average Change on a scale of -3 to +3* | | | |
|------------------------------------------------|----------------|----------------|---------------------------------------|
| | Past 12 months | Next 12 months | Difference (change in pace of hiring) |
| Overall | -.20 | .44 | .64 |
| Mature | -.26 | .38 | .64 |
| Young | .13 | .77 | .63 |

*Scale of -3 (> than 10% decline), -2(-6 to -10%), -1(-1 to -5%), 0(no change), +1(1 to 5%), +2(6 to 10%), +3(> than 0% increase)

Hiring Expectations Diffusion Index over the next 12 months

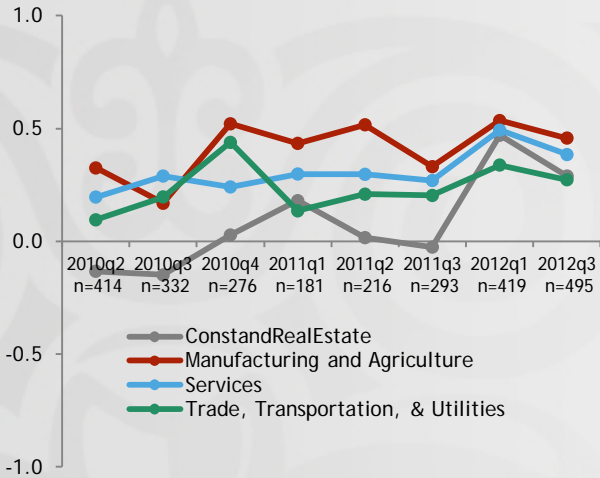


KEY POINTS

Mirroring sales expectations, the outlook for increases in hiring over the next 12 months declined compared to expectations in the first-quarter 2012 survey, with the more mature firms in the sample dragging down the overall index. Further, firms that participated in both surveys this year had lower expectations in the third-quarter survey when comparing the past 12 months to the next 12 months.

BUSINESS CONDITIONS

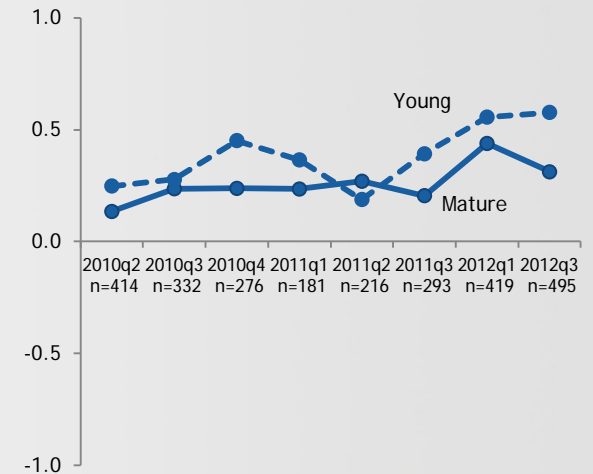
Capital Investment Expectations
Diffusion Index
over the next 12 months



| Capital Investment: Average Change on a scale of -3 to +3* | | | |
|------------------------------------------------------------|----------------|----------------|-------------------------------------|
| | Past 12 months | Next 12 months | Difference (change in pace of capX) |
| Overall | -.07 | .60 | .67 |
| Mature | -.15 | .52 | .67 |
| Young | .35 | 1.1 | .70 |

*Scale of -3 (> than 10% decline), -2(-6 to -10%), -1 (-1 to -5%), 0 (no change), +1 (1 to 5%), +2 (6 to 10%), +3 (> than 0% increase)

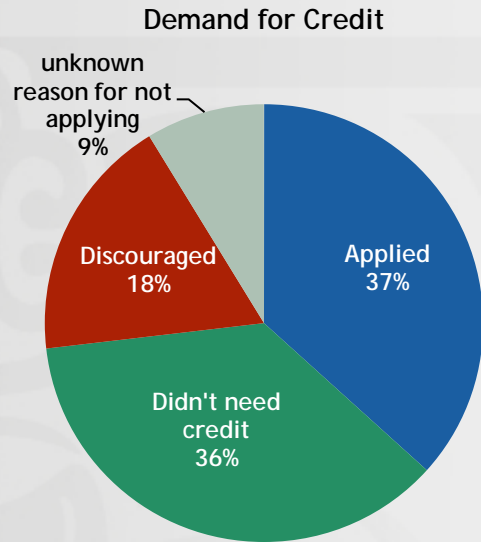
Capital Investment Expectations
over the next 12 months



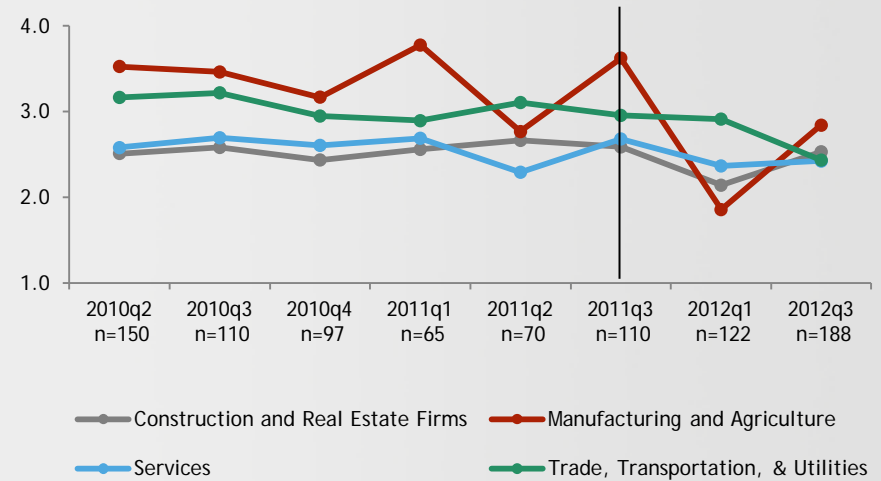
KEY POINTS

The net percent anticipating increases to capital expenditures declined across all industries, although the deterioration was not as pronounced as the differences in sales and hiring expectations from the first quarter. Firms participating in both 2012 surveys had higher expectations in the third-quarter survey than the first quarter's when comparing actual capital investment over the prior 12 months to their expectations for the next 12 months.

FINANCING CONDITIONS



Average Amount of Financing Received Overall
on a scale of 1(received none) to 4 (received full amount)

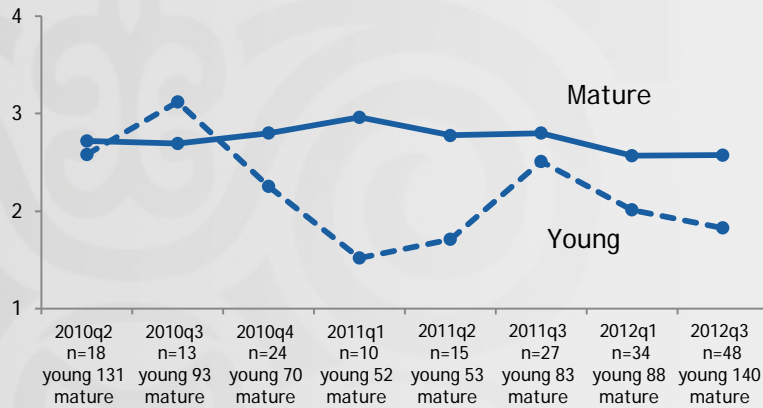


KEY POINTS

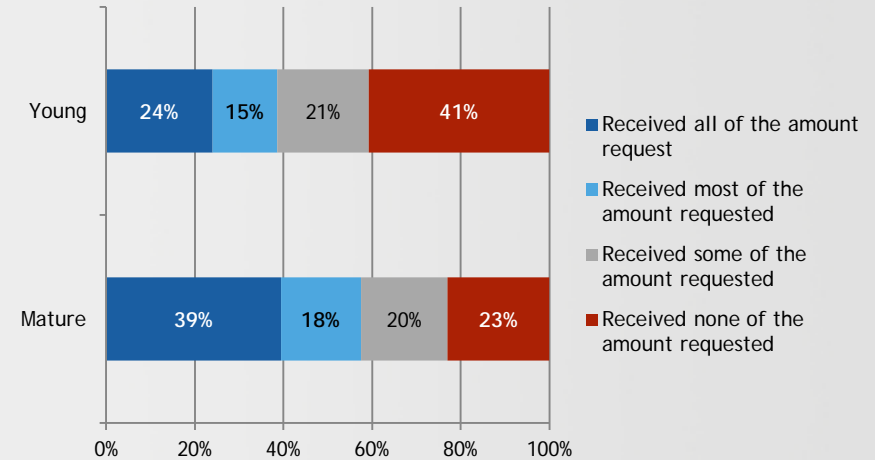
In line with past surveys, about one-third of firms applied for credit in the prior three months. Of those not applying for credit, most said they didn't need it but many were also discouraged from applying, fearing they would be turned down or offered bad credit terms. The difference in receipt of financing across industries was not as notable as it has been in the past.

FINANCING CONDITIONS

Average Amount of Financing Received Overall
on a scale of 1 (received none) to 4 (received full amount)



Q3 2012 Overall Financing Satisfaction
Young and Mature Firms

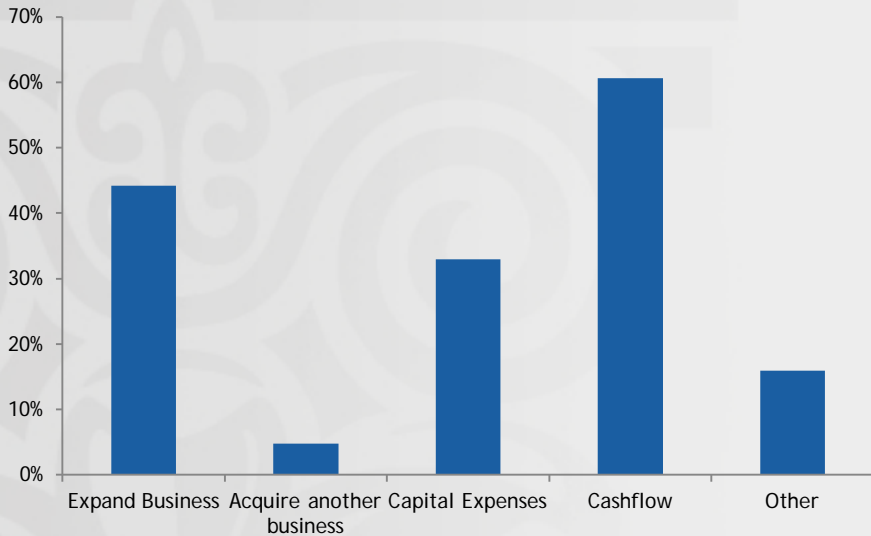


KEY POINTS

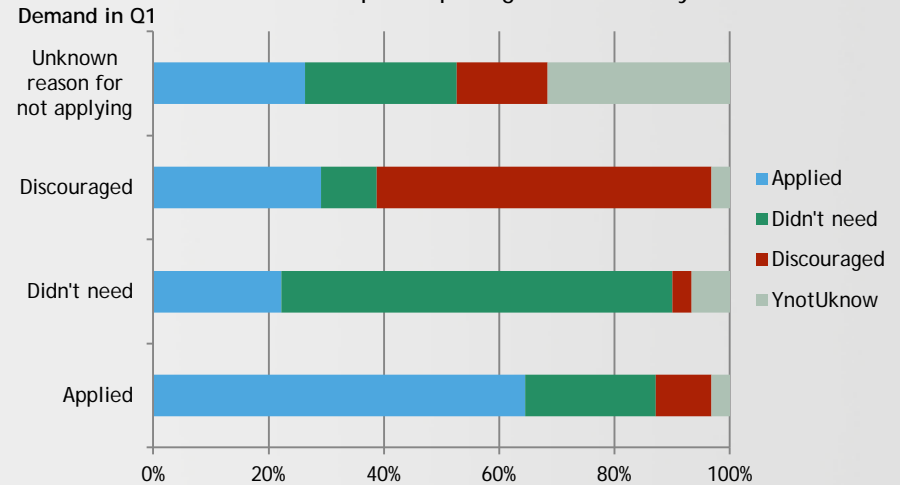
Despite submitting about 10 percent more applications for credit or equity financing on average (young firms submitted an average of 2.1 and mature firms submitted an average of 1.9), firms under six years of age received less of the financing they requested overall. Forty-one percent of firms under six years of age received none of the financing requested over all their applications compared with about one-fourth of mature firms.

FINANCING CONDITIONS

Reason for Applying



Demand in Q1 2012 versus Demand in Q3 2012
202 firms participating in both surveys



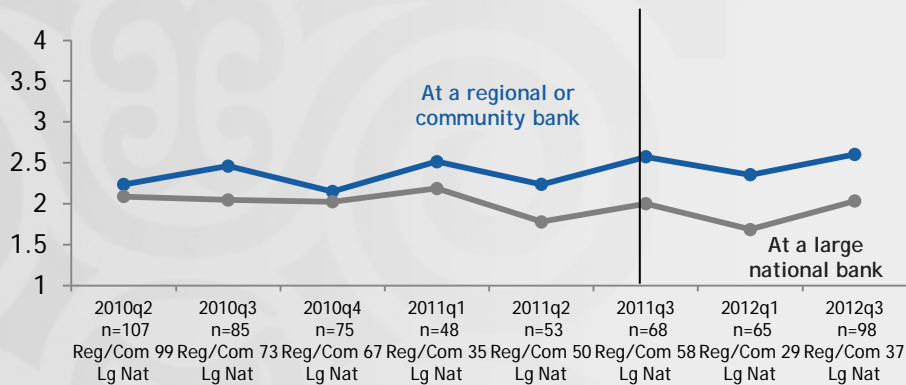
KEY POINTS

Working capital/cash flow was the primary reason for seeking credit in the third quarter of 2012. Large portions of firms were also looking to expand their business (for example, open new locations or hire employees) and to invest in capital improvements.

In both the first quarter of 2012 and the third quarter of 2012, 202 firms participated in the survey. Firms that applied for credit in the first quarter were most likely to apply again in third quarter. The same was true for firms that said they did not apply because they did not need it. Of the firms discouraged in the first quarter, their results were a bit more mixed. While they were most likely to remain discouraged (58 percent said they were discouraged in third quarter 2012 as well), 30 percent said they applied for credit in the third quarter.

FINANCING CONDITIONS

Average Success of a Credit Application
on a scale of 1=received none, 2=received some, 3=received most, 4=received full amount requested



| Type of financing | Number of firms applying, applications | Source | Average success of firms applying (1=None, 2=Some, 3=Most, 4=All) | Median age of firms applying |
|------------------------|----------------------------------------|---------------------|-------------------------------------------------------------------|------------------------------|
| Equity finance | 11 | Angel | 1.5 | 3.0 |
| | 11 | Venture capital | 1.5 | 3.0 |
| | 10 | Friends/Family | 2.1 | 3.5 |
| | 7 | Other | 1.85 | 8 |
| Vendor trade credit | 29 | | 3 | 13 |
| Credit card | 36 | | 2.1 | 4.5 |
| Loan or line of credit | 40 firms, 48 apps | Large national bank | 1.85 | 13 |
| | 61 firms, 82 apps | Regional bank | 2.3 | 15 |
| | 70 firms, 93 apps | Community bank | 2.4 | 15 |
| | 21 firms, 27 apps | SBA | 1.76 | 6 |

Note: The number of firms applying for each source is given, but not every respondent detailed how successful that application was. These results are not weighted by firm age or industry.

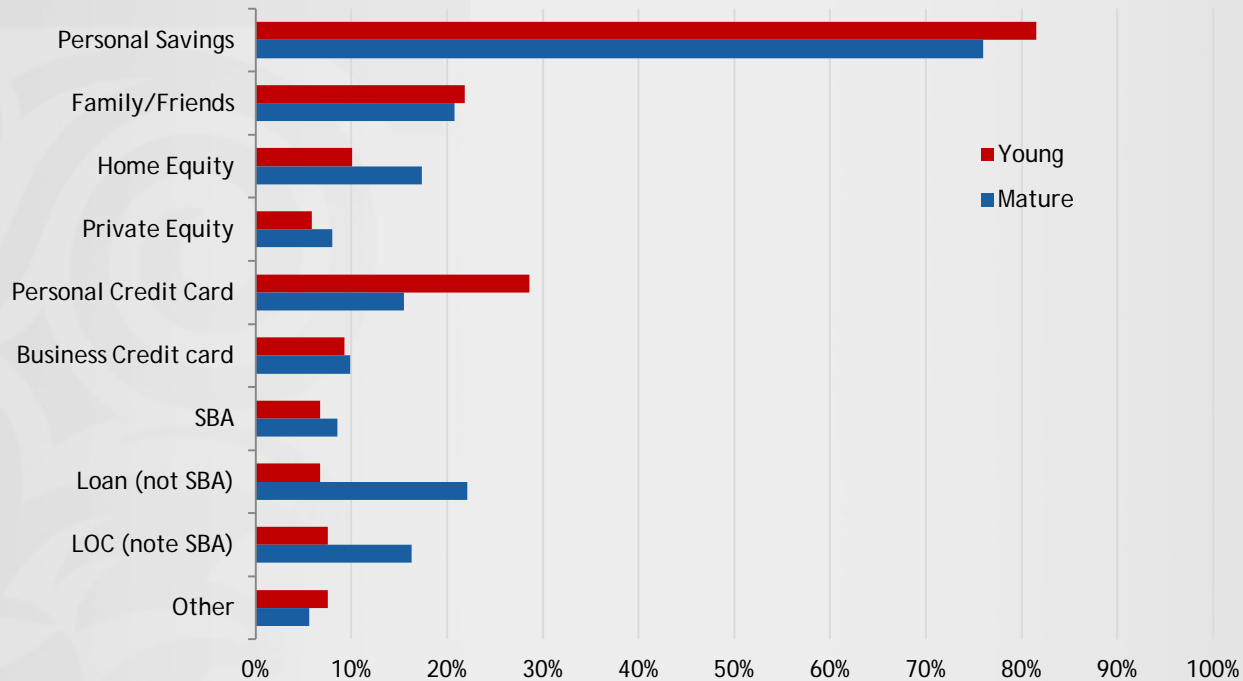
KEY POINTS

As we have noted in the past, banks were the most common avenue for seeking financing. In the first-quarter 2012 survey, 70 percent of firms seeking credit sought a loan or a line of credit from a bank (not including Small Business Association applications [SBA]).

The median age of firms applying varied considerably across financing channels. Equity investments, SBA loans, and credit cards were sought by a relatively young set of businesses. Firms applying for loans and lines of credit tended to be younger on average. There was no notable difference in firm age across different types of banks that was noted in the past survey.

FINANCING CONDITIONS

Source of Start-up Financing

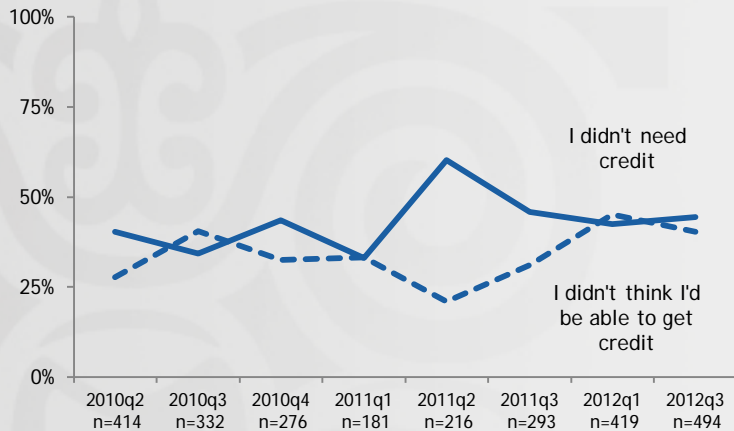


KEY POINTS

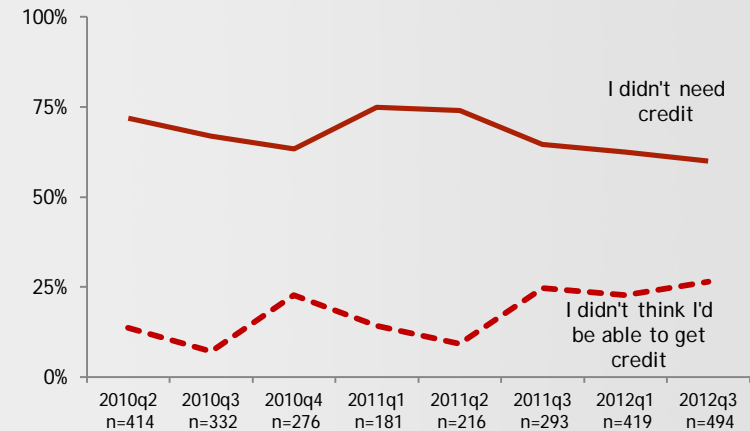
The relatively stricter lending standards prevalent in recent years appear to have affected the way that recent start-up businesses have been financed. Using personal savings and personal credit cards for initial capital has been more common than other means for a relatively young firm to have started their business. Firms more than five years old more frequently reported having received a loan or line of credit from a bank as part of their start-up financing. Seventeen percent of mature firms had relied on home equity to start their business compared to 10 percent of young firms, suggesting some effect of declining home prices on the ability of entrepreneurs to start a business.

FINANCING CONDITIONS

Reason for Not Borrowing
Young firms



Reason for Not Borrowing
Mature firms



KEY POINTS

Sixty-three percent of young firms and 59 percent of mature firms did not borrow in the first quarter. When they explained why, most firms indicated they did not need credit. However, many firms were discouraged from applying for credit because they expected they would either be denied or offered unfavorable terms. In the third quarter of 2012, 39 percent of firms less than six years old that did not borrow and 25 percent of mature firms that did not borrow did not attempt to for this reason.